HORIZONS

BDO'S GLOBAL VIEW OF MID-MARKET DEAL ACTIVITY

MERGERS&ACQUISITIONS ISSUE 2 | 2023

DEAL ACTIVITY DECLINES IN Q1 BUT REMAINS HIGH BY HISTORICAL LEVELS

SECTOR VIEW

PACKAGING
NATURAL RESOURCES
TMT
MANUFACTURING
FINANCIAL SERVICES
REAL ESTATE

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BDO GLOBAL CORPORATE FINANCE

2,095 COMPLETED DEALS IN 2022

WITH A TOTAL DEAL VALUE OF **$114.6bn**

38% PRIVATE EQUITY DEAL INVOLVEMENT

26% OF OUR DEALS ARE CROSS BORDER

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2,500 CORPORATE FINANCE PROFESSIONALS

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2nd leading Financial Due Diligence provider Globally – MergerMarket global accountant rankings 2022

WELCOME

WELCOME TO THE SECOND EDITION OF HORIZONS IN 2023, IN WHICH BDO M&A PROFESSIONALS AROUND THE WORLD PRESENT THEIR INSIGHTS ON MID-MARKET DEAL ACTIVITY AND SECTOR TRENDS.

In this edition of BDO M&A Horizons, we have made a few changes by popular demand. In addition to our usual Global View, which sets the tone of the quarterly Horizons magazine on deal activity and trends, we have deep dived into sector commentary by our experts around the globe.

Our analysis of data shows that whilst M&A activity is still high, overall activity declined in the opening quarter of 2023. And once again, the most noticeable aspect in the quarter was the prominence of private equity investments with nearly 38% of the total deal activity.

Our sector insights in this issue focus on Manufacturing, TMT, Financial Services, Real Estate, Packaging and Natural Resources.

As we go into mid-2023, our European M&A colleagues will meet in Madrid in May for BDO Corporate Finance's Annual European meeting, where we will discuss current trends and themes. We hope you find this new Horizons interesting and enjoy the photography.

Best wishes,

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GLOBAL VIEW

DEAL ACTIVITY DECLINED IN THE OPENING QUARTER BUT REMAINS HIGH BY HISTORICAL LEVELS

Global mid-market deal activity started the year at a lower level than any quarter in the prior year but was still very respectable given that 2022 was an exceptional year for deals. In view of the economic challenges around inflation that feels like an encouraging outcome. At 2,565 transactions in the quarter, it is still well above pre-COVID levels.

Once again, the most noticeable aspect in the quarter was the prominence of private equity with nearly 38% of total deal activity. That is the highest proportion recorded and underpins the growing importance of private equity in global mid-market M&A. It is remarkable when considered against a backdrop of rising interest rates. The aggregate value of private equity led deals was getting on for USD 50bn and whilst that was lower than post-COVID levels, it is remains high by historical levels. These quarterly trends are depicted in the chart below.

GLOBAL THEMES INFLUENCING M&A

Despite the negative impact of inflationary pressures, the availability of cash to invest should continue to fuel M&A activity but multiples may adjust down a little from very high levels. Despite a dip in activity in the second half of 2022, we expect that PE will be back investing in 2023. It may be a good time for strategic buyers to continue to be active in the market as they seek to add to capability, take a longer-term view and see some pricing benefits. Again, we expect ESG to be an important driver for deal activity.

On an annuaised basis, the picture of deal activity going back earlier to the last financial crisis is shown in the further chart below. If the current year were to contine at a similar level of deal activty, it would be in line with 2021 and well above prior years. Given that Q1 is often a lower level of deal activity that the rest of the year, 2023 may turn out to be another decent year.

Does the decline in activity over last year mean that valuations are reducing? We believe to some extent this is the case but it varies by sector and type of business. Capital market values are down on last year but starting to recover a bit. Good assets will continue to attract multiple interest with private equity still very active and trade buyers may start to improve their appetite as interest rate rises dampen down spiralling inflation.

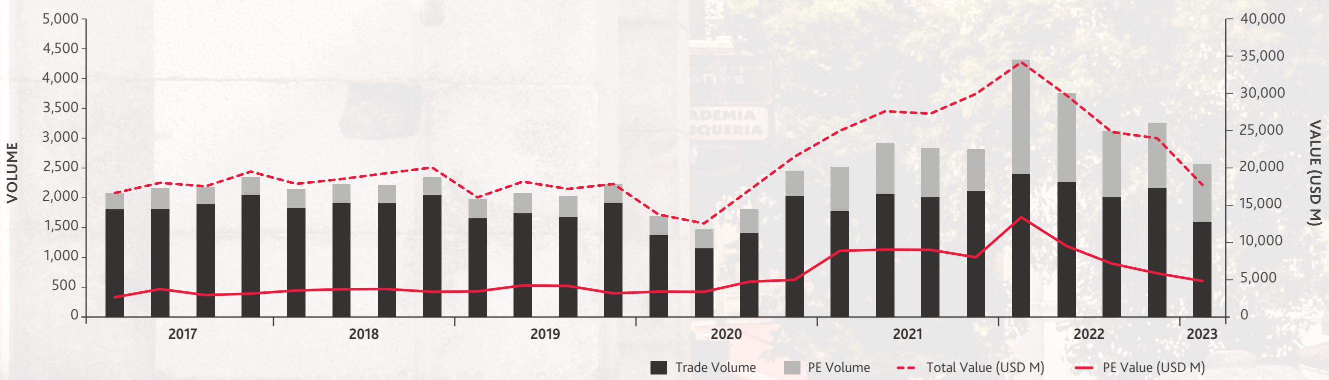
In terms of sectors, deal activity was down across the board on 2022 levels. The largest decline on the prior quarter was in Real Estate while the smallest decline was in Business Services, Pharma Medical & Biotech and in TMT. However, this picture would look very different compared to activity in the first quarter before the impact of COVID. Energy Mining & Utilities, Pharma Medical & Biotech, Real Estate and TMT are all materially higher and only Business Services and Consumer are lower.

Looking around the world, every region save for Japan saw a decline in deal activity in the quarter. North America was 10% down, whereas Greater China was 36% down. However, if we did the same comparison as for sectors with the first quarter before the impact of COVID, the picture is also very different with the majority of regions much higher and Japan and Israel considerably higher.

GLOBAL THEMES THAT ARE INFLUENCING M&A

Despite the negative impact of inflation, the availability of cash to invest should continue to fuel M&A activity but as noted above multiples may adjust down a little from very high levels. Despite a fall in activity over 2022, we expect private equity will continue to invest strongly in 2023. It may also be a good time for strategic buyers to be active in the market as they seek to add to capability, take a longer-term view and see some pricing benefits. We expect the global mega-trends of digitisation and decarbonisation to be key drivers of M&A activity.

GLOBAL MID MARKET M&A



GLOBAL HEAT CHART BY REGION AND SECTOR

	TMT	Industrials & Chemicals	Business Services	Pharma, Medical & Biotech	Consumer	Financial Service	Energy, Mining & Utilities	Leisure	Real Estate	TOTAL	%*
North America	968	247	332	491	271	195	87	54	14	2,659	30%
Greater China	202	480	212	118	115	120	136	40	100	1,523	17%
CEE	139	138	62	33	82	57	50	21	11	593	7%
Southern Europe	145	165	102	48	159	72	65	41	20	817	9%
India	49	46	45	31	53	37	18	2	3	284	3%
Latin America	172	19	67	12	60	34	56	14	11	445	5%
Nordic	52	55	33	51	20	13	19	6	3	252	3%
UK / Ireland	113	44	59	53	48	50	22	44	4	437	5%
Australasia	68	53	43	32	37	31	36	17	7	324	4%
DACH	101	87	33	51	44	10	9	8	3	346	4%
Other Asia	41	43	19	10	17	15	11	12		168	2%
South East Asia	75	54	41	47	40	63	50	20	18	408	5%
Japan	18	29	3	11	9	16	9	4	3	102	1%
Middle East	11	3	6	3	5	5	3	1	2	39	0%
Africa	27	27	33	11	16	8	28	1	4	155	2%
Benelux	26	35	32	22	17	13	5	5		155	2%
Israel	34	12	3	5	8	8	3	1	2	76	1%
TOTAL	2,241	1,537	1,125	1,029	1,001	747	607	291	205	8,783	

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

Note: The Intelligence Heat Charts are based on 'companies for sale' tracked by Mergermarket in the respective regions between 1 July 2022 and 31 December 2022. Opportunities are captured according to the dominant geography and sector of the potential target company. Mergermarket's Heat Chart of predicted deal flow is based on the intelligence collected in our database relating to companies rumoured to be for sale, or officially up for sale in the respective regions. It is therefore indicative of areas that are likely to be active in the months to come. The intelligence comes from a range of sources, including press reports, company statements and our own team of journalists gathering proprietary intelligence from M&A across the regions. The data does not differentiate between small and large transactions, nor between deals that could happen in the short or long-term.

LOOKING AHEAD

The outlook supports a premium to pre-COVID levels of M&A activity.

The outlook supports our view that while activity is down on last year it still looks pretty healthy with getting on for 9,000 rumoured transactions. North America and Greater China are the hottest regions on the map and TMT is the hottest sector around the world. Leisure still looks like it could be the weakest global sector.

We expect this picture to be supported by the availability of cash in private equity and on corporate balance sheets despite interest rates rising from what were historically very low levels.

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SECTOR VIEW

PACKAGING

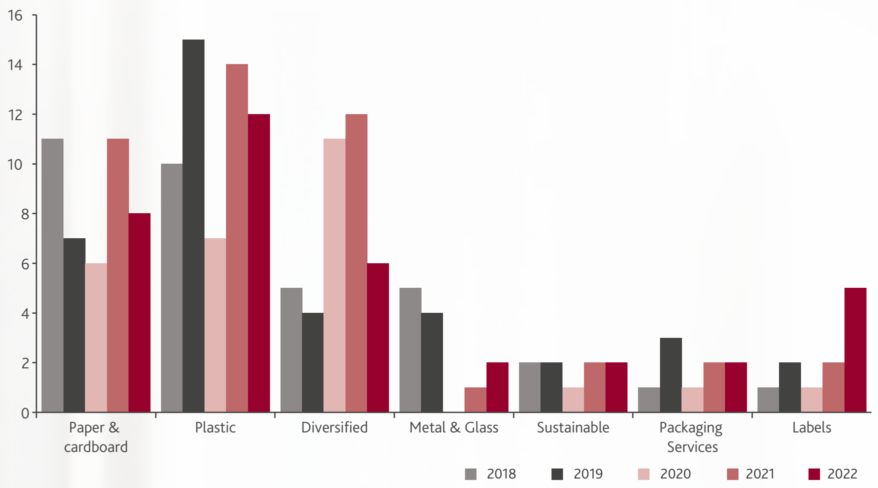
SUSTAINABILITY FOCUS DRIVES INNOVATION AND DEALMAKING ACTIVITY

The packaging industry continues to evolve at pace. It is rare for a week to go by without an announcement of a new and improved innovation targeted at improved sustainability, cost reduction or circular economy solutions. With the sector making such a widespread impact across society, it is no surprise that the question of sustainability has been front and centre of the debate. Corporates have been embedding new capabilities to reduce their environmental impacts and enhance circularity within the economy, while businesses have also had to balance external factors such as labour costs and supply chain issues, which continue to remain high on the agenda.

KEY DRIVERS

The key drivers shaping the industry will continue to be the focus on sustainability, the functionality of packaging and the production process. Companies with an agile business model will be able to adapt to a dynamic environment and will be well-positioned to capture the significant opportunities that lie ahead. In such dynamic times in the industry, M&A activity has been a feature to expand capabilities, capture synergies, combat supply chain pressures and drive value creation across a fragmented market. A summary of recent M&A trends is outlined in the chart on the right.

UK TRANSACTIONS BY MATERIAL TYPE – 2018 TO 2022



KEY THEMES IN PACKAGING

- Sustainability, including re-usable and returnable packaging: this is being driven by end-user and corporate awareness, government policy and financial cost. Sustainable solutions need not compromise effectiveness, nor are they necessarily more expensive – with rapidly changing technologies and ongoing development, these factors need not be conflicting and it is possible to get to the point where they are aligned.
- Material of choice: awareness of the impact of different materials through the entire lifecycle is necessary if the goal is sustainability and promoting a circular economy. We anticipate an increase in higher recycled content in the majority of packaging, with paper-based materials seeing increased use, especially for more premium products. But continued innovation is required to create a wider variety of sustainable solutions.
- Effectiveness: while sustainability is a key factor, ultimately packaging needs to be effective and fit for purpose: with the continued growth of e-commerce and a growing need for brand differentiation, we could see the further customisation of packaging and the growth of interactive or smart packaging. The ability to provide product information not only enhances usability and effectiveness but could also bring efficiencies throughout the supply chain and support sustainable practices more widely.
- Legislation has had an impact in the industry, for example the packaging tax in UK and Europe, but further work needs to be done to harmonise what is, at the moment, a very disparate approach to recycling and sustainability.
- Automation: continued automation of manufacturing processes addressing cost and labour inflation pressures, while also enhancing quality and efficiency.

SPOTLIGHT ON SUSTAINABILITY

Sustainability is becoming ever more important across all aspects of the economy. Media coverage over recent years has highlighted plastic pollution and has brought packaging to the forefront of consumers' as well as corporates' minds.

BDO recently conducted a UK consumer study to understand current and future attitudes to sustainability, recycling and packaging. The study found that businesses are not perceived to be doing enough, with over 90% of respondents concerned about the impact of packaging on the environment. We expect the overall sentiment to be very similar across Europe.

As a critical element to protect products, drive differentiation and promote brand, businesses must address these issues, especially as the drive for sustainability is only going in one direction.

The BDO study explores the following questions:

- What are the key levers that will help to drive sustainability in the packaging sector?
- What are the innovations driving advances to make packaging more sustainable?
- How do consumers feel about sustainability, recycling and packaging, and how could these attitudes shape the sector in the future?

1. **Making packaging more sustainable**

Making packaging sustainable is a complex issue and there are several levers that can and need to be pulled to achieve environmental goals. These include:

- **Government regulations, taxes and incentives** to compel companies (and consumers) to invest – in our experience this is still a key factor that drives innovation and / or the uptake of newer (initially often more expensive, e.g. mono-films over multi-layer) materials and solutions;
- Availability of a **collection and recycling infrastructure** – a critical input to make the system work. The UK (and to some extent also wider Europe) has further improvements to make in the collection, separation and treatment of waste to ensure that the maximum amount of waste can be fed back into the economy. Investment in existing and new types of recycling operations and technologies is necessary.
- **Corporates** need to (continue to) heed the demand for sustainability and invest in R&D to reduce the waste they generate, maximise the use of recyclates and develop new materials. The most innovative companies do not only do all of the above, they also help their customers create closed loops and integrate (or partner) along the value chain; and
- **Consumer attitudes** – while a 'soft' factor, increasing awareness by and pressure from consumers on the corporate world is driving change. However, for the circular economy to take hold, consumers need to 'invest' by making the effort to recycle, reuse and repair items as well as potentially paying more for the products they purchase.

2. **Innovation: a wide spectrum of solutions**

Innovation has been driving significant advances in making packaging more sustainable. Multiple options are available to packaging companies and their customers.

These often revolve around improving the usage and processes of existing materials, e.g.

- replacing substrates with more sustainable materials;
- downgauging (thereby reducing the amount of packaging); and
- optimising the use of recycled input materials such as rPET.

However, these options increasingly also mean the development of new methods and substrates, e.g.

- 'improving' existing materials such as PET (e.g. mono-films, which can be recycled, unlike multi-layer packaging, which must be incinerated or sent to landfill); and
- bio-degradables and compostables – substrates that are often made from natural materials.

All of these innovations are already and moving forwards will increasingly drive differentiation and determine the future of packaging companies and their customers. M&A has been and continues to be a key enabler of adding not only geographic reach, new customers or materials, but increasingly acquiring new capabilities.

3. Change in the air: how do consumers feel?

UK consumers are concerned about the environment and are (increasingly) active recyclers...

1 Over 90% of respondents are concerned about the impact of packaging on the environment – corporates need to listen.

2 Over 95% believe that recycling is important. Almost 60% of respondents are recycling more and c.50% are planning to do even more.

... with a sophisticated undertanding of the sustainability of materials – and will judge corporate laggard.

3 Only about 75% of consumers think they understand how sustainable / recylcable various materials are – of those half are not overly confident in their understanding.

4 Despite doubts expressed above, respondents managed to rank materials broadly correctly in order of their sustainability.

Consumers perceive that corporates are not doing enough around sustainablility and excpect them to carry cosrs of change.

5 c.60% thought that electronics, fashion and beauty companies used more packaging than necessary (healthcare and grocery fared better).

6 Alomost 60% though business did not enough around sustainability and over 90% thought business should carry the cost of improving packaging.

Younger generations are more concerned, more active and, crutially more willing to shoulder some costs.

7 There is a clear difference between younger (<35 years) and older demographics across all aspects covered in this survey – ranging from environmental concerns to willingness to pay more for sustainable products. The latter is a crucial change that may unlock a step change in sustainability.

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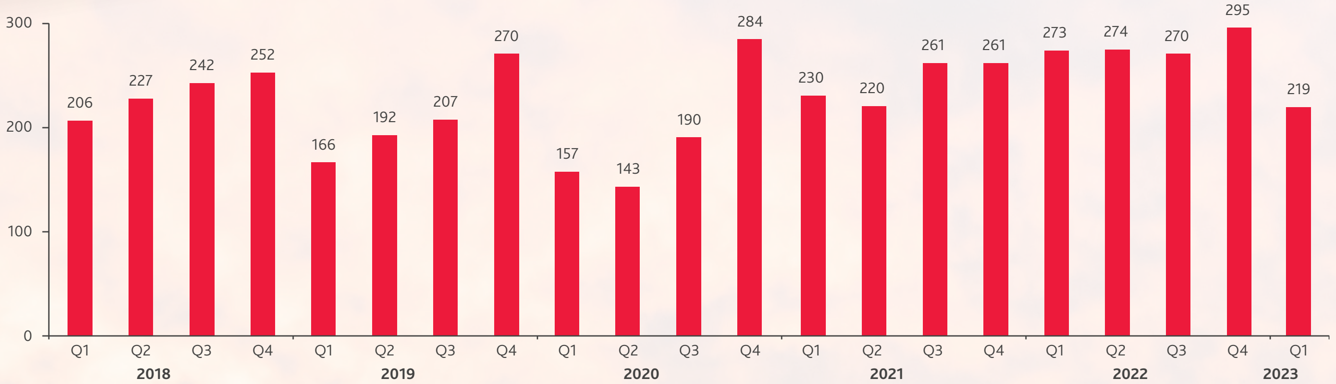
NATURAL RESOURCES

DEALMAKING ACTIVITY REMAINS BUOYANT WITH RENEWABLES LEADING THE WAY

The level of mid-market Energy, Mining & Utilities (EM&U) M&A activity in the first quarter of 2023 decreased from the highs of Q4 2022 but remains comparatively buoyant relative to 2021.

GLOBAL MID-MARKET EM&U M&A DEALS BY QUARTER



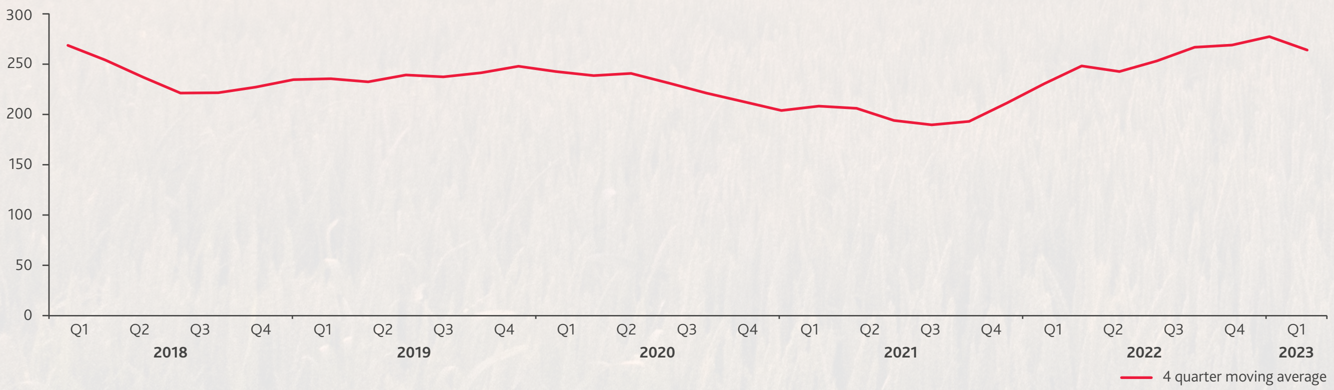
Despite this fall, the first quarter of 2023 moving average shows that the level of EM&U M&A activity appears to have returned to an average of between 250–280 average deals per month.

Macro factors impacting on the trend include:

- In the latter part of 2022, global financial liquidity tightening, rapidly rising interest rates and the impact of inflation caused many companies to focus on internal activities rather than making acquisitions. However, high commodity prices have strengthened the balance sheets of many EM&Ubusinesses.
- Many EM&U companies have generated strong cash balances from increased commodity and energy prices, thereby reducing the need to rely on M&A as a means to reduce costs and access synergies.
- There is increased uncertainty around future economic conditions, which is giving rise to varying assessments of value between buyers and sellers. These varying views and assumptions on future commodity prices, rates of inflation and interest rates and even geopolitical risks are making friendly M&A difficult, and we may see more hostile M&A in the near future.
- Security of supply will continue to be a key driver of M&A activity across the sector, with governments placing requirements on producers to build local supply chains and reduce their use of imported critical minerals where they have access to their own domestic supplies.

While oil and gas activities have been buoyant in the wake of impaired global energy supply chains, deal activity in the renewable energy sector has remained at elevated levels due to the industry transition towards cleaner energy sources. We are also likely to see elevated activity in the critical minerals sector, in particular for those commodities that are supporting the energy transition.

MOVING AVERAGE NUMBER OF EM&U MIDMARKET DEALS



MAJOR DEALS IN Q1 2023

EM&U deals represented a significant number of the top 20 mid-market deals in several regions:

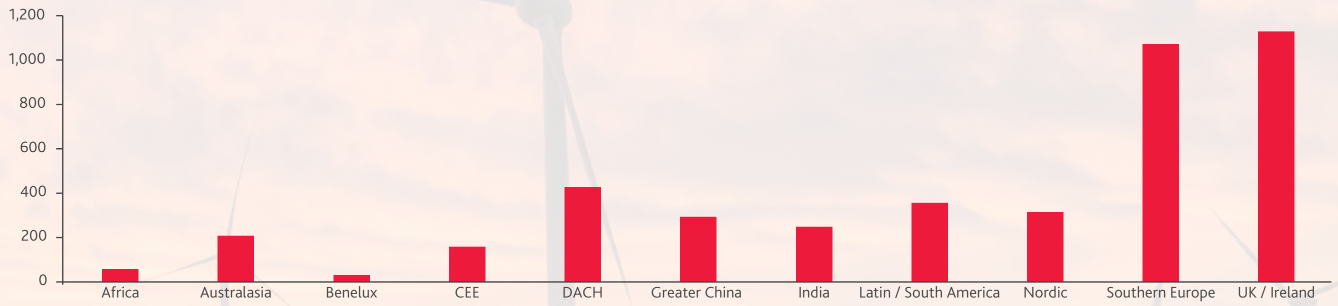
- Australasia – 8 of the top 20, representing 33% of overall value for the region.
- Southern Europe – 5 of the top 20, representing 14% of overall value for the region.
- North America – 4 of the top 20, representing 3% of overall value for the region.
- Greater China – 4 of the top 20, representing 4% of overall value for the region.

Analysing the target companies within the EM&U deals for the quarter reveals that there were many renewable energy deals, but there was also a notable increase in oil and gas transactions.

RENEWABLES

The graph below illustrates the total value of renewable energy deals in Q1 2023 that were included in each region's top 20 mid-market deals.

TOP 20 EM&U DEALS BY VALUE USD'M



Some of the key mid-market tractions across the EM&U sector have been in relation to targets in renewable energy. For example:

In Europe:

- RWE Aktiengesellschaft acquired JBM Solar Projects Ltd from Susgen Ltd. JBM Solar has a mature pipeline with a combined capacity of around 6.1 GWac, split into 3.8 GWac of solar and 2.3 GWac of battery storage projects.
- Bankinter, S.A. and Plenium Partners SL. acquired a 247MW cluster of solar projects in Spain from Lightsource BP Renewable Energy.
- EQT Active Core Infrastructure entered a binding share purchase agreement to acquire a 71.7% stake in Tion Renewables AG, a German renewable energy producer with a 167MW portfolio of solar, wind and battery storage assets.
- Fortescue Future Industries partnered with Tree Energy Solutions to develop a green hydrogen energy import facility in Germany.
- Odin Energy agreed to purchase land associated with Danish wind turbines and certain wind and solar projects from Skovgaard Energy, while Aneo AS signed an agreement to acquire two wind farms in Sweden from Marguerite Investment Management.
- The Three Seas Initiative Investment Fund will invest €150 million in R.Power SA and acquire a minority stake, with a plan to achieve a 1GWp operating solar portfolio within the next two years across EU markets.
- EOS Investment Management Group signed a contract for the purchase of solar energy projects from IGEFI Group, an Italian industrial group that develops real estate assets and energy power plants.
- Credit Agricole Assurances S.A. acquired a 50% stake in TotalEnergies SE's 234MW portfolio of renewable projects, including 168MW solar power plants and 67MW wind farms.

In Latin America:

- Patria Infraestrutura IV invested in Elis Energia to fund the installation of 35–40 solar plants that are expected to produce 200MWp.
- Intermediate Capital Group will invest in CVE to finance their development plan, whereby they aim to increase their installed solar capacity by fourfold to reach 2.7GW by 2027 and their biogas by eightfold to reach 1.5TWh by 2030.

In Australasia:

- Nabors Energy Transition Corp acquired 100% of Vast Solar. The business plans include building a utility-scale concentrated solar power (CSP) plant – known as VS1 – in Port Augusta in South Australia.

In Africa:

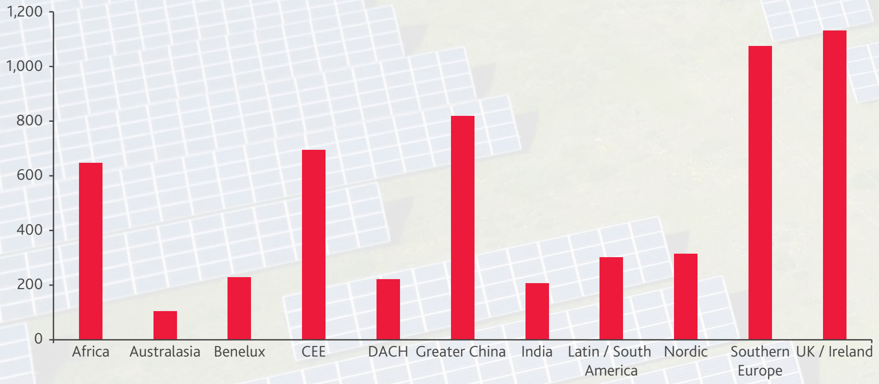
- STANLIB Asset Management agreed to acquire a 42% stake in the 258MW Upington solar park from Scatec and an 18% stake from Norfund.

This summary of major mid-market deals in the EM&U space highlights the preponderance of renewable energy deals in the sector.

OIL AND GAS

The graph below illustrates the total value of oil and gas deals in Q1 2023 which featured in each region's top 20 mid-market deals overall.

TOP 20 EM&U DEALS BY VALUE USD'M



Alongside renewables, a significant percentage of the highest value deals across the EM&U sector were in relation to oil and gas targets.

In Europe:

- Prax Global Finance Plc agreed to acquire Hurricane Energy Plc, aiming to help Prax develop a sizeable upstream business in the North Sea.
- Enagas S.A. and Fluxys Belgium agreed to acquire a 5% stake in Trans Adriatic Pipeline AG.
- Lukoil OAO acquired an additional 29.49% stake in Public Joint-Stock Company EL5-Energo. Post-acquisition, Lukoil will hold a 56.43% stake in Public Joint-Stock Company EL5-Energo.

In North America:

- Saturn Oil & Gas entered an arrangement to acquire Ridgeback Resources Inc to expand oil production.

In South East Asia:

- Chandra Asri will acquire a 70% stake in PT Krakatau Daya Listrik and a 49% stake in PT Krakatau Tirta Industri.

In Greater China:

- Sichuan Liming Energy Development Co., Ltd. agreed to acquire an unknown minority stake in AAG Energy, which engages in the exploration, development, production and sale of coalbed methane in China.

In Australasia:

- ConocoPhillips acquired an additional 2.49% stake in Australia Pacific LNG to increase their ownership to 50% to become the upstream operator of Australia Pacific LNG.
- OPIC Australia entered a binding agreement to acquire a 10% stake in Carnarvon Energy's offshore oil assets.

LOOKING AHEAD

Mergermarket's Intelligence Heat Chart based on companies for sale shows the following predicted deal activity for the EM&U sector.

It is notable that the total of companies for sale or rumoured to be up for sale for the six months to March 2023 is lower than for the previous six months to 31 March 2022 (671), which implies a potential slowdown in the number of deals over the next few months.

The highest levels of deal activity are expected to be in Greater China, with a material decrease expected in North American deal activity due to tightening financial conditions.

As a proportion of total activity, the highest predicted levels of deal activity are predicted to take place in Australasia, Africa, South East Asia and Latin America.

Within the Intelligence Heat Maps, there is no breakdown of sector sub-categories, so to some extent it is open to speculation as to the extent to which future deal numbers will reflect the burgeoning move towards clean energy. However, given the recent patterns of deal activity in the EM&U sector, it is reasonable to expect that renewable energy and the energy transition in general will remain the basis for a significant number of future deals.

SIX MONTHS FROM 1 OCTOBER 2022 TO 31 MARCH 2023

REGION (OF TARGET COMPANY)	ANTICIPATED LEVEL OF ACTIVITY	AS A % OF TOTAL M&A ACTIVITY FOR REGION
Greater China	136	8.93%
North America	87	3.27%
Southern Europe	65	7.96%
Latin / South America	56	12.58%
CEE	50	8.43%
South East Asia	50	12.25%
Australasia	36	11.11%
Africa	28	18.06%
UK / Ireland	22	5.03%
Nordic	19	7.54%
India	18	6.34%
Other Asia	11	6.55%
DACH	9	2.60%
Japan	9	8.82%
Benelux	5	3.23%
Middle East	3	7.69%
Israel	3	3.95%
TOTAL	**607**	**6.91%**

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TMT

GENERATIVE AI BOOSTS CYBERSECURITY M&A PERFORMANCE AMID TMT INDUSTRY UNCERTAINTY

Cybersecurity M&A activity remains strong, bucking broader TMT sector uncertainty and layoffs. New generative AI systems like ChatGPT may provide incentives for further cybersecurity investment and M&A.

BDO's exclusive mid-market M&A data shows technology, media and telecoms (TMT) deal activity influenced by on-going macroeconomic uncertainties. Inflation and interest rates, and the recent collapse of Silicon Valley Bank likely all contributed to dropping TMT M&A activity.

However, TMT M&A activity remains robust, outpacing pre-pandemic levels as companies across industries prioritise digital transformation and TMT upgrades to improve operations and bolster long-term growth potential.

Investors', including private equity (PE) firms, deal participation demonstrates confidence in the TMT sectors outlook in spite of current choppy waters.

Simultaneously, new technologies, exemplified by generative AI, continue to emerge, attracting the interest of companies and investors alike.

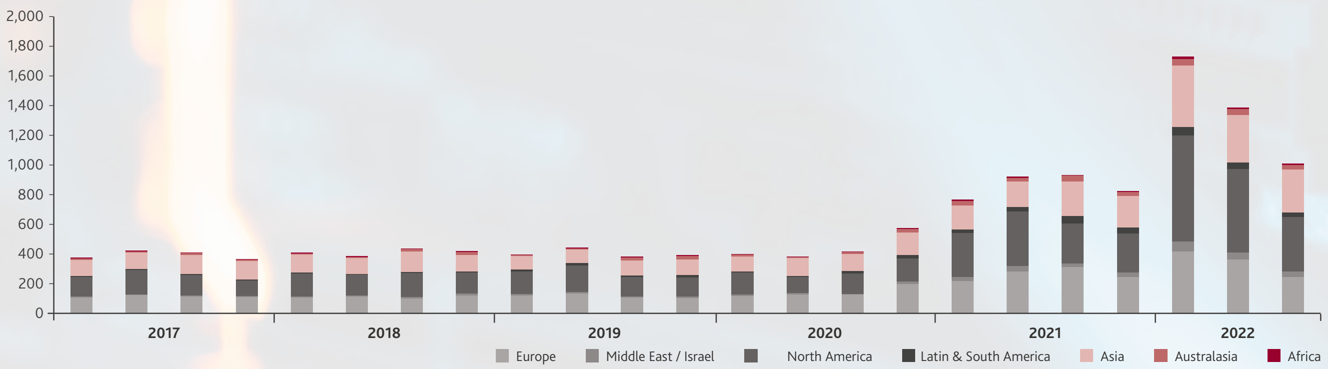
Generative systems, such as ChatGPT, promises ground-breaking applications across industries. One example is cybersecurity, which shows continued strong M&A performance, highlighting the resilience and future potential of the TMT sector.

UNCERTAINTY AND SLOW-DOWN

MergerMarket M&A data, exclusive to BDO, shows mid-market M&A activity dropping in the start of 2023 from the highs of 2022. However, it should be noted that M&A activity remains above pre-pandemic levels.

TMT recorded 764 deals in the first quarter of 2023, worth a combined US$39 billion.

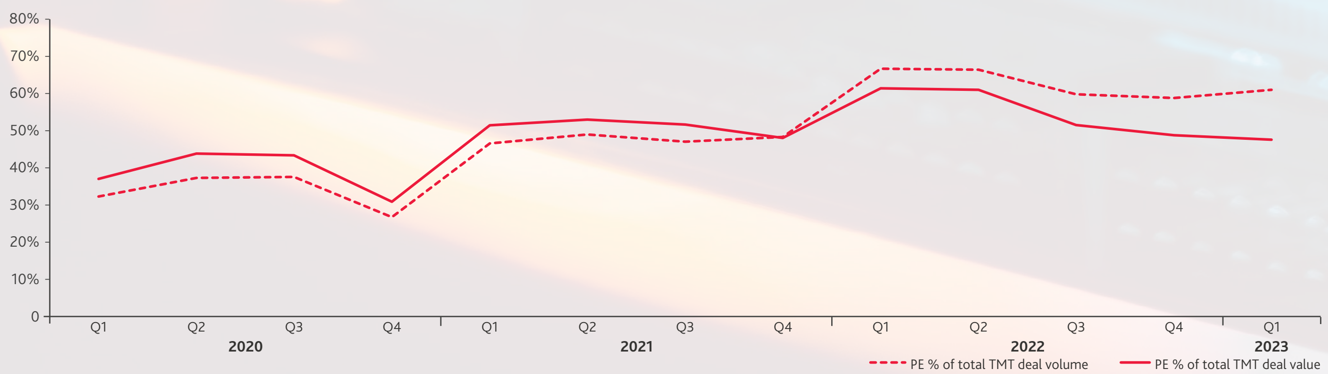
TMT DEALS FOR SELECT REGIONS 2017 Q1 – 2023 Q1



Graph and analysis: BDO Global. Data: MergerMarket.

Private equity firms continue to show a strong appetite for TMT deals. In Q1 2023 PE firms were involved in 61% of total TMT deal volume, representing 48% of overall deal value.

PRIVATE EQUITY PERCENTAGE OF TMT DEAL VOLUME AND VALUE 2020 Q1 – 2022 Q3

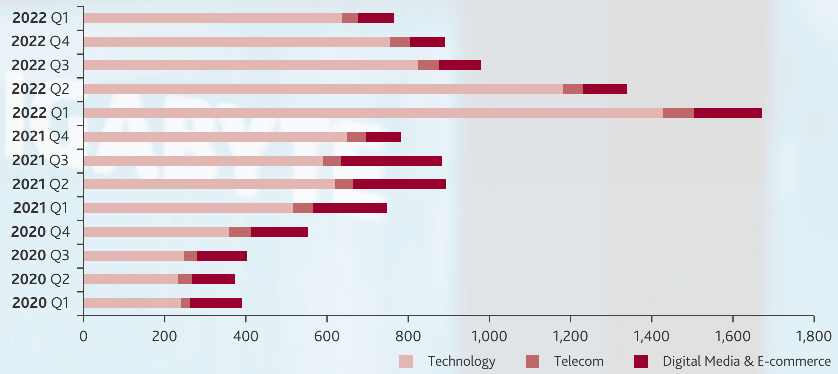


Graph and analysis: BDO Global. Data: MergerMarket.

SOFTWARE DEAL ACTIVITY SLOWS

By sector, software showed the most marked slow-down in activity. Q1's 583 deals were less than the deals in the first quarter of 2022.

TMT DEALS BY INDUSTRY 2020 Q1 – 2023 Q1



Graph and analysis: BDO Global. Data: MergerMarket.

Other sub-sectors in TMT showed resilience to M&A downturn, which several, including hardware and ecommerce posting slight quarter-on-quarter growth in activity.

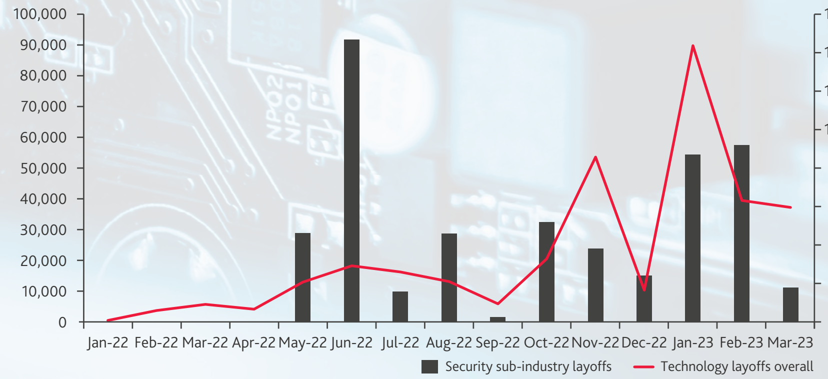
The drop in technology M&A was led by software. Q1 2023 which saw an almost 60% year-on-year decrease to 583 deals.

CYBERSECURITY BUCKS BROADER TECH SECTOR TREND

M&A slow-down is mirrored by recent layoffs in the technology sphere. More than 300,000 jobs have been lost in the past two years.

However, cybersecurity professionals remain in high demand, with comparatively few layoffs in the field.

OVERALL TECHNOLOGY INDUSTRY LAYOFFS VS. SECURITY TECHNOLOGY (CYBERSECURITY) SUB-INDUSTRY LAYOFFS



Graph and analysis: BDO Global. Data: https://layoffs.fyi/

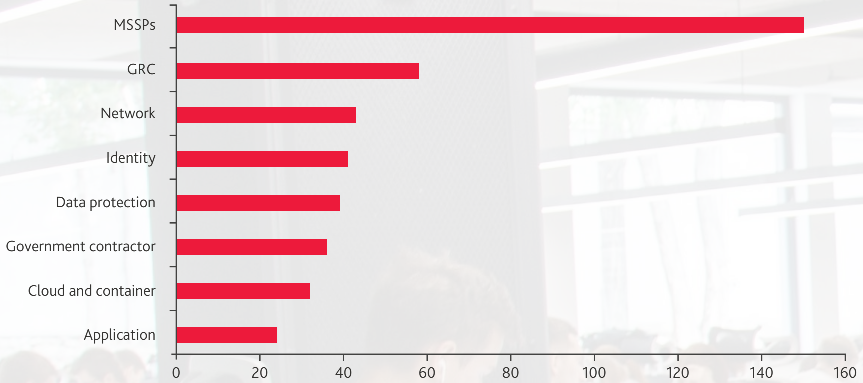
Research conducted by ISC2 found that while 50% of C-suite executives in various countries anticipate layoffs this year, only 10% expect to cut jobs in cybersecurity. This indicates that business leaders consider cybersecurity a critical and essential function in their organisations.

Their view is justified when looking at the average costs of cyberattacks. IBM data shows observation that the average costs of a data breach are US$4.35 million.

CONTINUED CYBERSECURITY M&A ACTIVITY

Cybersecurity-related M&A activity also remains strong. SecurityWeek analysis found 455 cybersecurity deals announced in 2022, up from 435 in 2021. The US and UK continue to lead deal activity, ahead of Canada, Germany, Israel and Australia. In 2022, transactions totalled over $63 billion in disclosed deal value, with ten companies acquired for more than $1 billion.

CYBERSECURITY M&A: MOST ACTIVE SUB-INDUSTRIES



Graph and analysis: BDO Global. Data: https://www.securityweek.com/

Deal activity involved by institutional and strategic investors, as well as industry consolidation.

In the latter category, managed security service providers (MSSPs) were particularly active. Many MSSPs are leveraging M&A as a way to integrate new services and acquire market shares in a rapidly evolving market.

GENERATIVE AI: NEW CHALLENGES AND OPPORTUNITIES IN CYBERSECURITY

Cybersecurity's performance is partly driven by companies and organisations facing a developing threat landscape, and the opportunities and risks posed by disruptive technologies, such as generative AI.

"Two main trends are likely to lead cybersecurity M&A – the global shortage of skilled professionals and the need for technology consolidation.

While the former is supplier focused and drives cybersecurity M&A to enable growth in cybersecurity services organizations, which are dependent on scarce skilled professionals, the latter is buyer focused and drives cybersecurity technology consolidation due to chief information security officers' (CISO) need for addressing cybersecurity technology acquisition complexity due to the need to integrate point solutions (76 tools in average, source: Infosecurity Magazine 12 / 2021) and the need to manage a high number of cybersecurity technology vendors (appx. 75% of organisations are interested in reducing the number of cybersecurity vendors they use, up from 29% in 2020, source: Gartner 9 / 2022)."

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This technology can be employed by both attackers and defenders. Attackers can deploy generative AI to increase the speed and variation of threats.

However, defences can leverage generative time to enabling offensive security measures like automated penetration testing and security awareness tasks. Integrating generative AI into tools like extended detection and response (XDR) can help analyse data, summarize attack events, and write remediation code for vulnerabilities.

The technology's impact on workflow-driven security tools, such as security information and event management (SIEM) and security orchestration, automation, and response (SOAR), may boost security operations centre (SOC) efficiency.

As with cybersecurity in general, it is unlikely that generative AI solutions will be one-size-fits-all for companies and organisations. Its many use cases may create fertile ground for startups building flexible, vertically focused solutions focused on delivering great user experiences around human-AI interactivity.

If this is the case, we can expect to see further M&A activity as cybersecurity industry incumbents and big tech companies continue to establish their presence in the emerging space.

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MANUFACTURING

ANOTHER YEAR OF M&A GROWTH

Volatility has become the new normal across the globe, with manufacturers demonstrating commendable resilience to market turbulence.

It may not be surprising to see that M&A strategies continued in earnest through 2022 in spite of the ever-changing macro-economic landscape. In the UK, there were 793 transactions involving a UK manufacturer in 2022, compared with 779 in 2021 and 595 in 2020. The increase in deals is impressive in view of the market headwinds, reflecting both resilience and optimism in the manufacturing sector.

Although dealmaking is now slowing across many international markets, M&A continues to play a major role in helping companies address major market themes such as sustainability and energy transition, as well as to access technology and achieve competitive advantage through scale. Many corporates are considering carve-outs and divestments to focus on core markets, while others are considering more defensive M&A strategies to gain scale and address margin erosion.

RISING COSTS AND LONG-TERM RESILIENCE

Unsurprisingly, manufacturers consider rising costs to be their greatest challenge. Energy prices and raw material prices remain high, and although inflation is expected to ease during the year, margins and budgets will still require keen attention. Rising costs from suppliers, labour and property costs have been cited as the biggest causes for concern. Add to this the higher cost of borrowing and the prospect of further rises in interest rates, it's clear that achieving growth is going to be more challenging than usual.

Businesses are adopting a variety of methods to increase resilience, with M&A playing an important part. Interestingly, only a few manufacturers plan to downsize or reduce their operational scope; instead, many are focused on seeking investment to acquire new systems or measures to increase efficiency, such as automation. Many businesses are looking to invest to align with net zero ambitions, which will provide long-term resilience, while others are **embracing opportunities in the circular economy.**

SUPPLY CHAIN STRATEGIES

Supply-chain bottlenecks and pandemic-related disruptions to production and consumption patterns have meant difficulties in both key component availability and predictability of demand. The pandemic threw out normal cyclical patterns of stock building as low stocks and raised geopolitical tensions around supply chains, meant that producers pushed hard in 2021 and 2022 to replenish stocks. Whilst difficulties have eased somewhat and there has been a welcome reduction in container shipping costs, certainty of supply remains a key challenge.

Points of instability and disruption that will need to be navigated in 2023 include the abrupt change to China's COVID-19 policy, uncertain inflation and recession scenarios, the shortage of certain commodities and continuing geopolitical tensions add another layer of uncertainty.

Increasing numbers of businesses are seeking funding to progress supply chain strategies: for example, 34% of UK manufacturers surveyed* are looking to near-shore and 24% are looking to on-shore to boost supply chain security. We continue to see M&A playing its part in vertical integration strategies.

MANUFACTURERS CONTINUE TO INVEST

Despite the uncertainty, manufacturers continue to invest. By way of example, Badger Meter recently acquired Syrinix which is a provider of intelligent water monitoring solutions. Through M&A, Badger Meter expanded its digital solution, providing real time data-led insights for water utility networks. BDO acted as exclusive sell-side advisers to Syrinix. In the UK, a recent survey* showed only 17% of manufacturers are delaying investment.

M&A OUTLOOK

We expect 2023 to be characterised by a more disciplined approach to M&A as businesses face increased interest costs and ongoing challenges in the macroeconomic environment. Market conditions may create short-term challenges in M&A processes, while valuations come under scrutiny. That said, whilst deal timings have extended, underlying motivation for M&A remains high and valuations remain strong especially for businesses aligned with growth sectors and major market themes.

* BDO's latest Rethinking the Economy survey of 500 mid-sized UK businesses.

KEY MARKET THEMES

NET NERO
- Energy transition
- Decarbonisation

ESG
- Sustainable materials
- Circular economy
- Product as service

INNOVATION
- Automation
- Augmented reality
- Digital twin / IIOT
- Big data
- Predictive maintenance
- New product development

SUPPLY CHAIN
- Raw material availability
- Input prices
- Restructuring
- Reshoring
- International trade
- Protectionism

MACRO FACTORS
- Energy costs
- Inflation
- Labour / STEM / skills shortage
- Tax regime
- Regulation
- Geo-political landscape

MANUFACTURING DEALS REVIEW UK HIGHLIGHTS

- 793 UK manufacturing deals in 2022, up from 779 in 2021.
- Private equity maintains strong interest, with buy-outs representing 1 in 5 deals.
- Stable activity across most sub-sectors, but with notable increases in Manufactured Materials and Test & Measurement.
- Inward investment to the UK declined by 14%, but outward investment from the UK increased by 14%. North America remains the major buyer of UK businesses.
- Industrials index continues to outperform the FTSE100, valuation multiples return to historic norms.

Read more here, including Sector Spotlights:

AUTOMATION

FOOD & DRINK

PACKAGING

CIRCULAR ECONOMY

INFRASTRUCTURE SEVICES

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FINANCIAL SERVICES

MARKET TRENDS LOOK SET TO FOSTER CONTINUED GROWTH IN M&A

Black swan events do seem to be occurring with some regularity – the pandemic, the Ukraine war and now the mini-banking crisis. In the UK, we can add Brexit and the Liz Truss 'mini-budget' to this list. Indeed, many financial projections in vendor presentations are now dispensing with 'adjusted' EBITDA. In North America, we are watching the commercial Real Estate market very closely as the next potential shoe to drop. However, Financial Services remains a compelling sector as far as the global BDO M&A FS team sees it, and with good reason.

First, perhaps most powerfully, secular tailwinds continue to dominate, and possibly more than ever. The Western world's population is getting older but it is also getting tech savvier in its demand for better products, advice and outcomes. This means that while middle-class wealth is growing, it is still finding the old-style school of retail Financial Services (investment management in particular) poor and overpriced in terms of delivery, clarity and purpose. To remedy this, the Financial Services landscape continues to reward two themes: on a more prosaic basis, those firms who can consolidate middle and back office synergies and pass some of those cost savings to their customers; and also, more intriguingly, those companies, especially from the Fintech end, which can provide customers with better and cheaper advice.

BDO's team has advised on several consolidation deals in the past 12 months, as well as the sale of a retail pensions aggregator called Profile Pensions to Moneyfarm, a leading European robo-advice platform backed by Allianz, M&G, Poste Italiane and others. The same principle can readily be applied to corporate clients, as BDO is also seeing from interest in the sale of several current SME finance houses, particularly in the UK. In North America, BDO has advised several alternative lenders on transactions servicing automotive lending markets. While the alternative lending market in North America continues to be challenged by a higher cost of capital, we see the cost of capital abating in the back half of the year, reducing the squeeze on interest margins and defaults.

Second, the plumbing of the financial infrastructure remains complex – and arguably, it was ever so. The large banks remain largely bound to their legacy systems, grappling with costs and replacement capex while still earning less than their cost of capital. Rising regulatory capital requirements have impacted the banking sector, and so has the challenge from Fintechs, which, admittedly, the incumbents now look like winning. Commercial success – whether in the retail, wholesale or capital markets – is now increasingly about building up tech capabilities – latency, product innovation, customer connectivity, underwriting decision-making etc. This still means that the market rewards winners who can develop such products, as can be seen with one of our current clients who is specialising on fixed income exchange-traded funds (ETFs), a field where big banks still find it a challenge to develop products quickly, efficiently and at low cost. We also think 'RegTech' – the intelligent deployment of tech across the treasury, data and compliance functions – will start to come to the fore, and we are increasingly active in that sector.

Lastly, the sector continues to attract more and more private equity – especially in the 'balance sheet light' areas. For the past decade, only a handful of private equity firms have been proper specialists in Financial Services, but more and more are now coming to appreciate the commercial and financial opportunities within the sector, despite the additional complexities that regulation brings. Additionally, the wealth management and insurance sector consolidation stories are well known (with 42 private equity-backed consolidators in the UK wealth management space alone). Clearly the rise in interest rates and tightening of credit will depress decision making and ultimately returns, but the amount of dry powder remains an overwhelmingly compelling story.

It is undeniable that these continue to be globally turbulent times: we have just seen the effective nationalisation of nearly 10% of the world's Additional Tier one bonds (AT1) 'CoCo' capital; policymakers are unclear whether they should be raising or cutting interest rates; and overall a tightening of credit is clear to see. However, we believe that Financial Services M&A continues to stand on reasonably durable foundations.

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REAL ESTATE

ARE RISING RATES KILLING THE MARKET IN 2023 OR SETTING US UP FOR THE NEXT RALLY?

The real estate market in Europe has been on a roller coaster ride over the past few decades. The financial crisis of 2008 had a significant impact on the real estate market, leading to a slump in property values and a tightening of lending conditions. In recent years, the market has been on the rise again, but now, in 2023, there are growing concerns about financing issues that could once again threaten the stability of the market. Rising interest rates have hit the real estate market.

Rising interest rates can significantly impact real estate developments, particularly in the commercial sector such as office warehouse, and logistics. These sectors are often dependent on long-term financing, and when interest rates rise, the cost of financing becomesw more expensive. This can lead to an increase in the cost of borrowing, which can be a significant challenge for developers looking to invest in new projects or refinance existing ones. As the cost of financing increases, developers may become hesitant to take on new projects or expand their portfolios, leading to a slowdown in real estate development.

The impact of rising interest rates on real estate development can have far-reaching consequences for the greater economy. When developers are hesitant to invest in new projects, it can lead to a slowdown in construction activity, which can negatively affect job growth and economic activity. Additionally, as fewer properties are developed, it can lead to a shortage of available real estate. It remains to be seen if the lower supply with be driving up rental and purchase prices.

The other issue that has emerged is the swap rate yield inversion. This occurs when the yield on long-term bonds falls below the yield on short-term bonds. The result is a disruption in the normal flow of credit, as lenders are hesitant to lend long-term when they can get higher yields on short-term loans. This can have a significant impact on the real estate market, as many property investors rely on long-term financing to fund their investments. Further it creates problems for banks as banking regulation does not account for such scenarios.

In 2008, the swap rate yield inversion was one of the factors that contributed to the collapse of the real estate market. Many investors were unable to refinance their loans at reasonable rates, leading to a wave of defaults and foreclosures. There are concerns that a similar scenario could play out in 2023 in certain markets, as interest rates continue to rise and the yield curve flattens.

The impact of these financing issues is already being felt in the real estate market. Interest rates have risen sharply in recent years, making it more expensive for investors to finance their properties. This has put pressure on rents, which have not risen at the same rate as interest rates. As a result, many investors are finding it difficult to generate the returns they need to service their loans.

The future refinancing problems of loans currently still financed at low rates are a major concern for the real estate market. Many loans that were taken out in the aftermath of the financial crisis are still at low rates, but these loans are now coming due. As interest rates rise, investors will be faced with the prospect of refinancing their loans at much higher rates, which could put a strain on their cash flow.

In addition, there is the risk that rising interest rates could lead to a decline in property values. This would make it more difficult for investors to refinance their loans, as lenders may be hesitant to lend against properties that are declining in value. This could create a vicious cycle, where falling property values lead to tighter lending conditions, which in turn lead to further declines in property values.

One potential solution to these financing issues is to encourage more long-term lending. This would provide investors with more stability, as they would not have to worry about refinancing their loans every few years. However, this would require lenders, specifically banks to be willing to lend at longer maturities, which could be difficult given the current market conditions. It is questionable if such a change would be welcome by regulators as this would further increase the wait and see approach of many financial institutions.

Another possible solution is to encourage more private investment in the real estate market. Private investors may be more willing to lend at longer maturities, as they are not subject to the same regulatory constraints as banks. However, this would require a significant shift in the way that real estate financing is structured, and it may take time for private investors to become comfortable with this type of investment.

Ultimately, the real estate market in Europe is facing significant challenges in 2023. The financing issues that are emerging are similar to those that contributed to the financial crisis of 2008, and there is a risk that history could repeat itself. On the positive note, these impacts could also provide substantial opportunities for the investors with the appropriate risk appetite.

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SOME OF OUR RECENTLY COMPLETED DEALS

TORC CANDLES LIMITED

BDO advised Torc Candles, Ireland's number one manufacturer of luxury candles, on its recent Management Buy Out.

APRIL 2023
IRELAND

£467.93M

DAS LAND STEIERMARK

BDO Austria exclusively advised the state of Styria in the acquisiton of 25% of the shares in the Austrian energy company Energie Steiermark.

MARCH 2023
AUSTRIA

BROUGHTON PLAN HIRE & SALES

BDO has advised the shareholders of Michael Broughton Limited, trading as Broughton Plant Hire, on its sale to Lifco AB.

MARCH 2023
UNITED KINGDOM

Rogaland Bildeler a/s

BDO acted as lead advisor to the owners in the sale of Rogaland Bildeler to Autocirc.

MARCH 2023
NORWAY

Tug and workboat company Herman Sr. BV

Netherlands-based tug & workboat company Herman Senior has acquired all shares of ST Marine Support, a provider of quality maritime and offshore services.

FEBRUARY 2023
NETHERLANDS

BLUE SYSTEMS AB

BDO Corporate Finance acted as exclusive financial adviser to the shareholders of Blue Systems AB in connection with the management buyout.

FEBRUARY 2023
DENMARK

GROENEWOUT

EPG Consulting acquires majority stake in Groenewout.

FEBRUARY 2023
NETHERLANDS

LT GROUP AS

LT Group AS acquired 100% equity stake in TransOcean Shipping d.o.o. Belgrade.

JANUARY 2023
SERBIA

IMPLENIA AG

Advisor to Implenia AG on the sale of Implenia Schalungsbau GmbH to Peri Group.

JANUARY 2023
GERMANY

BARACK HOLDINGS

The sale of Barack Group of Companies, which operates eight KFC restaurants, to the Tahir Group.

DECEMBER 2022
UNITED KINGDOM

laatta piste.

Amethis is pleased to announce BDO Corporate Finance acted as financial advisor to Laattapiste Oy in their acquistion of Pukkila Oy Ab.

DECEMBER 2022
FINLAND

DR. SVEN WIECZOREK

Nicon Industries A/S was acquired by private investors. Adviser to seller.

DECEMBER 2022
GERMANY

GLOBEX

Amethis is pleased to announce the acquisition of a minority stake in the Globex Group, a major player in express courier, freight and transit solutions in Morocco and sub-Saharan Africa. BDO Morocco acted as financial advisor to Globex.

DECEMBER 2022
MOROCCO

ANJOU VIANDES

Fouginvest Group acquired 100% of the shares of Anjou Viandes.

DECEMBER 2022
FRANCE

DRONEMATRIX

BDO advised the shareholder as a financial sell-side advisor.

DECEMBER 2022
BELGIUM

TRUCAP FINANCE LIMITED

TRU to integrate the retail MSME lending vertical of Exclusive Leasing & Finance, an NBFC focused on providing secured and affordable finance to the MSME sector in India.

DECEMBER 2022
INDIA

PHM GROUP

BDO acted as buy-side financial advisor to the buyer in PHM's acquisition of Rokke Hageservice AS.

DECEMBER 2022
NORWAY

GESTAMP

BDO acted as financial advisor to Gestamp Board of Directors in the acquisition process of a 33,33% share in Gescrab.

DECEMBER 2022
SPAIN

€8.11M

KAINUUNMEREN TYÖTERVEYS OY

BDO assisted in the sale of shares in Kainuunmeren työterveys Oy.

DECEMBER 2022
FINLAND

FRØYLAND GÅRDSBARNEHAGE

BDO acted as lead advisor to the owners in the sale of Frøyland Gårdsbarnehage to Læringsverkstedet.

NOVEMBER 2022
NORWAY

Dutchland INCORPORATED

Exclusive financial advisor to Dutchland.

NOVEMBER 2022
USA

FGW JENERATOR SANAYI VE TICARET A.S ("FGW TURKEY")

BDO acted as the sell-side advisors to the shareholders of FGW Jenerator Sanayi ve Ticaret A.S ("FGW Turkey") to the Boursan Holdings Group ("Borusan").

NOVEMBER 2022
IRELAND

HM HOSPITALES

BDO acted as financial advisor and financial due diligence to HM Hospitales in the acquisition of 100% share capital of Hospital Dr. Galvez, S.A.

NOVEMBER 2022
SPAIN

$0.00

KIRLOSKAR FERROUS INDUSTRIES LIMITED (KFIL)

Merger of ISMT with KFIL.

NOVEMBER 2022
INDIA

FOR MORE INFORMATION:

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Data compiled by Acuris.

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

www.bdo.global
www.bdohorizons.com

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