Intralinks® Deal Flow Predictor

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

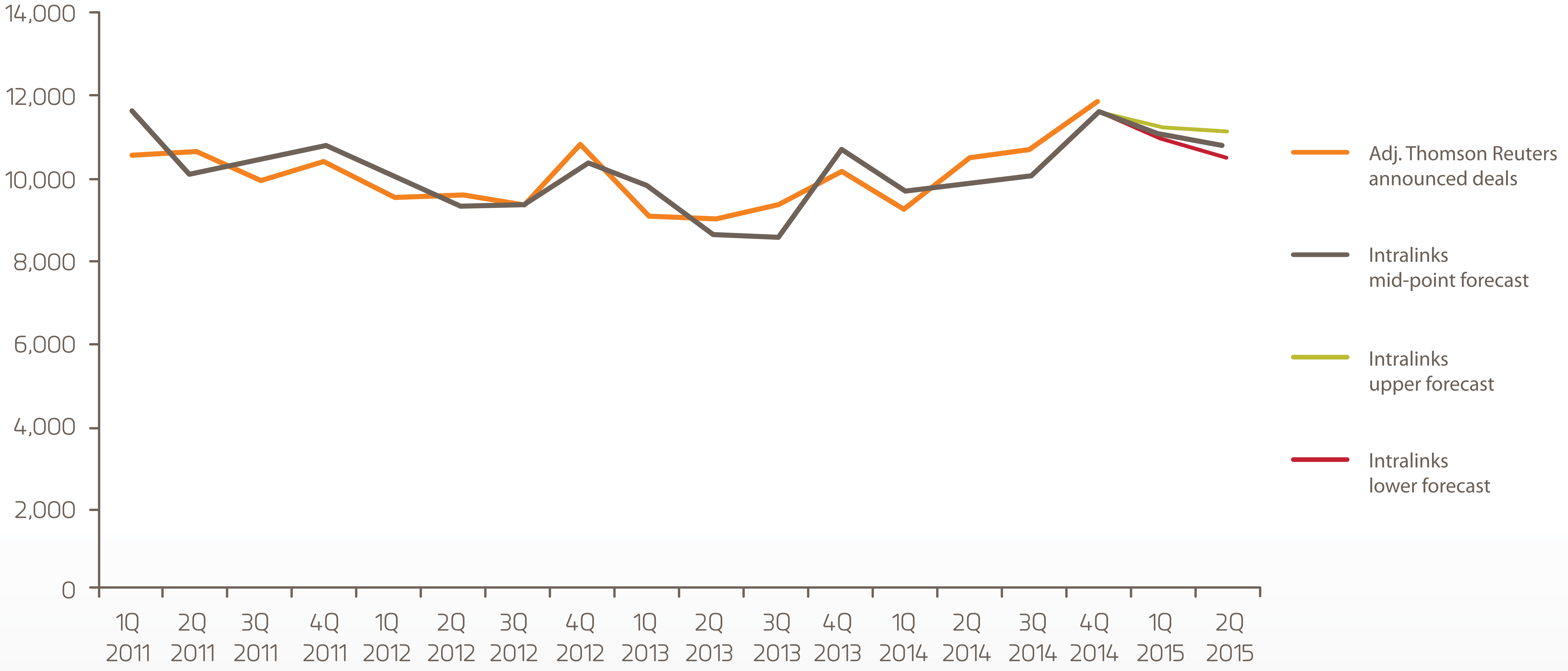
Forecast through Q2 2015

Intralinks Deal Flow Predictor: forecasting global M&A activity through Q2 2015

Welcome to the latest edition of the Intralinks Deal Flow Predictor (DFP) report. The Intralinks DFP forecasts the volume of future mergers and acquisitions (M&A) by tracking early-stage M&A deals — sell-side M&A transactions across the world that are in the preparation stage or have reached the due diligence stage. On average, these deals are six months away from their public announcement.

Intralinks is the leading global provider of virtual data rooms (VDRs) and has been in business for more than 18 years. Our involvement in the early stages of a significant percentage of the world's M&A transactions gives us unique insight into the expected volume of future announced M&A deals.

Predicting deals: Intralinks deal volume forecast versus Thomson Reuters reported volume of announced deals



The Intralinks DFP has been independently verified as an accurate predictor of future changes in the number of announced global M&A transactions. Quarter-over-quarter (QoQ) percentage changes in the Intralinks DFP typically are reflected (on average) six months later in announced deal volumes, as reported by Thomson Reuters. The Thomson Reuters data on announced deal volumes for the past four quarters has been adjusted by Intralinks for expected subsequent changes in reported announced deal volumes.

Introduction

With a 16.4 percent growth rate in early-stage M&A activity over the last 12 months (LTM), Europe, and the Middle East and Africa (EMEA) has overtaken North America (NA) (up 14.9 percent) as the fastest growing region. Early-stage M&A activity in Asia Pacific (APAC) remains robust, with LTM growth of 9.3 percent, driven by strong levels of activity in most of the region, with the exception of Japan. Latin America (LATAM) continues to show significant weakness, with an LTM decline of 11.4 percent, caused by weak deal-making environments in Brazil and Mexico.

Matt Porzio
VP of Strategy & Product Marketing

Our key predictions through Q2 2015:

1. The volume of global announced M&A in the first half of 2015 will be significantly above that of the first half 2014. The mid-point of our forecast is for 12 percent growth, with a range of 9 to 15 percent.

2. In EMEA, stable "safe-haven" countries such as Germany will continue to show strong levels of M&A activity. The rebound in activity in economies with strong recovery potential, such as France, Italy, and Spain, will continue. UK M&A may slow down prior to the general election on May 7, as dealmakers await the outcome. Any quantitative easing measures by the European Central Bank can be expected to be positive for M&A.

3. The U.S. will continue to perform strongly and underpin our global M&A growth forecast. Late in 2015, the U.S. Federal Reserve Board may begin to raise interest rates. However, even if this does happen, "new normal" rate levels will still remain far below historic norms and will not act as a brake to dealmaking.

4. The APAC region will be buoyant, with strong levels of activity in Southeast Asia, Australia and South Korea.

5. LATAM will continue to show weakness, with Brazil and Mexico acting as the main drag on the region's M&A activity.

Overview: strong 2014 creates significant momentum for M&A markets in 1H 2015

Announced deal volume and value will be up overall, but there is considerable variance by region

2014 was the first year since 2010 to see a return to significant growth for global M&A markets — both in terms of deal volume (number) and value. Global announced deal volume in 2014 has increased by 12.5 percent, compared to 2013, which is above our prediction (made six months ago) that we would see a 7 to 11 percent year-over-year (YoY) increase in 2014.

Deal value in 2014 is up even more, by 45 percent, driven by a sharp increase in the number of larger transactions. The number of announced deals over US $5 billion in value more than doubled to 80. This led to a 28 percent increase in average deal value in 2014. The total value of announced deals in 2014 was US $3.5 trillion, the highest level since the last peak in the M&A market in 2007.

Great expectations for 1H 2015

Based on the Intralinks DFP, we expect to see continued strong growth in announced deals YoY in the first half of 2015, although there will be some significant regional variations.

Mega deals (those over US $5 billion in value) will continue to dominate the headlines, as in 2014. However, the total number of blockbuster transactions will likely be less than in 2014 given the sharp increase we saw last year. Mid-market M&A, the mainstay of the M&A market, will remain strong and the rebound in financial sponsor activity will continue. On an industry level, we are seeing the strongest increases in early-stage M&A activity in the Telecommunications, Media & Entertainment (TME), Consumer, and Technology sectors.

Overview: continued recovery and positive momentum into 2015

EMEA and U.S. remain principal pillars supporting M&A growth

As mentioned, EMEA and the U.S. are the primary drivers of overall global M&A growth. Moreover, early-stage M&A activity in APAC is also strong.

Germany is one of the principal drivers in EMEA's performance, as its "safe-haven" status and high quality companies, many with leading positions in global export industries, continue to attract interest from acquirers, especially foreign ones: cross-border M&A deal volume into Germany jumped by 16 percent in 2014, compared to 3 percent for domestic German deals. France, Italy, and Spain are also performing strongly, as acquirers bet on economic recovery in those countries. The news in EMEA may get even better: the European Central Bank may decide to use unconventional monetary tools, such as quantitative easing, to combat deflation and the threat of a weakening economy. If this were to happen, these measures can be expected to be broadly positive for M&A markets in Europe. The United Kingdom (UK), the largest M&A market in Europe, has been a solid if unspectacular performer for the past few quarters. M&A activity in the UK may, however, slow down during the period before the general election in early May, as dealmakers await the outcome.

Although no longer the regional growth leader, North America has been on a long M&A growth run that remains relatively strong. However, the recent U.S. enactment of anti-tax inversion rules is putting a damper on big cross-border deals. These restrictions may make international deal-hungry corporations wonder if these types of M&A transactions will be really worth the effort.

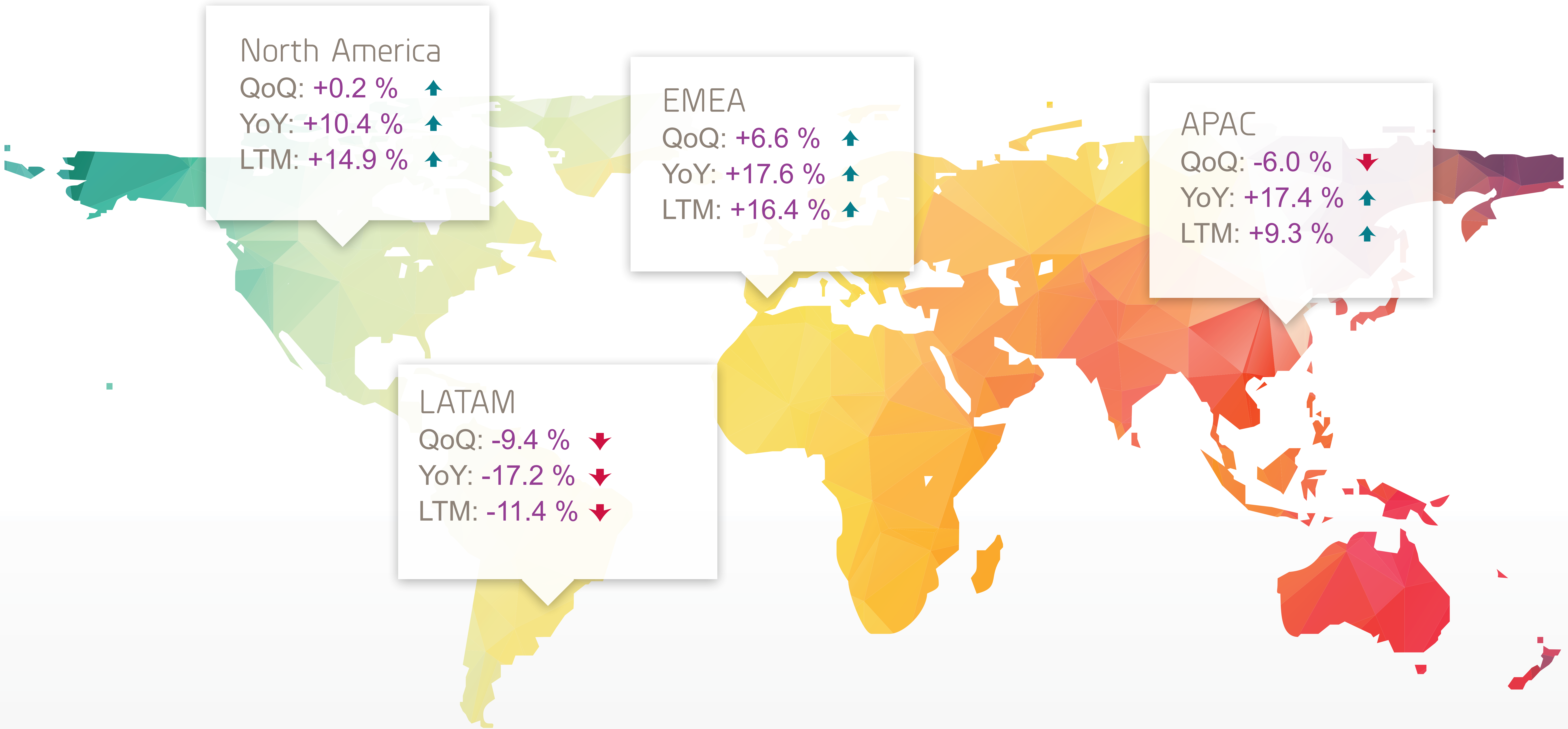
Commodity price woes hit LATAM M&A

Early-stage M&A activity in LATAM continues to decline. Sharp drops in prices for key exports such as oil and iron ore are hurting Brazil and Mexico, the region's two largest economies. The underlying cause for this malaise is that the commodity price super cycle (which was fuelled by rapid Chinese industrialization) has ended. And, the fact that the recent election in Brazil, which had been causing a major drag on the region, has now come and gone will most likely not remedy the poor dealmaking environment, given that Dilma Rousseff and her Workers' Party were re-elected. While some bankers expect Rousseff to implement more business-friendly policies, others fear that her penchant for intervening in the economy could further hamper investment and capital markets activity.

Most dealmakers remain confident, although sentiment has weakened compared to last quarter

The Intralinks global sentiment survey of M&A dealmakers conducted in Q4 2014 shows that the majority of dealmakers remain positive about the near term outlook for M&A, although sentiment has weakened (to 55%) since the previous quarter's survey (60%). The survey also reflects regional differences consistent with the Intralinks DFP data: in LATAM, only 35 percent of the respondents expressed optimism.

Regional snapshot: early-stage M&A activity across the world



INTRALINKS

Spotlight: Masters of the Deal, Part 1

Philip Whitchelo
VP of Strategy &
Product Marketing

In November 2014, Intralinks published the third report in our series of M&A research studies conducted in partnership with the M&A Research Centre at Cass Business School, part of the City University, London.

Following our earlier reports into M&A deal leaks ("M&A Confidential: what happens when deals leak," April 2013) and the impact of due diligence on M&A deals ("When no one knows: pre-announcement M&A activity and its effect on M&A outcomes," November 2013), this new report, titled "Masters of the Deal: Part 1," details the findings of one of the most comprehensive studies into the relationships between M&A and shareholder value creation ever undertaken.

The researchers at Cass analyzed more than 205,000 deals and 25,000 global firms over a 20-year period. They found that companies significantly underperform the market during periods when they announce no M&A activity (either acquisitions or divestments). And, interestingly, companies that do not engage in any M&A activity underperform even more significantly those companies which are actively engaged in M&A.

Further, the study found that companies outperform the market the more frequently they engage in acquisitions. The study also demonstrated that a limited amount of divestment activity by companies, once they reach a certain level of corporate maturity, also leads to market outperformance. Additional findings reveal that companies tend to deliver superior total shareholder returns when they engage in a strategic M&A portfolio management program that includes at least one acquisition per year and one to two divestments every three years.

Most previous studies of the relationship between shareholder value creation and M&A activity have focused only on the impact of individual deals over relatively short time periods. Typically, they show strong positive returns for targets and negative returns for acquirers. The new research findings challenge this conventional thinking. Unlike its predecessors, this study looked at the effect of M&A on companies' performance in the context of their overall program of M&A activity over multiple time periods.

The results indicate that the relationship between M&A activity and shareholder returns is more complex than previously thought. Also, the results indicate that when companies take a strategic approach to M&A portfolio management, they can significantly outperform both the market and their peers.

Spotlight: Masters of the Deal, Part 1

Key findings of the study include the following:

M&A inactivity leads to underperformance

As discussed above, companies underperform the market during periods when they announce no M&A deals (whether acquisitions or divestments). They significantly underperform companies that announce one to two deals. Total shareholder return for companies not active in M&A is 1.5 percent per year lower than the overall market and 3.2 percent per year lower than companies that announce one to two deals.

More frequent acquisitions lead to better performance

Considering acquisition activity alone, companies outperform the market the more frequently they announce acquisitions. Companies outperform the market by 0.1 percent per year during periods when they announce one to two acquisitions; by 2 percent per year during periods when they announce three to five acquisitions; and by 3.4 percent per year during periods when they announce six or more acquisitions.

Only moderate divestment activity results in better performance

Considering divestment activity alone, companies only outperform the market during periods when they announce a limited number of divestments and, in fact, they significantly underperform the market when they announce a higher frequency of divestments. Total shareholder return during periods when companies announce one to two divestments is 2.3 percent per year above the market. In contrast, companies underperform the market by 3.3 percent per year during periods when they announce three to five divestments and underperform by 3.6 percent per year during periods when they announce six or more divestments.

Young companies only outperform the market when announcing a high frequency of acquisitions and no divestments

On average, newly publicly listed companies underperform the market by 5.6 percent per year during their first three years after listing. However, when these young companies announce six or more acquisitions during their first three years of publicly traded status, they outperform the market by 3.8 percent per year. Any frequency of divestment activity by young companies is associated with significant market underperformance.

Older companies outperform the market when they announce a limited frequency of divestments

By way of contrast, medium-aged and mature companies (those which have been publicly listed for three to nine years and 10 or more years, respectively) only outperform the market when announcing one to two divestments every three years.

Companies with a strategic M&A portfolio management program deliver better shareholder returns

Based on the results of this study, medium-aged and mature companies on average deliver superior total shareholder returns with a balanced strategic M&A portfolio management program that includes at least one acquisition per year and one to two divestments every three years. Young companies, however, only outperform the market with a much higher frequency of acquisitions and no divestments.

Guest comment: the outlook for US mid-market M&A and lending

by Stuart Aronson, President and CEO of Sponsor Finance, GE Capital

If you are looking for a gloomy outlook for 2015's mid-market environment, then stop reading now. 2014 was a great year, with mid-market M&A up about 24 percent from the prior year. Based on the data flows I see, and the conversations I have had with people in the industry, 2015 has a solid likelihood of being even stronger. (The Intralinks Deal Flow Predictor confirms this, with its prediction for H1 2015, which shows an increase running between 9 percent and 15 percent.)

This is also validated by GE Sponsor Finance's pipeline. As we enter Q1 2015, our overall pipeline is up 20 percent YoY. The KPMG "2015 M&A Outlook Survey" further supports an optimistic view, with 82 percent of respondents expecting to close at least one deal in 2015, versus 63 percent in 2014. There are a number of factors that I believe will contribute to market strength this year for buyers, sellers, and lenders.

It all starts with the core economic outlook. Bloomberg is projecting gross domestic product (GDP) growth of 2.9 percent in 2015 and 2.8 percent in 2016. The view of GE Capital's economist is that there is potential upside from these levels. The basis for this optimism? To start, oil and gas prices.

Personal consumption represents about 68 percent of GDP, and history tells us that when U.S. consumers have more money in their pockets, they generally spend it. Lower gasoline prices are putting well over $100 billion of incremental spending power into the economy. Based on the impact of low interest rates, solid employment trends, and overall rising consumer confidence, GDP could grow by over 3 percent this year.

When the economic outlook is positive, buyers and lenders have confidence deploying capital. In addition to a stronger economy, the ingredients are in place for a robust M&A market:

1. Private equity (PE) firms are sitting on about $500 billion of uninvested capital
2. There is a large crop of seasoned assets in PE portfolios
3. Generally, sellers are getting great prices for normal assets (nine to 11 times) and commanding "strategic prices" (12-18 times) from financial buyers on high-growth assets
4. Financing markets are liquid and aggressive

Firms tell me that they want to sell everything they can into these market conditions. While it is clearly a seller's market, buyers appear willing to pay high prices, despite the apparent decrease in expected internal rate of returns (IRRs). While I do not know the private projections of PE buyers, from what is shared with the broader market, bidding on attractive assets appears to be at IRRs in the high-to-low teens.

Guest comment: the outlook for US mid-market M&A and lending

by Stuart Aronson, President and CEO of Sponsor Finance, GE Capital

Despite the apparent low IRR pricing, in more and more circumstances, PE firms are making high-priced “platform” acquisitions work, via add-on strategies. Of the 272 deals that GE Sponsor Finance did in 2014, almost half of them were for bolt-on acquisitions. In general, we see small bolt-ons occurring at 2-4 turns below the platform price. And in most cases, the add-on property instantly rises in value to that of the platform, creating instant value for owners.

A quick example: A PE firm pays 10 times for a platform company with $30 million of earnings before interest, taxes, depreciation, and amortization (EBITDA), and puts six times leverage on it with 40 percent ($120 million) of equity. Then, the PE firm does an $8 million EBITDA strategic add-on at seven times for $56 million, and gets an additional $0.5 million of EBITDA from verifiable synergies. Lenders, who would only provide 4.5 times the leverage ($36 million) if this were a stand-alone acquisition, will provide six times the leverage on the adjusted $8.5 million EBITDA of the combined firm for the add-on ($51 million). So, the PE firm is able to make the add-on with only 9 percent ($5 million) common equity being added. Having spent $356 million, the combined firm is now worth $385 million.

The mid-market financing sources are poised to support strong activity in 2015. Despite loan fund outflows ($17 billion in the 25 weeks leading up to year end 2014) and business development companies (BDCs) trading below net asset value (NAV), there is an abundance of capital available.

In the upper-mid-cap senior debt market, most of this comes from the record issuance of collateralized loan obligations (CLOs). The CLO buyers have driven a surge of increasingly aggressive terms, including higher multiples, more aggressive documents, and other bond-like features. Covenant-lite transactions are reported to account for approximately 51 percent of middle market deals, up from 33 percent last year.

Of concern is the resurgence of “adjusted EBITDA.” For example, in some cases where the headline leverage is 4x-6x, we believe that actual leverage is 5x-7.5x or higher. As more of the regulated institutions conform to the Federal Reserve’s leveraged lending guidelines, I expect to see fewer deals brought to market that are structured like this. There was a noticeable trend at the end of 2014 involving increased credit focus from second-lien lenders, who rejected certain stretchy deals, and forced pricing and structural concessions.

The core mid-market (EBITDA of $10 million to $49 million) is also strong. While the lending standards in core mid-cap are more stringent (it’s really difficult to adjust EBITDA by 50 percent-plus in this market), the terms available to borrowers are very good (based on historical standards), and I believe financing options will remain plentiful in 2015.

Guest comment: the outlook for US mid-market M&A and lending

by Stuart Aronson, President and CEO of Sponsor Finance, GE Capital

I would be remiss to not include a cautionary note in this positive outlook. Currently, futures markets predict that the three-month Libor will rise from its current levels (25 basis points (bps)) to 90 bps at year end 2015, and continue to rise to 180 bps by year end 2016. This is based on expectations that the Fed will hold off rate hikes until the latter portion of the year.

But if the economy shows strength above what is projected, it's entirely possible the Fed will act more quickly and aggressively. We could finally see the rate spike that many had (incorrectly) predicted for so long. Other items which could have a dampening impact include a Russian debt event, and too much strength in the U.S. dollar.

It's a good time in the middle market. Default rates are very low. Volume is high. Sellers are getting their prices. And buyers are finding ways to still make money, despite the high valuations they are forced to pay. While we all know that a down cycle will eventually come, so far, the data flows and economic trends suggest that a down cycle is still a few years off.

Sentiment survey

Based on our Q4 2014 global sentiment survey, dealmakers remain upbeat overall, despite a dip in optimism from the prior quarter, and they expect Energy & Power to be the busiest sector in the next six months.

Highlights of the Q4 2014 survey results include:

55% of M&A professionals are optimistic about the deal environment in the next six months, compared to 60 percent being upbeat in the previous quarter

64% expect deals volumes to increase over the next six months, compared to 69 percent in the previous quarter

60% think that the significant increase in the number of mega-deals that have been announced in 2014 is a useful indicator of the health of the broader M&A market

43% said the biggest barrier to M&A is being able to locate a suitable buyer

About: the Intralinks Deal Flow Predictor

The Intralinks DFP provides Intralinks' perspective on the level of early-stage M&A activity taking place during any given period of time.

The statistics contained in this report reflect the volume of VDRs opened, or proposed to be opened, through Intralinks or other providers for the purpose of conducting due diligence on proposed transactions, including asset sales, divestitures, private placements, financings, capital raises, joint ventures, and partnerships.

These statistics are not adjusted for changes in Intralinks' share of the VDR market or changes in market demand for VDR services. These statistics may not correlate to the volume of completed transactions reported by market data providers and should not be construed to represent the volume of transactions ultimately consummated during any period of time. Indications of future completed deal activity derived from the Intralinks DFP are based on assumed rates of deals going from diligence stage to completion. In addition, the statistics provided by market data providers regarding announced M&A transactions may be compiled with a different set of transaction types.

To verify the predictive nature of the Intralinks DFP, we compared the data underlying the Intralinks DFP with subsequent announced deal volume data reported by Thomson Reuters. We engaged an independent statistical analysis firm to perform a linear regression analysis of the data for the period Q3 2011 to Q2 2013. This analysis showed a very high level of statistical significance, with a more than 99 percent probability that the Intralinks DFP is a statistically significant six-month predictive indicator of announced deal data, as reported by Thomson Reuters. These statistics put the Intralinks DFP on par with U.S. government forecast data for inflation, unemployment and GDP in terms of predictive value. We plan to periodically update the independent statistical analysis to confirm the Intralinks DFP's validity as a predictor of future M&A activity.

The Intralinks DFP report is provided "as is" for informational purposes only. Intralinks makes no guarantee, representation or warranty of any kind regarding the timeliness, accuracy or completeness of the content of the report. This report is based on Intralinks' observations and subjective interpretations of due diligence activity taking place, or proposed to take place, on Intralinks' or other providers' VDR platforms for a limited set of transaction types. This report is not intended to be an indicator of Intralinks' business performance or operating results for any prior or future period.

This report is not intended to convey investment advice or solicit investments of any kind whatsoever.

About Intralinks

Intralinks Holdings Inc. (NYSE: IL) is a leading global technology provider of inter-enterprise content management and collaboration solutions. For more information, visit www.intralinks.com.

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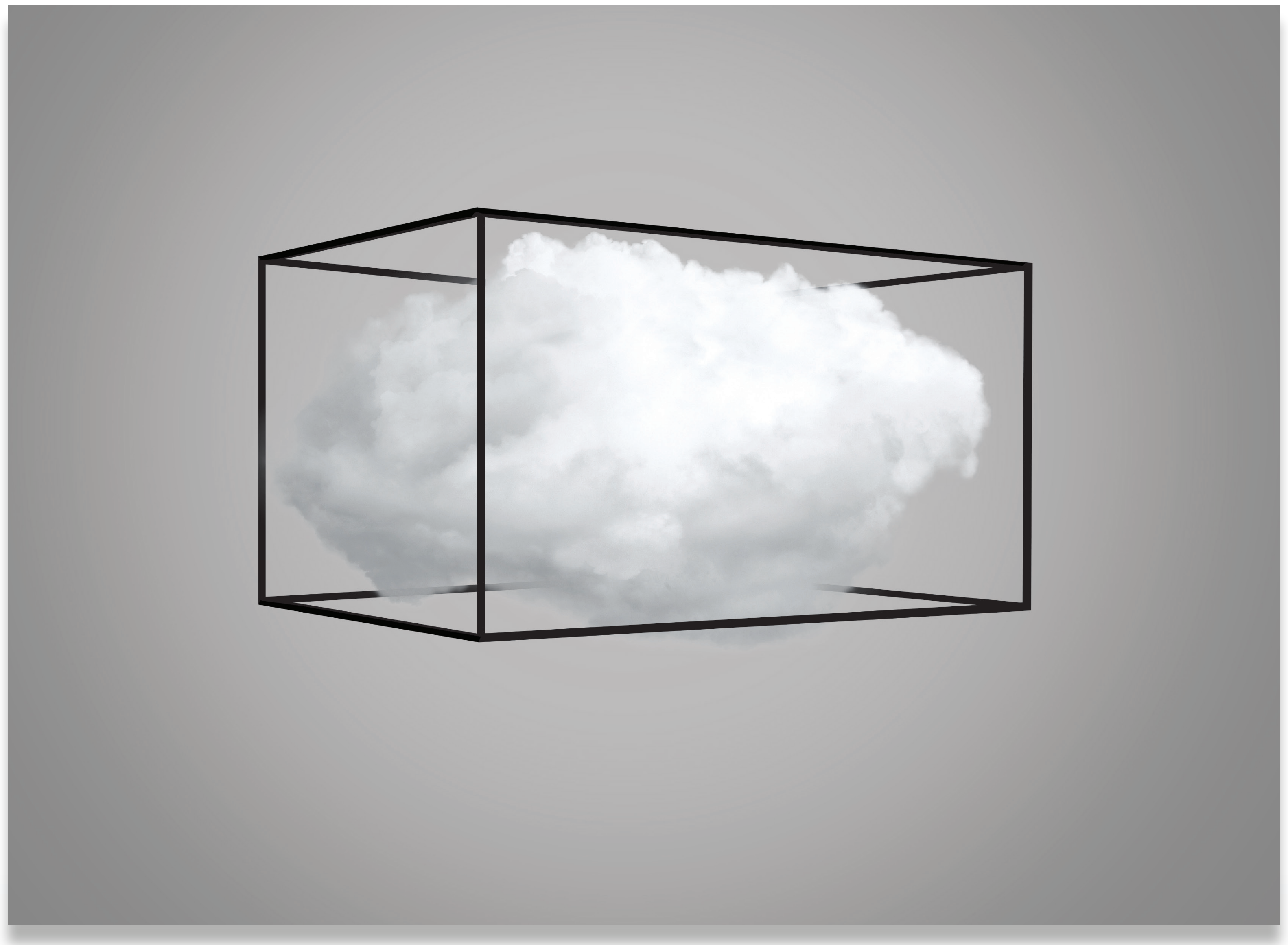

Thanks to Thomson Reuters for permission to use their M&A deal reports and related data in the DFP report.

The Intralinks Dealmakers Sentiment survey polls a global sample of active M&A professionals taken from the Intralinks database. The survey was conducted in September 2014 and received 700 responses.