



# HORIZONS

BDO'S GLOBAL VIEW OF MID-MARKET DEAL ACTIVITY

MERGERS&ACQUISITIONS

ISSUE 4 | 2017

## CHINA

BIGGER, MORE SOPHISTICATED  
AND DIVERSIFIED

### FEATURE

CHINA OUTBOUND:  
IS CHINA'S ODI  
COMING OF AGE?

PRIVATE EQUITY:  
PE FIRMS ARE  
TAKING 'WAIT AND  
SEE' APPROACH  
IN COMPETITIVE  
MARKET

### REGIONAL VIEW

VIEWS FROM  
AROUND THE  
GLOBE

### SECTOR VIEW

NATURAL RESOURCES  
INDUSTRIALS & CHEMICALS  
REAL ESTATE



## CONTENTS

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GLOBAL VIEW .....	02
FEATURE: CHINA OUTBOUND.....	04
FEATURE: PRIVATE EQUITY .....	06
GLOBAL MAP .....	08
REGIONAL VIEW .....	10
SECTOR VIEW .....	40

## 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 after a series of major political and economic events.

In the last issue, we highlighted the political and economic events which have come up during the year. Now, after the parliamentary election in the Netherlands and the presidential election in France, the federal election in Germany has completed an eventful political year in Europe.

On 24 September, Angela Merkel won the German elections for the fourth time in a row. Even though the result for her political party, the CDU, was widely seen as disappointing, the end of an international election season might pave the way to a return to more political reliability and economic stability.

As we move into the last quarter of 2017, it is the perfect time to look ahead by first looking back.

### INSIGHTS FROM A LEADING M&A ADVISER

In our last of Horizons (Issue 3), we saw the first signs of recovery after a steep downtrend in Q1 2017, resulting in the first slight increase in global deal value, while deal volume still declined but at a slower pace.

Looking back at the figures from Q3, we have to conclude that the slowdown had not yet bottomed out by end of Q2 and a trend reversal has not yet taken place. On the contrary. In Q3 2017, global transaction volume fell 10.3% from 1,969 deals in Q2 2017 to 1,767 deals in the mid-market bracket that we analyse. In addition, deal value, which had shown the first signs of recovery in the previous quarter, declined from USD 174.8bn to USD 152.9bn, resulting in a fall of 12.5%.

However, the outlook looks brighter than ever before this year. Strong economic fundamentals, more political stability than at the beginning of 2017, and an ongoing investor-friendly environment in the capital markets are all positive indicators for a global increase in M&A activity. The strong deal pipeline illustrated by the BDO Global Heat Chart emphasises that some of the held-back deals are likely to progress soon.



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# GLOBAL VIEW

With the re-election of German Chancellor Angela Merkel, a significant political result in an eventful political year has taken place. Will the potential stability restore the confidence necessary for global M&A players?

Merkel, a significant political result in an eventful political year has taken place. Will the potential stability restore the confidence necessary for global M&A players?

In our last HORIZONS (Issue 3), we spoke of the first foreseeable signs of improvement, which could have halted the downward trend of previous quarters. In Q2 2017, we saw the first slight increase in global deal value, while global deal volume was still weakening.

However, one quarter on, we have to conclude that this emerging trend has not been sustained. In fact, it has gone the other way. In Q3 2017, global transaction volume fell to 1,767 deals, down 10.3% from 1,969 deals in Q2 2017. Global deal value, which increased slightly in Q2 2017 compared to Q1 2017, fell back again in Q3 by 12.5% from USD 174.8bn in Q2 2017 to USD 152.9bn in Q3 2017. In comparison to Q3 2016, the weakest quarter in terms of deal volume in a generally strong year for M&A, Q3 2017 deal volume dropped by 11.8% and deal value declined by 9.6%.

In our last edition, we also highlighted the very strong Q2 results from private equity transactions. Deal value achieved a record high USD 34.3bn. In Q3 2017 there was a sharp fall back, with only 196 PE transactions taking place, representing a decrease of 34.9% in deal volume and 41.5% in deal value compared to the previous quarter.

Overall, the average deal size decreased from a record-high USD 91.8m in Q2 2017 to USD 86.5m in Q3 2017, representing a fall of 2.6%.

## COMPARING HERE AND THERE

If we look at M&A mid-market activity in our 17 regions, we see that North America and China remain the main drivers for global mid-market M&A. Here is a snapshot of some of the highs and lows.

North America had the highest number of Q3 transactions with 465 deals. However, the previously mentioned ongoing downward trend in global deal activity did not pass the North American M&A market by. Q3 2017 saw a 15% decrease in deal activity compared to the previous quarter and a decrease of 10% compared to Q3 2016. The total value of US deals declined to USD 51bn, a decrease of 12% compared to Q2 2017.

China is by far the second biggest player in the M&A mid-market with 428 transactions in Q3. Against the global trend, China was one of few regions with positive figures, registering a significant increase of 16% in Q3 2017 compared to the previous quarter and an increase of 2% compared to the strong M&A year of 2016. This was especially true of deal value, with an increase of USD 7.4bn (23%) in Q3 2017 to

USD 38.9bn compared to Q2 2017 and a slight decline of USD 2bn (5%) compared to Q3 2016 levels.

As in North America, the trend for lower deal numbers and values compared to Q2 2017 and Q3 2016 was similar across 13 out of the 17 regions. The Middle East posted the worst result for deal numbers, with a decline of 57% against Q2 2017, followed by the Nordics (44%), Africa and India (both 41%) and the DACH (35%). Looking at deal values, we see a similar picture; the Middle East had the biggest fall (97%), followed by DACH (57%), Nordic (57%) and Latin America (50%) and Africa (45%).

It was interesting to see that the United Kingdom & Ireland was one of the very few regions that recorded a strong performance in terms of both deal volume and value, despite all the ongoing uncertainty around Brexit. M&A activity in the region increased by 6% compared to Q2 2017 and fell by just 1% compared to Q3 2016. Deal value also rose, both in comparison to Q2 2017 (4%) as well as Q3 2016 (8%).



## GLOBAL BDO HEAT CHART

	Industrials & Chemicals	Technology & Media	Consumer	Business Services	Energy, Mining & Utilities	Pharma, Medical & Biotech	Financial Services	Leisure	Real Estate	TOTAL	%*
North America	429	532	348	272	370	219	161	53	18	2,402	29%
China	304	165	122	130	68	76	78	49	28	1,020	12%
CEE & CIS	177	116	117	92	35	66	46	36	14	699	9%
Southern Europe	114	104	112	72	37	28	50	24	9	550	7%
South East Asia	93	56	61	77	21	52	57	36	33	483	6%
Australasia	74	94	83	65	41	59	42	19	3	376	5%
India	94	47	59	46	36	36	54	10	9	391	5%
Latin America	61	38	73	68	27	59	28	19	3	376	5%
UK & Ireland	39	104	57	50	27	43	55	31	5	411	5%
DACH	132	59	50	45	27	18	24	10	2	367	4%
Nordics	54	50	23	28	14	14	12	7	2	204	2%
Other Asia	65	52	27	13	25	7	11	9	2	211	3%
Japan	28	40	28	27	35	5	5	2	4	174	2%
Benelux	33	33	35	27	15	13	14	5	3	178	2%
Africa	25	10	9	12	6	34	12	3	11	122	1%
Middle East	7	20	7	11	3	9	5	2	2	66	1%
Israel	10	28	2	2	15	4	3	3	-	67	1%
<b>TOTAL</b>	<b>1,739</b>	<b>1,548</b>	<b>1,213</b>	<b>1,037</b>	<b>802</b>	<b>742</b>	<b>657</b>	<b>318</b>	<b>151</b>	<b>8,207</b>	<b>100%</b>
	21%	19%	15%	13%	10%	9%	8%	4%	2%	100%	

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

Looking at the sector performance, every industry – with the exception of Real Estate (up 43%) – had fewer deals in Q3 2017 than in Q3 2016. If we compare Q3 2017 with the preceding quarter, Leisure (up 13%) was the only positively performing sector. In terms of deal volumes, the leading sectors were Industrials & Chemicals, followed by Technology & Media and Business Services.

## LOOKING AHEAD

The number of companies either officially up for sale or rumoured to be, as captured by the BDO Heat Chart, shows a slight decrease of 1.4% compared with last quarter's prediction, amounting to a total of 8,207 companies. This 'backing up' of deals as we mentioned in our last edition is still at a very high level, confirming the ongoing cautious behavior of market participants.

The biggest overall driver for future global M&A activity is once again expected to be North America, with the highest number of potential deals in nearly every sector, followed by China.

We expect Industrials & Chemicals, followed by Technology & Media and Business Services, to be the most active sectors for M&A activity, which are also surprisingly the sectors that performed best in the last quarter.

Reasonable economic fundamentals and fewer pending political events might have a positive and stabilising impact on global economic growth and therefore also for global M&A activity, as long as North Korean's sabre rattling doesn't end up having deadly consequences.



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# CHINA OUTBOUND

## IS CHINA'S ODI COMING OF AGE?

The last time I wrote about China's outbound direct investments (ODI) in HORIZONS was three years ago. How China's ODI has developed since then? In this article, I will share my observations on key phenomenon of China's ODI over the past few years. In summary, China's ODI has become more significant in size, more sophisticated in approach, and more diversified in sectors during this period of time.

### MORE SIGNIFICANT IN SIZE

Official statistics have shown that the total value of China's ODI kept raising year-by-year from 2005 to 2016. In 2016, the figure reached USD 170bn, which ranked China as number two among all countries in the world. It's true that the tight foreign exchange outflow controls implemented by the Government around the end of 2016 have had effects on the ODI, however these controls may soon be relaxed or are probably already being relaxed given that China's foreign current reserves have recently come back to its 'comfort' level. More importantly, it's worthwhile noting that those controls were not targeting all ODI, but only targeting those allegedly that were not 'helpful' to China's own economy. Moreover, not only the total size is significant now, more and more mega-deals are appearing too. For example, ChemChina launched its USD 5bn takeover of Syngenta in 2016 and the deal was closed in 2017 – China's largest single ODI so far.

It's also worthwhile noting that the percentage of China's accumulated ODI on the world stage is still tiny at the moment. Though China's ODI has seemed to be intimidating over recent years, however the history of China's ODI is still a very short one compared with other major countries. For example, Germany has been the hottest destination for Chinese investments in recent years, however the percentage of accumulated Chinese money in Germany among all foreign investments in Germany is just a low single digit at the moment. In this regard, one may argue the China's ODI still have huge upside potential given China is already the second largest economy in the world and many even argue it is already the largest.

### MORE SOPHISTICATED APPROACH

Instead of waiting for a sell opportunity to come, more and more Chinese investors are taking proactive approaches to acquire overseas target companies. The most noticeable one was Chinese company Midea's EUR 5bn non-solicited successful acquisition of German public listed robot company Kuka – which also represents the single largest investment from China into Germany so far. This deal really has made everyone sit up and take notice. It's very significant in many ways – Kuka is one of the best companies in Germany representing the future of industry 4.0 and the deal was carried out in a very swift and sophisticated way with very good timing – and it's the Kuka deal that has created many arguments about to what extent foreign governments should 'tolerate' Chinese investments.

Also, increasingly Chinese investors are not always acquiring companies alone. A consortium comprising a main strategic player and a partner financial investor is becoming more common. The most recent case was ZMJ and CRCI's EUR 600m of acquisition of Bosch's Starters and Generators businesses. It might not take long before we see a Chinese strategic investor partner with a foreign financial investor in the near future.

### MORE DIVERSIFIED IN SECTORS

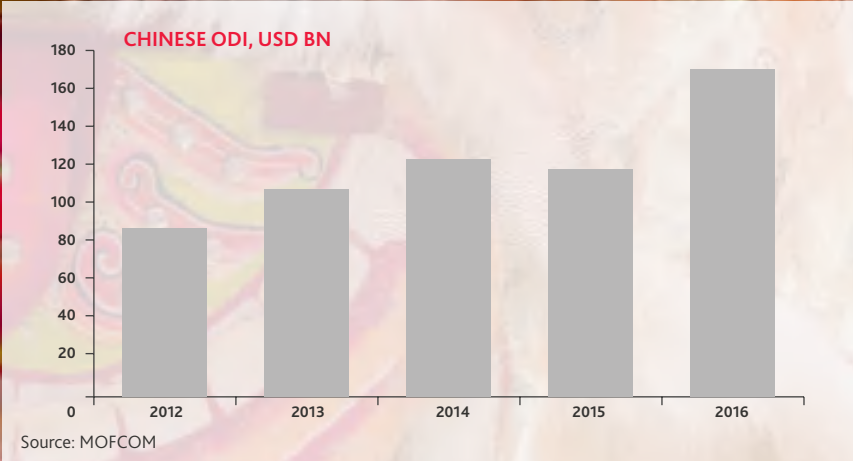
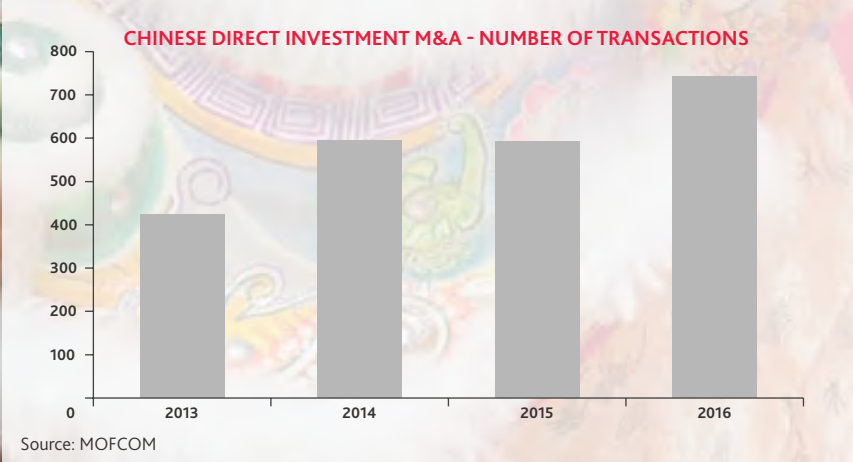
In the early days, most of China's ODI was about securing natural resources. Nowadays Chinese investment is seen in literally every single industry, though the majority of interest is related to industrial technologies, among which robot and automation targets are clearly the superstars at the moment. Whether Chinese ODI will eventually become evenly spread out among all sectors will be interesting to see. One thing for sure is that the current trend will not last forever. At the stage when the industrial technologies upgrading will be at its maturity, the next big wave might be the consumer and services sector – it's a logical development in sync with China's own economic development.



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# PRIVATE EQUITY

PE FIRMS ARE TAKING 'WAIT AND SEE' APPROACH IN COMPETITIVE MARKET

With record amounts of dry powder in their coffers, private equity firms around the world will continue to aggressively seek quality assets to acquire, following the trend seen so far this year. The challenge, especially considering intense competition, will be to remain disciplined and avoid the temptation to overpay just for the sake of putting money to work. Valuations have been on an upswing and are likely to remain high, putting pressure on return expectations.

While the Brexit vote, the unexpected Trump victory and geopolitical risks elsewhere have made private equity firms and their investors take a 'wait and see' approach, competition for deals remains fierce and it doesn't look like it will wane anytime soon.

## COMPETITION HEATS UP

Mid-market private equity firms aren't only competing against their peers. Some of the largest private equity firms are increasingly looking to the mid-market for deals. Also, strategic and institutional investors such as family offices and pension funds are increasingly making direct investments. Just like the private equity firms, they are all flush with cash and have easy access to debt.

The availability of massive amounts of capital, combined with a finite supply of quality companies to acquire, has driven up valuations across the board, reaching multiples not seen since before the global financial crisis. Deals valued at 10 times EBITDA are not uncommon, giving some pause to potential buyers.

This has resulted in a market that favours sellers, allowing private equity firms to exit portfolio companies at hefty valuations. Those exits, in turn, are fuelling a spike in capital distributions to investors, who are putting that liquidity back to work by reinvesting it into private equity funds.

However, these factors have also caused a decline in global mid-market deal-making volume. In the first three quarters of 2017, the total deal count was, 5,583, down from 6,216 during the same period of 2016.

The same trend is seen when only private equity-backed deals are considered, with a total of 730 deals in the first three quarters of 2017 versus 752 for the same period in 2016.



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## FUNDRAISING GALORE

Despite the slowdown in deals, there are a record number of funds being raised around the world. Investors are eagerly seeking to pour more capital into the asset class. After all, even in a scenario where private equity returns are under pressure, they are still very attractive compared to other asset classes.

One caveat is that investors are making commitments to fewer managers. This is forcing private equity firms to develop new investment strategies to differentiate themselves from the thousands of other managers competing for investors' attention and capital. Some alternative structures being set up include co-investments, separate accounts and debt funds. In the mid-market in particular, some funds are marketing themselves as providers of 'growth equity', acquiring minority stakes in companies and taking a seat at the board to work alongside management and optimize operations.

## CAUTION AHEAD

Recent reports have raised red flags regarding the amount and quality of leveraged debt on portfolio companies' balance sheets.

In the US, the average leverage of private equity-backed companies stands at 5.37 times EBITDA, and about a third of those loans to private equity-backed companies have already surpassed the six times EBITDA mark, considered a red flag by credit ratings agencies as well as the Federal Reserve.

In Europe and the US, meanwhile, about 70% of all leveraged debt is covenant-lite, which just adds more uncertainty to the mix, as it offers less protection to lenders and places few restrictions on the amount of leverage a borrower may take on. Still, the volume of leveraged loans in Europe is about a fifth of that of the US.

## COMPETITIVE EDGE

As auctions become more crowded, many potential bidders are performing due diligence on the target before they even decide to enter the bidding process. This allows them to get a clear picture of the asset's quality and to assess how much they are willing to bid. After all, auctions cost time and money. 'Pre-due diligence', as it is known, speeds up the time a bidder needs to bring an offer to the table and increases the certainty of making a winning bid and closing the deal.

Private equity firms should also work alongside company management to streamline and improve operations, making them leaner and more efficient, rather than completely relying on financial engineering to drive returns.

While the global economic outlook looks positive – with the World Bank estimating global GDP growth at 2.9% in 2018 – private equity managers should adjust expectations to deal with an environment of subdued returns and longer holding periods.

# GLOBAL

8,207 RUMOURED TRANSACTIONS

P08 | **NORTH AMERICA**  
LACKLUSTER RESULTS CONTINUE  
FOR NORTH AMERICAN M&A

P10 | **LATIN AMERICA**  
M&A ACTIVITY FALLS IN Q3 BUT LATIN  
AMERICA REMAINS AN ATTRACTIVE TARGET  
MARKET FOR INVESTORS

## SECTOR VIEW





## P12 | UNITED KINGDOM & IRELAND

DEAL ACTIVITY PICKS UP AND SUGGEST MARKET IS STABILISING

### P16 | BENELUX

CHALLENGING QUARTER FOR M&A ACTIVITY AND OUTLOOK IS MIXED AS DEAL NUMBERS FALL IN INDUSTRIALS & CHEMICALS

### P18 | DACH

Q3 VOLUME FALLS TO THREE-YEAR LOW BUT DEAL-MAKING ACTIVITY EXPECTED TO RISE

### P20 | NORDICS

M&A ACTIVITY SLOWS DOWN IN Q3 BUT PICK-UP PREDICTED FOR Q4

### P22 | CEE & CIS

VALUE OF PE BUY-OUTS HITS 10-YEAR HIGH AND OUTLOOK IS VERY POSITIVE FOR REST OF THE YEAR

### P34 | JAPAN

TOKYO 2020 OLYMPICS NOT YET DRIVING MID-MARKET DEAL ACTIVITY

### P30 | CHINA

MID-MARKET ACTIVITY REMAINS STRONG AND NUMBER OF OUTBOUND DEALS EXPECTED TO INCREASE IN FUTURE

### P32 | SOUTH EAST ASIA

A MIXED QUARTER AS DEAL NUMBERS RISE BUT VALUE FALLS

### P24 | ISRAEL

MIXED QUARTER AS DEAL NUMBERS DOWN BUT VALUE UP

### P28 | INDIA

POSITIVE ECONOMIC OUTLOOK LOOKS SET TO BOOST M&A ACTIVITY

### P26 | AFRICA

SHARP DECLINE IN Q3 DEALS BUT BETTER NUMBERS PREDICTED FOR REST OF 2017

### P34 | AUSTRALASIA

M&A ACTIVITY CONTINUES TO DECLINE BUT OUTLOOK IS POSITIVE FOR CLEAN ENERGY AND TECHNOLOGY-BASED DEALS

### P14 | SOUTHERN EUROPE

MID-MARKET DEAL ACTIVITY FALLS BACK BUT OUTLOOK LOOKS BRIGHTER AS ECONOMIC CONDITIONS IMPROVE

#### Key % movement

-20% to -11%	-10% to -1%	0%
1% to 10%	11% to 20%	21% to 30%

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

# NORTH AMERICA

## LACKLUSTER RESULTS CONTINUE FOR NORTH AMERICAN M&A



### BIG PICTURE

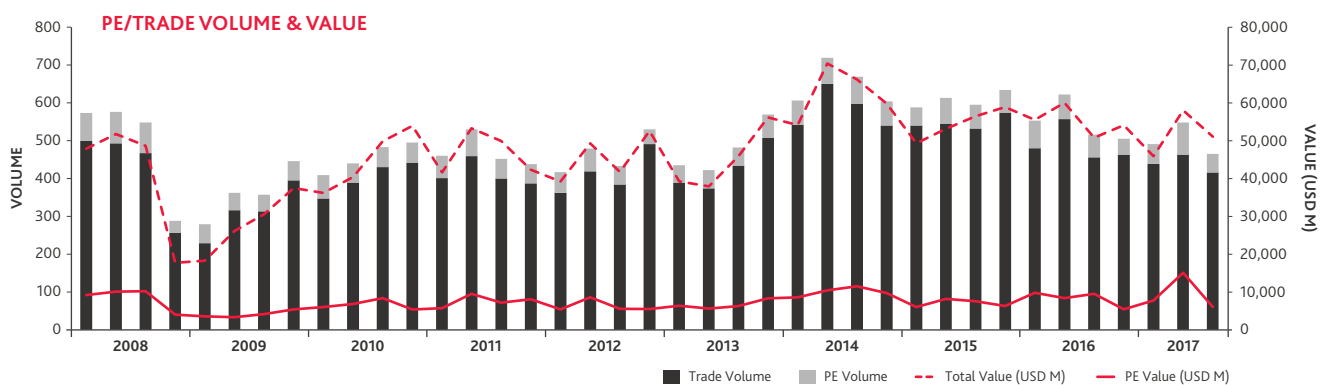
- Slowest quarterly activity since Q2 2013 based on number of M&A transactions
- Q3 2017 aggregate deal count down 10% year over year
- Valuations at unprecedented levels causing buyers to balk and stagnate activity
- "Wait and see" attitude on Trump's tax reform agenda as buyers assess timing and impact and sellers seek high net proceeds

Notwithstanding the countless geopolitical headwinds since prior to the election that have paralyzed Washington D.C. and public policy, the U.S. equity markets have soared as economic growth has improved and corporate earnings have reached new highs across most sectors resulting in unprecedented valuations for public equities.

While the equity markets have been on a prolonged winning streak, M&A activity in the U.S. has been mostly stagnant since 2015. We believe there are three principal causes for this phenomenon: (1) improving economic conditions; (2) high valuations; and (3) pending tax reform. The strength of the economy has led many business owners to conclude that they are better off retaining their business and growing EBITDA in the short to intermediate term rather than seeking liquidity today. Even if they do test the waters, sellers are armed with aggressive valuation expectations and an "I don't have to sell" attitude thereby dampening activity. On the other hand, many buyers will tell you that they are waiting for prices to "correct" before they transact. Ironically, lofty public equity

prices have alleviated the urge to merge as shareholders and activists are spending less time clamoring for deals and more time calculating impressive equity portfolio returns. Finally, today's would-be sellers are hopeful that Trump's tax reform proposals will be enacted, resulting in higher after-tax deal proceeds, and they are willing to wait for Congress to act. There is no question that tax reform has historically significantly impacted the M&A markets, such as the dramatic rise in Q4 2012 activity when sellers ran to the exits to avoid the Obamacare 3.8% surtax.

The realities of U.S. Congressional in-fighting and bureaucratic processes have taken hold as the year has worn on. One of President Trump's central policy





positions, repealing and replacing the Affordable Care Act or Obamacare, failed to find enough votes to pass despite the Republicans controlling both houses of Congress and the White House. The legislative impasse and drawn-out deliberations especially stymied healthcare-related M&A deal-making as uncertain corporates remained on the sidelines. To make matters worse, the surprising failure on healthcare fueled speculation that other Trump priorities such as tax and regulatory reforms would either be delayed or only partially implemented, further rattling investor confidence and dampening any remaining enthusiasm leftover from the election. As a result, North American corporations and private equity firms significantly slowed M&A activity as they reassessed the timing and likelihood of Trump's agenda succeeding.

The political uncertainty in Washington, D.C. was partially offset by mostly positive economic news that mostly met forecasts and expectations. However, CEOs and company boards are clearly resisting aggressive M&A deal-making until more progress is made implementing President Trump's economic stimulus policies including infrastructure spending and corporate tax rate reductions. As we enter the 4th quarter, optimism on tax reform abounds and is being fueled by the sentiment that cutting taxes is good for all politicians and a bipartisan compromise will be reached.

LOOKING AHEAD

High valuations, pending tax cuts and a strong economy certainly sound like the perfect backdrop for M&A growth and robust activity, not to mention the abundance of cash on the sidelines and a low interest rate environment. However, these factors have actually led to a temporary lull in activity that has frustrated many private equity professionals and investment bankers alike. We believe this lull is not sustainable and that we are on the verge of seeing a dramatic rise in M&A within the next 12 months. Tax reform will likely be the catalyst that sets the merger market free, and the rapid rise in activity promises to be pronounced as sellers return in large numbers and buyers rejoice.



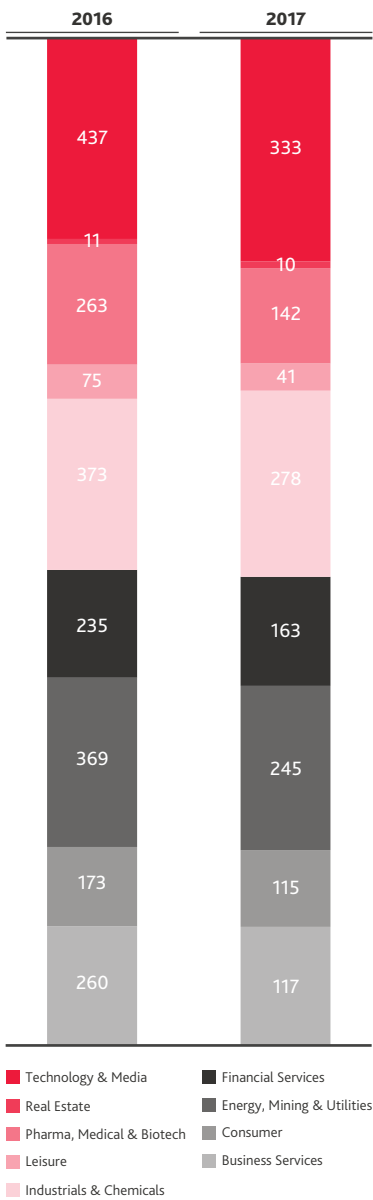
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NORTH AMERICA  
HEAT CHART BY SECTOR

Technology & Media	532	22%
Industrials & Chemicals	429	18%
Pharma, Medical & Biotech	370	15%
Consumer	348	14%
Business Services	272	11%
Energy, Mining & Utilities	219	9%
Financial Services	161	7%
Leisure	53	2%
Real Estate	18	1%
TOTAL	2,402	100%

NORTH AMERICA  
MID-MARKET VOLUMES BY SECTOR



# LATIN AMERICA

M&A ACTIVITY FALLS IN Q3 BUT LATIN AMERICA REMAINS AN ATTRACTIVE TARGET MARKET FOR INVESTORS



## BIG PICTURE

- Investors from Europe and USA seek opportunities in Latin America despite Q3's relatively poor performance in terms of deal count and value
- Consumer leads the BDO Heat Chart, followed by Business Services, Industrials & Chemicals and Energy, Mining & Utilities
- Argentina's strong presence in the quarter's top ten deals reflects improved investor confidence in the region.

In Q3 2017, Latin American mid-market M&A activity saw 56 deals worth a total of USD 4,177m, which represented falls of 22.2% in terms of the number of deals and 49.7% in terms of value when compared with the previous quarter.

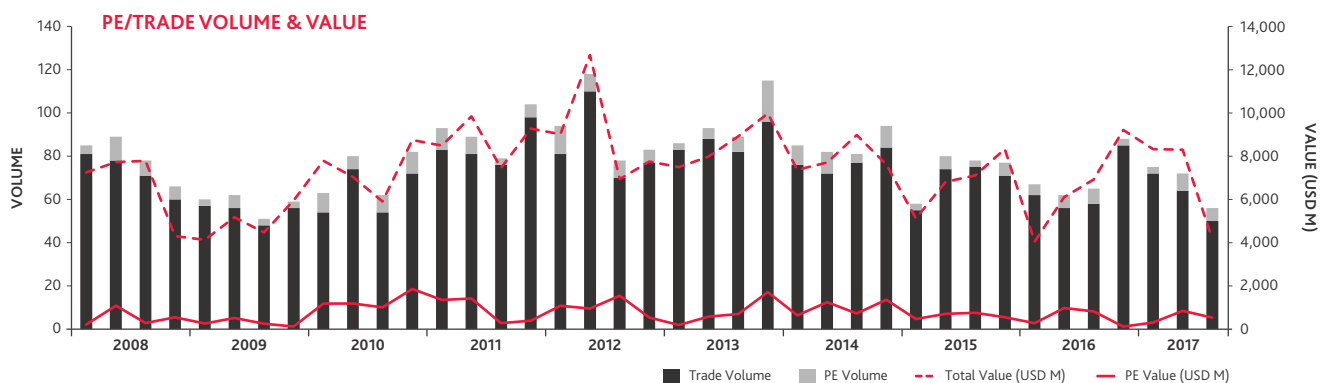
In comparison with the same quarter of the previous year, both the number of deals and the value fell by 13.8% and 39.7%, respectively. However, the first nine months of 2017 saw a total of 203 with a value of USD 20,804m, which compares with a total of 194 deals and USD 17,075m for the same period of 2016, showing an increase of 4.6% and 21.8%, respectively, indicating a positive balance for the year so far.

Out of the total deals, six worth USD 534m were PE transactions, representing 10.7% in terms of the deal count and 12.8% in terms of value of the quarter.

If we look at the value per deal, it shows an average of USD 75m per deal, which is the lowest since the USD 60m average per deal from Q1 2016.

## POSITIVE SIGNS IN ARGENTINA

Argentina's presence in the top ten deals is a positive sign that confirms our expectation of an increase in activity in Argentina's M&A market, following the change in Government and the improvement in both economic conditions and the political perspective. The opening of Argentina's economy and the return of the country to the financial markets last year is bearing fruit. The country's top ten deals in this quarter were in the Business Services sector with the sale of Maco Transportadora de Caudales S.A. to Brink's Company from the US in July for USD 209m, and in the Industrials & Chemicals sector with the sale of the manufacturing plant of Masisa S.A. in Concordia, Entre Ríos for USD 155m to FRITZ EGGER GmbH & Co. OG from



## LOOKING AHEAD

The BDO Heat Chart shows a total of 376 deals announced/in progress, which represents 5% of the global Heat Chart. Opportunities are concentrated in the Consumer, Business Services, Industrials & Chemicals and Energy, Mining & Utilities sectors, with a total of 73, 68, 61 and 59 deals respectively. This trend is in line with the most active sectors in previous quarters and the make-up of the top ten deals.

The top ten deals for Q3 2017 were worth a total of USD 2,482m, with Brazil at the top of the list with a total of three deals worth USD 934m (37.6%), followed by Chile with two deals worth USD 643m (25.9%) and Argentina with two deals worth USD 182m (14.7%).





Austria. Both transactions reflect the appetite of international investors to harvest Argentina's higher returns and in both cases also reflect the interest of strategic investor in expanding their activity in Latin America to leading countries such as Argentina and Brazil, the main economies of the region.

The presence of these kind of investors in Argentina is also a positive sign in terms of confidence. One of the main issues investors have regarding strategic investment in Argentina is the performance of the economy. In this sense, macroeconomic variables are starting to show signs of improvement and stability, showing a deaccelerating path for inflation and an improvement in industrial production indicators, meaning that there are consistent signs of recovery after months of decline. Promised changes are starting to materialise and this is boosting investors' confidence. The Merval index is showing record highs this year and particularly in October, consolidating the upwards path that Argentina's economy has taken in 2017 and accumulating an increase in USD of 45.4% since the beginning of the year, all of which points to an improvement in M&A activity next year.

Another sign giving confidence to investors is the confirmation by the primary legislative elections results in August of the economic and political changes that the country has taken. The investment thesis that we can infer from strategic investors is based on the improvement of cash flows via increased operating margins, room for further improvement in risk perception and the potential for growth, which are all attractive drivers for investors from countries with mature economies.

According to the Agencia Argentina de Inversiones, since the arrival of the new Government companies have made investment announcements of more than USD 70bn, that focus mainly on oil & gas (USD 22bn), mining (USD 8.2bn), telecommunications (USD 7.6bn), real state (USD 6.2bn) and renewable energies (USD 6.2bn).



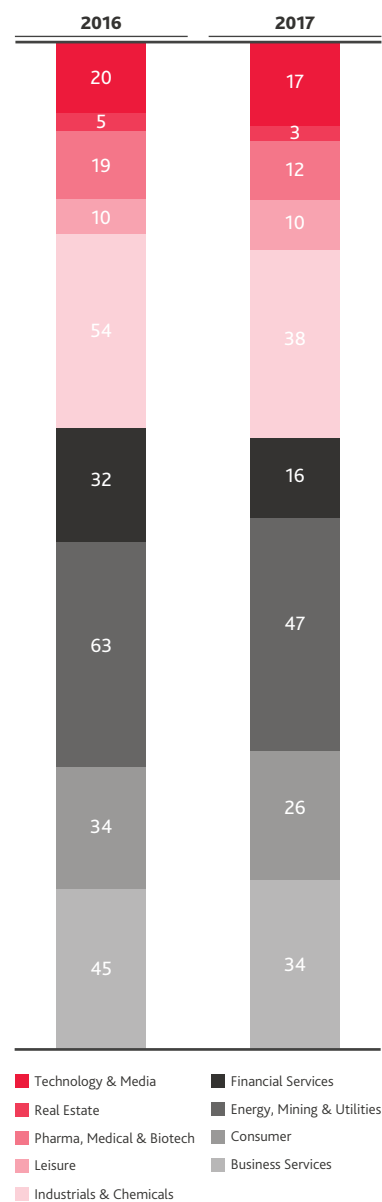
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#### LATIN AMERICA HEAT CHART BY SECTOR

Consumer	73	19%
Business Services	68	18%
Industrials & Chemicals	61	16%
Energy, Mining & Utilities	59	16%
Technology & Media	38	10%
Financial Services	28	7%
Pharma, Medical & Biotech	27	7%
Leisure	19	5%
Real Estate	3	1%
<b>TOTAL</b>	<b>376</b>	<b>100%</b>

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



# UNITED KINGDOM & IRELAND

## Q3 M&A ACTIVITY



### BIG PICTURE

- The market is stabilising with an increase in deal activity and value
- Activity in Business Services, Technology & Media and Leisure increases
- PE buyers lagging behind trade
- UK remains good value and attractive for overseas buyers.

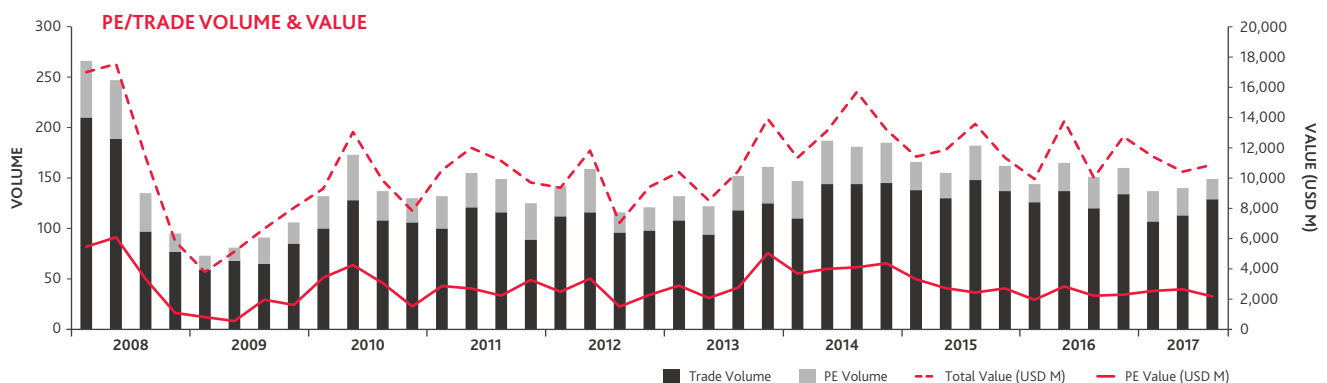
After a slow start to the year, the third quarter saw a pick-up in M&A activity across UK and Ireland with deal value up 4% on the previous period from \$10.4bn to \$10.9bn. Deal volume also increased on the former period by 6%, with total reported transactions of 149.

This is an encouraging view of mid-market deal activity, showing signs that the market is stabilising again after the Brexit vote and the snap election in Q2. Transaction value has also seen a large increase of 8% on the same period last year, however the total number and value of transactions for year to date are still lagging behind 2016 as the average value per transaction continues to increase. The pressure on rising valuations is most evident amongst the PE transactions where only 20 transactions were reported in third quarter with total value of \$2.2bn. This decline in PE activity can be attributable to the market uncertainty as financial buyers

compete for few number of higher value, less risky transactions. In contrast to this, trade buyers are seeking growth through acquisition which is partially driven by the availability of funds in conjunction with the need to offset slower organic growth. This was evidenced by 17% uplift in trade transactions on prior quarter, with 129 deals completed in third quarter.

### KEY DEALS AND SECTORS

Overseas investors continued to take advantage of favourable exchange rates in the 3rd quarter, with nine out of the top ten mid-market deals being international inbound investment or acquisition.





In terms of M&A by sector, Business Services experienced a notable increase and was back as the most active sector with 35 transactions completing, representing nearly a quarter of all M&A activity in the region. Leisure sector was also active with 19 deals reported this quarter, two of which were in the top ten transactions; the acquisition of JAC travel by Australian travel business Webjet for \$264m and the sale by Landing International of Les Ambassadeurs Club & Casino in London for \$320m.

Technology & Media remained steady as the second most active sector with more than 88 transactions year to date. The largest transaction in Ireland within the technology sector was the €150m sale of Voxpro by its husband and wife co-founders to TELUS International Inc, a Canadian listed entity.

LOOKING AHEAD

Considering the positive results from Q3 within UK & Ireland, and the increasing number of international buyers, the outlook is optimistic. Both value and quantity of M&A activity are increasing, with Business Services and Technology & Media leading the way. According to the BDO Heat-Chart there are 411 deals in the pipeline, which is underpinned by a significant amount of funds available for investment. Financial Services is still forecast to be active as international companies look to secure EU market entry while the Consumer sector is also anticipating an increase in M&A.

In 2016 Ireland lead the EU growth league table for the third year running and is expected to be one of the top performing members in the EU for 2017. Political risk within Europe is also dramatically declining and with the possibility of a "hard Brexit" looking less likely, we are expecting to see increased economic activity and a steady flow of M&A activity for remainder of the year.



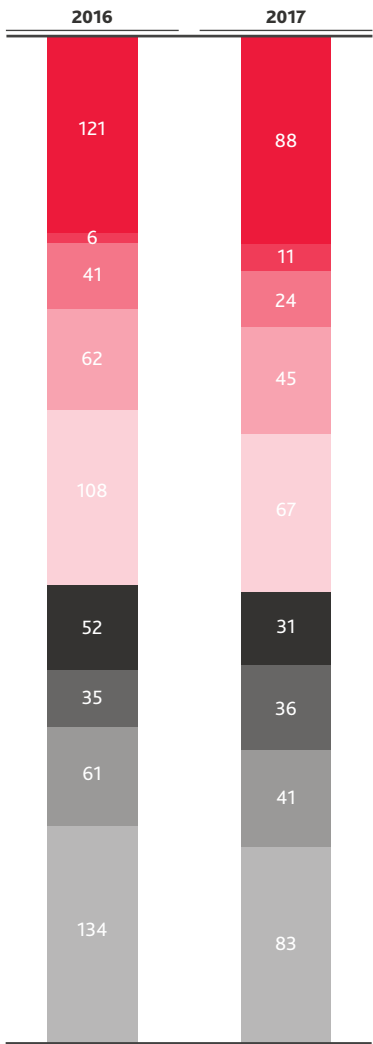
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PARTNER

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UNITED KINGDOM & IRELAND  
HEAT CHART BY SECTOR

Technology & Media	104	25%
Consumer	57	14%
Financial Services	55	13%
Business Services	50	12%
Energy, Mining & Utilities	43	10%
Industrials & Chemicals	39	9%
Leisure	31	8%
Pharma, Medical & Biotech	27	7%
Real Estate	5	1%
TOTAL	411	100%

UNITED KINGDOM & IRELAND  
MID-MARKET VOLUMES BY SECTOR



- Technology & Media

Real Estate

Pharma, Medical & Biotech

Leisure

Industrials & Chemicals
- Financial Services

Energy, Mining & Utilities

Consumer

Business Services

# SOUTHERN EUROPE

MID-MARKET DEAL ACTIVITY FALLS BACK BUT OUTLOOK LOOKS BRIGHTER AS ECONOMIC CONDITIONS IMPROVE



## BIG PICTURE

- After an encouraging Q2, deal volumes and values fall back in Q3
- Industrial & Chemicals and Business Services are the most active sectors
- PE continues to show signs of recovery in 2017
- The BDO Heat Chart predicts major deals ahead, led by the Industrial & Chemicals sector.

Following a period of debt crisis in many South European economies, the region has picked up the pace in M&A activity, while some economies are still struggling with weak growth.

Recently, just as the outlook was improving for the region in terms of growth, terrorist threats in several European countries and the separatist movement in the Catalan region have clouded the region with an aura of uncertainty.

In Q3, 113 mid-market deals were completed, with a total value of USD 10.2 billion. In 2017 to date, M&A activity has slowed down, as the third quarter saw M&A volume fall compared to previous quarters and the total deal value also fell 8% compared to Q3 2016. It should be noted that the third quarter of the year is typically the weakest.

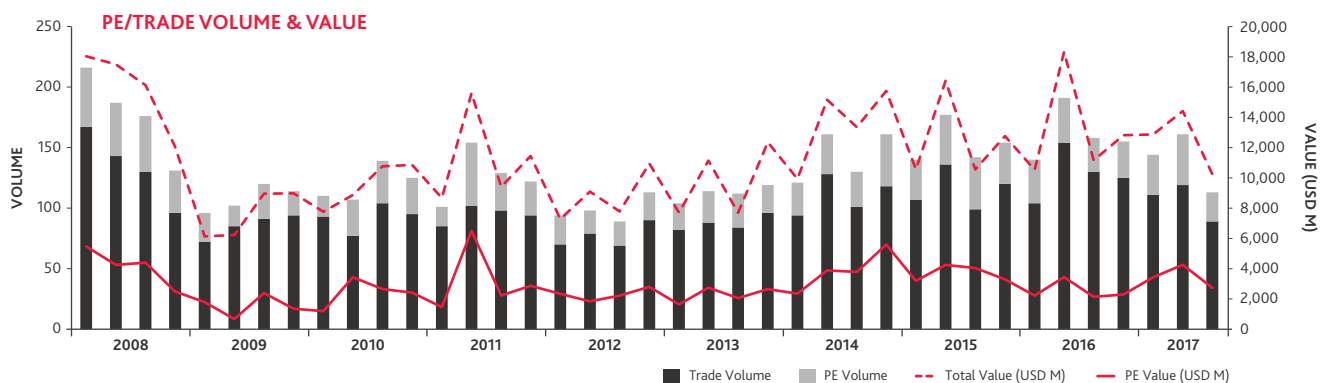
## STRONG YEAR FOR PE

The outlook for PE activity is bright as PE deals have consistently risen both in volume and in value from Q4 2016 to Q2

2017. In Q3, PE buy-outs accounted for USD 2.7bn, a higher figure than in three of the previous four quarters, despite the fact that the overall deal volume fell. This means that PE deals now represent a significantly higher proportion of overall transactions in terms of both volume and value in Q3 2017, even with less deals completed. PE was responsible for 21% of all deals in 2017 Q3 and 27% of their overall value. The continued resurgence of PE is crucial to M&A activity in Southern Europe.

## KEY SECTORS

As has been the case throughout 2017, Industrials & Chemicals leads the way in transactions, with a 21% share of Q3 deals and a 24% share of transactions in the first three quarters of the year.





Technology & Media has declined sharply in the number of deals closed, compared to Q2, dropping from 30 deals to 13, but is still the second most active sector for the region with 68 deals concluded so far in 2017. In the Consumer sector, the number of deals rose in Q3, and it remained in third place. Real Estate was the least active sector in the quarter, with one deal concluded.

### KEY DEALS

The top ten deals for the quarter had an aggregated value of USD 3.9bn, representing 38% of the total of M&A mid-market deals by value. The major deal of the quarter was the USD 461m acquisition of Spanish company Iberchem S.A., a global fragrance and perfume manufacturer with a presence in over 120 countries. The deal saw the French publicly-listed private equity firm Eurazeo acquire a majority stake in the shares of Iberchem from the sellers Magnum Capital Industrial Partners, which has had a controlling stake in Iberchem since 2013. Sticking with cross-border activity, seven deals in the top 10 were cross-border transactions, and overseas bidders were responsible for 40% of those deals. Q3's top ten deals saw five target companies based in France from different sectors, and transactions involving buyers from three regions (EU, US and Asia). Business Services and Industrials & Chemicals were the most targeted sectors in Q3 2017's top ten deals. The data indicates that the region remains appealing for bidders from all over the globe.

### LOOKING AHEAD

The number of companies potentially up for sale in Q3 2017 has fallen compared to the previous quarter, with 550 forthcoming deal opportunities. Industrial & Chemical (114) and Consumer (112) remain the leading sectors. Technology & Media has the same number of business opportunities as the previous quarter and is increasingly regarded as a dynamic M&A sector.

Portugal has experienced unprecedented growth in the first two quarters of 2017 and it is hoped that increased M&A activity is on the horizon in the near future.

Overall in Southern Europe, after a period of challenges, the improvement of economic conditions should help improve the outlook for M&A activity moving forward.



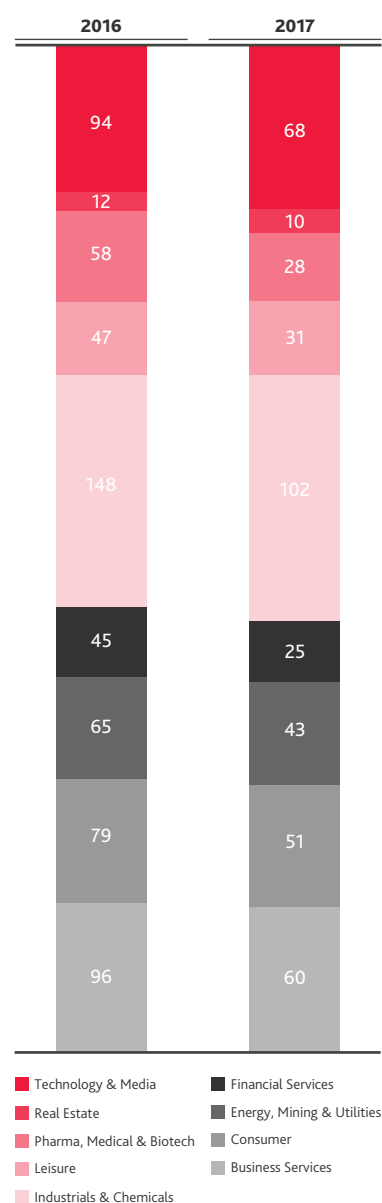
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### SOUTHERN EUROPE HEAT CHART BY SECTOR

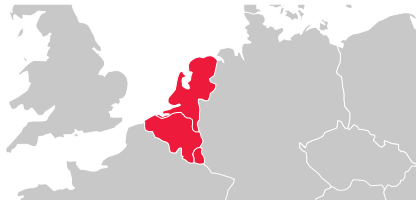
Industrials & Chemicals	114	21%
Consumer	112	20%
Technology & Media	104	19%
Business Services	72	13%
Financial Services	50	9%
Pharma, Medical & Biotech	37	7%
Energy, Mining & Utilities	28	5%
Leisure	24	4%
Real Estate	9	2%
<b>TOTAL</b>	<b>550</b>	<b>100%</b>

### SOUTHERN EUROPE MID-MARKET VOLUMES BY SECTOR



# BENELUX

CHALLENGING QUARTER FOR M&A ACTIVITY AND OUTLOOK IS MIXED AS DEAL NUMBERS FALL IN INDUSTRIALS & CHEMICALS



## BIG PICTURE

- Deal volumes and values fall after limited increase in previous quarter
- Top ten deals were mainly cross-border transactions
- Number of Industrials & Chemicals deals set to fall in Q4.

After a limited increase in the total deal activity in Q2 2017, Q3 2017 was again a challenging quarter as both volumes and deal value fell.

Looking at the last seven quarters, an average of 31 deals were completed versus 29 in Q3 2017. The number of deals so far this year stands at 87 and it will be very challenging to reach the 136 that took place in 2016.

The number of deals in Q3 decreased from 35 in 2016 to 29 in 2017. In addition, the total deal value and the average value per deal decreased respectively by 25% and 10% compared to last year. It can be concluded that it was a slow quarter.

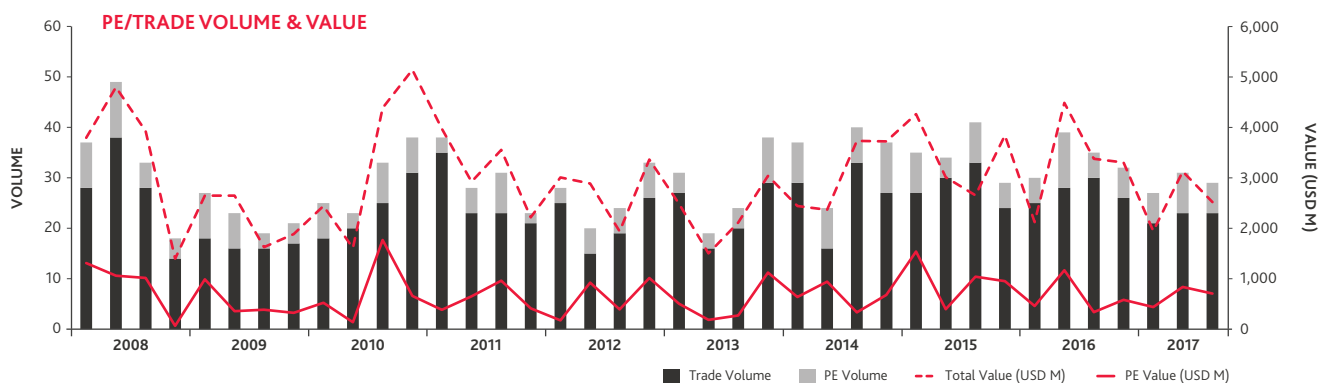
The total deal value compared to Q2 2017 dropped by 19% to USD 2,519m. The total deal value was 21% below the average deal value over the last three years (approximately USD 3,197m). In addition, the average deal value per transaction decreased from USD 100.8m in Q2 2017 to USD 86.9m in Q3 2017.

## PE DEALS

There were six private equity deals in the quarter, which was similar to the levels of Q4 2016 and Q1 2017. The average deal size has continued to increase throughout the year, from USD 96.8m in Q1 and USD 104.6m in Q2 to USD 117.6 in Q3. Compared to the overall market, the deals carried out by private equity firms had a relatively high deal value (21% volume versus 28% deal value of the total market).

## KEY SECTORS AND DEALS

Industrials & Chemicals, Technology, Media & Telecom, and Pharma, Medical & Biotech were the most active sectors in Q3 2017. 19 out of 29 deals in total were in these sectors. Industrials & Chemicals was the biggest climber from four in Q2 to seven in Q3. No deals took place in the Consumer sector.





The top 10 deals in Q3 2017 varied between approximately USD 100m and USD 338m and were mainly conducted cross-border in the Financial Services, Business Services and Technology, Media & Telecom sectors.

The largest deal in Q3 2017 was in Financial Services and involved the sale of Unirobe Meeus Groep B.V. This company was part of Aegon N.V., a listed company in The Netherlands that offers savings, investments, mortgages, pensions and other financial services. Aon Group Nederland B.V. purchased the company for approximately USD 338m.

The second largest deal was the sale of the Dutch subsidiary Getronics International, part of German-based Aurelius AG to the US-based Servest Group Limited, for USD 250m. Getronics International is an ICT service group for large enterprises and the public sector markets.

The third biggest deal was the sale of the German Backwerk Services GmbH, part of EQT Partners AB, based in The Netherlands, for USD 227m. Backwerk, Europe's fastest growing bakery retail chain, was purchased by the Swiss-based company Valora Holding AG.

## LOOKING AHEAD

The BDO Heat Chart shows the pipeline of deals, including planned and rumoured deals or deals in progress. The Heat Chart shows 178 deals are currently planned or in progress. This represents a 10.6% decrease compared to last quarter's Heat Chart and a 4% decrease compared to Q1 2017. The decrease in the pipeline of deals is the result of a significant decrease in the expected number of deals in the Industrials & Chemicals sector. The number of deals in this sector is expected to drop from approximately 50 in Q1 and Q2 2017 to 33 in Q3 2017. Technology & Media & is expected to continue to grow from 22 and 27 from Q1 and Q2 2017 to 33 in Q3 2017.



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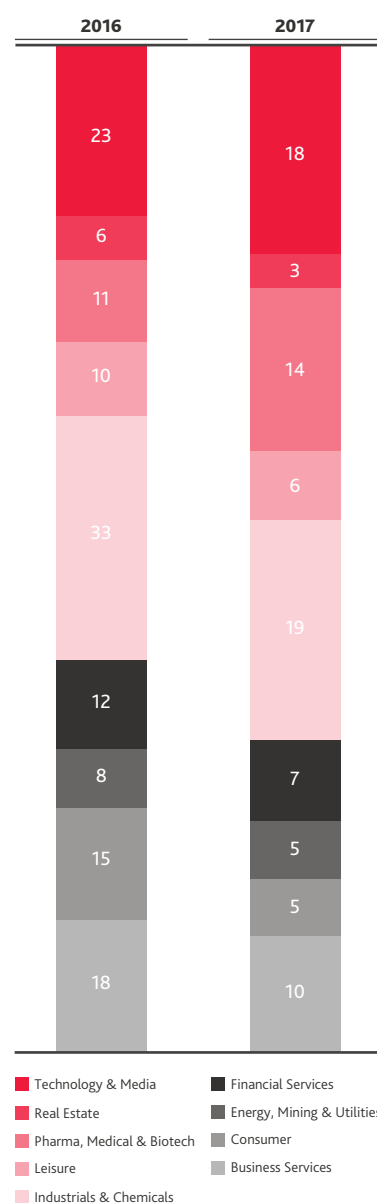
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## BENELUX HEAT CHART BY SECTOR

Consumer	35	20%
Industrials & Chemicals	33	19%
Technology & Media	33	19%
Business Services	27	15%
Pharma, Medical & Biotech	15	8%
Financial Services	14	8%
Energy, Mining & Utilities	13	7%
Leisure	5	3%
Real Estate	3	2%
<b>TOTAL</b>	<b>178</b>	<b>100%</b>

## BENELUX MID-MARKET VOLUMES BY SECTOR



# DACH

Q3 VOLUME FALLS TO THREE-YEAR LOW BUT DEAL-MAKING ACTIVITY EXPECTED TO RISE



## BIG PICTURE

- Record low in deal volume but outlook for future quarters looks promising
- Germany was the most attractive target country by deal value
- Uncertainties in policy-making affect M&A investors outside the EU
- Technology & Media remains the most attractive sector, although a sharp decline was recorded.

In the DACH region, there were 39 M&A deals in Q3 2017, which represented a weak performance compared to previous quarters. The total deal value dropped from USD 6.4bn to USD 2.7bn. This may be reflected by current economic uncertainties in policy-making.

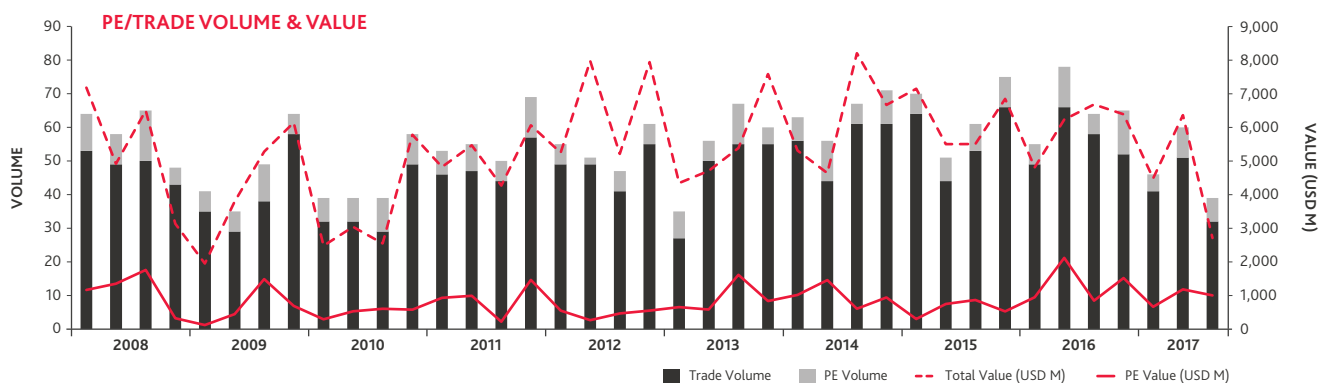
Focusing on private equity transactions, the overall picture seems to be stable. There were seven deals in the third quarter with a value of USD 1.0bn (down 15% compared to the previous quarter). The largest deal by value in Q3 2017 involved BC Partners Limited, which bought business services company PlusServer GmbH.

## KEY DEALS

Five of the top 10 bidder countries in Q3 2017 came from the USA and this high level of interest was expected due to the flourishing financial conditions for US investors. Recently, the European Commission has been urged to introduce EU-wide rules to assess direct investments from outside the EU, which could lead to fewer transactions in the upcoming periods.

The largest deal was in the Business Services sector. PlusServer GmbH, a German-based market leader in the managed hosting market, was acquired by BC Partners Limited, a UK-based leading private equity firm. The deal value of the transaction amounted to USD 458m. BC Partners is planning to continue PlusServer's sustainable growth, combined with further acquisitions. Depending on the outcome of Brexit negotiations, the UK might be also affected by the proposed EU investment assessment plans in the future.

The second largest deal in the DACH region was the sale of ImmoMentum AG (79% stake) in the Real Estate sector. The acquirer is Talbot Holding AG. Both companies are located in Switzerland and the deal value was USD 266m.





The only Austrian transaction in the top ten was the inbound acquisition in the Technology & Media sector of Tele2 Telecommunication GmbH by Hutchison Drei Austria GmbH. As a result of the deal, Hutchison has become the leading alternative telecom operator in Austria.

In the third quarter of 2017, the bulk of the top 10 transactions involved target companies based in Germany (six). Three companies were based in Switzerland and one in Austria.

### KEY SECTORS

There was reduced deal activity across most sectors in Q3 2017, with the main exception being Financial Services, which saw a surge of 100% in the number of deals completed in Q3 2017 compared to Q2 2017.

In the third quarter of 2017, the majority of M&A deals in the DACH region involved companies from the Technology & Media sector (28%) and the Industrials & Chemicals sector (21%), which still recorded a decrease in deal activity. The biggest losses (Q2 to Q3 2017) were in the Business Services sector (56%) and the Pharma, Medical & Biotech sector (50%).

### LOOKING AHEAD

The European Union has one of the most open investment environments. Now the EU is aiming to screen direct investments from abroad. A new EU framework has been proposed by Jean-Claude Juncker, President of the European Commission. It is questionable how that decision will impact future investments, however, most of the investments are not going to be affected. The reason is that the focus will be on strategic assets, such as critical technologies, since their usage can put the EU's security or infrastructure at risk.

Even though the Q3 2017 figures represent a three-year low in deal volume, we believe that deal-making activity will improve in the coming periods. Currently, there are 367 companies up for sale in the DACH's mid-market sector. Moreover, we expect all industries to keep up their momentum. The most active sector is predicted to be the Industrials & Chemicals sector with a big rise in the volume of deals, followed by the Technology & Media and Consumer sectors.



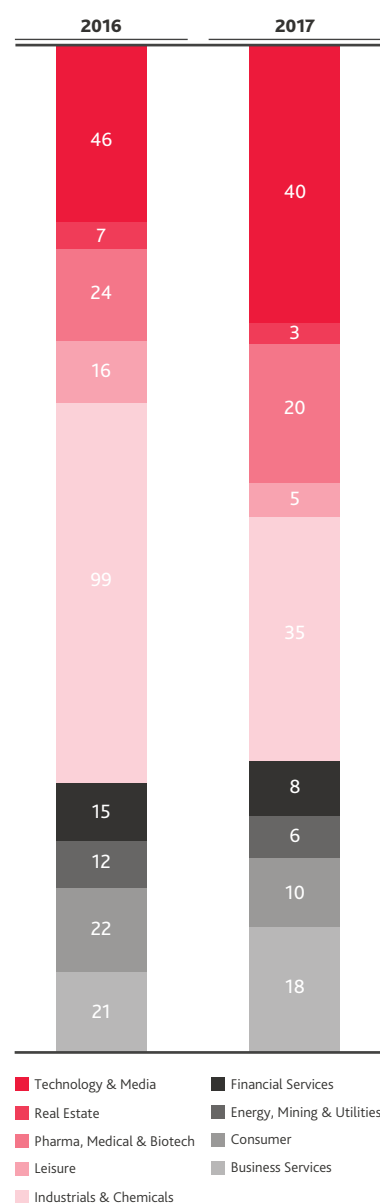
**CHRISTOPH ERNST**  
M&A MANAGER

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### DACH HEAT CHART BY SECTOR

Industrials & Chemicals	132	36%
Technology & Media	59	16%
Consumer	50	14%
Business Services	45	12%
Pharma, Medical & Biotech	27	7%
Financial Services	24	7%
Energy, Mining & Utilities	18	5%
Leisure	10	3%
Real Estate	2	1%
<b>TOTAL</b>	<b>367</b>	<b>100%</b>

### DACH MID-MARKET VOLUMES BY SECTOR



# NORDICS

M&A ACTIVITY SLOWS DOWN IN Q3 BUT PICK-UP PREDICTED FOR Q4



## BIG PICTURE

- Lower amount of M&A deals than the average Q3
- Private equity activity in line with prior third quarters
- 51% of all deals were in Industrials & Chemicals and TMT

The total number of M&A transactions in Q3 2017 was lower than prior third quarters. In addition, the total deal value was USD 1bn lower than the average third quarter (USD 3.8bn). Q3 2017 only constituted half the amount of deals that took place in Q2 2017, and one third of the total transaction value.

M&A activity among private equity firms has a higher volatility than the overall market in the Nordics. The eight PE buy-outs in Q3 2017 were in line with the average for third quarters since 2010. However, the total PE deal value was USD 0.6bn lower than previous third quarters.

## TOP 10 DEALS

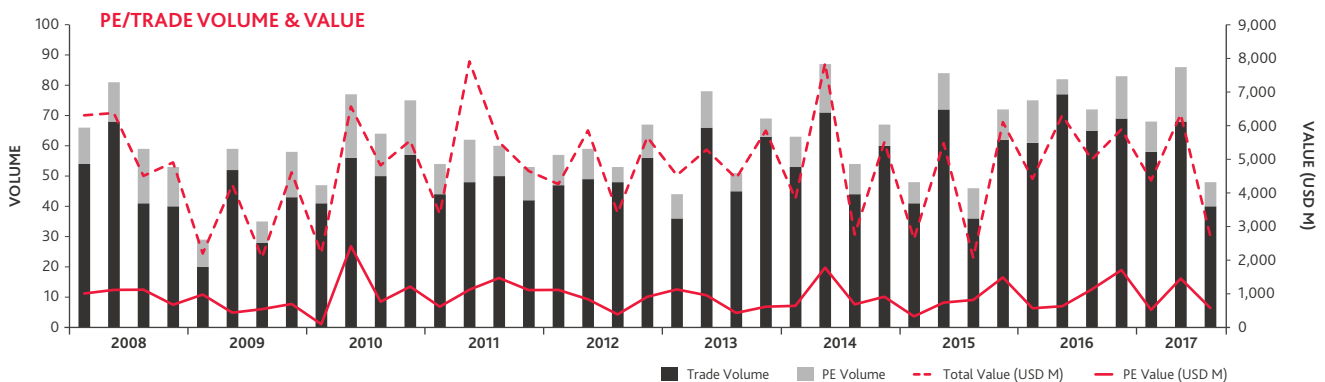
The top 10 deals in the Nordics in Q3 2017 accounted for two thirds of the total deal value. The quarter showed a high spread of countries on both the buy and sell side. The targets among the top 10 deals were mainly Norwegian (four) and Swedish (three)-based companies.

The largest transaction was Triton Partners' acquisition of a 75.16% stake in Glamox AS from the Norwegian company Arendal

Fossekompani ASA. Glamox AS is a Norwegian industrial group that develops, manufactures and distributes professional lighting solutions for the global market. The total deal value amounted to USD 317m.

The second largest transaction was Kuwait Foreign Petroleum Exploration Company K.S.C.'s acquisition of the Norwegian oil field company Gina Krog Oil Field from Total with a deal value of USD 317m.

The third largest deal was Shanying International Holdings Co., Ltd.'s acquisition of Nordic Paper Holding AB with a total deal value of USD 290m. The sellers were German-based Orlando Petek GmbH and Special Situations Venture Partners III.





## MOST ACTIVE SECTORS

Industrials & Chemicals remained the most active sector, accounting for 14 of the 48 transactions in Q3 2017. TMT was still the second most active sector, accounting for 11 deals followed by Business Services with 11 deals.

## LOOKING AHEAD

We still view the Nordic M&A market as remaining strong with low interest rates in Sweden and anticipate a pick-up in Q4 in deal volume given the slower third quarter. As always, we expect the TMT sector to be very active throughout the Nordics and PE to continue its high levels of activity.



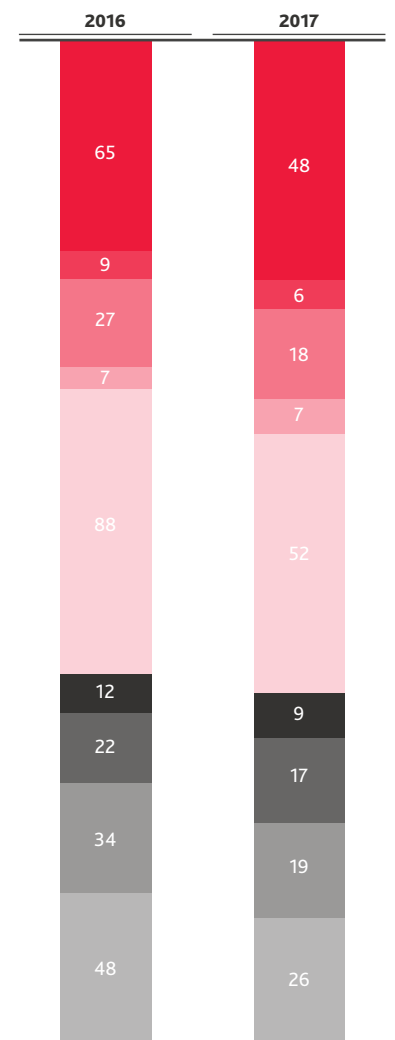
**HENRIK MARKKULA**  
DIRECTOR,  
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## NORDICS HEAT CHART BY SECTOR

Industrials & Chemicals	54	26%
Technology & Media	50	25%
Business Services	28	14%
Consumer	23	11%
Pharma, Medical & Biotech	14	7%
Energy, Mining & Utilities	14	7%
Financial Services	12	6%
Leisure	7	3%
Real Estate	2	1%
<b>TOTAL</b>	<b>204</b>	<b>100%</b>

## NORDICS MID-MARKET VOLUMES BY SECTOR



■ Technology & Media    ■ Financial Services  
■ Real Estate    ■ Energy, Mining & Utilities  
■ Pharma, Medical & Biotech    ■ Consumer  
■ Leisure    ■ Business Services  
■ Industrials & Chemicals

# CEE & CIS

VALUE OF PE BUY-OUTS HITS 10-YEAR HIGH AND OUTLOOK IS VERY POSITIVE FOR REST OF THE YEAR



## BIG PICTURE

- The average value of PE buy-outs was the highest for 10 years at USD 211m
- 7 of the region's top ten transactions were inbound deals
- Mid-market deals dominated by Industrials & Chemicals, Energy, Mining & Utilities and Consumer sectors.

M&A activity in the CEE & CIS region is heating up with 67 mid-market deals completed in Q3 2017, representing a combined value of USD 5.4bn.

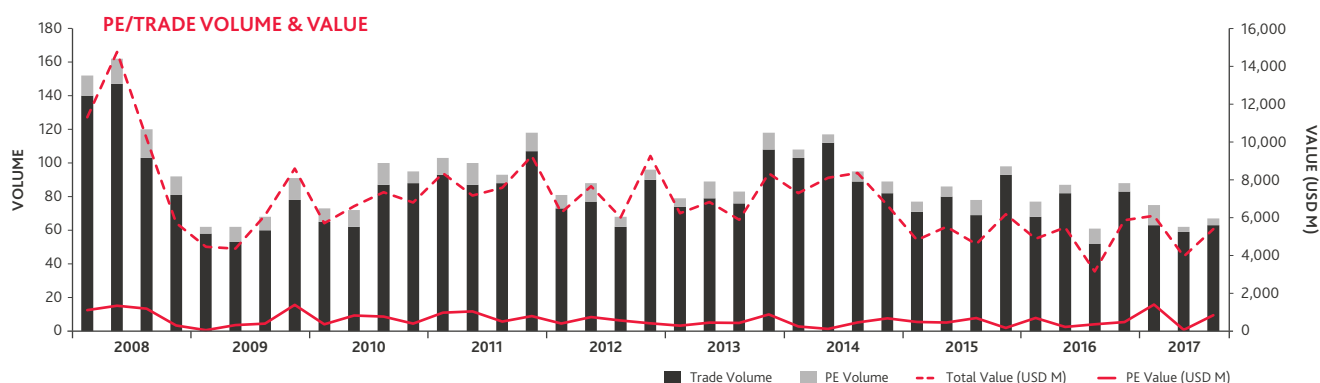
Q3 2017 saw 10% more deals with a combined value of 71% more than Q3 2016 figures – the highest for two years. Although private equity still represents only a moderate fraction of total deal activity by volume (6%), the value rose of these deals rose to 15.6% as a result of the highest average PE deal value (USD 211m) in the last 10 years.

## KEY SECTORS AND DEALS

Sector activity mainly followed familiar patterns. As has been the case in the last quarters, Industrials & Chemicals was the single most active sector with 23.9% of total M&A activity, followed by Energy, Mining & Utilities (17.9%), Consumer (16.4%) and Technology & Media & Telecom (13.4%). The sectors with the

lowest levels of activity were Real Estate, with no deals in the Q3 2017 and Pharma, Medical & Biotech (1.5%).

The largest ten transactions were dominated by domestic deals in Q3 2016 in the CEE & CIS region, with seven of the top ten being domestic transactions in terms of the target and bidder countries. The most active country was Russia with three domestic deals in the top ten deals. Among the cross-border deals were non-CEE & CIS countries represented by the USA, and the United Kingdom. The combined value of the region's top 10 deals was USD 2.8bn, or 52.4% of total transaction value. Industrials & Chemicals and Energy, Mining & Utilities were the most active sectors, both contributing three of the region's top 10 mid-market deals for Q3.





## LOOKING AHEAD

Rising business optimism in the CEE & CIS means we can expect greater M&A activity for the remainder of 2017. The increasing availability of equity and debt financing, should continue to drive up both the volume and value of M&A activity over the remainder of the year. Things already seem to be heating up – as the BDO Heat Chart shows. Current market intelligence reveals 699 deals either in progress or planned and CEE & CIS sits in third place among all the regions covered in this publication, behind North America (2,402) and China (1,020). If this figure is borne out by reality, with interest rates remaining low and confidence growing, then the region may see a busy last quarter in year 2017 and CEE & CIS will continue to be a region of economic importance, with a high volume of deals.

In terms of the sector outlook, Industrials & Chemicals is expected to be very active in 2017 with 177 (25%) predicted deals. The BDO Heat Chart underlines the continuing strength of the Consumer and Technology & Media sectors, with 117 and 116 forthcoming deal opportunities, each representing 17% of the predicted deals. Business Services, with 92 (13%) predicted deals, remains an important sector in the last quarter of 2017. On the other hand, Real Estate, with only 14 planned deals, looks like continuing its weak activity and Leisure, with 36 deal opportunities, are

below the numbers expected in other sectors. So even though the figures for the first three quarters did not deliver the upswing predicted by the heat chart, the moderate amount of activity and numbers of transactions in the first three quarters are likely to accelerate over the remainder of the year. We continue to see large amounts of liquidity and the upward trend for 2017 is still very much expected in the coming months. In addition, private equity buyers are still dealing with a capital overhang from prior fundraising efforts and need to put their money to work. Private equity buyers are also more confident in their ability to do deals, and are being helped by lenders eager to originate new loans in economic conditions that continue to improve. Overall we strongly believe that CEE & CIS will continue to deliver solid M&A activity, supported by positive macroeconomic conditions and increasing interest from cross-border investors.



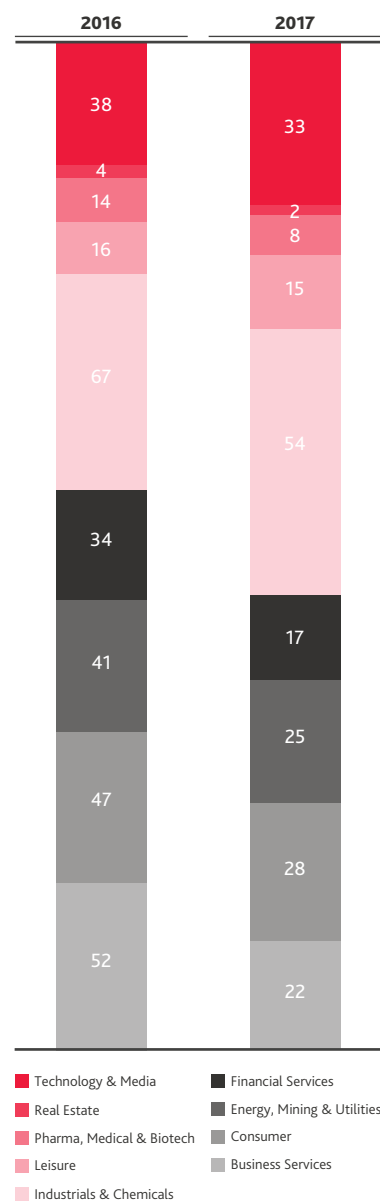
**ÁKOS BOROSS**  
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### CEE & CIS HEAT CHART BY SECTOR

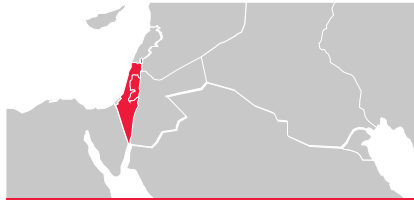
Industrials & Chemicals	177	25%
Consumer	117	17%
Technology & Media	116	17%
Business Services	92	13%
Energy, Mining & Utilities	66	9%
Financial Services	46	7%
Leisure	36	5%
Pharma, Medical & Biotech	35	5%
Real Estate	14	2%
<b>TOTAL</b>	<b>699</b>	<b>100%</b>

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



# ISRAEL

## MIXED QUARTER AS DEAL NUMBERS DOWN BUT VALUE UP



### BIG PICTURE

- Q3 2017 deal value is up from previous quarter, while deal value falls
- Compared to the same quarter of last year, Q3 2017 deal value grew sharply, while deal volume held steady
- Technology & Media and Industrials & Chemicals are the most active sectors
- PE deal volume holds up well, hitting a two-year quarterly high.

Mid-market M&A volume declined in Q3 2017 compared to the previous quarter, despite a slight growth in deal value. However, Q3 2017 showed an improved performance compared to the same quarter of the previous year. Overall, the first nine months of 2017 saw weaker results in terms of volume and value when compared to the first nine months of 2016.

Looking at the third quarter of 2017 against the previous quarter, deal numbers decreased by 22%, whereas deal value grew by 13%. Comparing Q3 2017 to Q3 2016, deal numbers were up by 6% and value grew by 66%.

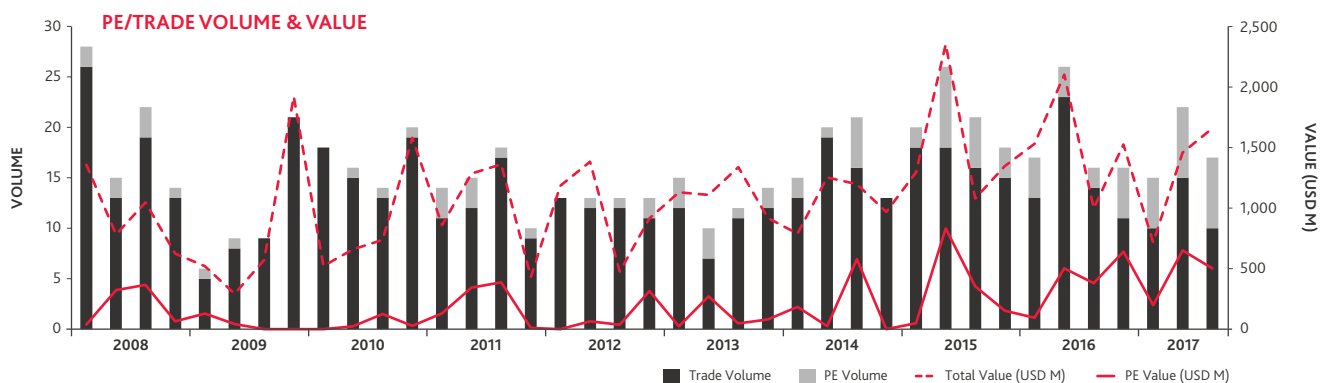
A total of 17 deals were completed during Q3 2017 with a combined transaction value of USD 1,658m, representing an increase of USD 200m against Q2 2017, and a decline in deal numbers, down by five from the 22 transactions completed in Q2 2017.

In Q3 2017, average deal value (USD 97m) increased by 47% compared to Q2 2017 and by 56% in comparison with Q3 2016.

Private equity deals represented 41.2% of total transaction volume in Q3 2017, which is higher than the previous quarter and well above Q3 2016's private equity share of 12.5%. Private equity's slice of total deal value during Q3 2017 was 30.3%, significantly down on Q2 2017's 44.6% share and lower than the Q3 2016 figure of 38.0%.

### KEY DEALS AND SECTORS

Israel's top ten Q3 2017 deals had a combined value of USD 1,558m, representing almost 93% of the total M&A transactions. The largest was the USD 500m acquisition of Plarium Global by Aristocrat Leisure. Plarium Global is





a social gaming developer which has created nine key gaming titles. The second largest transaction was the USD 226m acquisition of Enzymotec (90.03% stake), a leading provider of nutritional ingredients and medical foods, by Frutarom Industries. Other deals included the purchase of Luminati Limited by EMK Capital LLP and the sale of Fireglass to Symantec Corporation.

The most active sectors in Q3 2017 were Technology & Media, with eight deals and Industrials & Chemicals with four, followed by Pharma, Medical & Biotech with two, while Business Services, Energy, Mining & Utilities and Leisure accounted for one transaction each. Cross-border inbound deals remained strong, with eight transactions involving a foreign bidder, made up of four US buyers, two buyers from the UK and one each from China and Australia.

### PRIVATE EQUITY

Compared to the previous quarter, Q3 2017 private equity activity represented a significantly lower share overall deals. But private equity accounted for seven transactions in Q3 2017 (41.2% of total deals), compared to two in Q3 2016 and seven in the previous quarter.

Q3 2017 private equity deal value was USD 502m, compared to total Israeli M&A activity of USD 1,658m. The third quarter of 2017 saw a downward trend

in private equity deal value compared to Q2 2017, but value was up against Q3 2016. In terms of private equity deal volume, Q3 2017 was the same as Q2 2017 (seven deals), but well above the two deals completed in Q3 2016. Private equity's deal value shrunk from USD 650m in Q2 2017 to USD 502m in Q3 2017, but was well ahead of Q3 2016, which saw deal value of just USD 379m.

### LOOKING AHEAD

The BDO Heat Chart for Israel showed 67 deals planned or in progress as Technology & Media, Pharma and Industrials & Chemicals lead the way.

Technology & Media accounts for 42% of the deals, while Medical, Pharma and Biotech accounts for 22% and Industrials & Chemicals for 10%. Other sectors include Energy, Mining & Utilities with 6%, Financial Services and Leisure with 4%, and Consumer and Business Services with 3%.



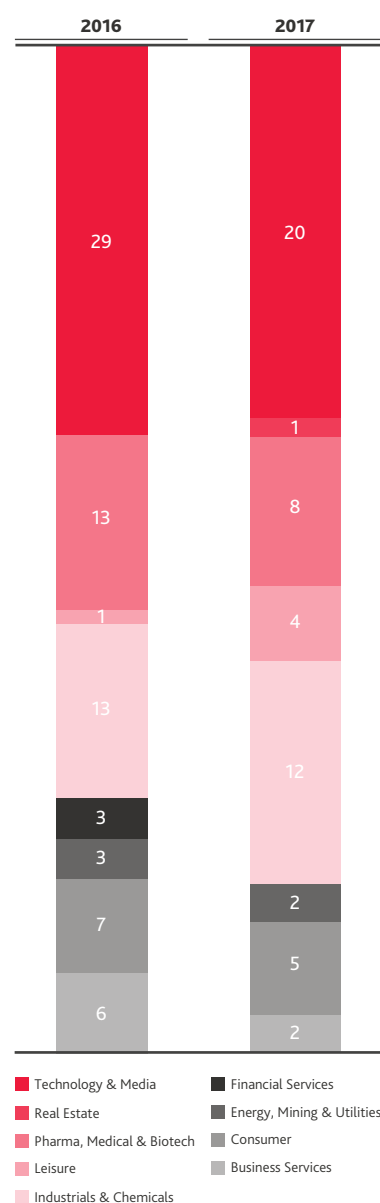
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### ISRAEL HEAT CHART BY SECTOR

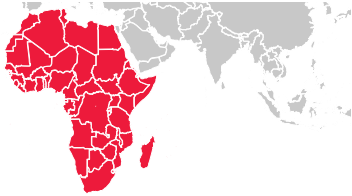
Technology & Media	28	42%
Pharma, Medical & Biotech	15	22%
Industrials & Chemicals	10	15%
Energy, Mining & Utilities	4	6%
Financial Services	3	4%
Leisure	3	4%
Consumer	2	3%
Business Services	2	3%
Real Estate	-	0%
<b>TOTAL</b>	<b>67</b>	<b>100%</b>

### ISRAEL MID-MARKET VOLUMES BY SECTOR



# AFRICA

SHARP DECLINE IN Q3 DEALS BUT BETTER NUMBERS PREDICTED FOR REST OF 2017



## BIG PICTURE

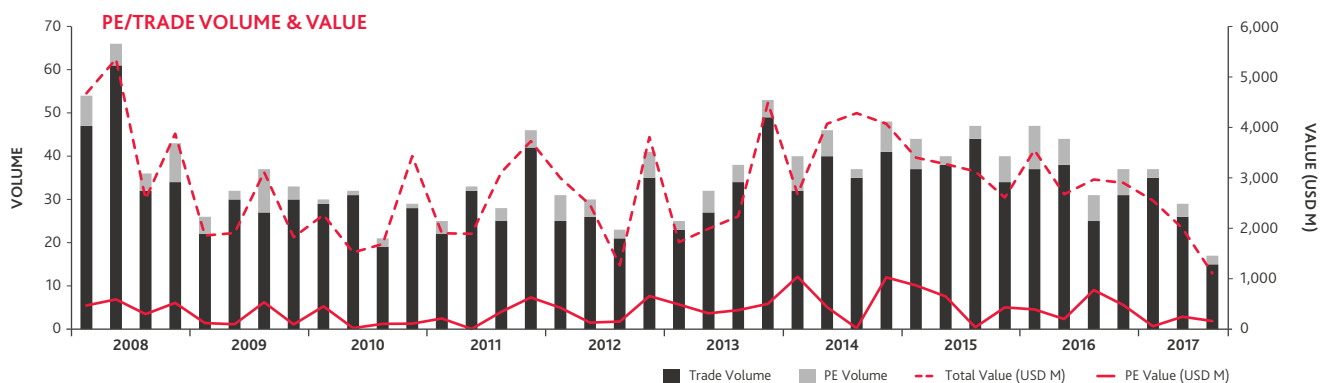
- Two private equity buy-outs were completed during the quarter, representing 11% of all deals
- Deals occurred in only four sectors: Consumer, Energy, Mining & Utilities, Financial Services and Industrials & Chemicals
- Overall deal volume and value have been following a downward trend since Q1 2016.

African mid-market M&A activities saw a total of 17 deals of the value of USD 1,107m, which represents a decline of 45% and 62% – in terms of number of deals and value respectively with respect to the third quarter of 2016, and a drop of 41% and 44% respectively in contrast with Q2 2017.

There was also a minor decrease in the number of PE buy-outs, from three deals to two deals for Q3 2017, compared to the previous quarter. It is worth highlighting that both the volume and value of deals closed have been following a decrescendo trend since Q3 2016.

The Energy, Mining & Utilities and Financial Services sectors, which were the most active sectors in Q2 2017, both recorded a decrease in the number of deals in Q3 2017. The Financial Services sector had its lowest number of deals since Q1 2014 with just three deals completed. There has been a drop of 55% in the number of deals in Energy, Mining & Utilities Mining relative to Q1 2017.

The top three deals took place in three different sectors unlike in Q2 2017, where all top three deals were in Energy, Mining & Utilities. The acquisition of a 98.15% stake in Holdspport Limited by Long4life Limited topped the list with a value of USD 297m. This transaction has provided Long4life with entry into the sports and outdoor market to strengthen its portfolio. The Energy, Mining & Utilities sector had the second largest deal at USD 225m. A South Africa-based Oakbay Investments sold its Tegeta Exploration and Resources mining business to unlisted Swiss-based fashion distribution company Charles King SA. The third largest transaction was worth a reported USD 113m. It pertained to the acquisition of a 22.9% stake by Kagiso Trust Strategic Investments Proprietary Limited in





Kagiso Tiso Holdings Proprietary Limited – a South African company held by Tisa Blackstar. This was part of Tisa Blackstar's strategy of exiting non-core assets and focusing on its media business. Tisa Blackstar's intention is to become a single-sector investment holding company, with a focus on media and related industries. Its media assets include newspapers, magazines as well as radio stations in South Africa, Kenya and Ghana. All of the top three deals for this quarter involved investment acquisitions in South Africa. This signals investors' optimism regarding growth and opportunities in the South African economy.

After slowing sharply in 2016, growth in Sub-Saharan Africa (SSA) is recovering, supported by modestly rising commodity prices, strengthening external demand, and the end of drought in several countries. According to the World Bank, growth in SSA is expected to improve by 2.6% in 2017 and by an average of 3.4% in 2018-19. In Angola, growth is projected to increase from 1.2% in 2017 to 1.5% in 2019. This represents a slight pick-up of activity in the Industrials & Chemicals sector as energy supplies improve. The subdued recovery in the region's largest economies reflects the slower-than-expected adjustment to low commodity prices in Angola and Nigeria, and higher-than-anticipated policy uncertainty in South Africa. Growth in non-resource intensive countries should remain solid; this can be explained by infrastructure investment, strong services sectors along with the recovery of agricultural production.

## LOOKING AHEAD

The regional outlook is exposed to various significant external risks. An increase in global interest rates could negatively impact the financing strategy of Governments as sovereign bond issuance will be less appealing. Governments have increasingly had recourse to global funds to finance domestic investment. Furthermore, environmental risks are elevated in East Africa. Inadequate rainfalls have resulted in seasonal dryness in areas of Kenya, southern Ethiopia, South Sudan, and Uganda. These conditions will severely affect agricultural production, push food prices higher and increase food insecurity.

The BDO Heat Chart for Africa's mid-market M&A activity suggests a positive outlook with 122 deals forecast in the rest of 2017. The predominant sectors are likely to be Industrials & Chemicals with 25 deals, representing 20% of the total deals expected in Q4 2017 and Energy, Mining & Utilities with 34 deals, representing 28% of the forecast deal volume.



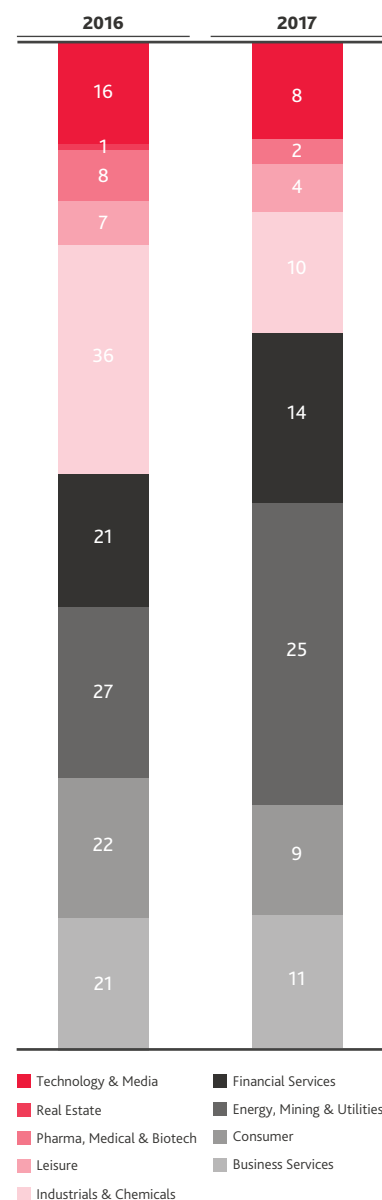
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### AFRICA HEAT CHART BY SECTOR

Energy, Mining & Utilities	34	28%
Industrials & Chemicals	25	20%
Business Services	12	10%
Financial Services	12	10%
Real Estate	11	9%
Technology & Media	10	8%
Consumer	9	7%
Pharma, Medical & Biotech	6	5%
Leisure	3	2%
<b>TOTAL</b>	<b>122</b>	<b>100%</b>

### AFRICA MID-MARKET VOLUMES BY SECTOR



# INDIA

## POSITIVE ECONOMIC OUTLOOK LOOKS SET TO BOOST M&A ACTIVITY



### BIG PICTURE

- India's growth story continues to foster a positive investment climate
- Industrials & Chemicals and Technology & Media remain the most active sectors
- 'Make in India' programme is helping the country to become a global hub for hi-tech manufacturing.

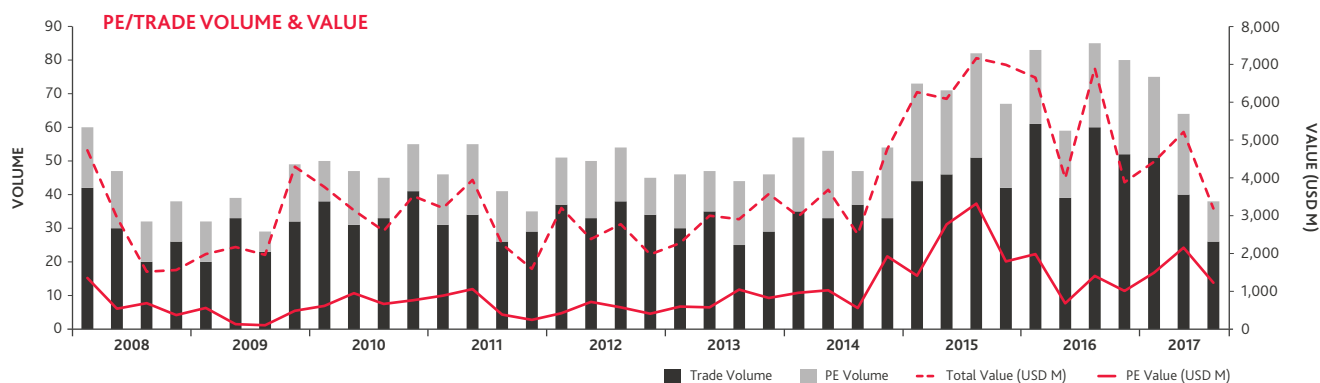
India is a developing economy with an average annual growth rate of 7% for the last two decades, rising foreign exchange reserves and a booming capital market. India has a trillion-dollar economy, with a largely self-sufficient agricultural sector, a diversified industrial base and a stable financial and services sector.

Throughout 2017, India has continued to be a healthy deal-making market and is expected to keep growing in the coming years. Investment in private equity and venture capital has increased 180% in value over the last year to reach a total of USD 8.7bn during Q3 2017. This is increasingly due to the strong exit performance of companies over the year which has boosted investor confidence. India's growth story will continue to be affected by the positive investment climate, growth in consumption and effective structural reforms.

In 2017 to date, India has seen continued inbound and outbound cross-border deal activity despite the impact of Brexit. Overall deal activity in Q1 2017 was driven solely by the Vodafone-Idea mega-

merger, which contributed more than 80% of the total value. PE investments were driven by Alibaba's fresh round of investment, increasing its stake to 62% in One97 (Paytm) as well as Warburg Pincus' investment in PVR Ltd for a 14% stake. Notable outbound deals included Aurobindo Pharma's acquisition of Generis Farmaceutica SA and the Piramal deal to acquire Mallinckrodt LLC.

In Q3 2017, there were 118 M&A transactions worth USD 2,142m as compared to a deal count of 139 and a value of USD 11,221m for the same period in 2016. Q3 2017 recorded only six transactions valued at and above USD 100m as compared to 14 deals for the same period in 2016, which featured three billion-dollar deals.



### LOOKING AHEAD

The dynamic economic outlook, as well as Government support and a record of good performance, have all boosted mid-market deal activity in India. The concentration of inflows in the sectors of Disruptive Financial Technology, Digital Innovation, Infrastructure, Life Sciences, Skill Development, backed up by Government initiatives supporting investments in these growing sectors, have allowed the deals landscape to pick up from last year and is now moving in a better direction. While the number of deals has largely remained

the same, the ticket sizes of deals as well as number of exits are increasingly reaffirming investor confidence in India.

A deals market that had a bullish start in 2017 – anticipating what a new, business-friendly government administration might do – has calmed along with the stock market. Businesses appear to be giving a vote of confidence to an economy growing steadily, if not spectacularly. They're still striking deals and taking long-term opportunities.





This scenario is expected to change as deal-makers get to grips with GST regulations and bounce back into action with more inbound, cross-border and domestic deals expected.

In Q3 2017, the Financial Services sector led deal activity by contributing more than 26% of the total deal value. The most notable deal of the quarter was Dilip Buildcon Ltd's sale of its stake in 24 road assets to Shrem Group for an enterprise value of USD 250m, making it the biggest transaction so far in 2017 in the infrastructure sector.

The PE/VC trend in India in 2017 to date has favoured the consolidation of capital with larger fundraising activity to increase stakes.

The application of the Insolvency and Bankruptcy Code is expected to increase the number of transactions going forward into the next quarter and fiscal year.

The Indian Government's 'Make in India' campaign and the focus on digitalization in the country's IT industries is fostering investment, innovation, protecting intellectual property, and building best-in-class manufacturing infrastructure.

Despite substantial fire power on the balance sheets, private equity deal activity hovered at the same volume as last year, with a 14% dip in value. Technology & Media, Consumer and Real Estate deals combined made up over 60% of the value of PE acquisitions so far

this year. In terms of volume, Technology & Media, Consumer and Industrials & Chemicals products led the way, accounting for 24%, 15% and 15% of all PE deals respectively.

Manufacturing has emerged as one of the high-growth sectors in India. Prime Minister India Narendra Modi launched the 'Make in India' programme to place India on the world map as a manufacturing hub and give global recognition to the Indian economy. India is expected to become the fifth largest manufacturing country in the world by the end of 2020.

The Gross Value Added (GVA) at basic constant (2011-12) prices from the manufacturing sector in India grew 7.9% year-on-year in 2016-17. Under the 'Make in India' initiative, the Government aims to increase the share of the manufacturing sector to the gross domestic product (GDP) to 25% by 2022, from 16%, and to create 100m new jobs by 2022.

With the help of 'Make in India', India is on the path to becoming the hub for hi-tech manufacturing for global giants such as GE, Siemens, HTC, Toshiba, and Boeing, who have either set up or are in the process of setting up manufacturing plants in India, attracted by India's market of more than a billion consumers and increasing purchasing power.



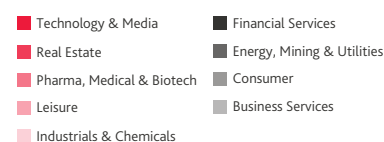
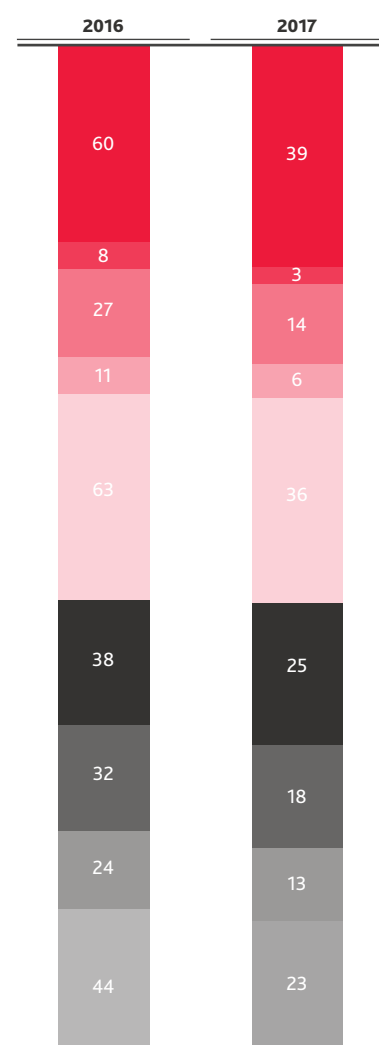
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PARTNER

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## INDIA HEAT CHART BY SECTOR

Industrials & Chemicals	94	24%
Consumer	59	15%
Financial Services	54	14%
Technology & Media	47	12%
Business Services	46	12%
Pharma, Medical & Biotech	36	9%
Energy, Mining & Utilities	36	9%
Leisure	10	3%
Real Estate	9	2%
<b>TOTAL</b>	<b>391</b>	<b>100%</b>

## INDIA MID-MARKET VOLUMES BY SECTOR



# CHINA

MID-MARKET ACTIVITY REMAINS STRONG AND NUMBER OF OUTBOUND DEALS EXPECTED TO INCREASE IN FUTURE



## BIG PICTURE

- Total deal volume decreased by 10% in the first nine months of 2017 compared to the first nine months in 2016
- Looking ahead to the next quarter, the 19th National Congress of China to be held in mid to late October 2017 may result in further revisions in M&A policies, including additional outbound investment restrictions
- Technology & Media, Business Services and Industrial & Chemicals remain the most popular sectors in China.

Total deal value in the third quarter of 2017 declined by 5% from USD 41bn in the third quarter of 2016 to USD 39bn.

However, total deal volume increased by 2% from 420 deals in the third quarter of 2016 to 428 deals in the third quarter of 2017. This indicates a slight decrease in average deal value but continued M&A activity in the region.

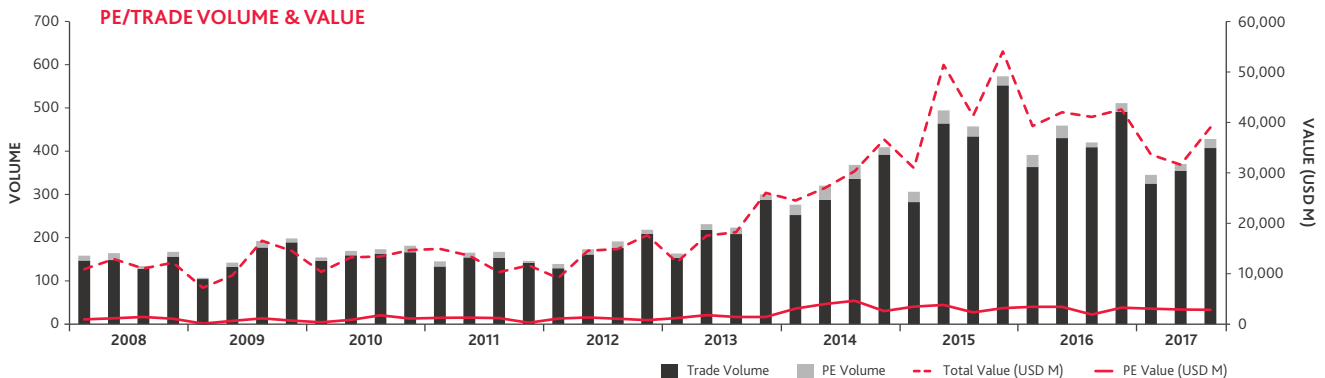
China's capital market in the third quarter of 2017 was influenced by regulatory actions to crack down on, among other things, business malpractices and insider trading. The China Banking Regulatory Commission have started to inspect the credit risk policies of some of the larger conglomerates in China that have been very active in overseas investments. This has affected some of these larger companies, including HNA Group and Wanda Group, in terms of their international ratings and their lenders have apparently scaled back their financing support to the groups. Deal volumes for larger-sized transactions have already

been inspected in 2017. Mid-market M&A activity has nonetheless continued, due to the continued investments, fund raising and financing from private equity firms and other listed companies.

## INBOUND INVESTMENT

The volume of domestic deals is expected to slightly decrease in the rest of 2017, with some players waiting for the outcome of the 19th National Congress of China. It is expected that there will be bigger M&A transactions involving the reform of some of China's state-owned enterprises. We anticipate that there will be continued interest for inbound transactions in the pharmaceutical and healthcare sectors, influenced by China's ageing population. The infrastructure sector, in particular related to the Belt & Road initiative, will provide opportunities for foreign players to work with local businesses.

## PE/TRADE VOLUME & VALUE





## OUTBOUND INVESTMENT

China's outbound M&A activity has been increasingly regulated in 2017. Outbound investment regulations have recently been issued by the State Council of China which provided guidelines for 'encouraged', 'restricted' and 'prohibited' outbound investments.

The 'encouraged' sectors include Belt & Road related infrastructure, industrial upgrades, agriculture and qualifying financial institutions that intend to establish service networks abroad. This also includes investments that facilitate the export of China's production capacity, equipment and technical standards in cooperation with overseas high-tech and advanced manufacturing companies.

'Restricted' sectors include real estate, hotels, film studios, entertainment, sports clubs and investments that do not meet the environmental protection, energy consumption and safety standards of the recipient country.

'Prohibited' sectors include investments involving military technology, gambling and lewd industries and those that may compromise China's national interests and national security.

China's outbound M&A activity is expected to grow, in particular in the 'encouraged' sectors which are likely to benefit from quicker and more efficient regulatory approvals.

## TOP DEALS

Some of China's major mid-market deals in the third quarter of 2017 were primarily focused in the Technology & Media sector, which have also been one of the more popular sectors in China since 2015. The top three major mid-market deals include:

- Senior management of Lenovo Group (including its CEO) invested in 7.54% worth of new shares in Lenovo Group for USD 500m – announced in September 2017
- Ele.me acquired Xiaodu Life Technology Ltd. from Baidu Inc. for USD 500m – announced in August 2017
- Wuhan Ddmc Culture Co. Ltd acquired Super Sports Media Inc. from PCCW Limited, IDG Capital and Shanghai Oriental Pearl Media Co, Ltd. for USD 500m – announced in July 2017.

## LOOKING AHEAD

The latest BDO Heat Chart for China indicates that there are a total of 1,020 deals planned or in progress with 304 (30%) related to Industrials & Chemicals and 165 (16%) related to Technology & Media. Other key sectors include Business Services, Consumer and Financial Services.



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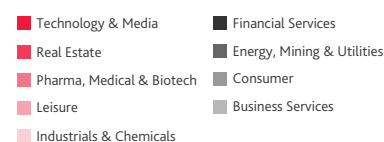
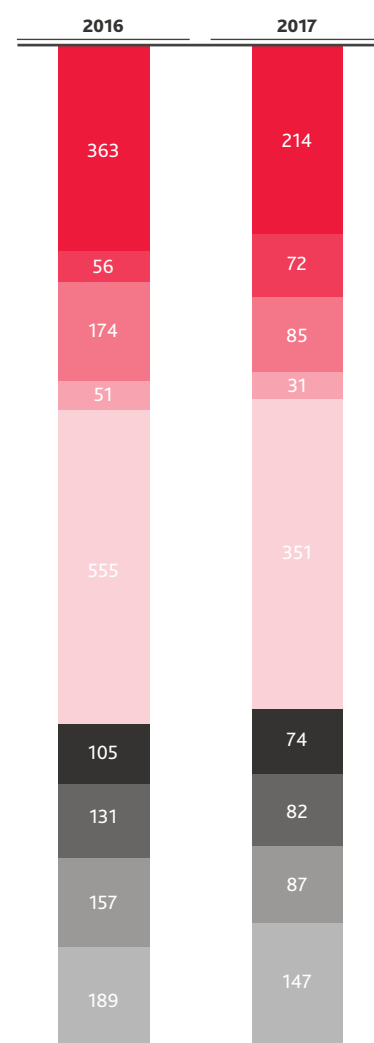
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## CHINA HEAT CHART BY SECTOR

Industrials & Chemicals	304	30%
Technology & Media	165	16%
Business Services	130	13%
Consumer	122	12%
Financial Services	78	8%
Energy, Mining & Utilities	76	7%
Pharma, Medical & Biotech	68	7%
Leisure	49	5%
Real Estate	28	3%
<b>TOTAL</b>	<b>1,020</b>	<b>100%</b>

## CHINA MID-MARKET VOLUMES BY SECTOR





# JAPAN

## TOKYO 2020 OLYMPICS NOT YET DRIVING MID-MARKET DEAL ACTIVITY



### BIG PICTURE

- Deal volume slightly decreases but value increases
- Deal pipeline looks promising for Technology & Media, Pharma, Medical & Biotech, Industrials & Chemicals
- Four deals in these sectors are ranked in the top 10 mid-market deals for Q3 2017.

Deal volume has decreased from 2017 Q1, but value has increased compared with the previous quarter.

Deal volume fell from 56 to 53 compared with the previous quarter, and decreased from 66 to 53 compared with Q1 2017, which represents a 20% decline. Contrarily, value has risen from USD 3,732m to USD 4,884m, which represents a 30% increase, due to large-scale deals.

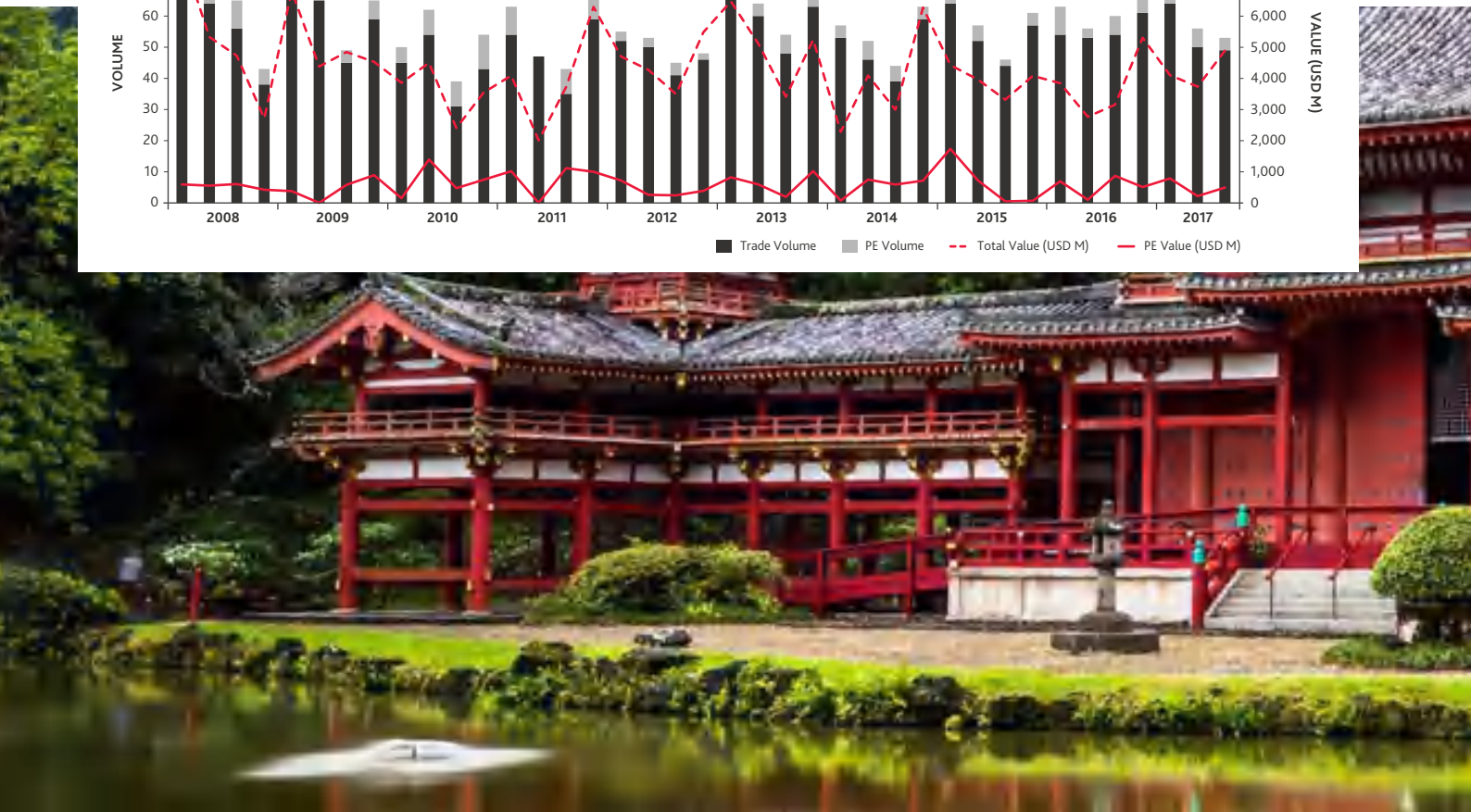
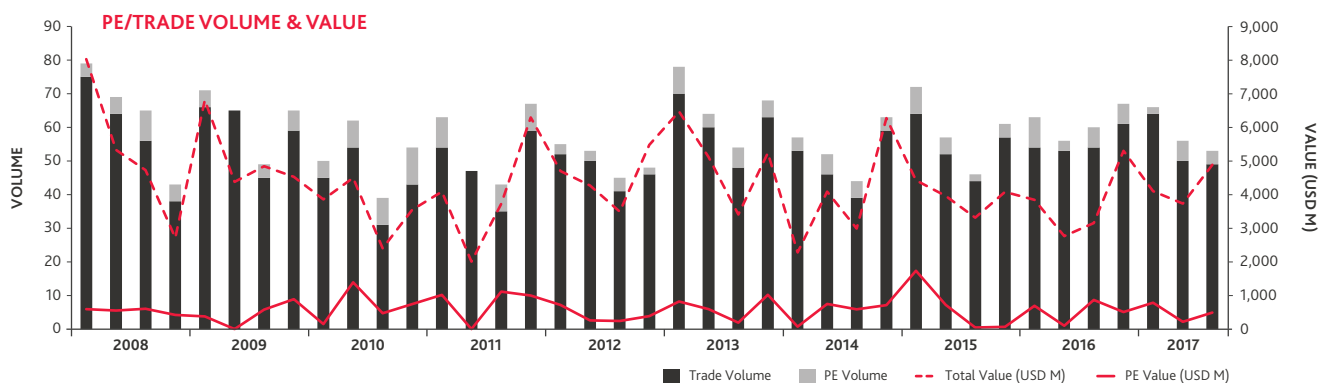
Looking at the number of trade and PE deals, we find that while trade transaction volume held steady, PE volume declined. This translates to a decrease in overall M&A volume brought on by the fall in PE deals.

### KEY DEALS AND SECTORS

The top 10 deals in Q3 2017 include two deals in the Industrials & Chemicals sector, and two deals in the Pharma, Medical & Biotech sector.

These two sectors account for approximately 43% of the top 10 deals in Q3 2017. On the other hand, mid-market volume by sector shows that the top three sectors are Technology & Media, Industrials & Chemicals, and Consumer. The Technology & Media sector had a high number of transactions, but they were not large-scale deals.

The upcoming Olympic Games is setting a positive tone for the economy in general. Sectors which are impacted by the Olympic Games are Real Estate, including construction, and Leisure, and this momentum is allowing Japan to develop its infrastructure. Roads, bridges, railways and other infrastructure systems were constructed during Rapid Economic Growth (from the mid-50s through the 60s), and these facilities are coming



up for renewal. Real Estate including construction, and Energy, Mining & Utilities are the sectors which could potentially benefit from these projects but currently there is no sign of growth in mid-market. Economic growth will positively impact these sectors, but this may not result in good opportunities in mid-market M&A.

The Pharma, Medical & Biotech sector is unpredictable in Japan. There is a possibility that a review of pharmaceutical prices will be conducted every year from 2018 onwards. We do not know whether these regulatory changes will bring opportunities to the sector. However, we are certain that the sector will be impacted. We will have to stay up to date on the regulatory changes to assess the impact it will have for Pharma, Medical & Biotech.



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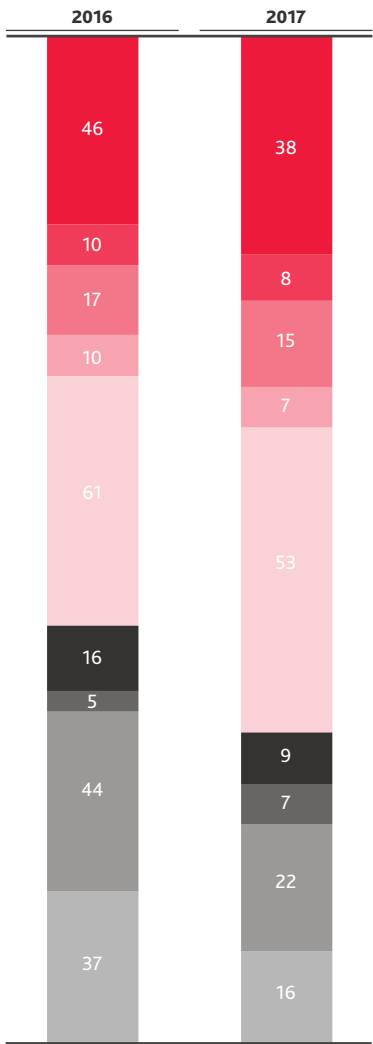
LOOKING AHEAD

The BDO Heat Chart shows that three sectors, Technology & Media, Pharma, Medical & Biotech and Industrials & Chemicals, will account for approximately 60% of the total volume. The Heat Chart predicts an increasing number of M&A deals in these sectors. However, these sectors are not related to the Tokyo 2020 Olympic Games or infrastructure reconstruction, so other sectors such as Real Estate and Leisure may see increased M&A deal-making activity in the future. Furthermore, there is also a possibility that M&A deals due to business succession issues will come to fruition, because there are a number of small companies which do not currently have future successors in place due to Japan's falling birthrate and the ageing population.

JAPAN  
HEAT CHART BY SECTOR

Technology & Media	40	23%
Pharma, Medical & Biotech	35	20%
Industrials & Chemicals	28	16%
Consumer	28	16%
Business Services	27	16%
Energy, Mining & Utilities	5	3%
Financial Services	5	3%
Real Estate	4	2%
Leisure	2	1%
TOTAL	174	100%

JAPAN  
MID-MARKET VOLUMES BY SECTOR



- Technology & Media
- Real Estate
- Pharma, Medical & Biotech
- Leisure
- Industrials & Chemicals
- Financial Services
- Energy, Mining & Utilities
- Consumer
- Business Services



# SOUTH EAST ASIA

A MIXED QUARTER AS DEAL NUMBERS RISE BUT VALUE FALLS



## BIG PICTURE

- Top 10 deals represent 52% of total deal value
- Main focus remains in the Industrials & Chemicals sector
- Cross-border deals may increase due to currency fluctuations.

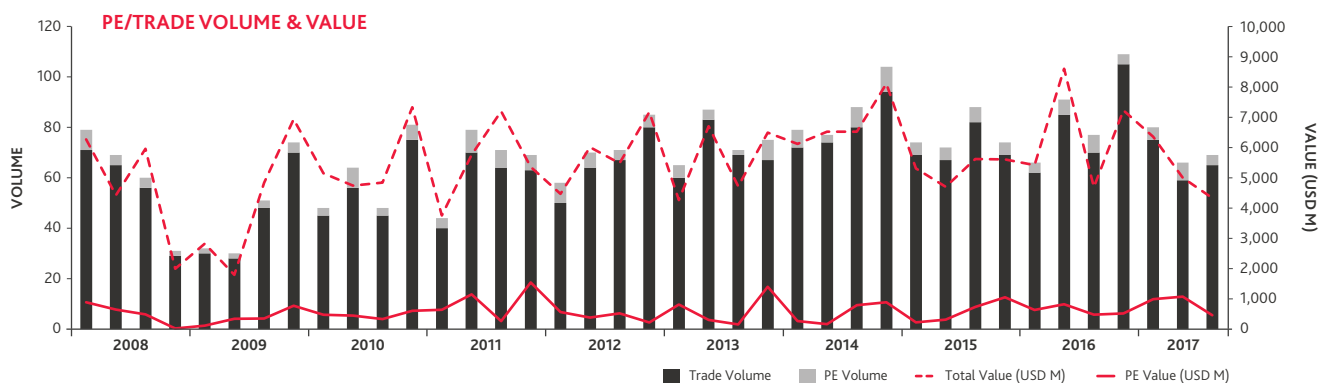
The M&A market in South East Asia was higher in Q3 2017 compared with the previous quarter in terms of volume but the value of deals was lower.

In total, 69 deals were completed during the quarter compared with 66 deals in Q2 2017, representing an increase of 4.5%, while total values decreased to USD 4.3bn from USD 5.0bn. The top ten deals for the quarter amounted to USD 2.7bn, representing 52% of Q3 2017 total deal value. The private equity segment completed four deals in Q3 2017, which was three deals fewer than the corresponding period in 2016. It formed a small proportion of total M&A activities for the quarter, representing 5.8% by the number of deals and 10.5% by transaction value.

The most active sectors in Q3 2017 were Industrials & Chemicals, Business Services, and Technology & Media, which together contributed 61% of total deal numbers

in Q3 2017. Industrials & Chemicals was the most active sector, contributing the highest number of completed deals at 22 while Business Services and Technology & Media contributed 11 and nine deals respectively.

The top three deals were in the Energy, Mining & Utilities, Technology & Media and Leisure sectors respectively. The largest deals were the acquisition of a 10% stake in Petronas LNG 9 Sdn Bhd by PTTGL Investment Limited (Thailand) from Petroliaam Nasional Berhad of Malaysia for a consideration of USD 500m, followed by the acquisition of Traveloka Holding Limited (Indonesia) by Expedia Inc (USA) at USD 350m and finally the acquisition of Yum Restaurants International (Thailand) Co., Ltd by Thai Beverage PCL (Thailand) at USD 340m.





## LOOKING AHEAD

The main focus of M&A activities is in the Industrial & Chemicals sector. This sector not only had the highest number of deals completed in Q3 2017 (22 deals) but also has the highest number of deals in the pipeline as at the end of Q3 2017 (57 deals). In Business Services and Technology & Media, there were 33 and 26 deals completed respectively in Q3.

M&A activities in South East Asia remain dependent on the current economic challenges faced by the region, which include the outlook on crude oil prices and the consequential fluctuation of currencies in the region. With South East Asia's currencies having weakened against the US dollar, investors with predominant US dollar income or funding may find assets and targets in the region attractive. Cross-border transactions may therefore become more prevalent.



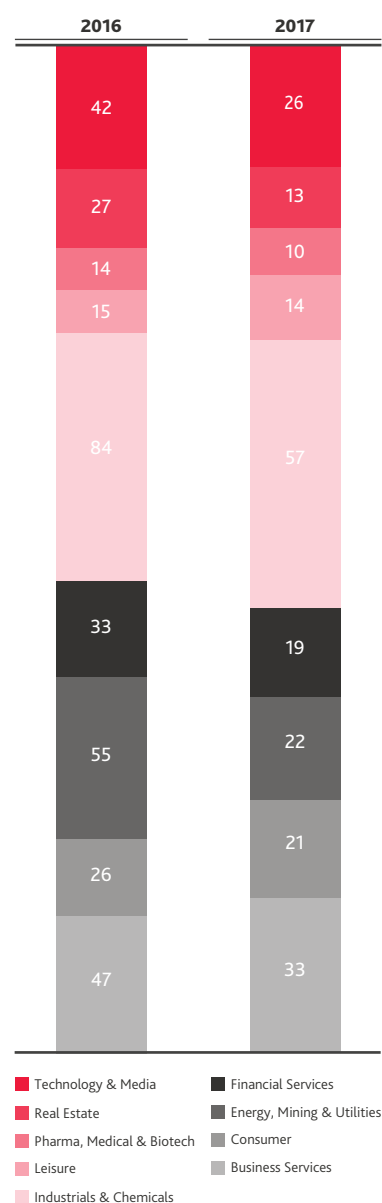
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### SOUTH EAST ASIA HEAT CHART BY SECTOR

Industrials & Chemicals	93	19%
Business Services	77	16%
Consumer	61	13%
Financial Services	57	12%
Technology & Media	56	12%
Energy, Mining & Utilities	52	11%
Leisure	36	7%
Real Estate	33	7%
Pharma, Medical & Biotech	21	4%
<b>TOTAL</b>	<b>486</b>	<b>100%</b>

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



# AUSTRALASIA

M&A ACTIVITY CONTINUES TO DECLINE BUT OUTLOOK IS POSITIVE FOR CLEAN ENERGY AND TECHNOLOGY-BASED DEALS



## BIG PICTURE

- Deal activity declines 39% from Q2 2016, representing the poorest performing Q3 since 2009 (by deal value)
- PE firms faced challenges in finding attractive investments despite circa USD 6-7bn deployable capital
- Six of the top ten deals of Q3 2017 featured foreign bidders, indicating that foreign interest in Australia as a safe and low-risk economy remains high.

Ninety-four deals with a combined value of USD 4bn were successfully completed in Q3 2017. This represents a 3% increase on Q2 2017 deal volumes (91) and a 39% decline in deal value compared to the corresponding quarter in 2016.

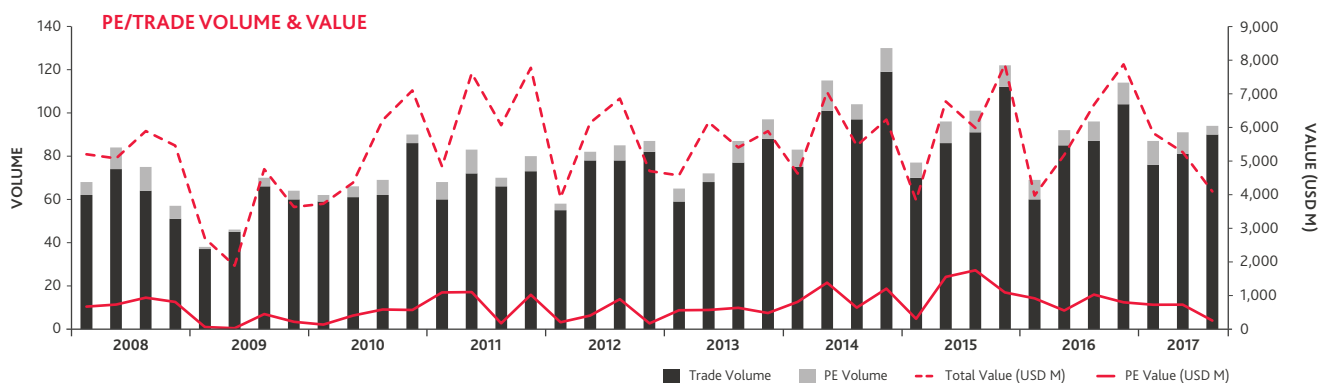
Total deal volumes were down 2% for Q3 2017 from the same period in 2016. The average transaction value for the quarter, USD 44m, was 37% lower than the prior corresponding 2016 quarter, indicating a slowdown in big-ticket deals.

Mid-market PE transaction volumes accounted for 4.3% of deal activity in Q3 2017. The four deals, totalling USD 250m, represent a 56% drop in transaction volume and a 45% drop in value from the prior corresponding quarter. The average mid-market PE deal size decreased to USD 63m from USD 114m in the prior corresponding quarter. Our analysis indicates that there is circa USD 6-7bn in deployable PE capital, however the challenge of finding the right companies (and price) to invest in are leading to lower volumes.

The largest drop in deal volumes was seen within the Technology & Media and Consumer sectors, down 53% and 20% respectively. Leisure and Financial Services saw the highest rise with increases of 36% and 50% respectively from the prior corresponding quarter. Activity in the Energy, Mining & Utilities sector continues to improve, up 14% in volume, accounting for three of the quarter's top 10 deals.

## KEY DEALS

The largest deal in Q3 2017 was the 6.3% minority stake acquisition of Challenger Limited by MS&AD Insurance Group Holdings Inc. for USD 392m. The deal was a strategic one, aiming to explore growth opportunities for both parties, particularly through the private annuity life insurance market. The second largest deal in the



quarter was Yancoal Australia Limited's USD 230m acquisition of a 28.9% stake in Warkworth Joint Venture, as the sellers sought to capitalise on the demand for high-quality Australian coal in the Hunter Valley region of New South Wales.

Other notable deals included the acquisition of Opus International Consultants Limited for USD 217m by Canada's WSP Global Inc; the USD 200m acquisition of TRILITY Pty Ltd by Hong Kong's Beijing Enterprises Water Group Limited; and the acquisition of 60% of Advanced Personnel Management by Quadrant Private Equity Pty Limited for USD 189m. Six of the top 10 deals had foreign bidders (based within Asia or North America), indicating that foreign entities continue to view Australia as a safe investment hub offering competitive returns.



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## LOOKING AHEAD

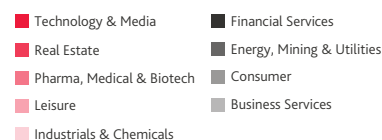
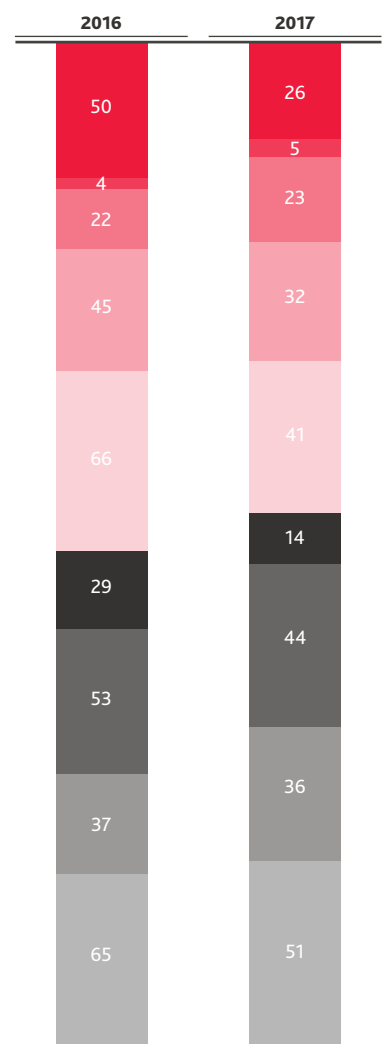
Our analysis indicates that the Technology & Media and Consumer sectors are expected to see the most M&A activity with 94 and 83 deals in the pipeline respectively. They are closely followed by Industrials & Chemicals at 74 and Business Services at 65. No mid-market transactions in Real Estate were completed in Q3 and we expect the deal volumes within the Real Estate space to remain low.

Our analysis suggests that the M&A activity levels are expected to remain stable overall as the BDO Heat Chart shows that 483 deals are currently under way, relatively in line with the 500 in Q2 2017. However, increased activity is expected within the Energy, Mining & Utilities and Technology & Media sub-sectors. A recent report (by Pinsent Masons and MergerMarket) noted that Australia and New Zealand ranked among the top five regions for energy investment. We expect deals, primarily focused on clean energy and technology, to continue to increase.

### AUSTRALASIA HEAT CHART BY SECTOR

Technology & Media	94	19%
Consumer	83	17%
Industrials & Chemicals	74	15%
Business Services	65	13%
Energy, Mining & Utilities	59	12%
Financial Services	42	9%
Pharma, Medical & Biotech	41	8%
Leisure	19	4%
Real Estate	6	1%
<b>TOTAL</b>	<b>483</b>	<b>100%</b>

### AUSTRALASIA MID-MARKET VOLUMES BY SECTOR







# SECTOR VIEW



## **P44** NATURAL RESOURCES

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MINING SECTOR M&A ON THE RISE WHILE OIL & GAS SECTOR FOCUSES ON STRATEGIC RATIONALISATION FOR NOW



## **P46** INDUSTRIALS & CHEMICALS

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M&A ACTIVITY CONTINUES TO SLOW IN Q3 BUT FUNDAMENTALS REMAIN ROBUST



## **P48** REAL ESTATE

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REAL ESTATE M&A ACTIVITY CONTINUES TO GROW IN ASIA WHILE TRADITIONAL REAL ESTATE HUBS HAVE QUIETER QUARTER



# NATURAL RESOURCES

## MINING SECTOR M&A ON THE RISE WHILE OIL & GAS SECTOR FOCUSES ON STRATEGIC RATIONALISATION FOR NOW

In the past few years while commodity prices have been low, mining companies have reverted back into their shell, focusing on the 'low risk' assets in their own back yard. Many have turned their attention away from the resource rich but relatively risky areas of Africa, South East Asia and Latin America, deploying their depleted capital to areas of perceived lower risk.

What was the reason for this? It's because when these companies found funds in the equity capital markets harder to come by, they became far more careful about where those funds would be spent. This meant not only cutting back on as much overhead and administration expenditure as possible, but also cutting back on exploration expenditure and the acquisition of companies and projects in those areas. The focus of investment and M&A reverted to their lower-risk back yards of North America, Australia, Europe and North Asia.

In the last 12 months, increased commodity prices and the increased appetite of the equity capital markets for mining stocks has meant that mining companies are finding equity funding much easier to come by. As a result, they are far more interested in spending that money. Copper prices are at a three-year high while zinc prices have been at a 10-year high. This makes it is easier for mining companies to raise equity than it has been for some time and as a result M&A has started to increase.

Oil and gas has not seen the same increase in investment or M&A with the oil price remaining within the USD 45 to USD 55 range for much of 2017. A feature of mid-market M&A in the oil sector has been the strategic rationalisation of assets such as Pengrowth Energy Corporation's Alberta assets which we discuss later in this article.

### NOTABLE DEALS

Australian private equity firm EMR Capital acquired an 80% interest in the Lubambe Copper mine in Zambia, which had been held jointly by Vale International and African Rainbow Minerals, for USD 97m. After seeing the rise of specialist mining private equity funds over the last few years this was one of the first instances of a specialist mining private equity fund acquiring an asset directly rather than acquiring an interest in mining companies themselves. While this type of deal has been commonplace in utilities, it is rare in mining and energy.

With oil prices remaining steady, the level of mid-market M&A transactions has been subdued. However, there were some notable transactions:

- Towards the end of the quarter, International Petroleum Inc acquired the Suffield Natural Gas project in Alberta, Canada from Cenovus Inc for USD 415m with additional payments to be made if the WTI price is above USD 55 or the gas price is above USD 3.50 per MMBtu.
- This transaction was structured similarly to Elk Petroleum's acquisition of a 63% interest in the Greater Aneth Oil Field in Utah from Resolute Energy Corporation for up to USD 185m, of which USD 35m is dependent on oil prices being above an undisclosed benchmark over the next three years.
- Also in Alberta, an undisclosed bidder agreed to acquire the Olds/Garrington area assets in Central Alberta, from Pengrowth Energy Corporation, a Canadian oil and gas producer and energy trust, for a cash consideration of CAD 300m (USD 232.719m). Pengrowth Energy Corporation also sold its remaining interest in its Swan Hills Assets in North Central Alberta for USD 121m after the sale of the first part of the Swan Hill asset was settled in July 2017 for a cash consideration of USD 137m.



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## LOOKING AHEAD

Oil & gas M&A has not shown the uptick that mining M&A has seen. One theory is that if the current supply restriction deal, which involves 24 OPEC and non-OPEC countries, is extended, then we will see oil prices continue to creep steadily upwards. This may bring with it an increase in M&A.

Other commodity prices are likely to stay above long-term averages, which means that equity markets will continue to be a good source of funds to mining M&A. With this we are likely to see the trend of such M&A moving towards Africa, South East Asia and Latin America, where better value assets may be available.

The BDO Heat Chart shows that on average 9% of M&A transactions will be in the Energy, Mining & Utilities sector. The table shows those regions where M&A in this sector is predicted to form a greater proportion of the total than average, together with the top six regions for future M&A activity. This highlights that while North America will continue to be the largest by the number of transactions, M&A in this sector will be particularly important in Africa in the future.

	No of deals		Percentage of total
North America	219	Africa	28%
Greater China	76	Latin/South America	16%
CEE	66	Middle East	14%
Australasia	59	Australasia	12%
Latin/South America	59	South East Asia	11%
South East Asia	52	UK/Ireland	10%

# INDUSTRIALS & CHEMICALS

M&A ACTIVITY CONTINUES TO SLOW IN Q3 BUT FUNDAMENTALS REMAIN ROBUST

Following last year's record-breaking performance, the Industrials & Chemicals sector has seen a 25% YTD reduction in deal value. The statistics reveal that a total USD 312bn has been spent so far this year on 2,388 transactions, compared to 2,534 deals worth USD 420bn in the equivalent period in YTD 2016. In terms of the numbers of transactions completed, Q3 2017 was the lowest quarter since Q3 2013.

The largest transaction in Q3 2017 was the acquisition of Rockwell by United Technologies for USD 29.9bn in the aerospace subsector. Deals targeting the US recorded 633 transactions worth USD 95.9bn. That represents a 46% slump in deal value from the last year's comparison of USD 178bn. Although the number of deals remained almost stable, the average deal size was considerably smaller. In that respect one cannot say that the US is any less attractive for foreign investors but it's clear that smaller deals were pursued. Domestic US M&A activity performed more positively with 502 deals worth USD 63.3bn, up from 486 deals worth USD 75bn in 2016. US outbound M&A activity reached the highest YTD performance since 2001 with 211 deals worth USD 91bn. Europe was the most targeted geography by US buyers.

European M&A activity has closed 1,014 deals worth USD 108.5bn this year, decreasing almost 20% in value compared to Q3 last year. Industrial products and services was the most active subsector in the region, with CVC Capital Partners and Canada Pension Plan's USD 7.3bn sale of Ista International to Sarvana being the quarter's biggest deal. Transactions are expected to stagnate for the rest of 2017 in the UK, especially in sectors such as finance and manufacturing that are expected to suffer most in the event of difficult Brexit negotiations.

On a global scale there are several political issues that are affecting M&A activity. In the US dealmakers are concerned over the expectation of rising interest rates and tax policies. This includes interest deductions on debt deductions versus amortization of capital expenditures and last but not least the possibility of a border adjustment tax. If US protectionism policies are introduced, it could hit large exporters to the US, such as Germany and China. Europe is closely watching the UK negotiate its EU exit negotiations and trying to understand the effects this could have on its economies. The impact could be substantial for the German economy due to their high direct investments in the UK. In addition, the Chinese Government has decided to slow credit growth to more sustainable long-term rates. Slower growth in China would undermine global commodity demand and prices, as well as manufactured goods trade, resulting in exchange rate volatility and this all could affect world growth. There are, however, also upside risk scenarios, e.g. the introduction of growth-friendly policies in the US as well as infrastructure investments that have become urgent in the US and in some European countries. These policies and investment programmes can provide a fiscal stimulus that will support growth.

Globally the manufacturing sector has seen a resurgence in private equity buy-outs and 2017 has recorded the highest deal count since YTD 2009. Private equity players still have significant amounts of dry powder available to invest and are actively looking for deals in the sector. However, valuations have reached high multiples and the high number of failed deals shows that there is some anxiety around and that puts a dampener on M&A activity.



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# REAL ESTATE

REAL ESTATE M&A ACTIVITY CONTINUES TO GROW IN ASIA WHILE TRADITIONAL REAL ESTATE HUBS HAVE QUIETER QUARTER

Rising real estate activity in Asian markets was a key theme in the previous edition of HORIZONS, and this has been a continuing trend in the third quarter of 2017, with circa 85% of M&A activity taking place in Asia.

The sustained prominence of Asian capital, which has grown dramatically over the last 30 years, looks set to continue as investors seek secure investments both in the international and domestic property sectors. With the Chinese Belt & Road initiative, this investment is only likely to increase going forward.

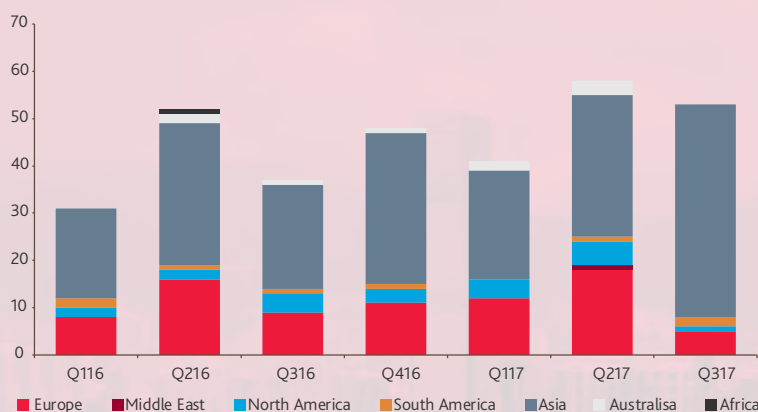
The traditional real estate hubs such as Europe, North America and Australasia have been relatively quiet in the most recent quarter, which may be a reflection of recent geopolitical uncertainty causing a slowdown in real estate activity.

Since January 2016, the number of global real estate transactions has seen a slight upturn, with the 2017 quarterly average increasing to 51 from 42 in 2016.

In this time, we have seen the highest levels of activity in the Asian markets which is emphasised by the fact that over 60% of global real estate deals since the start of 2016 have been in the Asian region. This has, in particular, been driven by China, which accounted for 40% of overall real estate activity. As mentioned earlier, China has been focussing particularly on infrastructure investment to boost trade and services between China and the rest of the world. South East Asia has also seen significant real estate activity during this period.

Europe has been the second most active continent since 2016, although it had an extremely quiet Q3 2017. This may be the impact of political elections in France and Germany, as well as the slowing in real estate activity in the UK & Ireland.

DEAL ACTIVITY BY CONTINENT



	Q116	Q216	Q316	Q416	Q117	Q217	Q317	TOTAL	%
EUROPE	8	16	9	11	12	18	5	79	25%
MIDDLE EAST	-	-	-	-	-	1	-	1	0%
N. AMERICA	2	2	4	3	4	5	1	21	7%
S. AMERICA	2	1	1	1	-	1	2	8	3%
ASIA	19	30	22	32	23	30	45	201	63%
AUSTRALISA	-	2	1	1	2	3	-	9	3%
AFRICA	-	1	-	-	-	-	-	1	0%
<b>TOTAL</b>	<b>31</b>	<b>52</b>	<b>37</b>	<b>48</b>	<b>41</b>	<b>58</b>	<b>53</b>	<b>320</b>	



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It may also be a result of the summer months traditionally being a quieter time for activity. We are yet to see whether the real estate activity will be impacted by the weak sterling which may cause increased foreign investment in the historically popular London market.

North American activity continued its decline, which may represent a hangover from the global financial crisis, sluggishness or the political uncertainty which currently surrounds US politics. Despite the positive H1 2017, Q3 2017 saw a return to the general sluggishness of the North American real estate sector. As witnessed by Blackstone's purchase of Astro Japan (an Australian REIT), it may be that this means US investment companies are willing to invest in international markets rather than domestic offerings.

In Australasia, it has been a quiet Q3 2017, however there has been an increasing trend over the past year of AREITs delisting and selling their assets both internationally (in the case of Generation Healthcare and Astro Japan) and domestically (with the potential acquisition of Asia Pacific Data Centres). It is not expected that the quiet Q3 2017 will be a reflection of future M&A activity within the Australasian region.

The other regions, such as the Middle East and Africa, have relatively little M&A real estate activity, although we do note there were two large South American transactions during Q3 2017.

Overall, the real estate activity continues its relentless march to the East, however it will be interesting to see if we see an upturn in the traditionally strong North American, European and Australasian regions in late 2017.

## NOTABLE DEALS

A number of prominent real estate deals occurred within Q3 2017:

### EUROPE:

- Talbot Holding, a Swiss Company, invested in a 79% stake of ImmoMentum AG, a fellow Swiss Company, for USD 266m.

### SOUTH AMERICA:

- Cyrela Commercial Properties S.A., a Brazilian company, sold its 50% stake in Prologis CCP to Prologis Inc for USD 364m
- A Peruvian transaction, Inversiones La Rioja, sold a 99.97% stake to Inversiones Nacionales de Turismo S.A for USD 218m.

### ASIA AND AUSTRALASIA:

- Astro Japan Property Group, an Australian REIT, sold all its interests in Japanese assets to Blackstone Group LP for USD 345m
- Sime Darby Property Berhad, a Malaysian company, sold a 40% stake in Seriemas Development Sdn. Berhad to PNB Development Sdn. Berhad for USD 146m.

In summary, there were some trends that have influenced the M&A market in 2017 to date and will continue to do so:

01

The M&A market remains active.

02

Political and regulatory uncertainty remains.

03

Cross-border transactions continue to provide a source of value creation.

04

Activists will remain prominent (in large transactions).





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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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