MERGERS & ACQUISITIONS

ISSUE 2: Q2 2014

HORIZONS

BDO'S GLOBAL VIEW OF MID-MARKET DEAL ACTIVITY

BDO

CONTENTS

WELCOME

The time has come again to look over Horizons – the quarterly report from BDO on mid-market M&A around the world. We have created views on deal activity in 14 major regions around the world, with additional focus on selected sectors, to bring you a global picture of how this market is evolving – and give some indication of where it is heading.

This edition of Horizons covers the first quarter of 2014, enabling you to see on a region-by-region basis how 2014 has got underway. We take a look at our predictions from the previous quarter and see if and how these have been borne out, and provide at-a-glance summaries for easy regional comparisons. There is also expert commentary on recent trends, predictions for the coming quarter, and forecasts for regional sector activity through our heat chart (provided by Mergermarket), which collates current, planned and rumoured deals by sector.

Whether you are active on the buy or sell side, or just want to stay informed of the latest opportunities, Horizons gives you a panoramic view. It helps you see and understand where the investment is flowing and why, while providing vital insights into the health and mood of the mid market. In a global marketplace of bewildering activity and endless choices, Horizons provides some of the context necessary to assess the current environment and make informed decisions.

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

Insights from a leading M&A adviser

To get a deeper understanding of what is actually going on and what the future will look like, our review fundamentally follows two perspectives that ultimately conjoin. While the first viewpoint divides the M&A mid-market into the regions North America, Latin America, United Kingdom & Ireland, Southern Europe, Benelux, DACH, Nordics, CEE & CIS, Middle East, India, China, South East Asia, Japan, Australasia, the second perspective considers superregional specificities based on sectors classified into Consumer, Energy, Mining & Utilities, Leisure and Pharma, Medical & Biotech.

Particular highlights in our review are the Heat Charts and future prospects described below:

- **Heat Charts:** For each of the regions we report on, we provide a Heat Chart. The Heat Charts of predicted deal flows is based on the intelligence collected in the mergermarket database relating to companies rumoured to be up for sale, or officially up for sale
- **Looking ahead:** Every article presents trends and forecasts for the quarter.

We do hope that this review helps you in your day-to-day M&A life.

GLOBAL VIEW

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

THE BIG PICTURE

2014 began with a remarkable three months for mergers and acquisitions in the global mid-market, in the strongest opening quarter since 2008. We can expect to see more large transactions taking place in the near future, if the favourable financing conditions hold steady.

COMPARING NOW AND THEN

After a largely subdued 2013 that was sporadically positive at best, the global M&A mid-market has already picked up this year. Deal-making activity in Q1 2014 totalled USD 133bn, making it the strongest opening quarter since 2008. Global volume grew to 1,493 deals, up by 4.6% from the same quarter last year, while deal value increased by even more at 13.3%.

However, the annual effect of fewer deals in the first quarter (due to a high number of year-end deals) has been stronger than in previous years – and also surprising, given the current positive environment. Deal volume fell by 20% from Q4 2013 to Q1 2014, an above-average rebound on an admittedly very successful final quarter. Nevertheless, we know from pre-2008 patterns that a strong year-end effect is a natural product of high M&A activity.

The biggest surprise of the quarter was what happened to private equity buyouts. Volume was down by 10% year-on-year, while overall deal value remained constant. The trend towards bigger deals is easy to make out.

COMPARING HERE AND THERE

Activity in China has already been brisk this year, with the regions second highest quarter ever by deal value. By comparison, M&A mid-market activity in Japan for the same period saw a significant decline of 36%.

The UK & Ireland recorded the lowest quarter for deal volume for five years, but had still an increase in deal value. India got off to a slower start with deal number down to Q1 2013 but observed a rise of 41.2% year-on-year - while deal value in Q1 was significantly higher. DACH recorded one of the largest increase in term of deal number with 41% up to Q1 2013. Bu it must be considered that, in comparison with the previous year-to-date we observe a decline in value and volume.

India's mid-market M&A activity was significantly higher in terms of deal value, but fell in deal number down to Q1 2013. A closer look at India also reveals that its mid-market performance was unexpectedly high in respect of the country's upcoming elections.

While in Southern Europe deal volume is down from Q1 2013 but value is holding steady, Benelux recorded a steady volume but a decline in deal value.

South East Asia with a five year peak for deal volume and value, Australasia, Africa and the Middle East are all regions with very high M&A growth rates – but they are only one side of the coin. On the other side are Latin America and Other Asia, all with a smooth drop in activity. Meanwhile, over in the US, mid-market deal value increased by 23.6% in Q1 2014 compared to Q1 2013.

Turning to sectors, our predictions largely came true with activity rising in Financial Services (9.3%), Pharma, Medical & Biotech (12.6%), Leisure (15.7%) and TMT (14.6%). Although Business Services and Energy, Mining & Utilities had fewer deals in Q1 (at 175 and 197 respectively), US specialists are anticipating a surge in the Energy, Mining & Utilities sector there.

Industrials & Chemicals continues to be the most active industry in the first quarter of 2014, holding onto its top spot from Q4 2013. It contributed 341 transactions or 22.8% of all announced deals (1,493). It is followed by TMT and Energy, Mining & Utilities, which contributed 18% and 13.2% respectively; between them, these top three sectors accounted for more than half of all M&A mid-market transactions.

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GLOBAL HEAT CHART BY SECTOR

	Industrials & Chemicals	TMT	Energy, Mining & Utilities	Consumer	Business Services	Financial Services	Pharma, Medical & Biotech	Leisure	Total
North America	481	705	581	326	366	340	439	147	3,385
China	409	143	117	141	72	56	61	65	1,064
CEE & CIS	269	108	105	143	121	106	46	58	956
Southern Europe	148	109	68	155	81	63	25	41	690
Australasia	85	46	196	54	100	44	58	20	603
India	119	91	29	63	84	69	73	23	551
Latin America	85	68	76	104	78	31	27	25	494
UK & Ireland	69	66	72	68	66	56	21	35	453
South East Asia	113	43	77	55	57	44	32	14	435
DACH	120	70	20	61	42	28	39	16	396
Other Asia	155	50	24	37	29	39	17	26	377
Japan	90	74	13	46	54	15	17	21	330
Nordics	64	41	26	40	32	15	27	6	251
Benelux	67	42	22	41	35	22	15	6	250
Africa	54	14	80	15	6	19	4	7	199
Middle East	41	49	19	17	16	19	16	2	179
Total	2,369	1,719	1,525	1,366	1,239	966	917	512	10,613

Looking ahead

With companies' portfolio verifications at an advanced stage, any released capital surplus through optimisation could definitely be used for further M&A activity. Furthermore, many private equity houses are sitting on idle money that could be ready for investments in the near future. The signs are good that global M&A mid-market activity will thrive in the coming months.

Based upon our experience and our current assessment of market conditions, we predict that TMT, Financial Services and Pharma, Medical & Biotech will be the most dynamic sectors of the second quarter.

We see an overall positive environment, with low interest rates and companies that are well equipped with solid cash reserves and mostly healthy capital structures, all of which should help to drive the global M&A market upward. Nevertheless, economic and geopolitical risks remain that may disrupt the bright outlook. Many companies identify economic and political uncertainty as a key barrier to investment, while another possible source of trouble is the continuing high M&A price level. This could still lead to adjustments on international stock markets, with a knock-on dampening effect on sentiments and M&A activities.

Industrials & Chemicals continues to be the most active industry in the first quarter of 2014, holding onto its top spot from Q4 2013. It contributed 341 transactions or 22.8% of all announced deals (1,493). It is followed by TMT and Energy, Mining & Utilities, which contributed 18% and 13.2% respectively; between them, these top three sectors accounted for more than half of all M&A mid-market transactions.

FEATURE: GLOBAL DEBT TRENDS

THE BIG PICTURE

- Creative solutions returning to world debt markets
- Borrowers benefiting from greater liquidity
- Bond usage evolving with yields lowering
- Banks collaborating with unitranche lenders to stretch leverage multiples

Debt specialists Roel van der Sar and Joost Vandenbergh of BDO Netherlands examine the trends in the credit market that will be influencing the temperature of the M&A market in 2014.

There are signs that creativity is returning to the world of credit. Even though M&A and financing volume remains subdued, the credit markets themselves got off to a strong start this year. The main drivers for this were financing transactions focused on growth capital, along with refinancing and dividend recapitalisations. Smaller sized companies are gradually finding creative alternatives to banks in the form of loan funds and capital markets, while other forms of lending such as asset based financing are becoming increasingly more common. We expect these trends to continue throughout 2014.

RISING LEVELS OF LIQUIDITY

Quantitative easing is causing an abundance of liquidity in the markets, which is benefiting borrowers from both investment and sub-investment grade categories by giving them continued access to financing. It also has the effect of driving down interest rates. Although companies of a certain size (or active in certain sectors) are feeling the impact of the ongoing deleveraging of banks, this high liquidity should enable most of them to access competitively priced financing for at least the duration of this year.

AN EVOLUTION IN BONDS

The bond markets remain an important source of funding, primarily for larger corporates (mostly those with benchmark issuance sizes over USD 400m). One side effect of the current low interest rates is that they are fuelling the demand from investors in search of higher yielding instruments. As such, the yields required by investors are declining in both the investment and sub-investment grade space. In search of yield, even the higher risk sub-investment grade issuers are again able to issue payment-in-kind (PIK) instruments. We are seeing an increasing use of these instruments, which are issued mostly by companies held by financial sponsors. Proceeds of these PIK issuances are typically put towards a number of uses, one of which is funding dividend recapitalisations.

Although we are used to seeing bonds used as a source of funding for larger corporates, recent years have seen the rise of the so-called “Mittelstandbonds” in Germany. As the name suggests, these are bonds issued by German mid-market companies (predominantly family owned), and have issue sizes starting at around USD 15m. By using these bonds the companies are able to diversify their funding base. Although we have now seen the first defaults of issuers, the market appetite for “Mittelstandbonds” appears to remain strong.

In the current climate of deleveraging banks, there are many ongoing initiatives to secure financing for small and medium sized enterprises. However, there is one being undertaken in Italy that deserves a special mention. The Italian government amended legislation in 2012 and again in

2013 to make bond markets accessible for SMEs. In January of this year two bonds were issued, with principal amounts of approximately USD 5m, which are listed on the Milan stock exchange. Because the documentation required for these instruments is limited, expenses are kept low. Consequently several banks and investment companies are setting up funds which can invest in these so called "mini-bonds".

NEW FINANCING SOLUTIONS BECOMING MAINSTREAM

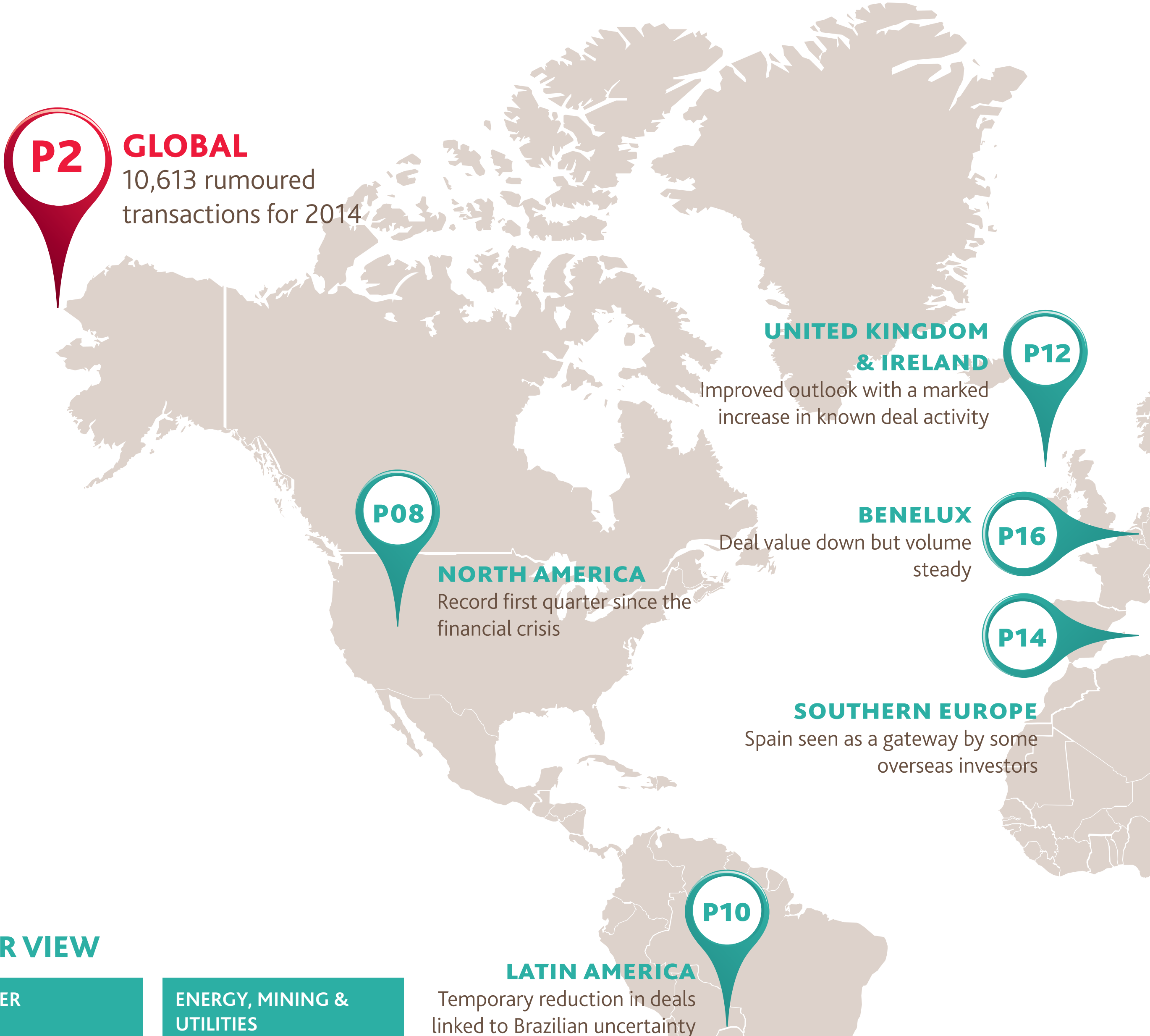
There were high numbers of leveraged loans issued at the start of 2014. A growing appetite for risk is returning in larger transactions, and in unitranche financing we have seen leverage multiples of 6.5x. Meanwhile more and more companies are turning to loan funds as a source of finance. Banks and loan funds are collaborating on unitranche financing transactions where loan funds hold the junior financing. For larger transactions (those over USD 35m) banks are becoming more willing to take risks again. Banks are also collaborating on transactions which, pre-crisis, would have mostly been single bank transactions. It is not uncommon the see banks working with other banks and/or loan funds in different parts of the capital structure and with different assets pledged as security.

Looking ahead

Banks continue to focus on asset-based lending for companies of all credit standings. The additional flexibility provided to companies, coupled with fewer (or less strict) covenants and lower risk perceptions by banks, is driving the growth of this type of financing solution. Companies are increasingly aware of the flexibility provided by asset-based lending, and as it becomes accepted as a more mainstream instrument of financing, we can expect to see a rising number of such transactions going forward.

ROEL VAN DER SAR
Senior Manager
e: roel.van.der.sar@bdo.nl

JOOST VAN DER BERGH
Senior Manager
e: joost.vandenbergh@bdo.nl



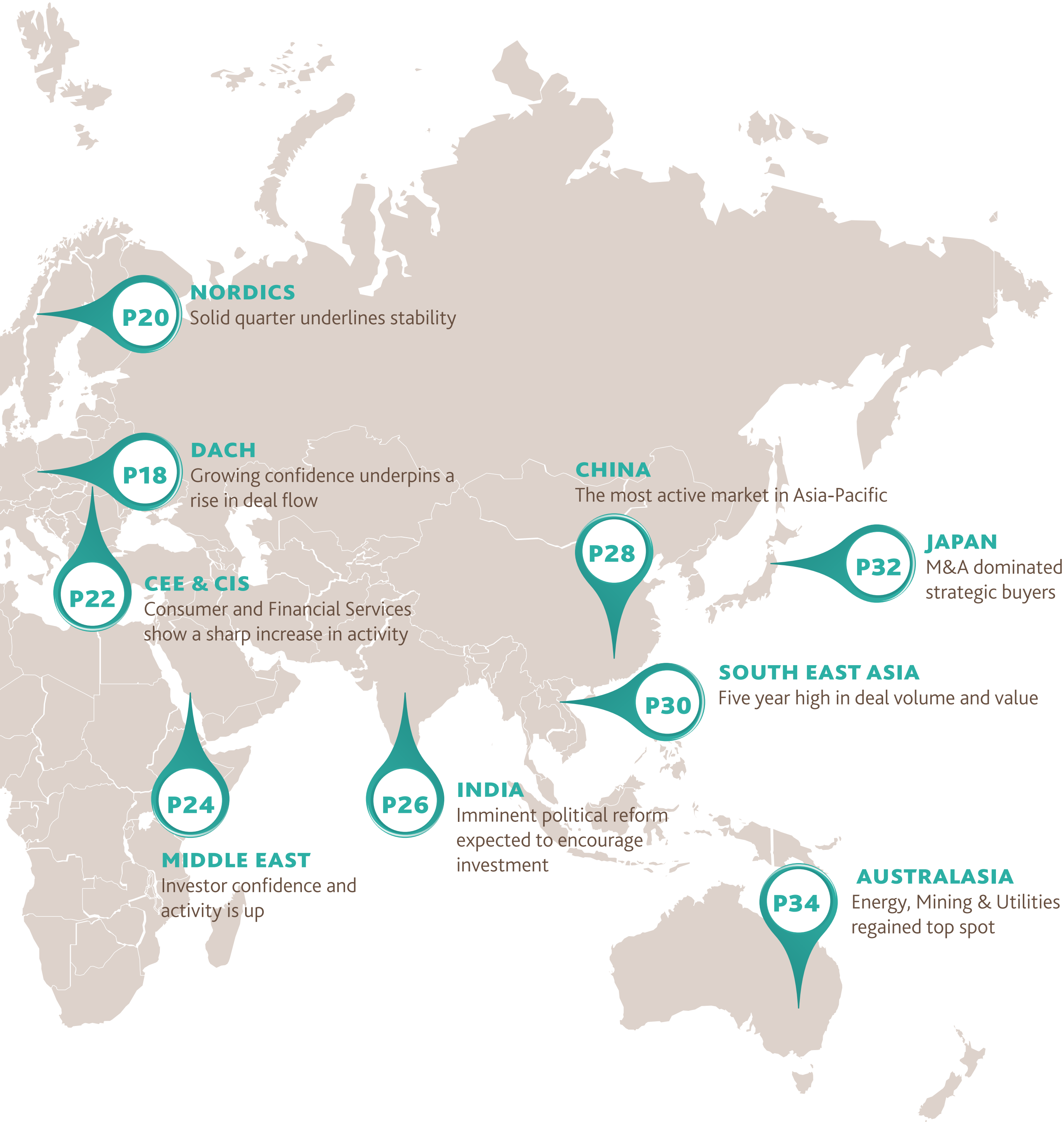
SECTOR VIEW

CONSUMER

ENERGY, MINING & UTILITIES

LEISURE

PHARMA, MEDICAL & BIOTECH



REGIONAL VIEW ▶

NORTH AMERICA

THE BIG PICTURE

- Best first quarter since the financial crises
- CEOs seeking growth through acquisition
- Industrials and Chemicals and TMT the most active sectors
- Strong outlook for 2014.

BOB SNAPE
President
bsnape@bdocap.com

Rising CEO confidence, abundant capital and improving economic indicators paved the way for a more active first quarter.

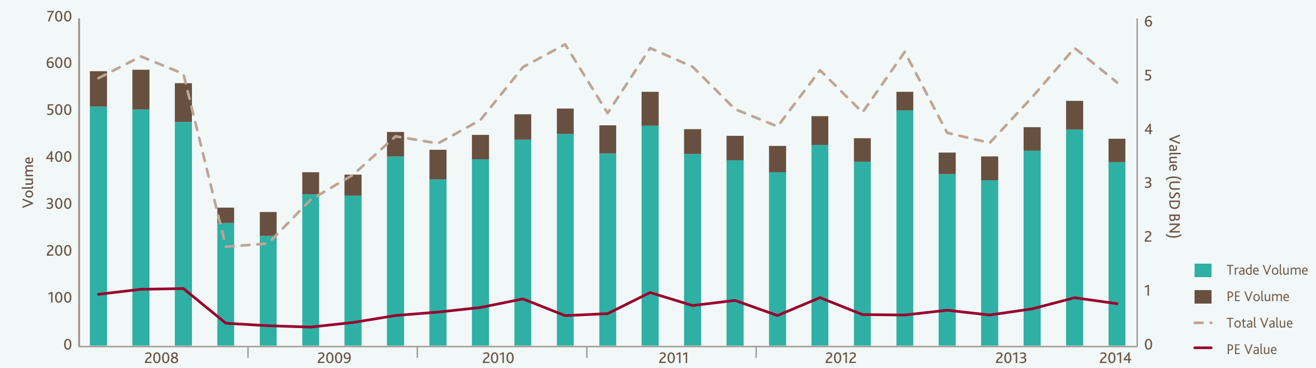
As 2014 got under way, North America's M&A markets finally showed signs of real improvement. Mega deals made a return, while private equity firms upped their game. In Q1 2014 we saw a 24% rise in the total value of mid-market deals compared to the same time last year. In fact, in terms of value it was the best first quarter for M&A activity in North America since before the financial crisis.

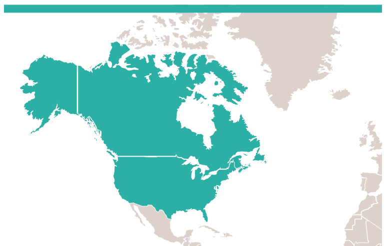
Volume was up too, with the number of mid-market transactions rising by 7% from Q1 2013. This smaller rise also means that the average deal size increased significantly, due to corporate CEOs seeking growth through acquisition. Rising equity markets have put pressure on CEOs to justify their underlying valuations to shareholders, so large cap public companies are aggressively seeking strategic acquisitions to bolster their market share and grow earnings. This was a major driving factor in the first quarter's M&A activity.

MEGA DEALS CREATE A RISING TIDE

Behind Industrials & Chemicals in first place, the second most active sector was TMT, which saw a 20% rise in mid-market deal activity. Most of its headline news stories were reserved for the mega deal rush, as Comcast topped Charter Communications with a bid that valued Time Warner at USD 70.6bn in enterprise value. Facebook also made a large bet, paying USD 19.4bn to acquire mobile messaging services provider WhatsApp.

PE/TRADE VOLUME & VALUE





The Pharma, Medical & Biotech sector also enjoyed a 20% rise, along with its own share of mega deals.

These included Ireland-based Actavis, the world's second-largest generic drug manufacturer, spending USD 23.8bn to buy US speciality pharma firm Forest Laboratories.

The good news for mid-market M&A observers is that the rising tide forged by strategic mega deal activity typically lifts all boats. Deal-making in the middle and lower mid-market is set to flourish as confidence rises and valuations increase accordingly.

Private equity activity rose in a similar fashion to the broader M&A market, although at a somewhat slower pace. In terms of value, the quarter posted a 14% improvement when compared to Q1 2013. Again, it was the mega deals that grabbed much of the attention, notably in the life sciences sector with Johnson & Johnson selling its Ortho-Clinical Diagnostics business to private equity group Carlyle for USD 4bn. Meanwhile in the retail sector, Safeway (the second largest supermarket chain in North America) was acquired by private equity fund Cerberus for USD 9bn.

NORTH AMERICA HEAT CHART BY SECTOR

TMT	705
Energy, Mining & Utilities	581
Industrials & Chemicals	481
Pharma, Medical & Biotech	439
Business Services	366
Financial Services	340
Consumer	326
Leisure	147
Total	**3,385**

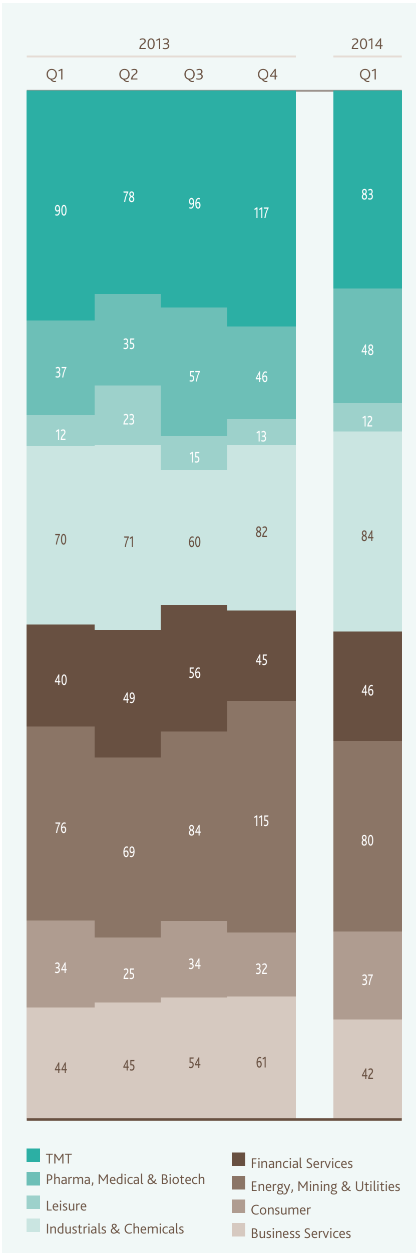
Looking ahead

There is a strong outlook for North American M&A for the balance of 2014. The increased activity and larger transactions we have seen are likely to accelerate as the year progresses. Our heat chart points to 3,385 deals either planned, rumoured or already in progress, with TMT comfortably in the top spot as it promises to sustain its growing momentum. Pharma, Medical & Biotech is also solidly positioned in the chasing pack, with up to 439 deals in the pipeline.

Many analysts expect strategic buyers to get more aggressive in doing deals, given that organic growth prospects are limited. Rising equity values will allow large public buyers to do more accretive deals and pay higher prices for mid-market companies, which should continue to entice sellers off the sidelines. As record share repurchase and dividend increases abate, corporates will renew their interest in investment to bolster growth and corporate profits, and will use M&A as an important tool to reach these objectives.

As for private equity buyers, they are still dealing with a capital overhang from prior fundraising efforts, so now they need to put their money to work. These buyers are also more confident to do deals and are aided by lenders eager to originate new loans. The continuing improvement of economic conditions is a further incentive for them to get in on the action.

NORTH AMERICA MID-MARKET VOLUMES BY SECTOR



LATIN AMERICA

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

THE BIG PICTURE

- Election year in Brazil has created uncertainty and caution over closing deals
- Energy, Mining & Utilities is the most active sector
- A large internal market continues to generate moderate and stable growth
- Consumer set to be the most active sector in coming months.

A lull due to political and economic uncertainty should be followed by greater activity.

Latin America is used to having a seasonal low in the first quarter of the year, due to summer vacations and various extended holidays, most notably Carnaval. So it was no great surprise to see a reduction in deals in Q1 2014, with 67 transactions worth USD 6.3bn, down 34% on the final quarter of 2013 (which posted a total value of USD 9.6bn). However, it was also down 16% on Q1 2013.

Some countries in the region have seen an economic slowdown, as well as some political instability. Brazil, for example, had a readjustment in sovereign rating from Standard & Poor's Investor Services, due to concerns about the government's fiscal discipline and economic policy credibility.

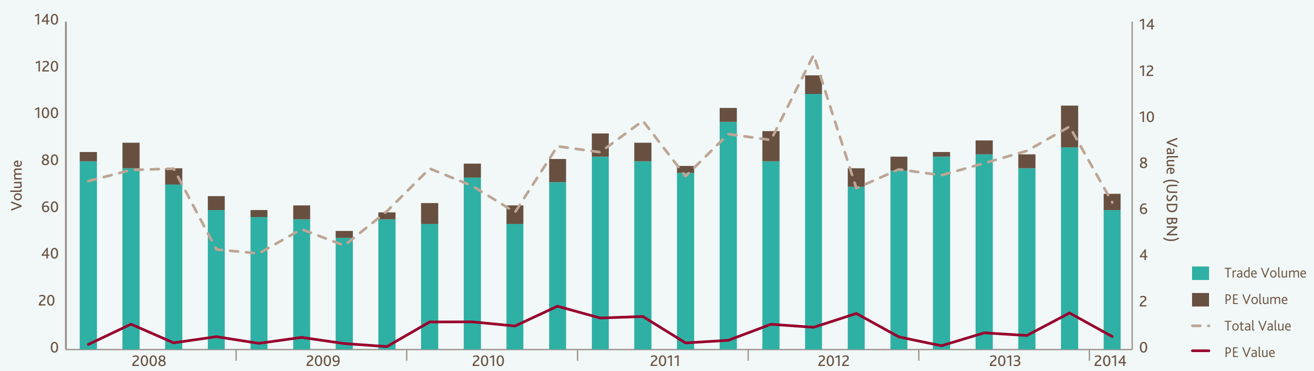
The agency now rates Brazil BBB-, or investment grade, with a neutral and stable outlook. This has affected the number of deals taking place there.

Furthermore, 2014 is an election year for Brazil. Consequently, many businesses are waiting for the results in November in order to determine the country's perspective and their future strategy as regards new deals.

SECTOR SPECIFICS

The sector that saw the most deal activity in Q1 2014 was Energy, Mining & Utilities, with 19 deals that accounted for just over 28% of the total number. This was followed by Industrials & Chemicals with 15 deals (just over 22%). Least active were Leisure, TMT, and Pharma, Medical & Biotech.

PE/TRADE VOLUME & VALUE



Of the ten biggest deals in Q1 2014, six were in the Energy, Mining & Utilities sector. Peru had two of the most significant deals, one involving the Transportadora de Gas del Perú S.A., valued at USD 491m, and the other involving Compañia Operadora de Gas del Amazonas S.A.C, valued at USD 481m. Mexico also had a deal in the spotlight, with the target company SeaMex Ltd valued at USD 488m.

LATIN AMERICA HEAT CHART BY SECTOR

Consumer	104
Industrials & Chemicals	85
Business Services	78
Energy, Mining & Utilities	76
TMT	68
Financial Services	31
Pharma, Medical & Biotech	27
Leisure	25
Total	**494**

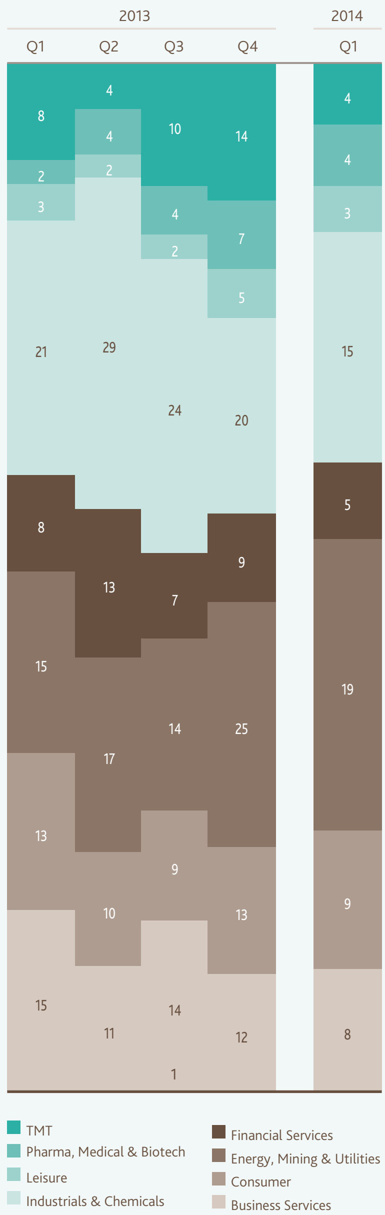
Looking ahead

The heat chart highlights over 494 deals that are either in progress or planned. This figure is down from the 610 projected in the last quarter of 2013. The Consumer sector is set to be the most active, with 104 potential deals, ahead of Industrials & Chemicals with 85. Despite the momentary reduction in the projected deal activity, there is still a significant volume of transactions expected.

With a vast internal market and a correspondingly high number of businesses, Latin America remains a pivotal region for some of the world's largest economies. Growing at modest yet stable rates, the region's temporary reduction in deals owes much to the current uncertainty over the forthcoming election in Brazil, which has led to the postponement of business ventures. Once some of the political and fiscal instability has eased, the region looks poised to heat up again.

Ranking	Announced Date	Target Company	Target Sector	Target Country	Deal Value (USDm)
1	31/01/2014	Transportadora de Gas del Perú S.A. (22.38% Stake)	Energy, Mining & Utilities	Peru	491
2	18/02/2014	SeaMex Ltd (50% Stake)	Energy, Mining & Utilities	Mexico	488
3	24/03/2014	Compañia Operadora de Gas del Amazonas S.A.C. (30% Stake)	Energy, Mining & Utilities	Peru	481
4	14/03/2014	VTR GlobalCom SA (20% Stake)	TMT	Chile	422
5	14/03/2014	Madeira Energia S.A. (12.4% Stake)	Energy, Mining & Utilities	Brazil	354
6	31/03/2014	GasAtacama SA (50% Stake)	Energy, Mining & Utilities	Chile	309
7	18/02/2014	JK Iguatemi (50% Stake)	Industrials & Chemicals	Brazil	267
8	16/01/2014	Agro Nitrogenados, SA de CV	Industrials & Chemicals	Mexico	250
9	12/02/2014	YPF Sociedad Anõnima (Vaca Muerta shale 1.240 km2 area)	Energy, Mining & Utilities	Argentina	217
10	27/01/2014	Transportadora de Gas del Perú S.A. (10.43% Stake)	Business Services	Peru	200

LATIN AMERICA MID-MARKET VOLUMES BY SECTOR



UNITED KINGDOM & IRELAND

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

THE BIG PICTURE

- 2014 began with a dip in both deal volume and value
- The availability of funding, the capital markets and the economy continues to be positive
- The region remains an attractive source of acquisition opportunities
- The outlook has improved, with a marked increase in known deal activity.

A slow start to the year is no cause for concern given the prevailing favourable outlook.

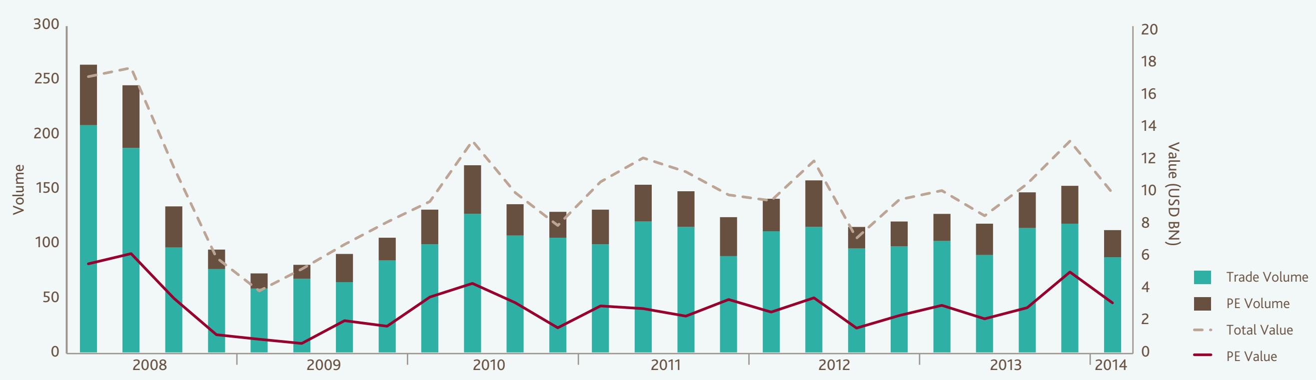
After the strongest Q4 for years, 2014 got off to a slower start with only 113 deals completing (compared to 128 for Q1 2013). This made it the lowest quarter for deal volume for five years, but with value holding up well at USD 9.8bn, we don't read too much into this. One reason for the sudden dip may have been a push to complete deals ahead of the calendar year end, while a surge in IPO activity may have diverted deal activity away from trade and private equity.

FEWER DEALS, BUT BIGGER ONES

The number of private equity deals fell below the levels of the past three quarters, but matched the same time last year and stayed pretty constant as a proportion of total deals (just over 22%). What has changed is the total value: at around USD 3bn, it surpassed every quarter in 2013 except the final one. This is a strong indication not only of the amount of private equity funds available, but also of the continued interest and confidence of players to put that money to work. Two of the ten largest deals in Q1 2014 were led by private equity, including HgCapital's USD 330m acquisition of Zenith Vehicle Contracts from Morgan Stanley Private Equity.

The number of trade deals also declined during the quarter, but (as with private equity) their value held up better.
Cross border deals continued to play an important part in this – the region is still

PE/TRADE VOLUME & VALUE



seen as an attractive place for acquisitions, due both to progress in the economy and to its being a source of value for US buyers in particular. Half of the ten largest deals were led by overseas buyers, including Google's USD 400m acquisition of DeepMind Technologies. Others included deals led by Marubeni Corporation of Japan and Essar Global of India.

The busiest sectors by deal volume were TMT (20%), Business Services (18%) and Industrials & Chemicals (17%). However, all three were down on the previous quarter, with Business Services seeing the biggest fall. The Leisure sector and Pharma, Medical & Biotech saw the lowest levels of activity, while Financial Services enjoyed an uptick in activity – along with two of the ten largest deals.

Valuations also dropped slightly, with BDO's private company price index (PCPI) falling to an EV/EBITDA ratio of 10.2 and the private equity price index (PEPI) falling to an EV/EBITDA ratio of 7.5x. Nevertheless, the PCPI remains at a higher level than for most quarters in the past four years, while trade continues to have strong balance sheets and an ability to pay a strategic price for the right acquisition.

UK & IRELAND HEAT CHART BY SECTOR

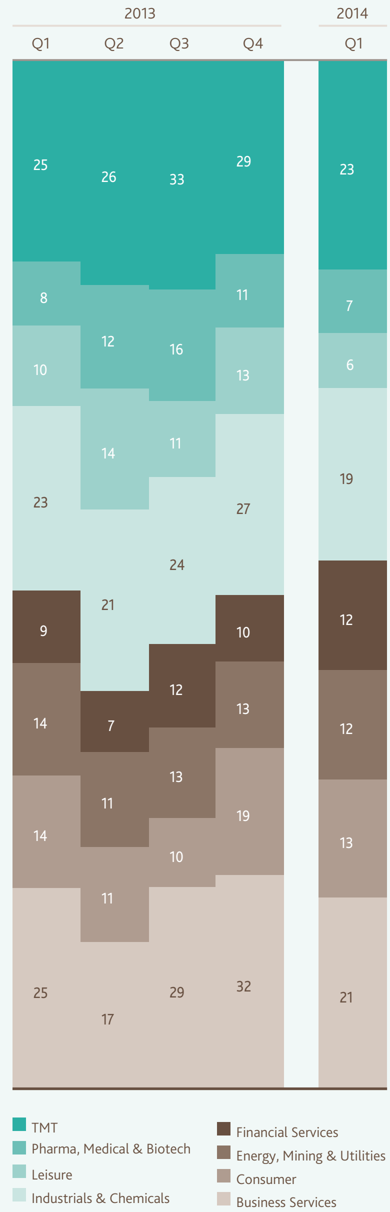
Energy, Mining & Utilities	72
Industrials & Chemicals	69
Consumer	68
TMT	66
Business Services	66
Financial Services	56
Leisure	35
Pharma, Medical & Biotech	21
Total	**453**

Looking ahead

A dip in activity levels in a single first quarter is not a cause for concern. It remains a fertile environment for deal activity, with readily available cash for both trade and private equity deals, strong capital markets and improving debt markets to keep confidence levels up. The region also continues to record economic growth.

The prevailing mood of optimism is reflected in the heat chart, where market intelligence reveals 453 deals either planned or in progress – a figure well above the 408 recorded at the close of 2013. Much of the increase can be attributed to three sectors that have not dominated the share of recent deal activity, namely Energy, Mining & Utilities, Financial Services and Consumer. TMT, Industrials and Chemicals and Business Services also remain strong.

UNITED KINGDOM & IRELAND MID-MARKET VOLUMES BY SECTOR



SOUTHERN EUROPE

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

A slow start in terms of volume, but private equity is playing a pivotal role in a market poised for greater activity.

THE BIG PICTURE

- Deal volume is down from Q1 2013, but value is holding steady
- Private equity deals are playing an important role
- Some of the most significant deals took place in Spain, which is being seen as the gateway to Europe by some overseas investors
- The number of rumoured deals is up.

Although the year's first quarter registered fewer mid-market deals than the corresponding period in 2013, there was good stability in terms of deal value – and with an increasing number of rumoured deals in the pipeline, there may be further encouraging developments to come.

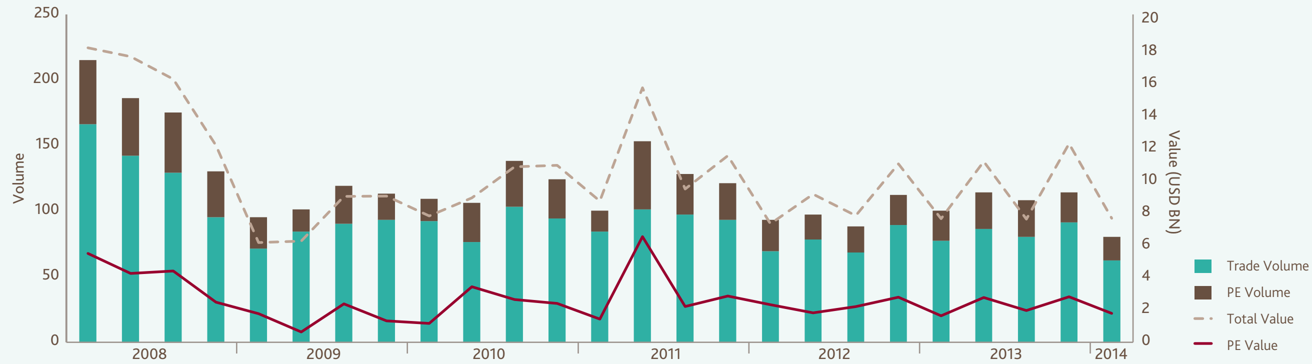
The first quarter of 2014 saw a big drop in mid-market deals compared to this time last year, with a volume decrease of -20% on Q1 2013 and -30% on Q4 2013. However, the first quarter is often the weakest or second-weakest in terms of deal volume – and as regards value, the situation in Q1 2014 was quite different. Despite the relative drop in volume, deal value held absolutely stable compared to Q1 2013 (though still down by -37% on Q4 2013).

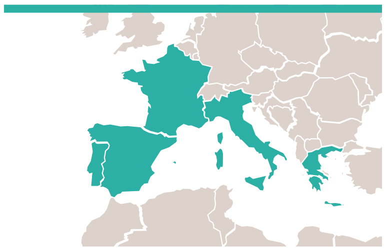
Private equity driven deals are still playing a major role in the mid-market, accounting for 22% of the total volume of deals and 24% of total value. Furthermore, the volume of private equity deals rose in Q1 2013 by 9%.

Spain was the location of some of the most important deals of this quarter. Two notable examples involved Quadrant Capital Advisors and Eurazeo, who purchased minority stakes in two Spanish companies, respectively Inmobiliaria Colonial (real estate) and Desigual (fashion). These two deals account for a total value of 804 USDm, respectively ranking second and third for deal value in Q1 2014, after the sale of the French company Arkopharma.

Meanwhile Italy saw two important foreign acquisitions. The first was the purchase by Belgian company NV Baeckert (a world market leader in steel wire transformation and coatings) of Pirelli's steel cord business branch for USD 804m. The second was the acquisition of a 20% stake in the Gianni Versace company by the US investor Blackstone Group, for a total value of USD 288m.

PE/TRADE VOLUME & VALUE





SPAIN – THE GATEWAY TO EUROPE?

A number of significant Mexican players have acquired a foothold in Spain in a bid to consolidate themselves in the European markets. Several Mexican investors with deep pockets have been buying up assets in key sectors such as Consumer, TMT, Energy, Mining & Utilities, and Infrastructure. Mexican players have been busy in the Spanish market since 2011, taking advantage of the common language to invest in Spanish companies now that the nation's economy is emerging from its five-year slump.

Spain's strategic location and growth potential are powerful incentives for Mexican corporates, who will continue to acquire Spanish assets in a strategic move intended to grow their upstream capabilities and their geographic footprint in Europe.

Examples include Grupo ADO, a Mexican bus operator, which purchased Avanza from Doughty Hanson, a London-based private-equity firm. In other deals, Campofrío was acquired by Sigma Alimentos, Mexico's largest processed-meats producer, while Sara Lee announced an agreement to sell its fresh bakery businesses in Spain and Portugal to Mexico's Grupo Bimbo.

There have also been investments from Mexican players such as Fibra Uno (a real-estate investment trust), Inbursa (Carlos Slim's financial services arm), Televisa (Latin America's largest media group), Pemex (the Mexican state oil firm) to name but a few of those who have invested in Spanish opportunities amid economic turbulence.

However, Mexicans are not alone in this consolidation. Several North American companies have also been interested in acquiring some Spanish "crown jewels" now that the economy is catching up. A case in point is the US-based Crown Holdings, a global leader in consumer packaging that acquired Mivisa Envases, a leading Spanish manufacturer of food cans from the investment funds of The Blackstone Group and N+1. Another example is the Ontario-based company Ingersoll Tillage Group (ITG), which acquired a controlling interest in Spanish agricultural tillage group CPE that markets its products under the "Bellota" brand. And Canada's Domtar bought Spanish adult incontinence product maker Laboratorios Indas from Spanish buyout firms Portobello and Vista Capital, while the US cosmetics maker Revlon agreed to buy the Colomer Group from CVC Capital Partners.

SOUTHERN EUROPE HEAT CHART BY SECTOR

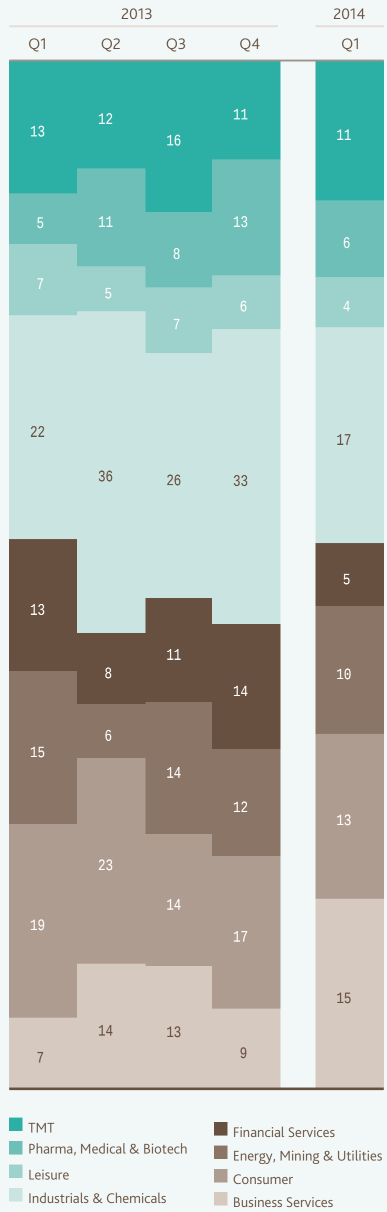
Consumer	155
Industrials & Chemicals	148
TMT	109
Business Services	81
Energy, Mining & Utilities	68
Financial Services	63
Leisure	41
Pharma, Medical & Biotech	25
Total	**690**

Looking ahead

In terms of sectors, the most important player in Q1 2014 was Industrials & Chemicals with 17 deals, closely followed by Business Services which posted 15 deals (a 67% increase on Q4 2013). In third place was the Consumer sector with 13 deals, down by 24% from Q4 2013 – but potentially the star player of the next few months, with 155 rumoured deals according to the heat chart.

The total number of possible transactions is up to 690, an increase of 6% from Q4 2013, which predicted 651. So the omens are good for a highly active year still to come.

SOUTHERN EUROPE MID-MARKET VOLUMES BY SECTOR



BENELUX

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

THE BIG PICTURE

- Mid-market deal value was down, despite numbers holding relatively steady
- Notably high levels of activity in TMT and Pharma, Medical & Biotech sectors
- Private equity buy-out value was dominated by a single transaction
- The biggest investors in the Benelux are its surrounding countries and the USA.

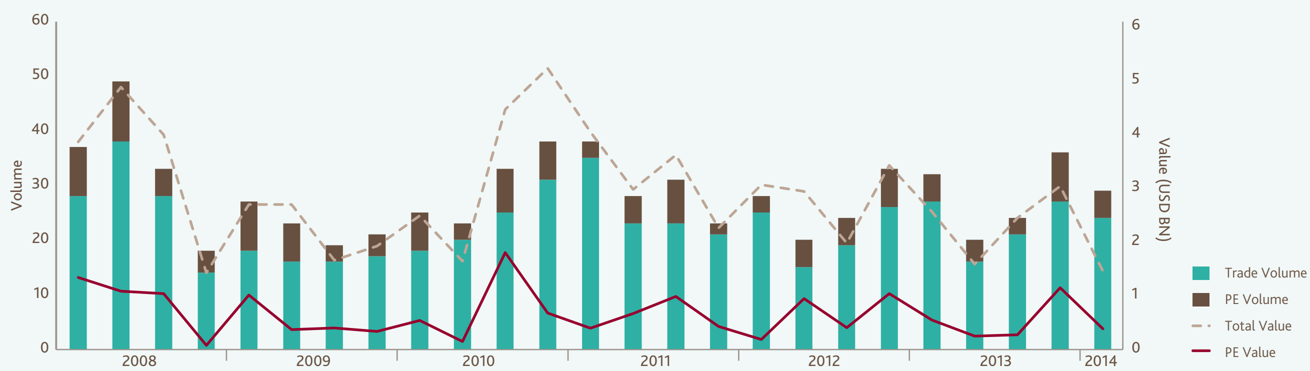
The Benelux region (The Netherlands, Belgium and Luxembourg) experienced a somewhat subdued first quarter, with deal values down a little compared to the start of previous years. Nevertheless there was no shortage of deals taking place, and certain key sectors (such as TMT) were particularly hot.

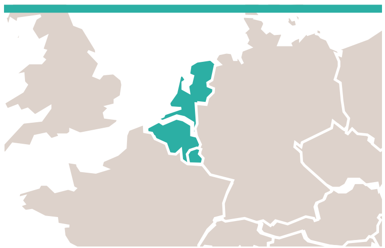
BIG DEALS STAND OUT IN A QUIETER QUARTER

In terms of private equity deal numbers, Q1 2014 was not especially different from previous first quarters – and yet it was a private equity deal that made the single biggest splash. A single transaction accounted for more than 80% of the total private equity deal value – namely, the acquisition by Montagu Private Equity of a majority stake in D.O.R.C. (the Dutch Ophthalmic Research Center International) from Rabo Capital, for USD 309m. This deal helped to boost the quarter's average deal size to USD 74.4m, comfortably above the Q1 average of USD 49.2m, but still considerably lower than the previous two-year average (USD 106m).

Subdued activity in some sectors within the Benelux region only highlights the exceptional levels of activity in others. TMT activity was especially high in Q1 2014, most notably in The Netherlands. The Dutch Eyeworks (a television production company) was sold to the US-based Warner Bros Television Group for USD 273m, making it the second largest deal of the quarter. Meanwhile Talpa Music (owned by private investors) was acquired by the German BMG Rights Management for USD 50m. In addition to these deals, the sector saw two further important announcements: the first was that the US-based private equity firm Apollo Global Management appears poised to take control of television producer Endemol, while the second

PE/TRADE VOLUME & VALUE





announcement was that investment company Egeria has declared that it is to put NRC Media (a publisher of multiple papers in The Netherlands) up for sale, having acquired the company nearly four years ago.

Pharma, Medical & Biotech also stood out in terms of activity, led of course by the D.O.R.C acquisition and totaling six transactions altogether. Another notable deal in this sector was the acquisition by US-listed biopharmaceutical Aratana Therapeutics of its Belgian counterpart Okapi Sciences (both businesses specializing in the lucrative field of pet health).

Meanwhile, the Industrials & Chemicals and Consumer sectors led the way in terms of outbound activity. Both Belgian and Dutch companies were active in these international deals, with the list headed by the secondary buy-out of JET Gruppe by Egeria.

BENELUX HEAT CHART BY SECTOR

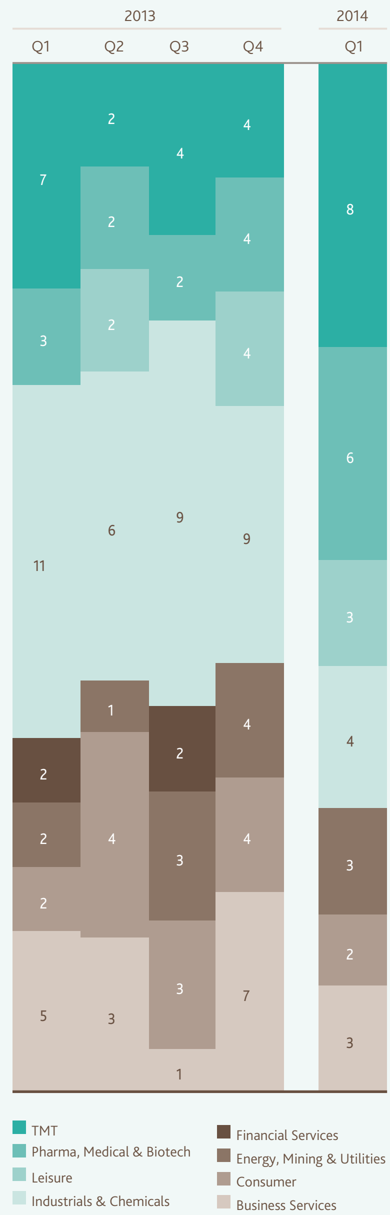
Industrials & Chemicals	67
TMT	42
Consumer	41
Business Services	35
Energy, Mining & Utilities	22
Financial Services	22
Pharma, Medical & Biotech	15
Leisure	6
Total	**250**

Looking ahead

A glance at the heat chart suggests up to 250 deals either in progress or planned, according to current intelligence or at least strong rumours. This represents a rise of 65 on the previous quarter. In the coming period we can expect to see more activity in the Industrials & Chemicals sector, as well as in TMT.

Higher stock market prices, along with companies increasing their price-to-earnings ratios, are helping to drive a growing confidence in the market. Coupled with the current improvement of financial resource availability, this combination would traditionally herald an increase in the number of transactions. What is more, given that deal value has been at a historically low level in Q1 2014, we can expect this to rise too. Leading the way should be the Industrials & Chemicals, TMT and Consumer sectors. It is reasonable to hope that the relatively quiet start to the year was just an intake of breath.

BENELUX MID-MARKET VOLUMES BY SECTOR



DACH

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

THE BIG PICTURE

- Growing confidence underpins a rise in deal flow
- Private equity involvement is so far weaker than expected
- Many companies are sitting on very strong balance sheets
- M&A activity is still driven by strategic logic, with only few opportunistic deals.

A strong start to the year as confidence inspires companies to pursue their growth strategies.

The first quarter of 2014 showed strong M&A activity within the DACH region (Germany, Austria, Switzerland). A tally of 48 completed deals with a total value of USD 4.7bn is a promising sign for a year of increasing deal flow to come.

Strong expectations for Q1 2014 were fulfilled, with deal numbers up by 41% on the corresponding quarter in 2013 (rising to 48 from 34) and total deal value up by 16%. And it seems that this momentum is set to be maintained, with around 400 more deal opportunities in the pipeline.

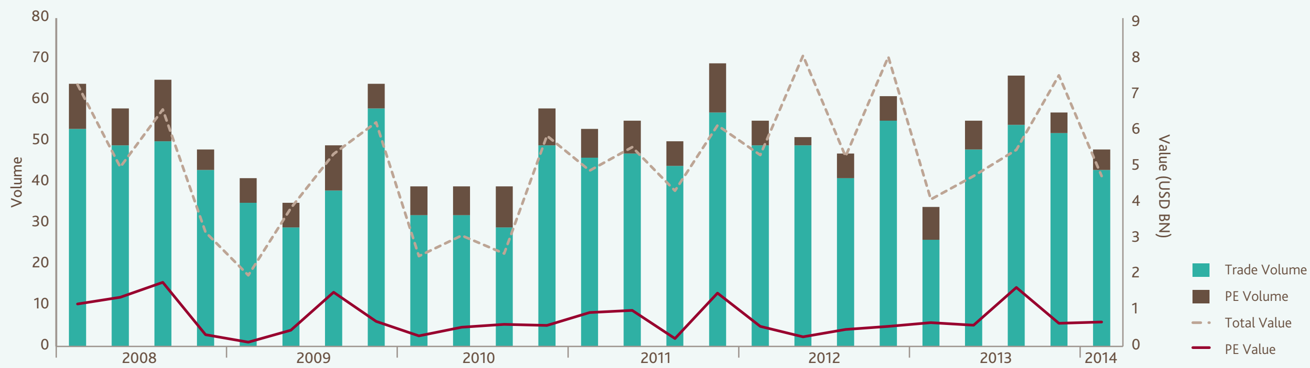
Furthermore, in a striking change from 2013's overall activity, we saw blue chip and large mid-cap corporates playing a major role in DACH transactions announced during Q1 2014. This can be seen as yet another indication of the improving market environment.

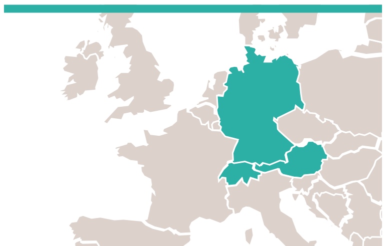
A MARKET DRIVEN BY STRATEGY

DACH seems to be a region of shrewd, prudent planners, with most M&A activity still being based on long-term strategic logic. This is in contrast to the US or the UK, where the process of buying and selling assets has tended to be more opportunistic. Companies in the German Mittelstand are sitting on strong balance sheets, so it will be interesting to see if and when these risk averse companies start to go for more and bigger acquisitions. This prevailing mood of caution goes some way to explaining why outbound activity is still significantly outweighed by inbound deals.

There were some notable highlights to the year's first quarter. The largest transaction (deal value USD 498m) was the acquisition of a 17% stake of Berlin-based Coca-Cola Erfrischungsgetraenke AG (the national concession holder) by European Refreshments Ltd (Coca-Cola Ireland).

PE/TRADE VOLUME & VALUE





Elsewhere, publicly listed SMA Solar Technology AG (Germany, photovoltaic inverters) will form a strategic partnership with Danfoss A/S (Denmark, energy-efficient solutions) as another milestone of its restructuring. Danfoss will acquire a 20% stake in SMA and pay a strategic premium of 50% (USD 413m). Also notable was the sale by ex-monopolist Deutsche Telekom AG of a 50.1% stake (USD 304m) in its joint venture Scout24 Schweiz AG (Switzerland, online market places) to co-investor Ringier Digital AG (Switzerland, media).

The largest complete takeovers showed a highly international profile: Nippon Steel & Sumikin Engineering Co., Ltd. (Japan, construction of plants) acquired (USD 194m) Fisia Babcock Environment GmbH (Germany, construction of plants for thermal waste treatment) from Salini Impregilo S.p.A. (Italy, construction). Meanwhile Berchtold GmbH & Co. KG (Germany, medical equipment) was taken over (USD 172m) by Stryker Corporation (USA, medical equipment) from the family members of the founder, who were selling.

DACH HEAT CHART BY SECTOR

Industrials & Chemicals	120
TMT	70
Consumer	61
Business Services	42
Pharma, Medical & Biotech	39
Financial Services	28
Energy, Mining & Utilities	20
Leisure	16
Total	**396**

One surprise of the first quarter was the weak showing of private equity in the mid-market – it was involved in only five deals, or just 10% of all announced transactions and 14% of total deal volume (USD 671m). However, this share should rise substantially in coming months, on the back of the sector's strong recovery in 2013. We expect buyout firms to become more aggressive, attracted by the low cost of debt and loosened credit requirements by banks.

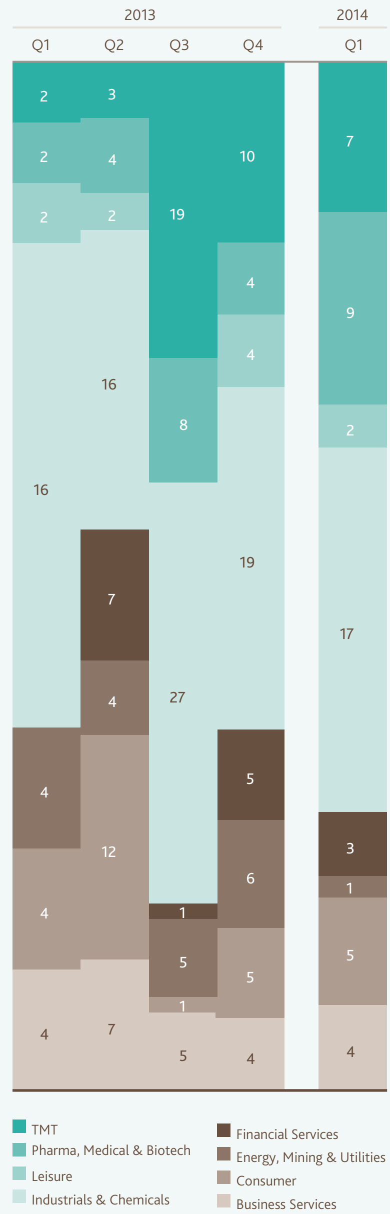
In terms of sector focus, most deal activity of Q1 2014 took place in Industrials & Chemicals (35% of deal volume), Pharma, Medical & Biotech (19%) and TMT (15%). Between them these sectors accounted for almost 70% of total deal activity.

Looking ahead

This encouraging start to the year has delivered fresh confidence that mid-market M&A will continue to flourish in the DACH region throughout 2014. With the heat chart revealing nearly 400 deals either rumoured or in progress, the market shows every sign of beginning to thrive. Industrials & Chemicals, TMT and Consumer are shaping up to be the most active sectors, while cross border activity is likely to increase as a result of the ongoing European stabilization and US recovery.

Another positive sign from the first quarter, and an unexpected one, was an improvement in the Ifo Business Climate Index (Ifo Institute for Economic Research, Munich), which is a good economic indicator for economic activity in Germany. It serves as further justification for the current rising tide of confidence.

DACH MID-MARKET VOLUMES BY SECTOR



NORDICS

SAMAN PARSIFAR
Management Consultant
saman.parsifar@bdo.se

THE BIG PICTURE

- Another solid quarter underlines the region's ongoing stability
- Deal numbers are slightly up, although value is markedly down
- Growing international interest is fuelling major cross-border deals
- Industrials & Chemicals and TMT are the most active sectors, but others show rising pipeline activity.

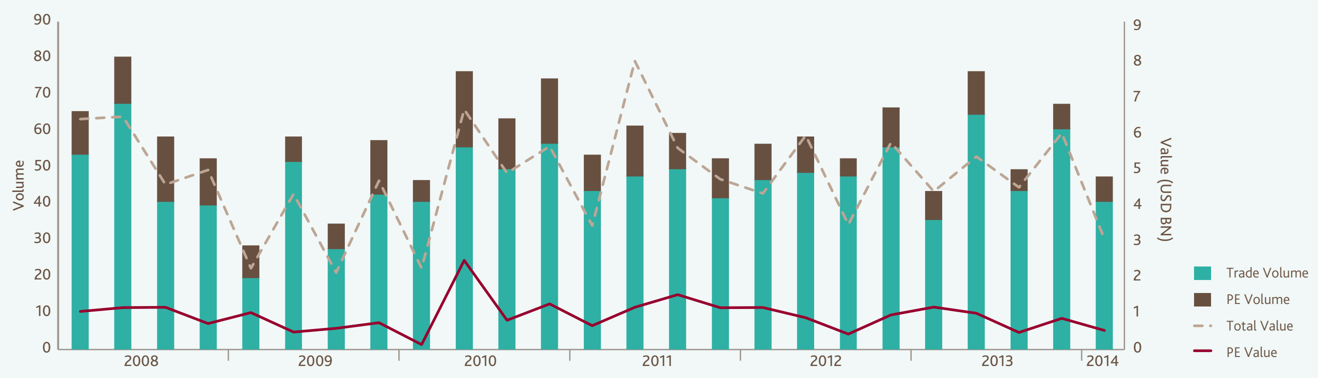
A stable mid-market that can look forward to a big rise in the number of future deals.

Consistency and stability have been the hallmarks of our region in the first quarter. The overall volume of transactions has kept up a steady pace, with 48 deals being slightly up on Q1 2013 (which had 44). However, total deal value reached just USD 3bn, representing a four-year low. Denmark leads the way on volume, with 16 transaction, while Norway takes first place for total deal value with USD 1.1bn.

MODEST PRIVATE EQUITY BUT INTERNATIONAL ENTHUSIASM

During this quarter the Nordic region's private equity firms increased the size of their assets under management by USD 484m, though the number of private equity deals was just seven, at the same low level as in Q4 2013. This represented just 15% of the 48 deals during the quarter, though 16% of the total deal value. Average deal numbers since 2008 have been 58 deals per quarter (with 49 the average for Q1) so this year has made somewhat of a slow start – though activity looks set to pick up as the year progresses.

PE/TRADE VOLUME & VALUE



Of the 48 deals made during Q1 2014, just seven (15%) were PE buy-outs, amounting to USD 484m which was 16% of the total value (USD 3bn).

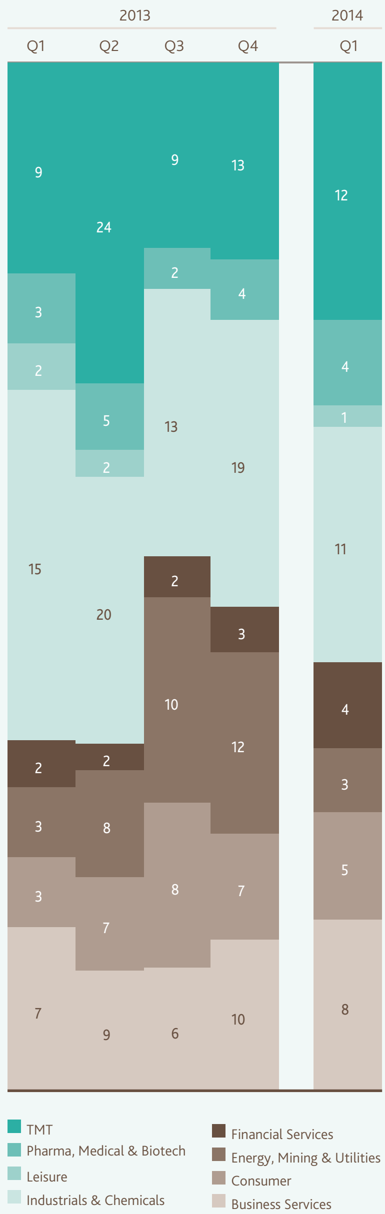
There is currently a growing interest in the Nordic region on the international side. An impressive 60% of the quarter's mid-market transactions were cross-border (29 deals), and five of the 10 largest were from countries such as Switzerland, Marshall Islands, USA, UK, and Hong-Kong. Together the top 10 deals amounted to USD 2.2m, or 73% of the total transaction value.

Sweden and Norway were involved in the two largest deals, which were the acquisition of Sparbank Oresund AB by Swedbank AB (USD 468m), and the investment company Kistefos AS increasing its holding in Rederi AB TransAtlantic, which operates in the freight forwarding industry.

SECTOR ACTIVITY CONTINUES TO FOLLOW TRENDS

Once again, the Industrials & Chemicals and TMT sectors proved the most active sectors, accounting for 48% of transactions in Q1 2014 by number. This continues a trend that has been running since 2008, with those two sectors averaging 12 and 16 transactions per quarter respectively (though they also have the largest standard deviation, respectively 4.7 and 4.1). The largest industry transaction of the quarter was the acquisition of DS SM A/S (a Denmark based manufacturer of steel constructions for energy and building industries) by US based Valmont Industries Inc. Meanwhile the largest TMT deal was Kudelski SA's acquisition of Norway based Telenor's encryption and content security for digital TV, for USD 250m.

NORDIC MID-MARKET VOLUMES BY SECTOR



NORDIC HEAT CHART BY SECTOR

Industrials & Chemicals	64
TMT	41
Consumer	40
Business Services	32
Pharma, Medical & Biotech	27
Energy, Mining & Utilities	26
Financial Services	15
Leisure	6
Total	**251**

Looking ahead

Looking beyond the mid-market at the whole of M&A activity across the Nordic region, it turns out that Q1 2014 has delivered record highs in terms of both transaction volume and value. A number of major transactions have particularly stood out, generating increased optimism and higher expectations across the entire market. Furthermore, a greater international focus on this region should increase the number of private equity backed deals in the year ahead.

CEE & CIS

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

THE BIG PICTURE

- Deal numbers slightly up in the first quarter, though value is down
- Private equity appears to take a breather after a peak final quarter
- Consumer and Financial Services sectors show sharp rises in activity
- More than 900 mid-market deals currently rumoured or in progress.

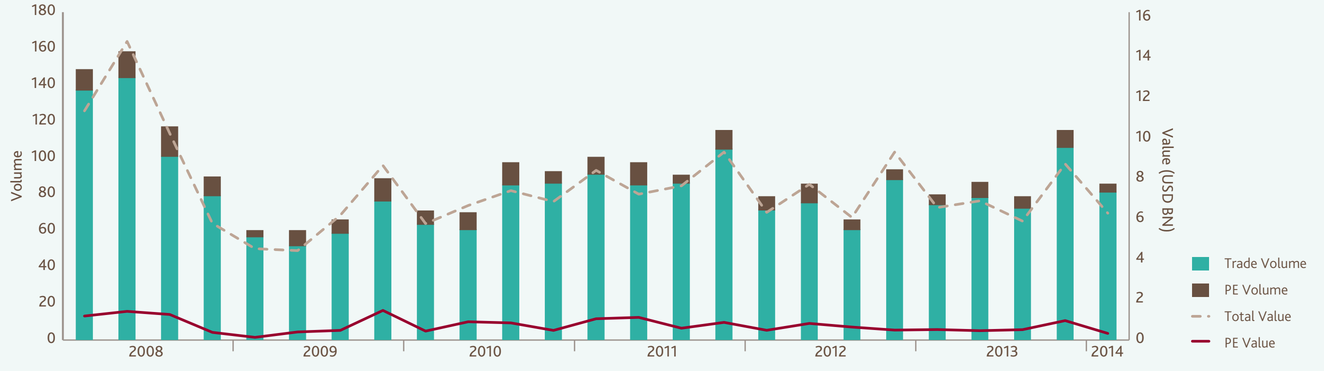
A slow start, but a full pipeline promises greater deal activity ahead.

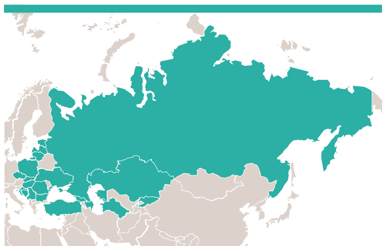
Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS) saw a total of 88 complete deals in the first quarter, a significant volume that was 7% higher than the same time last year. Value however was slightly down, the total of USD 6.2bn falling short of the USD 6.5bn of Q1 2013.

Private equity funded deals accounted for just 4% of transactions by value, a modest figure given that the average for 2013 as a whole was 7.5%. The Q1 2014 private equity deals comprised five buyouts totalling USD 250m, making this by far the least active quarter for private equity in four years. This however comes immediately after a peak-performing quarter, with a total value of USD 890m in Q4 2013.

More than half the total number of deals were confined to three sectors, namely Industrials & Chemicals, Financial Services, and Consumer. The least active sectors were Leisure and Pharma, Medical & Biotech, in keeping with last year's trend. However, the overall balance of activity across the sectors was showing signs of redistribution compared to previous periods. The Consumer and Financial Services sectors saw a sharp rise in the number of deals. In the whole of 2013 there were only 53 deals in the Consumer sector, and just 6 in Q1 2013; by contrast, Q1 2014 alone delivered 18 completed transactions. This trend manifested in Financial Services too, with 16 deals in Q1 2014 being 60% higher than the 10 in Q1 2013 (and just 43 deals in the whole of 2013).

PE/TRADE VOLUME & VALUE





TMT also showed a significant rise in activity, with the first quarter delivering 12 compared to 7 in Q1 2013, though it has yet to match the levels seen in 2011.

The remaining sectors, as can be seen on the graph, performed slightly below the corresponding quarter last year, in terms of the average number of deals.

The top 10 mid-market deals in the first quarter paint a picture that is broadly similar to the one we saw towards the end of last year. Russia and Turkey (as a target country) continue to play a significant role in the deal landscape of CEE & CIS.

CEE & CIS HEAT CHART BY SECTOR

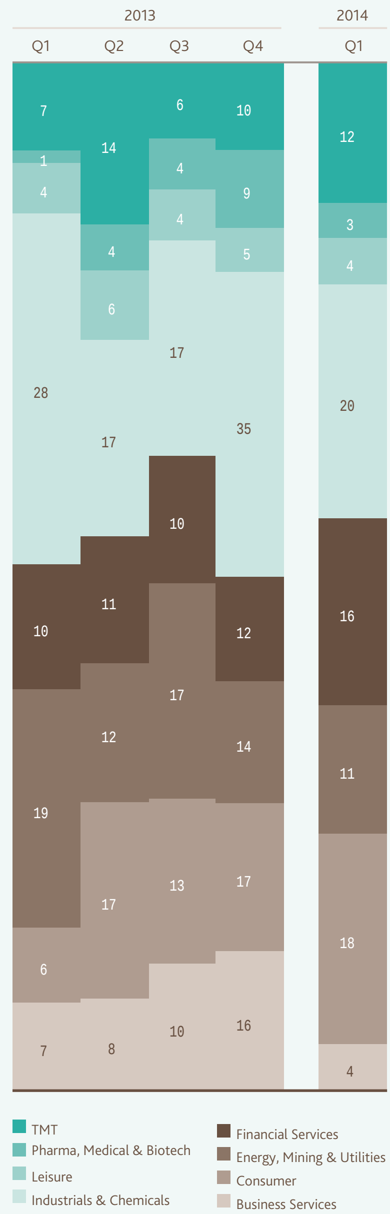
Industrials & Chemicals	269
Consumer	143
Business Services	121
TMT	108
Financial Services	106
Energy, Mining & Utilities	105
Leisure	58
Pharma, Medical & Biotech	46
Total	**956**

Looking ahead

Rising business optimism in the CEE & CIS means that we can expect greater M&A activity for the remainder of 2014. The growing availability of funds for both trade and private equity buyers will also be a significant boosting factor. Things already seem to be heating up – as the heat chart makes plain. Current market intelligence reveals over 900 deals either in progress or planned, which is already over 250% of the 2013 level of activity. If this figure is borne out by reality, then the region may see a rebound to levels of activity not seen since 2008.

The chart also shows that CEE & CIS has earned out the third highest level of interest, after China and North America (CEE & CIS consist of 33 countries altogether). So, even though the Q1 2014 figures did not deliver the expected upswing predicted by the heat chart, this can be put down to the typical stagnancy of first quarters – which means that the upward trend for 2014 is still very much expected in the coming months.

CEE & CIS
MID-MARKET VOLUMES BY SECTOR



MIDDLE EAST

JON BREACH
CEO
jon.breach@bdocf.com

THE BIG PICTURE

- Political tension is down, investor confidence and economic growth are both up
- Private equity exits are back on the agenda as valuations increase
- The Consumer and Construction sectors have been boosted by strong long-term fundamentals
- Equity and debt capital markets are hungry for new IPOs and debt issues.

A more stable political outlook is a boost to investor confidence and economic growth.

With the recent easing of macro-political concerns, investor confidence is returning to the Middle East region. Quarterly volumes of M&A activity have been consistent now for over two years, while last year average deal values picked up significantly. There is renewed investor appetite for the equity and debt capital markets too, with new debt issues being oversubscribed and the return of successful IPOs.

PLAYING TO THE REGION'S STRENGTHS

The Middle East has always had the advantage of a geographically strategic location, and now multinationals are establishing regional hubs here to gain access to its emerging markets and those of Africa and Asia. The larger, regionally based private family conglomerates are seeing improved returns on their existing businesses, and are actively evaluating investment prospects both in the region and further afield to take advantage of favourable pricing.

The region's sovereign wealth funds and large corporates have built up significant reserves, and now are actively seeking opportunities to deploy capital to reinforce growth in the local economies.

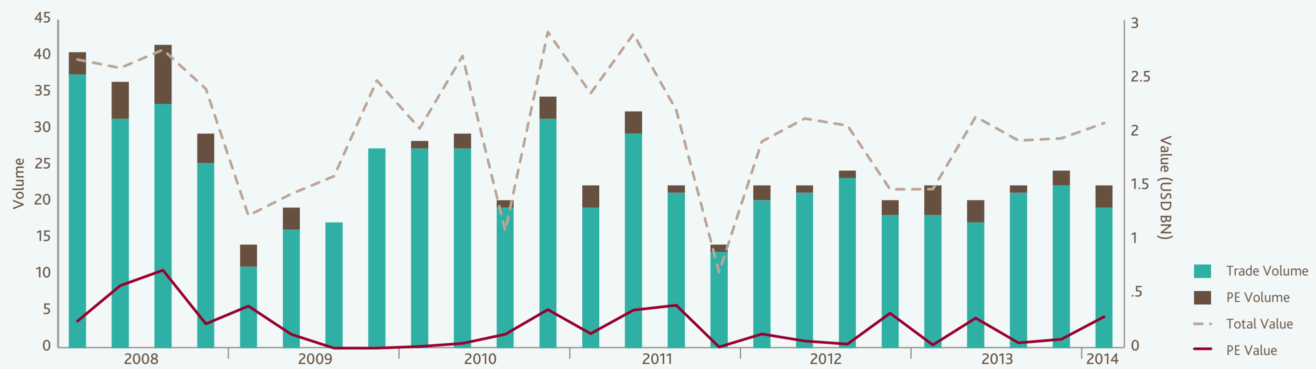
With balance sheets restored, funds ready to be deployed on the buy-side, and growing confidence in future prospects and reasonable valuation expectations on the sell-side, investors in the Middle East know that now is the time to be decisive.

PRIVATE EQUITY EXITS ARE BACK ON THE AGENDA

The global financial crisis triggered a long period of uncertainty, exacerbated by geopolitical issues in the region. Now that this is lifting, improving prospects and valuations are prompting private equity firms to consider exits for their investments.

The largest transactions in Q1 2014 were both significant private equity exits –

PE/TRADE VOLUME & VALUE



Istithmar Capital's USD500m sale of Palm Utilities to Emicool (UAE) and Carlyle Group's USD235m sale of a majority stake in General Lighting Co (KSA) to Philips Electronics. Meanwhile on the new investment side, reported transactions involving private equity remain at around 10% of total deal volume.

It is typical in this region that not all private equity and SWF deals are disclosed, particularly where minority stakes within privately held companies are acquired. Unlike the traditional majority buy-out deals in developed markets, much of the Middle East's private equity activity centres on development or replacement capital. There is anecdotal evidence of numerous off-market transactions where large financial institutions have taken significant minority positions to facilitate development of the investee companies. This would indicate that the level of private equity transactional activity is probably stronger than the published data suggests.

CONFIDENCE BUILDS IN THE CONSTRUCTION AND CONSUMER SECTORS

The most notable change in the quarter was the surge in the number of Consumer sector deals. This reflects the market expectations of strong growth in the Retail and Hospitality & Leisure sectors, owing both to rising tourism and to a continued increase in the underlying population due to immigration. Investors are keen to access this lucrative market which will be spurred in coming years by specific events such as Expo 2020 in Dubai and the Football World Cup 2022 in Qatar. Another beneficial factor should be the rapid growth of the Middle East airlines Emirates, Qatar and Etihad as they contribute to international stopover tourism.

One of the quarter's most notable transactions was the USD163m sale by Havenvest Private Equity of Byrne Equipment Rental (UAE) to the Saudi based Hanco Group, backed by Venture Capital Bank in Bahrain. This deal illustrates the strong prospects for both the Consumer and Construction sectors in which Byrne operates, renting equipment to large scale events and major construction projects.

MIDDLE EAST HEAT CHART BY SECTOR

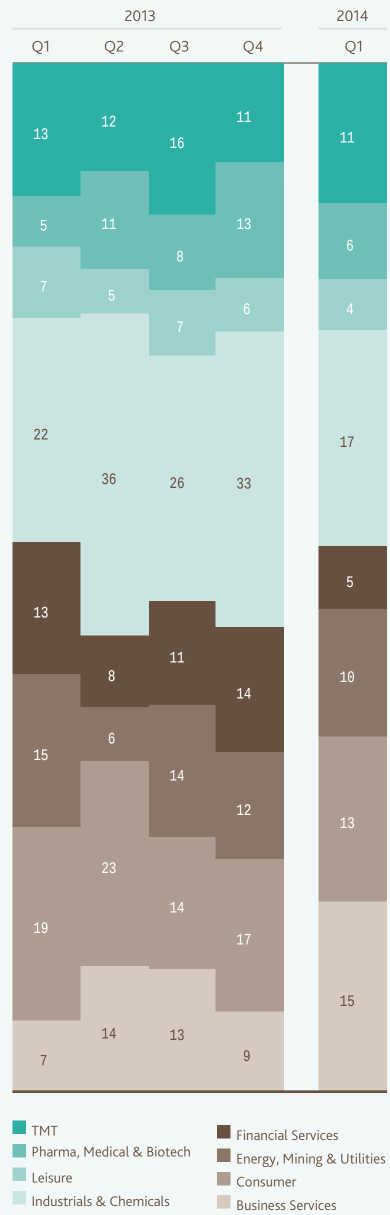
TMT	49
Industrials & Chemicals	41
Energy, Mining & Utilities	19
Financial Services	19
Consumer	17
Business Services	16
Pharma, Medical & Biotech	16
Leisure	2
Total	**179**

Looking ahead

On our heat chart of anticipated and rumoured deals, we see the market is led by the TMT and Industrials & Chemicals sectors, which account for half the total expected deals between them. There is a continued strong showing in the Energy, Mining & Utilities sector, underlining its importance in the region's economies, and also in the Business Services and Consumer sectors.

The convergence of buy-side and sell-side pricing expectations, coupled with the increasing availability of equity and debt financing, should continue to drive up both the volume and value of M&A activity over the remainder of 2014. In addition, the strengthening over the last two years of the Euro against the US Dollar (against which many of the regional currencies are pegged) will encourage more European based investors to give the region serious consideration.

MIDDLE EAST MID-MARKET VOLUMES BY SECTOR



INDIA

ZULFIQAR SHIVJI
M&A Partner
zulfiqarshivji@bdo.in

THE BIG PICTURE

- Deal numbers were down on Q1 2013, but value was significantly higher
- Private equity accounts for around a quarter of total mid-market deals
- Consumer and TMT sectors show biggest rise in activity
- Imminent political reforms expected to encourage investment.

A quiet first quarter in terms of deal numbers, but value is up year-on-year.

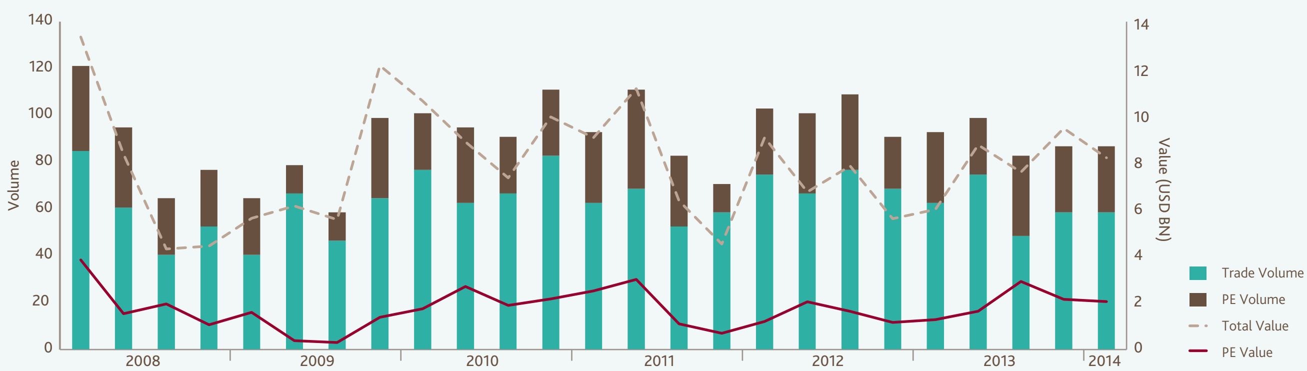
Private equity buyout deals amounted to USD 722m, representing 25% of total deal value, while their number (14 deals) accounted for 33% of total deal volume. For comparison, these numbers were 23% and 33% respectively in Q4 2013, indicating that private equity involvement is steady and arguably strengthening at least in value terms.

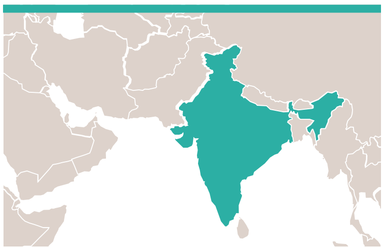
The Consumer sector saw the highest jump in activity, with seven deals in Q1 2014 compared to just three in Q4 2013 (a rise of 133%). This was followed by TMT which enjoyed a 100% rise in deal volume from five to 10. Among the top 10 deals in Q1 2014 in terms of value, three were in the Consumer sector, with two each for TMT and Financial Services, and one each for Business Services, Industrials & Chemicals and Energy, Mining & Utilities.

The Consumer sector also recorded the biggest deal of the quarter, with Wilmar International, the world's largest palm oil manufacturer, acquiring a strategic stake in Shree Renuka Sugars Ltd for USD 496m in February, helping the Murkumbi family-owned company to cut debts and forge a global alliance.

Other major deals in the first quarter included the Government of India increasing its stake in UCO Bank from 69% to 77% through conversion of preference shares worth USD 330m, and doing the

PE/TRADE VOLUME & VALUE





same with Vijaya Bank, going from 59% to 74% via preference shares worth USD 193m.

Meanwhile Groupe Lactalis SA, the world's largest dairy player, acquired a 100% stake in Tirumala Milk Products Pvt Ltd from its founders and private equity major The Carlyle Group for USD 275m. Elsewhere, Aditya Birla Group sold its business and technology outsourcing firm Aditya Birla Minacs Worldwide for USD 260m to a consortium of private investors of Indian origin who are backed by private equity firm CX Partners. Finally, Dalmia Bharat Ltd's subsidiary company, Dalmia Cement (Bharat) Limited, acquired a 74% stake in Bokaro Jaypee Cement Limited for USD 150m.

Looking back at 2013, the average number of deals in each quarter was 45 – a trend that seems to be holding up well with the 43 deals of Q1 2014. This also held true in terms of value; each quarter in 2013 averaged USD 2.8bn, while Q1 2014 delivered a total deal value of USD 2.9 bn.

INDIA HEAT CHART BY SECTOR

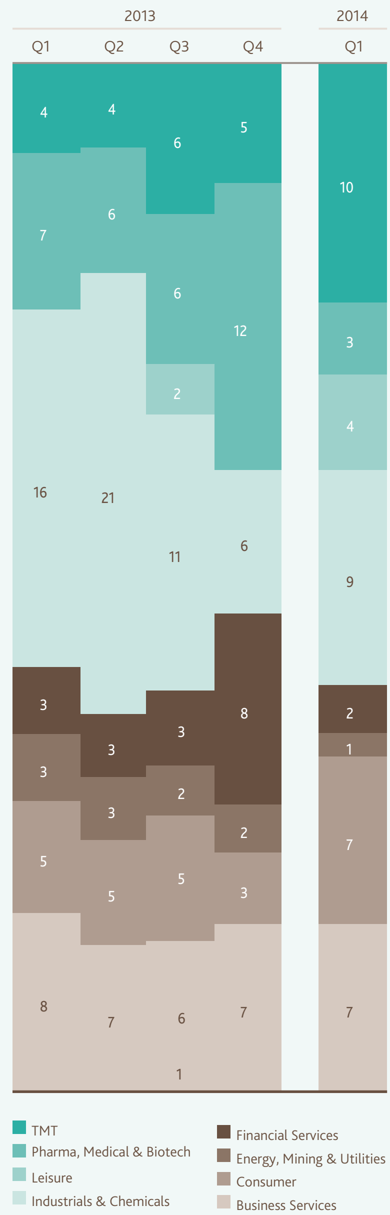
Industrials & Chemicals	119
TMT	91
Business Services	84
Pharma, Medical & Biotech	73
Financial Services	69
Consumer	63
Energy, Mining & Utilities	29
Leisure	23
Total	**551**

Looking ahead

Despite macroeconomic and political uncertainty, India continues to receive investment interest due to its future growth prospects. Also, with the expectation of a stable government taking charge after May's election results, India could witness a kickstart of reforms led by an uptick in the investment cycle. This could give a much needed push to deal activity – many investors have been awaiting the outcome of the election before committing further capital to companies in India.

Our heat chart shows that 551 deals are either planned or in progress. Industrials & Chemicals is expected to deliver the highest number of deals, as has been the trend over the last few years.

INDIA MID-MARKET VOLUMES BY SECTOR



CHINA

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

THE BIG PICTURE

- Outstanding levels of deal volume and value in Q1 2014
- Greater China remains the most active M&A market in Asia-Pacific
- Domestic and inbound deals predominate
- Industrials & Chemicals and TMT the most active sectors.

An impressive start to 2014, building on momentum from previous years.

With 249 mid-market deals announced in the first quarter, the Greater China region made an emphatic start to the year. Total deal values of USD 23.1bn equated to more than 30% of the entire deal value of 2013 (which was USD 75.6bn), and recorded the region's second highest quarter ever by deal value.

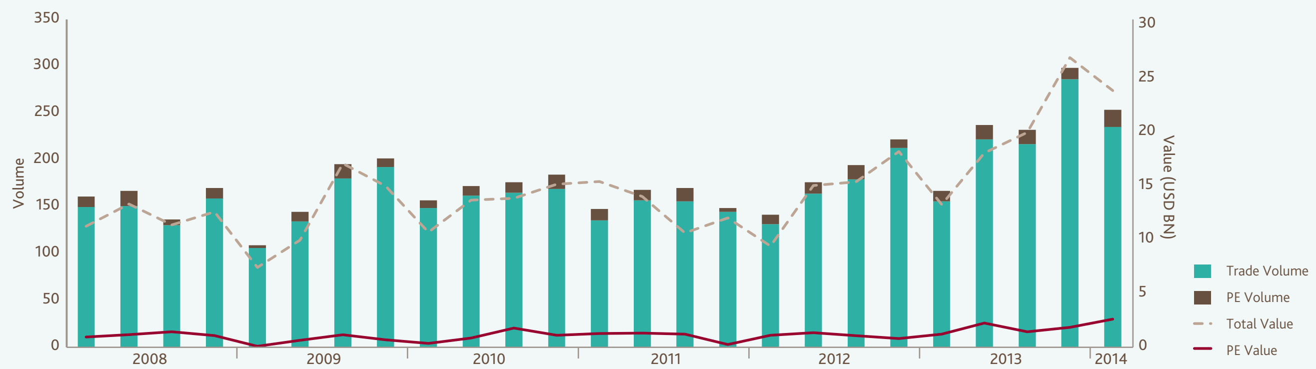
A HEALTHY AND GROWING APPETITE FOR DEALS

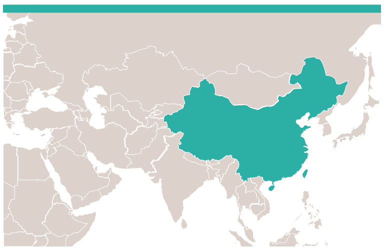
With record levels of M&A also reported across Asia-Pacific in Q1 2014, a marked regional contrast was in evidence as the ASEAN economies experienced a relatively quiet quarter, with Greater China driving the continent's M&A activity levels. The remarkable figure of nearly 250 deals announced in the first quarter compares very favourably to Q1 2012 (139 deals) and Q1 2013 (164 deals), consolidating Greater China as the most active M&A market in Asia-Pacific.

The perceived slowdown in China's economic growth engine does not appear to be having any impact on M&A appetite in the region. Not that the slowdown is particularly dramatic – reported GDP levels declined slightly to 7.7% in Q4 2013, with a market expectation of around 7.5% GDP for the full year 2014, which is still highly impressive in the context of global GDP growth forecasts.

More than 10.9% of deal value in Q1 2014 came from private equity backed transactions. This came on the back of a marked pick-up in private equity activity, which had averaged only 8.6% of deal values and 5.8% of deal volume in 2013 as a whole. A total of 18 private equity buyouts were reported in Q1 2014, making it one of the strongest quarters for private equity in the region for some time. However, the key M&A drivers in the first quarter were domestic and inbound deals.

PE/TRADE VOLUME & VALUE





The domestic market has remained active, with the largest 10 mid-market transactions all taking place between Hong Kong and PRC companies. This included Shanghai Hyron Software Co. Ltd's acquisition of the software services portal www.2345.com, and the announced sale of Apex Microelectronic's integrated circuits printing machine business for USD 435m.

THE MOST INDUSTRIOUS SECTORS

Industrials & Chemicals remained the most active sector, with 109 deals reported in Q1 2014 alone, due largely to consolidations taking place in key sub-sectors such as chemicals, cement and steel. One sub-sector of note is solar power, for which large-scale consolidation is now expected, following the recent withdrawal of government support (refunds of export tariffs) to around 75% of PRC solar equipment manufacturers. This should then help to reduce the excessive domestic competition in this sector.

Also highly active is TMT, with 55 deals announced in Q1 2014, the highest on record. This included mobile business services, gaming and e-commerce businesses, with a number of recent strategic investments by key industry players such as Tencent, Alibaba, TOM Group and Baidu, as they continue to jostle for competitive positioning in the market.

Total inbound investments for the wider Asia-Pacific market were up by an impressive 64.7% from Q1 2013, with much of the benefit going to the China region as can be seen in the heat chart. Outbound M&A activity levels slowed slightly throughout the quarter, driven partially by a continued lull in the Energy sector, although overseas acquisitions by PRC companies are still expected to offer explosive growth potential. The key focus of outbound deals was again strategic investments, including industrial targets in Germany, but the latest quarter also saw transactions in agriculture (The Netherlands) and automobiles (France).

CHINA HEAT CHART BY SECTOR

Industrials & Chemicals	409
TMT	143
Consumer	141
Energy, Mining & Utilities	117
Business Services	72
Leisure	65
Pharma, Medical & Biotech	61
Financial Services	56
Total	**1,064**

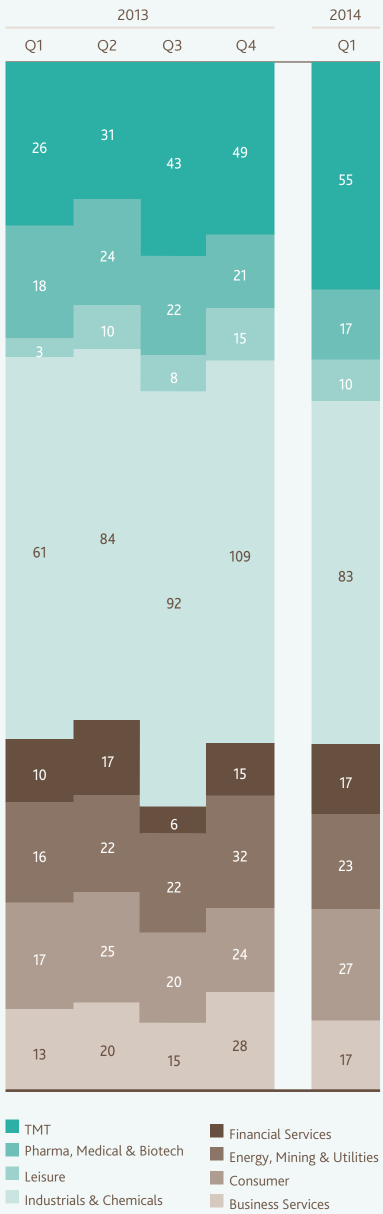
Looking ahead

According to the heat chart, Greater China has moved up to become the second most active region globally for potential deals, with a pipeline of 1,064 deals expected or rumoured. The key target sectors remain Industrials & Chemicals, TMT and Consumer, representing over 65% of the transactions in progress.

The deals on which we are currently working reveal a strong renewed interest from US and Western European strategic investors. Overseas investors are returning to Hong Kong and China as increased global economic stability brings the confidence to engage in cross-border deals once more.

Although the level of recent activity in China may take time to flow through, the momentum towards Greater China is expected to continue, with the mid-market a key area of interest particularly in cross-border deals. With over 1,000 deals currently anticipated, we expect the Greater China region to further consolidate its position as the second most active market for deals globally, with strong fundamentals in place to drive more domestic, inbound and outbound deal flow in the region.

CHINA MID-MARKET VOLUMES BY SECTOR



SOUTH EAST ASIA

LIEW CHEE MING
Executive Director
cmliew@bdo.my

THE BIG PICTURE

- A five-year peak for both deal volume and value in Q1
- Deals involve a wide range of different sectors
- Industrial and resources companies dominate the deals in the pipeline
- SEA ranked the top Asian region for inward investment.

Thriving activity in multiple sectors and strong international interest makes this a region to watch.

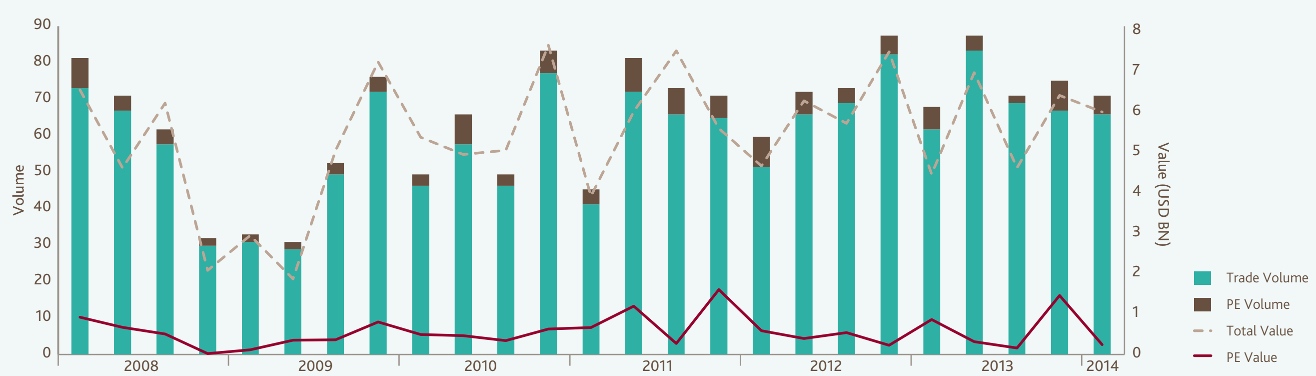
The first quarter of 2014 saw a total of 69 completed deals, with a combined value of USD 5.7 bn. This made it the highest-performing Q1 for five years, on both counts. By stark contrast, for private equity it was the second least active Q1 for five years, with just five deals completed by private equity funds.

GROWING INTEREST IN THE REGION

The year got off to the most promising start since 2010, with a diverse range of activity. The Q1 deals came in many different sectors including Business Services, Consumer, Energy, Mining & Utilities, Financial Services, Industrials & Chemicals, Leisure, Pharma, Medical & Biotech, and TMT. Most active among these were Industrials & Chemicals and Business Services, which between them contributed 20% and 19% respectively of deal activity. Leisure was the sector that showed the most growth in activity.

Industrial & Chemicals and Energy, Mining & Utilities account for 44% out of the 435 work in progress deals captured on the heat chart. The SEA top 10 mid-market deals in Q1 2014 bears out the fact that these are the most targeted sectors, along with Financial Services and Leisure. As for the most targeted countries in the region, this honour goes to Malaysia, Singapore and Indonesia.

PE/TRADE VOLUME & VALUE

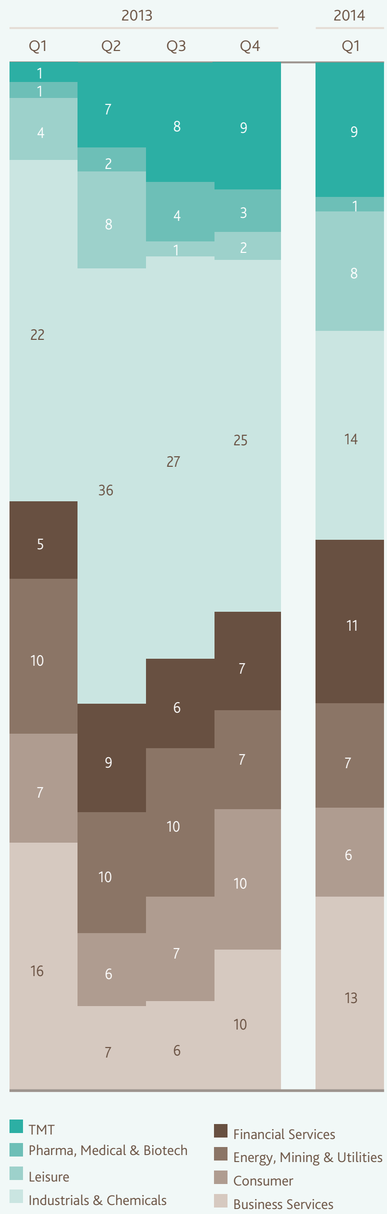


> Nearly two-thirds of investors [in our survey] said that Southeast Asia was becoming more important in their investment strategies." He added that while Indonesia would probably continue to dominate interest, investment was expected to broaden to Singapore, Malaysia, Thailand, the Philippines and Vietnam, and that increasing commercial links between the countries in the region would drive cross-border investments to support the companies' business activities."
>
> Quoted in The Jakarta Post, Thomas A. Olsen, a partner at Bain & Company Indonesia

SOUTH EAST ASIA HEAT CHART BY SECTOR

Industrials & Chemicals	113
Energy, Mining & Utilities	77
Business Services	57
Consumer	55
Financial Services	44
TMT	43
Pharma, Medical & Biotech	32
Leisure	14
Total	**435**

SOUTH EAST ASIA MID-MARKET VOLUMES BY SECTOR



Looking ahead

Despite its weak showing in Q1 2014, private equity should continue to expand its influence as global buyout firms increase their presence as well as their knowledge capitalization of the local business landscape. This should slowly offset the threat of competition from cash-rich corporates.

Companies in larger economies such as China, Japan and South Korea are showing increasing preference for acquisitions in SEA instead of targeting North America and Europe, according to the 2014 CFO Outlook Asia survey by Bank of America Merrill Lynch. Australia is also showing keen interest in the region, with the emphasis on metals and mining. Japan was the world's largest M&A investor into SEA in 2013, with a 48% share of total inbound deals, worth USD 11.1bn, and has been targeting the Industrials & Chemicals sector mostly through small-cap deals.

The CFO Outlook Asia survey ranked SEA as the most favoured region in 2014, a rise from its number two spot in 2013. Meanwhile the "Emerging SEA" countries grouping (Cambodia, Laos, Myanmar, Vietnam) has leapt to third place this year, up from its 7th ranking in 2013, indicating the potential growth in M&A activity. The survey suggests that the tools of growth will be the acquisition of proprietary technology targeted in Energy, Mining & Utilities and Industrials & Chemicals.

GDP growth in those emerging SEA countries is expected to increase gradually, with the focus of M&A activity being to enhance production capabilities in the relevant sectors. Although the M&A market in those countries is still very much at the emerging stage, we can expect to see a fast rise in activity as governments sell assets to raise funds and create growth through more private ownership.

SEA is displaying a good mix of booming consumption trends, driven by a strong population of 650 million with large numbers of young and employed individuals. The region has the potential to deliver a stronger year for mid-market M&A, and will continue to be a beacon for venture capital and growth funds in the market.

JAPAN

MASARU MURAKAMI
M&A Partner
mmurakami@bdo.or.jp

THE BIG PICTURE

- Most M&A trades involve strategic buyers rather than private equity
- Asia, especially ASEAN, is proving to be a major attraction for the M&A market in Japan
- More than 80% of activity was confined to the Industrials & Chemicals, Consumer, Business Services and TMT sectors
- The Japanese economy is still feeling the pressures of low birth rate and an ageing population.

New economic policies seem to be working, while outward investment continues to rise.

In the market overall, M&A volume has steadily increased in Q1 2014. However, in the mid-market it is a different story, with activity substantially down from this time last year (at only 64%). All eyes will be watching closely to see how this trend develops.

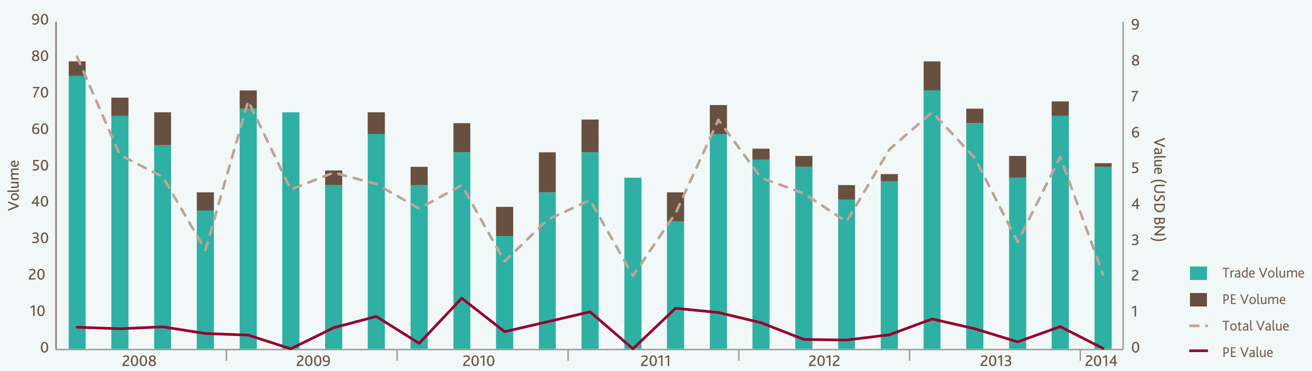
THE WIDER MARKET GROWS, BUT THE MID-MARKET DECLINES

If we look beyond the mid market to the M&A market overall, the total volume in Q1 2014 was 574. This breaks down into 409 domestic deals, 132 outward and 33 inward. Or, to consider it by deal type, it comprised 332 acquisitions, 237 minority investment & increasing equity deals, and five mergers. This is up by 117 (24%) on the same time last year, thanks mainly to minority investment and increasing equity deals, which are up by 80 (51%) to 237.

By contrast, there were only 51 mid-market deals in Q1 2014 – a big drop from last year. This fall is mainly due to declining activity in Industrials & Chemicals (from 25 deals to 12) and in TMT (from 17 to 8).

The graphs shows that trade sales are by far the biggest player in M&A transactions, with both volume and value way ahead of private equity deals. The market is being driven mainly by strategic buyers rather than by financial investors (such as funds). M&A are predominantly being used by companies to expand their business into new markets (either overseas or domestic), or for the selection and concentration of

PE/TRADE VOLUME & VALUE



their core businesses. These trends apply not just to the mid-market but to Japan's M&A deals in general.

OUTWARD INVESTMENT IS STRONG OVERALL

Looking again at the overall M&A market, outward investment is as strong as before. Over this first quarter it has risen from 103 to 132 cases (up 28%), most of it for the Asia region (especially ASEAN) which has around 40% of all deals. This is largely driven by negative internal factors including the low birth rate and ageing population, which are shrinking consumer demand. Meanwhile, positive external factors include Asia's thriving population, consumer market and economy, combined with its lower manufacturing and labour costs compared to Japan. The sectors most active in outward investments into Asia include food services and related businesses, manufacturing, construction and IT.

A FEW SECTORS DOMINATE

Deal activity in Q1 2014 was dominated by a handful of sectors: Industrials & Chemicals, Consumer, TMT and Business Services between them accounted for more than 80% of the total deal volume. The lowest activity was in Energy, Mining & Utilities, while the remaining three sectors in our groupings had similar activity levels. The most steadily active sectors from quarter to quarter were Industrials & Chemicals and Consumer.

JAPAN HEAT CHART BY SECTOR

Industrials & Chemicals	90
TMT	74
Business Services	54
Consumer	46
Leisure	21
Pharma, Medical & Biotech	17
Financial Services	15
Energy, Mining & Utilities	13
Total	**330**

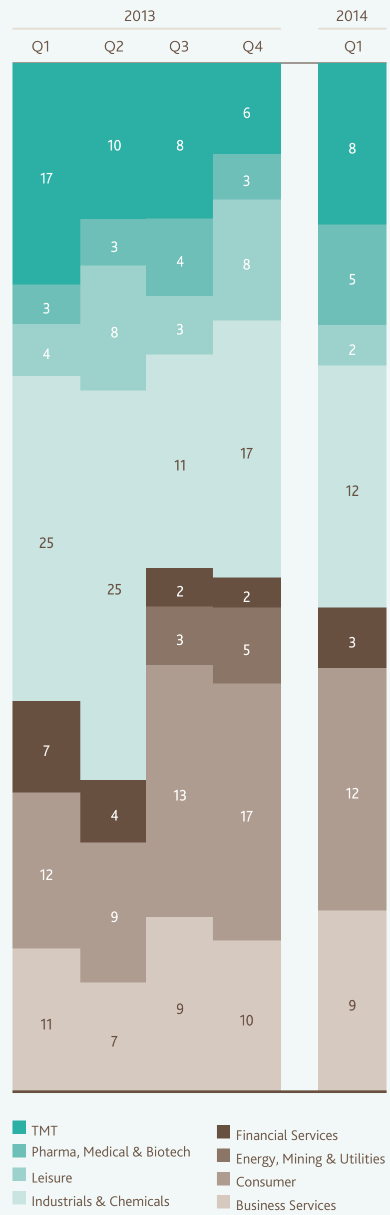
Looking ahead

The heat chart underlines the strength of the Industrials & Chemicals, TMT, Business Services and Consumer sectors, with 264 forthcoming deal opportunities. As shown in the accompanying graph, these sectors have active actual performance, so will function as the engine for Japan's M&A market.

The outlook for deal activity in 2014 is cautiously positive. So far Abenomics has yielded positive results for the Japanese economy – but the underlying issue of the ageing population hasn't changed. Meanwhile, we have to watch carefully to observe the impact of the consumption tax rise which took effect from 1 April.

We can expect the outward investment into Asia to continue and increase – but domestic deals should also become more active. Meanwhile the approach of the Olympics should drive a recovery in the construction, real-estate and tourism industries, bringing with it a potential boost to inward investment from overseas. We should also see continued recovery in the IPO market.

JAPAN MID-MARKET VOLUMES BY SECTOR



AUSTRALASIA

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

THE BIG PICTURE

- Q1 2014 activity again increased year-on-year both in volume and value terms
- Energy, Mining & Utilities regained top spot as most active sector in Q1 2014
- Low interest rates and a stable exchange rate helped to boost deal activity
- Private equity involvement still small but continues to grow.

A strong first quarter continued a four-year trend of year-on-year improvement.

Consistent with historical seasonal trends, the first quarter of 2014 saw a significant step down in deal volumes and value from the final quarter of 2013. However, both deal volumes and value were greater than in Q1 2013, continuing a trend of increasing activity in the first quarter that has run since 2011.

RIDING A WAVE OF POSITIVE TRENDS

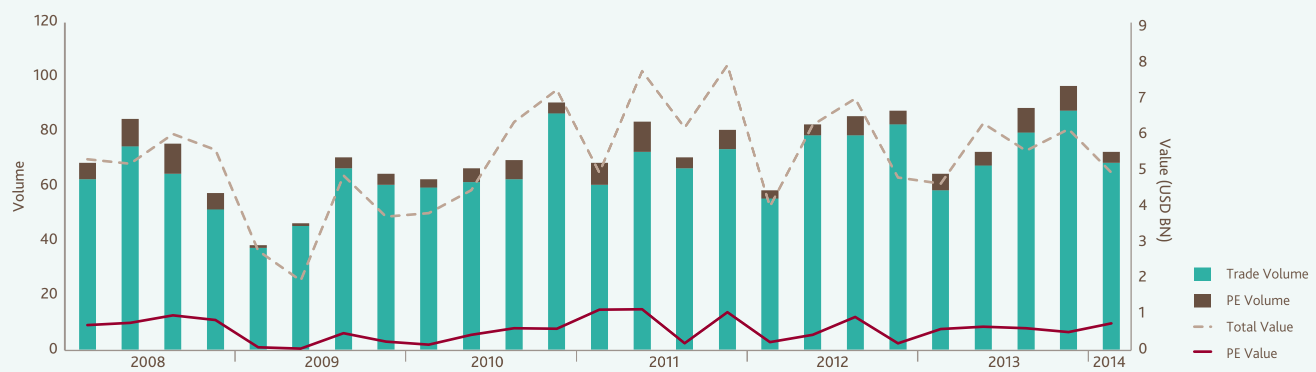
Although private equity still represents only a small proportion of total activity, it continues to increase as it did in the previous quarter. In Q1 2014 it contributed 14.8% of total deal value, which was up significantly from 12.4% in Q1 2013 and dramatically from 5.1% in Q1 2012.

The single largest private equity transaction of the quarter was Telstra's sale of a 70% stake in Sensis to a US private equity firm, Platinum Equity, for USD 419m (Sensis operates the Yellow and White Pages telephone directories). The USD 419m sale price was 2.4 times Sensis's forecast 2014 financial year earnings, while Telstra will be booking a USD 138m accounting loss on the sale.

In line with our predictions, the Energy, Mining & Utilities sector reclaimed its position as the most active sector, contributing three of the Australasian top 10 mid-market deals for Q1 2014. Consolidation and transaction activity was helped by the fact that commodity prices stabilised during the quarter.

Major sector transactions included a proposal by the ASX-listed Seven Group to acquire oil and gas company Nexus Energy, with an offer to purchase all outstanding Nexus shares for .02 cents per share. As part of the acquisition, Seven Group was also to provide working capital for Nexus (including USD 111m for project

PE/TRADE VOLUME & VALUE



development, USD 55m for gas exploration, and USD 81m on make-good obligations and litigation settlements) and up to USD 37m in bridge loan facilities.

In another major sector transaction, ASX-listed Sirius Resources NL agreed to acquire prospector Mr Creasy's 30% interest in the exploration licence which hosts the Nova-Bollinger nickel-copper deposits in the Fraser Range, Western Australia. The acquisition, which is conditional on Sirius shareholder approval, comprises 70.6m Sirius shares, USD 26m in cash, and a 0.5% net smelter royalty payable on production from future discoveries made from that portion of the licence.

Leisure was another sector that saw increasing activity in Q1 2014. The board of ASX-listed Reef Casino Trust approved an USD 200m takeover bid from casino developer Aquis Casino Acquisitions, controlled by Hong Kong billionaire Tony Fung. Major superannuation fund Sunsuper agreed to buy the remaining 70% interest in Discovery Holiday Parks that it did not already own, valuing the company at an enterprise value of USD 221m.

The largest mid-market transaction in Australia for the quarter was a distressed asset purchase, as ASX-listed Transurban Group agreed to acquire Sydney's Cross City Tunnel for approximately USD 406m. The 2.1 kilometre tunnel connects the west side of Sydney's CBD to the east side, and cost USD 925m to build, but was placed into receivership in September 2013 in the wake of a legal dispute with the NSW government over stamp duty.

Meanwhile, in New Zealand, the largest mid-market transaction was the proposed purchase of 100 per cent of data storage and encryption company MEGA Ltd by the NZX-listed shell company TRS Investments. The purchase is to be satisfied by the issue of 700m new shares in TRS to the existing Mega shareholders at NZD30 cents apiece, valuing Mega at USD 180m.

AUSTRALASIA HEAT CHART BY SECTOR

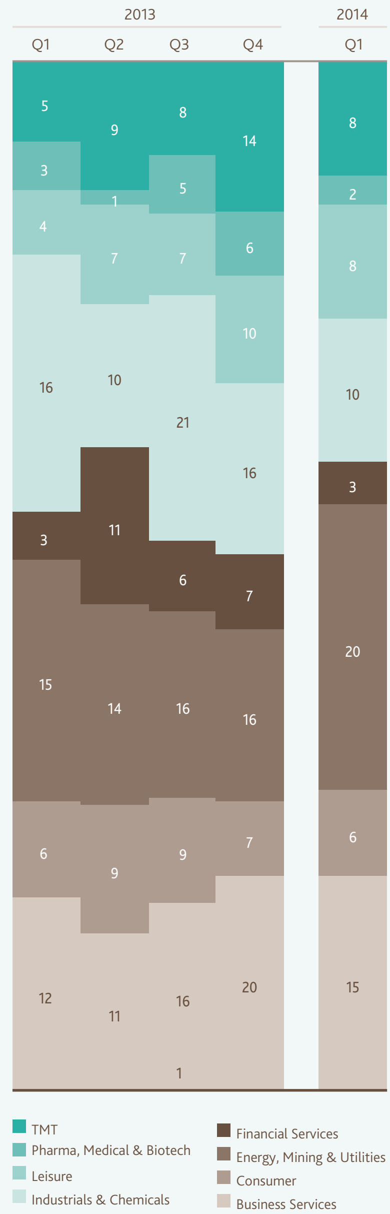
Energy, Mining & Utilities	196
Business Services	100
Industrials & Chemicals	85
Pharma, Medical & Biotech	58
Consumer	54
TMT	46
Financial Services	44
Leisure	20
Total	**603**

Looking ahead

The heat chart for Australasia for Q1 2014 suggests that the Energy, Mining & Utilities sector is expected to continue to contribute the largest amount of transactions over the short to medium term (33%).

Given the backdrop of stable exchange rates, low corporate debt rates and a more confident economic outlook, M&A activity is well positioned to continue to grow through 2014. Domestically, corporate balance sheets are in good health (after extensive capital raisings were undertaken following the GFC), providing local buyers with the capacity to fund acquisitions. Australia and New Zealand, due to their proximity to the high growth Asian economies, also represent an attractive investment proposition for international acquirers. We therefore expect acquisition activity to be driven by both local and international buyers over the course of 2014.

AUSTRALASIA MID-MARKET VOLUMES BY SECTOR



CONSUMER

ENERGY, MINING & UTILITIES

SECTOR VIEW ▶

LEISURE

PHARMA, MEDICAL & BIOTECH

CONSUMER

CÉSAR PARRA
Managing Director
cesar.parra@bdo.es

Just as the recession changed household consumption patterns across Europe and altered our spending habits, so it also seems to have influenced the approach to corporate deal making. In general, those private companies with a stronger financial profile have used the crisis to reduce their debt, by applying cost cutting measures, reducing their fixed structures, reinvesting profits and so forth. This decrease in costs has led to rising profits, with the result that many companies have accumulated a small cash fund.

Now several business owners are seriously considering using their strong cash position to perform strategic M&A deals in the food and beverage sector, which is sustaining its strong momentum into 2014. Furthermore, sponsors are taking advantage of market dynamics that favour sellers, and capitalizing on an exit window that remains wide open for large corporates wishing to grow their platforms overseas and consolidate themselves in the European markets.

MOVING FROM SCARED TO PREPARED

The owners of businesses that have successfully weathered the downturn are now changing gear from apprehension to preparation, armed with greater certainty of the degree of competition out there. Many are now seeking investment opportunities to reinforce or defend their market position, or to diversify their marketing channels, gain critical mass to reach new customers, enter new markets or expand their geographic footprint. For all of these goals, the accumulated cash fund will prove instrumental.

For any corporate in the wake of the crisis, a priority must be to consolidate its core businesses. Those with increased profits can focus on how to expand their products and pursue corporate acquisitions, to reinforce their business both financially and operationally.

So we can expect more opportunistic M&A deals along with corporate consolidations, as private equity seeks to exit from the highly-leveraged acquisitions completed in the boom years.

THE DYNAMICS OF THE MARKET

The Consumer space is a highly fragmented one. The competitive landscape is split between large international corporations, national players, and local businesses with niche products – some of them highly profitable. Dynamic corporations in this sector are leveraging on acquisitions to expand their geographic footprint and product portfolios to achieve economies of scale and a deeper vertical offering, while securing new markets.

The large public and private corporations will be active acquirers this year. Rising interest from strategic buyers, coupled with strong financing markets and private equity involvement, should also lift M&A activity in the food and beverage sector.

We are already seeing a "Mexican wave" of corporations based in Mexico that are using M&A deals in Spain to consolidate themselves in the European markets. Southern European consolidation in the Consumer sector will mean that M&A continues to be key for corporations intending to grow their upstream capabilities and their product portfolios in Europe. This can be seen in the 6.5% increase in Q1 2014 from the previous quarter.

M&A TO MAINTAIN MOMENTUM

Another key driver of Consumer M&A this year will be the strategic restructuring taking place in many public and private companies, as well as in private equity portfolios. This ongoing process is an opportunity for corporations and equity sponsors that are interested in acquiring strategic assets, by making it easier to enter new markets on a stand-alone basis through asset purchases or by acquiring non-core assets of large multinationals.

M&A activity should continue its strong momentum throughout the year; in the first quarter alone we saw 1,366 mid-market deals in the Consumer sector. Europe was the stand-out region, with a share of more than 37.2% of the total deals, followed by North America with 23.9%. Notably, within Europe the regions of Southern Europe and CEE registered 11.3% and 10.5% respectively, an indication of the consolidation wave taking place there.

PRIVATE EQUITY AT THE HEART OF THE ACTION

Private equity continues to be an active consolidator in the Consumer space. As the heat charts show, we can expect increased private equity deal flow in the year to come. Sponsors are looking to identify and grow existing platforms, and also want to make the most of the current favourable exit window as they seek to cash in portfolio investments made during the boom years.

Retail could see increased consolidation this year as market conditions improve, while the restaurant industry should continue to maintain its recovery. Operators in the quick service segment are manoeuvring to position on international markets after achieving a high domestic market penetration.

CONSUMER	
HPC	96
Other Foods	90
Baked goods	63
Protein Processing	63
Frozen	62
Agribusiness	51
Dairy	48
Confectionary	39
Wine/Spirits	38
Soft drinks	36
Food Ingredients	31
Fresh Produce	27
Total	**644**

RETAIL	
Restaurants	90
Grocery Distribution/Food Retail	64
Baked goods	63
Total	**644**

CONSUMER

NOTABLE DEALS

We have seen a large number of deals in selected categories within the food and beverage and consumer goods sectors. To round off, here are some of the highlights.

FOOD & BEVERAGE

Buyout firm Charterhouse has bought a majority stake in Italian cheese maker Nuova Castelli for over USD 409m, in a management buyout deal.

In the frozen and fresh bakery space, Aryzta (a Swiss frozen bakery operator) completed a USD 334mm acquisition of the Canada-based Pineridge Bakery, engaged in the production of frozen and fresh baked goods, from Swander Pace Capital, a US-based private equity firm. Aryzta has also completed another large acquisition (USD 661m) and integrated Cloverhill Pastry-Vend (a producer of baked goods primarily sold through vending machines) from Quad-C Management, a US-based private equity firm. These acquisitions are a sign of the global consolidation taking place in frozen dough and fresh bakery products.

Arca Continental S.A.B. de C.V. (the listed Mexico-based company engaged in the production, distribution and sale of soft drinks and bottling services) has agreed to acquire an 87% stake in Holding Tonicorp S.A., the Ecuador-based company engaged in the production of dairy products, beverages and plastic containers.

HPC

In the HPC segment, L'Oreal completed the acquisition of Magic Holdings International, a Hong Kong-based cosmetic facial mask maker, from Baring Private Equity Asia and other investors for USD 750m.

Domtar Corporation, a Canadian corporation, agreed to acquire Laboratorios Indas from Portobello, Vista Capital and Intermediate Capital Group in a USD 545m deal. Laboratorios Indas is a Spanish company engaged in the manufacture of hospital and personal hygiene products. The acquisition will enable Domtar to strengthen its position in the personal care market and also will expand its range of absorbent hygiene products in Southern Europe.

RETAIL

Notable strategic deals include the announced acquisition of the supermarket operator Arden Group for USD 368m by TPG Capital LP, the US-based private equity firm. TPG is planning to further expand Gelson's footprint of premier supermarkets in North America.

Kroger, one of the largest general retailers of the US, has completed the acquisition of Harris Teeter Supermarkets.

Finally, Keg Restaurants was acquired by the listed Canada-based company Fairfax Financial, the investment management company. Fairfax has agreed to acquire 51% stake for over USD147mm. Keg Restaurants operates and franchises casual dining steakhouse restaurants and bars.

ENERGY, MINING & UTILITIES

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

It is without doubt a tough time deal-wise for the Energy, Mining & Utilities sector. Challenging economic conditions have caused global deal volumes and values to fall significantly. Low investor confidence has opened up a funding gap, with the likely result that junior explorers will continue to seek alternative funding options. However, these same economic challenges mean that mid-market transactions will be a key driver of deal activity for 2014, with further industry consolidation and non-core asset spin-offs occurring in the resource sector.

ECONOMIC PRESSURES DEPRESS THE FIRST QUARTER

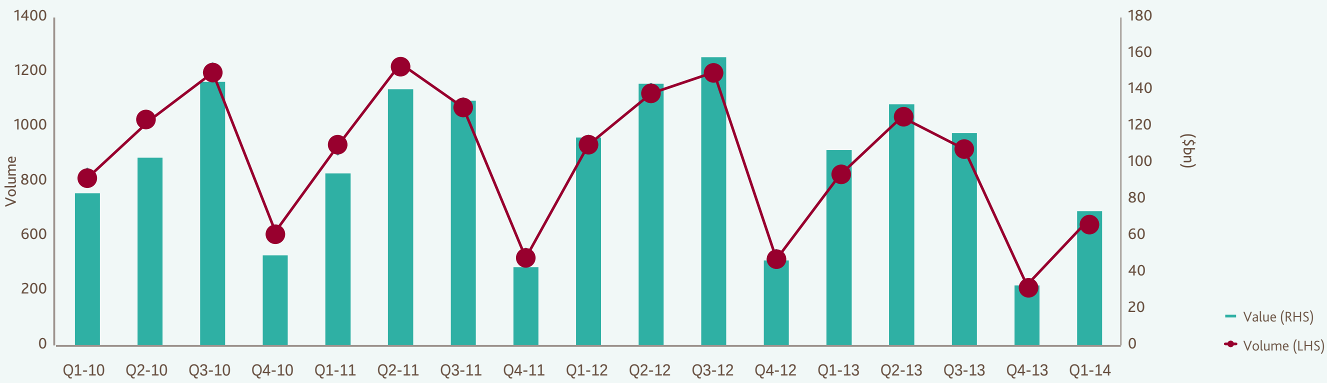
Deal activity declined again in Q1 2014, reflecting the continued economic challenges particularly around commodity pricing. All industries within the sector have been affected, mining the most seriously with steel the worst hit. Most regions too experienced falling deal volumes and values, the most affected being Greater China.

Transaction* volumes across the resource sector experienced a 31% contraction compared to Q1 2013 and 12% compared Q1 2010 (it is necessary to compare only corresponding quarters as the resource industry is subject to high seasonal variations). A total of 573 deals with a value of USD 78bn were completed during Q1 2014, representing the lowest level of deal volumes and values (over the first quarter) for the last five years. Companies in the sector continue to face commodity price volatility, record impairment and shifting demand fundamentals.

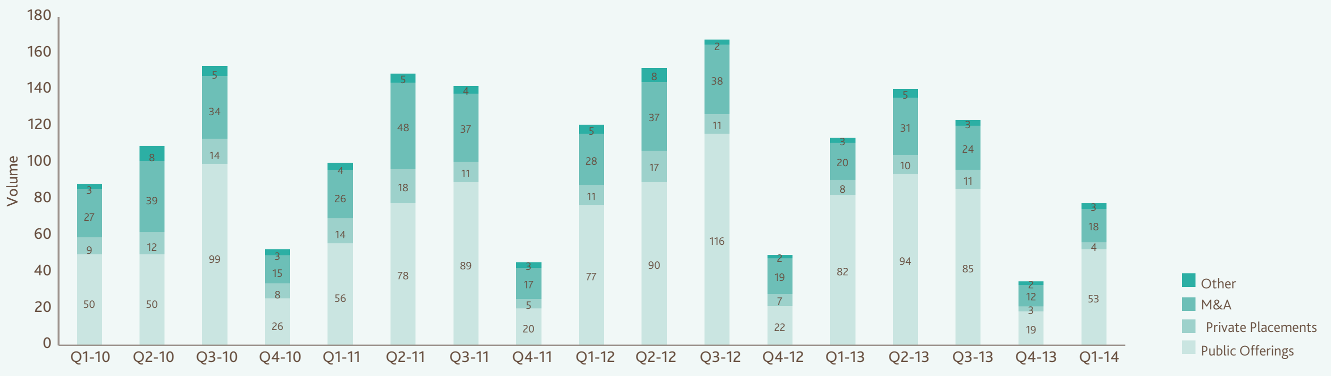
Historically, early stage exploration companies secured funding through public equity markets. However, challenging market conditions combined with low investor confidence have induced junior explorers to suspend exploration programs to reserve cash, or else seek alternative financing options to progress their projects. There is evidence for this in the 36% contraction in the number of public resource offerings in Q1 2014 compared to Q1 2013. However in spite of this drop, the number of IPOs rose by 20% by the same comparison. The largest mid-market IPO was by a Denmark based oil and gas refining company, OW Bunker A/S, with an IPO value of USD 498m.

Fixed income offerings continue to make up a large proportion of total transaction values. In Q1 2014 they accounted for 52% (in 2013 and 2012 they were 58% and 51% respectively). Continuing the trend observed in our previous report, the majority of the largest deals were almost all debt funding, with a total of nine fixed income offerings raising USD 500m.

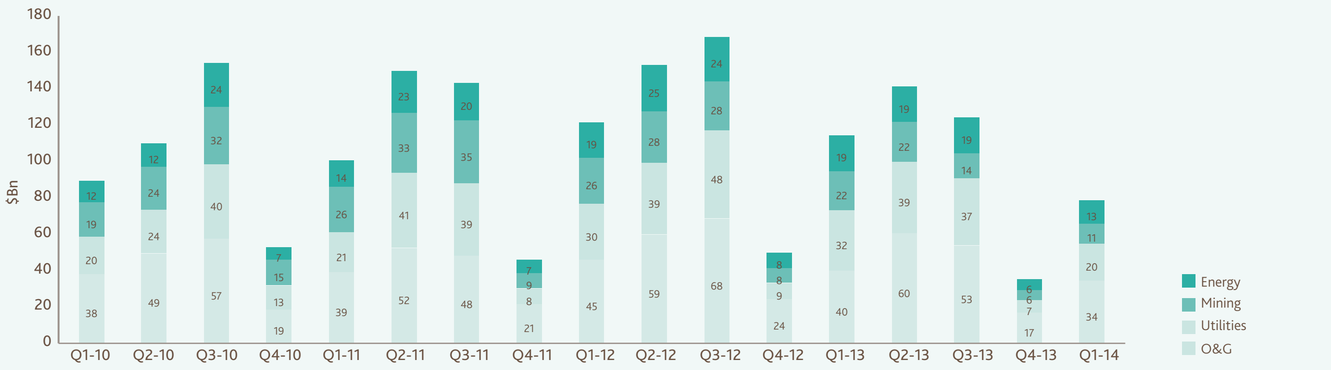
*RESOURCE TRANSACTIONS



VALUE BY TRANSACTION TYPE

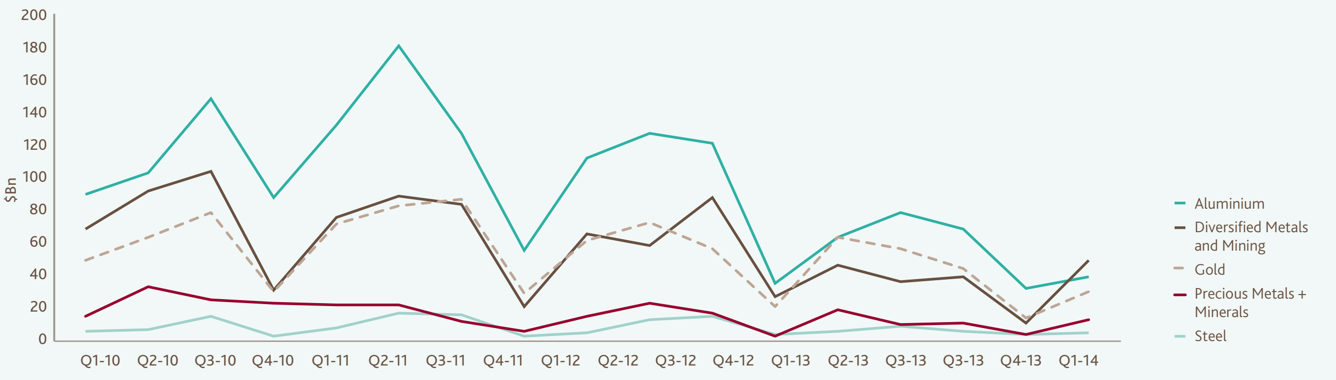


INDUSTRY TRANSACTION VALUE

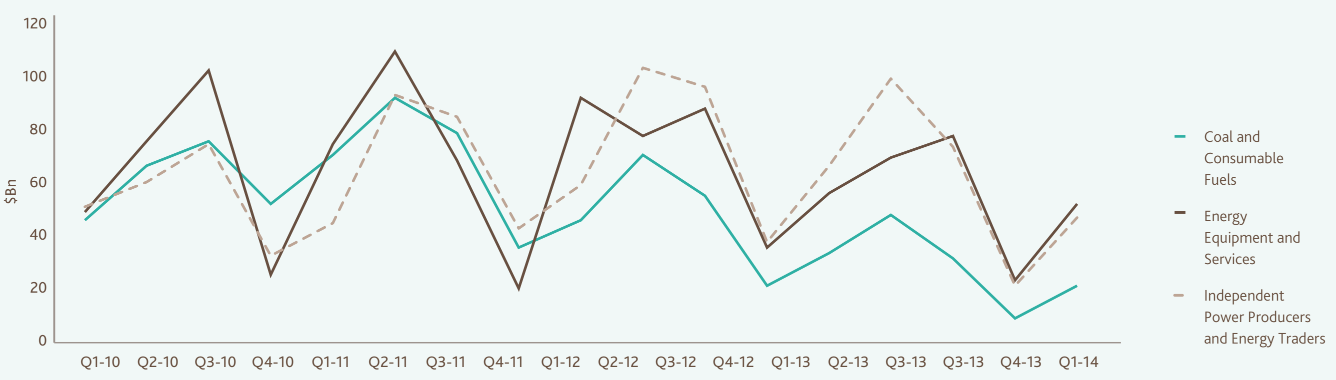


The economic environment is affecting deal activity in all subsectors, with metals and mining the worst affected as observed in Q3 2013. In Q1 2014 it contributed just USD 10.8bn to the value of global resource deals, a 51.3% contraction from Q1 2013. Within this subsector the greatest squeeze was felt by steel companies, with a 66% fall in the value of transactions compared to the same time last year. As steel makers face excess capacity, slowing demand, and the expectation that iron ore prices will fall below USD 1002 per tonne, increased consolidation should drive up the level of deal activity for the rest of 2014.

METALS & MINING VOLUMES



ENERGY VOLUMES

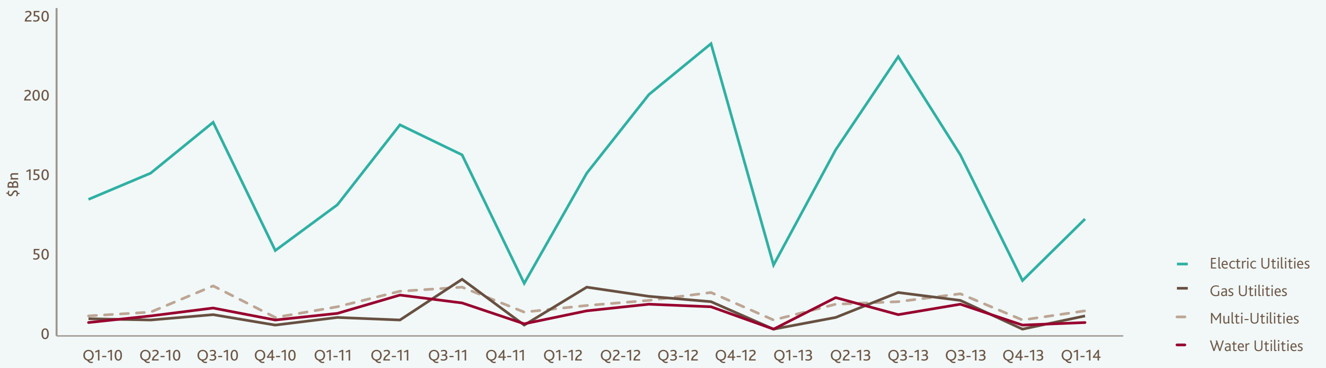


ENERGY LOSES SOME OF ITS SPARK

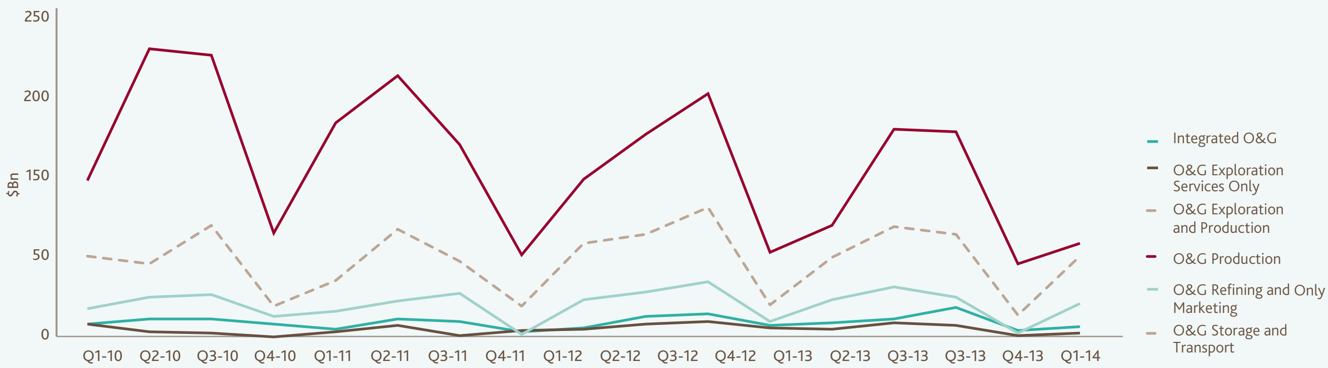
In the Energy sector, total deal value for the quarter was USD 12.6bn, a 34.3% reduction compared to Q1 2013. Volumes too were down, by 19% compared to Q1 2013 and by 1% compared to Q1 2010. Energy Equipment and Services saw a number of transactions in excess of USD 400m, including a USD 500m unsecured notes issue by PHI Inc for investment purposes, and a USD 500m senior notes issue by Ocean Rig UDW Inc for the redemption of its senior unsecured notes due in 2016. Transaction activity for Utilities also experienced a reduction in Q1 2014, with completed deals having a total value of USD 20.4bn – a 36.9% contraction compared Q1 2013.

The Oil & Gas sector completed 32 fewer deals in Q1 2014 compared to Q1 2013, a drop of 13.8% (and of 8.9% compared to Q1 2010). Deal activity was driven largely by North America, which accounted for 65% of the total value of Oil & Gas transactions. Companies focused on streamlining projects to maximise return on assets, as a result of low oil and gas prices. Such conditions have made life difficult for explorers, whose projects may no longer be economically viable.

UTILITY VOLUMES



OIL & GAS VOLUMES

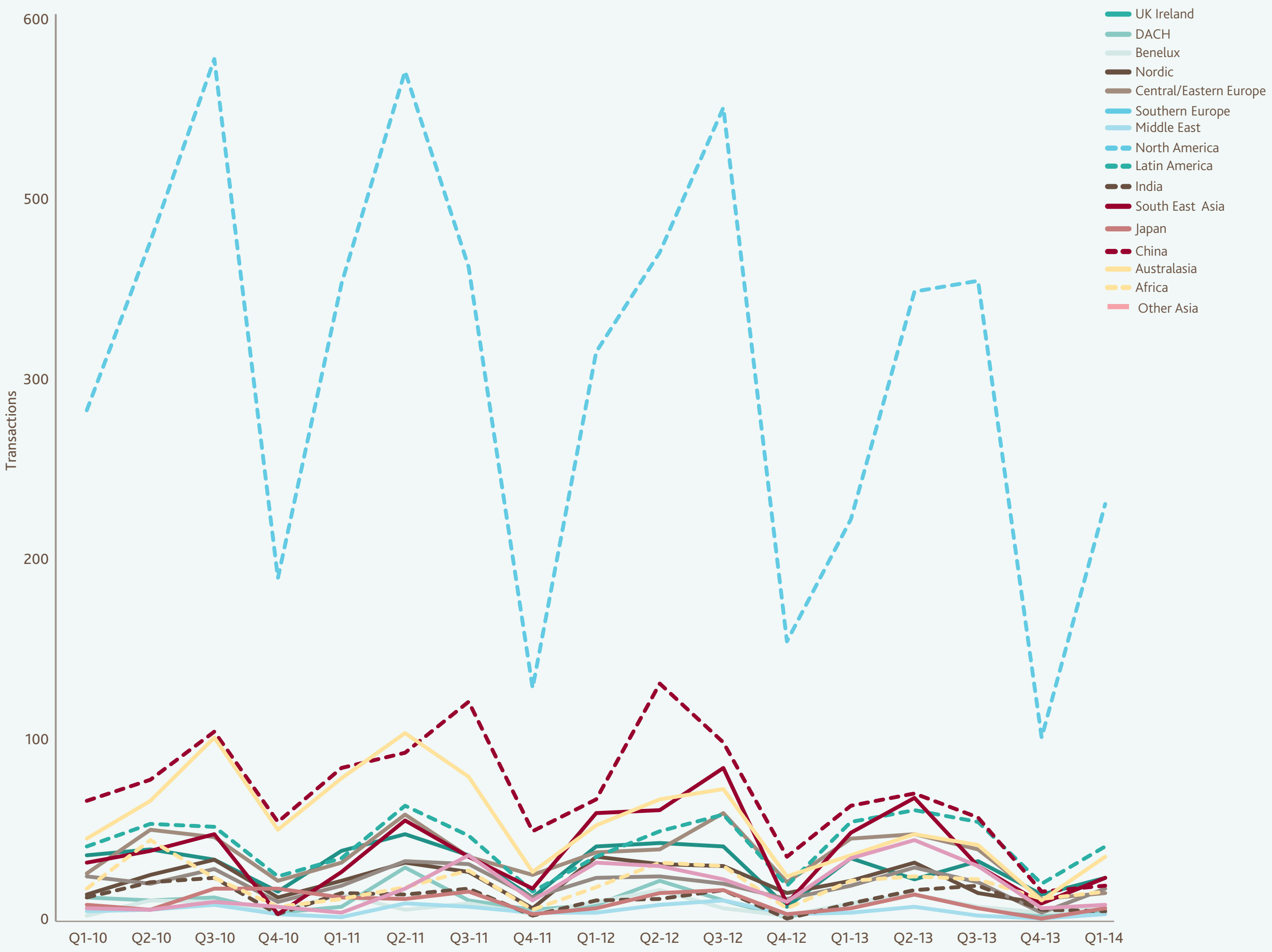


THE GLOBAL PICTURE

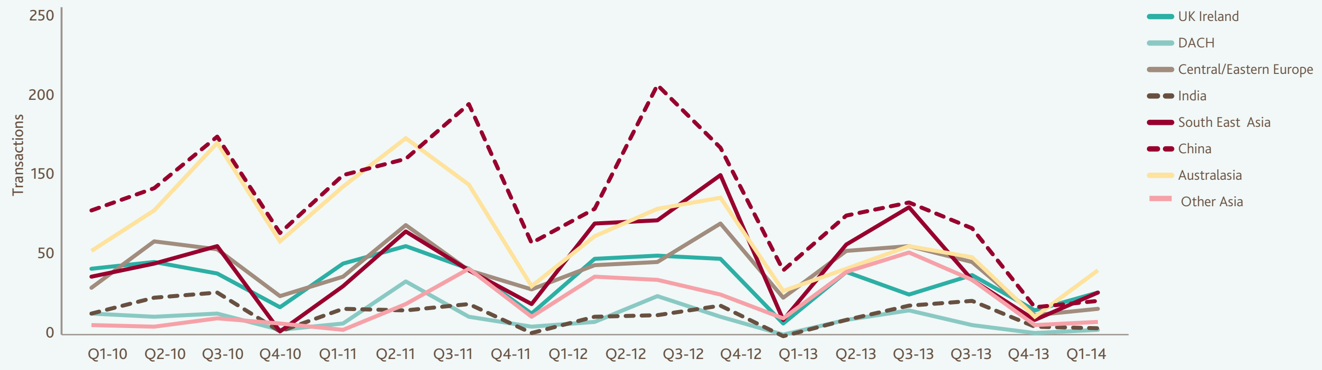
As observed in our previous report, most regions have experienced a fall in both the volume and values of resources transactions in recent years. The worst affected has been China, down 88% in Q1 2014 compared to Q1 2013. The exceptions to the rule were the Nordic and North America regions, the only places to see a growth in deal activity over the same period. Furthermore, although deal activity has yet to regain its 2010 levels, some regions (including the UK, Southern Europe and Latin America) have shown signs of recovery in deal activity.

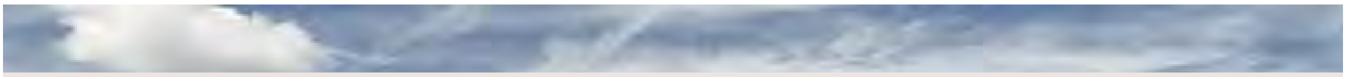
Lower cost base regions such as India, South East Asia and Africa saw significant declines in Q1 2014. Multiple factors including the impending general elections in India, low oil and gas prices, and the absence of major deals in excess of USD 400m, all contributed to the decline in volumes and values. The worst hit region, China, experienced declines in deal volumes and values across the board, with a contraction of 70% and 82% respectively compared to Q1 2010 levels. The decline in deal values is primarily a result of China's economy developing from a growth-based to a consumption-based economy.

VOLUMES BY GEOGRAPHY



VOLUMES BY GEOGRAPHY - WEAKENING ACTIVITY





Looking ahead

Low public confidence in the sector has created a funding gap that will probably have to be filled by existing investors, while junior explorers will have to keep on seeking alternative sources of funding, predominantly private equity. Despite increased competition among banks and an improving US economy, junior explorers will still struggle to achieve funding through debt alone. Challenging market conditions such as commodity price volatility have prompted investors to seek low-risk, high yield opportunities which junior explorers cannot provide.

In light of this, we can expect deal activity to be led by specialist financial investors with a sole focus on natural resources, motivated by strong returns as a result of low asset valuations – at least until public confidence picks up.

Market consolidation and non-core asset spinoffs should also be a key driver of activity, particularly for junior explorers. Resource companies are under mounting pressures to improve their operational efficiency and reserve cash to fund their core projects. Furthermore, it is anticipated that mid-market transactions will dominate deal activity in 2014 via strategic joint ventures and junior consolidations, as junior explorers try to reduce initial capital cost, mitigate risks and increase their access to funds.

We anticipate that resources investment will pick up as companies strive to improve their balance sheets and increase operational efficiency, against a backdrop of recovering global confidence.

LEISURE

HARRY STOAKES
Director
harry.stoakes@bdo.co.uk

After five years of counting costs and deleveraging, consumers are now growing in confidence and looking to spend more on Leisure. Underpinned in some countries by a property recovery, GDP growth and rising employment, many leisure businesses are benefiting from renewed bullishness among both consumers and businesses. Consequently, we should see a rising number of deals in the leisure sector this year.

Figure 1 dramatically illustrates the current mood shift among the UK's restaurateurs. In the two years from 2012 to now, the fence-sitters have become more positive, the optimistic have become even more so, and pessimism has all but disappeared.

OPTIMISM AMONGST RESTAURANT OPERATORS

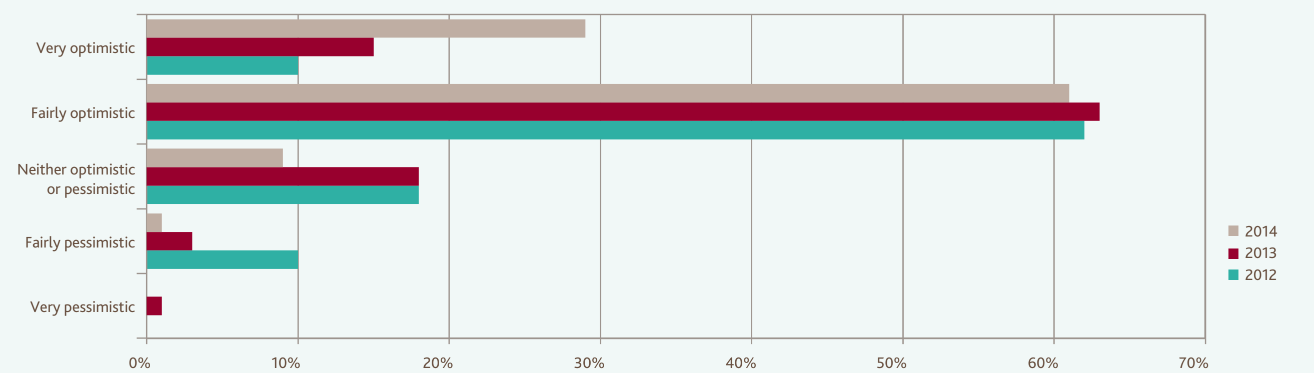


Figure 1: CGA Peach, Business Leaders' Survey, 2014

DEALS ARE BACK ON THE MENU

During the austerity years of 2010 to 2012, not many branded restaurant businesses were involved in transactions. Now the tide has definitely turned. In the last 12 months Hawksmoor, Côte, Byron Hamburgers, D&D London and Pho have all changed hands, while press reports indicate that Yo! Sushi is likely to follow. This renewed M&A activity is partly driven by the fact that consumers are spending more on eating out (see figure 2). As debt markets loosen and restaurants start hitting inflation-busting like-for-likes, the prospect of supporting the rollout of a branded restaurant concept becomes a lot more palatable for private equity investors.

Meanwhile several US brands are entering the UK market, hoping to feed its appetite for concepts that are already proven and mature in the States. Chipotle now has six sites in London while Five Guys has seven sites (with four more opening this summer). Meanwhile, UK brands are growing overseas. Pizza Express now has restaurants in the Middle East, China, India and Indonesia, while Wagamama has four sites in the US, 125 in mainland Europe, five in the Middle East and ten in Australia. We can expect to see the continued emergence of global winners over the next five years.

EATING AND DRINKING OUT MARKET SIZE

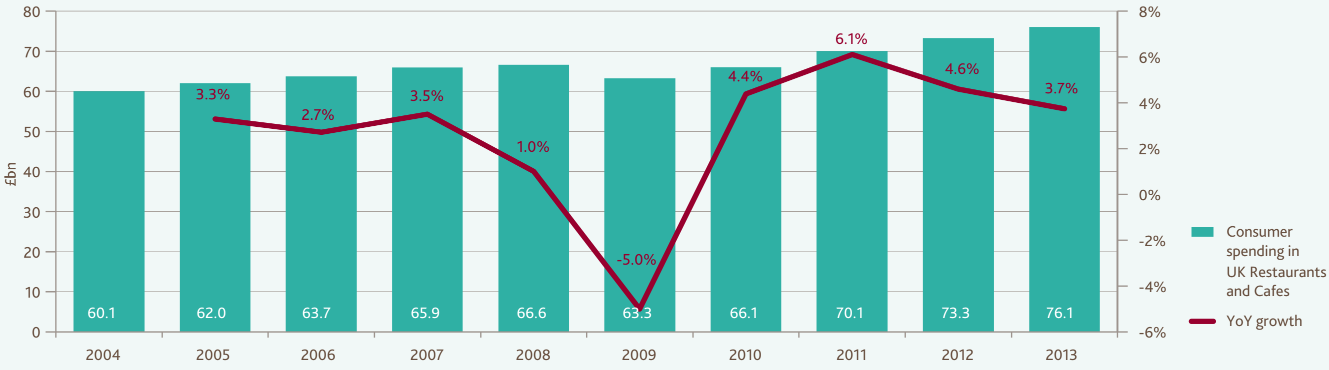


Figure 2: ONS, 2014

TRAVEL IS GOING TO NEW PLACES

A similar high volume of recent transactions has taken place in the leisure travel market. This surge in M&A activity is being led by overseas trade acquirers (including Travel Republic, Gold Medal, Elegant Resorts and Holidaybreak) and by private equity houses seeking to invest in emerging winners from continuing channel mix and changing travel preferences – examples include Iglu, Audley Travel, Great Rail Journeys, On the Beach and Neilson.

Another influencing factor is changing behaviours. Consumers are more likely than ever to book their travel arrangements online or call a specialist, rather than walk into a high street shop and browse a paper brochure. In their efforts to keep pace with these accelerating trends, operators are having to adapt rapidly, and deals are a way of achieving this.

Some emerging winners are specialist OTAs and high-service tailor-made providers, and these will continue to gain market share from traditional vertically integrated mid-market tour operators. Technology and the emergence of low-cost carriers are the main driving forces behind the growth of the OTA, while the wealth of the baby boomers and their sophisticated travel preferences has given rise to a host of successful high-end operators.

Figure 3 shows how an ever increasing proportion of overall bookings are taking place online.

TOTAL UK RESIDENTS OVERSEAS TRAVEL

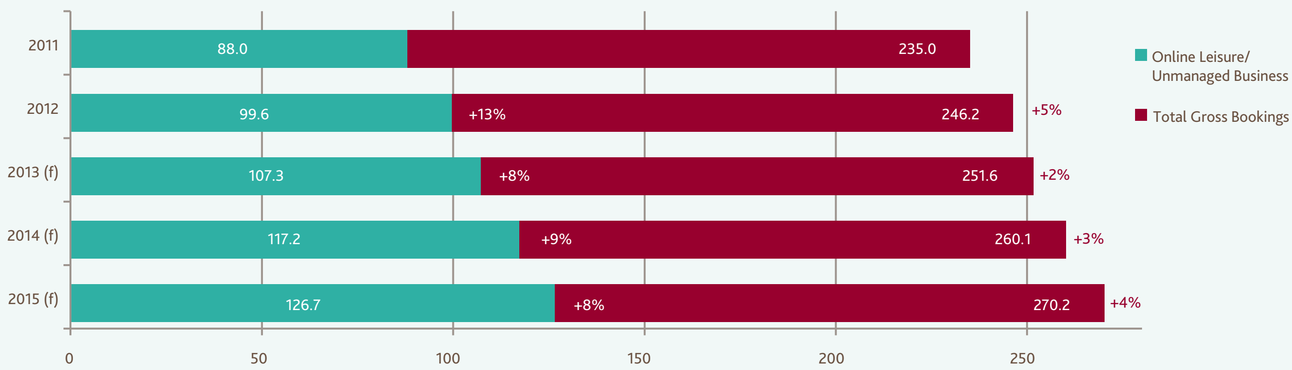


Figure 3: PhoCusWright, December 2013

UK citizens are taking more trips overseas (see figure 4), with the number rising by 2.6% in 2013 and expected to continue growing over the next five years. This trend should whet the appetite for investment in the sector and support EBITDA growth, which in turn will enable more deals to complete.

As the global economy continues to recover, Leisure looks like being one of the main beneficiaries as consumers feel more confident about spending money on some well-deserved rest and relaxation.

TOTAL UK RESIDENTS OVERSEAS TRAVEL

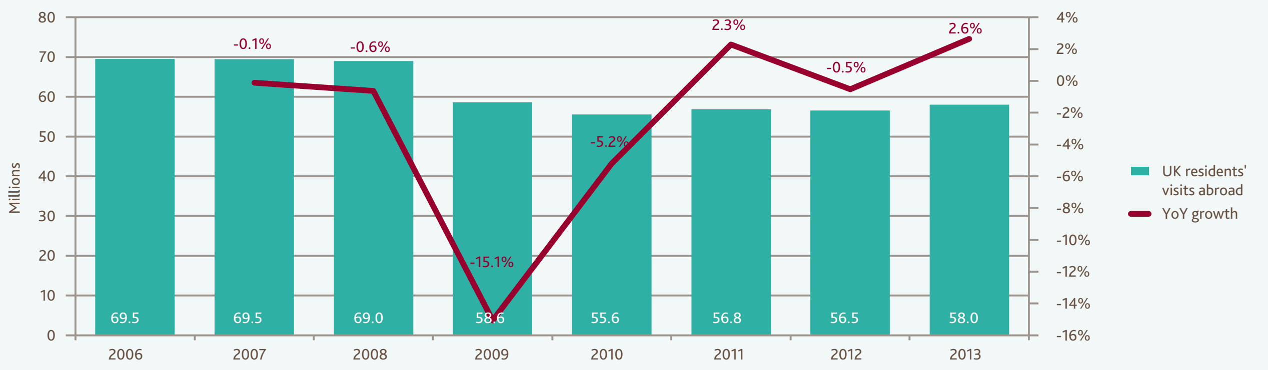


Figure 4: ONS, 2014

PHARMA, MEDICAL & BIOTECH

MARTIN GOULDSTONE
Director
martin.gouldstone@bdo.co.uk

The Pharma, Medical & Biotech sector proved the exception to the rule in 2013. Unlike the global M&A market as a whole, its deal volume showed remarkable consistency with previous years since the financial crisis. Then in the first quarter of 2014 this deal volume rose significantly – hand-in-hand with rising confidence in that sector and many others. All signs therefore point towards a strong current year.

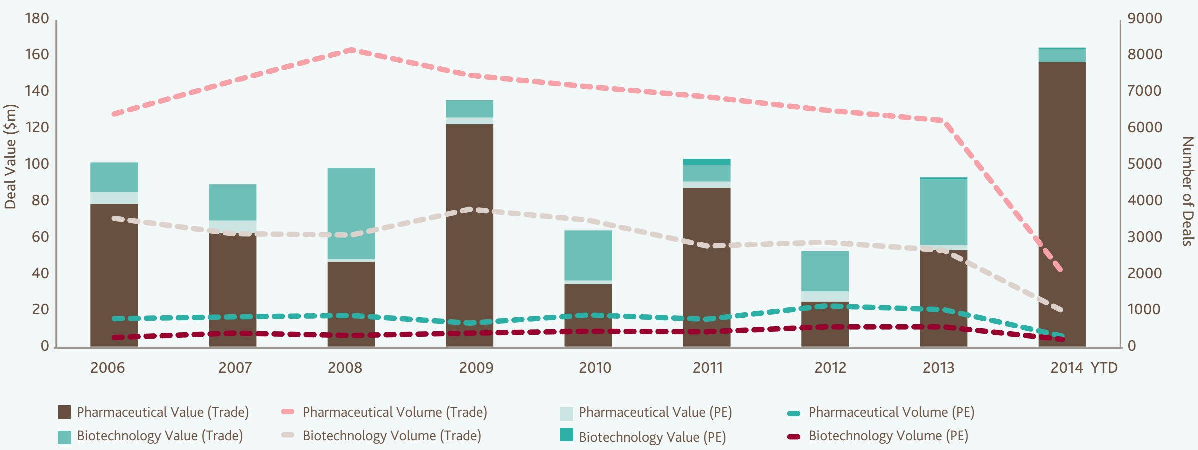
Certainly in terms of deal value, the year to date looks very strong indeed. More than USD 200bn has been slated for the first half of the year alone, when the value for the whole of 2013 was just USD 130bn. What's more, we can observe an interesting pattern: when pharma deal values are higher, biotech deal values stay lower, and vice versa. This is driven by the fact that most biotech deals are driven by pharma acquisitions – so if pharma is too busy spending its cash on merging with or strategically partnering with other pharma companies, then biotech tends to be quieter with fewer, lower value deals.

However, we must sound a note of caution when citing this year-to-date deal value, as it currently includes the much-discussed Pfizer rebid for Astra Zeneca. This stands at USD100bn and accounts for nearly half the estimated deal value, but at the time of writing is by no means a certainty.

M&A WITH A SCALPEL – OR A SLEDGEHAMMER?

The overwhelming number of M&A deals are trade based, either pharma to pharma or pharma to biotech. This year is seeing the return of large pharma mega deals, such as Pfizer's bid for AstraZeneca mentioned above, and the much more elegant approach taken by Novartis and GSK with their USD 18.5bn swap of assets in oncology and vaccines, which was announced in late April. What makes this asset swap deal clever is that it represents a much more surgical approach to M&A, whereby both parties make a deal on those areas of the portfolio that are going to add the most mutual value. In other words, this means that the shareholders don't have to spend even more to acquire assets and technologies that they really don't need or want. When we look at Pfizer's string of mergers over the past five years, one of the main reasons for the lack of perceived return on investment is that their market cap and sales have not grown commensurately, due to the colossal waste of resources that such mega mergers bring, not to mention the accompanying distractions. Indeed, it is estimated that Pfizer has shed some 56,000 jobs since 2005 and instituted a reduction of USD 3bn per annum in the aggregate former R&D expenditure, all while continuing to see a decline in sales.

ANNOUNCED PHARMACEUTICAL & BIOTECHNOLOGY M&A ACTIVITY



Source: Thomson Reuters

It has been a quiet time for private equity in the sector in both 2013 and 2014 to date. This can largely be explained by the recent focus of private equity capital on the clinical research services sector, with major acquisitions and roll ups. Notable examples included the acquisition of PRA by KKR in June 2013 for USD 1.3bn (having been acquired by Genstar for USD1.3bn in 2007) and the amalgamation of PharmaNeti3 into Inventiv Health in January 2013 to make an enlarged group. In September 2013 Quintiles, the world's largest CRO, made a strategic acquisition of Novella Clinical Group for an undisclosed sum to bolster its oncology offering to smaller companies. With the largest global CRO still accounting for only 15% of all clinical outsourcing spend in the market, the CRO sector is clearly slated for further consolidation.

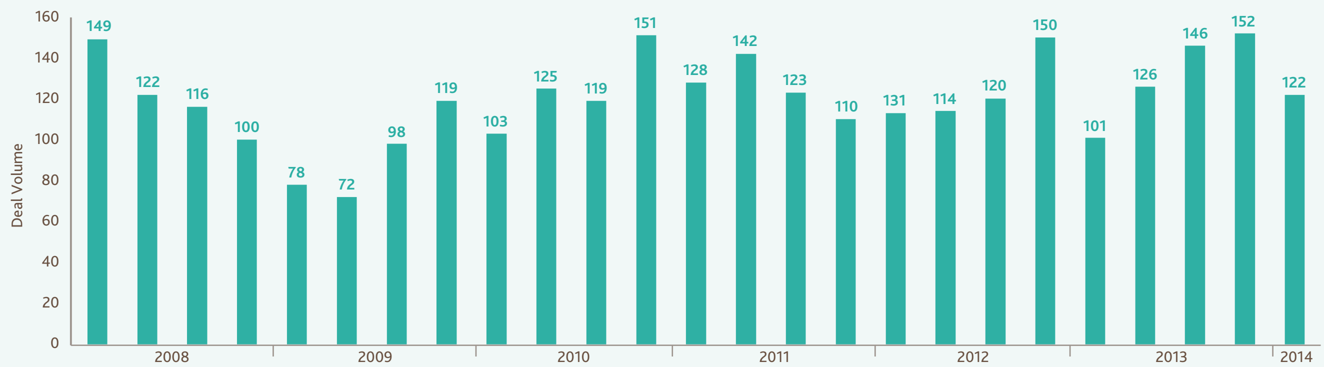
Looking ahead

The year ahead promises to be very interesting. We can expect substantially more activity in the niche CRO services sector, much of it driven by both trade and private equity. The larger trade players will be seeking points of diversification in the market, or taking advantage of new technology approaches to drive greater speed and efficiencies in their operational systems. Such deals can drive very strong valuations.

A recently announced example of the above is the cross border acquisition of Pharmalink, a regulatory consultancy and outsourcing provider, by US/India-based business Genpact for an undisclosed sum after a highly competitive bid process. It is thought that the acquisition will expand Genpact's capabilities when providing solutions in growth areas like the Life Sciences industry, and will allow Pharmalink to meet market demand for more end-to-end regulatory affairs solutions.

Other niche service areas also look set for growth. These include ePharma consultancies that use online approaches to improve patient recruitment in trials, medical device CROs, therapy area specific CROs, CMOs and discovery research services. Notwithstanding that the Pfizer/AstraZeneca takeover battle continues to rumble on with much fanfare, we predict a very busy year ahead across the sector as a whole.

GLOBAL DEAL VOLUMES



Source: Thomson Reuters

Data produced by The Mergermarket Group.

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