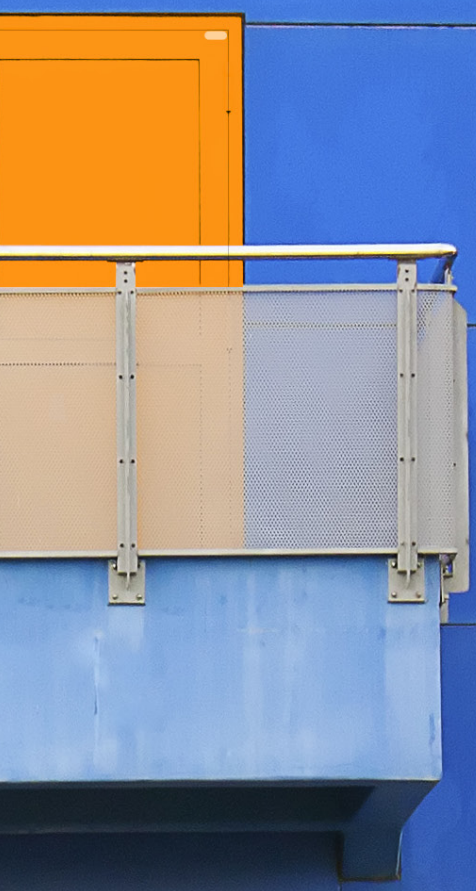
ALLEN & OVERY

Insights, **Q3 2015**

www.allenovery.com/mainsights

Contents



Executive summary: Investors hold their nerve

High levels of big-ticket M&A transactions with well-financed strategic investors and PE funds undeterred by signs of economic uncertainty.

Q3 2015 HIGHLIGHTS INCLUDE:

ON COURSE FOR A STRONG OUTTURN

Despite a lower level of transactions in many regions and sectors, deal values continued to hold up strongly with this year likely to turn out to be the strongest since 2007.

INVESTORS HOLD STEADY

The gyrations on the Chinese stock markets, the fallout from the Greek debt crisis, the continuing tension in Russian and Western relations, and the potential impact of the refugee crisis, might have unsettled investors. But, by and large, they are holding their nerve in increasingly edgy times.

STRATEGIC DEALS REMAIN AT THE FOREFRONT

Well-financed companies are still doing transformational deals across many sectors, including life sciences, TMT, financial services and food and beverages.

PE BACK ON THE ACQUISITIONS TRAIL

PE funds are back pursuing buyouts, finally finding the right targets and the confidence to deploy their dry powder.

PRE-EMPTION RIGHTS CLAIMED

With infrastructure assets still scarce, but with a surplus of finance chasing deals, we're seeing a growing number of existing investors exercise pre-emption rights.

DUAL-TRACK SECURITY SOUGHT

Dual-track processes – with both M&A and IPO being explored as possible exit routes – are on the increase, as investors look for protection against stock market volatility.

FINANCIAL SERVICES BACK IN THE GAME

FS transactions made a strong return during the quarter, mostly driven by insurance sector consolidation but also supported by some significant U.S. banking transactions.

TECH ACTIVITY MULTIPLIES IN CHINA

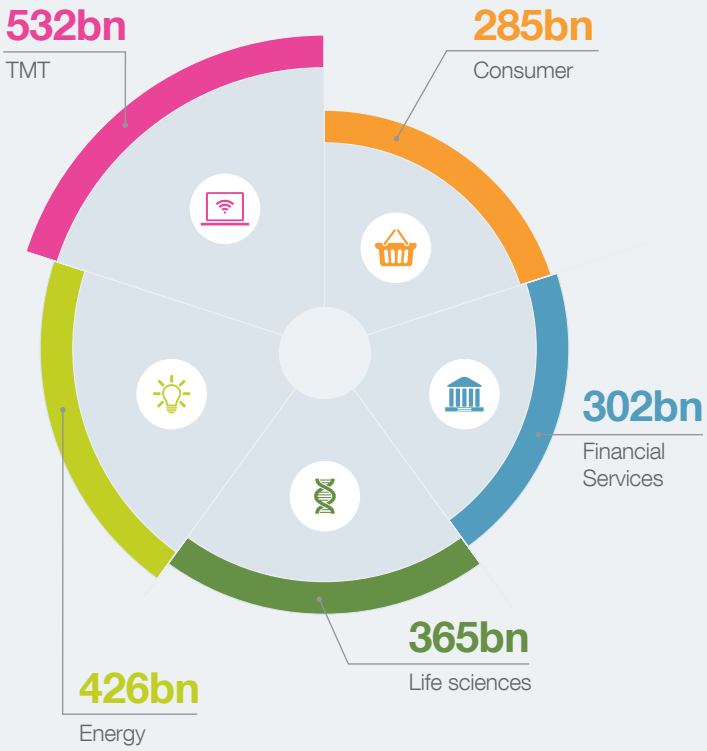
China is becoming an increasingly pivotal player in the tech sector, driven on by its highly acquisitive e-commerce and internet giants, regulatory change and, to some extent, by government support.

ASIAN INVESTORS EYE WESTERN TARGETS

Chinese, Indian, Japanese and Korean investors are increasingly on the lookout for outbound opportunities. Russia has seen an uptick in Asian investment in the energy sector, as have some key CEE markets, notably the Czech Republic. Japanese investors, meanwhile, have been a driving force in the insurance sector.

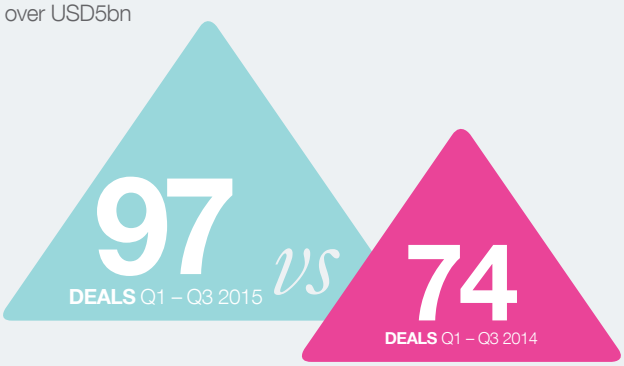
Global M&A in numbers Q1-Q3 2015

Top 5 sectors by value (USD)

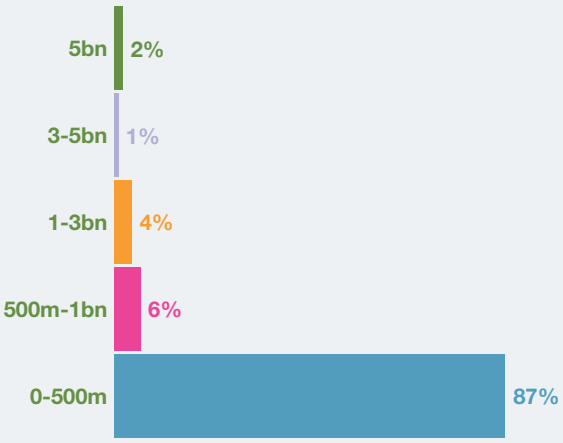


Increase in megadeals

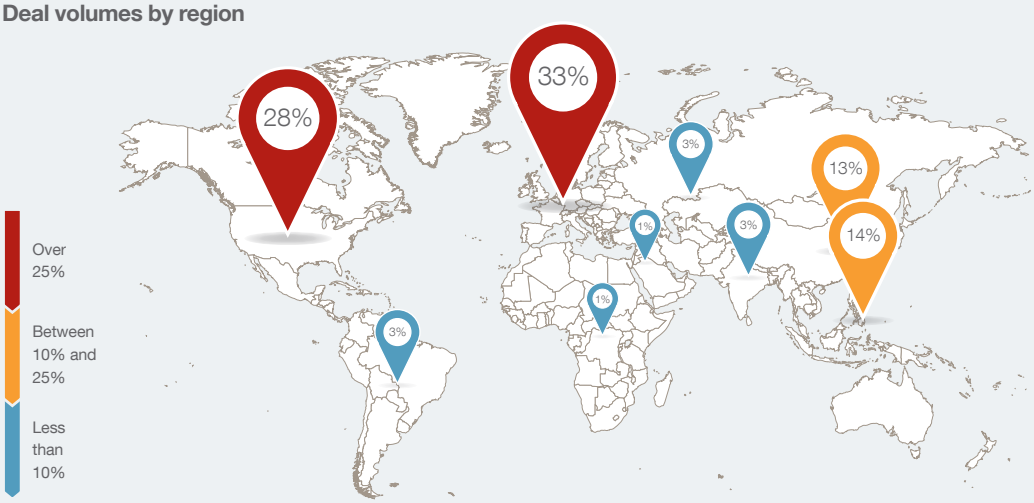
over USD5bn



Activity by deal value (USD)



Deal volumes by region



Region	% of deals by region
Western Europe	33%
U.S.	28%
Asia Pacific	14%
Greater China	13%
CEE and CIS	3%
India	3%
Latin America	3%
MENA	1%
Sub-Saharan Africa	1%
Other	1%

Note: These figures represent the total number of deals announced between 1 January 2015 and 30 September 2015.

JVs – built to last

New research, specially commissioned by Allen & Overy, shows that, while many joint ventures are long-term success stories, a surprising number end early. So how can potential JV partners make their ventures more secure from the start? And what protections are available should things go awry?

Joint ventures remain a highly popular form of transaction. In the last three years, JVs have accounted for around a quarter of all M&A deals A&O has advised on and we expect them to remain the chosen approach for many dealmakers, especially those looking to expand into new markets.

Many JVs end up being the long-term success stories that they were designed to be. But a surprisingly large number end sooner than planned.

To understand why, we commissioned detailed research from Cass Business School, City University London, into 500 of the biggest corporate JVs entered into over the last 20 years.

The deals we looked at were drawn from across the world – with 24% in the Americas, 38% in Asia Pacific, 26% in Europe and 12% in the Middle East and Africa.

Exit rates and routes

Of the 500 JVs we studied, 60% had ended. In a majority (61%) of these, one or more partners had made an exit within six years, while 29% came to an end in under three, giving an overall median duration for these deals of just 4.9 years. For deals often intended as long-term arrangements, that is a surprisingly short time.

Exit routes varied but, in the majority of cases (53%), one or more of the partners bought out the other(s). In cross-border deals, it was much more common for the overseas partner to buy out the local partner than the other way round. Some 17% of ventures were sold in their entirety to a new external party, while in 12% an external party bought out the stake of an exiting partner.

JV agreements often recite the partners' ambition to IPO the business in the medium term. Yet, in practice, this rarely happens. In fact, in our study only 1% of JVs ended in an IPO.

But the reasons for the high fallout rate proved even more interesting. Of course the fact that a JV ends (even prematurely) does not mean it has failed. Indeed, around half the JVs we studied ended positively.

For instance, many JVs are about developing a new technology or capability and in 11% of cases this had been achieved, bringing the partnership to a "natural" ending. In 33%, one party bought out the other for strategic reasons, while in 6% the venture was successfully sold to a new external bidder.

But in 46% of the JVs we studied, the ending was more negative. In 23% of cases, one of the partners decided to exit early for strategic reasons, while 14% of the JVs ended because the venture underperformed – and a further 9% ended following a dispute.

The reasons – a closer look

Strategic divestments often came about after one of the partners decided the JV's business was no longer core to its operations, or wanted to reduce exposure to a particular region (not least one where economic circumstances had deteriorated), or to focus on a different market segment.

Sometimes divestment was dictated by the need to raise cash or reduce debt following, for example, the receipt of bail-out funding or after a JV partner had experienced a sales slump in its main market.

Where **poor performance** was the reason for exit, this was sometimes because the unpredictable happened – for instance, a natural disaster, tighter regulation or an unexpected market downturn.

But in other situations the failure might have been foreseen with better preparation. Running up against unexpectedly strong competition, gaining limited take-up of a new product or service, facing lower-cost alternatives or new technologies, and political or union opposition, are all issues which should form part of detailed up-front scenario planning.

Poor performance often showed its face quickly, with exits for this reason occurring most often within just two years of the transaction completing. Some 59% of poorly performing ventures ended up being dissolved.

Many **disputes** were over the future direction or funding of the JV's business, although we also saw disputes over exit strategies, governance and intellectual property. The median duration of a disputed JV was just 2.9 years.

Where multiple partners are involved in a JV, the risks increase; we saw much higher rates of poorly performing and disputed JVs among those that had more than two JV partners.

Preparing the ground

It's fair to say that a number of the JVs that ended in negative circumstances could have been a greater success – or would never have happened in the first place if the JV partners had better prepared the ground.

An in-depth look at the JVs in our study showed that there are at least three pre-requisites to establish a JV on a firm footing. It's essential to:

- **Test your business proposition thoroughly**. A detailed business case should be drawn up and carefully scrutinised and refined by the JV partners' board or management team. This should include analysis of any regulatory hurdles that might crop up, a realistic assessment of the target market including likely competition and demand, a clear funding proposal and an assessment of likely synergies.
- **Ensure the strategies of the JV partners really match up**. Here it is essential to agree the medium- to long-term strategy for the new business, backed by a detailed business plan.
- **Put workable decision-making processes in place**. Board and management positions should be agreed in advance, ensuring local management have sufficient autonomy to direct and grow operations. A clear governance structure should also be devised to ensure decisions can be taken swiftly, backed by a fair and transparent system for sharing information with the JV partners. Veto rights over crucial business decisions should also be carefully considered in advance.

Of course, you can't plan for every eventuality. Circumstances change; the unexpected happens. Nevertheless, some judicious scenario plotting and contingency planning can pay big dividends here. It's vital that the partners map out possible exit scenarios at the outset and devise workable exit rights in case any of these arise.

It's also vital to agree in advance how any dispute will be resolved – whether through litigation or arbitration. While both approaches have their advantages, arbitration does appear to be the favoured route for many JVs, not least because arbitration awards can be enforced almost universally, and arbitration is a private process which can be conducted in a neutral forum in front of arbitrators with relevant expertise.

Preparing the ground for a JV will involve detailed and quite difficult conversations between the partners at the outset. It may also be time-consuming and costly.

But it's time and money well spent, and failure to do so could result in an even more expensive mistake.

The sheer size of the market and its emerging consumer class mean that interest in M&A and other investment opportunities in the country will remain high. We expect more multinationals to examine renminbi-denominated funding or tap existing renminbi sources as they pursue these opportunities, smoothing the currency's path to global acceptance.

Our study also includes a detailed analysis of JV exits in different regions and sectors. For a more detailed briefing, please get in touch with your usual A&O contact.

"It's clear that both strategic and Private Equity *investors* are holding their nerve and that's a trend that looks likely to hold for the rest of 2015."

Western Europe analysis

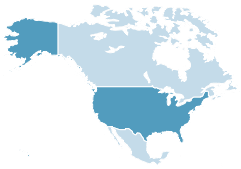
Regional insights, **Q3 2015**

Regional insights

Overall, investor sentiment has remained remarkably resilient in the face of recent equity, commodity and currency turbulence. Despite some wariness, big deals continue and the pipeline is strong.

U.S.

Consolidation deals lift values



The U.S. continues to be the largest individual M&A market with significant deals still driving up the total value of transactions, even if the number of announced deals is slightly down on both the same period last year and the second quarter of 2015.

In some ways, that's a surprise. There has been plenty of volatility in global markets – especially driven by falling demand from China as its growth slows – to test investors' nerves. But U.S. investors, like their peers in other markets, remain relatively sanguine.

Their calculation seems to be that the volatility is containable. The threat posed to the EU by the Greek debt crisis looks to have been checked for now, with policymakers likely to kick the ongoing problems downfield rather than allow them to spiral. The more intense pressures on the global economy come from China, but investors seem to think that, while there are dangers here, the Chinese authorities have the ability to manage it without letting it become a crisis.

So, with access to financing and cheap debt still abundant, the focus for corporate investors remains squarely on using this window of relative stability to pursue significant, high-value transformational deals.

Here, though, we're seeing two distinct and, at first sight, seemingly contradictory trends – consolidation and specialisation.

In sectors facing market pressures and revenue constraints, the impetus is towards consolidation – with the drive to secure significant cost savings being the prime motivation. The USD59bn acquisition of oil and gas pipeline operator, Williams by Energy Transfer, is a case in point. With commodity prices on the floor and showing little prospect of recovery, there is huge pressure on any company operating in or serving the energy sector. Securing cost savings is the best way to protect margins and gain the flexibility to invest and address changing market circumstances.

Cable TV faces similar pressure, as demand for so-called 'over the top' on-demand services could increasingly persuade consumers to question whether they should continue to use cable services or 'cut the cord'. That existential issue is driving consolidation across the industry as operators look for savings and added scale.

Regulatory constraints on consolidation scuttled Time Warner Cable's agreement with Comcast, but opened the door to its subsequent deal with Charter Communications. Netherlands-listed Altice has signed up its second major U.S. acquisition in four months, agreeing to buy Cablevision for USD17.7bn, becoming the fourth-biggest operator here. Some believe it may introduce disruptive revenue models similar to those it has introduced in Europe.

Similar motives are detectable in recent announced or mooted deals discussed later in this edition, notably in health insurance (Anthem/Cigna), in beverages (the merger of Coca-Cola bottlers in Europe) and brewing (ABInBev/SABMiller).

In other sectors, however, there is an apparent counter-trend towards deconsolidation. We've seen a number of significant separation moves as companies seek to realise greater value for different parts of their business.

P&G's decision to sell off a raft of non-core brands and concentrate on its key categories is a clear example. As part of that process, it is selling 43 beauty brands to Coty for USD12.5bn. Aluminium maker, Alcoa, has announced plans to split itself into two separate businesses, one containing high-margin speciality products, the other focusing on bulk products. Computer Sciences is following a similar tack – spinning off a standalone U.S. government services firm to operate independently from its global IT services business.

The hope is that these moves will unlock value by allowing management to focus on their strengths and give investors 'pure play' opportunities that are not available as part of a conglomerate. Many of these transactions are being structured as tax-free spin-offs and/or so-called 'Reverse Morris Trusts'.

PE funds remain active in the buyout market, but with more activity in the U.S. focused on exits. While PE firms still have a large amount of capital available, many sponsors remain wary of getting dragged into an expensive battle for assets with strategic buyers that benefit from synergies. Dual-track processes are proliferating as funds look to maximise their returns by keeping their exit options open.

The USD9.1bn sale of SunGard to Fidelity Information Services by its seven PE owners – ten years after they joined forces to buy the business – was a prime example of a dual-track process which culminated in an M&A deal rather than a flotation. The attraction of opting for a trade sale in these cases is obvious – it offers a 100% exit that is likely to be quicker than an IPO and opens the possibility of receiving a control premium.

WESTERN EUROPE

Strategic investors hold their nerve

Despite worries about the global impact of a slowdown in China's growth, concerns about the upcoming UK referendum over EU membership and nervousness about the long-term economic impact on Europe caused by the refugee crisis, deal pipelines in the region are holding up very strongly and we've seen a number of important deals announced in Q3.

It's clear that both strategic and Private Equity investors are holding their nerve and that's a trend that looks likely to hold for the rest of 2015.

A good example of that willingness to press ahead with transformational deals is the news that AB InBev intends to make a proposal to buy its brewing rival SABMiller to create the world's biggest beer maker. This is a deal that has been on the cards for about five years – so it's significant that AB InBev believes this is the right time to make the move.

Confidence is apparent in many markets, with strategic deals being pursued in almost all sectors.

Often it takes a bold move by one or two players in a sector to inspire others to join the fray – strategic M&A can be contagious. The gambling sector was a perfect example of this during the quarter. Earlier in the summer, Ladbrokes and Coral merged to create a GBP2.3bn business. Now Paddy Power and Betfair, the online gambling groups, are combining to form a business valued at some GBP5bn and one which can realise significant synergies, not least in software development. Bwin is also being pursued by rivals GVC and 888.

Cross-sector activity was very apparent in Germany, with a range of multi-billion transactions and absolutely no sign of a traditional summer low in activity.

In real estate, Deutsche Wohnen submitted a EUR4.6bn bid for rival LEG, while in the automotive sector Magna is acquiring Getrag for EUR2.45bn, and Audi, BMW and Daimler have joined forces to buy the Nokia digital mapping service for EUR2.8bn against stiff competition. Significant cross-border deals were also in the mix, with Saudi Aramco's EUR2.75bn joint venture with Lanxess in the rubber sector and Canada's Potash still mooted to be considering a hostile bid for Germany's K+S group, in a deal that would be worth some EUR8bn.

One of the largest transactions in the quarter was the strategic tie-up in the fertilisers and nitrogen products sector between CF Holdings of the U.S. and Amsterdam-listed OCI, a deal valued at EUR7.15bn. The Netherlands also saw a raft of transactions spilling out of the huge bankruptcy of Imtech, the engineering services business.

PE funds were among the main beneficiaries of Imtech's collapse, buying up businesses carved out of the group, but that's part of a wider trend that has seen funds go back on the acquisitions trail after a long period of focusing on exits rather than buyouts. In Germany, a consortium led by Allianz Capital took control of the Tank & Rast motorway service chain while, in the Netherlands, both big PE players, like Apax, and smaller local funds, like Bencis and Parcom, are actively looking for acquisitions. In the UK, funds led by AMP, and including Arcus and several pension funds, successfully exercised pre-emption rights to maintain control of Angel Trains, one of the three railway rolling stock companies.

Equity capital markets are continuing to support growing M&A activity, with a number of large IPOs expected in the coming months including the intended IPO of ABN AMRO and the IPO or private sale of Dutch insurer ASR. In Germany, an autumn IPO of Schaeffler is expected to raise more than EUR2bn, Covestro (formerly Bayer MaterialScience) up to EUR2.5bn, and Scout 24 – a partial PE exit – some EUR1.4bn.

Financial services have also sparked back to life, mostly driven by consolidation in the insurance sector. One of the standout deals was Mitsui Sumitomo's GBP3.5bn acquisition of Amlin, continuing a trend of investment by Asian investors in Europe. The quarter also saw China's Bohai Leasing buy the aircraft leasing business Avolon, from its PE owners, led by Oak Hill Capital. Separately, Cerberus Capital Management also bought the non-performing real estate loan portfolio of Van Lanschot Bank.

TMT continues to be one of the most active sectors in the Italian market, with the announcement in August of the joint venture merger between Hutchison's 3 Italia and Vimpelcom's Wind. Combining Italy's third- and fourth-largest telecommunications companies will create the number one player and is the largest merger in Italy since 2007.

At the same, time we have seen several significant deals in diverse sectors, including construction, energy, consumer, leisure and life sciences. HeidelbergCement, the German cement maker, agreed to purchase a 45% stake in Italcementi, ERG Power Generation has agreed to acquire the Terni Hydroelectric complex, the Italy-based hydroelectric business of E.ON Produzione and Japan's Mitsubishi Electric Corporation has agreed to acquire a 74.97% stake in DeLClima from De Longhi Industrial, the electrical appliances manufacturer.

Italy is on track to privatise 40% of its national post company by November. The government is also considering a sale of almost 5% of ENI and Enel, Italy's biggest energy companies.

CEE AND CIS

Asian investors make their mark

While deal volumes and values remain at a relatively low level in the region, certain key markets including the Czech Republic and Poland are showing renewed signs of life.

Another trend is the increased presence of Asian investors across the region, and nowhere more so than in Russia.

With the political and economic situation unchanged in Russia, and likely to stay that way in the coming months, the expected switch in investment flows that we have been predicting for some time is now increasing as western sanctions continue to bite and Russian companies seek greater backing from the Middle East and Asia.

A standout deal in the quarter was Rosneft's sale of a 15% stake in Russia's second-largest oil development, Vankorneft, to ONGC of India for a reported USD1.27bn. Further Asian investment is expected with at least two Chinese investors, including the China National Petroleum Corporation (CNPC), reported to be in the frame. Similarly, Novatek has sold a 9.9% stake in the USD27bn Yamal LNG development to China's Silk Road Fund, having earlier sold a near 20% stake to CNPC, with Novatek itself now holding a narrow majority stake.

The quarter also saw a number of domestic transactions – often internal restructurings and intergroup deals. One of the most significant transactions, however, was the move by Aeroflot, Russia's biggest airline, to swallow up its nearest regional rival, Transaero, in what is reported to be a Kremlin-brokered deal to stave off Transaero's bankruptcy. The carrier has struggled to survive since borrowing heavily to renew its fleet, a position worsened by the devaluation of the rouble.

The Czech Republic and Poland are showing renewed signs of life.

Much of the CEE region has felt an inevitable knock-on effect from the Russian crisis of recent months, but there are signs that investors are taking a fresh and more nuanced perspective. The Czech Republic is a case in point. With the economy growing faster than many other EU countries, the M&A market is finally showing the fruits of that growth after a relatively quiet few quarters.

Increased Chinese investment is also a notable trend in the Czech Republic. The charge has been led by China's CEFC, the country's sixth-largest private company, with a string of investments. It has, in conjunction with the J&T private equity group, acquired the Lobkowicz brewery, a share in the Czech TV station, Barrandov, invested in a major football club, won minority holdings in a Travel Services airline and bought into six commercial properties.

Other busy sectors include healthcare, e-commerce and IT. In financial services there were a number of deals, including the Allianz acquisition of the insurance operations of Wüstenrot. Raiffeisen acquired CITI's retail operations and sold the Zuno internet banking operations to Russia's Alfa Bank. Media continues to excite interest from Czech and Slovak financial groups who see a political, as well as an economic, advantage of having a presence in the sector.

In Slovakia, UK infrastructure fund Infracapital has just completed its acquisition of Slovak company GGE, active in various heat and energy generation, distribution and supply businesses.

There was a good flow of deals in Poland and we expect to see more before the year ends. One of the largest Q3 transactions was the sale of Home.pl, a leading provider of cloud-based services to SMEs in Poland and Central Eastern Europe, by the PE house Value4Capital to United Internet's subsidiary, 1&1 Internet SE. We also saw the acquisition of PKP Energetyka, the energy unit of Polish National Railways, by funds managed by CVC - a transaction that values the business at approximately EUR477m. However, sales by GE Capital and Raiffeisen Bank International of their Polish bank interests stalled because of uncertainty over the statutory conversion of foreign exchange mortgages.
There is definitely a sense of renewed activity across the SEE region, although, in Slovenia, not necessarily for positive reasons. For example, some transactions are partially a result of financial restructurings, such as the sale of newspaper company Delo, while others are distressed sales, such as the sale of telecoms company T-2.

Croatia seems to be wakening from its financial crisis slumber and a string of deals - including the EUR550m sale of tobacco company TDR, by Adris to BAT, the sale of a large hotel chain, and the acquisition of the Ljubljana Stock Exchange by the Zagreb Stock Exchange – has finally taken deal values over the EUR1bn mark.
In Serbia, there is a good deal of activity in the TMT sector, not just on Telekom Srbija (where the privatisation has progressed and a short list of private equity and strategic investors has been drawn up) but also activity in TV and R&D.

Romania continues to be busy, with deals being closed across a wide range of sectors, for example, the sale by Advent to Mid Europa of Centrul Medical Unirea, which trades as Regina Maria.

MIDDLE EAST AND NORTH AFRICA

Investors review priorities

The third quarter is traditionally a quiet time for the regional markets, and this period in 2015 has been no exception, with the overall volume of deals down from the previous quarter as well as from the same period of 2014.

Notwithstanding the mixture of factors potentially dampening the markets – regional political instability; oil prices remaining low; the slowdown in China and a general degree of nervousness in the global equity markets – there remain reasons to be optimistic. Such optimism may be more measured than in recent years, however. Investors are considering their priorities and potentially looking to streamline spending, focusing on strategic deals and consolidation. Market players continue to consider M&A possibilities in the region though, and overall market sentiment remains cautiously positive. Deals are in the pipeline and, despite the air of wariness, some relatively large deals are being done behind the scenes, perhaps pointing to increased activity on the near horizon.

The largest deal of the quarter was the agreement in August by the Dutch fertiliser manufacturer, OCI NV (OCI), for the sale of several of its U.S., European and global distribution businesses, to U.S.-based CF Industries, for USD8bn, including debt. The deal includes OCI's global distribution business in Dubai, its nitrogen production facilities in the U.S. and the Netherlands, and its interests in a U.S.-situated ammonia and methanol complex. The deal requires shareholder and regulatory approvals and is expected to close in 2016, creating the world's largest publicly traded nitrogen company.

Acquisitions of minority stakes accounted for the majority of deals in the quarter.

Another significant deal unfolding in Q3 sees bids by GCC- and U.S.-based PE houses to acquire a controlling stake in Saudi Arabian supermarket chain Al-Raya for Foodstuff from owners Levant Capital and The Rohatyn Group. The transaction joins a growing list of deals for consumer-focused firms in the GCC, which have attracted attention from investors for the exposure they give to a predominantly young and growing population with increasing spending power.

Acquisitions of minority stakes accounted for the majority of deals in the quarter and the trend of interest in the region by international investors and PE houses appears

to be continuing, reflecting the confidence of global players in the economies of the region. The GCC continued to account for the bulk of the regional deal flow, with countries like Jordan, Morocco and Egypt also contributing to a lesser degree. While regional political turmoil has certainly been a factor affecting investor confidence, the region's proven attractiveness to investors, particularly based on the comparative stability of certain GCC jurisdictions and the track record of investor returns in recent years, seems likely to fuel an increased deal flow in the medium and long term.

In contrast to 12 months ago, the equity capital markets remain relatively subdued. In the UAE, the new Companies Law, which became effective on 1 July 2015, ushered in new IPO regulations, but uncertainty as to how they will play out in practice has contributed to a hesitation on the part of issuers to rush to market. While there are a few deals in the pipeline, there is unlikely to be a flurry of activity ahead of the new year.

SUB-SAHARAN AFRICA

Caution returns

Deal volumes across the region have fallen quite sharply in recent months, dipping in Q3 to their lowest level since the same quarter in 2009. Q3 deal values held up, quarter to quarter, but they are running at about half the level they reached this time last year.

That, above all, probably illustrates Africa's vulnerability to the current state of world markets and, in particular, its exposure to slowing growth – and therefore reduced demand for key commodities – from China.

In recent years, the continent's growth has been primarily fuelled by demand for such commodities, with China investing most aggressively. That picture has changed and, with many investors currently taking a 'wait and see' attitude to emerging economies, it's perhaps not surprising to see Africa feeling the effects of that caution more acutely than others.

However, the investment picture in Africa is more complex than that, and there is a strong sense that investors are getting a more sophisticated understanding of the risks and opportunities offered by the continent's very diverse economies. So the statistics belie the level of investor interest in key markets and sectors.

With infrastructure and energy a major hurdle to further economic growth in many African countries, power, rail and road projects are also attracting growing interest from outside investors.

For instance, many big PE houses have built sizeable specialist funds to invest in the region, including Carlyle, KKR, Blackstone, Helios and Dubai-based Abraaj, the latter seeking opportunities in both North and Sub-Saharan Africa. Regional investment vehicles, notably Brait in South Africa, are also building their resources for opportunities in the region and abroad.

Strategic investors, too, are continuing to seek out opportunities in selected markets, particularly ones in which consumer spending is growing as the middle-class expands. One of the standout deals of the quarter was the Kellogg's USD450m acquisition of a 50% stake in Nigeria's Multipro, the food distributor – a deal which comes in the wake of an earlier USD125m acquisition of the Egyptian biscuit-maker, Bisco Misr.

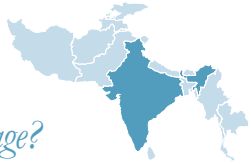
Sectors which remain consistently busy include telecoms – both in terms of network infrastructure deals and the opportunity to roll out data-intensive services like high-speed broadband – and financial services, as an expanding middle-class with access to banking and insurance services burgeon. There have been a number of relatively small, though no less significant, financial services deals, including Morocco's Banque Centrale acquisition of 70% of Niger's BIA.

With infrastructure and energy a major hurdle to further economic growth in many African countries, power, rail and road projects are also attracting growing interest from outside investors, although often take time to complete.

And it's clear that some of Africa's most successful home-grown businesses are planning confidently for further growth, among them Nigeria's Dangote which has announced plans to expand its operations, notably cement-making, in several countries across the continent.

On another positive note, with the ebola threat now apparently under control, we are seeing mining and power deals that were necessarily put on hold during the crisis return in countries like Guinea, and new projects also in Cameroon.

Overall, we continue to believe the current hiatus in deal-making will be relatively short-lived.



INDIA

A moment of advantage?

Volatility on many world markets, not least China, is prompting many commentators to ask if 2015 could be a watershed year for M&A transactions in India, where the market – muted in recent years – is now enjoying a period of relative calm.

Certainly, we are seeing a great deal more activity and there is growing, and well-founded, speculation that 2015 could turn out to be one of the busiest years for inbound transactions since the heady days of 2007.

India's currency has devalued, of course, but by considerably less than other emerging markets. Other economic fundamentals are also positive. For example, the low oil price suits India well as a huge importer of oil, the monsoon (so important for India's agriculture sector) has produced a relatively decent amount of rainfall this year and there is a very good chance that interest rates will be lowered later in the year, adding renewed impetus to the growth story.

From a political perspective, that is certainly the picture being promoted by the majority government of Narendra Modi – India is, to some extent, enjoying a moment of much-needed stability which should prove popular with investors who are growing increasingly nervous about other emerging markets.

But the need for further economic reform continues to be felt. Despite some steady progress, the government's reform agenda has not moved ahead as fast as some had hoped.

Next month's important state election in Bihar, one of India's biggest states, could therefore prove pivotal if, as expected, the ruling party makes a strong showing in the poll.

Modi has struggled to get reforms through in parliament, especially as he does not command a majority in the upper house. A positive result in Bihar could help to break that logjam and all eyes are on two key sets of reforms – the introduction of a national General Sales Tax to replace a complex system of state-level tariffs, and all-important land reforms – to bring about change in the sector.

PE investors are particularly active in the market at the moment. Standout deals include the acquisition of road and energy projects from the infrastructure group, Gammon, by Canada's Brookfield – its first foray into the Indian infrastructure market. KKR has also purchased a majority stake in the mid-market investment bank, Avendus, for USD100m.

The full extent of increased PE activity has not yet shown through in the statistics – in common with many markets, deals are generally taking longer to complete these days. But we see a very good pipeline developing, which supports the general feeling of cautious optimism about a likely strong outturn for the year.

Hot sectors include those that are relatively shielded from both government interference and global uncertainty – namely consumer goods, e-commerce, healthcare and pharmaceuticals. But there is also strong demand in real estate, while infrastructure, as we have seen, is becoming more active, notably in the renewable energy sector.

Another area of likely activity is the sale of businesses carved out from some of India's notoriously unwieldy conglomerates. As we've seen in other markets, there is a growing trend here for big companies to focus on their strengths and offload non-core assets. Such moves should provide plenty of opportunities for inbound investors.

ASIA PACIFIC (INCLUDING GREATER CHINA)

China woes deter nervous investors

The wild gyrations on Chinese stock exchanges this summer have had a clear impact on the levels of M&A activity both within Greater China and across the Asia Pacific region.

Volumes and values of deals outside China have dropped back quite significantly from the level they reached this time last year when the region witnessed a healthy spike in transactions. Although the value of deals within China held up during Q3, the number of transactions was down on the same period last year and even more sharply lower, on a quarter-to-quarter basis.

Three main factors lie behind those numbers – widespread jitters among investors about the volatility

> "We are seeing many investors blowing *hot and cold* over potential deals."

of China's stock markets; fear of a bubble in the Chinese housing market and widespread uncertainty about whether the Chinese government is doing enough to stimulate demand.

In truth, equity prices have settled down in recent weeks but investors clearly feel the current calm is an uneasy one and that further sharp falls in prices could happen again any day. Against that background, it's not surprising that we are seeing a significant movement out of the Yuan and into the Hong Kong dollar (which benefits from being tied to the U.S. dollar).

Chinese transactions continue to be dominated by domestic deals, either directly within mainland China or with a China/Hong Kong focus. Some sectors are faring far worse than others, notably real estate given the worries about property prices. Those deals that are still being done here tend to be ones that have been in the pipeline for some time.

Other sectors are proving more resilient. Consumer transactions are holding up and we are seeing a disproportionate number of deals in e-commerce and tech. Alibaba, the internet giant, for instance, continues its almost constant acquisitions spree – this quarter tying up an alliance with Chinese electrical retailer Sunning to try to integrate the two companies' online and offline retail operations. Alibaba is investing USD4.6bn for a near 20% stake in Sunning, while Sunning is paying USD2.3bn for a 1.1% holding in the internet giant.

Elsewhere, the deal agreed in Q2 which saw HP join forces with a majority Chinese shareholder, in the form of Tsinghua Holdings, to meet government demands for its IT service providers to be majority Chinese-owned, is providing the template for other big U.S. firms seeking to build or preserve a presence in China. That will, undoubtedly, provoke further M&A activity in the months ahead.

Q3 also saw Cheung Kong Infrastructure Holdings and Power Assets Holdings merge in the latest significant restructuring of Li Ka-shing's sprawling business empire, a confident move to build the necessary scale to attack world infrastructure opportunities.

Tesco also chose this period to announce the GBP4.24bn sale of its highly profitable Homeplus stores in South Korea to the Korean buyout firm, MBK Partners, working with a Canadian pension fund and Singapore's Temasek Holdings. The tactical withdrawal, however, is mostly driven by the need to shore up the troubled retailer's balance sheet rather than nerves about the market itself.

Investor sentiment in Australia has definitely received a boost from the appointment of Malcolm Turnbull as Prime Minister after he toppled Tony Abbott in September. Turnbull's background – not least as an investment banker with Goldman Sachs – has encouraged many to assume that he will focus more energetically on restoring economic growth and take steps to loosen foreign investment controls.

That, coupled with a falling exchange rate (with many expecting the Australian dollar to weaken further in the autumn), should make this a good time for foreign investment in Australian assets.

Infrastructure looks likely to prove pivotal in that process, not least with the proposed privatisation of key assets, including ports, power generation and electricity transmission and distribution grids, regaining momentum in key states, led by New South Wales. That process is being given impetus by federal government incentives to encourage state administrations to get involved.

Transactions across the ASEAN region continue at a relatively low ebb and we expect that to remain the case in the next 12 to 18 months, although the medium- to long-term growth story here will be a very strong one.

Currency fluctuations, low commodity prices and political instability in key economies, particularly Thailand and Malaysia, are all playing their part in subduing activity. Even Indonesia's relatively new government has yet to really make its mark in terms of economic reform as many investors had hoped. Not surprisingly, we are seeing many investors blowing hot and cold over potential deals.

"There has not been a busier quarter for FS transactions in the last six years and deal values in the year to date are already *higher* than the full year turnout in either of the last two years."

Financial services analysis

Sector insights, **Q3 2015**

Sector insights

The pace of consolidation is accelerating and spreading to a wider variety of sectors, as well-funded investors continue to seize the chance to do transformational transactions.

CONSUMER

Drinks add fizz

The drinks industry took centre stage in the consumer sector in Q3, with deals in both bottling and brewing businesses adding a shine to a quarter that saw fewer deals overall than Q2 but much higher values.

The grand alliance agreed between Spanish bottling company Coca-Cola Iberian Partners, the U.S. publicly listed bottling company Coca-Cola Enterprises Limited and the private German bottling company Coca-Cola Erfrischungsgetränke, a wholly owned subsidiary of The Coca-Cola Company, was a standout deal.

This transformational transaction, estimated at the time to be valued at USD27bn, will create the world's largest independent Coca-Cola bottler based on net revenues, serving a population of over 300 million in 13 territories across Western Europe. It is expected that the enlarged company, which will be listed on the Amsterdam Euronext, the New York Stock Exchange and the Madrid Stock Exchange, will generate substantial synergies, including supply chain benefits and administrative cost reductions estimated to create multi-million U.S.-dollar savings.

Q3 closed with talk of an even more significant deal, as Budweiser and Stella Artois brewer, ABInBev, signalled its possible intent to bid for rival SABMiller, whose brands include Peroni and Grolsch. If successful, this will create a brewing behemoth with a market capitalisation of more than USD275bn and combined revenues of some USD67bn.

ABInBev is itself the product of a string of mergers and alliances, often backed by 3G, the Brazilian investment fund and main player, alongside Warren Buffet's Berkshire Hathaway group, in the Heinz/Kraft merger earlier this year. As such, the potential transaction reflects an increasing trend for consolidation, not only in drinks but also in food production businesses.

The question is, will the ABInBev deal fall foul of the antitrust authorities? It is perhaps less likely to than it seems at first glance. The two brewers have complementary footprints – with SABMiller particularly strong in Africa and other emerging markets, and ABInBev powerful in more developed markets like the U.S. and Western Europe. Some remedies might need to be sought in North America and China, however.

The process of clearing the deal would also not be simple in the latter market. China's merger control authority, the Ministry of Commerce, is dealing with a huge backlog of cases with many strategic M&A transactions taking six months or more to clear through what is proving to be an increasingly powerful regime with a long extra-territorial reach.

The drinks industry took centre stage in the consumer sector in Q3, with deals in both bottling and brewing businesses adding a shine to a quarter that saw fewer deals overall than Q2 but much higher values.

However, neither this addition to deal timetables nor recent changes on the Chinese stock exchanges seem to be affecting consumer deals, even though other sectors, notably real estate, have gone a lot quieter in the region. This is a reflection of the continued growth of middle-class consumer spending.

The USD1.67bn acquisition of Australian vitamin and natural health remedies business Swisse by the Hong Kong-listed company, Biostime International Holdings, would seem to be a case in point. The deal was sealed after an auction that drew heated competition from other wishful Chinese players.

Another standout deal of the quarter was Tesco's GBP4.2bn sale of its profitable Homeplus stores in South Korea. Unlike other strategic withdrawals from overseas markets by retailers, this was driven by the need to raise vital capital to mend finances at home, rather than misplaced expansion. However, Tesco's exit from South Korea follows those of Wal-Mart and Carrefour amid claims that regional restrictions on opening hours for supermarkets have curbed profitability significantly.

Elsewhere, we are beginning to see an interesting blurring of lines between sectors and asset classes. Motorway service stations were once considered largely retail assets, but – because they offer stable cash flows and returns – are increasingly being seen as models of infrastructure.

The proposed sale of Germany's Tank & Rast network (a deal which could be worth USD2.5bn) and the bidding interest around the MOTO network in the UK, underlines this trend. Private equity and specialist infrastructure funds are prominent in the mix of potential bidders and it looks like competition will continue to be intense well into Q4.

FINANCIAL SERVICES

Insurers reignite sector

Deal making returned in force to the financial services sector in Q3, mainly driven by a continuing stream of significant consolidation deals in the insurance industry and U.S. banking deals. Indeed, there has not been a busier quarter for FS transactions in the last six years and deal values in the year to date are already higher than the full year turnout in either of the last two years.

That marks a significant turnaround for a sector that has been languishing in the doldrums, in terms of M&A activity, since the financial crisis with institutions focused instead on the business of repairing the damage done during the crisis and rebuilding their capital bases.

Consolidation in the insurance sector has long been expected, but has accelerated in recent months with a strong emphasis on mega-deals. Our analysis of the statistics show that insurance deals account for some 18% of the total number of FS transactions, but nearly two-thirds of the total value.

The motivations for such deals differ from market to market, but one clear trend is that the industry is increasingly breaking into two blocks, with large general insurers on the one side, and niche players on the other. Inevitably, that means some mid-sized companies are getting squeezed, and often end up as takeover targets.

The quarter closed with news that Swiss Re is buying Guardian Financial Services in the UK for GBP1.6bn, a deal driven by recent changes in pension legislation in connection with annuities. It came just days after Zurich chose to abandon a planned GBP5.6bn bid for RSA.

Japanese trading houses and insurers have played a significant role in the consolidation process, and are said to account for one-third of total activity in a year which looks set to rival 2006, the busiest year to date for insurance transactions. Mitsui Sumitomo's GBP3.5bn acquisition of Lloyd's insurer, Amlin, continues that trend, and has raised speculation that other UK listed insurers, including Beazley, Novae, Lancashire and Hiscox could become targets.

Changes in U.S healthcare provision following the so-called Obamacare Act continues to drive consolidation there. The USD48.4bn Anthem/Cigna Corporation merger and the smaller USD6.3bn tie-up between Centene and Health Net both underline efforts by insurers to gather scale and cut costs in the wake of the legislation. Meanwhile, GE's scaling back of its FS interests is resulting in a continuing stream of disposals, including the recent sale of its Healthcare Financial Services business to Capital One.

While insurers dominate the scene, there has also been a good spike in deals in the banking sector. Most notably, HSBC has agreed the sale of its Brazilian operations to Banco Bradesco for USD5.2bn, although a similar proposal to dispose of its Turkish operations has not yet come to anything, publically at least.

The U.S. banking market is particularly lively, seeing 29 deals in Q3, all but two being domestic rather than cross-border. That represents almost half the total bank transactions seen globally in the quarter. A standout deal was BB&T's USD1.8bn acquisition of National Penn Bancshares. But it is just one of a number of mid-tier banks, alongside U.S. Bancorp and PNC Financial Services, growing rapidly through consolidation deals and also by buying "bad" assets sold off by bigger rivals such as CITI and Bank of America.

How long this upsurge in deals across the FS sector will last is hard to predict. But with so many potential threats to the global macro-economic environment, not least the sharp slowdown of growth in China, it feels like this period could mark a high point for transactions.

INFRASTRUCTURE, AND ENERGY

Pre-emption strikes

The infrastructure sector – in Europe especially – continues to wrestle with a now familiar conundrum. An increasingly impressive wall of money has been built up to invest in infrastructure, but there is a distinct shortage of good assets to buy.

Assets that do come up are fiercely fought over and the sheer intensity of competition is, necessarily, pushing up asset prices. That's clearly reflected in our stats for Q3, with the number of deals almost half their level in both Q3 2014 and Q2 this year, but deal values almost doubled.

This impasse has been evident for many quarters, but it is leading to an increasingly familiar trend – with existing investors in key assets blocking their sale to new investors by exercising pre-emption rights in order to snap up minority shareholdings. Pre-emption risks for sellers are now far more acute than in the past.

A good example of this trend was the thwarted sale of Globavia, the concessions business operating 29 hospital, road, port and railway projects in Spain, Ireland, Portugal, Andorra, Mexico, Costa Rica and Chile which had been lined up for sale to the Malaysian sovereign wealth fund, Khazanah Nasional Berhad.

Instead, existing investors comprising UK, Canadian and Dutch pension funds exercised their rights to buy the shares from FCC and the Spanish banking conglomerate, Bankia. By doing so, it is allowing them to increase their investment in an asset they value highly without getting embroiled in a drawn-out auction process.

A similar process seems to have occurred with the planned sale of one of the three main UK railway rolling stock companies, Angel Trains, with current investors once again halting the sale by invoking pre-emption rights. We expect this trend to continue while assets are in short supply.

Shortage of good targets is also forcing funds to stretch the definition of classic infrastructure assets and take on businesses that share some of the attractions of infrastructure – namely those operating in fairly monopolistic markets and offering stable, long-term returns.

This quarter, for instance, saw 3i and AMP Capital buy the Norway-based North Sea oil industry rescue service, Esvagt.

It could be argued that the sale of motorway service station networks fall into the same category, where some investors may, in the past, have classed these as retail assets rather than infrastructure. It's notable that PE and specialist infrastructure funds are at the centre of recent deals or proposed sales in this area. An Allianz-led consortium involving Borealis, MEAG and Infinity Investments successfully acquired the Germany network, Tank & Rast, while in the UK the proposed sale of the MOTO chain has attracted attention from a range of infrastructure funds and other investors.

Some good assets may come to the market in Europe in the near future, including London's City Airport later this year. Terminals and storage businesses are also a hot sport currently but, generally, the pipeline is dogged by the same problems of supply and demand.

Australia's proposed privatisation of a range of infrastructure assets – including ports, power generation and electricity transmission and distribution networks – might prove to be an exception, however. Interest has been reignited in sales planned in New South Wales, although a similar programme of asset sales in Queensland has been halted after recent elections.

Despite us believing that Australia's privatisation wave is cresting quickly, driven by efforts to reduce public sector debt, the need to find new sources of growth as the resources boom slackens, the chance to attract widespread international investment at high multiples and new federal government incentives to encourage state governments to join the fray.

Infrastructure also remains a hot sector in many developing markets, not least Africa, and more recently India. Canada's Brookfield has bought a range of road and energy projects from Gammon in its first move into the Indian market and there is growing interest in the renewable energy sector.

With oil prices at a six-year low, the upstream oil sector remains dominated by a small number of mega deals. Only strategic moves are likely to be made while the confidence of any improvement in pricing in the medium term remains low. All eyes remain on distressed assets and companies, especially once hedges begin to unwind and the full pressure of lower prices is felt.

The downstream and petrochemicals sectors remain buoyant with margins at a high point in the cycle – there is a real chance of an uptick in M&A activity if attractive assets become available. This is likely to come from those with no previous exposure to the upstream sector (since the majors and other integrated players will no doubt remain focused on capital management and cost reduction).

LIFE SCIENCES

No let-up

Deal activity in the life sciences sector – at fever pitch for more than a year now – shows no sign of letting up with Q3 seeing another raft of mega transactions.

In truth, the absolute number of deals in the sector was lower in Q3 than either the same period last year or the preceding quarter. But the value of deals keeps roaring ahead – once again, seeming to quash suggestions that the sector is experiencing something of a short-term bubble.

And many of the trends of recent quarters are continuing to drive deals, including consolidation among U.S. health insurers and among global generic drug makers, while the biotech sector remains buzzing with activity.

The USD48.4bn merger between insurers Anthem Inc and Cigna Corporation and the smaller USD6.3bn tie-up between Centene and Health Net both underline efforts by insurers to gather scale and cut costs in the wake of the Affordable Care Act, the so-called 'ObamaCare'.

But these tie-ups are not going unnoticed by regulators and have come in for criticism that they will end up limiting patient choice. The Department of Health is probing the impact of these deals, with its review likely to take between 12 and 18 months. That takes it right into Presidential election time, when, of course, the flagship Obama policy could be swiftly unravelled if there is a Republican victory.

Teva's USD40.5bn acquisition of Allergan's generic business continues a trend of consolidation in the sector but is also likely to see Teva, of Israel, abandon its pursuit of Mylan, itself hot on the heels of Perrigo – a complex three-way battle. There are suggestions that Teva will reverse into Allergan's generics business, apparently a tax-efficient manoeuvre. Jordanian generics group Hikma is also acquiring Roxane Laboratories from Boehringer Ingelheim for USD2.5bn in a move that will boost its U.S. market presence.

In the Biotech space, Celgene's USD7.2bn acquisition of Receptos ends months of speculation about the future of the latter business which is said to have attracted the interests of other drug makers, including AstraZeneca, Gilead and Teva, despite the fact that its main product, Ozanimod, is still in testing. Amid that level of interest its market price has inevitably shot up. For Celgene this is an opportunity to buy into R&D by a smaller company and move it away from cancer treatments and into autoimmune drugs.

Meanwhile, Concordia's hugely cash generative USD3.5bn acquisition of Amdipharm Mercury (AMco) marks a relatively rare foray into the sector by a PE Fund. AMco was formed by Cinven when it merged Mercury Pharma and Amdipharm in 2012 to buy off-patent drugs from the majors. The deal will leave Cinven controlling 20% of Concordia and includes a system of performance-based payments, an increasingly common feature in the sector. But, generally, PE funds seem to be shying away from pharmaceuticals, perhaps struggling to find targets where typical PE value creation models can be applied.

> The trends of recent quarters are continuing to drive deals.

Hedge funds, however, are having an impact – and often controversially, no more so than in the case of Turing, the Canadian group led by former Hedge Fund boss Martin Shkreli. Its decision to buy the rights to the AIDS treatment, Daraprim, and then to hike its price from USD13.50 to USD750 per dose attracted widespread opprobrium, not least from U.S. presidential hopeful, Hillary Clinton, who has vowed to take action against such price hikes in speciality drugs if she gets elected.

Turing's decision to bring the price down after the outcry is unlikely to be the end of this story. Among other hedge fund and activist investors who have courted controversy is Bill Ackman, one of the biggest investors in Valeant, the company famed for turning lossmaking speciality treatments into profit – at a time of growing general interest in speciality products. Kyle Bass of Hayman Capital has also made waves challenging the validity of drug patents and investing in companies that might profit if the challenges succeed. Jazz, Accordia and Shire have all faced challenges from him.

Elsewhere, the medical devices sector remains busy as we saw from the USD1.7bn acquisition of Lake Region Medical by Greatbatch. And we are seeing some hostile activity in the market too, as Horizon Pharma's USD1.7bn unsolicited – and rejected – offer for Depomed shows.

> "There has been a significant backwards shift to *making* new acquisitions, as confidence and market conditions have strengthened."

PRIVATE EQUITY

The tide turns

In our last edition, we predicted the tide would turn for PE investing in the second half of the year as funds went confidently back on to the front foot to make acquisitions. That has certainly begun to happen.

For many quarters now, funds have been focused mostly on exits, in the face of tough competition from well-financed strategic investors often willing to pay over the odds.

But there has been a significant backwards shift to making new acquisitions, as confidence and market conditions have strengthened, particularly in key northern European markets, such as the UK, Germany and the Netherlands, and with funds well primed with dry powder to complete acquisitions.

Although the stats may not yet show the full force of this shift, we are certainly seeing a growing number of deals being announced or under discussion, which shows a much better balance between exits and new transactions.

But three trends in particular underline the new more bullish mood among PE investors.

We are seeing a resurgence of public to private deals, particularly in the UK and the Netherlands, with at least five significant transactions over the summer.

These included the takeover of sports marketing group, Chime Communications, by advertising giant WPP and the U.S. fund Providence Equity Partners for GBP374m. Lone Star, the U.S. fund, underlined the continuing appetite for London real estate when it bought Quintain, the property company developing shops, restaurants and homes around Wembley Stadium, for GBP700m. Gilde Buy Out partners, together with a consortium of the Dutch PE funds, also made a public offer for the Euronext Amsterdam-listed defence company Ten Cate for EUR675m.

In stark contrast to recent trends, there has been a growing number of joint PE/trade deals. In general, these are being driven by trade buyers' need to extract strategic synergies but also to make use of the clever financing options that PE funds are well versed in.

In another key change, most of the major funds are now making their presence felt in auctions – although some still insist they are staying away from a process that has been dominated by strategic buyers in recent times.

Growing competition for assets is, in some cases, forcing funds to play it long, back-loading processes and holding off until the later stages of the sales process to avoid incurring costs.

That's a particular trend in Germany, where activity is still greatest around mid-cap deals and where there remains a relative dearth of bigger transactions or significant carve-out opportunities. However, on the exit side, we are still seeing some significant transactions here; notably, Patrizia's EUR1.9bn sale of SÜDEWO Homes to Deutsche Annington.

The Netherlands has seen a good spread of activity including the trade sale by Arle Fokker Technologies to GKN, the primary buyout of Volkswagon's LeasePlan by a consortium led by U.S. PE Fund TDR, and the secondary buyout of RFS Holland – holding company of the online retailer, Wehkamp – by Apax. The bankruptcy of Imtech has also attracted PE buyers for selected assets, including Imtech Marine and Imtech Traffic and Infra.

In another significant new trend, there is growing interest from PE and specialist infrastructure funds in non-traditional infrastructure assets which, nevertheless, have some of the characteristics of classic infra – notably, steady cash flows and stable returns. Motorway service stations are a case in point, as evidenced by the proposed sale of the MOTO chain in the UK and Tank & Rast in Germany.

TELECOMS, MEDIA AND TECHNOLOGY

Fintech prepares to consolidate

Despite a noticeably quieter quarter for the TMT sector when compared to a feverish second quarter, significant transactions continue to be the trend and we expect to see some important developments in the months ahead.

That's certainly true of the payments sector, which has already become overcrowded with fintech start-ups looking for ways to reach critical mass in a fast-changing market with strong potential.

We believe the next few months will see the beginning of a process of significant consolidation, as there are too many new players to succeed in a market that requires a network-style ecosystem. Some start-ups are now raising money specifically to finance M&A alongside funding to boost their own organic growth. The amount of venture capital and PE funding into these start-ups is a good indicator of likely M&A or IPO activity in the near and mid-term. Q3 saw this process in action, with Crédit Mutuel Arkéa buying an 85% stake in the French payments and crowd-funding group, Leetchi.com.

Fintech data providers are also "hot" properties. Markit bought DealHub, a provider of trade processing to the foreign exchange market, in August – just weeks after acquiring CoreOne Technologies, a provider of regulatory reporting and data management, and Information Mosaic, a provider of post-trade software solutions to the capital markets. We expect to see this continue.

The planned GBP890m IPO of Worldpay underlines growing activity in the payments market. But it also points to another significant trend – the proliferation of dual-track processes as investors, nervous about the state of the world's equity markets, seek added security.

Worldpay's PE owners, Advent and Bain Capital, pursued both an IPO and M&A strategy, the latter successfully putting a floor under the share flotation. By contrast, the USD9.1bn sale of financial technology group, SunGard, to Fidelity National Information Services by its seven private equity owners, ten years after they clubbed together to buy the business for USD11bn, including debt, was a dual-track process that ended up as an M&A deal.

The mobile telecoms sector continues to be busy. The standout deal of the quarter was the joint venture combination of Wind, owned by VimpelCom, and Hutchison's 3 Italia. It brings together Italy's third- and fourth-biggest mobile operators.

Africa has been a focus of some significant mobile infrastructure deals in the last 18 months. Although consolidation in African telecoms remains overdue, we expect to see infrastructure activity shift to Europe in the months ahead. Operators are increasingly aware of demand for assets from infrastructure funds. Carving out the towers as a separate tradable business looks like a good way to raise much-needed funding for network build.

The next few months will see the beginning of a process of significant consolidation, as there are too many new players to succeed in a market that requires a network-style ecosystem.

> "China's importance to the technology industry, whether in terms of *size* of market, as a competitive threat or as a manufacturing hub, is becoming increasingly pivotal."

Another significant trend is the sheer volume of activity in the tech space in China. China's importance to the technology industry, whether in terms of size of market, as a competitive threat or as a manufacturing hub, is becoming increasingly pivotal. This means that industry sub-sector and convergence issues found elsewhere are playing out in China too.

On the internet side – led by the frothy listing of Alibaba – an armsrace of diversified technology conglomerates, which are well-positioned across an internet plus/internet-of-things portfolio, has resulted in a range of transactions as the likes of Alibaba, Tencent, Baidu, Qihoo, Sina have worked to build out their offerings ranging from fintech, logistics, transportation, travel, hospitality and retail.

The standout deal of the quarter was Alibaba's joint venture with electronics retailer Sunning, with both groups buying stakes in each other as a precursor to harmonising their on- and off-line presence. The motivation is to challenge China's successful online electronics retailer, JD.com.

In the transportation space, the competitive nature can be seen with the merger of Di Di and Kuaidi (backed by Tencent and Alibaba) partnering up with Lyft and raising new capital, while Baidu has invested further in rival Uber China.

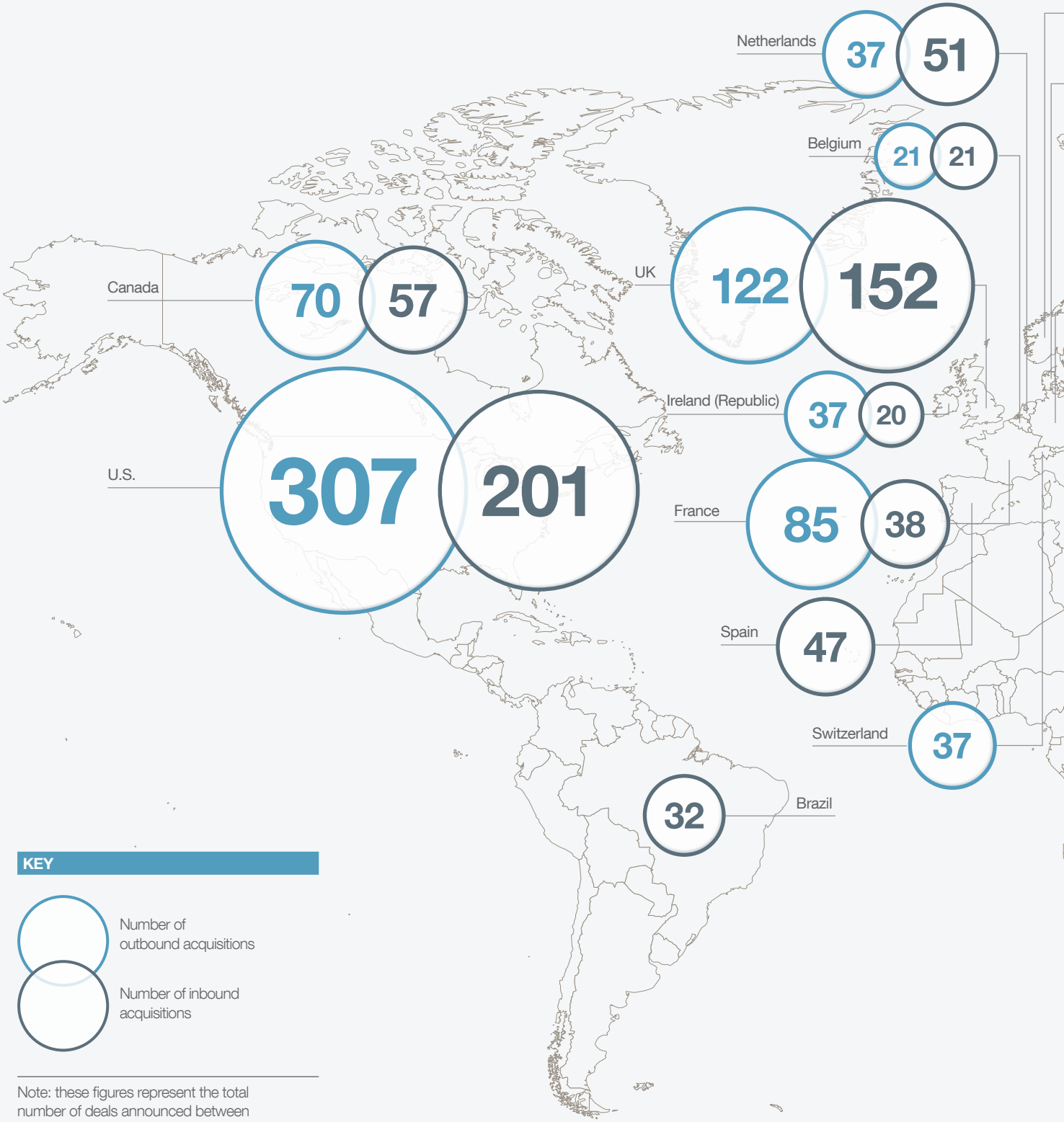
Tech activity has been driven, to some extent, by the Chinese government's Internet Plus strategy launched in March this year. It focuses on bringing digitalisation to China by integrating mobile, cloud computing, big data and internet-of-things with modern manufacturing to foster new industries and business opportunities.

It may go some way to explaining the extraordinary predominance of Chinese tech deals at the moment, although the energy of companies like Alibaba and Tencent in completing an almost constant stream of transactions around the world has been apparent for much longer. The "Black Monday" drop in the Chinese stock markets, however, has put a temporary dampener on these efforts, not least with a number of big take private deals being suspended.

In another part of the technology space, China's policy of indigenous cyber-security is resulting in the largest global technology companies re-orienting their China interests to adapt to this market restriction. HP made a paradigm-shifting move by converting its market-leading H3C networking business into a joint venture through a USD2.5bn sale of a 51% stake to a subsidiary of Tsinghua University. Nokia and Microsoft have since also announced deals and ventures to reposition their interests in China. It remains to be seen how the recent U.S.-China agreements following President Xi Jinping's trip to the U.S. will affect this trend.

A global snapshot

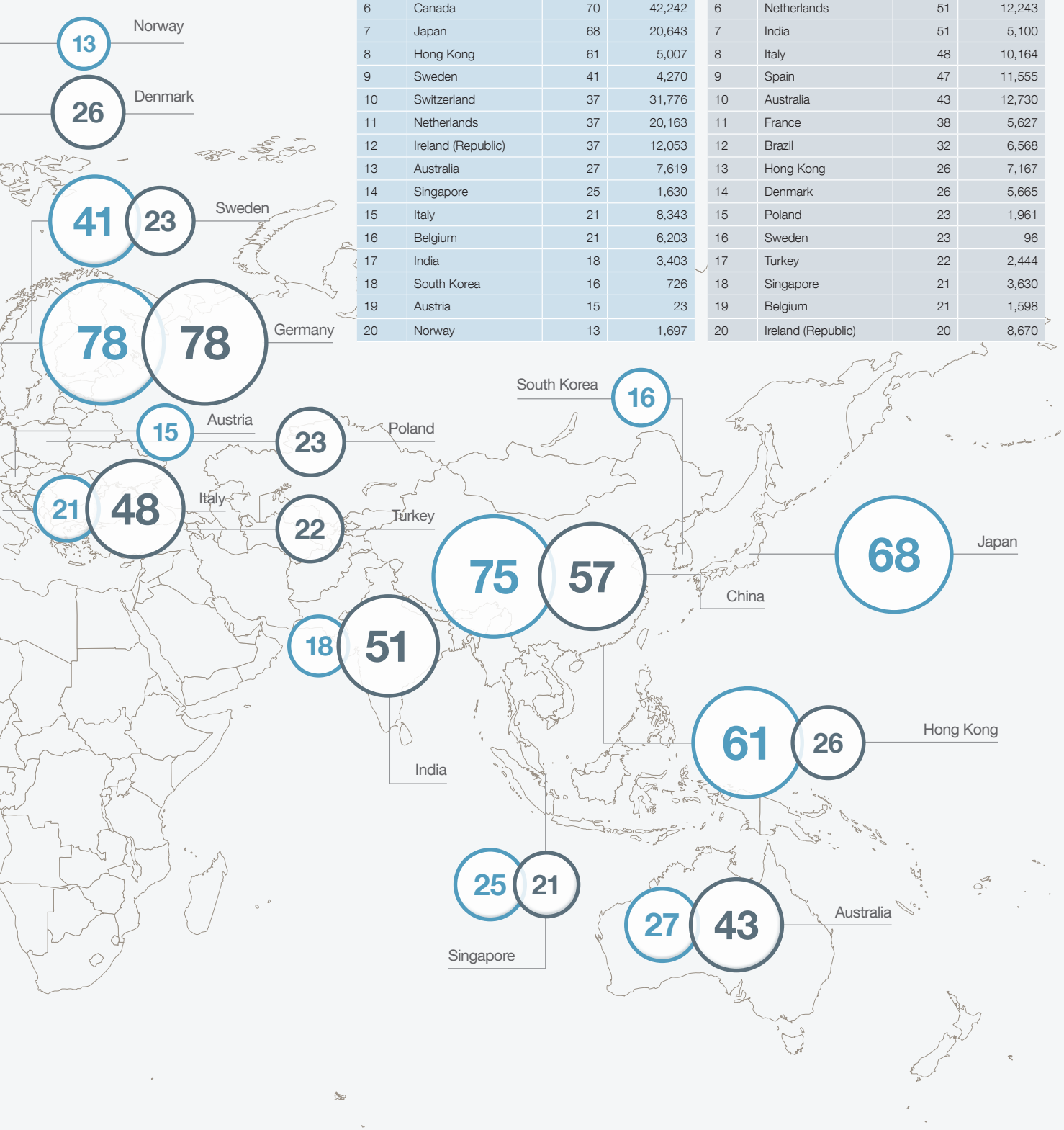
Top 20 global outbound acquirers and inbound target markets



Note: these figures represent the total number of deals announced between 1 January 2015 and 30 September 2015.

Volume of outbound acquisitions			
Rank	Country	Volume of deals	Value of deals USDm
1	U.S.	307	70,801
2	UK	122	29,202
3	France	85	6,617
4	Germany	78	15,719
5	China	75	32,008
6	Canada	70	42,242
7	Japan	68	20,643
8	Hong Kong	61	5,007
9	Sweden	41	4,270
10	Switzerland	37	31,776
11	Netherlands	37	20,163
12	Ireland (Republic)	37	12,053
13	Australia	27	7,619
14	Singapore	25	1,630
15	Italy	21	8,343
16	Belgium	21	6,203
17	India	18	3,403
18	South Korea	16	726
19	Austria	15	23
20	Norway	13	1,697

Volume of inbound acquisitions			
Rank	Country	Volume of deals	Value of deals USDm
1	U.S.	201	173,146
2	UK	152	36,613
3	Germany	78	15,350
4	China	57	7,065
5	Canada	57	5,964
6	Netherlands	51	12,243
7	India	51	5,100
8	Italy	48	10,164
9	Spain	47	11,555
10	Australia	43	12,730
11	France	38	5,627
12	Brazil	32	6,568
13	Hong Kong	26	7,167
14	Denmark	26	5,665
15	Poland	23	1,961
16	Sweden	23	96
17	Turkey	22	2,444
18	Singapore	21	3,630
19	Belgium	21	1,598
20	Ireland (Republic)	20	8,670



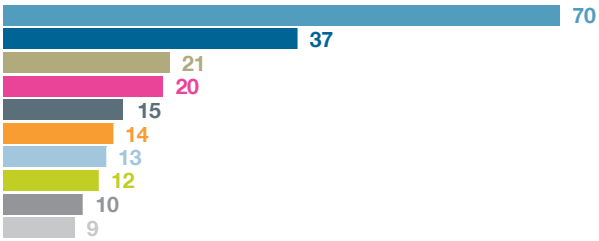
A global snapshot

Top target markets for the world's largest acquiring countries

U.S. – the world's largest acquiring country

Value of deals (USDm)

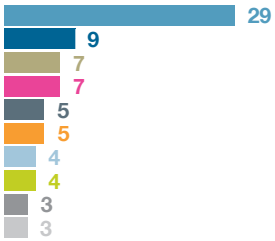
UK	10,986	Brazil	320
Canada	3,878	Australia	857
India	2,497	France	4,169
Germany	9,724	Israel	1,045
Netherlands	10,066	Italy	1,556



UK

Value of deals (USDm)

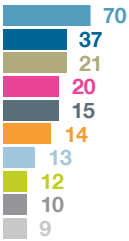
U.S.	11,934	Italy	43
Netherlands	1,395	Spain	1,082
Ireland (Rep)	231	Canada	99
Australia	228	Brazil	2,922
Poland	558	Belgium	18



France

Value of deals (USDm)

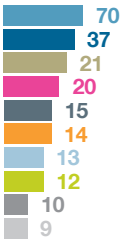
U.S.	2,761	Italy	273
UK	293	Luxembourg	
Germany		India	350
Spain	1,095	Ireland (Rep)	350
Belgium	895	Netherlands	



Germany

Value of deals (USDm)

UK	261	France	
U.S.	5,956	Poland	140
Austria	979	Sweden	13
Spain	16	Netherlands	
Italy	6,680	Turkey	

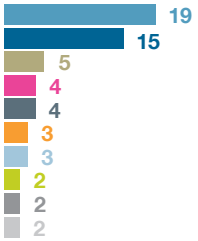


*These figures represent the total number of deals announced between 1 January 2015 and 30 September 2015.

China

Value of deals (USDm)

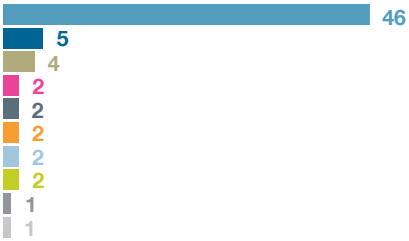
Hong Kong	6,724	India	619
U.S.	6,578	Singapore	251
UK	797	Israel	1,194
Germany	250	Australia	1,132
Spain	196	Canada	120



Canada

Value of deals (USDm)

U.S.	23,599	France	379
UK	4,249	Chile	90
India	551	Netherlands	14
Australia	9,473	Botswana	8
Germany	2,679	Costa Rica	



Japan

Value of deals (USDm)

U.S.	9,770	India	104
UK	6,656	Canada	89
Singapore	1,353	Brazil	273
Italy	815	Malaysia	38
Germany	308	Philippines	32

Hong Kong

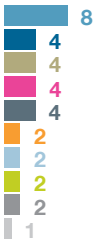
Value of deals (USDm)

China	2,539	Netherlands	331
UK	209	Singapore	48
South Korea	158	Australia	27
U.S.	26	Cyprus	22
Canada	727	Denmark	

Sweden

Value of deals (USDm)

Norway	239	Australia	
Denmark	3,605	Finland	8
Germany	105	Poland	
U.S.	265	UK	
Netherlands	34	Brazil	



Switzerland

Value of deals (USDm)

Germany		UK	2,472
U.S.	28,441	Australia	10
Italy		Canada	175
France		Dominican Republic	
Poland	7	Hungary	

About the research

The underlying data for this research comes from The Mergermarket Group.

– The data contained in this publication spans 1 January 2015 and 30 September 2015 inclusive

GLOBAL PRESENCE

Allen & Overy is an international legal practice with approximately 5,000 people, including some 527 partners, working in 45 offices worldwide. Allen & Overy LLP or an affiliated undertaking has an office in each of:

Abu Dhabi
Amsterdam
Antwerp
Bangkok
Barcelona
Beijing
Belfast
Bratislava
Brussels
Bucharest (associated office)
Budapest
Casablanca
Doha
Dubai
Düsseldorf
Frankfurt
Hamburg
Hanoi
Ho Chi Minh City
Hong Kong
Istanbul
Jakarta (associated office)
Johannesburg
London
Luxembourg
Madrid
Milan
Moscow
Munich
New York
Paris
Perth
Prague
Riyadh (associated office)
Rome
São Paulo
Seoul
Shanghai
Singapore
Sydney
Tokyo
Toronto
Warsaw
Washington, D.C.
Yangon

Allen & Overy means Allen & Overy LLP and/or its affiliated undertakings. The term **partner** is used to refer to a member of Allen & Overy LLP or an employee or consultant with equivalent standing and qualifications or an individual with equivalent status in one of Allen & Overy LLP's affiliated undertakings.