HORIZONS

BDO'S GLOBAL VIEW OF MID-MARKET DEAL ACTIVITY

MERGERS&ACQUISITIONS

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TRANSITION TO CIRCULAR ECONOMY GIVES RISE TO LONG-TERM VALUE CREATION OPPORTUNITIES

Global view

Deal activity back to pre-COVID levels

Sector view

TMT
Logistics
Real estate
Natural resources

BDO

CONTENTS

Global view 01
Circular economy 03
Sector view 06
 TMT 07
 Logistics 11
 Real estate 13
 Natural resources 15
Some of our recently completed deals 19

BDO GLOBAL CORPORATE FINANCE

2,095 COMPLETED DEALS IN 2022

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38% PRIVATE EQUITY DEAL INVOLVEMENT

26% OF OUR DEALS ARE CROSS BORDER

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Welcome

Welcome to the last edition of Horizons in 2023, in which BDO M&A professionals around the world present their insight on mid-market deal activity in their regions.

In this edition of BDO M&A Horizons, we have our twice a year sector focus. Our M&A partners across the Globe analyse deal activity and trends in their sectors and look ahead at what we can expect for the foreseeable future. We zoom in Real Estate, Natural Resources, TMT, Supply Chain & Logistics.

Our lead article on Circular Economy may surprise some on the economic benefits of moving away from traditional production and economic models.

Our data shows that M&A activity is back to pre-COVID levels, but this is not aparticularly negative outcome, given the backdrop of inflation and fiscal policy. Private Equity are still significant buyers and in terms of valuations, multiples has adjusted slightly down depending on the sector, but not as much as capital markets trading multiples.

As we go into closing 2023, global political conflicts add to a general sense of uncertainty. Our outlook research and heat charts support decent M&A activity in the next few months, but this research was prepared before the recent conflicts in Israel and Gaza and Azerbaijan and Armenia, the impact of which remains to be seen.

We hope you find this edition of Horizons interesting and wherever you are, stay safe.

John Stephan & Susana Boo

JOHN STEPHAN
HEAD OF GLOBAL M&A
john.stephan@bdo.co.uk

SUSANA BOO
DIRECTOR, GLOBAL CORPORATE FINANCE
susana.boo@bdo.global

Global view

Deal activity falls back towards pre-COVID levels

Global mid-market deal activity in the third quarter of the year was down on the first two quarters of 2023 but was still ahead of pre-COVID levels. Given the surge of deal activity in the wake of COVID that doesn't feel too bad an outcome. Moreover, when viewed against the economic backdrop of inflation and fiscal policy of higher interest rates to combat inflation, it could have been expected to be far worse.

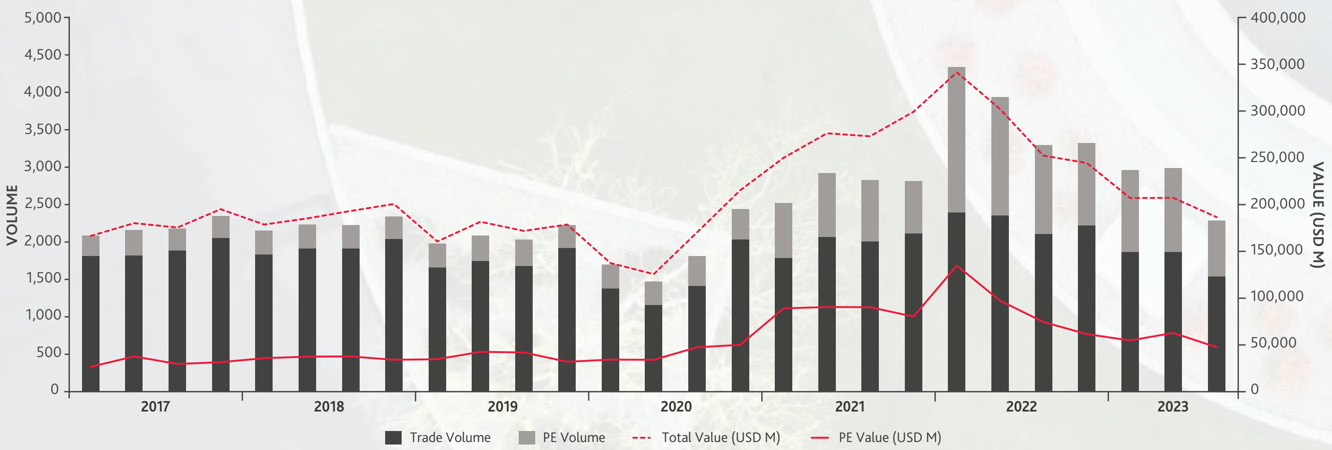
As with previous quarters, the proportion of PE-led deals remains high at just under one in three deals. That level has dropped a bit from the first two quarters of the year but is nearly double the proportion in the corresponding quarter before COVID. Bearing in mind the compression in PE returns from rising global interest rates, that remains an impressive feature of mid-market deals and PE is as important as it ever has been.

In respect of the pricing of deals, we believe that multiples have compressed but it varies by sector and type of business and the decline has not been as much as some capital market valuation falls of companies. If fiscal policy succeeds in bringing global inflation under control, that may start to underpin valuations, but global political uncertainty and conflicts could impact the speed at which that happens.

In terms of sectors, deal activity was down across the board on the prior quarter but this varied considerably by sector. The most noticeable declines were in Business Services, Pharma, Medical & Biotech and TMT, which were all down by 30% or more. In contrast, Consumer and Energy, Mining & Utilities saw much more modest single digit declines.

Looking around the world, every region, with the sole exception of Australasia, saw a decline in deal activity in Q3 2023. In terms of the two largest regions by dealmaking activity, North America and Greater China (which between them account for nearly half of all global mid-market deals), the former saw the greater decline at nearly 30%, whereas the latter fell by a little over 10%. The greatest regional decline in the period was seen in Southern Europe.

Global Mid Market M&A



Global heat chart by region and sector

	TMT	Industrials & Chemicals	Business Services	Pharma, Medical & Biotech	Consumer	Financial Services	Energy, Mining & Utilities	Leisure	Real Estate	TOTAL	%
North America	853	358	305	439	290	258	120	33	27	2,683	31%
Greater China	206	489	154	136	97	117	130	34	93	1,456	17%
CEE	120	100	55	29	83	48	48	21	10	514	6%
Southern Europe	101	149	98	49	111	57	42	29	13	649	7%
India	60	48	39	46	33	49	27	6	4	312	4%
Latin America	166	33	88	26	41	63	58	12		487	6%
Nordic	67	43	25	31	16	11	16	7	3	219	2%
UK/Ireland	99	116	71	45	56	46	27	33	3	496	6%
Australasia	36	41	60	35	79	44	66	29	5	395	5%
DACH	86	130	27	43	46	29	7	7	2	377	4%
Other Asia	51	57	14	10	31	15	12	11	2	203	2%
South East Asia	88	44	53	35	29	46	39	19	12	365	4%
Japan	40	29	10	7	7	19	8	1	1	122	1%
Middle East	25	8	15	5	6	10	5	5	1	80	1%
Africa	19	32	18	4	8	18	33	3	4	139	2%
Benelux	12	25	22	25	19	27	7	7	5	149	2%
Israel	48	16	15	13	18	5	1	3	4	123	1%
TOTAL	2,077	1,718	1,069	978	970	862	646	260	189	8,769	

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

Note: The Intelligence Heat Charts are based on 'companies for sale' tracked by Mergermarket in the respective regions between April and October 2023. Opportunities are captured according to the dominant geography and sector of the potential target company. Mergermarket's Heat Chart of predicted deal flow is based on the intelligence collected in our database relating to companies rumoured to be for sale, or officially up for sale in the respective regions. It is therefore indicative of areas that are likely to be active in the months to come. The intelligence comes from a range of sources, including press reports, company statements and our own team of journalists gathering proprietary intelligence from M&A across the regions. The data does not differentiate between small and large transactions, nor between deals that could happen in the short or long-term.

JOHN STEPHAN
HEAD OF GLOBAL M&A
john.stephan@bdo.co.uk

Outlook supports a premium to pre-COVID levels of M&A activity

The outlook makes better reading than some of the declines in Q3 2023, with getting on for 9,000 rumoured transactions, which is similar to Q2 2023 and well ahead of pre-COVID levels. As usual, North America and Greater China are the hottest regions on the map and TMT is joined by Industrial & Chemicals as the hottest sectors around the world. Leisure remains the sector with the lowest levels of rumoured global deal activity.

We expect this picture to be supported by the availability of cash in private equity and on corporate balance sheets, despite successive interest rates rises.

Global themes influencing M&A

Despite the negative impact of inflation, the availability of cash to invest should continue to fuel M&A activity but as noted earlier multiples may adjust down a little from very high levels. We expect that PE will continue to invest strongly in the rest of 2023 and into 2024. It may also be a good time for strategic buyers to be active in the market as they seek to add to capability, take a longer-term view and see some pricing benefits. Finally, we expect the global megatrends of digitisation and decarbonisation to be key drivers of M&A activity.

Global

8,769 rumoured transactions

Key % movement

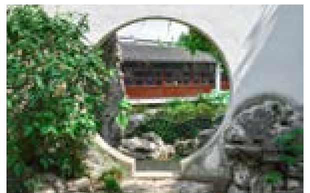
- -21 to -40%
- -1 to -20%
- 0 to 20%
- 21 to 40%
- 41 to 60%
- 61 to 80%
- 81 to 100%
- 101 to 120%

Note: The colouring illustrates the movement of expected transactions compared to the expected transactions in the previous quarter.

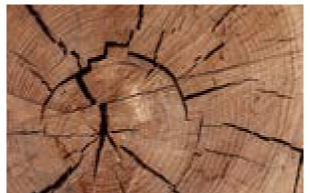
Sector view

TMT P07

Logistics P11



Real estate P13



Natural resources P15

Circular economy

Transition to circular economy gives rise to long-term value creation opportunities

When thinking about the Circular Economy the first consideration for most people, quite rightly, is the environment. It's about a new way of thinking, transitioning away from traditional linear models that use finite resources to produce goods and services, towards regeneration and reuse. In recent years this has been accompanied by a growing acknowledgement that these Circular Economy principles also encourage economic innovation and growth. According to the World Economic Forum, the Circular Economy could yield up to USD 4.5 trillion in economic benefits globally by 2030.

Rising up the investment agenda

The transition to a Circular Economy is creating a unique opportunity for entrepreneurs and investors to collaborate. For entrepreneurs, it provides the opportunity to completely re-think practices and processes in the design of new products, services and business models.

For PE investors, ESG considerations are moving with ever increasing pace towards the top of investment agendas. 88% of limited partners now consider ESG impact when making investment decisions.

Historically, an investor's ESG agenda was centred around managing risk and compliance. The process was focused on negative screening and ESG checklists to mitigate potential reputational or operational risk. Over the past five years I have experienced a clear shift in investor attitudes towards ESG and the Circular Economy. There is now industry-wide recognition of the long-term value creation opportunities that circular business models and positive sustainability characteristics provide.

At the very heart of its ethos, the Circular Economy is about reducing waste and driving resource efficiencies. Using and reusing naturally sustainable raw materials is inevitably cheaper than having to source new raw materials for every product, but efficiencies aren't just limited to the supply side. One of the major economic benefits of the Circular Economy is that it promotes circular business models that extend the value-generating potential of a product. How can items be maintained or refurbished to ensure they last longer?

Can products traditionally owned by a single consumer be rented or sold multiple times for a combined value that exceeds a one-off sale? The Circular Economy is about using less to deliver more; a simple concept, but one that is an obvious attraction for investors.

Over 20% of the world's 2,000 largest public companies have net-zero commitments. Corporates are beginning to rely on innovative, agile and entrepreneurial circular businesses to help meet their targets quicker and more efficiently than they would be able to internally. Being confident of a successful exit is a key consideration when making an investment, and a growing pool of corporate acquirers is helping Circular Economy businesses become an increasingly compelling investment proposition. With levels of available PE capital in the UK at an all-time high, it is no surprise that more and more are turning towards the Circular Economy.

In the UK in 2022 there were 142 investments, totalling over £1bn made into Circular Economy businesses. Whilst it is pleasing to see the momentum behind the Circular Economy continuing, the investment landscape is not without challenges. For every successful deal there are multiple other early-stage Circular Economy business which have been unable to raise the investment they require. But why is this?

There is no doubt that investors are more knowledgeable about both the Circular Economy and the economic rewards on offer for backing the right investee company. Analysis by Bocconi University in Italy of 200+ listed European companies across 14 industries has shown that the more circular a company is, the lower its risk of defaulting on debt, and the higher the risk–adjusted returns of its stock.

However, by its very nature, the Circular Economy is disruptive, meaning more often than not the companies operating within the space are presenting entirely different business models or processes to PE investors.

Circular Economy entrepreneurs are much sought after, but they must be able to demonstrate and articulate two things:

- A clear commercial growth plan including identifying and quantifying the addressable target market.
- Why consumers or businesses will transition to their product, service or solution over either legacy linear or new competing circular alternatives.
- This can be challenging when they are often, and commendably so, purpose-driven, with economic reward sitting either behind or alongside impact in terms of personal priorities.

It can also be extremely difficult for an entrepreneur to have the discipline to leave behind an outstanding idea that simply doesn't have the addressable market to excite investors.

As Circular Economy M&A advisors, it is our job to continue bridging the gap between investors and entrepreneurs by ensuring that business owners can turn circular ideas or concepts into an investment-ready opportunity.

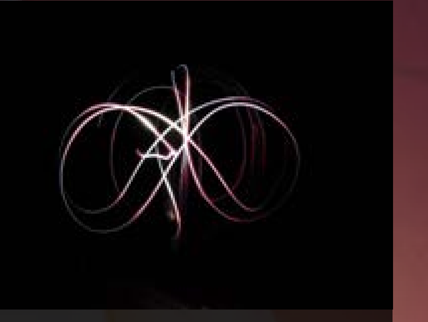
At the same time investors must continue to recognise that Circular Economy entrepreneurs are focused on profit and sustainability in equal measure, and that to motivate these business owners they must both be recognised as priorities.

The positive correlation between circularity and profitability is increasingly acknowledged by investors. In order to stand out from the crowd, investors need to demonstrate that they understand the how and the why.

TODD MILLS
ASSISTANT DIRECTOR
M&A LEAD ADVISORY

todd.mills@bdo.co.uk

Sector view



P07

TMT

Blip or reset? Can TMT M&A bounce back?

P11

Logistics

Confidence in the logistics sector is currently low but the appetite for M&A remains strong

P13

Real estate

Interest rates shake foundations

P15

Natural resources

Deal activity drops but energy transition powers positive outlook

TMT

Blip or reset? Can TMT M&A bounce back?

Mid-market TMT M&A activity has fallen in 2023 but still remains above pre-pandemic levels. Is it a blip or the new normal? Activity and trends in IT consultancy might provide part of the answer.

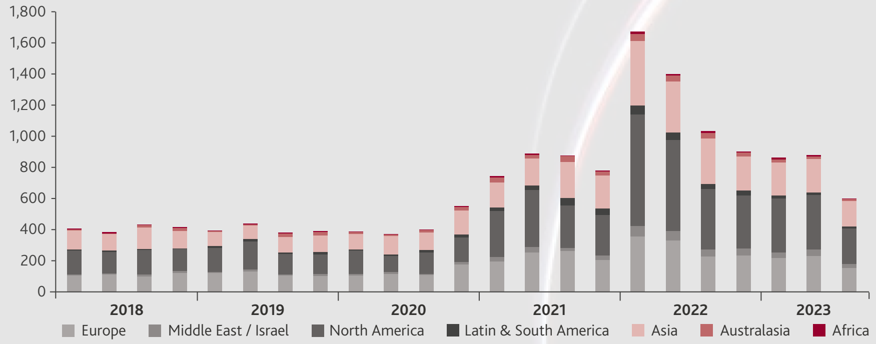
BDO's mid-market M&A data shows that there has been a reduction in TMT deal activity.

However, M&A activity in the sector is still above pre-pandemic levels. Simultaneously, several factors indicate that TMT may see a resurgence in M&A dealmaking. One example is IT consultancy, where projected market growth and trends could spur a rapid rise in activity, especially in the lower middle market.

Uncertainty and slowdown

Mergermarket M&A data, exclusive to BDO, shows that mid-market TMT M&A activity in Q3 2023 dropped to the lowest quarterly total seen in almost three years. The third quarter saw 602 deals completed worth a combined total USD 37.9bn.

TMT deals for select regions 2018 Q1 – 2023 Q3



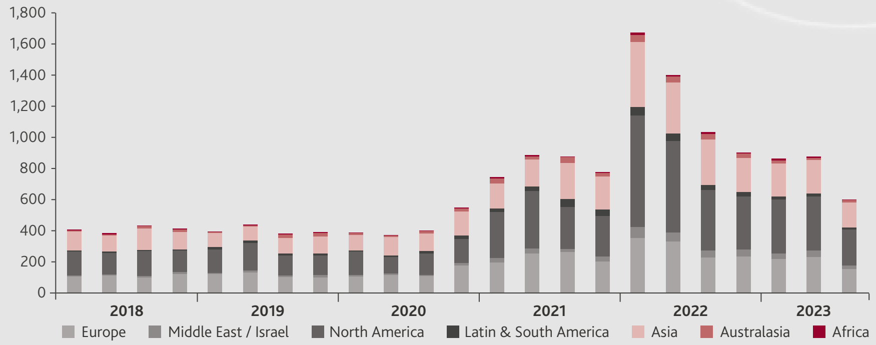
Graph and analysis: BDO Global. Data: MergerMarket.

PE firms led the way in deal activity and were involved in 59.1% of all the quarter's TMT deals.

Further analysis indicates that PE firms prioritised lower-sized deals, a trend that began around 2022. The average PE deal size for Q3 2023 was USD 48.6m, one of the lowest average deal sizes recorded since the beginning of 2020.

BDO USA's recent Private Capital Survey detailed that PEs are increasingly focused on supporting existing portfolio companies. This strategy may include add-on and bolt-on deals that provide portfolio synergies.

Private equity percentage of TMT deal volume and value 2020 Q1 – 2023 Q3

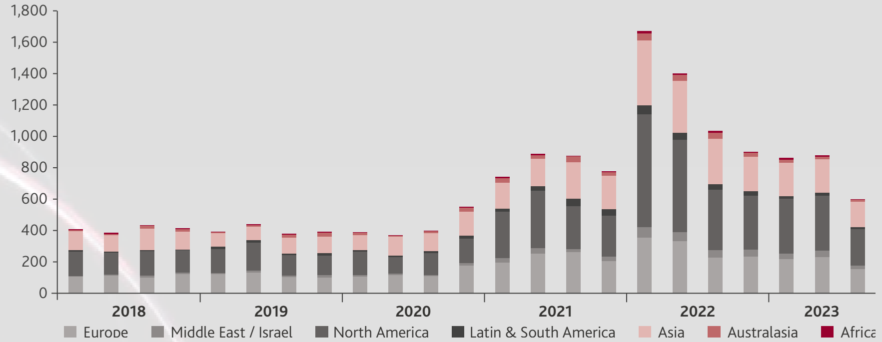


Graph and analysis: BDO Global. Data: MergerMarket.

Tech deal activity slows

Looking more closely at the TMT sector, technology deals showed the most marked slowdown. The Q3 2023 total of 526 mid-market technology deals was the lowest recorded since Q4 2020.

TMT deals by industry 2020 Q1 – 2023 Q3



Graph and analysis: BDO Global. Data: MergerMarket

The digital media and e-commerce sector also saw falls in quarter-on-quarter and year-on-year deal activity, while telecom deal activity remained comparatively stable.

Blip or reset?

Compared to the fervent pace of dealmaking seen in 2021 and 2022, overall TMT M&A activity has declined so far in 2023, falling closer to pre-pandemic levels. However, it remains to be seen if this is a reset or a blip.

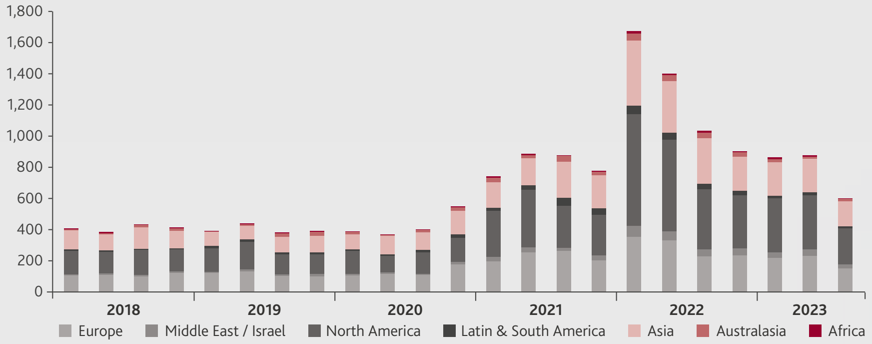
One argument that the sector's lower levels of deal activity will likely be temporary is that many parts of the TMT mid-market segment remain notably vibrant. This sustained momentum is fuelled by continued buyer interest in high-calibre businesses and abundant capital availability. For example, PEs had a combined USD 1.3 trillion of dry powder in early 2022 and maintain an interest in TMT deals.

Investors' interest in specific TMT sub-industries, such as IT consulting, may provide insights into how the broader sector could perform over time.

IT consulting market continues to grow

Amid prevailing macroeconomic and sector challenges, the demand for IT consulting remains strong. Data from Statista projects that the IT services market will reach USD 1,241bn in 2023, growing at a 7.37% compound annual growth rate (CAGR) to USD 1,771bn by 2028.

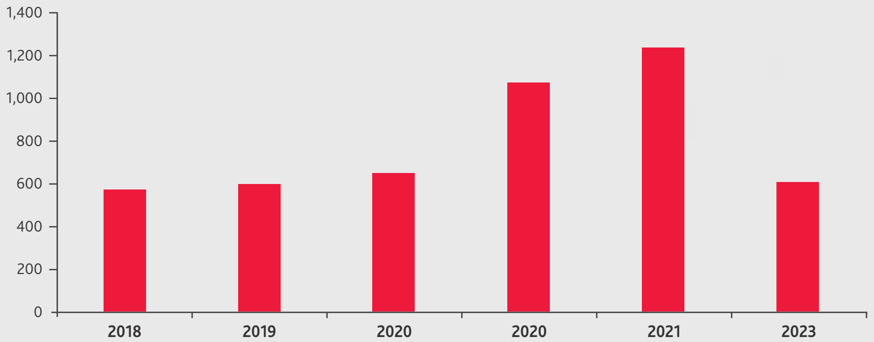
IT Consultancy deal EBITDA and Earnings multiples 2018 – 2023*



Graph and analysis: BDO Global. Data: MergerMarket.*: 2023 figures cover Q1 – Q3. The top and bottom 2.5% of results are removed when calculating the adjusted average.

Similarly, interest in IT consultancy M&A remains strong. Deal indicators are stable and 2023 will likely see between 800 and 1,000 deals.

No. of IT Consultancy deals 2018 – 2023*



Graph and analysis: BDO Global. Data: MergerMarket.*: 2023 figures cover Q1 – Q3.

As a world leader in mid-market TMT deals, BDO has consistently led successful transactions involving IT service businesses. Our experience tells us that the current market especially favours companies offering services in recession-resistant or regulatory-driven sectors such as government, cybersecurity, healthcare, and life sciences.

Moreover, there's an undeniable uptick in the demand for expertise in digital transformation, cloud, and AI. These technologies can streamline operations and provide actionable insights, leading to better decision making and, ultimately, a competitive edge in the market.

Another deal driver is that IT consultancy companies and other buyers are pursuing deals of scale, which focus on adding skills, headcount, and capability rather than profitability.

Underlying dynamics remain in TMT's favour

Several factors underpin the performance of IT consulting. First and foremost is the growing dependence on outsourced IT services. This is being particularly driven by IT's escalating complexity, the increasing need for specialised services, and a pervasive push for digital transformation across industries. Many businesses also face challenges attracting and retaining in-house IT talent, amplifying the demand for external consultants and services.

The IT consultancy space remains dynamic yet fragmented, with opportunities for consolidation, differentiation, and platform building. One example is the growing demand for 'digital transformation as a service', where companies collaborate with consultancies on designing holistic solutions encompassing strategic formulation, systems execution, and ongoing optimisation.

Similarly, companies are recognising AI's potential to transform operations and seek expert guidance to integrate these tools. AI service demand enables IT consulting firms to broaden their service portfolios and command premium prices fo specialised expertise.

Similar dynamics apply in other parts of TMT. Simultaneously, investors show continued interest in TMT, exemplified by generalist funds spending proportionally more cash on TMT.

Together, these factors contribute to our view that there is continued potential for M&A not only in IT consultancy but also across the broader TMT sector.

GORDON CARSTAIRS
PARTNER
gordon.carstairs@bdo.co.uk

PATRICK BISCEGLIA
MANAGING DIRECTOR
pbisceglia@bdocap.com

Logistics

Confidence in the logistics sector is currently low but the appetite for M&A remains strong

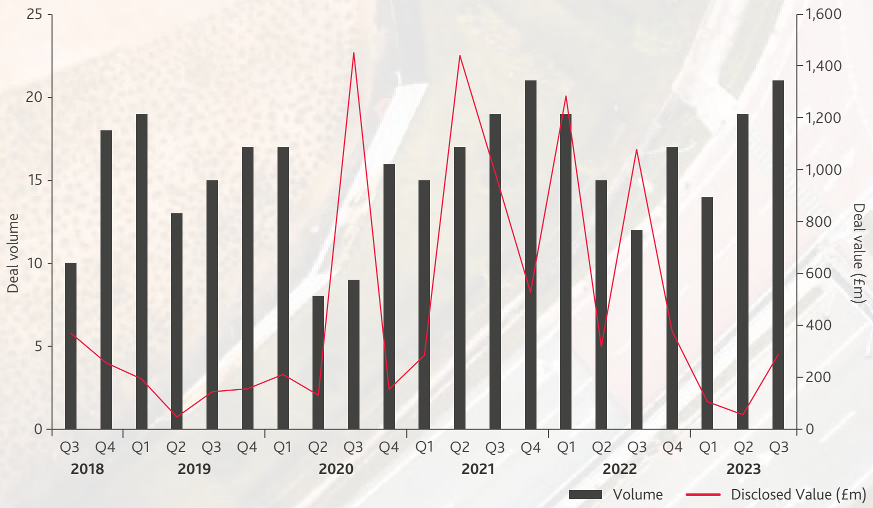
Forty per cent of logistics businesses say they are likely to make acquisitions over the recent 12 months.

This was a finding from our survey of the UK logistics sector for the 2023 edition of the BDO-Barclays UK Logistics Confidence Index[1]. Although a lower figure than last year, this is still the third highest level seen in the 11 years of the index and confirms that the industry is set for further consolidation.

Following a slow start to 2023, our UK quarterly Logistics deals update[2] shows that volumes have rebounded in Q2 and Q3. However, the low total disclosed deal value reflects a raft of smaller, lower value deal completions, with relatively few deals closing in the mid-market. This is highlighting a continued discrepancy between buyer and vendor value expectations. Buyers remain nervous about the market, with a particular caution around committing to larger investments given the uncertainty in valuing future earnings, whilst vendors continue to expect higher valuations driven by higher historic earnings. This is proving less of an issue at smaller deal values where levels have been more consistent and other drivers come into play.

As the market has become more challenging and freight volumes and rates have normalised, we are starting to see more deals arising from distressed situations. It was sad to see the demise of the 'Big Green Parcel Machine' Tuffnells in June this year. Despite its 100-year heritage, it was an unfortunate victim of the highly competitive parcel market and the more challenging economic environment. Following this, another four insolvencies in the sector have hit the news in early autumn.

Logistics sector UK deal volume & value 2018 (Q4) – 2023 (Q3)



Market pressures continue

Current deal activity can be viewed in the context of recent economic events in the UK. We had the shortest premiership of all time (44 days) as Trussonomics rattled the markets. Inflation shot up, on the back of this and other geopolitical dynamics, and then remained stubbornly high for longer than anticipated, peaking in October 2022 at 11.1% before starting to fall more recently. The Bank of England base interest rate has been increased from 2.25% in October last year to its current height of 5.25%, with a core intent of dampening consumer demand and growth.

Given the economic environment and market dynamics, it's not surprising that the industry is cautious about the current trading environment, with real concerns over the volume of activity across certain sub-markets. As a sector that is integral to the functioning of our society at many levels, the logistics industry is feeling the effects of a tightening economic climate more than most.

The UK Logistics Confidence Index is our annual temperature check and is regarded as a useful barometer of the state of the wider economy. The pressures that the industry is facing are reflected in this year's index score of 47.3 – down from 50.4 in 2022. This is the second lowest figure ever and is only just above the score for 2020, the year of the first COVID lockdowns. Any index figure below 50 indicates overall pessimism, so this suggests a dose of realism among logistics leaders after the economic turmoil of the last year.

Volumes under pressure

Our research also found that three quarters of operators feel business conditions are more difficult now than a year ago, with changing levels of demand the number one concern; 71% say this is the greatest challenge they will face in the coming year, making it hard to plan and resource. There is also a growing concern around customers retendering contracts and putting pressure on pricing, with 64% highlighting it as a major issue in the year ahead.

There are signs that logistics leaders are a little more upbeat about the year ahead. A relatively high proportion of businesses are still confident their turnover will increase during the next 12 months, and around 40% predict a rise in profits over the next 12 months, although this is a lower number than last year. Despite having a more cautious approach to capital expenditure, seven out of 10 logistics leaders still say that significant capital expenditure is likely or very likely over the next 12 months.

The report goes on to reveal that staff shortages and increased labour costs, a perennial problem for the sector, is now less of a concern, and whilst rising fuel and energy costs still impact many businesses, the proportion that say this is having a significant negative impact on company performance is down markedly. It appears that businesses are adjusting to accommodate a more normalised supply chain and the impact of geopolitical events.

Drivers for M&A

It's clear that the appeal of consolidation remains strong in the sector. In a market where margins are under pressure, acquisitions and mergers can of course drive scale, synergies and cost savings.

However, logistics leaders identified the current main driver for M&A activity as the need to boost volumes by accessing new customers, new service offerings or new sectors. With many operators seeing more sluggish growth in their current markets, of those looking to acquire, 36% said the main driver was to expand their service offering, whilst a quarter said it was to enter a new sector.

PE continues to drive activity, both via direct investment and in bolt-on acquisitions for investee companies, with the influence of investors affecting a third of deals so far this year. Recent areas of interest include logistics tech and ESG logistics solutions.

Looking ahead

With continued availability and accessibility of cash and funding, the appetite for investment in the sector remains strong, whether to support trade expansion and consolidation or for institutional investment. There is still market interest in successful growing businesses, particularly those servicing strong underlying industries, such as pharma and health, whilst sectors such as temperature-controlled logistics co ntinue to attract interest. By contrast, the appetite for M&A in fulfilment and last-mile ecommerce has reduced, reflecting the uncertainty in volumes, and as consumer pressures start to bite it is likely elements of over-capacity in areas like parcels may lead to more deal activity driven by necessity. Markets settle, and with more stability and visibility in earnings, it is anticipated that growing confidence in pricing and alignment of expectations will unlock more transactions over the coming year.

JASON WHITWORTH
PARTNER, M&A ADVISORY AND LOGISTICS & SUPPLY CHAIN MANAGEMENT
jason.whitworth@bdo.co.uk

[1] Barclays and BDO, in conjunction with specialist sector research agency Analytiqa, conducted the latest in a series of suvrveys to assess confidence and expectations in the UK logistics sector. The survey incorporated views from more than 100 senior decision makers, including chief executive officers, managing directors and chief financial officers, and was conducted during July and August 2023. Their responses have been compiled to create the UK Logistics Confidence Index 2023.

Read the full report here: https://www.bdo.co.uk/en-gb/insights/advisory/mergers-and-acquisitions/logistics-confidence-index

[2] For our UK Logistics quarterly deals updates read here:
https://www.bdo.co.uk/en-gb/insights/advisory/mergers-and-acquisitions/m-a-market-reviews-logistics-and-supply-chain-sector

Real estate

Interest rates shake foundations

The Real Estate market has been on a tumultuous journey over recent decades. The 2007–2008 financial crisis left an indelible mark on the sector, causing property values to plummet and lending conditions to tighten. However, the market has rebounded from the depths of that crisis and has enjoyed a robust period of growth over the past few years. This resurgence has been fuelled by the ready availability of low-cost capital, a robust demand for housing, and a restricted supply. Although the market encountered a minor blip due to the COVID-19 pandemic, the signs pointed towards continued recovery until quite recently. Now, as we enter 2023–2024, there are concerns regarding the financial challenges that could potentially unsettle the market once again.

One of the pivotal factors that can significantly impact Real Estate values is interest rates. This influence extends its reach across commercial Real Estate sectors, encompassing offices, retail, hotels, and logistics, which frequently rely on medium-term financing. As interest rates climb, the cost of financing becomes steeper, creating hurdles for both developers and investors eager to embark on new projects.

Slowdown in the market

Initially, the upsurge in borrowing costs generally instills caution among developers, leading to hesitance in taking on new projects or expanding their portfolios. Consequently, a slowdown in Real Estate development ensues. Furthermore, developers who have already started projects sometimes find themselves in a predicament as they may be unable to secure funding to see their projects through to completion. This predicament was conspicuous at this year's Expo Real in Munich, where there was a marked increase in Real Estate developers in search of funding. Similarly, the increase in interest rates takes its toll on the investment side, resulting in plummeting transaction volumes, a reluctance among buyers to expand their portfolios, and a decrease in banks' risk appetites. The spectre of refinancing existing investments also looms large, as loan terms typically range from 24 to 60 months. Investments that were initially financed in a low-interest rate environment can face, after refinancing, higher debt service requirements that, in the best case, erode profitability and, in the worst case, can decimate a project's viability.

Interest rate hikes

In the period from 2019 to 2023, the European Central Bank (ECB) increased its key interest rate by 450 basis points, while the Federal Reserve (FED) matched this with an increase of 530 basis points. These rate hikes translated into tangible consequences. Market participants are also witnessing a double effect with increasing rates and – at the same time – banks tightening their lending criteria. This tightening cycle is therefore unlike any other tightening cycle, since in the past rising interest rates preceded the tightening of lending. This has driven developers and investors away from projects, leading to a sharp decline in investment volumes in numerous countries, and causing prices to decline in specific markets.

This prevailing trend exerts pressure on rental rates, though it's imperative to acknowledge that these pressures arise from the inherent inflexibility of long-term commercial real estate leases when juxtaposed with the dynamic nature of interest rates. Prospective tenants find themselves ensnared in a conundrum, facing unyielding conditions and struggling to absorb the escalating costs of rent. Consequently, many investors grapple with losses and face the challenge of generating the returns necessary to service their loans.

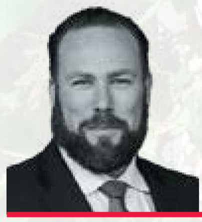
Unstable ground

Consequently, commercial banks, too, find themselves on unstable ground. Interest rate hikes elevate risk levels for banks. Worldwide, loan defaults are on the rise, with commercial Real Estate loans defaults reaching a 14-year high in the United States. Furthermore, a substantial proportion of loans maturing between now and 2025 face the challenge of refinancing, leaving borrowers with limited options – either partly or fully pay down the loans or face foreclosure by the banks. On a global scale, regulatory bodies have introduced safeguard regulations that encompass stringent loan monitoring and reporting standards, aiming to avert a repeat of the catastrophic events of 2007–2008.

This intricate web of components can be distilled into a straightforward yet multifaceted realisation: to maintain equilibrium in the Real Estate market, there must be a reciprocal relationship between interest rates, property values, and rental rates.

Looking ahead

In conclusion, the Real Estate market is facing significant challenges in 2023–2024. The emerging financial issues across the world bear a striking resemblance to the factors that contributed to the 2007–2008 financial crisis, prompting concerns of a potential recurrence. However, these challenges also present opportunities for investors with the requisite risk tolerance, as exemplified by the establishment of risk funds preparing for potential market openings. In this dynamic landscape, adaptability and the ability to seize the opportunities amid challenges will be key to navigating the ever-shifting terrain of the Real Estate market.



ALEXANDRE AMPER
HEAD REAL ESTATE ADVISORY AND VALUATION
alexandre.amper@bdo.ch

GUILLAUME SAVREUX
MANAGER, REAL ESTATE VALUATION & CAPITAL MARKET ANALYSIS, BDO USA
gsavreux@bdo.com

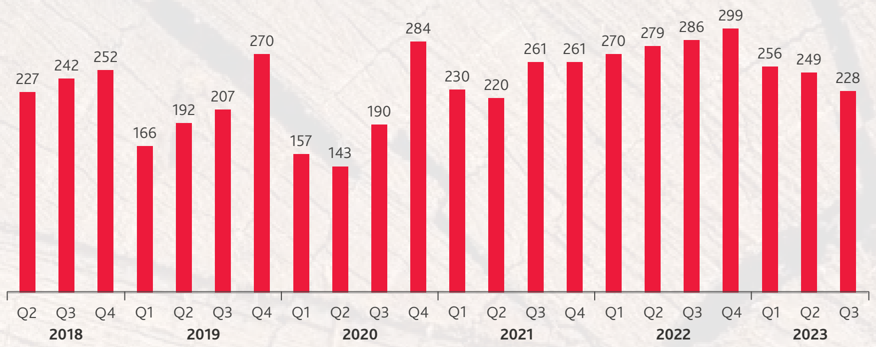
Natural resources

Deal activity drops but energy transition powers positive outlook

The level of mid-market Energy, Mining & Utilities (EM&U) M&A activity in the third quarter of 2023 saw a further decline compared to the highs of 2022.

Despite this fall, the Q3 2023 moving average shows that the level of EM&U deals is still buoyant and is averaging more than 250 transactions per quarter.

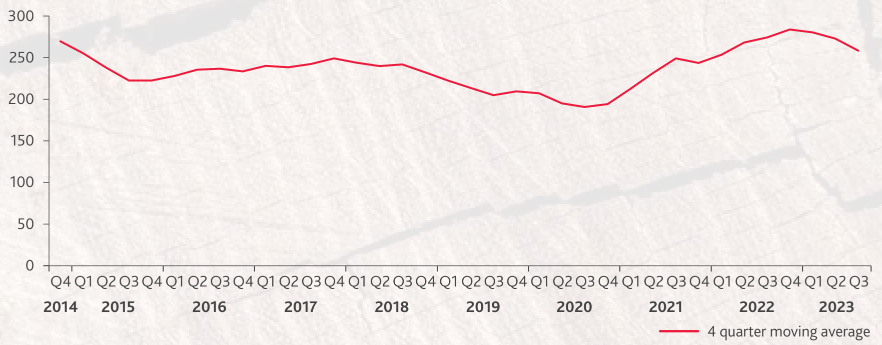
Global mid-market EM&U M&A Deals by quarter



Macro factors impacting on the trend include:

- Rapidly rising interest rates, the softening of commodity prices and the impact of inflation makes executives, investors and banks cautious over financing new projects.
- Many EM&U companies have generated strong cash balances from increased commodity and energy prices, reducing the need to rely on M&A to reduce costs and access synergies.
- Under investment in the oil and gas sector due to environmental pressure and windfall taxes introduced by governments.
- Increased uncertainty around future economic conditions have given rise to varying assessments of value between buyers and sellers. These varying views and assumptions on future commodity prices, rates of inflation and interest rates and even geopolitical risks are making friendly M&A deals difficult, and we may see more hostile M&A activity in the near future.
- Security of supply will continue to be a key driver of M&A activity across the sector, with governments placing requirements on producers to build local supply chains and reduce their use of imported critical minerals where they have access to their own domestic supplies.

Moving average number of EM&U midmarket deals



While Oil and Gas activities have been buoyant in the wake of impaired global energy supply chains, deal activity in the Renewable energy fields have remained elevated due to the movement towards cleaner energy sources. We are also seeing elevated activity in the critical minerals sector, in particular for those commodities that support the energy transition. This is likely to increase in the future.

Key deals

EM&U deals represented a significant number of the top 20 mid-market deals by value for several regions and relative deal value for the region:

- **North America** – seven of the top 20, accounting for 35% of the region's total value;
- **Australasia** – six of the top 20, accounting for 25% of the region's total value; and
- **Central and Eastern Europe** – six of the top 20, accounting for 24% of the region's total value.

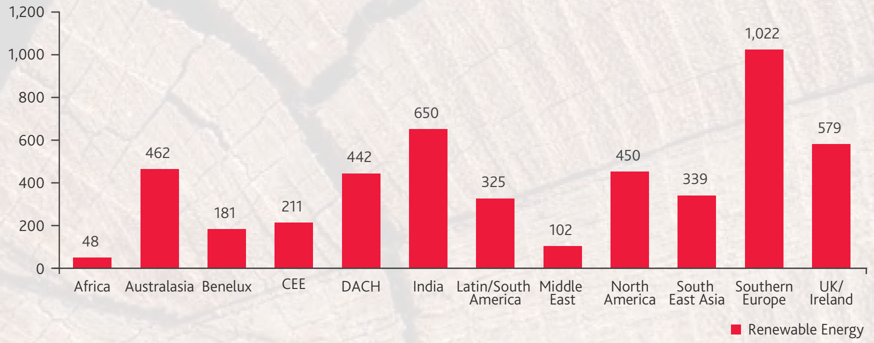
Analysing the target companies within the EM&U deals for the quarter reveals that there were many Renewable energy deals, but there was also a notable increase in Oil and Gas transactions.

Renewables deals numbers continues to rise

The graph below illustrates the total value of Renewable energy deals in Q3 2023 that were included in each region's overall top 20 mid-market deals.

Some of the key mid-market deals across the EM&U sector took place in the Renewable energy sector. For example:

Top 20 EM&U deals by value USD'm



Europe/UK:

- RWE Aktiengesellschaft acquired JBM Solar Projects Ltd from Susgen Ltd. JBM Solar has a mature pipeline with a combined capacity of around 6.1 GW, split into 3.8 GW of solar and 2.3 GW of battery storage projects.
- Swiss Life Holding AG acquired East London Energy Ltd and Equans DE Holding, who supply heating and hot water to residential areas utilising Renewable energy.
- Morgan Stanley invested in Ovo Energy, which is an electric power transmission and distribution company.
- Statkraft SF acquired Power Stations, which has 35 wind farms in Germany with a capacity of 310MW and four wind farms in France, with a capacity of 27MW.
- Canada Pension Plan invested in Power2X, a management consulting business which focuses on the energy and feedstock transition.
- Macquarie Infrastructure invested in Enel Green Power, which specialises in all green energy independent power producers (IPPs).
- Deutsche Bank invested in Ignis Energia, which currently has a 20GW solar energy project under development in Spain, Europe, America and Asia.
- EIG Global Energy Partners invested in Prosolia Internacional, which is a solar power plant operator based in Portugal but with operations across Europe.

Latin America:

- Statkraft AS acquired Power Station, which has two wind farms with an installed capacity of 260 megawatts in Brazil.

Australasia:

- Pacific Equity Partners invested in LMS Energy, which generates electricity from landfill biogas in Australia.
- Japan's largest Oil and Gas company INPEX Corp invested in Enel Green Power Australia.
- STG Partners invested in Energy One Ltd, which is a global supplier of software products, outsourced operations and advisory services to wholesale energy, environmental and carbon trading markets.

India:

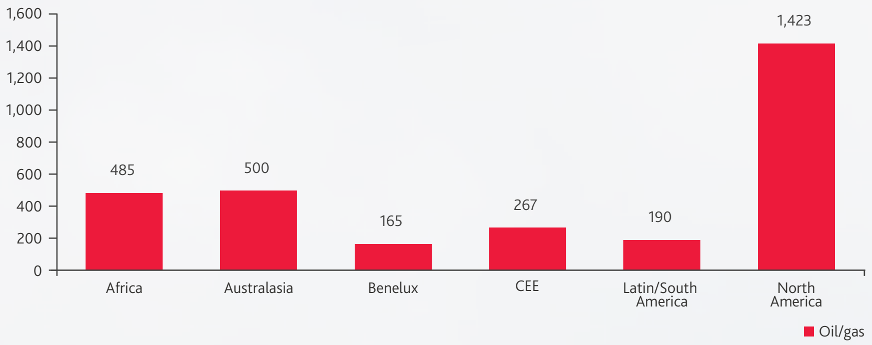
- Vitol Group and AT Capital Group invested in Juniper Green Energy, which is a renewable power producer and operator of solar, wind and hybrid power projects.
- French multinational energy company Total Energies SE invested in Adani Green Energy, which is a renewable energy company operating solar, hydro, wind and biomass power plants.

The various details of major mid-market deals in the EM&U space highlights the preponderance of Renewable energy deals in the sector, including the increasing focus of Oil and Gas majors on investment in green projects.

Oil and gas still accounts for high-value deals

The graph below illustrates the total value of Oil and Gas deals in the second quarter of 2023 that were included in each region's overall top 20 mid-market deals.

Top 20 EM&U deals by value USD'm



Alongside Renewables, a significant percentage of the highest value deals across the EM&U sector were in relation to targets in Oil and Gas.

North America:

- An undisclosed acquirer bought Canada-based Crescent Point Energy Corp, which has assets in Saskatchewan and Central Alberta.
- Peyto Exploration & Development Corp invested in Repsol SA, which operates in the upstream Oil and Gas business.
- Kimbell Royalty Partners acquired additional oil and gas assets in the USA.

Australasia:

- LNG Japan Corp acquired a 10% equity stake in Woodside Energy Group Ltd's Scarborough gas field development project in Australia.

Africa:

- Petroliam Nasional Berhad and Petronas Angola E&P acquired an Oil and Gas asset in the Kwanza basin in Angola from Total Energies.

Looking ahead

Mergermarket's Intelligence Heat Chart based on companies for sale shows the following activity for the EM&U sector.

Six months from 1 April 2023 to 30 September 2023

REGION (OF TARGET COMPANY)	ANTICIPATED LEVEL OF ACTIVITY	AS A % OF TOTAL M&A ACTIVITY FOR REGION
Greater China	130	8.93%
North America	120	4.47%
Australasia	66	16.71%
Latin/South America	58	11.91%
CEE	48	9.34%
Southern Europe	42	6.47%
South East Asia	39	10.68%
Africa	33	23.74%
India	27	8.65%
UK/Ireland	27	5.44%
Nordic	16	7.31%
Other Asia	12	5.91%
Japan	8	6.56%
DACH	7	1.86%
Benelux	7	4.70%
Middle East	5	6.25%
Israel	1	0.81%
TOTAL	646	7.37%

It is notable that the total number of companies for sale or rumoured to be up for sale for the six months to September 2023 is higher than for the previous six months to 31 March 2023 (607), implying a potential uptick in the number of deals in the next few months.

The highest level of deal activity is still anticipated to take place in Greater China, but there was a material increase in activity in North America, partly due to the Inflation Reduction Act.

As a proportion of total activity, the highest levels of predicted activity are expected to take place in Australasia, Africa, South East Asia and Latin America. As a proportion of total M&A activity, EM&U is expected to be the highest in Africa, which may reflect the level of opportunities that exist in the minerals sector that support the energy transition in that continent.

There is no breakdown within the Intelligence Heat Maps to show any sector sub-categories, so it is open to speculation as to the extent to which future deals will reflect the burgeoning move towards clean energy. However, given the recent patterns of deal activity in the EM&U sector, it is reasonable to expect that Renewable energy and the energy transition in general will be the basis for a significant number of future deals.

SHERIF ANDRAWES
HEAD OF GLOBAL NATURAL RESOURCES
sherif.andrawes@bdo.com.au

LEO MALAN
SENIOR MANAGER
leo.malan@bdo.com.au

Some of our recently completed deals

TOPEK

Acquisition of Topek by Brickability. BDO were sell-side M&A & Tax advisor.

OCTOBER 2023
UNITED KINGDOM

SKORSTENSGAARD

BDO Corporate Finance acted as exclusive financial adviser to the shareholders of Skorstensgaard Holding A/S in connection with the sale to NCG Retail A/S, a part of Nic. Christiansen Group.

OCTOBER 2023
DENMARK

dsp

Sale of DSP to LDC.

OCTOBER 2023
UNITED KINGDOM

HSBH HOLDING AG

Financial Lead Advisor to HSBH Holding in connection with the acquisition of Flachglas Schweiz Group.

SEPTEMBER 2023
SWITZERLAND

Juutilainen

BDO Corporate Finance advised owners in the sale of Lämpö- ja Wesijohtoliike P. Juutilainen Oy to Bravida Finland Oy.

SEPTEMBER 2023
FINLAND

thorbecke 25 JAAR

Thorbecke has been acquired by Eiffel.

AUGUST 2023
NETHERLANDS

KLOVBORG MASKINFABRIK A/S

BDO Corporate Finance acted as exclusive financial adviser to the shareholders of Klovborg Maskinfabrik A/S in connection with the sale to Motus Nordic Holding A/S.

AUGUST 2023
DENMARK

SMART-SPACE

Sale of Portable Venues (Group) Limited, trading as Smart-Space, to Lauralu (Evolum backed).

AUGUST 2023
UNITED KINGDOM

TOGA FREIGHT SERVICES LIMITED

BDO advised Toga Freight Services on its recent Management Buy Out.

AUGUST 2023
IRELAND

TRIOSGROUP LIMITED

The sale of Barack Group of Companies, which operates eight KFC restaurants, to the Tahir Group.

AUGUST 2023
UNITED KINGDOM

avoset

BDO Corporate Finance advised owners in the sale of Avoset Oy to Eficode Oy.

JULY 2023
FINLAND

Blauwe Monsters

Blauwe Monsters has been acquired by 4NG.

JULY 2023
NETHERLANDS

SUNRAY

BDO has provided sell-side advisory services relating to the sale of Sunray Engineering Group to ASSA ABLOY.

JULY 2023
UNITED KINGDOM

zavvi

Raising finance for and advising on a debt funded MBO of THG OnDemand from THG Group.

JULY 2023
UNITED KINGDOM

EMR INTEGRATED SOLUTIONS (EMR)

BDO provided sell-side advisory to EMR Integrated Solutions.

JULY 2023
IRELAND

INNOVARE HOLDINGS PTE LTD AND ITS SUBSIDIARIES

Cash deal for equity divestment in 2 stages. The first stage was 75% in cash at completion and the second stage, will be 25% in cash after 3 years based on earn-out formula.

JUNE 2023
SINGAPORE

RENTCO

I Squared Capital acquires Rentco Transport Equipment Rentals Pty Ltd.

JUNE 2023
AUSTRALIA

HORNSTEIN AG

Lead Advisor to the shareholders of Hornstein AG in realtion to the sale to Medbase Apotheken AG.

JUNE 2023
SWITZERLAND

RAIL CUBE

A majority stake in Railcube has been acquired by Main Capital Partners.

MAY 2023
NETHERLANDS

AIM LAB AUTOMATION TECHNOLOGIES

Lead Advisor to Aim Lab Automation Technologies in the sale to Brooks Automation.

MAY 2023
AUSTRALIA

Stormbull

BDO acted as lead advisor to the owners in the sale of Norstamp to ABC (Orkla Food Ingredients).

APRIL 2023
NORWAY

RAIMS CAPITAL

BDO advised RAIMS Capital in the acquisition of Tesla Capital.

APRIL 2023
SERBIA

BELFOR

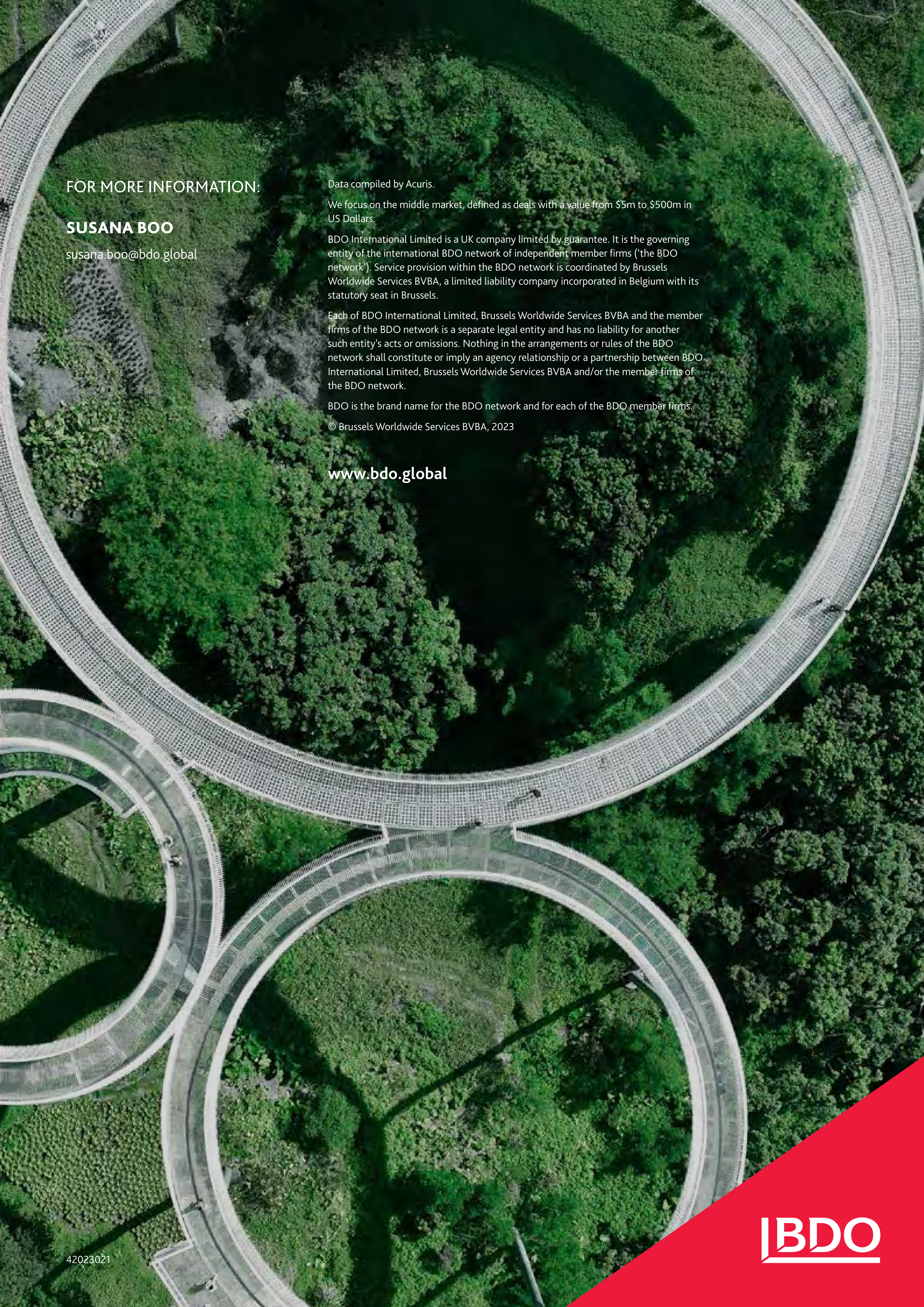
Financial advisor to Belfor Suisse AG during the sales process to Roth Gruppe AG.

JANUARY 2023
SWITZERLAND

SWK ENERGIE GMBH

Advisor to SWK ENERGIE GmbH in their acquisition of Kälte-Klima-Peters GmbH.

JANUARY 2023
GERMANY



FOR MORE INFORMATION:

SUSANA BOO

susana.boo@bdo.global

Data compiled by Acuris.

We focus on the middle market, defined as deals with a value from $5m to $500m in US Dollars.

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