

Early M&A spring in view in China and South America says BDO

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Brussels, 28 February 2018 - Improved market confidence and timid political stability in Europe and America, the prospect of a 'latino spring' in South America and China's soft power Belt and Road investments are to thank for an otherwise flat mid-market M&A trend, say M&A experts in BDO's global mid-market M&A review, BDO Horizons. Looking back on Q4 2017, BDO's M&A experts noted an average quarterly total deal value figure of US \$ 89.7bn in Q4 2017, by far the highest value figure since Q2 of 2012, while overall deal value went up by 3.6% from US \$ 170bn to US \$ 176bn in Q4 2017. This increase was by far not enough to counter an overall annual decline within our mid-market deal segment analysis - the total 2017 deal volume fell by 5.4% or down to 7963 transactions from 8420 in 2016. Private equity transactions continue their 2017 Q3 fall, with only 228 transactions in Q4/2017, a year on year decrease of 17.4% in deal volume.

2018 a pivotal year

BDO expects 2018 to be a pivotal M&A year, as this may well be the high point of a cycle, with asset markets running out of air and historically low financing costs potentially on a hike. These are BDO's growth areas:

- South America is the spotlight region in this edition of BDO Horizons as M&A transactions there rose by an encouraging 15.4%, up 75 deals from Q3 2017. Mega-deals substantially boosted M&A activity in Latin America in 2017, while the rally in prices for oil, copper and iron ore and the economic recovery in Brazil should help investment activity accelerate into 2018 and beyond. Brazil emerges from its recession and ahead of October elections sees investment rising, seven out of ten deals in the Latin American M&A top ten completed in Brazil. The systemic shortfall of Latin American investment is compensated by offshore investors, half of deals in Brazil involving foreign acquirers. Chinese buyers target large infrastructure projects in Brazilian Energy, Mining & Utilities and commodities.

- Greater China, with 1676 transactions in total value of 154,096m in 2017, follows the USA as the world's second biggest M&A market. Compared to 2016 though, both deal volume and value dropped, by respectively 5.9% and 6.5%. Chinese M&As alone represented 52% of global transactions in 2017 and on BDO's M&A Heat Map no less than 1,070 deals are expected this year, of which 20% in industry and chemicals and 19% more in Technology & Media. China is where the most quarterly transactions worldwide are recorded in the last four years: 65% of Q4 deals and 52% of the sector's global activity in 2017 originate in China. Total Chinese deal value in Q4 2017 increased by 16% to US \$ 49bn, up from US \$ 42.5bn in Q4 2016, despite a mere 4% increase in volume for the same period. The second largest transaction in South Africa was the acquisition of a 29.6% stake by the main copper supplier in China, Baiyin Nonferrous Group Co. Ltd, in Gold One Group Limited. The selling company was the China Africa Development Fund and the deal was estimated at USD 331m. Chinese real estate is the real eye catcher: expansion restrictions drive this sector toward a consolidation landslide, the deal count jumping from 56 in 2016 to 128 in 2017.

- North America remains the strongest M&A market, registering 2076 transactions in 2017 amounting to a total value of USD 210,139m, but reflecting a minus of 5.5% in M&A volume and a drop of 4.6% in deal value. US Mid-market M&A activity is expected to trend positively in 2018 against the backdrop of US tax reform, strong growing economies and perceived business-friendly economic policies. Moving into 2018, BDO expects midmarket M&A activity to trend positively. Oil prices are expected to further increase, which will stimulate both US and Canadian economies. Ageing of business owners and the availability of capital should impact deal-making positively.

- The importance of the Chinese market in Finance Services has risen over the last decade and together with the US, they are the powering ahead in detriment of the European share of Finance Services M&A transactions.

- Comparing sectors, the final quarter of 2017 saw less deals than the previous quarter for all except Energy, Mining & Utilities (+12.9%), Industrials & Chemicals (+10.2%) and Real Estate (+25%). If we compare 2017 with 2016, we see that Real Estate (+46.4%) is the only positively performing sector. Pharma, Medical and Biotech (-19.3%), Consumer (-8.5%) and Industrials & Chemicals (-7.5%) were the weakest sectors in 2017.

The corporate finance teams at global accounting and advisory organisation BDO have had a record year of deals, completing over 1,200 transactions in 2017 with a combined value of more than US \$ 54.5 billion. The increase has had a direct effect on BDO improving its position in industry league tables as a Top 4# worldwide M&A financial advisor in the Thomson Reuters 2017 rankings and as a Top 4# Due Diligence advisor in the Mergermarket 2017 rankings. Published quarterly, BDO Horizons articles are authored by more than 20 BDO M&A specialists, providing invaluable insights into where investment is flowing and showcasing global deal activity. With topics ranging across regions and industry sectors, Horizons provides a satellite view, integrating impacts from politics to the global economy, and pulling together trends and predictions for 2018.



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