HORIZONS

BDO'S GLOBAL VIEW OF MID-MARKET DEAL ACTIVITY

MERGERS&ACQUISITIONS

ISSUE 3 | 2018

MALAYSIA

CHANGE OF GOVERNMENT SIGNALS NEW HORIZONS

REGIONAL VIEW

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WELCOME

WELCOME TO THE THIRD BDO HORIZONS OF 2018, IN WHICH OUR M&A PROFESSIONALS REVIEW THE PAST QUARTER AND ANALYSE WHAT LIES AHEAD

In our first HORIZONS issue of the year, we mentioned that the conditions for 2018 being a transitional year in M&A were intact. This statement was based on, among other things, lower economic and political risks.

Even though the first quarter of the year, which is generally weaker for M&A activity than the quarters that lie ahead, saw below average performances, now that we reached the first half of 2018, we must conclude that 2018 might not end up being the expected transitional year.

It is still early and there is time to catch up. However, we think that the rising fears of a looming trade war between the US and China will not have a positive impact on the current noticeably cautious behaviour of market participants. Nevertheless, it is still difficult to predict to what extend an impending trade war will affect global M&A activity in general. It is still possible to hope that the situation remains as posturing among the two superpower nations. This might lead us back to the necessary economic predictability and political stability that would pave the way for further and ongoing global growth.

INSIGHTS FROM A LEADING M&A ADVISER

Looking back on Q2 2018, we have to conclude that M&A activity, in our mid-market sample, has not yet recovered from a weak first quarter. On the contrary, the downtrend in global deal volume decreased from an already low level in Q1 2018 (1,907 transactions amounting to USD 165.2bn) to 1,782 transactions in Q2 2018 with a value of USD 157.8bn. M&A activity in Q2 2018 represented a further fall of 6.55% in terms of deal volume and 4.5% in deal value. Similarly low figures of deal volume can last be found in Q3 2015, when some 1,658 transactions worth USD 134.5bn were registered.

The global downtrend in the first half of 2018 is very significant and suggests that 2017's figures will now be out of reach and that 2017 might signify a turning point for global M&A activity.

As can be seen in our BDO Global Heat Chart, the total of companies officially, or rumoured to be for sale, is virtually unchanged at 8,287, which is still at a high level. The held-back deals mentioned in the previous editions have not yet all come to fruition as yet, reflecting the ongoing reservation of market participants.

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GLOBAL VIEW

Global M&A activity in Q2 2018 continued the downward trend from the previous quarter, especially in terms of deal volume. As a result, our prediction in our last issue that 2018's deal volumes and values will not match 2017's is, now that we have passed the first half of 2018, looking more and more likely.

In terms of global deal volume, there were 1,782 deals (-6.6%) registered in Q2 2018, representing a total deal value of USD 157.8bn (-4.5%). Comparing Q2 2018 with Q2 2017's figures, the decrease is even more significant, with 353 less transactions (-16.5%) and USD 22bn less (-12.3%) than the same period in 2017.

In fact, we have to look back five years to find lower quarterly figures than Q2 2018, especially in terms of the number of deals, when Q3 2013 saw some 1,658 transactions amounting to USD 134.5bn completed.

The relative drop in deal value was lower than that of deal volume, pointing towards an ongoing trend for bigger transactions. The average deal size in Q2 2018 was USD 88.5m.

Global private equity activity remained remarkably high in Q1 2018, despite the general downtrend, but the Q2 2018 figures were weak, in line with the global trend. Only 208 transactions amounting to USD 24.4bn were registered, and there were 67 transactions less (-24.4%) than in the previous quarter and a remarkable 126 transactions less (-37.7%) than in the same period in 2017. However, with 11.7 % of all transactions, the quota of PE firms was still in the range of previous quarters.

COMPARING HERE AND THERE

As we look at M&A mid-market activity in our 17 regions, the weaker performance in global deal activity is clearly visible in both the regions and the sectors.

If we have a look at the number of deals, apart from the Nordic (+2%), UK & Ireland (+16%), Other Asia (+22%) and Greater China (+119%), all other regions recorded worse numbers in Q2 2018 than in the previous quarter. This was especially the case in North America, which recorded a decline of 129 transactions to 432 transactions (-23%) in comparison to Q1 2018 and a decline of 189 transactions (-30%) when compared to the same period a year ago (Q2 2017).

In terms of deal value, the picture looks more balanced when comparing the numbers to Q1 2018. Eight Regions, led by the Benelux (-53%), Africa (-48%) and South East Asia (-34%) performed worse while nine regions, led by the Nordic (+90%), Israel (+82%) and Greater China (+26%), performed better.

If we compare Q2 2018 deal value to Q2 2017, only CEE (+6%) and Grater China (+10%) performed better while the other regions all reported weaker figures, led again by Benelux and Africa (both -58%).

However, we always have to bear in mind that the deal value as well as the deal volume of North America and Greater China as a whole (the Q2 2018 deal value was USD 86.5bn and the deal volume was 1,296 transactions) are higher than the total of all of the remaining 15 regions put together (the Q2 2018 deal value was USD 71.3bn and the deal volume was 918 transactions).

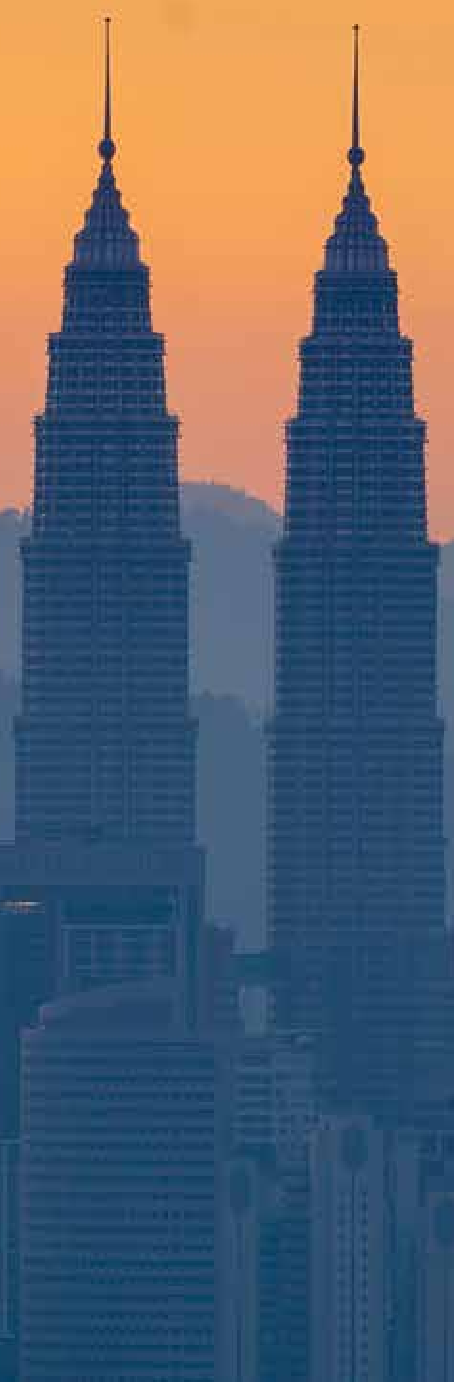
Comparing sectors, it's quickly noticeable that every sector completed fewer deals than the same quarter a year ago. This was particularly the case in Energy, Mining & Utilities, which fell by 23.4% from 285 transactions in Q2 2017 to 187 transactions in Q2 2018.

Finally, by comparing the numbers with the preceding quarter, we can only see minimal growth in Leisure (+11.8%) and in Energy, Mining & Utilities (+1.1%). The sectors with the weakest growth are Consumer (-12.7%) and TMT (-12.5%).

GLOBAL BDO HEAT CHART

	Technology & Media	Industrials & Chemicals	Consumer	Business Services	Pharma, Medical & Biotech	Pharma, Medical & Biotech	Financial Services	Leisure	Real Estate	TOTAL	%*
North America	562	432	362	242	452	198	125	61	28	2,462	30%
China	218	320	121	132	95	60	103	42	47	1,138	14%
CEE & CIS	129	150	95	58	36	52	53	28	12	613	7%
Southern Europe	117	111	124	80	29	40	47	35	7	590	7%
South East Asia	70	75	80	69	31	44	37	36	23	465	6%
Australasia	103	74	97	71	41	71	55	28	10	550	7%
UK & Ireland	120	42	54	56	26	35	63	16	11	423	5%
Latin America	65	76	50	53	18	63	32	17	4	378	5%
DACH	53	121	41	39	23	18	25	8	3	331	4%
India	27	28	29	14	20	14	30	6	3	171	2%
Other Asia	63	87	36	12	48	11	23	13	2	295	4%
Nordics	45	32	28	27	15	14	12	9	3	185	2%
Japan	48	41	23	21	27	6	16	3	4	189	2%
Benelux	49	41	34	33	13	8	18	8	4	208	3%
Africa	10	41	11	16	5	33	22	2	4	144	2%
Israel	40	12	5	4	8	2	4	4	1	80	1%
Middle East	19	4	5	5	4	12	6	7	3	65	1%
TOTAL	1,738	1,687	1,195	932	891	681	671	323	169	8,287	100%
	21%	20%	14%	11%	11%	8%	8%	4%	2%	100%	

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



LOOKING AHEAD

The BDO Global Heat Chart for regions and sectors is virtually unchanged in comparison to Q2 2018, with 8,287 companies officially, or rumoured to be, up for sale. On a regional basis, we can predict more transactions taking place in Africa (+26%), followed by Middle East (+20%) and Israel (+19%), as we have seen the biggest moves in these regions in comparison to the previous quarter. On the other hand, it is expected that CEE (-11%), India (-8%) and Japan (-6%) will be the underperforming regions.

In terms of sectors, the strongest increases were seen in Leisure (+11%) and Pharma, Medical & Biotech (+9%) while Industrials & Chemicals (-9%) and Energy, Mining & Utilities (-3%) are expected to be less attractive sectors.

It remains to be seen to what extent an impending trade war between the US and China, and therefore associated uncertainties, will affect global M&A activity in the second half of 2018. However, taking everything into consideration, we have to assume that 2018 will not match the numbers we have seen in the previous three years.

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The date of 9 May 2018 marked a historic day for Malaysia. For the first time in 61 years since independence, Malaysia had a new government, voted by Malaysians who wanted a change.

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Pakatan Harapan (PH), or the 'Alliance of Hope', managed to secure a majority of 113, or 51%, of the 222 parliament seats in the 14th General Elections, ending the previously unbroken rule of Barisan Nasional (BN), which had governed Malaysia since 1957. The Rt. Hon Prime Minister Tun Dr Mahathir Mohamad, who previously served as the fourth Prime Minister of Malaysia for 22 years, returned this year as the country's seventh Prime Minister as well as the world's oldest current Prime Minister, at the age of 93.

The handover of the seat of power from the old to the new has been smooth, demonstrating Malaysia's maturity in dealing with changes. There were concerns initially that the transition of power might be bumpy after the ousting of the coalition that had ruled Malaysia for over six decades, coupled with the biggest challenge facing the new

MALAYSIA

CHANGE OF GOVERNMENT SIGNALS NEW HORIZONS

government, namely that it is a coalition of political parties that have never been part of the federal government before, although some of the personalities behind the coalition have had government experience. To some extent, this led to knee-jerk sell-offs in the Malaysian equities market immediately after the elections as investors reacted to the change of government. A broad range of stocks on the Malaysian stock exchange, Bursa Malaysia, were hit post-election, particularly infrastructure and construction stocks as well as politically-linked counters. Despite the short-term market volatility, analysts' and market observers' mid- to long-term outlook for Malaysia remains positive as Malaysian stocks are fundamentally strong and the market needs time to assess the impact of the unprecedented election results.

Data from the country's central bank, Bank Negara, showed that the gross domestic product (GDP) growth of Malaysia in the first quarter of 2018 had slowed to 5.4% from 5.9% in the preceding quarter. However, the central bank is maintaining its GDP growth target for the full year at 5.5%-6%, supported by healthy domestic demand and improving global growth and trade activities.

The new Pakatan Harapan coalition government has pledged to introduce a series of initiatives within its first 100 days in government, including abolishing the Goods and Services Tax (GST) to reduce the cost of living, standardising and increasing the minimum wage, eliminating unnecessary debts, instituting institutional reforms, reviewing the award of mega projects, increasing transparency and freedom of speech, and undertaking responsible and progressive fiscal reforms. After the abolishment of GST, the Sales and Services Tax (SST) is set to be reintroduced and is expected to be implemented from 1 September this year, after the necessary laws have been passed in the parliament.

As part of the collective efforts of Malaysians to assist the new government in reducing the nation's national debts, the Tabung Harapan (also known as the Malaysia Hope Fund) was launched by the government on 30 May 2018. Riding on the wave of patriotism, the amount of donations received passed the RM 150m (USD 37m) mark one and a half months after it was launched and the figure is still rising.

The change in government for the first time in Malaysian history represents a truly remarkable milestone. The unprecedented results from the 14th General Election have shown democracy at work in Malaysia. Pakatan Harapan's stunning victory at the General Election marks the beginning of a journey towards a new Malaysia that will take the nation to greater heights. Watch this space as Malaysia starts to shine and forges ahead.

GLOBAL

8,287 RUMOURED TRANSACTIONS

P07 | **NORTH AMERICA**

MID-MARKET M&A ACTIVITY CONTINUES TO LAG IN Q2 DESPITE POSITIVE ECONOMIC SIGNS

P09 | **LATIN AMERICA**

M&A ACTIVITY SLOWS DOWN IN Q2 AS POLITICAL UNCERTAINTY STALLS INVESTMENT

SECTOR VIEW

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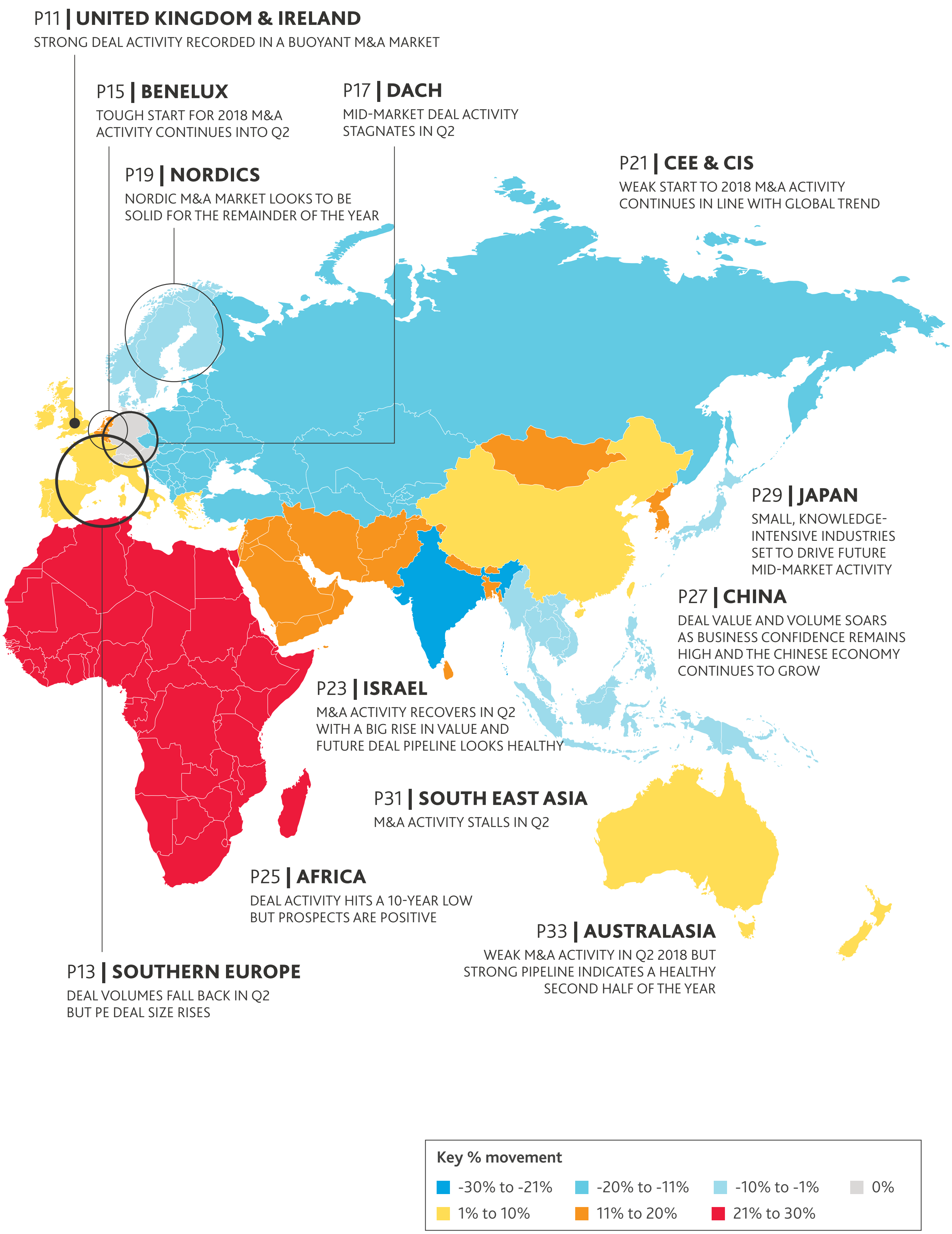


Note: The colouring illustrates the movement of expected transactions compared to the expected transactions in the previous quarter.

NORTH AMERICA

MID-MARKET M&A ACTIVITY CONTINUES TO LAG IN Q2 DESPITE POSITIVE ECONOMIC SIGNS

BIG PICTURE

- Deal volume down 23% in Q2 2018 against previous quarter and 30% compared to Q2 2017
- Deal value down 22% in Q2 2018 against Q2 2017 and down 23% from previous quarter
- Concerns over the global economy, regulatory uncertainty, and positive American tax reforms diverting investors focus have negatively impacted activity
- Q2 2018 activity fell in all sectors compared to previous quarter with the exception of Financial Services and Leisure industries. The biggest decreases were in Technology & Media and Industrials & Chemicals.

Overall, the North American market experienced a downward trend in the volume of mid-market M&A deals during Q2 2018.

Deal volume decreased to the lowest level since Q2 2013 with 432 deals reported, generating an aggregate value of USD 45.8bn. Despite the positive market conditions including abundant cash levels, low interest rates and strong equity markets, both strategic and PE investment weakened in the quarter.

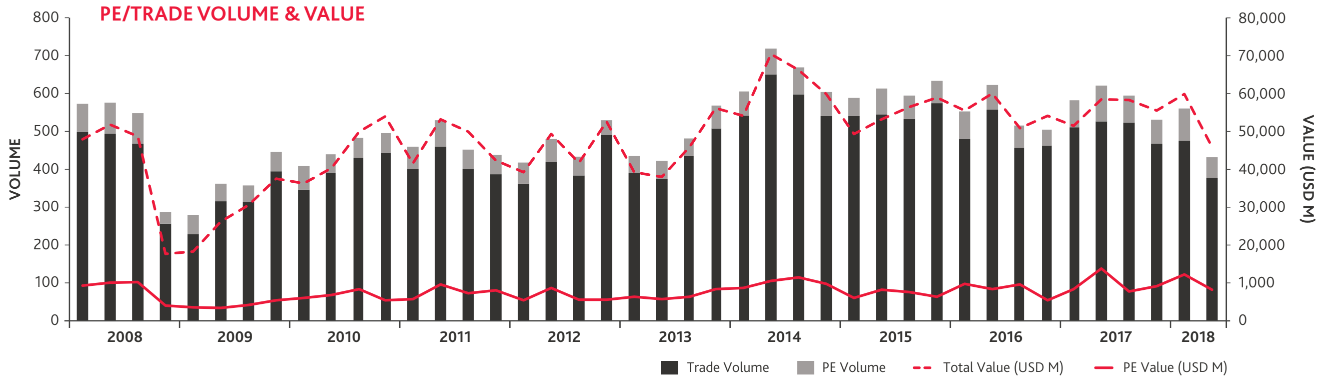
The overall economic landscape for both Canada and the US showed positive signs throughout the second quarter. The S&P 500 and NASDAQ grew by 2.9% and 6.3% respectively over the quarter. US gross domestic product is anticipated to grow to 3.8%, higher than the Q1 growth of 2.2%, which would be the best growth rate since Q3 2014. The Canadian economy also saw a positive macro environment with the S&P/TSX Composite Index rising by 5.9% since the close of Q4 2017. In June, the Canadian economy saw strong job creation through the addition of 32,300 net jobs.

This strong economic picture drove the US central bank to raise its base rate by 25 basis points in June, citing optimistic views on economic growth. Similarly, the Bank of Canada is expected to raise its benchmark rate by 25 basis points in July 2018.

INCREASED PROTECTIONISM

Despite the economic landscape's positive trends, including US tax reductions and high levels of cash on hand for potential investors, deal-makers have continued to employ a wait and see approach with regards to M&A in North America. The stagnant approach is a result of political and regulatory uncertainty, particularly surrounding increasing protectionist sentiment, aggressive valuations and a diverted focus from strategic buyers.

The second quarter of 2018 saw President Trump introduce tariffs on a wide range of goods with some of its largest trading partners including Canada, China, the European Union and Mexico. Trump also continually indicated a desire to end the North American Free Trade



Agreement (NAFTA). A further example of protectionist legislation includes the recent proposed bill in the US allowing the ability to review and reject pending transactions between foreign and domestic entities. The future effects of protectionism and potential trade wars on M&A may not be viewed as a significant deterrent or top-of-mind factor in domestic markets. However, their influence on cross-border transactions and investments is likely to be notable, whether that be positively or negatively. As investors hold record amounts of capital, they are expected to continue to feel out the market as the political landscape and its effect on international relations and M&A continues to shift quickly.

In addition, as a result of aggressive seller expectations, both private and public valuations have soared, which has contributed to the lull in transaction volume. With billions of additional dollars coming into the US market through tax breaks and repatriation programmes, investors may have temporarily diverted their focus away from inorganic growth initiatives with the large, additional influx of cash flow.

LOOKING AHEAD

Moving into the second half of 2018, we expect mid-market M&A activity to trend positively in Canada. Tariffs on steel and aluminium may hinder the oil and gas industries as well as other sectors where significant increases in input costs could deter M&A activity. Fortunately for the Canadian economy, activities in other markets may counteract the tariffs on steel, aluminium and other products. For example, the rapidly expanding cannabis industry poses the unique opportunity to introduce a brand new market overnight after the federal legalisation comes into effect. It is reasonable to assume that the introduction of a new market has the potential to spark an identifiable boom in capital markets and the M&A space in Canada. Moreover, on the back of a strong US dollar and a wide gap between Canadian and US valuations, US-based buyers have the incentive to further fuel M&A activity in Canada. In the US, both strategic and private equity buyers should also drive increased M&A activity as they look to deploy increasing amounts of cash on the back of pro-business regulatory reform.

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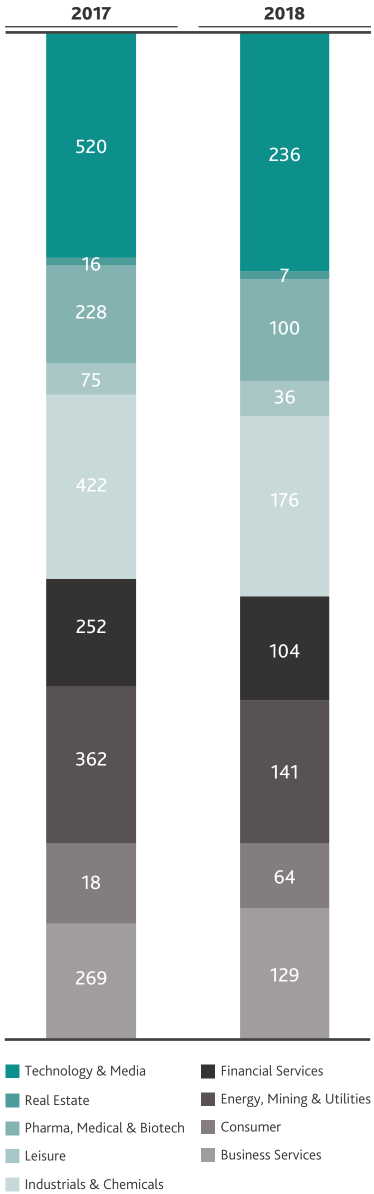
NORTH AMERICA
HEAT CHART BY SECTOR

Technology & Media	562	23%
Pharma, Medical & Biotech	452	18%
Industrials & Chemicals	432	18%
Consumer	362	15%
Business Services	242	10%
Energy, Mining & Utilities	198	8%
Financial Services	125	5%
Leisure	61	2%
Real Estate	28	1%
TOTAL	**2,462**	**100%**

NORTH AMERICA
MID-MARKET VOLUMES BY SECTOR



LATIN AMERICA

M&A ACTIVITY SLOWS DOWN IN Q2 AS POLITICAL UNCERTAINTY STALLS INVESTMENT

BIG PICTURE

- The volume and value of M&A activity decreased compared to the previous quarter. Uncertainty caused by upcoming elections in Brazil and the election of a new leftist president in Mexico stalled investment
- Investments and expansion strategies delayed during the recession in the last two years in Brazil should regain speed after the October election, led by the Energy, Mining & Utilities sector
- Consumer was present in five of the top 10 deals and Energy, Mining & Utilities sector had the most deals in Q2 2018.

Latin America's mid-market completed 71 deals worth USD 6,800m in Q2 2018. Both volume and value fell compared to the previous quarter, with total volume decreasing by 5.3% and total value by 14.3%.

However, the number of PE deals increased compared to Q1, from 63 to 70, although their overall value was slightly smaller.

M&A activity in Q2 2018 was also down compared to the same period in 2017, when the Latin America mid-market completed a total of 78 deals worth USD 8,355m, 18.6% more than last quarter. PE dropped from 12 to 8 deals, resulting in a 60.2% loss of value.

Looking at the 12-month picture, 308 deals were closed, exactly the same amount as the previous year. However, the total value of the deals was 15.6% less. The value per deal was USD 87,2m, while last year's average deal value was USD 103,3m.

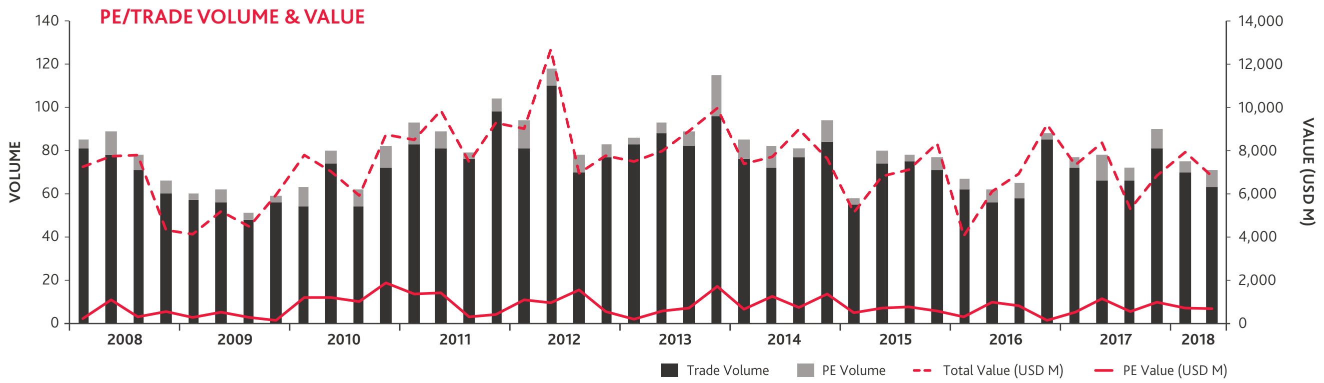
Another highlight of Q2 2018 was the increased number of PE buy-outs in Latin America. PE represented 11.3% of all deals in the quarter, its biggest share since Q2 2017. In terms of total deal value, PE accounted for 10%.

KEY DEALS AND SECTORS

Just as reported in previous periods, the appetite of investors for infrastructure and energy projects remained high in Q2 2018. The Energy, Mining & Utilities sector led the quarter with 16 deals and is expected to attract more investment in the future quarters. Industrials & Chemicals is another key sector in the region and has been responsible for the most deals so far in 2018.

The top 10 deals had a significant stake in Q2 2018 as they were worth a total of USD 3,429m, and represented more than half (50.4%) of the region's deal activity. The target countries were very diversified, with Chile the only country with more than one deal. The region's biggest economies had low representation in the top 10, with a single deal from Mexico and none from Brazil, while smaller economies such as Paraguay, Panama, Bolivia and British Virgin Islands all saw deals.

In Q2 2018's top 10 deals, Consumer was responsible for five deals, with a value of USD 1,483m and Energy, Mining & Utilities deals had a total value of USD 1,209, including the biggest deal of the quarter between Mitsubishi and Anglo American in Peru, which had a value of around USD 500m. The two sectors combined represented 79% of the top 10 deal value in Latin America.



POLITICAL AND ECONOMIC CONTEXT

While some countries such as Chile, Colombia and Peru are enjoying favourable political and economic conditions, which are boosting their growth, Brazil and Mexico, Latin America's biggest economies, are facing economic pressures combined with political turmoil and uncertainty.

Brazil was hit by a general truck strike in May and early June, when truckers blocked highways and interrupted the supply of basic materials until the government cut fuel prices, paralysing most of the Brazilian economy's key sectors and significantly holding back growth in Q2. This was a one-time event but it has had collateral effects such as slowing down the country's economic recovery and forcing the government to pull back on the austerity reforms to contain the protests, worsening the challenging situation it faces to pass the much needed reforms to balance government accounts and reduce debt.

The presidential election is another major event that will affect the local economy and markets. Investors have pessimistic attitudes about the polls' indicators, resulting in the decline of the local stock market. However, the most feared scenario by investors, the return of Luiz Inacio Lula da Silva, is unlikely to happen, as the former Brazilian president was sentenced to at least 12 years in prison and could now be ineligible to run for the presidency. This wave of pessimism, however, is devaluing Brazil's currency and, consequently, local business are becoming more appealing for foreign investors looking for buy undervalued enterprises and believe the country's economy will rebound in 2019.

Strong political uncertainty is also surrounding Mexico and their new president with a leftist agenda. The direction that the new government will follow is not yet clear, but there are some concerns about a possible retreat on structural reforms and increased public spending on social policies. There are other major events that can affect the Mexican market and possibly the whole of Latin America, such as the NAFTA negotiations, which are proceeding slowly and there is still a threat that the US could decide not to continue with the agreement, which would significantly change the region's economic outlook.

The tax reforms implemented by the US government have already had effects on emerging markets economies. The income tax rate was cut from 35% to 21% for companies operating in American territories, attracting and retaining the resources in the US. This has made it more difficult for other countries with higher tax rates, like Brazil with 34%, to obtain capital inflows.

LOOKING AHEAD

Latin America represents 5% of the global market, with 378 deals announced or under way, as shown in the BDO Heat Chart. Industrial & Chemicals is the most represented sector in the Heat Chart, with 76 deals, followed by Technology, Media and Telecom (65), Energy, Mining & Utilities (63), Business Services (53) and Consumer (50).

Although the Brazilian economy has been erratic of late, with the country's GDP downgraded and the IBOVESPA (Brazilian exchange index) wavering, mostly related to the uncertainty caused by the upcoming elections and potential interest rate hikes in US, the country is still on the radar of M&A investors seeking returns in the medium and long term. The environment of controlled inflation and a slow but recovering economy is interesting for investors. Brazilian assets are affordable and although risky, can offer higher returns. Investments and expansion strategies delayed during the recession in the last two years should regain speed from now on. This recovery will probably be led by Energy, Mining & Utilities but it may also stimulate activity in other sectors like Consumer and Retail.

China leads the way in investments in Brazil and Latin America and this should continue, especially in Energy, Mining & Utilities projects, both to enter or expand its businesses through mergers and acquisitions. Despite the trade war announced between China and the US, planned investments from China in Latin America should not be affected. China sees Brazil as a strategic partner, with idle capacity in the Energy, Mining & Utilities sector and views the country as having good investment opportunities.

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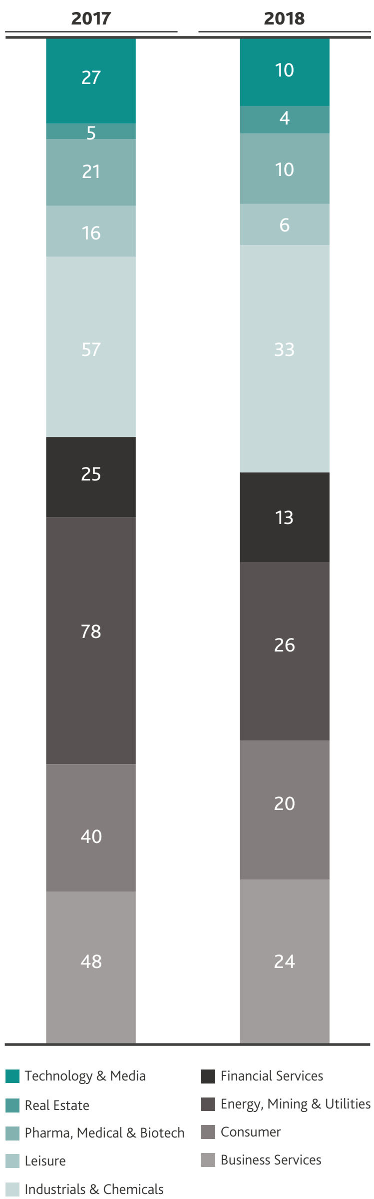
LATIN AMERICA
HEAT CHART BY SECTOR

Industrials & Chemicals	76	20%
Technology & Media	65	17%
Energy, Mining & Utilities	63	17%
Business Services	53	14%
Consumer	50	13%
Financial Services	32	8%
Pharma, Medical & Biotech	18	5%
Leisure	17	4%
Real Estate	4	1%
TOTAL	**378**	**100%**

LATIN AMERICA
MID-MARKET VOLUMES BY SECTOR



UNITED KINGDOM & IRELAND

STRONG DEAL ACTIVITY RECORDED IN A BUOYANT M&A MARKET

BIG PICTURE

- TMT was the busiest sector and was responsible for nearly 25% of all Q2 deals
- Capital markets remained strong
- UK & Ireland continued to offer good value and remains attractive for overseas buyers.

After a dip in activity in Q1 2018, it was pleasing to see that volumes recovered in Q2 with 134 completed transactions, representing an up-tick of over 15%.

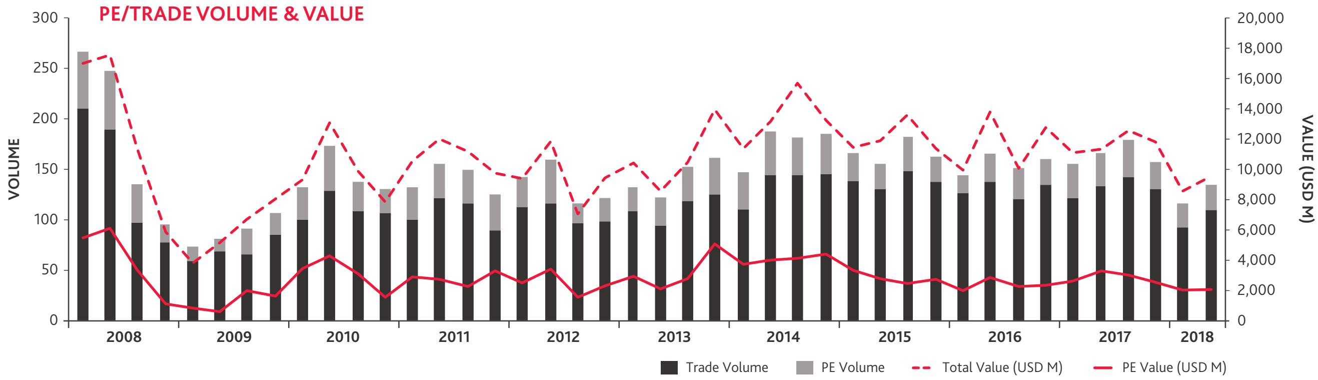
This was very much in line with what we are experiencing in the market with high volumes of deals and enquiries. We believe that the biggest issue for buyers remains finding the right business to buy in the face of strong competition and pricing from both trade and private equity buyers.

The mix of buyers remained at a similar proportion over the period with trade accounting for around 80% of all acquisitions. We do not believe that this was a reflection of any lack of funding or interest from private equity and indeed we continue to see them actively participating in many processes alongside trade. In value terms at USD 9.5bn, the mid-market remained healthy with ample cash and available debt to fuel it.

KEY DEALS AND SECTORS

Cross-border interest from acquirers remains high despite ongoing uncertainty as to what a Brexit deal will look like for the UK. This is borne out by 70% of the largest deals in the period being led by overseas acquirers. North America was again the main region, with deals including the USD 479m acquisition of a controlling interest in Cabot Capital Management Group by Encore Capital Group and the USD 351m acquisition of a controlling interest in Hermes Fund Managers by Federated Investors. Both of these were Financial Services sector deals.

In terms of overall sectors, TMT saw the highest level of activity, representing nearly one in four of all deals in the period. Business Services and Industrials & Chemicals were the next two busiest sectors. There was an uptick in Leisure deals but Real Estate lagged with one two transactions in the period.



The capital markets continued to perform well with the FTSE All Share closing the quarter strongly at 4,202. New issues remained strong with over 40 new issues in the period of which the majority were on AIM. These included CIP Merchant Capital, which raised around USD 65m of new money and City Pub Group, which raised around USD 45m of new money. We believe that the stock market remains a leading indicator of the strength and resilience of the economy in the region.

M&A valuations increased for trade buyers with BDO's private company price index (PCPI) to an EV/EBITDA ratio of 11.6x, the highest since Q4 2014. We believe the multiple continues to reflect cash resources available and the preparedness to pay premium prices for a good strategic fit. BDO's private equity price index (PEPI) increased to an EV/EBITDA ratio of 13.5x, the highest in 7 years. We continue to see large amounts of cash to invest which in our opinion should keep overall multiples up aided by the theme of continued digitalisation within businesses.

LOOKING AHEAD

Looking ahead, the market intelligence in the BDO Heat Chart shows a continued strong level of rumoured deals at 423. This is 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 despite an interest rate rise is still relatively low. The TMT sector leads the way with a massive 120 deals of all rumoured deals. TMT is followed by the Financial Services and Business Services sectors, with half that number of rumoured deals each. We remain optimistic for the M&A prospects of the region as whole.

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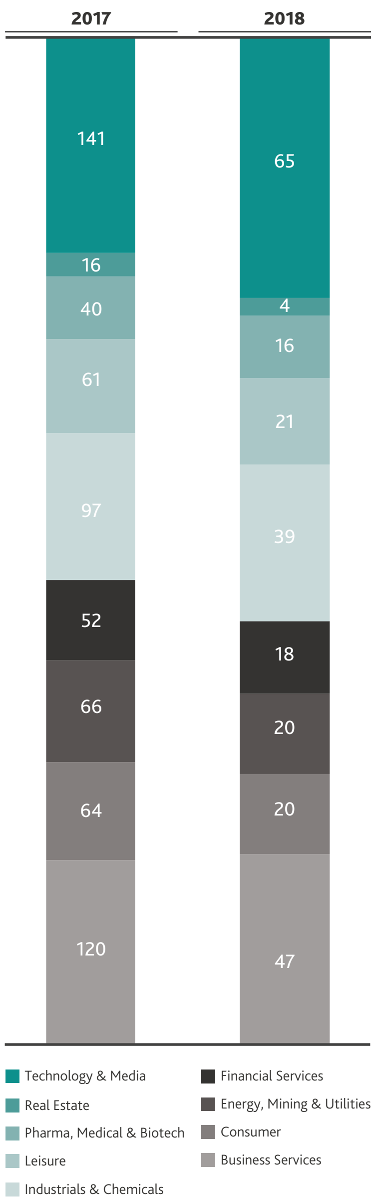
UNITED KINGDOM & IRELAND
HEAT CHART BY SECTOR

Technology & Media	120	28%
Financial Services	63	15%
Business Services	56	13%
Consumer	54	13%
Industrials & Chemicals	42	10%
Energy, Mining & Utilities	35	8%
Pharma, Medical & Biotech	26	6%
Leisure	16	4%
Real Estate	11	3%
TOTAL	**423**	**100%**

UNITED KINGDOM & IRELAND
MID-MARKET VOLUMES BY SECTOR



SOUTHERN EUROPE

DEAL VOLUMES FALL BACK IN Q2 BUT PE DEAL SIZE RISES

BIG PICTURE

- Deal volumes fell back in Q2 2018 but deal values showed slight increase
- Average PE deal size grew, reaching a peak of USD 156m
- Industrials & Chemicals continued to lead the way as the most active sector
- BDO Heat Chart predicts that Consumer is set to become the leading sector.

Q2 2018 in the Southern Europe mid-market saw a total of 122 transactions, with an overall value of USD 11.51bn. This represented a decrease of 14.1% in transaction volume compared to the previous quarter and a slight increase of 4.5% in terms of transaction value. However, when compared to the corresponding quarter in the previous year, the results were disappointing as there has been a decrease of 31.8% in volume and 26.2% in value.

The number of PE deals declined significantly compared with Q1 2018, dropping from 40 transactions to 23. Looking at PE as a proportion of the total number of transactions, PE represented 18.9% of the overall deals in Q2 2018, whereas in Q1 2018 this figure was 28.2%. A similar fall in the overall number of deals can be seen when comparing Q2 2018 to Q2 2017, when there were 47 PE buy-outs, representing 26.3% of the overall deals.

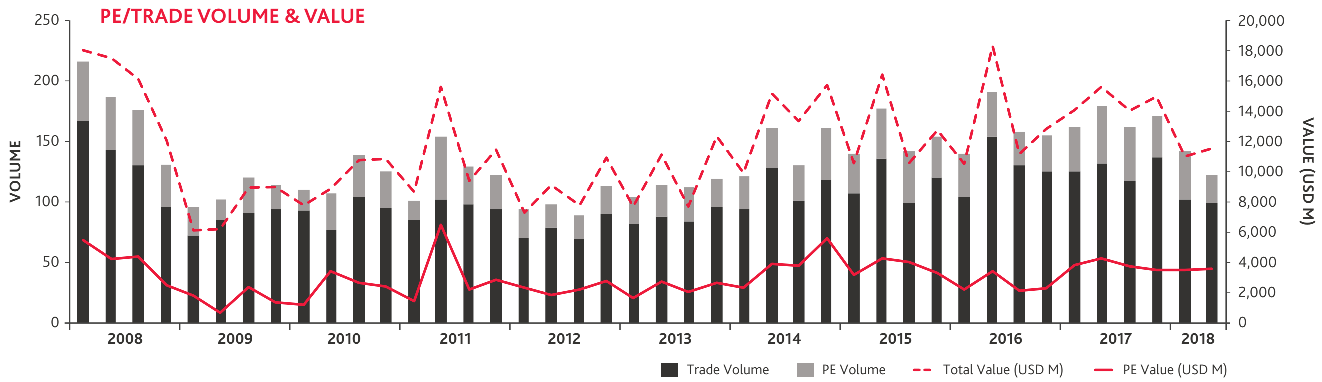
However, in terms of value, Southern Europe mid-market PE activity shows a different picture. PE deals in Q2 2018 recorded a total value of USD 3.59bn. Although the value of PE deals in Q2 2017 was substantially higher at USD 4.27bn, comparing the values as a proportion of the overall deals, PE deals in Q2 2018 were responsible for 31.2% of overall deal value, compared to 27.4% in Q2 2017.

Average PE deal size has increased and reached a high in Q2 2018 based on 2017 and 2018 deal activity to date, which confirms the interesting aspect of PE activity in the quarter. Activity declined from USD 103m in Q4 2017 to USD 88m in Q1 2018 and reached its current peak in Q2 2018 by growing to USD 156m. Looking at these results, Q2 2018 was characterized by fewer PE deals in terms of volumes but with bigger values.

KEY SECTORS

The most active and dominant sector in Q2 2018 was Industrials & Chemicals, with 35 transactions, following the consistent trend from both 2016 and 2017. This sector represented 28.7% of Southern Europe's mid-market deals, followed by TMT and Pharma, Medical & Biotech, with both sectors accounting for 12.3%. The Leisure, Financial Services and Consumer sectors represented 11.5%, 10.7% and 9.8% of overall volume respectively. The sector with the least number of deals remains Real Estate, with only one deal completed in Q2 2018.

The Business Services sector saw a decrease, with only nine transactions in Q2 2018, its lowest number of transactions in recent years. Likewise, TMT has seen a reduced number of transactions, from 27 in Q1 2018 to 15 in Q2 2018, and this represents its lowest volume since the beginning of 2017. Although Leisure saw a sharp decline in Q1 2018, it showed strong growth in Q2, reaching 14 transactions. Deal activity in Financial Services remained constant, whereas the number of PE buy-outs in the Energy, Mining & Utilities and Consumer sectors dropped by 38.5% and 29.4% respectively, compared to Q1 2018.



KEY DEALS

The value of the quarter's top 10 deals was USD 3.75bn, accounting for 32.6% of the overall transactions in the region.

The quarter's major deal was in the TMT sector and saw the acquisition of all the shares in Italian company Facile.it S.p.A. by EQT Partners AB for USD 469m. The second biggest deal was in Financial Services and saw the acquisition of 40.8% of Italian company Vittoria Assicurazioni S.p.A. for USD 454m. Further transactions worth mentioning were SIA S.p.A.'s acquisition of First Data Corporation (a card processing businesses in Central and South eastern Europe) in the TMT sector for a value of USD 440m, and the acquisition of the Portuguese company Lagoas Park, S.A. by Kildare Partners for USD 438m.

Among the other deals in Q2 2018, Italian-based companies were the most targeted, recording six transactions out of the top 10 in Southern Europe, with a total value of USD 2,237m. Each of these deals took place in a different sector, namely TMT, Financial Services, Business services, Consumer, Leisure, and Industrials & Chemicals, a mix that proves Italian companies are recognized as leading firms by international investors. As a matter of fact, four transactions out of the six (66.7%) involved cross-border transactions, meaning that Italian corporations still retain their worldwide appeal. The acquisition of Augustea Atlantica & York capital management (16 vessels) by Star Bulk Carriers Corp for USD 433m, together with Facile.it S.p.A. and Vittoria Assicurazioni S.p.A., make up the three major Italian company acquisitions, which were, in addition, also in the region's top five overall deals.

Finally, another point worth highlighting is that TMT was the region's most attractive sector in terms of the number of transactions in Q2 2018. In fact, TMT transactions, which included two of the top three acquisitions, accounted for a total of USD 1,269m, representing 33.8% of the total value of the top 10 deals.

FOCUS ON ITALY: KEY DEALS AND SECTORS

Now that the economic crisis in Italy seems to have been overcome, Italian corporates are finally increasingly confident in investing and completing acquisitions abroad to give their companies the scope for international growth. Although Italy is facing a period of geopolitical instability, it is predicted that the positive trend seen in Q1 will be maintained throughout the rest of 2018.

As far as big transactions by Italian companies in Q2 are concerned, the major deals worth mentioning included the two Italian companies Ferrero S.p.A. and Prysmian Group S.r.l.'s recent acquisition of the US confectionery business unit of Nestlè and General Cable. Moreover, there are already several pending transactions forecasted to be closed in the next quarter: Atlantia, for example, is still waiting to buy the Spanish motorway concession holder Abertis, while the merger of eyewear giants Luxottica Group S.p.A. and Essilor S.p.A. represents a huge deal, with an overall value of nearly USD 29bn.

Finally, there was the acquisition of 100% of Scrigno Holding (the parent company of counter frames for sliding and pocket doors and windows manufacturer Scrigno Group) by Clessidra SGR, for a total value of almost USD 123m.

LOOKING AHEAD

The BDO Heat Chart shows that by the beginning of Q3 2018, the cumulative volume of PE in Southern Europe is predicted to reach 590 deals, which is forecast to represent 7.1% of the total global transactions. The Consumer sector is predicted to lead the way, accounting for 21.0% (124 deals) of the total number of deals in Southern Europe. It is followed by TMT and Industrials & Chemicals, which are estimated to reach 19.8% (117 deals) and 18.8% (111 deals) respectively. Overall, these three sectors collectively represent 59.7% of the total volume of expected transactions in Q3 2018. Even though it is not in the top three, Business Services is still considered an important sector in the region as it is predicted to recover and attract 13.6% of possible transactions.

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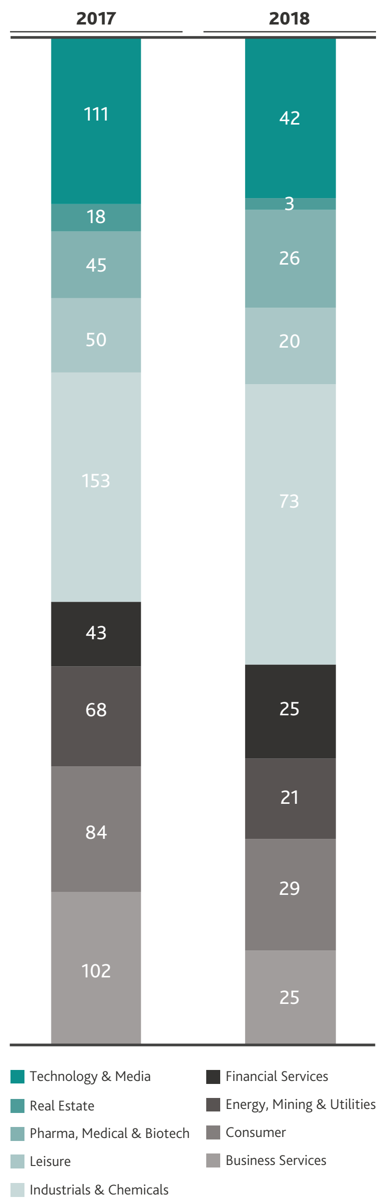
SOUTHERN EUROPE
HEAT CHART BY SECTOR

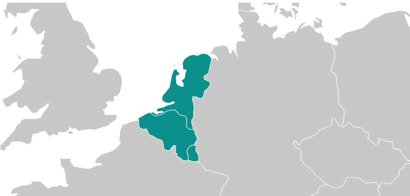
Consumer	124	21%
Technology & Media	117	20%
Industrials & Chemicals	111	19%
Business Services	80	14%
Financial Services	47	8%
Energy, Mining & Utilities	40	7%
Leisure	35	6%
Pharma, Medical & Biotech	29	5%
Real Estate	7	1%
TOTAL	**590**	**100%**

SOUTHERN EUROPE
MID-MARKET VOLUMES BY SECTOR



BENELUX

TOUGH START FOR 2018 M&A ACTIVITY CONTINUES INTO Q2



BIG PICTURE

- Q2 2018 saw big falls in deal volume and value
- PE activity has been at a low level so far in 2018
- Top 10 deals were split across different sectors.

Looking at M&A activity in the Benelux in Q2 2018, there has been a significant decline in both deal volume and deal value.

M&A activity in terms of number of the completed deals in Q2 2018-22 – has not been this low since Q2 2013. And in terms of value, the performance in Q2 2018 nearly equalled the all-time low of Q4 2008, which was right at the start of the recession. However, it is interesting to note that this performance does not deviate massively from the global M&A trend.

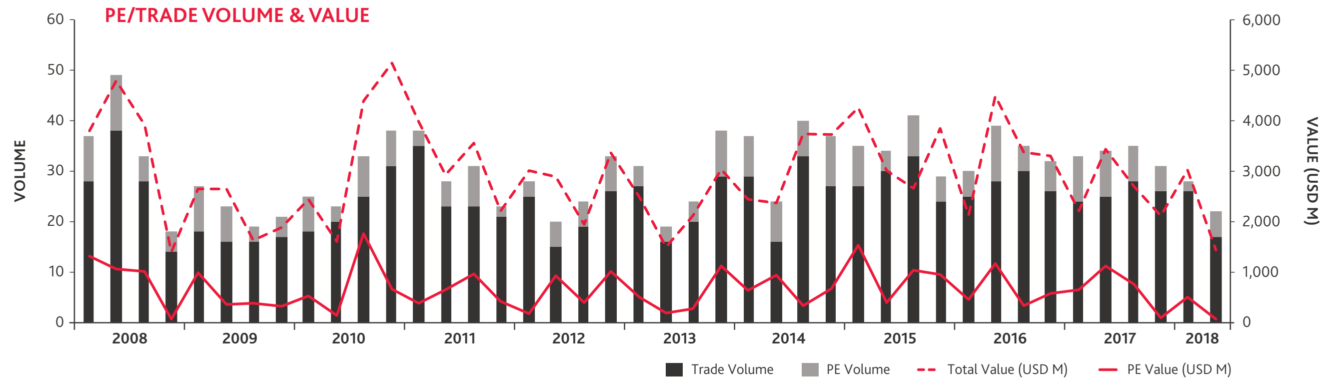
The 22 deals that were closed in Q2 2018 had a total deal value of USD 1,432m, with an average deal value of USD 65.1m (the average over the last three years has been USD 89.1). Private equity closed 23% of these deals and its average deal value was below Q2's average at USD 14 million.

The first half of 2018 also showed a decline in deal volume compared to the first half of 2017. With 67 deals in the first half of 2017 compared to 50 deals in the first half of 2018, deal volume decreased by 25%. The total deal value decreased from USD 5,637m in the first half of 2017 to USD 4,460 in the first half of 2018. However, the average deal value increased from USD 84.1 million in the first half of 2017 to USD 89.2m in the first half of 2018. PE closed seven deals in the first half of 2018 (first half of 2017: 18), with an average deal value of USD 81.7m.

TOP DEALS

The top 10 deals in Q2 2018 ranged from USD 398m to USD 21m. The top 10 deals took place in a variety of sectors which included Energy, Mining & Utilities, Business Services, TMT, Industrials & Chemicals, Financial Services and Pharma, Medical & Biotech sector.

The largest deal in Q2 2018 was the USD 398m sale of a majority stake of 80% in Belgian independent power production company T-Power N.V., which is active in the Energy, Mining & Utilities sector. The power production company was sold by Itochu Corporation, Siemens Project Ventures GmbH and Tokyo Gas Co. Ltd to Belgian-based Tessenderlo Chemie N.V.



The second biggest deal was in the Business Services sector where Dutch IT company EvoSwitch Netherlands B.V. was acquired by the American company Iron Mountain Incorporated for USD 238m. EvoSwitch Netherlands B.V. offers infrastructure solutions. The vendor involved in this sale was the Dutch company Ocom B.V.

The third biggest deal in Q2 2018 was the acquisition of a majority stake in the Dutch company OEP 10 B.V., which is active in the TMT sector. The Chinese company Invengo Information Technology Co. Ltd acquired the stake in digital library management system provider OEP 10 B.V. for USD 203m. The vendor involved was the Dutch holding company OEP Holdco 10 B.V.

Going outbound, the largest deal of Q2 2018 was for USD 434m. The Belgian company Euronav N.V. sold the American company Gener8 Maritime Subsidiairy VII Inc, which operates very large crude carriers, to the American company International Seaways, Inc. The Netherlands was involved in the sale of a minority stake in oil producer Mukhaizna Oil Field, which is active in the Energy, Mining & Utilities sector. Royal Dutch Shell Plc sold Mukhaizna Oil Field for USD 329m to the Indian Oil Corporation (IOC).

LOOKING AHEAD

The BDO Heat Chart shows 208 deals currently planned or in progress within the Benelux, which represents 3% of the global deal volume. During the coming months, most of the M&A activity is expected to take place in the TMT sector (24% of all deals), followed by Industrials & Chemicals (20%). The Consumer and Business Services sectors are both expected to account for 16% of all deals. The region's projected deal activity in these four sectors is in line with the global trend.

This indication is based on 'companies for sale' tracked by Mergermarket in the respective region between 9 January 2018 and 9 July 2018. Opportunities are captured according to the dominant geography and sector of the potential target company. The predicted deal flow is based on the intelligence collected in the database relating to companies rumored to be for sale or officially up for sale. It is therefore indicative of sectors that are likely to be active in the months to come.

Even though M&A activity in the Benelux, as well as global M&A activity, is currently registering a dip in both volume and value, there is a good chance that this is a temporary state of affairs. The BDO Heat Chart shows that many potential deals lie ahead.

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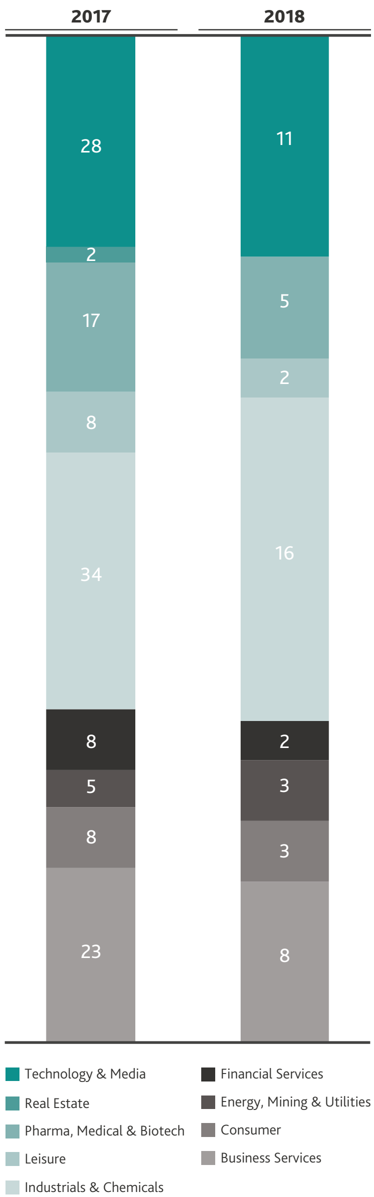
BENELUX
HEAT CHART BY SECTOR

Technology & Media	49	24%
Industrials & Chemicals	41	20%
Consumer	34	16%
Business Services	33	16%
Financial Services	18	9%
Pharma, Medical & Biotech	13	6%
Energy, Mining & Utilities	8	4%
Leisure	8	4%
Real Estate	4	2%
TOTAL	**208**	**100%**

BENELUX
MID-MARKET VOLUMES BY SECTOR



DACH

MID-MARKET DEAL ACTIVITY STAGNATES IN Q2

BIG PICTURE

- Q2 deal volume stagnated to a five-year low with a slight increase in deal value compared to the previous quarter
- Industrials & Chemicals the most active sector in Q2, followed by TMT
- PE activity recorded a two-year low in deal value
- Germany was the region's most attractive target country by deal value.

DACH M&A activity continued its weak performance from the previous quarter. However, total deal value increased slightly but there was a decrease in PE deal value.

Both deal volume and deal value remained at a low level in Q2 2018. While deal value recorded a minor increase from USD 3.8bn in Q1 2018 to USD 4.3bn in Q2 2018, deal volume stagnated at the same level (42 deals). Looking at private equity transactions, both PE deal volume and deal value dropped compared to the previous quarter.

KEY DEALS

The largest deal in Q2 2018 was in the Industrials & Chemicals sector. Interface Inc, the US-based leading and globally active manufacturer of floor coverings, acquired Nora systems GmbH, a German based world leading supplier of high quality rubber floors and system solutions, for USD 451m. With this acquisition, Interface plans to expand its portfolio in the field of elastic floors and to accelerate sales growth.

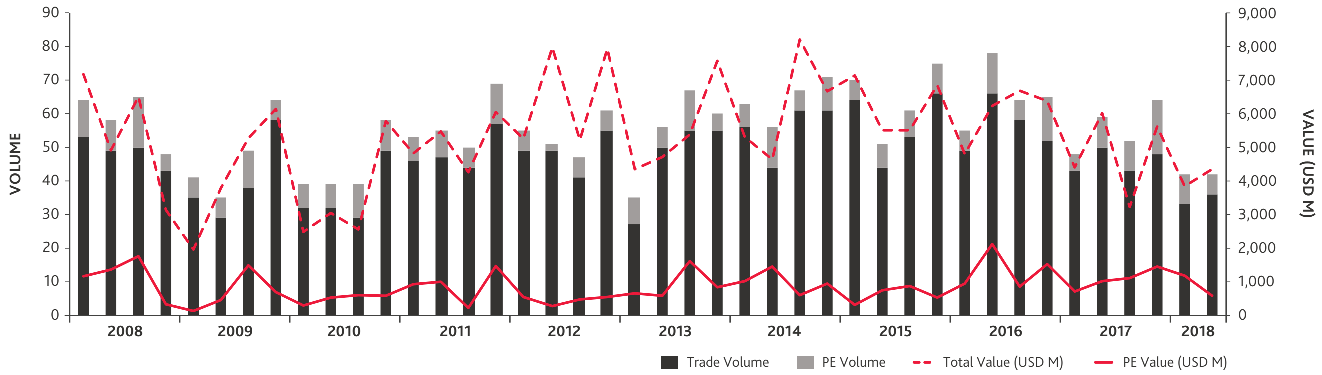
The sale of Equatex AG, a Swiss-based leading European share plan management services provider, represented the region's second largest deal. The Australian acquirer was Computershare Limited and the deal value was USD 419m.

The largest transaction with an Austrian target in Q2 was in the real estate sector. The Austrian RPR Privatstiftung sold a 21.82 % stake in S IMMO AG to fellow Austrian company Immofinanz AG. The takeover had a total deal value of USD 361m.

In Q2 2018, six of the top 10 transactions involved target companies based in Germany. Three target companies are based in Switzerland and one in Austria. Looking at the make-up of the bidder companies, it was mainly international clientele with three companies from the US, one from China and Australia and five originating from Europe. Seven of the top 10 deals in the DACH region were cross-border deals.

In general terms, the DACH M&A mid-market has been quite sluggish in the first six months of the year. Total deal volume (42 deals in Q1 and Q2) showed a significant decline, constituting a five-year low. Total deal value in Q2 (USD 4.3bn) showed a slight increase compared to the first quarter, but was still is at its lowest point for the last seven years.

PE/TRADE VOLUME & VALUE



KEY SECTORS

Focusing on deal activity across most sectors, the overall picture was stable. The main exceptions were the Leisure and Pharma, Medical & Biotech sectors, which both saw decreases in total deal activity compared to the previous quarter. These two sectors showed a decline of 75%-100% in total deal volume. By contrast, the Real Estate sector increased its deal activity from no deals in Q1 to five in Q2.

In the second quarter of 2018, the majority of M&A deals in the DACH region involved companies from the Industrials & Chemicals (31%) and the TMT (19%) sectors, which recorded the same number of deals completed compared to Q1 2018. Business Services, Consumer, Financial Services and Energy, Mining & Utilities all kept deal volumes at a stable level compared to the previous quarter.

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LOOKING AHEAD

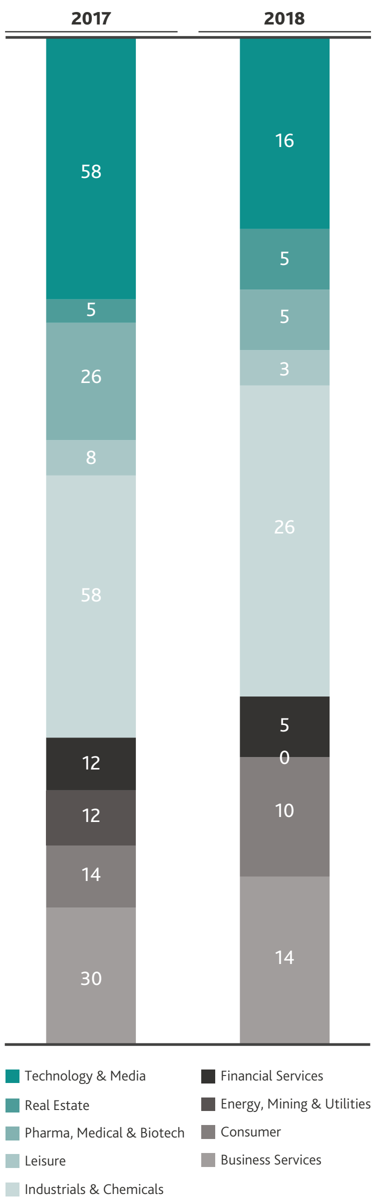
2018 has started with a weak performance in DACH M&A mid-market deals, as deal volume and value were both rather low. However, we maintain the belief that the M&A market will recover and increase performance to previous levels. Interest rates are likely to stay low in the near future, providing good financial conditions for transactions.

At present, there are 331 companies up for sale in DACH's mid-market, which is in line with the 330 deals predicted in Q1 2018. We expect all sectors to keep up their momentum. Industrials & Chemicals and TMT are projected to remain the most active sectors and Industrials & Chemicals sector is forecast to record a significant rise in deal volume (37 % of all deals forecasted). Finally, in general terms, cross-border transactions – supported by plentiful financial resources – are expected to be a significant source of DACH's M&A activity in the quarters that lie ahead.

DACH
HEAT CHART BY SECTOR

Industrials & Chemicals	121	37%
Technology & Media	53	16%
Consumer	41	12%
Business Services	39	12%
Financial Services	25	8%
Pharma, Medical & Biotech	23	7%
Energy, Mining & Utilities	18	5%
Leisure	8	2%
Real Estate	3	1%
TOTAL	**331**	**100%**

DACH
MID-MARKET VOLUMES BY SECTOR



NORDICS

PRIVATE EQUITY M&A ACTIVITY

BIG PICTURE

- Overall M&A performance in Q2 2018 outperformed the previous quarter of 2018, but failed to reach records levels of Q2 2017
- Private equity continues to show high levels of dry-powder throughout Europe, however, Nordics experienced decreased PE proportions in Q2 compared to same period last year
- Industrials & Chemicals remains the dominant sector in the region with TMT & Business services equally second
- Largest deal of the quarter is a cross border deal – Oceanwood Capital Management in UK acquires Norwegian Norske Skogsindustrier ASA with a deal value of USD 488m.

The number of total Nordic M&A transactions in Q2 2018 decreased compared to same quarter last year, with total deal value that declined by 21% (USD 5.4bn in Q2 2018).

Overall, Q2 2018 performed less in both number of deals and total transaction value in comparison to Q2 2017. However, the region experienced a positive boost in performance after a slow start in Q1 2018, from which it rose by almost 50% in total transactions value and had increased number of deals.

The high activity among Nordic private equity experienced in Q2 2017 did not repeat itself in 2018. Number of deals decreased by 60% while the total volume incurring from PE firms decreased from c. USD 1,5bn to USD 660m.

The proportion of total deal value from private equity firms to total transactions was far less than the historically well-done Q1 of 2018. There were total nine PE buyout transactions representing a 12,2% of total transaction value and 15,3% of total deal volume in the Nordics.

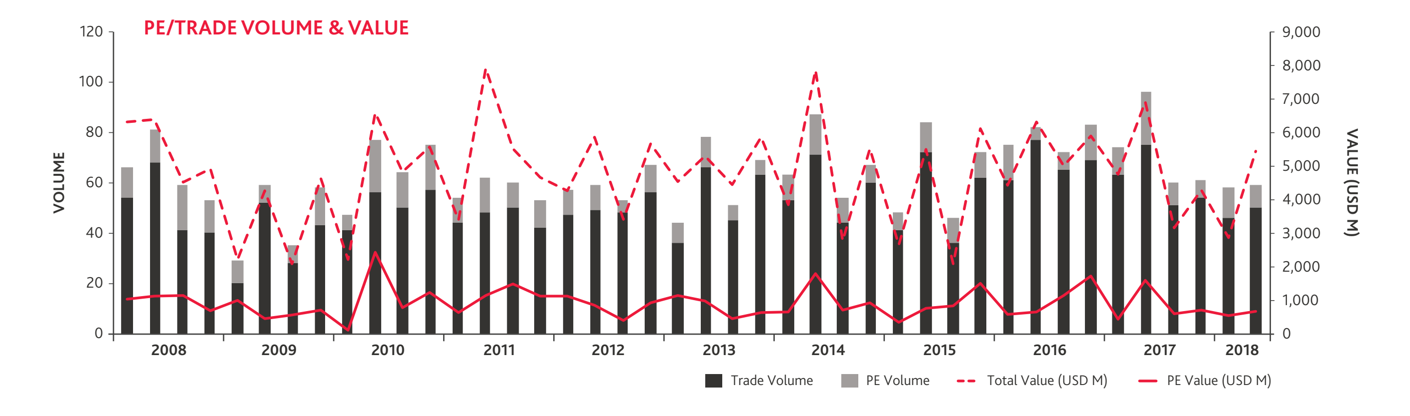
CROSS-BORDER IN FOCUS OF TOP TEN DEALS BY VALUE

Top 10 deals in the Nordics in Q2 2018 accounted for over 60% of the total transaction value.

The top deals showed a great mixture of cross-border and national deals by which six out 10 deals were cross-border. Majority of the deals were made in Norway, recording four out of ten deals, followed by Sweden with three out of ten deals.

The largest transaction was a cross-border deal in which the Norwegian company Norske Skogindustrier ASA was sold to Oceanwood Capital Management Ltd. in the UK for USD 488m. Norske Skogindustrier ASA is operating within the paper industry in Norway and was founded in 1962, with headquarters in Oslo, Norway.

The second largest deal was a close runner-up with a deal value of USD 449m. The cross-border transaction took place between the Norwegian company Songa Bulk AS and the bidder Star Bulk Carriers Corp. from Greece in May this year. Songa Bulk AS is an investment vehicle established to invest in dry bulk assets at low levels.



Third largest deal was Finish Asiakastieto Group plc's acquisition of UC AB in Sweden. UC AB is Sweden's leading business and credit reference agency with customers including companies, private individuals and the public sector. The deal was valued to USD 397m.

INDUSTRIALS & CHEMICALS REMAINS MOST ACTIVE SECTOR

The Industrials & Chemicals remained the most active sector accounting for 14 of the 59 transactions in Q2 2018. TMT had a strong second-place on the list with 11 deals out of 59 and thus remained one of the most active sectors in the region. Sharing the second place with TMT is the Business Services sector with equal number of deals, outrunning the previously second runner-up consumer sector from Q1 2018.

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LOOKING AHEAD

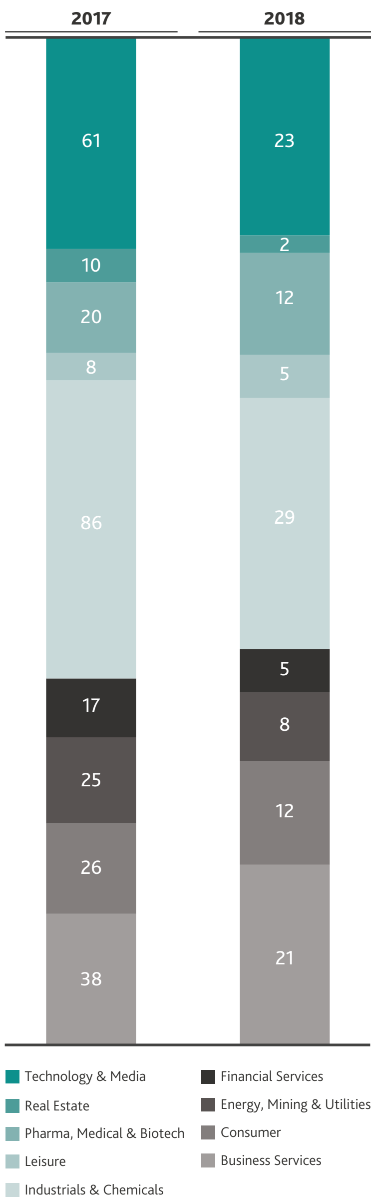
The Nordic M&A market looks to be solid for the remainder of the year, with only minor areas of uncertainty in each country, such as the Danish public-sector labor dispute, the Swedish general elections held in Q3 2018 or the high household debt in Sweden. However, none are likely to influence the overall long-term M&A market in the Nordics. M&A strategies will continuously be employed as companies continue to strive to adopt innovative technology as quickly as possible to stay ahead of the curve.

Another notable trend is the overall private equity activity in the Europe with increasing buyout proportions compared to previously dominant numbers for exit volumes. Reasoning behind larger buyout volumes is the fascinating fundraising levels past years leading to higher dry-powder levels to deploy. While similar trends are expected to be seen during H2 2018, some uncertainties stemming from Trump administration, such as employed tariffs on European steel and aluminium, may result in the opposite.

NORDICS
HEAT CHART BY SECTOR

Technology & Media	45	24%
Industrials & Chemicals	32	17%
Consumer	28	15%
Business Services	27	15%
Pharma, Medical & Biotech	15	8%
Energy, Mining & Utilities	14	8%
Financial Services	12	6%
Leisure	9	5%
Real Estate	3	2%
TOTAL	**185**	**100%**

NORDICS
MID-MARKET VOLUMES BY SECTOR



CEE & CIS

WEAK START TO 2018 M&A ACTIVITY CONTINUES IN LINE WITH GLOBAL TREND

BIG PICTURE

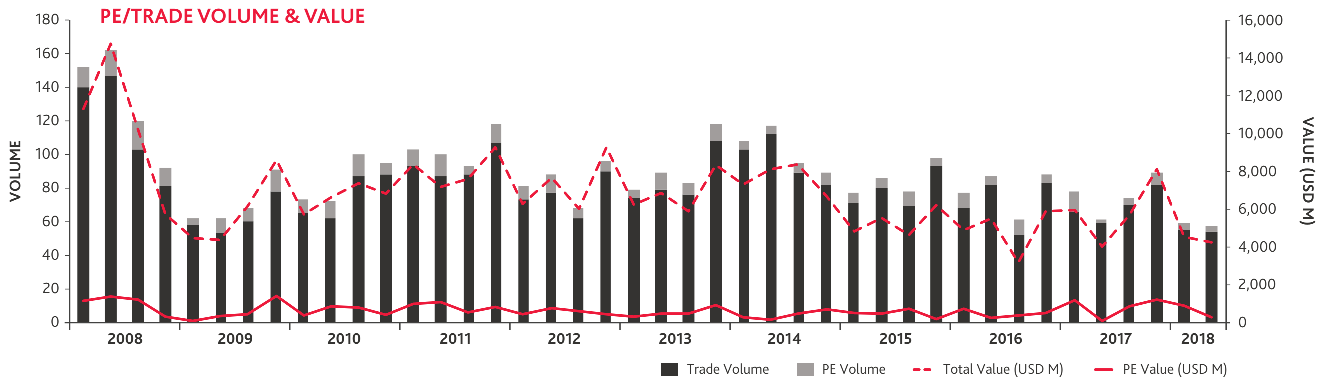
- Deal volume was down 3% in Q2 2018 against Q1 2018 and 7% down compared to Q2 2017
- Mid-market deals were dominated by TMT, Consumer, Energy, Mining & Utilities and Financial Services, with two thirds of the total deals
- Only three PE deals were completed, representing 5.7% of the total value.

Looking at the M&A global market so far in 2018, the CEE & CIS region followed the downward trend. After a weak start in Q1, the region's M&A market could not recover and continued to decline in Q2 2018. Even though a slight up-tick was projected after the fall in Q1, the number of mid-market deals completed in Q2 was 57, the lowest number of transactions since 2008.

The total value of deals was USD 4,230m, down 6% from the previous quarter's USD 4,521m. Although the total volume of deals in Q2 2018 was the lowest recorded since 2008, in terms of value, the quarter was better than Q2 2017. Private equity transactions were also slack in Q2 2018, representing only three deals of the 57 mid-market deals. The average size of these deals was reasonably low at USD 80m with a total value of USD 241m, representing only 5.7% of all the value of the region's transactions. All in all, the low PE deal activity was consistent with the global trend, both in terms of reduced volume and value.

KEY SECTORS AND DEALS

The region's top ten 10 deals had a combined value of USD 2.3bn, which represented about 56% of Q2's overall value. The most active sectors were TMT with 12 deals, representing 21% of total deal volume and Consumer with 10 deals (18%). Energy, Mining & Utilities and Financial services were both responsible for 14% of total deal volume with eight deals each.



Of the top ten 10 deals in Q2 2018, there were three each in TMT and Industrials & Chemicals. Overall, the majority of the sectors performed at similar levels to Q2 2017, apart from Industrials & Chemicals, where saw a big drop from 16 to seven transactions.

However, Consumer recorded a significant increase from six to 10 deals compared to Q2 2017. This sector also accounted for the two biggest transactions, with each deal worth USD 299m.

Even though the number of TMT deals remained the same as previous quarters, it became the region's most important sector in Q2 with 12 deals, representing 21% of total deal volume.

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LOOKING AHEAD

According to the BDO Heat Chart, which captures all sales that are either planned, rumoured or in progress, 613 deals are expected to be made in the region, which represents a notable fall compared to Q2 2017 (717).

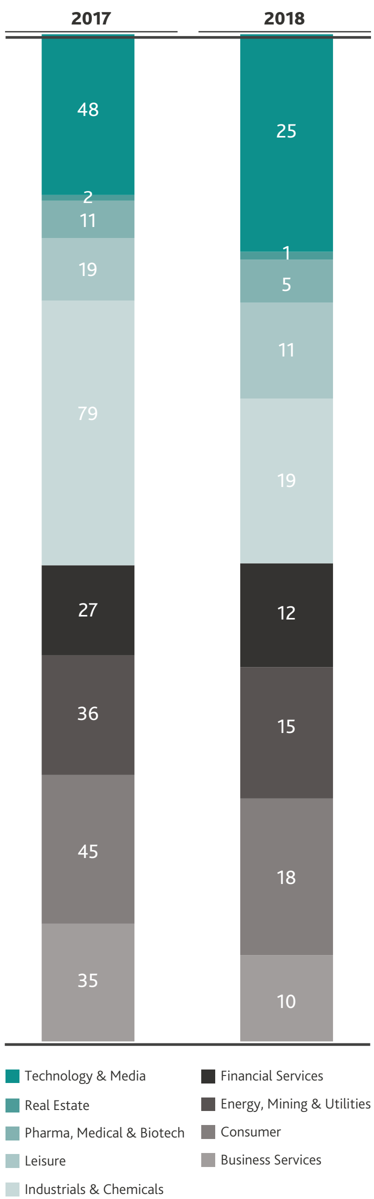
This drop in the number of expected transactions in CEE & CIS is not in line with world economic trends. BDO's Global Heat Chart forecasts 8,287 deals, which is slightly below Q2 2017 levels (0.5%), whereas CEE & CIS's fall is much more significant (-14,5%). Despite the reduced number of potential transactions, CEE & CIS still maintains its position of third place among the regions covered in this report, as in the previous years, sitting behind North America and China.

Even though there was a huge drop in the number of Industrials & Chemicals deals, the BDO Heat Chart indicates that there will be an up-tick in M&A activity and predicts that it will be the most active sector in the coming periods. Finally, according to the chart, TMT is expected to remain very prominent in the region with 129 projected transactions.

CEE & CIS
HEAT CHART BY SECTOR

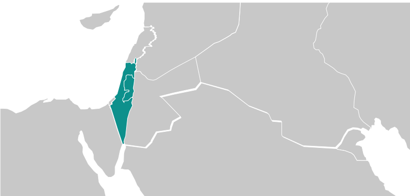
Industrials & Chemicals	150	24%
Technology & Media	129	21%
Consumer	95	15%
Business Services	58	9%
Financial Services	53	9%
Energy, Mining & Utilities	52	8%
Pharma, Medical & Biotech	36	6%
Leisure	28	5%
Real Estate	12	2%
TOTAL	**613**	**100%**

CEE & CIS
MID-MARKET VOLUMES BY SECTOR



ISRAEL

M&A ACTIVITY RECOVERS IN Q2 WITH A BIG RISE IN VALUE AND FUTURE DEAL PIPELINE LOOKS HEALTHY



BIG PICTURE

- Q2 2018 M&A value grew sharply (82.4%) in comparison to the previous quarter while deal volume fell (18.7%) from 16 to 13 deals
- BDO Heat Chart shows 80 potential deals, suggesting a ramp-up in activity ahead
- PE activity declined further in Q2 2018 after a slow Q1 2018.

A total of 13 deals, with a combined value of USD 1.29bn, were successfully completed in Q2 2018. This represented an 82% increase in deal value, despite a 18.7% decrease in deal volume from 16 completed deals to 13 compared to Q1 2018. Deal value was strengthened by a 124% increase in the average transaction value for the quarter of USD 99m, indicating an uptick in the number of big-ticket deals.

Total deal numbers recorded a slight drop from 16 in Q1 2018 to 13 in Q2 2018, a fall of 18.7%, but total deal value increased sharply during the same period. This led to a significant rise in the average deal value from USD 44m in Q1 2018 to USD 99m in Q2 2018, which is the highest second quarter average transaction value for five years.

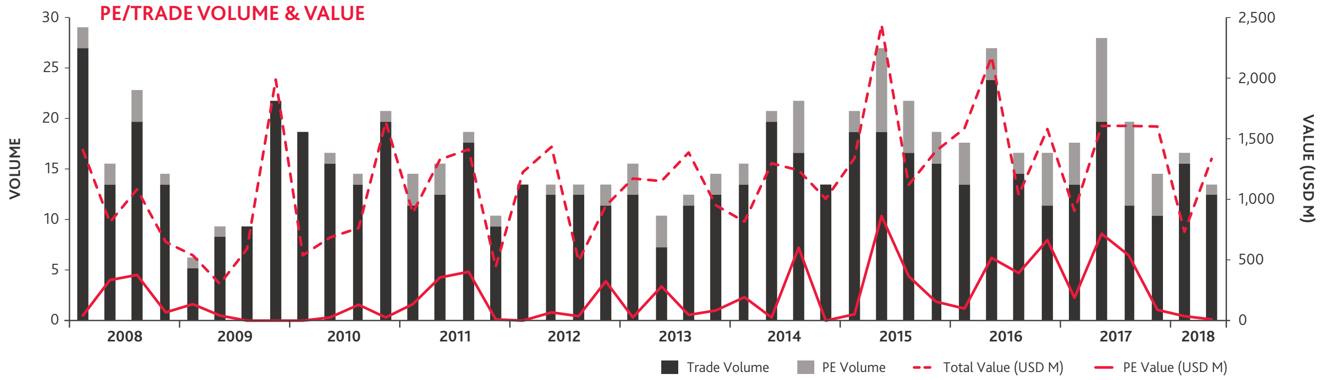
Private equity activity fell heavily from previous quarters. The Q2 2018 figures were the lowest in the last 13 quarters, which indicates a continuing weakness in both value and volume.

In Q2 2018, PE was responsible for one deal worth USD 11m, which represented 7.7% of the deal count and 0.9% of the value for the quarter.

KEY DEALS AND SECTORS

Israel's top 10 Q2 2018 deals had an aggregated value of USD 1.26bn, representing 98% of total M&A transactions. The largest transaction was the USD 307m acquisition of Shikun & Binui Group, one of Israel's largest infrastructure companies. Shikun & Binui Group was purchased by US-Israeli real estate investor Nati Saidoff from US-Israeli billionaire Shari Arisson, previously the controlling shareholder in Shikun & Binui with an 84% holding.

Other deals included the USD 300m financing round in Landa Digital Printing, which has developed a unique digital technology called Nanography. The current funding round was led by private investment company Skion GmbH with the participation of previous investor German chemicals group Altana.



Other transactions included the USD 242m acquisition of Avgol Industries by Indorama Ventures and the USD 90m acquisition of BriefCam by Canon.

Technology & Media was the most active sector, accounting for five deals (38% of total transactions) in Q2 2018. Industrials & Chemicals was in second place, accounting for four deals (30%). The remaining sectors with one deal each were Business Services, Consumer, Energy, Mining & Utilities and Real Estate.

Six of the top ten deals involved foreign bidders, supporting Israel's resilient economy and robust equity market. Out of those six foreign investors, three involved US buyers, one Japanese and one German.

Israel continues to attract foreign investment due to its favourable economic conditions, considerable incentives and strong R&D sector, coupled with a high-skilled and multilingual workforce.

LOOKING AHEAD

Looking ahead, the picture improves significantly. At the end of Q1 2018, the BDO Heat Chart showed 67 deals planned or in progress, compared to 80 deals in Q2 2018, which indicates a 19% jump in pipeline deals.

The BDO Heat Chart for Israel shows there are 80 deals planned or in progress for M&A with 40 (50%) related to TMT and 12 (15%) involving Industrials & Chemicals. Other sectors include Pharma, Medical & Biotech with eight deals (10%), Consumer with five deals (6%), and Business Services, Financial Services and Leisure with four deals each (5%). Energy, Mining & Utilities recorded two deals and Real Estate recorded one deal only.

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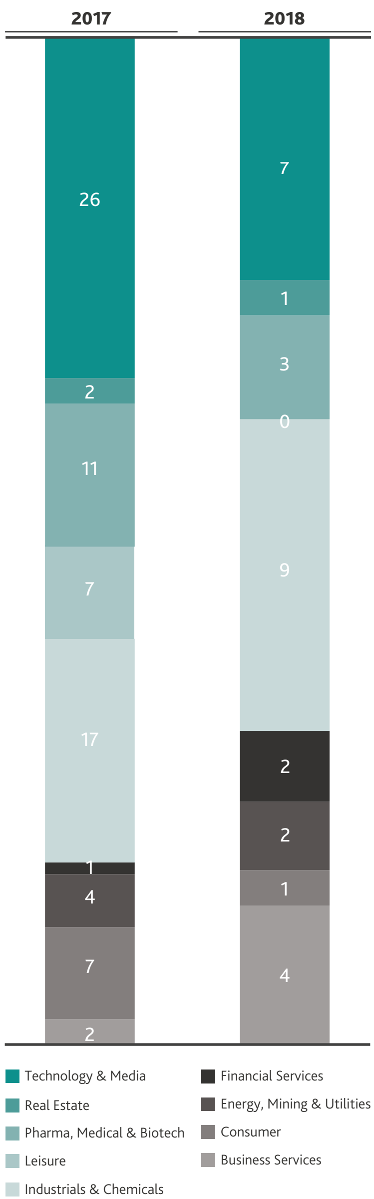
ISRAEL
HEAT CHART BY SECTOR

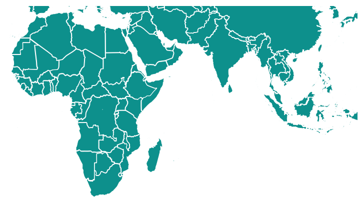
Technology & Media	40	50%
Industrials & Chemicals	12	15%
Pharma, Medical & Biotech	8	10%
Consumer	5	6%
Business Services	4	5%
Financial Services	4	5%
Leisure	4	5%
Energy, Mining & Utilities	2	3%
Real Estate	1	1%
TOTAL	**80**	**100%**

ISRAEL
MID-MARKET VOLUMES BY SECTOR



AFRICA

DEAL ACTIVITY HITS 10-YEAR LOW BUT PROSPECTS ARE POSITIVE



BIG PICTURE

- Q2 2018 saw 18 mid-market M&A deals recorded with an overall value of USD 1.03bn - the lowest volume and value in the last 10 years
- Only one PE buy-out took place with a value of USD 48m, representing 4.7% of overall value
- Industrials & Chemicals and Energy, Mining & Utilities were the joint top sectors, accounting for a combined 55.6% of mid-market deals.

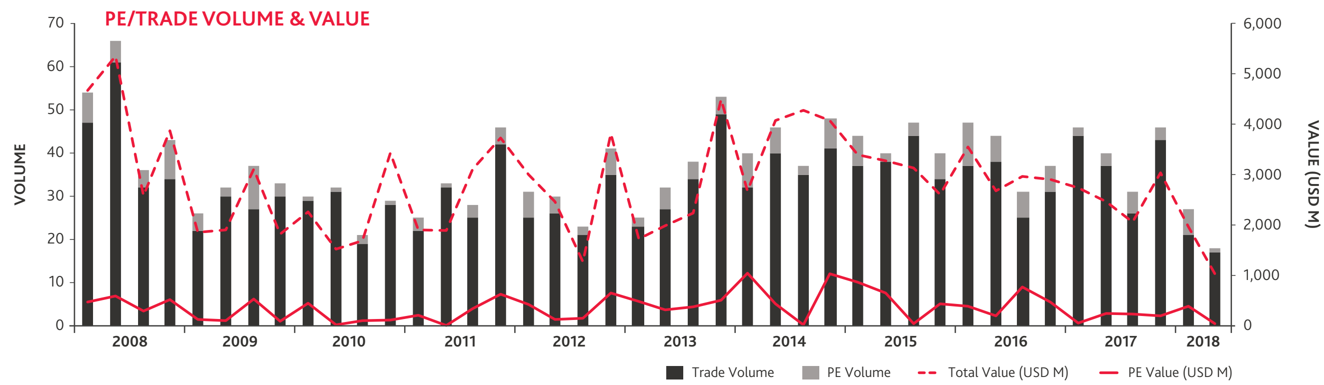
Q2 2018 saw a total of 18 mid-market M&A transactions in Africa, with only one PE buy-out completed. This represents decreases of 33.3% compared to the previous quarter and 18% compared to the corresponding quarter last year. The proportion of PE buy-outs dropped significantly from 22.2% to 5.6%, with only one deal (USD 48m) in this quarter. The total transaction value decreased by 48% to USD 1.03bn in Q2 2018, representing the lowest mid-market M&A deal value and volume for the last 10 years.

KEY DEALS AND SECTORS

Industrials & Chemicals, together with Energy, Mining & Utilities, were the two most active sectors in Q2 2018, with five transactions each, amounting to 55.6% of the overall mid-market deals. The Consumer sector followed closely behind with four transactions out of 18, accounting for 22.2% of the overall deals.

The biggest deal of the quarter was the exercise of Kellogg's option to acquire a stake in packaged food manufacturer Tolaram Africa Foods, a subsidiary of the Tolaram Group operating in Nigeria, for USD 420m. Kellogg's joint venture agreement with Singapore-based Tolaram in 2015 to take a 50% stake each in distributor Multipro stated that Kellogg had the option to acquire a stake in Tolaram Africa Foods in the future, which it has now exercised. This deal alone amounted to 41% of Q2's total deal value for the 50 countries making up the African mid-market M&A region.

The second largest transaction was in the Industrial & Chemicals sector, with German company ATON GmbH's acquisition of a 56.06% stake in South African-based Murray & Roberts Holdings Limited. This transaction of USD 247m accounted for 24% of African mid-market deal value. Of Q2's top 10 M&A deals in the Africa mid-market, five were in the Industrials & Chemicals sector for an amount of USD 379m. Although the Consumer sector only recorded two deals in the top 10, it accounted for more than 50% of Africa mid-market deals value in terms of volume.



The other deals in the Top 10 list ranged between USD 17m to USD 62m. This year, two out of the 10 top deals took place in Kenya. The first was the acquisition of Iberafrica Power (East Africa) Limited by South African company African Energy Partners Limited for USD 62m. This deal ranked third in the Top 10. The other Kenyan deal was the acquisition of 44.04% of Kenyan Cellulant Corporation was acquired by US private investment firm TPG for USD 48m.

South Africa accounted for four of the top 10 transactions on both the target and bidder sides. The political optimism in South Africa, together with new global M&A forces, are contributing to a positive outlook and a rebuilding of investor confidence.

ECONOMIC OUTLOOK

Sub-Saharan Africa (SSA) economic growth's is expected to hit 3.1% this year, according to the World Bank. This represents an increase compared to last year, thanks to rising commodity prices. While the crash in commodity prices hit SSA economies hard, with reduced government incomes and falls in several of the continent's currencies, Nigeria, South Africa and Angola are still expected to see a gradual pick-up in growth and economic development is still expected to continue at a pace in the West African Economic and Monetary Union and in most of East Africa.

In Angola, government measures and reforms have contributed to a more competent allocation of foreign exchange, increasing natural gas production, and the improved business sentiment should help support economic growth. In South Africa, the pick-up in business assurance is expected to help withstand the continuing recovery in business deals.

Nonetheless, the regional outlook remains subject to external and internal risks. Unexpected capital outflows could lead to large currency devaluations in some countries. A harsh deterioration in commodity prices would have a substantial adverse effect on the region, given the heavy reliance of many economies on commodity trades. Another possible risk to the region's economies could be a slowdown in Chinese development given the threats posed by interest rate rises or trade pressures with the United States.

LOOKING AHEAD

The BDO Heat Chart for Africa mid-market M&A activity still suggests a positive outlook, forecasting 144 deals in 2018, which is 12% less than in 2017. The most active sector this year is predicted to be Industrials & Chemicals, with 41 deals, representing 28% of the total volume, with Energy, Mining & Utilities, which has been the top performing sector for several years, predicted to be in second place this year with 33 deals expected. Financial Services is predicted to be the third most active sector, with 22 deals accounting for 15% of total deals for the region. Africa represents 2% of the total global M&A deals expected in 2018.

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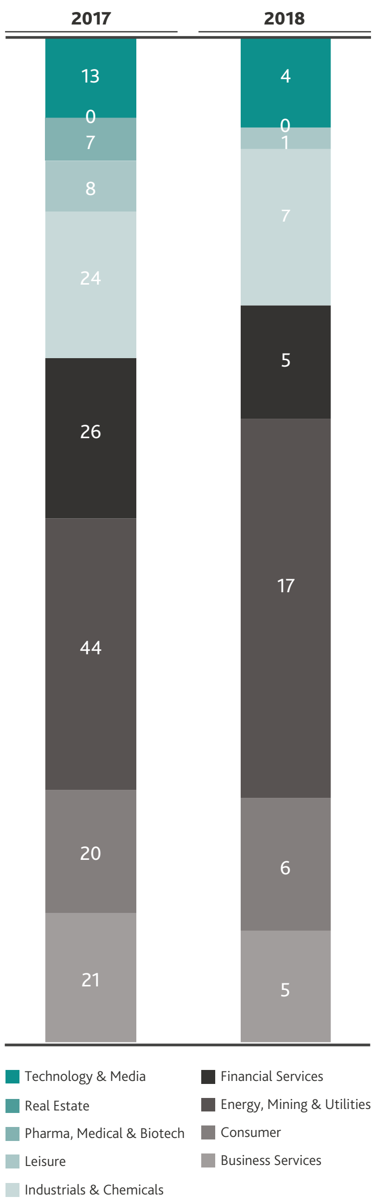
AFRICA
HEAT CHART BY SECTOR

Industrials & Chemicals	41	28%
Energy, Mining & Utilities	33	23%
Financial Services	22	15%
Business Services	16	11%
Consumer	11	8%
Technology & Media	10	7%
Pharma, Medical & Biotech	5	3%
Real Estate	4	3%
Leisure	2	1%
TOTAL	**144**	**100%**

AFRICA
MID-MARKET VOLUMES BY SECTOR



CHINA

DEAL VALUE AND VOLUME SOARS AS BUSINESS CONFIDENCE REMAINS HIGH AND THE CHINESE ECONOMY CONTINUES TO GROW

BIG PICTURE

- Deal volume and deal value increased by 10% and 26% respectively in Q2 2018 compared to Q1 2018
- Business confidence among Chinese entrepreneurs continued to improve in Q2 2018. Chinese entrepreneurs are still optimistic about the economic growth and future market conditions as the country's economy continues to grow, supported by strong economic fundamentals
- To mitigate the trade war with the US, the Chinese government has reduced value-added tax rates and further eased restrictions on foreign investment. It is expected that the Chinese government will introduce more reform policies in the next quarter and continue to promote the Belt and Road initiative.

Mid-market M&A levels in the Greater China region recorded 11% growth in deal volume from 743 deals in the first half of 2017 to 826 deals in the first half of 2018. A similar trend was noted for deal value, which grew 9% from USD 67.1bn in the first half of 2017 to USD 73.0bn in the first half of 2018.

The Chinese government has been pushing for economic structural reform, including the following recent actions:

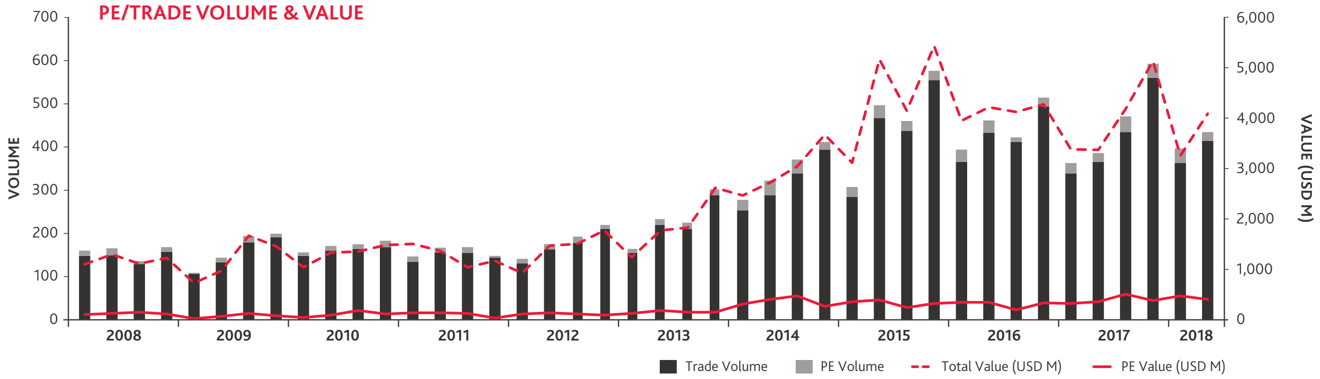
- From May 2018, the Ministry of Finance has reduced the value-added tax rate from 17% to 16%
- The Ministry of Commerce has further promoted and encouraged acquisitions in the e-commerce and business services sectors along the Belt and Road countries
- The National Development and Reform Commission announced on 28 June 2018 that it would be further easing restrictions on foreign investment in various sectors, including agriculture, automotive and banking
- China's Central bank has cut the banks' reserve ratio requirement by 1.25% over Q2 2018 to encourage business lending and support economic growth.

OUTBOUND INVESTMENT

China's outbound investments continued to increase in Q2 2018 following the introduction in 2017 of specific guidelines and regulations for outbound investment. Industries that benefitted in the first half of 2018 were mainly in the Industrials & Chemicals, TMT and Consumer sectors.

Due to the heightened tensions from the trade war with the US, Chinese entities have become more restricted in terms of accessing the US market. While these are still early days, more focus has been placed on outbound investments in the Belt and Road regions. It is expected that outbound investments led by Chinese entities in this region will continue to rise in the second half of 2018. However, this may limit the overseas industries in which China can invest. For example, there may be less opportunities in the advanced technology space in the Belt and Road regions.

PE/TRADE VOLUME & VALUE



INBOUND INVESTMENT

China's inbound investments were stable in Q2 2018 compared to the same period in 2017. The Ministry of Commerce indicated in June 2018 that foreign direct investment into China only rose 2.3% year-on-year.

The Consumer and Business Services were the key sectors for foreign investment, accounting for around 70% of total foreign investment in the first half of 2018, followed by Industrials & Chemicals. Inbound investments in the technology sector increased in Q2 2018, particularly in e-commerce and software companies.

It is expected that the trend of inbound investment in Chinese high-tech companies will continue in the second half of 2018.

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TOP DEALS

The largest mid-market deal in Q2 2018 was in the Pharma, Medical & Biotech sector. The top three major mid-market deals were:

- NWS Holdings Limited, AIA Group Limited and China Capital Zhongcai Fund Management Co., Ltd. together invested USD 500m in online healthcare firm We Doctor Group Limited – announced in May 2018
- China FAW Group Corporation, together with Tus-Holdings Co., Ltd. and Contemporary Amperex Technology Co., Ltd., acquired Chinese electric car start-up Byton for USD 500m – announced in June 2018
- Multiple bidders (Sequoia Capital, Tencent Holdings Ltd., Coatue Management, L.L.C and Yunfeng Capital) invested in online education firm VIPKID for USD 500m – announced in June 2018.

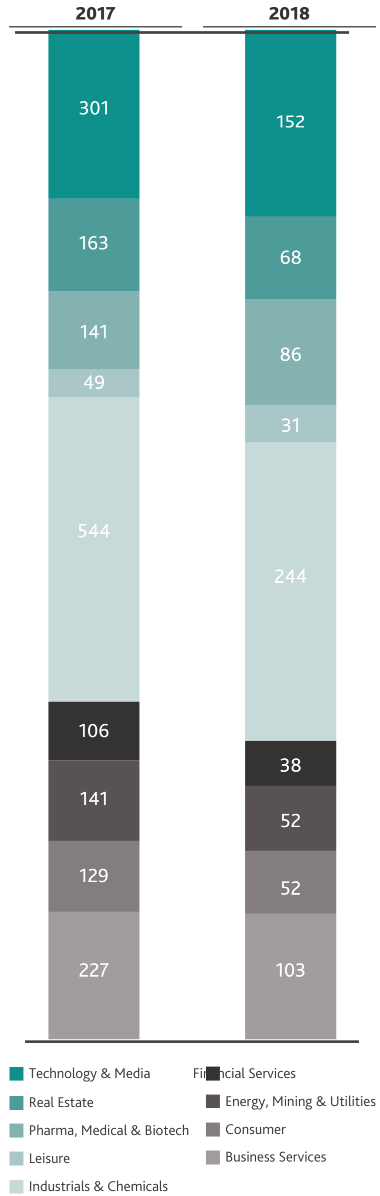
LOOKING AHEAD

The latest BDO Heat Chart for Greater China indicates that there are a total of 1,138 deals planned or in progress with 320 (28%) related to Industrials & Chemicals and 218 (19%) related to TMT. Other key sectors include Business Services, Consumer and Financial Services.

CHINA
HEAT CHART BY SECTOR

Industrials & Chemicals	320	28%
Technology & Media	218	19%
Business Services	132	12%
Consumer	121	11%
Financial Services	103	9%
Pharma, Medical & Biotech	95	8%
Energy, Mining & Utilities	60	5%
Real Estate	47	4%
Leisure	42	4%
TOTAL	**1,138**	**100%**

CHINA
MID-MARKET VOLUMES BY SECTOR



JAPAN

SMALL, KNOWLEDGE-INTENSIVE INDUSTRIES SET TO DRIVE FUTURE MID-MARKET ACTIVITY

BIG PICTURE

- TMT and Industrials & Chemicals were Q2's top-performing sectors
- Real Estate and Leisure predicted to reap benefits of 2020 Olympic Games
- Increased M&A activity is likely due to business succession issues and Japan's ageing population.

Japan's Top 10 deals came from a range of sectors but our research suggests that in the future smaller, more knowledge- intensive industries will drive the country's mid-market deal activity.

Looking at the breakdown of the deals in Q2 2018, there was no significant change compared with the previous quarter with the TMT and Industrial & Chemicals sectors accounting for more than 50% of deal volume. In Q2 2018's top 10 deals, five took place in the Industrial & Chemicals sector, however the total value of those deals was less than 40% of the total value of the Top 10 deals.

KEY DEALS AND SECTORS

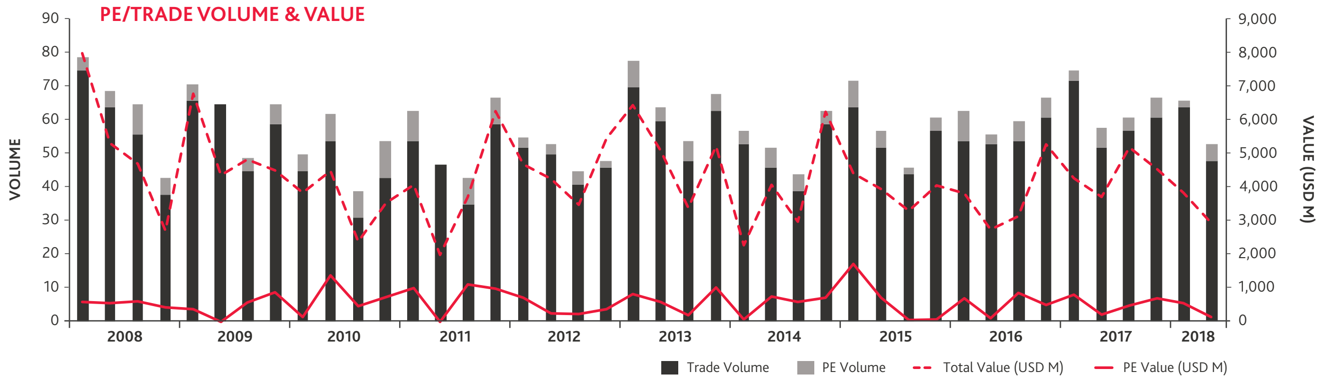
The key sectors in Q2 were TMT and Industrials & Chemicals and they accounted for the majority of the quarter's deal volume.

In the Consumer sector, deal volume fell from 13 to seven compared with the previous quarter and these Consumer transactions did not figure in the Top 10 deals.

The biggest value deal in Q2 was in the Business Services sector and comprised the share exchange of NDS Co., Ltd. and COMSYS Holdings Corporation.

As a result of this transaction, COMSYS now owns NDS as a subsidiary, and COMSYS is expanding its market share in the infrastructure networks market.

Real Estate was not active in Q2, but there is a development in Japan which may positively impact the sector in the future. Regulation in the use of sustainable land in suburbs will be deregulated in 2022. As a result, large lots of land in the suburbs may be available for residential use in 2022. In addition, the number of households is expected to decline in 2023. These two events might break Japan's current supply-demand balance of housing and residential land.



At this stage, it's not possible to accurately assess the impact of these changes on Real Estate M&A activity.

So far in 2018 there have been three deals in Pharma, Medical & Biotech but the BDO Heat Chart forecasts 27 transactions ahead. Japan currently has issues with its declining birth rate and ageing population, which may affect the sector. No public data exists to help us understand the impact this will have on, for example the nursing industry but it's reasonable to assume that there may be increased M&A activity in this sector in future years.

LOOKING AHEAD

The BDO Heat Chart suggests that three sectors – TMT, Industrials & Chemicals, and Pharma, Medical & Biotech – will be responsible for approximately 60% of transactions. Interestingly, these sectors are not expected to be positively impacted by the upcoming Tokyo 2020 Olympic Games. The sectors expected to reap the benefits of this event are Real Estate and Leisure. In addition, M&A activity as a result of business succession issues may pick up due to the large number of small companies with no succession plan due to Japan's falling birth rate, the ageing population and the lack of people wanting to take on the responsibility of being a CEO.

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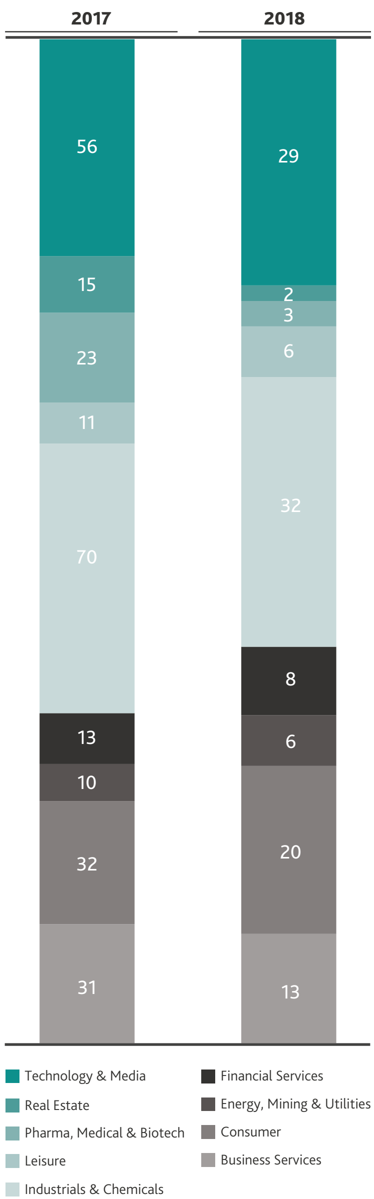
JAPAN
HEAT CHART BY SECTOR

Technology & Media	48	25%
Industrials & Chemicals	41	22%
Pharma, Medical & Biotech	27	14%
Consumer	23	12%
Business Services	21	11%
Financial Services	16	8%
Energy, Mining & Utilities	6	3%
Real Estate	4	2%
Leisure	3	2%
TOTAL	**189**	**100%**

JAPAN
MID-MARKET VOLUMES BY SECTOR



SOUTH EAST ASIA

M&A ACTIVITY STALLS IN Q2

BIG PICTURE

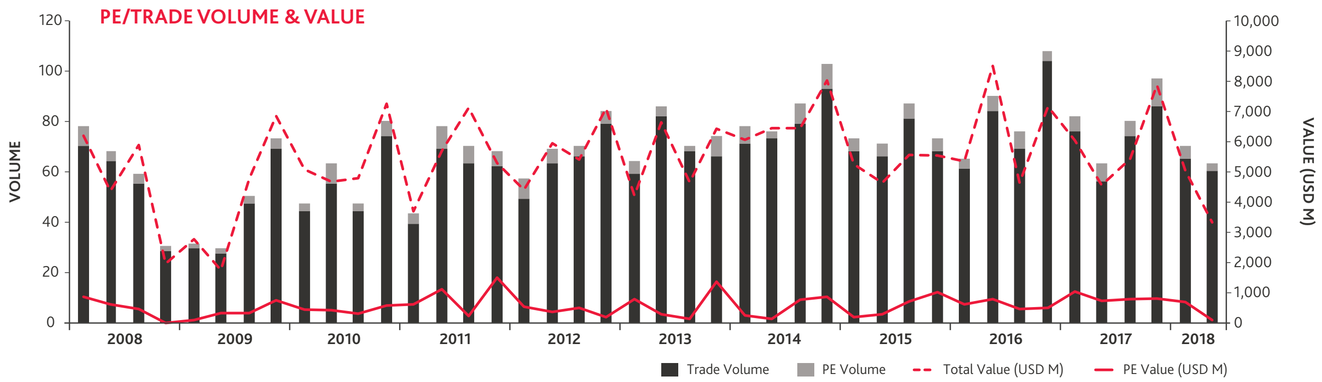
- Deal activity fell in both volume and value compared to previous quarter
- Top 10 deals accounted for 61.8% of overall deal value in Q2 2018
- Main focus of M&A activity remained in Industrials & Chemicals sector.

M&A mid-market activity in South East Asia was lower in Q2 2018 compared to the previous quarter, both in terms of the volume and value of the deals. A total of 64 deals were transacted during the quarter compared to 71 deals in Q1 2018, representing a decrease of 9.9%, with total values falling to USD 3.4bn in Q2 2018 from USD 5.1bn in Q1 2018. The Top 10 deals amounted to USD 2.1bn, representing 61.8% of the total deal value for Q2 2018.

The PE segment completed three deals in Q2 2018, four deals less than the corresponding period in 2017. PE formed a small proportion of total M&A activity for the quarter, representing 4.7% of the number of deals and 32.0% of the transaction value.

The most active sectors in Q2 2018 were Industrials & Chemicals, Business Services and Real Estate, which together accounted for 54.7% of the total deal numbers in Q2 2018. Industrials & Chemicals was the most active sector with 17 deals, followed by Business Services and Real Estate, both with nine deals.

The top three deals were in the Financial Services, Industrial & Chemicals and Energy, Mining & Utilities sectors. The largest deal was the acquisition of a 99% stake in Safety Insurance Public Company Limited and an 80% stake in PT Asuransi Parolamas by Tokio Marine Holdings Inc for a consideration of USD 387m, followed by the acquisition of a 100% stake in Sabah Forest Industries Sdn Bhd in Malaysia by Pelangi Prestasi Sdn Bhd for a consideration of USD 310m and finally the acquisition of a 90% stake in Lane Xiang Minerals Limited by Chifeng Jilong Gold Mining Co., for a consideration of USD 275m.



LOOKING AHEAD

The main focus of M&A activities in the region is in the Industrial & Chemicals sector. This sector achieved the highest number of completed deals in 2017 with a total of 81 and the sector remained the top performer in Q2 2018 with 17 deals. Meanwhile, M&A activity in Business Services, which was responsible for 49 deals in 2017, slowed down in Q2 2018 with only nine deals completed.

M&A activities in South East Asia remain dependent on the current economic challenges faced by the region, which includes the outlook on crude oil prices and the consequential fluctuation of currencies in the region.

With South East Asia's currencies weakened against the US dollar, investors with predominantly US dollar income or funding may continue to find assets and targets in the region attractive.

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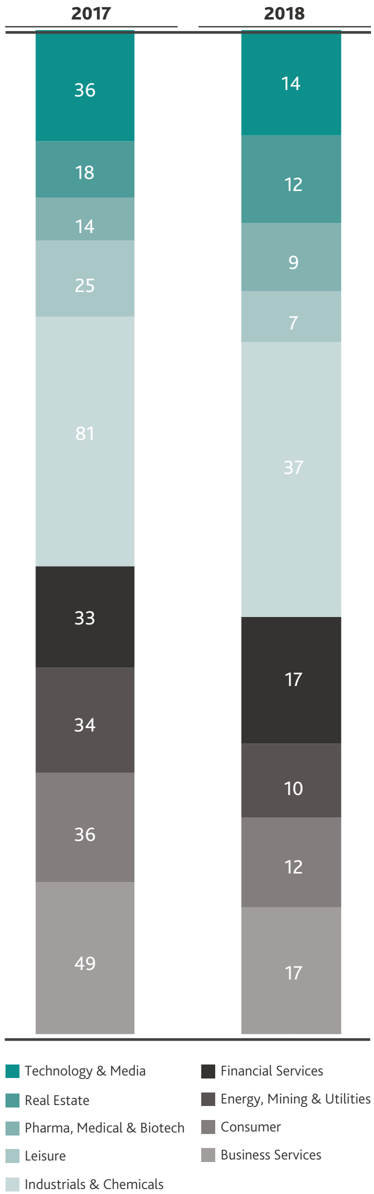
SOUTH EAST ASIA
HEAT CHART BY SECTOR

Consumer	80	17%
Industrials & Chemicals	75	16%
Technology & Media	70	15%
Business Services	69	15%
Energy, Mining & Utilities	44	9%
Financial Services	37	8%
Leisure	36	8%
Pharma, Medical & Biotech	31	7%
Real Estate	23	5%
TOTAL	**465**	**100%**

SOUTH EAST ASIA
MID-MARKET VOLUMES BY SECTOR



AUSTRALASIA

WEAK M&A ACTIVITY IN Q2 2018 BUT STRONG PIPELINE INDICATES A HEALTHY SECOND HALF OF THE YEAR

BIG PICTURE

- Q2 2018 deal volume fell 14% compared to Q2 2017, but average deal value increased by 15% to USD 64m
- PE activity remained weak with only four deals completed in Q2 2018 but sentiment and outlook for PE is positive
- Australasia continues to be a favourable destination for foreign buyers, with five of the top 10 deals completed by foreign firms
- Strong M&A pipeline of 550 deals indicates an active second half in 2018.

A total of 79 deals, with a combined deal value of USD 5.1bn, were successfully completed in Q2 2018. This represented a 4% decline on Q1 2018's deal volume of 82 and a 1% decline in total value compared to the corresponding quarter in 2017.

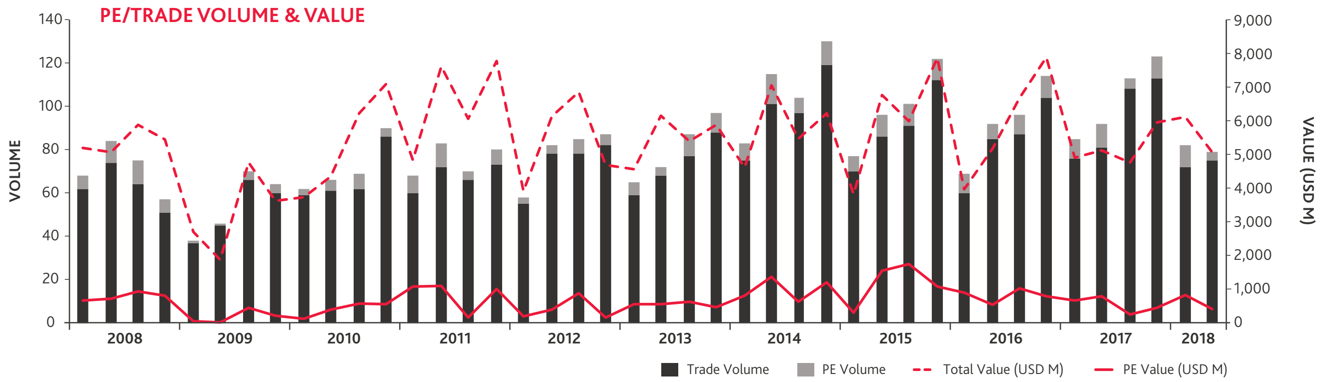
The average transaction value for Q2 2018 was USD 64m, 15% higher than Q2 2017. This indicates there is still an appetite for large mid-market deals which have strategic value.

The largest drop in deal volumes by sector was in Business Services, which was down 27%. The only sector to record positive deal volumes was Financial Services, up 167% compared to the corresponding quarter in 2017. This sector also accounted for the largest deal in Q2 2018.

Mid-market PE transactions declined in Q2 2018, with four deals completed compared to 11 in Q2 2017. PE deal transaction values for the quarter increased from USD 72m to USD 103m from the corresponding quarter in 2017. While the number of mid-market PE deals has declined compared to previous quarters, the general consensus indicates that PE deal-making will rise in the coming quarters. This is due to a healthy economic outlook, strong liquidity coming from banks and record levels of dry powder, which are their highest levels since 2008.

KEY DEALS

The largest deal in Q2 2018 was the acquisition of OnePath Life (NZ) Limited by USA's Cigna Corporation for USD 484m. The strategic motivation for the sale by the Australia and New Zealand Bank Group (ANZ) was to continue exiting non-core operations and simplify its business operations. The deal included a 20-year strategic alliance, which ANZ believed offered greater value to its customers



via a specialist insurance provider. The second largest deal was the acquisition of Adshel Street Furniture Pty Limited by Australia's listed oOh!Media Limited for USD 423m. This transaction has created one of Australasia's largest outdoor media companies and provides a significant avenue for future revenue growth.

Other notable deals that featured in the mid-market Top 10 included the acquisition of Tegel Foods Ltd for USD 411m by Philippines Bounty Fresh Food Inc.; the USD 345m acquisition of Airwork Holdings Limited by China's Zhejiang Rifa Holding Group Co., Ltd and Hangzhou Financial Investment Group Co., Ltd; and the USD 255m acquisition of Atlas Iron Limited by Hancock Prospecting Pty Ltd. Inbound investment and interest in Australasia companies remains high, with five of the Top 10 deals having foreign bidders from outside the region. Energy, Mining & Utilities remains a heavily targeted sector with four of the 10 top deals completing in this space.

LOOKING AHEAD

The current pipeline shows that the appetite for mid-market M&A deals heading into H2 2018 is strong, with 550 deals underway, up on the 519 deals in Q1 2018. The BDO Heat Chart indicates that the TMT and Consumer sectors are expected to see the most M&A activity in H2 2018, with 103 and 94 deals respectively.

Activity in the Business Services and Energy, Mining & Utilities sectors has strengthened relative to Q1 2018, with the BDO Heat Chart showing 71 deals each in the pipeline. Overall, it represents one of the strongest mid-market pipelines we have seen in recent years, which bodes well for a strong second half of 2018.

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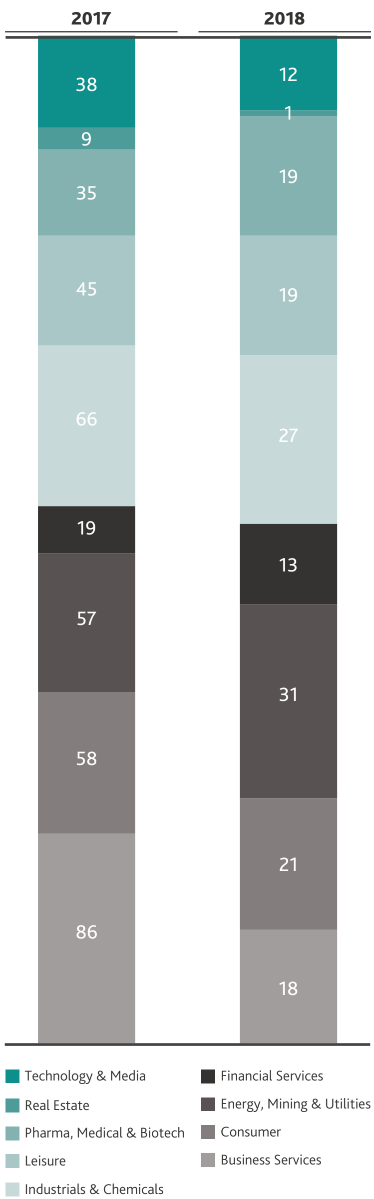
AUSTRALASIA
HEAT CHART BY SECTOR

Technology & Media	103	19%
Consumer	97	18%
Industrials & Chemicals	74	13%
Business Services	71	13%
Energy, Mining & Utilities	71	13%
Financial Services	55	10%
Pharma, Medical & Biotech	41	7%
Leisure	28	5%
Real Estate	10	2%
TOTAL	**550**	**100%**

AUSTRALASIA
MID-MARKET VOLUMES BY SECTOR



SECTOR VIEW

P37

RENEWABLES

GLOBAL RENEWABLES INVESTMENT REBOUNDS IN 2017 WITH STRONG YEAR AND STORAGE TECHNOLOGIES LOOK SET TO DRIVE FUTURE M&A ACTVITY

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REAL ESTATE

GLOBAL SLOWDOWN IN REAL ESTATE ACTIVITY AMID ECONOMIC AND POLITICAL TENSIONS

P41

RETAIL

RETAIL INVESTORS EYE UP OPPORTUNITIES AS SECTOR FACES TESTING TIMES

RENEWABLES

GLOBAL RENEWABLES INVESTMENT REBOUNDS IN 2017 WITH STRONG YEAR AND STORAGE TECHNOLOGIES LOOK SET TO DRIVE FUTURE M&A ACTVITY

BIG PICTURE

- Globally solar and wind investments continued to steal the show
- Lower renewable activity in Europe weighed on otherwise strong global growth
- Storage technologies are maturing, pointing towards increased deployment with established technologies and also driving M&A.

Global investment in renewables (spanning project finance, venture capital and private equity and public markets) rebounded in 2017 with overall investment rising to USD 300bn and in so doing posting the fourth strongest year in terms of spend since 2009.

This rise in activity however was not reflected evenly across the globe with strong growth being posted in most regions masking a slightly deteriorating position in Europe.

The North American market led the way with a 27% increase in investment year-on-year, rising to USD 80bn, while in terms of volume the Asia Pacific region recorded investment of USD 115bn with strong individual performances from Australia, South East Asia and China.

Much of this spend centred around continued growth in onshore wind that saw overall investment of USD 141bn, a USD 24bn increase from the previous year. Solar investment amounted to USD 116bn, a small decrease in the year.

PROJECT FINANCE

Globally, project finance for new assets in 2017 rebounded strongly in the year, rising by 30% compared to 2016 to a second-best yearly figure of USD 231bn.

This was the picture almost everywhere with the notable exception of Europe, where despite a strong continued showing in solar (+71%) and onshore wind (+17%), project finance investment fell overall due to a halving of investment in offshore wind to USD 8.4bn.

GREEN BONDS AND PUBLIC MARKETS

The Green bond markets continue to mature year-on-year and have posted continued quarterly increases for almost three years. Spending in 2017 breached USD 100bn for the first time, reporting a strong finish at USD 128bn, with almost half of all money raised on European markets.

Despite this strong showing, new IPOs and secondary offerings were significantly down in 2017, posting the lowest figures since 2012.

M&A

Institutional investor confidence in renewables as a private asset class continued to drive M&A activity, which grew for the fifth year in succession to stand at USD 140bn, with Europe leading the way with deals reported worth USD 44bn, an increase of 24% year-on-year. Rather predictably, wind and solar transactions together dominated the bulk of all deal activity with more than 70GW of capacity changing hands at a value of almost USD 73bn.

THE FUTURE WHAT'S IN STOR(AGE)?

As energy storage technology continues to mature, developers are now increasingly looking to deploy storage alongside other forms of renewables to maximise returns, especially in subsidy-free environments.

Energy storage M&A transactions emerged from the shadows with almost USD 3bn spent on deals in 2017, which also saw a number of significant strategic alliances being announced including a JV between AES and Siemens.

This should be seen against a backdrop of generally lower VC/PE activity in the wider clean energy market which in 2017 struggled to breach USD 6bn, over 30% down on the year and the second worst performance since 2009. Volumes have recovered somewhat into 2018.

As governments increasingly legislate in favour of electric vehicles and car manufacturers move away from conventional engine technologies, we are seeing M&A increase along the whole supply chain and both Shell and BP have recently announced acquisitions to try to establish early dominance of the charging networks and infrastructure in Europe. Other PE houses known to BDO are already taking strategic equity positions to take advantage of further industry consolidation.

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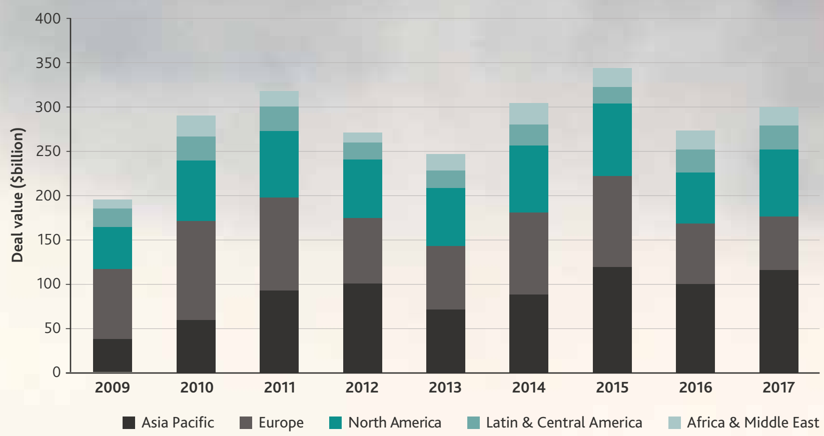
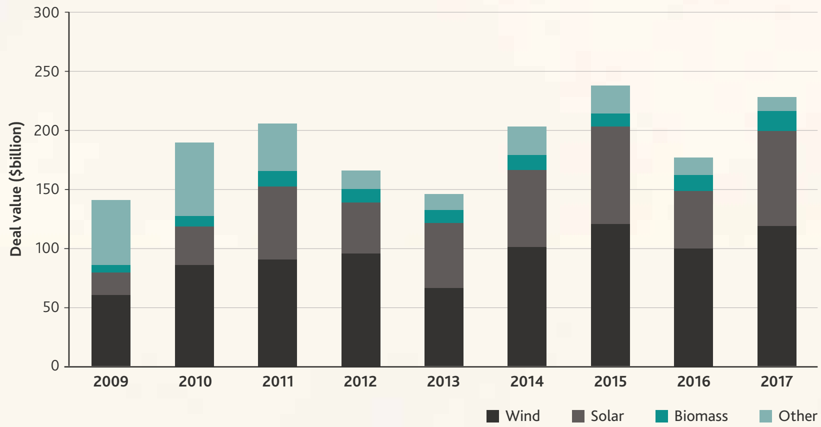
GLOBAL CLEAN ENERGY TOTAL INVESTMENT BY REGION 2009 TO 2017



GLOBAL CLEAN ENERGY PROJECT FINANCE BY SECTOR 2009 TO 2017



REAL ESTATE

GLOBAL SLOWDOWN IN REAL ESTATE ACTIVITY AMID ECONOMIC AND POLITICAL TENSIONS

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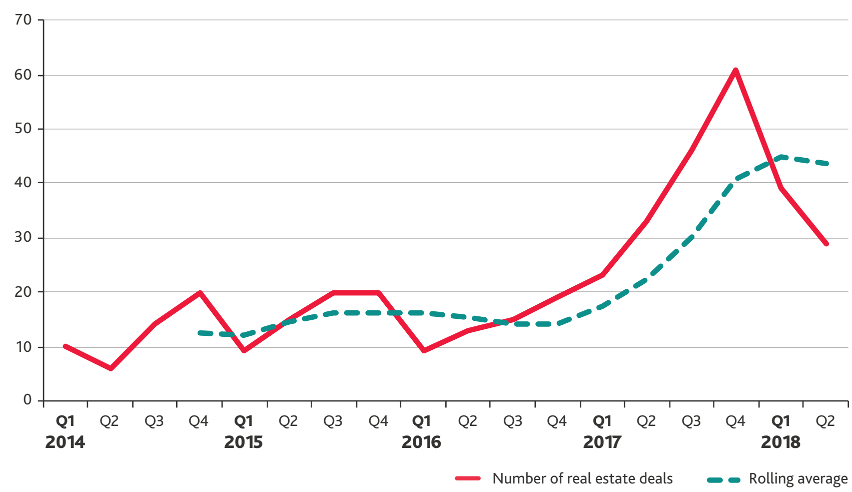
CHINESE REAL ESTATE M&A ACTIVITY



DEAL ACTIVITY BY CONTINENT

Q2 2018 saw a reversal of the peak achieved in the quarterly global real estate transactions that occurred in Q4 2017. Following an explosive 2017, the market conditions which underpinned this growth have slowed down and are beginning to revert to pre-2017 levels. The macroeconomic factors driving this include a combination of successive US interest rate hikes, renewed political and economic tensions between major global players and a general hangover following the heightened activity that took place in 2017.

Entering its fifth year of the Belt and Road initiative, the Chinese market appears to be following the global trend in declining quarterly transactions. The Chinese economy is beginning to show signs of slowing amongst rising debt levels and worsening trade tensions with the US. Declining M&A activity across the strongest real estate region is representative of what is happening across the globe. The traditional real estate hubs of Europe, North America and Australasia were relatively consistent in their decline throughout Q2 2018.

Asia continues to prop up M&A real estate global deal activity, accounting for 76% of all transactions so far in 2018, which is relatively consistent with previous quarters. It is yet to be seen whether or not this can be maintained as geopolitical tensions within the region may escalate amongst further fears of a worsening US-China trade war.

The Chinese real estate market appears to be slowing down following its explosive growth in Q4 2017, in line with global trends, as the number of deals effectively halved in Q2 2018. However, the next largest jurisdiction, South East Asia, saw an increase in Q2 2018 compared to the same period in the previous year.

Europe has historically been the second most active continent since 2014. However, activity begun to slow down in Q2 2018 after enjoying a strong 2017, posting a 46% drop in deals in the first half of 2018 compared to the same period in 2017. There were a notable number of large value real estate transactions in the DACH region in Q2 2018, which are discussed outlined below.

A slight decline in the number of real estate deals in North America continued the global trend. This may be driven by the current political uncertainty in the US, increased friction with global trade partners as well as successive interest rate hikes by the Federal Reserve from Q4 2017 onwards.

Overall, Q2 2018, continued the global reversal in real estate-based M&A activity following the conclusion of an explosive Q4 2017. This trend may continue if the macroeconomic environment dictating these deals remains, or worsens. It will be interesting to see whether China can continue to prop up the market and maintain its high proportion of deals conducted.

KEY DEALS

A number of prominent deals were completed in the real estate sector in Q2 2018:

EUROPE

- Teixeira Duarte, a Portuguese company, sold Lagoas Park, S.A. to UK-based private equity Kildare Partners for USD 438m
- Mobimo Holding AG, a Swiss-based company, conducted a friendly takeover of fellow Swiss-based Immobiliengesellschaft Fadmatt AG for USD 367m
- In an Austrian transaction, RPR Privatstiftung sold a 22% share of Immofinanz AG to S IMMO AG for USD 361m
- US-based private equity fund, Apollo Global Management, LLC. purchased Germany-based Fair Value REIT-AG for USD 264m.

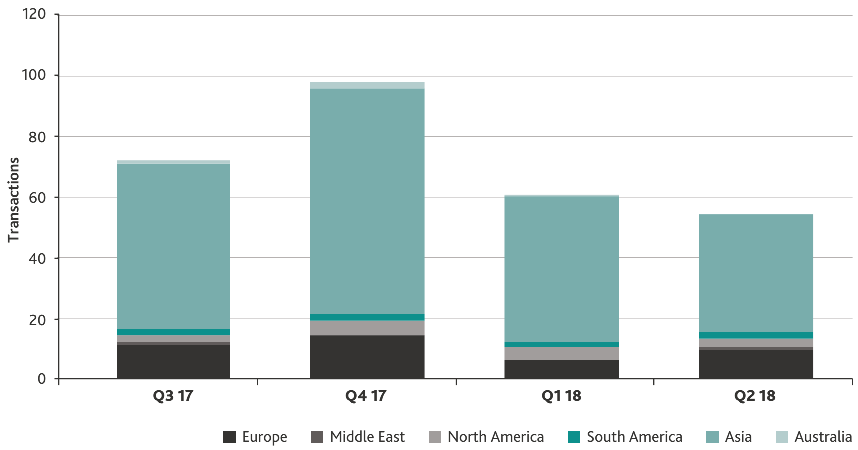
NORTH AMERICA

- Spirit Realty Capital, Inc. sold Spirit MTA REIT to the shareholders of Spirit Realty Capital, Inc. as a spin-off (NYSE: SMTA) for USD 416m.

ASIA AND AUSTRALASIA

- In a Chinese transaction, CCOOP Group Co., Ltd. sold Heilongjiang Province Xinhezuo Property Co., Ltd. to Harbin Pinzhi Investment Co., Ltd for USD 440m
- Singapore-based Reco Yizhong Private Limited sold a 40% stake in Yanlord Property Pte Ltd. to China-based Yanlord Land Group Limited for USD 158m.

DEAL ACTIVITY BY CONTINENT



RETAIL

RETAIL INVESTORS EYE UP OPPORTUNITIES AS SECTOR FACES TESTING TIMES

RETAIL NEWS IN THE LAST SIX MONTHS HAS NOT BEEN POSITIVE

The deadlines have been dominated by store closures as the likes of House of Fraser, Poundworld and The Original Factory Store announced that large numbers of stores are to close across their portfolios.

These high street casualties have quite rightly caught the headlines – closing such significant numbers of stores on the high street has many impacts, not least for the thousands of employees who find their jobs at risk as a result.

With so much bad news around, it is easy to get caught up in the belief that all retail is destined to fail and that the sector as a whole should be avoided from an investment perspective at all costs.

However, I believe this couldn't be further from the truth. People are still consuming and consumer data shows that although spending growth has levelled off, it is not yet decreasing. Although retailers struggled in the UK in the early months of the year, mainly due to the unseasonal weather, according to Visa's UK Consumer Spending Index, May and June returned to growth with household spending on clothing and footwear increasing by 0.5% and household goods by 1.45%.

Obviously, retail is facing huge challenges. There is a perfect storm for bricks and mortar retailers, which is intensifying year-on-year: increases in business rates, the living wage and lower footfall have all hit profitability. The biggest impact though, is the structural shift from bricks and mortar to online. The way we are shopping is changing fundamentally. This is a global trend and the adjustment has not yet finished.

However, this provides a perfect opportunity for growth for emerging brands and innovative disruptors who aren't encumbered by a legacy store portfolio. Their agility means they can adapt to the changing spending habits quickly and tailor their offering to appeal to the modern consumer. For many of these businesses, their growth over the last four or five years has been strong.

Even if consumer demand isn't showing an overall increase, the rapid switch from store to online means that they can take customer share away from traditional retailers struggling to keep up. The total sales of M&S (just clothing & home) and Next for the year ending 2018 for example was USD 10.3bn – that represents a large market to aim for.

Larger, traditional retailers can see this trend and the more forward-looking ones are keen to innovate and adjust to stave off the competition. One of the fastest ways to achieve this is through acquisition.

All of this has resulted in a feast of M&A activity and investment interest in the sector.

Amazon is a great example of this. From very early on it has used acquisitions to grow quickly in the areas it identified it needed to move faster in. Way back in 1998 it made a number of acquisitions including the Internet Movie Database (IMDB) and from there on in has made almost 100 acquisitions in various direct or complementary areas to accelerate its growth. In this quarter alone it has made four acquisitions including acquiring PillPack, a US-based pharmacy that fills, sorts and delivers clients' medications, for USD 1bn in June 2018.

The Hut Group is another example of growth through consolidation and this quarter was no exception, as it acquired M Beauty (trading as Eyeko) in May 2018.

If retailers are not innovating or diversifying their offerings then there are still big deals to be done to take advantage of synergies and regain some competitive advantage through cost savings. This quarter saw Sainsbury's announce its acquisition of ASDA in April for USD 9.8bn. Combining the two businesses will also generate opportunities form cross-fertilising the customer base.

Finally, private equity is still interested in and making investments in the sector. Although the bar on 'appropriate consumer deals' nudges ever higher, there are still many deals to be done as the wall of money ready to invest from PE remains strong. This quarter saw LDC invest in the fast-growing licencing business Paladone, Kester Capital acquire Jollyes pet store and Elliot Advisors invest in Waterstones.

And Waterstones is a great deal to end this piece on. It's a fantastic example of why you should never write retail off – if you give people the right proposition, they will buy. In 2011 when James Daunt was appointed CEO the book retailer reported a USD 43.2m loss. Roll forward seven years and the most recent set of accounts show that loss has turned into an USD 24m pre-tax profit.

Retail is undeniably facing challenges, but it is still a great place to invest in winners.

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Data compiled by Acuris.

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

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