# SS&C Intralinks®

# Deal Flow Predictor

Our quarterly prediction of future trends in the global M&A market

Forecast of global M&A activity through Q1 2020

# Welcome

Intralinks, an SS&C company, is the leading financial technology provider of software and services, including virtual data rooms (VDRs), for the global banking, dealmaking, private equity and capital markets communities and has been in business for over 23 years. Our solutions support buy-side and sell-side mergers and acquisitions (M&A) deal management, alternative investments fundraising and investor reporting, debt and equity capital raising, syndicated loan management, as well as banking, securities and legal collaboration. Our involvement in the early stages of a significant percentage of the world's M&A transactions gives us unique insight into the expected volume of future announced M&A deals.

The *SS&C Intralinks Deal Flow Predictor* forecasts the volume of future M&A announcements by tracking *early-stage* M&A activity – sell-side M&A transactions across the world that are in preparation or have begun their due diligence stage. These early-stage deals are, on average, six months away from their public announcement.

Along with our forecasts of announced M&A activity for the next six months, this issue of the *SS&C Intralinks Deal Flow Predictor* includes a spotlight feature on infrastructure M&A, plus an interview with Trethera CEO & Chairman Ken Schultz, M.D., a seasoned biopharma executive with over two decades of global dealmaking expertise, who provides an exclusive insider's view of transactions he's led during his storied career.

**Philip Whitchelo**
Vice President, Intralinks

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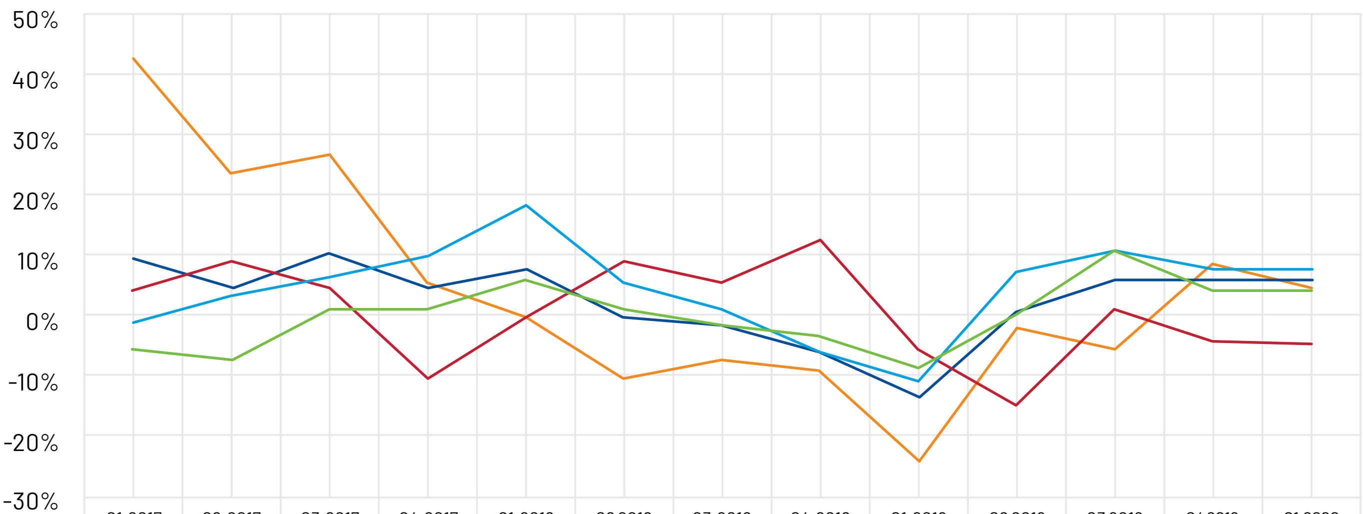
/PhilipWhitchelo

**Intralinks' mid-point forecast of the year-over-year % growth in the number of announced M&A deals, as reported by Refinitiv, for the next two quarters**




| | Q1 2017 actual | Q2 2017 actual | Q3 2017 actual | Q4 2017 actual | Q1 2018 actual | Q2 2018 actual | Q3 2018 actual | Q4 2018 actual | Q1 2019 actual | Q2 2019 actual | Q3 2019 actual | Q4 2019 mid forecast | Q1 2020 mid forecast |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| APAC | -1% | 4% | 7% | 10% | 18% | 5% | 2% | -6% | -12% | 7% | 11% | 7% | 7% |
| EMEA | -6% | -7% | 1% | 1% | 6% | 2% | -2% | -4% | -8% | 0% | 11% | 5% | 5% |
| LATAM | 4% | 9% | 4% | -11% | 0% | 9% | 6% | 13% | -6% | -16% | 2% | -4% | -4% |
| NA | 43% | 24% | 26% | 6% | 0% | -11% | -7% | -9% | -24% | -3% | -5% | 8% | 6% |
| World | 9% | 5% | 10% | 5% | 7% | -1% | -2% | -6% | -14% | 1% | 6% | 6% | 6% |

The *SS&C Intralinks Deal Flow Predictor* has been independently verified[1] as an accurate six-month forecast of future changes in the worldwide number of announced M&A transactions, as reported by Refinitiv[2].

[1] https://www.intralinks.com/resources/publications/intralinks-dfp-explained

[2] https://thesource.refinitiv.com/thesource/getfile/index/ccfa0895-7ebc-47bf-ae65-b1f792034ee2 Refinitiv's data on the number of announced deals for the past four quarters have been adjusted by Intralinks for expected subsequent changes in reported announced deal volumes in Refinitiv's database

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# Overview

## H2 2019 recovery in worldwide M&A announcements predicted to continue into 2020

Based on volumes of early-stage due diligence M&A activity in worldwide virtual data rooms over the past two quarters, Intralinks' predictive model forecasts that the worldwide number of M&A deals to be announced over the six months ending Q1 2020 is expected to increase by around 6 percent year-over-year (YOY), within a range of +11 percent to +1 percent, with the strongest growth in deal announcements expected to come from the TMT (Technology, Media & Telecoms), Materials and Energy & Power sectors. This is a marked turnaround from the 7 percent YOY decline in worldwide deal announcements in H1 2019.

### Asia-Pacific

In APAC, our predictive model forecasts that the number of announced M&A deals is expected to increase by around +7 percent YOY over the six months ending Q1 2020, within a range of +12 percent to +2 percent. The Real Estate, Financials and Industrials sectors are predicted to lead the growth in APAC M&A announcements.

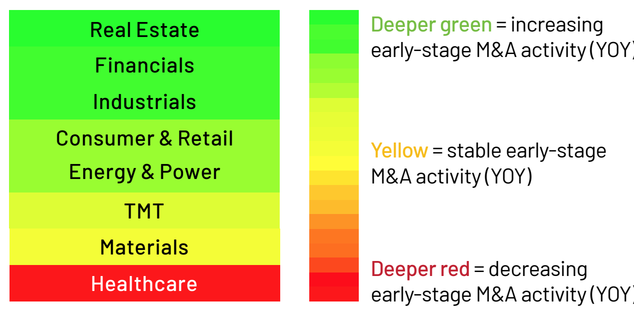
Within APAC, all regions are showing growth in their volumes of early-stage M&A activity, with India, Japan and North Asia (China, Hong Kong) expected to make the strongest contributions to APAC's growth.

### APAC

Six-month mid-point forecast: +7%

Six-month high forecast: +12%

Six-month low forecast: +2%




### Europe, the Middle East & Africa

In EMEA, our predictive model forecasts that the number of announced M&A deals is expected to increase by around +5 percent YOY over the six months ending Q1 2020, within a range of +7 percent to +2 percent, with the strongest contributions to EMEA's growth expected to come from the Materials, TMT and Energy & Power sectors in Eastern Europe, Northern Europe (Benelux and the Nordics), DACH (Austria/Germany/Switzerland) and Sub-Saharan Africa.

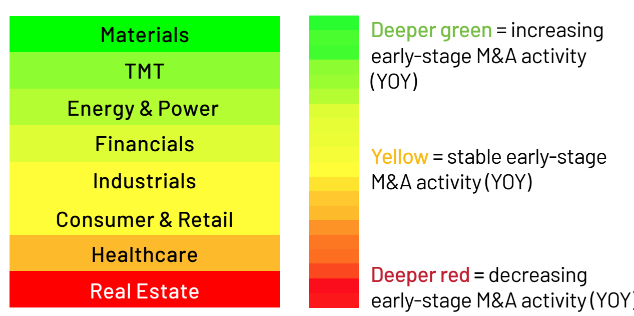
Among the five largest European economies, Italy, Spain, the U.K. and Germany are expected to show increased levels of M&A announcements over the next two quarters, whereas levels of M&A announcements are expected to decline in France.

### EMEA

Six-month mid-point forecast: +5%

Six-month high forecast: +7%

Six-month low forecast: +2%



## Latin America

In LATAM, our predictive model forecasts that the number of announced M&A deals is expected to fall by around 4 percent YOY over the six months ending Q1 2020, within a range of +2 percent to -9 percent. The Healthcare, Energy & Power and Industrials sectors are predicted to lead any growth in LATAM M&A announcements.

Among the largest LATAM economies, any increases in M&A announcements are expected to come from Peru, Colombia, Brazil and Chile, whereas levels of M&A announcements are expected to be flat to declining in Argentina and Mexico.

### LATAM

Six-month mid-point forecast: -4%

Six-month high forecast: +2%

Six-month low forecast: -9%

Healthcare
Energy & Power
Industrials
TMT
Financials
Consumer & Retail
Materials
Real Estate

Deeper green = increasing early-stage M&A activity (YOY)

Yellow = stable early-stage M&A activity (YOY)

Deeper red = decreasing early-stage M&A activity (YOY)

## North America

In NA, our predictive model forecasts that the number of announced M&A deals is expected to increase by around +7 percent YOY over the six months ending Q1 2020, within a range of +15 percent to 0 percent, driven primarily by an uptick in Canadian dealmaking. The TMT, Healthcare and Materials sectors are predicted to lead the growth in NA M&A announcements.

### NA

Six-month mid-point forecast: +7%

Six-month high forecast: +15%

Six-month low forecast: 0%

TMT
Healthcare
Materials
Industrials
Energy & Power
Consumer & Retail
Financials
Real Estate

Deeper green = increasing early-stage M&A activity (YOY)

Yellow = stable early-stage M&A activity (YOY)

Deeper red = decreasing early-stage M&A activity (YOY)

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# Spotlight

## Infrastructure, M&A and protectionism

Infrastructure has always been a significant area of investment, a space in which governments and the private sector often work together to achieve mutual objectives.

However, as infrastructure investing has become more globalized and technology-led, national security concerns are being raised in relation to an increasing number of transactions – in a nutshell, governments are seeking tighter oversight on who owns businesses involved in infrastructure deemed to be of national or strategic significance.

Despite this background, many M&A professionals feel that infrastructure is receiving more attention as an investment class and has the potential to attract increasing focus from private equity, one practitioner claimed. All this merits a closer look at this space.

Given the USD 1 trillion infrastructure investment promised by Donald Trump in his 2016 presidential campaign, and China's ambitious Belt and Road Initiative (BRI), it is no surprise that the infrastructure space is a hot spot. The sector is experiencing a shift from public to private investment as governments in several countries choose to privatize public infrastructure such as roads, rail systems and telecommunications networks. Private investors and even state-owned enterprises from other countries are stepping in to fill the gap.

As infrastructure investing has attracted increasing interest from cross-border acquirers, national security concerns are being raised and, as a result, the growing involvement of Chinese players in the space has not been without challenges.

As mentioned, private equity is increasingly focusing on the space. One example is the move by EQT Partners' infrastructure investment advisory team to partner with Temasek, a Singapore government-owned investment company, two years ago. Together, EQT Infrastructure and Temasek will investigate investment opportunities in Southeast Asia, India, South Korea, Japan, Australia and New Zealand. The ambition is to identify interesting companies with existing assets within communication, transportation, energy, environmental and social infrastructure with a potential to grow, develop and transform.

Attractive targets are sought after and fought over and, along with private equity, institutional investors are showing a growing interest in directly deploying funds into the space. For example, in 2017, Ontario Teachers' Pension Plan invested USD 2 billion in a new partnership with Anbaric, a major U.S. developer of clean energy transmission and microgrid projects, to create a new development company, Anbaric Development Partners. The partnership is aimed at developing clean energy infrastructure projects in North America, accelerating the revitalization of aging transmission networks.

In early 2018, Temasek also joined forces with Swiss logistics and freight company Kuehne + Nagel to establish a joint venture to invest globally in early stage companies developing cutting-edge technology for logistics and supply chains.

These examples – and there are many more – illustrate the attractions the space holds for a variety of investors looking for relatively stable, non-cyclical returns that are ideal vehicles for debt-heavy capital structures.

Asian, and particularly Chinese, investors are set to play a crucial role in the development and expansion of the sector. China's multibillion BRI is seeing Chinese companies and state-owned enterprises invest in infrastructure projects in more than 70 countries around the world. Expectations are that China will be spending more than USD 1 trillion on this ambitious and long-term development project, which has been likened to the post-World War II Marshall Plan. However, estimates on what has been spent so far differ greatly with one analysis putting it at USD 210 billion, mainly invested in Asia.

However, as infrastructure investing has attracted increasing interest from cross-border acquirers, national security concerns are being raised and, as a result, the growing involvement of Chinese players in the space has not been without challenges.

Concerns regarding Chinese companies' acquisitions of assets in Australia, Europe and North America have been mounting, with several high-profile transactions blocked by governments.

The German response to Chinese companies' acquisitive endeavors has been to a certain degree emblematic of developments in other established economies.

When, in May 2016, Chinese industrial group Midea spent close to USD 3 billion on the acquisition of industrial automation company KUKA, the deal was welcomed with open arms in engineering powerhouse Germany. However, after several other Chinese-initiated transactions, the mood soured amidst concerns of a "technology drain," which could lead to a decline in Germany's position in the engineering top table. By the time of Fujian Grand Chip Investment Fund LP's bid for German semiconductor maker Aixtron, just a few months later, market sentiment had changed to such a degree that the German government withdrew its initial approval based on concerns raised by the U.S. government. It is difficult to deny talk of growing protectionism given these events.

Following in the footsteps of the Committee on Foreign Investment in the United States (CFIUS), the U.S. body that reviews the national security implications of foreign investments in U.S. companies or operations, the European Union has beefed up its foreign direct investment screening regulations, which will take full effect in November 2020. The aim is to protect assets that are deemed to be of strategic importance to the EU. A key aspect of the strengthened regulations will be the information-sharing provision between EU member states. The nixing of the Aixtron deal is an example of how a deal can end up being blocked even if the "host nation" does not have a concern with the transaction itself.

Another Chinese company that has run into difficulties over its involvement in the infrastructure sector is telecoms equipment supplier Huawei, which aims to supply hardware to the global 5G mobile network. The company encountered political difficulties in the U.S., and its European prospects remain unclear while the EU develops a new strategy on 5G and cybersecurity. The concerns raised – such as increased exposure to attacks, more potential entry points for attackers and the risk profile of individual suppliers – again show the challenges facing investors in the infrastructure space.

Because of the strategic importance of infrastructure and its close relationship with national security, it must be expected that deals in this space will attract increasing amounts of scrutiny. Dealmakers will therefore have to take particular care and allocate extra time to ensure they are able to take full advantage of the vast opportunities in the space.

# Guest comment

**Business development war stories from the biopharma front line**

Ken Schultz, M.D., a seasoned biopharma executive with over two decades of global deal making expertise, provides an exclusive insider's view of transactions he's led during his storied career.

From playing a pivotal role in historic billion-dollar biopharma deals with AbbVie, Roche and Bristol-Myers Squibb – the latter being the largest in drug-development history – to facilitating smaller, business-critical transactions, Ken Schultz, M.D., has 'been there and done that' in the realm of mergers and acquisitions (M&A) and licensing transactions.

A former emergency room doctor who gravitated toward dealmaking in healthcare services, product development, and strategic transactions, Dr. Schultz is the CEO & Chairman of Los Angeles-based Trethera, a privately held biopharmaceutical oncology company progressing a first-in-class small molecule into clinical trials.

Previously, he's held leadership roles at Halozyme, a publicly traded San Diego biotech company specializing in drug delivery and oncology therapeutics, and Medtronic, the world's largest medical device company. He's also worked at the global consulting firm McKinsey & Company where he advised a range of leading healthcare companies. He earned his M.D. from Texas Tech, MBA from IMD in Switzerland, and BA from Texas A&M.

Dr. Schultz recently sat down to discuss four deals he's been part of to date that he's found particularly insightful. He graciously provided insight into each situation and learnings which I hope readers can utilize in their own transactions.

## Bristol-Myers Squibb – Managing multiple deals

### The situation

Deals are odd animals. Whenever you're working in business development, you have multiple horses in the race and you never assume that they'll all cross the finish line at the same time ... much less the same day. So what do you do when an actual photo finish occurs?

On September 14, 2017, when I was VP of Innovation, Strategy and Business Development at Halozyme, we announced the largest drug delivery deal in history. The deal with BMS was USD 105 million upfront, USD 1.8 billion in total deal value, and the press release revealed the target as the checkpoint inhibitor PD-1. PD-1 is a very hot target. By 2025, over half of oncology revenue will come from immuno-oncology associated drugs.

Interestingly enough, Roche, a BMS rival, signed a deal with us on exactly the same day. They already had two drugs under public license with Halozyme, Herceptin and Rituxin, which are some of the best-selling injectable oncology drugs of all-time. We announced a USD 30 million upfront, USD 190 million deal licensing the very same Halozyme technology platform BMS had signed. So, it was very much like taking two dates to the same dance and having them find out about each other. You've got to be really careful here. Deals are more than just numbers and financials; they're actually people and you have to manage these situations. If you ignore people, egos get bruised, feelings get hurt, and you may find yourself without a date to the dance.

### What happened

For us, it was about managing the people, letting everybody know that they were important, placing those preemptive strategic phone calls and letting all partners – new and established alike – understand Halozyme could take on the additional work created by not just one new deal but two.

The BMS deal was so material that they adjusted their EPS for three years on a go-forward basis – for 2017 and 2018 by approximately $0.01, and for 2019 by approximately $0.05 – and held a global press conference issuing a joint press release with Halozyme. If you're ever fortuitous enough to have two deals contemporaneously cross the finish line with archrivals, it's a great opportunity – but check that the complex web of stakeholders avoids any surprises. People don't like to find out news about themselves in the papers; they'd much rather hear it from you. When there are many players involved, make sure you manage it correctly.

### Lessons learned

Pulling a deal across the finish line is no small matter, especially when you're dealing with numbers like this. My advice is to embrace the opportunity, and don't try to time the deal. During my medical career, I delivered multiple babies in all sorts of environments, from well-prepared delivery rooms to unexpected places. It's impossible to time a baby's birth, so just get the baby delivered! With deals, it's the same way. Deliver in the best possible environment, and if you happen to have twins, that's one you won't forget anytime soon.

## Eisai deal – How to make lemonade

### The situation

Sometimes the best deal can be right in front of you – you just have to solve the other deal partner's challenge. Eisai, a worldwide Japanese oncology company with USD 7 billion global revenue, has a drug called Eribulin – the brand name is Halaven – which held a third-line indication for breast cancer treatment in the United States. Eisai had a phase three trial readout where it went head-to-head with second line standard of care treatment and fell short by just days. We're talking about missing the primary clinical endpoint by less than two weeks. There are a couple ways to react when reading these headlines. The first is to read them and forget them. The other is to try to apply them. And that's what took place with us. We thought it was interesting because Halozyme had a biologic in phase three trials that alters the tumor microenvironment, allowing more drug to reach the tumor.

### What happened

We approached Eisai with the idea of combining their drug, Havalen, with our drug, PEG-PH20, testing a development pathway for both parties in breast cancer. A lot of times deals don't land in your lap or knock at your door. You have to become strategically opportunistic. In this case, a clinical trial outcome helped to set the stage for a cost-share clinical collaboration deal. Whenever you're solving a deal partner's problem and making their life easier, chances are you will discover greater traction.

### Lessons learned

When licensing, look for opportunities where you can solve for something that hasn't been solved yet. If you can create value for the deal partner, your probability of closing improves. Bad news is not always bad news – sometimes it can be good. Halozyme had not formed a clinical development partnership with Eisai prior to this example; but a good story and strategic rationale opens doors and facilitates an expeditious closure.

## Medtronic Diabetes – Be the local hero

### The situation

The common belief that small deals take the most effort is true. But some small deals can give you incredible goodwill mileage and make you a local hero. When I was the Chief Strategic Officer at Medtronic Diabetes, we had the most advanced insulin pump and glucose sensor system in the world. We could use our system to test drugs and devices when other companies requested, and these were small deals in the neighborhood of USD 1-3 million. Our scientists conducted contract work with new technologies that weren't on the shelf – investigational and most times not even published – and received payment for their services.

> "Deals are more than just numbers and financials; they're actually people, and you have to manage these situations. If you ignore people, egos get bruised, feelings get hurt, and you may find yourself without a date to the dance."

### What happened

When you're a principal scientist running a lab with six to eight people, receiving a million-dollar infusion really changes your budget for the better. Two things resonate strongly with scientists: 1) having the opportunity to experiment with new technology: and 2) being able to buy new pieces of lab equipment. You leverage both of these by working with companies who can bolster the department budget for your scientists deploying their specialized expertise, in this case the artificial pancreas. Later on, when you're closing a big deal with other parties, like when we announced the Sanofi-Medtronic Joint Development Alliance, the scientists are already in your camp because of access to a better provisioned laboratory and cutting-edge external technology.

### Lessons learned

A lot of times as dealmakers, we concentrate on the shareholder value created, board directors, and our C-suite colleagues. However, sometimes you can also work directly for the scientists that form the backbone of the company. When it comes to the technical diligence you need, especially in a complex licensing situation or large M&A, having built rapport by providing R&D  a service rather than always asking for things, lands extremely well. That can go a long way if you're a dealmaker.

## Kyan Therapeutics – Share incentives

### The situation

Currently, I'm the CEO and Chairman at the UCLA biopharma spinout Trethera. One of the observations you'll make at a smaller company is that while the scale changes, you still need access to interesting modalities for drug research. For us, that's the artificial intelligence (AI) applications that are now deployed to reduce drug development risk. It's no longer good enough to simply shake things in a test tube and inject a mouse later; these days it's a lot more technical, complicated and focused.

### What happened

One action I took early in my Trethera CEO tenure was to sign a co-development collaboration with Kyan Therapeutics, a Singapore-based AI drug development company working on the cutting edge of fuzzy logic and algorithms. We did this in a couple of ways. A grateful patient approached us who had had his chemotherapy AI adjusted with Kyan – plus he happened to be a significant Trethera shareholder. He brokered a conversation between Trethera and Kyan that helped as we encountered the early speedbumps that come with every deal, especially when you're a small company.

### Lessons learned

As a small company, it is likely that you have less cash than a larger firm, as a result you learn creatively how to get the same things like at a big company. We installed an option share incentive program with Kyan, in addition to providing a blend of capital for the agreed tasks. Linking a deal partner's success to your company's success via stock options helps get the project done. Now we're able to do the work we need to do across multiple tumor types with a proprietary AI system predicting our success and streamlining our development path choices.

When you provide equity incentives to some of your closer partners, it gives them a greater ownership and the potential upside can be immense. Everybody's looking for that hockey stick growth. Providing the hockey stick opportunity becomes a carrot that allows you to get things done in a cost-sensitive way, even opening up other unexpected doors. Kyan is now getting us further involved in the Asian health systems and has become one of our best thought partners in this challenging arena called drug development. Changing a vendor into a partner and a partner into a thought partner is something every small company should consider strongly.

*Interview conducted by SS&C Intralinks' Kyle Souders. Kyle helps corporate development, legal and finance teams on the West Coast to facilitate and secure their deal sourcing, M&A, and post-merger integration activity. He has experience working with West Coast corporations to build out strategies around big data analytics, distributed systems and machine learning at scale.*

# About the SS&C Intralinks Deal Flow Predictor

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The *SS&C Intralinks Deal Flow Predictor* provides SS&C Intralinks' perspective on the level of early-stage M&A activity taking place worldwide during any given period. The statistics contained in this report reflect the volume of VDRs opened, or proposed to be opened, through SS&C Intralinks and other providers for conducting due diligence on proposed transactions, including asset sales, divestitures, equity private placements, financings, capital raises, joint ventures, alliances and partnerships. These statistics are not adjusted for changes in SS&C Intralinks' share of the VDR market or changes in market demand for VDR services. These statistics may not correlate to the volume of completed transactions reported by market data providers and should not be construed to represent the volume of transactions that will ultimately be consummated during any period nor of the revenue or M&A deal volume that SS&C Intralinks may generate for any financial period. Indications of future completed deal activity derived from the *SS&C Intralinks Deal Flow Predictor* are based on assumed rates of deals going from due diligence stage to completion. In addition, the statistics provided by market data providers regarding announced M&A transactions may be compiled with a different set of transaction types than those set forth above.

To verify the predictive nature of the *SS&C Intralinks Deal Flow Predictor*, we compared the data underlying the *SS&C Intralinks Deal Flow Predictor* with subsequent announced deal volume data reported by Refinitiv to build an econometric model (using standard statistical techniques appropriate for estimating a linear regression model) to predict the future reported volume of announced M&A transactions two quarters ahead, as recorded by Refinitiv. We engaged Analysis & Inference ("A&I"), an independent statistical consulting and data science research firm, to assess, replicate and evaluate this model. A&I's analysis showed that our prediction model has a very high level of statistical significance, with a more than 99.9 percent probability that the *SS&C Intralinks Deal Flow Predictor* is a statistically significant six-month predictive indicator of announced deal data, as subsequently reported by Refinitiv. We plan to periodically update the independent statistical analysis to confirm the *SS&C Intralinks Deal Flow Predictor's* continuing validity as a predictor of future M&A activity.

The *SS&C Intralinks Deal Flow Predictor* report is provided "as is" for informational purposes only. SS&C Intralinks makes no guarantee regarding the timeliness, accuracy or completeness of the content of this report. This report is based on SS&C Intralinks' observations and subjective interpretations of due diligence activity taking place, or proposed to take place, on SS&C Intralinks' and other providers' VDR platforms for a limited set of transaction types. This report is not intended to be an indicator of SS&C Intralinks' business performance or operating results for any prior or future period. This report is not intended to convey investment advice or solicit investments of any kind whatsoever.

## About SS&C Intralinks

SS&C Intralinks is a leading financial technology provider for the global banking, dealmaking and capital markets communities. As pioneers of the virtual data room, our technology enables and secures the flow of information, empowering our customers to work more productively and with complete confidence. SS&C Intralinks facilitates strategic initiatives such as mergers and acquisitions, capital raising and investor reporting. Our solutions enhance these activities by streamlining operations, reducing risk, improving client experiences and increasing visibility. We've earned the trust and business of more than 99 percent of the Fortune 1000 and have executed over $34.7 trillion worth of financial transactions on our platform.

For more information, visit intralinks.com



Thanks to Refinitiv for permission to use their M&A deal reports and data on announced deals in the *SS&C Intralinks Deal Flow Predictor* report.

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