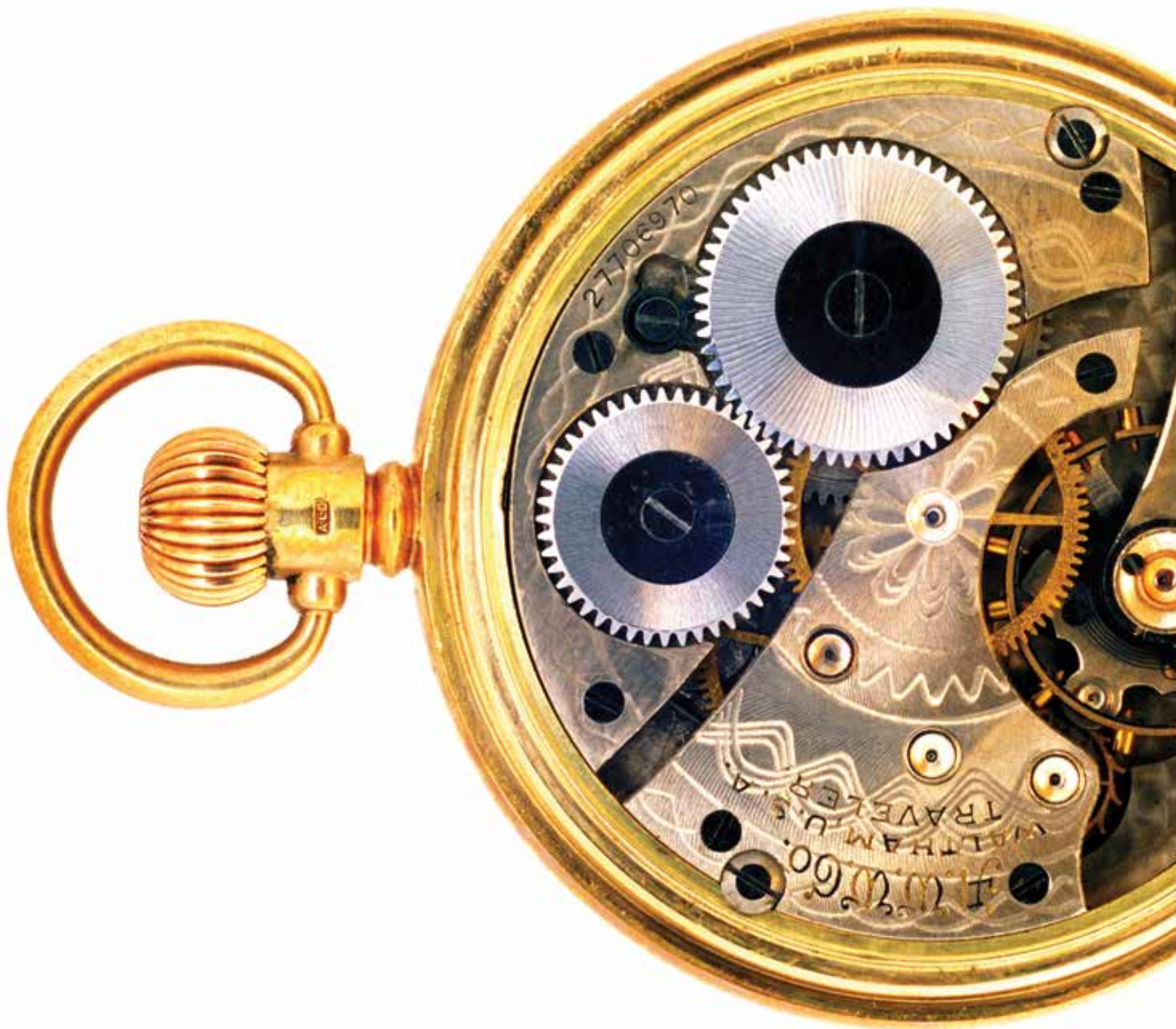


M&A trends report 2014

A comprehensive look at the M&A market



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Executive summary



Over the past 18 months, merger and acquisition (M&A) activity has accelerated meaningfully in the U.S. That trend is poised to continue, if not accelerate, in many industries, among public and private firms and for both corporations and private equity firms, large and small, according to the survey findings included in the first annual Deloitte *M&A trends report*. Of the 2,500 corporate and private equity respondents, 84 percent of corporate executives anticipate a sustained, if not accelerated, pace of M&A activity in the next 24 months. Similarly, the vast majority of private equity executives (89 percent) are expecting average to high deal activity going forward.

Several important factors have converged to create an ideal environment for corporate combinations. Companies are flush with cash — 59 percent of survey respondents said their cash piles have grown over the past two years. Meanwhile, U.S. stocks have continued to rise, providing companies with currency to initiate transactions. Furthermore, interest rates remain low, enabling companies to borrow to finance deals ahead of expected rate increases next year. And the economy, though stabilized, is expected to grow at an annual rate of only 2.5 percent to three percent through the end of 2016, according to many forecasts. In sum, companies and private equity firms appear to be turning to M&A to spur growth that exceeds the restrained economic growth rate.

Additional findings in the inaugural M&A survey:

- Twenty-one percent of companies anticipate major transformational deals while about one in three will pursue smaller strategic transactions, taking advantage of favorable opportunities. Roughly one in four will react to an opportunity and initiate a deal.
- Private equity firms expect portfolio exits to increase. Almost two-thirds of private equity respondents forecast a pickup in exits — with 36 percent looking at initial public offerings (IPO).
- Divestiture appears to be less of a focus for companies, with only 31 percent indicating they are likely to sell a business unit.
- Fifty-nine percent of corporate respondents say their M&A investments will involve an acquisition in a foreign market. Almost three-quarters of private equity firms are expecting to acquire a target in another country.
- Companies anticipate deal activity to increase most heavily within the technology sector, followed by health care providers and plans, energy (both alternative energy and oil and gas), and banking and securities.
- Sixty-eight percent of private equity executives expect their firms to become more industry-focused in the coming year.

Several important factors have converged to create an ideal environment for corporate combinations.

Our survey also focused on the factors that can help contribute to deal success and those that may cause a deal to fall short of its maximum potential. Almost nine out of 10 corporate respondents indicated that transactions completed in the past two years have not generated their expected value or return on investment.

Corporate executives cite strategy and planning as elements critical to ensuring that there are no execution gaps that could impede a transaction's success. Private equity firms focus on the economic backdrop — macro, market, and sector forces — as well as the quality and timeliness of data, and the capability of the management teams they are adding to their portfolio.

In Deloitte's inaugural *M&A trends report*, we highlight corporate and private equity executives' views on the outlook for deals, transaction motivations and mechanics, and the drivers for deal success. We are excited to share these results and hope you find them insightful and useful in achieving your M&A objectives.



Tom McGee
Deputy Chief Executive Officer
Deloitte LLP

About the survey

From March 17 to April 21, 2014, a Deloitte survey conducted by OnResearch, a market research firm, polled 2,182 executives at U.S. companies and 318 executives at private equity firms to gauge their expectations, experiences, and plans for mergers and acquisitions in the coming one to two years.

On the corporate side, respondents were limited to senior executives at companies with at least \$10 million in annual revenue. The responses were about even between publicly traded and private companies. Respondents included companies in 49 states and Washington, D.C.

More than 21 percent of the corporate respondents were owners, board members, or C-suite executives; the remainder included vice-presidents, department or business line heads, or managers.

Industries were diverse: the five with the largest representation were banking and securities, professional services, technology, consumer products, and retail and distribution.

The size of the respondents' companies represented a broad range, with about one-third having annual revenue less than \$250 million, another third in the \$250 million to \$1 billion range, and a final third with annual revenue in excess of \$1 billion.

Of the more than 2,100 corporate respondents, about eight in 10 typically close at least one merger or acquisition a year. Fifty-four percent of the companies said they close between one and five deals a year. About nine percent typically complete more than 11 deals annually. Sixty-one percent of all deals were less than \$500 million in size.

On the private equity side, close to 42 percent of the firms controlled funds of less than \$500 million; about the same percentage of respondents represented funds that ranged between \$500 million and \$3 billion. More than 15 percent of respondents were from firms with funds in excess of \$3 billion.

About one-third of the private equity firms held fewer than 10 companies in their portfolio; about half held stakes in between 10 and 40 companies. About 17 percent of the private equity firms had portfolios that contained more than 40 companies.

The full survey results are included in the appendix; some percentages in the charts throughout this report may not add to 100 percent due to rounding, or for questions where survey participants had the option to choose multiple responses.

M&A outlook

Introduction

U.S. M&A activity began to rebound in 2013, reflecting a pent-up demand for deals from both companies and private equity firms alike. M&A activity had flagged in 2012 amid economic malaise in certain European markets and key emerging markets, as well as uncertainty about health care and other regulatory and legislative matters in the United States.

Corporate and economic activity steadily was gaining momentum, however, and by 2013, investor confidence was growing and driving U.S. equity markets to record highs.¹ Many companies were realizing the fruits of their prior cost-cutting initiatives and amassing cash on their balance sheets,² while they looked for the next avenues to growth. Meanwhile, the Federal Reserve maintained an accommodative monetary policy, overriding concerns that it would allow interest rates to rise.

With these positive conditions in place, M&A activity began to pick up. The aggregate value of domestic takeovers in 2013 gained 11 percent to \$1.04 trillion, while deal volume remained relatively steady, dipping marginally by 0.5 percent to 8,710 deals. This was despite a drop in global M&A activity, as the value of transactions worldwide declined by six percent and the number of announced deals dropped by seven percent, the slowest period since 2005.³

Then U.S. M&A activity surged in the first quarter of 2014. Over a seven-day period in mid-February, U.S. companies announced transactions worth about \$120 billion – a one-week total that represented almost 11.5 percent of total domestic M&A activity for all of 2013.

Meanwhile, the total value of announced deals worldwide grew 52 percent in the first three months of 2014 compared to the same period a year earlier, net of competing bids — marking the best annual start for global transaction activity since 2011.⁴

The M&A revival

Our survey findings indicate that 84 percent of corporate executives anticipate a sustained, if not accelerated, pace of M&A activity in the next 24 months. Forty percent of the total corporate respondents forecast an increase in deal flow. Similarly, the vast majority of private equity executives (89 percent) are expecting average to high deal activity going forward.

“Across the board we’re seeing expectations for increased deal activity,” said Tom McGee, Deputy Chief Executive Officer, Deloitte LLP. “Companies and private equity firms alike are telling us they expect that to continue because of their strong balance sheets and ability to finance deals, combined with their desire to grow.”

“Across the board we’re seeing expectations for increased deal activity.”

Tom McGee — Deputy Chief Executive Officer, Deloitte LLP

¹ “Wall Street closes 2013 at records; best year in 16 for S&P, 18 for Dow,” by Kate Gibson, CNBC.com, Dec. 31, 2013.

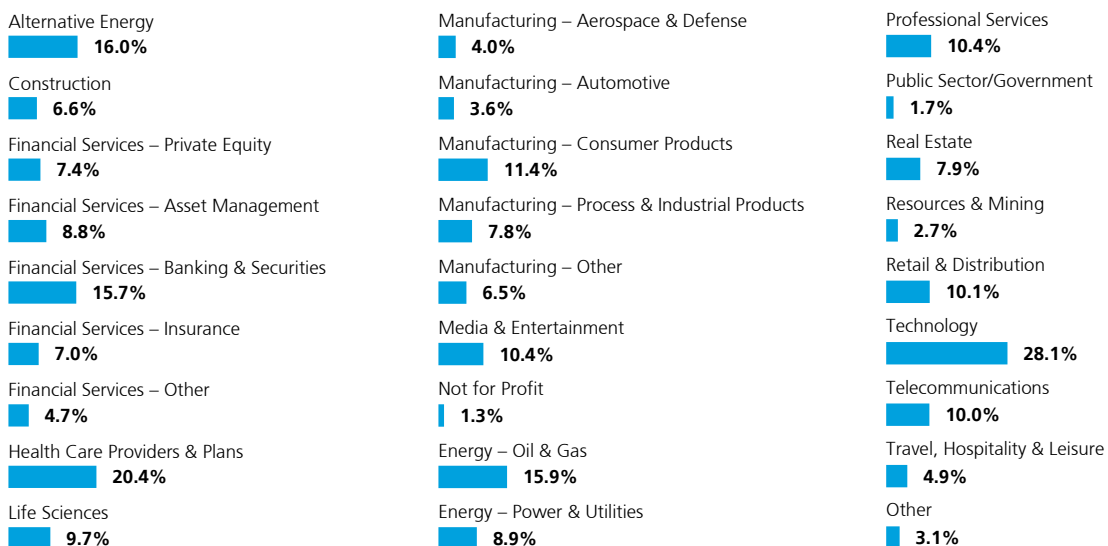
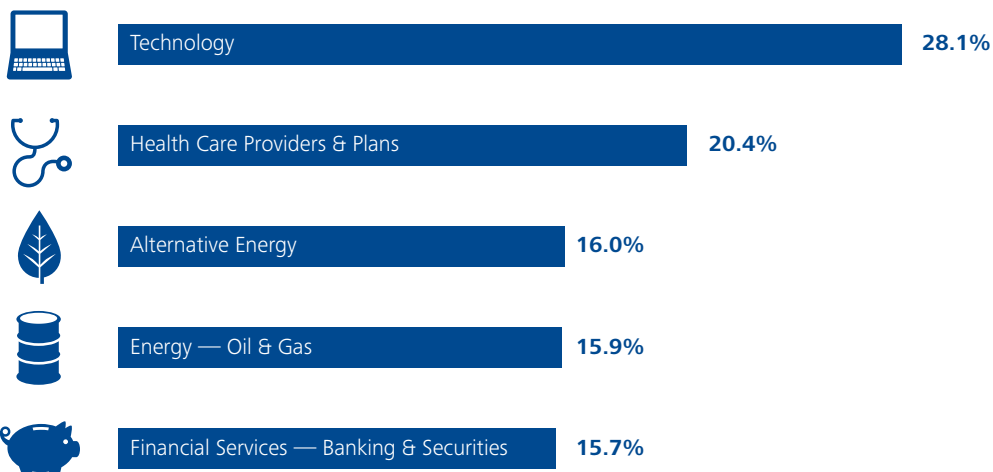
² “What’s a Company to Do With All That Cash,” by Johanna Bennett, *Barron’s*, Dec. 17, 2013.

³ Thomson Reuters, *Mergers and Acquisition Review*, 2013.

⁴ Thomson Reuters, *Mergers and Acquisition Review*, First Quarter 2014.

M&A sectors poised for growth

Corporate respondents shared their expectations about which sectors would be particularly active from an M&A perspective over the next 12 to 18 months. Technology was the leading sector cited for activity, with 28 percent selecting it as the industry most likely to have transactions. Health care providers and plans ranked second, followed by energy (alternative energy and oil and gas), and banking and securities. Sixty-eight percent of private equity respondents expect their firms to become more industry-focused in the coming year.



**Fewer transformational deals,
but significant activity expected**

When asked about their M&A strategy for the next 12 to 18 months, 21 percent of corporate respondents indicated that they'd be seeking major transformational deals. Thirty-two percent of corporate respondents said their strategy will involve seeking smaller strategic deals, while 26 percent expect to react to opportunities that arise.

"My observation is that there are a growing number of executives who are considering whether or not to take advantage of the confluence of positive financial conditions and really change their business, jumpstart growth, and transform themselves to a leader in the market," said Steve Joiner, partner, Deloitte & Touche LLP. "I've continued to see that number grow over time and it's pretty exciting."

The profile of companies poised to make the largest splashes in terms of transformational transactions tilted heavily toward larger companies. Corporate responses show that companies with more than one billion in annual revenue are almost twice as likely to make a major M&A

deal as companies with revenues between \$10 and \$50 million. Similarly, public companies were more inclined to make large transformational deals by a more than two-to-one margin over those closely-held or controlled by family members.

By sector, respondents from telecommunications and technology companies were among those leaning more toward bigger transactions than their peers. Oil and gas companies said they are more likely to seek smaller strategic deals.

On the private equity side, deal size is set to increase, according to a large majority — 79 percent — of respondents. Another proof point indicating that larger deals are looming is that more than half (58 percent) expect the coming year to bring more club deals, which enable private equity firms to limit exposure on large deals. "There simply haven't been that many big private equity driven deals lately. Given the anticipation the respondents are showing for more club deals, it looks like that might change," said Barry Curtis, partner, Deloitte & Touche LLP.

“There are a growing number of executives considering whether or not to change their business, jumpstart growth, and transform themselves to a leader in the market. It’s pretty exciting.”

Steve Joiner — Partner, Deloitte & Touche LLP

Eager to add or diversify customer base and expand geographic reach

According to survey respondents, the most important reason companies would entertain M&A is to expand and/or diversify their customer base. Almost three-fourths of corporate respondents ranked the objective of garnering new customers in their existing geography as a critical motivation of transactions.

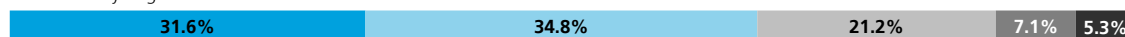
More than half — about 60 percent — of corporate respondents said that their M&A investments will involve acquiring a target in a foreign market. Results from the Q3 2013 Deloitte CFO Signals™ survey help support this sentiment. When asked why they would pursue M&A, CFOs indicated that a driving reason was the perception of good growth opportunities abroad.⁵

Companies identified several developing markets as key targets. Almost one in three respondents said that M&A is an entry point into China. Brazil, Mexico, and India also ranked high among targeted developing countries for companies to gain footholds through mergers and acquisitions. Many companies also expressed interest in expanding into developed countries with mature, stable economies to diversify their customer base with Canada, the U.K., Germany, and Japan cited as countries in which they are likely to pursue targets.

Private equity firms also are pursuing overseas opportunities. Almost three-quarters of survey respondents (73 percent) expect to acquire a target abroad. Among private equity respondents, the top five overseas markets in which they are likely to pursue transactions are the U.K., China, Canada, Brazil, and Japan.

Please rate the following objectives in terms of their importance with respect to your company's M&A strategy.

Pursue cost synergies or scale efficiencies



Expand customer base in existing geographic markets



Enter new geographic markets



Product/service diversification



Obtain bargain-priced assets



Talent acquisition



Technology acquisition



Other



■ Extremely important ■ Somewhat important ■ Neutral ■ Somewhat unimportant ■ Not at all important

⁵ CFO Signals™: 2013 Q3 Results, Deloitte LLP, September 17, 2013.

Private equity exits to accelerate sharply...

Expectations are high for stepped-up divestment of portfolio companies, as about two-thirds of the private equity respondents anticipate accelerating the pace of exits within the next 12 months. Many private equity firms invested in companies before the economy stumbled in 2008. With an improving U.S. economy, the conditions appear to be positive for portfolio exits.

Almost two-thirds of private equity respondents expect a strategic sale will be the primary form of portfolio exits. Slightly more than one-third said they plan to turn to an initial public offering for their exit — tapping into the heated IPO market in the United States, which through late April 2014 was off to its fastest start in 14 years, according to Dealogic.⁶

...while it appears that corporate divestiture activity will slow

About seven in 10 corporate respondents stated they likely would not seek to divest any businesses over the next 12 months; however, when divestiture is a consideration, 36 percent of corporate respondents cited shedding non-core assets as a main motivation. Twenty-seven percent would consider divestiture as a method for adapting to a change in the marketplace.

In recent years, large corporations embraced more active portfolio management of their business units and in turn, fueled a higher number of divestitures. While companies likely will continue to prune their businesses over time, many have streamlined their core products or business operations. As a result, many businesses now are looking to grow through acquisition, rather than focus on selling off operations they deem non-essential.

Financing — cash is king

To finance transactions, more than half of the corporate respondents said they would use cash. About one in five companies said they would take advantage of currently low interest rates and issue debt.

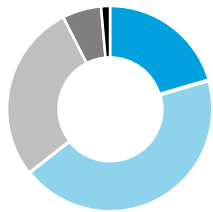
It's not surprising that most companies said they would finance deals with cash. Eighty-four percent of corporate respondents said that cash reserves on their balance sheets have stayed the same or increased over the past two years. Overall, the pile of corporate cash on the balance sheets of nonfinancial companies swelled to \$1.83 trillion at the end of 2013, up about eight percent in a year, and up about almost 14 percent since 2011, according to Federal Reserve data.⁷

Overall, about 44 percent of corporate respondents said that they would use cash to invest organically. Another 30 percent said they would use it to seek mergers and acquisitions. Less than 20 percent said they plan to return that cash to shareholders in the form of buybacks or one-time dividends.

⁶ "Stocks' Skid Dents Hot IPO Market," by Telis Demos, *The Wall Street Journal*, April 10, 2014.

⁷ Federal reserve Bank, Federal Reserve Statistical Release, March 6, 2014.

PEIs: what is your expectation regarding the level of portfolio company investment exits in the market over the next 12 months?



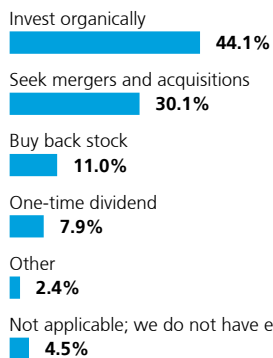
- Significantly increase: 20.5%
- Somewhat increase: 43.9%
- Neutral: 28.1%
- Somewhat decrease: 6.1%
- Significantly decrease: 1.4%

Corporates: do you expect your company to pursue divestitures over the next 12 months?



- Yes: 30.8%
- No: 69.2%

Corporates: what is the primary intended use of your company's excess cash reserves? Please select only one.



Deal dynamics

Looking at transactions

Despite the acceleration of activity and inclination of companies to continue to combine with others, mergers and acquisitions don't always work. Almost nine in 10 corporate survey respondents believe that at least some portion of their transactions did not generate the return on investment that they had anticipated. This survey focused on this issue — seeking to identify the top areas of concerns for corporate and private equity executives when pursuing an M&A transaction, the factors that they believe predicate success, and the importance of valuation and due diligence.

Areas of concern

Company executives cited the failure to integrate effectively as the most critical area of concern when pursuing a transaction, with 55 percent of respondents flagging it as one of the top two areas of concern. These results are in line with a recent Deloitte study, *Bridging the Gap*, which looked at the perception of risk associated with M&A at various stages of the transaction process. When CFOs and corporate directors were asked about their greatest cause for concern in achieving M&A success, 37 percent of respondents cited failure to effectively integrate.⁸

"In our experience a vast majority of corporate transactions succeed or fail because of execution gaps at various stages of the deal," said William Tarry, principal, Deloitte Consulting LLP. "Once a company determines that it will pursue a merger or acquisition, the processes it puts in place to integrate the companies are what helps it attain the intended return."

Private equity respondents cited several critical areas of concern when pursuing a transaction, including not valuing the target accurately (55 percent) and failure to integrate (54 percent). Upon acquiring a new company, private equity respondents highlighted their most heightened concerns as quality and timeliness of data of the target (40 percent) and the capability of the management team (34 percent).

Success factors

The inability to integrate effectively ranked not only as the most critical area of concern when pursuing a transaction, but also, logically, as the top concern for companies striving to achieve success in an M&A deal. Some 27 percent of corporate respondents cited effective integration as the top-ranked concern and 61 percent as the first or second most important concern.

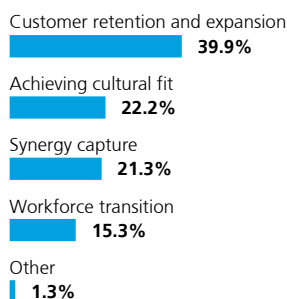
The survey drilled down further on this critical issue of integration to identify which factors are the most important in achieving successful integration. Customer retention and expansion dominated the corporate responses — as 40 percent cited it as the top factor, almost double the next two responses, achieving cultural fit and capturing synergy.

The survey also revealed which factors were most challenging to companies in terms of achieving successful integration. Achieving cultural fit ranked as the most challenging hurdle to clear, with 30 percent of respondents citing it as the top challenge.

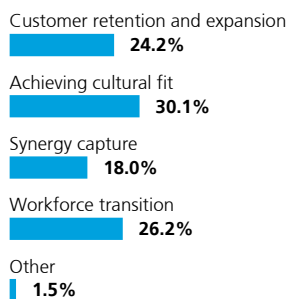
Private equity respondents said that economic conditions are the most critical factor to ensure deal success, emphasizing the need for planning and forecasting. That also may contribute to the overwhelming survey response among private equity firms (68 percent) who said their firms were trying to become more industry-focused. "Industry focus enables firms to build in-depth knowledge of and relationships within sectors and even sub-sectors," Curtis said. "We clearly see this trend toward industry specialization continuing."

⁸ "Bridging the Gap: Are CFOs and Boards Aligned," Deloitte LLP, August 6, 2013.

Corporates: which of the following factors is the most important in terms of achieving a successful integration for your company?



Corporates: which of the following factors is the most challenging in terms of achieving a successful integration for your company?



Framework for successful integration

Nine in 10 company respondents said that previous M&A deals fell at least partially short of delivering intended value. The top reason: the failure to effectively integrate. While integration can impact the success of a deal, it also can be a driving force in creating value — if effectively addressed. Companies should consider taking a methodical approach to help increase the likelihood that a deal will drive value. William Tarry, principal, Deloitte Consulting LLP, shared some fundamental themes that can help ease the integration process:

Strategic framework: The first step involves beginning with an end in mind and creating a strategic framework to guide the entire transaction. This involves establishing integration expectations and confirming goals, developing a roadmap or blueprint to mark progress, and establishing the “end-state” vision.

Integration governance structure: Controlling the integration of a target company involves developing the governance structure to determine who can make and move those decisions quickly through an organization. This involves establishing a cadence for the integration and appropriately prioritizing features of the combination.

Synergy capture: It is important that merging companies expand and accelerate initiatives and milestones to capture synergies quickly. With detailed planning and by assigning responsibility and accountability, companies can move swiftly to develop revenue enhancement and cost savings targets.

Workforce stabilization: An additional step is to finalize organizational design, tapping leaders and creating an appropriate transition timeline. This includes defining a strategy for integration of functions that can minimize the disruption a workforce transition can trigger.

Day 1 readiness: Planning and prioritizing for an issue-free Day 1 is another theme. Combining companies can provide focus and momentum for the launch of a new business by identifying and installing critical systems and processes that should be in place from the start.

Communications: A final consideration is communications, ensuring that the changes and combined culture of the firm are articulated and disseminated throughout the organization to customers and other stakeholders. Companies should develop and deliver proactive internal and external communications and work to align leaders so that messages are delivered in a consistent and effective manner.

Due diligence, valuation and other factors of a successful deal

Company and private equity respondents cited a range of other issues that could help ensure deal success — beyond strategy and planning and economic forces.

On the topic of valuation, company respondents indicated that the two most important concerns when accurately valuing a target were overstated revenue forecasts and understated expenses. About one-third of corporate respondents said that overstated revenue forecast was the most critical concern in accurately valuing a company, and about 28 percent cited understated expenses.

Private equity respondents ranked understated expenses as the top concern in accurately valuing a target (31 percent). Understated capital needs followed closely at 30 percent, with overstated revenue forecast at 29 percent.

More than half of respondents for both private equity firms (51 percent) and corporations (55 percent) said that insufficient due diligence could be a source of risk when pursuing a deal. With respect to their due diligence process, company executives cited a range of important considerations, including identifying hidden costs,

contingencies, and commitments, as well as incorrect projections of cash flow and earnings potential, among the top concerns. Private equity firms concurred with those concerns and also said that they focused on evaluating the integrity and quality of management and establishing the reliability of historical financial records.

Private equity firms cited a range of other factors that can help make a deal successful, including responsible growth — reflecting the increased role of environmental and social governance issues in corporations. More than two-thirds of private equity respondents identified responsible growth as important. Similarly, more than two-thirds of private equity respondents rated privacy and security concerns as a high concern; this is not surprising given that identity theft and privacy issues are a prevalent concern of consumers.

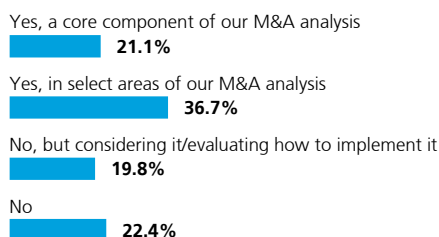
Finally, almost three-quarters of private equity respondents said that they believe an increase in interest rates could impact their firms' potential deals. Interest rates remain at low levels — the 10-year U.S. Treasury note was yielding 2.68 percent at the end of April, down from three percent at the start of January,⁹ despite widespread expectations that rates would rise.

“Data analytics might appear challenging... but there is and will be a growing opportunity for companies to leverage data to gain broader insight into their own company and M&A targets.”

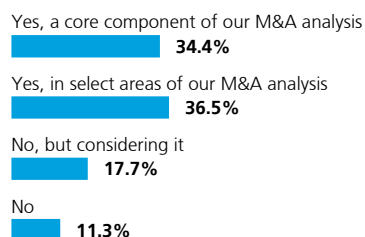
Brian Bird — Director, Deloitte & Touche LLP

⁹ “Low Treasury Yields Frustrate Bond Bears,” *Financial Times*, April 25, 2014.

Corporates: does your company deploy technology-driven data analytics in M&A?



PEIs: does your firm deploy technology-driven data analytics in M&A?



The role of analytics in M&A transactions

More than half (58 percent) of corporate respondents use data analytics either in select areas or as a core component of their M&A analysis. The larger the company, the more likely a user of the technology-driven process; more than 70 percent of companies with revenue in excess of one billion said they use analytics either partially or as a mainstay of their transaction analysis.

Companies cited complexity as the chief reason why more than four in 10 don't deploy analytic technology. Almost one-third of respondents cited either confidentiality reasons or the unwillingness of the seller to provide information as impediments to the use of data analytics. Other reasons included the time and cost required to undergo analysis.

On the company side, almost one-fourth of respondents — 22 percent — said they are not using data analytics at all, which presents a large opportunity for many companies, says Brian Bird, director, Deloitte & Touche LLP. "Data analytics might appear challenging — complex, time consuming and costly — to companies who haven't used it before,"

Bird said. "But there is and will be a growing opportunity for companies to leverage data, to gain broader insight into their own company and M&A targets, in this rapidly changing area."

Private equity respondents are heavy users of analytics — with more than one-third saying it's a core component of their M&A analysis and another 37 percent saying that they use analytics selectively. Private equity firms also rely on data analytics within their existing portfolio companies. Almost 70 percent of private equity respondents said that they use technology-driven analytics as either a core or partial component of their analysis of the companies in their portfolio.

About two-thirds of corporate respondents that deploy analytics said they use the tools mainly to analyze customers and markets. "The customer data is easiest to get in a short period of time and certainly helps one understand end markets and pricing," Bird said. "However, you can generate larger insights by using analytics across the entire supply chain to identify synergies and cost savings opportunities prior to closing."

Conclusion

Mergers and acquisitions continue to be a core strategic option for companies looking to grow. With forecasters as of early May predicting 2014 U.S. economic growth of 2.6 percent, and similar or higher projections for the following two years¹⁰ — along with flush corporate balance sheets and strong consumer confidence — companies have ample incentive to look to M&A as their next growth driver.

“It’s an ideal environment for mergers and acquisitions,” McGee said.

“We’ve seen some very robust deal-flow recently, and barring a significant new geopolitical event, the stage is set for continued strong transaction activity.”

¹⁰ Federal Reserve Bank of Philadelphia, Feb. 2014.
<http://www.phil.frb.org/research-and-data/real-time-center/survey-of-professional-forecasters/2014/survq114.cfm>



The respondents to Deloitte's first annual *M&A trends report* reflected these positive conditions. Also reflected were the drivers of deal success. Having a focused M&A strategy; ensuring that acquisition targets fit within your strategic framework; utilizing the best financial due diligence techniques; and focusing on executing a well-planned integration are all factors cited by survey respondents as important to maximizing transaction value.

"It can be a challenge to achieve all transaction objectives," McGee said, "but companies that have a clear vision and strategy, and leverage best practices and proven experience, can avoid potential transaction pitfalls and help make their next deal their best one."



Appendix: full survey results

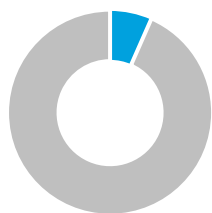
Note: some percentages in the charts throughout this report may not add to 100% due to rounding, or for questions where survey participants had the option to choose multiple responses.

Acknowledgment

We would like to thank all survey respondents and interviewees for their time and the insights they shared for this report, *M&A trends report 2014*.

Corporate responses

Which of the following best describes your current occupation?



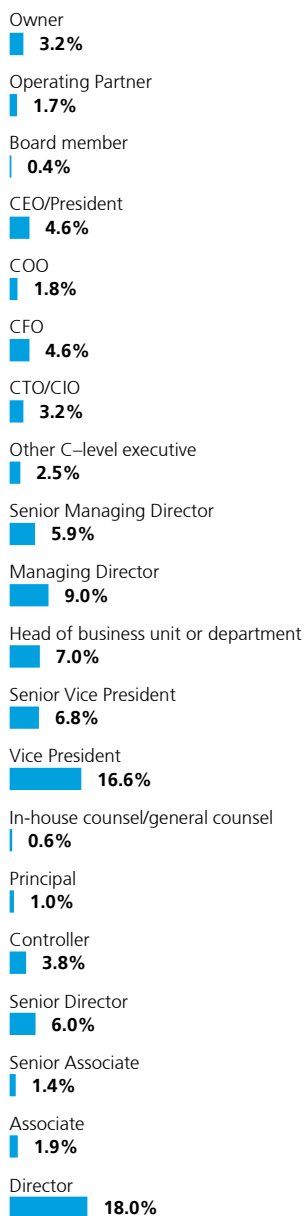
■ Owner of a business: 6.6%
■ Working full-time for a company: 93.4%

Is your company public or privately-held?

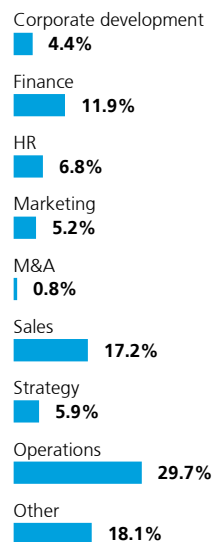


■ Public company: 50.8%
■ Privately-held: 49.2%

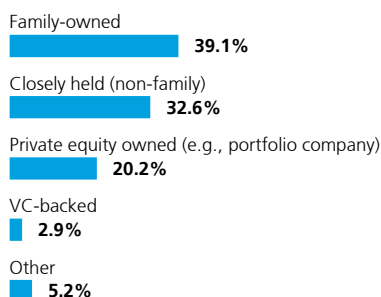
Which of the following best describes your title or role in your company?



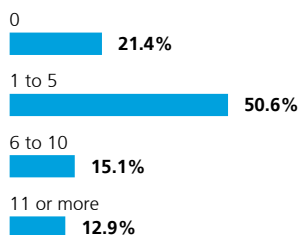
In which function do you work?



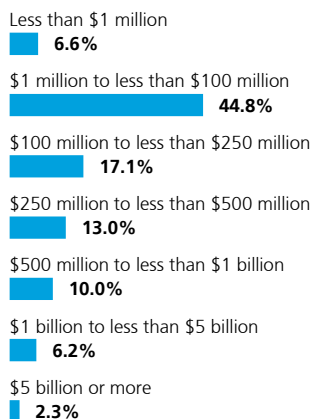
Which of the following describes your company?



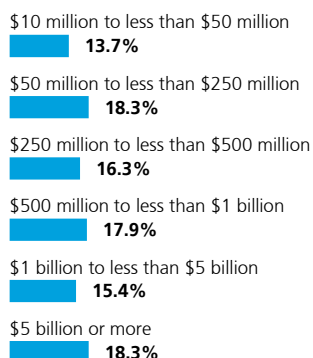
On average, how many M&A transactions does your company actively pursue in a typical year (i.e., have selected a target and are beginning active negotiations with a goal to enter the diligence phase)?



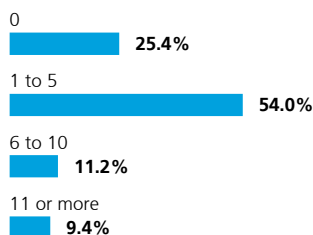
What is the typical size of a deal your company completes in a typical year?



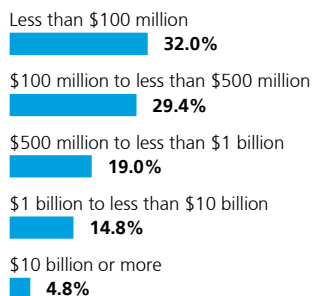
What is the annual revenue of your company?



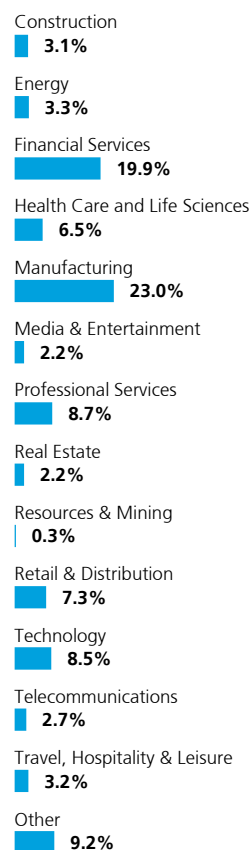
On average, how many M&A transactions does your company close in a typical year?



What is the total annual dollar value (aggregate enterprise value) of all the deals your company completes in a typical year?



What is your company's primary industry?

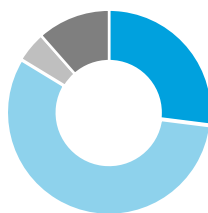


Do you expect the average number of deals that your company actively pursues to increase or decrease over the next two years?



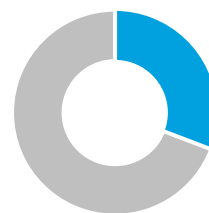
■ Increase: 40.2%
 ■ Little or no change: 44.0%
 ■ Decrease: 5.8%
 ■ Not expecting significant M&A over next few years: 10.0%

Do you expect the average deal size that your company actively pursues to increase or decrease over the next two years?



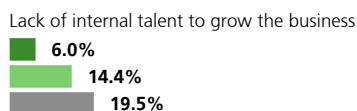
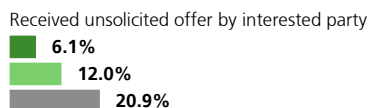
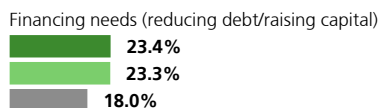
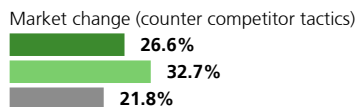
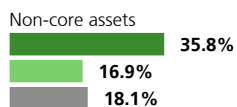
■ Increase: 27.0%
 ■ Little or no change: 56.7%
 ■ Decrease: 4.8%
 ■ Not expecting significant M&A over next few years: 11.5%

Do you expect your company to pursue divestitures over the next 12 months?



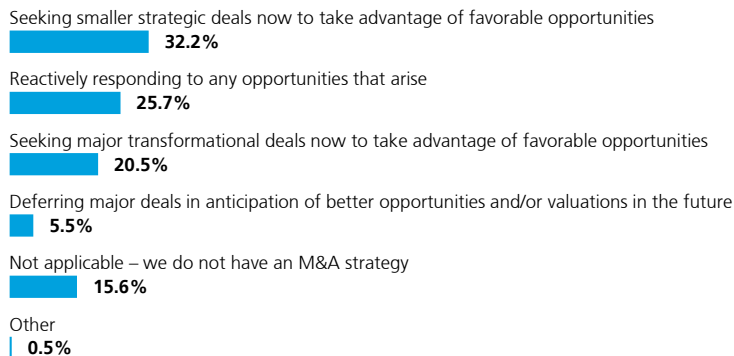
■ Yes: 30.8%
 ■ No: 69.2%

Regardless of your current divestiture plans, please rank in order of importance the top 3 reasons for divesting a business as they apply to your company. Please type a 1, 2 or 3 next to each of your top reasons (1 = top; 2 = second; 3 = third).

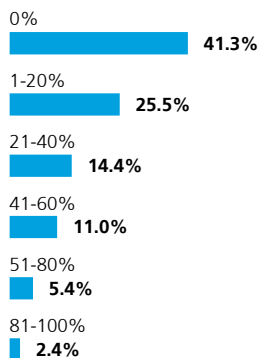


■ Top
 ■ Second
 ■ Third

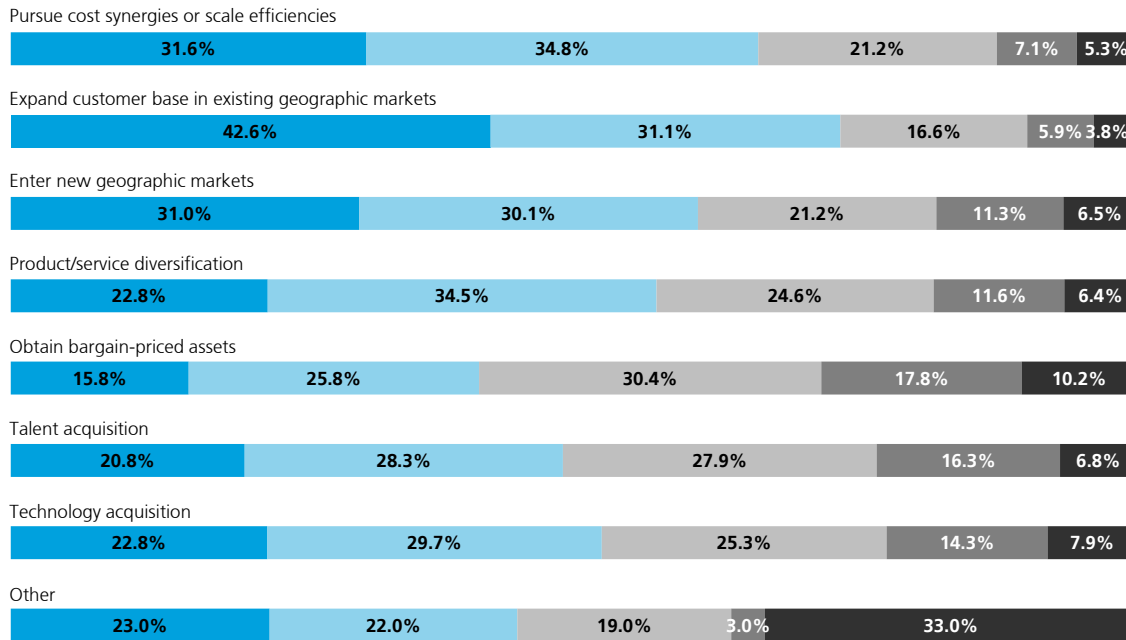
What is your company's M&A strategy for the next 12-18 months?



What percentage of your company's M&A deals involve acquiring targets operating principally in foreign markets?



Please rate the following objectives in terms of their importance with respect to your company's M&A strategy.



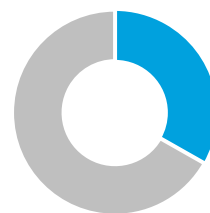
- Extremely important
- Somewhat important
- Neutral
- Somewhat unimportant
- Not at all important

Which foreign markets are you most likely to pursue? Please select all that apply.

	Percent
China	32.5%
Canada	25.9%
UK	25.4%
Brazil	23.0%
Mexico	19.6%
Germany	19.4%
India	18.3%
Japan	17.1%
France	13.6%
Italy	10.3%
Singapore	10.0%
South Korea	9.0%
Argentina	8.1%
Spain	8.1%
Thailand	7.3%
Taiwan	6.6%
Netherlands	6.2%
Chile	6.1%
Malaysia	6.1%
South Africa	6.1%
Russia	6.0%
United Arab Emirates	5.6%

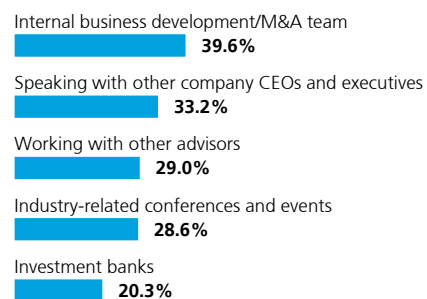
	Percent
Ireland	5.1%
Israel	4.8%
Costa Rica	4.5%
Colombia	4.4%
Saudi Arabia	4.4%
Indonesia	4.3%
Sweden	4.2%
Denmark	4.1%
Peru	4.0%
Turkey	3.6%
Poland	3.5%
North Africa	3.4%
Norway	3.1%
Vietnam	3.1%
Panama	2.8%
Finland	2.7%
Hungary	2.2%
Sub-Saharan (excluding South Africa)	2.2%
Czech Republic	2.0%
Bahrain	1.7%
Qatar	1.5%
Uruguay	1.3%

Over the next two years, do you expect your company's growth to be primarily driven through acquisition or organic growth?

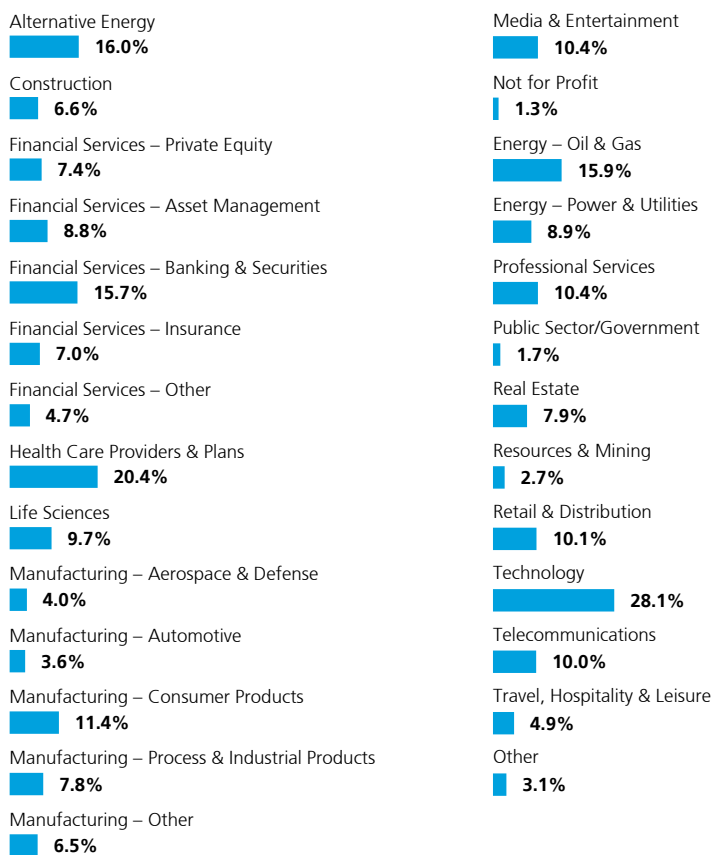


■ Growth through M&A transactions: 33.2%
 ■ Organic growth: 66.8%

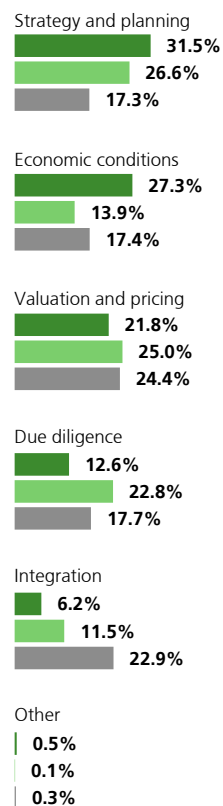
How do you typically identify M&A opportunities? Please select all that apply.



**What do you see as the top three industries for M&A activity in the next 12-18 months?
Please choose up to three.**

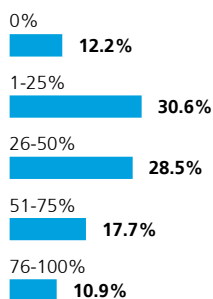


Please rank in order of importance the top 3 factors for ensuring deal success for your company. Please type a 1, 2 or 3 next to each of your top factors (1 = top; 2 = second; 3 = third).

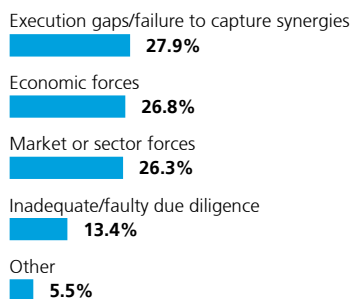


■ Top
■ Second
■ Third

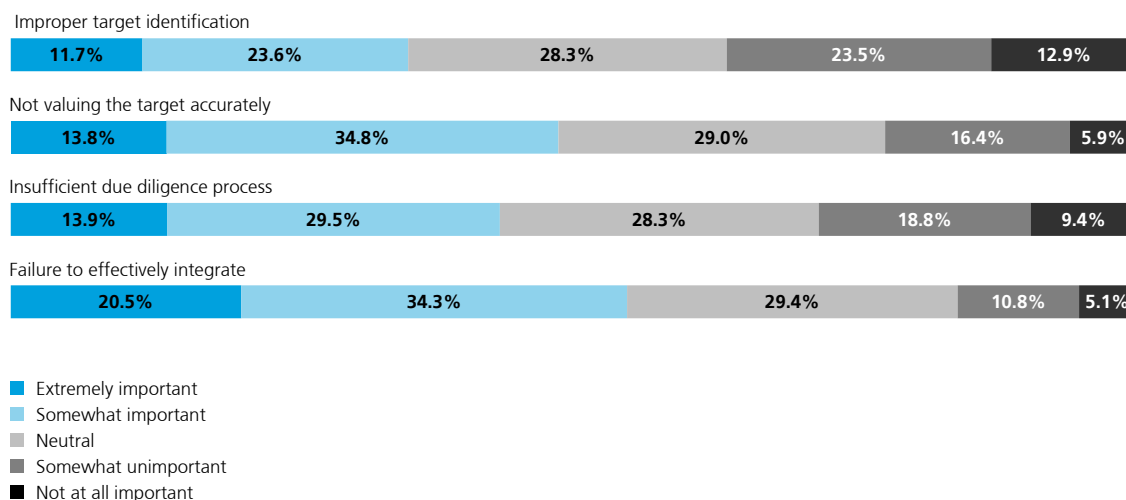
For transactions your company has completed within the past two years, what percentage has not generated their expected value or return on investment?



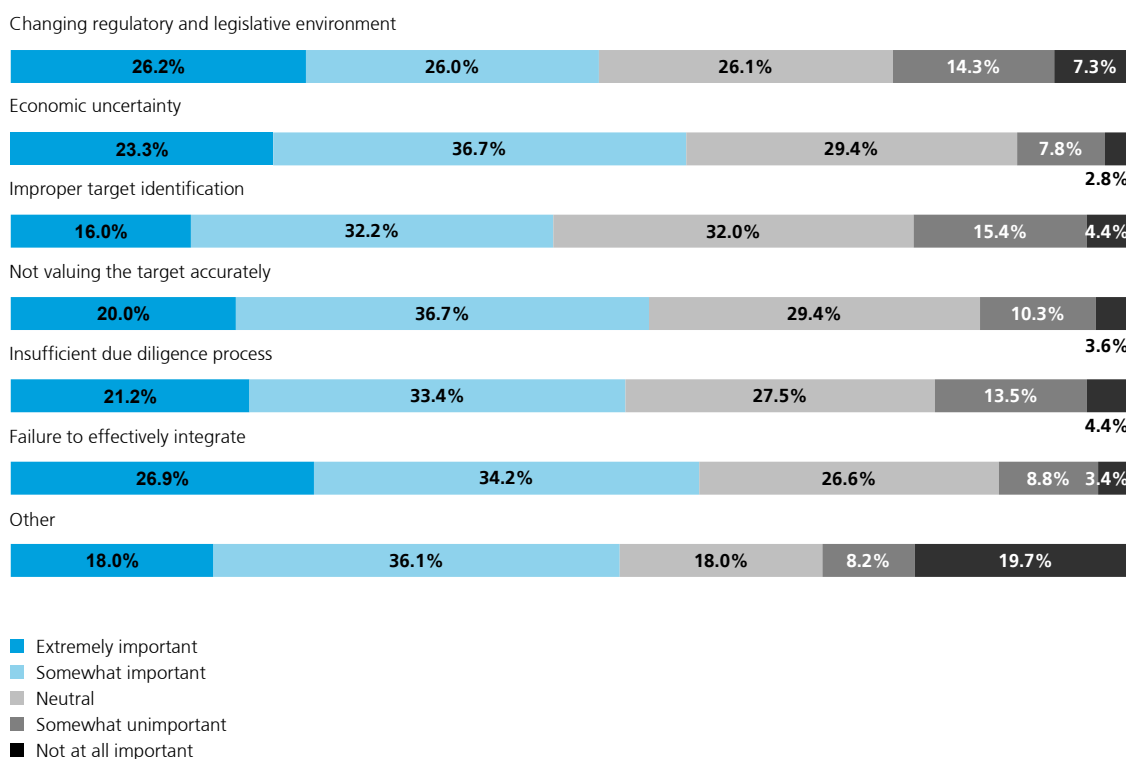
For those transactions that have not generated expected value for your company, what was the main reason?



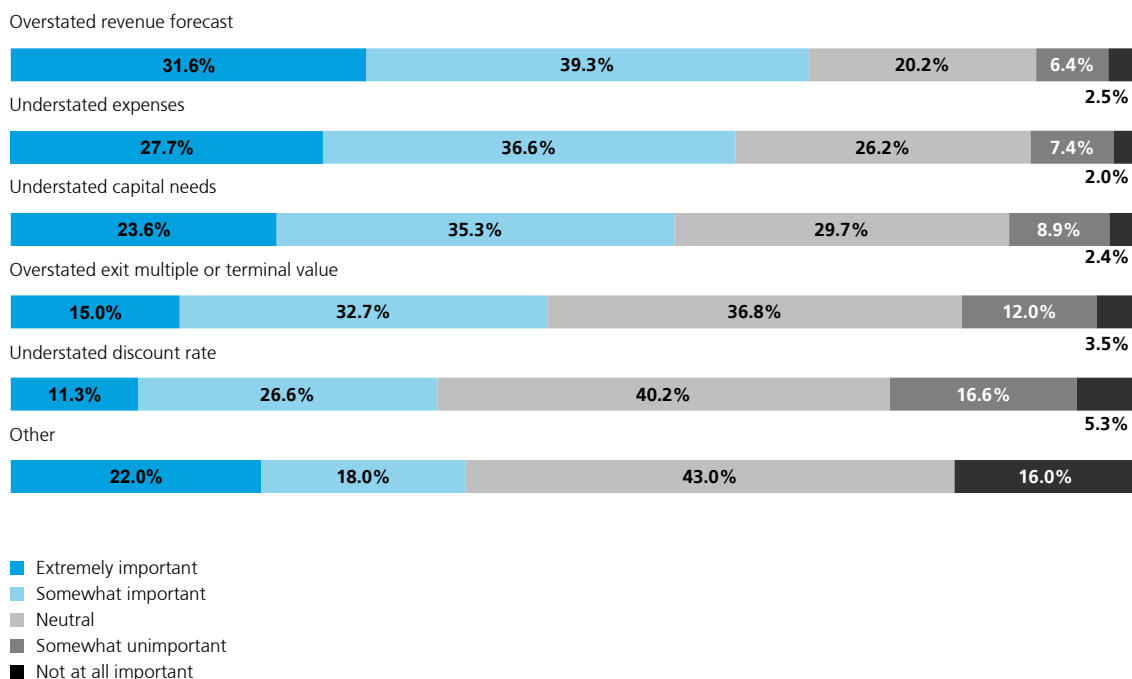
For each of the following stages of an M&A transaction's lifecycle, please indicate how likely that stage is to be an area of concern for your company when pursuing M&A deals.



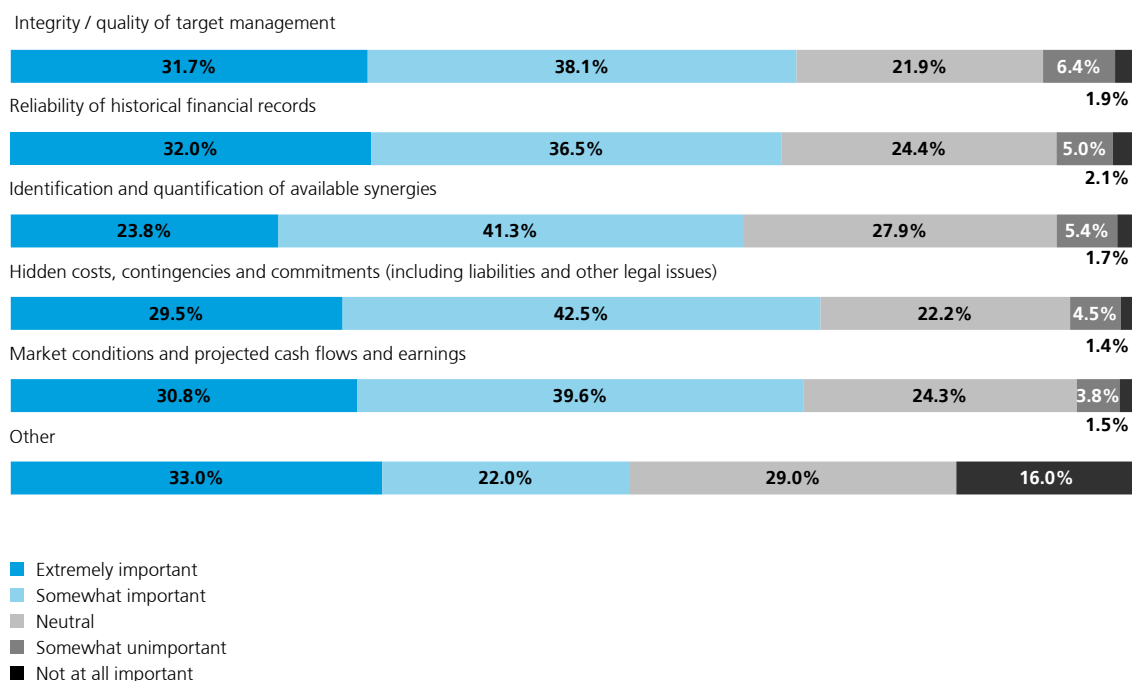
Please rate the following concerns with respect to their importance in achieving a successful M&A transaction for your company.



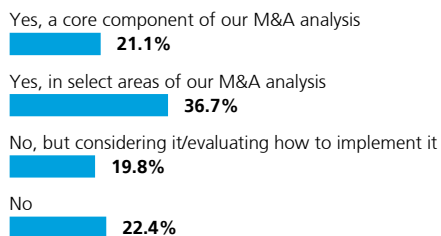
Please rate the following concerns in terms of their importance in accurately valuing a target.



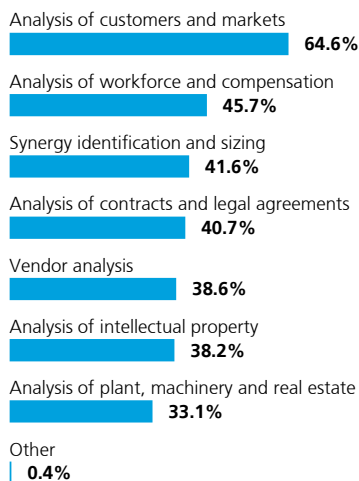
Please rate the following concerns in terms of their importance with respect to your company's due diligence process.



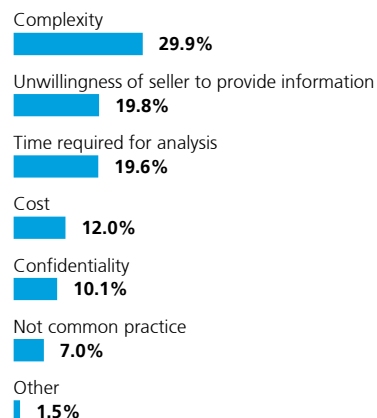
Does your company deploy technology-driven data analytics in M&A?



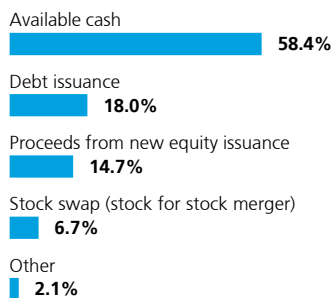
How has your company applied data analytics? Please select all that apply.



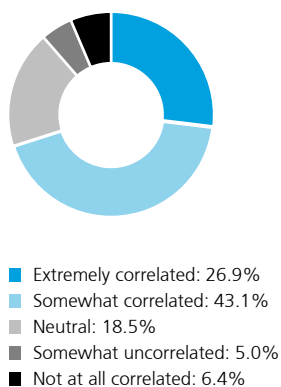
What do you think is the greatest impediment to the use of data analytics in M&A? Please select only one.



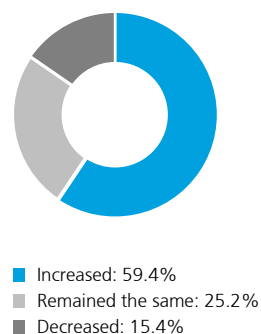
Over the next 12-18 months, what do you expect may be the primary funding source for your company's M&A investments? Please select only one.



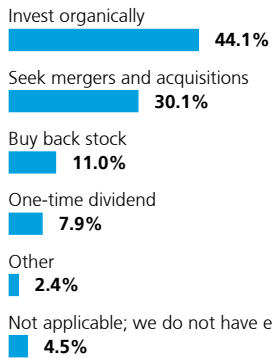
If your company plans to issue debt, how strongly correlated are those plans with a favorable interest rate environment?



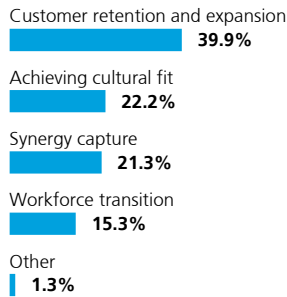
Compared to two years ago, how have the cash reserves on your company's balance sheet changed?



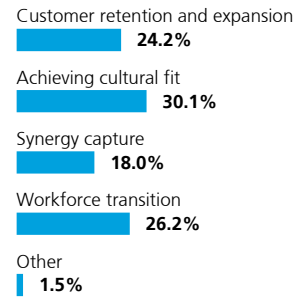
What is the primary intended use of your company's excess cash reserves? Please select only one.



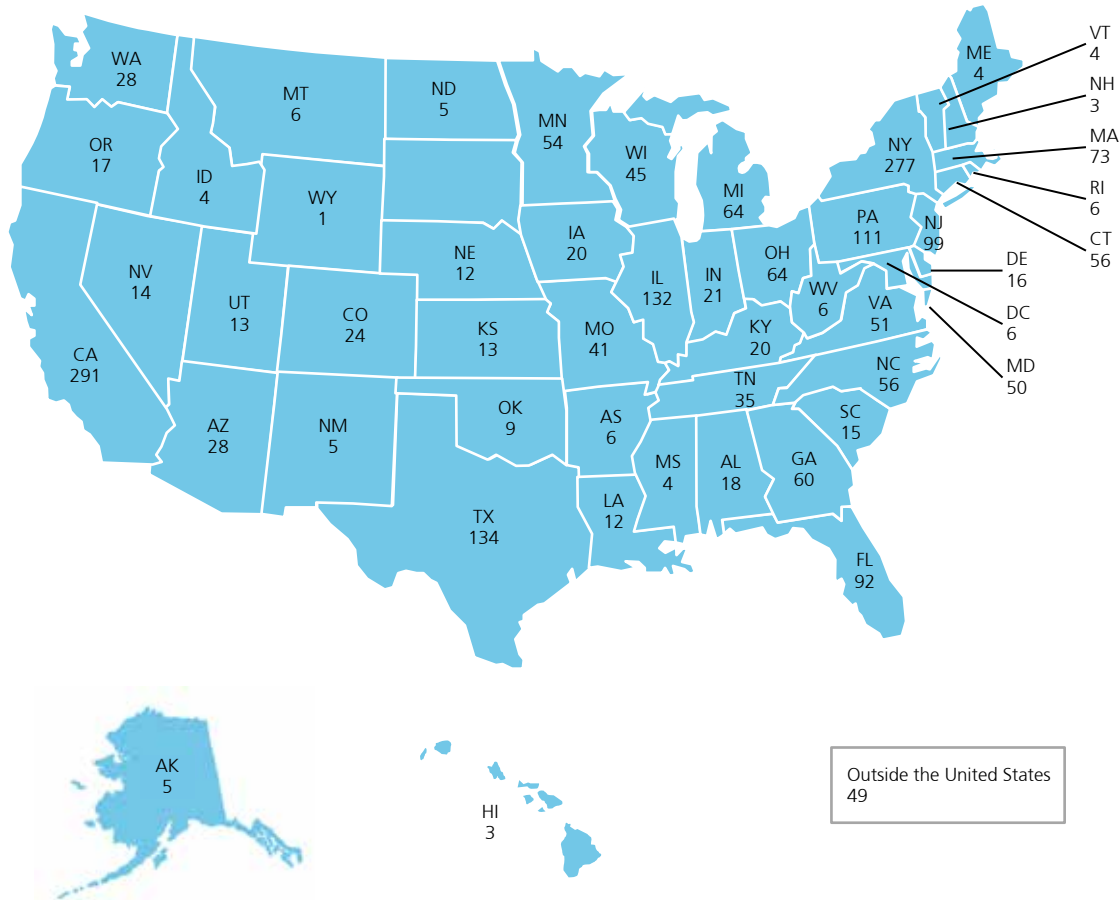
Which of the following factors is the most important in terms of achieving a successful integration for your company?



Which of the following factors is the most challenging in terms of achieving a successful integration for your company?

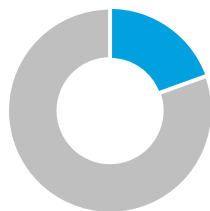


In what state is your company headquartered?



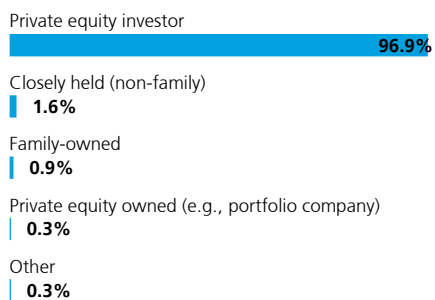
PEI responses

Which of the following best describes your current occupation?

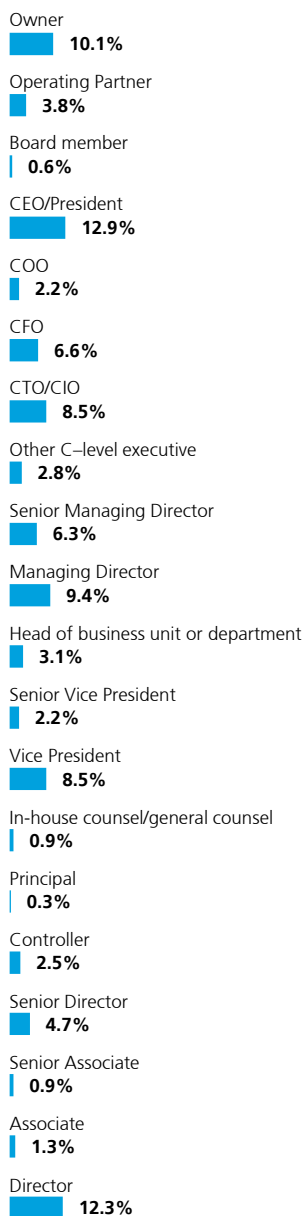


■ Owner of a business: 19.5%
 ■ Working full-time for a company: 80.5%

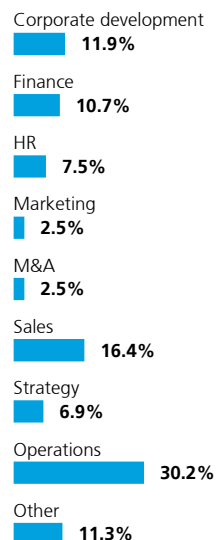
Which of the following describes your company?



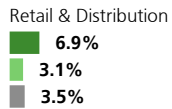
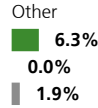
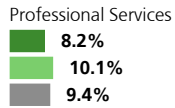
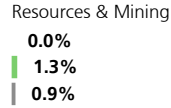
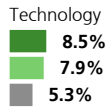
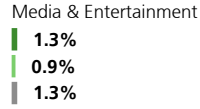
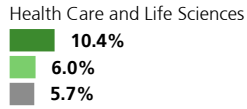
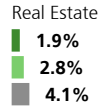
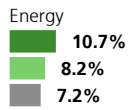
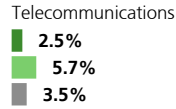
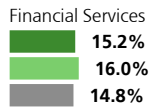
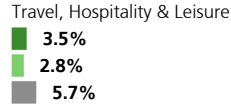
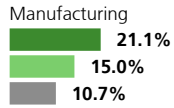
Which of the following best describes your title or role in your company?



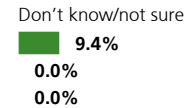
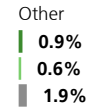
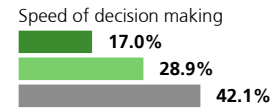
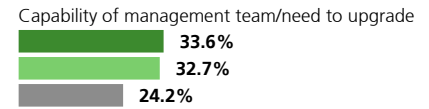
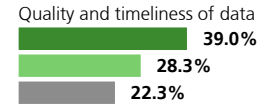
In which function do you work?



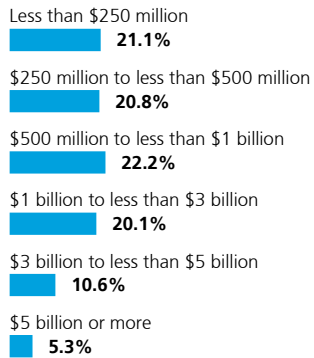
In what industries does your firm primarily focus its investments? Please rank your top three industries. Please type a 1, 2 or 3 next to each of your top industries (1 = top; 2 = second; 3 = third).



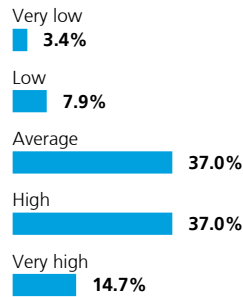
Please rank in order of importance the top three concerns of your firm upon the acquisition of a new company. Please type a 1, 2 or 3 next to each of your top concerns (1 = top; 2 = second; 3 = third).



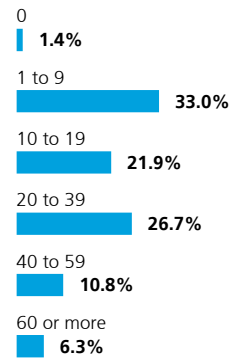
What is the size of your current fund?



What are your firm's expectations for deal activity over the next 12 months?



How many companies are in your firm's current portfolio?

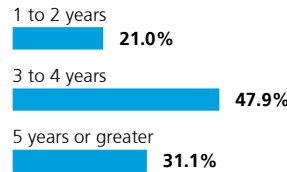


Do you have more or less companies in your firm's portfolio today than you had five years ago?

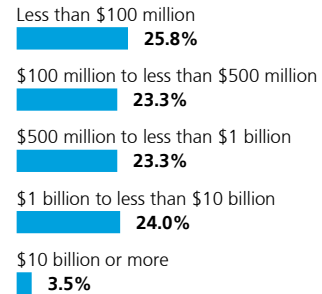


■ More: 58.0%
 ■ Same: 29.4%
 ■ Less: 12.6%

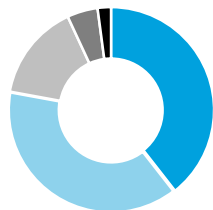
What is the intended blended holding period for your firm's portfolio?



What do you see as the average enterprise value for your firm's acquisitions in the coming year?

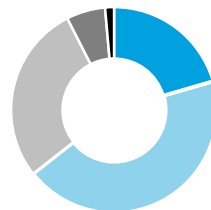


What is your firm's overall level of involvement with the management of your portfolio companies?



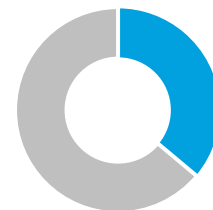
■ Very active: 39.4%
 ■ Somewhat active: 38.4%
 ■ Neutral: 15.2%
 ■ Somewhat passive: 4.8%
 ■ Very passive: 2.1%

What is your expectation regarding the level of portfolio company investment exits in the market over the next 12 months?



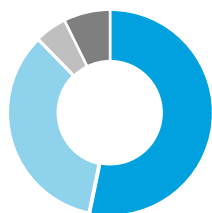
■ Significantly increase: 20.5%
 ■ Somewhat increase: 43.9%
 ■ Neutral: 28.1%
 ■ Somewhat decrease: 6.1%
 ■ Significantly decrease: 1.4%

What do you expect to be the primary form of portfolio exits in the market over the next 12 months?



■ IPO: 36.1%
 ■ Strategic sale: 63.9%

During the next two years, do you expect the average number of deals your firm actively pursues to increase or decrease?



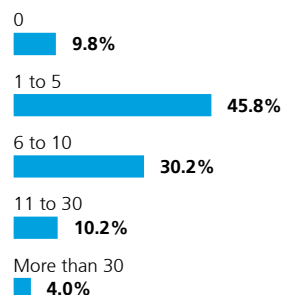
■ Increase: 53.3%
 ■ Little or no change: 34.5%
 ■ Decrease: 5.0%
 ■ N/A: not expecting significant M&A over next few years: 7.3%

Does your firm plan to increase the number of operating partners to enhance portfolio performance?

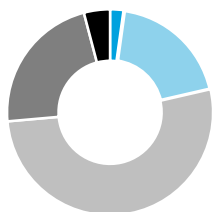


■ Yes: 48.9%
 ■ No: 51.1%

How many add-on acquisitions do you expect across your firm's portfolio over the next 12 months?

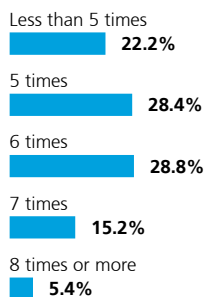


What is your general view of the debt markets for LBOs in the coming year?

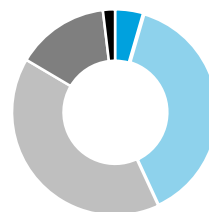


■ Very strong: 2.2%
 ■ Strong: 19.2%
 ■ Neutral: 52.2%
 ■ Tight: 22.3%
 ■ Very tight: 4.1%

In general, what do you see as the leverage multiples for debt?



In general, how do you see leverage multiples changing over the coming year?



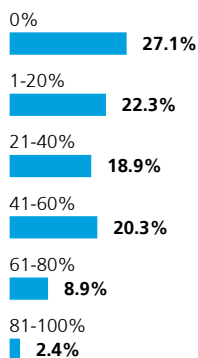
■ Much stronger: 4.5%
 ■ Stronger: 38.6%
 ■ No change: 40.4%
 ■ Weaker: 14.6%
 ■ Much weaker: 1.9%

Do you see your firm becoming more industry-focused over the coming year?

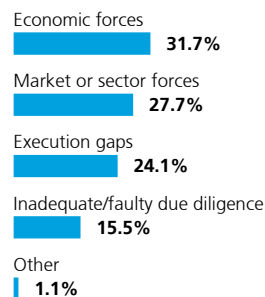


■ Yes: 68.1%
 ■ No: 31.9%

What percentage of your firm's deals involve acquiring companies domiciled in foreign markets?



For the last deal your firm's fund undertook that did not generate the expected value, what was the main factor for this gap?



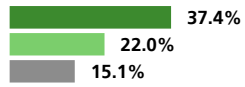
Which foreign markets are you most likely to pursue? Please select all that apply.

	Percent
UK	33.5%
China	30.7%
Canada	29.7%
Brazil	24.1%
Japan	17.9%
Mexico	17.5%
India	16.0%
Germany	15.6%
France	13.7%
Italy	10.4%
South Korea	10.4%
Singapore	8.5%
Spain	8.0%
United Arab Emirates	8.0%
Argentina	7.5%
Taiwan	7.5%
Chile	6.6%
South Africa	6.6%
Colombia	6.1%
Ireland	6.1%
Israel	5.2%
Malaysia	5.2%

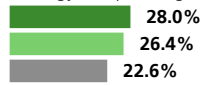
	Percent
Denmark	4.7%
Norway	4.7%
Russia	4.2%
Thailand	4.2%
Finland	3.8%
Panama	3.3%
Costa Rica	2.8%
Indonesia	2.8%
Peru	2.8%
Saudi Arabia	2.8%
Czech Republic	2.4%
Sweden	2.4%
Uruguay	2.4%
North Africa	1.9%
Turkey	1.9%
Bahrain	1.4%
Hungary	1.4%
Qatar	1.4%
Vietnam	1.4%
Netherlands	0.9%
Poland	0.9%
Sub-Saharan (excluding South Africa)	0.5%

Please rank in order of importance the top three factors for ensuring deal success for your company. Please type a 1, 2 or 3 next to each of your top factors (1 = top; 2 = second; 3 = third).

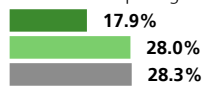
Economic conditions



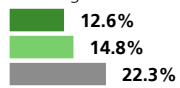
Strategy and planning



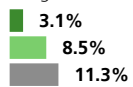
Valuation and pricing



Due diligence



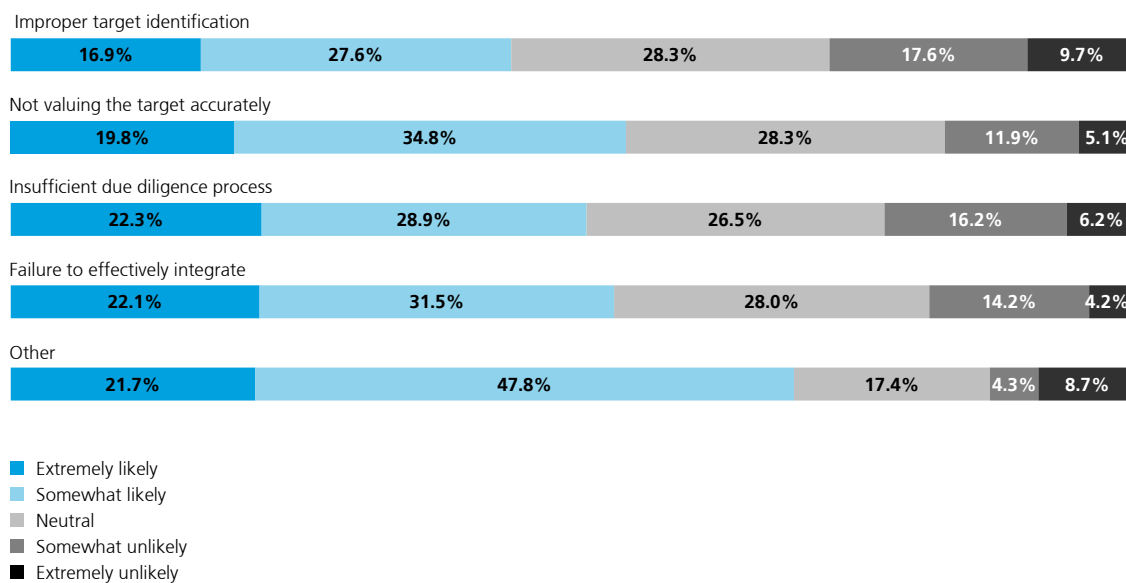
Integration



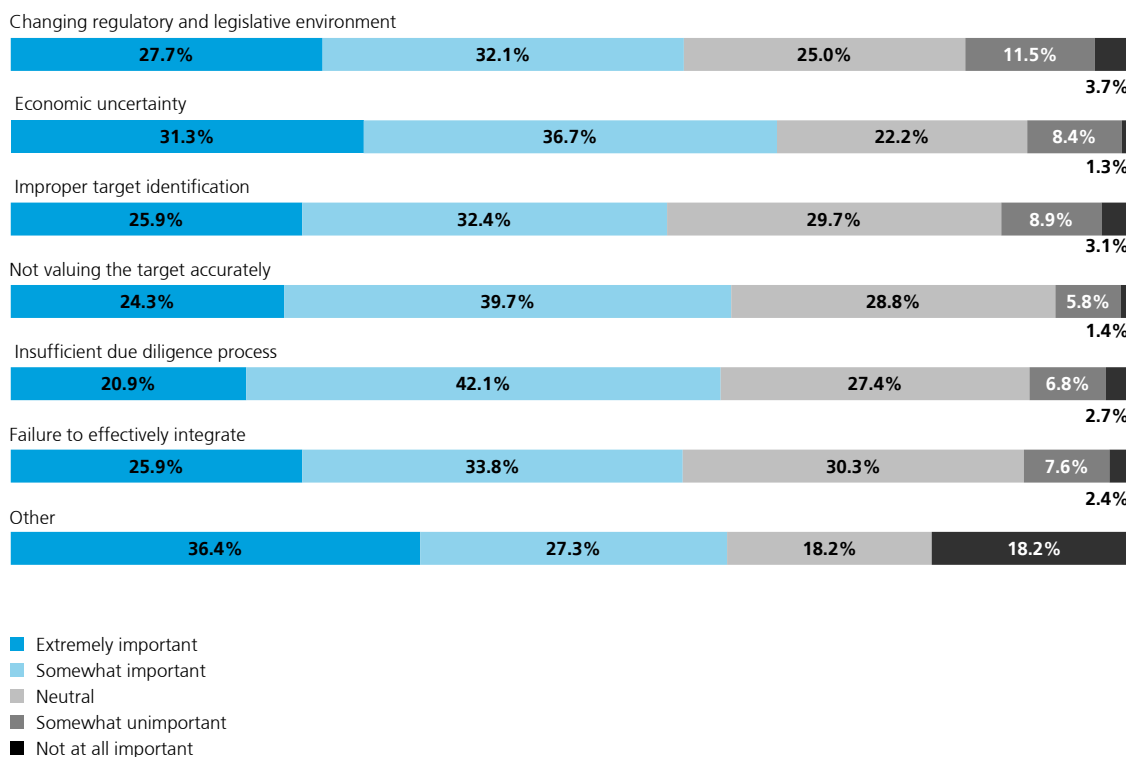
Other



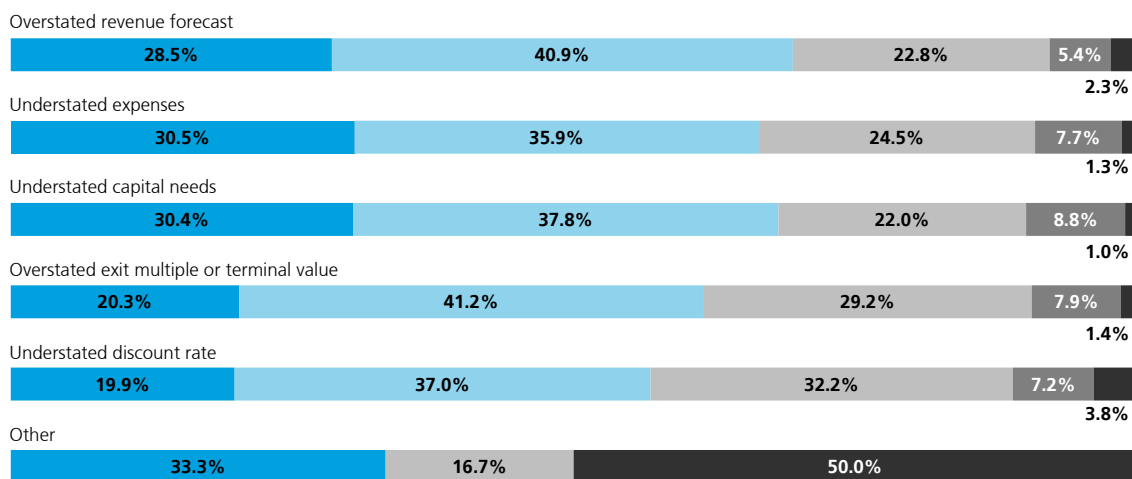
For each of the following stages of an M&A transaction's lifecycle, please indicate how likely that stage is to be a source of risk for your firm when pursuing M&A deals.



Please rate the following concerns with respect to their importance in achieving a successful M&A transaction for your firm.

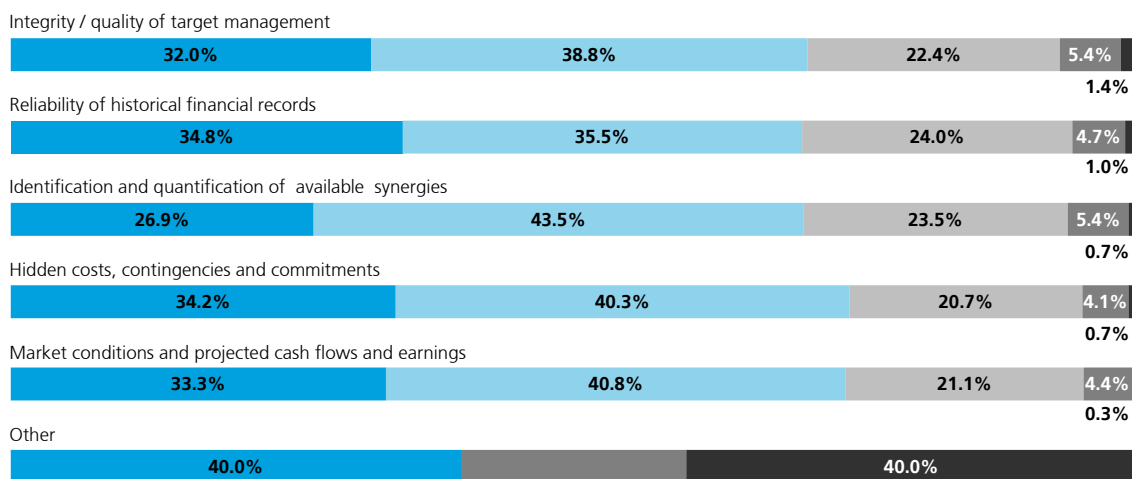


Please rate the following concerns in terms of their importance in accurately valuing a target for your firm.



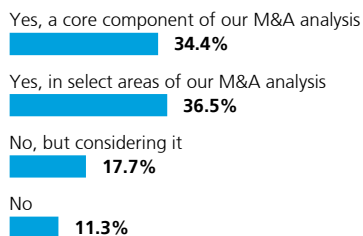
- Extremely important
- Somewhat important
- Neutral
- Somewhat unimportant
- Not at all important

Please rate the following concerns in terms of their importance with respect to your firm's due diligence process.

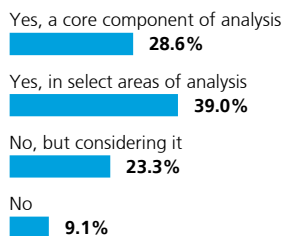


- Extremely important
- Somewhat important
- Neutral
- Somewhat unimportant
- Not at all important

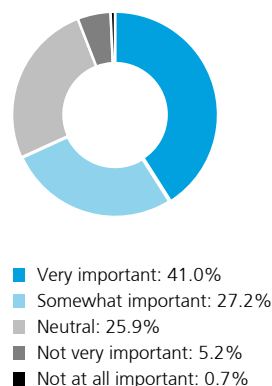
Does your firm deploy technology-driven data analytics in M&A?



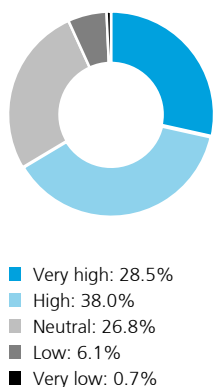
Does your firm deploy technology-driven data analytics in its portfolio companies?



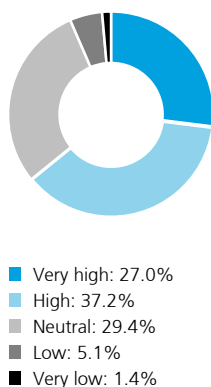
How important are issues of "responsible growth" to your firm over the near-term?



How high of a priority for your firm are privacy and security concerns when considering acquisition targets?



How high of a priority are privacy and security issues within your firm's portfolio companies?



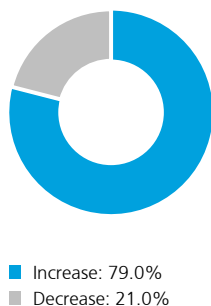
In general, do you expect to see more or fewer club deals in the coming year?



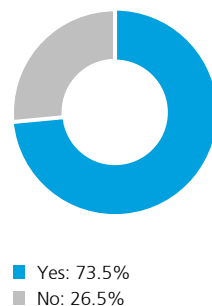
Do you expect your firm to make more growth/minority investments over the next 12 months?



Do you expect the enterprise size of your firm's deals to increase or decrease over the coming year?



If interest rates increase over the coming year, will that have an impact on your firm's potential deals?

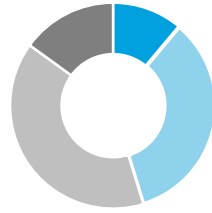


Do you see anti-trust issues being a greater or lesser concern going forward in your firm's investments?



■ Greater: 62.3%
■ Lesser: 37.7%

How much would anti-trust issues hinder or preclude your firm from any potential deal activity?



■ Greatly hinder: 11.1%
■ Hinder: 34.1%
■ Neutral: 39.7%
■ No effect: 15.0%

In what state is your company headquartered?

