
Presentation to **International Bar Association**

M&A Market Overview & Perspectives on Non-U.S. Spin-offs
Goldman, Sachs & Co.

September 20, 2016

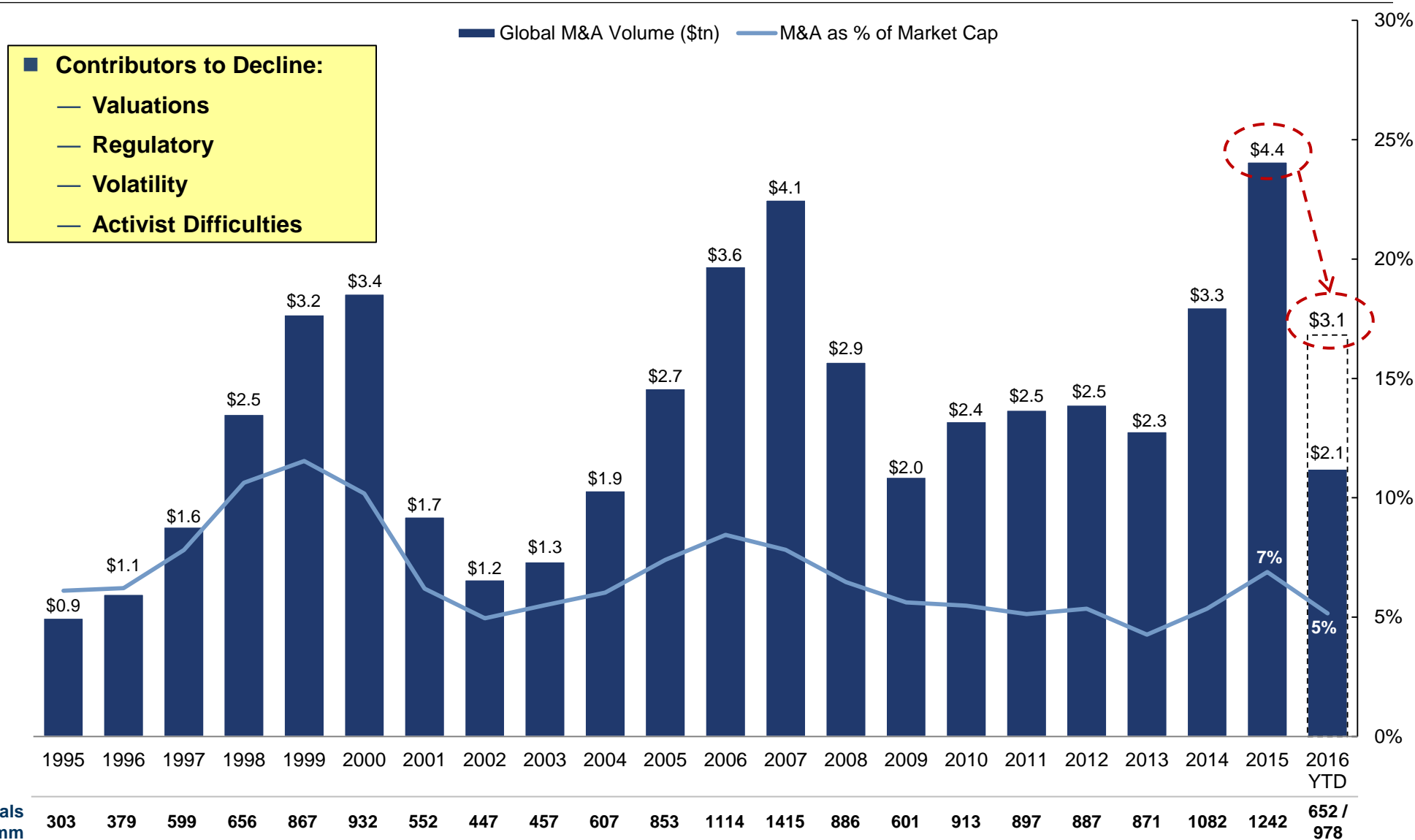
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I. M&A Market Overview

2016 Slowdown Follows Record Year in 2015

Despite Volume and Deal Numbers Dropping, 2016 May Still be a Top-5 Year



Source: FactSet, Thomson, Bloomberg, as of 31-Aug-2016

Transactions Continue to Face Greater Regulatory Scrutiny

(\$U.S. Billions)

Inversions

		\$192
		9
		55

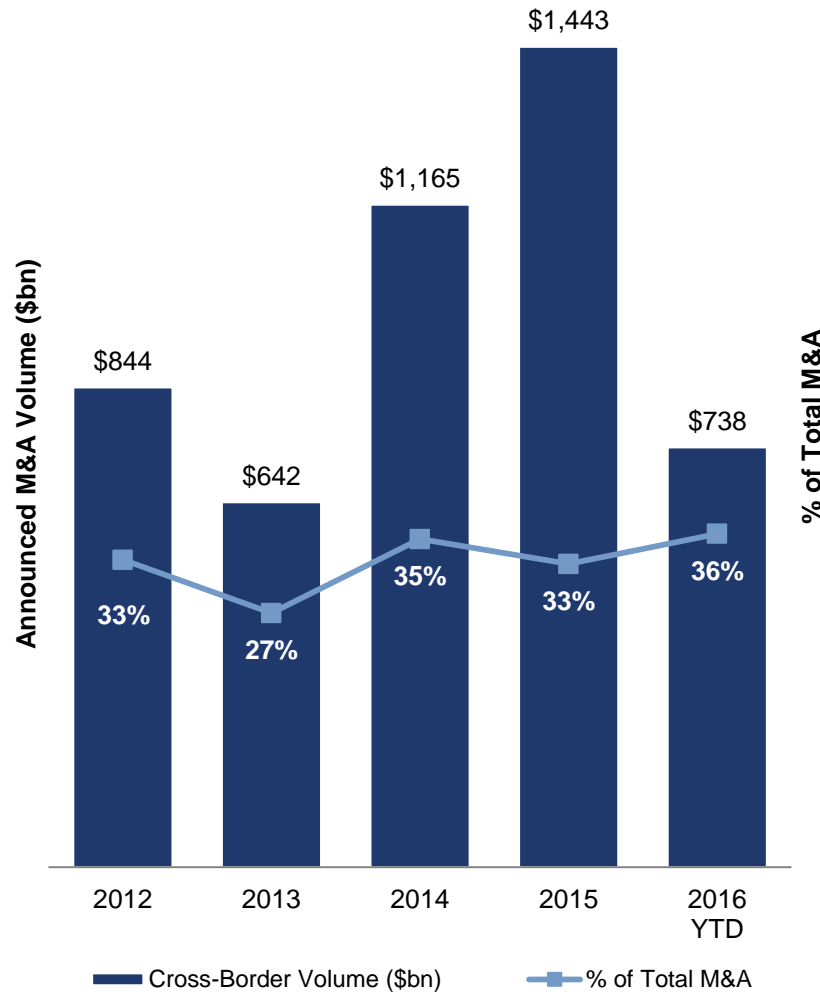
Antitrust Opposition

	 Hutchison Whampoa Limited	\$15
		39
		71
	 MAKE more HAPPEN™	7
		7
 GE APPLIANCES		3
 KEEPING KITCHENS COOKING®		4

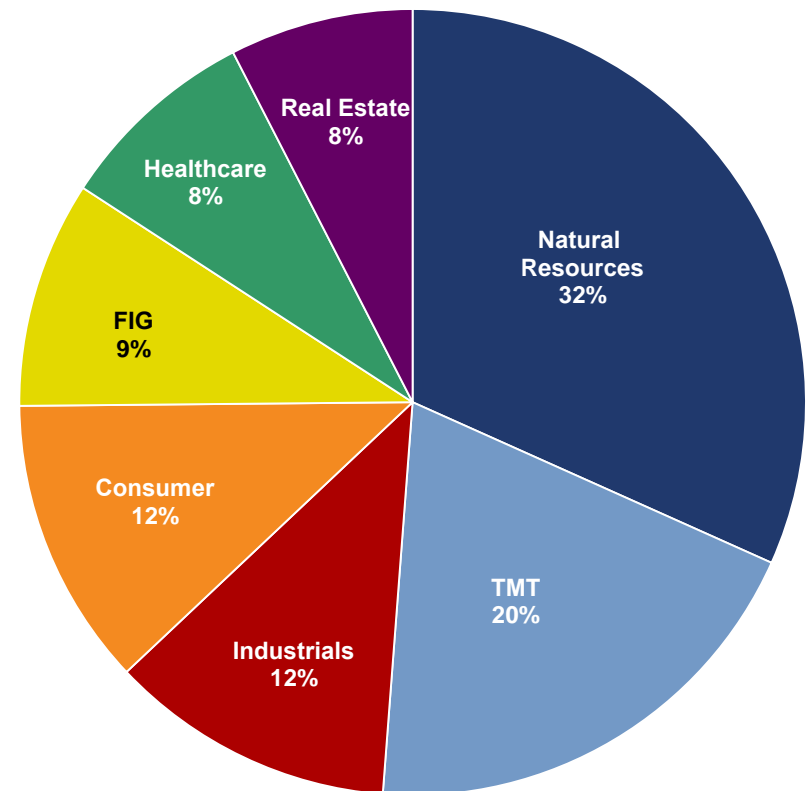
Source: Thomson Reuters, Deal Point Data, public sources

Cross-Border M&A Remains Key Driver of M&A Volume

Strategic Cross-Border M&A



2016 YTD Cross-Border M&A by Industry

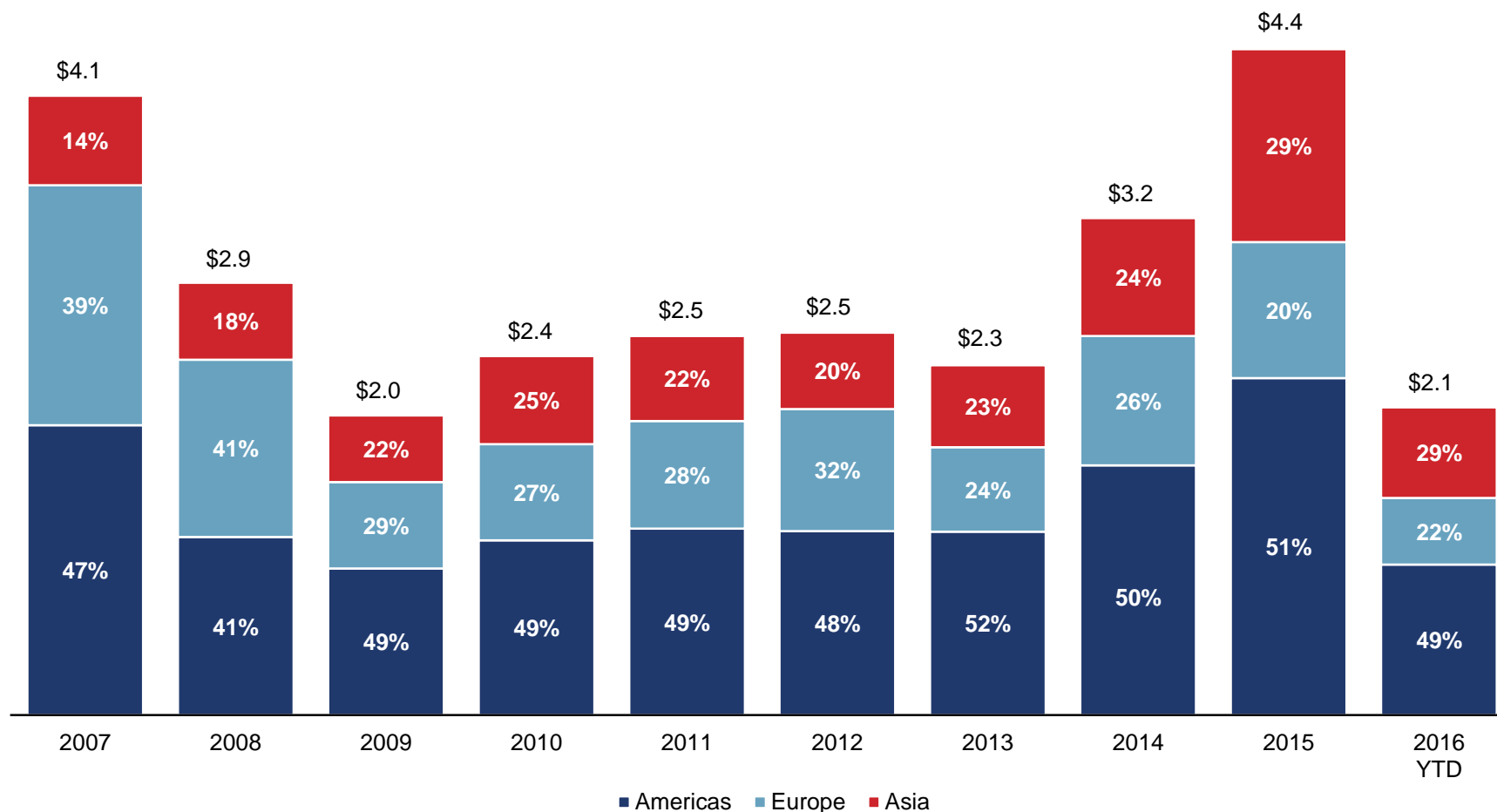


Source: Thomson Reuters. Year to date as of August 31. Strategic cross-border activity excludes LBOs.

U.S. Companies Most Active Targets

(\$U.S. Trillions)

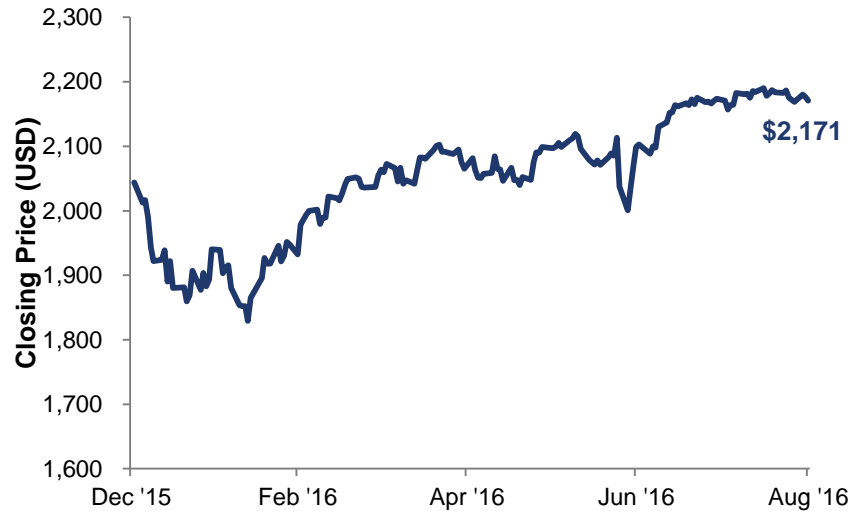
Global M&A Volume By Target Geography



Source: Thomson Reuters. Region based on target nationality. Year to date as of August 31.

Volatility Dampened M&A, but Tide Turning

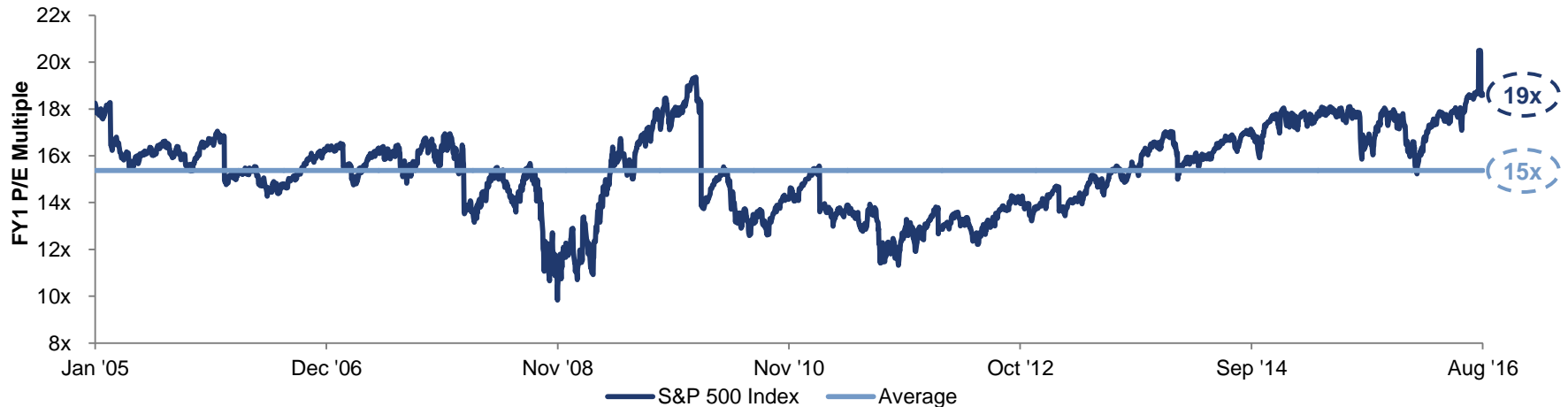
S&P 500 Climbed Out of Trough in January...



... And Volatility Seemed to Settle Down Later in 2016



...P/E Dropped, Followed by Strong Rebound

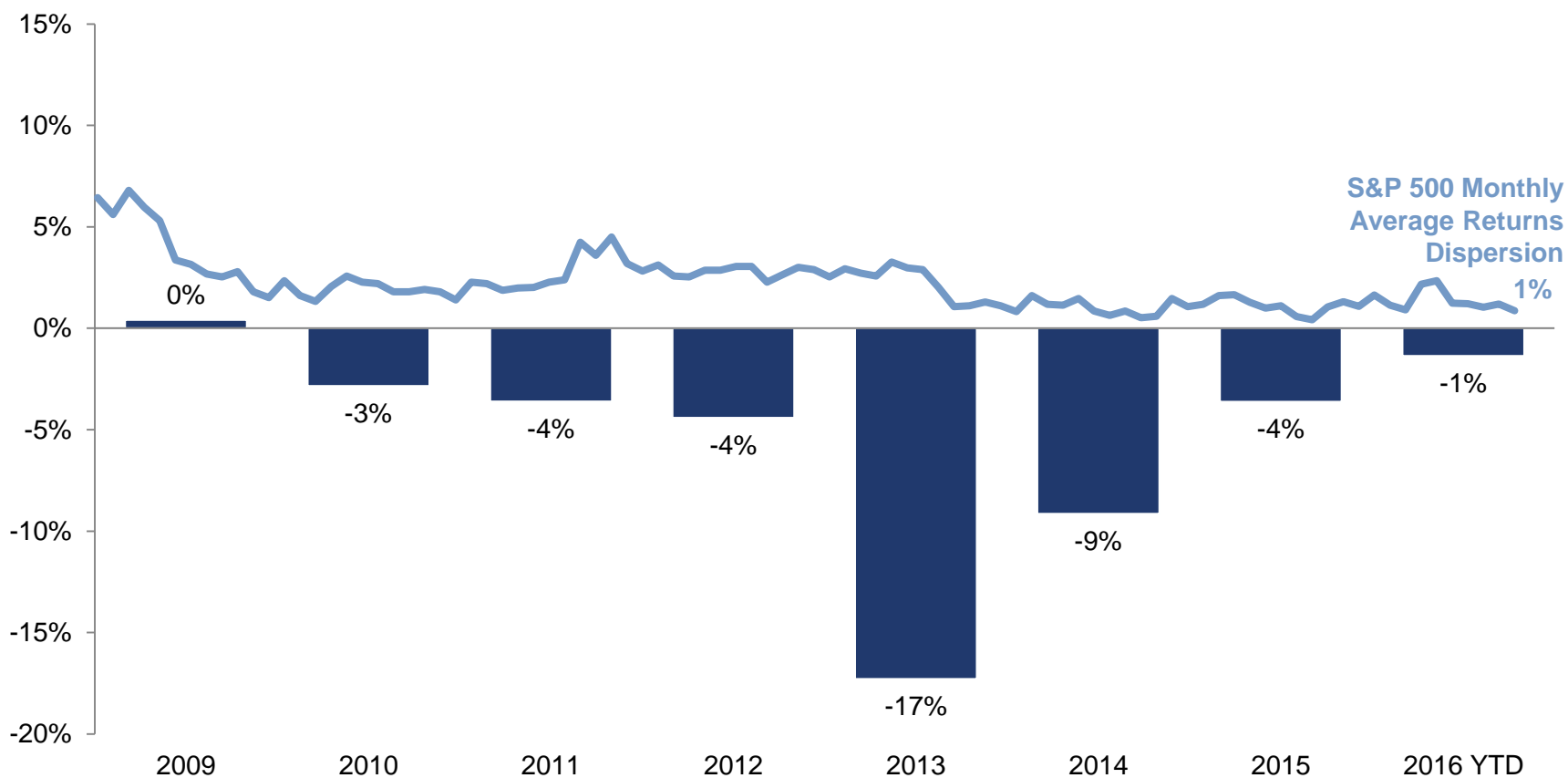


Source: Bloomberg as of 31-Aug-2016

Active Money Managers Support M&A Creating Alpha Needed in Robust Equity Market

- Led to Rise of Activists

Net Difference in Returns (Active – Passive)



Annual
Returns

Passive	26 %	15 %	2 %	16 %	32 %	14 %	1 %	7 %
Active	27	12	(2)	11	15	4	(2)	6

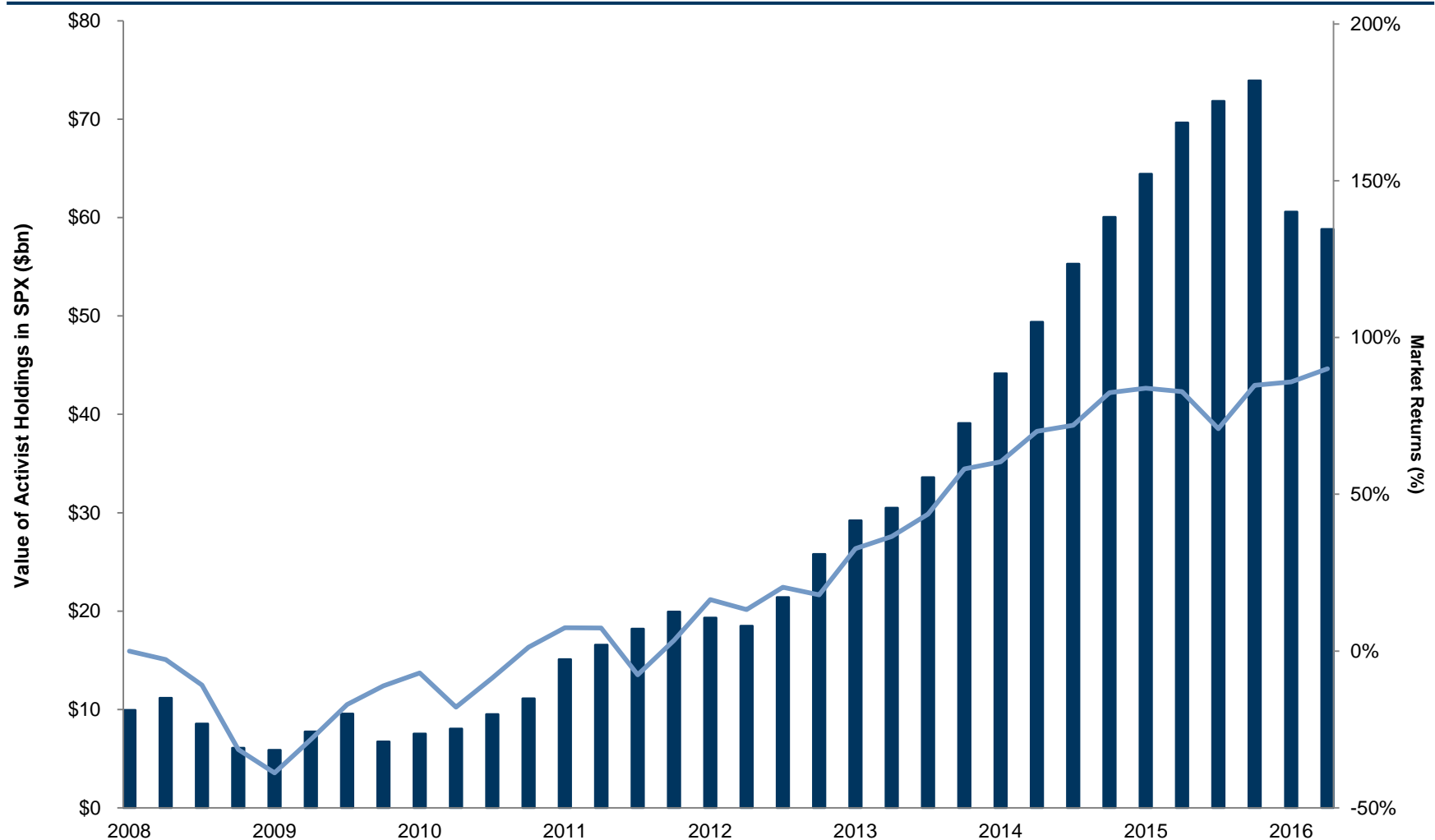
Source: Strategic Insight, GS Internal as of 30-Jun-2016

Note: Passive returns estimated as S&P average annual total returns.

Activist Trends

Post 2015 Performance Pressure, Activists and Investors Seeking to De-Risk Portfolios

Activist AUM Outflows Were Substantial



Source: GS Internal, Bloomberg

Note: Market returns represent S&P 500 returns.

II. Spin-Offs: Non-US Perspective

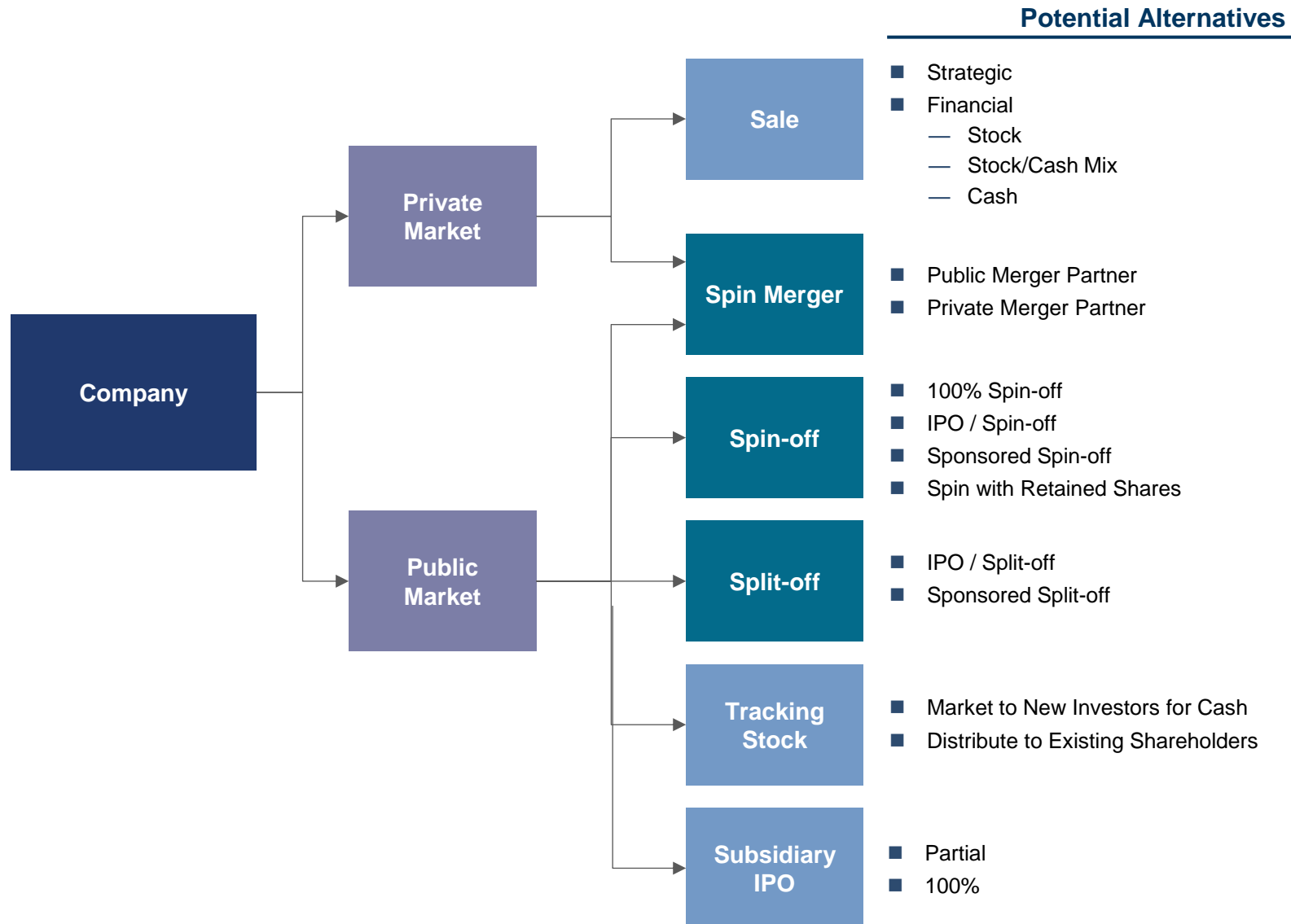
What is a Spin-Off?



spin-off (spin-awf, -of) *noun*.

1. the separation of a single corporation into two separately held corporations, potentially tax-free.

Spin-Off is One of Many Strategic Alternatives to Exit a Business



Why Execute a Spin-Off?

Restructuring operations via spin-off can help Parent and SpinCo achieve strategic and financial objectives

Strategic / Operational Objectives

- Enhance strategic flexibility of each business
- Execute growth strategy
- Improve operating performance through greater management focus

Financial / Valuation Objectives

- Highlight higher-multiple business
- Tailor the capital structure of each business
- Target new / expanded shareholder base
- Tax efficiency
- Use SpinCo stock as acquisition currency

Not mutually exclusive – both strategic and financial objectives factor into a Board's decision to execute a spin-off

Although spin-offs can help companies achieve strategic objectives, separation transactions raise number of potential concerns:

Potential Dis-Synergies

Loss of
Scale

Capital
Structure
Impact

Operational
Dis-synergies

Fielding Two
Management
Teams

Additional Potential Concerns

Re-Sizing
Dividend

Parting with
Benefits of
Diversification

Management's
Reluctance to
Split Company

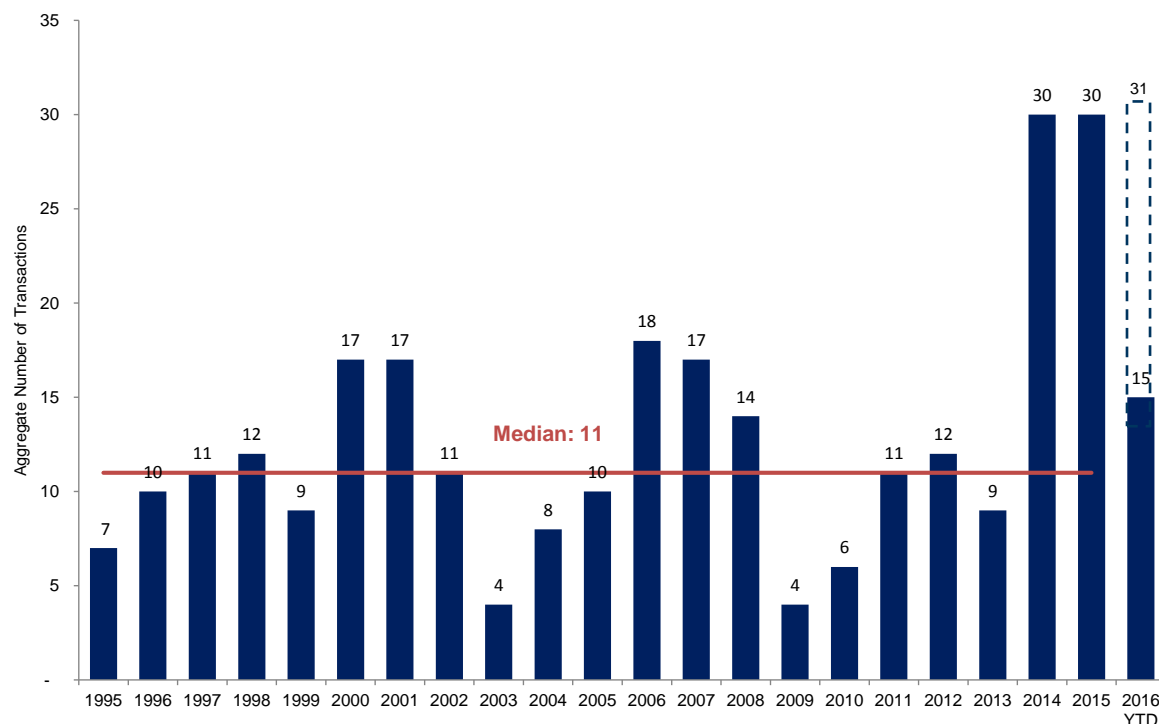
“Flowback”

Spin-Offs Not New, But Volume Increased Significantly in Last Few Years

Reasons for growth include:

- Pressure from activists
- Scale of demergers
- Change in growth profile (“shrink to grow”)
- Emphasis on pure-plays
- Market receptivity

Completed US Spin-Offs > \$500mm Since 1995



Notable Recent Examples

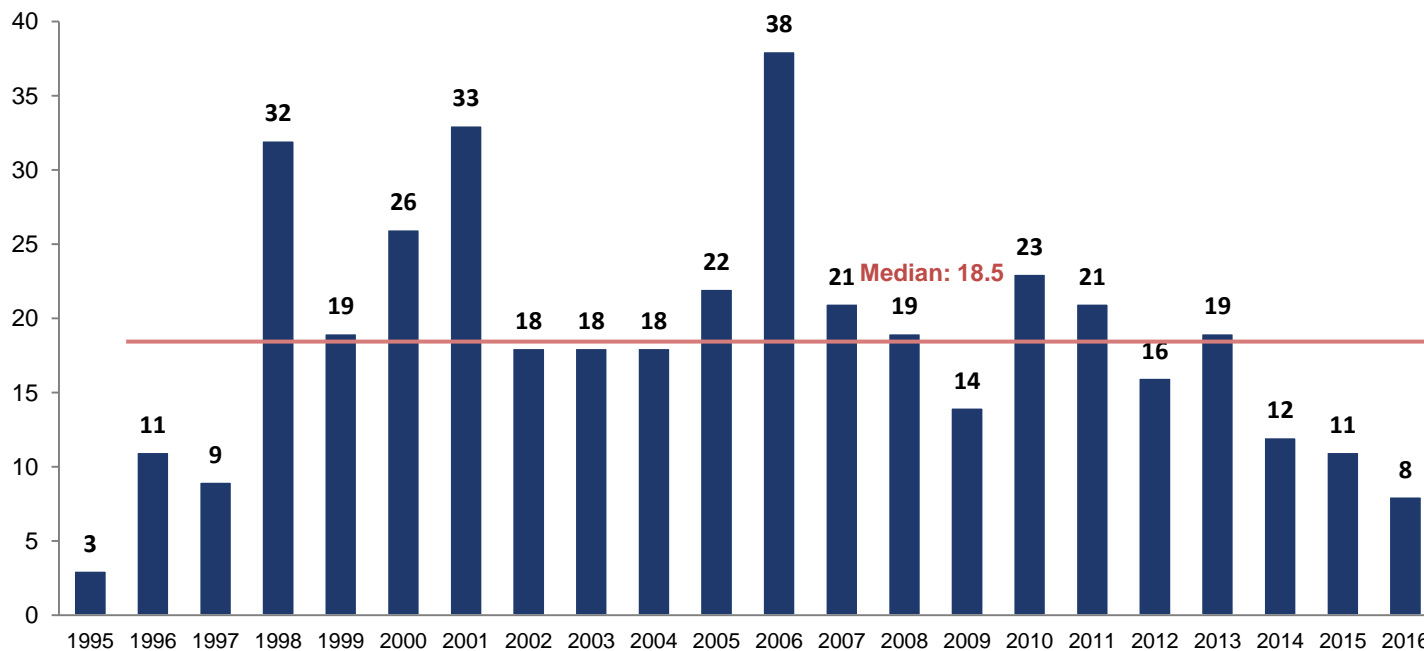
Year	Parent	SpinCo
2016	DANAHER	FORTIVE
2015	hp	Hewlett Packard Enterprise
2015	ebay	PayPal
2014	Ingersoll Rand	ALLEGION
2012	Abbott	abbvie
2012	Mondelēz International	Kraft
2012	tyco	ADT

Note: Data include US spin-offs, split-offs, spin-mergers and split-mergers. Dashed bar for 2016 represents transactions expected to close during the remainder of 2016;
Source: Capital IQ, Bloomberg.

Non-US Companies Can Execute Spin-Offs, Though Less Common in Recent Years

- Outside US, concept of spin-off exists but goes by other names – e.g., demerger (in Europe) or butterfly transaction (in Canada) – and is governed by country-specific corporate and tax laws
- Reasons for decline include:
 - More active M&A market
 - Equity market conditions (volatility / uplift in multiples)
 - Diminished pipeline (conglomerates streamlined over past 15 years)

Completed Non-US Spin-Offs >\$1bn Since 1995















Note: Data include US spin-offs, split-offs, spin-mergers and split-mergers; Source: Capital IQ, Bloomberg.

Tax Efficiency Not Driving Factor for Most Non-US Spin-Offs

Selected examples

- Outside US, tax laws often permit corporation to sell subsidiary without triggering tax liability
- As a result, selling a historic subsidiary for cash relatively more attractive outside US, and incentives to execute a non-US spin-off are less motivated by tax considerations

Year	Parent	SpinCo	Buyer of SpinCo	Stated Rationale
2016	 Grupo Clarín (Argentina)	 Cablevisión (Argentina)	-	Improve Focus
2015	 FCA FIAT CHRYSLER AUTOMOBILES (Netherlands)	 Ferrari (Italy)	-	Preserve Ferrari's Italian heritage and market position
2013	 AUTOGRILL (Italy)	 WORLD DUTY FREE GROUP (Italy)	-	Grow US sales and margins
2013	 COVIDIEN (Ireland)	 Mallinckrodt (Ireland)	-	Improve focus and flexibility
2012	 tyco (Switzerland)	Tyco Flow Control Business	 PENTAIR (US but inverted to Switzerland)	Improve focus and flexibility
2008	 Cadbury Schweppes (UK)	 DR PEPPER SNAPPLE GROUP INC. (US)	-	Improve performance of Americas business

Key Benefits and Considerations for Non-US Spin-Offs

- ✓ **Self-Help:** Unilateral, whereas sale requires a buyer¹
- ✓ **Proceeds:** No use of proceeds required
- ✓ **Control:** Unlike sale, provides legal separation without loss of control
- ✗ **Legal:** May require approval by tax authorities and involve tax / corporate law restrictions not applicable to sale
- ✗ **Overhead:** Duplication of public company infrastructure

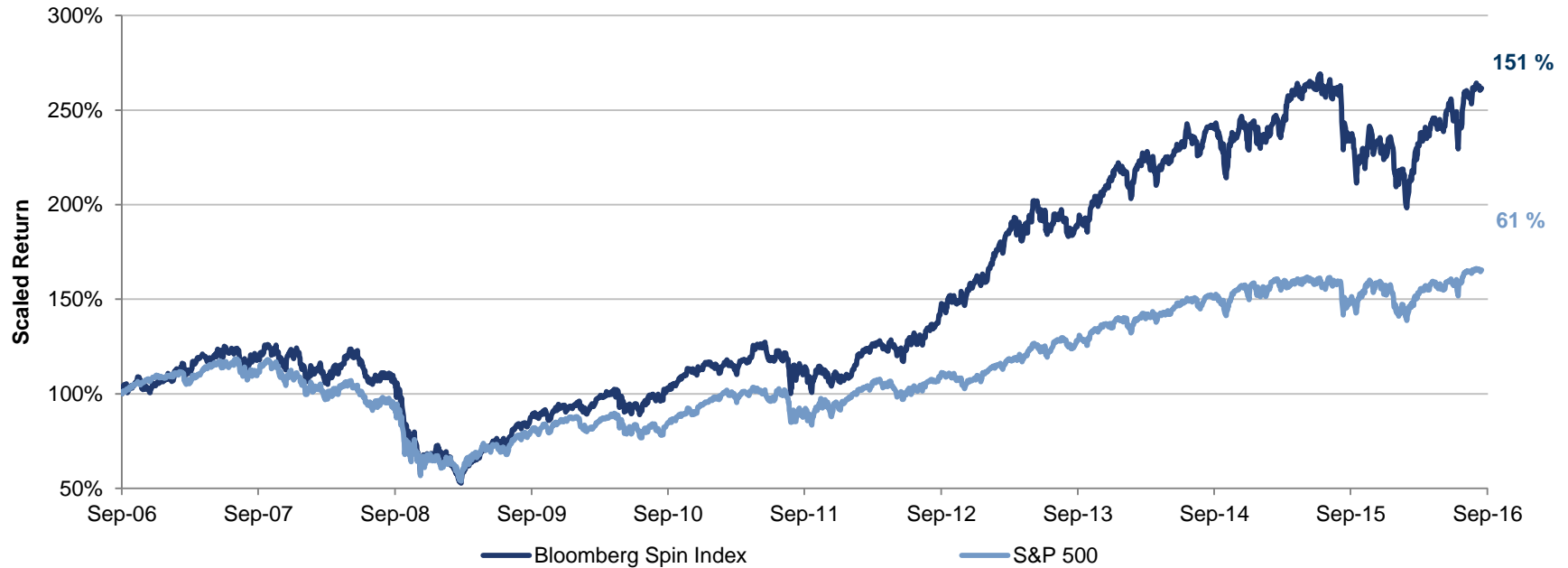
¹ In some countries, spin-offs require approval of the Parent's shareholders

Maximizing Shareholder Value Via Separation

US SpinCo outperformance over last 10 years

- Spin-Offs substantially outperformed S&P 500 over last decade¹
 - Led activists to push for more breakups

Comparison of Historical Returns



Source: Bloomberg

Note: Bloomberg Spin-Off Index currently includes ALLE, BLD, BW, CABO, CC, CCP, CDK, CRC, CSRA, DNOW, ENR, FLOW, FTV, GCI, GCP, GLPI, HPE, HTZ, HYH, KEYS, KLXI, KN, LBRDA, LE, MFS, MSG, NAVI, NGVT, NRE, NSAM, OGS, OUT, PYPL, RACE, RYAM, SAIC, SFR, SNR, SSEIQ, SYF, TIME, TLN, TMST, UE, VSTO, WPG, XHR.

¹Index is a market-cap weighted average of >\$1bn companies separated in the last 3 years

SpinCo Performance Over Time Relative to Peers

Domestic 100% spin-offs greater than \$1 billion:

		SpinCo Performance Relative to Peer Indices (Median)				
		1 Week Post Spin	1 Month Post Spin	3 Months Post Spin	6 Months Post Spin	1 Year Post Spin
Year of Spin	2015 & 2016 YTD	(3)%	(1)%	3%	4%	NA
	2014	(3)%	(2)%	1%	(5)%	(15)%
	2013	(3)%	1%	6%	4%	16%
	2012	3%	7%	15%	15%	28%

Note: Spin-Offs closed as of 01-Jul-16; Source: Capital IQ, Bloomberg.

How Should Non-US Buyers Think About US Spin-Offs?









Two well-trodden paths are available

- 1 Acquisition of Parent or SpinCo as part of spin-off
- 2 Acquisition of Parent or SpinCo after closing of spin-off

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1 Acquisition of Parent or SpinCo as part of spin-off

Year	Parent	SpinCo	Buyer of SpinCo	Buyer Ownership %
2016	 Hewlett Packard Enterprise	HPE Non-Core Software Assets	 MICRO FOCUS (UK)	48.0%
2015		P&G Beauty Business	 COTY (US)	49.9%
2015		Dow Chlorine Business	 olin® (US)	49.5%
2012		Tyco Flow Control Business	 PENTAIR (US but inverted to Switzerland)	47.5%

- Parent's shareholders must own majority of combined SpinCo / Buyer to preserve tax-free spin
- However, Buyer can retain majority of combined company's Board and management

How Should Non-US Buyers Think About US Spin-Offs?

Two well-trodden paths are available

1 Acquisition of Parent or SpinCo as part of spin-off

2 Acquisition of Parent or SpinCo after closing of spin-off

Year	Parent	SpinCo	Buyer	Description	Time to Acquisition Announcement from Spin-Off Close
2015			 (Ireland)	SpinCo Acquired After Spin-Off Closing	6.5 Months
2011			 (Luxembourg)	SpinCo Acquired After Spin-Off Closing	9.5 Months

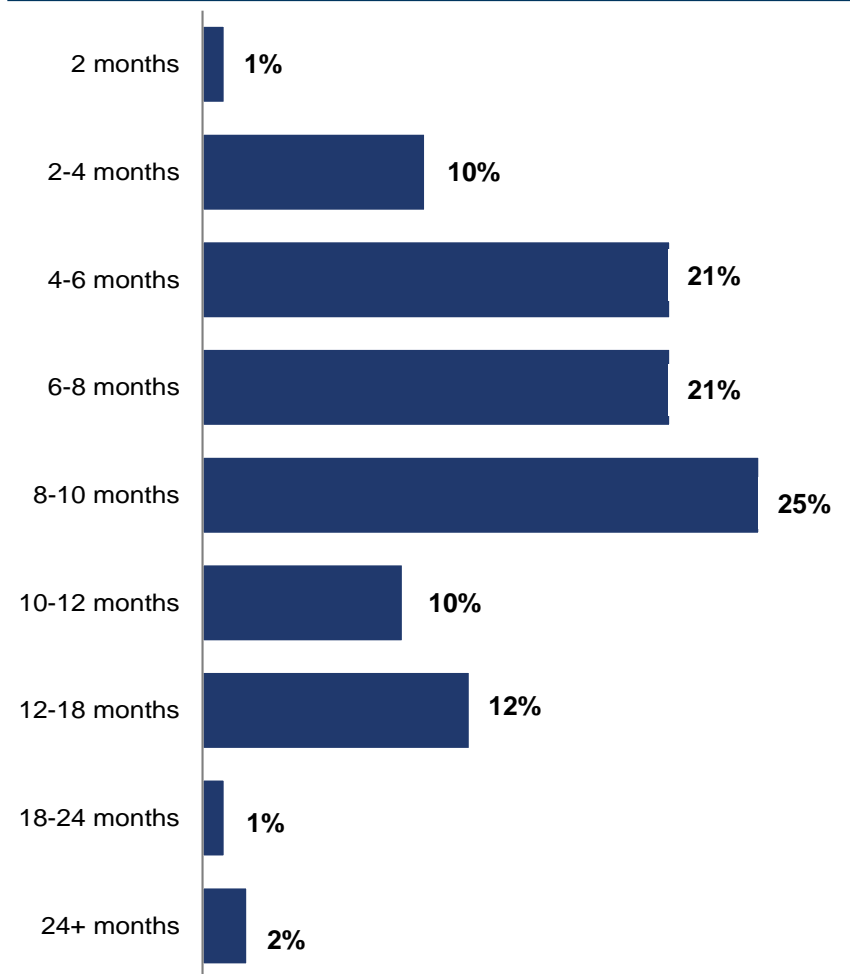
- Buyer can acquire 50% or more of pro-forma company without triggering corporate tax at Parent
- But, Buyer generally cannot negotiate with Parent or SpinCo prior to spin-off closing

Precedent US spin-offs >\$500mm:

Key Observations

- Timing from announcement of intent to spin-off business to actual separation is typically 6-9 months
- Timing influenced by level of preparation and complexity
- Major work-streams involved in achieving separation include:
 - Operational
 - Form-10
 - Legal and Tax
 - Audits
 - Financing
 - Marketing / Communications
 - Management and Governance

Time to Close From Spin-Off Announcement¹



¹ Compiled based on 75 total spins over \$500mm announced since 2000.