HORIZONS

BDO'S GLOBAL VIEW OF MID-MARKET DEAL ACTIVITY

MERGERS&ACQUISITIONS
ISSUE 1 | 2015

2014 MID-MARKET DEAL ACTIVITY HITTING A FIVE-YEAR HIGH

SEE INSIDE FOR ALL THE LATEST VALUABLE INSIGHTS

BDO

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WELCOME

Welcome to BDO HORIZONS, which celebrates its first anniversary after a fast-moving and highly successful year for M&A activity.

Our aim was to create a quarterly publication that provides you with valuable insights into mid-market M&A and, judging by the positive responses we have had so far, BDO HORIZONS is achieving that objective.

As we have moved into 2015, it's the perfect time to look back and also to look ahead. We examine the factors that pushed 2014 M&A deal-making to a five-year high. Then, with the aid of the BDO Heat Chart we aim to predict the key developments and themes that are likely to characterise M&A activity in the year ahead.

Looking at M&A by geography, sector and key global trends, our target is to offer you an in-depth understanding of the current environment. Finally, with our experts generally optimistic that the upward trajectory in mid-market M&A activity will continue, we wish you a happy and prosperous 2015.

INSIGHTS FROM A LEADING M&A ADVISER

The latest global league tables from Thomson Reuters place BDO as top-five M&A adviser in 2014. The data attributes 219 mid-market deals to BDO during 2014 against 214 deals in 2013, recognising our growing role as a valued adviser to leading M&A mid-market companies around the world.

Even in times of changing political and economic conditions in Europe over the past year, M&A activity has developed steadily, faced new challenges and topics, was taken up by new subjects and confronted with new questions. One of these questions is whether the ECB's quantitative easing (QE) programme will boost M&A activity in Europe by providing the conditions for cheap financing and increased stock market valuations.

Another question is whether Greece will succeed in stopping the privatisation of public institutions and how this will affect attitudes towards European mid-market M&A. Furthermore, what are the challenges ahead for the European Union in this context?

Finally, will there be any short-term repercussions triggered by the abolition of the minimum exchange rate between the Swiss Franc and the Euro? How will this decision affect the DACH economy and M&A activity within the region?

We examine these and many other questions in this edition of BDO HORIZONS. Then, through our 'Looking Ahead' commentary and BDO Heat Charts, we provide trends and forecasts for the upcoming quarter.

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GLOBAL VIEW

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At last, a year that lived up to expectations, with 2014 mid-market deal activity hitting a five-year high. Yet a slowdown in the final quarter makes the outlook a little cloudier.

Predicted to usher in a long-awaited global resurgence in mid-market M&A that would take the market to levels not seen since before the financial crisis, 2014 carried high expectations. By the end of Q3 it was clear that this prophecy had become a reality, but for those expecting the year to end on a high there was some disappointment. Final quarter deal volume fell by 4.8% and value by 3.3% as compared to Q3 2014 figures. When matched against the final quarter of 2013, which contained a gargantuan year-end effect, Q4 2014 deal volume was down 4.8%.

Nonetheless, 2014 was still an impressive year overall – with 7,777 transactions and total deal value topping USD 696bn. This represented an increase of 25% by value and 16% by number when compared to 2013. Private equity buyouts hit their highest total deal value since their temporary peak in Q4 2011. In total there were 995 transactions involving private equity in 2014, representing the strongest year since 2008 and an increase of 21% against 2013. Deal value totalled USD 116,182m.

Two features noted in the final quarter of 2014 were the high level of activity seen in the Consumer industry and the trend towards bigger deals.

COMPARING HERE AND THERE

Taking a look at the M&A mid-market activities of our 17 regions, performance was good overall but with some big differences between geographies. Here is a snapshot of some of the highs and lows:

North America had a strong 2014 with 2,269 transactions, an increase of nearly 19% on 2013. Deal value climbed to USD 237bn, an increase of 32% in annual comparison. This was clouded by a comparatively poor end to the year, with final quarter 2014 deals down 13% against the previous quarter, and also coming up short of Q4 2013 figures.

It was a similar story in the Central and Eastern Europe and Commonwealth of Independent States (CEE & CIS), Australasia, Benelux, DACH (Germany, Austria and Switzerland) and Africa. Although M&A activity was up overall in 2013, its final quarter performance came in below Q3 2014 or Q4 2013 figures.

On the contrary, Southern Europe, the Nordics, Japan, South East Asia and Africa saw their final quarter surpass Q3 for deals, whereas the Middle East, Israel and CEE & CIS posted the worst results in quarterly comparison.

The Nordics recovered very well from a quiet Q3 to achieve total deal value of USD 5.74bn – an increase of almost 100% and seeing the Nordics join Japan as biggest winners globally. South East Asia also stood out, with M&A activity soaring to new highs.

The biggest players in the M&A mid-market were North America, China, Southern Europe and UK & Ireland. All of these had a very successful 2014.

There was evidence for bigger deals in Q4, with the average deal value rising slightly to USD 93.9m. This is consistent with the global development towards bigger deals in the M&A mid-market. Only UK & Ireland, CEE & CIS, Latin America and DACH recorded a significant decline in average deal values.

As for sectors, the final quarter of 2014 saw fewer deals than the previous quarter. The one exception was Consumer, which saw an increase of 9.5% on Q3 level. But taking the full year 2013/2014 into comparison, every sector soared significantly; led by the Leisure and TMT sector, with rises of 31% and 29% respectively. At the other end of the growth spectrum, Industrials, Chemicals and Pharma, Medical & Biotech rose by just 7.1% and 9.1% respectively.

GLOBAL BDO HEAT CHART

	Industrials & Chemicals	TMT	Consumer	Business Services	Energy, Mining & Utilities	Pharma, Medical & Biotech	Financial Services	Leisure	Total
North America	417	501	202	293	276	382	151	66	**2,288**
China	344	138	107	88	82	43	72	46	**920**
CEE & CIS	213	98	128	85	91	39	57	40	**751**
Southern Europe	114	80	93	60	41	31	38	31	**488**
Latin America	106	60	85	58	110	13	35	15	**482**
South East Asia	132	45	46	61	90	17	41	24	**456**
Australasia	81	72	65	67	63	44	35	20	**447**
UK & Ireland	63	97	47	51	44	29	24	41	**396**
India	78	80	45	48	22	25	30	18	**346**
DACH	117	61	49	31	20	25	18	17	**338**
Japan	57	58	42	35	8	13	17	20	**250**
Other Asia	80	41	24	19	22	16	26	15	**243**
Africa	46	16	30	19	53	7	22	10	**203**
Nordics	51	24	33	24	17	24	15	5	**193**
Benelux	39	51	24	15	11	10	11	2	**163**
Middle East	11	16	13	12	8	3	8	3	**74**
Israel	8	26	2	4	2	30	1	-	**73**
TOTAL	**1,957**	**1,464**	**1,035**	**970**	**960**	**751**	**601**	**373**	**8,111**

LOOKING AHEAD

BDO Global Heat Chart for regions and sectors shows a decrease of 11.3%, amounting to 8,111 companies either officially, or rumoured to be, up for sale. The biggest decline was posted by Benelux and Southern Europe, where the number of opportunities fell by almost 20% to just 163 and 482 opportunities respectively.

In summary it appears that deal activity will be headed by the North American market, while all the other regions scale back activity. We attribute this to the fact that the North American economy has recovered steadily and will continue to expand, which will support M&A opportunities as a way to pursue growth.

As for sectors, we believe positive TMT trends may be repeated given the continuous need for innovation in the industry, with companies likely to resort to M&A as a way to cope with shifting demands.

The continued availability of debt and capital reserves should provide a good deal-making environment in 2015. However, it will be very difficult to outperform 2014, which has been the most successful period in M&A mid-market activity in the last five years.

Furthermore, there are still many economic and geopolitical risks that could hold deals back. Yet we are convinced that, as in the past, the M&A market for mid-caps should prove stable.





FEATURE
GLOBAL IPOs HIT NEW HIGHS

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After posting a significant increase in both deal value and volume during 2014, global IPOs could reach yet higher in 2015.

Alibaba Group's September 2014 IPO, which saw a total of USD 25bn raised on the New York Stock Exchange (NYSE), was both a record-breaking IPO and a reminder of the cross-border nature of today's IPO markets. It is also testament to the strong growth seen in the global IPO market during 2014. The major exchanges alone saw 789 IPOs raising a total of USD 198bn in 2014, an increase of 33% by number of IPOs and 45% by the total value of the funds raised over 2013. Activity levels such as these haven't been seen since before the global financial crisis and suggest broad investor confidence in the continuing global economic recovery.

Although the Alibaba IPO brought into focus the potential for cross-border listings, in fact the rest of the top ten 2014 IPOs were for companies listing on their home exchanges. Heading the table in the last quarter was insurer Medibank Private of Australia, raising USD 4.8bn on the Australian Stock Exchange, while Chinese companies Dalian Wanda Commercial Properties and CGN Power Co raised USD 3.7bn and USD 3.2bn respectively on the Hong Kong Stock Exchange.

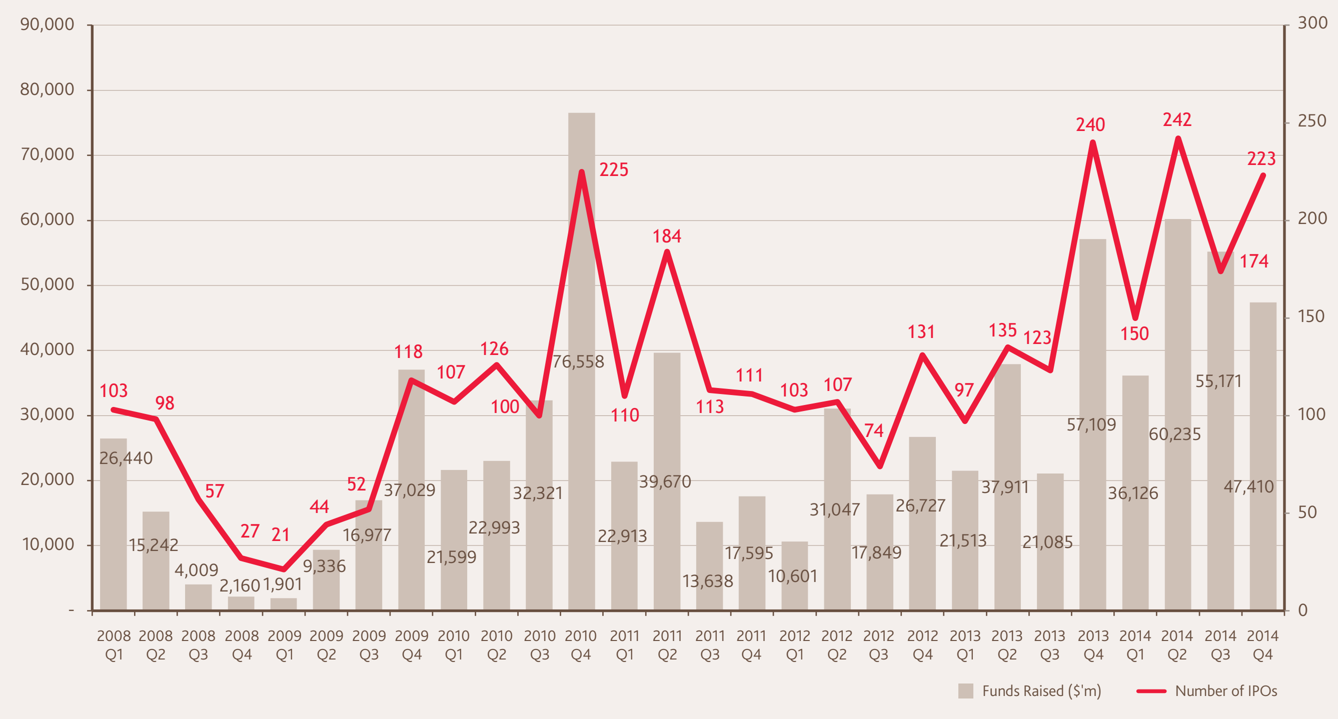
While the Tokyo Stock Exchange and the London Stock Exchange made appearances in the annual league table, supported by the domestic IPOs of Japan Display, raising USD 3.1bn, and the AA, raising USD 2.4bn, the NYSE still manages to fend off the Hong Kong Stock Exchange in the battle to be the dominant IPO market. In Q4 2014 the NYSE achieved 32 IPOs, raising USD 12.2bn against Hong Kong's 30 IPOs, raising USD 11.8bn. With the strongest growth over the past two years from the Asia Pacific region, and Europe following in a close second, it seems that the NYSE may not be able to retain this accolade for too much longer.

After making an allowance for the Alibaba IPO, the traditional Q2 and Q4 seasonal peaks that have been re-establishing themselves in recent years have continued to develop, and the stage appears set for activity levels to build towards new post-crisis highs in Q2 and Q4 2015. It is worth remembering that the exceptional Q2 back in 2010 included two large domestic IPOs (the USD 17.8bn IPO for Hong Kong life assurance group, AIA Group and the USD 15.7bn relisting of General Motors) that had their roots in corporate restructurings following financial bail-outs made at the height of the financial crisis.

The financial sector, which has attracted the most capital for a number of years (and during Q4 it represented USD 17bn out of a total USD 47bn), shows little sign of relinquishing its crown. This has been achieved through a relatively modest number of IPOs, 41, and equates to an average IPO fund raise of USD 425m. While this was marginally eclipsed by an energy sector average of USD 438m, it is significantly below the average utility sector fund raise of USD 1.1bn, which was supported by CGN, and the USD 3.1bn IPO of HK Electric Investments. Commentators suspect that the deterioration in the oil price in the past few months means that the energy sector will probably not be able to sustain this level of competing IPO performance for long.

On a more positive note the healthcare sector has seen growing numbers of IPOs over the past two years, although the total funds raised remain relatively modest, with USD 4.9bn raised across 48 IPOs in Q4 2104, which at 10.5% by volume is much lower than the 21.5% they represent by number. Further evidence of the growing IPO market for smaller companies can be seen in the UK, where the aggregate value of the funds raised in Q4 2014 on London's junior market, AIM, exceeded that raised on the main market, at USD 1bn versus USD 882m. With investor confidence moving back into the junior market, the prospect of another record year for the global IPO market looks promising.

IPO ACTIVITY AND FUNDRAISING



FEATURE
BRAZIL PERSPECTIVES

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Despite strong economic and political headwinds, long-term M&A investors are still finding opportunities in Brazil.

While many developed and emerging economies can look forward to continued recovery and growth in 2015, analysts are predicting that Brazil's GDP will fall by 0.5%. The drivers include high inflation, a water and energy crisis, and the political and economic instability related to Operation Lava Jato – a major money laundering and organized crime scandal involving Petrobras, Brazil's energy company, the country's largest construction firms, and various senior politicians.

The worst drought in Brazilian history has not only hit Agriculture, specifically the producers of coffee beans and sugar businesses (and consequently ethanol), but also Energy. Brazil's hydroelectric dams are producing far less power because of the drought. As a result, rationing and supply problems have already affected five of Brazil's ten major metropolitan areas – Belo Horizonte, Campinas, Recife, Rio and São Paulo – where a quarter of the population live and most of the country's industry is located.

Even though the new Minister of Finance, Joaquim Levy, is proposing new initiatives to get the economy back on track, the current perspective appears grim for all but the most long-term investors.

However, for investors looking to the long term, there are still opportunities. In January 2015, President Dilma Rousseff sanctioned new legislation that allows foreign capital to be invested in hospitals and clinics. Previously, this was vetoed by article 199 of the Federal Constitution. The change has generated a strong wave of interest from foreign investors targeting the medical market – a sector that encompasses nearly 4,000 institutions and over 51 million Brazilians, with yearly revenues of R$ 100bn (approximately USD 40bn).

Even beyond the medical sector, it would seem that the size and potential of the Brazilian market still attracts investors. Figures published by the Brazilian Central Bank back up this view. Foreign direct investment (FDI) in Brazil reached USD 66.5bn in the last 12 months, which is approximately the same level as 2011 when Brazil faced a far more positive outlook.

The size of Brazil's consumer markets significant attract the attention of multinationals, which often plan 10-20 years ahead. According to Olavo Cunha from the Boston Consulting Group, "today Brazil's cosmetics market is the third largest in the world, its automobile market is the fourth biggest and its market for laptops ranks third". In addition, many Brazilian companies are able to obtain higher profit margins, as prices are often considerably above those achieved in other locations. According to Marcos Troyjo, Co-Director of the BricLab at Columbia University, a car priced at USD 15,000 in the United States may be sold in Brazil for three times as much, with the higher prices compensating for the costs of taxes, red tape and troubled infrastructure.

BRAZIL: POSITIVES AND NEGATIVES

POSITIVE

New legislation allows foreign capital to be invested in hospitals and clinics, a market that generates R$ 100bn a year.

Brazil's size and potential mean foreign, long-term investors are still seeking deals and opportunities.

+

NEGATIVE

Brazil faces a severe water and energy crisis, affecting consumers, industry and agriculture.

Scandals involving Petrobras and the country's largest construction companies hit the Energy and Infrastructure sectors.

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GLOBAL
8,111 deals rumoured transactions

P14 | **UNITED KINGDOM & IRELAND**
Highest level of deals for six years

P10 | **NORTH AMERICA**
A banner year for M&A activity

P12 | **LATIN AMERICA**
Economic conditions impacting on M&A

SECTOR VIEW

BUSINESS SERVICES
RECURITMENT AND STAFFING

TMT

FINANCIAL SERVICES

REGIONAL VIEW

NORTH AMERICA

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BIG PICTURE

- The best year since 2007 for number of deals and overall transaction value
- Total deal value up nearly 32% in 2014
- TMT, Industrials, Healthcare, and Energy were the leading deal sectors
- Conditions favour continued strength in 2015, but a potential rise in interest rates and geopolitical risks could provide headwinds.

A banner year for North American M&A in 2014, and the scene is set for more progress ahead.

Robust M&A activity in 2014 was driven primarily by the abundance of cash available and the low cost of debt required to finance deals. This helped purchase price multiples to reach 2007 levels, driven by high levels of leverage. Total debt available for certain industries reached well over five times EBITDA, including several middle market growth sectors such as Healthcare and TMT.

During the fourth quarter of 2014, the M&A markets in North America remained active. Although the total number of deals and aggregate dollar volume fell from the levels seen in Q3, the full year 2014 figures saw a 19% rise in the number of deals and a 32% increase in total dollar volume of middle market M&A transactions in North America, when compared to 2013.

Strong economic conditions led to higher CEO confidence and pushed business managers towards making acquisitions. Seeking growth externally rather than focusing on organic revenue growth opportunities was a major theme in 2014 as strategic buyers became more aggressive in bidding up middle market targets. Rising public equity valuations have also given large strategic buyers increased purchasing power and enhanced their ability to do accretive deals. Consequently, large cap public companies are pursuing strategic acquisitions to bolster market share and grow earnings, and this development helped to fuel M&A activity in 2014. Foreign buyers are also looking at US-based assets as a means to deploy cash and expand market share, although the strong US dollar is likely to curb their appetites.

Not to be outdone, North American private equity funds were actively deploying capital and competing for deals in earnest. Private equity-backed transactions comprised 15.8% of overall M&A middle market deal value in the fourth quarter and 11% of the number of deals. Private equity firms continue to deploy capital in larger deals at a brisk pace as the number of PE transactions for 2014 was up 25% versus 2013 and the dollar volume up 48% over the prior year. Average deal size has increased by 45% as prices rise and buyout professionals get more bullish on

PE/TRADE VOLUME & VALUE

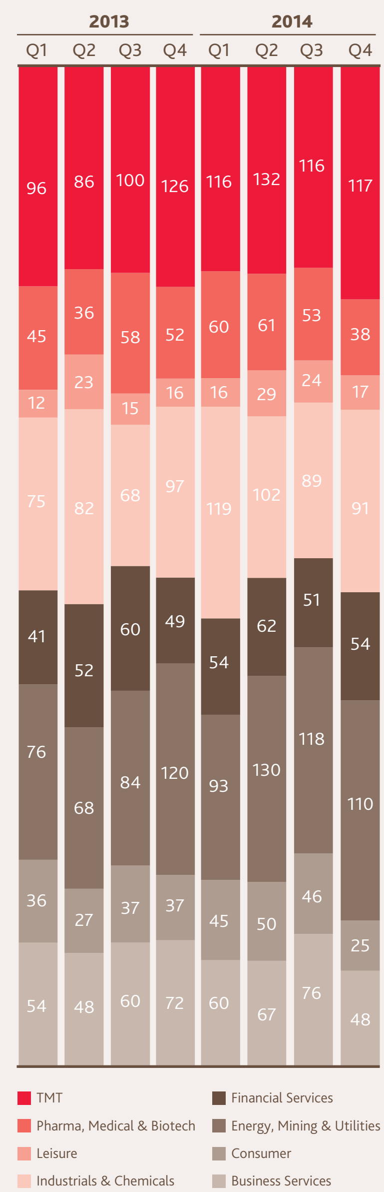
making larger bets. Several private equity mega deals dominated the news headlines in North America in 2014, including 3G Capital/Burger King's acquisition of Tim Horton's for USD11.5bn, Carlyle's purchase of Acosta Sales for USD 4.7bn, and Vista Equity buying TIBCO Software for USD 4.3bn. Cerberus Capital Management agreed in March to buy Safeway Inc. in a transaction valued at more than USD 9bn. The firm planned to combine Safeway with fellow grocery chain Albertsons to create a food retailer with more than 2,400 stores and 250,000 employees.

For Q4 2014, Technology, Media & Telecom (117 deals) overtook Energy, Mining and Utilities (110 deals) as the most active sector in middle market transactions followed by Industrials and Chemicals (91 deals). Even though oil prices dropped significantly in the quarter to almost USD 45 per barrel, M&A deal-makers were not dissuaded. There were 40 Oil & Gas-related transactions but M&A in the industry pulled back by 38% from the torrid pace experienced in the third quarter of 2014. Midstream activity, along with continued interest from foreign buyers – specifically in upstream shale plays – and the overall impact of mega deals (deals with a value of more than USD 1bn), all contributed to record-breaking deal activity in the third quarter of the year.

NORTH AMERICA HEAT CHART BY SECTOR

TMT	501
Industrials & Chemicals	417
Pharma, Medical & Biotech	382
Business Services	293
Energy, Mining & Utilities	276
Consumer	202
Financial Services	151
Leisure	66
TOTAL	**2,288**

NORTH AMERICA MID-MARKET VOLUMES BY SECTOR



OUTLOOK FOR 2015

With equity prices at record highs, abundant cash, low interest rates and an improving economy, the outlook for North American M&A remains extremely strong. The increased activity and larger transactions seen in 2014 are likely to continue into 2015 as many analysts expect strategic buyers to get more aggressive in doing deals as they find organic growth prospects limited. Analysts also expect more sellers to come off the sidelines as valuations remain attractive for those seeking liquidity.

While many fear the looming prospect of rising interest rates, the reality is that rates remain low and favourable for continued deal-making. Although the US Federal Reserve recently announced it is likely to begin raising rates in June, long-term rates remain at historically low levels and the prospect of inflation is muted. Recent monetary stimulus in Japan and Europe has benefitted North American markets as participants see strong economies in Asia and EU as a key to sustaining economic growth at home. Obviously, the Fed's easy money policy can't last forever and rates will eventually rise. When they do, and money becomes more expensive, deal prices will undoubtedly decrease, but for 2015 at least, the impact should be slow and gradual and middle market M&A should continue unabated. Record corporate profits in North America have led to bulging wallets awash with cash. This cash is burning a hole in the pockets of the region's largest corporates. Meanwhile, banks are the healthiest they have been since before the financial crisis and they are eager to put their balance sheets to work to support deals. Private equity funds are now raising sums that rival the best of times. In summary, easy money is still available and may be getting even easier, which should mean more good times ahead for deal-makers in 2015.

LATIN AMERICA

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BIG PICTURE

- M&A activity slowed in 2014
- Energy, Mining & Utilities, Industrials & Chemicals in the spotlight
- Argentina expected to see M&A pick up in 2015
- Emerging markets still attractive for investors.

Tough economic conditions created a difficult environment for deals in 2014, but activity in the region may pick up in 2015.

Latin American saw M&A activity fall during 2014. The number of transactions was down 20% at 305, while total deal value reduced by 14% to USD 29.4bn. Putting that into context however, we find total deal value in 2014 was very close to its six-year (2008-2014) average of USD 30.2m.

Looking at Q4 performance, the number of transactions edged up to 72, representing a rise of over 1% when compared to Q3 2013. Deal value, however, dropped sharply to USD 6.2bn in Q4. That is the lowest value in the last four quarters and a fall of 27% when compared to Q3 2014.

The most active sectors in 2014 were Energy, Mining & Utilities (69 deals) and Industrial & Chemicals (66 deals), followed by Consumer (46 deals) and Business Services (41 deals). There were 28 private equity buyouts during 2014, representing 9% of total M&A activity over the year, and seven PE deals in the final quarter, representing 12% of total Q4 transactions. The total value of private equity transactions during 2014 was USD 3.4bn.

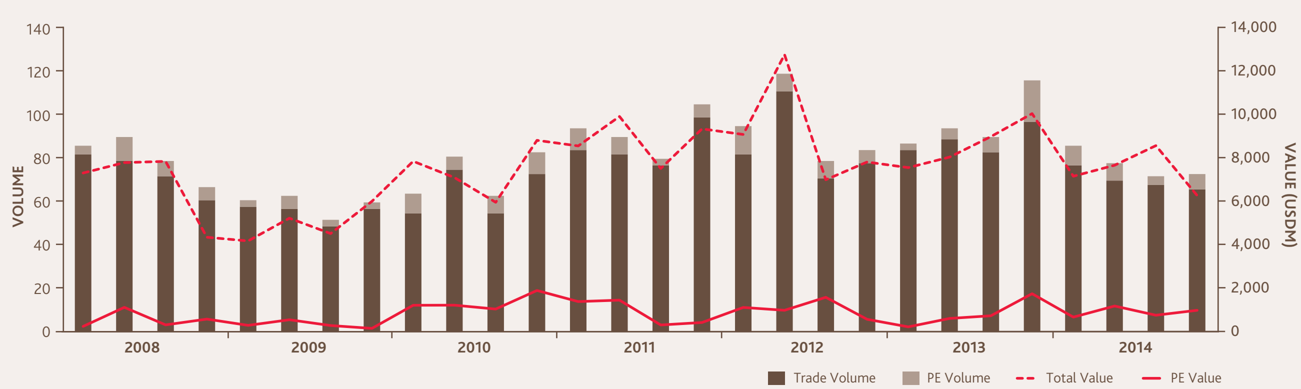
These downward trends in M&A activity were driven not only by the weak economic performance in the region's main economy, Brazil, but also in other important economies such as Argentina.

Brazil's economic activity slowed down in 2014, going from an annual GDP growth rate of 2.5% in 2013 to an annual growth rate near zero in 2014. Rising inflation was also a concern for investors, reaching nearly 7% and well above the Government's target. Brazil's presidential elections, held in October 2014, also affected investing activity.

Argentina was in recession during 2014, with an inflation rate higher than the devaluation rate. We expect these variables to converge by the end of 2015, generating good conditions for foreign investments. It is also worth remembering that 2015 is an electoral year, which may encourage stable macroeconomic conditions.

The region is being affected by the drop in international oil prices, as well as by a fall in commodities prices (such as soy), which

PE/TRADE VOLUME & VALUE



are impacting countries such as Argentina, Brazil, Mexico and Venezuela, whose economies are dependent on commodities exports. For Argentina, the drop in oil international prices has a positive side, and should result in a saving of nearly USD 2.5bn a year in energy imports if prices remain steady during 2015.

The Heat Chart shows current market intelligence on 482 deals that are planned or in progress, down slightly from 503 in the previous quarter. Better news is that activity is still hot in key sectors such as Energy, Mining & Utilities, with 110 deals planned or in progress, and Industrials & Chemicals, with 106 deals planned or in progress.

These are important sectors in the region. In Argentina, the Energy, Mining & Utilities sector looks very promising, especially in relation to the exploitation of non-conventional Oil & Gas projects in Vaca Muerta, a region in the south of the country. Although current oil prices do not make projects appear profitable, the expectations are that the area is going to turn into a major investment attraction in the short and medium term. Clearly there is a lot of potential not only for Exploration & Production, but also other adjacent services. The oil price is also a key variable for Mexico – which is seeking investments for oil exploration in shallow water blocks – and for Venezuela, the main oil producer in the region.

The ten highest value deals for the region amounted to USD 3bn in Q4 2014, with Brazil the target country for four of those deals at a total value of USD 1.2 billion (41% of the overall top ten deal value).

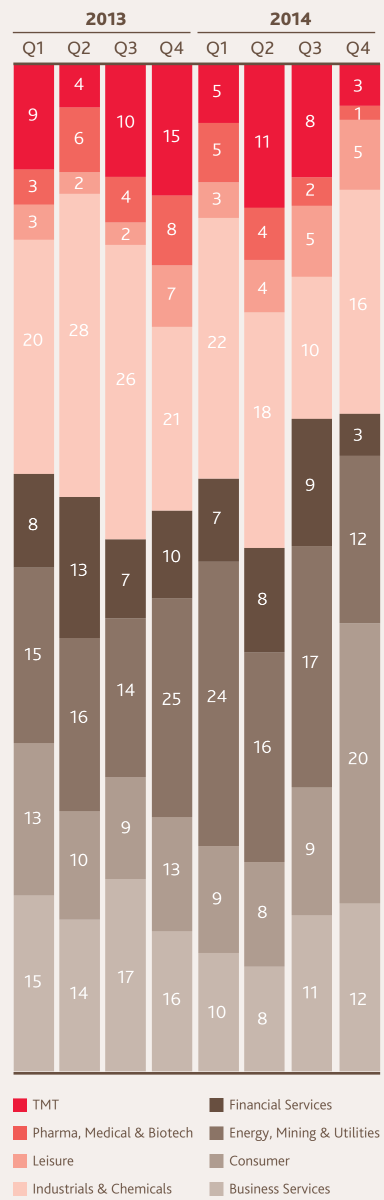
LATIN AMERICA HEAT CHART BY SECTOR

Energy, Mining & Utilities	110
Industrials & Chemicals	106
Consumer	85
TMT	60
Business Services	58
Financial Services	35
Leisure	15
Pharma, Medical & Biotech	13
TOTAL	**482**

LOOKING AHEAD

We expect investment flows to continue seeking out opportunities in emerging markets. In particular, we anticipate a boost to the M&A market in Argentina, where the country has postponed making investments during past years. Sectors such as Energy, Mining & Utilities, Construction, Agribusiness and Consumer appear the most promising areas for investment. The profit ratio and long-term growth potential of these sectors should make them attractive in 2015.

LATIN AMERICA MID-MARKET VOLUMES BY SECTOR



UNITED KINGDOM & IRELAND

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BIG PICTURE

- Highest level of deal activity for six years
- Availability of funds and economic conditions continue to drive deals
- UK & Ireland remains an attractive source of acquisition opportunities
- Positive outlook for M&A activity in 2015.

After the best period for M&A activity in six years, the conditions are in place for further progress in 2015.

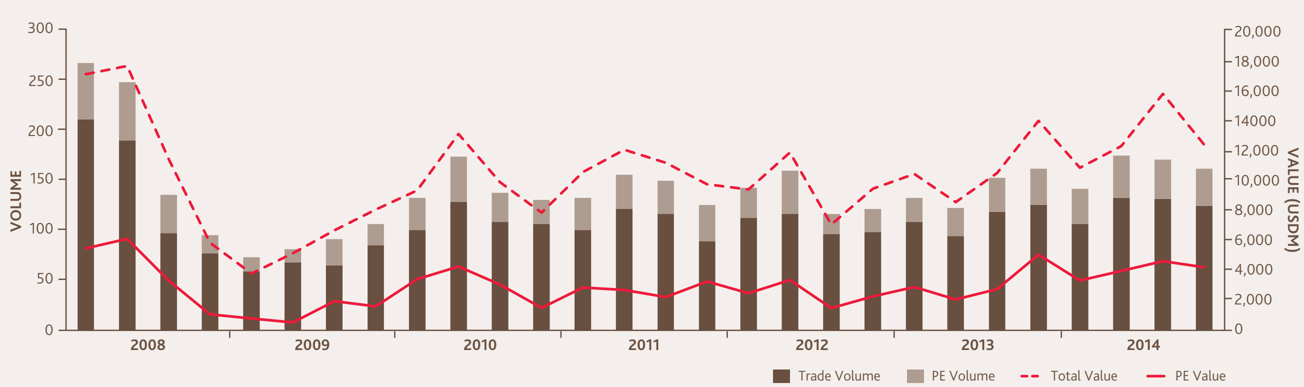
The year finished on a high with the number of deal completions in the UK & Ireland totalling 161. This meant that mid-market deal activity for the year as a whole was close to 650 completed deals, well up on the previous year and indeed higher than any of the last six years. Aggregate deal value was a massive USD 51bn for the year. We continue to believe this is a barometer for overall confidence levels among all types of buyers and sellers in the market.

In terms of the mix, trade buyers were behind three-quarters of the deals in both Q4 and the year as a whole. However, the average private equity deal was, higher by value, representing around one third of total deal value in in both Q4 and 2014 as a whole, suggesting a taste for fewer, larger deals. This is reflected in the ten largest deals of the final quarter, with private equity buyers behind half of them, including Bridgepoint's USD 392m acquisition of the Zizzi and Gondola restaurant chains and TPG's acquisition of another food chain, Prezzo plc. The largest deal by an Irish buyer was Mars Capital's USD 319m acquisition of Springboard Mortgages.

Cross-border deals were once again to the fore with buyers from the US accounting for four of the largest deals in Q4, and Cision AB from Sweden paying USD 322m for TMT business, Gorkana Group which was sold by private equity house Exponent. This theme filtered down into the rest of the mid-market deals, meaning that once again the region remains an important focus for overseas buyers.

From a sector point of view, Business Services and TMT were the most active, accounting for a similar number of deals in both Q4 and 2014 as a whole. Industrials & Chemicals was the next most active sector by number of deals. The sectors with the lowest volume of activity over the year were Energy, Mining & Utilities and Pharma, Medical & Biotech. The former is not a great surprise given the fall in oil prices over the year. 2014 will also be remembered as the year of the IPO, with a surge in the number of new companies coming to the capital markets. A notable feature of the IPO boom was the number of private equity exits onto the capital markets, opening this up as a real

PE/TRADE VOLUME & VALUE



alternative to selling to the trade or doing a secondary deal with another private equity house.

M&A valuations meanwhile moved further ahead for trade buyers with BDO's private company price index (PCPI) rising to an EV/EBITDA ratio of 11.7x. We believe this continues to reflect the cash resources available and the willingness of buyers to pay premium prices for a strong strategic fit. The private equity price index (PEPI) also moved ahead to an EV/EBITDA ratio of 9.5x. We continue to see large amounts of liquidity, which in our opinion should keep overall multiples up. Private sellers meanwhile seem undeterred by any potential impact that the coming general election might have on capital gains tax rates and reliefs.

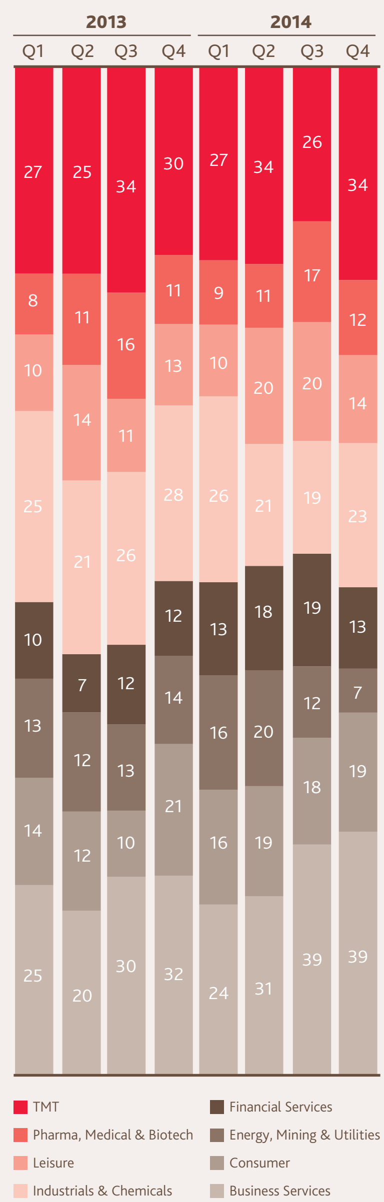
LOOKING AHEAD

We believe that the current healthy level of M&A activity will continue into 2015, as available cash chases deals and buyers look for returns, enhanced earnings and added capabilities. This view is reflected in the Heat Chart which shows market intelligence on nearly 400 deals planned and in progress. TMT looks to be by some way the hottest sector, followed by Industrials & Chemicals.

UK & IRELAND HEAT CHART BY SECTOR

TMT	97
Industrials & Chemicals	63
Business Services	51
Consumer	47
Energy, Mining & Utilities	44
Leisure	41
Pharma, Medical & Biotech	29
Financial Services	24
TOTAL	**396**

UNITED KINGDOM & IRELAND MID-MARKET VOLUMES BY SECTOR



SOUTHERN EUROPE

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BIG PICTURE

- Deal volume and value rises in 2014
- Financial institutions in the spotlight for M&A
- Our forecast shows a possible negative trend for 2015.

> *"The growth in private equity-driven deals was even more significant, with volume up 20% to 119 deals and value increasing by 49% to USD 13.5bn. We believe that this represents an important indication of market recovery in 2014."*

The region saw strong market recovery in 2014, with both deal volume and value rising – but the forecast for 2015 is less positive.

A total of 521 deals were registered in 2014, showing an increase in both volume and value compared to 2013. The most active sector during 2014 in terms of deal volume was Industrials & Chemicals.

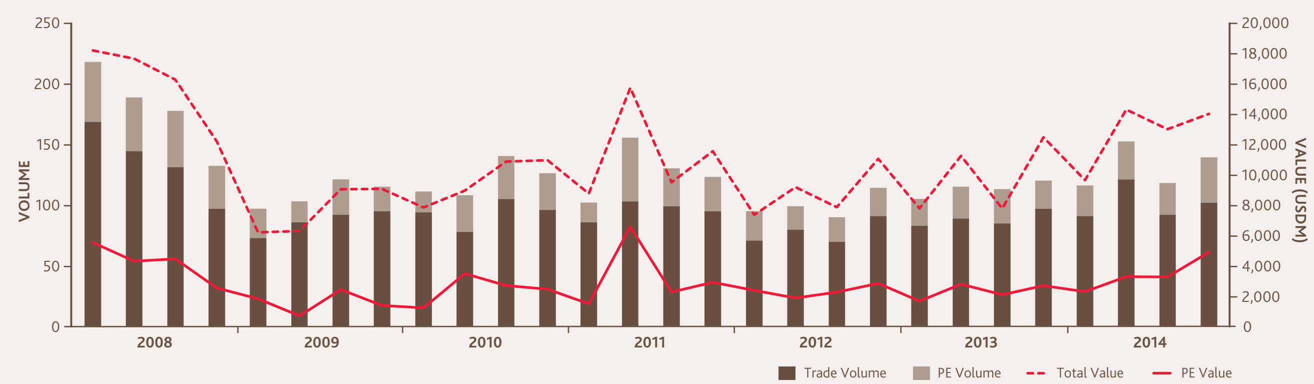
The region saw deal volume rise by 16% and deal value soar 30% in full year 2014, when compared to 2013. A total of 521 deals were completed in 2014 with a total value of USD 50bn. The growth in private equity-driven deals was even more significant, with volume up 20% (119 deals) and value increasing by 49% (USD 13.5bn). We believe that this represents an important indication of a market recovery in 2014. The growth trend was also evident in the second half of the year, especially regarding PE-driven deals, which increased 42% by volume, from 26 to 37 deals, and by 51% in value, from USD 3.2 to USD 4.8bn, during the third and the fourth quarters of 2014. The weight of PE-driven deals is relatively stable in volume terms, representing 23% of total deals in 2014 compared to 22% in 2012, while value has grown, representing 27% of total value in 2014 and 23% in 2013. Private equity funds clearly still play an important role in the M&A world.

TYPES OF DEALS

Some of the most important deals in Southern Europe took place in Italy. In particular, the USD 499m transaction involving Enel Produzione S.p.a., which sold a 50% stake in SF Energy S.r.l. and 40% stake in SE Hydropower S.r.l. to the Società Elettrica Altoatesina (SEL), the energy provider for Trentino Alto-Adige, an autonomous region located in the north of Italy. This operation is bound by an agreement between Enel and SEL, dating back to last November, which sub-ordinates the closing of the second operation to the support of the banks in relation to the deal financing of the bidder company. This support should be provided during Q1 2015, allowing completion.

Another important deal involved the Italian bank Carige, which is based in Genoa and is one of the country's most important financial institutions. Due to the financial distress faced by the bank, Carige decided to dispose of non-core assets and sell its insurance branch to Apollo Global management, a US investor. Another

PE/TRADE VOLUME & VALUE



interesting deal was the sale of Italian shoe retailer PittaRosso to British private equity firm Lion Capital, which was already a shareholder. Since Lion Capital's initial investment three years ago, PittaRosso has almost doubled its turnover.

KEY SECTORS

In terms of sectors, the most important by far is Industrial & Chemical, which saw deal volume increase by 6% to 129 during 2014, and it has been the most active sector for deals in both 2013 and 2014. Consumer ranks second, with 81 deals in 2014, an increase of 9%. Leisure was again in last position, despite a significant 31% increase in deals. In fact every sector saw an overall increase in deal volume during 2014, with the sole exception of Energy, Mining & Utilities, which fell by 4%.

LOOKING AHEAD

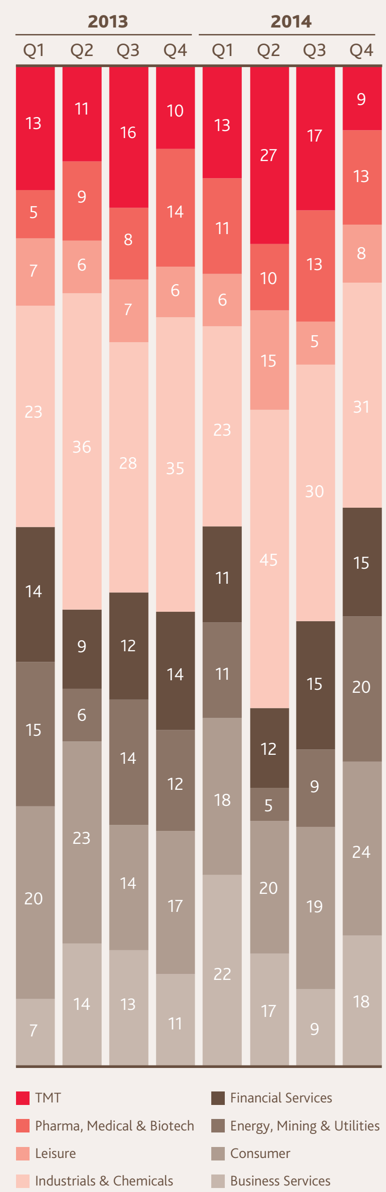
The outlook for 2015, as shown in the BDO Heat Chart, indicates a decrease in deals volume. In fact, the number of deals planned or in progress is 488, which would represent a significant fall from the 521 deals completed in 2014. According to this forecast, most industries would face a fall in M&A activity, apart for TMT and Consumer, which would increase respectively by 21% and 15%. The most affected sectors would be Pharma, Medical & Biotech and Financial Services, facing falls of 34% and 28% respectively. Even if this 2015 forecast proves to be correct, 2015 performance would still outstrip 2013, when 449 deals were recorded in Southern Europe. This indicates that, according to historical data and short-term forecasts, the overall 2013-2015 trend is cyclical.

SOUTHERN EUROPE HEAT CHART BY SECTOR

Industrials & Chemicals	114
Consumer	93
TMT	80
Business Services	60
Energy, Mining & Utilities	41
Financial Services	38
Pharma, Medical & Biotech	31
Leisure	31
TOTAL	**488**

The most important sector by far is Industrial & Chemical, which saw deal volume increase by 6% to 129 during 2014, and it has been the most active sector for deals in both 2013 and 2014. Consumer ranks second, with deals up 9% to 81 in 2014.

SOUTHERN EUROPE MID-MARKET VOLUMES BY SECTOR



BENELUX

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BIG PICTURE

- Dutch targets are the most popular for larger deals
- Business Services see the highest deal volume
- A busy final quarter for PE, as activity rises sharply
- Industrials & Chemicals and Business Services attract the highest value deals.

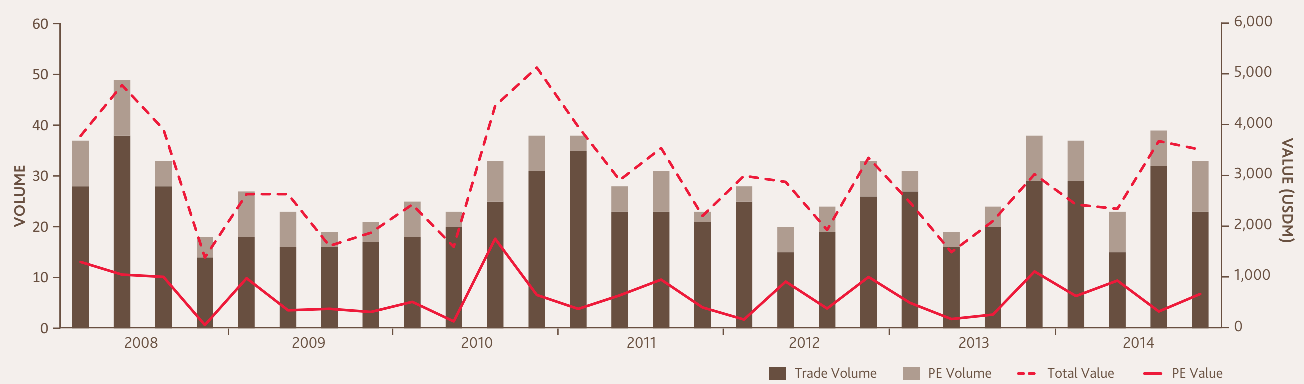
A strong final quarter saw 2014 M&A in the region reach a post-2008 high, with deal value up 31% compared to 2013.

When compared to 2013, transactions rose by 18% and deal value climbed by 31% in 2014. Total deal volume was the highest since 2008.

Looking at the final quarter of 2014, deal volume decreased slightly when compared to Q4 2013, down from 38 to 33 transactions. However, total deal value was approximately 16% higher, indicating that transaction size has increased. Both deal volume and value in Q4 2014 were in line with the rest of the year, with the exception of a disappointing second quarter.

In terms of sector performance, TMT saw a large increase in terms of volume in 2014, with 27 transactions compared to 18 in 2013. Consumer goods saw a decline of over 21%, from 14 deals in 2013 to 11 deals in 2014.

PE/TRADE VOLUME & VALUE



DEALS

The Industrials & Chemicals sector has traditionally been a focus for M&A, and over the last two years has been one of the most active. The sector is represented by four of the top ten deals by value in 2014, and is responsible for the biggest deal of 2014. This was the sale of the specialist packaging division of Clondalkin Group Holdings B.V. to UK-based Essentra plc for USD 455 m.

Business Services was also active in the M&A market, particularly in Q4 2014, when the sector was responsible for more than 27% of deals in the region. These were led by Hebei Iron and Steel Co Ltd's purchase of shares in Duferco International Trading Holding S.A. The Chinese-based bidder paid USD 400 million for its 41% stake in Duferco, making this the highest value deal in the Business Services sector.

PE ACTIVITY

PE-related deals hit a historic high in the final quarter. Ten PE buy-outs were recorded in the Q4 2014, making it the most active quarter since Q2 2008. In addition, the average deal value of USD 679m was well above the past two years' historical average. Looking at 2014 as a whole, PE enjoyed considerable growth when compared to 2013, with deal volume up 65% from 20 to 33 transactions.

The biggest single PE deal was the divesture of consumer insights and marketing analytics company MetrixLab B.V. by Van den Ende & Deitmers Venture Capital Partners. The sale to Japan-based Macromill Inc generated USD 150m. Another notable deal was the acquisition of Desso Group B.V. by Tarkett SAS. Bencis Capital Partners B.V., at a reported cost of USD 126m.

CROSS-BORDER

All of the top ten Q4 deals by value involved a foreign bidder, with four European buyers represented. Asian bidders were also active in the Benelux market, with two of the top deals involving a Japanese bidder and two involving a Chinese bidder. We also saw outbound activity from Benelux to India, Central and Eastern Europe.

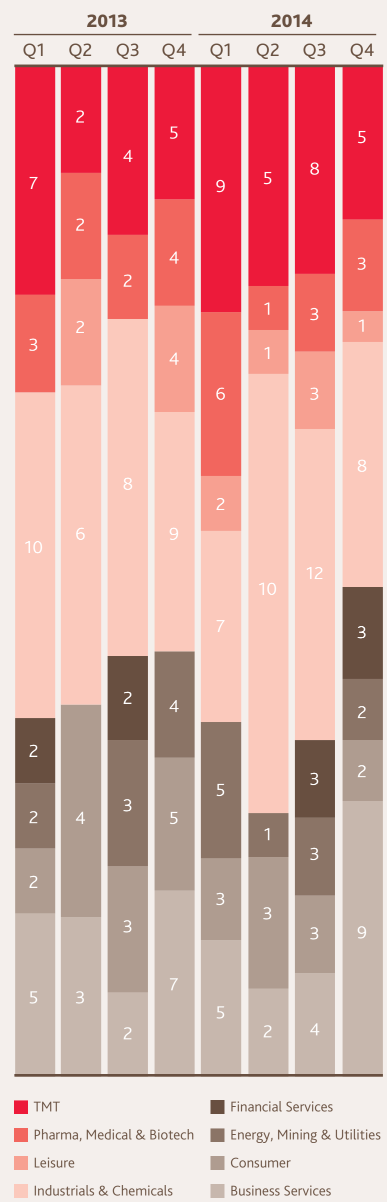
LOOKING AHEAD

The BDO Heat Chart is based on intelligence on deals planned or in progress. The chart indicates 163 such deals, a slight decline compared to Q4 last year when 185 deals were identified in the Heat Chart. TMT heads the pack with 51 deals, which suggests it may continue to perform strongly in terms of deal volume. The Consumer sector is also worth noting – even though 25 deals have been done in the past two years, it is rumoured that 24 more are in the pipeline.

BENELUX HEAT CHART BY SECTOR

TMT	51
Industrials & Chemicals	39
Consumer	24
Business Services	15
Energy, Mining & Utilities	11
Financial Services	11
Pharma, Medical & Biotech	10
Leisure	2
Total	**163**

BENELUX MID-MARKET VOLUMES BY SECTOR



DACH

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BIG PICTURE

- 241 deals recorded in 2014, the highest number since 2007
- Cross-border deals grow, driven by international buyer interest
- Private equity sector increases its role as a deal driver
- Industrials & Chemicals and TMT contribute 60% of all Q4 transactions
- Strong deal pipeline and recent ECB announcements drive positive outlook for 2015.

Last year was the strongest for M&A mid-market deal volume since 2007 and the region remains an attractive target for foreign investors.

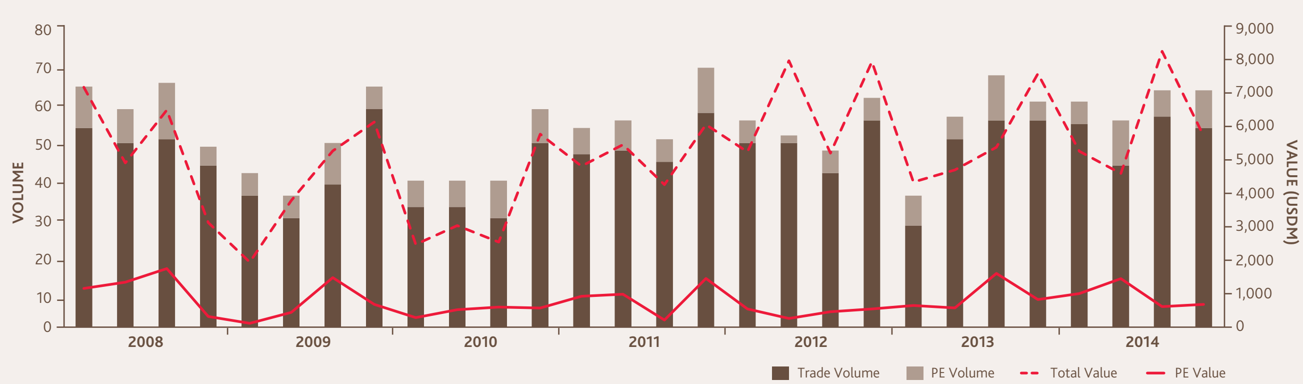
The DACH region enjoyed its best year since 2007 in terms of volume, with 241 M&A deals reported in 2014 compared to 218 deals the previous year. The total 2014 transaction value of USD 23.8bn is one of the highest seen over the last six years.

In terms of quarters, Q3 was the most successful period for M&A, recording a total deal value of USD 8.3bn. This was mainly achieved through larger transactions and had a significant impact on total deal value in 2014. However, due to the smaller nature of mid-market transactions towards year end, Q4 deal value was significantly lower at USD 5.7bn. This made Q4 2014 the lowest quarter for five years. Despite this drop in value, volume remained stable in comparison to the previous quarter and showed a slight increase compared to Q4 2013.

DEAL HIGHLIGHTS

The DACH region remained an attractive target market for cross-border deals in Q4 2014. Eight out of the ten largest M&A mid-market transactions were led by international buyers, including the USD 316m acquisition by Japan's Kurita Water Industries Ltd of the Aluminium, Paper Chemicals and Water Treatment (APW) business unit of German company ICL Performance Products LP. In addition, the Russia-based investment holding company O1 Group Limited acquired a 16.35% stake in the Austria-based real estate firm CA Immobilien Anlagen AG for USD 373m. Another large mid-market deal was the USD 282m sale of Bilfinger Construction GmbH to Switzerland-based construction company Implenia AG.

PE/TRADE VOLUME & VALUE



Of the two largest M&A mid-market domestic deals, we would single out the announced takeover of a 70.5% stake in Hawesko Holding AG, a Germany-based wine and beverages retailer and wholesaler, by the German-based investment holding company Tocos Beteiligung GmbH for USD 376m.

While private equity firms continued to deploy capital in mega-deals in 2014, they also increasingly invested in smaller mid-cap transactions, especially in Q3 and Q4, resulting in the highest PE deal volume and value since 2008.

KEY SECTORS

The sectors with the highest level of deal activity in 2014 remained Industrials & Chemicals (with five out of the ten largest mid-market deals in Q4 2014) and TMT. Both sectors contributed about 60% of all M&A mid-market transactions in 2014. TMT recorded 49 deals in 2014, the highest figure on record, while activity in Pharma, Medical & Biotech increased by 37% during the same period. The Energy, Mining & Utilities sector showed the lowest number of deals, with only eight deals in 2014, compared to 18 deals in 2013. This reflects investor uncertainty about future developments within the energy sector.

DACH HEAT CHART BY SECTOR

Industrials & Chemicals	117
TMT	61
Consumer	49
Business Services	31
Pharma, Medical & Biotech	25
Energy, Mining & Utilities	20
Financial Services	18
Leisure	17
Total	**338**

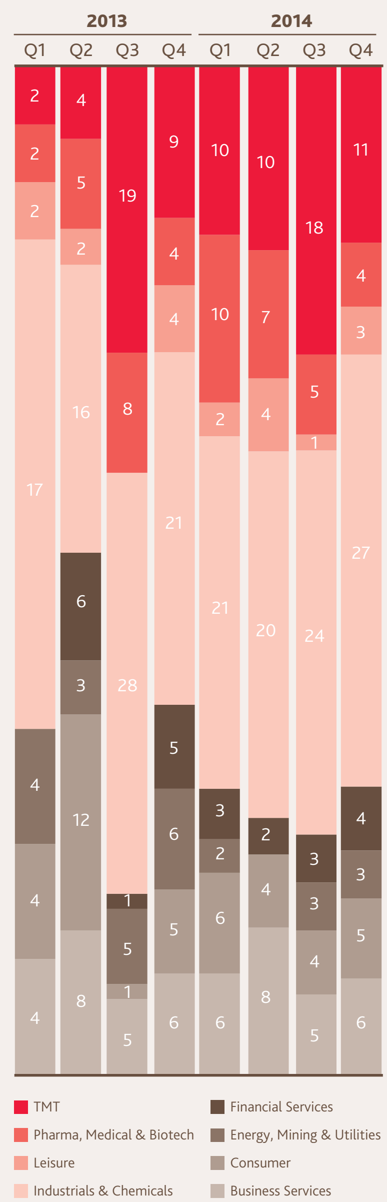
LOOKING AHEAD

Despite geopolitical instability in 2014, M&A activity in the DACH region was the strongest for years, which suggests that the market is well placed to navigate any further uncertainties ahead. After a drop in the Ifo Business Climate Index in October, this picked up again in November and December, meaning that the outlook for 2015 has brightened.

Due to the falling value of the euro, mainly caused by changes to ECB fiscal policy, we anticipate increased activity from foreign investors, particularly from the US and China (and BRIC), and predominantly targeting Germany and Austria. Switzerland is expected to be more acquisitive due to the recent rise of the Swiss franc.

As for specific sectors, we expect further growth for the Industrials & Chemicals, TMT and Consumer sectors (see BDO Heat Chart). Furthermore, we expect significantly higher M&A activity within the Energy, Mining & Utilities sector. Although some companies might be restrained by the current Russia-Ukraine dispute, we do not necessarily expect an extensive long-term impact on M&A transactions. Likewise, the fall in energy, production and transportation costs due to lower oil prices should have a positive impact on the inbound and outbound deal flow in the DACH region. We therefore expect an even stronger year for mid-market M&A in the DACH region in 2015.

DACH MID-MARKET VOLUMES BY SECTOR



NORDICS

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BIG PICTURE

- Total deal value doubles from Q3 to Q4
- The proportion of private equity deals falls from Q3 to Q4
- Consumer is the most active sector
- Investors target Norway and Denmark.

M&A activity bounced back in Q4 and looks set for a promising 2015.

After strong M&A activity during the first half of the year, followed by a drop in Q3, deal volume picked up again in Q4 with 61 transactions reported. This was close to the monthly average over the last two years of 63 deals. Overall transaction value in Q4 amounted to USD 5.5bn, which is more than double the historically low figures recorded in Q3. However, when compared to the final quarter of 2013, deal value was down 6% in Q4.

Looking at 2014 as a whole, total deal numbers increased by 7% compared to 2013, mainly driven by strong activity during Q1 2014. In value terms, 2014 as a whole saw a slight decrease in comparison to 2013.

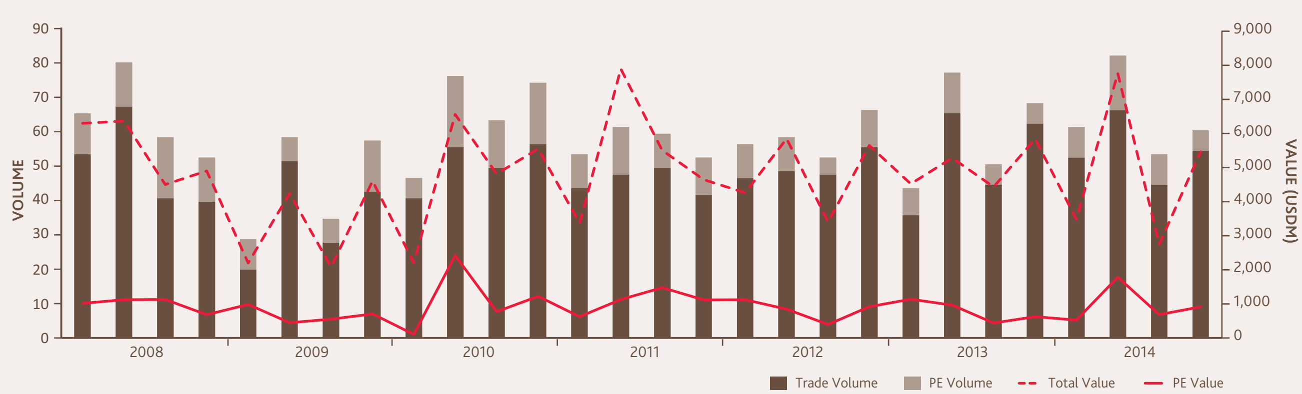
Private equity firms accounted for 10% of transaction volume in Q4 2014, compared to 17% in Q3 2014. The same pattern was seen in 2013, when PE buy-outs represented 9% of the market in Q4 and 12% in Q3. The total value of PE transactions in Q4 2014 amounted to USD 907m.

Over 2014 as a whole, the proportion of PE transactions by value increased from 16% of all M&A activity in 2013 to 20% in 2014. By number of deals, the proportion of PE transactions rose from 14% in 2013 to 15% in 2014, implying that PE deal value is increasing more rapidly than volume.

NORWAY AND DENMARK IN FOCUS

Just as in Q3 2014, seven of the top ten transactions in Q4 2014 were cross-border deals. Four of these were sales to non-Nordic countries and the two largest had UK bidder companies. The eighth largest sale was to a company in Poland and the ninth largest was to a company in the US. In terms of target countries, Norwegian and Danish companies each represented four of the top ten transactions. The largest transaction however, with a deal value of USD 498m, was Promens Ltd, a global plastics manufacturer based in Iceland and operating 41 manufacturing facilities in Europe, North America, Asia and Africa. The

PE/TRADE VOLUME & VALUE



second largest deal in the Nordic Region was the USD 450m acquisition by UK shipping services company Clarkson Plc of RS Platou ASA, a Norwegian international broker and investment bank focused on the offshore and shipping market.

The ten largest deals amounted to USD 3.5bn, representing 63% of the total transaction value.

LOOKING AHEAD

As forecast in the last edition of BDO HORIZONS, private equity firms, often from beyond the region, have increased their interest in Nordic companies.

We have noted particular interest from US private equity firms in Nordic companies. We expect this to continue in 2015 due to strong economic conditions in the US, substantially lower multiples in Europe compared to the US, and an increase in the value of the US dollar, compared to the SEK and DKK in general and the NOK in particular.

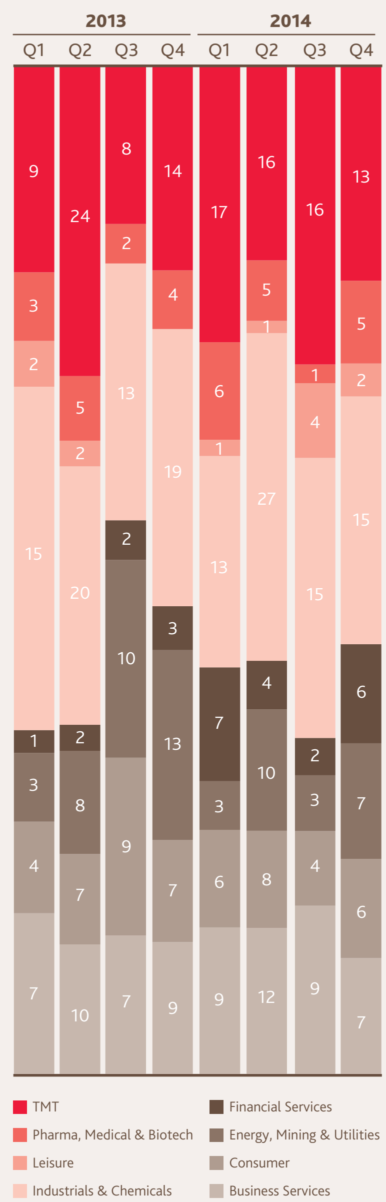
KEY SECTORS

Industrials & Chemicals was once again the most active sector, accounting for 26% of transactions in Q4 2014. Consumer overtook TMT to take second place, with Consumer representing 17% of transactions during Q4 compared to TMT´s 12%. Consumer retail group Coop Norge SA´s acquisition of ICA Norge AS was the fourth largest transaction in the Nordic market during Q4 2014.

NORDICS HEAT CHART BY SECTOR

Industrials & Chemicals	51
Consumer	33
TMT	24
Business Services	24
Pharma, Medical & Biotech	24
Energy, Mining & Utilities	17
Financial Services	15
Leisure	5
Total	**193**

NORDICS MID-MARKET VOLUMES BY SECTOR



CEE & CIS

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BIG PICTURE

- The Ukrainian crisis had a negative impact in the region
- The momentum seen at the beginning of 2014 has dissipated
- Total 2014 deal volume rose above 2012 and 2013 levels.

A difficult year for M&A activity in the region, but deal volume edged up.

The deal figures for Central and Eastern Europe (CEE) and Commonwealth of Independent States (CIS) plunged further during Q4 2014 to hit a new quarterly low not seen since the first half of 2009. Despite this, momentum from the first two quarters helped push 2014 total deal value above 2012 and 2013 levels, but still 6% below its 2011 peak (7% below 2011 levels by deal volume).

Private equity deals again saw low volumes in Q4, with seven transactions recorded, up just one from Q3. However, average value rose from USD 77m to USD 97m, its highest since Q3 2011.

The overall PE figures confirm this trend, with PE's share of total deals value falling to 4.9% in 2014, compared to 9.4% in 2008. With deal value at around one third of the 2008 level, it seems that PE has lost interest in the region.

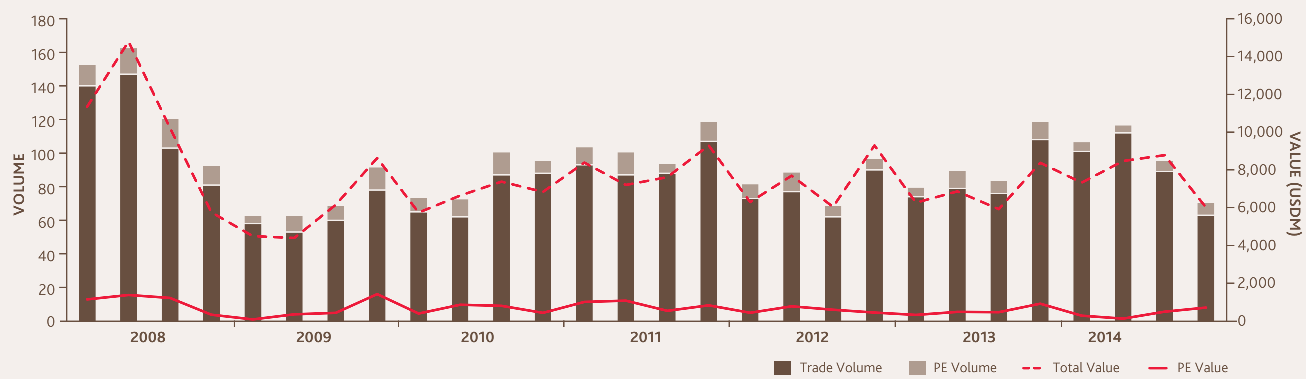
KEY SECTORS

The Pharma, Medical & Biotech sector hit the brakes, recording only one deal in Q4 2014, and full year 2014 volume decreased 37%, from 19 transactions in 2013 to 12 deals in 2014. A similar drop was experienced by Leisure, with deals falling 35% from 20 in 2013, to 13 in 2014. The biggest sector advance in 2014 was Consumer, up 35% to 73 deals, and Technology, Media & Telecommunications up 27% to 47 deals.

The most active sector during 2014 was Industrials & Chemicals. Despite a slight fall in total number of deals, from 93 to 92, it still represented almost one quarter of total transactions in 2014.

Looking at the top ten deals in the final quarter of 2014 confirms the slowdown, with total transaction value 16% less than Q3's top ten deals.

PE/TRADE VOLUME & VALUE



The final quarter's largest mid-market deal was in Poland (USD 413m) and more than half of the total value of top ten deals in the region was generated by transactions in Turkey, where three deals realised USD 1bn and Russia, where two deals had a cumulated value of USD 608m.

During 2014 as a whole, Russia led the way with almost one third of top deals, followed by Turkey with 20% and Poland with 11%. The deals in Turkey and Poland were a mix of domestic and cross-border deals, but most Russian transactions were domestic.

CEE & CIS HEAT CHART BY SECTOR

Industrials & Chemicals	213
Consumer	128
TMT	98
Energy, Mining & Utilities	91
Business Services	85
Financial Services	57
Leisure	40
Pharma, Medical & Biotech	39
Total	**751**

LOOKING AHEAD

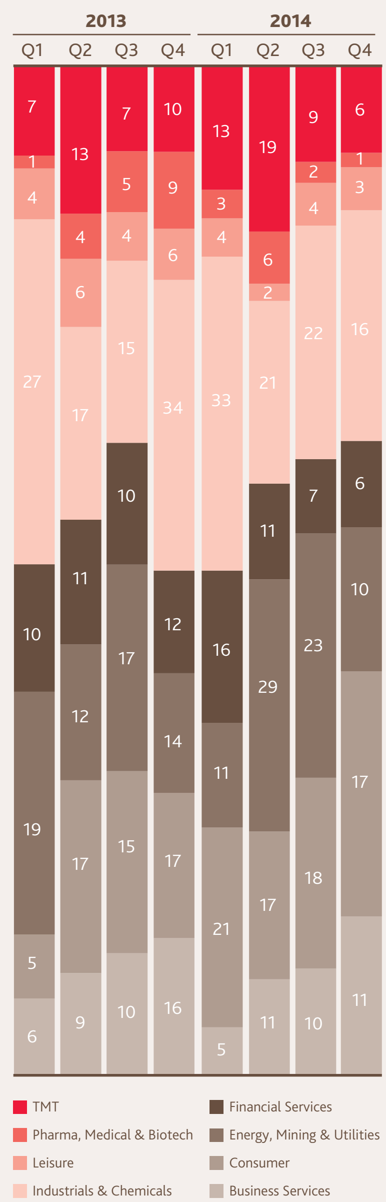
The outlook for 2015 is cloudy, with little sign of optimism. The key uncertainty remains the simmering Ukrainian conflict, while Russia's steep economic slowdown, together with ruble depreciation and falling oil prices, has further undermined the regional outlook.

This was the first time since 2008 that Q4 deal activity fell below Q3 levels and it remains to be seen if the repetition of this pattern foreshadows a further slowdown during first half of 2015, just as it did in 2009.

According to the BDO Heat Chart, the total number of deals in progress or planned in Q1 2014 is 20% below Q4 2014 levels. Financial Services shows the biggest decrease at 45%, while Technology, Media & Telecommunications is expected to be less affected, with deals forecast to fall by 9%. This puts TMT in third position in terms of potential deals, behind long-time leaders Industrial & Chemicals and Consumer.

It seems unlikely that PE will reverse its recent trend and start to increase interest. However, it is worth noting that despite its difficulties our region still has the third-highest level of interest (751 deals), after North America (2,288 deals) and Greater China (920 deals).

CEE & CIS MID-MARKET VOLUMES BY SECTOR



ISRAEL

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BIG PICTURE

- Israel posted the highest number of M&A deals for several years
- TMT was the key sector and, together with the fast-growing Pharma, Medical & Biotech sector, may offer the best prospects
- Local and global private equity firms are expected to step up M&A activity in 2015.

Despite a slow start to the year, Israel saw strong M&A activity in 2014 and the prospects look good for 2015.

Although 2014 started slowly, in terms of both transaction value and volume, mid-market M&A picked up strongly and achieved a record year, mostly in terms of deal volume.

The last quarter of 2014 generated a total of 11 completed deals, with a combined value of USD 941m. This represented an increase in total deal value of USD 22m (2%) compared to Q4 2013, but a decrease of USD 27m compared to Q3 2014. In volume terms however, this was the lowest performing Q4 for the last three years, and not a single private equity buy-out was completed during the period.

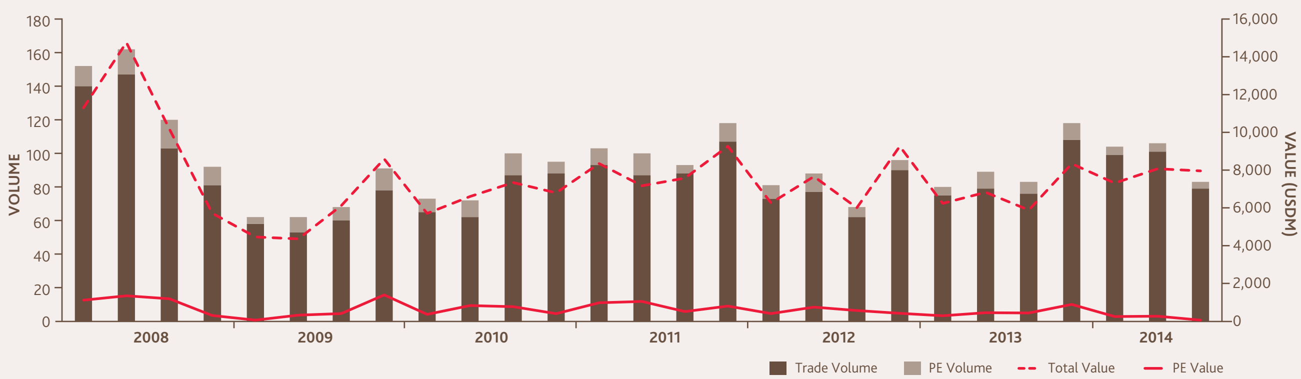
Looking at 2014 as a whole, 62 deals were completed with a combined value of USD 3,926m. This represented a drop in full year 2014 deal value of USD 570m (13%) but an impressive increase in deal volume, up 22% compared to 2013. Although this meant that the average deal size dropped from USD 88m to USD 63m in 2014, we expect that the trend over recent years towards bigger deal size will reassert itself over the longer term.

KEY SECTORS

The TMT sector led deal volume during the last quarter with 36% of total transactions. Of the ten largest mid-market deals in Q4 2014, four were in TMT and they represented 50% of deal value. Overall in 2014, the TMT sector generated 44% of deal volume and is expected to keep the momentum going. In fact, six TMT deals with a combined value of USD 1bn were announced in January 2015, suggesting the sector could be in for a hot 2015.

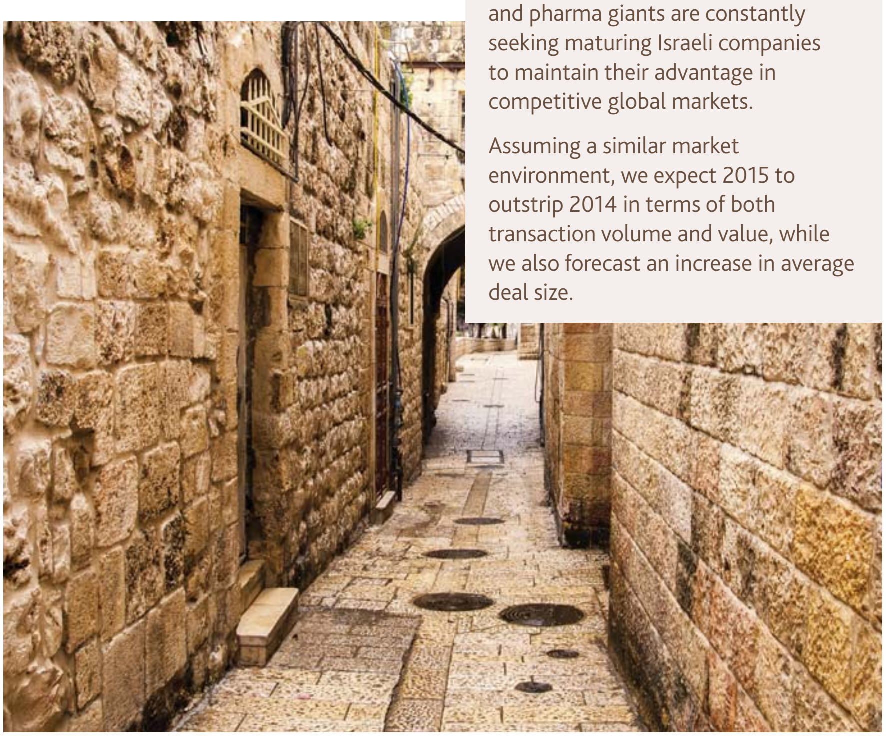
The Industrial sector took second spot in 2014, with 13% of deal volume compared to 12% during 2013. In doing so they overtook the Pharma, Medical & Biotech sector, whose share of total mid-market transactions fell from 25% in 2013 to 6% in 2014. However, it should be noted that small biotech companies in Israel attract significant seed and venture capital funds and therefore disappear under the radar. However, together with more traditional tech start-ups, these may in time create the next generation of mature M&A targets.

PE/TRADE VOLUME & VALUE



Indeed, during 2014, we have already seen several Israeli Biotech companies carry out IPOs on NASDAQ, which may generate future M&A activity.

ISRAEL HEAT CHART BY SECTOR	
Pharma, Medical & Biotech	30
TMT	26
Industrials & Chemicals	8
Business Services	4
Consumer	2
Energy, Mining & Utilities	2
Financial Services	1
Leisure	
Total	**73**



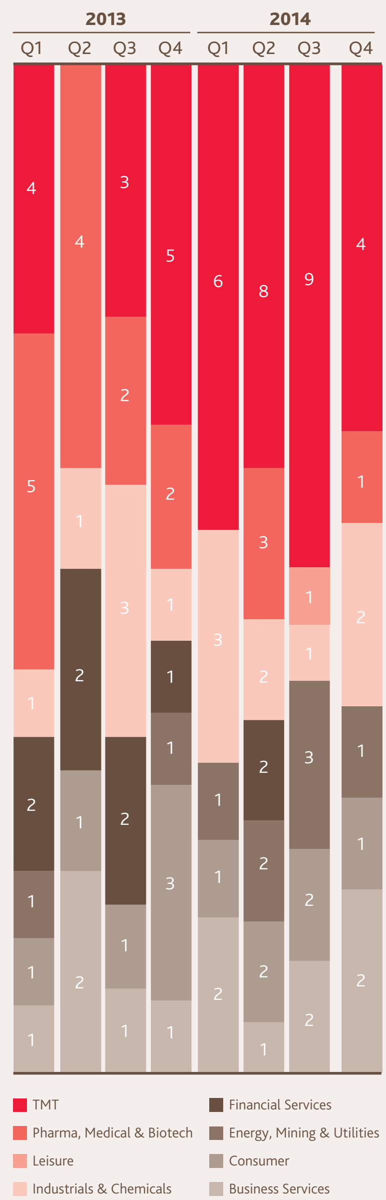
LOOKING AHEAD

Taking into account the ongoing strength of capital markets and stable low interest rates, Israeli private equity firms are expected to go out to the market more significantly during 2015 and further, while natural buy-outs are hard to accomplish and IPOs have become a significant alternative. Having raised substantial funds in the last two or three years, local PE is expected to compete on mid-market transactions, especially in the industrial technology sector, and therefore generate significant M&A volume and value in the near future.

The TMT and Biotech, Pharma & Medical sectors are expected to attract most interest as global technology and pharma giants are constantly seeking maturing Israeli companies to maintain their advantage in competitive global markets.

Assuming a similar market environment, we expect 2015 to outstrip 2014 in terms of both transaction volume and value, while we also forecast an increase in average deal size.

ISRAEL MID-MARKET VOLUMES BY SECTOR



AFRICA

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BIG PICTURE

- Deal numbers edge up in Q4 and PE activity rises strongly
- Nigeria and Egypt led the region in terms of major Q4 deals
- Energy, Mining & Utilities has the best prospects for 2015 deal activity.

At the end of a strong 2014 the market took a breath in Q4, but prospects ahead look good.

Although the fourth quarter of 2014 saw 37 M&A deals completed, one more than in the previous quarter, total transaction value fell from USD 4.5bn to USD 3bn. Looking at 2014 overall, however, deal value went up from USD 10.4bn to USD 14.4bn and transaction numbers rose from 148 in 2013 to 162 in 2014.

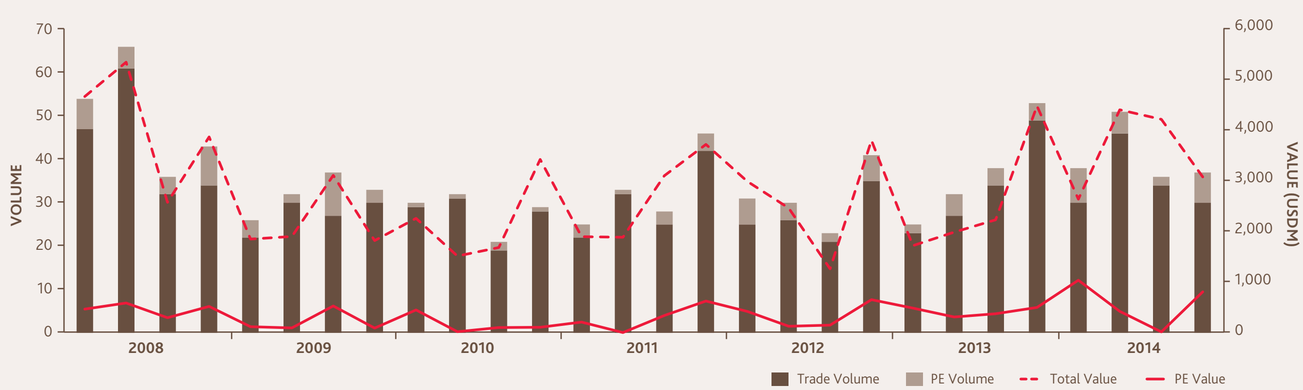
In terms of private equity activity, buy-out volume rose from Q3 to Q4. The total value of private equity transactions in Q4 reached USD 811m, which was the second highest figure since 2008, next to the USD 1bn reached in the first quarter of 2014. PE buy-outs represented 19% of all M&A transactions by volume, and 26% by value, in Q4 2014.

Of the 37 transactions that took place in Africa during Q4 2014, the sectors that saw the most deal activity were Financial Services (ten deals) and Consumer (nine deals). For 2014 as a whole, when 162 transactions took place, the highest number of transactions were in Industrials & Chemicals (39 deals), Energy, Mining & Utilities (25 deals) and Financial Services (23 deals). In fact, the majority of sectors registered an increase in the number of transactions, with the exception of Energy, Mining & Utilities and Industrials & Chemicals.

KEY COUNTRIES AND SECTORS

While transactions were spread throughout Africa, a few countries did account for a greater share, driven in part by economic conditions. Nigeria emerged as the new number one economy after revising its GDP calculation in Q2. Other leading countries, by GDP size, are South Africa, Egypt, Algeria, Angola, Morocco, Libya, Kenya, Ghana and Ethiopia. After a lean period in the wake of the Arab Spring, Egypt is experiencing a remarkable revival with foreign investment flowing in and the stock market booming again. Armed conflict and social unrest are still barriers to growth in some countries, while others such as South Sudan, Liberia, Ethiopia, Ivory Coast and Congo DRC have experienced economic growth as high as 8%, with foreign direct

PE/TRADE VOLUME & VALUE



investment playing a significant role. An emerging consumer class and valuable commodities are also attracting a rising number of private equity firms across the continent.

Three of Africa's top ten mid-market deals took place in Nigeria (Financial Services) and two in Egypt (Consumer). The most important transaction was the purchase of a 20.77% stake, costing USD 493m, in Ecobank Transnational Incorporated (ETI) by Nedbank Group Ltd of South Africa, making it the second-largest shareholder in ETI after Qatar National. Two other projects that made the headlines in Q4 were Danone's acquisition of Centrale Laitiere Morocco for USD 347m, which raised its equity stake to 91% and BCL's USD 337m investment in Tati Nickel Mining Company (Pty) Ltd (85% stake) and Nkomati Nickel and Chrome Mine (50% stake) in Botswana. The continent also witnessed significant investment from France and the US, with Carlyle Group making its first investment in Nigeria during 2014. The US-based firm has already made several investments in other sub-Saharan countries including Mozambique, Zambia, Tanzania and the Democratic Republic of the Congo since 2011.

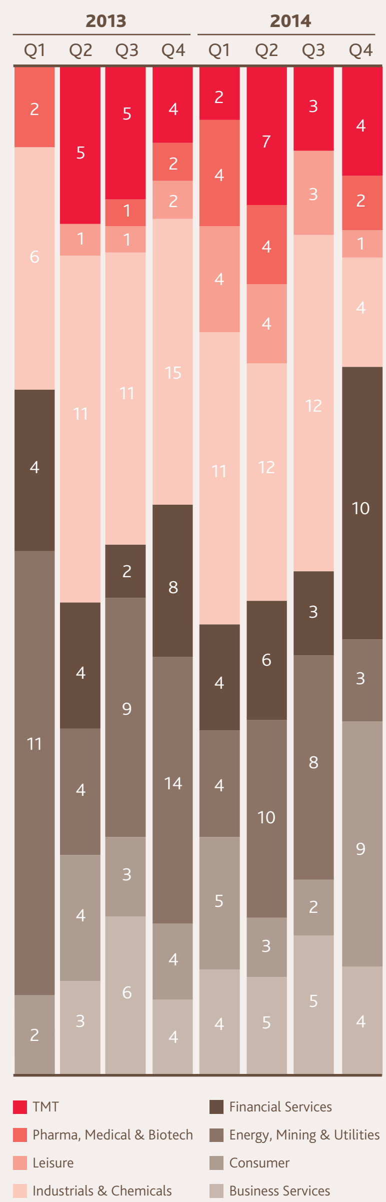
LOOKING AHEAD

The BDO Heat Chart indicates 203 M&A opportunities that are either planned or in progress. The most active sectors are forecast to be Energy, Mining & Utilities with 53 deals, Industrials and Chemicals with 46 deals, and the Consumer industry with 30 deals. Looking ahead, a significant rebound from Q4 2014 levels is expected, particularly in Energy, Mining & Utilities. The Consumer industry also looks well placed to attract investment, while we expect other sectors to maintain 2014 levels of M&A activity during 2015.

AFRICA HEAT CHART BY SECTOR

Energy, Mining & Utilities	53
Industrials & Chemicals	46
Consumer	30
Financial Services	22
Business Services	19
TMT	16
Leisure	10
Pharma, Medical & Biotech	7
Total	**203**

AFRICA MID-MARKET VOLUMES BY SECTOR



INDIA

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BIG PICTURE

- Deal value up 46% in the final quarter of 2014
- Private equity increasingly active in the region
- Industrials & Chemicals, TMT and Consumer are the leading sectors for deals.

India has begun to see more traction and improved interest during 2014 and this is expected to continue into 2015.

The fall in prices of various commodities – especially oil – has been a big positive for net energy importing countries like India. It helps to ease fiscal and current account deficits, and also reduce inflation, which provides leeway for the Reserve Bank of India to cut lending rates and further boost the economy.

Deal value increased by 46% to USD 3.56bn in Q4 2014 when compared to the previous quarter, with deal numbers down 7% to 41. That meant a significant rise in deal size, up from USD 55m to USD 87m between Q3 and Q4. For 2014 as a whole, deal value increased by 5% to USD 12.4bn and deal volume increased by 4% to 191 deals.

PE buy-out deals represented 46% of total deal value and 44% of total deal volume In Q4 2014, as compared to 23% and 21% respectively in Q3 2014. This indicates the increasing importance of PE funds in buy-outs.

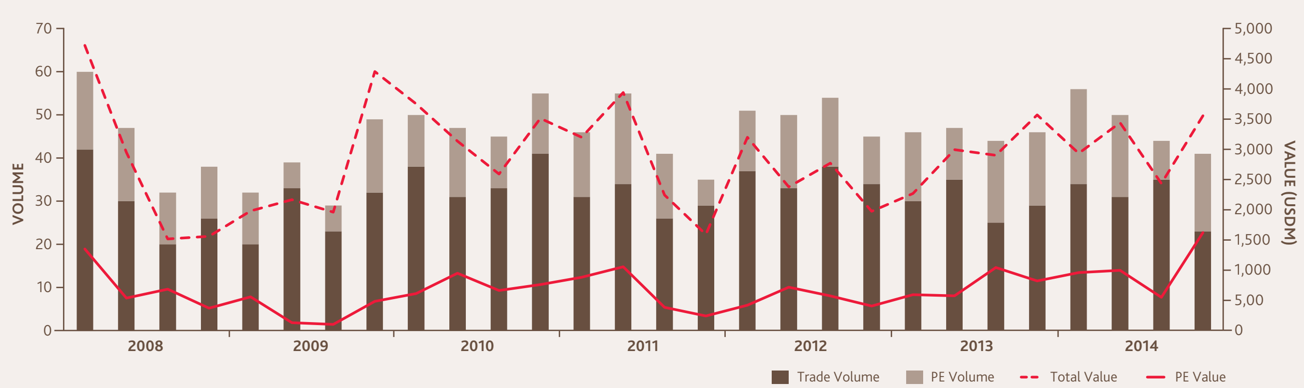
For 2014 as a whole, PE buy-outs represented 33% of the total deal value and 36% of the total deal volume. In 2013, these numbers were 26% and 35% respectively. PE funds' increasing contribution is also reflected in the average ticket size per deal, which is up from USD 47m in 2013 to USD 61m in 2014.

KEY SECTORS

The total number of deals in 2014 increased by 4% to 191 compared to 2013. In terms of sectors, Industrials & Chemicals saw the highest deal volume in 2014, with 49 deals (26% of total transactions) followed by TMT with 46 deals (24%) and Consumer with 25 deals (13%).

In terms of quarter-on-quarter comparison, only three sectors (Consumer; Financial Services and TMT) saw growth in deal volume between Q3 and Q4, while five (Business Services; Energy, Mining & Utilities; Industrials & Chemicals; Leisure; and Pharma, Medical & Biotech) saw a drop.

PE/TRADE VOLUME & VALUE



The TMT sector saw the biggest deal in Q4 2014, with Flipkart Online Services Pvt. Ltd attracting an investment of USD 500m from Tiger Global Management LLC, Naspers Limited and DST Global (all PE/VC funds) in November 2014.

Other major deals in Q4 2014 included GIC Private Limited (the Government of Singapore's sovereign wealth fund) acquiring a 63.92% stake in Nirlon Limited (a once-famous textile company turned realtor) for USD 296m; ANI Technologies Pvt. Ltd. (the company behind Olacabs) attracting investment of USD 210m from Softbank Internet and Media, Inc. of Japan; Kalyan Jewellers (which has the largest jewellery chain in India) attracting investment of USD 196m from Warburg Pincus LLC for a 10% stake; and New Call Telecom Ltd of the UK acquiring a 70% stake in Nimbuzz (a free call and messaging app) from Holtzbrinck Ventures and Mangrove Capital Partners for USD 175m.

In 2013, the average number of deals in each quarter was 46, which increased marginally to 48 in 2014. In terms of value, each quarter average in 2013 was $2.9 billion, which marginally increased to $3.1 billion in 2014.

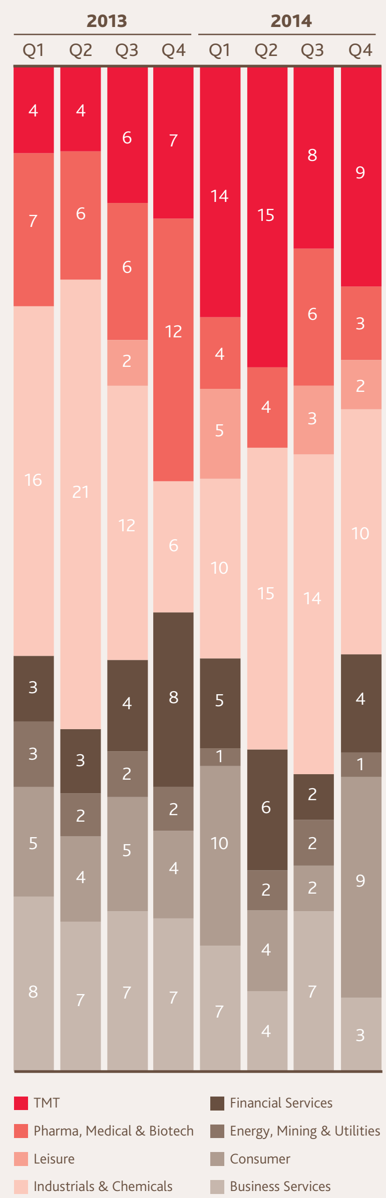
INDIA HEAT CHART BY SECTOR	
TMT	80
Industrials & Chemicals	78
Business Services	48
Consumer	45
Financial Services	30
Pharma, Medical & Biotech	25
Energy, Mining & Utilities	22
Leisure	18
Total	**346**

LOOKING AHEAD

India is expected to be one of the fastest growing economies in 2015, with a positive regulatory framework, tax stability and a government committed to improving India's ranking in terms of ease of doing business. Prime Minister Narendra Modi's flagship Make in India campaign intends to put the country on the global manufacturing map and, in turn, facilitate the flow of new technology and capital, while creating millions of jobs. Some of the other structural reforms undertaken by the Government include the relaxation of foreign investment caps in Insurance, Real Estate, Defence and Railways. Amendments to the land acquisition law should also provide a boost to economic growth.

The BDO Heat Chart is based on companies for sale tracked by Mergermarket between 7 July 2014 and 7 January 2015. The TMT and Industrials & Chemicals top the chart with the highest number of potential deals.

INDIA MID-MARKET VOLUMES BY SECTOR



CHINA

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BIG PICTURE

- Q4 deal values step higher again
- A 59% increase in total transaction value for 2014
- Greater China region contributed 17% to global deal values in 2014
- Domestic reform and government support will continue to drive inbound and outbound investment.

Record-breaking deal values reported in every quarter of 2014, and a positive outlook ahead.

Total M&A transactions in the Greater China region were USD 117.9bn in 2014, an increase of 59% compared to 2013.

The market reported a strong close to the year, with 367 deals in Q4 2014, on par with Q3 levels. But in terms of deal values the Q4 picture was even better, with values up 10.8% to USD 34.3bn, meaning that the region has reported rising record M&A levels in six of the last seven quarters. For the year overall, deal numbers increased from 917 in 2013 to 1,334 in 2014, and deal values increased from USD 74.0bn in 2013 to USD 117.9bn in 2014.

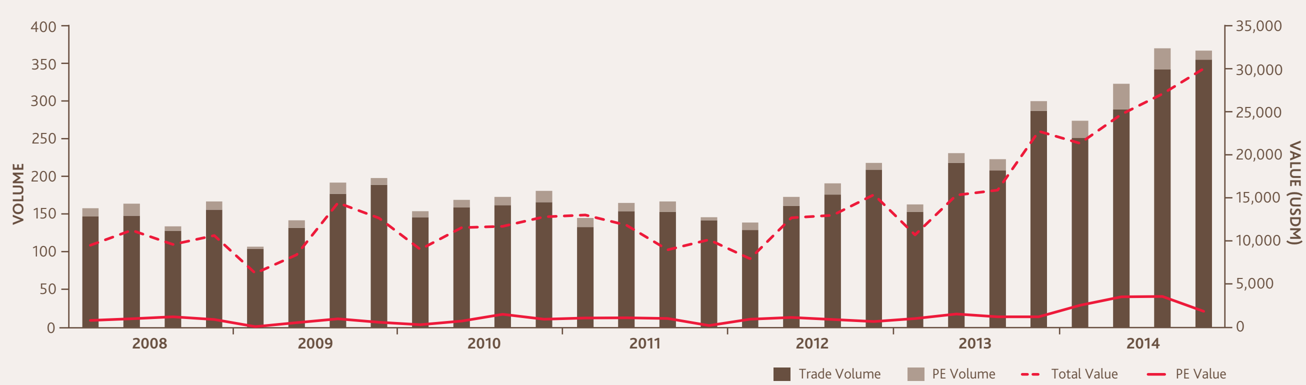
By global standards, China's M&A levels still lag behind its developed peers in terms of proportion of GDP. However, the region's contribution to global deal levels is rising, from 13% of global transaction values in 2013, to 17% in 2014. This was even more impressive given the sharp rise in M&A activity in North America in 2014.

CHINA DRIVES M&A IN ASIA

Within Asia, China has remained the key market for M&A. Despite notable increases in Korean deals (mainly outbound to Europe) and Kazakhstan (inbound deals), China remains by far the largest M&A market in Asia, reporting 1,334 deals (deal value USD 117.9bn) compared to 397 deals (deal value USD 22.0bn) in Australasia, the second largest region in Asia in 2014. The ASEAN region has been relatively quiet for M&A in 2014, but the commencement of the ASEAN Economic Community is expected to drive higher deal levels in South East Asia in 2015.

China's deal levels are impressive in the context of the country's slowing GDP growth rates, which fell to 7.4% in the last two quarters, partially reflecting the government's focus on more sustainable growth and tightened credit lending. But these are still highly impressive growth

PE/TRADE VOLUME & VALUE



rates compared to developed economies (and in fact to almost any other country). The fact that China's increase in GDP during 2014 was larger than the entire GDP of Indonesia, and in the future its annual GDP growth alone could be equivalent to the entire UK or German economy, highlights the economic potential of the region.

KEY SECTORS

Domestic transactions have continued to drive deal volumes with TMT, Pharma, Medical & Biotech, Consumer, Real Estate and Industrials & Chemicals the key sectors in 2014. Significant mid-market deals included the USD 463m acquisition of carbon fiber products producer Ningxia Dayuan Chemical by a domestic-led investor group, and the USD 432m sale of automotive compressor manufacturer Nanjing Aotecar. Eight of the top ten largest mid-market deals in 2014 were purely domestic transactions.

Despite slowing GDP growth rates, inbound investment levels were maintained, with China receiving over half of all mid-market deals in Asia in 2014. India also saw strong inbound investment in 2014, although China remains the key investment destination, as the increasingly affluent middle class drive increasing opportunities in education, retail and healthcare.

Private equity levels also increased in the Greater China region in 2014, after the reopening of the A-share market. While China has not traditionally been seen as a buy-out market, with most private equity investors targeting minority investments, industry consolidation and management succession issues have seen buy-out levels increase. A key trend in 2014 was the emergence of trade exits. This was driven by market closure preventing the use of IPOs as a predominant exit strategy and led PRC private equity funds to more actively target strategic buyers.

LOOKING AHEAD

Slowing growth rates and China's well publicised anti-corruption measures may have decreased the attractiveness of China for some asset managers. However, the longer term trend driven by macro factors such as demographics and urbanization will continue to attract significant investment in many key sectors across China.

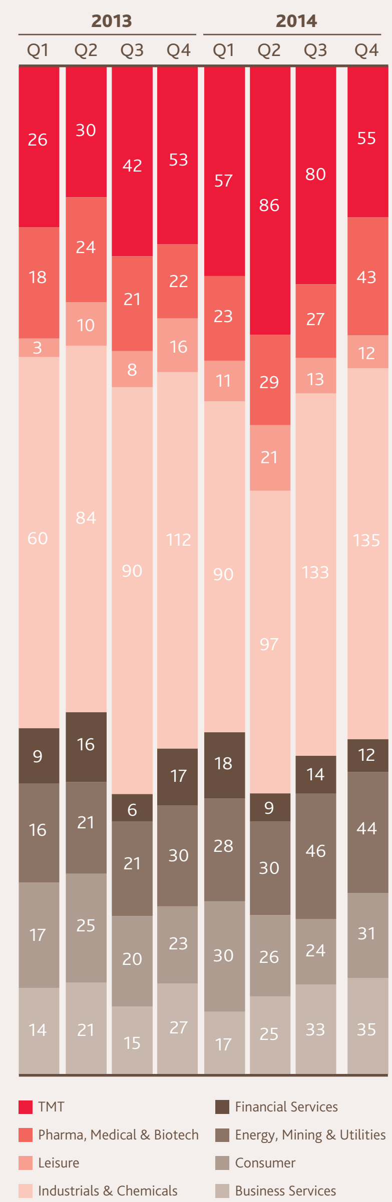
One key obstacle for investors in recent years has been the high valuations of Chinese companies, pushed up by high projected organic growth rates. With GDP forecasts now slowing, and company revenue and profit growth rates also moderating, valuations are now coming down to more reasonable prices, which should support higher deal volumes, particularly from private equity.

With state-owned enterprise (SOE) reforms, domestic industry consolidation and government support (in terms of both financing and the relaxation of regulatory approvals) all set to continue in 2015, the indicators for M&A activity remain positive.

CHINA HEAT CHART BY SECTOR

Industrials & Chemicals	344
TMT	138
Consumer	107
Business Services	88
Energy, Mining & Utilities	82
Financial Services	72
Leisure	46
Pharma, Medical & Biotech	43
Total	**920**

CHINA MID-MARKET VOLUMES BY SECTOR



SOUTH EAST ASIA

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BIG PICTURE

- Q4 2014 saw a 15% reduction in deal numbers but a 5% increase in value on previous quarter
- Industrial & Chemicals remains the most active sector in the region
- Investors expected to continue to regard the region as an attractive market for M&A activity.

With a combined Q4 deal value of USD 7.6bn, the year ended on a high note as investors continue to find the region attractive.

The final quarter of 2014 saw 80 deals completed in the region with a combined value of USD 7.6bn. This represented a 15% reduction in the number of deals but a 5% increase in terms of value compared to the previous quarter. In comparison to the corresponding quarter of 2013, there were 7% more transactions and combined value was 16% higher. When looking at the same quarter over the past five years, this was the third biggest Q4 in terms of number of deals but the highest by value.

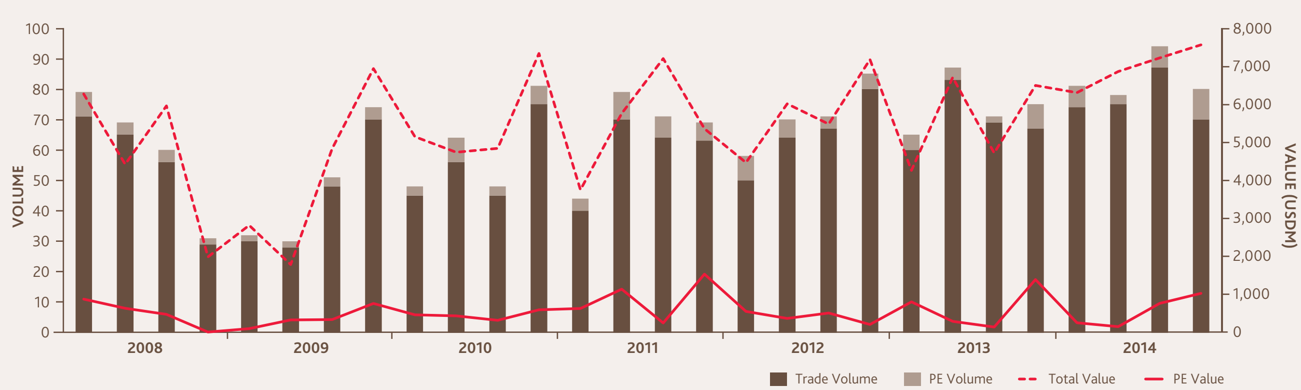
Private equity contributed ten deals in Q4. This represented the second consecutive quarter-on-quarter increase in terms of number of transactions. In value terms these ten deals represented a 34% increase over the previous quarter but a 26% reduction compared to the corresponding quarter in 2013. Consistent with the trend in previous quarters, Q4 2014 PE deals formed only a small proportion of total M&A activity, representing 12% by number of transactions and 14% by value.

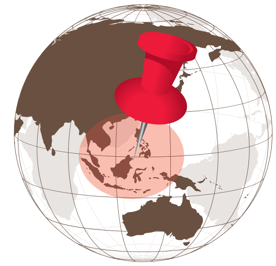
KEY SECTORS

In terms of sectors, Q4 2014 activity was similar to that seen in the previous quarter. Industrials & Chemicals; Business Services; Energy, Mining & Utilities; and TMT made up the majority of deals. As has been the case for several quarters, Industrials & Chemicals was the single most active sector with 30% of total M&A activity, while for the second consecutive quarter Business Services was the next most active sector with 15%.

This quarter's top ten deals include two each from Industrials & Chemicals, Consumer, TMT, Financial Services and Business Services. The largest individual deal reported in Q4 2014 was The Coca Cola Company's ("TCCC") USD 500m acquisition of a 29.4% stake in PT Coca Cola Bottling Indonesia, a subsidiary of Coca Cola Amatil Ltd, TCCC's Australian bottling affiliate. The second largest deal was also Indonesian-based. The telecommunications tower operator,

PE/TRADE VOLUME & VALUE

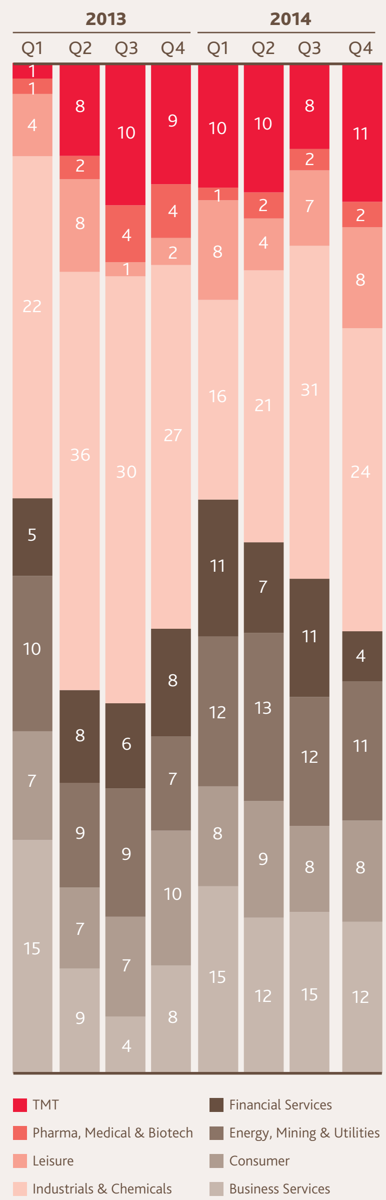




PT Tower Bersama Infrastructure Tbk, acquired a 49% stake in PT DayaMitra Telekomunikasi ("Mitratel") from Telkom, the Indonesian state-owned telephone utility, in a deal valued at an estimated USD 410m. The third largest deal was Taiwanese insurer Cathay Life Insurance Co Ltd's acquisition of a 20% stake in Rizal Commercial Banking Corp (RCBC) of the Philippines for a reported USD 402m. Another deal included in Q4 2014's top ten deals, which merits comment as it reflects the gradual progress of so-called disruptive technologies in the South East Asian region, was Softbank's investment in a 40% shareholding in the Singapore-based holding company for GrabTaxi, the mobile taxi-booking application.

SOUTH EAST ASIA HEAT CHART BY SECTOR	
Industrials & Chemicals	132
Energy, Mining & Utilities	90
Business Services	61
Consumer	46
TMT	45
Financial Services	41
Pharma, Medical & Biotech	24
Leisure	17
Total	**456**

SOUTH EAST ASIA MID-MARKET VOLUMES BY SECTOR



LOOKING AHEAD

Deals in the pipeline as at the end of Q4 2014 reduced quarter-on-quarter from 468 to 456. Industrials & Chemicals and Energy, Mining & Utilities together account for 49% of deals captured in the BDO Heat Chart at the end of Q4 2014, and this is generally consistent with the previous quarter. The most significant quarter-on-quarter increase was in the Financial Services sector, which experienced an 11% increase. A number of sectors saw reductions, most notably Pharma, Medical & Biotech.

Many of the factors that we have highlighted in previous editions of BDO HORIZONS as being positive in terms of stimulating M&A activity in South East Asia are still very much in play. For example, the opportunities represented by the rising middle class in South East Asia (as exemplified by Indonesia's young population), rising per-capita income, stable economic growth and the region's abundant natural resources. However, the onset of a new year has brought into focus other variables that need to be considered when discussing ongoing M&A trends. These include the recent decline in crude oil prices to their lowest level in more than five years, together with changes in other global commodity prices, and lingering concerns (admittedly not universally shared) about possible future political instability in some South East Asian countries.

These factors make it more challenging than usual to identify clear trends for M&A in the region as a whole. On balance, however, assuming gradual efforts towards greater regional integration continue and, given favorable demographics particularly within the larger South East Asian economies, we believe that investors will continue to regard the region as an attractive market in which to pursue M&A. The Consumer sector, including retail and healthcare, will maintain its prime position as an area of focus for investors. In addition, banking and financial services offer possibilities for consolidation, in part driven by regulatory changes. The Philippines, for example, amended its regulations in 2014 to allow foreign banks to own 100% of domestic banks.

JAPAN

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BIG PICTURE

- Trade sales remain the biggest player in Japan's M&A market
- TMT, Industrials & Chemicals, Consumer and Business Services expected to drive M&A activity in Japan
- Outbound investment into Asia is expected to continue and increase.

Strategic buyers and outbound investment continued to drive M&A activity, with the outlook for 2015 cautiously positive.

Looking at all M&A activity in the final quarter of 2014 (not just the mid-market), there were a total of 623 deals, representing an increase of 7% on Q4 2013. These included 399 domestic deals, 173 outbound deals and 51 inbound transactions. Or viewed by deal type there were 361 acquisitions, 254 minority investments and eight mergers.

The mid-market alone delivered 56 deals in Q4 2014. Although this was an increase in transaction volume compared to the previous quarter, deal numbers fell in comparison to Q4 2013. The dip is mainly due to a drop in activity in two sectors, namely Industrials & Chemicals (from 17 deals to 10) and Consumer (from 17 to 11).

Looking at Q4 deal numbers in comparison to the previous quarter, volume increased from 43 to 56, driven by activity in Business Services (+8), Consumer (+5), and Pharma, Medical & Biotech (+5). These are generally categorised as lighter, more compact, knowledge-intensive sectors.

Although the fact that deal numbers rose from Q3 to Q4 is a positive sign, perhaps we should not read too much into this as it is a trend we have seen in several of the last years.

TRADE SALES LEAD THE WAY

The graph of Japan's mid-market M&A shows that trade sales are by far the biggest player, far ahead of private equity in both volume and value terms. This is because the market is driven largely by strategic buyers rather than financial investors (such as funds).

Companies are mainly using M&A to expand their business into new markets (both overseas and domestic), or to consolidate their core business.

These trends apply not just to the mid-market but to Japan's M&A deals in general.

PE/TRADE VOLUME & VALUE

OUTBOUND INVESTMENT IS KEY

Returning to the market as a whole, we can see the continuing role played by outbound investment. This was responsible for 172 deals in Q4 2014, compared to 142 in Q4 2013, and still comprises the majority of cross-border investment.

In terms of the destination for outbound investments, the Asia (especially ASEAN) region accounted for around 41% of all deals in 2014. This is driven in part by negative internal factors such as Japan's low birth rate and ageing population, which are shrinking consumer demand. Positive external factors include Asia's thriving population, consumer market and economy, combined with lower manufacturing and labor costs. The sectors most active for outbound investments into Asia include Food Services and related businesses, Manufacturing, Construction and IT.

JAPAN HEAT CHART BY SECTOR	
TMT	58
Industrials & Chemicals	57
Consumer	42
Business Services	35
Leisure	20
Financial Services	17
Pharma, Medical & Biotech	13
Energy, Mining & Utilities	8
Total	**250**

LOOKING AHEAD

The BDO Heat Chart underlines the continuing strength of the leading sectors – TMT, Industrials & Chemicals, Consumer and Business Services – which share 192 forthcoming deal opportunities between them. These sectors are expected to be the main engine driving Japan's M&A market going forward.

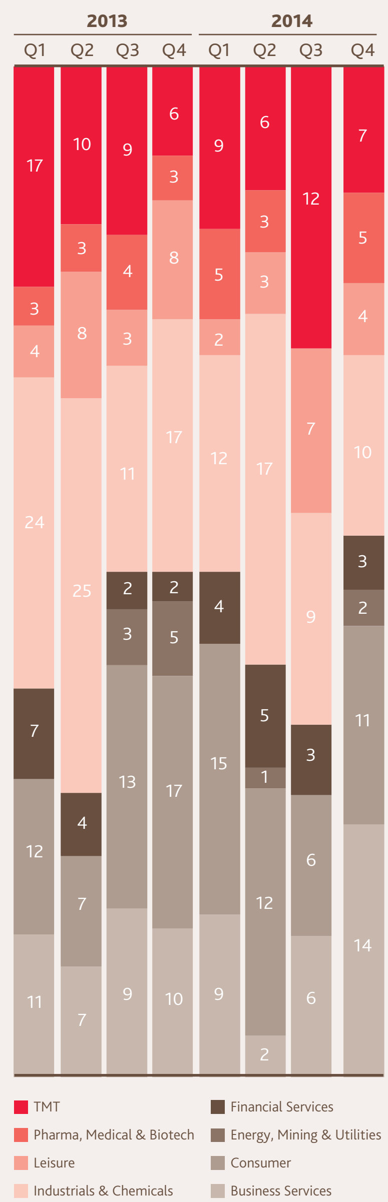
The outlook for deal activity in 2015 is cautiously positive. Following December's election victory, the ruling coalition can continue to push ahead with 'Abenomics'.

The second phase of consumption tax rises has been postponed. At present, it is difficult to say whether this political measure will bring the business community good news or not.

At the moment there are two key problems in Japan: the ageing population and the restructuring of infrastructure facilities, such as bridges and highways. While these create challenges, they also present potential market opportunities.

We can expect outbound investment into Asia to continue and increase. Meanwhile the approach of the Olympics should drive a recovery in the construction, real estate and tourism industries, bringing with it a potential boost to inward investment from overseas. We should also see continued recovery in the IPO market.

JAPAN MID-MARKET VOLUMES BY SECTOR



AUSTRALASIA

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BIG PICTURE

- Full year 2014 transaction volumes up 24%, with total deal value holding steady
- Business Services led the way in Q4, responsible for 22 out of 94 transactions
- Energy, Mining & Utilities continued to lag due to falling commodity prices
- Low interest rates, a stable exchange rate and economic fundamentals continue to support M&A activity.

A consistent year for M&A activity and a supportive environment for continued strength in 2015.

Total M&A transaction values and volumes have been relatively stable over the past two years, averaging USD 5.5bn per quarter, except for a spike in Q2 2014 when deal value hit USD 7.2bn.

Sector activity during the quarter was dominated by Business Services, which contributed 22 of the total 94 transactions. The Industrials & Chemicals sector took second spot with 16 transactions, while TMT contributed 15.

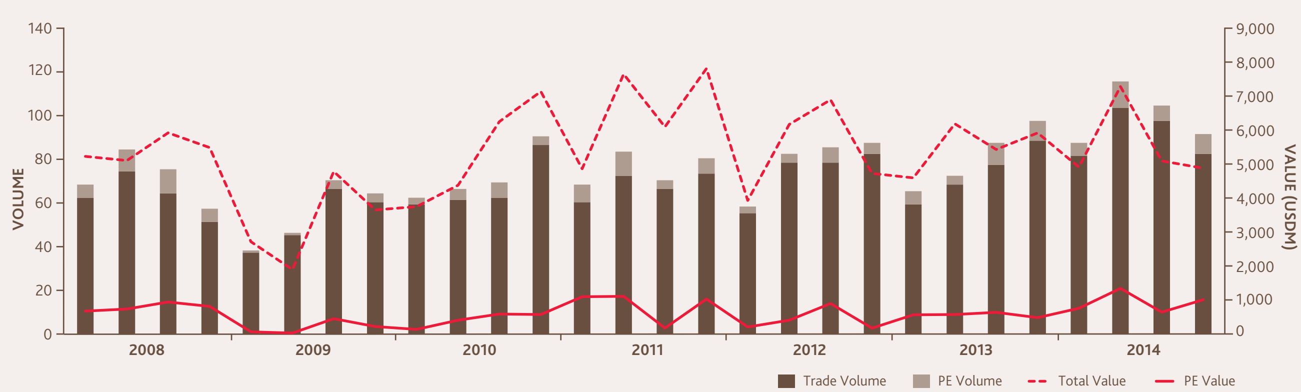
In Business Services, major transactions included the acquisition of ANZ Terminals Pty Limited, an operator of bulk liquid and gas storage facilities with plants located at major ports throughout Australia, by a consortium made up of Colonial First State Investment Limited, Northleaf Capital Partners, Palisade Investment Partners Limited and Fengate Capital Management Limited.

Uncertainty around key commodity prices (iron ore, gold and coal) continues to impact confidence in Energy, Mining & Utilities. The sector contributed only ten transactions during the final quarter, making it the equal fourth highest sector, and was responsible for none of the top five mid-market deals in Q4 2014.

Private Equity continues to have a strong presence in mid-market transactions, contributing 20% of the total deal value in the final quarter, compared to 13% in Q3 2014 and 8% inQ4 2013.

Notable cross-border deals included China-based Sunshine Insurance Group Corporation Limited's acquisition of Sheraton on the Park Pty Limited for USD399m, and Germany-based Allianz SE's acquisition of Territory Insurance Office from the Northern Territory Government for USD 202m.

PE/TRADE VOLUME & VALUE



LOOKING AHEAD

The BDO Heat Chart for Australasia suggests that Industrial & Chemicals is expected to regain top spot and contribute the largest amount of transactions over the short to medium term.

The Energy, Mining & Utilities sector in Australia remains a key driver of economic activity in Australia, yet mining M&A activity remains low. The Heat Chart suggests that, at least in the near term, transactions in the Energy, Mining & Utilities sector are unlikely to increase substantially.

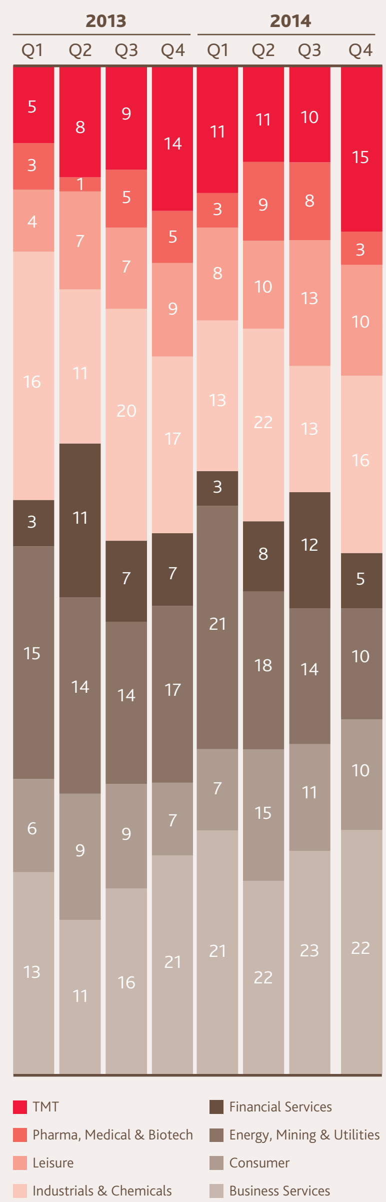
However, if the valuations of Energy, Mining & Utilities companies remain at the current low point in the cycle, then they may represent an attractive investment proposition for other mining businesses looking to bolster their existing reserves and resources.

In short, Australasia continues to offer an attractive opportunity for offshore firms looking for a stable investment destination to diversify their operations. In addition, local private equity firms and superannuation funds retain high cash balances, which they are looking to utlilise. Combined with generally strong economic fundamentals, the environment is very supportive for continued strength in M&A activity in Australasia.

AUSTRALASIA HEAT CHART BY SECTOR

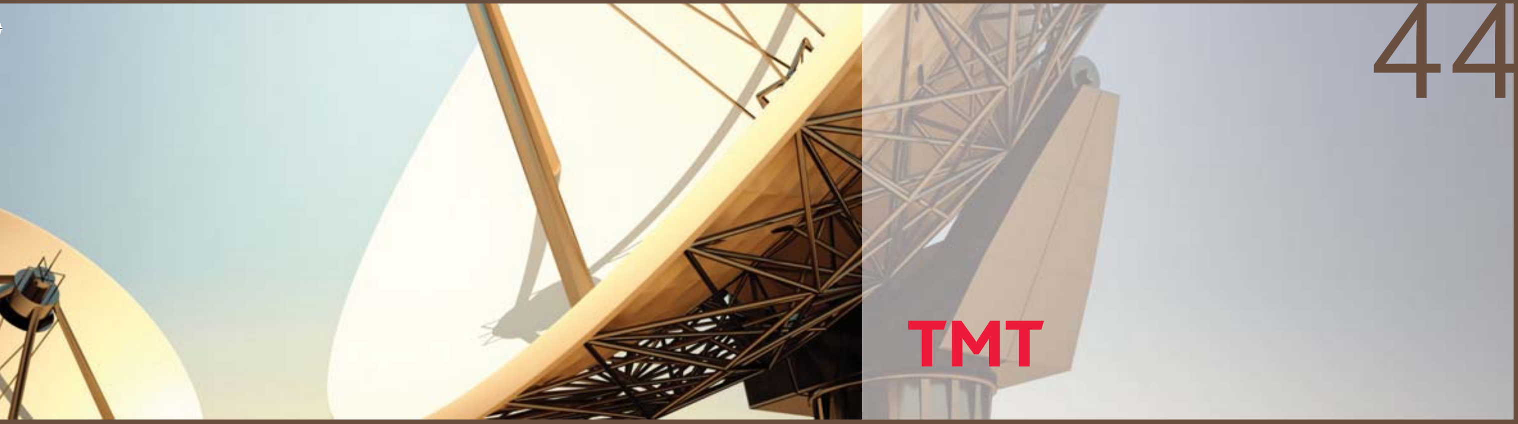
Industrials & Chemicals	81
TMT	72
Business Services	67
Consumer	65
Energy, Mining & Utilities	63
Pharma, Medical & Biotech	44
Financial Services	35
Leisure	20
Total	**447**

AUSTRALASIA MID-MARKET VOLUMES BY SECTOR





SECTOR VIEW



BUSINESS SERVICES
RECUTIMENT AND STAFFING

STEVE WOOLMER
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BIG PICTURE

- Q4 2014 deal momentum forecast to continue into 2015
- Companies that are leaders in their niche will continue to be highly attractive targets
- Cheaper European valuations will attract US investors, while the UK and Japan are forecast to increasingly look outward for international deals.

2105 looks set to be a busy and increasingly international year for M&A activity in this sector.

Set against the backdrop of the fastest growing economy in the G7 and the lowest reported unemployment since the global financial crisis, the UK recruitment industry is tipped to be a leading sector for M&A activity in 2015 — increasingly with an international focus.

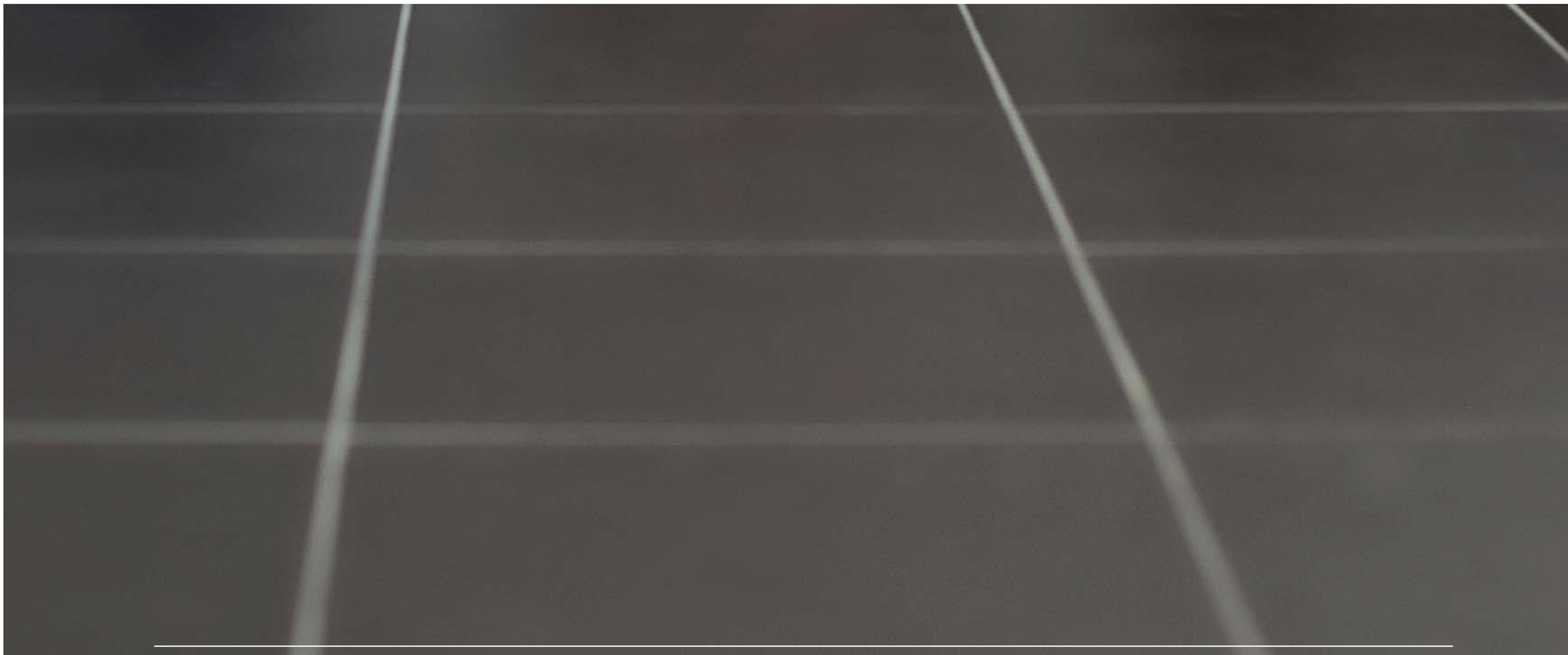
Deal activity in the global staffing sector is notoriously cyclical and is generally a barometer of wider economic confidence. In the UK, the latter part of 2014 saw the completion of a number of high-profile deals in the sector with private equity leading the way through Sovereign Capital's acquisition of healthcare staffing business NursePlus, Primary's deal for public sector specialist GatenbySanderson and the MBO of Human Capital Investment Group, backed by serial sector investor Graphite Capital. Trade buyers were also active, with Impellam plc's acquisition of IT staffing specialist Lorien the highest profile deal in Q4.

These deals were all UK-centric, but with many market commentators expecting an even greater level of activity in 2015, there is likely to be an increasingly global focus to M&A in the sector. With that in mind, the BDO Professional Services M&A team outlines its predictions for the key international trends in the coming 12 months:

- A strong US dollar, allied to weakness in the eurozone and uncertainty in the UK from the forthcoming election dragging on sterling, should see renewed inbound investment from US trade buyers and investors. US buyers will be able to pay very competitive valuations with European assets looking relatively cheap on a constant currency basis, helped further by a more confident and competitive US debt market. The cultural risk from cross-border M&A is as pertinent as ever for deals in the human capital space, although if the transition is well managed, it can prove extremely lucrative for both buyer and seller.
- An increasingly international outlook by Japanese trade players is causing a shift in the Asia-Pacific market. The USD 1bn+ IPO and the associated ambitious international expansion plans set out by Recruit Holdings Co. Ltd resulted in the announcement of two deals focused on Australia in late 2014 — the acquisitions of IT specialist Peoplebank and integrated HR solutions provider Chandler Macleod. This internationalisation is likely to continue unabated in 2015.

- Businesses that are genuine leaders in their niche will continue to be particularly attractive targets regardless of where they are located. Such companies are also more likely to secure a premium valuation than generalist staffing businesses. Specialists offer both the opportunity for instant and credible diversification for the acquiring entity while also providing a platform for growth in adjacent markets or overseas territories. A scarcity of quality opportunities will keep pricing very competitive at this end of the market.
- The boom in the Oil & Gas staffing segment will dry up. The energy staffing sub-sector has seen unprecedented levels of deal activity in recent years and some eye watering valuations have been paid — particularly at the mid-to-large cap size bracket where the target company's operations are truly global. The current state of flux in the oil and gas market is likely to see that momentum end abruptly although a side effect could be a wave of consolidation across an already saturated and very competitive market place.
- Following a period of largely organic growth, we expect UK plc to be increasingly active with regards to cross-border M&A. Many UK-listed companies have been focused on the domestic market place where growth rates have been strong as the UK economy rebounds. With balance sheets repaired and share price ratings more attractive, the focus should return to international expansion. Hays' acquisition of a majority stake in leading US IT specialist Veredus Corp in December 2014 was an early example of this and of where value can be found. This trend should continue into 2015.

Overall, we continue to maintain a very positive outlook for M&A activity in the global staffing sector. The BDO team speaks to a large number of clients and contacts in the recruitment and staffing space and it is clear that realising shareholder value via an exit event is front of mind for a significant number of owners. This, combined with largely positive market conditions and the factors outlined earlier in this feature, should see the Q4 2014 deal momentum continue into 2015.



TMT

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BIG PICTURE

- A weak final quarter in 2014 with disappointing deal values across all three sub-sectors
- Key 2014 trends are expected to continue into 2015 with increased momentum and focus from investors and acquirers
- Positive M&A outlook for 2015, driven by the need for innovation and rapidly changing markets.

2014 saw a slow final quarter but Global TMT M&A activity looks poised for a comeback in 2015.

Despite starting the year strongly, the TMT sector was not able to maintain that momentum, with declines in both volume and value in the final quarter of 2014. The total TMT deal count came in at 809, down from 861 in Q3 2014 and representing a 6% drop in volume. Deal value fell from USD 45.4bn in Q3 to USD 10.8bn in Q4, a decline of 76.4% and the lowest quarterly transaction value level in a long time. Falling deal value has been consistent across all three sub-sectors, making this a disappointing quarter.

KEY TRENDS

In 2014 there was a strong investor focus on the Internet of Things (IoT), which saw a record year across areas such as wearable technology, connected cars and homes, and the industrial internet. Artificial intelligence and big data were also still very much in focus. Companies have started to implement and gather big data, but in general have yet to see a return on investment. We expect 2015 big data M&A activity to be centred around visualising and interpreting data, thereby helping companies turn the gathered information into decisions and impact. With mobile payment and cyber cash companies raising record amounts of investment in 2014, fintech is also looking strong heading into 2015. Traditional banks are being squeezed by easier and cheaper electronic payment forms and may have to buy up the technology that they are not able to develop themselves if they want to stay competitive.

In media we have seen gaming and digital advertising storming forward as they attract increased attention from traditional advertising agencies. As consumers become increasingly reliant on digital technology and spend a larger portion of their time online, media companies will have to alter their business models to monetise online users, or engage in M&A with companies who have the ability to do this. If media businesses prove unable to move quickly enough, the big tech companies (led by Amazon, Apple, Google and Facebook) are ready to take over their customers and are already making moves into the industry with media distribution, self-publishing, ad-words etc.

For telecom companies, paid Over the-Top (OTT) services (which stream premium content across a variety of devices) are quickly becoming a 'must-have'. Pay OTT TV is expected to provide huge growth potential as internet-connected devices become even more ubiquitous and the popularity of streaming services continues to rise.

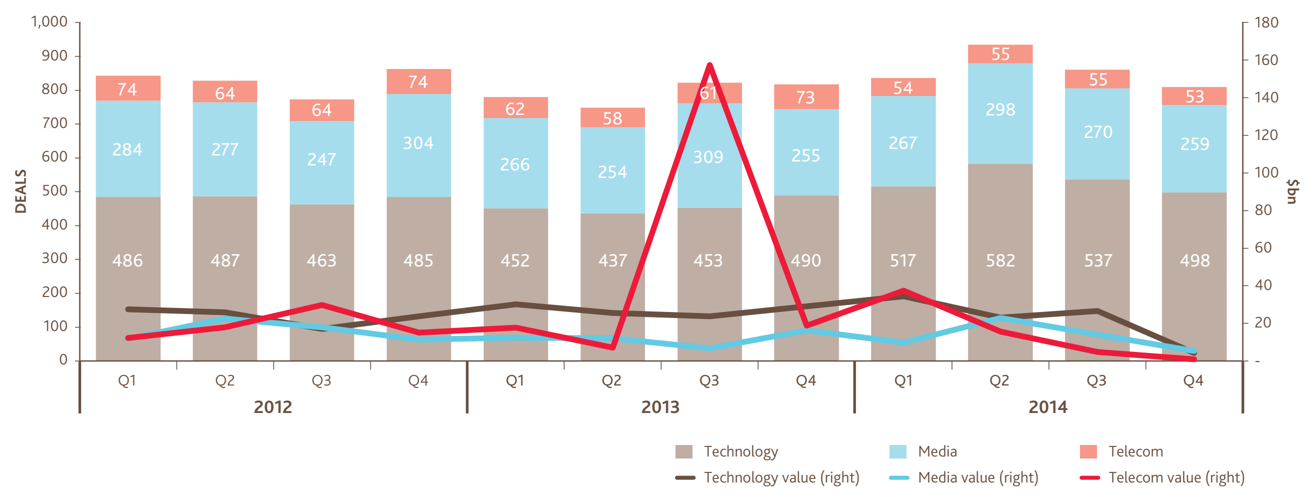
LOOKING AHEAD

Even though the M&A in the TMT sector didn't reach anticipated levels during 2014, we still hold great expectations for the sector in 2015. A recovering eurozone economy should contribute to increased activity, and with the US economy continuing to grow strongly, we expect activity to pick up simultaneously. We therefore forecast increased cross-border deals as American companies and funds eye cheaper valuations in Europe and become more active within the sector.

Companies working within the technology realm are likely to see the most M&A activity in 2015, while media and telecoms will likely see comparatively less activity. In an internal BDO TMT survey, 66% believed that media and 80% believed that telecoms would see similar deal numbers to 2014. However the size of the individual deals struck in these two sectors could very well dwarf those in technology, as the sector giants consolidate to stay competitive.

Overall, we do not think that we will look back on 2015 as the year that a new, previously unknown disruptive technology emerged, but as a period when known technologies and disruptive solutions received more funding and thereby came closer to realising their full disruptive potential.

M&A VOLUME BY SUB-SECTOR



FINANCIAL SERVICES

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BIG PICTURE

- Deal volume increases for third consecutive year
- All major regions experience increased activity
- Europe leads the way with a 23% rise in transactions.

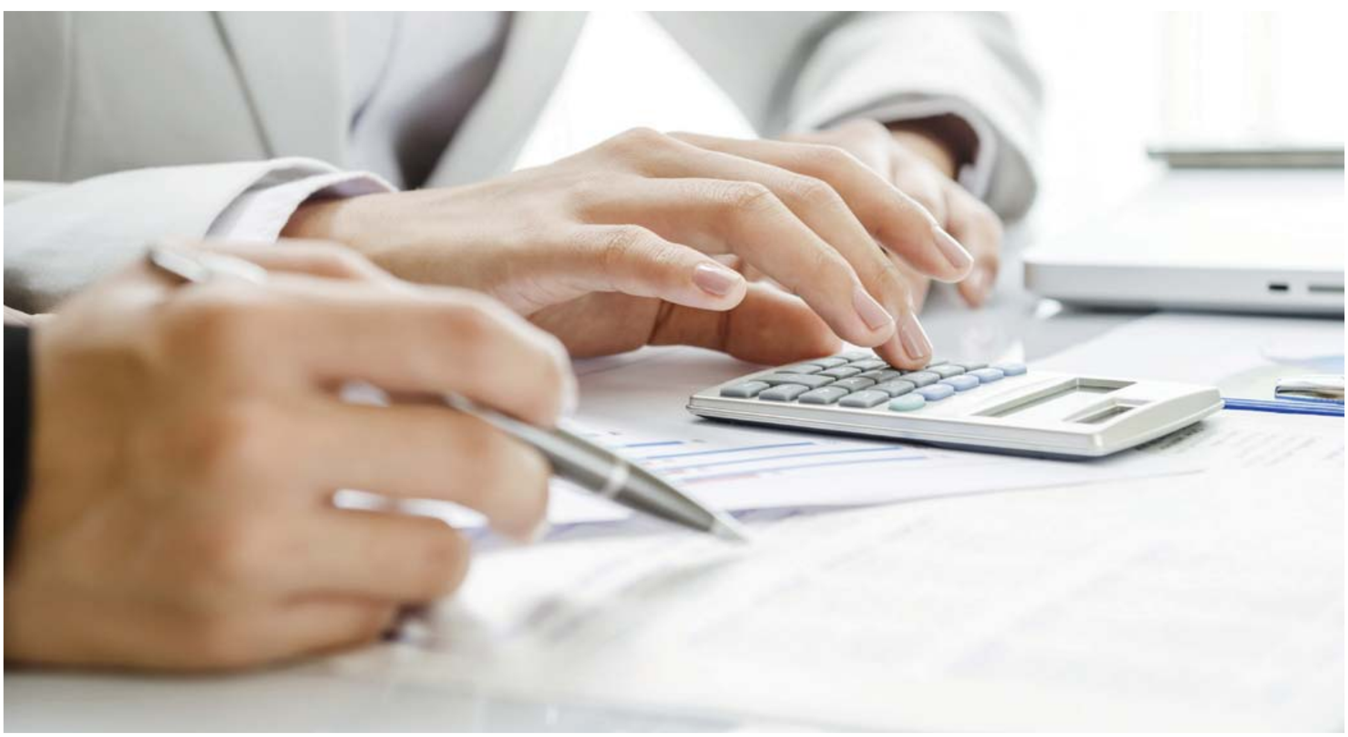
With a 13% increase in overall deal volume, 2014 saw transactions grow in all three major regions.

The number of Financial Services mid-market M&A transactions grew for the third consecutive year in 2014. A total of 649 deals were recorded, representing a 13% increase compared to 2013. Transaction volume in 2014 even exceeded that experienced in 2008, a year that reflected the turmoil of the financial crisis.

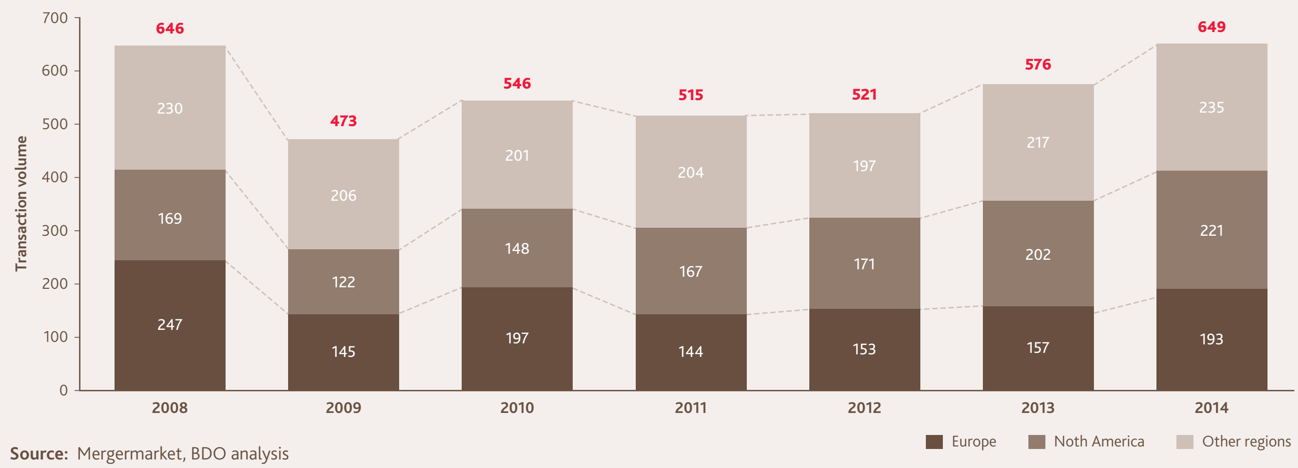
All three regions shown in the graph opposite enjoyed growing transaction volume both in 2013 and 2014. However, growth in Europe was the strongest of the three regions in 2014, with deal volume up 23% to 193 compared to the previous year.

SPOTLIGHT ASSET MANAGEMENT:
Valuation function under European AIFMD

Under the Alternative Investment Fund Managers Directive 2011/61/EU ('AIFMD'), Alternative Investment Fund Managers established within the European Union have required authorisation since 22 July 2013 (or 22 July 2014 in member states that used the transitional period). As a key change being introduced by the AIFMD, EU AIFMs are required to have independent risk management and valuation functions. BDO Corporate Finance has performed a number of engagements within the industry to help clients prepare for the AIFMD regulation.

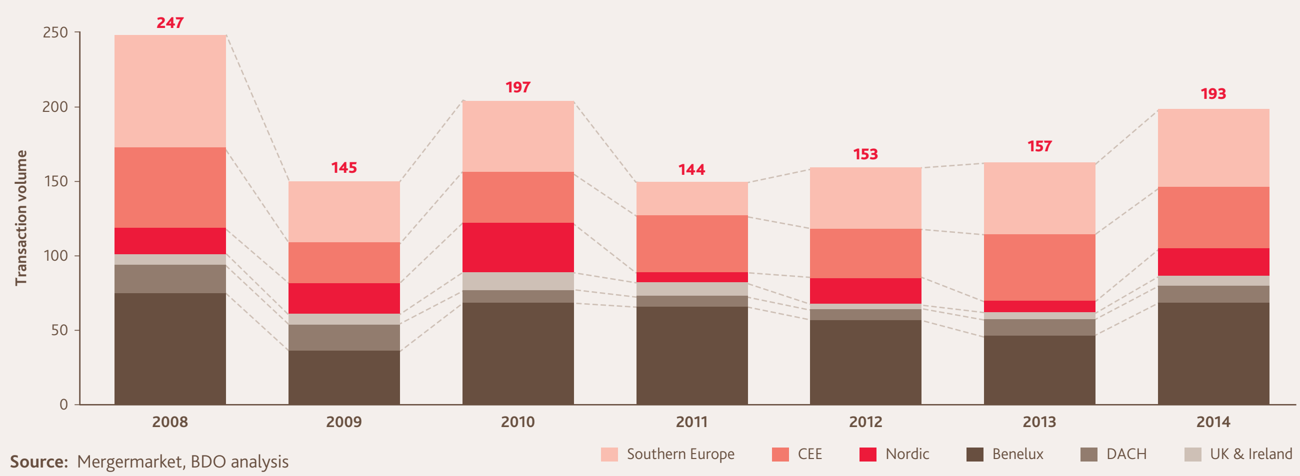


M&A MID-MARKET TRANSACTION VOLUME BY REGION, 2008-2014



Source: Mergermarket, BDO analysis

M&A MID-MARKET TRANSACTION VOLUME EUROPE BY COUNTRY, 2008-2014



Source: Mergermarket, BDO analysis

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