



November 2014

The Global Corporate Advisor

The Corporate Finance newsletter of Crowe Horwath International



Welcome to the November issue of The Global Corporate Advisor. This newsletter has a special focus on the merger and acquisition activity in Australia and East Asia in the first half of this year.

We found that in each of the countries, new economic realities are defining the market. This means that companies tuned into domestic and international geo-political and regulatory environment are likely to have an edge.

We also examine the M&A landscape in key European countries including the D-A-CH German speaking region, Spain, Switzerland, the UK and Turkey.

It's interesting to note that a fast evolving economic situation has redefined each of the markets in its own unique manner. We certainly live in interesting times.

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Contact Us

The GCA team is here to respond to your needs relating to M&A transaction support, valuations and advisory services. If there is a topic you would like us to cover in future issues of the GCA newsletter, don't hesitate to contact Peter Varley, Chairman of GCA, at peter.varley@crowecw.co.uk. Alternatively, please contact your local GCA team member to discuss your ideas.

M&A: Australia

Australia

By Andrew Fressl, Sydney

The M&A climate in Australia has finally overcome its prolonged decline in activity with record level results achieved during financial year ended 30 June (FY) 14. The much anticipated upswing in M&A activity during FY14 can be attributed to a number of factors, which include the consolidation and restructure of particular industry sectors, increased interest from private equity (PE) funds and trade investors, and increased appetite for initial public offerings (IPOs).

M&A activity in Australia reached record levels in FY14 with 501 M&A transactions completed, resulting in total deal value of A\$91.0 billion compared to a total deal value of A\$46.4 billion in FY13 (441 deals completed) (refer to Figure 1).

According to Mergermarket, the uplift in deal value in FY14 was attributed to the completion of two major transactions valued above A\$5 billion (combined total value of A\$18.6 billion) the highest since 2008 (A\$38.0 billion). The top valued deal in FY14 was the merger between Westfield Group and Westfield Retail Trust forming the Scentre Group, valued at A\$11.9 billion, followed by the acquisition of Queensland Motorways Pty Limited by Transurban Group valued at A\$6.7 billion. Excluding these two transactions, the average deal value (A\$72.4 billion) in FY14 increased by 56.0% compared to FY13 (A\$46.4 billion).

In FY14, inbound M&A activity increased by 56.0% from FY13, predominantly boosted by continued interest from overseas investors from the US, Canada and Asia (particularly China and Japan) targeting Australia's energy, mining and utilities sector. Similarly, outbound M&A deals rebounded considerably during FY14, producing a total deal value of A\$19.9 billion compared to A\$4.4 billion in FY13.

According to Mergermarket, Australia's top three acquisitive industry sectors during FY14 were energy, mining and utilities, real estate, and transport (refer to Figure 1). The energy, mining and utilities sector has remained the largest contributor due to an increasing number of strategic consolidations and restructuring of companies. In FY14, a total of 92 deals were completed in this sector with total deal value of A\$29.0 billion, representing a 61.1% increase in total deal value from FY13 (78 deals).

Figure 1. Analysis of most acquisitive industry sectors in Australia during FY14 vs. FY13

Sector	FY14			FY13		
	Value (A\$bn)	Mrk Share	Deal Count	Value (A\$b)	Mrk Share	Deal Count
Energy, Mining & Utilities	28,993	32%	92	17,959	39%	78
Real Estate	12,605	14%	8	468	1%	6
Transport	12,636	14%	24	7,773	17%	21
Financial Services	8,817	10%	36	980	2%	32
Business Services	4,227	5%	83	2,842	6%	57
Industrial & Chemicals	3,171	3%	52	3,220	7%	62
Consumer	9,908	11%	55	3,071	7%	46
Pharma, Medical & Biotech	1,298	1%	30	2,245	5%	27
Leisure	2,619	3%	41	701	2%	26
Agriculture	1,044	1%	16	1,886	4%	15
Construction	2,987	3%	12	669	1%	14
Telecommunications	500	1%	5	684	1%	5
Technology	1,127	1%	32	452	1%	29
Media	938	1%	14	3,469	7%	22
Defence	80	0%	1	-	0%	1
Grand Total	90,985		501	46,419		441

Source: Mergermarket

In FY14, the business services sector, which includes companies in the fields of recruitment, teaching and training, office management, food services, information providers, and document management services, was deemed a popular choice amongst private equity funds and trade investors. A total of 83 deals were completed, an increase of 26 from FY13.

The IPO market also experienced an increase in activity during FY14 which has notably contributed to the M&A market in Australia. The ASX announced that there were 107 IPOs in Australia during FY14 compared to 82 in FY13. In the first two months of FY15 there have been an additional 23 IPOs on the ASX compared to 12 in the prior corresponding period. Additionally, the success of PE firms' vending companies on to the share market in the last year has contributed to the uplift in M&A activity in Australia.

Overall, FY14 has proven to be a high-performing year for M&A across the majority of sectors. The outlook for the M&A environment looks promising as business and consumer confidence continues to improve. According to published reports, there are several key drivers in the market that broadly validate this outlook for M&A activity in Australia. These include the continued consolidation and restructuring of companies in sectors such as energy, mining and utilities, a stronger equity market, increased interest from private equity funds and trade investors for specific industries such as business services, real estate and transport, and the increasing number of IPOs in Australia.

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M&A: East Asia

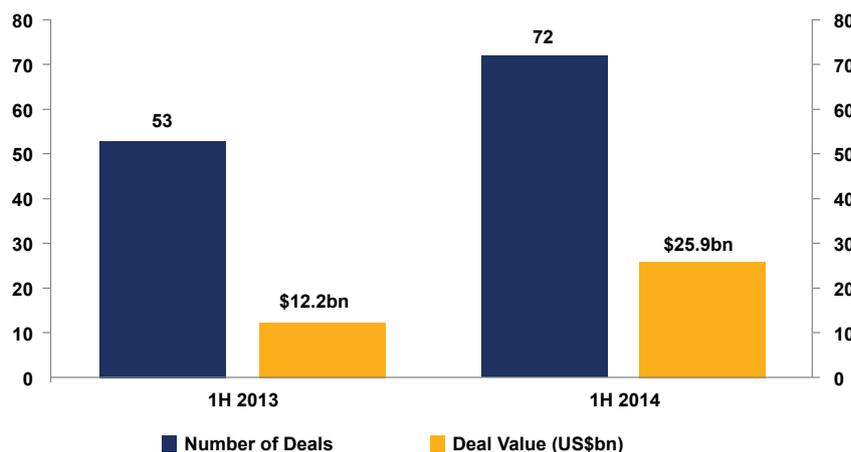
China and Hong Kong

By C.S. Lam, Hong Kong

Mergers and acquisition (M&A) activity in the first half of 2014 (H1 2014) in China and Hong Kong continues to build on momentum from the previous year, displaying significant growth.

Despite the apparent slowdown in China's economy, China had the most M&A activity in the Asia Pacific region. Deal values for China amounted to approximately US\$123 billion, with 556 deals in H1 2014, outpacing 388 deals worth approximately \$70 billion in H1 2013. M&A activity at the end of Q2 saw 312 deals worth over \$76 billion, an increase over Q1 numbers of 245 deals valued at \$47 billion. China's deals were led by the domestic market, a trend that will be interesting to follow as the country continues to streamline bureaucracy and encourages M&A to consolidate industries facing overcapacity issues.

Figure 1. Hong Kong M&A volume and value comparison



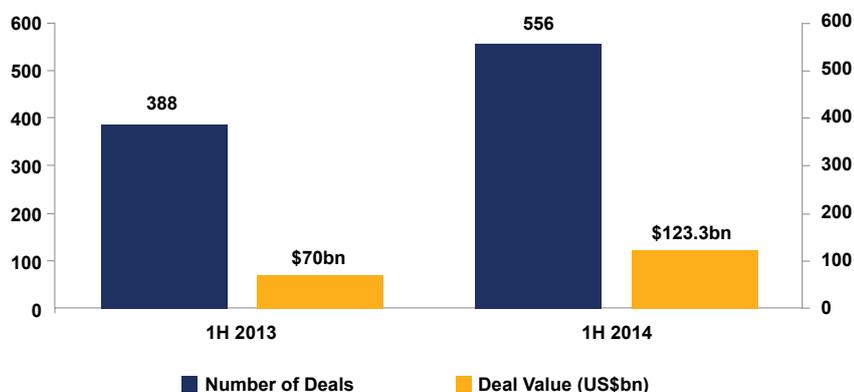
Adapted from: Mergermarket

M&A in Hong Kong witnessed a significant jump in the first six months to \$25.9bn, up over 112% as compared to the same period last year. The largest deal originated from Singapore-based bidder, Temasek Holdings Pte Ltd, on acquisition of 24.95% stake of AS Watson & Co Limited, a subsidiary of blue chip listed company, Hutchison Whampoa Limited.

Future outlook of China M&A

The outlook of China M&A remains positive due to state reforms and changes in the macroeconomic environment. China continues to support outbound acquisitions. It has announced a relaxation effective from May 8, 2014, that no approval from the National Development and Reform Commission is required for deals from \$300 million to \$1 billion. In July 2014, the China Securities Regulatory Commission eased restrictions on buying, selling or swapping of PRC listed companies' assets. Under the new policies, regulatory approvals are not required for deals involving PRC listed companies as long as these are not back-door listings. Now, PRC listed companies are allowed to fund their M&A activities with a greater variety of financing methods, such as preferred stocks and convertible bonds.

Figure 2. China M&A volume and value comparison



Adapted from: Mergermarket

Figure 3. Major deals for China and Hong Kong for H1 2014

Announced date	Acquiror	Target company	Business operations	"Deal value (US\$m)"
04-16-14	CITIC Pacific Limited	CITIC Limited	Financial Services, Real Estate and Infrastructure, Engineering Contracting, Resources and Energy and Others	36,501
05-18-14	Shanghai Jinfeng Investment Co Ltd	"Shanghai Greenland (Group) Co Ltd"	Real Estate	10,575
03-21-14	Temasek Holdings Pte Ltd	"AS Watson & Co Limited (24.95% stake)"	Consumer	5,666
05-14-14	Temasek Holdings Pte Ltd; Tokio Marine & Nichido Fire Insurance Co Ltd; China Life Insurance Company Limited; Fubon Life Insurance Co Ltd; National Council for Social Security Fund; Mizuho Bank Ltd; Qatar Holding LLC; ICBC International Holdings Limited; CTBC Life Insurance Co Ltd; Beijing Infrastructure Investment (Hong Kong) Limited; AIA Company Limited; Safe Investment Company Limited; East Global Investments Limited; Harmony Glory Investment Limited; and Giant Wave Investments Limited	"CITIC Pacific Limited (listed code: 267.HK) (11.78%)"	Resources and Energy, Real Estate and Infrastructure, Consumer and Others	5,100
04-01-14	Oversea Chinese Banking Corporation Limited	"Wing Hang Bank Limited (listed code: 302.HK)"	Financial Services	4,953
05-08-14	Cheung Kong (Holdings) Limited; Power Assets Holdings Limited; Cheung Kong Infrastructure Holdings Ltd.	Envestra Limited	Gas Utilities	3,823
01-11-14	Founder Securities Co Ltd	China Minzu Securities Co Ltd	Financial Services	2,182
04-30-14	Hastings Funds Management Limited; China Merchants Group Limited	Newcastle Port Corporation	Marine Ports and Services	1,624

*All figures in USD unless otherwise specified

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M&A: East Asia

Taiwan

Robert Wang, Taipei

In Taiwan, 90% of local companies are small and medium enterprises (SMEs) and usually operate with their own funds or bank loans. As a rule, they are not familiar with capital markets and are unwilling to sell their business. However, for the past two years, we observed a trend of increase in demand of fundraising and M&A activities. The reasons for this are:

1) The company needs to be upgraded or needs to expand in response to an increasingly competitive environment, especially competitors from China;

2) The family inheritor is unwilling to take over the business; and

3) China IPOs have been suspended for more than a year and strategic investors have to wait for much longer to recover their investments or perhaps even write them off. As a result, strategic investors have started to look for profitable Taiwan SMEs that have the potential to get listed in the Taiwan capital market.

Under this changed environment, SME owners have started to accept the idea of selling a minority part of ownership to strategic partners, such as private equity funds, major suppliers or customers, in order to obtain extra funds for creating a sales/distribution channel for business expansion, or in some cases, even considering selling majority shares as an exit plan. Another trend to support this observation is the number and size of local private equity funds increasing dramatically since 2013. One example is the National Development Fund, which raised an additional NT\$20bn to support the acquisition or expansion of SMEs in Taiwan.

Until August 2014, Crowe Horwath has helped our clients with acquisitions in Korea and Japan with values amounting to US\$80 million. In addition, we are also assisting a few clients in raising additional \$40 million funds for overseas acquisitions or expansion plans in the coming year.

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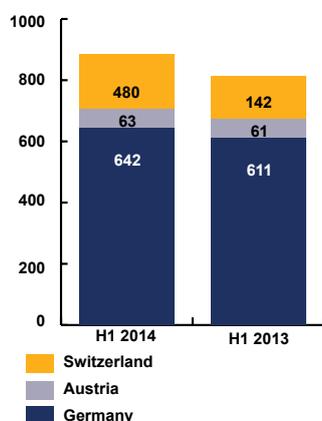
M&A: Europe

D-A-CH Region - Germany, Austria and Switzerland

By Gerald Hespelt and Imdat Cankardesler, Frankfurt

Compared to 814 deals in the first half of 2013, the number of completed M&A deals with a target in the German-speaking D-A-CH region (comprising Germany, Austria and Switzerland) increased by 9% to 885 in H1 2014.

Number of deals completed - D-A-CH

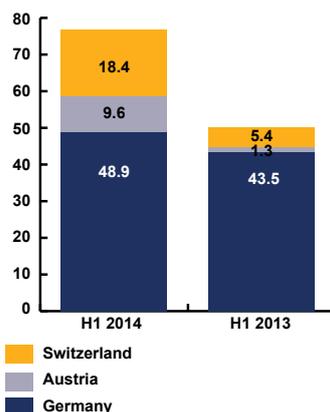


Source: Finance Magazine

On the whole, the developments have been positive for the region. In comparison to H1 2013, the number of completed deals in Germany increased by 5%, from 611 to 642 deals. The H1 2013 deal activity was at the lowest level since 629 deals were announced in H1 2010. In Switzerland there was an increase of 27% from 142 to 180 deals. The increase in the Austrian M&A market, where the number of deals rose by 3% from 61 to 63 deals, was significantly lower compared to other German-speaking countries.

In the D-A-CH region targeted M&A volume totaled \$76.9bn in H1 2014. Compared to H1 2013 (\$50.2bn) this was a major increase of 53%. In the H1 2014, the biggest D-A-CH targeted deal was the spinoff of a 59.5% stake of Deutsche Annington Immobilien SE by existing shareholders, Terra Firma Capital Partners, marking it the largest real estate targeted M&A deal on record in Germany.

Volume of deals completed in D-A-CH in \$bn

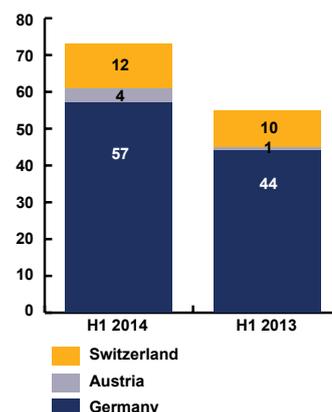


Source: Finance Magazine

Germany targeted M&A volume increased by 12% from \$43.5bn to \$48.9bn. It was the highest first half-year volume since H1 2007 (\$96.3bn). In the other D-A-CH countries, the increase was more than 100%. M&A volume in Switzerland went up from \$5.4bn to \$18.4bn. In Austria the M&A volume rose from \$1.3bn to \$9.6bn. M&A in Austria stood at its highest first half-year volume since the \$14.9bn in H1 2007. The largest Austrian targeted M&A deal on record was the \$7.1bn acquisition of a 44.7% stake in Telekom Austria AG by America Movil SAB de CV.

The development of the Equity Capital Market (ECM) was also very satisfactory in the H1 2014. In comparison with H1 2013, the number of completed deals increased by 33% from 55 to 73 deals in H1 2014.

Number of deals completed - Equity Capital Market

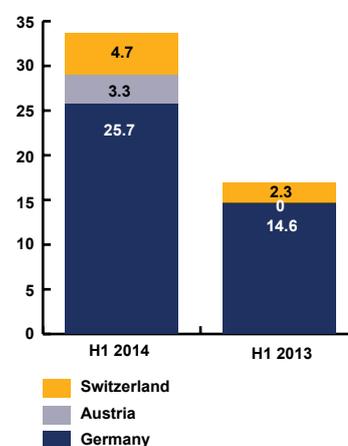


Source: Finance Magazine

Germany's ECM deals rose from 44 to 57 and showed the highest half-year activity since 59 deals in H1 2012. The increase in Switzerland was the highest semi-annual deal activity since H1 2010, when 12 deals were placed. Austria's ECM deal activity increased by more than 100% from 1 to 4 deals.

D-A-CH ECM volume of \$33.7bn via 73 deals means double the deal volume compared to the deal volume in H1 2013.

Volume of deals completed - Equity Capital Market in \$bn

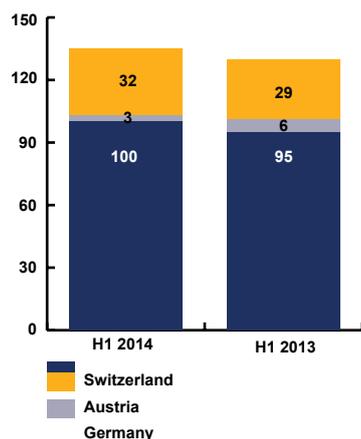


Source: Finance Magazine

Compared to H1 2013, Germany's ECM volume rose from \$14.6bn to \$25.7bn via 57 deals in H1 2014. This represents an increase of 76%. Deutsche Bank placed a \$9.2bn rights issue in the H1 2014. This was the largest ECM deal globally in H1 2014 and the largest rights issue globally since Barclays plc placed \$9.9bn in H2 2013. The increase in the Swiss ECM from \$2.3bn to \$4.7bn was driven by Adecco SA's \$2.5bn follow-on placement in H1 2014 and was the largest Swiss ECM deal since Credit Suisse placed a \$3.9bn rights issue in H2 2012. The increase in the Austrian ECM from \$0.1m to \$3.3bn was mainly driven by Raiffeisen Bank International AG's accelerated offering in H1 2014, the largest Austrian ECM deal on record. The Austrian ECM volume of \$3.3bn in H1 2014 was the highest half-year deal volume since the \$5.8bn in H2 2007.

Compared to H1 2013 there was a slight increase in the Debt Capital Market (DCM) of 4% in H1 2014. The number of completed deals in D-A-CH region rose from 130 to 135.

Number of deals completed - Debt Capital Market

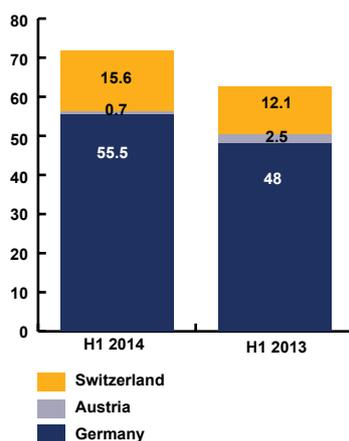


Source: Finance Magazine

In comparison to H1 2013 the number of completed deals in the Austrian DCM dropped from six to three deals in H1 2014. In contrast, the number of deals rose in Germany and Switzerland in H1 2014. The number of completed deals in the German DCM increased from 95 to 100 deals and in the Swiss DCM from 29 to 32 deals.

The deal volume in the D-A-CH region DCM totaled \$71.8bn via 135 deals in H1 2014, compared to \$62.6bn in H1 2013. This is a significant increase of 15%.

Value of deals completed - Debt Capital Market in \$bn



Source: Finance Magazine

The German DCM with \$55.5bn via 100 deals in H1 2014 was the second highest semi-annual volume on record after \$79.6bn issued in H1 2009. The biggest placement in H1 2014 was on the German DCM. Bayer AG placed via a \$4.4bn bond the biggest German hybrid capital bond by any issuer type on record. The deal volume on the Swiss DCM (\$15.6bn) was the highest half-year volume since \$17.2bn in H2 2012. Novartis Capital Corp. placed a \$4.0bn bond in the H1 2014, which was the biggest deal since Glencore Funding LLC's placement of 5.0bn in H1 2013.

The Austrian DCM volume of \$0.7bn via three deals in H1 2014 was the lowest half-year since H2 2008 (\$0.2bn). The biggest Austrian DCM transaction was a \$0.3bn bond deal by Novartis Capital Corp.

Overall the M&A and ECM showed a strong performance in the German-speaking countries in the first six months of 2014, whereas the development of the DCM was less powerful. For the H2 2014, a continued strong performance of the M&A and ECM is expected in the D-A-CH region.

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M&A: Europe

Germany

By Markus Scheurer, Stuttgart

An economy that continues to be at least stable, a strong stock market and surplus of cash on hand among large business groups and finance investors should help increase M&A activity in the German market. Acquisitions and mergers are expected mainly in the mid-cap segment.

In our opinion, another driver for the market is the succession needs of German Mittelstand. The term stands not only for a certain size of business (small and medium enterprises), but also for a combination of ownership and management in one person or family. Often the icon founder figure cannot be replaced from within the family. So, in future years these companies are likely to use mergers and acquisitions in larger numbers to solve their problem by selling to a third party.

Nearly all players in the German market are in agreement that the market will be more international in the coming years. Apart from the traditional investors from the US and UK, companies from the BRIC states are the new players. The focus here is on companies from China and India. Investors from these countries are looking for technical experience and for companies with well-established brands, rather than focusing solely on financial performance.

The two trends – of the need of family-owned companies to sell, and the entry of buyers from Asia with a different approach – could lead to promising developments. Since family-owned companies are not focused on financial performance, the seller and the buyer could find a match.

Outbound investments from German companies are still not back to former levels. Clearly, targets from German-speaking countries dominate, especially considering that the economies of Austria and Switzerland are comparatively small on a worldwide level. German buyers continue to neglect international hotspots such as India, Southeast Asia and South America.

In our experience, this is due to the regulatory and compliance standards in these countries, which are deemed lower compared to those in the countries seeing more investment.

We expect that the industry will not be able to ignore these future markets for much longer.

But the trend in international takeovers is still clear. VentureCapital Magazin states that over 70% of all M&A deals with involvement of German companies are international and they predict a still increasing number.

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M&A: Europe

Spain

By Iñaki Salazar, Madrid

M&A activity, especially in the private equity (PE) and venture capital (VC) market, had a bad beginning in 2013, affected by several years of economic downturn and severe financing difficulties for companies and transactions. Nevertheless, in the summer the situation changed dramatically, and even though the apparent symptoms of recovery in the second half of the year were uncertain, there's no doubt that there was a significant shift in market confidence. The marked improvement in the macro-economic picture of Spain resulted in a drastic change in the international investor sentiment towards investing in Spain. As a consequence, the second half of 2013 was good for M&A activity in Spain, a trend that has continued during the first half of 2014.

The Spanish market was characterized, until the second half of 2013, by limited access to credit, which restricted the level of M&A activity. However, foreign investment volume has increased steadily. Spanish real estate was the first industry in attracting foreign investment with low asset prices driven by the restructuring process organized in the financial sector.

With 857 transactions, the overall number of M&A deals in 2013 increased by 10% compared to the previous year in all the market segments – smaller, middle-market and larger deals.

The financial and insurance sectors were, in terms of volume, the most active ones, mainly due to transactions involving the former Spanish savings banks, and other banks (such as Banco Mare Nostrum, Banco Gallego, Nova Galicia Banco), and financial and insurance institutions (Mediterráneo Vida, Unnim Vida). In terms of number of transactions, the IT industry has been the most active since the beginning of 2013.

Undoubtedly, the Spanish VC and PE sectors had a bad start in 2013, with a glaringly low volume of overall activity (investments, fundraising and divestments) at the close of the first half of the year. However, as mentioned above, beginning in summer, the situation changed drastically. As far as investment is concerned, the volume contracted again in 2013 by 7.5% compared to 2012, barely exceeding €2,357 million in 543 transactions. However, 80% of the total investment volume was realized during the second half of the year, highlighting the change in trend. It's worth noting that 91% of the transactions were in start-up and growth companies and involved less than €5 million in equity, thereby contributing to the creation of new companies and to the development of small and medium enterprises (SMEs). It should also be emphasized that international funds accounted for 70% of the amount invested.

In conclusion, there are a number of market trends that are likely to continue supporting the recovery of M&A activity in Spain in the near future:

- Increasing international appetite for Spanish assets, both from international corporations and PE funds,
- Increased access to credit for all market segments, accelerated by new lending vehicles, such as credit and direct lending funds,
- Improved access to equity and debt capital markets, and
- Increased activity by private equity funds.

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M&A: Europe

Switzerland

By Alessandro Parenti, Zurich

Switzerland is a small, wealthy, politically stable, well-developed and high-cost country. It has modern, efficient infrastructure, prestigious schools and universities, a population with a high level of education, favourable tax and administrative environment, well-preserved natural environment and a generally positive attitude and climate for doing business. In leading international surveys, it constantly ranks among the top locations for doing business, and its largest cities (Geneva and Zurich, in particular) are often referred to as the cities with the best quality of life in the world.

The Swiss industrial structure is characterized by a few multi-national companies with a global reach and many small and medium enterprises (mostly privately owned) with high technological capabilities and high value-added products. These SMEs form a very interesting segment of the Swiss economy for their high level of technology, quality and competitiveness.

Due to the limited size of the domestic market, Swiss companies are traditionally oriented towards foreign markets for their expansion needs. Apart from market expansion and increase in market share, main targets abroad can be seen in the context of acquisition of low-cost production, new products, specific know-how and distribution channels.

Traditionally, main target geographies are North America, Europe and selected Asian countries such as Japan, China and India. Additionally, an increasing interest in other emerging markets in Asia and Eastern Europe (Indonesia, Vietnam, Turkey, Romania, Russia) is visible in the recent past.

Main target industries for acquisitions abroad are: chemicals, financial services, food, industrial goods, information technology, media, luxury goods, medical technology and pharma-life science.

Switzerland is also a very attractive market for foreign companies willing to invest in its advanced, business-friendly, competitive and innovative market. The Swiss domestic market is small but strategically attractive because of its high income levels, purchase power of its population, price differentials and advanced technologies. Additionally, the strength of the Swiss Franc in recent years has forced many companies to invest in cost-saving automation and rationalization, as well as in innovation and service improvement. Also, many companies were able to take advantage of substantial personnel cost reduction measures, which were often introduced with the support of the employees and the trade unions.

Inbound acquisitions are often driven by the search for best technology, price arbitration opportunities, increase of market share, non-EU distribution, and the generally positive business environment (of which the favourable tax environment is a component, but certainly not the most important one).

Sectors of particular interest for inbound acquisitions are: chemicals, industrial goods, luxury goods, nanotechnology, medical technology, bio-technology, pharma-life science, environmental technology, information technology, financial and other advanced services.

The identification of the ideal acquisition targets in Switzerland and the collection of the necessary background information require a deep knowledge of the market and a capillary network. The collection of background information is a time and resource consuming task in Switzerland, since there are only very limited publicity requirements for private companies (a fact which has deep roots in the traditional protection of private sphere and ownership rights). Also, a potential buyer is well-advised to make the initial approach to the Swiss target via a trusted advisor to avoid cultural and competitive misunderstandings at the beginning and to immediately transmit the right impression of seriousness and commitment.

M&A market conditions in Switzerland were favourable in the first half of 2014, and the expected upward trend in M&A activities was confirmed. Looking forward, there are various indicators pointing at a continuation of favourable developments until the end of this year. Transaction volume in the first half of 2014 reached record levels due to a few large transactions (Holcim/Lafarge, Novartis restructuring, among others), and the total number of transactions remained in line with the average of 2013. The average deal volume was so far in 2014 the largest recorded since 2011, which can again be explained by the large transactions that occurred this year.

We look forward to giving you more information about the right methodology and approach to Swiss M&A targets.

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M&A: Europe

The UK

By Matteo Timpani, London

The M&A market in the UK, while showing some promising signs and trends in respect of future recovery, remained relatively flat in the first half of 2014. On one hand, improved market conditions resulted in overall growth in total deal values, however, deal volumes remained flat following a continued period of decline.

The UK capital markets, in particular, enjoyed a buoyant start to 2014 with a number of high profile IPOs attracting significant media coverage and lofty valuations. However, as we moved into Q3, investor appetite for IPOs certainly cooled. Some high-profile under-performing public deals dampened investor appetite and investors are now proving somewhat more selective in the capital markets M&A opportunities that they are willing to back.

The buoyant IPO market in the early part of the year, and some sellers remaining reluctant to seek a deal, has resulted in private company M&A volumes being depressed.

One feature of the current market is an increase in private equity (PE) companies selling portfolio companies, which is usually an indication that it's a good time to sell.

There remains a long tail of companies who, having previously considered taking advantage of the early 2014 IPO boom, find themselves potentially assessing their options for both fundraising and shareholder value realization. Unless the IPO market picks up pace again, a number of these companies' shareholders may seek an alternative route to value realization, opting for private M&A in the coming months, thus taking advantage of the improving market conditions that are prevalent in 2014.

The general trend in the UK M&A market in 2014 has been deal value driving the majority of the market improvement in the year. Corporate buyers, having bedded down throughout the recent recession, are now sitting on significant cash piles. That combined with the dry powder held in private equity funds, awaiting suitable investments, is driving a more buoyant deal market in 2014.

An increased appetite to put this cash to work, with investors seeking to drive improved returns on capital invested, should see transformative deals back in favor in the later part of 2014, again supporting the trend of fewer high-value deals. Investors are increasingly looking for quality rather than quantity when it comes to acquisitions.

There remains a shortage of high quality businesses coming to the market and therefore, in a low growth environment, the flight to quality continues. This, combined with the plentiful funds waiting to be put to use, should continue to drive multiples up. In the middle market, companies are showing strong appetite and increased activity in portfolio optimization. Acquisition of complementary businesses, which expand geographical reach or allow further product development and diversification, are driving the middle market M&A environment.

Interest rates remain at an all-time low in the UK. While this is keeping the cost of debt comparatively low, the availability of leverage for M&A transactions remains well below the peak experienced in 2007, albeit lender appetite is showing signs of improvement. While there is no expectation of leverage returning any time soon to the levels experienced pre-recession, there are signs that debt is starting to play an increasing part in deal structures, where deals are for quality assets. In the absence of traditional lending, alternative sources of debt funding, predominantly asset based lending, has seen a boom in the UK deal market.

In general, the UK deal market is showing promising signs of recovery and market expectations are that 2015 will deliver a year of growth as the improved economic environment takes hold.

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M&A: Europe

Turkey

By Elvan Inanli, Istanbul

Investors continue to maintain a vibrant M&A market in Turkey in 2014 despite the expected negative influence of global monetary policy changes on emerging economies, and domestic challenges faced by Turkey, such as the rising social, political conflicts and civil war in neighboring Syria. Despite a slowdown compared to 2013, investors rely on Turkey's dynamic middle market, privatization pipeline and display a keen interest in private equity investment opportunities, leading to an active M&A market.

M&A in Turkey registered a total amount of \$7.7bn in first half of 2014, 29.9% less compared to 2013 (\$11bn). However, a total of 90 deals were completed, compared to 78 during the same period in last year, showing a 15.4% increase. A series of auctions led by the government of Turkey resulted in the privatization of many major Turkish firms, contributing to an aggregate 64.5% of total Turkish M&A in H1 according to Mergermarket reports.

The UK and France were the most active buyers in the Turkish market and invested in four companies each – these deals have a combined value of \$487m, representing a 30.7% market share in the inbound value.

Turkey attracted \$6.8 billion worth of foreign direct investments (FDI) in the first half of 2014, increasing 28% compared to the same period in 2013, according to latest data released by Central Bank of the Republic of Turkey. Real estate purchases by foreigners during this period accounted for \$2bn of the total. In June alone, the country attracted \$990m net FDI, of which \$416m comprised real estate purchases.

The UK, with \$464m, was the largest investor in June, followed by the Netherlands with \$149m. Sector-wise, wholesale and retail trade, with \$407m, attracted the highest amount of FDI in June, followed by \$164m for manufacturing chemicals, chemical products, basic pharmaceutical products and materials.

Turkish investors continued to show interest outside their borders, with total outbound activity of \$1.8bn in H1 2014, a striking 1,126% increase compared to H1 2013 (\$149m). This was the second highest half-year value, according to Mergermarket, after H1 2012 (\$2.1bn). It was the \$1.5bn acquisition of the Azerbaijan-based gas fields by Turkish Petroleum Corporation that spurred this boost.

The most active sector by value and volume in H1 2014 was the energy, mining and utilities sector, where 15 deals worth \$4.2bn represented a 54.5% market share in value of all M&A targeting the country. With two of the top deals targeting transportation companies, the sector was in second position with a \$1.3bn, up 31.3% from H1 2013.

Financial investors continued to be active in the Turkish M&A market, with estimated deal volume reaching \$2.1bn in 2013, which represents a 30% growth over 2012 (\$1.6bn). Financial investors' activity was mainly focused on the manufacturing, e-commerce, food and beverage and retail sectors, a pattern similar to that of previous years.

Japanese investors

Claiming a share of the steady stream of Japanese investments flowing into Turkey in recent years, the Turkish M&A market witnessed eight transactions involving companies from the Far Eastern nation worth \$502m in 2013.

More M&As are expected this year between Japanese and Turkish companies, with the energy, logistics and food sectors as primary targets for Japanese investors. Sizeable transactions realized by Japanese companies last year in Turkey include Panasonic's acquisition of a 90% stake in wiring device maker Viko, Ajinomoto's acquiring 50% stake in food company, Kemal Kukrer and Hitachi Transport System's acquisition of 51% shares in logistics company, Mars Logistics. In close cooperation with the Investment Support and Promotion Agency of Turkey (ISPAT), three of Japan's largest lenders, the Bank of Tokyo-Mitsubishi UFJ (BTMU), Sumitomo Mitsui Banking Corp (SMBC) and Mizuho Corporate Bank, made their entries into the country in 2012. BTMU acquired a banking license and opened a dedicated bank in Turkey while the other two have representative offices. ISPAT also signed a Memorandum of Understanding with the Japan External Trade Organization (JETRO) during Turkish Prime Minister Recep Tayyip Erdoğan's visit to Japan in January this year.

Direct investments by Japanese companies into Turkey reached \$483m in the first 10 months of 2013. Nearly 200 Japanese companies are active in Turkey in the fields of automotive, chemicals, finance, services, food, logistics and wholesale. A Japanese-led consortium is building Turkey's second nuclear power plant on the country's Black Sea coast.

There are only approximately 50 private equity companies in Turkey involved in transacting M&A deals, each of which takes about a year and a half to complete. This level of activity is relatively small and deals are infrequent.

Turkish company owners, most of whom are families, generally are not eager to give up control of their enterprises. While this serves to hamper Turkey's M&A activity, we observe another trend which is worth mentioning – deals involving small and medium-sized (SME) companies are taking a greater share of overall M&A activity in Turkey.

The profile of M&A activity has been quite similar to the previous years: middle market transactions dominate the activity, there has been keen interest in private equity; sectors of interest and the origins of the acquirers have been diverse.

While certain private equity firms, especially those with a strong presence, maintained regular acquisitions in Turkey, others have struggled to complete a successful acquisition.

We have also observed an increased number of exits by private equity firms. Considering that most of the private equity deals were made in the last four to five years, it is expected that the portfolio of those private equity investors are becoming mature and we may see more attempts for exit transactions in coming years.

In 2013, 161 transactions, each with a deal value less than \$50m, which accounted for 74% of the total deal number, represented only 17% of the total deals value. Since smaller deals tend to carry much less risk and tend to create more value than larger deals, we believe Turkey's M&A activity, while arguably weak compared to other growing economies, benefits from its more-volume-than-value structure. The same trend continues for 2014.

Turkey is still a promising country considering its young population and growing economy. While there may be a period of slowdown in M&A activity, it is expected that more investment opportunities are on the horizon. Also, the impact of the recent devaluation of local currency will affect the valuation of assets/targets in Turkey in hard currency terms, which is likely to enhance M&A opportunities in the near future.

Seen as an entry point to the emerging markets of Africa and the Middle East, thanks to its unique location at the intersection of continents, Turkey's fast growing economy, favorable demographics and skilled labor pool are also critical for European and Asian companies looking for growth in overseas markets.

The Turkey of 20 years ago, which suffered from chronic inflation and high interest rates, was not on the list of strategic investors. Economic accomplishments in recent years have changed this and strategic investment sentiment towards Turkey is strong. The country is seen as a priority for its domestic growth potential and cooperation opportunities with Turkish companies to do business in neighboring countries.

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