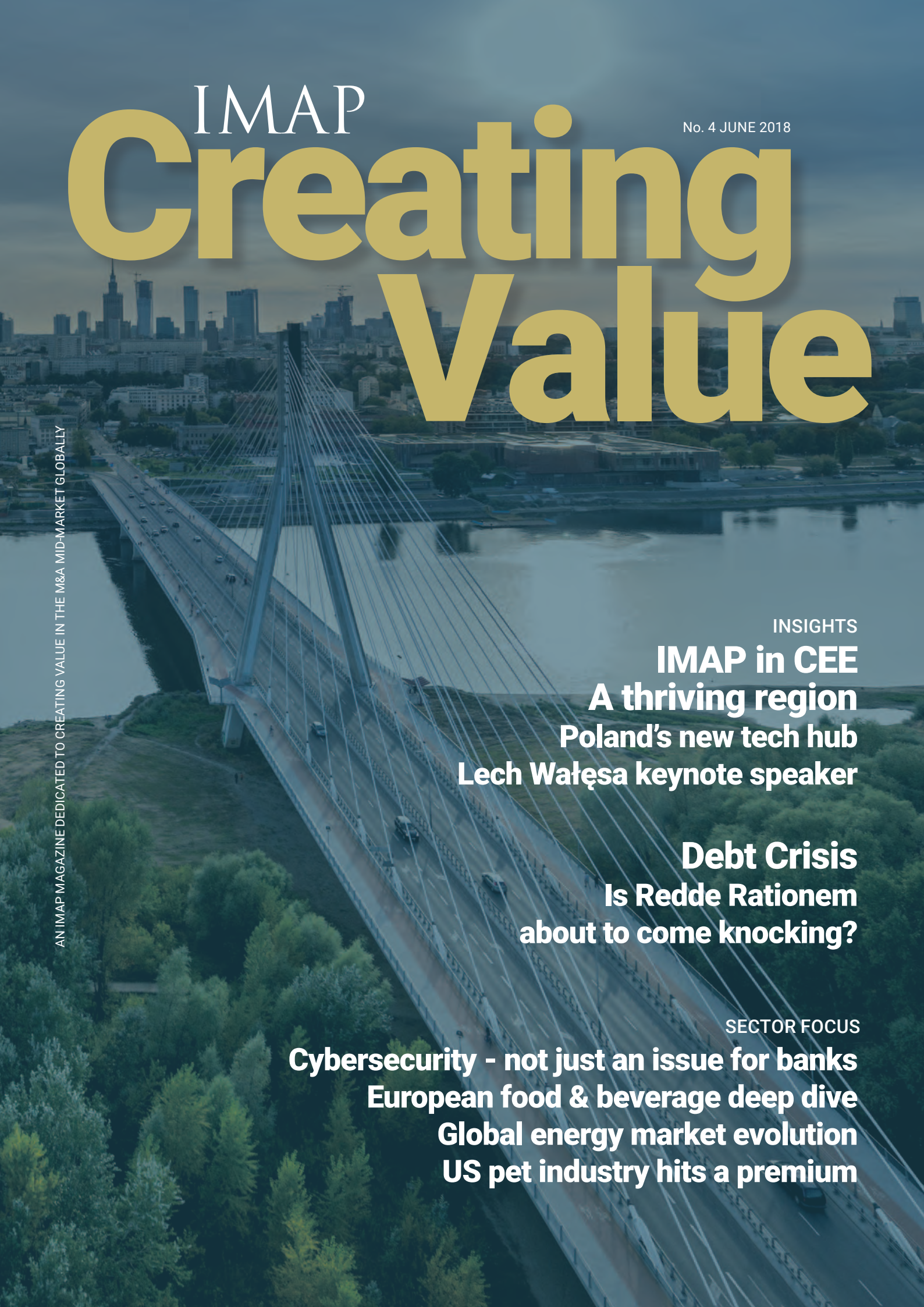

IMAP

Creating Value

No. 4 JUNE 2018

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

INSIGHTS

IMAP in CEE
A thriving region
Poland's new tech hub
Lech Wałęsa keynote speaker

Debt Crisis
Is Redde Rationem about to come knocking?

SECTOR FOCUS

Cybersecurity - not just an issue for banks
European food & beverage deep dive
Global energy market evolution
US pet industry hits a premium

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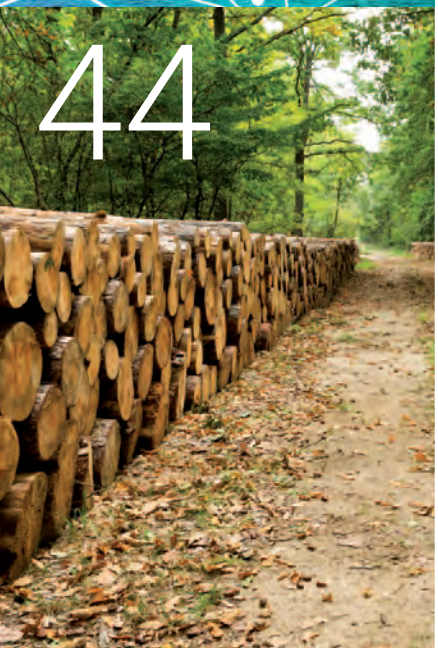

Chairman's Foreword

I am proud to introduce the fourth issue of Creating Value. What started as an idea just a short time ago is becoming a serious journal of M&A and macroeconomic analysis and discussion. Congratulations to our editorial team, led by Carsten Lehmann and Gabor Szendroi.

As we go to press, a trade war looms between the US and its closest allies, signaling the end of the US-led post-WWII order. What will replace it and what effect this will have on the world's economic development, or on all of our business models, we just don't know. However, what we do know, is that at the moment the M&A environment, in the words of one of our partners, is "frothy" – deals everywhere – and all of our partners are working flat-out. How long this will last and what will come next – we'll just have to wait and see.

In this issue we re-cap on some of the themes covered in our recent conference in Warsaw. CEE is really the "canary in the coal mine" – outsized growth, frenetic private equity activity and new technologies, but also, a tight labor market, rising inflation, and most disturbingly, growing populist movements that threaten the structure of the European idea. Former Polish President Lech Wałęsa gave our keynote address. He was a hero of freedom and in the minds of most of us, a symbol of a more idealistic, but now nostalgic era when everything was possible.

We have a new government in Italy and very appropriately, two interesting articles that highlight two well-known, but contradictory themes in the Italian market: food and debt. We interview Mergermarket Dealmaker of the Year, Alberto Gennarini, about the resilience of the Italian food and beverage sector. Meanwhile, Daniele Sottile reminds us that the Italian debt overhang is still far from being resolved.

Like many of you, I lavish more love, attention (and money) on my pet, Lily, a faux Nova Scotia Duck-Tolling Retriever, than is entirely logical. But we are only humans and as a result, the pet industry is soaring – read about what is happening in our two articles regarding M&A activity in the pet specialty retail and animal health industries.

Finally, a few words about changes here at IMAP. Firstly, at the beginning of 2018 our US partner Capstone acquired Headwaters MB, making the combined Capstone Headwaters one of the leading mid-market M&A groups in the US. Congratulations to the team at Capstone and welcome to the team at Headwaters – this is really a major achievement! Secondly, we welcome our newest partner, Verdant Capital, based in South Africa and with offices in Johannesburg, Accra, Kinshasa and Mauritius. This brings the number of IMAP offices in Africa to eight – considering that by 2050 three of the five largest cities in the world will be in Africa, we are off to a good start.

We will be meeting with Analysts and Associates in Zagreb in September and at our regular bi-annual international conference in Miami this October. We'll be back with new ideas, new challenges and a few surprises in the Fall!

So, on behalf of myself and Lily, enjoy this issue and enjoy the summer!

JURGIS V. ONIUNAS
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IMAP's 2018 Spring Conference in Warsaw

IMAP Chairman, Jurgis Oniunas, discusses Warsaw as a fitting choice for IMAP's 45th anniversary year spring conference

WHY THE CENTRAL AND EASTERN EUROPE (CEE) REGION THIS YEAR?

Back in 2007, IMAP held its first conference in CEE, in Prague. Key decisions were made there by IMAP leaders with a strong vision for the future, that ultimately led to where our business is today; the premier independent middle-market M&A partnership in the world. After many subsequent years holding our conferences in Western Europe, it is fitting that in our 45th anniversary year, we are now back in CEE, which following years of transition and crisis has shown a remarkable economic comeback.

HOW DO YOU VIEW THE OUTLOOK FOR THE CEE REGION?

Though we are living in turbulent times, the future for the region remains upbeat and optimistic. It is showing signs of growth not only in terms of GDP, but also in terms of competitiveness, which is vital to its capacity for long-term growth. Last year economic growth in the region hit an eleven-year high – with its mounting prowess in manufacturing, along with its supply chain integration with Western Europe, CEE is one of the few big success stories outside of the Far East.

Last year economic growth in the region hit an eleven-year high – with its mounting prowess in manufacturing, along with its supply chain integration with Western Europe, CEE is one of the few big success stories outside of the Far East

JURGIS V. ONIUNAS
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WHAT IS IMAP'S STRATEGY IN TERMS OF ACTIVITY IN CEE?

This is an important region in which IMAP is strategically placed; with prestigious, experienced and connected teams across the region. In fact, our host for this conference IMAP Poland – Trigon, was named Best Investment Bank in Poland last year by Euromoney Awards for Excellence, proving the caliber of our partners.

We are seeing significant M&A activity and pipeline and with our local market knowledge, access to key players and global footprint, we are able to offer our clients access to the many investment opportunities the region offers.

A GATHERING OF LEADERS AND INNOVATORS

As well as the 160 IMAP delegates from across the globe, the conference boasted prominent external guest speakers who participated in various panel debates, discussing the CEE region, the New Tech sector and Private Equity, amongst other focus areas.

We are also extremely proud to have had Nobel Prize Winner and former Polish President Lech Wałęsa, as our symposium keynote speaker. Who better than one of the symbols of the re-birth of the region to share with us his views on the future of Europe.

> *The IMAP conference in Warsaw was an excellent forum to showcase the dynamic economic environment which has been building steadily in Poland over the past two decades. International investors and PE firms are increasingly attracted to opportunities here, which is driving M&A activity and valuations*

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New Tech: One of Poland's Leading Sectors

During the Warsaw Conference, IMAP held a New Tech Panel, with panelists participating in a motivating discussion looking at how the sector is evolving, what this means for CEE companies and how to be successful in the market. The panel was led by Piotr Chudzik, Managing Partner at IMAP Poland-Trigon

NO SHORTAGE OF TALENT AVAILABLE

The new tech sector is positively booming in CEE, having seen 500% growth in market capitalization since 2015. With large companies such as Skype both founded and run from the region it is no surprise that new tech is one of the leading sectors in CEE. But why is this - why is the CEE a growth platform? One answer is the immense talent pool, with Poland ranking 4th in the number of higher education graduates in mathematics and high tech - though it's not just volume, but also cost, with CEE talent significantly cheaper than in the Western World.

LEARNING FROM EXPERIENCE

The fact remains that 50% of global tech consumption is in the US, which begs the question - should businesses move to the US, or at least learn from it? Labor in the CEE region is affordable, so in terms of team size, it offers more possibilities of creating large teams. However, though many of the best engineers derive from the CEE region, they are perhaps not as experienced and could benefit from training, in order to produce the same level of results as in the US.

There are also an increasing number of young, ambitious entrepreneurs with sights set on moving out of the region, into Europe or the US. There lies an opportunity to encourage the exchange of talent, knowledge and culture, through business exchange programs; a win-win for CEE, bringing international know-how directly into CEE firms where it can be developed in-house.

BECOMING GLOBAL

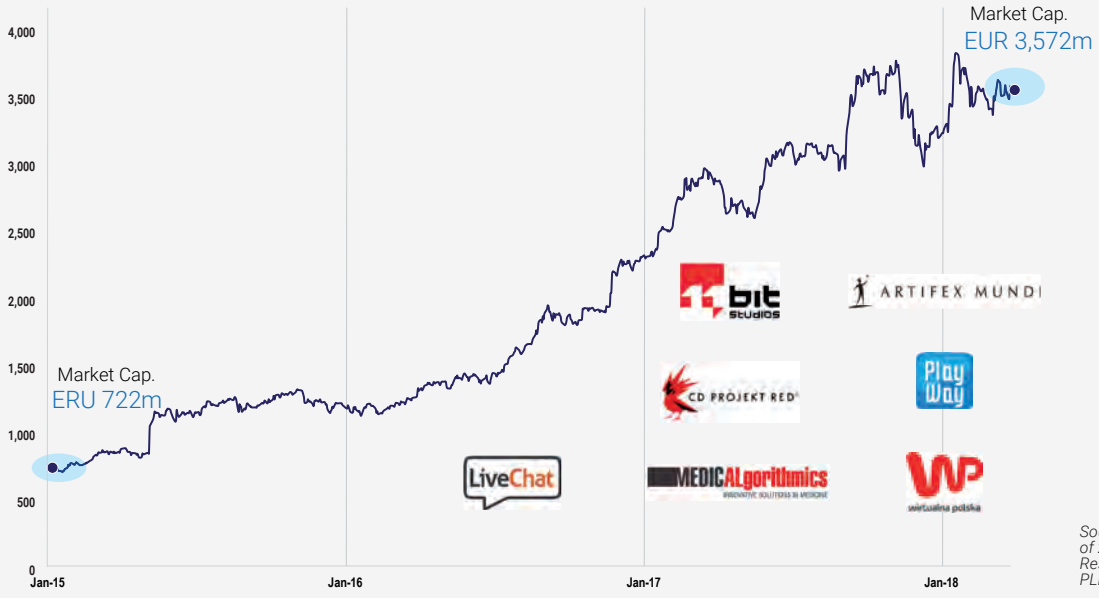
Companies need to focus more on business development which doesn't have the same emphasis as IT, which is reflected in IT salaries sitting at 30% higher than business development. With more focus on IT, many companies are not currently very effective at creating global brands, with global names and a global reach. This mindset must change in order to successfully compete with international brands.

OPPORTUNITIES IN VERTICALS

Ecosystems for specific verticals will also become increasingly important, with emerging sectors holding great potential, although some of the perhaps more random verticals will require careful management. Bio-tech offers opportunities

CEE NEW TECH SECTOR

500% GROWTH IN MARKET CAPITALIZATION



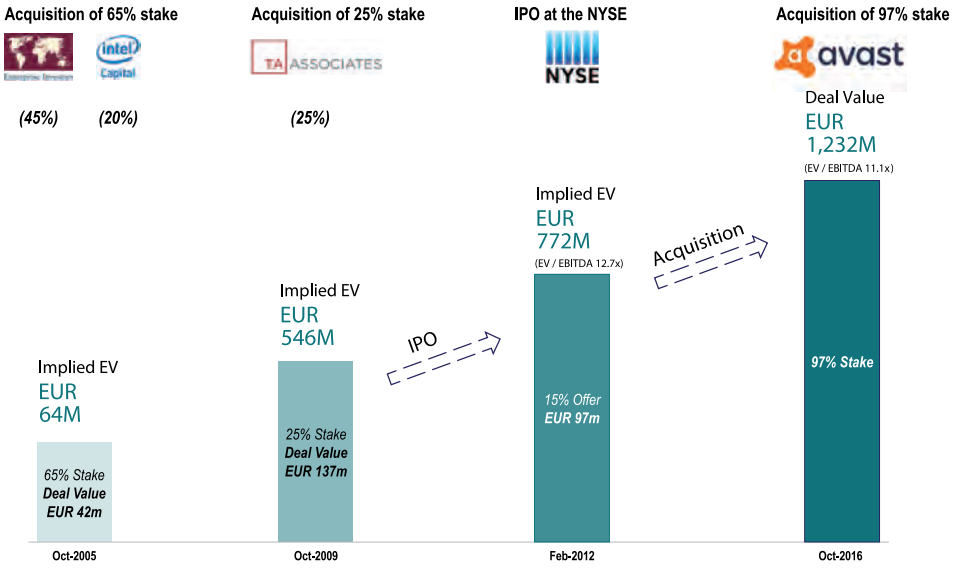
Source: Stooq - data as of 27.03.2018, Trigon Research, IMAP PLN/EUR = 0.2374

LEADING NEW TECH COMPANIES FROM THE CEE REGION

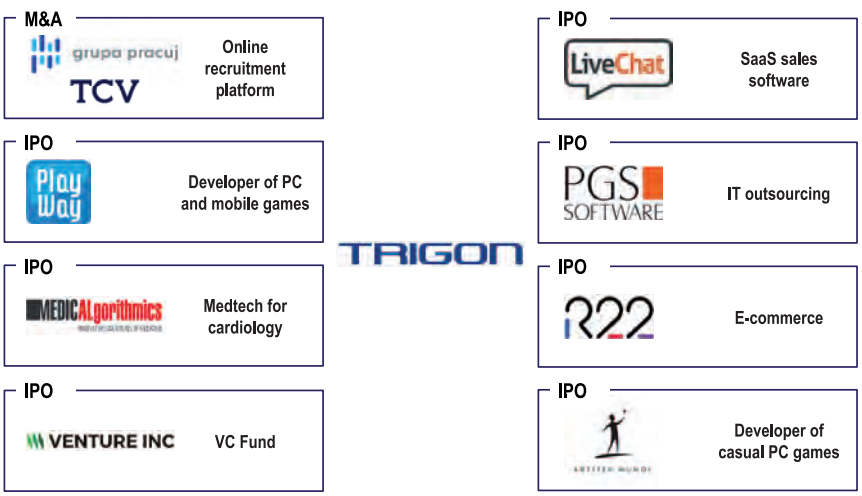
allegro — *E-Commerce Platform*	TECHLAND — *Game Developer*	SILVAIR — *Lighting Firmware*	ZOOT. — *E-Commerce Platform*
CD PROJEKT RED — *Game Developer*	grupa pracuj — *Online Recruitment*	avast / AVG — *Antivirus Software*	skype — *Communication Software*
LiveChat — *Sales Software*	SALES MANAGO — *Marketing Automation*	KIWI.COM — *Online Travel Agency*	

for smaller CEE companies, as well as the agricultural sector, where technology is playing an ever-important role. IOT, Cybersecurity and Gaming have already been identified as key verticals, with Poland fast becoming a center of excellence for global leaders in video game development. However, timing is key and in markets where there are no big US players, companies need to improve time-to-market standards, with faster production; being first at getting new technology to market.

CASE STUDY AVG UNICORN FROM CENTRAL EUROPE



IMAP POLAND – TRIGON LEADING TECHNOLOGY INVESTMENT BANKING PRACTICE



Market Outlook Positive for PE Investment

At the Warsaw Conference, IMAP held a Private Equity Panel. During the debate, 7 esteemed panelists discussed the PE sector, challenges faced raising funds and key opportunities for investors

CHALLENGING YET ACTIVE MARKET

Overall, there is confidence in the CEE market and lots of M&A activity, though deal size is smaller than in the West, with PE Houses specifically interested in Poland, the Czech Republic, Serbia, Hungary and Romania. In fact, these top 5 countries comprise 82% of deals closed between 2013 and 2016. One of the main challenges facing the region is funding itself and how to raise funds. There is a lack of Institutional PE investors in Poland and though there is confidence in the pipeline, more funds are required. The market makes it difficult for fund sizes to increase, meaning that it is harder for funds to evolve, affecting investment opportunities.

Looking specifically at Poland, there are currently four fountains of deal flow:

1. Too many small companies is leading to consolidation in many fragmented sectors
2. International expansion by emerging leaders - moving from Eastern to Western, to global players
3. Family owned companies moving into succession
4. Deconsolidation of industries that are still very monopolistic/oligopolistic

INTERNATIONAL OPINION IMPACTING DEAL MAKING

The environment for fund raising is still better and more positive than in previous years. However, international fund raising still remains difficult as country opinion and political stability remain at the forefront when discussing deals. Despite CEE convergence to Western Europe and its positive supply chain integration, more time is required to explain the political status and macro situation of different countries in the region.

POSITIVE PROGNOSTIC

Leaving fund raising issues aside, there is a big flow of money into Poland, so the overall outlook is positive. Though inflated first round valuations can make the second round more difficult, with tickets of €10-20 million there is generally limited competition – this is seen as a rule, only with larger cap tickets. Equity tickets up to approximately €20-25 million are normally more interesting for local investors as opposed to international funds.

In Poland, there is also limited competition from the public market at present, so the PE space is increasingly attractive. Macro prospects for the next 10-15 years are optimistic due to an attractive asset class.

LESS MATURE MARKETS MOTIVATING NEW TREND OF INVESTORS

Though China has previously been investing in the EU, this has now dropped over the last 3 years and the largest inbound investment has been from the US, where there has been cyclical investment. However, funds are now euro rather than dollar based, which has caused a displacement of US based investors. Furthermore, the US is interested in big funds as opposed to the low-end market and the same applies to China and other Asian countries, which are looking to invest, but only large quantities.

Asia in general is more problematic, due to numerous factors. Culturally the countries, markets and outlook are very different and many issues can arise during execution, with Asian PE investors generally requiring more time to make investment decisions which follows a long period of observation. In many cases, the negotiation of the deal is the easy part; it's the execution which is more important and challenging.

TOP TRANSACTIONS BY PRIVATE EQUITY FUNDS IN THE CEE REGION

Top 20 transactions completed by private equity funds in Central and Eastern Europe by size (2016 – YTD)

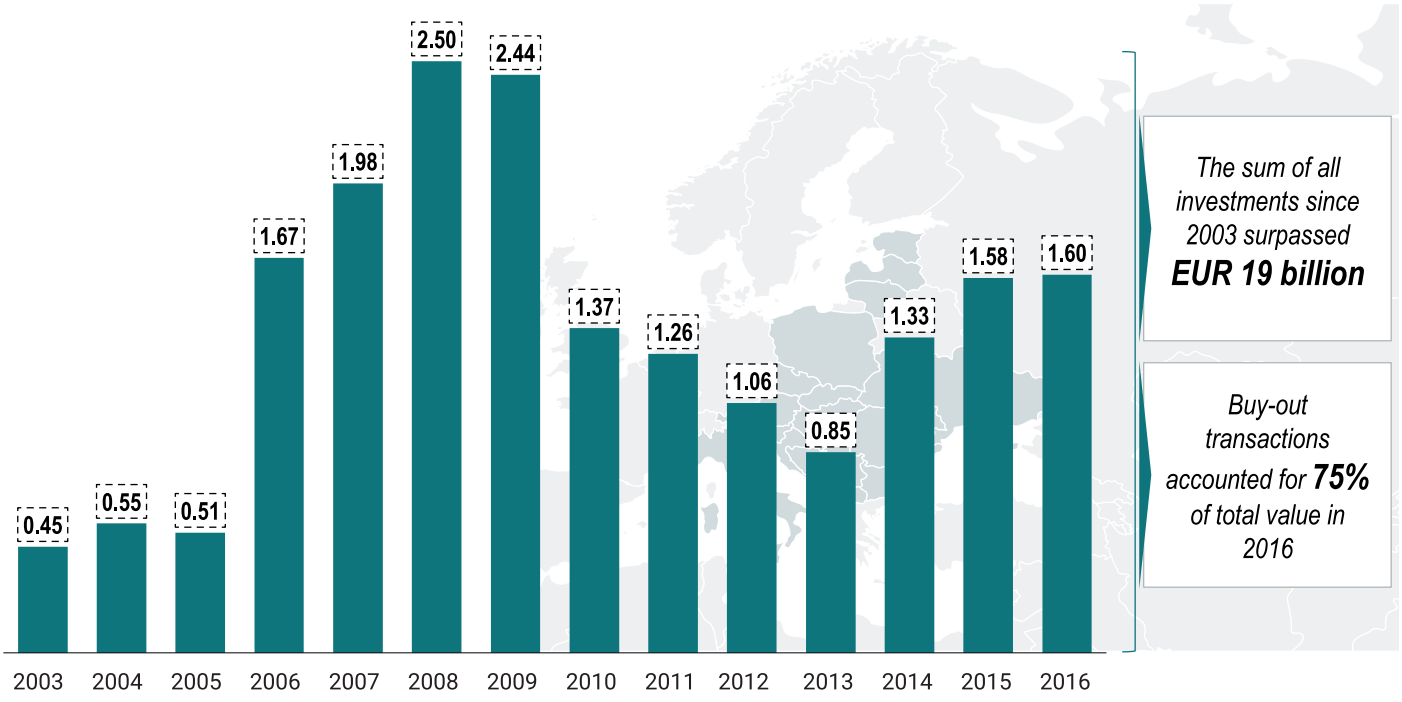
	Target	Deal value (EUR bn)	Country	Bidder
1	allegro	2.95		Cinven, MidEuropa, Permira
2	żabka	1.30		CVC Capital Partners
3	PROFI	0.53		MidEuropa
4	ROBYG	0.38		Goldman Sachs
5	ALPHA MEDICAL	0.37		Apax Partners
6	SGL GROUP	0.25		Triton[1]
7	Nova KBM	0.25		Apollo, European Bank
8		0.24		Bridgepoint
9	FOOD UNION	0.21		Prime Meridian, PAG
10	inVitel	0.20		CEE Equity Partners

Source: MergerMarket as of March 2018

(1) Triton Partners acquired Cathodes, Furnace Linings and Carbon Electrodes (CFL/CE) businesses of SGL Carbon SE

INVESTMENT ACTIVITY OF PRIVATE EQUITY FUNDS IN THE CEE REGION [1]

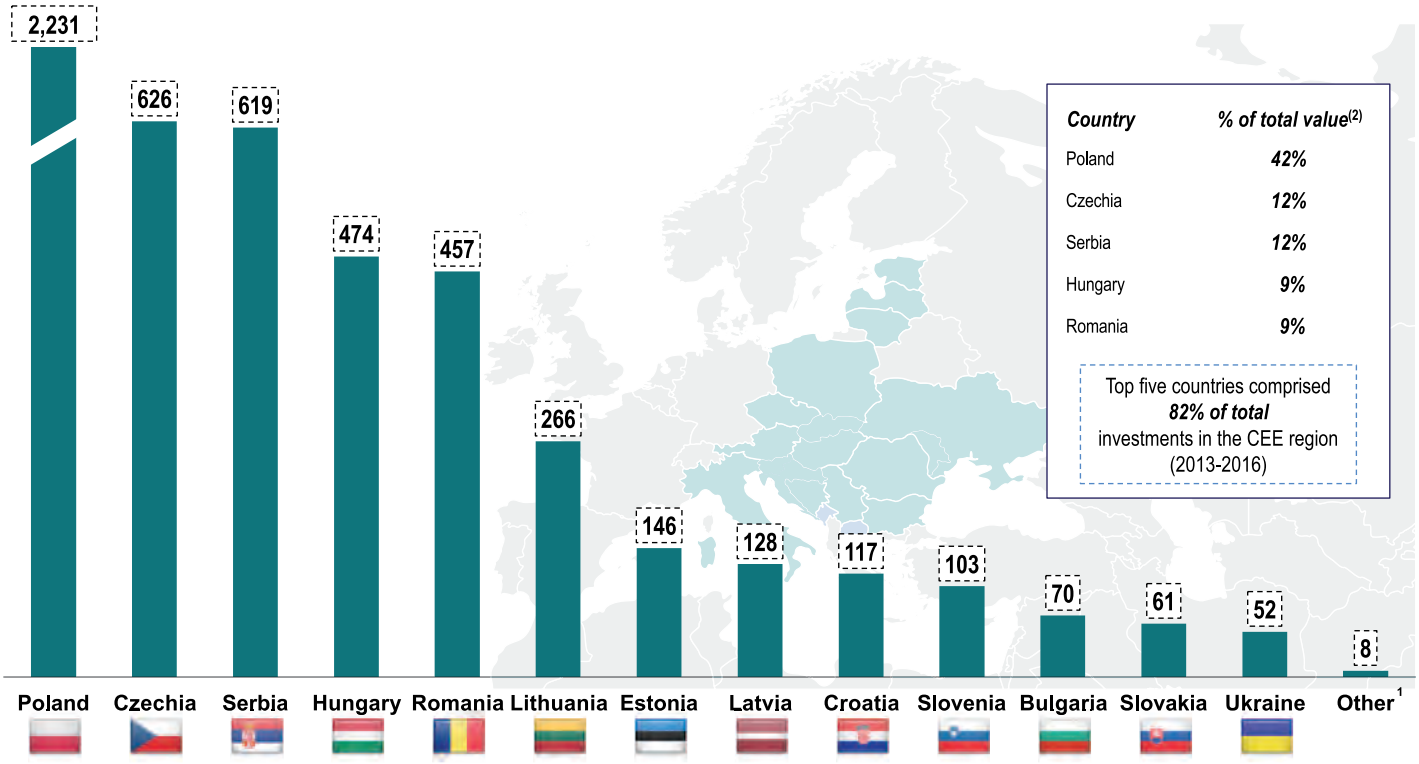
Annual investment value in the CEE region (in EUR bn)



Source: Invest Europe Report 'Central and Eastern Europe Private Equity Statistics 2016'
(1) The CEE region consists of countries: Bosnia & Herzegovina, Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine

INVESTMENT VALUE IN THE CEE REGION BY COUNTRY (AGG. 2013-2016, IN EUR mn)

Annual investment value in the CEE region by country (agg. 2013-2016, in EUR mn)



Source: Invest Europe Report 'Central and Eastern Europe Private Equity Statistics 2016' (1) Other consists of Bosnia & Herzegovina, Macedonia, Moldova and Montenegro (2) In 2013-2016 period

Analyst & Associate Program – Collaborative Mindset Workshop

Investing in talent and the future generation of IMAP Leaders

At IMAP we have a unique global footprint – now almost 500 M&A professionals in 60 offices around 39 countries – so cross-border collaboration is without a doubt, crucial to the success of our business. We create value for our clients by leveraging not only the depth, but also the diversity, of our resources and recognize that our biggest asset is our people. Therefore, we invest in ensuring that we are creating the ideal environment for the professional growth and development of the future generation of IMAP leaders.

To that end, the Warsaw conference saw IMAP bring something completely new to the table for its popular Analysts & Associates Program; in the form of a one-day Collaborative Mindset Workshop. Run by Alpha Development, whose clients are amongst the world's top financial institutions, the session was tailor-made for IMAP and the 45 analysts and associates attending the conference.

Focusing on the 3 C's: Communication, Collaboration and Culture, the interactive workshop aimed to leverage knowledge and unlock the organizational potential across IMAP, through a series of innovative pop-up exercises and simulations. The participants from many different countries across the globe shared their learning experiences, knowledge and ideas in order to complete various tasks together, culminating in a final presentation related directly to the IMAP business, to members of the IMAP board.

Harry O'Connor, Analyst at IMAP Ireland, said, "The Analysts & Associates (A&A) Program allowed me to build and strengthen my international IMAP contacts in a thought-provoking and enjoyable environment. Being surrounded by peers with both common challenges and experiences of the IMAP organization, helped us to generate ideas and solutions that will enhance the efficiency and effectiveness of IMAP's A&A collaborative efforts. On a personal level, I developed my presentation and communication skills and learnt about the differences and similarities across cultures. The workshop was an extremely beneficial program that I look forward to participating in again in the future."

Poland and Central Eastern Europe (CEE): Economic Convergence to Western Europe

Economic development, increased competitiveness, manufacturing prowess and supply chain integration are putting CEE countries on the map, driving convergence with Western Europe

GETTING A GRASP ON THE CEE MARKET

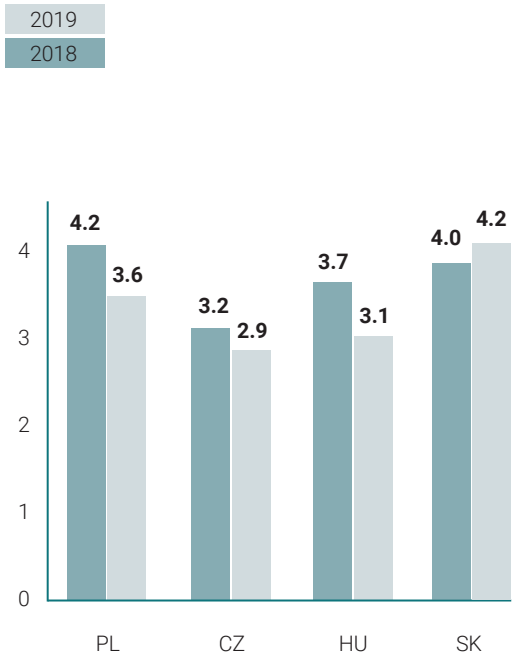
The CEE market is a difficult one to grasp; it is unlike Latin America, Africa and Asia, it's not an emerging market, nor a Germany or Sweden - begging the question, what is it? Put quite simply, it's thriving.

Pre-2008, Europe's two peripheral regions were operating under two markedly different growth models compared to the northern region:

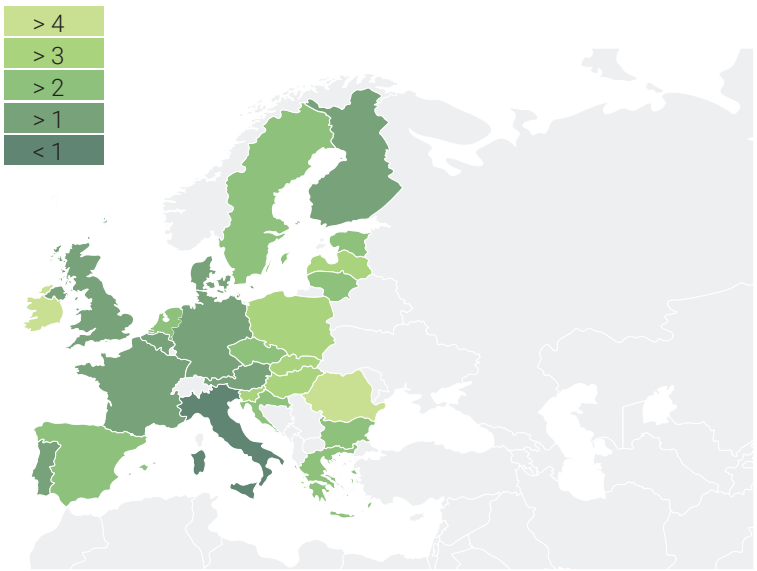
- **Northern Europe (NE):** capital export to the periphery, increasing export to the periphery
- **Southern Europe (SE):** consumption-based growth, capital (debt) import from the center
- **Eastern Europe (EE):** consumption and investment-based growth, capital (debt and equity) import from the center

It's perhaps not surprising therefore, that they have shown dramatically different recovery trajectories. Whereas SE has been struggling, EE has been positively booming over the last 10 years; with a 6% growth per annum and the GDP in many countries in the region significantly above the EU average. In fact, since 2008, only China has performed better that CEE in terms of growth and more importantly, as well as being a best performing region in the EU, macroeconomic stability has not been sacrificed in the process, as it remains a low debt economy.

REAL GDP GROWTH FORECAST, 2018-2019 (%)



REAL GDP GROWTH IN EUROPE, 2017 (%)



WHY THE EXTRAORDINARY GROWTH PATH?

The accelerating recovery of the Eurozone is one factor, but there has also been an increase in domestic demand, consumption and investment growth. Another factor is Germany. Post crisis, German companies outsourced manufacturing to CEE, due to its physical proximity and free flow of capital. Over time is has become a deeply integrated part of the German manufacturing economy and is the only region there with a zero trade balance.

Should foreign owned countries decide to leave, it's clear that it would be detrimental to the economy, but as yet this is not the case and both live for the time being in parallel.

A CONTINUOUSLY IMPROVING LEVEL OF ECONOMIC COMPLEXITY

The CEE countries have grown not only in terms of GDP, but also in terms of their competitiveness, which of course greatly influences their long-term growth capacity. Based on current forecasts, growth rates are expected to remain above 3.0% during the next two years. Although forecasting economic growth over a longer time period is always very challenging, there are competitiveness indicators that help assess the long-term economic growth potential of the region.

Among the many different competitiveness rankings relying on qualitative sub-indicators developed by international organizations, is the Economic Complexity Index (ECI). The ECI was developed by MIT and Harvard economists in 2009 and is deemed to be a reliable forward-looking indicator of future economic development. The ECI captures the knowledge and human capital accumulated in a country that is expressed in productive industrial functions and also measures the relative complexity of a country's exports.

ECONOMIC COMPLEXITY INDEX RANKING OF CEE COUNTRIES

Over the last 15 years, the CEE economies have shown a remarkable improvement in economic complexity. The region's average ECI ranking has increased from 20th place to 12th place, as the region turned into a world-class manufacturing hub. However, this significant improvement wasn't a steady one and can be divided into different phases.

Before 2008, in spite of the hundreds of new factories being built in the region, the CEE's ECI ranking improved only slightly, suggesting that much of the FDI inflow had gone into non-tradable sectors. In 2009, the region's competitiveness actually declined due to the widespread production halts at major car companies. However, as previously mentioned, following the crisis years, the relocation of manufacturing activities from Western Europe (mostly from Germany) has sped up, resulting in a remarkable improvement in economic complexity and turning the region into a world-class manufacturing hub. The CEE countries are now amongst the world's most competitive economies, with the Czech Republic leading the pack at 9th place globally, and Hungary and Poland ranked at a solid 15th and 22nd place globally.

The high level of economic complexity reflects the fact that the CEE region is an integral part of the global manufacturing supply chain and underlines the long-term sustainability of its convergence to Western Europe. In addition, the long-term growth trajectory provides an excellent environment for the near and mid-term future of M&A activity in the CEE region, as investors look at tapping into technological

> *The long-term growth trajectory provides an excellent environment for the future of M&A activity in the CEE region as investors look at tapping into technological advancements and build a strategy for capturing opportunities within economies fueled by complex production practices*

Boasting a sophisticated industrial base and an extremely well-trained labor force with low labor costs, the CEE region is however, not Germany. Rather, CEE countries are dual economies; with both a developed, high productivity economy and emerging, low productivity economy, living side by side each other.

When you compare the labor productivity of foreign versus locally owned companies, there is a large disparity, with foreign owned companies being significantly more productive. Foreign owned companies tend to be protected by the state, with Western European product quality, working conditions and salaries. Locally owned companies on the other hand, behave for the most part like emerging markets and demonstrating a lack of transparency, there is the perception of corruption which is seen as a sign of institutional problems.

advancements, building strategies for capturing opportunities within economies fueled by complex production practices.

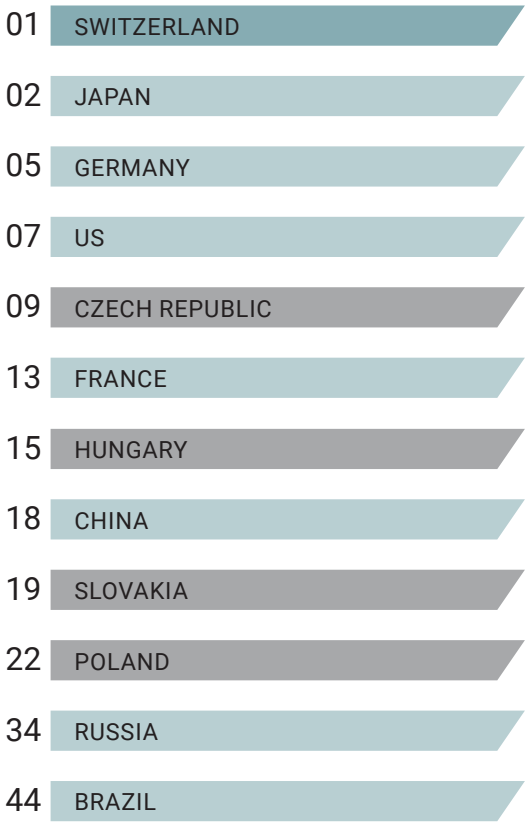
This growth potential was not yet visible in 2017, when the CEE region saw a downward trend in M&A in 2017, with just over $111.7 billion in M&A transaction value, versus almost $137.4 billion in 2016 and $225.9 billion back in 2013. However, at the same time, private equity investments in the region rose by 42%, from just over $6.55 billion in 2016 to almost $9.3 billion in 2017, according to Bureau van Dijk data. Everything points to an economy that will continue to perform well and offer significant opportunities for investment.

COMPETITIVENESS

Economic Complexity in CEE.

Source: MIT - The Obervatory of Economic Complexity

ECONOMIC COMPLEXITY RANKING, 2016



Source: MIT - The Obervatory of Economic Complexity

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Founder & Managing Partner
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Debt – Still Not on the Road to a Sustainable Recovery

Daniele Sottile, Managing Partner at Vitale&Co (IMAP Italy), shares his expert insight on the inherent contradictions behind the ongoing Debt Crisis, the ever-present risk of a major correction and potential impact on the M&A environment

MORE DEBT TO SOLVE THE DEBT CRISIS

When we look at where we currently stand on debt, World Bank figures reveal that for most of the world, the level of public debt has continued to rise significantly over the last 30 years. Furthermore, following the financial crisis, many countries have seen this rate rise sharply in the course of the last 10 years. When we combine public debt with household and corporate debts, total debt as a percentage of GDP for the large majority of countries surpasses 300%, with countries such as Japan and Portugal having reached over 400%.

Though every country's economic situation is unique, in most countries the same underlying strategy can be seen in terms of how they are handling the debt situation. Essentially, Central Banks have been using the strategy of allowing 'more debt' as an attempted means of solving the debt crisis.

Stemming back to 2008, the debt crisis was brought to a head in the private sector. With their appetite for risk, in conjunction with favorable external conditions (lower interest rates, political support for stronger consumption in certain major countries; starting with the US, imbalances in surplus and deficit of capital at an international level, etc.), the banks began creating conditions that favored additional debt. At a certain point, imbalances erupted and investors began to doubt the viability of repayment from private debtors.

Many governments, already facing a general fall in tax proceeds due to the economic slowdown, in an attempt to save the private economies and banks, found themselves obliged to expose their balance sheets further by increasing spending at the same time.

Private debt had now become a sovereign debt crisis and it didn't stop there. In order to avoid even worse consequences, the reaction from Central Banks was not only to facilitate the purchase and/or refinancing of yet more debt, especially government debt (i.e. banks carry trading on government debt with refinancing obtained by ECB), but also to purchase debt themselves in the form of bank debt and corporate bonds. There appeared to be no other way of handling the situation and avoiding a total crisis (including the sovereign crisis in Europe), other than by injecting huge liquidity, reducing interest rates and favoring the placement of new debt and as a result, debt just kept on growing.

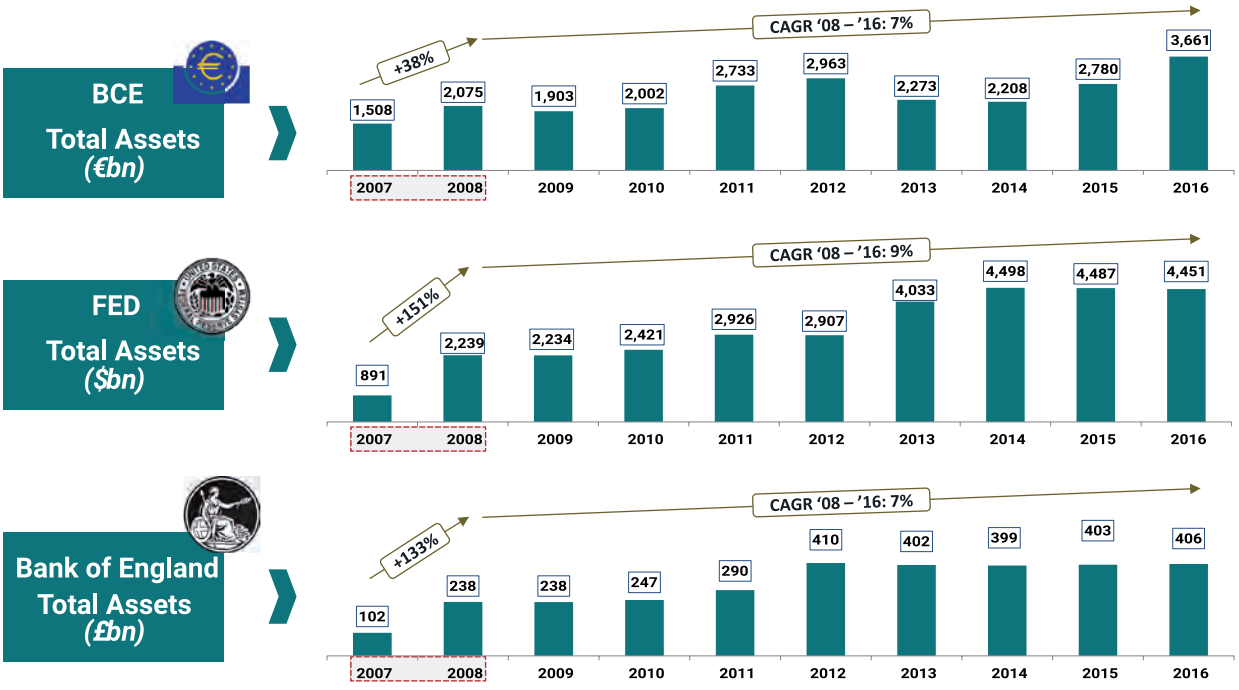
WHERE WE STAND ON PUBLIC DEBT

Source: Trading Economics, WorldBank

	Public Debt / GDP (%)		
	~30 years ago	~10 years ago	Current
Italy	71.7%	99.8%	132.6%
Germany	21.8%	63.7%	68.3%
France	n.a.	64.3%	96.0%
Spain	35.3%	35.5%	99.4%
Portugal	n.a.	68.4%	130.4%
Netherlands	56.0%	42.7%	62.3%
United Kingdom	29.2%	42.0%	89.3%
United States	43.9%	62.5%	106.1%
Japan	38.9%	183.0%	250.4%
China	n.a.	29.0%	46.2%
India	50.7%	74.0%	69.5%

INCREASING DEBT SUPPORTED BY CENTRAL BANKS' OBLIGED "THERAPY"

Source: Central Banks' websites, Bank of Italy



More Debt to Solve a "Debt crisis"?

POOR SPENDING THE MAIN CAUSE OF THE DEBT PROBLEM

Why is debt an issue? Taking Italy as an example, it is worrying that compared to 10 years ago, not only is its unemployment rate significantly higher, but its current level of debt now stands at 130% of GDP. If faced by a new crisis, it would have a limited capability to resist and it could in fact, be subjected to even worse repercussions than those faced during the last financial crisis.

The Subprime crisis just highlighted certain preexisting and deeper contradictions.

Though the initial source of the latest crisis was subprime mortgage lending and trading, preexisting weaknesses in public finance in certain countries (primarily excessive and low-quality government spending) have exacerbated the problem and have derived yet further challenges, even after the subprime crisis has been surmounted. Fifty years ago, for instance, Italy's government spending/GDP sat at 30%, like in Germany. Then, starting in the '70s, government spending accelerated and also worsened in quality; favoring low productive current expenditure, rather than capital expenditure.

With government spending now sitting at nearly 50% GDP, Italy is also forced to tax excessively, more than in Germany. Too much, and in particular low quality, public spending is the key problem. Uncontrolled spending and unsustainable deficits arise if taxes are not raised further to control the deficit, which harms real economic growth. Neither path brings value nor are they sustainable in the medium term.

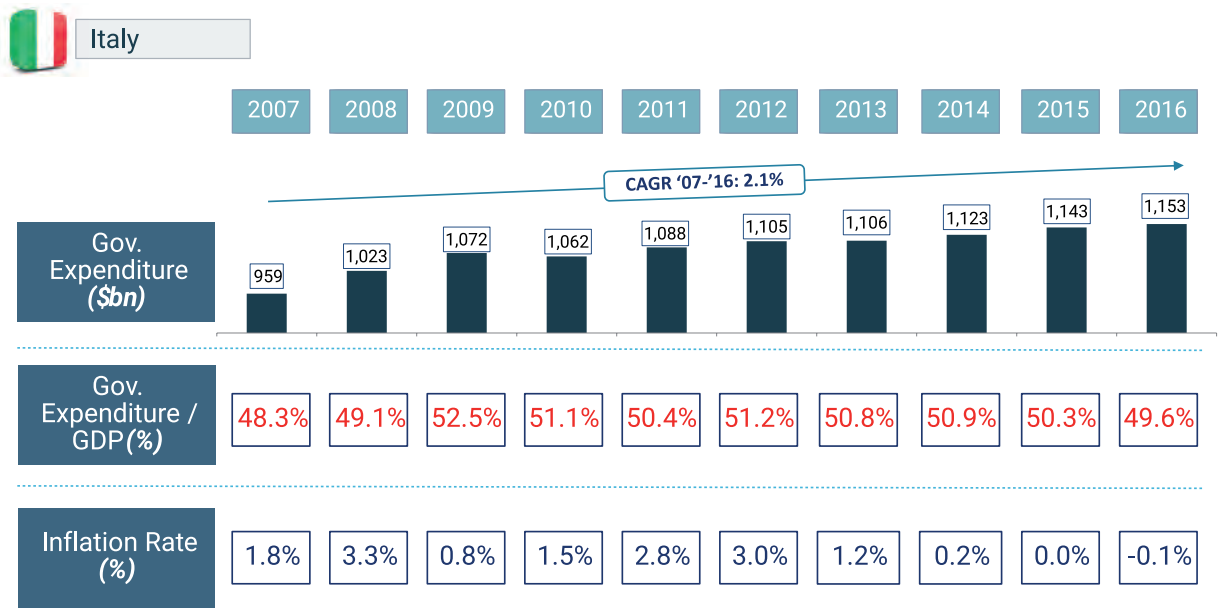
The real priority moving forward has to be improving efficiency in government spending.

CONTINUED SPENDING DURING TIMES OF 'AUSTERITY'

Over the last 10 years there has been a large controversy regarding whether or not we are suffering Austerity. Confusion arises when what is in reality debt containment is labelled Austerity (whilst this term instead refers to efficient spending and efficient allocation of resources). In Italy for instance, there has been no Austerity. Spending has continued, though the quality of spending has not improved much. Raising taxes, as a means of containing debt, is not Austerity. In fact, it only accentuates the debt problem in the long term, by allowing high/bad spending and bringing about lower growth. In essence, the real issues (primarily, but not only, bad spending) are hidden and the solution to the problem postponed.

ARE WE REALLY IN AUSTERITY?

Source: TIstat, OECD Database



Containment of Deficit through Taxes is not Austerity and Hides the Real Problem
It just leads to lower growth and postpones the solution

THE SIZE OF THE DEFICIT ISN'T EVERYTHING

It's not just the size of the deficit that is relevant, but more so, its quality and the means by which it is approached and reduced. As such, the way in which each country handles its deficit problem has a tremendous impact on its economy. Ireland for example, has been quick to reduce its deficit by implementing sustainable countermeasures and restructuring its spending, the results of which are reflected in its improved debt rating. Italy on the other hand, has seen no improvement since 2002 in its rating, which is confirmation that its deficit approach (raising taxes instead of improving spending) does not have the same effect.

Studies based on empiric data show that attempting to adjust deficits by raising taxes would provoke a reduction in GDP that would continue over the following years, whereas cutting expenditure on the other hand, would only result in a temporary reduction in GDP. These strategies clearly have a very different effect on the economy and the first one is not a sustainable strategy for debt reduction.

IS "REDDE RATIONEM" ABOUT TO COME KNOCKING?

For Europe, debt is not "just" an economic challenge; it is also a serious social/political challenge (worse than in the USA and Japan), due to its potential impact on the stability of the Euro and indeed the European Union.

Though we don't know how much time we have until the above contradictions will explode and a potential new crisis will hit, there are some identifiable accelerating and retarding factors that will impact the timing of "Redde Rationem". Many of them will determine when inflation will resurge which is so important because when inflation rises, the current ultra-expansionary monetary policy will have to be moderated and interest rates will rise again, hitting unprepared economies.

Germany and other virtuous looking countries in Europe are growing faster and will be the first in the Euro area whose macro conditions will determine a moderation in monetary policy. On the other hand, factors related to inflation (such as globalization, Amazon like distribution models, strengthening of the Euro, etc.) will in turn delay the "Redde Rationem".

ACCELERATING FACTORS (IN ORDER OF IMPORTANCE)	RETARDING FACTORS
Diverging GDP Growth - e.g. Italy 0.8%(1) and Germany 2.0%(1)	Globalization, new technologies and mitigation of inflation
Diverging inflation rate - e.g. Italy 1.2%(2) and Germany 1.7%(2)	Benefits of Euro/EU also to virtuous and exporting EU countries
Renewal of ECB Chairman (October 2019)	Awareness of the risks (economical, political, etc.) / lack of clear solutions for post "Redde Rationem"
Potential weakening of the Euro	Political/social push for growth and to maintain low interest rates
	Potential strengthening of the Euro

Source: OECD Database
(1) Expected Real GDP Growth 2018
(2) Expected Inflation Rate 2018

THE CLOCK IS TICKING

The big question is whether our only hope is to try to defer the problem or, whether we are actually still on time to successfully manage the issue? There are some indicators that may offer up hope. If we look at France, which is currently seeking to face its contradictions, it could be a unique opportunity:

- 7-year mandate (longest political cycle in large democracies).
- Very strong parliamentary majority.
- High quality and extremely determined decision makers (or at least so it seems).

In Italy, the ongoing political volatility represents a challenge, although one can still hope for a strong and non-populist government which moves towards a sustainable recovery path. In turn, the introduction of a strong EU Finance Ministry and EU fiscal policy would be better sooner rather than later. The truth is that the only real solution for debt lies in serious, sustainable and long-term fiscal policy.

THE WORST-CASE SCENARIO

In reality, we really don't know when "Redde Rationem" will come, indeed, every year it looks to be postponed. One thing however, is clear; the longer we wait for the crisis, the riskier it will be and the tougher the repercussions.

POTENTIAL OUTCOMES AND RAMIFICATIONS:

Worst Case Scenario

- Steep rise in inflation (starting from virtuous countries: e.g. Germany) and sharp increase in Euro interest rates
- Public Debt unsustainable in weaker countries
- In the latter countries, obliged and fast: (i) cuts in public expenditure and public capex and (ii) rise in taxes
- Strong recession and rise in unemployment, not necessarily confined to the weaker countries
- Populist parties take control
- Euro breakage. Expansive monetary policies with local currencies
- High inflation and further rise in real interest rates
- Generally poorer conditions
- EU itself at risk
- Long term political and social consequences unpredictable

Intermediate Case Scenario

- Gradual rise in inflation, mainly in virtuous countries and moderate increase in Euro interest rates
- Inflation stabilizes to acceptable levels
- Weaker countries suffer more, given higher debt: negative pressure on taxes and public expenditure
- Europe (re) enters long term slow/ no growth period, with slow growth in virtuous countries and no growth or decline in weaker countries
- Seems unlikely? We have seen something very similar over last few years
- Exit from the "swamp" uncertain:
  a) Populist parties manage to take control (From this point on, things would evolve as per the Worst Case Scenario on the left)
  b) Risks of worst case scenario are recognized and issues finally addressed (see Best of the Bad Scenario on the right).
  c) Long period in the "swamp" possible

Best of the Bad Scenario

- Steep rise in inflation (starting from virtuous countries) and sharp increase in Euro interest rates
- Public Debt unstainable in weaker countries
- Risk of worst case scenario is recognized in time to take action
- Introduction of strong EU Finance Ministry and EU fiscal policy, in a framework of further and wider reforms reducing every country's sovereignty
- People comprehending and supporting new path; both politically and economically (more discipline initially in order to enjoy sustainable recovery afterwards)
- Populist parties do not take control

> *It's time to exploit the current scenario while it is at its best, but also, to anticipate the future scenario by positioning acquisition strategies on solid industrial rationales which may still prove correct when conditions become tougher*

IMPLICATIONS FOR M&A

The good news is that the potential new crisis is not happening yet and M&A is still very healthy. For a number of reasons, the M&A market is strong and M&A valuations remain quite high. Strong monetary stimulus, cheap oil prices, and the low Euro are among the main factors which have sustained and relaunched macro-economies in Europe and as such, the current growth momentum remains good. Economic recovery, stability of business plans and corporates' extra profits deriving from the market consolidation, coupled with huge liquidity and the low cost of capital (debt and equity), are now the prevailing conditions and cannot help but sustain M&A and M&A valuations, along with valuations on the public markets.

That being said, if action is not taken to properly manage the debt issue, by implementing real structural reforms (starting with the restructuring of the quality and quantity of public spending), inflation will rise and liquidity will diminish, and as a result, interest rates will rise and corporate profits will decrease. All this would indeed cause a much stronger slowdown than what is typically seen during a normal inversion cycle and would be sharply reflected in both the real economy and in M&A valuations.

In terms of asset bubbles and the possibility of a nearby explosion (which would potentially yield large opportunities for debt-restructuring and lower equity prices), there are still no signs that this is going to happen anytime soon. There is still good momentum and liquidity and although there remain the above underlying contradictions, current growth is sufficient to maintain the bubble and sustain M&A activity. Following the bubble, when the turning point does come, debt restructuring will become stronger.

So, it's time to exploit the current scenario while it is at its best, but also, to anticipate the future scenario by positioning acquisition strategies on solid industrial rationales which may still prove correct when conditions become tougher. If structural reforms are implemented by policy makers, the current favorable scenario should consolidate and therefore, be based on more solid and durable pillars.

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Italian Food & Beverage Stands Strong in a Globalized World

Alberto Gennarini, Managing Partner at Vitale&Co (IMAP Italy), discusses his thoughts on the current trends dominating the Food & Beverage sector and explains what's driving M&A and foreign interest in Italian companies

The Food & Beverage sector is unquestionably one of the pillars of the Italian economy. How did it fare in comparison to other sectors in the years following the 2008 slowdown?

It is true that in 2008 the F&B segment did experience a soft slowdown due to the financial crisis. However, the sector is anticyclical and proved its resilience, suffering less than the other sectors. In fact, from 2008 to 2012 the market was absolutely favorable to buyers and we saw a large number of successful acquisitions by Italian groups.

How has the sector performed in the past couple of years?

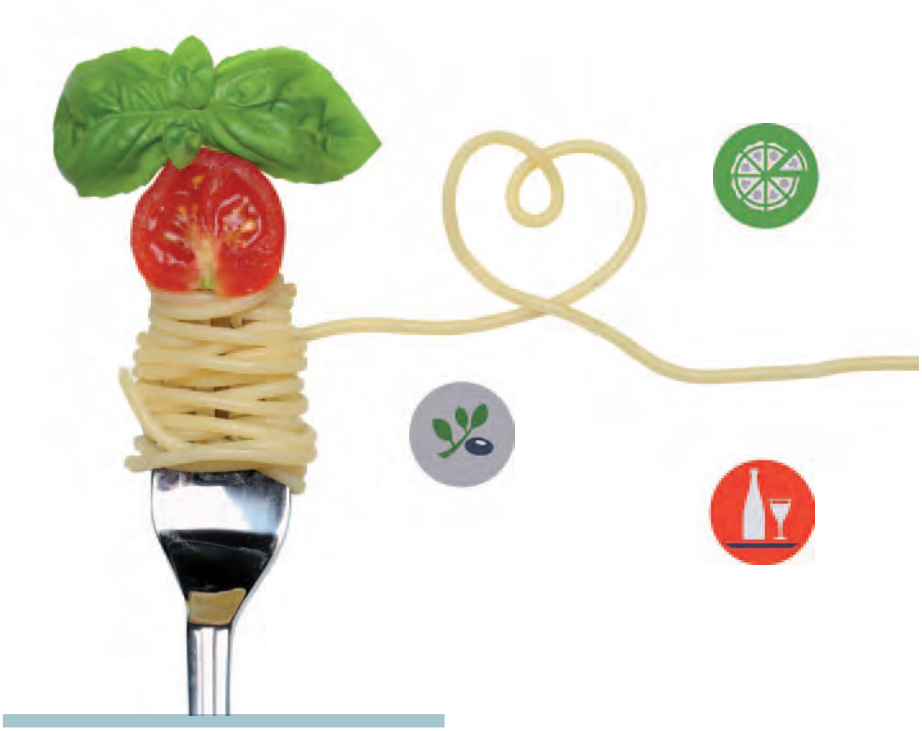
During the last 2 years the market has completely recovered. With high valuations and liquidity, as well as the low cost of bank debt, we are currently seeing extraordinary momentum for sellers.

Authentic 'Made in Italy' brands are being threatened by 'Italian-sounding' labels. How big of a threat is this? Are you concerned?

The 'Italian sounding' phenomenon is worth over €50 billion a year, whereas the yearly value of Italian exports in the F&B industry is approximately €20 billion. This means that nearly two thirds of "Italian" F&B products sold worldwide are in fact not truly Italian, thus contributing to the "Italian sounding" problem.

However, Italy is fighting back in an attempt to combat this issue and globalization, as well as the digital economy, look set to help fight the battle. Consumers around the world are becoming much more aware of exactly what they are eating and in this sense I see a big opportunity to tilt the market back in favor of authentic Italian products.

In the past, it was more difficult to educate consumers on the real essence of the Italian lifestyle and food, which is essentially at its core, but the digital economy has changed this, providing a means of communicating directly with consumers. On one side, consumers are able to use the internet to purchase directly from companies and on the other, companies are able to share offers and promote their products, company and



By acquiring an Italian company, a firm achieves not only a distribution channel in Italy, but just as importantly, crucial product know-how – it's logical that a firm looking to enter the pasta market would look at acquiring an Italian company

values to a much wider audience. Social media and networks have provided an easy and fast means for Italian companies to explain the Italian lifestyle – a YouTube video on Italian food or wine for example.

In terms of the global F&B market, how do the Italian companies and brands fit it? How have they reacted to the healthy/ organic/natural/sustainable trend?

Italian brands align perfectly with the worldwide trends we are seeing in the sector. Firstly, we have a strong tradition of healthy eating; healthy, free-from, rich-in and organic have been embedded in Italian heritage for centuries, so in this respect we are actually way ahead of the current consumer trends.

Secondly, due to the strong product development capacity we have in Italy, food companies are able to adapt extremely well to new consumer demands.

The most relevant trends that I see for the future are related to the ready-meal sub segment. There is a demand for products with a higher level of quality and service and as people continue to spend a lot more time outside of the home, there is an opportunity for food retail and delivery companies.

What impact have new technologies such as ecommerce and digital marketing had on the F&B sector?

Foodtech has created a real disruption in the delivery business; creating popular market places and websites dedicated to the delivery of km0 food, ready-made foods and wine, etc. which are very different ways of purchasing goods to buying them at a supermarket.

In response to a change in consumer demand, lots of foodtech start-ups are growing their organic food delivery business; looking to provide consumers an offering that is not available in the supermarkets. There is now a higher demand from users for less mainstream products and more fresh products such as eggs, cheese and milk, as well as organic, healthy options. Businesses are required to skill-up and find means of offering consumers products such as organic wines or fresh egg delivery once a week to their home.

Foodtech has increased and improved the level of service, delivery and ecommerce that a producer provides to consumers.

What about in Asia/emerging world? Does the rise of the middle class and consumer demand impact traditional Italian F&B?

The Asian world is increasingly adapting to the Italian lifestyle. Other than an increase in exports, we don't expect that this will impact our industry. Specifically in terms of M&A, although there is some interest from Chinese and Japanese companies looking at Italian firms, we don't see a great deal of transactions from Asia, but that is due to the difficulty in closing a deal. Cultural differences do still remain and there can be challenges in terms of alignment in valuations and expectations and companies with onshore/offshore funds and no capital require approval from the State to purchase companies outside of Asia, all of which affects the chances of closing a deal

In terms of M&A in the sector, what's happening at a global level?
The market is currently looking very positive. We are seeing more transactions from European, well-established and mature companies, especially in Germany and the UK. There is lots of liquidity and equity, which is causing a positive momentum

Over the last few years we have seen a relocation of capital from emerging markets, with companies relocating assets from emerging markets and Latin America, to Europe and the US.

Looking more specifically at M&A activity in Italy, is there a rise in foreign demand/ incoming offers for Italian companies?
We are experiencing an increase in interest from foreign groups versus Italian companies. Indeed, I would say that last year, almost 50% of M&A deals involved a European player acquiring an Italian asset.

There are many reasons why Italian companies are so attractive. Leaders in niche sub-segments of the F&B industry, many small/medium capped firms are privately owned by families and the market is really quite segmented. Therefore, we are seeing an ongoing consolidation process and lots of companies looking to acquire. By acquiring an Italian company, a firm achieves not only a distribution channel in Italy, but just as importantly, crucial product know-how – it's logical that a firm looking to enter the pasta market would look at acquiring an Italian company.

What about Italian companies, how active are they abroad?
Though there is a rise in the number of Italian companies acquiring foreign companies, they are generally much less aggressive in their acquisition strategies abroad. In Italy, M&A is an important driver for the enlargement of a company's product portfolio, but at the same time, it carries the same weight as internal R&D. This can be partially explained by the characteristics of the Italian market and the fact that many Italian companies are still owned by families and tend to be grown organically as opposed to through M&A.

In Italy there is some changeover in the F&B industry with companies looking to acquire in Europe and the US for distribution purposes, as opposed to acquiring products. It can be tough for example, for Italian firms to enter the UK market, whose retailers are very well organized in terms of distributors. Therefore, by acquiring a small UK company with distribution channels already in place with a major retailer such as Tesco, an Italian company is able to penetrate the UK market.

Many however, still prefer to take the organic approach. Take Rana (fresh pasta) and Beretta (cured meat) in the US market for example, who significantly and indeed successfully, invested from scratch in green field manufacturing plants in the US.

Several of the transactions you were involved in last year had a Private Equity group as either buyer or seller. What is driving PE activity in this sector and has the role of PE in the sector changed at all across recent years?
The segment is anticyclical, resilient and sometimes with high entry barriers, which is down to know-how and technology. In addition, the F&B segment in Italy is highly fragmented, which means that PEs can contribute to the consolidation of the industry by creating platforms with a buy and build strategy. The role of PEs in certain sub segments has accelerated the consolidation process (i.e. industrial ice-cream), but we do still have some headroom and see opportunities for internationalization, which will contribute to growth outside Italy for exports to Europe and the US. There is huge demand for Italian products in the US, but companies don't have the infrastructure to supply the market.

Among the many deals you were involved in last year, is there one that stands out?
Royal Unibrew, a listed group based in Denmark and leading provider of beers and soft drinks, acquired the soft drinks business from Campari (Lemonsoda and Oransoda). This was an important cross-border deal and we were directly contacted by Royal Unibrew on referral as we are well-known in the F&B sector. We have a unique knowledge of the market, as well as a strong relationship with key players, including Campari, who we have previously worked with - all of which was key in ensuring that Royal Unibrew won the deal.

Congratulations, Mergermarket recognized you as the 2017 Top Dealmaker in Italy. Besides years of experience, what is your strategy?
Other than industry specialization which is obviously key, my strategy is to invest time with the entrepreneurs and to be patient. I have built up solid, strong relationships with entrepreneurs over the last 25 years and though I have not done a deal with some of them yet, I continue to invest my time as I'm sure that sooner or later, it will happen.

In fact, this would be my recommendation for all IMAP dealmakers, to stay close to the entrepreneurs.

How many people do you have on your team and how many simultaneous transactions do you have open at any given time?
Vitale&Co (IMAP Italy) has a large team of 40 experienced professionals. I have a dedicated senior team of two that focuses solely on F&B. We have the capacity to manage more than 10 deals simultaneously.

What are your expectations in terms of performance in 2018 and how the year will unfold? Did it get off to a good start?
2018 started well, better than in 2017 in fact. There is an excellent pipeline and we expect good performance overall this year. The market is bullish; with high valuations and lots of liquidity and more importantly, lots of appetite.

Over the past few years, PE fundraising has gone well and firms are looking to invest, now. Furthermore, the Italian economy has also recovered, so companies are doing well. Understanding the need for capital for growth, many entrepreneurs are now opening their capital structure to investors, either considering selling their companies or looking for partners/capital injections to stimulate growth.

In summary, we haven't seen the mood so positive for the last 10 years. Last year was actually the best year following the Lehman Brothers crisis in 2008 and we expect that this year could potentially be even better.

Mergermarket recognized you as the 2017 Top Dealmaker in Italy. Besides years of experience, what is your strategy?
Other than industry specialization which is obviously key, my strategy is to invest time with the entrepreneurs and to be patient.

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Consolidation in the Foodservice Sector in Spain

Spain's hotel and catering sector has been experiencing sustained growth in recent years as a result of an increase in consumption and the level of disposable income available in Spain. Furthermore, there has been an upward trend in tourism to the country; 82 million tourists in 2017; a historic high for Spain and an increase of 8.9% from the previous year.

This growth is accompanied by a gradual professionalization of the sector; with a greater predominance in organised catering (30% of the total hotel and catering market), though this is still far away from the figures in other more developed markets (e.g. 60% in the U.K.).

However, the growing professionalization of the sector has not yet reached the Horeca (Hotels, Restaurants, Cafes) foodservice providers in Spain, who for the most part are:

- Small businesses - usually family-owned.
- Regional suppliers serving an area within a 100 km radius only.
- Specialized suppliers in a single product category; fruit and vegetables, fish, meat, dry goods and beverages, etc.

This essentially means that each client has at least one supplier per product category, but this supplier only services a specific geographical area. Therefore, clients with multiple restaurants, in different areas, will have a different portfolio of suppliers for each restaurant.

In fact, if we analyse the 100 largest foodservice distribution companies in Spain, using figures from the end of 2016, there are only 15 companies with a turnover of more than €100 million and part of this turnover is derived from distribution to food stores. Furthermore,

none of these companies offers a multi-category portfolio with a national footprint.

The classic distribution scheme in a medium-sized Spanish province, of which there are 50 in Spain, is anywhere between 3-10 small distributors per product category (fruit and vegetables, meat, fish, frozen foods and beverages, etc.), totalling between 30-50 distributors per province.

As a result of this fragmentation, purchasing hubs began to emerge in Spain some years ago, driven by small regional distributors who grouped together to be more competitive, each one assuming an exclusivity agreement in their respective catchment areas. This enabled companies to service customers in geographical areas where they did not have a presence, through other members of the purchasing hub, thereby standardising the product across different geographical regions. However, this model, which is still in use, has proven insufficient in dealing with the dynamics and evolving needs of the market.

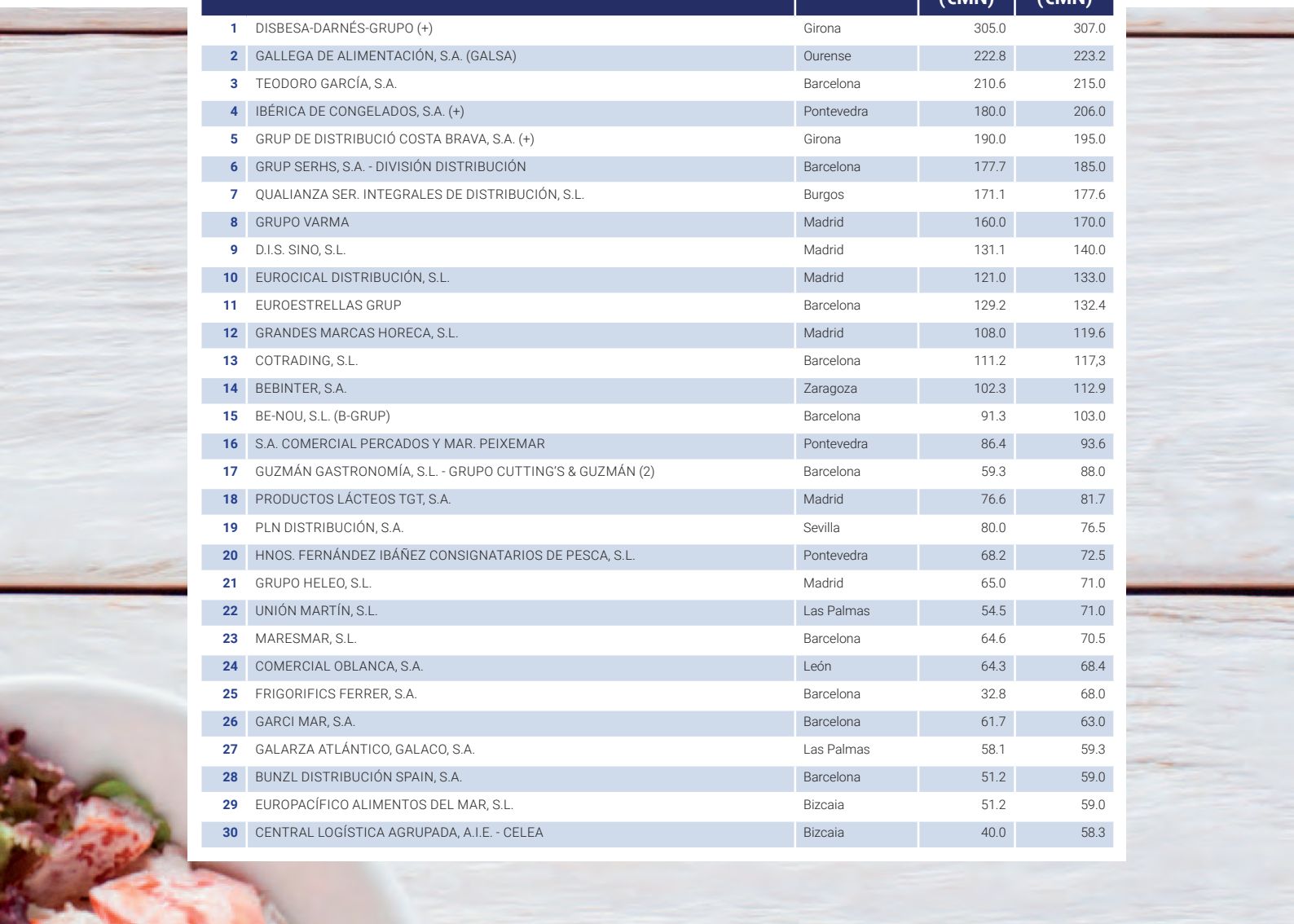
This is why Spain is currently experiencing a new era in the evolution of the foodservice sector; gradually moving towards the prevailing long-term market model in other European countries. Large multinational groups from markets where key players control 50%-70% of the market are taking up positions in Spain, with the clear intention of changing the current market structure.

Bidfood, the world's second largest foodservice distribution group, with operations in 30 countries and revenues of €9.6 billion, entered the Spanish market in April 2017 with its acquisition of Guzman Gastronomía, a supplier of fruits, vegetable and other foods to the Horeca industry. It has since acquired

RANKING OF FOODSERVICE DISTRIBUTION COMPANIES IN SPAIN

Source: Alimarket

	Company / Group	Location	Sales 2015 (€MN)	Sales 2016 (€MN)
1	DISBESA-DARNÉS-GRUPO (+)	Girona	305.0	307.0
2	GALLEGA DE ALIMENTACIÓN, S.A. (GALSA)	Ourense	222.8	223.2
3	TEODORO GARCÍA, S.A.	Barcelona	210.6	215.0
4	IBÉRICA DE CONGELADOS, S.A. (+)	Pontevedra	180.0	206.0
5	GRUP DE DISTRIBUCIÓ COSTA BRAVA, S.A. (+)	Girona	190.0	195.0
6	GRUP SERHS, S.A. - DIVISIÓN DISTRIBUCIÓN	Barcelona	177.7	185.0
7	QUALIANZA SER. INTEGRALES DE DISTRIBUCIÓN, S.L.	Burgos	171.1	177.6
8	GRUPO VARMA	Madrid	160.0	170.0
9	D.I.S. SINO, S.L.	Madrid	131.1	140.0
10	EUROCICAL DISTRIBUCIÓN, S.L.	Madrid	121.0	133.0
11	EUROESTRELLAS GRUP	Barcelona	129.2	132.4
12	GRANDES MARCAS HORECA, S.L.	Madrid	108.0	119.6
13	COTRADING, S.L.	Barcelona	111.2	117,3
14	BEBINTER, S.A.	Zaragoza	102.3	112.9
15	BE-NOU, S.L. (B-GRUP)	Barcelona	91.3	103.0
16	S.A. COMERCIAL PERCADOS Y MAR. PEIXEMAR	Pontevedra	86.4	93.6
17	GUZMÁN GASTRONOMÍA, S.L. - GRUPO CUTTING'S & GUZMÁN (2)	Barcelona	59.3	88.0
18	PRODUCTOS LÁCTEOS TGT, S.A.	Madrid	76.6	81.7
19	PLN DISTRIBUCIÓN, S.A.	Sevilla	80.0	76.5
20	HNOS. FERNÁNDEZ IBÁÑEZ CONSIGNATARIOS DE PESCA, S.L.	Pontevedra	68.2	72.5
21	GRUPO HELEO, S.L.	Madrid	65.0	71.0
22	UNIÓN MARTÍN, S.L.	Las Palmas	54.5	71.0
23	MARESMAR, S.L.	Barcelona	64.6	70.5
24	COMERCIAL OBLANCA, S.A.	León	64.3	68.4
25	FRIGORIFICS FERRER, S.A.	Barcelona	32.8	68.0
26	GARCI MAR, S.A.	Barcelona	61.7	63.0
27	GALARZA ATLÁNTICO, GALACO, S.A.	Las Palmas	58.1	59.3
28	BUNZL DISTRIBUCIÓN SPAIN, S.A.	Barcelona	51.2	59.0
29	EUROPACÍFICO ALIMENTOS DEL MAR, S.L.	Bizcaia	51.2	59.0
30	CENTRAL LOGÍSTICA AGRUPADA, A.I.E. - CELEA	Bizcaia	40.0	58.3



In 2017 Bidfood Iberia acquired Cárnicas Sáenz, a company specialized in the processing and distribution of meat products for the Horeca sector. IMAP Spain advised Bidfood on the acquisition. With sales of approximately €20 million, Cárnicas Sáenz presents a new product category for Bidfood Iberia to offer to its clients.

Cárnicas Sáenz, (a transaction on which IMAP Spain advised), a meat products distributor to the Horeca sector and Frustock, a Portuguese fruit and vegetable distributor. In 2017, it reported a turnover of €111 million on the Iberian Peninsula and is forecasting €138 million in 2018. The company's growth strategy consists of accumulating new categories in conjunction with building a greater regional presence.

Pomona, a French family-owned company with revenues of €3.6 billion, also has a clear strategy for successful entry into the Spanish market. In 2014 it acquired Cadaico, a distributor of frozen products for the Horeca sector and in December 2017 it purchased FRIOLISA, with a turnover of more than €45 million. Pomona remains actively searching for new market opportunities.

Makro/Midban has also been actively building its market presence; acquiring five companies between 2014 and 2017 (Alberto Polo Distribuciones, Distribución de Alimentación Horeca, Comercial Ulzama, Congelados Romero and Font Ditribució Horeca).

At this juncture, the dynamic in the Spanish foodservice market is one of evolution, with several agents driving the process of consolidation. Over the next few years, this should lead to the creation of a hotel and catering distribution model similar to that which currently exists in other European markets; with three or four large multicategory players with a national footprint alongside groups of regional suppliers- smaller than the current ones, supplementing supply locally.

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Global Foodservice Giant Bidcorp Acquires Local Players in Spain

Jesús Saiz, Director of Strategy & Corporate Development and Shareholder at Bidfood Iberia, shares his thoughts on the company's history and M&A growth plans

How would you describe Bidfood Iberia?
Bidfood Iberia is the integral supplier for the Horeca sector (hotels, restaurants and cafes) in Spain and Portugal. As part of the BidCorp Group, our aim is to bring the best products to our clients, which range from Michelin star restaurants or hotel chains, to small restoration groups or major food establishments.

Our strength relies on an extraordinary customer-oriented service, which means that we are able to place our more than 8.000 SKU's wherever our clients might need, in less than 24 hours, in Spain and Portugal.

Guzmán Gastronomía, now Bidfood Iberia, has enjoyed success thanks in part to the involvement of Spanish private equity groups. Could you provide some historical background on Guzman Gastronomía and explain how the company developed across the years?
Guzmán Gastronomía's story begins in 1930 at the Boqueria market in Barcelona. Supplying restaurants became one of the fundamental pillars of the company in 1950. Several decades later, 1992 was a watershed year for the company as it was selected to be the exclusive provider of fruit

and vegetables for the Olympic Games in Barcelona.

Private equity firm Nazca Capital made investments in the company in 2005, including investments in new facilities at the main wholesale food market in Barcelona, Mercabarna, as well as the acquisition of local operators in Madrid and Barcelona, which expanded the company's reach into new markets and segments.

In 2011, Miura Private Equity replaced Nazca as the company's main financial investor. The objective of the new investment partnership was to strengthen coverage of the fresh food

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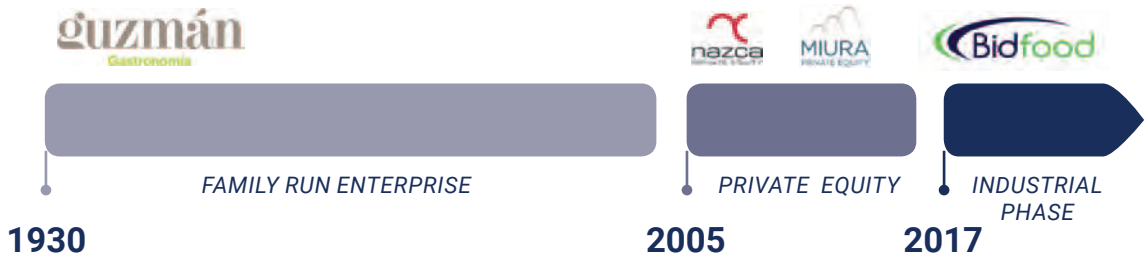
Director of Corporate Development
Bidfood Iberia

GUZMÁN GASTRONOMÍA TIMELINE



distribution market by incorporating both complementary and new product brands as well as distribution operations. As such, the company grew inorganically in the following years. Among the most relevant operations were the acquisitions of Solegraells in 2013, Grupo Cutting's in 2015 and Mundofruta in 2016.

In April 2017 Miura pulled out their investments and South African food conglomerate Bidcorp acquired 90% of the shares of Guzmán Gastronomía, which was renamed Bidfood Iberia. At this point a larger scale industrial phase began and the goal to grow and fully cover the Iberian Peninsula was set.

Since the 2017 takeover, Bidfood Iberia has expanded its portfolio with the acquisition of Frustock, a leading foodservice distribution in Portugal, and Saenz Horeca, a widely recognized distributor of meat products to establishments in the Horeca sector. Building on this geographic expansion and the inclusion of new product categories in the company's portfolio, the objective going forward is to continue on the path to becoming the leading provider in the foodservice space.

What exactly is Bidfood Iberia's strategy?
As mentioned before, the goal is to become the leading foodservice provider in Spain and Portugal. Morevoer, we want to offer our clients a value-added service that helps them substantially simplify their provision management.

Our strategy is based on further complementing our current offering with new products and continuing geographic expansion into less covered areas. We believe there are significant growth opportunities on both fronts.

What is Bidcorp?
Bidcorp is an international foodservice group that is publicly traded on the Johannesburg Stock Exchange in South Africa. The group has a widespread global footprint, with a presence in more than 30 countries. Bidcorp is the foodservice company with highest revenues outside of the US.

The Guzmán Gastronomía management team remained as shareholders of the company following the acquisition by Bidcorp. What was the reason for this and what do you expect from the partnership with Bidcorp as majority owner?
For Bidcorp, one of the keys to the success of the operation was to be able to have a professional team with an advanced understanding of the sector and a firm commitment to achieving success. Bidcorp felt from the beginning that they were setting foot in a market with high potential alongside an experienced local partner.

On our side, Jordi Franch, current CEO of the company, and myself, are confident that this initiative will succeed because both the Spanish and Portuguese markets are ripe for consolidation. Bidcorp presents itself as a long-term partner with deep knowledge of the space as well as the financial strength to keep us growing, both organically as well as through acquisitions.

During the development of Guzmán Gastronomía across the years more than 15 acquisitions have been completed, many of which have been a success. What do you think are the keys to successful acquisitions?
To begin with, every transaction requires a customized and focused approach. We always emphasize a joint understanding about the potential partnership and before closing a deal we agree on a roadmap in terms of future plans for the combined business.

> *We highly value an advisor's ability to communicate the requirements and expectations held by both parties involved in a transaction. An advisor should be able to build trust and ensure that the negotiation advances as smoothly as possible.*

The most important part of an acquisition is that both parties be aligned. Building trust and relationships is fundamental.

In most acquisitions you rely on M&A advisors such as IMAP Spain. What does a company like Bidfood Iberia expect from its M&A advisors?

We highly value an advisor's ability to communicate the requirements and expectations held by both parties involved in a transaction. An advisor should be able to build trust and ensure that the negotiation advances as smoothly as possible. M&A advisors function as a hinge, bringing together the parties involved. It is crucial that an advisor dig in and fully understand the intricacies of the company being sold so that a deal can be reached.

Another aspect is Post Merger Integration (PMI). What are the fundamental components of a good PMI plan? Do you have a defined set of standards to follow or is every post-merger plan different?

As I mentioned before, every acquisition needs somewhat of a customized approach. We adapt to the unique circumstances of each target company and prepare an agreed upon roadmap with them before closing.

Our goal is to always maintain the value of the acquired company, respecting their strengths and historical development. We work closely with the acquired company to improve processes, avoid redundancies and boost the value proposition in order to capture the most of what we like to refer to as PMI 'bags of value'.

What is Bidfood Iberia's plan for the next 5 years? Will you continue on the path of inorganic growth and pursue further acquisitions?

Incorporating new products and covering new geographies in order to become the foodservice provider of choice requires a combination of both organic and inorganic growth. We are continuously looking for companies with solid fundamentals that will allow us to consolidate our model as an integral provider in the sector. In the years to come we expect to continue closing deals and executing successful PMI processes.

What about Bidcorp at a global level? What is the group's business development plan?

Bidcorp is focused on growth in many local markets, relying on an entrepreneurial and decentralized model. Bidcorp trusts local executives to build the best value propositions in their market. The group's strategic focus is to consolidate its presence in countries where it already has a presence and set foot in new geographies like it did in 2017 in Spain and Germany.

What new markets is Bidcorp most interested in?

Bidcorp has its eye set on emerging markets in Australasia, the Middle East, Africa and South America. In addition to these regions, which have a high growth potential, Bidcorp has shown interest in more mature European markets, closing several acquisitions in Germany, Spain, the United Kingdom, Italy and Turkey. The total investment in corporate acquisitions in 2017 was €588 million and this value will likely grow in the years to come as we place an emphasis on sourcing new opportunities.

What is the profile of a company that Bidfood Iberia would be interested in as a target?

We like companies that demonstrate solid business fundamentals and have an important revenue stream derived from the Horeca sector. Solid fundamentals will set a company apart from its competitors and are typically driven by advanced knowledge of a product category or a strong leading position as a foodservice provider in a particular geographic area. In addition, we look for companies that have a strong focus on client service.

The Foodservices Sector in Germany

The German market for food service and distribution (FSD) primarily for large caterers and the Horeca sector has a volume of approximately €19-20 billion. The market is split into two main segments: Cash and Carry (52%) and Direct Delivery (48%). The Direct Delivery segment has experienced growth in recent years, while the Cash and Carry segment has been stable at best.

The market is dominated by four integrated large players (Metro, Transgourmet, Edeka and Chefs Culinar) with a combined market share of approximately 70%. There are about 85 smaller, independent players, many of which are also cooperating within national purchasing and marketing associations, the two largest being Intergast and Service-Bund. Of these smaller players, only 14 companies have revenues between €100 million and €1 billion. Smaller players are often family-run businesses and may exhibit a strong regional market position due to a close proximity to clients and a high level of service within their scope of activities. In several instances, this results in above average profitability.

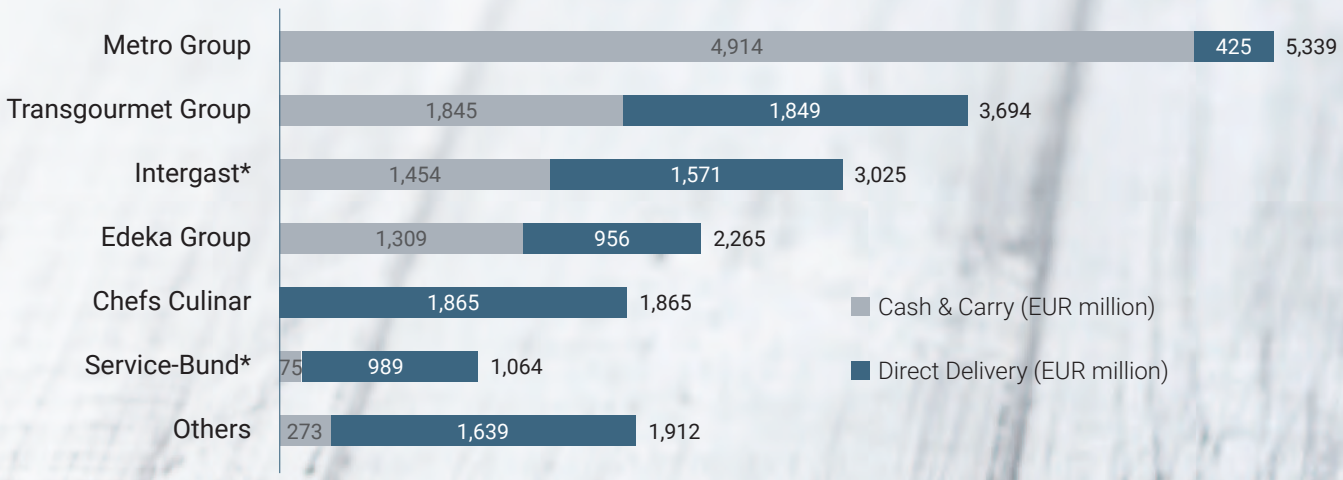
CURRENT VALUATION LEVELS AND M&A ACTIVITY

Listed food service companies[1] currently trade with approximately 6.5x EBITDA and 11.0x EBIT. This valuation level has been relatively stable over the last two years. Recent transactions have been valued at 7x - 10x EBITDA. The consolidation process in the industry is continuing and incumbents are attempting to strengthen their (national) capabilities and efficiency of direct delivery services, while balancing investment needs in the stagnant C&C segment. Another important trend within FSD is digitalization along the value chain. It is thought to drive both investment and M&A, although it remains to be seen how fast small and medium Horeca businesses will actually adopt digital ordering as well.

Entry of new international players into the German FSD market has been scarce over the years. A notable exception was Bidcorp's acquisition of Pier 7. The seller and founder remains a minority shareholder and will continue to manage the business going forward. Strategic buyers within German speaking countries have mostly been the incumbent players like METRO (Rungis Express in 2016) and Transgourmet, the FSD subsidiary of Swiss wholesaling and retailing cooperative Coop.

1 Peer group comprises Axfood AB (SWE), BidCorp (ZAF), Carrefour (F), Colruyt Group (BEL), Distribuidora Internacional de Alimentación, S.A. (ESP), J Sainsbury plc (GBR), Koninklijke Ahold Delhaize N.V. (NLD), METRO AG (DEU), Sligro Food Group N.V. (NLD)w

2017E REVENUES
EUR million

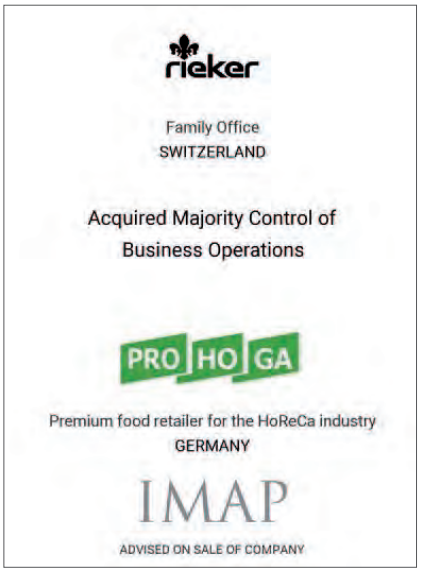


** Purchasing and Marketing Associations, combined revenue of member firms*

Transgourmet has completed several major acquisitions since 2015 and added sales of more than €1 billion to its business:

- Dairy wholesaler EGV with sales of c. €230 million in August 2015
- Premium food supplier FrischeParadies (€180 million) in September 2015
- Austrian Cash & Carry specialist Pfeiffer (€470 million) in December 2015
- 70% stake in TeamBeverage (€1.3 billion) in May 2017
- Online management software supplier Gastronovi in October 2017
- German Cash & Carry specialist Niggemann (€85 million) in January 2018

However, not only strategic buyers are attracted by the FSD industry which is characterized by low risks, rather high cash conversion and remaining attractive buy & build potential in the shadow of the larger players. Examples are the acquisition of MPF Hermesmeyer by PE-investor Steadfast in 2015 and the recent majority take-over of the Horeca specialist in South-Western Germany, PROHOGA Group by the family office of the Rieker family, renowned for the shoe brand of the same name. The selling family sought a sustainable succession solution for the company and mandated IMAP Germany to advise them and structure a tailored sales process with only a limited number of strategic and suitable independent financial investors. The result promises to be a triple win-win situation for all parties involved: with Rieker as a strong and stable investor, PROHOGA group is able to reinforce its position in the German Horeca FSD market. The selling shareholders will stay connected to the business as minority shareholders and advisory board members, while Rieker Investment has found PROHOGA to be an attractive extension to its existing portfolio of successful "Mittelstand" companies.



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GLOBAL FOODSERVICES VALUATIONS

Company	Market cap (in EURm)	Net debt (in EURm)	EV (in EURm)	EV/Sales			EV/EBITDA			EV/EBIT			P/E		
				2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Ax food AB (publ)	3,323	14	3,337	0.7x	0.7x	0.7x	12.4x	11.8x	11.4x	17.3x	16.8x	16.1x	22.2x	21.6x	20.8x
Bid Corporation Limited	5,870	216	6,087	0.7x	0.6x	0.6x	11.8x	11.0x	10.1x	14.2x	13.1x	12.6x	19.1x	17.3x	16.6x
Carrefour SA	12,642	9,248	21,890	0.3x	0.3x	0.3x	6.1x	5.6x	5.2x	11.4x	9.9x	9.0x	16.9x	13.5x	11.7x
Etn. Fr. Colruyt NV	6,937	-476	6,461	0.7x	0.7x	0.7x	9.1x	8.9x	8.6x	13.8x	13.3x	13.2x	20.0x	19.5x	18.5x
Distribuidora Int. de Alimentación, S.A.	1,907	889	2,796	0.3x	0.3x	0.3x	5.2x	4.9x	4.8x	9.5x	8.9x	8.3x	10.1x	9.3x	9.2x
J Sainsbury plc	7,962	1,817	9,779	0.3x	0.3x	0.3x	6.0x	5.8x	5.7x	12.0x	11.4x	10.9x	14.5x	13.5x	12.6x
Koninklijke Ahold Delhaize N.V.	23,761	2,463	26,224	0.4x	0.4x	0.4x	6.2x	6.0x	5.9x	10.5x	10.1x	9.9x	13.8x	13.0x	12.7x
Metro AG	4,176	2,773	6,949	0.2x	0.2x	0.2x	4.3x	4.2x	4.1x	7.8x	7.7x	7.3x	10.7x	10.2x	9.5x
Sligro Food Group N.V.	1,855	149	2,004	0.8x	0.8x	0.8x	12.4x	11.2x	10.3x	21.4x	17.6x	15.7x	20.0x	18.5x	16.7x
Sysco Corporation	28,196	7,026	35,222	0.7x	0.7x	0.6x	12.4x	11.4x	10.7x	15.9x	14.6x	13.6x	19.5x	17.5x	16.2x
Tesco PLC	27,434	5,633	33,067	0.5x	0.4x	0.4x	8.8x	7.8x	7.4x	15.0x	12.8x	11.6x	20.6x	15.9x	13.5x
US Foods Holding Corp.	6,544	3,005	9,550	0.5x	0.4x	0.4x	10.0x	9.2x	8.4x	15.4x	13.4x	11.7x	17.2x	15.3x	13.2x
Median				**0.5x**	**0.4x**	**0.4x**	**9.0x**	**8.3x**	**7.9x**	**14.0x**	**12.9x**	**11.6x**	**18.1x**	**15.6x**	**13.4x**
Average				**0.5x**	**0.5x**	**0.5x**	**8.7x**	**8.1x**	**7.7x**	**13.7x**	**12.5x**	**11.7x**	**17.0x**	**15.4x**	**14.3x**

Global Cybersecurity Market Grows as Security Threats Escalate

IMAP Norway Director, Lars Wik, talks cybersecurity and looks at the evolution of cyberattacks and the motives behind them, as well as the key factors in preventing security breaches. He also provides an overview of the global cybersecurity M&A market which looks to be on a strong growth path

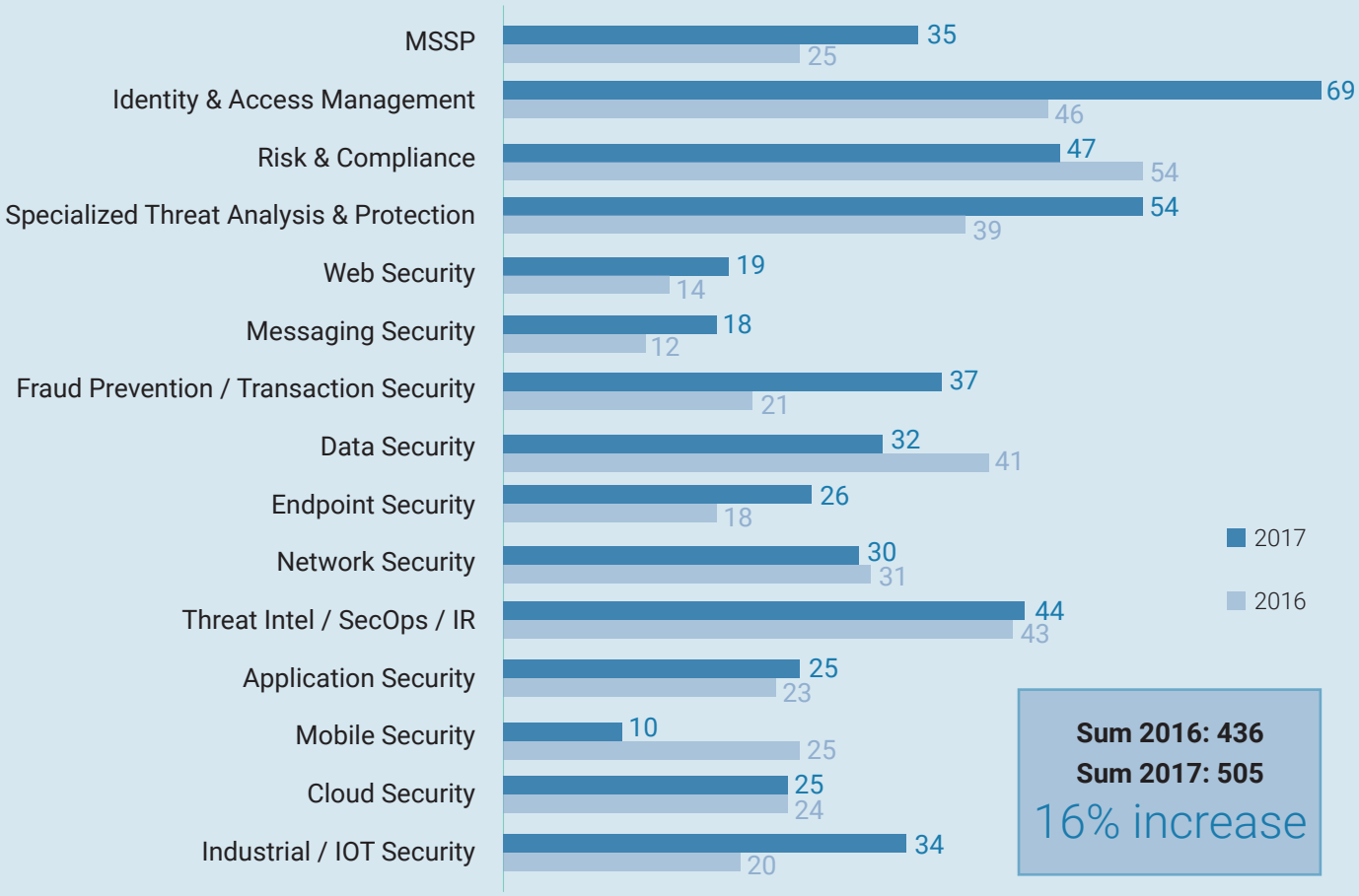
EXCEPTIONALLY STRONG MARKET OUTLOOK

By 2021, the global cybersecurity market is expected to be worth a staggering €172 billion. With threat levels growing and corporations continuing to fall victim to damaging and costly data breaches, the global and endless magnitude of information security issues has left end-users looking for solutions.

Looking at the number of cybersecurity transactions closed last year compared to 2016, 505 and 436 respectively, it's clear that the cybersecurity sector has a strong growth path ahead. Global M&A volume totaled €19.4 billion in 2017 and with high valuation levels, low market interest rates and good pricing, the market outlook remains exceptionally strong.

Due to the extremely good levels of M&A activity we are seeing, many new European players are now entering the market.

GLOBAL CYBERSECURITY TRANSACTIONS* 2016 & 2017



** M&A and Financing Transactions.*

€ 172bn
EXPECTED GLOBAL CYBERSECURITY MARKET WORTH BY 2021

9.5%
GLOBAL CYBERSECURITY MARKET PROJECTED CAGR 2016–2020

505
NUMBER OF CYBERSECURITY TRANSACTIONS IN 2017

4.6x
AVERAGE EV/REVENUE MULTIPLE 2014-2016

With private capital and a high level of funding available, there is a lot of money in the market and investors are actively looking to invest.

CYBERATTACKS ARE EVOLVING – IT'S NOT JUST THE BANKS WHO ARE VULNERABLE

Though a significant motivation for cyberattacks remains monetary gain, attacks in order to access information or distribute false information are becoming almost as important. Previously, banks were seen as the main targets, but now we are seeing more and more non-financial organizations and public institutions come under fire.

With the public sector and banks long being targets for attacks, they have additional security features in place and are much more prepared for attacks than other industries. The manufacturing industry for example, has been embedding cutting edge digital technology within its processes for a long time now and routine disruptions are common, however, with increasing functions and machines connected to the internet, the industry is fast becoming vulnerable to cyberattacks. Hackers accessing software and machinery such as robotic arms have the potential to effectively shut down or tamper with production, rendering it worthless and the costs to the business could be exponential.

In 2017, the top 5 industries hacked were Healthcare, Manufacturing, Financial Services, Government and Transportation, demonstrating the magnitude of industries that are targets for attack. Shipping conglomerate Maersk is a prime example of one of the big names in the transportation industry that was affected last year. In late June it fell victim to a global IT breakdown, hit by the "Petya" cyberattack; ransomware which essentially encrypts the infected computers, locking them until the ransom is paid.

IN 2017 THERE WERE SEVERAL MAJOR CYBERSECURITY BREACHES ANNOUNCED AND THE AVERAGE COST OF A DATA BREACH STOOD AT €3M, UP 6% FROM THE PREVIOUS YEAR. SO WHAT'S THE SOLUTION? LOCKED SYSTEMS AND GOING OLD STYLE?

Though some firms are reporting that they are indeed going old style; with locked systems that don't link to the internet and no longer storing anything on the Cloud, this isn't really the answer moving forward. On the contrary, in the future it's more likely that everything will be more open and linked to the internet and it is unfortunate, but good hackers will always find a way in. The key is structuring information in several layers and triangulating information, as well as understanding and minimizing the potential breaches and risks.

HR TRAINING IS A MUST, NOT AN EXTRA

Cyberattacks are evolving. Hackers have shifted from breaking into systems by means of cracking code, to attacking the human element, such as targeting individuals through spear phishing attacks, in order to gain entry into a personal network or system.

This is reflected in the number of breaches related to human error - 70% - clearly demonstrating that technology alone cannot successfully prevent cybersecurity attacks. Though it does provide automated safeguards and processes that prevent entry and exposure to the company, if these can be overridden in phishing attacks by just one click of a link or due to someone taking an action they shouldn't, there needs to be more focus on raising awareness and educating the 'people' element in the equation.

THE TOP FIVE INDUSTRIES HACKED IN 2017

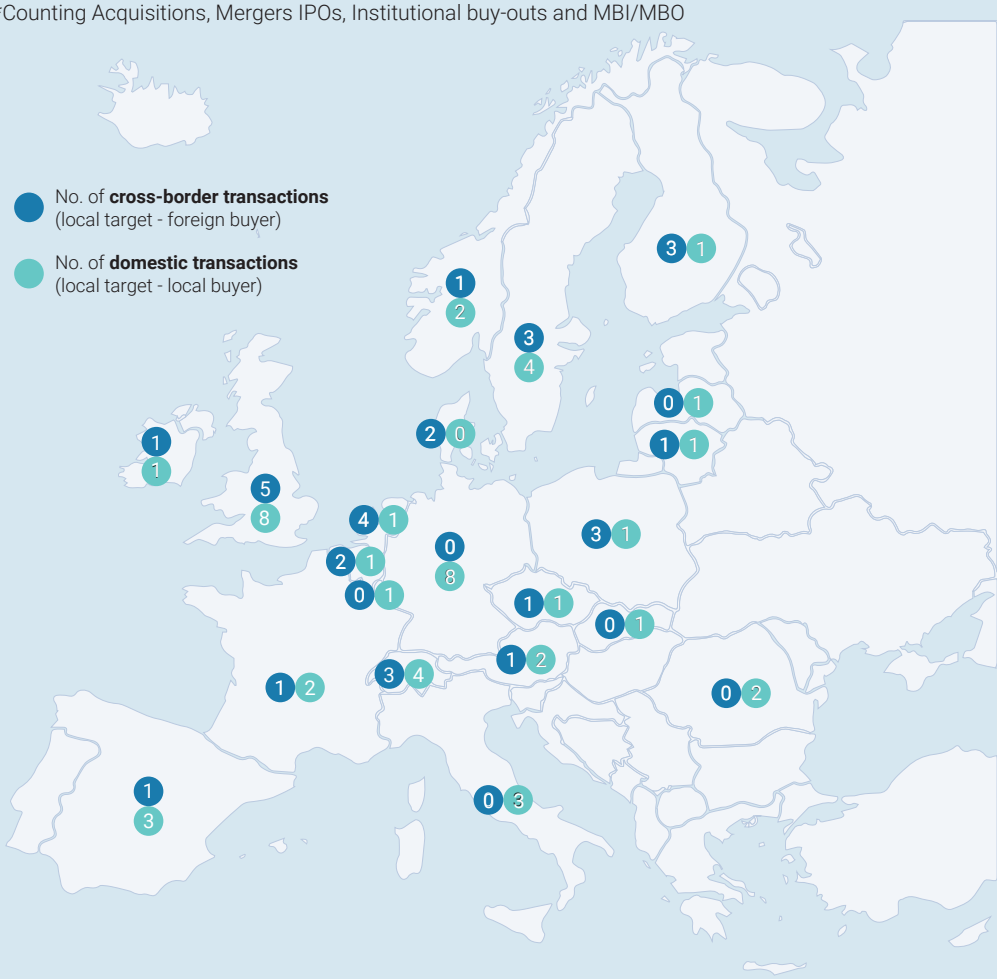
Imagine the CEO or CFO of a company away on business who sends a confidential email to someone in the finance department, stating he is travelling and requesting the urgent transfer of money to fulfill an ongoing transaction, acquisition or procurement. The employee, believing the authenticity as it looks like any other internal, confidential email from the CFO, makes the transfer. Nowadays, with everything connected; calendars, phones etc. it's all too easy for targeted hacks. Employees are unaware of the threats they are facing, proving that even companies with strong security measures are still vulnerable to attack.

Technological elements such as firewalls and processes are the bread and butter, but educating employees from the bottom of the company right up to the top is key. Just like a fire drill, practiced over and over again so that everyone knows the procedure in the event that a fire occurs, employees need to be trained in how to recognize and respond to attacks.

In the same vein, cybersecurity happens so fast and there are new hacks and codes being developed every day, plus there is always a back door into a system. Many breaches are preventable however, so it's a company's responsibility to constantly educate its employees on new possible risks and ensure it is at a level that will minimize direct threats from scams.

TRANSACTIONS IN EUROPE Q2 2015 - Q4 2017*

*Counting Acquisitions, Mergers IPOs, Institutional buy-outs and MBI/MBO



KNOWING WHAT YOU ARE UP AGAINST

Of course, it would also help to know just what sort of attacks to try and safeguard against. However, though we are seeing more and more cyberattacks hitting the news headlines, it's impossible to know just how many people have been hacked and how. Very few companies actually admit to having been hacked, in fear of their shareholders or clients finding out or highlighting concerns in their infrastructure. If more attacks were made public and people were aware of the type of attacks that are taking place, firms could look at putting procedures in place to prevent being attacked in the same manner.

PUBLIC PERCEPTION MATTERS

There seems to be an unspoken yet acceptable level of risk, hacks and breaches, with financial institutions and companies unable to protect themselves 100%. That being said, clients expect their money to be kept safe, along with their data (and to be used only for the purposes it was intended). Therefore, breaches can cause not only financial damage, but also harm an entity's reputation - businesses are built on trust so it is key that clients perceive that cybersecurity is being taken seriously and measures are being taken to protect their data or their money. The one piece of good news for those having suffered breaches is that the public tends to forget quickly.

THE GENERAL DATA PROTECTION REGULATION (GDPR)

The GDPR was implemented in May 2018, with the primary objective of giving citizens and residents control back over their personal data and to simplify the regulatory environment for international businesses, by unifying regulations within the EU. Companies will essentially only be allowed to use personal information for the purpose for which it was collected.

If we take a look at the Facebook vs Cambridge Analytica breach, whereby the personal data of 87 million users was exposed, we catch a glimpse of just how personal data, search and phone histories and personal messages can be misused. On 11th April 2018, Facebook was summoned for a congressional hearing regarding their security breach and their failure to properly protect their user's data. This case highlights the current focus on the correct, limited and appropriate use of personal data.

In fact, the importance of complying with the GDPR means that we are now seeing a general trend of including data protection conditions related to the regulation in M&A SPAs.

IDENTIFYING POTENTIAL RISKS AS EARLY AS POSSIBLE

Until now, cybersecurity has traditionally been underemphasized during due diligence, but this is changing. Scalability and consolidation of acquisition platforms still remain top concerns but understanding the cybersecurity risks and handling of personal data is now a top priority in many ongoing transactions.

Understandably, if security issues in a company are identified during the M&A process, it can potentially lead to price reductions or even the breakdown of deals. Therefore, it's clear that companies must ensure they have adequate cybersecurity measures in place, limiting the risks of this occurring.

USING BIG DATA AND ARTIFICIAL INTELLIGENCE (AI) TO STAY ONE STEP AHEAD

IBM Watson AI is already one of several big players in the market and it is forecast that it will remain one of the key means in helping companies stay ahead of the hackers. Uniquely positioned not only to handle the sheer volume of big data information, it can also discern the crucial context that can recognize what sorts of threats exist – something that would otherwise need to be done manually with human input.

Additionally, Blockchain-based security platforms address the fundamental flaws in general security by essentially removing the human factor from the equation – which is usually the weakest link. This technology and all engines that look for flaws/patterns on the web to prevent simple attacks will be game changers over the coming years.

Unfortunately, many large software companies currently face the problem of having big data they can't currently process. By aggregating with small, niche consultancies with advanced scalable cybersecurity software solutions such as FutureScope, they are able to standardize products and services, as well as develop next level security products. Due to the lack of specialized knowledge in this area in many organizations, during the few years people with these skills will be highly attractive hires.

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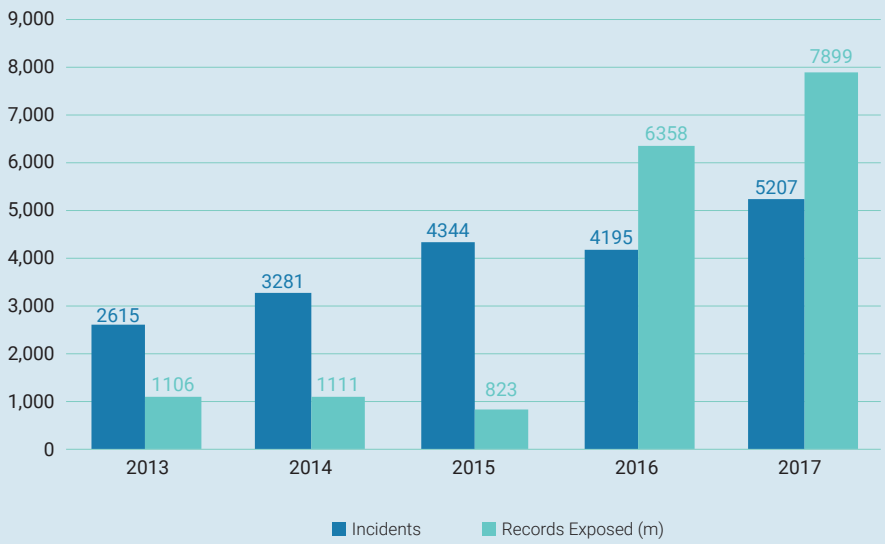
DATA BREACH TRENDS



IMAP EUROPE CYBERSECURITY MARKET SURVEY FEEDBACK

IMAP Europe conducted a survey in 2017 to understand local cybersecurity markets, interviewing some of the largest European cybersecurity companies. One finding was unanimous; that the same problems are being seen across all the regions and a lack of resources and internal knowhow are both current and future bottlenecks.

Data providers, email providers and the public sector were highlighted as the sectors most vulnerable and likely to experience future cyberattacks.

The products most in demand by customers to prevent attacks are data loss protection services and firewalls in the cloud which are expected to see the largest growth over the upcoming years. In addition, software to prevent Ransomware and firewalls to protect both business and personal devices are likely to be in high demand.

Looking at what were thought to be the most common reasons for data loss, respondents agreed that personal behavior, too little knowhow and negligence, along with lack of awareness were the main causes. They also expected that there would be more "smarter" attacks in the future along with industry spying. Furthermore, sophisticated crime for economic gain, as well as public sector manipulation through cyberattacks is likely to increase in the future.

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The New Reality of Brick & Mortar in Pet Retail

The pet retail landscape has grown steadily over the last fifteen years in line with disposable incomes and rising pet ownership. IMAP spoke to Michael Rost, PNCRA Managing Director and Feeders Supply Board Member, about their consolidation and growth strategy in specialty pet retail

Looking ahead, the growth of the industry will be driven by the continued rise in Americans' willingness to spend money on what they perceive as better products and services that will extend the life of their pets and the quality of their existence, known as the "humanization" of pets. The days of the dog being kept in the backyard and the cat left outdoors is a thing of the past for the majority of the nearly 170 million dog and cat owners in the US.

The convenience of online shopping has disrupted many brick & mortar businesses, yet pet specialty retail stores continue to be key vehicles for increasing loyalty and consumer awareness for many brands. Why? Pet parents enjoy the experience of going to a physical store location with their pet and indulging their four-legged friends with premium products and services. Furthermore, the shift in consumer shopping behavior to an authentic retail

experience has made the independent pet retail space a center for acquisition activity, while the "big-box" pet retailers are left in a state of malaise. The following highlights the significant trends and why growth in brick & mortar pet retail will continue:

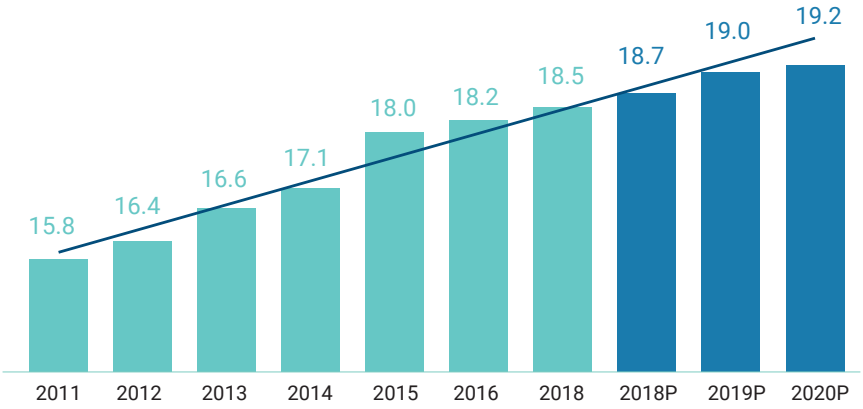
- Pet stores now offer a wide variety of specialized services, including grooming, vet checkups and vaccinations, pet washes, education seminars and social hours – all of which generate consumer loyalty and recurring visits.

- These services, along with the sensory experience of touching, feeling and smelling products, drives customer retention. The ability to review labels in real time and have instant ownership is also important.

- Pets are now an extension of the family and the "humanization" of pets continues to be a growing trend with pet owners. Visiting the neighborhood pet store is an experience that owners can share with their pet and both enjoy.

- Face-to-face conversations with informed staff is a key differentiator and creates customer satisfaction. Pet owners visit specialty stores to seek in-store education about new products and learn about the health benefits for their pet, especially if the product is new or at a premium price.

US PET SPECIALTY RETAIL REVENUE ($BN)

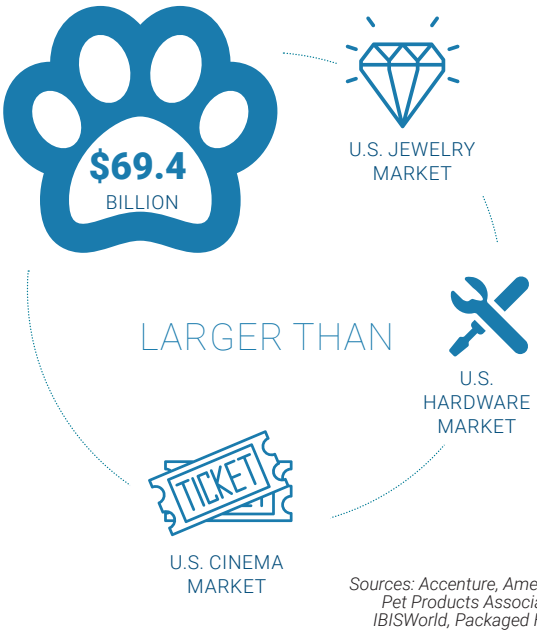


- Millennials are the fastest growing consumer group in pet retail, having surpassed baby boomers as the largest pet owning population in the USA. Millennial spending in the US alone is expected to reach $1.4 trillion by 2020 and represent 30% of total retail sales. For many retailers, the omnichannel shopping experience will be the best long-term strategy, with multiple dots connecting all phases of the path to purchases. Ecommerce may provide instant shopping gratification, but millennials often have a strong sense of community and like to support local businesses.

In reaction to consumer trends, innovative, mission-driven brick & mortar retailers are offering new, premium products and services and displacing market positions traditionally held by their "big-box" competitors, such as PetSmart and Petco. With clear growth and exit opportunities, private equity groups and strategic buyers have aggressively pursued the pet sector and brick & mortar stores, looking to rollup companies as platforms and bolt-on acquisitions for their portfolios

One thought leader who has successfully secured a prime position in the brick & mortar specialty retail space, is PNC Riverarch Capital (PNCRA), who over the last two years has acquired three leading regional pet retailers, including Feeders Supply, Chow Hound Pet Supplies and IncrediPet, creating a network of 31 stores,

US PET INDUSTRY SALES (2017)



Sources: Accenture, American Pet Products Association, IBISWorld, Packaged Facts

ABOUT PNC RIVERARCH CAPITAL

PNC Riverarch Capital (PNCRA) is a middle-market private equity firm that invests in privately-held companies headquartered throughout North America.

PNCRA seeks well-positioned companies in which to invest $10 to $50 million of equity capital, to support buyouts, recapitalizations, corporate divestitures and growth financings. The firm's investment philosophy is rooted in the belief that building great companies requires a long-term view and a flexible investment strategy. PNCRA invest across a variety of industry sectors, including value-added distribution, specialized manufacturing, business and industrial services, software and tech-enabled services.

PNCRA is an affiliate of The PNC Financial Services Group, Inc. and represents PNC's continued dedication to serving the middle-market. Since 1982, PNCRA and its predecessors have provided equity capital to over 100 companies.

and counting. IMAP spoke to Michael Rost, PNCRA Managing Director and Feeders Supply Board Member, about their consolidation and growth strategy in specialty pet retail.

What was the entrepreneurial/strategic rationale for this transaction?

Feeders was an ideal platform for our firm as it provided us with an opportunity to invest in a leading specialty pet retailer with significant scale and density in its core market. The company's strong brand equity in the Louisville region, generated from over 30 years of operations, coupled with impressive niche industry fundamentals, gave us confidence in the long-term growth outlook.

What were your main concerns in acquiring two pet retail companies in back-to-back transactions?

Management capacity is always a consideration when completing two acquisitions in a short period of time. Fortunately, the management teams at Feeders Supply and Chow Hound Pet Supplies are both highly capable and continue to lead their respective businesses. While the acquisition did involve some heavy lifting from the Feeders Supply team, there was good recognition among all involved, that Chow Hound represented a unique and attractive opportunity and that it would be a great addition to the Feeders platform.

As a result of our growth in our market and the acquisition of Chow Hound in the Michigan market, this puts us in the fortunate position of being one of the largest independent pet specialty retailers in the country. This gives us more leverage with our industry vendors and more economies of scale in many ways. We've been very pleased with our decision to acquire Chow Hound and believe the outlook for the combined business is strong.

What is your plan to grow these businesses going forward? In other words, how do you plan to create additional value?

Our plan is to grow the Company organically through a combination of same store sales growth, driven by attractive industry trends around pet ownership and a shift to premium products and through greenfield store openings in core geographies. We also continue to search for additional acquisition opportunities, particularly in adjacent markets, to further expand our footprint and increase scale.

From a transaction point of view, did you achieve your objectives?

Every transaction process is different and each presents a unique set of challenges, but, fortunately, the Falls River Group (FRG) and Feeders teams facilitated an efficient closing of the transaction. Overall, we're very pleased to have partnered with the

Feeders team in our investment and to grow the business.

What did you learn from the process and what might you do differently with the next acquisition?
We had been looking at the broader pet space for several years, but had not spent much time reviewing pet retailers. Through the process we learned a lot about the trends and challenges impacting the market. While the pet supplies market will continue to be a great category for many years to come, we worked hard to understand how it is changing, most notably due to ecommerce as well as how companies like Feeders will need to respond to new entrants and channels. We have seen some of these elements evolving the marketplace since entering our investment, but our core thesis regarding the value proposition delivered by independent retailers remains strong.

Do you have a one, three or five year plan for PNCRA's pet retail brand?
Our unique funding structure facilitates a long-term investment horizon, but we do not have a certain length of time in mind when setting our plans. We prefer to implement a set of objectives we would like to accomplish with the management team, which vary in length from a few months to several years.

Following your experience with IMAP partner firm Falls River Group, would you recommend the team to others considering a transaction?
The Falls River Group team was instrumental in both the Feeders and Chow Hound transactions and ensured an efficient process and great outcome for all parties. PNCRA is active in the deployment of our latest $400 million investment fund and we would very much welcome the opportunity to work with Falls River Group or one of its IMAP partners again in the future.

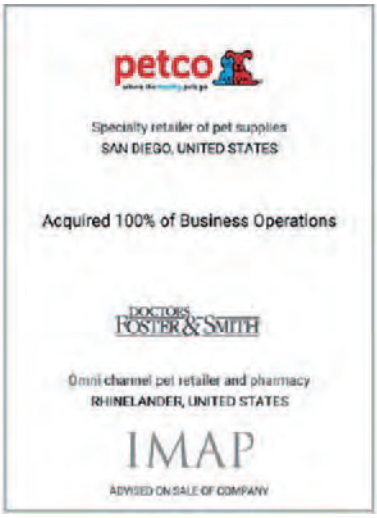
Our investment strategy emphasizes well-positioned, well-managed businesses and we continue to believe there are attractive investment opportunities available in this market.

FALLS RIVER GROUP AT THE FOREFRONT OF PET SECTOR M&A

Falls River Group, an IMAP partner firm, is recognized as a leading M&A advisor in the pet sector and has been extremely active working with companies across all segments of the industry. In early 2015, FRG advised on the sale of Doctors Foster & Smith, the pet industry's leading omnichannel retailer and online pet pharmacy, to Petco, the second largest brick & mortar pet retailer, with over 1,500 locations across USA and Mexico. Thereafter, FRG successfully closed three further sellside transactions in the pet space, including the sale of Feeders Supply, a Kentucky and Indiana based pet retailer, to PNCRA and the subsequent sale of Chow Hound, a Michigan based pet retailer, to Feeders Supply.

The team is currently advising two clients in the pet space, including a U.S. designer, distributor and marketer of innovative pet products, on the sale of the company, as well as a rapidly growing direct-to-consumer ecommerce company, focused on consumables, in raising growth capital.

Collectively, IMAP has advised on eight pet transactions, valued in aggregate at more than $700 million over the last 5 years.



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Global Energy Market: Never a Dull Moment

The global energy market is pushing ahead amid changing dynamics; renewable and green technologies are definitely on the rise but strong demand is keeping traditional generation alive. Transaction activity in the sector is targeted at companies meeting such demand and investing in innovative technologies

EVOLVING DEMAND IN THE ENERGY MARKET

World electricity demand increased by 3.1% in 2017 according to the International Energy Agency (IEA), in comparison to the 2.1% overall increase in energy demand. This increase is being led mainly by growing demand from China and India, which is even outpacing their economic growth.

At the same time, there are big changes in who is leading the increase in demand for global gas. Over the last decade, half of the growth in global gas demand derived from the power sector, however, in 2017, over 80% of growth came instead from industry and buildings. Though the power sector still remains the largest single driver of global demand, their share is expected to gradually decline over time.

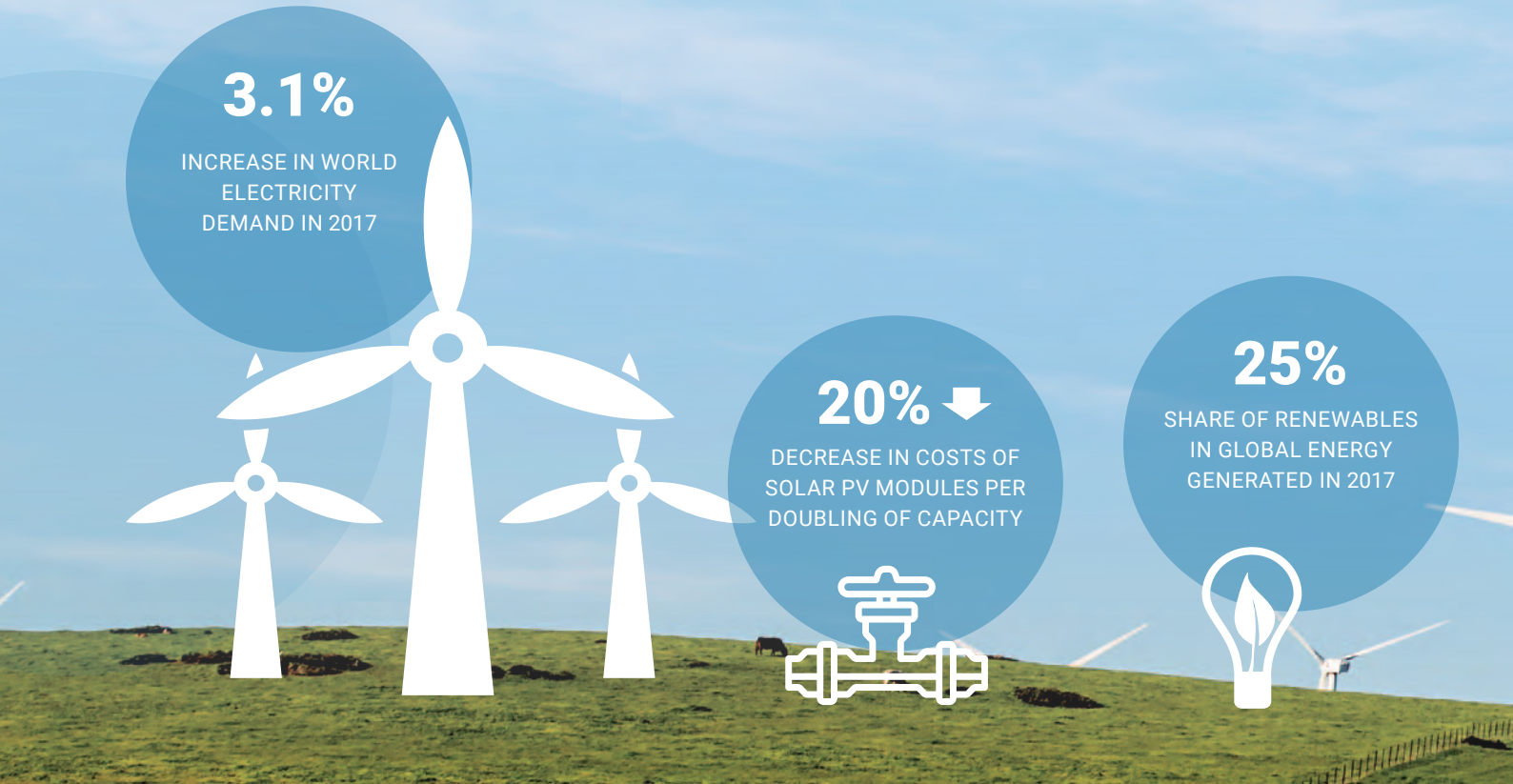
SOLAR A STRONG AND LESS EXPENSIVE CONTENDER MOVING FORWARD

In order to meet increasing demand, renewables accounted for nearly half of the additional global 380 TWh energy generation of 2017. In fact, its global share of the energy generated in 2017 reached 25%.

Solar Photovoltaic (PV) is on track to become the cheapest source of new electricity in many countries and according to Bloomberg, global average solar costs could fall below those of coal within 10 years. Since 2009, solar prices have fallen over 60%, with every part of the supply chain trimming costs, resulting in an upsurge in orders and cheaper bank loans due to lower risk premiums. In countries with no domestic coal reserves, or with carbon taxes, the crossover is expected to take place in the 2020s.

The learning curve associated with adopting this technology is steep. Costs of solar PV modules decreased by over 20% with each doubling of capacity. Different policies such as special feed-in tariffs or investment tax credits also lead to an acceleration in growth. Another worthy candidate is wind. New innovations aimed at improving performance design and control at every level are expected to force costs down.

The two most important challenges facing renewables are the demand for full-time electricity and what happens if they reach a critical share in grid power.



There are a number of underlying reasons to invest new money in the sector, including the fulfillment of growing demand and in order to become greener, smarter and more reliable.

BALANCING SUPPLY AND DEMAND

Increased electricity storage, greater interconnection and more flexible power plants, as well as demand-side management, which could potentially reach 15% of total global electricity demand, are necessary for a greener future. The new technologies designed to arbitrage shortfalls, and investments in storage and smart meters/grids will be important components of future power networks worldwide. In terms of adequate storage space and utilizing smart utilities, industrial and IT players including Siemens, GE and Google, are in the lead; utilities will be the most likely users.

RECENT ACTIVITY IN THE SECTOR

- French utility Engie continues to make moves into new geographical markets in energy storage - following acquisitions in the US and investing in Asian microgrids, it has invested in UK energy storage provider, Connected Energy
- Conventional technology's savior is the demand for full-time electricity, as well as the need to maintain backup supplies: EPH acquired Centrica's gas fired power stations in the UK and Fortum bought Uniper of E.ON
- There have been various transactions closed with the objective of helping customers manage energy use: the UK arm of Engie acquired Keepmoat, CEZ expanded in Germany through its acquisition of the German company Elevion - one of the largest providers of comprehensive energy services

DECREASING SYNERGIES OF INTEGRATED ACTIVITIES?

Political and regulatory conditions are pushing utilities towards divergence. In 2016, both E.ON and RWE created new companies - although in a different setup. E.ON spun off the conventional businesses and formed Uniper (oversees gas, coal, nuclear, trading and international businesses), whilst RWE wrapped up its new businesses (renewable energy, sales and grids) and established Innogy. In a recent development, RWE has agreed to sell its 76.8% stake in Innogy to the utility company E.ON, as part of a broader deal that will see RWE acquire a minority stake in E.ON and thus begin managing the renewable energy businesses of both Innogy and E.ON. The deal is seen as a move to concentrate most of the utility company's affiliated renewable energy capacity in Germany into one company, RWE.

EXTERNAL SOURCES MOVING IN

More and more global financial and institutional investors are active players in the market, as regulated businesses such as renewables and grids are now open to non-regulated businesses.

The effect of this is the disintegration of the value chain. One recent example of this being an affiliate of CVC Capital Partners, who has agreed to pay €3.8 billion to acquire 20.1% of Gas Natural, a gas and electricity distributor in Spain, from Spanish oil refiner, Repsol.

There is also the first wave of investments arriving at exit; Blackstone has sold WindMW in Germany to a Chinese investor. Another form of investor worth a special mention are infrastructure funds, such as BlackRock, or ISQ Global, who paid $1.1 billion for the Irish Viridian Group.

STATE PURCHASE OR DEVELOP FROM SCRATCH?

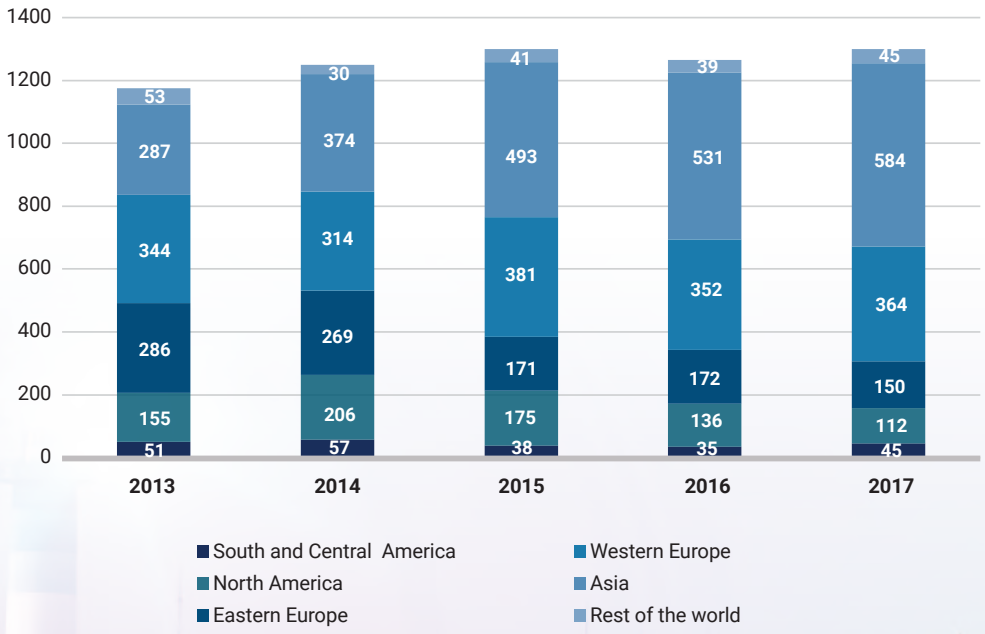
Asset privatization - In Europe the number of transactions is decreasing compared to rest of the world, with the latest examples being Greece, Portugal and Turkey. This is mainly being driven by the reduction in public debt levels.

Greenfield opportunities are a challenge to M&A activities in all areas, both in renewables and traditional generation (specifically nuclear and gas), as well as transmission and distribution.

There are a number of underlying reasons to invest new money in the sector, including the fulfillment of growing demand and in order to become greener, smarter and more reliable.

GLOBAL ENERGY UTILITY TRANSACTIONS 2013-2017*

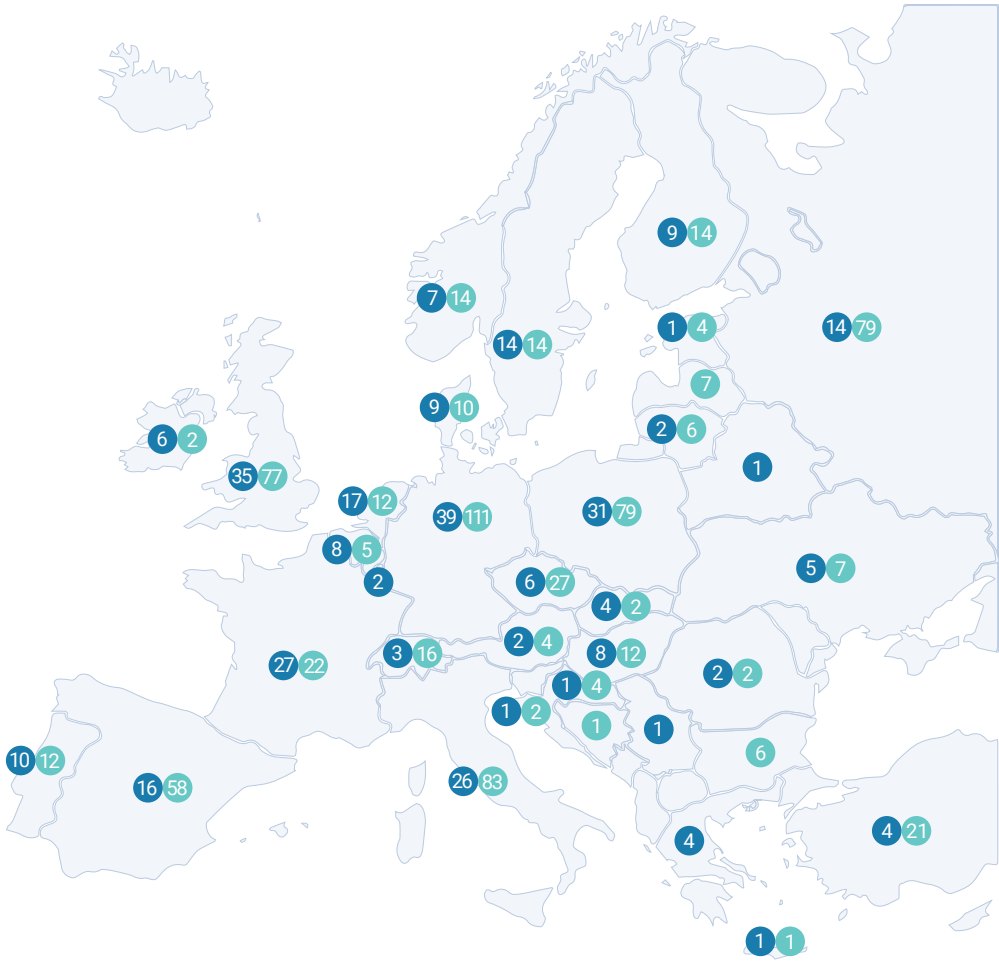
- Strong M&A activity; an average of 1,200 transactions per year
- An increasing prevalence in Asian destinations
- Institutional investors (e.g. private equity funds, pension funds and infrastructure funds) participated in 22% of the transactions; typically on the buy side, but also where investments had reached exit stage
- One quarter of transactions are cross-border deals



GLOBAL ENERGY UTILITY TRANSACTIONS 2016-2017*

No. of **cross-border transactions** (local target - foreign buyer)

No. of **domestic transactions** (local target - local buyer)

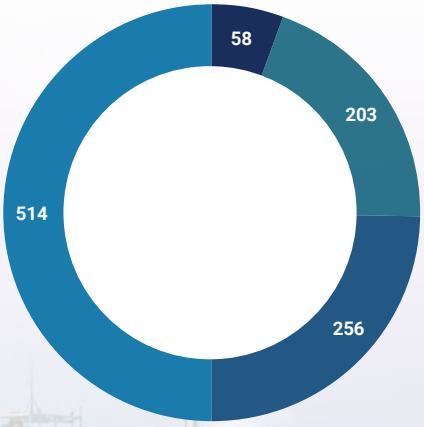


ENERGY UTILITY TRANSACTIONS IN EUROPE BY SUBSECTOR 2016-2017*

- Over the past 2 years, more than 1,000 M&A deals where majority exchanged ownership, have been closed in Europe; where one of the parties is from the energy utility sector (excluding water and sewage)
- Highest number of reported transactions: Germany, Great Britain and Poland
- 30% of the transactions were cross-border - higher than the world average of 25%
- 50% of transactions were in renewables

*Majority transactions; where one of the parties is from the energy utility sector, excluding water and sewage

Source: Zephyr



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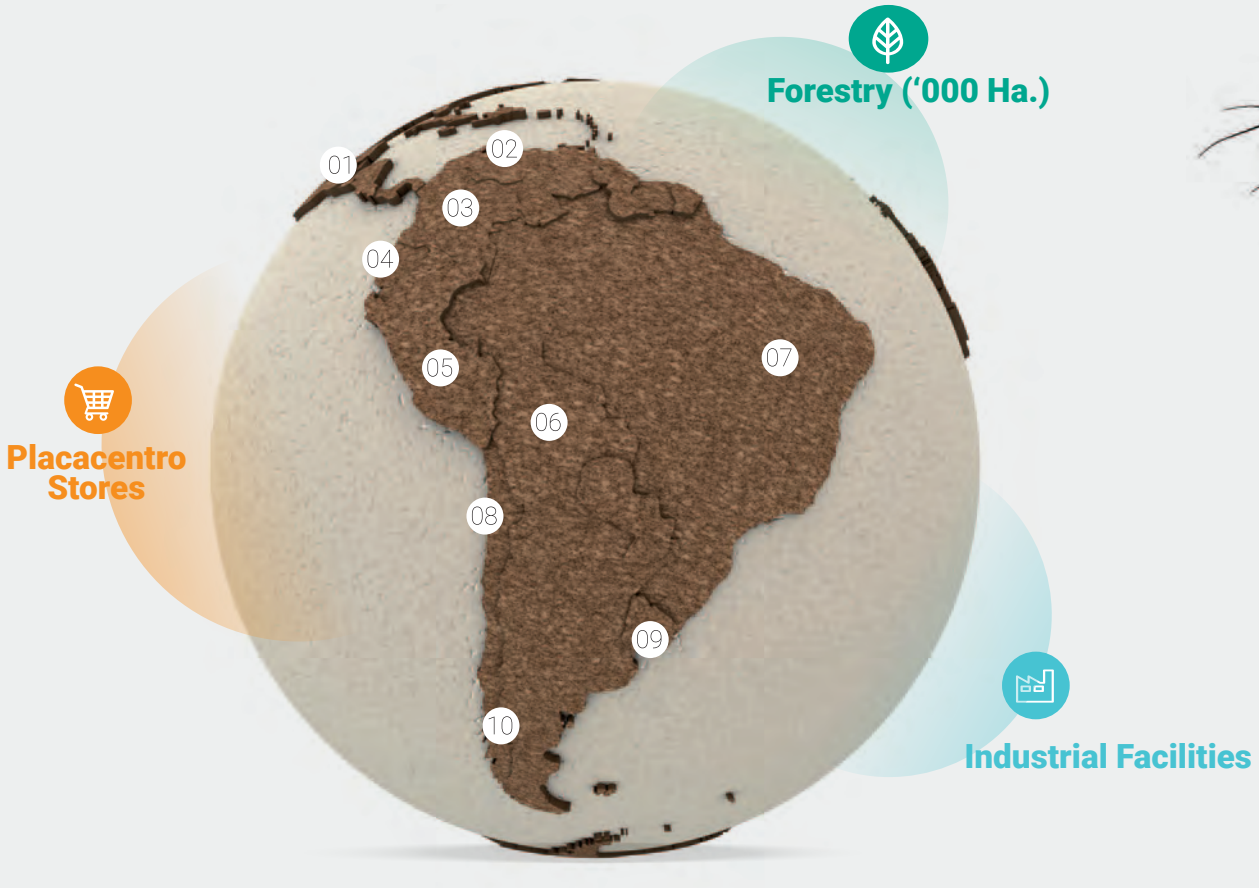
IMAP Colombia Advises Masisa on the Sale of Industrial Operations in Latin America

Masisa shifts its focus to the forestry business and successfully optimizes the company's capital structure by divesting key assets.

Regional Presence of Masisa
(Prior to Recent Divestitures)



01 MEXICO
4 77

02 VENEZUELA
136 1 47

03 COLOMBIA
32

04 ECUADOR
29

05 PERU
21

06 BOLIVIA
6

07 BRAZIL
2

08 CHILE
56 2 49

09 URUGUAY
54

10 ARGENTINA
54 1 54

LEADING CHILEAN WOOD PANEL PRODUCER

Listed on the Santiago de Chile Stock Exchange, Masisa S.A. is a leading producer and distributor of wood panel boards in Latin America and specializes in providing high value-added products for the furniture and interior design industries. The company has an integrated business model; with forestry assets, industrial production plants and a regional distribution network. With over 5,000 employees, in September 2017 the company reached LTM revenues of $956 million.

Before the execution of its divestment plan was initiated, Masisa was number one in terms of wood paneling installed capacity in Latin America, excluding Brazil, with a total capacity of over 3,567,000 m3/year and a melamine capacity of 1,909,000 m3/year across 10 industrial facilities. In addition, as of September 2017, the company held forestry assets exceeding 189,000 planted hectares.

SHIFT TOWARDS HIGH VALUE-ADDED MARKETS

During the last two to three years, Latin America has been going through a period of economic adjustments. This follows the end of the commodities boom cycle and the transition from left-wing populist governments, in some instances involved in cross-border corruption scandals, to more market-oriented governments. All this led to sharp currency depreciations in the region, as well as political and economic turmoil in key markets including Argentina, Brazil, and Venezuela – markets which in 2016 accounted for approximately 40% of Masisa's sales. Combined with the need to optimize the company's capital structure, this led Masisa to shift its strategy and focus on the forestry business along with the higher value-added distribution of wood panels in the Andean Region as well as Central and Northern America.

As part of this strategy, Masisa successfully executed the divestment of its industrial assets in Argentina, Brazil and Mexico through three sale transactions, totaling a consolidated Enterprise Value of $503 million. IMAP Colombia, together with UBS Securities LLC, acted as financial advisors to Masisa for these transactions.

ARAUCO

World-class player in forestry products industry
CHILE

Acquired 100% of Business Operations

MASISA
Seu mundo, seu estilo

Masisa's Brazilian industrial operation
BRAZIL

IMAP
ADVISED ON SALE OF COMPANY

EGGER

Family-owned producer of wood-based panels
AUSTRIA

Acquired Selected Assets of Seller's Business

MASISA

Masisa's Argentinian industrial operation
ARGENTINA

IMAP
ADVISED ON SALE OF COMPANY

A KEY EXAMPLE OF IMAP CROSS-BORDER COLLABORATION AND REACH

After defining a long list of potentially interested parties, including strategic global players, private equity funds and family offices, IMAP Germany successfully assisted IMAP Colombia by contacting and maintaining a strong line of communication with Egger, Kronospan and Swiss Krono; the three leading European companies in the wood panel industry. This assistance was fundamental not only in overcoming language and cultural barriers with such key market players, but also in gaining their trust.

As a result, and following a long period of negotiations, Masisa sold its industrial unit in Argentina to Egger Holzwerkstoffe GmbH for $155 million. The industrial operation in Argentina reached revenues of $131 million in 2016 and comprised an industrial complex located in Concordia and a distribution network of 54 Placacentro stores.

Egger, based in Austria, is one of the main players in the world in the wood panel industry, with 18 production plants in Europe, as well as 21 sales offices and close to 9,000 employees around the globe. Focusing mainly on European markets, this acquisition was the company's first venture into the Latin American market.

> *Fundamental to the success of these transactions was the close collaboration with other global IMAP teams, where we were able to use collective experience and relationships not only to develop a robust list of potential investors, but also to gain direct access to key market players*

REGIONAL CONSOLIDATION

Simultaneously to the first transaction, IMAP Colombia and UBS continued to advise Masisa on the sale of its Brazilian and Mexican assets, creating a flexible process that favored value maximization. Following a highly competitive process and extensive discussions with a series of interested parties, again including private equity firms and key strategic players, in December 2017, Masisa successfully completed its second transaction; the sale of its Brazilian industrial assets to Celulosa Arauco y Constitución S.A (Arauco) for $103 million. The Brazilian operation included two plants in Ponta Grossa and Montenegro, which as of September 2017, generated LTM revenues of $149 million.

Arauco, a Chilean company, is one of the main global players in the wood products industry: producing wood pulp, sawn wood, wood panels and other wood derivatives. As of June 2017, the company reached LTM sales of $4.9 billion, resulting in an EBITDA of $1.1 billion. With this acquisition, Arauco reaches a production capacity of 10 million m^3, thus consolidating its position as #2 player worldwide.

Finally, and as a separate transaction, on December 2017, a Share Purchase Agreement (SPA) for Masisa's Mexican industrial assets was executed between Arauco and Masisa reaching an Enterprise Value of $245 million. These assets represented an attractive opportunity for Arauco, given that before the transaction Arauco commercialized imported boards in Mexico and had no production operations whatsoever in the country. The Mexican assets included four plants located in Durango, Chihuahua, Zitacuaro and Lerma. As of September 2017, these assets reached LTM revenues of $161 million. This transaction is expected to close in the second half of 2018 subject to the fulfillment of precedent conditions including antitrust approval.

Expert partners from IMAP in Brazil and Mexico assisted the team from IMAP Colombia in these two asset sale processes, primarily with the identification of potential interested parties.

OUTSTANDING RESULTS AND SHARE PRICE PERFORMANCE

Since the beginning of 2016 up until the announcement of the execution of the SPA for the Mexican assets, Masisa's share price has appreciated 182% (CPL 17.34 on 4th Jan 2017 to CLP 48.90 on 19th Dec 2017). The company's stock has significantly outperformed the stock market index for the Santiago de Chile stock exchange IPSA, which has appreciated approximately 50% in the same period. The share performance reflects the approval from investors of the company's strategic shift.

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NCL Wintech Builds Strategic Partnership with Veka AG

IMAP India, with support from IMAP in Germany, advised NCL Wintech, the largest uPVC windows profile manufacturer in India on the sale of a significant company stake to Veka AG; headquartered in Sendenhorst, Germany and the world's largest extruder of uPVC profiles used for windows and doors

JOINT VENTURE EXIT OPENS THE DOOR FOR NEW STRATEGIC GROWTH PARTNER

In 2009, NCL Wintech, part of the India based NCL Group, began manufacturing uPVC profiles along with Turkish ADO Group as part of a 50-50 joint venture. It launched its products in India using ADO's global brand 'Wintech' and by 2017, the company had built a pan-India presence through its network of over 150 fabricators. In FY 2017, NCL Wintech had revenues of $20 million with an EBITDA of 15% and was growing at over 20% y-o-y.

In 2015, spurred by losses in the Russian market, ADO decided to pull out from 3 international markets, including India. ADO exited its Indian JV in 2016, whereby its shares were bought out by the NCL Group. Given the considerable growth and potential in the India market, NCL Wintech was keen to maintain its growth momentum, and so was open to considering a strategic partner who would enable the company to expand and increase its competitiveness. NCL Wintech therefore executed a mandate with IMAP India in order to find a global strategic investor that would best align with the company.

OPTIMAL MARKET CONDITIONS AND FUTURE GROWTH EXPECTED

The real estate market in India contributes to 6% of the country's GDP and is expected to grow over 10% during the next 8 years. Driving this growth is the high growth in GDP (over 7%), the rise in disposable income and the high percentage of young people in the population. Similarly, other ancillary industries including cement, tiles, sanitary ware and consumer durables, have also been witnessing extremely high growth, with global investor participation in many of these sectors. Therefore, the transaction was expected to generate a great deal of interest.

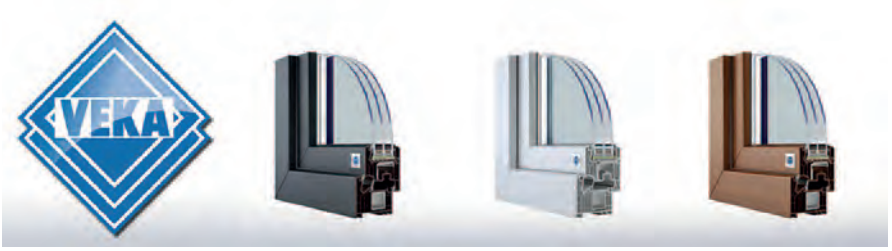
IMAP India, with the assistance of other IMAP member firms, compiled a list of potential partners for NCL Wintech. Very early on in the sale process there was interest from international as well as domestic players, one of which was Veka AG, who was contacted through IMAP Germany and the preferred partner for IMAP India's client.

The initial meeting was held in India with both Veka and NCL Wintech present and saw the involvement of all Veka's key decision makers who explicitly expressed their interest in pursuing the transaction. In turn, NCL Wintech was looking to avoid a prolonged sale process as any news of a strategic sale would make their fabricators uneasy. Therefore, with a good level of trust developing between both operating teams and valuation expectations being broadly met, the decision was made to execute a MoU.

Andreas Hartleif (right), CEO, VEKA AG and Ashven Datla, MD, NCL Wintech

Veka AG and NCL Wintech with IMAP India during deal signing

Veka AG has been present in India since 2006 through its 100% subsidiary, Veka India. However, its global product range was expensive for the Indian markets so it had gained very little market share. With the Indian uPVC profile market growing significantly over the last few years, players in the 'Economy' and 'Moderate Premium' ranges saw high growth. NCL Wintech and other players that had customized their products specifically for the Indian market and built a good marketing network did very well. This transaction was therefore, of great interest to Veka, who was looking to become a larger player with stronger presence in the growing Indian market.



MAINTAINING PERFORMANCE AND JOINING FORCES TO MOVE FORWARD

The deal was structured as a 50-50 JV between Veka AG and NCL Wintech's existing shareholders. Due to the effective performance of the existing management team at NCL Wintech, Veka AG wished to keep the team involved in the business. The existing team had also built solid foundations with Veka AG and saw an opportunity for growth by exploiting synergies between the two companies. During negotiations, key issues such as the migration from the existing brand (the 'Wintech' brand was still being used by ADO as per an earlier agreement), constraints in expansion of production capacities, continuity of key employees, roles and responsibilities of Veka AG and Indian shareholders and timelines for Veka to further increase its shareholding, were discussed.

EXPLOITING SYNERGIES FOR HIGH MARKET GROWTH

Veka AG and NCL Group together created a combined business plan for the next 3 years, during which time the company expects to double revenues. The CEO of the VEKA Group, Andreas Hartleif said: "The technological expertise that VEKA brings will allow our Indian operation to build a strong platform for product innovation and substantial growth in India."

Managing Director of NCL Wintech, Ashven Datla described the agreement as a milestone for the company: "Though windows and doors manufactured from uPVC profiles constitute only approximately 15% of the market, it is one of the fastest growing categories. In most developing countries, the proportion of uPVC windows is well over 50%. We have plans to significantly expand production and have recently acquired a large parcel of land in Medak, near the existing facility of NCL. Work on the plant is expected to begin later in 2018."

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New Frontiers in Healthcare: Consolidation of Diagnostics and Outpatient Service

Amid structural pressures in the healthcare sector, outpatient care continues to gain importance. Specialized diagnostic companies are in a prime position to integrate their services with outpatient care providers and provide comprehensive services along the patient pathway

OUTPATIENT CARE GAINING IMPORTANCE

Healthcare systems continue to face pressure globally as demand intensifies and supply becomes more complex.

Drivers of intensifying demand:

- Patients seek more care – "maximal care is optimal care"
- Unhealthy lifestyles driving chronic disease
- Adverse selection of patients
- Ageing population

Drivers of supply becoming more complex:

- Lack of preventative medicine and screening
- Fragmentation of care
- Technological developments focus on enhancement, not on value
- Incentive systems reward volume, not outcome

These supply and demand pressures are materializing in cost increases and payors, be it individuals, private or public insurance companies or other institutions, are trying to cap price hikes. As a result, the industry will have to answer with improvements in efficiency and the way the healthcare ecosystem is managed, as well as in the way individual healthcare services are provided.

Outpatient care will gain importance in managing increased healthcare costs, placing greater importance on administering and reimbursing based on the patient/disease pathway. This is being made

> *Outpatient care will gain importance in managing increased healthcare costs, placing greater importance on administering and reimbursing based on the patient/disease pathway. Diagnostic imaging companies are in a prime position to build a strategy based on the increasing role of outpatient care*

possible through ongoing technological developments and improvements in healthcare that have contributed to an increase in both life expectancy and the number of treatment methods available to patients. As modern treatment methods are developed, the need for inpatient care is generally reduced, whereas outpatient treatment increases, thus leading to a shift in volumes from inpatient to outpatient care. This in turn, leads to the release of capacity and resources, enabling more patients to receive high quality care at the same cost to the healthcare system.

AN OPPORTUNITY FOR DIAGNOSTICS COMPANIES

Diagnostic imaging companies are in a prime position to build a strategy based on the increasing role of outpatient care. Their stand-alone position as pure play service providers could firstly be complemented with outpatient care in related clinical specializations (dental diagnostic imaging companies with dental clinics, PET CT/PET MRI companies with cancer diagnostics and treatment centers and general diagnostics service providers with general outpatient providers). Then, further building upon this arrangement, these providers could offer integrated care; covering the full range of diagnostics and interpretation along with outpatient treatment in the same institutions, offering:

- Better and more efficient patient path management
- Better asset utilization
- Better cost control on services

CASE EXAMPLE: AFFIDEA ACQUIRING A LEADING HUNGARIAN OUTPATIENT SERVICE PROVIDER

In February 2018, Affidea, the largest and most successful pan-European medical service provider specializing in diagnostics investigations, acquired Főnix-Med in Hungary.

Affidea was established in Hungary 26 years ago and the Group's diagnostics services are currently available in 16 countries across 230 service centers. In Hungary alone, Affidea provides services in 12 centers and employs in excess of 500 staff.

By acquiring Főnix-Med, which is the Group's first acquisition in the outpatient service provision market, Affidea now offers a wider range of outpatient services and occupational healthcare services to its individual and corporate employee clients, in an integrated manner.

Főnix-Med employs over 600 staff and provides corporate and occupational health services to more than 100,000 employees at Hungarian companies. Since its foundation more than 20 years ago, the company has focused on private and occupational health services with only 25% of its revenues coming from public financing.

This acquisition has been the largest transaction in the sector in Hungary executed by a strategic buyer and is a major step towards the consolidation of the Hungarian healthcare sector, a trend that started nearly a year ago when new players began entering the market.

Affidea's transaction advisor for the acquisition was IMAP Hungary. The team from IMAP Hungary supported Affidea in crystalizing its strategy of going into outpatient care and initiated discussions with some local outpatient providers, including Főnix-Med. IMAP supported Affidea through the whole acquisition process, which was atypically long as some of the target's operations fell outside the circle of activities Affidea was willing to take over and therefore these had to be separated out.

MORE MOVEMENT EXPECTED GOING FORWARD

Affidea is expected to continue this strategy of integrating diagnostics and outpatient healthcare services provision both in Hungary and across Europe. Moreover, after recognizing this new trend and the move towards integration, other diagnostics service providers look likely to follow suit, potentially leading to similar transactions in Europe and globally.

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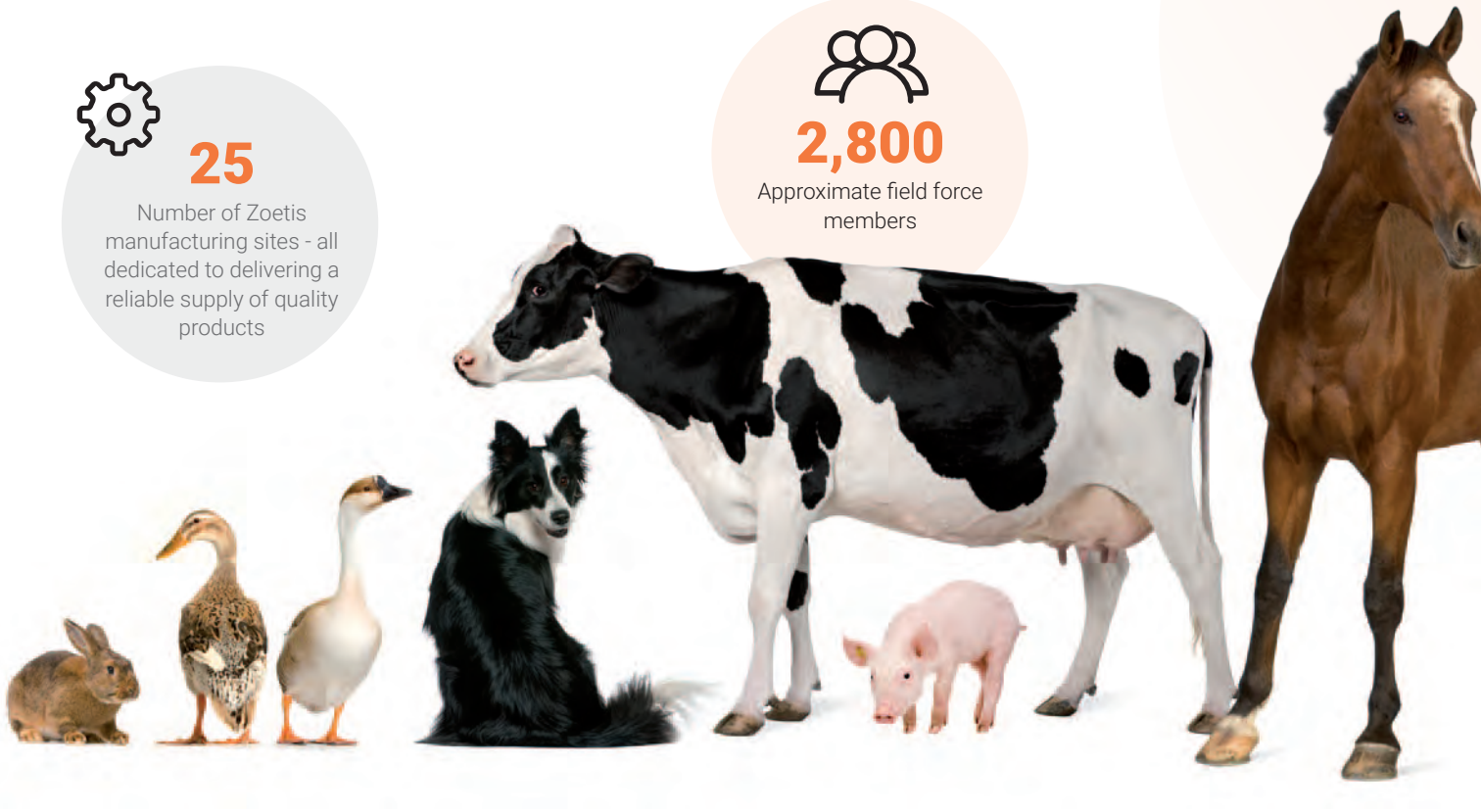
Global Spin-Off Leads to M&A Opportunity with Animal Health Giant Zoetis

IMAP Brazil advised Zoetis on the sale of its São Paulo manufacturing site to pharmaceutical company União Química. The transaction also involved a 5-year manufacturing agreement for Zoetis' products

25
Number of Zoetis manufacturing sites - all dedicated to delivering a reliable supply of quality products

2,800
Approximate field force members



A GIANT SINCE ITS INCEPTION

Operating in over 70 countries, Zoetis, Inc. (NYSE: ZTS) is the world's largest producer of animal health products for both pets and livestock. Zoetis discovers, develops and manufactures a diverse portfolio of medicines and vaccines, complemented by diagnostic products, genetic tests, bio-devices and a range of services, which are designed to meet the real-world needs of veterinarians, livestock farmers and companion animal owners.

Zoetis was a subsidiary of Pfizer, the world's largest drug maker up until 2012, when Pfizer decided to spin-off its animal health division. On 1st February 2013 the company launched its IPO, selling 86.1 million shares for $2.2 billion, floating a 17% interest in the Company and trading at $31.5 per share, up 21% from its offering price of $26 per share. At the time, it was the largest IPO from a U.S. company since Facebook's $16 billion IPO on 18th May 2012. In June 2013, S&P Dow Jones Indices announced that Zoetis stock would be part of its S&P 500 stock market index.

MANUFACTURING CAPACITY RESHUFFLE

After the spin-off, Zoetis undertook a thorough review of its manufacturing sites and respective capabilities and capacities, which resulted in its decision to divest 10 manufacturing sites across the world.

Following a "beauty contest", Zoetis awarded the mandate for the sale of one of its Brazilian plants to IMAP Brazil.

The Brazilian plant was a hybrid human health/animal health plant, spread over 143,000 m^2 where Pfizer still produced some of its blockbuster drugs.

The plant exported to over 70 countries being FDA, MHRA (European) and PMDA (Japanese) agencies certified.

1,000
Approximate number of R&D colleagues

300
Approximate number of product lines

8
Species supported by Zoetis - cattle (beef and dairy), swine, poultry, sheep, fish, dogs, cats and horses

5
Product categories supported by Zoetis - vaccines, parasiticides, anti-infectives, medical feed additives and other pharmaceutical products

zoetis

60+
YEARS OF EXPERIENCE IN ANIMAL HEALTH

100+
COUNTRIES IN WHICH ZOETIS PRODUCTS ARE SOLD

9,000
APPROXIMATE NUMBER OF ZOETIS COLLEAGUES

$4.9
BILLION
ANNUAL REVENUES (2016)

59%
REVENUE FROM FARM ANIMAL PRODUCTS

40%
REVENUE FROM COMPANION ANIMAL PRODUCTS

The plant has a state-of-the-art sterile and a non-sterile area, with robust drug processing capability. Its total production capacity stands at 35 million ampoules, 150 million solids, 31 million ointments, 34 million vials and 9 million powder sachet units per year.

In this case, the divestiture of the plant did not include any products and the transaction perimeter included only the manufacturing site, equipment, respective licenses and employees. It did however, include a 5-year manufacturing contract for manufacturing Zoetis' products.

MULTIPLE STAKEHOLDERS MEANS MULTIPLE CHALLENGES

Zoetis' main objectives were operational continuity and maximizing upfront proceeds, while at the same time entering into a favorable manufacturing and supply contract. Additionally, the manufacturing contract could not exceed 5 years as the production of those products will be transferred to another site in accordance with Zoetis' manufacturing plan.

During the transaction IMAP Brazil faced several challenges; one of which was meeting all of the different stakeholder's objectives. As a large multinational

> *Given that Zoetis is a large multinational corporation with a matrix command structure, IMAP Brazil had to meet the key objectives of each individual area, such as supply chain, environmental, finance, operations and the local business unit, without losing track of the overall transaction objectives*

corporation with a matrix command structure, IMAP Brazil had to meet the key objectives of each individual area, such as supply chain, environmental, finance, operations and the local business unit, without losing track of the overall transaction objectives.

An additional challenge was that the site was still in the process of being incorporated by Zoetis' subsidiary in Brazil as a result of the spin-off, which prevented IMAP from initiating the sales process immediately. Furthermore, the plant was still being leased and utilized by Pfizer who didn't relocate its production until March 2016. Just six months later, IMAP Brazil was able to resume the sale process with a consistent cost track record under Zoetis management with only Zoetis products.

While it is common to negotiate ancillary agreements, the manufacturing and supply agreement was a key factor in the success of this particular transaction. IMAP Brazil was instrumental in reaching an agreement during this complex contract negotiation, which involved both toll manufacturing and full supply modalities for different product categories.

Between signing and closing, Zoetis carried out a drop-down of the assets to a NewCo (real estate, manufacturing equipment and working capital items), including a transfer of the employees. It also implemented a transitional ERP system. Only once it was fully operational as a stand-alone entity, was IMAP Brazil able to file for the regulatory licensing of NewCo. It took 8 months between signing and closing, which is actually relatively quick compared to other similarly structured transactions in the Brazilian pharmaceutical market. Overall, due to all the complexities and interruptions, the transaction took 28 months from the signing of the mandate to financial closing.

FINDING THE PERFECT FIT AND CONSOLIDATING CLIENT RELATIONS

In order to ensure the process was as competitive as possible, IMAP Brazil contacted 150+ potential buyers in 4 main categories: (i) 65 Contract Manufacturing Organizations ("CMO"s), (ii) 16 Brazilian Pharmaceutical Companies, (iii) 66 International Pharmaceutical Companies with and without presence in Brazil and (iv) Financial Investors.

União Química Farmacêutica Nacional S.A. ("União Química") emerged as the finalist of what was indeed a highly competitive process and acquired Zoetis' plant. União Química had recently completed a similar transaction in which they acquired a manufacturing site from Novartis, also in the São Paulo State and in which they had also entered into a manufacturing contract with Novartis to supply its products. With this acquisition, União Química established itself definitively as a leading Brazilian player in the CMO segment, while still maintaining its principal position in both the human and animal health businesses. The total transaction value was not disclosed.

This transaction not only created value for both the seller and the buyer, but also succeeded in further establishing the strong relationship between the largest animal health company worldwide and IMAP Brazil.

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IMAP Partner Capstone Headwaters Now One of the Largest Independent Middle Market Investment Banks in the USA

IMAP | Capstone Headwaters

15 years of proven results

400 + transactions closed totaling $14 billion

Cross-border deals generate 1/4 revenue

Over 70% M&A closings with strategic acquirers

Rich history with over 3,000 PE firms

5 consecutive years as "Firm of the Year"

Top 10 Most Referred Investment Banks - Axial

Top Investment Banks to Work For – IvyExec

In January 2018, IMAP partner Capstone Partners LLC and Headwaters MB, LLC announced that they completed a strategic transaction whereby Capstone acquired Headwaters to form Capstone Headwaters LLC. This combination represents the culmination of a long-term collaboration between both Capstone and Headwaters and their respective founders, John Ferrara and Phil Seefried. Having united two of the leading middle market investment banking firms, Capstone Headwaters LLC is now one of the largest independent investment banks in the USA, with 150 professionals covering 16 dedicated industry groups and 20 offices spanning across the US, UK and Brazil.

John Ferrara, Capstone Headwaters CEO, said, "This combination is an exciting operational fit, completes the build out of our sector coverage and greatly expands our geographic presence. For both firms, this transaction accelerates the achievement of many of our growth objectives and brings new capabilities to the table beyond M&A and capital raising.

> *"Continuing our partnership with IMAP remains instrumental in our strategy moving forward, whereby we can continue to leverage the relationships we have built up, as well as IMAP's unique global footprint*

Our firms share a common DNA and strategic direction, both equally committed to excellence on behalf of our clients and our people. Continuing our partnership with IMAP remains instrumental in our strategy moving forward, whereby we can continue to leverage the relationships we have built up, as well as IMAP's unique global footprint."

IMAP Chairman, Jurgis Oniunas, observed, "IMAP closed over 200 deals last year, worth more than $12.0 billion. These results are a testament to the caliber of our global teams and the breadth of our sector expertise. IMAP's foundation and focus remains the mid-market, so we are extremely pleased and congratulate Capstone Headwaters on forging this key alliance, which brings together two of the top investment banking firms in the middle market. Going forward, with this additional strength, along with the good momentum and liquidity we are currently seeing in M&A, we look poised for an even stronger 2018."

JOHN FERRARA
CEO, Capstone Headwaters
IMAP USA

Selected IMAP transactions

IMAP Italy advised private equity firm PM & Partners on the sale of Monviso, a leader in the Italian bakery industry, to Céréa Partenaire. Monviso employs 130 people across four locations and reported sales of €36 million in 2017. This is the first Italian purchase made by Céréa Partenaire, a French food and agribusiness specialist. Following the deal, Monviso is better positioned to extend its core lines, pursue opportunities in the health food sector, grow sales beyond Italy and improve its productions facilities. Led by Managing Partner Alberto Gennarini, the team of dedicated food & beverage experts at IMAP Italy closes several transactions in this sector every year.

IMAP Capstone Headwaters advised Blueprint Test Preparation on its sale to New Harbor Capital. Blueprint is the premier LSAT test preparation provider in the US, offering in-person and online courses, private tutoring, self-study books and application consulting services. Jacob Voorhees, Co-Head of Investment Banking at IMAP's US partner Capstone Headwaters, commented: "The state of the art learning management system, data analytics, adaptive learning engine and technological and creative prowess of Blueprint is unmatched. With the help of New Harbor, they are a disruptive force that will be putting the industry titans on notice."

IMAP in Vancouver advised Rubicon Pharmacies on its sale to TorQuest Partners, one of Canada's premier PE firms active in the middle market. Rubicon is the largest owner and operator of independent pharmacies in Western Canada, operating stores located mostly in rural areas and urban neighborhood communities. Rubicon's pharmacies are a critical component of health care delivery in the areas it serves, with many locations offering an expanded scope of pharmacy services. The sale and subsequent combination with Amenity Health Care, another pharmacy in TorQuest's portfolio, sets Rubicon on the path to becoming a leading pharmacy operator in Canada.

IMAP UK advised Escher Group Holdings on its sale to Hanover Investors. Escher is the foremost provider of total technology and software solutions for the postal sector and public agencies. Hanover had already been a shareholder in Escher and, following the strategic buyout, the firm plans to continue investing in the company's technology offerings, particularly in its innovative Riposte software platform.

FOOD & BEVERAGE

Rieker Investment AG

Family Office
SWITZERLAND

Acquired Majority Control of Business Operations

PRO HO GA

Premium food retailer for the HoReCa industry
GERMANY

IMAP
ADVISED ON SALE OF COMPANY

HEALTHCARE

NUVASIVE

Surgical devices for treatment of spine disorders
UNITED STATES

Acquired

SafePassage
Patient Monitoring Services

Patient monitoring and medical scanning services
UNITED STATES

IMAP
ADVISED ON SALE OF COMPANY

TECHNOLOGY

CLSA CAPITAL PARTNERS

Private equity fund
JAPAN

Acquired 100% of Business Operations

Hama Engineering

Semiconductor engineer staffing company
JAPAN

IMAP
ADVISED ON SALE OF COMPANY

TECHNOLOGY

ЗР·ТЕЛЕКОМ

Telecommunication holding company
RUSSIA

Acquired 100% of Business Operations

СТРЕЛА ТЕЛЕКОМ

Telecom service provider
RUSSIA

IMAP
ADVISED ON SALE OF COMPANY

TRANSPORT & LOGISTICS

Investee of Stratus (PE fund)
BRAZIL

Acquired 100% of Business Operations

KUEHNE+NAGEL

Brazilian road freight business of leading global logistics company
BRAZIL

IMAP
ADVISED ON SALE OF COMPANY

INDUSTRIALS

MANGROVE PARTNERS

Private Equity
UNITED STATES

Acquired Majority Control of Business Operations

www.rasmussenco.com

Supplier of marine products
UNITED STATES

IMAP
ADVISED ON SALE OF COMPANY

INDUSTRIALS

JUURI PARTNERS

Finnish private equity investment fund
FINLAND

Acquired 100% of Business Operations

FINELCOMP

Manufacturer of electrical enclosures
FINLAND

IMAP
ADVISED ON SALE OF COMPANY

CONSUMER & RETAIL

FRUTAROM

Flavors and natural fine ingredients producer
ISRAEL

Acquired Controlling Interest In

Meroar

Local producer of fragrances and flavors
ARGENTINA

IMAP
ADVISED ON PURCHASE OF COMPANY

TECHNOLOGY

TeleComputing

IT operations and cloud services
NORWAY

Acquired 100% of Business Operations

DIGISYS

IT operations, consulting and product sales
NORWAY

IMAP
ADVISED ON SALE OF COMPANY

Verdant Capital – IMAP's New Member Firm in South Africa

IMAP welcomes new partner Verdant Capital

PAN-AFRICAN LEADER

Verdant Capital is a leading specialist Pan-African investment bank headquartered in Johannesburg, South Africa. Verdant has three additional offices in Ghana, Mauritius and the Democratic Republic of Congo and is ranked among Verdant is ranked among the top 20 firms in the region by DealMakers Africa.

CORPORATE FINANCE AND SECTOR EXPERTISE

Verdant Capital has experience advising on mergers & acquisitions and raising capital in multiple African countries. The firm is one of the most experienced advisors in the financial services sector and also has experience advising in a broad range of non-financial sectors (e.g. manufacturing, agri-business, telecoms and chemicals).

BROAD FOOTPRINT AND RELATIONSHIPS

Verdant Capital is currently working on transactions in more than sixteen countries in Sub-Saharan Africa. Though South Africa is Verdant's largest single market, the firm's Pan-African business model enables it to provide services in smaller markets

CASE STUDIES

Sale of Saint-Gobain Pipelines to Kutana Steel

In 2017, Verdant Capital sold Saint Gobain Pipelines, a subsidiary of Saint Gobain in South Africa, to Kutana Steel, a wholly owned subsidiary of the Kutana Group. Saint Gobain, one of the largest 100 industrial companies in the world, is listed on the Euronext Stock Exchange and has a market capitalization of $32 billion. Saint Gobain hired Verdant Capital to sell Saint-Gobain Pipelines when it ceased to be core to its business.

Sale of Greenbelt Fertilisers to Yara International

In 2016, Verdant Capital acted as sole financial advisor to Greenbelt Fertilisers on its sale to global fertilizer major Yara International. Yara acquired Greenbelt as part of an ongoing expansion of its downstream footprint in Africa and globally. The transaction illustrates the continued appetite on the part of global fertilizer majors to expand in Africa in both the upstream and downstream businesses.

Sale of Vanduzi to Takura

In 2017, Verdant Capital acted as sole financial advisor to Vanduzi on its sale to Takura Capital. Vanduzi is based in the Manica province, some 60 kilometers from the Zimbabwe border. The company exports all of its products, which include baby corn and chilli peppers that are sold in the UK, the Netherlands and South Africa. The sale of Vanduzi is the second transaction Verdant has completed in Mozambique since 2016.

iPackChem acquisition of Quadro Plastics

In 2015, Verdant Capital acted as sole financial advisor to Ipackchem Group on their acquisition of Quadro Plastics. Ipackchem Group is the largest manufacturer of speciality packaging for agro-chemicals globally and owned by Cerea Partenaire, a French mid-market private equity firm. The acquisition of Quadro Plastics, the largest manufacturer of speciality packaging for agro-chemicals in South Africa represented the first acquisition in Africa by Cerea Partenaire or any of their portfolio companies.

where there are fewer, though relevant, transactions. Verdant has exceptional, long standing relationships with key, repeat client groups in many emerging markets, as well as with PE firms and development finance institutions.

CROSS-BORDER DEALS AND EUROPEAN CONNECTION

The vast majority of Verdant's deals are cross-border and most involve counterparties or investors from outside Africa. The firm is actively advising on the sales of regional businesses to European buyers, as well as sales of regional businesses on behalf of European owners.

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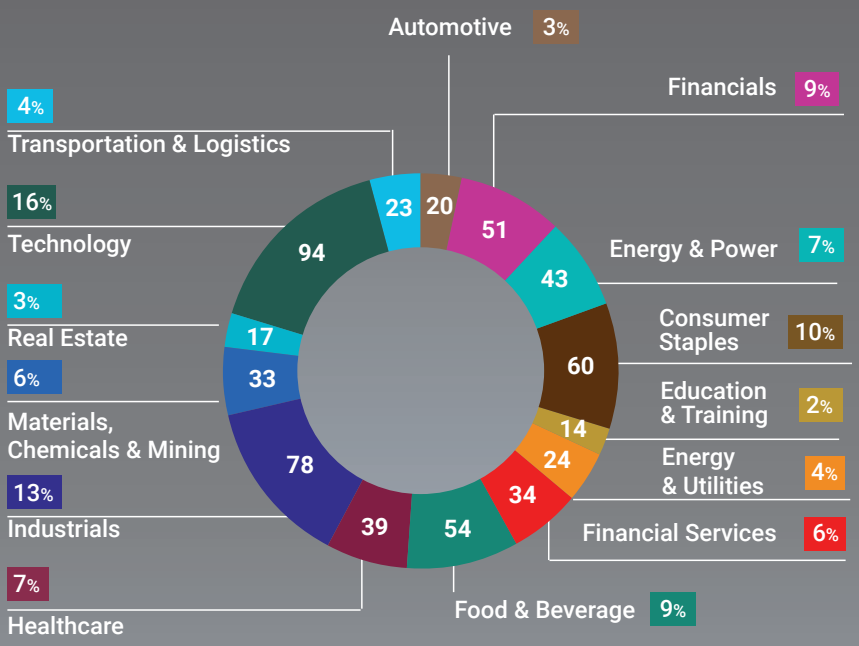
About IMAP

Founded in 1973, IMAP is one of the first and worldwide leading organizations for Mergers & Acquisitions. IMAP is located in 39 countries with more than 350 M&A advisors organized in international sector teams.

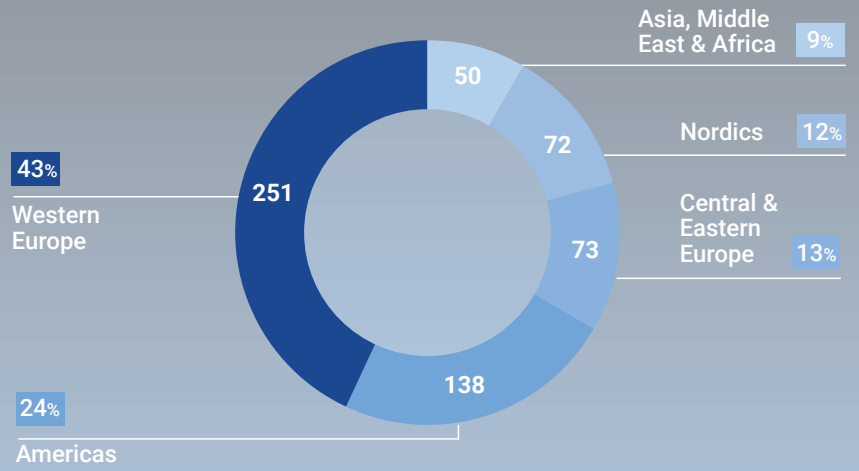
IMAP is specialized in the sale and the acquisition of companies, as well as on strategic corporate finance advisory. Our customers are primarily family-owned, mid-sized companies, but also include large international corporations, as well as family offices and financial investors.

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

DEALS BY SECTOR 2015-2017



DEALS BY REGION 2015-2017



IMAP

IMAP Global Presence

39
COUNTRIES

350+
ADVISORS

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 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

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