M&A Insights

2015 Mergers & Acquisitions Survey Results

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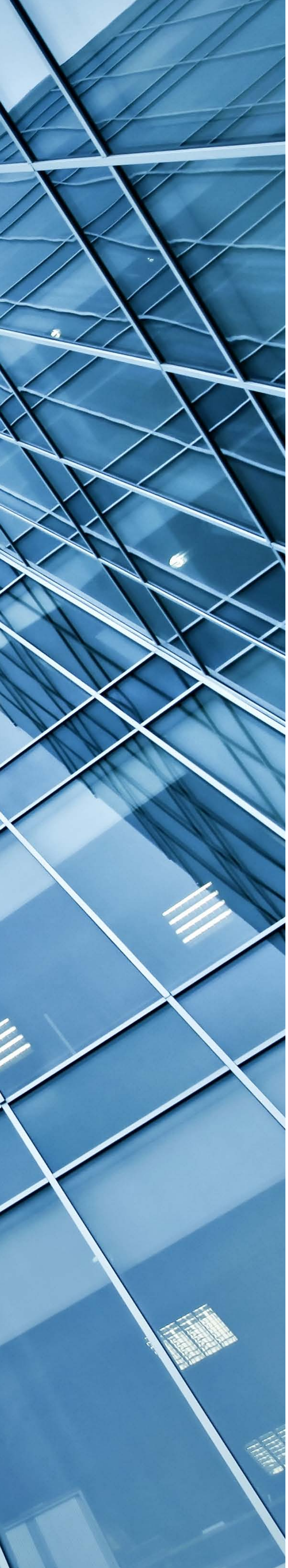
Will we look back on 2015 as the year the mergers-and-acquisitions party peaked?



Executive Summary

Optimism Wanes Despite Record M&A Pace in 2015

Even as the M&A market has surpassed $3 trillion worldwide in deal value this year, roaring at a level close to 2007's boom-year pace, some of the leading U.S. dealmakers are starting to wonder whether that pace is sustainable, according to Dykema's 11th annual M&A Outlook Survey.

With considerable turmoil in world markets in parts of 2015 and a handful of megadeals accounting for much of the record-level volume, only 37 percent of respondents in this year's survey said they believed the M&A market would strengthen in the next 12 months, down from 59 percent in 2014. Twenty percent said they expected the market to weaken, compared with just 9 percent who answered that way in 2014.

They're not exactly in "sky is falling" mode—the largest number of respondents expected no change in M&A over the next year—but it's the most concern dealmakers have shown in years. Respondents' feelings about U.S. M&A were in line with their overall outlook for the U.S. economy. Of those who said the M&A market would strengthen, 78 percent said they had a positive outlook for the U.S. economy over the next 12 months.

But just 48 percent of all respondents had a positive outlook for the U.S. economy over the next 12 months, down from 62 percent in 2014 and the lowest finding since 2012. Fifteen percent said they had a negative outlook, the highest mark since 2012.

Pockets of intense activity and growth remain, of course. The health care sector has produced several of this year's monster deals, such as Anthem Inc. and Cigna Corp.'s plan for a $55.2 billion merger that would create the nation's largest health insurer. Health care M&A reached $484.2 billion through early September, up from $274.5 billion for the same period in 2014, according to The Wall Street Journal. Technology deals experienced a similar jump, from $268.3 billion in volume through early September 2014 to $356.2 billion through the same point this year—and that was prior to Dell's announced $67 billion acquisition of EMC in mid-October. Not surprisingly, when we asked respondents to predict the top sectors for M&A next year, they ranked health care and technology at the top.

Many respondents noted that deals have been fueled lately by the availability of capital. When asked to explain why U.S. strategic buyers wield the greatest influence over deal valuation, one respondent was clear: "Too many dollars available for investment and the need to put those dollars to work." Another said, "Strategic buyers have a lot of cash and/or cheap available financing."

One respondent who was somewhat optimistic about M&A into next year said 2015 might have been the best opportunity for midmarket companies to position themselves for a sale—but some delayed to try to improve their valuations. "To some extent, it's caused them to overshoot the market," he says, "and now they take on a little bit of risk. If everyone jumps in the pool at once, it drives down value."

Key takeaways from the survey:

- Some findings revealed conflicting thoughts about the M&A market. Despite the overall drop in optimism noted above, 72 percent of respondents still expect an increase in M&A activity involving privately owned businesses, although down from 82 percent in 2014.
- Respondents expecting an increase in M&A in that area cited concerns about aging business owners as their top reason for the increase, as those owners may believe valuations for their businesses are reaching top levels.
- Respondents said that they expected health care and financial services to continue with strong M&A activity into at least 2017.
- Respondents said they thought a change in the Federal Reserve's interest-rate outlook, a decline in Chinese/Asian economies and a significant decline in U.S. equity prices would have the greatest potential to affect global M&A.
- Respondents were less optimistic about overseas M&A activity to the U.S. Notably, there was a large drop from the 2014 results in the percentage of respondents who expect M&A investment from China and Europe to increase.
- Despite this, the results for U.S. M&A activity to other countries were fairly similar to what they were in 2014, with a higher percentage of respondents who expect an increase in U.S. M&A to Europe and a lower percentage who expect an increase in U.S. M&A to China.

A more detailed report of our findings follows. We hope you find it insightful and informative.

2015 M&A Survey Results and Insights

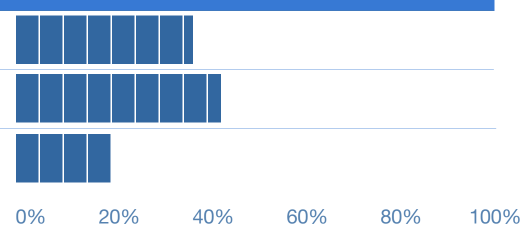
We asked respondents to complete a questionnaire designed to measure their thoughts and perspectives on the direction of the M&A market in 2015. The following charts present their collective input as well as added insights.

Where appropriate, we also share some year-over-year data from past surveys, to show how sentiments have changed. An overview of the survey methodology can be found at the end of this report.

State of the M&A Market

Q1. How will the U.S. M&A market for the next 12 months compare to the last 12 months? (Select one.)

Responses	%	Percentage of total respondents
Market will strengthen in the next 12 months	37.24%	
Market will see no significant change in the next 12 months	42.76%	
Market will weaken in the next 12 months	20.00%	



In 2014, 59 percent of respondents said the market would strengthen, 33 percent said the market would see no significant change and 9 percent said the market would weaken.

Prior to 2014, we asked: How strong will the overall U.S. M&A market be during the next 12 months?

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Strong	82%	64%	35%	16%	28%	38%	26%	28%	44%
Neutral	13%	33%	55%	38%	53%	52%	58%	58%	54%
Weak	5%	3%	10%	46%	19%	10%	16%	14%	2%

- Eighty percent of respondents this year said the market would strengthen or see no significant change in the next 12 months, compared with 92 percent in 2014.
- Despite declining optimism, U.S. M&A activity reached $1.5 trillion through the first nine months of 2015. Global M&A activity passed the $3 trillion mark in early September, putting it close to 2007's record pace.[1]
- However, third-quarter global M&A totaled $1.1 trillion, a 17 percent decrease by value and a 16 percent decrease by number of deals compared with the previous quarter.[2]
- M&A count and volume fell from 5,322 deals worth $505 billion in the second quarter to 4,436 for $457 billion in the third quarter, according to an October report about U.S. private equity firms. That report found that U.S. private equity is in the early stages of a slump on the buy side, but is still selling actively.[3]

[1] HITC Business, Global M&A review, http://www.hitc.com/en-gb/2015/10/06/global-ma-review-first-nine-months-2015-thomson-reuters

[2] Ibid.

[3] Pitchbook, 4Q 2015 U.S. Private Equity Breakdown Report, http://pitchbook.com//4Q2015_U.S._PE_Breakdown_Report.html

- A second-quarter survey found that while M&A expectations were still strong for 2015, they fell slightly as the year progressed.[4]

- Pessimism could be stronger at midsized companies as midmarket deals grew at a lower rate than the overall market in the first half of 2015.[5]

- Deals involving midsized companies declined in the third quarter and signs point to further deceleration, making it unlikely that 2015 will produce activity in this section on par with 2014.[6]

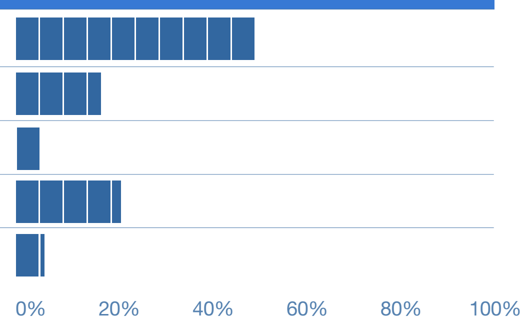
- The largest percentage (27 percent) of respondents to our survey who predicted the M&A market would weaken worked for midsized companies, with revenues between $100 million and $1 billion. In 2014, respondents from companies of that size made up only 7 percent of respondents who predicted the market would weaken.

- There was a similar decline in the number of respondents from companies of that size who believe the market will improve.

- The timing of the survey might have played a role in the overall results. This year's survey was conducted in late August and early September, a time of great turmoil in world markets.

Q2. Which of the following is most responsible for fueling current U.S. M&A activity? (Select one.)

Responses	%	Percentage of total respondents
Availability of capital	49.66%	
Favorable interest rates	17.93%	
Financial markets	4.83%	
General U.S. economic conditions	22.07%	
Other (Please specify)	5.52%	



- Fifty percent of respondents said current M&A activity is being fueled primarily by availability of capital; 22 percent attributed it to general U.S. economic conditions.

- Those views build upon a consensus that formed in 2014. That year, 43 percent cited availability of capital as the most important driver of M&A, while 25 percent picked economic conditions.

- As one respondent put it, the "slow economy makes organic growth for strategics difficult. M&A is being used to foster nonorganic growth."

- Another respondent alluded to worries about economic turmoil: "Uncertainty about the stability of our economy and the value of our dollar in the global economy is driving market consolidation."

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[4] Intralinks Deal Flow Predictor Q4 2015, https://www.intralinks.com/resources/publications/deal-flow-predictor-2015q4

[5] William Blair, Midyear M&A Update: Rise of Mega-Deals Shapes Deal-Making Landscape in First Half of 2015, http://www.williamblair.com/~/media/Downloads/Emarketing/2015/IB/Merger_Tracker_2015_07.pdf

[6] Mergers & Acquisitions, "Middle-Market M&A Continued Downward Trend in Third Quarter," October 7, 2015, http://www.themiddlemarket.com/news/financial_services/middle-market-m-258369-1.html

Q3. What sources of financing did you or your clients most frequently use for M&A transactions that closed in the last 12 months? (Please rank top three.)

Responses	Weighted rank
Cash	1
Investor funds (such as private equity)	2
Term loans	3
Revolving lines of credit	4
Subordinated debt	5
Seller financing	6
Stock/equity issued to seller	7
Privately placed notes	8
Publicly placed bonds	9

- Consistent with a high ranking for availability of capital, cash was the top selection, with an almost identical score as in 2014, followed by investor funds (such as private equity).
- Term loans fell from second place in 2014 to third place this year.
- Fifty-five percent of respondents from a midyear survey of M&A dealmakers cited nervousness about rising interest rates, which may be a clue as to why term loans were not as popular a choice in this survey.[7]

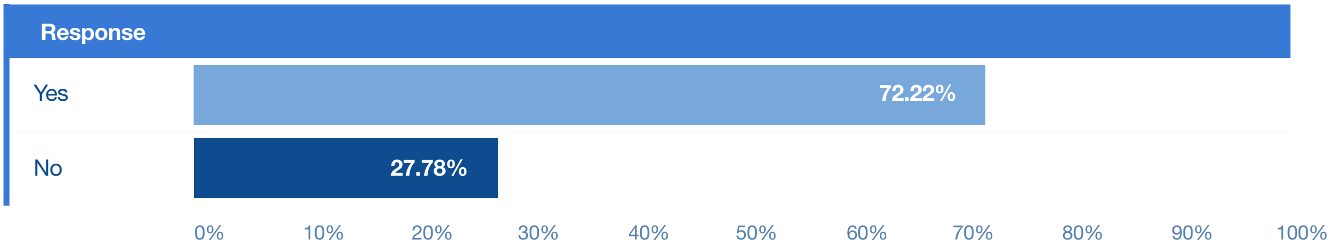
Q4. Looking broadly at U.S. M&A transactions financed by debt, which type of lender is generally the most popular? (Please rank top three.)

Responses	Weighted rank
Commercial banks	1
Private equity firms	2
Non-bank institutional investors	3
Mezzanine lenders	4
Sellers	5
Public market investors	6
Hedge funds	7

- For transactions financed by debt, the most popular lenders continue to be banks.
- Our respondents' views on many topics have changed markedly since 2014, but not on this question.

[7] Intralinks Deal Flow Predictor Q4 2015, https://www.intralinks.com/resources/publications/deal-flow-predictor-2015q4

Q5. Do you expect there to be an increase in M&A activity involving privately owned businesses in the next 12 months?



Q6. Why? (Those who answered "Yes" to Question No. 5)

Responses	%	Percentage of total respondents
Concerns about the aging business owners	30.77%	
Concerns about the window closing	25.96%	
Current earnings are stable	2.88%	
Current earnings are increasing	10.58%	
Current earnings are decreasing	2.88%	
Improving valuations	21.15%	
Other (please specify)	5.77%	
		0% 20% 40% 60% 80% 100%

Q7. Why not? (Those who answered "No" to Question No. 5)

Responses	%	Percentage of total respondents
Building retirement	0%	
Current earnings are trending stable	17.50%	
Current earnings are increasing	2.50%	
Current earnings are decreasing	10.00%	
Hoped for greater increases in value	17.50%	
Inertia	7.50%	
Other savings	2.50%	
Uncertainty on future life transition plans	10.00%	
Other (please specify)	32.50%	
		0% 20% 40% 60% 80% 100%

- The portion of respondents who expect an increase in M&A activity in the next 12 months has slipped from 82 percent in 2014 to 72 percent. One respondent who did not expect an increase cited "uncertainty—from the U.S. regulatory environment, the international markets—and partially due to the upcoming presidential election" as possible reasons.
- Another said, the "M&A market has continued to improve—at some point it has to slow down and take a breather."
- Last year, 47 percent of respondents cited improving valuations, while only 21 percent cited that this year as a reason for an increase in M&A activity.
- Concerns about aging business owners topped the list, followed closely by concerns about the window closing. Together, the responses suggest aging business owners may think valuations of their businesses are reaching top levels.

Q8. Please rank the following in terms of potential impact on the global M&A market. (Please rank top three.)

Responses	Weighted rank
Change in Federal Reserve's stated interest-rate outlook	1
Decline in Chinese/Asia economies	2
Significant decline in U.S. equity prices	3
Increase in eurozone instability	4
Increase in conflict in the Middle East	5

- After a summer of market volatility, three interconnected issues—a possible change in the Federal Reserve's stated interest-rate outlook, a decline in the Chinese/Asian economies and a significant decline in U.S. equity prices—ranked first, second and third.
- This year's survey was conducted during a period of acute turmoil for world markets and the lead-up to the Federal Reserve's September 2015 decision on interest rates—which may have heightened dealmakers' concerns regarding these issues.
- Eurozone instability, which reached a fever pitch early in the summer, had mostly abated by the time of the survey.

Darrell Butler, Managing Director and Principal, Billow Butler & Company, L.L.C.

This year's M&A survey was conducted during the most tumultuous period for the global economy in all of 2015 and at a time when a Federal Reserve rate increase was a real possibility. The real effects of those factors on M&A are hard to predict, but M&A dealmakers are "psychological beasts," said Darrell Butler, Managing Director and Principal, Billow Butler & Company, LLC.

But Butler, like 20 percent of the respondents to this year's survey, expects M&A markets to weaken over the next year even as 2015 deal volume is up and total M&A value is set to break records.

As evidence of a softening market, Butler pointed to dealmakers who are being "hypercritical" in due diligence, in analyzing trend lines and putting more rigor into their processes. Butler focuses on small and midmarket transactions, and noted that growth in that area this year hasn't reflected the overall market surge that's been fueled in part by megadeals.

The current environment is similar, though not nearly as foreboding, as where things stood in 2007, when the last recession was starting. M&A, he said, is a lagging indicator—so he believes M&A will still continue at a good pace into 2016.

> "What I've been talking about lately with people is, I feel good about where we are—and that we have at least six to nine months left—a sort of tail," Butler says. "Typically, we know the music has stopped before we run our tail out."

M&A by Sector

Q9. Of the following sectors, which three do you expect to see the most M&A activity in the next 12 months? (Please rank top three.)

Responses	Weighted rank
Health care	1
Technology	2
Energy	3
Industrial/manufacturing	4
Automotive	5
Consumer products	6
Pharmaceuticals	7
Financial services	8
Medical devices	9
Logistics and transportation	10
Real estate and construction	11
Media and entertainment	12
Law	13
Insurance	14
Other	15

- Health care again topped the list, which reached $484.2 billion in early September.[8]
- There has indeed been spate of health care mergers this year, and respondents cited consolidation by big players as the most important driver in the sector. Anthem Inc. and Cigna Corp.'s $55.2 billion deal in June was one of largest M&A deals in 2015.[9]
- Technology ranked second again, and the top eight sectors were the same as in 2014, though some sectors moved around with respect to order.
- In financial services, consolidation among small- and medium-sized firms was again viewed as a top driver, perhaps due to smaller institutions' struggles to cope with increased regulations stemming from Dodd-Frank and fewer real estate loans.
- Industrial/manufacturing jumped from sixth to fourth, ahead of automotive.
- Fifty-six percent of respondents said they believed consolidation among small- and medium-sized companies would drive automotive M&A.
- Sixty-two percent of respondents said M&A activity in industrial/manufacturing would be driven by big players acquiring smaller companies, followed by 54 percent who pointed to consolidation among small- and medium-sized companies.
- Below, we've included more information on the types of deals respondents expect for other key sectors.

Q10. Within that sector, what type of deals would you expect to see the most? (Select all that apply.)

As you selected "Health care" as your top-rated sector, what type of deals would you expect to see the most?

Responses	%	Percentage of total respondents
Big players acquiring smaller companies	61.36%	
Consolidation among big players	20.45%	
Consolidation among small- and medium-sized companies	34.09%	
Spin-offs and other divestitures	4.56%	
Other (please specify)	0%	
		0% 20% 40% 60% 80% 100%

As you selected "Technology" as your top-rated sector, what type of deals would you expect to see the most?

Responses	%	Percentage of total respondents
Big players acquiring smaller companies	91.67%	
Consolidation among big players	0%	
Consolidation among small- and medium-sized companies	8.33%	
Spin-offs and other divestitures	0%	
Other (please specify)	0%	
		0% 20% 40% 60% 80% 100%

8 The Wall Street Journal, "What's Driving Merger and Acquisition Activity?," September 9, 2015, http://www.wsj.com/articles/whats-driving-merger-and-acquisition-activity-1441846542

9 CNBC, "The 5 biggest M&A deals of the year (so far)," September 10, 2015, http://www.cnbc.com/2015/09/09/the-5-biggest-ma-deals-of-the-year-so-far.html

As you selected "Energy" as your top-rated sector, what type of deals would you expect to see the most?

Responses	%	Percentage of total respondents
Big players acquiring smaller companies	50.00%	
Consolidation among big players	18.18%	
Consolidation among small- and medium-sized companies	31.82%	
Spin-offs and other divestitures	0%	
Other (please specify)	18.18%	
		0% 20% 40% 60% 80% 100%

Roy B. Graham, Managing Director and Principal, Corporate Finance Associates

A bust in the oil patch means a boom in energy deals, which could be part of our survey respondents' thinking when they made that sector the third most popular choice for robust M&A activity in the coming year.

That's because low oil prices, hovering around $45 per barrel around the time of the survey, could actually spur struggling companies to seek deals, and turn them into targets over the next 12 months, according to Roy Graham, who has 30 years of dealmaking experience and extensive knowledge of the energy sector in Texas. Our respondents echoed that sentiment, explaining that they expected big players would acquire smaller companies in the energy downturn.

A dip in prices creates strong M&A conditions, weakening some players and strengthening others. Companies with deep pockets who understand the cyclicality of the energy market are in the best position to weather the downturn—and to swoop in and get good deals. Graham says acquisition targets could be exploration and production outfits or service companies that assist operators in exploration, drilling, completion and production, as those have been among the hardest-hit corners of the oil business.

He agrees that while energy may be only the third most active sector in M&A activity in the next year in terms of the number of deals, he believes the total value of deals in the energy sector could be a gusher.

> “It doesn't take too many deals in the oil patch to add up to a lot of dollars,” he says. “But if prices were to bounce back to, say, $60 a barrel, that could reduce the number of transactions simply because some of the companies forced to sell at $45 a barrel might be able to make it through the cycle.”

As you selected "Industrial/manufacturing" as your top-rated sector, what type of deals would you expect to see the most?

Responses	%
Big players acquiring smaller companies	61.54%
Consolidation among big players	15.38%
Consolidation among small- and medium-sized companies	53.85%
Spin-offs and other divestitures	7.69%
Other (please specify)	0%

Percentage of total respondents: 0% 20% 40% 60% 80% 100%

As you selected "Automotive" as your top-rated sector, what type of deals would you expect to see the most?

Responses	%
Big players acquiring smaller companies	25.00%
Consolidation among big players	6.25%
Consolidation among small- and medium-sized companies	56.25%
Spin-offs and other divestitures	25.00%
Other (please specify)	12.50%

Percentage of total respondents: 0% 20% 40% 60% 80% 100%

Terrel Bressler, Managing Director, Prairie Capital Advisors

While noisy megadeals among big-cap companies are fueling this year's strong M&A market, the action on the middle-market front—where Terrel Bressler of Prairie Capitol Advisors works—has been much quieter.

But Bressler, who's worked in investment banking for 25 years, has heard some promising sounds lately, with several companies expressing interest in selling. That could mean that activity will rise into 2016, perhaps indicating that business owners want to strike while valuations are high or that they fear that the economy will slow.

Bressler works largely in the manufacturing sector, and he sees bright spots in that area. The auto market is strong—putting suppliers in good position to shop themselves—and companies that make safety products appear to be strong acquisition targets. Overall, manufacturers haven't had the cash to spend on capital projects amid tepid postrecession growth, meaning deals are often the best way to add capacity.

But Bressler's concern across all sectors is that 2015 might have been the best shot for midmarket companies to position themselves for an acquisition.

> "The reason midmarket business owners have delayed making a decision is they're trying constantly to get a little bit better," Bressler says. "To some extent, it's caused them to overshoot the market—and now they take on a little bit of risk. If everyone jumps in the pool at once, it drives down value."

As you selected "Consumer products" as your top-rated sector, what type of deals would you expect to see the most?

Responses	%	Percentage of total respondents
Big players acquiring smaller companies	63.64%	
Consolidation among big players	0%	
Consolidation among small- and medium-sized companies	27.27%	
Spin-offs and other divestitures	9.09%	
Other (please specify)	0%	
		0% 20% 40% 60% 80% 100%

Q11. Mergers and acquisitions in the financial services industry continue to gain momentum. How long do you expect this pace to continue?

Responses	%	Percentage of total respondents
Through December 2015	9.09%	
Through June 2016	27.97%	
Through December 2016	27.27%	
Into 2017	35.66%	
		0% 20% 40% 60% 80% 100%

- Despite increased worry about the economy and increased pessimism about M&A among survey respondents, 36 percent said activity in financial services would gain momentum into 2017.
- Only 9 percent of respondents said that overall, they doubted M&A in that sector would continue past the end of 2015.

Q12. Please select one factor that you believe will have the most positive impact and one factor that you believe will have the most negative impact on financial services M&A over the next 12 months. (Do not pick the same factor.)

Most Positive

Responses	%	Percentage of total respondents
Stronger economy	42.25%	
Weaker economy	6.34%	
Increase in cross-border deals	7.04%	
Decrease in cross-border deals	1.41%	
Global banking and capital markets activity	19.72%	
Companies pursuing alternate business models	14.08%	
Interest rates increase by U.S. Federal Reserve	9.15%	
		0% 20% 40% 60% 80% 100%

Most Negative

Responses	%	Percentage of total respondents
Stronger economy	2.82%	
Weaker economy	41.56%	
Increase in cross-border deals	2.11%	
Decrease in cross-border deals	2.11%	
Global banking and capital markets activity	9.86%	
Companies pursuing alternate business models	4.23%	
Interest rates increase by U.S. Federal Reserve	37.32%	

0% 20% 40% 60% 80% 100%

- Not surprisingly, respondents said that the economy had the greatest potential to both positively and negatively influence M&A in the financial sector in the next 12 months.
- The survey was conducted prior to the Federal Reserve's September 2015 decision to put off a rate increase.[10]
- A future rate increase was respondents' second most selected option when asked what could negatively affect financial services M&A. That reflected a broader trend throughout this year's findings regarding heightened concerns by dealmakers that interest-rate increases would have a negative impact on M&A, which was particularly apparent as the survey was conducted prior to the Federal Reserve's September 2015 decision on interest rates.

Q13. On which continent do you expect the greatest percentage increase in M&A transactions in the financial services industry?

Responses	%	Percentage of total respondents
Africa	3.55%	
Asia	9.22%	
Australia	0%	
Europe	23.40%	
North America	58.87%	
South America	4.96%	

0% 20% 40% 60% 80% 100%

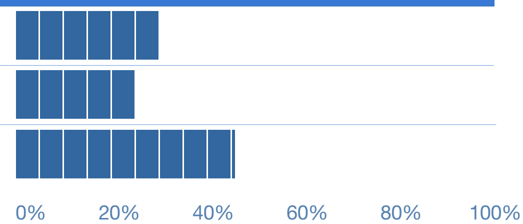
- North America was far and away the most common response to this question—and Europe was the only other continent that scored higher than 20 percent.
- Globally, financial services M&A has grown more than any other sector through the first three quarters of this year, up 112 percent compared with 2014.[11]

[10] The New York Times, "Fed Leaves Interest Rates Unchanged," September 17, 2015, http://www.nytimes.com/2015/09/18/business/economy/fed-leaves-interest-rates-unchanged.html?_r=0

[11] LegalWeek, "Freshfields, Skadden and DLA Piper top M&A rankings as deal volumes hit two year low," October 6, 2015, http://www.legalweek.com/legal-week/news-analysis/2429012/freshfields-skadden-and-dla-piper-top-m-a-rankings-as-deal-volumes-hit-two-year-low

Q14. Health care M&A activity significantly increased in 2014 and 2015. How long do you expect this pace to continue? (Select one option.)

Responses	%	Percentage of total respondents
Through 2016	29.79%	
Through 2017	24.82%	
Beyond 2017	45.39%	



- Similar to expectations for financial services, the greatest number of respondents picked the longest option when asked how long strong M&A activity in the health care sector would last.
- But the positive sentiment wasn't overwhelming, and other surveys showed optimism for health care declining over summer 2015.[12]

Q15. Rank where you expect to see the most significant increase in health care M&A over the next 12 months. (Please rank top three.)

Responses	Weighted rank
Hospitals	1
Health insurers	2
Physician and dental practices/management services organizations	3
Biotechnology companies	4
Long-term care facilities	5
Health information exchange companies	6
Part B suppliers (DMEPOS, home health, ambulance)	7

- Respondents expect activity to involve hospitals, health insurers and physician and dental practices/management services organizations.
- Health insurers were the most common top selection, but hospitals were the answer most likely to be listed among respondents' top three choices.
- Most respondents are well-aware that merging private and public hospitals is a process fraught with regulatory hurdles, which could have affected responses in that area.

12 Mergers and Acquisitions, "Health Care M&A Still Expanding, but More Slowly," September 15, 2015, http://www.themiddlemarket.com/news/healthcare/health-care-ma-still-expanding-but-more-slowly-257989-1.html

Q16. Please select one factor that you believe will have the most positive impact and one factor that you believe will have the most negative impact on health care M&A over the next 12 months. (Do not pick the same factor.)

Most Positive

Responses	%	Percentage of total respondents
Economics of federal health care reform	32.37%	
Payers and providers seeking new business opportunities	13.67%	
Need to financially consolidate	20.14%	
Competitive pressures of health exchanges and ACOs	15.11%	
Increasing use of technology and big data	11.51%	
Prepare for population health management and bundled payment	5.76%	
Regulatory limitations or barriers	1.44%	

0% 20% 40% 60% 80% 100%

Most Negative

Responses	%	Percentage of total respondents
Economics of federal health care reform	26.62%	
Payers and providers seeking new business opportunities	3.60%	
Need to financially consolidate	6.47%	
Competitive pressures of health exchanges and ACOs	11.51%	
Increasing use of technology and big data	2.88%	
Prepare for population health management and bundled payment	1.44%	
Regulatory limitations or barriers	47.48%	

0% 20% 40% 60% 80% 100%

- The economics of federal health care reform—which has caused many companies within the sector to seek efficiencies through acquisitions—was seen as the top option for positively affecting health care M&A.
- Regulatory limitations or barriers was the most selected negative factor at 48 percent. The second most common option was the economics of federal health care reform—another way in which health care reform continues to be controversial.

Q17. Please select one factor that you believe will have the most positive impact and one factor that you believe will have the most negative impact on technology M&A over the next 12 months. (Do not pick the same factor.)

Most Positive

Responses	%	Percentage of total respondents
Increase in technology buyers	17.14%	
Cross-border activity	4.29%	
Importance of mobile	20.00%	
Advances in data and analytics	26.43%	
Increasing focus on security	19.29%	
Need to keep technology content current	12.86%	
		0% 20% 40% 60% 80% 100%

Most Negative

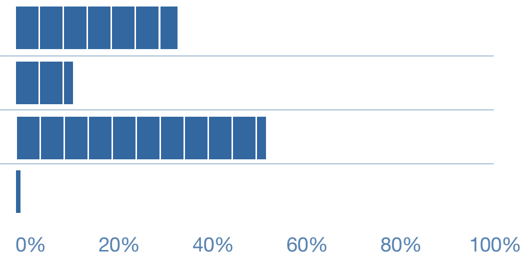
Responses	%	Percentage of total respondents
Increase in technology buyers	5.11%	
Cross-border activity	20.44%	
Importance of mobile	3.65%	
Advances in data and analytics	10.95%	
Increasing focus on security	35.77%	
Need to keep technology content current	24.09%	
		0% 20% 40% 60% 80% 100%

- Advances in data and analytics was the top-ranked option for positively affecting technology M&A.
- Without a runaway favorite for most positive factor, the strong market for M&A in technology is apparently caused by many factors, a positive for this sector.
- Meanwhile, with high-profile data breaches seemingly in the headlines weekly and even daily, an increasing focus on security was seen by respondents as the most negative factor.

Dissecting the Deals

Q18. Which of the following types of buyers have most influenced U.S. deal valuation over the past 12 months?

Responses	%	Percentage of total respondents
Financial U.S. buyers	34.48%	
Foreign buyers	11.72%	
Strategic U.S. buyers	52.41%	
None of the above	1.38%	



- Strategic U.S. buyers was the most common response, up 10 points from 2014 to 52 percent this year. As one respondent put it, “Strategic buyers have a lot of cash and/or cheap, available financing, and have the synergy value to put into a transaction.”
- Another said strategic buyers “have a willingness to pay a premium for what they perceive as complementary to [their] core businesses. They anticipate the ability to reduce expenses through the increased use of technology and the elimination of redundant roles.”
- Another respondent who chose strategic buyers said, “Slow growth in their core businesses lead[s] to requiring synergies from add-on acquisitions.” Another said, “As the current economic expansion moderates, synergistic deals are becoming more attractive when compared to pure financial plays.”
- Financial U.S. buyers slipped slightly to 35 percent from 36 percent in 2014.
- Foreign buyers dropped from 18 percent to 12 percent, likely being affected by the slowdown in China’s economy and exchange rates. “The stronger U.S. [dollar] will allow for expanded overseas investment opportunities for U.S. companies and funds, while weaker foreign currencies will deter foreign investment in the U.S.,” one respondent said.

Q19. What are the most common obstacles you have experienced in deals in the past 12 months? (Please rank top three.)

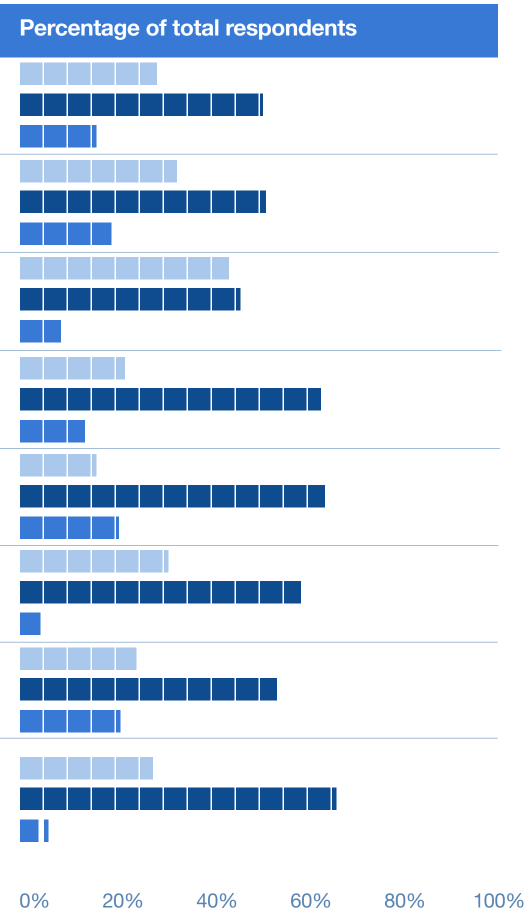
Responses	Weighted rank
Valuation	1
Availability of quality target	2
Buyer competition	3
Due diligence	4
Financing	5
Increased antitrust enforcement*	6
Other	7

**New option this year*

- Valuation ranked first in 2015, up from second last year.
- Availability of a quality target fell to second overall, even though it was selected first by many respondents.
- These results are another indication of a somewhat steady M&A market, despite some growing pessimism.

Q20. How are deals being structured differently than they were 12 months ago? (Select one for each category.)

Responses		%
Earnouts	More than 12 months ago	29.46%
	No change	54.26%
	Fewer than 12 months ago	16.28%
Increased equity requirements	More than 12 months ago	33.59%
	No change	51.56%
	Fewer than 12 months ago	14.84%
Increased commercial bank/institutional debt financing	More than 12 months ago	44.62%
	No change	46.15%
	Fewer than 12 months ago	9.23%
Joint ventures	More than 12 months ago	22.48%
	No change	62.79%
	Fewer than 12 months ago	14.73%
Minority interest transactions	More than 12 months ago	15.75%
	No change	63.78%
	Fewer than 12 months ago	20.47%
Representations and warranty insurance	More than 12 months ago	36.22%
	No change	59.06%
	Fewer than 12 months ago	4.72%
Seller financing	More than 12 months ago	24.81%
	No change	54.26%
	Fewer than 12 months ago	20.93%
Subordinated debt financing	More than 12 months ago	28.13%
	No change	65.63%
	Fewer than 12 months ago	6.25%

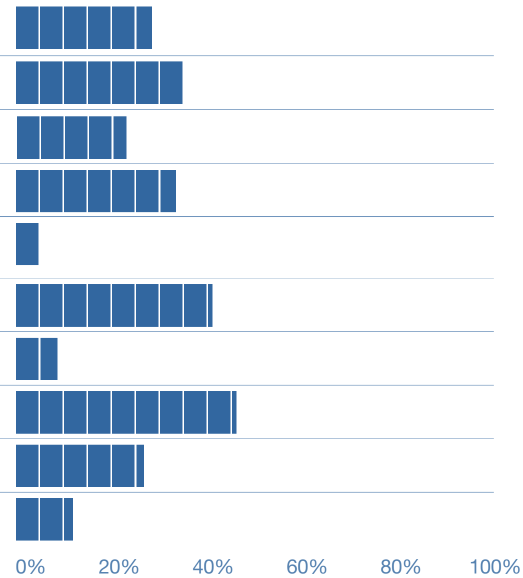


- While most of these results were similar to what was found in 2014, commercial bank/institutional debt financing had a lower percentage of respondents who saw its use increasing compared with a year ago.
- It is possible this reflected fears of a potential rate increase from the Federal Reserve that could have affected variable-rate loans and variable-rate financing.
- Thirty-six percent thought representations and warranty insurance, a new survey option this year, was increasing in use, reflecting a trend that shows that the use of the insurance has been more common in recent years to reduce exposure to liability and ease negotiations over difficult issues in M&A transactions, particularly in midmarket deals.[13]
- This is consistent with the views of 26 percent of respondents to the next question, who said representations and warranty insurance has been the subject of increased negotiations in the past 12 months.

[13] Practical Law, "What's Market Analytics: Representation and Warranty Insurance," September 24, 2015, http://us.practicallaw.com/w-000-6156

Q21. Which of the following provisions in purchase agreements have you found to be the subject of increased negotiations during the past 12 months? (Select all that apply.)

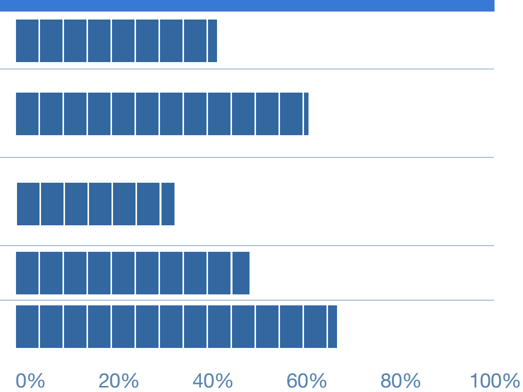
Responses	%	Percentage of total respondents
Basket/caps	28.78%	
Earnouts	35.25%	
Escrow	23.02%	
Financing contingencies	33.81%	
No shop/no talk	5.04%	
Rep/warranty survival periods	41.01%	
Termination	9.35%	
Working capital purchase price adjustments	46.04%	
Representations and warranty insurance	26.62%	
None of the above	12.23%	



- As in years past, respondents said working capital purchase price adjustments were a key subject of increased negotiations.
- Earnouts, escrow and financial contingencies each scored similarly to the 2014 results.
- Rep/warranty survival periods, which reached 44 percent in 2014, dropped to 27 percent in 2015.

Q22. Are you conducting any of the following activities during the due diligence process regarding cybersecurity? (Please select all that apply.)

Responses	%	Percentage of total respondents
Assessing data security measures with third-party vendors	42.31%	
Checking for internal policies that protect confidential or proprietary information	61.54%	
Determining whether compliance policies include breach-notification protocols	32.69%	
Learning who is responsible for data-privacy compliance	49.04%	
Ascertaining which types of information the company maintains	67.31%	



- With data breaches regularly in the headlines, cybersecurity is apparently on the minds of M&A dealmakers—based on how they're incorporating a broad array of cybersecurity assessments into the due diligence process.

Q23. What are the leading drivers of cross-border deals today? (Please rank top three.)

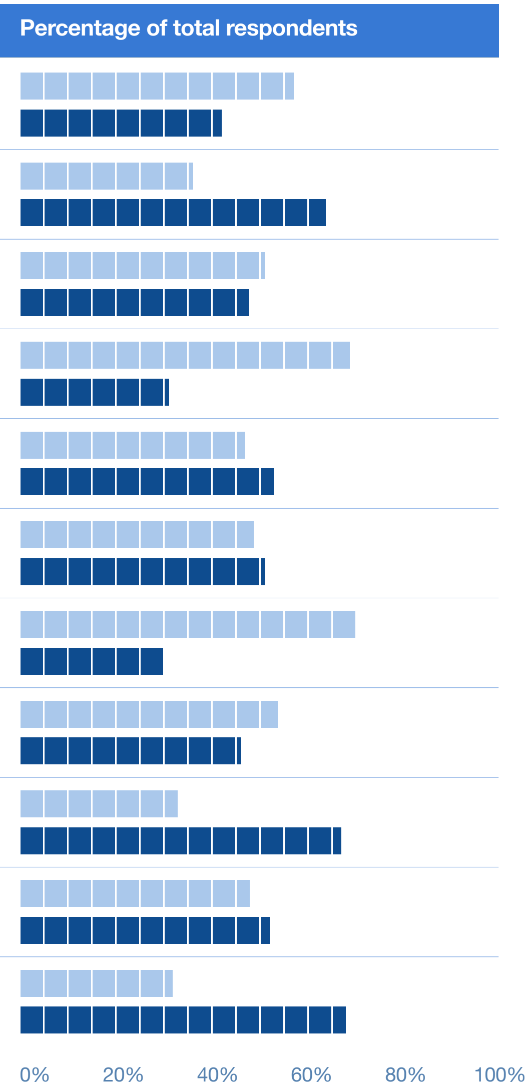
Responses	Weighted rank
Companies seeking growth and entering foreign markets	1
Companies seeking new technology or intellectual property	2
Companies seeking lower costs for manufacturing	3
Consumer demand for increased global companies	4
Companies utilizing tax inversions	5
Companies seeking access to natural resources	6

- Seeking growth and entering foreign markets was the top overall score.
- Yet seeking new technology or intellectual property ranked highly, jumping two spots from 2014, perhaps reflecting a hot technology sector.
- Tax inversions, a hot topic in 2014, was not seen as a leading driver.

Forecasting into 2016

Q24. Which regions will experience an increase in inbound/outbound U.S. M&A activity in the next 12 months?

Responses		%
Australia	Inbound to U.S.	57.41%
	Outbound from U.S.	42.59%
Brazil	Inbound to U.S.	36.00%
	Outbound from U.S.	64.00%
Canada	Inbound to U.S.	51.52%
	Outbound from U.S.	48.48%
China	Inbound to U.S.	68.97%
	Outbound from U.S.	31.03%
Europe	Inbound to U.S.	46.84%
	Outbound from U.S.	53.16%
India	Inbound to U.S.	48.75%
	Outbound from U.S.	51.25%
Japan	Inbound to U.S.	70.00%
	Outbound from U.S.	30.00%
Korea	Inbound to U.S.	53.85%
	Outbound from U.S.	46.15%
Mexico	Inbound to U.S.	33.33%
	Outbound from U.S.	66.67%
Russia	Inbound to U.S.	47.83%
	Outbound from U.S.	52.17%
South/Central America	Inbound to U.S.	31.75%
	Outbound from U.S.	68.25%



Inbound (most to least)	Outbound (most to least)
Japan (70.00%)	South/Central America (68.25%)
China (68.97%)	Mexico (66.67%)
Australia (57.41%)	Brazil (64.00%)
Korea (53.85%)	Europe (53.16%)
Canada (51.52%)	Russia (52.17%)
India (48.75%)	India (51.25%)
Russia (47.83%)	Canada (48.48%)
Europe (46.84%)	Korea (46.15%)
Brazil (36.00%)	Australia (42.59%)
Mexico (33.33%)	China (31.03%)
South/Central America (31.75%)	Japan (30.00%)

- Expectations for M&A activity inbound to the U.S. were down across the board—except for Japan, which increased from 68 percent to 70 percent.
- The biggest drop was from Europe, with only 47 percent of respondents expecting an increase to the U.S., down from 74 percent last year—possibly a result of changes in exchange rates with a stronger dollar.
- Overall, respondents were somewhat more bullish than in 2014 about increased outbound M&A activity across the countries examined. One exception was China, where outbound activity from the U.S. fell from 46 percent to 31 percent. Besides a general decline in the Chinese economy, it is possible U.S. companies are looking more skeptically at valuations in that country.

Aaron Witalec, Director,
UHY Advisors Corporate Finance, LLC

This year's M&A report found a smaller percentage of respondents expecting foreign dealmakers to become more active on U.S. soil. Given recent world events, that's not surprising, says Aaron Witalec, director at UHY Advisors Corporate Finance, LLC.

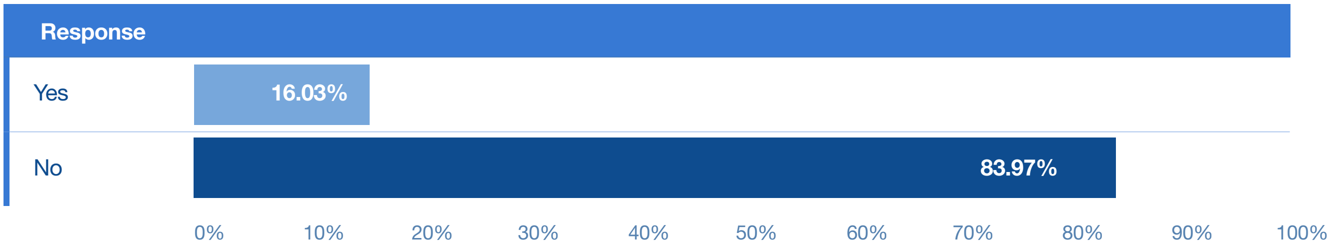
With valuations high, economic turmoil in China and the U.S. dollar performing well against foreign currencies—particularly the euro—we're more likely to see a rise in American companies pursuing deals overseas than the other way around, says Witalec, whose firm has a physical presence in 89 countries.

Last year, 78 percent of respondents said they expected an increase in activity from China to the U.S., compared with 69 percent this year. In 2014, 74 percent of respondents said they expected an increase in activity from Europe to the U.S., compared with 47 percent this year.

Whereas U.S. M&A activity to China was not viewed as positively this year, a greater percentage of respondents expect M&A from the U.S. to Europe to increase. That makes sense, Witalec says, noting that, as places like China cool off, Eastern Europe in particular looks ripe for increased M&A activity.

> “Western European companies had an interest in pursuing low-cost solutions in Eastern Europe. Then, 10 to 15 years ago, China became the focus for multinationals as it was viewed as ‘the place to be,’” Witalec explained. “Now, given the challenges in Asia, Eastern Europe is becoming an attractive destination once again with more American and Western European companies searching for the right acquisitions in the region, especially those that provide a meaningful technological edge in manufacturing.”

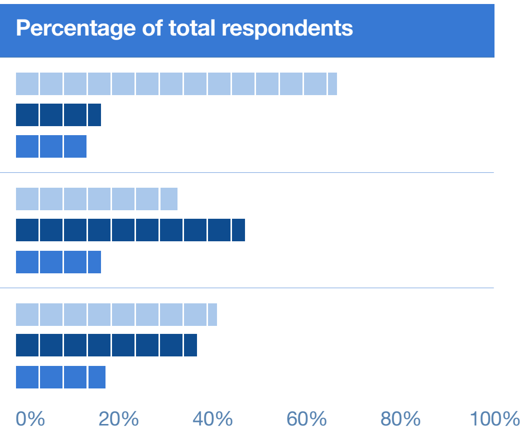
Q25. With the re-establishment of diplomatic relations between the United States and Cuba, do you anticipate any significant increase in M&A activity?



- The vast majority of respondents don't expect an increase in M&A activity as a result of the U.S. re-establishment of diplomatic relations with Cuba.
- Those who predicted an increase cited a host of different industries, but tourism was mentioned by multiple respondents.

Q26. In the next 12 months, do you believe your company, or one of your portfolio companies, will be involved in any of the following transactions?

Responses		%
Acquisition	Yes	66.67%
	No	18.18%
	Not Applicable	15.15%
Joint Venture	Yes	34.38%
	No	47.66%
	Not Applicable	17.97%
Sale	Yes	41.86%
	No	38.76%
	Not Applicable	19.38%



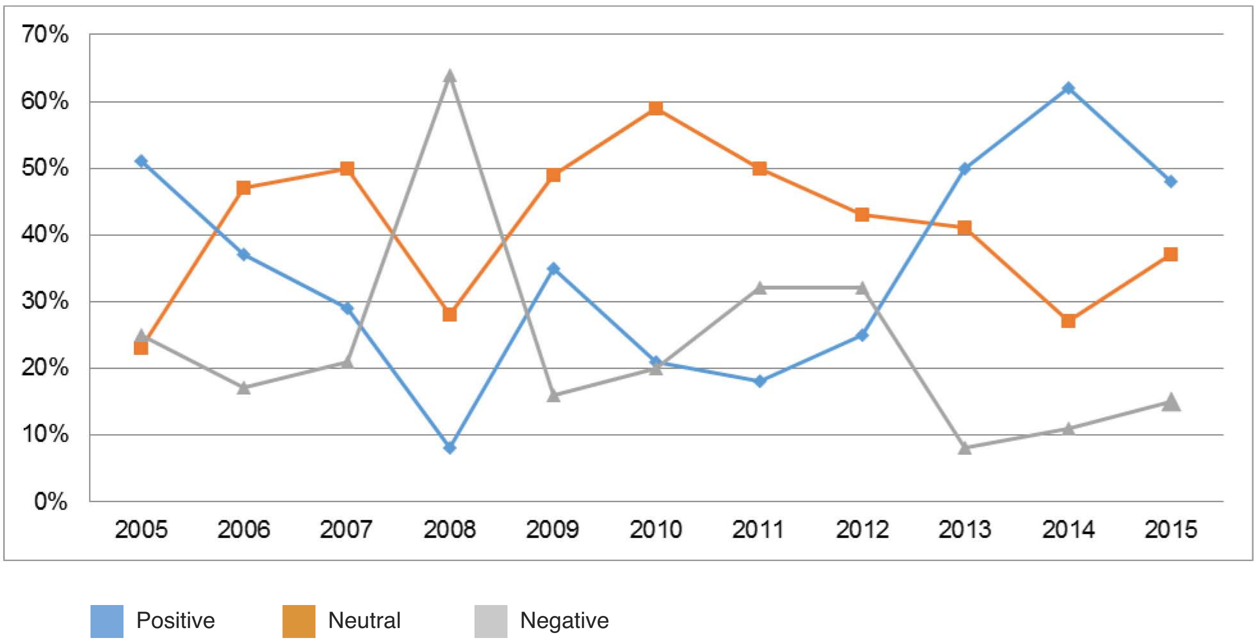
- A greater percentage of respondents said they expected their company would be involved in some kind of transaction in the next 12 months than said so in 2014—though the increase was slight.
- As in 2014, acquisition was the most likely occurrence in the minds of respondents, as two-thirds said their company, or one of their portfolio companies, would be involved in an acquisition.

Q27. What is your outlook for the U.S. economy, generally, over the next 12 months?

Responses	%	Percentage of total respondents
Positive	48.23%	
Neutral	36.88%	
Negative	14.89%	

0% 20% 40% 60% 80% 100%

Year-over-year data



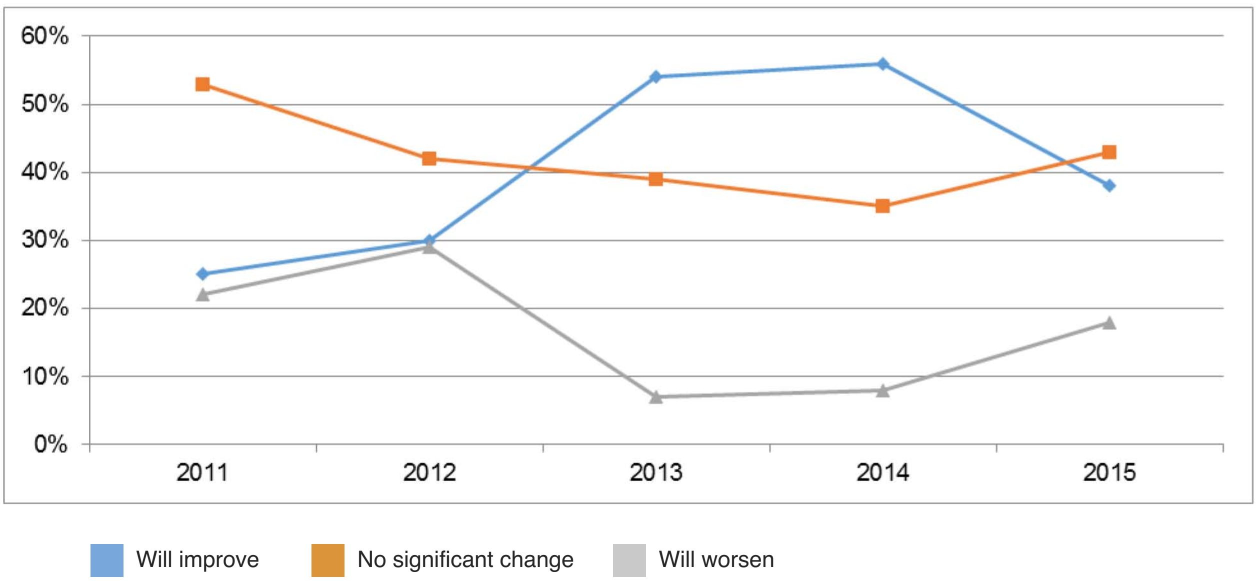
- Only 48 percent of respondents were positive about the U.S. economy, down from 62 percent a year ago.
- The biggest increase came in those who said they were neutral, as that percentage grew from 27 percent to 37 percent. Fifteen percent marked negative, compared with 11 percent in 2014.
- The findings reverse growth in positive sentiment seen since 2012, and possibly stem from the economic unease in summer 2015.

Q28. How will the U.S. economy for the next 12 months compare to the last 12 months?

Responses	%	Percentage of total respondents
U.S. economy will improve over the next 12 months	38.30%	
U.S. economy will see no significant change over the next 12 months	43.26%	
U.S. economy will worsen over the next 12 months	18.44%	

0% 20% 40% 60% 80% 100%

Year-over-year data



- Increased pessimism and uncertainty showed up here again as the numbers reflected the most negativity since the 2012 findings.
- The bullishness of 2013-14—when more than 50 percent of respondents expected improvement—has faded, though not all the way to 2012 levels.

Methodology

In August and September 2015, national law firm Dykema Gossett PLLC distributed its M&A Outlook Survey via email to a group of senior executives and advisers including CEOs, CFOs and other company officers. The 147 respondents to this survey represent a cross-section of M&A professionals and advisers with a diverse group of professions and more than a dozen sectors represented, including health care, technology, industrial/manufacturing and financial services. Respondents represent companies whose annual revenues range from under $1 million to more than $1 billion.

Percentages in questions 21 and 22 exceed 100 percent because respondents were asked to check “all that apply.” Due to rounding, percentages used in some questions may not add up to 100 percent. A few minor edits were made to individual responses to correct spelling, punctuation and verb tense.