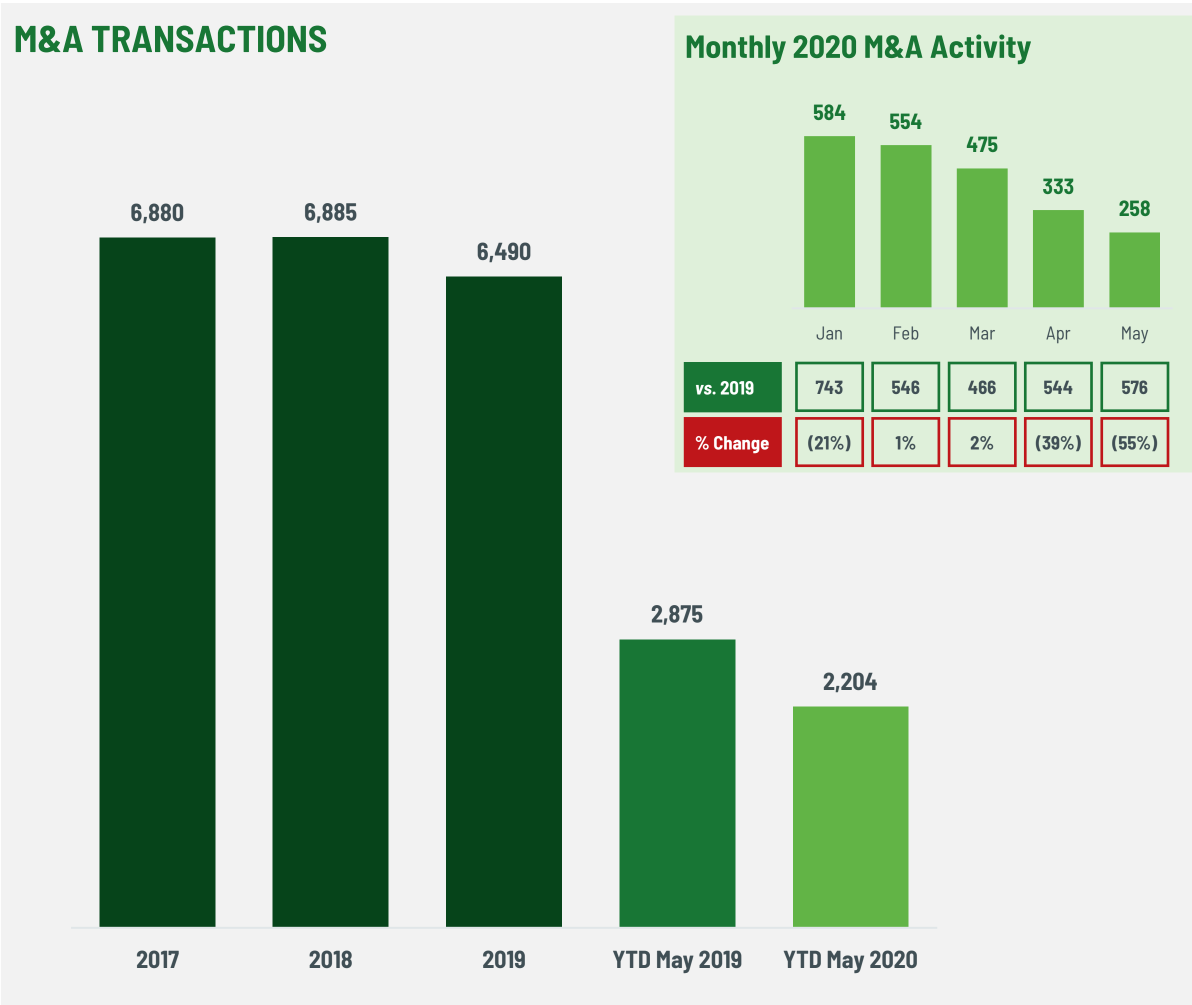
Global Corporates M&A Survey.

June 2020

JEGI CLARITY

DEAL VOLUMES ARE INEVITABLY DOWN THOUGH NOT YET TO THE LOW LEVELS SEEN IN 2008



	Jan	Feb	Mar	Apr	May
vs. 2019	743	546	466	544	576
% Change	(21%)	1%	2%	(39%)	(55%)

Source: Pitchbook, JEGI | CLARITY analysis for the Media, Information, Marketing, Software and Tech-enabled services sectors

Unsurprisingly, M&A activity has already felt the impact Covid-19 has had on businesses worldwide, where during the early days of lockdown focus was quickly redirected inwards and away from inorganic growth strategies.

Deal making in our sectors recorded a decline of 23% during the first 5 months of the year compared to 2019. As expected, the majority of the decline related to April and May with 333 and 258 transactions, respectively, compared to 544 and 576 over the same months in 2019. When looking at April and May combined, activity has declined by more than 50% in relation to the previous year.

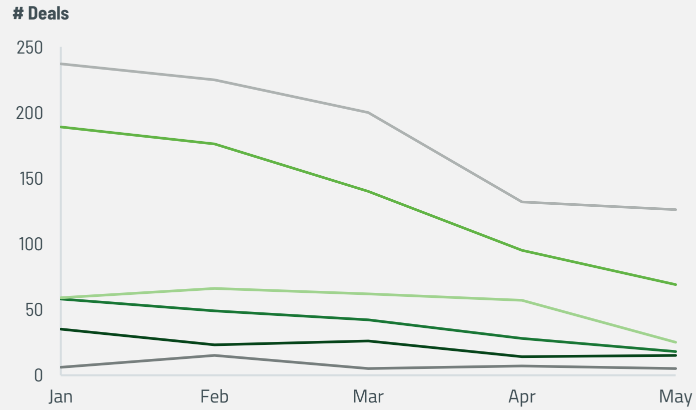
So far, the trend has been similar across corporate and PE activity with the former being responsible for 84% of the transactions, in line with previous years.

It is inevitable that people will attempt to draw similarities to what happened in 2008. Although it remains too early to draw conclusions, **during the period between 2008 and 2010 the lowest number of deals recorded in a month was 189, in November 2008. This is still 27% below the activity level recorded in May 2020.** On an annual basis, deal activity didn't return to levels seen in 2007 until 2011.

SECTORS AND REGIONS IMPACTED ACROSS THE BOARD, ALBEIT WITH BRIGHT SPOTS IN TECH SERVICES AND E-COMMERCE

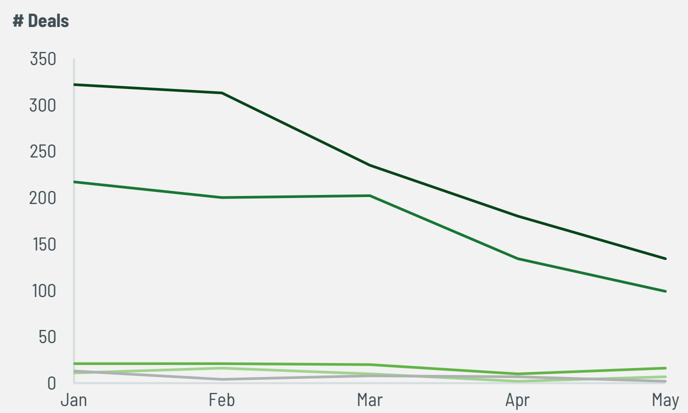
MONTHLY 2020 M&A ACTIVITY (BY SECTOR)

	YTD- May *# deals*	YTD- May *yoy % Δ*	Apr & May *yoy % Δ*
Software	920	(28%)	(51%)
Technology & Consulting Services	669	(10%)	(42%)
Consumer Media & Content	269	(33%)	(42%)
Marketing & Marketing Technology	195	(17%)	(49%)
B2B Media, Information & Data	113	(22%)	(55%)
E-Commerce	38	(41%)	(25%)



MONTHLY 2020 M&A ACTIVITY (BY REGION)

	YTD- May *# deals*	YTD- May *yoy % Δ*	Apr & May *yoy % Δ*
North America	1,184	(21%)	(47%)
Europe	852	(26%)	(47%)
Asia	88	(33%)	(54%)
Australasia	46	7%	(10%)
LATAM	34	(24%)	(31%)



The decline in M&A activity over the first five months of the year has been observed across all sectors and geographies (barring Australasia).

Even though activity has fallen across the board in the sectors we cover, **some have proven to be more resilient to the impact of the pandemic.**

Technology & Consulting Services is a case in point, which has only fallen 10% in the five months leading up to May when compared to 2019. Being a sector that has already experienced strong tailwinds prior to Covid-19, many anticipate an acceleration of corporate digital transformation agendas as a result of the pandemic.

Further, sectors such as **E-Commerce** has also demonstrated some robustness in deal activity over the past couple of months as people are driven to spend more time online.

From a regional perspective, **Australasia** seems to have been less impacted thus far, up 7% from last year in the first five months of the year. Asia on the other hand has been the most impacted region, as anticipated, given that the pandemic has affected the region for a longer period of time.

Source: Pitchbook, JEGI | CLARITY analysis for the Media, Information, Marketing, Software and Tech-enabled services sectors

1 WILL YOU REMAIN ACTIVE IN M&A OVER 2020?

60% of corporates we spoke to are likely to remain active throughout 2020

Uncertainty around the timing of a return to "normal" economic activity, however, will undoubtedly impact their M&A volume, at least for the next few quarters. For some, M&A will continue to be a key part of their strategy, while for others, a potentially less competitive M&A environment will allow them to be more opportunistic.

IMPACT ON M&A ACTIVITY IN 2020

> *"We're looking at a couple of acquisitions right now, but they're very opportunistic"*
>
> Head of M&A for global Events business

For many corporates, Covid-19 has narrowed their M&A focus, in terms of verticals and capabilities

We are seeing verticals and capabilities that have proven resilience to the pandemic remaining attractive from an M&A point of view, with buyers more inclined to stay close to their core operations.

B2B businesses are expected to be in more demand than B2C given the (often) recurring nature of their revenues that are likely to be less impacted by Covid-19 in the short term. Equally, businesses servicing resilient verticals, such as healthcare and technology will likely remain of interest.

The following capabilities are amongst those which will remain highly attractive:

- **Marketing:** analytics, web design & development and ecommerce services;
- **B2B Media, Information & Data**: subscription data and information platforms servicing resilient sectors;
- **Technology & Consulting Services:** cloud deployment and enterprise cybersecurity services;
- **Consumer Media & Content:** social content and interactive entertainment;
- **Software**: online collaborative technology for remote workers, education and health care.

There will be less competition for larger assets and corporates with access to large pools of cash will have a competitive advantage in M&A processes

Corporates are now far more conscious around using cash resources and some will even face constraints, particularly those that rely on capital markets or private equity funding as compared with acquirers that are well capitalised with strong reserves or access to funds from wealthy individuals/ family offices.

> *"Definitely, M&A is a key part of our strategy and we have access to a lot of cash"*
>
> C-level for global Digital Agency

Remote deal making is likely to impact different businesses differently

Transactions are in general likely to take longer to close due to restraints around in-person meetings, something that some will undoubtedly still need.

This is particularly true for people-based businesses that rely heavily on talent or for transactions of significant scale that are material relative to the acquirer.

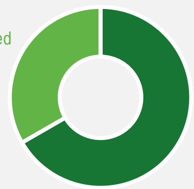
However, businesses that are technology driven and more amenable to remote diligence, as well as platform add-ons, are likely to see less impact on timelines.

2 WHAT IMPACT DO YOU EXPECT TO SEE ON VALUATIONS ACROSS YOUR SECTOR?

Two-thirds of respondents expect a softening in valuations, while one-third don't expect much change

This expected decline will be due to both a reduction in multiples as well as the underlying metric they are applied to. However, valuation for strategic and premium assets is likely to see less of an impact.

IMPACT ON VALUATION



There is still a lot of uncertainty around the scale and timing of the impact the pandemic will have on valuations

Unsurprisingly, the general corporate view is that valuations will come down.

Some listed corporates have highlighted they will be looking at their own share price when assessing targets and making commensurate changes to valuations.

Several respondents, however, don't expect valuations to change and are likely to reflect the increased risk of transactions through deal structures rather than pricing reductions.

Many also noted that the decline in valuations in private markets might take longer to filter through as sellers take time to adjust their expectations accordingly.

For those transactions that didn't go on hold when lockdowns were enforced and are now nearing completion, valuations are likely to remain largely unchanged.

> *"Multiples seem to be robust but there are many unknowns and risks to the downside"*
>
> Head of M&A global IT Services firm

In addition to reflecting increased risk and uncertainty, declining valuations will likely be a function of corporates being increasingly focused on liquidity and cash preservation as well as reduced competition for targets

While the majority of large corporates continue to be "cash rich", a number will be more cautious about investing cash aggressively in M&A.

Demand for assets, in general, will fall as acquirers narrow their focus or shift their strategic priorities. This, in turn, will reduce competitive tension in M&A processes and therefore likely result in declining valuations. This dynamic is expected to particularly hit businesses and sectors that have been most severely impacted by Covid-19, as well as also potentially the sale of larger assets.

Though they still have significant dry powder which they need to invest, constraints faced by private equity acquirers in accessing debt financing as well as the pressure on the terms associated with it, will likely have an impact on valuations as sponsors are less likely to be as competitive on price as they would have been.

Premium assets in markets with predominantly strong tailwinds will still be highly sought after and therefore less likely to have their valuations impacted

Broadly, corporates that we spoke to are in agreement that valuations will remain robust for strong performing and strategic assets as well as for those that have capabilities that are in high demand.

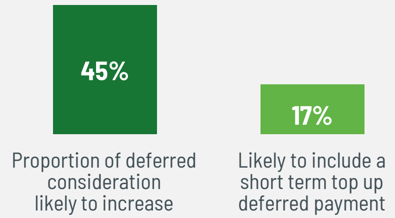
> *"... scarce assets that have skills in demand will still attract strong valuations"*
>
> *Head of M&A for global Publishing company*

3 WILL CURRENT EVENTS CHANGE THE WAY YOU STRUCTURE M&A TRANSACTIONS?

Corporates were unanimous on the fact that the pandemic would impact deal structures

At least in the short to medium term, the increased volatility has led acquirers to revisit the way their deals are structured, either as a way to bridge valuation gaps and/or to de-risk transactions. Several alternatives are under consideration and acquirers will be assessing their approach on a case by case basis.

IMPACT ON DEAL STRUCTURES



The introduction of earnouts and the increased weight given to deferred components was referred to by several of the respondents as the most likely way deal structures will change

In the last 24 months, we have witnessed a decline in the proportion of deferred structures, with more being paid upfront. The pandemic is now likely to reverse that trend. As an example, one corporate in the IT Services space previously considering a 80-20% upfront vs. deferred ratio, is now more likely to contemplate a 60-40% ratio.

Deferred considerations are now also more likely to be linked to the financial performance of targets than they were in recent years.

To balance risk and the valuation expectations of sellers, c.20% of the respondents mentioned the introduction of a short term top up deferred payment linked to the target's performance in the current year as a way to protect against short term volatility.

> *"We will use short term deferred payments linked to performance to bridge the [valuation] gap"*
>
> Head of M&A at global Consulting business

Acquirers will be looking to find new and creative solutions to structure transactions in order to gain some competitive advantage in the current M&A environment

Corporates are looking to be more creative in looking at alternatives to the traditional earnout structures which mitigate deal risks. This includes, for example, joint venture partnerships and phased acquisitions with put and call options in place.

Listed acquirers, whose share prices have remained relatively robust, are looking at structures with lower cash upfront but using share payments on completion to bridge any valuation gap.

Some respondents have even considered the possibility of having deferred consideration payments linked to an agreed index measuring market, rather than company performance, allowing for quicker integration and sharing risk on timing for sector recovery.

> *"We're thinking about different deal structures, for example, providing working capital funding in return for equity"*
>
> *C-Level at global Events business*

For acquirers looking to integrate targets as early and quickly as possible, longer term earnouts are unlikely to be the solution

Some respondents are unlikely to change deal structures much given their strong desire for efficient integration post acquisition. For these, earnouts linked to the target's future financial performance can create conflicting interests that might outweigh risk mitigation, preferring instead to focus on delivering the desired synergies.

4 HOW WILL YOU APPROACH VALUATION GIVEN NEAR TERM UNCERTAINTY CREATED BY COVID-19?

Respondents suggested that they will approach valuation case by case and look at a combination of metrics

Corporates that continue to pursue M&A will be relooking at the way they approach valuation, particularly for those assets impacted by Covid-19.

Corporates are less likely to accept valuations based solely on forward-looking metrics when valuing a target

Prior to Covid-19, acquirers would routinely base their transaction multiples on forward-looking metrics such as current year budgeted EBITDA. The pandemic is now forcing corporates to place more emphasis on other backward-looking metrics, especially for those targets that are facing near term uncertainty. Figuring out the right reference EBITDA will take time and likely be a combination of historic, LTM and FY20 outturn as well as FY21 recovery profile.

Revenue will continue to be used as a validation tool in most cases and specifically when attempting to attribute value to fast growing, often low profit/ break even targets, where profit is recycled to support top line growth.

Metrics such as growth, addressable market opportunity and level of recurring and retainable revenues, will be even more relevant in the current environment. Structure will also play a key role in balancing risk for acquirers and managing sellers' expectations.

Some corporates mooted that they would look at an upfront consideration based on actual figures and a deferred based on the expected performance. However, as more of the negative impact of the pandemic flows through the numbers, this approach will likely change in time.

> *"It will depend on a case by case but not interested in paying today for what is all expected tomorrow"*
>
> C-level of Advertising Agency

Normalisations for the impact of Covid-19 will need to be credible and quantifiable

Corporates are likely to accept sensible normalisation adjustments made to EBITDA to reflect the impact that Covid-19 has had on business performance, however, there will need to be a clear quantifiable direct impact.

In those cases where it is difficult to prove a direct link to the disruption created by the pandemic and, in particular, quantify the magnitude of the impact, it is likely that acquirers will want to wait and verify the accuracy of the normalisations, through the return to similar levels of profitability, before paying sellers a multiple on those adjustments.

> *"Figuring out the right EBITDA to look at will be a mix of many thing and it will take time"*
>
> Head of M&A for Publishing business

Working capital and surplus cash adjustments will be even more important

Inevitably, to further mitigate short term trading uncertainty, we expect to see tougher negotiations on excess cash and working capital adjustments as buyers require more cash to be left in the business, potentially further impacting total proceeds that sellers extract from a transaction. We would anticipate a return to using completion account adjustments versus locked box as a result.

Ultimately, any valuation made today is subject to greater uncertainty than at the start of the year. Acquirers will need to take a more comprehensive and company-specific approach to valuation

NOTABLE TRANSACTIONS ACROSS OUR SECTORS IN 2020 SO FAR

B2B MEDIA, INFORMATION & DATA

DATE	TARGET	TARGET DESCRIPTION	ACQUIRER	VALUE ($M)
May-20	**CyberX**	US-based developer of a cybersecurity platform	Microsoft	165
Feb-20	**Pageant Media**	UK-based provider of proprietary data, insights and events	Intermediate Capital Group	125
Jan-20	**Cision**	US-based media communication technology and analytics firm	Platinum Equity	2,700
Jan-20	**World50**	US-based leading peer-to-peer network platform	Morgan Stanley Capital Partners	Conf.

TECHNOLOGY & CONSULTING SERVICES

DATE	TARGET	TARGET DESCRIPTION	ACQUIRER	VALUE ($M)
May-20	**Collaborative Solutions**	US-based provider of cloud-based consultancy services	Cognizant	385
Mar-20	**Willis Towers Watson**	US-based advisory, insurance brokerage and solutions firm	AON	30,151
Jan-20	**Symantec**	US-based provider of enterprise cybersecurity services	Accenture	200
Jan-20	**Dept**	Netherlands-based leading independent digital agency	Carlyle	Conf.

E-COMMERCE

DATE	TARGET	TARGET DESCRIPTION	ACQUIRER	VALUE ($M)
May-20	**PrettyLittleThing**	UK-based online retailer for women's fashion	boohoo group	399
Mar-20	**Letgo**	US-based platform to facilitate buying and selling of goods	OfferUp	n.a.
Feb-20	**Personalization-mall**	US-based online retailer of gifting products	1-800-Flowers.com	252
Jan-20	**Pointy**	Ireland-based retail technology company	Google	163

MARKETING & MARKETING TECHNOLOGY

DATE	TARGET	TARGET DESCRIPTION	ACQUIRER	VALUE ($M)
May-20	**Skimlinks**	UK-based commerce content monetisation platform	Connexity	Conf.
Apr-20	**Yesler**	US-based provider of buyer-centric marketing solutions	Accenture	n.a.
Mar-20	**Huntsworth**	UK-based healthcare and communications company	Clayton, Dubilier & Rice	745
Feb-20	**RentPath**	US-based provider of digital media services	CoStar Group	588

CONSUMER MEDIA & CONTENT

DATE	TARGET	TARGET DESCRIPTION	ACQUIRER	VALUE ($M)
Jun-20	**Peak Games**	Turkey-based mobile gaming company	Zynga	1,800
May-20	**Giphy**	US-based leader in visual expression and creation	Facebook	400
May-20	**Stars Group**	Canada-based online and mobile gaming company	Flutter Entertainment	11,299
Feb-20	**The Ringer**	US-based provider of sports and pop-culture news services	Spotify	187

SOFTWARE

DATE	TARGET	TARGET DESCRIPTION	ACQUIRER	VALUE ($M)
Feb-20	**Ingenico**	France-based provider of payment processing services	Worldline	11,937
Feb-20	**Maritz CX**	US-based leading customer experience software business	Inmoment	Conf.
Feb-20	**Vlocity**	US-based developer of a cloud-based software	Salesforce	1,330
Jan-20	**Plaid**	US-based developer of financial software	Visa	4,900

JEGI | CLARITY deals

Source: *Pitchbook, Capital IQ, MergerMarket, JEGI | CLARITY database*

In short ...

- The Covid-19 pandemic, with its unprecedented lockdown measures, has unsurprisingly impacted M&A activity around the world. In the sectors we cover, activity for April and May was down c.50% on the prior year. However, deal activity is yet to hit the monthly nadir seen during the 2008 crisis
- Though volumes will be down, for the large part, respondents to our survey confirm that they will remain active acquirers in the short to medium term. While many will be opportunistic on where they focus their attention, others will see more focused M&A strategies given the competing use of capital
- Early indications are showing that valuations and deal structures are being impacted to take into account near-term uncertainty, with both acquirers and sellers being more flexible and creative to get deals over the line. Further, premium assets in markets with predominantly strong tailwinds are still highly sought after and therefore less likely to have their valuations impacted
- While volumes will likely remain low for Q3, anecdotal evidence suggests that deal pipelines are building towards a more active final quarter 2020 … watch this space!

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