HORIZONS

BDO'S GLOBAL VIEW OF MID-MARKET DEAL ACTIVITY

MERGERS&ACQUISITIONS

ISSUE 4 | 2018

TRADING PLACES

HOW US TRADE AND TARIFF POLICIES MAY RESULT IN CROSS-BORDER M&A GAINS FOR EUROPE

REGIONAL VIEW

VIEWS FROM AROUND THE GLOBE

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WELCOME

WELCOME TO THE FINAL EDITION OF HORIZONS IN 2018, IN WHICH BDO M&A PROFESSIONALS AROUND THE WORLD PRESENT THEIR INSIGHTS ON MID-MARKET DEAL ACTIVITY AND TRENDS

As we come to the end of October, we are preparing for our annual corporate finance conference, which this year will be in Brussels in Belgium. We are expecting a strong attendance with around 130 delegates from 40 countries. So far, it has also been a record year for us in terms of completed deals. We continue to invest in teams and infrastructure around the world.

The global M&A market meanwhile has experienced a slow-down in deal activity compared to recent years but still remains at healthy levels. Indeed when viewed in terms of value, this decline is less pronounced.

In the "Global View" article, we take a closer look at the market trends by looking at the world in segments.

Our heat charts of global deal activity reveal reasons to be positive in terms of the outlook. We also look at the global themes that are influencing M&A. There are both bull and bear factors but on balance, we feel they are in favour of maintaining momentum in the market.

The current concerns are a mixture of political and economic. The political factors include Brexit, strained relationships with Saudi Arabia, the EU Italian budget row and US and China trade relationships. The economic factors include US interest rates and US industrial bellwethers and slowing Chinese growth. The capital markets should feel the brunt of this but that does not always translate into less M&A as strategic drivers, cash and opportunities will remain.

In the "Trading Places" article, we focus in on the impact of US trade and tariff policies on M&A activity. China's loss could be Europe's gain as Chinese:US deals are frustrated by US regulators. Indeed, we have noticed an increase in Chinese M&A in Europe.

In the "Sector View" articles, we examine Facilities Management, Life Sciences and Natural Resources. Facilities Management M&A continues apace and is becoming increasingly international in flavour. At the same time the acquisition of technology (one of the themes identified in our Global View) is becoming a major driver. In Life Sciences, we outline the fundamental reasons why we believe M&A activity will thrive and buck economic cycles. Rising commodity prices continue to fuel M&A activity within Natural Resources.

Finally, we bid farewell to our previous Global Head of M&A, Marek Franke from Switzerland. Marek has made a significant contribution to the development of our own global M&A business and he now becomes an important part of our alumni network around the world.

We hope you enjoy this edition of Horizons whilst getting deals done in the run into the festive season and we look forward to our next publication in 2019 with continued optimism.

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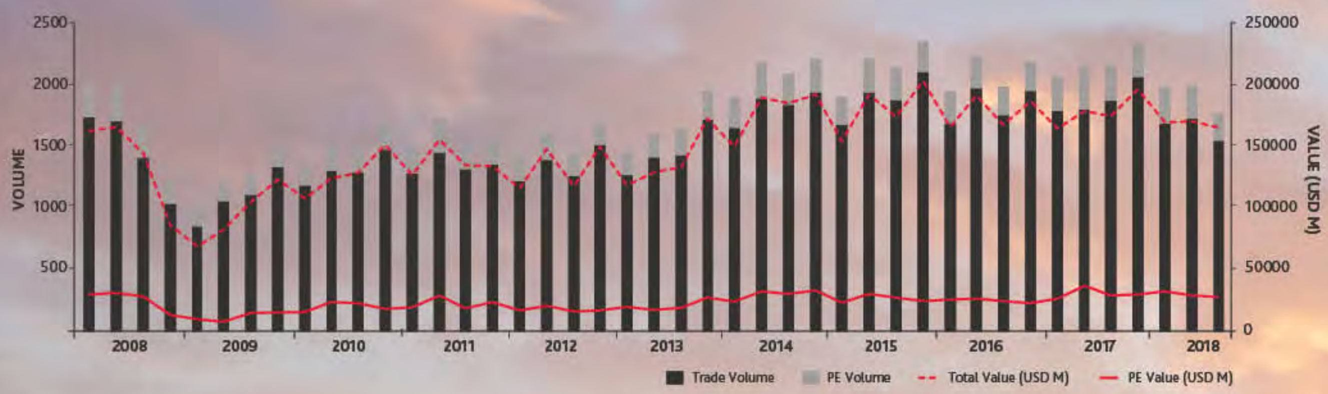
GLOBAL VIEW

VALUES REMAIN HIGH BUT VOLUMES FALTER

Reading the headlines around global M&A activity, the overall impression is one of soaring values and mega-deals. But how does that translate to mid-market transactions? The answer is that value has held up well but that volume does not match up so well. Putting those two together implies that prices and individual deal sizes remain high, which our experience in the market would support.

GLOBAL MID-MARKET M&A



To look at whether the faltering volume is common spread, let us divide the globe into four groupings: North America, Europe, China and the Rest of the World. Each of these groups typically represent similar amounts of global mid-market deal activity. In Q3 2018, activity declined in all four global groupings, with only China experiencing a more modest fall. In other recent quarters, there have been offsetting movements.

However, our BDO Global Heat Charts, which predict deal activity, do not give us any great cause for concern. There is almost exactly the same number of rumoured deals around the world as the number of actual deals completed in the last 12 months, which stands at over 8,000. Looking at the Heat Charts in the same four global groupings, North America, Europe and the Rest of the World would all be up while China would be down.

GLOBAL BDO HEAT CHART BY REGION AND SECTOR

	Technology & Media	Industrials & Chemicals	Consumer	Business Services	Pharma, Medical & Biotech	Financial Services	Energy, Mining & Utilities	Leisure	Real Estate	TOTAL	%*
North America	568	297	364	234	396	135	164	62	46	2,226	28%
China	213	375	126	143	101	115	79	50	58	1,260	16%
Southern Europe	101	121	133	86	29	39	34	29	10	582	7%
CEE & CIS	96	145	78	67	33	51	29	27	12	538	7%
Australasia	87	67	108	85	41	41	61	23	12	525	6%
South East Asia	86	73	77	66	32	42	46	39	26	487	6%
UK & Ireland	123	50	58	58	33	46	42	25	10	445	5%
Latin America	70	64	51	55	17	27	57	15	7	363	4%
DACH	62	98	43	35	18	20	14	8	1	299	4%
Other Asia	62	77	27	18	33	18	14	9	1	259	3%
Nordic	50	37	27	28	25	14	15	10	3	209	3%
Benelux	52	38	33	35	13	15	7	8	3	204	3%
India	39	37	30	18	18	28	12	7	5	194	2%
Japan	41	45	19	27	21	16	3	3	5	180	2%
Africa	18	42	15	24	6	20	30	6	7	168	2%
Israel	43	16	5	9	9	5	3	2	1	93	1%
Middle East	17	3	4	5	3	6	13	2	3	56	1%
TOTAL	1,728	1,585	1,198	993	828	638	623	325	210	8,128	100%
	21%	20%	15%	12%	10%	8%	8%	4%	3%	100%	

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

GLOBAL THEMES INFLUENCING M&A

Strategic buyers are still dominating global deal flow – over 85% of global deals are led by strategic buyers but they remain selective and high prices can limit appetite.

Larger groups have been divesting some non-core activities – driven in part by focus and in part by shareholder influence.

Private equity continues to grow – there are record levels of dry powder and an increasing number and spread of funds. If there is a slowdown in the appetite of boardrooms, private equity should benefit.

Cash and capital are available – there is a large amount of cash on corporate balance sheets as well as in institutional and private wealth funds and attractively priced debt.

Industrials & Chemicals and TMT remain the dominant sectors – between them, they represent more than one in four transactions.

Digital capability is a strong driver of deals – the acquisition of technologies or capabilities and not just by TMT groups but by all types of acquirer.

Global politics is a factor – some European groups are waiting to see what a Brexit deal looks like and Chinese outbound focus is shifting from the US to Europe.

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TRADING PLACES

HOW US TRADE AND TARIFF POLICIES MAY RESULT IN CROSS-BORDER M&A GAINS FOR EUROPE

Through the first nine months of 2018, the environment for global M&A activity continues to be extraordinarily positive as booming economies, abundant cash, unprecedented public equity valuations and still relatively low interest rates are fueling an insatiable appetite for deals for corporates and private equity firms alike.

As a result, year-to-date global M&A value through September climbed 22% compared to the same period last year to reach US$2.7 trillion. Despite the impressive showing for M&A thus far in 2018, many market observers believe the numbers could be even stronger if not for the aggressive protectionist actions of the United States.

Sizeable trade tariffs, once viewed by analysts as idle threats with little chance of being enacted, have become a sobering reality in many parts of the world. Long-established trade treaties and pacts have been summarily dismissed by the Trump Administration as unfair, poorly conceived, one-sided agreements that created enormous trade imbalances between nations and trading blocs. US demands for new agreements have been accompanied by import levies as high as 25% and are being applied to a growing list of goods from steel to soybeans.

The newly implemented tariffs by the US have triggered a series of reciprocal trade and protectionist actions by countries around the world. The result has led to inflationary pressures as raw material prices rise and supply lead times get extended. The automotive, construction, consumer electronic and agricultural sectors have been particularly hard hit, although the damage assessment on the global economy is nowhere near complete.

Meanwhile, as trade tensions escalate, deteriorating relationships between nations have directly impacted the M&A markets as foreign investment rules and deal approval processes are being tightened to further increase the oversight – and outright control – governments have over cross-border M&A.

The US-China trade war comes as eight Chinese M&A deals were cancelled in the US due to regulatory and political concerns in the first half of 2018, including the decision by the US to block MoneyGram's sale to Ant Financial on national security concerns. The US also blocked a planned takeover of chipmaker Qualcomm by rival Broadcom, also on national security grounds. In turn, China effectively killed Qualcomm's $44 billion purchase of NXP. For the first half of 2018, the value of completed Chinese M&A deals in the US fell 92% year over year compared to a 4% increase for Europe according to a study by Baker McKenzie.

From an M&A perspective, Europe may be the beneficiary of a prolonged US-China trade war. As relations deteriorate and the two superpowers jockey for positioning, China may indeed take its investment dollars elsewhere.

In addition, China's increasing appetite for European technologies, specifically in areas such as 5G, artificial intelligence and blockchain will drive deal activity further. Chinese investors already show more interest in Europe than the US and increasingly strained China-US trade ties will continue to fuel that trend.

Meanwhile, initial trade tensions between the EU and the US have died down and now appear to be track for an amenable solution. With the China standoff building, US companies and PE firms may look to Europe anew to fill the void. Europe offers lower regulatory hurdles, relatively stable political relations and a wealth of emerging technologies and high-tech assets that buyers crave. As a result, as China and the US continue to do battle and widen the divide, Europe is in a prime position to pick up the pieces.

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GLOBAL

8,128 RUMOURED TRANSACTIONS

P07 | **NORTH AMERICA**

MID-MARKET M&A ACTIVITY CONTINUES TO LAG IN Q2 DESPITE POSITIVE ECONOMIC SIGNS

P09 | **LATIN AMERICA**

M&A ACTIVITY IN THE REGION CONTINUES TO STRUGGLE

SECTOR VIEW

Key % movement

-20% to -11%	-10% to -1%	0%
1% to 10%	11% to 20%	

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

NORTH AMERICA

MID-MARKET M&A ACTIVITY SLOWS DOWN DESPITE POSITIVE ECONOMIC SIGNS

BIG PICTURE

- Deal volume was down 6.8% in Q3 2018 against the previous quarter and down 19.3% compared to Q3 2017
- Deal value was down 7.4% in Q3 2018 against Q3 2017 and up 5.0% from the corresponding quarter
- Hints of clarity into political agendas, tax reform, trade agreements and their effect on the North American economy have not translated into increased mid-market M&A activity
- Q3 2018 activity declined in all sectors compared to the previous quarter apart from Consumer, Energy, Mining & Utilities and Pharma, Medical & Biotech sectors. The biggest falls were in Business and Financial Services.

Overall, North America experienced a downward trend in the volume of mid-market M&A deals during Q3 2018.

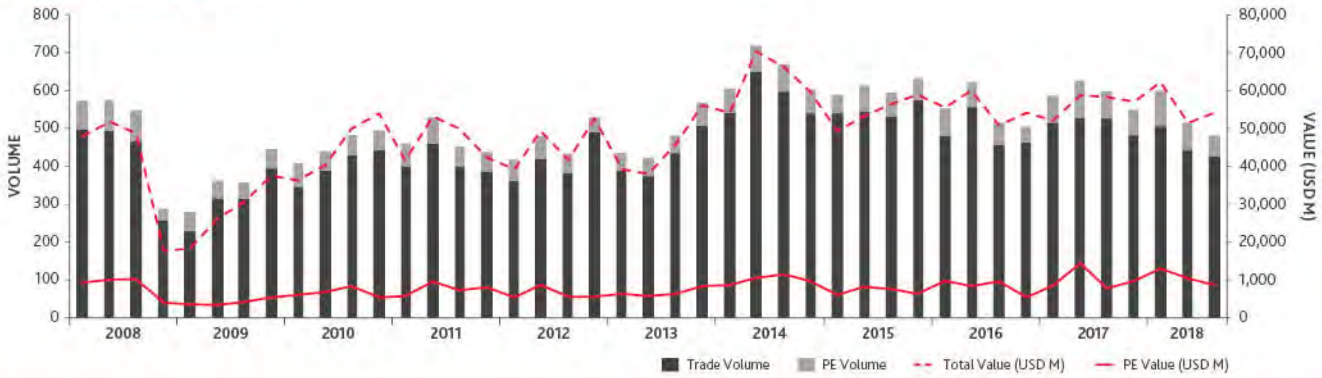
Deal volume fell to the lowest level since Q2 2013 with 482 deals completed with a value of USD 44.0bn. Despite the positive market conditions including abundant cash levels, low interest rates and strong equity markets, both strategic and PE investment weakened in the past quarter.

The overall economic landscape for both Canada and the US showed positive signs throughout Q3. The S&P 500 and NASDAQ grew 7.7% and 7.1% respectively over the quarter. US gross domestic product is expected to grow to 3.2%, although this is less than the Q2 growth of 4.2%, the strongest growth rate in nearly four years. The US employment rate was at an 18-year low and US corporate profits have increased by over 20% in 2018. The Canadian economy lagged behind the US with the S&P/TSX Composite Index returning -1.3% in Q3 2018. In September, the Canadian economy saw strong job creation through the addition of 63,000 net jobs, more than doubling expectations. Furthermore, Canada's latest available trade balance posted its first surplus since 2016 amidst continuing trade agreement negotiations. This strong economic picture resulted in the US central bank raising its base rate by 25 basis points in September, citing optimistic views on economic growth. Similarly, the Bank of Canada raised its benchmark rate by 25 basis points in July 2018.

MEGA-DEALS DRIVE M&A ACTIVITY

For over a year, North America's prevailing economic tailwinds, including strong equity markets, low interest rates and corporate tax reductions have driven unprecedented multi-billion dollar mega-deals while mid-market deal activity has continued to lag behind. Buyers have been focused on industry consolidation and driving inorganic growth at levels which cannot be matched organically through large transactions at aggressive valuations. In the wake of these mega-deals it appears the mid-market

PE/TRADE VOLUME & VALUE



has taken a more cautious approach to M&A. While the economic landscape has remained positive, the regulatory and political landscape has continued to be volatile. Potential trade wars and protectionist policies within North America and across the globe continue to be a concern. However, a major step forward for North America was taken at the end of Q3 2018 to mitigate some cross-border regulatory uncertainty. After more than a year of negotiations, the US, Canada and Mexico came to a tentative agreement surrounding NAFTA (North American Free Trade Agreement), now USMCA (United States-Mexico-Canada Agreement). With cross-border M&A activity seeing a slight up-tick between quarters, a finalised negotiation may alleviate some of the prevailing uncertainty around investment for investors and industry operators.

An additional factor that has not had the expected impact on M&A in the mid-market and as a whole is the repatriation of US profits. 2018 has seen a record repatriation, fuelled by the tax reduction package implemented earlier in the year. The enticement was offered to spur domestic investment, however, it appears that the repatriated cash is almost entirely being used for shareholder distributions as corporate buy-backs are at a multi-year high.

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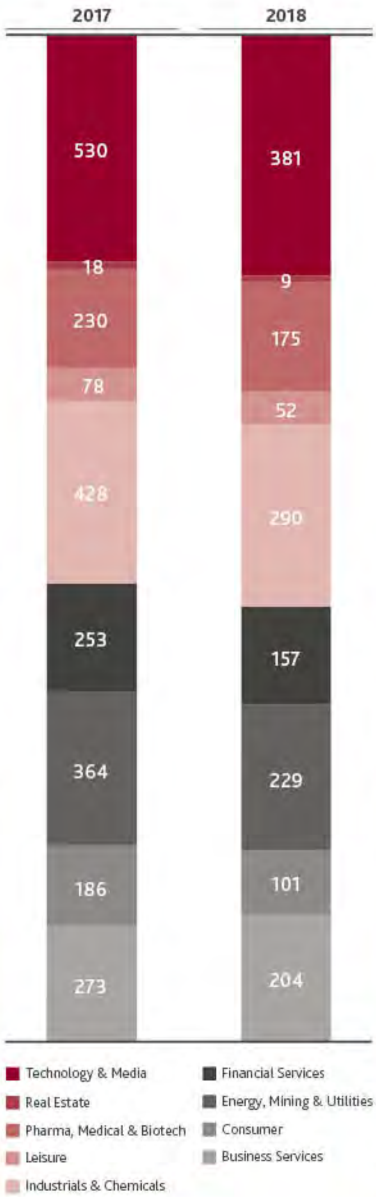
LOOKING AHEAD

Moving forward, North American M&A mid-market participants will tread cautiously as interest rate hikes, steep equity valuations and trade policies all represent concerns which may indicate the economy may not be able to continue down its current positive path and thus hinder M&A activity. Conversely, there are plenty of positive industry dynamics which present the opportunity to fuel the market in the near term. First, the Technology, Media and Telecommunications industry is experiencing rapid change as North American, and especially US firms try to advance 5G network rollout at a faster pace than its global competitors. By establishing the network first, the subsequent opportunities it will create, especially in the technology sectors will likely drive increased M&A investment from both domestic and international market participants. Next, the cannabis industry in Canada saw continued growth in Q3 as the market continues to wait and see the unique effects of introducing a brand new market overnight. It is widely estimated the creation of a new market will spark a boom in capital markets and the M&A space in Canada. However, the potential negative cross-border effects with the US will need to continue to be monitored. Lastly, we expect both strategic and private equity buyers will continue to look to deploy increasing amounts of cash while access to large amounts of capital is still readily available at a reasonable cost.

NORTH AMERICA
HEAT CHART BY SECTOR

Technology & Media	568	25%
Pharma, Medical & Biotech	396	17%
Consumer	364	16%
Industrials & Chemicals	297	13%
Business Services	234	10%
Energy, Mining & Utilities	164	7%
Financial Services	135	6%
Leisure	62	3%
Real Estate	46	2%
TOTAL	**2,266**	**100%**

NORTH AMERICA
MID-MARKET VOLUMES BY SECTOR



LATIN AMERICA

M&A ACTIVITY IN THE REGION CONTINUES TO STRUGGLE

BIG PICTURE

- M&A activity in the region continued its downward trend from Q4 2017 in terms of deal value and volume
- Technology & Media was the busiest sector in the heat chart, followed by Industrials & Chemicals and Energy, Mining & Utilities
- Brazil was the quarter's most active country with three of the top 10 deals with a value of USD 1,072m.

M&A activity in Latin America for the mid-market segment completed a total of 50 deals in Q3 2018 worth USD 5,123m, which represents a fall of 39.7% in the number of deals and a fall of 35% in value compared with the previous quarter.

In comparison with Q3 2017, both the number of deals and the value were down (33.3% and 3.9% respectively). Looking at the last 12 months, the accumulated number of deals was 308 with a value of USD 28,120m, which compared to 320 deals and USD 30,266m for the same period in the previous year, shows a drop of 3.8% in volume and 7.1% in value.

In Q3 2018, two deals worth USD 500m were PE transactions, representing 4% of the quarter's deal count and 9.8% of the value.

Overall, the average deal value was USD 102m, the highest since the USD 107m average in Q2 2017.

KEY DEALS AND SECTORS

The top ten deals for Q3 2018 recorded a total of USD 2,891m, with Brazil leading the way in terms of target countries with three deals worth USD 1,072m, followed by Chile with two deals worth USD 563m and the Dominican Republic with one deal worth USD 330m.

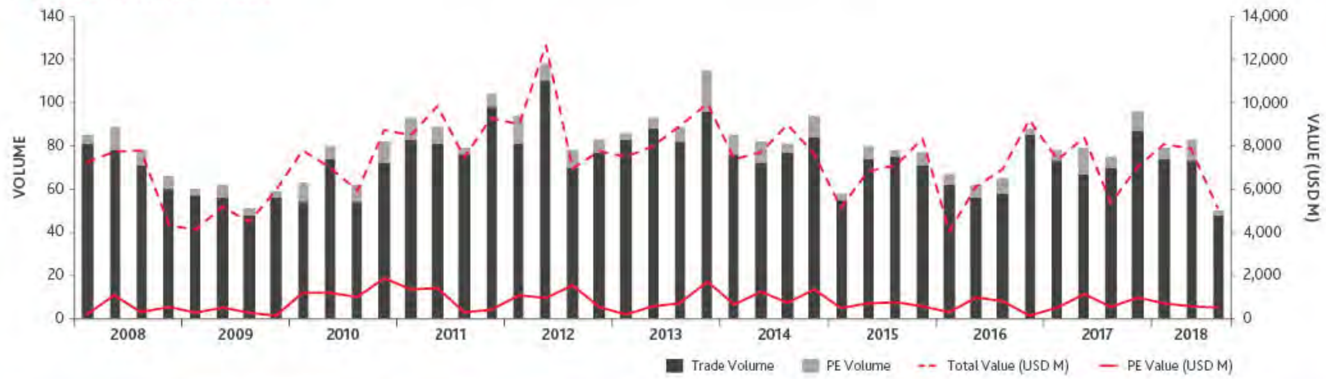
Looking at bidder countries, Canada topped the list with three deals worth USD 874m (30%), followed by Brazil with one deal worth USD 400m (14%) and Norway with one deal worth USD 379m (13.1%). Looking at deal value from the bidder perspective, 63.2% of investment came from outside the region.

The biggest deals in Q3 were in Business Services, which saw the sale of Andrade Gutierrez Participacoes S.A to IG4 Capital Investimentos Ltda. from Brazil for USD 400m and in Energy, Mining & Utilities, which saw USD 879m in total deals, the main deal of which was sale of the 10% stake of Block BM-S-8 to Equinor ASA from Brazil for USD 379m. Argentina also appeared in the top 10 with the sale of the mining tenements of Sal de Vida Project from Galaxy Resources to POSCO for USD 245m.

As 2018 develops, it is clear that M&A activity in Latin America is not as strong as was expected at the beginning of the year, with the region suffering from the impact of a strong dollar, increased interest rates and lower growth rates.

In particular, Argentina is struggling to keep its promise of stabilising macroeconomic variables to create growth and attract investments.

PE/TRADE VOLUME & VALUE



As grey as the picture seems, the economic outlook is not as bad as it was under the previous administration. Argentina's return to the financial markets and the revived interest of foreign investors in the country is genuine and gives hope for future M&A activity, as evidenced by big cross-border transactions such as POSCO's acquisition deal in the mining sector in Q3. The new agreement with the IMF is expected to add compliance and credibility to the country's economic programme with the aim of normalising macroeconomic variables. But for this to happen, the country will have to go through a recession before growth can resume. In terms of M&A activity, the markets have overreacted, discounting prices at higher rates than what they actually should be. This is positive news for investors seeking higher returns and represents a good time to enter the market at lower prices and capitalise on investments in the medium term. In Argentina there is potential in sectors that are strategic and structural to the country such as agro, energy and services related to know-how specific industries such as IT.

LOOKING AHEAD

The BDO Heat Chart shows a total of 363 deals that have either been announced or in progress, which represents 4% of the Global Heat Chart. Opportunities are concentrated in the TMT, Industrials & Chemicals, Energy, Mining & Utilities and Business Services sectors with a total of 70, 64, 57 and 55 deals respectively. This presents a different picture compared to Q1 2018 where Consumer was the leading sector and TMT was in fourth position.

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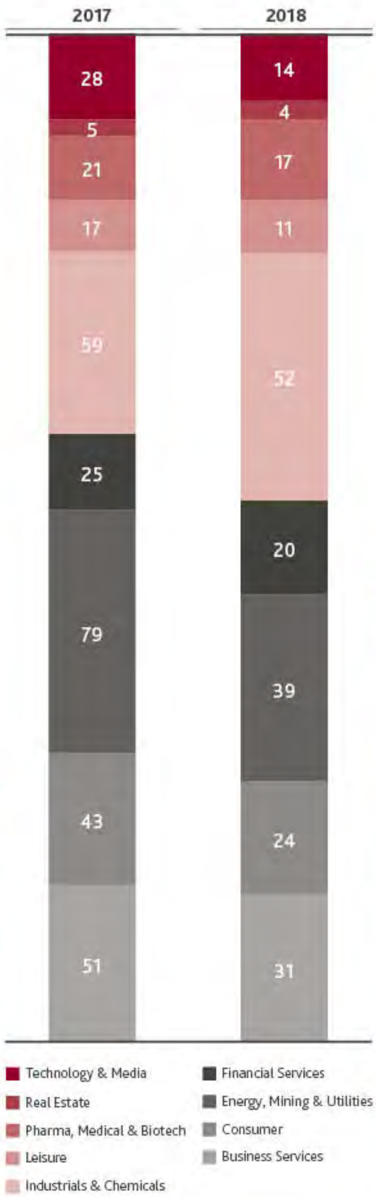
LATIN AMERICA
HEAT CHART BY SECTOR

Technology & Media	70	19%
Industrials & Chemicals	64	18%
Energy, Mining & Utilities	57	16%
Business Services	55	15%
Consumer	51	14%
Financial Services	27	7%
Pharma, Medical & Biotech	17	5%
Leisure	15	4%
Real Estate	7	2%
TOTAL	**363**	**100%**

LATIN AMERICA
MID-MARKET VOLUMES BY SECTOR



UNITED KINGDOM & IRELAND

SUBDUED QUARTER SEES VOLUME FALL BUT VALUE REMAIN STEADY

BIG PICTURE

- Q3 2018 was the quietest third quarter since 2012
- Reduced activity reflected lack of confidence in market as Brexit uncertainty bites
- UK & Ireland companies remain attractive to international buyers.

Despite the pick-up in M&A activity between April and June, Q3 2018 was a markedly subdued quarter with only 121 deals completing, representing a 22% decrease in overall volume and a similar deal level to Q1 2018.

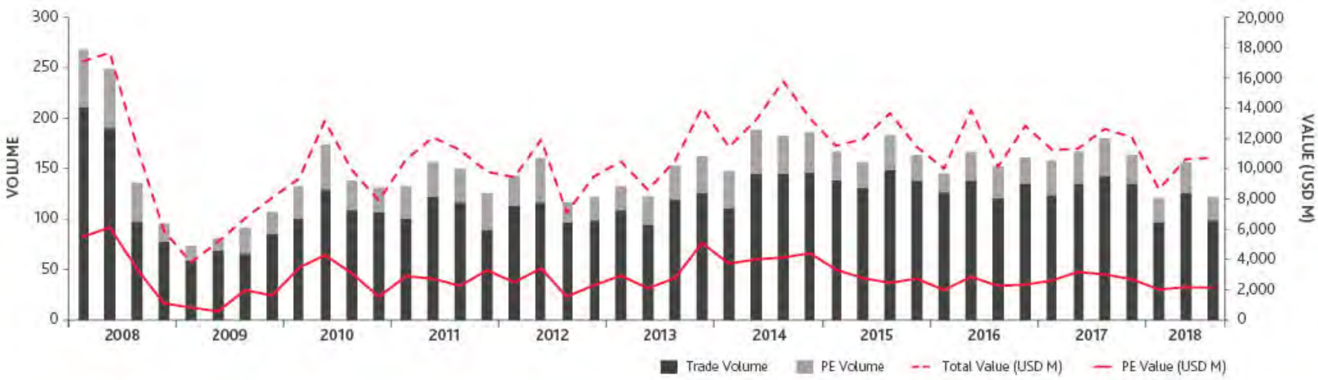
It is notable that both the first and third quarter of 2018 have been the quietest since 2012 and although value remained steady at USD 10.6bn, the reduced activity is reflective of the lack of confidence across the mid-market as the uncertainty of Brexit becomes a key factor for many buyers.

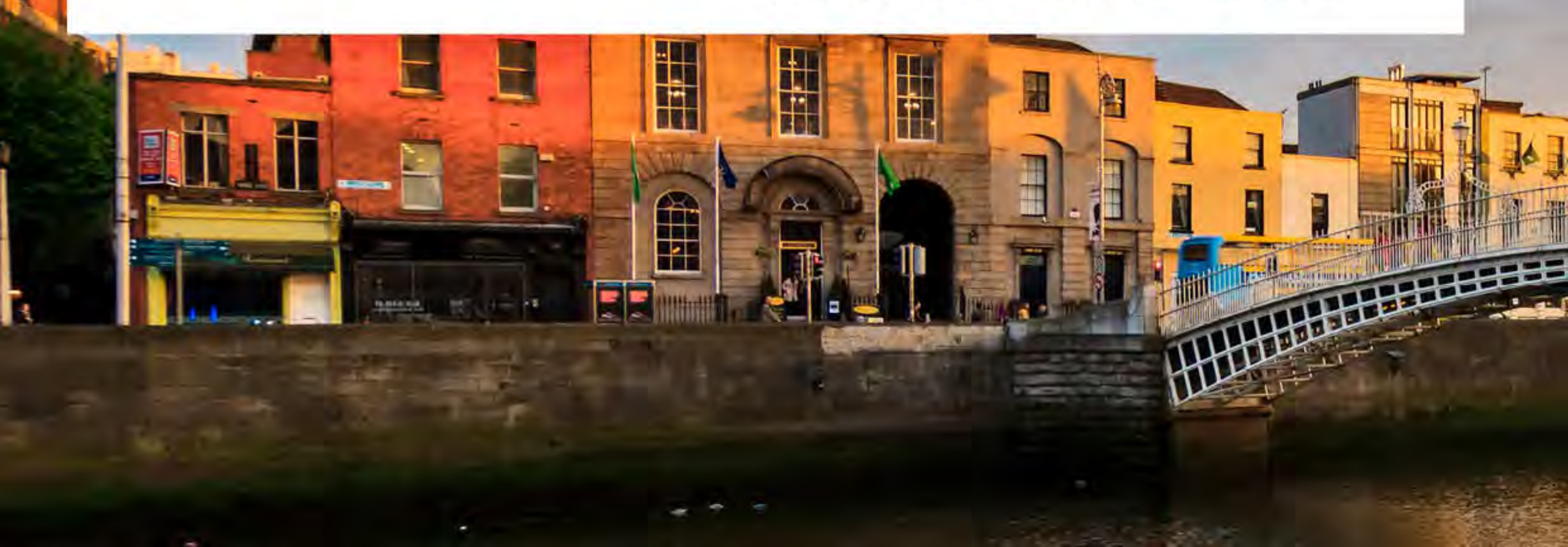
This caution is being exercised by both trade and equity buyers, with only 23 PE deals completed compared to 37 during the same period in 2017. For many PE buyers the challenge is identifying companies that have the ability to scale. With increased funding available, valuations continue to rise and this is reflected in the fact that the total value of PE deals for 2018 remained the same as 2017, despite a 25% decline in number of transactions.

Similarly, the volume of trade deals dropped from 125 in Q2 to 98 completed deals in Q3. However, the total value increased slightly from USD 10.5bn to USD 10.6bn as trade buyers focused on larger transformational M&A, the biggest deal being HP's acquisition of Apogee for £305m. It is interesting to note that the top 10 transactions represented over one third of the total value while deals of less than USD 100m represented approximately 75% of total activity.

Despite the ongoing market uncertainty, companies in UK & Ireland are still attractive to international buyers. Although total inbound activity has declined in the UK, it was encouraging to see that five of the top 10 transactions were US and Japanese buyers. Also included in the top 10 transactions was Applegreen's €361.8 million acquisition of a majority stake in UK forecourt operator Welcome Break. A number of Irish buyers are currently looking to acquire UK companies as they see opportunities to secure and consolidate their market position while other companies look to protect their supply chain.

PE/TRADE VOLUME & VALUE





KEY SECTORS

From a sector perspective, Consumer and Leisure both remained relatively buoyant with a number of PE buy-outs, including Duke Street's acquisition of Great Rail Journeys and Vitruvian Partner's acquisition of Travel Counsellors Ltd. Business Services suffered a 35% decline with only 17 deals completing, which is to be expected as companies await the likely outcome of Brexit. Similarly, Industrials & Chemicals plummeted by 43%, but this was partially due to the fall-off from the unusually high levels of the sector's M&A activity during the first half of 2018.

However, the real surprise was the 43% drop in TMT, with only 21 deals completing – the quietest quarter for this sector in over five years. High valuations has been listed as one of the primary inhibiting factors, but regulatory uncertainties and the emerging trade wars appear to be dampening the appetite for larger deals.

LOOKING AHEAD

Looking ahead, the market intelligence in the BDO Heat Chart shows a continued strong level of rumoured deals at 423. This is in keeping with our own experience and the amount of funds that are available for M&A transactions, both on corporate balance sheets and in private equity funds, and the cost of debt despite an interest rate rise is still relatively low. The TMT sector leads the way with a massive 120 deals of all rumoured deals. TMT is followed by the Financial Services and Business Services sectors, with half that number of rumoured deals each. We remain optimistic for the M&A prospects of the region as whole.

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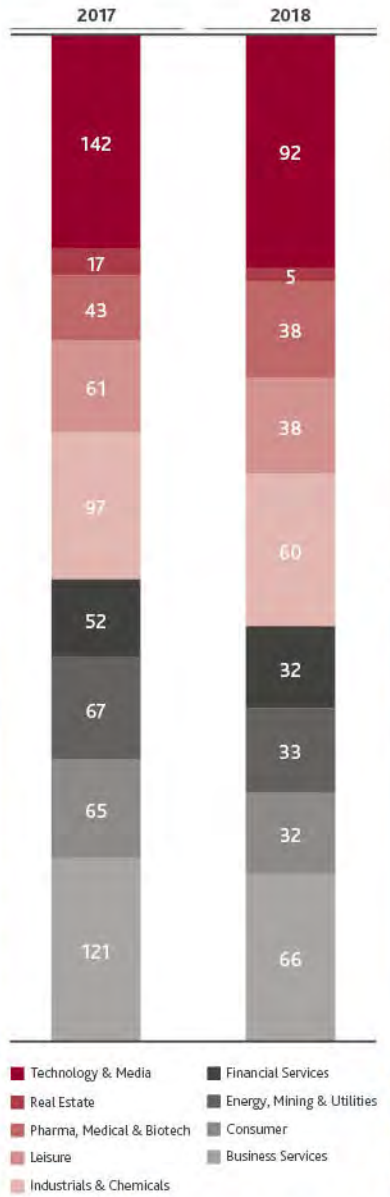
UNITED KINGDOM & IRELAND
HEAT CHART BY SECTOR

Technology & Media	123	28%
Consumer	58	13%
Business Services	58	13%
Industrials & Chemicals	50	11%
Financial Services	46	10%
Energy, Mining & Utilities	42	9%
Pharma, Medical & Biotech	33	7%
Leisure	25	6%
Real Estate	10	2%
TOTAL	**445**	**100%**

UNITED KINGDOM & IRELAND
MID-MARKET VOLUMES BY SECTOR



SOUTHERN EUROPE

DEAL ACTIVITY CONTINUES TO FALTER IN 2018

BIG PICTURE

- Q3 2018 recorded lowest transaction volumes since Q4 2013
- Average deal size kept increasing, reaching USD 93m
- Industrials & Chemicals maintained position as leading sector for deal numbers
- Consumer expected to become most active sector in foreseeable future.

With only 119 transactions completed during the quarter, with an aggregate value of USD 11bn, Q3 2018 was the quietest since Q4 2013. Comparing Q3 2018 with Q2 2018, there has been a sharp decline in both transaction volumes and value by 22.2% and 18.6% respectively. In addition, further comparison of Q3 2018 with the corresponding period in 2017 reveals an even worse outcome, with a 27.0% decrease in transaction volumes and a 19.9% decrease in total value.

This data can partially be explained by the recent market trend in M&A, which has seen a focus on a fewer number of larger transactions. The average deal size during Q3 was about USD 93m, slightly above the yearly average, confirming this trend.

PE activity experienced a particularly negative quarter with only 28 transactions, with a value of USD 3bn, which represents almost 27.8% of the value generated by total transactions. Also, it is interesting to note that this was the first quarter in the last two years in which PE's proportion of total value has decreased. Compared to Q2 2018, PE activity saw big declines in volume and value, by 12.5% and 24.6% respectively. The same conclusion can be drawn by looking at the results over the last year, which has seen PE transaction volume fall by 37.8% and value by 18%.

Finally, the average PE deal size has been volatile over the past year, with a decline from USD 128m in Q2 2018 to USD 110m in Q3 2018.

KEY SECTORS

Industrials & Chemicals confirmed its place as Southern Europe's most active sector for the 15th quarter in a row, accounting for 28 deals during Q3 (23.5% of total transactions). However, the volumes recorded were at their lowest levels since Q1 2014, falling sharply by 36% from Q2 2018.

TMT followed with 22 deals closed (18.5% of total transactions), showing a 29.4% increase in volume, which made it the best performing sector. Business Services and Consumer accounted for 12.6% of the total deals (the only two sectors to show increased volumes apart from TMT), while Pharma, Medical & Biotech, Financial Services and Energy, Mining & Utilities were responsible for 10.1%, 9.2% and 6.7% respectively of the deal numbers.

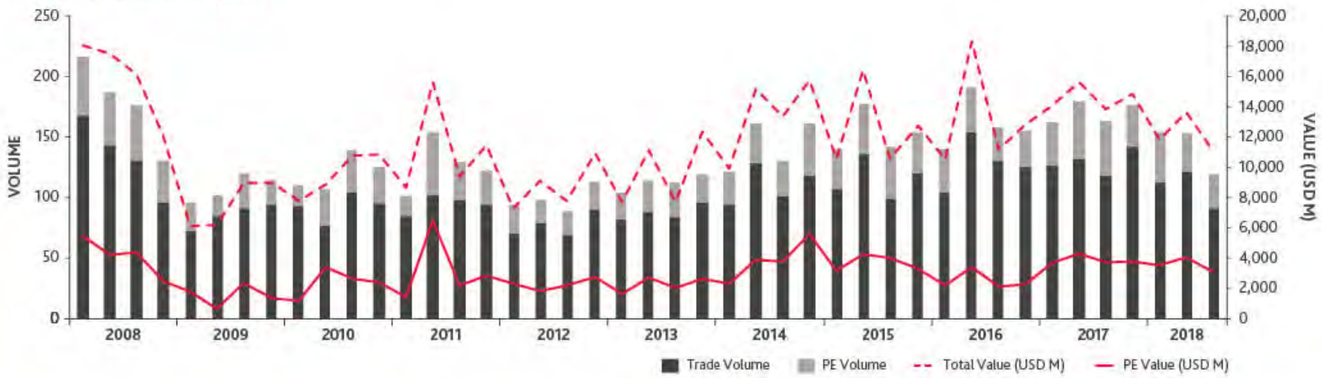
Leisure performed particularly badly with only six deals (64.7% down compared to the previous quarter), but the sector with the least number of deals remained Real Estate, with only two deals in Q3.

KEY DEALS

The top 10 mid-market deals totalled USD 3.68bn, representing 33.2% of all transactions that took place in Southern Europe in Q3 2018.

The largest transaction of the quarter was the acquisition of a French company operating in the Business Services sector, Technicolor SA, by American company InterDigital for USD 475m. Following this, the acquisition of 9.9% of Telxius Telecom S.A. operating in the TMT sector for USD 441m was the second biggest deal. Further transactions worth mentioning

PE/TRADE VOLUME & VALUE



were Barnes Group's acquisition of Gimatic S.r.l. in the Industrials & Chemicals sector for USD 434m and the acquisition of the Metrologic Group S.A.S by Sandvik AB for USD 420m.

In Q3's top 10 deals, French companies were the most appealing for international bidders, with three deals completed, two by American companies and one by a Swedish firm, for a total value of USD 1.2bn.

Finally, one last factor that needs highlighting is that TMT was the most attractive sector for major transactions. In fact, TMT deals accounted for four out of the top 10 acquisitions with a total of USD 1.5bn and representing 39.9% of the total value generated by the top 10.

FOCUS ON ITALY: KEY DEALS AND SECTORS

The Italian mid-market saw several transactions during this period that are worth mentioning.

Michael Kors Holding acquired Versace, the iconic Italian fashion house, at the end of September in a USD 2,12bn deal. The Versace family owned 80% of the business, with the US private equity group Blackstone holding the remaining 20% stake. The group will officially change its name to Capri Holdings, and the Versace family will maintain a position within the company as Donatella Versace will stay on as a creative director as well as being a shareholder in the new group.

Fiat Chrysler Automobiles, an Italian-American automotive group, has planned a spin-off of Magneti Marelli to Calsonic Kansei, a Japanese company owned by private equity fund KKR and the deal is expected to be completed by the end of October.

It has recently been announced that IREN Energia has acquired the controlling interest in Maira S.p.A. as a part of the group's expansion plan. In addition, the transaction included exercising a put/call option for the purchase of 60% of the shares in Alpen 2.0 S.r.l.

Finally, the deal between Italy's Atlantia and Spanish motorway concession holder Abertis is expected to be finalised in the coming weeks.

LOOKING AHEAD

Looking ahead, the BDO Heat Chart highlights that the cumulative volume of PE in Southern Europe is predicted to reach 582 deals, which is forecasted to represent 7.2% of total global transactions. The Consumer sector is predicted to be the most active in terms of deal volume, accounting for 22.8% (133 deals) of the region's transactions. Industrials & Chemicals and TMT are the next most active sectors, with 121 and 101 deals respectively predicted to be concluded in the future (20.8% and 17.3%). Collectively, these three sectors are expected to represent 61% of the total volume of expected transactions.

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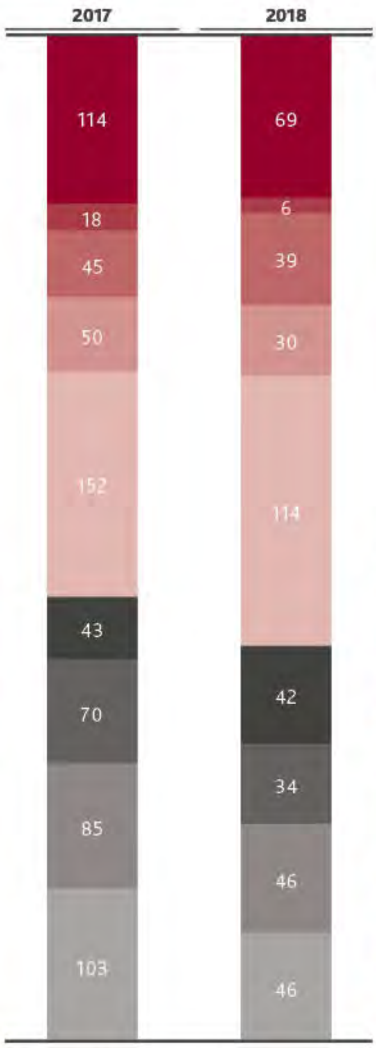
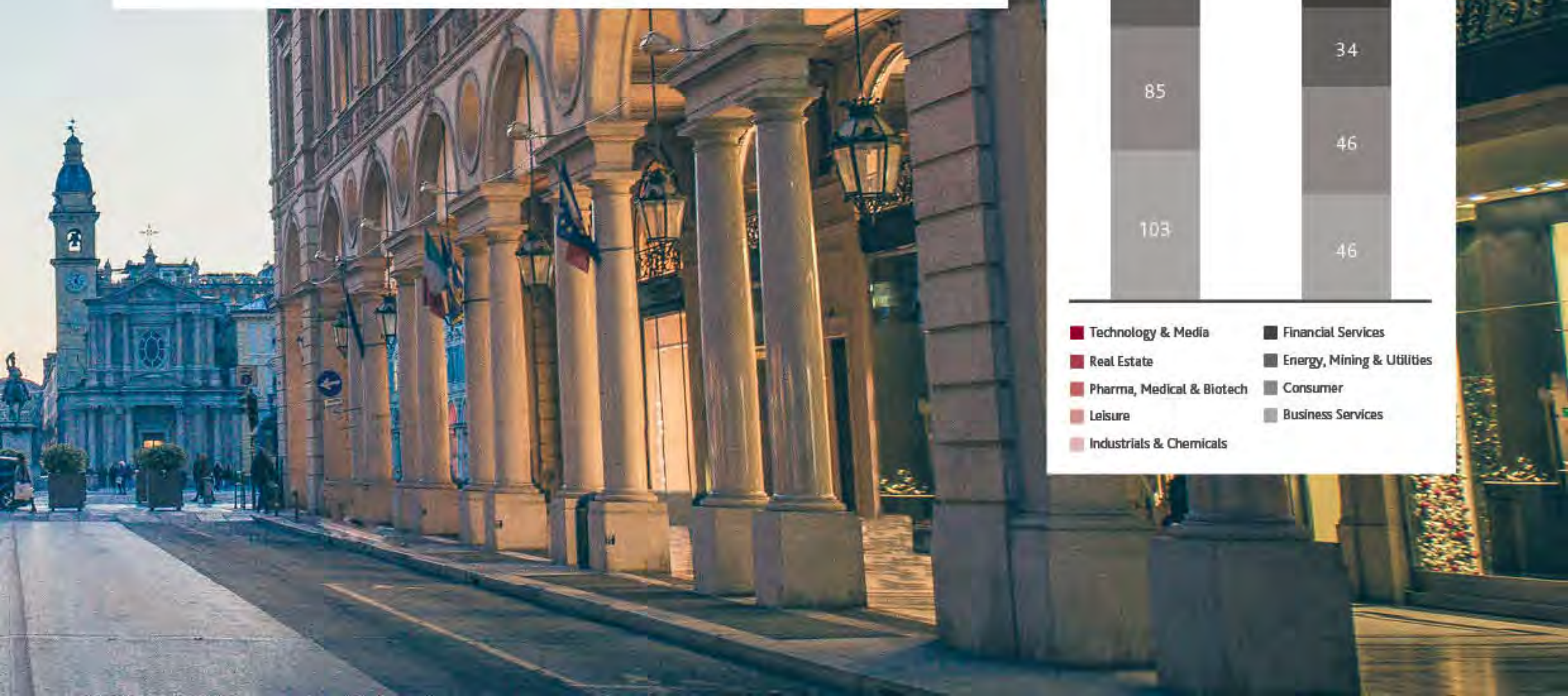
SOUTHERN EUROPE
HEAT CHART BY SECTOR

Consumer	133	23%
Industrials & Chemicals	121	21%
Technology & Media	101	17%
Business Services	86	15%
Financial Services	39	7%
Energy, Mining & Utilities	34	6%
Pharma, Medical & Biotech	29	5%
Leisure	29	5%
Real Estate	10	2%
TOTAL	582	100%

SOUTHERN EUROPE
MID-MARKET VOLUMES BY SECTOR





BENELUX

DEAL VOLUME FALLS BUT VALUE RISES IN Q3

BIG PICTURE

- Q3 2018 sees fall in deal volume but 20% rise in value
- PE M&A activity in the region continues to fall
- Top 10 deals were split across six different sectors.

Looking at M&A deal activity in Q3 2018, there was a decrease in deal volume but an increase in deal value compared to Q2 2018. Only 13.8% of the deal volume was related to PE transactions.

Private equity deal volume decreased from nine transactions in Q2 2018 to four transactions in Q3 2018. In Q3, PE was responsible for 14% of all of deals, compared to 29% in Q2 2018 and 10% in Q1 2018. The total deal value decreased from USD 313m in Q2 2018 to USD 237m in Q3 2018. However, the average deal value increased from USD 35m in Q2 2018 to USD 59m in Q3 2018.

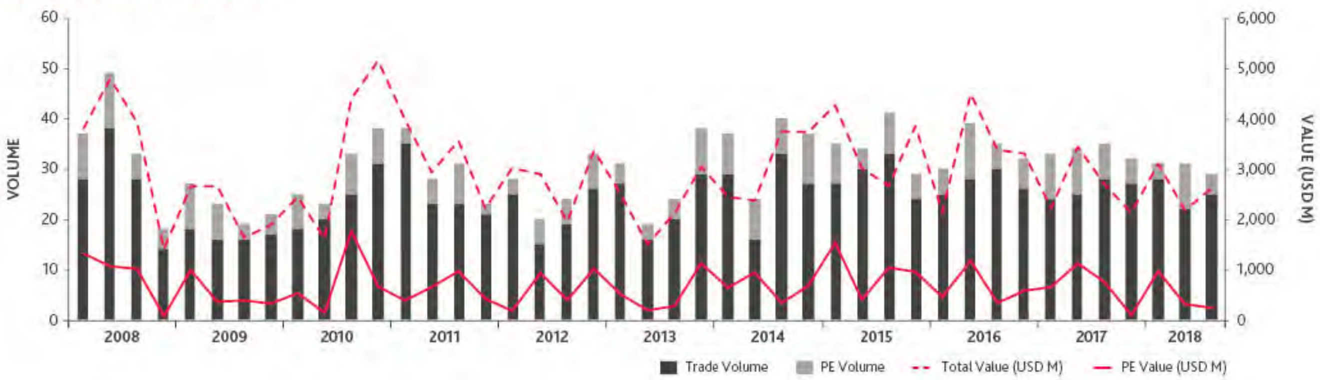
KEY DEALS AND SECTORS

Business Services and Technology, Media & Telecom were the most active sectors in Q3 2018, accounting for 34% and 28% respectively of the total number of deals. 18 out of a total of 29 deals that took place in Q3 2018 were in the two sectors. No deals were closed in the Leisure and Real Estate sectors.

The top 10 deals in Q3 2018 ranged between USD 82m and USD 477m and were in the following sectors: Industrials & Chemicals, Pharma, Medical & Biotech, Business Services, Energy, Mining & Utilities, Consumer and Technology, Media & Telecom. In relation to total deal value, 64% of the buyers were located in Western Europe and 36% in Asia.

The largest deal was the sale of EMTE Holding (chain of Dutch supermarkets) by food service company Sligro to Coop Holding and Jumbo Supermarkten, both supermarket chains, for a total deal value of USD 477m.

PE/TRADE VOLUME & VALUE



The second largest deal saw state-owned China Southern Power Grid agree to buy a minority stake (25,48%) in European utility company Encevo from private equity fund Ardian for a deal value of USD 468m. Encevo has two main subsidiaries, which manage electricity and gas grids and sell energy.

In third place, S4 Capital – now publicly listed under the name Derriston Capital and headed by former WPP CEO Sir Martin Sorrell – has acquired Dutch digital production company MediaMonks in a deal reported to be valued at UDS 353m.

In Belgium, the largest deal was the sale of Greenyard Horticulture by publicly quoted Greenyard Foods to the Belgian investment group Straco. Thanks to this divestment, valued at USD 155m, the seller can further deleverage its balance sheet. Greenyard Horticulture supplies materials such as soil for customers growing fruit and vegetable crops.

LOOKING AHEAD

The BDO Heat Chart for the Benelux shows 204 deals currently planned or in progress. The industries forecasted to be the most active are Technology, Media & Telecom, Industrials & Chemicals, Business Services and Consumer with 52, 38, 35 and 33 deals respectively.

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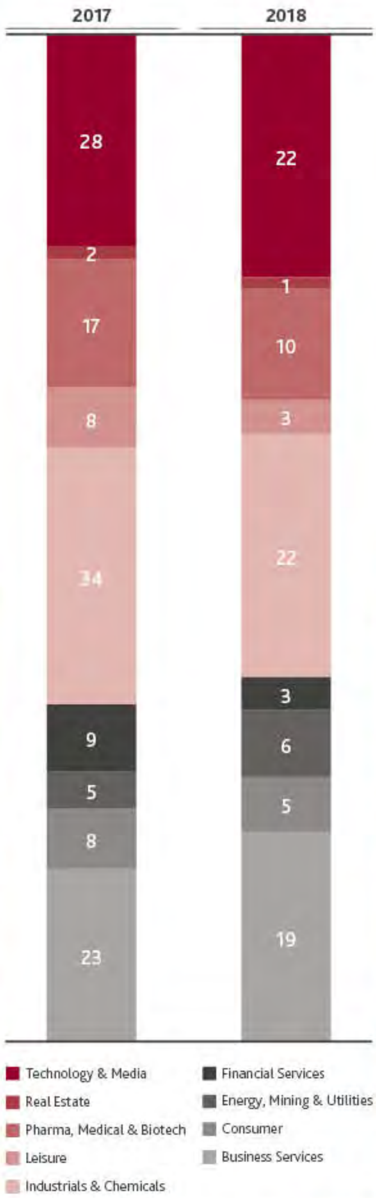
BENELUX
HEAT CHART BY SECTOR

Technology & Media	52	25%
Industrials & Chemicals	38	19%
Business Services	35	17%
Consumer	33	16%
Financial Services	15	7%
Pharma, Medical & Biotech	13	6%
Energy, Mining & Utilities	8	4%
Leisure	7	3%
Real Estate	3	1%
TOTAL	**208**	**100%**

BENELUX
MID-MARKET VOLUMES BY SECTOR



DACH

MID-MARKET DEAL ACTIVITY IMPROVES IN Q3

BIG PICTURE

- Q3 deal volume increased by 6% in comparison to the previous quarter, but remained relatively stable compared to Q3 2017
- Industrials & Chemicals sector is the most active in terms of M&A activity, followed by TMT and Pharma, Medical & Biotech sector
- PE activity marginally increased in volume with very strong increase in deal value
- Germany was the most attractive target country within the DACH region.

DACH M&A activity showed stronger trends in Q3 with a decisive increase in total deal value. PE deal value increased significantly with volume remaining stable.

With 52 recorded transactions in DACH, recorded deal activity increased in comparison to the previous Q2 by 6% and remained nearly the same compared to Q3 2017 with 53 deals in total. The aggregated value of transactions also increased sharply up to USD 5.9bn in Q3 2018 (+39%) from USD 4.2bn in Q2 2018 and exceeded the corresponding deal value of USD 3.5bn in Q3 2017 by USD 2.4bn (+68%). DACH M&A was much stronger in Q3 2018 compared to previous Q2 in 2018 and also compared to global Q3 2018 M&A trends.

Regarding the number of private equity deals in DACH, the total number remained stable but at a lower level with 8 recorded deals compared to 9 in Q2. In comparison to Q3 results in 2017 it represents a decrease of 20%. Year-to-date end Q3 2018 27 PE deals were recorded. The percentage of all deals in DACH represented by private equity transactions decreased to 15.4% from 18.9% compared to Q3 2017. Total PE deal value reached USD 1.3bn which represents 21.1% of aggregated deal value in Q3 2018 compared to 39.7% in Q3 2017. The PE transactions of Q3 2018 increased strongly in value, +64% (USD 0.76bn in Q2 to USD 1.25bn in Q3 2018).

Seven of the top ten deals in DACH in Q3 2018 were in Germany, two in Switzerland and one in Austria, 70% of them were cross-border transactions.

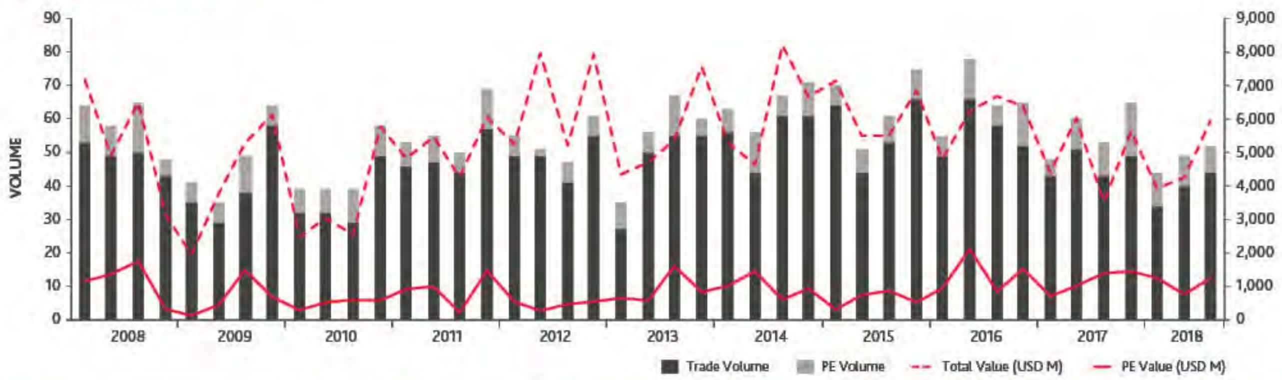
KEY DEALS

The largest deal in the third quarter of 2018 was in the TMT sector. The German-based leading operator of digital marketplaces in the real estate and automotive sectors, - Scout24 AG - acquired FFG Finanzcheck Finanzportale GmbH, a German-based company engaged in operating an online comparison portal, specialising in finance, insurance, investments, accounts and loans for a total deal value of USD 332m in cash. Scout24 will have the opportunity to expand their presence geographically and to boost the growth of the Consumer Services vertical through the acquisition.

The sale of MKM Mansfelder Kupfer and Messing GmbH, a German-based manufacturer of preliminary and semi-finished products of copper and copper alloys represents the largest domestic transaction in the Industrials and Chemicals sector in Germany. Acquired by KME Germany GmbH & Co. KG, a German-based manufacturer of preliminary and semi-finished products of copper the acquisition will strengthen the performance of the companies through synergies. The deal value of the transaction was USD 298m.

The acquisition of COMPO Expert GmbH, a German-based company engaged in the Chemicals sector by the Poland-based producer of polyamides, acetyl copolymers, fluorine plastics and caprolaktam, Grupa Azoty SA for a deal value of USD 273m will strengthen the international position of Grupa Azoty in the agro market.

PE/TRADE VOLUME & VALUE



Regarding the Austrian M&A deals in Q3 2018 the acquisition of the ViraTherapeutics GmbH by Boehringer Ingelheim GmbH, a company engaged in the Pharma and Medical sector will allow both Boehringer and ViraTherapeutics to develop the next generation oncolytic viral therapy platform which will enable them to address growing demands in that area more effectively. Deal value accounted USD 245m.

Swiss M&A deals included the acquisition of TE Connectivity Ltd., a Swiss-based TMT company by the Cereberus Capital Management L.P., a US-based private equity firm for a deal value of USD 325m. The acquisition will accelerate TE Connectivity's growth through Cereberus' operational efficiencies. Here was further domestic consolidation in the financial services sector represented by Bank Cler AG, which was acquired by the Basler Kantonalbank for a disclosed transaction value of USD 214m in Q3 2018. Basler Kantonalbank increased its stake from 75.77% to 100%.

KEY SECTORS

Overall picture, regarding the focus on deal activity across most sectors, was stable from a year to year perspective. The main exception was the Energy, Mining & Utilities sector, which decreased by 100% in YTD Q3 2018 (in YTD Q3 2017 Energy, Mining & Utilities sector accounted 7 deals, whereas YTD Q3 2018 includes no deals respectively).

From a quarter to quarter perspective the TMT sector deal volume increased from 9 deals in Q2 to 14 deals in Q3 2018. The deals in the Pharma, Medical and Biotech show also a strong development in volume from 1 deal in Q2 to 7 deals in Q3 2018. As expected from historical development the M&A activity in the Industrials & Chemicals sector remained relatively stable with a volume of 15 deals in Q3 2018 compared to 16 deals in the Q2 2018.

LOOKING AHEAD

Following a weak start for M&A in 2018 deal activity has increased in Q3 2018 and is expected to remain at least at this level in Q4. Investors and dealmakers are more optimistic for 2019 with regard to M&A transactions in DACH. Also interest rates are expected to stay on a low level in the short term, providing good conditions for transactions.

At present, there are 299 companies potentially up for sale in the DACH region. We expect all sectors to keep up their momentum. Industrials & Chemicals and TMT are projected to remain the most active sectors, with a significant deal volume of 98 and 62 respectively (making together 54% of all deals as shown in the heat chart by sector). Finally cross-border transactions are expected to remain a significant source of DACH's M&A trends in the near future.

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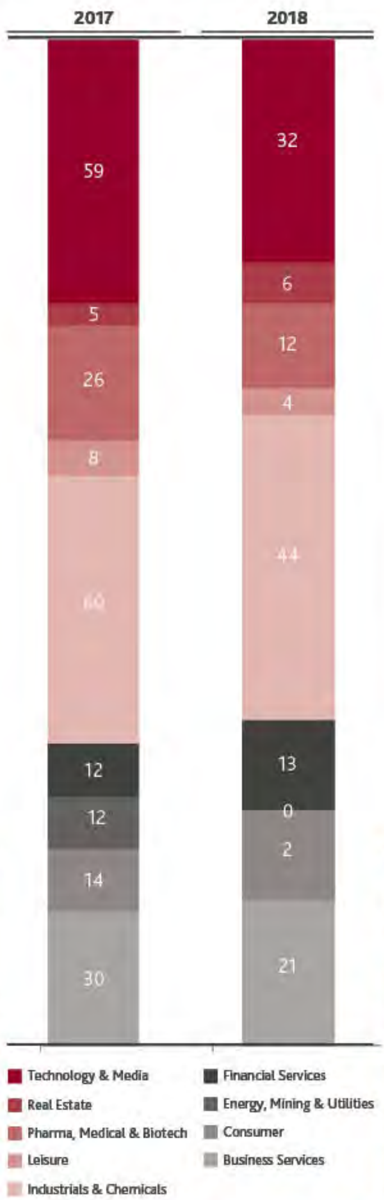
DACH
HEAT CHART BY SECTOR

Industrials & Chemicals	98	33%
Technology & Media	62	21%
Consumer	43	14%
Business Services	35	12%
Financial Services	20	7%
Pharma, Medical & Biotech	18	6%
Energy, Mining & Utilities	14	5%
Leisure	8	3%
Real Estate	1	0%
TOTAL	299	100%

DACH
MID-MARKET VOLUMES BY SECTOR



NORDICS

M&A ACTIVITY SLOWS DOWN WITH MAJOR DROP IN DEAL ACTIVITY

BIG PICTURE

- M&A performance in Q3 2018 fell significantly compared to Q3 2017 and was the weakest quarter in terms of volume since Q3 2015
- PE activity more than doubled in value compared to Q3 2017, while the number of deals stayed the same
- Industrials & Chemicals remains the region's dominant sector in 2018, closely followed by TMT and Business Services.

The total number of M&A transactions completed so far in 2018 is 177, which is down from the 231 deals in the same period in 2017.

Deal activity in Q3 2018 was the weakest since Q3 2015. However, despite a significantly lower volume of deals in Q3 2018 compared to the same quarter in 2017, the total deal value was USD 2.023bn higher. Even with a significant drop in the number of deals so far in 2018, the total deal value was only USD 611m lower in comparison to the same period in 2017 (USD 14.806bn). Overall, 2018 has seen less M&A activity in terms of number of the deals, but with a significantly higher average deal value than in 2017.

Deal activity among PE firms in terms of volume was on the low side in Q3 and was at the same level as Q3 2017. The nine PE transactions recorded represented just below 20% of the total number of transactions and just above 25% of the total deal value for this quarter. So far in 2018, the number of completed PE deals is 34 compared to 41 for the same period in 2017, while the total deal value stands at USD 3.181bn versus USD 2.576bn in 2017.

KEY SECTORS AND DEALS

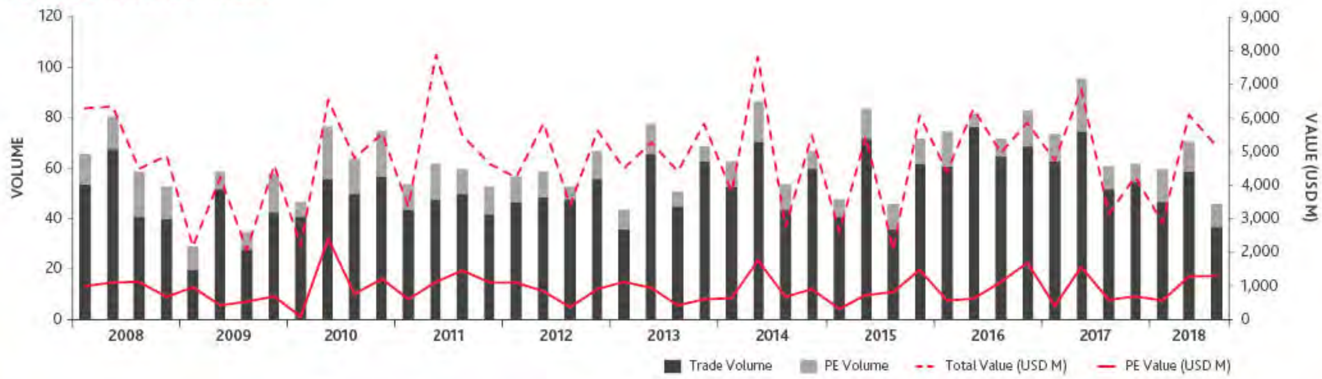
The top 10 deals in the Nordics in Q3 2018 accounted for approximately 78% of the total transaction value. Sweden, Denmark and Norway had three deals each, and Iceland one. Five out of the 10 largest deals took place in the TMT sector.

The quarter's largest transaction was the merger between two insurance companies Sparebanken 1 Skadeforsikring AS and DNB Forsikring AS. At the end of September, the owners DNB ASA and SpareBank 1 Gruppen entered into an agreement to merge their insurance operations, thus establishing one of Norway's largest insurance companies. The merged company will have almost a complete product portfolio within non-life insurance aimed at the private and SME markets. The transaction value was USD 850m.

The second largest deal was related to a public-to-private transaction at Oslo Stock Exchange.

In July, ABRY Partners, LLC, a US-based private equity firm, along with the management, made a voluntary public offer to acquire all outstanding shares in Link Mobility Group ASA. The company

PE/TRADE VOLUME & VALUE



provides mobile services and solutions and is headquartered in Oslo. In August, the market was informed that the closing condition relating to minimum acceptance had been met. The total deal value was USD 478m.

The third biggest deal was Equinor ASA's acquisition of Danske Commodities A/S in Denmark from Lind Invest ApS. Equinor ASA is a listed company in Norway involved in the exploration, production, refining and marketing of petroleum and petroleum derived products. Danske Commodities A/S is an international trader of electricity and gas. The deal value was USD 469m.

TMT was the region's most active sector in Q3, accounting for 13 of the 46 transactions. Industrials & Chemicals was in second place with 11 deals, but overall remains the most active sector so far in 2018. These two sectors were followed by Business Services with 10 deals in Q3 2018.

LOOKING AHEAD

Even though activity in the Nordic M&A market has slowed down, it is expected to remain at fairly good levels. On the other hand, uncertainty has increased due to the expected increase in interest rates, the trade war, geopolitical uncertainty and the ongoing turmoil in stock markets. The TMT sector is expected to remain active throughout the Nordics and PE firms are expected to maintain focus, remain active and contribute to deal-making activity going forward.

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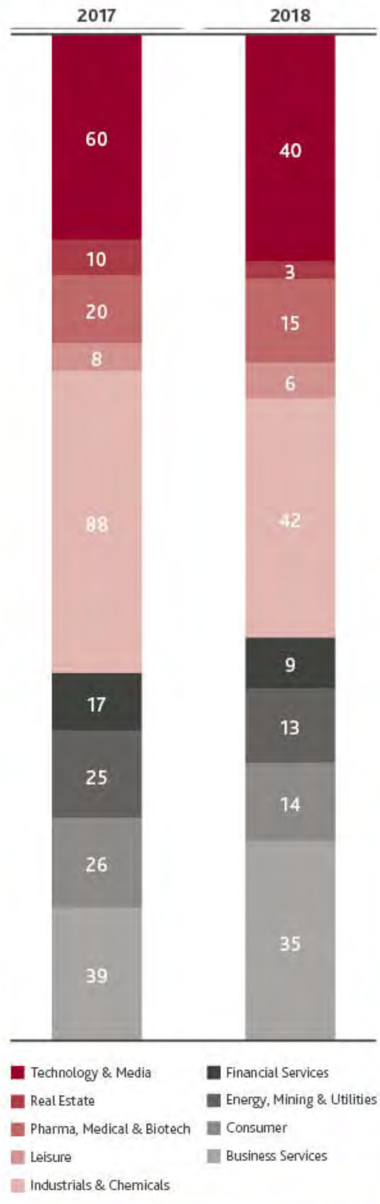
NORDICS
HEAT CHART BY SECTOR

Technology & Media	50	24%
Industrials & Chemicals	37	18%
Business Services	28	13%
Consumer	27	13%
Pharma, Medical & Biotech	25	12%
Energy, Mining & Utilities	15	7%
Financial Services	14	7%
Leisure	10	5%
Real Estate	3	1%
TOTAL	**209**	**100%**

NORDICS
MID-MARKET VOLUMES BY SECTOR



CEE & CIS

M&A ACTIVITY CONTINUES TO FALTER IN 2018 WITH FALLS IN BOTH VOLUME AND VALUE

BIG PICTURE

- Q3 saw significant decreases in deal activity, with volume down 34% compared to Q2 2018 and 41% compared to Q3 2017
- Industrials & Chemicals, Consumer, Business Services and Energy, Mining & Utilities accounted for 70% of total deals
- Only one PE deal completed in Q3, representing 6.5% of total value.

Looking at the M&A global market, the CEE & CIS region continued the market's downward trend. The CEE & CIS market performed poorly in Q3 2018, achieving the weakest Q3 results in the last 10 years in terms of both transaction volume and value. Even though a slow up-tick was projected after the decline in Q2, there were just 43 mid-market deals completed in Q3.

The total value of the deals was USD 2,685m, down more than 50% compared to the Q3 2017's figure of USD 5,392m and also down 41% in volume numbers. Private equity transactions also shrank in Q3 2018 and were responsible for only one deal in Q3.

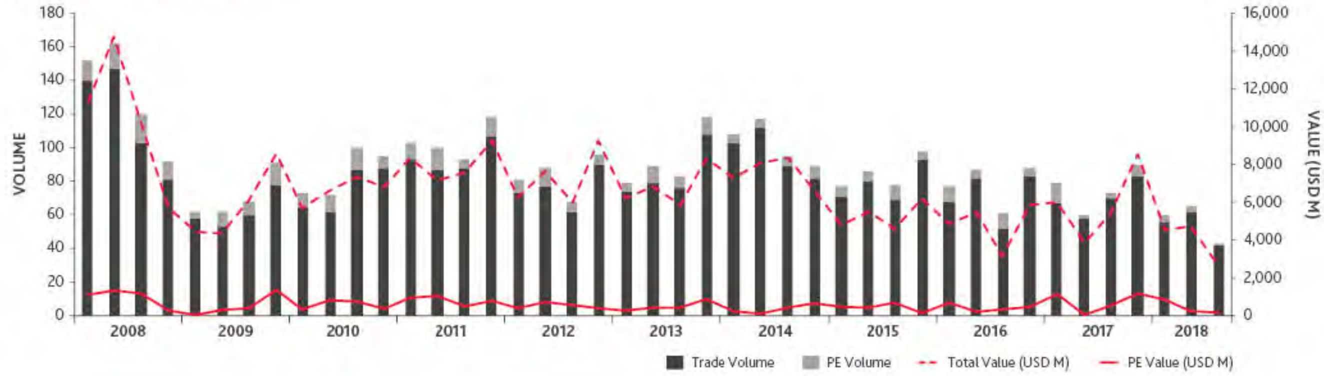
The size of the one PE deal was reasonably high, with a value of USD 175m. making it the sixth biggest transaction in the quarter and representing 6.5% of the region's quarterly value. All in all, the number of M&A deals was below expectations, resulting in the low number of transactions, which could grow slightly after follow-up procedures.

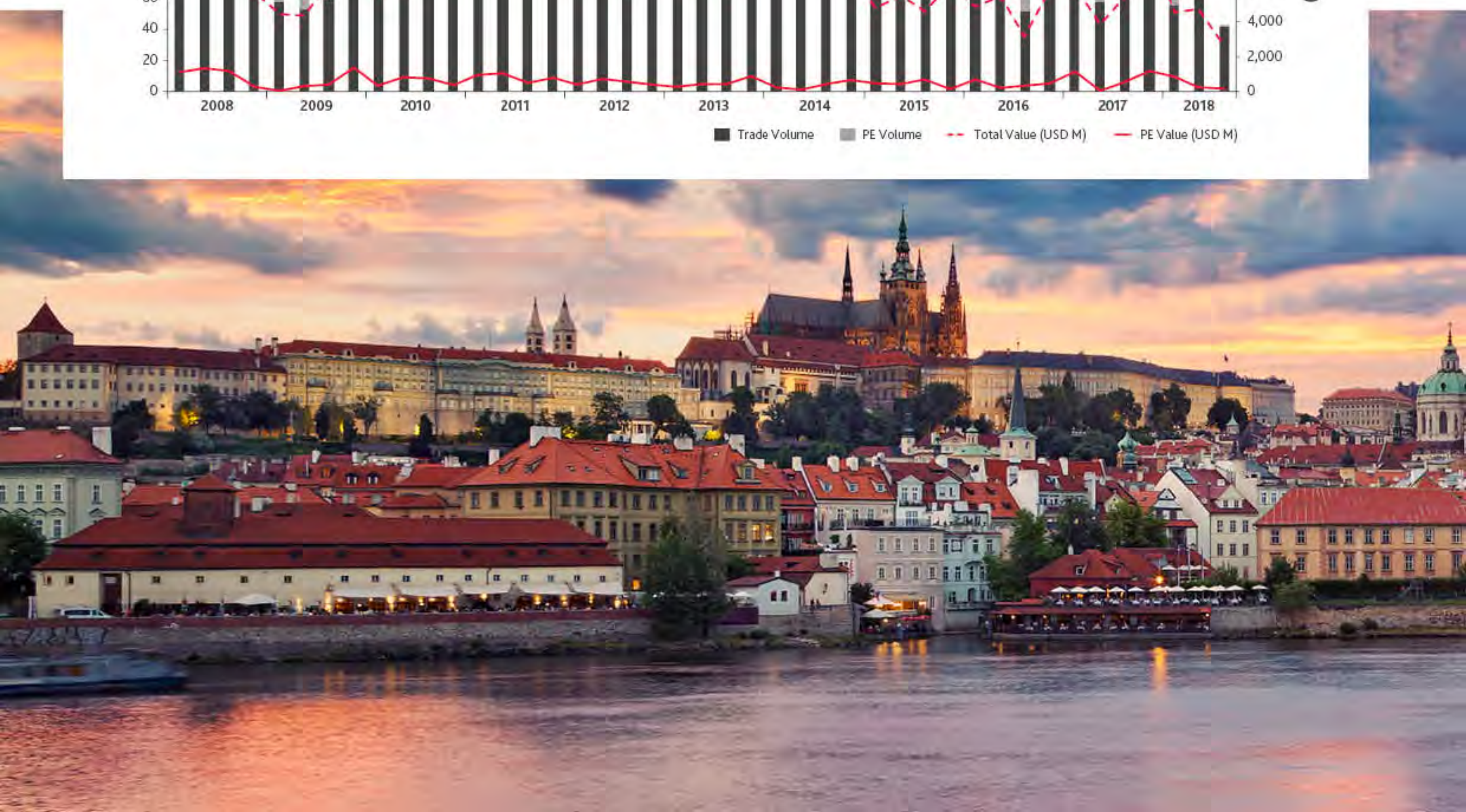
KEY SECTORS AND DEALS

Generally speaking, there was a huge drop in the region's M&A market in terms of volume, with the majority of sectors performing poorly compared to Q3 2017, apart from Pharma, Medical & Biotech, which achieved a similar number of transactions to previous quarters.

The region's top 10 deals had a combined value of USD 2bn, which represented about 73.5% of the quarter's overall deal value.

PE/TRADE VOLUME & VALUE





CEE & CIS
HEAT CHART BY SECTOR

Industrials & Chemicals	145	27%
Technology & Media	96	18%
Consumer	78	14%
Business Services	67	12%
Financial Services	51	9%
Pharma, Medical & Biotech	33	6%
Energy, Mining & Utilities	29	5%
Leisure	27	5%
Real Estate	12	2%
TOTAL	**538**	**100%**

The most active sectors were Industrials & Chemicals with 14 deals, representing 33% of total deal volume, Consumer with six deals (14%) and Business Services and Energy, Mining & Utilities with five deals each (12%).

Although there were only six deals in Energy, Mining & Utilities, it accounted for four out of the top 10 mid-market deals in Q3 2018.

Despite the number of transactions in the Consumer sector falling by half, it remained active with six completed deals. In addition, Consumer was responsible for the quarter's second biggest transaction, which had a deal value of USD 311m.

Looking at volume, the biggest fall was in TMT, where the number of deals fell from 14 to two, making it one of the worst performing sectors. TMT was not represented in the top 10 transactions.

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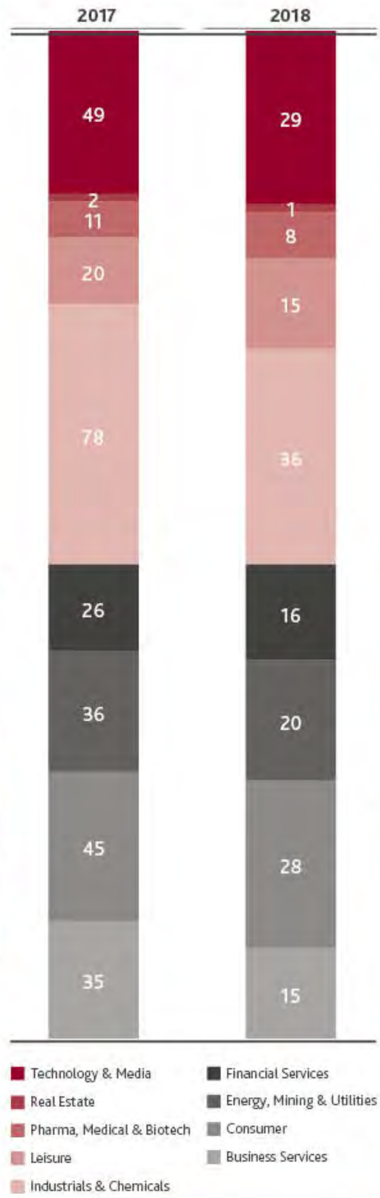
LOOKING AHEAD

According to the BDO Heat Chart, which captures all sales which are planned, rumoured or in progress, 538 deals are expected to be completed in CEE & CIS, a noteworthy fall compared to the 717 projected deals in Q3 2017.

The fall in the number of expected transactions in the region is not consistent with world economic trends. The Global Heat Chart projects 8,128 deals, which is only 2.4% below Q3 2017, compared to CEE & CIS' 25% decrease, which is significant. As a result of the reduced number of potential transactions, CEE & CIS has slipped down to the fourth place in terms of volume among the regions covered in this report, behind North America, Greater China and Southern Europe.

Industrials & Chemicals is expected to remain the region's leading sector. Even though TMT saw a huge drop in transaction volume in Q3, the BDO Heat Chart indicates that there will be an up-tick in M&A activity and predicts that it will be the second most active sector in the upcoming period. According to the BDO Heat Chart, Consumer will also remain important in the region's M&A market, with 78 projected transactions.

CEE & CIS
MID-MARKET VOLUMES BY SECTOR



ISRAEL

M&A VALUE FALLS IN Q3 BUT PIPELINE SUGGESTS BETTER TIMES AHEAD

BIG PICTURE

- Q3 2018 M&A value fell 45.34% in comparison to the previous quarter while deal volume grew by 7.7%, from 13 deals in Q2 2018 to 14 deals in Q3 2018
- PE activity volume and value grew in Q3 2018
- BDO Heat Chart shows 93 potential deals, suggesting a ramp-up in activity ahead.

M&A activity declined significantly during Q3 2018 in terms of value.

A total of 14 deals, with a combined deal value of USD 827m, were successfully completed in Q3 2018. This represented a 45% decrease in deal value, despite a 7% increase in deal volume. Deal value fell by 49% with an average transaction value of USD 59m for the quarter, indicating that the size of the deals was smaller.

The 14 deals completed in Q3 2018 had a total value of USD 827m, which represented falls of USD 686m (45.34%) compared to Q2 2018 and USD 375m (31.2%) compared to Q1 2018.

There was a slight up-tick in deal numbers from 13 in Q2 2018 to 14 in Q3 2018, an increase of 7.6%, while total deal value decreased significantly during the same period. This resulted in a significant reduction in the average deal value from USD 116m in Q2 2018 to USD 59m in Q3 2018, which is the lowest quarterly average value since Q1 2014.

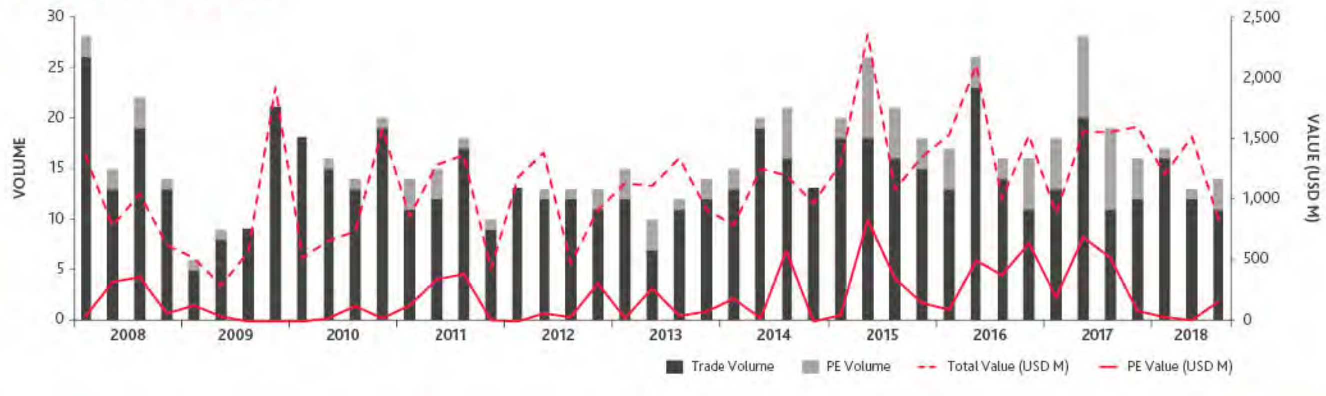
Private equity activity recorded a slight increase from the previous quarters in terms of volume and value. In Q3 2018, PE was responsible for three deals worth a total of USD 167m, which represented 21.4% of the deal count and 20% of the value for the quarter.

KEY DEALS AND SECTORS

Israel's top ten Q3 2018 deals had an aggregated value of USD 743m, accounting for 89% of total M&A transactions. The largest transaction was the USD 157m acquisition of 10bis by Takeaway.com N.V.. 10bis, a popular Israeli online food ordering service, was purchased by Dutch firm Takeaway.com N.V., from previous owners TA Associates Management, L.P. and private investor Tamir Carmel.

Other deals included the USD 157m investment in Ravad Ltd., an Israel-based real estate investment company that, both directly and through its subsidiaries, purchases and holds income-generating assets, mainly commercial sites. The investment was led by Golden House Ltd. (assisting facilities living company) and private investors Itzik Oz and Yonel Cohen.

PE/TRADE VOLUME & VALUE



Other transactions included the USD 100m acquisition of Iskoor Metals & Steels Ltd by Poalim Capital Markets Ltd. and Kedma Capital and the USD 100m acquisition of Redkix by Facebook.

TMT was the most active sector in Q3, accounting for five deals (35% of total transactions). Industrials & Chemicals was in second place, accounting for four deals (28%). The remaining sectors, Business Services, Consumer, Energy, Mining & Utilities, Pharma, Medical & Biotech and Real Estate, all accounted for one deal each.

Six of the top ten deals involved foreign bidders, supporting Israel's resilient economy and robust equity market. Out of the six foreign investors, two were US buyers and there was one each from India, the Netherlands, South Africa and France.

Israel continues to attract foreign investment due to its favorable economic conditions, considerable incentives and strong R&D sector, coupled with high-skilled and multilingual workforce.

Israel continues to attract foreign investment due to its favourable economic conditions, considerable incentives and strong R&D sector, coupled with a high-skilled and multilingual workforce.

LOOKING AHEAD

Looking ahead, the picture improves significantly. At the end of Q2 2018, the BDO Heat Chart for Israel showed 80 deals planned or in progress for M&A, compared to 93 deals in Q3 2018, which suggests a 16% jump in pipeline deals.

Of the 93 deals planned or in progress, 43 (46%) are in the TMT sector and 16 (17%) in Industrials & Chemicals. Other active sectors include Business Services and Pharma, Medical & Biotech with nine deals each (10% each), Consumer and Financial Services with five deals each (5% each), Energy, Mining & Utilities with three deals (3%), Leisure with two deals (2%) and one deal in Real Estate (1%).

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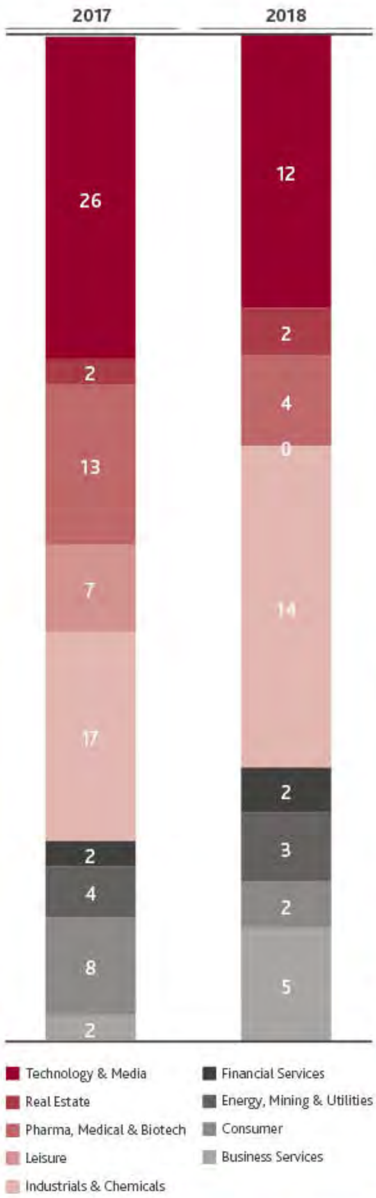
ISRAEL
HEAT CHART BY SECTOR

Technology & Media	43	46%
Industrials & Chemicals	16	17%
Business Services	9	10%
Pharma, Medical & Biotech	9	10%
Consumer	5	5%
Financial Services	5	5%
Energy, Mining & Utilities	3	3%
Leisure	2	2%
Real Estate	1	1%
TOTAL	**93**	**100%**

ISRAEL
MID-MARKET VOLUMES BY SECTOR



AFRICA

DEAL ACTIVITY CONTINUES TO FALL BUT PE DEAL VALUE ON THE RISE

BIG PICTURE

- Q3 2018 saw 26 mid-market deals completed in Africa with a total value of USD 1.7bn, representing falls of 16% in volume and 19% in value compared to Q3 2017
- There were five PE buy-outs in the quarter, the same as in Q3 2017, but value increased by 16% to USD 272m
- Energy, Mining & Utilities was the main sector for deal activity, followed by Financial Services and Consumer.

Q2 2018 saw a total of 18 mid-market M&A transactions in Africa, with only one PE buy-out completed. This represents decreases of 33.3% compared to the previous quarter and 18% compared to the corresponding quarter last year. The proportion of PE buy-outs dropped significantly from 22.2% to 5.6%, with only one deal (USD 48m) in this quarter. The total transaction value decreased by 48% to USD 1.03bn in Q2 2018, representing the lowest mid-market M&A deal value and volume for the last 10 years.

The number of PE buy-outs was the same as Q3 2017, with five deals recorded, but overall transaction value rose by 16%. Compared to the previous quarter, Q3 saw two more PE buy-outs and a substantial increase in value from USD 68m to USD 272m.

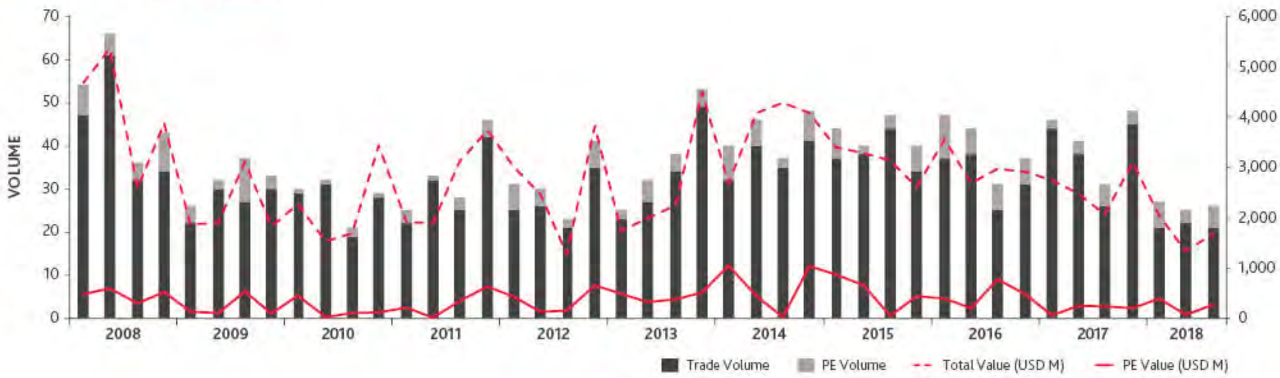
The most active sectors were Energy, Mining & Utilities with eight completed deals. Most sectors saw a rise in deal numbers compared to the previous quarter with the exception of Industrials & Chemicals and Consumer, which both recorded falls. Of the top 10 deals, three took place in South Africa, two in Morocco and three in West Africa (Cameroon, Gabon and Mali).

TOP THREE DEALS

The quarter's largest deal was in Financial Services in South Africa where Japanese insurer, Tokyo Marine Holdings Inc., purchased a minority stake of 22.5% in Hollard Insurance Co Ltd, with a deal value of USD 324m. The main objective of this transaction was to help both companies expand through Africa and will enable Tokyo Marine Holdings to gain a foothold in markets such as South Africa and Botswana from its base in Chiyoda-Ku, Japan. The transaction fits with South African President Cyril Ramaphosa's plan to attract USD 100bn in foreign investment over the next five years.

The next biggest transaction was UK oil and gas firm Soco International's acquisition of 19.75% of Merlon Petroleum El Fayum Company, which holds a 100% operated working interest in the

PE/TRADE VOLUME & VALUE



El Fayum franchise in Egypt. The deal value was USD 237m. The purpose of the transaction was to provide a high-quality, free cash flow generating oil concession with significant development upside and exploration optionality, as well as Merlon's creation of a new hub for business in Egypt.

Another noteworthy transaction was in Financial Services, where French Groupe BPCE acquired a stake in the capital of Banque Centrale Populaire in Cameroon with a view to divesting banking interests in Africa. The deal value was USD 181m.

ECONOMIC OUTLOOK

The Sub-Saharan African region is experiencing considerable growth, with an average GDP rise of 3.2% in 2018 compared to 2.8 % in 2017. According to the IMF, this growth is being supported by higher commodity prices, better market access and global growth. Nonetheless, the instability in certain countries such as Zimbabwe, Democratic Republic of Congo, Gabon and Zambia remains an issue. Initiatives to stabilise the countries' political situations and to ease investment processes in order to create a safe business framework are expected to encourage growth potential. Looking forward to 2019, a growth rate of 3.5% is expected, but there are considerable potential financial pressures ahead, with the rising risk of financing stress mainly linked to the peak of maturing international debt in early 2020s. The China-Africa summit held in Beijing in September 2018 highlighted a USD 60bn loan to Africa, which will represent significant challenges for African countries facing debt recovery in the forthcoming years. In addition, economies which are sustained mainly by agriculture are being challenged by additional investment in the industrialisation of the value chain and environmental constraints.

LOOKING AHEAD

The BDO Heat Chart for Africa's mid-market M&A activity forecasts 168 deals for the rest of 2018, indicating a positive outlook. The majority of deal activity is likely to be in Industrials & Chemicals, with 42 forecasted deals (25%), and Energy, Mining & Utilities with 30 deals (18%), followed by Business Services with 24 deals (14%).

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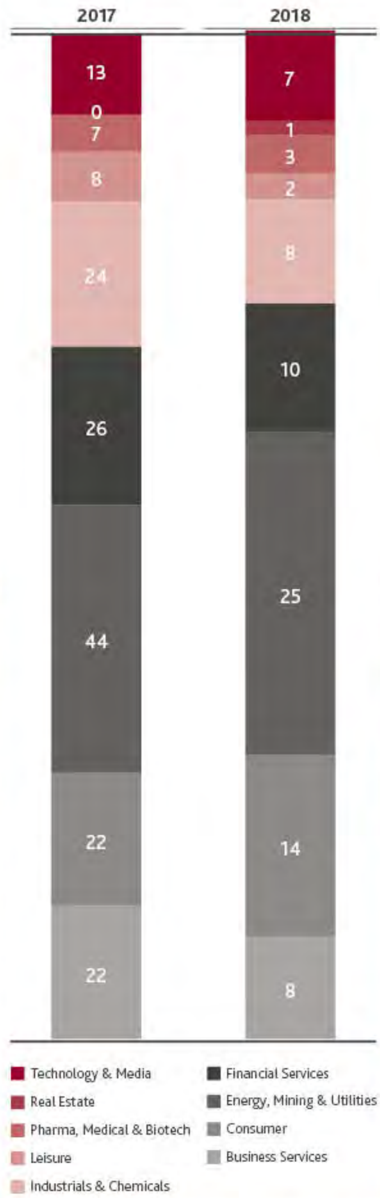
AFRICA
HEAT CHART BY SECTOR

Industrials & Chemicals	42	25%
Energy, Mining & Utilities	30	18%
Business Services	24	14%
Financial Services	20	12%
Technology & Media	18	11%
Consumer	15	9%
Real Estate	7	4%
Pharma, Medical & Biotech	6	4%
Leisure	6	4%
TOTAL	**168**	**100%**

AFRICA
MID-MARKET VOLUMES BY SECTOR



INDIA

FAST GROWING INDIAN ECONOMY BOOSTS DEAL ACTIVITY

BIG PICTURE

- Strong economic outlook improves deal-making environment
- Rising confidence from Indian and Chinese investors is a major factor in increased deal activity
- Consumer-based sectors expected to lead future deal-making but other sectors set to come to the fore.

In Q3 2018 an improved Indian economy has expanded at its fastest pace in recent times, with GDP growing at 8.2%. The boost in growth is due to an increase in spending and investments, a trend expected to continue over the course of the next year. This strengthening of India's economic outlook is expected to be accompanied by swiftly improving business conditions and consumer confidence.

The outlook for India's economy is being reinforced by growth in real gross domestic product, on the back of the stabilisation of GST, improvements in credit offtake, the recapitalisation process of public sector bank, the resolution of distressed assets under the Insolvency and Bankruptcy Code (IBC), the buoyancy in global trade, and the boost to rural and infrastructure sectors in the Indian government's Union Budget 2018-19.

There is definitely a push towards more investments and investors in India are becoming bullish again and as a result both the size and number of deals are set to increase over the next year.

Rising investor confidence from Indian and Chinese investors is also a major contributing factor to surging deal activity in India. Chinese investors have participated in 16 deals worth USD 1.5bn billion this year. Last year, the figure was close to USD 1.4bn but most of it (USD 1.1bn) went to Flipkart and Ola alone.

In Q3 2018, fundraising totalled approx USD 300m and the top 10 rounds accounted for 66.4% of the total funds raised. Six companies raised rounds of more than USD 100m each. The majority of these funds went to companies in the B2C space and the list was dominated by consumer internet or internet-enabled businesses.

Although it is expected that main deal activity in the future will be in consumer-focused companies, sectors such as Agritech, Food, FinTech and Logistics are predicted to the focus of increased M&A activity.

PE/TRADE VOLUME & VALUE

KEY SECTORS AND DEALS

Berkshire Hathaway is reportedly investing USD 358m into the parent company of Paytm, One97 Communications. This marks the firm's first investment in the country's bustling start-up ecosystem and helps in further bolstering investor confidence in India's Financial Technology space.

A consortium of investors, including WestBridge Capital, billionaire Rakesh Jhunjhunwala and Madison, is likely to buy a 93.99% stake in India's largest standalone health insurer Star Health & Allied Insurance Company for a valuation of approximately USD 1bn.

Bangalore-based Hiveloop Technology Pvt. Ltd, which operates business-to-business e-commerce platform Udaan, has raised a USD 50m Series B round from new and existing investors including Lightspeed Venture Partners and Russian millionaire Yuri Milner's Apoletto Fund.

Constellation Alpha Capital Corp, a special purpose acquisition company owned by Indian Rajiv Sarman Shukla, will acquire Peepul Capital-owned Medall Healthcare Private Limited, a leading integrated pathology and radiology company for USD 212m.

Singapore's Temasek picked up a stake in ANI Technologies – the parent company of taxi-hailing application OLA – for USD 200m, valuing the business at USD 3.5bn. According to a report by the Economic Times, angel investor Rehan Yar Khan, Accel India, Bessemer Venture Partners and Helion Venture Partners have sold their stakes to Temasek and the founders of OLA.

JSW Steel is set to merge the recently-acquired distressed asset Monnet Ispat and Energy with its own company. The insolvency tribunal approved the Aion Capital-JSW Steel resolution plan for the 1.5 million tonne Monnet Ispat and Energy, for which the company has offered around Rs 3,875 crore, including Rs 1,000 crore as equity and working capital.

LOOKING AHEAD

India is expected to remain the fastest growing economy among large nations in 2018-19 and 2019-20, according to various reports. Continued investments, by both Indian and international investors, have further boosted confidence and the back-to-back investment activity of PE/VC and M&A firms have placed India in a sweet spot.

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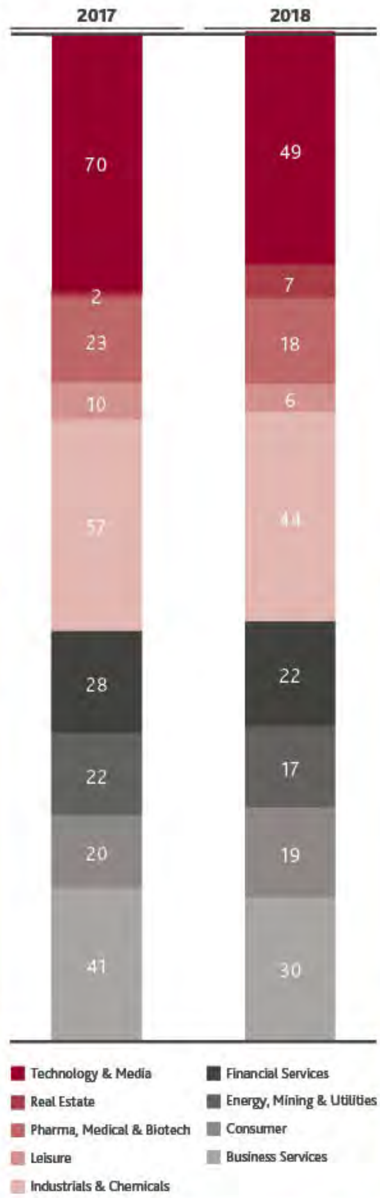
INDIA
HEAT CHART BY SECTOR

Technology & Media	39	20%
Industrials & Chemicals	37	19%
Consumer	30	15%
Financial Services	28	14%
Business Services	18	9%
Pharma, Medical & Biotech	18	9%
Energy, Mining & Utilities	12	6%
Leisure	7	4%
Real Estate	5	3%
TOTAL	194	100%

INDIA
MID-MARKET VOLUMES BY SECTOR



CHINA

TRADE WAR AND LIQUIDITY ISSUES IMPACT DEAL-MAKING ACTIVITY

BIG PICTURE

- The US- China trade dispute escalated in Q3 2018, with the US government further tightening its review of foreign investment deals in order to protect national security, particularly in strategic sectors like TMT
- Chinese M&A transaction value in the US for the first nine months of 2018 decreased by 90% compared to the same period in 2016, when Chinese M&A transactions were at their peak
- Liquidity in China has also shrunk resulting in a slowdown of fundraising this quarter, leading to decreased mid-market M&A activity across the region.

Both deal volume and deal value decreased by around 2% in Q3 2018 compared to Q2 2018. Mid-market M&A deal volumes declined from 485 deals in Q3 2017 to 431 deals in Q3 2018. Similarly, deal value dropped by 6% from around USD 42.8bn to USD 40.4bn.

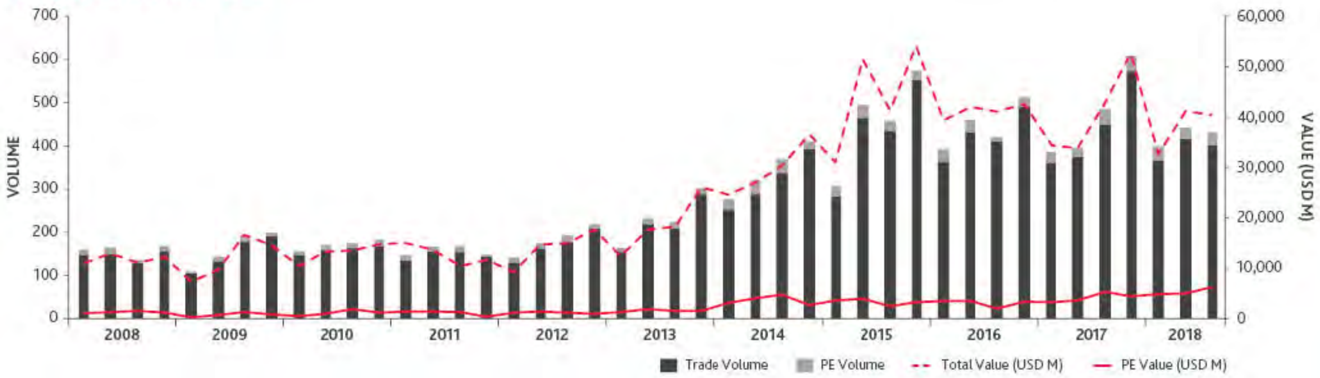
TRADE WAR IMPACT ON M&A

As a result of the current China-US disputes and the increased scrutiny of Chinese deals, the following high-profile Chinese/US deals were suspended or dropped during 2018.

- Collapse of the intended acquisition of US money transfer group MoneyGram by Ant Financial, an online payment affiliate of Alibaba Group Holding, for a consideration of USD 1.2bn. The US government rejected this transaction in January 2018 due to national security concerns.
- Chinese conglomerate HNA Group withdrew its bid for SkyBridge Capital, a US hedge fund investment firm with about USD 10bn assets under management. The deal was cancelled in April 2018 due to a prolonged and uncertain approval process from the US government which lasted more than 15 months.
- US-based chipmaker Qualcomm abandoned its USD 44bn acquisition bid for Dutch rival NXP Semiconductors after failing to secure approval from Chinese regulators in July 2018. Qualcomm needed China's approval as revenues derived from China accounted for nearly two thirds of the company's revenue in 2017.

Chinese investors' interest in doing transactions in the US has consequently fallen. China's domestic M&A landscape has also been affected as domestic M&A activity in the first nine months of 2018 has decreased compared to the same period in 2017.

PE/TRADE VOLUME & VALUE



LIQUIDITY ISSUES

China's economic rate of expansion was generally lower in Q2 2018, as evident from the decrease in the Purchasing Managers' Index (PMI) from 51.9 in May 2018 to 50.8 in September 2018. This has resulted in increased pressure on liquidity in China where many entities could now be experiencing increased difficulties in accessing bank credit and fundraising.

China's private equity/venture capital (PE/VC) market has also cooled down. Completed PE/VC fundraising was only USD 3.1bn in August 2018, or one tenth of the USD 34.4bn raised in August 2017.

China's central bank announced on 7 October 2018 that it would cut the reserve requirement ratio (RRR) by 100 basis points for most banks. This is expected to inject RMB 750bn (USD 109.2bn) into the banking system and release a total of RMB 1.2 trillion in liquidity. This measure taken by the Chinese government should lead to lower financing costs and provide a stimulus to the local economy.

TOP DEALS

The largest mid-market deal in Q3 2018 was in the Business Services sector. The top three major mid-market deals were:

- Wal-Mart Stores, Inc. and JD.com, Inc., who together invested USD 500m in Shanghai Qusheng Internet Technology Co., Ltd. – announced in August
- Multiple bidders (SoftBank Group Corp., Temasek Holdings Pte. Ltd., Hony Capital Co., Ltd. and Trustbridge Partners) invested USD 500m in WeWork China – announced in July; and
- Booking Holdings Inc. invested USD 500m in Didi Chuxing Technology Co., Ltd. – announced in July.

LOOKING AHEAD

The latest BDO Heat Chart for Greater China indicates that there are a total of 1,260 deals planned or in progress with 375 (30%) related to Industrials & Chemicals, and 213 (17%) related to Technology & Media. Other key sectors include Business Services, Consumer and Financial Services.

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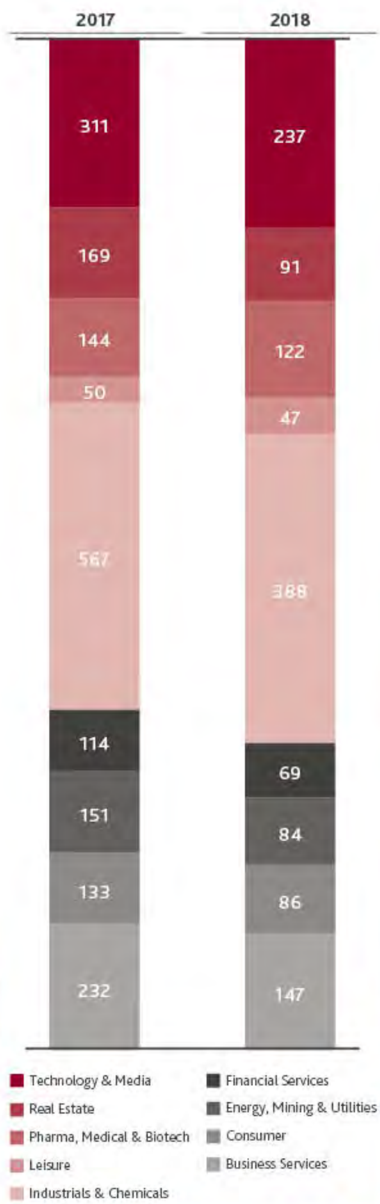
CHINA
HEAT CHART BY SECTOR

Industrials & Chemicals	375	30%
Technology & Media	213	17%
Business Services	143	11%
Consumer	126	10%
Financial Services	115	9%
Pharma, Medical & Biotech	101	8%
Energy, Mining & Utilities	79	6%
Real Estate	58	5%
Leisure	50	4%
TOTAL	**1,260**	**100%**

CHINA
MID-MARKET VOLUMES BY SECTOR



JAPAN

DEAL VOLUME FALLS FOR THIRD CONSECUTIVE QUARTER BUT VALUE INCREASES

BIG PICTURE

- TMT and Industrials & Chemicals sectors are driving M&A activity
- Industrials & Chemicals saw increased activity, possibly driven by preparations for the 2020 Olympic Games
- SME business succession is becoming an urgent issue.

The total value of Japan's top 10 deals in Q3 2018 was USD 2,392m, with the TMT and Industrials & Chemicals sectors accounting for about 80% of deal value. As in Q2 2018, these two sectors drove mid-market deal activity.

From Q1 2018 to Q3 2018, deal volume has now decreased for three quarters in a row, but deal value has increased from USD 3,079m in Q2 to USD 3,961m in Q3. The average deal size in Q3 was USD 92m, compared to USD 56m in Q2, which clearly indicates that deal sizes are increasing.

Looking at PE deal activity in 2018, deal volume has now declined for three quarters in a row. Deal volume in Q1 2018 was 68 but this fell to 43 in Q3 2018, a decline of 37%. This represents the first big decline since the slowdown from Q1 2015 to Q3 2015 Q3, when deal volume declined from 72 to 46 (down 36%) and deal value fell from USD 4,425m to USD 3,314m (down 25%). In 2015, PE deal volume and value were both down, but in 2018 although deal volumes have fallen, the deal values have remained at high levels.

KEY DEALS AND SECTORS

The TMT and Industrials & Chemicals sectors remained the driving force of Japan's mid-market activity. The total volume of completed transactions in all sectors in Q3 2018 was 43, but with a total of 29 deals, TMT and Industrials & Chemicals accounted for 67% of total volume.

Looking at the two sectors' share of deal volume so far in 2018, TMT represented 22% in Q1, 27% in Q2 and 30% in Q3, with Industrials & Chemicals accounting for 24% in Q1, 31% in Q2 and 37% in Q3. Unsurprisingly, the two sectors have dominated Japan's M&A for three quarters in a row.

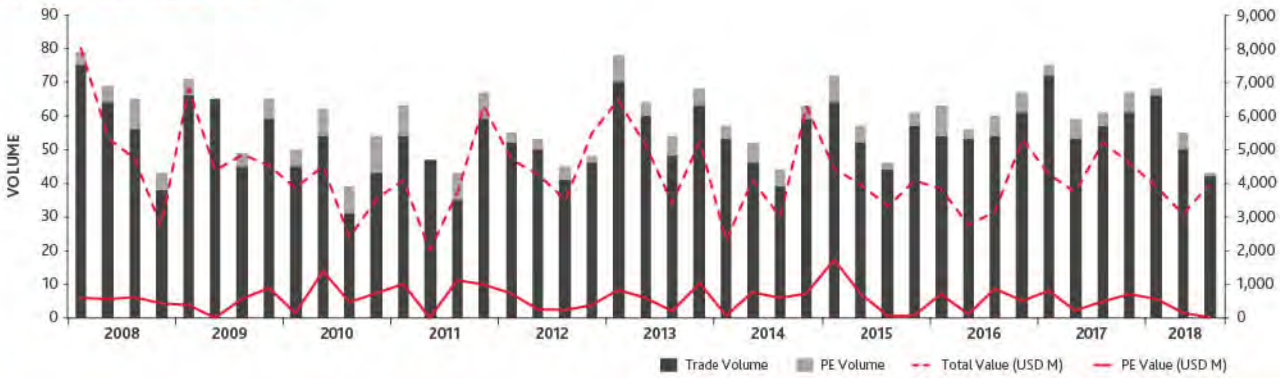
Looking at deal value in Q3 compared to Q2, TMT saw a 43% increase to USD 1,188m and Industrials & Chemicals rose by 54% to USD 1,466m, which contributed significantly to the quarter's overall top 10 mid-market deals.

The most significant deal in the top 10 was the capital participation in JOLED, which manufactures OLED display panels, by DENSO and other companies. Through this, JOLED secured USD 423m in capital funds.

The falling birthrate and the declining number of households in Japan has already been mentioned. This is seen as part of the rationale for the acquisition of housing-related business Mitsui Home Co., Ltd. by Mitsui Fudosan Co Ltd, which was one of the quarter's top 10 deals.

Deal volume and value in Industrials & Chemicals has increased over three consecutive quarters and Construction, which will be positively impacted by the 2020 Olympic Games, is part of this sector.

PE/TRADE VOLUME & VALUE



JAPAN
HEAT CHART BY SECTOR

Industrials & Chemicals	45	25%
Technology & Media	41	23%
Business Services	27	15%
Pharma, Medical & Biotech	21	12%
Consumer	19	11%
Financial Services	16	9%
Real Estate	5	3%
Energy, Mining & Utilities	3	2%
Leisure	3	2%
TOTAL	180	100%

Figure 1 is from Japan's METI (Ministry of Economy, Trade and Industry and shows the ageing of the country's SME management. To address this issue, SMEA (Small and Medium Enterprise Agency) have formulated a 'Five-year Business Succession Plan'.

LOOKING AHEAD

Looking at the BDO Heat Chart, the TMT, Industrials & Chemicals and Business Services sectors are predicted to account for 63% of all transactions. And according to the chart, TMT and Industrials & Chemicals will continue to be the driving force of the country's mid-market deals.

From the data available, it is difficult to tell how much of the current aggregate value corresponds to M&A activity for SMEs, but an increase in M&A to resolve SME business succession issues is expected in the future.

JAPAN
MID-MARKET VOLUMES BY SECTOR

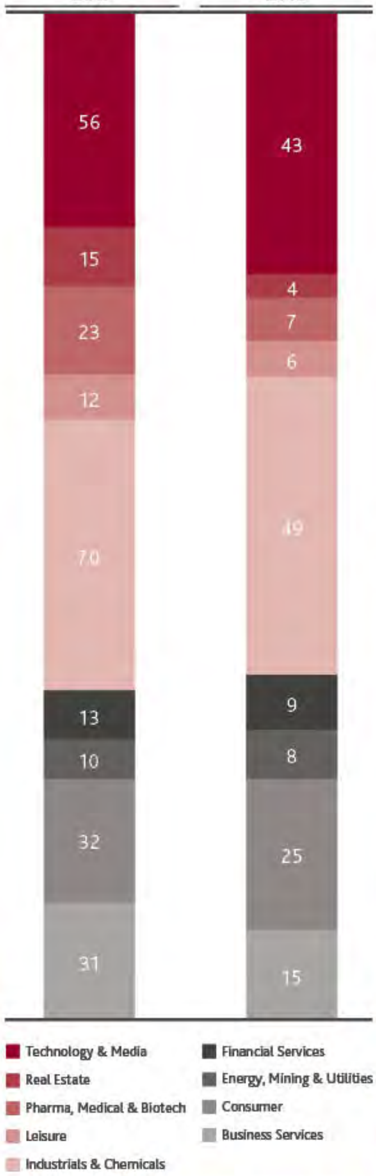
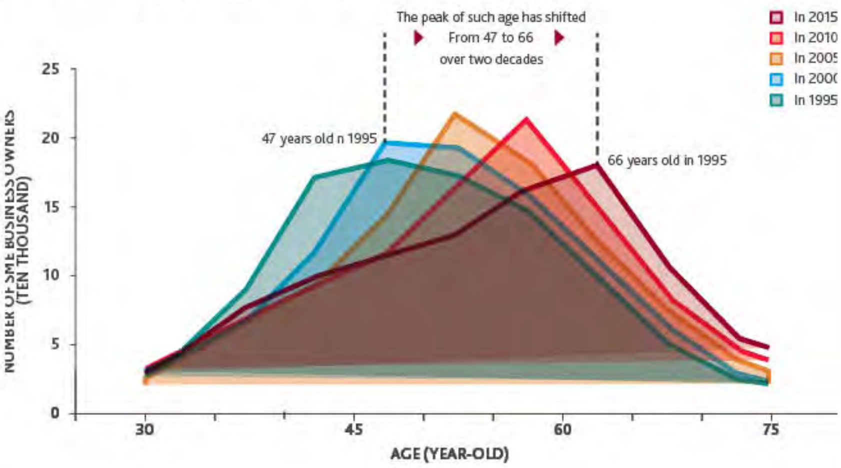


FIGURE 1

Distribution of age of SME business owners by 5 year period



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SOUTH EAST ASIA

M&A ACTIVITY RECOVERS IN Q3 WITH INCREASED VOLUME AND VALUE

BIG PICTURE

- Deal volume and value increased compared to previous quarter
- Top three deals took place in Consumer and Real Estate
- Industrials & Chemicals maintained position as leading sector.

The M&A market in South East Asia recorded higher levels of activity in Q3 2018 compared with the previous quarter, both in terms of the volume and value of deals. A total of 69 deals were completed during the quarter compared to 65 deals in Q2 2018, representing an increase of 6.2%, while total value increased to USD 6.5bn in Q3 2018 from USD 3.9bn in Q2 2018.

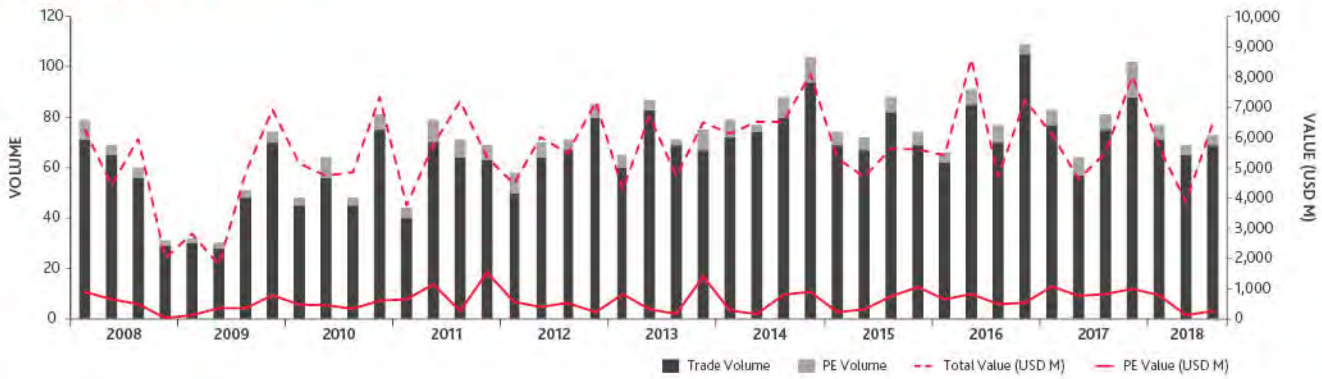
The M&A market in South East Asia recorded higher levels of activity in Q3 2018 compared with the previous quarter, both in terms of the volume and value of deals. A total of 69 deals were completed during the quarter compared to 65 deals in Q2 2018, representing an increase of 6.2%, while total value increased to USD 6.5bn in Q3 2018 from USD 3.9bn in Q2 2018. The top 10 deals for the quarter totalled USD3.7bn, representing 57.1% of the total deal value for Q3 2018. The PE segment completed four deals in Q3 2018, two deals less than the corresponding period in 2017. PE deals formed a small proportion of total M&A activity for the quarter, representing 5.8% of the number of deals and 4.0% of value.

KEY DEALS AND SECTORS

The key sectors in Q3 2018 were Industrials & Chemicals, Business Services, Consumer and Energy, Mining & Utilities, which together contributed 59% of the total deal numbers. Industrials & Chemicals was the most active sector, with the highest number of completed deals at 13, followed by Business Services, Consumer and Energy, Mining & Utilities with ten deals each.

The top three deals took place in the Consumer and Real Estate sectors. The largest deals were the acquisition in Vietnam of a 9.45% stake in Masan Group Corporation by SK South East Asia Investment Pte. Ltd for a consideration of USD 474m, followed by the acquisition of a 75% stake in Gold Coin Management Holdings Limited in Singapore by Pilmico International Pte. Ltd. for a consideration of USD 439m. Finally, there was the acquisition of a 23.79% stake in Wheelock Properties Singapore Limited in Singapore by Wheelock & Company Limited for a consideration of USD 438m.

PE/TRADE VOLUME & VALUE



LOOKING AHEAD

The main focus of the region's M&A activities is in Industrial & Chemicals. This sector achieved the highest number of completed deals (81) in 2017 and it remained the leading contributor in Q3 2018 with 13 deals completed. Meanwhile, Business Services has, as at Q3 2018, achieved a total cumulative number of 29 deals.

As is usually the case, M&A activities in South East Asia remain dependent on the current economic challenges faced by the region, which include the outlook on crude oil prices, the US-China trade war situation, Malaysia's new economic policy post-general election and the consequential fluctuation of currencies in the region. With weakened South East Asia's currencies against the US dollar, investors with predominantly US dollar income or funding may continue to find assets and targets in the region attractive.

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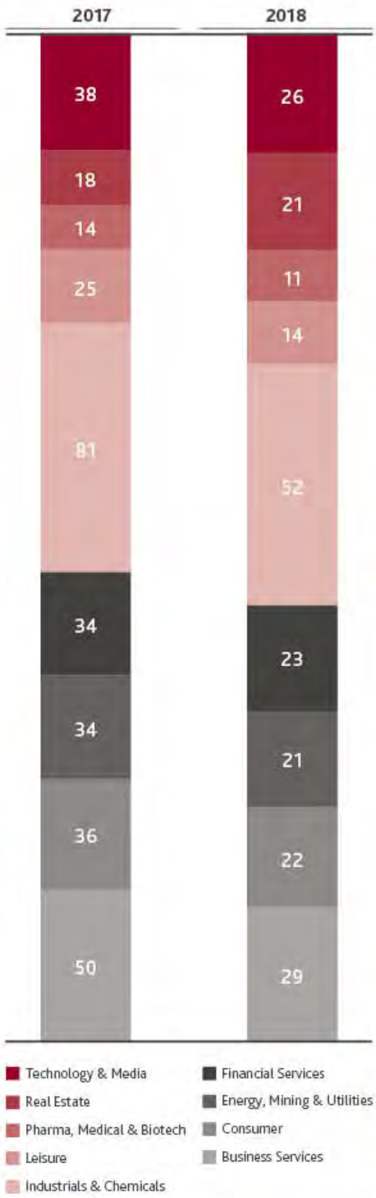
SOUTH EAST ASIA
HEAT CHART BY SECTOR

Technology & Media	86	18%
Consumer	77	16%
Industrials & Chemicals	73	15%
Business Services	66	14%
Energy, Mining & Utilities	46	9%
Financial Services	42	9%
Leisure	39	8%
Pharma, Medical & Biotech	32	7%
Real Estate	26	5%
TOTAL	**487**	**100%**

SOUTH EAST ASIA
MID-MARKET VOLUMES BY SECTOR



AUSTRALASIA

BIG-TICKET DEALS DRIVE UP DEAL VALUE AND PE ACTIVITY HITS THREE-YEAR HIGH

BIG PICTURE

- Q3 2018 deal value was 59% higher than Q3 2017, driven by a number of big-ticket deals
- Record sums of unspent capital, increased competition among investment firms and a positive business outlook pushed the value of PE deals to three-year high
- Players in the Energy, Mining & Utilities industry rediscovered their deal appetite, with the sector recording the quarter's highest number of deals.

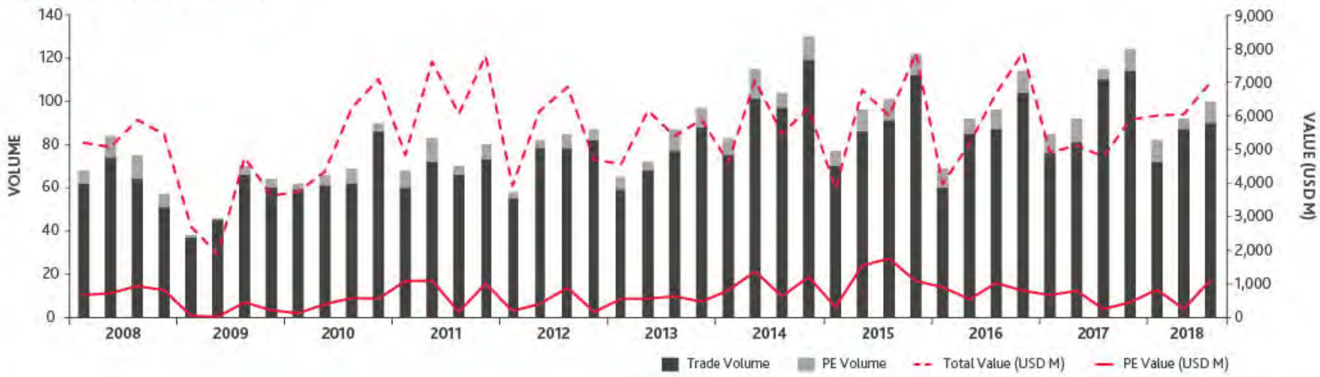
A total of 100 deals, with a combined value of USD 7.0bn, were successfully completed in Q3 2018. This represented a 27% increase on Q2 2018's deal volume of 79 and a 75% increase in deal value compared to the corresponding quarter in 2017 (USD 4.0bn).

The average transaction value for Q3 2018 was USD 70m, up 9% from the previous quarter (USD 64m) and 59% from Q3 2017 (USD 44m). These increases are illustrative of the upswing in big-ticket deals, with two deals during the quarter valued at over USD 420m. This activity was largely driven by Australian bidders, with six of the bidders listed in the top 10 mid-market deals based there.

The Energy, Mining & Utilities sector accounted for the largest number of deals during Q3 as the market rediscovered its appetite for deals following the mining downturn. Factors such as the recovery in metals prices, increased funding and positive market sentiment have all fuelled M&A activity in the sector, with 18 deals recorded in Q3 2018 compared to 16 deals in Q3 2017. Deal activity in the Energy, Mining & Utilities sector was closely followed by Industrials & Chemicals, which recorded 17 deals in the quarter.

As predicted in our previous quarterly update, Australasian mid-market PE transactions increased in Q3 2018, with 10 completed deals compared to four in both Q2 2018 and Q3 2017. The total value of PE deals during the quarter was USD 1.1bn, the highest total value recorded since Q3 2015. This reflects the deployment of unspent capital by PE firms following the mounting pressure to pull the trigger on strategic deals. In addition, a highly competitive environment and excess levels of debt and equity capital mean PE firms are having to pay higher prices.

PE/TRADE VOLUME & VALUE



KEY DEALS

The largest deal in Q3 2018 was Ausdrill Limited's USD 486m acquisition of underground hard rock contractor and African joint venture partner, Barminco Pty Ltd. The reasoning behind the transaction was to broaden Ausdrill's strategic footprint and to become one of Australia's top mining services companies by creating a balance sheet with the capacity to achieve sustainable and profitable growth.

Other notable deals that took place during the quarter included the acquisition of Dial A Dump Industries Pty Limited by Bingo Industries Limited for USD 425m and the acquisition of PGG Wrightson Limited's seed and grain business by DLF Seeds A/S for USD 296m. The former represented a key step in Bingo Industries Limited's consolidation strategy to enable it to compete against large multinational players such as Veolia, Suez and Cleanaway in an industry where scale is of greater importance. The latter transaction took place following a strategic review of PGG Wrightson Limited's seed business, where it was determined that it would benefit from being part of a global seeds operation.

LOOKING AHEAD

The current pipeline indicates that mid-market M&A activity remains robust with 525 deals under consideration, albeit slightly down from the 550 deals that were under way in Q2 2018. We expect the last quarter of 2018 to increase in line with seasonal trends as companies look to close out outstanding deals prior to the calendar year-end.

Our analysis indicates that the Consumer sector will see the greatest level of M&A activity, with 108 deals in the pipeline. This is followed by the Technology, Media & Telecommunications and Business Services sectors with 87 and 85 deals in the pipeline respectively. Industry consolidation is expected to be the underlying factor in supporting M&A activity in these sectors, as companies look to increase scale and capabilities to be able to compete against larger players.

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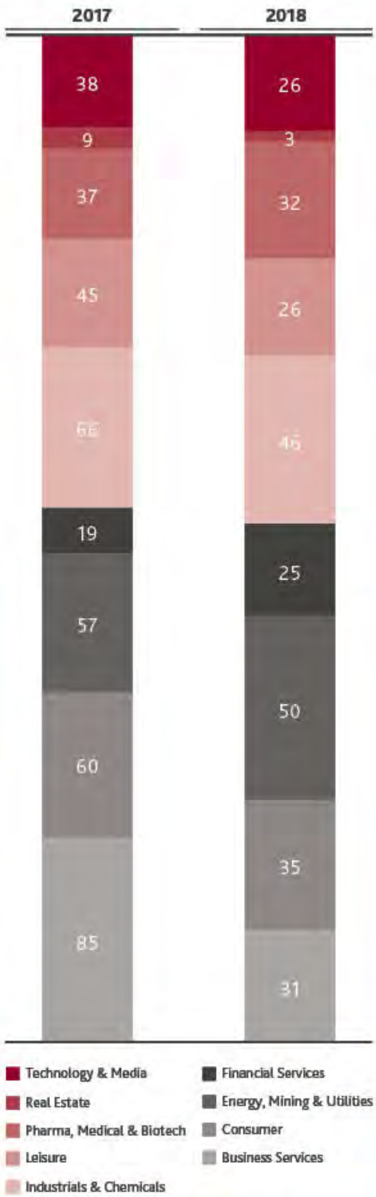
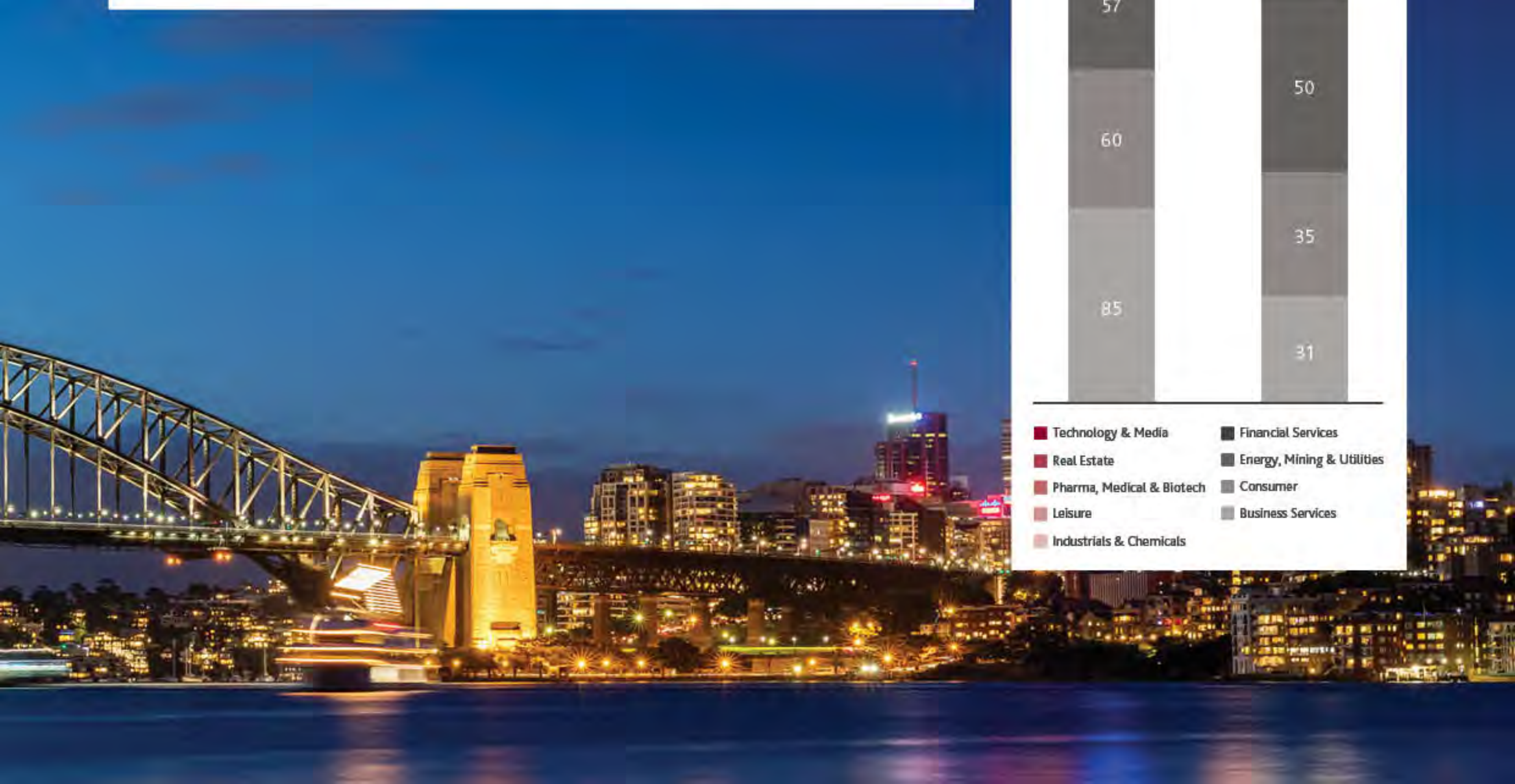
AUSTRALASIA
HEAT CHART BY SECTOR

Consumer	108	21%
Technology & Media	87	17%
Business Services	85	16%
Industrials & Chemicals	67	13%
Energy, Mining & Utilities	61	12%
Pharma, Medical & Biotech	41	8%
Financial Services	41	8%
Leisure	23	4%
Real Estate	12	2%
TOTAL	525	100%

AUSTRALASIA
MID-MARKET VOLUMES BY SECTOR





SECTOR VIEW

P40
FACILITIES MANAGEMENT

BUOYANT UK M&A MARKET PRESENTS GROWTH OPPORTUNITIES

P44
LIFE SCIENCES

M&A ACTVITY RETURNS TO STRONG GROWTH AFTER A LACKLUSTRE 2017

P45
NATURAL RESOURCES

RISING COMMODITY PRICES CONTINUE TO FUEL M&A ACTIVITY

FACILITIES MANAGEMENT

BUOYANT UK M&A MARKET PRESENTS GROWTH OPPORTUNITIES

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The UK facilities management (FM) industry continues to advance in stature and evolve in many respects, including becoming more strategically aligned with client-side agendas and workspace strategy.

There continues to be global interest in the UK as it attracts a high proportion of overseas investors from different regions. M&A activity in the last 12 months has been buoyant and the UK continues to present growth opportunities for specialist FM providers. Competition remains fierce for high-growth quality businesses driving innovation in FM, which are attracting premium valuations for vendors.

RECENT M&A TRENDS

Despite the uncertainty created by Brexit, the UK continues to present attractive opportunities for specialist FM providers, particularly global operators. The strategic direction adopted by acquirers is typically influenced by their growth strategy and for some international groups, the UK is seen as an underweight region presenting growth opportunities.

BDO's deals database records over 450 completed deals since 2015, and Figure 1 highlights the UK mix of transaction volume by sub-sector. The flow of deals in the UK market has remained strong with H1 2018 recording over 70 deals completed across all sub-sectors, some 40% more compared to H1 2017, as illustrated in Figure 2.

Recent drivers of M&A deals have been multiple, including strengthening of capabilities, entry into new sectors, geographical expansion and cross-selling synergies. A breakdown of M&A deals by sub-sector is illustrated in Figure 3. Whilst there is a spread of consolidation across all FM sub-sectors, building maintenance-related activities continue to remain highly active, supplemented by growing interest in landscaping services and 'integrated services' targets. Commoditised activities such as cleaning continue to contribute to deal flow.

BUOYANT M&A ACTIVITY

Whilst there have been a number of high-profile PE-backed deals, trade buyers remain a dominant group to secure target businesses. This news is in part unsurprising given the enhanced ability to realise synergies of specialist service companies and innovative knowledge sharing, which can often enable trade acquirers, UK and international, to justify higher valuations than financial buyers. 24% of UK targets were involved in cross-border transactions in H1 2018. In April 2018, we saw a landmark deal where two international facilities management providers, Atalian and Servest, announced a merger to form Atalian Servest, one of the world's largest FM outsourcing companies, employing more than 125,000 people worldwide. Both privately-owned businesses are geographically complementary to one another.

Additionally, US-based Rollins Inc., a listed commercial services company with expertise in pest control, entered the UK market in 2016 with its acquisition of Safeguard Pest Control. Rollins Inc. has since completed three deals in 2018 alone, cementing its focus on building UK market presence.

Similarly, in June 2018, Excellerate, a major international force in the security, cleaning and related industries in Africa, announced its second UK transaction in 12 months to acquire LCC Support Services, complementing its initial acquisition of Templewood and providing the platform for further organic and acquisitive growth. All of the M&A processes that BDO is currently involved with continue to have an international angle.

2018 is becoming a strong year for domestic buyers, with many serial acquirers continuing to deliver their strategic vision through M&A. BDO advised Nurture Landscapes on its latest acquisition of Gavin Jones, which brings together two leading privately-owned companies that share the same passion for delivering a high-quality service. Nurture has made a total of 17 acquisitions to date. Additionally, Vertas Group, owned by Suffolk County Council, has completed four deals in less than 18 months. Its recent transaction with Churchill Catering Limited sees Vertas becoming a national contract catering provider.

This trend has extended to both listed and private equity-backed vehicles. Marlowe plc, an AIM-listed provider of critical asset maintenance services in the UK, is another example with eight deals completed so far in 2018 alone. Similarly, Bellrock, a technology-enabled facilities management and property services provider, backed by Horizon Capital, acquired ECO Integrated Property Solutions in April. The latest in a long series of successful acquisitions since original investment, this deal will strengthen Bellrock's technology-driven facilities and building services. Twelve per cent of H1 2018 deals represented financial investment in the sector. Private equity companies have large quantities of cash that they need to invest and competition for quality investments remains high. BDO advised OCS Group on LDC's USD 17m investment in the management team's acquisition of OCS' Retail & Asset Solutions activities.

TECHNOLOGY IN FM

Technology and the 'Internet of Things' will dictate where the FM market goes in the years to come, as discussed in BDO's 2017 FM sector report. The pressure to innovate has never been more acute as FM providers focus on addressing escalating employment costs, increased regulatory scrutiny over flexible labour models, government spending cuts, delayed spending on projects following the UK's vote to leave the EU, and ever-more rigorous workplace health and safety regimes. We are increasingly seeing our clients using disruptive technologies as additional business streams, with new technology trends such as artificial intelligence, mobile, drones, virtual reality and the use of robotics.

FIGURE 1

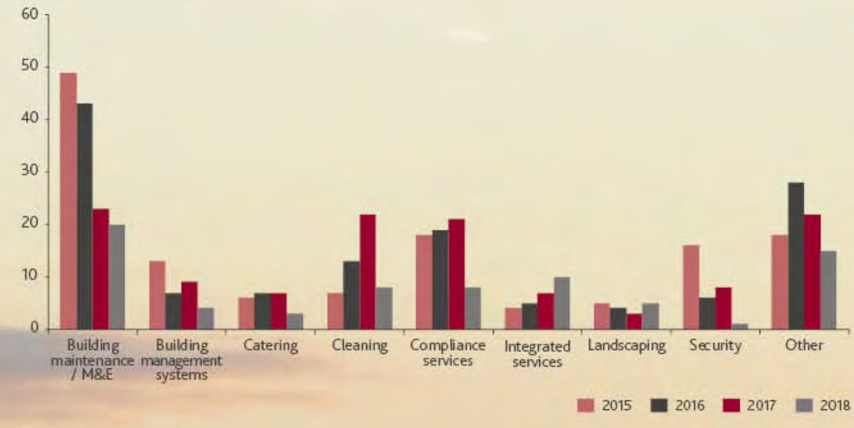
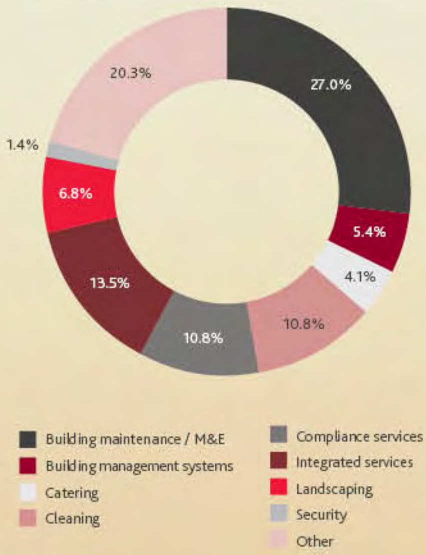


FIGURE 2

Source: BDO Research

FIGURE 3



LIFE SCIENCES

M&A ACTIVITY RETURNS TO STRONG GROWTH AFTER A LACKLUSTRE 2017

Advances in living standards have led to a seemingly ever-increasing life expectancy for many of us. However, that very fact has led to more and more of us developing chronic conditions, often requiring more complicated, prolonged and expensive treatments.

In some areas, treatments have struggled to keep up, such as the treatment of dementia or the lack of new antibiotics. Overall, the importance that we all place on our and our loved ones' good health means that the Life Sciences sector generally bucks the trend of economic cycles.

However, after many years of high levels of M&A activity, the Life Sciences market stalled last year. Overall, M&A activity in the sector as a whole fell by some 20% in value, which was due to a reduction in the larger deals seen in previous years and lower activity levels in the USA, which has historically been the strongest market in the sector for M&A. The picture was not the same throughout the sector though. While the 'Big Pharma' sector fell heavily in value, others such as generics and Medical Devices grew, the latter by some 50%.

RETURN OF BIG-TICKET DEALS

So how is 2018 going? The year has performed strongly in the first three quarters with the deal count and deal values at heights not seen since the record-breaking year of 2014. Indeed, 2018 is within striking distance of outstripping the whole of last year with many analysts predicting a surge back to, or in excess of, those heady days of 2014. Activity in the biotech sub-sector in particular has benefitted from the US tax reforms which are freeing up cash flow and US healthcare buyers putting more downward pressure on the price of existing drugs, both of which have led to the increasing acquisition appetite of large pharma firms.

While we have also seen an increased number of deals, we have also seen the return of the Big Pharma mega-deals including the Takeda acquisition of Shire valued at around USD 80bn. The UK market has also seen larger deals in 2018 into 2019 and beyond, an example being CRF Health, a supplier of electronic platforms for the collection of data for clinical trials, which was sold by Vitruvian Partners to Genstar Capital for an undisclosed amount, rumoured to be at an extremely high valuation.

PE ACHIEVES QUICK RETURNS

In addition to increased activity within the sector, PE houses continue to influence the M&A market in a positive fashion. The PE houses are using low interest rates to build their war chests, with estimates that they have doubled the amount of cash available to invest in the UK over the last year.

The Life Sciences sector, particularly outsourced Pharma services, is seeing companies sold on earlier than usual and with higher returns for the investors. These successes make the sector more attractive for PE investors, who traditionally look to double or triple their money in 3–5 years. Xendo, a Dutch regulatory affairs company, exemplifies this trend and was sold recently by Sovereign Capital Partners just over two years post acquisition. This market dynamic is good news for companies considering PE investment for their own development.

RETURN TO THE GOOD OLD DAYS?

The question is whether the low activity seen in 2017 was a brief interruption in the upward trend in Life Sciences M&A activity. Is this renewed strong activity here to stay?

There are of course challenges ahead for the industry; the focus of payers turning to outcomes-based payment is putting increased pressure on the pricing of drugs, the increasing scarcity of blockbuster drugs with increasing costs of getting a drug to market and in the UK the uncertainty around Brexit and a potential impact on drug availability. While these may pose challenges to the industry, many believe that paradoxically they could also increase M&A activity into 2019, for example acquisition to maintain a presence inside the EU or the UK post Brexit.

So far, 2018 has seen a return to strong growth – the number and size of the deals and the data make that clear. Our belief is that the fundamental reasons behind the strong growth in M&A deals mean that Life Sciences will continue to buck economic cycles and achieve sustained periods of growth into 2019 and beyond. After all, as consumers, our need for new treatments shows no sign of abating and the Life Science companies will need to keep pace.

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NATURAL RESOURCES

RISING COMMODITY PRICES CONTINUE TO FUEL M&A ACTIVITY

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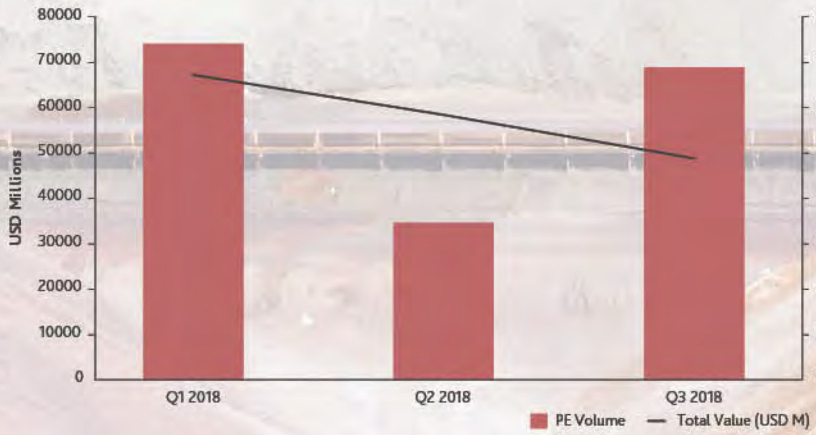
Commodity prices, including those of oil and gas, precious metals like gold, bulk commodities like iron ore, coking coal, and battery metals like lithium, cobalt and graphite have continued to increase throughout 2018. Higher global growth and potential supply constraints, prompted by greater geopolitical risk, appear to have supported the broad-based price increases in the commodities sector. This trend is expected to continue through the end of 2018.



Increased commodity prices continued to support higher valuations for natural resources companies. Higher prices generally lead to higher cash flows from operations and increased access to capital to support future growth opportunities. In the United States, a factor that may offset these growth opportunities would be rising interest rates. Regardless, a review of market sentiment for the commodity sector suggests that excess demand versus supply will support continued commodity price growth and market expansion through mergers and acquisitions over the medium to long term. In Q2 2018; however, deal activity in the natural resource sector fell, in part due to the heightened trade conflicts in North America, Asia, and Europe. This was borne out by fewer transactions being completed in Q2 2018 (585) compared to Q1 2018 (673). In Q3 2018, the number of natural resources sector transactions declined further (488), but overall transaction values rebounded significantly between the second and third quarters.

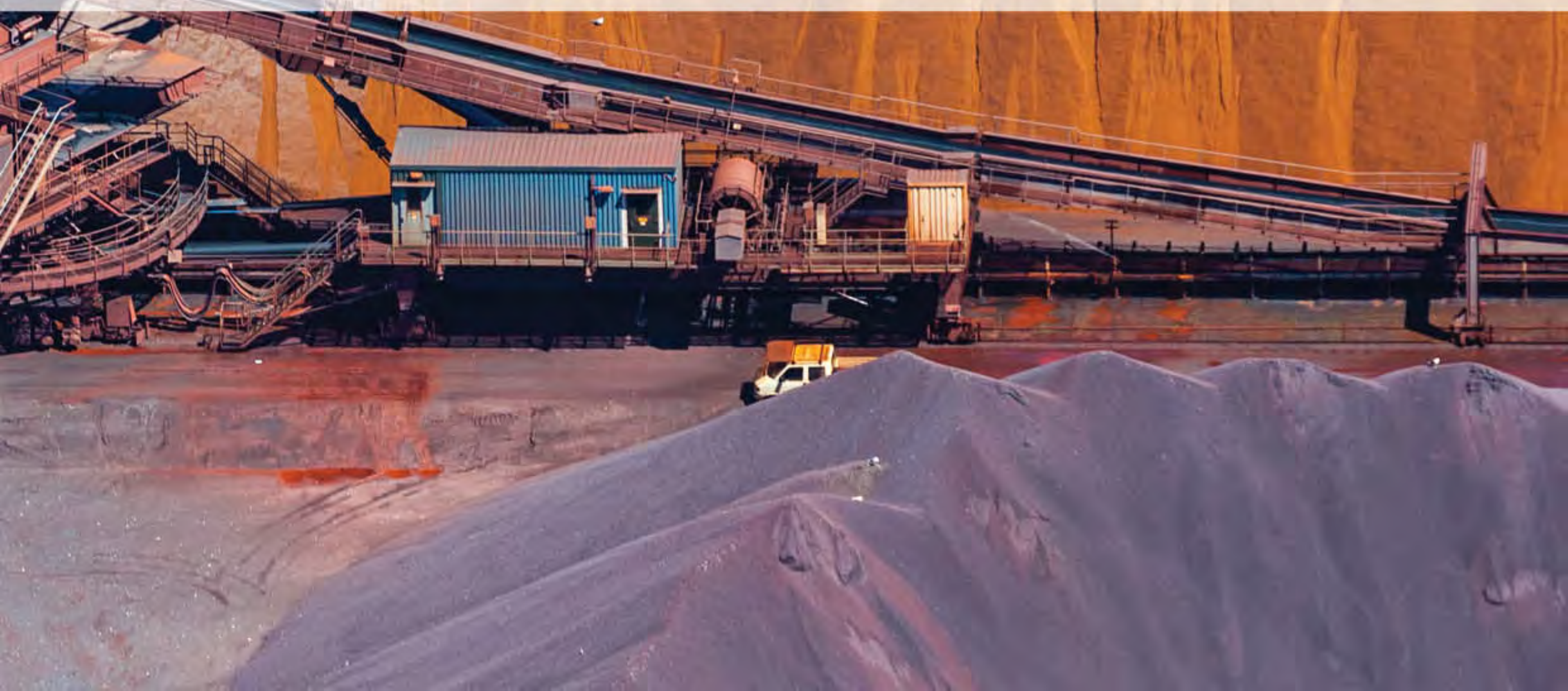
The transactions in Q3 2018 saw target companies who were headquartered in 66 countries, but almost half were in North America, with 56% in the United States and Canada.

TARGET COMPANY HEADQUARTERS	No.	%
Africa/Middle East	24	5
Asia-Pacific	87	18
Europe	77	16
Latin America and Caribbean	27	6
United States and Canada	273	56
TOTAL	**488**	**100**

We also note that transaction volume continues to follow geographical capital availability. As a result, North America maintains its domination of both buyer and target transaction location.

There was a wide spread of transactions across the sector.

TARGET COMPANY HEADQUARTERS	TOTAL
Diversified Metals and Mining	136
Oil and Gas Exploration and Production	106
Gold	70
Steel	42
Oil and Gas Storage and Transportation	41
Oil and Gas Equipment and Services	27
Coal and Consumable Fuels	26
Oil and Gas Refining and Marketing	15
Precious Metals and Minerals	9
Copper	8
Aluminum	4
Silver	2
Oil and Gas Drilling	2
TOTAL	**488**



The category Diversified Metals and Mining covers both multi-commodity mining companies but also shows the industry's focus on commodities such as lithium, cobalt, nickel, minerals sands and other minor commodities. Diversified Metals and Mining transaction volume continued to slide in Q3 to 136, after falling from 206 to 164, approximately 20%, between the first and second quarters. While commodity price trends did not appear to support the Q2 decline, it's interesting to note that transaction values in the Diversified Metals and Mining sector have increased each quarter this year, despite the fact that global trade disputes moved beyond United States tariffs with China and onto squabbling between the United States and historical allies in the European Union, Canada and Mexico.

TRANSACTION VALUE	USD MILLIONS
Oil and Gas Storage and Transportation	26,814.8
Oil and Gas Exploration and Production	24,143.9
Oil and Gas Refining and Marketing	5,272.0
Coal and Consumable Fuels	5,148.7
Diversified Metals and Mining	3,135.3
Gold	1,148.9
Steel	960.8
Precious Metals and Minerals	915.9
Oil and Gas Equipment and Services	730.5
Aluminum	500.0
Oil and Gas Drilling	160.9
Copper	24.1
Silver	2.7
TOTAL	**68,958.5**

Technology companies, including electric vehicle manufacturers, rely on commodities to manufacture their high-tech products, particularly high-demand commodities such as battery minerals (lithium, cobalt, graphite, etc.) or those in short supply (rare earths, tungsten, etc.). In BDO's 2020 Mining Predictions report, which was released in February 2018, we posed the proposition of whether Apple and Tesla would be the mining companies of the future. We predicted that technology companies will revolutionise the future of mining. We continue to monitor the trend in relationships between technology companies and miners of cobalt and lithium in particular. Softbank agreed to acquire a stake of approximately 10% in Nemaska Lithium in Q2 2018. Tesla was also recently reported to have had meetings with the Australian government and other lithium suppliers in Chile about strategic partnerships that would supply Tesla with much needed lithium hydroxide. This activity appears to support, at least for now, the likelihood that technology companies will continue to acquire meaningful ownership stakes in mining companies — or even buy the mines themselves.

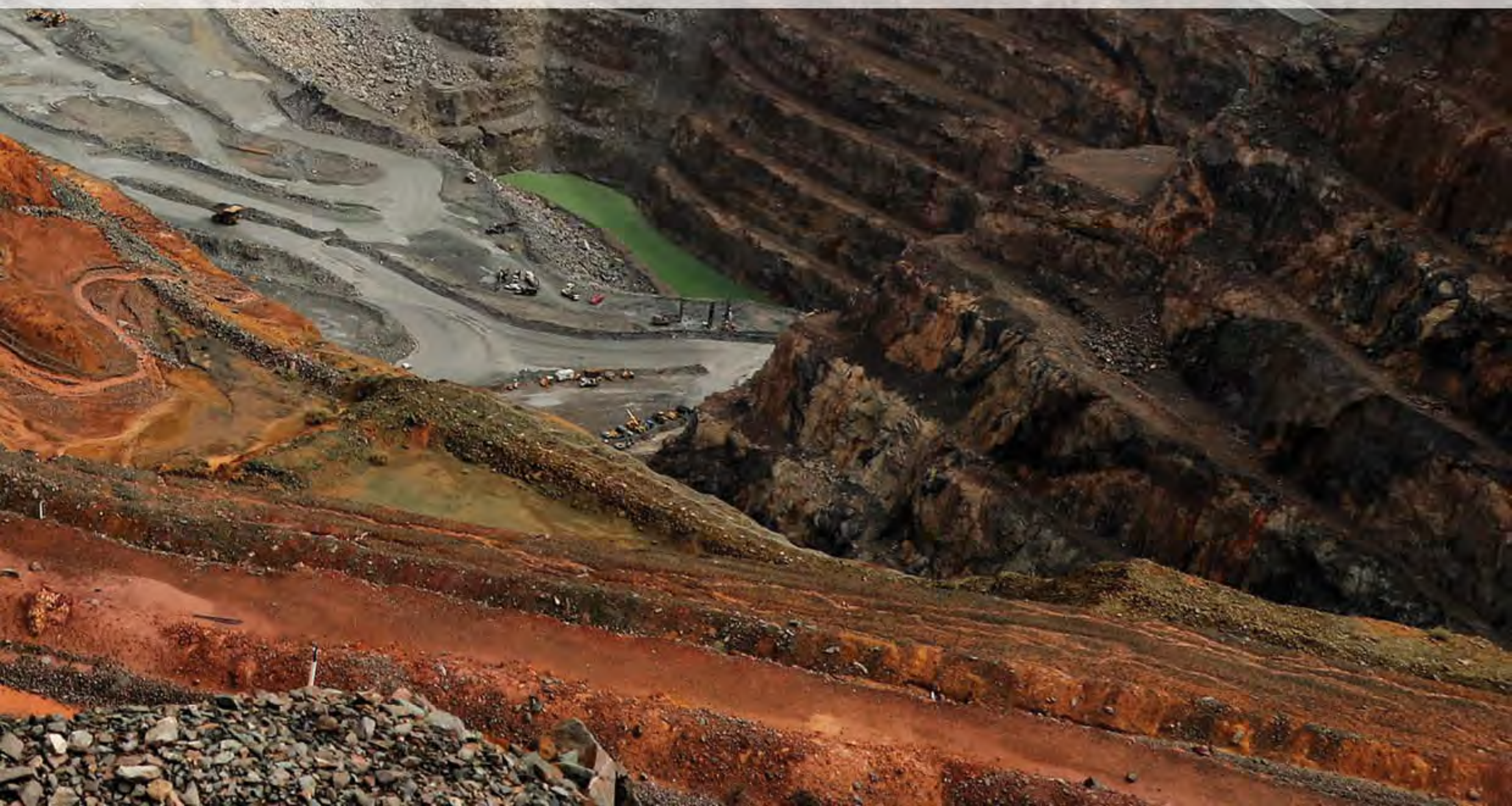
Despite the higher number of transactions occurring in the Diversified Metals and Mining sub-sector, the highest sub-sectors by value were Oil & Gas Exploration and Production and Oil & Gas Storage and Transportation. An early reading of transaction values in the Oil & Gas Exploration and Production sector in Q3 2018 suggests a significant rebound from Q2 2018 led by a burgeoning United States economy, capital availability, and high oil prices. Third quarter transaction values in the Oil & Gas Storage and Transportation and Oil & Gas Exploration and Production sectors more than doubled second quarter results. Bulge bracket strategic buyers like British Petroleum announced the acquisition of the United States shale portfolio of BHP Billiton, in a deal worth over USD 10.5bn. In addition, Diamondback Energy's stock purchase of Energen Resources for USD 9.2bn led the spate of recent US acquisitions. With oil prices recently hitting the psychologically significant USD 75/bbl mark, we continue to expect significant near-term expansion in the oil and gas sector.

BDO CHART

North America	164	7%
Greater China	79	6%
Australasia	61	12
Latin/South America	57	16
South East Asia	46	9
Southern Europe	34	6
Africa	30	29
Central & Eastern Europe	29	5
TOTAL	421	100%

MergerMarket's Heat Chart indicates that North America will continue to see strong M&A activity in the sector. In Africa (18% of all activity) and Latin America (16%), the natural resources sector is overrepresented compared to other sectors, showing how important natural resources are to those regions.

It is more likely that activity will increase in the sector over the coming 12 months than decrease and this is supported by the BDO Heat Chart. With the significant amount of available funding in North America, coupled with strong commodity prices, North America is likely to remain the most active region.



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Data compiled by Acuris.

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

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