CONTENTS

GLOBAL VIEW .......................................................... 01
FEATURE: ARE SPACS HERE TO STAY? .............. 03
GLOBAL MAP ........................................................... 07
REGIONAL VIEW .................................................. 09
SECTOR VIEW .......................................................... 46
SOME OF OUR RECENTLY COMPLETED DEALS ............. 53

BDO GLOBAL CORPORATE FINANCE

1,546 COMPLETED DEALS IN 2020
WITH A TOTAL DEAL VALUE OF $83.5bn

32% PRIVATE EQUITY DEAL INVOLVEMENT
23% OF OUR DEALS ARE CROSS BORDER

ONE OF THE MOST ACTIVE ADVISERS GLOBALLY
2,500 CORPORATE FINANCE PROFESSIONALS
120 COUNTRIES PROVIDING DEDICATED CORPORATE FINANCE SERVICES

*1st most active M&A Advisor Globally – Pitchbook league tables 2020
1st most active Advisor & Accountant Globally 2020 – Pitchbook league tables 2020
2nd leading Financial Due Diligence provider Globally – Mergermarket global accountant league tables 2020
As we reach the half way point in 2021, the M&A trends remain hugely encouraging. The bounce back in activity that we saw in H2 last year has continued into H1 of this year. Deal volumes are back to pre-pandemic levels and aggregate deal value continues to grow with record amounts of cash being deployed.

Private equity in particular has continued to increase its amount of investment and is running at around 30% of all deal value which is higher than it has ever been. Trade buyers are also very active though pursuing strategic acquisitions both in terms of geographic extension and adding capabilities.

Sellers have been in the form of private equity exits, non-core disposals by corporates and private sellers, some of whom have been keen to beat any potential increases on capital tax rates. It feels like there is now more cash rich buyers chasing fewer quality assets which is impacting pricing.

In our Global View article, we look at the picture and trends in more detail along with what is happening in sectors and regions of the globe. We see continued recovery in M&A in all sectors and in most regions and we expect the positive momentum to continue.

In our leader article, we look further at the incredible rise of special purpose acquisition companies or SPACs. In 18 months, there have been nearly 580 IPOs of SPACs raising an aggregate value of USD 188bn and are now spreading to Europe. We look at SPACs in more detail and ask the question are they here to stay?

In our sector view, we look at Real Estate and TMT. With Real Estate we believe that local knowledge and ESG hold the key to real estate success. Our TMT feature has a Healthcare slant and we ask the question who will become the Microsoft teams of healthcare technology?

In terms of world healthcare and the pandemic, the continued roll-out of vaccination programmes around the world feels like it is beginning to show some positive impact now, with hopefully more to come. Despite all of those challenges M&A has prospered and seems set to continue to do so. With all the M&A activity that has gone on since last summer, we hope you enjoy some time off to recharge over the current summer and stay safe and well.
To put some values to the observations above, overall deal volume was around 2,100 in Q1 and Q2 of which around 80% were trade deals and 20% private equity led. Aggregate deal value was over USD 210bn in Q2, which is the third quarter in a row it has been over USD 200bn. That is remarkable when you consider that has only occurred twice in a quarter in the previous dozen or so years.

So we are seeing more being invested with average deal value exceeding USD 100m for the first time. Private equity has been the major force behind that contributing around 30% of aggregate deal value which for the first time exceeded an average of USD 150m per deal. In contrast the average for trade acquirers was USD 90m per deal in Q2. Both private equity and trade average deals values are edging up though. In our view, this reflects higher valuations and may be linked to the question raised above about the availability of suitable targets. Deal activity viewed by sector reveals that TMT has seen more increase in deal activity this year than any other sector and now accounts for over 1 in 4 deals. Other sectors that showed an uptick in activity in Q2 were Business Services and Consumer.

Looking around the world, most regions held up fairly well in Q2 in terms of activity. The biggest gains in the quarter were Australasia and Latin America whilst the UK & Ireland and Israel saw the biggest decline in the quarter. North America accounted for nearly 30% of global mid-market deal activity, followed by Greater China at nearly 20%.
We expect this picture to be supported by the availability of cash in private equity and capital markets coupled with relatively cheap debt. In terms of sellers, we expect to see a further level of non-core disposals by larger groups seeking to rationalise. These deals are driven a bit less by financial performance and more by strategy. In terms of private sellers, there is the weighing up of a recovery in profitability post COVID-19 on the one hand and concern over future capital gains tax rises on the other hand. There is also a generational factor with some private sellers. Private equity continues to realise investments ahead of an expected period of fresh investments.

GLOBAL THEMES THAT ARE INFLUENCING M&A

The availability of cash and a return in confidence feels like the biggest current factors behind the recovery in M&A and record levels of cash deployment. As we have noted above, the continued growth of private equity funds is a major feature of current M&A. For strategic buyers it is also a good time to acquire and add to capability, especially technology and digital. As before, we would add to that the rise in the ESG agenda for investors. Finally, and we keep saying this, but we do expect that there will be a rise in stressed and distressed M&A and special situations M&A as some of the government support measures around the world are withdrawn.
ARE SPACs HERE TO STAY?

The last 18 months have seen the emergence of a new type of acquirer to compete with traditional trade and private equity deals. We examine if it is here to stay or a bubble waiting to burst.

When discussing strategic options with private companies about their future development and funding, there are the typical routes of debt, private equity or IPO. Each has its merits and drawbacks. Occasionally, when talking about IPO, the possibility of a reverse into a cash shell would come up. This was sometimes seen as a quicker or more certain way of achieving an IPO as a company could negotiate privately with the directors of the cash shell and then announce a transaction subject to shareholder approval. The benefit was seen as the cash being in the shell company already, along with a ready-made shareholder base and occasionally the added plus of tax losses that could be utilised going forward.

BORN IN THE USA

The issue with this approach was that there were never that many cash shells to choose from or those that existed had smaller amounts of cash. Last year that changed with the emergence in the US – and the incredible rise – of the special purpose acquisition company, or SPAC for short. These companies, also known as ‘blank cheque’ companies, are new companies that raise a war chest of cash at IPO with a stated objective of identifying and acquiring an appropriate target company. The promoters of these companies are typically individuals with a track record of value creation on the capital markets or operating within a sector or existing equity fund managers creating an alternative investment vehicle.

During 2020 and into 2021, an incredible USD 188bn of capital was raised by around 578 SPACs. That represents an average fund raise of USD 325m. In 2020, SPACs represented more than half of all IPOs in the US as the capital markets were seen as being more friendly to this type of company. A small amount of the cash raise acts as working capital to cover the running costs of the company and the bulk of the cash raised sits in trust pending a suitable acquisition.

*As of May 2021 reported by SPACInsider.com.
In the meantime, a number of SPACs have seen their shares trade at a premium to the issue price, in expectation of a value-enhancing deal to be found by its promoters. The share premium works to the benefit of existing shareholders when it comes to the issue of shares as acquisition currency along with cash and to reduce dilution. The SPAC can also raise debt against the earnings and assets post acquisition to further leverage returns for shareholders in the way that a private equity structure may do.

At the time of the proposed acquisition, the SPAC will seek shareholder approval for the target and may also offer the option of a tender offer to buy back shares of any shareholder wishing to exit close to the IPO price. If the shareholders approve the transaction, it will de-SPAC and the combined entity will become a publicly-listed and traded company.

Whilst the initial IPO of the SPAC is a relatively quick process of a new shell company with cash as its only real asset, the de-SPAC transaction is more like the IPO process for a trading company, with due diligence on the target company, audited accounts and public disclosures. With a SPAC, the typical IPO commission is split between a small element of around 2% on the creation of the SPAC and a larger element of, say 3.5%, held back and only payable in the event of a de-SPAC transaction.

A newly-listed SPAC has around 18 months to find a suitable target company to acquire or return to cash to shareholders in the event of no transaction. Many of the SPACs have identified a sector and/or geographical focus. This is not limited to North America and a number of SPACs have included other regions such as Europe.
EXPORTED TO EUROPE
What started out as a US trend has quickly caught the attention of other countries. Stock exchanges around the world are keen to maintain their competitive position and not be disadvantaged by regulatory restrictions. The Amsterdam Stock Exchange in the Netherlands saw the first European-based SPAC with the USD 295m listing of ESG Core Investments B.V. on the Euronext Amsterdam, sponsored by Infestos Nederland B.V., an ESG-focused investment firm. The Netherlands regulatory market is closer to that of the US with the ability for investors to withdraw their money once a SPAC announces a target acquisition. Amsterdam is also seen as having a global business outlook which could be more conducive to SPACs.

Germany was the next European country to follow suit with the Frankfurt Stock Exchange listing of the USD 325m Lakestar SPAC I SE, sponsored by Lakestar Advisors GmbH. In the UK, the Hill Report on capital market reform has recommended changes to the UK listing regime to pave the way for the listing of SPACs on the London Stock Exchange.

BOOM OR BUST?
SPACs have already attracted their fair share of sceptical press, in part around the trend for celebrities who have been involved in the SPAC boom. Some commentators draw a parallel with the US reverse merger trend in the mid-2000s and poor stock market valuations, regulatory concerns and increasing negative press coverage. Another challenge is the sheer number of SPACs chasing the right deal in competition with private equity and trade.

One stockbroker we were speaking to commented that an IPO offers the benefit of a tailored shareholder base of the right supportive investors, whereas a SPAC could have shareholders who are not supportive of the target acquisition in the longer term. In the UK context, it is worth noting that the London Stock Exchange already attracts a large and growing pool of US institutional investors when comparing a SPAC to an IPO.

On the positive side, SPACs offer more choice to companies in raising finance for growth to that of IPO or private equity. It may be that the weight of capital offered by SPACs could be suited to some companies’ growth and innovation. The quality of the sponsor, as with private equity, can be another potential benefit for a SPAC acquisition in terms of the added evaluation of the target and strategic support. We believe that this growing professionalisation of the SPAC industry is an important factor in terms of quality and longevity. Recent pricing analysis is supportive with post-merger SPAC share prices up by a significant premium to the S&P 500.

So, back to our opening question, are SPACs here to stay or a bubble waiting to burst? As with all investments, there will be some failures and they won’t be suitable for all. However, we believe SPACs are an interesting alternative strategic option for fund raising and the corporate development of a company within a regulated landscape and the involvement of strong professional parties.
GLOBAL
10,179 RUMOURED TRANSACTIONS

P09 | NORTH AMERICA
BULLISH OPTIMISM RESULTS IN M&A BOOM

13 | LATIN AMERICA
PE DEALS LEAD THE WAY AS M&A BOUNCES BACK

SECTOR VIEW

REAL ESTATE | P47
TMT | P49
Note: The colouring illustrates the movement of expected transactions compared to the expected transactions in the previous quarter.
NORTH AMERICA
BULLISH OPTIMISM RESULTS IN M&A BOOM

As was expected, M&A activity continued to forge ahead in Q2 2021. A market with an abundance of cash held by both PE funds and strategic buyers, the easing of stay-at-home orders driving pent-up consumer demand and improved business conditions all contributed to a surge in M&A deal-making activity.

For a large part of 2020, the COVID-19 pandemic upended M&A activity and slowed many new and progressing deals. Most predicted a bounce back but few predicted the magnitude of the rebound in activity in 2021. With the opening of economies and the roll-out of vaccines in both the US and Canada in Q1 2021, a new bullish optimism has taken the M&A market by storm and this has continued into the second quarter. Sustained government stimulus programmes, loosening COVID-related restrictions and underlying pent-up demand are driving a resurgence in many troubled industries and M&A activity at the same time.

Mid-market M&A volume in North America continued its frenzied pace in Q2 2021 with 611 deals completed compared to 315 deals in Q2 2020. There was a corresponding increase in the aggregate deal value in Q2 2021 to USD 83.6bn, compared to USD 34.8bn in Q2 2020. This compares to similar levels of activity in Q1 2021, when there were 616 deals totaling USD 82.2bn in value. Mid-market M&A activity is moving at such a feverish pace that in some cases deal timelines are being extended due to a lack of M&A professionals such as diligence providers, lawyers and tax advisors to support the increased activity.

There are a number of pervasive factors that are driving both M&A deal volume and value. Record high valuations and the demand for quality assets are increasing a willingness to divest and prolonging a seller’s market. Many business owners are fatigued from managing their businesses through a pandemic. Many of those that were on the cusp of selling have accelerated their divestiture plans with an opportunistic look at a strong market and

• Deal volume was up 94% in Q2 2021 compared to Q2 2020 and was consistent with Q1 2021 figures
• Deal value was up 1.8% in Q2 2021 from Q1 2021, and rose by 140.5% compared to Q2 2020
• PE buyers were active with 141 deals, representing 23.1% of deal volume and 29.2% of the quarter’s deal value.

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a chance to exit years ahead of when they initially planned. In addition, a transition to digitization and the reorganization of businesses as a result of COVID-19 represent intensive projects that some mid-market business owners do not want to take on and are further influencing divestiture decisions. A prime example of taking advantage of a peak market cycle are management teams or owner-operators in any business driven by lumber prices. With prices standing at record highs earlier in the year, larger strategic players are now looking to reinvest in growth and capacity while smaller owner-operators are looking to exit at a market peak.

Despite an increasing concern around inflation and the potential of reactive interest rate hikes, interest rates still remain low, there are still high levels of dry powder available in spite of increasing deployment and capital continues to be readily accessible. The Bank of Canada and the US Federal Reserve are likely to keep interest rates steady for the remainder of 2021 with potential increases in 2022. As a result, private equity firms continued to contribute significantly to the M&A market in Q2 2021. Private equity buyers accounted for 23.1% and 29.2% of deal volume and value respectively. With the turnaround of retail and other traditional industries that have successfully managed their way through the pandemic, some deal sponsors are shifting their targets away from the highly competitive sectors such as technology and healthcare. Competition in general continues to be a concern for many funds, where high valuations and a scarcity of quality assets are being factored into risk and return decisions. Another supporting factor driving US deal activity are the proposed tax hikes under the Biden administration. Many dealmakers, both corporate and financial, are looking to push deals to the finish line before the end of 2021 to mitigate any excess tax exposure.

A shift in focus to digitization and core business models have forced management teams to rethink their strategies, refocus and divest non-core assets or carve out less complementary businesses. Divesting companies are pursuing carve outs to increase their cash, reduce debt and redeploy in a more focused manner conducive to a post-pandemic market. Conversely, other financial and strategic buyers are taking the opportunity to pursue spin-off acquisitions to acquire businesses at lower valuations where the transaction may include higher levels of complexity, result in less competition and/or support a core growth thesis. Another trend is being driven by supply chain concerns sparked at the beginning of the pandemic, particularly in the manufacturing and consumer sectors. These issues continue to be prevalent and many strategic buyers both large and small are looking for targets to vertically integrate and gain more control over their supply chain. Despite rising protectionism in the United States and closed borders in both the US and Canada making this strategy relatively more difficult, deals are continuing to get done.
KEY SECTORS

M&A activity actually decreased moderately in Q2 2021 across five of nine tracked sectors compared to the previous quarter, with the exception of Financial Services, Pharma, Medical & Biotech, TMT and Real Estate. However, overall deal value increased so the decline in volume was largely attributable to smaller-sized deals. Financial Services saw the largest increase with 57 deals, up from 44 in Q1 2021. The most significant decrease in deal activity was in Energy, Mining & Utilities. Finally, the sectors with the lowest deal volumes were Leisure and Real Estate with 14 and two deals respectively.

LOOKING AHEAD

2021 is shaping up to potentially be the most active year in M&A history. The market fundamentals continue to support increased investment activity in both Canada and the US, with robust amounts of dry powder looking to be deployed, low interest rates with no immediate foreseeable increases, an economy with once struggling sectors rebounding and a population of owners accelerating their divestiture plans. The issuances of Special Purpose Acquisition Companies (SPACs) slowed in Q2 2021, however, the need to make an acquisition in the next two years will continue to drive activity predominantly upmarket with larger and higher-profile deals.

While the TMT and Pharma, Medical & Biotech sectors have largely led the charge during the pandemic, many other sectors are poised to continue growth and further drive M&A activity including Consumer, Leisure, and Industrials & Chemicals.
LATIN AMERICA
PE DEALS LEAD THE WAY AS M&A BOUNCES BACK

In Q2 2021, there were 85 mid-market deals worth USD 8,381m completed in Latin America, representing an increase in both volume and value compared to the previous quarter. In terms of overall value, it was the best quarterly performance since Q4 2019. Compared to Q1 2021, volume was up by 23.2% and value by 31.2%.

Looking at the Q2 2020 figures, the improvement is even more significant, with deal volume growing by 112.5% and overall deal value increasing by a staggering 384.9%.

Private equity accounted for 14 transactions, with a growth of 77.5% in overall value compared to the previous quarter. It is worth highlighting that the overall value of the PE deals, at USD 2,841m, was the highest recorded in the last decade. PE transactions were responsible for 33.9% of the quarter’s overall deal value, also the highest figure recorded in the last decade.

Looking at the quarter’s top 20 deals, their combined value of USD 5,793m represented 69.1% of overall deal value, while accounting for only 23.5% of overall deal volume.

Finally, in the last 12 months the volume of deals has increased from 309 between Q3 2019 and Q2 2020 to 322 between Q3 2020 and Q2 2021, a growth of 4.2%. The overall value also grew by 9.0%, due not only to higher deal volumes of but also to higher average deal values.

KEY DEALS AND SECTORS

The TMT, Business Services and Pharma, Medical & Biotech sectors led Q2 2021 activity with 20, 19 and 13 deals respectively, together accounting for approximately 61.2% of deals. They were followed by Energy, Mining & Utilities with 10 deals, Financial Services with nine, Industrials & Chemicals with seven and Consumer with five. The remaining two deals took place in the Leisure sector. It is worth highlighting that there were no Real Estate transactions in the quarter and in fact, this sector has only recorded two deals in the last five quarters.
The top 20 deals accounted for approximately 69.1% of the region’s M&A activity in Q2 2021, with a total value of USD 5,793m. Brazil was the most targeted country, with 12 out of the top 20, representing 49.5% of the top 20 deals total value.

The top 20 deals included the acquisition of Disal Chile by Brazilian company Ambipar; a cross-border deal whose due diligence advisor was BDO Chile, advising BDO Brazil’s client Ambipar, a company actively growing through M&As and transacting multiple deals a year. BDO Chile coordinated with BDO’s Peru and Paraguay teams to complete this multinational deal.

Colombia had two deals in the top 20 and the Cayman Islands and Mexico had one deal each. Looking at the bidder countries for the top 20, it is worth mentioning that 12 deals involved bidders located outside Latin America, a sign of continued foreign interest in the region. Of the remaining eight deals, all involved Brazilian bidders.

The quarter’s biggest deal was the acquisition of Gasmar S.A. by Arroyo Energy Investment Partners LLC for USD 499m.

POLITICAL AND ECONOMIC CONTEXT

The Latin American economy, traditionally carried by commodities, has been one of the most severely impacted by the COVID-19 pandemic. And in terms of recovery, it is expected to be one of the slowest. According to S&P Global, the region’s GDP is only likely to return to pre-pandemic levels in mid-2022 and vaccination efforts could well be the key to any sustained recovery.

With the global economic recovery underway, it is expected that the region’s economies will enjoy a boost from rising commodity prices, especially for exports such as oil and soybeans. In relation to domestic markets, increasing consumption is fundamental to the region’s economic growth, but this largely depends on the reopening of commercial activities and services, and the reduction of unemployment, which depends on the speed of the rollout of vaccination programmes.

It is worth remembering that before the onset of the pandemic, the economic outlook for Brazil was positive, even in the wake of disappointing growth in 2019.

Throughout the pandemic, Brazil has seen the basic interest rate reach an all-time low, driving domestic investors towards capital markets.

It should be noted that the difficult operating and economic scenario for companies, due to social restrictions and a devalued exchange rate, has actually ended up generating many M&A opportunities, as companies with available capital have made relevant acquisitions and international investors have sought opportunities for new investments.
The fact that investors took advantage of the result metrics (such as EBITDA), which were temporarily reduced due to the pandemic, generated more moderate valuations and more attractive prices for acquirers, which has generated more investments in Brazil and consequently has heated up the mergers and acquisitions market. However, as inflationary pressure begins to rise once again in emerging markets, Brazil has started to raise its basic interest rate.

Concurrently, as interest rates and inflation are expected to rise, so is the GDP. According to the Brazilian Economy Minister Paulo Guedes, the country is recovering at a faster pace than expected from the worst effects of the pandemic. For instance, the country’s industrial products industry has recently started growing after a long period of decline. With this more optimistic perspective in mind, the Brazilian Minister announced an updated growth projection between 5.0% and 5.5% for the country in 2021, a significantly higher figure than the official projections of 3.5% released in May.

**LOOKING AHEAD**

Latin America represents approximately 5% of the global M&A market with 468 deals announced or under way, as shown in the BDO Heat Chart. TMT is expected to be the most represented sector with 119 deals, followed by Financial Services (85) and Business Services (62), Energy, Mining & Utilities (56) and Industrials & Chemicals (53).

With tightening monetary policies in countries such as Brazil, Chile, Mexico and Colombia, Latin America is expected to see higher interest rates as inflationary pressures rise. The region’s economic recovery is expected to hinge on a commodities boost and well-managed vaccination efforts. For Brazil, the outlook remains positive and is based on a seemingly faster than expected economic recovery.
The ongoing COVID-19 vaccination rollout and gradual easing of lockdown measures in the UK & Ireland have encouraged significant deal activity in the first half of 2021 overall. In H1 2021, transaction value was up 49% vs H2 2020 and up 75% vs H1 2020, with the figures clearly indicating that the recovery in mid-market M&A deals, which began in the second half of 2020, was continuing at pace, even if deal volume was up by a more modest 24% vs H2 2020 and 11% vs H1 2020.

While Q1 2021 was one of the busiest first quarters for M&A in several years, Q2 2021 volume dropped from 165 to 119 reported transactions (down 28%) in comparison to the previous quarter, while deal value also fell from USD 18.4bn to USD 12.4bn (down 33%), as evidenced in the Mergermarket data behind the PE/Trade volume and value graph on this page. Private equity continued to play a prominent role in the UK deal landscape, funding around 40% of total transactions in H1 2020. However, PE deal numbers in Q2 2021 also dropped by 26% (to 34 from 46 reported transactions) compared to the prior quarter while PE deal value also declined from USD 6.9bn to USD 4.6bn (33%). In the UK this performance could have been caused, to a certain degree, by a rush to complete transactions by early March in Q1 2021 in anticipation of changes in government taxation levels.

It’s also interesting to note that, similar to events in 2020, deal volumes remained predominantly trade-led throughout H1 2021, with 204 trade-led deals (72% of overall deal volume for H1 2021) vs. 80 PE-led deals. In deal value terms, USD 30.8bn (73% of USD 47bn annual deal value) were trade-led transactions.
KEY DEALS AND SECTORS

The pace of recovery has varied among sectors throughout the last few quarters. Tech M&A activity continues to lead all sectors by a wide margin. That said, in Q2 2020 TMT deal activity was down 16% in the volume of reported transactions vs both Q1 2021 and Q4 2020.

This notable slowdown in deal volumes was visible across all sectors to varying degrees including: Industrials & Chemicals (from 26 transactions in Q1 2021 down to eight transactions in Q2 2021), Energy, Mining & Utilities (from 14 transactions down to three), and Financial Services (from 20 transactions down to 13). Understandably, the sectors that have been most exposed to the COVID-19 pandemic, such as Real Estate, have been slow in bouncing back in any significant way given the worldwide lockdowns and restrictions on cross-border mobility.

However, a couple of sectors did experience an upside in transaction volume: namely Pharma, Medical & Biotech, with a 13% increase in deal numbers (from 16 transactions in Q1 2021 to 18 in Q2 2021) and Leisure, which saw an 80% increase in deal activity (from five transactions in Q1 2021 to nine in Q2 2021).

Cross-border deal-making is increasingly prominent and the UK & Ireland remain an attractive region for international overseas investors, with eight out of the 10 top mid-market deals involving overseas bidders. Some of the largest transactions in the mid-market included:

- Ardonagh Group acquiring the insurance operations of BGC Partners for a cash consideration of USD 500m, in a move that created the largest privately-owned specialty broker in London;
- US-based Snap Inc. acquiring WaveOptics Ltd, a British augmented reality (AR) technology company, for over USD 500m;
- Bharti Enterprises, one of the world’s biggest telecom service providers, was the key private investor in a UK-backed consortium bidding for the collapsed satellite operator OneWeb with an estimated deal value of USD 500m;
- The world’s largest bedding provider, US-based Tempur Sealy International Inc. acquiring Dreams, the leading bed and mattress retailer in the UK for c. USD 481m.
- US PE house HIG Capital acquiring Travis Perkins’ UK plumbing and heating business for an estimated USD 460m.
LOOKING AHEAD

The UK & Ireland’s M&A outlook for the second half of 2021 remains positive. Corporations hold significant levels of cash and can still access healthy equity markets and inexpensive debt. Additionally, we are seeing an increase in new funds being set up by experienced PE professionals coming out of established funds, resulting in high levels of deployable capital. Additionally, as Government COVID-19 support programmes gradually come to a close and stimulus programmes begin reaching the point of repayment, it is likely that there will be more distressed opportunities available, especially across the various pandemic-affected sectors.

Looking ahead, the BDO Heat Chart predicts an active market in the UK & Ireland with 440 rumoured deals. TMT will maintain its position as the most active sector with 21% of all expected deals. Significant deal activity is also anticipated in Financial Services, with 17% of predicted deals and Consumer with 14% of all deals, while activity in Energy, Mining & Utilities, Leisure and Real Estate is expected to remain subdued.

UNITED KINGDOM & IRELAND
HEAT CHART BY SECTOR

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<thead>
<tr>
<th>Sector</th>
<th>Deals</th>
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<tbody>
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<td>Financial Services</td>
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<tr>
<td>TOTAL</td>
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UNITED KINGDOM & IRELAND
MID-MARKET VOLUMES BY SECTOR

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- Technology & Media
- Real Estate
- Pharma, Medical & Biotech
- Leisure
- Industrials & Chemicals
- Financial Services
- Energy, Mining & Utilities
- Consumer
- Business Services
In Q2 2021, there were 127 mid-market transactions completed in Southern Europe. Although these figures suggest a recovery, the 2021 deal numbers to date are still a long way the deal volumes seen in 2019. Overall deal numbers in Q2 2021 increased by 10% over the corresponding period in 2020 and this figure represented a 28% drop from deal numbers in Q2 2019. Looking at deal value over the same period, the aggregate deal value in Q2 2021 was 30% up on Q2 2020 but down by 11% compared to Q2 2019. Finally, comparing the first two quarters of 2021, deal volume was up by 5% in Q2 2021 but value was down by 10%.

Q2 2021 was a great quarter for PE activity, with an increased number of deals from the previous quarter (42 v 33). As a proportion of total deal numbers, PE accounted for 33% of transactions in Q2 2021 (27% in Q1 2021), the second highest figure seen in the last 13 years.

The reasons for this may the increasing availability of cash for potential investors. PE’s share of deal numbers was higher than both corresponding quarters in 2020 (30%) and 2019 (29%).

The picture was even more positive in terms of PE deal value. PE deals in Q2 2021 totalled USD 6.3bn, 33% higher than Q1 2021. PE deals accounted for 48% of the quarter’s deal value, 15% up on the previous quarter.

As a result, the average PE deal size rocketed to USD 150m in Q2 2021, more than the very high figure of USD 143m recorded in the previous quarter. With the average PE deal value standing at its highest level in the last 13 years, it confirms the hypothesis that the industry is focusing on big deals.

**KEY SECTORS**

Industrials & Chemicals relinquished its top spot as the region’s most active sector, accounting for 26 deals during Q2 2021 and representing 21% of total deal numbers, a marginal increase from the 20% recorded in the previous quarter.

BIG PICTURE

- Deal volumes and aggregate values recorded moderate growth in Q2 2021 compared to Q2 2020
- Average PE deal size soared to USD 149m
- TMT was the most active sector with 34 deals, taking over top spot from Industrials & Chemicals
- The BDO Heat Chart forecasts Industrial & Chemicals will become the most active sector moving forwards.
TMT was the region’s leading sector with 34 deals closed (up by 9% from Q1 2021), representing 27% of total numbers. The Consumer sector accounted for 14% of deals with 18 transactions during the quarter. These top three sectors accounted for around 61% of deal volume and were followed by Business Services, Energy, Mining & Utilities and Pharma, Medical & Biotech, which registered a combined total of 36 deals, a slight decrease compared to the previous quarter. Financial Services and Pharma, Medical & Biotech both recorded falls of 4% and 5% respectively from the previous quarter, each accounting for only 6% of the quarter’s deals. Finally, Leisure and Real Estate each accounted for just 2% of total deal numbers.

KEY DEALS
The top 10 mid-market deals in Southern Europe accounted for a total of USD 3.8bn, representing 29% of the quarter’s overall transactions.

The biggest deal was the acquisition of French TMT company Content Square S.A.S. by a group of investors for USD 500m.

The second top deal was in Industrials & Chemicals and saw the acquisition of French company Hyteck S.A. for USD 494m by French company Eurazeo S.A. Following on in third place was the acquisition of Adista S.A.S., a French TMT company, by Keensight Capital, Bpifrance S.A. and Mubadala Capital, who purchased the stake from the British firm Equistone Partners Europe Limited for USD 475m. Other deals worth mentioning were the acquisitions of French TMT company Ledger S.A.S. for USD 380m and French Industrials & Chemicals company Suez RV Osis FM S.A.S. by French company Veolia Environnement S.A.

Looking at the quarter’s top 20 deals, French companies appeared 13 times as targets and were the most targeted, accounting for USD 4.5bn of overall value. After that came four Spanish companies with a value of USD 1.1bn and three Italian companies with a value of USD 0.8bn.

Finally, looking at the top 20 deals, there was no one dominant sector, with transactions spanning multiple sectors, led by TMT, Industrials & Chemicals and Financial Services.

LOOKING AHEAD
Looking ahead, the BDO Heat Chart suggests that Southern Europe will account for 770 new deals, representing 8% of total global deal numbers. Industrial & Chemicals is predicted to lead the way in the foreseeable future with 173 deals, accounting for 22% of the region’s volume. Consumer follows next with 160 forecasted deals (21% of the total), then TMT and Energy, Mining & Utilities with 102 and 81 deals respectively (13% and 11%). Overall, these four sectors are expected to account for around 67% of all future deals in Southern Europe.
FOCUS ON ITALY: KEY DEALS AND SECTORS

The Italian market saw several transactions in Q2 2021 that are worth mentioning.

In April 2021, French Group Engie announced the transfer of a 60.5% stake in Engie EPS, a former Italian start-up specializing in energy storage and listed on the French stock market since 2015, to Taiwanese company Taiwan Cement Ltd., one of the biggest industrial players in Asia. The enterprise value is estimated at USD 283m and the price per share for the 60.5% of the company is USD 20.1. The Taiwanese company will then have to launch a mandatory offer for the remaining 39.5% of equity in order to complete the delisting.

Another important deal took place in May 2021 when Nexi S.p.A. agreed to acquire the totality of Italian Retailers Payment Business from Ubi Banca S.p.A. The price consideration is estimated to be around USD 281m. The acquisition, which is still pending and is expected to be completed in mid-2021, will strengthen Nexi’s market position.

At the end of June 2021, Equinox Investments, a PE fund based in Luxembourg, acquired Salpa Sas, an Italy-based company specializing in the production of biscuits for ice cream, decorations and toppings. The acquisition took place through the IceGreen s.a.r.l vehicle, controlled by Equinox with 63%, while the remaining 37% will be owned by the Cherubini family (owners of Salpa) and the management team. The company was valued at over USD 142m, which equates to almost 14x of EBITDA of USD 10.6m for 2020.

Finally, another important deal which took place in Q2 2021 was the sale by Italian energy supply company Metaenergia S.p.A. of its subsidiary Metaenergia Produzione S.r.l. to German renewable infrastructure investment group Ikav Capital Partners Gmbh. The target owns nine energy projects, all of which have Italian government approval. The acquisition is expected to be completed via the Luxembourg-registered vehicle Ikav Sicav FIS and the enterprise value of Metaenergia Produzione S.r.l. is estimated at USD 590m.

SOUTHERN EUROPE
HEAT CHART BY SECTOR

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<thead>
<tr>
<th>Sector</th>
<th>2020</th>
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<tr>
<td>Industrials &amp; Chemicals</td>
<td>173</td>
<td>22%</td>
</tr>
<tr>
<td>Consumer</td>
<td>160</td>
<td>21%</td>
</tr>
<tr>
<td>TMT</td>
<td>102</td>
<td>13%</td>
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<tr>
<td>Energy, Mining &amp; Utilities</td>
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SOUTHERN EUROPE
MID-MARKET VOLUMES BY SECTOR
M&A activity in the Benelux mid-market slowed down compared to Q1 2021, with a decrease in both deal volume (from 45 to 36) and deal value (from USD 5,018m to USD 3,414m).

PE players were involved in 13 deals (versus 15 in Q1), representing 36% of total deal volume (versus 32% over the last two years) and 24% of overall deal value (versus 30% over the last two years). Transactions involving PE had an average deal value of USD 62.1m, significantly behind 2020’s record average of USD 83.8m.

**KEY SECTORS AND DEALS**

12 deals were closed in the TMT sector, making it the most active sector in Q2 2021, followed by Industrial & Chemicals with eight deals and Business Services with seven. The remaining deals took place in Consumer (three deals), Financial Services and Pharma, Medical & Biotech (two deals each) and Leisure and Energy, Mining & Utilities (one deal each). As in the previous quarter, there were no deals in the Real Estate sector.

The total value of the quarter’s top 20 deals was USD 3,209m, ranging from USD 24m to USD 410m. Of the top 20, nine involved a domestic buyer, while the other 11 were all cross-border transactions. Also noteworthy was the fact that the top 10 deals accounted for 76.7% of total deal value.

The region’s largest deal in Q2 2021 was the sale of Vivera, a Dutch brand which produces meat substitutes, owned by the European private equity firm Gilde Buy Out Partners. The company was sold for USD 410m to Brazilian buyer JBS S.A.

The second largest deal was the acquisition of technology automation solutions company Redwood Software, which was sold for USD 383m to US-based tech PE fund Turn/River Capital.
Finally, the third ranked deal involved German-based BASF SE’s 49.5% equity stake in the Dutch offshore wind farm Hollandse Kust Zuid, a subsidiary of Vattenfall AB from Sweden, for a consideration of USD 358m.

LOOKING AHEAD

The Benelux Heat Chart shows that there are currently 173 deals planned or in progress. Most of the transactions in the pipeline relate to Industrials & Chemicals (39 deals, representing 23% of the deals) followed by the TMT and Consumer sectors with 29 deals each, both accounting for 16.8% of future deal activity.
DACH

M&A DEAL-MAKING REMAINS STABLE IN SUBDUED QUARTER

The trend of M&A activity and the overall number of deals in the DACH region remained stable in Q2 2021. However, there were decreases in both PE deal value and volume.

Although the total number of deals increased by just one compared to the previous quarter, there was only a slight decline (1.39%) in value. A stronger decline was seen in PE volume and value. PE volume dropped by 17.7%, while overall value was down by a third. Compared to Q2 2020, there were 23 more deals recorded in Q2 2021, representing an increase of 57.5%. In addition, the overall deal value increased significantly by 144.9% in comparison to Q2 2020.

Taking everything into consideration, mid-market M&A activity in the DACH region remained relatively subdued in Q2 2021. Although the region’s mid-market M&A quarterly activity was stable, on a global level deal both volume and value declined.

KEY DEALS

In Q2 2021, the top 10 deals accounted for 47.6% of the value of all transactions. Out of the top 20, two Swiss, three Austrian, and 15 German companies were targeted. Only two of those involved a bidder from the same country, maintaining the trend of international interest in the DACH region, with bidders from 11 different countries outside the region involved in the top 20 deals. The most active bidder country was the United Kingdom with five transactions. Countries including Sweden (two deals), and Poland, China, Japan and USA (all with one deal each) were also involved in DACH deals.

The quarter’s biggest deal was the acquisition of German synthetic rubber business Trinseo S.A., a US-based manufacturer of plastics, latex binders and synthetic rubber by Polish company Synthos SA. This deal was worth USD 491m.

The next biggest transaction also crossed borders and saw Luxembourg-based company Aperam, the global stainless, electrical and specialty steel producer, acquire ELG from Franz Haniel & Cie. The transaction was valued USD 430m and will help Aperam capture value in the global recycling industry, as ELG is a specialist in the trading, processing and recycling of raw materials for the stainless steel industry.

The next biggest deal involved a Swiss company, taking advantage of the unique opportunities presented by the DACH region’s mid-market M&A environment.

PE/TRADE VOLUME & VALUE

![Graph showing PE/Trade Volume & Value](image)
target in the TMT sector and had a value of USD 428m. In the deal, Deutsche Börse AG acquired a 48.8% stake in Swiss company Clearstream Fund Centre, which represented the remaining minority stake of UBS AG.

Another of the quarter’s top deals took place within German borders. Technology group Brockhaus Capital Management AG acquired a 60% stake in Bikeleasing-Service GmbH & Co. KG for a deal value of USD 363m. Bikeleasing operates a B2B leasing platform for green assets.

The biggest Austrian deal took place in the Real Estate sector and was valued at USD 267m. This deal saw Czech Republic-based private investor Tomas Krksa sell a 10.01% stake in Austrian property investment firm Immofinanz AG to Mountfort Investments Sarl.

**KEY SECTORS**

In Q2 2021, the majority of deals involved companies in the TMT sector (37%), Industrials & Chemicals (29%), Business Services (17%) as well as Pharma, Medical & Biotech (8%). Apart from Energy, Mining & Utilities and Pharma, Medical & Biotech, every sector recorded an increase in deal activity in Q2 2021 compared to Q2 2020. Industrials & Chemicals saw a big increase in deal activity, with 18 deals in Q2 2021 compared to just four in Q1 2021.

However, Pharma, Medical & Biotech recorded a decrease in transaction volumes of 54.5%. This fall can be explained by the immense deal activity related to the spread of COVID-19 and a return to more normal deal levels in the first half of 2021.

**LOOKING AHEAD**

Q2 2021 deal-making showed a continued recovery from the COVID-19 pandemic. However, the direction of future developments is still uncertain, as delta variants and other global events might impact trade relations and make investors cautious. Historically, the third quarter of every year sees a large number of mid-market M&A transactions and we expect this to remain the case this year. However, this might come in a scaled-down form in 2021 due to the uncertain current economic situation and the unpredictability of the pandemic. Overall, we maintain our belief that the DACH M&A market will continue to recover and improve over the coming quarters.
ISRAEL
WEAK M&A ACTIVITY LEADS TO FALLS IN DEAL VOLUME AND VALUE

M&A activity decreased during Q2 2021 in terms of overall value.

A total of 34 deals, with a combined deal value of USD 2,606m, were completed in Q2 2021. This performance represented a sizable 26.6% (USD 943m) drop in deal value from the previous quarter and deal volume also dropped to 34 deals from the 44 deals completed in Q1 2021. As a result the average deal value fell by 5% to USD 76.6m in Q2 2021 from USD 80.6m in Q1 2021.

Private equity activity was also weak in the quarter, with the figures showing a downturn in both volume and value. In Q2 2021, PE accounted for just three deals worth a total of USD 407m, which represented 8.8% of the deal count and 15.6% of the quarter’s overall value.

KEY SECTORS AND DEALS
Israel’s top 10 deals in the quarter had an aggregated value of USD 1,811m, representing 69.5% of total M&A transactions. The three biggest transactions were valued at USD 300m each. The first two took place in the TMT sector and were the acquisition of Cellebrite Mobile Synchronization Ltd by multiple bidders including Migdal Insurance, CrossLink Capital and more and the acquisition of VDOO Connected Trust Ltd by JFrog Ltd. The third deal was in Business Services and saw the acquisition of Prospera Technologies Inc by Valmont Industries, Inc.

TMT accounted for 20 deals (58.8% of total transactions) in Q1 2021. Business Services was in second place with five deals (14.7%). Next were Consumer and Industrials & Chemicals with three deals each (8.8%), followed by Financial Services with two deals, Pharma, Medical & Biotech with one deal and finally Energy, Mining & Utilities and Real Estate, both with no deals.
Five of the top 10 deals involved foreign bidders, supporting the continued global interest in Israel’s resilient economy and robust equity market. The foreign bidders comprised four buyers from USA and one from Japan.

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

LOOKING AHEAD

Looking ahead, the data supports a ramp up in the growth rate in the coming quarters. The BDO Heat Chart for Q2 2021 shows that there are 85 deals planned or in progress for M&A, compared to 74 deals in Q1 2021, which indicates a 14.9% increase in pipeline deals.

Of the 85 deals planned or in progress, 27 (32%) involve TMT, 15 (18%) are related to Industrials & Chemicals and 14 (16%) are in the Financial Services sector. Other active sectors include Pharma, Medical & Biotech with 11 deals (13%), Business Services with 11 deals (13%), and finally Energy, Mining & Utilities with six (7%) and Consumer with one deal (1%).

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Overall, the African continent remains a very small contributor to the global M&A market. Our research indicates that since 2008, African M&A deal value has only accounted for 1.7% of global M&A deal value. Possibly more concerning is that since 2017, African M&A deal value has only accounted for 1.2% of global M&A deal value.

Even with these sobering statistics, we still believe that Africa represents an attractive investment destination for those multinationals seeking access to potentially good returns in a fast-growing, under-serviced market.

From our perspective, we see the potential for increased M&A activity off the back of certain fundamental initiatives:

- The influx of foreign investment into the African continent, particularly but not exclusively from China;
- The interest in multinationals in establishing/acquiring a platform in Africa from which to launch their African strategies;
- The increase in African-focused PE funds;
- Corporates continuing to offload non-core and poor performing assets to streamline and focus on core operations;
- Corporates looking to acquire market share and revenue; and
- The trend of privatising state-owned assets.

Although overall deal volumes are still depressed, there are finally signs of increased PE deal-making activity. Deal volume in Q2 2021 was up 32% to 29 deals compared to Q1 2021 and 52% compared to Q2 2020, though admittedly Q2 2020 saw the worst recorded activity due to the restrictions and lockdowns imposed as a result of the COVID-19 pandemic.

Deal value for Q2 2021 was USD 272m, a 48% improvement compared to Q1 2021 and a 200% uplift from Q2 2020.

KEY SECTORS AND DEALS

Energy, Mining and Utilities was once again the leading sector with six deals, followed by TMT and Consumer with five deals each and Financial Services and Industrials & Chemicals, with three deals taking place in each sector.
In terms of geography, South Africa companies were involved in ten of the top 20 deals, with Egypt in second spot with four.

The quarter’s biggest deal was the acquisition by Fairvest Property Holdings Limited of 50.07% of the B-Class Ordinary shares in Arrowhead Properties Limited in exchange for Fairvest Shares. The merger was reportedly supported by the independent board of Arrowhead who were quoted as saying ‘The board was firmly of the view that a merger that creates a single, larger, more liquid real estate investment trust would unlock the value in the company as opposed to Fairvest acquiring Arrowhead as its subsidiary’.

There were two big deals in the Energy, Mining and Utilities sector, namely:

- Sasol South Africa Pty Ltd’s disposal of a 30% stake in a natural gas pipeline running from Mozambique to South Africa. The acquiring consortium included the African Infrastructure Investment Managers Pty Ltd and the Reatile Group.
- Anglo American Plc unbundled its South Africa thermal coal assets. The unbundling saw the creation of Thungela Resources, which commenced trading on the commodity counter of the main board of the Johannesburg Stock Exchange in June 2021.

In Financial Services, Egypt’s largest investment bank EFG Hermes acquired 51% of state-owned Arab Investment Bank (AIB), in the country’s first bank privatisation in more than a decade. The Sovereign Fund of Egypt also acquired a 25% stake, while the current owner, state-owned National Investment Bank (NIB), retained 24%.

Following a trend that started in 2020, only three of the top 10 deals were made by an in-country acquirer. The successful bidders on the three transactions emanated from China, providing further evidence of the country’s interest in the African continent.

As foreign direct investment (FDI) is key to the success of the African continent, we certainly welcome a small return of confidence in at least some of the African assets.

Private equity deal flow saw the most activity since the start of COVID-19, with three deals concluded in the quarter. We have reported on numerous occasions on the lack of deal flow and activity from private equity houses. This is probably the result of two factors, namely PE houses adopting a cautious ‘wait and see’ approach and their focus on existing portfolio management. It would represent good news for the continent if these cautious deployers of funds decided that the market is safe to invest in again.

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LOOKING AHEAD

According to the BDO Heat Chart, TMT, Industrials & Chemicals, Business Services and Energy, Mining & Utilities will make up the bulk of deal activity across the continent for the foreseeable future, with the balance being spread across the remaining sectors.

The Real Estate, Consumer and Leisure sectors remain at the lower end of future deal activity as they continue to suffer from the impact of the pandemic. We are a little surprised at the outlook for Pharma, Medical & Biotech as we believe it to be a sector to watch out for in the future.

Overall, we are certainly encouraged by the Q2 2021 results and hope that it signals improved future M&A activity across the continent.
India’s M&A activity is no different from the rest of the world. Dealing with the scars left by the pandemic, the Indian economy is currently in recovery mode and there is optimism for the future. This was demonstrated by the number of M&A deals in Q1 2021, coupled with the capital market trading at an all-time high.

India witnessed its first special purpose acquisition company (SPAC) deal in recent years when RMG Acquisition Corporation II announced the acquisition of ReNew Power, India’s leading renewable energy company, in a transaction valued at almost USD 8bn.

Indian start-ups have raised USD 12.1bn from venture capitalists and private equity firms in the first six months of this year, already beating the last calendar year’s overall funding by USD 1bn. This has resulted in a total of 16 start-ups entering the unicorn club. What is relevant to note here is that there were large number of transactions (31) with a fund size exceeding USD 100m. Many of these portfolio companies are eyeing listings on the Indian capital market in the next couple of years.

India’s mid-market segment saw 81 deals completed in Q2 2021 compared to 75 deals in Q1 2021. While this did not represent significant movement in terms of deal volume, it was a different story for value, with Q2 2021 recorded deals worth almost USD 10bn compared to USD 8bn in the previous quarter, a rise of 25%. PE transactions dominated deal activity during the quarter with 46% of the volume and 62% of the value.

**KEY SECTORS AND DEALS**

Looking at sector activity during Q2 2021, TMT accounted for the lion’s share of deal numbers with 31, followed by Business Services with 12. A number of TMT deals took place in the online space, an area where businesses have seen significant growth during the pandemic. This space is expected to see large private equity and M&A transactions for the rest of the year. Some of the key deals were as follows:

- Byju’s, operated by Think and Learn Pvt Ltd, became the most valued start-up in India with a valuation of USD 16.5bn after the educational technology unicorn raised nearly USD 340m in its latest round of equity funding led by Abu Dhabi’s state-owned entity ADQ.

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1. Report by Venture Intelligence
• Meesho became India’s latest unicorn after the social commerce platform raised USD 300m in its new funding round led by Japan’s SoftBank Group Corp. The fundraise valued Meesho at USD 2.1bn, a threefold jump from its previous funding round of USD 125m in 2019 when it was valued at USD 700m.

• The acquisition of a majority stake in online pharmacy 1mg for USD 230m by large Indian conglomerate Tata group. This was the Tata group’s third acquisition in the digital space after acquiring online grocery store BigBasket and fitness app CureFit in quick succession.

LOOKING AHEAD

The strength of India’s capital market means that the country’s corporates have been experiencing great success in their Initial Public Offerings (IPOs). In 2021 so far, 22 companies have raised almost USD 37.5bn, the majority of which have been Offer For Sale, which presented excellent exit opportunities for PE investors.

India’s capital market is now the eighth largest globally, with the market cap of listed companies aggregating to around USD 3tn, now bigger than some of the world’s larger economies like Germany.

It is interesting to note that besides the large-cap stocks that have contributed to the rise in market optimism, mid-cap stocks have also risen by almost 100% from their lows.

With the Indian Government’s focus on divestment of the public sector enterprises in the current fiscal climate, one can only hope that the capital market remains robust. In addition, a number of large IPOs in the private sector, such as Zomato, Paytm and Policybazaar, have also filed their prospectuses with the Indian regulator to go public.

All in all, 2021 looks like it is going to be a good year in terms of the deal space, be it private investment or going public. If the anticipated after effects of the third wave of COVID-19 are handled efficiently without any significant impact on the economy, India could be one of the best markets to generate returns on investments.
Although the global economy shrank last year due to the pandemic, China’s inbound foreign direct investment (FDI) grew by 4% in 2020 and China became the largest FDI recipient globally for the first time. According to China’s Ministry of Commerce (MOC), China’s year-on-year inbound FDI continued to grow by 35.4% for the first five months in 2021 to RMB 481bn (equivalent to USD 75.2bn). Of the total FDI, RMB 382bn (USD 59bn) has been utilized in the service industry, with year-on-year growth of 41.6%.

Global production activities and cross-border supply chains have been hindered by lockdown restrictions in various countries since 2020. However, this has presented opportunities to Chinese manufacturers, who reported significant growth in the second half of 2020. China’s exports further grew by 40.2% (in dollar terms) in the first five months of 2021 compared with the corresponding period a year earlier, according to economic data from the China National Bureau of Statistics. In addition to the continued growth in FDI, the increase in China’s share of global exports has driven a higher demand of RMB in the foreign exchange market.

Furthermore, the USD has been depreciating against the major currencies due to the quantitative easing policies adopted since 2020. According to market data published by China’s Foreign Exchange Trade System, RMB has appreciated by almost 10% since Q3 2020 and was traded around at 6.45 against the USD at the end of June 2021. This was the highest level seen during the last three years. Although the vaccination programmes in Europe and the US gathered momentum in the first half of 2021, the spread of virus variants since early 2021 has affected the timing of border reopenings. As a result, the global economic recovery is still on the slow side and RMB appreciation seems set to continue in the near future.

**IMPACT OF RMB APPRECIATION**

Due to appreciation, RMB-denominated assets such as RMB bonds are being reappraised in the global market in 2021. This is expected to impact China’s trading and direct investment environment as follows:

- **Total mid-market deal volume in the Greater China region decreased slightly by 4% from 427 deals to 410 deals in Q2 2021 compared to Q2 2020. Deal value also declined by 21% from USD 35.4bn to USD 28.0bn**
- **Compared with the previous quarter, deal value was down 23% from USD 36.4bn in Q1 2021 to USD 28.0bn. However, deal volume increased by 3%, reflecting the fact that the M&A market was still active, but deals were concentrated in smaller-sized companies**
- **PE buyouts reached a new record high last quarter but fell in Q2 2021**
- **The spread of the Delta variant in more than 100 countries may further hinder economic recovery and impact M&A appetite.**

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**CHINA**

**FDI KEEPS GROWING AS ECONOMIC RECOVERY CONTINUES AT PACE**

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**BIG PICTURE**

- Total mid-market deal volume in the Greater China region decreased slightly by 4% from 427 deals to 410 deals in Q2 2021 compared to Q2 2020. Deal value also declined by 21% from USD 35.4bn to USD 28.0bn
- Compared with the previous quarter, deal value was down 23% from USD 36.4bn in Q1 2021 to USD 28.0bn. However, deal volume increased by 3%, reflecting the fact that the M&A market was still active, but deals were concentrated in smaller-sized companies
- PE buyouts reached a new record high last quarter but fell in Q2 2021
- The spread of the Delta variant in more than 100 countries may further hinder economic recovery and impact M&A appetite.
• **Import trading:** A stronger yuan exchange rate against the US dollar would make commodity imports cheaper for companies in China (for example crude oil and non-ferrous metals). RMB appreciation would ease the pressure on surging global commodity prices as well as reducing the cost of imported goods.

• **Export trading:** The growth in China’s inbound FDI would favour acquisitions in advanced technology companies in the TMT and Pharma, Medical & Biotech sectors, but also make Chinese exporters less price competitive. Low value-added manufacturing companies will face pressure to either change their business models by adopting new technologies (particularly automation and artificial intelligence) or transfer their business operations to other countries with lower labour and material costs.

• **FDI:** According to the MOC, foreign direct investment into China grew by 35.4% year-on-year to RMB 481bn (USD 75.3bn) in the first five months of 2021. Investments into China via the Qualified Foreign Institutional Investor and Renminbi Qualified Foreign Institutional Investor programmes also reached historical highs in the first half of 2021. It is expected that the Chinese government will further open the local financial market (including both the stock market and bond market) to qualified foreign investors in order to attract more foreign capital investment. The increasing capital inflow would likely boost local merger and acquisition activities in 2021.

• **Outward direct investment (ODI):** The Chinese government may also promote RMB internationalization and ease capital outbound investment restrictions. This includes expanding the Qualified Domestic Institutional Investor programme or allowing Chinese citizens to invest in overseas securities. It is expected that the ODI would increase in the second half of 2021, particularly in regions which have less political risks and where the pandemic is under control. Due to the early rollout of the mass vaccination campaign, China’s economy has begun to recover, resulting in improved market sentiment towards M&A activities. It is expected that M&A activities in China will show further growth in the second half of 2021, particularly in key sectors such as Financial Services, Pharma, Medical & Biotech, Consumer and TMT. Economic factors will continue to be the key driving force in the economic recovery, with the active participation of state-owned enterprises, government-led capital injections and private equity acquisitions.
TOP DEALS
Looking at Greater China’s top 20 mid-market deals in Q2 2021, six took place in the Industrials & Chemicals sector. The top three mid-market deals were as follows:

- Jiangsu Xinxin Retailing Innovation Fund (Limited Partnership) acquired a 5.59% stake in Suning.com Co., Ltd. from Suning Appliance Group Co., Ltd. at a consideration of USD 498m announced in June 2021;
- China Insurance Investment Co., Ltd. acquired a 36.99% stake in COSCO Shipping Leasing Co., Ltd at a consideration of USD 459m - announced in April 2021; and
- Sinoma Science & Technology Co., Ltd. and five other companies jointly acquired a 40.52% stake in Sinoma Lithium Battery Separator Co., Ltd. at a consideration of USD 432m - announced in May 2021.

LOOKING AHEAD
The latest BDO Global Heat Chart shows that the Greater China region is the second most active region, with a total of 1,543 deals planned or in progress with 485 (31%) in the Industrials & Chemicals sector, 257 (17%) in TMT and 206 (13%) in Business Services.
M&A activities in South East Asia showed distinct signs of improvement in Q2 2021. The total deal value in Q2 2021 was USD 7.3bn, a significant improvement on the USD 5.0bn achieved in Q1 2021 and the highest second quarter deal value recorded since 2017. However, total deal volume fell marginally to 60 deals from the 62 deals transacted in Q1 2021.

Despite the slight drop in deal volume in Q2 2021, the average deal value per deal shot up by 51.1% to USD 121.2m from USD 80.2m in Q1 2021. The increase is attributable to the number of big value deals completed, with the quarter’s top 20 deals (USD 5.9bn) accounting for 80.8% of overall value compared to 66% (USD 3.3bn) in Q1 2021.

PE continues to play a significant role in the region's M&A, accounting for 18.3% of total deal numbers and 23.4% of total deal value. There were 11 PE deals in Q2 2021, two more than in Q1 2021 but one less than in Q2 2020. The total value of PE buyouts was USD 1.7bn, representing increases of 6.3% from USD 1.6bn in Q1 2021 and 70.0% from USD 1.0bn in Q2 2020.

**KEY SECTORS**
A total of 60 deals were completed in Q2 2021 across various sectors. The top three sectors, which collectively accounted for 60.0% of total deal volume, were as follows:

1. **TMT** – 15 deals (Q1 2021: 9 deals)
2. **Industrials & Chemicals** – 14 deals (Q1 2021: 20 deals)
3. **Consumer** – 7 deals (Q1 2021: 3 deals).

While TMT recorded the most deals in Q2 2021, Industrials & Chemicals remains the region’s key sector with the highest cumulative number of deals completed based on the four-quarter cumulative sum to Q2 2021 of 62 out of a total of 254 deals recorded during the period.
KEY DEALS

The quarter’s three biggest deals were as follows:

- **Real Estate**: the acquisition of ARA Asset Management Limited in Singapore by a group of investors led by Sumitomo Mitsui Banking Corporation from Japan (purchase consideration: USD 500m)
- **Industrials & Chemicals**: the acquisition of a 55.28% stake in Lian Beng Group in Singapore by Ong Sek Chong & Sons Pte Ltd of Singapore (purchase consideration: USD 417m)
- **Consumer**: the acquisition of a 16.26% stake in VinCommerce General Trading Services JSC in Vietnam by SK Holdings Co., Ltd. of South Korea (purchase consideration: USD 410m).

Based on the top 20 deals, Malaysian and Singaporean companies were the most popular targets, accounting for 55% of the quarter’s top 20. South East Asia remains an attractive region for international investors, with 40% of the top 20 deals involving overseas bidders outside the region.

LOOKING AHEAD

The USD 7.3bn of recorded value for Q2 2021, the highest second quarter figure seen since 2017, came as something of a surprise amidst the challenging market environment. It remains to be seen whether this momentum can be maintained as the COVID-19 pandemic is still very present in the region, thereby potentially making M&A activity sluggish as deals are put on hold or delayed due to the increased scrutiny of deal terms arising from market uncertainty.

Notwithstanding this, as South East Asian countries continue to battle the pandemic and roll out vaccination programmes, the region remains an attractive M&A destination as is evident from the number of overseas buyers in the top 20 deals, which may partially be due to the region’s business-friendly environment.

For the remainder of 2021, the region’s M&A activities will still largely be dependent on factors such as the continuing severity of the COVID-19 pandemic and the successful of vaccination rollout, which could boost the recovery of South East Asian economies. The business environment and the pace of any economic recovery will eventually determine the volume, value, motivation and type of M&A activities that take place in the coming months.

WONG WING SEONG
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In Q2 2021, a total of 102 deals were successfully completed with a combined value of USD 8.8bn, representing a significant increase in both deal volume (92%) and disclosed deal value (116%), compared to Q2 2020.

The continued recovery from COVID-19, coupled with revised corporate strategies, has driven M&A activity in Australasia well above pre-pandemic levels. There is strong investor appetite for growth through acquisition, with companies acquiring competitors who were mismanaged during the pandemic. Deal-making has been heavily supported by the broader economic and political landscape, with low interest rates and unprecedented amounts of government stimulus.

Overall deal value increased in Q2 2021 due to large deals such as Quadrant Private Equity’s acquisition of Affinity Education Group for USD 493m. Large deals of this nature, driven by valuations that exceed pre-pandemic levels, resulted in a 12% increase in average transaction values, rising from USD 77m in Q2 2020 to USD 86m in Q2 2021.

Cross-border M&A activity remains strong despite the ongoing restrictions in international travel. This is being enabled through the uptake in online meeting platforms and virtual data rooms, which have reduced the need for physical due diligence. As a result, 45% of the quarter’s top 20 deals involved an overseas bidder, such as Bermuda’s Apex Group Ltd’s USD 301m acquisition of ASX-listed Australian fund administrator, Mainstream Group Holdings Limited.

Deal volumes in the quarter rose across all sectors with the exception of Pharma, Medical & Biotech, which remained at six deals. Unsurprisingly, the Leisure sector experienced the greatest increase in activity with 11 deals, a big increase from the single deal completed in the heavily pandemic-affected Q2 2020.

Environmental and social governance considerations have also driven M&A activity in sectors such as Consumer (up from five to 11 deals), and Industrials & Chemicals (up from three to nine deals). TMT deal activity remained steady with decision makers focusing on new capabilities and innovation, sector convergence, horizontal expansion and technological disruption.

**KEY DEALS**

The largest disclosed deal in the quarter was Quadrant Private Equity’s USD 493m acquisition of Affinity Education Group Limited from Anchorage Capital Partners, a Sydney-based PE firm.
Quadrant’s acquisition was timed with tailwinds expected to drive growth, namely the increased government funding to support affordable childcare, and the continued employment of carers in Australia. This strategic deal increases Quadrant’s emergence in the childcare sector, whilst continuing to bolster its investment in government-backed sectors, which include radiology provider QScan, disability services provider APM and homecare provider Enrich Health Group.

The second largest transaction was the sale of CBA’s general insurance business to Hollard Insurance Group, a privately-owned South African insurance group, for USD 470m. Through the divestment of capital-intensive non-core businesses, Commonwealth Bank of Australia has been able to simplify its business – a general trend observed across financial institutions following Australia’s Financial Services Royal Commission report. Completion of the deal remains subject to approval from the Australian Prudential Regulation Authority (APRA) and is currently expected to close mid-2022.

Centuria Capital Limited’s USD 435m takeover of Primewest Group Limited completes the top three deals of Q2 2021. The deal will create a property fund management platform with approximately AUD 16bn in assets under management. This merger offers both parties exposure to additional asset classes, given Centuria’s strength in healthcare and Primewest’s growing agricultural portfolio.

**LOOKING AHEAD**

The BDO Heat Chart indicates a healthy pipeline of 405 total deals in Australasia. Consumer is expected to be the most active sector with 101 deals in the pipeline, followed by TMT (63) and Business Services (52). These three sectors account for 53% of pipeline deals, which is consistent with the prior quarter. Real Estate activity is expected to remain on the low side with six deals in the pipeline as businesses continue to promote working from home flexibility in the ‘new normal’ following the COVID-19 pandemic.
SECTOR VIEW

P47
REAL ESTATE
LOCAL KNOWLEDGE AND ESG HOLD THE KEY TO REAL ESTATE SUCCESS

P49
TMT
WHO WILL BECOME THE MICROSOFT TEAMS OF HEALTHCARE TECHNOLOGY?
REAL ESTATE
LOCAL KNOWLEDGE AND ESG HOLD THE KEY TO REAL ESTATE SUCCESS

Just like 2020 was all about the coronavirus and the first half of 2021 was all about vaccination, vaccination, vaccination; real estate used to be all about “Location, Location, Location.” With the size of the professionally managed global real estate investment market topping more than $9 trillion, it remains one of the largest asset classes by volume. As the world adapting to the "new normal," investors around the globe are trying to figure out both the long-term and the short-term impact on this important asset class.

Property valuations have undoubtedly been impacted over the past 18 months, with global logistics booming due to a sharp increase in e-commerce, retail taking a hit, while office and leisure hospitality taking a nosedive, both in terms of valuation as also in number of transactions. While real estate investments generally don’t move, interest in different asset classes shifts quite rapidly requiring expert market knowledge. Real estate has always been about local knowledge and expertise. In addition, with increasing and changing complexity of real estate markets, and with real estate regulations becoming more and more challenging, it is crucial to use local expert to navigate real estate matters.

Real estate asset owners will need to stay close to the market amid shifts driven by the pandemic, sustainability and changes in human behavior. For example, driving foot traffic, for shopping centers in particular, will be a team effort between landlords and tenants. This will hopefully lead to a path on the road to recovery. Many industry players are hopeful of a consumer Spending-led economic recovery feeding through into an uptick in real estate business in the second half of 2021. However the outlook depends strongly on asset and location.
In the future, sustainability will not be optional anymore. We are quickly moving from a world where we are incorporating ESG data into investment analysis to one where portfolios must have exposures to positive ESG characteristics, aligning capital with changes in the marketplace.

The extraordinarily loose monetary environment is expected to keep interest rates low for the time being and accordingly making the yield spread for real estate over other asset classes hugely compelling to investors, even despite more volatile inflation expectations.

The BDO Real Estate and Construction team has also positioned themselves for the future. During the pandemic, we have built up an initiative within the international real estate network aimed at identifying these local experts within BDO, to offer our clients a one-stop shop.

The initiative is led by the global Real Estate and Construction leaders Arjan Endhoven from the Netherlands, Alexandre Amper from Switzerland and Guillaume Savreux from the US.

The outlook from client interviews by the real estate and construction team reveal trends that the sector issues and preferences are remarkably similar across the world.

Logistics has been a sector success across most regions largely driven by the surge in e-commerce and the renewed importance to secure the supply-chain. While there are signs of an asset bubble in some areas, the structural shift and long-term change in consumer behavior still provides opportunity.

Residential is a stable income provider in which large industry players are investing. The favorable supply-demand dynamics, which make housing a prudent defensive play for the foreseeable future continue to be present.

The outlook on the office sector is more difficult to predict. Office buildings will need to be viewed in light of their conversion possibilities as well as overall flexibility. The market for trophy assets will continue to remain robust.
WHO WILL BECOME THE MICROSOFT TEAMS OF HEALTHCARE TECHNOLOGY?

Healthcare technology investments mirror strong TMT M&A. Investments are driven by the many opportunities for growth as the future of healthcare communication and collaboration remains wide open.

It is ten years since Marc Andreessen wrote his famous ‘Software is eating the world’ opinion piece in the Wall Street Journal. Time has proved him right, although the speed of consumption has varied across industries.

BDO’s M&A data for mid-market deals highlights how technology, media, and telecoms’ (TMT) M&A bull run, led by software, shows no signs of slowing. Software also drives deal activity in healthcare technology, also known as ‘healthtech.’ Its rapid growth is likely to accelerate as healthcare, which has traditionally been slow to integrate new solutions and technologies, ramps up digitisation in the wake of COVID-19.

As a result, subindustries like telehealth, digital health, and healthtech communication solutions are seeing increased competition. In an evolving market, companies and investors alike are leveraging inorganic growth through M&A to become the foundation of the future of healthcare.
TMT TOPS M&A

TMT remains firmly in the driver’s seat when looking at mid-market M&A. For the sixth straight quarter, TMT led 2021 Q2 M&A measured by volume with 572 completed deals. Total deal value topped US$63.5 billion. The deal total puts TMT on track to far surpass 2020.

TMT deal volume and total value increased across many countries and regions. India, Japan, Latin America and much of Europe were among the areas with particularly strong performance.

Private Equity (PE) remains a prime driver for deal activity across industries, including TMT. During Q2 2021, PE were involved in 194 buyout deals worth a combined US$30 billion, representing 33.9% of global TMT deal volume and 47% of deal value.

![TMT M&A DEAL VOLUME SELECT REGIONS 2014 Q1 - 2021 Q2](image)

Technology continues to dominate

Within TMT, technology leads activity, followed by digital media & e-commerce. Both sectors posted +60% growth in deal volume between Q2 2020 and Q2 2021.

Digital Media and E-commerce activity is partially due to growing interest in digital marketing agencies and e-commerce marketplace aggregators.

A breakdown of mid-market technology M&A shows software representing 90% of deal volume, in part driven by digitisation remaining a top priority across industries.

This dynamic also applies to the healthcare space.

Healthtech on the rise

Technology’s disruptive potential in healthcare can be likened to what Amazon has done to the brick-and-mortar retail industry.

Strict compliance demands and unique legislative frameworks have been among the factors limiting the roll-out of new, technology-driven solutions in healthcare.

However, as technology keeps evolving, new solutions capable of solving such challenges have emerged. They are changing how healthcare companies and organisations function, innovate and interact with their clients.

Today, the healthtech market is estimated to be worth up to US$ 350 billion. Considering that almost 10% of global GDP is spent on healthcare, and the potential for improving customer experiences, streamlining operations and further digitisation, rapid market growth is expected.

All the above are contributing to increased investor interest and deal activity.
COMMUNICATION EMERGES AS EARLY M&A LEADER

In the wake of COVID-19, healthcare organisations and companies are looking to evolve their online collaboration and communication abilities. Healthtech unicorns such as Kry, DocPlanner and Babylon Health all focus on delivering such services. All three unicorns have undertaken both large funding rounds and M&A to grow their businesses.

The level of activity may be testament to B2C healthtech currently performing stronger than the B2B segment. Said differently, creating digital appointment booking and consultation systems may be more straightforward than building out full collaboration platforms, like a Microsoft Teams for healthcare.

Building out such platforms is, however, also contributing to M&A. For example, investors are looking at how online consultancy and booking systems can be coupled with the likes of online prescription services to create a one-stop shop for GPs. This is an area where the likes of private equity-sponsored buy-and-build acquisitions and consolidation are likely to grow in the coming years.

All-in-all, mid-market TMT M&A remains very strong, and with yet another industry on the verge of ‘being eaten’, we see no signs of a slowdown but instead expect further growth.
SOME OF OUR RECENTLY COMPLETED DEALS

- **Lead advisor to the shareholders of FRIPOO Produkte AG on the sale to PANOLIN Holding in the context of the entrepreneurial succession**
  - APRIL 2021

- **Fund raising / minority acquisition of Dhanvarsha Finvest Ltd.**
  - APRIL 2021

- **Sale of Pro Bike Tool to factory14**
  - MAY 2021

- **Lead Advisor for BMT Brunner AG during succession**
  - MAY 2021

- **BDO acted as exclusive financial advisor to the owners of Kvadratmeter Stockholm AB in the sale to Storskogen**
  - MAY 2021

- **Advisor on the sale of Cmed to Alten Group**
  - MAY 2021

- **BDO acted as exclusive financial advisor to the owners of Kalix Tele24 in the divestment to Responda**
  - APRIL 2021

- **BDO acted as exclusive financial advisor to the owner of MTB in the divestment to Vestum**
  - JUNE 2021

- **Financial adviser to Metz A/S in connection with merger with Baxx Promotions A/S.**
  - MAY 2021

- **Buhl & Bønsæe acquired by Industrade. Financial adviser to the seller.**
  - JUNE 2021

- **BDO acted as exclusive financial advisor to the owners of We Ar(e) Group AB in the divestment to Vestum**
  - JULY 2021

- **Buhl & Bønsæe acquired by Industrade. Financial adviser to the seller.**
  - JUNE 2021

- **BDO acted as exclusive financial advisor to the owners of Kvadratmeter Stockholm AB in the sale to Storskogen**
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  - APRIL 2021

- **Fund raising / minority acquisition of Dhanvarsha Finvest Ltd.**
  - APRIL 2021

- **Sale of Hello Soda to Acuant Inc**
  - APRIL 2021
IdVerde acquires Bras Groenvoorziening. BDO M&A acted as advisor to the buyer.

JANUARY 2021

BDO was lead M&A advisor to Prime Global in connection with a significant investment from Levine Leichtman Capital Partners.

APRIL 2021

BDO acted as exclusive financial advisor to the owners of Vestia Construction Group in the divestment to Ratos.

APRIL 2021

Portabase has been sold to Kidsconnect. BDO M&A acted as financial and legal advisor to the sellers.

APRIL 2021

Financial and VAT due diligence on Z-Services DMCC for Black Box Holdings Limited

MARCH 2021

C4 Software B.V. has been acquired by Stichting eXplain. BDO M&A acted as advisor to the buyer in this transaction.

MARCH 2021

LeMieux is one of Europe’s fastest growing equestrian brands offering both rider and horse wear. BDO acted as buyside advisor to LDC.

MARCH 2021

BDO Capital served as exclusive financial advisor to Left Hand Robotics, Inc. (“LHR” or the “Company”) on its sale to The Toro Company (NYSE:TTC).

MARCH 2021

BDO Capital served as exclusive financial advisor to Orange Tree Employment Screening, LLC (“Orange Tree” or the “Company”) on its sale to Tonka Bay Equity Partners.

FEBRUARY 2021

IdVerde acquires Bras Groenvoorziening. BDO M&A acted as advisor to the buyer.

JANUARY 2021

Pinewood has been acquired by Interstellar Group, part of Quadrum Capital. BDO M&A and BDO Legal acted as advisor to the seller in this transaction.

JANUARY 2021

Autotrust Holding B.V. has been acquired by Bowervij N.V. BDO M&A, Legal and Tax acted as advisor to the seller in this transaction.

JANUARY 2021

Advisor to Adler Ortho S.p.A. (Equity Value of Euro 40,000,000) in the sale of 35% to Space Capital Club

JANUARY 2021
Data compiled by Acuris.

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

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