2017 M&A Predictor

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KPMG International

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Introduction

Welcome to the new and expanded 2017 M&A Predictor.

After a record-breaking year for M&A in 2015, it is perhaps no surprise that overall transactional activity was more subdued in 2016.

Geopolitical risks and a stricter regulatory environment both played a part in dampening appetite. Companies were also busy integrating or separating businesses following the deluge of transactions previously announced.

Leif Zierz
Global Head of Advisory
Managing Partner, KPMG in Germany

A change in approach

In terms of the transactional activity that did occur in 2016, cross-border deals remained the most resilient, in terms of both deal value and volume. Although cross-border deal value was down 3 percent compared to 2015, the drop is much smaller than the -17 percent decline in total deals. Similarly, cross-border deal volume only declined 2 percent over the same period, compared with a fall of 7 percent in total deals.

The decline in transactional activity during 2016 suggests that many businesses are adopting a 'wait and see' approach to their growth strategies. But this is not sustainable. Technological disruption is happening everywhere. And as our CEO Outlook Survey reveals, this is driving companies to change their business models, sometimes radically, as they recognize the need to reinvest in themselves.

This change in approach is evident in our analysis, which looks at possible trends in cross-sector deal making. There has been a lot of speculation and commentary about cross-sector deal trends. The data separates fact from fiction. The falling value of announced or completed deals overall should not lull us into complacency. Cross-sector deals are growing in number as companies look to other sectors to grow capabilities or competencies.

With increasing talk of protectionism in key markets, it will be interesting to see the impact on cross-border transactions. Will companies start looking closer to home for potential deals? We feel there is only limited capacity to do so, as buyers are frequently looking beyond their current geography or competencies to grow.

Nevertheless, M&A remains crucial for companies seeking change. Businesses need to transform more radically and much faster than is possible organically. CEOs know this, as we have seen in the CEO Outlook Survey's findings regarding their sentiment for the next 3 years. But we expect this to be a long-term trend, rather than a short-term reaction – and one for which the top global corporates are well placed. Indeed, market capacity for M&A is predicted to rise by 17 percent in 2017, driven by healthy bottom lines and large corporate balance sheets.

We look forward to an exciting journey in 2017, as we continue to help our clients successfully balance opportunities and risk amid a rapidly changing environment.

Leif Zierz
Global Head of Advisory
Managing Partner, KPMG in Germany

2017 M&A Predictor

KPMG International's M&A Predictor is a forward-looking tool that helps member firm clients to forecast worldwide trends in mergers and acquisitions. All the raw data within the Predictor is sourced from S&P Capital IQ.

The Predictor was established in 2007. It looks at the appetite and capacity for M&A deals by tracking and projecting important indicators 12 months forward. The rise or fall of forward P/E (price/earnings) ratios offers a good guide to the overall market confidence, while net debt to EBITDA (earnings before interest, tax, depreciation and amortization) ratios helps gauge the capacity of companies to fund future acquisitions. The Predictor covers the world by sector and region. It is produced using data comprising 2,000 of the largest companies in the world by market capitalization.*

All raw deal data is sourced from Dealogic, as of December 31, 2016. Transactions where a trade buyer has taken a minimum 5 percent shareholding in an overseas company are reflected as a cross-border deal. Entities considered for analysis include Strategic Buyers, Financial Sponsors, Government Institutions, and Sovereign Wealth Funds. All cross-border deals involving China and Hong Kong/British Virgin Islands/Cayman Islands are treated as domestic Chinese transactions.

*The financial services and property sectors are excluded from our analysis, as net debt/EBITDA ratios are not considered relevant in these industries. Where possible, earnings and EBITDA data is on a pre-exceptional basis with the exception of Japan, for which GAAP has been used.

Global M&A overview

Overall, the volume and value of M&A transactions in 2016 is down from the record highs achieved in 2015. Nevertheless, 2016 deal value remained robust in comparison with pre-2015 levels and cross-border deals remain very healthy.

Philip Isom
Global Head of M&A
Partner, KPMG in the USA

The top 100 global deals are dominated by the United States, led by the pending US$107.8 billion takeover of Time Warner by AT&T. In total, the United States accounted for 54 of the top 100 deals in terms of target, and 45 of the top 100 in terms of bidder.

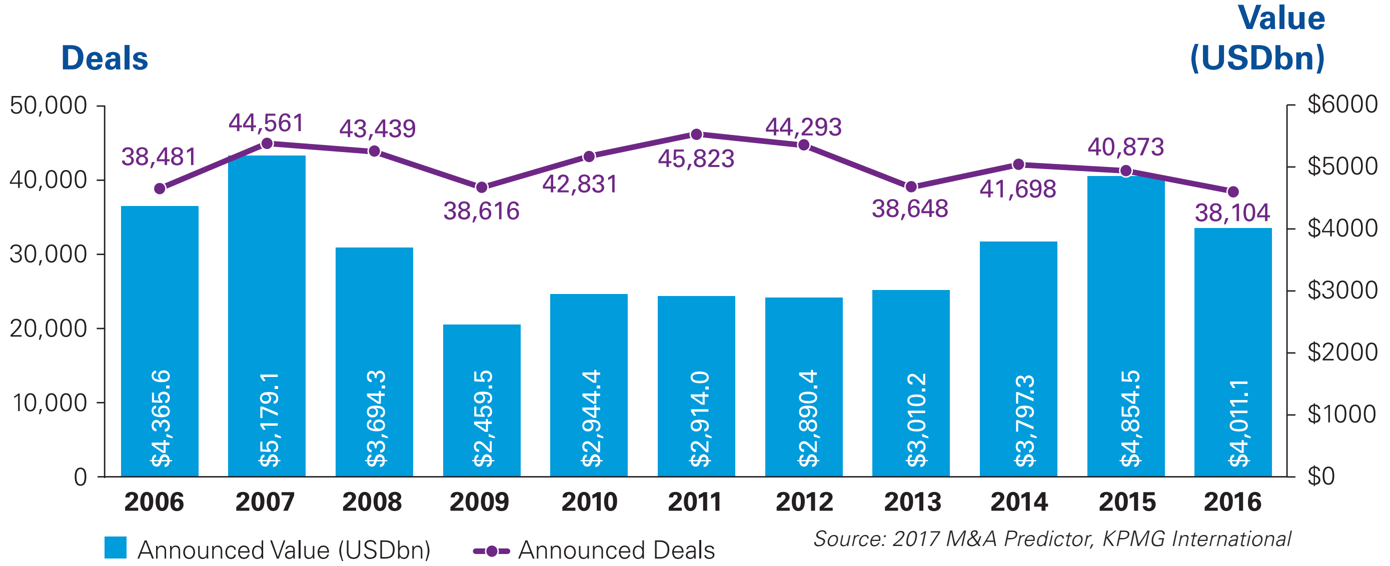
Over one-third of the top 50 cross-border deals also involved targets in the United States, but bidders were more evenly spread, with deals originating from many different countries.

Several of the themes that emerged in 2015 provided tailwinds for M&A in 2016, including near-zero interest rates and companies looking to M&A to fuel growth and combat slowing momentum in the global arena. Thematically, economic and political uncertainty drove anemic volume in the first half of the year. However, the anticipated rate hikes and uncertainty around policy shifts in 2017 have helped to make Q3 and Q4 record quarters for mega-deals.

Following the U.S. election, the potential pro-business political environment, in the form of tax and regulatory reforms, could be a strong driver of 2017 M&A activity.

October proved to be a record month, with nearly half a trillion dollars of M&A announced globally. Record-breaking volume was driven by CenturyLink's US$34 billion acquisition of Level 3 and the merger of GE's oil and gas division with Baker Hughes, as well as the AT&T/Time Warner mega-merger. However, President Trump has vowed to block the AT&T and Time Warner deal, further providing uncertainty for all mega-deals announced in the second half of 2016.

10-year Global Deal Trends (Volume & Value)



Source: 2017 M&A Predictor, KPMG International

Trend analysis

The total value of deals, remains extremely healthy compared to previous years. In fact, the value of completed deals exceeded by some margin the value of deals completed in 2009-2013, despite the number of deals being fewer.

The average deal value declined slightly in 2016 to US$105 million, down from a 2015 peak of US$119 million. However, this is significantly above the 2009-2013 range of US$64 million to US$78 million.

Global predicted appetite is projected to marginally increase during 2017, driven by flat market capitalizations and modest net profit growth. Predicted capacity is also projected to go up over the same period by a healthy 17 percent, thanks to a decline in net debt and growth in EBITDA.

Latin America, and the Africa and Middle East regions are jointly the biggest climbers in terms of predicted appetite, up 7 percent almost completely because of rising market capitalizations. ASPAC (others) is the standout region for predicted capacity, at 22 percent. All other regions were showing healthy increases ranging from 10 percent to 18 percent.

Top 10 Announced Deals in 2016 (by Value)

Target Name	Bidder Ultimate Parent Name	Value (USDm)
Time Warner Inc	AT&T Inc	$107,888
Monsanto Co	Bayer AG	$66,341
Reynolds American Inc (57.8%)	British American Tobacco plc - BAT	$58,073
Energy Transfer Partners LP	Sunoco Logistics Partners LP	$51,456
NXP Semiconductors NV	Qualcomm Inc	$46,990
Syngenta AG	China National Chemical Corp - ChemChina	$46,940
Spectra Energy Corp	Enbridge Inc	$42,962
Linde AG	Praxair Inc	$42,503
Level 3 Communications Inc	CenturyLink Inc	$33,676

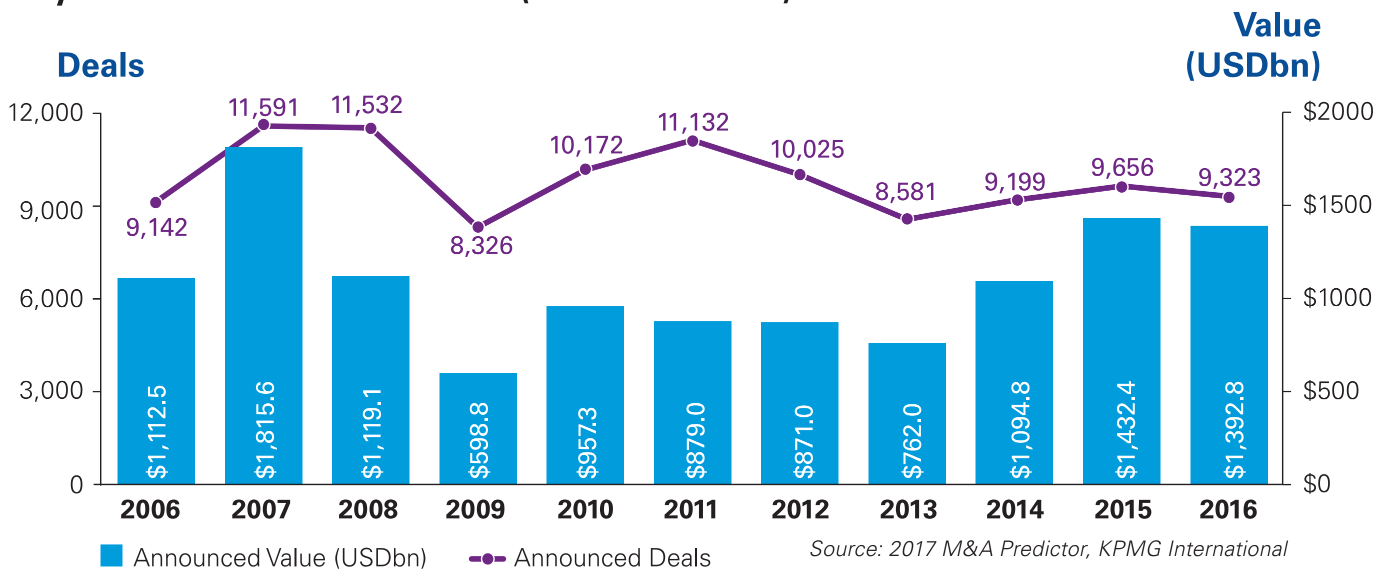
Source: 2017 M&A Predictor, KPMG International

Top 10 Announced Cross-Border Deals in 2016 (by Value)

Target Name	Target Country	Bidder Ultimate Parent Name	Bidder Country	Value (USDm)
Monsanto Co	United States	Bayer AG	Germany	$66,340.6
Reynolds American Inc (57.8%)	United States	British American Tobacco plc - BAT	United Kingdom	$58,072.7
NXP Semiconductors NV	Netherlands	Qualcomm Inc	United States	$46,990.1
Syngenta AG	Switzerland	China National Chemical Corp - ChemChina	China	$46,940.5
Spectra Energy Corp	United States	Enbridge Inc	Canada	$42,962.1
Linde AG	Germany	Praxair Inc	United States	$42,503.2
ARM Holdings plc (98.5768%)	United Kingdom	SoftBank Group Corp	Japan	$31,791.7
Sky plc (61.5969%)	United Kingdom	Twenty-First Century Fox Inc	United States	$23,149.2
London Stock Exchange Group plc (Bid No 1)	United Kingdom	Deutsche Boerse AG	Germany	$14,206.4
Columbia Pipeline Group Inc	United States	TransCanada Corp	Canada	$13,216.4

Source: 2017 M&A Predictor, KPMG International

10-year Cross-Border Deal Trend (Volume & Value)



Source: 2017 M&A Predictor, KPMG International

Cross-border deals

Like the global trend, the number of cross-border deals fell back to 2012-2014 levels. The overall value of cross-border deals, however, reached their highest level since 2007, at US$1.3 trillion. This represents 35 percent of the value of all deals globally and is 5 percent higher than 2011.

The proportion of cross-border deals has remained relatively steady over the last 8 years, ranging between 22 percent and 24 percent. The average size of cross-border deals, however, has risen significantly over the last 3 years to US$149 million. This is its second highest level in 10 years, and compares to an average cross-sector deal value of between US$40 to US$60 million over the last 5 years.

Companies in Asia and Europe continue to be acquisitive. Supported by China's "going out" policy of encouraging outbound investment, Chinese companies have helped to drive M&A in 2015 and 2016. However, increasing protectionist rhetoric in certain countries, the new Trump Administration, Brexit and upcoming elections in Europe are creating uncertainty. China National Chemical Corp.'s US$43 billion takeover of Switzerland's Syngenta AG has recently been approved by the Committee on Foreign Investment in the United States (CFIUS), and is awaiting European regulators' approval. Leading into 2017, Chinese outbound activity is facing increased oversight by Beijing, targeting deals considered "non-core" or "speculative".

Globally, increased uncertainty around international trade policy may impact M&A in the near-term, however, the long-term outlook remains positive for increased cross-border activity.

Cross-sector deals

The percentage of cross-sector deals in terms of the total number of deals has been steadily rising from the low-30s in 2006 to 43 percent of all deals in 2015 and 2016. The value of cross-sector deals has wavered slightly, but has also seen an increase to 24 percent of total deal value in 2016, a 2 percent increase over 2015.

The average deal size of cross-sector deals is generally smaller, at around 50 percent of the average size of all deals and about one-third the size of the average cross-border deal. Most cross-sector deals are commonly seen as bolt-ons to new or existing capabilities.

China and the United States were the dominant players, with 16 of the top 25 cross-sector deals involving bidders from these countries. Cross-sector deals tended not to be cross border. Among the top 25, 16 deals were domestic. This is especially true for the dominant cross-sector countries: 5 out of 7 Chinese deals and 8 US deals were domestic.

In terms of acquisition targets, the United States leads the pack with 11 of the top 25 cross-sector deals by target, followed by China with 5 deals.

Global sector review

We review global sector deal performance over the past year, focusing on key trends likely to affect the global M&A landscape. Our forward-looking M&A Predictor tool provides a perspective for predicted appetite and predicted capacity in 2017.

- **Financial Services**
- **Healthcare & Pharmaceuticals**
- **Industrial Markets**
- **Consumer Markets**
- **Energy & Utilities**
- **Chemicals & Basic Materials**
- **Technology, Media & Telecoms**

Financial Services

Mark Flenner
Co-head of Global Financial Services M&A
KPMG in the UK

Silvano Lenoci
Corporate Finance Partner
KPMG in Italy

M&A activity in the Financial Services sector during 2016 was down marginally from 2015 in terms of the volume of deals, but is in line with the volume of deals between 2011-2014.

"There has been a drive for consolidation in the market, whether that is domestic or cross-border," says Mark Flenner, Co-head of Global Financial Services M&A, KPMG. "The regulatory burden and associated costs are increasing, so many companies are looking to spread that out across a wider base. At the same time, there are limited opportunities for domestic organic growth, so people are buying capability, buying product or buying access to customers."

Valuations have also increased, says Flenner. "Many buyers are paying a lot of money for the right business – and there has been a lot of private equity activity across the globe. Global pension funds, too, have been taking a more active principal investment strategy than they have done before."

There continues to be a steady rise on bolt-on acquisitions as elevated valuations have deterred private equity firms. Add-ons made up 64 percent of buyout activity last year, up from 61 percent in 2015, according to Pitchbook.

The insurance market accounted for several deals in 2016, but the banking sector continues to endure a challenging environment, according to Silvano Lenoci, Corporate Finance Partner, KPMG in Italy.

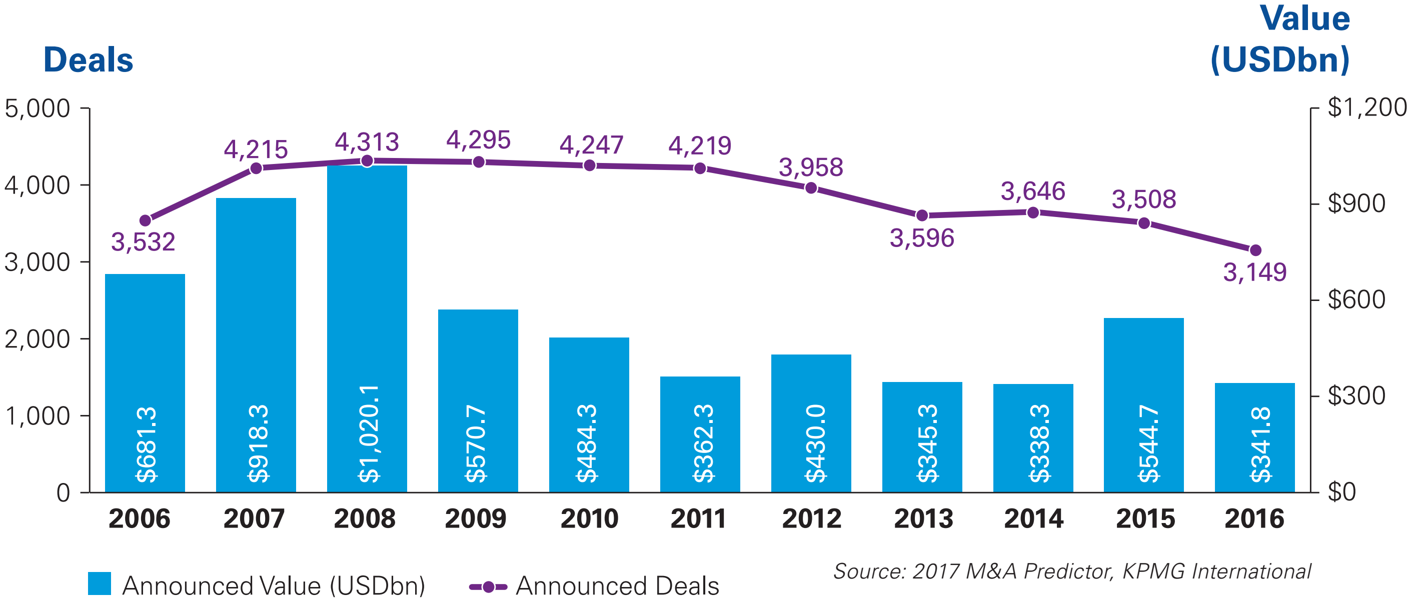
"The banking sector continues to be under pressure," says Lenoci. "There are still a lot of local issues to work through, not only in terms of new regulations like Basel IV, but also a general lack of capital. There's also still a huge legacy on the non-performing loans side for the next 3 to 5 years."

North American buyers were particularly busy in 2016, with the United States and Canada filling 2 of the top 5 slots in terms of deal origination.

This is expected to continue into 2017 when, despite the relatively low volume of announced deals, the level of M&A activity is expected to stay strong, particularly in the mid-market range.

"The big question Financial Services organizations are grappling with is 'how do you find more customers?' That's the issue we expect to see driving M&A transactions over the next few years, particularly in sectors like fintech," says Lenoci. "As long as there is weakness in certain currencies and interest rates remain low across the globe, it will naturally breed cross-border activity."

10-year trend for Financial Services (Volume and Value)



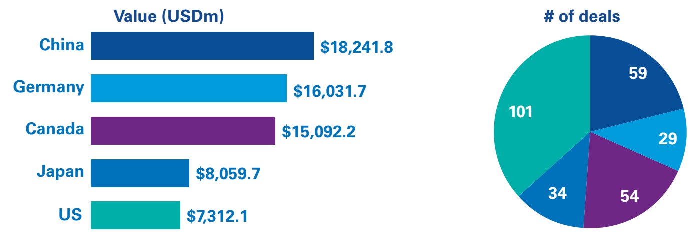
Source: 2017 M&A Predictor, KPMG International

Top-10 Deals for Financial Services

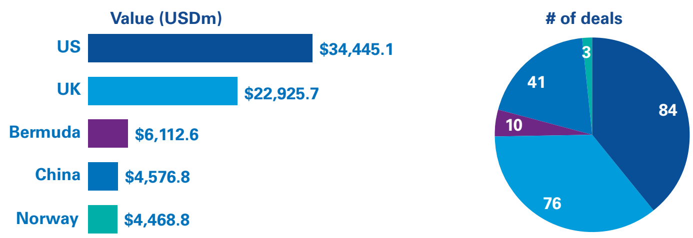
Date	Ultimate Target Name	Ultimate Bidder Name	Value
3 July 2016	UAE — First Gulf Bank PJSC	UAE — National Bank of Abu Dhabi PJSC	$14,841.5 USDm
23 Feb 2016	UK — London Stock Exchange Group plc (Bid No 1)	Germany — Deutsche Boerse AG	$14,206.4 USDm
6 Oct 2016	US — CIT Group Inc (Commercial aircraft leasing business)	China — Bohai Capital Holding Co Ltd	$10,000.0 USDm
17 Feb 2016	France — Credit Agricole SA (38 Regional Banks)	France — Rue La Boetie SAS	$8,697.2 USDm
5 Sep 2016	China — CNPC Capital Co Ltd (40%)	China — Jinan Diesel Engine Co Ltd	$7,968.8 USDm
4 Oct 2016	US — Endurance Specialty Holdings Ltd	Japan — Sompo Holdings Inc	$6,284.9 USDm
1 Apr 2016	France — AXA SA (10%)	France — AXA SA	$5,704.4 USDm
18 Dec 2016	Bermuda — Allied World Assurance Co Holdings AG	Canada — Fairfax Financial Holdings Ltd	$4,855.1 USDm
23 Jun 2016	France — GE Money Bank SCA	France — Cerberus Capital Management LP	$4,600.0 USDm
14 Nov 2016	Norway — Lindorff Group AB	Sweden — Intrum Justitia AB	$4,434.8 USDm

Ultimate Target Name | Ultimate Bidder Name | Pending | Completed

Largest countries of origin by Financial Services



Largest destination countries by Financial Services



Healthcare & Pharmaceuticals

Andrew Nicholson
Global Head of
Healthcare M&A
KPMG in the UK

Despite the significant number of mega deals over US$10 billion in the Healthcare and Pharmaceuticals sector – in fact, all the top 10 deals exceeded US$5 billion – the value of announced deals in 2016 is only a little over half that of 2015. But the volume of transactions is similar to the level achieved in previous years, with the exception of the record number in 2015. "The level of transactions is likely to have been influenced by forthcoming changes to the rules on tax inversion deals in the United States," explains Andrew Nicholson, KPMG's Global Head of Healthcare M&A. "The changes will make it less attractive for corporates to use M&A transactions to drive tax efficiencies, with the result that corporates may have been keen to complete deals before the full effect of changes is felt."

The same 3 countries accounted for the highest number of both outgoing and incoming deals. The picture is less consistent in terms of deal values, however.

"There has been a huge amount of spend between the United States, the United Kingdom and China, as expected, with China in particular accounting for more smaller-value deals. Chinese buyers are keen to acquire IP from Western companies to drive growth at home, so it's no surprise to see Chinese corporates so active in originating transactions. In the United States, slower domestic growth is driving corporates to look overseas to increase earnings, whether in Europe or beyond," Nicholson notes.

"Japan and Switzerland have also been active in seeking growth outside their home markets via M&A. It's common for Japanese corporates to buy overseas. Switzerland has some big pharmaceuticals that tend to make limited, but large transactions," he says.

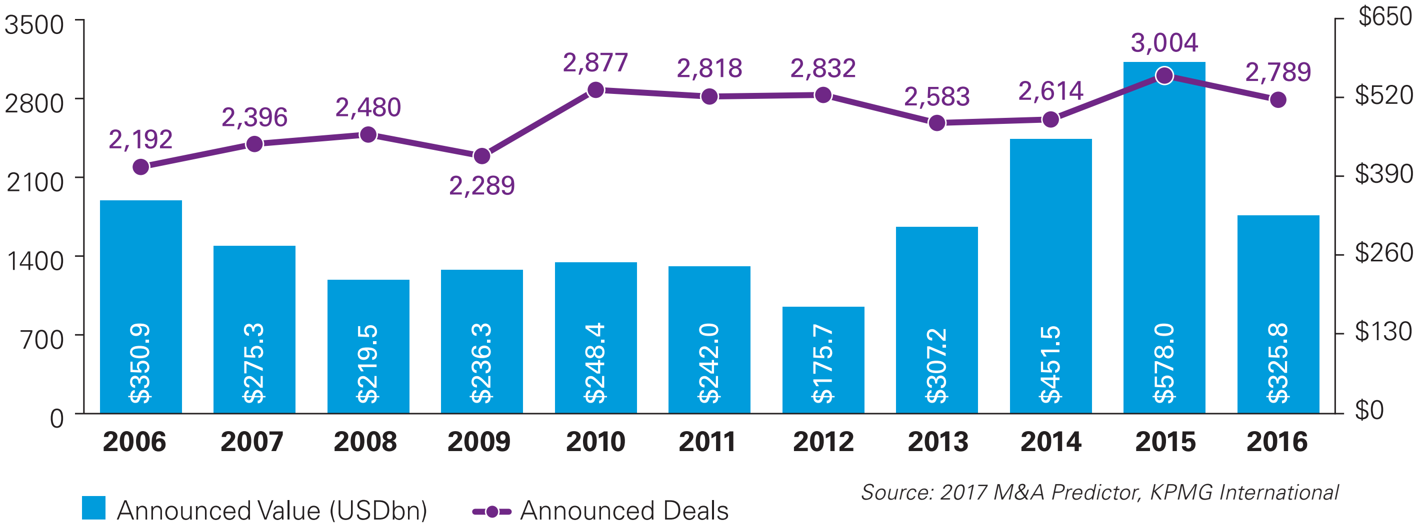
The M&A Predictor data suggests a similar message. Corporate appetite for M&A transactions, as indicated by forward P/E ratios, is expected to decline by 11 percent over the course of 2017. The capacity to transact, however, as measured by net debt/EBITDA, is predicted to improve by 20 percent, as healthcare companies continue to pay down debt.

These numbers support the expectation that there will still be a respectable volume of deals next year, yet the value of deals may drop due to announced tax changes and the reduction in announced deals in 2016.

Nicholson believes the fundamentals of the sector remain strong and, while deal levels may not match 2015, he expects them to remain on a par with preceding years.

"The changes around tax inversion may kill a few potential mega-mergers but in terms of day-to-day acquisitions, debt is still cheap, cashflow is good and P/E ratios are strong, so corporates are still likely to see M&A as an attractive option to grow their earnings."

10-year trend for Healthcare & Pharmaceuticals (Volume and Value)



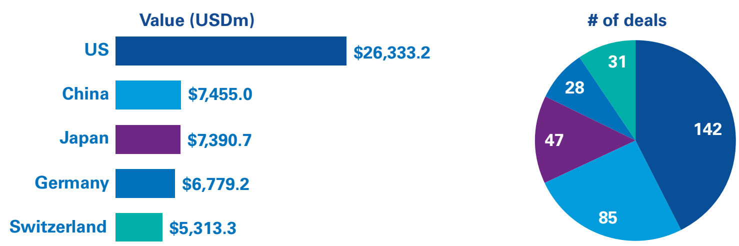
Source: 2017 M&A Predictor, KPMG International

Top-10 Deals for Healthcare & Pharma

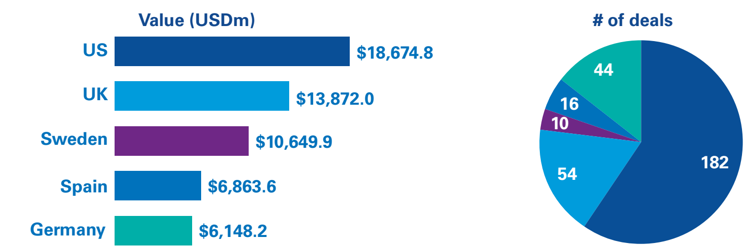
Date	Target / Bidder	Value
28 Apr 2016	US – St Jude Medical Inc US – Abbott Laboratories	$29,439.8 USDm
13 Jun 2016	US – Fortive Corp US – Existing Shareholders	$19,720.3 USDm
22 Aug 2016	US – Medivation Inc (Bid No 2) US – Pfizer Inc	$14,321.5 USDm
10 Feb 2016	Sweden – Meda AB US – Mylan NV	$9,915.5 USDm
28 Apr 2016	US – Stemcentrx Inc US – AbbVie Inc	$9,800.0 USDm
1 Feb 2016	US – Alere Inc US – Abbott Laboratories	$8,390.0 USDm
5 May 2016	US – MultiPlan Inc US – Hellman & Friedman LLC; GIC Pte Ltd; Leonard Green & Partners LP	$7,500.0 USDm
5 Sep 2016	Spain – IDC Salud Holding SLU-Quironsalud Germany – Fresenius SE & Co KGaA	$6,428.2 USDm
15 Jun 2016	US – AmSurg Corp US – Envision Healthcare Holdings Inc	$6,092.4 USDm
31 Oct 2016	US – Team Health Holdings Inc US – Blackstone Group LP	$6,022.8 USDm

Ultimate Target Name | Ultimate Bidder Name | Pending | Completed

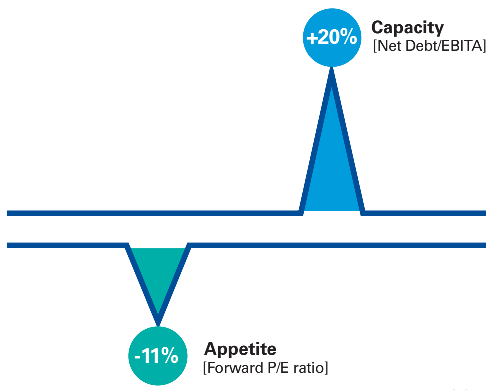
Largest countries of origin by Healthcare & Pharma



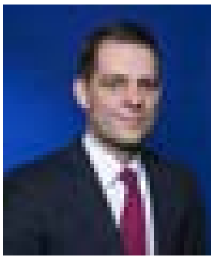
Largest destination countries by Healthcare & Pharma



Global M&A Predictor for Healthcare



Industrial Markets



Danny Bosker
Corporate Finance Partner
KPMG in the Netherlands

After a blistering 2015, the Industrial Markets sector had another very active year for M&A transactions in 2016, similar to the levels seen between 2011 and 2014. Two of the top 10 deals exceeded US$10 billion, with the target and bidder both stemming from the United States.

"There have been some global factors that affected the market over the course of 2016, particularly at the top end. Despite that, the appetite for deals was very strong," says Danny Bosker, KPMG Corporate Finance Partner, KPMG in the Netherlands.

"One of the main factors driving M&A activity in Industrial Markets in 2016 was the hunt for technological innovation. Companies recognize that to remain competitive, they need to invest in technology to transform their businesses. Sitting back and waiting is not an option. They need to go out and either develop new business models or technologies, or acquire them."

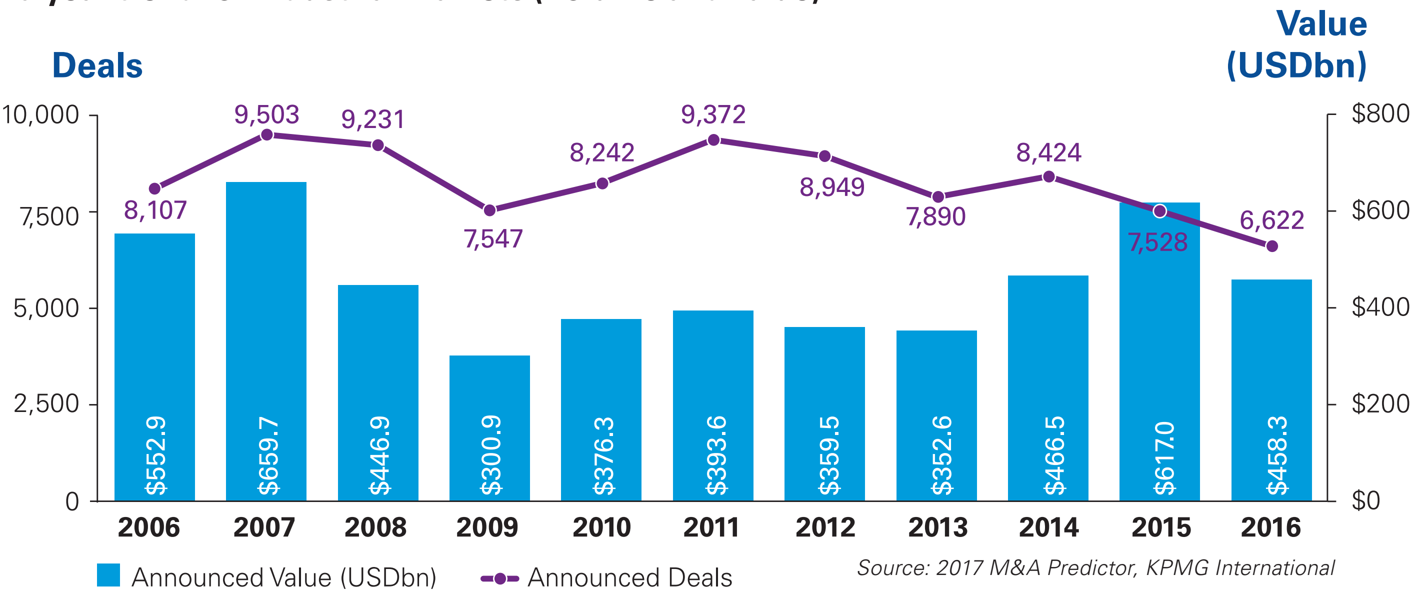
The US$7.7 billion acquisition of Siemens' wind power business by Spain's Gamesa is a case in point. Gamesa gains from Siemens market-leading position in offshore wind energy, while delivering increased opportunities for Siemens to develop its onshore business.

Looking ahead to 2017, Bosker expects M&A activity to remain high, particularly at the sub-US$1 billion level, and with continuing strong interest from Asia.

His optimism is reflected in the M&A Predictor data. This shows that forward P/E ratios, our measure of corporate appetite for M&A, are expected to rise by 9 percent over the course of 2017 – the second-highest sector increase. This compares to a predicted overall increase of 1 percent globally. The capacity to transact is also expected to increase, with net debt/EBITDA, our measure of capacity, showing a 14 percent improvement over the same period.

"Technology businesses are expected to remain popular targets for acquirers. Another key sector could be environmental technologies – heating, ventilation and insulation, anything to do with CO2 reduction. Interest has been growing quite rapidly over the past year. Combined with increasing interest from Asian buyers in this sector of the market, it looks set to be another strong year for industrial markets deals," says Bosker.

10-year trend for Industrial Markets (Volume and Value)



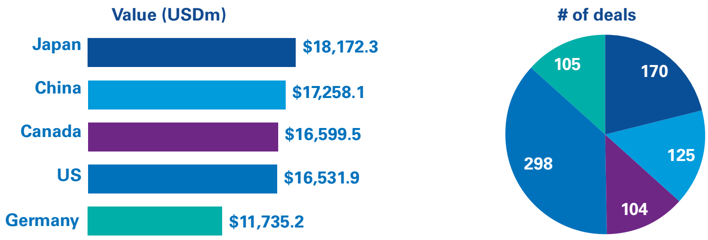
Source: 2017 M&A Predictor, KPMG International

Top-10 Deals for Industrial Markets

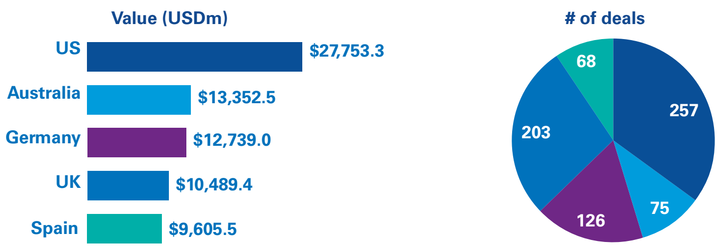
Date	Country	Company	Value
25 Jan 2016	US	Tyco International plc	$20,792.9 USDm
	US	Johnson Controls Inc	
16 Feb 2016	US	ADT Corp	$12,388.7 USDm
	US	Protection One Inc	
23 Sep 2016	China	Wuhan Iron & Steel Co Ltd	$9,406.0 USDm
	China	Baoshan Iron & Steel Co Ltd	
23 Mar 2016	China	YTO Express Co Ltd	$9,074.8 USDm
	China	Dalian Dayang Trands Co Ltd	
15 Mar 2016	Australia	Asciano Ltd (86.6669%)	$8,557.3 USDm
	Canada	Canada Pension Plan Investment Board-CPPIB (27.5%/19.1%/16%/12%/12%); Global Infrastructure Partners; GIC Pte Ltd; British Columbia Investment Management Corp; China Investment Corp	
23 Oct 2016	US	BE Aerospace Inc	$8,228.5 USDm
	US	Rockwell Collins Inc	
17 Jun 2016	Spain	Siemens AG (Wind Business)	$7,736.2 USDm
	Spain	Gamesa Corporacion Tecnologica SA	
19 Sep 2016	Australia	Port of Melbourne Corp (50-year lease of the Port of Melbourne)	$7,308.9 USDm
	Australia	Australian Government Future Fund; Global Infrastructure Partners; QIC Ltd; Ontario Municipal Employees Retirement System — OMERS	
4 Mar 2016	Spain	Fomento de Construcciones y Contratas SA — FCC (24.5925%)	$6,741.5 USDm
	Mexico	Grupo Carso SAB de CV	
23 May 2016	China	SF Holdings (Group) Co Ltd	$6,610.1 USDm
	China	Maanshan Dingtai Rare Earth & New Materials Co Ltd	

Ultimate Target Name | Ultimate Bidder Name | Pending | Completed

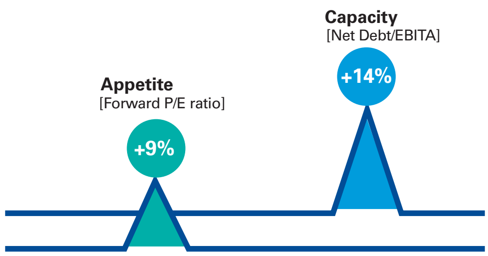
Largest countries of origin by Industrial Markets



Largest destination countries by Industrial Markets



Global M&A Predictor for Industrials



Consumer Markets

James Murray
Global Head of
Consumer M&A
KPMG in the UK

Despite the broader backdrop of political and economic uncertainty in 2016 it was still a strong year for M&A deal values in the Consumer sector, with the third largest global deal of 2016 originating in this sector. While the levels are below 2015, they are significantly above the levels seen between 2009 and 2013. "There were several large strategic deals in 2016 that bumped up the overall value of deals in the sector, such as the US$46 billion BAT bid for Reynolds American and Danone's US$10 billion acquisition of WhiteWave Foods. 2017 has started strongly and we expect further large cap activity following Reckitt's deal to buy Mead Johnson for $17 billion, the €50 billion Luxottica/Essilor merger and Kraft Heinz's $143 billion aborted approach for Unilever," says James Murray, Global Head of Consumer M&A, Deal Advisory.

"These deals represent an ongoing move towards consolidation, with a hard focus on cost reduction as well as synergies to drive margin improvement and earnings growth. In some sectors, businesses are looking to move from being strong regionally to truly global players. At the same time, large conglomerates are also refining and focusing their portfolios, such as Mondelez's sale of its sugar confectionery business in France and Vegemite in Australia."

In the mid cap market, he adds, activity was driven by a number of smaller but attractive higher-growth companies being acquired by larger corporates seeking to drive sales or gain access to faster growth categories such as healthy snacking and free-from products.

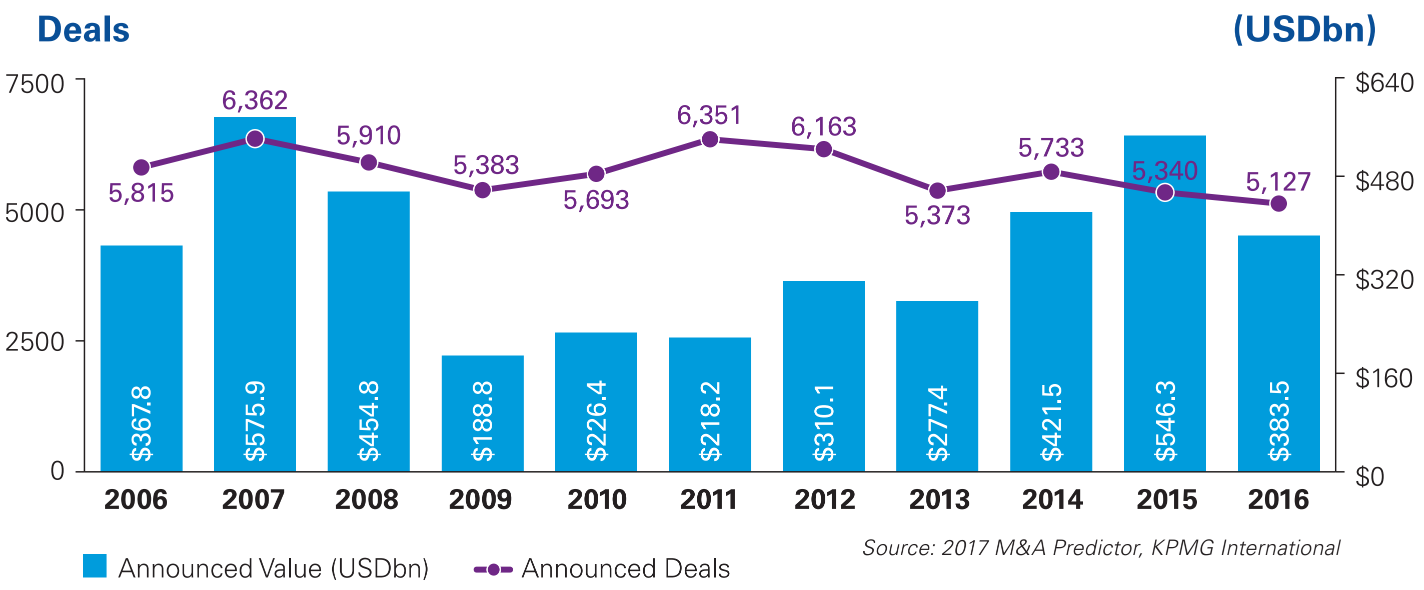
The United States, China and Japan remained the most-prolific originators of deals with France and Singapore trailing behind.

"The theme of capital flows from Asia to Europe continues to be evident with significant interest from Asian buyers in several businesses that are on the market, or that soon will be. Not only from China, but also Japan, where there is a trend toward acquiring European businesses because they are not achieving the growth domestically. Asahi's acquisition of Peroni is a good example of this and we expect to see further activity in the beer sector as part of the fallout of the AB InBev deal," says Murray.

"There are a number of factors creating a positive environment for further deal activity in 2017: active challenge of the traditional FMCG business model from predators seeing value and shareholders wanting higher returns; corporate balance sheets in good shape; Private Equity interest in consumer assets remains strong; financing costs low. However, the wider macro outlook and evolving consumer confidence may impact the appetite for further M&A, but this will be a market-by-market basis," says Murray.

According to the M&A Predictor, corporate appetite for M&A among businesses in the Consumer Discretionary and Consumer Staples sectors, as measured by forward P/E ratios, is expected to rise by 8 percent and 1 percent, respectively. Similarly, the capacity to transact is predicted to improve by 16 percent and 10 percent, respectively.

10-year trend for Consumer Markets (Volume and Value)



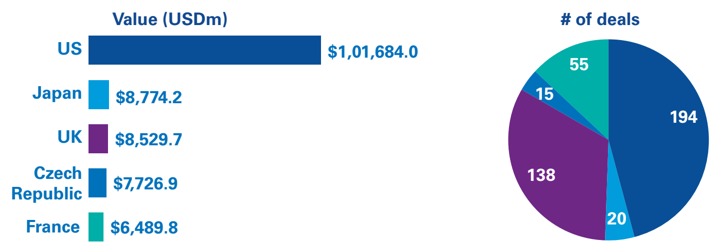
Source: 2017 M&A Predictor, KPMG International

Top-10 Deals for Consumer Markets

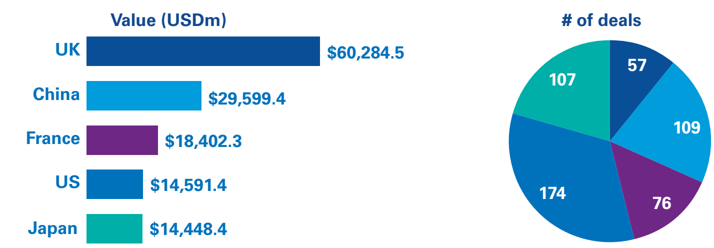
Date	Country	Company	Value
21 Oct 2016	US	Reynolds American Inc (57.8%)	$58,072.7 USDm
	UK	British American Tobacco plc — BAT	
7 Jul 2016	UK	WhiteWave Foods Co	$12,466.7 USDm
	France	Danone SA	
17 Oct 2016	China	Yum China Holdings Inc (95%)	$9,526.7 USDm
	China	Existing Shareholders	
25 Feb 2016	Japan	Sharp Corp (66.06%)	$7,984.0 USDm
	Taiwan	Hon Hai Precision Industry Co Ltd (57.5% / 8.41%);	
13 Dec 2016	Czech Republic	SABMiller Ltd (CEE beer brands)	$7,726.9 USDm
	Japan	Asahi Group Holdings Ltd	
17 Oct 2016	US	Adient plc	$7,235.3 USDm
	US	Existing Shareholders	
1 Nov 2016	US	Lamb Weston Holdings Inc	$6,732.3 USDm
	US	Existing Shareholders	
30 May 2016	South Africa	Bid Corp Ltd	$6,562.0 USDm
	South Africa	Existing Shareholders	
24 Oct 2016	US	Hilton Worldwide Holdings Inc (25.0056%)	$6,496.9 USDm
	China	Hainan Traffic Control Holding Co Ltd	
3 Oct 2016	US	Cabela's Inc	$5,553.7 USDm
	US	Bass Pro Group LLC-Bass Pro Shops	

Ultimate Target Name | Ultimate Bidder Name | Pending | Completed

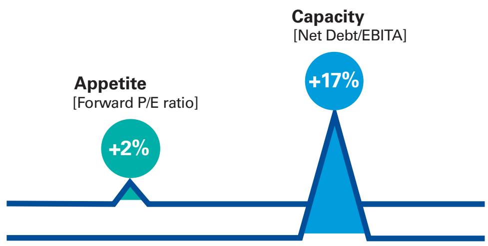
Largest countries of origin by Consumer Markets



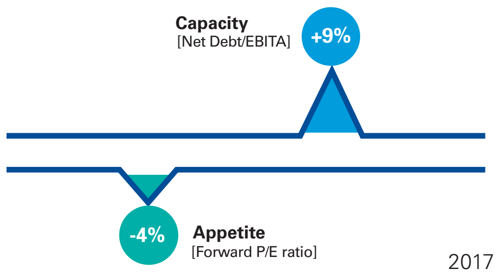
Largest destination countries by Consumer Markets



Global M&A Predictor for Consumer Discretionary



Global M&A Predictor for Consumer Staple



Energy & Utilities

Henry Berling
Managing Director and Head of
US Energy Investment Banking
for KPMG Corporate Finance
KPMG in the US

Although the number of deals fell in 2016, the value of Energy and Utilities transactions saw a healthy increase to pre-2007 levels, as the sector began to regain confidence. Indeed, 2016 may be seen as the turning point as total deal values hit their highest level for almost a decade. "Over the past 18 months, as oil prices have decreased, the ability of companies to invest in M&A has been reduced," says Henry Berling, Managing Director and Head of US Energy Investment Banking for KPMG Corporate Finance, KPMG in the United States. "This had a negative impact on earnings. Similarly, from a power and utilities perspective, the global slowdown in GDP growth has led to low load growth. This, coupled with a glut of gas in key markets like the United States, kept power pricing down, meaning earnings and top-line growth were low."

Berling notes that companies were largely in 'survival mode' in 2015, looking internally to find savings and drive earnings growth. "But now that the worst seems to be behind us in terms of the global picture, they are looking externally for inorganic growth opportunities."

The data seems to support this view. Deal values in the sector rose to US$753.4 billion, up from US$619.3 billion in 2015 and led by several major transactions out of the United States, which accounted for 5 of the top 10 deals.

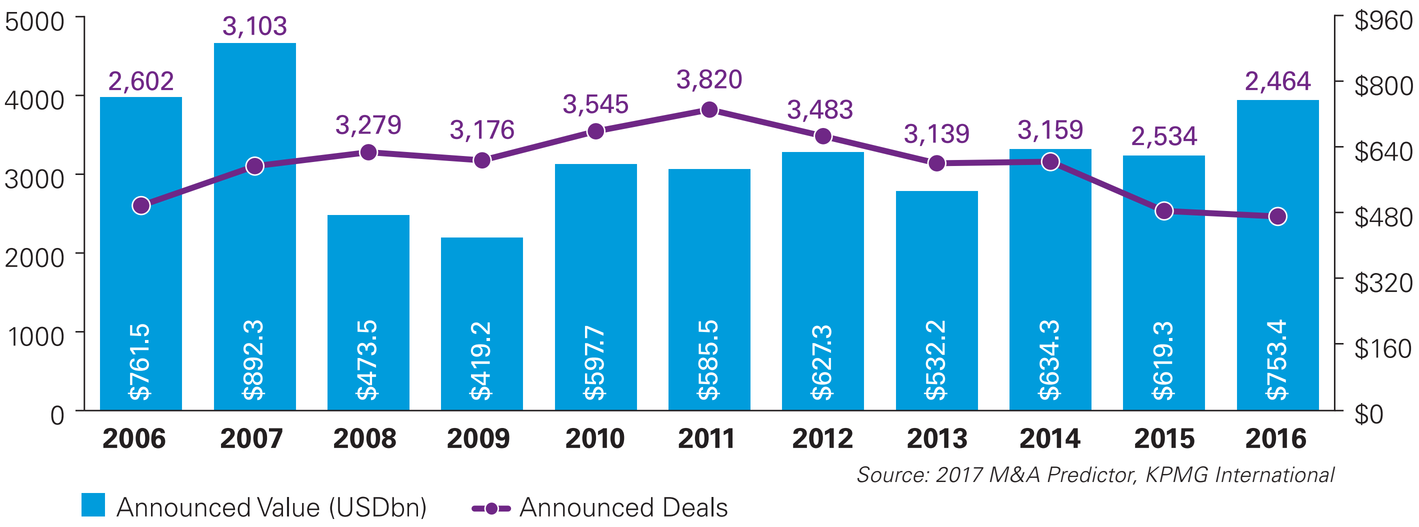
"The United States has several big energy and power companies with large sums of capital that needed to find homes. The size of these companies tends to mean that their M&A transactions tend to be big, too," says Berling.

The renewables market also continues to be attractive, he adds, with favorable tax legislation and subsidies that are helping to drive the development of renewables, relative to conventional energy. Wind and solar development, for example, has outpaced conventional assets.

"We expect to see a new wave of transactions in 2017 as part of a trend towards market rationalization. This will likely include a focus on infrastructure and transportation-type assets, which are seen as 'safe havens' at times of volatility," says Berling.

This view is supported by data from the M&A Predictor, which forecasts forward P/E ratios, our measure of appetite, to increase by 16 percent for corporates in the Energy sector and 6 percent in the Utilities sector, up to December 2017. Energy corporates' capacity to transact, as measured by net debt/EBITDA, is predicted to improve by 23 percent over the same period, while capacity in the Utility sector is expected to decline marginally.

10-year trend for Energy & Utilities (Volume and Value)



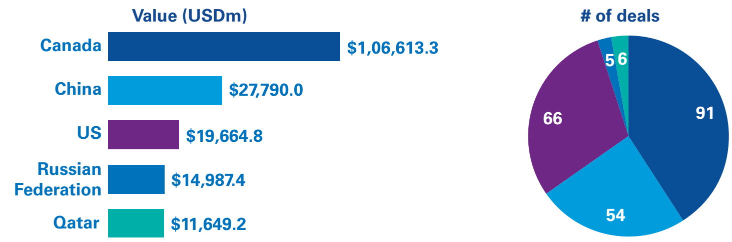
Source: 2017 M&A Predictor, KPMG International

Top-10 Deals for Energy & Utilities

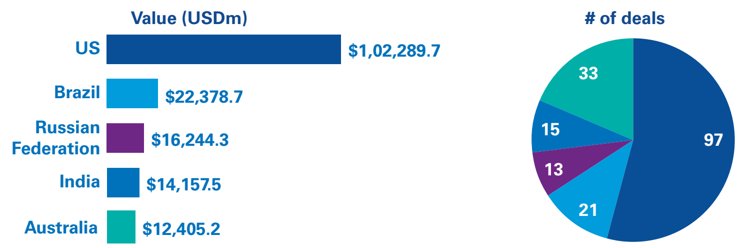
21 Nov 2016	US	Energy Transfer Partners LP	$51,455.7 USDm
	US	Sunoco Logistics Partners LP	
6 Sep 2016	US	Spectra Energy Corp	$42,962.1 USDm
	Canada	Enbridge Inc	
31 Oct 2016	US	Baker Hughes Inc	$32,202.0 USDm
	US	General Electric Co	
29 Jul 2016	US	Energy Future Holdings Corp	$18,400.0 USDm
	US	NextEra Energy Inc	
8 Dec 2016	UK	National Grid plc (Gas distribution business)	$14,523.6 USDm
	UK	Macquarie Infrastructure & Real Assets Pty Ltd; CIC Capital Ltd; Allianz Capital Partners GmbH; BT Pension Scheme Trustees Ltd; Dalmore Capital Ltd; Qatar Investment Authority; International Public Partnerships Ltd"	
17 Mar 2016	US	Columbia Pipeline Group Inc	$13,216.4 USDm
	Canada	TransCanada Corp	
15 Oct 2016	India	Essar Oil Ltd; Vadinar Oil Terminal Ltd - VOTL	$12,911.8 USDm
	Russian Federation	Rosneftegaz OAO; Trafigura Beheer BV; United Capital Partners Advisory OOO-UCP	
20 Oct 2016	Australia	Ausgrid Pty Ltd (50.4%)	$12,413.9 USDm
	Australia	Westscheme Pty Ltd; IFM Investors Pty Ltd	
31 May 2016	US	Westar Energy Inc	$12,153.5 USDm
	US	Great Plains Energy Inc	
3 Jun 2016	US	NorthStar Realty Finance Corp	$12,030.6 USDm
	US	NorthStar Asset Management Group Inc	

Ultimate Target Name | Ultimate Bidder Name | Pending | Completed

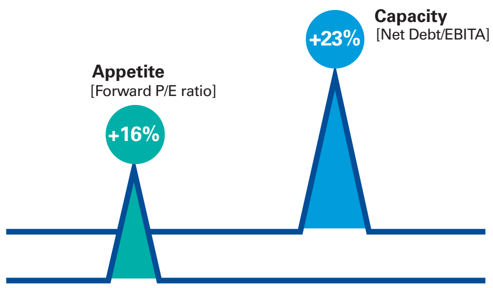
Largest countries of origin by Energy & Utilities



Largest destination countries by Energy & Utilities



Global M&A Predictor for Energy



Chemicals & Basic Materials

Christian Specht
Deal Advisory Partner, KPMG in Germany

2016 was quite a notable year in the Chemicals and Basic Materials sectors, with total deals reaching their highest value for 10 years. This included several blockbuster Chemicals deals exceeding US$40 billion, the most notable of which was the US$66.3 billion Bayer-Monsanto deal, following on from 2015's headline-grabbing Dow and DuPont merger.

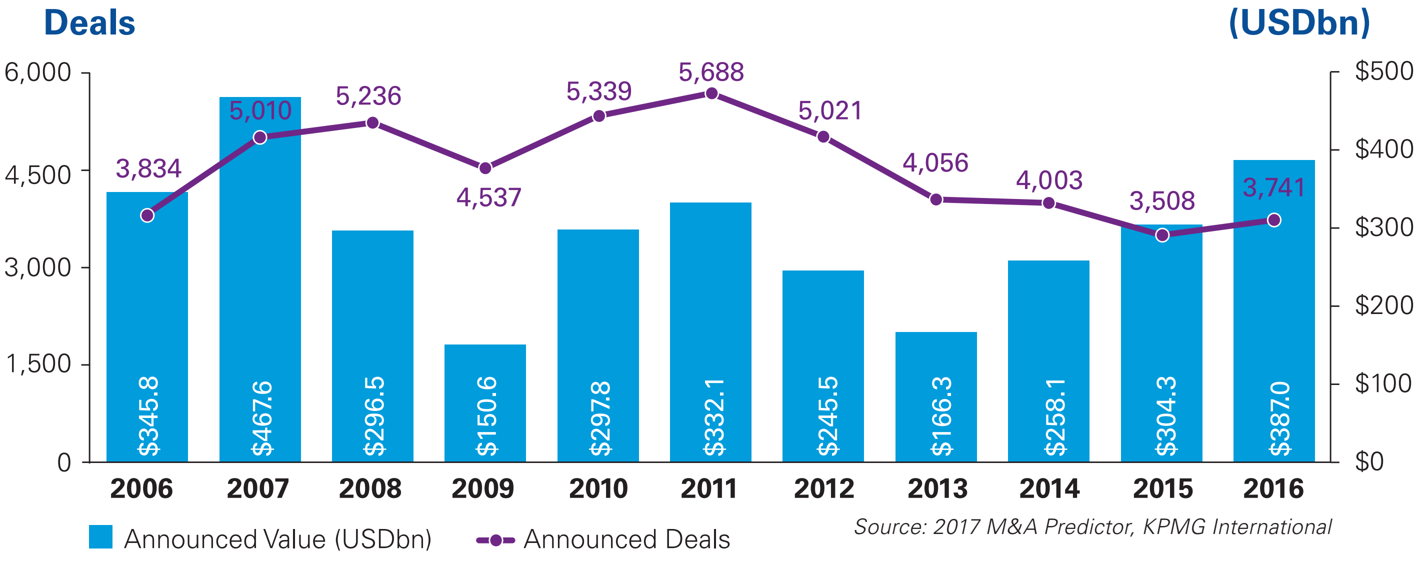
"The Bayer-Monsanto deal is a good example of the kind of transformational transactions we've seen in the Chemicals sector recently. It shows there is a huge appetite for large transactions. Strong earnings over the last 3 years and favorable funding means that a lot of companies have large war chests to invest. And with debt funding still cheap, there is strong appetite for M&A," says Christian Specht, partner at KPMG in Germany.

Another example of the transformational deals driving M&A activity is the pending US$3.2 billion acquisition of surface treatment provider Chemetall by BASF.

"These deals are signs of the ongoing portfolio shift we are seeing in the market," says Specht. Companies previously were looking for the 'perfect 10,' he adds. "Now, they are realizing that is unrealistic, so they are happy to go with an 80 or 90 percent fit instead. This is having an impact on overall levels of M&A activity, as those acquisitions are then trimmed to better fit the portfolio and non-core activities are sold off."

The M&A prospects for the overall Basic Materials sector, which includes Chemicals, is expected to remain at a similar level next year. The M&A Predictor forecasts an increase of 3 percent in appetite for transactions, as indicated by forward P/E ratios. However, the capacity of companies to transact, measured by net debt/EBITDA, is predicted to rise by 18 percent.

10-year trend for Energy & Utilities (Volume and Value)



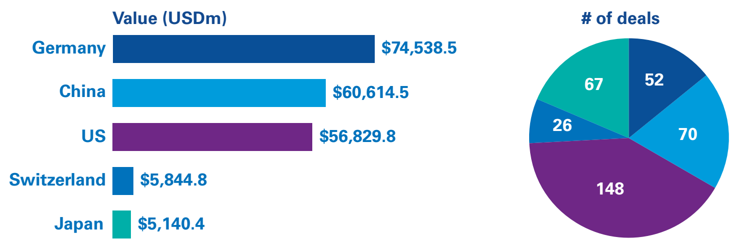
Source: 2017 M&A Predictor, KPMG International

Top-10 Deals for Basic Materials

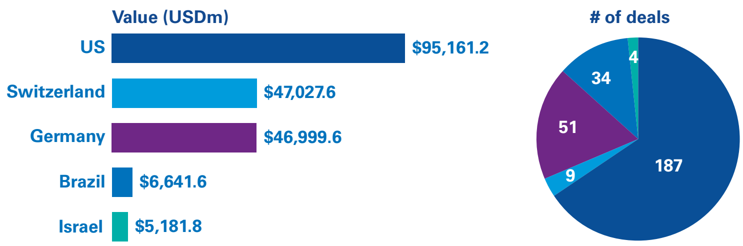
Date	Country — Company	Value	Status
23 May 2016	US — Monsanto Co Germany — Bayer AG	$66,340.6 USDm	Pending
03 Feb 2016	Switzerland — Syngenta AG China — China National Chemical Corp - ChemChina	$46,940.5 USDm	Pending
20 Dec 2016	Germany — Linde AG US — Praxair Inc	$42,503.2 USDm	Pending
12 Sep 2016	Canada — Agrium Inc Canada — Potash Corp of Saskatchewan Inc	$18,333.4 USDm	Pending
20 Mar 2016	US — Valspar Corp US — Sherwin-Williams Co	$11,277.8 USDm	Pending
15 Dec 2016	US — Capsugel SA Switzerland — Lonza Group AG	$5,500.0 USDm	Pending
06 May 2016	US — Air Products & Chemicals Inc (Performance Materials Operations) Germany — Evonik Industries AG	$3,800.0 USDm	Completed
17 Jul 2016	Israel — Adama Agricultural Solutions Ltd China — Hubei Sanonda Co Ltd	$3,706.8 USDm	Pending
29 Jan 2016	US — Axiall Corp US — Westlake Chemical Corp	$3,521.9 USDm	Completed
11 Mar 2016	Russian Federation — Polyus Gold OAO (31.747%) Russian Federation — Polyus Gold OAO	$3,447.1 USDm	Completed

Target Name | Bidder Ultimate Parent Name | Pending | Completed

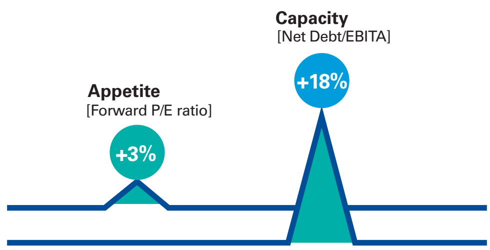
Largest countries of origin by Basic Materials



Largest destination countries by Basic Materials



Global M&A Predictor for Basic Materials



Technology, Media & Telecoms

Philip Isom
Global Head of M&A, Head of US Corporate Finance and Restructuring
KPMG in the US

The Technology, Media and Telecoms (TMT) sector posted strong M&A results in 2016, despite a lower number of deals than the record 2015 levels.

Although the number of deals was closer to 2014 levels, deal values were only marginally below 2015 figures, however, suggesting that bigger deals are driving the TMT M&A market.

The United States, in particular, saw a flurry of bigger-ticket deals, accounting for 80 percent of the top 10 biggest deals by origin, led by the proposed US$107.8 billion AT&T acquisition of Time Warner.

China was the second biggest originator of deals, albeit with largely lower value transactions.

"American and Chinese companies have focused on cross-border deals to counter slowing growth at home and, in the case of China, to acquire technology and meet upgrading demand of domestic consumers," says Philip Isom, Global Head of M&A, KPMG in the US.

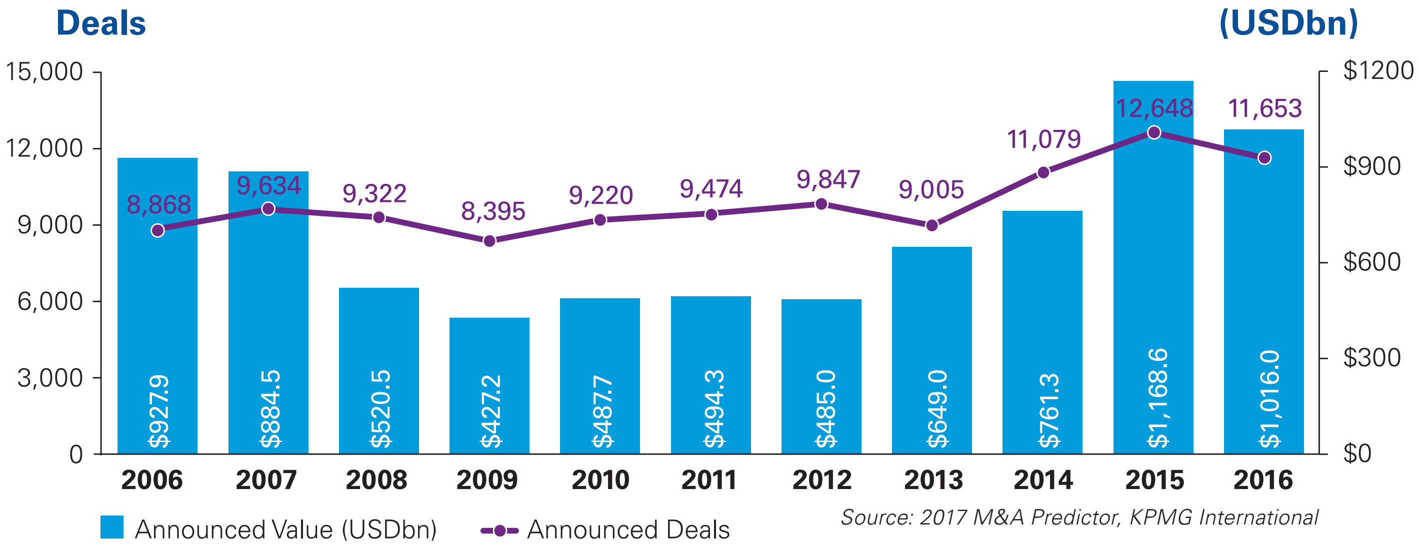
"The slowdown in deal volumes was probably attributable to increased global uncertainty in the run up to the US presidential elections, the potential impact of Brexit, volatile currency markets and other geopolitical factors," says Isom.

Despite fewer deals overall, several high-profile mega-deals helped deal value remain high. As well as the AT&T Time Warner mega-deal, other landmark transactions include Qualcomm's acquisition of NXP Semiconductors for US$47 billion and the acquisition of Level 3 Communications by CenturyLink for US$33 billion.

With several blockbuster deals announced during 2016, completed deal values at least look set to remain strong into 2017.

This ties in with KPMG's M&A Predictor data, which also suggests a positive TMT deals market in 2017. Although forward P/E ratios, our measure of appetite, are predicted to remain largely unchanged in both the Technology sector (0 percent change) and the Telecoms sector (1 percent increase), the capacity to transact, as measured by net debt/EBITDA, is expected to remain very strong, driven by plummeting debt levels.

10-year trend for TMT (Volume and Value)



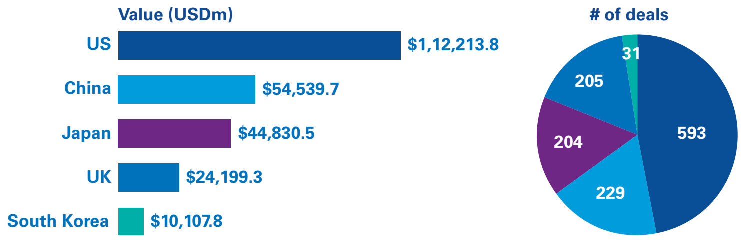
Source: 2017 M&A Predictor, KPMG International

Top-10 Deals for TMT

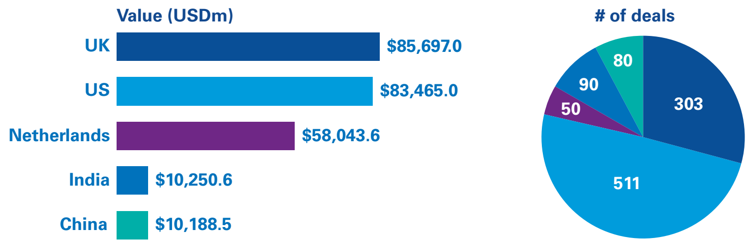
Date	Target	Bidder	Value	Status
22 Oct 2016	US – Time Warner Inc	US – AT&T Inc	$1,07,887.8 USDm	Pending
27 Oct 2016	Netherlands – NXP Semiconductors NV	US – Qualcomm Inc	$46,990.1 USDm	Pending
31 Oct 2016	US – Level 3 Communications Inc	US – CenturyLink Inc	$33,675.6 USDm	Pending
18 Jul 2016	UK – ARM Holdings plc (98.5768%)	Japan – SoftBank Group Corp	$31,791.7 USDm	Completed
13 Jun 2016	US – LinkedIn Corp	US – Microsoft Corp	$28,119.9 USDm	Completed
09 Dec 2016	UK – Sky plc (61.5969%)	US – Twenty-First Century Fox Inc	$23,149.2 USDm	Pending
26 Jul 2016	US – Linear Technology Corp	US – Analog Devices Inc	$14,764.0 USDm	Pending
03 May 2016	US – IMS Health Holdings Inc	US – Quintiles Transnational Holdings Inc	$14,725.4 USDm	Completed
28 Jul 2016	US – NetSuite Inc	US – Oracle Corp	$9,464.4 USDm	Completed
14 Nov 2016	US – Harman International Industries Inc	South Korea – Samsung Electronics Co Ltd	$8,854.3 USDm	Pending

Target Name | Bidder Ultimate Parent Name | Pending | Completed

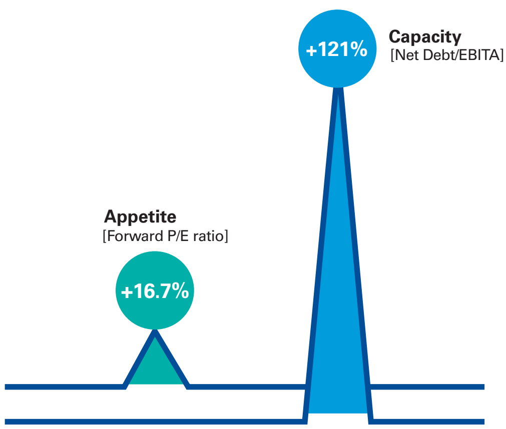
Largest countries of origin by TMT



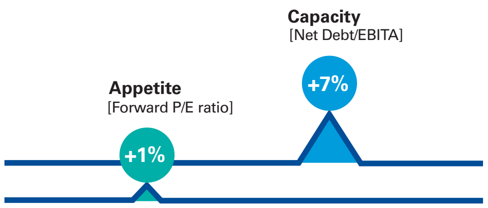
Largest destination countries by TMT



Global M&A Predictor for Technology



Global M&A Predictor for Telecoms



In-depth commentary

Our in-depth commentary goes beyond the global sector review to provide insight into the larger trends impacting some major sectors. A special report on M&A Tax offers a global view from a tax perspective.

- **Banking**
- **Insurance**
- **Consumer Markets**
- **Oil & Gas**
- **M&A Tax**

Banking

Stuart Robertson
Global Financial Services Deal Advisory Lead, KPMG in Switzerland

While the fundamentals in global banking and capital markets remained relatively unchanged in 2016, the year did not prove to be a record breaker for deal activity as the operating environment became much tougher to navigate. Deal value and volume remained relatively stable compared to 2015 but we had anticipated a higher level of deal activity for 2016. But in the end it was a year characterized by caution and uncertainty amid continued regulatory pressures plus an array of significant geopolitical and economic events: the US election, Brexit, China's economic slowdown and the continued low-interest rate environment.

Domestic deals accounted for a 73 percent share of total deals, with most of those announced in the US and China. Deal activity overall was largely concentrated among small and medium-sized banks, as continued regulation and increasing capital requirements inhibited acquisitions by the large global banks.

Under a cloud of caution, the year nevertheless did produce a few noteworthy mega-deals, among them: the anticipated merger between the London Stock Exchange and Deutsche Borse, the acquisition of regional Crédit Agricole banks by Sacam Mutualisation and the merger between National Bank of Abu Dhabi and First Gulf Bank.

Looking ahead with renewed optimism, we expect a reasonably healthy level of M&A in 2017, with US political uncertainty subsiding following the election, and a possible relaxing of regulation, plus expected interest rate hikes, easing some of the pressure on local US banks. And despite the current growth focus on domestic markets, global and regional opportunities still exist for strong global banks. Banks will eye wealth management businesses as margins tighten, while regulatory and capital constraints will continue to factor highly in inorganic growth decisions.

Top trends that are likely to continue this year include the wholesale market infrastructure industry's continued convergence of listing platforms/ exchanges, data companies and post-trade services. Competition to acquire data companies will drive up valuations of these companies, while competition authorities will continue to review almost every transaction in wholesale market infrastructure.

Look for the wave of consolidation and M&A across wholesale market infrastructure dominating North American and European markets until now to push into Asia in 2017–18, where the battle to be the 'gateway' exchange for Asia will accelerate. Frontier markets, including Africa, South America and Eastern Europe, are expected to follow similar trends, including setup of new exchange and utilities companies. We also expect to see divestments because of consolidation and the increased scrutiny of competition authorities.

Continued European banking overcapacity makes further domestic consolidation there look inevitable. In 2017, we continue to expect low growth and declining EU lending, a turbulent political landscape (Italian referendum, Dutch election, Brexit, French election), a continued low-interest environment and the 'uberisation' of the banking sector. M&A deals among mid-tier EU banks are more likely than large-scale deals. NPLs will be a top priority for the ECB as weaker banks prepare multi-year strategic plans and look to deleverage NPLs.

Meanwhile, large Japanese banks will remain active in acquiring overseas financial institutions and fintech-related companies against the background of slow economic growth and a shrinking population in the home market. Key areas of focus are the US and ASEAN countries. More regional consolidation is also expected amid the push toward digital banking, privatized Japan Post Bank's increased saving limit posing competition to regional players, and negative or ultra-low interest rates.

Globally, fintech will remain front and centre as a key growth driver this year. We expect to see an increase in investment into enabling technology. Key areas of focus are security, fraud prevention, regulation management, compliance and risk management, data analytics, customer personalization and blockchain. With strong interest in emerging technologies like blockchain, we predict continued organic and inorganic investments, including further consortia activity. Financial institutions will continue to look for ways to embrace the promise of these innovations via different avenues, including partnerships, direct investment and M&A transactions.

Other key considerations that we see impacting the growth playbook this year as new buyers enter the market include opportunities for non-FS buyers to make attractive investments in the banking sector in areas such as loan portfolios, payments, leasing and financing, brokerage services and utilities. A wall of capital is poised and desperate to deploy, with private equity houses, pension and sovereign wealth funds, insurers and high-cash deposit holders looking for returns. The most-active deal corridors will be from the US to ASPAC and to Western Europe.

Top 10 Trends

1. A wave of M&A emerging in the wholesale market infrastructure industry, while the battle for Asia 'gateway' exchange will accelerate M&A.
2. US regional and local banks will bulk up, with continued consolidation in 2017.
3. Continued European banking overcapacity makes further domestic consolidation look inevitable.
4. Chinese banks will focus more on domestic M&A, eyeing high-growth tech firms.
5. Large Japanese banks will remain acquisitive overseas, while more regional consolidation is expected.
6. An active NPL market will fix weak balance sheets.
7. A wall of capital is desperate to deploy: Private equity houses, pension and sovereign wealth funds, insurers and high-cash deposit holders are looking for returns. New buyers will be entering the market in 2017.
8. Fintech will remain front and center in 2017.
9. Banks will eye wealth management businesses as margins tighten.
10. The most-active deal corridors: from the US to ASPAC and to Western Europe.

The New Deal:

Driving insurance transformation with strategy-aligned M&A

Ram Menon
Global Insurance Deal Advisory Lead, KPMG in the US

Disruption is shaking the insurance industry to its very foundation and the changes underway are not cyclical in nature. New technologies, competitors, markets and regulations – plus changing consumer behaviors – are creating tremendous new opportunities.

At the same time, however, these powerful dynamics are posing significant risk to the legacy insurance business model, forcing organizations to reassess their portfolio of business and rationalize their global footprint to strategically determine 'where to play' and 'how to win' in the future. Firms will need to pursue a deeper understanding of how they want to serve their customers and what propositions they want to offer.

An immediate consequence of this trend is an anticipated increase in deal activity in the global insurance industry. Industry players are now becoming more strategic about inorganic growth initiatives, with traditional reactive approaches to M&A opportunities being viewed as insufficient in the drive toward investment that generates transformation over the long term.

A strategy-aligned approach is emerging

Taking a strategy-aligned M&A approach will certainly enhance strategic clarity regarding which markets, geographies, products and channels insurers choose to play in going forward, and which processes, technology infrastructure, talent and culture will best support transformation of the operating model for future growth. To that end, innovative startups are increasingly seen as attractive targets, as evidenced by recent high multiples and valuations of technology-enabled business models.

As global insurance companies approach the new deal landscape in an industry under transformation filled with new opportunities, they will also need to be wary of pitfalls and respond wisely. In this evolving market, insurers will need to be equipped with holistic data and analytics-enabled deal-evaluation capabilities, particularly regarding due diligence, integration and separation activities, in order to extract maximum value from their proposed acquisitions.

A recent survey we commissioned conducted interviews with 200 insurance M&A decision-makers across all segments and regions and what we heard indicates that organizations are indeed now recognizing the need to strategically reassess their business and operating models and redefine their M&A ambitions and appetite.

Companies told us that transforming their business and operating models is the number one motivator for deal-making: 33 percent of firms said they intend to undertake M&A to redefine their business and operating model, while 40 percent intend to enter partnerships and alliances.

Asia-Pacific is expected to see the most partnerships and alliances forged, with China and India ranking as the top two destinations in the region. The majority of the respondents also said they intend to forge strategic partnerships and alliances with larger firms, those with values ranging from US$250 million to US$1 billion.

The survey also noted that deal-making in the insurance industry could shift into high gear, with 84 percent of firms indicating their intention to undertake one to three acquisitions, and 94 percent planning at least one divestiture.

No better time for an M&A 'playbook'

One of the first steps insurers may want to consider is the development of an enterprise-wide M&A 'playbook' to enhance and deepen their evaluation of the strategic-fit a potential acquisition target offers. Creating a robust, strategy-aligned enterprise-wide 'M&A playbook' –

one that covers due diligence, deal evaluation, and post-deal integration/separation processes – will improve deal outcomes over the long term. The days of simply pursing any or all deal opportunities that present themselves are disappearing fast.

Businesses also told us that partnerships are the clear choice for transforming the business model: 87 percent of organizations expect to partner for gaining access to new operating capabilities, and 76 percent are looking to partnerships for gaining access to new technology infrastructure. To stay abreast of emerging trends in technological innovation, several insurance companies have already established or are considering establishing in-house corporate venture capital (CVC) investment capabilities, largely as a way to invest in innovative technology capabilities.

Among firms with established CVC models, the majority stated that their investment activities are focused on non-insurance technologies. While more than a quarter of insurers with CVC models boast more than US$1 billion in allocations, 90 percent say the median value of their CVC investments ranged between US$10 million and US$50 million.

Strategy-aligned M&A will certainly require a different mindset that includes a renewed focus on execution: 39 percent of firms said aligning their deal evaluation process to corporate strategy objectives is the key factor for M&A success. That said, there is clearly more work to be done. Most organizations surveyed admit that their corporate development and M&A teams' objectives were not fully aligned to their overall corporate strategy. Many respondents also admitted that their M&A priorities continue to be 'reactive' to market opportunities, as opposed to targeting deals strategically aligned to overall corporate strategy.

Trends that will shape 2017 deal-making

As insurers formulate their M&A strategies for the year ahead, we believe the following trends will shape deal activity:

1. Cross-border activity will increase as insurers worldwide seek to diversify their geographic risks and earnings profits: With stagnation in global economic growth and changing geo-political risks across the mature and emerging markets, insurers will look beyond their domestic borders to buy or sell assets abroad.

2. Portfolio rationalization and strategic repositioning of businesses by larger insurers is expected to drive global M&A activity. Divestiture of non-core business segments in strategically non-core geographies is expected to be a key driver for increased deal activity.

3. Greater alignment of corporate strategy and M&A objectives will provide an edge to buyers as competition for deals rises. Strategy-aligned approach to M&A planning and execution will result in better deal outcomes over the long-term compared to a 'reactive' approach of simply pursuing deal opportunities as they arise.

4. The hunt for innovation will increasingly shape insurers' rationale for doing deals. Companies with a strong digital model and startups with advanced technology will attract a multitude of willing suitors as legacy companies seek to transform their business models through acquisitions.

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4. The hunt for innovation will increasingly shape insurers' rationale for doing deals. Companies with a strong digital model and startups with advanced technology will attract a multitude of willing suitors as legacy companies seek to transform their business models through acquisitions.

The road to strategy-aligned deal-making in 2017

The modern M&A landscape is filled with both opportunities and pitfalls for global insurance companies. To navigate this landscape successfully, acquirers cannot divorce their M&A activities (both target identification and target evaluation) from their broader strategy. They need to pay close attention to their strategic growth objectives, as it relates to transforming their business and operating model, and recognize that not all potential acquisition targets are capable of helping fulfill them.

Key findings:

Deal-making shifts into high gear

84% plan to conduct 1-3 acquisitions in 2017

94% plan at least one divestiture

Partnerships are the clear choice for transforming the operating model

87% said they will partner for new operating capabilities

VS.

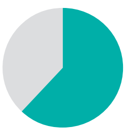
64% who said they would use M&A

76% will partner to gain access to new technology infrastructure

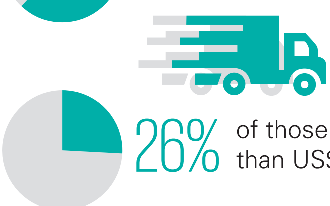
VS.

29% who said they would use M&A

Corporate venture capital (CVC) fuels the engine



62% of insurers are either active or setting up a corporate venture capability



26% of those with VC activities have more than US$1b in allocated funding

Source: KPMG International, 2017

Strategy-aligned M&A requires a different mindset and renewed execution focus

39% said that aligning the deal evaluation process to corporate strategy objectives was the most important factor for M&A success

Yet 37% of the respondents said their priority is to be reactive to market opportunities

A gap emerges in strategic alignment

47% with dedicated M&A teams believe their deal identification objectives are aligned to corporate strategy

Yet, 50% believe they are less aligned when it comes to evaluating potential risks associated with integrating/separating the target's operating model

Better at home than abroad

92% ranked their capabilities to execute domestic transactions as high

While 77% ranked their capabilities to execute cross-border acquisitions as moderate to low

92% ranked their capabilities to execute cross-border divestitures as moderate to low

A strategy-aligned M&A focus will bring greater clarity on which markets, geographies, products and channels insurers wish to 'play in' or 'exit out of'; and the relevant operating processes, technology infrastructure, talent and culture they will need in order to win and transform their operating model.

Startups with powerful software tools and innovative technologies are increasingly seen as attractive targets, as evidenced by recent high multiples and valuations of such technology enabled platform based business models. In this market, insurers will need to be equipped with holistic data and analytics-enabled deal evaluation capabilities. Particularly in the areas of due diligence, integration and separation activities to fully understand how they can extract maximum value, and how the target's operating capabilities complement or supplement their own.

As insurers formulate their M&A strategies for the year ahead, we believe the following trends will shape deal activity:

— **Cross-border activity will increase as insurers worldwide seek to diversify their geographic risks and earnings profile.** With stagnation in global economic growth and changing geo-political risks across the mature and emerging markets, insurers will look beyond their domestic borders to buy or sell assets abroad.

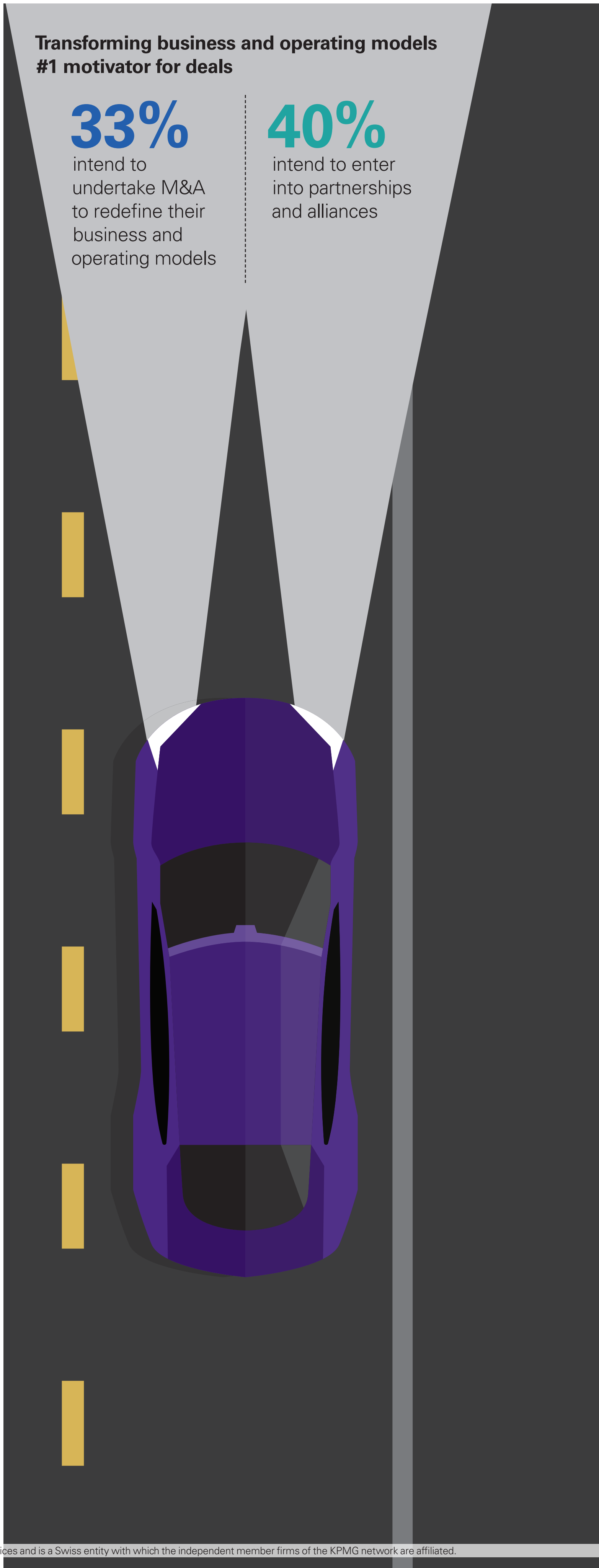
— **Portfolio rationalization and strategic repositioning of businesses by larger insurers is expected to drive global M&A activity.** Divestiture of non-core business segments in strategically non-core geographies is expected to be a key driver for increased deal activity.

— **Greater alignment of corporate strategy and M&A objectives will provide an edge to buyers as competition for deals rises.** Creating a robust, strategy-aligned M&A plan of action would provide rationale for pursuing strategic-fit targets with higher deal premiums. This will result in better deal outcomes over the long-term, versus a reactive approach to pursuing any or all deal opportunities that present themselves.

— **The hunt for innovation will increasingly shape insurers' rationale for doing deals.** Companies with a strong digital model and startups with advanced technology will attract a multitude of willing suitors as legacy companies seek to transform their business models through acquisitions.

Survey methodology

In Q4 2016, KPMG commissioned a survey of 200 global insurance executives to learn about their perspectives and outlook for M&A, corporate strategy and innovation over the coming 12 months. Survey respondents were divided regionally among firms in the **Americas (33%), Asia-Pacific (33%), and Europe, Middle East + Africa (33%) and by segments: Life (25%), Non-Life (25%), Reinsurance (25%), and Other (25%)**, consisting of Insurance Brokers and Services. Companies needed to have a minimum of US$1.5b in annual revenue to qualify for participation.



Consumer Markets

Nicola Longfield
Global Consumer Markets Deal Advisory Lead, KPMG in the UK

The consumer sector continues to be a dynamic and rapidly changing area both for businesses and their customers. Businesses are intensely focused today on identifying and responding to the evolving needs, demands and preferences of customers in the digital age. This includes exploring and developing new ways to connect and interact with consumers, as well as deciding where to invest on innovation that will drive future success in retaining current customers and attracting new ones as the competition grows.

A huge amount of convergence is currently taking place across the consumer markets sector and this trend is expected to continue. The major global players are certainly examining their product portfolios and considering how to expand their offerings beyond pure consumer products. For example, significant convergence is ongoing as consumer businesses are thinking more holistically and looking to extend their offerings and services into new areas such as nutrition, well-being and so on.

From a technology perspective, consumer businesses will remain sharply focused on digital technology to differentiate themselves in the evolving marketplace, whether that means using today's digital technology, tools and channels to better communicate with customers, to improve overall service and satisfaction and to enhance distribution methods.

For major players operating large global brands, the key challenges will include how best to thoroughly identify, respond to and satisfy the needs of local consumers. M&A strategies can help global businesses fill gaps at the local level through the acquisition of smaller, fast-growing local brands and businesses.

Some market observers are predicting 'an avalanche' of M&A activity in the consumer markets sector. There is no doubt that among many consumer businesses, M&A activity today is almost replacing the need for an innovation or R&D department and the complex, costly process of establishing a new brand in a new market. M&A to acquire brands and businesses at the local level is viewed as a faster, more-efficient approach to evolving and growing the business and we can expect more organizations to pursue this strategy amid changing markets.

Oil & Gas

Mark Andrews
Partner, Head of Oil & Gas, KPMG in the UK

During 2016, deal activity in the oil and gas sector continued the downward trend that began back in 2011, with the number of announced/completed deals dropping to the lowest point in a decade, due in large part to the depressed oil prices. In 2016, exploration rates were down and many companies were finding it more challenging to access capital. In addition, many of the sector's big players appeared to be focused on managing their own businesses rather than seeking out M&A opportunities. However, the sector is seeing a marked improvement in 2017.

"For 2017, we are expecting a more positive M&A environment in the oil-and-gas sector, following the low deal volume seen in 2016," says Mark Andrews, Partner and Head of Oil & Gas with KPMG in the UK. "In 2016 we saw the low oil prices lead to the creation of a valuation gap between would-be buyers and sellers. As a result of this gap, many of the players that would otherwise have been on the lookout for inorganic growth, opted instead to focus on ensuring the sustainability of their own operations."

Andrews also identified that there was a slight uptick in deals in at least one subsector in 2016 – oilfield services – with an increasing number of companies completing mergers aimed at unlocking synergistic benefits.

Looking ahead, Andrews comments "The first quarter of 2017 has been strong, with a number of substantial deals being announced in the sector. This is due to a relative stabilization of the oil price, compared to 2016, creating a closer alignment of pricing between buyers and sellers and more financing made available to the sector."

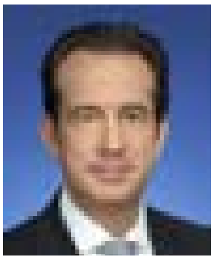
"Over the next 12 months, we're going to see the continued development of consolidation plays to gain efficiencies and create logistical benefits," says Andrews. "We also expect to see a rise in the number of innovative deal structures to satisfy the needs of both buyers and sellers, whether those take the shape of price ratchet earn outs, the swapping of assets or deals to put assets in the hands of owners who may be better-suited to operate them."

Overall, the sector will continue to offer plenty of M&A opportunities in 2017 and beyond, however it is unlikely that the exceptional level of deal activity seen in the first quarter will last, as much of the capital available may have been committed to the deals already announced.

M&A Tax

Optimism for 2017 activity is tempered by concerns over the impact of BEPS and increased deal scrutiny – a global view from a tax perspective

Arco Verhulst
Global Head of Deal Advisory, M&A Tax, KPMG International



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With macroeconomic indicators pointing in the right direction following sustained global economic uncertainty, and initial fears over Brexit subsiding, there's optimism that global M&A activity will continue trending upward in 2017.

At the same time, however, a cloud of uncertainty looms amid intensifying scrutiny of M&A transactions from tax authorities, the potential for major tax reforms globally, particularly in the US, and uncertain political agendas on the global front. To what extent such factors will have an impact on the M&A market – and when – is the big question for 2017.

Perhaps the biggest tax development affecting cross-border M&A globally involves the OECD's action plan to combat tax Base Erosion and Profit Shifting (BEPS). Companies with cross-border transactions and structures are facing a period of uncertainty as governments must first determine how the guidance affects current rules, then work to enact domestic tax changes — a process that could take years. While these developments unfold, some potential buyers may avoid transactions involving sophisticated international tax planning structures.

In addition, the EU drafted the 2016 Anti-Tax Avoidance Directive (ATAD) for adoption and future implementation by EU member states. The ATAD package of measures, which aims to ensure consistent and appropriate implementation of the OECD's BEPS recommendations by EU member states, will result in more-stringent legislation along with greater harmonization.

It's already evident that the international campaign to combat tax base erosion and profit shifting (BEPS) — both as part of the OECD project and through countries' unilateral moves — is altering the tax environment for cross-border M&A in significant ways regarding country-by-country reporting, focus on substance and interest deductibility:

— **Country-by-country reporting** will make things more transparent for tax authorities in terms of how multinationals are operating and where revenue, profits and tax payments are coming from. And while the OECD has not proposed that the reports be made available for public scrutiny, the EU is consulting on this possibility as part of its tax transparency package. As a result, buyers could gain access to more-detailed information about potential targets for due diligence purposes, and sellers should be mindful of the reputational implications of this increased transparency.

— **Focus on substance:** One major point of concern around BEPS is how tax authorities are increasingly looking for sufficient business substance in offshore business structures, especially those involving low- or no-tax jurisdictions, and they are denying preferential rates for dividend and interest withholdings where insufficient substance exists. When structuring an acquisition, substance in holding companies will require much more attention and, where an acquirer or acquired entity lacks sufficient substance in certain jurisdictions, it may affect their ability to access treaty benefits.

— **Interest deductibility:** ATAD's "interest deduction limitation" dictates that, regardless of domestic interest limitation in place among individual countries, minimum uniform measures for EU states will be applied to interest deduction and the limiting of excessive interest deduction. This will have an impact on M&A markets, in particular the net cost of funding for acquirers. The denial of deductions for interest has emerged as a common legislative means of eliminating the tax benefits of cross-border debt financing structures. Germany and Denmark were among the first countries to challenge tax deductions for interest paid on loans taken up by companies to finance their own acquisition. Countries such as Sweden are tightening rules for interest on related-party debt. The UK and US are considering a proposed fixed-ratio rule (FRR) to limit tax relief of net (including third-party) interest of 10-30 percent of net earnings before interest, dividends, taxes and amortization (most countries expect 20–30 percent), which will affect international investors and especially highly leveraged groups.

Business as usual in Europe – for now

Meanwhile, BEPS-related concerns are considered critical for tax due diligence reviews. While companies will remain focused on discovering the historical risk profile of any company they are acquiring, changes regarding implementation of BEPS and increased transparency will make companies far more concerned about the future sustainability of a target company's tax profile. For example, if a target group has a relatively low effective tax rate, acquirers today will be particularly concerned about how sustainable that lower tax rate will be and many will conduct modelling around various sustainability factors. Tax due diligence in this regard will need to be much more forward-looking.

Overall, however, even as the world around them is poised for change, it is still "business as usual" for the moment among companies and private equity funds in Europe. For as long as legislation remains unchanged to reflect BEPS, or the anti-tax avoidance directive in the EU, companies will try to benefit from existing legislation, while also carefully considering potential future 'BEPS unwind costs.'

Some uncertainty in the Americas M&A market

In the US, while the 2016 transactional market was affected by broad uncertainty over multiple factors, including legislative and regulatory changes, the introduction of BEPS-related legislation, Brexit and the US presidential election, momentum grew by the end of 2016 and expectations are high for 2017.

While optimism prevails for the US market, however, uncertainty over the changing legislative, regulatory, economic and political environments cannot be dismissed, particularly the OECD's BEPS initiative.

From a US perspective, while the US Treasury and IRS are responsive in issuing guidance, it is too early to speculate on the impact of the Trump administration's agenda and proposed changes. Tax reform could be enacted in the US, although the extent of the reform is still unclear.

Currently, rules that were issued over the past year remain in effect, including rules regarding earnings stripping, inversions, cross-border partnership transfers between related parties, and the transfer of intellectual property from the US to a foreign jurisdiction. Undoubtedly, these rules will need to be considered in future transactions.

In Latin America, we see a move towards greater transparency, substance, thin capitalization, and other BEPS-influenced reforms. For example, Brazil and Argentina both employ a list of disfavored jurisdictions subject to higher withholding tax rates. Mexico and Chile have introduced more stringent thin capitalization rules and reporting requirements for transactions involving entities in their jurisdictions, with Chile also adopting a general anti-avoidance rule. Colombia recently passed a comprehensive tax reform that includes increased information exchanges, adoption of country-by-country reporting, anti-avoidance rules and the reinforcement of anti-tax haven legislation.

These legislative changes highlight a rapidly changing regulatory landscape in Latin America that demands increased attention when structuring acquisitions in the region. Additionally, the region will not only be subject to local political uncertainty, but also to the potential impact of Brexit and any changes in US legislation. However, certain trends, such as continued low commodity prices, currency devaluations, a rising middle class, and a need for infrastructure partners in the wake of the Odebrecht corruption scandal shocking the region, may encourage investment through M&A for 2017.

Asia Pacific outlook remains robust

In the Asia Pacific region meanwhile, the M&A market continues to be robust in China (in- and out-bound), Japan, Singapore, Australia and India, with the tech sector sustaining activity across the region, and PE and Infrastructure on the increase.

From a tax perspective for the region, the most notable changes are largely the continued evolution of domestic laws dealing with M&A in China and India, plus the increased focus and resources of the Australian Tax office.

There is prevailing optimism overall that M&A deal volumes will continue to increase and that outlook seems well founded considering economic factors. The level of tax authority activity and domestic and international tax reform are more likely to influence pricing and execution risk, as opposed to deal flow. Certainly, BEPS-related concerns are significantly influencing deals taking place and the way they are structured. Substance in holding jurisdictions for CIVs is probably the most significant influence of all the BEPS reforms in the region.

Tax due diligence will mean gaining an understanding of the state of a target's BEPS appropriateness. Quantifying the precise dollar value of recent BEPS reforms is difficult and there is much to be done concerning due diligence and the need for post-deal documentation and restructures as a result. On a positive note, several tax treaties in the region are undergoing renegotiation and in some instances, new treaties are coming into existence.

Overall, it will indeed be interesting to see how 2017 shapes up as optimism and a 'business as usual' outlook prevail globally, tempered by a backdrop of uncertainty over the potential impact of developments on the political, legislative, regulatory and economic fronts.

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