

Market Observations

Q1 2017

A quarterly compilation of high-level perspectives on M&A, public equity, private capital, and the capital markets.

- U.S. M&A Trends in 2017
- Global Corporate and Sovereign Credit Outlook
- U.S. REITs underperform S&P 500 in first quarter of 2017
- M&A Transaction Activity by Sector and Geography
- Top M&A Deals in 2017's Top Performing Sectors - Q1

S&P Global

Market Intelligence

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Consumer Staples and Restaurants Sectors are M&A Rising Stars

Richard Peterson, Senior Director, S&P Global Market Intelligence

With more than a quarter of 2017 in the books, foreign companies are once again making their mark on the U.S. M&A market.

Foreign companies are the acquirers in some of the largest deals involving U.S.-based targets thus far in 2017, including the largest deals in the consumer staples and restaurant sectors. They are on pace to once again account for a significant chunk of overall U.S. M&A activity after being responsible for about a quarter of U.S. deal proceeds in each of the last three years. In fact, 2016 saw the highest percentage of foreign acquisitions of U.S. targets in about two decades, as nearly 29% of the year's \$1.71 trillion in announced U.S. deals involved foreign buyers.

Those results largely stemmed from foreign companies serving as the acquirers in some of 2016's largest transactions, such as the proposal by Germany's Bayer to purchase Monsanto Company for \$64.1 billion and British American Tobacco p.l.c. acquiring a 58% stake in Reynolds American Inc. for \$63 billion.

The dollar amount of foreign acquisitions in the U.S. set a record in 2016 as \$491 billion in deals were announced, exceeding the previous record of \$431 billion set in 2015, according to data from S&P Global Market Intelligence.

This year's second-largest announced U.S. M&A transaction to date is British consumer staples company Reckitt Benckiser Group's agreement to acquire Illinois-headquartered Mead Johnson Nutrition Company for \$17.9 billion, or 17.7x the target's last twelve months EBITDA. Announced U.S. consumer staples M&A transactions to date in 2017 involving domestic buyers have an average multiple of 6.7x EBITDA.

Additionally, the largest ever announced U.S. M&A transaction in the restaurant industry occurred this month as Germany's JAB Holdings B.V. agreed to buy Panera Bread Company in a deal valued at nearly \$7.5 billion, or 18.5x Panera's last twelve months EBITDA. The largest restaurant M&A deal in 2017 to date involving both a domestic target and acquirer was Darden Restaurants Inc.'s \$780 million purchase of Cheddar's Inc. at 10.4x EBITDA. Domestic buyers in announced U.S. restaurant industry deals paid an average of 10.4x a target's EBITDA, according to disclosed figures.

Announced U.S. Involving Foreign Buyers

Year	Disclosed proceeds of transactions involving foreign buyers \$billions	Disclosed proceeds of transactions involving foreign buyers as % of U.S. M&A Activity
1998	247.0	17.0%
1999	268.9	21.4%
2000	384.1	22.3%
2001	120.3	16.5%
2002	62.8	14.0%
2003	53.2	10.5%
2004	73.1	9.1%
2005	147.5	13.7%
2006	281.2	20.2%
2007	371.8	26.6%
2008	202.5	24.5%
2009	58.8	8.1%
2010	178.0	21.2%
2011	159.5	15.9%
2012	202.8	22.1%
2013	159.8	14.4%
2014	379.2	25.0%
2015	431.4	22.0%
2016	491.2	28.7%
2017*	72.3	19.4%

Source: S&P Global Market Intelligence *through 4/25/2017

It appears that domestic buyers until recently tended to offer higher multiples on large deals in the U.S. M&A marketplace than their foreign counterparts. S&P Global Market Intelligence compared average transaction multiples for the 50 largest transactions involving domestic buyers to a similar subset of deals with non-U.S. acquirers in each year going back to 2008. The analysis examined the ratio of total enterprise value to a target's last-twelve-months EBITDA. This result is not surprising to some extent, as the deals in this analysis involving domestic buyers were generally larger. For example, of the top 50 domestic acquisitions in the U.S. M&A market announced in 2016, 12 were valued at over \$10 billion, compared to 8 in that size range for U.S. deals involving foreign buyers. The average deal size of the top 50 U.S. transactions with domestic buyers announced in 2016 was \$11.7 billion, compared to \$7.8 billion for deals with foreign acquirers.

For the most part since 2008, both domestic and foreign buyers have on average increased the multiples paid in large U.S. M&A transactions, although average domestic buyer premiums have been higher. The last year in which the top 50 announced acquisitions of U.S. targets by foreign buyers commanded a higher average multiple was 2011 that dynamic appears to be poised for a change in 2017.

Foreign Buyers' Multiples For U.S. Acquisitions on the Rise*

Year	Average Deal Multiples in the 50 Largest U.S. M&A Transactions w/ Domestic Buyers	Average Deal Multiples in the 50 Largest U.S. M&A Transactions w/ Foreign Buyers
2008	13.15	21.15
2009	15.35	12.07
2010	17.28	18.17
2011	13.45	14.08
2012	16.72	13.48
2013	15.87	15.59
2014	23.17	16.89
2015	21.15	19.66
2016	17.80	16.22
2017	18.18	24.94

*Total enterprise value to LTM target EBITDA; Source: S&P Global Market Intelligence *through 4/25/2017

Year-to-date, foreign buyers are on average paying higher multiples in the largest U.S. M&A transactions than their domestic counterparts. It could be that foreign buyers are simply more willing to offer a higher valuation to fend off possible bids by domestic suitors. Also, foreign buyers might believe that a higher premium now may be offset later in the foreign exchange markets. Finally, foreign buyers may simply assume that higher premiums are justified to retain executive and managerial talent.

Global Corporate And Sovereign Credit Outlook: Credit Markets Remain Stable Despite Ever-Increasing Uncertainty

Global Fixed Income Research Team, S&P Global Ratings

Uncertainty continues to be the overarching theme for credit markets following a fairly positive first quarter of 2017, despite a backdrop of sizable risk. From President Trump's domestic and trade policy agendas to major elections in 2017 in France and Germany, a slowdown in China's economic growth, an anticipated two more rate hikes from the Federal Reserve this year, and most recently the U.K.'s divorce filing with the EU, capital markets around the globe clearly have a number of risks to consider. Yet both equity and fixed-income markets seemed to shrug off these risks in the first quarter, owing to a positive earnings season, somewhat stabilized oil prices (off record lows), and generally upbeat recent U.S. economic news, including optimistic jobs data, wage inflation, and a sustained, resilient housing market.

Indeed, in the first quarter equity markets in the U.S., Europe, and emerging markets performed fairly well, with the S&P 500 posting just under 5.5% growth, the FTSE 100 posting 2.5% growth, and the S&P Emerging Markets BMI posting 6.5% growth. The Nikkei 225 was the only major index that was down for the first quarter, shrinking by 1%. This appears commensurate with fixed-income markets--albeit at a smaller margin--which grew roughly 1% in investment-grade and 2.3% in speculative-grade categories in the U.S., while the S&P Eurozone Investment Grade Corporate Bond Index was up 1.2%. Credit default swap indices generally compressed marginally at the end of the first quarter globally as well.

[Access the full article >](#)

US REITs Underperform S&P 500 in First Quarter of 2017

Chris Hudgins, Client Services, S&P Global Market Intelligence

The SNL U.S. REIT Equity index generated a 2.5% total return during the first quarter of 2017, underperforming the S&P 500's 6.1% return. REITs underperformed the S&P 500 over the last year as well. The SNL U.S. REIT Equity index generated a 5.3% total return, compared to the S&P 500's 17.2% return. Healthcare REITs were the only major sector to top the S&P 500 during the quarter with a 6.9% market-cap-weighted total return. Eighteen out of the 21 publicly traded U.S. healthcare REITs posted positive returns during the quarter, and new entrant Quality Care Properties Inc., which completed its spinoff from HCP Inc. on Oct. 31, 2016, posted the highest total return of the group, at 21.7% for the quarter. On the flip side, the retail sector was the poorest performer in the quarter, with a total return of negative 4.7%. During the quarter, several large retail tenants announced store closures, including Macy's, Sears and J.C. Penney. As of March 31, retail REITs traded at a 13.6% market-cap-weighted discount to NAV.

Single-family rental REIT Altisource Residential Corp. was the top-performing U.S. REIT, posting a 39.5% total return for the first quarter. During 2016, the company drastically grew its rental portfolio to 8,603 homes, up from 2,732 at the end of 2015. During the first quarter of 2017, the company's acquisitive trend continued, with the company entering into a nonbinding letter of intent to purchase up to an additional 3,500 rental homes from entities sponsored by Amherst. In addition to Altisource, three other single-family rental REITs outperformed both the S&P 500 and SNL U.S. REIT Equity indexes.

[Access the full article >](#)

Transaction Activity by Sector

S&P Global Market Intelligence provides detailed information on M&A and financing transactions covering the most active markets in the world. We track all publicly announced mergers, acquisitions, private placements, public offerings, shelf registrations, equity buybacks, and bankruptcies. Transaction data is updated daily from various sources such as regulatory filings, company websites, newsletters, trade publications, and press releases.

Market Observations Covering:

Sector (Global)

Geography (Global)

M&A Valuations Compared by Sector & Geography

Our Transaction Data

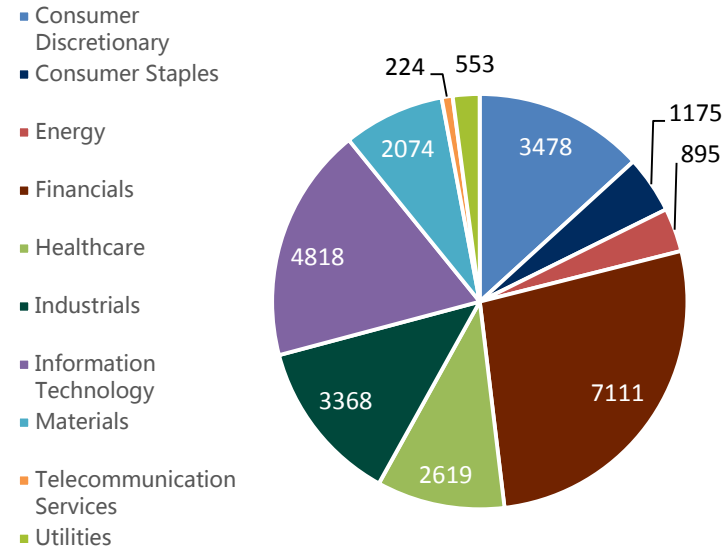
S&P Global Market Intelligence covers 1,500,000+ transactions globally.

Source: The S&P Capital IQ platform, data as of 4/18/2017

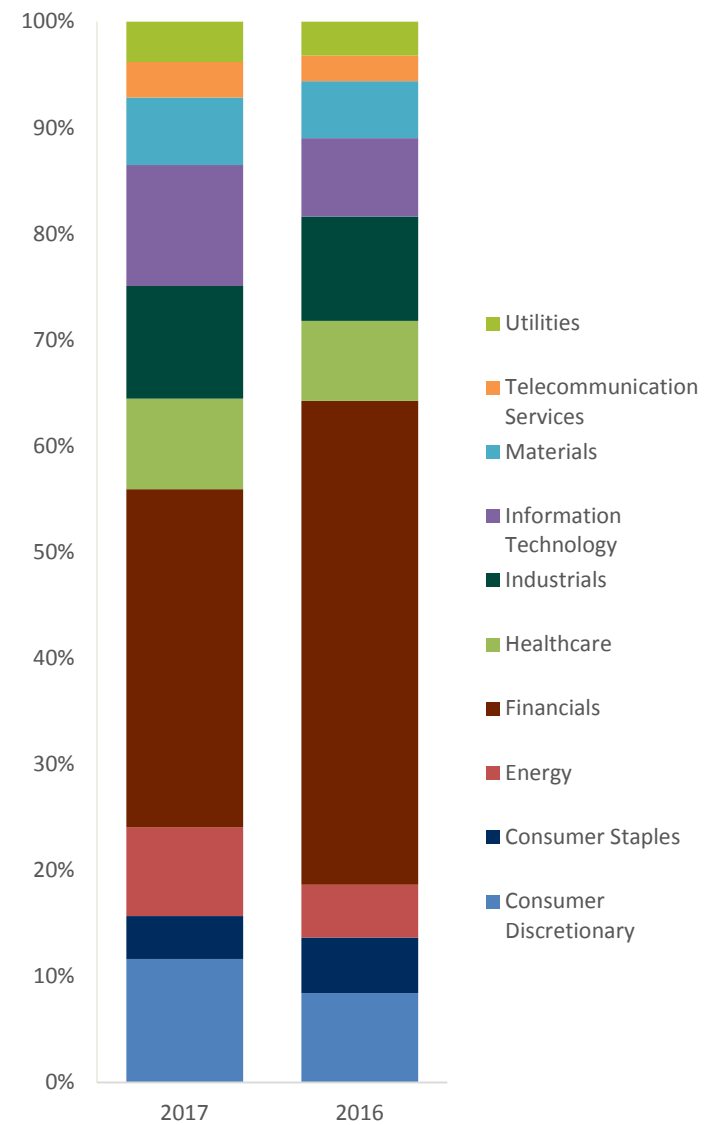
To learn more about our transaction coverage, history, and collection process, contact marketobservations@spglobal.com.

Global Transaction Activity by Sector

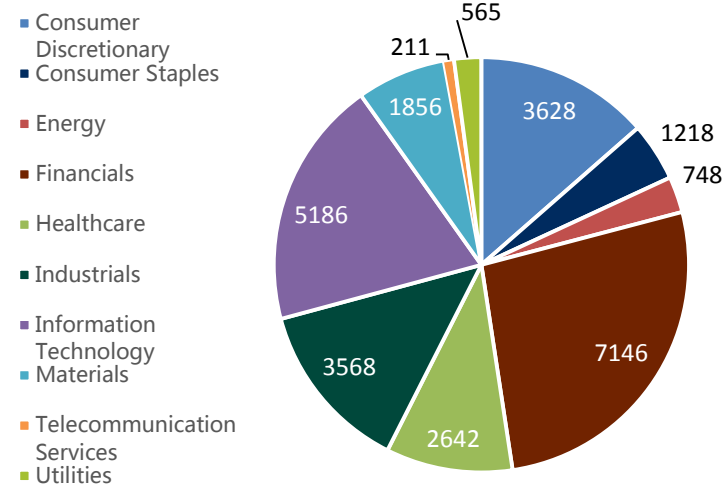
Q1 2017 Transaction Activity by Deal Count



Q1 2017 & Q1 2016 Transaction Activity by Transaction Value

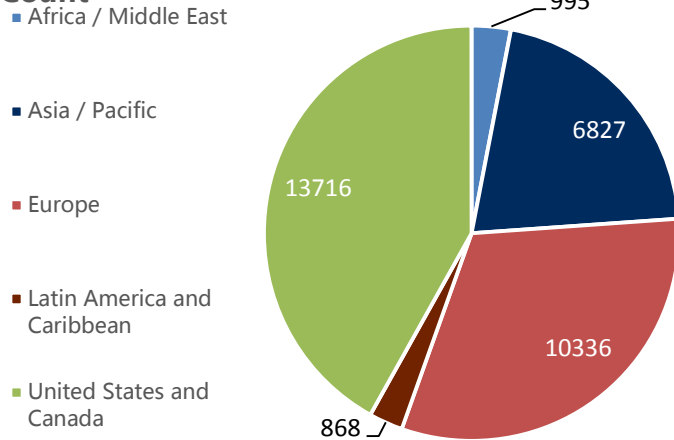


Q1 2016 Transaction Activity by Deal Count

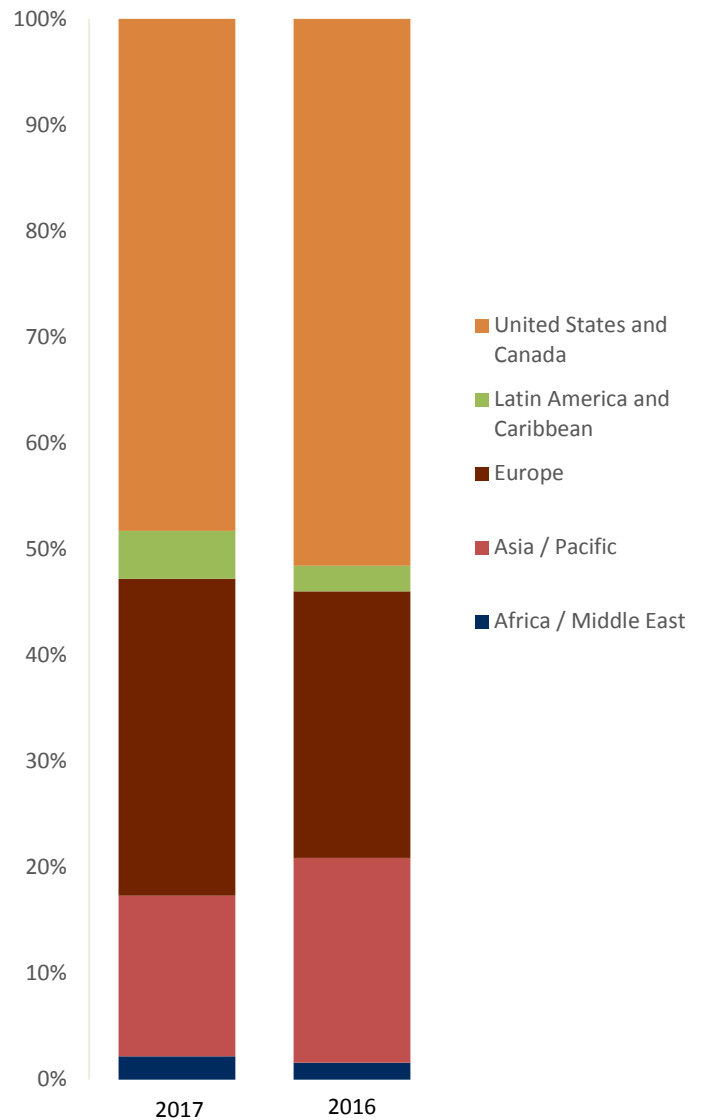


Q1 2017 Global Transaction Activity by Geography

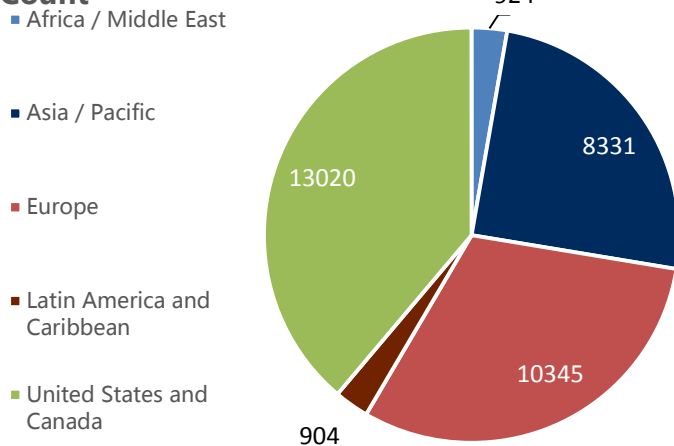
Q1 2017 Transaction Activity by Deal Count



Q1 2017 & Q1 2016 Transaction Activity by Transaction Value

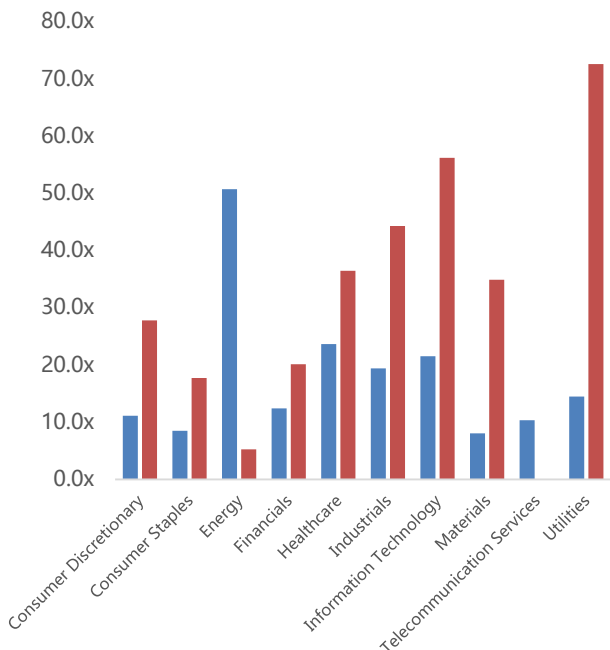


Q1 2016 Transaction Activity by Deal Count



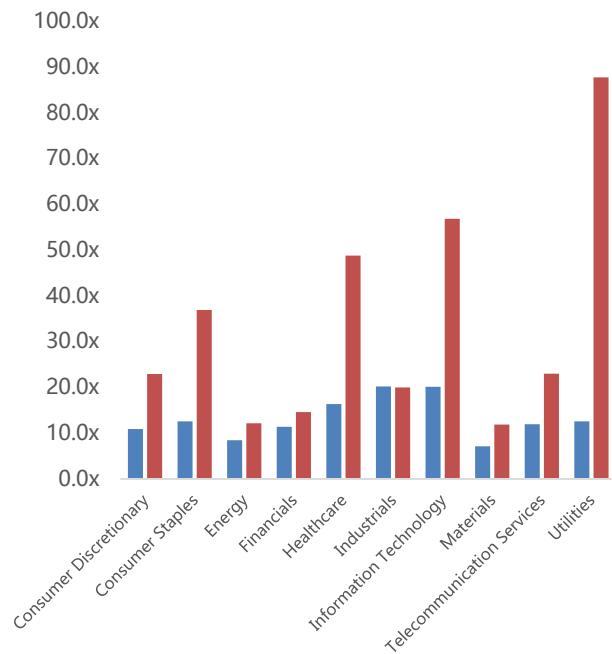
Q1 2017 M&A Valuation by Sector & Geography

Americas



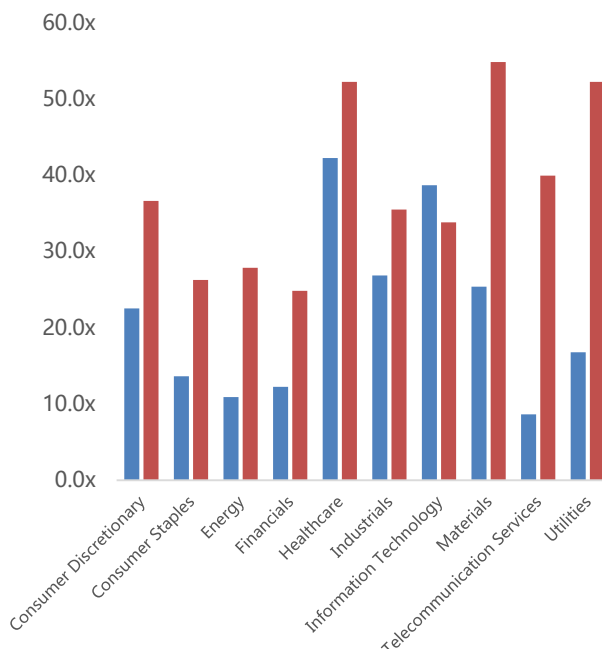
■ Average Implied Ent. Value / LTM EBITDA
 ■ Average Implied Equity Value / LTM Net Income

EMEA



■ Average Implied Ent. Value / LTM EBITDA
 ■ Average Implied Equity Value / LTM Net Income

APAC



■ Average Implied Ent. Value / LTM EBITDA
 ■ Average Implied Equity Value / LTM Net Income

Top M&A Deals in Q1 2017 Top Performing Sectors

Transaction information is seamlessly integrated in the S&P Capital IQ platform and the Excel[®] Plug-In and can be viewed alongside the company fundamentals.

Top Three M&A Deals in Q1 2017's Top Performing Sectors*

Financials

Consumer Discretionary

Information Technology

Transaction Activity by Transaction Type

*Note: subsequent commentary provided by Rich Peterson, Senior Director, S&P Global Market Intelligence

Industry Specific Data

S&P Global Market Intelligence uses the Global Industry Classification Standard (GICS[®]) to categorize and tag all companies within our database.

We also collect industry specific & supplemental financials for 17 industries: Airline, Bank, Hotels & Gaming, Healthcare Facilities, Homebuilding, Insurance, Internet Media, Managed Care (HMO), Mining, Oil & Gas, Pharmaceutical, Real Estate, Restaurant, Retail, Semiconductor Equipment, Asset Management, and Telecommunications, Cable & Wireless.

To learn more about GICS or our industry-specific and supplemental data items, contact marketobservations@spglobal.com.

Top M&A Deals for Financials - Q1 2017

Announced Date	Target/Issuer	Transactions Value [\$USDmm]	Headquarters - Country [Target/Issuer]	Buyers/Investors	EV / EBITDA	EV / NI
3/1/2017	Bradford & Bingley plc, 104,000 Buy-to-Let Mortgages	14,536	United Kingdom	Prudential plc (LSE:PRU); The Blackstone Group L.P. (NYSE:BX)	-	-
3/4/2017	Aberdeen Asset Management PLC (LSE:ADN)	5,112	United Kingdom	Standard Life plc (LSE:SL.)	9.55	22.90
3/17/2017	USI Insurance Services, LLC	4,300	United States	KKR & Co. L.P. (NYSE:KKR); Caisse de dépôt et placement du Québec	-	-
2/14/2017	Fortress Investment Group LLC (NYSE:FIG)	3,772	United States	SoftBank Group Corp. (TSE:9984)	14.95	35.36
3/8/2017	A Portfolio Of US First Lien Residential Mortgage Loans	3,396	United States	DLJ Mortgage Capital, Inc.	-	-

Announced worldwide M&A transactions involving financial sector targets during the first quarter 2017 topped \$83.3 billion compared to \$46.1 billion in the year earlier period. The top deal of the quarter was London-based financial services firm Prudential plc (LSE:PRU) and U.S. private equity firm The Blackstone Group L.P. (NYSE:BX) agreeing to acquire a mortgage portfolio from Bradford & Bingley plc for \$14.5 billion on March 1, 2017. The second-largest financial sector M&A deal of the past quarter was Edinburgh-headquartered Standard Life plc (LSE:SL) entering into an agreement to acquire Aberdeen Asset Management plc (LSE:ADN) in a transaction valued at about \$5.1 billion on March 4, 2017. The next biggest financial sector M&A deal in the first-quarter was private equity firm KKR & Co. L.P. (NYSE:KKR) and Caisse de dépôt et placement du Québec agreeing to acquire insurance broker USI Insurance Services, LLC from Canadian private equity firm Onex Corporation (TSX:ONEX) in a transaction valued at about \$4.3 billion.

During the first-quarter there were 16 announced financial sector M&A deals of over \$1 billion. In terms of valuations, a typical M&A deal in the financial sector during the first-quarter was worth \$275 million with an average multiple of 5.8x a target's revenue and 10.4x EBITDA according to S&P Global Market Intelligence data. North America was the most frequent location for deals with 333 transactions followed by Europe with 269 and Asia/Pacific with 228.

Top M&A Deals for Consumer Discretionary - Q1 2017

Announced Date	Target/Issuer	Transactions Value [\$USDmm]	Headquarters - Country [Target/Issuer]	Buyers/Investors	EV / EBITDA	EV / NI
1/16/2017	Luxottica Group S.p.A. (BIT:LUX)	17,129	Italy	Essilor International SA (ENXTPA:EI)	12.30	26.79
2/2/2017	CBS Radio Inc.	2,831	United States	Entercom Communications Corp. (NYSE:ETM)	8.60	-
1/10/2017	Intime Retail (Group) Company Limited (SEHK:1833)	2,473	China	Intime International Holdings Limited; Alibaba Investment Limited	14.62	18.37
2/28/2017	USJ Co., Ltd.	2,275	Japan	NBCUniversal Media, LLC	-	-
3/27/2017	Peugeot S.A. (ENXTPA:UG)	2,089	France	BPI France SA	2.17	8.74

M&A activity in the consumer discretionary sector dropped for about \$66 billion in the opening quarter of 2017 compared to nearly \$82 billion in transactions during the year earlier quarter. On average, a typical deal for the sector was valued at 3.7x revenue and 16.6x EBITDA. The sector's largest deal in the previous quarter was French lens maker and optical instruments firm Essilor International SA (ENXTPA:EI) entering into an agreement to acquire a 61.9% stake in Italy's eyewear firm Luxottica Group S.p.A. from Delfin S.a.r.l. for about \$17.1 billion on January 15, 2017. According to S&P Global Market Intelligence data, the transaction ranks as the third-largest ever M&A deal in the European consumer discretionary sector. The next largest deal in the sector was Entercom Communications Corp. (NYSE:ETM) entering into an agreement to acquire CBS Radio Inc. from CBS Broadcasting, Inc. in a \$2.83 billion transaction on February 2, 2017. At the time of announcement the deal ranked as the largest U.S. broadcasting industry M&A deal since the third-quarter 2015. The third biggest worldwide consumer discretionary M&A deal in the first-quarter 2017 was Intime International Holdings Limited and Alibaba Investment Limited making an offer to acquire a 52.94% stake in Intime Retail (Group) Company Limited (SEHK:1833) for approximately \$2.47 billion in a transaction announced on January 10th. The latter deal also ranked as the fourth-largest M&A deals during the first-quarter involving a Chinese based target.

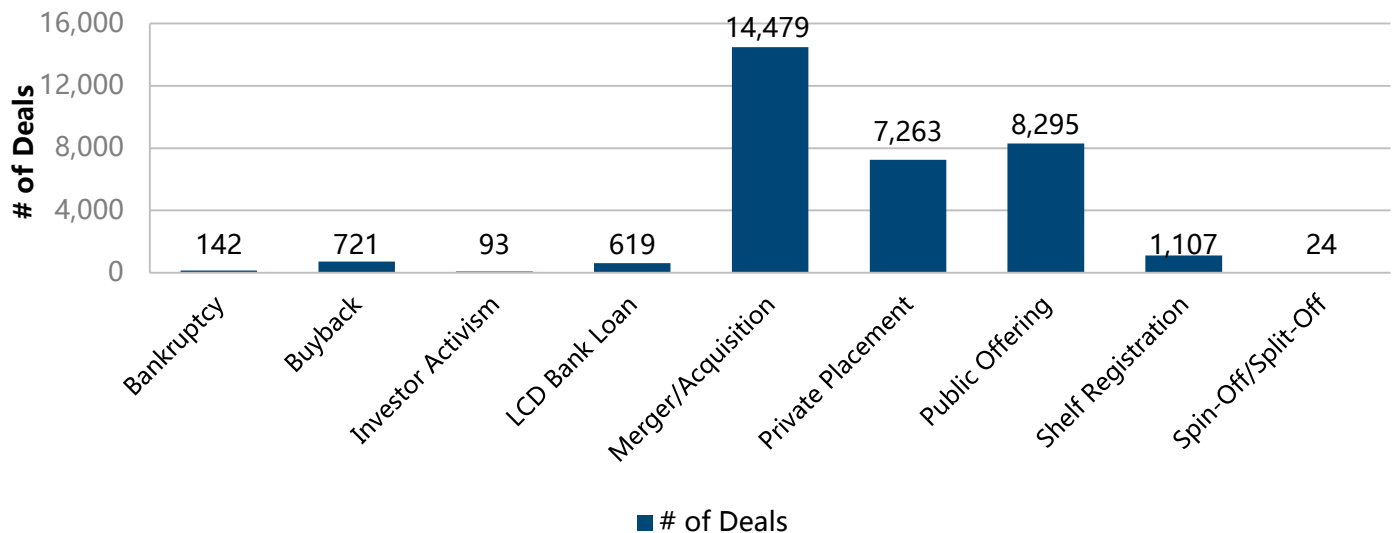
Top M&A Deals for Information Technology - Q1 2017

Announced Date	Target/Issuer	Transactions Value [\$USDmm]	Headquarters - Country [Target/Issuer]	Buyers/Investors	EV / EBITDA	EV / NI
3/13/2017	Mobileye N.V. (NYSE:MBLY)	15,403	Israel	Intel Corporation (NasdaqGS:INTC)	120.00	130.78
2/10/2017	Aon plc, Benefits Administration and HR Business Process Outsourcing Platform	4,800	United Kingdom	The Blackstone Group L.P. (NYSE:BX)	12.12	-
1/24/2017	AppDynamics, Inc.	4,033	United States	Cisco Systems, Inc. (NasdaqGS:CSCO)	-	-
3/13/2017	DH Corporation (TSX:DH)	3,502	Canada	Misys Limited	14.65	-
1/26/2017	MoneyGram International, Inc. (NasdaqGS:MGI)	2,115	United States	Alipay (UK) Limited	8.81	73.62

Over \$68 billion in announced worldwide information technology M&A deals occurred in the first-quarter 2017. Intel Corporation's \$15.4 billion proposed purchase of Israeli driving and mapping technology company Mobileye N.V. ranks as the biggest deal for the sector during the opening quarter of 2017. The deal stands as Intel's second-largest ever acquisition with only its \$18.2 billion purchase of Altera Corp. bigger. Additionally, the transaction ranks as the largest cross border M&A deal in the information technology sector since QUALCOMM Incorporated announced its \$47.6 billion purchase of NXP Semiconductors N.V. last October. The second largest deal of the recent quarter was private equity firm The Blackstone Group L.P. (NYSE:BX) entering into an agreement to acquire the benefits administration and human resources process outsourcing platform from European insurer Aon plc (NYSE:AON) for \$4.8 billion on February 9, 2017. The next biggest deal was Cisco Systems, Inc., announcing its biggest acquisition in over eleven years with the agreement to acquire AppDynamics Inc. in a transaction valued at \$4 billion.

In terms of sector deal aggregates for the first quarter, there were 13 transactions of \$1 billion or greater. As for deal multiples, a typical IT M&A deal in the past quarter was valued at 4.4x revenue and 24.9x EBITDA with an average deal size of \$139.8 million. Of the 1,744 announced deals for the sector in the first-quarter, 630 involved North American targets, 588 were from Europe and 451 from the Asia/Pacific region.

Transaction Activity by Transaction Type - Q1 2017



Public offerings accounted for about \$1.23 trillion, or 39%, of the approximately \$3.15 trillion in global transactions taking place in the first-quarter 2017. That was followed by \$804.5 billion in worldwide M&A deals and \$448.5 billion in LCD bank loans. As for financial activity based on deal count for transaction in the opening quarter of 2017, M&A saw 14,479 deals or 44% of the more than 32,700 individual transactions occurring in the quarter. That was followed by 8,295 individual public offerings and 7,263 private placements. Buybacks saw 721 announced deals with a total value of \$149.4 billion. Shelf registrations saw \$367.7 billion in activity from 1,107 deals according to S&P Global Market Intelligence data.

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About Market Observations

Market Observations is a quarterly compilation of high-level perspectives on M&A, public equity, private capital, and the capital markets. The content is primarily derived from the S&P Capital IQ Platform and includes commentary on S&P Global Market Intelligence's public company, private company and private equity information.

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