HORIZONS

BDO'S GLOBAL VIEW OF MID-MARKET DEAL ACTIVITY

MERGERS&ACQUISITIONS

ISSUE 3 | 2017

UK MID-MARKET

BUSINESS PRAGMATISM TRUMPS POLITICAL UNCERTAINTY

FEATURE

UK MID-MARKET FOCUS: Resilient despite political environment

REGIONAL VIEW

VIEWS FROM AROUND THE GLOBE

SECTOR VIEW

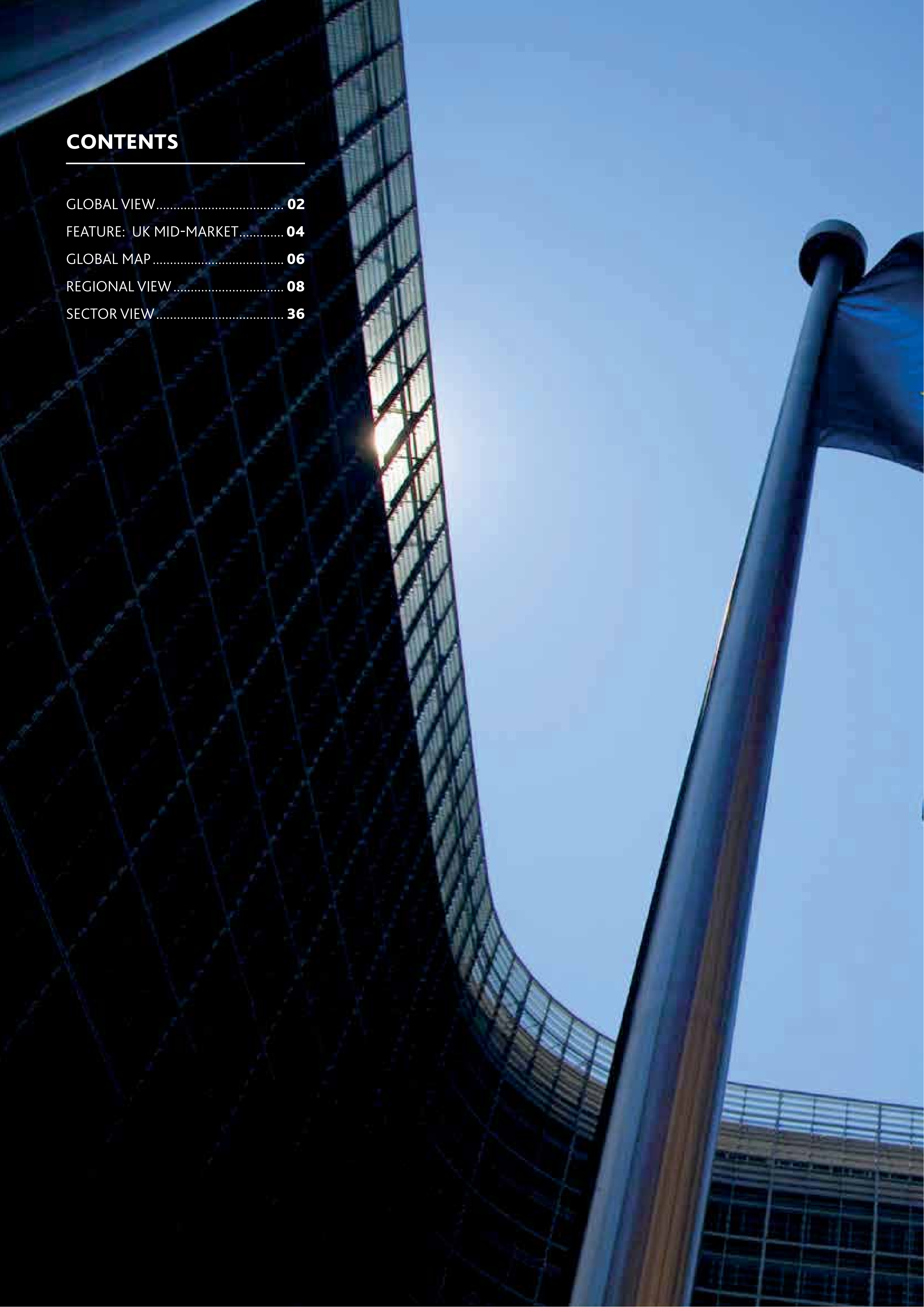
CONSUMER

REAL ESTATE

MANUFACTURING

BDO

CONTENTS



WELCOME

In the latest edition of BDO HORIZONS, our M&A professionals review recent trends and forecast what lies ahead.

In the last issue, we highlighted several oncoming political events that could impact the M&A market and it is pleasing to report that the outcomes have been largely positive.

With the election of moderate French President Emmanuel Macron it seems the rise in support for outsider groups has been capped and that the 'old continent' will more or less stick together.

However, with the UK Prime Minister Theresa May formally handing in notice for leaving the European Union by the end of March 2019, political and economic uncertainty remains.

In issue 3 of HORIZONS in 2017, we analyse the status of the UK economy following some interesting facts uncovered by BDO research. Our M&A professionals provide you with first-hand expert information and illustrate the M&A challenges and opportunities in the mid-market. Obviously, these are likely to be impacted by Brexit and many companies have already started assessing the risks and opportunities that Brexit may bring for their businesses.

Uncertainty and volatility in markets can also create opportunities. The weak pound, which is a consequence of the current political and economic uncertainty, is also leading to record levels of interest from overseas buyers into the UK as they hold a price advantage compared to domestic acquirers. Export companies have also benefited from greater levels of demand, while the Financial Services sector is still unclear about the outcome of the upcoming Brexit talks and how it will impact their industry.

INSIGHTS FROM A LEADING M&A ADVISER

Looking back on Q2 2017, we can see that once again political uncertainty has suppressed deal volume and value. Nevertheless, the steep downtrend of Q1 2017 has been broken and there are several indications that M&A activity is on the rise. Our BDO Heat Chart forecasts an increasing number of potential deals. After a massive rise in Q1 2017 (+2,607 targets or 48.7%) we see another rise in deals. At the end of Q2 2017 there are actually 8,327 potential deals in the pipeline. As long as uncertainty declines, we are confident that these deals shall be absorbed by the market.

MAREK FRANKE
HEAD OF GLOBAL M&A

marek.franke@bdo.ch

SUSANA BOO
INTERNATIONAL CORPORATE FINANCE COORDINATOR

susana.boo@bdo.co.uk

GLOBAL VIEW

COMPARING NOW AND THEN

Clarity on President Trump's action plan, the election of moderate France President Mr Macron and the beginning of the formal Brexit process were not enough to reassure M&A players.

In our previous issue, we highlighted that Q1 2017 was the weakest quarter in terms of M&A activity since Q1 2013. Since then, several political and economic events occurred which might have been expected to improve the situation. The first signs are that there has indeed been an improvement. The downward trend in global deal volume is weakening and global deal value even registered a slight increase. In Q2 2017, global transaction volume fell to 1,736 deals, down 6.4% from 1,847 deals in Q1 2017. Global deal value, on the other hand, increased by 0.6% from USD 158.5bn in Q1 2017 to USD 159.5bn in Q2 2017. But in comparison to 2016, a strong year for M&A, Q2 2017 deal value is still very low, illustrating the ongoing uncertainty that is holding back global M&A activity.

It's a different story for private equity. There were 259 transactions in Q2 2017, representing an increase of 10% in deal volume and 25% (+ USD 7.4bn) in deal value, compared to the previous quarter. The number of Q2 2017 deals is the same as in Q2 2016 (259) while deal value was 27.5% ahead at USD 34.3bn – the highest figure since Q1 2008.

In our first two editions of this year we highlighted a trend towards bigger deals and this continued in Q2 2017. The average deal size in Q2 2017 increased to USD 91.8m (6.6% ahead of Q1 2017), which is the second highest average since Q1 2008.

COMPARING HERE AND THERE

Taking a look at M&A mid-market activity across our 17 regions, we have to bear in mind that 2016 and especially Q2 2016 were historically very strong periods for M&A activity. With the exception of Other Asia, Latin America and the Middle East, all the remaining 14 regions underperformed against Q2 2016 in terms of deal volume. In terms of deal value, the result was similar. Only Japan, Other Asia, Latin America, Middle East and India performed more strongly in Q2 2017 than in Q2 2016.

In comparison to the previous quarter, deal volumes across the 17 regions were also lower in Q2 2017, except in the Nordics, Greater China, DACH, Israel and Other Asia. Looking at deal value in the same period, we note that against a low Q1 2017 base line, eight out of 17 regions performed positively: the Middle East , Israel, Other Asia, Benelux, DACH, North America, Nordic and India.

Once again, North America was the most active region in Q2 2017. 466 transactions were completed, representing a fall of 25% against Q2 2016 (622 transactions) and down 5% against Q1 2017 (491 transactions). Looking at deal value, this sank 12% from USD 60bn in Q2 2016 to USD 52.8bn in Q2 2017. In comparison to Q1 2017, however, deal value increased 15% (+ USD6.9bn).

As expected, the UK & Ireland region, weakened in terms of deal volume and deal value, but not as sharply as many presumed. Looking at deal value, this sank from USD 13.8bn in Q2 2016 and USD 11.4bn in Q1 2017 to USD 9.6bn in Q2 2017, representing a fall of 30% and 16% respectively. Deal volume has decreased in the same period by 25% and 9% and respectively.

As for sectors, all saw less deal activity in Q2 compared to the same quarter last year. The most prominent declines were in Leisure , Pharma, Medical & Biotech and Financial Services . Compared to Q1 2017, only Real Estate and Technology & Media performed positively.

LOOKING AHEAD

The BDO Heat Chart for regions and sectors shows 8,327 potential deals in the pipeline. This represents an increase of 365 targets, or 4.6%. This is all the more surprising because the deal pipeline was already full after a massive increase of 2,607 targets or 48.7% in Q1 2017. This 'backing up' of deals may reflect the ongoing cautious behaviour of market participants.

The biggest geographical increase was in North America, followed by Greater China and India. The BDO Heat Chart forecasts that deal activity will be headed by the North American market.

As for sectors, we expect Pharma, Medical & Biotech to see the greatest increase in deals, followed by Technology & Media and Financial Services. Industrials & Chemicals is still expected to dominate the overall deal flow.

As well as the number of pipeline deals, other fundamentals will of course influence the global M&A market. Deal activity tends to lag the equity markets by six to nine months. New all-time highs in the Dow Jones Industrial and other important indices bode well for deal-making in the near future.

Even if Brexit takes place in an orderly manner, it's going to be a long-lasting process and uncertainty will be ongoing. Nevertheless, several positive factors such as increasing capital investment activity into France, a driver of European M&A activity, could push activity higher.

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	348	538	303	209	230	356	178	64	19	2,245	27%
China	306	171	111	119	65	58	91	46	32	999	12%
CEE & CIS	183	134	117	78	66	35	53	37	14	717	9%
Southern Europe	136	104	149	92	32	36	51	22	10	632	8%
South East Asia	97	48	59	77	63	33	56	35	34	502	6%
Australasia	79	98	94	66	60	35	39	19	10	500	6%
India	97	66	60	62	43	39	62	11	9	449	5%
Latin America	69	42	66	66	69	26	28	22	2	390	5%
UK & Ireland	44	89	70	57	44	17	58	27	6	412	5%
DACH	125	80	45	41	17	25	24	12	3	372	4%
Nordics	57	58	23	25	22	19	7	11	3	225	3%
Other Asia	70	52	24	22	7	23	21	11	3	233	3%
Japan	33	43	32	26	6	31	11	8	4	194	2%
Benelux	52	27	43	28	12	15	13	6	3	199	2%
Africa	26	10	9	17	40	3	13	7	6	131	2%
Middle East	9	26	6	9	11	2	7	5	2	77	1%
Israel	11	18	-	1	6	11	2	1	-	50	1%
TOTAL	1,742	1,604	1,211	995	793	764	714	344	160	8,327	100%
	21%	19%	14%	12%	10%	9%	9%	4%	2%	100%	

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

MAREK FRANKE
HEAD OF GLOBAL M&A

marek.franke@bdo.ch

UK MID-MARKET

BUSINESS PRAGMATISM TRUMPS POLITICAL UNCERTAINTY

Despite uncertainty being the 'new normal', our latest research shows that the UK's entrepreneurial mid-sized businesses are still pursuing ambitious growth plans and providing enticing targets for acquisition.

JOHN STEPHAN
M&A PARTNER

john.stephan@bdo.co.uk

The surprise decision by the UK Government to call a snap General Election and the resulting loss of its majority has cemented the notion that uncertainty is the new normal.

Brexit, the election of Donald Trump in the US, a potential Scottish referendum and the outcome of the UK General Election and the elections in France all point to the fact that political upheaval is the trend of the moment. Expect the unexpected seems to be a wise mantra to follow.

The reassuring point is that there are plenty of cool heads around and the pragmatism of business throughout the last 12 months has been a shining example of seeking the opportunity despite uncertainty.

The low cost of sterling since last June's referendum result has played its part. In the M&A world, we have seen some big acquisitions in the mid-market space and in our day-to-day work with UK and international entrepreneurial businesses, there has been a palpable sense of people just rolling up their sleeves and getting on with their growth plans.

And why not? The fundamentals of the UK economy are sound, international markets are growing and now is still a good time for UK businesses to be expanding overseas and for foreign businesses to be investing in the UK.

UK MID-MARKET LEADS THE WAY

Let's look at some of the recent data that BDO has produced that supports these points (http://neweconomy.bdo.co.uk)

British entrepreneurial mid-sized businesses have shrugged off Brexit uncertainty by growing faster than their German, French, Spanish and Italian counterparts over the last 12 months, as illustrated below. There is no reason to assume this won't continue despite the additional layer of uncertainty caused by the outcome of the General Election.

Over the last five years the UK's mid-sized businesses have grown their revenues by 34.7%, just a shade ahead of Germany at 34.6%. The equivalent businesses in France, Italy and Spain grew revenues 20%, 16% and 12% respectively over the last five years. British businesses are leading the way in an environment where international counterparts are also growing. This feels like a good place to be.

British mid-sized businesses are also the most profitable across the top five EU economies, generating profits of £97bn (profit growth of 19% in one year) compared to Germany's £67bn (up 2%), France's £62bn (25%), Italy's £35bn (4.7%) and Spain's £22bn (a contraction of -10%).

So our engine of the economy – high growth and entrepreneurial mid-sized businesses – is leading the way in the UK and across Europe. Despite all the uncertainty of the past 12 months these companies have taken considered investment decisions and prospered.

THE FUTURE FOR M&A

How has this affected the M&A market? After a reasonably strong finish to last year, 2017 admittedly got off to a slow start with only 124 mid-market deals completed in the second quarter, compare to 137 in the first quarter. This was no great surprise as the UK awaited the triggering of Article 50 in March and the outcome of the General Election.

However, we have seen an increase in valuations as buyers competed for businesses that can adapt to market uncertainties.

And the outlook for the next 12 months looks positive. Global M&A is expecting a bounce-back in activity in 2017 with over 400 deals in the pipeline – a 60% increase from an end of 2016 low, indicating a return in deal-making confidence.

TMT remains the hottest sector followed by Business Services. We have witnessed a significant increase in international buyers looking to acquire UK companies as their market entry into the EU and this is expected to continue throughout 2017.

Businesses across the UK are also reviewing the potential impact of Brexit on their operations and this is likely to result in more M&A activity within the region as businesses seek to secure their supply chain and competitive advantage.

It is also interesting to note the speed at which capital markets have recovered, indicating the ability of investors to adapt to uncertainty as the new norm. As companies adjust to the Brexit challenges, we anticipate that the availability of debt and equity funding will underpin M&A for remainder of 2017 but due diligence will continue to be extensive as buyers seek to assess and mitigate potential risks.

LOOKING AHEAD

So with the General Election behind us, what happens next? Well, despite all the uncertainty, the UK's economic health looks robust and mid-sized businesses are continuing to thrive as the engine of UK growth. Deal flow looks positive and the low value of sterling means there are attractive deals to be done to mitigate the impact of Brexit.

But there are still measures we would like policymakers to take to make sure that this momentum continues and to ensure a successful post-Brexit economy.

Our 'New Economy' report calls for the Government to adopt a radical simplification of the UK tax structure (aligning Income Tax with National Insurance and a moratorium until 2020 on any new tax changes unless they simplify the system) and for investment in smaller 'shovel-ready' infrastructure projects. Investment and simplification are important steps that the UK can take to get the economy Brexit-ready.

So despite all the uncertainty, the growth picture looks good and the UK and its engine of growth – mid-sized businesses – are well positioned to weather any further uncertainty.

GLOBAL

8,327 RUMOURED TRANSACTIONS

P08 | **NORTH AMERICA**

A FOURTH STRAIGHT QUARTERLY DECLINE IN M&A ACTIVITY AMID MIXED ECONOMIC DATA

P10 | **LATIN AMERICA**

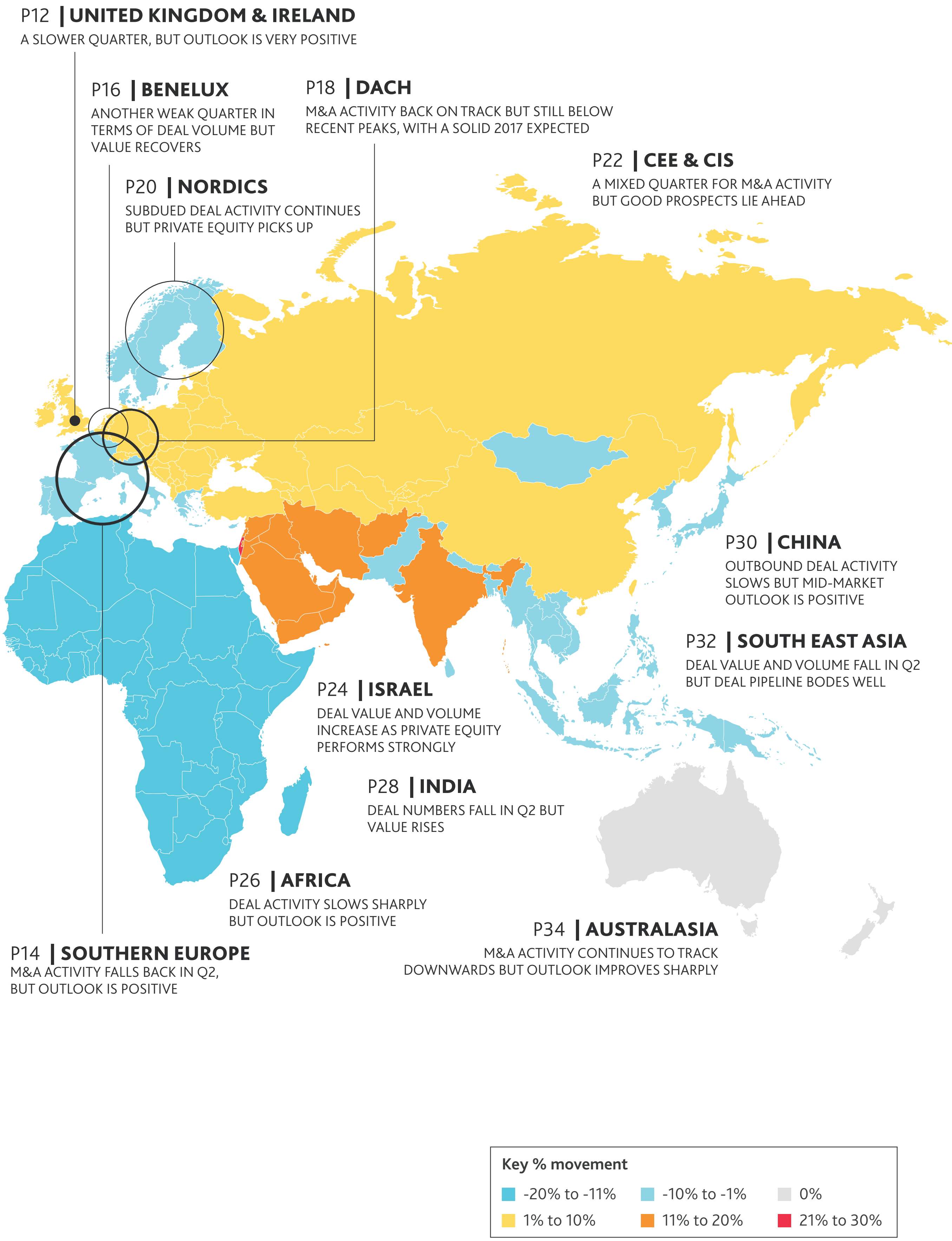
DEAL VALUE RISES AS BRAZIL'S ECONOMY STABILISES

SECTOR VIEW

CONSUMER | **P38**

REAL ESTATE | **P40**

MANUFACTURING | **P44**



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

NORTH AMERICA

A FOURTH STRAIGHT QUARTERLY DECLINE IN M&A ACTIVITY AMID MIXED ECONOMIC DATA

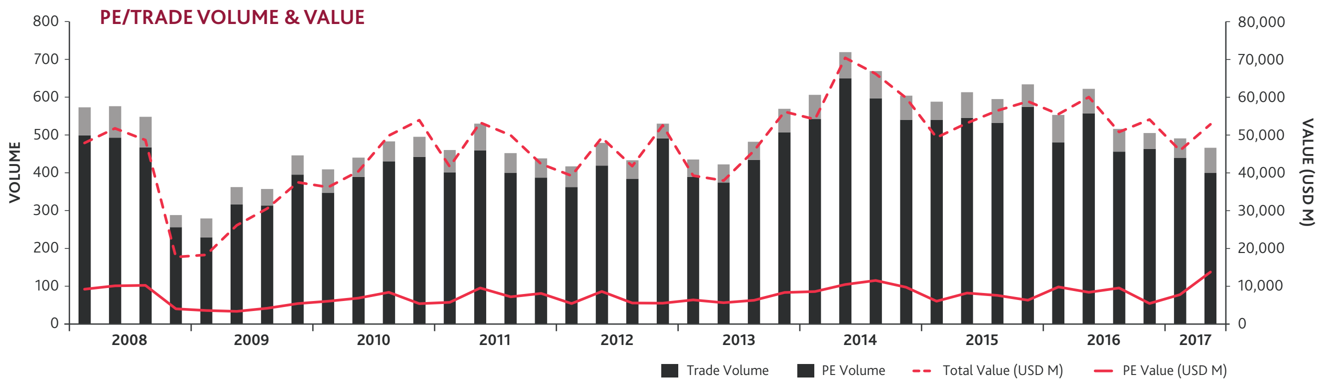
BIG PICTURE

- Mixed economic data and continued political turmoil sees M&A stagnate
- Mid-market deal volume fell 5% against the prior quarter and 25% compared to Q2 2016
- Year to date the volume of mid-market deals in 2017 is 19% below 2016 levels
- Activity is down from prior year in all sectors, with the Pharma, Medical & Biotech sector the hardest hit.

Overall, the North American market's downward trend in mid-market deal volume that began in 2016 has continued through the first half of 2017.

This lack of momentum further supports market participants' concerns that the M&A cycle peaked during the record-breaking mid-2014 to mid-2015 period and that the current trend is not temporary but a sustained new transactional environment.

The overall economic landscape did, however, show some positive signs through the quarter. The S&P 500 recorded a total return of 3.1% through the second quarter of 2017 showing strength in the equity markets. After seeing quarterly growth in the US of 1.4% in Q1, the latest Wall Street Journal economic survey forecasts growth for Q2 to ramp up to 2.7%. Canadian GDP growth is also widely expected to continue the strong 3.7% growth seen in Q1. The strengthening economic picture drove the Federal Reserve to look through disappointing inflation readings and further tighten their monetary policy. In June, the US central bank raised base rates by 25 basis points and set out detailed plans to reduce its balance sheet. The Bank of Canada also raised its benchmark rate by 25 basis points, citing increased confidence around the strength of the economy. Other forward-looking activity indicators, including those tracking manufacturing and consumer sectors failed to build on the highs they achieved in Q1 2017, but remained reasonably strong with consumer spending data also resilient in both the US and Canada.



TRUMP MAKING UNCERTAINTY THE NEW NORMAL

Political uncertainty remained an important theme both in North America and globally. The Trump administration continued to face challenges in the implementation of various policies such as healthcare reform, foreign policy and immigration. Specific to Canada, questions continued around the fate of the current North American Free Trade Agreement (NAFTA). The increased risk profile around what the future North American trade relationship looks like continues to directly impact potential transactions with Canadian and Mexican companies, many of which do significant business in the US and/or Mexico.

In addition to formal policy issues, the US government also found itself consistently distracted by its handling of non-platform issues including election dealings with Russia and the dismissal of FBI director James Comey. The continued distractions have raised doubts over the ability of the administration to push its agenda, which include fiscally expansive policies. This environment weighed on the US dollar, which was further negatively impacted amid rising expectations that central banks in other major developed economies are also preparing to tighten monetary policy in reaction to the US Federal Reserve's decision to implement multiple rate hikes thus far in 2017.

LOOKING AHEAD

Looking to the second half of 2017, it is challenging to identify factors that will drive a significant increase in M&A activity. Continued political instability and interest rate increases in both the US and Canada may continue to present significant headwinds as it relates to hopes of a near term rebound in M&A volume. Despite these challenges, there is some economic momentum. Oil prices have found some stability and continue to present an upside, specifically to the Canadian economy, while bullish consumer sentiment in both the US and Canada may continue to drive both economies. From a deal-making perspective, there is hope that the strong economic trend, combined with some of the systematic drivers already in place – such as the continued ageing of business owners and the availability of capital – will improve the deal-making environment and drive increased activity in the back half of the year.

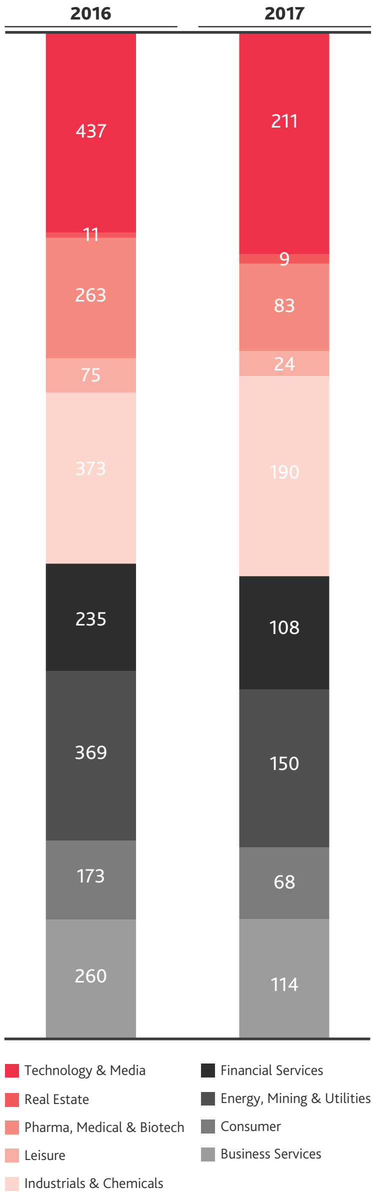
RYAN FARKAS
MANAGING DIRECTOR

rfarkas@bdo.ca

NORTH AMERICA
HEAT CHART BY SECTOR

Technology & Media	538	24%
Pharma, Medical & Biotech	356	16%
Industrials & Chemicals	348	16%
Consumer	303	13%
Energy, Mining & Utilities	230	10%
Business Services	209	9%
Financial Services	178	8%
Leisure	64	3%
Real Estate	19	1%
TOTAL	**2,245**	**100%**

NORTH AMERICA
MID-MARKET VOLUMES BY SECTOR



LATIN AMERICA

DEAL VALUE RISES AS BRAZIL'S ECONOMY STABILISES.

BIG PICTURE

- Deal volume falls compared to previous quarter but is above levels seen in same quarter last year. Value is up against both periods
- Energy, Mining & Utilities the most active sector
- Government reforms and stronger economy should boost deal-making in Brazil.

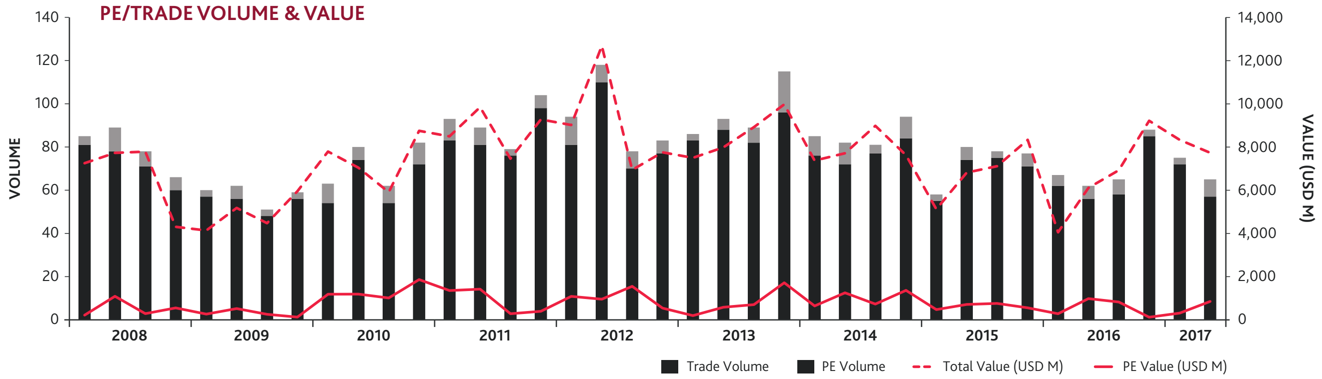
In the second quarter of 2017 the number of Latin American M&A transactions decreased by 13% compared to the previous quarter, falling from 75 to 65 deals. But compared with the second quarter of 2016, there was an increase of 4.8%, up from 62 to 65 deals. Total deal value rose significantly, up 27% from USD 6.1bn in Q2 2016 to USD 7.7bn in Q2 2017. Looking at the half year figures, there were 140 deals in H1 2017, which is an improvement on the 129 deals seen in H1 2016.

Private equity (PE) represented a significant proportion of total Q2 2017, transactions, with eight of the quarter's 65 deals. PE deals totalled USD 845m, representing a 10.9% share of the quarter's total value.

ECONOMIC AND POLITICAL CONTEXT

Brazil, which is Latin America's largest country and economy, has been experiencing considerable political and economic instability. In the last couple of years over 280 people, including important politicians and some of Brazil's wealthiest executives, have been under investigation by the Federal Police's 'Operation Car Wash'. This revealed allegations of money-laundering, graft and corruption at the state-controlled oil company Petrobras, where executives allegedly accepted bribes in return for awarding contracts to some of the country's largest construction firms, such as Odebrecht, at inflated fees. In response to these revelations, Petrobras has announced a disinvestment plan, which includes the sales of many of its assets in the Energy sector.

PE/TRADE VOLUME & VALUE



LOOKING AHEAD

The BDO Heat Chart shows a total of 390 deals in progress or planned in Latin America. Industrials & Chemicals and Energy, Mining & Utilities are set to be the most active, with 69 potential deals each. The third most active sector is a tie between the Consumer and Business Services sectors, with 66 potential deals each.

Latin America is still in an uncertain period as Brazil goes through a political crisis and reacts to its corruption scandals. However, with the approval of labour reforms, the conviction of former President Lula, the progress towards welfare reform and the reduction in inflation and interest rates, the current Government can demonstrate that it is possible to separate politics from the economy. All these factors should attract investors and provide a long-term boost to the country's economy and M&A activity.

In early 2017, the Federal Police's investigation branched into 'Operation Weak Flesh', which investigated the bribery of federal inspectors to allow the trading of meat that was past its 'sell by date'. When this was exposed, Brazilian exports of meat to the USA, Europe and other regions were hit hard. Also, in May 2017, 'Operation Car Wash' shifted the focus from Odebrecht to JBS, the world's largest meat-packing company, who closed a plea deal with the Brazilian Court in exchange for cooperation. JBS' owner, Joesley Batista, released an audio recording implicating Brazil's current president Michel Temer as part of the deal. If Temer faces criminal prosecution, which must be approved by the Lower House of Congress, he will be suspended from office for 180 days and tried by the Federal Supreme Court for corruption crimes, and might face impeachment.

Due to JBS' involvement in the scandals and its subsequent fall in market value, the group's holding company, J&F, began the sale of many of its investment companies in the clothing, pulp and paper, meat packing and other sectors.

KEY SECTORS

Energy, Mining & Utilities was the most active sector in Q2 2017, with 17 deals representing approximately 26% of the quarter's transactions. In second place, Consumer closed 13 deals, representing 20% of transactions. Business Services, Financial Services, Industrials & Chemicals, Leisure, Pharma, Medical & Biotech and TMT together represented the remaining 54% of deals. The Real Estate sector has not seen any transactions in 2017.

A crucial political event, which was part of 'Operation Car Wash', was Judge Sérgio Moro's recent sentencing of former President Luiz Inácio Lula da Silva (Lula) to almost ten years in jail. This strengthened the idea that Brazilian politicians and executives do not have immunity, which is unprecedented in Brazil's recent history.

Despite all the political turmoil, the Government remains optimistic about stabilising the economy, led by Minister of Finance Henrique Meirelles. Brazil's Q1 2017 GDP is currently forecast to have grown by 1% compared to the fourth quarter of 2016, due to expansion in the agricultural and industrial sectors. According to the Focus Report released by the Central Bank, Brazil's inflation and interest rates are declining.

An important economic issue is the approval of labour and welfare reforms, which will reduce costs for government and employers. Labour reforms were recently approved by the Senate and will be implemented in the coming months. This is expected to strongly stimulate economic recovery, creating new jobs and improving employer/employee relationships. Foreign investors and banks are reacting positively to the reforms and this is expected to generate further investments and deals in 2017.

KEY DEALS

Despite the recession and instability, Brazil has seen important developments and investments in online services, banking (fintech) and agriculture. Chinese investors have also shown great interest in Brazil, according to the President of Santander Bank, with China having created an investment fund destined to support infrastructure projects in the region.

Brazil was responsible for half the quarter's top ten deals: two of them in Consumer, one in TMT, one in Business Services and one in Energy, Mining and Utilities. The other top ten deals in the period involved Bermuda (Business Services), Puerto Rico (Business Services), Uruguay (Industrials & Chemicals), Paraguay (Consumer) and Peru (Financial Services).

ROMINA LIMA
DIRECTOR, ADVISORY

romina.lima@bdobrazil.com.br

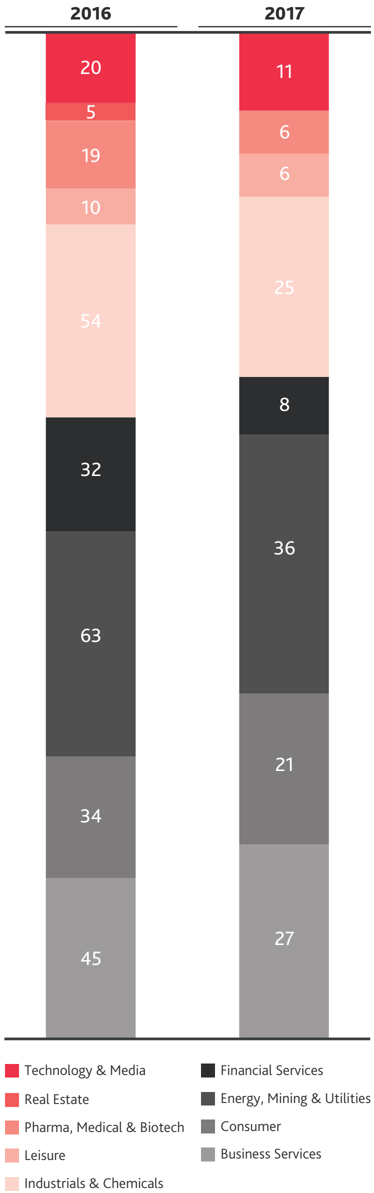
ADRIANO CORREA
CORPORATE FINANCE AND ADVISORY PARTNER

adriano.correa@bdobrazil.com.br

LATIN AMERICA
HEAT CHART BY SECTOR

Industrials & Chemicals	69	18%
Energy, Mining & Utilities	69	18%
Consumer	66	17%
Business Services	66	17%
Technology & Media	42	11%
Financial Services	28	7%
Pharma, Medical & Biotech	26	6%
Leisure	22	5%
Real Estate	2	1%
TOTAL	**390**	**100%**

LATIN AMERICA
MID-MARKET VOLUMES BY SECTOR



UNITED KINGDOM & IRELAND

A SLOWER QUARTER, BUT OUTLOOK IS VERY POSITIVE

BIG PICTURE

- Slight decline in deal activity and value in the quarter
- Activity in Business Services and Financial Services falls but other sectors hold steady
- Capital markets continue to hold up
- UK remains good value and attractive for overseas buyers.

Our view of a market in rude health is not fully reflected in the quarter's deal statistics. These show that for the second quarter in a row there has been a decline in both deal volume and aggregate deal value.

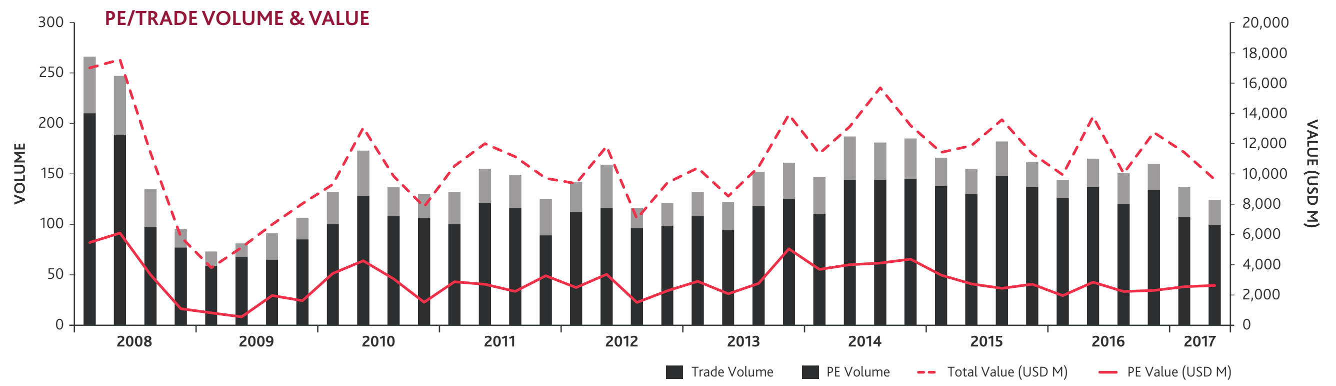
However, this should be looked at in the light of a market that is still pretty active, with plenty of mid-market deal activity in UK & Ireland. We suspect that the snap general election may have been at least partially responsible.

Deal numbers fell to 124 in Q2 2017, down from 137 in Q1 2017 and 160 in the quarter before that. The biggest contributor to that decline was trade deals, which dipped below 100 for the first quarter since 2013. There were 25 private equity deals in Q2 2017, which was a little down on the prior quarter but very much in line with the recent past and we see no cause for concern on that front. The aggregate deal value was USD 9.6bn, which was down on Q1 but still perfectly respectable. Average private equity deal value was up on the previous quarter.

KEY DEALS AND SECTORS

It is highly encouraging for the region's M&A that overseas acquirers were so active during the quarter. This was borne out in the quarter's top ten transactions which – for the first time we can recall – saw every deal carried out by an international buyer. Of those buyers, three were Chinese, including the largest, which was the USD 405m acquisition of Gardener Aerospace by Shaanxi Ligeance Mineral Resources Co from Better Capital, a UK private equity house. These deals reinforce the view that we have held for some time that in a post-Brexit environment, the UK represents very good value for overseas buyers.

In terms of sectors, Technology & Media and Industrials & Chemicals led the way with 25 deals each. The biggest faller was



Business Services, which recorded only 18 deals, down from 30 in the previous quarter, and Financial Services, down from 14 to just five deals. There is no obvious reason to us why the services sector should have seen such a decline. The other sectors were in line with the previous quarter.

The capital markets continued to perform well, with the FTSE 350 and the AIM index showing gains in the quarter, despite some fall-back during June. There were 18 IPOs on AIM compared to ten in the opening quarter of the year. These included FFH Holdings, which raised over USD 40m of new money on an initial market capitalisation of USD 320m. Other notable IPOs included Eve Sleep, an innovative bed company which raised USD 45m in May. We see this as a positive indicator for the attractiveness of the region and is being influenced in part by the value of sterling against other currencies.

M&A valuations for trade buyers with BDO's private company price index (PCPI) to an EV/EBITDA ratio of 10.7x. We believe the multiple continues to reflect the cash resources available and the willingness to pay premium prices for a good strategic fit. The private equity price index (PEPI) at an EV/EBITDA ratio of 11.3x. We continue to see large amounts of cash to invest which we believe should keep overall multiples up.

LOOKING AHEAD

The BDO Heat Chart shows 412 deals planned or in progress, which is a very positive outlook for the coming quarters. This is much more in keeping with our own experience and the amount of funds that are available for M&A transactions, both on corporate balance sheets and in private equity funds, and the cost of debt remains relatively low. The TMT sector leads the way with over 80 deals forecast, followed by Consumer. As for the two service sectors, Business Services and Financial Services, that were hardest hit during this quarter, both show a strong deal pipeline, ahead of Industrials & Chemicals. We remain optimistic for the M&A prospects for the region as whole.

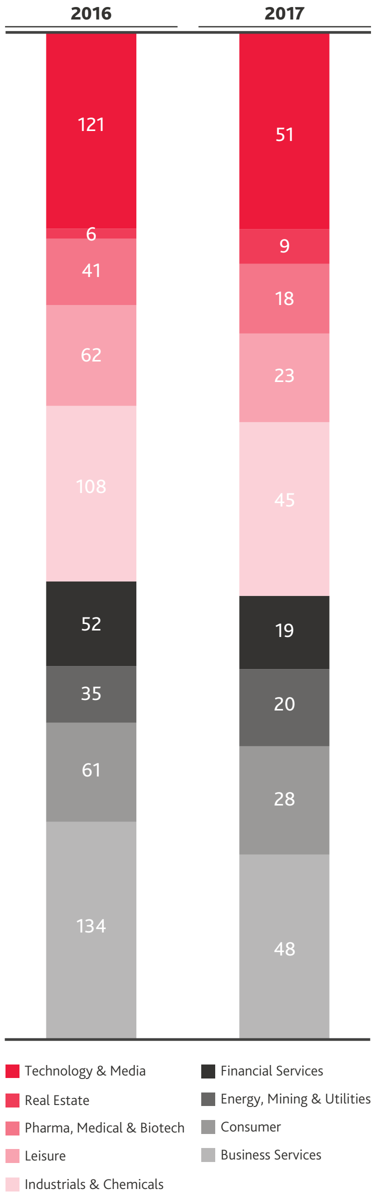
JOHN STEPHAN
M&A PARTNER

john.stephan@bdo.co.uk

UNITED KINGDOM & IRELAND
HEAT CHART BY SECTOR

Technology & Media	89	22%
Consumer	70	17%
Financial Services	58	14%
Business Services	57	14%
Industrials & Chemicals	44	11%
Energy, Mining & Utilities	44	11%
Leisure	27	6%
Pharma, Medical & Biotech	17	4%
Real Estate	6	1%
TOTAL	**412**	**100%**

UNITED KINGDOM & IRELAND
MID-MARKET VOLUMES BY SECTOR



SOUTHERN EUROPE

M&A ACTIVITY FALLS BACK IN Q2, BUT OUTLOOK IS POSITIVE

BIG PICTURE

- After a busy Q1, deal volumes and values fall back in Q2
- Industrial & Chemicals and TMT are the most active sectors in Q2
- The BDO Heat Chart predicts major deals ahead, led by the Consumer sector.

The second quarter of 2017 saw M&A volume fall compared to both Q1 2017 and Q2 2016. Total deal value also fell, down 4.1% against the previous quarter.

A climate of uncertainty seemed to put a dampener on M&A activities, with macroeconomic events like the controversial election of President Trump amid rumours of Russian interference and the UK's decision to leave Europe. At USD 12.3bn, second quarter aggregate deal value was down by roughly USD 0.5bn compared to Q1 2017. This bucked the trend for Q2 and Q4 peaks that has been established since 2011.

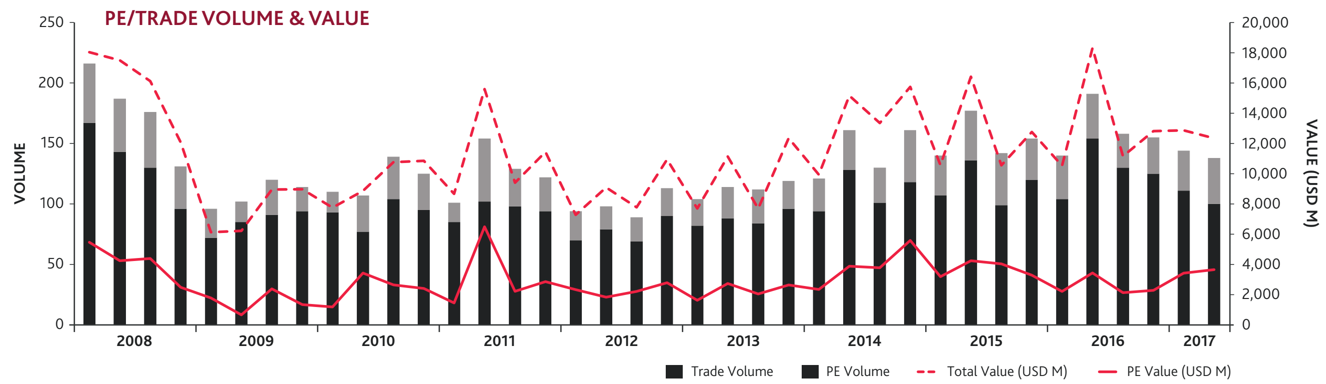
With 138 transactions taking place this quarter in the Southern Europe mid-market, the average deal size was about USD 89.4m. Private equity's share of the overall deal volume increased from 19.4% in Q2 2016 to 27.5% in Q2 2017. Private equity's share of the overall deal value also rose, up from 18.8% (USD 3.4bn) to 29.6% (USD 3.7bn) during the same period.

KEY SECTORS AND DEALS

Industrials & Chemicals, TMT and Energy, Mining & Utilities continue to be the most active sectors. Comparing Q2 2017 to Q2 2016, there was a significant drop in activity in Business Services (-46.7%), Consumer (-45.8%) and Pharma, Medical & Biotech (-52.6%).

Of the top ten mid-market deals completed in Q2 2017, highlights included:

- The acquisition of business branches from the Spanish Group Aviva TLC (50% stake of Unicorp Vida Compania de Seguros y Reaseguros S.A.; 50% stake of Caja Espana Vida Sociedad de Seguros y Reaseguros S.A.; 100% stake of Aviva Vida y Pensiones, Sociedad Anonima de Seguros y Reaseguros) by Santa Lucia Seguros S.A. for USD 486m



LOOKING AHEAD

The BDO Heat Chart indicates that the most active sectors will be Consumer (buoyed by market rumours that multi-national confectionery company Cloetta may look to sell its Italian sweets business), Industrials & Chemicals, TMT and Business Services.

Major pending deals include: the acquisition of Spanish business Abertis Infraestructuras S.A. by the Italian infrastructure company Atlantia S.p.A. for USD 31.3bn; the acquisition of Spanish based bridal wear designer Pronovias by BC Partners for approximately USD 600m; and the acquisition of Iberchem S.A. by investment firm Eurazeo S.A. for around USD 300m.

- The acquisition of an 85% stake in the Italian company DentalPro by BC Partners for USD 448m
- The acquisition of French company Futuren S.A. by the French business EDF Energies Nouvelles S.A. with a deal value of USD 428m.

NEW TRENDS THAT COULD DRIVE FUTURE M&A

- Healthy eating and snacking is a clear consumer trend, with an emphasis on sustainable sourcing and it is being bolstered by its appeal to a growing Generation Z market
- An increase in online consumer finance activity in Europe, with new companies being established and increasing M&A activity. An example is 4 Finance, Europe's largest online and mobile consumer lender, which now has 7.7 million customers and granted USD 1.2bn in loans last year
- More and more large banks are focusing on digitalisation: either developing their own solutions through newly created, dedicated divisions or acquiring digital competitors.

FOCUS ON ITALY M&A

In Q2 2017, Italy was involved in deals spread across Industrials & Chemicals, Pharma, Medical & Biotech. Two of the top ten Southern Europe transactions features Italian targets. The second largest transaction in Q2 was the acquisition of DentalPro, an Italian dental service provider, by BC Partners in a deal valued at USD 448m, while the ninth largest was CVC Capital Partners Limited's acquisition of Italian company Conceria Pasubio S.p.A., one of the world's leading leather processors, for USD 319m.

Other key transactions in the quarter included: in Industrial & Chemicals, the USD 215m acquisition of Seri S.p.A. by K.R. Energy S.p.A., in Transport, the acquisition of Nuovo Trasposto Viaggiatori S.p.A. (13% stake) by Peninsula Capital Advisor in a deal worth approximately USD 178m; and in the food industry, the acquisition of an 80% stake in Irca S.p.A. by The Carlyle Group for about USD 590m.

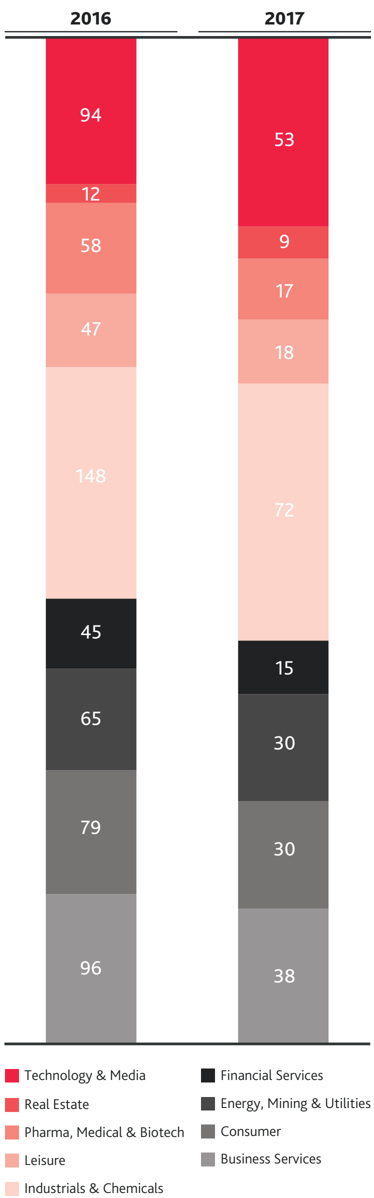
Overall, private equity and overseas trade interest in Italian assets has remained strong.

STEFANO VARIANO
PARTNER
stefano.variano@bdo.it

SOUTHERN EUROPE
HEAT CHART BY SECTOR

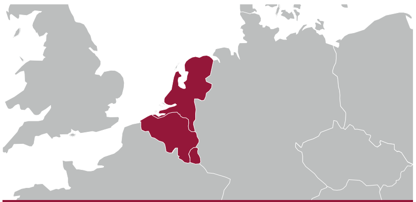
Consumer	149	24%
Industrials & Chemicals	136	22%
Technology & Media	104	16%
Business Services	92	14%
Financial Services	51	8%
Pharma, Medical & Biotech	36	6%
Energy, Mining & Utilities	32	5%
Leisure	22	3%
Real Estate	10	2%
TOTAL	**632**	**100%**

SOUTHERN EUROPE
MID-MARKET VOLUMES BY SECTOR



BENELUX

ANOTHER WEAK QUARTER IN TERMS OF DEAL VOLUME BUT VALUE RECOVERS



BIG PICTURE

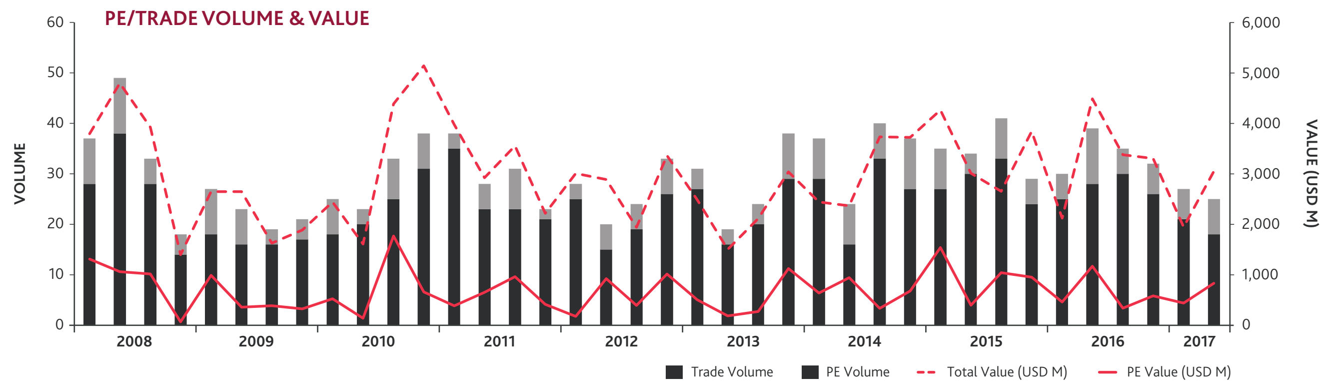
- Average deals per quarter fell to 25 in H1 2017, well below the three-year average of 34 transactions
- Deal value recovers strongly in Q2 2017 and is now just 4% below the three-year average
- PE performed strongly, with average deal size climbing from USD 73m in Q1 2017 to USD 119m in Q2 2017
- Industrials & Chemicals is the most active sector so far in 2017 and, along with Consumer, has the best prospects ahead according to the BDO Heat Chart.

Deal volume in the first two quarters of 2017 remained weak but total deal value recovered significantly. Private equity deal volume remained stable, but average deal size soared.

With only 25 transactions in Q2 2017, Benelux deal volume (trade deals and private equity deals combined) remained relatively stable compared to Q1 2017 (27 deals). This represents the lowest number of deals per quarter in the last three years, 26% lower than the average number over the last three years (34 deals). However, the total deal value recovered significantly compared to a sluggish Q1 2017, totalling USD 3.05bn in Q2 2017. This is an increase of 57% compared to Q1 2017 but still below the quarterly average of USD 3,292m over the last three years. The average transaction value increased significantly in Q2 2017 (USD 122m) compared to Q1 2017 (USD 72m), and is the second highest average recorded during the last three years.

In Q2 2017, seven deals involved private equity buy-outs, the second highest quarterly count since early 2016. Private equity total deal value also increased significantly in Q2 2017, reaching a total of USD 831m. To put this figure into perspective, this is nearly double the Q1 2017 figure and is the second highest quarterly average since the beginning of 2016. The average PE deal size in Q2 2017 was USD 119m, the highest since early 2016.

The number of trade deals remained sluggish in Q2 2017 with 18 transactions, the lowest for three years. Total trade deal value was USD 2,219m in Q2 2017, a 47% increase compared to Q1 2017 but still below the quarterly average for the last three years (USD 2,562m). Remarkably, at USD 123m, the average Q2 2017 PE transaction value was the highest for three years.



KEY SECTORS AND DEALS

Business Services, Industrials & Chemicals, and Pharma, Medical & Biotech were the most active sectors in Q2 2017. Together, they represented nearly half of the total deal numbers. To date, Industrials & Chemicals has been the most active sector since the start of 2016. Compared to 2016, Pharma, Medical & Biotech is the biggest riser and Technology & Media the biggest faller.

The top ten deals in Q2 2017 vary between approximately USD 94m and USD 483m and are well diversified across different industry sectors.

The largest was in the real estate sector and involved the sale of Catalyst Re Cooperatief U.A.'s 86% stake in Geneba Properties NV, a listed real estate investment company headquartered in the Netherlands, to the Singapore-based real estate company Frasers Centerpoint Ltd. The deal was valued at USD 483m.

The second largest transaction was the sale of FIS's 60% equity interest in the Belgian company Capco to the private equity group Clayton, Dubilier & Rice, LLC for a deal value of USD 477m. Capco is a global consulting organisation specialising in business, digital and technology consulting services for the financial services industry.

The third biggest deal was Chinese tourism and investment group Zhonghong Group's acquisition of a 90.5% stake in the Luxembourg-based luxury travel company Abercrombie & Kent (A&K) for USD 294m.

The next largest deal was the acquisition of a 40.37% stake in Brack Capital Properties (BCP), a Netherlands-based property owner and developer, by Israeli billionaire Teddy Sagi for USD 283m.

LOOKING AHEAD

The BDO Heat Chart is based on deals planned, rumoured or in progress. The Benelux Heat Chart shows 199 deals currently in progress or planned. This is an increase of 8% compared to the 185 deals projected in the previous quarter. The industries that are predicted to be the most active in the months to come are Industrials & Chemicals and Consumer, followed by Business Services and TMT. Overall, the BDO Heat Chart underpins our belief that Benelux M&A activity should pick up during the next quarter(s) as financial resources remain available and borrowing costs continue to be low.

LUC AUGUSTIJN
PARTNER

luc.augustijn@bdo.nl

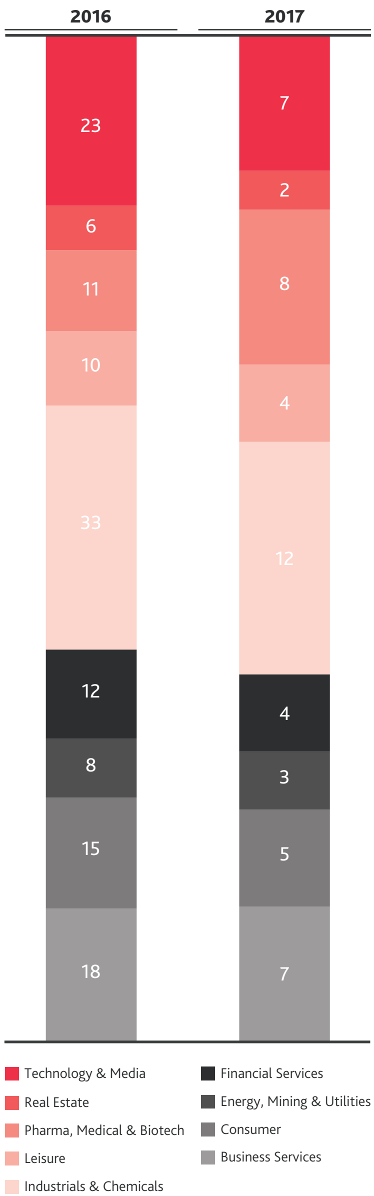
GEERT COSTERS
M&A PARTNER

geert.costers@bdo.be

BENELUX
HEAT CHART BY SECTOR

Industrials & Chemicals	52	26%
Consumer	43	22%
Business Services	28	14%
Technology & Media	27	14%
Pharma, Medical & Biotech	15	8%
Financial Services	13	7%
Energy, Mining & Utilities	12	6%
Leisure	6	3%
Real Estate	3	2%
TOTAL	**199**	**100%**

BENELUX
MID-MARKET VOLUMES BY SECTOR



DACH

M&A ACTIVITY BACK ON TRACK BUT STILL BELOW RECENT PEAKS, WITH A SOLID 2017 EXPECTED

BIG PICTURE

- Deal volume and value significantly up from last quarter's lows
- Germany and Switzerland remain attractive target countries
- Concerns about the ECB's intention to normalise monetary policy and the German government's restrictions on acquisitions by foreign investors are expected to be outweighed by an investment-friendly environment that can support a solid 2017 for M&A.

With 54 reported deals in the DACH region, M&A activity in Q2 2017 was up on a very weak previous quarter (46) but still a long way from former record quarterly highs. The total deal value recovered from a poor USD 4.5bn to USD 5.9bn (+31%).

Private equity transactions also regained ground with nine deals completed compared to just five in the previous quarter. With PE's Q2 2017 deal value rising to USD 1.2bn (+79%), it accounted for 20% of total deal value.

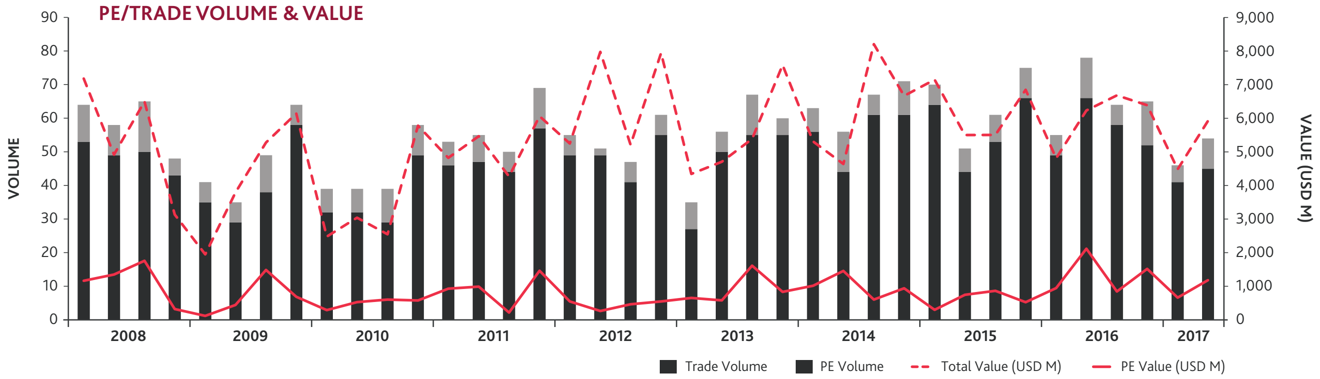
KEY DEALS

Despite recent uncertainties about future ECB monetary policy that led to slightly increased interest and euro rates, persistent currency weakness remained a dominant factor holding DACH companies back from investing outside the eurozone. However we did see a number of domestic deals and cross-border activity within the DACH region or eurozone. Of Q2 2017's top ten deals, Germany was the target country for eight transactions and Switzerland accounted for two deals.

The largest mid-market deal was the CHF 500m acquisition of Swiss Towers AG (Switzerland) by the Cellnex Telecom consortium from Sunrise Communications. Swiss Towers is an infrastructure company which owns a portfolio of 2,239 telecom towers in Switzerland.

In April 2017, the UK PE firm HgCapital announced that it had agreed the sale of QUNDIS, a leading service provider for climate-intelligent solutions in the buildings sector, to German investment group KALORIMETA, for USD 436m. HgCapital will retain a minority position in the combined group.

Finally, an ongoing public tender offer could lead to Austria's biggest transaction with a total value of up to USD 266m. In mid-June, Austria's Pierer Industrie



AG launched a voluntary takeover bid for the German stock exchange-listed SHW AG. Stefan Pierer is the founder, CEO and shareholder of the Austrian stock exchange-listed motorcycle manufacturer KTM AG.

KEY SECTORS

In Q2 2017, the most active sectors were Technology & Media with 16 transactions, followed by Industrials & Chemicals with 13 deals. Together both sectors accounted for almost 50% of all deals. Pharma, Medical & Biotech and Business Services saw significant increases in deal volume but maintained their third and fourth ranking with nine and eight deals respectively.

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

LOOKING AHEAD

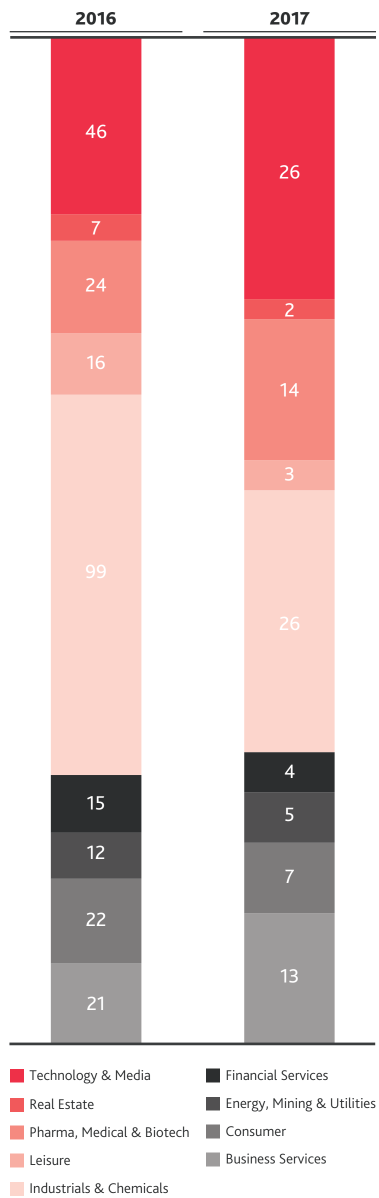
In the last edition of HORIZON our Austrian M&A colleagues forecast a positive outlook for 2017 and the second quarter promptly picked up pace. We are still some way off our region's 2015 and 2016 peaks but are firmly back on track after a poor first quarter. Recent gains in the value of the euro against major currencies, which were caused by uncertainties around ECB monetary policy and the long-term return to a normal interest rate environment, will have a short-term impact on valuations. But we believe that, overall, the euro will remain weak and interest rates will stay low.

DACH's economy is performing well and the German IFO Business Climate Index is at a record high, indicating a positive outlook and suggesting that the DACH region can remain attractive for foreign investors. On the other hand, we expect the German government's recent tightening of foreign investment restrictions for acquisitions of German companies by non-EU buyers to have a negative impact on future deal activity, especially from China.

DACH
HEAT CHART BY SECTOR

Industrials & Chemicals	125	34%
Technology & Media	80	21%
Consumer	45	12%
Business Services	41	11%
Pharma, Medical & Biotech	25	7%
Financial Services	24	6%
Energy, Mining & Utilities	17	5%
Leisure	12	3%
Real Estate	3	1%
TOTAL	**372**	**100%**

DACH
MID-MARKET VOLUMES BY SECTOR



NORDICS

SUBDUED DEAL ACTIVITY CONTINUES BUT PRIVATE EQUITY PICKS UP

BIG PICTURE

- Q2 deal activity slightly up on previous quarter but remains lower than corresponding periods in previous years
- Technology & Media catches up with Industrials & Chemicals, the previous quarter's top performer
- Half of the Q2 deals were between Scandinavian companies. Norway was the target of four of the quarter's top ten deals and Finland of three.

This year's second quarter M&A activity was a little higher than the first quarter but only just above the level seen in Q2 2009, which was the weakest second quarter since the 2008 financial crisis.

Compared to the corresponding period last year, deal volume fell from 82 in Q2 2016 to 69 in Q2 2017, while deal value fell from USD 6.3bn to USD 4.8bn during the same period.

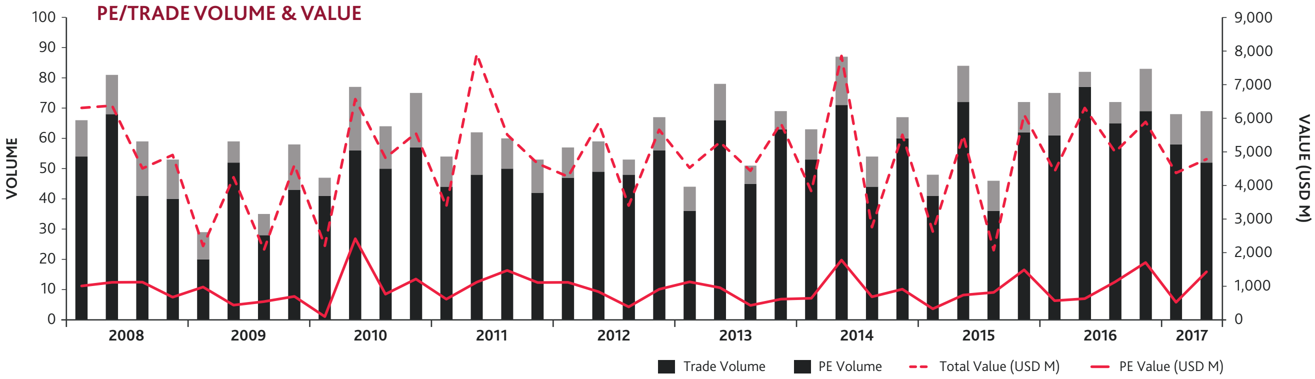
Private equity's (PE) share of total deal value jumped to 30%, well above the previous quarter's 12% share. There was also a rise in PE volume, up from 15% to 25%. This means that Q2 2017 was the second busiest quarter for PE deals when compared to quarterly data since Q2 2010.

KEY DEALS

The top ten deals value represented half of total Q2 Nordics M&A activity. The sellers were mainly Nordic institutional investors, with only two overseas funds divesting their stakes in target companies. Seven of the top ten deals were based in Norway (four) and Finland (three).

The largest transaction in our mid-market data sample was when BC Partners sold its stake (18.5%) in Com Hem Ab to Kinnevik Ab for a total of USD 425 million. Com Hem delivers TV, telephony and high-speed internet access to Swedish homes and businesses and currently offers its services to 40% of Swedish homes. The acquisition strengthens Kinnevik's mobile and media assets and reflects its investment focus on digital consumer businesses.

PE/TRADE VOLUME & VALUE



LOOKING AHEAD

The BDO heat chart suggests that the most active sector for M&A activity in the Nordics will be Technology & Media, followed closed by Industrials & Chemicals. Business Services, Consumer and Energy are likely to represent around 30% of the potential M&A deals activity in the region. Activity is stable in the Nordics albeit slightly down from the previous quarter prediction, most likely due to the slowdown of activity in the summer months.

The second largest acquisition was by Danish mid-market focused fund Axcel when it acquired a majority stake in the Danish family-owned company Nissens A/S. Nissens has been owned by the same family for four generations and the previous owner Alan Nissen will remain a significant co-investor. Nissens provides cooling solutions, mainly to the automotive and wind turbine industries. Axcel has raised five funds with a total committed capital to date of EUR 1.8 billion and currently has ten companies in its portfolio.

The third largest deal was when Fortum (Finnish clean energy company) and the City of Oslo restructured their ownership in Hafslund ASA, one of the largest listed power groups in the Nordic region. Fortum will sell its 34.1% stake in Hafslund ASA to the City of Oslo and will acquire 100% of Hafslund's current business markets, which operate in Norway, Sweden and Finland. This will almost double Fortum's number of electricity customers in the Nordics. As part of the arrangement, Hafslund's heating business and the City of Oslo's waste-to-energy company Klemetsrudanlegget AS will be combined into one company. The combined entity will be owned 50/50 by Fortum and the City of Oslo, with Fortum having operational responsibility. In addition, Fortum will acquire 10% of Hafslund's production business. The total debt-free price of the acquisitions is approximately EUR 970m but the combined net cash investment of the transactions is approximately EUR 240m (USD 275m).

KEY SECTORS

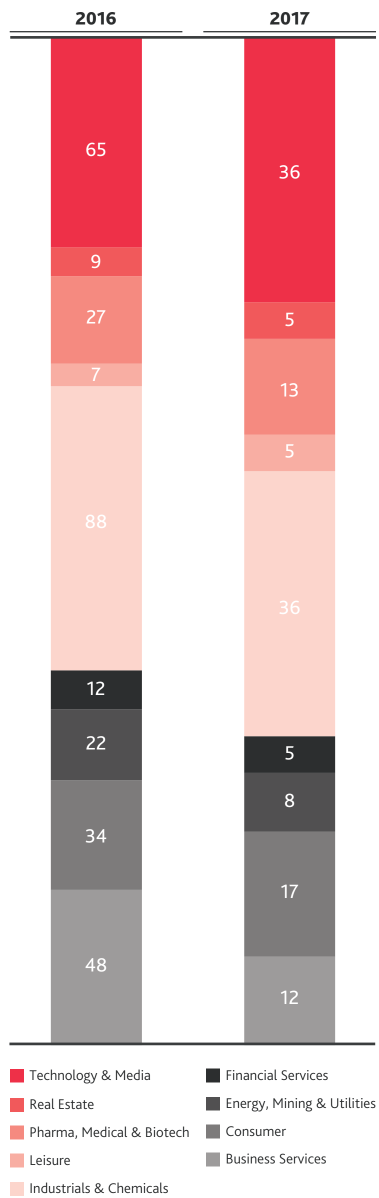
TMT and Industrials & Chemicals' combined share of Q2 deals was 51% with an almost even split between sectors (TMT 26% and Industrials & Chemicals 25%). Next came Business Services with an 11% share, then Consumer and Energy, Mining & Utilities, both with 10% shares.

TUOMO ALAMÄKI
DIRECTOR, CORPORATE FINANCE
tuomo.alamaki@bdo.fi

NORDICS
HEAT CHART BY SECTOR

Technology & Media	58	26%
Industrials & Chemicals	57	25%
Business Services	25	11%
Consumer	23	10%
Energy, Mining & Utilities	22	10%
Pharma, Medical & Biotech	19	8%
Leisure	11	5%
Financial Services	7	3%
Real Estate	3	2%
TOTAL	**225**	**100%**

NORDICS
MID-MARKET VOLUMES BY SECTOR



CEE & CIS

A MIXED QUARTER FOR M&A ACTIVITY BUT GOOD PROSPECTS LIE AHEAD

BIG PICTURE

- Deal volume and value falls from previous quarter levels
- Private equity activity surges with highest average deal size for 10 years
- Industrials & Chemicals continues to lead the way.

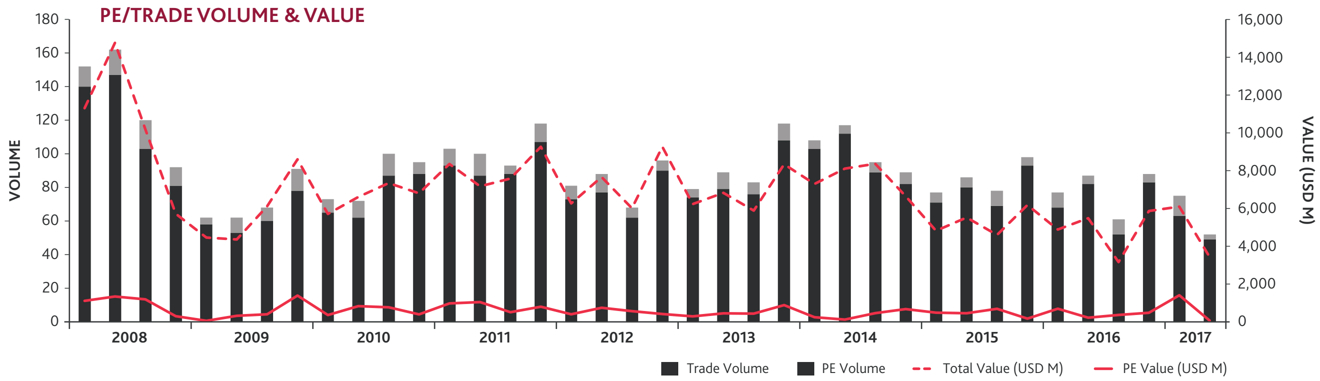
The second quarter of 2017 saw deal volume and value decrease compared to Q1 2017, with both private equity and trade volume falling. Total deal numbers also fell against the same quarter last year. The BDO Heat Chart shows 717 potential deals, suggesting a pick-up in activity ahead.

CEE & CIS deal numbers fell by 31% from 75 in Q1 2017 to 52 in Q2 2017, while total deal value decreased by USD 2.6bn during the same period. This led to a fall in average deal value from USD 81m in Q1 2017 to USD 66m in Q2 2017, which is the lowest second quarter average deal value for ten years. Private equity deal volume in Q2 2017 decreased by 75% (from 12 to three) compared to the previous quarter and total private equity value almost halved. This led to an average private equity deal size of USD 22m, the lowest for ten years.

KEY DEALS AND SECTORS

The region's top ten deals had a combined value of USD 2.1bn, which represented around 61% of Q2 2017's overall deal value. The most active sectors were Industrials & Chemicals with 14 deals, representing 27% of total deal volume, Technology & Media with ten deals (19%), Consumer with six deals (12%) and Business Services with six deals (12%).

The year to date 2017 was in line with the overall trend for 2016: Industrials & Chemicals contributed 67 (21%) deals and Consumer 47 deals (15%). The sector that contributed the least was Real Estate, with only one deal (2%) in Q1 2017 and only four deals in 2016 (1%). The average



number of Industrials & Chemicals deals between 2014 and Q2 2017 was 18 (20%) and our data shows a downward trend but the sector is still performing above its 2016 average. Overall, almost all sectors performed below their 2016 historical average in Q2 2017, while Technology & Media remained flat.

LOOKING AHEAD

According to the BDO Heat Chart and a number of other reliable sources, we expect more mid-market M&A activity during 2017, especially as, perhaps surprisingly, the number of deals in 2016 was below 2015 levels. The IMF forecasts global growth of around 3.4% in 2017, which is 0.3% more than the corrected forecast for 2016. China still represents a major risk since economic transition is needed to avoid a potential steep decline in growth. This could lead to a sudden rise in risk aversion globally and as a result influence mid-market M&A deals in the CEE & CIS region, especially in those economies closely related to China (Russia). The M&A markets tend to lag economic indicators as well as debt markets as investor confidence moves with financial sentiment and outlook. The market at this point shows gradual, lower than forecast growth and will probably achieve slow recovery over the next few years.

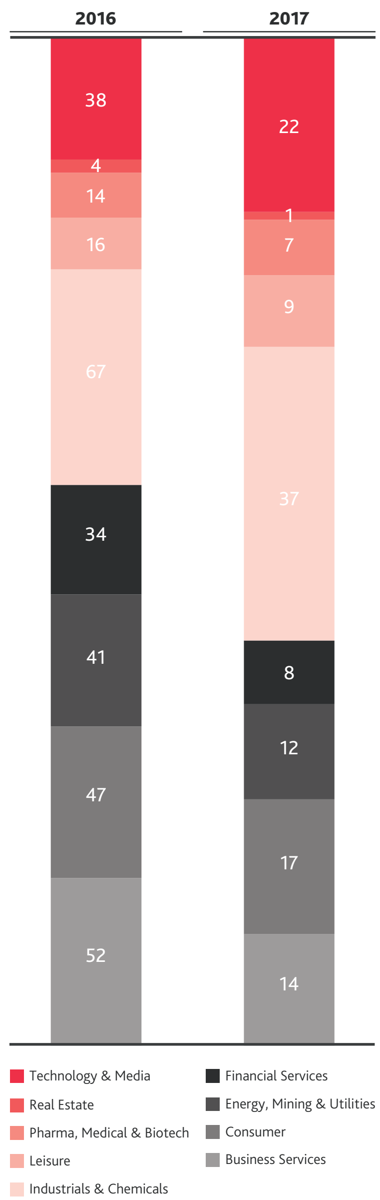
The BDO Heat Chart expects 717 deals planned or in progress, which represents around 9% of the total worldwide mid-market deals and would indicate a significant increase in M&A deals in the region. Industrials & Chemicals is expected to be the leading sector for CEE & CIS mid-market M&A activity with 183 deals (25.5%) predicted – which is consistent with the 2008-2016 average. Technology & Media has 134 predicted deals (19%) and Consumer 117 deals (16%). In line with historical data, Pharma, Medical & Biotech, Financial Services, Leisure and Real Estate will have the fewest deals in both the short and long term.

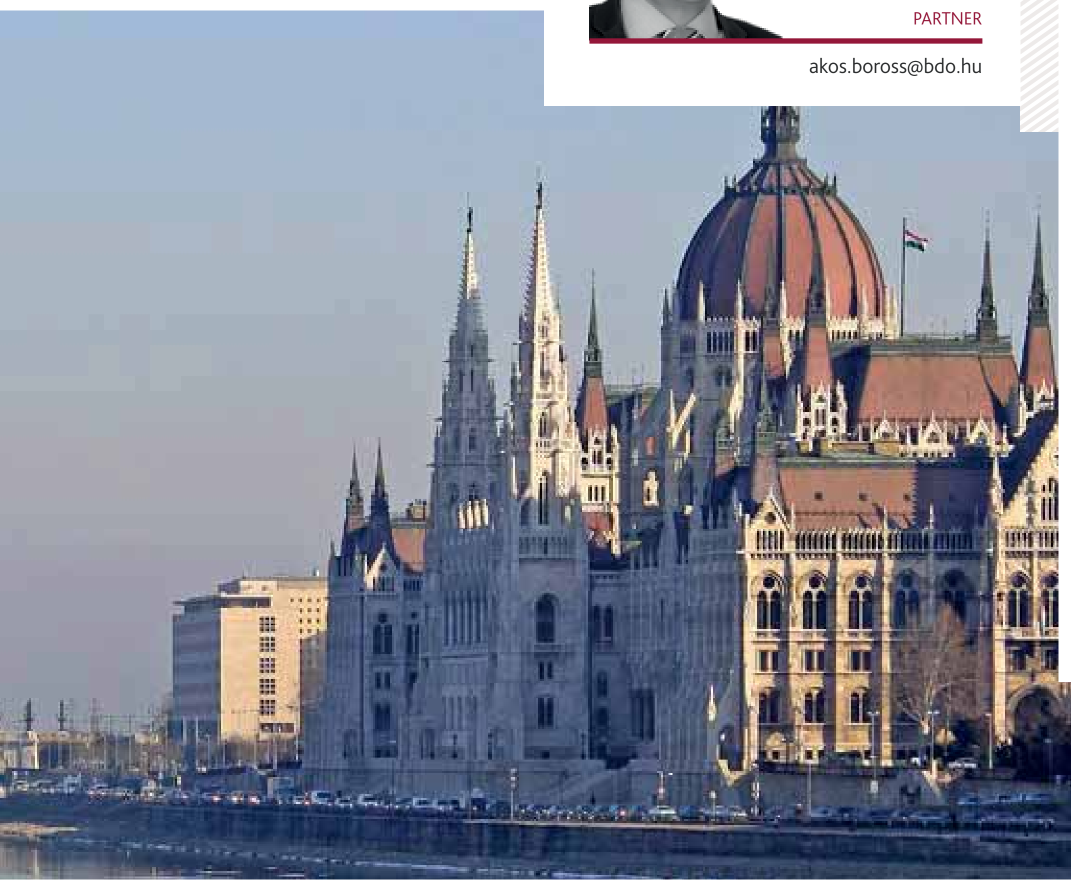
ÁKOS BOROSS
PARTNER
akos.boross@bdo.hu

CEE & CIS
HEAT CHART BY SECTOR

Industrials & Chemicals	183	26%
Technology & Media	134	19%
Consumer	117	16%
Business Services	78	11%
Energy, Mining & Utilities	66	9%
Financial Services	53	7%
Leisure	37	5%
Pharma, Medical & Biotech	35	5%
Real Estate	14	2%
TOTAL	**717**	**100%**

CEE & CIS
MID-MARKET VOLUMES BY SECTOR





ISRAEL

DEAL VALUE AND VOLUME INCREASE AS PRIVATE EQUITY PERFORMS STRONGLY

BIG PICTURE

- M&A activity in Q2 2017 grew both in value and volume compared to the previous quarter
- Private equity hits a two-year high for number of deals in a quarter and achieves its biggest ever share of total deal value and volume since records began in Q1 2008
- TMT and Pharma, Medical & Biotech are the most active sectors.

The second quarter of 2017 saw mid-market M&A deal value and volume rise compared to the previous quarter.

The second quarter of 2017 generated a total of 18 completed deals, with a total value of USD 1.27bn, reflecting a contraction of USD 828m (40%) compared to Q2 2016 and a rise of USD 558m compared to Q1 2017. In terms of value and volume, the second quarter was the busiest period since Q2 2016.

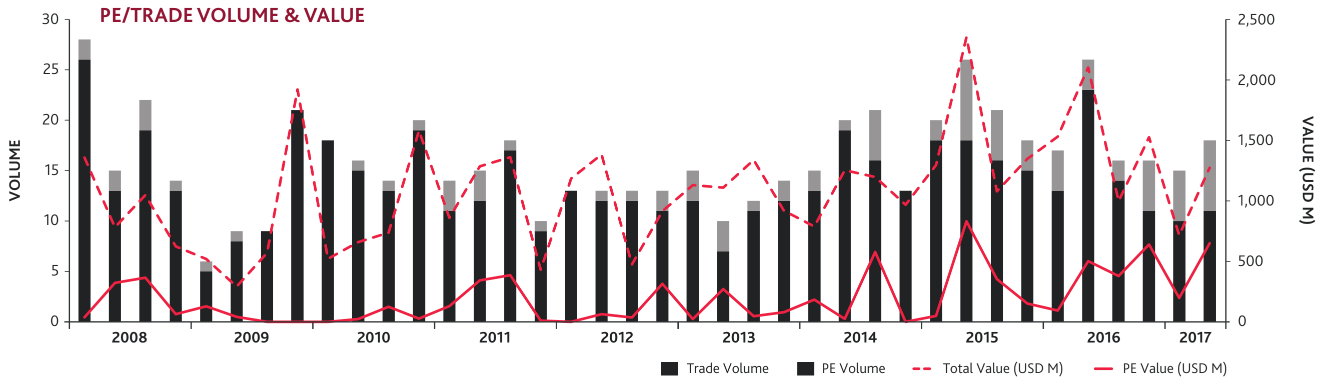
However, in comparison with previous second quarters, Q2 2017 was the lowest performing second quarter for the past four years in terms of both volume and value, except for Q2 2014, which also recorded similar value levels.

The average deal value was USD 71m, up 48% compared to Q1 2017 and down 12.5% compared with Q2 2016 numbers.

KEY DEALS

The quarter's top ten deals had a combined value of USD 1.14bn, representing 89% of total M&A transactions. Apax Partners LLP made three purchases during Q2 2017, all of which are listed in Israel's top ten mid-market deals.

The largest deal was the USD 329m acquisition of Syneron Candela by Apax Partners LLP. Syneron is a leading global non-surgical aesthetic device company with a comprehensive product portfolio and a global distribution footprint. In second place was another deal executed by Apax Partners LLP. Apax purchased 3M's electronic monitoring business, formerly known as Attenti, for USD 200m. In third place was the sale of a 50% stake in IDE Technologies Ltd for USD 178m. IDE Technologies is a world leader in water treatment and sea water desalination solutions.



LOOKING AHEAD

There are currently 50 deals planned or in progress, with TMT, Pharma, Medical & Biotech and Industrials & Chemicals leading the way.

TMT currently accounts for 36% of pipeline deals, while Industrials & Chemicals and Pharma, Medical & Biotech are responsible for 22% each. Other sectors with pipeline deals include Energy, Mining & Utilities with 12%, Financial Services with 4%, and Business Services and Leisure with 2%.

Overall, we firmly believe that Israel will continue to deliver strong M&A activity due to its vibrant deal-making environment that is supported by available capital and low interest rates. This is coupled with aggressive purchase policies among companies and domestic limitations which may prompt some Israeli firms to search for scale abroad.

* Highest level available for comparison, Q1 2008.

Cross-border transactions stood out, representing 70% of the biggest transactions. Of the top ten deals, four bidders were Israeli companies, three were from the United Kingdom (Apax Partners LLP), two from the USA and one from Canada.

The top ten deals were spread across four different sectors: TMT and Industrials & Chemicals with three deals and Consumer and Pharma with two each.

KEY SECTORS

The most active sectors during Q2 2017 were TMT and Pharma and Medical & Biotech, which each recorded four deals in the second quarter and both accounted for 44% of transactions in Q2 2017. Leisure, Industrials & Chemicals and Consumer were the second most active sectors with three deals each, accounting for 50% of deals. Demand for companies in the Business Services sector was sluggish, with only one deal concluded in Q2 2017.

Q2 2017 saw a contraction in TMT activity, with a 43% decrease in deal numbers compared to Q1 2017. The TMT sector's performance was even weaker when compared to Q2 2016 data, recording a 66% fall in deal volume.

PRIVATE EQUITY

In Q2 2017, PE performed strongly and was responsible for 51% of total deal value and 39% of total deal volume. In doing so, private equity its highest share of overall deal value and volume since records began in Q1 2008. In the previous quarter, PE accounted for just 28% of total deal value and 33% of total deal volume, while Q2 2016 it recorded 11% and 24% respectively.

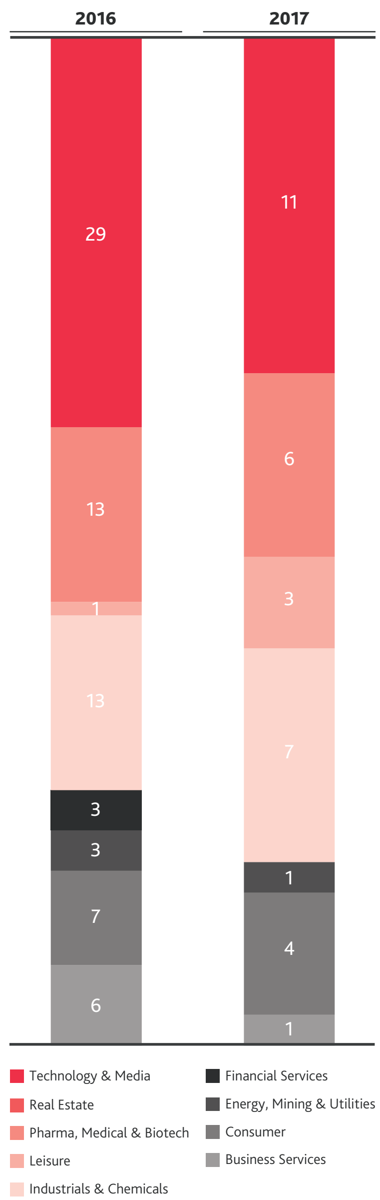
Second quarter PE deal value hit a combined USD 650m from a total of seven deals, the best performance since Q2 2015, both in value and volume. Q1 2017 saw five deals worth a total of USD 198m whereas Q2 2016 recorded only three deals with an aggregate value of USD 502m.

TAMAR BEN-DOR
PRINCIPAL, M&A
tamarbe@bdo.co.il

ISRAEL
HEAT CHART BY SECTOR

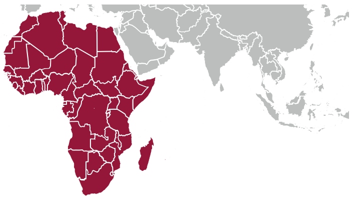
Technology & Media	18	36%
Industrials & Chemicals	11	22%
Pharma, Medical & Biotech	11	22%
Energy, Mining & Utilities	6	12%
Financial Services	2	4%
Business Services	1	2%
Leisure	1	2%
Consumer	-	0%
Real Estate	-	0%
TOTAL	**50**	**100%**

ISRAEL
MID-MARKET VOLUMES BY SECTOR



AFRICA

DEAL ACTIVITY SLOWS SHARPLY BUT OUTLOOK IS POSITIVE



BIG PICTURE

- There were just 22 mid-market M&A deals reported in Q2 2017, exactly half the number in the corresponding quarter last year
- This was the slowest quarter for mid-market M&A deal volume since Q3 2010 and the lowest in terms of deal value since Q3 2012
- Energy, Mining & Utilities was the most active sector and has the biggest deal pipeline.

Q2 2017 saw a total of 22 mid-market M&A transactions in Africa, with three (13%) of these PE buy-outs. This represents a decrease of 41% of compared to the previous quarter, but the proportion of PE buy-outs rose 5.4% to 13.6% over the same period. The total transactions for the quarter amounted to a total of USD 1.72bn, a drop of 33% compared to the previous quarter. It was also the first time in four years that the number of deals fell below 30.

KEY SECTORS AND DEALS

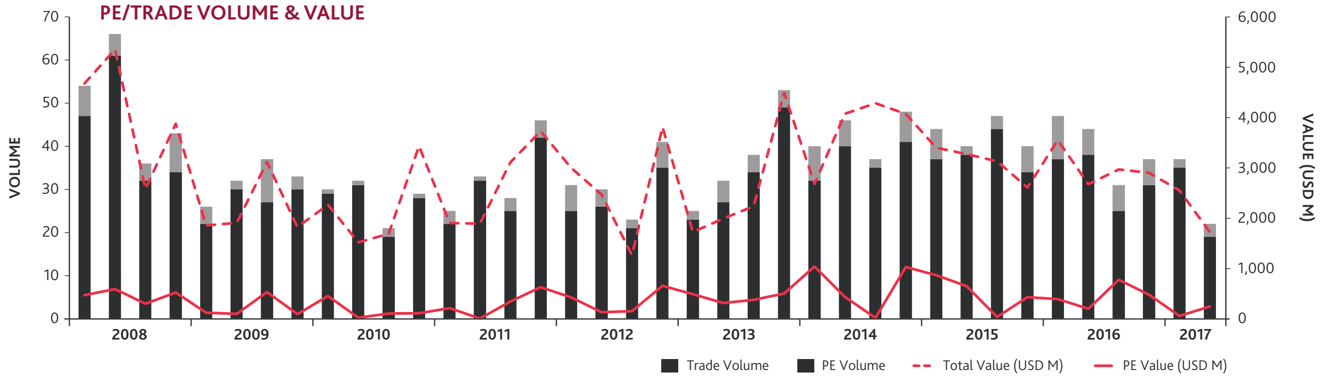
Energy, Mining & Utilities was the sector that saw the most activity in Q2 2017 with seven deals. Financial Services followed closely behind with six transactions.

The biggest deal of the quarter was the acquisition of a 74% shareholding in South Africa-based China African Precious Metals (Proprietary) Limited by the Chinese firm Pengxin International Mining Co. Ltd, valued at USD 279m. Pengxin International Mining Co. Ltd, formerly Shanghai Synica Co. Ltd, is principally engaged in the mining, smelting and sale of copper. This deal alone amounted to 16% of Q2's total deal value for the 50 countries making up the African mid-market M&A region.

The second largest transaction was also in Energy, Mining & Utilities, with the acquisition of Anglo American Plc (Eskom-tied domestic thermal coal operations) based in South Africa, by Seriti Resources Holdings Proprietary Limited. The acquisition is reported to have cost the bidder USD 167m.

Out of Q2's top ten M&A deals, there were three in both the Energy, Mining & Utilities and Financial Services sectors, amounting to USD 525m and USD 381m respectively. The largest Financial Services deal was the acquisition of an 80% stake in Moza Banco, SA by Banco de Mozambique as it consolidates its banking activities locally.

PE/TRADE VOLUME & VALUE



The deal was worth a reported USD 139m and was the continent's fourth largest deal of the quarter. Other top ten deals ranged between USD 79m to USD 147m. South Africa accounted for four of the top ten transactions.

ECONOMIC OUTLOOK

Growth in Sub-Saharan Africa is projected to recover moderately this year and reach 2.6%, up from a rate of 1.5% in 2016, according to the World Bank. Higher growth is expected throughout 2018, helped by improvements in commodity prices as well as domestic conditions. However, Africa's three largest economies, namely Angola, Nigeria and South Africa, are rebounding from a sharp slowdown in 2016 and are expecting a fragile recovery with reforms needed in those countries and across the continent to foster private sector growth.

Ivory Coast, Ethiopia, Kenya, Mali, Rwanda, Senegal and Tanzania are continuing to show economic resilience as they move towards a lower dependence on extractive commodities. This change is being supported by infrastructure investments, resilient services sectors and the recovery of agricultural production, as stated by both Albert Zeufack, Chief Economist for Africa at the World Bank and the IMF. The key downside risks to the outlook for the region include a stronger than expected tightening of global financing conditions and rising protectionist sentiments, and domestically, the deterioration of reforms, increasing security threats, and political uncertainty ahead of elections in some countries, according to the World Bank.

LOOKING AHEAD

The BDO Heat Chart for Africa mid-market M&A provides a positive outlook, forecasting 131 deals ahead in 2017. The most active sector is likely to be Energy, Mining & Utilities, with 40 deals, representing 31% of the total. In second place is Industrials & Chemicals, with a total of 26 forecast deals (20%). Africa represents 2% of the total M&A deals expected in 2017.

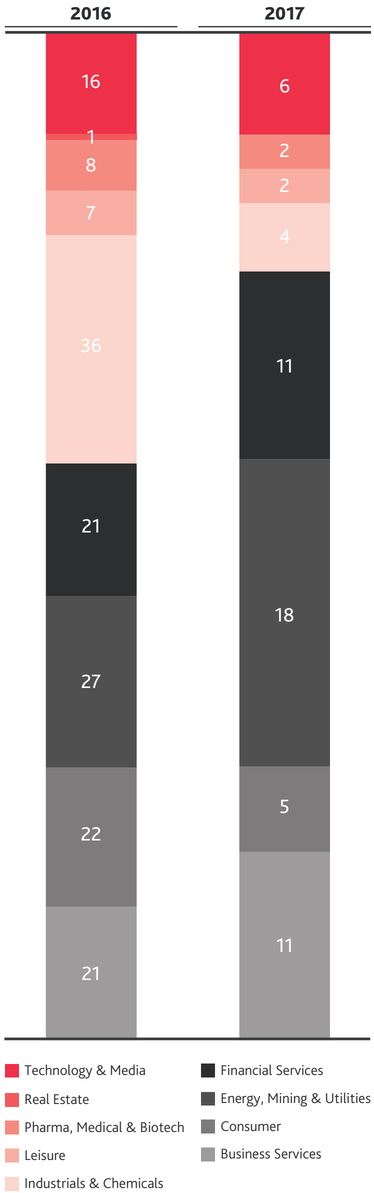
AFSAR EBRAHIM
DEPUTY GROUP MANAGING PARTNER

afsar.ebrahim@bdo.mu

AFRICA
HEAT CHART BY SECTOR

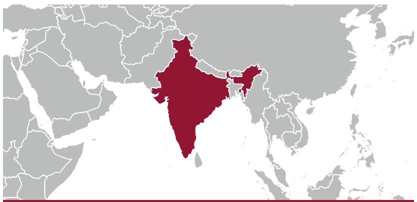
Energy, Mining & Utilities	40	31%
Industrials & Chemicals	26	20%
Business Services	17	13%
Financial Services	13	10%
Technology & Media	10	8%
Consumer	9	7%
Leisure	7	5%
Real Estate	6	4%
Pharma, Medical & Biotech	3	2%
TOTAL	**131**	**100%**

AFRICA
MID-MARKET VOLUMES BY SECTOR



INDIA

DEAL NUMBERS FALL IN Q2 BUT VALUE RISES



BIG PICTURE

- Deal value rises above previous quarter and the corresponding quarter last year
- Industrials and TMT are the most active sectors
- Government reforms to boost growth.

According to the IMF, India's economic growth outlook is improving as the impact of demonetisation is fading and key reforms are paying off.

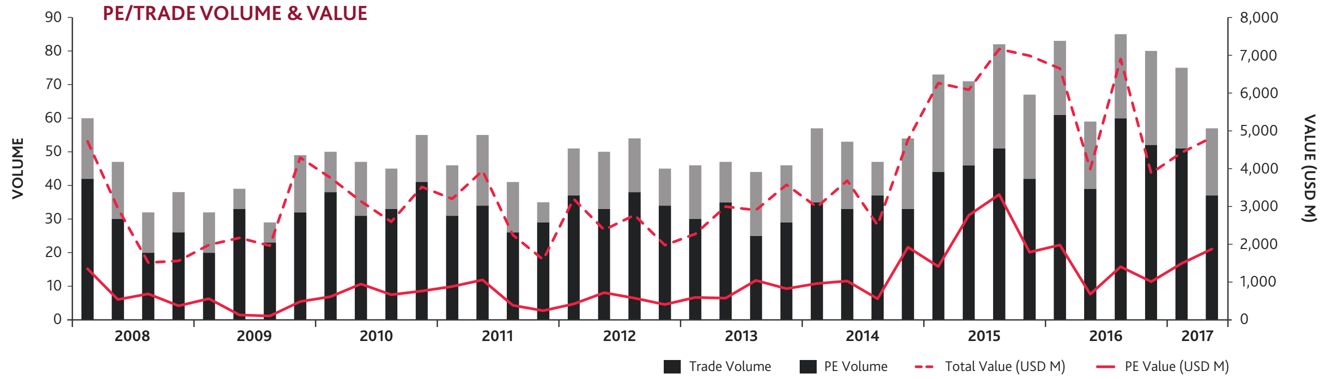
Rating agency Moody's expects the recent introduction of a GST (goods and services tax) to boost India's growth over the medium term. It expects that GST will contribute to productivity gains and higher GDP growth by improving the ease of doing business, unifying the national market and enhancing India's attractiveness as a foreign investment destination. The IMF flagged the vulnerability of India's banking system, which is grappling with high levels of bad assets and high corporate debt levels. However, the implementation of the bankruptcy code will have a positive impact, leading to better management of stressed companies.

Q2 DEAL VALUE AND VOLUME

Deal value increased 9% to USD 4.82bn in Q2 2017, up from USD 4.42bn in Q1 2017. However, deal volume dropped 24%, from 75 deals in Q1 2017 to 57 deals in Q2 2017. This reflected an increase in average deal size to USD 85m in Q2 2017 from USD 59m in Q1 2017.

When Q2 2017 is compared with the same quarter in 2016, we can see that deal value increased by 21% (USD 3.99bn in Q2 2016), while deal volume decreased by 3% (59 deals in Q2 2016).

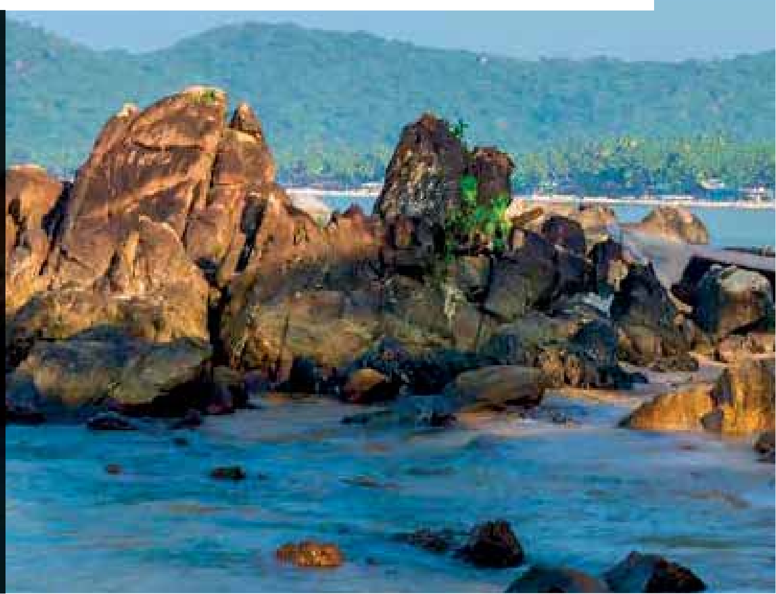
In Q2 2017, PE deals represented 39% of total deal value and 35% of total deal volume. For Q1 2017, these numbers were 34% and 32% respectively while for Q2 2016, they were 17% and 34% respectively.



LOOKING AHEAD

The switch to the new goods and services tax (GST) regime is expected to increase the overall size of the economy and increase productivity by unifying the informal and formal sectors. Inflation is expected to remain low as GST rates on essential goods such as food grain, household consumer items and essential services are either exempt or kept low. While GST is unlikely to be a positive for economic growth in the short term, over the medium to long term, the reform is expected to improve the ease of doing business, bolster investor sentiment and attract more foreign investment.

The BDO Heat Chart is based on companies for sale tracked by Mergermarket between 7 October 2016 and 7 April 2017. The Industrials & Chemicals sector is expected to top the chart with highest number of potential deals.



KEY SECTORS AND DEALS

In 2016, 307 deals were completed across all sectors, with Industrials & Chemicals contributing 63 deals (21% of the total) followed by TMT with 60 deals (20%) and Business Services with 44 deals (14%).

In H1 2017, 132 deals were completed across all sectors with Industrials & Chemicals contributing 30 deals (23% of the total) followed by TMT with 29 deals (22%) and Business Services with 20 deals (15%).

In Q2 2017, only one sector (Leisure) saw growth in deal volume compared to Q1 2017 while five (TMT; Pharma, Medical & Biotech; Industrials & Chemicals; Financial Services; Energy, Mining & Utilities) saw a drop in deal volume and the remaining three (Real Estate, Consumer and Business Services) remained constant.

The biggest deal in Q2 2017 was in the Business Services sector, when Canada Pension Plan Investment Board of Canada acquired 13 industrial and logistic parks from IndoSpace Industrial & Logistics Parks Trust for UDS 500m in May 2017.

Other major deals in Q2 2017 included:

- Tokio Marine Holdings, Inc. of Japan acquired a 23% stake in IFFCO-Tokio General Insurance Co. Ltd. from Indian Farmers Fertiliser Co-operative Ltd for USD 392m
- Warburg Pincus LLC, Clermont Group of USA and Asset Management Limited acquired a 12.18% stake in ICICI Lombard General Insurance Company Ltd. from Fairfax Financial Holdings Limited of Canada for USD 383m
- Capital Square Partners Pte Ltd of Singapore acquired Aegis Limited from Essar Global Fund Limited for USD 275m
- Hon Hai Precision Industry Co., Ltd. of Taiwan acquired a 10% stake in SB Energy Holdings Limited for USD 272m.

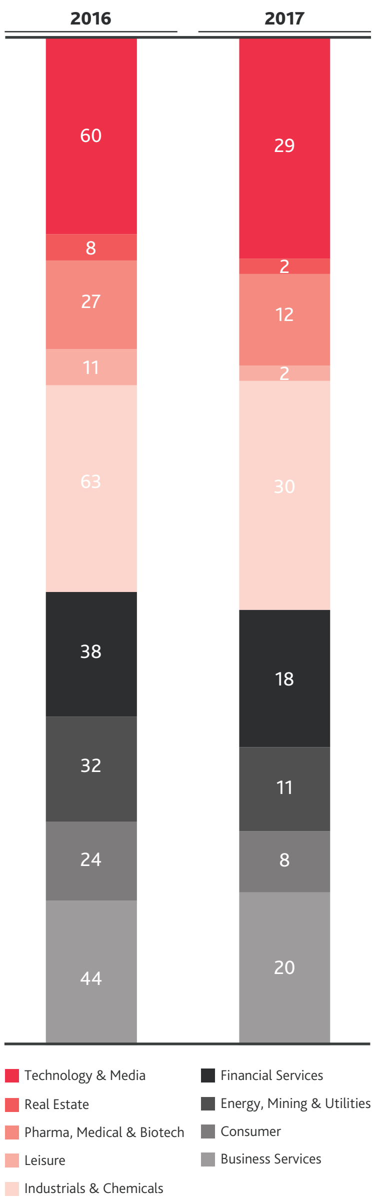
In 2016, the average number of deals per quarter was 77, which fell slightly to 75 in Q1 2017 and decreased considerably to 57 deals in Q2 2017.

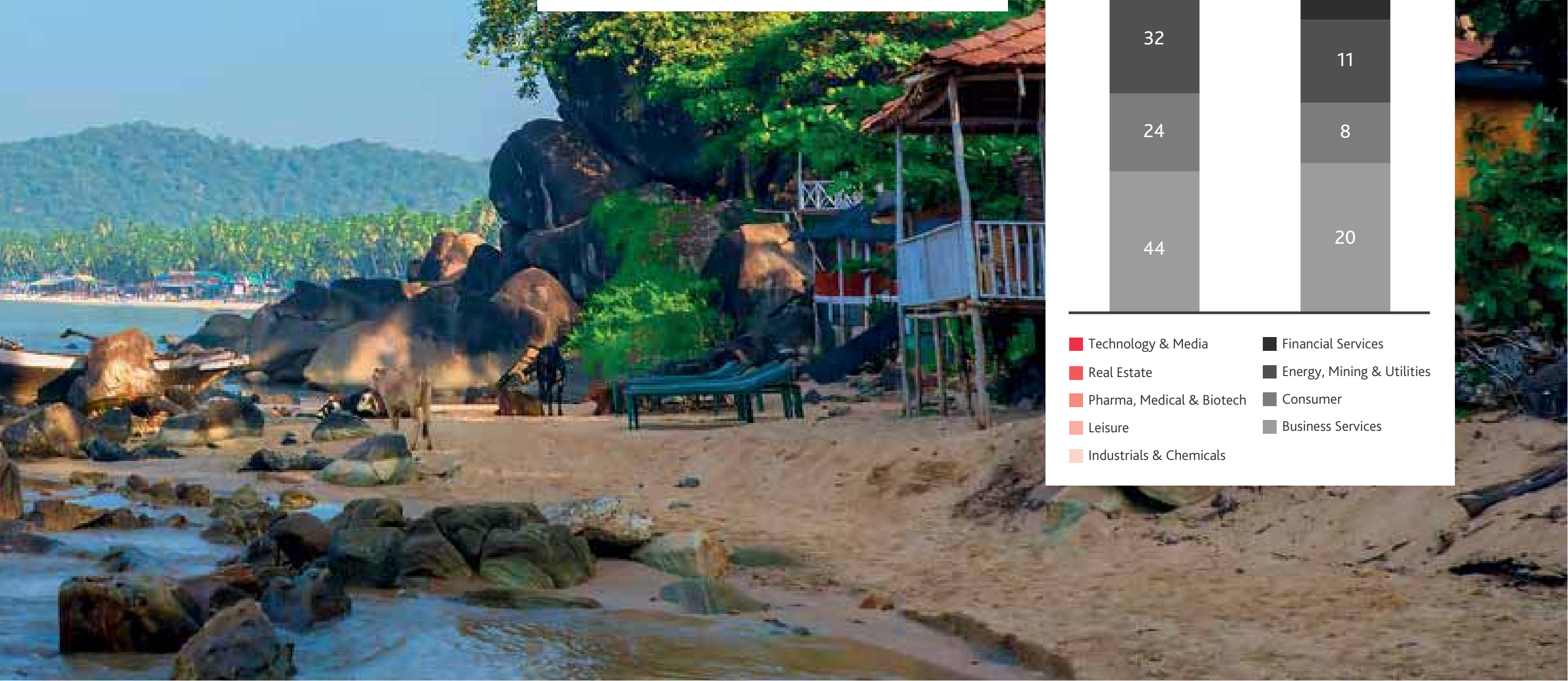
SAMIR SHETH
PARTNER
samirsheth@bdo.in

INDIA
HEAT CHART BY SECTOR

Industrials & Chemicals	97	22%
Technology & Media	66	15%
Business Services	62	14%
Financial Services	62	14%
Consumer	60	13%
Energy, Mining & Utilities	43	9%
Pharma, Medical & Biotech	39	9%
Leisure	11	2%
Real Estate	9	2%
TOTAL	**449**	**100%**

INDIA
MID-MARKET VOLUMES BY SECTOR





CHINA

OUTBOUND DEAL ACTIVITY SLOWS BUT MID-MARKET OUTLOOK IS POSITIVE

BIG PICTURE

- H1 2017 deal volume drops by 17.5% compared to H1 2016, with around 700 deals completed
- Lower outbound M&A activity driven by government policies and tightened administrative control over capital outflows from China
- New PRC government policies set to boost inbound M&A.

The slowdown in M&A activity seen in Greater China during Q1 2017 continued in the second quarter of the year, with H1 2017 seeing a 17.5% decline in mid-market deal volumes and a 21.5% decline in mid-market deal values from the prior year.

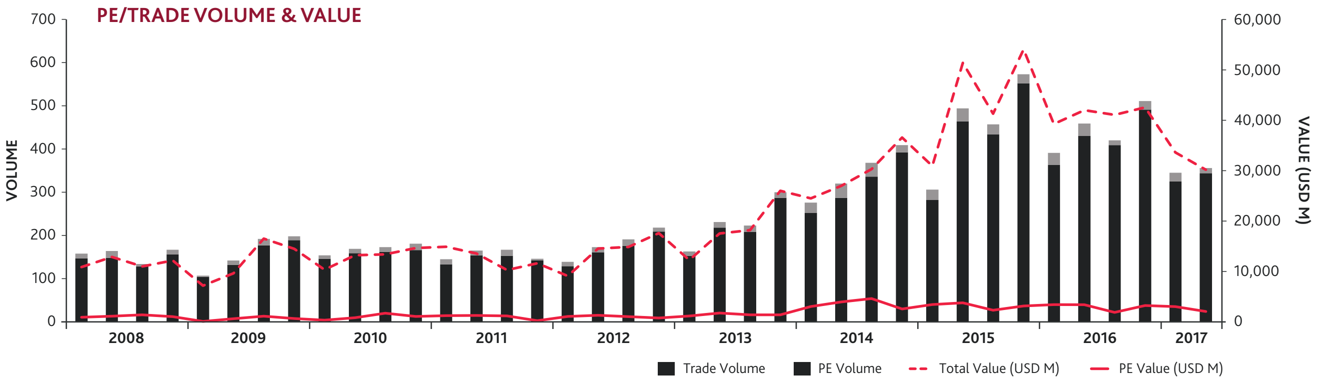
This followed a sharp pull-back in outbound investments by PRC companies in 2017 as tightened currency controls and enhanced scrutiny from the PRC government on 'speculative' transactions took effect.

OUTBOUND INVESTMENT

Chinese regulators implemented a number of new policies and tightened administrative controls in late 2016 to stabilise capital outflows. This was in response to a sharp decline in foreign exchange reserves and to mitigate the risk of further depreciation of the Renminbi.

Policy changes included a notification issued by the National Development Reform Commission (NDRC) in late 2016 on restrictions to certain types of capital account transactions, including offshore transactions falling outside of the core operations of the acquirer with a deal value of over USD 1bn, any outbound investment exceeding USD 10bn, and real estate transactions by SOEs exceeding USD 1bn.

This was deemed internal guidelines within SAFE, China's foreign exchange administrator, requiring any single foreign exchange capital account transaction exceeding USD 5m to be reported to its central office in Beijing, with a stricter level of scrutiny applied for any transaction amount exceeding USD 50m. This was followed by a joint announcement by the NDRC, MOFCOM, PBOC and SAFE that Chinese authorities will play particular attention to certain types of transactions, including any targets larger than the



LOOKING AHEAD

The tightened administrative controls implemented by Beijing in late 2016 and 2017 have had an impact on offshore investment levels by PRC corporates and this trend is expected to remain at least through to the end of 2017.

However, the new restrictions are not considered to be a reversal of the PRC government's "Going Out Policy" or its "Belt and Road" initiative, rather they highlight the need for monitoring outbound investments by less experienced PRC companies.

While there remains an insatiable demand by Chinese companies to engage in offshore transactions, some PRC corporates are now playing a waiting game, pending the future policy direction from Beijing. But Chinese companies are unlikely to wait patiently and this could result in a stronger focus back on domestic transactions, where plentiful consolidation opportunities exist across many of China's highly fragmented industries.

Mid-market deal volumes should be less sensitive to enhanced government scrutiny in China, which will generally be targeting larger-sized transactions. Prospects for the mid-market still remain positive, with over 999 pending transactions indicated in the latest BDO Heat Chart, which would return levels to highs not seen since the first half of 2016, when China's M&A markets were breaking records.

PRC acquirer, or transactions deemed 'irrational' in sectors such as film production, sports clubs or hotels.

These policy changes have had a rapid impact, with China's foreign exchange reserves already back above the USD 3tn level, and with a recent stabilisation of the Renminbi exchange rate against the US dollar, as any recent concerns over the strength of the Chinese currency have abated.

While it's been suggested that the new pronouncements are no more than a temporary speedbump in the long road ahead for overseas expansion by PRC companies, the new policies have created uncertainties around timelines for securing regulatory approvals for transactions involving PRC bidders. This could impact on transaction timelines or even on the attractiveness of PRC companies joining and completing deal processes.

INBOUND INVESTMENT

While overseas acquisitions by Chinese buyers have cooled off in 2017, inbound investments into China have been on the rise in certain sectors, following the easing of regulations on making investments into China and the opening of previously off-limit sectors.

Foreign direct investment (FDI) levels into China have remained relatively stable over recent years, but with diverging trends. Rising production costs in China and increased competition for FDI from other lower-cost manufacturing hubs in Asia have resulted in lower foreign investment in traditional manufacturing sectors in China. But this has been offset by rising inbound investment in high-tech manufacturing, consumer and services sectors, alongside the broader structural consumption changes taking place in China.

China released new policies in early 2017 to attract more foreign investment over the coming years. Reflecting China's planned transition from low-cost manufacturing to a high-innovation and valued – added manufacturing environment, the government has recognised that foreign investment can bring in new advanced technologies from overseas that could contribute to the government's 'Made in China 2025' strategy.

This has resulted in a number of policy initiatives including the relaxation of government approvals for making investments into permitted industries in China, and encouraging foreign investors to establish R&D centres in China. The broad range of sectors involved include high-end manufacturing, renewable energy, energy efficiency, industrial design & innovation and modern logistics.

A further aim of these new policies is to allow foreign investors to compete on even terms with domestic PRC entities in sectors open for investment. This included new reforms on registered share capital and the removal of minimum capital requirements for foreign invested entities, aiming to align regulations for domestic entities and FIEs, and to promote fair competition.

Further support was provided following the release of the updated Foreign Investment Industrial Guidance Catalogue in June 2017. This catalogue guides all foreign investment into China, setting out a 'negative list' of industry sectors that are further divided into 'prohibited' or 'restricted' industries, for which government approvals may be required. All industries not listed in the negative list are either 'permitted' or 'encouraged' sectors, for which no government approval for investment is required, with further relaxations in the latest catalogue enabling overseas investors to access an ever-broader range of industries in China than previously permitted.

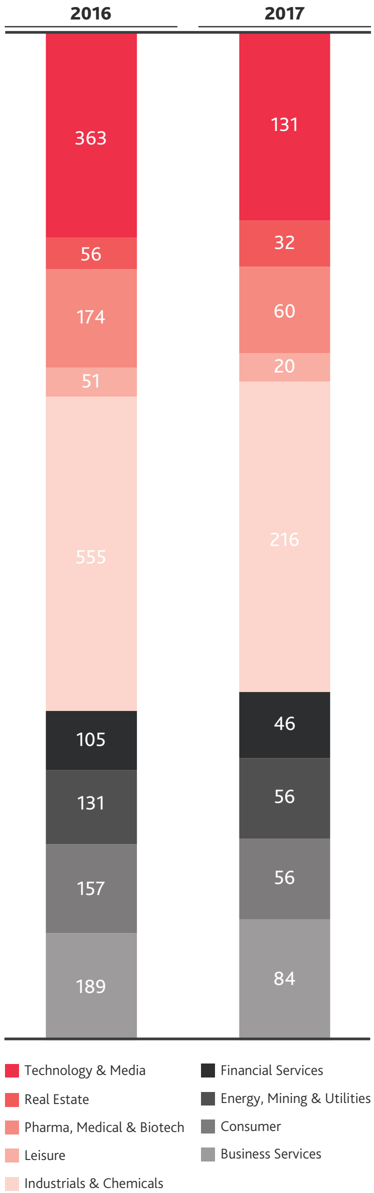
ALBERT SO
PRINCIPAL
albertso@bdo.com.hk

KENNETH YEO
CORPORATE FINANCE DIRECTOR
kennethyeo@bdo.com.hk

CHINA
HEAT CHART BY SECTOR

Industrials & Chemicals	306	30%
Technology & Media	171	17%
Business Services	119	12%
Consumer	111	11%
Financial Services	91	9%
Energy, Mining & Utilities	65	7%
Pharma, Medical & Biotech	58	6%
Leisure	46	5%
Real Estate	32	3%
TOTAL	**999**	**100%**

CHINA
MID-MARKET VOLUMES BY SECTOR



SOUTH EAST ASIA

DEAL VALUE AND VOLUME FALL IN Q2 BUT DEAL PIPELINE BODES WELL

BIG PICTURE

- M&A deal numbers down 25% on previous quarter
- Industrials & Chemicals was the most active sector, while Energy, Mining & Utilities was responsible for four of the quarter's top ten deals
- Strengthening deal pipeline bodes well for future activity.

M&A market activity in South East Asia was lower in Q2 2017 than the previous quarter, both in terms of deal volume and value.

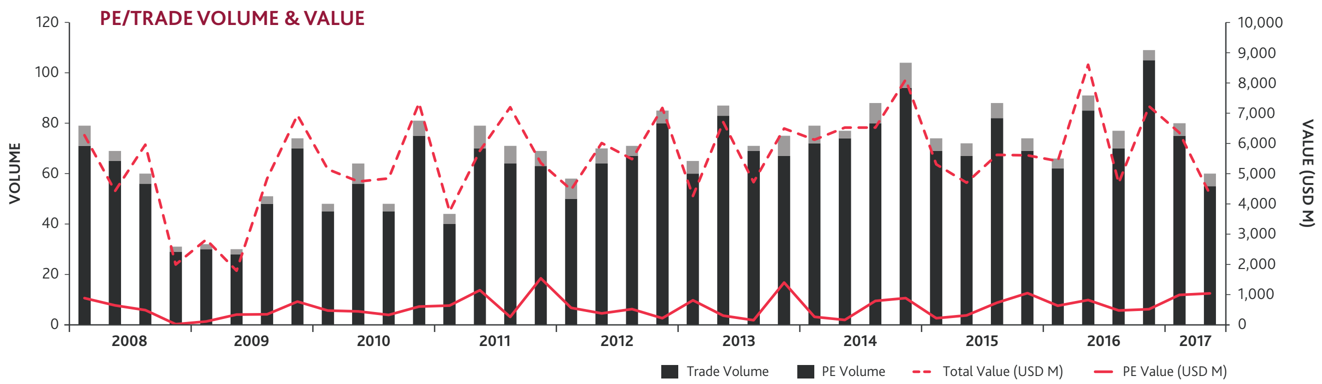
There were 60 transactions during the second quarter, compared with 80 deals in Q1 2017, representing a decrease of 25%, while total value fell to USD 4.3bn from USD 6.4bn. The top ten deals were worth a total of USD 2.4bn, representing 56% of total value for Q2 2017. Private equity completed five deals in Q2 2017, one deal down from the corresponding period in 2016. Private equity activity represented 8.3% of the overall deal volume and 24.1% of value.

KEY SECTORS AND DEALS

Industrials & Chemicals and Energy, Mining & Utilities together contributed 42% of the total deal numbers in Q2 2017. Industrials & Chemicals was the most active with 16 transactions, while Energy, Mining & Utilities contributed nine.

Three of the quarter's top ten deals were in the Energy, Mining & Utilities sector, where the target companies were from Philippines, Singapore and Indonesia. The sector was responsible for the quarter's largest deal, which was the acquisition by Metro Pacific Investments Corp of a 25% stake in Beacon Electric Asset Holdings, Inc, in the Philippines with a deal value of USD 440m. Industrial & Chemicals also contributed one of the top ten deals for Q2 2017, involving a target company in the Philippines.

The remaining top ten deals were three from Business Services sector, two from Consumer and one from Leisure.



LOOKING AHEAD

As well as having the highest number of transactions in Q2 2017 (16), Industrial & Chemicals also has the highest number in the pipeline as at the end of Q2 2017 (97). Meanwhile, Business Services, Financial Services and Leisure sectors have seen their pipeline deals increase from a combined 152 in Q1 2017 to 168 in Q2 2017.

M&A activities in South East Asia remain dependent on the economic challenges currently faced by the region, which include the outlook for 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.

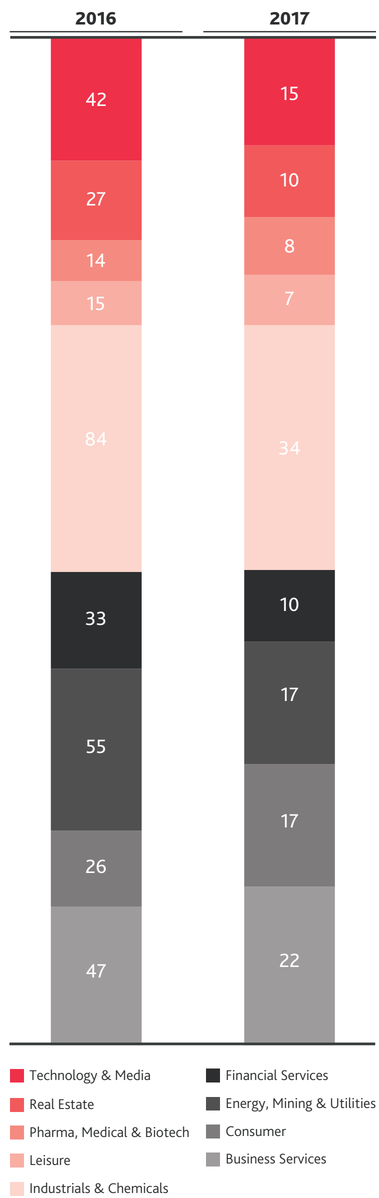
FEIZAL MUSTAPHA
CHAIRMAN

feizal@bdo.my

SOUTH EAST ASIA
HEAT CHART BY SECTOR

Industrials & Chemicals	97	19%
Business Services	77	15%
Energy, Mining & Utilities	63	12%
Consumer	59	12%
Financial Services	56	11%
Technology & Media	48	10%
Leisure	35	7%
Real Estate	34	7%
Pharma, Medical & Biotech	33	7%
TOTAL	**502**	**100%**

SOUTH EAST ASIA
MID-MARKET VOLUMES BY SECTOR



AUSTRALASIA

M&A ACTIVITY CONTINUES TO TRACK DOWNWARDS BUT OUTLOOK IMPROVES SHARPLY

BIG PICTURE

- H1 2017 activity continued its downward trend, with Q2 2017 seeing the second lowest deal value in six years
- Energy, Mining & Utilities activity on the increase as it bags three of the quarter's top ten deals
- Foreign investors continue to be attracted by Australia's resilient economy and reputation as a safe haven.

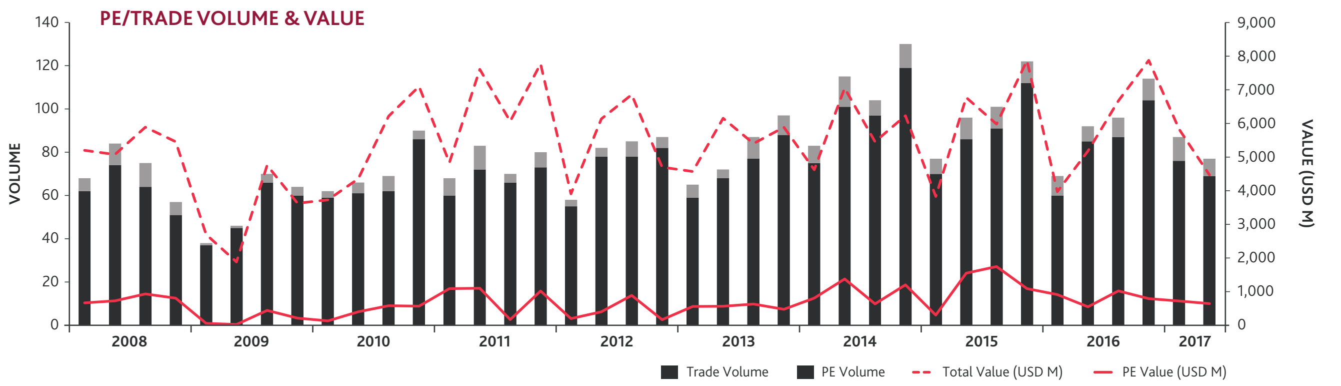
Seventy-seven deals with a combined value of USD 4.5bn were successfully completed in Q2 2017. This represents a 11% decline on Q1 2017's deal volume of 87 and a 14% decline in total value compared to the corresponding quarter in 2016.

Total deal volumes were down 16% for Q2 2017 from the same period in 2016. In Q2 2017, there were 77 deals worth USD 4.5bn. This represents a 14% decrease in value compared to the corresponding quarter in 2016, where 92 deals were done, totalling USD 5.2bn. Australasia's Q2 2017 is the lowest second quarter seen in the last six years (by deal value). The key factors inhibiting Australasian deal activity are below trend GDP growth and the escalating global and political uncertainty.

Market uncertainty has impacted deal volume across various sectors: Financial Services and Business Services deal volume declined by 39% and 40% respectively in Q2 2017 when compared to the prior corresponding quarter.

Despite the market uncertainty, mid-market PE transaction volumes increased by 19% for the two quarters ended June 2017 when compared to the same period in 2016. Furthermore, the Q2 2017 average deal size increased to USD 81m, which is up slightly from the USD 79m average seen in Q2 2016. PE's proportion of total mid-market M&A activity also increased to 10.4% in Q2 2017 compared to 7.6% in Q2 2016. Analysts have attributed the increase in PE activity to the low interest rate environment, large pools of global capital having to be deployed and Australia's reputation as a resilient economy.

Six of the top ten mid-market deals involved foreign investors, which indicates continued appetite from overseas buyers across a range of sectors. Foreign investment has



been aided by the depreciation of the Australian dollar and the need for foreign investors to deploy capital.

KEY DEALS AND SECTORS

The largest deal in Q2 2017 was the acquisition by Canadian NorthWest Healthcare Properties Real Estate Investment Trust of Generation Healthcare REIT (GHC) in a USD 451m deal. This transaction was driven by GHC's strong performance and NorthWest's strategy to expand its portfolio in the Australian healthcare market.

The second largest deal in Q2 2017 was Origin Energy Limited's agreement with Jemena Gas Pipelines Holdings Pty Ltd for the sale of the Darling Downs Pipeline Network for AUD 392m. Paul Adams, managing director of Jemena, described the acquisition as a "crucial next step" in expanding into northern Australia and they aim to build an infrastructure that will support the supply and delivery of energy across the region.

Three of the top ten largest mid-market deals were in Energy, Mining & Utilities, including: Jemena's proposed acquisition of the Darling Downs Pipeline Network; Lighthouse Infrastructure and DIF's acquisition of Clare Solar Farm for AUD 250m; and Sandstorm Gold's acquisition of the remaining shares (93%) of Mariana Resources Limited for AUD 283m. These deals indicate the beginning of a potential recovery in the mining sector, largely driven by stronger iron ore and gold prices. This is reflected in the value of Western Australian resources, which increased for the first time in three years.

LOOKING AHEAD

Despite ongoing global uncertainties, we expect foreign investors to remain interested in the Australasian market given its reputation as a safe and low-risk economy. An improvement in the number of foreign investments made by Chinese investors is expected as the PRC loosens capital outflow restrictions.

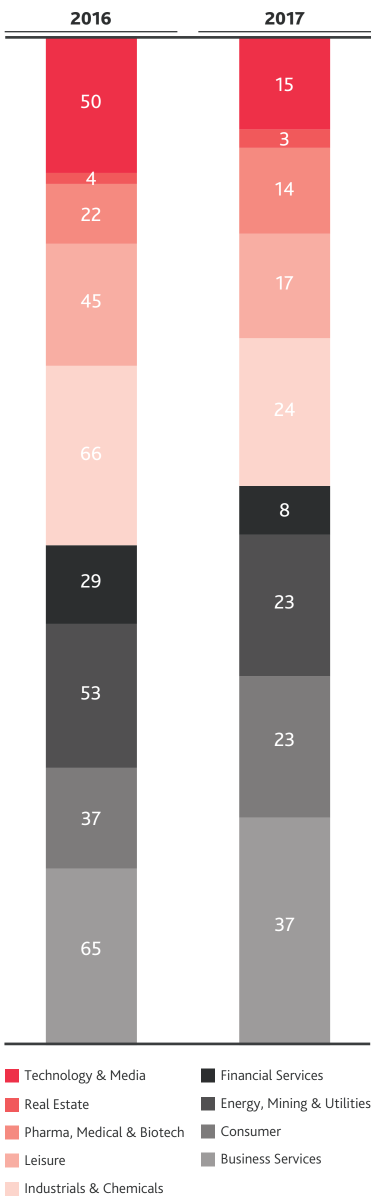
The BDO Heat Chart shows that 500 deals are currently under way, representing a material increase compared to the 437 deals completed in 2016. Our analysis suggests that the TMT and Consumer sectors are likely to be the most active sectors followed by Industrials & Chemicals.

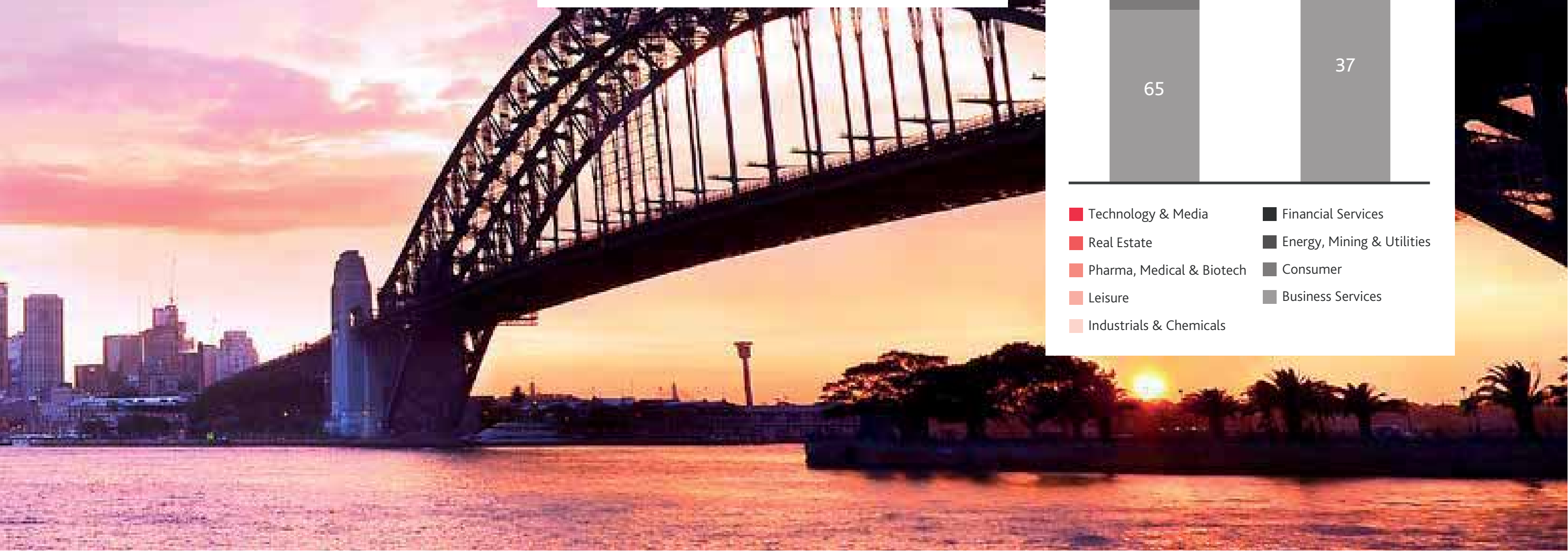
SEBASTIAN STEVENS
PARTNER
sebastian.stevens@bdo.com.au

AUSTRALASIA
HEAT CHART BY SECTOR

Technology & Media	98	19%
Consumer	94	19%
Industrials & Chemicals	79	16%
Business Services	66	13%
Energy, Mining & Utilities	60	12%
Financial Services	39	8%
Pharma, Medical & Biotech	35	7%
Leisure	19	4%
Real Estate	10	2%
TOTAL	**500**	**100%**

AUSTRALASIA
MID-MARKET VOLUMES BY SECTOR





SECTOR VIEW

CONSUMER

IN A SECTOR THAT IS QUICK TO ADAPT, UNCERTAINTY IS NO BARRIER TO M&A

NICOLA SARTORI
HEAD OF M&A RETAIL AND CONSUMER

nicola.sartori@bdo.co.uk

In an uncertain world, consumers may change their spending patterns but they will continue to buy. Investing in fast-growing consumer businesses is therefore still generating significant returns and competition for assets is high.

The consumer sector, to a large extent, reacts to economic cycles in the same way as M&A activity – both rely on confidence.

When confidence is up, consumers spend money and companies look to invest. When it is down, the reverse happens.

The last 12 months has seen a significant amount of global political change and an accompanying feeling of uncertainty. The data, in part, reflects this, showing the volume of M&A activity falling back slightly in the first half of 2017, compared to a very strong 2016. However, overall volumes still look encouraging. The same can be said for consumer spending.

Given the right proposition, consumers are very willing to spend. Companies who have been quick to adapt to changing consumer needs have been able to meet this demand and generate significant profit growth.

PRIVATE EQUITY IS STILL A DRIVING FORCE

With a wall of money already raised, private equity's appetite to invest in the right consumer deal has not abated.

Mid-market private equity houses are focussed on consumer businesses operating in niche sectors, with a strong brand and clear market differentiation.

Demand for these assets is strong but supply is relatively low. The resulting gap in supply and demand can push multiples high. Add to this competition from trade, who generally benefit from synergies and a lower cost of capital, has meant private equity houses have found it increasingly hard to compete for top assets in recent months.

Some good private equity deals have been completed though, including: Cornell Capital's $500m acquisition of World Kitchens; 3i's €200m investment in the Benelux-based optician group, Hans Anders: and perhaps the stand-out in

terms of historic multiple paid – US PE house TSG Consumer Partners' acquisition of UK-based craft brewer Brew Dog in April 2017. Only founded in 2007 and with revenues of £71m and EBITDA of £7m in December 2016, the acquisition of a minority stake in Brew Dog for £213m valued the company at approximately £1bn. TSG is highly experienced in generating strong returns from the branded consumer space, so the deal plays testament to the prices that can be generated if a target is identified as the perfect platform for growth.

CROSS-BORDER DEALS

There is still plenty of cross-border activity.

One of the most notable mid-market deals this quarter was Dutch-based Hunter Douglas' USD 388m acquisition of UK-based Hillary's Blinds. Although some investors are weary of home improvement retailers, Hillary's Blinds could demonstrate growth through diversification into flooring (in addition to the already successful shutter and curtains business) and show that this market segment can stay resilient with the right proposition.

Among the bigger deals, bricks and mortar retailers dominated, with Dutch based Natura International's £879m acquisition of The Body Shop and Russia-backed L1 Retail's £1.8bn acquisition of UK-based Holland & Barrett.

DIGITAL PLAYS AN EVER MORE IMPORTANT ROLE

When is a consumer deal not a consumer deal? When it's e-commerce status means it is classified as a technology deal.

One of the key consumer trends over the last ten years has been the development of all things digital in relation to consumer – from retailing to marketing. The distinction between a consumer and technology business is becoming increasingly blurred and this is now being mirrored in the M&A world. This means that a Consumer M&A adviser now has to possess a deep understanding of the fast changing dynamics of operating in a digital world. The recent USD 397m investment in UK-based fashion retailer Farfetch by Chinese headquartered fashion retailer JD.com has actually been classified as a technology deal, as they both operate an e-commerce platform. This demonstrates how the distinction is becoming blurred.

LOOKING AHEAD

The BDO Heat Chart for predicted deals in the next quarter forecasts that overall Consumer activity will hold steady. It expects the sector to account for c15% of total mid-market deals, putting Consumer in third place behind Industrials & Chemicals and TMT.

I believe the most highly sought-after assets will continue to come from businesses with strong growing brands, online marketplaces, personal care or niche product sectors. Fast-growing online businesses will continue to remain high on every investor's radar. In short, consumers are still spending and so will deal-makers.

REAL ESTATE

A GLOBAL PERSPECTIVE ON M&A IN THIS DYNAMIC SECTOR

Real estate has shown itself to be a dynamic and constantly evolving industry, with traditional 'norms' being displaced by new and exciting geographical and sociological trends that have diversified its focus.

Geographically, this can best be seen within the Asian economies which have been growing remarkably over the last 30 years. That growth has led to significant real estate M&A activity, especially in the last five years, as wealthy individuals and businesses seek secure investments for the increased amounts of capital at their disposal.

Conversely, the traditional real estate hubs such as Europe, North America and Australasia have seen M&A activity stabilise as recent geopolitical uncertainty has affected markets.

THE GLOBAL PICTURE

Since 2014, global real estate activity has cooled off a little, decreasing from 205 deals in 2014 to 168 deals in 2016 and 175 deals for year to June 2017.

During this period, we have seen higher levels of activity in Asian markets, as shown by the fact that over 55% of global real estate deals since the start of 2015 have been based in that region. This has been driven, in particular, by China, which alone has accounted for a third of overall real estate M&A activity. Similarly, South East Asia has been another hotspot since 2014, representing 14% of overall global activity.

Europe was the next most active continent, primarily driven by the UK & Ireland and Southern Europe, supported by consistent deal activity in the Nordics, DACH and Benelux regions. It will be interesting to see the longer term effects of Brexit on real estate activity within the UK & Ireland and whether there will be significant investment in the historically popular London real estate market while the value of sterling is so weak, or whether the REITs that are listed in London have to merge to survive a drop in post-Brexit demand.

Interestingly, North America activity has dropped significantly from 2014 levels, which may be a sign of post-global financial crisis sluggishness or political uncertainty during the protracted US political elections. H1 2017 showed a return to 2014 levels of activity, which is indicative of the real estate sector being bolstered by a growing economy. It is yet to be seen if this trend will continue in the second half of 2017 and beyond.

	2014	%	2015	%	2016	%	H2017	%
Asia	87	42%	108	57%	103	61%	50	56%
Europe	70	34%	53	28%	44	26%	28	31%
North America	22	11%	8	4%	11	7%	9	10%
Australasia	9	4%	8	4%	4	2%	3	3%
Middle East	3	2%	4	2%	-	-	-	-
South America	6	3%	8	4%	5	3%	-	-
Africa	8	4%	2	1%	1	1%	-	-
TOTAL DEALS	**205**	**100%**	**191**	**100%**	**168**	**100%**	**90**	**100%**

In Australasia, real estate continues to see steady activity with ever increasing investment from South East Asia. The industry can expect continued interest from Asia Pacific-based buyers as well as sovereign wealth and pension funds looking to buy into the Australian property market, particularly listed Australian Real Estate Investment Trusts (AREITs). These will remain a viable option for offshore investors who are not able to easily acquire property directly in the Australian market.

Several factors could result in increased M&A activity in the AREIT sector, with many REITs looking to grow through acquisition or consolidation in a highly competitive market. This has been evident over the last two years, with takeover transactions, restructures, asset sales and consolidations all taking place. In fact 2016 saw AUD 1.7bn in new listings and AUD 13bn of M&A activity for deals over AUD 100m.

Furthermore, if interest rates in the US increase and support a stronger US dollar, Australian real estate may become increasingly attractive to offshore entities due to the comparative weakness of the Australian dollar.

Other regions such as the Middle East, South America and Africa have seen relatively little real estate M&A activity, which is in line with historical trends.

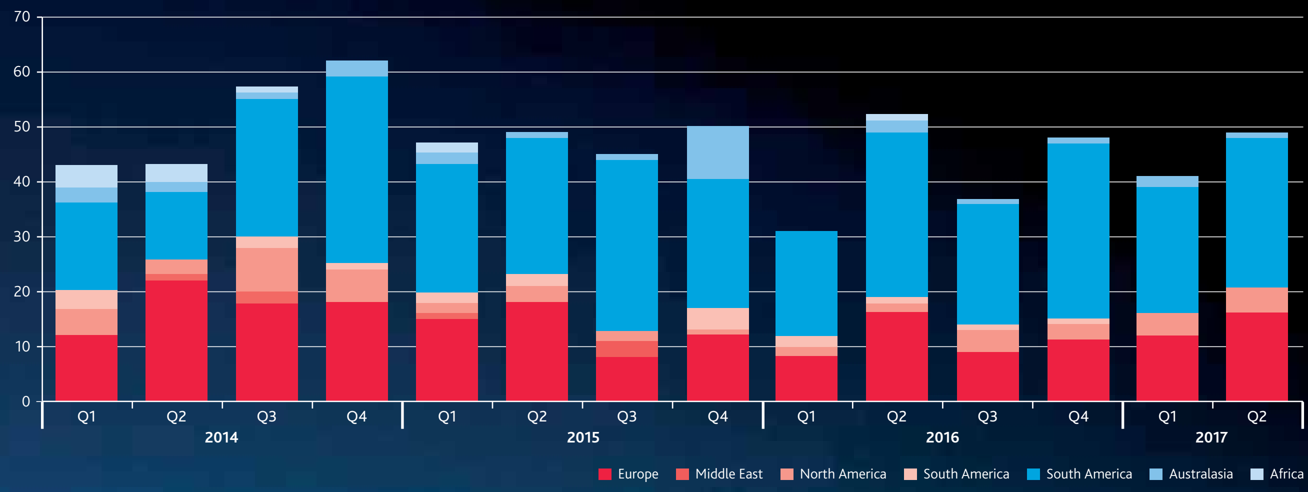
LOOKING AHEAD

The overall outlook for real estate M&A activity will be driven by both wider geopolitical events and the increasingly active Asian market.

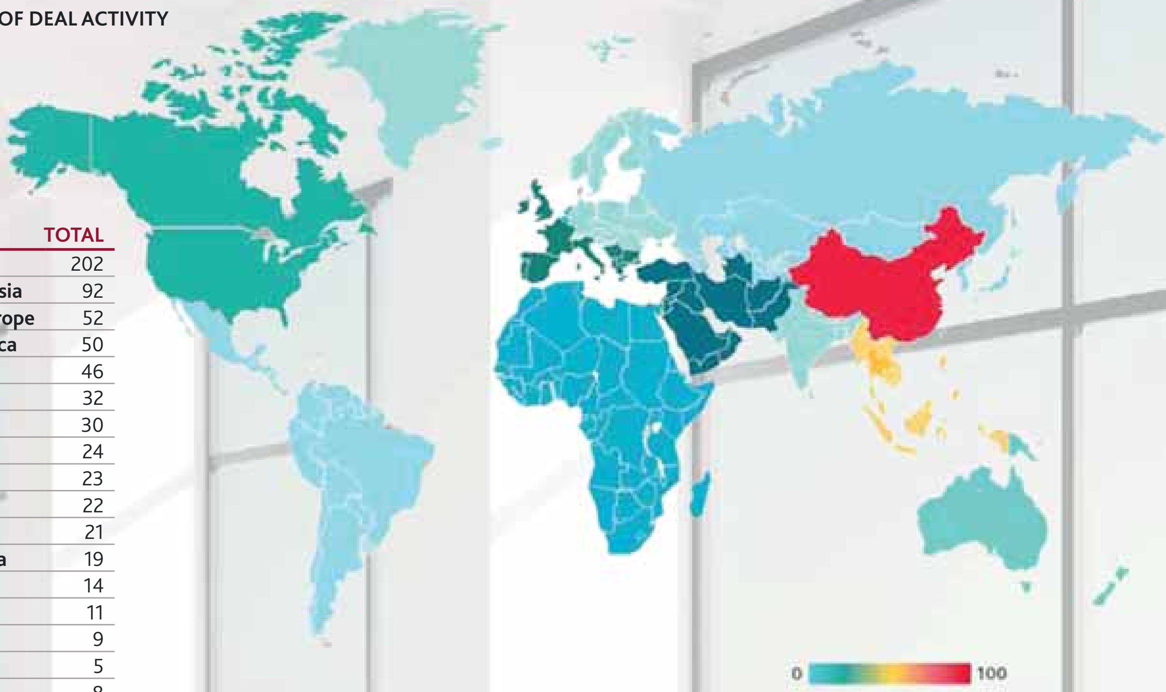
SEBASTIAN STEVENS
PARTNER

sebastian.stevens@bdo.com.au

DEAL ACTIVITY BY CONTINENT



WORLD MAP OF DEAL ACTIVITY
Q114 TO Q217



	TOTAL
China	202
South East Asia	92
Southern Europe	52
North America	50
UK & Ireland	46
DACH	32
Nordics	30
Australasia	24
Japan	23
India	22
CEE	21
Latin America	19
Benelux	14
Africa	11
Other Asia	9
Middle East	5
Israel	8
TOTAL DEALS	**654**

KEY DEALS

A number of prominent real estate deals were completed in Q2 2017:

EUROPE

- LabTech Investments Ltd, an Israeli company, bought a 29% stake in UK- based Market Tech Holdings Limited for USD 331m
- Frasers Centrepoint Ltd, a Singapore-based company, purchased Netherlands-based Geneba Properties N.V. for USD 483m
- Israeli property investor Teddy Sagi bought a 40.4% stake in Netherlands-based real estate company Brack Capital Properties NV for USD 283m.

NORTH AMERICA

- Sentio Healthcare Properties Inc. was sold to Kayne Anderson Capital Advisors for USD 493m.

AUSTRALASIA

- Canadian REIT NorthWest Healthcare Properties purchased a 77.3% stake in Australian REIT Generation Healthcare for USD 451m.

ASIA

- A 34% stake in Japan-based Katitas Co. Ltd was acquired for USD 210m by Nitori Holdings Co. Ltd, also based in Japan
- Japan-based Akatusi Corp. purchased two stakes, 88.9% and 70% respectively, in Total Tec Co. Ltd and Total Estate Jukatu Hanbai for a combined USD 162m.

MANUFACTURING

FIRST HALF 2017 GLOBAL MANUFACTURING M&A SLOWS AS DEAL-MAKERS AWAIT ELECTIONS AND STIMULUS POLICIES

H1 2017 middle market manufacturing M&A down 13% from a year ago

Q2 2017 9% lower than Q1 2017 and 25% less than Q4 2016 in terms of number of transactions

Initial uncertainty over US, Dutch and French elections has subsided but impacted markets in the first half of the year

Slow and steady global economic growth proving not enough to fuel aggressive deal-making

“Wait and see” attitude on various tax reform and stimulus packages proposed by world leader

Manufacturing M&A activity took a step back in H1 2017 as the number of deals declined by 13% compared to H1 2016. Activity was dampened in the first half of the year as CEOs stood on the sidelines assessing the sustainability of the EU after “Brexit” and the results and impact of several key European elections.

Global strife was also on the minds of deal-makers as the situation in Syria remained unresolved and tensions increased between North Korea and the US. Of particular note was the decided lack of mega deals in the industry. Despite piles of cash and record high share prices, large companies in the manufacturing sector remained relatively quiet in terms of M&A with a few notable exceptions. One of the largest deals of the first half was US-based Huntsman Corporation and Switzerland's Clariant AG which are combining to create a chemical manufacturer with a market value of more than $14 billion. The deal creates a global specialty chemicals company that is 52 percent own by Clariant shareholders and valued at around $20 billion when including debt. Another large deal was the $3.4 billion acquisition of GE Water & Process Technologies by an investor group consisting of the French water company SUEZ and the Canadian investment firm Caisse de dépôt et placement du Québec. The acquisition will expand SUEZ's global capabilities in its Industrial Solutions business.

GLOBAL MANUFACTURING EXPANDING

Despite the temporary lull in M&A, the global industrial economy started to accelerate at the end of 2016 into the first half of 2017 with the global aggregate manufacturing purchasing managers' index reaching six-year highs. The Eurozone is growing particularly fast, thanks to a weak currency, rising confidence and considerable pent-up demand, while other developed markets like Japan, Canada and the US continue to accelerate. At 52.6 (a reading over 50 indicates expansion) in June, unchanged from May, the global aggregate manufacturing purchasing managers' index signaled a further solid and steady improvement in manufacturing operating conditions. The average reading over the second quarter as a whole (52.7) was slightly below that for the first quarter (52.9). Developed markets tended (on average) to outperform emerging nations in June. This was mainly due to the ongoing improvement in the euro area manufacturing sector, where the PMI rose to its highest level in over six years. Rates of expansion accelerated in almost all of the euro area nations with the exception of Spain – with the strongest growth registered in Austria, Germany and the Netherlands. The UK appears to be weathering the impact of the Brexit vote better than many had feared, thanks to more competitive exports on a weaker currency. Meanwhile, a rebound in demand for commodities continues to be a positive for Latin America, Canada and Australia, while Chinese contribution has ebbed slightly in recent months as authorities try to restrain financial speculation.

Just like the global PMI, the global corporate earnings picture has brightened for the vast majority of manufacturers. The ratio of upward to downward estimate revisions by analysts has surged to the highest levels in over five years in the sector. Earnings momentum is on the rise in the US, Europe and particularly emerging markets. This is another piece of evidence supporting above-trend growth for the global economy and the manufacturing sector.

LOOKING AHEAD

Notwithstanding the countless political headwinds and circumstances of H1 2017, the M&A outlook for the remainder of 2017 looks promising as most of the uncertainty that caused stagnation in the M&A markets has subsided while economic growth has improved and earnings soared. Cash and credit remain in abundance for buyers to deploy when ready. After the elections in the US and Europe, investors and deal-makers alike now look to world leaders to adopt pro-growth agendas in their home countries while working to boost the global economy to levels not seen in decades through renewed trade deals and economic partnerships. Such optimism has led to a dramatic bounce in global equity prices and bankers are hopeful that a sharp pick-up in M&A activity will soon follow suit. If world leaders can find pro-growth consensus domestically while seeking common ground globally, look for a sharp rise in M&A activity as dealmakers will scramble to make up for lost time in a more advantageous environment for getting deals done that what we have experienced in 2017 to date.

BOB SNAPE
PRESIDENT

bsnape@bdocap.com

FOR MORE INFORMATION:

SUSANA BOO

+44 (0)20 7893 2316
susana.boo@bdo.co.uk

Data compiled by The Mergermarket Group.

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

www.bdo.global
www.bdohorizons.com

HB009704