

# HORIZONS

BDO'S GLOBAL VIEW OF MID-MARKET DEAL ACTIVITY

MERGERS&ACQUISITIONS

ISSUE 3 | 2015

## CREDIT MARKETS MADE A STRONG START TO 2015

SEE INSIDE FOR ALL THE LATEST VALUABLE INSIGHTS

### FEATURE

CREDIT MARKET  
TRENDS

CANADA – BIG  
COUNTRY, BIG DEALS

### REGIONAL VIEW

VIEWS FROM  
AROUND THE GLOBE

### SECTOR VIEW

CONSTRUCTION &  
BUILDING PRODUCTS

TECHNOLOGY &  
MEDIA

FINANCIAL SERVICES

PHARMA, MEDICAL &  
BIOTECH

## CONTENTS

GLOBAL VIEW	2
FEATURE: CREDIT MARKET TRENDS	4
FEATURE: CANADA – BIG COUNTRY, BIG DEALS	6
GLOBAL MAP	8
SECTOR VIEW	36





# WELCOME

Welcome to the latest issue of BDO HORIZONS, which tracks developments in the past quarter and forecasts what lies ahead.

As expected, mid-market M&A activity in Q2 could not match the levels seen in 2014, but compared to Q1 2015 deal activity was marginally higher. In this issue of BDO HORIZONS, we highlight the factors behind these trends. As we move further into 2015, it is also the perfect time to look ahead.

Using our BDO Heat Chart, we predict the key developments and themes that are

likely to drive M&A activity in the second half of the year.

Our analysis extends to 17 regions and eight sectors, providing you with an in-depth understanding of what's going on now and how the markets are likely to evolve in the future. Our focus is firmly set on the M&A mid-market, analysing deals and transactions valued at between USD 10m and USD 500m.

## INSIGHTS FROM A LEADING M&A ADVISER

BDO is an international network of public accounting, tax and advisory firms with representation in 152 territories, and employs 60,000 people working out of more than 1,300 offices worldwide.

Our market leading M&A business specialises in advising business owners on how to maximise value through confidential and highly managed sale processes. We achieve exceptional value for our clients through identifying strategic buyers and creating competitive tension that is maintained by closely managing all aspects of the commercial negotiations and completion process.

According to the latest BDO International Business Compass, which is being published for a fourth time in 2015, most companies have a desire to act globally. This is a big step for many and, although it entails great opportunities, it can carry high risks that require careful assessment. The

international BDO network is here to provide assistance during any domestic or cross-border transaction, whether on the sell or buy side. Our M&A mid-market expertise enables us to achieve the best results for our clients. If you are interested in further information on the latest international transactions assisted by BDO please refer to our [BDO M&A International Snapshots](#).



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# GLOBAL VIEW



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Mid-market M&A in Q2 was up on Q1 2015 levels, but it was a weak quarter compared to 2014. Looking ahead, our BDO Heat Chart indicates lower activity for Q3, predicting the lowest number of pipeline deals since BDO HORIZONS was first published back in Q1 2014.

It was obviously going to be tough to match the deal volumes seen in 2014, which took M&A mid-market activity to levels not seen since before the financial crisis. Although deal volume and value increased by 4.3% and 15.6% respectively as compared to Q1 2015 figures, we saw a significant decrease in comparison to Q2 2014 – down 20.2% in volume and 14.6% by value.

There were 1,716 transactions during Q2 2015, with total deal value topping USD 162bn. The average deal value rose slightly to USD 94.4m, which is consistent with the global trend towards bigger transactions supported by continuing low interest rates. Sustained by high M&A price levels, deal values increased more distinctly than deal volumes. Private equity was involved in 200 transactions during Q2 2015, representing a slight increase in deal volume and a significant rise in deal value, which was up 14.7% to USD 25.2bn.

Looking at the picture in more detail, although total deal activity rose in Q2 2015, Business Services, Consumer and Pharma, Medical & Biotech all saw deal volumes fall. More importantly, we can see that deal volume was driven by strong growth in Greater China: while total global deals rose by only 70, Greater China alone registered an increase of 148 transactions against Q1 2015.

## COMPARING HERE AND THERE

If we look at M&A mid-market activities in our 17 regions, we see that more than half of those regions underperformed against Q1. But deal activity climbed in four out of seven sectors, especially in Industrials & Chemicals and Technology & Media. Here is a snapshot of some of the highs and lows:

China had the strongest Q2 with 437 transactions, an increase of nearly 51.2% against Q1 and 36.6% against Q2 2014. Deal value also soared, hitting a new high of USD 46.2bn, compared to USD 41.5bn in North America.

Apart from China, we identified a quarterly upward movement in deal volumes in Other Asia, Latin America, Southern Europe, Nordics, Middle East, Australasia and Israel. But only Other Asia and Israel were able to outperform Q2 2014 deal volumes. DACH posted the worst results with a decline of 35% against Q1 and Q2 2014, followed by South East Asia and Japan.

It is a similar picture if we look at deal values. Looking at larger average transaction sizes the development was even clearer. Benelux experienced the biggest fall (-30.4%), closely followed by DACH (-26%) and South East Asia (-24%).

As for sectors, every sector completed fewer deals in Q2 compared to the same quarter one year ago. But by comparing the numbers with the preceding quarter we saw growth in Technology & Media (15%), Industrials & Chemicals (13%), Financial Services (10%), Energy, Mining & Utilities (9%) and Leisure (8%). On the other hand, Business Services and Consumer were responsible for the biggest declines.

## GLOBAL BDO HEAT CHART

	Industrials & Chemicals	Technology & Media	Business Services	Consumer	Energy, Mining & Utilities	Pharma, Medical & Biotech	Financial Services	Leisure	Total	%*
North America	321	390	246	182	256	370	173	59	1,997	28%
China	252	166	88	76	52	55	61	47	797	11%
CEE & CIS	163	89	61	97	60	29	51	25	575	8%
Southern Europe	121	87	63	112	33	40	42	28	526	7%
South East Asia	122	58	69	51	59	20	53	13	445	6%
Australasia	70	60	54	81	61	36	40	17	419	6%
Latin America	90	50	74	63	71	21	39	11	419	6%
India	75	85	55	34	23	23	28	11	334	5%
DACH	86	58	28	43	21	31	22	7	296	4%
UK & Ireland	55	51	45	35	24	17	33	29	289	4%
Japan	58	70	37	46	2	18	19	15	265	4%
Other Asia	87	36	24	21	18	28	12	10	236	3%
Africa	44	11	20	14	49	5	20	6	169	2%
Nordics	40	34	22	28	12	14	7	5	162	2%
Benelux	30	16	16	7	7	16	9	4	105	1%
Middle East	11	13	13	8	6	3	12	2	68	1%
Israel	6	22	1	2	3	9	1	-	44	1%
<b>TOTAL</b>	<b>1,631</b>	<b>1,296</b>	<b>916</b>	<b>900</b>	<b>757</b>	<b>735</b>	<b>622</b>	<b>289</b>	<b>7,146</b>	<b>100%</b>
<b>%</b>	<b>23%</b>	<b>18%</b>	<b>13%</b>	<b>13%</b>	<b>11%</b>	<b>10%</b>	<b>9%</b>	<b>4%</b>	<b>100%</b>	

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

## LOOKING AHEAD

Our BDO Heat Chart for regions and sectors shows a decrease of 13.4%, with 7,146 companies either officially, or rumoured to be, up for sale. The biggest decline was posted by Israel, followed by Benelux and UK & Ireland. In fact, the BDO Heat Chart indicates that there are no regions or sectors where opportunities surpass the Q1 numbers. In summary, it appears that deal activity will be headed by the North American market in spite of the strengthened Chinese mid-market.

As for sectors, we expect the greatest decrease in deals in the Leisure and Industrial & Chemicals sectors, but the latter is still expected to dominate the overall deal flow, followed by Technology & Media.

It remains to be seen to what extent the relatively high M&A price levels will influence M&A mid-market activity in the rest of 2015. But we can expect that 2015 will not match 2014's numbers.

# FEATURE

## CREDIT MARKET TRENDS



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**Credit markets made a strong start to 2015, with M&A and LBO financing volumes on the rise, especially for larger transactions. We also saw a continuation of the trend towards dividend recaps and share repurchases for both private equity-held and family-held companies.**

Loan funds maintained their growth and are becoming increasingly recognised as an addition to bank financing. This brings with it creative transaction structures which can be tailored to suit both banks and companies. The start of the year also saw several IPOs whose proceeds were (partly) used to repay leveraged debt and mezzanine. It appears multiples in the European IPO market are reaching levels which private equity sponsors are unwilling to match in dual track sale processes.

### CURRENT TRENDS

In Q1 and Q2 of 2014 we saw an abundance of liquidity in the markets. This remained the case for borrowers of both investment and sub-investment grade categories in the first half of 2015. Interest rates remain at near-record lows, with one-month and three-month Euribor rates firmly in negative territory. As corporates repay loans provided by banks in the years around 2010 we see banks keen to maintain their loan books. This drives banks to engage in competition for larger financing transactions, making them willing to take on higher levels of risk for competitive pricing. Even transactions under USD 11m are benefitting from the banks' need to rebuild or maintain their loan books. In the Netherlands ABN Amro are eager to do business in preparation for their upcoming IPO. Smaller companies are increasingly benefitting from this competitive environment among banks, which is leading to more relaxed lending standards and competitive pricing for those companies seeking financing.



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## BOND MARKETS

For larger companies, accessing the bond markets remains a viable option for those issuing instruments over USD 332m.

Despite several initiatives aimed at opening up the bond markets for smaller companies, examples of SMEs tapping into the bond markets remain few and far between. While the German Mittelstand bonds have proved a source of financing for German SMEs over recent years, we have not seen this trend move over to neighbouring countries in quite the same manner. Indeed, after several Mittelstand bond issuers have defaulted it appears that the investing public's appetite for Mittelstand bonds is declining. This could herald the arrival of a more mature market Mittelstand bond market after the first go-go years are now behind us when many (highly leveraged) companies found eager investors willing to risk their money while receiving minimum security and covenant protection.

The first half of the year saw a large amount of refinancing activity, making up around 50% of newly-issued sub-investment grade instruments. The financing of M&A activity by issuing sub-investment grade bonds makes up roughly one third of new issuance. In spite of the return of uncertainty to the financial markets, we still saw an appetite for the funding of dividend recapitalisations and

stock repurchases. According to Reuters, global corporate bond volume year-to-date is slightly below last year's volume, while sub-investment grade issuance is 11% lower than last year at USD 243bn.

## BANK FINANCING

As mentioned earlier, credit markets had a strong H1 2015, but the volume of leveraged loans issued was below the levels seen in the same period of 2014. According to Reuters, around 50% of the leveraged loan issuance in Europe was due to refinancing. As mentioned, we see that risk taking is returning to the markets and we have seen leverage multiples of 5.0x to 6.0x in larger leveraged buy-out transactions. While banks are more eager to lend and covenant-lite structures are making a strong comeback, the rise of loan funds as a source of finance for companies has also played a role. In addition to the flexibility of structuring provided by loan funds we have even seen transactions where multiple banks are eager to take (near-) equity stakes in the companies to which they are providing buy-out financing.

For the remainder of 2015, we forecast that banks will continue to look for business to maintain their lending books, and that the result of this strong competition will be more relaxed lending standards.

# FEATURE

## CANADA – BIG COUNTRY, BIG DEALS



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Covering nearly ten billion square kilometers and crossing six time zones, Canada has long been known for its diverse landscape and immense geographic footprint. In recent years the country's resource-focused economy, supported by a strong banking system and monetary stability, has established Canada as an increasingly strategic haven for inbound capital investment.

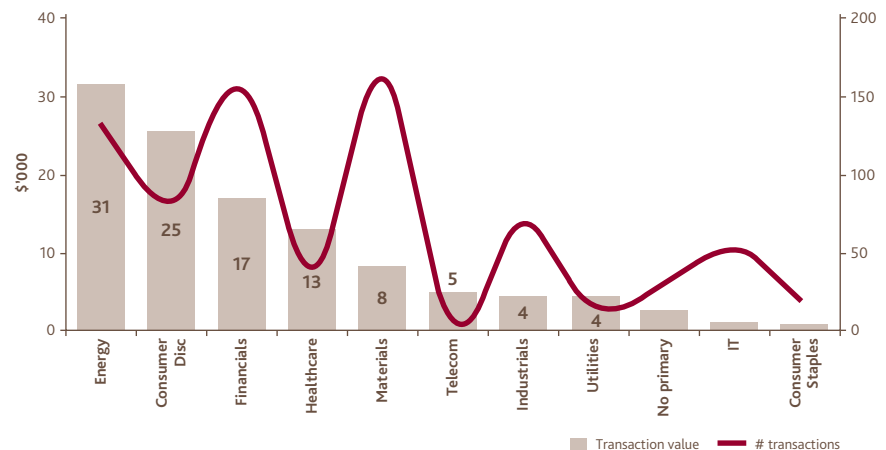
Canada has been a hotbed for M&A activity in the last 12 months with total transaction values and volumes reaching three-year highs. Since July 2014, there have been a total of 757 closed transactions and USD 86bn in funds invested<sup>1</sup> in Canada.

The most active sectors within the M&A market have been Materials and Financial Services with 161 and 156 closed transactions respectively. In terms of deal value, Energy and Consumer led the way with USD 24bn and USD 19bn in closed transactions respectively.



The following chart outlines the number of deals and deal value by sector: The M&A market is characterised by large value transactions, mid-market deals and favorable market conditions.

**NUMBER OF M&A DEALS AND VALUE BY SECTOR**





## MEGA-DEALS

There were 17 mega-deal transactions (those valued at over USD 0.8bn) closed in the last 12 months, representing an aggregate value of USD 51bn. The largest transaction was the sale of Talisman Energy, an upstream oil and gas company, to Repsol S.A. for USD 12bn. The last 12 months also saw Canada's long-established quick service restaurant chain Tim Horton's sold to Burger King for USD 11bn, representing the largest transaction in the restaurant sector in the period.

## MID-MARKET IS KING

The mid-market reigns supreme in Canada in terms of deal activity. Of the 757 transactions which closed in the last 12 months, 690 were in the midmarket (transaction size less than USD 191m), with a total deal value of USD 15.4bn.

## DRIVERS OF INCREASED M&A IN CANADA:

### FOREIGN EXCHANGE

The Canadian Dollar tumbled 17% in 2015, falling from \$0.93 CAD per USD in July 2014 to \$0.77 CAD per USD in July 2015, reaching the lowest level since 2004.

The weak Canadian Dollar means greater purchasing power for international buyers of Canadian companies (especially for our American neighbours south of the border), which should heighten inbound M&A activity. Furthermore, it provides momentum for Canadian companies exporting goods and services to the US and internationally.

## DEMOGRAPHICS

As baby boomers (those between the ages of 51 and 69), who represent approximately 27% of the Canadian population, continue to look toward retirement, owners of private businesses are looking for succession planning, which is creating significant transaction opportunities in Canada, especially in the mid-market.

## INEXPENSIVE DEBT CAPITAL

As the Bank of Canada, Canada's central bank, continues to slash interest rates (prime rate as at July 2015 - 2.70%), the cost of capital is lower than it has been in recent memory. Couple this with a bullish market and more favourable credit terms, and companies are now empowered with the financing needed to pursue their expansion plans and drive Canadian M&A.

## M&A AS A GROWTH STRATEGY

Limited GDP growth has caused many companies to turn to M&A as a part of their strategic growth plans. Inorganic growth will be top of mind for many businesses in Canada, which will look to leverage their strong financials to access the already cheap and abundant financing.

## PRIVATE EQUITY DRY POWDER

Canada remains a top destination for private equity firms from both the US and abroad who are seeking to deploy capital. Given the similarities in markets, regional proximity and added purchasing power, Canadian companies are ideal targets for US private equity firms looking to transact.

Volatile commodity prices in a resource-driven economy such as Canada's, open a myriad of opportunities for investors sitting on 'dry powder' (deployable cash/capital). Low commodity prices have Canadian companies looking for support and private equity investors are an ideal match to provide assistance.

## THE ROAD AHEAD

Canada remains entrenched as one of the focal points of the global economy and its overall economic outlook remains cautiously optimistic: GDP growth is forecast at 2.0% for 2015 and 2.2% for 2016.

M&A activity is expected to continue to trend upwards for the foreseeable future. Challenges caused by the instability in commodity prices have begun to lead to opportunity, as inbound buyers have shown interest in depressed assets. Moreover, the recent interest rate cut and continuing fall in the value of the Canadian dollar make the country an ideal environment for transacting. International buyers have greater purchasing power and access to abundant capital to invest in companies which may require continuing support. Adding all these factors together, Canada may be heading into the 'perfect storm' where it has enough activity to cover all of its near ten billion square kilometers and six different time zones.

<sup>1</sup> Based on BDO analysis from Capital IQ of closed transactions with published transaction values (greater than zero)

**GLOBAL**  
7,146 rumoured transactions

**P10 | NORTH AMERICA**  
Mega deal activity remains robust,  
mid-market activity has slowed

**P12 | LATIN AMERICA**  
Deal volume and value up from Q1

## SECTOR VIEW

**CONSTRUCTION &  
BUILDING PRODUCTS**



**TECHNOLOGY & MEDIA**



**FINANCIAL SERVICES**



**PHARMA, MEDICAL &  
BIOTECH**





**P22 | NORDICS**  
Activity bounces back

**P14 | UNITED KINGDOM & IRELAND**  
Activity in line with Q2, prospects lie ahead

**P18 | BENELUX**  
Deal activity holds steady

**P20 | DACH**  
Activity falls with political unrest and economic instability

**P24 | CEE & CIS**  
Turkey is the most popular target country

**P16 | SOUTHERN EUROPE**  
France has the highest value transactions

**P26 | ISRAEL**  
Technology & Media sector continues to lead deal volume

**P30 | INDIA**  
Economic prospects attract investors

**P32 | SOUTH EAST ASIA**  
Industrials & Chemicals leading sector

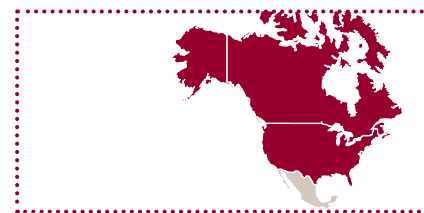
**P28 | AFRICA**  
Energy, Mining & Utilities most active sector

**P34 | AUSTRALASIA**  
Significant rebound from slow Q1

# REGIONAL VIEW



# NORTH AMERICA



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## BIG PICTURE

- Mid-market deal volume falls by 36% in Q2 2015 compared to Q2 2014 and down 10% from prior quarter
- Large cap, mega-deal activity involving multi-nationals and public companies remains robust but mid-market activity has slowed considerably
- Mixed economic signals, the strong US Dollar dampened deal activity
- Cross-border and inbound mid-market activity is down significantly
- Overall dollar volume of middle market deals decreased by 33% year over year
- Energy, oil, and mining sectors are particularly weak in areas such as Mexico

## Has mid-market M&A peaked or is it just taking a breather?

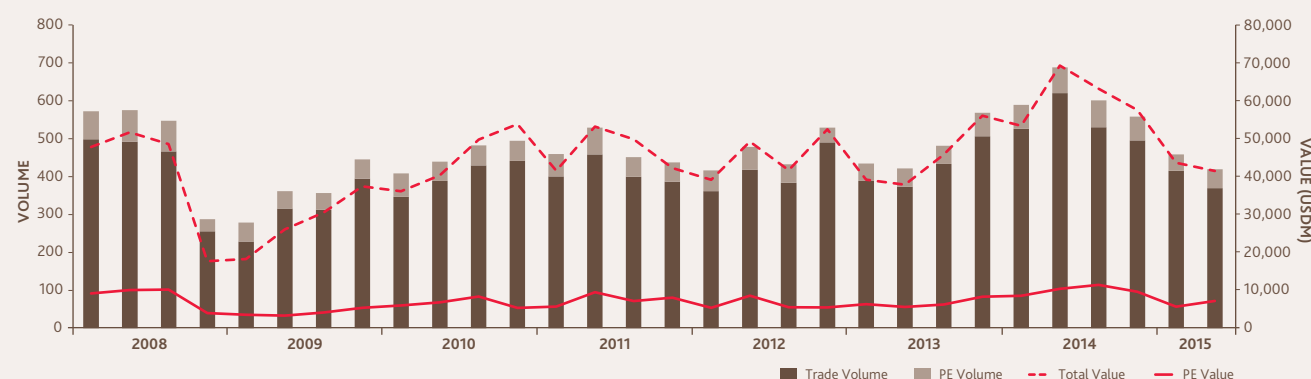
**North American middle market M&A activity slowed during the second quarter of 2015, continuing the trends of the first quarter of 2015 and the last quarter of 2014. Generally, the first quarter of each year shows a decline in deal activity after the traditional rush of fourth quarter closings in the previous year. However, recent trends didn't conform to tradition as both Q4 2014 and Q2 2015 were down, contributing to a declining mid-market deal environment that has now lasted nine months.**

Of course, comparisons to the prior year are difficult as 2014 was the best year for mid-market M&A since 2007 and Q2 2014 was the best quarterly performance for mid-market M&A on record. Given the lull of the last nine months, many market observers are now asking whether M&A activity peaked in 2014 and has begun a longer term downward trajectory. However, others are optimistic that the past nine months are reflective of a pause in the action and that M&A activity will soon return to near record levels. There are two schools of thought at the moment, one is that we are in the sixth year of the M&A bull market, it has to end soon and can't go higher. The other, is it has been a slow gradual recovery which bodes well for a longer bull cycle that may last several more years.

With leverage readily available from a range of lenders, including new breeds of alternative loan providers such as business development companies (BDCs), purchase multiples for mid-market targets are at historic highs. The availability of leverage has intensified competition and led to higher prices for mid-market deals. Indeed high valuations may be the reason activity has slowed in the mid-market as buyers step back and reassess their goals, objectives and return requirements. The deal environment is challenging as traditional mediocre assets are selling for high multiples and these companies don't necessarily have the growth profile to warrant the price demanded. As a result, buyers have become more disciplined as the market reaches historic highs. Likewise, sellers are seeking the deal of a lifetime by trying to time the market so that the multiple they receive sets a new high watermark in their industry or sub-sector. Such strategies and sentiment amongst market participants can lead to stagnation and delay in getting deals closed.

High company valuations, abundant lending sources, aggressive PE funds and well-capitalised strategic buyers would all seem to suggest that we should see a more robust deal market and an increase rather than decrease in mid-market M&A activity. Since 2012, we have been in a

## PE/TRADE VOLUME & VALUE



sustained strong sellers' market, which may have temporarily exhausted the supply of new saleable companies for the M&A market. Concerns over the direction of the US economy may have contributed to the lack of seller commitment and shifts in priorities as buyers look to larger deals for a more meaningful impact with lower execution risk. While throughout 2014, the US economy posted improving growth in quarterly GDP, 2015 GDP results have been lower than projected with the US economy growing 0.6% and 2.3% in the first and second quarters of 2015 respectively, coming in below expectations. The collapse in energy prices, general weakness in foreign markets and a strengthening dollar have all had negative effects on the US economy and potentially the mid-market deal environment. Meanwhile, Canadian and Mexican mid-market companies have had a hard time convincing would-be buyers of financial projections as overall economic conditions are weakening in these geographies.

**KEY SECTORS AND DEALS**

Looking at the deal statistics more closely over the past several quarters, overall

mid-market M&A activity was severely impacted by a big drop in energy-related deals. For example, there was less than half the number of energy related deals in Q2 2015 than we saw in Q2 2014, and dollar volume dropped more than 65% year over year for the sector. The sustained drop in oil prices and the negative impact abundant supplies are having on oil exploration and development companies in the region has caused investors to abandon the industry for now. Deals that are getting done are going for lower valuations, which also impacted the quarterly statistics.

While mid-market activity paused, mega-deals of USD 1bn in transaction value or higher continued at a torrid pace. In fact, there have been 19 deals valued at USD 10bn or more announced in the first six months of 2015, a record for any comparable period. Unlike the mid-market which has slowed recently, M&A market activity for larger companies has continued to show improvement, building on last year's momentum and leading many market observers to predict overall M&A dollar volume for 2015 in North America will shatter last year's record.

**LOOKING AHEAD**

With equity prices holding firm, abundant cash and low interest rates, the underlying fundamentals for North American deal-making remains extremely strong. However, storm clouds remain on the horizon and include the enduring Greek crisis and the impact on the eurozone, the Chinese economic and financial market rollercoaster, and the Fed's desire to raise rates in 2015. Weak oil and commodity prices have dramatically slowed deal activity in energy, mining and related sectors and this is having a profound effect on overall deal statistics. Likewise, the continued strong dollar has negatively impacted cross-border inbound M&A activity as US companies are getting too expensive for foreign buyers. The Canadian economy has contracted for five months in a row and the conditions in Mexico remain volatile.

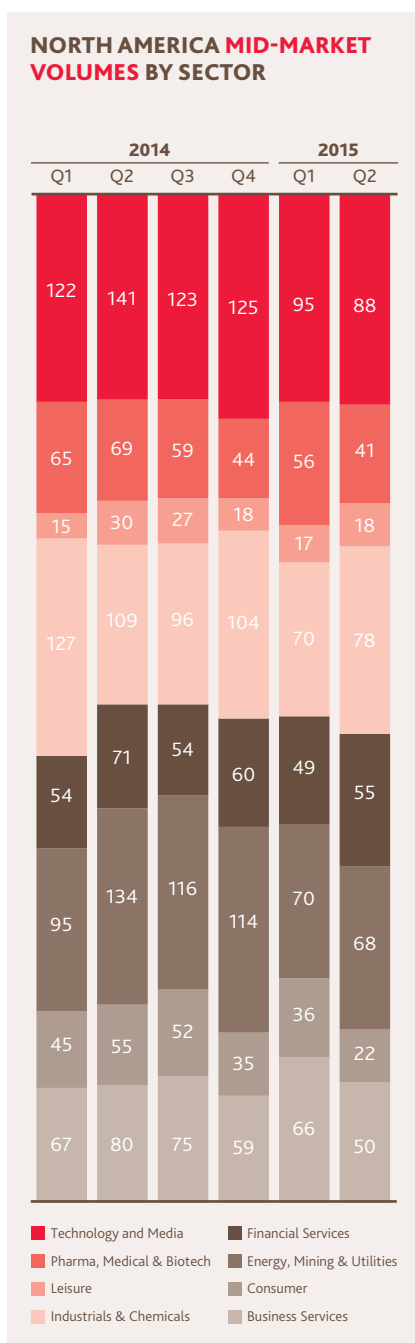
While the debate rages on concerning whether the recent pull-back in mid-market M&A activity is a temporary lull or something systemic or longer term, many suggest the ultimate timing of a rise in interest rates will define the real peak of the latest M&A bull cycle. For

now, the reality is that rates remain low and are favorable for continued deal-making. Although the US Federal Reserve recently announced it will likely raise rates, long-term rates remain at historically low levels and the prospect of inflation remains muted. Recent economic weakness creates uncertainty on when interest rates will rise and will likely cause the Fed to delay any rate hikes until later in 2015. Obviously, the Fed's easy money policy can't last forever and rates will eventually rise. When they do, and money becomes more expensive, deal prices will undoubtedly decrease, but for 2015 at least, the impact should be slow and gradual and mid-market M&A should get back on track very soon and follow more closely the mega-deal mania we are seeing.

Market participants should rest assured and take comfort that the temporary slowdown in middle market deal activity in the first half of 2015 is most likely due to the lack of quality deals coming to market and not due to falling valuations or credit disruptions. So while some may complain that the middle market is being left behind in the 2015 merger wave, keep in mind that things could be a whole lot worse.

**NORTH AMERICA HEAT CHART BY SECTOR**

Technology & Media	390	20%
Pharma, Medical & Biotech	370	19%
Industrials & Chemicals	321	16%
Energy, Mining & Utilities	256	13%
Business Services	246	12%
Consumer	182	9%
Financial Services	173	9%
Leisure	59	3%
<b>TOTAL</b>	<b>1,997</b>	<b>100%</b>



# LATIN AMERICA



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As predicted in the previous edition of BDO HORIZONS, Q2 2015 saw a rise in mid-market activity when compared to Q1 2015, with deal volume up 17% and deal value rising by 8.2%. There were 59 deals amounting to a total of USD 5.2bn in Q2 2015.

Private equity buy-outs were responsible for four deals with a total value of USD 494m – a 5.3% increase in comparison with the first quarter, but a 60% decrease if compared with the same quarter of 2014.

## BRAZIL

Brazil has a number of challenges as it faces fiscal adjustment, high inflation and falling confidence.

- Petrobras, once one of the levers of economic growth is involved in investigations of corruption and bribery (operation Lava Jato), and is undergoing a critical period of restructuring and reprioritisation that has already resulted in the cancellation of a number of investments.
- Operation Lava Jato also affects leading construction companies, triggering the cancellation of a number of significant commercial and residential projects and the dismissal of thousands of employees.
- With Lava Jato also investigating the involvement of people politically close to President Dilma Rousseff, the Brazilian Government is under pressure.
- Entrepreneurs are hit hard by this economic environment as it leads to declining revenues, increased fixed costs (inflation) and rising defaults.

On the other hand, with its currency falling in value, Brazil is becoming a great investment option, and the country remains one of the most important economies in the world.

## BIG PICTURE

- Deal volume and value up from Q1 levels
- Industrials & Chemicals lead the way with 12 deals in Q2
- Despite economic challenges, Brazil is the target for five out of ten top deals in Q2

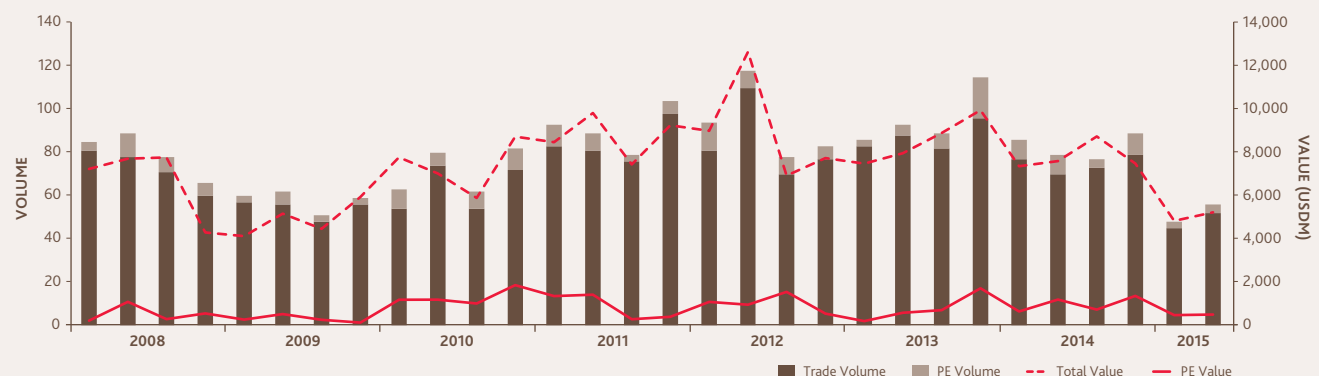
## REGIONAL FACTORS

In general, Latin American M&A activity followed the trends seen in the world market, which also saw activity picking up after a weak Q1 2015. However, it is worth noting some region-specific factors that may impact M&A this year:

- Falling commodity prices will affect the economies of Latin American countries, reducing export revenues.
- Rising fiscal deficits, common in many Latin American nations, will require economic measures such as public sector cost cutting, reduced public investment and retraction of private investments.
- Rising inflation will demand a more aggressive policy of interest rate rises, while the North American currency has undergone a strengthening period.

Deal activity rises despite economic and political challenges.

## PE/TRADE VOLUME & VALUE





**ARGENTINA**

According to IMF forecasts, the economy this year will shrink by about 0.3% and inflation is estimated at around 18%.

- Having undergone a restructuring process in recent years, Argentina looks set to return to the capital markets this year, for the first time since 2006.
- The Argentine Central Bank announced in April a total of USD 32.68bn in reserves, the highest level since 2013.

**MEXICO**

- GDP grew by 0.4% if compared with the first quarter of 2015; and by 2.5% if compared to the first quarter of 2014. GDP increase of 3% is expected in 2015.
- The economy continues to grow slowly because of political/economic adjustments such as tax reform, reduced public spending, decreased oil prices and its dependence on the US economy.
- According to the Mexican Central Bank, financial indebtedness in the country represents less than 30% of the GDP, while in Chile and Brazil it represents more than 50% of the GDP.
- "Compared with other countries, the economy is solid, with a balanced foreign trade and a not very high debt. There are still reforms to develop, though they will not bring a rapid, but stable and moderate growth. However, unmistakably, we will face setbacks. We are not immune," says Gerardo Esquivel, professor at Mexico Research College.

**COLOMBIA**

- At 2.8%, Colombia's had the fastest growing Q2 GDP in the region. But it was still a decrease of 3.7 percentage points compared to the same period of 2014, when GDP expanded 6.5%
- Colombia's economy is forecast to grow 3.5% in 2015, putting it in second place behind Peru (4.3%) but ahead of Chile (2.9%), Mexico (3.0%), Argentina (-0.3%) and Brazil (-1.1%).

**KEY SECTORS**

Of the total of 56 transactions that took place in Latin America in Q2 2015, the sector that saw the most activity was Industrials & Chemicals with 12 deals, equivalent in volume to 21.4% of all deals. Next was Energy, Mining & Utilities and Business Services, with ten deals (17.9% of the deal volume) each; Financial Services with eight (equivalent to 14.3%); and Consumer and Technology & Media with five each, equivalent to 8.9% each. The least active sectors were Leisure and Pharma, Medical & Biotech.

In comparison with the same period of 2014, Q2 2015 saw a decrease in volume from 331 to 104 transactions. The sectors that contributed most to this fall were Business Services, Industrials & Chemicals and Energy, Mining & Utilities.

**KEY REGIONS**

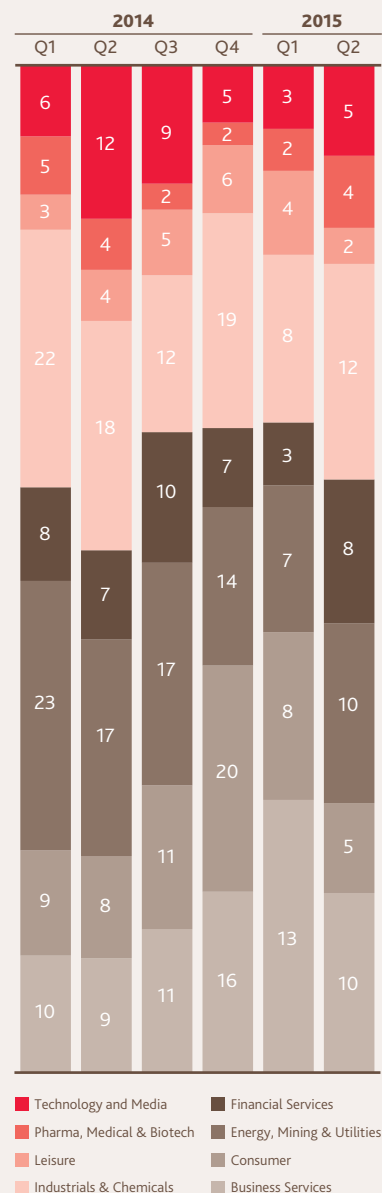
Of the top ten deals in Latin America during Q2 2015, five took place in Brazil. These had a total value of USD 1.2bn, representing 49% of the total value of top ten transactions. But the biggest deal, valued at USD 326m, occurred in Costa Rica, involving companies in the Energy, Mining & Utilities sector, specifically Globeleq Mesoamerica Energy, Actis LLP and Mesoamerica Power Limited. Among the ten most relevant deals, three were in Business Services and two in Energy, Mining & Utilities. After Brazil, with five deals, Costa Rica, Peru, Ecuador, Jamaica and Bermuda all had one deal each.

Sector	Deals	Volume (%)
Industrials & Chemicals	90	21%
Business Services	74	18%
Energy, Mining & Utilities	71	17%
Consumer	63	15%
Technology & Media	50	12%
Financial Services	39	9%
Pharma, Medical & Biotech	21	5%
Leisure	11	3%
<b>TOTAL</b>	<b>419</b>	<b>100%</b>

**LOOKING AHEAD**

The BDO Heat Chart shows over 419 deals planned or in progress. Industrials & Chemicals and Business Services are set to be the most active sectors, maintaining the current quarter's trends, with 90 and 74 potential deals respectively. The third most active sector is Energy, Mining & Utilities with 71 potential deals.

**LATIN AMERICA MID-MARKET VOLUMES BY SECTOR**



# UNITED KINGDOM & IRELAND



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## BIG PICTURE

- The General Election may have dampened deal making but a rebound is expected
- Ample funds available to fuel activity and prices
- Trade, private equity and IPOs are all strong options for good companies

## Activity in line with Q1, but better prospects lie ahead.

The second quarter of 2015 saw the number of completed mid-market deals fall to 126, although value nudged up to USD 10.7bn. We suspect that the dip in deal volume may have been influenced by the uncertainty surrounding the General Election in early May, with some vendors and acquirers holding off until the result was known.

The number of private equity deals was only slightly down on the previous quarter and the more marked drop was in the number of trade deals. At a shade over 20% of the volume and under 17% of the value, private equity-led deals were noticeably lower than in any quarter of 2014. This may reflect the ability of trade to outbid private equity in the current market conditions. Indeed, only three of the ten largest deals in the quarter were led by private equity, including the acquisition of the cloud-based cost control solutions provider Fourth Limited by Insight Venture Partners from ECI Partners for USD 315m.

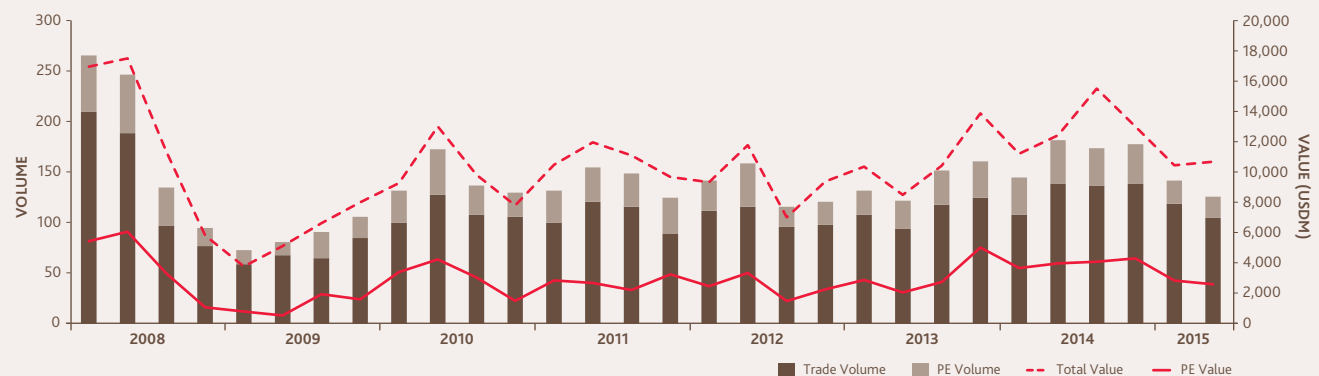
Cross-border deals continued to be a strong feature of the mid-market with four of the ten largest deals involving an overseas buyer. These included France-based

Antin Infrastructure Partners' USD 486m investment in the Central Area Transmission System (CATS pipeline), and the USD 437m acquisition of WWRD Holdings by the Finnish group Fiskars Oyi. Overall, we continued to see a similar proportion of overseas buyers in the market as a whole.

## KEY SECTORS AND DEALS

From a sector point of view, Business Services and Technology & Media were the most active, accounting for a similar number of deals in Q2. Industrials & Chemicals was the next most active by number of deals. The sectors with the lowest volume of activity in the quarter were Energy, Mining & Utilities and Financial Services. The former continues to be impacted by the oil price. The market also remains open to IPOs and Q2 activity was broadly in line with the last two quarters, with 28 IPOs spread fairly evenly across the main market and AIM. The largest was Woodford Patient Capital Trust, which raised around USD 1.2bn. Other notable IPOs were IT security Sophos Group and the Irish housebuilder Cairn Homes.

## PE/TRADE VOLUME & VALUE



M&A valuations meanwhile edged up for trade buyers with BDO's private company price index (PCPI) rising to an EV/EBITDA ratio of 10.0x. We believe this continues to reflect cash resources available and the preparedness to pay premium prices for a strong strategic fit. The Private Equity Price Index (PEPI) stayed consistent at an EV/EBITDA ratio of 10.8x. We continue to see large amounts of liquidity, which in our opinion should keep overall multiples up.

### LOOKING AHEAD

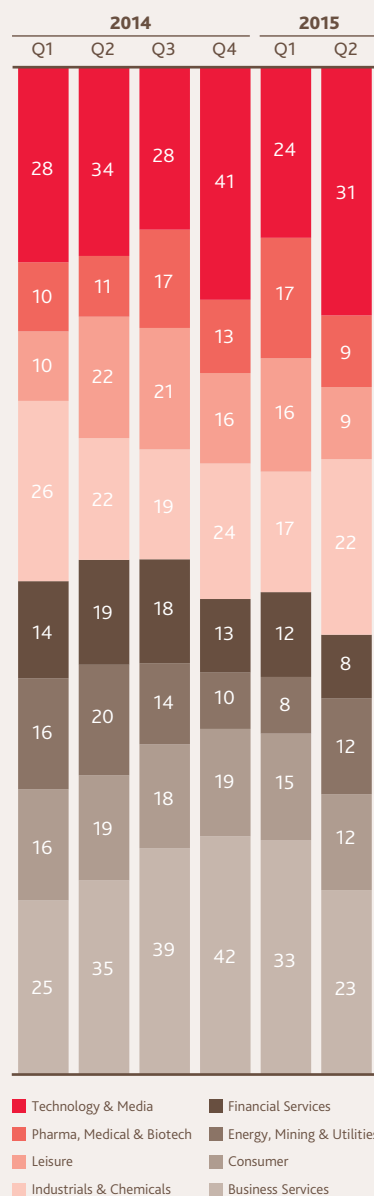
Looking ahead, we believe that in the wake of the General Election the level of M&A activity will pick up in the second half of the year. Both trade and Private Equity have ample amounts to invest to meet needs of vendors seeking to sell.

The BDO Heat Chart shows market intelligence on nearly 290 deals planned and in progress but we expect that this understates the activity in the pipeline. Industrials & Chemicals and Technology & Media are leading the way in terms of sectors.

Sector	Deals	Percentage
Industrials & Chemicals	55	19%
Technology & Media	51	18%
Business Services	45	16%
Consumer	35	12%
Financial Services	33	11%
Leisure	29	10%
Energy, Mining & Utilities	24	8%
Pharma, Medical & Biotech	17	6%
<b>TOTAL</b>	<b>289</b>	<b>100%</b>



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





# SOUTHERN EUROPE



## MATTEO MANGIAROTTI

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### BIG PICTURE

- Deal volumes and value rise from Q1 2015 levels
- France is home to the highest value transactions
- Actual and forecast figures suggest a decrease in M&A activity over 2015

## A more active quarter than last, but still lagging behind 2014.

The second quarter of 2015 saw both deal numbers and value rise when compared to the previous quarter. The increase in volume was relatively small, with overall deal numbers rising from 116 to 130, up 12%, and private equity-driven deals rising from 28 to 30, up 7%.

Total deal value increased markedly, up from USD 8bn in Q1 2015 to USD 13bn in Q2 2015, while the value of PE deals in the same period rose from USD 3bn to USD 3.5bn. As a consequence, average deal value increased notably between Q1 and Q2 2015, from USD 76m to USD 101m, while the average PE deal value also rose, but less sharply, from USD 109 to USD 118m. PE-driven deals in Q2 2015 represent about 23% of total deals by volume and 27% by value.

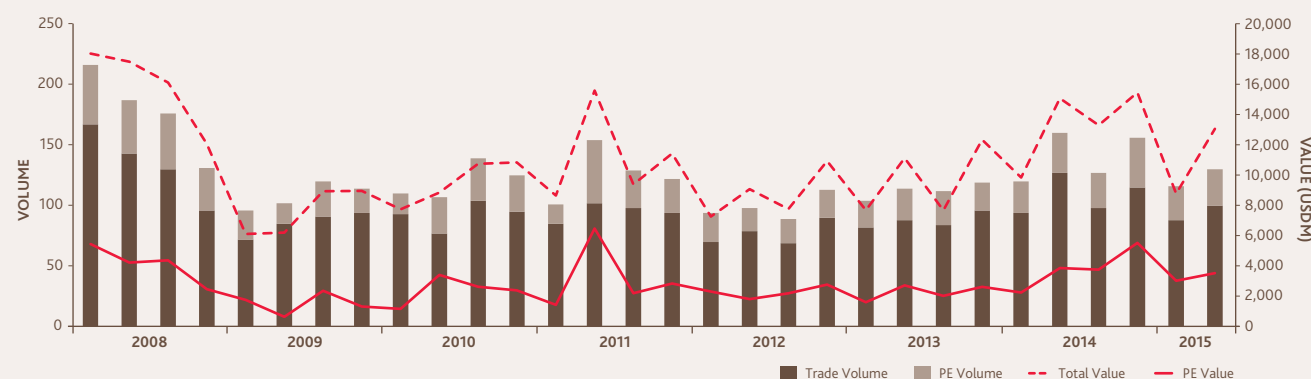
However, when Q2 2015 is compared to the same quarter of last year, the figures show a decrease in both volume and value. The number of deals fell by 19%, while total value reduced by 13%. There were less steep falls in PE activity during Q2 2015, down 9% by both volume and value when compared to Q1 2015.

### KEY SECTORS AND DEALS

Southern Europe's top ten Q2 2015 deals had a combined value of USD 3.9bn. The biggest took place in France, with leading telcom company Vivendi paying USD 459m for an acquisition from media firm Canal Plus. Another important transaction was the USD 430m deal struck between Roberto Cavalli, the owner of the eponymous Italian apparel and fashion brand, and private equity fund Clessidra. The PE firm bought a 90% stake through a vehicle named Varenne with the support of foreign investors, namely the fund L-Gam based in London and the Hong Kong-based group Chow Tai Fook.

The other top ten deals took place mostly in France, and included national business development institution BPI France's acquisition of a 5.5% stake in electronic payments company Ingenico from the aerospace Group Safran. The 5.5% stake was valued at USD 414m and means Group Safran, an early investor in Ingenico, retain just 3.5% of the company. Another top ten deal involved the privatisation of the Portuguese airline company Tap. This was acquired by the businessmen Humberto

### PE/TRADE VOLUME & VALUE



Pedrosa, owner of the Portuguese road passenger transport company Barraquero Group, and David Neeleman, the American founder of the low-cost airline company Jet Blue. Together they acquired a 61% stake in Tap, at a reported value of USD 400m.

Looking at sectors, the chart compares the number of deals in the full year 2014 with those in the first half of 2015. It is clear that the trend so far in 2015 is towards fewer transactions, with most industries seeing half-year deal numbers well below 50% of full year 2014 numbers. The worst hit appears to be Financial Services, which in H1 2015 achieved only 25% of full year 2014 deal numbers, namely 13 out of 53. Other underperforming sectors in H1 2015 include Business Services and Consumer, which achieved less than 40% of the number of deals seen in 2014. Furthermore, the most important sector in terms of volume, Industrials & Chemicals, registered just 58 deals in H1 2015 compared to 145 in the full year 2014. The Energy and Pharma, Medical and Biotech sectors also saw low numbers in H1 2015, both registering 45% of 2014's deal volume. The best performers in H1 2015 were Leisure, which exceeded 50% of 2015 deals, and Technology & Media, reaching nearly 80%, namely 53 out of 67.

“ Total deal value increased markedly, up 49% from USD 8bn to USD 3bn, while the aggregate value of PE deals rose 17% from USD 3bn to USD 3.5bn. The overall average deal value increased notably, from USD 76m to USD 101m. ”

### LOOKING AHEAD

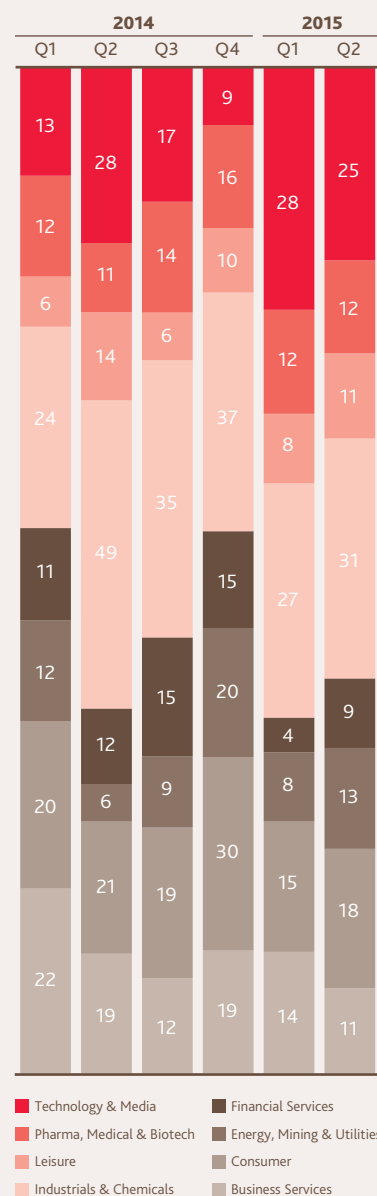
The BDO Heat Chart, which captures planned or predicted deals between February and July 2015, indicates a total deal volume of 526, which represents a reduction of 7% compared to the 563 transactions in 2014. As a consequence, based on the number of deals so far completed and the rumoured operations, we expect full year 2015 M&A deal volume to be slightly below 2014 levels.

#### SOUTHERN EUROPE HEAT CHART BY SECTOR

Industrials & Chemicals	121	23%
Consumer	112	21%
Technology & Media	87	17%
Business Services	63	12%
Financial Services	42	8%
Pharma, Medical & Biotech	40	8%
Energy, Mining & Utilities	33	6%
Leisure	28	5%
<b>TOTAL</b>	<b>526</b>	<b>100%</b>

“ The trend so far in 2015 is towards fewer transactions, with most sectors seeing half-year deal numbers well below 50% of the full 2014 numbers. The BDO HEAT CHART forecasts a total 2015 deal volume of 526, which would indicate a reduction of 6% compared to 2014. ”

#### SOUTHERN EUROPE MID-MARKET VOLUMES BY SECTOR



# BENELUX



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### BIG PICTURE

- Volume holds up in comparison to Q1 and value reverts to 2014 levels
- Private equity buy-outs hit historic low
- Industrials & Chemicals sector leads the way
- BDO Heat chart forecasts lower number of deals ahead but economic conditions could be supportive

### Deal activity holds steady but the outlook is mixed.

The number of transactions in Q2 was in line with the first quarter of 2015. However, Q1 2015 had seen a relatively high average deal value of USD 132m and Q2 2015 saw this fall to USD 99m, which is more in line with 2014 quarterly averages. Looking at Q2 2015 in relation to the same quarter last year, deal value and volume were comparable.

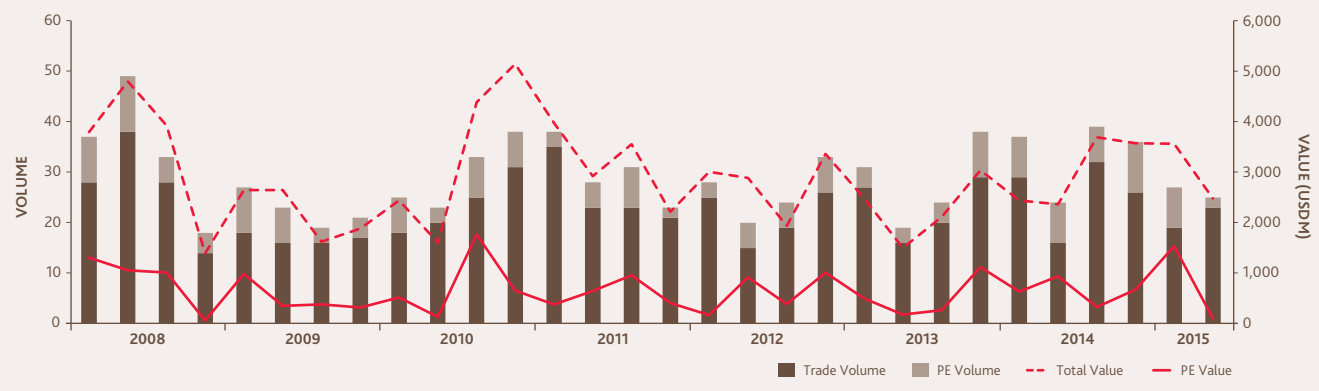
The sectors which saw decreased activity in Q2 were Consumer and Energy, Mining & Utilities. The last sector is remarkable as it saw 12 transactions in 2014, but just one so far in 2015. Technology & Media on the other hand showed a significant rise in terms of volume, well above the previous four years' average.

### PRIVATE EQUITY

The number of private equity buy-outs was historically low in Q2 2015, with only two deals done at a total value of USD 108m. In terms of volume this is the lowest for seven years and well below the average of eight deals in the preceding eight quarters. In terms of value, this was only lower in Q4 2008, with a total of USD 67m from four transactions.

The largest private equity deal was UK-based 3i plc's acquisition of Belgium-based Euro-Diesel S.A. from the Belgian Buy Out Fund (BOF), paying USD 77m. It's interesting to note that BOF acquired Euro-Diesel in 2003 for the much smaller amount of USD 8.5m.

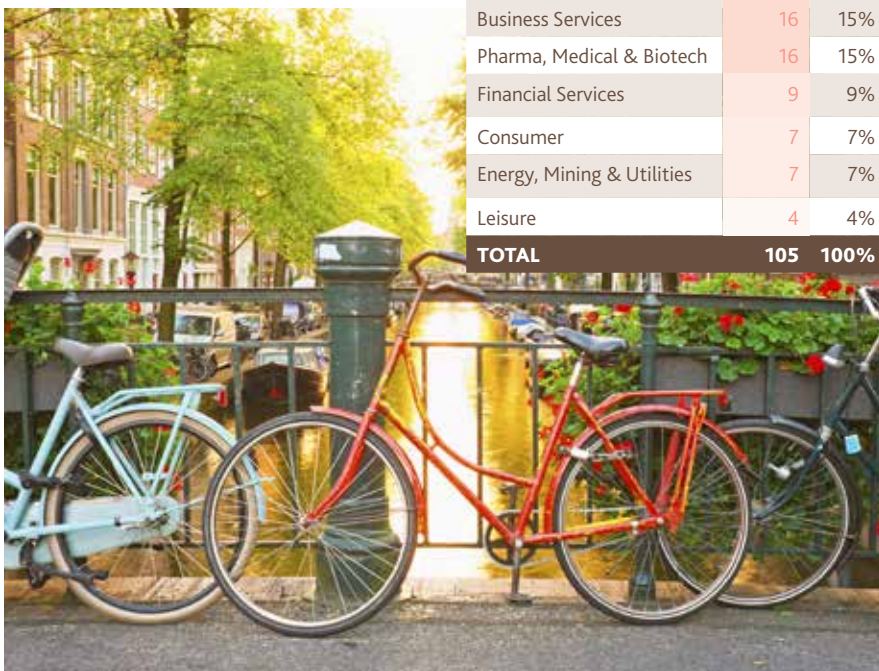
### PE/TRADE VOLUME & VALUE



### KEY SECTORS AND DEALS

Activity in the Industrials & Chemicals sector was again high, both in terms of value and volume. This quarter's largest transaction was the USD 500m sale of Dutch Mirror Controls International B.V. (owned by PE firm Egeria) to Singapore-based Flextronics International Limited. Another notable transaction in this sector was the sale of Belgian Egemin International NV (Handling Automation division) to the German-based Kion group AG.

Out of the top ten deals in Q2 2015, eight involved a foreign bidder (Benelux counting as one country). Four of these involved European buyers, two Asian buyers and two US buyers. In terms of outbound activity, we saw Dutch bidders active in the Nordics and in one transaction in Africa.



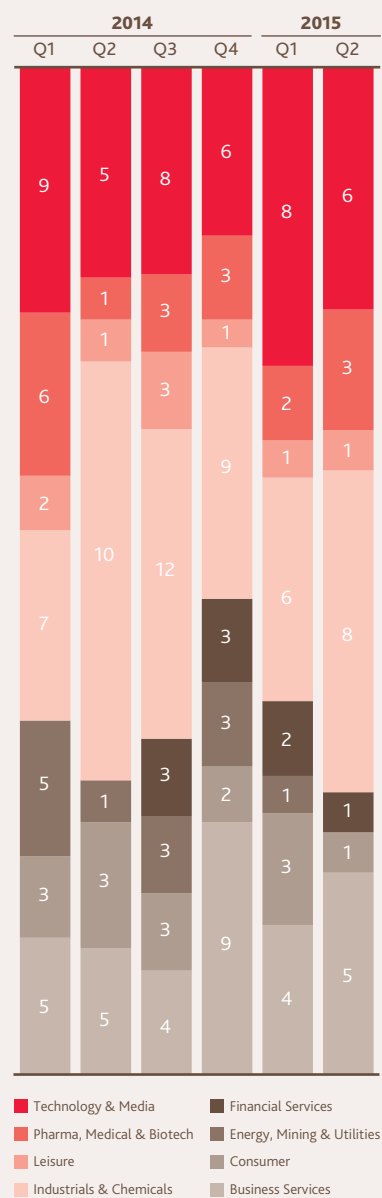
### LOOKING AHEAD

The BDO Heat Chart is based on intelligence on the number of deals that are planned or in progress. The chart indicates 105 such deals, 30 of which are in the Industrials & Chemicals sector. This represents a fall in the total number of expected deals, with the Industrials & Chemicals and Technology & Media sectors predicted to be the worst affected. This decline in forecast deals is not in line with our expectations and we believe the improving economic situation in Benelux may boost transaction activity.

#### BENELUX HEAT CHART BY SECTOR

Industrials & Chemicals	30	29%
Technology & Media	16	15%
Business Services	16	15%
Pharma, Medical & Biotech	16	15%
Financial Services	9	9%
Consumer	7	7%
Energy, Mining & Utilities	7	7%
Leisure	4	4%
<b>TOTAL</b>	<b>105</b>	<b>100%</b>

#### BENELUX MID-MARKET VOLUMES BY SECTOR





# DACH



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### BIG PICTURE

- Deal volumes and values fall as political unrest and economic instability lower confidence
- Inbound deal flow from outside Europe dominates activity in the DACH region
- Private equity deals pick up slightly but account only for a relatively small proportion of overall deal value
- More favorable political and economic conditions support upside potential for H2 2015

## Deal activity falls again, but improvement expected.

Mid-market M&A activity in the second quarter of 2015 saw a further decline within the DACH region compared to Q1, with deal volume and total value decreasing by 35% and 26% respectively. Political unrest in the Ukraine and economic uncertainty throughout the eurozone, accompanied by a fall in the value of the euro, have lowered business confidence compared to the previous quarter.

A total of just 36 deals in the mid-market during Q2 2015 amounted to an aggregate deal value of USD 4.1bn, demonstrating the ongoing downward trend since Q3 2014, when total deal value was twice as high. Relative to the European M&A market as a whole, Germany contributed just 5.9% of all deal activity in H1 2015. This is the lowest level in any H1 for 15 years. The only area of M&A activity in Germany to register a slight increase in activity during Q2 2015 was deals involving private equity.

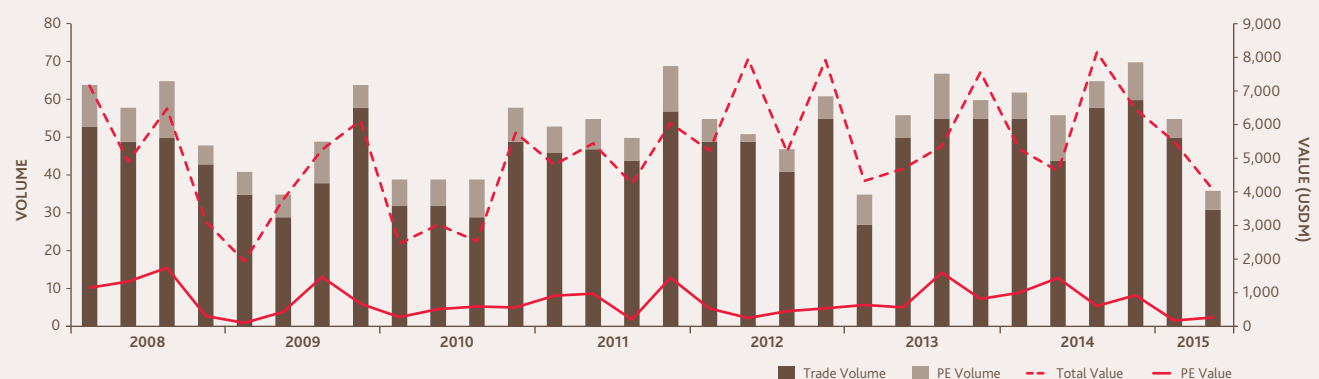
### KEY SECTORS AND DEALS

Once again, the most dynamic sectors this quarter were Technology & Media and Industrials & Chemicals, which together accounted for 64% of all deals valued between USD 10m and USD 500m. It is interesting to note that while all other sectors have seen a decrease in deal volume over the last two quarters, M&A activity in the Pharma, Medical & Biotech sector has doubled over the same period. The key driver behind this trend has been the strategic reorganisation of corporate portfolios, including the disposal of non-core assets and the securing of new drug pipelines.

Q2 saw a high proportion of cross-border deals, indicating that a weak euro positively impacts inbound deal flow. Overall the DACH region remains an attractive target market, evidenced by the fact that of the top ten mid-market deals, seven buyers came from outside Europe.

In Germany, the largest strategic transaction was the acquisition of Galeria Kaufhof by the Canadian retailer Hudson's Bay Company from METRO AG for USD 2.7bn. To land the deal, Hudson's Bay

### PE/TRADE VOLUME & VALUE



outbid Austrian investor René Benko's Signa Holding. In the mid-market, Swiss-based Siegfried Holding AG acquired the pharmaceutical business units of BASF in Germany, France and Switzerland for USD 304m.

The largest Swiss and Austrian transactions occurred in the mid-market this quarter. Australian Sonic Healthcare Limited agreed to acquire Swiss-based Medisupport SA, the operator of medical laboratories for USD 353m. In addition, a 25.56% stake in Austrian-based Conwert Immobilien Invest SE was bought by Israeli MountainPeak Trading Ltd for USD 259m.

### PRIVATE EQUITY

Despite the overall negative trend, mid-market PE activity has picked up slightly in terms of value during the last quarter.

The largest transaction was the acquisition of Douglas AG for USD 3.1bn by UK-based CVC Capital Partners Limited. The transaction took place three days after the owners had announced an IPO. In the mid-market, the highest value transaction was the USD 404m acquisition of a 46.1% stake in Mfi management fuer immobilien AG by Canada Pension Plan Investment Board. Overall, the market appears to have been driven largely by strategic rationale as financial investors were the acquirers in only 6.9% (by value) of mid-market deals.

DACH HEAT CHART BY SECTOR		
Industrials & Chemicals	86	29%
Technology & Media	58	20%
Consumer	43	15%
Pharma, Medical & Biotech	31	10%
Business Services	28	9%
Financial Services	22	7%
Energy, Mining & Utilities	21	7%
Leisure	7	2%
<b>TOTAL</b>	<b>296</b>	<b>100%</b>

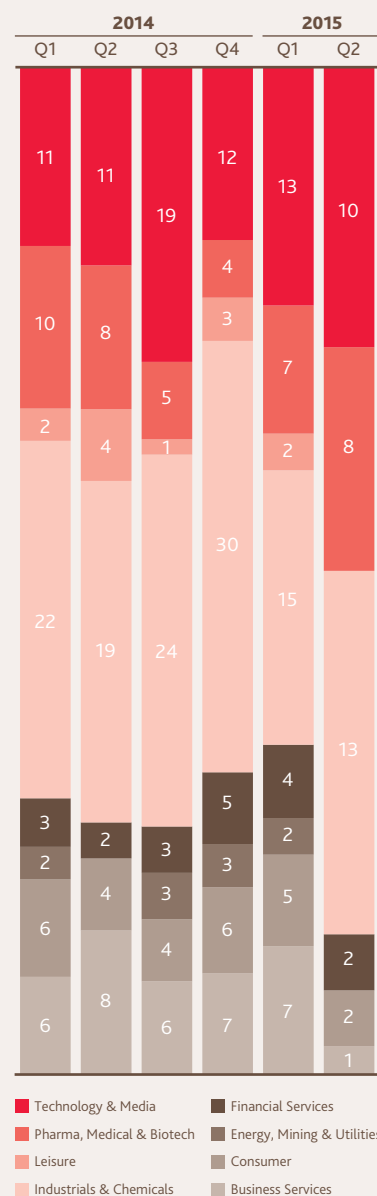
### LOOKING AHEAD

The uncertain fate of Greece contributed to low levels of M&A activity in the DACH region and a rather cautious sentiment among investors. The Ifo Business Climate Index fell to its lowest level in four months in June 2015, indicating reduced optimism, although the index remains at relatively high levels historically. Due to this and the recently reached agreement between the Greek Government and European lenders, we expect business confidence to improve in Q3. We therefore expect M&A activity in the DACH region to pick up in the rest of the year, particularly given the buoyant levels of M&A activity worldwide. Additionally, favourable credit markets and limited prospects for organic growth create a positive environment for increased deal activity.

The fact that the BDO HEAT CHART indicates 300 deals in the mid-market pipeline, predominantly in the Industrials & Chemicals and Technology & Media sectors, give grounds for optimism. In particular, further consolidation is expected to take place in the telecom market because firms need to cut costs due to competitive pricing and invest intensively in their networks. Cross-border deals, particularly involving US buyers, will play a major role if the dollar remains strong.



### DACH MID-MARKET VOLUMES BY SECTOR



# NORDICS



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## M&A activity bounces back and the outlook remains positive.

### BIG PICTURE

- Q2 2015 saw a significant improvement from Q1 in terms of both deal value and volume
- Industrials & Chemicals and Technology & Media remain the most active sectors
- Expectations for M&A activity during the rest of 2015 remain good

Nordic mid-market M&A activity picked up significantly in Q2 2015 after a historically bad start to the year. The first quarter transaction value of USD 2.5bn marked a five-year low and, at 42 deals, volume was at its lowest level since the aftermath of the financial crisis in Q3 2009. But M&A activity bounced back strongly in Q2 2015 and the Nordic region saw 68 mid-market transactions, in line with 2014's quarterly average. The total deal value of USD 4.9bn in Q2 2015 represented a 90% increase from Q1, but was still slightly lower than the 2014 average of USD 5bn per quarter.

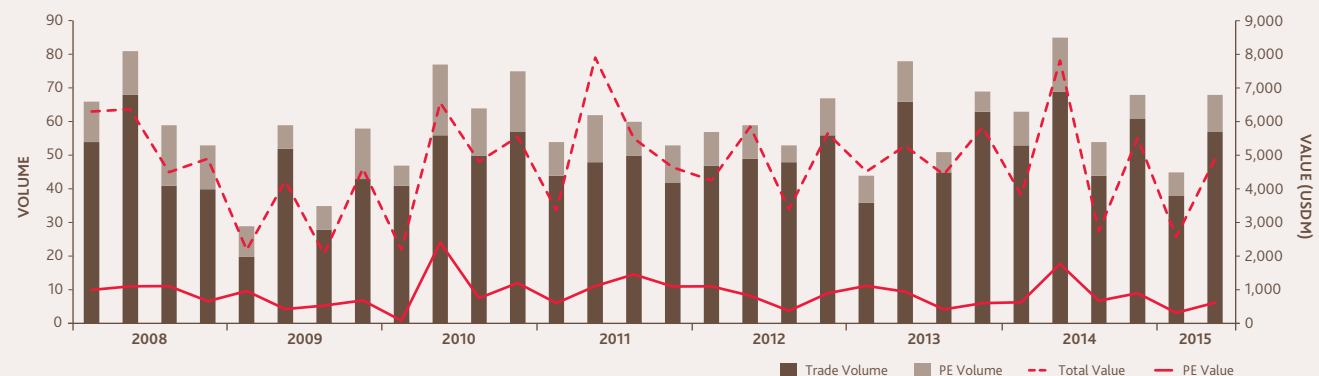
Private equity deals increased from seven in Q1 2015 to 11 in Q2 2015, with a total value of USD 630m. PE firms accounted for 16% of transaction volume and 13% of transaction value in Q2 2015, similar shares to those recorded in Q1. These figures are a little lower than the average per quarter during the last five years.

### KEY SECTORS AND DEALS

Industrials & Chemicals maintains its 2014 position as the leading sector for Nordic mid-market M&A activity. In Q2 2015 it performed above its average of 16 deals per quarter and saw several notable deals.

In fact Industrials & Chemicals was responsible for the second largest transaction this quarter, with Danish Universal Robots sold to US-based Teradyne Inc. for a net cash consideration of USD 285m. The transaction will help Universal Robots increase its pace of growth in Asia and generate revenue synergies with Teradyne.

PE/TRADE VOLUME & VALUE



The next largest transaction within Industrial & Chemicals was ACTA B.V. acquiring a 71.5% stake in UK private-equity house 3i Group-backed Finnish Inspecta Group for a cash consideration of USD 218m. Inspecta provides inspection and testing services within the industrial, energy production and retail sector – similar to ACTA though with a more local focus. The combined companies can compete more effectively with leading global players such as SGS, Bureau Veritas, Intertek and TÜV.

The Technology & Media sector remains the next most active sector with 27 transactions so far in 2015 compared to a total of 63 in full year 2014. In the technology sector Norwegian-based Visma acquired Danish based e-economic for a cash consideration of USD 227m. E-economic is a leading cloud-based ERP software provider for SMEs and with this acquisition Visma strengthens its leadership within SaaS accounting solutions.

NORDICS HEAT CHART BY SECTOR		
Industrials & Chemicals	40	25%
Technology & Media	34	21%
Consumer	28	17%
Business Services	22	14%
Pharma, Medical & Biotech	14	9%
Financial Services	12	7%
Energy, Mining & Utilities	7	4%
Leisure	5	3%

**TOTAL 162 100%**



### LOOKING AHEAD

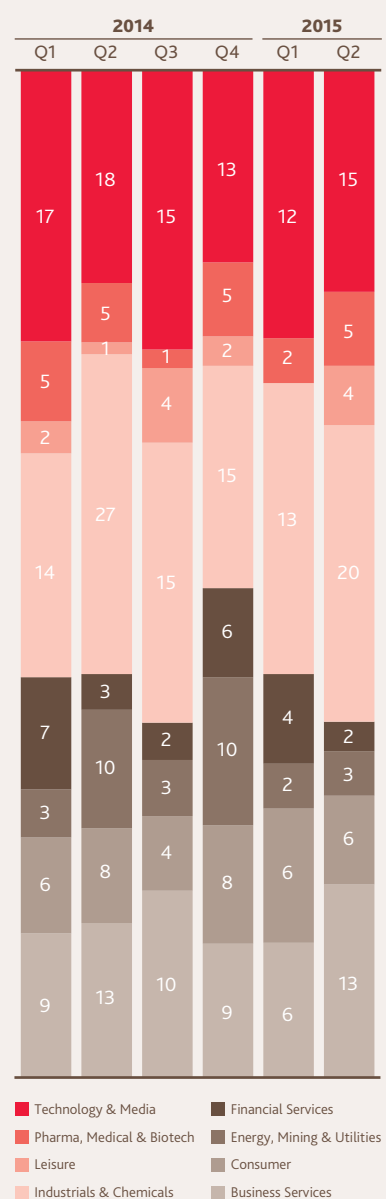
Even if the first part of the year has not lived up to expectations, we are still optimistic and believe that 2015 can be a solid year for Nordic mid-market M&A. There are a number of factors supporting our view. First of all, in terms of the macro-economic medium-term to long-term outlook, the Nordic region remains one of the strongest and most stable economic regions. Furthermore, with interest rates remaining at a low level, Nordic stock markets performing strongly, local currencies weak and multiples comparatively low in Europe compared to the US, interest from foreign PE firms in the Nordic region should be strong.

We believe that Industrials & Chemicals and Technology & Media will be the most active sectors for M&A in the coming quarters.

In terms of wider trends, ongoing shifts in value chains are being driven by disruptive technologies, globalisation, increasing competitive pressures and other mega trends. As a consequence many companies may look for non-organic growth opportunities and seek to restructure their businesses to meet the changing landscape. This may provide a climate that supports further M&A activity.

The Nordics is a hub for some of the world's fastest-growing digital businesses and other innovative companies. Furthermore, with high levels of education and computer literacy, the region has a steady stream of new high-tech ventures emerging.

### NORDICS MID-MARKET VOLUMES BY SECTOR





# CEE & CIS



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### BIG PICTURE

- Q2 deal volume and value fall from Q1 levels
- Industrials & Chemicals was the single most active sector and Turkey the top target country
- The BDO Heat Chart identifies the region as the world's third 'hottest' area, suggesting a strong pick-up in activity ahead

## M&A activity falls but pent-up demand should boost future deals.

**M&A Activity in the CEE & CIS region has entered a waiting period with just 55 mid-market deals completed in Q2 2015, representing a combined value of USD 3.7bn.**

This means the second quarter of 2015 saw 22.5% less deals with a combined value 19.1% below Q1 2015 figures – the lowest for five years. Although Private Equity still represents only a small fraction of total activity, the proportion of total PE deals by value (11.8%) is eight times higher than the same time last year (1.5%) and was higher compared to the yearly average in 2014 (5.2%) and 2013 (7.3%). But in terms of volume there was a notable fall in Q2 2015, with just four PE deals completed.

### KEY SECTORS AND DEALS

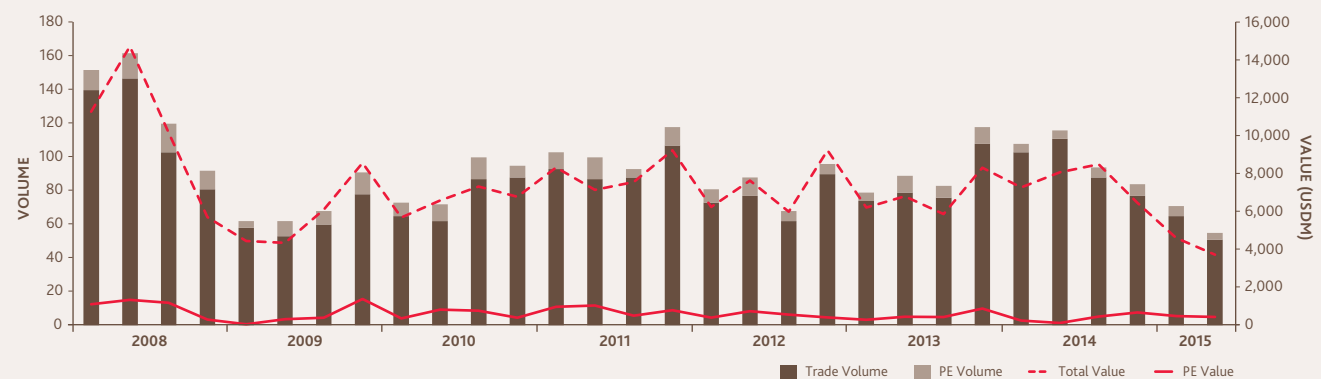
Sector activity followed familiar patterns. As has been the case for several quarters, Industrials & Chemicals was the single most active sector with almost 25% of total M&A activity, followed by Technology & Media (17.5%), Consumer (16.7%), Energy, Mining & Utilities (13.5%), Financial Services (12.7%) and Business Services (7.9%). The sectors with the lowest volume of activity were Pharma, Medical & Biotech

(2.4%) and Leisure (4.8%). Technology & Media showed a slight increase in deal numbers compared to last year, while all other sectors saw fewer deals in H1 2015 first half when compared to the previous year's data. Average deal value showed a moderate rise from USD 65m to USD 68m.

The ten largest deals in Q2 2015 had a combined value of USD 2.5bn, representing 67% of total value. The single largest transaction was in financial services, with Italy's Carlo Tassara SpA selling its 25.26% stake in Alior Bank S.A. to Powszechny Zaklad Ubezpieczen SA for USD 432m. Financial Services, Industrials & Chemicals, Consumer and Energy, Mining & Utility were responsible for two top ten deals each, which represents a normal distribution between sectors.

Five of the top ten deals in the first quarter were cross-border transactions. Turkey was again the most active target country, representing three top ten transactions. Top ten deals were also completed in Poland, Slovenia, Bulgaria, Russia, Romania and Latvia. On the bidder side, the US, Poland and Turkey were responsible for six of the top ten transactions within the CEE & CIS region during Q2 2015.

PE/TRADE VOLUME & VALUE





### LOOKING AHEAD

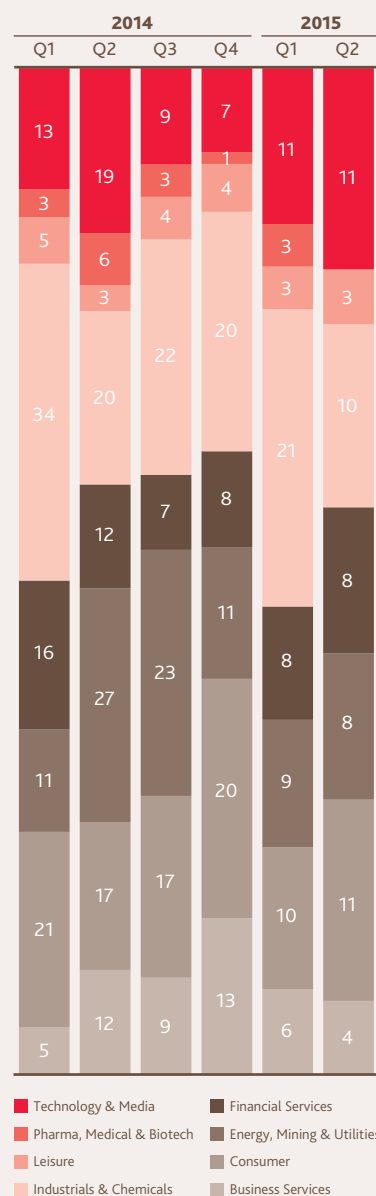
Although some investors may remain cautious because of the continuing Russia-Ukraine dispute, we believe that levels of M&A activity will increase in 2015. With low interest rates driving buyers to chase better returns, we expect investment flows to continue seeking out opportunities in the emerging markets.

The BDO Heat Chart identifies the CEE & CIS region (which consists of 32 countries) as the third 'hottest' area after North America and Greater China, with a total of 575 deals forecast. As for the specific sectors, we expect the highest activity to be in Industrials & Chemicals followed by Consumer. We also expect high growth potential in Technology & Media, which is chasing the leaders with 89 deals in the pipeline. Other positive factors that we have highlighted in previous editions of BDO HORIZONS remain very much still in play and we expect them to continue to support mid-market M&A activity in the CEE & CIS region.

### CEE & CIS HEAT CHART BY SECTOR

Industrials & Chemicals	163	28%
Consumer	97	17%
Technology & Media	89	15%
Business Services	61	11%
Pharma, Medical & Biotech	60	10%
Financial Services	51	9%
Energy, Mining & Utilities	29	5%
Leisure	25	4%
<b>TOTAL</b>	<b>575</b>	<b>100%</b>

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



# ISRAEL



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## BIG PICTURE

- Volume, value and average deal size head higher in Q2
- Technology & Media is the main driver and is expected to hold the wheel on the road ahead
- Private Equity is a major player and inbound investment rises with China responsible for five of the top ten deals

## 2015 continues to generate new records for M&A.

**In the first half of 2015 Israel's mid-market M&A continued its positive growth trend, both in terms of transaction value and volume. In fact, if we compare H1 2015 to full year 2014, 57% of last year's deal numbers have already been notched up and 85% of last year's deal value achieved.**

The second quarter of 2015 generated a total of 22 completed deals, with a combined value of USD 2.3bn – an increase of USD 1.05bn (84%) compared to Q2 2014 and an increase of USD 1.06bn (86%) compared to Q1 2015.

The average deal size in Q2 2015 grew to USD 104m, continuing the overall long-term growth trend. Looking at the first half of 2015, the average deal size of USD 90m is significantly higher than the USD 58m seen in H1 2014.

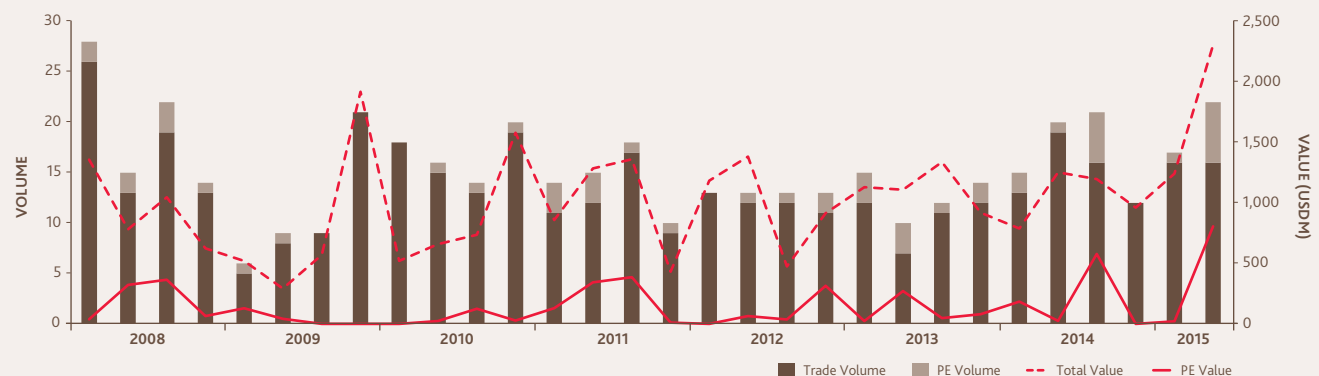
As expected this was a record quarter for private equity buy-outs, which play a significant part in Israel mid-market M&A activity. With six completed deals at a combined value of USD 806m, private equity funds recorded their strongest performance for the last decade in terms of both volume (27%) and value (35%).

Again, we saw significant inbound M&A activity, especially from the Far East. Five out of the ten largest transactions during the quarter were by Chinese financial and strategic investors.

## KEY SECTORS AND DEALS

Technology & Media continued to lead the way in terms of deal volume during the last quarter with ten completed transactions (45%). Global and domestic investors continue to show their faith in the region and this is expected to help maintain momentum in the third quarter. In fact, there is evidence that this is already underway, with five Technology & Media transactions announced in July 2015 at a combined value of over USD 600m.

## PE/TRADE VOLUME & VALUE



Strong interest from venture capital funds in Biotech and traditional tech start-ups is expected to support the next generation of mature M&A targets and therefore help maintain deal momentum in the long term.

Industrials & Chemicals regained its position as the second most active sector for mid-market M&A, with 27% of deal volume compared to 12% in the first quarter of 2015, and 17% in full year 2014 – a three-year record. Most deals within the sector were cross-border transactions.



### LOOKING AHEAD

Taking into account the ongoing capital markets' peak prices, and stable ever-low interest rates, local Israeli PE are expected to 'go out to the market' more significantly during 2015 and beyond as natural buy-outs are hard to accomplish and IPOs become a significant alternative. On the other hand, local PEs who have raised significant amounts in the last two to three years, are expected to compete on mid-market transactions, especially in the industrial technology sector, and therefore generate significant M&A volume and value in the near future.

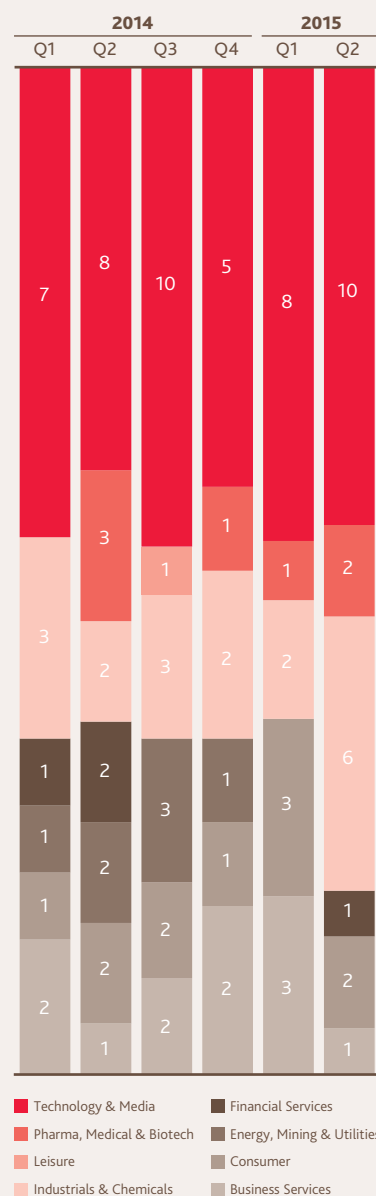
The Technology & Media and Pharma, Medical & Biotech sectors are expected to attract the most interest ahead as global technology and pharma giants are constantly seeking maturing Israeli companies in order to keep their relative advantage in competitive global markets.

Assuming a similar market environment, we expect 2015 to exceed 2014 in terms of mid-market transaction volume and value, while also increasing the average deal value to more than USD 90m.

### ISRAEL HEAT CHART BY SECTOR

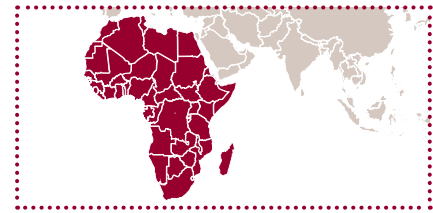
Technology & Media	22	50%
Pharma, Medical & Biotech	9	20%
Industrials & Chemicals	6	14%
Energy, Mining & Utilities	3	7%
Consumer	2	5%
Business Services	1	2%
Financial Services	1	2%
Leisure	-	0%
<b>TOTAL</b>	<b>44</b>	<b>100%</b>

### ISRAEL MID-MARKET VOLUMES BY SECTOR





# AFRICA



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## BIG PICTURE

- Deal numbers fall 24% but average deal value increases
- Energy, Mining & Utilities and Financial Services are the most active sectors
- South Africa and Nigeria are responsible for seven of the quarter's top ten deals

## M&A activity dips again in Q2 but improvement expected.

**M&A activity in Africa slowed during Q2 2015, with only 32 deals completed as compared to 42 in Q1 2015. However, average deal value in Q2 2015 was much higher than in Q1 2015, meaning that total value did not drop significantly. In comparison to 2014, the average number of deals decreased: from 42 per quarter in 2014 to 37 per quarter for H1 2015.**

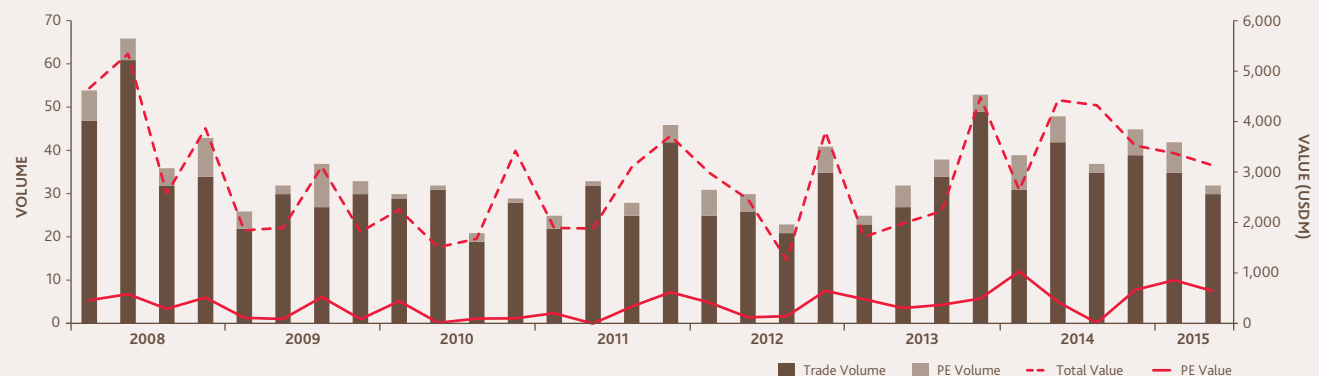
The sectors with the most deal activity were Energy, Mining & Utilities (eight deals representing 25% of total transaction volume) and Financial Services (seven deals representing 22%). The continuing dominance of these sectors is demonstrated by the fact that no other sector saw more than four deals in Q2. However, compared to Q1 2015, Industrials & Chemicals saw a far lower number of deals and so did the Consumer sector.

### KEY DEALS

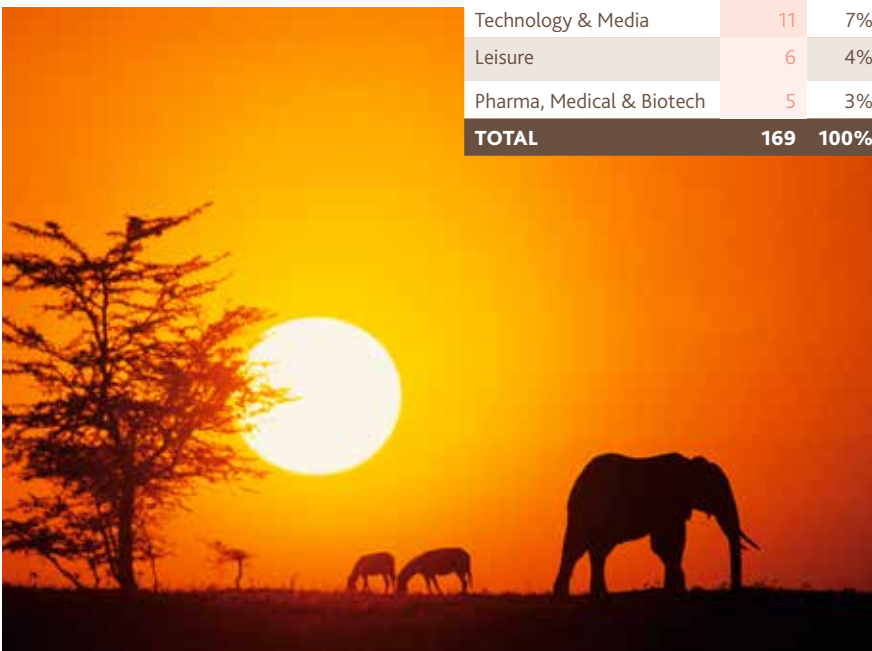
The biggest deal in Q1 was in Business Services with Vitol Holding BV and Helios Investment Partners LLP acquiring a 60% stake in Nigeria-based oil and gas company Oando plc for a value of USD 461m. The two other biggest deals were Zijin Mining Group Co. investing USD 412m

in Kamo Copper SA (DRC), and Nigerian can manufacturer GZ Industries investing USD 403m in Greek glass operations company Frigoglass. The countries with the highest number of deals in the top 10 were South Africa and Nigeria with four and three deals respectively. Another major deal involving Greek companies was Al-Ahli Bank of Kuwait acquiring a 98.5% stake in Piraeus Bank Egypt SAE for USD 150m, seizing an opportunity to enter the Egyptian banking market where acquisition is the only option given that no new banking licences are being issued. Other major deals in Q2 2015 include: Unilever plc acquiring a 24.9% stake in Unilever Nigeria plc; Kagiso Tiso Holdings Proprietary Limited of from South Africa acquiring a 75% stake in African Minerals Limited (Tonkolili Iron Ore Project); Public Investment Corporation Limited of South Africa investing USD 149m in Bayport Management Limited (Mauritius); Litha Pharma (Pty) Ltd from Ireland investing USD 130m in Aspen Pharmacare Holdings Limited (Pharmaceuticals Business Unit) and Novatel Wireless Inc of USA investing USD 94m in DigiCore Holdings Limited in South Africa.

## PE/TRADE VOLUME & VALUE



Economic growth in Sub-Saharan Africa is projected to be around 4.5% in 2015, declining from the 5% realised in 2014 although it is expected to rebound to 5.1% next year. The IMF's most recent regional economic outlook affirms that the continent remains resilient despite the adverse impact of ebola in Guinea, Liberia and Sierra Leone; domestic security threats in a number of countries in the region; and the overall weaker global outlook. The World Bank's forecast is slightly more conservative, predicting that GDP growth will not reach 5% until 2017 (Global Economic Prospects, June 2015). Going forward, infrastructure investment, private consumption and external demand will be crucial for boosting business activity. Recent research by Bloomberg positions Kenya (6%) and Nigeria (4.9%) third and sixth respectively in its list of the 20 fastest growing countries in the world.



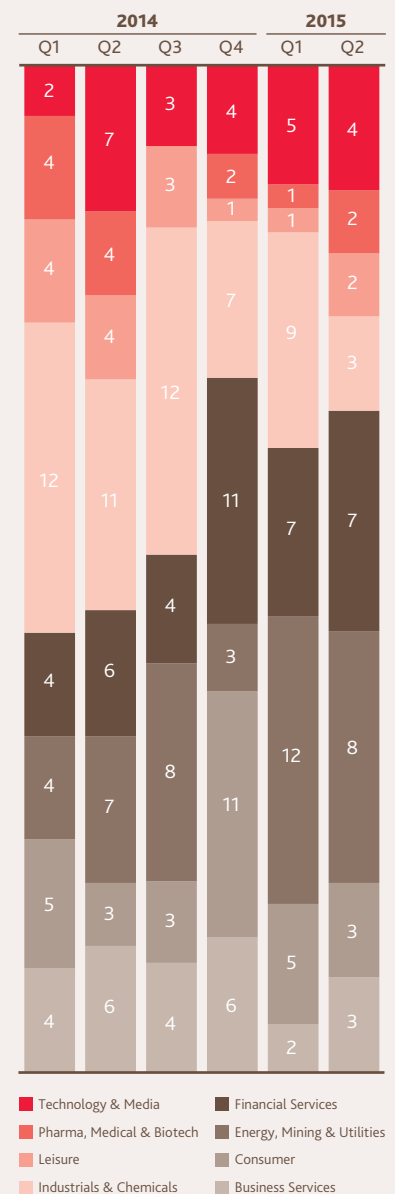
### LOOKING AHEAD

The BDO Heat Chart for Africa shows there are 169 deals planned or in progress for M&A with 29% related to Energy, Mining & Utilities and 26% involving Industrials & Chemicals. Other key sectors are Business Services (12%), Financial Services (12%) and Consumer (8%). Africa's rapidly expanding middle class is expected to drive demand, particularly in consumer goods.

#### AFRICA HEAT CHART BY SECTOR

Energy, Mining & Utilities	49	29%
Industrials & Chemicals	44	26%
Business Services	20	12%
Financial Services	20	12%
Consumer	14	8%
Technology & Media	11	7%
Leisure	6	4%
Pharma, Medical & Biotech	5	3%
<b>TOTAL</b>	<b>169</b>	<b>100%</b>

#### AFRICA MID-MARKET VOLUMES BY SECTOR



# INDIA



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## BIG PICTURE

- Deal activity down from previous quarter, but value up 48% against Q2 2014
- Industrials & Chemicals and Technology & Media lead the way
- India's economic prospects attract investors

## A quieter quarter for M&A activity, but India's strong economy can drive prospects ahead.

**India appears to have navigated recent global shocks such as the Greece debt saga without any negative impact on the economy.**

Investors remain bullish as the Indian economy continues to be one of the fastest growing, next only to China. Factors contributing to this positive outlook for India include:

- Falling oil prices, supported by the historic deal between Iran and global powers, will reduce the cost of imports and cut the Government's subsidy bill
- Lower commodity prices, driven by the slowdown in China
- Falling inflation
- Cuts in lending rates.

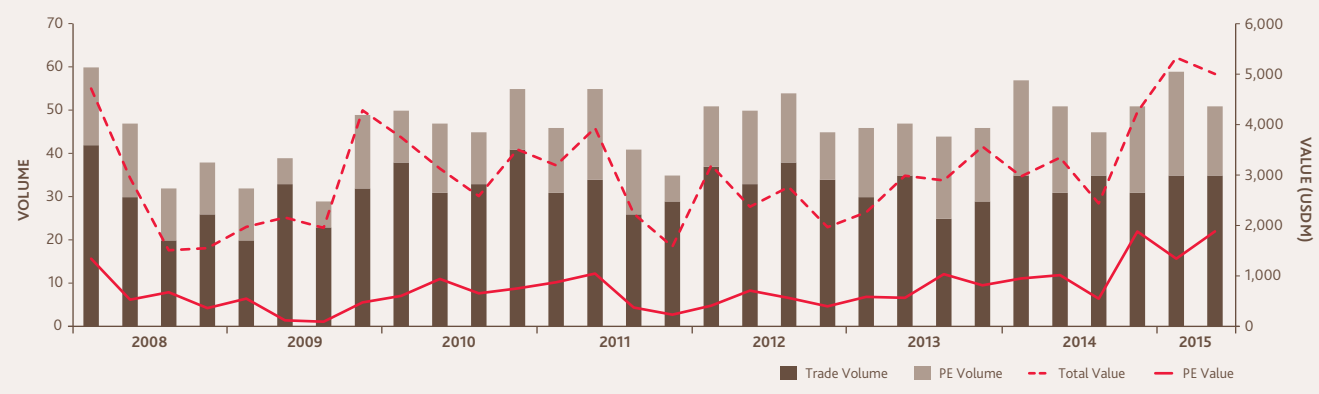
On the other hand, concerns remain over Indian companies' lack of earnings growth.

Deal value decreased to USD 5.01bn in Q2 2015, a reduction of 6% compared to Q1 2015, while deal volume dropped 14% with 51 transactions and average deal size increased from USD 90m to USD 98m. As compared to Q2 2014, deal volume remained constant (51 deals in Q2 2014) but deal value rose by 49% (USD 3.35bn in Q2 2014), driven by the number of big-ticket deals.

Private equity buy-out deals represented 38% of total deal value in Q2 2015 and 31% of total deal volume. For Q4 2014, these numbers were 25% and 41% respectively.

The total number of deals in full year 2014 was 204 while H1 2015 saw 110 transactions completed. In terms of sectors, Industrials & Chemicals and Technology & Media saw the highest deal volume with 25 transactions each (each representing 23% of deal volume) followed by Pharma, Medical & Biotech with 15 (14%) and Consumer and Financial Services with 12 each (11% each).

PE/TRADE VOLUME & VALUE



### KEY SECTORS AND DEALS

In terms of comparison between Q2 2015 and Q1 2015, only three sectors (Technology & Media, Industrials & Chemicals and Energy, Mining & Utilities) saw growth in deal volume while three (Pharma, Medical & Biotech, Financial Services and Consumer) saw a drop, and two (Leisure and Business Services) held steady.

The biggest deal in Q2 2015 was in the Technology & Media sector with Snapdeal acquiring Freecharge in from various PE Funds including Sofina SA, ru-Net Holdings Limited, Sequoia Capital, Valiant Capital Management, L.P and Tybourne Capital (HK) Limited for USD 450m in April 2015.

Other major deals in Q2 2015 included:

- ANI Technologies Pvt. Ltd. (Ola Cabs) attracting a USD 400m investment from a set of PE funds including Accel Partners, GIC Private Limited, DST Global, Falcon Edge Capital, LP, ABG Capital and Mauritius Investments Ltd. for a 16.67% stake.
- Apax Partners acquiring a 20.37% stake in Shriram City Union Finance Ltd for USD 383m from TPG Capital LP from the US.
- Temasek Holdings Pte Ltd and Advent International Corporation acquiring a 34.37% stake in Crompton Greaves Consumer Electricals Limited for USD 316m from Avantha Holding Ltd of India.
- Lafarge S.A. of France acquiring a 14% stake in Lafarge India Pvt. Ltd from Baring Private Equity Asia of Hong Kong for USD 304m.

In 2014, the average number of deals per quarter was 50, so Q1 2015's 59 deals and Q2 2015's 51 deals are both ahead of last year's trend.

### LOOKING AHEAD

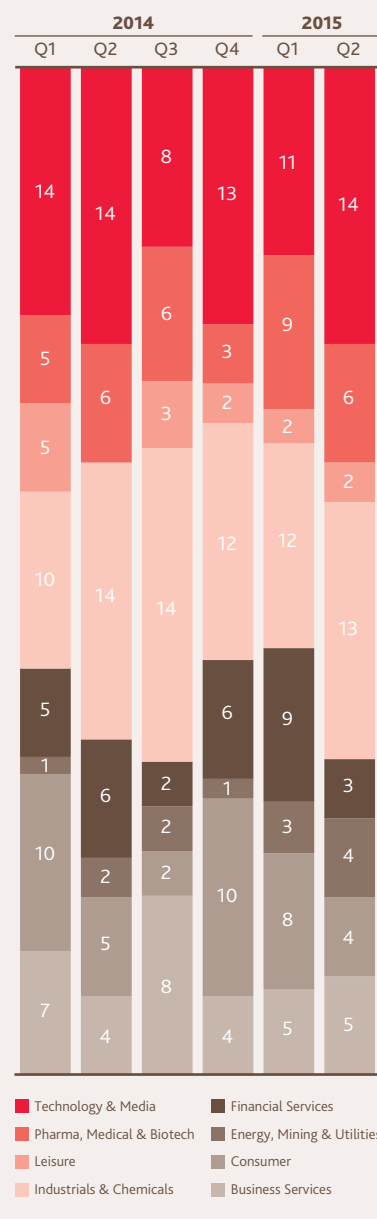
As the global challenges are overcome and ease-of-doing-business returns, India should continue to attract the international business community to what is seen as the next biggest story after China, with India forecast to be the third largest economy in the world by 2030.

As well as a strong pick-up in growth and falling inflation, the economy is expected to be boosted by improvements in the external account, fiscal deficit and capital markets.

The BDO Heat Chart is based on companies for sale tracked by Mergermarket between 9 February 2015 and 9 July 2015. It shows 334 deals planned or in progress with the Technology & Media and Industrials & Chemicals sectors topping the chart with the highest number of potential transactions.

Sector	Deals	Percentage
Technology & Media	85	25%
Industrials & Chemicals	75	22%
Business Services	55	16%
Consumer	34	10%
Financial Services	28	8%
Energy, Mining & Utilities	23	7%
Pharma, Medical & Biotech	23	7%
Leisure	11	3%
<b>TOTAL</b>	<b>334</b>	<b>100%</b>

### INDIA MID-MARKET VOLUMES BY SECTOR



# SOUTH EAST ASIA



## FEIZAL MUSTAPHA

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### BIG PICTURE

- Deal volume and value fall from Q1 2015 levels
- Business Services and Industrials & Chemicals are the most active sectors
- Despite current weakness, strong fundamentals will generate better long-term prospects ahead

## Deal activity declines in Q2 and prospects ahead uncertain.

The M&A market in South East Asia saw deal volume and value decline during the second quarter. There were 51 transactions in Q2 2015 compared with 71 in Q1 2015, representing a decrease of 28%. Total values during the same period reduced by 24% from USD 4.8bn to USD 3.7bn. The top ten deals in Q2 2015 amounted to USD 2.6bn, representing 71% of the total deals value for the quarter. Private equity completed four deals in Q2, which is one more than in the corresponding period of 2014. It formed a small proportion of total M&A activity for the quarter, representing 8% by number of deals and 6% by transaction value.

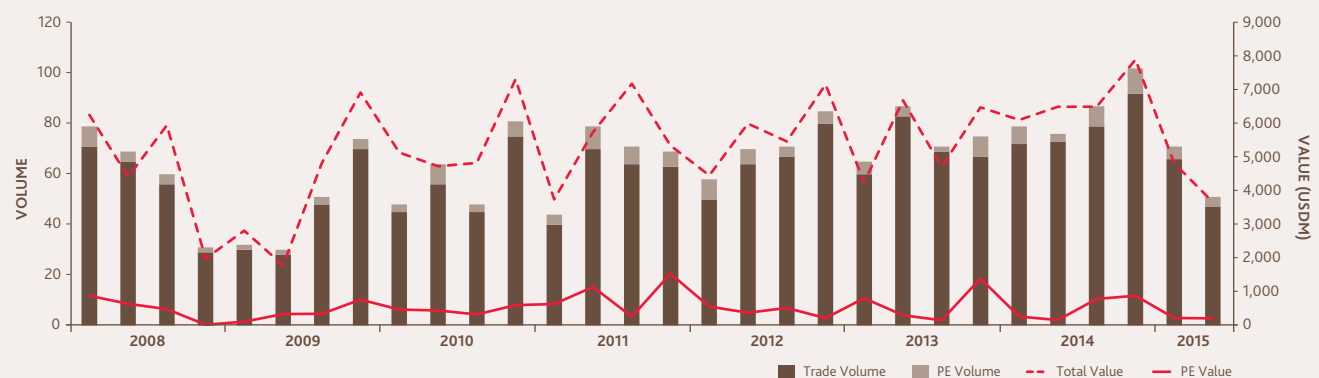
Although there were only four Financial Services deals in Q1 2015, three of them made it into the region's top ten deals and two out of these three involved target companies in Indonesia. The largest deal recorded in the region during Q1 2015 was the USD 461m acquisition of a 17.5% stake in Bank Tabungan Pensiunan Nasional Tbk, PT by Sumitomo Corporation. The remaining top ten deals were one each from Leisure, Technology & Media, Consumer and Business Services.

### KEY SECTORS AND DEALS

The most active sectors during Q2 2015 were Business Services and Industrials & Chemicals, which together contributed 45% of the total number of deals for Q2 2015. Industrials & Chemicals was the most active, with 25% of the total number of deals for Q2 2015 and this represented the highest contribution to the total numbers of deals for the past five years. Furthermore, Industrials & Chemicals were also responsible for two of the top ten deals for Q2 2015, involving target companies in Singapore and Thailand.

Although Energy, Mining & Utilities only contributed six deals for Q2 2015, three of the top ten deals for the quarter were from the sector, with a combined deal value of USD 991m and representing 27% of the total deal in Q2 2015. The largest deal recorded for the M&A market in South East Asia for Q2 2015 was the acquisition of a 27.22% stake in Bangchak Petroleum Public Company Limited by Vayupak Fund 1 and the Social Security Office of Thailand for USD 414m. The remaining top ten deals were one each from Business Services, Pharma, Medical & Biotech Leisure, Financial Services, Technology & Media, and Leisure.

### PE/TRADE VOLUME & VALUE





### LOOKING AHEAD

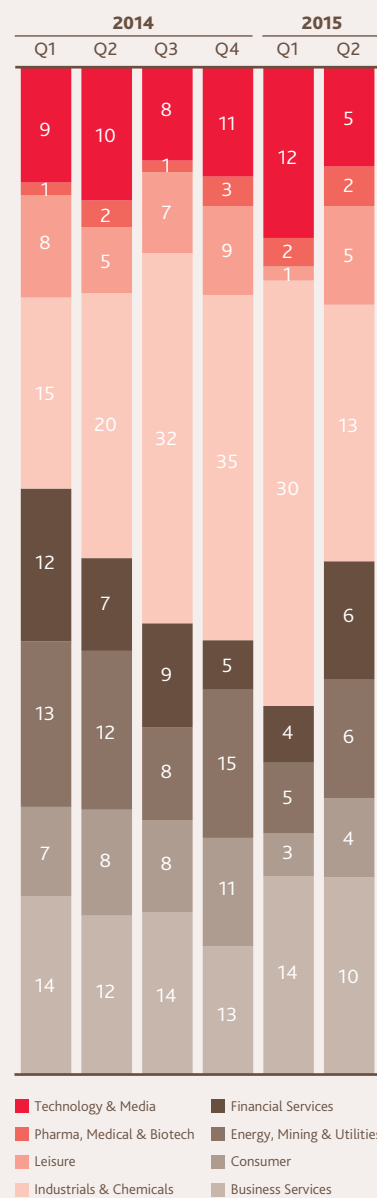
Industrial & Chemicals was responsible for the highest number of deals completed during Q2 2015 with 43 deals and the sector also has the highest number of deals in the pipeline (122) as at end of Q2 2015. Despite maintaining its position as the second most active sector, Business Services M&A is in fact slowing down with pipeline deals decreasing from 75 in Q1 2015 to 69 in Q2 2015. Forecast deals for two sectors, namely Leisure and Energy, Mining & Utilities, have reduced by 77% and 20% respectively when compared to the previous quarter.

M&A activity in South East Asia will depend largely on the current and developing economic challenges faced by the region, which include the outlook on crude oil prices and consequent currency fluctuation in the region. Going forward, robust growth in domestic demand, strong infrastructure spending and the implementation of structural economic reforms in conjunction with the formation of ASEAN Free Trade Area should give the region a base for stability. This will see ten member countries integrated into a large single market consisting of 600m people and should make the region even more attractive for foreign companies. As well as inward investment, local businesses with excess cash will make use of M&A to build up their competitiveness in the global market, further supporting deal activity.

SOUTH EAST ASIA HEAT CHART BY SECTOR		
Industrials & Chemicals	122	27%
Business Services	69	16%
Energy, Mining & Utilities	59	13%
Technology & Media	58	13%
Financial Services	53	12%
Consumer	51	11%
Pharma, Medical & Biotech	20	4%
Leisure	13	3%
<b>TOTAL</b>	<b>445</b>	<b>100%</b>



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



# AUSTRALASIA



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### BIG PICTURE

- Significant rebound from slow Q1 2015
- Energy, Mining & Utilities deals pick up, reversing recent quarterly decline
- Forecasts for the year are that activity will match strong 2014, led by Consumer and Industrial sectors

## Activity bounces back from a slow Q1 and the outlook is positive for the rest of 2015.

There were 77 transactions in Q2 2015 with a combined value of USD 5.8bn. This was a 71% increase on Q1 2015's deal value of USD 3.3bn, which reflected the traditionally slow start to the year. However, when Q2 2015 is compared to the same quarter last year, the transaction value was 19% down, with 37 fewer deals compared to the corresponding quarter in 2014. However, the average deal value of USD 75m compared favourably to Q2 2014's USD 62m.

Mid-market private equity transaction numbers fell from 14 in Q2 2014 to eight in the latest quarter, with total value falling from USD 1.4bn in Q2 2014 to USD 1.2bn in Q2 2015. Despite this, Q2 2015 represented a strong rebound for PE transactions after Q1 2015 saw the lowest PE deal value (USD 184m) since Q3 2011. PE deals accounted for 21% of the total deals in the quarter, indicating that PE interest in the mid-market continues to be strong.

Q2 2015 saw a decline in deal volume across all major sectors compared with

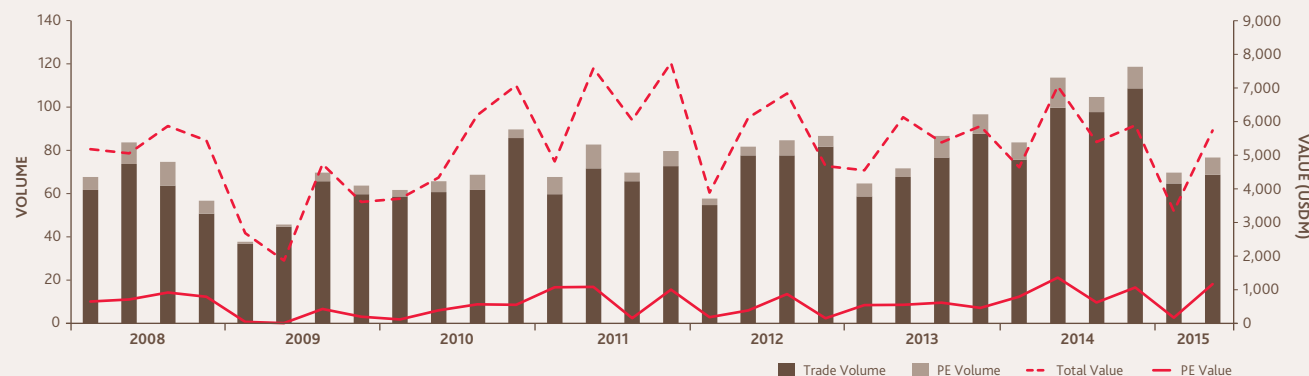
the corresponding period in 2014. The only exception was Technology & Media, which saw 14 deals in the quarter (10 deals in Q2 2014). Energy, Mining & Utilities had previously declined quarter on quarter since Q1 2014, however Q2 2015 saw the sector increase in deal volume from Q1 2015 (six deals) to 13 deals.

### KEY DEALS

The two most significant transactions in the quarter were from a trade sale and PE buy-out respectively. The largest was the sale of Skilled Group Ltd to Programmed Maintenance Services Ltd for USD 499m. The second biggest transaction for the quarter was Affinity Equity Partners' acquisition of Nine Live Pty Limited.

Australasia continues to see significant interest from foreign investors looking to acquire local businesses across a number of industry sectors. Although only two of the ten largest transactions in the quarter were sales to companies outside Australasia, this does not reflect the level of foreign interest that is being seen across the region.

### PE/TRADE VOLUME & VALUE



### LOOKING AHEAD

With the appetite for investment remaining strong, we continue to expect the second half of 2015 to be buoyant in terms of M&A activity. We anticipate interest from PE players to remain robust and for overseas investors to account for a significant proportion of deal volume.

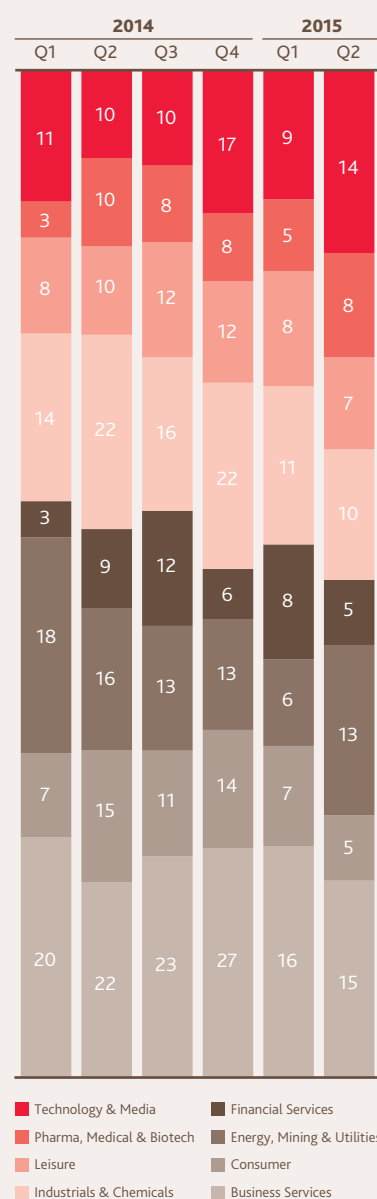
The BDO Heat Chart indicates a possible 419 deals underway. If realised, this would be in line with the 422 deals completed in 2014, a year which saw the highest level of deal activity for six years.

As in the previous quarter, the BDO Heat Chart indicates that the Consumer and Industrials & Chemicals sectors will be the most active. As predicted in the previous issue of BDO HORIZONS, the increase in deal volume for Energy, Mining & Utilities may suggest that, due to the continuing decline in iron ore prices, the sector giants may begin to take advantage of low asset values to consolidate the sector. The BDO Heat Chart also suggests this could be a trend in 2015, with a possible 61 deals underway in the sector.



AUSTRALASIA HEAT CHART BY SECTOR		
Consumer	81	19%
Industrials & Chemicals	70	17%
Energy, Mining & Utilities	61	15%
Technology & Media	60	14%
Business Services	54	13%
Financial Services	40	10%
Pharma, Medical & Biotech	36	9%
Leisure	17	4%
<b>TOTAL</b>	<b>419</b>	<b>100%</b>

### AUSTRALASIA MID-MARKET VOLUMES BY SECTOR







# SECTOR VIEW



38  
**CONSTRUCTION  
& BUILDING  
PRODUCTS**



40  
**TECHNOLOGY &  
MEDIA**



44  
**FINANCIAL  
SERVICES**



46  
**PHARMA,  
MEDICAL &  
BIOTECH**



# CONSTRUCTION & BUILDING PRODUCTS



**MITHUN PATEL**

M&A Assistant Director

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## M&A activity picks up as favourable market conditions and positive sentiment continues.

The developed world is building again – and it needs to in order to meet housing demand, especially in the UK and the US. UK housing starts hit 160,000 in 2014, an increase of 25% from the previous year, and is set continue with double-digit growth during 2015. Housing starts in the US hit one million - the first time this has happened since 2007.

### THE POST-RECESSION HEADACHE

Although businesses that survived the recession are generally leaner and stronger, shareholders have resisted investment. Understandably so perhaps, although we have seen some companies investing in technologically-led manufacturing solutions which are converting fixed costs to variable costs and significantly increasing capacity. However, the sector now faces a different crisis: capacity constraint and skill shortages, which are impeding real top line and bottom line percentage growth. Acquisitions can provide additional capacity and skills and we are seeing this as the key strategic rationale appearing in board papers for trade buyers.

### M&A ACTIVITY UPTICK

M&A activity involving North American BP&M companies was up by almost 20% in 2014 at 178 transactions, with another 102 already completed in the first half of 2015. Transactions involving UK BP&M businesses was up by 40% in 2014 (126 completed deals), with another 70 already completed

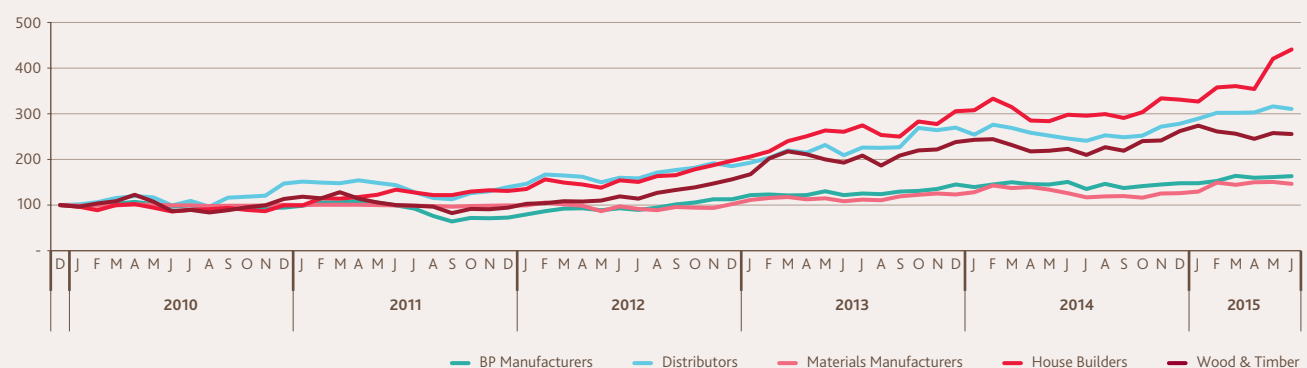
#### BIG PICTURE

- 2014 M&A activity increased by 40% in the UK and 20% in the US
- Capacity constraints and skills shortages are hampering real growth but fuelling M&A activity
- Building Products & Materials (BP&M) companies are attracting high valuations from both PE and trade
- Further consolidation is expected

Low interest rates, a strong housing market and increasing wages have been fuelling the feelgood factor. This, together with pent-up demand built up during the downturn, has driven the Repairs, Maintenance & Improvement (RMI) market to pre-recessionary levels in both the UK and US.

Building Products & Materials (BP&M) businesses, which typically have high fixed costs and heavy balance sheets, suffered more than most other sectors during the recession. Now the buoyant New Build and RMI markets have resulted in businesses benefitting from leveraging volume, which has created in the return of strong profit and cash flow generation - one of the reasons for the recent M&A activity.

BDO BUILDING PRODUCTS & MATERIALS SHARE PRICE INDEX



Index: 31 December 2009 = 100 | Source: BDO analysis



in the first half of 2015. We believe that further consolidation will continue at a strong rate.

The buoyant market dynamics and capacity constraints discussed above, coupled with the abundance of debt capital, low interest rates and delayed exit decisions (due to the recession) are the main reasons for the M&A uptick. In the UK, the uncertainty around the General Election and its possible impact on Entrepreneurs Relief probably did have an influence on exits during 2014.

There was also a surge of cross-border activity, especially US companies acquiring European assets, which looked relatively cheap given the storing US Dollar and weakness in the eurozone. Notable deals were:

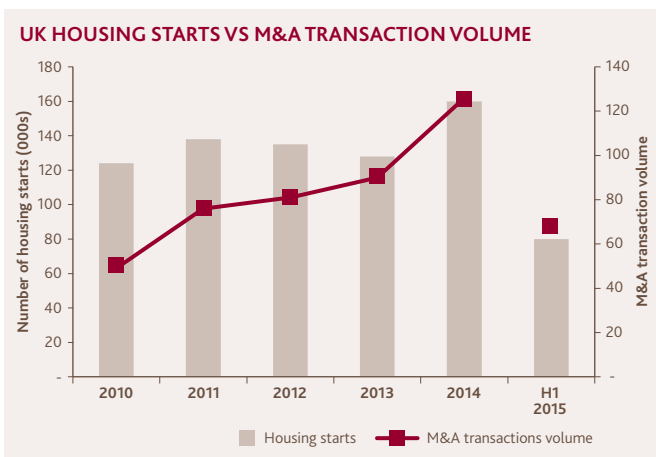
- Quanex acquired HL Plastics, a manufacturer of PVC-U products including windows and doors
- Masonite acquired Door-Stop International, a door manufacturer for 9.3x EBITDA.

### ATTRACTIVENESS OF NEW BUILD VS RMI

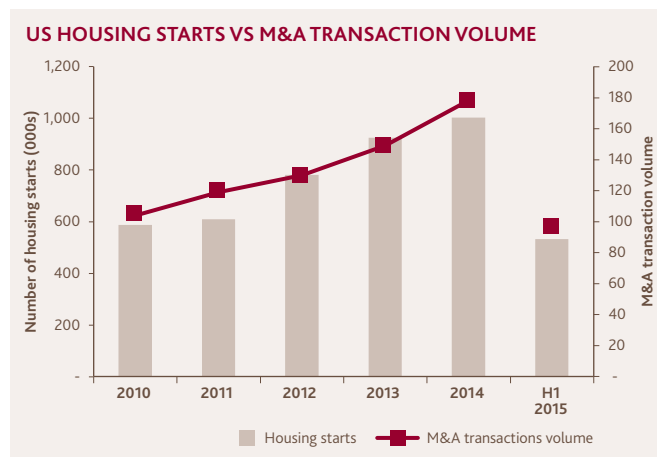
Businesses exposed to the New Build market are typically less attractive, from both an equity and debt point of view, given the cyclical nature of the revenue streams.

Any deals completed now for assets exposed to the New Build market are likely to be worth less in five years time - hence making it a difficult PE investment case. We believe that strategic trade buyers will pay for New Build exposure if the target offers capacity and clear operational leverage-reducing synergies.

Companies exposed to the RMI market on the other hand, will be attractive to both trade and PE buyers, given the resilience of RMI during downturns. RMI revenue streams therefore command higher valuations than those of New Build.



Source: Capital IQ, Census Bureau and BDO analysis



Source: Capital IQ, DCLG, ONS and BDO analysis



# TECHNOLOGY & MEDIA



## GARETH DAVIES

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### BIG PICTURE

- European tech businesses are increasingly attractive to international buyers from both North America and Asia Pac
- Market trends include a rise in deals involving health-related technology
- Economic conditions, access to finance and cash-rich corporates should support deal activity ahead

With international buyers paying higher multiples and sellers benefitting from access to the US market, cross-border deals are on the rise.

**The last 12 months has seen a significant number of European tech businesses being sold to international investors from both the US and Asia Pacific, including large trade vendors and private equity.**

This ongoing trend illustrates that European tech businesses are an increasingly attractive option for strategic overseas investors, even if their international growth prospects are yet to be fully capitalised on. Many international investors, particularly those from North America, are awash with funds and continue to take a generally less risk-averse approach than their European mid-market 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 North American marketplace, which can offer substantial growth and the prospect of benefitting on exit from multiple arbitrage.

There are a number of high-profile examples of this trend. ECI Partners recently agreed to sell Fourth, a provider of Cloud-based cost control solutions to the hospitality industry, to New York private equity firm Insight Ventures. The deal value remains undisclosed, although market commentary points to an Enterprise

Value north of USD 235m, or more than three times the USD 69m ECI paid for the business in March 2011. Fourth was undoubtedly a great investment for ECI, given the company's progress in recent years and the fact that enterprise software is currently very much a seller's market. To put things into perspective, UK publicly traded software businesses were on average trading at around 10x current year EV/EBITDA at the time of the ECI buyout and have since increased to around 13.5x today.

Other recent private equity deals have seen valuations appreciate even further. For example, TA Associate's 16x current year EV/EBITDA buyout of Access Technology, a provider of on-premise and Cloud-based business management solutions, CVC's secondary buy-out of Machine to Machine (M2M) provider, Wireless Logic is another case in point. Wireless Logic turned out to be another excellent investment for ECI (achieving a 6.1x cash out), reflecting both solid organic growth and significant margin expansion. CVC paid a full price, reportedly 18x current year EBITDA, but one would not bet against a similar good return to come given the inherent growth in M2M and the broader Internet of Things platform management opportunity.



**TECH DEALS GET 'HEALTHY'**

There has been an unprecedented resurgence in the number of technology deals within the broader Health, Mental and Social Care sub-sectors. Clearer channels for IT services procurement, within both the NHS and local authorities since the disbandment of the National Programme for IT, has enabled technology vendors to quickly benefit and has resulted in increased transaction flow. The trend has been similar in Europe.

Notable Health/Social care technology deals over recent months include:

- Symphony Technology's acquisition of McKesson UK (formerly System C), deal value not disclosed.
- The sale of Corelogic to Servelec for USD 36.8m or 13.5x EBITDA.
- A further foray into Social Care for Civica through the acquisition of Coldharbour Systems. The acquisition of Coldharbour marks Civica's third acquisition since it was acquired by OMERS private equity and falls directly in line with its acquisition strategy of purchasing software products to accelerate development in adjacent markets.

- Vista's public-to-private of Vin Murria's ACS for USD 1.14bn at just under 15x current year EBITDA. This transaction comes against a backdrop of substantial change in the enterprise software market as SaaS adoption accelerates. Last year, UNIT4 was taken private with funds from Advent International and, more recently, Exact was acquired by Apax for USD 807m. Meanwhile Cinven has joined the shareholder list at Visma, as it continues to make its SaaS transition. All of these deals were completed between 13x and 16x current year EV/EBITDA. To finance the ACS transaction, Vista has put in place a USD 501m term facility and total leverage of USD 680m, equivalent to a 6.3x and 8.5x current year EBITDA respectively – a return to the lofty debt leverage multiples of pre-2007.

**IT SERVICES – END OF TERM FOR THE CLASS OF 2010/11?**

Life has hardly been quiet on the IT and network services side either, with deals such as the secondary buy-out of hosting and managed services provider Pulsant by Oak Hill Capital (previously owned by Bridgepoint) for a rumoured USD 313m; the MBO of network services provider, Ask4, backed by Darwin PE; the sale of public sector-focused network services provider

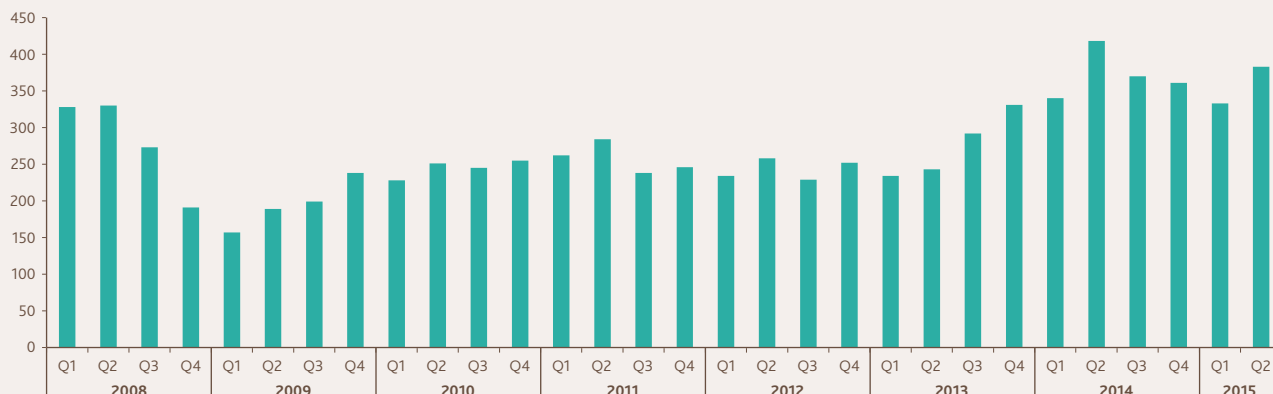
Udata to Capita; Alternative Networks' successive acquisitions of Infrastructure as a Service vendors Control Circle; and Intercept IT and Living Bridge Capital's buy-out of Metronet.

The sale of Pulsant raises the question as to which of the other 'Class of 2010/11' data centre and hosting private equity deals are next in line for an exit. Adapt was backed by Lyceum in September 2011 and has made a couple of decent acquisitions since (eLINIA and Sleek). The company is seeing strong growth in IaaS managed services, though headline financials are being impacted by legacy issues. Attenda was backed by Darwin in August 2011; it is one of the more advanced hosting players in terms of capability, enjoying reasonable growth (14% in 2013), but profitability is currently being depressed by investments in a new data centre business, Datum.

Onyx was backed by Living Bridge in October 2011 and has since grown EBITDA strongly, though so far has failed to undertake the M&A that was one of the deal rationales. LDC backed an MBO of shared hosting focussed UK2 in April 2011. Six Degrees launched a buy and build spanning networks, data centres and hosting in July 2011, making 13 acquisitions, building a USD 110m revenue, USD 22m EBITDA business and has just been sold to Charlesbank Capital.

**GLOBAL TECHNOLOGY & MEDIA DEAL VOLUMES: Q1 2008 – Q2 2015**

Source: Merger Market, BDO Analysis



## TECHNOLOGY &amp; MEDIA

**IS PUBLIC TO PRIVATE BACK ON THE AGENDA?**

Vista's acquisition of UK ERP Solutions provider, ACS, also highlighted the rapid re-emergence of the public-to-private deal as capital markets have weakened slightly. After several quarters without any P2P transactions, we have now seen close to USD 2.35bn worth of take-private deals in the last few months. First it was HgCapital's acquisition of Allocate Software, followed by Daisy's Tosca and Penta funded deal.

Source: Dealogic



### LOOKING AHEAD

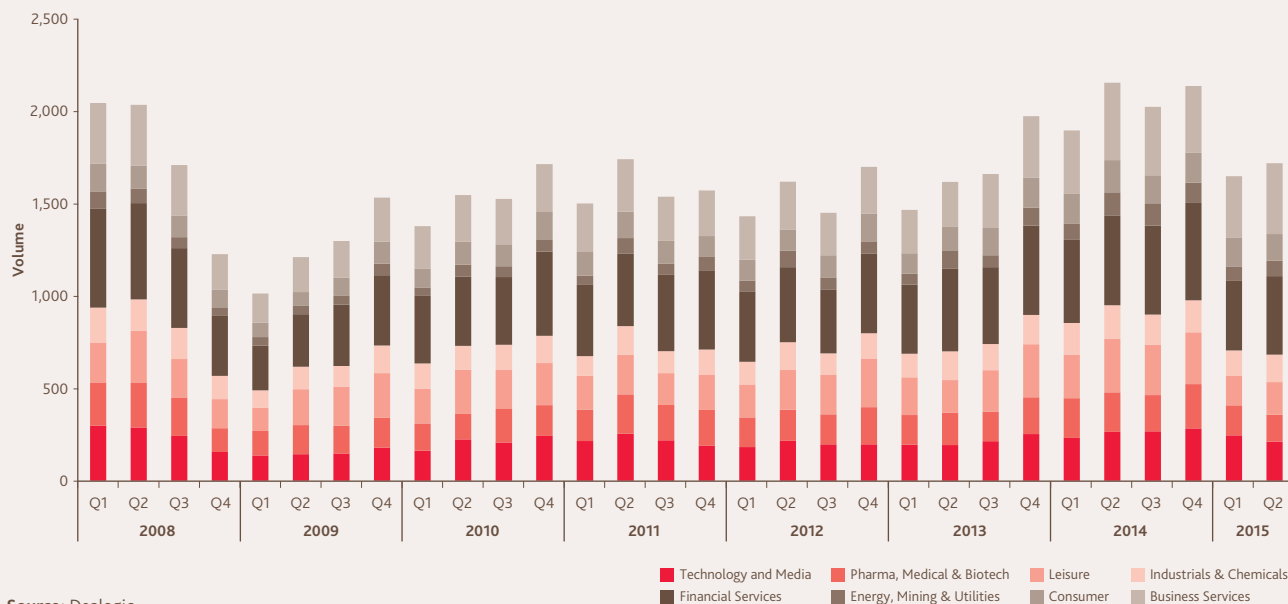
We believe that the remainder of 2015 will be a solid year for Technology & Media M&A. With limited inflationary pressures, particularly within the US and UK, interest rates set to remain at a record low over the short to medium term, and liquidity continuing to improve within the debt markets, private equity can be confident in its ability to financially engineer deals to optimise investor returns – particularly when targeting quality assets. However, the picture across Europe is not without some risk as the eurozone looks set to navigate major challenges that include Greece's continuing woes.

Many global technology blue chips have strong balance sheets and huge cash reserves, while remaining hungry for suitable in-fill acquisitions. Microsoft, Twitter, Siemens, Google, Apple and Cisco have all been on the international acquisition trail in the past year and between them have liquid resources resembling that of a small country at their disposal.

Key to maximising exit value from a shareholders' perspective will remain articulating the value proposition with clarity, ensuring the house is in order pre-sale and striking up conversations with the right buyers at the right time.



GLOBAL - MID MARKET DEAL VOLUMES BY SECTOR



Source: Dealogic

# FINANCIAL SERVICES



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### BIG PICTURE

- H1 2015 Financial Services deals hit a multi-year low
- The need for FIs to expand scale and scope will drive future deals
- We expect strategic drivers to boost future M&A activity to previous levels

Although activity has slowed, key industry drivers can boost future deals.

In Q1 and Q2 2015, the number of Financial Services (FS) mid-market M&A transactions in Europe fell to a level similar to that seen in the aftermath of the 2008 financial crisis. A total of 64 European deals were recorded in the first half of 2015, compared to 62 in the first half of 2009. This represents a substantial 35% reduction in deal numbers compared to the first half of 2014 (99 deals). See the graph below for European sub-regions.

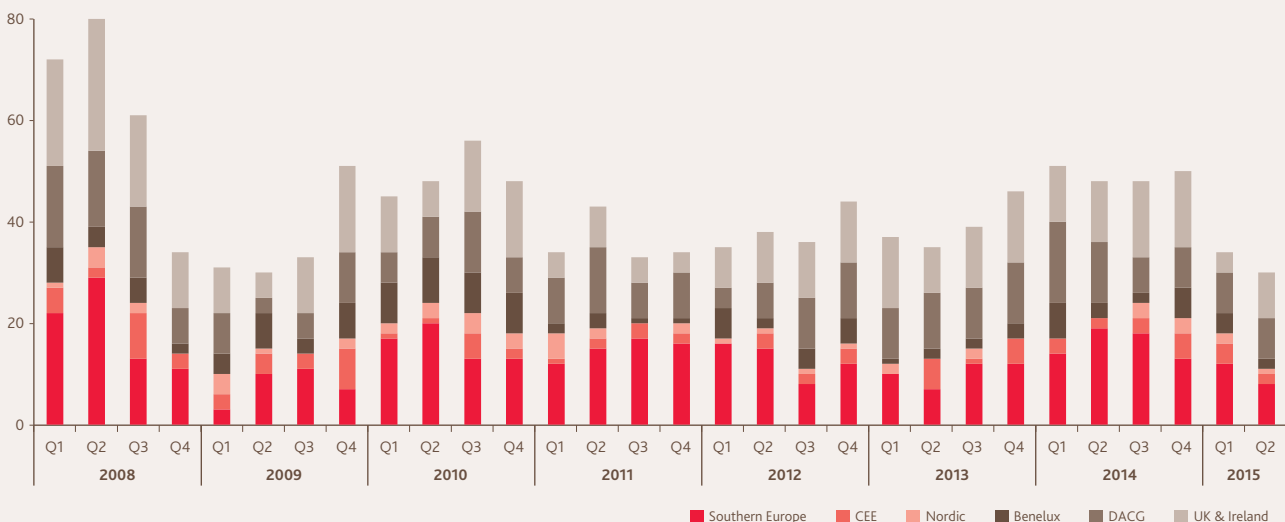
However, recent actual European FS mid-market deals demonstrate that financial institutions continue to seek expansion in their scale and scope of business, both domestically and in foreign markets (see opposite page). Based on current deal activity, we expect that deal numbers in the European FS mid-market will pick up again to the level seen in recent years.

### WHAT WILL DRIVE MID-M&A?

Many banks, brokers, insurers and asset managers are rethinking their business model in light of economic and regulatory changes. Deal activity is being driven by these financial institutions **consolidating** their positions in mature markets, while at the same time continuing to **expand** in high-growth markets with a focus on securing **new distribution**. Against this backdrop, M&A is an increasingly important element of their overall strategy.

Motives for M&A transactions vary in the industry. Strategic investors usually follow one of two main rationales for acquisitions. One is to grow the **scale** of business, while the other seeks to extend the **scope** of business. An M&A transaction can be used to expand either the products and services a financial institution is already offering or to enter new markets to extend geographical reach.

M&A FINANCIAL SERVICES MID-MARKET TRANSACTION VOLUME BY REGIONS – 2008-2015

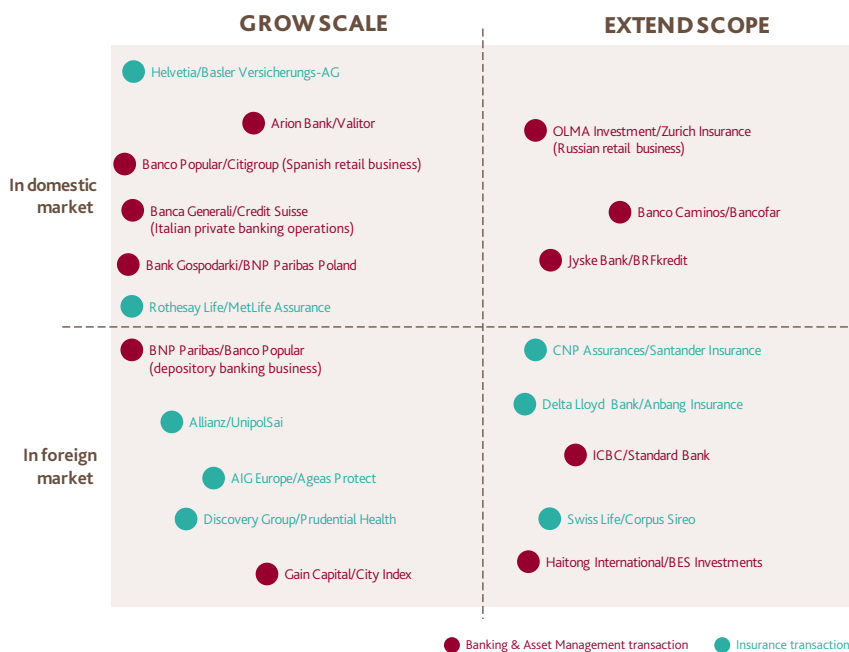


Source: Merger Market, BDO analysis

Recent European FS M&A transactions have exhibited this diversity of acquisition strategies. The rationales for **mid-market transactions** (transaction values of up to USD 553m) can be categorised as follows:

- Transactions in the domestic market to grow the scale of the business:** examples include the USD 265m takeover of Citigroup's Spanish retail business by Banco Popular and the acquisition of Credit Suisse's Italian private banking activities by Italian Banca Generali for USD 55m.
- Transactions in a foreign market to grow scale:** German Allianz's acquisition of part of the P/C insurance business of the Italian UnipolSai for USD 486m and the purchase of Ageas Protect (UK) by AIG Europe for USD 252m serve as examples.
- Transactions in the domestic market to extend scope:** the takeover of Bancofar by Banco Caminos (both Spanish) for USD 41m and the merger of Jyske Bank and BRFkredit (both Danish) are examples of M&A deals executed to achieve this objective.
- Transactions in a foreign market to extend scope:** examples include the acquisition of a 60% stake in the London-based business of South Africa's Standard Bank for USD 619m by Chinese ICBC and the acquisition of a 51% stake in Santander's consumer finance insurance units by French CNP Assurances for USD 321m.

**SELECTION OF 2014-15 M&A TRANSACTION IN THE EUROPEAN FS INDUSTRY**  
(Transaction value of up to USD 553m)



Source: IQ Capital; company information; BDO analysis

**LOOKING AHEAD**

While mid-market M&A deal volume recently decreased to a level not seen since 2009, European banks, insurers and asset managers continue to look out for opportunities to grow the scale of their business. We therefore expect further consolidation measures and a consequent increase in activity that will see the deal volume return to the level seen in previous years.

# PHARMA, MEDICAL & BIOTECH



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## What's driving high deal flows in the sector and can this level of activity be sustained?

### BIG PICTURE

- Some commentators are talking about a Biotech bubble
- Regulatory approvals, new therapeutic areas and industry consolidation are the key deal drivers
- The availability of private capital, IPOs and traditional M&A funding can support continuing activity

The life sciences space has seen unprecedented deal activity in the past 16 months. According to the Financial Times<sup>1</sup>, pharmaceutical companies have agreed some USD 462bn of mergers and acquisitions since the start of last year. To put that figure in perspective, it is greater than the gross domestic product of Austria.

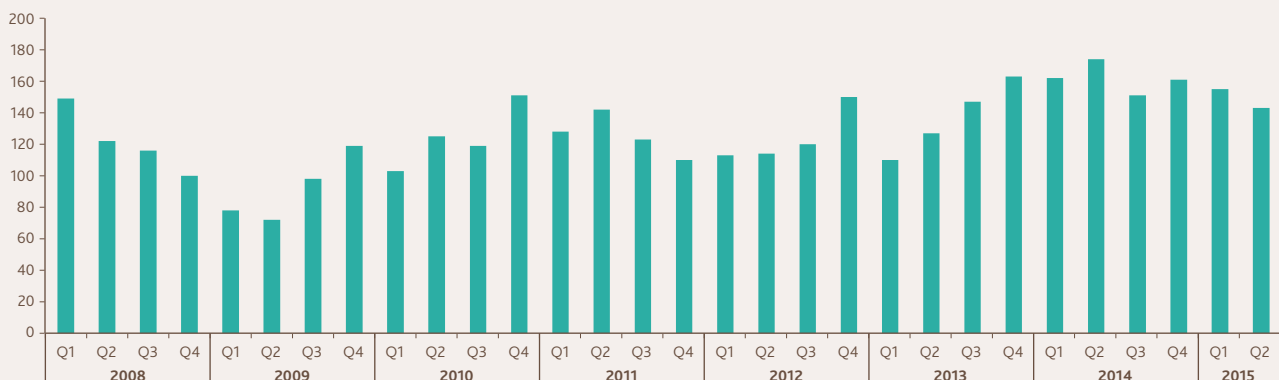
Many commentators are therefore speculating that we are in the throes of another Biotech bubble, with the unspoken implication that it may be about to burst.

If we look at the table below we can see that volumes are indeed historically high, coming off a peak in late 2014/2015 and well above the levels seen in the last bubble, which was burst by the collapse of Lehmann Brothers and the financial crisis. But there are other factors at play in the market which may yet indicate that the bubble is not ready to burst. To understand the full range of factors we need to look not only at M&A activity but the wider sector picture.

## ASSESSING THE MARKET

The table below summarises quarterly activity in terms of M&A in the mid-market space of USD 10m-USD 100m to Q2 2015:

GLOBAL - MID MARKET VOLUMES PHARMA, MEDICAL AND BIOTECH



<sup>1</sup> No end in sight to wave of pharma dealmaking – Andrew Ward FT 26/04/15

We can observe a slight tailing off of mid-market M&A volumes in the past three quarters, however this does not indicate a drop-off of activity in the sector. Given the comparative buoyancy of available funding, and the strong IPO window, organisations are increasingly finding alternative ways to exit and fundraise away from the traditional route of M&A.

Some of the factors driving this are:

- **An increase in approvals by regulatory authorities.** The Food and Drug Administration (FDA) approved 41 new drugs in 2014, the highest for 18 years. The key therapeutic areas with new medicines being approved are cardiovascular, oncology and Hepatitis C, with many coming from the Biotech sector. Drug approval success stories are also good for share prices and also for companies working with the same targets or in the same space.
- **The promise of new therapeutic areas such as immuno-oncology.** This has driven a series of deals of all types in the space:
  - **M&A:** BMS paying USD 800m for Flexus, a two-year old biotech with USD 38m invested, is one of the most widely-reported M&A success stories. The investors saw returns of 20+ times in two years.
  - **IPOs:** a notable UK example being Adaptimmune, a BDO client, an immuno-oncology biotech in Oxford UK, which raised USD 104m in September 2014 and went on to raise a further USD 150m from an IPO on Nasdaq just seven months later.
  - **Private placement:** Immunocore, another BDO client, raised a staggering USD 320m in July to fund its late stage development programmes.
- **Consolidation in some areas such as rare diseases.** BDO advised on the acquisition of IDIS by rival Clinigen for USD 338m in April 2015.
- **Consolidation in pharma services.** In the field of eCOA and ePRO (Patient reported outcomes), the three leading companies in the space were all involved in acquisitions in the last six-month period. ERT acquired PHT in the US, and CRF (UK, Finland and US) were acquired by a UK PE house Vitruvian in a deal worth USD 332m, with BDO were in the thick of it as advisers to management.



## LOOKING AHEAD

In all cases we are seeing unprecedented deal flow and activity in the sector, be it with Biotech, Pharma or Services. We are seeing significant interest from PE houses in particular in the services space and new entrants, such as GHO Capital, staffed by industry veterans, who are entering the arena with large fund raises of USD 553m and a remit to invest in both product and service businesses.

Consequently, we may be in a bubble but it shows no signs of slowing down, and with the availability of private capital, IPO opportunities on both sides of the Atlantic as well as traditional M&A, companies have choices over how they capitalise or exit.







Data produced by The Mergermarket Group.

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