MERGERS & ACQUISITIONS

ISSUE 1: Q1 2014

HORIZONS

BDO'S GLOBAL VIEW OF MID-MARKET DEAL ACTIVITY

BDO

CONTENTS

WELCOME

Welcome to Horizons – BDO's quarterly global mid-market review. Analysing global mid-market deal activity in 13 major regions and selected sectors around the world, we offer you a satellite view of how the M&A market is evolving – and where it appears to be heading. It includes expert commentary on recent trends, predictions for the coming year and forecasts of sector activity through our heat chart which predicts the most active sectors for company sales.

Whether you are active on the buy or sell side or just alert to the latest opportunities, Horizons provides invaluable insights into where and why the investment is flowing, giving you more of the mid-market knowledge and insight you need. In a global market of bewildering activity and endless choices, we provide some of the context necessary to understand the current environment and make decisions.

Insights from a leading M&A adviser

The latest global league tables from Thomson Reuters place BDO as a top-five M&A adviser for the first time. The data, which tracks deals worth up to USD 500m, attributes 214 deals to BDO during 2013.

This jump in the rankings is a testament to our hard-won status of being a leading M&A adviser to mid-market companies, private equity funds and entrepreneurs around the world. Even in a year of continued global economic uncertainty, we completed a string of high profile transactions including the sale of UK-based specialist engineering company Trac Group to US-based Sequa Corporation, and advised the French-based Vinci Energies on its acquisition of Mentor IMC, the global oil and gas specialist. Both these transactions also underline our growing cross-border capabilities.

I hope you find that this edition of Horizons opens your eyes wider to the many opportunities out there.

MAREK FRANKE
Global Head, M&A
marek.franke@bdo.ch

GLOBAL VIEW

There was widespread hope that 2013 would be a landmark year for M&A activity. It is after all five years since the financial crisis, and historic patterns seemed to predict a decisive rise across the globe. That hasn't quite happened – though the broader outlook remains cautiously positive.

THE BIG PICTURE

Most regions made a positive contribution to the rise in mid-market M&A activities, with the biggest players being China, Japan, Southern Europe and the UK

Comparing now and then

To understand exactly where we are now, we need to take a look back. By 2009, one year after the crisis the volume of mid-market M&A had plunged to 5,047 transactions worldwide. In contrast, 2013 saw 6,356 completed deals, the highest level since 2008. This shows the general positive shift over the five years, which is expected to continue. Deal volume is also up over the period, though last year's figures were still below 2011 levels in the annual comparison. We might say the recovery is steady, but not smooth.

The last quarter of 2013 was particularly strong for the mid-market, beating growth expectations and posting the highest deal volume since Q2 2008 (at a total value of USD 163,458m). Average volume per deal was also up by 11.5% over the same period, at USD 93m.

Comparing here and there

Some regions and sectors enjoyed a very good year in 2013. Elsewhere, the picture has not been so rosy. Here is a snapshot of some of the highs and lows.

WHO HAD THE BEST 2013?

STRONGER

- The Chinese M&A market can point to the highest growth rates worldwide
- Southern European transactions have come back strongly
- Industrials & Chemicals and TMT saw more deals than the previous year

WEAKER

- The number of deals in India's mid-market fell by 15%
- DACH, Benelux and Latin America did not match up to their 2012 figures
- Business Services and Consumer saw fewer deals than the previous year

North America had a strong fourth quarter, with transaction numbers up 10% on Q3, but to a level still down on Q4 2012. A closer look reveals that deal volumes in 2013 overall fell by 7% compared to 2012.

The Chinese M&A market had the highest growth rates worldwide, both in terms of deal numbers and total deal volume. Furthermore, a lot of this came from important, big year-end deals.

It is more of a surprise to see a growing, if still hesitant, recovery in Southern European transactions. This was most evident in Q4, which saw the highest deal value since Q3 in 2008. Meanwhile, worries about India's economy may have shaken its mid-market M&A, with the number of deals falling by 15%, although deal volume remained constant.

Most regions made a positive contribution to the rise in mid-market M&A activities, with the biggest players being China, Japan, Southern Europe and the UK. On the downside, DACH, Benelux and Latin America fell below their 2012 figures.

As for sectors, Business Services and Consumer had fewer deals in 2013, while both Industrials & Chemicals and TMT were up, with 61 and 58 deals respectively.

GLOBAL HEAT CHART BY SECTOR

	Industrials & Chemicals	TMT	Consumer	Business Services	Energy, Mining & Utilities	Pharma, Medical & Biotech	Financial Services	Leisure	Total
North America	532	648	311	323	385	403	165	135	2,902
CEE & CIS	259	121	159	114	111	33	69	52	918
China	338	121	132	73	88	50	44	40	886
Southern Europe	172	90	139	90	51	35	48	26	651
Latin America	144	75	114	99	95	36	27	20	610
Australasia	71	59	53	83	96	36	30	26	454
DACH	116	61	74	48	22	31	41	20	413
UK & Ireland	72	82	50	66	42	34	37	25	408
South East Asia	114	47	47	45	61	29	39	19	401
India	93	82	67	52	27	43	23	13	400
Other Asia	109	59	25	21	29	17	31	14	305
Japan	82	53	47	49	14	22	20	16	303
Nordics	54	34	38	32	39	31	12	5	245
Middle East	44	37	18	20	25	23	31	5	203
Africa	51	19	16	15	55	5	31	9	201
Benelux	34	37	24	33	15	13	19	10	185
Total	2,285	1,625	1,314	1,163	1,155	841	667	435	9,485

Looking ahead

So will 2014 bring the long-awaited global resurgence in mid-market M&A? There are encouraging signs that it may at least be stronger than 2013. Firstly there is the lower cost and wider availability of debt, and secondly there is increased corporate cash and capital reserves. However, the trend that Q1 typically generates fewer deals should also be more marked.

The main catalyst for deals in 2014 will be large cash reserves, followed by improved consumer confidence, opportunities in emerging markets and availability of favourable credit terms due to an increase in bank lending activity. Several large economies, such as the US, Germany, China and the UK, are expected to see higher growth this year. There is a sense that M&A activities are currently lagging behind the general positive mood and that they can be expected to catch up. High equity valuations (like those we see now) have in the past gone hand-in-hand with strong M&A activity, so the key ingredients are in place. Furthermore, the mid-market is less affected by the decline in "mega deals" over recent years.

As far as predictions go, we expect 2014 to be a highly active year for TMT, Pharma, Medical & Biotech, Financial Services and Energy. In particular, private equity funds are now said to be sitting on as much financial firepower as they had in the heady days of 2007, so 2014 should see them become much more active players. However, some financial insitutions may remain focused on regulatory compliance rather than transactions.

As far as predictions go, we expect 2014 to be a highly active year for TMT, Pharma, Medical & Biotech, Financial Services and Energy.

A possible trouble spot for next year could be the increased M&A price level. High valuations could lead to adjustments on international stock markets, with a knock-on negative influence on both M&A activities and sentiments. However, they would be supported by the continuing low interest rates and the wide availability of debt.

MAREK FRANKE
Global Head, M&A
marek.franke@bdo.ch

FEATURE: IPOs ON THE RISE AGAIN


Susan Walker


Susan Jarram

An increase in deal numbers and a record January this year are among the signs of rising confidence worldwide.

THE BIG PICTURE

- **Deal numbers up globally in 2013** despite the inactivity in China
- **January's activity by volume** was easily a record for the month
- **The US** was the top performer by deal value, Asia the strongest by volume
- **Europe shows a turnaround** after its long IPO slump

The suspension of IPO activity in mainland China throughout 2013 might have been expected to hit global activity levels hard. Encouragingly, there was nevertheless a 3% increase in the number of deals worldwide. Around 900 IPO deals raised approximately USD 163bn, up significantly from the 837 deals in 2012 that raised USD 128bn. This result is particularly heartening given that, in previous years, China has typically accounted for around 17%-25% of IPO activity by value and 6%-25% by volume. In the light of this, 2013 might well have been the strongest year since 2010 if Chinese exchanges had been open.

Activity around the world

The US was the year's strongest performing country with 37% of global deals by value. Despite the closure of exchanges in China, Asia was the strongest performing region in terms of total number of deals with activity particularly strong in Japan and Hong Kong. Europe saw a significant turnaround after more than three years of subdued IPO activity with large IPOs making a return due to a significant rise of private equity backed listings and IPOs of state owned enterprises. The UK and Germany enjoyed an exceptional year by value for IPO activity, the highest since 2007. Latin America continued to recover with IPO activity by deal volume and value showing an improvement on 2012 due mainly to the Brazil and Mexico exchanges.

Global IPO activity became much more diverse in 2013 than in the previous year, with contributions to the total coming from across the major industry groups. This is expected to persist through 2014, with issuers from a broad mix of sectors forecast to raise capital via IPO listings. In terms of proceeds generated, it was Real Estate that took the top spot for global IPO activity. The Financial Services and Energy, Utilities & Mining sectors were the next most active from a value perspective, while for deal volume it was Industrials & Chemicals that led the way, followed by TMT. We expect the latter to dominate 2014, along with the Financial Services sector.

Global IPO activity became much more diverse in 2013 than in the previous year, with contributions to the total coming from across the major industry groups.

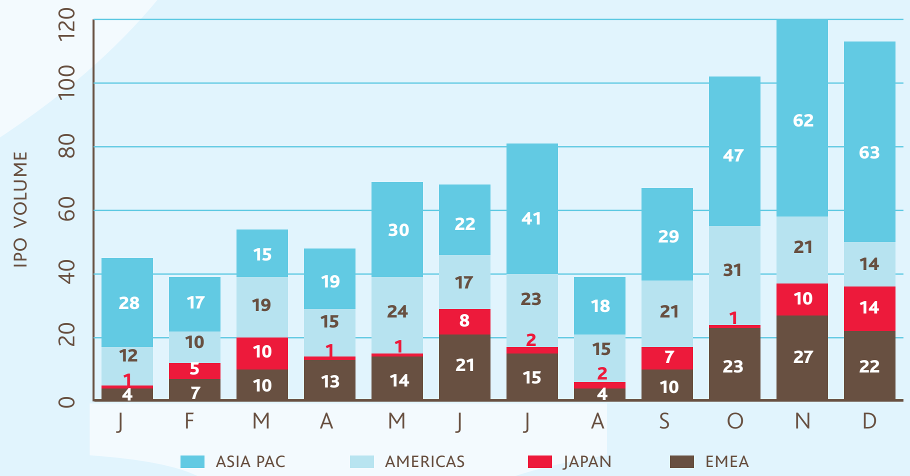
Led by large private equity exits and privatisations, European IPO proceeds topped USD 35bn in 2013, more than double the total raised in 2012. PE backed companies raised USD 14.5bn, with half of this coming in Q4-13, representing 40% of the total European IPO proceeds. The largest PE backed IPO of the year was Merlin Entertainments raising USD 1.5bn. Royal Mail raised USD 2.74bn in its October IPO, making it the largest European IPO in 2013, and one of seven privatisation IPOs that raised in total USD 6.45bn. All of the top five UK IPOs in 2013 were priced above the mid-point of the quoted range. Royal Mail and Merlin Entertainments raised a combined USD 4.4bn. London maintained its position as the leading market for IPOs in Europe with USD 11.8bn raised in Q4-13.

The strong Q4-13 reflects a recovery in investor confidence, along with sustained improvement in global economic conditions, relaxed global monetary conditions, easing political uncertainty in key markets and lower market volatility. This had the effect of widening the window for new listings. The Q4-13 deal proceeds of USD 66.9bn were the highest since Q4-10, while the number of deals at 294 was the highest since Q2-11. European IPO in Q4-13 saw twice the level of IPO activity at 58 deals compared to 29 in Q3-13, with total funds raised in the year being USD 30bn – more than double the 2012 level and marking a high point since Q4-07.

Despite the strong increase in listings reflecting confidence and better market fundamentals, the future will not necessarily be easy. Some uncertainty still remains, even though fundamentals are improving each quarter and the IPO activity trend is an improving one. 2013 was the first year since 2010 in which both deal numbers and values rose compared to the previous year. Furthermore, the return of a broad spread of sectors and geographic markets bodes well for a strong 2014 and the end of the two year decline.

Global IPO value totalled USD 19.4bn (97 deals) in January 2014, the best January figures on record and nearly 50% higher than the next largest January in 2011 (USD 113.2bn from 111 deals). Asia was the top region with a 54% share of global IPO volume.

IPO VOLUMES BY REGIONS, 2013



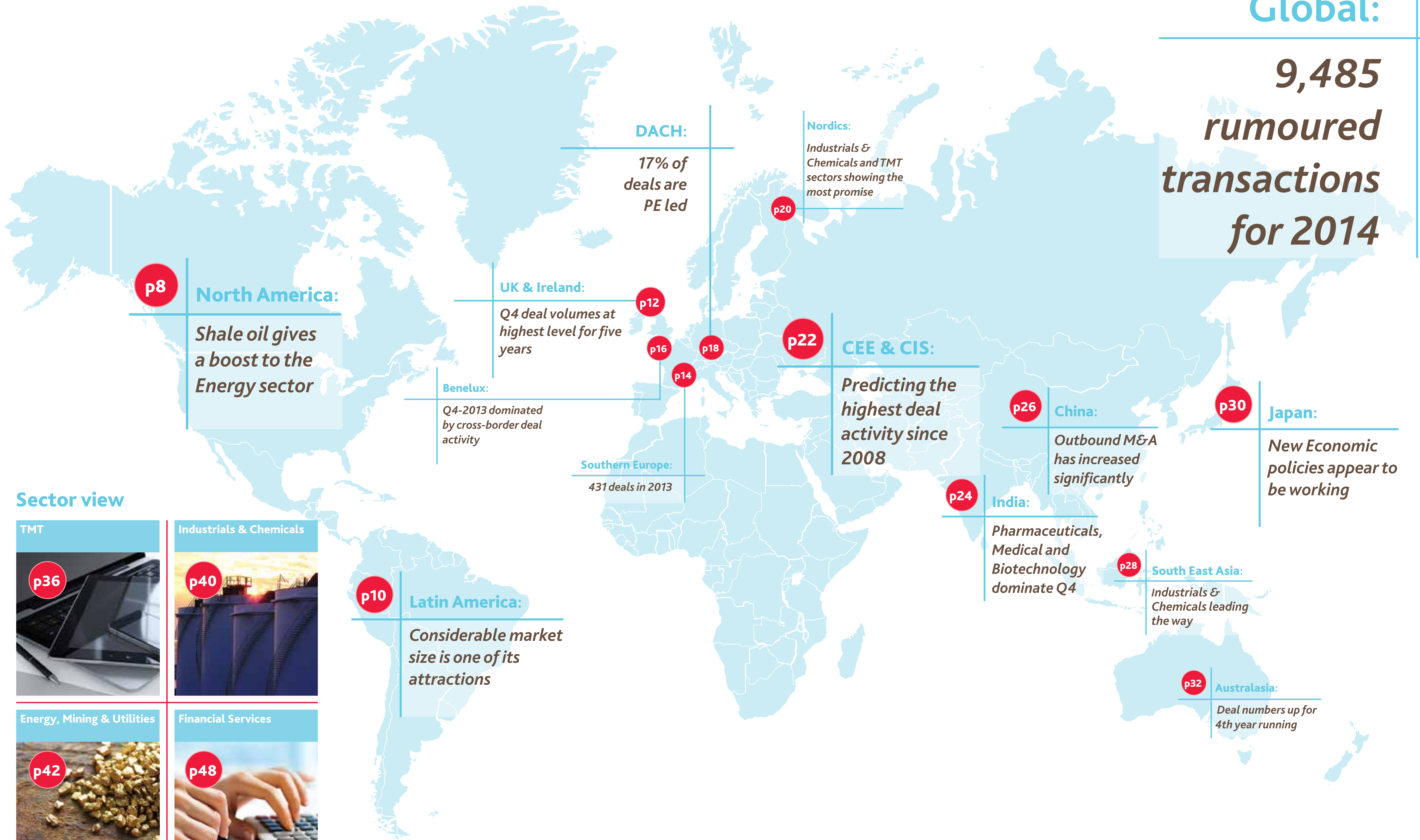
Source: Thomson Reuters

Looking ahead

In this year's first quarter the number of IPOs worldwide could well reach 300, generating total proceeds of around USD 35bn. This would be a significant improvement on last year's levels, and would make a fair comparison with the activity levels of 2005–2008. This activity is expected to be throughout major deal regions and across a section of industries, with strong momentum in the US markets and the continuing recovery of the European and Middle East IPO markets. 2014 could also see huge activity for Asia due to the reopening of exchanges in mainland China and stronger levels of activity from Hong Kong, Japan and Asian markets. Private equity backed IPOs will continue to be a key driver of global IPO activity.

SUSAN WALKER
M&A Director
susan.walker@bdo.co.uk

SUSAN JARRAM
M&A Assistant Director
susan.jarram@bdo.co.uk



Global: p2

9,485 rumoured transactions for 2014

DACH:

17% of deals are PE led

p18

Nordics:

Industrials & Chemicals and TMT sectors showing the most promise

p20

North America: p8

Shale oil gives a boost to the Energy sector

UK & Ireland: p12

Q4 deal volumes at highest level for five years

Benelux: p16

Q4-2013 dominated by cross-border deal activity

Southern Europe: p14

431 deals in 2013

CEE & CIS: p22

Predicting the highest deal activity since 2008

China: p26

Outbound M&A has increased significantly

Japan: p30

New Economic policies appear to be working

India: p24

Pharmaceuticals, Medical and Biotechnology dominate Q4

South East Asia: p28

Industrials & Chemicals leading the way

Australasia: p32

Deal numbers up for 4th year running

Latin America: p10

Considerable market size is one of its attractions

Sector view

TMT

p36

Industrials & Chemicals

p40

Energy, Mining & Utilities

p42

Financial Services

p48

REGIONAL VIEW

NORTH AMERICA

Optimistic predictions ended in disappointment, but a rise in larger deals suggest better to come.

Despite favourable conditions for an upswing in deal activity and volumes, 2013 proved to be a disappointing year for mid-market M&A in North America.

THE BIG PICTURE

- **Deal numbers** in 2013 surprisingly down
- **Mega deals dominate** in a growing trend that may ultimately boost the mid-market
- **Shale oil** gives a boost to the energy sector
- **Private equity** expected to play a bigger role this year

With improving economies, plentiful amounts of cash and rising equity markets, many expected 2013 to see double digit gains in the number of transactions and the overall spend on deals. Despite the positive macro-environment and the bullish predictions, the number of deals actually declined by 9% to 1,729 (from 1,859 in 2012) while deal value fell by 7%.

The first quarter of 2013 was hit hard by the rush of deal making at the close of 2012, as tax motivated sellers headed for the exits.

A New Year that started with a hangover

The first quarter of 2013 was hit hard by the rush of deal making at the close of 2012, as tax motivated sellers headed for the exits. As a result, the number of reported transactions plummeted in Q1-13 to 401 (compared to 530 in Q4-12).

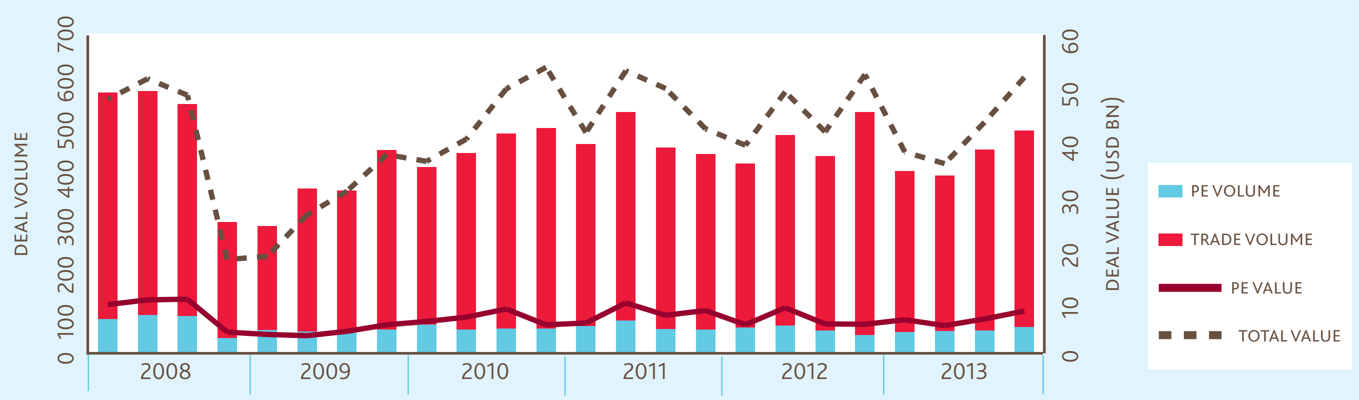
However, as 2013 got properly underway, M&A activity and volume once again picked up momentum with 448 deals reported in Q3 and 490 in Q4.

Private equity made up approximately 11% of the overall deal volume and roughly 15% of the value. We expect buyout firms to be more aggressive in 2014, enticed by the robust capital markets and the low cost of debt. Three of the five busiest buyers of 2013 were private equity firms with Bain Capital LLC leading the way, spending USD 10.0bn on 29 acquisitions. The Carlyle Group LP and KKR & Co. LP processed 27 deals each.

Big deals keep wheels turning

One encouraging sign during the year – and one that may bode well for the future – was the return of the "mega deal". Most of the spending can be attributed to a handful of these, the most notable being Verizon Communications Inc. spending USD 127.6 billion to acquire the remaining 45% stake in Verizon Wireless from Vodafone Group Plc. This is the third largest U.S. deal ever. Mega deals may be the trend as we begin 2014, and already two USD 30+bn deals have been announced. Charter Communications Inc. proposed to acquire Time Warner Cable Inc. for USD 37.4bn, and Liberty Media Corp. has made a USD 31.7bn offer to buy the remaining 47% stake in Sirius XM Holdings Inc. An uptick in mega deals is usually a positive for mid-market deal making, as a domino effect takes hold and the financing markets continue to loosen downstream.

PE / TRADE VOLUME & VALUE

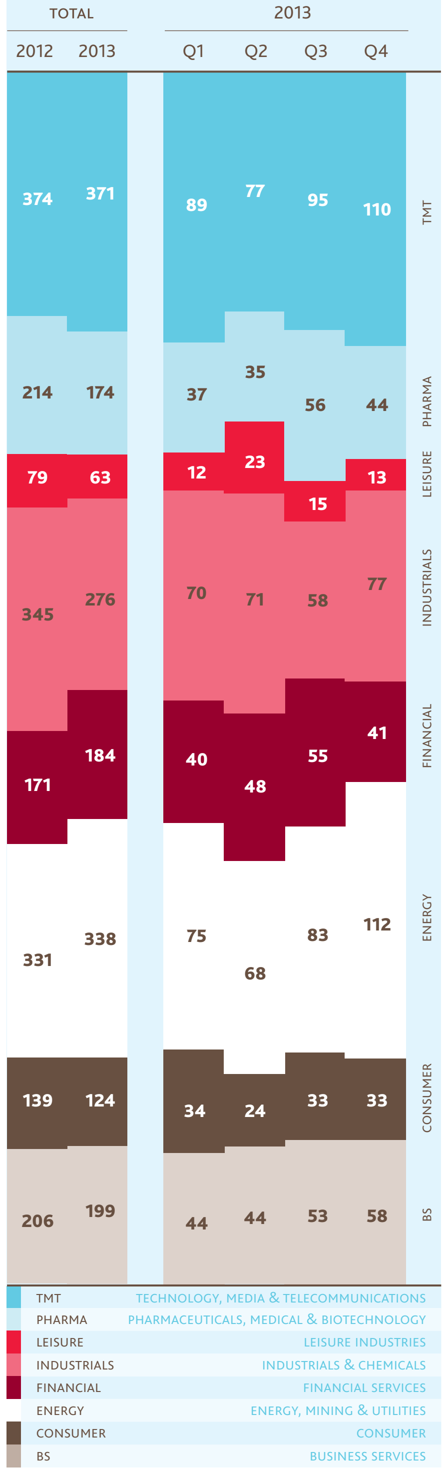


Black gold to energise the market

In terms of sector focus, mid-market activity was once again led by TMT with 371 deals. This was followed by Energy, Mining & Utilities at 338, and Industrials & Chemicals at 276.

Energy deals took over second place from Industrials & Chemicals as an increasing number of foreign and domestic acquirers looked to take advantage of the recent US oil boom. Advances in extracting oil from shale rock drove a 39% jump in US production since 2011, the steepest rise in history, and will boost output to a 28-year high this year, according to analysts. Although drilling in shale is more expensive than other methods and poses environmental challenges, the prospect of a growing supply is encouraging analysts to predict a more energy-independent nation. Such sentiment and investor interest is fueling M&A activity in the sector and supporting sub-sectors throughout North America. This trend is expected to continue into 2014 and beyond.

NORTH AMERICA MID MARKET VOLUMES BY SECTOR



NORTH AMERICA HEAT CHART BY SECTOR

TMT	648
Industrials & Chemicals	532
Pharma, Medical & Biotech	403
Energy, Mining & Utilities	385
Business Services	323
Consumer	311
Financial Services	165
Leisure	135
Total	2,902

Looking ahead

The outlook for North America M&A in 2014 is generally positive. Many analysts expect strategic buyers to get more aggressive in doing deals as organic growth prospects are limited. Rising equity values will allow large public buyers to do more accretive deals and pay higher prices for mid-market companies, which should entice sellers off the sidelines. In addition, private equity buyers are still dealing with a capital overhang from prior fundraising efforts and need to put their money to work. They will be aided by lenders eager to originate new loans as the economy improves.

BOB SNAPE
President
bsnape@bdocap.com

LATIN AMERICA

Internal consumption and industry keep this highly populous region active and steadily growing.

With 349 deals in Latin America in 2013, 98 specifically in the fourth quarter, the region remains significant in the volume of transactions with a modest growth estimated for the coming years.

THE BIG PICTURE

- **2013 was a significant year** of deal activity, despite modest growth projection
- **Q4 was the best quarter** for deal volume
- **Industrials and energy sectors** dominate deal activity
- **The considerable size of this market** remains one of its major attractions

The deals taking place during the year amounted to USD 32.7bn with USD 9.0bn of that coming in the last quarter. That represents a volume increase of 19.5% on the preceding quarter and a value increase of 6.2%, demonstrating how 2013 ended with a flourish.

The sector that saw the most deal activity in 2013 was Industrials & Chemicals, with 87 deals, equivalent to 24.92% by volume.

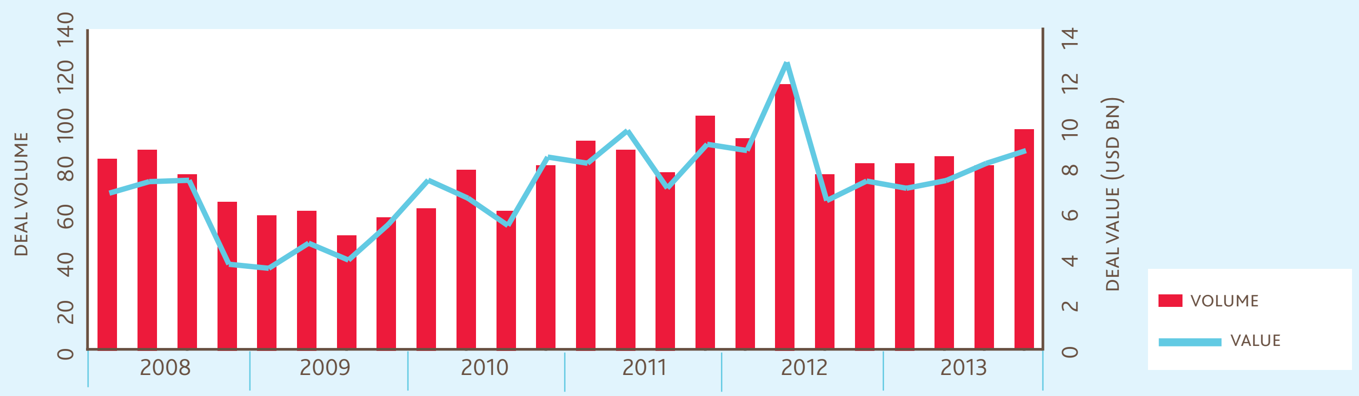
Steady rather than spectacular growth

The M&A market in 2013 reflects a much steadier phase of activity, very different from the turbulent peaks and troughs of preceding years. A gradual climb that peaks towards the end of the year leaves the market still well below its apex of activity in 2012, but at the same time presents a far less volatile profile. This more stable outlook may bode well for the coming year.

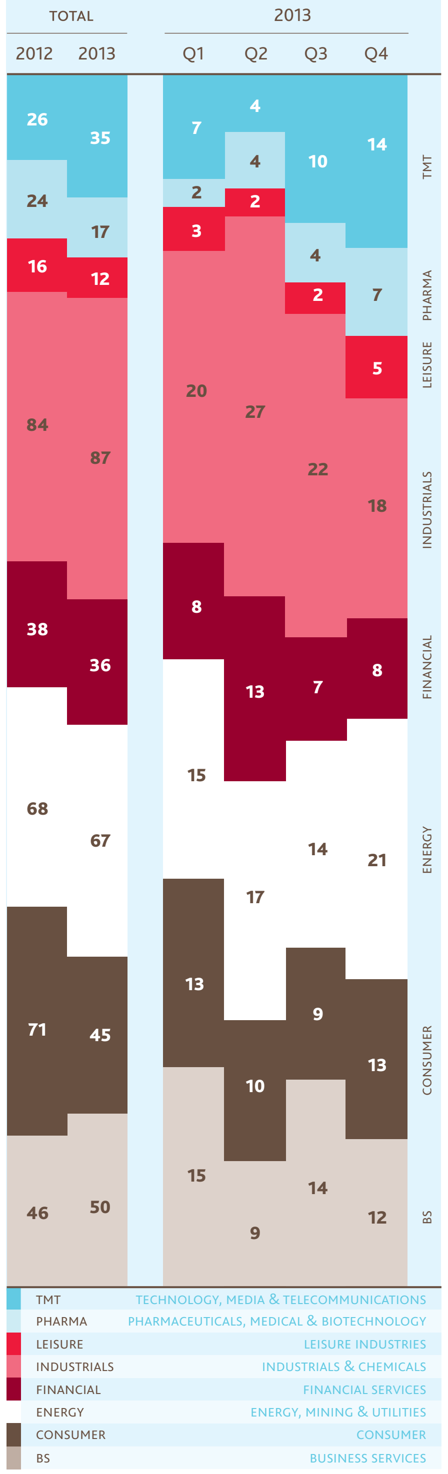
The sector that saw the most deal activity in 2013 was Industrials & Chemicals, with 87 deals, equivalent to 24.9% by volume. This was followed by Energy, Mining & Utilities with 67 deals, representing 19.2%. However, by Q4 this sector had jumped into the top spot with 21 deals. At the other end of the scale, very little was happening in the sectors of Leisure and Financial Services.

The heat chart shows current market intelligence is available on over 610 deals in progress or planned. Industrials & Chemicals is set to be the most active sector in the coming year, ahead of TMT. What all of these values reflect is a strong groundswell of positivity in Latin America, with the significant volume of transactions in the pipeline reflecting the widespread optimism. From the current perspective it seems probable that deal activity will continue to expand, even though this may be at gradual and modest levels.

MID MARKET M&A



LATIN AMERICA
MID MARKET VOLUMES BY SECTOR



LATIN AMERICA HEAT CHART BY SECTOR	
Industrials & Chemicals	144
Consumer	114
Business Services	99
Energy, Mining & Utilities	95
TMT	75
Pharma, Medical & Biotech	36
Financial Services	27
Leisure	20
Total	610

Looking ahead

Due to the sheer size of its population, Latin America has a stable and considerable market, fueled by internal consumption and industry. Predictions are that Latin America will show modest growth over the next few years. The World Bank believes that Brazil, one of the largest markets, will grow at rates of 2.9% in 2014 and 3.1% in 2015. Mexico also shows signs of modest but favourable activity, hand-in-hand with a recovery. Even though the region as a whole shows structural vulnerabilities, some exposure to global volatility and an increase in foreign financing costs, the size of the market and volume of deals still sustains Latin America as a significant and alluring market.

MAURO JOHASHI
M&A and Advisory Partner
mauro.johashi@bdobrazil.com.br

UNITED KINGDOM & IRELAND

A rise in private equity and overseas buyers reflect a market with new confidence.

At first glance 2013 may not look so very different from the previous year, with 538 mid-market deals completed. Indeed, it was also broadly in line with the three years preceding. However, this paints a steady state of the market that speaks of a growing sense of confidence.

THE BIG PICTURE

- **Confidence returning** and underpinning deal activity
- **Q4 deal volume at its highest level** over the last five years
- **Significant rise in deal value in Q4**, linked to private equity buyers
- **UK remains an attractive source of acquisitions** for overseas buyers

Deals are happening and the pipeline is improving. The last quarter especially bears this out, with 149 deals being a comfortable five-year peak for the corresponding period. It was value as well as volume, with those 149 deals totalling USD 12.7bn – by some way the highest quarter of 2013, and almost 50% higher than the Q4 average of the previous four years.

There was considerable cross-border activity too, with US based organisations actively acquiring UK businesses.

Private equity led deals represented over one fifth of Q4-13, and showed broadly similar levels of activity across the year as a whole. However in value terms they punched far above their weight, with those 33 deals at USD 4.7bn accounting for over 37% of deal value in Q4. This was far higher than any other quarter in 2013 and indeed the greatest value over any quarter in the last five years. Seven of the ten largest deals in the last quarter had some private equity involvement, either as bidder or seller. These included the acquisition of R Griggs Group by Permira and the acquisition of Busy Bees by Teachers Private Capital of Canada.

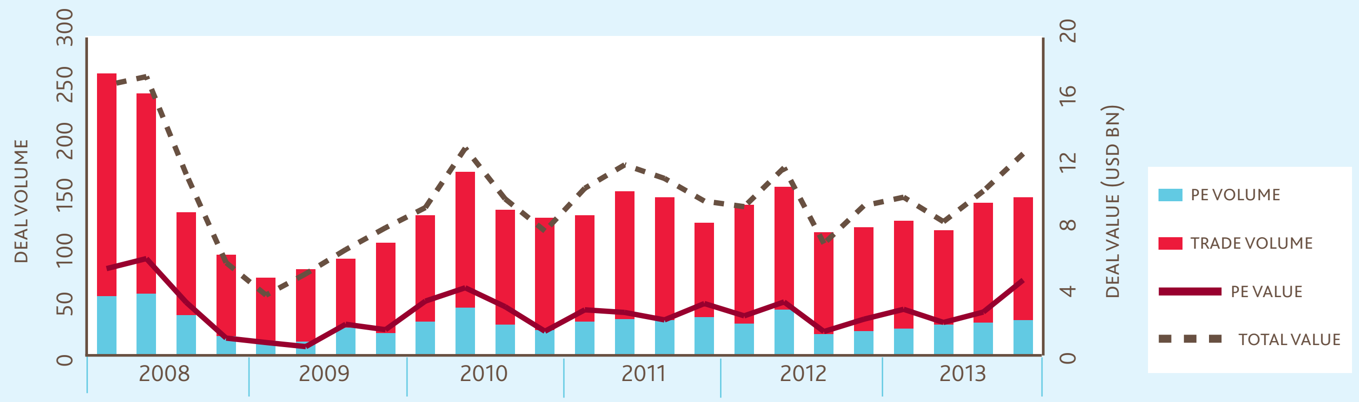
US acquirers showing UK interest

There was considerable cross-border activity too, with US based organisations actively acquiring UK businesses. Half of the ten largest deals in the quarter were US acquirers, with the largest being the acquisition of Norland Managed Services by CBRE Group Inc. This theme should continue through 2014, with the UK representing a source of businesses with strong strategic appeal and value for overseas acquirers.

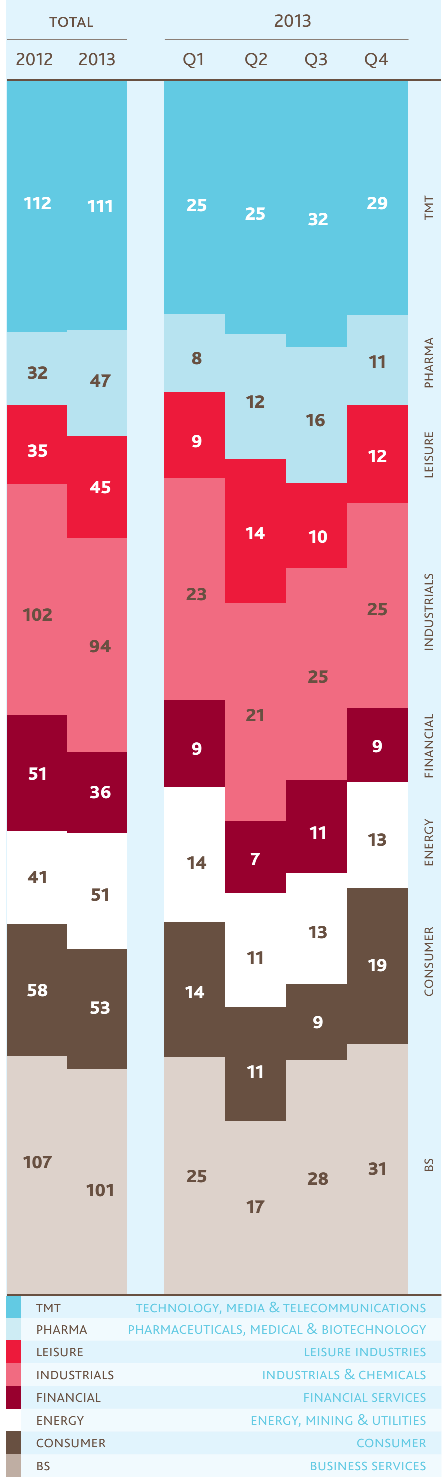
The sectors that saw most deal activity in 2013 were TMT, Business Services and Industrials & Chemicals, which between them were over half of the total deal activity. Financial Services saw the lowest deal activity, while the other four sectors in our groupings had similar activity levels. This pattern was repeated in Q4, except for a higher level of activity in Consumer and a slight reduction in Pharma, Medical and Biotech.

Valuations have moved up, reflecting improving confidence rather than stable deal volume. BDO's most recent private company price index (PCPI) saw a EV/EBITDA ratio of 12.1x, while our private equity price index (PEPI) saw a ratio of 9.1x. One factor behind the gap between the two indices could be the continued ability of strategic buyers to pay prices that reflect the value of the target to them particularly, such as the specific synergies from which they can benefit.

PE / TRADE VOLUME & VALUE



UK & IRELAND
MID MARKET VOLUMES BY SECTOR



UK & IRELAND HEAT CHART BY SECTOR

TMT	82
Industrials & Chemicals	72
Business Services	66
Consumer	50
Energy, Mining & Utilities	42
Financial Services	37
Pharma, Medical & Biotech	34
Leisure	25
Total	408

Looking ahead

As 2014 rolls onwards, we expect a rise in M&A activity driven by growing business optimism and the greater availability of funds to both trade and private equity buyers. BDO's most recent Business Trends report noted that business optimism is at its highest point since the Coalition Government came into power. The banking environment also looks supportive of funding deal activity, with lending multiples rising.

The heat chart shows current market intelligence is available on over 400 deals in progress or planned, which is already over 75% of the 2013 level of activity. We would expect that number to grow as the year progresses. TMT is set set to be the most active sector, ahead of Business Services and Industrials & Chemicals, but Consumer already looks to be running at a level comparable to the whole of 2013.

JOHN STEPHAN
M&A Partner
john.stephan@bdo.co.uk

SOUTHERN EUROPE

A strong 2013 and a healthy pipeline bodes well for a full recovery to come.

Southern Europe appears to have decisively turned the corner. With 431 deals in 2013 totalling USD 38bn in value, the region improved in all respects on the previous year.

THE BIG PICTURE

- **Deals were up in 2013** in terms of both volume and value
- **In particular,** Q4 deals totalled the highest value final quarter since 2008
- **Industrials & Chemicals** leads the way as the most active sector for M&A
- **The high number** of deal opportunities in 2014 sound a note of confidence

And with plentiful deal opportunities in the pipeline for 2014, this appears to be a genuine sign of the long-awaited market recovery. If things remain on course, then we can look forward to an emphatic improvement in 2014.

The fourth quarter of 2013 saw 108 deals, which was admittedly slightly down on Q4-12 (113 deals, so a drop of 4%). But what matters here is the increase in value, up 10% on Q4-12 to hit USD 12.07bn.

The fourth quarter of 2013 saw 108 deals, which was admittedly slightly down on Q4-12 (113 deals, so a drop of 4%). But what matters here is the increase in value, up 10% on Q4-12 to hit USD 12.07bn. Indeed this was the highest value final quarter since before the financial crisis, in fact slightly exceeding Q4-08 (which delivered USD 12.06bn). Looking at the year in its entirety, we can see a clear overall improvement on 2012, with both volume and value up by 9.4%. In 2013 we saw a total of 431 deals, worth USD 38bn, while for 2012 these figures were 394 deals and USD 35bn.

Private equity remains a major player

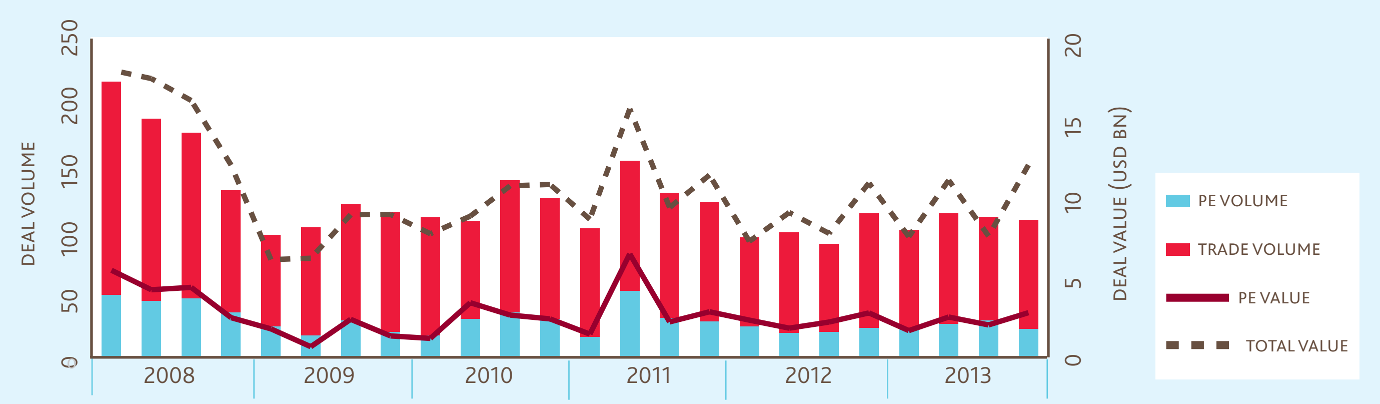
The number of private equity deals was down by 4.3% in Q4-13 from the previous year's final quarter, but the value held steady (up 0.5%) to reach USD 2.8bn. In 2013 as a whole the number of PE deals was up by 16%, albeit with a 1% decrease in value to USD 9bn. All in all PE accounted for 23% of volume and 24% of value in 2013.

The most important PE deals of Q4-13 took place in France. The highest deal value, USD 467m, was in the telecommunications sector, when the French group Altice purchased a 10% stake in Numericable, a French cable operator, from two PE funds. In another deal, Crédit Agricole bought a 5% stake in Amundi Asset management for USD 452m. There was an influx of capital from other continents too, namely Northern America and Asia. A pension fund from Canada invested in Orpea SA, a French company engaged in retirement homes, purchasing 5% stake for a deal value of USD 451m. Meanwhile in Italy, a 70% stake of Internazionale Football Club was purchased by the Indonesian investor Erick Thohir for USD 337m. Significantly, there was also an investment in Greece, where Folli Follie sold the Hellenic Duty Free Shop to the Dufry group, a global travel retailer headquartered in Basel with operations in 45 countries.

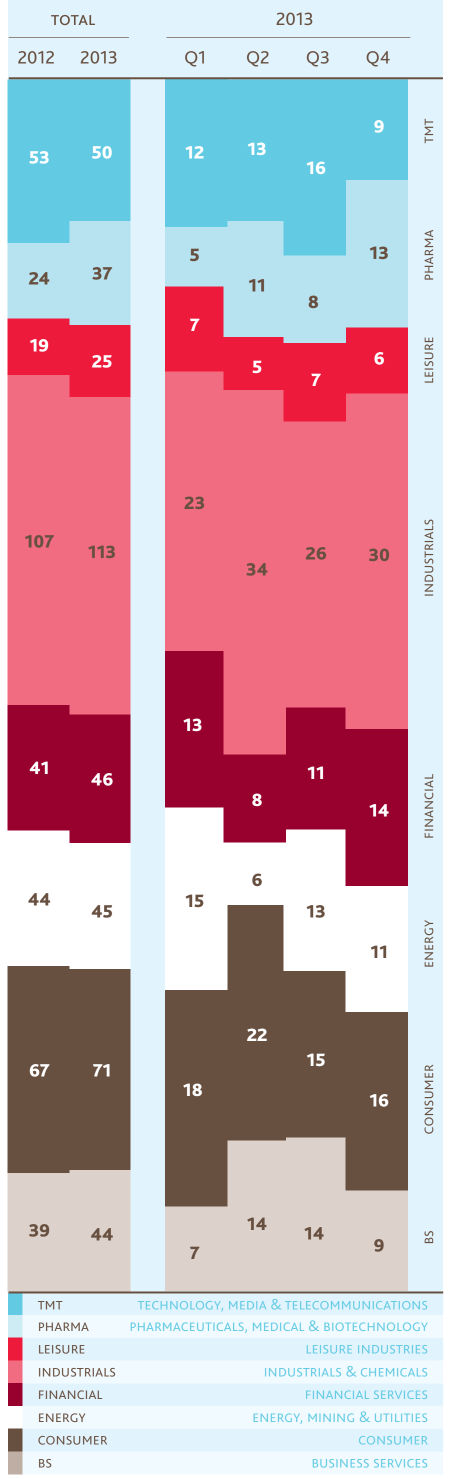
Many sectors see thriving activity

By far the most active sector in Q4-13 was Industrials & Chemicals, with 30 deals, way ahead of second-placed Consumer with 16 deals. Meanwhile the Leisure sector returned the lowest activity, with just six deals. This pattern held more or less constant across the whole of 2013, with 113 deals for Industrials & Chemicals and 25 for Leisure. And yet the Leisure sector actually showed the second greatest year-on-year variation in deal volume, being up 32% on 2012, while the highest rise came from Pharma, Medical & Biotech which was up 54% from 24 to 37 deals. The only sector seeing a decrease was TMT, which was down 6% to 50 deals. The Energy, Mining & Utilities sector held stable with 45 deals, only one more than in 2012.

PE / TRADE VOLUME & VALUE



SOUTHERN EUROPE
MID MARKET VOLUMES BY SECTOR



SOUTHERN EUROPE HEAT CHART BY SECTOR

Industrials & Chemicals	172
Consumer	139
TMT	90
Business Services	90
Energy, Mining & Utilities	51
Financial Services	48
Pharma, Medical & Biotech	35
Leisure	26
Total	651

Looking ahead

The heat chart underlines how strong the Industrials & Chemicals sector remains, with 172 forthcoming deal opportunities. With a total of 651 rumoured deals, Southern Europe sits comfortably in fourth place among the regions covered in this report, close behind China. If a substantial proportion of these deals were to take place, then 2014 would be on course to beat 2013 (431 deals) by some margin. At the very least we can say the year-on-year improvement in both volume and value is an encouraging sign for the M&A market. However, there is still some way to go. Having seen a stable trend for the past two years, the goal is now to surpass the post-crisis peak of 2011, which saw 506 deals and a total value of USD 45bn. This could be achievable if operators can succeed in exploiting the numerous opportunities of the rumoured deals. Indeed, it would set the stamp of authenticity on the Southern European recovery.

MATTEO MANGIAROTTI
M&A Partner
matteo.mangiarotti@kon.eu

BENELUX

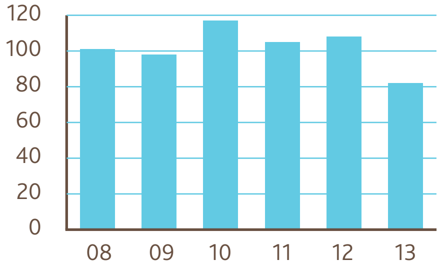
Deal numbers are steady but value is down across Belgium, the Netherlands and Luxembourg.

At first glance, 2013 may not look so very different for the Benelux region. Deal numbers appear to be holding up well, with 110 transactions in 2013 to compare with 120 in 2011 and 105 in 2012.

THE BIG PICTURE

- **Average deal value** hit a historic low in 2013
- **But Q4 deal volume** was the highest since Q1-11
- **The Benelux region** remains attractive to foreign investors
- **Private equity accounts** for a third of deal value in Q4-13

But where the real issue lies is in the value of those deals. Average deal value has sunk from USD 114m in 2010 to USD 84m in 2013. This has been partly due to the lower profitability of target companies, along with increased market awareness among buyers and also the reduced availability of funding.



AVERAGE DEAL VALUE BELELUX

Almost exactly a third (33%) of total deal value in Q4-13 came from transactions funded predominantly by private equity. This is the highest percentage since Q3-10, when it was around 41%. In terms of value, the average level of private equity participation in 2013 was nearly 21%, in line with previous years. However, the decline in average deal size meant that the total value of private equity funding fell by USD 1.9bn (from USD 2.5bn in 2012).

The largest private equity M&A deal in Q4 was the sale by Health City International B.V. of Basic Fit to PE house 3i Group Plc for USD 370m. Furthermore, private equity was involved in four of the ten largest deals in Q4. These included Strikwerda Investments selling TSS B.V. to Constellation Software the Netherlands B.V., and Ergon Capital Partners SA selling Zellbios S.A. to DPE GmbH.

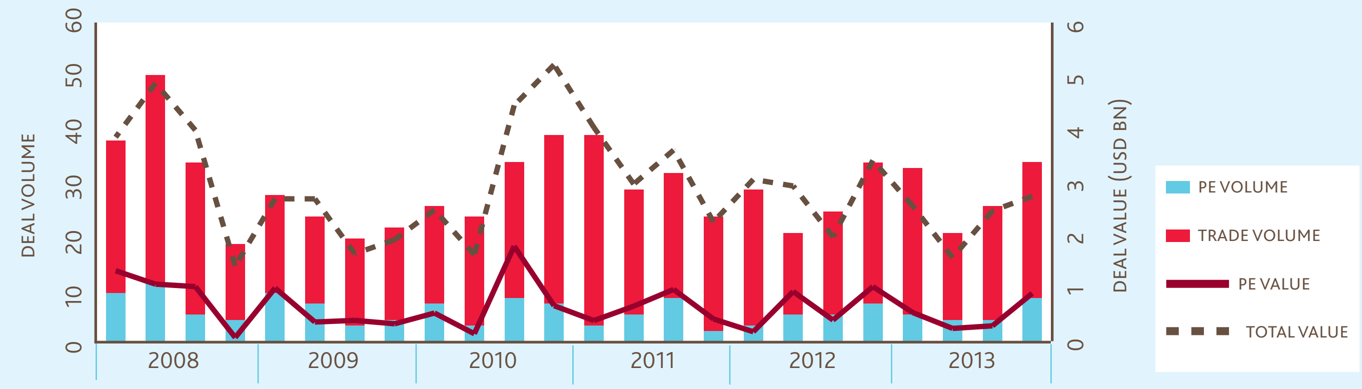
International interest is up and industrials lead the way

Deal activity in Q4-13 was dominated by cross border transactions – of the ten largest deals, which had a total value of USD 2.2bn, only one was domestic. Buyers came from Asia, Europe and North-America. The largest acquisition (not a private equity deal) was the 60% sale of Brand Loyalty International to US based Alliance Data Systems Corporation for USD 360m.

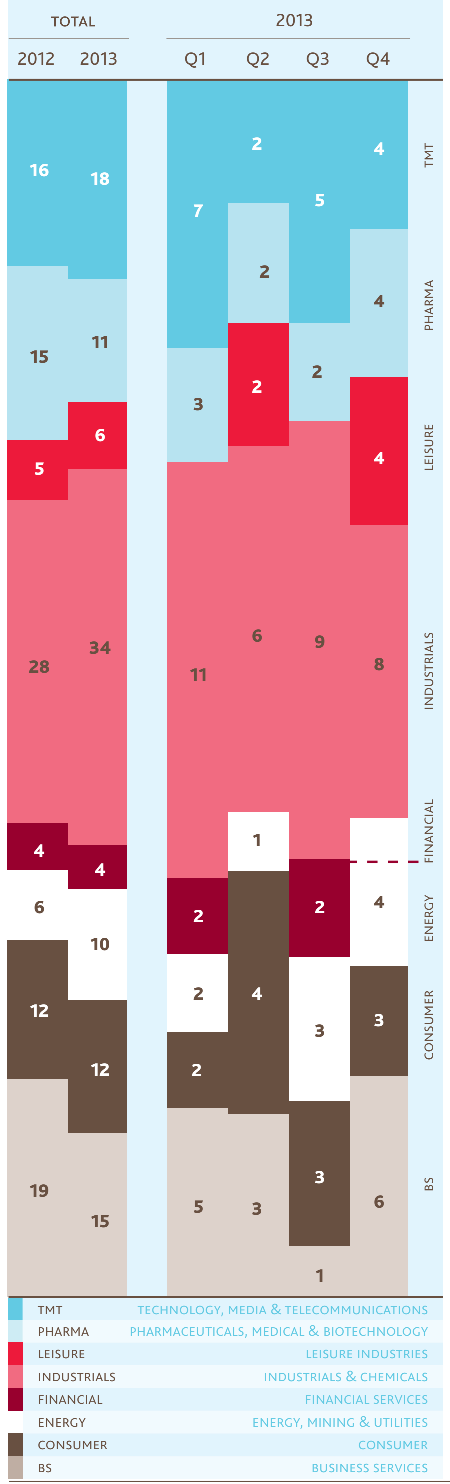
The busiest sectors in terms of deal activity were Industrials & Chemicals and TMT, accounting for nearly half (47%) of all deals. However, although TMT has shown a small increase in recent years, with 18 deals in 2013, it has still not regained the heights of 2008 which saw 31 transactions in this region. It is the Industrials & Chemicals sector which now leads the way, with 34 deals in 2013.

The heat chart indicates that intelligence or strong rumours are available on 185 deals planned or in progress.

PE / TRADE VOLUME & VALUE



BENELUX
MID MARKET VOLUMES BY SECTOR



BENELUX HEAT CHART BY SECTOR

TMT	37
Industrials & Chemicals	34
Business Services	33
Consumer	24
Financial Services	19
Energy, Mining & Utilities	15
Pharma, Medical & Biotech	13
Leisure	10
Total	185

Looking ahead

Looking ahead in the current year, we believe that rising optimism and access to funds will increase M&A activity throughout 2014 in the Benelux. TMT, Industrials & Chemicals and Business Services remain sectors with a lot of activity. Consumer and Financial Services are sectors where activity is expected as well in the coming period.

ALBERT KOOPS
M&A Partner
albert.koops@bdo.nl

DACH

German-speaking Europe enjoys another successful year for mid-market M&A.

In 2013 the DACH region saw more than 200 completed deals in the mid-market, with a total volume of USD 20.8bn. Though slightly below last year's figures, transaction activity still held comfortably above the five-year average.

THE BIG PICTURE

- **DACH saw strong deal activity**, a healthy total volume and a promising outlook
- **After a weak 2012**, private equity is getting more involved
- **Conditions for raising finance** are currently very favourable
- **Germany had a remarkable share of domestic deals**, though more cross-border activity is expected throughout 2014

Despite a slow start to 2013 with only 33 deals in the first quarter (value USD 4.0bn), the months that followed showed accelerating activity and value growing quarter by quarter. Q3 and Q4, traditionally the strongest M&A quarters in the region did not disappoint with 65 deals (USD 5.5bn) and 49 deals (USD 6.4bn) respectively, some of the best figures since the financial crisis began.

Perhaps surprisingly, the largest corporate deals in the mid-market had only a small role for blue chip corporates. EON AG sold E.ON Mitte AG to a consortium of municipalties (value USD 498m) and ZF Friedrichhafen AG exited from its rubber and plastic activities with a sale to a strategic Chinese buyer, Zhuzhou Times New Material Technology Co. (value USD 400m). Activity in the mid-market was defined more by transactions involving the "Mittelstand", that is mainly family owned medium-sized businesses.

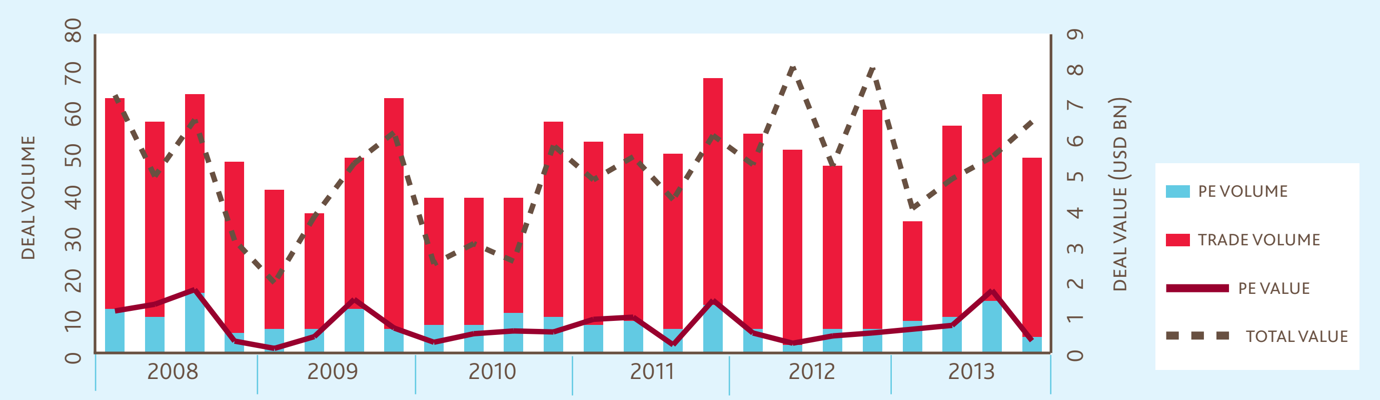
Perhaps surprisingly, the largest corporate deals in the mid-market had only a small role for blue chip corporates.

One such was the takeover of Otto Maenner GmbH (high-precision molds) by Barnes Group Inc (USA, deal value USD 372m), while another was the acquisition of Haupt Pharma AG (pharma contract production) by Aenova Holding GmbH (Germany, deal value USD 355m).

The resurgence of private equity

It was a welcome surprise to see that 17% of the DACH M&A mid-market, in both volume and value, were transactions led by private equity. The role of private equity has rarely been so high since 2008, and after a disappointing 2012 few had expected to witness 34 such deals (up 70% from the previous year) with a total value of EUR 3.5bn (up 91%). This is a remarkable comeback from just 7% of the total deal value in 2012.

PE / TRADE VOLUME & VALUE



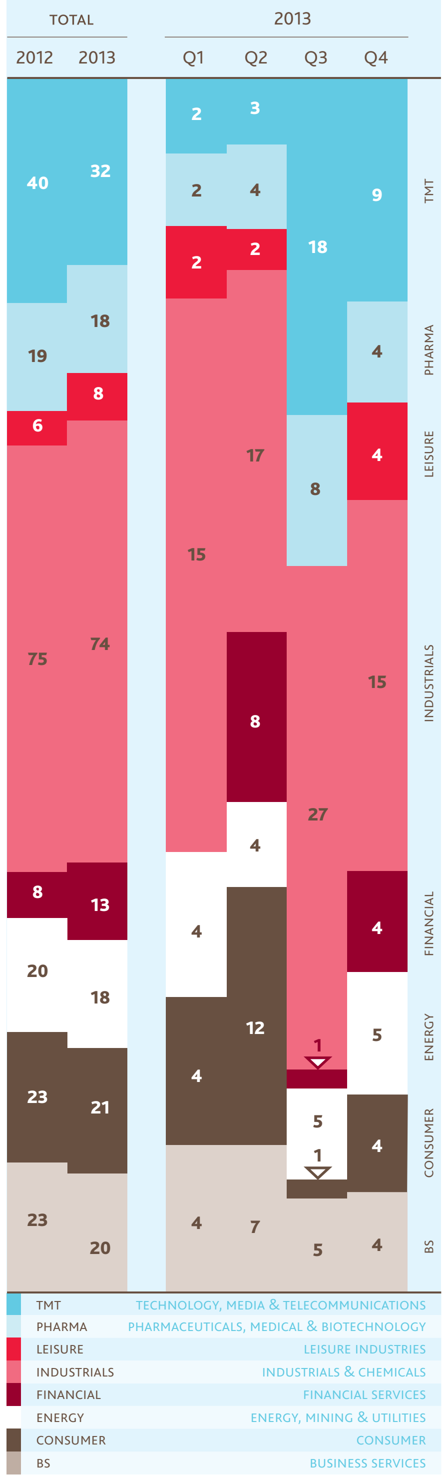
The majority of the deals were secondary and tertiary buy-outs, but there were some notable primary deals and exits to strategic investors too. Lone Star Fund's exit of COREALCREDIT Bank AG (commercial property financing) to Aareal Bank AG (both Germany, deal value USD 468m) and the acquisition of nora systems GmbH (floor coverings) by Intermediate Capital Group Plc were among the largest deals in the mid-market.

This comeback for private equity highlights the very favourable environment for financing at this time. Pricing conditions remain very attractive, with historically high liquidity for banks, institutional and private debt investors (including high yield). Furthermore, the risk appetite of lenders has increased, in part due to additional competition from new market participants (mainly banks), and this has led to lower arrangement fees and covenant requirements.

Cross border activity decreased a little during 2013, to a level of about 50%. This worked both ways, with fewer German bidders active or successful in foreign countries, and fewer German targets approached by foreign parties. However, we expect an increase in German corporate activity abroad, in particular from the Mittelstand (SMEs). Although the Mittelstand is traditionally risk averse and prefers organic growth over acquisitions, these companies have significant accumulated liquidity on their balance sheets which can be invested in M&A deals.

There were no great sector surprises in 2013, with the leaders by deal volume still broadly the same as in recent years. At the top were Industrials & Chemicals (36%) and TMT (16%), followed by Business Services and Consumer at 10% each. The spread reflects the diverse composition of the German economy.

DACH
MID MARKET VOLUMES BY SECTOR



DACH HEAT CHART BY SECTOR

Industrials & Chemicals	116
Consumer	74
TMT	61
Business Services	48
Financial Services	41
Pharma, Medical & Biotech	31
Energy, Mining & Utilities	22
Leisure	20
Total	413

Looking ahead

We should see more growth off the back of current trends and various strong factors, including the continuing positive financing environment, all of which should boost deal activity. The German Mittelstand is under economic pressure to invest its historically high cash reserves, while relatively high valuation levels could encourage family owned businesses to exit their business in order to solve succession issues. Last but not least, the resurgence of private equity will influence the DACH M&A mid-market and impact on market shares.

A good indicator for economic activity in Germany is the Ifo Business Climate Index (Ifo Institute for Economic Research, Munich). The Index has improved during 2013 after a slump at the end of 2012 and is now at its highest level ever (with the exception of 2006/2007 and a short period in 2011).

The heat chart reflects this positive overall picture. We can see more than 400 deals in progress or planned, matching the size of the UK pipeline. The Industrials & Chemicals sector is in the lead as expected, but also noteworthy is the fact that the consumer sector is in second place followed by TMT – a frequent sign of a promising M&A year to come.

AXEL MAACK
M&A Partner
axel.maack@bdo.de

NORDICS

The steadiness of the Nordic market is proving its appeal to international investors.

Stability and dependability remain the watchwords for the Nordic region, where the overall deal volume remains around the same level that it has maintained for the past three years. There were 230 completed mid-market deals during 2013, with a total value north of USD 19bn, underlining the region's continuing stability since the slump in 2009.

THE BIG PICTURE

- **Another strong year** underlines the region's ongoing stability
- **Growing international interest** fuelling major cross-border deals
- **Industrials and TMT sectors** the most active, but others show rising pipeline activity
- **Average deal value** compares well on the international scale

It was a year of two halves, with volume dominating the first and value coming to the fore in the second half. There were 120 deals in the first two quarters and ten fewer in Q3 and Q4, but the latter part of the year still saw greater value by USD 236m, making a total of USD 9.8bn (compared to USD 9.5bn for the first half).

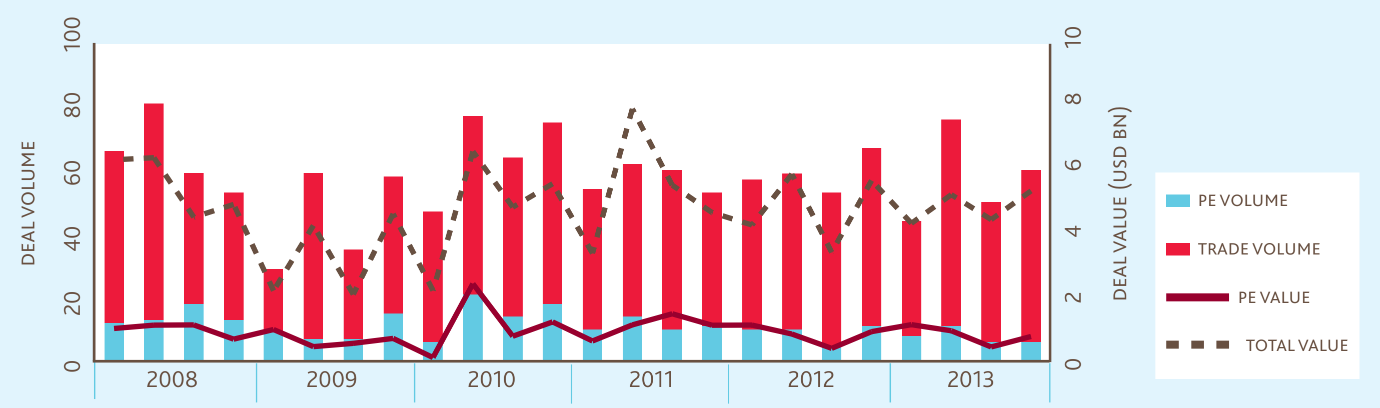
There is currently a great deal of healthy international interest in the Nordic region.

The Nordic private equity firms increased the size of their assets under management, but despite this the average number of quarterly deals backed by private equity (7) was the lowest since 2008. Of the 60 deals made during Q3-13, just six (10%) were PE buy-outs, though they did amount to USD 759m which was 14% of the total value (USD 5.3bn). Since 2008 we have seen an average of 58 deals per quarter, a figure which Q4 slightly surpassed this time (by two deals).

A region attracting global interest

There is currently a great deal of healthy international interest in the Nordic region. Looking at the top deals made in the last quarter, six of the ten largest acquisitions were from countries as far flung as South Korea, Japan, Switzerland, UK, and the US. If we focus on the top ten deals made in the Nordic region in Q4-13, we can see a total value of USD 3.1bn equating to an average deal value of USD 306m, which is only slightly below the world deal average of USD 325m. The two biggest deals in this quarter involved Stokke AS (USD 491m), a Norwegian company in the consumer sector, and Jacobi Carbons AB (USD 400m), a Swedish company in the Industrials & Chemicals sector.

PE / TRADE VOLUME & VALUE

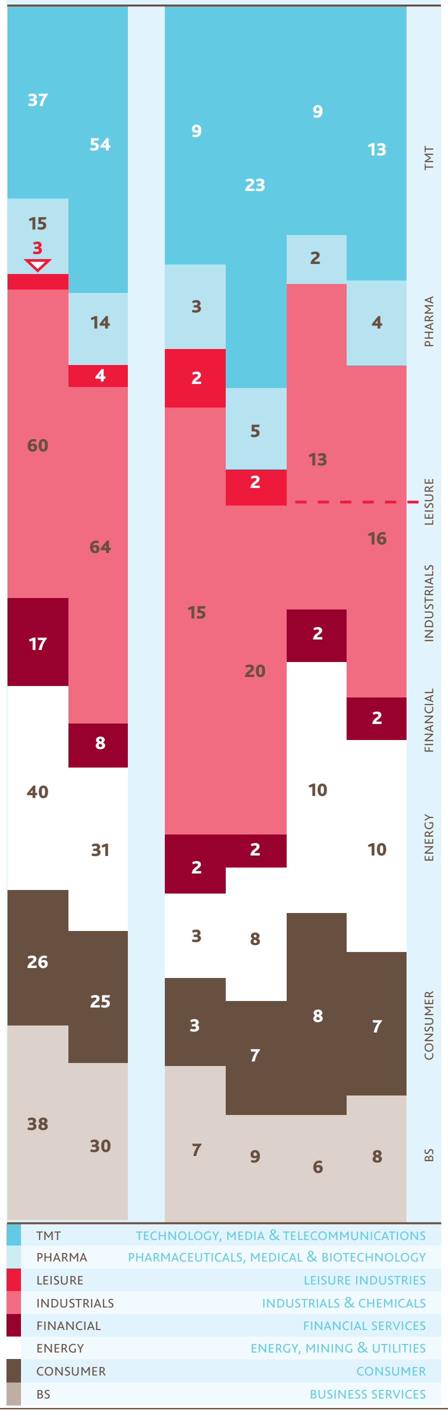


Industry and technology leading the way

Of the 230 deals made in 2013, more than half (51%) were from either the Industrials & Chemicals sector or TMT. Industrials & Chemicals was slightly in front at 28% while TMT accounted for 23%. These two also proved the most active sectors since 2008 with an average of 16 and 12 deals per quarter respectively. Of the two it is TMT that has shown the most impressive improvement since 2012, with a 46% increase in the number of deals, while the rise for Industrials & Chemicals was a more modest 7%. The Leisure sector showed a token increase on the previous year, with a total of one more deal, but all other sectors had fewer deals in 2013 than they did in 2012.

Of the 230 deals made in 2013, more than half (51%) were from either the Industrials & Chemicals sector or TMT. Industrials & Chemicals was slightly in front at 28% while TMT accounted for 23%.

NORDIC MID MARKET VOLUMES BY SECTOR



NORDIC HEAT CHART BY SECTOR

Industrials & Chemicals	54
Energy, Mining & Utilities	39
Consumer	38
TMT	34
Business Services	32
Pharma, Medical & Biotech	31
Financial Services	12
Leisure	5
Total	245

Looking ahead

The heat chart predicts an even busier market this year, with the number of deals continuing to rise throughout the year. Industrials & Chemicals should continue to be the leading sector in terms of the number of deals, both in the Nordic region and also in 11 out of the 16 regions around the globe. However, both this sector and TMT are expected to see a falling-off in deal activity, while most other sectors should increase. The biggest sector increase in deal activities is expected to be in Pharma, Medical & Biotech, with a rise of more than 120% on the preceding quarter. The Leisure and Financial Services sectors are expected to show a slight increase, although they will still be the least active in terms of deal activity.

SAMAN PARSIFAR
Management Consultant
saman.parsifar@bdo.se

CEE & CIS

Activity grows hand-in-hand with optimism in Central and Eastern Europe and the Commonwealth of Independent States.

Following a strong finish to the year with 108 deals completed in Q4, the CEE & CIS region beat the previous year's tally of 333 transactions with a grand total of 359.

THE BIG PICTURE

- **Q4 shows** a growing role for private equity
- **Russia and Turkey** are seeing some of the biggest deals
- **This year could see** highest deal activity since 2008

These deals had a combined value of USD 28.1bn, which despite being far below the USD 42.0bn achieved in 2008, still beats the average value achieved across the last five years.

More than 10% of deals by value in Q4-13 were private equity funded – a significant figure given that the average for the whole year was less than 8%.

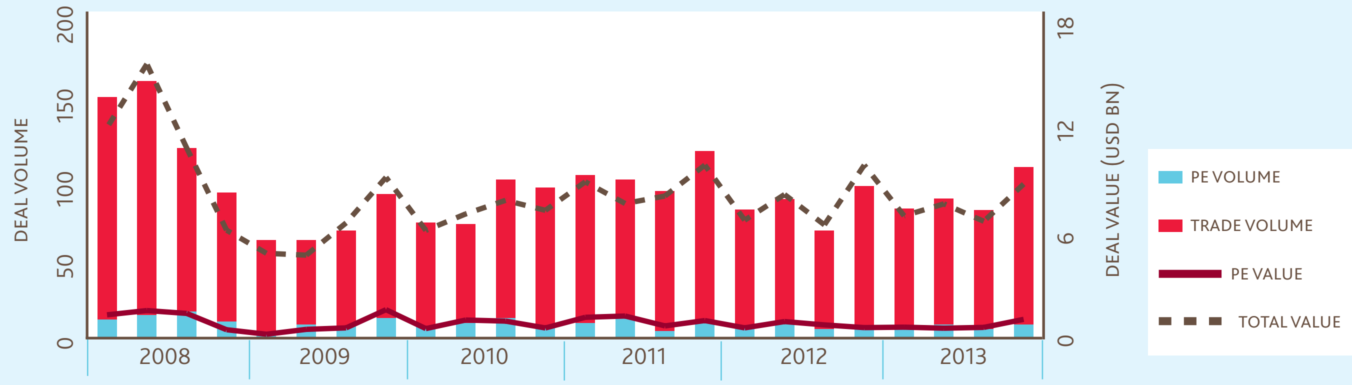
More than 10% of deals by value in Q4-13 were private equity funded – a significant figure given that the average for the whole year was less than 8%. The Q4-13 private equity deals comprised of nine buy-outs totalling USD 0.9bn – making this by far the strongest quarter for private equity in two years.

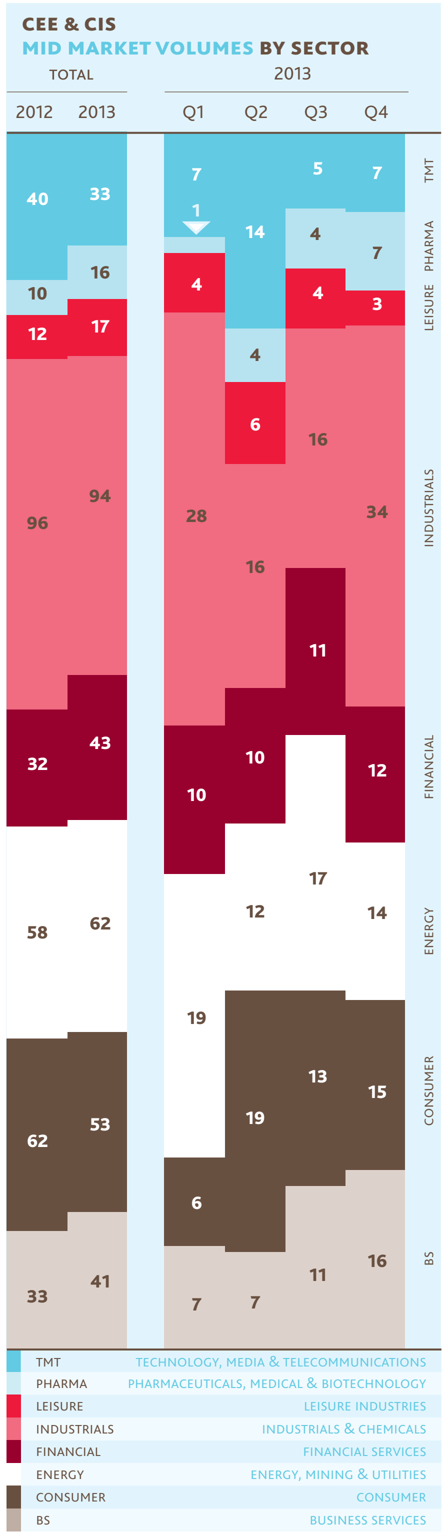
More than half the total number of deals were confined to three sectors, namely Industrials & Chemicals, Energy, Mining & Utilities, and Consumer. The lowest deal activity was to be found in the Leisure sector and the Pharma, Medical & Biotech sector.

Nevertheless, the latter showed a 60% increase in the number of completed deals since 2012, though elsewhere the balance of activity across the sectors was broadly similar over the two years.

To judge by the top 10 mid-market deals in the final quarter, it appears that Russia and Turkey (as a target country) are playing a significant role in the deal landscape of CEE & CIS.

PE / TRADE VOLUME & VALUE





CEE & CIS HEAT CHART BY SECTOR

Industrials & Chemicals	259
Consumer	159
TMT	121
Business Services	114
Energy, Mining & Utilities	111
Financial Services	69
Leisure	52
Pharma, Medical & Biotech	33
Total	918

Looking ahead

Looking ahead in 2014, we can expect greater M&A activity driven by rising business optimism in the CEE & CIS, and by the growing availability of funds for both trade and private equity buyers. Things already seem to be hotting up – the heat chart shows current market intelligence is available on over 900 deals in progress or planned, which is already over 250% of the 2013 level of activity. If this figure is borne out by reality, then the region may see a rebound to levels of activity not seen since 2008. The chart also shows that, after North America, CEE & CIS has earned out the second highest level of interest, ahead of China and Southern Europe.

AKOS BOROSS
M&A Partner
akos.boross@bdo.hu

INDIA

A market anticipating greater political and economic stability.

Sluggish trends in the Indian economy hit mid-market deal activity in 2013 with a notable drop from the previous year between corresponding quarters. For example, mid-market deal volume fell by 15% to 170 in 2013 from 200 in 2012. Deal value was also flat in 2013, at USD 10.3bn compared to 2012.

THE BIG PICTURE

- **2013 deal volumes and value** down from 2012
- **Private equity buy-outs** are playing a bigger role
- **Pharma, Medical & Biotech** deals dominate the fourth quarter
- **Industrials & Chemicals sector** promises lots of activity this year

Overall we saw deal volume fall from 41 in Q3-13 to 34 in Q4 2013, a drop of 17% (and a drop of 24% from Q4-12 which saw 45 deals). Value fell too towards the end of the year, dropping 10% to USD 2.4bn in Q4-13 from USD 2.7bn in Q3-13 – but this was up by 22% from the corresponding fourth quarter of 2012 (USD 2.0bn).

Private equity on the rise

Private equity buyout deals aggregated USD 2.8bn in value (representing 27% of total deal value) with 58 deals in 2013 (representing 34% of total deals). This is up in all respects from 2012, in which buy-outs totalled USD 2.12bn (or 21% of total deal value) across 58 transactions (representing 29% of all deals).

Analysing deal activity quarter by quarter, Pharma, Medical & Biotech stands out with the highest increase in terms of deal volume – a staggering 83% jump from Q3 2013 to Q4 2013

The private equity activity did tail off somewhat towards the end of the year, though it still remained strong. In Q4-13 private equity deals represented 35% of the total volume (12 out of 34) and 30% of the total value (USD 7.3m out of USD 2.4bn), while in Q3 these numbers were 41% and 38% for volume and value respectively.

A breakdown by sector and quarter

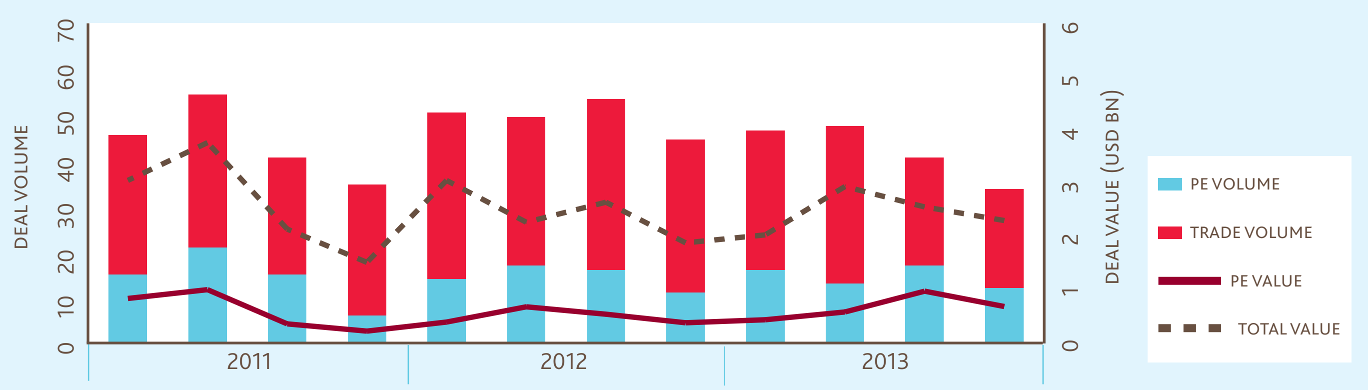
Once again, Industrials & Chemicals saw the highest deal volume with 53 deals (31%). This was followed by Pharma, Medical & Biotech with 30 deals (18%) and Business Services with 27 deals (16%) in 2013. This shows a very similar picture to 2012, in which Industrials & Chemicals held the top spot with 67 deals (34%) followed by Business Services with 30 deals (15%) and Pharma, Medical & Biotech with 25 deals (13%).

Analysing deal activity quarter by quarter, Pharma, Medical & Biotech stands out with the highest increase in terms of deal volume – a staggering 83% jump from Q3-13 to Q4-13. In terms of value too, five of the top ten deals of Q4-13 were in the Pharma space, with PE firms like KKR & The Carlyle Group showing keen interest in this sector. This sector also boasted the single biggest transaction of the quarter, as Torrent Pharmaceuticals Ltd acquired the branded domestic formulation business of Elder Pharmaceuticals Ltd for USD 323m in December.

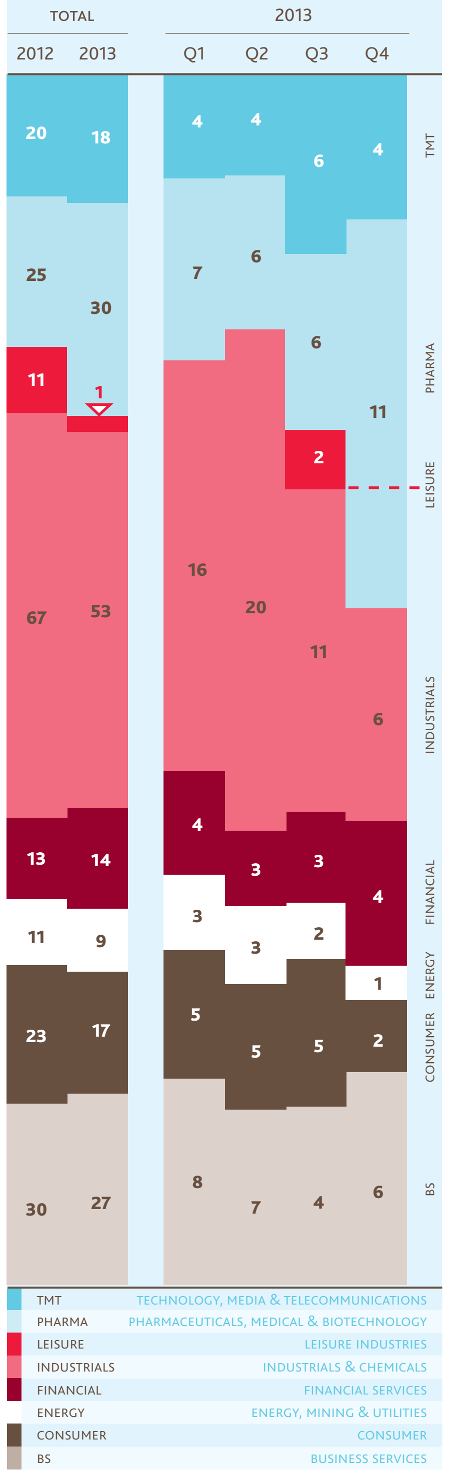
Another major deal in Q4-13 was Gland Pharma Limited, a leading Indian pure-play generic injectable pharmaceutical products company, which sold a minority stake to KKR for approximately USD 200m, including KKR's acquisition of the entire stake held by Evolvence India Life Sciences Fund ("EILSF"), an existing private equity investor in Gland Pharma. Other highlights were Telecom major Bharti Airtel acquiring a 100% stake in Wireless Business Services ("WBSPL"), a company founded by US chipmaker Qualcomm, while Tech Mahindra Limited and Mahindra Engineering Services Limited ("MES") approved a proposal to merge with Tech Mahindra.

The quarterly average of 50 deals in 2012 dropped to 43 in 2013, with only two sectors witnessing an increase. These were Pharma, Medical & Biotech (which rose by most at 20%) and Financial Services.

PE / TRADE VOLUME & VALUE



INDIA
MID MARKET VOLUMES BY SECTOR



INDIA HEAT CHART BY SECTOR

Industrials & Chemicals	93
TMT	82
Consumer	67
Business Services	52
Pharma, Medical & Biotech	43
Energy, Mining & Utilities	27
Financial Services	23
Leisure	13
Total	400

Looking ahead

Despite the prolonged economic downturn, policy paralysis and depreciation in currency, global investor interest in India is holding up well. With upcoming general elections and the global tapering of quantitative easing, 2014 could be a year of adjustments for the Indian economy. Indian firms, especially those with improving balance sheets, are expected to show a greater appetite for M&A transactions this year.

Assuming a stable government following the elections mid-year, and no major negative news from the global economy, we should see substantial improvement in sentiment which could drive up M&A. The heat chart, which tracks companies for sale between 14 July 2013 and 14 January 2014, shows the Industrials & Chemicals sector topping the chart with the most potential deals – continuing the trend of recent years.

ZULFIQAR SHIVJI
M&A Partner
zulfiqarshivji@bdo.in

CHINA

A stabilising economic and political landscape boosts impressive deal activity.

With 900 deals completed in the mid-market in 2013, the China region has continued its emergence as a leading force in the Asian and global M&A markets.

THE BIG PICTURE

- **Deal values** totalling USD 74.5bn for 2013
- **Q4-13 was the most active quarter** on record with 278 deals
- **Outbound M&A** has increased significantly
- **Private equity use** still at low levels, but expected to rise this year

Although M&A activity levels are low relative to developed markets, the region led by China has continued its impressive growth trajectory, with deal volumes increasing by nearly 50% over the five year period to 2013.

Performance in 2013 has been particularly buoyant, with deal values of USD 74.5bn reported for the region, and a 32.8% and 24.8% increase in deal volumes and values respectively from 2012. This has been particularly impressive in the context of the change in political leadership in China in 2013, and the fall in economic output reported in the first two quarters of 2013, due to factors including weak domestic demand, overcapacity and slowing exports.

But under a series of stable policies released by the new political leadership, China's economy began to recover throughout the year, with 278 deals completed at a value of USD 24.8bn in Q4-13, the highest levels on record.

Can private equity gain a foothold?

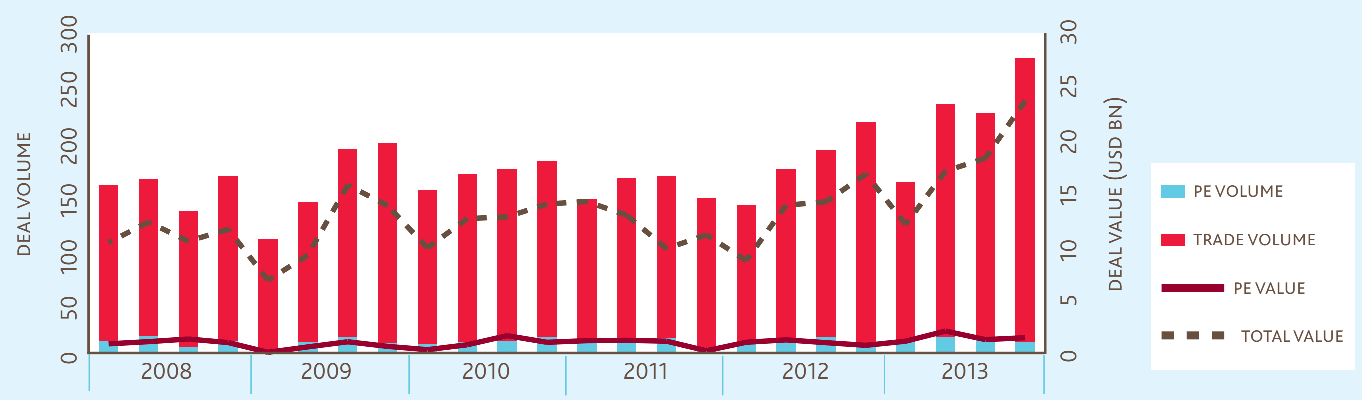
Trade buyers still dominate mid-market M&A deals in the region, with only 51 private equity led deals reported in 2013, or 5.7% of deal volumes, compared to 9.8% across the whole of Asia and 12.6% globally. With most major global private equity funds operating in the region, the relatively low proportion of private equity deals reflects both the more family-led ownership of mid-market companies in the region, and the greater difficulties of securing control stakes/ buy-outs. High private company valuation expectations are another dampening factor.

However, we are now seeing high levels of liquid assets and increasing private equity activity levels, particularly out of the US. This should see private equity penetrating deeper across the market, particularly in light of the marked rise of domestic fund formation in China and the limited range of alternative funding sources for PRC companies.

Chinese companies are now looking outwards

Domestic transactions lead cross-border deals in the region, where intra-regional deals still represent the majority of deal flow. In China, despite lacklustre equity capital raising conditions in 2013, transactions have been supported by cheap bank loans, syndicated loans and bond issuance, and an emerging shadow banking problem in China's credit dependent economy.

PE / TRADE VOLUME & VALUE



CHINA HEAT CHART BY SECTOR

Industrials & Chemicals	338
Consumer	132
TMT	121
Energy, Mining & Utilities	88
Business Services	73
Pharma, Medical & Biotech	50
Financial Services	44
Leisure	40
Total	886

Inbound M&A levels have fallen in recent years, although as the global economy appears to have bottomed out, MNCs are expected to boost their investment in China, with recent interest seen from US funds and corporations.

However, outbound M&A levels by PRC companies have increased significantly over recent years, driven by demand for natural resources & energy, a robust economy, currency appreciation and the availability of funding, at a time when overseas assets have offered attractive pricing.

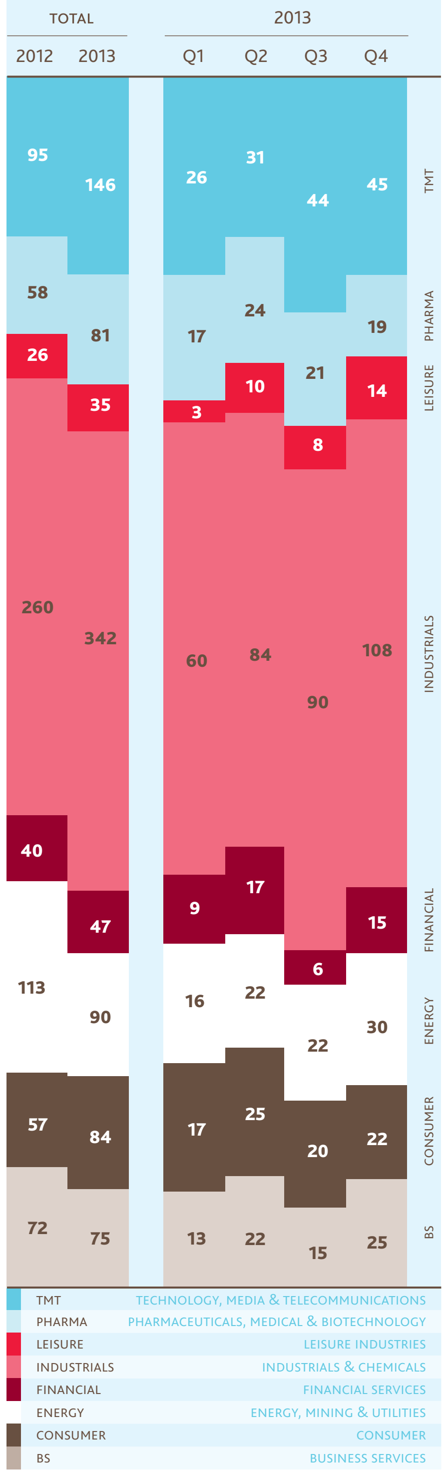
With total outbound investment of over USD 70bn in 2013, PRC entities have completed several landmark overseas acquisitions and are increasingly using overseas M&A as a means of acquiring new capabilities.

Sectors reflect China's changing demographic

The four largest sectors for M&A this year were Industrials & Chemicals, TMT, Pharma, Medical & Biotech and Consumer. The manufacturing sector has remained a primary investment target, with key strategic investments in 2013 in industrial equipment, automotive parts, transportation and construction materials, particularly from European buyers.

The Consumer sector has also been active, with many MNCs investing in domestic consumption growth, targeting the emergence of a prosperous Chinese middle class. This has seen investment in food & beverage, retail products and also professional services. The TMT sector has also been active, seeing four of the ten largest mid-market deals in the region.

CHINA
MID MARKET VOLUMES BY SECTOR



Looking ahead

Chinese outbound M&A has now entered a new phase. In addition to large SOEs, mid-cap and privately owned companies are now looking for acquisition opportunities. This growing interest is mainly targeted at bringing advanced Western technologies, management know-how, IP and brands back for use in the domestic Chinese market, as well as sales channels for their products into higher margin developed markets.

More small-to-medium sized businesses are now feeling confident enough to undertake overseas investments, which for many will be first time acquisitions. As such, these are then likely to be non-transformative sector specific deals, with a focus on small to mid-market deal sizes.

With nearly 900 deals planned or in progress according to the heat chart, trends for the Chinese M&A market appear positive. Industrials & Chemicals is the most active sector, followed by Consumer and then TMT, reflecting further consolidation in the domestic market and expected increases in cross-border deal flow. Cross-border activity is likely to rise both as a result of the US and European recovery, and through policy support by the PRC government for overseas acquisitions.

PAUL WILLIAMS
M&A Director
paulwilliams@bdo.com.hk

SOUTH EAST ASIA

A year of mixed results but many positive signs for the future.

It was a year of contradiction for South East Asia, with good news for deal volume but less good news for deal value. At total of 289 completed deals marked the highest number for five years – but the total value of USD 21.7bn was the second lowest figure over the same period. It is therefore no surprise that the average value per deal for 2013 was the lowest for five years, at USD 75.1m.

THE BIG PICTURE

- **Deal volume** soared in 2013, but deal value plunged
- **Private equity involvement** hits a five-year high
- **Industrials & Chemicals** by far the most active sector for deals
- **Foreign investment** in the sub-region expected to grow in 2014

A growing role for private equity

A total of 19 deals were completed by private equity funds, totalling USD 2.7bn – the highest for five years. This was partly due to the surge in deal value during in the final quarter, which made up 50% of the completed PE deals. Most of the PE investments in South East Asia have been in the form of venture or growth capital.

The major players

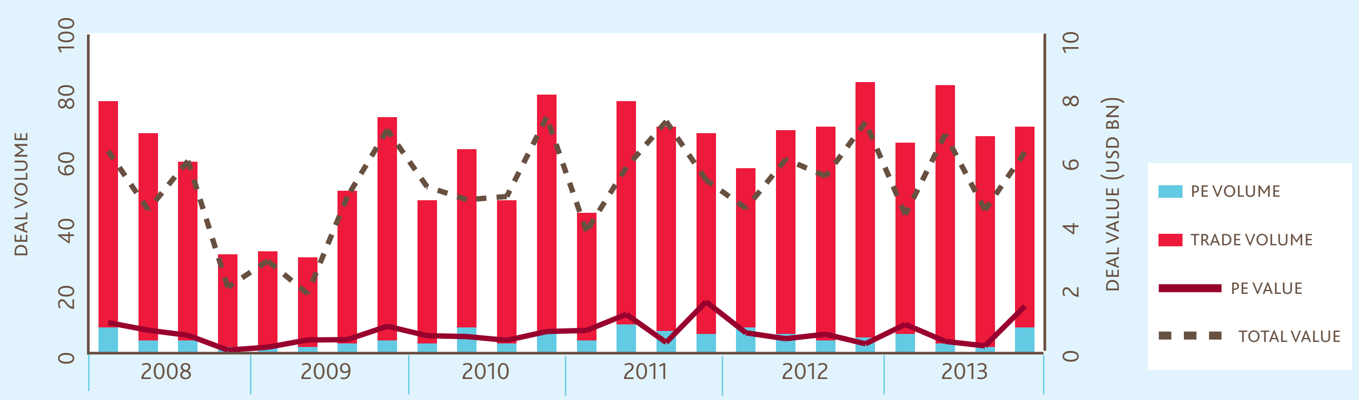
The top 10 mid-market deals in Q4-13 involved the sub-region's main economies of Malaysia, Singapore, Indonesia and Thailand. Interestingly, six of these deals involved buyers outside South East Asia, namely Hong Kong, Japan, China, the UK and the USA, and in a wide range of sectors: Energy, Mining & Utilities, Financial Services, Pharma, Medical & Biotech, TMT and Transportation. The Chinese are continuing their global trend of acquiring South East Asian companies involved in mining, while the Japanese are targeting financial services such as banks and insurance companies, while the European and American multinationals are expanding into these markets.

The most active sector in 2013 was Industrials & Chemicals, contributing almost 40% of the deal activity. The lowest activity came from the Pharma, Medical & Biotech and Leisure sectors. The remaining sectors showed activity similar to 2012.

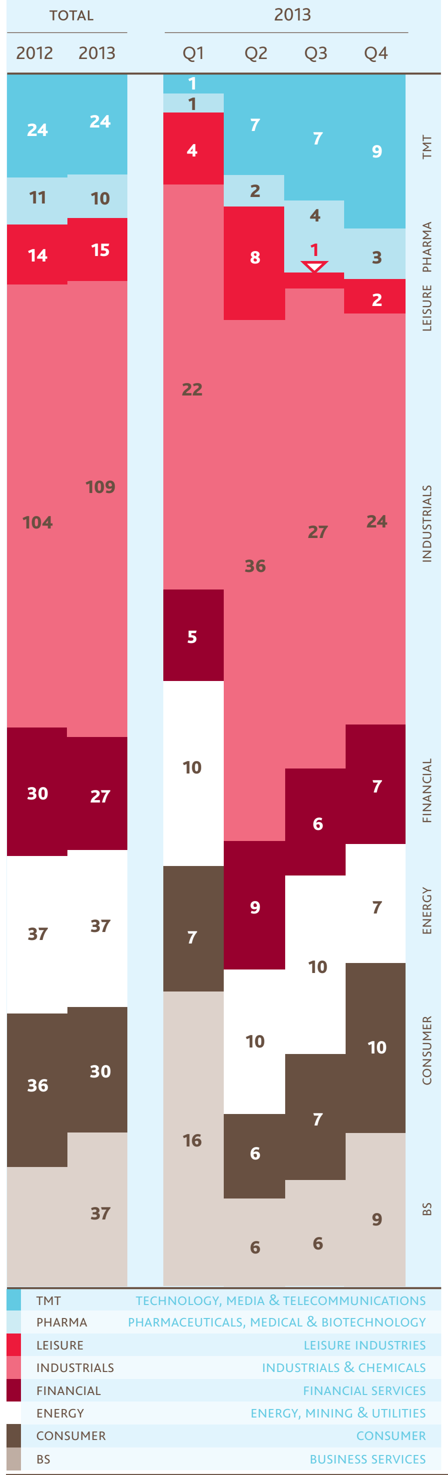
"Investment activity in Southeast Asia should remain robust over the next few years as the sub-region hit a 6 year fund-raising high with 18 funds raising USD 2.9bn"

Source: EMPEA, press release, 5 February 2014

PE / TRADE VOLUME & VALUE



SOUTH EAST ASIA MID MARKET VOLUMES BY SECTOR



Looking ahead

M&A deal activity in Industrials & Chemicals and Energy, Mining & Utilities should continue at a high rate in 2014. These sectors account for more than 40% of the 401 work in progress deals captured on the heat chart.

The prospects for foreign direct investments and M&A in South East Asia are likely to remain positive this year, as the performance of key economies in the region gradually improves. Japanese corporates remain aggressive in expanding investments into ASEAN based on the strong M&A trend noted in 2013, in which the major inbound investment from Japan was into Thailand.

Given that many large corporations and family businesses in South East Asia are in a process of diversification and re-orientation, there are significant opportunities for spin-offs and other bargains, which could increase PE funds raised in the region.

South East Asia is a key target market for international PE investors. The main target sectors for PE funds in this sub-region will be consumer-based, such as food and beverages, consumer finance, healthcare and industrials, as it is expected that most of the 650 million population will have become "middle class" by 2020. At this juncture, the focus of PE funds is in major South East Asia economies such as Malaysia, Singapore, Indonesia and Philippines. The PE funds are also closely monitoring opportunities in Thailand and Vietnam. However, the frontier markets of Cambodia, Myanmar and Laos are the emerging bright spots of the sub-region, particularly for labour-intensive foreign direct investments and value chain activities. These low-income countries play important roles in opening up new market opportunities for investors.

SOUTH EAST ASIA HEAT CHART BY SECTOR

Industrials & Chemicals	114
Energy, Mining & Utilities	61
TMT	47
Consumer	47
Business Services	45
Financial Services	39
Pharma, Medical & Biotech	29
Leisure	19
Total	401

MOK CHEW YIN
Executive Director
mokcy@bdo.my

JAPAN

New economic policies seem to be working, while outward investment is up.

With 263 deals completing in Japan's mid-market in 2013, the deal volume is significantly up from the previous year's 201 deals, an increase of 30%. This emphatic sign of recovery from long-term recession supports our expectations that this trend of increasing deal volume will continue in 2014.

THE BIG PICTURE

- **Most M&A trades** involve strategic buyers rather than private equity
- **Asia, especially ASEAN,** is proving to be a major attraction for the M&A market in Japan
- **More than 75% of activity was confined** to the Industrials & Chemicals, Consumer, TMT and Business Services sectors
- **Japanese economy** still feeling the pressures of an ageing population and a strengthening yen.

M&A activity shows a steady recovery

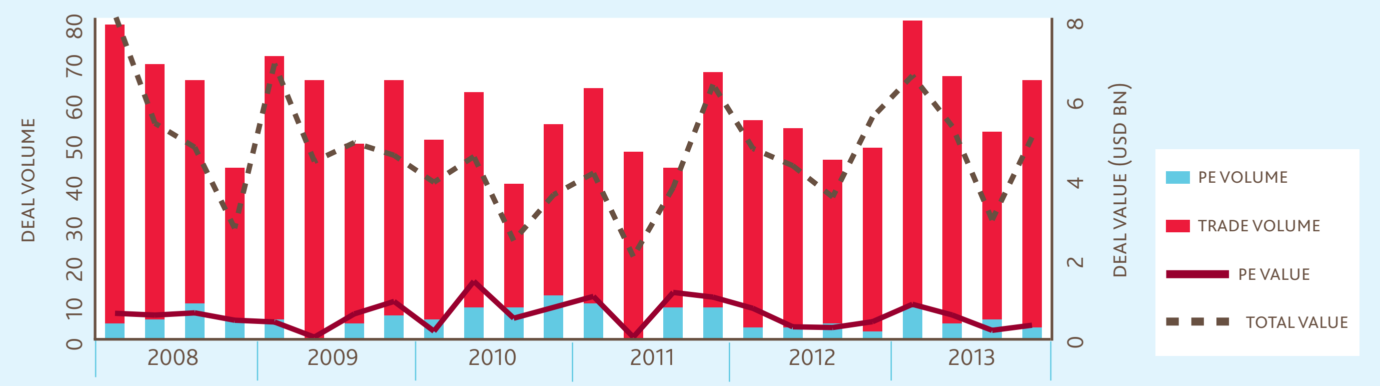
With 263 transactions, 2013 saw the highest deal volume for five years (that is, since the global financial crisis). As the graph 'PE / Trade Volume & Values' shows, each quarter's deal volume also exceeds each corresponding quarter in the same five-year period. This strong sign of recovery is in stark contrast to 2012, in which total deal volume was just 201, the lowest figure in the whole five years. However, the December change of government that ushered in Abenomics gave a boost to the national economy, leading to the adjustment of the too-strong yen, recovery of the stock market, reflation, and the general improvement of Japanese companies' operating results. The net result has been a gradual shift out of the long-term recession into an upswing throughout 2013, and this improving climate has encouraged companies to invest.

We can also see from this graph that trade sales are by far the biggest player in M&A transactions, with both volume and value far ahead of private equity deals. The market is being driven mainly by strategic buyers, rather than by financial investors (such as funds). M&A are mainly being used by companies to expand their business into new markets (either overseas or domestic), or for the selection and concentration of their core businesses. These trends apply not just to the mid-market but to Japan's M&A deals in general.

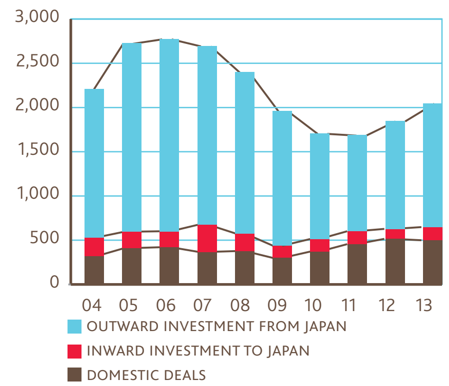
Outward investment is on the rise

The past decade's overall trend for M&A paints an interesting picture (see graph 'Recent Japanese M&A Trend – Market Entry Style'). M&A deals can be categorized in three distinct streams: outward investments into overseas territories, inward investments into Japan, and domestic deals (one Japanese business acquiring another). Overall deal volume peaked in 2006 and then fell significantly until 2011, with domestic deals plunging by half. However, outward investment volume has steadily increased.

PE / TRADE VOLUME & VALUE



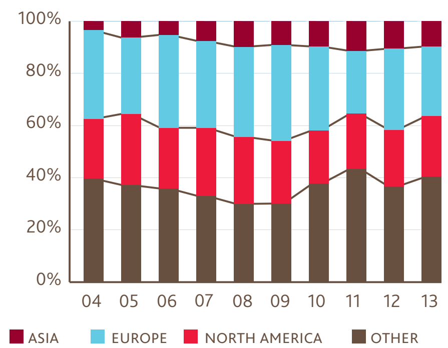
RECENT JAPANESE M&A TREND – MARKET ENTRY STYLE



The volume of outward M&A deals rose not only among major companies, but also in the mid-market where the major industries are manufacturing (including subcontractor) and services.

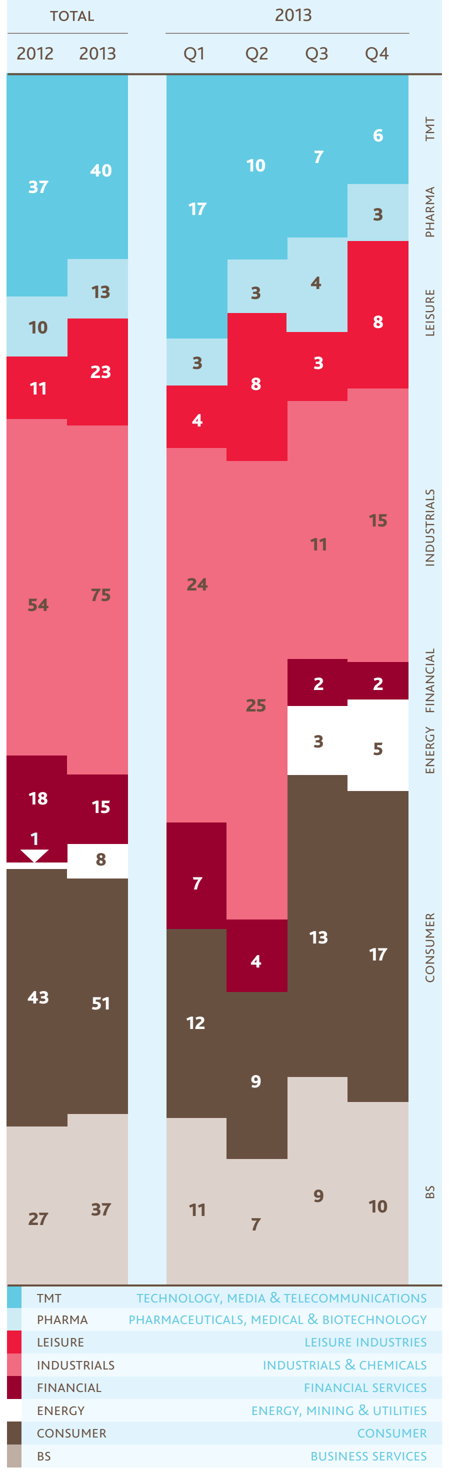
Looking at where these outward investments are happening (see graph 'Recent Japanese M&A Trend – "Outward" M&A case by region'), the clear winner for popularity is Asia (especially ASEAN) with around 40% of all deals. This is largely down to the twofold

RECENT JAPANESE M&A TREND – "OUTWARD" M&A CASE BY REGION



negative internal factors including the low birth rate and ageing population which are shrinking consumer demand and the market coupled with the strong yen, which has caused problems for exporters. Positive external factors include Asia's thriving

JAPAN
MID MARKET VOLUMES BY SECTOR



population, consumer market and economy – combined with lower manufacturing and labour costs than in Japan. The sectors most active in outward investments into Asia include food services and related businesses, manufacturing, construction and IT.

A few sectors dominate

Deal activity in 2013 was dominated by a handful of sectors (see graph 'Mid-Market Volumes by Sector'). Industrials & Chemicals, Consumer, TMT and Business Services between them accounted for more than 75% of the total transactions. The lowest activity came from Energy, Mining & Utilities, the other three sectors in our groupings had similar activity levels. The most steadily active sectors from quarter to quarter were Industrials & Chemicals and Consumer

Looking ahead

The outlook for deal activity in 2014 is cautiously positive. So far Abenomics has yielded positive results for the Japanese economy – but the underlying issue of the ageing population hasn't changed. There are also some concerns that rising consumption tax rate (5% to 8%) in April will have a negative impact on the economy. Against that, the 2020 Tokyo Olympic Games on the horizon may create a more optimistic environment.

We can expect the outward investment into Asia to continue and increase – while domestic deals should also become more active if there is no significant negative impact from rising consumption tax rate. Meanwhile the approach of the Olympics should drive a recovery in the construction, real-estate and tourism industries, bringing with it a potential boost to inward investment from overseas. We should also see continued recovery in the IPO market.

MASARU MURAKAMI
Partner
mmurakami@bdo.or.jp

AUSTRALASIA

Improved stability and a weakening currency drive deal activity up.

Although 2013 was slow off the blocks, deal activity had really picked up by the second half of the year. The two key reasons were the more stable Australian political environment, combined with a falling Australian dollar.

THE BIG PICTURE

- **Deal numbers** up for the fourth year running
- **Q4-13 t**he strongest quarter for five years
- **A weaker Australian dollar** is attracting cross-border deals
- **More private equity** involvement expected this year
- **Further consolidation** expected in Energy, Mining & Utilities sector

The number of completed transactions was up for the fourth year in a row, with a total of 317 mid-market deals. What is more, 92 of those occurred in the fourth quarter alone, making it the single strongest quarter for five years.

Sector-wise, Business Services and Industrials & Chemicals saw the most deal activity.

As in previous years, only a small proportion of activity was driven by private equity (10% by value, 9% by volume). However, several private equity funds seized an opportunity to exit investments, thanks to a particularly strong IPO market towards the end of the year.

Among those making this move were Pacific Equity Partners' credit analysis company Veda Group, and Anchorage Capital Partners' electronics retailer Dick Smith Holdings. In many cases, the IPO market was able to deliver a better valuation outcome to exiting shareholders than would have been achievable via a trade sale. Total funds raised in Australian IPOs during 2013 passed AUD 5.6bn, dwarfing the AUD 830m raised in 2012.

The successful exit of these investments through the IPO market was welcomed by private equity managers. There are now high expectations that private equity will be more active in deploying cash during 2014.

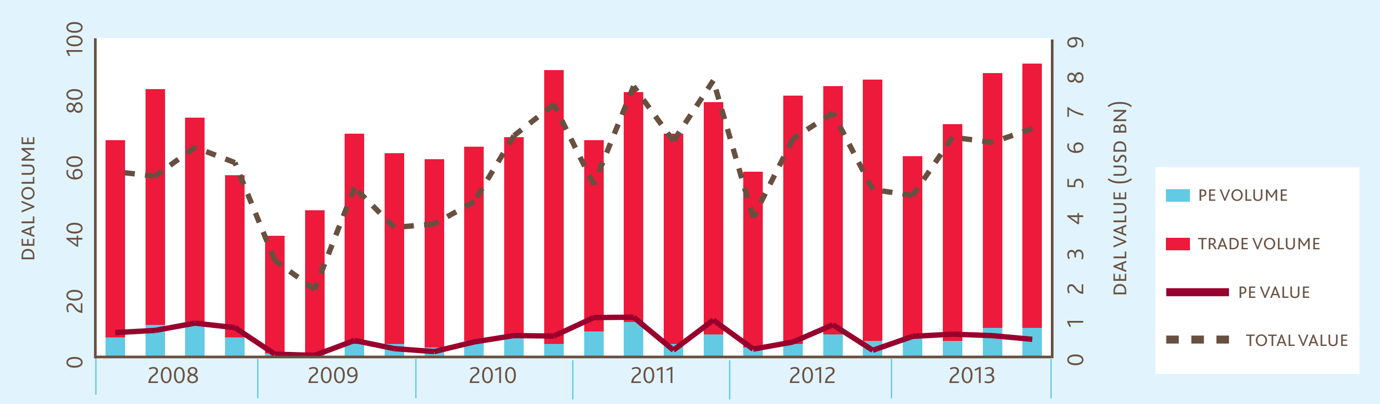
Sector-wise, Business Services and Industrials & Chemicals saw the most deal activity. Taking third place was Energy, Mining & Utilities, which over the past five years has contributed the most transactions in total. However, the big mining houses have committed to reducing capital expenditure and are now focused on maximising production and returns from existing assets – so growth by acquisition is not a priority. And although these major miners have been keen to divest non-core assets, the smaller miners often lack the means to buy them. During the first half of the year a stronger Australian dollar conspired with fluctuating commodity prices to put a dampener on deal activity.

The sector that enjoyed the biggest growth in activity was Financial Services, where the number of mid-market deals almost doubled from 14 to 27. This included the sale by the Commonwealth Bank of Australia of the management rights to the CFS Retail Property Trust Group for AUD 460m – the second largest mid-market deal by value in 2013.

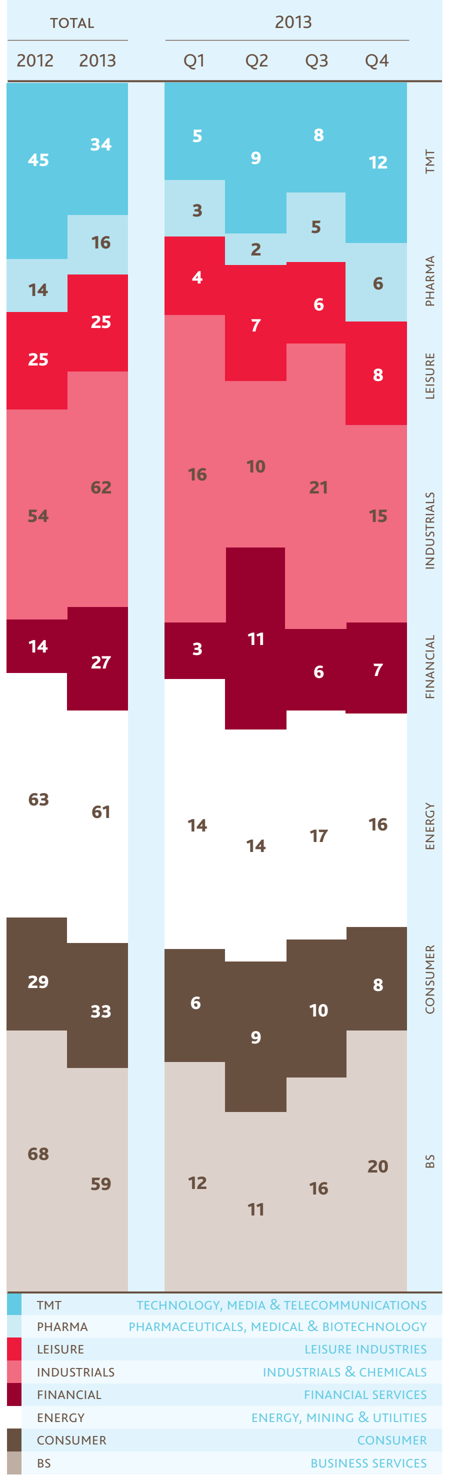
But the largest and most high profile mid-market deal of the year was the acquisition of an 83% shareholding in dairy farmer Warrnambool Cheese and Butter Factory Company by Canada's biggest dairy processor Saputo. Saputo emerged the successful bidder after a three way contest with two Australia-based bidders (Murray Goulburn Co-operative Co Limited and Bega Cheese), with a final bid price of AUD9.50 per share (up from the initial offered price of AUD5.78).

This was only one of a number of high profile cross-border deals. Another was the sale by Telecom New Zealand of its Australian subsidiary, AAPT, to TPG Telecom for AUD 450m. TPG beat iiNet Limited and the Canada's Ontario Teachers Pension Plan for the asset (4thlargest deal by value). Also notable was Fairfax Media Limited selling its 100% shareholding in Stayz Pty Limited, an online holiday home rental business, to HomeAway Inc. from the United States for approximately AUD 220m. This represented a multiple of 16.8x FY13 EBITDA following a competitive sale process, making it the eighth largest deal by value.

PE / TRADE VOLUME & VALUE



AUSTRALASIA
MID MARKET VOLUMES BY SECTOR



AUSTRALASIA HEAT CHART BY SECTOR

Energy, Mining & Utilities	96
Business Services	83
Industrials & Chemicals	71
TMT	59
Consumer	53
Pharma, Medical & Biotech	36
Financial Services	30
Leisure	26
Total	454

Looking ahead

Australasia's rise in mid-market activity shows every sign of accelerating. The heat chart suggests that there are over 450 deals currently underway or planned, which would amount to a 42% increase on the total number of completed deals in 2013.

The chart also suggests that Energy, Mining & Utilities is set to reclaim its position as the most active sector in 2014. This sector is likely to see greater consolidation if commodity prices remain stable, with some miners forced to divest unrealised non-core projects if access to capital remains restricted.

Current conditions point to increased activity throughout 2014: we have low interest rates, relatively strong equity market valuations, conservative corporate balance sheets, and an improving political landscape. If the Australian dollar continues to weaken, targets will become more attractive for offshore buyers, so cross-border transactions may become even more prominent next year.

SEBASTIAN STEVENS
Partner
sebastian.stevens@bdo.com.au

SECTOR VIEW

TMT	Industrials & Chemicals	Energy, Mining & Utilities	Financial Services




TMT

Opening a window on technology, media and telecommunications

In recent years TMT transaction volumes have held up relatively well against the broader market. Even so, the second half of 2013 saw a notable rise in confidence, which should continue through 2014 with a healthy mix of private equity and strategic trade deals taking place.


Gareth Davies


Jakob Sand

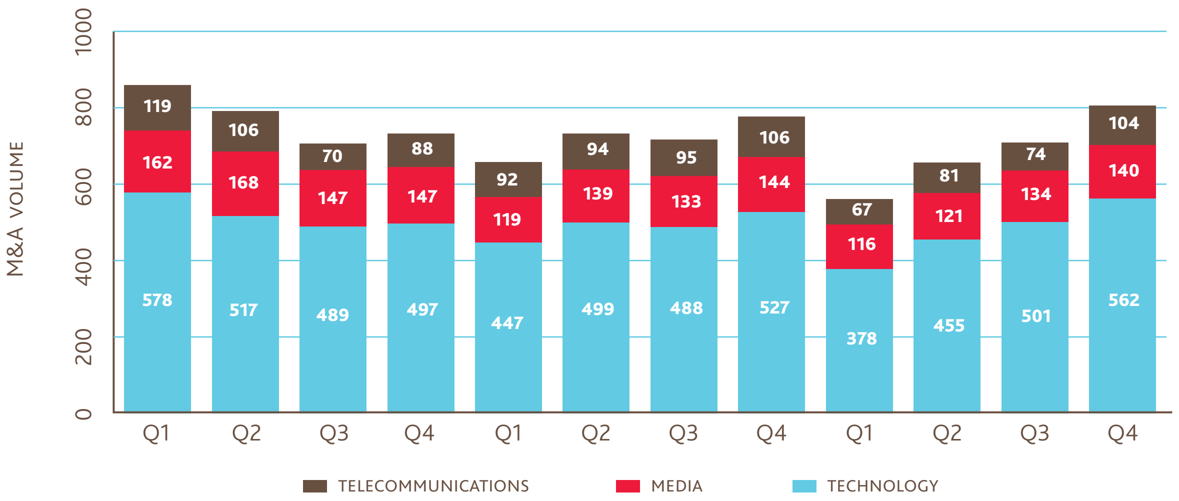
Nevertheless 2013 did see some notable European private equity exits across TMT. These included ISIS's sale of Cablecom to Inflexion and Montagu's sale of Host Europe to Cinven for £438m. The Cablecom deal is especially indicative of current market trends, as it both illustrates ongoing interest in the IT services sector, and also (as a secondary buyout) demonstrates the willingness of shareholders to consider back-to-back PE deals to maximise value and future growth prospects.

More funding options

Indeed, in 2013 we have seen mid-market tech businesses explore a wide range of fund raising options. Although trade buyers continue to be prolific – driven by high levels of cash and the ability to price off synergies – private equity has shown a greater willingness to compete in actions with more aggressive underwriting of equity cheques (deliverability is key). We have also seen a notable (and not unrelated) improvement in liquidity within the debt markets. This phenomenon has been particularly significant in the technology sector, with its proliferation of cash generative software, IT Services business models and long-term revenue visibility having great appeal for banking credit committees.

2013 has also seen alternative sources of capital gaining precedence. This includes the rise of crowd funding as a viable option for smaller tech businesses, as evidenced by Star Citizen's raising of over USD 30m. Total crowd-funding in the industry exceeds USD 5.1bn globally, with the UK market alone valued at over £1bn and estimated to be growing by over 10% each month.

M&A VOLUME BY SUB-SECTOR



Source: Thomson Reuters

Attracting overseas investment

The last 12 months have seen a large number of European businesses being sold to North American investors, including both large trade vendors and private equity. Some of the most high profile transatlantic deals include Accel KKR's growth capital investment in pharmaceutical SaaS provider Zinc Ahead, Omers Private Equity secondary buyout of Public Sector Solutions provider Civica from 3i, Cisco's acquisition of Femtocell specialist Ubiquisys, and Wood Creek's investment in Wireless Infrastructure Group. Wood Creek further demonstrated their commitment to the tech sector in September 2013 with their investment as part of a consortium in the data centre provider Infinity SDC.

This ongoing trend illustrates that European businesses are an increasingly attractive option for strategic overseas investors, even if their international growth prospects are yet to be fully capitalised upon. North American investors are awash with funds and continue to take a generally less risk averse approach than their European counterparts, enabling them to compete strongly on valuations. From a vendor perspective partnering with a US investor provides the expertise and network to form a springboard into the US marketplace, which can offer substantial growth prospects.

In the last few years, UK tech IPOs have been few and far between. With none at all in 2013 until the AIM listing of Outsourcery in May, we have now seen a marked increase in the number of businesses considering a listing as their primary funding option. With Twitter making global headlines in November, December saw the IPO of Servelec, in which the healthcare software provider raised £122m on the main FTSE market.

LOOKING AHEAD

Here are some hot sub-sectors to watch in 2014.

Mobile Advertising

Consumers are paying more attention to the content on their smart phones. Displays are growing larger while performance and screen resolutions are evolving fast. This is good news for advertisers, especially as mobile devices can drive a higher click rate per ad through a combination of location based, intelligent ads with real-time relevance.

Enterprises are aware of the massive business opportunities. For instance, in Q3 Yahoo acquired AdMovate, a mobile advertising startup which offers these kinds of ultra-focused ads. Another recent notable deal was the acquisition of mobile video advertising platform Rhythm NewMedia Inc for USD 65m by AIM listed Autonomy spin-off Blinkx, part funded by a USD 64m placing. This deal will accelerate Blinkx's mobile advertising capabilities and market positioning at a time when mobile advertising (and especially mobile video consumption) is snowballing. The market is expected to expand seven-fold to USD 31bn by 2017.

Facebook has recently taken mobile advertising from nothing to 49% of revenues in little more than a year, while small UK companies such as BlisMedia and Adfonic are also producing robust growth in mobile advertising.

Wearable Tech

The wearable technology market is expected to see robust growth in the coming years. However, analysts differ over the potential size of the market. According to Juniper Research, the sector is expected to have annual sales of USD 19bn (£11.9bn) by 2018, up from USD 1.4bn this year. Analysts at banking group Credit Suisse have been more upbeat and have suggested a figure of USD 50bn by the same date. Research firm Gartner has been more cautious about its predictions. It expects USD 10bn sales for 2016, but suggests that the sector would grow more quickly if businesses decided to equip their workers with such technology.

Google Glass is one of a number of wearable gadgets launched to try and grab a major share of the growing market. In September Samsung unveiled a smartwatch called Galaxy Gear that can be used for voice calls and run apps, while Japanese mobile operator NTT Docomo demonstrated glasses that can translate a menu by projecting an image of translated text over unfamiliar characters. Then in October Nike launched its second generation wristband, Fuelband, which helps users track their physical activity. In early 2014, the US-based Heapsylon said it was developing sensor-equipped socks that would help their owners monitor their balance while walking or running. Meanwhile, Chinese firm Shanda has unveiled the Geak Ring – a finger-worn device that can unlock a user's smartphone or pass data to others.

Fintech

The financial technology sector is also moving fast. NCR, the NYSE listed supplier of consumer transaction technologies, recently acquired US headquartered Digital Insight, a provider of online and mobile banking solutions for USD 1.65bn (15.7x EBITDA) from private equity firm Thoma Bravo. In addition, the company also announced the acquisition of UK based Alaric, a provider of secure transaction switching and fraud prevention software for USD 84m (c.27x EBITDA) from a consortium of private equity backers including NVM Private Equity, Foresight Group and Mobeus Equity Partners. The deal increased NCR's software and SaaS revenues by around 43%.

The driver behind the acquisitions for NCR was to strengthen its existing capabilities in the banking industry to form a complete enterprise software platform across mobile, online, branch and ATM. NCR noted that the business combination will help retail banks and other financial institutions reduce legacy costs and enable solutions for new, more nimble branches, by providing one platform for multi-channel services and all payment and transaction types.

Meanwhile, the insurance and wealth management software space has been consolidating rapidly in recent months. In July, HgCapital announced the acquisition of a majority stake in Intelliflo. Intelliflo provides software to IFAs, banks and insurance companies to enable them to manage both their customer requirements (including new client processes, quotations and valuations) as well as their own businesses with compliance, workflow and management information modules.

Fintech continues to show strong signs of growth, particularly in the near to mid-term as financial institutions increase their spending, consumers adopt more technologies and the regulatory environment stabilises.

GARETH DAVIES
M&A Director
gareth.davies@bdo.co.uk

JAKOB SAND
M&A Partner
JKS@bdo.dk

INDUSTRIALS & CHEMICALS

Watching the global wheels of industry turn

Amid growing confidence in the global economy, the Industrials & Chemicals sector posted a modest 4% rise in the number of mid-market M&A deals in 2013. Confidence picked up mostly in the second half of the year, which suggests that 2014 will be a good year for deal making.

The economic pressures on Industrial M&A activity seem to be easing, due in part to recent improvements in key indicators. Central banks in the US, Europe, and Asia pumped more money into the economy in 2013 and held interest rates low to try and drive the recovery out of the doldrums. Such continued stimulus has at last had an impact, and optimism swelled in December as the IMF forecasted world output to grow to 3.6% in 2014, compared to below than 3% for 2013. Regional economists agree, cautiously suggesting that local economies finally have some lasting positive momentum. The news that the global economy is on the mend is helping to fill the deal pipeline and boost CEO confidence for Industrial M&A.

A market awash with capital

The US economy picked up momentum in 2013 as the drag from changes in government spending and taxation faded and the Federal Reserve kept fiscal stimulus programs in place. Japan launched a bond-buying campaign that surpassed the scale of the Federal Reserve's USD 85bn-a-month program as a share of gross domestic product. The European Central Bank cut its main interest rate to record territory, lowering it to 0.25% in November. Given the fiscal stimulus, rising equity prices and liquid financing markets, capital is available in abundance for M&A, particularly in the Industrial sector, which represented approximately 25% of all deal activity globally in 2013.

Public and private companies have been accumulating cash, private equity firms have billions in raised but un-invested equity, and lenders are eager to fund deals. Demand for acquisition targets currently exceeds supply, so valuations are on the rise, creating a seller's market. Since the recession private business owners have been hesitant to engage in sale discussions, primarily due to concerns over the economy and valuations – but this stifling trend began to abate in earnest towards the latter half of 2013.

Private equity versus trade deals

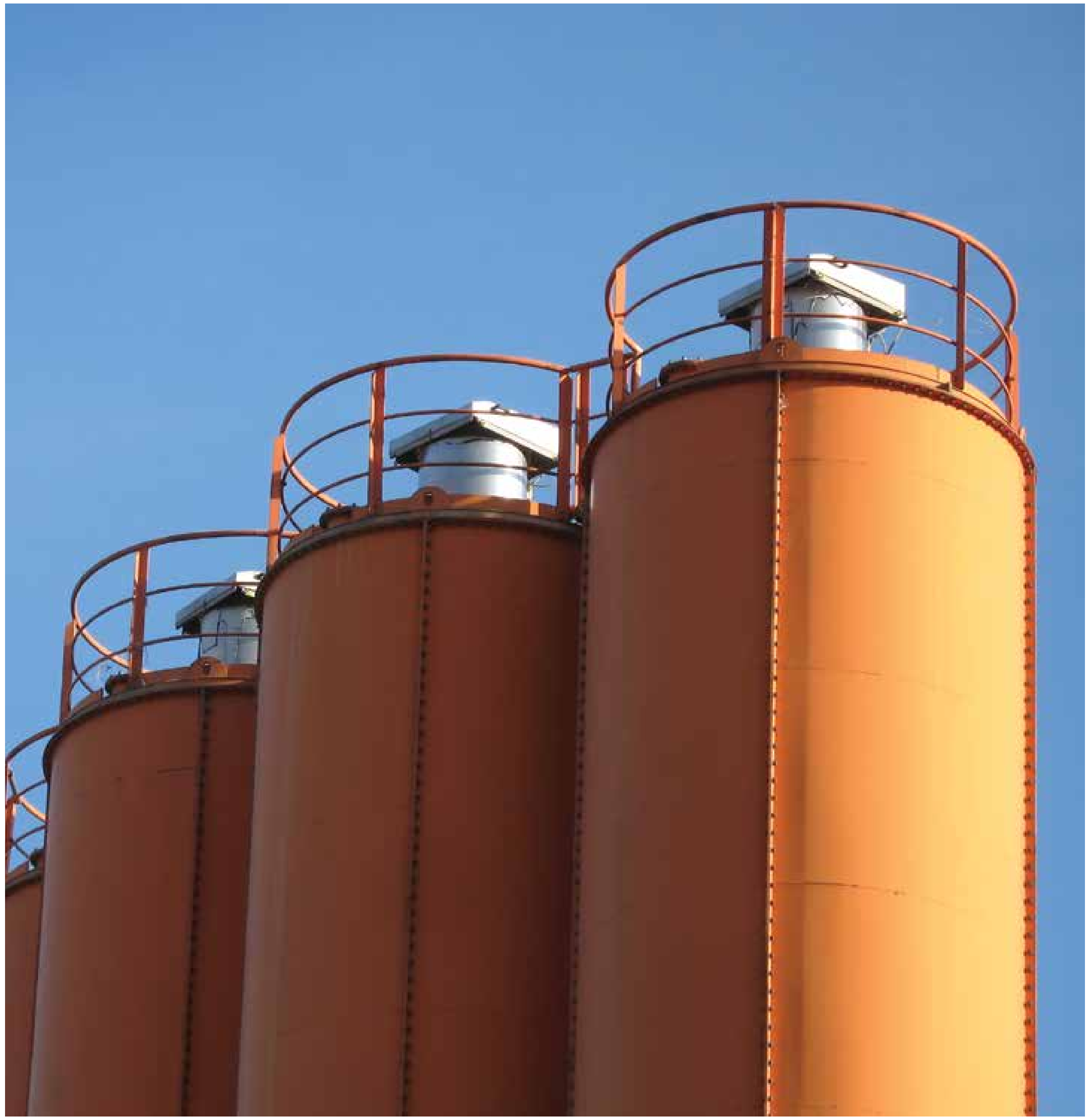
Financial investors remained active, with the number of leveraged buy-outs almost doubling in the sector from the prior year. The year's largest private equity transaction in the sector was the private equity firm Kohlberg Kravis Roberts & Co.'s definitive merger agreement to acquire industrial machinery company Gardner Denver Inc. from ValueAct Capital LLC, BlackRock Inc., T. Rowe Price Associates Inc., and others in a transaction valued at USD 4.1bn in March.

Growth-oriented expansion activity in the sector was limited in 2013 and left primarily for the energy-related sectors. For example, the largest Industrial deal of 2013 was Applied Materials' USD 9.3bn acquisition of Tokyo Electron, and was driven by concentration of power in the manufacturing of semiconductors given the rapid increase in production costs. The deal illustrates that many strategic buyers are under pressure to improve margins and purchasing power in the face of a relatively stagnant economy and a need for consolidation among equipment makers.

Looking ahead

The pressure to grow revenue and profits continues to increase among senior executives across the globe, accentuated by growing cash balances and the ever-present shareholder demand for share price appreciation. Growth through acquisition, assuming a thoughtful and thorough post-transaction integration plan, is again in favour because of the immediate impact a deal can make. Buying versus building can provide for operational synergies, additional capacity, access to new products and markets, new customers, the broadening/fortification of existing relationships, and game-changing technologies and other IP (e.g. processing expertise). Productive, well-positioned assets are most quickly secured through acquisition, so combined with the other potential benefits this creates a compelling argument for more M&A activity throughout 2014.

DAN SHEA
Managing Director
dshea@bdocap.com



ENERGY, MINING & UTILITIES

Drilling down through the resources sector

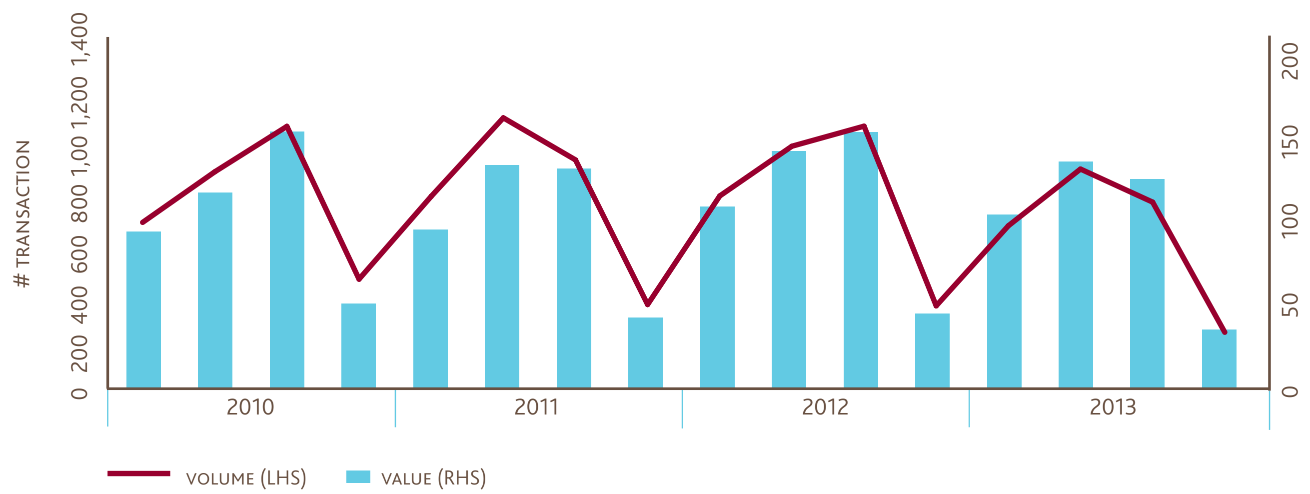
The recent economic landscape for mining and natural resources companies has been challenging to say the least. We sift through the global trends to examine how this has affected M&A activity and what it bodes for the future.

Charting the challenging landscape

The volume of resources transactions[1] in Q4-13 was 32% down on Q4-12 and 48% down on Q4-10, reflecting the sector's struggle in recent years. Indeed, volume in 2013 was around 20% less than the three previous years. So what's behind this steep decline? Most it has been commodity price volatility, record impairment by resources companies, and shifting demand fundamentals. Previously approved acquisition plans have become unviable and, in some cases, divestment has been scaled back as price expectations cannot be met with commodity pricing the way it is.

Junior resources companies have had it worst, and so it's they who are steering the trend towards alternative funding. Though majors have still been able to secure funding through traditional means, public equity interest is dropping off. This can be seen in the 60% fewer floats in Q4-13 compared to the corresponding quarter in 2012 (and the figure is 88% down on Q4-10). By contrast, in 2013 the value of fixed income offerings (debt including convertible bonds etc) as a percentage of total transaction value was 50%, compared to 48% in 2012 and 35% in 2010. The largest deals observed last quarter were almost all debt funding, including US oil and gas producer Devon Energy Corporation, which raised USD 500m through a senior notes issue. There were eight further fixed income offerings that raised over USD 400m last quarter. The option of debt funding is less available to juniors who, given a current lack of public interest, must therefore seek private funding, in a trend we expect to continue in 2014.

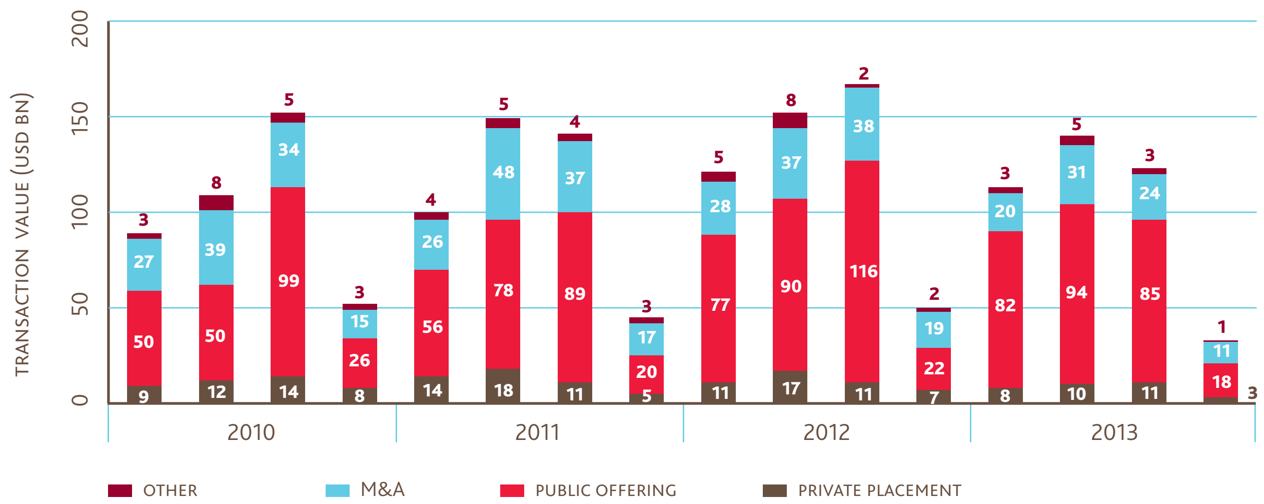
RESOURCE TRANSACTIONS*



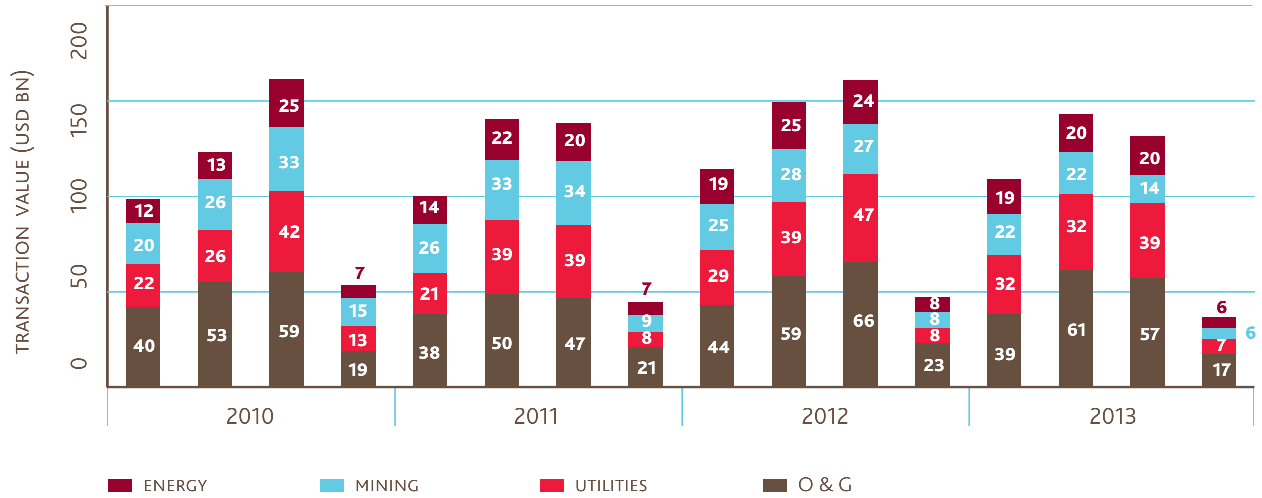
1 'Transaction' refers to all resource transaction types including M&A, private placements, public offerings and others

* Data provided by Capital IQ

VALUE BY TRANSACTION TYPE*



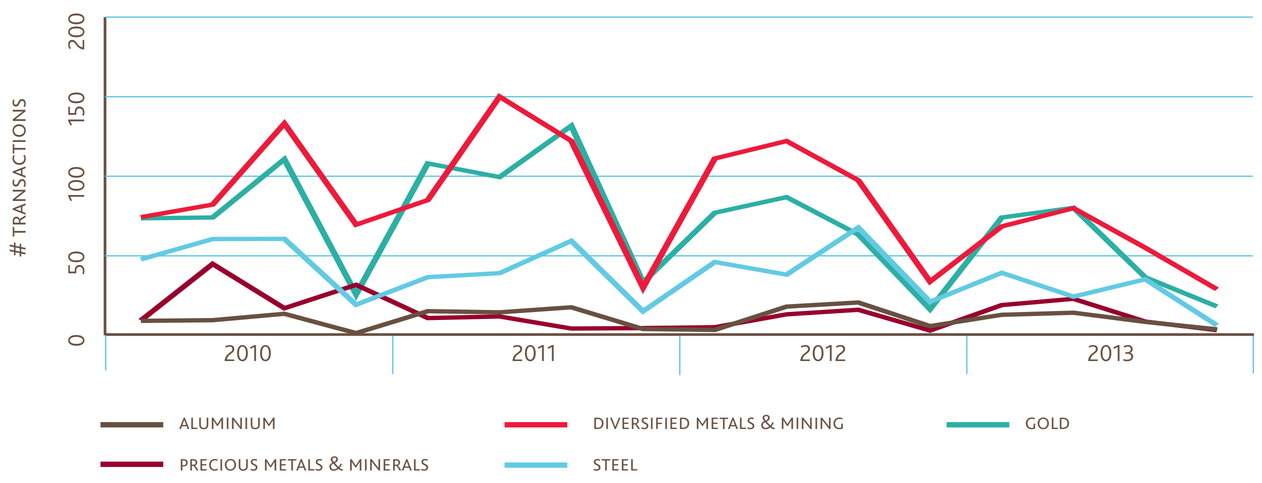
INDUSTRY TRANSACTION VALUES*



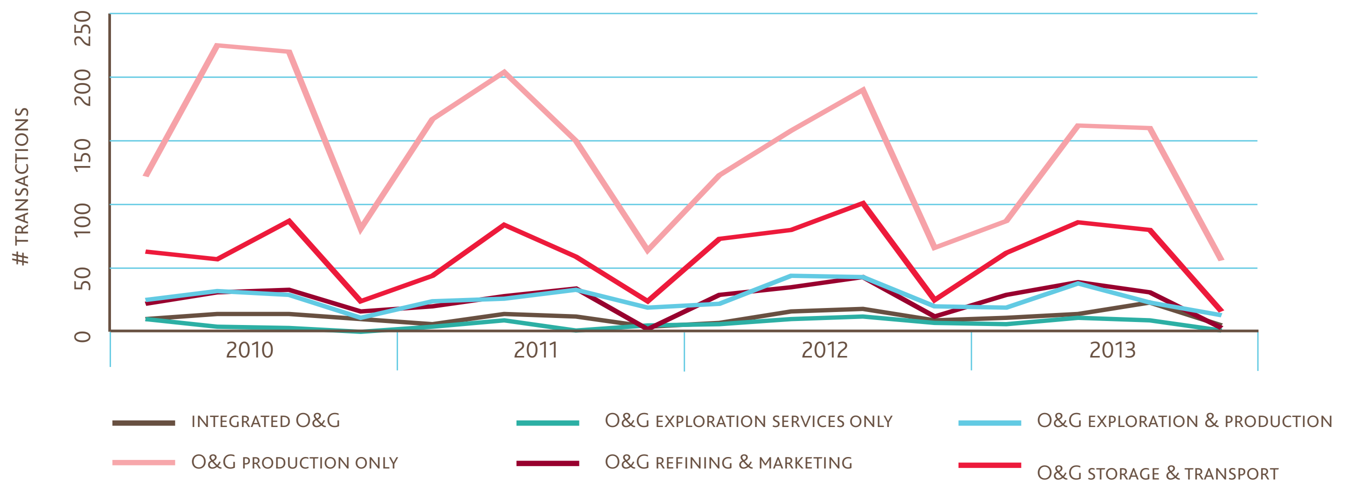
The impact of a challenging resources environment has been widespread, with the reduction in deal activity not exclusive to one industry or geography. The worst affected has been mining and metals, which globally contributed USD 5.7bn to the value of resources transactions in Q4-13 (USD 63.7bn for the year). This was 30% less than its Q4-12 contribution and 61% less than in Q4-10. Gold companies experienced the greatest reduction in transactions in Q4-13 compared to Q4-12, with 59% fewer deals representing 71% less value. This is unsurprising given the impact of the gold price falling below USD 1,200/oz, a near 3-year low.

* Data provided by Capital IQ

METALS & MINING VOLUMES*



OIL & GAS VOLUMES*

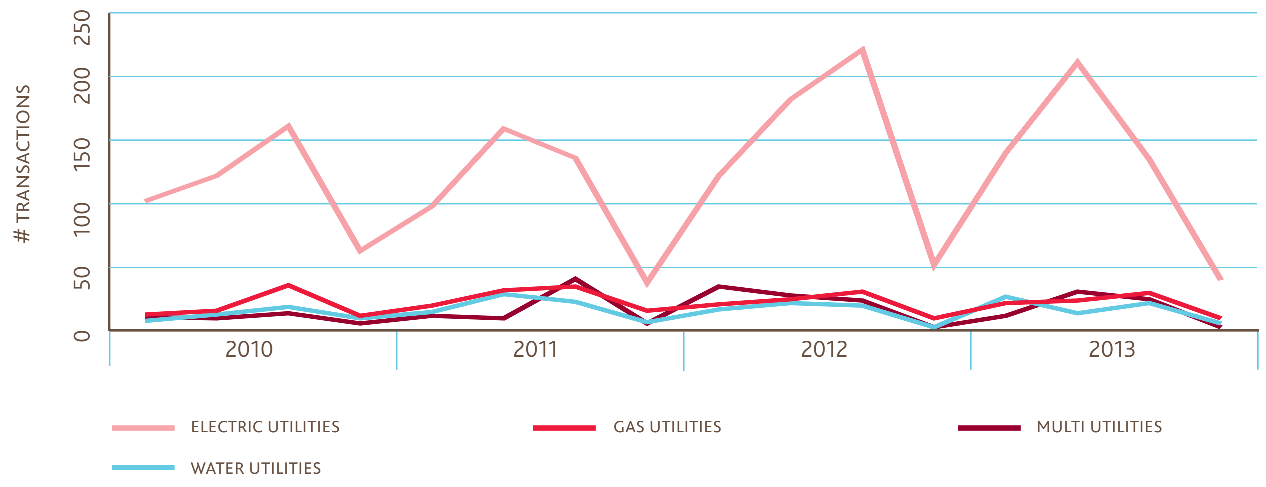


In oil and gas the biggest reduction in deals was seen in exploration, refining and marketing. In Q4-12 and Q4-10 respectively, values were down 91% and 87%, and volumes were down 79% and 75%. By contrast, oil and gas production experienced a rise in transaction value, though the number of deals was still less than in previous years. Low oil and gas prices have put pressure on margins, which has made conditions particularly tough for explorers whose projects may become unviable.

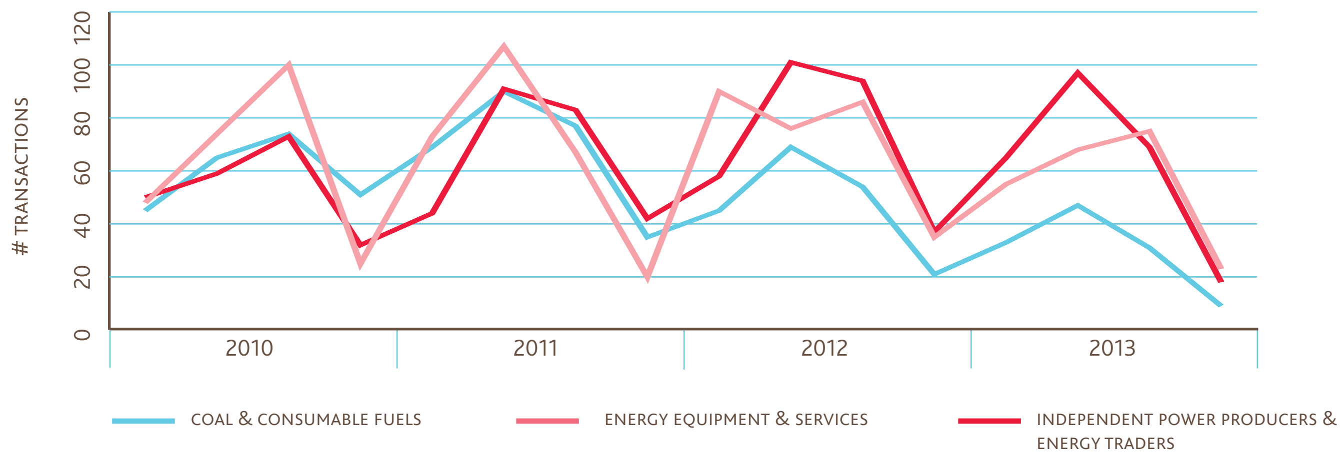
Transaction activity for utilities declined slightly in 2013, and is still significantly down on Q4-10 levels. However, the value of both water and gas transactions more than doubled from 2012 due to a few major transactions. These included a USD 264m convertible bonds issue by Shenzhen Gas Corporation of China for general corporate purposes, the USD 250m sale of East Horizon Gas Company by Oando PLC (a Nigerian energy group which used the cash to deleverage), and a USD 208m share placement by Singaporean SIIC Environment Holdings for investment purposes. Together, these deals accounted for around half of the total value of gas and water utility transactions. Excluding coal and consumables transactions, which fell by 57% (Q4-12) and 82% (Q4-10) in volume terms, energy companies completed almost four times as many deals in Q4-13 than in Q4-10 (though still fewer than in Q4-12).

* Data provided by Capital IQ

UTILITY VOLUMES*



ENERGY VOLUMES*



* Data provided by Capital IQ

Geographic

Most regions have experienced a drop in both volume and value of resources transactions in the last few years. The notable exceptions have been India, Africa and South East Asia, who have experienced greater resources deal activity this quarter. Activity has shifted towards countries where projects have a lower cost base, and thus remain viable despite lower commodity prices. Some signs of recovery in resources deals could also be seen in the UK, Netherlands, Belgium, Luxembourg and Latin America, but activity has not yet reached 2010 levels. Japan has been hit the hardest with only one deal in Q4-13 (a placement by Shizuoka Gas).

Australasia recorded a quarter of extremely low activity, with only 13 deals worth a total of USD 533m (USD 482m), which was USD 1.7bn (USD 1.8bn) less than the corresponding 2012 quarter. Reductions in activity were seen across the board, particularly in mining, and there were no energy deals. Investment activity in Australia has closely followed trends in China – the key difference being that the decline in Chinese deals was driven by oil and gas, utilities and energy, whereas mining deals remained roughly on a par with previous years. Southern, Central and Eastern Europe and the Middle East also experienced significantly less resources transactions in Q4-13.

Low public confidence in the resources sector will, we expect, drive a trend towards alternative sources of funding. A sustained lack of equity interest from the public will leave a gap that could be filled by private equity. Recently there have emerged private equity firms that specialise exclusively in natural resources investments, such as Quantum Energy Partners, EnerVest, Resource Capital Funds, Sheridan Production Partners and Merit Energy Partners, who have collectively raised over USD 20bn in the last 10 years[2] Quantum Energy Partners, for instance, invested USD 300m in Rio Oil & Gas (USA) in Sep-13.

Movement towards private equity funding is even more likely if debt becomes less accessible, as is likely to happen when interest rates finally rise and quantitative easing tails off. Despite increased competition between banks, which has given debt providers a strong appetite for investment, companies are often unable to satisfy all their funding requirements through debt alone. At the very least, companies are likely to appeal to existing investors rather than new public investors until public confidence in the sector has picked up.

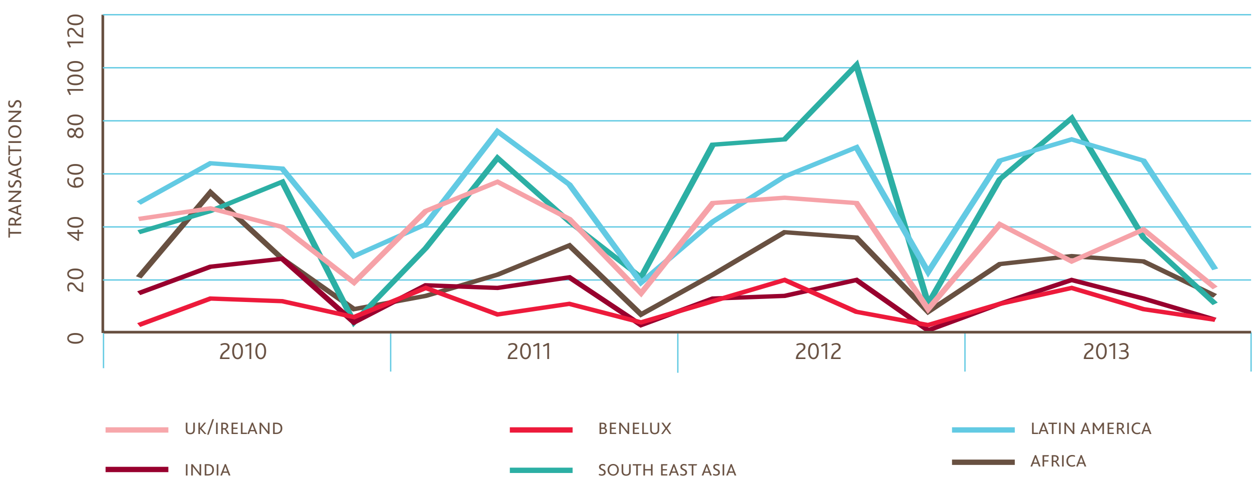
Another trend that we expect to continue in 2014 is market consolidation and the sale of non-core assets. This allows juniors to focus scarce funds on core projects, and it also aids the continuation of cost cutting programs by most resources companies and makes it easier to access cash. Large transactions to come out of this strategy in Q4-13 included the disposal of two chrome ore plants by Mechel OAO, a leading Russian mining and metals company for USD 425m consideration. A second significant spin-off last quarter was Chesapeake's sale of MKR Holdings, the owner-operator of a natural gas reserve, for USD 500m.

We do expect investment in the sector to pick up as companies improve their balance sheets and asset mix through cost cutting programs and divestments. This effect could even be accelerated if, as some analysts predict, commodity prices fully recover as early as the end of 2014.

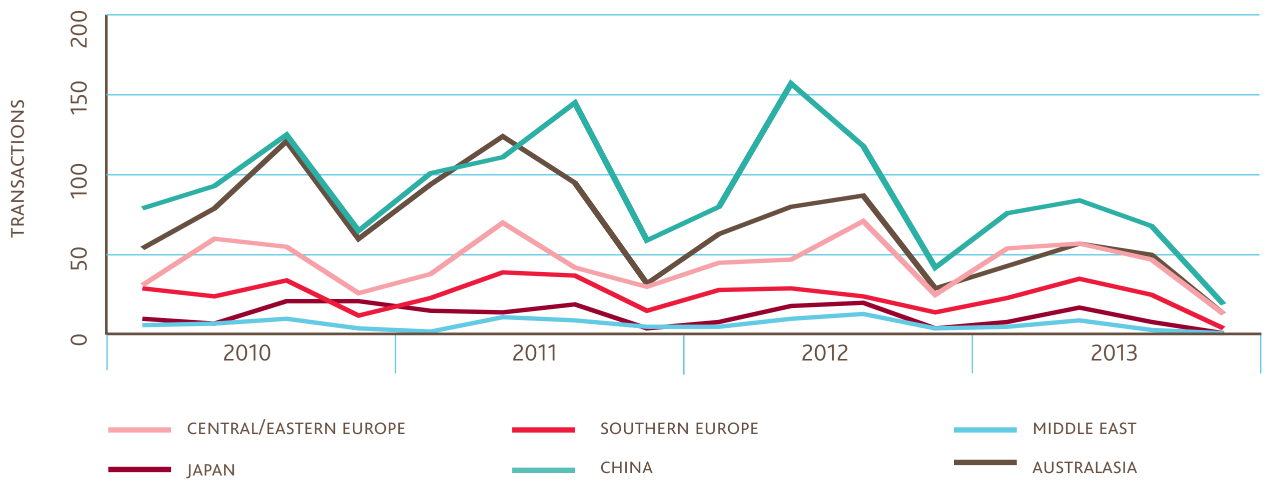
Looking ahead

- We expect continued low public confidence in the resources sector in 2014
- As a result, companies will be seeking funds increasingly from private equity and existing investors
- We also predict that this year we will see a great deal of market consolidation and disposal of non-core assets

VOLUMES BY GEOGRAPHY – STRENGTHENING ACTIVITY*[3]



VOLUMES BY GEOGRAPHY – DECLINING ACTIVITY*[3]



SHERIF ANDRAWES
M&A Partner
sherif.andrawes@bdo.com.au

* Data provided by Capital IQ

* Data provided by Capital IQ

2 Pregin website: https://wwwW.preqin.com/blog/101/7367/natural-resources-firms (figure is as at 11-Sep-13)

3 Geographies exist other than those that have been graphed. Benelux includes Belgium, Netherlands and Luxembourg

FINANCIAL SERVICES

Following the money in the finance industry's global mid-market

Like the overall M&A market in 2013, the global Financial Services (FS) sector enjoyed a growth in deal volume. This was particularly notable in the mid-market (transaction volume of USD 10-500m) where deal volume rose for the third consecutive year, with 550 deals in 2013 compared to 518 in 2011.

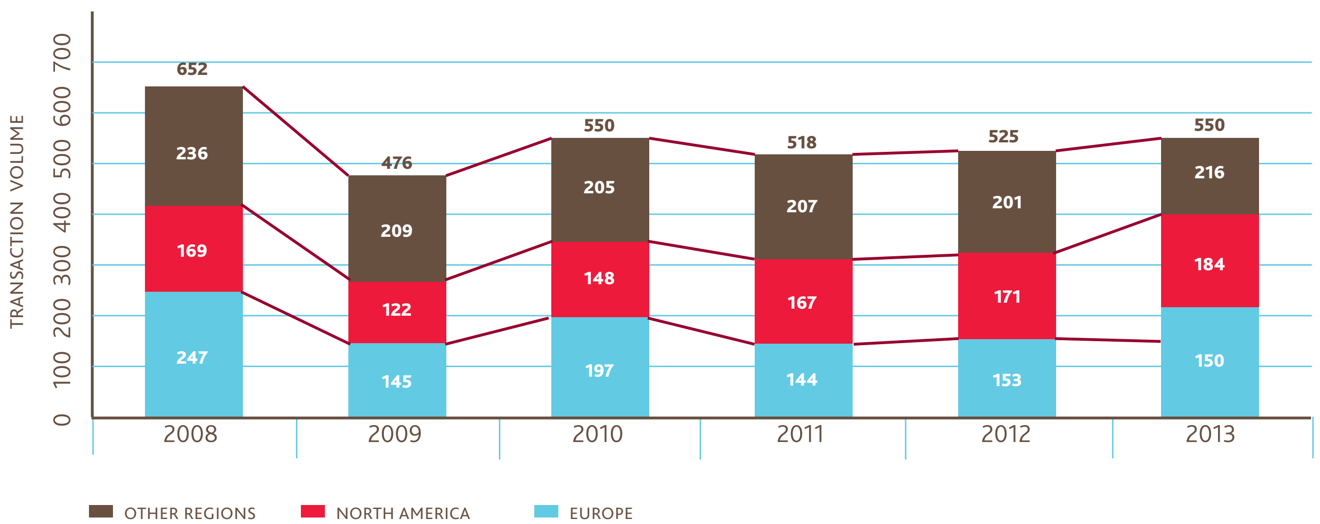
This trend has mostly been driven by North America, with deal numbers growing year-on-year since 2009 and rising from 122 to 184. By comparison deal numbers in Europe and other regions were relatively constant between 2009 and 2013, as the graph shows. Having said that, the deal volume within Europe developed quite differently in certain areas. The Southern European countries especially have been more and more active, with the number of transactions doubling in the last three years – whereas M&A deals in the UK and Ireland almost halved over the same period.

In general, regulatory initiatives represent a strong driver for M&A transactions in the FS sector, especially since the 2008 financial crisis. For instance, on 18 February 2014 the Federal Reserve Board approved a final rule strengthening supervision and regulation of large US bank holding companies and foreign banking organisations. Under the final rule, foreign banking organisations with a significant US presence will also have to comply with new capital and risk management requirements, potentially triggering spin-offs or portfolio disposals. However, such a market environment also opens up opportunities for forward-looking financial institutions to use M&A deals to better position themselves in the market.

Looking ahead

The following table provides commentaries on industry developments, recent M&A deals, and trends for the current year in North America and three European sub-regions.

M&A MID-MARKET TRANSACTION VOLUME BY REGIONS, 2008-2013



Source: BDO analysis

	Industry developments (2012-2013)	Recent deals in 2013	Trends in 2014
Southern Europe	In Southern Europe, a region significantly exposed to the financial market crisis, a large fraction of recent M&A deals relates to the restructuring of the financial sector. In Spain, the most active market in this region, exemplary recent transactions include Sabadell's acquisition of Mediterraneo Vida, Bankia's acquisition of Aseval and the takeover of CEISS by Unicaja. Furthermore, Bankia sold its 51% in Aceval to Mapfre, the Spanish insurance group. A number of transactions have been executed by governments in order to secure the stability of their banking sector.	In Q4 2013, two landmark deals in Southern Europe were determined by transactions between Credit Agricole and Société Générale. The first was Crédit Agricole's acquisition of a further 5% stake in Amundi Asset Management from Société Générale for USD 452m (Amundi is jointly owned by both parties). This transaction gave Crédit Agricole an ownership of 80%. In another M&A deal between these parties, Crédit Agricole disposed its 50% stake in Newedge Group to Société Générale, their brokerage joint venture, for USD 376m.	In the context of further restructuring and consolidation of the financial sector in Southern Europe, we expect a steady M&A deal flow in the region, especially in Spain, Italy, and Greece. Banks are likely to continue disposing of selected loan portfolios and servicing platforms. Central banks and regulators will be an important driver of such activity, with the ECB's 2013-14 Comprehensive Assessment (in preparation of the EU's Single Supervisory Mechanism) potentially identifying even more capital need in the region.
Western Europe and the UK & Ireland	Deal activity in this region remains dominated by the UK market, which accounted for around one half of the region's deal volume in 2012-13. Drivers of deal activities are continued restructuring efforts of the European financial sector, partly induced by the EU Commission. Furthermore, the Continental European life insurance industry has become a target sector for transactions, with some insurers discontinuing underwriting and/or disposing activities.	In 2013, UK food retailer J Sainsbury acquired a 50% share in Sainsbury's Bank from Lloyds Banking Group. The transaction was closed in January 2014 and, as a result, Sainsbury's Bank has become a wholly owned subsidiary of J Sainsbury. The 2013 acquisition of Heidelberger Leben, previously owned by Lloyds Banking Group, by Cinven and Hannover Re for EUR 300m serves as an example for consolidation in the German life insurance industry (subject to regulatory approval).	We expect an increasing deal volume in the region in 2014. Especially German and Dutch life insurance portfolios represent sectors where M&A deals will be likely seen. In the UK, the consolidation process among the financial sectors will continue and generate opportunities for strategic and financial investors. Specifically, we expect M&A deals in the UK asset management industry as the last quarters displayed some consolidation trends in this sector.
CEE & CIS region	Deal volumes were up by +34% with 43 deals in 2013. The increased activity was largely triggered by divestments of Western European banking groups. Financial institutions (potentially) discontinuing activities in the CEE & CIS Region include Austrian Volksbanken, Nordea, Swedbank, SEB, Commerzbank, KBC, and Santander. However, there are also signs of global players strengthening their presence in the region.	One of the major transactions in Q4 2013 was Société Générale's acquisition of a further 10% stake in Russian Rosbank for USD 270m. Through this acquisition Société Générale strengthened its commitment to the Russian market, increasing its stake in Rosbank to 92.4%. The Swiss insurer Bâloise sold its Serbian and Croatian subsidiaries to Austrian Uniqa for EUR 7m.	We expect M&A deal activity to stay at high levels. The mixture between strategic divestments in some parts of the CEE like Ukraine and the growing M&A activity in Russia potentially drives mid-market deal volumes in the upcoming quarters.
North America	The FS M&A market in North America (i.e. the U.S. and Canada) has been increasingly active in recent years, reaching pre-crisis levels with 184 deals in 2013. Regulatory initiatives including Dodd-Frank, the Consumer Protection Act, and Basel III continue to be on the C-level agenda. In response to penalties associated with being deemed "too big to fail", large-cap institutions are expected to eventually initiate spin-offs of non-core activities, driving M&A deal volume.	In 2013, consolidation in the banking mid-market triggered deal volumes, including the mergers between First Financial and SCBT, between Virginia Commerce Bancorp and United Bankshares, and between Sterling Corp and Provident New York.	In the context of current regulatory initiatives, we expect no general appetite of systemically important financial institutions (SIFIs) to increase in size through further M&A activity. However, under a new final rule issued by the Federal Reserve on February 18, 2014, the nation's largest banks will be forced to hold far more capital and step up their risk management. This will also affect foreign banks active in the US and potentially induce disposals and spin-off deals.

KARSTEN PAETZMANN
Partner
karsten.paetzmann@bdo.de

www.bdointernational.com