

# HORIZONS

BDO'S GLOBAL VIEW OF MID-MARKET DEAL ACTIVITY

MERGERS&ACQUISITIONS

ISSUE 4 | 2015

## ARE WE SEEING A CHANGE IN PRIVATE EQUITY DEAL CULTURE?

SEE INSIDE FOR ALL THE LATEST VALUABLE INSIGHTS

### FEATURE

PRIVATE EQUITY

### REGIONAL VIEW

VIEWS FROM  
AROUND THE GLOBE

### SECTOR VIEW

LEISURE

HEALTHCARE

NATURAL RESOURCES



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# WELCOME

Welcome to the latest issue of BDO HORIZONS, in which our M&A professionals offer their latest views on current and future developments in the global M&A market.

As we move into the final quarter of 2015, it's the perfect time to look ahead by first looking back. Will 2015 M&A activities surpass the heights of 2014, which was the busiest year for M&A since the financial crisis?

Major events in 2015 included the European Union's struggle to find a solution to the Greek crisis, a tumultuous time on China's stock markets and ongoing conflict in the Middle East. What impact have these events had on the M&A market?

BDO Horizons provides you with the views of our M&A experts region-by-region and across selected sectors. What makes BDO HORIZONS stand out is that all our articles are written, not by journalists, but by our own M&A professionals from around the world. That means you receive unfiltered and authentic comment from those at the sharp end.

## INSIGHTS FROM A LEADING M&A ADVISER

Many factors influence M&A activity, but confidence is key. Indeed, the current buoyancy in M&A activity is often seen as an alternative indicator for the strength of global economic recovery. But once you are in the middle of a possible transaction it's not just confidence about the wider economy that matters, you also have to have confidence in your team: that they know your strategy and your objectives, they are committed to you and not just to the project. You must be sure that they have a professional approach and know the local success factors. With the increasing amount of cross-border transactions taking place, understanding the so-called 'cultural aspects' of the deal becomes more and more important. So it's worth working closely with M&A professionals on the ground, whether that's in South Korea, Chile, Mauritius, Finland or Kazakhstan.



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# GLOBAL VIEW



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Global M&A continues to grow, reaching its highest point since the financial crisis. In mid-market M&A in Q3 2015 we saw fewer transactions but greater deal value. Looking ahead, our BDO Heat Chart forecasts a rise of 17% in Q4 transactions.

The first three quarters of 2015 saw M&A activity reach new heights, with deals worth more than USD 2.4tn announced globally, representing 21.1% growth compared to the same period last year and the highest point since the 2008 financial crisis. The third quarter of 2015 saw 1,769 transactions with a total value of USD 149bn. The average Q3 2015 deal value was USD 84.4m, which is USD 10m lower than in Q2 2015. Deal volumes fell by 9.5% and deal values dropped 15.7% compared to Q2 2015. When Q3 2015 is compared to Q3 2014, deal volumes decreased by 14.3% and the value of deals fell by over 19%.

In terms of private equity, there were 187 buyouts in Q3 2015, which was a decline of 22% compared to Q2 2015's 240 deals, and a 25.2% fall compared to Q3 2014's 250 deals. Deal value decreased to USD 21.6bn, which represented a decline of 21.1% and 29.6% respectively.

Looking at total deal volumes in more detail, we discover that only Consumer and Pharma, Medical & Biotech saw an increase. All other sectors experienced a negative trend. In terms of transaction value during Q3 2015, only Ireland and South East Asia saw an uptick compared to Q2 2015.

## COMPARING HERE AND THERE

If we look at M&A mid-market activity in our 17 regions, we see that North America and China are still the motors in mid-market M&A globally. Here is a snapshot of some of the highs and lows:

North America had the most transactions in the third quarter of 2015 with 458 deals, representing a decrease of 3.3% against the previous quarter but an increase of 27.9% when compared to Q3 2014. The value of deals climbed to USD 46.5bn, up 2.8% against Q2 2015 but down 28.4% from Q3 2014.

China, with 418 transactions in Q3 2015, is the second biggest player in global mid-market M&A. The country saw a decrease of 10% in deal numbers compared to Q2 2015 but against Q3 2014 saw growth of about 14%. China's total Q3 2015 deal value of USD 37.5bn was down about 23% compared to the previous quarter, but up 24% compared to Q3 2014.

This trend was similar across India and Other Asia. Both regions saw transaction numbers fall compared to Q2 but rise against Q3 2014. The value of deals declined in both regions. In Japan the value of deals increased but the number of transactions fell against Q3 2014.

When compared with Q2 2015 and Q3 2014, last quarter's deal value and numbers fell in the Nordics, CEE & CIS, Southern Europe, Middle East, Israel, North America, Latin South America, Australasia, and Africa regions. The Nordics posted the worst results with a decline of 55% against Q2 and Q3 2015, followed by Southern Europe and the Middle East. It was a similar picture in relation to deal values. The Nordics experienced the biggest fall (-65.5%), followed by Israel (-61.3%) and the Middle East (-58%).

In terms of sectors, every industry - with the exception of Pharma, Medical & Biotech and Technology and Media - had far fewer deals in Q3 2015 than in Q3 2014. But by comparing Q3 2015 numbers with the preceding quarter we saw growth in Consumer (6%) and Pharma, Medical & Biotech (0.6%). In terms of volumes, the leading sectors were Industrials & Chemicals, followed by Technology and Media, Consumer and Energy, Mining & Utilities.

## GLOBAL BDO HEAT CHART

	Industrials & Chemicals	Technology and Media	Business Services	Consumer	Energy, Mining & Utilities	Pharma, Medical & Biotech	Financial Services	Leisure	Total	%*
North America	383	470	344	241	273	342	195	84	2,332	28%
China	346	227	103	96	67	77	77	50	1,043	12%
CEE & CIS	199	108	87	102	68	28	73	33	698	8%
Southern Europe	140	71	76	123	48	42	52	25	577	7%
South East Asia	156	68	82	61	76	33	57	20	553	7%
Australasia	89	84	72	104	69	52	38	18	526	6%
Latin America	88	61	74	68	77	23	38	16	445	5%
India	81	85	78	39	30	35	46	11	405	5%
DACH	100	72	38	56	21	43	23	14	367	4%
UK & Ireland	64	70	47	42	33	38	38	33	365	4%
Other Asia	96	42	24	22	22	34	14	13	267	3%
Japan	49	53	30	42		9	15	12	210	2%
Nordics	51	47	28	30	18	18	13	5	210	2%
Africa	60	9	29	12	51	4	17	6	188	2%
Benelux	29	14	17	18	11	15	7	6	117	1%
Middle East	9	14	12	4	3	3	11	4	60	1%
Israel	6	23	4	5	3	10	2		53	1%
<b>TOTAL</b>	<b>1,946</b>	<b>1,518</b>	<b>1,145</b>	<b>1,065</b>	<b>870</b>	<b>806</b>	<b>716</b>	<b>350</b>	<b>8,416</b>	<b>100%</b>
<b>%</b>	<b>23%</b>	<b>18%</b>	<b>14%</b>	<b>13%</b>	<b>10%</b>	<b>10%</b>	<b>9%</b>	<b>4%</b>	<b>100%</b>	

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

## LOOKING AHEAD

The number of companies either officially up for sale or rumoured to be, as captured by the BDO Global Heat Chart, shows an increase of 17.8%, amounting to a total of 8,416 companies. Compared with the previous quarter, the biggest growth was posted by China, where the number of opportunities rose by more than 30%, followed by UK & Ireland and Australasia with over 25%. The biggest overall driver of global M&A activity is expected to be North America, with a high number of potential deals in every sector. China follows close behind according to our forecast.

We expect the most active sectors for M&A activity to be Industrials & Chemicals, Technology and Media, Business Services and Consumer and we forecast the greatest decrease to be in Pharma, Medical & Biotech.

As well as the number of transactions in the pipeline, other fundamentals will of course influence the global M&A market, such as the ongoing impact of the global economy, the direction of consumer sentiment and the performance of global equity markets.

# FEATURE

## PRIVATE EQUITY



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### As US funds increasingly target the European mid-market, are we seeing a change in deal culture?

I recently came across six US PE firms with more than USD 3.04bn of funds under management. That may not seem worthy of note, but what surprised me was that I'd not heard of any of them before and they were all considering or undertaking deals in Europe. What's more, they weren't on the look-out for big, headline-grabbing deals: they were hunting in the mid-market, BDO's domain.

As UK-based practitioners we've become used to our local environment being the home of choice for serious quantities of capital. We've also bought into the notion that – due to our language, culture, legal system and infrastructure – the UK is the stepping stone for a lot of global capital into Europe. But does my 'discovery' herald something new? Are we on the fringes of a new trend? And, if so, what does it mean for the UK and for European deals?

### KEY DIFFERENCES

A quick look 'over the pond' reveals three key differences: the diligence and completion process, the debt market and the status of management.

Taking the first of these factors, **diligence**, we can see that US PE houses use different processes to those of a typical European fund. It's not that the objectives differ; it's just a slightly different tool kit that they get out when they start any deal. If you or your advisers don't realise this, much confusion and anguish will follow.

For example, completion is not an event in a typical US deal, it is a process. Completion accounts and escrows are the norm and a 'locked box' is viewed with suspicion by US buyers. The diligence process itself is more data driven, with a level of analysis and a thirst for numbers that is often at a different level to European firms. As one wag put it, "the US PE houses are smarter and do work harder than some European PE funds, but never at the same time! If they don't know what to do, they analyse everything furiously".

### BE PREPARED

US PE houses are very successful and this is not a change to be feared, but management teams and shareholders will need to adapt. Specifically, to get better value and greater certainty they will need to prep earlier, prep more and prep differently:

### HAVE MORE DATA

available and make sure it's in an easily useable form. This will be required, so don't scrimp on putting it in place.



Similarly, whereas Europeans use warranties to force disclosure and rarely think of litigation, US culture has litigation as a tool of negotiation as well as a remedy. This impacts the tone and structure of the discussion and the sale and purchase agreement.

Moving on to the **debt market**: this has always been different in the US. Whereas we used to live in the now long-dead world of alphabet debt (amortising A note at 225bps, bullet B at 275bps and C at 325bps), the US market was always more fluid, less structured and more moulded to the underlying credit. It's interesting that, with the influx of debt funds brought on by the global financial crisis, this is perhaps what we have here now.

Our final key difference is **management**: and, contentious though this might be, my observation is that there's a subtle but important difference in the status of management within the US deal architecture. It might only be a difference of just one letter, but it's a significant one. Instead of MBO (management buy-out), which is the predominant thrust of the European mid-market, there is more of a feel of the IBO (or institutional buy-out) from the US.

## A CHANGING DEAL CULTURE

That one letter difference may not seem much on its own, but in conjunction with other factors it perhaps points to a different deal culture: one where management are less important. Whereas in the UK mid-market, PE houses invest behind management, do the US houses have a different mantra, one where the importance of the business is paramount?

So, we have a new debt market, one that is more akin to the US, and we have a successful, albeit subtly different, deal culture. When these two are added to a white-hot US deal market (meaning that US houses are having to look for better value deal flow outside their traditional hunting grounds), increasingly mobile capital and the growth in US mid-market IBOs, then the European mid-market might be changing.

If I am right, and it is not a blip because of a particular set of circumstances, then the UK and European mid-markets will change from the more cosy management-led buy-outs to the more clinical institutional buy-out world where management teams are replaceable.

### LOOK AT YOUR MANAGEMENT TEAM

critically. Where are the gaps, where are the bottlenecks, what skills are deficient? Have plans and be ready to use them.

### KNOW WHAT YOU WANT

as a management team. Hold MIP (Management Incentivisation Plan) in your minds as well as '20% of the sweet equity, please'.



**GLOBAL**

8416, rumoured transactions

**P08 | NORTH AMERICA**

Mid-market M&amp;A activity continues to slow

**P12 | UNITED KINGDOM & IRELAND**

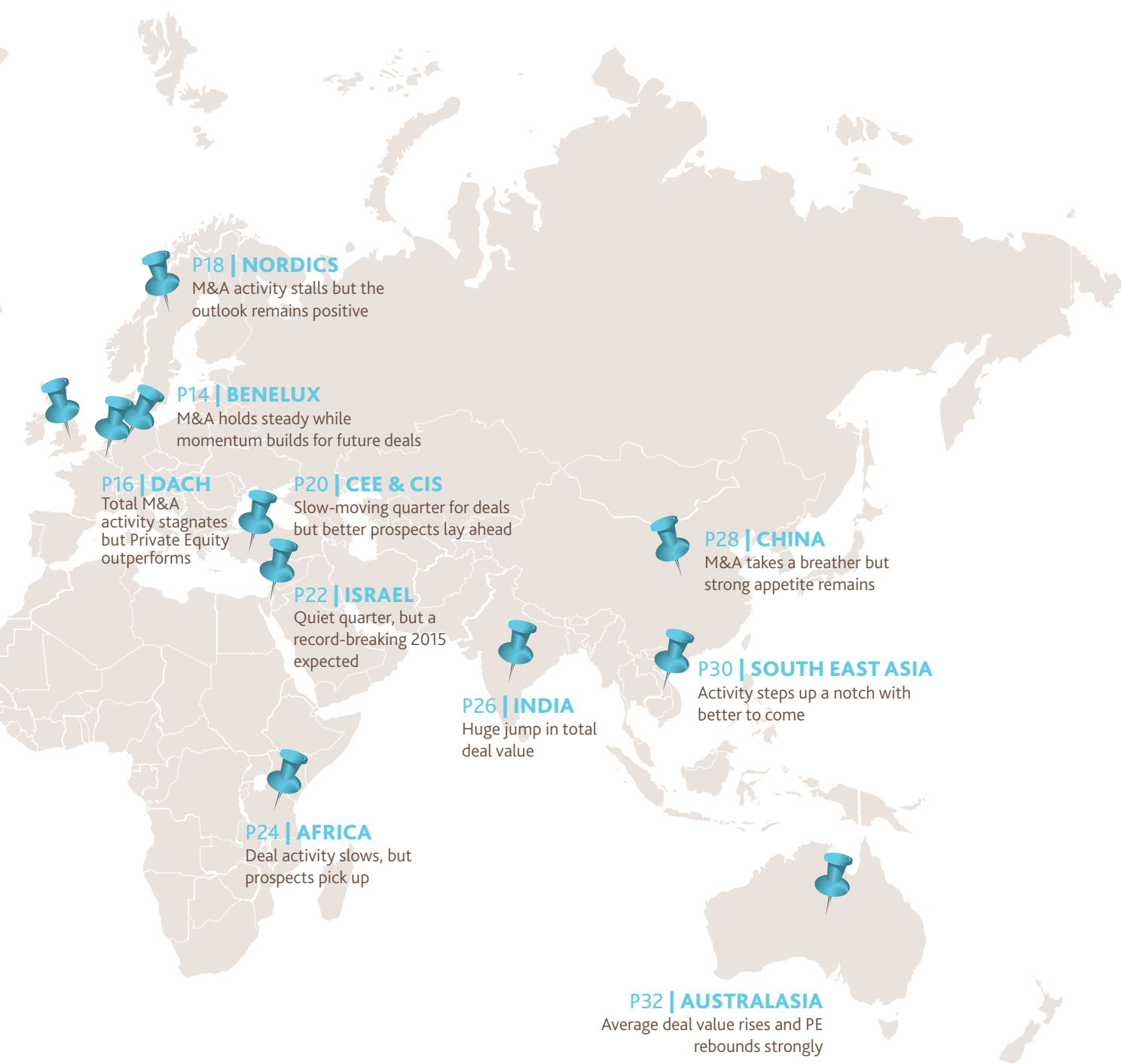
Recovery in deal activity post General Election

**P10 | LATIN AMERICA**

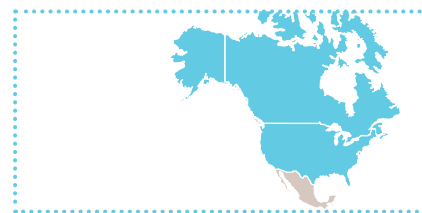
M&amp;A activity slows, but better prospects ahead

**SECTOR VIEW****LEISURE – TRAVEL****P36****CONSUMER – HEALTHCARE****P38****EMU – NATURAL RESOURCES****P40**





# NORTH AMERICA



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## BIG PICTURE

- Mid-market Q3 deal volume 28% lower than Q3 2014 and 5% down on Q2 2015
- Concerns over the global economy, equity market volatility and the strong dollar negatively impact activity
- Cross-border and inbound activity down significantly
- The Energy, Oil & Mining sector was particularly weak.

## Mid-market M&A activity continues to slow.

North American middle market M&A activity slowed during the third quarter of 2015, continuing the downward trend seen in the first half of 2015 and the last quarter of 2014. Market participants are concerned that the latest M&A cycle peaked in mid-2014 and that the original hypothesis, that the market weakness in early 2015 was only temporary, is proving unsustainable.

North American capital markets in Q3 were dominated by headlines of volatile equity markets and soft corporate debt markets, typically a foreshadowing of slower M&A activity. Lower than expected GDP growth in China, coupled with a strong dollar, has negatively impacted corporate earnings and exports. In addition, continued uncertainty over the timing of interest rates rises has many investors on edge.

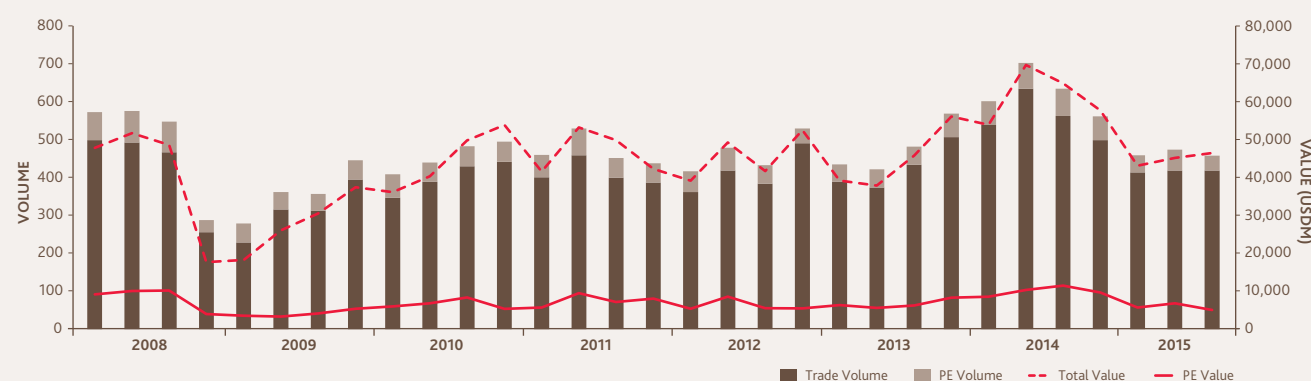
The initial trigger for volatility in the quarter was China, where the government's decision to devalue the currency in August left investors severely troubled. Fears over China's slowdown and the subsequent fall in demand for raw materials, coupled with excess supply, meant a further step down in the price of commodities, making them the quarter's worst performing asset class. The Federal Reserve's decision to leave US interest rates unchanged, despite

reasonably strong domestic economic indicators, further riled investors and revived uncertainty about the timing and pace of US rate increases. The Federal Reserve decided not to raise rates despite US unemployment falling from 5.6% at the start of the year to 5.1% in August. Weak domestic inflation on the Federal Reserve's preferred measure was part of the story, but the Federal Reserve also pointed to "recent global economic and financial developments" that may have the potential to restrain economic activity and "put further downward pressure on inflation in the near term".

## VOLATILE MARKETS

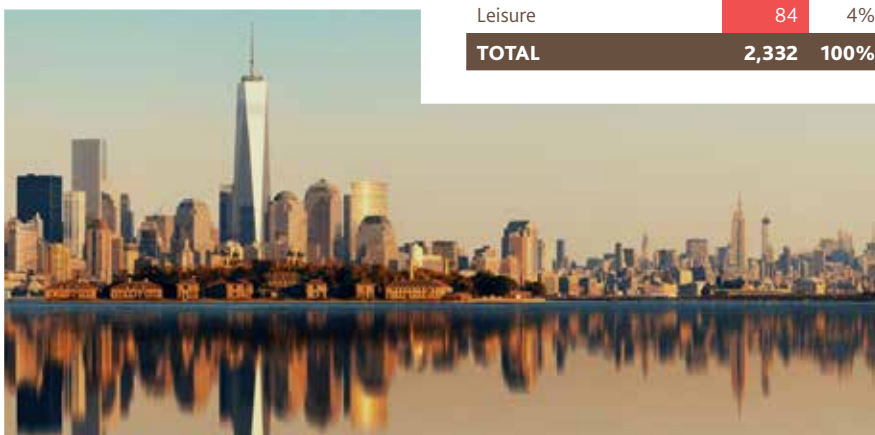
During the third quarter, a continued slowdown in the Chinese economy led to a meltdown in financial markets around the world. The S&P 500 Index experienced its first market correction and worst market performance in four years during the month of August, declining 12.35% from its all-time high set in May of this year. For the quarter, the S&P 500 Index finished with a total return of -6.44% as slower global economic growth, the stronger US dollar and the fall in commodity prices all impacted expectations for corporate earnings in the third quarter and beyond.

## PE/TRADE VOLUME & VALUE



Currently it is estimated that year-over-year earnings for S&P 500 companies will decline 5.1% for the quarter, the worst quarterly decline since the third quarter of 2009. The Energy, Mining & Utilities sector is by far the largest contributor to that decline, with earnings estimated to be 64.5% lower than a year ago. If the sector were removed from the estimates, earnings are projected to grow 2.3%. Profit margins for the S&P 500 hit a record 10.5% in the second quarter. And sales for the third quarter are forecast to decline 3.4% according to Factset. Analysts currently estimate that S&P 500 earnings growth will turn positive in the fourth quarter of 2015. Following two consecutive quarters of negative earnings growth, it will be important to equity markets for that prediction to come true.

While middle market activity slows, mega-deals of USD 10bn or more announced in the third quarter of 2015 were abundant. Unlike the middle market which has slowed recently, M&A market activity for larger companies has continued to show improvement, building on last year's momentum and leading many market observers to predict that the overall M&A dollar volume for 2015 in North America will shatter last year's record. Some of the largest deals of the quarter included Aetna buying Humana for USD 37bn; Berkshire Hathaway buying Precision Castparts for USD 37.2bn; and Aetna buying Cigna for USD 48bn.



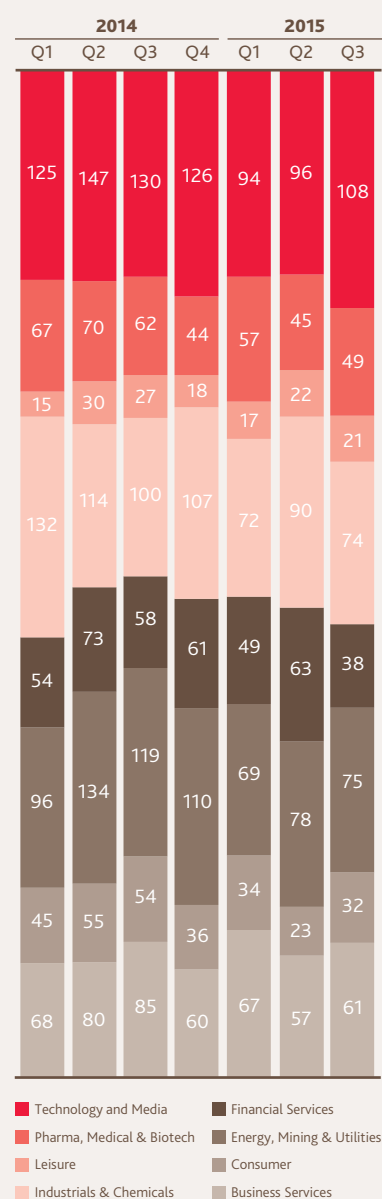
## LOOKING AHEAD

Generally speaking, M&A markets tend to correlate to and lag economic indicators and the public equity and debt markets as investor confidence moves with financial sentiment and outlook. Valuations in the M&A markets are also, in part, derived from the public markets and the recent pull-back in equities has unnerved many market participants about the coming months. Others are optimistic that the recent slowdown in activity is just a pause in a bull market and that M&A activity will soon return to near record levels. There are two schools of thought at the moment, one is that we are in the sixth year of the M&A bull market and it has to end soon and can't go higher; and the other is it has been a slow gradual recovery which bodes well for a longer bull cycle that may last several more years.

## NORTH AMERICA HEAT CHART BY SECTOR

Technology and Media	470	20%
Industrials & Chemicals	383	16%
Business Services	344	15%
Pharma, Medical & Biotech	342	15%
Energy, Mining & Utilities	273	12%
Consumer	241	10%
Financial Services	195	8%
Leisure	84	4%
<b>TOTAL</b>	<b>2,332</b>	<b>100%</b>

## NORTH AMERICA MID-MARKET VOLUMES BY SECTOR





# LATIN AMERICA



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## BIG PICTURE

- Volume and value fall compared to Q2 2015, but are ahead of Q1 2015
- Brazil remains the most active country despite its economic woes and Argentina reappears on the deal map
- The BDO Heat Chart shows a positive trend for the period ahead.

## M&A activity slows, but better prospects ahead.

The third quarter registered a slight fall back in terms of both deal volume and value in Latin America. In total there were 58 transactions worth USD 5,074m in Q3 2015, compared to 72 deals worth USD 6,075m in the second quarter, representing a fall in volume of 19.4% and a fall in value of 16.5%.

Comparing Q3 2015 to the same quarter in 2014, during which there were 79 deals worth USD 8,789m, deal volume was down 26.6% and value fell 42.3%. Private equity was responsible for just two transactions, worth a total of USD 714m (14.1% in terms of overall deal value).

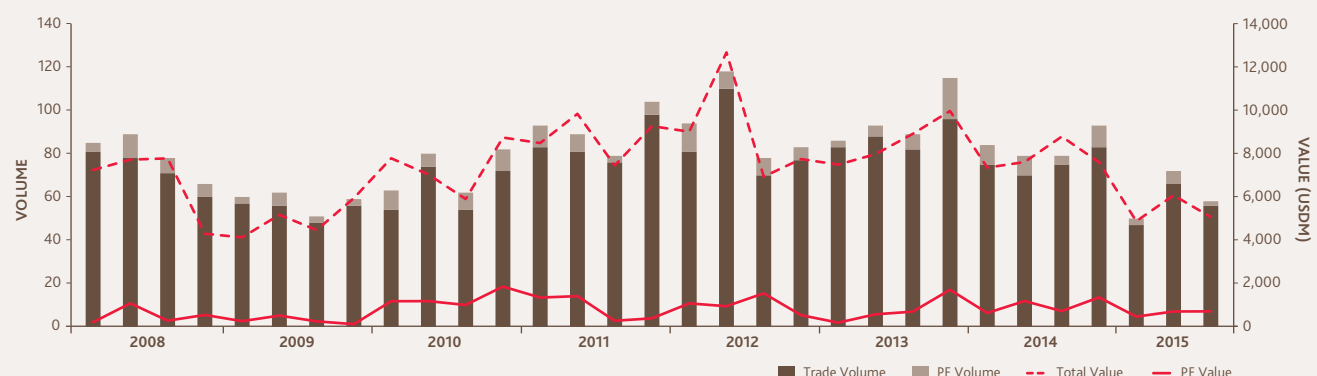
Although Q3 figures were worse than Q2 2015, they were better than Q1 2015, which is in line with global trends and patterns in terms of deal numbers and value. The key drivers dictating M&A trends in Latin America continue to be the drop in commodity prices, the slowdown in regional growth rates and now, in addition, the weakness in the Chinese economy.

## KEY DRIVERS

From a corporate finance theory perspective, there are two factors that explain the drop in deal volumes and value. On one hand, the strong dollar; as the main economies in the region devalue their currencies (for example, Brazil devalued by 53% up to September and Colombia by 33%) prices denominated in dollars drop. On the other hand, and most importantly, the country risk premium for most economies in the region has been rising, therefore increasing the cost of equity and as a consequence reducing valuations. In the case of Brazil, the Emerging Market Bond Index (EMBI) increased by nearly 50%, going from 299 bps at the beginning of July to 442 bps at the end of September. Furthermore, S&P cut Brazil's rating to BB-plus from BBB-minus in September, making the region look riskier to investors.

However, taking these factors into account, for investors with a long-term investment strategy, this is a good moment to invest in Latin America and take advantage of low values.

## PE/TRADE VOLUME & VALUE



## KEY SECTORS

Looking at the BDO Heat Chart we can see a positive trend, with 26 more deals in progress than in the previous quarter. The top three sectors in terms of prospective deals are Industrials & Chemicals with 88 deals, Energy, Mining & Utilities with 77 deals and Business Services with 74 deals. In comparison with the Heat Chart of the previous quarter we can see an improvement in Technology and Media (+11 deals), followed by Energy, Mining & Utilities (+6 deals), Consumer (+5 deals) and Leisure (+5 deals).

The combined value of top ten deals for the region in Q3 2015 was USD 2,774m: Business Services accounted for 33% and USD 914m of the total top ten deal value, followed by Consumer with 27% and USD 731m, and Energy, Mining & Utilities with 20% and USD 550m. In terms of target countries, Brazil continues to lead the way with four of the top ten deals concentrated in the Consumer sector, worth a total of USD 911m. Argentina appeared as a new player in the top ten, with one Consumer sector deal worth USD 270m (10% of the total top ten).



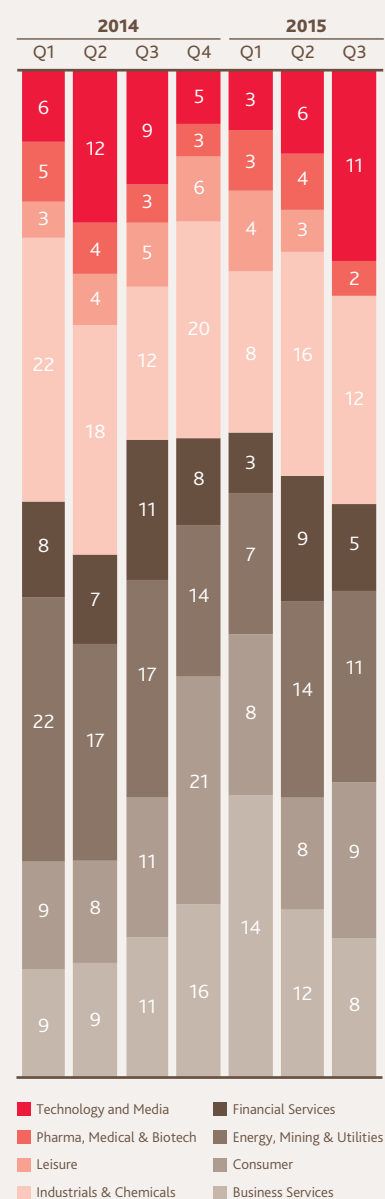
## LOOKING AHEAD

This increased activity in Argentina in some ways supports our value theory. Argentina is becoming an attractive prospect in terms of investment opportunities, driven in part by the change in government later this year. Argentina represented 15% of Q3 2015 deal value, which compares with 4% in Q1 and 1% in Q2. In a scenario where the new Government settles an agreement with holdouts creditors – whose Argentine bonds have been in default since July 2014 – there is the potential for firm valuations to rise, driven by a reduction in the discount rate, caused by a decline in the country risk premium. Currently the cost of equity, at more than 15% in USD for most companies, represents an obstacle to transactions because a high discount rate implies low valuations and as a result many potential sellers wait for better conditions to sell their assets. In this sense, a more market-friendly scenario would imply more M&A in Argentina, and the fact that activity is already picking up suggests that perception is already shifting.

### LATIN AMERICA HEAT CHART BY SECTOR

Industrials & Chemicals	88	20%
Energy, Mining & Utilities	77	17%
Business Services	74	17%
Consumer	68	15%
Technology and Media	61	14%
Financial Services	38	9%
Pharma, Medical & Biotech	23	5%
Leisure	16	4%
<b>TOTAL</b>	<b>445</b>	<b>100%</b>

### LATIN AMERICA MID-MARKET VOLUMES BY SECTOR



# UNITED KINGDOM & IRELAND



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## BIG PICTURE

- A strong recovery in deal volumes and value, post the General Election
- Ample liquidity to fuel activity and prices
- The region has been a happy hunting ground for US buyers
- Good companies have choices of trade, private equity or the IPO market.

## Recovery in deal activity post General Election.

The third quarter saw a recovery in deal volumes to 157 completed mid-market deals and value jumped to USD 12.9bn. In value terms that puts us back near the five year peak. We previously wrote that the dip in the second quarter was influenced by the General Election with some vendors and acquirers holding off until after the election result was known. We believe that the recovery in activity reinforces that view.

Both the number of private equity and trade deals was up on the previous with private equity representing one in five deals completed. We continue to believe that where the strategic fit is right, trade generally has the ability to outbid private equity in the current market conditions. As with the previous quarter, only three of the ten largest deals in the quarter were led by private equity including the acquisition of Cote Restaurants by BC Partners for USD 388m.

US acquirers were a marked feature of the period with half of the ten largest deals involving a US buyer. These included the USD 484m acquisition of the tools distributor Cromwell Group by W.W. Grainger, Inc and the USD 440m acquisition of the insurance broker Jelf Group Plc by Marsh & McLennan

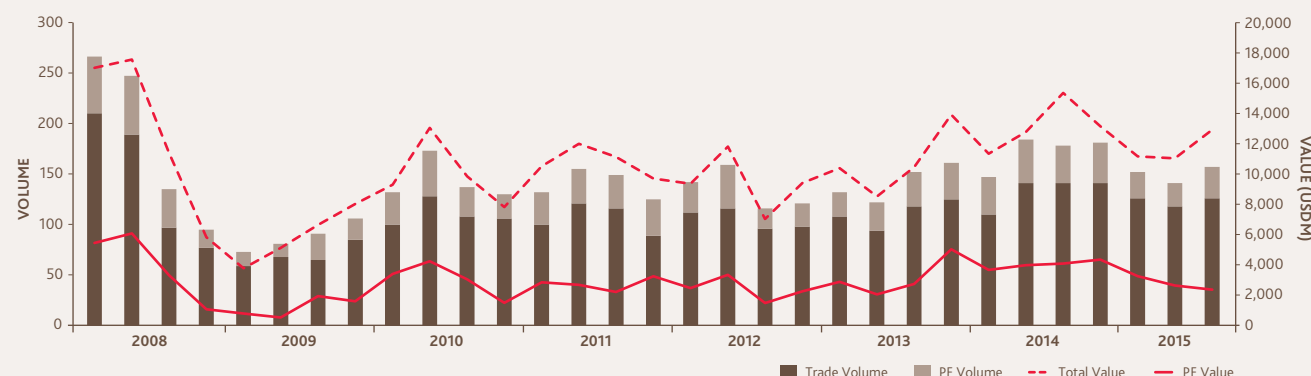
Companies, Inc. We have also seen US buyers active in other sectors in UK, notably building products, where multiples are more attractive than on the other side of the Atlantic.

From a sector point of view, the quarter revealed a very similar pattern to Q2 with Business Services and Technology and Media leading the way with a similar number of deals in each and Industrials & Chemicals, being the next most active sector. The sectors with the lowest volume of activity in the quarter were once again Energy, Mining & Utilities and Financial Services.

The market is still open for IPO's and despite the usual summer recess, Q3 activity was only marginally down with 27 IPOs, the majority of which were on AIM. Two of the larger fund raisings were by Zegona Communications and UK Mortgages.

M&A valuations meanwhile fell slightly for trade buyers with BDO's private company price index (PCPI) rising to an EV/EBITDA ratio of 9.5x. Despite the movement, we believe this continues to reflect cash resources available and the preparedness to pay premium prices for a strong strategic fit. The private equity price index (PEPI) stayed consistent at an EV/EBITDA ratio of 10.7x. We continue to see large amounts of liquidity which in our opinion should keep overall multiples up.

## PE/TRADE VOLUME & VALUE





## LOOKING AHEAD

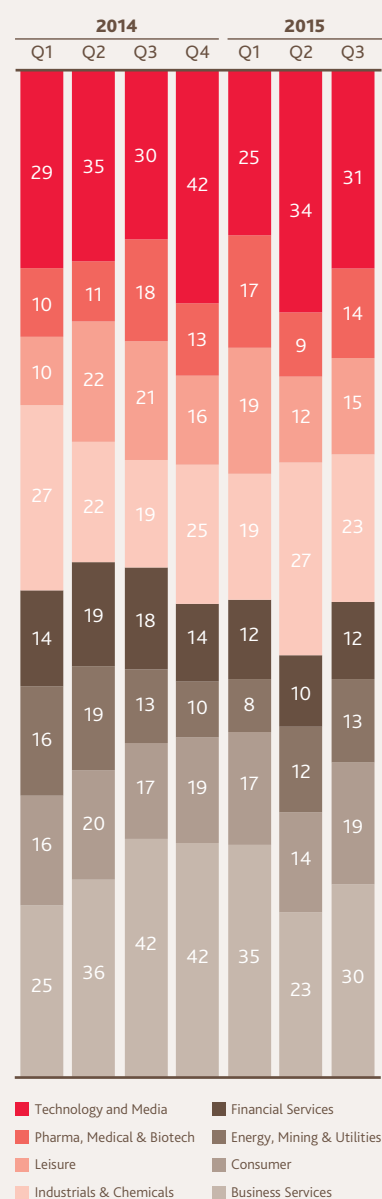
Looking ahead, and with the General Election behind us, the level of M&A activity will continue to pick up in the final part of the year. Both trade and private equity have ample amounts to liquidity. The Heat Chart which shows market intelligence on nearly 365 deals planned and in progress which is a sizable increase from the previous 290. Technology and Media and Industrials & Chemicals are leading the way in terms of sectors.

## UK & IRELAND HEAT CHART BY SECTOR

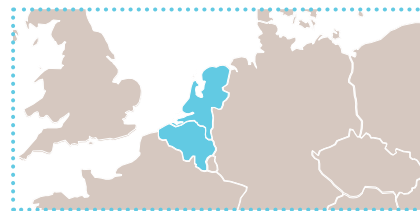
Technology and Media	70	19%
Industrials & Chemicals	64	18%
Business Services	47	13%
Consumer	42	12%
Pharma, Medical & Biotech	38	10%
Financial Services	38	10%
Energy, Mining & Utilities	33	9%
Leisure	33	9%
<b>TOTAL</b>	<b>365</b>	<b>100%</b>



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



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### BIG PICTURE

- Q3 total deal numbers hold steady but average trade deal size drops significantly during 2015
- PE posts low deal numbers but average transaction size more than doubles from Q2 2015 to Q3 2015
- Industrials & Chemicals and Technology and Media sectors see the most action.

### M&A holds steady while momentum builds for future deals.

**M&A activity remains stable in terms of overall deal numbers, but trade deal sizes fall significantly, while private equity moves the other way with a small number of very large transactions.**

M&A activity in Q3 2015 held steady with 33 deals compared to an average of 33 per quarter over the last two years (2014 and the first two quarters of 2015). Compared to the first two quarters of 2015 (Q1 2015: 30 deals and Q2 2015: 31 deals), we saw a small increase in activity.

This was predominantly explained by an increase in trade activity. In fact, there were 29 trade deals in Q3 2015, compared to 22 and 27 deals in Q1 2015 and Q2 2015 respectively. The number of private equity

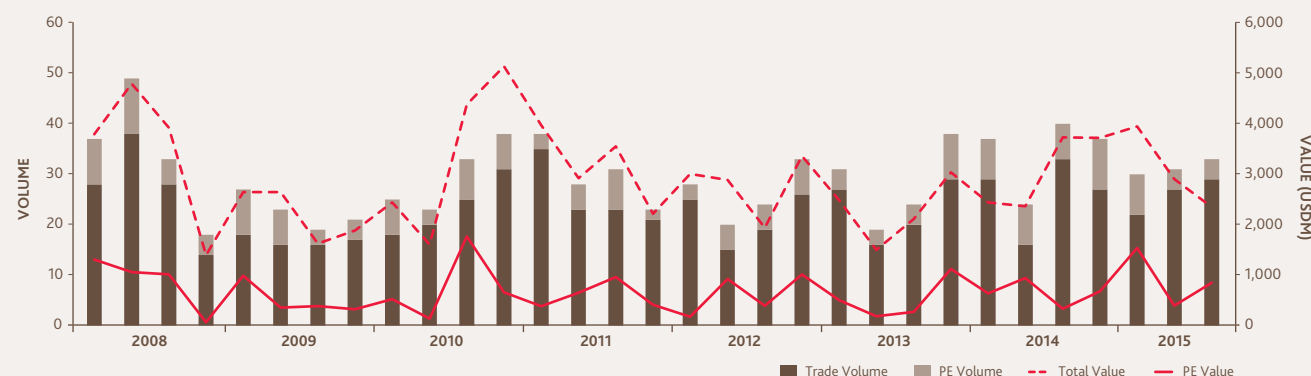
deals in Q3 2015 stood at four, matching the previous quarter's four deals but only half of Q1 2015's eight deals.

In contrast to the stable number of deals, total value (trade deals and private equity deals combined) in Q3 2015 dropped significantly to USD 2.3bn, representing an average deal size of USD 71m. In fact, this was the second lowest average deal size in the last three years. This was solely due to a sharp decline in average trade deal size: the Q3 2015 average was only USD 52m, compared to an average over the last three years of USD 85m.

In contrast, the average private equity deal value climbed to USD 212m in Q3 2015, which was the highest since early 2008. As we will discuss further, Q3 2015 was marked by some exceptionally large Benelux private equity deals. In Q3 2015 there were four private equity deals with a total value of USD 848m, representing 36% of total value, which is significantly higher than the five-year average of 22%.

Our sector breakdown shows that Industrials & Chemicals and Technology and Media continue to lead the way. In Q3 2015, these sectors accounted for 11 and seven deals respectively out of a total of 33 transactions. Looking back over the last two years, both sectors together represent almost 50% of total Benelux deal activity.

### PE/TRADE VOLUME & VALUE

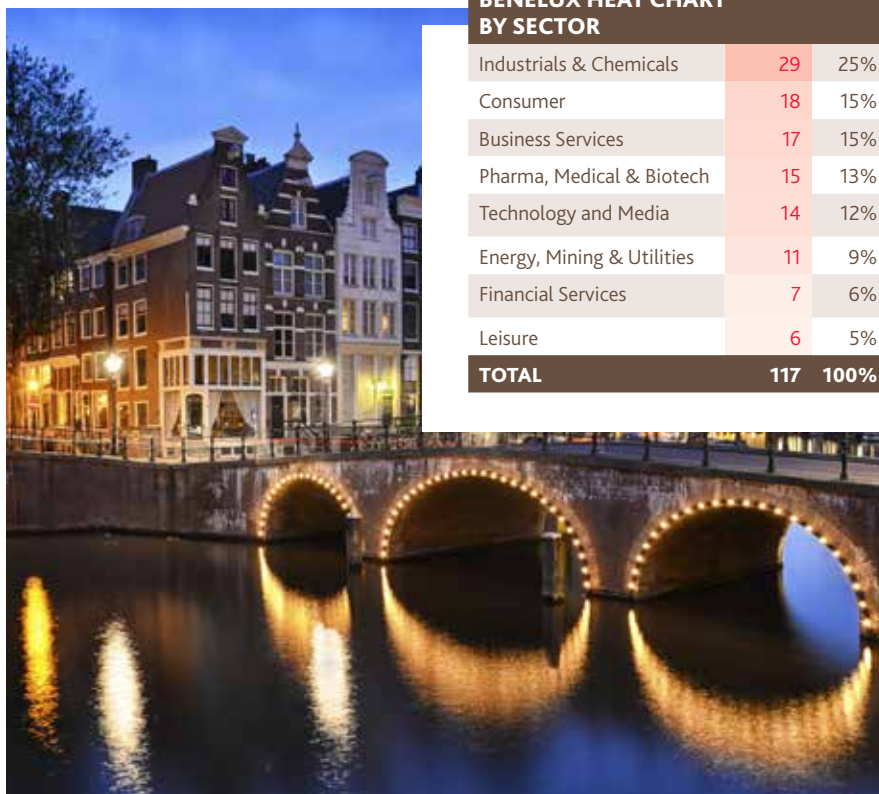


## TOP TEN MID-MARKET DEALS

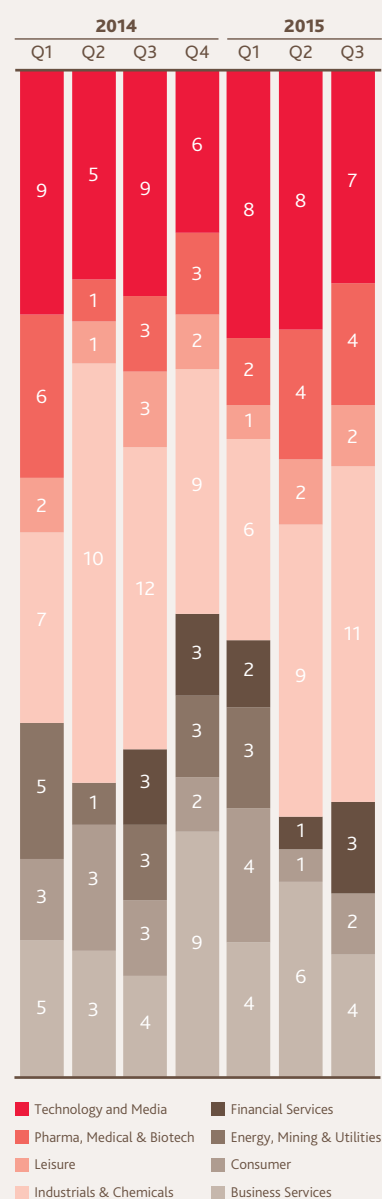
As stated earlier, Q3 2015 was marked by some large private equity transactions. The biggest was the divestment by Dutch private equity group Egeria of its majority stake in the Dutch actuator manufacturer Mirror Controls International B.V. to the US supply chain services provider Flextronics for USD 499m. Narrowly behind in second place was the USD 498m merger of Belgium-based vegetable supplier Greenyard Foods with fresh produce giant Univeg and agribusiness Peatinvest. The third largest deal was the acquisition of Dutch-based engineering consultancy Grontmij by Swedish consultant company Sweco AB for USD 427m.

## LOOKING AHEAD

The BDO Heat Chart is based on our intelligence on deals planned, rumoured or in progress. The Benelux Heat Chart shows about 117 deals, a slight increase compared to the 105 deals projected in the previous quarter. The sectors forecast to be most active in the months to come are Industrials & Chemicals, Consumer and Business Services. We believe that in the next quarter(s) Benelux M&A activity, fuelled by plentiful financial resources and low financing costs, will gain momentum.



## BENELUX MID-MARKET VOLUMES BY SECTOR





# DACH



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## BIG PICTURE

- Cautious strategic investors hinder a recovery in M&A activity
- PE deal value triples from Q2
- Concerns about China and US economies dent confidence but the outlook is positive.

## Total M&A activity stagnates but private equity outperforms.

Q3 2015 did not provide the anticipated upswing in M&A activity and therefore our original expectations for H2 2015 are at risk. Deal value dropped from USD 4.7bn to USD 4.3bn, representing a decrease of 8% compared to Q2 and 47% compared to Q3 14. Despite this decrease in deal value, volumes increased by 15% from 40 to 46 deals compared to Q2 indicating a focus on relatively small transactions. However, based on year-on-year comparison, deal volume remained at a relatively low level. Looking at the big picture, it is worth noting that the decline in mid-market deal values throughout the DACH region is in line with global trends.

Once again M&A activity was dominated by Industrials & Chemicals, which represented 56% of all transactions, followed by Business Services and Technology and Media, each accounting for 17% of total deals.

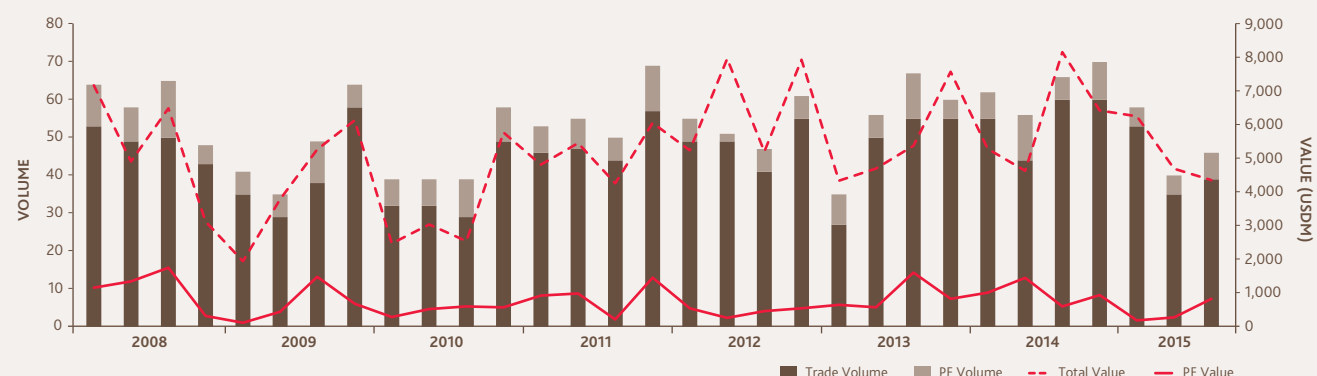
## KEY DEALS AND SECTORS

Looking at the top 10 mid-market deals in the DACH region, Germany is well represented and active as both a target and bidder country. German companies were involved in eight out of the top 10 transactions.

However, the largest mid-market transaction in the DACH region took place in Switzerland. India-based Rajesh Exports Ltd acquired Swiss Valcambi SA from Newmont Mining Corporation for USD 400m. The rationale for the transaction was to help secure India's gold supplies as Valcambi operates one of the world's largest precious metal refineries.

Germany's biggest mid-market deal occurred in the Technology and Media sector. Ströer Out-of-Home Media AG bought the online platform t.online.de (T-Online International AG) and InteractiveMedia CCSP GmbH, a marketer of digital media, from Deutsche Telekom AG for USD 333m. Ströer aims to become a multi-channel media house and to maintain its leading position in the German online advertising market.

## PE/TRADE VOLUME & VALUE



Axel Springer SE sold its majority stake (50,1%) in Austria-based Runtastic GmbH to Germany's adidas AG for USD 241m. Runtastic is a global player in the market for health and fitness apps and its acquisition is designed to help adidas expand its market position in data analytics. Furthermore, Austria's bauMax AG., a chain of home improvement product stores, was sold to German-based OBI Group Holding SE & Co. KGaA for USD 226m. The federal competition authority (BWB) approved this transaction on 29 September, giving OBI control over 70 additional stores.

### PRIVATE EQUITY ON THE RISE

While the overall value of M&A transactions declined, the value of PE-driven deals nearly tripled compared to the previous quarter and made up 19% of the total deal value in Q3 2015. When compared to the corresponding quarter last year, Q3 2015's total PE deal value of USD 832m appears relatively high. However, deal volume showed less growth with a total deal count of seven compared to a deal count of five in Q2.

The largest deals with PE involvement were the acquisition of a 25% stake in Austrian's Energie Steiermark AG from EDF International SA by Macquarie's European Infrastructure Fund IV and the acquisition of Hauck & Aufhäuser Privatbankiers KGaA by China-based Fosun International Ltd, with transaction values of USD 298m and USD 231m respectively.

In general, conditions for PE firms remain favourable with freely available liquidity and low interest rates. However, there are also factors which might negatively impact deal flow such as the scarcity of (primary) targets and increasingly high valuations, which therefore lower returns. Furthermore strong corporate balance sheets strengthen companies' financial independence, hence reducing the need for PE funds.

### LOOKING AHEAD

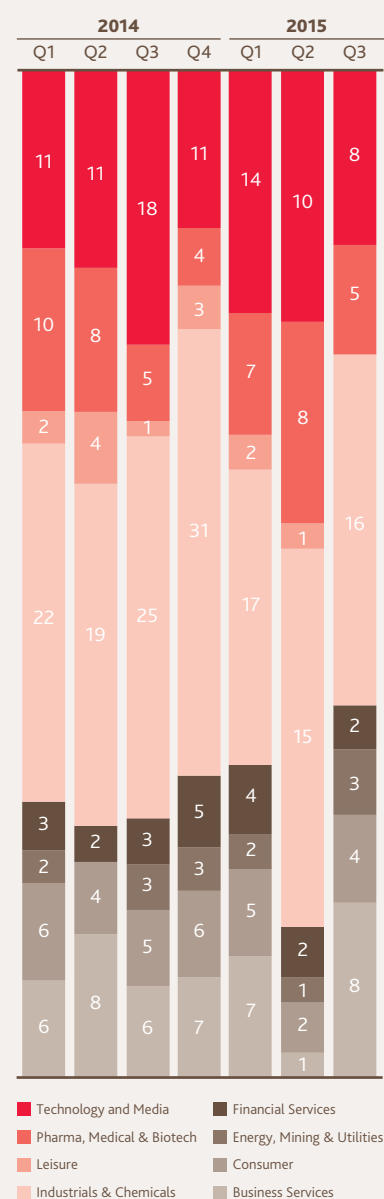
Economic slowdowns in China and the US as well as the persisting weakness of emerging economies, combined with recent events such as the VW scandal, could dampen sentiment in Germany's export-oriented economy and the DACH region as a whole. To date, however, business confidence in DACH has remained positive. The IFO business climate index improved steadily over the last three months, reaching its highest level value of 108.5 in September. Switzerland's and Austria's economic indicators show similar trends indicating improved prospects for DACH in the months to come.

As illustrated in the BDO Heat Chart, DACH's mid-market pipeline anticipates that there will be up to 370 deals, showing an increase of 24% compared to Q2 forecasts. As a result there is hope that the high expectations for H2 seen earlier this year may still be matched. Greater M&A activity is primarily expected in Industrials & Chemicals followed by Technology and Media, which is broadly in line with global mid-market sector trends.

#### DACH HEAT CHART BY SECTOR

Industrials & Chemicals	100	27%
Technology and Media	72	20%
Consumer	56	15%
Pharma, Medical & Biotech	43	12%
Business Services	38	10%
Financial Services	23	6%
Energy, Mining & Utilities	21	6%
Leisure	14	4%
<b>TOTAL</b>	<b>367</b>	<b>100%</b>

#### DACH MID-MARKET VOLUMES BY SECTOR



# NORDICS



**HENRIK MARKKULA**

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## BIG PICTURE

- Q3 volume and value hit all-time lows, but PE activity remains resilient
- Industrial & Chemicals is the most active sector
- Danish companies are the main targets.

## M&A activity stalls but the outlook remains positive.

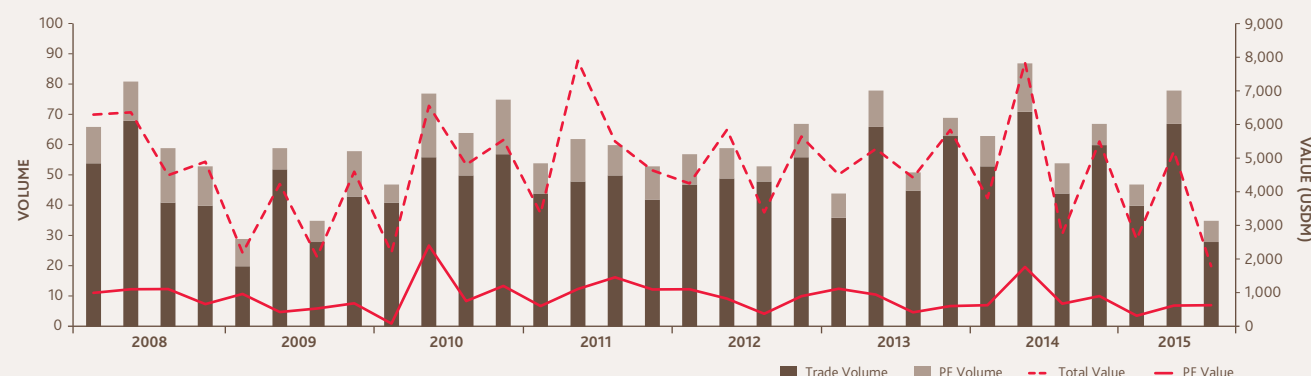
The third quarter is traditionally weak in the Nordics, providing the worst quarterly performance in four out of the last seven years. Even so, Q3 2015 was particularly poor, registering an all-time third-quarter low. Although Q3 2015 matched Q3 2009 for the number of deals (35), its total transaction value of USD 1.8bn was below Q3 2009's USD 2.1bn.

The main culprit was a fall in non-private equity activity. PE notched up seven deals with a total value of USD 643m, which is in line with prior quarters. PE activity accounted for 35.7% of total deal value, which was well above the seven-year average of 18.9%. However deal PE's seven Q3 2015 deals was lower than the seven-year average of 10.9.

## TOP TEN DEALS

As in Q3 14, seven out of the top ten transactions in Q3 15 were cross-border deals. Five of these were sales to non-Nordic countries represented by Indonesia, Spain, India, Saudi Arabia and China. Among the targets, Danish companies were involved in eight of the top ten transactions. The largest transaction was HusCompagniet A/S, a leading producer of fabricated and single-family houses, which was acquired by the Swedish Private Equity firm EQT VI Fund from FSN Capital III with KIRKBI Invest A/S. At USD 298m, the value of the deal far exceeded that of the quarter's second largest deal, the USD 103m acquisition by Swedish firm Resurs Bank AB of the Norwegian company yA Holding ASA, a Norwegian bank offering basic banking and financial services to personal customers. Among the top ten deals, three of the target companies were in the Industrials & Chemicals sector, two in the Financial Services sector and two in the Business Services sector. The ten largest deals amounted to USD 1.3bn, representing 72% of the total transaction value.

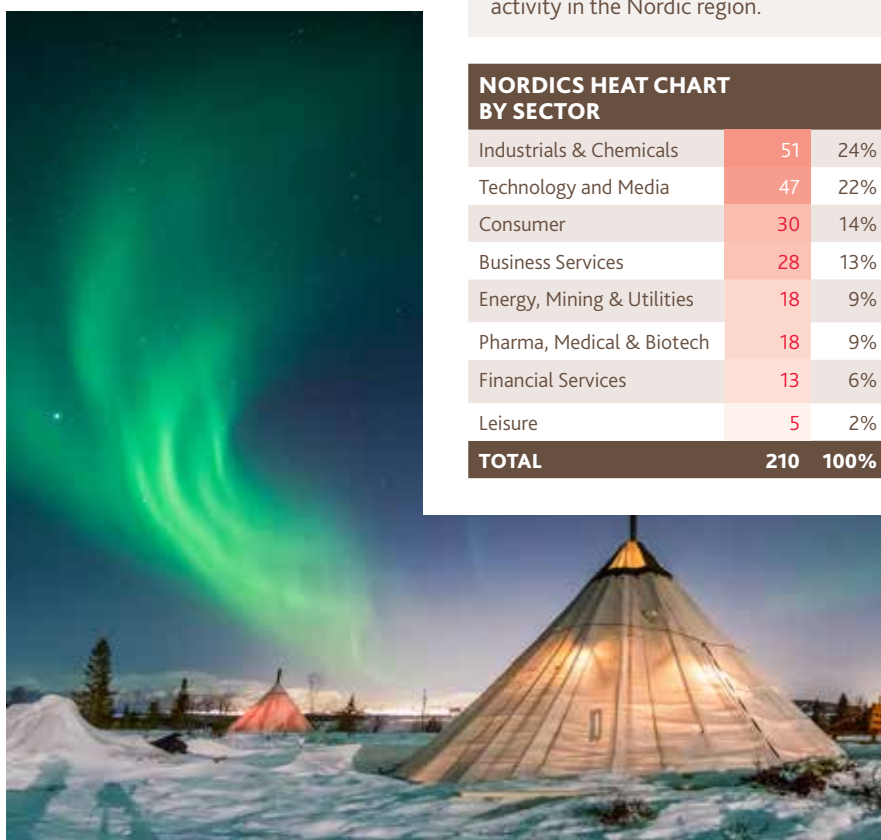
## PE/TRADE VOLUME & VALUE





## KEY SECTORS

Industrials & Chemicals was once again the most active sector, accounting for 24% of the 210 transactions in Q3 2015. Technology and Media is still the second most active sector accounting for 22% of the deals, ahead of Consumer (14% of the deals) and Business Services (13% of the deals) in Q3 2015. The largest increase in the BDO Heat Chart by sector is found in the Energy, Mining & Utilities sector, which saw transaction numbers rise from seven in Q2 2015 to 18 in Q3 2015. The 210 deals completed in the Nordic region represented 2% of total global deal activity during the same period.



## LOOKING AHEAD

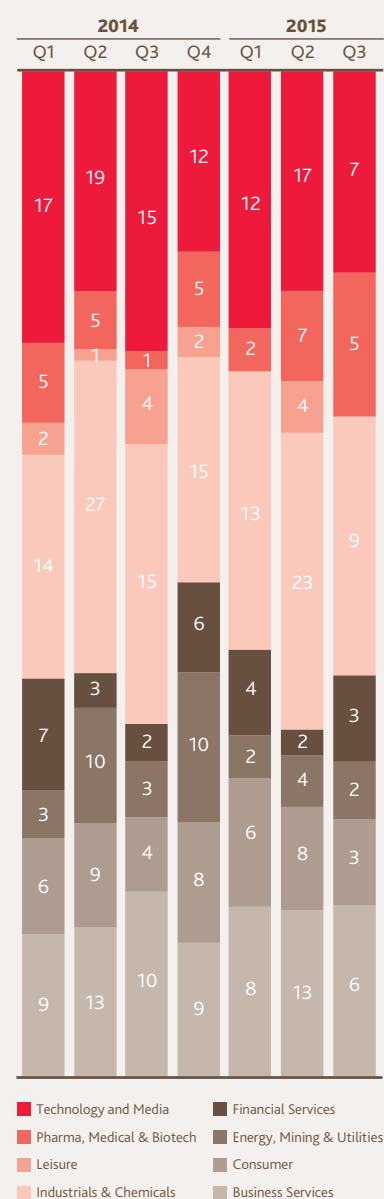
Total deal value during Q1 to Q3 2015 decreased by 33% compared to Q1 to Q3 2014. However, private equity activity stayed strong and we expect this pattern to continue, with increased interest from private equity firms, especially in the US and UK, in Nordic companies.

A strong US economy, substantially lower multiples in Europe compared to the US and the increase in the value of the USD compared to SEK and DKK in general, and NOK in particular, are all factors that can drive increased deal activity in the Nordic region.

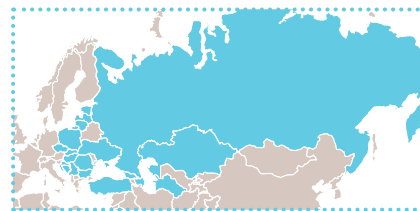
### NORDICS HEAT CHART BY SECTOR

Industrials & Chemicals	51	24%
Technology and Media	47	22%
Consumer	30	14%
Business Services	28	13%
Energy, Mining & Utilities	18	9%
Pharma, Medical & Biotech	18	9%
Financial Services	13	6%
Leisure	5	2%
<b>TOTAL</b>	<b>210</b>	<b>100%</b>

### NORDICS MID-MARKET VOLUMES BY SECTOR



# CEE & CIS



## AKOS BOROSS

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### BIG PICTURE

- Average deal value falls, but overall performance beats global volume trends
- Business Services, Industrials & Chemicals and Technology and Media are the most active sectors
- The outlook is positive, with the BDO Heat Chart forecasting a rise in deal flow of over 20%.

## A slow-moving quarter for deals but better prospect lay ahead.

**Mid-market M&A activity in CEE & CIS outperformed the global trend in 2015 Q3: the volume of deals worldwide fell by 9.6%, while CEE & CIS saw only a 4.3% decline.**

The combined value of the region's top 10 deals was USD 2.2bn, or 58% of total transaction value. Business Services was the most active sector, contributing three of CEE & CIS' top 10 mid-market deals for 2015 Q3. Private equity held steady at around 9% of total Q3 deals by volume, made up of six transactions worth a combined total of USD 340m. With transactions below USD 60m responsible for a large proportion of Q3 2015 deal activity, the average transaction value was just USD 57m, its lowest level since 2008.

### KEY SECTORS AND DEALS

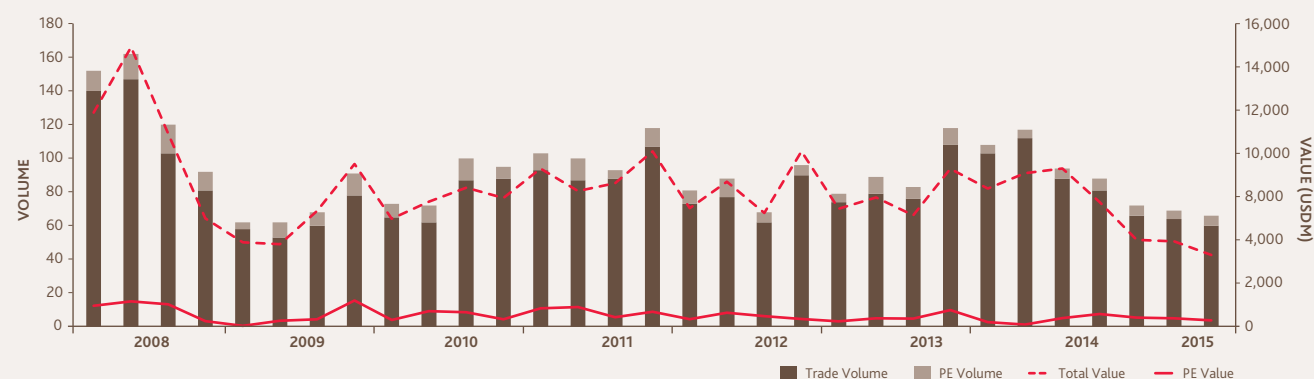
The busiest sectors by deal volume in 2015 Q1-Q3 were Industrials & Chemicals (23.2%), Technology and Media (16.4%) and in joint third place Business Services and Energy, Mining & Utilities both (12.1%).

But during Q3 2015 activity was dominated by Business Services, which contributed 14 of the total 66 transactions. Industrials & Chemicals saw 12 deals and Technology and Media contributed 11 transactions. By comparing each sector's current (Q3) activities, as a proportion of total deals, to the historical average (from 2008 Q1-2015 Q3) we find that Business Services, Technology and Media and Leisure took a much larger share in Q3. Pharma, Medical & Biotech was marginally ahead of historical trends, but all other sectors were below trend.

### CEE & CIS HEAT CHART BY SECTOR

Industrials & Chemicals	199	29%
Technology and Media	108	15%
Consumer	102	15%
Business Services	87	12%
Financial Services	73	10%
Energy, Mining & Utilities	68	10%
Leisure	33	5%
Pharma, Medical & Biotech	28	4%
<b>TOTAL</b>	<b>698</b>	<b>100%</b>

### PE/TRADE VOLUME & VALUE



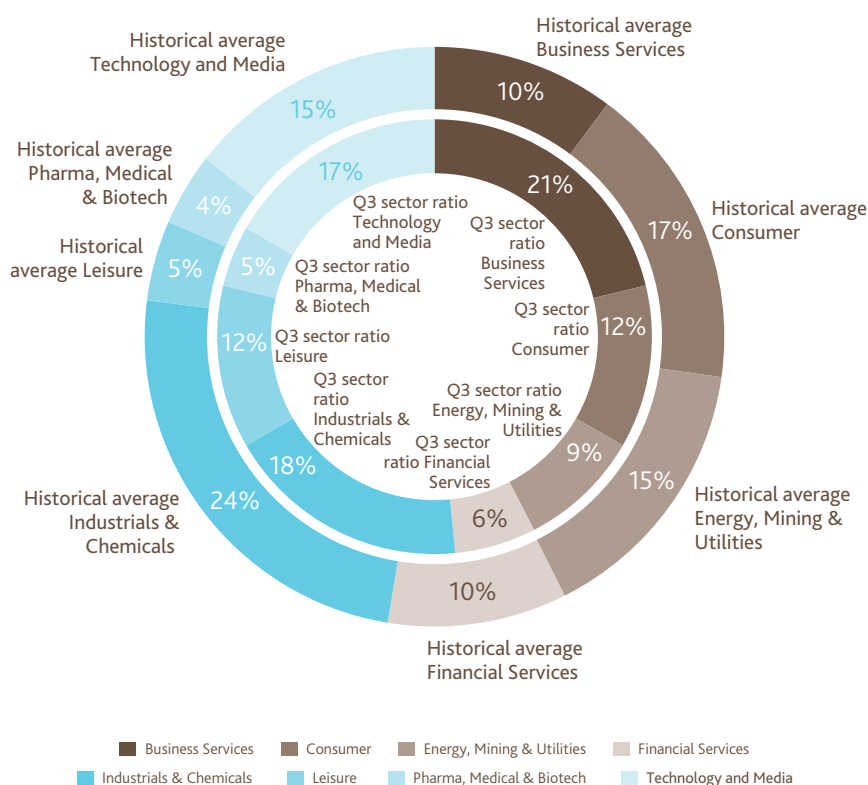
## LOOKING AHEAD

It is possible that the downtrend - which has been evident for several quarters since 2014 Q2 - ended in 2015 Q2. Preliminary announced mid-market deals are close to previous quarter levels and once the final figures are recorded the total may exceed the preceding period's deals. The BDO Heat Chart supports this view, with CEE & CIS deal flow predictions up 21% and global forecasts up 18% compared to the previous BDO Heat Chart.

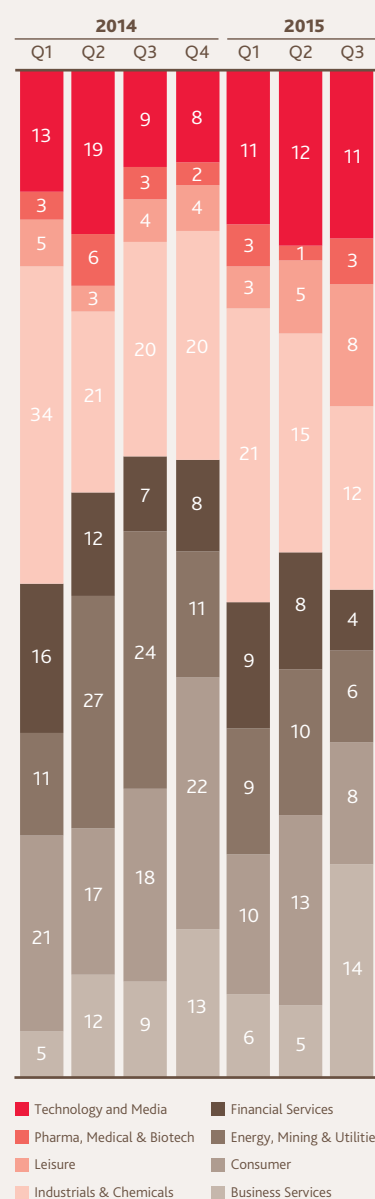
Deals that could happen in the short or long term in CEE & CIS are estimated at 698 (data does not differentiate between

small and large transactions), which is a significant 8% slice of the worldwide mid-market deal cake. In terms of sectors, Industrial & Chemicals is expected to be the most active, followed by Technology and Media in second position. We must also highlight Financial Services, with the BDO Heat Chart predicting 22 more transactions (making a total of 73 FS deals forecast, representing 10.2% of the global figure). Leisure is another sector that is forecast, like Financial Services, to see higher activity levels in CEE & CIS than in other regions generally.

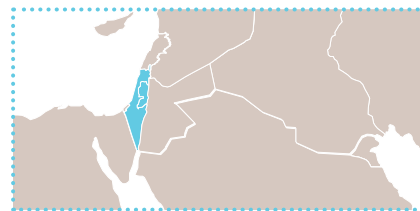
## CURRENT AND AVERAGE RATIO BY SECTOR



## CEE & CIS MID-MARKET VOLUMES BY SECTOR



# ISRAEL



**TAMAR BEN-DOR**

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## BIG PICTURE

- Value and volume fall in Q3, when measured against an exceptional Q2
- PE continues to play a significant role, responsible for 35% of deal value in Q3 2015
- FY 2015 still on track to beat 2014 by volume and value.

## A quieter quarter but a record-breaking 2015 expected.

M&A activity in 2015 continues to generate new records and maintain the positive trend of recent years. The strongest growth was seen in the second quarter of 2015 with several major transactions completed. In comparison, the third quarter presented more moderate results.

As usual, Technology and Media is the driver, and is expected to hold the wheel ahead. The Pharma, Medical & Biotech sectors are sowing the seeds for potential M&A activity in the distant future.

Local and global Private Equity has become a major player in the mid-market environment and are expected to gain further dominance in the near future.

Looking at 2015 so far, Israel's positive mid-market M&A growth trend continues, in terms of both value and volume. In fact 2015 has already achieved 91% of the deal numbers seen in FY 2014 and has exceeded FY 2014 in terms of value.

The third quarter of 2015 generated a total of 18 completed deals, with a combined value of USD 908m. This represents a decrease in total deal value of USD 289m

(-24%) compared to Q3 2014 and a decrease of USD 1,439m (-61%) compared to Q2 2015.

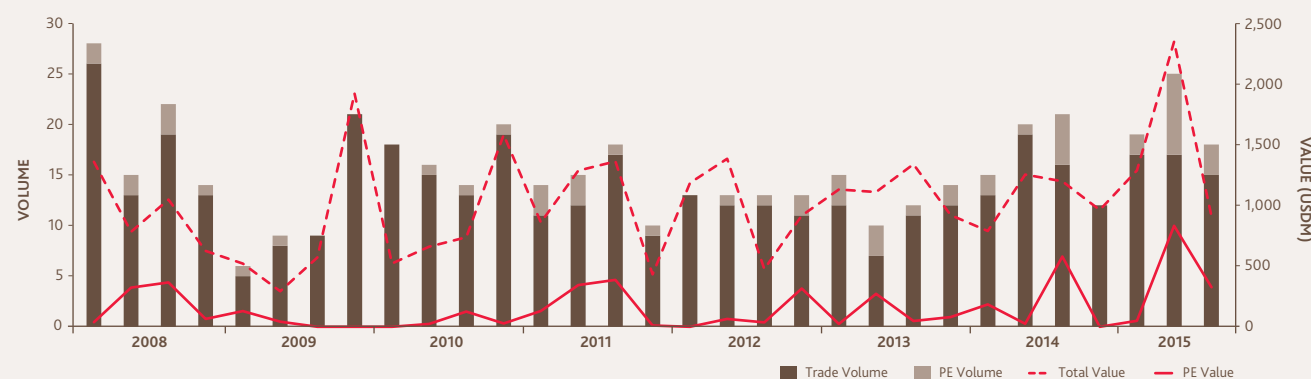
Nevertheless, average transaction value showed quarter-on-quarter growth, with Q3 2015's average deal size of USD 73m outstripping Q3 2014's figure of USD 57m.

After an exceptional second quarter, private equity firms continued to play a significant part in the Israeli mid-size M&A market. Although volume decreased, PE still accounted for about 35% of total transaction value, similar to the previous quarter.

The Technology and Media sector continued to lead deal volume in Q3 2015 with 11 completed transactions. Global and domestic investors continue to show their faith and the sector is expected to maintain momentum towards the fourth quarter.

Strong interest from venture capital funds in biotech and 'traditional' tech start-ups in Israel is expected to generate the next generation of mature M&A targets in the years ahead and we expect this trend to continue in the longer term.

## PE/TRADE VOLUME & VALUE

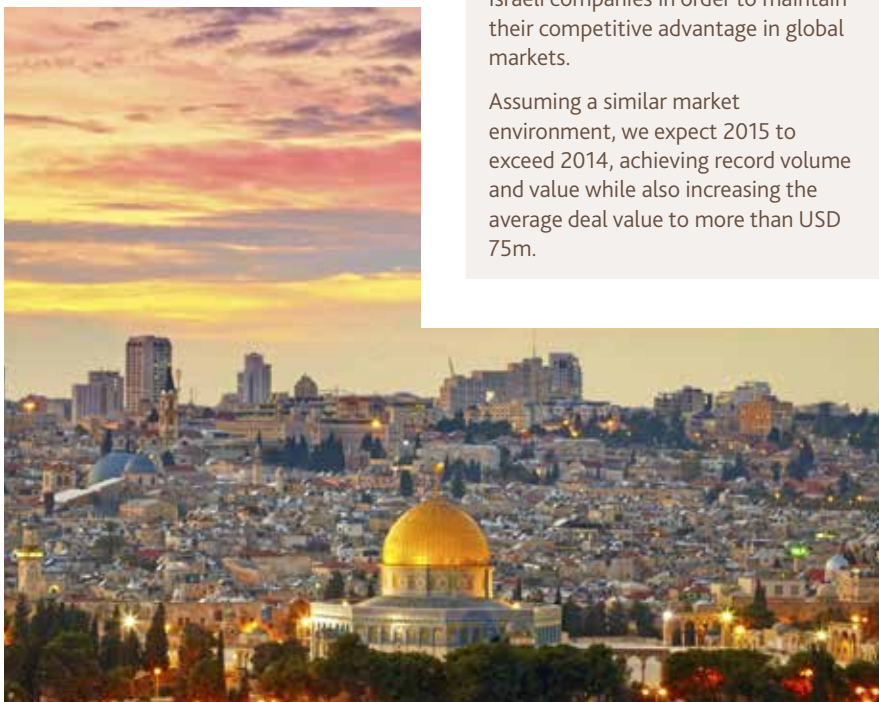




The Industrials & Chemicals sector saw strong mid-market M&A activity in Q3 2015, with 61% of deal volume compared to 44% in the second quarter of 2015 and full year 2014.

#### ISRAEL HEAT CHART BY SECTOR

Technology and Media	23	43%
Pharma, Medical & Biotech	10	19%
Industrials & Chemicals	6	11%
Consumer	5	9%
Business Services	4	8%
Energy, Mining & Utilities	3	6%
Financial Services	2	4%
Leisure	-	0%
<b>TOTAL</b>	<b>53</b>	<b>100%</b>



#### LOOKING AHEAD

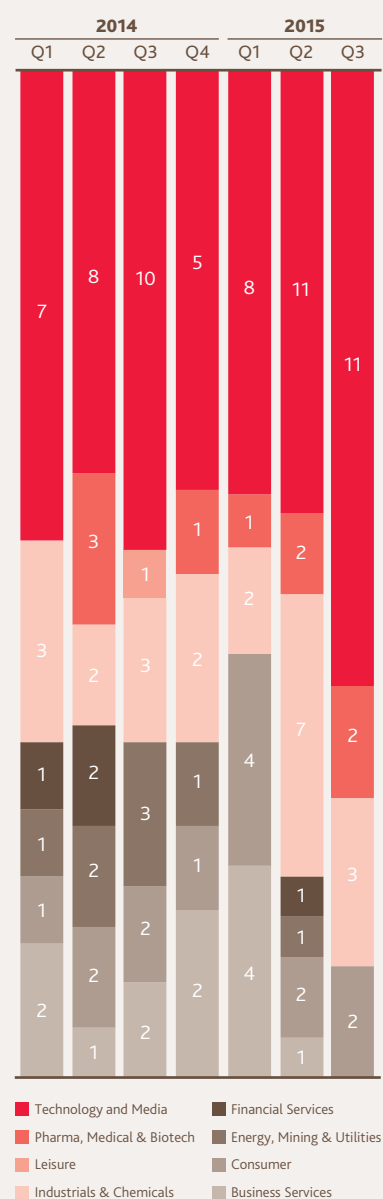
Taking into account ongoing capital markets' peak prices and stable low interest rates, local PEs who have raised significant amounts in the last two to three years are expected to continue competing on main transactions and be major players in the Israeli M&A mid-market.

On the other hand, natural buy-outs are hard to accomplish, but strategic cross-border investments are increasingly visible and IPOs continue to be a significant alternative.

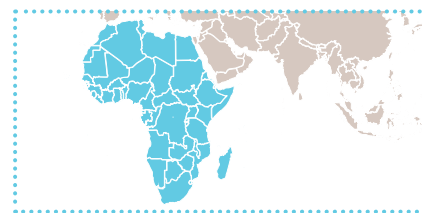
The Technology and Media and Biotech sectors are expected to attract most interest in the foreseeable future as global technology and pharma giants are constantly seeking maturing Israeli companies in order to maintain their competitive advantage in global markets.

Assuming a similar market environment, we expect 2015 to exceed 2014, achieving record volume and value while also increasing the average deal value to more than USD 75m.

#### ISRAEL MID-MARKET VOLUMES BY SECTOR



# AFRICA



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### BIG PICTURE

- Deal numbers marginally down on the previous quarter and value falls more sharply
- South Africa sees the most deal activity but Egypt rebounds strongly
- Industrials & Chemicals is the most active sector in Q3 and in terms of forecast deals.

## Deal activity slows, but prospects pick up.

In Q3 2015 there were 32 M&A transactions completed across the continent, just three deals fewer than Q2 2015. Total transaction value was USD 2.1bn, 51% below the USD 4.3bn reached in the same quarter in 2014. Average deal value was USD 66m in Q3 2015 compared to USD 91m in the previous quarter. The cumulative number of deals achieved over the first three quarters declined both in number (122 to 108) and value (USD 11bn to USD 8.6bn) when comparing 2015 to 2014.

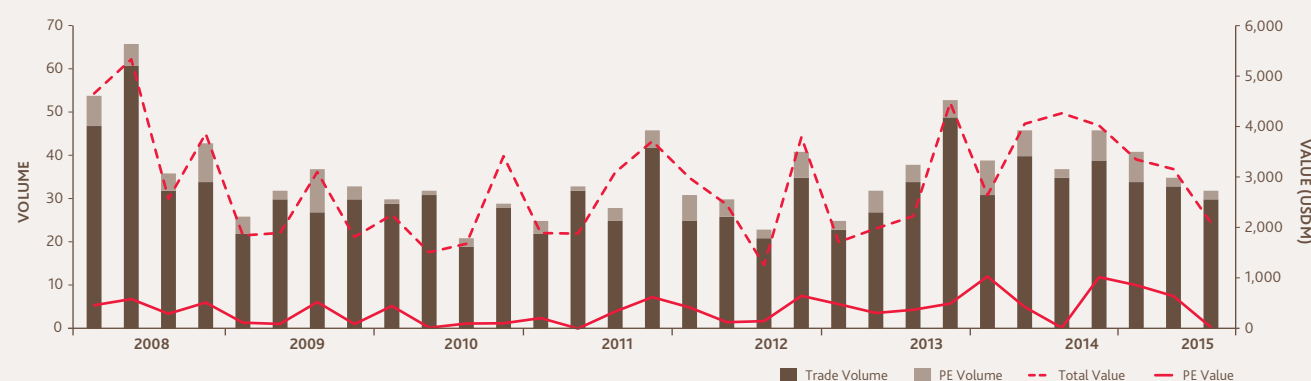
The number of PE buy-outs in Q3 2015 was stagnant when compared to the previous quarter, but the total value of transactions plummeted from USD 650m to 31m. As such, PE buy-outs in Q3 2015 represented a mere 1.5% of all deals, down from 20.5% of transactions in Q2. The 2015 A.T. Kearney Foreign Direct Investment Confidence Index shows that investors are more pessimistic with respect to Africa. There are many other destinations that are attracting foreign direct investment, although they tend to be channeled to greenfield investments rather than acquisitions.

## KEY SECTORS AND DEALS

The sectors with the most deal activity were Industrials & Chemicals (8 deals or 25%) and Energy, Mining & Utilities (seven deals or 22%). The Business Services and Financial Services sectors each recorded seven deals. Although Energy, Mining & Utilities is still the leader in terms of transactions, there is greater diversification in terms of the sectors that are attracting investment across the African continent.

Without doubt the leading countries in terms of deals were South Africa and Egypt, accounting for respectively six and three of the ten 10 Top deals in Q3 2015. In South Africa, Fulcrum Financial Services SA of Switzerland acquired Southern View Finance for USD 359m. In the mining sector, Rustenburg Platinum Mines Ltd (a subsidiary of Anglo American Platinum) was acquired for USD 323m by Sibanye Gold Limited and a consortium of Broad-Based Black Economic Empowerment stakeholders. Other transactions involved Heineken N.V., which increased its stake in several brewery companies (USD 199m) as part of a major restructuring;

### PE/TRADE VOLUME & VALUE



and three other deals involving Steinhoff International Holdings Ltd (USD 107m), Renergen Ltd (USD 51m) and Mutual & Federal Insurance Company Ltd (USD 47m).

Egypt seems to have witnessed a rebound in investment as a result of greater political stability and new investment law being implemented. Leading acquisitions include that of Commercial International Life Insurance Company S.A.E. by AXA SA (USD 98m); Mass Food Co. (the leading local cereal company) by Kellogg Company (USD 50m); and leading manufacturer of frits and glazes Al Salomi by US-based Ferro Corporation (USD 39m). Yet it was Nigeria that saw the largest M&A deal of the quarter, with Kellogg acquiring a 50% stake in Multipro Enterprise Limited worth USD 450m. Another notable deal was Lebanese insurance and reinsurance firm Chedid Capital's acquisition of a 50% stake in City Brokers Ltd. (CBL), Mauritius' leading insurance brokers, for USD 20m. The new company, GML-Chedid & Associates East Africa Ltd, aims to play a major role in the insurance brokerage sector across East Africa and the Indian Ocean.



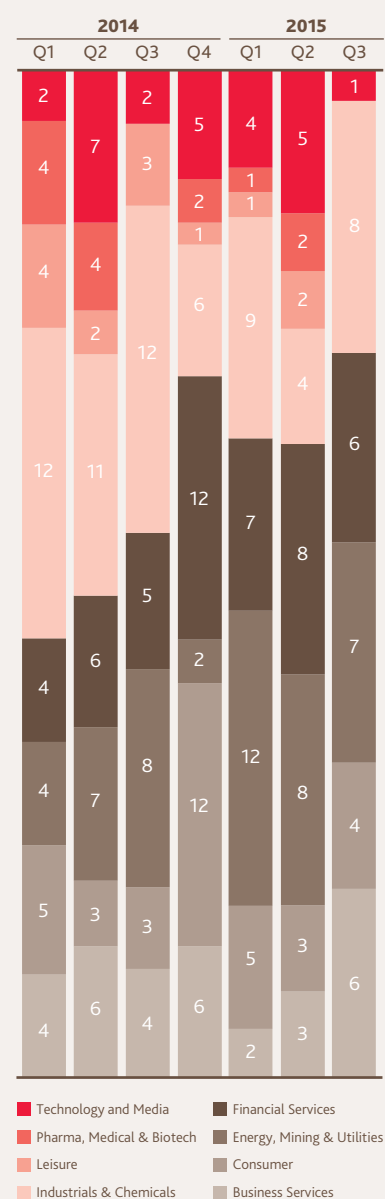
## LOOKING AHEAD

The BDO Heat Chart indicates that there are 188 rumoured opportunities for M&A in Africa, which represents 2.2% of global numbers. The most active sectors are Industrials & Chemicals (60 deals), Energy, Mining & Utilities (51 deals), and Business Services (29 deals). However, we expect Financial Services and Consumer sectors to attract increasing interest as sustained growth rates and increasing disposable income in many countries across Africa create a solid market for all types of durable and non-durable goods as well as for banking, insurance and investment.

## AFRICA HEAT CHART BY SECTOR

Industrials & Chemicals	60	32%
Energy, Mining & Utilities	51	27%
Business Services	29	15%
Financial Services	17	9%
Consumer	12	6%
Technology and Media	9	5%
Leisure	6	3%
Pharma, Medical & Biotech	4	2%
<b>TOTAL</b>	<b>188</b>	<b>100%</b>

## AFRICA MID-MARKET VOLUMES BY SECTOR



# INDIA



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CF Partner

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## Huge jump in total deal value.

The narrowing current account deficit has lowered external vulnerabilities, while a faster than expected decline in inflation has created opportunities for interest rate reductions. Indeed, the central bank recently cut its key rate by a more than expected 50 basis points, helping to revive demand and support growth.

In 2014, a total of 209 transactions were completed, while the number of deals concluded so far in 2015, up to and including the third quarter, is 196. These numbers reflect the positive trend for M&A in India, with the deals completed in the first nine months of 2015 almost equal to the total number of transactions in the whole of 2014.

## HEADLINE NUMBERS

Deal value increased by a staggering 121% to USD 5.53bn in Q3 2015, compared to USD 2.5bn in Q3 2014. Deal volume increased by 36% from 47 deals in Q3 2014 to 64 in Q3 2015.

Compared to Q2 2015, deal value in Q3 2015 was up 1% (USD 5.5bn in Q2 2015), while deal volume fell by 4% (67 deals in Q2 2015), and the average deal size rose from USD 82m to USD 86.5m.

In Q3 2015, PE buy-out deals represented 47 % of the total deal value and 38% of the total deal volume. For Q3 2014, these numbers were 22% and 21% respectively while in Q2 2015 these numbers were 40% and 33% respectively.

## KEY SECTORS AND DEALS

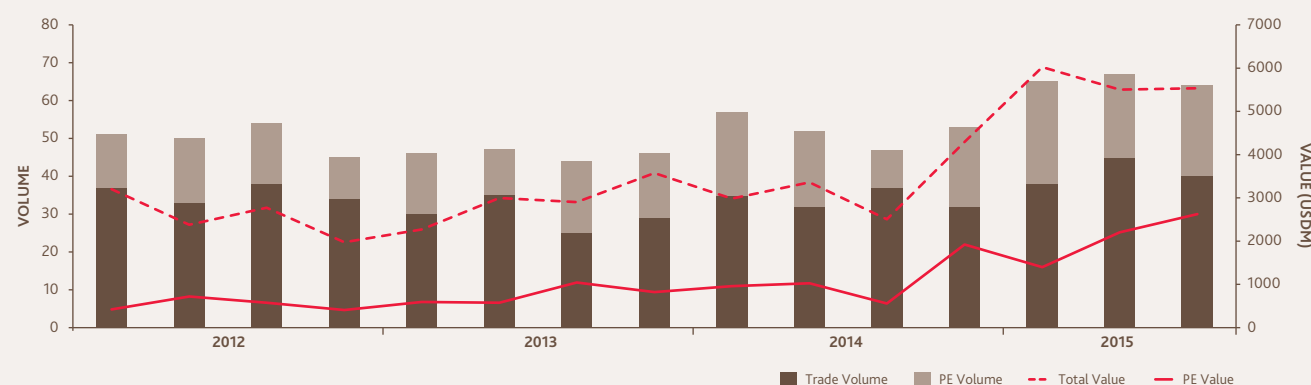
In terms of sectors, Industrials & Chemicals has seen the highest deal volume with 47 deals (24%), closely followed by Technology and Media with 46 deals (23%) and Pharma, Medical & Biotech with 23 deals (12%).

In terms of Q-o-Q comparison, only three sectors (Technology and Media, Leisure and Financial Services) have seen a growth in deal volume, while the five other sectors (Pharma, Medical & Biotech; Industrial & Chemicals; Energy, Mining & Utilities; Consumer; and Business Services) have seen a drop in deal volume in Q3 2015 compared to Q2 2015.

## BIG PICTURE

- Q3 2015 M&A deal value and volume significantly ahead of the same quarter last year
- PE transactions represent almost half of total deal value in Q3 2015
- India's strong economy supports a positive outlook for M&A.

## PE/TRADE VOLUME & VALUE





The biggest deal in Q3 2015 was in the Technology and Media sector, with US-based TA Associates Management LP acquiring a 95% stake in Atria Convergence Technologies Private Limited from India Value Fund Advisors Private Limited for USD 500m in July 2015.

Other major deals in Q3 2015 include:

- Sanpdeal attracting USD 500m of investment from a set of PE funds – including SoftBank Group Corp, Alibaba Group Holding Ltd and Foxconn Technology Co. Ltd – for a 10% stake.
- US-based Blackstone Group LP acquiring Serco Global Services Pvt. Ltd for USD 386m from UK-based Serco Group plc.
- French bank BNP Paribas SA's acquiring financial services firm Sharekhan Ltd for USD 343m from various PE funds, namely Citi Venture Capital International, IDFC Private Equity Co Ltd., Baring Private Equity Partners India Limited, and Samara Capital Partners.
- Warburg Pincus LLC investing USD 284 million in Piramal Realty Private Ltd for a minority stake.

#### INDIA HEAT CHART BY SECTOR

Technology and Media	85	21%
Industrials & Chemicals	81	20%
Business Services	78	19%
Financial Services	46	11%
Consumer	39	10%
Pharma, Medical & Biotech	35	9%
Energy, Mining & Utilities	30	7%
Leisure	11	3%
<b>TOTAL</b>	<b>405</b>	<b>100%</b>

#### LOOKING AHEAD

In 2014, the average number of deals in each quarter was 52, which has increased to 65 in Q1 2015, 67 in Q2 2015 and 64 in Q3 2015.

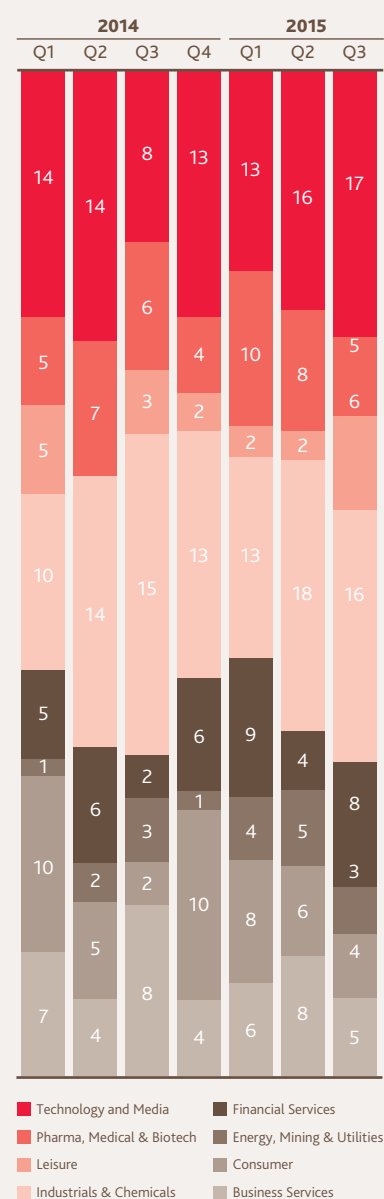
The IMF's forecast for 2020 sees India occupying the top spot among major economies with a growth rate of 7.7%.

This growth has been supported by recent policy reforms as well as a consequent pick up in investment. With China gradually transitioning into an environment of lower growth, India could sustain the top growth spot among large emerging markets. The inflation rate is also expected to decline further by end of 2015 because of the drop in global oil and agricultural commodity prices.

The Technology and Media sector in particular is seeing a lot of deal activity. One particular reason for this is the increase in the number of mobile internet users in India, which is expected to double from its current level of 159 million to 300 million by 2017. The increasing number of players in the sector is leading to a wave of consolidation as the more established businesses try to further strengthen their market position. This trend is expected to continue, as shown in the BDO Heat Chart below.

The BDO Heat Chart is based on 'companies for sale' tracked by Mergermarket between 8 April 2015 and 8 October 2015. The Technology and Media sector is expected to top the chart with highest number of potential deals, followed closely by the Industrials & Chemicals and Business Services sectors.

#### INDIA MID-MARKET VOLUMES BY SECTOR



# CHINA



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## BIG PICTURE

- M&A activity declines in Q3 relative to H1 2015 highs
- Volatile equity markets, a weakening outlook for China's economy and currency devaluation provide headwinds for deal makers
- Strong appetite for M&A remains, with good long-term fundamentals in place.

## M&A takes a breather but strong appetite remains.

**The Greater China M&A market took a brief pause for breath in Q3 2015, with transaction levels declining after the exceptionally high deal values reported in the previous quarter.**

Record mid-market M&A levels were recorded in H1 2015, with 816 transactions reported at a total value of USD 86.7bn. This represented 48.6% and 69.5% growth in deal value and volume respectively from H1 2014 levels, a remarkable uplift for a market of this size. This included deal values of USD 49.2bn in Q1 2015 alone, the highest on record.

The decline in deal value seen in Q3 2015 reflects the exceptional heights reached in the previous quarter, and also possibly some impact from China's recent economic turbulence, which has seen significant volatility in China's capital markets and a spillover effect across equity markets worldwide. Key questions have been raised on the outlook for China's economy, and what stimulus measures the PRC government could implement to address this in an economy which now generates 15% of global GDP, and around half of global GDP growth.

Putting this into context, a decline in equity prices in China was perhaps not unexpected, in a market that has seen significant escalation over the last year, with equity prices on the Shanghai Composite Index still 38% higher than 12 months ago. With relatively little wealth held in equities (property being a much larger asset class in China), most companies in China holding well-funded balance sheets and keen to diversify out of the domestic market, it is important to look beyond any short-term volatility in transaction volumes generated by the recent economic softening and instead focus on the long-term fundamentals of the M&A market in Greater China, which still appear positive.

## KEY TRENDS

There has been a transition over recent years in China's M&A market. This was previously dominated by large state-owned enterprises, but is now seeing the emergence of privately-owned enterprises, which now account for over half of M&A deal volumes.

## PE/TRADE VOLUME & VALUE



The objectives for outbound investment have also shifted, from acquiring resources and production materials to a desire to secure knowhow, technology, brands and other intellectual capital to meet the emerging demands of PRC consumers, and to help increase the competitiveness of Chinese companies on the global stage.

This has seen a particular focus on Technology and Media targets, consumer brands and agribusinesses, with key beneficiaries over recent years including the US, Australia, Singapore, Canada, Germany and the UK. Property has also been a key target market for Chinese investors, which is a highly revered asset class in China, with real estate in developed markets providing both prestige and more stable (and often higher) returns, relative to the ongoing difficulties being experienced in the domestic real estate market.

## KEY SECTORS

Industrials & Chemicals remains the most active sector for deal volumes in China, followed by Technology and Media, which remains a competitive segment for domestic transactions. A notable mid-market transaction in the last quarter included Delta Airlines acquiring a 3.55% stake in China Eastern Airlines Corp for USD 450m, extending the US airline's strategy of taking minority stakes in overseas carriers to strengthen its international business.

Investments in energy and resources by Chinese companies remain low by historical levels, although the Chinese Ministry of Commerce stated in late 2014 that investment levels in this sector were still, in relative terms, below those of developed countries. Despite the pullback in economic growth levels, demand for energy and resources will remain high in China, and with downward pressure on oil and commodity prices expected to remain for some time, opportunities for investment in this sector appear abundant globally, with renewed Chinese investment expected to pick up again in 2016.

## OUTBOUND INVESTMENT

An emerging investment theme has been the continued growth of outbound investment by PRC financial conglomerates. Previously restricted in their investment scope, insurance companies in China have been highly active in offshore investments, including JD Capital's purchase in August

2015 of the Ageas Hong Kong life insurance business and China Minsheng's acquisition in July 2015 of Swedish reinsurance business Sirius International.

Real estate has also been a key target for China's insurance giants, with a number of high-profile property purchases, including China Anbang's acquisition of the Waldorf Astoria hotel in New York and the announced purchase of the Heron Tower in London. This followed the previous acquisition by Ping An Insurance of the Lloyd's of London building in July 2013.

## LOOKING AHEAD

So will China's economic woes continue and what impact could this have on global deal volumes? Beyond some initial impact, perhaps on the ASEAN region which is closely linked to China's economy, and the continued downward pressure on commodity prices impacting developing markets, the slight weakening in China's economy is not expected to result in any significant lasting impact on other developed economies.

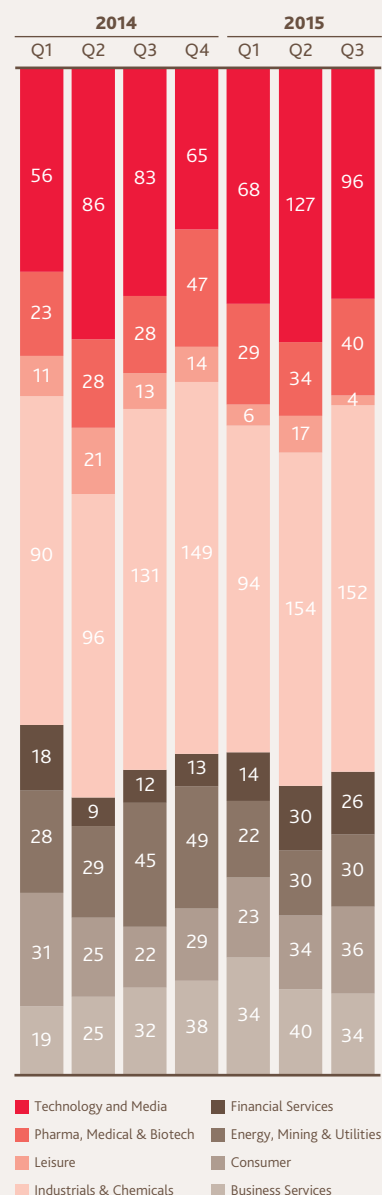
The recent depreciation of the Renminbi, while not widely expected, could have a marginal impact on China's offshore aspirations. However, this is not expected to affect the momentum of Chinese outbound M&A, where Chinese investors are only just starting to embark on a global wave of outbound investment, led increasingly by privately-owned entities in the mid-market.

With good investment opportunities at competitive valuations available overseas and favourable policies recently issued by the PRC government for outbound investment (which allow Chinese companies to move faster and be more competitive in controlled deal processes) continued growth in PRC outbound investment is expected. The overseas M&A landscape will continue to broaden for PRC entities, led increasingly by a new generation of private enterprises focused on becoming global players. This will target an ever broadening spectrum of industries in order to satisfy changing PRC consumer preferences and to gain competitive advantage in congested PRC domestic markets.

## CHINA HEAT CHART BY SECTOR

Industrials & Chemicals	346	33%
Technology and Media	227	22%
Business Services	103	10%
Consumer	96	9%
Pharma, Medical & Biotech	77	7%
Financial Services	77	7%
Energy, Mining & Utilities	67	6%
Leisure	50	5%
<b>TOTAL</b>	<b>1,043</b>	<b>100%</b>

## CHINA MID-MARKET VOLUMES BY SECTOR



# SOUTH EAST ASIA



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## BIG PICTURE

- Q3 volume and value outstrip previous quarter
- Industrial & Chemicals leads the way for M&A activity in the region
- Outlook is positive as forecast deals grow.

## Activity steps up a notch with better to come.

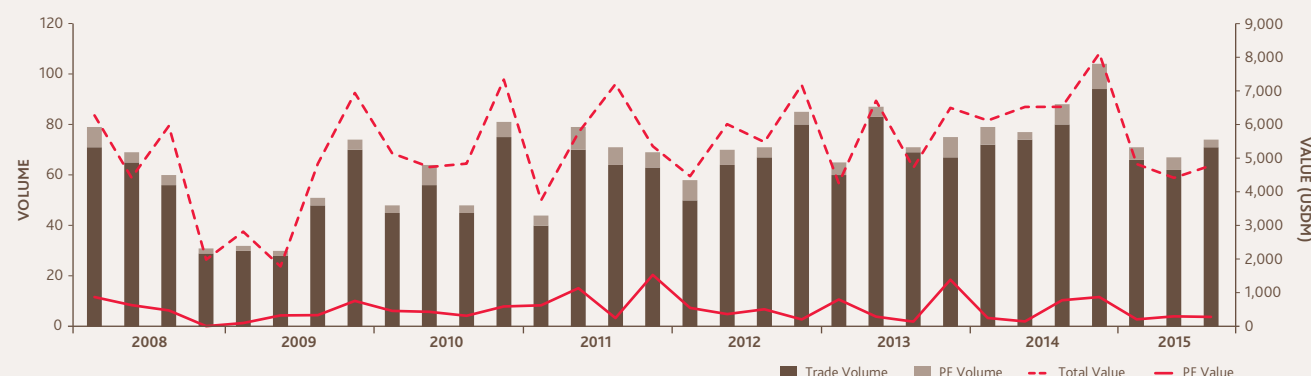
M&A activity in South East Asia increased in terms of both volume and value during Q3 2015. A total of 74 deals were completed in the quarter compared to 67 transactions in Q2 2015, representing an increase of 10%, while total values rising by 8% from USD 4.42bn to USD 4.78bn. The combined value of the quarter's top ten deals was USD 2.69bn, representing 56% of Q3 2015 total deal value. Private equity completed three deals in Q3, five fewer than the corresponding period in 2014. PE was responsible for a small proportion of total M&A activity during the quarter, representing 4% by number of deals and 6% by transaction value.

## KEY SECTORS

The most active sectors in Q3 2015 were Industrials & Chemicals and Business Services, which together contributed 53% of the total number of deals in the quarter. Industrials & Chemicals led the way with 25 completed transactions, which was the sector's largest contribution to total deal numbers for the past five years. Furthermore, Industrials & Chemicals also contributed four of the top ten deals for Q3 2015, involving target companies in Malaysia, Vietnam and Indonesia. These included the quarter's biggest recorded deal: the acquisition of a 98.08% stake in Sabah Forest Industries Sdn Bhd by Pandawa Sakti Sdn Bhd for USD 492m.

Business Services contributed 14 deals in Q3 2015. Three of the quarter's top ten deals were from the Business Services sector, adding up to total deal value of USD 788m and representing 16% of total deal value in Q3 2015. Consumer, Technology and Media, and Energy, Mining & Utilities were each responsible for one of the remaining top ten deals.

## PE/TRADE VOLUME & VALUE





## LOOKING AHEAD

Industrial & Chemicals looks set to continue its role as the most active sector. It had the highest number of completed deals in Q3 2015 and, at 153, has the highest number of deals in the pipeline, as at the end of Q3 2015. Business Services, although forecast to remain in second place, is expected to see M&A activity accelerating, with total deals in the pipeline increasing from 69 in Q2 2015 to 82 in Q3 2015. There is also a positive outlook in the Energy, Mining & Utilities, Technology and Media, Financial Services, Consumer, Pharma, Medical & Biotech and Leisure sectors, which are all forecast to see more deals than in the previous quarter.

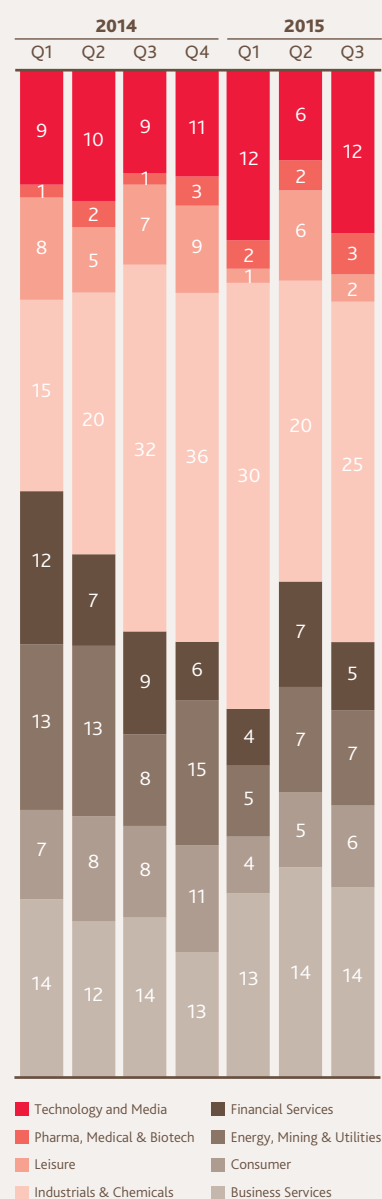
The outlook for M&A activity in South East Asia will of course depend on the outcome of current economic challenges, which include crude oil prices and their effect on the region's currencies. As South East Asia's currencies weaken against the US dollar, investors with predominant US dollar income or funding may find South East Asia's assets more attractive. This may support further cross-border transactions in the future.

### SOUTH EAST ASIA HEAT CHART BY SECTOR

Industrials & Chemicals	156	28%
Business Services	82	15%
Energy, Mining & Utilities	76	14%
Technology and Media	68	12%
Consumer	61	11%
Financial Services	57	10%
Pharma, Medical & Biotech	33	6%
Leisure	20	4%
<b>TOTAL</b>	<b>553</b>	<b>100%</b>



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



# AUSTRALASIA



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### BIG PICTURE

- Trade and PE activity remain well above Q1 2015 levels
- Foreign investors continue to target Australasian companies
- Looking ahead, Consumer and Industrials & Chemicals sectors are expected to be the most active sectors.

## Average deal value rises and PE rebounds strongly.

The third quarter of 2015 saw 81 deals completed in Australasia with a total value of USD 5.07bn. This was 24% below the USD 6.7bn achieved in Q2 2015, but significantly above the USD 3.8bn seen in Q1 2015. Compared to the corresponding quarter in 2014, total deal values in Q3 2015 were 7% lower. However, the average deal value for Q3 2015 (USD 62.6m) was greater than in Q3 2014 (USD 52.5m).

In terms of mid-market PE transactions, Q3 2015's total deal value of USD 1.58bn was the highest since 2008. This followed on from a significant rebound in Q2 2015, which saw total deal value rise to USD 1.55bn from a low of USD 295m in Q1 2015. The average value of PE transactions improved from USD 155m in Q2 2015 to USD 197.5m in Q3 2015.

### KEY SECTORS AND DEALS

Q3 2015 saw a decline in deal volume across all major sectors compared to the corresponding period in 2014, with the exception of Energy, Mining & Utilities, which was flat (at 12 deals in each period).

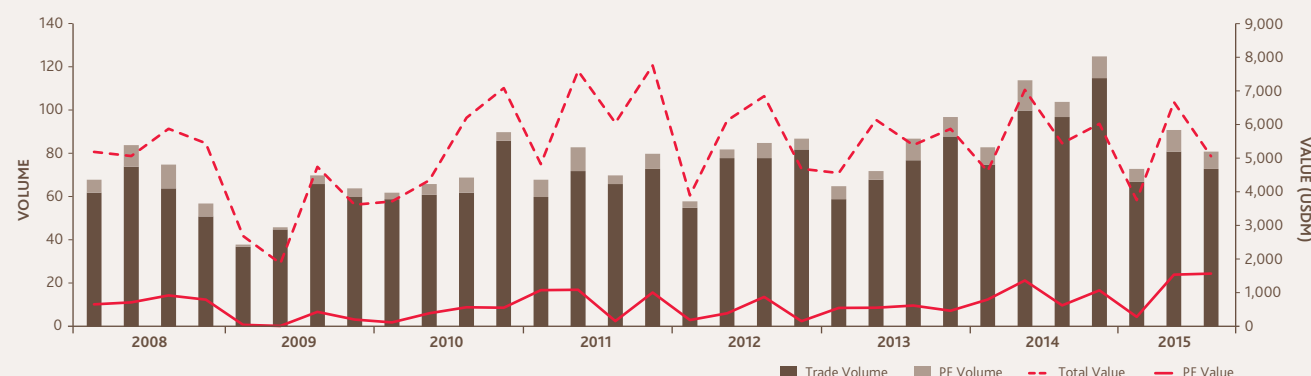
After recovering from the slowdown experienced by the majority of sectors in Q1 2015, Business Services, Consumer and Industrials & Chemicals all showed continued improvement in deal volume in Q3 2015.

The largest transaction in Q3 2015 was the sale of Village Roadshow Entertainment Group to Falcon Investment Advisors LLC for USD 480m. Another major transaction was Crescent Capital Partners Management Pty Ltd's acquisition of a 41.9% stake in Cardno Limited for USD 373m.

A significant transaction took place in the Energy, Mining & Utilities sector, where New Zealand entity H.R.L. Morrison & Co. Limited acquired a 50% stake of Macarthur Wind Farm for USD 367m. Q3 2015 also saw significant activity in the Industrials & Chemicals sector including four major deals with a combined value of USD 833m.

Australasian companies continued to attract the interest of foreign investors during Q3 2015. Half of the top ten deals in Q3 2015 involved overseas investors (equivalent to 48% of deal value).

### PE/TRADE VOLUME & VALUE



## LOOKING AHEAD

Now that activity has rebounded from its Q1 lows, we expect steady growth in mid-market M&A for the remainder of 2015 and into 2016. The volume of foreign Investment continues to improve as a result of the increasing appetite from overseas investors looking to invest in the Australasian market.

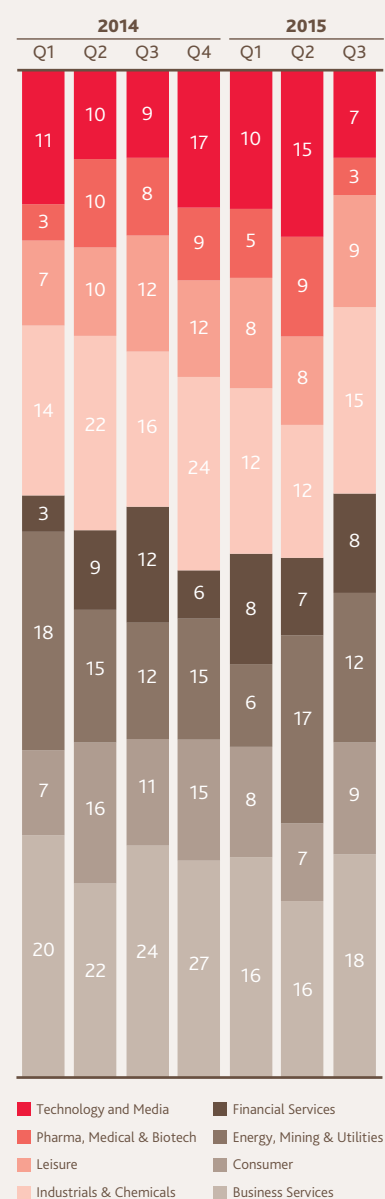
The BDO Heat Chart indicates a possible 526 deals underway, which would represent a significant increase compared to the 422 deals completed in 2014. The chart suggests that Consumer will be the most active sector, followed by Industrials & Chemicals. Technology and Media and Business Services are expected to see a moderate level of activity going forward, while deal activity in Energy, Mining & Utilities may pick up ahead as a result of consolidation opportunities.

### AUSTRALASIA HEAT CHART BY SECTOR

Consumer	104	20%
Industrials & Chemicals	89	17%
Technology and Media	84	16%
Business Services	72	14%
Energy, Mining & Utilities	69	13%
Pharma, Medical & Biotech	52	10%
Financial Services	38	7%
Leisure	18	3%
<b>TOTAL</b>	<b>526</b>	<b>100%</b>



### AUSTRALASIA MID-MARKET VOLUMES BY SECTOR







## SECTOR VIEW



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**EMU – NATURAL  
RESOURCES**

# LEISURE – TRAVEL



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## How changing consumer trends and new booking channels are driving M&A activity.

Twenty years ago, to book a holiday I would have strolled down to my local agent on the high street. Today I can't remember the last time I entered a travel shop. Like most of us, I will research on my phone or tablet in my free time (usually when I'm on the move) and book it, mostly without even speaking to a human. A holiday these days also needs more complexity to be interesting. Lying on a beach for two weeks is too dull for most of us, so instead we are choosing multi-trip itineraries or activity-led getaways. A shift in consumer tastes and new booking channels are creating a surge of new, successful entrepreneurial travel businesses and creating plenty of investable opportunities for private equity, trade buyers and the public markets. Like most M&A advisers in this sector, we're very busy at the moment!

### LUXURY IS WELL POSITIONED

The UK is the fastest growing economy in the G7 and economic growth, coupled with a disproportionately affluent cohort of those aged 55+, has supported the rise of luxury independent travel. The M&A deal press has widely reported that Audley Travel, a business BDO sold in 2012, is likely to be sold again this year. Audley has doubled its EBITDA in three years; its outstanding performance and US market entry have helped to inspire many private equity investors that leisure travel is a sound investment.

Scott Dunn is another stand-out brand in the UK luxury market. BDO advised its current backer, Inflexion, when it acquired Scott Dunn in December 2014 with most of its growth deriving from luxury long-haul tailor-made travel.



## ONLINE SALES AGENTS THRIVE

Markets with a high number of large assets that need to be filled will support the role of a sales agent. Iglu does exactly that, mostly for the cruise market where it has particular strength in online customer acquisition. Iglu completed another private equity-backed deal earlier this year and LDC will support Richard Downs and Martyn Williams to continue Iglu's growth in selling cruise and ski holidays online and taking the business to more overseas source markets.

Perhaps the best value deal from a buyers perspective is Cox & Kings' acquisition of Late Rooms for a reported price of USD 12.9m. Late Rooms has a total transaction value of USD 455.9m, is profitable with high booking volumes from mobile and tablet and looks to be an excellent investment.

The biggest news story in 2015 for online travel in the UK is the IPO of On The Beach at around 12x forward EBITDA. Inflexion, who retain a significant stake, only invested in the business in autumn 2013 at a price just above USD 106.4m and the IPO was priced at around 3.5x the 2013 deal value - quite an achievement. Underpinning the IPO is the permanent channel shift experienced across the sector with UK consumers becoming more likely each year to book holidays online. For more commoditised products, such as the Mediterranean beach holiday, this is even more pronounced and explains the strategy around differentiation among the sector's two UK giants.

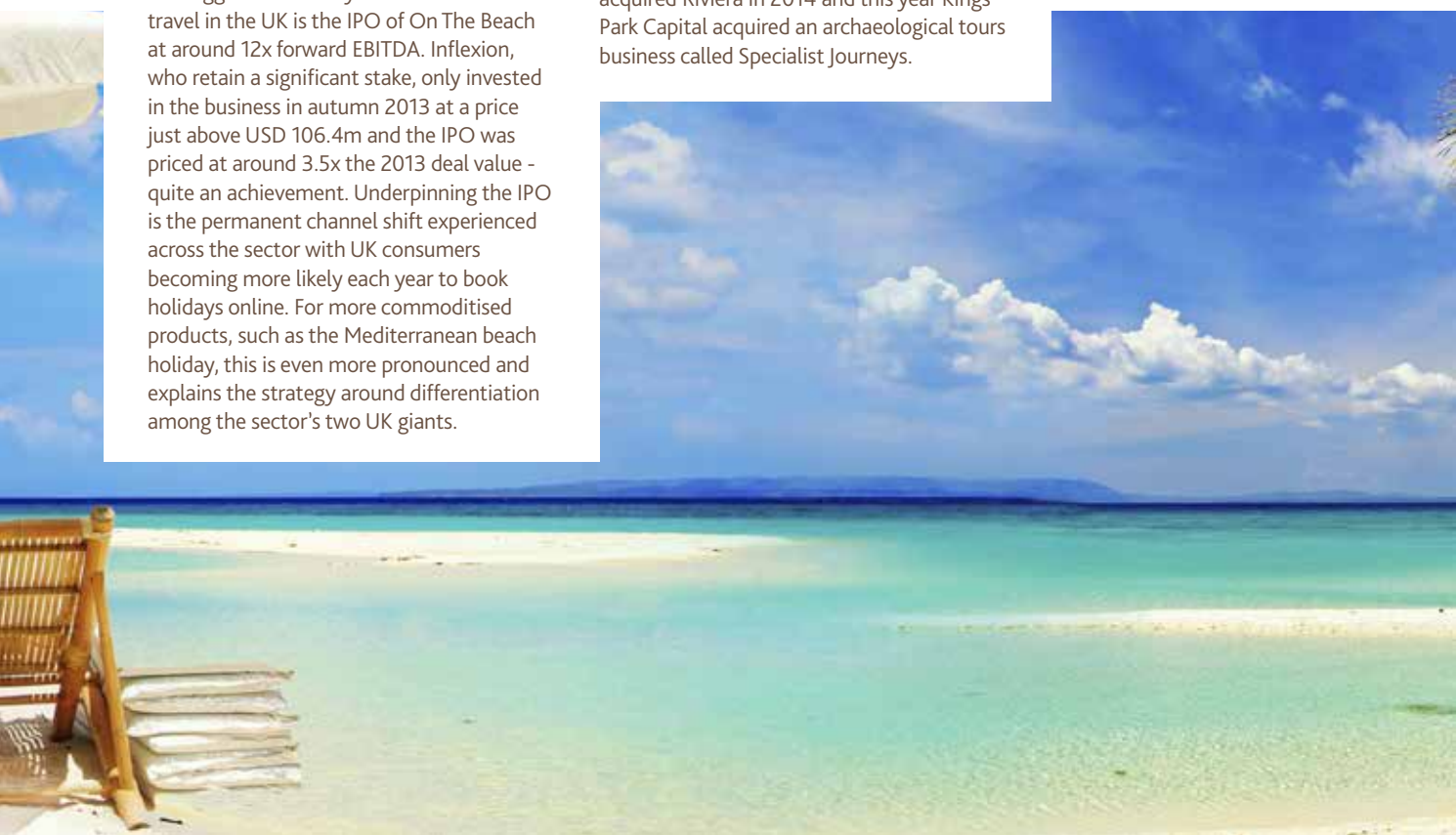
## DIFFERENTIATION IS KEY

The two largest operators in the UK, Thomas Cook and Tui, have cemented a vertically integrated asset (hotel) strategy to secure differentiation. The inevitable result is the divestment of specialist non-core assets. BDO advised Thomas Cook in 2013 on the disposal of three businesses, including Neilson, the ski and beach club activity holiday business. Tui is now following suit with its own version of selling off non-core assets, the first being Late Rooms, with more expected to follow.

A clever way to secure embedded differentiation is through the use of complex itineraries and excellent tour leaders, a winning combination for many UK-based escorted tour businesses. Several leading brands have changed hands in recent years, all backed by private equity. ECI acquired Great Rail Journeys in 2013, Phoenix acquired Riviera in 2014 and this year Kings Park Capital acquired an archaeological tours business called Specialist Journeys.

## RETAIL STILL WORKS FOR SOME

While most travel businesses think about reducing their UK retail footprint, Kuoni is embarking on a roll-out of new sites. Kuoni's B2C business in Europe was acquired by REWE of Germany during the summer. By using a hybrid model of blending the best of retail and remote call centres, where calls are diverted to the sales consultants in store, REWE will support Derek Jones in his plans to grow the UK Kuoni business. Another operator utilising a multi-channel approach with success is Barrhead Travel, whose online travel agency business is complemented by a network of 40 stores in Scotland and Northern England.



# CONSUMER – HEALTHCARE

## A HEALTHY APPETITE



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**In recent years healthcare has been an active sector for M&A across the globe and in the UK particularly. It's also a broad sector, and in this article we will focus on specialist health/social care provision in the UK.**

This includes care for adults with learning disabilities, autism and mental health. In addition, it covers care for children with learning disabilities, autism and behavioural/social disorders. This market is characterised by the provision of both residential care, provided in privately-owned homes, and supported living/domiciliary care services. The customers for these services are typically local authorities, who commission care on behalf of individual service users and receive their funding from the Government.

Over the past three years, there has been a significant increase in M&A activity in these areas, driven by underlying demographics, improved diagnosis and an increasing focus on delivering quality care. Up until six months ago, this had supported strong investor/corporate appetite and led to rising multiples. In the past six months, however, this trend has gone on hold as the M&A market digests the UK Government's announcement on the National Living Wage (of which more later). But this is seen as a short-term effect, and the underlying attractions of the sector will continue to lead to an active M&A market.

### Key drivers of M&A in the UK sector.

#### A CLEAR FOCUS ON QUALITY OF CARE

Both operators and investors in the sector have a strong focus on quality. Quality is paramount in all investment decisions; investors seek businesses with a strong focus on quality, ensuring that high quality of care is delivered, monitored and improved upon.

This has become even more critical in 2015, as the regulators (CQC and Ofsted) have raised the bar in terms of their expectations of safeguarding etc. A key element of any due diligence process is to rigorously check an organisation's approach to, and reputation for, delivering high quality care in a safe environment.

#### CONSOLIDATION OF A FRAGMENTED SECTOR

These healthcare sectors have typically developed from small companies established by private owners, who have opened and run one or two residential facilities. Accordingly, the sector is highly fragmented, with few dominant national leaders.

This provides a strong opportunity for investors to buy an initial platform and pursue a "buy and build" strategy. This trend of consolidation has also been reinforced by the requirement for an even

higher focus on quality of care, as smaller operators can struggle to be cost effective in complying with all requirements imposed by the regulators.

**An influx of investors / corporate acquirers seeking further scale.** In 2014, many of the acquirers in this sector were new entrants to the market – including international private equity funds and overseas corporate acquirers, as well as a number of UK based corporate acquirers. Examples included G-Square's acquisition of Tracscare, representing G-Square's first UK investment. In addition, Montreux Capital acquired both ACH and Regard, giving them a significant platform in the specialist adult learning disability healthcare sector.

Another interesting trend has been the **rise of US investment directly into the sector.** In 2014, we saw Universal Care Services acquire Cygnet, and Acadia Health Care acquire Partnerships in Care. In 2014/15 these investments were followed by several further UK acquisitions by both companies, showing their commitment to the UK. Further US interest in the UK is expected, with US private equity firms known to be looking for their own UK opportunities, having seen the success of Universal/Acadia.





In 2015, existing **UK corporates appear keen to make follow-on acquisitions**. Tracscare acquired Brookdale, 12 months after G-Square's investment into Tracscare. Cambian has also used its recent stock market listing to pursue a more active acquisition strategy, focusing on the high acuity end of the sector, successfully completing the acquisition of Woodleigh in late 2014 and By the Bridge (a specialist high acuity foster care provider) in 2015.

Overall, this reflects a trend of **continued sub-specialisation** – which has driven corporate disposals as well as acquisitions in 2015. In particular, Care UK, a large UK outsourcer of primary care services, decided to exit from specialist sectors, selling three businesses – adult residential care, adult mental health services and domiciliary care services – to Lifeways, Partnerships in Care, and Mears respectively. This enabled Care UK to exit these sectors, while each acquirer was a specific sub-sector specialist.

We believe that some recent trends have been driven by **UK corporates previously missing out on deals** to private equity, and so becoming more focused on ensuring they 'win' processes for businesses that have the right fit (eg Cambian's acquisition of Woodleigh in December 2014). This looks like a trend set to continue going forward.

One exception to ongoing corporate consolidation was Sterling Square's 2015 acquisition of NFA. This was a 'standalone' acquisition of a foster care business, one of the largest in the UK. This was a key transaction in the specialist childcare market as it demonstrated the ongoing appetite for deals in the children's sector.

So the key message is that there is a strong deal appetite from new entrants and existing market participants, both UK and internationally based, for UK specialist healthcare businesses.

#### INCREASED ACCESS TO DEBT FINANCE

Banks have been prepared to look at higher debt multiples to support investors in the sector, and uni-tranche providers have been offering a real alternative on many transactions in the sector. A willingness to look at bullet /non amortising debt structures is expected to continue to support buy and build strategies in the sector. As ever, the debt funders have a focus on quality and strength of management teams in supporting transactions.

#### NATIONAL LIVING WAGE

##### A pause for breath?

The key factor affecting the market over the past six months has been the announcement, following May's UK election, of an increase in the National Living Wage. This relates to the minimum hourly pay rate, which is currently £6.50 (USD 9.88) an hour but from April 2016 will be increased in steps to reach £9.00 (USD 13.68) an hour in 2020. On first analysis this will increase the cost base of most companies operating in the sector, but will have the biggest impact on those providing lower acuity care (and therefore employing lower skilled staff to deliver that care).

The announcement of this change in the Summer Budget stopped most healthcare sale processes in their tracks, as prospective buyers and sellers tried to assess the impact of these changes on valuations. Sellers will present the argument that Local Authorities are likely to allow fee increases to enable providers to recover these cost increases but this will not be clarified until there is further guidance, which is expected in early 2016. In the meantime, buyers are wary of agreeing valuations which would not be supported if fee increases are not forthcoming.

Once this has been clarified, ie by early 2016, we see a return to a higher volume of transactions, as the sectors continue to consolidate.

#### CONCLUSION

UK specialist healthcare remains of high interest to UK and international investors. We expect to see further consolidation in 2016, following clarification of the impact of the National Living Wage.

**ALL OF THESE DRIVERS ARE POSITIVE AND, AS WELL AS DRIVING MANY SUCCESSFUL TRANSACTIONS OVER RECENT YEARS, WE EXPECT THEM TO LEAD TO FURTHER MARKET CONSOLIDATION AHEAD.**



# EMU – NATURAL RESOURCES



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## Falling oil and commodity prices reduce deal activity to more 'normal' levels.

The volume of mining, energy and utilities deals announced in 2015 has significantly decreased from 2014, down by 23% in the first three quarters. China and Australia-based companies continue to dominate the scene, accounting for 45% of deals, with India, USA and Canada becoming more significant and together accounting for 24% of deals in 2015.



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### BIG PICTURE

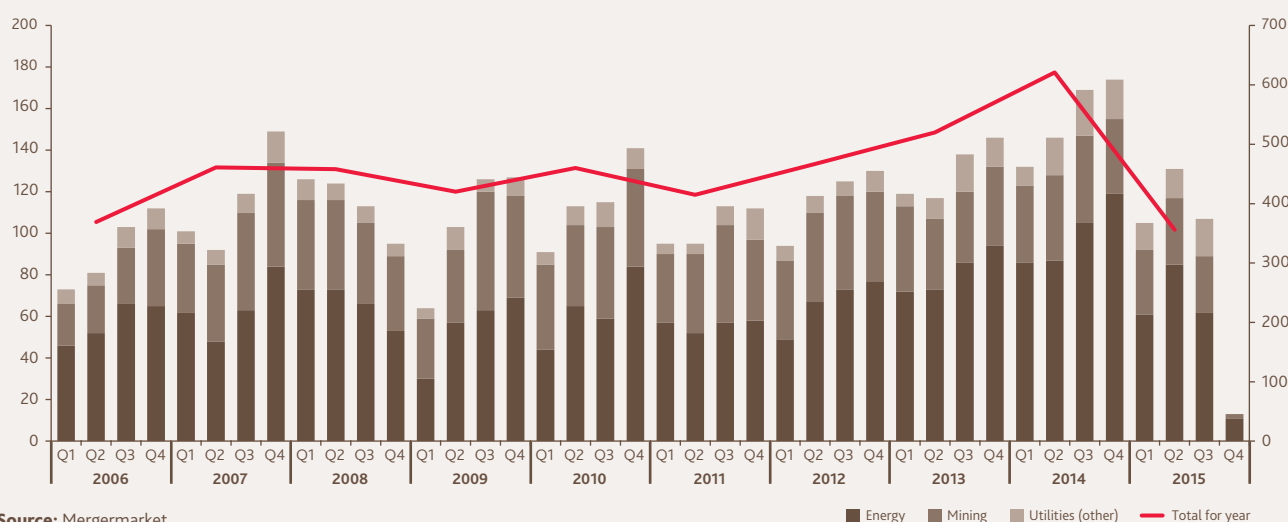
- Deal activity has fallen in 2015 but the sector remains a major player in global M&A
- Falling oil and commodity prices have led to cost cutting and asset disposal programmes by large and small companies
- Good quality assets continue to be acquisition targets, and increased activity is expected as prices stabilise.
- BP has sold over USD 38bn of assets in the last three years and has committed to further sales
- Exxon sold assets for USD 2.7bn in 2013 and USD 4bn in 2014
- In March 2015 Chevron increased its asset disposal programme, from a target of US\$ 10bn to USD 15bn by 2017
- Santos announced a disposal programme in September 2015 for assets reportedly worth over \$A 1bn.

While there has undoubtedly been a decline in deal activity, this is off the back of a boom period and we are now heading back to a more 'normal' level. Despite the slowdown, the Energy, Mining & Utilities sector continues to be the focus of a significant amount of global deal activity.

### ENERGY

The significant increase in deals seen in 2014, primarily driven by USA oil and LNG projects, has dropped off in 2015. The downward trend in the value of oil has continued, with prices decreasing by 41% in the last year, and this has resulted in cost cutting, delays to development and capital expenditure, and the disposal of non-core assets:

### ENERGY, MINING & UTILITIES DEAL VOLUME



Source: Mergermarket

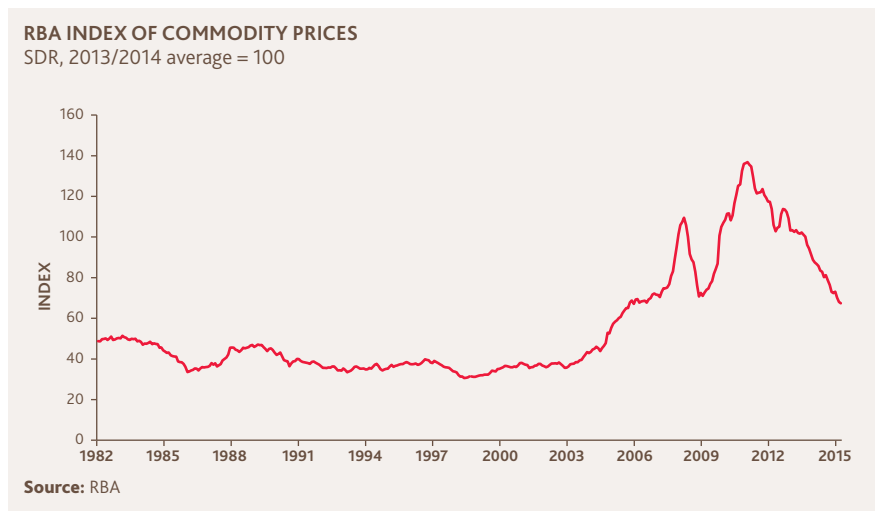
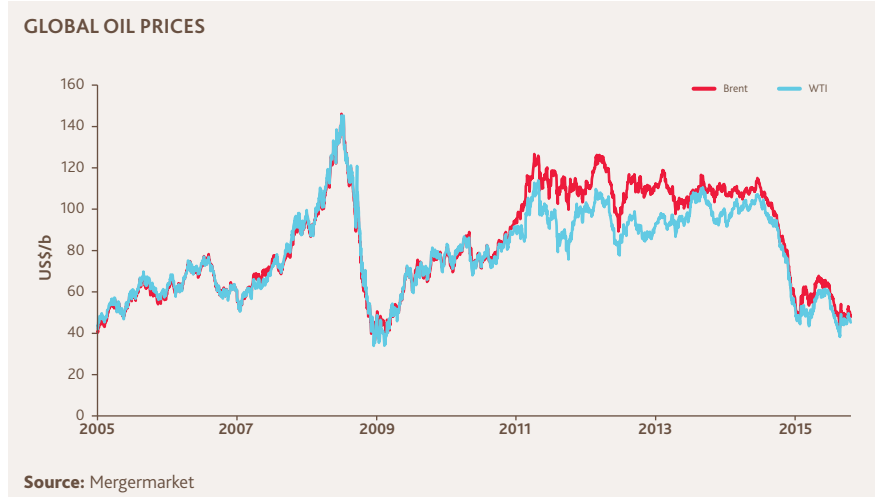
As well as focusing on disposals, many continue to look for acquisition opportunities, although deal activity is being stifled by uncertainty over energy prices. Royal Dutch Shell announced a USD 70bn takeover of BG Group in April 2015 but there has been talk of the deal collapsing due to falling oil prices, and the transaction has recently stalled due to Australian Government competition regulations. Woodside's offer of A\$ 11.6bn to acquire the Papua New Guinea-based oil and gas producer Oil Search Ltd last month was rejected as shareholders hold out for a higher price.

There is also a growing emphasis on renewable energies, and the UN Climate Summit in 2014 encouraged institutional investors to divest their holdings of fossil fuel producers. However there is an understandable push back from energy companies and not all government policy appears to support this strategy either. For example, the Australian government has recently been granted approval to enable the Carmichael coal mine to become one of the largest in the world.

## MINING

The decrease in activity within the mining industry has been well reported, having been heavily impacted by the slowdown in the Chinese economy and the decrease in commodity prices. While the industry had been going through a boom phase which inevitably had to come to an end, few predicted the impact of a slowing Chinese economy in the same period and the extent of the decline in commodity values.

This has led to significant tightening of operating margins with many projects no longer economically viable, resulting in the closure of some operations, a heavy focus on cost cutting, and the divestment of non-core and non-viable projects. For example, BHP Billiton's demerger of non-core assets into



South 32, leaving only its core 'four pillars' of iron ore, copper, coal and petroleum, and Glencore's announced disposal of copper assets in Australia and Chile. This has also resulted in a high volume of listed shell companies that were formerly engaged in exploration activities, which is fuelling deal activity in other industries through back-door listing opportunities.

These market trends are well demonstrated by the iron ore industry in particular, for which the previous economic boom in China had resulted in an unprecedented demand. Iron ore prices have plunged from a high of USD 160/t in 2011 to a low of USD 45/t in July 2015, and the break-even point a year ago for many of the small operators was well above the current price of USD 56/t. This has led to significant cost-cutting exercises, which has in part been assisted by the increasing strength of the US dollar.

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