IMAP

Creating Value

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AN IMAP MAGAZINE DEDICATED TO CREATING VALUE IN THE M&A MID-MARKET GLOBALLY

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IMAP IN FOCUS

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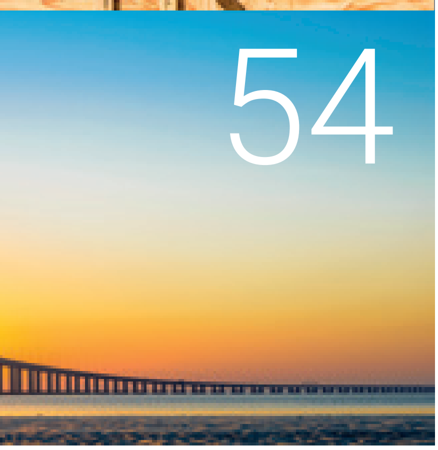

Chairman's Letter

In this issue of Creating Value we continue our deep dive into themes related to innovation and disruption as we explore how new technologies are transforming our businesses and our lives. During our Spring Conference in Munich this March, we had the opportunity to interact with two experts on the digital transformation of society.

Stephan Osthues, IBM Executive Partner for Digital Re-invention, made the very simple but insightful point that success in innovation comes at the intersection of strategy, culture and technology. Ignoring any one of these potentially leads to failure. He also mentions something that will make us think hard – that in today's society, we are not suffering from a lack of technology, but from a lack of imagination of what to do with it. I myself wonder about this every night as I check the readout from my Bluetooth enabled toothbrush!

Coming at the issue of digital change from a completely different angle, Prof. Achim Wambach, currently Chairman of the German Monopolies Commission and co-author of a new book "Digital Prosperity for All", shared his insights on how government has a role to ensure that the benefits of the new digital age are shared equitably in society. This is a highly relevant, and, for some, controversial topic – focusing on the role government can play acting as a moderator for social justice in an ever-more monopolistic and oligopolistic world.

In Munich we also benefitted from a presentation by our favorite in-house macro economist, Krisztián Orbán, Founder and Managing Partner of one of Europe's top performing private equity funds. Krisztián gave us his very timely analysis of the current state of the relationship between the US and China. This is required reading for understanding today's headlines – there is no short-term "fix" for the current "Trade War" rhetoric. Rather, we should understand that there has been a shift in the dynamics of the relationship. There may be some near-term positive moves induced by political necessity, but for the foreseeable future there will be a fundamental difference in *Weltanschauung*, for which there is no obvious solution. Nonetheless, during the conference it gave me great pleasure to announce the launch of IMAP's China venture – another step in our strategy to better service our IMAP partners and adapt quickly to changes in the Chinese market. This is a young, exciting and highly qualified team and we are looking forward to them guiding us through some turbulent times ahead.

We are also proud to welcome Invest Corporate Finance as our new exclusive partner in Portugal. This is a strong addition to our Iberian team, which includes IMAP Albia in Bilbao and Madrid and IMAP partner Degroof Petercam in Barcelona. I am certain that CEO Gonçalo Vaz Botelho and his team will play a pivotal role as a conduit for Portuguese investments throughout Europe and the world.

And in Scandinavia, IMAP Finland is showing the way on generational change. Long-time Managing Partner Lars Wikholm has put the company into the hands of a young team of deal-makers as he transitions into a well-deserved, less active role. Lars, along with retiring IMAP Netherlands partner Peer Joosten, were presented with IMAP Achievement awards during an emotional ceremony at our conference closing dinner. Lars and Peer – as one chapter ends, another begins, and we look forward to consulting with you and drawing on your experience for many years to come!

To round off this issue, we provide insights on a variety of sector topics, including Private Equity, Software, Fintech, Robotics, Medical Devices, Railways, Aerospace, Private Education and Homebuilding. It always amazes me just how much insight and energy are constantly being created by our worldwide IMAP team – an exciting and transformational transaction every working day.

So, until next time, have a great summer (or winter, as may be the case) and I look forward to seeing many of you in October in Marrakech for our Fall Conference!

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IMAP Munich Conference: Digitalization Symposium

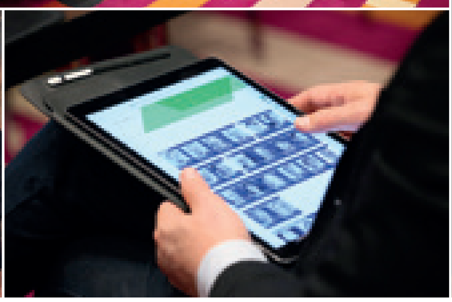
IMAP's 2019 Spring Conference was held this year in Munich and hosted by IMAP Germany. In attendance at the 3-day event and welcomed by **Karl Fesenmeyer, Managing Partner at IMAP Germany**, were over 140 IMAP colleagues from across the globe. The theme for this year's conference Symposium was 'Digitalization'. **Dr. Carsten Lehmann, Managing Partner at IMAP Germany**, explained why this theme was chosen, which is clearly a hot topic of conversation and no doubt will be for a long time to come.

Everyone is talking about Digitalization, which is not surprising as it not only affects how we do business, but also how we live our lives. It has quickly become a central point of discussions with our clients and within their companies, in politics and even within the home – like me, many people with children are likely to have had conversations regarding their usage of smart devices!

Our clients are increasingly investing in digital transformation projects and we are observing an increasing share of M&A activity in digital technology. We have benefited from a strong deal flow with IT, software and data product companies in the past few years and if we look at start-up valuations, they are flying high.

Looking beyond the micro economic perspective, digital transformation is also changing the traditional view we have on how markets operate, what is being exchanged and paid for and how we can efficiently tax economic players and if there is indeed a case to be made to regulate them.

We invited two distinguished guest speakers to our pre-conference event symposium, which provides an excellent forum for thought and discussion, to take a look at Digitalization from two very different, yet equally important angles. Professor Achim Wambach, PhD asks what we should do as a society so that digitalization is in the best interest and for the benefit of all of us and Stephan Osthues shares his experience and insights on how large projects should be approached and carried out in order to be successful.



Technology Enabled Transformation

Stephan Osthues is currently the IBM Executive Partner for Digital Re-invention and Watson IOT Leader at IBM's global Watson headquarters in Munich. He has been at IBM for 20 years and is charged with trying to imagine business and technological challenges that will shape tomorrow's world. During the IMAP Spring Conference Symposium in Munich, Stephan shared his experience and insights on the key to successful digitalization projects.

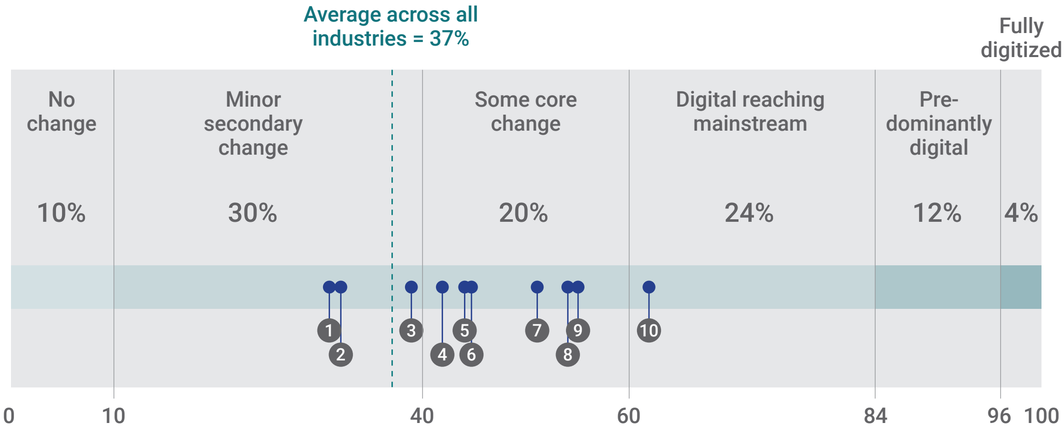
DRIVING VALUE FROM DIGITAL TRANSFORMATION

According to Osthues, there is no doubt that "digital" speeds things up. But, he points out, therein lies a crucial question; how does one drive value out of digital transformation? Nowadays, companies need to find new ways to work and create new experiences for their clients. They need to ask themselves whether they are manufacturers or rather companies that enable their customers to perform tasks with their equipment, wherever and whenever they need to. By betting on the future and becoming service companies, they will be able to provide solutions to their clients that they actually want and need.

He also suggests that in today's society, we are not suffering from a lack of technology, but from a lack of imagination of what to do with it. Yes, technique is a means to make things happen, an enabler as such, but that's not to say that we always need to bring yet more technique to the table.

DIGITAL IS PENETRATING ALL SECTORS, BUT TO VARYING DEGREES

Perception of digital penetration by industry,[1] % of respondents



1. Consumer packaged goods (31%)
2. Automotive and assembly (32%)
3. Financial services (39%)
4. Professional services (42%)
5. Telecom (44%)
6. Travel, transport, and logistics (44%)
7. Healthcare systems and services (51%)
8. High tech (54%)
9. Retail (55%)
10. Media and entertainment (62%)

1: Data reflect average of respondents' ratings on degree of change in the past 3 years within each industry across 5 dimensions (products, marketing and distribution, processes, supply chains, and new entrants at the ecosystem level.
Source: Digital McKinsey, Digital reinvention: Unlocking the 'how'

MORE DIGITIZATION AND PERFORMANCE PRESSURE AHEAD

In his presentation, Osthues argues that digital is penetrating all sectors, but to varying degrees and companies are still underestimating its full effects. Though more products are digitized, supply chains are less so, which effects EBIT and revenue growth. Digitization enables competition which pressures revenue and profit growth. Therefore, a strategic shift of resources can create more value and deliver higher returns. In order to achieve this, companies need to respond to digitization assertively, with bold integrated strategies and across multiple dimensions. The biggest payout will be for those that initiate digital disruption and significantly improve their performance. Digital separates the high performers and fast-followers will need operational excellence and superior organizational health.

FOLLOWING A HOLISTIC APPROACH TO AVOID FAILURE

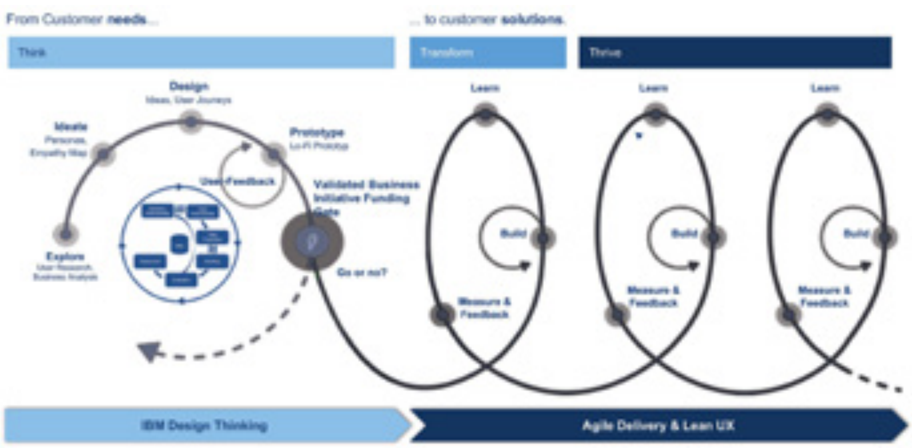
Quoting McKinsey, Osthues explains that many companies across all industries are still not looking broadly enough at technology enablement and take a piecemeal approach. They continue to adopt AI, machine learning and cloud services etc. on a case-by-case basis, as opposed to selecting technologies that serve their strategy or meet specific business goals. There needs to be a shift in culture and resources, with companies taking a more holistic approach to transformation.

HOW TO GET STARTED

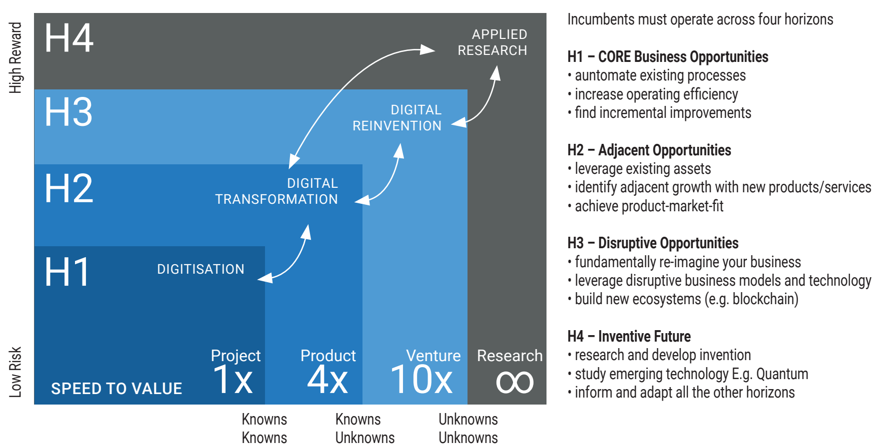
When talking about going digital, Osthues is clear to point out that rather than just one big idea, digital is in fact, about solving 1,000 small problems together as one synchronized company. Companies need to start by changing their culture, behavior and operating model. How can they do this? By listening to their customer and providing what they actually want and need. By placing big bets, building out their ecosystem, adopting digital product development and establishing the right ecosystem capabilities – all of which comes from the top. Talking agile with a production manager is not the way forward as this must be driven from the top down.

> *We are not suffering from a lack of technology, but from a lack of imagination of what to do with it*

When asked by companies if they require a Chief Digital Officer (CDO), he comments that the typical answer by a Consultant tends to be "it depends", when in reality, 5 years from now, companies are actually more likely to require a Chief Transformation Officer (CTO) than a CDO.



SPEED-TO-VALUE' IS THE MOST IMPORTANT MEASURE IN LEADING DISRUPTION



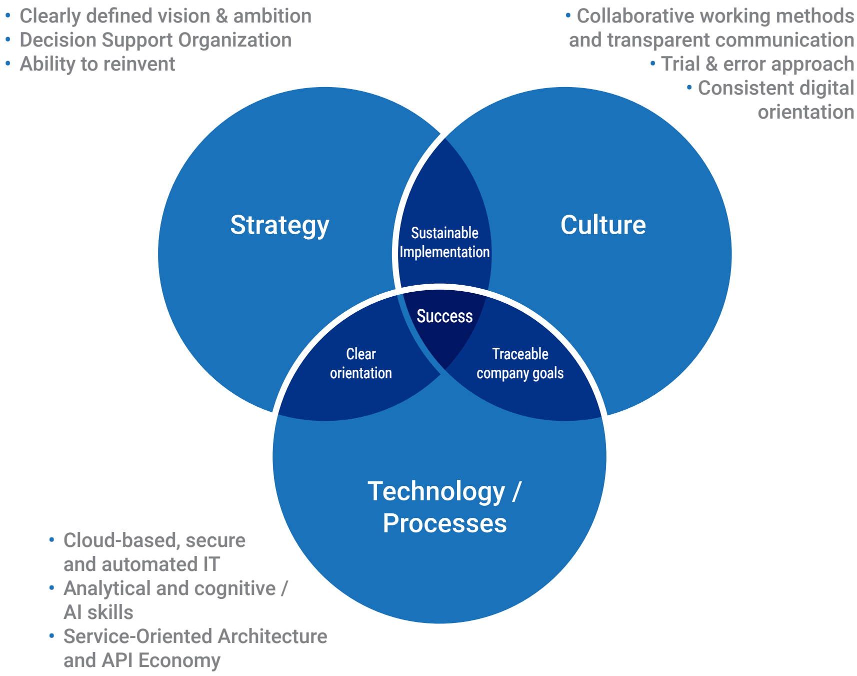
A SUCCESSFUL DIGITAL REINVENTION FOLLOWS CLEAR DESIGN PRINCIPLES

Osthues believes that no company can drive value out of digital by themselves. A company's first step in their strategy should be to ask, who are their partners on a platform? As well as where are they as a partner? By aligning themselves with the right partner, they can move towards creating a strong digital leadership team. With the right mindset, a company can become a "digital champion", driving cultural change from within. Naturally, effective governance is required, as you must ensure that there is actually a market for any new capabilities you may come up with. Companies also need to provide lighthouse solutions and ensure speed to market. By co-locating and co-creating, companies are able to speed up like a start-up, but scale-up like an enterprise.

'SPEED-TO-VALUE' IS THE MOST IMPORTANT MEASURE IN LEADING DISRUPTION

Trust is a major driver of digital transformation says Osthues. Many companies lose speed as they struggle to free up funds for new, digital projects. He suggests that by placing trust in a project from the outset, allocating the funding and setting up clear KPI's, a company lessens the risk of a competitor beating them to the finishing line.

CHANGES FOR SUCCESSFUL INNOVATION



3-3-3 METHOD FOR SUCCESSFUL INNOVATION

THE KEY TO SUCCESSFUL INNOVATION

Othues explains that there are 3 things a company must change in order to successfully innovate:

- **Strategy** – coordinated measures to achieve and implement the defined corporate goals.
- **Culture** – creating a context in which people contribute to the creation of a positive system of rules and habits that promote new ways of thinking in an appreciative way.
- **Technology** – apply and utilize current and proven technologies to meet internal and external business.

The question then, is how do you actually do this? By being fast and being agile, according to Osthues, going on to explain the **3-3-3** method they use with their clients:

- ***3 days – Vision created by Design Thinking*** *"Grow the entrepreneurial way!"* – Based on the client's business objectives and IT & product capabilities, create and prioritize use cases.
- ***3 weeks – Co-creation Pilot*** *"Show! Don't tell!"* – Design a first-of-a-kind prototype by the synthesis of leading edge IBM technologies and other providers.
- ***3 months – Minimum Viable Product (MVP)*** *"Think big, start small, scale fast!"* – Test, build and learn in several iterations to deliver a minimum viable product.

One of their clients initially requested an APP, in order to resolve an issue they were having with the raising of HR tickets. In only the first 3 day phase, it became apparent that the client didn't actually require an APP, but process re-engineering, so it is crucial to ask the right questions up front in order to avoid the wrong answers.

STEPHAN OSTHUES

Stephan Osthues is a Digital Transformation Consulting Partner, helping clients to identify their market opportunity by leveraging new digital business models, reinventing their digital capabilities and inventing new digital services based on IoT'ised products. In this role he is heading the Watson IoT Consulting @ The IBM Watson-IoT Global Headquarter in Munich. Mr. Osthues has over 18 years of consulting experience during which he has focused on complex Digital Transformation engagements. Prior to IBM he was head of corporate development of a wholesale company and has run his own marketing agency.

AVOIDING SPEEDBUMPS ALONG THE WAY

Silos first need to be broken and clients need to be asked, what are they doing and where are they going? Let the end-user settle the debate. Be more agile, but at the same time be ready for something you don't yet know. Laying out the 10 steps to avoiding hitting speedbumps, Osthues emphasizes that at the end of the day, "working together is the essence of digital" and an advisor's role is to help clients identify the right partners, which will not only speed things up, but is the pathway to success.

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Digital Prosperity - How Can it Be Made Fair for Everyone?

Will competition among companies in the digital age continue to produce innovations and provide us all with opportunities to drive increased prosperity? During the symposium at the IMAP Spring Conference in Munich, **Professor Achim Wambach PhD** discussed how we can secure prosperity for all, even in the internet age.

According to Wambach, digitalization is essentially a new technology, just like many others that have come before it and exhibits great potential to increase our prosperity. As well as transforming both our economy and society, it is producing a lot of winners – with the downside that there may also be a lot of losers. If the potential profits are to be shared by everyone, the current economic order must be adapted to fit the times.

Ludwig Erhard, Germany's Economic Minister from 1949-1963 and post-war architect of its economic miracle, was a staunch believer in economic liberalism and built prosperity through embracing free enterprise and competition. Erhard's vision of prosperity for all can still become a reality in the digital age, but not without some understanding of the adverse effects on competition in these new markets and the modifications needed to level the playing field.

CHALLENGES POSED BY THE DATA ECONOMY

In the market economy, the price of a good or service usually determines its competitiveness and price developments serve as an important indicator of the abuse of market power. In the era of digitalization, where on the surface it seems that information is traded for free, it is actually the data itself with which people pay. This begs the question: do prices have the same relevance today? Furthermore, a market used to be defined by the existence of a buyer and seller. Today, regardless of whether a good or service is provided free of charge, it should now be regarded as a market.

Today, says Wambach, we are living in a platform and data economy and success goes to those whose platforms attract the most users and in return receive the most data. A large pool of data gives companies a competitive advantage and, in many cases, a means to keep their competitors from growing, which can lead to markets being monopolised and negative effects for the economy as a whole.

This shift has fostered monopolistic tendencies and market concentration across the economy. With the influx of large internet giants, the share of the GDP produced by large companies has substantially increased. While the top 100 companies used to make up 20% of GDP, their share is now closer to 46%. Due to the network effect, which favors the largest player in many digital service offerings, one large firm often dominates the market with only a fringe of smaller firms. This makes it increasingly difficult for governments and competition law to respond.

A BALANCING ACT ENFORCING ANTI-TRUST REGULATION ON DIGITAL MONOPOLIES

As the Internet has given rise to many new business models at high speed, competition law still has to adapt, says Wambach, as companies have been able to operate in a relatively unregulated, anarchic market until now. In order to protect fair competition from the monopolising tendencies of the market economy, new legal structures are needed, along with a clear definition of how multi-markets should be regulated.

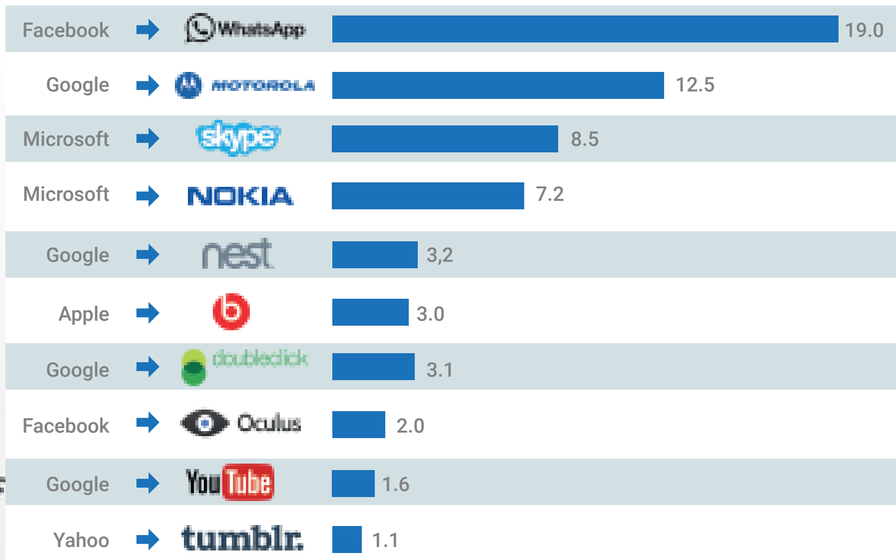
> *Competition between firms remains a decisive force even in the digital age, producing innovations, rewarding effort and giving everyone a chance to succeed. It is therefore important to protect fair competition from the monopolising tendencies of the internet economy*

Competition law was typically focused on merger policy. If companies already had a significant market share, they shouldn't be able to merge to achieve yet more market power. The main indicator for market share and power used to be the level of turnover of a company, however, for companies like Facebook, Google or Amazon, it's only partly their turnover but more importantly their product reach and the network which is large.

These companies are currently buying up the market and in fact, there are now regions regarded as 'Kill Zones' which companies simply don't enter, afraid that large companies will quickly copy and outpace them at an early stage. There may be a small counter effect however, as this has also helped to create a buoyant start-up community, with some even joking that business plans now include Google as their 'Exit Plan'.

The European Commission and the German Cartel Office are taking measures to close in, but it is not an easy task as tech giants are operating globally and develop so quickly so that it is difficult to keep up. In the past, the European Commission had been unable to investigate several cases because the revenue was not large enough for the merger to be regarded sufficiently important. This has now changed with the 9th GWB Amendment, as 'value' is now being defined in terms of 'value of the return'. This way, the acquisition of WhatsApp by Facebook could be investigated on the basis of the value of the transaction, although the service had always been offered for free. Although in this particular case in 2014 it was decided that the companies were actually operating in 2 different markets and the merger was cleared, some now say that perhaps the same decision would not be taken today.

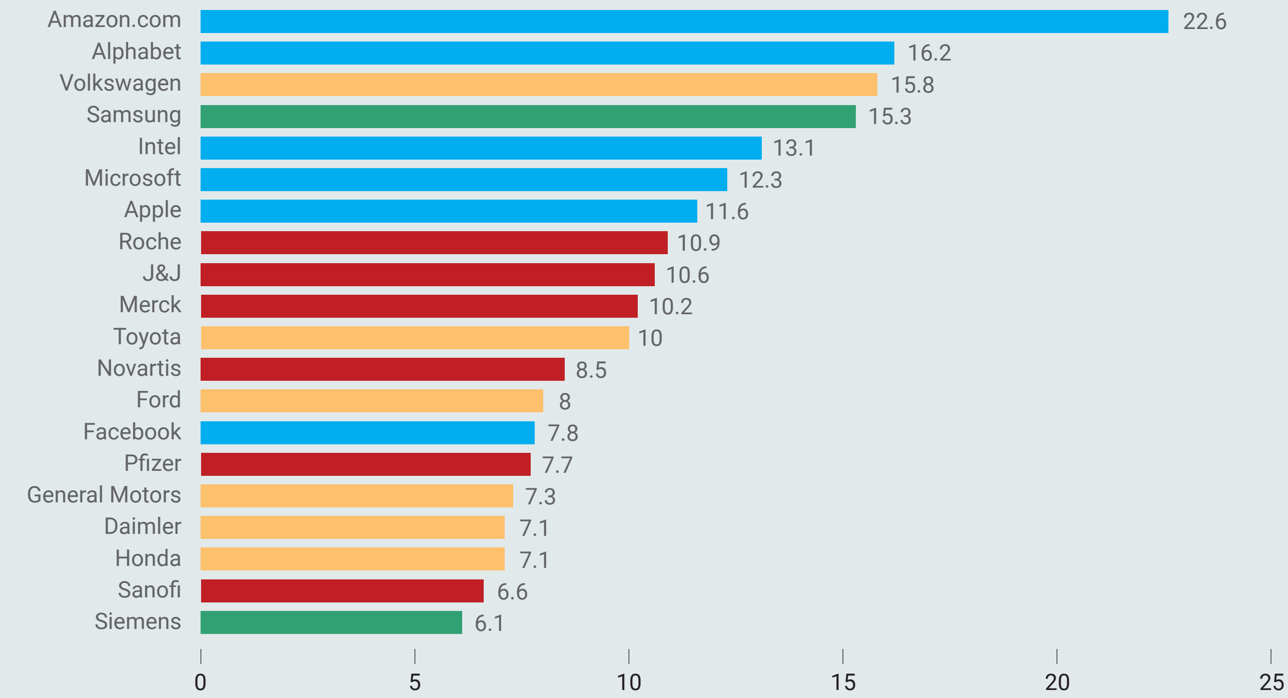
"KILL ZONES", "SALE, NOT SCALE" – SELECTED ACQUISITIONS INVOLVING TECH COMPANIES (USD BILLIONS)



Tech Giants Splurging on R&D

Tech giants continue to invest substantially in R&D in order to stay ahead. The amount that Alphabet Inc. (Google) invests into its search engine is actually substantially larger than what Volkswagen, the largest automotive company, invests in total R&D – something that was almost unthinkable several years ago.

R&D INVESTMENTS (USD BILLIONS, 2018)

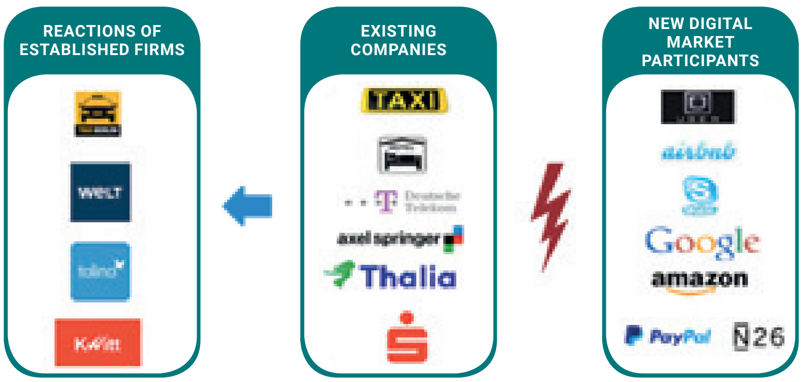


Source: Strategy&

EVOLVING COMPETITION POLICY CHANGES TO RESPOND TO MONOPOLISTIC TENDENCIES

There is a great paradigm shift, from free market capitalism to the collaborative commons, says Wambach, with new business models stirring up old markets. In every market, there are new entrants, such as Uber in the taxi market and Airbnb in the hotel market. Wambach believes that Airbnb is actually an excellent example of how the digital economy has produced immense new value; by making people transparent and accountable which in turn

"THE GREAT PARADIGM SHIFT: FROM FREE MARKET CAPITALISM TO THE COLLABORATIVE COMMONS"



9TH GWB AMENDMENT

"Regulations concerning merger control are also applicable, if (...) the **value of the return** from the merger amounts to more than €400 million."

10TH GWB AMENDMENT (DISCUSSION)

Specific prohibition criteria for market foreclosure (acquisition of startups that could be potential competitors)

- Introduction of the concept of **"intermediation power"** for greater legal clarity in the assessment of market dominance
- Ban on certain practices that promise a **"tipping"** of the market

establishes reputation and trust. On the basis of multiple feedback, people can now offer and benefit from a service which was unthinkable before – renting your home to someone you have never met before.

Increased market transparency has also led to more competition and individual prices and offers, which ensure that more people can access and afford more products.

Likewise, Wambach also comments that the GDPR and the stricter use and analysis of data could actually turn out to be an asset as opposed to a liability. At the same time, it should also be asked whether public data should actually be available for all. When gathering data is not free for companies, yet they are forced to give it away for free, companies might actually put less effort into gathering the data in the first place.

Wambach foresees big changes in terms of both legislation and competitive policy throughout the year, bringing platform regulation and greater transparency. Furthermore, in the autumn, the Commission's Report "Competition Law 4.0" should come in, along with the Cabinet's decision on the 10th GWB Amendment.

2019 WILL BRING ABOUT COMPETITION POLICY CHANGES FOR THE DIGITAL ECONOMY

LEGISLATION

- P2B Regulation
- Proposals FR/DE for European competition policy

SPRING 2019

- Report Commission "Competition Law 4.0"
- Cabinet decision 10th GWB Amendment

AUTUMN 2019

COMPETITION POLICY

- Facebook (Federal Cartel Office)

FEBRUARY 2019

- Amazon (Federal Cartel Office)
- Amazon (EU Commission)

ONGOING PROCEDURES

In reference to the procedures currently open against some of the big companies and whether they are misusing data or complying with the new GDPR, he concludes that this actually brings up the question of the privacy paradox; if a company's use of your data can actually be used to improve the product, is it really a misuse of data?

As is the case with every advance, there will be winners and losers, but we need to develop transparent rules in a suitable way to create trust in the data economy and in technological progress. Markets need rules and must be monitored to ensure that they work to the benefit of everyone and do not develop destructive forces. Though there are obviously challenges ahead, Wambach remains optimistic that if we set the correct path now, Erhard's vision of prosperity for all and the basic principles of the social market economy can successfully be translated into this new digital age.

MERGER CONTROL PROCEDURES

Bundeskartellamt

2015: Parship / Elitepartner
2015: Immowelt / Immonet
2017: CTS Eventim / Four Artists

European Commission

2008: Google / DoubleClick
2011: Microsoft / Skype
2012: Google / Motorola
2014: Facebook / WhatsApp

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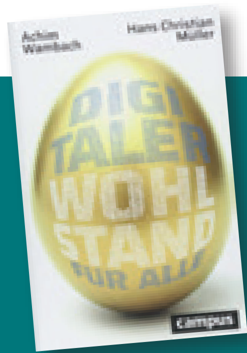


ACHIM WAMBACH

Professor Achim Wambach PhD is currently Chairman of the German Monopolies Commission and Co-Chairman of Commission Antitrust Law 4.0 for the European Antitrust Law. He is also the President of the Leibniz Centre for European Economic Research (ZEW). A prized, published author, he advises several political bodies and governments on many areas in economics, including the role of information in the economy. Prof. Wambach and Hans Christian Müller, Editor at Handelsblatt, are looking into how the basic principles of the social market economy can successfully be translated into this new digital age. In their new book "Digital Prosperity for All - An Update on the Social Market Economy is Possible" they explain how we can secure prosperity for all, even in the internet age.

Where is the World Heading in the Coming Decade?

During the IMAP 2019 Spring Conference in Munich, IMAP was delighted to present guest speaker **Krisztián Orbán, Founder and Managing Partner of Oriens**, one of Europe's top performing private equity funds, who previously worked at McKinsey & Company. Orbán shared insights on global macro developments and discussed the current USA-China trade war and what this means for M&A.

THE WESTERN ECONOMIC STRUCTURE AND RULES-BASED SYSTEM ENFORCED BY MILITARY AND ECONOMIC MIGHT, NO LONGER COVERS THE WORLD

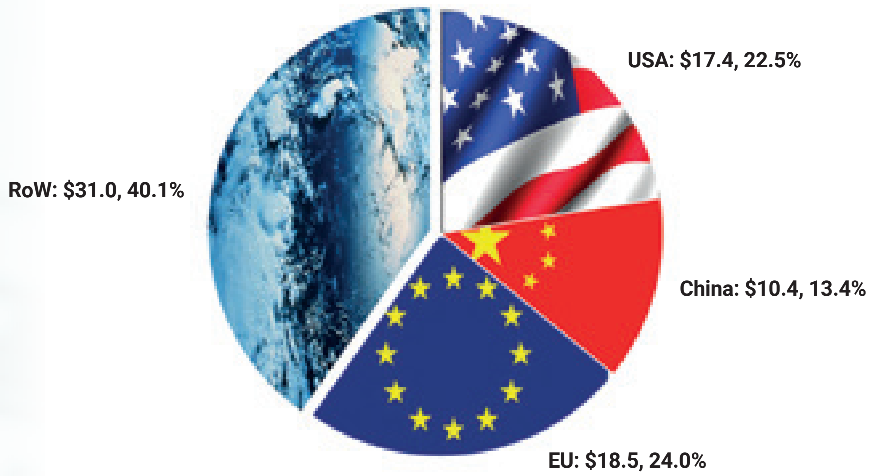
According to Orbán, we have taken for granted that the US exerts influence across the whole world and though it does remain the strongest global power, its influence is no longer paramount all the time. Military might and the credible threat of its application underpins the enforcement of global rules in otherwise sovereign countries; therefore, it directly impacts business. The US's decreased readiness to interfere or enforce rules has changed the global business environment over the last 5-10 years.

The People's Republic of China (PRC) is a clear challenger to US hegemony, though it is still substantially smaller than the US and Europe in economic terms. The PRC's economy represents about 13% of the world economy, compared to the US and Europe at 22.5% and 24% respectively. However, for many countries the PRC as a trading partner is now more important than the US, with much of Asia centered around the PRC and certain countries looking towards its development model enabling poorer countries to become rich.

The pushback on the power of the West cannot be ignored. Countries which just 10 years ago would have been under the sphere of the Western and globalized world, such as Turkey, Ukraine, Pakistan and much of South-East Asia, are now in transition and Western control is no longer evident. For many countries, the hard choice of PRC or US rule is becoming a big issue.

SIZE OF LARGEST ECONOMIES (USD TRILLIONS, % OF GLOBAL TOTAL. 2016 FIGURES)

Source: IMF, Courtiers



LARGEST TRADING PARTNER IN GOODS (EXPORTS AND IMPORTS COMBINED)

NOTE: Data omitted for some small nations as indicated in gray.
SOURCE: UNCTAD; McKinsey Global Institute analysis.

TROLLING AND FREE-RIDING THE WESTERN SYSTEM

The world is full of trolls and free-riders and until 2018 key decision makers did not seem to be fully aware of what was happening. Orbán cited recent events in the press, including alleged Chinese influence in Australia's domestic politics and incidents in the US involving so-called institutes for Chinese cultural exchange punishing those speaking out against the PRC. Russia, he says, is rather more obvious in its activities and has been active across the globe, yet it appears that sanctions have been forthcoming only for low-level operatives rather than at the top. Furthermore, in the case of recent alleged trolling activities by North Korea, there have been no ramifications. Of course, when rules are not enforced, it invites more trolling and influencing operations.

THESE ARE ONLY SYMPTOMS – THE FUNDAMENTAL PROBLEM LIES WITH THE US

According to Orbán, so far, the entire global system has been sustained by America's credo of liberal democracy and open trade, yet its domestic policy no longer supports this. Free trade policies are under scrutiny in the US, key global organizations are underfunded and there is less support for military intervention. Though there have been national outcries following events in Syria, Libya and Ukraine, nothing ever happens and only inertia now maintains order.

Knowing that domestic policy in the US has always trumped strategic considerations, allies are no longer willing to follow American guidance alone. In turn, trolls and free-riders are emboldened.

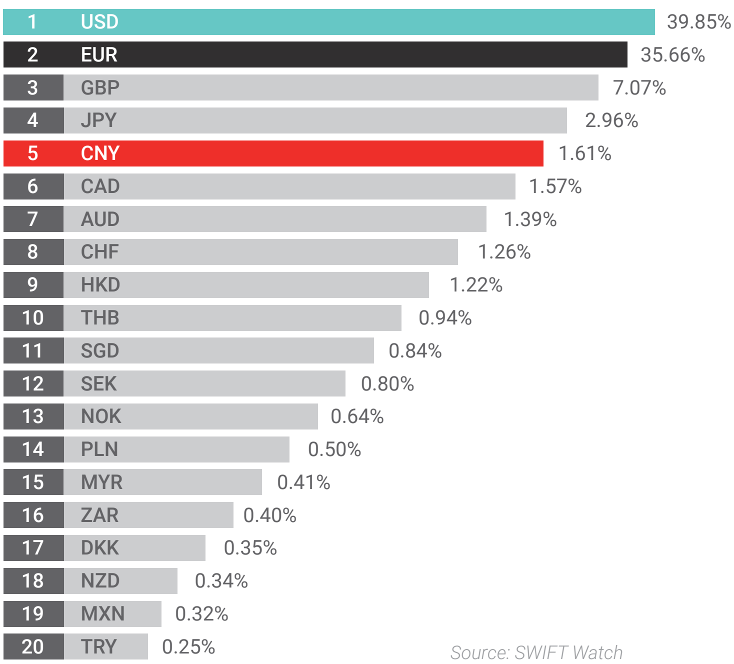
FUNDAMENTALS STILL FAVOR THE US

Having the most powerful and most funded military in the world awards the US a significant level of power. They are the largest economy and the dollar is the ultimate source of influence over the world economy. When it comes to foreign trade, we are essentially living in a dollar denominated world. Furthermore, every single dollar transaction, even outside the US has to be cleared by the US who holds jurisdiction over payments. Likewise, the oil and energy trade are denominated in dollars - yet another lever for the US.

THE FATE OF THE WESTERN DOMINATED GLOBAL SYSTEM HINGES ON *IF* AND *WHEN* THE US CAN REALIGN ITS DOMESTIC POLICY WITH ITS IMPERIAL DUTY

Orbán believes that the next 10 years is likely to bring about a new governing ideology in the US, along with a new economic model and the emergence of a new wave and generation of politicians with the potential to lead to the reestablishment of foreign commitments. Figures show that with the current urban-rural divide in the US, the Democratic Party is dying out in rural America, which is now going Republican. However, the strategy of focusing on rural voters may work in the short-term but is not a valid long-term strategy as it goes against the mega trend of urbanization throughout the US.

CURRENCY ACTIVITY SHARE FOR DOMESTIC AND INTERNATIONAL PAYMENTS, %, DEC 2017



Source: SWIFT Watch

The US has a domestic problem, with large divides not only across culture and faith, but also in terms of healthcare and education. However, a key point for Orbán is that, *"nothing focuses the elite and the population on solving difficult issues, than an enemy."* By this he explained that having a good enemy actually enables countries to get a lot done. He guesses that the West will overcome the last decade of disorder and the US, along with the rest of the West will establish a new order; covering a smaller part of the world, with borders yet to be defined. Its focus? Delineating a clearer line of influence for the West and bringing about the enforcement of internal rules, while engaging in a struggle with the emerging PRC-centered system. The resulting struggle will focus on undermining each other's internal order, which will also drive a crack-down on trolls and free-riders.

In terms of business and what will have the most direct impact, this will be technology and who controls it. Technology standards and data, areas in which China has actually made huge headway, are crucial. This could lead to the creation of a new framework for technology rule enforcement – controlling the movement of high technology and its leakage. It's also likely there will be 2 technology worlds; Chinese and Western – with each set of rules making it difficult to transfer technology from one to the other. In terms of chip technology development, compared to the US and Western Europe, China has failed to catch up and it remains one of its biggest weaknesses which is why chip development is now one of China's core development areas.

"In terms of business and what will have the most direct impact, this will be technology and who controls it. It's also likely there will be 2 technology worlds; Chinese and Western – with each set of rules making it difficult to transfer technology from one to the other

THE EUROPEAN UNION LOOKS TO THE UNITED STATES FOR LEADERSHIP

The EU has long looked to the US not only for leadership in politics, foreign policy and economics but also with regard to culture and science. However, since 2001, with the emergence of terrorism, the China-US economic race and latterly, the global recession, the US has put Europe on auto-pilot. Rather than fill the leadership vacuum, Europe is actually experiencing more issues than ever and there is political disarray. However, the US does still need the EU and its companies to contain Chinese technological encroachment. Working together they have the opportunity to reestablish a strong power.

OUTLOOK FOR M&A

So how does this impact M&A? Orbán suggests there will be more subdued activity between Chinese and Western countries, especially in the area of technology. There will be re-location from China, especially to the CEE and Southern Europe and more intense activity within the 2 spheres of influence, as companies have to settle for smaller acquisition targets. Politics and security will be key factors to reactions on attempts to take over companies, limiting the expansion of companies without 'full clearance' in their respected groups. There are great changes ahead, many of which are unavoidable and will have profound effects on business.

KRISZTIAN ORBAN

Mr. Orbán is the Founder and Managing partner of Oriens, one of Europe's top performing private equity funds. Previously, he worked at McKinsey & Company.
Beyond his business interests, Mr. Orbán initiated and led two major projects on his country's economic policy and participated in preparing McKinsey's New York Times bestseller book, The Power of Productivity.
He is also an adjunct professor at Washington University's Olin School of Business.
Mr. Orbán earned his MBA at the MIT Sloan School of Management and his MA Degree in Law and Diplomacy at the Fletcher School of Law and Diplomacy. He also holds an MSc Degree from the Corvinus University of Budapest.

Chinese Outbound M&A: What's Next?

During its 2019 Spring Conference in Munich, IMAP officially launched IMAP China, an international team that specializes in mid-market Chinese outbound M&A transactions. **May Wu from IMAP China**, talks below about the latest developments in the market and the outlook for outbound Chinese M&A.

CHANGING TIMES

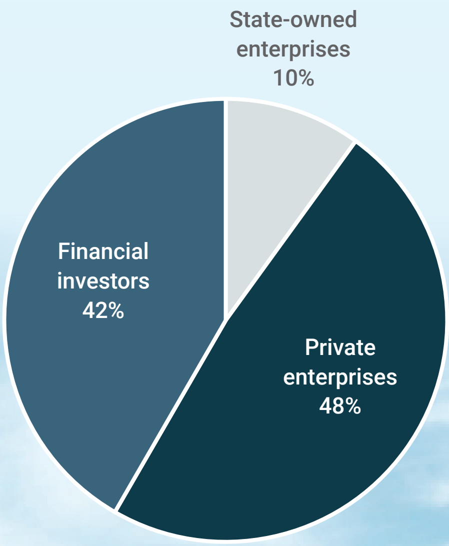
After four decades of adopting the Reform and Opening policy, China has become an important influencer on the world stage. The second largest economy in the world, it is active in almost every aspect of the international business community. While the past 10 years have witnessed China as an active participant in the global M&A market, recent political and economic developments have caused a slump in Chinese M&A activity. Will the Chinese global M&A spree pick back up? And where do the opportunities lie ahead?

WHO, WHAT AND WHERE?

The Chinese outbound M&A market used to be dominated by state-owned enterprises, but that is no longer the case. In 2018 state-owned enterprises only contributed 10% of total outbound M&A deal value. The recent M&A trend has been characterized by a wider universe of buyers, with (listed) privately-owned companies and financial investors playing a more significant role in driving Chinese outbound acquisitions.

Transaction data from the past 5 years collected from Mergermarket shows that Chinese outbound M&A activity peaked in 2016, highlighted by the acquisition of Syngenta by ChemChina for $43 billion. In 2017 and 2018 the outbound M&A market calmed down slightly, but deal volume and value were still considerably higher than in 2014 and 2015. The top 3 investment destinations are Europe, Asia and the US, with Europe being the most favored continent in 2018 by means of $50 billion in deal value. Asian countries remain popular for Chinese investors thanks to geographic convenience and governmental incentives.

SOURCE OF CHINESE OUTBOUND M&A (2018)



Source: PwC Chinese M&A Report 2018.

Chinese buyers' interests lie across a broad range of industries. Although you can find Chinese buyers in almost every sector, the vast majority of transactions take place in sectors such as Technology, Consumer Products and Services, Healthcare and Industrials. There are sectors however, which are national security facing in which acquisitions are strictly prohibited by the Chinese or foreign governments, which include Defense and Military, Telecommunication and Natural Resources.

DELEVERAGING, US-CHINA RELATIONS, CAPITAL OUTFLOW RESTRICTION AND TRANSACTION SCRUTINY CAUSING UNCERTAINTY

Deleveraging was probably the most mentioned word in the Chinese financial market in 2018. Chinese companies have a history of using high leverage; this is particularly true for state-owned enterprises and publicly-listed

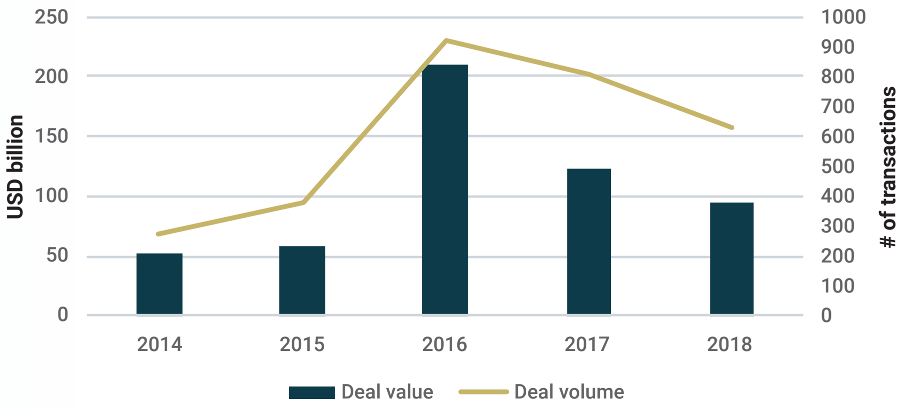
companies. As economic growth slows down, illiquidity and insolvency problems begin to appear, causing financial authorities to call for the deleveraging of the economy. In the long-term, deleveraging will have a positive impact on the economy as it will force state-owned enterprises to reform and result in a more mature and efficient banking system. In the short-run, however, with companies' financing capabilities being limited, their willingness to invest abroad becomes hindered.

The political tension between China and the US not only discouraged investors on the stock market, verified by the 24% plunge in stock market value in 2018, but also scared away Chinese buyers from the US M&A market. Transaction value in the US by Chinese buyers reached only $13 billion in 2018, a quarter of the deal value seen in Europe. Investors are instead looking at more friendly destinations, pushing up 2018 deal value by 82% in Europe and 52% in Asia.

Capital controls have been an obstacle for companies that invest in non-core sectors that do not have obvious benefits for the Chinese economy. Since 2015, a vast amount of domestic capital has flown out of China, with monthly capital flight exceeding $100 billion for the last 7 months of 2015. This has spurred governmental actions to pull capital back to China to stimulate domestic economic growth.

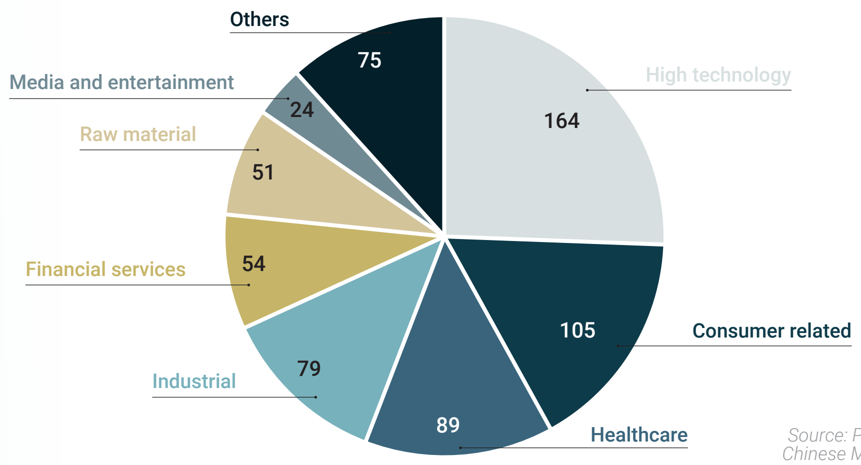
A Chinese company has to obtain at least 3 domestic governmental approvals before the purchase price can be paid and if the company is publicly listed or state-owned, an additional layer of scrutiny will apply. The lengthy governmental approval process creates disadvantages for Chinese companies in an organized auction process. In addition, governments from some destination jurisdictions have adopted strict scrutiny on proposed takeovers by foreign investors. In recent years, a number of Chinese takeover attempts in

CHINESE OUTBOUND M&A ACTIVITY



Source: Mergermarket.

TARGET SECTORS IN CHINESE OUTBOUND M&A



Source: PwC Chinese M&A Report 2018.

the US were blocked by The Committee on Foreign Investment in the United States (CFIUS). Some European countries such as the United Kingdom and Germany have also started to tighten takeover rules to prevent companies in sensitive industries falling into foreign hands. In fact, the European Union has recently drawn up a framework aiming to tighten its scrutiny of foreign takeovers in strategic sectors including Telecommunication and Artificial Intelligence.

MARKET OUTLOOK

With all these developments as a backdrop, what can we expect next from Chinese buyers?

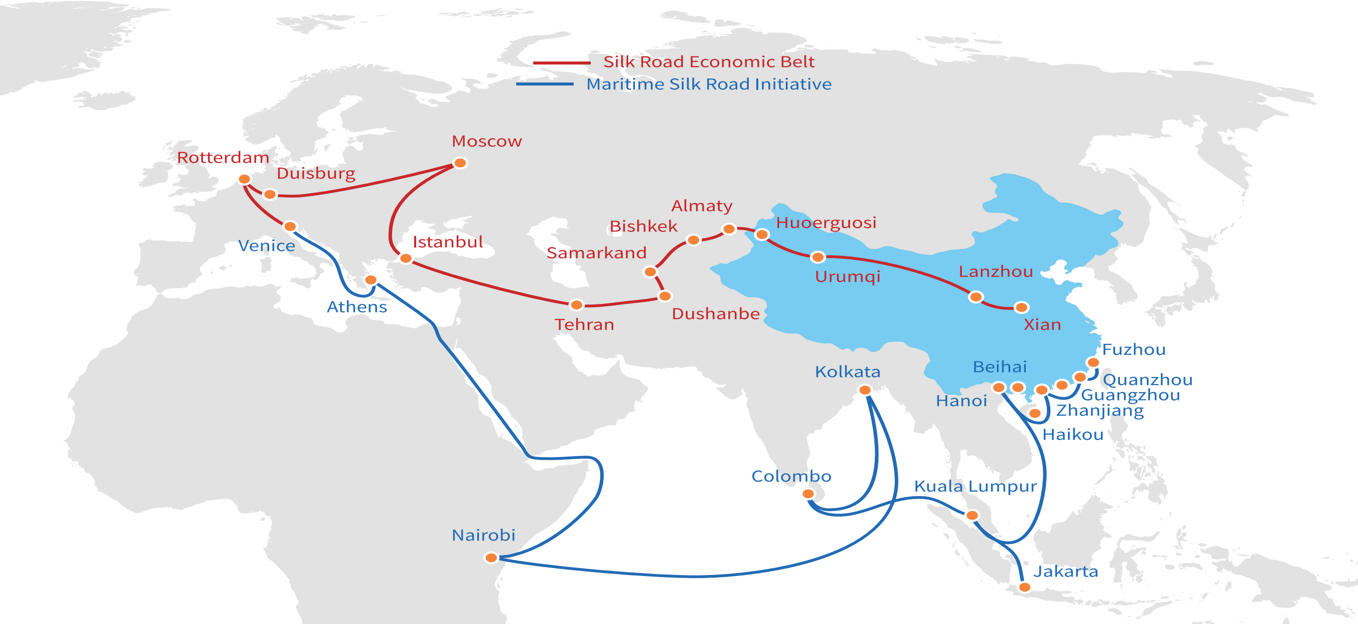
Trend 1: (Listed) private enterprises and private equities take the lead

Privately owned companies, as well as financial investors have become the main driving force behind Chinese companies going abroad. Private companies are typically younger, more dynamic and more driven to acquire advanced technologies or premium brands because they are facing fierce domestic competition. Unlike western financial investors, most Chinese private equity funds are currently unable to absorb and manage portfolio companies independently. They often act as co-investors and team up with an industrial player who understands the business well in order to limit investment risks.

Trend 2: State-owned enterprises shift to OBOR

The One-Belt, One-Road initiative was first introduced in 2013, as a development and cooperation framework connecting 60 countries alongside the ancient "silk road" and "maritime silk road". These countries have a total population of 4.4 billion and a total economic output of $21 trillion. Stimulated by the government and headed

TREND 2: STATE-OWNED ENTERPRISES SHIFT TO ONE BELT ONE ROAD INITIATIVE



by state-owned enterprises, Chinese investment in these countries has been increasing and will continue to pick up.

Trend 3: Small is beautiful; less mega deals and more mid-market transactions
Targets in the mid-market are attracting more attention from Chinese buyers because of their advanced technology, unique products or premium brands. The number of transactions in the mid-market will likely continue to grow supported by the growing desire for M&A from private companies and financial investors.

Trend 4: Emphasis on Technology, Consumer related, Healthcare and Industrials
What has been popular in the past will continue. Sectors that are highly favored by Chinese buyers remain Technology, Consumer goods, Healthcare and Industrials. Rising investment is expected in the Energy and Infrastructure sectors along the OBOR region. However, deals in sectors such as Real Estate and Entertainment are considered “irrational” and will see minimum growth.

Trend 5: Approval is still an issue
While the Chinese government remains supportive to overseas investment in general, restrictions on capital outflow are having the opposite effect. Furthermore, with the tightening scrutiny of target destinations, the overall approval process is unlikely to be shortened in the near future.

ADVICE FOR ADVISORS

As international M&A advisors, how can we best prepare ourselves to deal with Chinese buyers?

- **Study the market.** Not every deal is suitable for Chinese buyers. While already a global leader in some regards, China is still a developing country and behind the western world in some sectors. Chinese companies are looking for technologies, products and services that are scarce, scalable and beneficial for the Chinese economy. Determining whether your client has a competitive advantage compared to Chinese peers is an important step in order to assess the preliminary interest from Chinese buyers.
- **Price or speed, you can’t have both.** You have probably heard about the China premium – the lure of higher price offered by a Chinese bidder to compensate for the slower deal execution process. If your client favors the high price proposed by a Chinese buyer, they must be prepared to deal with a lengthy approval process. However, exceptions do exist; when a Chinese buyer already has offshore capital reserves, governmental approval will no longer be the stumbling block of the deal.
- **Be flexible.** A structured auction process might work well with experienced western bidders, but Chinese shoppers could still ignore or delay the well-thought timeline you entailed in your process letter. They may react in contrary to your plan and request a site visit before issuing a bidding letter, or fly in their entire due diligence team before the letter of intent is even agreed. So be strict on the content, but stay flexible on everything else.
- **Be aware of the culture difference.** The wide cultural difference between East and West can make negotiation even harsher. Try to unveil the hidden intentions and establish a relationship with the Chinese buyer to help smoothen the transaction process.

For an economy of its size, China’s spending on outbound M&A was merely 0.6% of its GDP last year, less than half of what Japan spent. Chinese appetite will continue to underpin outbound M&A activities. And as Chinese buyers become more active in global M&A, advisors should consider them as legitimate participants when executing sale transactions. Forward thinking advisors with a good understanding of Chinese buyers will be better equipped to create value for the sellers and achieve successful transactions.

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Introducing IMAP China

IMAP China is an international team of expert professionals that specialize in mid-market M&A transactions between China and the rest of the world.

Pictured from left to right: Zheng Yang, Karl Fesenmeyer, May Wu, Catharina Peters, Jacky Wang and Balthazar den Breems.

China is without a doubt an important market for IMAP. Being able to identify and reach Chinese buyers creates competitive advantages for M&A advisors and adds value to its clients. Due to China's fragmented economy and dynamic financial market, it has been challenging to find a traditional financial advisor focusing solely on M&A and extensive nationwide coverage that could adequately support IMAP. The increasing demand from IMAP member firms for China coverage triggered the formation of IMAP China, a joint initiative by IMAP Germany and IMAP Netherlands at the start of 2019.

IMAP China is an international team of highly experienced advisors, with years of combined experience in closing transactions in this important market, led by the members of the China Desks at IMAP Germany and IMAP Netherlands. The 2 offices have been involved in Chinese outbound transactions for 9 years and during this time, have built an impressive team with valuable deal experience, diverse sector expertise, cultural understanding of the market, a proven track record and an extensive Chinese network.

The IMAP China team is led by 2 senior partners: Karl Fesenmeyer, President of IMAP Germany and former Chairman of IMAP and Balthazar den Breems, Partner at IMAP Netherlands. Karl and Balthazar travel to China frequently, are very familiar with the Chinese way of doing business and use their experience to support the team whenever required. Jacky Wang, May Wu, Catharina Peters and Zheng Yang form the operating team and all have relevant deal experience and language skills, as well as a crucial understanding of both western and Chinese culture.

IMAP China leverages its Chinese network and experience to help IMAP partners to generate new leads and close transactions with Chinese buyers. Its Chinese speaking dealmakers work closely with IMAP partners and provide seamless assistance throughout their transaction processes. Everyone at IMAP China looks forward to working with you all.

Visit our new Chinese website at:
www.imap-china.com

Getting Under the Hood of Private Equity

In this special feature on Private Equity, Key Capital, IMAP's partner firm in Ireland, takes a deep dive into the world of private capital and why it is often misconstrued by business owners when they are considering a liquidity event. In addition to looking at the macro picture for Private Equity in Europe and Ireland, Key Capital shares details of its recent Private Equity focused event for business leaders held in Belfast, as well as some key insider views with an interview with **David Menton, Founder and Managing Partner of Synova Capital**.

CHALLENGING TIMES IN EUROPE, YET PRIVATE EQUITY CONTINUES TO OUTPERFORM AS AN ASSET CLASS

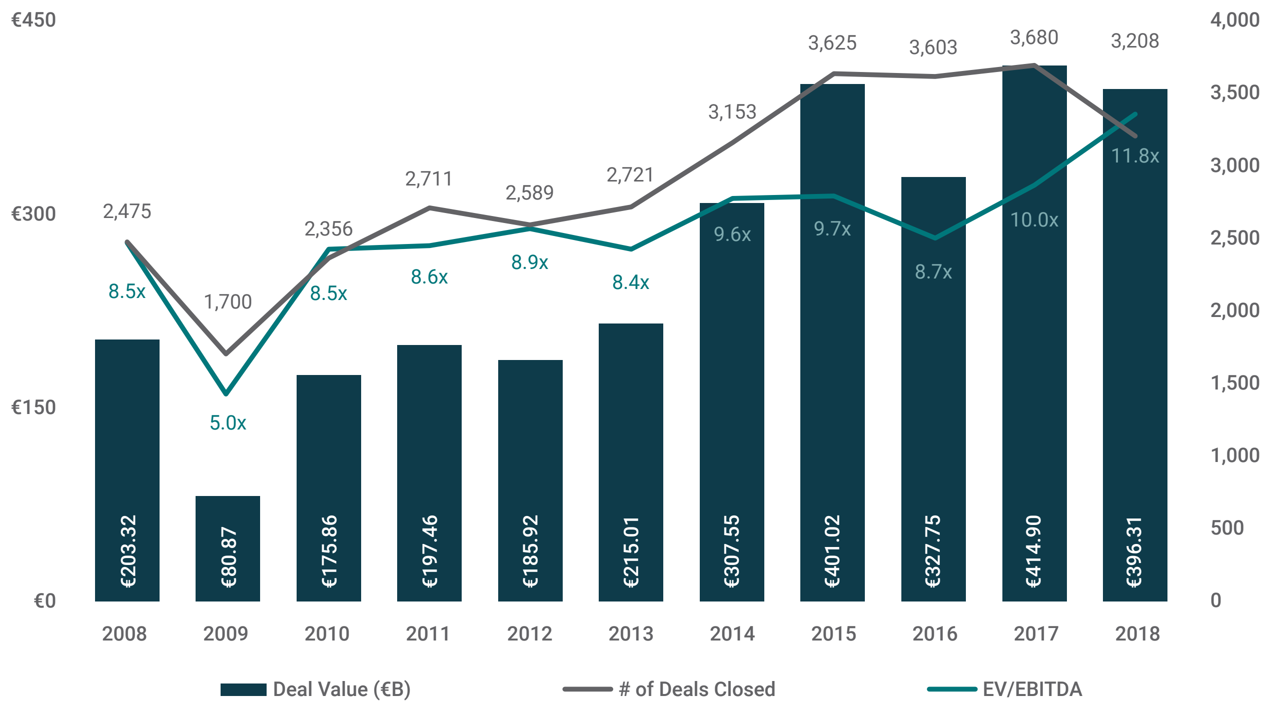
After a series of record-breaking years in European deal making, 2018 saw a softening both in Private Equity ("PE") deal volumes and values across Europe, with total PE transactions falling to 3,208 from 2017's record level of 3,680.

The industry is currently facing several headwinds in Europe. Global political and economic uncertainty, particularly surrounding Brexit and the future of the UK, which is Europe's largest deal market for PE investment, undoubtedly contributed to the reduction in the number of PE deals announced in the region (988 PE deals in the UK in 2018, a decline of 10% from 2017[1]). However, the rest of Europe may in fact be a beneficiary of Brexit from a PE investment perspective, as investment teams will likely need to look further afield to other European markets in order to identify attractive investment prospects.

Despite this challenging environment, PE continues to be the best performing asset class globally. The returns track record of the industry, combined with the current low interest rate environment has meant that European PE fundraising has been at record levels. The €66 billion of capital raised by private equity funds in 2018 was the second highest amount

1. Source: Pitchbook
2. According to Preqin, global PE committed undrawn funds (dry powder) stood at c. USD1.2 billion in July 2018

EUROPEAN DEAL ACTIVITY 2008-2018



Source: Pitchbook.

post-financial crisis[1]. Record-breaking levels of dry powder available to PE firms[2] and the development of strong corporate balance sheets owing to several yeras of buoyant economic growth have resulted in significant competition for quality assets in Europe. Unsurprisingly, valuation multiples in Europe reached an all-time high in 2018.

THE OUTLOOK FOR PE IN EUROPE

While the current environment of high valuations, economic and political uncertainty in Europe and intense competition for assets means PE firms need to work harder and more creatively to source quality deals at sensible valuations, the best firms have a track record of generating returns in adverse situations. The levels of capital that have been raised by funds and the resulting pressure on these funds to put money to work, means that PE will continue to be a key driver of M&A activity in Europe in 2019 and beyond.

PE GETS A FOOTHOLD IN IRISH MID-MARKET M&A

Private Equity is a relatively new phenomenon in certain smaller markets in Europe, Ireland being a prime example. Prior to the recent financial crisis, there was no indigenous PE industry in Ireland and any PE activity that took place, involved major international funds acquiring very large Irish corporates. Following the financial crisis, a government-backed initiative established a cohort of Irish PE funds, encompassing both international funds such as Carlyle and MML, as well as new domestic players. These funds were established to target Ireland's mid-market, the backbone of the Irish economy, which housed a large number of high-quality businesses and management teams that had much more limited capital options available to them at that stage.

Private Equity's prevalence and importance in the Irish M&A market continues to increase. This is particularly true for mid-market[3] activity, the lifeblood of the Irish M&A market (mid-market M&A transactions represented 93% of 2018 deal volume in Ireland). In 2018 there were 34 deals in Ireland that involved PE, up from 13 deals in 2012[4]. However, given the relatively short timeframe in which PE has been a feature of the Irish M&A landscape, there are still significant misconceptions about what PE brings to the table, not only in terms of deal structures and flexibility, but also the value it can bring to a boardroom.

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3. The mid-market includes transactions with deal values up to €250 million
4. Source: William Fry 2018 M&A Review

Key Capital Displaces the Myths of Private Equity with Business Leaders in Ireland

In April 2019, Key Capital hosted its most recent event in a series entitled "Getting Under the Hood of Private Equity." Held in Belfast and attended by 25 Irish CEOs and business owners, the event was designed to demonstrate how PE can be an attractive form of capital for businesses.

A previous issue of Creating Value explored the theme "Who's afraid of Private Equity?" and looked to educate readers on some of the reasons that PE can be the right investor for businesses in the German market, when PE firms are often considered to be the "bad guys."

The Irish corporate community can also be subject to some of the same misconceptions, with many business owners believing PE firms to be aggressive financial investors whose sole aim is to leverage a business to its capacity, cut costs and to use clever financial engineering to generate profits. It was with those misconceptions in mind that Key Capital, IMAP's Partner in Ireland, hosted a series of events entitled "Getting Under the Hood of Private Equity" with a view to demystifying PE as a source of capital for a select audience of business leaders.

The most recent event, held in Belfast in April 2019, saw Key Capital, together with David Menton, Managing Partner and Co-founder of Synova Capital, address a gathering of 25 Irish CEOs and business owners about how PE firms really think and operate and what bringing PE on board could mean for the businesses attending, 'warts and all'. Together, Key Capital and Synova illustrated how PE can offer an attractive alternative to a traditional exit route, allowing business owners to benefit from what is arguably a financially and psychologically superior form of capital.

Jonathan Dalton, Head of Key Capital's corporate finance team, recalls, "the theme that appeared to resonate most with guests was the opportunity a private equity transaction affords private business owners to de-risk financially and re-risk strategically; the proverbial 'have your cake and eat it'. The guests were also very interested in the alignment of interests a PE structure can provide, from management to co-investors to LPs to GPs.

The theme that appeared to resonate most with our guests was the opportunity a private equity transaction affords private business owners to de-risk financially and re-risk strategically...the proverbial have your cake and eat it

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KEY TAKEAWAYS FOR ATTENDING BUSINESS LEADERS

1. Shareholders and management teams should educate themselves early on. Meet with different PE firms to develop a first hand understanding of the options

2. Identifying the right PE partner is critical: this is the firm you will have to work intimately with for a significant period of time

3. PE uses sweet equity as a tool to align management interests with the shareholders. This represents a significant wealth creation opportunity for management

4. The management team has a huge influence in determining the exit outcome in a PE deal and 60% of PE exits go to another PE investor allowing management to "go again"

5. PE investors bring a lot more to the table than financial firepower; vision, relationships, access to new markets and industry expertise are ways they add value

Synova Capital – A Proven Track Record in Delivering Strong Returns to its Investors

During its "Getting Under the Hood of Private Equity" event in Belfast, Key Capital had the pleasure of sitting down with guest speaker David Menton from Synova Capital, to discuss some of the key trends currently impacting not only his firm, but the wider PE industry in Europe

Can you tell us a bit about Synova and your business model?

Synova is a growth investor specialising in partnering with founders and managers across the UK and Ireland who are committed to scaling their companies to the next level. Our sectors of focus are Financial Services, Technology and Healthcare. We have developed a heavily partnership-led model and specialise in building long-term relationships with shareholders, often prior to our investment, to ensure the alignment of our shared growth ambitions.

Are you seeing a change in attitude towards PE as a solution for entrepreneurs?

There is certainly more knowledge nowadays among entrepreneurs about the existence of PE, though the industry hasn't always highlighted clearly enough to the market the important role it plays in the wider economy. At Synova, we pride ourselves in developing trusted relationships with companies in our focus sectors and using our track record of successful partnerships to share with management teams what our approach has successfully delivered for similar sized businesses.

Synova operates in a rapidly changing environment and you have successfully navigated a global recession and now the impact of Brexit. What has been the key to this success?

We have always invested in smaller non-cyclical growth companies, typically operating in niche markets and with limited exposure to macro trends. Our narrow focus on services businesses with strong growth potential, providing B2B or technology enabled solutions (often in highly regulated markets) has continued to deliver strong returns to our investors.

You mentioned having an interest in investing in Irish businesses. What makes Ireland an attractive acquisition landscape?

We have always had a focus on investing across the UK & Ireland. Aside from Dublin being my hometown, we have consistently identified and engaged with companies across certain sub-sectors which for various reasons have proved successful in the Irish market, from Financial Services and FinTech, to Health and Pharma Outsourcing. Within these areas, and particularly the technology space, Ireland continues to benefit from a highly educated and well-trained workforce. For software companies, the availability of highly proficient developers remains a powerful pull factor.

What are your views on current market valuations – have we passed peak valuations?

Given the long-term performance of the asset class, the PE industry has benefited significantly from large inflows of capital, which in addition to other factors is driving higher valuations. We have to assume that over the medium term, as seen through previous cycles, there is a risk of GDP contraction; whether that impacts valuations or not is hard to judge.

You have invested in a lot of successful businesses over the firm's history. What are the top 3 key characteristics you seek in any potential acquisition?

The 3 most important factors for us are the robustness of the underlying earnings of a business, its ability to scale within its existing market or into adjacent markets and our ability to work alongside a talented management team who we believe have the potential to build a good business, into a great business.

What can businesses owners do in the years ahead of a transaction in order to increase the attractiveness of their business?

The key challenge for any team is to set themselves reasonably ambitious plans and prove their ability to deliver them in the run up to a transaction. Additionally, it serves them particularly well to be able to evidence a strong handle on the financial metrics and key KPI's within their business.

How does Synova add value to the companies they invest in?

We are extremely active in providing operational advice and a strategic vision to our management teams and work tirelessly to help them drive operational efficiencies by investing heavily in their people and their processes. We also help them develop accelerated growth plans pre-investment. These can often include:

- Deeper penetration into existing markets and customers
- Focus on expansion into other verticals
- Analyse overseas sales strategy and potential for international growth
- Understand where strategic acquisitions can be accretive and drive accelerated growth

Finally, what are the common pitfalls you would advise business owners to avoid during the sales process?

The most important factor when undertaking a sales process is preparation; business owners cannot allow the sale to distract them from the day to day operations of their business.

Furthermore, I would advise all owners to consider the merits of engaging well credentialed experts to advise them on the various aspects of an M&A process. Seeking expert advice in the areas of corporate finance, legal and tax aspects of a transaction is critical and appointing M&A experts to manage the transaction process enables management to remain focused on the company's growth plans and to prove their ability to deliver on financial targets to all potential buyers.

DAVID MENTON

David co-founded Synova during 2007 having previously worked both within a subsidiary of WPP plc and at a prominent European family office. He covers the Financial Services and FinTech sectors, working closely with management teams across the Synova portfolio to support their growth plans. David was recently featured in the prestigious Dow Jones – Financial News '40 under 40 rising stars in Private Equity'.

Growth in the Periphery of the European Union: Challenges Facing Mid-sized and Large Companies

IMAP Hungary, together with the Confederation of Hungarian Employers and Industrialists (Business Hungary), organized and hosted its "Hungarian Companies 2030 – After the Qualifiers" conference in Budapest on April 15th 2019. With 375 attendees, including close to 150 business owners, this was the largest gathering of Hungarian entrepreneurs over recent years.
Gábor Szendrői, Managing Partner of IMAP Hungary and **Péter Lakatos, Co-head of the Association of Industrialists of Hungary and Co-owner and Co-CEO of Videoton**, the largest Hungarian-owned private company and 6th largest European EMS, provide Creating Value with an overview on the challenges impeding not only the development of local SMEs in Hungary, but also across the European periphery.

Hungary has several successful entrepreneur-built companies whose fame has reached international scope, most of which operate in very niche markets. Wizz Air, a leading European low-cost airline traded on the London Stock Exchange is an outstanding example, along with 77 Elektronika, which produces globally competitive urine testing equipment and devices that sell successfully in over 100 countries. Prezi is another example, with global recognition in the IT space for its presentation making software that competes with PowerPoint. While Hungary has yet to produce a unicorn like Romania, Estonia, Czech Republic and Poland, it has various local companies with increasing international recognition.

Unfortunately, however, most local companies in Hungary are not on such significant growth trajectories. This also seems to be the case for businesses based in other countries or regions in the periphery of the European Union (including Romania, Bulgaria, Croatia, Southern Italy, Greece, Southern Spain and Portugal). Our initial objective for the conference was to identify common threads across successful businesses, but we soon realized that this was an impossible mission as the key success factors of these companies were typically very specific, something hard for others to mimic. At the same time, we realized that while some of the challenges faced have been generally discussed in Hungary (and across Europe, including Germany and Switzerland) some of the more pressing system challenges haven't yet been discussed in depth either in the media or in conferences.

ARE LOCAL ENTREPRENEURS IMPORTANT TO LOCAL COMMUNITIES?

Some argue that the nationality of a business isn't important and that the market solves everything. We don't believe this to be the case and found several reasons why local entrepreneurs play a very important part in a nation's economic structure:

- In all countries SMEs are significant employers; significantly contributing to exports and GDP
- They are more likely to spend their profits at home compared to international companies
- Successful local entrepreneurs are more likely to buy local bonds at a better price as they may feel more in control or have more knowledge regarding the performance of their own government
- They are more likely to invest in knowledge and training
- They are less likely to relocate production
- In a request for proposal process they are more likely to choose local suppliers, thus further building up the local economy
- Successful local companies foster entrepreneurship and create greater national pride and cohesion

> “*Some argue that the nationality of a business isn't important and that the market solves everything. We don't believe this to be the case*

CHALLENGES FACING LOCAL ENTREPRENEURS

Given the importance of local entrepreneurs, let's examine what kind of challenges they face:

- Generational change is necessary. The average age of the owners of the top 1000 Hungarian companies was 67 in 2018 and this figure has been increasing now for several years
- A significant efficiency gap relative to multinational firms; on average, over the past 10 years multinational companies operating in Hungary have demonstrated a three-fold efficiency advantage over Hungarian-owned companies operating in Hungary
- The impact of increasing real wages across Central Eastern Europe. This dynamic has been widely covered in European political circles and the business press
- A lack in management elements compared to a well-structured regional or international player
- Small in size – lacking scale; Hungary is characterized by an army of small competitors in almost all industries that run subscale operations. Language isolation is a key reason for companies not expanding abroad
- The threat of a decreasing level of EU subsidies and its impact on the cost of productive hours. Machines were bought at a fraction of their original prices through subsidies, offering cost advantages not only in terms of manpower but also per machine hour

These challenges have been discussed in depth in the last few years in Hungary. During the preparation for the conference, we identified another fundamental challenge regarding long-term survival and existence; what comes after the era of low wages and low machine hour costs? What are the fundamentals on which Hungarian companies can build their future? We realized that there are very few industries that have fundamental reasons to be and to remain local. These are Real Estate, agriculture, some parts of the Logistics sector and part of B2B wholesaling. In all other industries, Hungarian companies have unfortunately little to offer to the global economy.

A relatively large number of Hungarian companies made it out of the “qualifier round” of competition with all the work that they have been doing using a combination of cheap labor and cheap machine hours, as well as by seizing on once in a lifetime economic opportunities brought about by changes in the political system around 1990. However, in order to progress further, it is vital they get a grasp on some of the 4 fundamentals areas in order to get into the “global finals”.

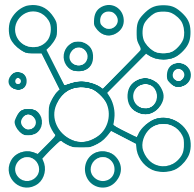
Before we go into the details on how to address this challenge, let us consider 2

What are most companies in Hungary (and to our understanding, in most of the European periphery) essentially missing? We have identified 4 fundamental areas:

BRANDS

SPECIFIC KNOWLEDGE (TECHNOLOGY / KNOW-HOW / IP)

OWN DISTRIBUTION CHANNELS IN EXPORT MARKETS



INDUSTRIAL DENSITY, INCLUDING LOCAL ECOSYSTEMS AND CLUSTERS AROUND THEM

important characteristics of countries in the European periphery: the question of EU subsidies and the role of multinational companies in these countries. One has to understand that while both have had a significant and unquestionably positive impact on the development of these countries, none have had any real element of technological transfer or triggered the development of local business. The European periphery opened its labor and consumer market only in exchange of the promise of ascension into the EU. This wasn't the case with China, which obliged the developed world to transfer its technology in a lot of industries in order to open its markets (and even then, only opening them to some degree).

HOW DO EU SUBSIDIES WORK?

Besides the subsidies that go into infrastructure and agriculture, a big portion are allocated to the SME sector. What happens with these subsidies? SMEs buy machines, in most cases, from Germany – i.e. a big part of the European subsidies flow back to Germany in exchange for exported machinery. But the game doesn't stop there; customers of the subsidized SMEs know very well that the SME received a subsidy and thus purchased the machine cheaper so buyers therefore request they only apply the amortization of the machine reduced by the subsidy in the costing of the parts they produce (metal and plastic etc.) Through the subsidies, customers receive cheaper parts, making their own products cheaper to produce. This in itself isn't a questionable practice – the big exporting countries get cheap parts and the countries in the periphery have their workforce busy. The challenge is that because of this, the subsidized SMEs can't really create a financial buffer to invest in brands, technology or their own distribution channels.

HOW DO BIG MULTINATIONALS, MOSTLY THE OEMS, WORK IN THE EUROPEAN PERIPHERY?

Big multinationals operate in the region often in an almost completely isolated manner. They take the "crème de la crème" of each generation of graduate students; they pay them well, transform them into valuable assets within their own silo-system, without giving them any training in general management or entrepreneurial behavior. Many of them don't even interact with the local communities and run their own professional education programs. Audi and Mercedes have links to departments of top Universities who then form engineers directly for them, with specialized training that can subsequently be little applied elsewhere. In the case of Audi and Mercedes, which are among the top 5 largest companies in Hungary, we don't know of a single major Hungarian supplier that directly supply to them (of course, a lot supply indirectly through other Tier 1 and Tier 2 companies). The result? While Siemens and Bosch experience a high number of technological spin-offs in Germany and engineers originating from there do in fact join German Mittelstand companies, similar companies with thousands of engineers in Hungary don't have a single technological spin-off.
The big multinationals don't particularly interact with local companies in making them technologically more advanced and employees just aren't interested in turning into entrepreneurs or joining the local mid-sized and large companies.

What should be done to revert this? Like the infamous noble from German folklore Baron Münchhausen, who tried in vain to

“

While Siemens and Bosch experience a high number of technological spin-offs in Germany and engineers originating from there do in fact join German Mittelstand companies, similar companies with thousands of engineers in Hungary don't have a single technological spin-off

pull himself out of the water using his own hair, local companies from the European periphery can't solve their own issues by themselves. We believe that 2 things need to happen in parallel:

1. Multinational companies present through FDI in these countries need to make an effort to become a more integral part of the local economy by promoting some kind of knowledge dissipation; working more with local companies, making an effort to promote general management (production leadership; sales effort and financial acumen) amongst their managers, promoting local companies on the international markets and advancing technological spin-offs and start-ups based on knowledge privy to them. Of course, these can only be done if local mid-market companies are also prepared for this. We see GE and Siemens, for example, in Hungary making an effort on these fronts, but a more widespread and coordinated effort is needed.

2. Larger Hungarian middle-market companies should consider international SMEs to buy into brand, technology and international distribution channels. We see increasing outbound M&A activity from Hungary, a new trend into the neighboring countries. More recently however, there has also been activity towards the developed world (at the beginning of April 2019, the Hungarian-owned customer contact communications solutions provider Geomant acquired its longstanding business partner Inova Solutions from the US. Geomant group is active in 10 markets and with this acquisition it plans to directly compete in the US).

TO WHOM IS THIS IMPORTANT?

Clearly, it is important to the countries on the periphery as they would all rather be a poorer core within Europe, than a richer periphery. None of these countries want to stay in the middle-income trap – one has to realize that those countries that managed to get out of that trap have done it in a partially or fully protected market. The countries on the European periphery don't have that option while part of the Union. That is why we believe a wider European solution needs to be found to resolve the problem of technology transfer and that a Europe with a larger core could participate significantly better on the global competitive stage featuring the US and Asia. Furthermore, by doing so, Europe could weaken the attractiveness of populistic politics in the periphery.

EUROPEAN CORE AND PERIPHERY

Source: atlas.espon.eu

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PETER LAKATOS
Co-CEO, Videoton

Advanced Custom Software Development: the Enabling Force of Digital Transformation

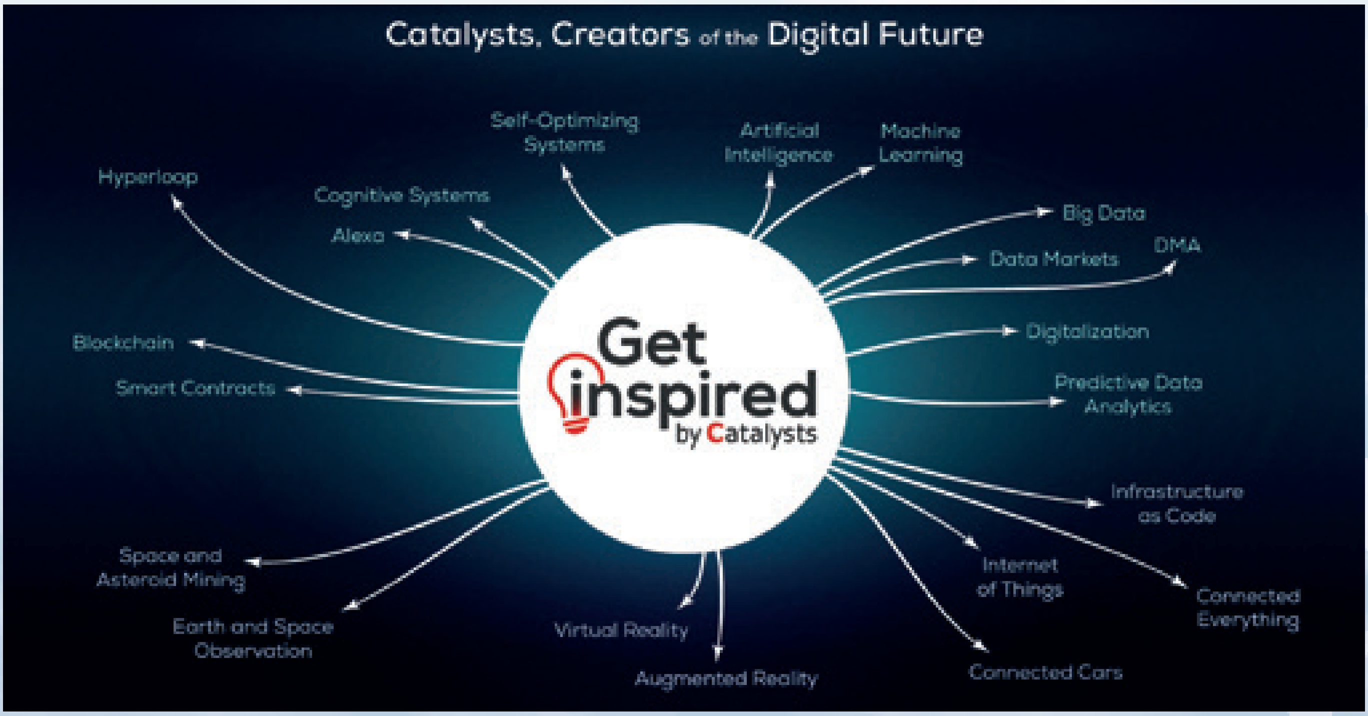
Leaders (should) by now have realized, what can be digitalized, will be digitalized. Furthermore, emerging technologies like Artificial Intelligence (AI), IoT and Big Data analytics have begun to revolutionize the speed and way in which we work, interact and experience products and services. **IMAP Germany recently advised the shareholders of Catalysts** GmbH, an Austrian software development company specializing in agile development, on joining Cloudflight, a newly founded portfolio company of Deutsche Beteiligungs AG.

At its core, digital innovation and transformation relies on software. As companies are constantly trying to differentiate themselves and become more efficient than their competitors, it is individual or custom software development which is needed most. While standard software typically forms the backbone of a company's value chain (ERP system, data warehouse and office applications etc.), a tailor-made approach is undoubtedly superior, allowing for the design of innovative customer-oriented processes.

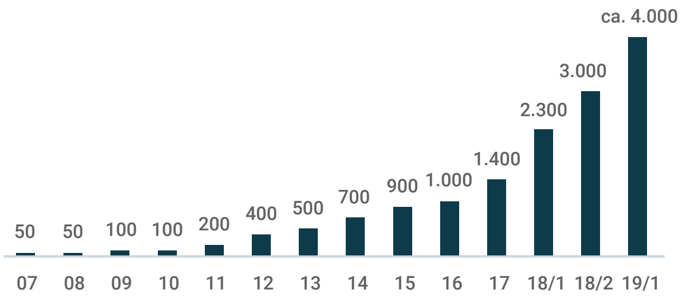
Individual Software development is a large and booming market. Though research reports vary substantially on segmentation, size and growth rates, the global market is thought to have a combined size of over $150 billion and be growing by approximately 8 - 10% p.a. Likewise, recent studies indicate that software development in emerging technologies such as AI is growing even more rapidly, at over 30% yearly.

CATALYSTS GMBH, AGILE DEVELOPMENT LEADER

An impressive example of a successful software development company for large corporates and hidden champions is Catalysts GmbH. Based in Linz, Austria, it has offices in Vienna and several other locations throughout Austria, as well as



DEVELOPMENT OF PARTICIPANTS PER EVENT

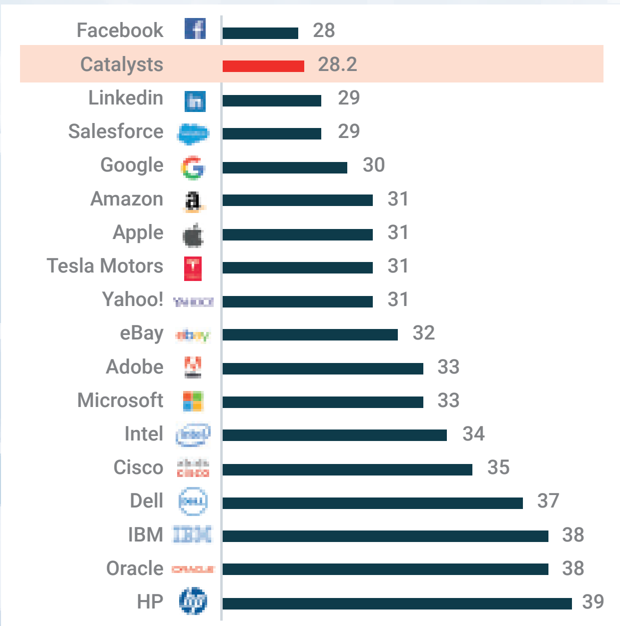


Romania, Germany, Spain, France and the Netherlands. Catalysts was founded in 2007, has grown its revenue by more than 30% p.a. over the last 10 years and is set to reach over $35 million in 2019. From the outset, Catalysts has focused on truly agile development involving SCRUM, short iterations, quick sprints, tests and feedback in order to deliver superior and clean code solutions, on time and on budget. Its clients cover various industries, including Mobility, Financial Services, Public Sector, Manufacturing and Aerospace.

The company has grown significantly and is now over 300 strong, with approximately 90% of the workforce young and talented software developers who had to prove themselves by showing outstanding results in the Catalysts Coding Contest (CCC). Over the last 10 years, the CCC has developed into Europe's leading on-site coding contest and over 3500 developers participated in the most recent event, attempting to solve a complicated development problem with multiple levels, each increasing in difficulty. By using its experience, along with statistics, Catalysts is able to calibrate the tasks in such a way that only the best 10-15% of developers are able to reach the highest levels.

For Catalysts, the CCC is an ideal recruiting tool and productivity engine. Digital talent is the main constraint for growth and by being able to select only the best-qualified and motivated developers out of 2,000+ applications annually, Catalysts is able to achieve very high speed and efficiency for the benefit of its clients. This

AVERAGE AGE OF EMPLOYEES



effectively results in positive feedback mechanism in all major aspects of the software development business; projects consistently delivered on budget and on time, result in more follow on and referral business, while maintaining a productive workplace and learning environment for developers. It is not surprising therefore, that the company has been voted the most popular employer in Austria several years in a row.

AI PLATFORMS AND PRICING ARRANGEMENTS

Ambitious and highly qualified employees demand exciting projects. Catalysts has been focusing on emerging technologies including AI, IoT, Big Data analytics and virtual reality for several years now and today triggers more than 70% of its new projects by demonstrating and/or incorporating these emerging technologies. The company has also employed several specific AI platforms which are constantly being trained and incorporated in client solutions: BERNI the parrot is a natural language processor, SID the zebra is a classifier for image analysis, ALVINA the dolphin is a predictor and PAUL the octopus is a recommender.

Catalysts offers three main contractual arrangements to its clients: “time & material”, “agile fixed price” and “pay-per-use”. While risk is lowest under time & material and indeed, was the company’s main focus in the earlier years, it has recently been shifting towards fixed price and pay-per-use arrangements, the latter requiring more investments up front from Catalysts.

TAKING CATALYSTS TO THE NEXT LEVEL

Ten years after its inception and having accomplished an impressive track record, Catalysts’ founders decided in 2018 to take the company to the next level, by broadening its opportunities for the future benefit of not only its customers, but also its employees. They were convinced that the best way to achieve this was to make the company less dependent on themselves, broaden the shareholder base, further develop the corporate governance and find an appropriate and experienced partner, while at the same time maintaining the unique corporate culture which Catalysts had created.

The shareholders retained IMAP Germany to advise them exclusively in this strategic process. The IMAP team then prepared a comprehensive list of diverse potential investors, focusing on international technology funds with experience in software development, along with other selected compatible strategic players. IMAP Germany also prepared a comprehensive Information Memorandum, highlighting Catalysts’ unique selling points and supported

> *“Cloudflight will effectively serve as a pan-European holding company for best of breed IT solution providers, including strategic IT and cloud advisory, as well as advanced operations – specifically data driven solutions*

the company in putting together an integrated financial plan tailored to the drivers and constraints of the business model and market environment. The market approach was confined to only 15 pre-selected investors in order to maintain confidentiality.

Based on very positive feedback and attractive offers, management presentations were organized with only six investors, out of which three were selected for the final round. The final decision to select the offer concept from Deutsche Beteiligungs AG (DBAG) as the winning bid was a very close one - and not based wholly on price; the strategic concept of DBAG to form a new IT service group by the name of Cloudflight and to make Catalysts the center of excellence in software development within a larger portfolio of IT services was the most compelling one for the Catalysts founders.

Cloudflight will effectively serve as a pan-European holding company for best of breed IT solution providers, including strategic IT and cloud advisory, as well as advanced operations – specifically data driven solutions. In parallel to the investment in Catalysts, DBAG, through Cloudflight, has also invested into a majority stake in CRISP Research, a German company specialized in Cloud advisory and operations for high-profile clients. The founders of both Catalysts and CRISP have substantially re-invested into the holding company along with the new CEO of Cloudflight and several second line managers from both companies. In addition, an employee participation program will be put in place.

As well as broadening the service offering for customers, Cloudflight will also support Catalysts in shifting its focus in software development from traditional time & material projects, to tailor made pay-per-use solutions for customers. This will require more investment in technology and design up front, however, it will widen the breadth of marketing possibilities for emerging technology solutions developed by Catalysts and other Cloudflight companies.

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TECHNOLOGY

Catalysts
Advanced custom software development
GERMANY

was acquired by

Deutsche Beteiligungs AG
Private Equity Investor
GERMANY

IMAP
ADVISED ON SALE OF COMPANY

RECENT TRANSACTIONS IN THE CUSTOM SOFTWARE DEVELOPMENT MARKET

CETITEC connective technologies	*majority acquired by*	PORSCHE
intive	*acquired by*	MIDEUROPA PARTNERS
// diconium	*49% stake acquired by*	VW
GlobalLogic	*acquired by*	Partners Group
SOLITA	*acquired by*	Apax PARTNERS
ThoughtWorks	*acquired by*	Apax PARTNERS

Disruptive Digital Transformation in Finance: The Engine for the Democratization of Information in Mexico

Technological innovations such as artificial intelligence, machine learning, data analytics and blockchain are disrupting and reshaping the financial services sector. The team from IMAP Mexico (Serficor) shares an overview of the major developments and grants us access to the insights of **Juan Carlos Arroyo**, a top executive currently leading the digital transformation efforts at Banco Azteca, one of Mexico's largest banks.

It seems the adjective “smart” has won an overwhelming presence in our day to day vocabulary. The turn of the 21st century marked a significant change in how we use technology and feats that seemed impossible or too far out of reach are now suddenly within people’s grasp. The use of technology as a tool to make our lives easier, from home appliances to smartphones, also deeply impacts the way in which we do business.

Technology has also transformed the Financial Services Industry, which is struggling in a hostile competitive environment. The adoption of smartphones, vast use of electronic payments and development of solid security systems have created the perfect ecosystem for mobile banking, where customer-centric services are now the new standard in innovation and digital transformation is a key component of every corporate strategy. The ever-present threat of smaller, more flexible and innovative companies taking customers away from the retail banking industry, has pushed large banks to invest heavily in enhancing the interactivity, speed, and security of mobile banking. According to a survey conducted by Accenture in 2018, over 43% of retail banking executives expected their technology investments to improve customer loyalty.

Since the Bitcoin peak in 2017, blockchain technology has proven to be a core asset in the digital payment industry, though its potential still isn’t being fully exploited. Today, blockchain is the centerpiece of investments among large financial institutions, with applications being developed, tested and implemented principally in international trade; cross-border payments, clearing and settlement and insurance. Blockchain’s incredibly powerful processing capabilities are not its only benefit, it is also the most secure and transparent method of digital payments to date, storing transaction-related information in thousands of nodes. It is already being adopted in Anti-Money Laundering (AML) and Know Your Client (KYC) practices within regulatory agencies.

Artificial intelligence (AI) is playing an ever-increasing role in the financial services industry. Its most interesting application is without a doubt in Asset Management, where so-called Robo-Advisors outperform the market regularly by using complex machine learning algorithms that calculate the best investment opportunities. Financial institutions are starting to realize that using big data analytics is essential in order to compete in this fast-paced industry. Huge investments are being made in tools that can process client data more quickly and accurately and allow financial institutions to better serve customers and increase profitability.

The application of AI in investment banking is starting to become a reality, since its technology is now able to analyze large amounts of information within a relatively small amount of time. It can help M&A advisors at almost any stage of the process; from the initial screening of potential counterparts and more accurate and efficient financial modeling/ valuation, to processing and storing large amounts of information required during the Due Diligence process. This frees up time and allows the team to concentrate on the ‘soft’ aspects of a transaction. Furthermore, executives of the combined

> *The technological advancements set to revolutionize the Mexican financial services industry within the next 5 years are those 'disruptive technologies' that apply artificial intelligence, machine learning and data analytics*

entity created by the acquisition, will have better tools to implement the post-closing integration plans.

In a private interview with Juan Carlos Arroyo, leader of the digital transformation efforts at Banco Azteca, one of the country's largest consumer loan and microlending banks, he stated that Mexico is on the right track to a successful digital transformation. *"The first and most important component of a country's digital transformation is the smartphone and if we look at how Mexico is positioned in terms of smartphone penetration, we can see that it is doing much better than other emerging economies"*. Although Mexico is listed as the 9th country with the most smartphone users in the world, further investments in telecommunications infrastructure, along with improved regulation and a reduction in mobile data costs are still necessary. Arroyo argues that Mexico's digital transformation is developing at a fast pace, not only because smartphone penetration figures are above the international average, but also due to the exponential growth in e-commerce in the country (21% CAGR expected in the next 3 years), increased data usage in mobile phones and activity across social networks. These are clear examples of a country hungry for new and improved technologies.

But what does this mean for the financial services industry in Mexico? What challenges and opportunities lie ahead for Mexico's commercial banks and Fintech startups? Arroyo is convinced that there are clear signs of the growing appetite for financial digitalization within the Mexican lower to middle-income class (Banco Azteca's target customer base). His theory is based on the fact that in 2018, over 3 million of Banco Azteca's clients went digital. In comparison, the country's leading bank, BBVA Bancomer, only managed to digitalize 1 million of its clients. Arroyo believes that the technological advancements set to revolutionize the Mexican financial services industry within the next 5 years are those 'disruptive technologies' that apply artificial intelligence, machine learning and data analytics. Financial institutions already have the means to implement this innovative technology, by taking advantage of the use of smartphones and their impressive 75% penetration, which allows banks to be connected to their client's day-in-day-out. The crucial next step, however, is for financial institutions to be able to anticipate their clients' behaviors and needs. *"By finding a way to solve our client's most basic problems, whether or not they are related to financial products, we can become extremely relevant in their minds."*

Alongside artificial intelligence and big data, Arroyo believes blockchain is another disruptive technology with extreme potential in the financial services industry. He sees cryptocurrencies not as a viable application of the technology in the short term, but as a first approach to solving age-old transactional problems in the industry, such as security, speed and AML, among others. *"Blockchain will allow us to offer our clients better services, especially*

> *Large banks are beginning to understand that they can operate more efficiently in certain areas of their value chain if they collaborate with fintech startups, adding immense value from a user experience point of view, while decreasing the high structural costs a commercial bank typically experiences*

within the cross-border world, which includes money transfers, international credit letters and foreign exchange (FX).” This technology can guarantee both parties full control of the transaction, meaning more transparency and allowing the funds to travel immediately and in a safer manner. Although these are only a few of the potential applications of blockchain technology, its use can potentially eliminate certain transactional intermediaries along the way, including commercial banks.

Mexico is the second largest fintech investment hub in Latin America and the number of fintech startups in the country grew 40% in 2018[1], reaching 330 in total. Arroyo explained that fintechs in Latin America are different from their North American or European counterparts. In Europe, he says, the objective for most fintech companies, is to disrupt the financial industry through their breakthrough ideas and innovative business models, while in Mexico and Latin America, they are used to working hand in hand with banks, offering a range of opportunities for them to optimize and outsource part of their value chain.

Most of Mexico’s fintech ecosystem is centered upon the end consumer, although some companies have opted to offer B2B services for small and medium-sized companies, including point of sale terminals, accounting and other operative processes. The environment is also extremely varied and you can find startups that target different parts of the social pyramid. From low-income households with microcredits and other financial products, through small and medium-sized companies offering cheap and innovative financing models, to high net worth individuals and wealth management institutions using highly complex Robo-Advisors applying artificial intelligence.

Before joining Banco Azteca, Juan Carlos Arroyo oversaw the Digitalization department in BBVA Bancomer, Mexico’s largest bank, where he spearheaded the financial digital transformation we see in the country today. He explains that 4 years ago, while managing the digital innovation efforts at BBVA Bancomer, the conversations he had with young entrepreneurs were very different to what he experiences today. Large banks are beginning to understand that they can operate more efficiently in certain areas of their value chain if they collaborate with fintech startups, adding immense value from a user experience point of view, while decreasing the high structural costs a commercial bank typically experiences.

Furthermore, according to Arroyo, in the last 4 years, the popularity of fintech investments compared to other industries has soared. He sees Mexico as a “must-have” market for fintech companies in Latin America and thus, expects M&A activity to continue its upward pace over the following years. Arroyo also says there is an increasing appetite from Private Equity funds for fintech investments due to the exponential growth perspective as a result of what is a relatively underdeveloped industry in Mexico.

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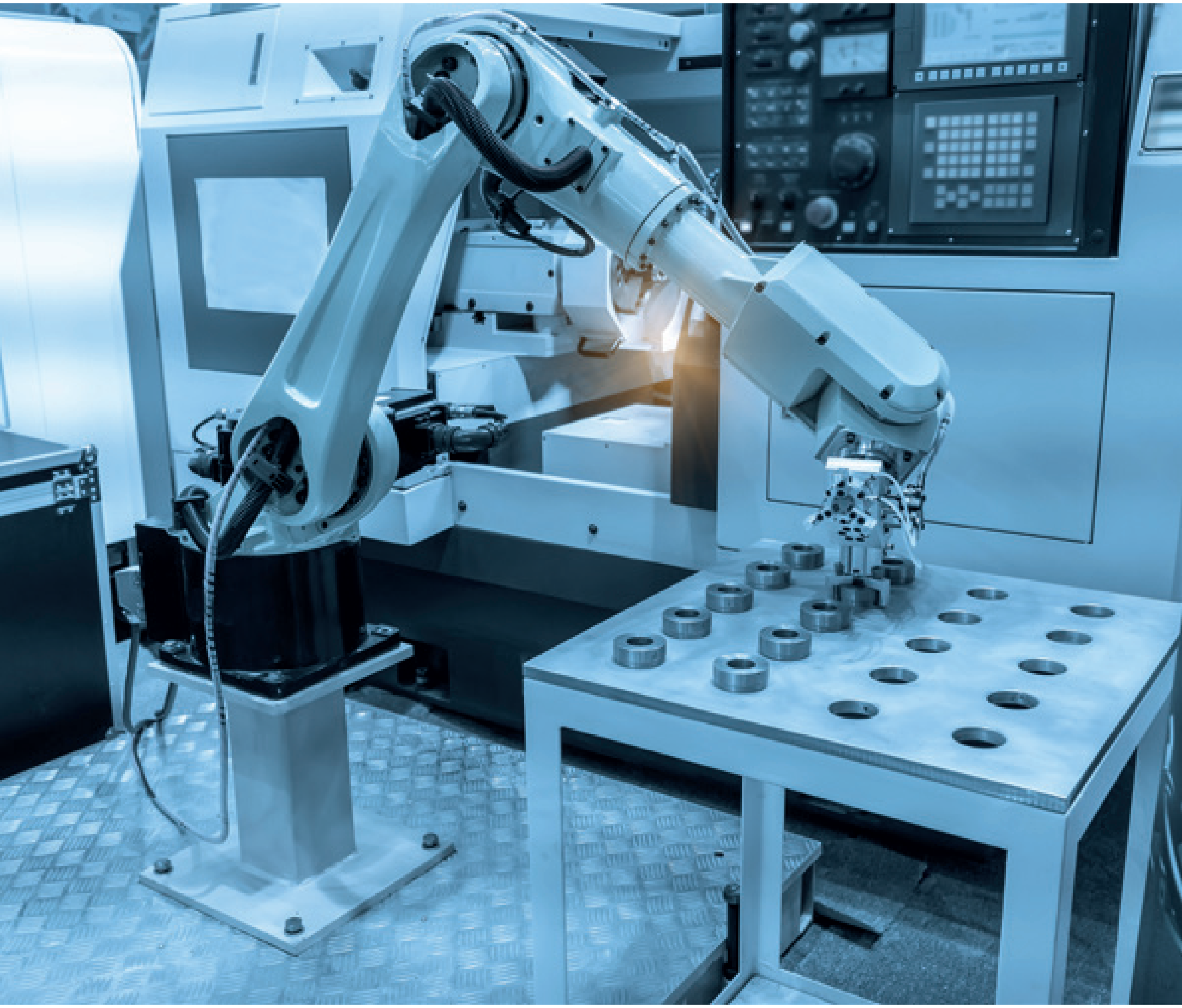
Head of Digital Banking & Innovation
Banco Azteca

1. www.finnovista.com, *“Fintech radar”*

To Roboticize or Not to Roboticize?



Technology is evolving rapidly and if you want your business to survive, you should be considering how robots will affect your industry and therefore, your company. **Bernd Schmitt, a Professor at Columbia Business School**, believes that in approximately 10-20 years, robots will take over more jobs than we can even imagine today. The survival of businesses rests on whether management is prepared for this or not. IMAP colleague Levente Merczel offers an overview of the global roboticization trend with input from Professor Schmitt.

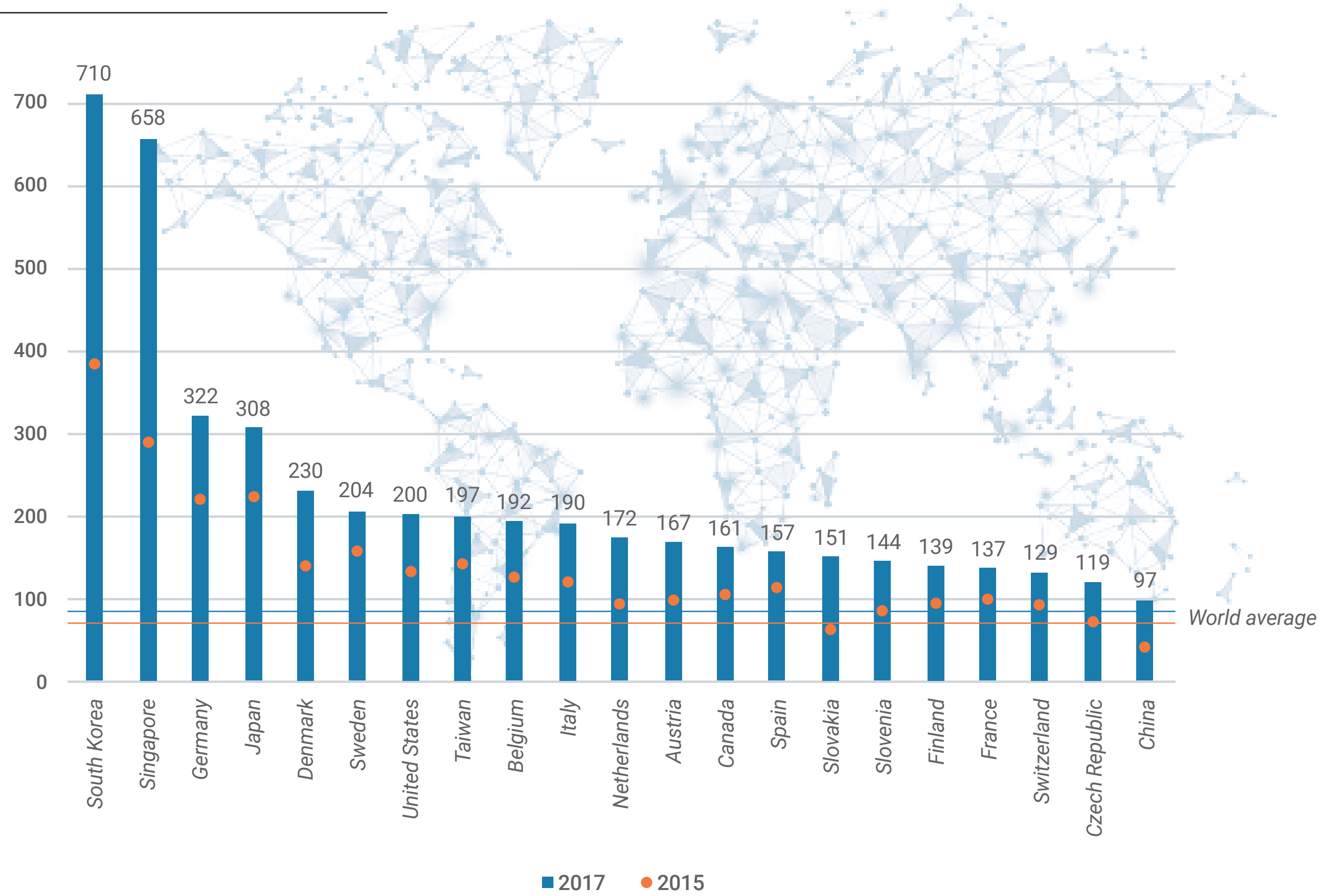
ASIA – THE NEW CENTER OF GRAVITY

The 20th century was centered around the American consumer. If you were able to sell your products in the US, the most developed consumer market, you were also able to globalize. However, Professor Schmitt believes this dynamic is going to change and that the consumer of the 21st century will be Asian. This is based on the expectation that, according to Standard Chartered, China's economy will grow to be double that of the US by 2030 (based on GDP in PPP), while other Asian economies such as Indonesia and India will also have a significantly large middle class. Indeed, most institutions forecast that by 2050, approximately 80% of the world's middle class will be Asian compared to the 30% we see today. This means that the focus of the global economy will gravitate towards Asia and that products advertised globally will have an Asian connection.

The application of different robotic technologies is booming in Asia. Furthermore, some argue that if we want to get an idea of how society will engage with technology in the future, we should look to Japan, where people and companies use much more technology compared to the rest of the world. For instance, there are some Japanese hotels that employ almost exclusively robots for concierge services and executing room services such as delivery. While Japan set many things in motion in previous decades, South-Korea and Singapore are by far the leaders in adoption of industrial robotics today. Today, 65% of all industrial robots are in Asia according to the IMF.

Many firms and institutions publish analyses and research reports regarding the future of robotics and how they will affect the world, with most indicating that today robotization is most apparent in the automotive and electronics manufacturing industries. Indeed, South Korea, Germany and Japan all have very developed automotive and electronics industries and Singapore is a leader in the electronics sector. These countries are the most robot dense in the world. The IFR estimates that the total number of operational industrial robots will grow from 1.8 million in 2016 to 3.1 million in 2020.

INDUSTRIAL ROBOT DENSITY
(number of robots per 10k workers, 2017)



Source: International Federation of Robotics – IFR

Based on trends observed around the world we can conclude that Asia represents the future in many ways; it is expected to drive the global economy, as well as global consumer trends and production strategies and is already a leader in technology, specifically robotics. Although China is not currently close to the top countries in terms of robot density, its growth is overwhelming. According to IFR, China represented approximately a third of total robot shipments globally in 2016 and will represent close to 40% in 2019. This is in line with China's intentions to be the global leader in manufacturing, technology and military output. If you are in any of these industries, it is likely you will soon be competing with Chinese or other Asian companies, if you are not already doing so. Therefore, you should look at Asia, what your competitors are doing and seriously consider roboticizing your business in the coming years.

DECISION MAKING TO BE ROBOTICIZED?

Professor Schmitt believes that not only manufacturing processes with a very distinctive pattern of repetitive movement can be roboticized, but that robots have extremely strong processing power and thus are able to undertake many analytical tasks that are required for complex decisions. Take AlphaZero for example, an AI platform that taught itself how to play chess in just 4 hours, beat a grandmaster and ultimately became the best chess player in the world with moves never seen before. This represents immense computing power with exponentially increasing efficiency.

Robots, however, are not sufficiently developed in some very specific areas. For instance, when complex and fine movements are required to manipulate objects, robots require very specific instructions and controlled conditions. When spontaneous and natural social interactions are introduced into the equation, robots usually fail. Nonetheless, as further progress is made, many robots will soon pass the Turing test of

Professor Nadia Thalmann standing beside Nadine, a social robot created in her image at the Nanyang Technological University.

> *Managerial jobs, where analytical skills are used for decision making, can and will be done by robots in the next 10-20 years."*
>
> Professor Bernd Schmitt

displaying intelligent behavior that is equivalent or indistinguishable from that of a human. This means that robots will increasingly appear in our everyday lives, with applications such as chat robots (for marketing or customer service activities), and care robots (such as patient carrying robots). In fact, there are some robots available already that have a very strong human resemblance, such as Nadine.

Nadine is a concierge robot, which (or maybe who?) is able to return eye contact, answer questions autonomously, remember conversations and refer back to them, learn new things and also simulate emotions. Although Nadine is a very early sign of the fact that singularity is approaching and robots may soon be indistinguishable from humans, this will have very little impact on industrial companies in the next 10 years. In the long term, however, its impact could be substantial.

Technologists say that based on how quickly technology evolves, we will see changes that will disrupt many more things than we can even think of today. The increase in technology is exponential and not linear, notes Professor Schmitt. Businesses have to be ready to anticipate the convergence of the digital and the solid and that competition for efficient manufacturing will increase. Nadine or AlphaZero are perhaps simple examples but they serve as evidence of the development of robotics, and they very much show what robotics is capable of today; disrupting the global manufacturing industry. As many countries and companies are already fully committed to not losing pace in the march to robotization, one must ask: are you ready to keep pace with them?

PROFESSOR BERND SCHMITT
Schmitt is the Robert D. Calkins Professor of International Business at Columbia Business School, where he teaches MBA, EMBA and PhD courses. He is also Faculty Director of the Center on Global Brand Leadership. The Center's mission is to create, gather and share insights on how to build strong brands.
Professor Schmitt researches, teaches, and advises corporations on branding, innovation, creative strategy and customer experience management. Schmitt's books include (among others) Happy Customers Everywhere, Big Think Strategy, Customer Experience Management and Experiential Marketing, which have been translated into over 20 different languages.

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Medical Devices

IMAP examines industry trends and acquisitions dynamics in the Medical Devices sector in Europe.

MARKET OUTLOOK

The global Medtech market has shown strong performance since 2011; with the improving economy encouraging more consumers to seek medical care, an ageing population, as well as an increase in technological advancements in the market.

Meanwhile, R&D costs and regulation are placing downward pressure on profitability, motivating mergers and globalization.

The sector has a strong growth path ahead. Evaluate Ltd. predicts that between 2017 and 2024, the global medtech industry will grow at a compound annual growth rate (CAGR) of 5.6%, reaching $595 billion in sales by 2024.

Certain segments, including areas related to neurology devices, are expected to outperform overall dynamics and reach a CAGR of 9.1%.

M&A activity has been strong, but slowly shrinking in the last 5 years, with approximately 170 transactions per year in Europe.

Medtech Opportunities in Numbers

Strong underlying fundamentals and high valuations make this an attractive segment

143 million
GROWTH IN POPULATION AGED 65 AND OVER 2018 – 2024

5.6%
MEDTECH SALES FORECAST CAGR 2017 – 2024

170
AVERAGE ANNUAL EUROPEAN TRANSACTIONS

14x
MEDIAN EBITDA TRANSACTION MULTIPLE

INCREASING DEMAND

- In 2024, the World Bank estimates there will be 822 million people over the age of 65 (10.1%); 143 million more than in 2018.

STRONG GROWTH

- The global medical equipment market has a strong growth path ahead. Neurology is set to be the fastest growing device area, with a CAGR of 9.1%.

M&A ACTIVITY UP

- Labor, manufacturing and regulation are all increasing costs. Buyers seeking economies of scale are driving activity.

HIGH VALUATIONS

- Valuation levels are high due to the exceptionally strong healthcare market outlook.

Industry Trends

The trend of consolidation is likely to continue for the next 3-5 years

Drivers

- Demand for medical device products continues to be driven by factors such as:
  - Increasing size and age of the population
  - A more sedentary lifestyle and rising levels of obesity
  - Increasing life expectancy
  - Rising access to medical services in the emerging markets and rest of the world
  - The fact that healthcare services remain vital

Regulation

- Though these demographic market drivers continue to be strong globally, growth over the past 3 years in the first world market has been somewhat dampened by the tightening of budgetary controls by governments and healthcare providers and in certain markets, an increase in regulatory control (i.e. Europe)

Technology

- Client demand, along with the direction in which technology is moving, has a direct impact on the industry and leads to an increase in R&D costs:
  - Software as a differentiator, with special focus on security issues and cloud solutions
  - Need for personalized care
  - Device integration into IoT
  - 3D printing both in prototyping and manufacturing
  - Smaller and movable devices

Consolidation

- Transaction activity continues as buyers look to acquire:
  - New technologies
  - Market access
  - Brands
  - Products and services
  - Access to new verticals

MEDICAL DEVICES REGULATION

The new MDR, due to come into effect in May 2020, will strengthen medical device safety standards; making it far more onerous and expensive for Medtech firms to market their products in Europe.

Under the MDR, all medical devices will have to be resubmitted for clearance.

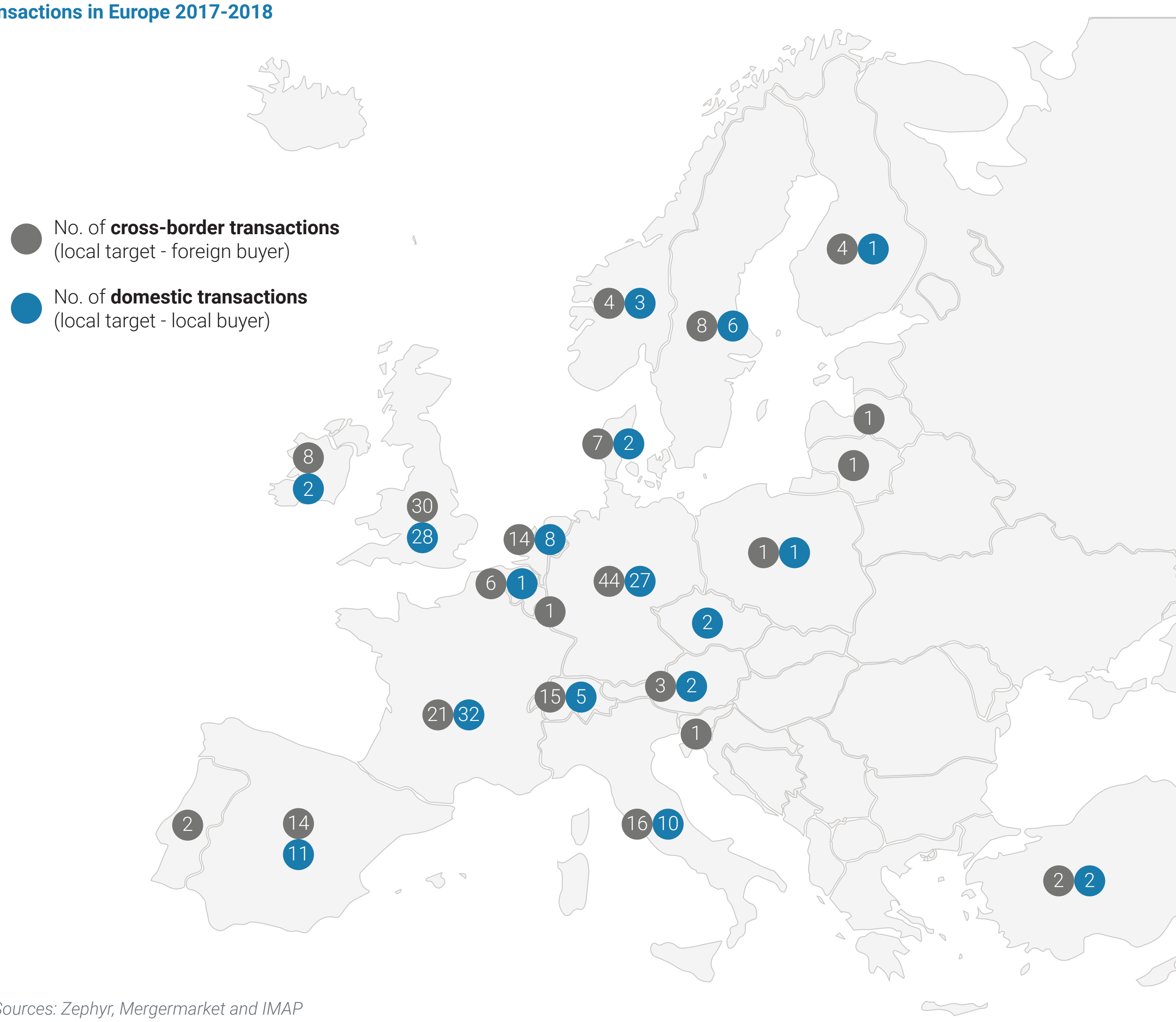
Key changes in the regulatory framework include: new classifications, new equivalence processes, new post-market clinical requirements, a unique device identification system and increased transparency.

Because of these new regulations, it is expected that many smaller firms may be unable to comply and their futures could be uncertain. This may lead to smaller companies looking to exit earlier in their life cycle or consider mergers with similar sized medical device businesses to try and build in scale and ensure the combined businesses meet the new demands.

Transactions in Europe

Geographic overview

Transactions in Europe 2017-2018



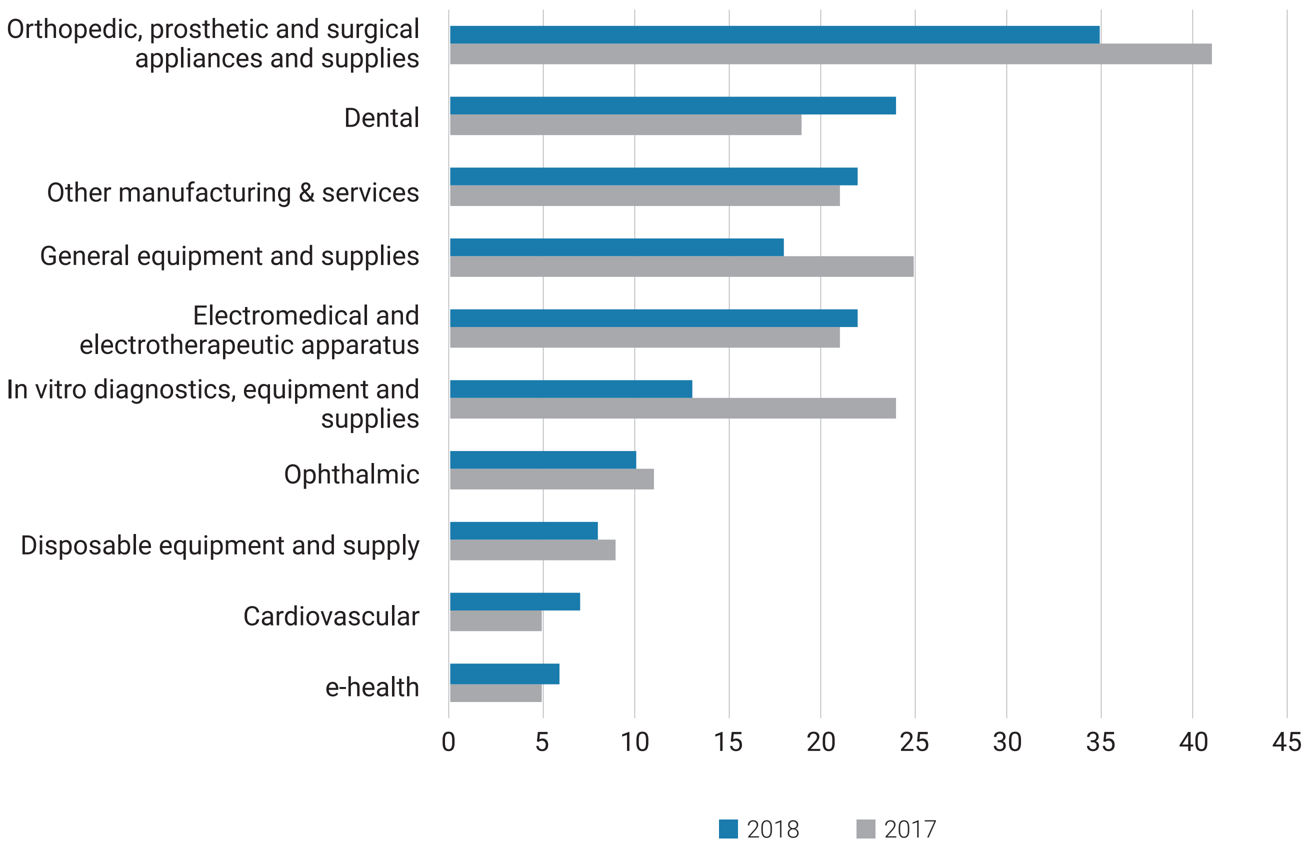
Sources: Zephyr, Mergermarket and IMAP

- There were 346 transactions in Europe between 2017 (181) and 2018 (165), counting only those where at least a 51% stake in the target company was acquired.
- 59% of deals are considered cross-border, i.e. with a non-domestic acquirer.
- Roughly half of cross-border transactions involved overseas companies, with the vast majority from the US.
- Private equity was involved in both buy and sell sides in 40% of the deals, and on the buy-side only in 29% of the deals.

Transactions in Europe

Segment overview

European transactions in the Medical Device sector 2017-2018



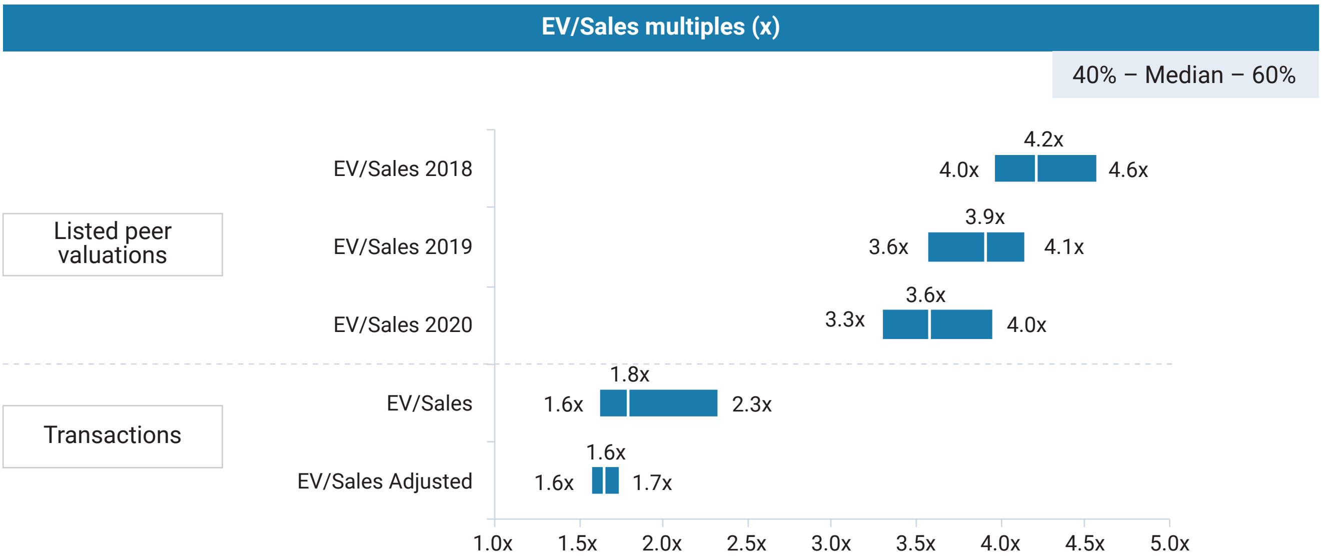
** Covering transactions where percentage of acquired stake is 51% or above*

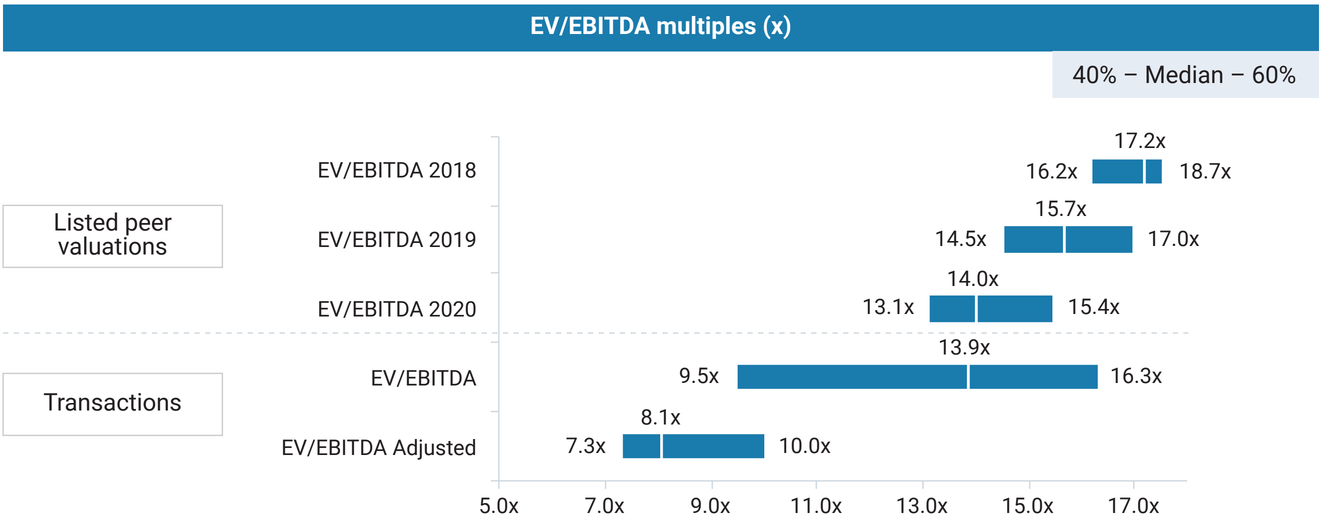
Sources: Zephyr, Mergermarket and IMAP

- The orthopedic, prosthetic and surgical appliances and supplies segment has shown the largest number of transactions in both years; representing 21% of total deals (not taking into account specialized surgical instruments e.g. those needed in cardiovascular or ophthalmic procedures).
- Though there has not been a great shift in gravity of the different segments over time, the largest fallback had been in the In vitro diagnostics and general equipment and supplies segments compared to 2017.
- Manufacturers of dental devices, especially prosthetics and implants, saw an increase in M&A activity in 2018.

Medical Device Valuation Summary

High valuation multiples due to a strong market outlook





Note: See individual transactions and listed peer valuations in the following pages.
Sources: Zephyr, Mergermarket and Capital IQ
**EV/Sales Adjusted data and EV/EBITDA Adjusted data show transactions with multiples below EV/EBITDA 25x*

- Medical Devices is one of the highest valued sectors.
- High valuation levels are explained by the Healthcare sector's exceptionally good overall market outlook.
- Valuation levels are affected by the range of proprietary products, innovation and size.

- Valuation multiples for transactions in Europe between 2016-2018 vary due to abnormal 'out of the ordinary cases'; even ones achieving 100x EV/EBITDA. The adjusted EV/EBITDA* multiple is between 7x and 10x.
- These multiples come from the lower range for SMEs due to their smaller size.

- Valuations of listed peers reflect an expected average EBITDA growth of c.15%. Given that the transaction multiples are higher than those observed on the stock market on average, M&A is expected to create synergies in market.

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To access the full 'Medical Devices M&A Sector Report - Europe 2019' go to: www.imap.com/publications

Exploiting Synergies Across the Railway and Aerospace Industries

IMAP Spain recently advised Construcciones y Auxiliar de Ferrocarriles (CAF), a global leader in the manufacture of systems for the railway industry, on the acquisition of a 30% interest in Orbital Sistemas Aeroespaciales (Orbital). **Jokin Lopetegi, Head of Corporate Development and New Business at CAF**, talks to IMAP and explains the strategic rationale for the recent transaction and outlines the company's future development plans.

SECURING ENTRY IN THE AEROSPACE INDUSTRY

Founded in 1917, CAF is a global leader in the transport sector and in particular, in collective transport systems. It offers a broad range of rolling stock and components, infrastructure, signalling and associated services (maintenance, refurbishment and financial services). Employing over 11,000 people around the world, it has a €2.0 billion turnover and is listed on the Spanish stock market, where it has a current capitalization of €1.2 billion.

In July 2018, CAF acquired a 30% interest in Orbital, with the remaining 70% continuing to be held by its founders, Ascen Cruchaga and Jorge Robles, who will carry on with the day-to-day management of the company. With this acquisition, CAF secures its entry into the field of critical software for the aerospace industry, complementing its presence within this same field in the railway sector. Based in Pamplona, Spain, Orbital provides its clients with engineering services for the development of critical systems in the aeronautical, space and railway sectors. Employing 100 staff across its centres in Pamplona, Madrid and Ulm (Germany), its 2017 turnover was over €5.0 million.

A STEP FURTHER IN THE COMPANY'S ONGOING TRANSITION

In recent years, CAF has transitioned from solely manufacturing railway stock, to providing complete railway solutions. It began by broadening its range of activities in the manufacture of trains, initially in the assembly and installation of infrastructure and signalling, subsequently providing a variety of services including maintenance, refurbishment, finance and even the administration of railway franchises. This strategy for growth was designed to enable CAF to position itself at all levels of the value chain in railway passenger transport.

Following the acquisition of Orbital, in September 2018, CAF subsequently acquired Polish company Solaris, a European leader in the manufacture of electric buses. The move was intended to allow CAF to expand its activities into terrestrial passenger transport systems in general, a sector in which CAF aims to become the European benchmark in the design, manufacture, and administration of integrated terrestrial-transport solutions.

IMAP Spain spoke with Jokin Lopetegi, Head of Corporate Development and New Business at CAF, about the company's acquisition strategy and future development plans.

Tell us more regarding the strategic rationale behind the acquisition of the stake in Orbital

JL. The fundamental idea was to acquire know-how and skills within the field of critical systems, the importance of which is undisputed in railway signalling systems, yet are becoming ever-more present in other areas of transport in general, including terrestrial-transport systems in particular (e.g. autonomous driving systems in the Automotive sector).

Additionally, access to sectors with high technological requirements, such as the Aeronautical and Space sectors, provides CAF with expertise that is increasingly applicable to both the Railway sector and urban transport in general.

What are the plans for the joint path to be followed by CAF and Orbital over the coming years?

JL: It will be a process in which we seek the following:

1. To strengthen the contribution made by Orbital to CAF in the processes for developing critical systems units, in particular the application of aerospace good practices to the Railway sector.
2. To assist Orbital in rising higher in its traditional sectors, with the aim of converting Orbital into a benchmark supplier of complete critical systems (hardware and software).
3. To create joint working teams to promote the systematic application of crossover synergies between the sectors.

What will be CAF's main lines of development over the coming years?

JL: The idea we are pursuing is to carry on with the transformation of CAF from a railway stock manufacturer into a global benchmark in urban transport, with everything that entails, including:

- Integration of other forms of transport into the company's commercial range.
- Expansion of the value chain to include other areas that are less associated with manufacturing and more related to services, finance, the digitalization of products and processes, etc.
- Viewing the company's offering in terms of an integrated solution within the Urban Transport sector, rather than purely a manufacturer of components.

In terms of geography/markets, which do you consider the most interesting for CAF?

JL: CAF intends to continue considering Europe as its key market, without overlooking its historical interest in both the markets of the world's biggest economies and in those that offer the highest growth potential at the moment.

Do you envisage that this development will entail M&A transactions?

JL: Probably. The growth strategy that has been drawn up is ambitious and will require completing the company's organic growth with some M&A transactions, especially in those areas where CAF has historically had less presence. The Orbital and Solaris

transactions are a clear example of such an approach. CAF is continuously working to identify any potential opportunities that may arise.

What does an M&A advisor such as IMAP bring to CAF in a key corporate transaction such as this?

JL: Firstly, its experience in similar processes, as well as the certainty that the right steps are being taken throughout the entire acquisition process.

In this transaction, the creation of a joint working team between the company and the expert advisors at IMAP was fundamental, with each part of the team contributing a complementary form of expertise. Such a team, when working smoothly, can achieve much better results than trying to undertake the process on your own and in general terms, it also leads to better communication with the other party.

INDUSTRIALS

CAF

Global leader in railway industry
SWEDEN

Acquired Investment Interest
in Seller's Business

ORBITAL CRITICAL SYSTEMS

System engineering for aeronautical and railway sectors
SPAIN

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JOKIN LOPETEGI
Head of Corporate Development & New Business
CAF

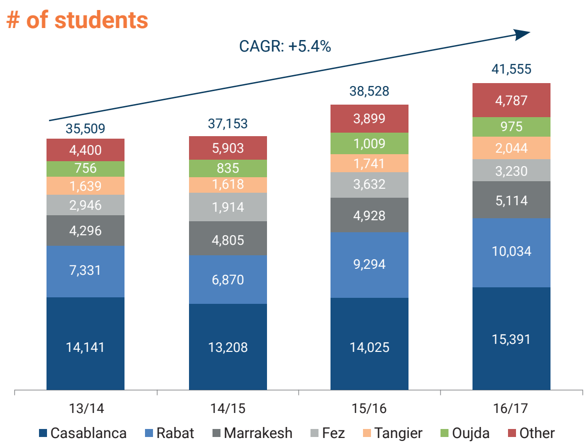
Growth and International Partnerships in Morocco's Private Education Sector

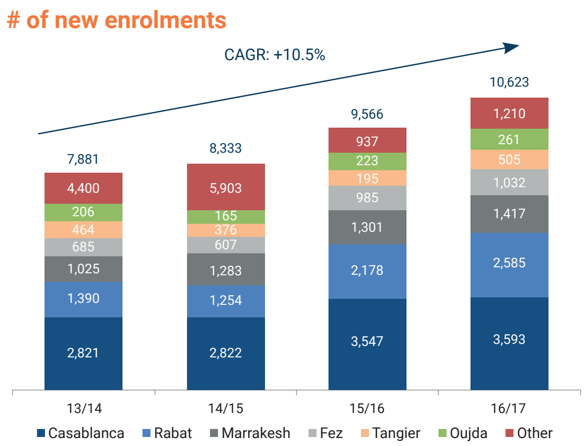
IMAP Morocco recently advised **HEM, the leading Moroccan business school**, on the sale of a majority stake to LCI Education, an international network of higher education institutions.

A GROWING NUMBER OF YOUNG MIDDLE CLASS STUDENTS IN HIGHER EDUCATION

Since 2007, the middle class in Morocco has increased by more than 1.8 million and now represents nearly 20 million of the country's inhabitants. Morocco has also become highly urbanized over the last 10 years, with nearly 68% of the middle class segment now living in urban areas. With increased purchasing power, this demographic is able to afford previously inaccessible private higher education. Furthermore, the higher education market's target population of 18-34 year olds is rising steadily; growing from 5.9 million in 2014 to 6.2 million in 2017 and expectations are that this will grow to 6.6 million by 2025. In total, the number of students in private higher education increased 5.4% CAGR between 2013 and 2017 and the number of new enrolments increased 10.5% CAGR during the same time period.

PRIVATE HIGHER EDUCATION SECTOR IS RECORDING A SIGNIFICANT GROWTH





PUBLIC VS PRIVATE HIGHER EDUCATION

Only 2 state-owned Management schools exist in Morocco: ISCAE (Institut Supérieur de Commerce et d'Administration des Entreprises) and ENCG (École Nationale de Commerce et de Gestion). Other than at these 2 institutions, Management programs offered by public universities are extremely weak and fail to meet market needs. As a consequence, the best students usually choose to attend private sector Management schools in order to pursue their studies. As a result, the government is actively encouraging the development of the private higher education sector and improving the quality of education offered.

FIRST STEP IN HEM'S STRATEGY FOR INTERNATIONAL EXPANSION

Founded in 1988, Institut des Hautes Etudes de Management (HEM) is the private higher education sector leader in Morocco and one of the largest Business Schools in Africa. It has 6 campuses in Morocco spread across the 5 most dynamic cities in the country and has over 1,800 students, with an additional network of approximately 5,000 alumni. In 2013, International Financial Corporation ("IFC"), a member of the World Bank Group, acquired a 20% stake in HEM, completing its first and only investment in the private education sector in Morocco.

HEM currently operates 5 areas of activity:

1) BAC+5 initial education (HEM Business School)

2) Executive Education (MBA General Management)

3) BAC+3 vocational training (Med Métiers)

4) Research Center (Economia) and Foundation (HEM Foundation)

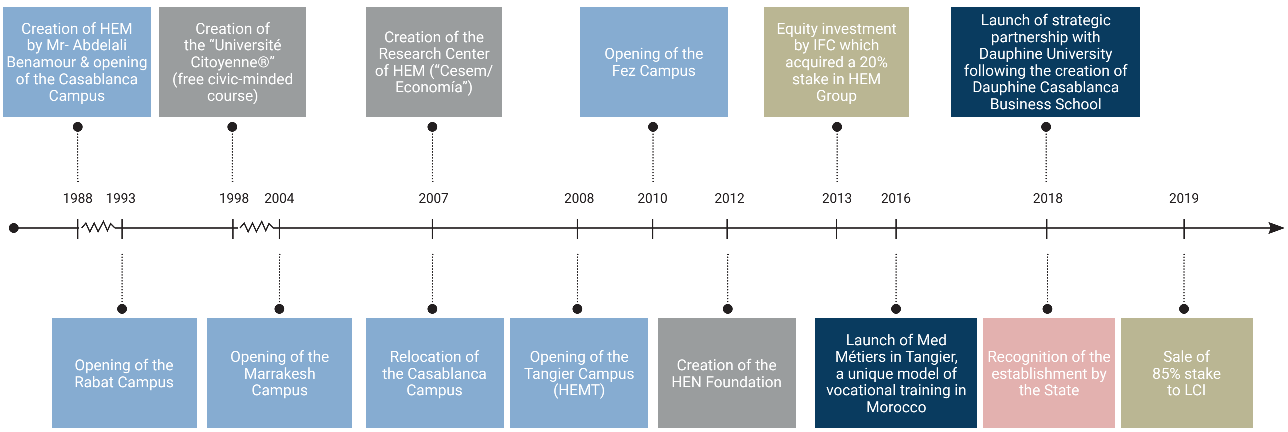
5) Conference & Business Center (Agora)

It is currently taking steps to expand its operations, including the creation of a new Engineering Program, the development of a strong strategic partnership with the prestigious Paris Dauphine University through Dauphine Casablanca Business School and through the reinforcement of its unique low-cost vocational training activity (Med Métiers) and opening of new campuses in several Moroccan cities.

INTERNATIONAL PARTNERSHIPS

HEM offers a wide range of exchange programs with various partner institutions around the world and is continuously expanding its partnership network to enable its students to benefit from international experience ranging from 6-25 months. These academic exchanges aim to promote cross-border pedagogical relationships and strengthen HEM's international standing. HEM's signature academic program offered since 1992, is the MBA in General Management, which is jointly awarded by Paris Dauphine and IAE Paris of the University Paris 1 - Sorbonne.

A FASCINATING HISTORY BUILT OVER 30 YEARS OF EDUCATION LEADERSHIP



LCI EDUCATION – THE IDEAL PARTNER FOR GROWTH

Founded 60 years ago, LCI Education is an international network of higher education institutions that operates 23 campuses across 5 continents (Canada, Australia, Spain, Turkey, Tunisia, Indonesia, Colombia, Mexico, Costa Rica and Morocco). Notably, it's the largest bilingual college in North America (English/French), composed of 5 specialty schools with over 60 programs. LCI Education employs 3,000 staff which supports in excess of 17,000 students each year.

IMAP MOROCCO ADVISES HEM

IMAP Morocco advised HEM on the sale of an 85% stake in HEM Business School to LCI Education.

As part of the LCI Education network, HEM will be supported by a network of international higher education institutions, established both in Canada and around the world, to support its development in Morocco and Africa. The founder of HEM, Professor Abdelali Benamour, will retain a 15% minority position and remain as President alongside the same management team.

EDUCATION & TRAINING

LCI EDUCATION NETWORK

Leading worldwide education network
CANADA

Acquired Majority Control of Business Operations

HEM BUSINESS SCHOOL

Leading Moroccan business school
MOROCCO

IMAP

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Sumitomo Forestry: Becoming a Leading Player in the US Housing Market

Dallas-based Sumitomo Forestry America, a wholly owned subsidiary of Sumitomo Forestry Co., Ltd., a 325-year-old company headquartered in Tokyo, Japan, is on a mission; to become a leading home builder in the US. **Kurt Andersen, Managing Director of IMAP USA (Falls River Group)** has over 30 years of experience in the Real Estate sector and talks to the Creating Value team, sharing his thoughts on why Sumitomo Forestry is attractive to acquisition candidates, as well as what makes his relationship with them so successful.

Congratulations on over $1 billion in closed transactions with Sumitomo Forestry. How did you come to be their trusted advisor?

It all began nearly four and a half years ago, with an introduction to Bill Weaver, CEO at Canyon Creek Cabinetry, which was owned by Sumitomo Forestry America. In fact, we were actually introduced by a former IMAP member, Cordell Berge. Sumitomo Forestry was looking for an advisor on potential transactions in the southeastern and southwestern USA and Cordell felt that Falls River Group (FRG) could help them more than he could, so there were some calls and a meeting was set up with Atsushi Iwasaki, President of Sumitomo Forestry America and it all went from there.

What was the first deal you advised Sumitomo Forestry on?
Sumitomo Forestry had already made several acquisitions in the US in the homebuilding sector and at the time we began working with them they were looking to expand their cabinetry business. We spent about a year working with them on cabinetry assignments, when Atsushi enquired about us assisting with homebuilding opportunities, which led to their acquisition of Dan Ryan Builders; the first of 6 homebuilding transactions we've advised them on. Today, Sumitomo Forestry builds over 7,000 homes per year in the US and is a leading player in the US housing market.

> *Sumitomo Forestry's unique transaction structures fit a slice of the market that is not well covered by other potential acquirers and as a result, they are rarely in direct competition with other homebuilders for new acquisitions*

What makes Sumitomo Forestry attractive to acquisition candidates?
Sumitomo Forestry look to partner with companies on a long-term basis as opposed to buying out targets and having them walk away. Though they always acquire a majority interest in a business, they are looking for the seller to retain a significant equity interest for the next 3-4 years post-closing. They look for good operations that are running well and use their financial backing in order to grow the business. So, in many respects, it is similar to a lot of PE acquisitions. In the end, they will own 100% of the business, but it works well for sellers who see Sumitomo Forestry as an attractive option that allows them to build the business using Sumitomo Forestry's capital and significantly increase the pace at which they can grow the business.

One exception to the rule was their 100% acquisition of Crescent Communities, which was a different case entirely, as it wasn't owned by the business operators, but instead by several hedge funds.

How would you describe a typical acquisition process with Sumitomo Forestry?
Once they identify a potential target, we help them get the ball rolling. We are involved with the valuation, assist in creating the term sheet and making sure the LOI captures the economic structure that Sumitomo Forestry is looking to put in place, as well as identifying any other business issues. It's a very fluid process between us, our client and their law firm. We provide extensive support in the management of the due diligence process of the acquisition target. Our role is to identify any areas that could be of concern, make sure they are addressed in the contracts, and ensure that everything is considered within the available timeframe. It's an extensive, comprehensive process. We work with their lawyers to draft transactions documents and make sure that all necessary business items are included, that it's balanced, or better said, fair, to both parties, while ensuring Sumitomo Forestry is protected. We work alongside them right through to closing and virtually every draft of every document passes through our hands. By identifying potential post-transaction issues, we are also able to help them anticipate and plan for future issues.

BUILDING PRODUCTS & SERVICES

SUMITOMO FORESTRY

US subsidiary of Japanese forest products company
UNITED STATES

Acquired 100% of Business Operations

CRESCENT COMMUNITIES

Residential and commercial builder
UNITED STATES

IMAP
ADVISED ON PURCHASE OF COMPANY

BUILDING PRODUCTS & SERVICES

SUMITOMO FORESTRY

US subsidiary of Japanese wood products company
UNITED STATES

Acquired Majority Control of Business Operations

Marl III Properties, LLC

Property Management
UNITED STATES

IMAP
ADVISED ON PURCHASE OF COMPANY

BUILDING PRODUCTS & SERVICES

SUMITOMO FORESTRY

US subsidiary of Japanese forest products company
UNITED STATES

Acquired Majority Control of

EDGEhomes

Residential homebuilder
UNITED STATES

IMAP
ADVISED ON PURCHASE OF COMPANY

Are there any particular cross-cultural gaps that needed to be bridged when working with Sumitomo Forestry?

We learned very early on that the Japanese transaction approval process is more formal, has many more steps and as such, takes longer to finalize. Ultimately, approval from an executive committee and a board of directors in Japan is required to proceed with a transaction. This approach is driven by the use of a consensus-based decision process, unlike in US companies, where a CEO or primary owner may drive the decision process much more forcefully toward completion.

Sumitomo Forestry have a very good understanding of the US market. The acquisition process generally runs longer than a typical American transaction and can be the cause of timing issues for the parties involved. Consequently, Mr. Iwasaki and FRG always educate the seller up front on the timeline and set their expectations by carefully explaining what the steps are that have to be followed, how they will occur, when those steps will happen and how long it will take.

What do you believe sets apart Sumitomo Forestry from large US counterparts?

They have a unique philosophy, in that they offer sellers who continue in the business a great deal of operating autonomy, whereas US companies tend to consolidate their acquisitions into their businesses and make many changes in order to implement cost efficiencies. Sumitomo Forestry is by no means a passive investor, but they do give the existing team lots of runway to maintain and grow the business. Word has gotten out in the industry of how they work with their targets. Even companies who don't consider themselves for sale realize they can look at de-risking their companies by leveraging Sumitomo Forestry's financial backing while remaining involved and growing their business.

Who would you say is Sumitomo Forestry's competition in the market?

There are many large homebuilders in the United States who are actively acquiring companies, as well as other Japanese companies acquiring targets in the US, though their transactions are generally different in terms of size and structure. Sumitomo Forestry's unique transaction structures fit a slice of the market that is not well covered by other potential acquirers and as a result, they are rarely in direct competition with other homebuilders for new acquisitions.

There was one acquisition recently where the seller was initially referred to Sumitomo Forestry by an attorney who had worked with us on another deal. We were unable to reach an agreement on price, so the seller decided to go to market with another investment banker, who ended up being unable to find an acceptable buyer. The seller, with revised expectations, came back to talk with us and in just a month, an LOI was signed and the deal closed a few months later.

Why do you think the partnership between FRG and Sumitomo Forestry works so well?

We are able to bring many years of individual real estate experience to Sumitomo Forestry which of course benefits our client, but by far more valuable to them is our transaction experience and expertise. This allows us to rapidly assimilate the details and diverse needs of the participants in a transaction and provide valuable counsel on structure, documentation, evaluation of issues that come up and co-management with our client of the transaction process.

What's next on the horizon for Sumitomo Forestry?

As well as its large operations in the US, Sumitomo Forestry is active in many other parts of the world, including Japan of course, Australia, Indonesia, Asia and New Zealand. The company continues to be interested in further acquisitions and filling gaps in markets they want to be in. They are also interested in looking at vertically integrating building products within the homebuilding industry. We are currently working with them on another homebuilding transaction which we hope to complete later this year.

With 30 years of experience in the real estate sector, what's your prognosis for the US housing market?

Everyone is expecting some impact from a global economic slowdown. That being said, the overall economic situation in the USA is still pretty positive, with the economic growth rate quite healthy at the moment and the country at full employment.

In terms of the domestic homebuilding industry, growth has tapered off slightly for various reasons. Slowly climbing interest rates and increasing material costs have had a modest effect on affordability and the industry is feeling the effects of finished lot and labor constraints. Whereas lot constraints are temporary and land developers can catch up, labor constraints are a major issue. It is proving extremely difficult to source enough people with the right skills to maintain growth in the sector. Prospects for the residential construction industry are still good, however. Since 2007, household formation has significantly outstripped housing construction, with annual gaps between household formation and new home supply of 300,000-600,000 units per year, creating a substantial housing supply deficit. While housing completions are above their post-crisis lows, they remain well below the level needed to meet demand. Of course, if interest rates were to rise 5 or 6% it would be a different story and throw everything to the wind.

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BUILDING PRODUCTS & SERVICES

SUMITOMO FORESTRY

US subsidiary of Japanese forest products company

UNITED STATES

Acquired 60% Interest in Seller's Business

DAN RYAN BUILDERS

Residential land development and construction

UNITED STATES

IMAP

ADVISED ON PURCHASE OF COMPANY

Invest Corporate Finance – IMAP's New Member Firm in Portugal

IMAP welcomes Invest Corporate Finance as its exclusive corporate finance partner for M&A activities in Portugal. IMAP Senior Writer, Claire Smedley, sat down with **Gonçalo Vaz Botelho, Managing Partner and CEO** at **Invest Corporate Finance** to talk about his 25-year career in banking and what led to the creation of newly formed Invest Corporate Finance little over a year ago.

FOUNDATIONS FOR A SUCCESSFUL CAREER IN BANKING SPANNING 25 YEARS AND NUMEROUS COUNTRIES

You could say that during my career, which began in 1989 as a Corporate Banking Analyst at Banco Português do Atlântico, I have worked for pretty much most of the Portuguese banks. Following several subsequent roles in investment and corporate banking, I joined Chemical Bank (later acquired by Chase), in 1996. I would say this was quite a key move, as it was when I was first introduced to a bank and colleagues that would go on to be intertwined throughout the rest of my career.

In 2000, Chemical Bank Portugal, was acquired by Caixa Geral de Depósitos - the largest Portuguese financial group and though state owned, on a path to a more dynamic and independent management. There I became a Board member and Executive Director, responsible for corporate clients, project finance and capital markets and began forming relationships with companies and clients across the globe.

FIRST ROW SEAT DURING THE BRAZIL BOOM

At the time, Caixa Geral was the 2nd largest shareholder of Unibanco. As Head of the Portuguese desk there, as well as a member of the investment banking committee, it was here that I did some of the most representative transactions of my career. We're talking about the end of the 90's, Brazil was in a boom; the market had opened, there was significant privatization and extremely active Portuguese and Spanish buyers. I probably spent 1-2 weeks a month there, for nearly 6 years, involved in the Portuguese expansion in Brazil and some of the key privatizations, including EDP electricity, Aguas de Portugal, Portugal Telecom, Brisa and Galp.

There was also the advisory to Embraer, who bought the first company outside of Brazil; a maintenance and overhaul company in Portugal, plus investments in 2 assembly factories for the Embraer 190 series. Subsequently, there followed the sale of Jeronimo Martins supermarkets in São Paulo to Pão e Açúcar group, along with several transactions with the telecom company Vivo and the acquisition of Oi by Portugal Telecom. Between 2000 and 2010, I was awarded 3 Deals of the Year by Euromoney Awards Latin America, all for project advisory and infrastructure deals, not M&A.

U-TURN IN THE PORTUGUESE MARKET AND CHALLENGING TIMES FOR BANKS

Portugal was an early mover, one of the first European countries to do project finance and aggressive infrastructure projects. At that time we had access to lots of funding to do underwritings and closed a significant number of landmark infrastructure deals, in Latin America, the US and Europe. In 2009/2010 however, Portugal was facing a slowdown and the banking industry changed 180 degrees and went from the North, to the South Pole, rapidly. We were forced to adapt to a new environment – we no longer had a balance sheet and unlimited funding and were facing difficult restrictions, forced to divert from infrastructure portfolios. It was clear that you couldn't be a single line banker and needed to have lines in corporate finance, M&A and capital markets, etc.

> *It was clear we needed to adapt, disrupt the business model and create an entity owned not only by the bank, but also by the management team and with a clear, aligned strategy*

I remained at Caixa Geral until 2012, during which time, together with Caja Madrid, we set up a project finance advisory company, Corporación InterAmericana de Inversiones (CIFI), in Costa Rica and Washington DC. During my frequent visits to DC, I built close relationships with multilateral institutions including IADB, WorldBank and IFC. This was an important move as even today, I still leverage these large networks for big financing projects in the developing world. Country risk protection is only awarded if you have financial loan backing from multilaterals, which is crucial in Latin America and Africa, so these relationships are key.

THE BIRTH OF INVEST CORPORATE FINANCE

At the end of 2013, after nearly a year dedicated to the restructuring of Portuguese bank BANIF, I moved to Banco Finantia, a full-line, privately owned Portuguese investment bank. As VP of the Executive Committee, I closed 2 of my largest M&A deals; the €500 million acquisition of Luz Saude by Fosun and in 2016, the €350 million acquisition of the largest port operator in Portugal, Tertir, by Turkish Yilport Group.

In 2017/2018, new regulations in the financial sector were causing limitations to those with a classic approach to investment banking within a bank. It was clear we needed to adapt, disrupt the business model and create an entity owned not only by the bank, but also by the management

team and with a clear, aligned strategy. With my business partner Pedro Benites, (Managing Partner of Invest Corporate Finance) and the Finantia team, we exited Finantia and partnered with Banco Invest, one of the premier Portuguese banks serving the mid-cap sector, whom we already knew very well. In fact, they were colleagues I'd known for 25 years, from university and at Chemical Bank.

From there, everything happened quite quickly. Our proposal for a new business line was approved and on 8 March 2018, we began business as Invest Corporate Finance and are now fully incorporated as part of Banco Invest. Banco Invest remains majority shareholders, with Partners owning 30% equity. We operate 2 business lines; capital markets and advisory services, i.e. a complete investment banking service.

OLD FISCAL MODEL LIMITING PORTUGAL'S BOUTIQUE FIRMS

Today, PE firms, pension funds and insurance companies are the most aggressive lenders and it's essential that you have access to these financiers, which we do. Old regulations and lending models in Portugal in effect means that direct loans from foreign entities to Portugal are tax inefficient, due to the charges and stamp taxes. Therefore, it is necessary to use securities and as such, a banking license is required. We are different to many boutique firms that don't have the expertise or capacity to perform the agency of loans, unlike us, which is why clients tend to prefer us.

PROSPERING IN THE INFRASTRUCTURE SECTOR AND THE INTRICACIES OF THE PORTUGUESE MARKET

There is a wealth of opportunity in the infrastructure sector, which has already led many PE funds to convert to Infrafunds. Able to invest aggressively, with money readily available due to low interest rates, it yields good rewards as it's essentially based on a steady, low risk model. This presents a big opportunity for IMAP with its substantial experience and expertise across the globe in successful infrastructure M&A – we ourselves dedicate 40-50% of our attention to infrastructure deals.

In Portugal, everything is pretty much for sale and in the past we have been involved in the arranging and structuring of a large number of infrastructure concessions. We have relationships with the banks and the shareholders and know the business model. We tend to act for the most part, on the buy-side – many companies in Portugal simply don't want anyone to know they are for sale, due to the problems this can cause both internally and externally – so players tend not to give sell-side mandates.

In a typical deal, we work on the buy-side with the seller. Once we've identified their assets, we begin sourcing possible investors. It's a challenging market, as we need to find the most aggressive buyer and move fast as at the end of the day, a deal is only profitable if it is closed – there are no rewards on deals not signed. Furthermore, in Portugal you can't be just a single line banker, you have to play the whole piano; corporate finance, M&A, capital markets, etc.

A POSITIVE 12 MONTHS, STRONG PIPELINE, GLOBAL OPPORTUNITIES AND NEW PARTNERSHIPS BEING FORMED

We've just celebrated our first year in business and I can safely say that we are definitely on the right track. Our pipeline is very strong and we are currently working on several interesting and important mandates which we expect to come to fruition in the following months.

Though we specialize in infrastructure, this is by no means our only industry of expertise, having deal experience in Utilities, Transportation, Health-Care, Distribution, Industrials, Shipping, Media, Food & Beverage and the Telecoms sectors.

In my opinion, it is important to organize your business by sector, as opposed to by geography. The business model remains the same and as long as you have a deep understanding of the business and a proven track record, you can replicate success across geographies. I believe therein lies a big opportunity for IMAP for an infrastructure funds team. Several of the IMAP members have vast expertise and proven track records in energy, roads, water & sewage, ports, railroads, ports and airports, etc. at a global level, which can be leveraged to close M&A deals with Infra Funds.

JOINING IMAP – THE IMPORTANCE OF A PROVEN TRACK RECORD, ALONG WITH GLOBAL EXPERTISE

IMAP is very important for Invest Corporate Finance, because it is crucial that we look beyond Portugal and establish new relationships that ensure we are well connected across the world. IMAP can help us reach new geographies and we bring 25 years of experience and access to clients and assets, as well as financiers and funds. Our track record proves to clients that not only do we know and have a deep understanding of the business, but that we are able to advise on and arrange access to funds and get finance concessions.

Since joining IMAP, we have already connected and collaborating with IMAP colleagues in Chile, Germany, Morocco, Peru, Spain and IMAP China. At the end of the day, clients and funds have no nationality and regardless of language, culture and size, with the combination of global reach and local presence, along with our personal relations, we are able to follow the clients – wherever they may be.

GONÇALO VAZ BOTELHO
IMAP Portugal
goncalo.botelho@imap.com

STRONG VALUES AND ALWAYS LOOKING FOR A NEW CHALLENGE

When not working, Gonçalo runs a foundation, Fundação dos Botelhos de Nossa Senhora da Vida, started by his grandfather back in 1952. Committed to 'social impact', it runs a multitude of programs, offering scholarships and schools for preschoolers, as well as initiatives for social integration. As well as providing funds for entrepreneurs, it also boasts its own museum.

An avid sailor, he's been sailing the waves since he was just 5 years old. He holds several significant championship titles, including that of Portuguese National Yachting Champion, which he has won on several occasions. On dry land he enjoys cycling, having taken on some tough challenges, including a stage in The Tour de France, Giro d'Italia and Vuelta a España, climbing several of the tallest mountains in Europe.

Market Insights from Our Global Dealmakers

Earlier this year IMAP released its highly anticipated **IMAP Trends in Global M&A 2018-2019**. The report is based on the results of a survey undertaken at the end of 2018, whereby 100 senior IMAP M&A Advisors across the globe were asked for their views on market trends and performance, as well as their expectations for 2019. Aimed at providing clients with real insights when evaluating M&A opportunities, the report has proved to be a great success.

The report in its entirety can be found at www.imap.com in our publications section.

A STRONGER MARKET IN 2018 AND CAUTIOUSLY POSITIVE OUTLOOK FOR 2019

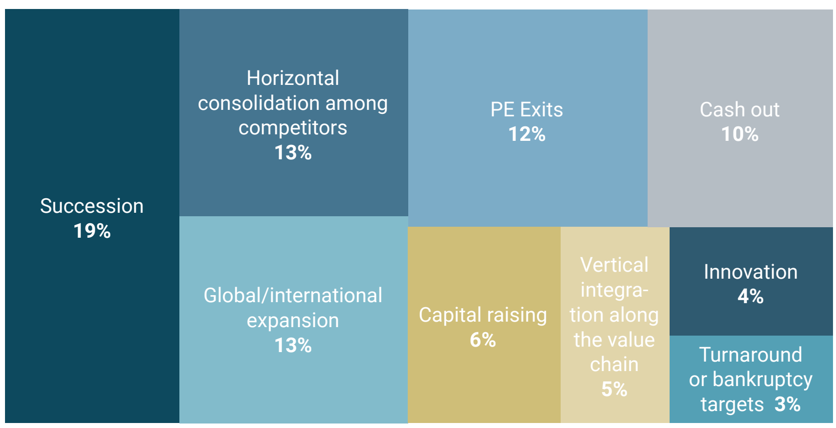
One of the many advantages of being part of a global M&A organization is that IMAP has a truly broad perspective on the global macro environment. Able to tap into the nuances of regional market sentiment, IMAP is able to provide qualitative information and insights that simply cannot be inferred by simply studying data about completed transactions. Advisors were asked to comment on areas including market activity and deal flow, deal environment and dynamics, types of transactions and motivating factors, M&A valuation multiples and regional risks and opportunities.

The Survey findings indicate that globally 2018 was a better year for M&A than 2017, with a stronger M&A market, increases in deal flow and more active buyers and sellers. Multiples were also higher, with the Technology and Healthcare sectors listed as the top performers. Competitive pressures, opportunistic responses to offers from strategic buyers, along with an unwillingness to wait for the next economic upturn were listed amongst the motives for company sales in 2018. In turn, acquisitions were driven by the need to execute growth strategies via acquisition rather than organically, as well as a strong appetite for PE. Indeed, a quarter of IMAP's 2018 transactions involved a PE firm.

In terms of predictions for 2019, indicators are that for the first half of 2019 global GDP growth would continue to decelerate and liquidity shrink, hampering financing for leveraged transactions. However, IMAP advisors for the most, remain optimistic, with many expecting an increase in deal volume growth through the rest of year. The pace of acquisitions of technology related targets or assets by companies in non-tech sectors is expected to pick up and succession looks set to be another key factor driving M&A.

M&A Advisor Expectations for 2019

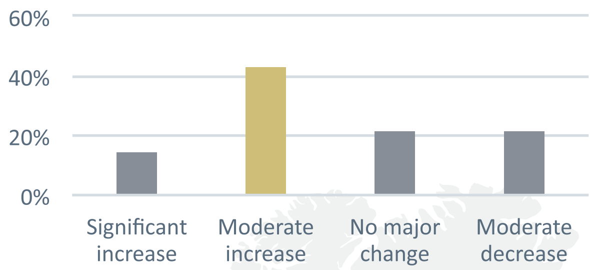
WHAT DO YOU EXPECT TO BE THE MOST COMMON TRANSACTION TYPES FOR 2019?



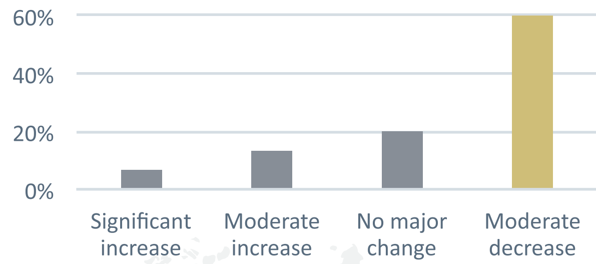
Note: Graph includes only top 9 answers (85%)

WHAT ARE YOUR EXPECTATIONS FOR M&A DEAL VOLUME GROWTH IN YOUR REGION IN 2019?

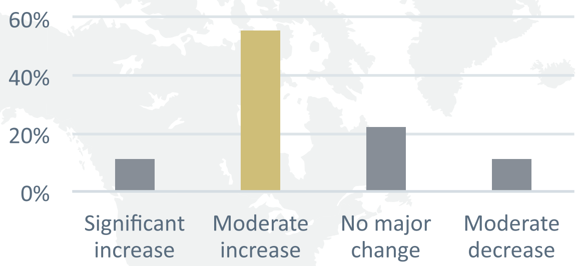
USA & CANADA



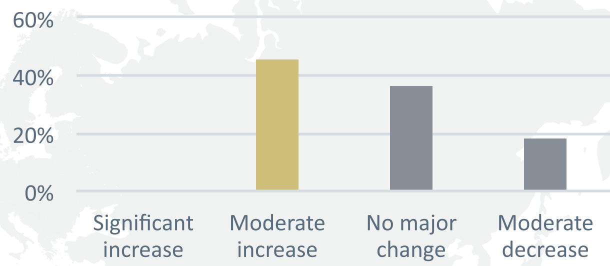
WESTERN EUROPE



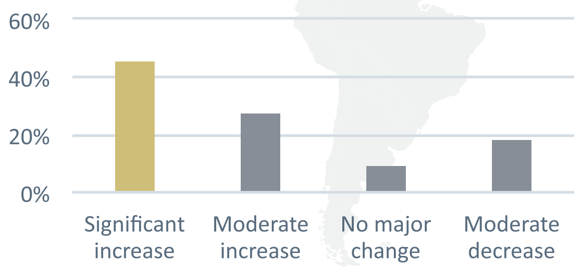
SCANDINAVIA



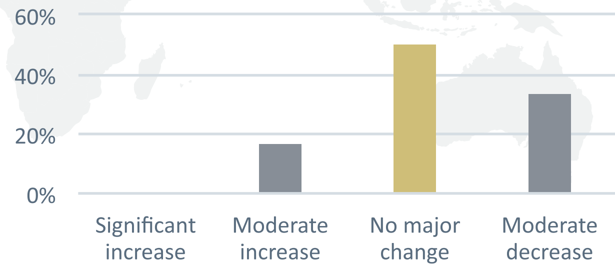
EASTERN EUROPE



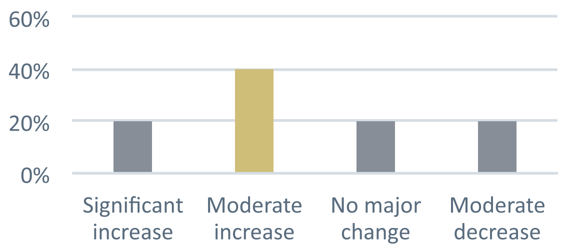
LATIN AMERICA



UK & IRELAND



ASIA



A geographic breakdown of expectations reveals differences across regions:

- In the **USA and Canada, Scandinavia and Asia,** most advisors are expecting a moderate increase in deal volume.
- In **Western Europe** on the other hand, the majority of advisors are expecting a moderate decrease.
- In **Eastern Europe** a moderate increase or no major change is expected.
- In the **UK and Ireland**, no major change or perhaps a moderate decrease in deal flow is expected.
- In **Latin America**, many advisors signaled a significant increase in M&A deal flow as the economic and political situation improves in many countries.

New Supercharged Finnish Partnership

IMAP's team in Finland had their best ever year in 2018, closing 13 deals, which put them 1st in the league tables for Finland. Given the size of the Scandinavian market, this was an extremely positive result.

Since being founded in 1988, IMAP ProMan Oy has successfully completed over 130 transactions and is consistently ranked amongst the top 3 in number of completed mid-market transactions in Finland. Together with the IMAP Nordic partners, they are customarily ranked first or second in terms of mid-market deals closed in the Nordics.

Lars Wikholm was ProMan Oy's Founder and Managing Partner until late 2018, when the team took over, creating a new management structure and setting the example for a smooth and successful succession transition in a mid-market founder firm. Lars was awarded an Achievement award at the IMAP Munich Conference in March 2019.

> *2018 was a great year with quite sizeable deals. Initially we were worried about a potential slow down this year, but we have never been busier. We are currently working on both sell-side and buy-side mandates.*
>
> Harri Roos
> Partner

IMAP | PROMAN

MIKKO SISTONEN
Partner
mikko.sistonen@imap.com

Mikko's expertise is in managing both sell- and buy-side mandates in M&A projects, originating deals and designing and negotiating optimal deal structures.

ANSSI SAMPO
Partner
anssi.sampo@imap.com

Anssi has been involved in various domestic and international corporate transactions, specializing in the TMT, Business Services and Industrial Services sectors.

HARRI ROOS
Partner
harri.roos@imap.com

Harri has over 20 years of experience in M&A projects and financial arrangements and has acted as a Board Member for over 10 companies in Finland, the Nordic countries and the Baltics.

FOLMER
Private equity firm
FINLAND

Acquired Majority Control of Business Operations

EUROPLAN
Project management company within marine industry
FINLAND

IMAP
ADVISED ON SALE OF COMPANY

Advised Finnish marine technology project management company, Europlan Engineering Oy on the sale of 60% of its shares to Folmer Equity Fund II Ky, a fund managed by Folmer Management Oy. Together, the companies make a globally-recognized pioneer," said Johanna Marin, Investment Director and Partner of Folmer.

renta
General rental company
FINLAND

Acquired 100% of Business Operations

FLEXLEIE
General rental company
NORWAY

IMAP
ADVISED ON PURCHASE OF COMPANY

Advised Renta Yhtiöt Oy on its purchase of Norwegian rental company, Flexleie AS. The Company is owned by a Norwegian private equity company Atlantis Vest, together with key personnel. Following the acquisition, the pro forma Net Sales of Renta Group in 2018 were estimated to be approximately €140 million.

CLIENT

Finelcomp operates in a Nordic niche market, offering a comprehensive selection of low voltage applications to manufacturers and the industry.

SERVICE

IMAP Finland utilized its extensive industrial and private equity expertise in search of electrical enclosure market players and interested private equity groups in the Nordic market. Due to excellent growth and the profitability profile of the company, there was a high level of investor interest. Following a structured M&A process, private equity company Juuri Partners, together with management was chosen as the preferred investor.

RESULT

Finnish listed (Nasdaq Helsinki) investment company Sievi Capital Plc and a minority owner sold 100% of the shares in Finelcomp to a private equity fund managed by Juuri Partners and to the company's management.

INDUSTRIALS

JUURI PARTNERS
Finnish private equity investment fund
FINLAND

Acquired 100% of Business Operations

FINELCOMP
Manufactured of electrical enclosures
FINLAND

IMAP
ADVISED ON SALE OF COMPANY

Selected IMAP Transactions

HEALTHCARE

BIOGROUPLCD biologie médicale

FRANCE

Acquired 100% of Business Operations

GROUPE BIOMAG

FRANCE

IMAP

ADVISED ON PURCHASE OF COMPANY

AUTOMOTIVE

FELSS

GERMANY

Acquired 100% of Business Operations

HMP

GERMANY

IMAP

ADVISED ON SALE OF COMPANY

TECHNOLOGY

esas

NETHERLANDS

Acquired 100% of Business Operations

teletronika

NETHERLANDS

IMAP

ADVISED ON SALE OF COMPANY

HEALTHCARE

Softys

CHILE

Acquired 100% of Business Operations

Panam Papelera Panamericana S.A.

PERU

IMAP

ADVISED ON SALE OF COMPANY

HEALTHCARE

REVENIO

ENABLING EASY & EFFICIENT DIAGNOSIS

FINLAND

Acquired 100% of Business Operations

centervue

ITALY

IMAP

ADVISED ON SALE OF COMPANY

INDUSTRIALS

WELAND

SWEDEN

Acquired 100% of Business Operations

ROTAGE

SWEDEN

IMAP

ADVISED ON SALE OF COMPANY

MATERIALS

EMIL

INDIA

Acquired 100% of Business Operations

Pro Minerals Private Limited

INDIA

IMAP

ADVISED ON SALE OF COMPANY

TECHNOLOGY

GENERAC

USA

Acquired 100% of Business Operations

neurio

CANADA

IMAP

ADVISED ON SALE OF COMPANY

TECHNOLOGY

LUNA

DEFYING IMPOSSIBLE.

USA

Acquired 100% of Business Operations

General Photonics

USA

IMAP

ADVISED ON SALE OF COMPANY

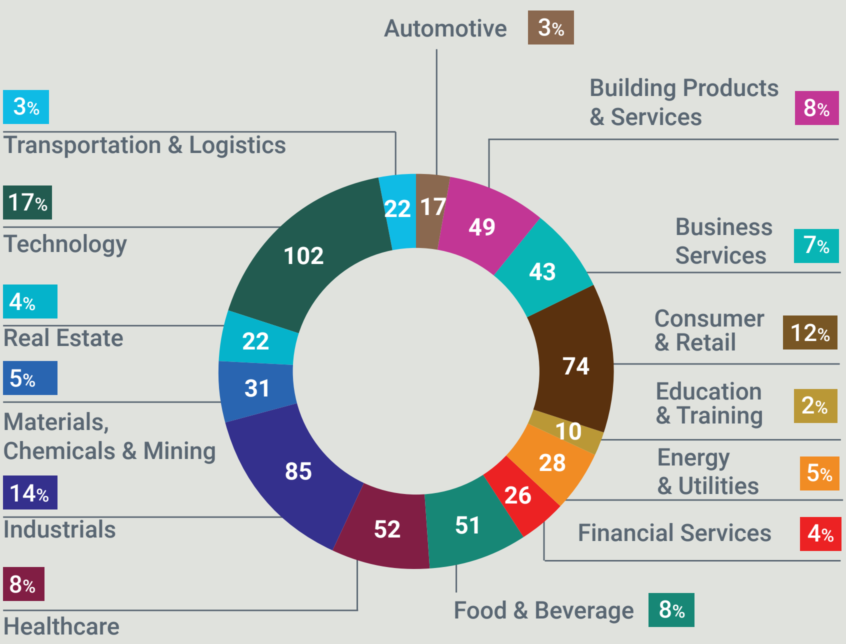
About IMAP

Founded in 1973, IMAP is one of the first and worldwide leading organizations for Mergers & Acquisitions. IMAP is located in 40 countries with more than 450 M&A professionals organized in international sector teams.

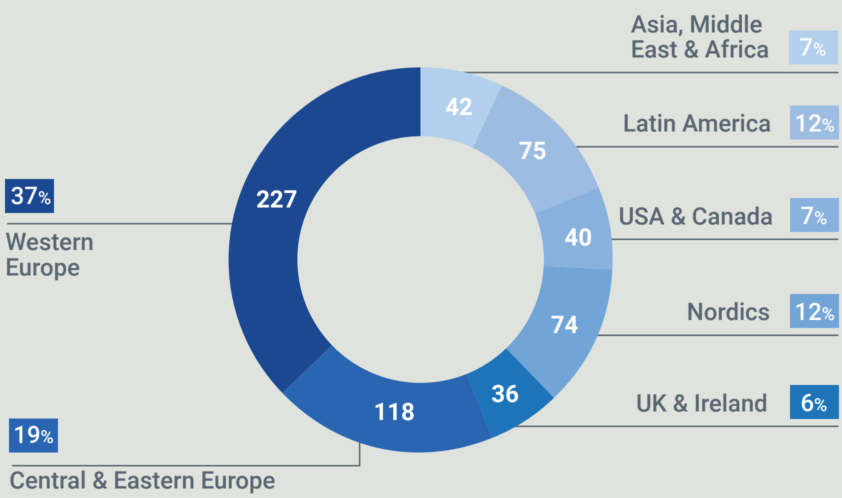
IMAP is specialized in the sale and the acquisition of companies, as well as strategic corporate finance advisory. Our customers are primarily family-owned, mid-sized companies, but also include large international corporations, as well as family offices and financial investors.

IMAP advisors successfully execute more than 200 transactions per annum with a transaction volume of approximately $10 billion.

DEALS BY SECTOR 2016-2018



DEALS BY REGION 2016-2018



IMAP Global Presence

40

COUNTRIES

450+

PROFESSIONALS

Argentina I Belgium I Bosnia & Herzegovina I Brazil I Canada I Chile I China I Colombia I Croatia I Czech Republic I Democratic Republic of Congo I Egypt I Finland I France I Germany I Ghana I Hungary I India I Ireland I Italy I Ivory Coast I Japan I Mauritius I Mexico I Morocco I Netherlands I Norway I Portugal I Peru I Poland I Russia I Senegal I Serbia I Slovenia I South Africa I Spain I Sweden I Turkey I United Kingdom I United States


IMAP
The world's leading M&A partnership since 1973
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