Looking East and West: UK Cross-border M&A

May 2016

Inside

What do dealmakers think of 'Brexit'?

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MERGERMARKET

DUFF & PHELPS

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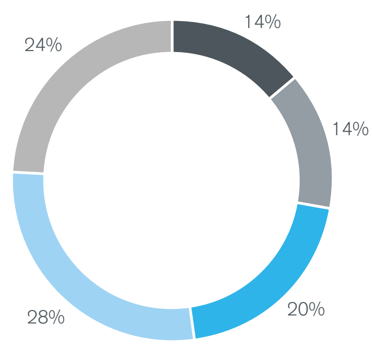
Corporates

Which industry best describes your business?

20%	Industrials & chemicals
16%	Pharma, medical & biotech
12%	Energy, mining & utilities
10%	Business services
10%	Consumer
8%	Financial services
8%	Media
8%	Transportation
4%	Real estate
4%	Technology

What is the size of your company by revenue?



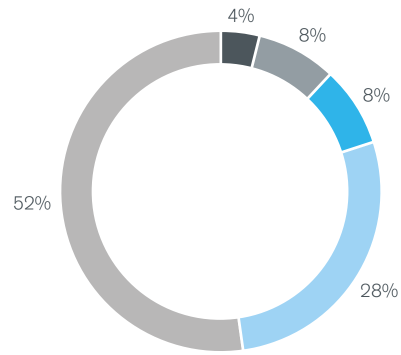
US$50m – US$500m
US$500m – US$1bn
US$1bn – US$2bn
US$2bn – US$5bn
US$5bn +

Private Equity

Which industry best describes your fund's specialization?

52%	Do not specialize
8%	Consumer
8%	Industrials & chemicals
8%	Pharma, medical & biotech
4%	Business services
4%	Energy, mining & utilities
4%	Financial services
4%	Real estate
4%	Technology
4%	Telecoms

What is the size of your fund?



US$50m – US$500m
US$500m – US$1bn
US$1bn – US$2bn
US$2bn – US$5bn
US$5bn +

Introduction

Volatile markets as well as an impending vote on EU membership place UK M&A at a crossroads — however, despite a tough start, there is room for opportunity.

The UK has been one of the best-performing developed economies in the last few years, with only the U.S. being able to rival its growth.

This strength has translated into more deals in recent years. Indeed, 2015 became one of the UK's biggest years for M&A in terms of both volume and value, cementing the country's status as an attractive business destination.

However, 2016 has brought new challenges – both macro-based and self-inflicted – that could define the future of British business and M&A. Turmoil in markets across Europe, as well as a general global slowdown in emerging economies linked to commodity price fluctuations, have led to a drop-off in investment worldwide. On top of this, a planned referendum on the UK's membership of the European Union (EU) has led to speculation about what impact a "Brexit" will have on investment into the UK. This has hurt dealmaking so far this year, with total spending on UK M&A falling 51% in Q1 2016 compared with Q1 2015.

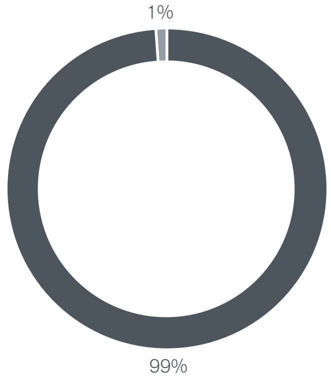
What does this all mean for the future of British dealmaking, particularly once the 'Brexit' vote is concluded? With this in mind, Duff & Phelps, in association with Mergermarket, is pleased to present *Looking East and West: UK Cross-border M&A*, our survey of UK-based corporate and private equity executives outlining the future of UK M&A. Key findings from the report include:

- Over four-fifths of respondents expect UK M&A to increase, mainly on the back of its well-performing economy and its proximity to Europe.
- UK companies are set to become more acquisitive outside their border. Over a third of respondents expect them to become significantly more active outside of the UK, with the rest of Europe and Asia-Pacific receiving the greatest attention.
- Dealmakers want Britain in the EU. Seventy percent believe staying in the EU makes the UK a more attractive M&A destination, while 60% plan to vote in favor of staying in when the upcoming referendum occurs.

Even during tough times, the UK provides an attractive destination for businesses to spend and invest in. Yet while the picture is unclear at the moment with so many questions remaining unanswered, the second half of the year could see Britain reclaim its place as a dealmaking superpower.

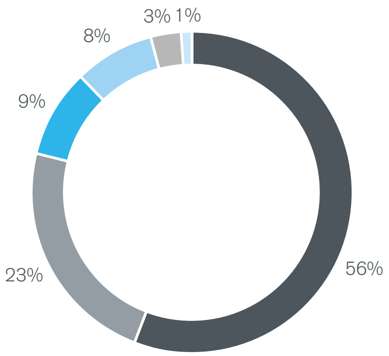
Corporates and Private Equity

Do you have significant revenue from overseas?



Yes
No

If Yes, where?



Other
Germany
France
Italy
Netherlands
Spain

Deal Outlook and Drivers

Dealmaking in the UK is set to thrive in the coming year — both for foreign firms wanting access to the market, as well as for British companies looking to expand.

UK dealmaking sky rocketed over the prior two years following a global M&A glut. From just 1,157 deals in 2013, a total of 1,433 UK deals were posted in 2014, an increase of more than 20%. This high level stabilized in 2015, with 1,431 deals for UK companies recorded that year.

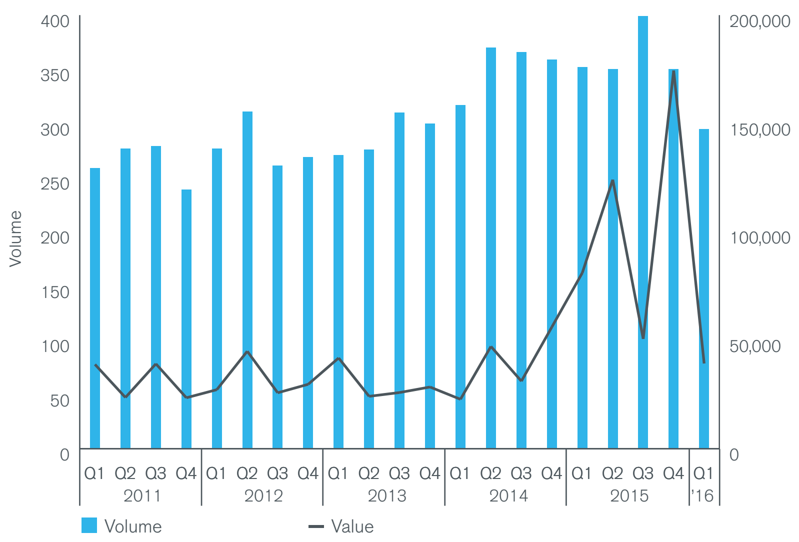
In value terms, the spike is even more pronounced. Last year saw $430bn-worth of M&A in the UK. This is more than the value of all UK deals in 2012, 2013 and 2014 combined. A number of huge deals aided this value boom, such as AB InBev's US$120.3bn takeover of SABMiller, and Royal Dutch Shell's US$81bn buyout of BG Group.

Activity however has stumbled somewhat from these record highs so far this year. The first quarter of 2016 saw 295 deals worth US$39.3bn collectively, a drop of 16% and 52% in terms of volume and value respectively on Q1 2015. Yet even, with this backdrop, respondents feel the M&A boom will continue for the UK. Over 80% expect activity in the British Isles to increase in the remainder of 2016. Just 4% expect dealmaking to fall.

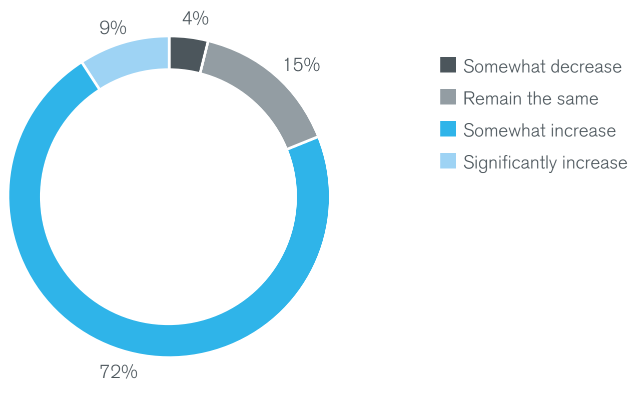
Respondents argued that a stumbling market – forcing UK companies to divest – as well as the weakening pound will entice more foreign buyers to British shores.

"Right now prices are falling, the exchange rate is also down and business in the UK has slowed," explains a managing director at a private equity firm. "The market is restructuring and many companies are selling off their businesses. Companies from other regions are also looking to invest in the UK and are taking advantage of this by expanding in the UK market."

UK M&A 2011-Q1 2016



What do you think will happen to UK M&A activity over the next 12 months?



What will drive M&A activity in the UK over the next 12 months?

36% **Strengthening economy**

25% **Position as a gateway to Europe**

21% **Availability of cheap debt**

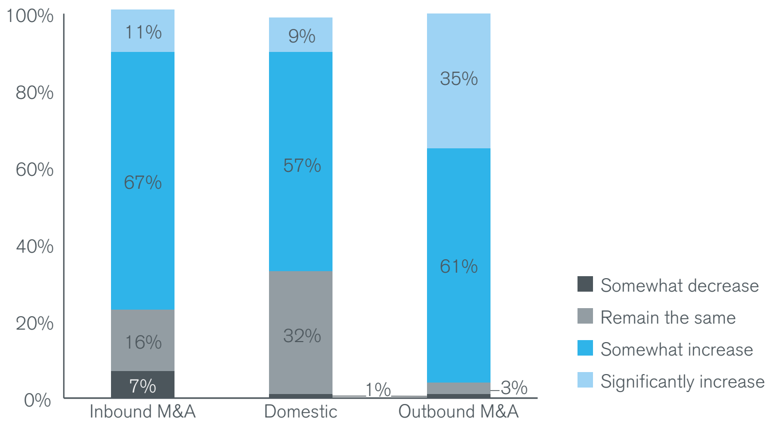
18% **Changing demographics**

Worries over the UK economy ring true, and this may prove attractive for buyers looking to snap up companies at relatively cheap prices. Research from the Office of National Statistics (ONS), for instance, showed that UK GDP grew at its slowest rate for three years in 2015. On top of this the Governor of the Bank of England (BoE), Mark Carney, has iterated that the BoE would look to cut interest rates toward zero should the economy worsen. However, despite these fears, the UK economy is still performing better than the majority of other developed countries.

Indeed, 36% of respondents think that an increase in UK M&A over the next year will be primarily down to a strengthening domestic economy. A further quarter felt the UK's positioning as a gateway to Europe would help the country attract more deals. This is a particularly salient point given the referendum on Britain's future in the EU, slated for June 23. For more on this, see "Deal or no deal," page 10.

Despite short-term concerns, respondents were optimistic about the UK's long-term growth. "The UK economy will grow, and companies will merge and expand to take advantage of the growth as the

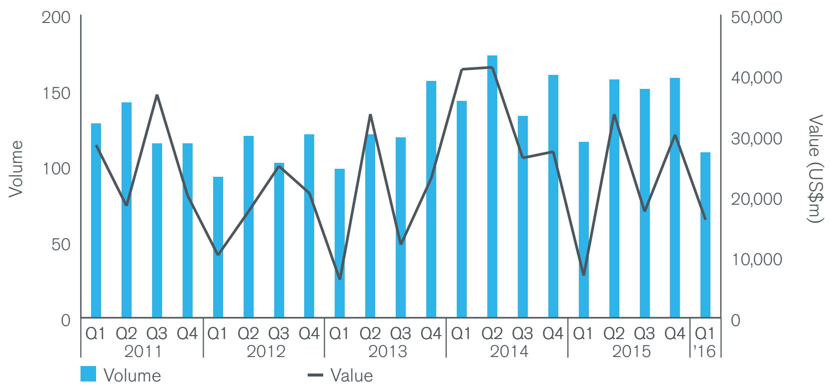
Expectations for UK M&A activity by category



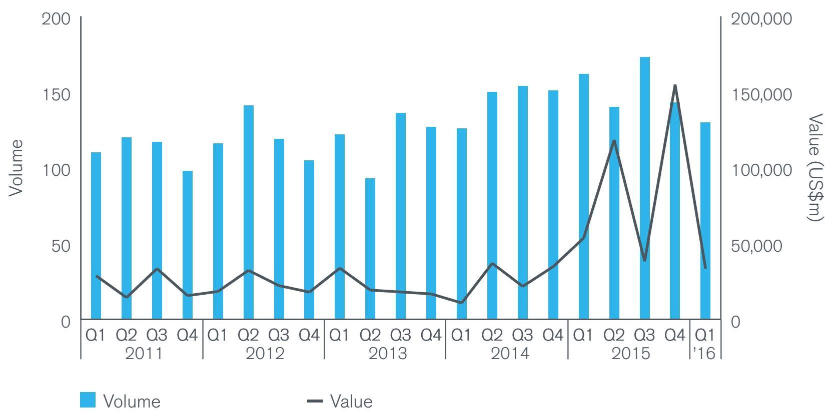
US $430bn

Total value of UK M&A in 2015

UK outbound M&A 2011-Q1 2016



UK inbound M&A 2011-Q1 2016



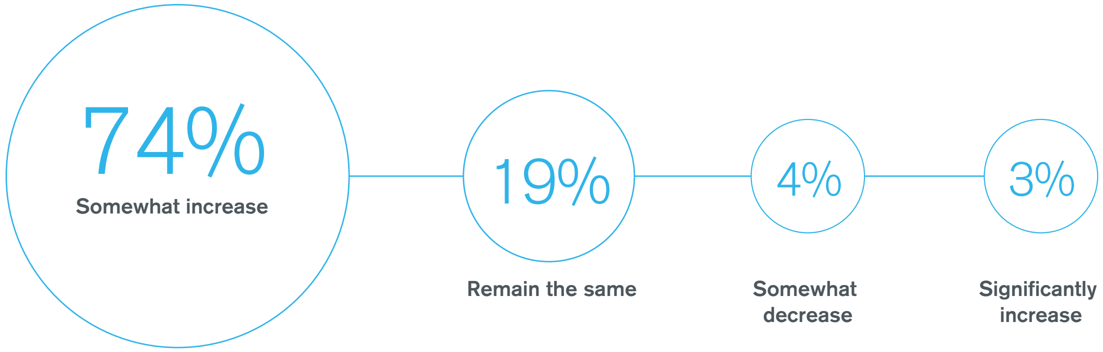
market gets better," said the head of finance at a corporate. "Prices are down at the moment, and there are financing options available to those who need it." Indeed, just over a fifth of respondents said the availability of cheap debt would boost UK deals.

Outbound M&A is expected to jump higher this year, as well. Sixty-one percent think there will be a moderate increase in UK companies stretching their overseas reach, while 35% think the outbound jump will be significant. The activity of foreign firms buying into the UK is also expected to increase by the majority of respondents (78%).

UK companies have become more active outside their borders recently. The years 2014 and 2015 saw almost 1,200 deals in this segment worth a combined US$224.2bn, bolstered by major deals such as the US$8.1bn merger of advisory firms Willis Group and U.S.-based Towers Watson & Co. And while activity dipped slightly in Q1 2016 with 109 deals worth US$16.2bn, this is still relatively favorable when compared with Q1 2015 (116 deals worth US$6.9bn)

For some, opportunities available in developed as well as emerging economies will tempt British firms abroad. "There will be a large number of businesses moving

What do you think will happen to the level of UK inbound acquisitions by corporates over the next 12 months?



outwards. Corporates are looking for investment options abroad and are investing in regions such as the U.S. and Asia-Pacific. China, for instance, currently faces a major shock and low prices, which has given businesses in the UK a chance to invest in these regions," argued a strategy director at a corporate.

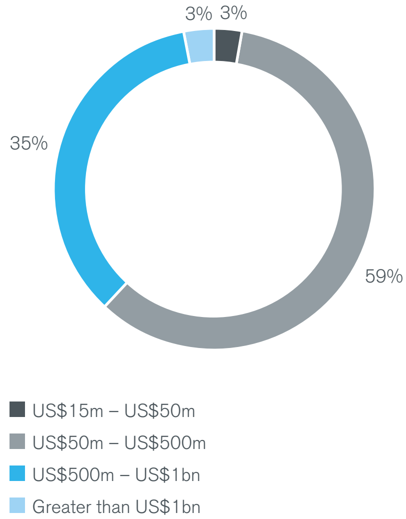
While the depreciation of the pound sterling has caused some commentators to suggest outbound dealmaking will fall in 2016, other factors such as the cheap cost of capital may offset that. In particular, UK-based private equity firms are taking advantage of this. CVC Capital Partners, for instance, has already purchased a 60% stake in Maltese online betting firm Tipico as well as full control of Italian equivalent medicine distributor DOC Generici. It is financing both deals by raising over €1bn in debt.

On the other hand, the appetite for UK companies from foreign firms is expected to increase due to the UK's business-friendly history, as well as key interest from specific areas. "The amount of investment coming in from the U.S. and Asia-Pacific region is only increasing. Foreign companies are entering our market as we have always been strong; even in the current times of uncertainty we are predicted to grow," said a partner at a PE firm. This increased interest from Asia, particularly from China, has accelerated due to growing trouble in the Asian giant's economy. According to Mergermarket, for example, Chinese acquisitions in the UK more than doubled in 2015 year-on-year. And given that this year in Q1 2016 Chinese buyers bought UK companies at the same pace as Q1 last year (three), this optimism seems to be justified.

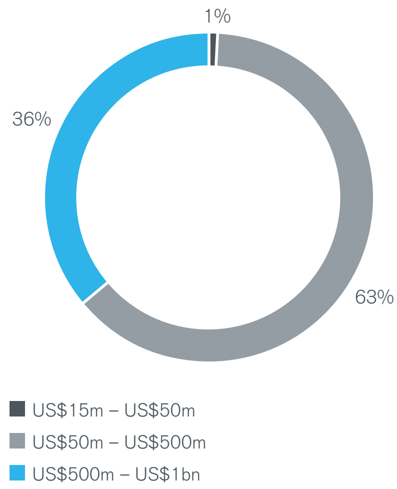
Middle money

The mid-market will make up the most of UK buyers' outbound activity over the next year, according to respondents. Fifty-nine percent think most deals will take place in the US$50m-US$500m range, while 36% believe that the main value will be between US$500m-US$1bn.

In which value range do you expect to see the highest volume of UK outbound M&A deals over the next 12 months?



In which value range do you expect to see the highest volume of UK inbound M&A deals over the next 12 months?



US
$365bn

Total value of UK inbound M&A deals in 2015

Targeting the mid-market provides UK outbound acquirers with exposure to foreign markets with less risk. “UK’s outbound M&A value range will remain within the same bracket, as the dealmakers will try to make short bets to avoid too many complications,” said a private equity partner.

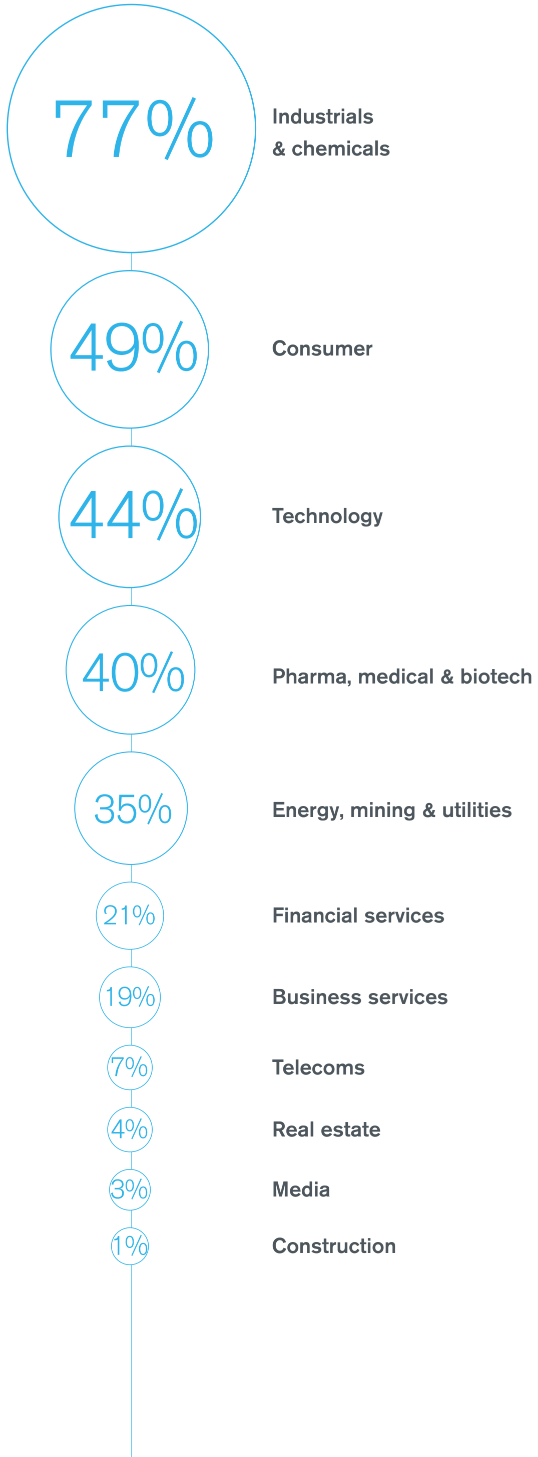
Respondents’ expectations fall in line with the data. According to Mergermarket, of the 576 outbound deals from the UK in 2015, 35% of these fell into the US$50m-US$500m category. The expectations are practically the same for UK inbound deals in the coming year, with nearly all respondents thinking deals between US$50m and US$1bn will garner the most activity. Roughly two-thirds of those expect deals to fall mainly in the top US$500m of that.

Overseas buyers will be drawn to the opportunities in the UK’s mid-market, according to a group finance director at a corporate. “The mid-market is a ripe target for foreign buyers or multinationals, so the common value range will be US$50m – US$500m, but not to the extreme high side,” he said. “The mid-cap market has been crucial for the UK’s economic growth and is one of the fastest growing segments at present.”

UK M&A will be centered on the industrials and chemicals sector, according to respondents. Seventy-seven percent believe that it will see one of the biggest increases in deal activity over the year, with the consumer sector — chosen by the second-highest percentage of respondents (49%) — trailing far behind. Technology (44%) and pharma, medical and biotech (40%) are also expected to be active.

Manufacturing in the UK has suffered in the last few years, particularly in the final quarter of 2015. Productivity slumped in Q4 to -1.1%, according to the ONS, with consumer spending instead picking up most of the slack. This has led to some firms selling unwanted assets to shore up balance sheets. For example, engineering firm Meggit purchased

Which sectors in the UK do you think will see the biggest increase in M&A activity over the next 12 months? (Please select up to three).



the composites business of Cobham for US$200m. Commenting on the deal, Cobham said that the divestment fitted with its strategy of "simplifying its portfolio" and focusing on other products that either have more scale or are market leaders.

Just 19% and 21% respectively expect business services M&A and financial services M&A to increase in the next year, suggesting that the UK economy's reliance on service-based industries has reached a dealmaking plateau.

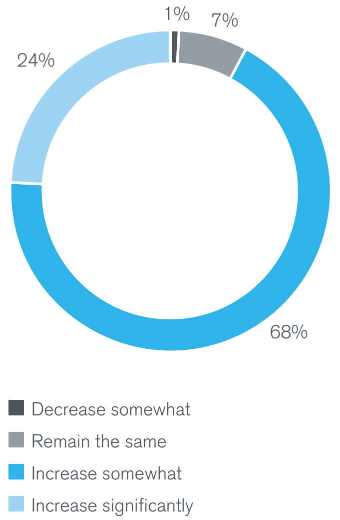
The asset-shedding in the manufacturing industry could well be part of a wider trend across British business. Over 90% of respondents expect UK divestment activity to increase, with just 1% thinking it will decrease.

As well as corporates looking to offload, divestments will also be driven by private equity firms looking to exit their investments. "Both PE investors and corporates will start divesting to exit companies and make the returns now before the market conditions become more uncertain," said one corporate development director. "As companies adapt to the changing economic situation, they will also divest and try to increase their operational efficiency."

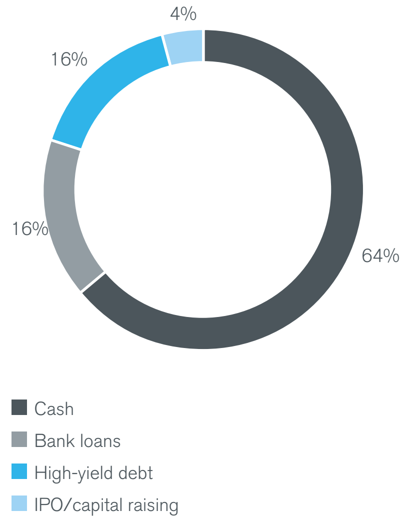
Financing for UK M&A will be predominately done with cash. Just under two-thirds of respondents said acquirers would use their own cash, while 32% said they would take on board debt. Just 4% said IPO markets would be the most common financing source, which is unsurprising given the slow start to public issuances so far in 2016. Indeed, January saw no U.S. IPOs, marking the first month without any U.S. public market debuts since September 2011.

"Cash would be the best option to invest right now," explains the director of corporate development at a corporate. "Bank loans are a feasible option as rates are down, but they are difficult to get. High-yield debt may not be a good option, as markets are still volatile and currently there is a bubble-like situation in the debt market."

What do you think will happen to divestment activity in the UK over the next 12 months?



What do you think will be the most common financing source for acquisitions over the next 12 months?



Deal or No Deal? The UK, the EU and M&A

The UK electorate will go to the polls in June to decide whether or not its country should stay in the EU – and Britain's dealmakers want the country to remain in.

Britain's referendum on EU membership, slated for June 23, is evoking argument and emotion from both sides of the fence. Prime Minister David Cameron believes he has collected enough concessions from Brussels to warrant staying in. The concessions include deals over hot-button domestic issues such as welfare payments and migration, as well as business-centric negotiations over safeguarding London's financial center from Eurozone regulations and renewing impetus among member states and institutions to streamline the EU's regulatory process.

However, the outcome is by no means clear. With the debate becoming polarized, support for both camps remains very evenly matched. According to the latest *What UK Thinks* poll of polls from May 3 this year, opinion is split directly down the middle, with 50% intending to vote 'Remain' and 50% looking to vote 'Leave'. What does the UK's dealmaking community think about the upcoming referendum?

In it to win it

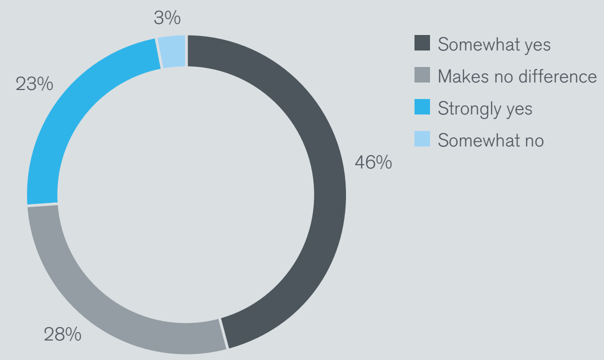
The majority of survey respondents are committed to the idea that inbound M&A will be helped by the UK remaining a part of the EU. Almost half (46%) said it had some helping effect, while 28% believed it provided a substantial boost.

"Of course it does," explains one finance director at a corporate. "Being a part of the trade block has its advantages – it makes it simpler for companies in EU countries to invest in the UK directly. Even the currency is accepted and business transactions can be done easily, taxes do not become that big of a problem, and business and the documentation process is the same." Indeed, from 1999 to 2014, the number of goods imported to the UK from the EU have grown, on average, by 4.9% per year. In comparison, exports from the UK to the EU have risen 2.5% per year over the same period.

The ease of doing business with the EU while part of the bloc, coupled with Britain's already advanced business climate, makes for a potent and attractive package. "The UK is a strong market on its own," said the head of finance at a corporate. "But [the EU] makes it simpler for investors and businesses to invest in the UK. They are also able to use the UK as a base to do business in the rest of Europe, and it gives investors two currencies to hedge losses and make payments. This gives the UK a certain amount of uniqueness for investors."

Other respondents, however, feel that Britain's historic status as a business hub is enough on its own to attract foreign investment – and that EU membership is irrelevant. "It does not matter at all," said the M&A director at a corporate. "We are

Do you think the UK remaining part of the EU aids inbound M&A?



an old, open economy which has been doing business on our own. In fact, the EU and being a part of it restricts many sectors in our economy and makes things more tedious. The UK draws investment due to its market size and its ability to give high returns to those who invest in it."

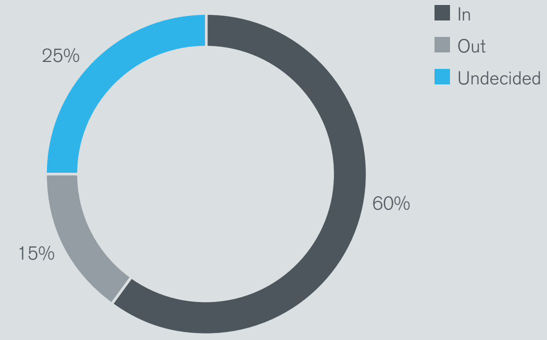
Best for business

Not only do respondents think remaining part of the EU will help inbound M&A, a majority of them are also willing to put their name to it. Sixty percent said they will vote to remain in the EU in June, while just 15% say they will vote to leave.

A number of respondents looking to remain in the EU noted how membership favors Britain's business climate. For UK-based companies with operations in the EU in particular, leaving would cause big problems. "Being a part of the EU would be beneficial to the company and businesses in general," said the strategy director at a corporate. "It makes it easy for us to carry out business. We have many units and businesses in other EU countries but are based out of the UK, so if we leave the EU our business will be hit hard by this. That is something I am worried about." These worries are already being translated into real hits even with just the prospect of Brexit. For instance, when Conservative MP Boris Johnson announced his backing for the "Vote Leave" campaign in February, the pound fell to its lowest level in almost seven years against the dollar.

Others, however, believe the UK will be able to prosper outside the EU – though a long-term approach will be needed. "I think if we leave the EU it will be beneficial to us in the long run. We will be able to sustain ourselves better and we will be able to grow fast and well," said a finance director at a corporate. "The first few years will be filled with turmoil, but then things will settle down and we will be able to carry on well after that."

In the planned referendum on the UK's EU membership, at the moment how would you vote?



One of the big questions surrounding the process is the practicality of leaving. No member state has ever left the EU, and many observers wonder how such a scenario would play out with regard to subsequent trade deals, Britons resident in other EU countries, and single-market access. It is understandable, then, that around a quarter of respondents remain undecided about how they will vote. "I am still not decided on which way I would want to vote," said a strategy director at a corporate. "There are so many things, like how the split will affect businesses in the EU and how the taxation will work. There will also be a lot of economic problems that may follow and the split will make the whole region unstable, as well as affect our businesses abroad."

Private Equity

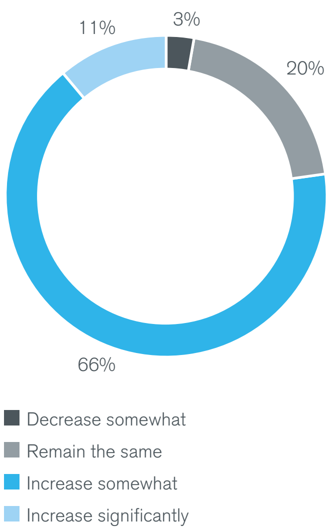
The UK is set to offer private equity buyers a wealth of opportunities. However, fierce competition for assets and economic uncertainty will challenge buyout houses.

Just as most respondents expect overall M&A activity to rise in the UK, 77% believe that private equity (PE) deals in particular will increase in the coming 12 months. The value of PE buyouts in the UK went up nearly 13% in 2015 to US$45.5bn year-on-year, although the number of buyouts dropped from 288 to 251, due to valuations rising out of firms' range and fierce competition from corporates. And despite buyout numbers falling further in Q1 2016, our survey respondents expect PE activity to jump in the remainder of this year, thanks to a rise in affordable targets and the ample stockpile of PE dry powder waiting to be deployed.

Several large 2015 PE deals came as a result of companies selling minority stakes, such as Hutchison 3G UK's sale of a 33% stake to a consortium of foreign PE firms for US$4.7bn. One respondent expects more such opportunities to present themselves in the coming months. "PE investors have managed to make a lot of money in 2015 and there are good investment options in the country," said a corporate development director. "There are also quite a few asset sales, and companies are open to investments due to the economic uncertainty that is looming over us."

Twenty percent of respondents predict PE activity to remain the same, while 3% expect it to decrease somewhat. These respondents point to the lack of high-growth targets in the UK, the erratic economic environment, and the greater attractiveness of other world regions. "PE investors will do better if they invest abroad," said the director of strategy at a corporate. "And anyway, there are not too many UK companies to invest in, such as startups and new businesses ventures." Indeed, when it comes to the tech sector, the UK lags behind in terms of deal value. In 2015, UK technology deals had an

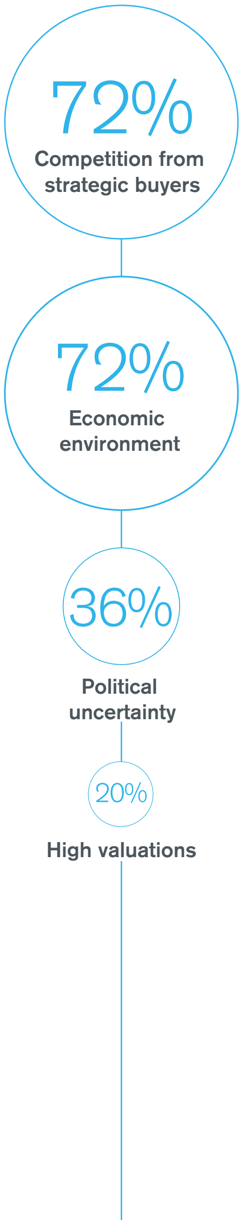
What do you think will happen to the level of private equity activity in the UK over the next 12 months?



"PE investors have managed to make a lot of money in 2015, and there are good investment options in the country."

Corporate development director

What are the main challenges facing private equity companies investing in the UK? (Select up to two)



US
$45bn

Total value of UK private equity buyouts in 2015

aggregate value of US$12.8bn, compared with US$18.1bn in France, US$68.7bn in China, and US$240bn in the U.S..

In evaluating the biggest challenges facing PE firms in the UK, 72% of respondents singled out the economic environment and competition from strategic buyers as the main barriers. Modest growth is expected in the UK economy over the coming 12 months – in late February, the International Monetary Fund said the UK would grow 2.2% in the medium term and noted that the fiscal deficit has been cut in half since 2009. However, global volatility and sluggishness in the Eurozone are top of mind for many of our survey respondents. “Many buyers, a slow economy and a large amount of uncertainty looming over the conditions of the market in the future will make it difficult for PE companies to invest in the UK,” said the head of finance at a corporate.

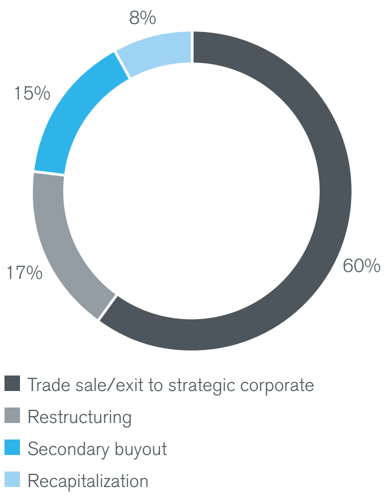
The perception of heavy competition from corporates is borne out in M&A statistics from recent years. In 2015, PE buyouts represented 17.5% of all UK deals, compared with an average of 20.8% over the previous four years, according to Mergermarket data. One partner at a PE firm argued that strategic acquirers are often willing to pay a premium for the high-quality assets on offer in the UK: “Corporates have rich cash reserves and can outbid PE or other financial buyers in an auction,” he said.

Thirty-six percent of respondents think political uncertainty will be a major hurdle for PE companies, while 20% say high valuations will stand in the way. Five percent of respondents specifically mentioned the threat of Brexit as a serious problem for PE firms to reckon with.

PE exits increased by an impressive 65% in terms of value in 2015, thanks to lofty valuations, open credit markets, and increased M&A activity by strategics. Respondents expect these trends to continue, particularly when it comes to corporate M&A activity – 60% expect trade sales to be a more prominent form of PE exit over the rest of 2016. “Corporates strongly desire more capabilities and talents to give their business a boost,” said one PE partner. “PE firms’ portfolios that consist of small and medium-sized enterprises have a reputation for excellence and innovation, so corporates are ready and willing to offer good value.”

Fifteen percent of respondents believe secondary buyouts will be more prevalent in the coming 12 months, following a banner year for the exit strategy in 2015. Secondary buyouts represented seven of

What kind of exit will become more prominent for private equity portfolio companies in the UK over the next 12 months?

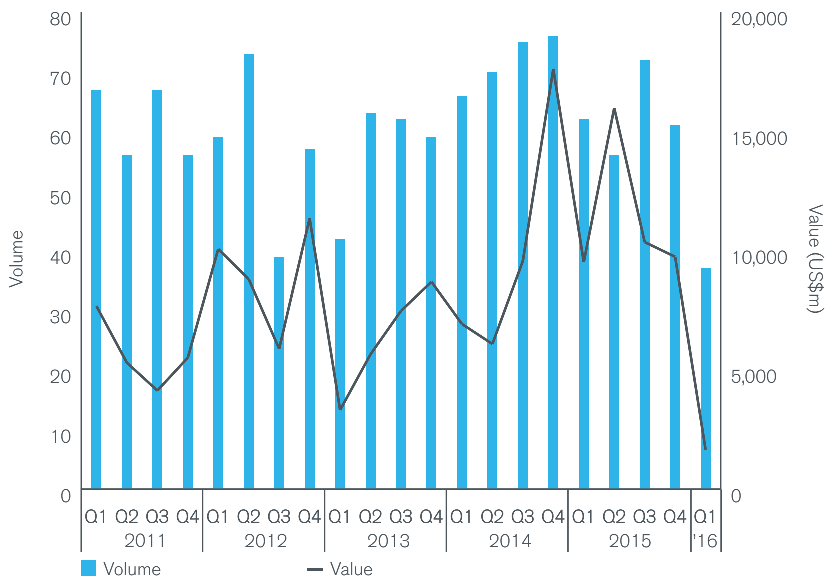


the ten largest PE deals of the year in the UK, including the top deal in terms of value – Arcus Infrastructure Partners' sale of a 39% stake in rolling stock company Angel Trains for US$5.4bn, to a pair of PE firms from Australia and Canada. Overall, secondary buyouts made up 36% of all 2015 PE exits in the UK.

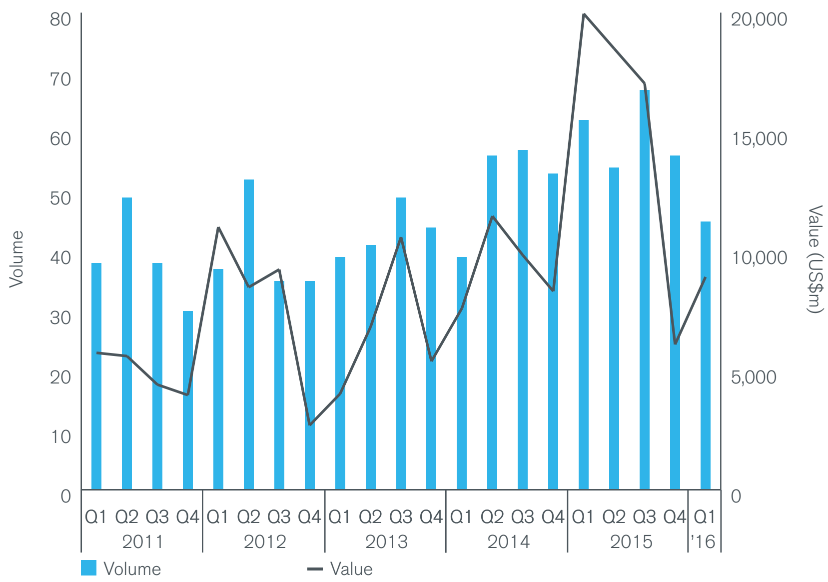
Almost one-fifth of respondents (17%) think restructurings will be more prominent and 8% think debt recapitalizations will be a dominant form of PE exit in the next 12 months. Respondents cited the advantageous interest-rate environment, combined with a downturn in equities, as the reason for debt-based exits to gain favor. "Given the deteriorated conditions of the equity market and stressed relations with shareholders, I think most companies will opt for debt issuance, and companies with a lot of debt will convert it to equity," said a partner at a PE firm.

PE buyouts and exits have been on divergent paths, according to Mergermarket data. While the value of UK buyouts has increased, volume actually dropped from 288 to 251 from 2014 to 2015. By contrast, PE houses exiting investments were met with a more receptive market. Exit value rose by 65% and volume 15% over the same period. And while exit volume fell in Q1 2016 quarter-over-quarter, value rose by 46%.

UK PE buyouts 2011-Q1 2016



UK PE exits 2011-Q1 2016



UK Inbound and Outbound M&A

Transatlantic activity, as well as the prospect of Brexit, provide an intriguing background to UK cross-border dealmaking for the rest of the year.

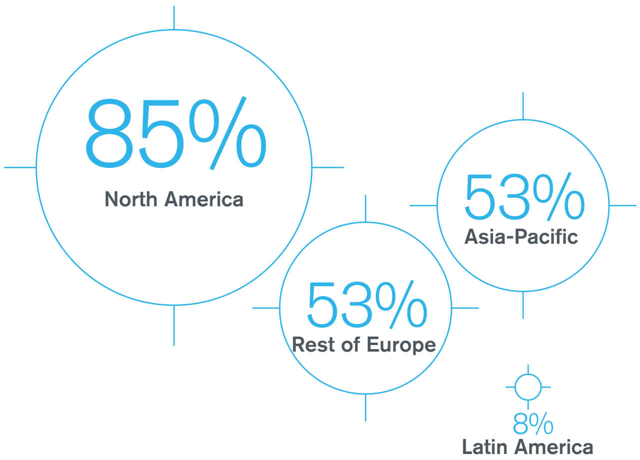
Eighty-five percent of respondents expect North American buyers to be among the most active UK inbound investors, while 53% each believe acquisitions will be made by European and Asia-Pacific firms.

In Q1 2016, North American buyers led the way with 47% of the 154 UK inbound deals, compared with 37% from the rest of Europe and 11% from Asia-Pacific. One survey respondent argued that the recent slump in the British pound – which fell below 1.4 to the U.S. dollar in late February, a seven-year low – will boost acquisition interest on the part of U.S. buyers. "Most of the business will come from the U.S. – the exchange rates are getting closer in value and it is simple for them to do business with the UK," said the head of M&A at a corporate.

Many respondents predict a rise in inbound activity from Asia. And while Japan has historically led the way when it comes to APAC activity in the UK — Japanese firms did 21 UK deals in 2015, the largest number of any country from the region, and led APAC also in deal volume in Q1 2016 — many respondents predict a rise in activity from emergent economic powers China and India. Indeed, the second largest APAC to UK deal so far this year saw China's SDIC Power Holdings buy the UK offshore wind business of Spain's Repsol for US$262m. "There are many investors who have entered our market from the Asia-Pacific region, with China being a forerunner," said a private equity partner. "They are trying to take advantage of the stability in the UK and expand their bases here."

Just 8% of respondents predict Latin America to be among the most active regions for inbound investment to the UK. In 2015, only three inbound deals came from Latin America, all from Brazil, as the region struggles amid the worldwide slump in commodities prices.

Which regions will UK inbound investment mostly come from over the next 12 months? (select up to two)



"There are many investors who have entered our market from the Asia-Pacific region, with China being a forerunner. They are trying to take advantage of the stability in the UK and expand their bases here."

Private equity partner

The US and the UK

Respondents hold high expectations when it comes to U.S. deals over the rest of the year, with 73% saying the number of U.S. acquisitions of UK companies will increase somewhat (68%) or significantly (5%). Yet such an increase would represent a reversal of the current trend — Q1 2016, for instance, saw 58 U.S. to UK deals worth US$13.8bn in total, compared with 71 deals worth US$16.8bn in the same period last year.

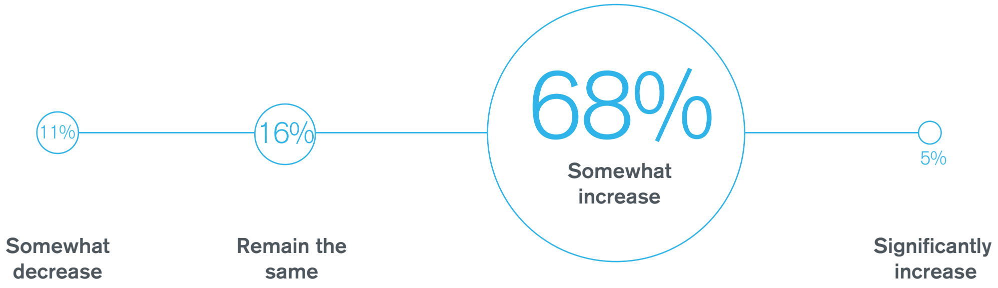
One corporate finance director said U.S. dealmaking will be driven by the close historical relationship between the U.S. and UK, as well as the improved economic situation in both countries. "The U.S. and UK frequently engage in dealmaking activity and this will increase this year as the economy has recovered robustly," he said. "There are good opportunities for both U.S. and UK companies especially in the healthcare, telecommunications and consumer sectors." Some firms have already taken advantage of these industries this year. For instance, U.S. food-service giant Sysco bought caterer Brakes Group in February for US$3.1bn.

A vocal minority of respondents believe that U.S. deals will remain the same (16%) or decrease somewhat (11%) in the coming 12 months. Many of these respondents believe U.S. buyers will exhibit more interest in high-growth markets such as Asia-Pacific, and say the UK economy remains too stagnant to be attractive. "The U.S. is now doing more business with regions like APAC, Africa and Latin America," said one director of corporate development. "These are very large markets that have great growth potential. The UK is growing but cannot give them the returns they will need or are looking for."

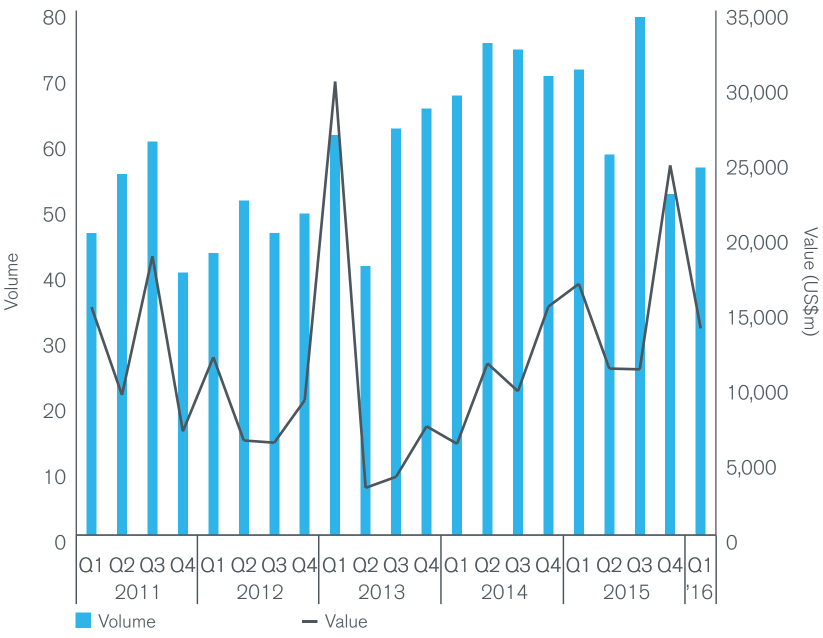
Many respondents take seriously the threat of Brexit (see page 10), but 45% still expect UK outbound investment to increase most notably in the rest of Europe. In recent years, European nations have indeed received the most attention from UK dealmakers – in 2015, 52% of UK outbound targets were in Europe, compared with 25% in the U.S. and just 10% in Asia-Pacific.

Some respondents cited the ease of investing in Europe as the primary driver of activity on the continent, while others argued that cutting-edge businesses can be found there. "A large part of the investments will be in other countries within Europe, such as Germany and France and developing countries in Eastern Europe," said a finance director

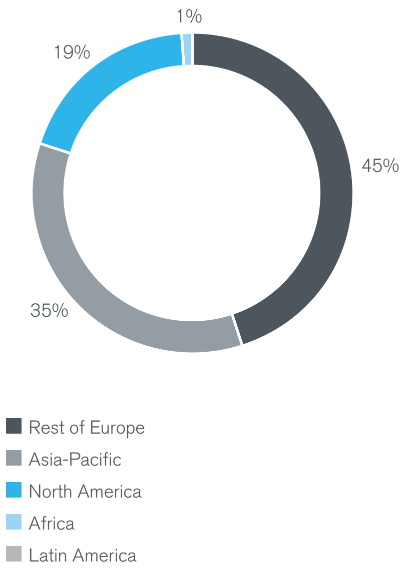
What do you think will happen to the number of deals in the UK with U.S. buyers over the next 12 months?



U.S. to UK M&A, 2011-Q1 2016



Which region will see the most notable increase in UK outbound investment over the next year?



US $63bn

Value of deals involving U.S. bidders and UK targets in 2015

at a corporate. "These regions are innovating and growing very fast, and corporates will only stand to benefit from investing in these regions."

Australia eclipsed other Asia-Pacific countries in terms of UK outbound deals in 2015, with 24 of 56 APAC deals, including UK-based Just Eat's US$678m acquisition of Australian food delivery website Menulog, and several US$100m-plus energy and mining deals. Perhaps surprisingly, only two UK bidders targeted Chinese firms in 2015. However, 35% of our survey respondents expect APAC to receive a major increase in UK outbound interest in the next 12 months, thanks to strong growth opportunities in the region and the potential for affordable valuations. "Countries such as India and China are growing fast and have huge markets," said a corporate finance director. "After the meltdown in the Chinese stock market, it has become quite cheap for investors to buy into these markets, as prices have fallen and Asian currencies have depreciated."

About one-fifth of respondents (19%) predict that North America will witness the biggest increase in UK outbound activity, while virtually no one expects a major uptick in Africa and Latin America. Several respondents argued that the U.S. is attractive for UK investment because of the wider scope of the North American market.

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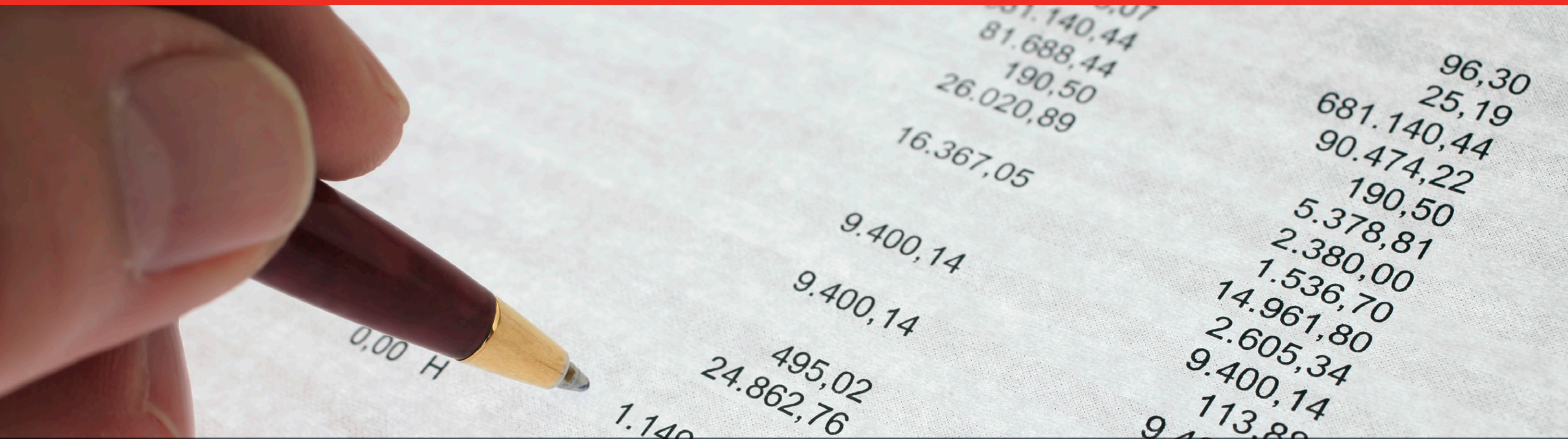

What makes (or breaks) a deal? The balance sheet doesn't always hold the answers.

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