January 2017

Private Equity Capital Briefing

Monthly insights and intelligence on PE trends

What's in store for PE

A year in transition: 2016 sees the exit cycle wind down, while deployment remains challenging

EY

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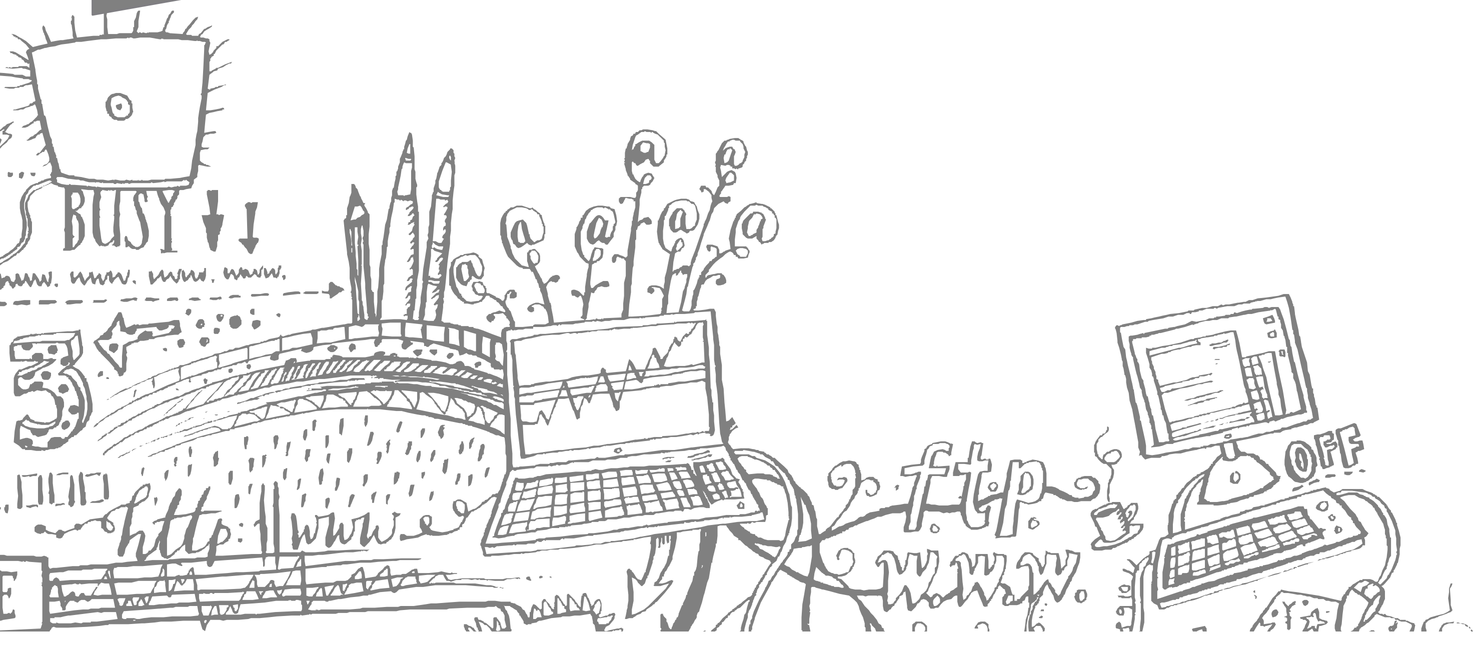
The *Private Equity Capital Briefing* has been designed to help you remain current on capital market trends. It captures key insights from subject-matter professionals across EY and distills this intelligence into a succinct and user-friendly publication.

Private Equity Capital Briefing provides perspectives on both recent developments and the longer-term outlook for private equity (PE) fundraising, acquisitions and exits, as well as trends in global M&A, cross-border deal flows, IPOs and the debt and bond markets.

Please feel free to reach out to any of the subject-matter contacts listed on the back page of this document if you wish to discuss any of the topics covered.



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Executive summary

- 2016 was another strong year for PE fundraising, with firms raising US$531b, on par with 2015. However, with exit activity slowing and the industry already in possession of record levels of dry powder, the outlook for 2017 may be constrained.
- Europe saw a marked increase in fundraising, while the US and Asia-Pacific saw declines.
- One of the most important stories of 2016 was the growth of the industry's dry powder. PE firms hold more than US$525b in dry powder in buyout funds alone, representing an 11% increase over 2015, and significantly exceeding the roughly US$480b that firms held in 2006-2007.

Current state

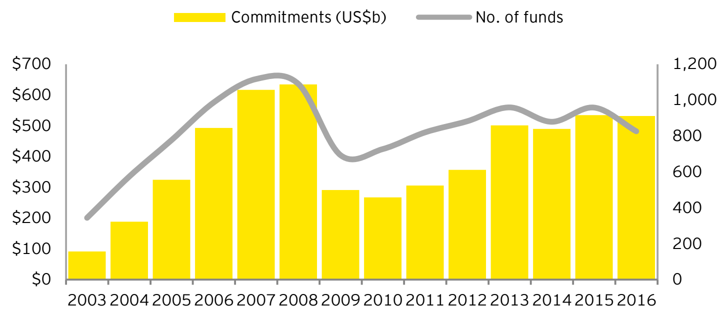
Fundraising

- 2016 was another strong year for PE fundraising, with firms raising US$531b, in line with 2015. Cyclical factors, such as record levels of exits, have been a key driver, as well as secular trends driving new investors to the asset class. In total, PE firms have raised more than US$2t for commingled funds since the beginning of 2013, making it one of the most active periods for commitment-gathering in the industry's history.
- Firms focused on the US saw a modest decline of 4% versus 2015, with US$306b in assets raised. In Europe, uncertainty stemming from the UK's vote to leave the EU was a contributing factor to a marked uptick in funds raised by European managers, as investors sought to back managers poised to capitalize on the potential dislocations. In total, firms based in the region took in nearly US$160b, an increase of 28%. Asia saw a marked decline in activity, with just US$47b raised, representing a 23% year-over-year decline. Macro uncertainty in China was a prime driver of the downturn, as was recent fundraising that has left Asia-Pacific managers with significant amounts of dry powder. Other emerging markets outside of Asia saw similar declines, as macro concerns kept many new investors at bay, while those already invested in the EMs took a wait-and-see approach pending the outcome of existing investments.
- One of the most important stories of 2016 has been the growth of the industry's dry powder. With a strong fundraising market, and a flat market for new deals, PE now has a massive war chest with which to pursue new deals. PE firms currently hold more than US$525b in dry powder in buyout funds alone, representing an 11% increase over 2015, and significantly exceeding the roughly US$480b that firms held in 2006-2007.

Environment and horizon

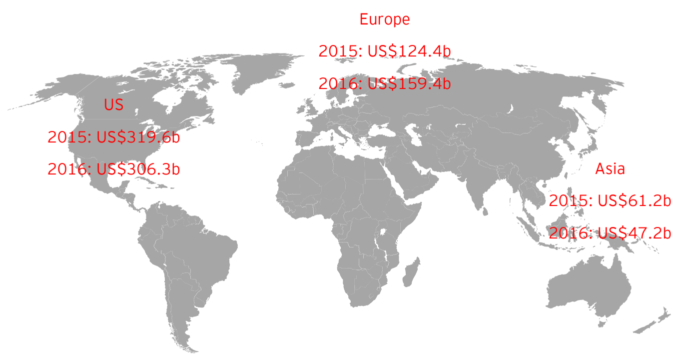
- Beyond traditional fundraising, shadow capital, which includes co-investment activity, direct investments, and commitments to separate accounts, is accounting for an increasing share of total investment in the asset class. According to London-based consultancy Triago, in the five years preceding 2015, shadow capital averaged approximately US$63b per year. In 2015 however, such fundraising totaled more than US$160b, and at midyear, 2016 was on track for more than US$170b in total shadow fundraising. As such, traditional estimates of the industry's size are increasing likely to understate the total amount of capital that is flowing into PE.
- LPs have been driven by an increased sense of urgency resulting from massive waves of distributions received over the last 3 or4 years. Over the last three years, PE firms have exited companies valued at more than US$1t, with exits outpacing new acquisitions by a ratio of 1.4 to 1. However, 2016 saw a marked decline in the value of exit deals; firms have now largely completed the sell-down of boom-era assets, and are now looking forward to a new deployment phase.
- Fundraising in 2017 will be driven by a number of competing dynamics. The industry continues to experience strong secular growth from both new and existing investors. Public pensions in particular are looking at PE as a way to increase plan returns and mitigate the need for massive hikes in contributions from sponsoring entities. At the same time however, exits and distributions are slowing. With firms already sitting on record levels of dry powder and the industry already largely in possession of the capital it needs to fund the next cycle of deals, many firms have limited need to return to the market with new funds. As such, the outlook for fundraising, particularly in the large buyout space, could be constrained over the near term until firms are able to deploy a meaningful percentage of their existing commitments.

Global PE fundraising by month



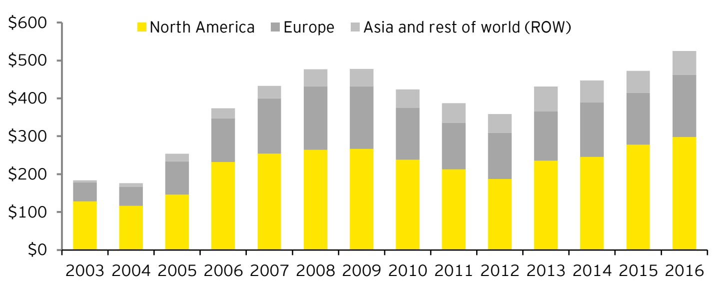
Source: Preqin

PE fundraising: 2015 versus 2016, by region



Source: Preqin

Global PE dry powder by region



Source: Preqin

1.ii. Private equity: acquisitions

Executive summary

- PE acquisition activity declined modestly in 2014. While firms currently have record levels of dry powder on hand, valuations remain high, and many firms are wary of overpaying.
- PE firms announced 1,536 deals valued at US$319b in 2016, a 4% decline by value versus last year.
- Utilities, Health care and Technology saw the most significant increases in PE activity in 2016.
- Add-on activity declined 26% after a record year in 2015.

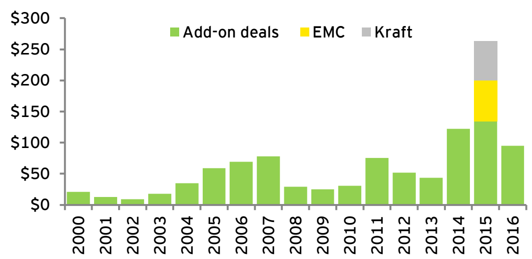
Current state

- PE acquisition activity saw a modest decline in 2016, as firms find themselves in a liminal space — while firms currently have record levels of dry powder on hand, valuations remain high, and many firms are wary of overpaying. As a result, PE firms announced just 1,536 deals valued at US$319b in 2016, a 4% decline from last year.
- There was significant variation in activity levels across the regions. In the Americas, PE acquisition activity declined 17% by value, to US$154b; in EMEA, activity increased modestly (up 7%) despite the uncertainty from Brexit, as firms positioned themselves for opportunities in the wake of the vote. Asia-Pacific saw the most significant increases by value, driven by a handful of large deals in Australia and Japan. The region saw deals valued at US$55b, up 26% from 2015.
- Utilities, Health care and Technology saw the most significant increases in PE activity in 2016. In the P&U space, electric producers remained under pressure from lower natural gas prices, increased production from renewables facilities, and lower overall demand, leading to a wave of deals. In 2015, P&U deals accounted for just 1.4% of total PE investment; last year, the sector accounted for 16% of total investment.
- Health care saw increased activity as firms positioned themselves for strong secular growth and regulatory change, while Technology saw the most overall investment by PE firms in 2016, accounting for more than one-fifth of aggregate PE investment, as firms acquired companies across a range of subsectors, particularly Enterprise Software.

Environment and horizon

- Add-ons saw less popularity in 2016. In 2014 and 2015, PE firms sought to mitigate higher entry multiples on platform investments through buy-and-build strategies. Add-on hit a high in 2015, with US$262b in announced deals. While a significant percentage of total value was attributable to just two deals — Dell's acquisition of EMC software for US$65.7b, and Heinz's acquisition of Kraft Foods for US$63b — add-ons hit a record, even excluding those deals. 2016 though, saw a moderation of buy and builds, suggesting that deals for many of the most immediately synergistic assets have already been consummated. Overall add-on activity (excluding Dell and Heinz) was down 29% during the year.

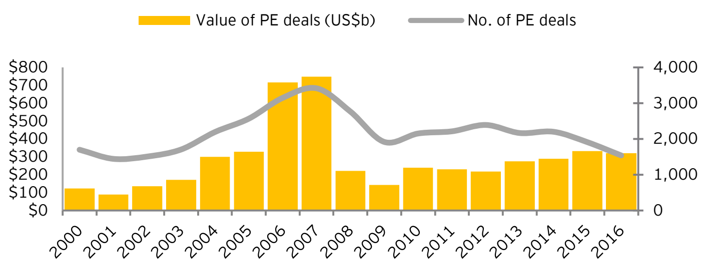
PE add-on activity (in US$b)



Source: Dealogic

- Given the length of the current economic expansion and increasing geopolitical uncertainty, many PE firms will continue to remain vigilant around valuations. Many firms are increasingly concerned that companies purchased today may need to be held through an extended economic downturn. As a result, few are underwriting significant multiple expansion, instead relying on balance sheet transformations and operational value creation to drive returns. Absent a widespread repricing of risk, firms will spend 2017 remaining opportunistic, looking for creative ways to put capital to work, including special situations, growth capital, and out-of-favor companies or industries.

PE acquisitions by year



Source: Dealogic

Sectors which saw the greatest year-over-year growth in 2016

(measured as a percentage of total PE investment)

Sector	2015 value (US$m)	% of total 2015 PE investment	2016 value (US$m)	% of total 2016 PE investment
Power and Utilities	$4,539.7	1.4%	$50,577.1	15.9%
Health care	$16,278.5	4.9%	$31,395.5	9.8%
Technology	$53,993.6	16.3%	$64,922.1	20.4%
Materials	$15,798.8	4.8%	$22,967.4	7.2%
Consumer goods	$32,390.8	9.8%	$38,200.1	12.0%

Source: Dealogic

Top deals announced in 2016

Target	Region	Industry	Sponsor	Value (US$b)
National Grid plc (Gas distribution business)	EMEA	Utility and Energy	Allianz Capital Partners GmbH; Macquarie Infrastructure and Real Assets Pty Ltd.	$14.5
Ausgrid Pty Ltd.	Asia-Pacific	Utility and Energy	IFM Investors Pty Ltd.	$12.4
MultiPlan Inc.	Americas	Healthcare	Leonard Green and Partners LP; Hellman and Friedman LLC	$7.5
Team Health Holdings Inc.	Americas	Healthcare	Blackstone Group LP	$6.0
GE Money Bank SCA	EMEA	Finance	Cerberus Capital Management LP	$4.6
Calsonic Kansei Corp.	Asia-Pacific	Auto/Truck	KKR and Co LP	$4.5
Rackspace Hosting Inc.	Americas	Computers and Electronics	Apollo Global Management LLC	$4.4
Tatts Group Ltd (Lottery business)	Asia-Pacific	Leisure and Recreation	KKR and Co LP	$4.2
Ultimate Fighting Championship	Americas	Leisure and Recreation	MSD Capital LP; KKR and Co LP; Silver Lake Group LLC	$4.0
Vertiv Co.	Americas	Computers and Electronics	Platinum Equity LLC	$4.0

Source: Dealogic.

1.iii. Private equity: exits

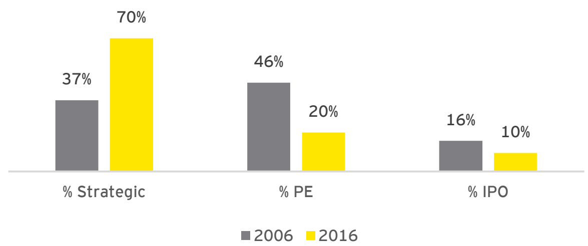
Executive summary

- The pace of PE exits slowed in 2016 as firms shifted their focus towards deployment of record levels of dry powder.
- PE firms exited 999 companies with an aggregate value of US$331b in 2016, down 22% by value versus the year prior.
- All exit routes saw declines; however, it was strategics that continued to enable the bulk of PE sales, accounting for 70% of PE exits by value.
- The IPO markets saw the largest degree of disruption in 2016; PE-backed IPO issuance declined 45% by value and 37% by volume versus last year.

Current state

- The pace of PE exits slowed in 2016 as firms shifted their focus towards deployment of dry powder. 2014 was a record year for PE exits, with 1,292 companies valued at US$475b exited during the year. 2015 was also robust; however, 2016 saw significant deceleration as the top of the cycle passed. PE firms exited 999 companies with an aggregate value of US$331b in 2016, down 22% by value versus the year prior.
- All exit routes saw declines; however, it was strategics that continued to enable the bulk of PE sales. PE firms sold 580 companies to corporate acquirors during the year, with an aggregate value of US$231b (down 17% from 2015), accounting for 70% of total PE exits. This represents a dramatic increase from 10 years ago, when secondaries were driving the bulk of PE exit activity, and strategics accounted for just 37% of total sales.
- Secondary buyouts dropped 22% year-over-year, as PE firms stepped back from aggressive bidding situations driven by corporates. PE firms exited 322 companies via secondary buyout with an aggregate value of US$68b.
- The IPO markets saw perhaps the largest degree of disruption in 2016, as global macro volatility — most notably Britain's vote to leave the EU, the slowdown in China and other emerging markets, and the presidential elections in the US — led to increased risk aversion, particularly in the early part of the year. As a result, PE-backed IPO issuance declined 45% by value and 37% by volume versus last year, with 97 deals valued at $32b reaching the public markets. IPOs accounted for just 10% of total exited value, the lowest since 2008.

PE exits by route (by value) – comparison of 2006 versus 2016

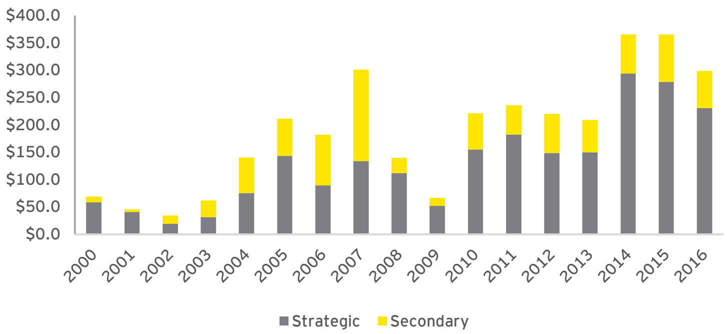


Source: Dealogic

Environment and horizon

- Having sold many of the assets acquired during the boom years, exit activity has since moderated significantly. PE firms are generally far more comfortable with the size and age of their portfolios than they were just 2 to 3 years ago, and presently have a reduced imperative to exit. Many have thus turned their focus to deployment of the record US$525b in dry powder raised by buyout funds over the last several years. As such, exit activity should normalize in the coming years as PE firms become increasingly opportunistic in the exit strategies and willing to wait for the right offers.
- However, the health of the exit markets will remain critical to PE. Although the growth of the portfolio has moderated in recent years - between 2005-2010, the PE portfolio grew at a compounded rate of 21% per year; since then, growth has averaged 8% per year – PE firms nonetheless hold stakes in nearly 16,000 companies globally.
- There remains a significant pipeline of PE-backed companies waiting to go public. Furthermore, sentiment has improved markedly in recent weeks with the US presidential election and Brexit now firmly in the rearview. 2017 could therefore be an active year on the IPO front, barring any significant macro shocks that would close the window for all issuance (PE-backed and non-PE-backed).

PE M&A exits by year (US$b)



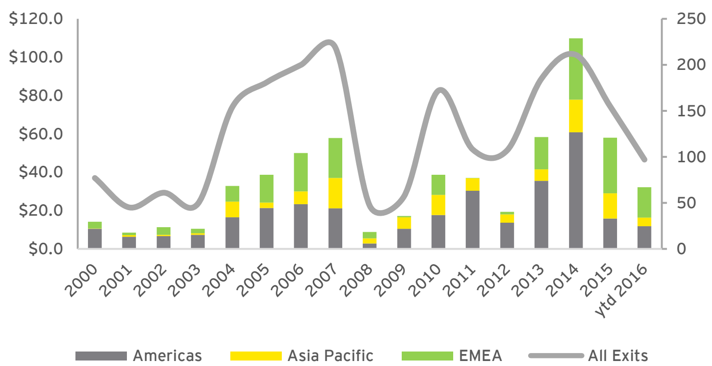
Source: Dealogic

Top PE M&A exits in 2016

Target	Industry	Sponsor	Deal value (US$b)
Sharp Corp.	Consumer Products	Japan Industrial Solutions Co Ltd.	$8.0
Formula One World Championship Ltd.	Leisure and Recreation	CVC Capital Partners Ltd.	$7.9
MultiPlan Inc.	Health care	Partners Group Holding AG; Starr Investment Holdings LLC	$7.5
Hilton Worldwide Holdings Inc.	Dining and Lodging	Blackstone Group LP	$6.5
IDC Salud Holding SLU-Quironsalud	Health care	CVC Capital Partners Ltd.	$6.4

Source: Dealogic

PE IPOs by month (in US$b)



Source: Dealogic

1. M&A

Executive summary

- 2016 was a strong year for global M&A, with US$3.5t of deals announced.
- Cross-border M&A remained robust, despite rising nationalistic geopolitical sentiment, with 8,730 deals valued at US$1.3t.
- Technology was the busiest sector for M&A in 2016, registering 8,129 deals worth US$567b
- The M&A outlook for 2017 remains positive as companies look to more regularly optimize portfolios.
- Future-proofing the business will be a key driver of M&A as companies look for disruptive trends within their core activities and innovation outside their own sectors.

Current state

- **Global M&A deal value remained elevated in 2016, with US$3.5t of deals announced** — a 17% decline against 2015, which was a record year. However, the value of announced deals was up 9% vs 2014 and 44% vs 2013. The number of deals recorded in 2016 was 35,246 against 37,345 recorded in the similar period in 2015 – a decline of 6% YOY.
- **Interestingly, in 4Q16 M&A surpassed the US$1t mark, with announced deals worth US$1.2t** — the biggest quarter of 2016 and the third largest quarterly deal value on record.
- **Cross-border M&A was a prominent feature during the year, registering 8,730 deals valued at US$1.3t** – the third-largest yearly cross-border deal value on record. Chinese outbound M&A saw a quantum leap of 127% YOY by value in 2016, to US$210b, as Chinese buyers continued to acquire foreign companies, brands and technology to diversify their businesses.
- **Technology was the hottest sector for M&A in 2016, with 8,129 deals worth US$567b.** This was the second-highest yearly transaction activity ever seen for technology deals. With increasing digitization, companies are highly aware that securing the right technologies will help them proceed with the critical task of reshaping their business models to succeed in a world of technological innovation. This is creating an upswing in technology M&A and other strategic tie-ups. Examples include Qualcomm's agreement to acquire NXP Semiconductors, Softbank's purchase of ARM Holdings, Siemens AG's agreement to buy Mentor Graphics Corp and Samsung's decision to buy Harman International Industries.
- **To add to the above trend, the current year saw 9,616 cross-sector deals worth a combined US$937b** - up 11% against 2015 - signaling that companies are acquiring the innovation that will fuel the reinvention of their own business models and their sector more broadly. Leading deals which supported this trend were, the merger between AT&T and Time Warner which is yet to get approval by President Trump, Odin Energy's agreement to buy GridComm, Monsanto's agreement to buy VitalFields, Weststar Resources Corp.'s agreement to purchase shares of North Road Ventures Inc. and others.

Environment and horizon

- **Global M&A is expected to remain robust in 2017.** Strategic growth remains at the forefront of boardroom agendas and companies look set to retain their focus on expansion to tap into new areas of growth. Market intelligence and surveys are pointing to a busy year ahead, supported by strong deal fundamentals, with corporations holding record amounts of cash and interest rates remaining historically low. Furthermore, M&A could provide the fastest route to futureproof the businesses to survive in the current environment of technological innovation and digitalization.
- **Cross-border deals to accelerate M&A.** In the next year, we are expected to see heightened cross-border deals, to buy into pockets of growth and secure supply chains in an era of increasing geopolitical uncertainty. With companies increasingly operating in a globalized environment with globalized supply chains, those need to be secured and M&A is increasingly becoming an effective instrument to achieve that. In 2017 we should see increasing cross-border deal-making, particularly between Asia and the North America, as well as a continuing flow of outbound acquisitions from China into Europe and Asia.
- **Uncertainty arising from regulatory policies may decrease in 2017,** compared to 2016, which saw a record amount of deals being pulled due to regulatory and antitrust concerns. In 2017, the regulation of deal-making will be in the spotlight, particularly in the US where the change in administration could see a relaxation of controls. Regulators in developed markets, especially the US and Europe, may look to enable greater equality in a global market place by relaxing combinations in their home markets.
- **Sector convergence would be a key trend for the M&A landscape in the foreseeable future.** Emergence of new business models and continued transformation of the market may impel companies to look for acquisitions outside their core sector to survive in this disruptive environment. The next year is expected to see more acquisitions aimed at enhancing and reorganizing current business models and platforms to counter increasing competition and to gain new customers and to extend product offerings.
- **Furthermore, technological disruption will continue to be an important deal driver.** 2017 should witness a shift from traditional deal drivers, such as cost controls and other synergies, to disruptive areas including changes in business models and product innovation, enabled by unrelenting advances in technology and digitalization.

Top 10 announced deals by value, December 2016

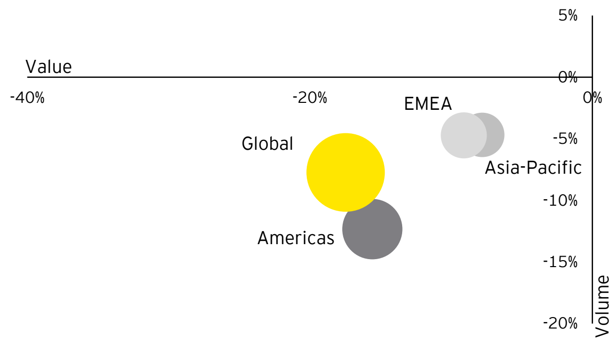
Source: Dealogic

Target	Sector	Country	Acquiror	Value (US$m)
Linde AG	Diversified industrial products	Germany	Praxair Inc.	42,503
Sky plc.	Media and entertainment	UK	Twenty-First Century Fox Inc.	23,149
Gas distribution business - National Grid plc.	Power and utilities	UK	Investor group	14,524
Rosneft OAO	Oil and gas	Russian Federation	Glencore plc; Qatar Investment Authority	10,973
DUET Group	Oil and gas	Australia	Cheung Kong Infrastructure Holdings Ltd.	9,956
CEE beer brands - SABMiller Ltd .	Consumer products and retail	Czech Republic	Asahi Group Holdings Ltd.	7,727
Yunnan Baiyao Group Co. Ltd.	Life sciences	China	Yunnan Baiyao Holdings Co. Ltd.	5,688
Capsugel SA	Diversified industrial products	US	Lonza Group AG	5,500
Allied World Assurance Co. Holdings AG	Insurance	Switzerland	Fairfax Financial Holdings Ltd.	4,855
CLARCOR Inc.	Automotive and transportation	US	Parker Hannifin Corp.	4,306

Deal environment: by area (year-on-year (YOY % change)

2016 versus 2015

Source: Dealogic and EY analysis



Deal environment: by target sector and target area (% share of global value)

2016

Source: Dealogic and EY analysis; excludes real estate asset transactions.

Note: because of rounding, percentages may not add up to total.

	Americas	Asia-Pacific	EMEA	Total
Technology	8%	4%	4%	16%
Diversified industrial products	5%	2%	5%	12%
Oil and gas	9%	1%	2%	12%
Consumer products and retail	5%	2%	2%	9%
Life sciences	5%	1%	1%	7%
Power and utilities	3%	1%	2%	7%
Media and entertainment	4%	1%	1%	6%
Banking and capital markets	2%	1%	2%	5%
Automotive and transportation	1%	3%	1%	5%
Others	9%	6%	5%	20%
All sectors	51%	23%	26%	100%

M&A analysis as at 4 January 2017.

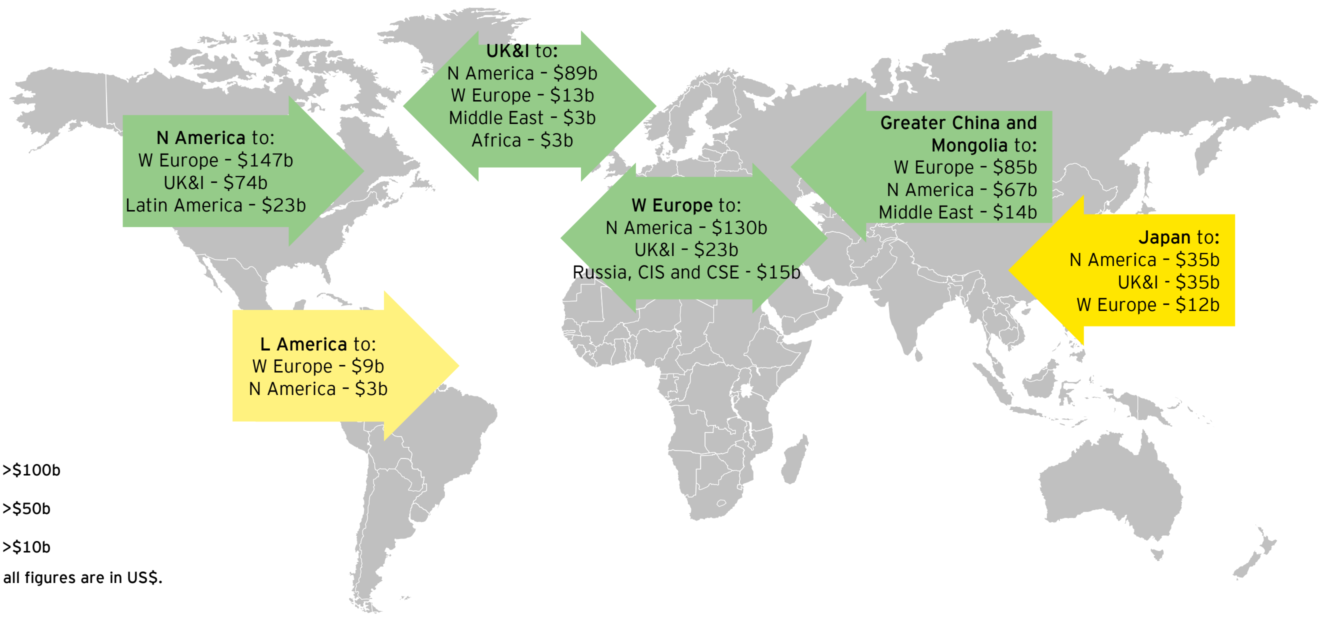
Note: data is continually updated and therefore subject to change.

Figures have been rounded off to nearest decimal place.

1.i. M&A: cross-border deal flow

Key cross-border M&A deal flow (2016)

(Total = US$1.29t)



Key

- >$100b
- >$50b
- >$10b

Note: all figures are in US$.

Cross-border M&A deal flow (2016) (US$m)

Target ↓ / Acquiror# →	Africa	SE Asia (including Korea)	Greater China and Mongolia$	Russia, CIS and CSE	W Europe (excluding UK&I)	India	Japan	Latin America	Middle East	North America	Oceania	UK&I	**Inbound total**	% △ versus PTM
Africa	937	373	4,625	1,621	1,756	32	1,563	-	447	5,833	864	2,864	**20,914**	129%
SE Asia (including Korea)	1	7,988	7,741	13	2,617	20	3,736	24	370	5,106	264	1,192	**29,072**	-25%
Greater China and Mongolia $	2	5,110	22,658	-	3,731	-	553	-	-	8,553	224	78	**40,909**	-35%
Russia, CIS and CSE	1,112	1,354	3,143	3,107	15,186	4,148	8,631	615	887	1,355	1,912	961	**42,411**	22%
W Europe (excluding UK&I)	47	2,626	85,172	6,440	64,789	464	11,820	9,139	1,917	146,887	1,015	12,721	**343,035**	24%
India	631	8,450	1,594	12,922	1,264	-	2,226	-	473	4,547	28	86	**32,220**	90%
Japan	-	221	8,803	-	235	443	-	-	-	1,878	15	-	**11,595**	-49%
Latin America	40	29	12,299	700	14,175	11	137	5,639	1,208	22,785	1,679	1,130	**59,832**	34%
Middle East	43	80	14,390	503	7,530	6	216	-	3,859	2,420	125	2,887	**32,059**	190%
North America	7,021	14,571	66,824	192	130,077	1,744	34,707	3,258	6,369	127,161	5,130	89,020	**486,076**	12%
Oceania	675	2,201	13,894	1	2,825	50	1,542	-	80	14,364	1,833	1,477	**38,944**	-13%
UK&I	2,900	753	11,624	56	23,164	1,033	34,598	-	2,647	74,320	1,397	1,194	**153,687**	-55%
Outbound total	**13,411**	**43,756**	**252,766**	**25,555**	**267,348**	**7,953**	**99,729**	**18,676**	**18,257**	**415,209**	**14,485**	**113,610**	**1,290,755**	-3%
% △ versus previous 12 months (PTM)	**-11%**	**108%**	**94%**	**278%**	**-45%**	**62%**	**13%**	**23%**	**-76%**	**17%**	**13%**	**-9%**	**-3%**	

Acquiror refers to acquiror's ultimate holding company.
$ Greater China and Mongolia includes mainland China, Hong Kong, Macau, Mongolia and Taiwan.
M&A analysis as at 4 January 2017.
Source: Dealogic. All Rights Reserved.
Note: data is continually updated and therefore subject to change.

Key >US$100b >US$50b >US$10b

Intra-area cross-border deals

2. IPOs

Executive summary

- Global IPO activity saw a YOY decline of 14% and 32% in terms of deal volume and value respectively in 2016.
- The Asia-Pacific region dominated global IPO activity, both in terms of deal volume and value.
- The 2017 IPO outlook remains optimistic despite ongoing uncertainty in a period of transition.
- In 2017, Asia-Pacific should lead global IPO activity, the US is expected to make a strong recovery from what has been the slowest annual activity since 2009 and European IPO activity should surpass the 2016 level.

Current state

- **Global IPO activity declined in 2016 compared with the previous year** against a backdrop of political and economic uncertainty, despite a pickup in the second half of the year. While IPO activity in 1H16 was significantly down by 35% and 60% in terms of deal volume and value respectively compared with 1H15, it was slightly up by 13% and 4% respectively in 2H16 compared with 2H15. In total, there were 1,084 IPOs globally in 2016, which raised US$134.3b, compared with 1,258 IPOs raising US$197.1b in 2015 — a 14% decline by deal number and 32% by capital raised. Not only were there fewer deals, there were also fewer megadeals. In 2016, there were only 22 deals with IPO proceeds of more than US$1b, down from 35 the previous year.
- **Asia-Pacific was the epicenter of global IPO activity,** dominating in both volume and proceeds raised, with 754 IPOs raising US$80.4b. In 2016, the Asia-Pacific region was driven by Greater China, which saw 356 deals that raised US$49.1b. This region accounted for 70% of the global number of IPOs and 60% of capital raised, a third successive year of global market share gains by deal number and capital raised.
- **EMEA saw a sizable drop in IPO activity** as a combination of political and economic factors weighed heavily on European and Middle Eastern markets in 2016. With 215 deals raising US$35.3b, the region saw a YOY decline of 33% and 48% in terms of deal volume and deal value respectively.
- **US IPO activity was subdued in 2016 compared with 2015,** as it was a year full of headwinds from global macroeconomic issues, market volatility, and political and monetary policy uncertainty, both in the US and globally. 2016 saw 111 deals that raised US$21.4b on US exchanges, and deal volume and proceeds both fell YOY by 36%.
- **PE and VC-backed IPO activity also declined in 2016,** accounting for a lower proportion of global activity than the previous year. Financial sponsor participation dropped to 13% of global IPO volume from 17% in 2015 and to 26% of global proceeds from 34% in 2015.

Environment and horizon

- **After a relatively slower 2016 for IPO activity, the outlook for 2017 is much more upbeat** as economies grow stronger and equity market indices are at an all-time high in many markets. Also, the reduction in volatility levels toward the end of 2016 and strong pipelines in many regions are good signs for 2017. However, the global economy is also entering a transitionary period, characterized by the US presidential election and Brexit, that may bring greater uncertainty and unpredictability to political and economic events during 2017.
- **Asia-Pacific in 2017 will continue to be the engine of global IPO activity,** with stock exchanges in Greater China leading the way. The China Securities Regulatory Commission (CSRC) began speeding up IPO approvals in November, and we expect this to continue through the first half of 2017, supported by stable markets and a strong pipeline of IPO-ready companies.
- **In Hong Kong, the State Administration of Foreign Exchange has opened up a green channel for domestic enterprises to list, which should promote new listings.** Furthermore, the loose monetary environment is expected to continue for some time, and there is an expectation that a depreciation of the Chinese renminbi (RMB) may lead to capital flows into the Hong Kong market from mainland China. Also, we anticipate the number of entrepreneurial IPOs will be stable, but average deal size may fall, as there are currently less state-owned enterprise (SOE) IPOs in the pipeline.
- **India is likely to see strong IPO activity in 2017**. With a supportive political backdrop, upbeat economic sentiment and improved business confidence, the pipeline is looking solid. Likewise, we are hopeful that the strong entrepreneurial spirit in developing markets in Africa will continue to translate into a solid pipeline of IPOs.
- **The outlook for 2017 IPO activity is bright in the US,** where we expect a rebound from what has been the slowest year for IPOs since 2009. As the IPO pipeline continues to fill, we anticipate that deal activity in 2017 will exceed the level of the previous year. Also, financial sponsors are likely to remain active players in the US IPO markets and continue to be a key source of IPO candidates.
- **In Europe, the mix of supportive economic fundamentals, along with ongoing political uncertainty, makes the outlook slightly more cautious.** While we expect that 2017 IPO activity will surpass 2016 levels, we do not expect significant recovery. Companies will want to keep their options open, stay flexible and pick the optimal strategy to accelerate growth when the time is right.

Top 10 IPOs by proceeds, 2016

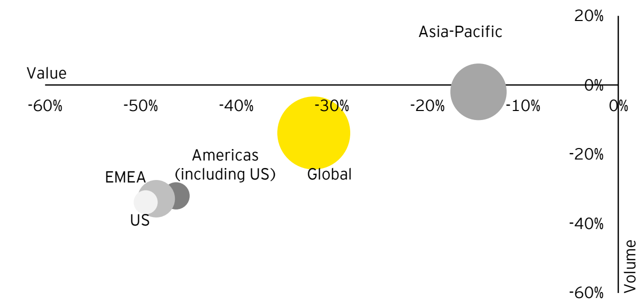
Source: Dealogic

Issuer name	Issuer location	Sector	Exchange	Proceeds (US$m)
Postal Savings Bank of China Co. Ltd.	China	Banking and capital markets	Hong Kong	7,625
Innogy SE	Germany	Power and utilities	Deutsche Borse	5,204
JR Kyushu	Japan	Automotive and transportation	Tokyo	3,994
Dong Energy A/S	Denmark	Oil and gas	NASDAQ OMX Copenhagen	3,006
Nets A/S	Denmark	Technology	NASDAQ OMX Copenhagen	2,356
Samsung BioLogics Co. Ltd.	South Korea	Life sciences	Korea	1,969
China Resources Pharmaceutical Group Ltd.	Hong Kong	Life sciences	Hong Kong	1,941
ConvaTec Group plc	UK	Life sciences	London	1,939
China Zheshang Bank Co. Ltd.	China	Banking and capital markets	Hong Kong	1,938
Bank of Shanghai Co. Ltd.	China	Banking and capital markets	Shanghai	1,599

IPO activity by area (YOY % change)

(2016 versus 2015)

Source: Dealogic; regional classification on the basis of issuer nationality.



IPO activity by sector and area (% share of global proceeds)

2016

Source: Dealogic; regional classification on the basis of issuer nationality.

Note: because of rounding, percentages may not add up to total.

	Americas	Asia-Pacific	EMEA	Total
Banking and capital markets	1%	17%	2%	20%
Real estate	2%	8%	2%	12%
Technology	2%	5%	3%	10%
Life sciences	2%	5%	3%	9%
Consumer products and retail	2%	5%	2%	9%
Automotive and transportation	1%	7%	1%	8%
Diversified industrial products	0%	5%	2%	8%
Power and utilities	0%	1%	4%	6%
Oil and gas	2%	1%	3%	5%
Others	2%	7%	4%	12%
Total	14%	60%	26%	100%

4. Loans

Executive summary

- Despite the surprising election results in 2016 regarding Brexit and Donald Trump's win, the second half of the year has seen strong volume.
- The first half of 2016 was dominated by buyout financings, taken over by opportunistic repricings, refinancings and recaps in the second half.
- Syndicated loan volumes in Asia-Pacific, excluding Japan, fell to a three-year low despite a surge in M&A activity from China and India.
- Upcoming elections in Germany and France could provide further surprises.
- Sponsor activity is expected to pick up this year, as a number of leveraged buyouts (LBOs) are expected early in 2017.

Current state

- **In December, US$22b of loans were issued in the US** and €4b in Europe, taking the 2016 issuance to US$556b, up 10% from 2015. The US and European loan issuance in the fourth quarter was US$142b, down 12% from the same period in 2015. Despite the surprising election results in 2016 regarding Brexit and Donald Trump's win, the second half of the year has seen strong volume.
- **The first six months of 2016 were dominated by buyout financings**, which reduced in the second half, with activity dominated by opportunistic repricings, refinancings and recaps as issuers looked to take advantage of untapped liquidity to generate attractive returns.
- In 2016, cross-border transactions of around €11.7b of European issuance from US borrowers represented the largest annual volume for reverse Yankee loans ever seen.
- Globally, **syndicated loan volumes in Asia-Pacific, excluding Japan, fell to a three-year low** of US$463.8b in 2016, down 1.6% from 2015, as slower economic growth and geopolitical turbulence curtailed bank lending despite a surge in M&A activity from China that boosted North Asian loans. However, India was the star among major Asian loan markets, showing the biggest percentage increase (37%) in 2016.
- The **US loan market got off to a slow start due to tumbling oil prices and a struggling commodities market** at the end of 2015, which continued until the second quarter, when the Federal Reserve (Fed)-fueled surge boosted loan market activity. This was followed by uncertainty of the impact of Brexit and the outcome of the US elections in 3Q16. At the end of the year, by late November and December, lenders were working to identify new opportunities and looking forward to more fertile ground for M&A.
- **European collateralized loan obligation (CLO) issuance in 2016 hit a new post-crisis high** of €16.8b, eclipsing the 2014 high of €14.5b, as the market saw dramatic tightening in senior tranches. Managers looking to capitalize on rapidly narrowing spreads are bringing CLO resets to Europe for the first time.
- **The tightening of pricing continued in December;** the average clearing yield for single-B rated term loans dipped in the US to 5.29% from 5.41% in November, and tightened to 4.50% from 4.60% in Europe.

Environment and horizon

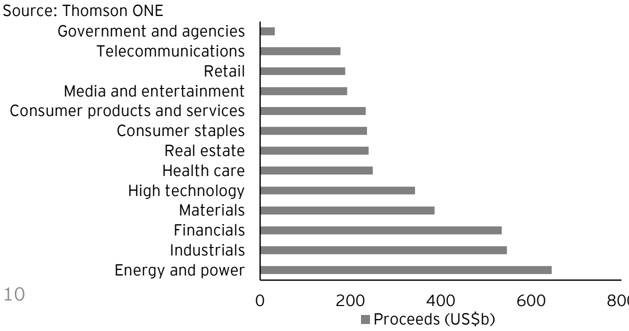
- **With Europe continuing to offer tighter yields**, as mentioned above, and with further rate rises widely expected in the US next year, it may continue to be an attractive port of call for US issuers in 2017.
- **Upcoming elections in Germany and France could provide further surprises**, while conflict in the Middle East, and rising tensions between the West and Russia, adds to the uncertainty.

Opportunities

- **Sponsor activity is expected to pick up this year, as a number of LBOs are expected early in 2017**, with a pipeline of more to follow. Europe's leveraged loan market is gearing up for a busy January, with around €7.5b-equivalent of underwritten paper set to be syndicated.
- **Sponsors are expected to keep refinancing bonds with loans** due to their preference for greater exit flexibility, allied with the ability to reprice a loan at any time. As demand for loans is expected to remain strong this year, loan financing will likely continue to be cheaper for issuers than bonds.

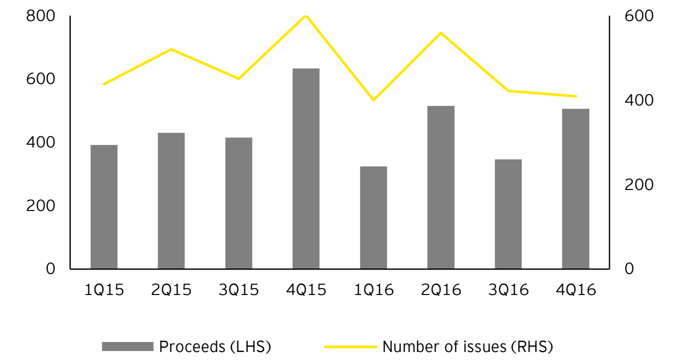
Global loan issuance by industry, 2016

Source: Thomson ONE



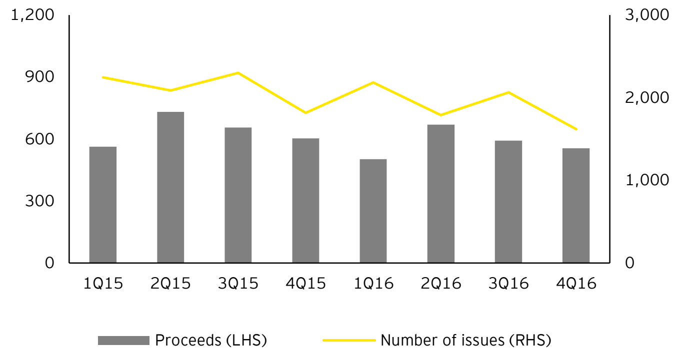
Global investment-grade loans (US$b)

Source: Thomson ONE



Global high-yield loans (US$b)

Source: Thomson ONE



Top arrangers ranking, 2016 (US$b)

Source: Thomson ONE

	Proceeds	Issues
Bank of America Merrill Lynch	301.4	1,406
J.P. Morgan	273.4	1,225
Citigroup Inc.	214.8	845
Mitsubishi UFJ Financial Group, Inc.	185.5	1,395
Mizuho Financial Group, Inc.	171.1	1,005

All loans by region, 2016 (US$b)

Source: Thomson ONE

	Market share	Proceeds	Issues
Americas	58.1%	2,329.5	4,291
EMEA	23.6%	946.8	1,631
Asia-Pacific	18.3%	733.7	3,342

Note: Data in the commentary excludes financial sector and focuses only on corporate issuance

5. Bonds

Executive summary

- Global high-yield activity fell in December on a monthly basis, and both the US and Europe experienced annual volume declines in 2016.
- The European high-yield bond market has been losing issuers to the term loan market over the past few months.
- There has been a fundamental shift in the traditional lending landscape as an increasing amount of activity is going via direct lenders.
- The market is likely to become increasingly bifurcated, with corporations active in high yield and sponsors active in loans.
- The European Central Bank's (ECB's) leveraged lending guidelines may lead some of the more aggressive loan market borrowers back to the high-yield market.

Current state

- **Global high-yield activity fell in December on a monthly basis** as high-yield issuance in the US was US$19b and €1.7b in Europe, taking the 2016 total to US$287b, down 14% from 2015. The European high-yield market posted a **second consecutive annual decline** for new-issue volume – many of the factors that caused this decline are still in action. Also in the US, high-yield bond issuance was US$228b in 2016, 13% short of the total for 2015, marking a **fourth consecutive annual decline**.
- Despite the erratic issuance, the market **remained active during potentially crippling events**, such as Brexit and the US election, showing maturity by not shutting doors at the first sign of volatility.
- The single-B segment of the **European high-yield market has been losing issuers to the senior secured term loan** B market over the past few months, as more stable LIBOR-based funding conditions and demand for the senior tranches of CLOs exceed the available supply of leveraged loans.
- **The market saw a fundamental shift in the traditional lending landscape** as an increased amount of activity is going outside of the bank market via direct lenders. Banks are having to give way on covenants to compete with the direct lenders, while the direct lenders are having to relent on pricing to compete with banks.
- The **game changer for 2016 was the ECB's corporate bond-buying program (CSPP)**. It led to a surge in double-B refinancing; while the ECB has announced it is tapering the CSPP next year, this is still going to be a key plank of support for the asset class.
- **High-yield issuance for M&A activity was US$57b, contributing 25% to the total in the US,** or a 43% YOY decrease. In Europe, it was €10b of high-yield issuance or a 19% contribution, signaling a 58% decline from last year.
- **Clearing yields for double-B rated bonds tightened in the US** to 5.18% in the three months to the end of December, from 5.73% at the end of November, and yields widened to 4.11% from 3.97% in Europe.

Environment and horizon

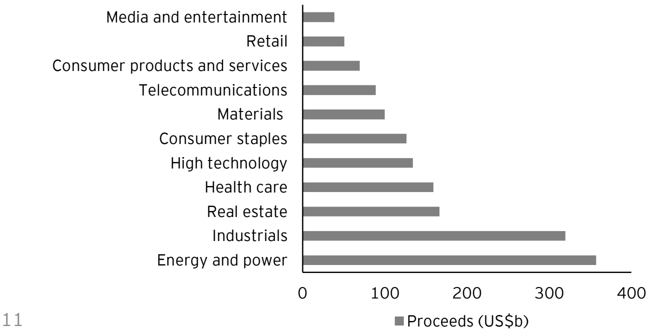
- The **market is likely to become increasingly bifurcated**, with corporations active in high yield and sponsors active in loans. As corporations sit on a lot of cash, and debt financing is available at cheap rates, they are expected to grow through acquisitions in 2017.
- Interest rates are rising in the US (as demonstrated by December's Fed hike), while they look to be anchored in Europe for the coming year, which could be a **bright spot enabling European high-yield to grow**.
- The continuation of the trends outlined above depends on the extent to which **geopolitical risk rears its head in 2017**. The Netherlands, France, Germany and Italy all face elections. And on top of these events is the question of what President Trump will do both economically and politically.

Opportunities

- Introduction of the ECB's leveraged lending guidelines in 2017, limiting the Eurozone banks' exposure to credits exhibiting 6x total debt-to-EBITDA, may lead some of the **more aggressive loan market borrowers back to the high-yield market**.
- The loan market is expected to continue taking share from the bond market in 2017, as the loan pipeline is building up with credits – that were well received in the bond market in the past – and are also switching to loan capital structures.

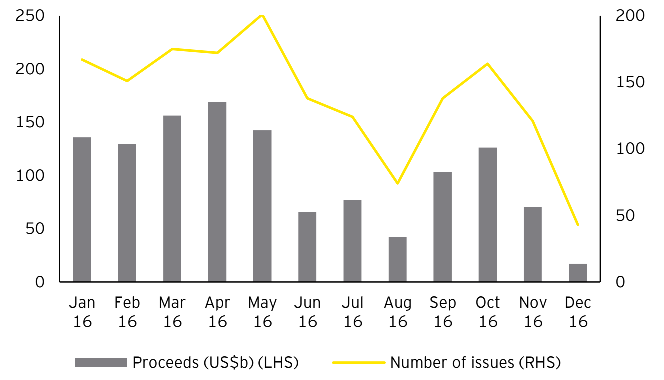
Global bond issuance by industry, 2016

Source: Thomson ONE



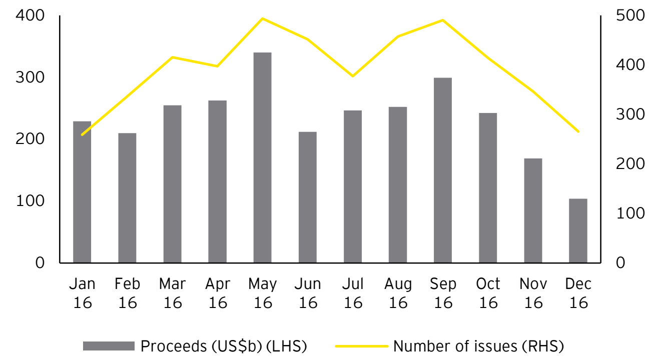
Euro bond issuances

Source: Thomson ONE



US bond issuances

Source: Thomson ONE



Top 10 corporate bond issuers, 2016 (US$b)

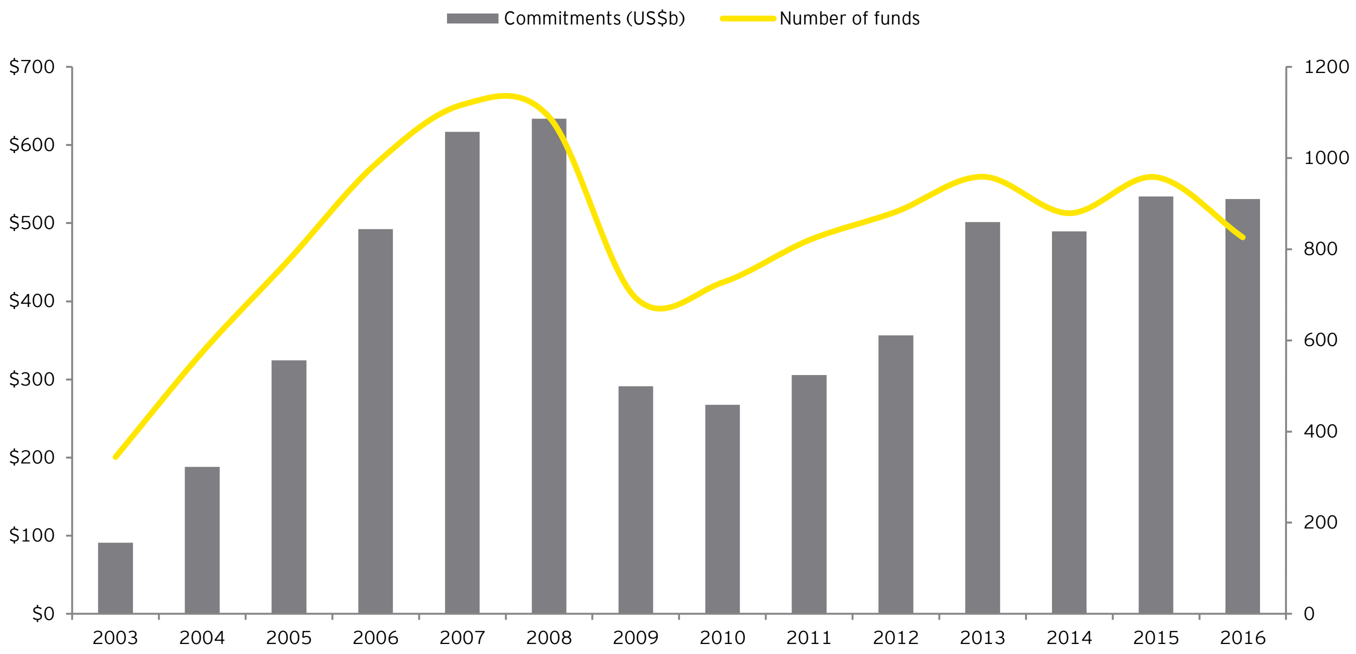
Source: Thomson ONE

Issuer	Nation	Industry	Proceeds
Apple Inc.	US	High technology	24.9
China Railway Corp	China	Industrials	22.3
Microsoft Corporation	US	High technology	19.8
China Railway Construction Corporation Limited	China	Industrials	19.4
Shell International Finance B.V.	Netherlands	Energy and power	16.5
Abbott Laboratories	US	Health care	15.1
Teva Pharmaceutical Finance Netherlands II B.V.	Netherlands	Health care	15.0
Anheuser-Busch InBev SA/NV	Belgium	Consumer staples	14.9
Oracle Corporation	US	High technology	14.0
Cisco Systems, Inc.	US	High technology	13.3

Appendices

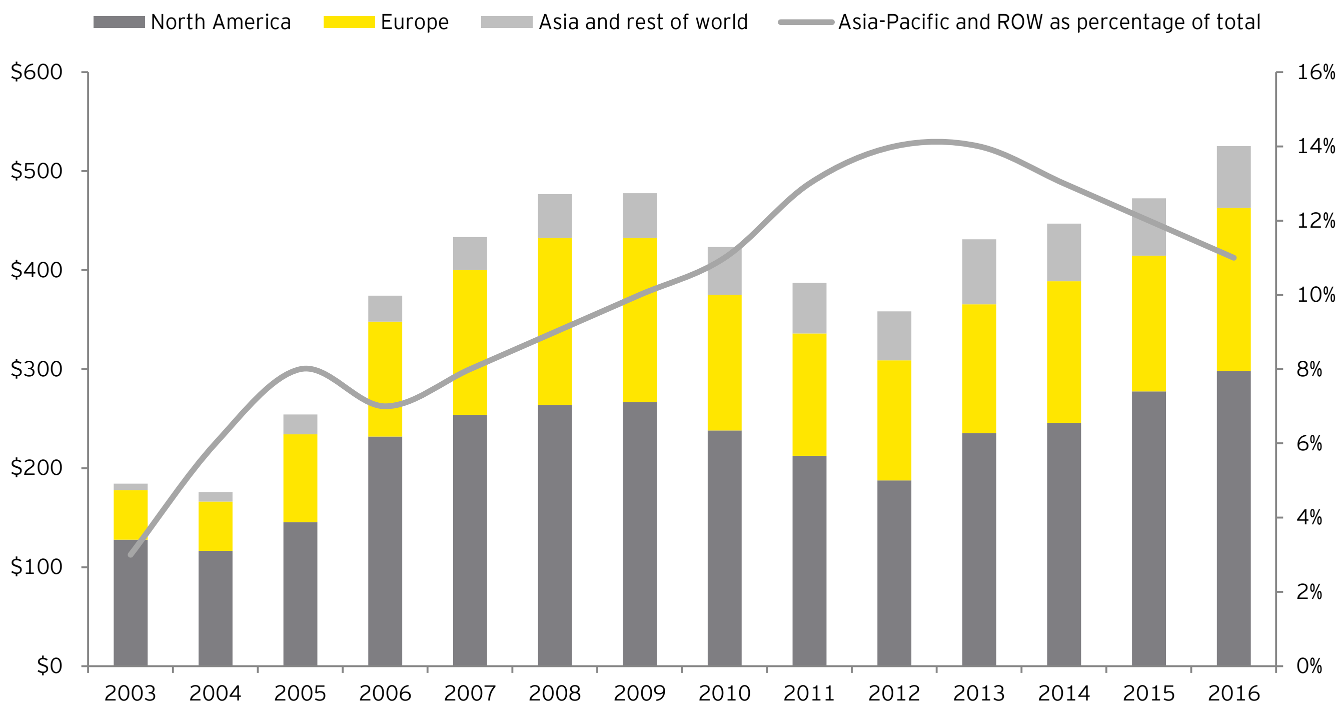
Appendix A
Global PE fundraising activity

Global PE fundraising



Source: Preqin

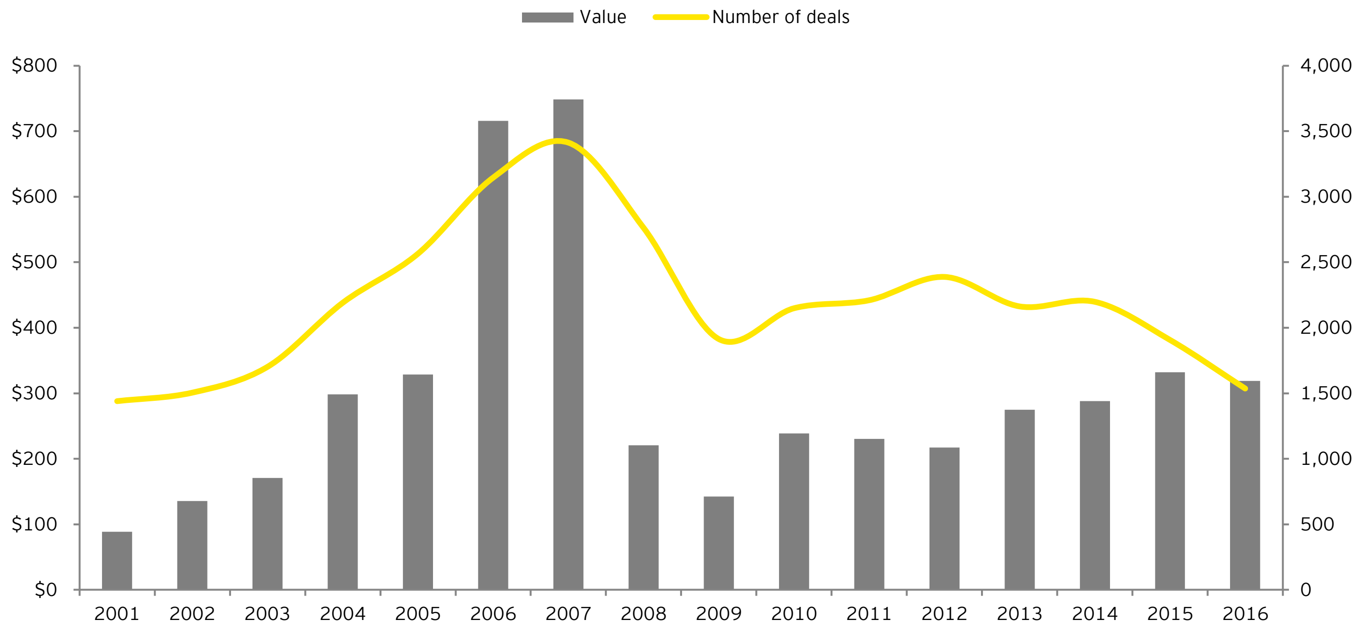
Dry powder — buyout funds — by region



Source: Preqin

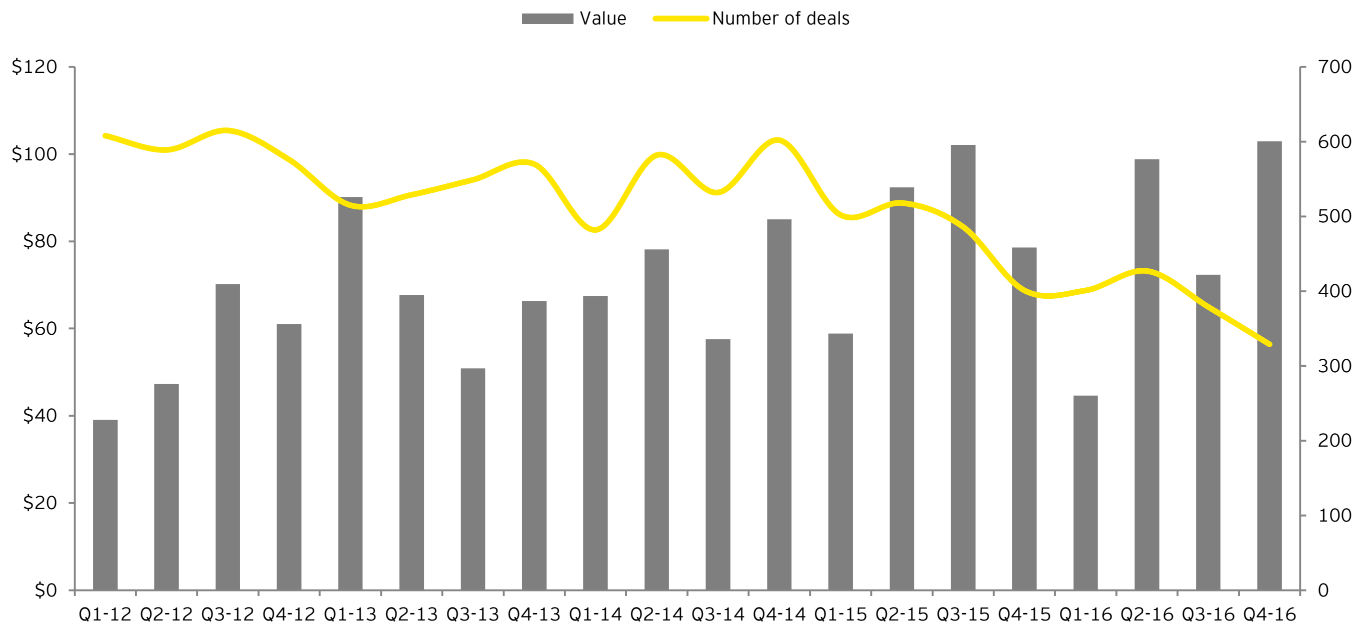
Appendix A
Global PE acquisition activity

PE acquisitions by year (in US$b)



Source: Dealogic

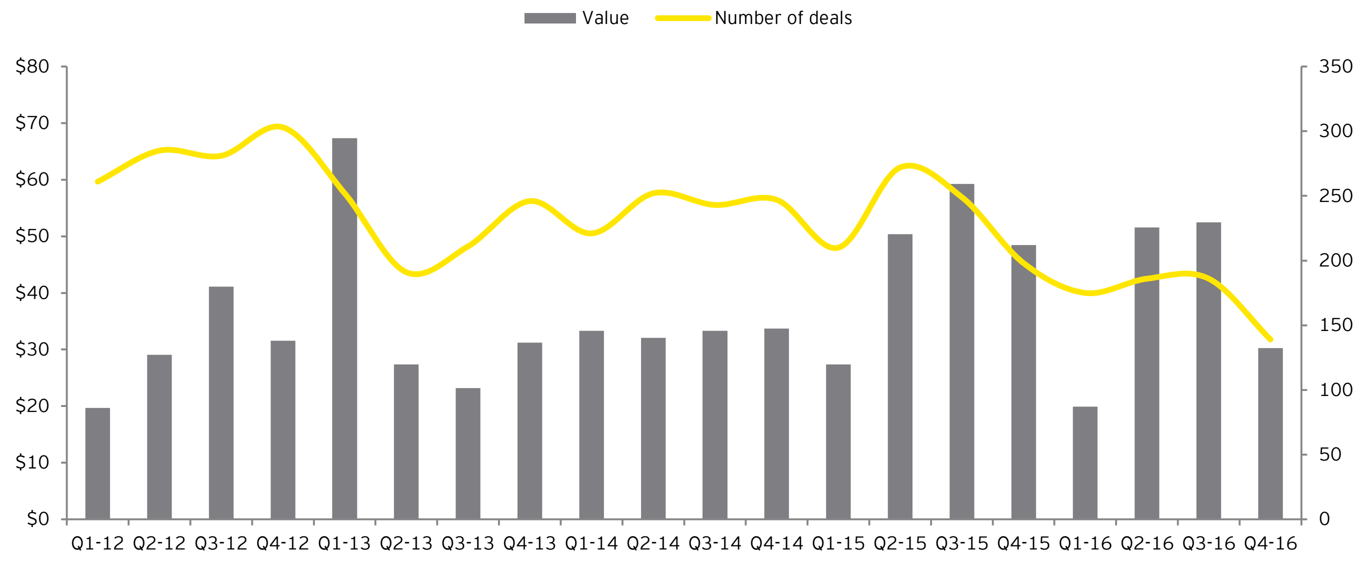
Global PE value and volume — quarterly trend (US$b)



Source: Dealogic

Appendix A
Global PE acquisition activity by region — Americas

Americas PE acquisitions (in US$b)



Source: Dealogic

Americas PE acquisitions — the top 10 deals with disclosed financial terms in 2016

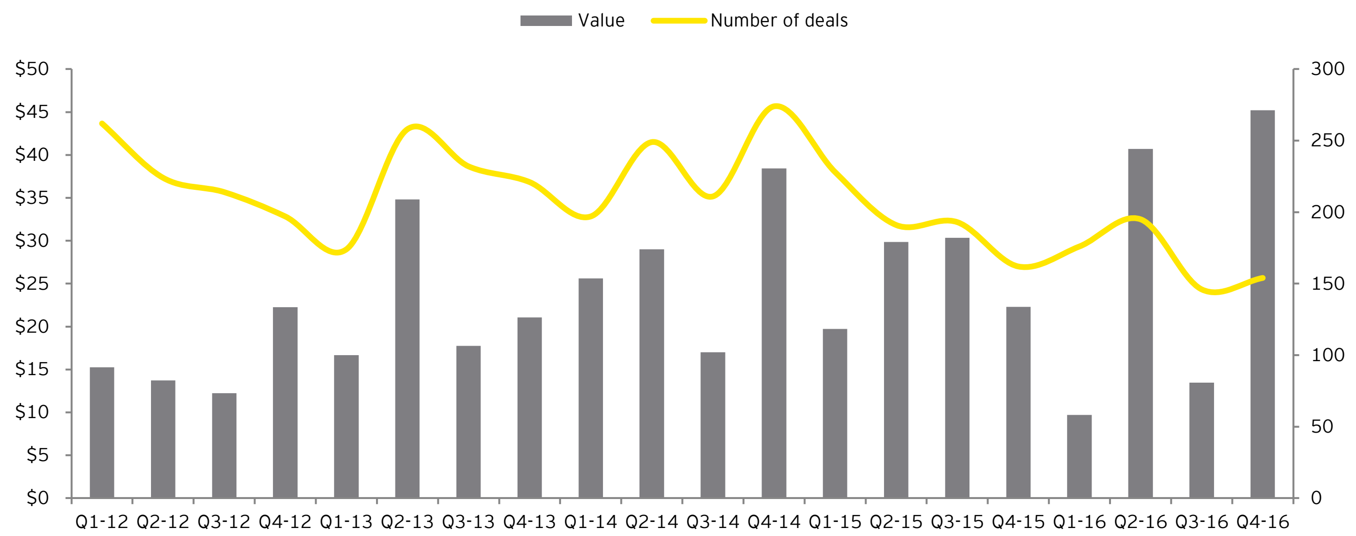
Announcement date	Completion date	Company	Sector	Value (US$b)	Acquiror
5-May-16	7-Jun-16	MultiPlan Inc.	Health care	$7.5	Leonard Green and Partners LP; Hellman and Friedman LLC
31-Oct-16		Team Health Holdings Inc.	Health care	$6.0	Blackstone Group LP
26-Aug-16	3-Nov-16	Rackspace Hosting Inc.	Computers and Electronics	$4.4	Apollo Global Management LLC
11-Jul-16	17-Aug-16	Ultimate Fighting Championship	Leisure and Recreation	$4.0	MSD Capital LP; KKR and Co. LP; Silver Lake Group LLC
2-Aug-16	30-Nov-16	Vertiv Co.	Computers and Electronics	$4.0	Platinum Equity LLC
19-Apr-16	29-Nov-16	Lexmark International Inc.	Computers and Electronics	$3.6	PAG Asia Capital Ltd
11-Jul-16	3-Oct-16	Camelot UK Bidco Ltd.	Professional Services	$3.6	Onex Corp; Baring Private Equity Asia Ltd
25-Feb-16		Power Station (US fossil portfolio consisting of 8,731 megawatts)	Utility and Energy	$3.3	Energy Capital Partners LLC
5-Jul-16	1-Sep-16	Epicor Software Corp.	Computers and Electronics	$3.3	KKR and Co. LP
29-Jun-16	2-Sep-16	Diamond Resorts International Inc.	Dining and Lodging	$3.2	Apollo Global Management LLC

Source: Dealogic

Appendix A

Global PE acquisition activity by region — EMEA

EMEA PE acquisitions (in US$b)



Source: Dealogic

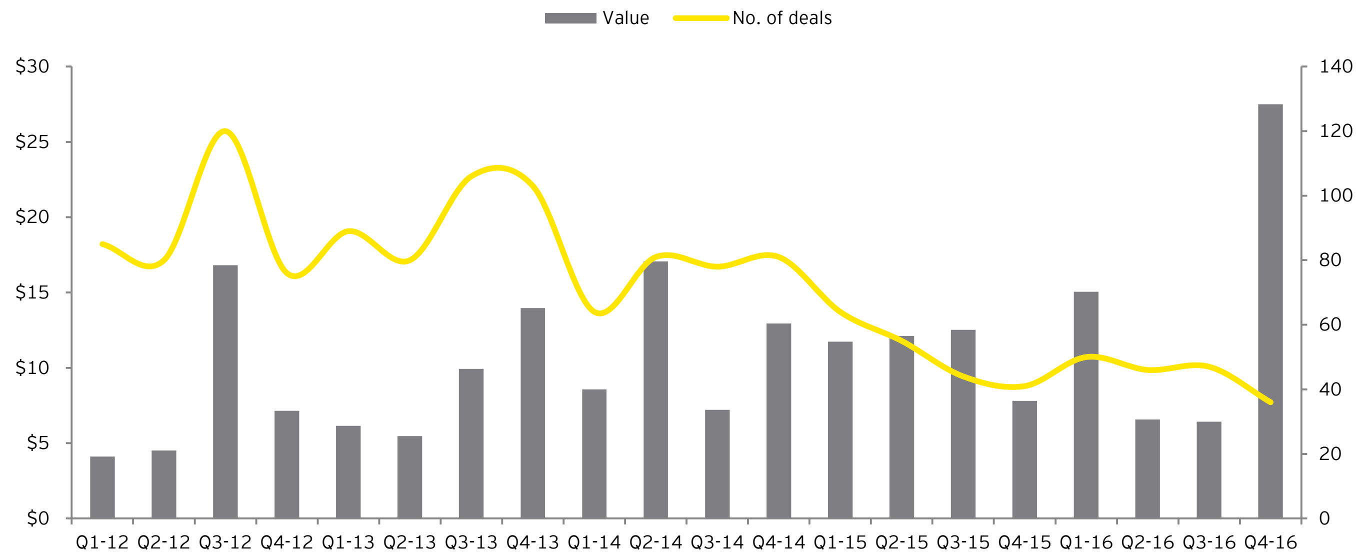
EMEA PE acquisitions — the top 10 deals with disclosed financial terms in 2016

Announcement date	Completion date	Company	Sector	Value (US$b)	Acquiror
8-Dec-16		National Grid plc (Gas distribution business)	Utility and Energy	$14.5	Allianz Capital Partners GmbH; Macquarie Infrastructure and Real Assets Pty Ltd.
23-Jun-16		GE Money Bank SCA	Finance	$4.6	Cerberus Capital Management LP
18-Apr-16	30-Sep-16	Vattenfall AB (Lignite Business)	Utility and Energy	$3.8	PPF Investments Ltd.
8-Nov-16		OFFICEFIRST Immobilien AG	Real Estate/Property	$3.6	Blackstone Group LP
14-Oct-16		Grupa Allegro Sp z oo	Computers and Electronics	$3.3	Cinven Ltd.; Permira Ltd.; Mid Europa Partners LLP
7-Oct-16		Atotech BV	Chemicals	$3.2	Carlyle Group LP
29-Sep-16		Safran Identity and Security SAS	Computers and Electronics	$2.7	Advent International Corp.; Bpifrance Investissement SAS
6-Apr-16	1-Dec-16	Glencore plc (Agriculture business)	Food and Beverage	$2.5	Canada Pension Plan Investment Board-CPPIB
1-Dec-16		Xella International SA	Construction/Building	$2.3	Lone Star Global Acquisitions Ltd.
9-Jun-16		Foncia Groupe SAS	Real Estate/Property	$2.1	Partners Group Holding AG

Source: Dealogic

Appendix A
Global PE acquisition activity by region — Asia-Pacific

Asia-Pacific PE acquisitions (in US$b)



Source: Dealogic

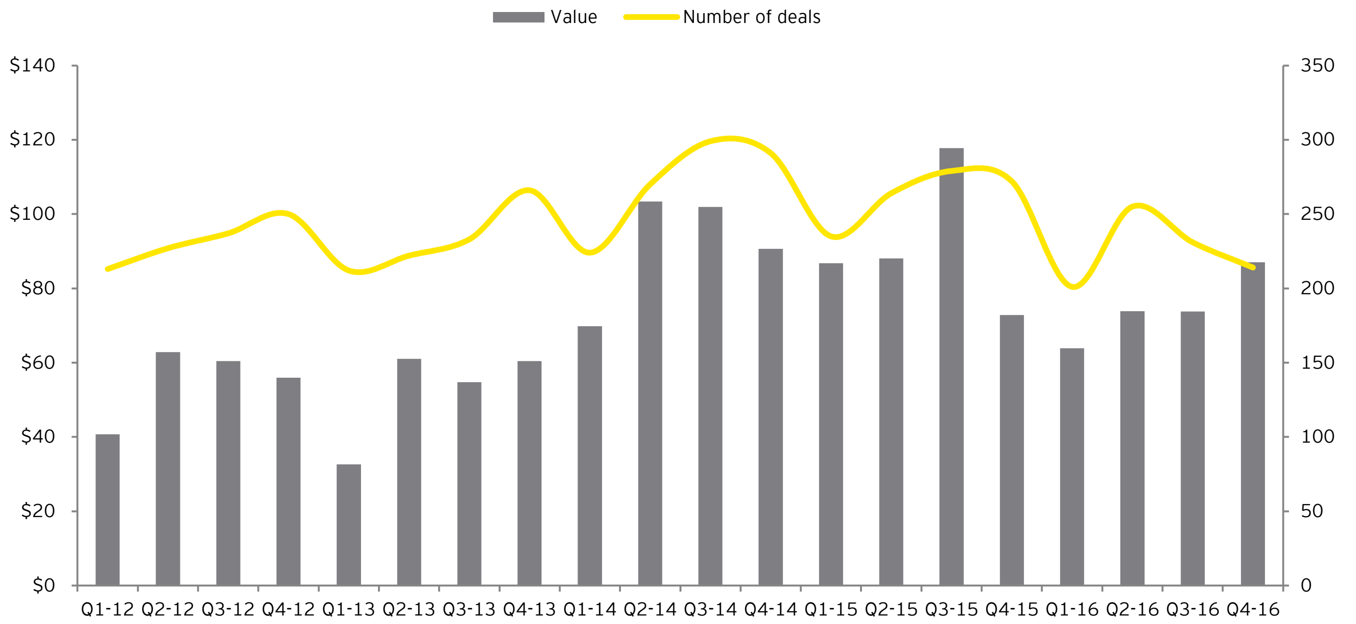
Asia-Pac PE acquisitions — the top 10 deals with disclosed financial terms in 2016

Announcement date	Completion date	Company	Sector	Value (US$b)	Acquiror
20-Oct-16	1-Dec-16	Ausgrid Pty Ltd (50.4%)	Utility and Energy	$12.4	IFM Investors Pty Ltd
22-Nov-16		Calsonic Kansei Corp	Auto/Truck	$4.5	KKR and Co LP
14-Dec-16		Tatts Group Ltd (Lottery business)	Leisure and Recreation	$4.2	KKR and Co LP
29-Nov-16		Accordia Golf Co Ltd.	Leisure and Recreation	$1.5	MBK Partners Ltd
4-Oct-16		Wharf TandT Ltd.	Telecommunications	$1.2	MBK Partners Ltd; TPG Capital LP
5-Jul-16	5-Oct-16	Nirvana Asia Ltd.	Professional Services	$1.1	CVC Capital Partners Ltd
2-Mar-16	29-Apr-16	Doosan Infracore Co Ltd .(Machine tool business)	Machinery	$0.9	MBK Partners Ltd
26-Sep-16	12-Dec-16	SAI Global Ltd.	Professional Services	$0.9	Baring Private Equity Asia Ltd
5-Oct-16		Tricor Holdings Ltd.	Professional Services	$0.8	Permira Ltd
4-Apr-16	31-Aug-16	MphasiS Ltd.	Computers and Electronics	$0.8	Blackstone Group LP

Source: Dealogic

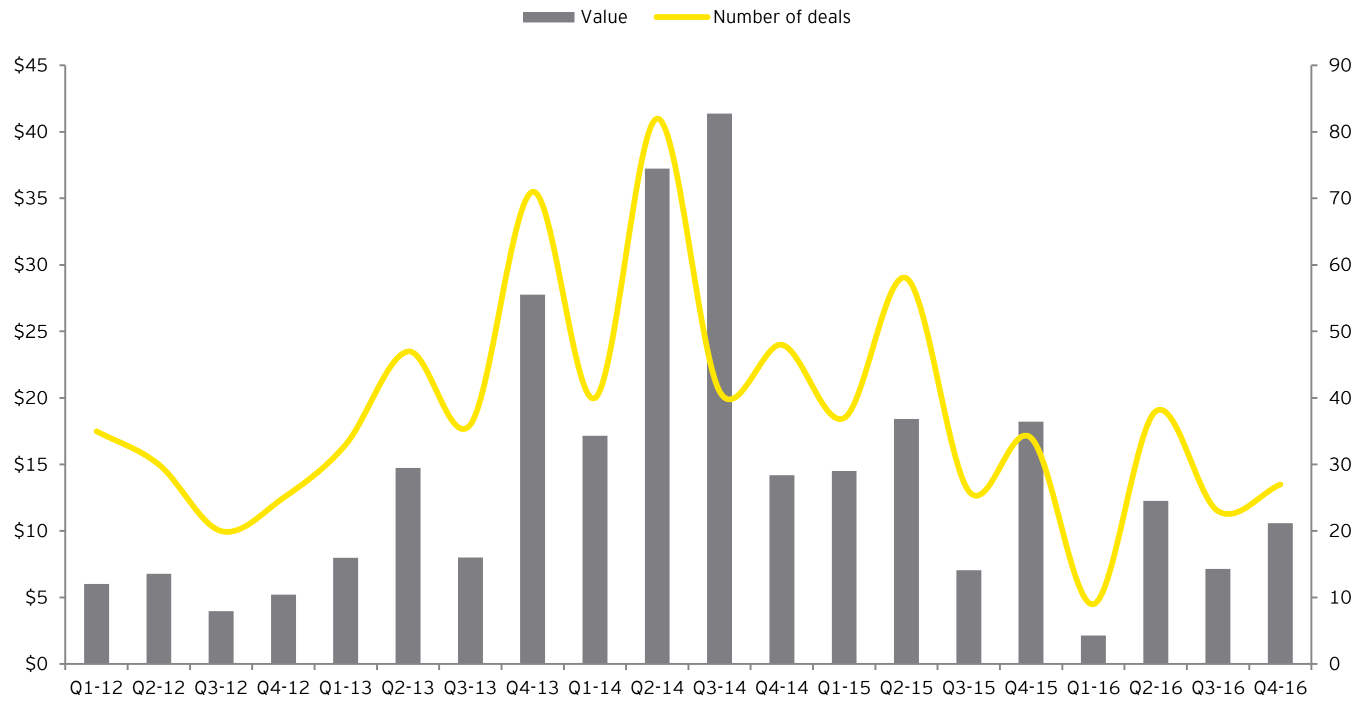
Appendix A
Global PE exit activity

Global PE-backed exits by M&A — value and volume — quarterly trend (US$b)



Source: Dealogic

Global PE-backed IPOs — value and volume — quarterly trend (US$b)

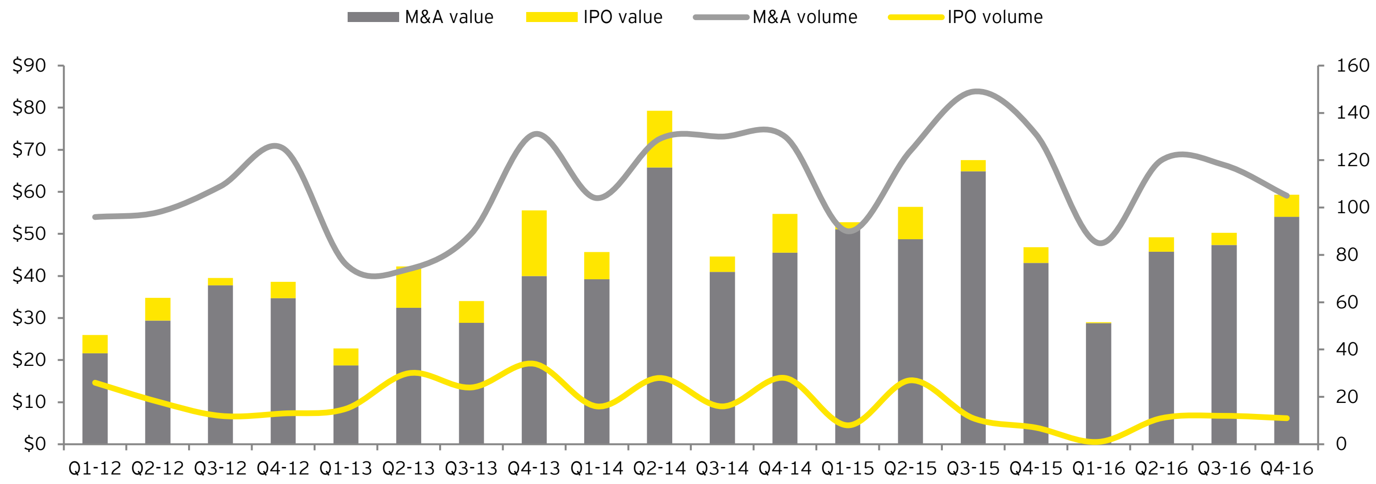


Source: Dealogic

Appendix A

Global PE exit activity — Americas

Americas PE exits (in US$b)



Source: Dealogic

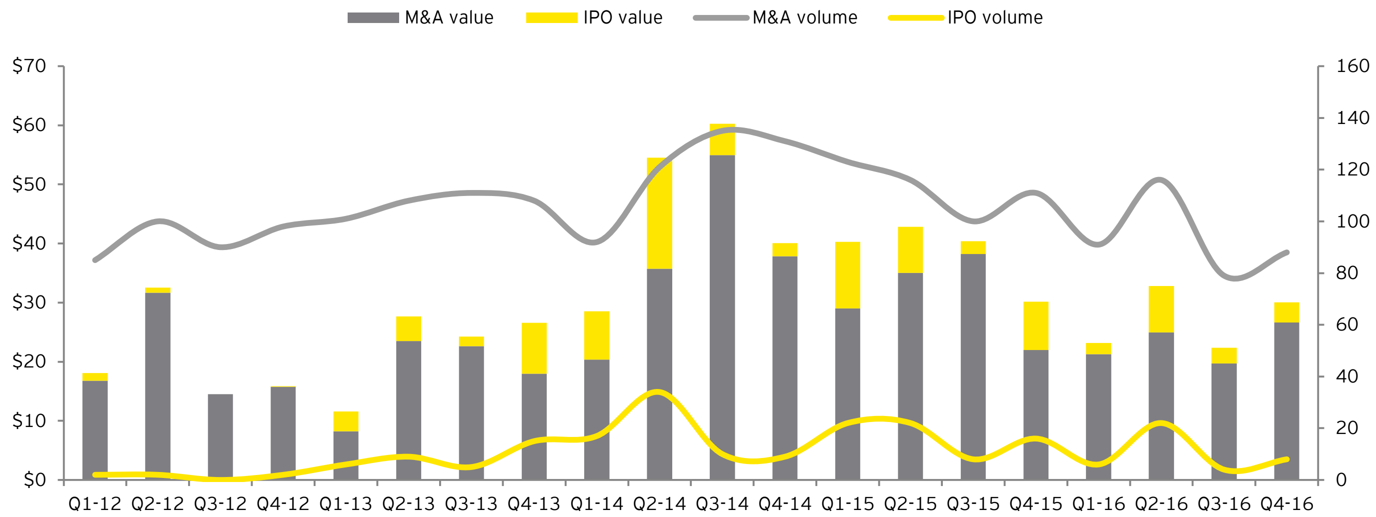
Americas PE exits — top 10 2016

Announcement or filing date	Completion or priced date	Company	Sector	Value (US$b)	Sponsor	Type
30-Sep-16	26-Oct-16	ZTO Express (Cayman) Inc.	Transportation	$14.3	Warburg Pincus LLC	IPO
9-May-16	8-Dec-16	Athene Holding Ltd.	Insurance	$8.0	Apollo Global Management LLC	IPO
5-May-16	7-Jun-16	MultiPlan Inc.	Health care	$7.5	Partners Group Holding AG; Starr Investment Holdings LLC	M&A
24-Oct-16		Hilton Worldwide Holdings Inc.	Dining and Lodging	$6.5	Blackstone Group LP	M&A
27-Oct-16	27-Oct-16	Strategic Hotels and Resorts Inc.	Real Estate/Property	$5.5	Blackstone Group LP	M&A
15-Dec-16		Capsugel SA	Chemicals	$5.5	KKR and Co LP	M&A
9-Feb-16	25-May-16	US Foods Holding Corp.	Food and Beverage	$4.9	KKR and Co LP; Clayton Dubilier and Rice LLC	IPO
12-Jun-16	1-Aug-16	Blue Coat Systems Inc..	Computers and Electronics	$4.6	Bain Capital LLC	M&A
28-Jun-16		Change Healthcare Holdings Inc. (Excluding pharmacy switch and prescription routing business)	Computers and Electronics	$4.0	Blackstone Group LP; Hellman and Friedman LLC	M&A
7-Aug-16	16-Sep-16	Mattress Firm Holding Corp	Retail	$3.9	Berkshire Partners LLC; JW Childs Associates LP	M&A

Source: Dealogic

Appendix A
Global PE exit activity — EMEA

EMEA PE exits (in US$b)



Source: Dealogic

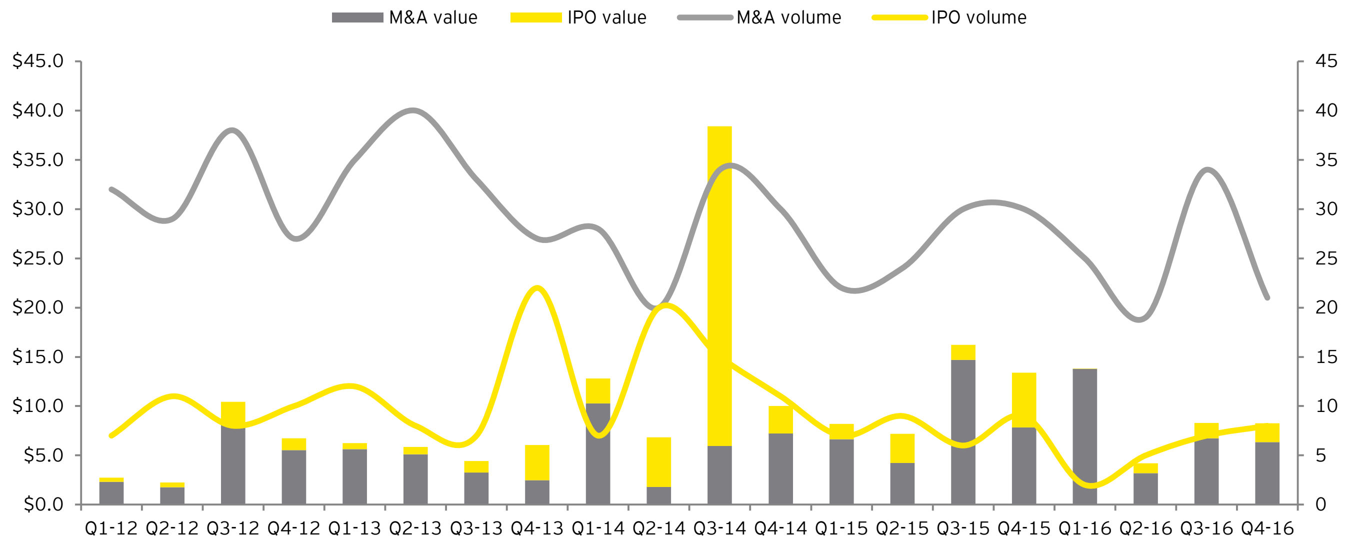
EMEA PE exits — top 10 2016

Announcement or filing date	Completion or priced date	Company	Sector	Value (US$m)	Sponsor	Type
12-May-16	9-Jun-16	Dong Energy A/S	Utility and Energy	$15.0	Goldman Sachs Capital Partners	IPO
7-Sep-16		Formula One World Championship Ltd.	Leisure and Recreation	7.857	CVC Capital Partners Ltd	M&A
5-Sep-16		IDC Salud Holding SLU-Quironsalud	Healthcare	6.428	CVC Capital Partners Ltd	M&A
3-Oct-16	26-Oct-16	ConvaTec Group plc	Healthcare	$5.4	Nordic Capital Svenska AB; Avista Capital Partners	IPO
1-Sep-16	23-Sep-16	Nets A/S	Computers and Electronics	$4.5	Advent International Corp; Bain Capital LLC; ATP Private Equity Partners	IPO
22-Feb-16	6-Jul-16	Brake Bros Ltd.	Food and Beverage	3.168	Bain Capital LLC	M&A
21-Dec-16	21-Dec-16	Global Switch Holdings Ltd (49%)	Computers and Electronics	2.967	Reuben Brothers Ltd	M&A
19-Dec-16		BSN medical GmbH	Healthcare	2.862	EQT Partners AB	M&A
26-Feb-16	10-Mar-16	London City Airport Ltd.	Transportation	2.788	Highstar Capital LP	M&A
7-Nov-16	4-Jan-17	PointPark Properties sro	Real Estate/Property	2.656	TPG Capital LP	M&A

Source: Dealogic

Appendix A
Global PE exit activity — Asia-Pacific

Asia-Pacific PE exits (in US$b)



Source: Dealogic

Asia-Pacific PE exits — top 10 2016

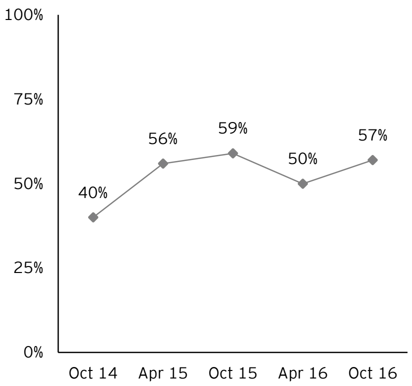
Announcement or filing date	Completion or priced date	Company	Sector	Value (US$m)	Sponsor	Type
25-Feb-16	12-Aug-16	Sharp Corp.	Consumer Products	$7.9	Japan Industrial Solutions Co Ltd.	M&A
31-Oct-16		K-Electric Ltd.	Utility and Energy	$2.3	Abraaj Capital Ltd.	M&A
4-Jul-16	2-Nov-16	PNB Housing Finance Ltd.	Finance	$1.9	Carlyle Group LP	IPO
5-Jan-17		China Modern Dairy Holdings Ltd.	Agribusiness	$1.9	CDH China Holdings Management Co Ltd.; KKR and Co. LP	M&A
11-Jan-16	16-Mar-16	Loen Entertainment Inc.	Leisure and Recreation	$1.6	Affinity Equity Partners (HK) Ltd.	M&A
28-Jul-16		Gland Pharma Ltd.	Healthcare	$1.3	KKR and Co. LP	M&A
30-Mar-16	8-Jul-16	China Logistics Property Holdings Co. Ltd.	Transportation	$1.2	Carlyle Group LP; RRJ Capital	IPO
23-Jun-15	24-Aug-16	RBL Bank Ltd.	Finance	$1.2	Baer Capital Partners Ltd.; Gaja Capital Partners; Multiples Alternate Asset Management Pvt Ltd.	IPO
21-Jun-16	2-Nov-16	Varun Beverages Ltd.	Food and Beverage	$1.2	Standard Chartered Private Equity Ltd.	IPO
25-Mar-16	4-Jul-16	Alliance Tire Group BV	Auto/Truck	$1.2	KKR and Co. LP	M&A

Source: Dealogic

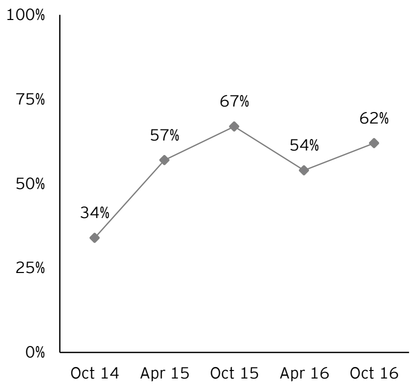
Appendix C
Capital Confidence Barometer (October 2016): by area

Respondents who expect their company to pursue acquisitions in the next 12 months

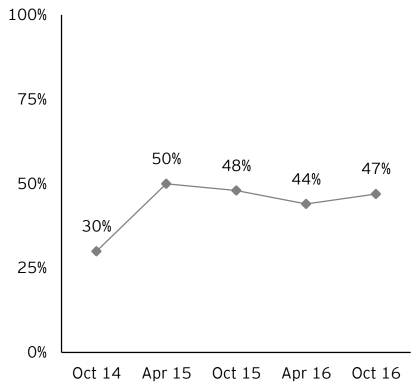
Global



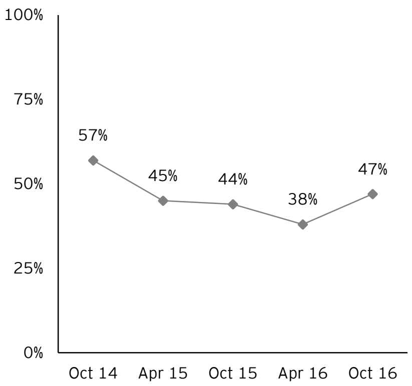
Americas



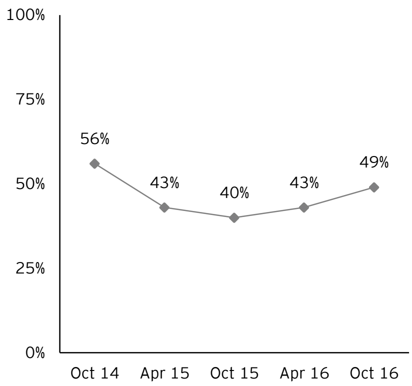
EMEA



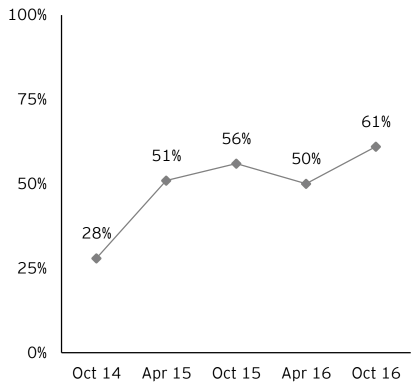
Asia-Pacific



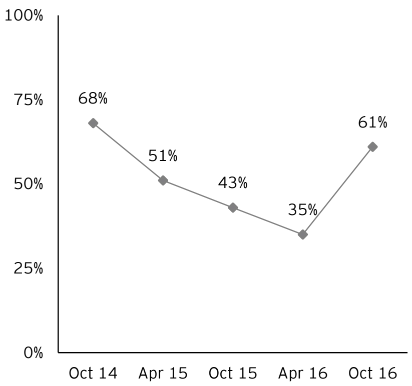
China



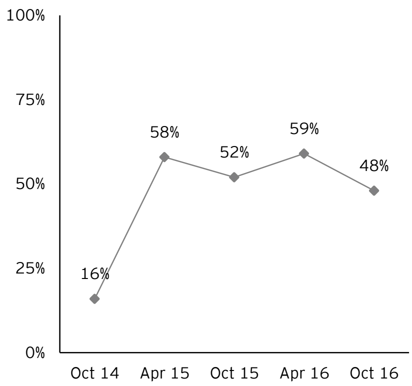
Germany



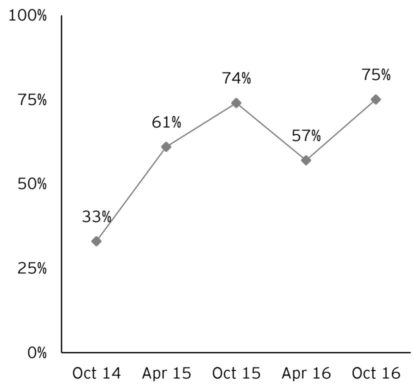
Japan



UK



US



Notes

Notes

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