

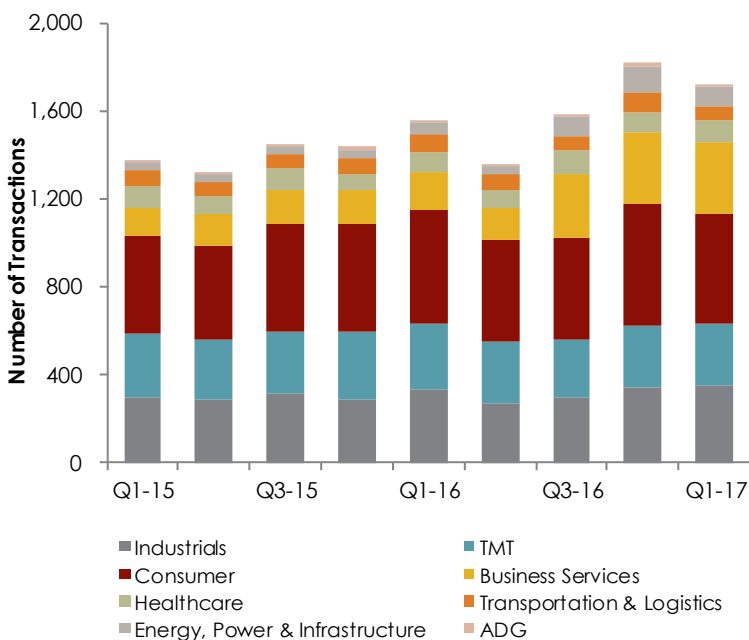


# EUROPEAN UPDATE

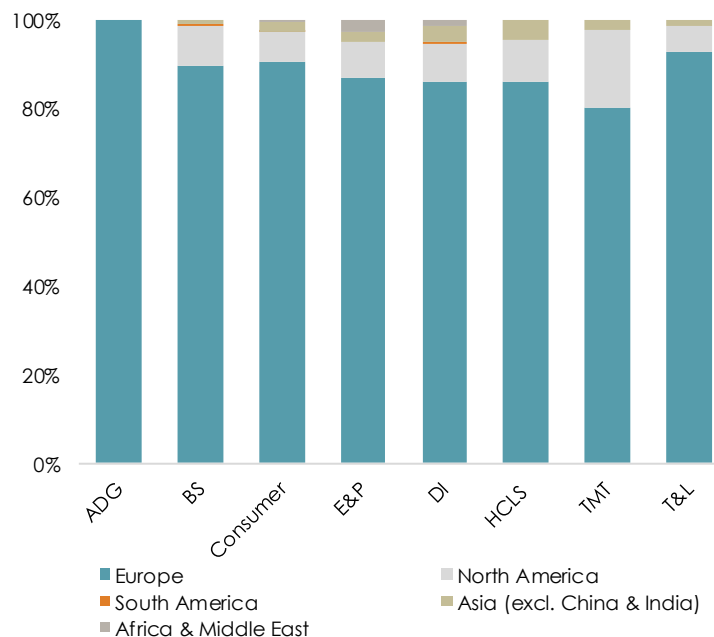
## MARKET OBSERVATIONS<sup>1</sup>

- European middle market M&A activity decreased by 5.9% in Q1 2017, compared to Q4 2016, while overall transaction volumes grew by 10.0% Y-o-Y
- Consumer, Industrials and Business Services have been the three most active sectors, accounting for approximately 29.3%, 20.6% and 19.2% of total deal volume, respectively
- Strategic investors continued to be active and represented 86.0% of acquirers during Q1 2017

## MIDDLE MARKET M&A ACTIVITY – BY SECTOR<sup>2,3</sup>



## Q4-16 BUYER BY REGION<sup>2,3</sup>



- International inbound M&A volume into Europe decreased by 15.1% compared with Q4 2016 with 214 closed transactions
- North American groups accounted for 76.2% of transactions completed relative to non-European buyers, in line with Q3 2016, closing 163 transactions in the quarter
- GDP rose by 0.5% in the Eurozone and by 0.6% in the EU28 during Q4 2016. On a Y-o-Y basis, GDP rose by 1.8% and 1.9% in the Eurozone and the EU28, respectively
- Business activity in the Eurozone is at a near six-year high with a PMI reading of 56.2 in March 2017, a significant increase from 54.4 in December 2016

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## CONTACTS

**Thierry Monjauze**  
 Phone: +44 20 7518 8901  
[tmonjauze@harriswilliams.com](mailto:tmonjauze@harriswilliams.com)

**Ed Arkus**  
 Phone: +44 20 7518 8905  
[earkus@harriswilliams.com](mailto:earkus@harriswilliams.com)

**Jeffery Perkins**  
 Phone: +49 69 3550638 00  
[jperkins@harriswilliams.com](mailto:jperkins@harriswilliams.com)

**Christopher Darlington**  
 Phone: +44 20 7518 8904  
[cdarlington@harriswilliams.com](mailto:cdarlington@harriswilliams.com)

**Will Bain**  
 Phone: +44 20 7518 8906  
[wbain@harriswilliams.com](mailto:wbain@harriswilliams.com)

**Lars Friemann**  
 Phone: +49 69 3550638 12  
[lfriemann@harriswilliams.com](mailto:lfriemann@harriswilliams.com)

**Jonathan Organ**  
 Phone: +44 20 7518 8909  
[jorgan@harriswilliams.com](mailto:jorgan@harriswilliams.com)

## LONDON OFFICE

63 Brook Street  
 London W1K 4HS  
 United Kingdom  
 Phone: +44 20 7518 8900

## FRANKFURT OFFICE

Bockenheimer Landstr. 33-35  
 60325 Frankfurt  
 Germany  
 Phone: +49 69 3650638 00

## FOCUS ON THE CHINESE MARKET

### OVERVIEW – KEY TAKEAWAYS<sup>4,5</sup>

#### Chinese Buyers Have Become More Successful in Recent Years

- 340 completed deals in Europe in 2016; an increase of 26% on 2015, and 163% on 2012
- 2016 completed deal value c.£80bn
- In HW&Co deals, Chinese buyer activity has doubled since 2011

#### Interest is Increasingly Strong, Especially for Deals <\$1bn EV

- Focus on opportunities which have a China “angle”
- Slowing domestic growth and intense competition to buy Chinese assets both add to increased outbound focus
- Government stance increasingly inhibitive for larger outbound M&A (>\$1bn EV)

#### There is Very Considerable Dry Powder, Both from Private Equity and Strategics

- >650 Chinese Private Equity funds have been raised in the last five years, accounting for \$190bn of equity
- Strategics with extensive cash resources
- Strategics and Private Equity are regularly teaming up to buy businesses

#### With a “Flexible” Process, Chinese Buyers can Compete in Auctions

- More sophisticated, majority-focused PE firms have been able to do this for some time
- Increasingly common for strategics (bidding alone) to be able to submit fully funded final offers (including equity underwrites)
- However, some flexibility around process is required to maximise interest

### CONSIDERATIONS FOR INCLUDING CHINESE BUYERS IN A PROCESS

#### Timing

- Longer time preferable
- Low risk of leaks
- Can compete in auction (provided they are prepared)

#### Financial Detail

- Will need to know PAT and understand the interest and tax structure
- DD is more onerous than with European / US buyers

#### Who is the Buyer

- Minority PE funds compete if they team up with strategics
- Fully understand the approval and regulatory process and who is the decision maker

#### Meeting the Team

- Essential for a Chinese buyer
- Visa process usually takes 14 days
- They will encourage you to go see them in China – if possible, try to do this before a process starts

#### Reason for Sale

- Chinese buyers are very keen to understand why the business is being sold
- Be upfront about this – will save time later

#### Where is the Money?

- China has strict regulations for overseas M&A approval
- Try to ensure bidders have pre-approval or the money is in an overseas entity

### HW&CO. ASIAN PARTNER OVERVIEW - SOMERLEY

HW&Co. has an exclusive relationship with one of Asia's leading independent M&A advisory firms, facilitating Chinese buyer participation in HW&Co. transactions

- Established in 1984, Somerley has a strong record of providing top-quality M&A advisory services across the Asia Pacific region
- Over 60 professionals in Shanghai, Beijing and Hong Kong, including both locals and expatriates that offer a strong combination of local knowledge and global experience
- Seamless interaction between Somerley and HW&Co. during transactions



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## HARRIS WILLIAMS & Co. OFFICE LOCATIONS

### UNITED STATES

**Boston**  
One International Place  
Suite 2620  
Boston, Massachusetts 02110  
Phone: +1 (617) 482-7501

**Cleveland**  
1900 East 9th Street  
20th Floor  
Cleveland, Ohio 44114  
Phone: +1 (216) 689-2400

**Minneapolis**  
222 South 9th Street  
Suite 3350  
Minneapolis, Minnesota 55402  
Phone: +1 (612) 359-2700

**Richmond (Headquarters)**  
1001 Haxall Point  
9th Floor  
Richmond, Virginia 23219  
Phone: +1 (804) 648-0072

**San Francisco**  
575 Market Street  
31st Floor  
San Francisco, California 94105  
Phone: +1 (415) 288-4266

**Washington, D.C.**  
800 17th St. NW  
2nd Floor  
Washington, D.C. 20006  
Phone: +1 202-207-2300

### EUROPE

**Frankfurt**  
Bockenheimer Landstrasse 33-35  
60325 Frankfurt  
Germany  
Phone: +49 069 3650638 00

**London**  
63 Brook Street  
London W1K 4HS, England  
Phone: +44 (0) 20 7518 8900

### NETWORK OFFICES

**Beijing**  
**Hong Kong**  
**Mumbai**

**New Delhi**  
**Shanghai**

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## SOURCES AND NOTES

1. FactSet
2. Includes closed M&A transactions of majority stakes only, where deal value was undisclosed or between €25m – €650m, within United Kingdom, Eire, France, DACH (Germany, Austria, Switzerland), Spain, Italy, Benelux (Belgium, the Netherlands, Luxembourg) and Scandinavia (Denmark, Norway, Sweden and Finland); By volume
3. Markit Economics
4. Preqin
5. MergerMarket
6. Business report
7. eMarketer
8. Company Press Releases
9. Eurostat
10. Financial Times
11. S&P Capital IQ

## DISCLOSURES

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