MERGERS & ACQUISITIONS

ISSUE 3: Q3 2014

HORIZONS

BDO'S GLOBAL VIEW OF MID-MARKET DEAL ACTIVITY

CONTENTS

WELCOME

As we move into the third quarter of 2014, it's the perfect time to look ahead at what's on the horizon – by looking back at the last one. How is the global M&A mid-market developing as the year progresses? Have our earlier predictions been borne out by reality? How have geopolitical forces and unforeseen events affected business activity? Which sectors are tending to dominate particular regions? Trends are everywhere, and with the help of the latest issue of Horizons you can map these movements and gain clearer insights into what lies beyond.

Our focus is on our usual selected sectors across 15 major global regions, to give a comprehensive overview of the M&A mid-market internationally. We examine how the market has delivered over the second quarter of 2014, comparing the actual deal activity with the prediction from our last report, and also take a look ahead at the prospects for the rest of the year.

Along the way our experts provide 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 involved on the buy or sell side, or just want to stay informed about the latest opportunities, Horizons provides valuable insights into where and why the investment is flowing, giving you more of the mid-market knowledge and insight you need. In a global market of so much variety and so many influencing factors, Horizons is your compass to navigate the complexities and make more informed judgments. I hope you enjoy this latest issue.

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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, Israel, India, China, South East Asia, Japan, Australasia, the second perspective considers super-regional specificities based on sectors classified into TMT, Financial Services and Business Services — Transport and Logistics.

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

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THE BIG PICTURE

- Disappointing PE buyout deal volumes
- Energy, Mining & Utilities sees a surge in deal volume
- Benelux region suffers a tough quarter for deal volumes, but values remain a more positive picture.

COMPARING NOW AND THEN

After the decline of M&A activity from Q4 -13 to Q1-14, we have seen a market recovery in the second quarter of this year. Global volume grew to 1,798 deals, with a remarkable total value of USD 173.5bn. This put the quarter's global M&A activity ahead of the very strong Q4-13, and so bodes well for a very good year for the market.

And there are yet more hints that 2014 will be a great year for M&A. By comparing the first halves of 2013 and 2014, we see an improvement in value as well as volume. In H1-14 there were over 15% more deals made, with a total value more than 28% higher than the corresponding period in 2013. Since we know that there is a strong year-end effect to M&A activity, we are looking forward to further market improvements in the next six months.

However, despite deal activity being very encouraging overall, a deeper look at private equity buyouts proves a little disappointing. The volume of 209 deals was an improvement on Q1-14 – but of less than 0.5%. In other words, private equity buyouts stayed static even though overall deal volumes increased. This indicates that it was a high deal volume growth of corporate buyers that caused the impressive overall result. But there is some encouragement to be found in the deal value of the private equity buyouts, which improved by 20.9% to USD 27.1bn.

Furthermore, if we collate the first halves of 2013 and 2014, the private equity buyouts can be seen to improve. The number of deals went up by nearly 14%, while the deal value increased by more than 31%. So we can expect a strong year in this area too.

COMPARING HERE AND THERE

Taking a look at the M&A mid-market activities of our 15 regions, we can find some very good market performances. However, there are also big differences between regions.

In UK and Ireland, deal activity improved in both volume and value terms. We see a very similar outcome in the Nordic countries, CEE and CIS, Southern Europe, Australasia, North America, China and Africa. But DACH, on the other hand, could not keep up with this strong performance. The region's deal volume and value went down by 18% and 12% respectively – bringing those levels to their lowest since 2010. Benelux offered an even gloomier picture, with volume crashing by 47% (though interestingly, value fell by less than 8%). Benelux did however do much better in the area of private equity buyouts, despite a lower number of deals.

After its high performance in Q1-14, the Middle East decreased both in volume and value. Latin America enjoyed a relatively good start to the new year, but activity weakened and 2014 is expected to perform worse overall than last year.

South East Asia also started promisingly, but its M&A activity slowed down in Q2 by 12% in deal volume and by 8% in deal value. CEE held more or less steady from the first quarter.

The biggest players in the M&A mid-market are currently North America, Southern Europe and China. All of these have a very good second quarter both in deal volume and value, which has underpinned the strong global performance overall.

As for sectors, Consumer and Pharma, Medical & Biotech had fewer deals than in the first quarter, but Energy, Mining & Utilities delivered the biggest surge in volume with an increase of more than 23%. Leisure too did well, with 21% more deals.

GLOBAL HEAT CHART BY SECTOR

	Industrials & Chemicals	TMT	Consumer	Energy, Mining & Utilities	Business Services	Pharma, Medical & Biotech	Financial Services	Leisure	Total
North America	551	693	362	355	340	354	271	112	3,038
CEE & CIS	259	120	178	131	116	55	77	58	994
China	341	151	111	93	78	53	57	62	946
Southern Europe	147	131	138	64	90	40	61	47	718
India	122	96	64	38	77	60	56	19	532
UK & Ireland	88	67	86	61	72	45	62	38	519
Latin America	103	63	103	77	63	23	36	28	496
Australasia	88	49	67	106	71	35	34	18	468
South East Asia	103	48	61	96	59	35	36	23	461
DACH	120	83	65	24	44	45	30	14	425
Japan	80	86	62	12	45	22	19	22	348
Other Asia	108	40	29	24	24	15	32	18	290
Nordics	62	50	42	23	39	28	12	9	265
Benelux	67	35	48	17	31	17	22	6	243
Africa	51	18	18	64	9	8	27	10	205
Israel	18	49	9	9	2	12	5	2	106
Middle East	17	10	9	13	8	3	11	3	74
TOTAL	**2,325**	**1,789**	**1,452**	**1,207**	**1,168**	**850**	**848**	**489**	10,128

LOOKING AHEAD

In comparing the number of companies either officially up for sale or rumoured to be, the global heat chart for Q3-14 shows a slight total increase of 4.8% - suggesting the global mid-market is cooling down a bit. In so doing, it also reflects in most regions the growth levels of the respective economies.

On a very high level, North America and China are cooling down. Australasia had the biggest decrease (-28%) of deals in the pipeline. Meanwhile various regions in Europe are recovering by showing a small growth (Southern Europe, UK & Ireland, DACH). Sector-wise, Industrials & Chemicals is still dominating the overall deal flow, followed by TMT and Consumer. In Energy, Mining & Utilities we expect less M&A activity in the future.

Besides the number of deals in the pipeline, we see many other elements influencing the global M&A market. For instance, what impact are the various global crises (e.g. Ukraine, Iraq) having? What possibilities do the various national banks envisage to influence their country's economy? Will the stock exchange continue to surge? Either way, we are convinced that as in the past, the M&A market for mid-caps will stay quite stable compared to the M&A market for big transactions.

FEATURE:
NEW ENERGY AND ENVIRONMENT

THE BIG PICTURE

- Renewable energy makes up 8.5% of global energy production
- Investment in solar electricity soared by 80% in Japan
- South America, Middle East & Africa will play a more active role in the renewable energy arean

At present, the renewables sector seems to be pulled in two directions. Its market share is rapidly growing, even as investment in some geographic regions is falling. Yet despite this, falling costs and other positive factors are creating a favourable outlook.

Renewable energy continues to build its share of the global electricity market, to the point where it now dominates the statistic for new generating capacity installed worldwide. In 2013, renewable energy accounted for 43% of all new capacity installed, and makes up 8.5% of global electricity production – an increase from 7.5% since 2012.

In the UK, renewables have had an even more significant impact, chalking up a record 19.4% of total installed capacity. This difference between this and the global picture is probably due to a number of factors, notably the UK's more settled regulatory environment, higher wind speeds and older fossil-fuel power stations reaching the end of their economic lives.

THE OUTLOOK: BOTH SUNNY AND CLOUDY

However, despite the continuing increase in generating capacity, actual global investment in renewables fell by 14% to USD 214bn in 2013. This fall was due to two reasons, one positive and one negative. On the plus side, the reduction in the cost of solar energy has had a worldwide impact on the cost of projects, so although expenditure fell by 23% to USD 104bn, the actual amount of installed solar capacity increased significantly from 31 to 39 GW. This is a continuation of a long term drop in costs, and in the five-year period up to 2014 the worldwide average cost of solar electricity has gone down by 53%. Coupled with this, we see a shift in the type of installed solar capacity from relatively high cost per MW residential schemes, to lower cost ground-mounted schemes, particularly in the big installer countries like China.

On the negative side, there were reductions in investments in specific geographical areas, most notably China (down 6% at USD 56bn), the US (down 10% at USD 36bn) and most strongly in Europe (down 44% to USD 48bn). The only bright spot in this general downward global trend was Japan, where investment soared by an astonishing 80% to USD 29bn.

UNCERTAINTY IS BAD FOR BUSINESS

So why has investment fallen so sharply in Europe? Apart from the reduction in technology costs, nervousness around the longevity of tariff regimes has significantly contributed to uncertainty. Institutional investors are easily spooked by political change, and European Government musings on the long term value for money of renewables has undoubtedly delayed investment decisions in the Netherlands, Germany and France. Elsewhere the unheralded and unwelcome retrospective cuts to tariff regimes in Spain and Bulgaria have killed off investment entirely – probably for decades – while the Italian government's imposed cap on renewables has smothered what was a growing and investor friendly environment.

In the UK, the shift away from tariff-based subsidy regimes towards a Contracts For Difference (CFD) scheme has probably caused a short hiatus in capacity installation. In the long term, the auction-based CFD should contribute hugely to a fall in the cost of renewables, but it may take a year or so for the effects to sink in, as everybody draws breath and digests the detail of the policy. Meanwhile, offshore wind remains a gigantic work in progress, even as opposition to onshore wind schemes remains strong, while local planning structures and a recalcitrant National Grid still hinder the developments of solar and waste-to-energy schemes.

AN IMPROVING CLIMATE FOR INVESTORS

So, despite the 14% global fall in total investment, what does the future hold? We see three or four signs for optimism. Firstly, we anticipate that the two major renewable technologies, solar and wind, will continue to reduce in price in real terms per MW, and will achieve much closer cost competitiveness with their fossil fuel alternatives – even without the impact of carbon taxes on the latter.

Secondly, we see the emergence of renewable technologies in territories that have hitherto been relatively unexplored, such as South America, the Middle East and Africa. These locations have the benefit of strong sunshine or wind resources and (if we can be frank) probably slightly more relaxed planning regimes.

In parallel to this, we are seeing a bottoming-out of the fall in clean energy share prices, and the beginnings of a price recovery. Finally, new investors such as pension funds and infrastructure funds are making their first tentative steps into this market. Technology is now proven, and project finance type contracting structures for renewables have become mainstream. Furthermore – despite the odd Spanish or Bulgarian hiccup – governments are slowly waking up to the need for regulatory certainty. All of these factors make renewables an attractive asset class for investors in search of stable, long term cash yields. We are also beginning to see the emergence of a strong secondary market to buy developed or even consented projects.

It may be that 2013 was the year in which the global renewables market turned the corner. Investment may be down from its 2011 peak, but there is a palpable sense that the long term trend remains positive. Technology prices should continue to drift downwards, while markets open up and new money enters the fray. In light of this, the best thing national governments can do is ensure they provide long term regulatory certainty to a nervous but enthusiastic investor base.

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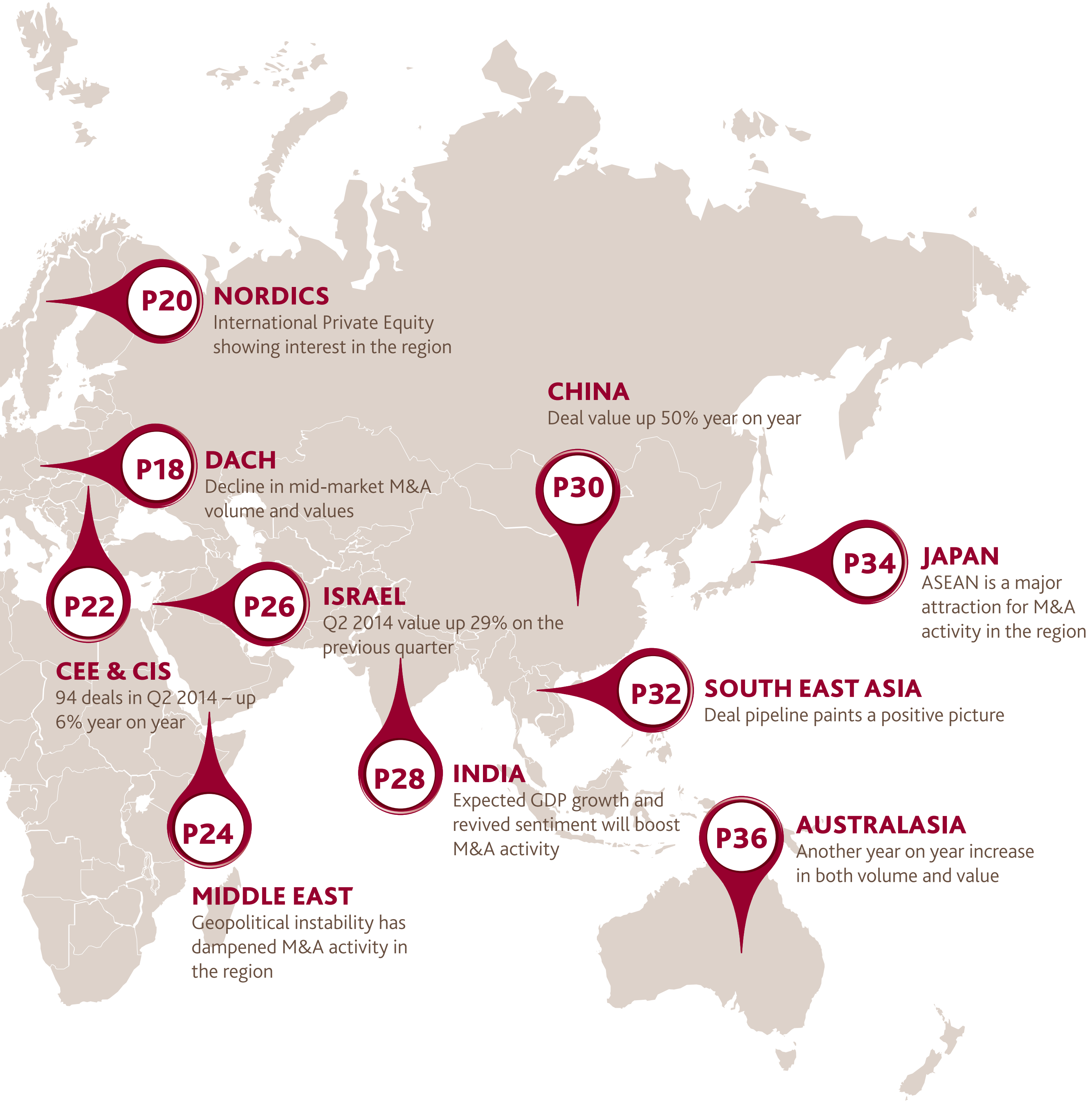
SECTOR VIEW

TECHNOLOGY, MEDIA AND TELECOMMUNICATIONS

FINANCIAL SERVICES

BUSINESS SERVICES — TRANSPORT AND LOGISTICS



REGIONAL VIEW ▶

NORTH AMERICA

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THE BIG PICTURE

- Second best quarter for deal value since 2006
- Volume of deals is also dramatically up
- Average deal size now at its highest since before the financial crisis
- TMT and Energy sectors continue to lead activity.

A rising tide lifts all boats as M&A activity surges in the second quarter.

During Q2-14, North America's M&A markets shifted into high gear. Corporate buyers returned in droves, while private equity firms opened their wallets. We also saw a 30% rise in the total value of mid-market M&A transactions when compared to the first quarter, and an impressive 80% increase from the same time last year. In terms of value, it was the best second quarter for M&A activity in North America since 2006.

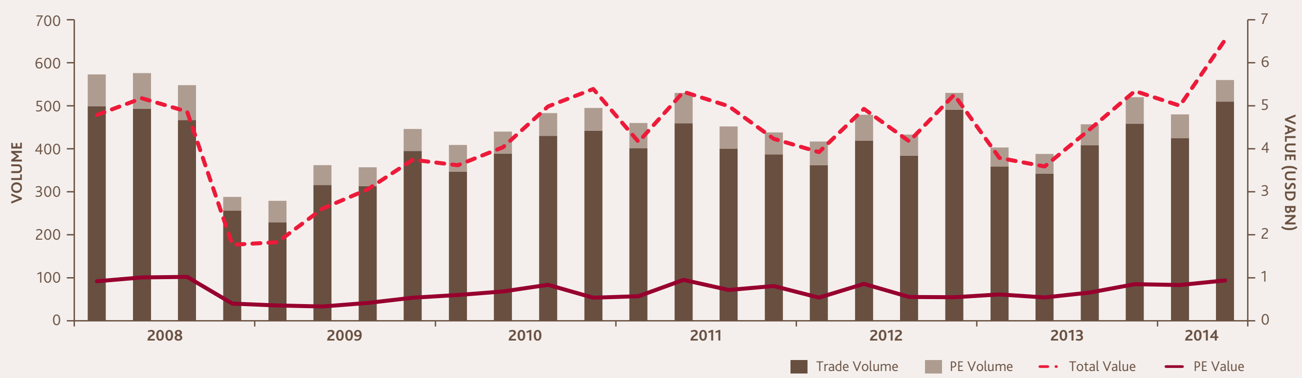
STRATEGIC MEGA-DEALS CREATE THE RISING TIDE

For Q2-14, the number of mid-market transactions increased by 17% from the first quarter, and by 44% from the same time last year. Meanwhile the average deal size also increased significantly, as corporate CEOs sought growth through acquisitions and aggressively pursued merger partners. The improved global economic outlook is boosting CEO confidence to do deals, while rising public equity valuations have given large strategic buyers increased purchasing power and enhanced their ability to do accretive deals. Consequently, large cap public companies are pursuing strategic acquisitions to bolster market share and grow earnings, which fuelled M&A activity in Q2.

Average deal size is now at its highest level since before the financial crisis. The significant growth in deal value is due, in part, to several large transactions including DIRECTV/AT&T, Time Warner/Comcast, Allergan/Valeant Pharmaceuticals and Shire/AbbVie. The latter two transactions represent examples of a recent flurry of large, strategic cross-border deals driven partly by the favourable tax benefits of corporate inversion by US companies.

The TMT and Energy sectors continued to lead activity in Q2-14, together accounting for over 40% of all deals by volume. The TMT sector had its share of noteworthy mega-deals, including Oracle's USD 5.3bn acquisition of MICROS Systems, a software solutions provider

PE/TRADE VOLUME & VALUE



to the retail and hospitality industries, the USD 3.5bn acquisition of Motorola Solutions' enterprise business by Zebra Technologies, a company specialising in barcode printing and asset tracking, and Apple's USD 3.0bn acquisition of Beats Electronics, an audio equipment maker and recent music subscription service provider. Within the Energy, Mining & Utilities sector, companies in the power and utilities industry are strategically pursuing assets, including those in close proximity to their existing geographic markets and/or with similar business models, to drive scalable growth and achieve operational synergies. Highlights included the Exelon/Pepco deal for USD 12.2bn, the Wisconsin Energy/Integrys deal for USD 9.1bn, as well as four other mega deals greater than USD 1bn.

The rising tide forged by strategic mega-deal activity typically lifts all boats, including deal-making in the mid and lower mid-market as confidence rises and valuations flourish. The first half of 2014 saw a tidal wave of M&A activity across a broad spectrum of industries and deal sizes. Acquisition capital is abundant and relatively low cost, and positive CEO sentiment on the global economy is providing a relentless flow of deal making.

NORTH AMERICA HEAT CHART BY SECTOR

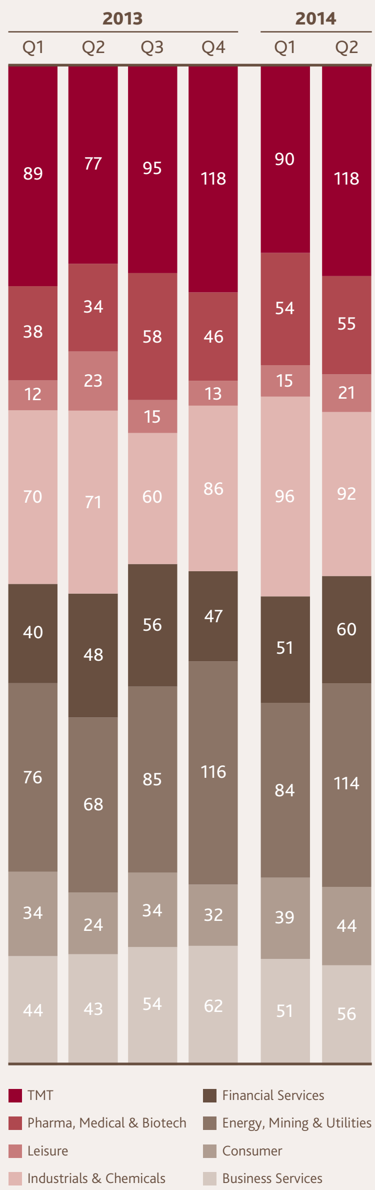
TMT	693
Industrials & Chemicals	551
Consumer	362
Energy, Mining & Utilities	355
Pharma, Medical & Biotech	354
Business Services	340
Financial Services	271
Leisure	112
TOTAL	**3,038**

LOOKING AHEAD

The outlook for North American M&A for the second half of 2014 is extremely strong. The increased activity and larger transactions experienced in H1 are likely to accelerate over the remainder of the year, as 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.

In addition, private equity buyers are still dealing with a capital overhang from prior fundraising efforts and need to put their money to work. Private equity buyers are also more confident to do deals, and are aided by lenders eager to originate new loans and economic conditions that continue to improve.

NORTH AMERICA MID-MARKET VOLUMES BY SECTOR



LATIN AMERICA

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THE BIG PICTURE

- Deal volume slightly down in the second quarter
- Sectors in the spotlight are Energy, Mining & Utilities and Industrials & Chemicals
- A large internal market continues to grow at a modest and stable rate
- Brazil dominates the top ten mid-market deals.

The second quarter brought a significant dip in mid-market activity for the region, but key sectors remain strong.

With the World Cup taking place in Brazil, it was no surprise to see a sharp slowdown in business activities across the entire Latin American region. This exceptional event, coupled with economic and political instability, has been a contributing factor to the drop in mid-market M&A.

FOOTBALL INTERRUPTS THE RUN OF M&A PLAY

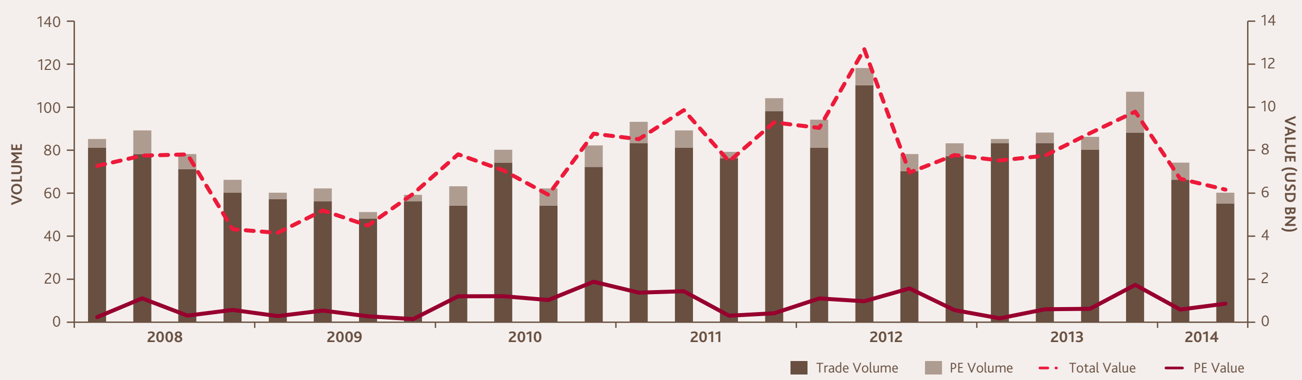
The second quarter of 2014 brought a drop in both the number and value of deals in the Latin American mid-market. The 60 deals conducted from April to June totalled USD 6.1bn, down 7.57% compared to Q1-14 (which totalled USD 6.6bn), and down a massive 20.5% on the same time last year.

The Latin America region has experienced reduced growth, due to economic and political instability. The largest market, Brazil, has delivered poor economic performance in the first half of the year, leading to a reduction in the annual projected Gross Domestic Product (GDP) from 2.5% to 1.8%, determined by the Government's Ministry of Planning. Then in June the World Cup arrived, triggering a considerable reduction in business activities not only in Brazil but across the whole region.

According to the latest Focus report, the financial market predicts that the basic interest rate (Selic) of the Brazilian economy will remain at 11% a year until the end of 2014, a rate determined in July by the Central Bank's Monetary Policy Committee. Financial analysts forecast that the basic interest rate will remain at 12% a year until the end of 2015. Analysts also estimate that the projected inflow of direct foreign investments in Brazil will be at USD 60bn this year. However for 2015 the projection is approximately USD 55bn, reflecting the trend of a modest retraction.

The region's most active sectors in Q2-14 were Energy, Mining & Utilities and Industrials & Chemicals, with 13 deals each, equivalent to just over 20% of the deal total. After these came TMT with nine deals (15%), Financial Services with 8 (13%) and Business Services with 7 (11%). Sectors that hardly figured were Consumer, Leisure, and Pharma, Medical & Biotech.

PE/TRADE VOLUME & VALUE



Of the quarter's ten most significant deals, five took place in Brazil, and accounted for more than 46% of the total deal value. The largest single deal (USD 495m) occurred in Brazil and involved the Business Services sector, specifically Getnet and Santander Bank. The sectors that featured most in the top ten deals were Business Services (3), Energy, Mining & Utilities (2) and Industry & Chemicals (2).

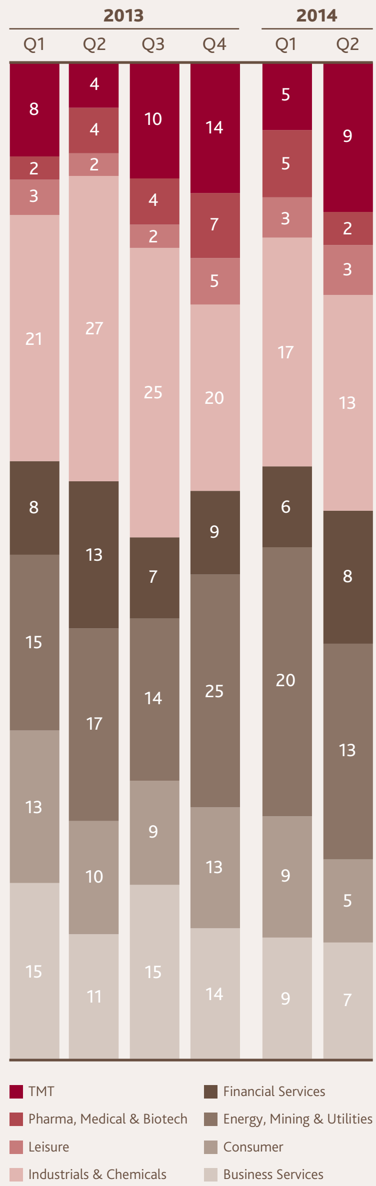
LATIN AMERICA HEAT CHART BY SECTOR	
Industrials & Chemicals	103
Consumer	103
Energy, Mining & Utilities	77
TMT	63
Business Services	63
Financial Services	36
Leisure	28
Pharma, Medical & Biotech	23
TOTAL	**496**

LOOKING AHEAD

The heat chart shows 496 deals either in progress or planned, slightly up from 494 in Q1-14. The Industrials & Chemicals and Consumer sectors are set to be the most active sectors with 103 potential deals each, ahead of Energy, Mining & Utilities with 77. The stable numbers predicted, along with their considerable volume, indicates a significant market that is fundamentally robust.

Latin America continues to be a region of economic importance, with a high volume of deals thanks to its vast internal market and large array of active businesses. Even though the current growth rates are modest, they are expected to remain stable for the next two years. The region shows a temporary reduction in deals, but this is largely related to the postponement of business ventures. The deal activity is likely to pick up now that the World Cup is behind us, and even more so after Brazil's elections in October, which should ease some of the fiscal and political uncertainty.

LATIN AMERICA MID-MARKET VOLUMES BY SECTOR



	TARGET COMPANY	TARGET SECTOR	TARGET COUNTRY	BIDDER COMPANY	SELLER COMPANY	SELLER COUNTRY	DEAL VALUE (USD M)
1	Getnet Tecnologia em Captura e Processamento de Transacoes H.U.A.H. S.A (88.5% Stake)	Business Services	Brazil	Banco Santander Brasil S.A.			495
2	Hoteles Decameron Colombia S.A.	Leisure	Colombia	Equity International; Terranum Group			490
3	Generandes Peru SA (39.01% Stake)	Energy, Mining & Utilities	Peru	Enersis SA	Inkia Americas Holdings Ltd.	Bermuda	413
4	Invin SA (42.3% Stake)	Business Services	Chile	Abertis Infraestructuras, S.A.	Capital Riesgo Global, SCR de Regimen Simplificado, S.A.	Spain	398
5	Bertin Energia (two thermoelectric generators in northeastern Brazil)	Energy, Mining & Utilities	Brazil	Bolognesi Empreendimentos LTDA	Bertin Energia e Participacoes SA	Brazil	317
6	Cencosud S.A. (Financial Services Business) (51% Stake)	Financial Services	Chile	The Bank of Nova Scotia	Cencosud S.A.	Chile	276
7	Autometal S.A. (25.24% Stake)	Industrials & Chemicals	Brazil	Cie Autometal SA			271
8	Vale Florestar Fundo de Investimento em Participacoes	Industrials & Chemicals	Brazil	Suzano Papel e Celulose SA	Vale S.A.; BNDES Participacoes S/A; Fundacao Petrobras de Seguridade Social; Fundacao dos Economiarios Federais	Brazil	235
9	Molinera de Mexico, S.A. de C.V; Agroinsa (wheat flour production)	Consumer	Mexico	Grupo Trimex	Gruma, S.A.B. de C.V.	Mexico	200
10	Archer Daniels Midland Company (Fertilizer Distribution Business in Brazil and Paraguay)	Business Services	Brazil	The Mosaic Company	Archer Daniels Midland Company	USA	200

UNITED KINGDOM & IRELAND

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THE BIG PICTURE

- Deal activity up year-on-year after a slow start
- Private equity heavily involved and punching above its weight in value terms
- Plenty of cross-border interest, especially from the US
- Leisure, TMT and Energy sectors were particularly active.

As predicted, 2014 shrugged off its slow start to deliver a strong second quarter and a sign of good things to come.

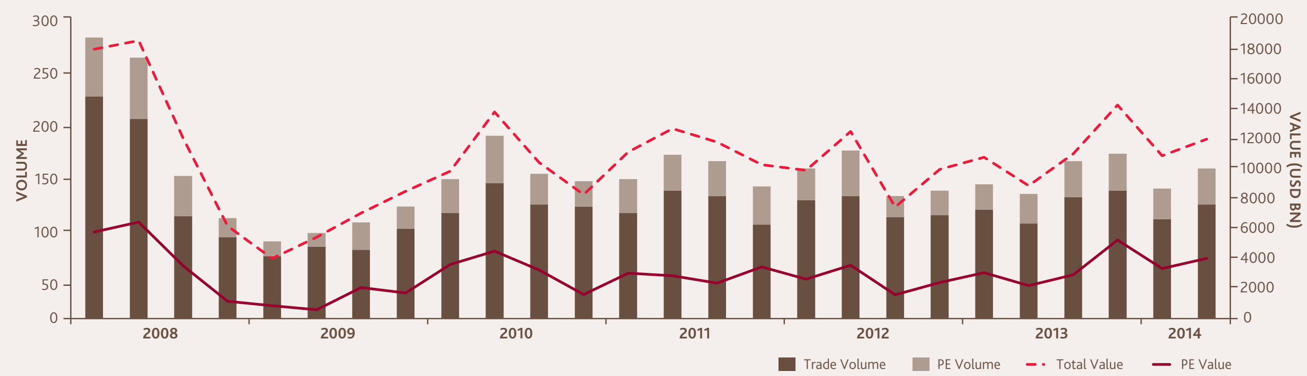
In our previous report we said the sluggish first quarter was no cause for concern, and so it has proved. Deal activity picked up noticeably in Q2-14 with 142 deals – 15% up on the first quarter and 20% higher than the same time last year. Although some of this uplift may be due to the overhang from Q1, the solid year-on-year growth corroborates positive forecasts for the year, and points towards a return to sustainable growth.

VALUE OVER VOLUME (BUT BEWARE THE HASTY IPO)

Notwithstanding the increased activity, companies remain focused firmly on value rather than volume. The total worth of completed deals was USD 11.3bn, making this the third highest grossing quarter since 2008. With private equity funds now competing for deals, driving up values and boosting market confidence, the mid-market is visibly thriving. One clear sign is that although PE deals represented 23% of total deal activity by volume in Q2-14, they accounted for over one third of all deal value.

Another big driver of deal values has been the recent boom in IPOs, which in turn will result in increasing trade deals as companies seek to achieve growth targets. However, some companies have seen disappointing share performances post-IPO. This has prompted analysis of the specific attributes of each deal, and highlighted the limited amount of capital being used to fund growth. These findings, in the context of some high-profile share price collapses, should serve as a warning

PE/TRADE VOLUME & VALUE



to companies and their advisers that their fundamental rationale for an IPO may well come under greater scrutiny than before.

Cross-border transactions were a prominent feature of Q2-14, with UK and Irish assets still viewed as good value by US buyers – four of the top ten transactions were led by US acquirers. The largest deal was Cirrus Logic's purchase of Scotland's Wolfson Microelectronics Plc, a sign of the ongoing consolidation within the hardware markets. Bank of Ireland's sale of its ICS mortgage distribution platform for €250m also featured in the top ten, marking the final stage of the Bank's divestment commitment under its EU restructuring plan.

There was increased deal activity across all sectors except for Industrials & Chemicals, which saw a 15% decline. This would appear to be a temporary blip, as the heat chart shows this sector as having the highest activity levels. Business Services continued to see the largest number of deals (23), but it was Leisure that enjoyed the biggest uplift, with the sale of several large pub groups and hotel chains being announced. These included Mitchell & Butler's acquisition of the Orchid Group for a £266m, and the sale of Amber Taverns at discounted price of £80m. In Ireland, prime hotel assets continue to attract international investment, while the recent IPO of Dalata will further consolidate mid-market hotels.

TMT continues to be very active, accounting for more than 20% of deal volume with technology deals at the forefront. Energy, Mining & Utilities also remains high priority for international investment funds looking for longer-term value, fuelled by a renewed interest in alternative energy projects.

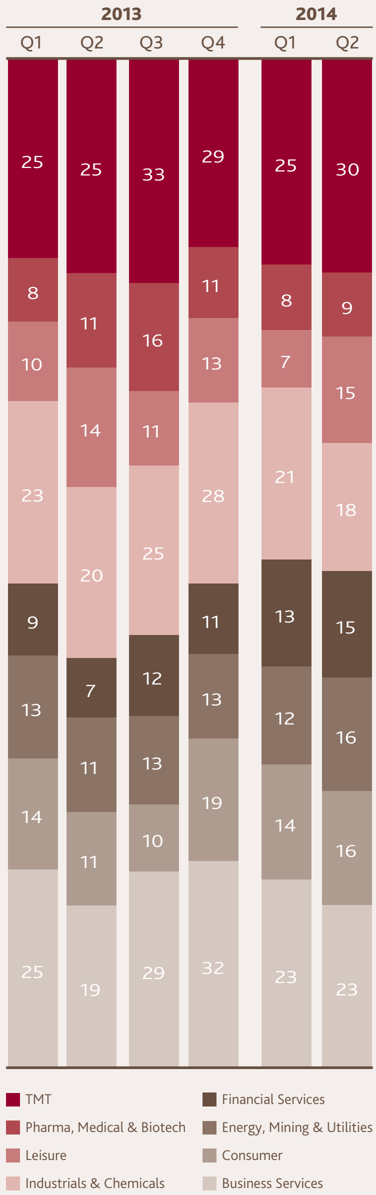
LOOKING AHEAD

We have seen a summer of soaring temperatures and soaring activity. The heat chart shows 519 potential transactions, an increase of 14% on the previous chart, with most activity in the Industrials & Chemicals and Consumer sectors. This is mirrored by the strong economic outlook for the rest of the year, with the IMF predicting GDP surging to 3.2% in the UK and to 2.5% in Ireland. With interest rates remaining low and confidence growing, the current pace of M&A activity in the market should be sustained for the remainder of the year. However, the activity in Ireland may be weighted more towards Q4-14, as the Budget and potential changes in government policy tend to result in the suspension of deals, particularly in the Healthcare and Consumer sectors.

UK & IRELAND HEAT CHART BY SECTOR

Industrials & Chemicals	88
Consumer	86
Business Services	72
TMT	67
Financial Services	62
Energy, Mining & Utilities	61
Pharma, Medical & Biotech	45
Leisure	38
TOTAL	**519**

UNITED KINGDOM & IRELAND MID-MARKET VOLUMES BY SECTOR



SOUTHERN EUROPE

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THE BIG PICTURE

- Deals were up in 2014 in terms of both volume and value
- Industrials & Chemicals is the most active sector for M&A, but TMT, Business Services and Leisure justify the 2014 growth
- Large and rising deal opportunities.

A trend of continuous growth and a favourable outlook points to a promising year overall.

The opportunities in Southern Europe are reflected both in the growth of deals for 2014 itself, and in the rise of deals either planned or in progress.

SETTLING INTO A POSITIVE GROWTH TREND

The recorded upward trend in activity, along with the rising number of deals in the pipeline, together contribute to the growing perception that the Southern European market is a rich source of M&A opportunities.

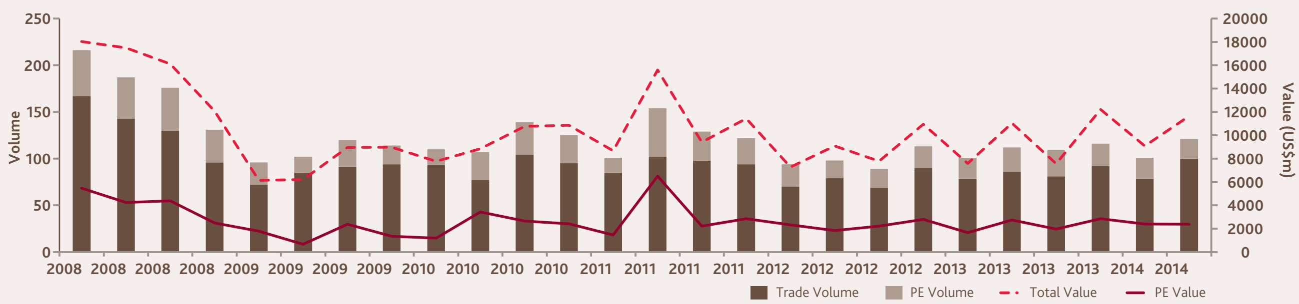
The second quarter of this year was the best quarter since 2011 in terms of the number of deals reported (121) and was also the second best quarter in terms of deal volume (USD 11.6bn). This shows a consolidation of the growth trend that has been observed since Q3-12, which hit a historic low (in terms of value) since at least 2008. The current encouraging trend can be plainly seen by comparing Q2-14 with Q1-14 (being up by more than 20% in value and 28% in volume), as well as by comparing the first half of 2014 with the same period in 2013 (a rise of 4% in value and 11% in volume). Average volume per deal in 2014 (USD 93m) was also up by 6.5% over the average of 2013.

Deals led by private equity, however, have experienced a drop in value terms, although volume is up. Indeed, the quarterly average of 2014 recorded a decline of 13% from 2013 in the number of private equity deals, but a rise of 4% in volume. In the context of the general improvement in M&A activity, private equity in Q2-14 made the poorest showing – although still with 20.5% of the total deals.

TMT SECTOR, BUSINESS SERVICES AND LEISURE JUSTIFYING THE GROWTH

Industrials & Chemicals remains the most active sector, with USD 54m in H1-14, amounting to 24% of total deal volume. However, the growth in H1-14 M&A volume was primarily derived from the TMT,

SOUTHERN EUROPE MID-MARKET M&A



Business Services and Leisure sectors. In the first half of the year these three sectors reached 70% of the respective deal volume achieved in the whole of 2013. By contrast, the Energy, Mining & Utilities sector had the lowest activity in recent years, with only USD 4m.

The top 10 deals in Q2-14 totalled USD 3.8bn in value. Among them were three transactions in the finance sector (amounting to USD 1.2bn), including the acquisition of Catalunya Banc (non-performing loan portfolios) by the Malaysian Aiqon Capital Group, the acquisition of Banca Popolare di Ancona, Banca Popolare Commercio e Industria and Banca Carime by the Italian UBI Banca, and the acquisition of 50% of the insurance activity of BanSabadell by Zurich Insurance Group.

The largest TMT deal occurred in France, with the acquisition of Omer Telecom by Numericable for USD 444m. Also notable in this quarter was the acquisition of 70.4% of the Valencia CF in Spain, by Peter Lin (Singaore), a private investor with other investments in football. The Top 10 also includes two acquisitions by US-based investors to European sellers. The Cajamar Group sold CIMENTA2, a company engaged in property sales, to Haya Real Estate, while Starman UK Services Company sold the Le Meridien Etoile to Mount Kellett Capital Management. Also worth a mention is the acquisition of 57.55% of the Italian Piaggio Aero Industries by the indian TATA Industries to Mubadala Aerospace, a UAE based company.

Finally, a 49% share of the Portuguese insurance companies Ocidental and Medis was sold by Millenniumbcp to the Belgian Ageas Group.

LOOKING AHEAD

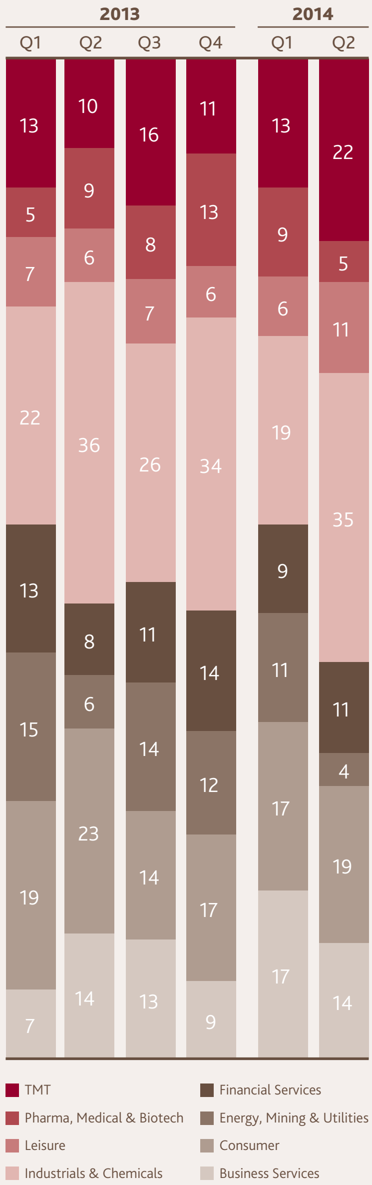
The outlook for the region looks very bright, with the heat chart confirming the general feeling of confidence across the sectors. Q2-14 has thrown up 718 business opportunities, 10% more than the previous quarter. We can expect the most active sectors to remain Industrials & Chemicals, Consumer and TMT, with the rise of opportunities coming mostly from TMT and other non-TOP active sectors.

The crisis in Southern Europe over recent years has also brought some positive impacts. These include the availability of a range of good opportunities to investors from various parts of the world. There is a perception that the risks have reduced substantially, and that most of the necessary restructurings have already occurred, making both buyers and sellers more willing to go through with transactions.

SOUTHERN EUROPE HEAT CHART BY SECTOR

Industrials & Chemicals	147
Consumer	138
TMT	131
Business Services	90
Energy, Mining & Utilities	64
Financial Services	61
Leisure	47
Pharma, Medical & Biotech	40
Total	**718**

SOUTHERN EUROPE MID-MARKET VOLUMES BY SECTOR



BENELUX

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An exceptionally quiet second quarter for M&A activity still retains optimism for the rest of the year.

THE BIG PICTURE

- Deal activity in Q2-14 was at a historic low, with only 18 transactions
- Trading activity especially was marked by a significant drop to only 12 deals
- The most important sector remains Industrials & Chemicals
- A sustained level of prospective deals, especially in the Industrials & Chemicals and Consumer sectors.

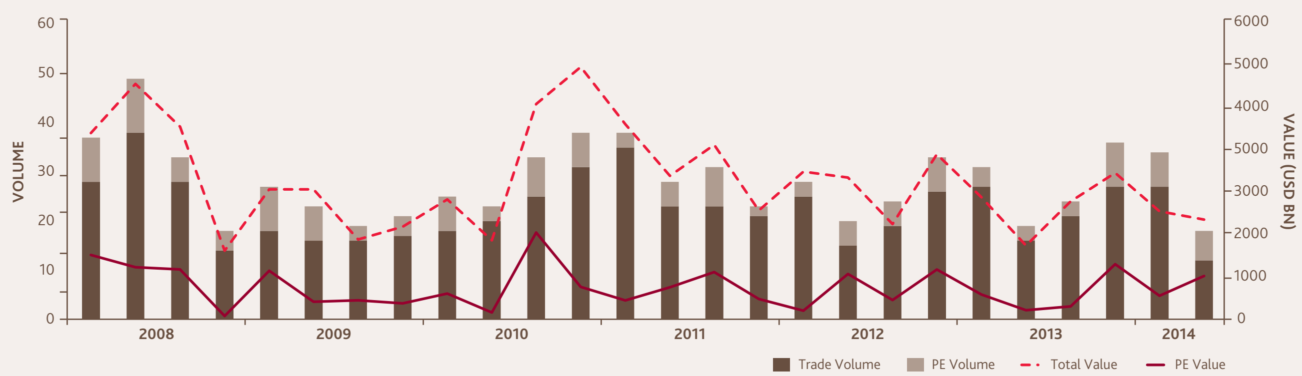
M&A activity was remarkably low in Q2-14, with only 18 deals. In fact, it was the lowest number of deals seen in a quarter over the last 5 years (the average for that period has been 27 per quarter). A major factor in this has been the exceptionally low level of trading activity, with only 12 deals to set against the five-year average of 22 deals per quarter.

A HIGH FOR PRIVATE EQUITY, AS THE INDUSTRIALS SECTOR DOMINATES

The second quarter's 18 deals had a total value of USD 2bn, of which USD 882m was attributable to private equity transactions. This gives private equity a historic high-water mark of 42.3% of the total value.

Breaking down the Q2-14 figures by sector, we can see that the top deals mainly come from the Industrials & Chemicals sector, representing 3 out of the 5 largest deals. The Dutch toolmaker Koninklijke Nedschroef Holding was sold by a consortium of private equity funds to the Chinese Shanghai Prime Machinery for USD 442m, delivering the quarter's largest deal. This acquisition is another example of how Chinese companies are continuing to expand their global footprints, acquiring targets with cutting-edge technologies. The second largest deal, valued at USD 327m, was the sale of the Dutch company SPGPrints, a manufacturer of rotary screen and digital printing systems, to

PE/TRADE VOLUME & VALUE



Investcorp (a multinational investment firm with headquarters in Bahrain), by funds managed by Bencis Capital Partners. And taking third place in the top 10 deals was Delek Group, an Israel-based energy company, which sold its Dutch affiliate Delek Europe (owning a retail network of petrol stations and convenience stores in the Benelux and France) to private equity firm TDR Capital, in a deal worth USD 264m.

Although the second quarter's centre of gravity was clearly the Dutch market, the 2 Belgian transactions in the top 10 mid-market deals still deserve to be highlighted. The largest Belgian deal was the acquisition of Mecar, together with Simmel Difesa, by Nexter Systems, strengthening the ammunition division of the latter at a deal value of USD 221m). In second spot was the sale by the Finnish publisher Sanoma of its 50% stake in Belgian company De Vijver Media, a media holding that controls two Flemish TV-broadcasters, to the multimedia service provider Telenet. This deal, at a value of USD 79m, was undoubtedly the most talked about.

BENELUX HEAT CHART BY SECTOR

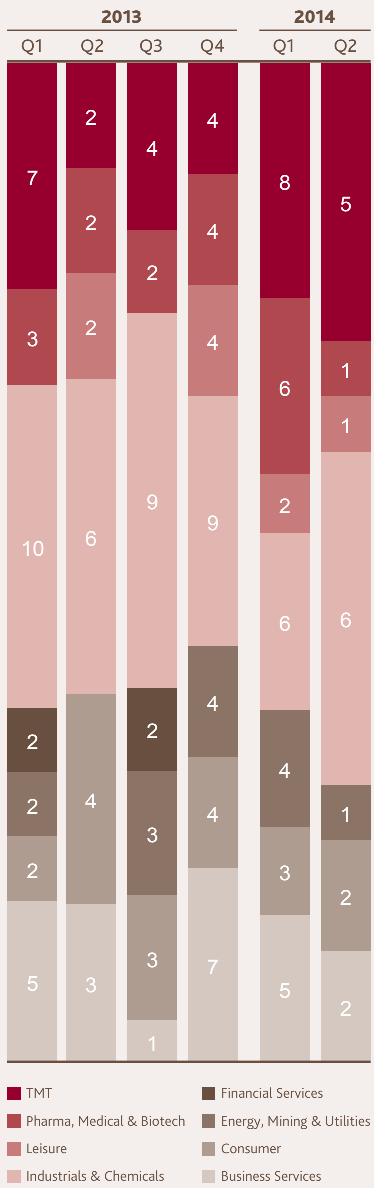
Industrials & Chemicals	67
Consumer	48
TMT	35
Business Services	31
Financial Services	22
Energy, Mining & Utilities	17
Pharma, Medical & Biotech	17
Leisure	6
Total	**243**

LOOKING AHEAD

The heat chart shows approximately 243 deals currently in progress or planned, a slight decrease on the 250 projected in the previous quarter. As we have seen in previous quarters, the Industrials & Chemicals and TMT sectors rank at the top, while the Consumer sector is making strong moves forward: over the last two quarters its projected volume has doubled from 24 to 48 deals.

The current high stock prices, combined with the available financial resources, should bolster the region's M&A appetite. This gives us good reason to believe that, despite a weak Q2-14, there will be increased activity in the coming quarters. It is to be hoped that the current geopolitical turmoil (such as the conflicts in the Middle East and Ukraine) will not damage investor confidence.

BENELUX MID-MARKET VOLUMES BY SECTOR



DACH

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THE BIG PICTURE

- Declines in total trade volume and value
- But a slight rise in PE sector deals
- Favourable financing conditions offset by uncertainties due to the crises in Ukraine and Iraq
- Moderate M&A activity anticipated concerning Eastern European stakes.

We saw a slight dip in mid-market activity in the second quarter – but the region can expect to be soon swept up on the wave of the worldwide rise in transactions.

Despite high expectations for an improved market environment, both deal volume and value took a slight backwards step from Q1-14 to Q2-14. This was even more surprising in the context of a global surge in M&A activity. However, this does not appear to indicate any underlying issues with the region – merely that the worldwide trend is taking slightly longer to establish itself here. Confidence remains high that activity will pick up significantly, after this small delay.

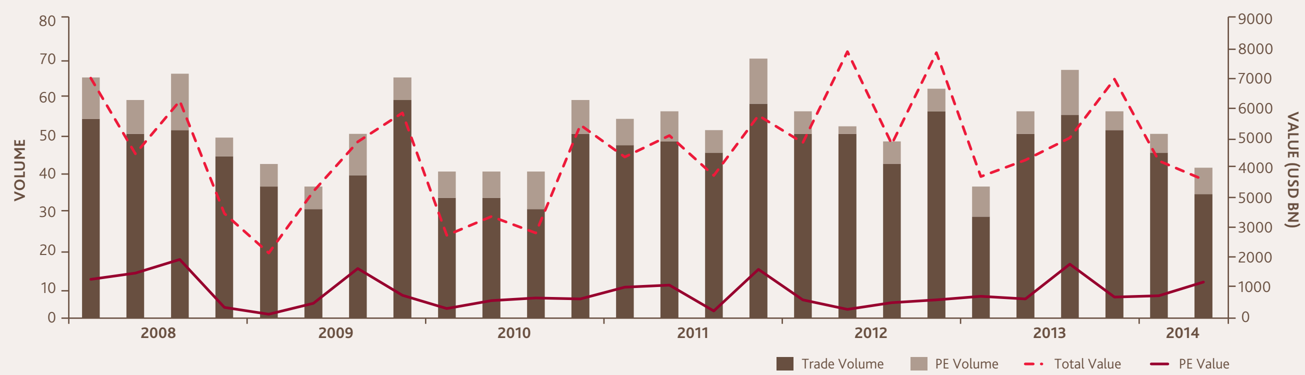
ANALYSING THE MARKET'S CHEMISTRY

Four sectors in particular dominated activity in Q2-14. These were Industrials & Chemicals with 28% of deal volume, TMT (20%), Consumer (15%) and finally Pharma, Medical & Biotech (11%), which is expecting further upheavals in the near future. Declining productivity due to pricing pressures, along with competitive generic products are together driving consolidation in the industry.

Regionally, Eastern Europe is coming to the fore as some Austrian companies are seizing the opportunity to acquire new stakes there, while others (still suffering the after-effects of the last crisis) are selling theirs.

The Austrian M&A mid-market is dominated by Austrian private equity industrial holdings, which acquire stakes in domestic companies going through difficult phases. Examples include Austro Holding GmbH and Grosso Holding GmbH, which in

PE/TRADE VOLUME & VALUE



collaboration acquired a stake in Gaulhofer Vertrieb Gmbh & Co KG, the Austria-based windows and doors manufacturer for an undisclosed amount, and also a 40% stake in Ankerbrot AG, the Austrian-based company which manufactures and distributes bakery products.

Germany saw particularly high M&A activity in the first half of the year, both inbound and outbound, with the Industrials & Chemicals sector delivering the most deals. Of particular note were several US investments in German-based companies in Q2-14. The largest mid-market transaction in Industrials & Chemicals was the acquisition of the US-based EMTEQ Inc (provider of aircraft interior and exterior) and the Germany-based Fischer+Entwicklungen GmbH & Co KG (manufacturer of seating products for civilian helicopters) by B/E Aerospace Inc for USD 470m (from two German private investors). Meanwhile in the Pharma, Medical & Biotech sector, the largest announced transaction was the acquisition of Trumpf Medical Technology (products for intensive care units) by Hill-Rom Holdings Inc. (manufacturer of medical technology) with a deal value of USD 250m.

DACH HEAT CHART BY SECTOR

Industrials & Chemicals	120
TMT	83
Consumer	65
Pharma, Medical & Biotech	45
Business Services	44
Financial Services	30
Energy, Mining & Utilities	24
Leisure	14
Total	**425**

Germany was also a target region for private equity houses, both domestic and foreign. A stand-out example was the acquisition by Deutsche Beteiligungs AG of the German bakery company Dahlewitzer Landbäckerei GmbH for USD 153m.

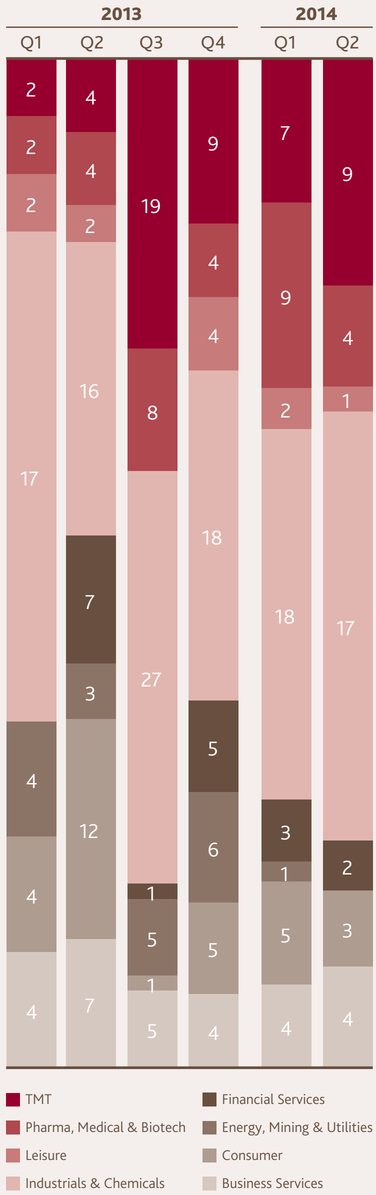
In Switzerland, the current biggest deal is the public tender offer for Swiss PubliGroupe SA, a leading provider of performance marketing solutions in Europe, at a deal value of USD 414m. Furthermore the Swiss-based Clariant AG (a world leader in speciality chemicals) and the US-based Ashland Inc. have sold their Germany-based joint venture ASK Chemicals to investment funds affiliated with Rhône, a London and New York-based private equity investment firm, at a deal value of USD 355m.

LOOKING AHEAD

Despite the second quarter dip, activity for the first half of the year remains high at pre-crisis levels, especially in Germany, and the current favourable financing conditions are not expected to change. Consequently, we can expect the latter half of the year to be dominated by large acquisitions, especially in the Pharma, Medical & Biotech sector where market consolidation is likely to continue.

Despite a slight fall in the Ifo Business Climate Index (Ifo Institute for Economic Research, Munich) over the period, assessments of the current business situation remained stable. However, companies have sounded a note of caution about future business developments, fearing the potential impact of the crises in the Ukraine and Iraq. The mood remains one of optimism, but tempered by a prudent vigilance.

DACH MID-MARKET VOLUMES BY SECTOR



NORDICS

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THE BIG PICTURE

- Another solid quarter underlines the region's ongoing stability
- Growing international interest is fuelling major cross-border deals
- Industrials and TMT are the most active sectors, but others show rising pipeline activity
- International private equity funds are expected to show more interest in the region.

Consistency and stability are the hallmarks of the Nordic region, with a steady volume of transactions and high expectations for the future.

The number of transactions typically keeps up a steady pace in this region, with 74 deals in the second quarter being only slightly down on the same period last year (which saw 78). However, the recent quarter has been noticeably more active than Q1-14, which had only 53 deals, while total deal value has more than doubled from USD 3.1bn to USD 6.9bn.

MORE INTEREST BOTH FROM PRIVATE EQUITY AND OVERSEAS

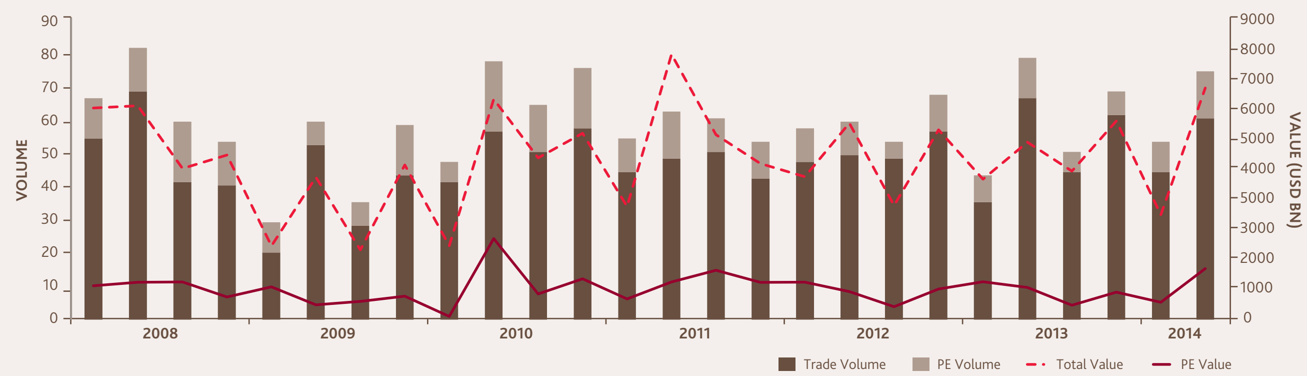
In Q2-14 the region's private equity firms increased the size of their assets under management by USD 1.5bn, with 14 PE backed transactions. The average number of quarterly deals backed by private equity is 11, which amounts to 19% of total transaction volume but 22% of total value (USD 6.9bn).

Of the top 10 deals by value, 4 were from countries outside the Nordic region. Together the top 10 represent a combined value of USD 2.9bn, or nearly 41% of total transaction value.

The largest deal was Swedish, in which commercial real estate company Fastighets AB Balder acquired 14 hotel properties based in Sweden from Pandox AB for USD 336m. The hotels include branches such as Best Western, Scandic and Park Inn.

The second largest transaction was private equity funded, as Nordic Capital acquired Euroline AB for USD 331m from Skandinaviska Enskilda Banken AB. Sweden-based Euroline is a provider of card acquiring solutions for making payments easier.

PE/TRADE VOLUME & VALUE



Turning to sectors, the most active once again were Industrials & Chemicals and TMT, between them accounting for 51% of transactions in Q2-14. This maintains the trend that has been in place since 2008, with these sectors delivering an average of 16 and 12 transactions per quarter respectively. It is worth reiterating, however, that they also have the largest standard deviations (4.8 and 4.2 respectively).

The largest Industrials & Chemicals transaction in the quarter involved the Denmark-based waste management service Marius Pedersen A/S, which was acquired by the Marius Pedersen Foundation from Veolia Environment SA, the France-based provider of environmental management services. Meanwhile, the largest TMT transaction was the acquisition of Sweden-based Readsoft AB by Lexmark International Technology S.A. for USD 235m. Readsoft AB provides software applications for business process automation, on-premises, in the cloud, and hybrid.

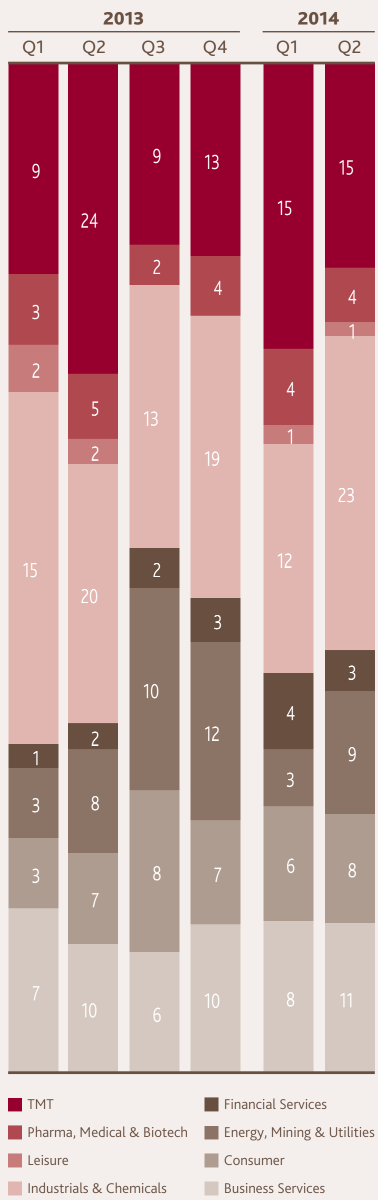
LOOKING AHEAD

Taking a broader perspective and looking at the region's M&A activity in its entirety, Q2-14 has delivered high levels of both transaction volume and value. Amidst all these, we have seen a number of major deals shining out above the rest, which have fuelled high expectations for the whole market. In particular, rising interest in the Nordics from international private equity funds is expected to increase volume for the remainder of 2014.

NORDICS HEAT CHART BY SECTOR

Industrials & Chemicals	62
TMT	50
Consumer	42
Business Services	39
Pharma, Medical & Biotech	28
Energy, Mining & Utilities	23
Financial Services	12
Leisure	9
Total	**265**

NORDICS MID-MARKET VOLUMES BY SECTOR



CEE & CIS

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THE BIG PICTURE

- Deal volume is up overall
- Private equity involvement remains subdued from Q1
- Mid-market deals dominated by Energy, Mining & Utilities and Industrials & Chemicals
- Deal pipeline suggests activity could well return to pre-crisis levels.

A total of 94 deals in the second quarter represented a 6% rise year-on-year for the region, while total deal value held steady at USD 6.9bn.

Deal numbers were up in Q2-14 for Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS) and value approximately the same year-on-year – although private equity involvement was surprisingly subdued.

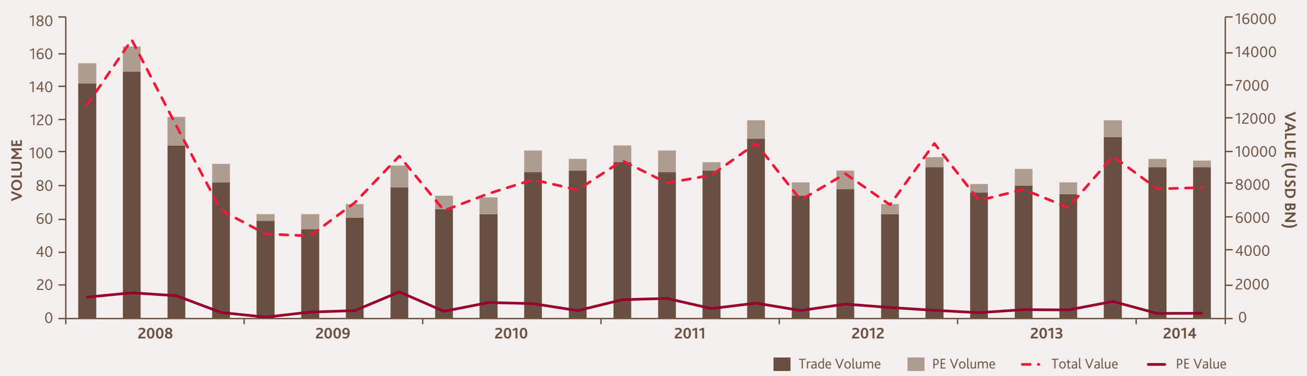
A SHIFTING LANDSCAPE OF SECTOR ACTIVITY

Private equity funded deals accounted for just 3.7% of transactions by value, a modest figure given that the average for 2013 as a whole was 7.2%. These deals comprised four buyouts totalling USD 257m, thus failing to rise above the very low level seen in Q1-14. When considered together with the five private equity transactions in that quarter, we can see that the first half of 2014 has been the least active half for private equity since 2009. This is a particularly stark contrast after the peak-performing H2-13, which delivered a total value of USD 1.3bn.

Nearly half (45%) of the deal volume was confined to two sectors: Energy, Mining & Utilities and Industrials & Chemicals. In keeping with last year's trend, the least active sectors were Leisure and Pharma, Medical & Biotech. However, the overall balance of sector activity was showing signs of redistribution compared to previous periods.

Energy, Mining & Utilities saw a sharp rise, with 22 deals in Q2-14 compared to

PE/TRADE VOLUME & VALUE



the first quarter's 10 deals. Meanwhile the TMT sector has shown sequential growth in deal volume, delivering 26 completed transactions in H1-14 compared to 37 for the whole of 2013. However, it has yet to match the levels seen in 2011.

The Consumer and Financial Services sectors continued to post a significant number of deals, but both sectors experienced a drop from Q1 to Q2. In Q1-14 the sectors delivered 21 and 16 deals respectively, which fell to 13 and 11 in Q2-14. Nevertheless the H1 figures for both sectors are still far higher year-on-year: Consumer's 34 deals represent a 48% rise on H1-13 (23 deals) while the 27 deals in Financial Services are a healthy 29% increase on last year.

Across H1-14 there were 8 deals in the Pharma, Medical & Biotech sector, a 60% increase from the same period last year, but this is still far below the 14 deals achieved in the second half of 2013.

There was a very small rise in activity for the Industrials & Chemicals sector, but a significant drop in H1-14 for Business Services and Leisure, in terms of the average number of deals.

CEE & CIS HEAT CHART BY SECTOR

Industrials & Chemicals	259
Consumer	178
Energy, Mining & Utilities	131
TMT	120
Business Services	116
Financial Services	77
Leisure	58
Pharma, Medical & Biotech	55
Total	**994**

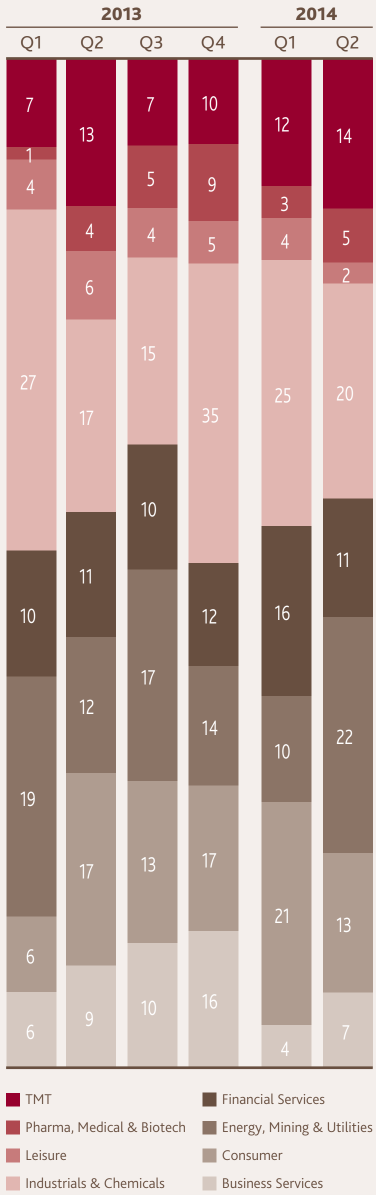
The top 10 mid-market deals in Q2-14 paint a picture broadly similar to the one we saw in the first quarter. Poland continues to play a significant role in the deal landscape of CEE & CIS, alongside Russia and Turkey (as a target country). By far the most active sectors, at least regarding the top deals, are TMT and Energy, Mining & Utilities, each with 3 in the top ten.

LOOKING AHEAD

Rising business optimism in the CEE & CIS means we can expect greater M&A activity for the remainder of 2014. 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. Things already seem to be heating up – as the heat chart makes plain. Current market intelligence reveals almost 1000 deals either in progress or planned, which is already far above 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 reveals that CEE & CIS has come in ahead of China, and has earned out the second highest level of interest after North America (all the more noteworthy given that CEE & CIS consist of 32 countries altogether). So even though the Q1 and Q2 figures did not deliver the upswing predicted by the heat chart, this can largely be put down to the typically lower activity seen in the first half of the year, coupled with the impact of the crisis in Ukraine. This crisis has undoubtedly caused hesitation among many potential inbound investors in Russia, but the region's long term attractions remain. The upward trend for 2014 is still very much expected in the coming months.

CEE & CIS MID-MARKET VOLUMES BY SECTOR



MIDDLE EAST

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THE BIG PICTURE

- Geopolitical instabilities in the Middle East region have dampened M&A activity
- Oil and gas deals are a major focus
- The Construction sector has been boosted by the announcement of new infrastructure and development projects
- International private equity firms are seeking regional assets, while equity capital markets remain hungry for new IPOs.

Renewed uncertainties have cast a cloud over M&A activity, but many opportunities remain particularly in certain key sectors.

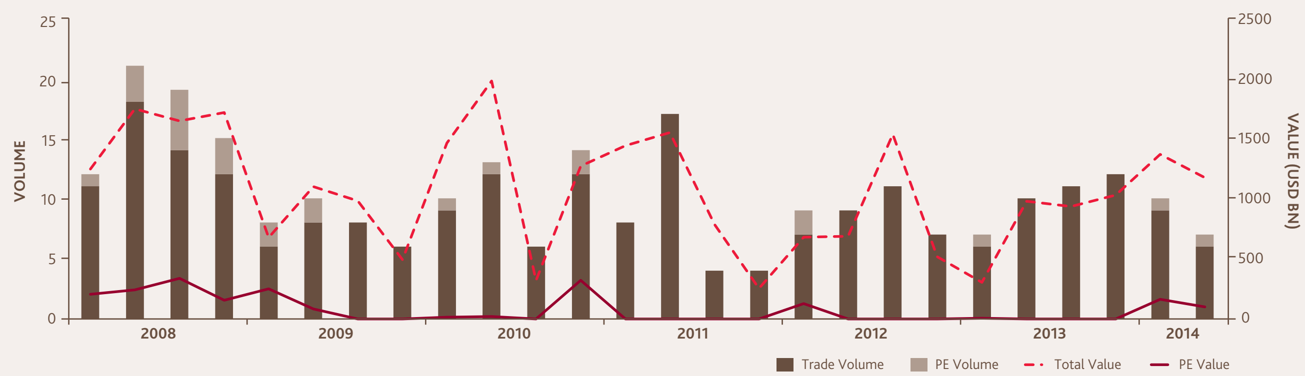
M&A activity in the region was slower in Q2-14 than in the first quarter due primarily to renewed unrest in Iraq, Syria and the Levant, reintroducing an understandably more cautious approach among investors. However, the region continues to have much to offer and certain sectors and sub-regions in particular remain dynamic.

ENERGY AND CONSTRUCTION THRIVE AWAY FROM THE UNREST

In light of the continuing unrest in Syria, Iraq and the Levant, it is no surprise that five of the seven reported deals have involved target companies in the UAE, a country that is geographically more insulated from the upheaval. The three largest transactions were all UAE bidders acquiring UAE targets, with the other four smaller deals demonstrating investor interest in the region from Japan, Hong Kong and France.

Oil and gas was the main focus of interest. The largest transaction was the USD 500m acquisition of the Dubai headquartered National Petroleum Services, the oilfield services company, by a consortium led by Fajr Capital and including the Arab Petroleum Investments Corporation. Two other completed deals in the sector involved Asian investors acquiring energy related businesses in Iraq and Qatar.

PE/TRADE VOLUME & VALUE



The other key transaction was the USD 261m acquisition of a 31% significant minority stake in the UAE listed RAK Ceramics by Samena Capital, a principal investment group focusing on the Indian Subcontinent, Asia, Middle East and North Africa. RAK Ceramics is a globally recognised brand which exports products to over 150 countries and has recently demonstrated significant growth, mirroring the global recovery in the construction sector.

The quarter also saw the continuing trend of UK-based banks exiting their retail banking operations in the region, with the sale by Barclays of its retail business to Abu Dhabi Islamic Bank. This follows similar transactions in the last few years by RBS to Abu Dhabi Commercial Bank and Lloyds Banking Group to HSBC Bank Middle East.

Meanwhile, the Construction sector has received a boost in the form of new infrastructure and development projects. Both the UAE and Qatar have announced significant new infrastructure, leisure and residential developments, leading to the awarding of sizeable contracts which have buoyed the construction sector. These are clear demonstrations of the regional commitment to investment and growth, and form part of the cohesive long term vision supported by the UAE Expo 2020 win and the Qatar World Cup in 2022.

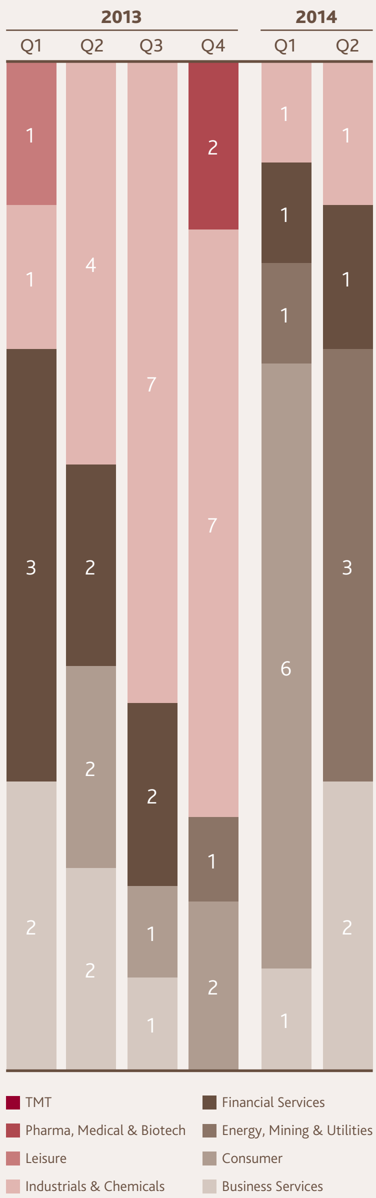
LOOKING AHEAD

Given the continuing low yields in the debt markets, we can expect to see international investor finance seeking quality equity investment opportunities, which will be the main driver of M&A activity over the remainder of 2014. This is evidenced by the interest shown by international private equity houses and sovereign wealth funds in the potential acquisition of the Kuwaiti listed Americana food and beverage group, which could be valued at around USD 5bn.

MIDDLE EAST HEAT CHART BY SECTOR

Industrials & Chemicals	17
Energy, Mining & Utilities	13
Financial Services	11
TMT	10
Consumer	9
Business Services	8
Pharma, Medical & Biotech	3
Leisure	3
Total	**74**

MIDDLE EAST MID-MARKET VOLUMES BY SECTOR



ISRAEL

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THE BIG PICTURE

- Q2-14 was up by 29% on Q1 in value terms
- But it was still the lowest performing second quarter for three years
- No private equity buyouts this quarter – but more are expected
- TMT the most active sector, with 50% of deals.

Despite a relatively slow start to the year, the second quarter delivered a rise in the number of deals that gives reason to be optimistic about the near future.

The year to date has been quite sluggish for Israel's mid-market M&A, both in terms of transaction volume and value. However, Q2-14 reflects a cautious rise, especially in deal volume, which hints at relatively positive future prospects.

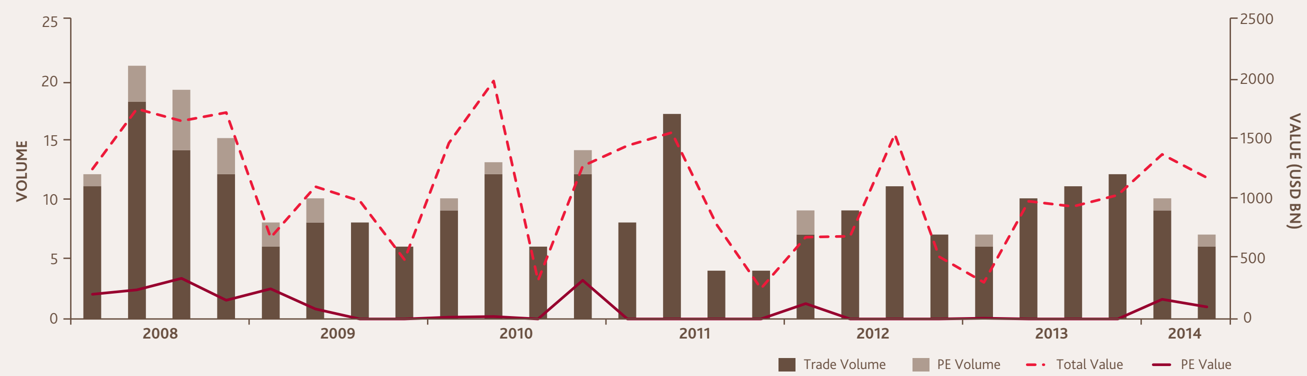
TMT DOMINATES AGAIN AS SLOWDOWN APPEARS TO BE TEMPORARY

M&A activity picked up somewhat in the second quarter, most notably in terms of volume, reflecting a positive outlook for the remainder of 2014. As usual in Israel, TMT is the main driver and will almost certainly continue to be so for a long time to come

Despite the uplift in figures from the first quarter, Q2-14 was still the lowest-performing second quarter over the last three years in value terms, and did not feature a single private equity buyout. However, local and global private equity firms are expected to become more dominant in the near future.

The recent quarter generated a total of 14 completed deals, with a combined value of USD 856m, an increase of USD 193m (29%) on Q1. Altogether the first half of 2014 has generated a total of 26 completed deals, totalling USD 1.5bn. This is down by

PE/TRADE VOLUME & VALUE



USD 720m (32%) from H1-13, despite a 4% growth in volume, as average deal size has fallen from USD 90m to less than USD 60m. Nevertheless, the long term trend over the last few years has been a growth in average deal size, peaking at USD 84m in 2013, and following the current dip this upward trend is expected to reassert itself in the long term.

The TMT sector has predictably dominated deal volume in Q2-14, accounting for 50% of transactions. Also, of the ten largest mid-market deals, five were in this sector (accounting for 86% of deal value) including the USD 300m acquisition of Wilocity (maker of high-speed chipsets) by Qualcomm and the acquisition of Coral-Tell internet services (Yad2 internet portal) by Axel Springer for USD 229m.

The Pharma, Medical & Biotech sector has also held steady with 20% of mid-market transactions. It is worth mentioning that large Israeli Pharma companies such as Teva are very active in outbound M&A, typically generating larger deals. On the other hand, small Biotech companies attract significant seed and Venture Capital funds, and are therefore considered 'under the radar'. Together with the traditional tech start-ups in Israel, these companies are expected to generate the next generation of mature M&A targets in the future.

ISRAEL HEAT CHART BY SECTOR

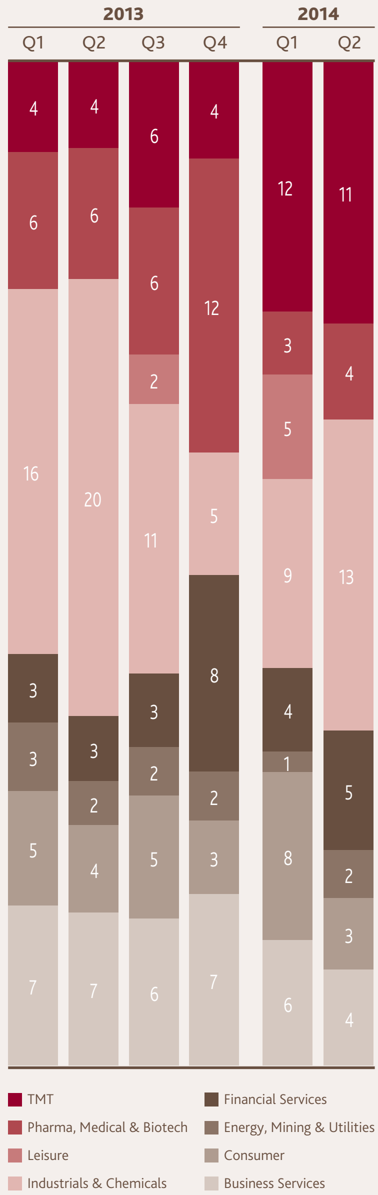
TMT	49
Industrials & Chemicals	18
Pharma, Medical & Biotech	12
Consumer	9
Energy, Mining & Utilities	9
Financial Services	5
Business Services	2
Leisure	2
Total	**106**

LOOKING AHEAD

Taking into account the ongoing capital markets peak prices, and the stable ever-low interest rate, the local Israeli private equity investors are expected to go out to the market more frequently in the next few quarters. This is increasingly likely given that natural buyouts are hard to accomplish, and IPOs are a significant alternative. On the other hand, the local private equity houses that have raised significant amounts over the last 2 years are expected to compete on mid-market transactions, especially in the industrial technology sector, and therefore should generate significant volume and value in the near future.

Global technology giants are constantly seeking maturing Israeli hi-tech companies in order to keep their relative advantage in the global competitive markets, which should mean that the country's TMT sector will continue to attract the most interest in the foreseeable future. The current year is expected to deliver a similar volume of mid-market transactions as was seen in 2013, with roughly 50 deals overall. However, total deal value is likely to come in under USD 4bn, making an average deal size of around USD 80m.

ISRAEL MID-MARKET VOLUMES BY SECTOR



INDIA

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With a clear political mandate in the wake of the election, the all-important market sentiment has revived.

THE BIG PICTURE

- Value is up but volume is down, as larger deals predominate
- The most active sectors by volume were Industrials & Chemicals, Pharma, Medical & Biotech and Business Services
- The top ten deals by value involved the TMT, Industrials & Chemicals, Financial Services and Pharma, Medical & Biotech sectors
- Expected growth in GDP could give a further boost to mid-market M&A.

DEAL VALUE SWELLS AS CONFIDENCE INCREASES

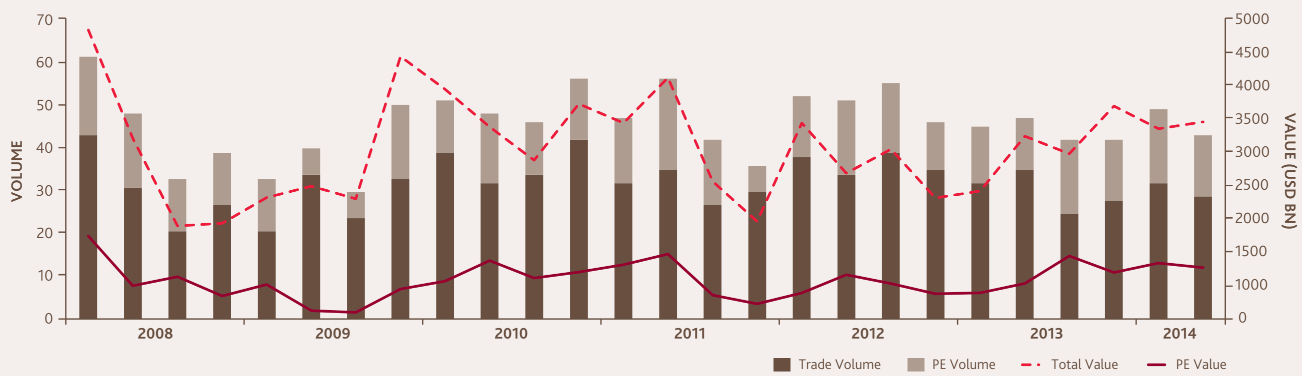
India's election was the world's largest. Staggered over five weeks, it saw a record 500m+ ballots cast from the Himalayas in the north to the tropical south, with voters braving blistering heat for a record 66% turnout. Now that these voters have spoken and removed the uncertainty that was looming last quarter, India's aura of optimism has returned. This is making itself felt in the buoyant stock market, the high indices and the inflow of over USD 20bn from FPIs so far this year.

Private equity buyout deals represented a total of USD 835m in value (26% of total deal value) with 14 deals (amounting to 33% by volume). This was just slightly down on the year's first quarter, when these proportions were 29% and 35% respectively.

Looking back at yearly trends, we can see that in 2013 the total number of deals fell by 14% to 172, compared to 200 deals in 2012. Industrials & Chemicals was the sector with the highest deal volume (52 deals, or 30%) followed by Pharma, Medical & Biotech (30 deals, or 17%) and Business Services (27 deals, or 16%).

Four sectors, however, did see growth in deal volume between the first and second

PE/TRADE VOLUME & VALUE



quarter of this year. There were Energy, Mining & Utilities, Industrials & Chemicals, Pharma, Medical & Biotech and Financial Services. However, the remaining four (Business Services, Consumer, Leisure and TMT) saw a drop in volume. In terms of value, among the second quarter's top 10 deals were 3 in the TMT space, 3 in Industrials & Chemicals and 2 each in Financial Services and Pharma, Medical & Biotech.

The biggest deal in Q2-14 was in TMT, with Flipkart Online Services Pvt. Ltd. acquiring Myntra Designs Pvt. Ltd. for USD 342m in May. Selling their stakes in the transaction were Tiger Global Management, Kalaari Capital Advisors, Premji Invest and IDG Ventures India.

Other major deals in the quarter included Piramal Enterprises Ltd acquiring a 20% stake in Shriram Capital Ltd for USD 332m; Meiji Holdings Co Ltd from Japan acquiring a stake in Medreich Limited from Temasek Holdings Pte Ltd for USD 290m; Reliance Industries Ltd acquiring a 30% stake in TV18 Broadcast Limited for USD 287m; Vodafone Group Plc increasing its stake in Vodafone India Ltd by 12.5% with additional investment of USD 206m; Temasek Holdings Pte Ltd acquired a 12.5% stake in Intas Pharmaceuticals Ltd for USD 186m; and finally Canada Pension Plan Investment Board investing USD 166m in L&T Infrastructure Development Projects Ltd.

In 2013, the average number of deals in each quarter was 43. The first quarter of 2014 surpassed this with 48 deals, though Q2-14 fell slightly short with only 42. But in terms of value the contrasts are far more dramatic – the quarterly average value in 2013 was USD 2.8bn, which Q1-14 easily surpassed at USD 3.1bn, as did Q2-14 with an even more impressive USD 3.2bn.

LOOKING AHEAD

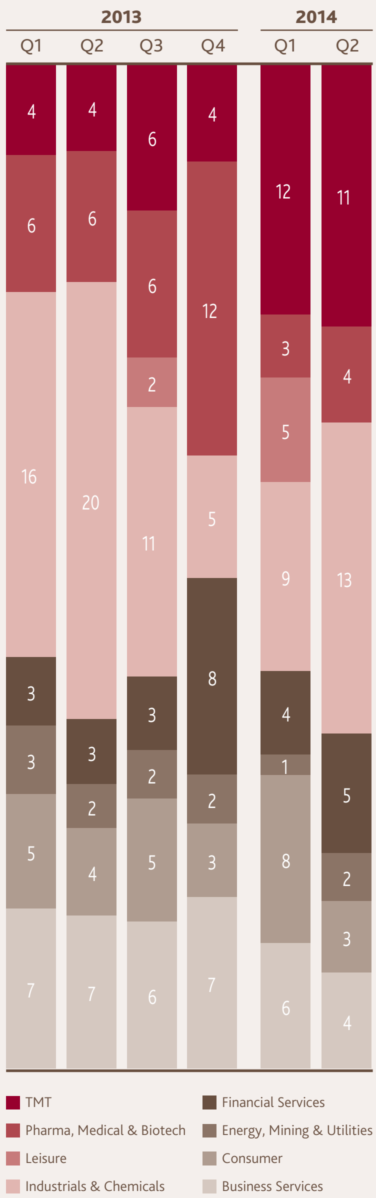
With a turnaround in sentiments and a buoyant middle class, along with stable rupee and increasing capital inflows following the election, India could witness an extended run of GDP growth, which may well give a further boost to the M&A market.

Looking at the heat chart, we can see that the Industrials & Chemicals sector is expected to top the chart again with highest number of potential deals, staying true to the trend we have seen over the last few years.

INDIA HEAT CHART BY SECTOR

Industrials & Chemicals	122
TMT	96
Business Services	77
Consumer	64
Pharma, Medical & Biotech	60
Financial Services	56
Energy, Mining & Utilities	38
Leisure	19
Total	**532**

INDIA MID-MARKET VOLUMES BY SECTOR



CHINA

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THE BIG PICTURE

- More deals in Q2-14 than ever before recorded in a single quarter
- Total value up by 50% year-on-year
- Consolidation makes TMT a stand-out sector, along with Industrials & Chemicals
- Inbound activity remains strong despite political tensions affecting the region.

The second quarter saw an unprecedented level of deal volume in the mid-market, with value also dramatically increasing year-on-year.

Delivering the expected surge of M&A activity, Q2-14 saw more than 300 transactions at a total value of USD 26.7bn – an increase of almost 50% on the same time last year.

CHINA'S M&A ENGINE IS UP AND RUNNING

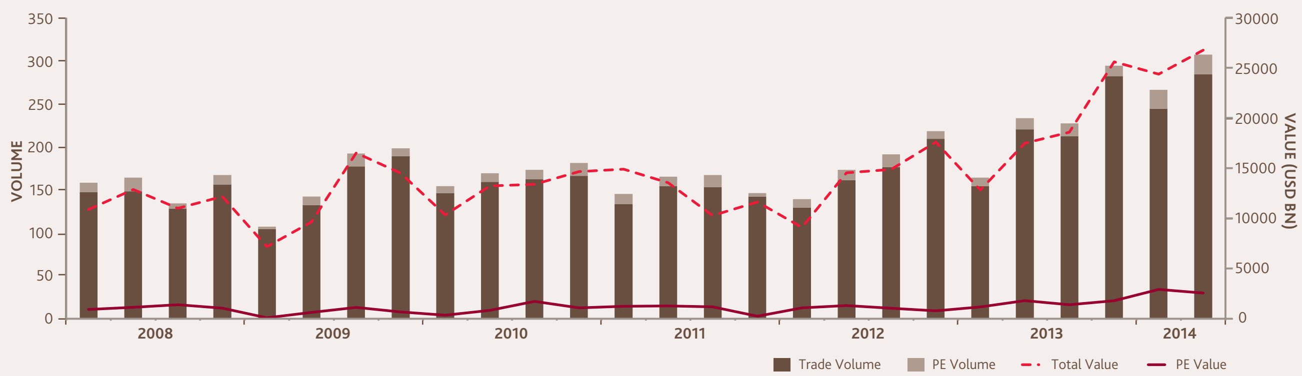
The introduction of MOFCOM'S simplified clearance procedures in 2014 has played a key role in driving up deal volumes in the region. The number of transactions rose by 32% year-on-year, from 233 deals in Q2-13 to 307 deals in Q2-14. The latter figure represents around 17% of global mid-market M&A deals, up from less than 15% at the same time last year, as the region demonstrates its growing importance to the global market.

Deal values rose too, from an average of USD 75m in Q2-13 up to USD 87m in Q2-14. This amounted to more than a 50% increase in total deal value, from USD 17.5bn to USD 26.8bn. There is no single reason for this trend, but a major factor is the rise of certain economic indicators of the greater China region, including the HSBC Purchasing Managers' Index ('PMI') of China that rose from 48.2 in June 2013 to 50.7 in June 2014.

As in previous quarters, private equity activity remains at steady levels, though still low compared to other markets. The volume and value of private equity buyouts were respectively 7.5% and 9.5% of total market levels for the quarter – which does indicate a certain level of uplift from last year, when average volume and value were 5.6% and 8.5% respectively.

The TMT sector played a starring role in the first half of the year, as China's diversified technology giants continued to expand their operations into other sectors such as mobile phone manufacturing, logistics, entertainment and mobile apps development. Larger deals saw Lenovo's USD 2.3bn acquisition of the low-end server business from IBM, after which

PE/TRADE VOLUME & VALUE



Lenovo announced a USD 2.91bn acquisition of the unprofitable Motorola business from Google.

The fierce battle between Alibaba and Tencent, two of China's leading internet players, continued to stimulate the M&A market. Alibaba previously controlled at least half of all online retail sales in China, with its Taobao platform servicing around 80% of C2C online sales. In response, Tencent paid USD 215m to acquire a 15% stake in China's no.2 online retailer, JD.com, in March 2014.

M&A deals in the TMT sector are not limited to larger technology players. There were 139 mid-market deals in the first half of 2014, compared to 148 deals for the whole of 2013. Five of the 10 largest mid-market deals in the region were also in the TMT space, with two of the three largest deals in Q2-14 being domestic deals in Taiwan. This included Orise Technology's merger with Focaltech Corporation, at a deal value of USD 463m, to create one of the world's leading touch and driver IC design groups. Although most TMT deals have been domestic in nature, there are signs of overseas interest in this sector, particularly from Chinese buyers.

However, the most active sector overall remains Industrials & Chemicals, with over 179 deals in the first half of 2014, an increase of almost 25% year-on-year. In the last quarter this has seen deals in the traditional areas of mould or gear manufacturing, as well as advanced security products and mobile camera and monitor manufacturing.

CHINA HEAT CHART BY SECTOR

Industrials & Chemicals	341
TMT	151
Consumer	111
Energy, Mining & Utilities	93
Business Services	78
Leisure	62
Financial Services	57
Pharma, Medical & Biotech	53
Total	**946**

LOOKING AHEAD

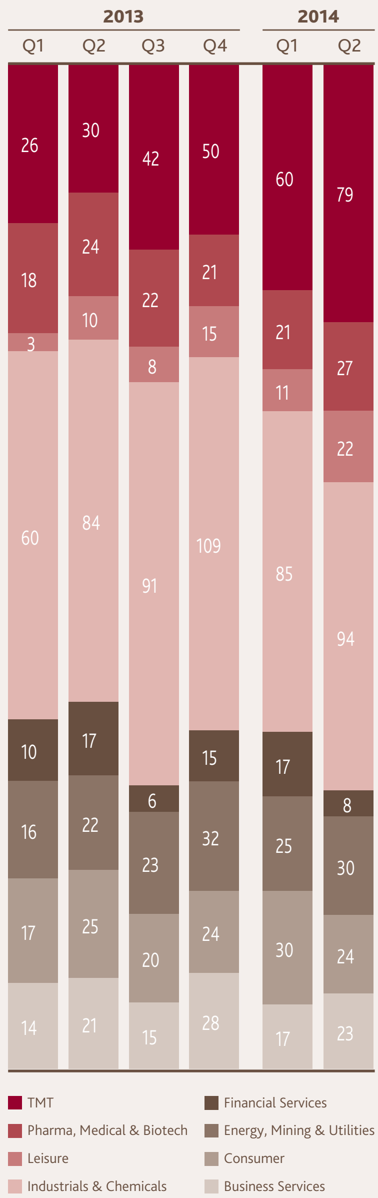
Political tensions this year have adversely affected deal volumes in the region, with the continued stand-off between China and Japan, and more recently China and Vietnam, regarding territorial disputes that have impacted upon investment sentiment between these countries. Some investors in the region are widening their focus and increasingly looking out to the ASEAN region for investment opportunities.

However, the Greater China region remains a core investment area, with 946 deals anticipated in the heat chart. Even though this is a decline from the 1,064 potential deals predicted at the end of Q1-14, causing the region to slip from 2nd to 3rd position on the global heat chart, we are continuing to see strong deal pipelines, with a steady rise in interest from PRC entities seeking outbound investment opportunities across a wide range of sectors.

Inbound deal volumes are also sustaining strong activity levels, with the US and European markets showing renewed confidence in their economic prospects. We are seeing a high number of prospective deals within our own client base for US and Western European companies targeting investment in China, particularly in the Consumer and Industrials & Chemicals sectors, with growing confidence that this momentum will build. FCPA and UK anti-bribery compliance remain key concerns for investors, leading to a stronger due diligence focus in these areas.

PRC government policies continue to be significant indicators of the future direction of M&A activity levels in China. In the past, most large M&A transactions were driven by State-Owned Enterprises ('SOEs'), in which private investors could only own less than 5% stakes individually. In July 2014, six SOEs were designated as pioneers of an SOE reform program, opening SOE investments more widely to private investment. With many SOEs focused on larger infrastructure, public services and utilities operations, alongside the high political risk associated with SOEs and Beijing's continued focus on anti-corruption programs, it may still take some time for many SOEs to freshen their business models and become open to private investment. But this further reform of SOEs is expected to represent a further catalyst of domestic deal volumes in China.

CHINA MID-MARKET VOLUMES BY SECTOR



SOUTH EAST ASIA

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THE BIG PICTURE

- A substantial drop in activity after a remarkably active first quarter
- A good spread of sector activity
- Industrials & Chemicals and Energy, Mining & Utilities the most active
- Future prospects of better market integration to stimulate activity.

An underperforming second quarter looks to be a temporary lull, as the deal pipeline continues to increase.

Transaction levels were down in Q2-14 in terms of both volume and value, but if the heat chart of predictions is anything to go by, then the market is merely drawing breath for the next wave of activity. The attraction that the region retains for global investors looks set to improve further with the introduction of the AEC (ASEAN Economic Community), and the longer-term prospects are looking healthy.

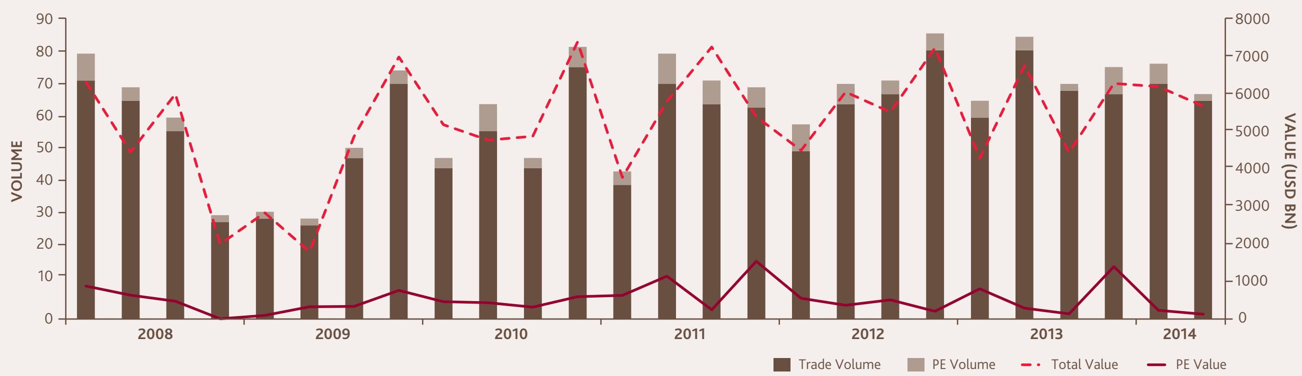
ACTIVITY RELATIVELY SPARSE AND YET DIVERSE

In the second quarter the region saw 67 completed deals, with a combined value of USD 5.6bn. Compared to the first quarter, which was the most active Q1 for the past five years, figures were somewhat down, being 12% lower by number of deals and 8% lower by value. There was also a drop in comparison to Q2-13 – in fact, these were the second lowest results for a Q2 for the five-year period. Private equity also continued its trend of declining involvement, with only two deals – the lowest number for a Q2 in five years.

Nevertheless, sector activity for Q2-14 was wide ranging, as it has been from the start of the year. Industrials & Chemicals, Energy, Mining & Utilities, Business Services, TMT and Consumer all featured prominently, together making up the majority of deals. The single most active sector was again Industrials & Chemicals (representing 24% of total deal volume), while Energy, Mining & Utilities was the second most active with 19% of volume.

So it comes as no surprise to see that the top 10 deals for the quarter include three from Industrial & Chemicals and two from

PE/TRADE VOLUME & VALUE



Energy, Mining & Utilities. The latter includes the largest by value in Q2-14, as Thailand's second-largest private power producer, Electricity Generating Pcl, acquired a 41% stake in Philippines-based Masinloc Power Partners for USD 453m.

LOOKING AHEAD

Despite the reported drop in completed deals for Q2-14, the number of deals in the pipeline makes a welcome contrast. The heat chart shows very encouraging 461 deals planned or in progress, up by 6% on the predictions at the end of Q1-14. Industrials & Chemicals and Energy Mining & Utilities account for 43% of these, which is broadly consistent with the previous two quarters. Significant quarter-on-quarter increases have arisen in the number of deals from the Energy, Mining & Utilities and Leisure sectors, and most other sectors have also recorded increases (though Industrials & Chemicals and Financial Services have reduced).

Deal activity in Industrials & Chemicals and Energy, Mining & Utilities in particular should continue in the second half of 2014. Despite possible short-term geopolitical concerns, we expect investors (including private equity) will also continue to pursue deals in other sectors. Foreign investors remain very attracted to the opportunities of a market comprising of 650m people with a combined GDP of around USD 3 trillion. In July, Moody's noted:

'From a longer-term perspective a young and rapidly growing population bodes well for economic growth in ASEAN. Specifically, it means a large labour force and attractive domestic market potential.'

We also expect that many ASEAN-based companies will increasingly recognize the need to be prepared for the scheduled introduction of the ASEAN Economic Community ('AEC') at the end of 2015. AEC is intended to transform ASEAN into a region with free movement of goods, services, investment and skilled labour, as well as the freer flow of capital. In some instances companies may try to position themselves to exploit the advantages offered by operating in what will gradually become a single market, by undertaking intra-ASEAN cross-border M&A activity.

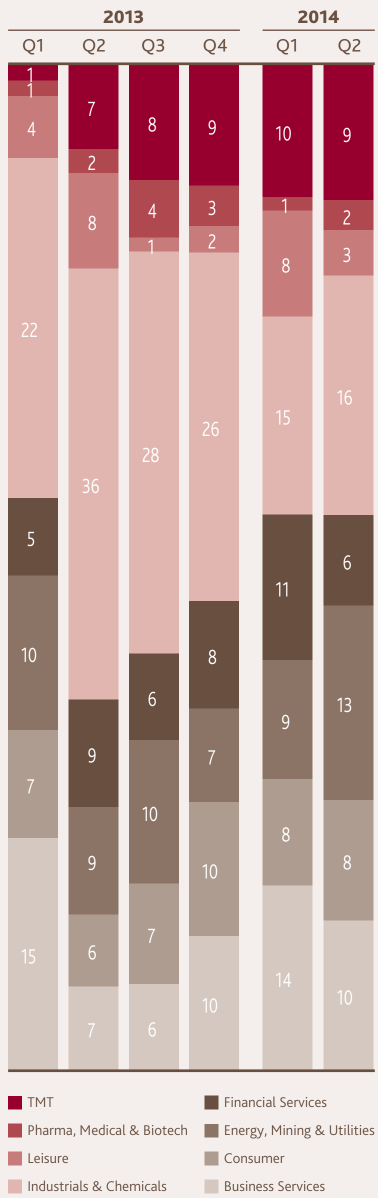
South East Asia's stock exchanges are currently in talks on greater integration. They have already agreed to link their trades through a common network to allow financial institutions to place orders across international boundaries, and the exchanges of Malaysia, Singapore and Thailand have already done so. We believe that this move towards integration will indirectly stimulate M&A activity in the region.

Although it has not yet translated into the number of deals completed in 2014, we are nevertheless continuing to see global private equity funds expanding their presence and coverage in this region. There is also strong interest from these funds in all aspects of the Consumer sector.

SOUTH EAST ASIA HEAT CHART BY SECTOR

Industrials & Chemicals	103
Energy, Mining & Utilities	96
Consumer	61
Business Services	59
TMT	48
Financial Services	36
Pharma, Medical & Biotech	35
Leisure	23
Total	**461**

SOUTH EAST ASIA MID-MARKET VOLUMES BY SECTOR



JAPAN

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April's increase in consumption tax seems to have done its job, overcoming the feared economic slowdown.

THE BIG PICTURE

- Most M&A deals involve strategic buyers rather than private equity
- Asia, especially ASEAN, is proving a major attraction for the M&A market in Japan
- Industrials & Chemicals and Consumer sectors dominate, with more than 60% of activity
- Japan's economy is still feeling the pressures of low birth rate and an ageing population.

April's increase in consumption tax seems to have done its job, overcoming the feared economic slowdown.

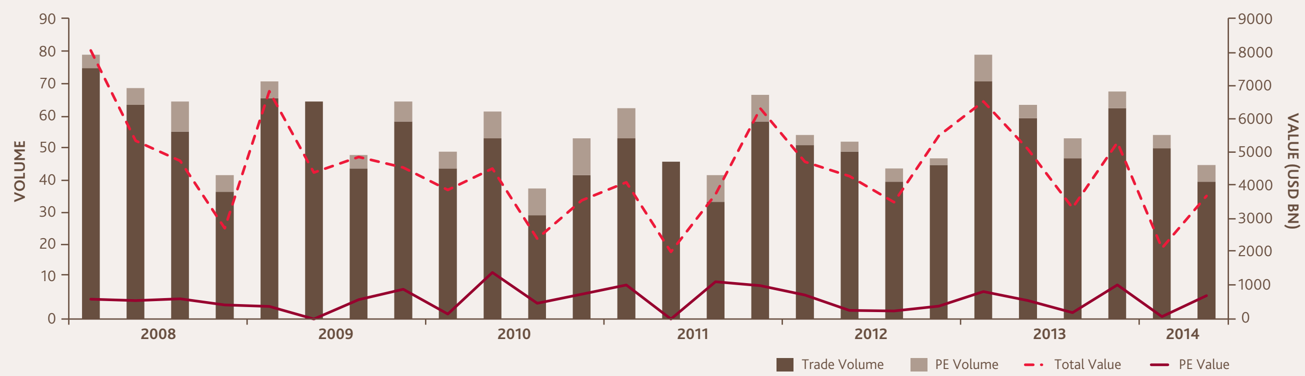
MID-MARKET ACTIVITY FAILS TO MATCH THE WIDER GROWTH TREND

Taking the market as a whole, not just the mid-market, we see a total volume of 522 deals in Q2-14. This breaks down to 368 domestic deals, 115 outward and 39 inward; or, viewed by deal type, they comprise 300 acquisitions, 208 minority investment & Increasing equity, and 14 mergers. The figure is up by 31 (or 6%) on Q2-13, due to a variety of factors including minority investment, increasing equity, and merger. They have been increased from 266 to 292 by 26 (+10%) compared with corresponding period of previous year.

By contrast, the mid-market delivered only 46 deals in the same quarter – substantially below its performance at the same time last year. The dip is mainly due to the drop in activity in two sectors in particular, namely Industrials & Chemicals (from 25 deals to 16) and Leisure (from 8 to 2).

The graph of Japan's mid-market M&A shows that trade sales are by far the biggest player, far ahead of private equity both in volume and value terms, as the market is driven mainly by strategic buyers rather than by financial investors (such as funds). Companies are mainly using M&A to expand their business into new markets (either overseas or domestic), or for the selection and concentration of their core

PE/TRADE VOLUME & VALUE



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

OUTWARD INVESTMENT IS STRONG

Once more turning to the market as a whole, we can see the continuing major role played by outward investment. Though it has decreased from 122 to 115 deals (down around 6% on the same time last year), outward investment is still making up the majority of cross-border investment.

Looking at where these outward investments are happening, the clear winner for popularity is Asia (especially ASEAN) with around 40% of all deals. This is largely down to the twofold negative internal factors (low birth rate and ageing population), which are shrinking consumer demand. By contrast, positive external factors include Asia's thriving population, consumer market and economy, combined with lower manufacturing and labour costs than in Japan. The sectors most active in outward investments into Asia include food services and related businesses, manufacturing, construction and IT .

Deal activity in Q2-14 was dominated by a handful of sectors, with Industrials & Chemicals and Consumer between them accounting for more than 60% of the total transactions. Least active were Energy, Mining & Utilities, Leisure, and Business Services, while the remaining two sectors in our groupings maintained similar activity levels to the previous quarter. The most steadily active sectors from quarter to quarter were Industrials & Chemicals and Consumer.

LOOKING AHEAD

The heat chart underlines the continuing strength of the leading sectors TMT, Industrials & Chemicals, Consumer, and Business Services, with 273 forthcoming deal opportunities between them. These sectors are expected to be the main engine driving Japan's M&A market.

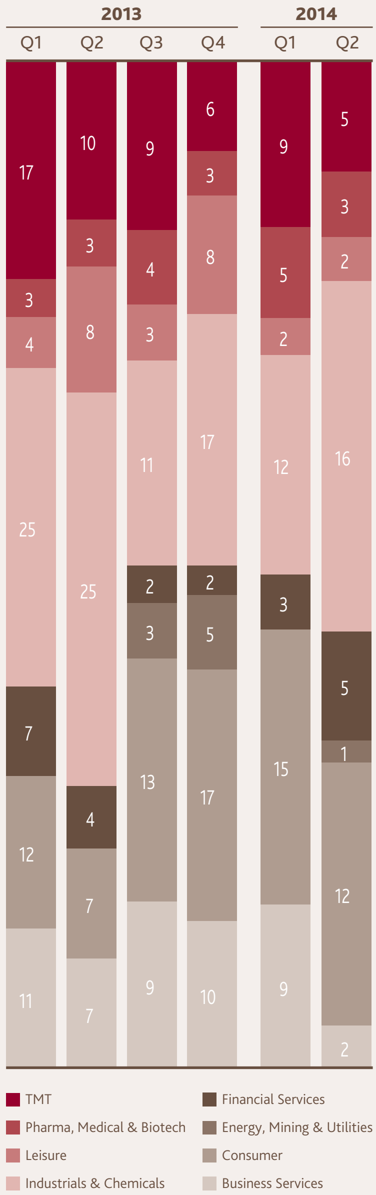
The outlook for deal activity in the remainder of 2014 is cautiously positive. So far Abenomics has yielded good results for the Japanese economy – but the underlying issue of the ageing population has not changed. Fortunately, the economy seems to have averted the feared economic slowdown thanks to April's increase in consumption tax. Rising employment is also helping.

We can expect the outward investment into Asia to continue and increase – while 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 HEAT CHART BY SECTOR

TMT	86
Industrials & Chemicals	80
Consumer	62
Business Services	45
Pharma, Medical & Biotech	22
Leisure	22
Financial Services	19
Energy, Mining & Utilities	12
Total	**348**

JAPAN MID-MARKET VOLUMES BY SECTOR



AUSTRALASIA

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Both deal volume and value soared in Q2-14, both compared to the first quarter and year-on-year, returning M&A activity close to pre-crisis levels.

THE BIG PICTURE

- Another year-on-year increase both in volume and value for the second quarter
- Industrials & Chemicals and Business Services tied for top spot as the two most active sectors
- Private equity involvement continues to rise
- Energy, Mining & Utilities sector disappoints – but plenty to come in the near future.

The second quarter saw 101 completed deals, the highest volume since 2007, at a total value of USD 7bn, which was the highest since 2011. The rise appears to have been driven by the current favourable combination of low interest rates, stable exchange rate and rising corporate confidence in the region. Private equity involvement also continues to grow, albeit from a low base.

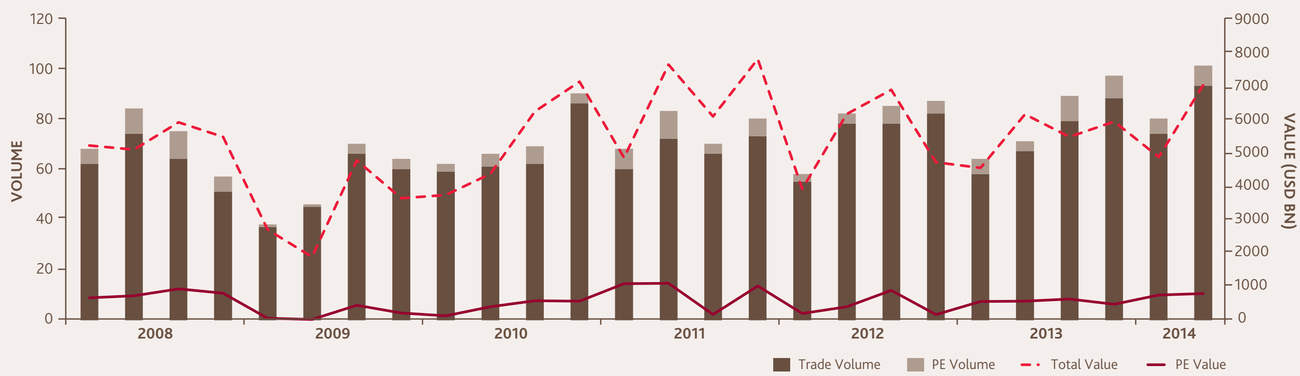
NOT SO HOT FOR ENERGY, BUT COOL NEWS FOR CONSUMER

Private equity is continuing its trend of growing involvement in the mid-market, contributing 11.3% of the total deal value in the recent quarter. This was up from 9.3% in Q2-13, and just 6.5% in Q2-12, so a steady and consistent rate of growth is plain to see.

At the end of the first quarter it looked very much as if the Energy, Mining & Utilities sector would remain the most active in the mid-market – but things did not go according to the script. This was largely down to uncertainties over key commodity prices (eg iron ore, gold and coal) which hit confidence in this sector. Instead, it was the Industrials and Chemicals sector (which includes property) tying for top spot with Business Services. Between them, they contributed five of the top ten mid-market deals for Q2-14, and 38 of the total number (101).

In Industrials & Chemicals, major transactions included the acquisition of the forestry assets of Gunns Limited by Australian fund manager, New Forests,

PE/TRADE VOLUME & VALUE



for USD 256m. But the quarter's biggest mid-market deal was over in the Business Services sector, with asset owner and manager Macquarie Infrastructure acquiring Australia's largest independent bulk liquids storage company, ANZ Terminals, for USD 497m.

Major transactions in the property space of Industrials & Chemicals included Gandel Group's acquisition of a 4.8% stake in shopping centre fund CFS Retail Property Trust for USD 256m and Challenger Life Company's acquisition of a 41.4% stake in Challenger Diversified Property Group for USD 228m.

The Consumer sector also showed an increase in activity, stacking up 14 deals in total. Most significant was the acquisition of the leading Australian ice cream maker, Peters Food Group, by the UK-based R&R Ice Cream Plc, for USD 415m. Other notable transactions included the acquisition of a leading pet care retailer, Farmers Retail, by ASX listed pet care specialists, Greencross Limited, for USD 193m. Both of these transactions made the top 10 mid-market deals for Q2-14.

AUSTRALASIA HEAT CHART BY SECTOR

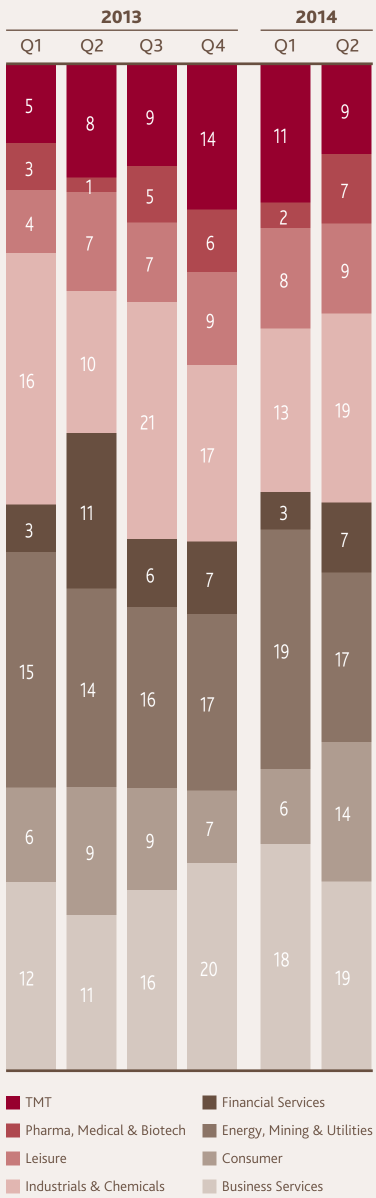
Energy, Mining & Utilities	106
Industrials & Chemicals	88
Business Services	71
Consumer	67
TMT	49
Pharma, Medical & Biotech	35
Financial Services	34
Leisure	18
Total	**468**

LOOKING AHEAD

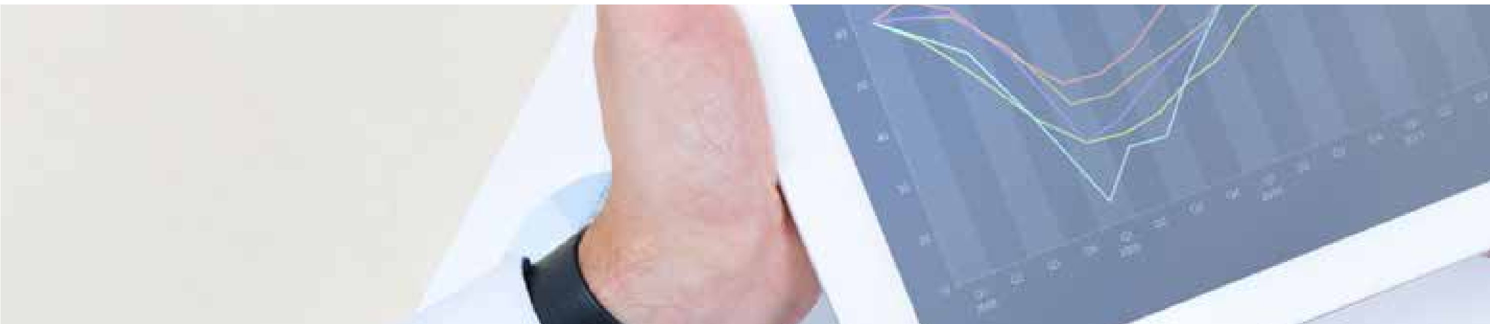
Despite its recent wobble, it looks very much as if the Energy, Mining & Utilities sector will regain its top spot in the next quarter, with the heat chart predicting that it will contribute the largest number of transactions in the short to medium term.

The increase in M&A activity is thanks to multiple beneficial factors, namely renewed corporate confidence, the strength of balance sheets across Australia and New Zealand, low corporate debt rates and stable exchange rates. The upsurge in domestic M&A activity has come hand-in-hand with a rise in cross-border acquisitions too. Thanks to their geographical proximity to Asia, Australia and New Zealand have long been attractive to offshore entities, with their location presenting an entry point into the high growth Asian economies. With the likes of high end retailer Country Road being acquired by South African retailer Woolworths, Australasia continues to be an attractive investment destination for offshore firms seeking acquisitions to diversify their operations.

AUSTRALASIA MID-MARKET VOLUMES BY SECTOR



TECHNOLOGY, MEDIA AND TELECOMMUNICATIONS



FINANCIAL SERVICES

BUSINESS SERVICES — TRANSPORT AND LOGISTICS

SECTOR VIEW ▶

TECHNOLOGY, MEDIA AND TELECOMMUNICATIONS

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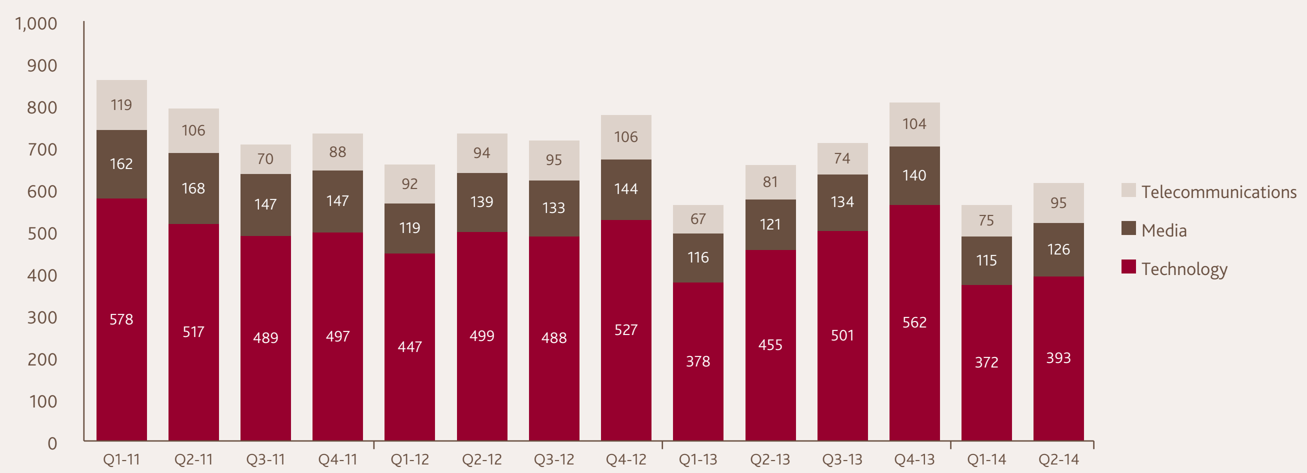
The number of transactions in Q2-14 has increased slightly compared to the year's first quarter, and there has been growth in all three sub-sectors.

TMT mid-market M&A activity saw a minor setback in number of transactions in the first half of 2014. The total number of transactions was 562 in Q1, although 614 in Q2 gave an increase of 9.3%. However, Q2-14 was still down 6.5% on the same time last year. The largest increase in transaction volume happened in the technology sub-sector, with an additional 21 transactions in Q2, representing an increase of 5.6% from Q1. By contrast, the telecommunication sector saw an increase of 20 transactions, making a large increase of 26.7% from Q1 levels.

TRANSACTION DRIVERS

Technology transactions will continue their high level of activity relative to the broader market. Disruptive technologies are expected to drive transactions within the Tech space, as large incumbent market players are acquisitive in a constantly changing competitive situation. These companies, which might have started as a technology, media or telecommunications company, are now evolving into a mixture of services offered within these sectors – leading examples include Facebook and Google. Google alone completed 18 acquisitions in the first half of 2014, ranging from Titan Aerospace (a maker of drones) to Twitch, the social video platform for gamers. Incumbent players will be looking across the Tech sector for established companies that can add to disruptive technologies, thereby increasing their portfolio of services into currently untapped industries or regions. As the Tech sector is changing so rapidly, the acquisitions of start-up companies will drive future transactions. Despite concerns of a 'bubble' of high valuations and multiples, it is expected that increasing competition and a fast-changing market conditions will continue to drive transaction activity.

M&A VOLUME BY SUB-SECTOR 2014



FUTURE PROSPECTS? ARTIFICIAL INTELLIGENCE IS A HOT SUB-SECTOR TO WATCH

2013 was the year in which 'big data' became known to most business around the globe, hand-in-hand with the growing use of social media by businesses. Now a major new area is 'social big data', and it is expected to increase rapidly over the next few years.

The area of social media analytics saw numerous transactions last year, with notable deals including Apple's acquisition of Topsy, Facebook's purchase of Atlas, and Series B's investment in HootSuite. The reality of social big data is that only a fraction of the data available is currently being used. In short, the untapped potential is enormous. Much of the value that is offered to marketers and advertisers from social media data is unstructured, but mined for insights and consumer characteristics on a large scale. This includes predictive targeting and audience clustering.

Large consumer internet companies are currently in a race to grow Artificial Intelligence (AI) departments and acquire the most advanced machine-learning systems. AI theory is based on the assumption that human reasoning can be defined and programmed for a machine to mimic. For instance, the unstructured data from social media might include images that can reveal information about the person who uploaded them, in the form of the objects contained in the photograph or movie, and their context. Given the enormous volume of messages, pictures and videos that is uploaded daily, analysing all this data is a task that must be automated – which means the need for intelligent machines.

MARKET MOVES TOWARDS THINKING COMPUTERS

The big players in the social media space are pursuing deals that can position them for the imminent AI revolution.

LinkedIn has acquired Bright, a company using AI to connect job seekers to their best opportunities and employers to their top prospects. Meanwhile Facebook has launched a new research lab, led by Yann LeCun, which is dedicated entirely to advancing Artificial Intelligence.

Google is to acquire UK-based AI company DeepMind Technologies. The 75 employees will help Google compete with other tech companies as they all try to gain business advantages by focusing on deep learning within e-commerce, simulations and games. DeepMind has not yet released a product, but has secured funding of USD 46m to date. The enterprise value was USD 374m. Finally, Pinterest has acquired VisualGraph, which provides cloud-based, large-scale image recognition and a visual search platform.

The potential of consumer clustering and the ability to predict consumer actions will be areas to watch in the future, with investment and M&A activity on the rise.

HOT AND COOL: AUTOMATED HOME APPLIANCES

Internet of Things (IoT) has been a growing buzzword for the past couple of years. Indeed 2013 saw the start of a number of high-profile transactions within this new and specialised space. One example is Thingworx, a software platform for the M2M market, which was acquired by PTC in December 2013. In relation to the business-to-consumer aspect of IoT, Google acquired Nest Labs for USD 3.2bn in cash. Nest offers a best-selling thermostat and a Protect smoke alarm, which networks with its other devices.

In June of this year, a few months after it was taken over by Google, Nest acquired Dropcam for USD 555m. Dropcam is a plug-and-play security camera connected to wifi, and is the latest smart home device from Google. Also stepping into the arena of home automation is Apple HomeKit and Samsung Smart Home Service – according to rumour, the latter is preparing to acquire home automation maker SmartThings. SmartThings offers IoT-based devices and a free mobile application that can connect to sensors, locks, light switches, thermostats and other compatible devices used in homes. The smart home market is expected to have large growth potential, as the concept of interconnected devices is still in its earliest years.

FINANCIAL SERVICES

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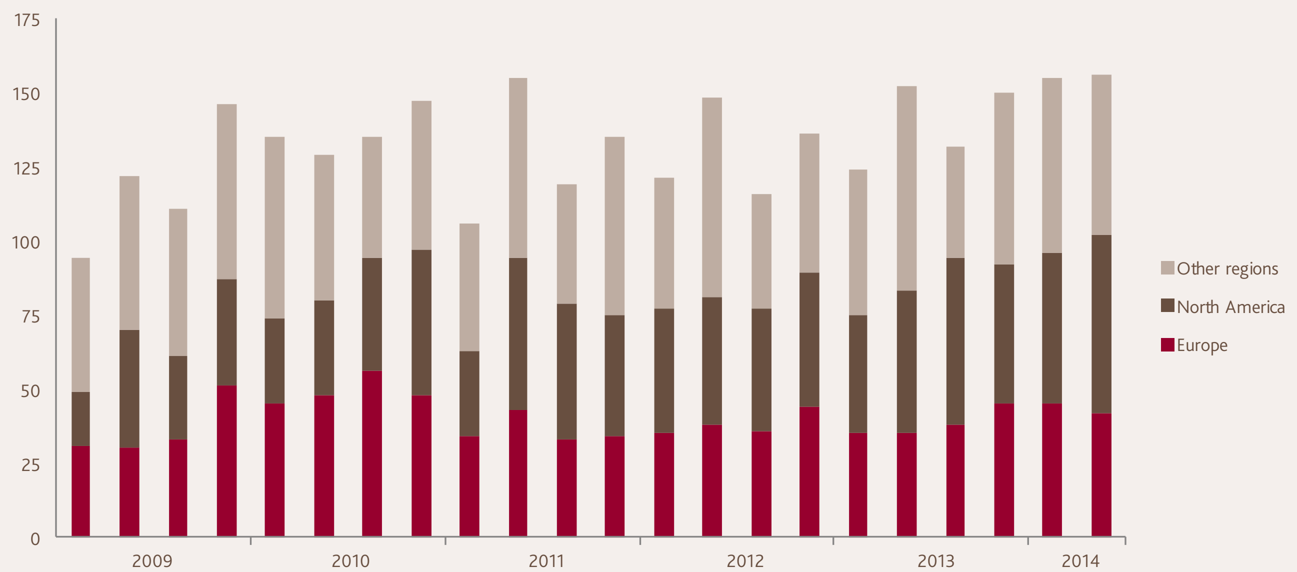
Last year saw the Financial Services mid-market worldwide enjoying its third consecutive year of growth in deal volume. This global mid-market (defined as having transaction values between USD 10m and USD 500m) then proceeded to build on this strong 2013, with stable transaction volumes in the first quarter of this year, and even greater growth in the second.

The first six months of 2014 delivered a deal volume of 311, up by 13% from the 276 seen in the first half of 2013 (+13%). However, within Europe this development has varied quite significantly from region to region.

For example, the markets in the UK & Ireland have been increasingly active, with the number of transactions almost doubling from 16 (in H1-13) to 28 in the first half of this year. In contrast, the deal volume in German-speaking (DACH) countries decreased over the same period. And although deal volumes in other regions including Latin & South America, China and Australasia were below the comparable 2013 figures, the rise in North America (88 to 111) helped to offset that.

In the graph you can see the volume of M&A mid-market transactions in the Financial Services sector by region.

M&A MID-MARKET TRANSACTION VOLUME BY REGIONS, Q1 2009 – Q2 2014



SPOTLIGHT ON BANKING: THE ITALIAN-FRENCH-GERMAN JOB

UniCredit Bank AG, the German unit of Italian UniCredit, recently reached an agreement to sell its majority stake in the German listed online broker DAB Bank AG to BNP Paribas, for USD 453m. BNP Paribas agreed to pay USD 6.1 a share for UniCredit's 81.4% stake in DAB Bank, which would value the bank at USD 556m. This compares to a closing price of USD 5.3 a share, or a current market value of USD 480m at the date of entering into the transaction.

The acquisition, which is subject to approval by the regulators, will give the French bank a strong boost in the development of its digital banking and brokerage business in Europe. The transaction would also enable the French banking group to nearly double the number of clients in this segment in Germany to 1.4m, and reach USD 74bn in assets under management.

SPOTLIGHT ON INSURANCE: A BDO STUDY ON THE EUROPEAN M&A MARKET

BDO's recent study 'The Goodwill of European Insurance M&A' provides insights into M&A transactions and the financial reporting of 30 of the leading European insurance groups. It focuses on the goodwill and potential impairment losses arising in subsequent years. Potentially, the reality is that the insurance industry has not yet seen the full impact of historical acquisitions.

Our study shows that past M&A transactions have had a large impact on group balance sheets, with goodwill representing up to one half of total equity of the insurers in the survey. This has to be seen in the context of regulatory requirements, as intangibles including goodwill do not qualify as regulatory capital. Obviously, this is gaining the attention of the industry in the light of impending regulatory changes of Solvency II.

'The Goodwill of European Insurance M&A' provides evidence that large goodwill impairments are likely to occur in entities acquired outside the home market. Future cross-border M&A transactions will therefore focus attention on the impact of these impairments, with consequent implications on due diligence, allocation of purchase price, and commercial and pricing negotiations.

The continuing European debt crisis has given rise to another issue identified by this study. We detect signals that business plan revisions and consequent goodwill impairments might lie ahead for European insurers. Ultimately, we expect that the European insurance M&A market will become even more interesting, with forward-looking insurers using acquisitions to position themselves for a changing industry landscape ahead.

THE GOODWILL OF EUROPEAN INSURANCE M&A

Scan this QR code to view the *Goodwill of European Insurance M&A* brochure

http://www.bdo.de/dateien/user_upload/pdf_publikationen/broschueren/Advisory/European-InsuranceM_A.pdf

BUSINESS SERVICES — TRANSPORT AND LOGISTICS

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As the most technically advanced and regulated market in the world, the UK is an international blueprint for best practice in the logistics sector.

Advances in both technology and telecommunications have brought global trading dynamics into even the most local logistical decision-making processes. With the market now more global than ever, it is driven predominantly by such technology rather than by the actual ownership of the trucks, ships or planes that carry the goods. As a leader of this innovation, the UK is a bellwether for a number of trends that will emerge internationally over the coming 12-24 months. These trends will have a number of implications for global M&A.

EMERGING TRENDS

The UK has been at the forefront of Third Party Logistics (known as 3PL). International 3PL markets will mirror the UK and polarise in maturing markets around the world. The more mature the market, the greater the technology requirements, hence the more international players entering the market to drive consolidation and polarisation.

However, Europe and the rest of the world is still more dominated by in-house fleets supporting their own distribution requirements. Energy prices and margin pressure will start to drive fleet owners towards outsourcing logistics to a specialist provider as these markets mature, which will further spur the growth of 3PL. This trend will drive consolidation and 'land grab' in the core transport and logistics market, led by multi-national competitors such as DSV A/S, Norbert Dentressangle and Kuehne & Nagel, all of which are vying for economic scale across newly developed geographical territories.

Small and medium-sized logistics providers in these developing territories will face the same financial pressures that UK operators currently face, ie extremely challenging ones. Their response to these will be key; options are as follows:

- IGNORE THE SEA CHANGE
  Highly inadvisable, as many businesses will fail
- CO-OPERATION WITH EACH OTHER
  This will see groupage thrive, with the most likely operating solution being one that mirrors the success of the various UK pallet networks. Phoenix Equity Partners, the owner of Palletways, are at the forefront of pushing the 'pallet network' solution into Europe. It is not clear if they have moved too soon, but the development of these networks is nevertheless likely to happen. This solution offers individual transport businesses access to world class operating facilities and an opportunity to compete on a relatively level playing field with the large multi-national operators

- A CLEAR CORE FOCUS ON A NICHE SPECIALISM

  While groupage can work well for relatively standard transport requirements, particularly the movement of pallets and containers, any specialist skills typically create good barriers to entry and serve to protect margins. These niche markets are challenging for generalist multi-nationals to enter, as there are limited economies of scale and rarely an overlap in business processes. There are good examples of generalist logistics providers acquiring specialist assets for a considerable premium, only to destroy that value as they lose the niche focus or customer service element that a smaller, more agile business can provide. The growing trend in these specialist markets will be the emergence of international niche businesses; for example, Hoyer (in chemicals) is looking to acquire in China and other growing economies, while NFT (now acquired by US private equity firm EmergeVest) has a mandate to grow internationally, exporting their chilled supply chain expertise.

THE ROAD AHEAD

The logistics world is waking up to the fact that owning trucks or ships does not necessarily mean that you own the customer. Consequently, businesses are looking more and more at the return on their investment in maintaining expensive, cash-draining fleet assets. There has recently emerged yet another stage in logistics evolution: the interesting new service '4PL'.

Fourth Party Logistics is effectively one step removed from 3PL, in that the logistics provider does not own any of the physical assets employed, relying instead on technology and supply chain management to fulfil their contractual obligation, while outsourcing all vehicle movements to third party contractors. In fact, this approach has always been present in the international freight forwarding market, where small offices co-ordinate the international movement of small and large consignments of any manner of import/export goods. What is new is that this expertise is now being applied to more traditional logistics, with responsibility for stock management and replenishment being outsourced, with the retailers' only focus being to sell. The technology that goes hand in hand with the growing outsourced phenomenon is rapidly changing, so all operators in this space have to move quickly. This fast moving environment will support significant M&A as traditional logistics businesses and supply chain technology experts compete to win the confidence of ever more challenging customers.

Logistics has always been a key sector for M&A. As the geographical location and rationale behind these transactions continues to develop, the coming 18-24 months should be a very busy period for international M&A.

Data produced by The Mergermarket Group.

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