



# HORIZONS

BDO'S GLOBAL VIEW OF MID-MARKET DEAL ACTIVITY

MERGERS&ACQUISITIONS

ISSUE 2 | 2017



## MADE IN ITALY CRADLE OF CREATIVE AND ENTREPRENEURIAL BUSINESSES

### FEATURE

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INVESTORS ARE DRAWN TO ITALY'S CREATIVE AND ENTREPRENEURIAL BUSINESSES

### REGIONAL VIEW

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INDUSTRIAL PRODUCTS  
FINANCIAL SERVICES  
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# WELCOME

In 2017's second edition of BDO HORIZONS, our M&A professionals review recent trends and forecast what lies ahead.

BDO's latest conference of the Americas took place in the country where one of the most significant political events of 2016 took place. As our M&A professionals gathered in Miami, we exchanged views with colleagues and clients on the impact of the new President Donald Trump in general and M&A activity in particular. In this issue, we share the results and provide forecasts for 2017.

Since the beginning of 2017 markets have honoured Mr Trump's economic growth plan, with US Indices such as the Dow Jones Industrial Average reaching a new, all-time high. But it becomes clearer as time passes that the separation of powers in the US is still functioning. The Department of Justice has limited President Trump's power several times and it appears that his action plan might not be implemented as fast as he wishes.

With the re-election of the Dutch Prime Minister Mr Mark Rutte, the likelihood of outsider groups winning major elections has receded. This is further confirmed by the centrist win in the very recent elections in France. Since Great Britain decided to leave the European Union, a moderate French President might preserve the Old Continent from any further break down.

The Italian referendum, another key political event on the European agenda, is still to come. Nevertheless M&A activity in Southern Europe has performed strongly within the last few years, prompting BDO to select Milan as this year's venue for the M&A conference.

## INSIGHTS FROM A LEADING M&A ADVISER

Looking back on Q1 2017, we can determine that political uncertainty caused a slowdown in M&A deal-making. This resulted in the weakest quarter since Q1 2013.

Our BDO Heat Chart clarifies that investors postponed deals due to ongoing political and economic uncertainty. The number of potential deals has massively increased during the first quarter. This makes us confident that – assuming no major political or economic surprises take place – some of the held-back deals will go ahead, resulting in a stronger upcoming quarter. But on the other hand we suspect that due to the ongoing political uncertainty, the trend for larger sums being invested in fewer deals may continue.





# GLOBAL VIEW

## COMPARING NOW AND THEN

### Uncertainty relating to the US elections in 2016 significantly affected M&A activity in Q1 2017.

As a consequence, Q1 2017 was the weakest quarter since Q1 2013. On a like for like basis, activity declined from 1,951 deals and USD 166bn value in Q1 2016 to 1,566 deals and USD 141bn value in Q1 2017. This represents a fall of 19.7% by volume and 15.2% by value.

The same trend can be seen in transactions involving private equity. There were 195 such transactions in Q1 2017, representing a reduction of 24.7% in deal volume and 10.6% in value compared to Q1 2016. As we mentioned in our last edition, Q4 2016 was poor in terms of proportion of private equity (PE) buy-outs, in both deal volume and value. Due to this weak baseline, PE's share of total deals increased to 12.5% in terms of volume (Q4 2016 10.7%) and 16.5% in terms of value (Q4 2016 12.2%).

In our first edition of the year, we highlighted the trend towards bigger deals. We can now determine that this trend is continuing within a declining market environment. While Q4 2016 represented the highest average deal volume since Q3 2013, Q1 2017 has slightly topped this result. The average volume per deal was USD 89.9m compared to USD 88m in Q4 2016, representing an increase of 2.2%.

Nevertheless, when we look at the composition of total deal volume in more detail, we find a negative trend in all sectors compared to Q4 2016 as well as Q1 2016.

#### COMPARING HERE AND THERE

Not surprisingly, a weak Q1 2017 overall is reflected in the results of the 17 regions. With exception of the Middle East, all regions underperformed against Q4 2016 in terms of volume and value. In terms of sectors, deal activity decreased in comparison to Q4 2016. Especially in Industrials & Chemicals, where deal volume fell by 27.5% compared to the previous quarter. Here is a snapshot of some of the highs and lows.

Despite the political uncertainty, North America was the most active region in Q1 2017 with 386 transactions. This represents a decrease of 15% against Q4 2016, which is – in comparison to the other 16 regions – the fourth best result. In comparison to Q1 2016, in which 545 deals were closed, Q1 2017 deal volume fell 29%. Looking at deal value, this sank from USD 54.9bn in Q1 2016 to USD 39.3bn in Q1 2017.

We have seen an increase in deal volume in the Middle East, albeit a small one. Greater China and Other Asia performed particularly poorly in comparison to Q4 2016. Greater China (176 fewer transactions) and Other Asia (31 fewer transactions) both lost 35% in terms of deal volume. In comparison to Q1 2016, the Q1 2017 were not as bad. Deal volume in South East Asia and Australasia even increased.

As with deal volume, the Middle East also showed a higher deal value higher than the previous quarter. If we compare Q1 2017 results with Q1 2016 by regional value, we see that Japan (2%), CEE & CIS (4%), Latin America (58%), Southern Europe (11%), UK & Ireland (7%), Australasia (38%) and South East Asia (19%) performed well – reflecting the broad regional discrepancy.

As for sectors, every sector completed fewer deals in Q1 compared to the same quarter last year and Q4 2016. By comparing the numbers with the preceding quarter, we saw that the deviation is quite similar across all sectors. The smallest decline was in Business Services (19%) and Leisure (19%), followed by Consumer (24%), Industrials & Chemicals (27%), Financial Services (28%) and Energy, Mining & Utilities (30%).



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### LOOKING AHEAD

The BDO Heat Chart for regions and sectors shows 7,962 potential deals in the pipeline. In comparison to the previous Q4 2016 quarter, this is a massive increase of 2,607 targets, or 48.7%. This appears to confirm the cautious behaviour of market participants due to recent political and economic uncertainty. The strongest increase can be seen in Australia (64%), DACH (63%) and UK & Ireland (62%). But nevertheless, in terms of absolute figures, the BDO Heat Chart is forecasting that deal activity will be led once again by the North American market.

As for sectors, Industrials & Chemicals, followed by Technology & Media, are expected to dominate the overall deal flow.

Overall, we see potential for higher M&A activity within the next quarters. If investors get the clarity they need on President Trump's action plan then the political uncertainty of the Q1 2017 might slowly disappear. With the Netherland's political leadership remaining the same after the country's election, the chances of France voting in a moderate President have risen. These signs of a stabilisation are positive, although this has been slightly overshadowed by the intervention of the US Army in Syria, which could again disrupt the overall brighter outlook.



## GLOBAL BDO HEAT CHART

	Industrials & Chemicals	Technology & Media	Consumer	Business Services	Energy, Mining & Utilities	Pharma, Medical & Biotech	Financial Services	Leisure	TOTAL	%*
North America	269	457	269	255	143	253	140	61	1,947	24%
China	318	161	104	123	67	41	91	39	944	12%
CEE & CIS	190	135	130	61	63	38	51	35	703	9%
Southern Europe	151	105	146	87	42	33	46	27	637	8%
South East Asia	135	59	65	71	63	36	49	32	510	6%
Australasia	85	81	98	64	62	37	50	23	500	6%
Latin America	80	62	70	56	75	22	30	12	407	5%
UK & Ireland	48	100	59	67	40	20	45	20	399	5%
India	85	61	48	57	39	39	50	12	391	5%
DACH	110	76	47	35	11	37	27	13	356	5%
Other Asia	85	48	24	28	13	20	22	12	252	3%
Nordics	70	52	28	28	28	24	9	12	156	3%
Japan	43	39	36	29	9	32	13	10	211	3%
Benelux	50	22	36	24	16	12	15	10	185	2%
Africa	47	16	14	18	44	4	14	4	161	2%
Middle East	13	18	6	8	9	4	5	4	67	1%
Israel	7	15	2	1	4	9	3	-	41	1%
<b>TOTAL</b>	<b>1,786</b>	<b>1,507</b>	<b>1,182</b>	<b>1,012</b>	<b>828</b>	<b>661</b>	<b>660</b>	<b>326</b>	<b>7,962</b>	<b>100%</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>100%</b>	

\* Percentage figures are rounded up to the nearest one throughout this publication.

# MADE IN ITALY

INVESTORS ARE DRAWN TO ITALY'S CREATIVE AND ENTREPRENEURIAL BUSINESSES



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Most would agree that Italians are creative when it comes to designing, producing and marketing high-quality products. 'Made in Italy' has become one of the most important brands in the world and the country is considered number one for manufacturing personal luxury goods.

Italy's '3Fs' (food, fashion and furniture) represent the excellence that enables Italy to continue to compete on the world stage, and cross pollination between those three sectors helps to create integrated value.





The 3Fs represent around 80% of Italy's total manufacturing production, while in terms of the numbers of companies, fashion accounts for 16%, food 12% and furniture 5%. Co-branding initiatives bring together the 3Fs' taste, aesthetics and innovation to create a unique lifestyle.

This approach allows the combination of different brands to create something unique, with design infused into the product, the brand and in the consumption experience.

That is a big part of the reason why Italy enjoys a leading role in the high-end design industry, with about 30% of global market share (USD 35.5bn), and how Italy's top brands maintain their profitability: the top 50 'Made in Italy' brands account for about USD 1.8bn of total market share.

### FASHION, FOOD AND FURNITURE

The Italian fashion industry, which consists of textiles, fashion, leather and footwear, had a combined turnover of USD 5.3bn in 2015. Italian clothing production accounts for 41% of European fashion production, compared to 11% in Germany and 8% in France.

The Italian food industry had a turnover of about USD 149bn in 2015. By 2020, exports alone are expected to reach USD 55bn.

The furniture industry, which includes domestic furniture, bathroom furniture, office furniture and lighting, generated a turnover of USD 29bn in 2015.

### NATURAL ENTREPRENEURS

Italian business creativity expands far beyond fashion, food, furniture and design. Italians are natural entrepreneurs, mainly

operating within SMEs that numbered 136,114 in 2016. The economic crash in 2008 was severe but it helped Italian companies to develop resilience based on two main issues: being recognisable and having a specific know-how. Italian SMEs put a two-fold strategy in practice: developing excellent products/services and being appreciated globally for their excellence. Thanks to this strategy the SMEs have been able to trade their way out of the economic crisis.

Italian enterprises are continuously evolving, developing high-quality and innovative products thanks to investment in research and development, which accounts for approximately 50% of company resources.

This focus on R&D has increased in recent years. The European house Ambrosetti, an Italian consulting firm, commented on "the role of the ecosystem of innovation in life sciences for growth and competition in Italy", highlighting a correlation between massive R&D investment and strong productive performance of high-density innovation industries like biotech, biomedical and pharmaceuticals. Research and development in Italy involves more than 2,200 researchers, 287 of whom operate within international organisations.

### PRIVATE EQUITY DEAL-MAKERS

The growing momentum of private equity in Italy has seen it take an increasing slice of the action, up from an 11% share in 2015 to its current level of 16%. European private equity investors started to invest strongly in the Italian market in 2016, at a rate five times higher than 2015, with the average private equity deal value hitting its peak level since 2011.

In 2016, there were 509 deals in Italy, the highest since 2001 and the seventh consecutive yearly increase. The main cross-border bidders during 2016 were the USA and France and we expect this trend to continue in H1 2017. Chinese bidders are likely to increase during the first half of 2017, especially targeting Italian mid-cap companies due to their strong brand image. All areas of 'Made in Italy', such as retail, food and luxury goods, are expected to actively pursue M&As this year. In the first quarter of 2017, there were eight deals in the Consumer sector and it is expected to attract considerable buying interest during 2017.

The fashion industry could also become more active than in recent years, as companies have turned to consolidation in the wake of aggressive competition from large international fashion giants. Italian family businesses, including Aspesi, Ermanno Scervino and Tombolini, usually have a history of shunning private equity investment, but this may change. Many are considering the opportunities of private equity investment and this positive trend is expected to continue to the benefit of both parties.

Financial Services was Italy's most targeted sector by value, as the Government continues to push for greater consolidation among debt-ridden banks. This trend was evident in 2016, continued in the first quarter 2017 (up 15% in terms of volume) and is expected to attract considerable buying interest in the future.

Italian entrepreneurship, work ethics, creativity, R&D, high standards and its 'Made in Italy' brand quality will continue to make the country an ideal location for high-growth companies looking to set up or expand their operations in Europe.

## ITALY M&A FOCUS: KEY DEALS AND SECTORS

### Private equity and foreign trade bidders' interest in Italian assets remained strong in Q1 2017.

In fact Italy was responsible for five of the top ten transactions in Southern Europe during Q1 2017, with deals spread across Industrials & Chemicals, Technology & Media, Financial Services and Consumer. The biggest was the acquisition of consumer company Golden Goose S.p.A by American company The Carlyle Group for USD 75m, while the third largest was

the acquisition of Banca del Mezzogiorno – Mediocredito Centrale S.p.A. by the Italian company Invitalia S.p.A for USD 417m. Other key transactions involving Italian companies during the quarter included, in the Industrial & Chemical industry, the acquisition of IP Cleaning S.p.A, by Tennant (USD 350m) and the purchase of Fintyre S.p.A. by Bain capital

LLC (USD 340m). In the Technology & Media industry, Italian software company Tagetik S.r.l. was acquired by Dutch publishing giant Wolters Kluwer N.V. for USD 317m. The restructuring of Italy's banking system and the consolidation of the utilities industry may be key drivers of future activity.

# GLOBAL

7,962 RUMOURED TRANSACTIONS

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SLOW START TO 2017

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A TYPICALLY SLOW START FOR THE  
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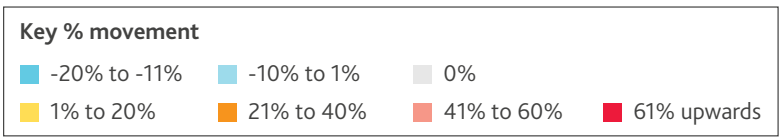
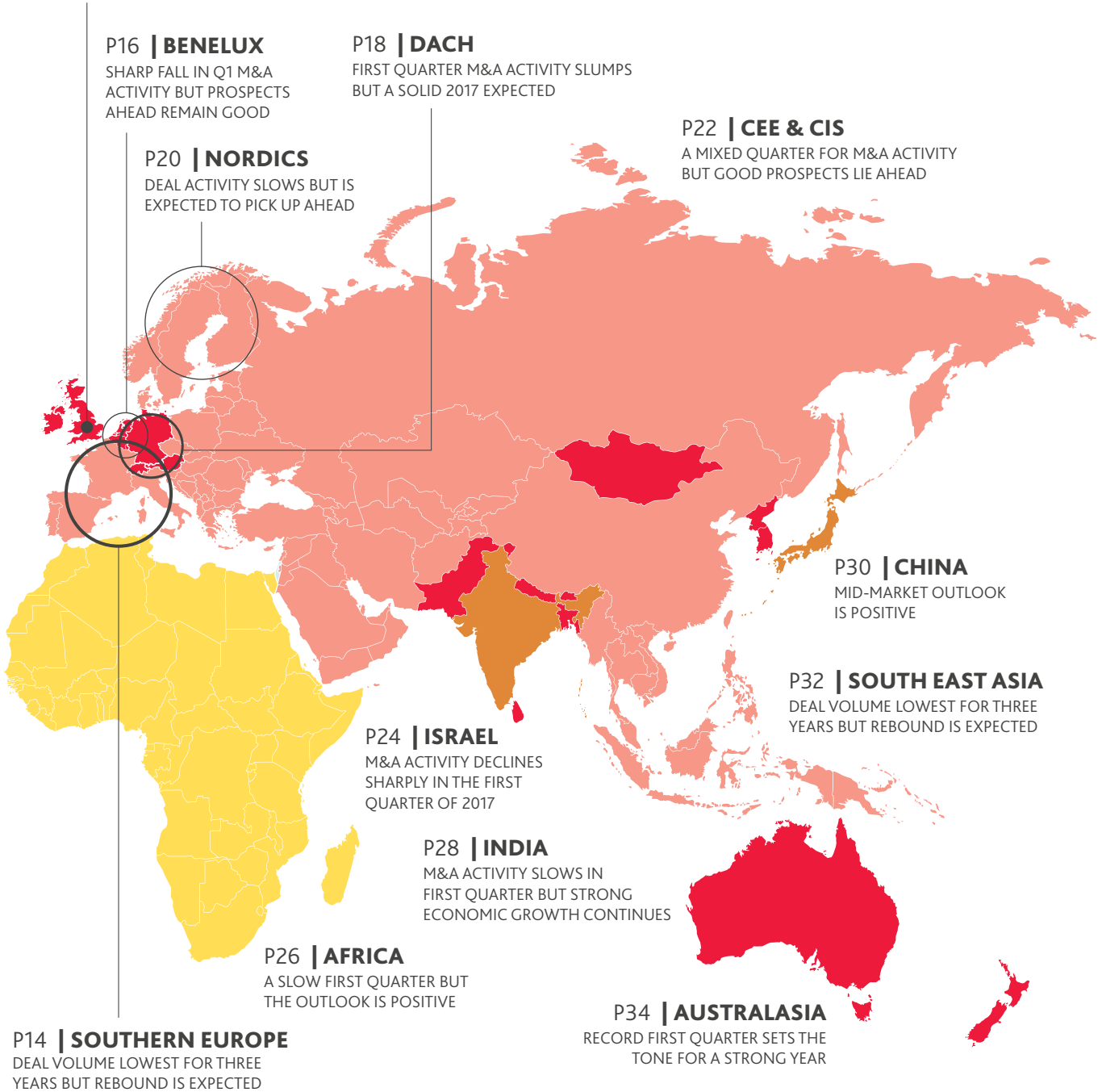
A SLOW FIRST QUARTER BUT THE OUTLOOK IS POSITIVE

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DEAL VOLUME LOWEST FOR THREE YEARS BUT REBOUND IS EXPECTED

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RECORD FIRST QUARTER SETS THE TONE FOR A STRONG YEAR



**Note:** The colouring illustrates the movement of expected transactions compared to the expected transactions in the previous quarter.

# NORTH AMERICA

## M&A ACTIVITY IN NORTH AMERICA LAGS BEHIND



### BIG PICTURE

- Slowest Q1 since 2009 in terms of the number of North American mid-market M&A deals
- Q1 2017 is 29% lower than Q1 2016 in terms of number of transactions, while aggregate dollar volume is down 28% year over year
- Poorest quarter for private equity mid-market M&A since Q3 2009
- Healthcare, Technology & Media and Financial Services particularly sluggish in Q1
- 'Wait and see' attitude to Trump's agenda as CEOs and company boards make cautious start to the year.

### A slow start to 2017 as deal-makers question Trump's effectiveness.

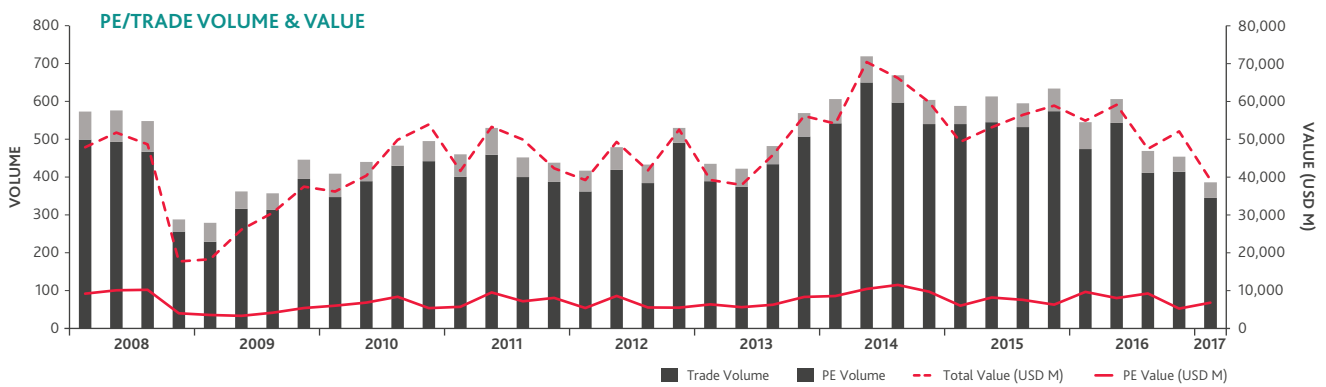
After the US election, many investors gave the new President the benefit of the doubt over his ability to quickly implement his pro-growth agenda and boost the US economy to levels not seen in decades. Such optimism led to a dramatic post-election bounce in US equity prices and bankers were hopeful that a sharp pick-up in M&A activity would soon follow suit. But as Trump took up residency in the White House in late January, such bullish sentiment quickly turned to scrutiny and debate over how quickly the President could enact his policies and whether he could effectively govern.

slow to win confirmation from the US Senate, further complicating the timing and extent of his policy initiatives. As a result, stock market gains moderated and North American mid-market M&A activity started 2017 with a whimper as deal-makers continued to pause and assess the advent of the Trump presidency and its impact on economic growth and the capital markets.

There was a total of just 386 North American mid-market M&A deals reported in Q1 2017, generating an aggregate dollar value of USD 39.2bn. Q1 saw only 41 private equity deals with an aggregate dollar volume of USD 6.8bn. In summary, Q1 2017 was the worst quarter for mid-market M&A since the Great Recession, a shocking development considering the underlying strength of the US economy, an abundance of cash in corporate and private equity coffers, and the continued low interest rate environment.

### HISTORICALLY LOW M&A LEVELS

The early days of the Trump administration saw miscues and distractions including a hastily rolled-out immigration ban that led to confusion and anger. Meanwhile, Trump's team of appointed advisers were





### DEAL-MAKERS SIT IT OUT

The realities of Congressional in-fighting and bureaucratic processes took hold as the first quarter came to an end. One of President Trump's central policy positions, repealing and replacing the Affordable Care Act, or Obamacare, failed to find enough votes to pass despite the Republicans controlling both houses of Congress and the White House. The legislative impasse and drawn-out deliberations especially stymied healthcare-related M&A deal-making as uncertain corporates remained on the sidelines.

To make matters worse, the surprising failure on healthcare fuelled speculation that other Trump priorities such as tax and regulatory reforms would either be delayed or only partially implemented, further rattling investor confidence and dampening any remaining enthusiasm leftover from the election. As a result, North American corporations and private equity firms significantly slowed M&A activity as they reassessed the timing and likelihood of Trump's agenda succeeding.

The political uncertainty in Washington, D.C. was partially offset by economic news that mostly met forecasts and expectations. However, CEOs and company boards are clearly resisting aggressive M&A deal-making until more progress is made implementing President Trump's economic stimulus policies, including infrastructure spending and corporate tax rate reductions.

### LOOKING AHEAD

M&A activity during the balance of 2017 will most likely be remarkably weak if Trump is unable to recover from the healthcare fiasco and make meaningful progress on tax reform by the end of August, which is the timeline set by the Trump administration for introducing legislation to reduce taxes. Would-be sellers are waiting on the sidelines to assess the magnitude of any capital gains or individual tax rate reductions. Buyers meanwhile are trying to predict their purchasing power and potential cash balances in a lowered tax rate environment. As a result, until and unless progress is made on tax reform, M&A activity will remain muted. On the flip side, if Congress and the President can find common ground and sweeping changes are made before the year's end, look out for a sharp rise in M&A activity as deal-makers will scramble to make up for lost time in a more advantageous environment for getting deals done.



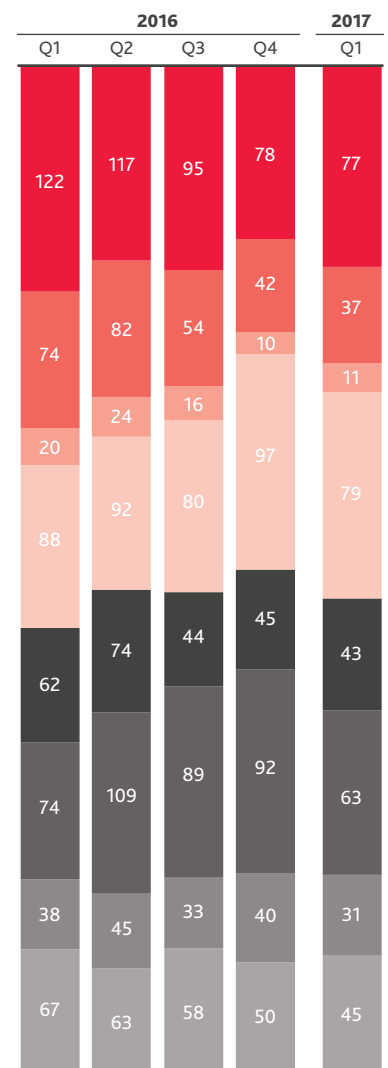
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### NORTH AMERICA HEAT CHART BY SECTOR

Technology & Media	457	24%
Industrials & Chemicals	269	14%
Consumer	269	14%
Business Services	255	13%
Pharma, Medical & Biotech	253	13%
Energy, Mining & Utilities	243	12%
Energy, Mining & Utilities	140	7%
Leisure	61	3%
<b>TOTAL</b>	<b>1,947</b>	<b>100%</b>

### NORTH AMERICA MID-MARKET VOLUMES BY SECTOR



- Technology & Media
- Pharma, Medical & Biotech
- Leisure
- Industrials & Chemicals
- Financial Services
- Energy, Mining & Utilities
- Consumer
- Business Services

# LATIN AMERICA

A TYPICALLY SLOW START TO THE YEAR BUT HOPES REMAIN HIGH FOR 2017



## BIG PICTURE

- Q1 2017 activity hit by seasonal factors, but deal value well ahead of the same quarter less year
- Energy, Mining & Utilities, Industrials & Chemicals and Consumer remain the most active sectors
- Good liquidity and opportunities for higher returns drive investor interest.

The first quarter of 2017 saw 63 mid-market deals worth a total of USD 6,397m, which represents a drop of 6.0% in terms of number of deals and an increase of 58% in terms of value when compared with Q1 2016. Comparing Q1 2017 with the previous quarter, both the number of deals and the value declined, by 25.9% and 27.6% respectively.

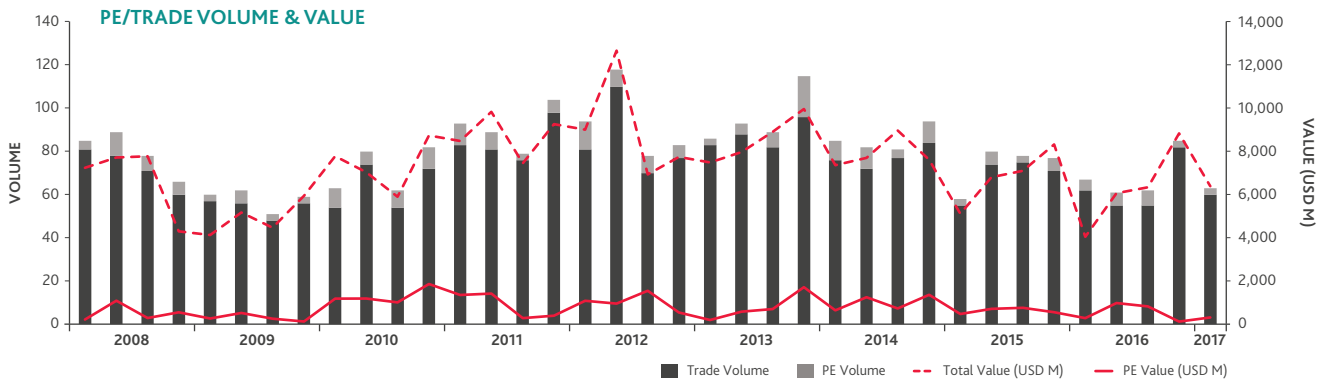
Private equity was responsible for three deals during Q1 2017 worth a total of USD 308m, which represented 4.8% of both the deal count and value for the quarter.

The average deal value was USD 102m in Q1 2017, which is 68.1% higher than the USD 60m achieved in Q1 2016 and 2.46% lower than Q4 2016's average deal value of USD 104m.

In terms of trends, we must bear in mind that Latam first quarters usually generate lower deal numbers and value, mainly because of the holiday season. Added to

this seasonal influence was the fact that 2016 was a year full of difficulties that included low growth rates and exchange rate volatility.

The BDO Heat Chart shows a total of 407 deals announced or in progress, which represents 5% of the global Heat Chart. Opportunities are concentrated in Industrials & Chemicals with 80 deals, followed by Energy, Mining & Utilities with 75 deals, Consumer with 70 deals and Technology & Media with 62 deals.



## LOOKING AHEAD

Several private equity funds from Europe and the US are showing interest in Argentina and M&A activity is expected to be focused mainly on agribusiness, renewable energy, power generation, infrastructure, oil and gas, financial services and consumption.

For the region as a whole, the IMF lowered its growth forecasts at the beginning of the year from 1.6% to 1.2%, given Brazil's slow recovery, uncertainty about Mexico's economy in the Trump era and Venezuela's poor economic performance.



### KEY DEALS AND SECTORS

The top ten deals for Q1 2017 had a combined value of USD 3.1bn, with 54.9% of that value relating to Brazil, which was the target for five deals. In terms of sectors, 56.1% of top ten deal value was focused in Energy, Mining & Utilities, with a total of six deals. Two of these took place in Brazil, two in Chile and one each in Mexico and Argentina. Brazil led the region in terms of M&A activity in Q1 2017 but Argentina also took a central role, with a USD 260m (local investment) deal in which Desarrolladora Energética S.A.(DESA), a group focused on power infrastructure, invested in Empresa Distribuidora de Energia Atlantica S.A.(EDES), Empresa Distribuidora La Plata S.A. EDES is the biggest power distributor in the Buenos Aires province.

In terms of bidder countries, Canada was responsible for 28% of the top ten investments, with two deals in Chile and one in Mexico. Germany represented 15.4% of the top ten, with deals directed to Brazil. Finally, France and China were in joint fourth place with 12.9% of top ten deal value.

### ECONOMIC OUTLOOK

For Argentina, 2017 is finally expected to be the year of recovery, with the IMF predicting growth of 2.7% after a poor 2016.

This economic growth will be driven mainly by public expenditure on infrastructure and the recovery of key sectors of the economy, such as construction and real estate. The Government has implemented a policy to foster long-term mortgage credits at low interest rates. These have been scarce in recent years, with the credit market more focused on financing consumption.

This measure has a significant impact on the economy, since construction is one of the main drivers of GDP and has an important multiplier effect. In fact, March showed the first inter-annual increase in construction indicators, with an inter-annual growth of +11.2%.

We remain positive that after the 'wait and see' of 2016, 2017 will be the year when investments began to materialise. The Government has taken several measures to put the economy in order, we have seen the liberalisation of capital flows and the return to financial international markets. This has had a positive impact on interest rates, which had declined during 2016, benefitting the economy by making credit cheaper. This trend should be reinforced by the expected fall in inflation rates.



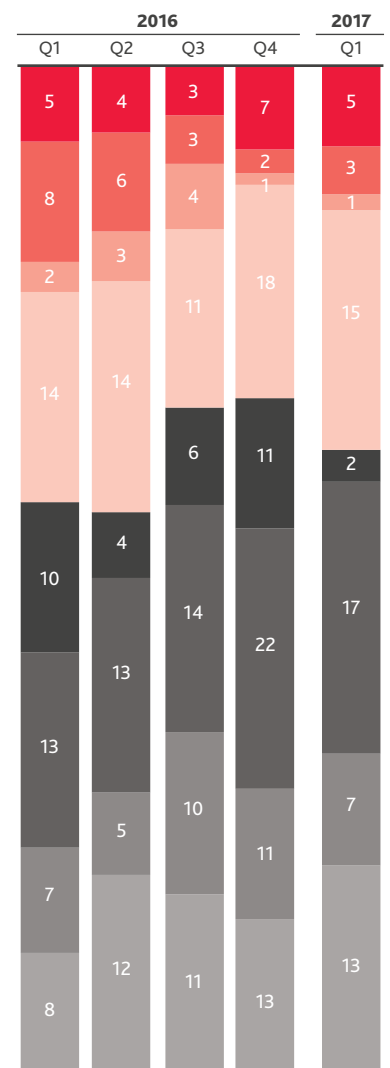
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### LATIN AMERICA HEAT CHART BY SECTOR

Industrials & Chemicals	80	20%
Energy, Mining & Utilities	75	19%
Consumer	70	17%
Technology & Media	62	15%
Business Services	56	14%
Financial Services	30	7%
Pharma, Medical & Biotech	22	5%
Leisure	12	3%
<b>TOTAL</b>	<b>407</b>	<b>100%</b>

### LATIN AMERICA MID-MARKET VOLUMES BY SECTOR



- Technology & Media
- Financial Services
- Pharma, Medical & Biotech
- Energy, Mining & Utilities
- Leisure
- Consumer
- Industrials & Chemicals
- Business Services



# UNITED KINGDOM & IRELAND

A CAUTIOUS START TO THE YEAR BUT ACTIVITY IS SET TO PICK UP



## BIG PICTURE

- Brexit uncertainty leads to lowest quarterly deal volume since 2009
- Business Services the most active sector
- BDO Heat Chart predicts a 60% increase rise in deals.

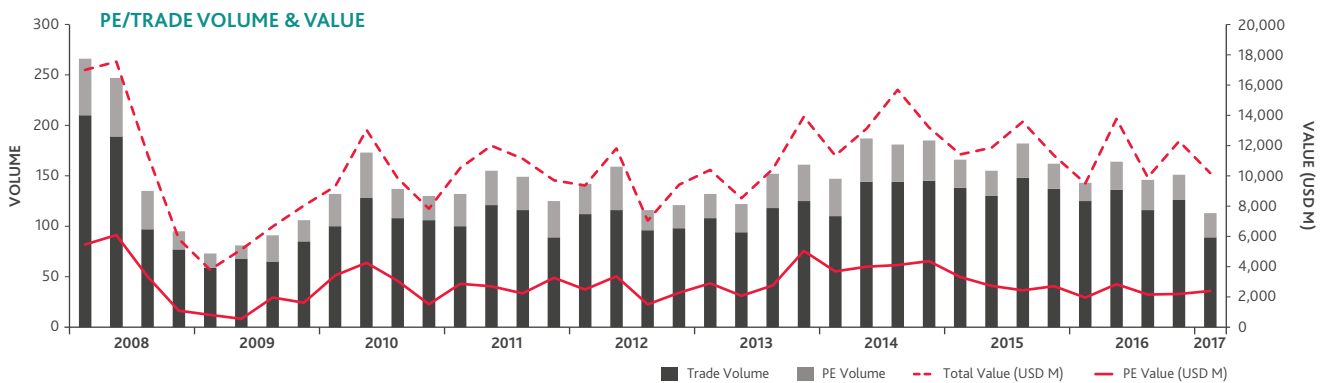
After a reasonably strong finish to last year, 2017 got off to a slow start with only 113 mid-market deals completed in the first quarter, the quietest period since 2009.

This was no great surprise as UK and Ireland awaited the triggering of Article 50 on 31 March, whereby Britain officially commenced its exit from the EU. Trade deals were 30% down on both the first and last quarter of 2016 as companies sought reassurance on the potential outcome of the Brexit discussions. However, the aggregate value of trade deals was 7% ahead of 2016's first quarter levels, confirming an increase in valuations as buyers compete for businesses that can adapt to market uncertainties.

Private equity transactions remained steady at 24 deals with a total deal value of USD 2.4bn, similar to prior quarters. A number of new private equity funds

have entered the mid-market and it is anticipated that there will be significant competition among private equity buyers for higher value transactions as buyers look for scale and target diversified businesses.

The top ten transactions continue to represent more than a third of the total deal value (USD 3.7bn). Interestingly, only three of these transactions involved US buyers. Some commentators had anticipated a pick-up in M&A activity as international buyers targeted UK businesses on the back of sterling weakness. However, the uncertainty of Brexit, combined with the political changes in both the US and EU, resulted in a more cautious approach to deal-making.



### KEY SECTORS

There was reduced deal activity across all sectors except Consumer, which experienced a slight increase from the prior quarter but is still over 40% lower than last year as consumer confidence remains fragile.

Business Services was the most active sector, with Soldera Holdings' acquisition of software firm Autodata for USD 417m within the top ten transactions. Despite a drop in activity, Technology & Media continues to be very busy, representing 18% of total transactions during the quarter and still the most active sector in our forecast deal pipeline.

There was a major decline in the Pharma, Medical & Biotech sector and this is likely to continue as the Trump administration look to restrict US companies investing internationally. Transactions in the Leisure sector dropped by 44% on previous quarter as the divestment of hotel and pub assets by debt purchasers comes to an end. The number of deals within the Financial Services sector also declined in Q1 but is expected to remain at about 12% of the total activity going forward as firms seek to protect their passporting rights by acquiring EU-based firms.

### LOOKING AHEAD

Although global M&A is expecting a bounce-back in activity in 2017, the outlook for M&A in UK and Ireland remains uncertain in light of the upcoming UK election and the commencement of the Brexit negotiations. According to the BDO Heat Chart there are 399 deals in the pipeline, a 60% increase from last quarter's low, indicating a return in deal-making confidence. Technology & Media remains the hottest sector followed by Business Services. In Ireland, we have witnessed a significant increase in international buyers looking to acquire Irish companies as platform into the EU and this is expected to continue throughout 2017. Businesses across Ireland and the UK are also reviewing the potential impact of Brexit on their operations and this is likely to result in more M&A activity within the region as businesses seek to secure their supply chain.

It is interesting to note the speed at which the capital markets recover, indicating the ability of investors to adapt to uncertainty as the new norm. As companies adjust to the Brexit challenges, we anticipate that the availability of debt and equity funding will underpin M&A for the remainder of 2017 but due diligence will continue to be extensive as buyers seek to assess and mitigate potential risks.



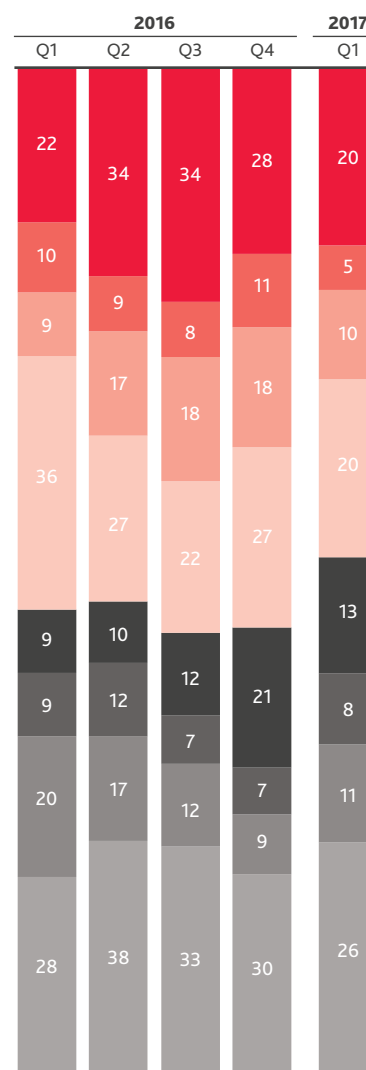
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### UNITED KINGDOM & IRELAND HEAT CHART BY SECTOR

Technology & Media	100	25%
Business Services	67	17%
Consumer	59	15%
Industrials & Chemicals	48	12%
Financial Services	45	11%
Energy, Mining & Utilities	40	10%
Pharma, Medical & Biotech	20	5%
Leisure	20	5%
<b>TOTAL</b>	<b>399</b>	<b>100%</b>

### UNITED KINGDOM & IRELAND MID-MARKET VOLUMES BY SECTOR



- Technology & Media
- Pharma, Medical & Biotech
- Leisure
- Industrials & Chemicals
- Financial Services
- Energy, Mining & Utilities
- Consumer
- Business Services



# SOUTHERN EUROPE

DEAL VOLUME LOWEST FOR THREE YEARS BUT REBOUND IS EXPECTED



## BIG PICTURE

- Deal volume falls by 17% in Q1 2017, the worst quarter for three years. Total deal value drops by 8%
- Private equity activity surges with average deal size hitting highs
- Technology & Media and Leisure the only sectors to see more deals in Q1
- Italian sellers and US investors remain very active.

Mid-market M&A declined further in Q1 2017 after a slow Q4 2016. Only 124 deals were completed, compared to a quarterly average of 157 in 2016. This was the poorest performance in the last three years.

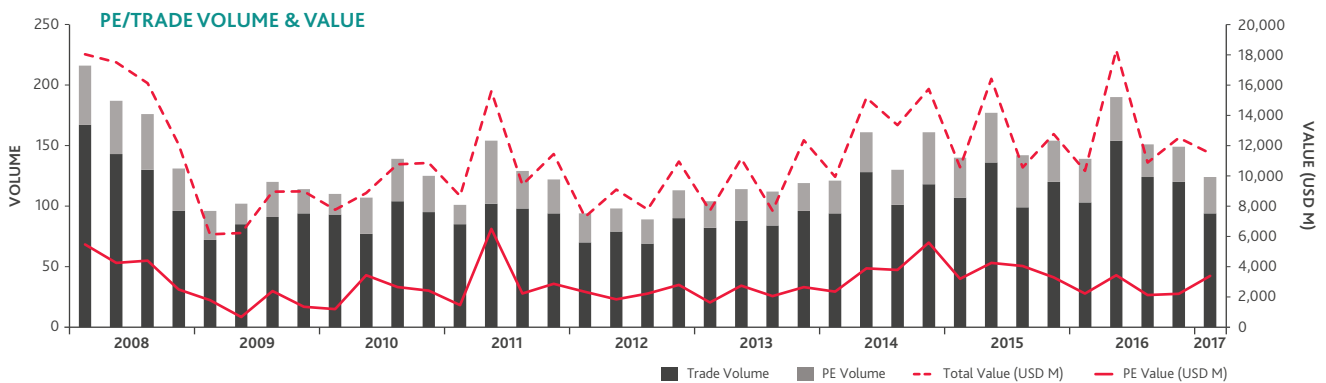
Total deal value declined less sharply, by 8%, pushing the average transaction value up to USD 92.6m, an increase of 10% or USD 8.6m. This was helped by a massive rebound in private equity investments over the period. In terms of sectors, most saw a fall in activity, except Leisure and Technology & Media, which both saw a surge in deals.

## KEY SECTORS

Poor forecasts at the end of 2016 turned into reality in Q1 2017. Industrials & Chemicals, by far the largest sector, having contributed 25% of the deals in 2016 was one of the worst affected, seeing only 27 transactions in Q1 2017. Pharma, Medical & Biotech and Financial Services, traditionally not significant sectors,

representing less than 10% of the M&A activity, were also heavily impacted with only seven transactions each. Consumer, a much larger sector, dropped by almost 40% versus Q4 2016 and Business Services saw deals fall by over 30%.

Leisure, the smallest sector with only 43 deals in 2016 and Technology & Media, a much more significant one with twice as many deals last year, both showed excellent growth in Q1 2017 compared with Q4 2016. This was, however, mainly a rebound from a very poor Q4 2016 in which activity fell by 30% and 46% respectively. Nonetheless their performance was better than all other sectors, with volumes in line with the average for 2016.



## LOOKING AHEAD

Looking ahead, the picture improves markedly. At the end of Q4, the BDO Heat Chart showed only 423 deals planned, rumoured or in progress. This gloomy forecast was proved to be right as the market froze. In Q1 2017, a much more optimistic 637 possible transactions are recorded. This is a 50% jump in pipeline deals, probably in part because investors are expecting greater clarity on the political environment, as French voters have just decided to support a centrist government.





### PRIVATE EQUITY RESURGENT

The slow start to 2017, with overall deal volume and value, 21% and 12% respectively, below the quarterly average for 2016, would have been much worse without the support of private equity investors. Indeed, despite this depressed market, private equity not only completed one more deal than in the last quarter, it also featured much larger transactions. In fact, Q1 2017 saw a 48.5% jump in the average private equity transaction value and broke records. Private equity's Q1 2017 average deal size of USD 113m was well above the USD 88m average of the last two years. In addition, five of the quarter's top ten transactions were private equity-backed and the largest one, driven by The Carlyle Group, demonstrates that if trade buyers are withdrawing, financial investors still have deep pockets and strong appetites.

### KEY DEALS

Looking at Q1's top ten deals, uncertainty around the French elections seemed to make the country less attractive and put a freeze on deals there.

Only two of the ten largest transactions included French targets. Spain fared no better, with its companies the target for only two top ten deals. Italy, it seems, remains very attractive with five Italian targets in top ten deals.

It is notable that, out of the top transactions, six involved a US investor, of which four were financial investors, namely The Carlyle Group, Trilantic Capital Partners, Providence Equity Partners and Bain Capital. Is this a sign that following the election of Donald Trump, American investors are looking to diversify their investments outside the US?



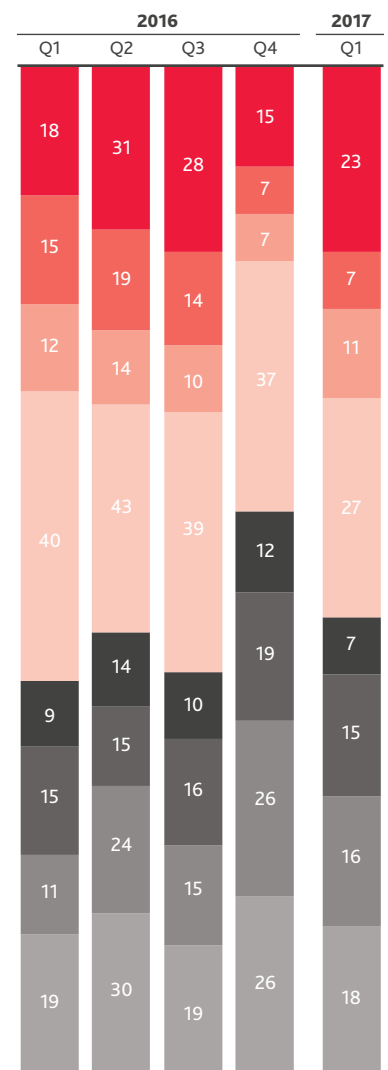
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### SOUTHERN EUROPE HEAT CHART BY SECTOR

Industrials & Chemicals	151	24%
Consumer	146	23%
Technology & Media	105	16%
Business Services	87	14%
Financial Services	46	7%
Energy, Mining & Utilities	42	7%
Pharma, Medical & Biotech	33	5%
Leisure	27	4%
<b>TOTAL</b>	<b>637</b>	<b>100%</b>

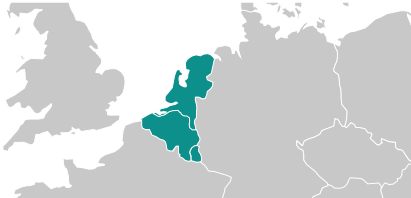
### SOUTHERN EUROPE MID-MARKET VOLUMES BY SECTOR



■ Technology & Media    ■ Financial Services  
■ Pharma, Medical & Biotech    ■ Energy, Mining & Utilities  
■ Leisure    ■ Consumer  
■ Industrials & Chemicals    ■ Business Services

# BENELUX

A SHARP FALL IN Q1 M&A ACTIVITY BUT PROSPECTS AHEAD REMAIN GOOD



## BIG PICTURE

- Declining trade activity the main reason behind slow Q1 2017
- Industrials & Chemicals and Technology & Media the most active sectors in the quarter
- Benelux Heat Chart expects activity to increase 61% compared to previous quarter data.

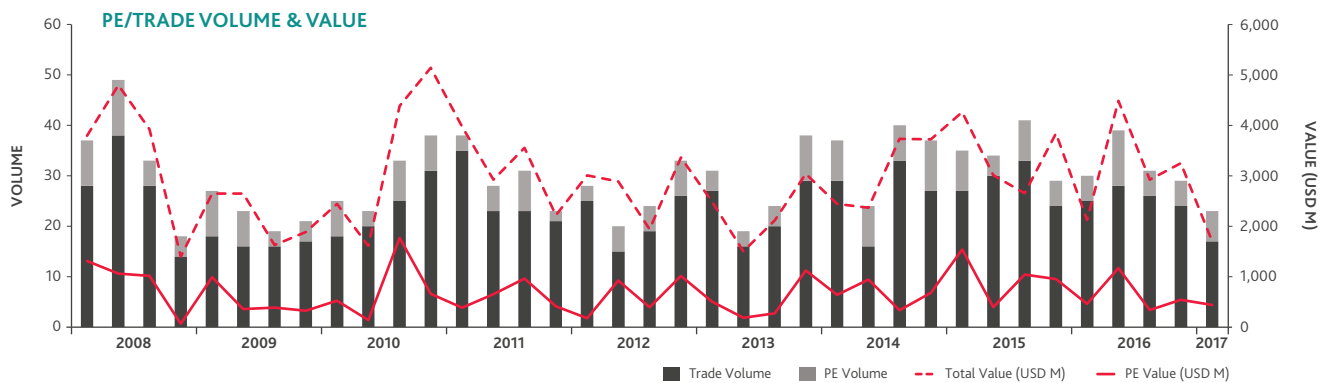
Overall, Q1 2017 was a quiet quarter for mid-market M&A. In fact, with total deal value of only USD 1.699m, Q1 2017 was Benelux's weakest quarter since Q2 2013.

The first quarter of 2017 showed a decrease in both the number of deals (from 29 to 23 deals) and deal value (down from USD 3.249m to USD 1.699m) compared to Q4 2016. This drop in deal value was primarily due to a significant fall in trade deal value: from USD 2.7bn in Q4 2016 to USD 1.26bn in Q1 2017.

With only 23 transactions in Q1 2017, total deal volume was significantly below the 2016 quarterly average of 32 transactions. This is the lowest number of deals in the last three years. Total Q1 2017 deal value (USD 1.699m) declined by 48% compared to Q4 2016 (USD 3.294m). Average transaction value saw a fall of 34% in Q1 2017 (USD 74m) when compared to Q4 2016 (USD 112m).

Six of the 23 deals involved private equity. This was similar to the last two quarters of 2016, which saw an average of five private equity deals. Total private equity transaction value was USD 439m in the first quarter of 2017, which was 30% lower than the 2016 quarterly average of USD 627m. The average private equity deal size in Q1 2017 was USD 73m, 24% lower than the average deal size in 2016.

Trade deals declined dramatically in Q1 2017, in terms of both numbers and value. With just 17 trade transactions in Q1 2017, this was the second lowest in the last three years and well below the three-year average of 26 deals. Even more notable was the fall in value for trade deals. In Q1 2017, the total trade value was only USD 1.26bn, the lowest level since Q3 2009. This is about half the quarterly average



## LOOKING AHEAD

The BDO Heat Chart shows 185 Benelux deals currently in progress or planned. This represents an increase of 61% compared to the 115 deals projected in the previous quarter. The industries forecast to be the most active in Benelux are Industrials & Chemicals, Consumer and Business Services. Overall, the Heat Chart underpins our belief that Benelux mid-market M&A activity should pick up during the next quarter(s) after a sluggish Q1 2017, as financial resources remain available and borrowing costs continue to be low.





value over the last two years. The fall in trade activity was the main reason for the decrease in overall Benelux M&A activity in Q1 2017.

**KEY SECTORS**

The most active mid-market sectors in Q1 2017 were Industrials & Chemicals and Technology & Media, responsible for 43% of total deals. Industrials & Chemicals saw six deals and Technology & Media was responsible for four deals, two of which were in the top ten transactions for this quarter. This corresponds to activity in 2016, where Industrials & Chemicals and Technology & Media were also the two most active sectors. Other sectors like Business Services and Consumer, which were very active during 2016, saw lower levels of activity in Q1 2017.

**KEY DEALS**

The top ten Q1 2017 M&A deals saw a decrease in trade deals compared to the previous quarter, with private equity deals holding steady. The top ten deals varied between USD 65m and USD 279m in size and took place mainly in the Consumer, Technology & Media and Industrials & Chemicals sectors.

The largest deal during Q1 2017 was in the Energy, Mining & Utilities sector and involved the acquisition of 50% of the shares of Netherlands-based Seaway Heavy Lifting by the UK-based Subsea 7 Inc. The seller was K&S Baltic Offshore Ltd, a Cypriot company specialising in submarine cable projects. Subsea 7 Inc, a world leading engineering, construction and services contractor, already owned

50% of Seaway Heavy Lifting and has now become the outright owner. This deal was valued at USD 279m.

The second largest transaction was the sale of 25.1% of the shares of the Dutch company Strauss Coffee BV by private equity group TPG Capital LP to the Strauss Group. As a result, the Strauss Group, an international food & beverage company, has now full ownership of Strauss Coffee BV. The transaction value was USD 279m.

Thirdly, Cobepa SA, a Belgian privately-held investment company, acquired HG International BV, a leading cleaning products supplier, for USD 215m. The seller was Gilde Buy Out Partners BV, a leading mid-market private equity house.

Also noteworthy is the much-debated ongoing public offer for Dutch media company Telegraaf Media Group (TMG) by a consortium composed of Mediahuis, a major Belgian media company and the Dutch investment company VP Exploitatie. Competing against Talpa, the private investment vehicle of Dutch media mogul John De Mol, the consortium already owns about 60% of TMG's shares. This acquisition would make Mediahuis one of the largest media players in Benelux.



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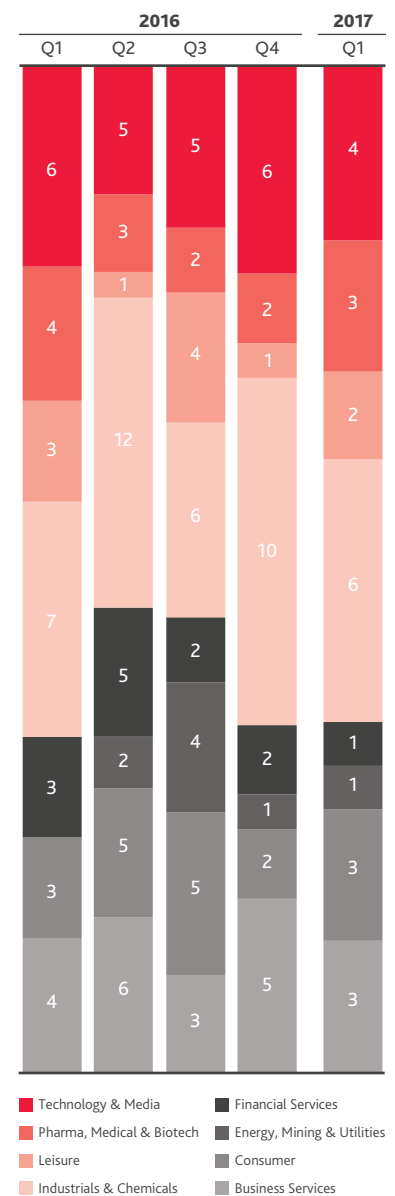


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**BENELUX**  
HEAT CHART BY SECTOR

Industrials & Chemicals	50	27%
Consumer	36	19%
Business Services	24	13%
Technology & Media	22	12%
Energy, Mining & Utilities	16	9%
Financial Services	15	8%
Pharma, Medical & Biotech	12	7%
Leisure	10	5%
<b>TOTAL</b>	<b>185</b>	<b>100%</b>

**BENELUX**  
MID-MARKET VOLUMES BY SECTOR





# DACH

## FIRST QUARTER M&A ACTIVITY SLUMPS BUT A SOLID 2017 EXPECTED



### BIG PICTURE

- Deal value falls to lowest level since Q1 2013
- Switzerland the key target country
- Low interest rates and strong US dollar expected to drive future deals.

Increasing global risks and slower than expected regional growth contributed to slowing M&A activity, with deal value falling by 26%, from USD 5.9bn in Q4 2016 to USD 4.4bn in Q1 2017, making it the lowest quarterly figure since Q1 2013.

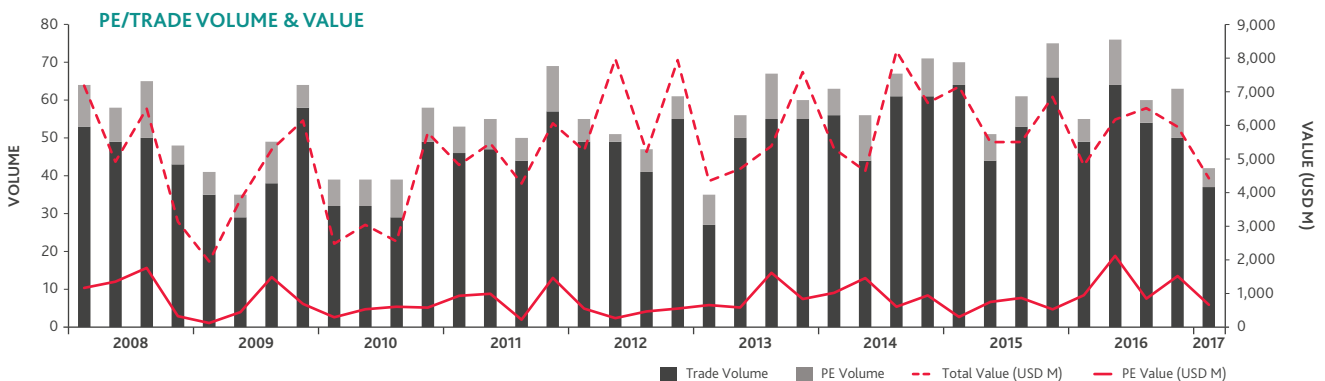
Private equity transactions were also sluggish in Q1 2017, representing only 12% of total deal volume. The largest deal by value in Q1 2017 involved Boston Scientific Corporation, which bought pharmaceutical company Symetis SA.

Both deal value and deal volume slumped in Q1 2017. While deal value decreased by more than a quarter, deal volume took an even harder hit, falling by 33%. ECB policy has not had the expected impact and is yet to show the desired results. The benefits of the continuing low interest rate environment are being offset by uncertainty over Brexit. Firms are still careful about future investment plans.

Private equity activity decreased heavily from the previous quarter's two-year high. With 11.9% of total deals, this was private equity's lowest first quarter level since 2013. It is interesting to note that private equity deals consistently achieve a bigger share of total deal value (14.9%) than volume (11.9%).

### KEY DEALS

The largest deal in the first quarter of 2017 was in the pharmaceutical industry. Boston Scientific Corp., a US-based healthcare company, bought Symetis SA, a Switzerland-based developer of heart valve replacement devices, for USD 435m. The deal further increases Boston Scientific's investment in Europe.



### LOOKING AHEAD

Even though 2017 has started sluggishly, we maintain our belief that it will be a solid year for M&A activity. Interest rates will stay low in the near future, providing good financial conditions for mergers. The strong US dollar against the Euro means we can expect increasing interest from American private equity funds. Currently there are 356 companies up for sale in the DACH's mid-market sector. We expect Industrials & Chemicals, Technology & Media and Consumer to maintain their momentum and remain among the most active sectors. Overall, cross-border transactions backed by plentiful financial resources - especially from Asia - are expected to be a significant source of DACH M&A activity in the next quarters.



The second largest deal in the DACH region was the sale of PAX-Anlage AG, a Switzerland-based company engaged in real estate development. PAX was bought by the Swiss company Baloise-Holding AG. This transaction further illustrates the surge in real estate transactions in Europe.

In the first quarter of 2017, the bulk of the top ten transactions involved target companies based in Switzerland. Three target companies in the top ten came from Germany and one was based in Austria. In terms of bidder companies, it was a mostly international clientele with four from the US and four from Europe. In the top ten deals there were six cross-border deals.

Another transaction took place in Austria and involved Vienna International Hotelmanagement AG, a Europe-wide hotel operating company, which was sold to U-City, a Thai-based strategic investor. The transaction exceeded USD 350m. As well as purchasing Vienna International Hotelmanagement AG, U-City also purchased eight real estate assets (hotels) from Warimpex.

A notable deal took place in the Austrian banking industry in 2016/2017. Volksbanken Verbund – one of the leading Austrian financial institutions – sold its stake in its housing and real estate finance specialists – start:bausparkasse AG and IMMO-BANK AG – to BAWAG P.S.K. Group. As the total assets of these companies exceeded EUR 3bn, this was one of the biggest deals in Austria in 2016/2017.

All three top ten deals in Germany were in the Industrials & Chemicals sector. The biggest out of these was the sale of Carcoustics International GmbH, which specialises in the automotive industry, to the Chinese buyer Fuxin Dare Automotive Parts Co. for USD 271m.

### KEY SECTORS

There was reduced deal activity across most sectors in Q1 2017, with the exception of Energy, Mining & Utilities, which saw an uplift of 25% from Q4 2016, while in Q3 2016 there were no deals at all in the sector. This spike in energy-related transactions was driven by ongoing oil price increases. We expect to see slower deal growth as the oil price stabilises.

In the first quarter of 2017, the majority of M&A deals in the DACH region involved companies from the Industrials & Chemicals sector (34%) and the Technology & Media sector (21%), which recorded a significant increase in deal activity in Q1 2017. Technology & Media kept its deal volume stable compared to the quarter before. The sudden fall-off in Industrials & Chemicals activity was a real surprise. Even though most deals were recorded in Industrials & Chemicals, it still represents a decrease of almost 40%. We will see a better next quarter for those industries according to the DACH Heat Chart.

Even though one major deal (Vienna International Hotelmanagement AG) was recorded in the Leisure sector, this industry accounted only for 2% of total M&A volume in the DACH region, representing a significant decrease in this sector compared to Q4 2016. The same holds true for Financial Services, which also only accounted for approximately 2% of total M&A volume.



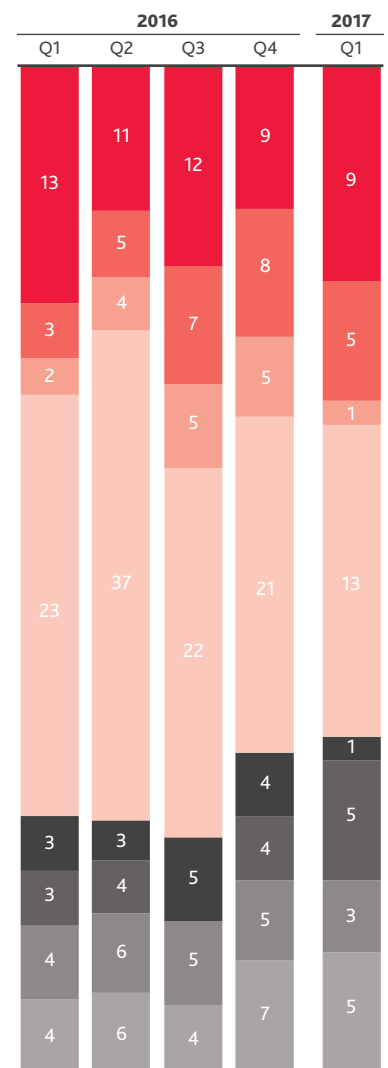
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### DACH HEAT CHART BY SECTOR

Industrials & Chemicals	110	31%
Technology & Media	76	21%
Consumer	47	13%
Pharma, Medical & Biotech	37	10%
Business Services	35	10%
Financial Services	27	8%
Leisure	13	4%
Energy, Mining & Utilities	11	3%
<b>TOTAL</b>	<b>356</b>	<b>100%</b>

### DACH MID-MARKET VOLUMES BY SECTOR



- Technology & Media
- Pharma, Medical & Biotech
- Leisure
- Industrials & Chemicals
- Financial Services
- Energy, Mining & Utilities
- Consumer
- Business Services

# NORDICS

DEAL ACTIVITY SLOWS BUT IS EXPECTED TO PICK UP AHEAD



## BIG PICTURE

- Q1 deal activity falls compared to previous quarter
- Industrials & Chemicals still the most active sector
- Norway and Denmark were the most popular target countries and seven of the top ten deals were cross-border
- Private equity total deal value was the second lowest since Q1 2014.

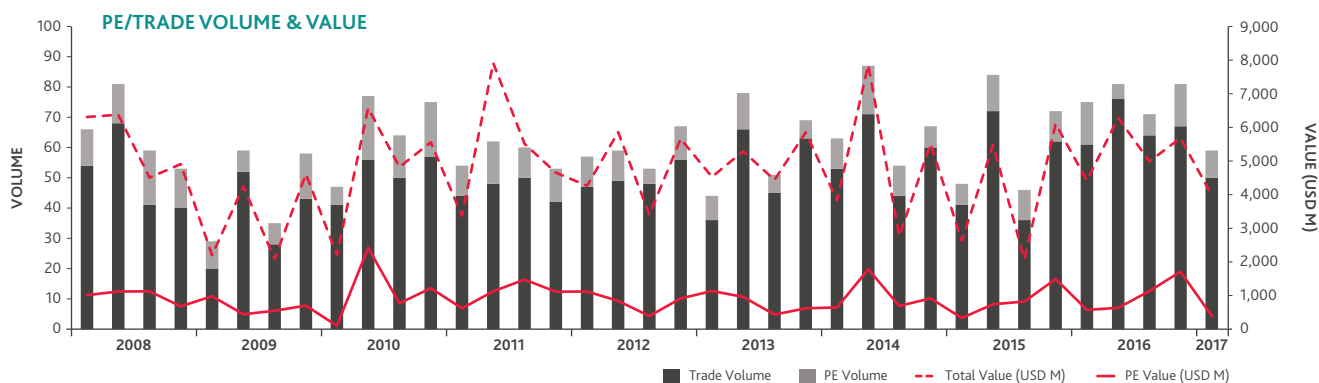
The first quarter of 2017 saw a fall in M&A deal activity, both in comparison to the previous quarter and measured against previous first quarters. Deal volume fell from 75 in Q1 2016 to 59 in Q1 2017 and deal value was lower during the same period, from USD 4.4bn in Q1 2016 to USD 3.9bn in Q1 2017.

Private equity's share of total deal volume was in line with prior quarters at 15.3% (nine deals in total). However, private equity's slice of total deal value decreased sharply to 9.9%, down from 30% in Q4 2016 and 12.9% in Q1 2016. The total value of Nordics private equity deals during Q1 2017 was USD 393m, making it the second lowest since Q1 2014.

## KEY DEALS

The Nordics' top ten deals of Q1 2017 accounted for 71% of the region's total deal value. The sellers were mainly international, based in Canada, USA, France and China. The targets for the top ten deals were mainly based in Norway (three) and Denmark (three).

The largest transaction was the J.P. Morgan Asset Management's acquisition of Värmevärden Group from the Canadian fund Capstone Infrastructure Corp for a total deal value of USD 480m. Värmevärden Group (with parent company Sefyr AB) is a heating business, which delivers heat through an underground distribution system. The sales process was competitive and the result of six years of development, de-risk and growth achieved by the seller. Capstone currently owns, operates and develops thermal and renewable power generation facilities in North America. J.P. Morgan Asset Management has more than USD 96bn in assets under management.



## LOOKING AHEAD

We still view the Nordic M&A market as strong despite the fall in Q1 activity. The first quarter is usually weaker than the rest of the year and we expect deal volume to pick up significantly going forward. The Technology & Media sector is expected to be very active throughout the Nordics and we also anticipate an increase in private equity activity.



The second largest transaction was the joint US-based acquisition of a 29% stake in the Icelandic bank Arion Banki hf from the Icelandic Kaupskil ehf with a deal value of USD 452m. The buyers were Och-Ziff Capital Management Group LLC, Taconic Capital Advisors LP, Goldman Sachs International and Attestor Capital LLP. Arion Banki was established as a state-owned bank using the remains of the Icelandic operations of the former Kaupthing Bank. Arion Banki currently operates in the greater Reykjavik areas as well as large urban areas around the country.

The third largest deal involved Guy Hands, who was acting as a private investor rather than through his private equity firm Terra Firma, with the acquisition of McDonald's Corporation (Nordic operations) for a total deal value of USD 420m. The seller was McDonald's Corporation, which is the world's largest fast food retailer. Guy Hands will become the developmental licensee, or the franchiser, for McDonald's 435

restaurants in Denmark, Norway, Finland and Sweden. Hands, through the McDonald's license and transfer of ownership, will operate the company's Nordic restaurants.

**KEY SECTORS**

Industrials & Chemicals was again the most active sector, accounting for 28% of total transactions in Q1 2017. Technology & Media took second place, accounting for 21% of the deals, ahead of Consumer with 11%. Other significant sectors were Business Services (11% of deals), Energy, Mining & Utilities (11%) and Pharma, Medical & Biotech (10%).



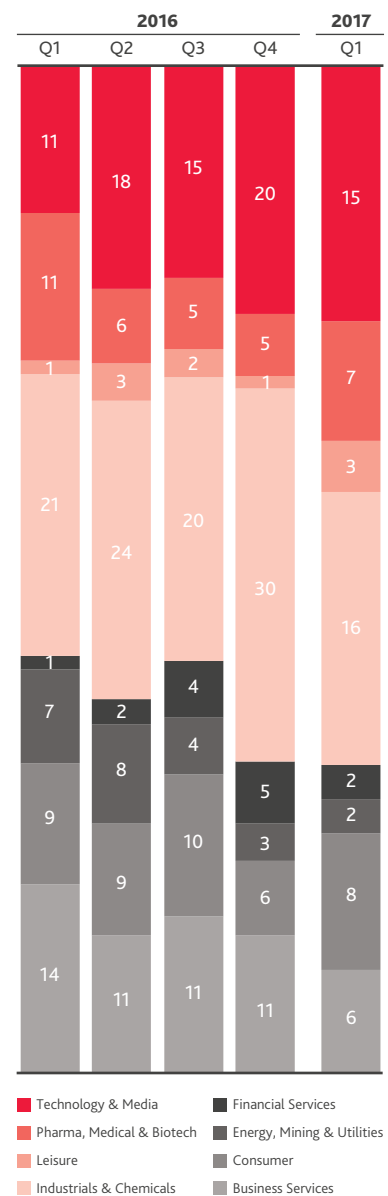
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DIRECTOR

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**NORDICS**  
HEAT CHART BY SECTOR

Industrials & Chemicals	70	28%
Technology & Media	52	21%
Consumer	28	11%
Business Services	28	11%
Energy, Mining & Utilities	28	11%
Pharma, Medical & Biotech	24	9%
Leisure	12	5%
Financial Services	9	4%
<b>TOTAL</b>	<b>251</b>	<b>100%</b>

**NORDICS**  
MID-MARKET VOLUMES BY SECTOR



# CEE & CIS

A MIXED QUARTER FOR M&A ACTIVITY BUT GOOD PROSPECTS LIE AHEAD



## BIG PICTURE

- Deal volume and value falls from previous quarter levels
- Private equity activity surges with highest average deal size for 10 years
- Industrials & Chemicals continues to lead the way.

The first quarter of 2017 saw deal volume and value decrease compared to Q4 2016. Deal numbers also fell against the same quarter last year, but Q1 2017's deal value of USD 5bn exceeded the USD 4.9bn achieved in Q4 2016. Private equity volume increased significantly in 2017 Q1, while trade volume fell. The BDO Heat Chart shows 703 potential deals, suggesting a pick-up in activity ahead.

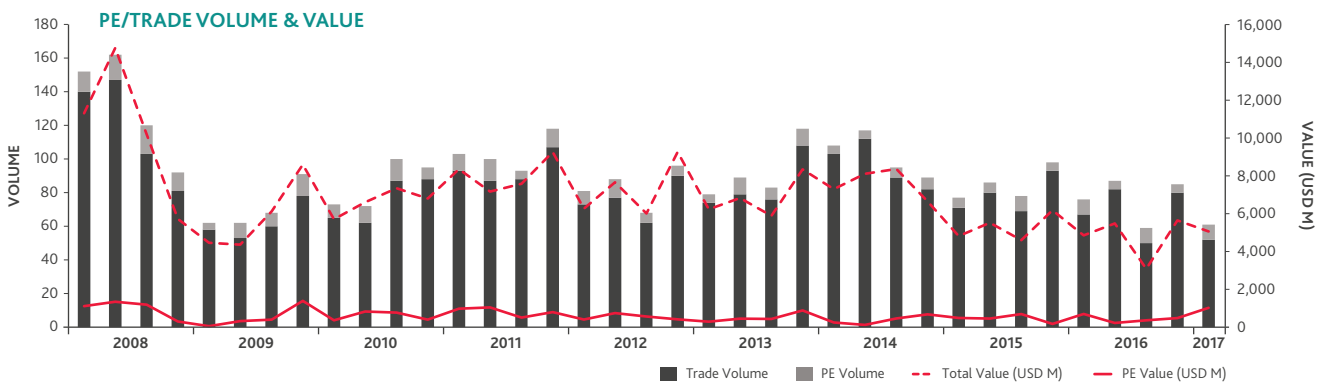
EE & CIS deal numbers fell from 85 in Q4 2016 to 61 Q1 2017, a fall of 28%, while total deal value decreased by USD 0.6bn during the same period. This led to a significant rise in the average deal value from USD 66m in Q4 2016 to USD 83m in Q1 2017, which is the highest first quarter average transaction value for ten years.

Private equity deal volume in Q1 2107 increased by 80% compared to the previous quarter and total private equity value more than doubled. This led to an average private equity deal size of USD 114m, the highest for ten years. This is the first quarter since Q3 2011 when the average deal value has been over USD 100m.

## KEY DEALS AND SECTORS

The region's top ten deals had a combined value of USD 2.7bn, which represented around 53% of Q1 2017's overall deal value.

The most active sectors in Q1 2017 were Industrials & Chemicals with 19 deals, representing 31% of total deal volume, Technology & Media with 11 deals (18%), Consumer with nine deals (15%), and Energy, Mining & Utilities with seven deals (11,5%).



This was in line with the overall trend for 2016: Industrials & Chemicals contributed 66 (23%) deals and Consumer 44 deals (15%). The sector that contributed the least was Pharma, Medical & Biotech, with only three deals (5%) in Q1 2017 and 14 deals in 2016 (5%).

The average number of deals per quarter for Industrials & Chemicals between 2008 and Q1 2017 is 22 (24%), so the current performance is below this historical average. However, the sector performed above its 2016 average. Overall, five sectors recorded levels of activity below their 2016 historical averages in Q1 2017 while three sectors (Consumer, Industrials & Chemicals and Business Services) performed above their averages.



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### LOOKING AHEAD

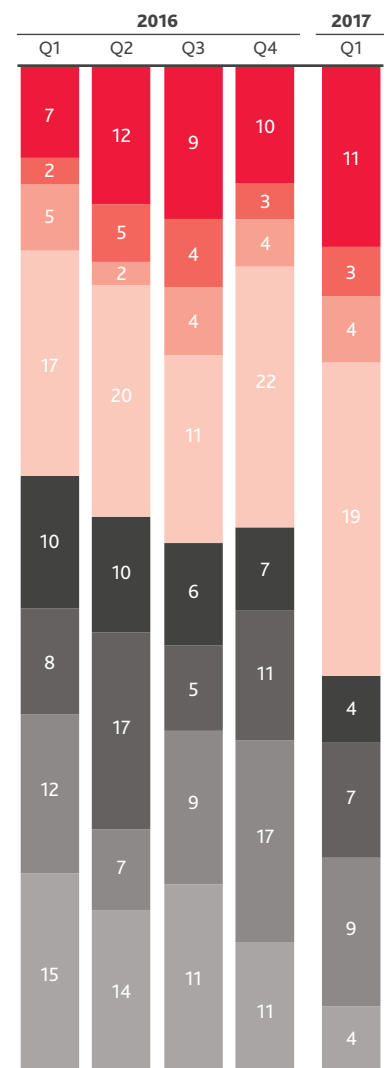
According to the BDO Heat Chart and a number of other reliable sources, we can expect more mid-market M&A activity during 2017, especially as, surprisingly, the number of deals declined in 2016 compared to 2015. The IMF forecasts global growth around 3.4% in 2017, which is 0.3% more than the corrected forecast for 2016. In 2017, China still represents a major risk since a transition of its economy is needed to avoid a potentially steep decline in growth. This could lead to a sudden rise in risk aversion globally and as a result influence mid-market M&A deals in the CEE & CIS region, especially in economies that are closely related to China (Russia). The M&A markets tend to lag economic indicators as well as debt markets as investor confidence moves with financial sentiment and outlook. The market at this point shows gradual, lower than forecast growth and will probably achieve a slower recovery over the next several years.

The BDO Heat Chart expects 703 deals planned or in progress, which represents around 9% of total worldwide mid-market deals and would indicate a significant increase in M&A deals in the region. Industrials & Chemicals is expected to be the leading sector for CEE & CIS mid-market M&A deals with 190 deals (27%) predicted – which is consistent with the 2008-2016 average. Technology & Media has 135 predicted deals (19%) and Consumer 130 deals (18%). In line with the historical data, the Leisure and Pharma, Medical & Biotech sectors will have the least deals in both the short and long term.

### CEE & CIS HEAT CHART BY SECTOR

Industrials & Chemicals	190	27%
Technology & Media	135	19%
Consumer	130	19%
Energy, Mining & Utilities	63	9%
Business Services	61	9%
Financial Services	51	7%
Pharma, Medical & Biotech	38	5%
Leisure	35	5%
<b>TOTAL</b>	<b>703</b>	<b>100%</b>

### CEE & CIS MID-MARKET VOLUMES BY SECTOR



- Technology & Media
- Pharma, Medical & Biotech
- Leisure
- Industrials & Chemicals
- Financial Services
- Energy, Mining & Utilities
- Consumer
- Business Services



# ISRAEL

## M&A ACTIVITY DECLINES SHARPLY IN THE FIRST QUARTER OF 2017



### BIG PICTURE

- Q1 2017 deal volume and value down compared to Q4 2016 and Q1 2016
- Technology & Media and Industrials & Chemicals are the most active sectors
- Private equity activity decreases by 20% in terms of volume and 75% in value from previous quarter
- Inbound cross-border deals show resilience
- BDO Heat Chart suggests a similar pace of activity compared to previous quarter data.

The Israeli market experienced a downward trend in terms of volume and value against both the previous quarter and Q1 2016. In fact, the first quarter of 2017 saw the lowest level of M&A activity since Q2 2013 in terms of deal volume and Q3 2012 in terms of deal value.

Comparing the first quarter of 2017 to the previous quarter, deal numbers decreased by 20% and deal value fell 55%. Comparing Q1 2017 to Q1 2016, deal numbers were down 30% and value fell 57%.

A total of 12 deals were completed during Q1 2017 with a combined transaction value of USD 661m, representing a sharp fall of USD 822m against Q4 2016. The decline in deal numbers was less sharp, down by three from the 15 transactions completed in Q4 2016.

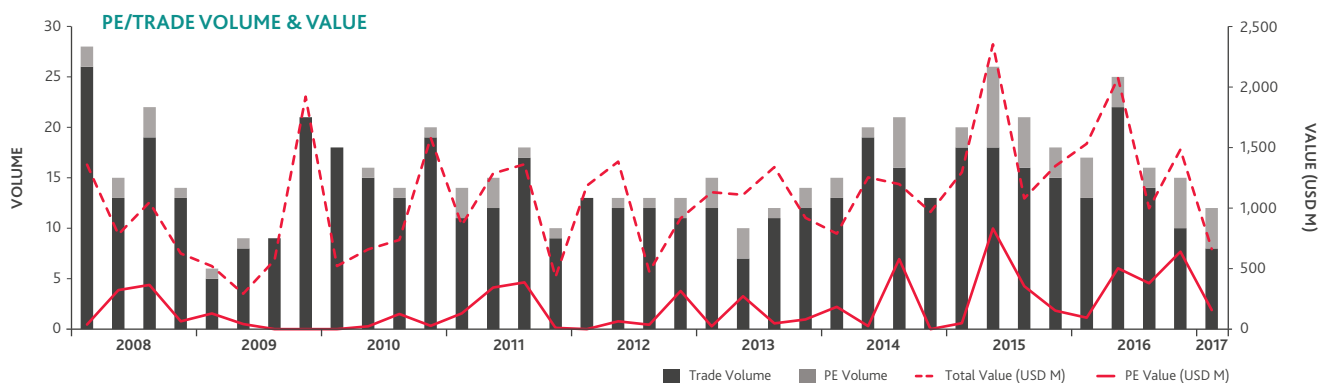
In Q1 2017, average deal value (USD 55m) decreased by 44% compared to Q4 2016 and by 38% in comparison with Q1 2016.

Private equity deals represented 33.3% of total transaction volume in Q1 2017, which is relatively stable compared to the previous quarter and well above Q1 2016's private equity share of 23.5%.

Private equity's share of total deal value during Q1 2017 was 23.8%, significantly down on Q4 2016's 43.2% share, but well above the historically low figure of 6.1% seen in Q1 2016.

### KEY DEALS AND SECTORS

Israel's top ten Q1 2017 deals had a combined value of USD 640m, representing almost 97% of total M&A transactions. The largest was the USD 112m acquisition of a 65% stake in



### LOOKING AHEAD

The BDO Heat Chart for Israel shows there are 41 deals planned or in progress with 15 (37%) related to Technology & Media and nine (22%) involving Pharma, Medical & Biotech. Other sectors include Industrials & Chemicals with seven deals expected (17%), Energy, Mining & Utilities with four (10%) and Financial Services with three.

Overall, we expect M&A activity to be primarily driven by Technology & Media and Pharma, followed by Pharma, Medical & Biotech. We expect foreign interest to remain strong in the remaining quarters of 2017, given the continuing attractions of the Israeli market and Technology & Media in particular.



Servotronix Motion Control, a developer and manufacturer of standard and customised automation solutions, by an undisclosed Chinese bidder. The second largest transaction was the USD 105m acquisition of LightCyber, a leading provider of accurate and efficient security visibility, by Palo Alto Networks. Other deals included the purchase of Advanced Vision Technology by Danaher Corp and the sale of Israeli mobile network operator Golan Telecom to Electra Consumer Products.

The most active sectors in Q1 2017 were Technology & Media with five deals and Industrials & Chemicals with three, followed by Pharma, Medical & Biotech with two, while Financial Services and Consumer accounted for one transaction each. Cross-border inbound deals remained strong, with seven transactions involving a foreign bidder, made up of four US buyers and one each from China, Hong Kong and the UK.

**PRIVATE EQUITY**

Private equity activity was relatively sluggish in Q1 2017, while private equity's share of total deals remained at the same level recorded in Q4 2016.

Private equity accounted for four transactions in Q1 2017 (33.3% of total deals), compared to five in Q4 2016 and four in Q1 2016. The first quarter 2017 private equity deal value was USD 157m compared to the total Israeli M&A activity of USD 661m.

The first quarter of 2017 saw a downward trend in private equity deal value compared to Q4 2016, but value was up against Q1 2016. In terms of private equity's share of volume, Q1 2017 was the same as Q4 2016 (33.3%), but well ahead of the 23.5% share recorded in Q1 2016.

Private equity's deal value shrunk from USD 640m in Q4 2016 to USD 157m in Q1 2017, but even this low figure was well ahead of Q1 2016, which saw a deal value of just USD 94m.



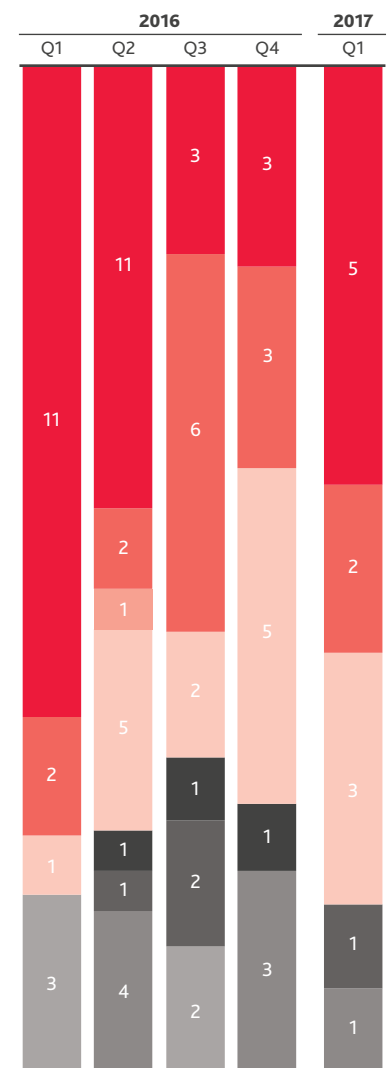
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**ISRAEL**  
HEAT CHART BY SECTOR

Technology & Media	15	37%
Pharma, Medical & Biotech	9	22%
Industrials & Chemicals	7	17%
Energy, Mining & Utilities	4	10%
Financial Services	3	7%
Consumer	2	5%
Business Services	1	2%
Leisure	0	0%
<b>TOTAL</b>	<b>41</b>	<b>100%</b>

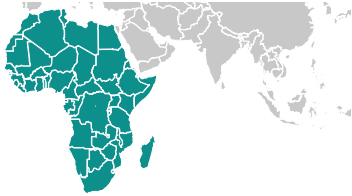
**ISRAEL**  
MID-MARKET VOLUMES BY SECTOR



■ Technology & Media    ■ Financial Services  
■ Pharma, Medical & Biotech    ■ Energy, Mining & Utilities  
■ Leisure    ■ Consumer  
■ Industrials & Chemicals    ■ Business Services

# AFRICA

A SLOW FIRST QUARTER BUT THE OUTLOOK IS POSITIVE



## BIG PICTURE

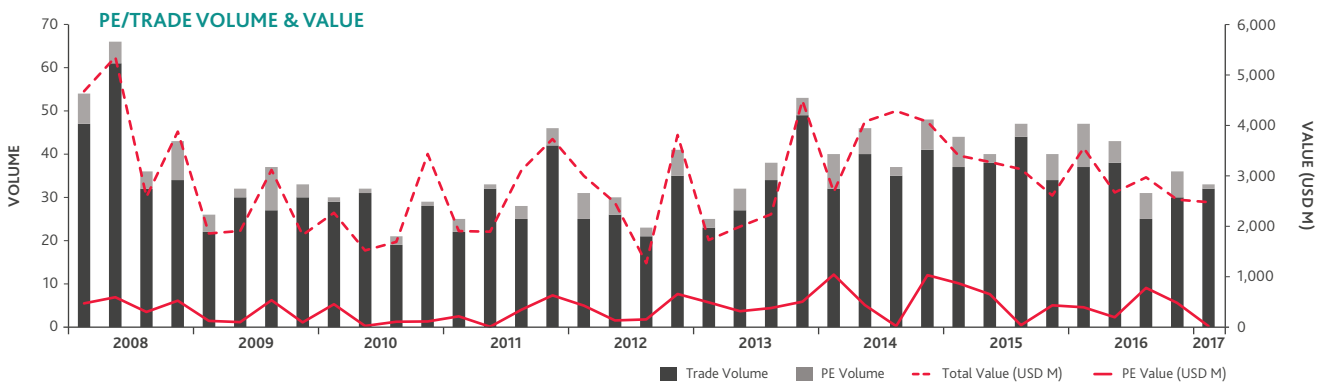
- First quarter deal volume and value down 30% compared to Q1 2016
- Mid-market private equity activity falls sharply
- Energy, Mining & Utilities remains the most active sector.

The first quarter of 2017 saw a total of 33 mid-market deals with a combined value of USD 2.48bn, which represents a decline of 30% in terms of both value and volume compared to the first quarter of the previous year, and a drop of 8% and 2% respectively in contrast with Q4 2016. Private equity buy-outs fell sharply, with just one deal completed Q1 2017 compared to six in the previous quarter. The average value of a buy-out in Q1 2017 was 4.4 times lower than in Q4 2016.

## KEY SECTORS AND DEALS

The most active sectors in Q1 2017 were Energy, Mining & Utilities and Business Services with ten and seven deals respectively, compared to eight and five deals in the previous quarter. In comparison to Q4 2016, most sectors recorded a rise or a stagnation in M&A transactions. The only exceptions were Consumer and Industrials & Chemicals. There was a marked drop in the number of deals recorded in the Industrials & Chemicals sector.

Three of the most significant M&As in Africa during Q1 2017 took place in Energy, Mining & Utilities. The biggest deal during Q1 2017 was the acquisition of a 31% stake in Mutanda Mining Sarl, a Democratic Republic of Congo company involved in the exploration and production of copper and cobalt, by Glencore Plc. The Swiss company is one of the world's largest global diversified natural resource companies and a major producer and marketer of more than 90 commodities. The value of the deal is estimated at USD





496m following analysis by BMO Capital Markets Limited, which was appointed as independent valuer for the purposes of this transaction.

Another major M&A deal took place in Namibia and involved Trevali Mining Corporation, a zinc-focused mining company and Glencore Plc. The transaction, valued at USD 400m, included the acquisition of an 80.08% stake in Rosh Pinah Zinc Corporation (Pty) Ltd and a 90% interest in the Perkoa Zinc Mine in Burkina Faso. The acquisition of a portfolio of zinc assets is expected to deliver high-quality, long-life zinc production to Trevali's existing portfolio and improve its asset and geographic diversification.

Moreover, in Gabon, where French company Total S.A sold a 58% stake to fellow French company Perenco S.A, which explores and produces oil and gas and has operations in several countries in Latin America, Europe and the Middle East, for an estimated consideration of USD 350m.



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## LOOKING AHEAD

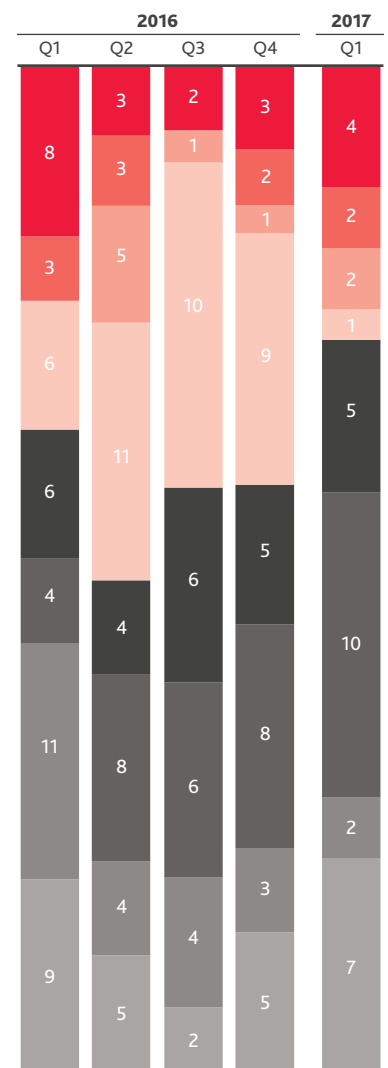
According to the Global Economic Prospects published by the World Bank in January 2017, growth in Sub-Saharan Africa is estimated to have fallen to 1.5% in 2016, the lowest level in over two decades, as commodity exporters adjust to low commodity prices. Regional GDP per capita contracted by 1.1%. South Africa and oil exporters account for most of the slowdown, while activity in non-resource intensive countries — agricultural exporters and commodity importers — generally remained robust. Commodity prices are expected to stabilise, but stay well below their 2011 levels and fiscal adjustment needs remain large. Growth in the region is nonetheless forecast to rebound to 2.9% in 2017 and rise above 3.5% by 2018, as oil exporters continue to adjust. Risks to the outlook include heightened policy uncertainty in the United States and Europe, slower improvements in commodity prices and tighter global financing conditions. Domestically, policymakers may not enact the reforms needed to rebuild fiscal buffers. Addressing fiscal vulnerabilities, and bolstering per capita growth, remain key policy challenges across the region.

The BDO Heat Chart for Africa mid-market M&A activity features 161 deals in 2017, providing a positive outlook. The predominant sectors are likely to be Industrials & Chemicals with a total of 47 forecast deals (29%) and Energy, Mining & Utilities with 44 deals (27%).

### AFRICA HEAT CHART BY SECTOR

Industrials & Chemicals	47	29%
Energy, Mining & Utilities	44	28%
Business Services	18	11%
Technology & Media	16	10%
Consumer	14	9%
Financial Services	14	9%
Pharma, Medical & Biotech	4	2%
Leisure	4	2%
<b>TOTAL</b>	<b>161</b>	<b>100%</b>

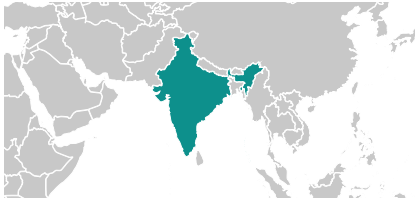
### AFRICA MID-MARKET VOLUMES BY SECTOR



- Technology & Media
- Pharma, Medical & Biotech
- Leisure
- Industrials & Chemicals
- Financial Services
- Energy, Mining & Utilities
- Consumer
- Business Services

# INDIA

## M&A ACTIVITY SLOWS IN FIRST QUARTER BUT STRONG ECONOMIC GROWTH CONTINUES



### BIG PICTURE

- Q1 2017 deal volume and value well behind Q1 2016 levels
- Industrials & Chemicals continues to be the most active sector
- India's economic reforms set to create positive deal environment.

India is expected to remain the fastest growing major economy in the world, with the United Nations World Economic Situation and Prospects (WESP) 2017 report projecting that its economy will grow by 7.7% in fiscal year 2017 and 7.6% in 2018.

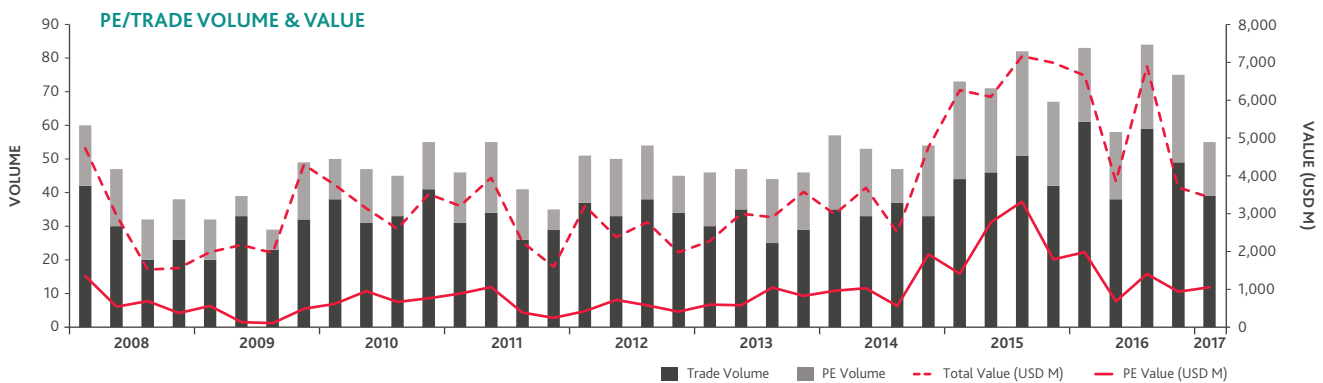
The WESP report states that India has positioned itself as the most dynamic emerging economy among the largest countries and is expected to remain the fastest growing on the back of robust private consumption and the gradual implantation of significant domestic reforms by the Government.

Investment demand is expected to pick up slightly, helped by monetary easing, Government efforts towards infrastructure investments and public-private partnerships, and the implementation of domestic reforms such as the introduction of the Goods and Services Tax (GST) Bill.

### DEAL VALUE AND VOLUME

First quarter deal value fell 7% to USD 3.43bn, down from USD 3.69bn in Q4 2016. The average deal size was USD 62m in Q1 2017, up from USD 49m in Q4 2016, while deal volume dropped 27%, with 55 deals in Q1 2017 compared to 75 in Q4 2016. Deal value in Q1 2017 was down 48% against the USD 6.98bn achieved in Q1 2016 and deal volume fell 34% when compared to the 83 deals completed in Q1 2016.

In Q1 2017, private equity buy-out deals represented 31% of total deal value and 29% of total deal volume. For Q4 2016, these numbers were 25% and 35% respectively while for Q1 2016, these numbers were 30% and 27% respectively.



### LOOKING AHEAD

India's proposed Goods and Services tax (GST) reform will usher in a major change by establishing a new uniform tax rate. The reform should promote investment in the medium term through lower transaction and logistics costs and efficiency gains. Its effective implementation requires adequate capacity building within the tax administration.

The United Nations World Economic Situation and Prospects (WESP) 2017 report added that in India, in spite of a strong emphasis on rural areas and infrastructure investments

on the expenditure side, fiscal policy has largely followed a cautious approach and the budget deficit is expected to further decline gradually. It did, however, caution that low capacity utilisation and stressed business and bank balance sheets may prevent a strong investment revival in the short term.

The BDO Heat Chart is based on companies for sale tracked by Mergermarket between 7 October 2016 and 7 April 2017. Industrials & Chemicals is expected to top the chart with the highest number of potential deals.

**KEY SECTORS**

In 2016 as a whole, 300 deals were completed across all sectors, with Industrials & Chemicals the biggest contributor at 69 deals (23% of the total deals), followed by Technology & Media with 59 deals (20%) and Business Services with 43 deals (14%).

In Q1 2017, 55 deals were completed across all sectors, with Industrials & Chemicals contributing 17 deals (31% of total transactions) followed by Technology & Media with ten deals (18%) and Business Services with nine deals (16%).

Comparing Q1 2017 with Q4 2016, only two sectors (Financial Services and Industrials & Chemicals) saw growth in deal volume while five sectors (Leisure, Pharma, Medical & Biotech, Technology & Media, Consumer and Energy, Mining & Utilities) saw a drop in deal volume and one sector (Business Services) stayed at the same level.

**KEY DEALS**

The biggest deal of Q1 2017 was in the Technology & Media sector, with Alibaba Group Holding Ltd acquiring a 4.3% stake in One97 Communications Limited, the holding company of e-commerce giant Paytm, for USD 252m, in March 2017.

Other major deals in Q1 2017 included Blackstone Group LP of USA acquiring a 15% stake in the commercial office portfolio of K Raheja Corp for USD 250m; Havells India Ltd acquiring the consumer durables business of Lloyd Electric & Engineering Ltd for USD 238m; JERA Co., Inc. of Japan acquiring a 10% stake in ReNew Power Ventures Pvt. Ltd for USD 200m and True North acquiring a 40% stake in the Kerala Institute of Medical Sciences from Ascent Capital Pvt Ltd and OrbiMed Advisors, LLC for USD 200m.



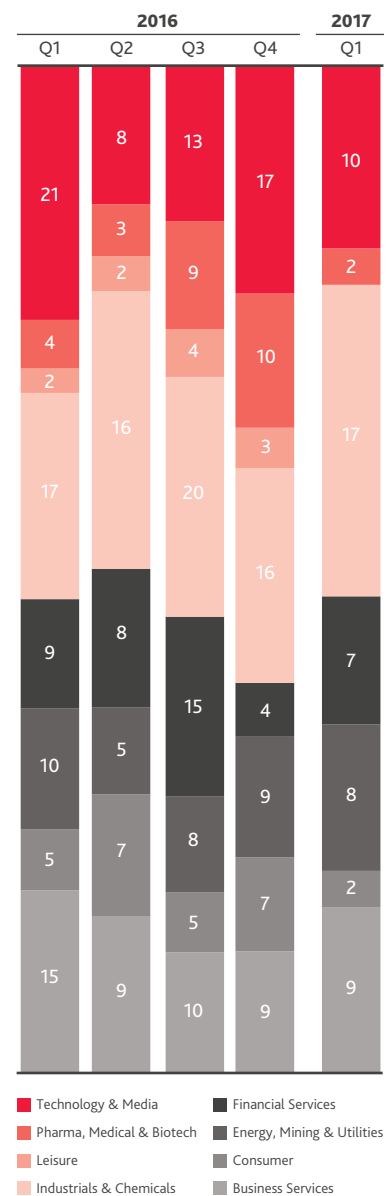
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**INDIA**  
HEAT CHART BY SECTOR

Industrials & Chemicals	85	22%
Technology & Media	61	16%
Business Services	57	14%
Financial Services	50	13%
Consumer	48	12%
Energy, Mining & Utilities	39	10%
Pharma, Medical & Biotech	39	10%
Leisure	12	3%
<b>TOTAL</b>	<b>391</b>	<b>100%</b>

**INDIA**  
MID-MARKET VOLUMES BY SECTOR





# CHINA

## M&A ACTIVITY DECLINES SHARPLY DURING Q1 2017 BUT MID-MARKET OUTLOOK IS POSITIVE



### BIG PICTURE

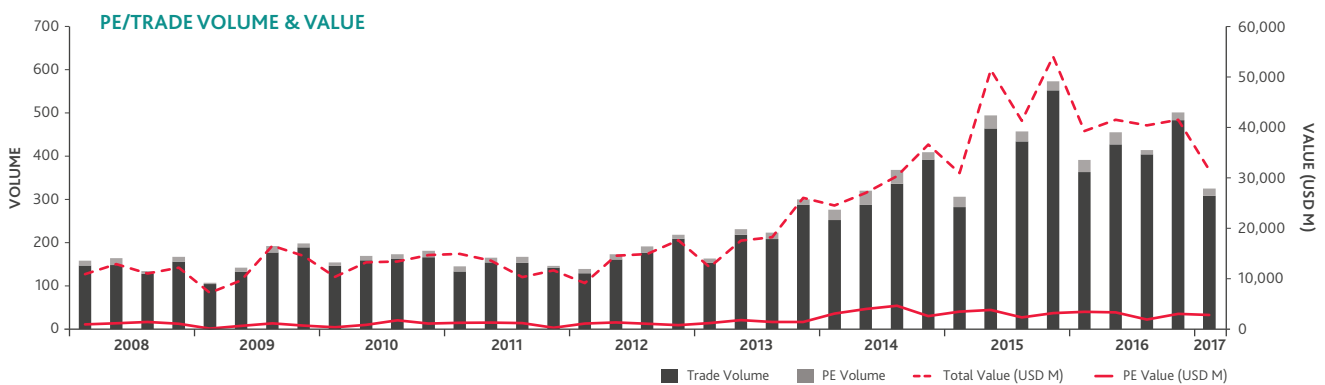
- First quarter deal volume down 17% compared to Q4 2016 and 54% compared to Q1 2016 as global mid-market M&A activity slows
- Downward trend driven by lower activity during Chinese New Year period and increasing Chinese regulatory pressures curbing M&A activity
- Until regulatory policies are relaxed, domestic and outbound M&A activity expected to be subdued in 2017 but demand for good quality strategic assets will continue.

After a year of exceptional growth in 2016, there was a notable slowdown in Greater China's M&A mid-market transactions in Q1 2017. This saw a first quarter transaction volume of 325 deals, compared to 391 deals for the same period of 2016 (a 17% decline). However, with M&A levels falling in other markets at the start of 2017, China maintained a 21% share of global mid-market deal volume in Q1 2017.

Aside from the tougher regulatory and political hurdles set by the Chinese Government, this slowdown in global M&A activity also appears to be the result of a 'wait-and-see' effect caused by current political uncertainties in Europe (Brexit) and the USA. Before and after he won the election as President of the USA, Donald Trump preached the idea of 'America first'. It is foreseeable that the 'America first' policy may undermine the present global economic and political patterns, bringing uncertainty to the world economy. China and the USA may see more bilateral trade frictions, but the new president has recently taken a softer tone against China

on issues such as tariffs and exchange rates. We anticipate that some high-profile international deals may come under increased scrutiny.

Nonetheless, this diversion of attention from outbound M&A activity may result in increased activity within the domestic Chinese market. The Chinese Government has recently indicated strong support for the artificial intelligence industry by stating that it will increase R&D spending to improve competency in this area. While the Chinese Government is still supportive of M&A to help industries in emerging markets such as pharmaceutical



### LOOKING AHEAD

The general market consensus is that the PRC Government will continue to support genuine outbound investments, allowing Chinese companies to build their global presence and counter slowing economic growth in China, while seeking to minimise investments that are more speculative. It may be difficult to obtain the relevant approvals for larger deals that are not central to a company's industry or sector; commentators are suggesting that there is currently a ban on deals of more than USD 1bn that fall outside an investor's core business. This seems to be in line with recent market activity, with a decline in mega-deals announced in the first quarter.

Despite the economic slow-down and tightening regulations, the latest BDO Heat Chart shows a sharp increase in the number of mid-market Greater China deal opportunities. This goes against the recent

downward trend, with deal opportunities increasing from 651 in Q4 2016 to 944 in Q1 2017. This positive upswing indicates that there may be some renewed momentum for M&A in the region for the rest of 2017, with positive fundamentals supporting China's M&A activities.

Industrials & Chemicals and Technology & Media have remained the two key target sectors for M&A in the Greater China region, representing 51% of total deal opportunity volumes in Q1 2017. As the world's manufacturing hub, we expect Industrial & Chemicals to be a sector dominated by strong M&A activity in China. Of the region's top ten deals in Q1 2017, six were in the Industrials & Chemicals sector, with deal sizes ranging from USD 397m to USD 492m.

and artificial intelligence, it has implemented steps in the last few months to control currency depreciation and limit debt levels of state-owned enterprises. However, outbound M&A that is considered strategic in nature will continue to be encouraged.

**CHINA OUTBOUND M&A**

Having broken many M&A records in the preceding years, China's outbound investment surpassed that of the US for the first time in 2016. This made China the global leader and another milestone for an expanding global M&A powerhouse. However, Chinese authorities have since tightened control over outbound transactions in order to stem capital outflows. At the end of 2016, the PRC Government issued formal notification to banks to scrutinize certain outbound investments. It has been reported that any deals over USD 1bn that involve buying real estate assets overseas or assets that do not directly relate to the buyers' core businesses would be restricted. This tightened regulatory control has had an immediate impact on outbound M&A Levels, with China outbound M&A deals of USD 23.8bn in Q1, 2017, compared to USD 95.1bn recorded during the same period one year ago.

In addition to tighter controls on capital flows, growing concerns over the growing debt levels of private and state-owned enterprises in China has slowed deal activity. With a significant proportion of outbound acquisitions funded by debt in recent years, any tightening of credit cycles will have an impact on the ability of PRC companies to fund acquisitions. Since 2005, there has been a boom in China's debt as a percentage of GDP. Since the global financial crisis, there has been a year-on-year increase, with a cumulative average growth rate in debt levels of 54% over the last five years. At the end of 2016, China's debt stood at 258% of GDP. Some industry commentators are suggesting that China may hit the 300% mark in the coming years. Because of the increased debt burdens from past M&A activity, some corporates have slowed their pace of acquisitions in recent months.

Another factor in the large movement of funds offshore has been the depreciation of the RMB against the USD over the past year. Many companies have moved funds offshore via acquisitions to hedge against the weaker RMB and slowing domestic growth. There was a strong decline in the RMB currency in the last three quarters of 2016 and a 6% depreciation of the RMB against the USD over the past 12 months.



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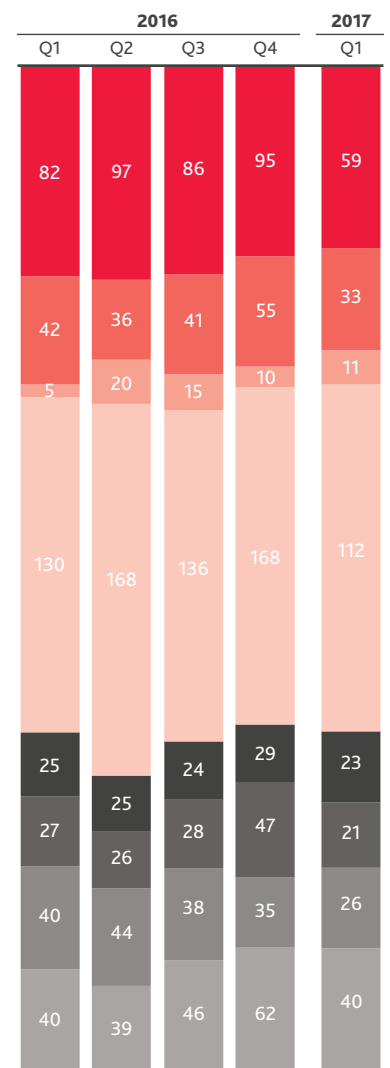
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**CHINA**  
HEAT CHART BY SECTOR

Industrials & Chemicals	318	34%
Technology & Media	161	17%
Business Services	123	13%
Consumer	104	11%
Financial Services	91	10%
Energy, Mining & Utilities	67	7%
Pharma, Medical & Biotech	41	4%
Leisure	39	4%
<b>TOTAL</b>	<b>944</b>	<b>100%</b>

**CHINA**  
MID-MARKET VOLUMES BY SECTOR



- Technology & Media
- Financial Services
- Pharma, Medical & Biotech
- Energy, Mining & Utilities
- Leisure
- Consumer
- Industrials & Chemicals
- Business Services



# SOUTH EAST ASIA

A QUIETER FIRST QUARTER BUT PROSPECTS AHEAD LOOK GOOD



## BIG PICTURE

- M&A activity falls in Q1 2017.
- Industrials & Chemicals and Business Services are the key sectors.
- Strong deal pipeline bodes well for future activity.

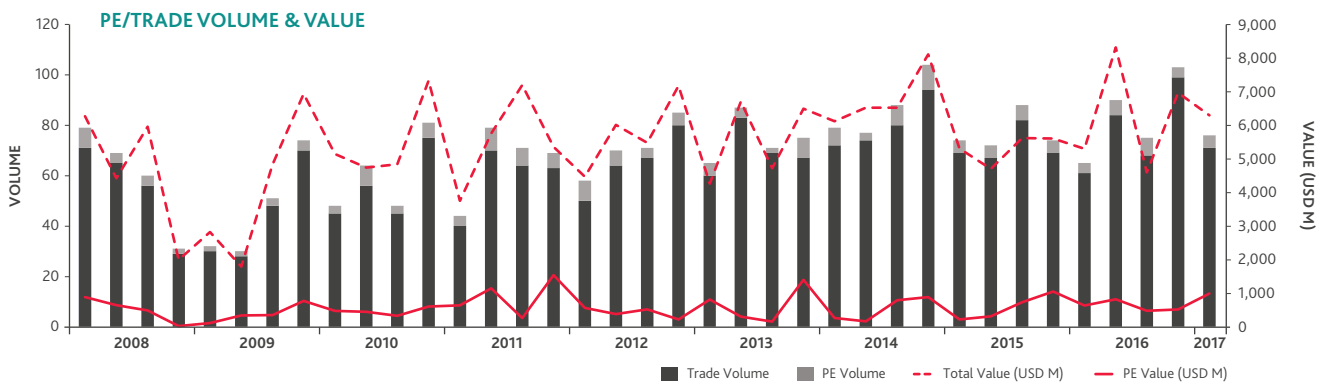
The M&A market in South East Asia was quieter in Q1 2017, with both deal volume and value lower than in the previous quarter. There were 76 deals during the quarter compared with 103 deals in Q4 2016, representing a decrease of 36%, while total deal value decreased from USD 7.0bn to USD 6.3bn.

The value of Q1 2017 top ten deals was USD 3.05bn, which represented 48% of the total deal value. Private equity completed five deals in Q1 2017, which was one more than the corresponding period in 2016. PE represented 6.6% of the total deal numbers and 15.7% of the total value in Q1 2017.

The most active sectors were Industrials & Chemicals and Business Services, which together contributed 50% of total deal numbers in Q1 2017. Industrials & Chemicals saw 22 deals, while Business Services contributed 16 deals in Q1 2017.

Four of the quarter's top ten deals were in Industrials & Chemicals, where the target companies were from Thailand, Vietnam, Singapore and Malaysia. The sector was responsible for the quarter's largest deal, which was the USD 488m acquisition by PTT Global Chemical Pcl of several entities owned by a target company in Thailand. Business Services also contributed one of the top ten deals for Q1 2017, involving a target company in Malaysia.

The remaining top ten deals were two from the Financial Services sector and one each from Technology & Media, Consumer and Leisure.





## LOOKING AHEAD

The main focus for M&A activities is Industrial & Chemicals. This sector not only has the highest number of deals completed in Q1 2017 (22) but also the highest number of deals in the pipeline at the end of Q1 2017 (135). Prospects for M&A in the Energy, Mining & Utilities, Financial Services and Consumer sectors also look good, with cumulative pipeline deals increasing from 104 in Q4 2016 to 177 in Q1 2017. Deals in the pipeline for the Business Services, Technology & Media, Financial Services and Pharma, Medical & Biotech and Leisure sectors have also increased compared to the previous quarter.

M&A activities in South East Asia remain dependent on the current economic challenges faced by the region, which include the outlook for crude oil prices and the consequential fluctuation of currencies in the region. With South East Asia's currencies having weakened against the US dollar, investors with predominant US dollar income or funding may find assets and targets in the region attractive. Cross-border transactions may therefore become more prevalent.



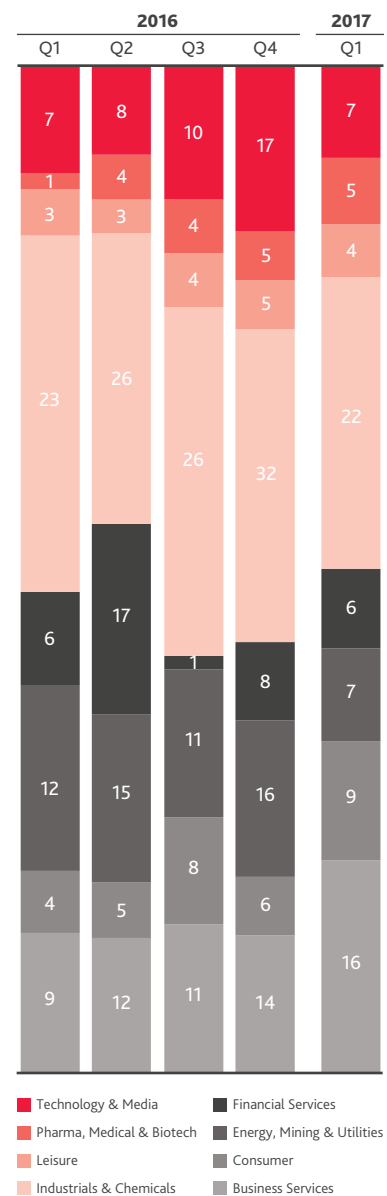
**FEIZAL MUSTAPHA**  
CHAIRMAN

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### SOUTH EAST ASIA HEAT CHART BY SECTOR

Industrials & Chemicals	135	26%
Business Services	71	14%
Consumer	65	13%
Energy, Mining & Utilities	63	12%
Technology & Media	59	12%
Financial Services	49	10%
Pharma, Medical & Biotech	36	7%
Leisure	32	6%
<b>TOTAL</b>	<b>510</b>	<b>100%</b>

### SOUTH EAST ASIA MID-MARKET VOLUMES BY SECTOR



# AUSTRALASIA

RECORD FIRST QUARTER SETS THE TONE FOR A STRONG YEAR



Following a 2016 that saw global economic and political uncertainty impact M&A activity, optimism appears to have returned as 2017 got off to a flying start. Total deal value of USD 5.5bn was a record breaker and 38% higher than Q1 2016 while deal volume was 75, six more than Q1 2016.

## BIG PICTURE

- Strong start to 2017 after a slower 2016
- Private equity deal numbers rise on smaller value transactions
- Asian investors behind four of the top ten deals.

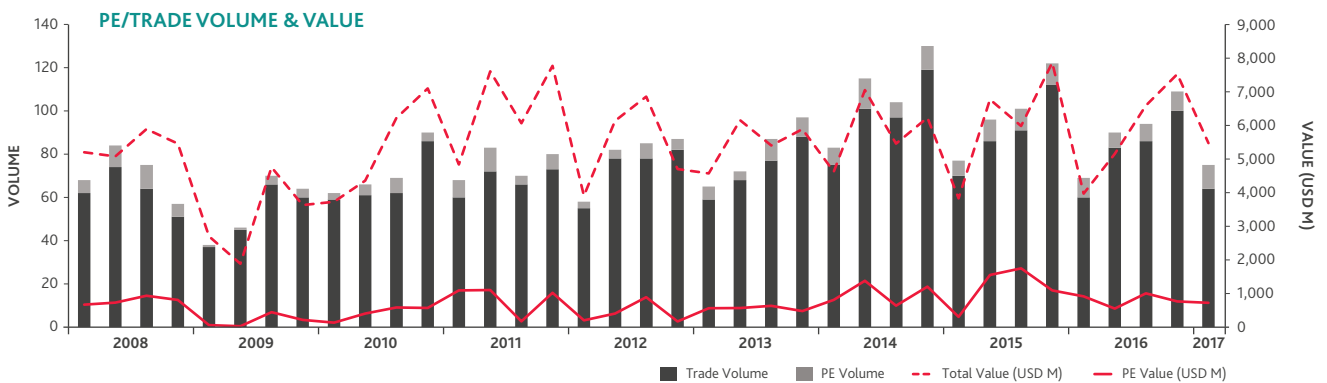
The average transaction value of USD 73m was USD 15m, or 27%, higher than the first quarter last year, and while the number of transactions and their combined value was 34 and USD 2.05bn lower than 2016 Q4, this was to be expected as Q1 has historically been a slower quarter.

Mid-market private equity transactions contributed 14.7% of deal numbers and 13.2% of total value in Q1 2017. The number of deals increased to 11 in Q1 2017 from nine in Q1 2016, with a lower average value of USD 66m resulting in a combined value of USD 721m, down from USD 912m in Q1 2016. Relative to the previous

quarter, transactions increased but value remained below the USD 763m seen in Q4 2016.

## KEY SECTORS

The Consumer sector saw the largest increase in transactions, with 11 deals against the two seen in the same quarter last year. Business Services also had a notable increase from 15 in Q1 2016 to 20 in Q1 2017, making it the most active sector for the quarter. Relative to Q4 2016, however, all sectors except Consumer experienced declines in the number of transactions, with Leisure; Energy, Mining





& Utilities; and Industrials & Chemicals falling the most. Of the top ten deals in the first quarter of 2017, three were in Business Services, while Energy, Mining & Utilities and Consumer had two each.

Foreign investment, especially from China, continued to be a key driver of activity in Q1 2017. Six of the largest ten transactions involved foreign acquirers, accounting for USD 1.49bn of combined deal value. Australasia continues to attract foreign investment due to its perceived stability and weaker currencies.

**KEY DEALS**

Sunshine Coast Council's 99-year lease of Sunshine Coast Airport for USD 462m to Palisade Investment Partners was the largest deal of the quarter. Palisade's investment will enable the expansion of the airport, with a second runway planned. China's HNA Group's acquisition of UDC Finance, New Zealand's largest finance company, for USD 461m was the second largest deal of the quarter. The biggest private equity deal was Pacific Equity Partner's acquisition of Australian flour and bakery pre-mix manufacturer, Allied Mills for USD 344m. This was the only private equity transaction to feature in the top ten.

**LOOKING AHEAD**

We expect high levels of M&A activity to continue for the remainder of the year, with 500 deals currently under way - an increase of 195 on Q4 2016 levels.

The Consumer, Industrials & Chemicals and Technology & Media sectors are likely to remain active, with 98, 85 and 81 deals in the pipeline respectively. After an active first quarter, Business Services M&A activity is expected to cool somewhat, with BDO's research indicating only 64 transactions are under way. Despite having some significant transactions in Q1 2017, Energy, Mining & Utilities, Financial Services and Pharma, Medical & Biotech deal volumes are likely to lag other sectors with only 30% of proposed transactions relating to these sectors. Over the medium term, we expect M&A activity in Energy, Mining & Utilities and Industrials & Chemicals to remain flat as low commodity prices hamper growth in these sectors.



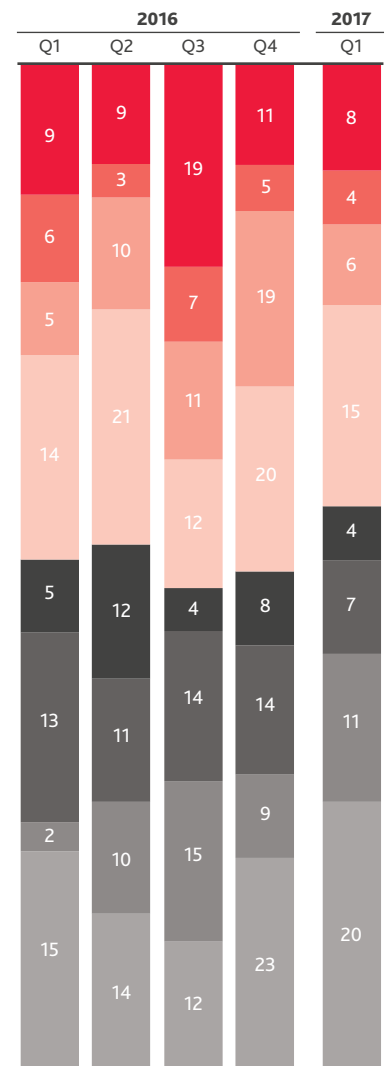
**SIMON PEACOCKE**  
PARTNER

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**AUSTRALASIA**  
HEAT CHART BY SECTOR

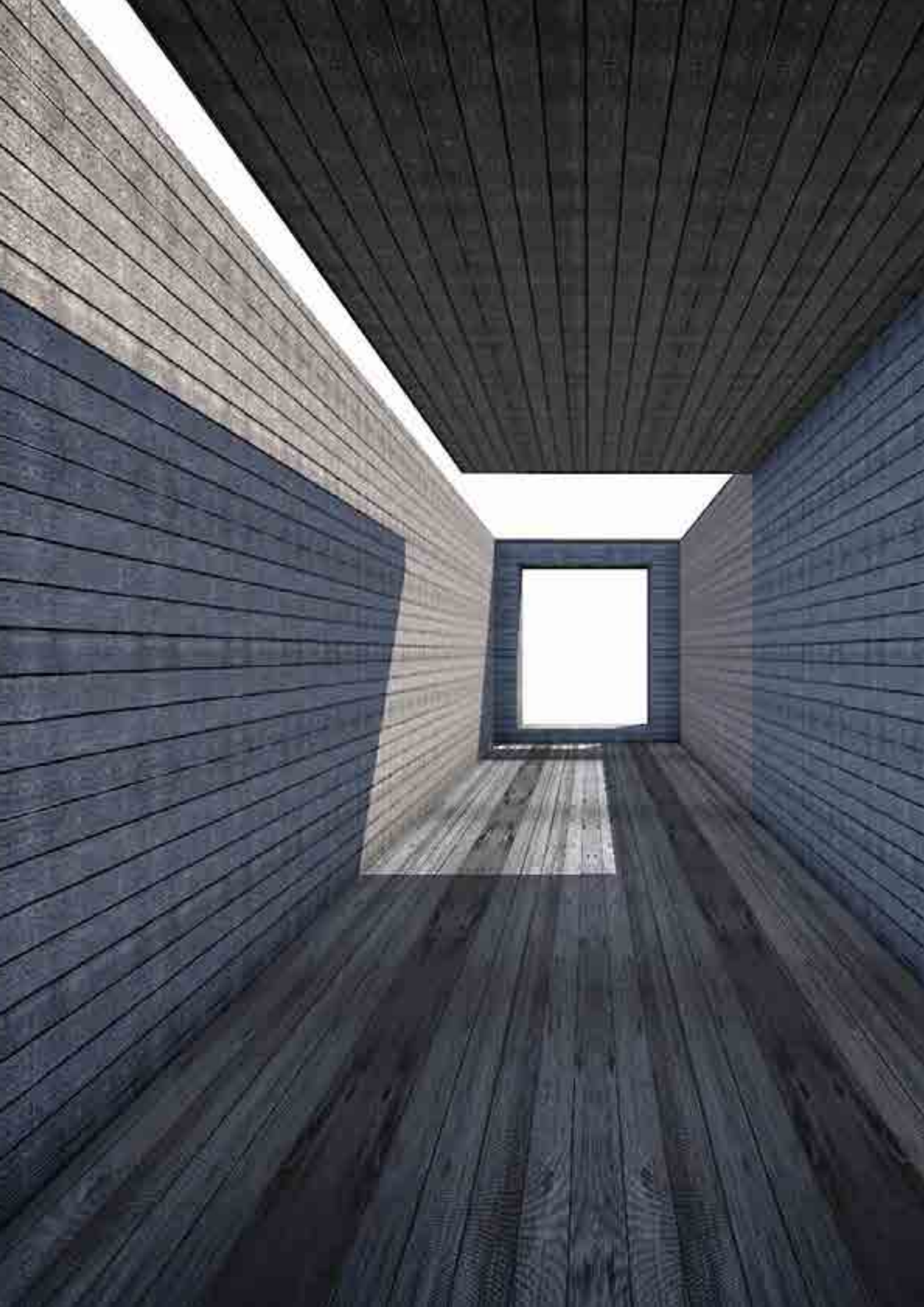
Consumer	98	20%
Industrials & Chemicals	85	17%
Technology & Media	81	16%
Business Services	64	13%
Energy, Mining & Utilities	62	12%
Financial Services	50	10%
Pharma, Medical & Biotech	37	7%
Leisure	23	5%
<b>TOTAL</b>	<b>500</b>	<b>100%</b>

**AUSTRALASIA**  
MID-MARKET VOLUMES BY SECTOR



- Technology & Media
- Pharma, Medical & Biotech
- Leisure
- Industrials & Chemicals
- Financial Services
- Energy, Mining & Utilities
- Consumer
- Business Services







# SECTOR VIEW



## **P38** INDUSTRIAL PRODUCTS

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IS M&A ACTIVITY SET TO SURGE  
IN THIS DYNAMIC SECTOR?



## **P40** FINANCIAL SERVICES

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SECTOR ACTIVITY REMAINS  
HIGH AS CHINESE INVESTORS  
SEEK OPPORTUNITIES



## **P42** ENERGY – RENEWABLES

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RENEWABLES – MORE FOR  
LESS, SUBSIDY-FREE ON THE  
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# INDUSTRIAL PRODUCTS

IS M&A ACTIVITY SET TO SURGE IN THIS DYNAMIC SECTOR?

Industrial products is a very broad sector that includes Aerospace & Defence, Automotive, Chemicals, Engineering & Construction, Industrial Manufacturing, Metals and Transportation & Logistics.

## DEAL MOMENTUM BUILDS

The sector saw a record year in 2015, driven by blockbuster deals in some sub-sectors. 2016 had a reasonable start, despite the first quarter being some 5% lower than Q1 2015. Although 2016 finished with strong third and fourth quarters, the total deal value for 2016 was 3% lower than 2015 and volume was down 18%, principally driven by lower levels of M&A activity in the first half of the year.

With improved deal activity in the 2nd half of 2016, we are optimistic that 2017 will most likely be a good environment for deal-makers. The expectation of reduced tax rates, infrastructure investment, healthcare reform, and reduced government regulation in the US are positive factors for many deal-makers.

## TRADE VS PRIVATE EQUITY

In industrial manufacturing, strategic buyers were responsible for 78% of deal value and 67% of deal volume in 2016. Financial investors' share of 2016 M&A activity was below 2015 levels. Geopolitical uncertainty seemed to have a larger impact on deals for private equity than for strategic buyers. However, in Q4 2016, financial interest in the sector more than doubled from USD 3.1bn to USD 8.2bn, driven largely by three deals of over USD 1bn.

In the global chemical industry, the total value of mergers and acquisitions will top USD 300bn this year. 2016 saw several industry-altering transactions – Dow-Dupont, Bayer-Monsanto, ChemChina-Syngenta and Praxair-Linde – each worth between USD 40bn and USD 70bn. The key question is if these mega-deals are an exception, coincidence or evidence of a global consolidation in the chemicals sub-sector. Another new phenomenon is that China has become the largest country of origin for chemical industry M&A worldwide.

## Ten key trends expected to impact deal volume in the industrial manufacturing sector in 2017:

- Chinese players announcing cross-border acquisitions are also initiating and executing them. China has steadily increased its share of global deals to become the number one country in chemical mergers and acquisitions, making up 24% of transactions worldwide.
- Restrained demand for deals and large availability of capital around the globe, in particular China.
- Asian expansion will continue but the slow-down in China will impact regional exports. India and Africa are campaigning to make their countries better known and attractive to industrial investors searching for lower cost production locations and to serve as an alternative to China.
- Clarity around the Trump administration policies, including reduced regulation and government oversight, lower income tax rates, and future investments in infrastructure, healthcare reform and reduced government regulation in the US are positive factors for many deal-makers.
- The automobile sector is a case study in how a change in US trade policy could affect the entire supply chain. A large portion of Mexican exports to the US are auto parts which are then used in the numerous auto manufacturing plants across the US. Mexico exports over USD 60bn in auto parts to the US and Canada each year, accounting for much of its trade surplus with the US. In return, the US and Canada ship almost USD 30bn in auto parts to Mexico. Higher tariffs could push automotive manufacturers and suppliers into rethinking the location of production. Depending on the ultimate fall-out for component suppliers, localisation may become a driver of deals in the future.
- Political uncertainties in large economies, such as Brexit in the UK and the presidential vote in France, will have a direct effect on the future of the EU.
- Technology and digital integration are impacting every sector in some way. Whether it is to enhance a product or service or drive productivity or efficiency, sector participants will need to develop or acquire the innovative technologies needed to be market leaders or they may eventually become obsolete.



- Financial buyers saw decreases in deal value in 2016. The decrease in deal value is primarily driven by having only one mega-deal transaction in 2016 with a value of USD 4.1bn. In comparison, six mega-deals were backed by financial buyers in 2015 with a total value of USD 16.1bn. Non-mega-deal value and volume was mostly flat year on year.
- Financial buyers continue to show interest in the industry given the predictability of cash flows, continued global growth and opportunities to drive efficiencies through operating changes or consolidation.
- Low interest rates have certainly helped M&A activity. The recent rate increase by the Fed is unlikely to increase corporate borrowing costs dramatically but most players will realise that the low interest rate environment may eventually come to an end. This may actually encourage deal-making this year as delay may lead to more expensive future acquisitions.

## LOOKING AHEAD

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The pick-up in deal activity in the second half of 2016 leads us to believe that corporates are continuing to seek acquisitions to grow internationally and that this can drive strong M&A activity in the sector in 2017.



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# FINANCIAL SERVICES

SECTOR ACTIVITY REMAINS HIGH AS CHINESE INVESTORS SEEK OPPORTUNITIES

Since 2014, the number of global Financial Services mid-market M&A transactions has remained stable, fluctuating around a total of approximately 800 transactions per annum.

In 2016, a total of 784 Financial Services deals were recorded, compared to 821 in the previous year. Based on the preliminary number of transactions recorded in the first quarter of 2017 (129, on a global basis), we expect that the full year figures for 2017 will be equal, or a little lower, than 2016.

In the Horizons Q3 2016 edition, we emphasised that Greater China Financial Services deal volume doubled in 2015 compared to 2014 and we expected that it would remain at a high level in 2016. The full year 2016 deal volume of 103 transactions demonstrates the strength of the Financial Services mid-market M&A in Greater China.



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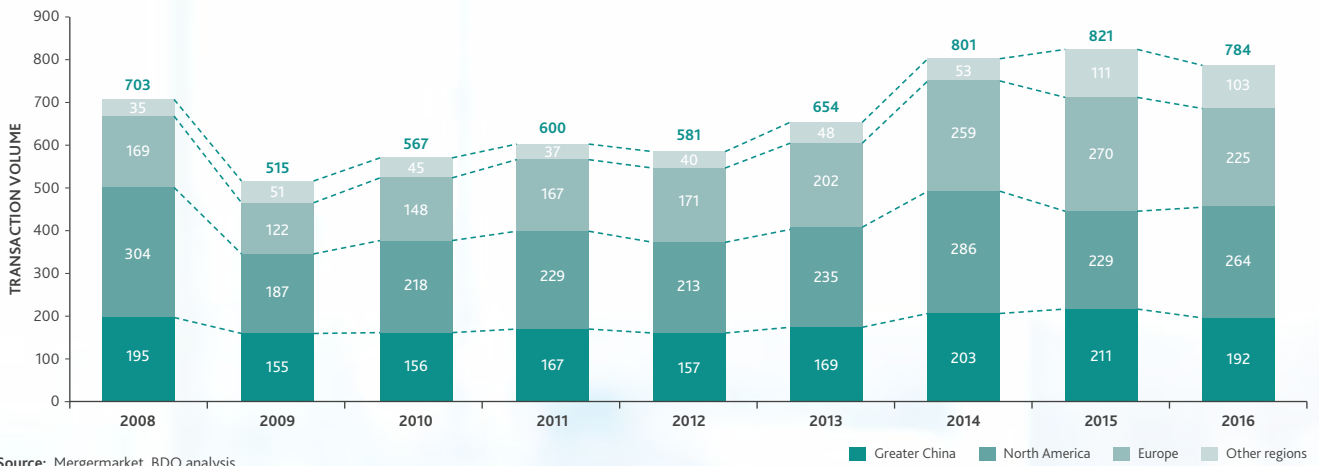
## LOOKING AHEAD

We anticipate that Chinese investors will continue to seek opportunities in the European Financial Services sector in 2017. Furthermore, we expect some Financial Services mid-market M&A activity in relation to changes in Iran sanctions. In Europe, after Article 50 was triggered by the UK and preparations for Brexit started, we noted upcoming Financial Services M&A activity as companies and investors seek to 'bridge' the Channel in both directions.



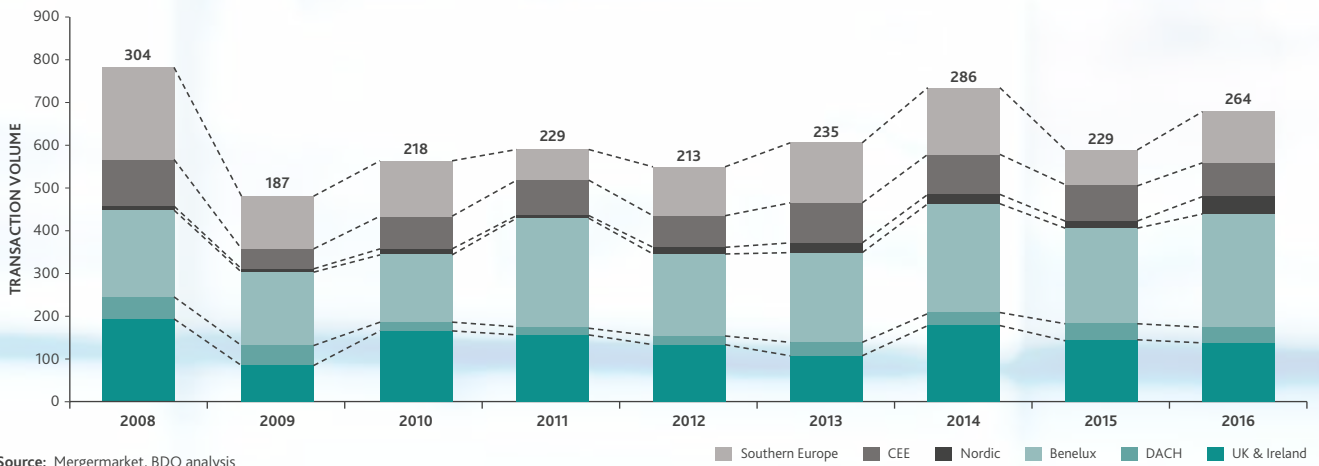


M&A FS MID-MARKET TRANSACTION VOLUME BY REGIONS 2008-2016



Source: Mergermarket, BDO analysis

EUROPE FS M&A VOLUME 2008 - 2016



Source: Mergermarket, BDO analysis





# ENERGY – RENEWABLES

RENEWABLES – MORE FOR LESS, SUBSIDY-FREE ON THE HORIZON?

## BIG PICTURE

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- Nearly USD 290bn invested in clean energy in 2016, with wind and solar dominating
- Largest investment in China, Europe and US, with a sharp drop in Japan
- Investment primarily in new build and refinancing but M&A continuing to grow – now USD 87bn per year.



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Investment in renewables has slowed from recent years with an 18% fall to around USD 290bn of new investment in 2016 due to falling wind and solar equipment costs, and a marked slowdown of financing in China and Japan. Solar has continued its march with more solar deployed than any other generation technology - renewable or otherwise. Offshore wind has also had a record year with nearly USD 30bn committed - over USD 14bn in four projects in the UK alone.

M&A still only accounts for about a quarter of all money going into renewables with over two-thirds of this going into wind and solar, but is steadily increasing as the sector matures. The number of deals held steady through 2016 from the previous year at around 220 per quarter but overall deal value rose to USD 88bn (see CleanEnergy Pipeline chart below). Construction costs have continued to decline with over 10% price drops in solar and wind in 2016 alone. As well as private equity and infrastructure funds already active in clean energy M&A, independent power producers (IPPs) and utilities have firmly stepped into this market with USD 32bn invested in 2016, an increase of over 60% on 2015.

Project finance of new assets has dropped to USD 187bn invested worldwide particularly driven by falling solar costs and a greater move to auction-based systems to allocate renewables capacity which has delivered significant cost reductions, e.g. record lows on tariffs such as USD 29.10/MWh for a solar project in Chile and subsidy-free offshore wind projects in Germany.

In the current low yield environment, the long-term inflation-linked returns available from renewables backed by government schemes are attracting institutional investors, e.g. USD 2.8bn of direct equity commitments to European renewable energy projects last year. Green bond issues have also been increasing rapidly to over USD 95bn in 2016, double the previous year, mainly raised in China, US and Europe. These included the first ever sovereign green bond, issued by Poland, and the largest green bond last year issued by Shanghai-based Bank of Communications Co. Ltd. at USD 4.4bn.

## REGIONAL VIEW

### US

In the US deal value was fairly flat as developers used the extension to the wind production tax credit and solar investment tax credit through to 2020. On the M&A side, however, several large deals saw clean energy M&A investments increase 25% to a total spend of USD 35bn.

### EUROPE

Project investment in Europe held up mainly due to major offshore wind financings in the UK and Germany, where the UK saw bumper investment of over USD 14bn into four giant offshore wind projects with more likely to come, although with a steep drop off in other areas such as onshore wind and solar. M&A activity was similar to last year at around USD 33bn.

### ASIA

Both China and Japan have seen a change of focus from rapid deployment of renewables to investing more in electricity grids and better integrating the capacity already built which has seen a marked cooling of investment – down 26% in China to USD 88bn and 43% in Japan to USD 23bn.

## NOTABLE DEALS

A prominent feature of 2016 was the rise in corporate M&A and notable public market exits as major new entrants and utilities positioned themselves and looked to new growth opportunities.

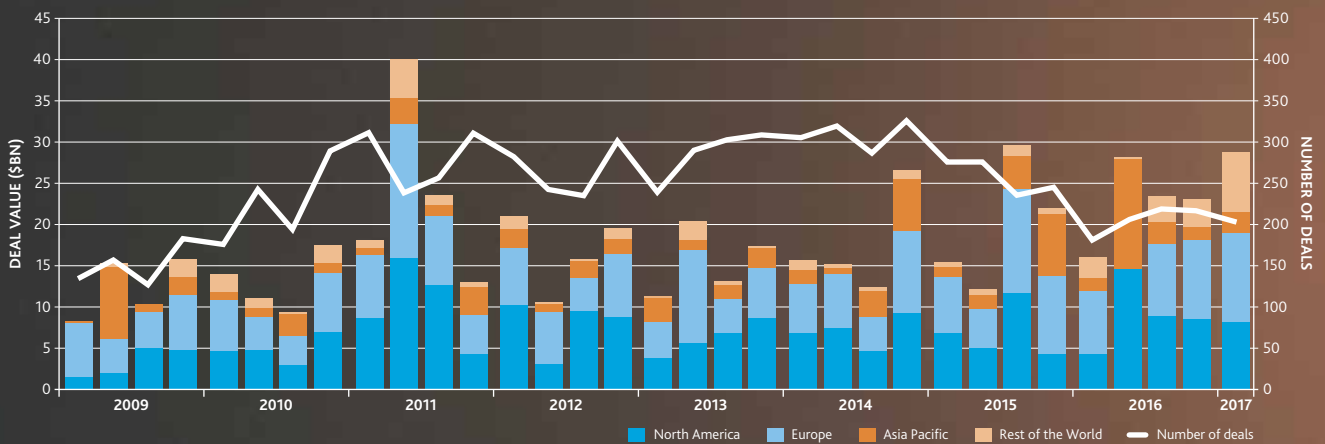
- Tesla's high-profile acquisition of solar company SolarCity for an enterprise value of USD 4.9bn, bringing the capability to deliver solar panels, storage and electric vehicles to customers under one roof.
- Italian utility Enel's buy out of its Enel Green Power subsidiary for USD 3.5bn. A subsidiary which was expanding much more quickly than the parent company. With Enel's increased commitment to renewables and phasing out thermal generation almost a reverse takeover.
- Dong Energy's long-awaited IPO for USD 3.3bn. Dong has transformed itself from one of the most coal-intensive utilities in Europe to the world's biggest offshore wind operator with further plans to double its capacity and to divest itself of the remainder of its fossil fuel businesses.
- RWE's former clean energy subsidiary Innogy raised USD 5.2bn through an IPO, returning over USD 2.9bn to RWE and raising USD 2.2bn in new equity for growth.

## LOOKING AHEAD

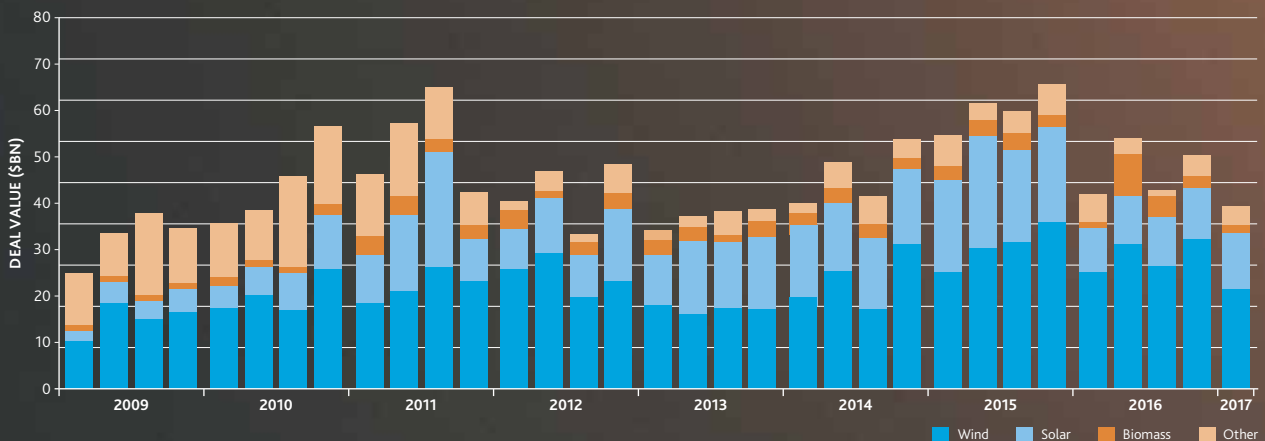
In a little over a decade renewables have moved from "alternative energy" to being the largest segment of new generation capacity installed year on year. With this has come major cost reductions, and wind and solar are now often cost competitive with coal or gas. However, much of this deployment has been de-risked by long-term government subsidies. Further deployment will need to compete head to head with the rest of the generation system without subsidy, with reduced costs and adaptation the way forward.

Wider changes are also coming through as cheaper storage, electric vehicles and a smarter, more distributed energy system make their mark. All of these changes will lead to strong growth in M&A as the energy sector restructures and assets move to long-term owners.

### M&A – FROM CLEANENERGY PIPELINE



### PROJECT FINANCE – FROM CLEANENERGY PIPELINE









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Data compiled by The Mergermarket Group.

We focus on the middle market, defined as deals with a value from \$5m to \$500m in US Dollars.

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