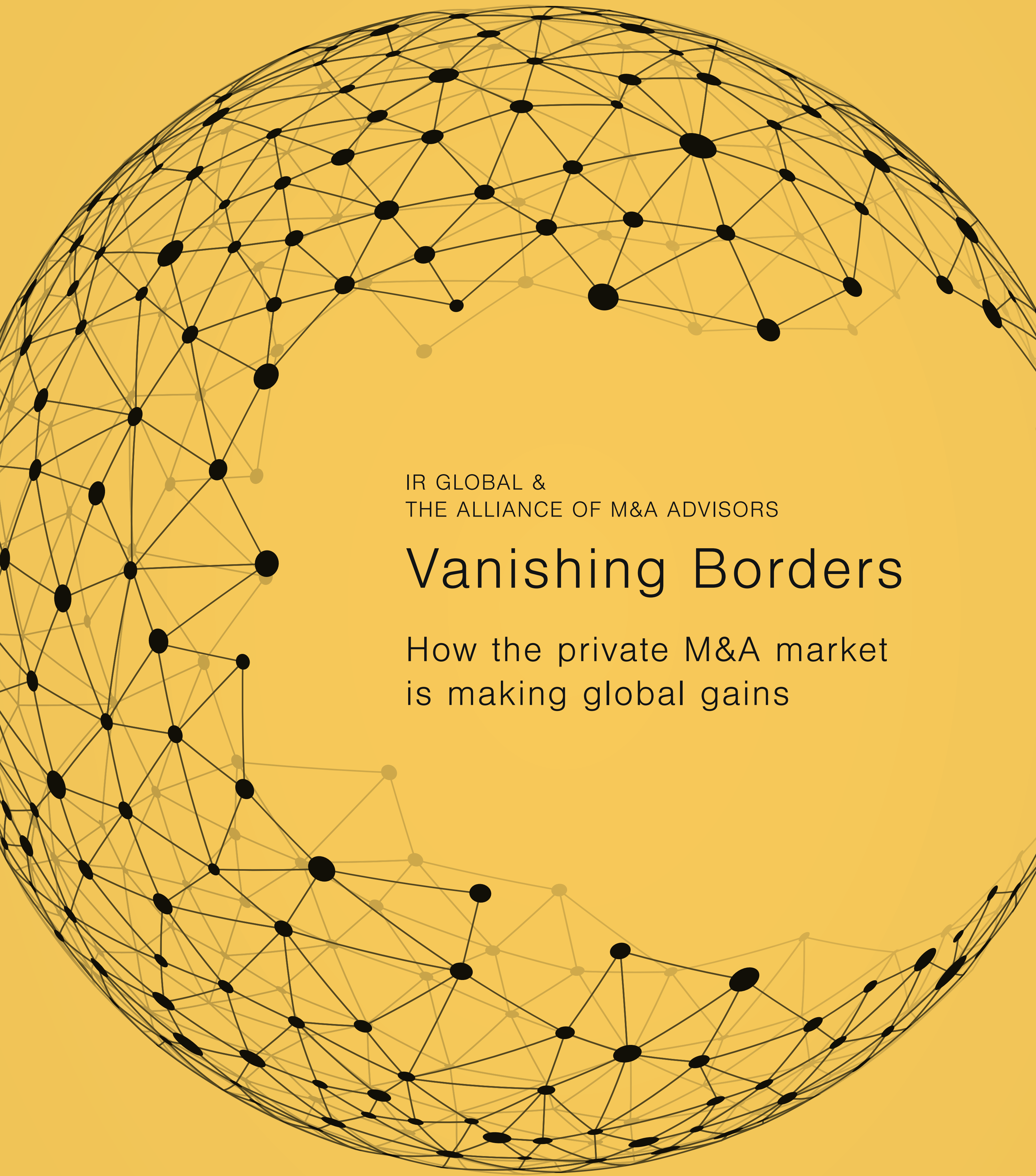


IR GLOBAL &
THE ALLIANCE OF M&A ADVISORS

Vanishing Borders

How the private M&A market is making global gains

In This Pack

Foreword

We live in fascinating times.

The onward rush of globalisation influences everything it touches including professional services.

The arena of mid-market mergers & acquisitions is experiencing significant change at present as more private corporations attempt to access new opportunities around the globe, while others hope to market their business on an international stage.

Independent mid-market advisors must take note of these trends and position themselves to provide the highest level of service for the changing needs of their existing and prospective clients.

It is this last point that forms the basis of this report into the evolution of cross-border mid-market M&A.

International professional services networks IR Global and The Alliance of M&A Advisors (The Alliance) met two years ago and have grown close as strategic partners, providing support, advice and networking expertise to mid-market professionals across the world.

Both organisations are fully committed to the private mid-market, helping family-owned and non-public businesses negotiate the complex path towards a successful merger or acquisition.

Since meeting, we have been in regular communication, discussing M&A activity, sharing insights from our respective members and analysing the marketplace. It's been a fascinating period in which we have studied and noted the changing role of the advisor and how client expectations are evolving.

We believe we are witnessing a major turning point in the mid-market professional services sector and were inspired by this to explore the globalisation phenomenon further.

To test this hypothesis, we commissioned an in-depth survey, involving more than 250 advisory firms from around the world, asking them about the current M&A landscape and their expectations for the future.

Our objective was to provide an insight into the minds of M&A advisors from a number of different disciplines and geographical regions in order to understand the evolution of deal activity.

We asked about their expectations for future deal activity, how they thought their roles were changing and how they were adapting to an environment increasingly influenced by cross-border activity.

The stand out conclusion of our research is that professionals working in the private mid-market will need to become deal partners for their clients rather than mere advisors. In the new cross-border paradigm this report identifies, the emphasis will be on supporting clients, whether buy-side or sell-side, to access new markets and find new opportunities.

Our survey findings reveal how networks facilitate the sourcing of opportunities, knowledge sharing and international capabilities.

They also show how independent advisors can deliver a very different service to the traditional international firm model, one which is more flexible, cost-effective and personal.

We hope you find the report interesting and useful, and that it stimulates further thought. Most importantly, we hope it improves client service in the private mid-market sector.

Your sincerely

Tom Wheeler, MD of IR Global and Michael Nall, MD of The Alliance

Introduction

M&A by its nature is a global business.

Mega-mergers make the headlines but the engine room of this industry is the private mid-market, where thousands of deals are completed annually of varying sizes, from less than USD 10 million through to USD 500 million plus.

This incredibly important sector has assumed a new level of activity in recent years, due to the continuing march of globalisation, capital flow and free trade.

Figures from Thomson Reuters' Mid-Market M&A Review show the uplift the mid-market has seen since 2014. In that year global mid-market M&A deals totalled USD 920.2 billion, a 24.1% increase year-on-year, and the figure was similar for 2015, totalling USD 914.4 billion.

A range of political and economic shocks hit the global economy in early 2016, including instability in the Eurozone, weaker Chinese demand and a low commodity price environment. Despite this, figures for the first quarter of 2016 from Thomson Reuters show global mid-market M&A deals totalling USD 189.6 billion, higher than the same period in 2015.

A significant factor in this step change is the rise of cross-border deals.

Figures from Deloitte's 2016 M&A Index report suggest that cross-border deals accounted for more than USD 1 trillion out of a global M&A grand total of USD 4 trillion in 2015. The report highlighted major deal corridors between Europe, the US and Asia.

This global cross-border trend is reaching into the private mid-market, even in the face of continued and significant economic headwinds. Advisors who want to be successful in this new paradigm will need to be ready to take on the challenge and flexible enough to meet the client demands that arise.

The numbers intrigued IR Global and its partner The Alliance of M&A Advisors (The Alliance) enough to commission a global study of their members, with the aim of understanding exactly how mid-market M&A is being conducted in various jurisdictions.

The survey was comprehensive, sampling hundreds of independent mid-market advisors across the US, Europe and Asia. Headline figures show that more than 50% of respondents expect cross-border activity to increase in the coming year.

Our purpose is to understand how the mid-market sector is responding to this growing cross-border opportunity, which advisors are seeing more cross-border deals and how their roles are changing to cope with this.

We were also interested in how deals are sourced in an increasingly globalised environment, what external factors are influencing deal activity and how important finance is to deal sourcing.

Another question we posed was how the increasing sophistication and penetration of M&A in the mid-market is affecting the deal process, particularly in regard to sellers and buyers unused to preparing for a merger or acquisition.

Finally, we were interested in the client perspective. What is it that they look for in a good advisor? And, ultimately, how should advisors pitch the value of independence and local expertise over full-service professionals with global footprints?

Results from our global study will be laid out across the next five chapters along with insight and commentary from industry experts and professional advisors around these questions.

Enjoy.

— Chapter One

Challenges and Changing Roles

Private mid-market businesses are embracing globalisation and looking beyond traditional markets for new revenues. But how is that activity likely to play out over the next 12 months? What challenges does this present to advisors and how are their roles changing?

Reasons for Optimism

The global economy is experiencing a divergence. There is weaker growth in major established economies and structural shifts in China, as the country moves from an export-orientated economy to one driven by domestic consumption.

This spread of economic growth, outside of traditional centres, has been accompanied by a concurrent rise in cross-border M&A as companies and acquirers follow this trend, looking for access to new fast-growing markets as well as building strength and dominance at home.

As a result, is it no surprise that our survey shows plenty of optimism around mid-market M&A for the next 12 months, despite ongoing political and economic volatility.

Globally 60% of respondents to our ground-breaking global analysis of mid-market professionals believe that M&A activity will increase during the next 12 months, while 53% believe the percentage of those deals that are cross-border will grow.

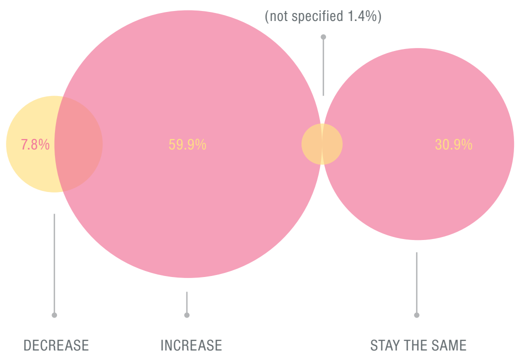
Tom Schramski, specialist in Healthcare M&A via his Tucson-based consultancy Vertess, is bullish about the next 12 months in the healthcare sector and for M&A activity more generally. He is doing more deals this year than at any time in his firm's history, with a number of exciting ventures in the pipeline for 2017.

"There is a lot of investment capital (dry powder) in the US market looking for a good home, particularly so because of the low interest rates we have at present. All of the international private equity houses we deal with are in real need of solid investments, because they have been entrusted with a lot of money that requires a certain level of return."

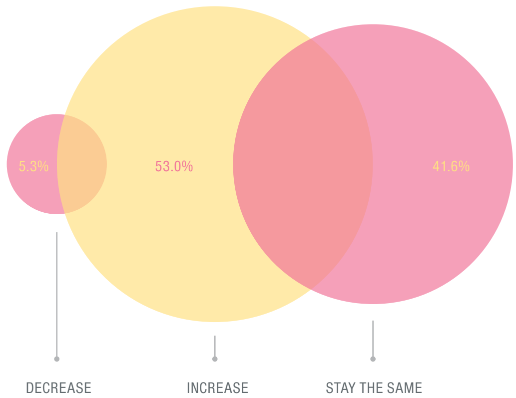
John Gabbert, founder and CEO of Seattle-based PitchBook, a leading data software provider for professionals in VC, PE and M&A, suggests that the elevated deal activity seen in the mid-market during the last few years will help to boost M&A activity. He believes an increase in lower quality deals will drive the natural progression of the deal cycle.

"Historically, M&A activity picks up towards the end of a business/economic cycle. Nearly 10 years out from the 2007-2008 recession, the macroeconomic environment is starting to show signs that the most recent business cycle is coming to an end."

DO YOU THINK THE NUMBER OF MID-MARKET M&A DEALS WILL INCREASE OR DECREASE IN THE NEXT 12 MONTHS?



DO YOU THINK THE PERCENTAGE OF MID-MARKET M&A DEALS THAT ARE CROSS-BORDER WILL INCREASE OR DECREASE IN THE NEXT 12 MONTHS?



A Question of Culture?

The challenges for cross-border mid-market M&A deals often differ to those for domestic deals because the reasons for mergers or acquisitions are different when a company is looking to expand internationally. This is an important distinction that advisors taking on more cross-border work should be aware of.

But what are those challenges? Is it as simple as cultural differences, or are there more complex factors at play?

Our survey was clear that country culture and differing business practices were the main concerns when advising on cross-border deals, as 56% of global respondents named these as their top issues.

Urs Breitsprecher, Partner at Düsseldorf-based law firm MKRG, is also clear that understanding cultural differences is key to successful cross-border transactions.

"Last year I represented a Dutch company buying a Germany company. Dutch management teams tend to make decisions by consensus, while German companies are more autocratic. The Dutch CEO went to the German board meeting expecting them to make decisions as a group, while the German directors expected him to tell them his plans."

He adds: "I also represented a Japanese client acquiring a German company. They wanted to cut the car allowance of their German management team, and I told them it was the worst thing they could do. To tell a German they are not allowed to drive a BMW anymore would cause more problems than the money saved."

This view is backed up by Winchell Cheung, Director, Midwest for the Hong Kong Trade Development Council Chicago office, who suggests that understanding cultural differences is critical for efficient post-merger integration.

He says: "Hong Kong plays a unique role in bridging the gap between Asian culture and Western culture. Many Asian investors acquiring companies in North America and Europe may not fully understand the regulatory aspects of those jurisdictions such as issues with labour and tax."

> India is a coming power that will become increasingly influential during the next decade.

India is a coming power that will become increasingly influential during the next decade, yet also presents a number of significant cultural differences that need to be considered carefully by prospective investors in developed countries.

Some of those differences are highlighted by Seema Jhingan, Partner at LexCounsel in New Delhi.

"The political environment is different; despite the fact we are becoming much more liberal to attract foreign investment. There are still quite a few foreign investment regulations that a lot of western countries don't have. Labour laws are also tougher, protecting employees, while laying off employees after acquisition requires significant compliance."

These are strong arguments, but cultural differences can often be used as an excuse and blamed when problems arise in such deals, according to Nuno Fernandes, Professor of Strategic Finance at IMD in Lausanne, Switzerland.

WHAT ARE THE MAIN CHALLENGES THAT YOUR FIRM FACES WHEN WORKING ON CROSS-BORDER MID-MARKET M&A DEALS?

He believes different cultures can always work well together following cross border M&As as long as everyone does their jobs properly preparing for the deals and people at the companies involved are incentivised to secure their buy-in to the deal.

This includes acknowledgment, in the pre-deal phase, that cultural differences may have an affect post-merger.

Nick Chen, Managing Partner at Pamir Law Group, Taiwan & Shanghai, agrees, believing strongly that a successful deal depends on aligning business practices rather than worrying about cultural differences.

He says: "During the 1970s and 80s the Japanese were making a lot of acquisitions in the US. There were some very successful Japan to US mergers and there were some spectacular mushroom cloud failures. It's not a country-by-country issue."

Becoming a Deal Partner

The extra challenge presented by cross-border deals raises the questions about the role of the professional advisor. It appears that becoming a valued cross-border deal partner involves more than simply providing specialist advice on a part of the process.

More than 60% of respondents to our survey, see their most important challenge during the next 12 months to be helping clients to arrange deals. More than half also believe they will need to expand their international network of trusted advisors to offer more effective and holistic advice on the progression of deals; becoming a deal partner rather than a simple advisor.

MKRG's Breitsprecher agrees, saying lawyers now need to do more than simply draft contracts.

"My firm is involved with matchmaking between buyers and sellers and also sourcing corporate finance for deals. Clients expect more than just legal advice now; I advise on all kinds of matters, from cultural issues to advice around when to sell a company."

> More than 60% of respondents to our survey, see their most important challenge during the next 12 months to be helping clients to arrange deals.

Cultural differences are also partly responsible for this change of scope in advisor roles.

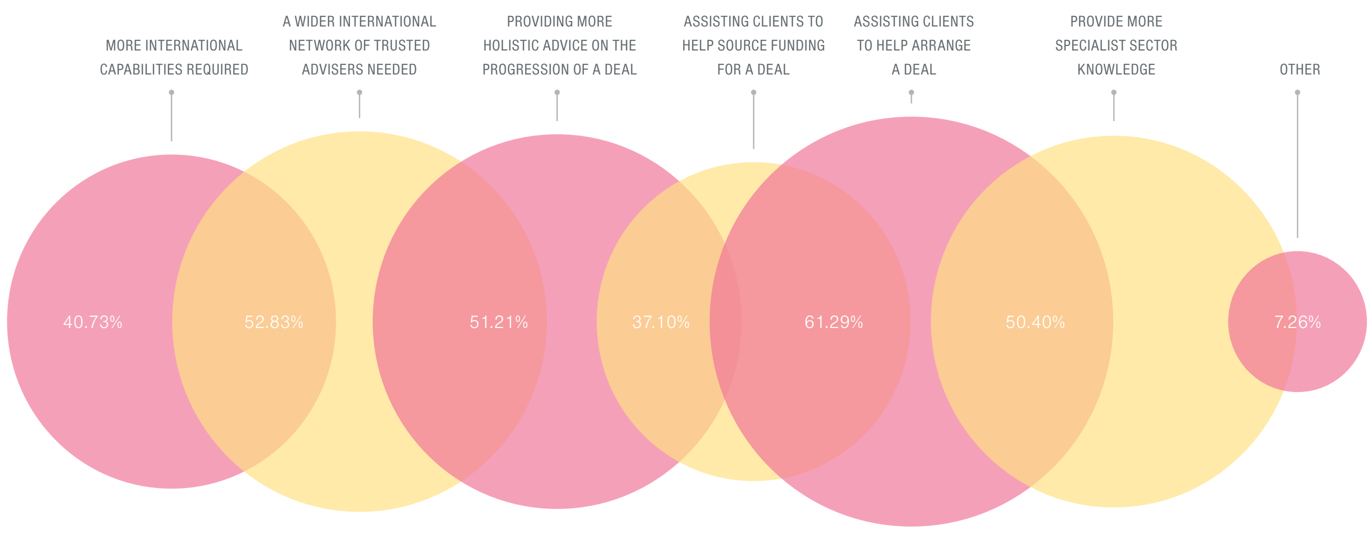
Ross Koffel, Principal at Sydney-based Koffel's Solicitors, often represents US companies buying Australian technology firms, and says the US buyers are quite clinical and orientated around numbers. If a deal doesn't fit into a certain price-earnings (P/E) ratio, they won't buy.

"Australians often see things differently, and, as an Australian lawyer, I am usually at the centre of the negotiations, putting things into Australian terminology. More than 50% of the files on my desk are cross-border, so this aspect of my job is significant."

Cross-border activity is clearly driving the mid-market forward, but with these opportunities come significant challenges that advisors need to be aware of, plus a relentless shift in the scope of their role, away from simple specialists towards true deal partners.

One of the foremost roles for a deal partner in an international deal is the ability to source overseas expertise.

HOW DO YOU SEE YOUR ROLE CHANGING IN THE NEXT 12 MONTHS AS AN ADVISOR ON MID-MARKET M&A DEALS?



— Chapter Two

Making it Rain

Winning new business will increasingly depend on an advisor's ability to handle complex cross-border instructions and to find competent partners and specialists in a range of jurisdictions that they, themselves, are unfamiliar with.

But how best to rise to that challenge

Networking to Win New Business

When asked where the majority of new business came from, 91% of our respondents named existing business relationships, while 76% believed word-of-mouth was important. Another 55% named their membership of an international network.

This sentiment suggests that most business will inevitably come from a trusted source with marketing, PR and branding of secondary importance, adding credibility once contact with a client has been made.

Michael S. Roberts, Principal at Chicago-based law firm Roberts McGivney Zagotta, is very clear about the importance of international networking.

Around 25% of his deals are cross-border and he is currently acting for three European businesses investing into the US. He has worked with clients from India, Peru, Germany, Ireland and The Netherlands during the last year.

He says: "Most referrals come from a trusted source. A German company acquired my client recently and then asked me to represent them on a subsequent deal. One Irish client I represent came to me because I knew the CEO."

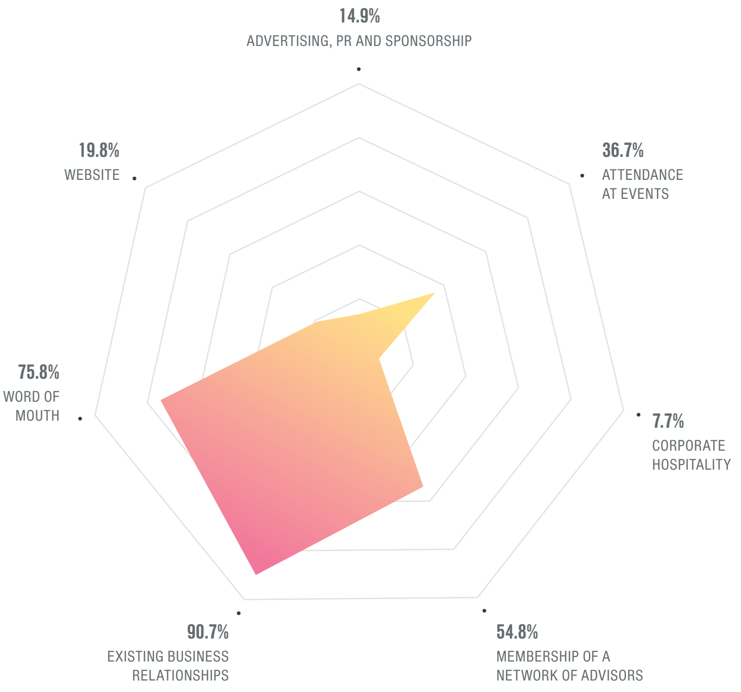
Roberts believes networks are also important in securing new business and has two potential deals in the pipeline that were referred to him through a network.

Hong Kong Trade Development Council organises many Chinese outbound investment missions to North America and Europe, taking 20-30 companies on each trip and introducing them to prospective target companies. This, Winchell Cheung says, is an ideal opportunity for Chinese investors to network, identifying potential partners and targets.

"We also bring bankers, lawyers and accountants from Hong Kong to advise investors on different issues of acquiring companies. With extensive international experience, Hong Kong advisors understand the cultural, business and legal aspects of overseas markets."

"During the trips we hold match-making sessions between the investors and target companies. Most target companies are interested in partnerships and joint ventures. In return, they get access to the Chinese market as well as the capital injection."

WHERE DO THE MAJORITY OF YOUR FIRM'S NEW MID-MARKET CLIENTS COME FROM? - three most common



International Partnerships

Networks are particularly useful for finding trusted advisors in foreign jurisdictions and creating lasting relationship with fellow professionals.

Michael S. Roberts comments: “I recently had to retain council in Belgium, India and Japan for an international property transaction. I phoned an attorney I knew in Germany via a network and asked for his advice. He referred me and the job was excellent. I also just represented an investor in a venture capital deal in Israel and used an Israeli attorney that I met at a networking event in London last year.”

Keeping an open mind and attending events to meet smart people is the best way to build lasting relationships, rather than setting out looking for something specific, according to Nick Chen.

“There is a trust relationship across all networks. Who you select is driven by the needs of the deal. It has to be a trust issue and a skillset issue. When I go to a network conference I’m not usually looking for something specific; I’m looking for relationships; skills in certain areas or maybe I’ll just meet somebody and an opportunity will come up.”

This idea is endorsed by LexCounsel’s Jhingan, who has membership to multiple networks and believes in raising her profile by signing up for speaking engagements or sponsorship programmes.

“Networks give you visibility. When a client believes in you, they believe you will provide trusted contacts in foreign jurisdictions. I might not have that contact, but the network will provide it and you’ll trust that they are competent because you’ve met them. That’s a great comfort.”

Once advisors have their international networks in place they are in a great place to help prospective clients with new cross-border business. But how to go about sourcing those deals?

Keeping an open mind and attending events to meet smart people is the best way to build lasting relationships.

Nick Chen, Pamir Law Group

The Structure of Cross-Border Deal Teams

There is often a formal process to deal structures in the US, with investment bankers originating and leading deals; bringing in advisors such as accountants or lawyers as required.

This is not always the case in other jurisdictions, where deal structuring is more fluid and teams are regularly led by lawyers, accountants or other specialists.

US advisors new to the cross-border sector should be aware that they may be asked to lead deal teams in the US by foreign clients if they have a good reputation or have developed a good rapport. They are also more likely to be across the table from teams led by lawyers, rather than investment bankers, when doing business in another jurisdiction.

Chicago-based Michael S. Roberts has an established cross-border business, regularly representing European clients.

"My foreign clients doing a deal in the US often come through a US investment banker. Having said that, many other deals I do in the US do not have a formal process through an investment banker and often originate through other sources. In those situations, I take a much more active role in leading the transaction."

The differences between the typical US deal structuring process and other countries is also highlighted by Ross Koffel, a lawyer based in Sydney, Australia.

"In Australia deal structuring can be far more fluid and the deal can be led on the Australian side by a lawyer or a long time financial advisor. Our firm often finds itself leading the negotiations from the Australian side."

"US advisors need to understand that the lead negotiator in Australia will not necessarily be an investment banker, so the US advisor needs to alter its approach to the negotiations depending on who is representing the client in Australia. This requires a real understanding of the capability of the lead advisor, and the ability to modify their approach accordingly. On the basis that each side wishes the transaction to proceed there is little point in adopting the same approach to a lawyer as they would to an investment banker."

"US advisors need to understand that the lead negotiator in Australia will not necessarily be an investment banker."

— Chapter Three

The Dynamics of Deal Sourcing

Sourcing new deals in a competitive environment is an ever-present problem for advisors. Forecasting which jurisdictions will see the most deal activity allows smart professionals to focus resources accordingly. It also means paying attention to identifying factors, such as the availability of debt, that are likely to reduce or enhance deal activity.

Know your Market Dynamics

Interestingly, our survey shows that 64% of global respondents believe Europe will be the top place in which they provide advice on cross-border M&A activity during the next 12 months, despite the political uncertainty destabilising the European Union at present.

Sixty per cent of American respondents expect their M&A advice over the next 12 months to involve Europe, as do 48% of Asian respondents.

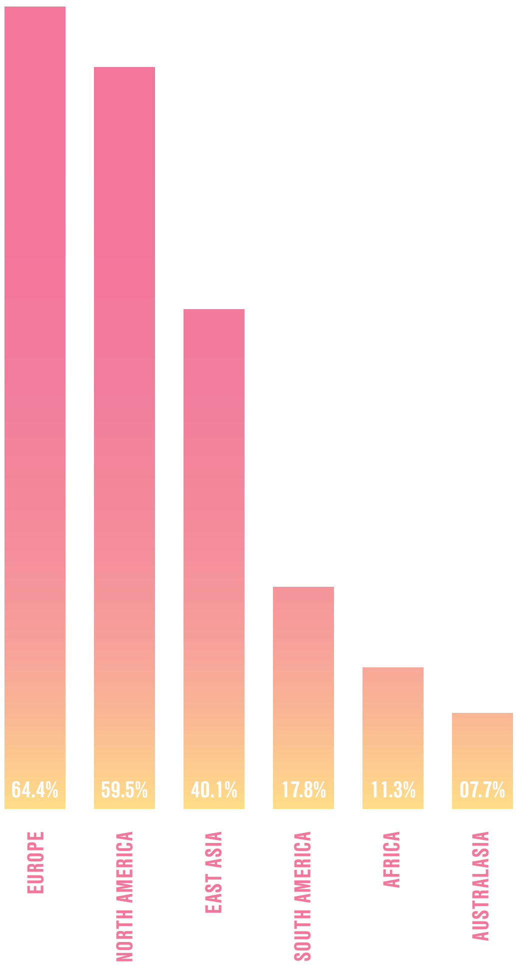
The US is also important, with 45% of European respondents and 54% of Asian respondents expecting to advise on M&A deals involving the US.

In line with these results, mid-market M&A professionals are reporting a change on where investment funds originate from. Out-bound investment from Asia to the US, UK, Australia, Germany and Japan is increasing, demonstrating how emerging to developed investment is closing the gap on developed to emerging deal flow.

There is also an increase in emerging to emerging market deals, as fast-growing economies such as India, that have traditionally received high levels of investment from the US, open up to Chinese investment.

The dynamics of deal sourcing will inevitably differ depending on an advisor's home market; the trick, it seems, is to maintain a good grasp on investment trends.

64% of global respondents believe Europe will be the top place in which they provide advice on cross-border M&A activity



IN WHICH FOREIGN MARKETS DO YOU EXPECT TO SEE MOST MID-MARKET DEAL ACTIVITY DURING THE NEXT 12 MONTHS? (TOP 2)

Emerging Opportunities

Helping clients access emerging markets is crucial to sourcing new deals in an international marketplace, on both the buy-side and the sell-side. It is therefore increasingly important for advisors in developed economies to connect with counterparts in these markets.

Our survey highlighted the importance of this, as 69% said creating new opportunities in emerging markets was a priority for the next 12 months.

South-east Asia is one of the fastest growing economic regions in the world at present. There is a youthful population of 600-700 million people, and a rapidly growing middle class.

The ASEAN (Association of South East Asian Nations) Agreement began implementation in January 2016 with the removal of 90% of all tariffs between ASEAN countries. There are also future plans for improvements in infrastructure and the free movement of labour and capital.

As a result, it is set to become an increasing destination for investment activity with plenty of acquisition opportunities.

Andrew Rice, Senior Vice President at The Jordan Company, a US private equity firm with offices in New York and Chicago, says many Fortune 500 type companies from North America and Europe have started investing in the region, meaning mid-size companies will shortly follow.

"In Vietnam, thousands of Chinese companies have already invested there, because if they invest in a company in the ASEAN region it enables them to 'get inside the ASEAN tent' and sell to customers in other ASEAN countries without tariffs and import duties. Many US and European firms with operations in China that export to Southeast Asia are also planning to invest within ASEAN. This region is one of the fastest growing in the world, but, other than Singapore and Malaysia, most countries have poor infrastructure; like China 15 years ago."

The Hong Kong Trade Development Council's Cheung also highlights the opportunities for in-bound investment in Asia's new growth economies, plus China's role as a major investor in the US and Europe, as evidence of a changing dynamic.

"Foreign investors are attracted to Asian markets because of the One Belt One Road initiative which covers 60 plus countries and regions from Asia to Europe. The initiative is set to reinvigorate the seamless flow of capital, goods and services between Asia and the rest of the world, by promoting further market integration and forging new ties among communities."

"China's outbound investment in Europe and North America hit USD 40 billion last year – up 14% on the previous year. This will drive M&A over the next five years, providing tremendous opportunities for Europe, Asia and North America."

> South-East Asia is one of the fastest growing economic regions in the world at present.

Advisors in emerging markets can also often help each other, rather than relying on business coming to them from developed countries.

One of the largest companies in the Philippines, Jollibee Hamburgers, has recently opened stores in Vietnam highlighting a growing investment trend between the two South-east Asian countries.

This has led Valeriano Del Rosario, Managing Partner at Manila-based VeraLaw, to consider creating an alliance with a Vietnamese law firm to ease M&A activity between the two countries.

He says: "There is a cultural similarity between the two countries, neither is opposed to western influence or western style food. We have a common heart and could grow powerfully together."

Quality is the Key to Unlocking Liquidity

Finding quality businesses for sale is one sure fire way to grow a reputation as a proactive advisor, helping to drive more clients to your door.

This has the added advantage, in these cautious times, of making it easier for acquirers to source leverage; an attractive proposition when hard-earned cash reserves are involved.

The US, European, UK and Japanese Central Banks all have very low base rates as developed economies continue to battle stubbornly stagnant economic growth. As a result, great deals are available for buyers looking for leverage, but a successful lend will often come down to the quality of the acquisition target.

Our survey, unsurprisingly, found that 75% of global respondents believe continued low interest rates will be a factor that significantly improves deal activity in the next 12 months, while 71% mentioned large cash reserves.

Jean-François Alandry, Managing Partner at Eurohold, a Pan-European corporate finance consultancy, says political instability in Europe has created volatility and reduced investment. He says deals in Europe today have around a 30% chance of completion following the signing of a letter of intent, rather than 90% as it used to be.

Despite this, he says liquidity levels are very high in Europe at the moment as buyers look for the right deals.

"There is plenty of liquidity in the market looking for good deals. It is so high at present that it will push mid-market M&A and sector concentrations. Quality deals are being funded with more depth today because of this phenomenon. For mid-cap deals, depending on size, I am seeing pricing between six and twelve times EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation), which is like it was in 2006/07."

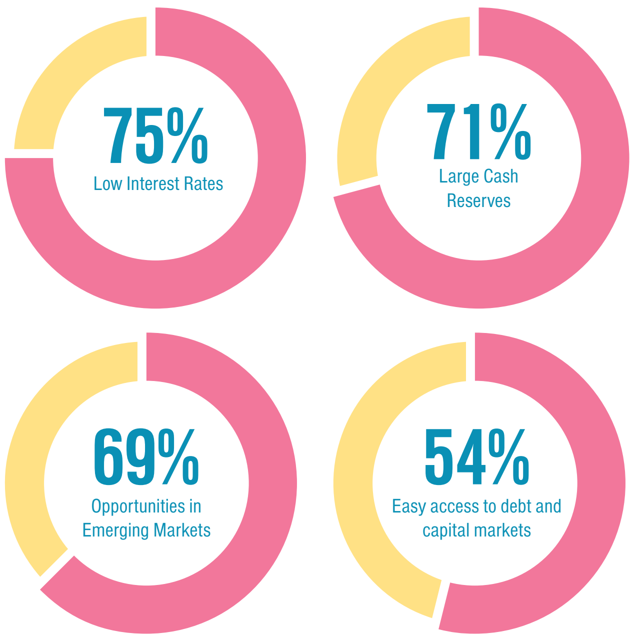
He believes that mid-market deals with valuations above USD 20 million should find financing more easily.

"The easiest way to finance these deals is to use a Uni-Tranche structure with senior and mezzanine debt folded into it. Otherwise you can arrange standalone mezzanine funding from London, teamed with senior debt from a local bank at a lower price. At the moment, if the quality is there, you can get senior debt at between 2-3.5%, with mezzanine costing around 10%."

Sid M. Shaver, Managing Director of Statesman Corporate Finance, based in Houston, Texas specialises in the energy sector. He agrees with the argument about quality being the key to unlocking liquidity, and says that the debt markets are very stable with a lot of financing coming into the US from Asia.

"We do regular investment banking work with non-traditional equity and debt raisings. There is a healthy amount of capital available and the market is highly competitive for senior and mezzanine lending. The challenge is not funding and raising capital, it's finding quality transactions. That's our biggest difficulty. If you have a high quality company, there will be no shortage of buyers."

WHAT FACTORS DO YOU THINK WILL LEAD TO MORE MID-MARKET M&A DEALS IN THE NEXT 12 MONTHS? (THREE MOST IMPORTANT)



ADVISOR BRIEF

China's Changing Investment Landscape

China is a growing target for inward investment from across the world, particularly as its population becomes wealthier. The changing dynamics in China, particularly its transition from an export-orientated to a domestic consumption-focused economy, are presenting some problems for foreign investors that need to be considered carefully by their advisors.

The Jordan Company's Rice has more than 20 years of experience acquiring or entering into joint ventures with Chinese companies. He says it is becoming harder for middle-market private equity firms to control deals in China, as valuations have moved higher due to increased competition from local Chinese investors. The Chinese government also has a tendency to favour Chinese buyers more today than they did several years ago.

He says: "US companies are still active in China, and they are looking to expand through new deals, but it is getting much harder for foreign investors. US and European firms are now regularly being outbid by local investors who are often bidding 12 times next year's EBITDA forecast, which we simply cannot match. There have been a lot of IPOs and large corporate acquisitions, but much fewer foreign mid-market M&As."

Another development is the trend for Chinese City pension funds to invest in private equity, a move that has injected more domestic investment capital into the market place.

Rice is seeing a lot of new domestic Chinese private equity funds set up by former investment bankers and lawyers who know how to do the deals, but are often not experienced with managing their portfolio companies. As a result, they usually overpay for the companies they acquire and do not know how to help those companies grow.

He says most of them have restrictions that mean they have to invest in their own regions – hence the increased competition and higher valuations.

This view is not, however, fully endorsed by the Hong Kong Trade and Development Council's Cheung, who believes foreign investment into China will continue to grow during the next five to ten years as US companies take advantage of the growing domestic consumer market through partnerships and strategic alliances with Chinese companies.

He says: "European and US companies will be making an effort to take advantage of China's growing middle class and consumer market. For example, there are 400 million cell phone users in China and that number is growing fast."

ADVISOR BRIEF

Uncertainty and Instability: A Brexit Legacy

In June this year, the United Kingdom voted to leave the European Union in a referendum that has become known as 'Brexit'.

The result sent shockwaves around the world causing massive volatility in global markets. In the immediate aftermath Sterling plunged against other major currencies, falling to its lowest level against the US Dollar in 30 years.

The uncertainty surrounding Brexit has been forecast to cause serious problems for the UK economy. Foreign direct investment is predicted to fall as the UK is no longer able to offer investors access to the important European market.

This concern is reflected in our survey, as 85% of respondents identified economic uncertainty as a major factor likely to reduce M&A activity during the next 12 months, while 62% said volatility in global markets.

We gathered opinions on Brexit from a selected group of professionals around Europe and further afield to gauge opinion on its effects. Not surprisingly, it was the European-based respondents who had the strongest views.

Aleš Eppinger, Partner at Prague-based law firm Schaffer & Partner, thinks the ongoing instability might influence M&A activity in Europe, believing it will lead to changes in the way companies structure their investments and possibly consider relocation within EU countries.

This uncertainty will cause damage because there is no clear direction for how the 'divorce' will take place and what impact it will have on other countries, according to Janusz Fiszer, Tax Partner, at Warsaw-based law firm Gessel, who thinks people may defer investment decisions as a result.

The consensus is that 2016 was set to be a very strong year for European mid-market M&A before Brexit.

Eurohold's Alandry: "The market is much colder now, but there is still a lot of cheap liquidity on the market and a strong need to invest that money. It's not such a question of whether Brexit is legitimate, but whether we can forecast its impact on the European economy. It's a strange situation and has created volatility, which affects investment."

Brexit is already materially affecting some investors who have started to make plans to boost investment in continental Europe, rather than the United Kingdom.

MKRG's Urs Breitsprecher says he was planning on opening a London office during the next two years, but has now revised his plans. He says this decision was partly influenced by the reaction of three mid-sized US clients who have already contacted him to discuss moving their European headquarters from London to Germany.

This uncertainty will cause damage because there is no clear direction for how the 'divorce' will take place.

The decision will also have influence outside Europe, particularly for those M&A deals relying heavily on leverage. Lenders across all forms of debt are set to be cautious during the next 12 months, making funding anything other than top quality deals without significant equity more difficult.

Michael S. Roberts of Roberts McGivney Zagotta: "Some of my clients with excess capital to deploy may take advantage of the situation with selling prices depressed, but most who rely on leverage will find it more difficult. I think Brexit translates to the global lending environment, so lenders here in the US will also become more conservative."

It seems there will also be an impact on businesses from English-speaking nations using the UK as a staging post for entry to the European market. They may need to rethink their strategy, which could possibly lead to more investment in mainland Europe.

WHAT FACTORS DO YOU THINK MAY REDUCE THE NUMBER OF MID-MARKET M&A DEALS IN THE NEXT 12 MONTHS? (TOP THREE)

28.7%
OF RESPONDENTS IN EUROPE CITED
THE EU REFERENDUM IN THE UK
AS THE MOST LIKELY FACTOR

29.7%
OF RESPONDENTS IN NORTH AMERICA CITED
THE US PRESIDENTIAL ELECTION
AS THE MOST LIKELY FACTOR

27.1%
OF RESPONDENTS IN AISIA
DROP IN OIL PRICE
AS THE MOST LIKELY FACTOR

— Chapter Four

Getting the Deal Done

The process of physically completing a deal can be fraught with difficulties for both advisor and client. This is made even harder given the added complexities inherent in a cross-border deal, as cultural differences, unusual regulations or currency fluctuations can derail it any time.

The buzzword to pass on to clients is preparation.

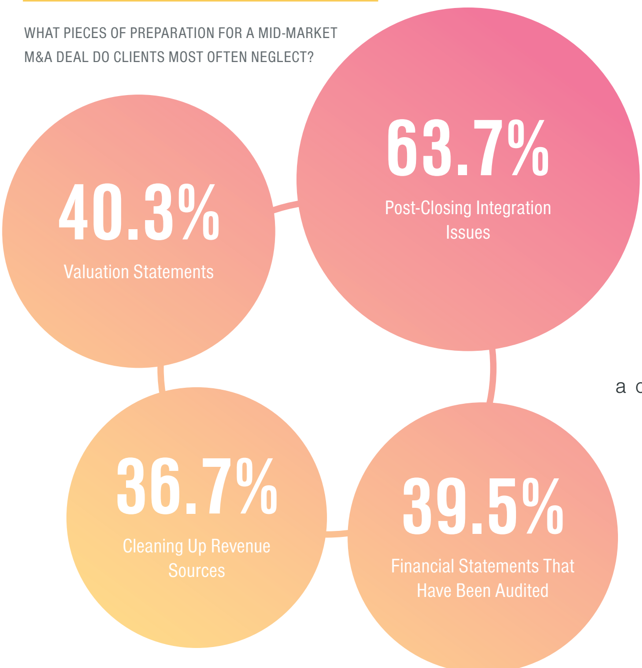
Preparation is Paramount

Every transaction is considered to have three stages, namely pre-deal; the deal itself; and post-deal. Overwhelmingly, this research has found that most problems that arise are due to these three stages not being sufficiently linked.

Deals are generally driven from the top down by management, as different teams are assigned to deal with each stage. This can make it very difficult to integrate a deal across borders.

Good advisors emphasise the need for diligent preparation, to ensure all issues such as regulatory barriers, differing accounting standards and labour laws are considered.

WHAT PIECES OF PREPARATION FOR A MID-MARKET M&A DEAL DO CLIENTS MOST OFTEN NEGLECT?



As we have seen, differing cultures and business practices can also affect communication, slowing deals down and making the deal process less efficient. Good advisors emphasise the need for diligent preparation, to ensure all issues such as regulatory barriers, differing accounting standards and labour laws are considered.

Our survey results show that areas most often neglected by companies when preparing for a deal are valuation statements (40%) and post-closing integration (64%). Uncertain revenue sources were cited by 37% and unaudited financial statements by 40% of respondents.

This highlights the real importance of a clear financial rationale for the deal and a clear understanding of the true value of the business being bought, by clarifying revenue sources and existing financial statements.

In terms of the stage of the cross-border deal process where most problems were seen by respondents, it was mainly during the due diligence process (52%) as you would expect, but also during post-closing integration (47%), which is more of a problem. If significant issues that could derail a merger or acquisition are not seen until post-closing integration, then sellers can see much of their sale proceeds clawed back by buyers under post-closing adjustments. This often leaves sellers with much less than they expected for the time, effort and money invested.

IMD's Professor Fernandes has this to say on mid-market M&A deals:

"Management must be disciplined and think like financial investors. Privately held firms often forget this; they fall in love with the idea of a deal and the promised growth – falling into "deal fever" – and forget that the focus must be on value. One difference between mid-market deals and the largest deals are issues relating to valuation. That is why financials must always be front of mind for companies and advisors."

The Importance of Due Diligence

It takes time to prepare a business for sale and it is worth the effort because unseen snags and hitches can really affect valuation multiples.

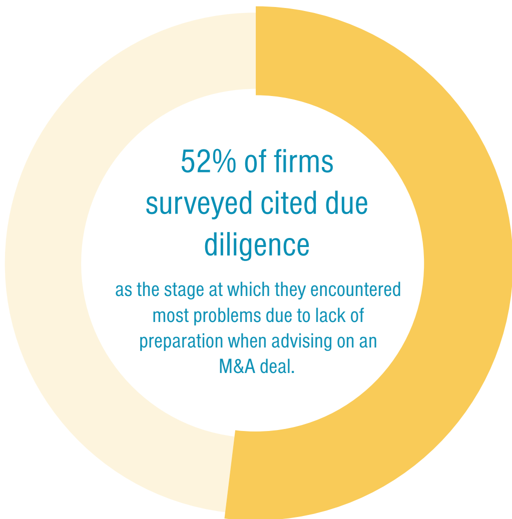
Sellers should invest at least three years cleaning up balance sheets and doing internal due diligence before putting their business in the shop window, according to Sid M. Shaver.

> “Often the management team lacks depth because the owner makes all the decisions. Credible financial statements and clear numbers are also vital.”

“If there are poor inventory records or tax filings that need to be fixed, we’d rather know before the deal starts. There are common areas that many businesses fail at during the preparation process. Many have never spent time culling the business and making it more efficient. Often the management team lacks depth because the owner makes all the decisions. Credible financial statements and clear numbers are also vital.”

Eurohold’s Alandry believes a thorough review of potential contingencies is key to successful integration, believing proper due diligence is the key, particularly when buying in a foreign country.

“Many times you can have environmental contingencies that represent a significant portion of the purchase price. I once represented a printing company with an asking price of USD 20 million. On closer inspection it had environmental contingencies of USD 100 million.”



It’s Going to be Emotional

There’s no getting away from the fact that selling a business is emotional, particularly in the mid-market where many businesses were founded and built by family members.

There is often an underappreciation of this factor by potential buyers, particularly private equity funds which behave in a very cold and calculated way when making acquisitions.

This phenomenon is very evident in Europe at the moment because of the economic history of the region.

Many businesses in Europe, particularly Eastern Europe, were started in the early 1990s following the raising of the Iron Curtain. The owners of these businesses are now reaching retirement age and many don’t have successors within their families.

There is a lot of emotion surrounding the sale, plus a lack of understanding from an owner manager about the rigours of preparing their business for sale.

Gessel’s Fiszer says he has a number of clients who established their businesses around 25 years ago and are now looking to sell.

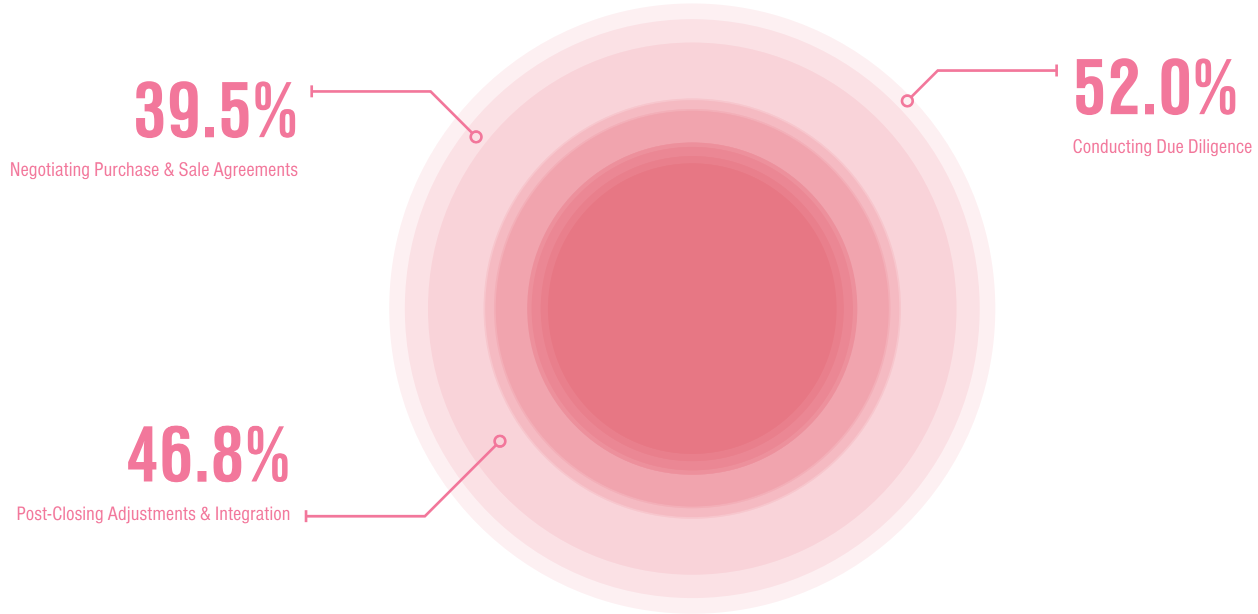
He comments: “The owners know their job but are not educated in terms of transactions. They often have exaggerated expectations on price and their attitude is different to private equity buyers. The best deals are those where both sides feel they have benefited.”

The best deals are those where both sides feel they have benefited.

Schaffer & Partner’s Eppinger highlights his country’s Velvet Revolution in 1989 as similarly responsible.

“Many owners and founders of mid-market firms are now at retirement age and don’t have successors. They have very good business but, as fathers of their firms, they deal with everything, from financials to HR and general management. Simply selling and not considering this can lead to negative results.”

AT WHAT STAGE DOES YOUR FIRM ENCOUNTER MOST PROBLEMS DUE TO LACK OF PREPARATION, WHEN ADVISING ON A DEAL? (THREE MOST FREQUENT)



ADVISOR BRIEF

Don’t let Currency Catch You Out

Recent forex fluctuations can present opportunities for good value overseas acquisitions. An example would be the US Dollar, which continues to enjoy broad-based strength against major counterparts.

But dealmakers should understand the real challenge is to gauge the extent currency volatility will impact post-acquisition earnings and for how long that volatility will persist.

Acquirers also face trouble trying to model out future cash flows without having a good grasp of how the currency translation will affect financial reporting in the first few quarters or years after a deal closes.

Gabbert, founder and CEO of PitchBook, says advisors should help clients to closely examine where their cost structure will be when a deal closes and their subsequent post-close currency situation (are they selling into a stronger or weaker currency?)

He highlights fluctuations between the US Dollar, Japanese Yen and Chinese Renminbi as a live example.

“The US Dollar has remained strong while the Yen has only recently strengthened (despite a negative rate policy) and the Renminbi is likely to depreciate again. These are very real and serious currency moves that need to be considered. In some cases, a prolonged negative currency impact can reverse a significant amount of the revenue/cost synergies you were hoping to realise from an acquisition.”

In some cases, a prolonged negative currency impact can reverse a significant amount of the revenue/cost synergies you were hoping to realise from an acquisition.”

John Gabbert, PitchBook

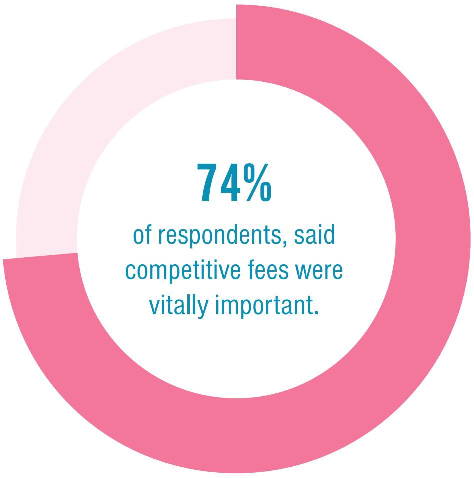
— Chapter Five

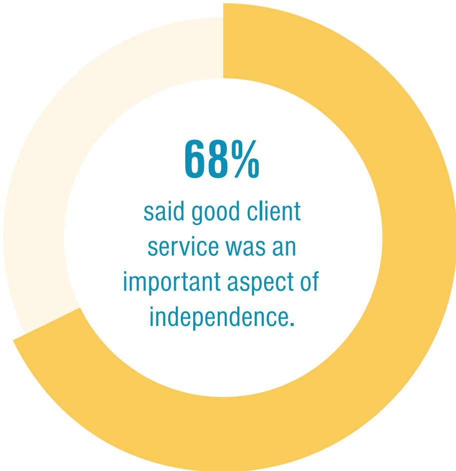
A Sales Pitch for Independence

Mid-market clients could be mistaken for believing they need a large multinational advisor to help them complete a cross-border deal. Often that's down to fear of the unknown.

It's the job of an independent advisor to persuade them differently. Here's the sales pitch.

When asked, in your opinion, why do clients choose independent over global advisory firms for cross-border mid-market M&A deals...





Cost

Our survey considered the question – why is independent better? The highest percentage, 74% of respondents, said competitive fees were vitally important.

Professional fees are important for private mid-sized corporations who want to maximise returns from any transaction without compromising quality. One of the problems many have is understanding exactly what services are required to get a transaction off the ground and how much that will cost.

Independent advisors can act as a guide in these situations, becoming a trusted figure able to save unnecessary expenditure.

Tom Schramski, from US consultancy firm Vertess, comments: "I was on an M&A panel and the question was; 'how do I get prepared for a transaction?' One panel member was talking about tax lawyers, CPAs, transaction attorneys and you could see the guy's head spinning, since he was already spending a lot of money.

"My response was; 'all you need is me right now. We'll identify what you are trying to achieve, and after that we can put in the pieces.' You don't need a lot to start with until you get closer to a letter of intent."

Client Service

A very high percentage of respondents (68%) said good client service was an important aspect of independence, particularly access to senior advisors.

Providing access to experienced advisors to guide the transaction is one of the big advantages to smaller independent firms where senior partners remain in day-to-day control.

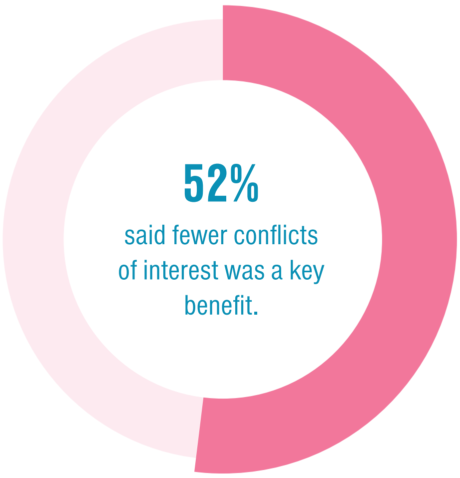
This is a point made by Ross Koffel, who says driving a deal forward is key to efficient transactions.

"I was involved in a deal being run by a junior member from a large global firm. It was very complex, involving 37 countries and the client wanted to save on hourly rates. It wasn't driven properly and didn't close on time, eventually falling over after six months of work. The client walked away from USD 250 million and had to pay huge legal fees."

The last word on client service goes to Pamir Law's Nick Chen.

"With most mid-market deals, the decision makers are owners; they have skin in the game. When you are spending your own money, bigger is not necessarily better – better is better."

"If you go to Goldman Sachs with a mid-market deal, you'll be talking to Goldman Sachs' dog. You come to my house, you get me; you get the best."



Conflict of Interest

Just over 52% said fewer conflicts of interest was a key benefit of using an independent advisor.

This issue is particularly important where big global advisors are concerned, when it is sometimes difficult to ascertain whether another part of the operation is providing a service to either side in any transaction.

Eurohold's Alandry says European laws on the issue of conflict of interest are likely to become more strictly enforced, commenting:

"If you take a big firm as a sell-side M&A advisor, another party involved on the buy-side with the deal process may use them as an auditor or lawyer. There is a European law that says this is classed as a conflict of interest; it is a serious point that should be pressed home by independent advisors."

Flexibility

In relation to cross-border deals, independence creates flexibility, allowing an advisor to tailor foreign expertise to a client's needs.

Schaffer & Partner's Eppinger gives the example of China.

"If we were a full-service firm with an office in China, there is no way we could advise our clients properly. China is a big country and we couldn't be everywhere. As it is, I ask my clients what region they want to invest in and what size the deal is. I can then choose a partner advisor as appropriate."

The message is clear. Independent advisors have a number of serious advantages over full-service firms in the mid-market arena, but the rise of cross-border activity means a network of flexible contacts is crucial to give clients access to all the resources they require.

ADVISOR BRIEF

Case Study:
Smooth Takeoff for Cross-Border Privatisation

In late 2015, Polish investor Linetech Holdings S.A. became interested in acquiring listed Slovenian airline maintenance business Adria Airways Tehnika.

In a two-phased international bidding process Linetech acquired all shares in the firm for EUR 5 million, buying them from a consortium of shareholders headed by Slovenian Sovereign Holdings and Aerodrom Ljubljana.

Linetech was represented in Poland by Gessel and in Slovenia by ODI Law, both members of the IR Global network. Slovenian Sovereign Holdings were represented by international law firm Schoenherr.

Gessel directed their client to ODI Law for its Slovenian representation after two partners, Janusz Fiszer and Uroš Ilić, met at an IR Global conference.

The deal contained a range of complex cross-border issues that needed to be navigated carefully. It was imperative that Linetech had quality representation in Slovenia to help them to structure the share and asset deal (assignment of receivables) in accordance with Slovene law and anti-competition legislation. Post-closing integration was also crucial.

Uroš Ilić, Managing Partner at ODI

"Networks allow our teams to function in a manner similar to international firms"

Uroš Ilić, Managing Partner at ODI, believes building up non-formalised networks with leading law firms globally enables him to assist clients in the best possible way when it comes to international transactions and cross-border due diligence.

He says: "Networks allow our teams to function in a manner similar to international firms. The clients can rely on us for coordination, and the attention they receive from our partners is generally higher than in an international full-service firm."

Cross-border deals form an important part of ODI's practice and the firm places a strong emphasis on their development.

Ilić adds: "We partner with leading law firms globally, allowing us to handle most incoming client requests. Several international clients were won via referrals from our foreign cooperation partners. Apart from winning new clients, we also retain existing clients through the delivery of excellent cross-border services."

10 Key Takeaways

Cross-border deals will become increasingly common in the private mid-market. Advisors need to be prepared for this.

Economic turmoil and political instability will not stop deal making. Markets always adjust to opportunity. Those opportunities are increasingly cross-border shaped.

Independent advisors can compete with global firms if they work together and align their interests.

Be a deal partner and own the deal for a client. Contributing a specialist may not be enough.

Become a student of culture and business practices. This expertise will be increasingly important in smoothing the deal process.

Leverage your global contacts. Become a 'go to' advisor in your jurisdiction.

There are no global standards for cross-border M&A. This is a very opaque market place and can often be a regulatory no man's land. A good network valued by other trusted professionals can help advisors to find the right quality advice for their clients.

Understand the implications of currency both during the deal process and post-completion.

Quality is the key to securing debt financing.

Pay serious attention to emerging markets.

Appendix: Survey Data

Amount of M&A deals in the last 12 months?

06 - 20	(107/279)	38.35%
21 - 50	(29/279)	10.39%
Less than 5	(122/279)	43.73%
More than 51	(21/279)	7.53%

Percentage of cross-border deals in the last 12 months?

0 - 25%	(140/280)	50%
25 - 50%	(64/280)	22.86%
50 - 75%	(35/280)	12.5%
75 - 100%	(41/280)	14.64%

Majority of cross-border M&A deals - in-bound or out-bound?

Equal	(35/276)	12.68%
In-bound	(161/276)	58.33%
Out-bound	(78/276)	28.26%
Other	(2/276)	0.72%

Do you think the number of mid-market M&A deals will increase or decrease in the next 12 months?

Decrease	(22/282)	7.80%
Increase	(169/282)	59.93%
Not Specified	(4/282)	1.42%
Stay the same	(87/282)	30.85%

Do you think the percentage of mid-market M&A deals that are cross-border will increase or decrease in the next 12 months?

Decrease	(15/281)	5.34%
Increase	(149/281)	53.02%
Stay the same	(117/281)	41.64%

How does your firm find and choose international advisors for cross-border mid-market M&A deals on which you advise? —*three most popular*

Client already has international advisors in place	(150/282)	53.19%
You have multi-country capabilities	(74/282)	26.24%
International multidisciplinary referral network	(150/282)	53.19%
International single profession referral network	(72/282)	25.53%
Existing contact in your profession	(203/282)	71.99%
Existing contact in another profession	(67/282)	23.76%
Use one large firm which has offices in the countries involved	(25/282)	8.87%
Trade associations	(42/282)	14.89%
Market profile	(27/282)	9.57%
Government initiatives	(11/282)	3.90%
Other (please specify)	(27/282)	9.57%

How does your firm keep abreast of developments that affect domestic and cross-border mid-market M&A activity? —*three most used*

News outlets	(175/282)	62.06%
Membership of a network of advisors	(189/282)	67.02%
Business relationships	(233/282)	82.62%
Market research	(113/282)	40.07%
Government or international bodies (e.g. WTO)	(26/282)	9.22%
Professional institutions (e.g. Institute of Directors)	(84/282)	29.79%
Other (please specify)	(18/282)	6.38%

Where do the majority of your firm's new clients or deals for mid-market M&A activity come from? —*three most common*

Advertising, PR and sponsorship	(37/248)	14.92%
Attendance at events	(91/248)	36.69%
Corporate hospitality	(19/248)	7.66%
Membership of a network of advisors	(136/248)	54.84%
Existing business relationships	(225/248)	90.73%
Word of mouth	(188/248)	75.81%
Website	(49/248)	19.76%

In your opinion, why do clients choose independent advisory firms for cross-border mid-market M&A deals instead of a global advisory firm? —*three most common*

Competitive fees	(183/248)	73.79%
Independence and fewer conflicts of interest	(130/248)	52.42%
Access to senior advisors	(124/248)	50%
Greater specialist sector or geo. knowledge	(116/248)	46.77%
Client service	(169/248)	68.15%
Other (please specify)	(23/248)	9.27%

What are the main challenges that your firm faces when working on cross-border mid-market M&A deals? —*two most common*

Company culture	(72/248)	29.03%
Country culture	(140/248)	56.45%
Comm. across time zones and long distances	(76/248)	30.65%
Mutual trust	(69/248)	27.82%
Differing business practices	(141/248)	56.85%

What percentage of the mid-market M&A deals on which your firm advises already have sufficient funding in place to get the deal closed?

0-25%	(35/243)	14.40%
25-50%	(41/243)	16.87%
50-75%	(65/243)	26.75%
75-100%	(103/243)	42.39%

Has the percentage of the mid-market M&A deals on which your firm advises that already have sufficient funding in place to get the deal closed increased or decreased in the past 12 months?

Increased	(68/240)	28.33%
Decreased	(19/240)	7.92%
Stayed the same	(153/240)	63.75%

Where a mid-market M&A deal does not have funding in place does your firm ever help source the funding?

Yes	(125/242)	51.65%
No	(117/242)	48.35%

Where do you think funding for mid-market M&A deals will predominantly come from over the next 12 months? —*top three*

Private equity fund	(189/248)	76.21%
Cash reserves	(81/248)	32.66%
Banks	(81/248)	32.66%
Debt capital markets	(53/248)	21.37%
Equity capital markets	(46/248)	18.55%
Hedge fund	(12/248)	4.84%
Alternative lenders/funding	(61/248)	24.60%
Venture capital	(80/248)	32.26%
Strategic acquirers	(137/248)	55.24%
Other (please specify)	(6/248)	2.42%

How do you see your role changing in the next 12 months as an advisor on mid-market M&A deals? —*top three*

More international capabilities required	(101/248)	40.73%
A wider international network of trusted advisers needed	(131/248)	52.83%
Providing more holistic advice on the progression of a deal	(127/248)	51.21%
Assisting your client to help source funding for a deal	(92/248)	37.10%
Assisting your client to help arrange a deal	(152/248)	61.29%
Provide more specialist sector knowledge	(125/248)	50.40%
Other (please specify)	(18/248)	7.26%

What pieces of preparation for a mid-market M&A deal do clients most often neglect? —*top three*

Capitalisation table	(51/248)	20.56%
Valuation statements	(100/248)	40.32%
Financial statements that have been audited	(98/248)	39.52%
Cleaning up revenue sources	(91/248)	36.69%
Clarification of product pricing	(59/248)	23.79%
Clarification of distribution agreements	(62/248)	25.00%
IP registrations	(79/248)	31.85%
Post-closing integration issues, such as alignment of internal and external work streams	(158/248)	63.71%
Sufficient storage and security of data	(48/248)	19.35%

When advising on an M&A deal at which of the following stages does your firm encounter most problems due to lack of preparation? —*top three*

Compiling a target list	(61/248)	24.60%
Contacting the targets	(60/248)	24.19%
Sending/receiving an Executive Summary	(29/248)	11.69%
Sending/reviewing the Confidential Information Memorandum	(38/248)	15.32%
Submitting/soliciting an indication of interest	(38/248)	15.32%
Conducting management meetings	(55/248)	22.18%
Asking for or submitting a letter of intent	(36/248)	14.52%
Conducting due diligence	(129/248)	52.02%
Negotiating purchase and sale agreements	(98/248)	39.52%
Writing the purchase agreement	(32/248)	12.90%
Closing the deal	(54/248)	21.77%
Post-closing adjustments and integration	(116/248)	46.77%

What factors do you think may reduce the number of mid-market M&A deals in the next 12 months? —*top three*

The EU referendum in the UK	(36/247)	14.57%
Economic uncertainty	(210/247)	85.02%
The US Presidential election	(53/247)	21.46%
Access to finance	(106/247)	42.92%
Volatility in global markets	(153/247)	61.94%
Drop in oil price	(39/247)	15.79%
Interest rate rises	(59/247)	23.89%
Regulatory or legislative constraints (e.g. anti-trust)	(70/247)	28.34%
Other (please specify)	(17/247)	6.88%

What factors do you think will lead to more mid-market M&A deals in the next 12 months? —*top three*

Low interest rates	(186/247)	75.30%
Opportunities in emerging markets	(170/247)	68.83%
Large cash reserves	(175/247)	70.85%
Tax inversion	(54/247)	21.86%
Easy access to debt and capital markets	(133/247)	53.85%
Other (please specify)	(23/247)	9.31%

In which foreign markets do you expect to see most cross-border mid-market M&A deals on which you advise in the next 12 months? —*top two*

North America	(147/247)	59.51%
South America	(44/247)	17.81
Europe	(159/247)	64.37%
Africa	(28/247)	11.34%
East Asia	(99/247)	40.08%
Australasia	(19/247)	7.69%

IR GLOBAL

IR Global is the fastest growing professional service firm network in the world with 850+ members, providing legal, accountancy and financial advice to companies and individuals across 150 jurisdictions.

The group's founding philosophy was based on bringing the best of the advisory community into a sharing economy; a system which is ethical, sustainable and provides significant added value to the client. Businesses today require more than just a lawyer or accountant. IR is at the forefront of this transition with members connecting clients and offering strategic development support. Each member is carefully vetted and recognised for their knowledge on local business, political and economic environments. The group is renowned for its high ethical standards, innovative approach and niche expertise. All major world languages are spoken.

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ALLIANCE OF MERGER & ACQUISITION ADVISORS®

The Alliance of M&A Advisors(R) (The Alliance) serves the educational and transactional support needs of middle market M&A professionals worldwide.

It was formed in 1998 to connect CPAs, attorneys, and other corporate financial investors and advisors, and currently has more than 1,000+ members of the most highly recognized leaders in the industry - drawing upon proven capital resources combined with a think-tank of transactional expertise to better serve the many business investment needs of middle market companies worldwide. Members represent corporate and institutional sellers and buyers of businesses ranging broadly from $5 to $500 million in transaction value. Thes corporate financial advisory and transaction services include investment banking, accounting, finance, valuation, tax, law, and due diligence.

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