A SUSPENDED STATE OF UNCERTAINTY

The BREXIT Effect on M&A, Private Equity and High Yield Investment

MERRILL CORPORATION

THE M&A ADVISOR

Introduction

For the second straight year, the growth of cross-border mergers and acquisitions (M&A) outpaced the growth of domestic M&A. In this, the era of "Re-Globalization", geopolitical and macroeconomic risks are becoming increasingly influential on investment, both within and between countries.

In the shadows of the European Union (EU) referendum to be held in Great Britain on 23rd June, we have engaged leading financial services industry professionals around the world to opine on the effects of the vote on M&A, Private Equity (PE) and High Yield (HY) investment.

The M&A Advisor, the world's premier finance leadership organization, together with Merrill Corporation the leading provider of technology-enabled platforms for secure content sharing, regulated communications and disclosure services, are pleased to present this exclusive risk-focused insight report.

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I live in leafy Warwickshire and at this time of year, the country roads are teeming with young rabbits, many of them, seeing cars at night for the first time, sit in the middle of the road frozen with fear and uncertainty of which way to turn, so they simply stop. The rabbit in headlights analogy springs to mind in the M&A, IPO and High-Yield Bond market, as we see the rapidly approaching lights of the Brexit vote.

The long-term impact on M&A of a vote to leave the EU is hard to predict but in the short term, uncertainty alone has seen the market hit the brakes with the M&A numbers in Europe down by around 8% on this time last year. We cannot say that this is entirely down to the referendum but the uncertainty of the outcome has impacted timings across the whole of the EU, particularly as we go into the month of June.

In the medium term, such uncertainty could have a negative impact on deals. However long-term, it is reasonable to expect to see a recovery as the deal market normalises, along with the general economy. In the short to medium term, we may well see a reduction in M&A volumes depending on which way the public vote.

In the run-up to the referendum, we are aware of a number of deals that have been put on hold until the outcome is known. Merrill can look at deals that have been initiated in our systems and see that a significant amount of them have been stalled. A number of clients approach us, full of optimism, at the start of a deal only to inform us that, "Our buyer has pulled out or stalled pending the results of the referendum."

Anecdotally, our clients are telling us that deals are being suspended simply because if you are buying a UK business that has significant exports into the EU, they are going to be very cautious about executing that deal due to the uncertainty surrounding Brexit.

What we are also hearing from our investment banking clients across EMEA is that they are optimistic that there will be a real bounce, should the UK vote to stay in the EU, as there is pent-up deal demand waiting to be realised.

Many people believe there will be less investment in the UK if Britain decides to leave. In a post-Brexit world it is unclear what trade agreements will be in place and whether any restrictions in the movement of goods would change these investment decisions. However, contrary to many claims made about trade restrictions and tariffs being imposed on the UK in the event of an exit, there is no evidence of such restrictions in countries such as Norway, Turkey or Switzerland.

Although many foreign businesses invest in the UK because of the benefits of language, expertise, more relaxed labour laws than the rest of the EU, capital and quality of the workforce, the uncertainty associated with any restricted access to the single market is bad news in terms of UK foreign direct investment (FDI), which would in turn mean less M&A in the short to medium term. The M&A market revolves around investment in areas such as infrastructure, business, buildings and plants. There will always be M&A deals that support that and it would be an astute strategy, should we exit, for the UK Government to inject considerable capital into the market to stimulate these areas.

Historically, M&A volumes have broadly tracked equity capital markets. If the major indexes are tracking upwards then M&A volumes will follow a similar upward trend. Currently the markets are pricing in the belief that the UK will remain in the EU. If the vote goes for Brexit, then we would very likely see a short- to medium-term decline in capital market values and we would expect M&A to fall proportionately.

However, as George Soros once remarked, "Markets are constantly in a state of uncertainty and flux and money is made by discounting the obvious and betting on the unexpected."

Finally, from Merrill Corporation's point of view, M&A will continue whether we see growth plays in a strong market or more distressed sales in tougher market conditions, with variances typically between + or – 10% in any given year. We saw similar reduced activity in the aftermath of the financial crisis in 2008 to that which could well follow in the wake of a vote for the UK to leave the EU.

Come the 23rd June, whatever the outcome, I believe the markets will let out its collective held breath and get on with business, regardless of whether that is adjusting to the new opportunities presented by Britain's independence from the EU or the perceived security of further embracing the centralised European model.

Alun Baker
Managing Director - Europe, Middle East and Africa
Merrill Corporation

Contributors

We are thankful to the leading M&A, PE and HY professionals who contributed their views through interview on the effects that the referendum on EU membership is having now and could have on future investment in the United Kingdom.

Nick Allan | CEO, Europe & Africa, Control Risks

Ian Bagshaw | Partner, White & Case

David Crook | Partner, White & Case

Anthony Dalwood | CEO, Gresham House

David Evans | Managing Director, Alvarez & Marsal

Ian Jamieson | CEO, Jamieson Corporate Finance

Charlie Johnstone | Origination Partner, ECI Partners

Robin Johnson | Partner, Eversheds

Stuart McKee | Head of Corporate Finance, PwC

Mike Hinchliffe | Head of DataSite Sales for Continental EMEA and Enterprise Solutions, Merrill Corporation

James B. Lockhart III | Vice Chairman, WL Ross & Co.

Darren Redmayne | UK CEO & Managing Director, Lincoln International

The M&A Advisor Analysis

This risk report is a two-part assessment of corporate finance professionals' view of the effect on mergers and acquisitions (M&A), private equity investment (PE) and high-yield funding (HY) markets of Great Britain's vote to stay in or leave the European Union (EU) on 23rd June 2016.

In addressing the major immediate, short- and long-term risk to business, we have engaged representatives of The M&A Advisor's extensive global constituency of investment professionals. Two research methodologies were employed in this research: 1. a wide-ranging quantitative survey of 600 respondents from a total of 35 countries - the UK and others actively investing in the market, and; 2. in-depth, one-to-one interviews with leading market practitioners.

The result of this research is a balanced consensus, reflecting how the market is currently responding to the risk of a Brexit vote and what the longer-term repercussions of such an outcome could be for M&A, PE and HY.

The word "uncertainty" was used again and again in the one-to-one interviews we conducted with market practitioners. As the outcome of the referendum is uncertain, there was broad consensus that M&A, PE and HY transactions currently in discussion would be stalled at least until the result is known.

The survey, carried out by our firm, drew upon our extensive database of leading M&A, PE and HY professionals across 35 countries to engage 600 experts. The majority of the respondents are resident practitioners in the UK, whilst the balance are actively involved in investing, advising or servicing investment. This constituency therefore provides a credible reflection of market sentiment.

Interviews carried out on a one-to-one basis with individual market practitioners added more depth, and in most cases corroborated, the key findings of our survey which were:

- Over 65% of survey respondents felt that the UK would be less likely to prosper if it left the EU. A similar proportion said that Britain would be less likely to attract overseas investment.
- 69% of respondents felt that uncertainty over the UK's EU membership is likely to affect the current M&A and markets.
- 67% said that investment decisions are being negatively affected.
- 64% of survey respondents said that UK businesses would be less attractive to overseas acquirers in the short term if Britain votes to leave the EU.
- In particular, 57% of respondents thought that EU-based businesses would be less likely to acquire UK-based ones, and half of respondents thought that businesses from the United States would be less likely to acquire British ones.
- Beyond the vote itself, the view of market professionals was that if the UK votes to leave the EU, uncertainty would persist until there is clarity on the arrangements that the UK reaches with EU. This could take several years during which time transactions and prices would be negatively affected by this uncertainty.
- 65% of our survey respondents felt that a vote for Brexit would have a negative long-term effect on M&A and high-yield markets.

It is our conclusion that a vote for Brexit is considered to be a major risk to M&A, PE and HY markets. The range of implications, we believe, will be a significant agenda item for all organisations involved in these areas of business, well beyond 23rd June 2016 and into an uncertain future spanning several years.

David Fergusson
President and Co-CEO
The M&A Advisor

Market Leader Interviews

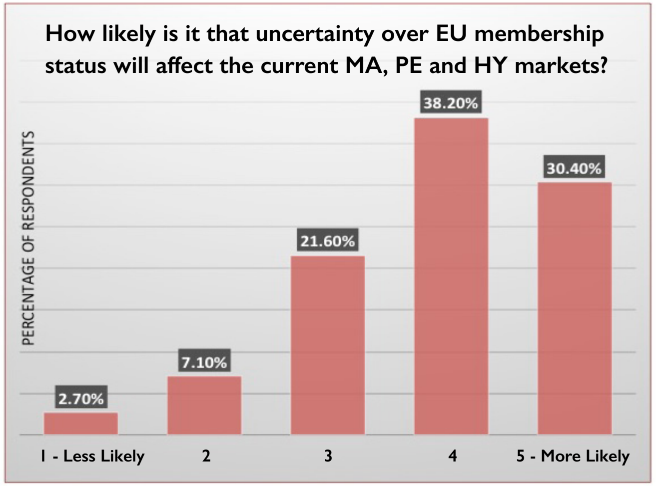
We conducted a series of one-to-one interviews with leading investment market practitioners active in M&A, PE and HY in the United Kingdom. These tended to corroborate, to a large extent, the broad findings of our survey.

However, the main aim of the interviews was to gauge more finely the mood of the market in the run-up to the 23rd June referendum. Consequently, the questions we put to our interviewees were different from those posed in our survey and more market- orientated. The questions also demanded a more considered, analytical response than could be accommodated in a wide-scale, multiple choice-type questionnaire. Verbatim quotes from interviewees provide a better-rounded sense of their current and anticipated action on the principal market issues.

The following round robin provides a series of snapshots from contributors' views:

1. What are the current effects on UK and global M&A and high-yield markets of the Brexit vote? Are they already factoring in a "Brexit effect?"

The consensus across all of our interviewees was that the markets were, to a greater or lesser degree, factoring in a Brexit effect. What determines how much of an effect the referendum is having depends on the types of transactions and businesses that are involved and the segment of the financial markets our interviewees are engaged with. This view supports the findings of our survey where we asked respondents how likely it was that uncertainty over the UK's membership of the EU would affect the current M&A and high-yield markets.



"Over the last few weeks we have seen a slowdown in transaction completions in the UK market," says PwC's Stuart McKee. "Some are levelling the change in sentiment at the referendum and there are a number of potential investors/ buyers from overseas territories who have been quite explicit that they are not completing deals in the UK until the vote has been concluded… uncertainty is the key factor at play."

A clear corroboration of this comes from James Lockhart at WL Ross. "We are reticent about investing in the UK. In fact, we are also concerned about the impact on the rest of Europe, too. Speaking frankly, we would not do anything in the UK until after June 23rd."

Eversheds' Robin Johnson brings a slightly different, adviser's view, however, adding a pragmatic assessment about the availability of funding in the UK. "[The referendum is] definitely affecting UK deals but not international ones. So international advisers, like myself, remain busy although UK-centric advisers are quiet. We are redeploying accordingly. The UK lenders are shut for business."

Tony Dalwood of Gresham House says the markets factored in a Brexit risk that reduced as polls suggested the "Remain" campaign had a significant lead. Nick Allan at Control Risks agrees. "There is some anecdotal evidence of a slowdown in deal making and a shift towards investment into the Eurozone but most businesses are expecting the UK to remain in the EU. Indeed, some negotiators may be using the threat of Brexit to try and strike a better deal."

However, at Jamieson Corporate Finance, Ian Jamieson distinguishes between different areas of the respective markets. "As far as M&A is concerned, below $200m, Brexit is slowing things up but above that level, it's unclear. I would say it is a significant issue at the moment, it's on everybody's investment committee but with global businesses it will not affect their decisions at that level."

"I think it depends on where the business is and how much of it is in the UK. I spend a lot of time in the United States and there, people are talking about Brexit but also about Europe in the same breath. However, I do think that anyone involved in financial services is concerned about Brexit."

According to David Evans at Alvarez & Marsal's Transaction Advisory Group, the impact on mid-market transactions may be more muted, "At present we are seeing relatively little impact on transactions in the mid-market – albeit we are currently working on a number of sell-side processes where the hope is to complete the transaction before the 23rd June. "

"We have seen some examples of processes being put on pause when the business has significant exposure to European markets, for example where revenues are wholly dependent on the import of goods from EU member states. We have also seen a couple of examples of Brexit material adverse change clauses in letters of intent that allow buyers to abandon the process in the event of a 'Leave' vote."

"On bigger, multi-country deals we have seen more of an impact and where we are working with US and Chinese buyers, they are definitely trying to slow work down and draw processes out until after 23rd June."

65%

of survey respondents felt that the UK would be less likely to prosper if it left the EU

Charlie Johnstone of ECI Partners says that deals that they are currently finalising are not affected at all, although they may have been in the making for some time. "While businesses we're looking at buying may have half an eye on Brexit, we are just working through, regardless of the outcome of the referendum result. But what I would say is that if I look at our forward pipeline, there is very little new stuff coming to market in the next quarter or two. There is definitely a dropping off of M&A activity and without a doubt Brexit is one of the reasons for this.

Chatting to potential buyers from overseas, I think it is definitely diminishing their appetite. However, there are mid-market businesses we are working with that are less affected by macroeconomic trends but more by global social trends such a shift in the dynamics of consumer spending or a shift to digitisation - trends that we feel go beyond the economic cycle and I think that the Brexit effect could be looked at through that prism."

At Lincoln International Darren Redmayne says that transactions due to complete over this summer are slowing down, as those involved wait for the outcome of the vote. "There is a broad expectation among people we are speaking to that the outcome will be a vote to stay in. So, we are seeing a sensible slowdown and deferral of activity until the third quarter when we may see a bounce back in activity."

Ian Bagshaw and David Crook at White & Case have noted a significant impact over recent months of uncertainty surrounding the outcome of the referendum. Bagshaw says that confidence generally across the HY market is low in any case. He thinks that there will be very little in the way of HY bond issuance activity before the 23rd June. He thinks that there is an expectation that the market will bounce back in September because people will still need financing and by then they will have had time to assess the referendum impact.

"I think that, in general, because of the uncertainty in the funding markets, people are putting off what they can until later in the year," Bagshaw says.

"[The referendum] certainly picks at the fabric of the EU. Other leave campaigners, of all political persuasions, will be emboldened as it will demonstrate the art of the possible. Brexit might, however, be the catalyst to spur reform in the EU because dissatisfaction with the current operating model is in no way limited to the UK."

Nick Allan
Control Risk

Crook adds that, where transactions are being signed, in some cases, closing conditions have directly addressed the risk that the UK votes to leave the EU, either by making it a specific condition that the UK votes to remain in the EU, or making it clear that a vote to leave would not be treated as a MAC.

2. If Britain votes to leave the EU on 23rd June, what will be likely to be the effect on UK and global M&A and high yield markets in the longer term?

The view that long-term uncertainty would follow a vote to exit and that this would have a deleterious effect on transactional activity is widely held among market participants. However, just how pronounced this might be and how long markets would take to adjust is anyone's guess.

"This is hard to call," admits Control Risks' Nick Allan. "It depends what kind of deal the UK can strike with the EU and other key trading partners. Remain campaigners predict economic apocalypse, Leave campaigners talk of economic nirvana. Reality is probably somewhere in between with short-term economic effects reducing investment whilst investors try and work out what it means with the long term being impacted by the kind of regulations and policy choices future UK governments make.

"Globally," the UK leaving the EU would make it clear that political risk can impact even the risk of environments and probably depress activity until investors adjust to a new normal and forget what happened."

PwC's Stuart McKee adds, "The economic impact that is estimated to attach to Brexit varies widely and the wider more long-term ramifications are still largely unknown. However, our recent report on behalf of the CBI suggests a GDP impact of -3% to -6% by 2020 versus the status quo. Whilst this estimate is measured in many billions, one percentage point per annum is unlikely to make or break a valuation model. This, in itself, is unlikely to have a major impact on M&A.

67%

of respondents said that private equity investment decisions are already being negatively affected by the Vote

"But," he continues, "our research did point to the pricing of 'uncertainty' and we estimated that there would be a 50 basis point (BPS) risk premium on debt - a result that would have a major impact on a deal, reducing the price a buyer could pay. Such uncertainty reduces confidence. We believe a hiatus in dealmaking is likely if Brexit wins the vote, and one that could persist for a number of years until we all understand what the full terms of Brexit really mean.

Overall, a strong deals market requires confidence in the direction that the economy is travelling. We witnessed this at the outset of the 2008 recession and again in the second Euro crisis of 2011-12."

David Crook at White and Case similarly predicts a prolonged period of uncertainty. He says he would hope that common sense will eventually prevail in the negotiations and business as usual will resume to a large degree. His colleague Ian Bagshaw is concerned about the long-term impact on the status of the City of London as a financial centre, should a Brexit vote win the day.

"To me that is the big issue. That is the elephant in the room."

"London as a market is about people; about international people. It is a market with these people choosing to work in London and about the free movement of workers and a culture of bringing together the best brains from all over the world whether from the EU or from elsewhere, say in Africa, the Middle East and Asia."

"So the question is how would Brexit affect that? And I think that the effect would be slow but either it will shore up people's resolve to ensure that London remains the leading financial centre or European centres such as Paris and Frankfurt will try and take back some of their financial services industries, which is so lucrative and has driven strong UK tax revenues and job creation. To me, that is the big question because if the people are here, activity - M&A, HY, PE - will happen here."

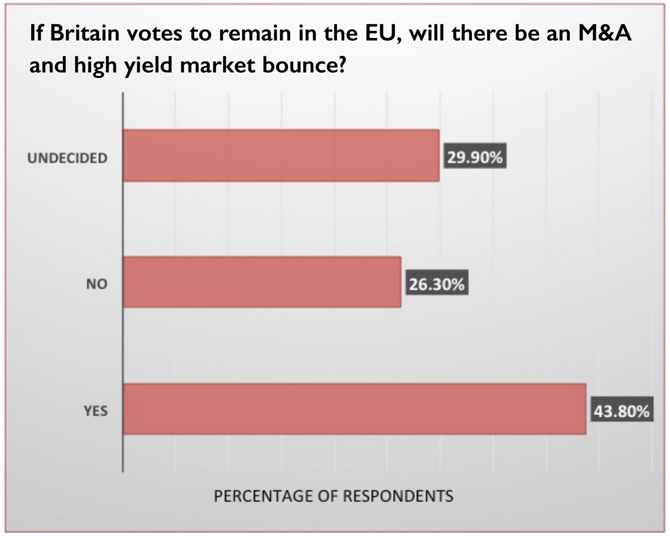
Merrill's Mike Hinchliffe agrees that a vote to leave would place at risk London's preeminent position as a financial centre. He notes that while EU financial services regulation would continue to evolve, the other European financial centres would have a voice in that process and the outcome might well support their interests and not London's. He sees the City's fund management and trading operations to be at greatest risk though he felt London's legal services infrastructure could prove more robust.

Ian Jamieson also expressed the view that there could be longer-term brain drain from London to competing financial centres. He notes that if clients move to other centres then advisory businesses, like his, would be likely to follow them.

In general, our interviewees were sanguine about the functioning of the domestic and international M&A and HY markets. The show would have to go on and transactions would be carried out because it would be necessary that they were. But where they would happen and at what price, and how long uncertainty would last, following a vote to leave, are all moot points to which no one can have answers at this stage.

3. If Britain votes to remain in the EU, will there be an M&A and high-yield market bounce or has the Brexit vote already had an irrevocable immediate and long-term effect?

In their answers to question 1, some interviewees took the view that there would be a market bounce in transactions if Britain votes to remain a member of the EU. This supported the findings of our quantitative survey.



Adding his voice to this view, Eversheds' Robin Johnson says that there could be a significant bounce as early as July, immediately after the referendum has been run.

Lincoln International's Darren Redmayne says that sensible corporate governance would dictate that transactions surrounded by the uncertainty of the referendum's outcome should be delayed until after the electorate in the UK voted to remain, if indeed they do.

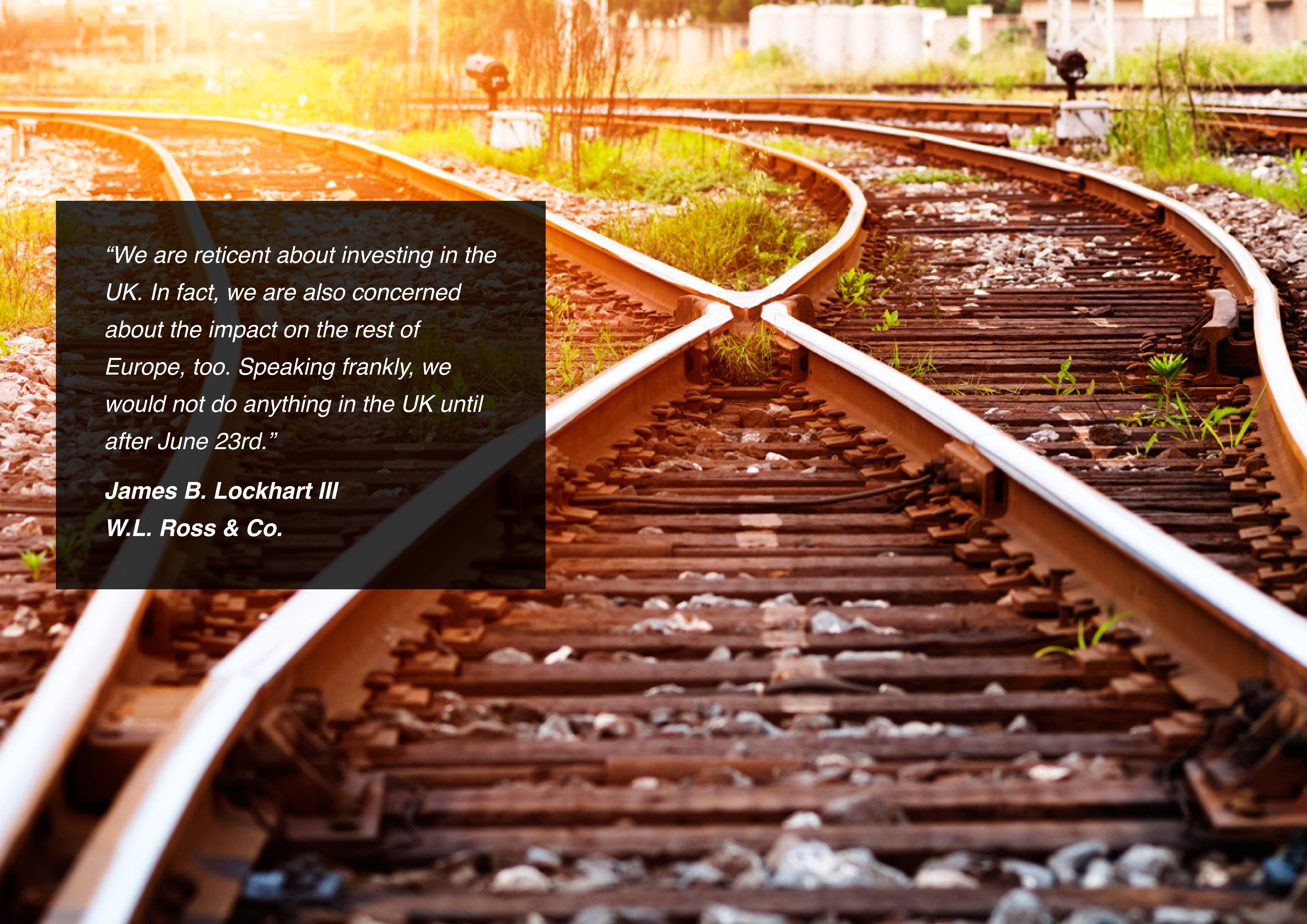
Tony Dalwood of Gresham House doesn't see a bounce as the likely outcome but rather a return to last year's M&A levels, as the ingredients for M&A at this stage of the cycle remain in place. However, Nick Allan of Control Risks sounds a note of caution, "There will probably be something of a stock market rally and renewed optimism for the EU but it would be unwise to think that Brexit campaigners will stop. The question will not go away that easily."

Longer-term, our interviewees' supported the findings of our survey that the referendum itself would not have negative, long-term effect on M&A and HY markets.

4. Why should the Brexit vote or Brexit itself affect M&A and high-yield markets at all? Will Brexit really make that much difference to these markets in the UK or the EU?

Interviewees' responses to this question all centred on the uncertainty brought about, firstly by the referendum itself and secondly by a vote to leave, should that transpire.

James Lockhart explains, "People don't know what Brexit really means, for example for trade. There is so much trade with the rest of Europe. How would UK manufacturers be affected if new trade agreements had to be reached? There's a lot of



"We are reticent about investing in the UK. In fact, we are also concerned about the impact on the rest of Europe, too. Speaking frankly, we would not do anything in the UK until after June 23rd."

James B. Lockhart III
W.L. Ross & Co.

uncertainty out there. Uncertainty for the City and the financial sector as a whole. Does it mean that the foreign banks located in London, especially the European banks, go back to their various countries? What does that do to property prices? Overall, I think the vote is pretty significant. We have seen the Treasury paper, the IMF and others predicting what the various effects might be. It is difficult for me to imagine that there won't be significant downward pressure on markets if the UK votes to leave the EU."

Again referring to uncertainty for buyers and sellers of businesses, PwC's Stuart McKee says that understanding the actual impact on individual businesses post-exit would take time, and this would reduce deal activity in the short term.

"The uncertainty is having an impact on some of our overseas clients in Asia and the US who have traditionally seen the UK as a safe entry point into the European marketplace," McKee continues. "An exit may see some change to that strategy by companies."

"The relevance of the UK and London, in particular, as a hub for deal-making in Europe, is another question. A great number of corporate and financial investors have their European headquarters based in London, where they are supported by a sophisticated ecosystem of financial markets and advisers. In the event of a vote to leave, depending on the position that the UK negotiates, that ecosystem may be at risk of shrinkage if London is no longer a stepping-off point into Europe in terms of its legal framework, a 'right to do business' and the employability it offers. The UK could lose its best talent to a new European hub."

"Brexit calls into question the permanence of the EU," says Nick Allan, "and therefore the underlying assumptions on which investment decisions are made. That is why it matters. It would be a bit like Texas leaving the United States of America."

5. Could Brexit cause the eventual meltdown of the EU as a whole, with other countries choosing to leave it?

The question of the threat to the EU as a whole was one that some interviewees found too political in nature and preferred not to comment on. There was a variety of views among those who did advance points of view.

For example, Darren Redmayne doubts that a UK exit would cause the breakdown of the EU as a whole. "It is possible that there could be a complete breakdown, perhaps if we see a resurgence of debt issues around markets like Greece and so forth. But then the remaining countries of the EU, led by France and Germany, might go down a different path than that they pursue today. But I think, in a way, if there is a leave vote for the UK, the remaining EU institution will come even closer together to ensure the stability and longevity of the rest of the structure."
Charlie Johnstone hears more insidious whisperings of discontent, however. He says that the Dutch, in particular, are watching the UK referendum with interest. If the UK votes to leave, there could be a groundswell for vote to leave in Holland too. There have been some in Denmark who have also raised their discontent. "I think it is more likely to be the Northern European partners of the UK who are fearful of being left in an EU without the UK's counterweight. If these countries followed the UK, there could be a domino effect."

"Brexit could catalyse the realisation of the fundamental flaws in the EU model," in the opinion of Gresham's Tony Dalwood. "Even with the UK remaining in, a Pandora's box has been opened across the EU. The significant proportion of the UK population who will vote against EU membership will mean the UK will not be a comfortable member of the EU project and this will encourage other countries to review the issues."

However, Nick Allan concludes on a more upbeat note. "[The referendum] certainly picks at the fabric of the EU. Other leave campaigners, of all political persuasions, will be emboldened as it will demonstrate the art of the possible. Brexit might, however, be the catalyst to spur reform in the EU because dissatisfaction with the current operating model is in no way limited to the UK."

6. If Britain leaves the EU, will it attract more or less overseas investment in the long term?

This question was designed to gauge how our interviewees viewed the prospects for overseas investment into the UK if the country voted to leave the EU on 23rd June.

In general, our interviewees supported the findings of question 6 in our survey that Britain would be less likely to attract overseas investment if it voted to leave the EU. Our interviewees' views add deeper reasoning to this question and PwC's research is a useful reference in this regard.

Stuart McKee explains, "As part of our study for the CBI, we analysed the potential impact of an EU exit on overall UK investment from both domestic and overseas sources. We found that, in the longer term, total investment would be negatively affected by an increase in trade barriers and border costs. This could result in total investment falling by around 1.7-10%, relative to the 2030 counterfactual in our FTA and WTO scenarios respectively."

"A UK exit from the EU could, therefore, have a negative impact on investment and FDI. If the UK's trading relationship with the EU reverts to WTO rules, it is likely that inward investment into the manufacturing and services sectors would be affected. However, if the UK successfully negotiates a bilateral FTA with the EU on goods trade, the impact on investment in the manufacturing and industrial sectors could be mitigated, but the services sectors, which account for a larger share of the UK economy, would nevertheless be negatively affected in the absence of an FTA in services."

McKee concludes, "For example, one of the key benefits of EU membership for international banks located in London is the 'passport' this gives them to operate across the EU. If they lost those rights, this could cause them to move at least some of their operations to other financial centres such as Paris or Frankfurt in future."

There is, however, a counter point of view, upon which is important to reflect. Gresham's Tony Dalwood says that outside the EU, the UK could prove to be a more competitive economy. "Long-term, the UK will attract more overseas investment, because of the flexible working practices and commercial adaptability of the UK and particularly as the growing financial services sector will always attract capital flows."

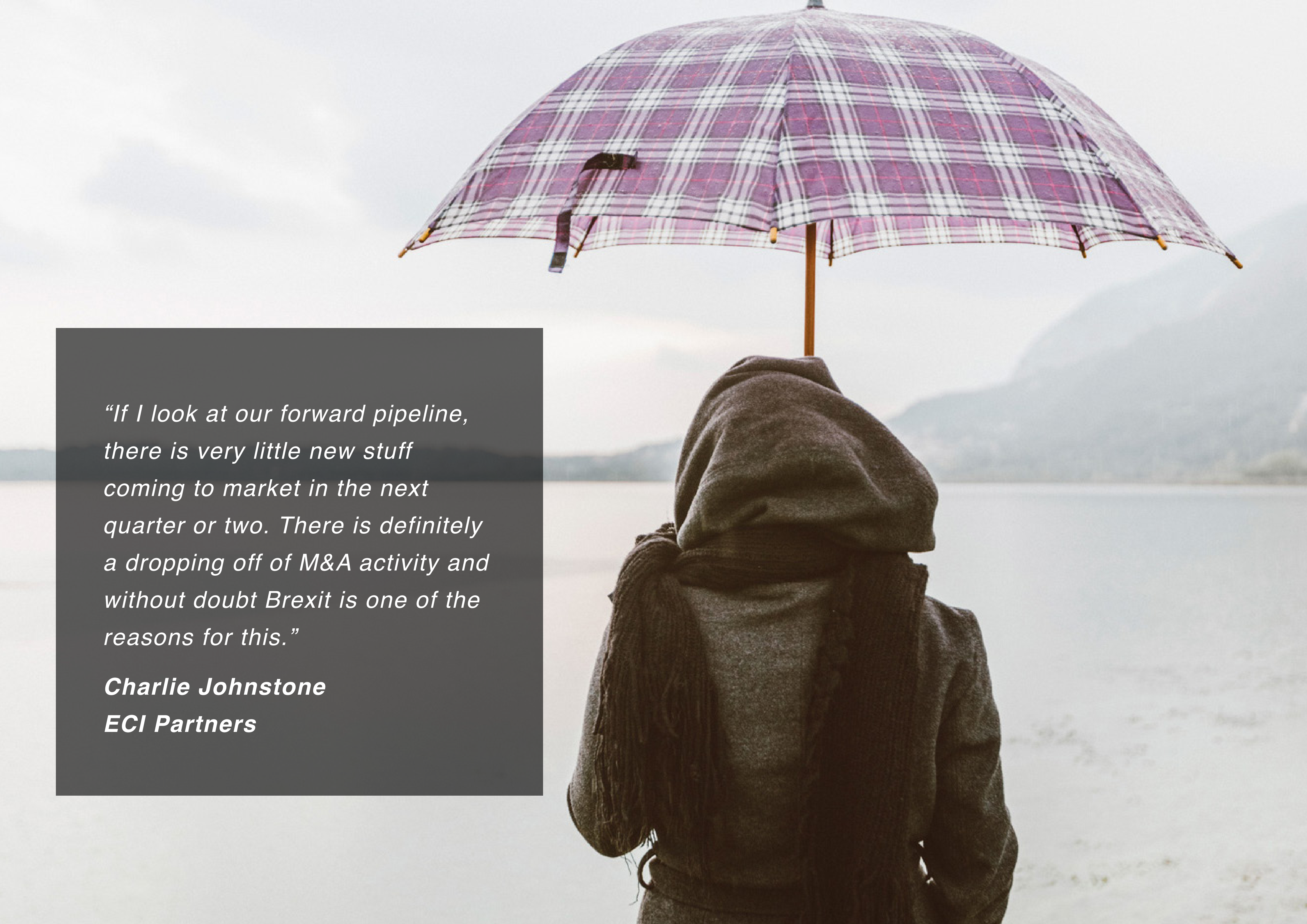
Nick Allan takes a slightly different approach to this question, "It depends what deal the UK strikes with trading partners and what policy decisions future UK governments enact. This question lies at the heart of the argument and the answer someone gives [in relation to this question] tells you more about their political views than their prophetic ability.

"But it does seem that a Brexit vote would lead to a short-term adjustment both in society and the economy, and M&A is part of that - beyond that short-term shock of whatever size, we'd just have to wait and see. And that's precisely what we're seeing with regard to inward investment to the UK - and, to an extent, outward investment too - companies are waiting and hoping that soon they'll be seeing."

64%

of survey respondents said that UK businesses would be less attractive to overseas acquirers in the short term if Britain votes to leave the EU

"It seems likely that there'll be an effort to shift euro-denominated trade into the Eurozone if there's a Brexit, but the marketing pull of the City and the people working in it is strong; so this may not be as uniform a shift as those in Frankfurt or Paris may wish."



"If I look at our forward pipeline, there is very little new stuff coming to market in the next quarter or two. There is definitely a dropping off of M&A activity and without doubt Brexit is one of the reasons for this."

Charlie Johnstone
ECI Partners

7. More pragmatically, if prospective domestic or cross-border M&A or high-yield transactions make business sense, won't they happen anyway, regardless of whether the UK leaves the EU?

The consensus that emerged from responses to this question, tended to reflect the view that whether or not transactions would make sense in a post-Brexit environment, had to do with the nature of the businesses involved and whether they would be affected by membership of the EU.

Charlie Johnstone of ECI Partners believes it likely that there will be a tranche of deals that will happen anyway. "It's just that I think it is more likely that these will be domestic deals invested in by domestic players rather than cross-border ones. The cross-border ones are more likely to be put on hold.

"It is harder to take a view of the medium term if you're not in the UK," Johnstone adds. "I can't see why, if you have the choice of buying a business in, say, Ireland, versus the UK, you wouldn't choose Ireland. You would be much more comfortable with the Irish business while there is a hiatus in relations between the UK and the EU."

Darren Redmayne adds that all transactions have a commercial rationale. "The question is whether that rationale depends on the UK being a member of the EU. A transaction may not make sense any longer if the UK isn't." He refers particularly to businesses that may have sales into the EU as an important part of its business for which the outlook is jeopardised by a Brexit scenario.

Alvarez & Marsal's David Evans adds, "Where there is a forced seller, and a transaction has to happen, there will likely still be buyers, albeit I'd expect valuation expectations to fall significantly for deals to close. Where there is no immediate pressure for a transaction to happen, I'd expect both buyers and sellers to pause and see how events unfold over the next six to 12 months."

8. Would a vote for Brexit on 23rd June change the transaction and dollar volume outlook for M&A in the remainder of 2016?

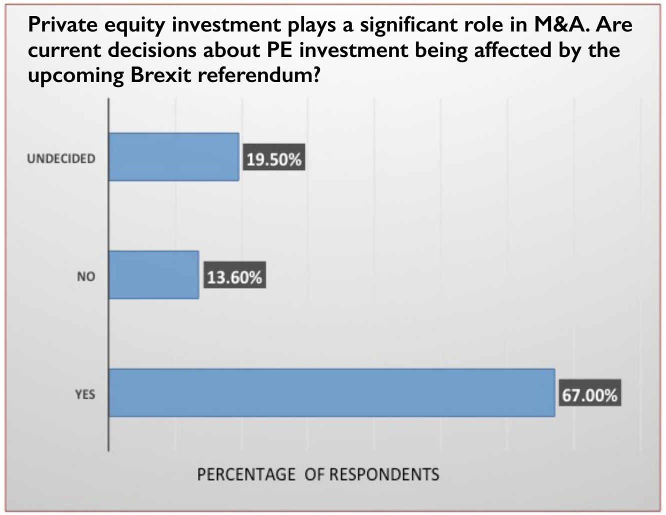
It follows from interviewees' responses to our previous questions that the transaction numbers and overall value of transactions could be expected to fall over the remainder of 2016 if the vote goes in favour of Brexit. Darren Redmayne commented, however, that some transactions, particularly in the domestic PE market, would still proceed although values might be impacted. He says that while volumes would fall considerably, there could still be some transactions in certain sectors carried out before year-end.

In general, however, a Brexit vote and the ensuing uncertainty, damage confidence and negatively impact transactions and values.

9. Recently, a high-profile private equity firm advised that they would stop investing in the UK until the vote is completed. In your experience, is this indicative of the investment community's position generally or specifically?

Responses to our survey showed that current decisions about PE transactions are being affected by the impending referendum.

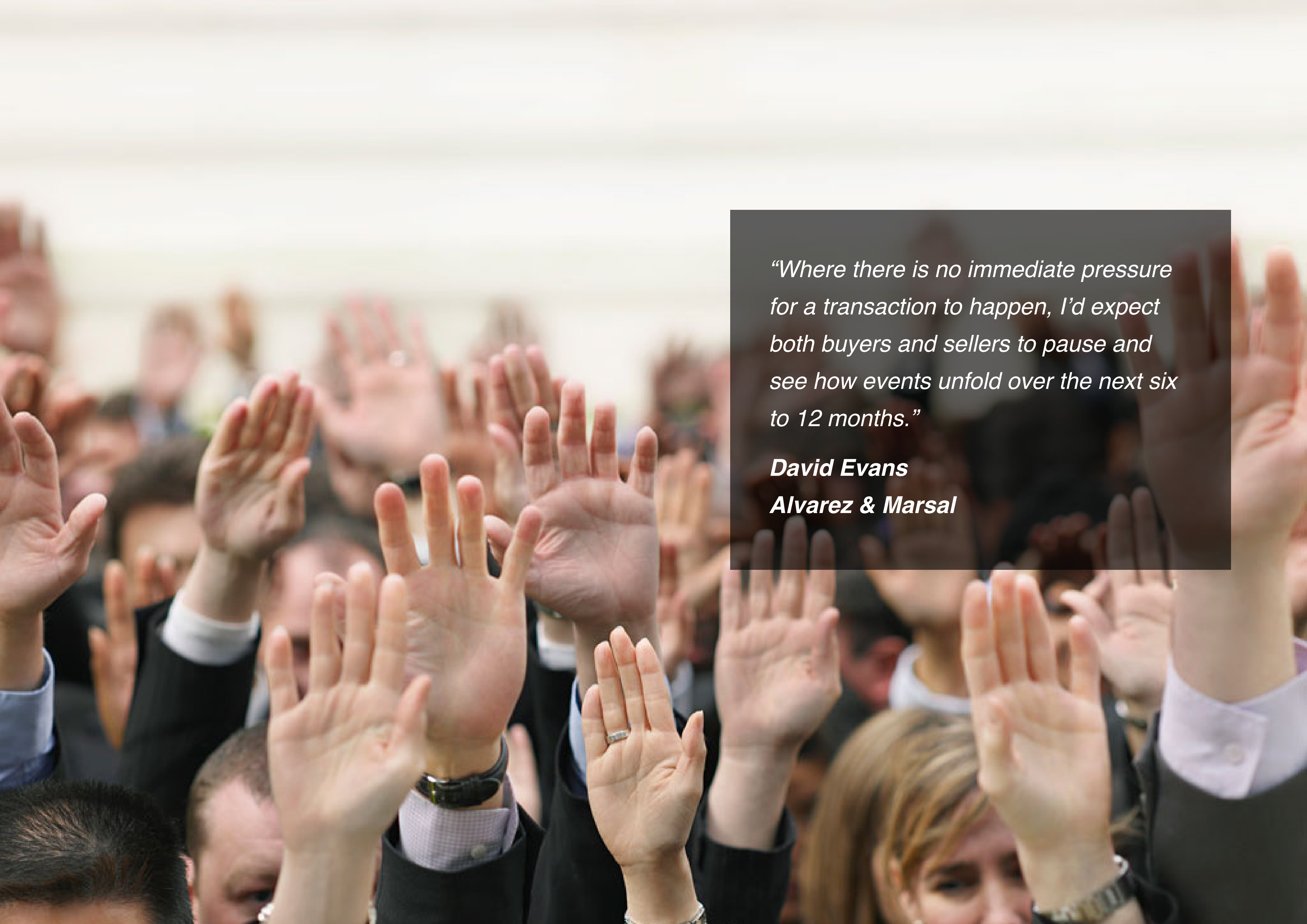
As James Lockhart noted in relation to our first question, his firm has put a stay on new UK business being carried out until after 23rd June. But not all PE houses are following suit.



"I can understand if you are a global investor then you're going to pause," says ECI Partners' Charlie Johnstone. "But we're a UK investor, exposed to the UK market, that's what we do for a living. So we're still investing."

Ian Bagshaw of White and Case says that many sellers of business are waiting to see what happens on 23rd June. "The debt markets in London are generally on hold and it's what people are not saying that is indicative of what is going on whether or not they make a public statement of their position."

Our other interviewees suggested that the attitude of the high-profile PE firm, referred to in our question, likely was indicative of the investment communities' position.



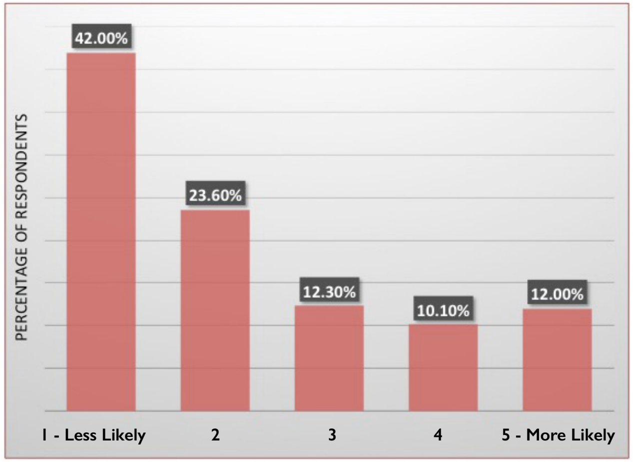
“Where there is no immediate pressure for a transaction to happen, I’d expect both buyers and sellers to pause and see how events unfold over the next six to 12 months.”

David Evans
Alvarez & Marsal

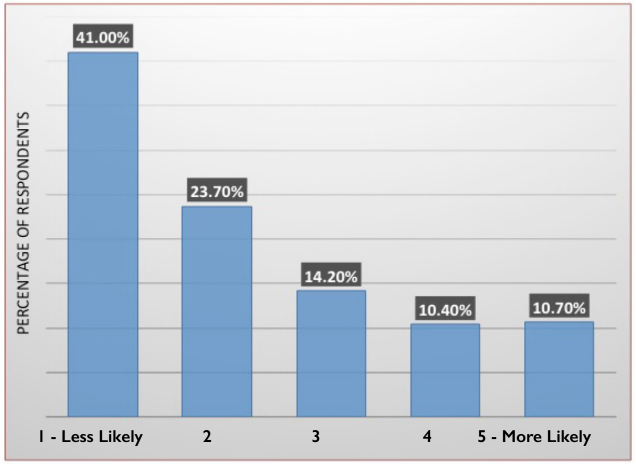
Research Survey Findings

The respondents were asked two types of questions: 1. To rate, on a scale of 1 to 5, the likelihood of the presented scenarios where a rating of 1 indicated less likely and 5 was more likely; and 2. Whether they are in favour or not of proposed possible scenarios.

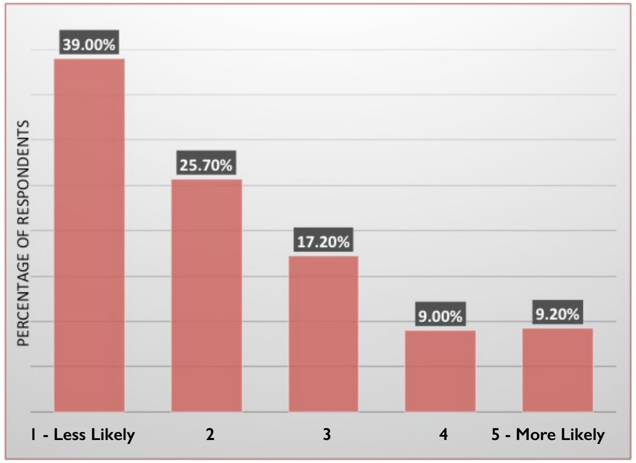
1. If Britain leaves the EU, will the UK economy be more or less likely to prosper?



2. If Britain leaves the EU, will it likely attract more or less overseas investment?

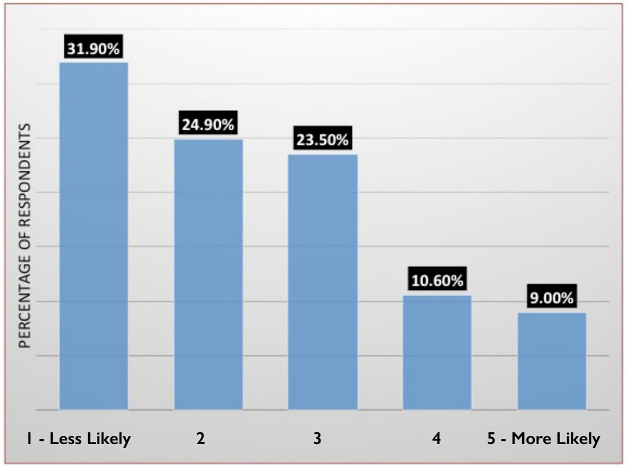


3. If Britain leaves the EU, will UK businesses be more or less attractive to overseas acquirers?

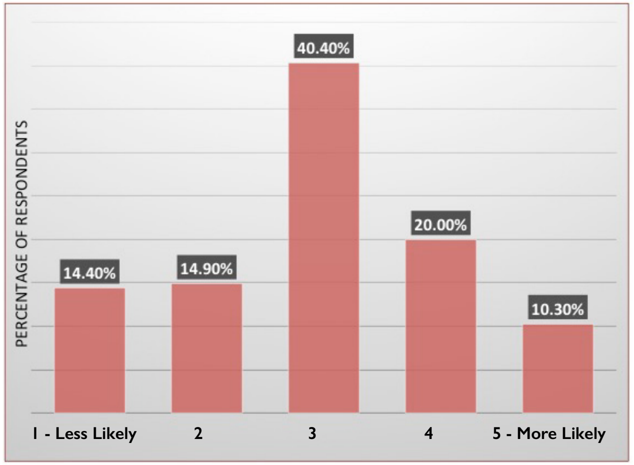


Research Survey Findings (Continued)

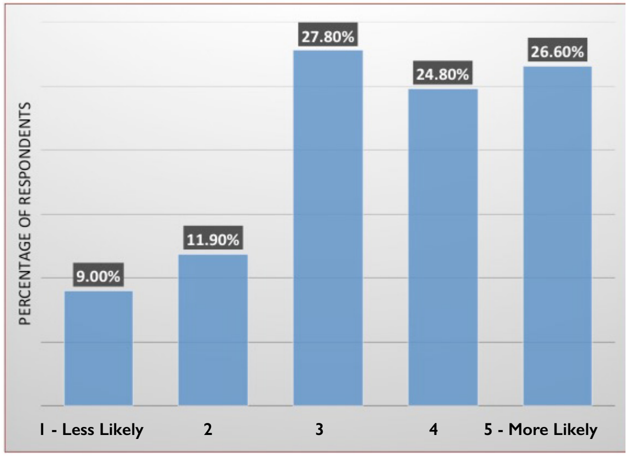
4. If Britain leaves the EU, will US businesses be more or less likely to acquire British ones?



5. If Britain leaves the EU, will UK businesses be more or less likely to acquire US ones?

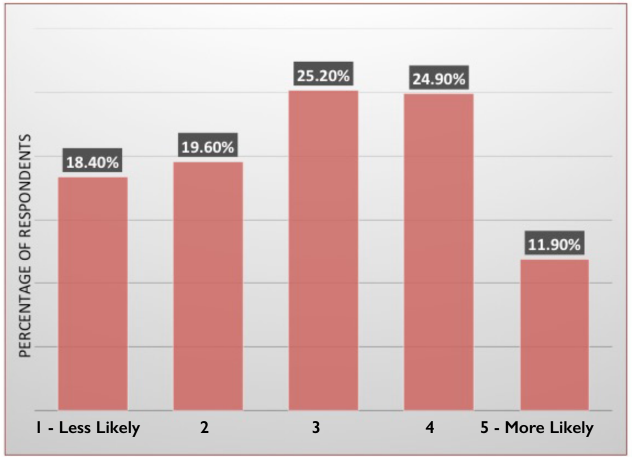


6. If Britain leaves the EU, will US businesses be more or less likely to acquire businesses based in continental Europe than ones based in the UK?

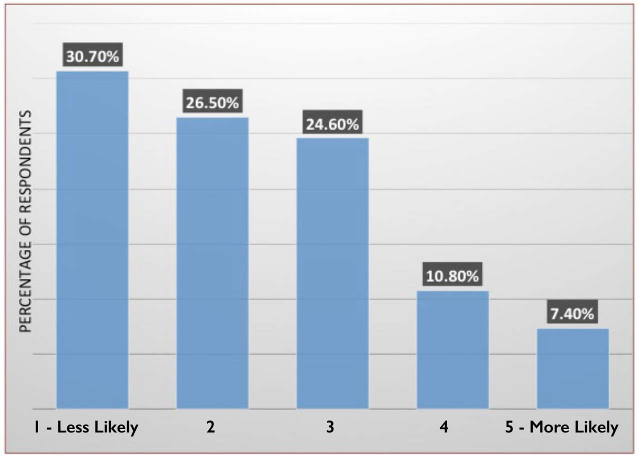


Research Survey Findings (Continued)

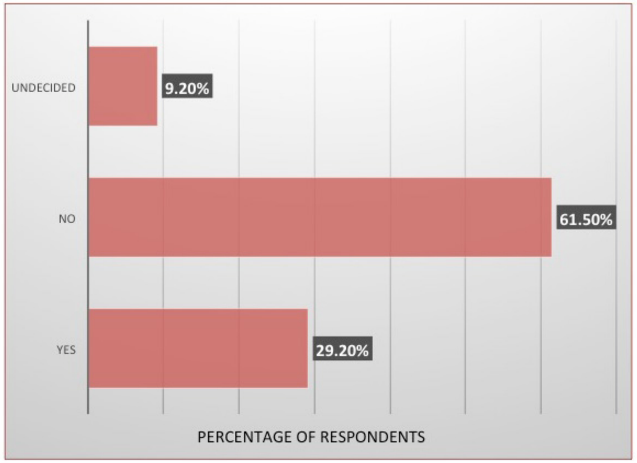
7. If Britain leaves the EU, will UK businesses be more or less likely to acquire businesses in the EU?



8. If Britain leaves the EU, will EU based businesses be more or less likely to acquire businesses in the UK?

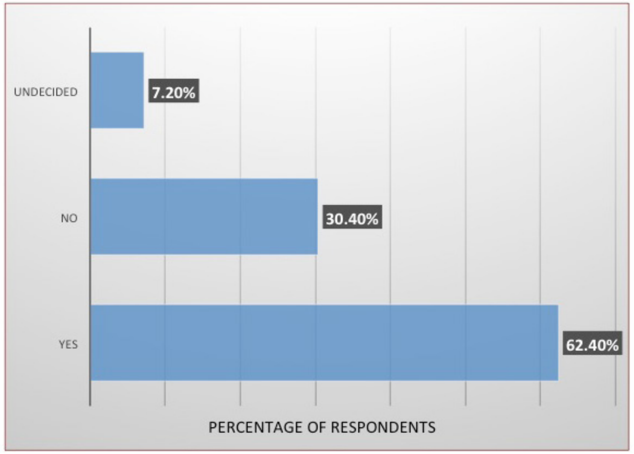


9. Those in favour of Brexit say that Britain will be better placed to trade with the rest of the world if it leaves the EU. Do you think they are right?

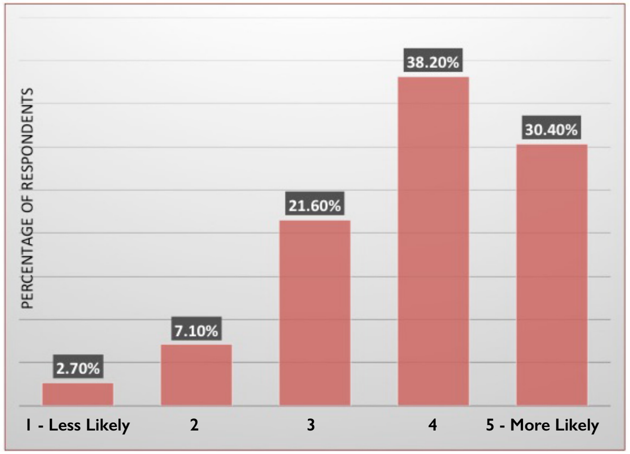


Research Survey Findings (Continued)

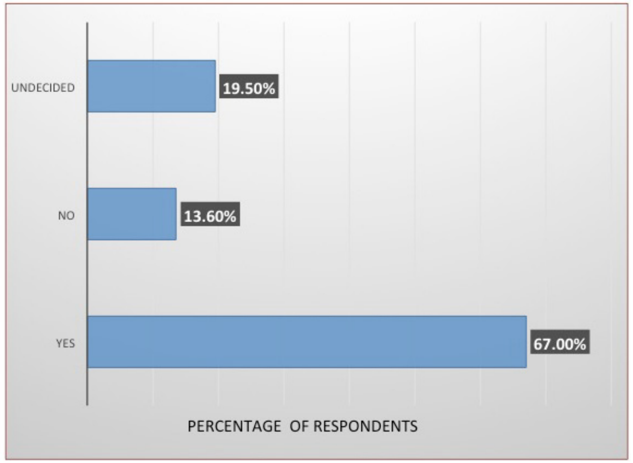
10. Those in favour of remaining within the EU say that Britain's best interests lie in continuing as members, because they can better contribute to EU reform from within. Do you think they are right?



11. How likely is it that uncertainty over EU membership status will affect the current MA, PE and HY markets?

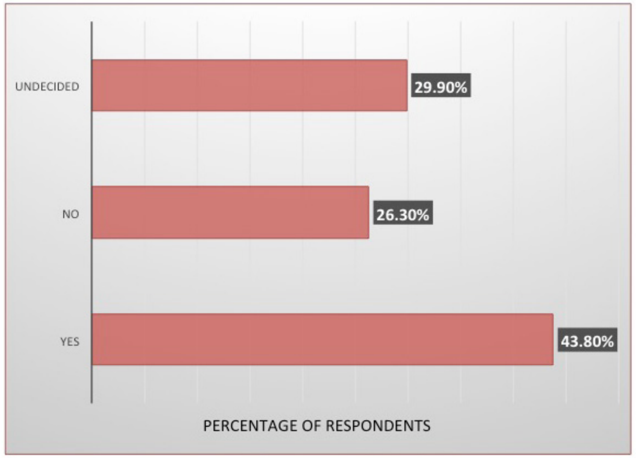


12. Private equity investment plays a significant role in M&A. Are current decisions about PE investment being affected by the upcoming Brexit referendum?

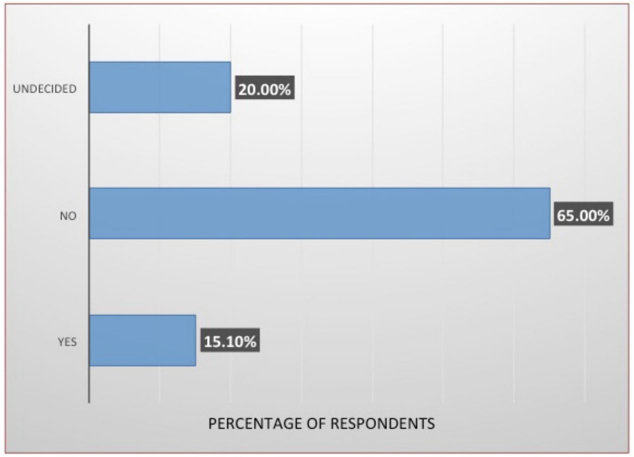


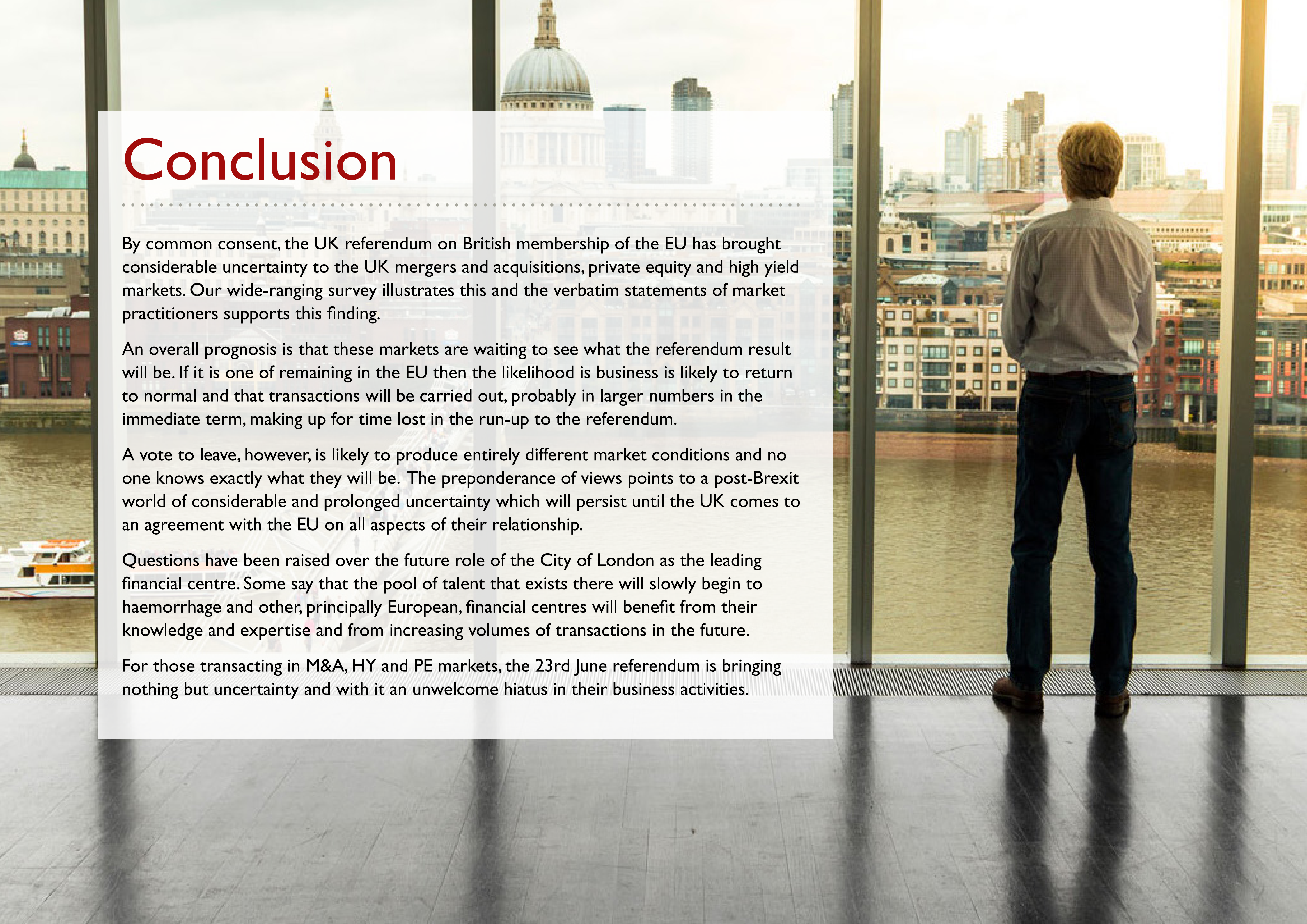
Research Survey Findings (Continued)

13. If Britain votes to remain in the EU, will there be an M&A and high yield market bounce?



14. If Britain votes to remain in the EU, will the Brexit vote have a negative long term effect on M&A and high yield markets?





Conclusion

By common consent, the UK referendum on British membership of the EU has brought considerable uncertainty to the UK mergers and acquisitions, private equity and high yield markets. Our wide-ranging survey illustrates this and the verbatim statements of market practitioners supports this finding.

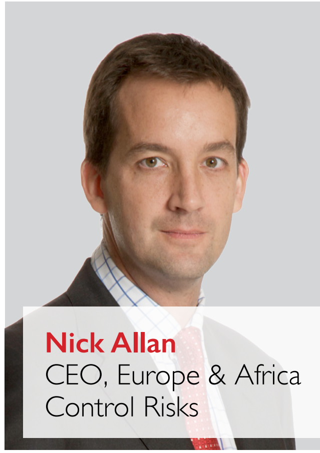
An overall prognosis is that these markets are waiting to see what the referendum result will be. If it is one of remaining in the EU then the likelihood is business is likely to return to normal and that transactions will be carried out, probably in larger numbers in the immediate term, making up for time lost in the run-up to the referendum.

A vote to leave, however, is likely to produce entirely different market conditions and no one knows exactly what they will be. The preponderance of views points to a post-Brexit world of considerable and prolonged uncertainty which will persist until the UK comes to an agreement with the EU on all aspects of their relationship.

Questions have been raised over the future role of the City of London as the leading financial centre. Some say that the pool of talent that exists there will slowly begin to haemorrhage and other, principally European, financial centres will benefit from their knowledge and expertise and from increasing volumes of transactions in the future.

For those transacting in M&A, HY and PE markets, the 23rd June referendum is bringing nothing but uncertainty and with it an unwelcome hiatus in their business activities.

Contributor Profiles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