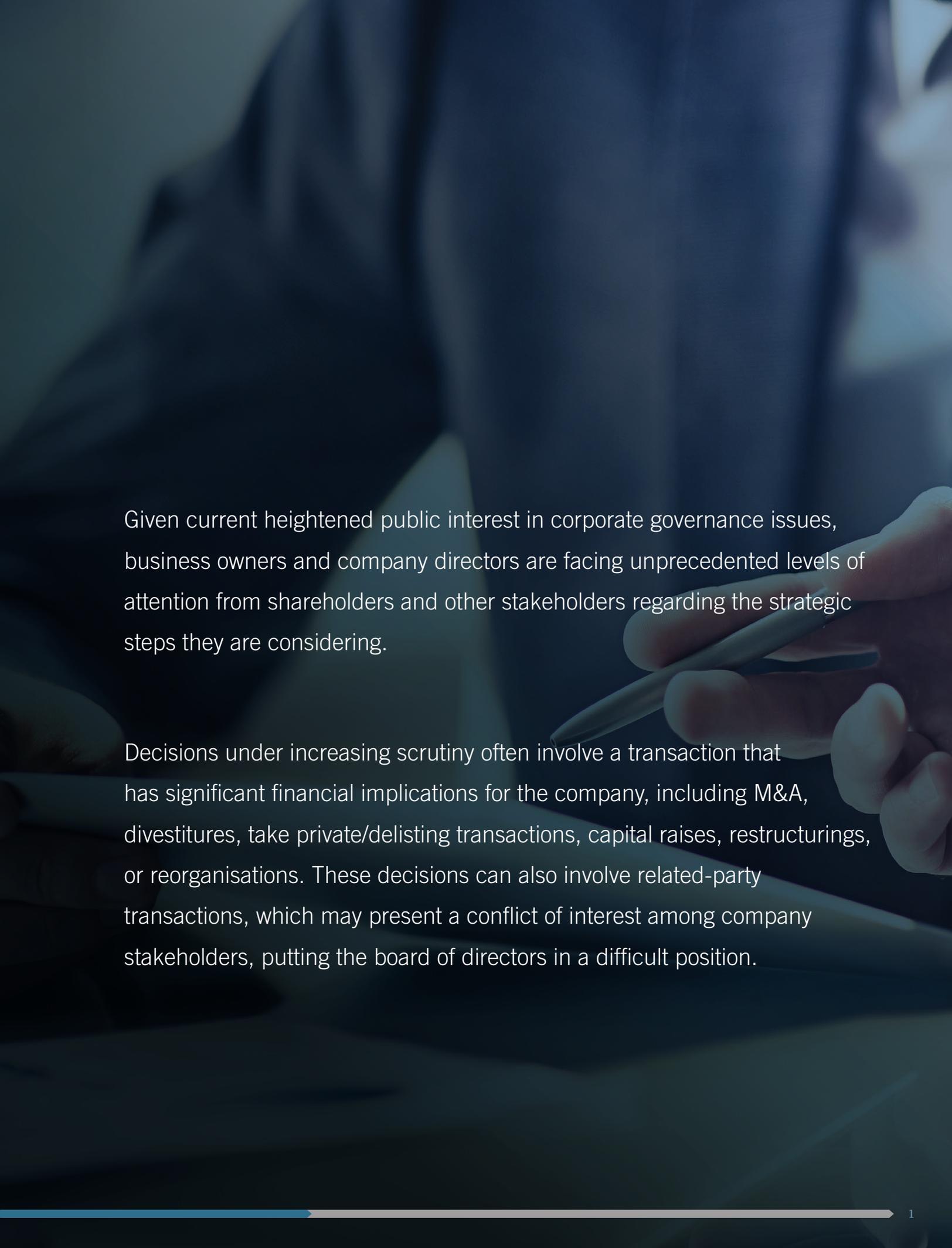




HOULIHAN LOKEY

EUROPEAN FAIRNESS OPINIONS

And the Growing Demand for
Transparency and Independence



Given current heightened public interest in corporate governance issues, business owners and company directors are facing unprecedented levels of attention from shareholders and other stakeholders regarding the strategic steps they are considering.

Decisions under increasing scrutiny often involve a transaction that has significant financial implications for the company, including M&A, divestitures, take private/delisting transactions, capital raises, restructurings, or reorganisations. These decisions can also involve related-party transactions, which may present a conflict of interest among company stakeholders, putting the board of directors in a difficult position.

What Is the Purpose of a Fairness Opinion?

The total value of deals where fairness opinions have been provided has reached approximately \$131.4 billion in 2017¹

A fairness opinion is an opinion given by a financial advisor (usually an investment bank or corporate finance advisory house) stating whether the financial terms of a corporate transaction are fair from a financial point of view, based on objective financial analyses.

The fairness opinion helps the board of directors (or relevant independent committee) to demonstrate the following:



An objective evaluation of the transaction



That a thorough governance process has been undertaken



Protection of stakeholders' interests

Now more than ever, it is important that directors 1) have the necessary support to demonstrate to their stakeholders fulfilment of any relevant duty of care when contemplating strategic transactions and 2) ensure transparency in order to avoid potential reputational damage or litigation (both in a corporate and, in certain instances, personal capacity). Fairness opinions are increasingly employed by boards of directors to assist in these cases and to help ensure the best practices of corporate governance are applied.

Fairness Opinion Trends in Europe

Given their multi-purpose applicability, fairness opinions have become a requirement in many jurisdictions across Europe and worldwide. They are also increasingly used in complex multi-jurisdictional transactions, which require a thorough understanding of the legal and financial implications involved as well as the commercial drivers behind the transaction.

Over the past three years, the number of fairness opinions for European public M&A deals has remained relatively stable, with 33 opinions in 2017 versus 29 in 2016, 36 in 2015, and 31 in 2014. However, the total value of deals where fairness opinions were provided reached approximately \$131.4 billion in 2017 (up from \$27.4 billion in 2014).¹

1. Source: Bloomberg.



According to Bloomberg, fairness opinions were provided for each of the three largest² European public M&A transactions in 2017, highlighting their increasingly important role in effectively managing risk in high-stakes situations.

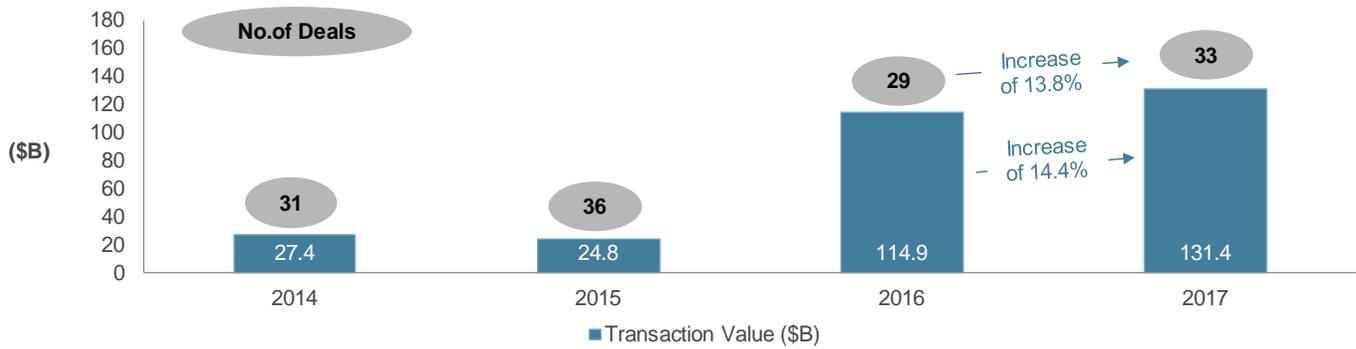


Figure 1. Evolution of European Fairness Opinions (2014–2017)

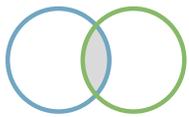
2. By announced total value.

What Makes a Fairness Advisor Effective?



A solid track record

Board members should look for fairness opinion providers that have been involved in the most complex and high-stakes situations on record and developed a long and solid track record that has withstood rigorous shareholder and judicial scrutiny. Beyond “plain vanilla” M&A transactions, an advisor should have addressed fairness considerations across a wide variety of transactions and situations, ranging from distressed financings, related-party transactions, equity allocations, and PIPE transactions to recapitalisations, roll-ups, and restructurings.



A blend of deep M&A experience and dedicated valuation resources

While firmly rooted in valuation theory, it is crucial that fairness opinions also reflect real-world M&A and corporate finance experience. As such, in addition to a deep understanding of how potential buyers gauge value and the financial metrics used to determine the terms of a deal, experienced fairness opinion providers should be well versed in the legal and governance issues that permeate M&A transactions to be able to analyse unusual circumstances or challenging optics.



An independent and unbiased viewpoint

Given the continuing regulatory, judicial, and market scrutiny of board actions on the one hand and the myriad of complex relationships between companies and their investment banks on the other, it is essential that a fairness opinion provider be truly independent. Indeed, a host of adverse decisions from the courts over the past several years has demonstrated that even the appearance of a potential conflict of interest on the part of a board’s financial advisor can taint the integrity of that advisor’s fairness opinion. Experienced advisors should have in place a rigorous and well-documented internal review process that ensures fairness opinions issued are defensible, carefully reviewed, and free from conflicts.

Houlihan Lokey helps business owners, boards of directors, special committees, and companies fulfill their fiduciary responsibilities, providing them with comprehensive analyses and unbiased opinions about the financial fairness of pending transactions—including advice with respect to Rule 3 of the UK Takeover Code. Our intellectual rigour and wide-ranging financial expertise position us as a trusted advisor and advocate for clients worldwide.

Our firm has been valuing companies and their underlying securities for decades in some of the most complex situations and in virtually every type of change-of-control transaction, including

- Affiliate and insider transactions
- Related-party transactions
- Synergistic mergers
- Transactions involving competing offers
- Down-round financings

Selected Opinion Credentials

 <p>has sold its Building and Facility segment to</p>  <p>€1,400,000,000</p> <p>Fairness Opinion</p>	 <p>has been acquired by</p>  <p>€500m</p> <p>Fairness Opinion</p>	 <p>has been acquired by River Acquisition BV, a consortium consisting of</p>    <p>Fairness Opinion</p>	 <p>Strakan Group Ltd. has merged with Proskelia S.A.</p> <p>Fairness Opinion</p>	 <p>has divested certain assets of PharmaChem Technologies (Grand Bahama), Ltd. to PharmaChem Acquisition Company Ltd.</p> <p>Fairness Opinion</p>
 <p>Central European Media Enterprises Ltd.</p> <p>has issued 200,000 shares of its Series B Convertible Redeemable Preferred Stock to an affiliate of Time Warner Inc. for aggregate consideration of \$200,000,000</p> <p>Fairness Opinion</p>	 <p>has been acquired by</p>  <p>Fairness Opinion</p>	 <p>has sold</p>  <p>to Clayton Dubilier & Rice, Inc. and Kohlberg Kravis Roberts & Co. L.P.</p> <p>Fairness Opinion</p>	 <p>has been acquired by</p>  <p>Fairness Opinion</p>	 <p>formerly known as</p>  <p>has completed the restructuring of €2.8 billion of debt</p> <p>Financial Opinion</p>
 <p>Danka Office Imaging Company</p> <p>has been acquired by</p>  <p>Fairness Opinion</p>	 <p>has acquired a portfolio of spirits and wine brands included in Pernod Ricard S.A.'s acquisition of</p>  <p>Fairness Opinion</p>	 <p>and</p>  <p>have formed a joint venture creating</p>  <p>Fairness Opinion</p>	 <p>has acquired</p>  <p>Fairness Opinion</p>	 <p>with</p>  <p>as the placement agent</p> <p>has sold certain investments to a new fund capitalized by</p>  <p>Fairness Opinion</p>

Tombstones included herein represent transactions closed from 2004 forward.

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