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 Q2 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 H1 2020, this issue of the *SS&C Intralinks Deal Flow Predictor* includes a spotlight on how environmental, social and governance (ESG) considerations are affecting dealmaking. We also feature an interview with Marianne Lewis, Dean and Professor of Management at the University of Cincinnati, Carl H. Lindner College of Business, on a new Intralinks research report, *Gender Diversity and M&A Outcomes*. Due to be published on February 18, the report, based on a 20-year global study of more than 16,700 M&A transactions, presents unique new findings on how female board-level representation affects corporate dealmaking.

Philip Whitchelo
Vice President, Intralinks

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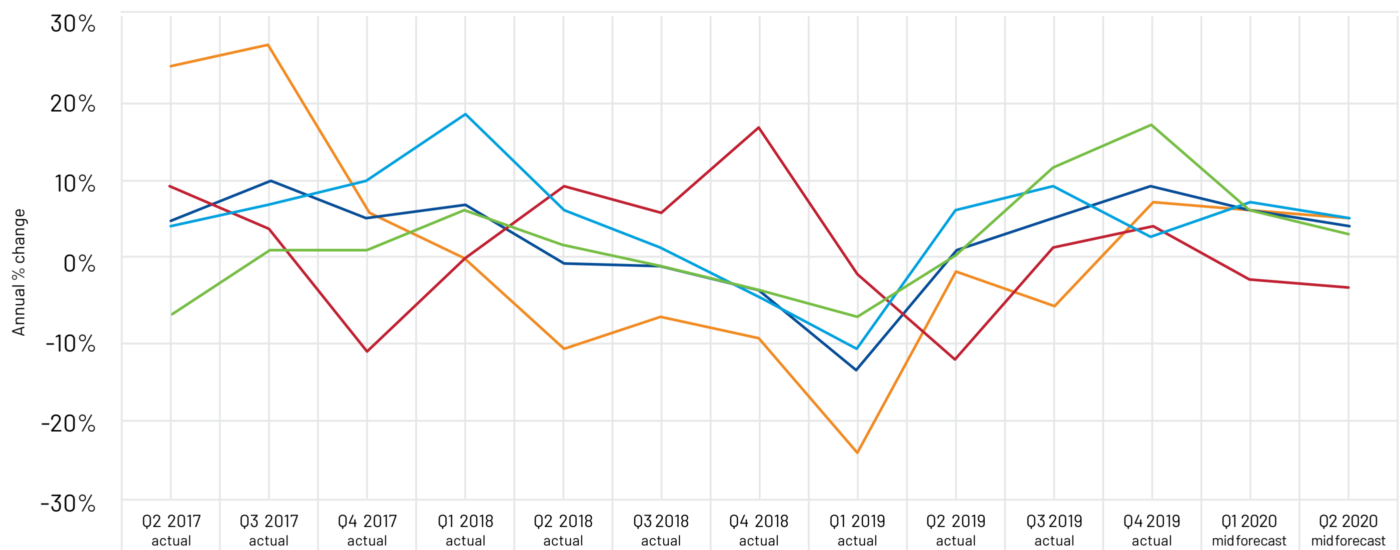
Intralinks' mid-point forecast of the year-over-year % change in the number of announced M&A deals, as reported by Refinitiv, for the next two quarters



	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 actual	Q1 2020 midforecast	Q2 2020 midforecast
APAC	4%	7%	10%	18%	6%	2%	-6%	-11%	6%	9%	3%	7%	5%
EMEA	-7%	1%	1%	6%	2%	-2%	-5%	-7%	0%	12%	17%	6%	3%
LATAM	9%	4%	-11%	0%	9%	6%	16%	-3%	-13%	2%	4%	-3%	-4%
NA	24%	26%	6%	0%	-11%	-7%	-9%	-24%	-3%	-6%	7%	6%	5%
World	5%	10%	5%	7%	-1%	-2%	-6%	-14%	1%	5%	9%	6%	4%

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://via.intralinks.com/index.html#workspaceDetail/4974077/14314686348/14346818148

[2] https://thesource.refinitiv.com/thesource/getfile/index/a9b10001-d7d6-4cb7-b93d-aabb518b8c86 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

Worldwide M&A forecast
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Overview

2020: start of a new M&A upcycle?

After stalling for the past two years, 2020 could herald the beginning of a new cycle of growth in worldwide M&A activity. Based on growth in new deals entering due diligence in worldwide virtual data rooms over the past two quarters, Intralinks forecasts that the worldwide number of M&A deals to be announced in H1 2020 is predicted to increase by around 5 percent year-over-year (YOY), within a range of +10 percent to 0 percent, with the strongest growth in deal announcements expected to come from the Healthcare, Materials and TMT (Technology, Media & Telecoms), sectors.

Asia-Pacific

In APAC we forecast that the number of announced M&A deals is predicted to increase by around +6 percent YOY in H1 2020, within a range of +11 percent to +1 percent. The Materials, Consumer & Retail and Healthcare sectors are predicted to show the strongest growth in APAC M&A announcements.

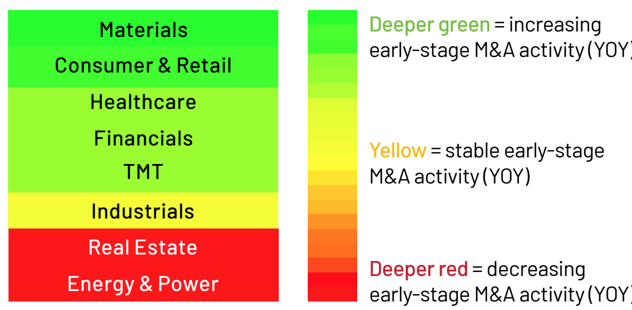
Within APAC all regions are expected to announce higher numbers of deals in H1, with Japan, India and North Asia (China, Hong Kong and South Korea) expected to lead the growth in M&A activity.

APAC

H1 2020 mid-point forecast: +6%

H1 2020 high forecast: +11%

H1 2020 low forecast: +1%



Europe, the Middle East & Africa

In EMEA we forecast that the number of announced M&A deals is predicted to increase by around +4 percent YOY in H1 2020, within a range of +7 percent to +1 percent. The strongest contributions to EMEA's growth are expected to come from the TMT, Financials and Energy & Power sectors in Eastern Europe, Northern Europe (Benelux and the Nordics) and the Middle East.

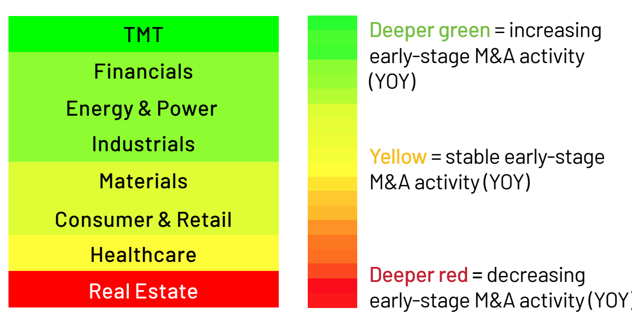
Among the five largest European economies Italy, the U.K. and Germany are expected to show increased numbers of M&A announcements in H1 2020 compared with the same period in 2019, whereas M&A activity is expected to decline in France and to be flat in Spain. Following the Conservative victory in the U.K.'s December general election, U.K. early-stage M&A activity jumped by 24 percent YOY in Q4.

EMEA

H1 2020 mid-point forecast: +4%

H1 2020 high forecast: +7%

H1 2020 low forecast: +1%



Latin America

In LATAM we forecast that the number of announced M&A deals is predicted to fall by around 4 percent YOY in H1 2020, within a range of +2 percent to -9 percent. Any growth in LATAM M&A announcements is expected to be led by the Financials, Industrials and Energy & Power sectors.

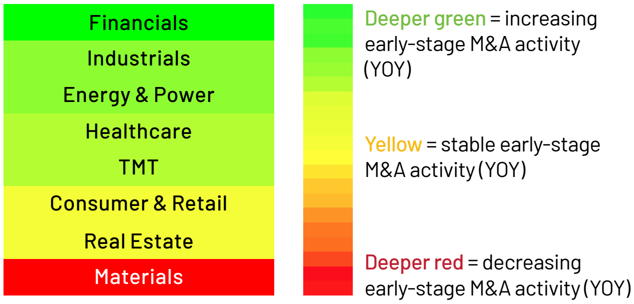
Among the largest LATAM economies, Mexico and Peru are expected to show higher numbers of M&A announcements in H1, whereas M&A activity is predicted to be flat in Brazil and to fall in Argentina, Chile and Colombia.

LATAM

H1 2020 mid-point forecast: -4%

H1 2020 high forecast: +2%

H1 2020 low forecast: -9%



North America

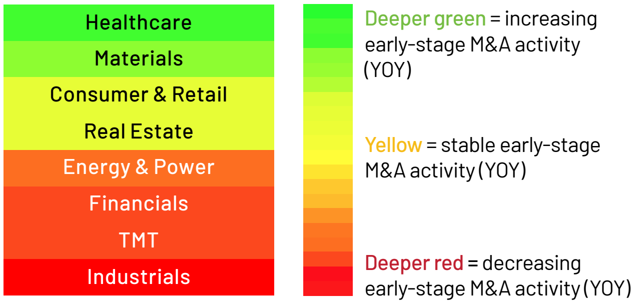
In NA we forecast that the number of announced M&A deals is predicted to increase by around +5 percent YOY in H1 2020, within a range of +14 percent to -2 percent, driven by an uptick in U.S. dealmaking. The Healthcare, Materials and Consumer & Retail sectors are predicted to lead the growth in NA M&A announcements in H1.

NA

H1 2020 mid-point forecast: +5%

H1 2020 high forecast: +14%

H1 2020 low forecast: -2%



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Spotlight

ESG and M&A: making waves

Environmental, social and governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. [3]

Initially, ESG concerns were considered to be "soft issues" without a tangible impact on the bottom line and the overall success of a business. While ESG has long been part of the investment landscape, over the past few years there has been a marked shift in the emphasis and importance given to sustainability factors. Corporates are looking more closely at their ESG business practices and considering them when it comes to potential acquisitions and dealing with stakeholders; private equity funds are screening potential investment targets for their ESG credentials as well as facing scrutiny from their own investors about policies in this area; and pension and sovereign wealth funds are making ESG considerations part of their investment criteria.

United Nations Principles for Responsible Investing

- **Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.
- **Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.
- **Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

As we have all personally become much more aware of the impact we are having on the planet, we are expecting businesses around us to take greater responsibility as well.

While most players in the financial world have their own set of ESG guidelines, an increasing number of them are signing up to the United Nations-supported Principles for Responsible Investment (PRI), a set of six principles that provide a global standard for responsible investing.[4]

The market for sustainable assets more generally is growing quickly. The *Global Sustainable Investment Review* reported that sustainable investing, including ESG, had increased 34 percent over two years, reaching more than USD 30 trillion by the start of 2018.[5]

In an increasingly complex business world, adherence to strong ESG standards is seen as a way for players to differentiate themselves.

Private equity funds, for example, are using their ESG credentials to stand out in a crowded field of dealmakers, all under the same pressure to raise funds, deploy them and offer their investors above-average returns on their capital. Intralinks has previously written about how socially conscious limited partners are placing a premium on corporate values and responsible business conduct, which help to buffer against risk and ensure positive returns.[6]

As ESG factors are increasing in importance during the normal course of business, they are also increasing when it comes to making investment decisions and M&A.

"If we feel the ESG credentials of a prospective target are lacking," one corporate M&A professional said, "we walk away from an investment." A private equity practitioner echoed these sentiments saying that "pressure from our own investor base makes investments in businesses [that are] not quite up to scratch when it comes to ESG somewhat challenging."

Both professionals said that there has been a marked increase in scrutiny they themselves conduct on ESG issues during the due diligence process in an M&A transaction, while at the same time finding that their own investors examine them more closely for their adherence to ESG principles – evidence that the focus on ESG is spreading across the financial world.

> "If we feel the ESG credentials of a prospective target are lacking," one corporate M&A professional said, "we walk away from an investment."

There is no doubt about the increasing importance of ESG in the investment process and the UN's PRI illustrate this very clearly, but, as to be expected, there are different levels of adoption across the world. The European Union has issued its own recommendations on ESG and is finalizing specific regulations. With the Nordic countries historically leading the way on ESG, many European businesses have in fact strong ESG credentials. The U.S., which anecdotally lags behind when it comes to making issues relating to ESG key areas of consideration during an investment process, is in fact not doing so badly either – listed companies in the U.S. in every sector other than Financials saw an increase in their ESG company disclosure scores between 2011 and 2016.[7] There is a growing awareness of ESG in Asia-Pacific markets but a relatively low integration by investors of ESG factors into their analyses and processes. The main barriers to ESG integration are reported to be a limited understanding of ESG issues and a lack of comparable ESG data and common reporting standards.[8]

Unfortunately, perception in the financial world right now seems to be that adherence to strong ESG standards is more about risk mitigation than doing the right thing. A recent report by IHS Markit and Mergermarket, *ESG on the Rise: Making an Impact in M&A*,[9] asked M&A dealmakers and fund managers how ESG fits into an M&A process. In it, most respondents cited business risk and potential liabilities as key reasons for taking ESG concerns into account. The report goes on to say that for many respondents public image is the unifying thread linking a variety of ESG concerns together – be it climate change, greenhouse gas emissions, labor standards or human rights. The report quoted one U.S.-based executive who saw ESG failure as mainly a business risk caused by today's more socially conscious public: "Social activism has increased significantly. We have seen many cases of prominent companies going down by ignoring the various ESG factors such activism seeks to address."

That said, the overwhelming majority of respondents predict that the importance of ESG issues will increase in M&A decisions over the next 12 to 24 months. Given the speed with which our awareness of the impact of businesses on the world is changing, and the increasing evidence that companies that choose to "do good" also tend to last longer and produce higher risk-adjusted returns, ESG factors can no longer be dismissed as a soft issue.[10]

[3] https://www.investopedia.com/terms/e/environmental-social-and-governance-esg-criteria.asp

[4] https://www.unpri.org/

[5] http://www.gsi-alliance.org/

[6] https://www.intralinks.com/blog/2019/09/esg-can-give-private-equity-firms-competitive-advantage-among-socially-conscious

[7] https://www.unpri.org/investor-tools/esg-integration-in-the-americas-markets-practices-and-data-/3624.article

[8] https://www.unpri.org/investor-tools/esg-integration-in-asia-pacific-markets-practices-and-data/4452.article

[9] https://www.acuris.com/esg-rise-making-impact-ma?utm_campaign=10515098_IHS%20Markit%20Q1%20-%20ESG&utm_medium=email&utm_source=read-full-top&dm_i=1D5J,69DI2,6ZOEZ7,OOSAZ,1

[10] https://www.unpri.org/academic-research/how-esg-investing-affects-financial-performance/548.article and https://www.corporateknights.com/reports/global-100/global-100-difference-15481154/

Guest comment

Gender diversity and M&A outcomes

For this issue of the *SS&C Intralinks Deal Flow Predictor*, we spoke to Marianne W. Lewis, Ph.D., about a new Intralinks research report, *Gender Diversity and M&A Outcomes: How Female Board-Level Representation Affects Corporate Dealmaking*. Due to be published on February 18, this report, based on a 20-year global study of more than 16,700 M&A transactions, discusses the findings of recently completed research into how female board-level representation affects corporate dealmaking and key measures of M&A success such as share price performance, growth, profitability, return on capital and shareholder value.

Marianne Lewis is the tenth Dean and Professor of Management at the Carl H. Lindner College of Business at the University of Cincinnati. Previously, she has served as dean of Cass Business School, City, University of London and as a U.K. Fulbright Scholar. Professor Lewis has earned numerous teaching and research awards throughout her academic career. An international expert on organizational paradoxes, her research explores tensions and competing demands surrounding leadership and innovation. She applies her renowned paradox lens across such diverse contexts as strategy, product development, organizational change, governance and technology implementation. Her paper, *Exploring Paradox: Toward a More Comprehensive Guide*, received the Academy of Management Review Best Paper Award in 2000 and is among the most cited in the field. Her work appears in such top journals as the *Harvard Business Review*, *Academy of Management Journal*, *Organization Science*, *Journal of Operations Management* and *Human Relations*. Professor Lewis earned her MBA from the Kelley School of Business at Indiana University and her Ph.D. from the Gatton College of Business and Economics at the University of Kentucky.

Intralinks: Hello Marianne, thank you for agreeing to talk with us about the findings of our study into gender diversity and mergers and acquisitions. We conducted the research for this report in partnership with the M&A Research Centre (MARC) at the Cass Business School in London. As a recent former dean of Cass, how would you describe the impact that the MARC has had on Cass's reputation for research into the theory and practice of M&A?

Marianne Lewis: Working with the MARC has been an eye-opening experience. The centre conducts rigorous research with valued insights from a community of engaged business partners who form part of the MARC's advisory board. The board discusses proposed research studies extensively before they are approved. This approach helps ensure they study problems that really matter. Relevance is baked into research from the word go!

The topic of gender diversity in corporate structures and among senior company leadership is one that has gained increasing attention over the past few years. Is the same true in academia, and what are your experiences of this given your academic interests in the field of management?

> "Diversity of experience, skills and demographics - including gender and race - paired with a strong shared purpose and willingness to critique and debate, is a powerful combination."

Gender diversity is just as much an issue in academia as it is in the business world. There are gender bias concerns in many areas of academia – when I joined Cass in 2015, out of the top 100 business schools a mere eight were led by women. Studies have raised concerns about gender bias in MBA teaching evaluations, in executive MBA hiring, and in faculty promotions for certain fields. The "leaky pipeline" of women progressing to senior leadership roles is pervasive and needs attention, from business to academia.

Looking at the report itself, there are some interesting findings from the study. One of these is that acquisitions by female CEOs appeared to have a less favorable reaction from investors (i.e., short- and long-term post-deal acquirer share price performance) than acquisitions by male CEOs. The study also found that when looking at internal company measures of performance, such as sales growth, profitability and return on assets/equity, acquirers with female CEOs performed significantly better than acquirers with male CEOs in the years following the acquisition.

So maybe the market is underestimating female CEOs' ability to make deals work? What do you think some of the reasons for this could be?

To me this appears to be a classic case of potential bias. Market reaction is influenced by perceptions and the use of heuristics or "rules of thumb." Investors' cognitive lenses influence quick decision-making and can perpetuate bias. In her book *What Works: Gender Equality by Design*, Professor Iris Bohnet of Harvard University says that bias is deep-seated, deeply embedded in our minds. It allows for quick, often accurate decision-making. But it can also be self-fulfilling and inaccurate. Stereotypes of how the world works can turn into how the world should work. And to me this research finding suggests just such an example. Consider the poor market reaction – based on perceptions, compared to positive deal performance – based on actual results.

The study also looked at the gender composition of company boards. The research found that the share price performance, post-transaction, of acquirers with at least 30 percent female board members was significantly better than acquirers with all-male boards. The types of deals that these more gender-balanced acquirers did tended to be more risk averse (smaller deals, fewer cross-border, higher growth and profitability). What is your experience of decision-making structures in organizations? How could a more gender-balanced leadership structure lead to better decisions and outcomes?

There is a clear link between diversity and good decision making. The investigation into the *Challenger* disaster – the explosion of a U.S. space shuttle shortly after takeoff in 1986 – demonstrated the danger of "group think" when there is a lack of diversity and questioning of existing assumptions.

This work and much following stressed the importance of having diversity around the table when you make critical decisions. The greater the uncertainty and ambiguity in a decision-making situation, the greater the value of diverse decision-makers. Diversity of experience, skills and demographics – including gender and race – paired with a strong shared purpose and willingness to critique and debate, is a powerful combination.

Finally, how can governments, regulators and companies improve the representation of women in senior leadership and management roles in business?

Debiasing is a very hard process, and I am not a proponent of strict regulations and enforced quotas. That said, the targets being pushed in the U.K., for example, are making an impact via greater transparency and corporate peer pressure. We are currently going through a period of change, starting to question the status quo and unfreezing some of the biases that have become institutionalized. This is a vital start. From a practical point of view, mentoring and real personal support of people has been shown to have a huge impact in helping leaders rise to their full potential.

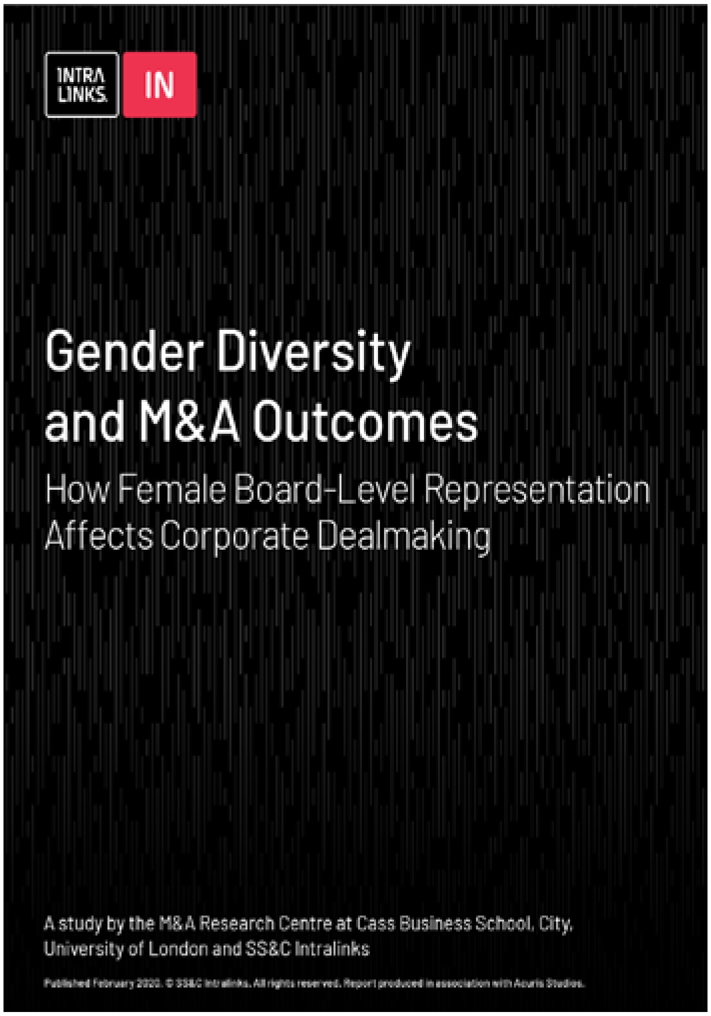
Marianne, thank you very much for taking the time to talk to us.

It has been my pleasure.

To sign up to receive Gender Diversity and M&A Outcomes: How Female Board-Level Representation Affects Corporate Dealmaking *as soon as it is published, click here:*

CLICK HERE

https://www.intralinks.com/insights/publication/gender-diversity-ma-outcomes



About the SS&C Intralinks Deal Flow Predictor

Reach your closest Intralinks office:
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The *SS&C Intralinks Deal Flow Predictor* provides 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 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 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 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* is provided "as is" for informational purposes only. Intralinks makes no guarantee regarding the timeliness, accuracy or completeness of the content of this report. This report is based on Intralinks' observations and subjective interpretations of due diligence activity taking place, or proposed to take place, on Intralinks' and other providers' VDR platforms for a limited set of transaction types. This report is not intended to be an indicator of 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. 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*.

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