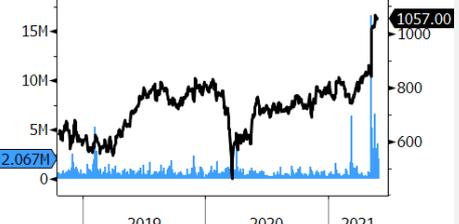


UDG Healthcare (UDG LN) / Clayton Dubilier & Rice

Deal Terms	
1 UDG LN = 1023p	
Target: UDG Healthcare	
Country	United Kingdom
Bloomberg	UDG LN
Sector	Health Care Services
Share price (p)	1058
Market cap (GBPm)	2,665
Free float (%)	~100
Acquirer: Clayton Dubilier & Rice	
Country	United States
Bloomberg	N.A.
Sector	PE
Share price (\$)	N.A.
Market cap (\$m)	N.A.
Free float (%)	N.A.
UDG LN Price Chart	
	
Status	
Scheme voting record time - June 21, 2021	
Author	
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Scheme of arrangement

We believe that the strong deal rationale favors an improved offer, thus we would recommend a position long UDG.

Shareholder Vote

- The approval at the Scheme Meeting by a majority representing at least 75 per cent. in value of the Scheme Shares is required. At current stage, the key risk is the shareholder vote.

Opposing shareholders

- UDG's biggest Investor (8.6% notifiable interest), AllianzGI said it is "minded not to accept the current offer" of Clayton Dubilier & Rice for UDG Healthcare
- M&G Investments criticized plans to sell UDG Healthcare to the firm Clayton Dubilier & Rice, saying the scheme "fails to offer fair value to ordinary shareholders, including the customers on whose behalf we invest," according to the Financial Times.
- Paul Singer's Elliott Investment Management LP disclosed position of 3.139% in UDG Healthcare plc, through equity swaps, according to a filing. It didn't say in the filing what the nature of the investment was, or what changes it might be seeking.

CBR view:

- At current stage CDR has the following options
 - Publishing a final offer statement to scare opposing shareholders and make them to accept the current offer
 - Increase the bid
 - Walk away from the deal
 - Switch to a tender offer (with 50% acceptance condition)
- In our view if CDR would believe that its offer is sufficient to gain shareholder approval it would already have published the final offer statement.
- Second, the walk away option would be an irrational step in our view as merging the Ashfield and Huntsworth businesses seem to have strong strategic rationale.
- When CD&R bid for Huntsworth, it had substantial irrevocables and letters of intent, and shut down talk of an increased bid within 3 days by stating that they would not increase the offer.
- Some investors also point to the low availability of such large assets, and that UDG may have been a key part of CD&R's plan for some time (since appointing UDG's ex-CEO as an 'Operating advisor' in January 2017).
- For a PE company a tender offer is unlikely to be a relevant option given the need to get to 100%.

Counterbid

- We see room for a counterbid based on our LBO calculation. However comparable deal multiples appear to be closer to UDG's current valuation.

Regulatory Risks and Timing

- Antitrust approvals are required in Austria, Germany, Russia and US.
- Foreign Investment and National Security approvals are required in Italy, Spain and UK.
- We note that CDR has some investments in the healthcare sector. CDR has plans to integrate UDG's Ashfield with Huntsworth, a similar UK business it acquired last year. That will add clout in a consolidating sector.
- There is key overlap between UDG's Ashfield and CDR's Huntsworth in the HCP (Healthcare Professional) marketing and Digital capabilities within communication where both are considered as strong players.
- However, we note that there are substantially bigger competitors present in their overall markets like Catalent, Charles River Labs, Thermo Fisher, PRA Health, ICON, IQVIA, LAB Corp, PPD, and in their key markets Syneos, IPG, Omnicom, WPP, Publicis, Havas, Intouch Solutions, W20, Precision Value & Health. Further, Big Pharma companies are still able to manage services provided by third parties in-house which is still substantial (35-40% of total) compared to outsourced market.
- Based on that, timing will be driven by one of the national security reviews: Italy takes 45 days Spain takes 30-180 days depending on the particular sector (we would target the lower end), UK takes 30 BD + 45 BD extension.
- Given the credible US buyer and the lower importance of the industry we believe that all reviews will be closed in 1-1.5 months.

Valuation:

- Historically UDG has been trading 20%-30% below peers' median FY1 EV/EBITDA multiple. At the current offer price, the discount still exists. In a deal break we see UDG trading at around a 13.5x-14x FY1 EBITDA multiple which implies a GBP8.3-GBP8.6 standalone value.
- There is a 64%-36% operating profit split between UDG's two divisions of Ashfield and Sharp. Based on BBG consensus for FY1 the GBP167m EBITDA estimation can be split to GBP107 and GBP 60m.
- Assuming a 16x EBITDA for Ashfield and a 20x for Sharp an implied takeout value is around 1100p.
- We see substantial room for a PE company to offer additional premium to the current share price up to GBP 12.50s/UDG share to keep the IRR in the double-digit zone.

Key terms of the merger

Transaction Details

Announcement Date	May 12, 2021
Offer terms	1 UDG LN = 1023p
% owned by UDG LN stockholders	0%
Deal Size (Market Value)	£2,611 million
Offer structure	All-cash scheme of arrangement
Target's Board Recommendation	Yes
Voting Agreement	UDG Directors who hold UDG Shares have irrevocably undertaken to do in respect of their own beneficial holdings totalling 391,460 UDG Shares (representing approximately 0.16 per cent. of the existing issued share capital) Bidco has also received a letter of intent to vote in favour of the Scheme at the Court Meeting and the resolutions relating to the Acquisition at the UDG General Meeting from Kabouter Management, LLC in respect of 13,786,165 UDG Shares representing approximately 5.5 per cent. of existing issued ordinary share capital of UDG In total therefore, Bidco has procured irrevocable undertakings in aggregate, 14,177,625 UDG Shares representing approximately 5.6 per cent. of the existing issued ordinary share capital of UDG
Target Incorporation	Ireland
Scheme of arrangement	Click here for the Scheme document
Synergies	■ N/A

Indicated Closing Date

- The Acquisition is currently expected to be declared effective during the third quarter of 2021

Dividends

- If any dividend or other distribution or other pro rata return of capital to UDG Shareholders is declared, made or paid or becomes payable on or after 12 May 2021, Bidco reserves the right to reduce the Consideration by an amount up to the amount of such dividend or other distribution or other pro rata return of capital to UDG Shareholders, in which case any reference in the 2.5 Announcement or in this Scheme Document to the Consideration payable under the terms of the Acquisition will be deemed to be a reference to the Consideration as so reduced. In such circumstances, UDG Shareholders would be entitled to retain any such dividend or other distribution or other pro rata return of capital to UDG Shareholders. No dividend has been declared by UDG in its Interim Results issued as of the date hereof.

Financing

- The Consideration payable under the terms of the Acquisition will be funded by a combination of equity to be invested by CD&R Fund X and CD&R Fund XI and third-party debt financing.
- Buyout firm Clayton, Dubilier & Rice has taken out a senior secured GBP2.06b (\$2.9b) term loan to part-fund its acquisition of healthcare outsourcing firm UDG Healthcare, according to a statement from UDG.
 - Debt deal also includes an RCF of up to \$350m under an interim loan agreement
 - Combined company Neneite Ltd. intends to refinance interim loan once deal completed
 - Joint lead arrangers for refinancing: Citi, DB and JPM
 - Equity and debt deal values UDG at GBP2.61b, with an implied enterprise value of GBP2.77b

UDG capitalization

- | | |
|---------------------------|--|
| ■ UDG Equity | ■ UDG has 251,930,518 ordinary shares |
| ■ UDG Debt | ■ Net debt at the end of the year was \$16.2 million (\$246.0 million cash and \$262.2 million debt) |
| ■ UDG Net Leverage | ■ 0.1xNet debt to EBITDA (Dec 31, 2020) |

Valuation Multiples

- | | |
|------------------------|---|
| ■ 1-day premium | ■ an implied enterprise value multiple of approximately 17.2x UDG's adjusted EBITDA of \$228.1 million and an implied price-to-earnings multiple of approximately 29.2x UDG's adjusted EPS of 49.6 cents for the 12 month period ended 31 March 2021; |
| | ■ a premium of approximately 30.3 per cent. to the volume weighted average price of 785.3 pence per UDG Share for the six months ended 11 May2021 |
| | ■ a premium of approximately 30.3 per cent. to the volume weighted average price of 785.1 pence per UDG Share for the three months ended 11 May2021 |
| | ■ a premium of approximately 21.5 per cent. to the Closing Price of 842.0 pence per UDG Share on 11 May 2021; and |
| | ■ a premium of approximately 6.7percent.to the all-time UDG high Closing Price. |
| ■ LTM EV/Sales | 2.2x |
| ■ FY1 EV/Sales | 1.9x |
| ■ FY2 EV/Sales | 1.8x |
| ■ LTM P/E | 29.0 |
| ■ FY1 P/E | 19.2x |

■ FY2 P/E	17.9x
■ FY1 EV/EBITDA	11.6x
■ FY2 EV/EBITDA	10.7x

Timetable

■ Confidentiality agreement	April 14, 2021
■ Deal Announcement	May 12, 2021
■ Publication of Scheme Document	May 31, 2021
■ Voting record time	June 21, 2021
■ Proxy deadline	June 23, 2021
■ Scheme meeting and EGM	June 25, 2021
■ Settlement (CBR est.)	By early July 2021
■ Longstop date	November 12, 2021

Key conditions to the merger

■ Shareholder approval	■ UDG - the approval at the Scheme Meeting by a majority representing at least 75 per cent. in value of the Scheme Shares, at the Voting Record Time, held by such Scheme Shareholders as are present and voting either in person or by proxy or in any other manner permitted by the Court or by law, at the Scheme Meeting (or at any adjournment of such meeting), and provided that the quorum for such Scheme Meeting (or at any adjournment of such meeting) shall be at least two persons holding or representing by proxy at least one-third in nominal value of the UDG Shares
■ Regulatory Approvals	■ Yes <ul style="list-style-type: none"> ○ Antitrust: Austria, Germany, Russia, US ○ Foreign Investment and National Security: Italy, Spain, UK
■ No Company MAC	■ Yes

MAC Definition

- (a) no adverse change or deterioration having occurred in the business, assets, value, financial or trading position, profits, prospects or operational performance of any member of the Wider UDG Group to an extent which is material to the Wider UDG Group taken as a whole;
- (b) no litigation, arbitration proceedings, prosecution or other legal proceedings having been threatened, announced or instituted by or against or remaining outstanding against any member of the Wider UDG Group or to which any member of the Wider UDG Group is or may become a party (whether as claimant or defendant or otherwise) and no enquiry, review, investigation or enforcement proceedings by, or complaint or reference to, any Third Party against or in respect of any member of the Wider UDG Group having been threatened, announced or instituted by or against, or remaining outstanding in respect of, any member of the Wider UDG Group which, in any such case, has had or might reasonably be expected to have a material adverse effect on the Wider UDG Group taken as a whole or is material in the context of the Acquisition;
- (c) no contingent or other liability having arisen, increased or become apparent which is reasonably likely to adversely affect the business, assets, financial or trading position, profits, prospects or operational performance of any member of the Wider UDG Group to an extent which is material to the UDG Group taken as a whole or is material in the context of the Acquisition;
- (d) no steps having been taken and no omissions having been made which are reasonably likely to result in the withdrawal, cancellation, termination or modification of any licence held by any member of the Wider UDG Group, which is necessary for the proper carrying on of its business and the withdrawal, cancellation, termination or modification of which has had or might reasonably be expected to have a material adverse effect on the Wider UDG Group taken as a whole or is material in the context of the Acquisition; and (e) no member of the Wider UDG Group having conducted its business in material breach of any applicable laws and regulations which in any case is material in the context of the Wider UDG Group taken as a whole or in the context of the Acquisition;

Break fees

■ Break fee	■ No
■ Reverse break fee	■ No

Antitrust related clauses

■ Jurisdictions	■ US, Russia, Austria, Germany
■ Divestiture obligation	■ Yes, limited by MAC
■ Litigation obligation	■ No
■ Reverse break fee (regulatory)	■ No

Governing Law

The Acquisition and the Scheme will comply with the Irish Takeover Rules, the Act and where relevant, the UK Listing Rules, and will be subject to the terms and conditions set out in this Scheme Document. The Acquisition and the Scheme are governed by the laws of Ireland and subject to the exclusive jurisdiction of the courts of Ireland

Key UDG shareholders

Shareholders	%
Allianz SE	8.8
BlackRock Inc	5.4
Kabouter Management LLC	5.2
Vanguard Group Inc/The	4.7
Credit Agricole Group	3.1
M&G PLC	2.6
Norges Bank	2.2
FMR LLC	2.2
Bardays PLC	2.1
Legal & General Group PLC	2.0
Others	61.8

Source: Bloomberg

Company descriptions & rationale for the merger

UDG LN DESCRIPTION

- UDG Healthcare is a global leader in healthcare advisory, communications, commercial, clinical and packaging services. The Group is organised and managed across two divisions: Ashfield and Sharp, and employs 9,000 people in 29 countries.

Geographic revenue split



Divisions



A global integrated healthcare services partner offering a breadth of services in advisory, marketing, communications, strategic engagement and patient solutions.

ASHFIELD ADVISORY

Commercial strategy; strategic planning; commercial and field force benchmarking; portfolio, licensing, and development strategy; pricing, reimbursement, market access strategy; therapeutic area insight reports

ASHFIELD ENGAGE

Medical science liaisons, medical information, market access, omnichannel sales, patient engagement programmes, face-to-face, virtual and hybrid events

ASHFIELD HEALTH

Medical and scientific communications, full service marketing and creative communications, PR, corporate communications, and public affairs, internal communications, brand and launch strategy, data, digital and social media marketing



A global leader in contract packaging, clinical, manufacturing and technology services.

PACKAGING

Commercial packaging solutions in multiple formats, including bottles, blisters, specialty and secondary packaging of injectables

CLINICAL

A comprehensive and integrated clinical trial supply and management service, from pre-clinical through to commercialisation

MANUFACTURING

Clinical manufacturing services including analytical services, formulation development, over-encapsulation and placebo manufacture, and sterile fill finish

TECHNOLOGY

Technology services to support both commercial and clinical packaging including design, serialisation solutions and clinical IRT solutions

64%

of Group Operating Profit

13.7%

Net operating margin

36%

of Group Operating Profit

15.5%

Net operating margin



CDR DESCRIPTION

- CD&R is a US private equity manager that invests in and builds valuable businesses.

STRATEGIC RATIONALE FOR THE MERGER

Background to and reasons for the Acquisition

- UDG has strong market positions in the pharma services space. Both Ashfield and Sharp operate in large and growing markets, underpinned by continued growth in new drug development and approvals, increasing therapeutic and drug complexity and continued outsourcing from Pharma and Biotech clients.
- CD&R has a long track record of investing in healthcare businesses and partnering with management teams to develop and grow their global operations. In 2020, CD&R purchased Huntsworth and supported its subsequent acquisition of Nucleus Global, establishing a global player in the field of Medical Communications, Market Access and Healthcare Marketing.
- Ashfield and Huntsworth are highly complementary businesses which Bidco intends to combine to create a unique set of global solutions to support Pharma and Biotech clients across the life cycle of a drug, from development to launch and beyond patent expiry, across all therapeutic areas.
- Sharp is a high-quality provider of manufacturing, packaging, clinical and technology services to pharmaceutical companies, with a differentiated set of capabilities in the biologics space. Bidco will invest in the business to support its growth prospects and service innovation.
- Bidco believes that as a private company, and with its support, UDG will have the opportunity to best develop its service offering to clients globally, pursue accretive strategic acquisitions, and offer its employees continuous development opportunities.

Key risks

SHAREHOLDER VOTE

- The approval at the Scheme Meeting by a majority representing at least 75 per cent. in value of the Scheme Shares is required
- At current stage the key risk is the shareholder vote.

Opposing shareholders

- UDG's biggest Investor (8.6% notifiable interest), AllianzGI said it is "minded not to accept the current offer" of Clayton Dubilier & Rice for UDG Healthcare, according to an emailed statement.
 - Says the deal "is opportunistic and significantly undervalues UDG"
 - Offer made by CD&R for UDG on May 12 "implicitly supports AllianzGI's view of UDG's potential, but is at a price that does not adequately compensate existing shareholders for the opportunity foregone," according to statement
 - "Having come through the trials of the pandemic with a strong balance sheet, AllianzGI believes UDG can realize the potential of recent acquisitions, consider further inorganic opportunities and improve the efficiency of its capital structure"
 - Says it's "open to discussion and would like to use this statement to remind the board of UDG of its duty to obtain a fair value for shareholders"
- M&G Investments criticized plans to sell UDG Healthcare to the firm Clayton Dubilier & Rice, saying the scheme "fails to offer fair value to ordinary shareholders, including the customers on whose behalf we invest," according to the Financial Times.
 - M&G is a top-five shareholder with a 2.6% stake in UDG.
- Paul Singer's Elliott Investment Management LP disclosed a position of 3.139% in UDG Healthcare plc, through equity swaps, according to a filing.
 - It didn't say in the filing what the nature of the investment was, or what changes it might be seeking.

CBR view:

- At current stage CDR has the following options
 - Publishing a final offer statement to scare opposing shareholders and make them to accept the current offer,
 - Increase the bid,
 - Walk away from the deal
 - Switch to a tender offer (with 50% acceptance condition)
- In our view if CDR would believe that its offer is sufficient to gain shareholder approval it would already have published the final offer statement.
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- For a PE company a tender offer is unlikely to be a relevant option given the need to get to 100%.

COUNTERBID

- We see room for a counterbid based on our LBO calculation. However comparable deal multiples appear to be closer to UDG's current valuation.

REGULATORY RISKS AND TIMING

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- We note that CDR has some investments in the healthcare sector. CDR has plans to integrate UDG's Ashfield with Huntsworth, a similar UK business it acquired last year. That will add clout in a consolidating sector.
- There is key overlap between UDG's Ashfield and CDR's Huntsworth in the HCP (Healthcare Professional) marketing and Digital capabilities within communication where both are considered as strong players.
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 - Further Big Pharma companies are still able to manage services provided by third parties in-house which is still substantial (35-40% of total) compared to outsourced market.
- Based on that the timing will be driven by one of the national security reviews:
 - Italy takes 45 days.
 - Spain takes 30-180 days depending on the particular sector (we would target the lower end)
 - UK takes 30 BD +45 BD extension

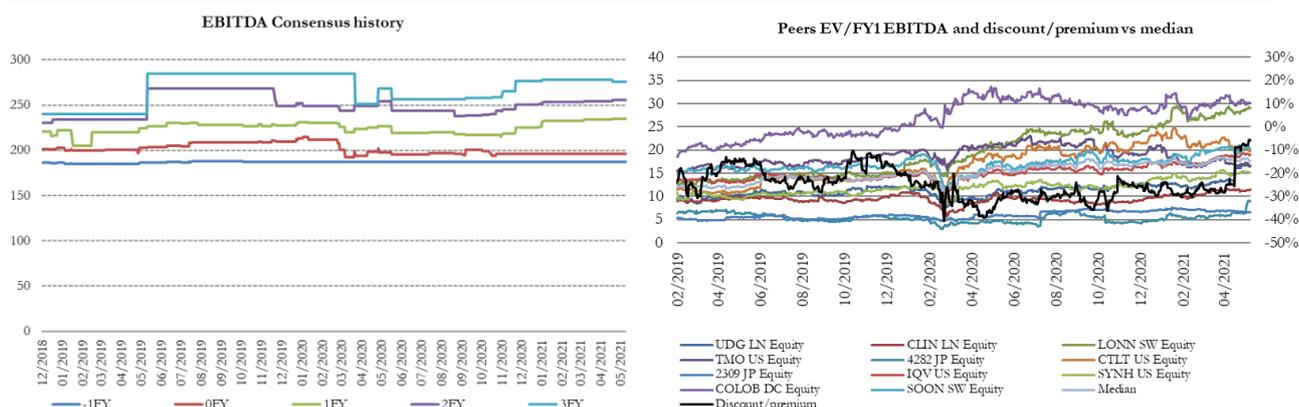
- Given the credible US buyer and the lower importance of the industry we believe that all reviews will be closed in 1-1.5 months.

Valuation

STANDALONE AND PEERS

- Historically UDG has been trading 20%-30% below peers' median FY1 EV/EBITDA multiple. At the current offer price, the discount still exists. In a deal break we see UDG trading at around a 13.5x-14x FY1 EBITDA multiple which implies a GBP8.3-GBP8.6 standalone value.

Company	Price	Mkt Cap (mm)	FY1 EV/ EBITDA	FY2 EV/ EBITDA	EBITDA CAGR	FY1 EBITDA Margin	FY1 PE	FY2 PE	EPS CAGR
UDG HEALTHCARE P	10.57	2,658	16.7x	15.3x	12.0%	16.7%	19.8x	18.4x	15.0%
CLINIGEN GROUP P	8.57	1,141	11.3x	9.5x	9.6%	24.4%	13.6x	11.3x	10.5%
LONZA GROUP -REG	584.80	43,520	29.1x	24.9x	7.6%	30.4%	43.6x	38.2x	8.6%
THERMO FISHER	449.21	176,552	16.5x	18.5x	3.3%	32.1%	20.3x	22.9x	3.6%
EPS HOLDINGS INC	1,800.00	83,361	9.0x	8.0x	24.7%	10.1%	22.4x	20.8x	31.7%
CATALENT INC	100.72	17,157	19.7x	17.4x	19.5%	25.4%	34.7x	29.6x	26.6%
CMIC HOLDINGS CO	1,495.00	28,291	6.6x	6.2x	8.8%	9.5%	14.2x	12.9x	20.3%
IQVIA HOLDINGS I	235.00	45,040	19.1x	17.4x	14.4%	21.7%	27.0x	23.9x	21.1%
SYNEOS HEALTH IN	85.56	8,883	15.3x	13.8x	15.1%	14.7%	19.9x	17.2x	18.5%
COLOPLAST-B	968.40	209,347	30.1x	27.8x	8.1%	36.3%	42.6x	39.3x	9.9%
SONOVA HOLDING A	309.70	19,951	20.2x	18.5x	17.6%	29.9%	28.4x	25.6x	24.6%
Average			17.7x	16.2x	12.9%	23.4%	26.7x	24.2x	17.5%



PRECEDENTS

- There is a 64%-36% operating profit split between UDG's two divisions of Ashfield and Sharp. Based on BBG consensus for FY1 the GBP167m EBITDA estimation can be split to GBP107 and GBP 60m.
- Huntsworth and Cello Health (Ashfield peers) were acquired at 11.5-12.5x EBITDA.
- PRAH's takeout multiple was 17.8x FY1 EBITDA or 21.2x LTM EBITDA, PPD's takeout multiple is 20.5x FY1 EBITDA or 20x LTM EBITDA, IMS/Quintiles 9.9x LTM EBITDA, PAREXEL/Pamplona 11.2x FY1 EBITDA, 12.4x LTM EBITDA
- Sharp's peer PCI was sold for 18x trailing EBITDA.
- Ashfield's bigger size and Sharp faster growth pace might justify some premium above those multiples according to some analysts.
- Assuming a 16x EBITDA for Ashfield and a 20x for Sharp an implied takeout value is around 1100p.

LBO

- We see substantial room for a PE company to offer additional premium to the current share price up to GBP 12.50s/UDG share to keep the IRR in the double-digit zone.
- Our assumptions include:
 - Offer at GBP 11.23/UDG share
 - 3% LT growth rate
 - Adj Net debt as of 4Q20
 - LT EBITDA margin 18%
 - Equity participation 50%
 - Leverage 2.6x in FY1
 - Interest coverage 5.6x in FY1

- Credit spread 5.0%
- 20% tax rate
- IRR target 15.1%
- No synergies

Sensitivity tables

		Bid Price							Bid Price				
		£10.23	£10.50	£11.00	£11.50	£12.50			£10.23	£10.50	£11.00	£11.50	£12.50
EBITDA Marg	14.0%	12.4%	12.2%	11.9%	11.7%	11.2%	LT Growth	1.0%	14.8%	14.6%	14.3%	14.1%	13.6%
	16.0%	13.8%	13.6%	13.4%	13.1%	2.0%		14.9%	14.8%	14.5%	14.3%	13.8%	
	18.0%	15.1%	15.0%	14.7%	14.5%	3.0%		15.1%	15.0%	14.7%	14.5%	14.0%	
	20.0%	16.4%	16.2%	16.0%	15.7%	5.0%		15.5%	15.3%	15.1%	14.8%	14.4%	
	22.0%	17.6%	17.4%	17.2%	16.9%	7.0%		15.8%	15.7%	15.4%	15.2%	14.7%	
		Bid Price							Bid Price				
		£10.23	£10.50	£11.00	£11.50	£12.50			£10.23	£10.50	£11.00	£11.50	£12.50
EV/EBITDA	10.0x	12.3%	11.6%	10.4%	9.3%	7.1%	Equity Part.	40.0%	16.8%	16.7%	16.3%	16.1%	15.5%
	11.0x	14.2%	13.5%	12.3%	11.2%	9.0%		45.0%	15.9%	15.7%	15.4%	15.2%	14.7%
	11.5x	15.1%	14.4%	13.2%	12.1%	10.0%		50.0%	15.1%	15.0%	14.7%	14.5%	14.0%
	12.0x	15.9%	15.3%	14.1%	13.0%	10.8%		55.0%	14.5%	14.3%	14.1%	13.8%	13.4%
	13.0x	17.5%	16.9%	15.7%	14.6%	12.5%		60.0%	13.9%	13.8%	13.6%	13.3%	12.9%
		Bid Price							Bid Price				
		£10.23	£10.50	£11.00	£11.50	£12.50			£10.23	£10.50	£11.00	£11.50	£12.50
Interest Margin	4.0%	15.4%	15.3%	15.0%	14.8%	14.4%							
	4.5%	15.3%	15.1%	14.9%	14.6%	14.2%							
	5.0%	15.1%	15.0%	14.7%	14.5%	14.0%							
	5.5%	15.0%	14.8%	14.5%	14.3%	13.8%							
	6.0%	14.8%	14.6%	14.3%	14.1%	13.6%							

Source: CBR and Bloomberg

Disclosures:

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