Intralinks Deal Flow Indicator

Our quarterly review of future trends in the global M&A market

Q2 2014

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Introduction

Welcome to the latest edition of the Intralinks Deal Flow Indicator (DFI) report, brought to you in association with Remark, the research and publications arm of Mergermarket. The Intralinks DFI tracks pre-announcement early-stage M&A deals (sell-side M&A mandates and deals reaching due diligence) across the world, providing a unique predictor of future global M&A activity levels.

Intralinks has been the leading global provider of virtual data rooms for over 16 years, and our involvement in the early stages of M&A deals allows us to keep a finger on the pulse of today's rapidly changing M&A market. The Intralinks DFI has been independently verified as an accurate predictor of future changes in the global volume of announced M&A transactions, with percentage changes in the Intralinks DFI data typically reflected in announced deal volumes approximately six months later.

The Q2 2014 edition of the Intralinks DFI report reveals a sizeable 16% quarter-on-quarter (QoQ) uplift globally in early-stage M&A activity and we therefore expect to see this number translated into a significant increase in deal announcements in Q4 2014. North America, Latin America and EMEA all saw strong QoQ increases in early-stage M&A activity in Q2, suggesting sustained momentum in M&A announcements through the end of 2014 in most of the world's regions.

Only Asia-Pacific experienced a QoQ dip in the DFI, that is likely due to the breakneck bursts of activity the region previously witnessed. Sectors are consolidating as the economies of Asia-Pacific mature, and some of the frenetic activity we have seen in prior periods is beginning to level off.

The above findings generally support our belief that we are headed for a sustained dealmaking recovery. Based on the results of the Intralinks DFI so far this year and the DFI's strong correlation to the volume of future announced deals, Intralinks is predicting that global announced M&A volumes for 2014 as a whole will, for the first time since 2010, show an

Intralinks Deal Flow Indicator – Q2 2014

annual increase of between six and 10 percent as compared to 2013.

Sectors which are showing strong levels of early-stage M&A activity include consumer, industrials, technology and TME (telecoms, media & entertainment). Consumer deals, for instance, are expected to rise substantially. We have already seen a spate of high-value deals in 2014, particularly in the food and beverage space. In May, the Dutch coffee and tea company D.E. Master Blenders and fast-moving consumer goods conglomerate Mondelez

Introduction (continued)

International announced plans to create a joint venture, to be named Jacobs Douwe Egberts. The deal is valued at US$5bn, and will launch the newly formed company into a market-leading position in several European countries.

Initial public offerings (IPOs), which directly contribute to M&A figures through exits and spin-offs and increase confidence among businesses, have surged since the start of the year. The second quarter of 2014 saw a number of blockbuster IPOs, including UK-based bank TSB and Michael's, the largest crafts retailer in the US. These listings demonstrate to other businesses that growth and development are critical to remaining competitive in today's market.

Investor confidence also seems to be building. While there have been political shocks, with the apparent escalation of the conflicts in Ukraine (including the destruction of flight MH17) and the Middle East, they have been regionally confined, with so-far negligible impacts on global markets. Overall, corporate attitudes toward M&A seem to be markedly improved.

Even so, the lessons learned from the inward-facing period following the global economic downturn should not be forgotten. Dealmakers should carefully weigh their options and pursue deals that closely align with their strategic ambitions.

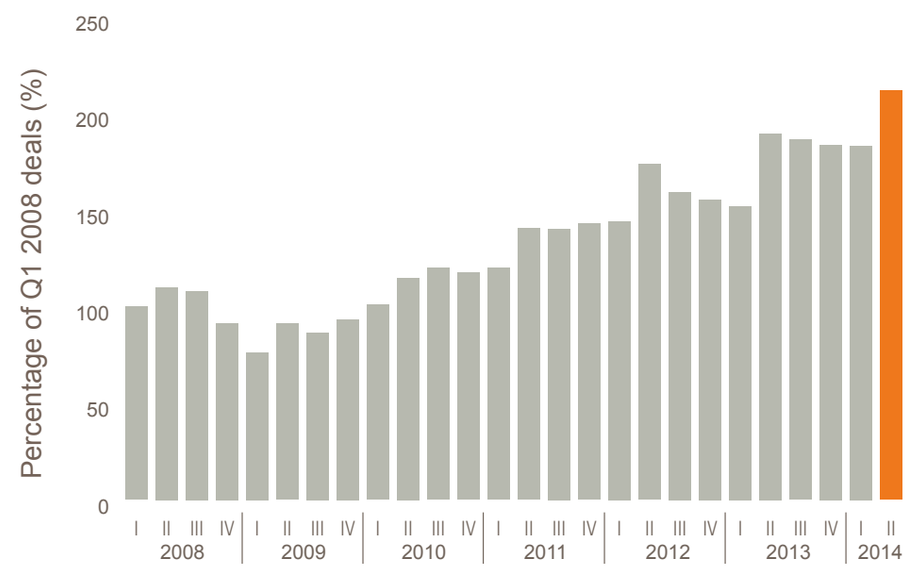
Matt Porzio
VP of strategy & product marketing, Intralinks

Overview

Bullish tendencies have returned as we head into the second half of 2014. Deals reaching the announcement stage have increased 6% in volume and 72% in value in Q2 2014 compared to the same period in 2013. The data on early-stage M&A activity in the Q2 Intralinks DFI report indicates that these volume trends are set to continue in the near term, with early-stage M&A deals rising 16% QoQ and 12% year-on-year (YoY).

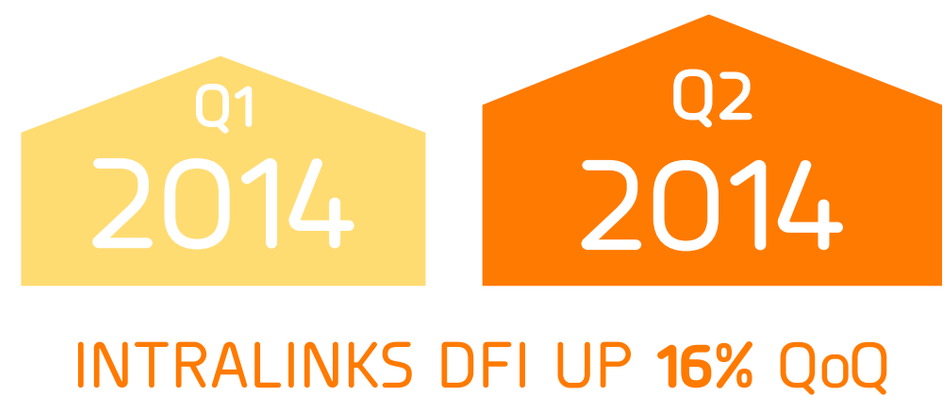
These findings are good news for the dealmaking community and beyond. Since the global financial downturn of the late 2000s, M&A activity has experienced stops and starts. This year is pointing to the first annual increase in the volume of deal announcements since 2010. Although there are still issues confronting the M&A market, it seems that dealmakers' confidence has returned.

Global Intralinks DFI Index



Macro-economic pieces falling into place

Several factors are responsible for M&A's renewed signs of life. To begin with, the global economy appears to be growing again. According to the latest World Economic Outlook survey published by the International Monetary Fund (IMF), global growth is projected to strengthen from 3% in 2013 to 3.6% in 2014 and 3.9% in 2015. Key markets – including the US and the EU – have hobbled along in recent years and are now experiencing better than expected growth. This means that a prolonged and holistic global economic recovery seems a realistic possibility in the mid-term.



The UK typifies this tentative return to growth. The country has been criticized by the IMF, citing its austerity policies as a potential drag on recovery. But in 2013, the UK's economy grew faster than any other advanced economy and is

Overview (continued)

set to exceed its pre-recession peak in 2014 – earlier than anticipated. On top of this, consumer spending has grown. Despite having an overwhelmingly service-led economy, the UK saw growth across less dominant sectors, including manufacturing and construction.

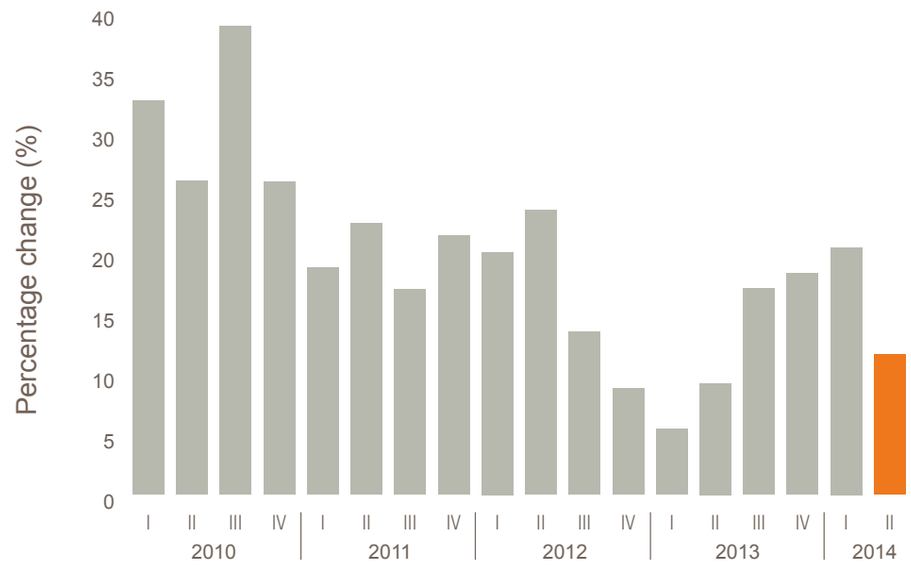
Corporates get creative with financing

The weak bank financing climate has had a detrimental effect on mid-market M&A in recent years. But in late 2013 and into 2014, a number of countries saw some improvements in the levels of bank lending to corporates. Crucially, the European Commission found that credit availability for small to mid-sized corporates – who are most reliant on bank lending for M&A – has improved. Today, fewer corporates are citing this as a major issue, and there has been a slight decrease in the number of rejected loan applications.[1] These improvements have been uneven, however: countries seeing the loosest credit conditions are also historically the most stable economically, like Germany. Countries that are still much weaker overall, such as Portugal and Greece, are still hurting from the absence of bank lending.[2]

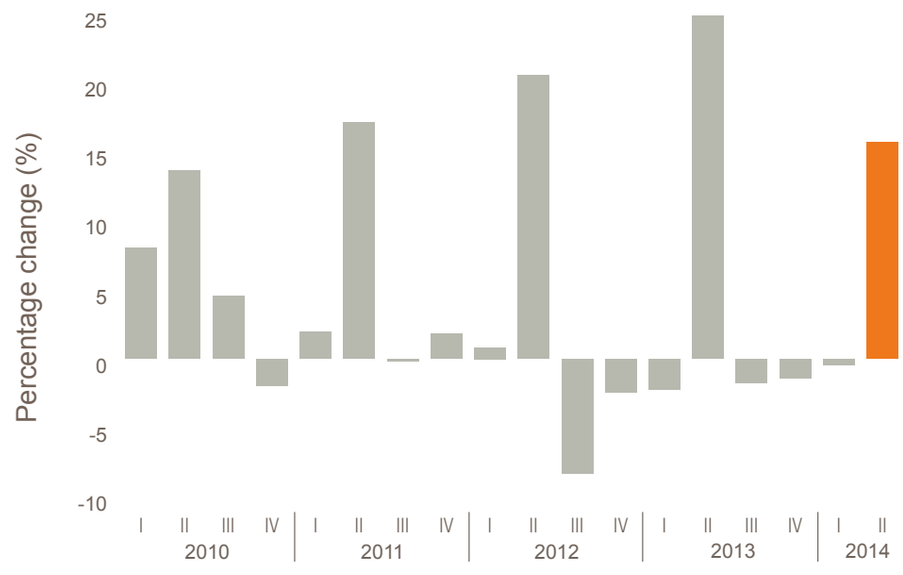
In response to these conditions in the bank lending markets, corporates are becoming more inventive when looking for financing. Funding from alternative sources, including credit and bond funds, is becoming increasingly normal. These alternate sources of finance are particularly attractive to mid-market firms,

1. https://www.ecb.europa.eu/press/pr/date/2014/html/pr140430_1.en.html
2. http://www.nytimes.com/2014/05/13/business/international/for-some-in-europe-high-lending-rates-hamper-recovery.html?_r=0

Intralinks DFI percentage change, year-on-year



Intralinks DFI percentage change, quarter-on-quarter



Overview (continued)

who typically lack the scale to tap into the broader capital markets. For instance, CVC Capital Partners, a UK-based private equity firm, has recently launched a fund specifically for small to medium enterprises in Europe.

Active climate for listing

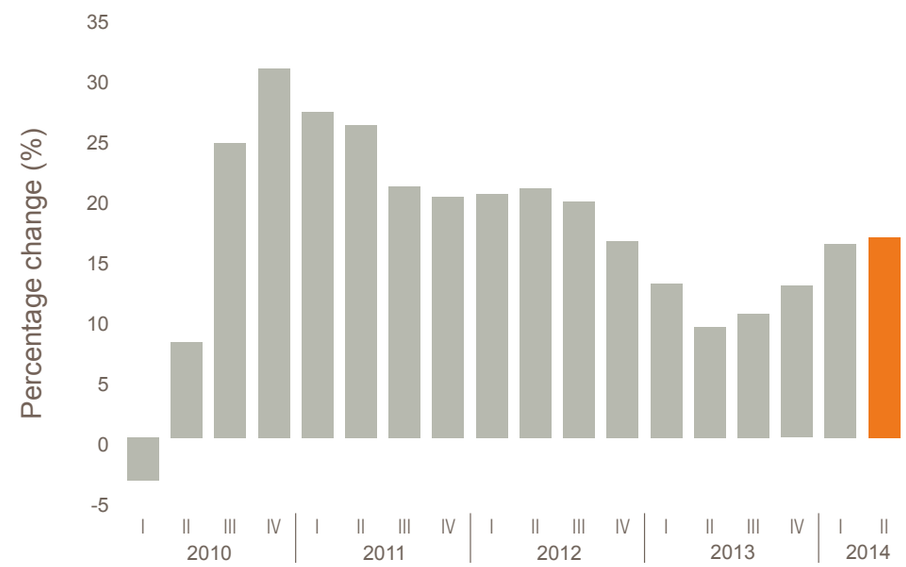
IPOs also provide corporates with vital sources of cash, as well as avenues for investor exits. The number of IPOs so far in 2014, together with the IPO pipeline for the rest of this year, means that 2014 will be the best year for IPOs since the financial downturn. Nearly as impressively, companies are posting substantial returns. For instance, Markit, a Bermuda-incorporated financial data firm, recently listed on the New York Stock Exchange. The company, which posted a US$948m profit in 2013, went public at US$24.00 per share in June, giving it an initial market capitalisation of US$4.5bn. The shares are up almost 7% in just over one month since the IPO. The listing not only demonstrates the attractiveness of Markit's relatively niche sector, but should also help increase confidence in similarly sized companies.

US dominance

The US M&A market is alive and well and is truly leading the M&A revival. This past quarter, US M&A activity surged 30% in volume to 1,123 deals and 137% in value to US$405.5bn. Here, broader factors coalesced to create an environment ripe for M&A. Interest rates remain at record lows, making bond financing an option for a wider range of corporates. Housing prices are also still growing above inflation, and unemployment rates are hovering at an encouraging 6.3%.[3]

3. http://www.freddiemac.com/finance/pdf/June_2014_public_outlook.pdf; http://www.federalreserve.gov/boarddocs/snloansurvey/201405/default.htm

Intralinks DFI trailing 12 month percentage change



Overview (continued)

In Q2, US-based companies jumped on opportunities to make transformative domestic acquisitions. In May, telecommunications giant AT&T announced plans to acquire cable and satellite broadcaster DirecTV Group for US$65.5bn. The transaction comes as part of a broader trend, in which telecommunications companies (telcos) are seeking to combine wireless and television offerings. Consumers are increasingly watching television on mobile devices, meaning that for telcos, bundling wireless, broadband, telephone and television allows them to price their offerings more competitively.

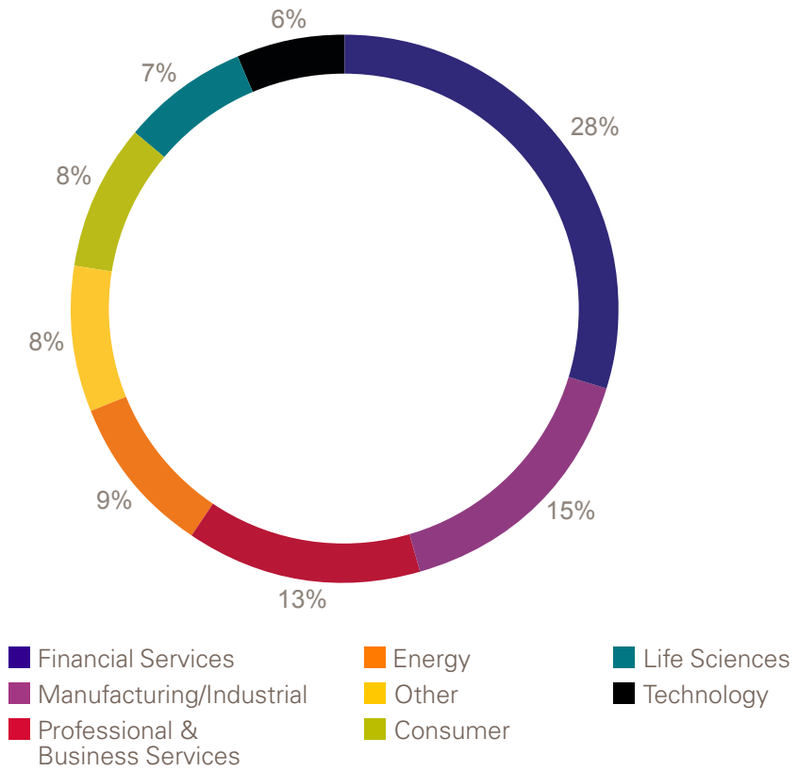
The deal presents AT&T with fresh avenues for growth as the US mobile phone market, its historic source of revenue, becomes more competitive. The deal also rounds out DirecTV's offering, as it will be the first time that DirecTV will offer internet in the US.

The dealmaking frenzy in pharmaceuticals

Individual sectors have also helped drive activity. In Q2 2014, the pharmaceuticals sector stood out due to a spate of blockbuster transactions. The sector is currently experiencing consolidation, as a wave of patent expirations make key drugs vulnerable to generics. At the same time, a number of big pharma companies only have a handful of drugs in their arsenals. To address these issues, pharma companies are turning to inorganic growth.

Giant drug maker Pfizer helped spur the dealmaking boom with its attempted takeover of AstraZeneca, first announced at the end of April and valued at over US$100bn. Although the transaction has, for now, been abandoned, it reinforced the notion that pharma companies feel the need to make big plays in order to remain viable.

Intralinks DFI volume share – top eight industries



Overview (continued)

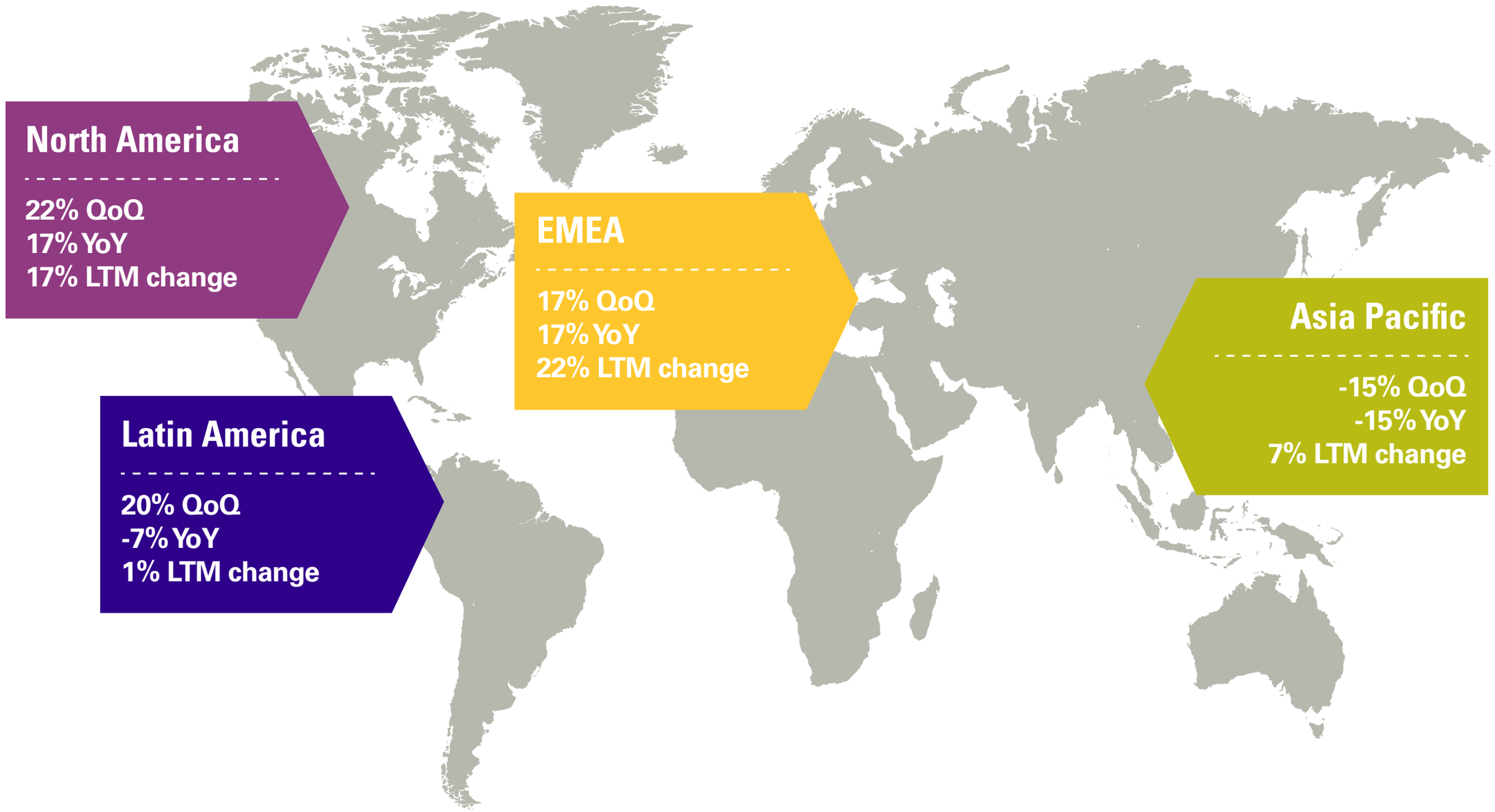
A spate of large-cap deals followed in the wake of the failed Pfizer-AstraZeneca deal. In May, Germany's Bayer made public its intentions to buy US-based Merck's consumer care arm, which includes allergy medication Claritin and nasal spray Afrin. The deal is valued at US$14.2bn and enables Merck to focus on its core biotechnology business. Bayer, known for being the original inventor of aspirin, will further develop its over-the-counter product offerings.

What's on the horizon for M&A?

M&A is firmly back on businesses' agendas. Although the global economy has not seen dramatic improvements, the climate overall does seem to be markedly more optimistic than in the past few years. Dealmakers also seem to recognize that in order to return to business as usual, taking calculated risks is necessary. This does not seem to be a flash in the pan trend: the Intralinks DFI's findings suggest that the positive trends that we have seen through Q2 2014 are set to carry on into the end of the year.

Intralinks Deal Flow Indicator

16% QoQ
12% YoY
17% LAST 12 MONTH (LTM) CHANGE



Regional Snapshot: North America

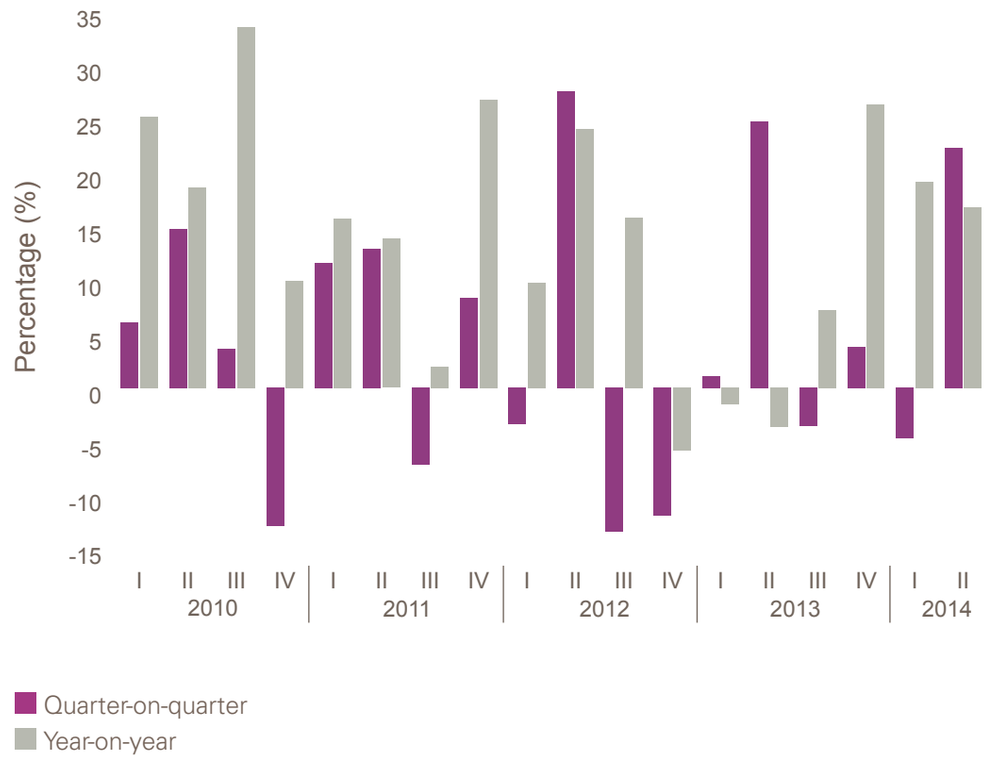
In terms of early-stage M&A, North America saw activity rise considerably: the Intralinks DFI posted a QoQ gain of 22% in Q2, the largest increase of the four global regions.

A number of sectors are underpinning this uplift. For instance, the life sciences sector has seen a spate of megadeals. In one of the biggest transactions of H1 2014, Canada's Valeant Pharmaceuticals made public its intentions to buy a 90.29% stake in Allergan, the US maker of Botox, for US$45.85bn. Consumers' use of Botox, particularly in the US, has grown apace in the past few years, despite its relatively high price-tag and the overall decreases in discretionary spending. The deal itself is becoming increasingly contentious, as activist investor Bill Ackman tries to move Allergan's board on-side, and Allergan seeks out debt financing to buy back its own shares to prevent a Valeant takeover.

Private equity is beginning to show signs of life as well. In one of the biggest private equity deals of Q2, a consortium of investors led by AlpInvest Partners sold US-based orthopaedic products maker Biomet to rival Zimmer Holdings for US$13.5bn. The medical devices space is growing rapidly as populations in developed economies age. With this deal, Zimmer will increase its offerings across a range of products, and Biomet will be able to rejoin the public markets. While both management teams are on board with the deal, the Federal Trade Commission has made a series of inquiries into the transaction, raising the possibility of anti-trust issues ahead.

Video link
CEO interview – E-Waste Systems Inc.

North America Intralinks DFI percentage change



Regional Snapshot: North America (continued)

According to the Intralinks DFI, other busy sectors in North America in the coming months include financial services, manufacturing/industrials, and consumer.

Regional Snapshot: EMEA

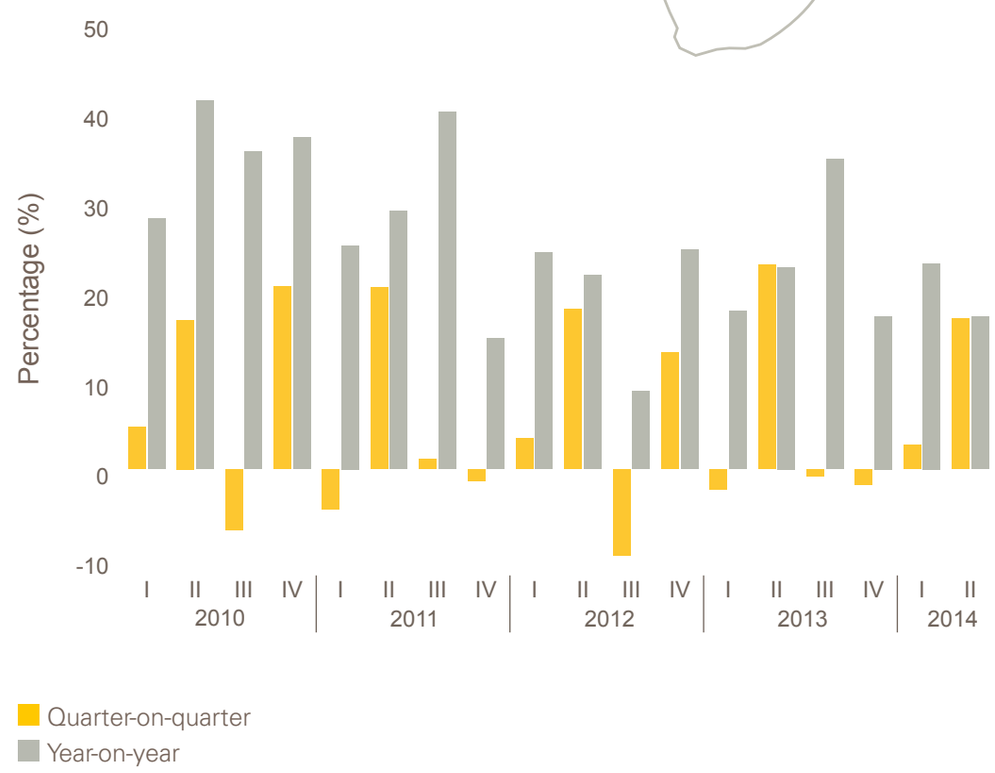
Early-stage M&A activity in EMEA surged 17% QoQ in the second quarter of 2014. This is the largest increase in the Intralinks DFI in EMEA since Q2 2013, and EMEA's second consecutive quarter of QoQ growth in early-stage M&A.

Early-stage M&A activity saw a sizeable jump in the manufacturing/industrial sector, posting a 117% QoQ increase according to the Intralinks DFI. In terms of announced activity, automotive deals were especially active after several years hobbled by reduced consumer spending. In one of the biggest EMEA-based deals of 2014 thus far, Germany's Volkswagen, the world's biggest automotive company by revenue, made public plans to purchase an additional 37.4% stake in its Swedish commercial truck arm, Scania, for US$9.1bn. The deal sees Scania become more deeply integrated with other Volkswagen truck brands, including VW and MAN, and better-positions Volkswagen to take on global truck-makers Daimler and Volvo.

Telecommunications deals have also continued to surge, as Europe moves toward a single telecommunications market. The continent still has hundreds of individual operators, separated by country borders, compared to the United States' five.

As Europe's economic recovery unevenly gathers pace, telcos have looked to expand their geographic footprints to fortify themselves against sluggishness in any one market. At the same time, telcos are looking to expand their offerings to include both wireless and cable. In a deal exemplifying both of these trends, Luxembourg-based cable, internet and telco provider Altice announced plans to acquire France's SFR from media and telco conglomerate Vivendi. The US$23.3bn deal enables Altice to offer 'quad-play' – packages of Internet, mobile, landline and TV services – to consumers in France.

EMEA Intralinks DFI percentage change



Regional Snapshot: EMEA (continued)

Despite the lack of a dramatic and rapid resurgence in economic activity, several of Europe's key economies, including the UK, Germany and France, are gradually returning to growth. Additionally, an economic stimulus was recently provided by the European Central Bank, when it announced that it would further cut its main interest rate. As Europe slowly but steadily returns to health, we expect that companies will continue to look to inorganic growth.

Video link
Is shareholder activism coming to Europe?

Regional Snapshot: Asia-Pacific

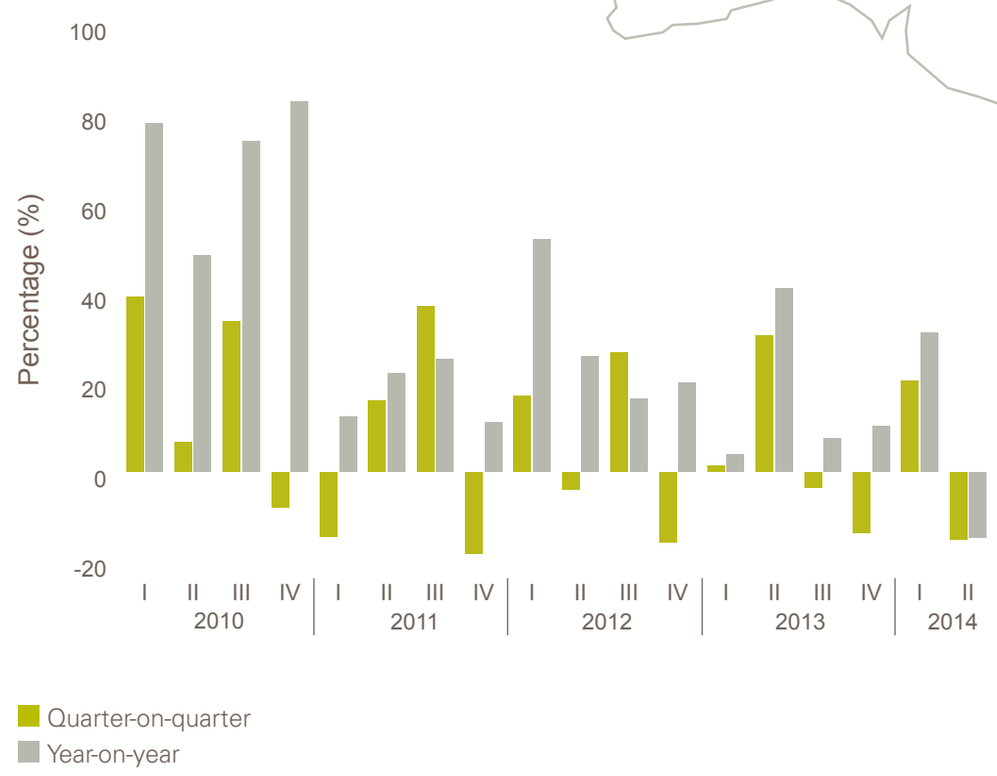
According to the Intralinks DFI, early-stage M&A activity in Asia-Pacific dropped by 15% QoQ in Q2, continuing the trend of QoQ volatility that the region has seen in recent years. The Q2 dip follows a 20% increase in Q1 2014.

Overall, the climate for M&A is mixed across the region. Although Japan recently received a great deal of attention as a result of President Shinzo Abe's economic stimulus plan, its economy is currently experiencing growing pains, with a sharp decline in exports against a backdrop of weak domestic demand. Several of Asia-Pacific's key developing economies have improved, however. India, for instance, is anticipating higher economic growth as Narendra Modi's new government looks to undertake structural reforms, cut government debt, bring down inflation and increase spending on infrastructure.

Announced deal activity in the region has continued with several distinct trends generating high-value M&A. Recently, we have seen Chinese state-owned enterprises embarking on M&A as part of broader reforms to make them more competitive. In one example, Hong Kong-based CITIC Pacific purchased the main operating business of its Chinese state-owned parent company, CITIC, for US$36.5bn in a transaction that seems to be aimed at increasing operational efficiency and streamlining the company's ownership structure. Fifteen investors also helped CITIC Pacific finance the deal, with the bulk coming from other Chinese state-owned corporations, and around US$1bn provided by international investors, including sovereign wealth funds.

While much of Q2 2014's headline-grabbing M&A was home-grown, foreign multi-nationals continued to look to Asia-Pacific for growth. This was particularly

Asia-Pacific Intralinks DFI percentage change



Regional Snapshot: Asia-Pacific (continued)

true in India, where the economic outlook is increasingly rosy, thanks to rising consumer spending and capital investment. In one of the largest Asia-Pacific-based deals of the quarter, Diageo, the largest distiller worldwide, announced plans to acquire a further 26% stake in India's United Spirits for US$3.1bn. United Spirits has recently seen sales growth, largely driven by its premium brands, thanks to India's growing middle classes increasing their discretionary spending.

Video link
Intralinks Dealmakers APAC panel: The Art of Due Diligence

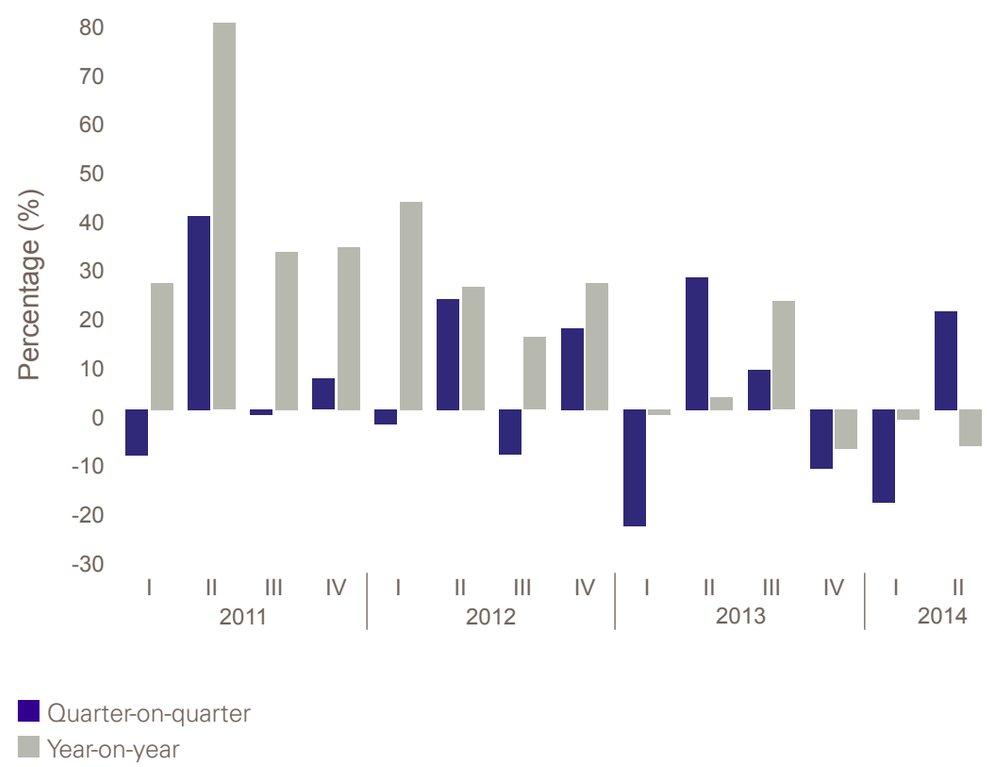
Regional Snapshot: Latin America

According to the Intralinks DFI, Latin American deals reaching the due diligence phase jumped 20% QoQ in Q2 2014. This increase, the first quarterly increase since Q3 2013, indicates that Latin America is set to see a substantial boost in announced deals in Q4 2014.

There were several pockets of activity in Latin America. Transportation sector M&A routinely plays an important role in the region, particularly since in many areas transport connections are underdeveloped, providing companies with cash on hand ample opportunities to grow through M&A. This past quarter was no exception and saw a notable number of logistics deals. For instance, São Paulo-based Rumo Logística announced plans to acquire ALL – América Latina Logística for US$4.1bn, to form Brazil's largest rail and logistics company.

Although private equity (PE) remains a small part of Latin America's M&A narrative, PE exits appear to be on the rise. Interestingly, the majority of these PE investments were made after 2009. This stands in sharp contrast to European and North American deals, where the bulk of large-cap exits involve companies purchased in the pre-crisis boom years. PE sellers from these regions are looking to re-deploy capital from these much older investments, and have often struggled to find trade buyers willing to pay these pre-crisis premiums. The trend of PE firms quickly recouping on their investments in Latin America, although drawn from a much smaller sample size, may point to a narrowing valuation gap between buyers and sellers.

Latin America Intralinks DFI percentage change



Regional Snapshot: Latin America (continued)

The most notable example of PE activity is Brazil-based firm GP Investments and Banco Bradesco's sale of BR Towers, a Brazilian cell phone tower company, to American Towers, for US$979m. GP Investments purchased a controlling stake in BR Towers in 2012 as part of its plans to expand its holdings in Brazil's telecommunications sector.

Brazil: poised for growth

Philip Whitchelo
VP of strategy & product marketing, Intralinks

Brazil has dominated headlines over the past few months. With the country hosting the World Cup this summer, consumers and businesses internationally have focused their attention on football fever, and by extension, on Brazil itself. Brazil's Ministry of Tourism estimated that 3.7 million tourists travelled around Brazil during the World Cup. And from fast food to video games, Brazil-themed merchandise has proliferated. But has this interest helped spur on dealmaking?

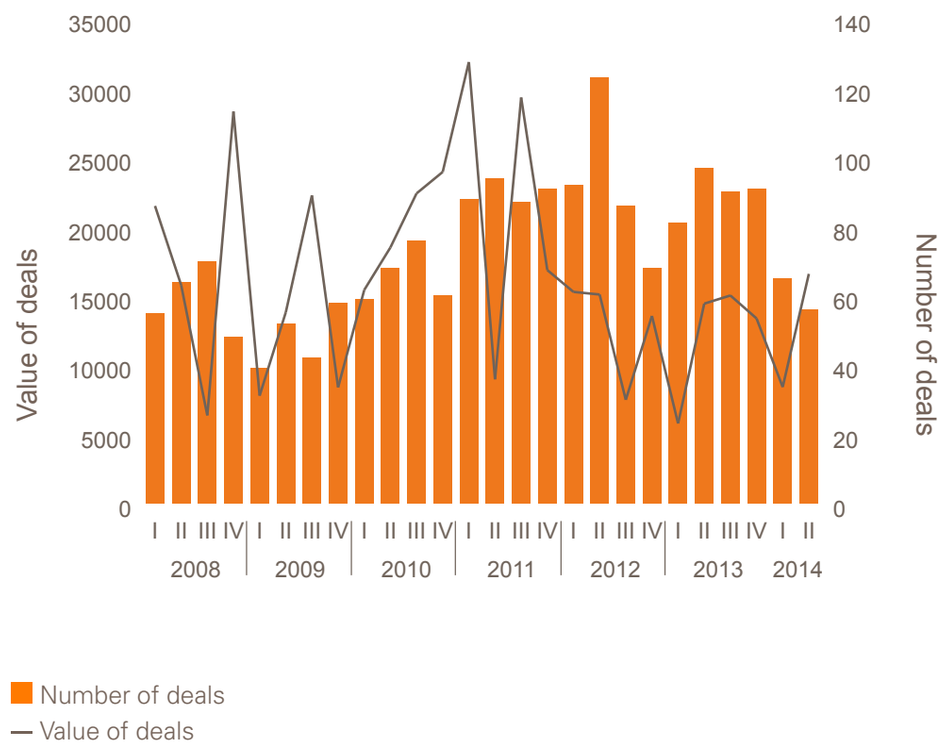
Broader factors impacting Brazil's M&A climate look less rosy of late. In the late 2000s, commodity prices rose steadily, largely thanks to agricultural exports to China. Foreign investors flocked to Brazil, and the country was hailed as the next great hope in a period of extreme economic sluggishness.

However, commodity prices are notoriously volatile, and powering the economy on the back of them can be risky. And as China's economy slowed over the past few years, so did its demand for Brazilian exports. With the rest of the world also experiencing stagnation or limited growth, Brazil's gross domestic product (GDP) growth rates have plummeted from nearly 8% in 2010 to 1.8% in 2014, according to IMF data.

The M&A picture in Brazil so far this year has also been mixed. While the value of announced deals in H1 2014 rose by 24% YoY to US$25bn, announced deal volumes fell by 32% YoY to 121 deals.

Looking forward, early-stage M&A activity in Brazil, according to the Intralinks DFI, shows a very healthy increase of 26% QoQ in Q2 2014. This increase should be reflected in deal announcements in Q4 this year, given the average six month lead time between the Intralinks DFI and announced deals.

Brazil-based announced M&A, Q1 2008 - Q2 2014



Brazil Spotlight (continued)

International interest remains strong

A host of different factors are driving the sharp increase in announced deal value in 2014. Foreign acquirers from around the globe have shown interest in a variety of Brazilian sectors. In the biggest deal of H1 2014, Spain's Banco Santander announced plans to purchase a 25% stake of its Brazilian subsidiary for US$6.5bn. The deal reflects Banco Santander's confidence in Brazil's long-term growth prospects, despite the country's current struggles. Banco Santander already derives one-fifth of its revenue from Brazil, with expectations that this could increase.

This deal alone has been of great importance for M&A trends overall: largely due to this single deal, the value of Brazilian financial services M&A deals announced in 2014 thus far is more than double that of the whole of 2013.

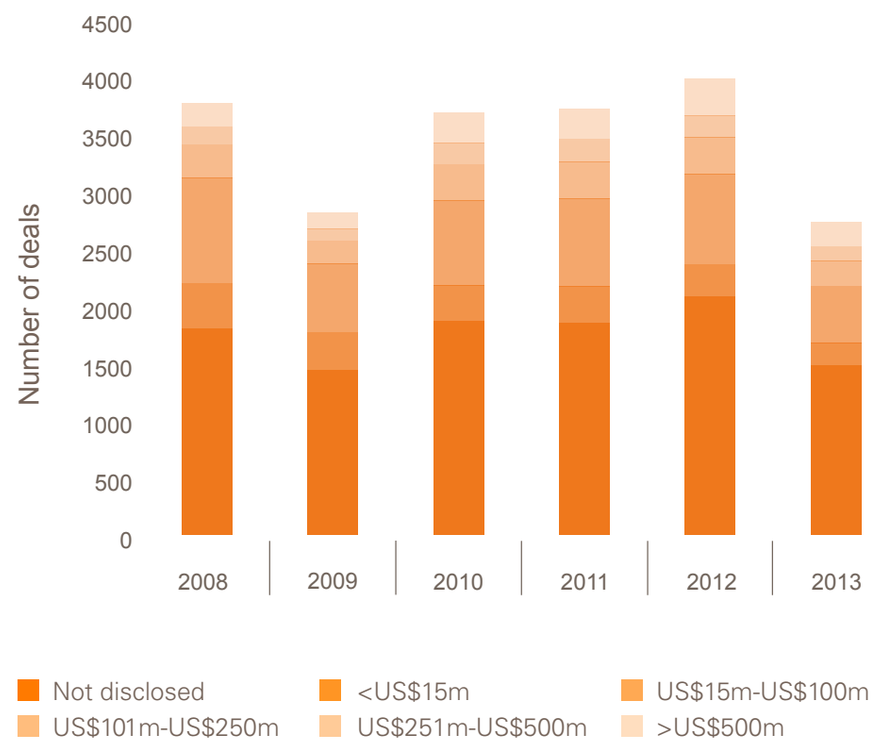
Even excluding the Banco Santander deal, the value of cross-border M&A for Brazilian targets was up over 70% in H1 2014 compared to the previous year. Sectors that saw increased inbound investment included telecoms, real estate, high tech, materials, industrials and retail.

Domestic hope

On the other side of the coin, domestic activity has gotten off to a slow start in 2014. In H1 the volume and value of announced deals declined 47% YoY to 55 deals, and 31% YoY to US$10.2bn, respectively.

That said, there are a number of sectors that have been buoyed by strong domestic activity. The energy space has seen a number of high-profile domestic transactions in 2014 overall. Renewable energy in particular is a dominant force within Brazil,

Brazil-based announced M&A, split by deal size



Brazil Spotlight (continued)

and accounts for the overwhelming majority of energy produced in Brazil. At the end of April, CPFL Energias Renovaveis purchased Dobreve Energia for US$706m. The combined business will have a market-leading position within Brazil's renewable energy sector.

Private equity interest

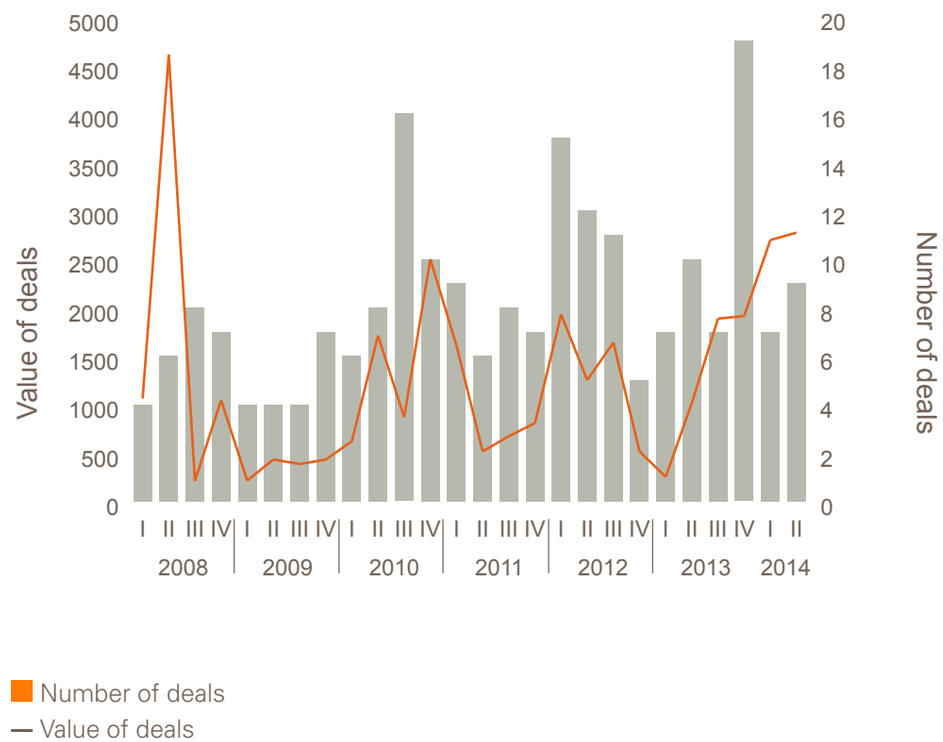
PE activity has remained an integral part of Brazilian M&A. Although the number of PE-related deals in H1 2014 decreased by one to 16 when compared with H1 2013, deal value jumped more than fourfold to US$5.5bn. This sizeable increase is due to a raft of high-value PE deals, rather than a lone blockbuster transaction: of the 10 biggest deals in Brazil in H1 2014, half were PE-related. This compares with one PE-related deal in the top 10 in 2013.

In the biggest Brazilian PE deal of 2014 thus far, the US's Tiger Global Management and Brazilian retailer Lojas Americanas purchased a 37% stake in B2W Companhia Digital for US$1bn. Lojas Americanas is already B2W's largest shareholder. Tiger Global Management has a strong history of investing in technology companies, particularly those in Brazil and China, so this acquisition likely demonstrates its continued confidence in the country.

Looking ahead

With the final whistle of the World Cup having now been blown, some attention may be diverted away from Brazil. However, it is clear that business interest in the country is here to stay. Although Brazil's lack of export diversification is a cause for concern, other factors, such as the increasing purchasing power of its middle class and its high levels of foreign direct investment, will likely translate into sustained activity in the mid-term.

Brazil-based M&A private equity transactions, Q1 2008 – Q2 2014



Brazil Spotlight (continued)

Top 10 inbound deals into Brazil, H1 2014

Date	Target Company	Target Sector	Bidder Company	Bidder Country	Seller Company	Seller Country	Deal Value (US$m)
29/04/2014	Banco Santander Brasil S.A. (25% Stake)	Financial Services	Banco Santander, S.A.	Spain			6,517
15/04/2014	ALL - AMÉRICA LATINA LOGÍSTICA S.A.	Transportation	Rumo Logistica SA	Brazil			4,112
18/02/2014	JBS S.A. (20.72% Stake)	Consumer: Foods	Batista family (Private investors)	Brazil	Bertin Group	Brazil	2,033
24/01/2014	B2W Companhia Digital (37.45% Stake)	Internet / ecommerce	Tiger Global Management, LLC; Lojas Americanas SA	US			1,008
29/01/2014	Block BC-10	Energy	Qatar Petroleum (QP)	Qatar	Royal Dutch Shell Plc	UK, Netherlands	1,000
15/06/2014	BR Towers S.A.	Telecommunications: Carriers	American Tower Corporation	US	GP Investments Limited; Banco Bradesco BBI S.A.	Brazil; Bermuda, Brazil	979
24/03/2014	Intermedica Saude	Financial Services	Bain Capital LLC	US	Paulo Barbanti	Brazil	866
09/06/2014	Sascar Tecnologia e Seguranca Automotiva S.A	Transportation	Compagnie Generale des Etablissements Michelin SA (Michelin)	France	GP Investments Limited	Bermuda,Brazil	708
17/02/2014	Dobreve Energia S.A.	Energy	CPFL Energias Renovaveis S.A.	Brazil	Arrow – Fundo de Investimento em Participacoes	Brazil	706
01/04/2014	Aceco TI S.A.	Computer services	KKR North American XI Fund, L.P.	US	General Atlantic LLC	USA	665

Guest Comment

Adrian Rainey and Tim Worden, partners at UK-based law firm Taylor Wessing, discuss the recent surge in life sciences M&A.

Adrian Rainey

Tim Worden

The climate overall

Life sciences M&A has exploded in 2014. In part, this is because the economic climate has been much more benign. Fundraising is also a smoother ride than it has been for the past two years, thanks to easing credit conditions, a rise in investor confidence and buoyant credit markets.

We are seeing biotech firms take advantage of this. UK-based Circassia, looking to fund the development of allergy vaccines, was the first biotech company to list on the London Stock Exchange since 2006. The company has a sizeable market cap of £580m and raised £200m – believed to be the largest biotech fundraising in the UK. This deal shows that some of 2014's IPO fever – largely confined to the US – is crossing the Atlantic.

Currently, some countries are particularly conducive to life sciences M&A. For instance, the US's low interest rate environment enables companies to easily tap the bond markets for financing, so we are seeing a number of cash acquisitions. In addition, US life sciences companies also have stores of cash outside of the country, that they may choose not to keep onshore for tax reasons. However, this money can be used in a number of cases for non-US transactions in a more tax efficient manner, which is one of the reasons that we are seeing US companies targetting overseas corporates for investment and/or acquisition opportunities.

US companies are also going abroad for inversion opportunities - to structure their business so that a company based outside the US is put in place as the holding company for the group, meaning that the group can take advantage of more favourable tax regimes in other

jurisdictions. Anecdotally, these deals are not just the headline-grabbing, blockbuster ones as we are seeing an uptick in activity among deals valued below US$1bn.

Sector-specific drivers

Needs that are particular to the life sciences sector are also driving M&A. Government regulators both in Europe and the US are becoming more stringent about the drugs they allow on the market. And once companies have overcome these regulatory hurdles, they are frequently confronted by pricing issues. In the context of governments seeking to control spending, pharmaceutical companies are increasingly having to show the value of their medicines, and consider innovative approaches to pricing, such as the UK's Patient Access Scheme.

The "patent cliff" is still with us, as many big pharma companies are seeing their key drugs go off-patent. This is particularly problematic for companies that only have one or two blockbuster drugs in their portfolios, that account for substantial proportions of sales. Many of these pharma companies may need to turn to M&A in order to replenish their pipelines.

Several companies are considered to have done this successfully. For example, UK-based speciality pharmaceutical maker Shire has diversified its portfolio substantially in recent years through acquisitions and partnering deals. As part of this effort, Shire has included in its portfolio a focus on 'orphan drugs', which are treatments for rarer diseases. These drugs will often be required to treat patients with rare conditions for substantial periods of time, and can often command higher prices from payors. On 18 July, the US-based pharmaceutical company AbbVie announced that it had agreed to acquire Shire for US$54bn.

In another case of innovative dealmaking, GlaxoSmithKline (GSK) and Novartis recently undertook a fascinating asset swap. The deal involved both companies making bold moves in focussing their

efforts on specific areas. For example, GSK is moving out of oncology – historically an area in which many pharma companies have wanted to have a presence – and increasing its focus on vaccines.

The future

Looking ahead, we expect to see more consolidation as big pharma companies think strategically and more cleverly. Partnerships with, and acquisitions of, biotech companies will continue, with the most innovative biotech companies attracting much attention from big pharma. In general, we anticipate substantial deal flow over the next two to three years.

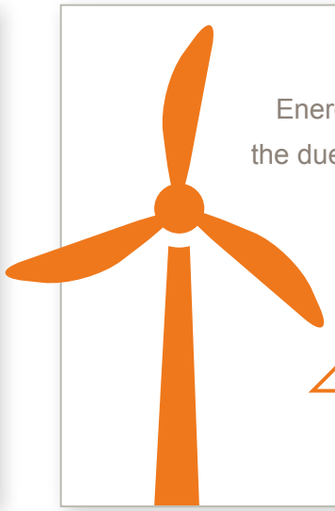
Industry Indicators

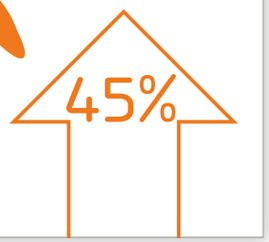
Technology:

Technology deals tracked by the Intralinks DFI increased 50% QoQ.

Manufacturing/ Industrials:

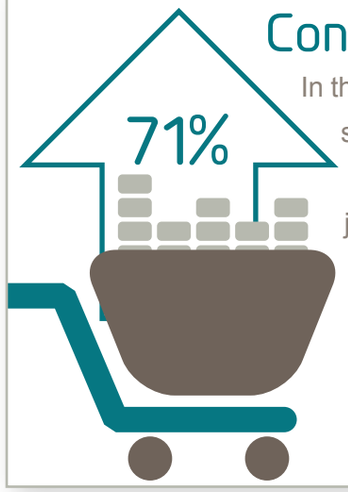
According to the Intralinks DFI, manufacturing/industrials dealmaking surged 104% QoQ.





Energy:

Energy M&A reaching the due diligence phase rose 45% QoQ.



Consumer:

In the consumer sector, early-stage M&A jumped 71% QoQ.

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