

# 2019

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U.S. M&A Outlook  
and 2018 Review

## Executive Summary

This report, created by the BMO Capital Markets Mergers & Acquisitions team, provides an update on selected key trends that we are observing in the public M&A markets.



### Rob Stewart

Managing Director  
Co-Head of U.S.  
Mergers & Acquisitions

“We anticipate that transaction volume will continue to be at record levels in 2019 and competition for assets will keep transaction multiples at the current relatively lofty levels”

### **Recession...monetary policy...tariffs...politics... equity market correction... will one of these oft-spoken reasons make 2019 the year that ends this five-year string of historic M&A levels and 10-year bull market?**

For the last few years, there has been a consistent whisper that the M&A market cannot continue at its frenzied pace forever. Yet U.S. M&A transaction volume and deal count continued its active pace. 2018 represented another year of M&A market growth, with the U.S. middle market (transaction sizes between \$200 million and \$5 billion) recording its highest deal volume since the turn of this century. 2018 was also the year of the mega-deal, with a 37% increase in deals over \$10 billion in value.

Looking forward in 2019, we have corporates with balance sheets and cash reserves as strong as they have been since the Great Recession, driven by strong earnings and cash flow growth, resulting from strong performance and buoyed by the Tax Cuts and Jobs Act of 2017. These same corporates have seen their public market valuations improve consistently between mid-2011 to 2017, with some pullback more recently. Today public market capitalizations remain close to historical high levels, and these market expectations for value and implied growth seem difficult to maintain by solely relying on organic growth. Combine this with strong consumer and CEO confidence levels and we see a recipe for a continued, robust M&A market in 2019.

If one then also considers ~\$1.5 trillion purchasing power that the financial sponsor, pension fund and family office communities have in dry-powder and potential borrowing capacity, we see additional demand, and resultant competition, for assets in the marketplace. Meanwhile, the flow of opportunities will support the demand due to corporates and financial buyers continuously assessing their portfolios, in tandem with a consistent stream of activists advocating for change.

As such, with the current equity and debt market outlooks, we anticipate that transaction volume will continue in 2019 and competition for assets will keep transaction multiples at the current relatively lofty levels.

We look forward to your reactions to the BMO M&A team's thoughts and analysis of 2018 and 2019 in the enclosed report.

# 2018 was an active year for U.S. M&A

U.S. Middle Market announced activity at highest level in **18 years**

**~37%**

Increase in the number of \$10Bn+ deals in 2018

**3%**

U.S. GDP growth in 2018

**\$1,494bn**

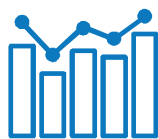
U.S. M&A transaction volume, up 14% Y-o-Y



Geopolitical and regulatory concerns had little tangible impact on M&A activity

**2,337**

M&A transactions in U.S.



Q4 2018 market decline has led to indice P/E levels declining to 4 year lows

**~\$650mm**

Average M&A transaction size in U.S.

**3.7%**

U.S. unemployment rate at end of 2018 – a 49 year low

CEO and consumer confidence remained at highest levels in the last decade

Strong corporate balance sheets, financing markets, and the prevalence of dry powder created ideal capital environment for deal making

# BREXIT

The world is watching the uncertainty of United Kingdom's exit from the European Union

Elevated levels of geopolitical concern with North Korea and Iran

**2019** will be shaped by major shifts in the political landscape, policy and the continued impact of the equity and debt market volatility

## Tariff Wars?

CEOs bracing for any fallout from U.S. trade agreements



### Rising Interest Rates?

Will Fed raise rates?

### Market Volatility

Volatility in the U.S. equity markets has slowed IPOs and certain M&A transactions

### Cross-Border M&A of U.S. Targets

Impact of FIRRMA<sup>(1)</sup>



Shareholder activism continues to be a key theme for public companies in the U.S.

# ~US\$535,000,000,000

Amount of dry powder accumulated by U.S. private equity investors

Longest ever U.S. government shutdown (35 days) negatively impacted GDP and affected businesses and individuals attempting to secure federal loans or permits on time



Disruptive technologies continue to rapidly redefine a number of sectors including automotive, financial and retail

1. On August 13, 2018, President Trump signed into law the Foreign Investment Risk Review Modernization Act of 2018 (FIRRMA) to help mitigate national security threats.

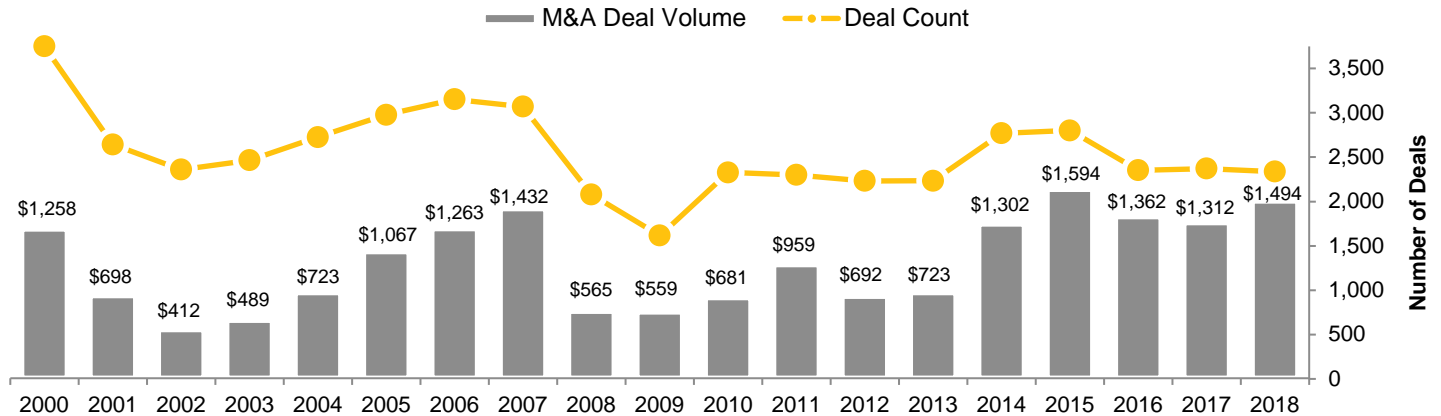
# 2018 – Year in Review

**Very strong levels of U.S. M&A activity seen in 2018**

Transaction volume up 14%, to the second highest level ever

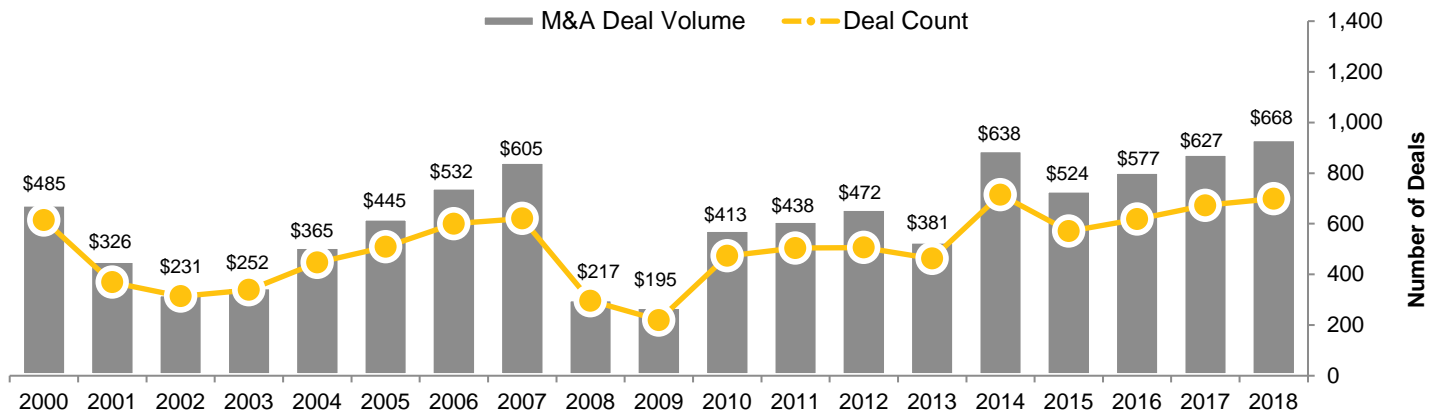
Number of transactions remained constant

Increased volume in part driven by a 37% increase in mega-deals over \$10bn



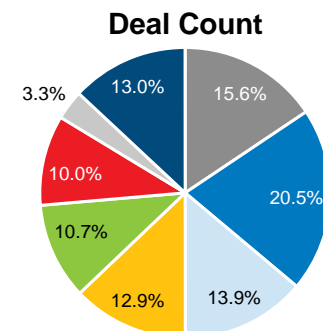
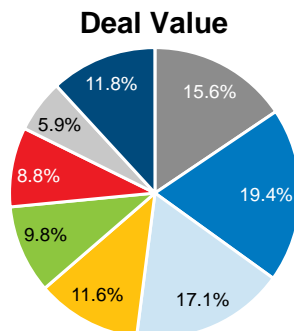
## U.S. Middle Market announced activity at highest level in 18 years

2018 continued a strong 4-year trend of growing M&A volume



**2018 Deal flow was balanced across multiple sectors yet industrials, energy & power and technology & business services accounted for over 50%**

- Technology & Business Services
- Industrials
- Energy & Power
- FIG
- Food & Consumer
- Healthcare
- Real Estate
- Software Services



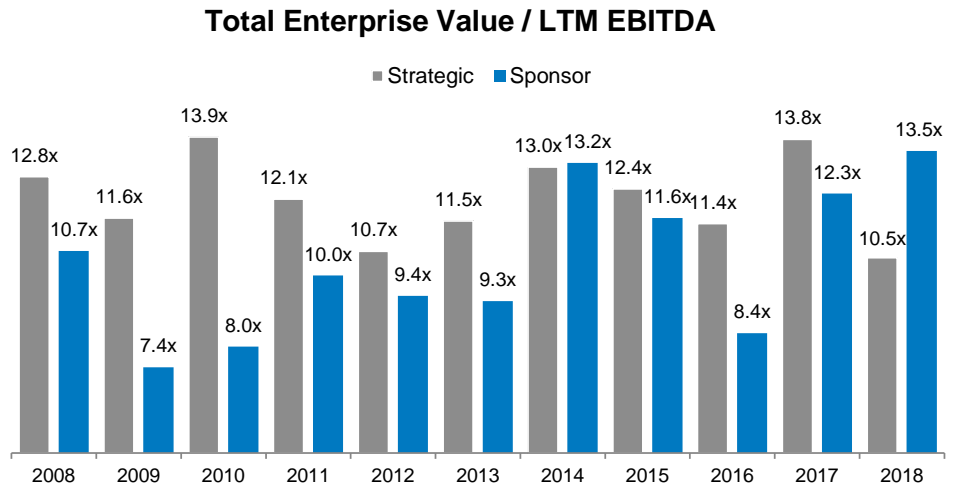
Source: Bloomberg, FactSet, MergerStat

Note: Middle Market defined as all announced deals with disclosed value ranges of US\$200 - \$5,000mm. All figures in US\$m, unless otherwise noted.

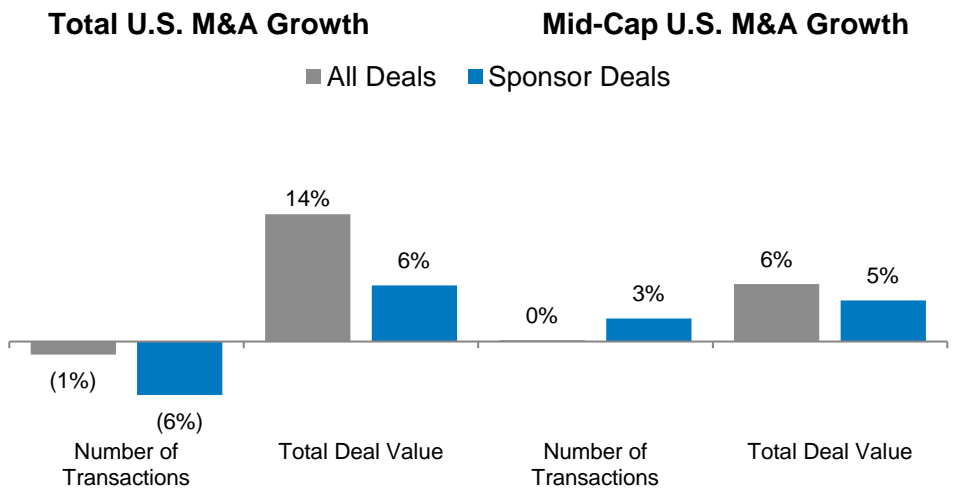
# 2018 – Year in Review (cont'd)

## U.S. deals between \$200mm and \$5.0bn continue to trade at lofty multiples in 2018

2018 represented the third highest multiple level over the last 10 years

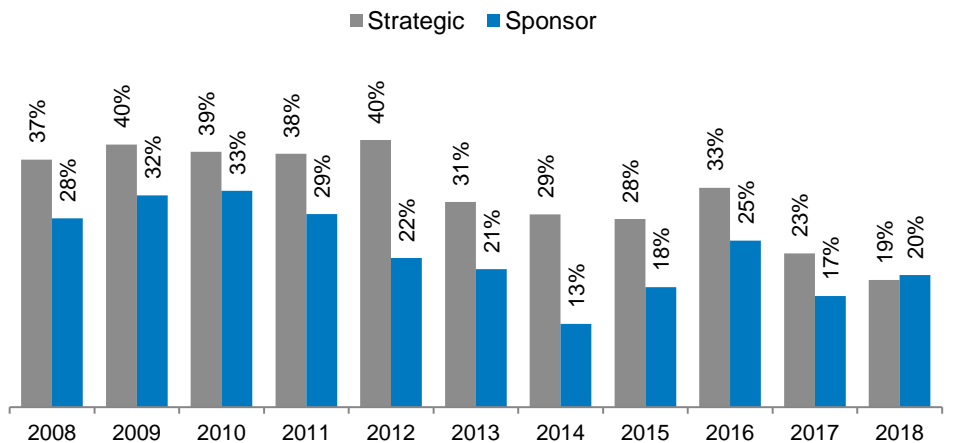


## Both corporate and financial sponsor activity grew in 2018 relative to 2017



## Meanwhile, M&A transaction premiums have continued to drop off<sup>(1)</sup>

2018's Median acquisition premium of 20% is approaching a 15-year low



Source: Bloomberg, FactSet, MergerStat

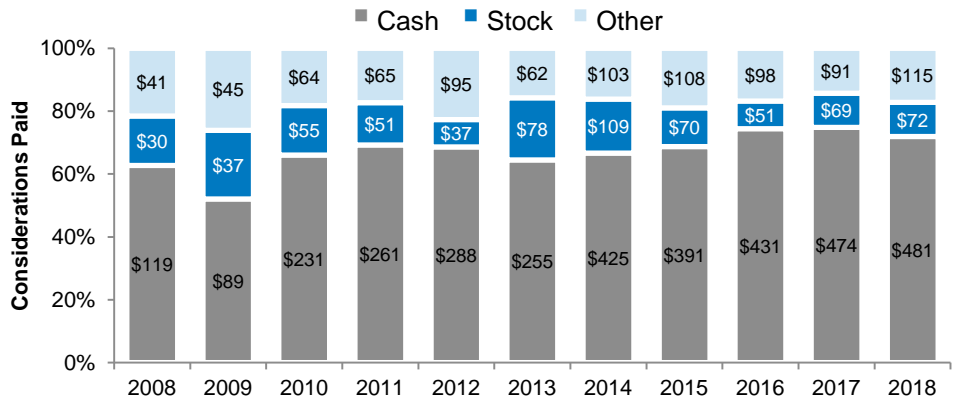
Note: All figures in US\$m, unless otherwise noted.

1. See BMO's [Q3 M&A Quarterly Insights](#) report for more information on recent premium trends.

# Outlook for U.S. M&A in 2019

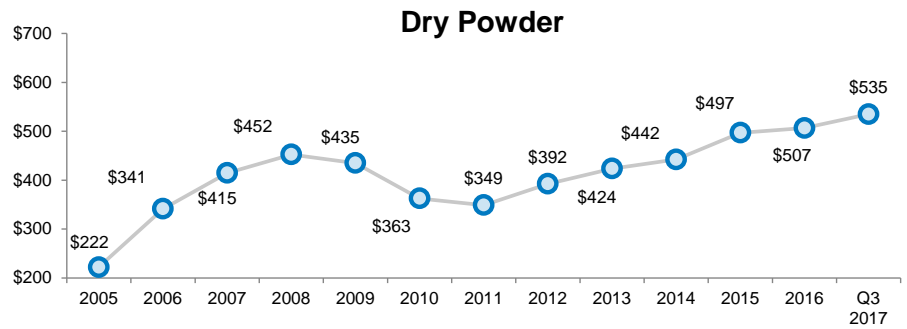
## Cash continues to be king through 2018

Expect more of the same in 2019 so long as borrowing costs stay at relatively attractive levels

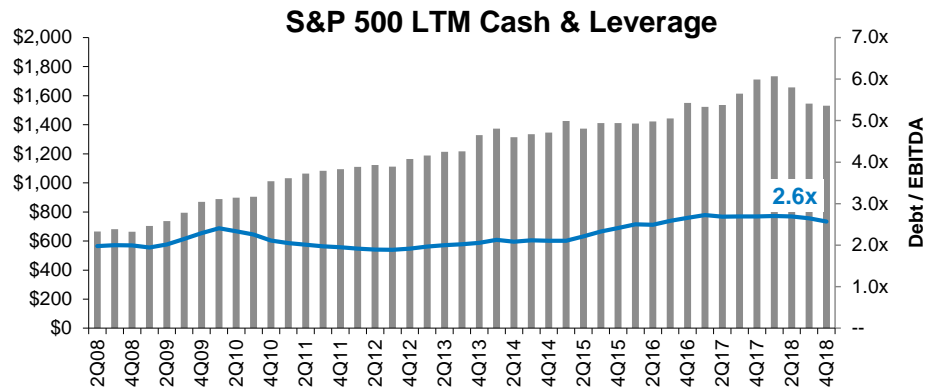


## Strong corporate balance sheets and financial sponsor “dry-powder” will continue to drive the M&A market with cash deals

Corporates will continue to drive the market on the back of strong cash balances and low relative debt levels

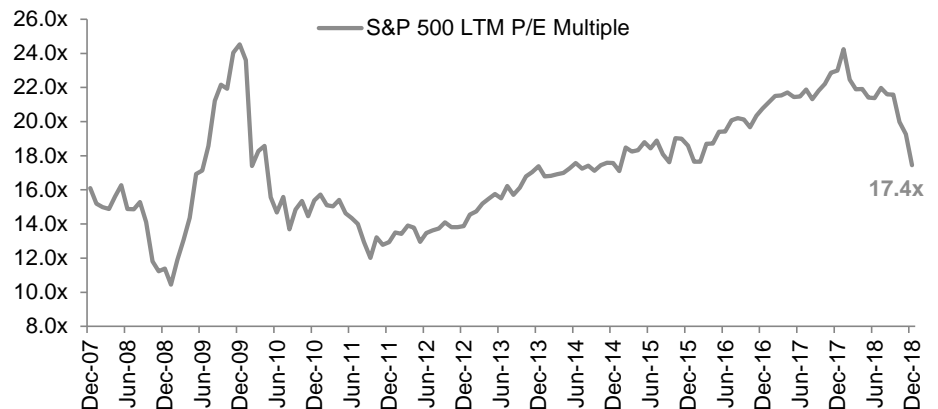


The volatility of the U.S. debt markets at the end of 2018 appear to have subsided – which should continue to support the robust M&A demand



## Acquisitions will continue to be an important tool to enable public companies to achieve strong growth expectations and support their high stock valuations

If P/E multiples are assumed to be a proxy for earnings growth, organic growth alone is unlikely to be sufficient to achieve earnings expectations



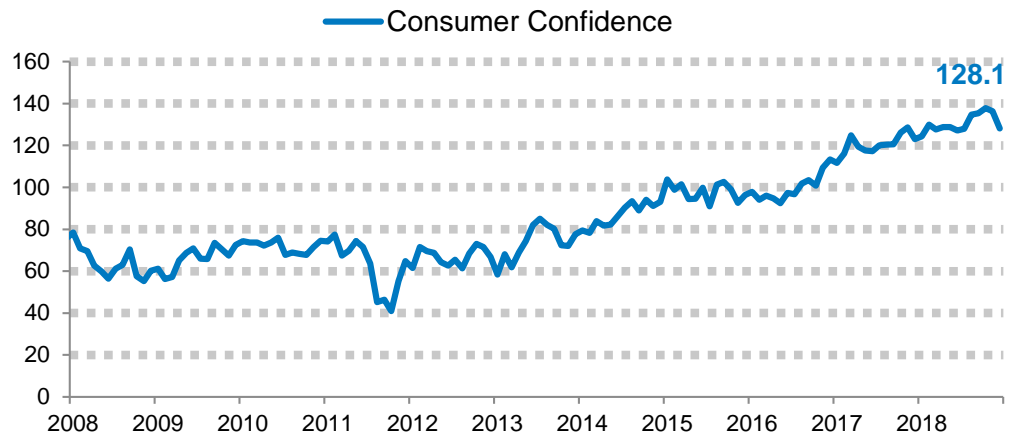
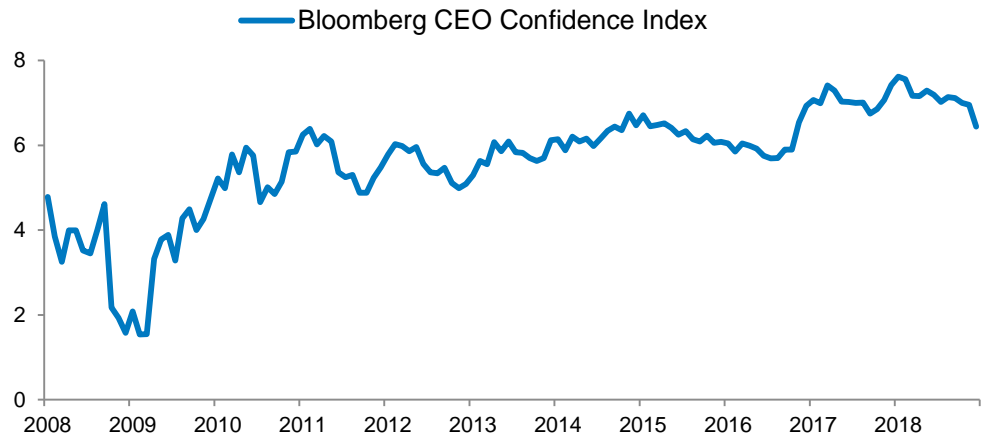
Source: Bloomberg, FactSet, MergerStat

Note: All figures in US\$m, unless otherwise noted.

# Outlook for U.S. M&A in 2019 (cont'd)

## CEO and consumer confidence remain high

Facilitates a focus on growth through acquisition



## Key themes as we continue in 2019

BMO anticipates 2019 will be another very strong year for M&A volume

Corporate investor growth expectations and CEO confidence will continue to fuel robust M&A volume

Financial sponsors will continue to represent a growing piece of the overall M&A market

While the public equity markets have seen significant volatility, which has impacted public valuations, the preponderance of capital and a relatively strong economic outlook suggest transaction multiples are unlikely to change materially in 2019



# About Us: BMO Capital Markets

As a member of BMO Financial Group (NYSE, TSX: BMO), we leverage the financial strength and capabilities of one of North America’s leading financial services organizations.

BMO Capital Markets is a single-stop provider. Depending on your needs, you may use a combination of our capabilities, or only one. Our experience and deep sector knowledge enable us to develop the solution that fits you best.



## We offer a complete suite of products and services:

### Access to capital

- Initial public offerings
- Debt financing
- Equity financing
- Private equity financing
- Corporate lending
- Structured & project financing
- Securitization

### Distribution

- Institutional
  - Equity sales & trading
  - Fixed income sales & trading
- Retail
  - Direct brokerage
  - Private banking

### Strategy & growth

- Strategic advisory
- Mergers & acquisitions, including cross-border opportunities
- Valuations & fairness opinions
- Acquisition & divestitures
- Leverage buyouts
- Restructurings & recapitalizations
- Take-over & activism defense
- Share buybacks
- Joint ventures and other partnership models

### Treasury & risk management

- Commodity products
- Money markets
- Trade finance
- Cash management
- Foreign exchange

### Research

- Economics
- Commodities
- Debt
- Corporate

Americas	Europe & Middle East
Atlanta Boca Raton Boston Buffalo Calgary Chicago Denver Houston Mexico City Milwaukee Minneapolis Montreal New York Phoenix Rio de Janeiro San Francisco Seattle Toronto Vancouver Washington, D.C.	Dublin London Paris Zurich Abu Dhabi Mumbai
	Asia & Australia
	Beijing Melbourne Guangzhou Hong Kong Singapore Shanghai Taipei

<b>2,700+</b> professionals	<b>33</b> locations	<b>5</b> continents
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# 2018 U.S. M&A Highlights

## Experienced Team

- Global M&A practice with ~115 M&A professionals in nine offices around the world, with over 80 M&A professionals in the U.S.
- Including over 40 Managing Directors and Directors

## Full Product Capabilities

- Sell-side, buy-side and cross-border advisory
- Recapitalizations and restructurings
- Fairness opinions
- Takeover defense
- Activism defense
- Leveraged and management buyouts
- Strategic alternatives review

## Proven Results

- US\$337 billion of transaction value in 480+ deals since 2011
- Dedicated capabilities in both large cap and middle market M&A advisory and financing

## Approach

- Deep sector expertise in close alignment with BMO's industry groups
- M&A professionals partner with industry experts to drive enhanced insights and execution



**\$10 billion**  
Merger with **Goldcorp** to create Newmont Goldcorp

**Financial Advisor**  
*Announced*




**\$1.7 billion**  
Sale of Williston Basin Assets


**Financial Advisor**  
*Announced*




Sale to 

**Financial Advisor**  
*Announced*



In its acquisition of the Online Video Platform Business of 

**Financial Advisor**  
*February 2019*




Sale to 


**Financial Advisor**  
*January 2019*



Portfolio Company of  Sale to Fortis Solutions Group

**Financial Advisor**  
*January 2019*



Sale to 

**Financial Advisor**  
*January 2019*



Recapitalization by Sterling Investment Partners


**Financial Advisor**  
*January 2019*



in its Listing of Class C shares

**Financial Advisor**  
*December 2018*



Portfolio Company of  Sale to HydorchemPSC

**Financial Advisor**  
*December 2018*




**C\$111 million**  
Acquisition of 


**Financial Advisor**  
*December 2018*




**\$13.2 Billion**  
Acquisition of 


**Financial Advisor**  
*November 2018*



Sale to 

**Financial Advisor**  
*November 2018*



Sale to  Portfolio Company of 

**Financial Advisor**  
*November 2018*



Acquisition of  Portfolio Company of Gilbert Global

**Financial Advisor**  
*November 2018*



Sale to 

**Financial Advisor**



**\$325 million**  
Monetization of Delaware Basin Water Infrastructure

**Financial Advisor**  
*October 2018*



**C\$2.6 billion**  
Sale of  to 

**Financial Advisor**  
*October 2018*



Sale to  Norwest Equity Partners

**Financial Advisor**  
*October 2018*



Recapitalization by  and 

**Financial Advisor**  
*October 2018*

# 2018 U.S. M&A Highlights (cont'd)



Portfolio Company of  
ENERGY & MINERALS  
CORPORATION

~\$300 million  
Acquisition of  
**Powder River Assets**



**Financial Advisor**  
October 2018



Sale to  
**INDIANA PACKERS CORPORATION**


Subsidiary of  
**Mitsubishi Corporation**

**Financial Advisor**  
October 2018




Sale to  
**Custom Foods Incorporated**

**Financial Advisor**  
September 2018



Dividend Recapitalization by  
**Alaris Royalty**

**Financial Advisor**  
September 2018




Has sold a minority interest to  
**FALCON**

**Financial Advisor**  
August 2018



\$2.1 billion  
Acquisition of  
**Mitel**

**Financial Advisor**  
July 2018



Portfolio Company of  
**VISTA CREDIT PARTNERS**

Sale of  
**D+H Collateral Management Services** business to  
**TERANET**

Portfolio Company of  
**OMERS**

**Financial Advisor**  
July 2018



Portfolio Company of  
**INVESTCORP**

Sale to  
**Spring Education Group**



**Financial Advisor**  
July 2018



\$370 million  
Sale of the rights to USL261 to  
**ucb**

**Financial Advisor**  
June 2018



Portfolio Company of  
**Corinthian Capital**

Sale to  
**BRP**

**Financial Advisor**  
June 2018




\$5.1 billion  
Sale to  
**BC Partners and Ontario Teachers Pension Plan**

**Financial Advisor**  
June 2018




\$245 million  
Sale to  
**PRIVET FUND**

**Financial Advisor**  
May 2018



\$1.3 billion  
Acquisition of  
**COVERIS AMERICAS**

**Financial Advisor**  
May 2018



Sale to  
**THE HALIFAX GROUP**

**Financial Advisor**  
April 2018




Sale of  
**Soy Flake & Flour Production Assets** to **Zeeland Farm Services**

**Financial Advisor**  
April 2018



\$825 million  
Sale to  
**SHUTTERFLY INC**


**Financial Advisor**  
April 2018



Subsidiary of  
**CECO ENVIRONMENTAL**

Sale to  
**Cincinnati Fan**  
a Portfolio Company of  
**DOMINUS CAPITAL**

**Financial Advisor**  
March 2018



Sale of  
**Textured Soy Protein Production Assets** to **Kansas Ethanol**

**Financial Advisor**  
March 2018



Portfolio Company of  
**AMERICAN SECURITIES**

Equity Investment by  
**PSP**

**Financial Advisor**  
March 2018



Portfolio Company of  
**DW HP**

Sale to  
**BayMark Health Services**  
a Portfolio Company of  
**Webster Capital**

**Financial Advisor**  
March 2018




Sale of  
(Select Bakery Assets)

**Financial Advisor**  
February 2018




\$120 million  
Acquisition of  
**FIELD ROAST**

**Financial Advisor**  
January 2018



Sale of  
**Soy Protein Isolate Production Assets** to **Ingredion**

**Financial Advisor**  
January 2018



On its sale of a controlling interest in  
**Tortoise**

To a **Lovell Minnick Partners** - led buyer group

**Financial Advisor**  
January 2018



\$400 million  
Sale of Medical Office Building portfolio to  
**HARRISON STREET | Real Estate Capital**

**Financial Advisor**  
January 2018

# Contacts



**Lyle Wilpon**  
 Managing Director  
 Head of Global Advisory  
 New York, NY  
 Tel.: (212) 702-1738  
 lyle.wilpon@bmo.com



**Seth Prostic**  
 Managing Director  
 Co-Head of U.S.  
 Mergers & Acquisitions  
 Chicago, IL  
 Tel.: (312) 293-8365  
 seth.prostic@bmo.com



**Rob Stewart**  
 Managing Director  
 Co-Head of U.S.  
 Mergers & Acquisitions  
 New York, NY  
 Tel.: (212) 702-1131  
 robertb.stewart@bmo.com



**Eric Nicholson**  
 Managing Director  
 Head of Middle Market  
 Mergers & Acquisitions  
 Minneapolis, MN  
 Tel.: (612) 904-5710  
 eric.nicholson@bmo.com



**Geoff Barsky**  
 Managing Director  
 Head of Canadian  
 Mergers & Acquisitions  
 Toronto, ON  
 Tel.: (416) 359-5660  
 geoff.barsky@bmo.com



**Gary Mattan**  
 Managing Director  
 Head of International  
 Mergers & Acquisitions  
 Toronto, ON  
 Tel.: (416) 359-6425  
 gary.mattan@bmo.com



We're here to help.™

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