



VENUE® Market Spotlight

# CROSS-BORDER AND PE ACTIVITY

May 2015 Edition

**RR DONNELLEY**



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# WELCOME

Dear Valued Reader,

Welcome to the May 2015 edition of the *Venue Market Spotlight*. This month, we look at the prospects for cross-border private equity (PE) activity for the next 12 months.

The deal-making glut of last year had many experts considering that 2015 would be another hallmark year for M&A. These predictions were unexpectedly tempered, however, by several fundamental shifts in the global economy, such as the fall in oil prices and volatile currency trends. Yet in spite of these factors, opportunities remain out there for bullish firms. With this in mind, respondents in this month's *Spotlight* survey believe that cross-border PE activity will rise in the next year.

The expected rise in cross border private equity comes in part from an alignment of supportive factors. Firstly, tough economic conditions brought about by a weak European market and unstable oil prices are putting pressure on companies at the bottom line – giving private equity the chance to capitalize. Private equity investment in Canadian energy, for example, nearly tripled in both volume and value from 2013 to 2014, according to Mergermarket data.

Secondly, private equity is in the midst of a funding boom. According to the Private Equity Growth Capital Council, global buyout fund dry powder reached US\$466bn in Q1 2015, compared with US\$431bn in the previous quarter. Co-investments with institutional investors are also becoming more prominent, as seen in the US\$8.6bn deal for US-based PetSmart by PE houses BC Partners and StepStone, alongside Canadian pension fund CDPQ.

As the economic landscape changes, private equity firms are adapting to the new normal as they look to deploy record amounts of dry powder across borders. And while the current climate may not seem favorable on the surface, savvy firms are finding opportunities across the globe.

At RR Donnelley, we go to great lengths to meet our clients' business needs. We have supported all types and sizes of highly nuanced M&A deals, while expertly dealing with the complexities and difficulties that these transactions represent. Our global reach and the incomparable range in financial services that we offer enable our clients make the deal process much more seamless and efficient.

As always, please enjoy this month's *Spotlight*.

Sincerely,



Tom Juhase  
President, Financial Services Group  
RR Donnelley

# FOREWORD

Private equity (PE) roared back in a big way in 2014. After two relatively steady years, buyouts totaled 2,696, a 23.3% increase year-on-year. Values increased in a similar fashion, by 20% from US\$318.3bn to US\$384.2bn.

This pace of activity is not set to let up either, according to executives in this month's *Spotlight*. Sixty percent of respondents expect the level of cross-border PE activity to increase over the next 12 months, with nearly half of those expecting a significant rise.

This bullish attitude amongst PE executives comes after a year of blockbuster deals, fueled by factors such as the increasing availability of cheap debt and investor demand, building up PE's dry powder reserves. However, respondents do note that the landscape of today will be different to that of last year. The macroeconomic picture has been muddied as the Eurozone continues to show signs of instability, while oil price-volatility and currency fluctuation have also caused some alarm. Elsewhere, perceived high-valuations in foreign markets have also curtailed some cross-border investment.

Yet despite these issues, confidence remains. While the room might not be there for multi-billion dollar buyouts anymore, this opens up opportunities in the mid-market space. Equally, executives who see European weakness as a deterrent are counterbalanced by those who see such issues as a sign of opportunity for companies looking to turnaround distressed assets. There are also signs of confidence for both developed-market strategies as well as buying and rationalizing businesses in emerging ones, especially Asia.

#### Other key findings include:

- North America and Europe are set to see the most cross-border PE activity, selected by 36% and 24% of respondents respectively. A more robust business environment in developed markets is a key factor behind this.
- Instability in the Eurozone is the main factor executives think will affect PE activity in the coming year, with 32% of executives citing it as the major macroeconomic challenge of the year. Twenty-eight percent of respondents believe that currency trends will also be an issue for cross-border PE dealmaking.
- The Energy, Mining & Utilities sector will be the most popular sector for cross-border PE investments, according to almost a quarter (24%) of respondents. This is being fueled by companies struggling to come to terms with lower oil prices, creating attractive and cheaper opportunities for PE investors.

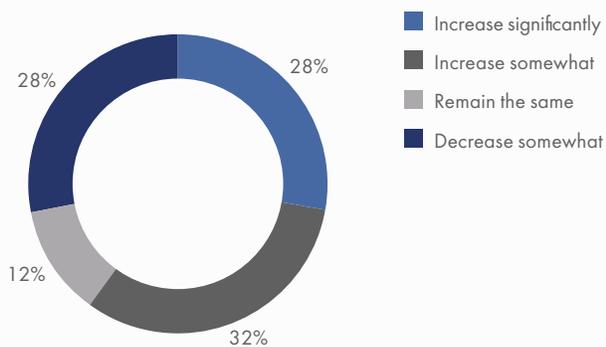
As we enter the second half of 2015, PE firms are still hungry for value-creating cross-border deals. But while activity may still match or even increase last year's heights, the nature of the deals at hand could be very different.

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# SURVEY

What do you expect to happen to cross-border PE activity over the next 12 months?

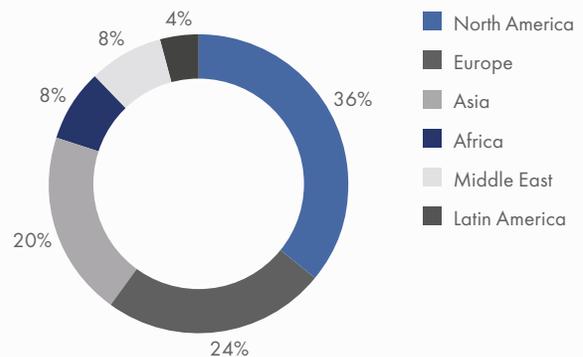


Cross-border private equity (PE) activity is expected to increase according to nearly two-thirds of respondents to our survey. Thirty-two percent said they expect activity to increase somewhat over the next year, while 28% said they expected it to increase significantly.

The expectancy for this increase stems from a perceived low-growth environment in certain areas that could reap rewards later on. Europe has been named as such a place. "PE businesses will aim at taking advantage of opportunities at a reasonable price and will later plan an exit for a considerable amount," says a US-based managing partner. "Such a trend has been identified in the European region as valuations are low and capital needs are growing."

Interestingly, the same reasoning has been used to conclude that cross-border PE activity may decrease in the next year – a scenario predicted by 28% of respondents. "Macro-economic situations in the overall European market is downgrading and there are no real opportunities to capitalize on," says one German managing partner. "I think the activities of the PE investors will decrease over the next 12 months and most investors will focus on improving their existing portfolios."

Where do you expect to see the most cross-border PE activity over the next 12 months?



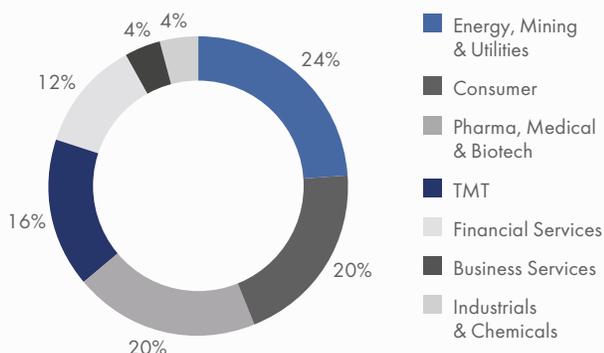
While Europe was indeed seen as one of the most expected destinations for cross-border PE, with 24% of respondents, North America (PE's historical home) took the lead with 36%.

North America's steady growth, developed investment infrastructure and knowledgeable business environment is proving attractive for PE companies. Businesses in North America have the experience and fair amount of knowledge that is required to make a difference to their business which in turn can also be enjoyed by the other party," says an Asia-Pacific-based managing director. "Financing is easier and businesses in these regions are very opportunistic which makes the activity even more meaningful." In the last two quarters of 2014, for instance, the US economy grew by 4.3% and 2.6% respectively, according to Commerce Department data.

Interest in Europe stems from, as mentioned, a growing uncertainty in markets and this factor's impact on valuations. Elsewhere, respondents also seem optimistic about Asia's potential as a target for cross-border PE, selected by 20% of respondents, with a particular focus on PE's power to improve company efficiency. "The Asia-Pacific region seems to have opportunities which demand better management and business alignment to increase productivity on investments," says a US-based partner. "This will be a key factor influencing cross-border activity over the next 12 months."

# SURVEY (CONTINUED)

Which industries will see the biggest increase in cross-border PE activity over the next 12 months? (Select the most important)

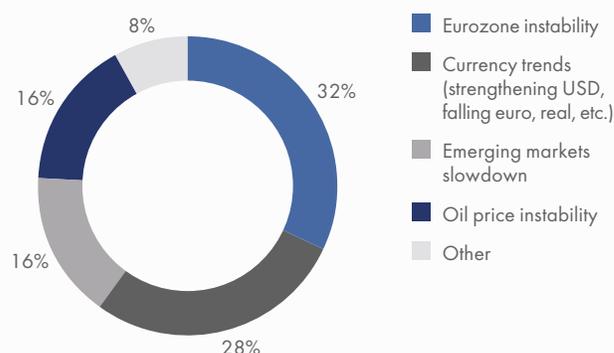


Energy, Mining & Utilities was selected by the most respondents (24%) as the sector that will see the biggest increase in cross-border PE activity in the coming year, followed closely by PMB and Consumer (both 20%).

Fluctuating commodity prices have put pressure on energy firms, and respondents believe PE is perfectly placed to take advantage of this. "The investments made by North American PE firms are focused on the oilfield services industry, downstream and midstream sector," says a US-based managing director. "The industry has been faced with a great amount of volatility which has made it easier to capitalize on currently and made it easy to exit when values rise in future."

By contrast, PE's interest in PMB is focused on the growing innovation in the sector. "Demand in the PMB industry is increasing globally," says one Vietnam-based partner. "With the outbreak of different health issues and medical developments, gaining a better value is highly possible which is getting PE businesses interested and they are using these factors and striving for more to excel by placing capital." One of the biggest cross-border PE deals in the medical space this year saw The Carlyle Group take an 8.3% stake in Brazilian hospital and laboratory operator Rede D'Or Sao Luiz for US\$594m.

Which macroeconomic issues will affect cross-border PE activity the most?

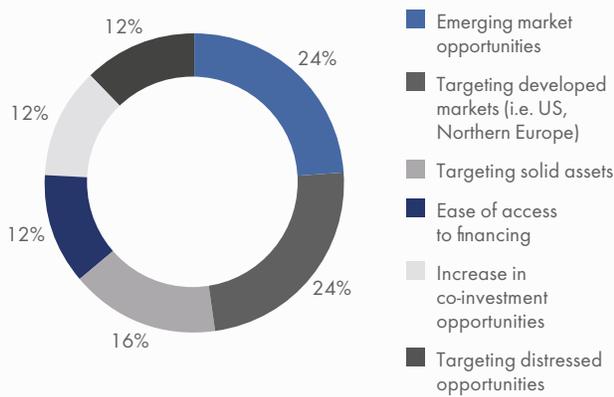


Current complications in the Eurozone (32%) and currency trends, such as the falling euro and strengthening US dollar (28%), were seen by respondents as the biggest macroeconomic issues facing PE at the moment.

The uncertainty surrounding the Eurozone's future is weighing heavily on PE firms, in particular when it comes to deciding where and what to invest. "The Eurozone instability will lead PE businesses to reconsidering decisions," says a US-based managing director. "Currently there are political issues which are active in the region and the repercussions of the same are unknown to all so being cautious is the best as the outcomes are very uncertain."

The other factor perceived as a big issue, currency trends, is a factor that lies right at the heart of PE's deal reasoning. "Currency trends play an important role in deal making activity as the prime motive of PE businesses is to buy at a lower cost and later sell at a realized value," says a US-based managing director. "With the change in currency value, it will become difficult to choose an investment as if the value falls at a later date, the investment could be termed as a possible failure which will be a situation most would like to avoid."

**What factors will be the biggest drivers of PE activity in the next year? (Select the most important)**

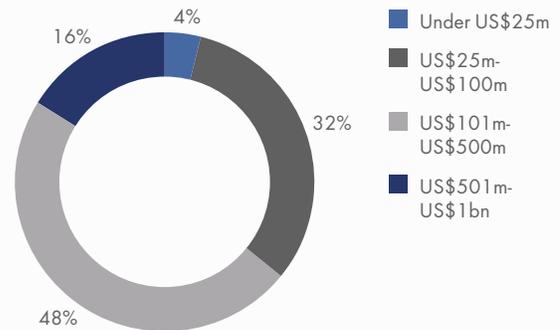


Looking at the most important drivers for cross-border PE deals going forward, targeting developed and emerging markets were both chosen by 24% of respondents, indicating that opportunities in the main will depend on targets rather than the general business environment.

“Making investments in a developed market can help PE firms in making more profits which can later be distributed into other strategic investments,” says a Europe-based managing director. “The certainty on performance and earning potential is definite to an extent, and this will be the biggest driver of PE activity in the coming year.”

By contrast, being active in emerging markets can give PE firms an opportunity to drastically improve one’s business operations. “Emerging market opportunities that fit into the budget of PE firms will be the priority, as steps can be taken to mold the performance and better results can be gained to a great extent based on the experience and capabilities of the PE business,” says an Asia-Pacific-based managing director.

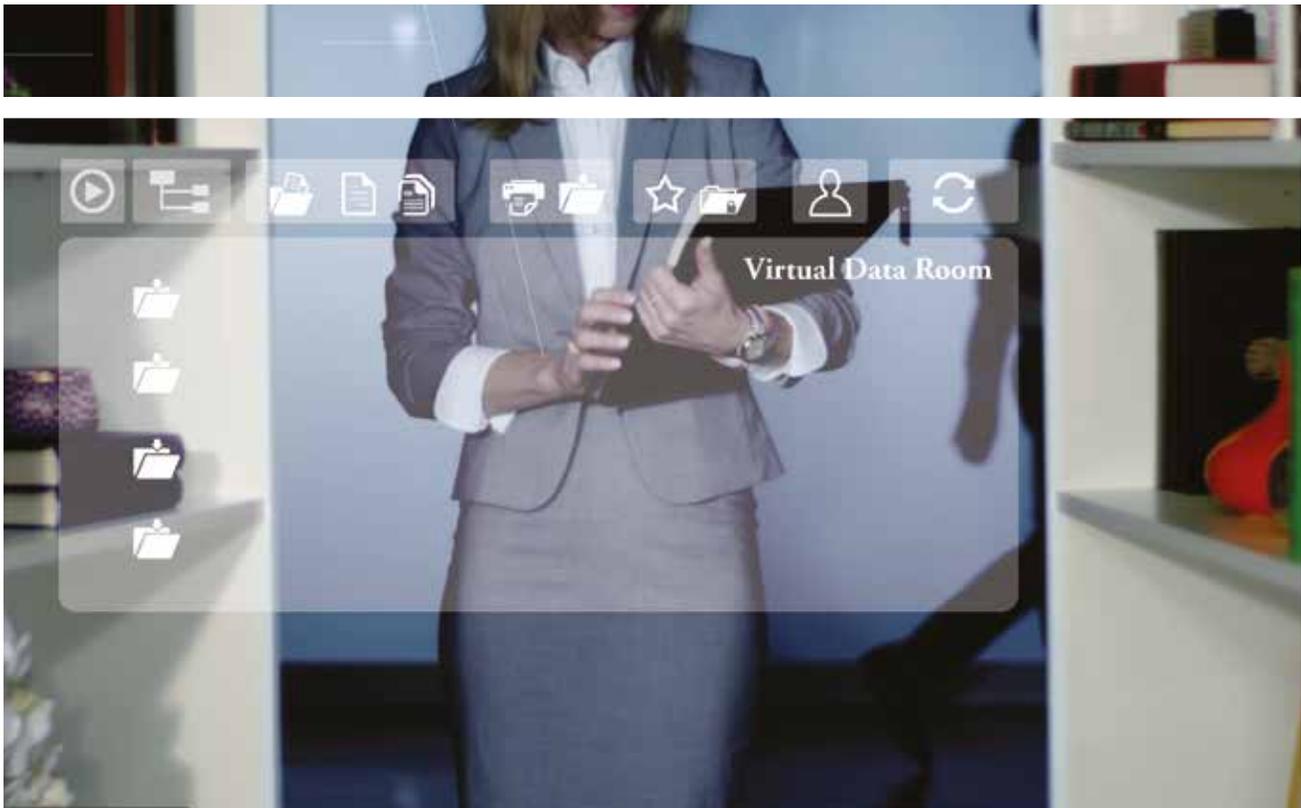
**What do you expect to be the average deal size for cross-border PE activity?**



Nearly half (48%) of respondents felt that the average cross-border PE deal size will be between the US\$101m-US\$500m range in the coming year. Almost a third (32%) felt that the average will be somewhere in the US\$25m-US\$100m bracket, while only 16% believe the majority of deals would be between US\$501m-US\$1bn.

This mid-market deal size could signify a shift in focus from PE firms from large leveraged buyout deals to safer, smaller investments. “The deal volume will be high but large deals will be comparatively lesser,” says an Asia-Pacific-based managing director. “The PE market has been aggressive and a majority of them are considering investments in the mid-market segment of the developed markets and are avoiding large investments.”

By contrast, some feel that PE firms could go for larger deals as factors such as distressed assets and strong currencies turn in their favor. “As the dollar value is strong and businesses are valued lower than the actual price, I feel North American PE firms will disregard small opportunities and make big investments,” says one US-based partner. “These can help in fulfilling their investment appetite which is sure to increase over time as markets get complex and competition increases.”



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**SECURITY**—Venue's rigorous security offers protection at all levels. Our AT 101 certification and constant testing keeps us ahead of any potential breaches.

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**VENUE**

# Energy deals in the room

## Venue<sup>®</sup> data room: A special report

### Marksman Ranging Technologies purchased by Scientific Drilling International April 22, 2015

**Industry:** Energy; Exploration and drilling services and equipment

### General Maritime Corporation acquires Navig8 Crude Tankers Inc. February 25, 2015

**Financial Advisor for Target:** Jefferies LLC

**Counsel for Target:** Latham & Watkins LLP; Seward & Kissel

**Financial Advisor for Buyer:** Evercore Partners Inc.

**Counsel for Buyer:** Kramer Levin Naftalis & Frankel LLP

**Industry:** Energy; Transportation; Shipping

### Robert Bosch acquires Climatec January 14, 2015

**Target:** Climatec, LLC

**Financial Advisor for Seller:** William Blair & Company

**Counsel for Seller:** Kirkland & Ellis LLP

**Private Equity Firm for Seller:** Pegasus Capital Advisors LP

**Industry:** Construction; Construction services

### SunEdison Inc. and TerraForm Power, Inc. acquire First Wind Holdings, Inc. November 17, 2014

**Financial Advisor for Target:** Goldman Sachs; Marathon Capital LLC

**Counsel for Target:** Davis Polk & Wardwell LLP

**Financial Advisor for Buyer:** Barclays; Morgan Stanley

**Counsel for Buyer:** Orrick Herrington & Sutcliffe LLP; White & Case LLP

**Financial Advisor for Buyer:** Bank of America Merrill Lynch; Citi; Lazard

**Counsel for Buyer:** Cleary Gottlieb Steen & Hamilton LLP  
**Industry:** Energy; Alternative energy

### Sprague Resources acquires Castle Oil November 4, 2014

**Financial Advisor for Target:** Evercore Partners Inc.

**Counsel for Target:** Holland & Knight LLP

**Counsel for Buyer:** Pierce Atwood LLP

**Industry:** Energy; Services (other); Utilities (other); Distributors; Exploration and drilling services and equipment; Other services; Others utilities

### Intervale Capital signs deal to sell Proserv Group to Riverstone Holdings October 23, 2014

**Target:** Proserv Group Inc.

**Counsel for Buyer:** Simpson Thacher & Bartlett LLP; Wilkie Farr & Gallagher LLP

**Financial Advisor for Seller:** Goldman Sachs; Simmons & Company International

**Counsel for Seller:** Blackwood Partners LLP; Norton Rose Fulbright

**Private Equity Firm for Seller:** Intervale Capital

**Industry:** Energy; Exploration and drilling services and equipment

### Tesoro Logistics to acquire natural gas business from QEP Resources October 19, 2014

**Financial Advisor for Buyer:** Bank of America Merrill Lynch

**Counsel for Buyer:** McGuireWoods LLP

**Debt Provider (Senior) for Buyer:** Bank of America Merrill Lynch; Royal Bank of Scotland Group Plc

**Financial Advisor for Seller:** Deutsche Bank AG; Goldman Sachs

**Counsel for Seller:** Latham & Watkins LLP; Wachtell, Lipton, Rosen & Katz

**Industry:** Energy; Transportation; Freight and other transportation services

### Rice Energy IPO January 24, 2014

**Issuer:** Rice Energy Inc.

**Counsel for Issuer:** Vinson & Elkins L.L.P.

**Counsel for Underwriter(s):** Baker Botts L.L.P.

**Underwriter(s):** Goldman, Sachs & Co.; Barclays; Citigroup; Wells Fargo Securities; BMO Capital Markets; Capital One Securities; RBC Capital Markets; Tudor Pickering Holt & Co.; Comerica Securities; Scotia Bank/ Howard Weil; Sterne Agee

**Industry:** Energy; Exploration and drilling services and equipment; Oil and gas exploration and production

### Sandvik acquires Varel January 7, 2014

**Target:** Varel

**Counsel for Seller:** King & Spalding LLP

**Financial Advisor for Buyer:** Morgan Stanley

**Counsel for Buyer:** Morgan Lewis & Bockius LLP

**Private Equity Seller(s):** Arcapita Bank BSC

**Industry:** Energy; Industrial products and services; Exploration and drilling services and equipment; Industrial equipment and machinery; Oil and gas exploration and production

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Venue is a secure online workspace with a powerful feature-set and an intuitive design that allow you to easily organize, manage, share and track all of your sensitive information. Venue data rooms provide complete control, ensuring that you can manage who has access to your data room, which documents they see, and how they can interact with those documents.

Venue data rooms are backed by RR Donnelley, a \$11.6 billion corporation with more than 500 locations and over 65,000 employees worldwide. RR Donnelley's total revenues are larger than all other virtual data room providers combined. We bring extensive experience to providing integrated communications services.

For more information regarding Venue, RR Donnelley, or this report, please contact us directly.

## RR DONNELLEY AT A GLANCE

\$11.6 billion	2014 net sales
65,000+	Employees
500+	Global locations
Nearly 125	Manufacturing locations
750+	Issued and pending patents
Nearly \$2 billion	Capital investments over the past six years

Daniel Perez | Sr. Marketing Manager, Venue Data Room  
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Venue is the fast-growing virtual data room solution of RR Donnelley, the leader in integrated communications services. Our Venue virtual data room provides a secure online workspace with a powerful feature-set and an intuitive design that allow you to easily organize, manage, share and track all of your sensitive information. A Venue workspace provides complete control, ensuring that you can manage who has access to your data room, which documents they see, and how they can interact with those documents.

We serve hundreds of thousands of Venue users, who are accessing content related to the highest profile deals in the market. With a Venue data room you have access to the RR Donnelley global footprint, where you can leverage our suite of financial services—everything you need from pre-negotiation to post-transaction filing and archiving—anytime, anywhere.



Work faster and more efficiently with Venue's powerful, intuitive features that deliver what you need right now.

**Best-in-class security:** Trust your information to our industry-leading security: AT 101 compliant, redundant, third-party-tested platform, exclusive protection features and maximum precautions for all interactions.

**Mobile:** Venue mobile allows you to manage your documents and users no matter where you are, in a variety of different languages. Whether you are rushing to a meeting—or in the midst of travel—access your Venue data room in a familiar and easy-to-use interface from any IOS device.

**The Venue Executive Suite:** Leverage the enhanced functionality of the intuitive Venue interface to deliver even more control over and access to your multiple Venue data room projects from the executive level dashboard.

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**User activity reports:** Track exactly who is—or isn't—accessing the files of your data room with instant, real-time reports.

**One-click translations:** Continue to leverage the RR Donnelley global footprint to help you do business anywhere in the world, easily and securely, with our translations services. Our linguists translate documents within a Venue data room in over 140 languages—with a simple click.

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