

The stock market volatility in 2018 does not translate into a cooling down of M&A activities.

Amidst uncertainties regarding possible escalations in trade protectionism, stock market multiples decreased in the first half of 2018, with P/E multiples down 12.7% as compared to December 2017. On a year-on-year basis, we note a

decrease of 11.3%. In general, the decrease is observed throughout all size ranges, but smaller companies exhibit a relatively stronger decrease in P/E ratios during the first half of the year.

M&A Predictor for Belgian quoted companies

	P/E						Net debt/EBITDA		
	30-Jun-17	31-Dec-17	30-Jun-18	% change	B vs A	C vs B	30-Jun-17	30-Jun-18	% change
	30-Jun-18	31-Dec-18	30-Jun-19				30-Jun-18	30-Jun-19	
	A	B	C	C vs A	D	E			
Top 20 companies	17,7x	18,1x	15,8x	(10,4%)	2,4%	(12,6%)	3,4x	3,1x	(6,9%)
Small and mid-sized companies	17,0x	15,4x	13,1x	(22,9%)	(9,2%)	(15,0%)	1,3x	1,2x	(11,5%)
All companies	17,6x	17,9x	15,6x	(11,3%)	1,6%	(12,7%)	1,5x	1,0x	(29,2%)

Source: CapitalIQ, KPMG analysis

What is KPMG's M&A Predictor?

KPMG's M&A Predictor is a forward-looking tool that helps member firm clients to forecast trends in mergers and acquisitions. It looks at the appetite and capacity for M&A deals by tracking and projecting important indicators 12 months forward. The rise or fall of forward P/E (price/earnings) ratios offers a good guide to the overall market confidence, while net debt to EBITDA (earnings before

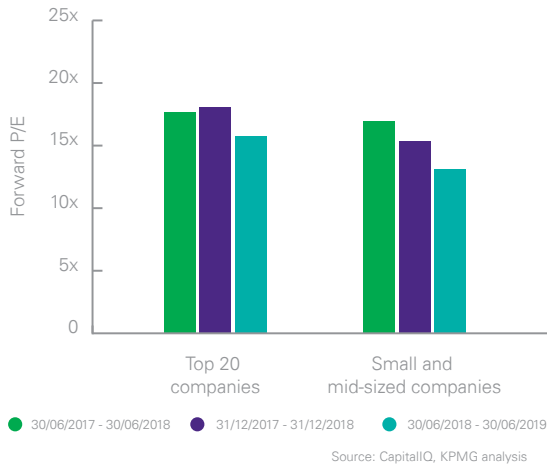
interest, tax, depreciation and amortization) ratios helps gauge the capacity of companies to fund future acquisitions. The Predictor covers the ratios for Belgian stock quoted companies. Companies for which earnings estimates are not available are excluded from the data set, in addition to outliers. Companies are divided in 2 groups (Top 20 and smaller) based on their market cap as at 30 June 2018.

“Despite geopolitical issues and upcoming tighter monetary policies, we continue to expect demand for good assets and companies to remain very high.”

The high level of demand continues throughout 2018, whether it's large corporates with significant cash or private equity money seeking transactions. The abundance of private equity 'dry powder' sitting idly on the sidelines cannot persist

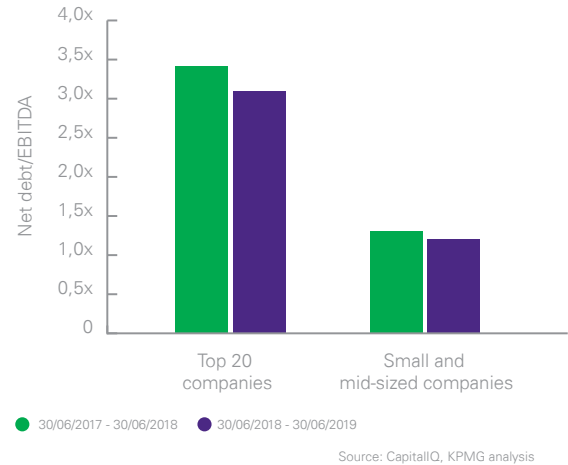
indefinitely. M&A players are actively bidding up valuations even as companies are trading at historically high multiples.

M&A appetite of Belgian companies



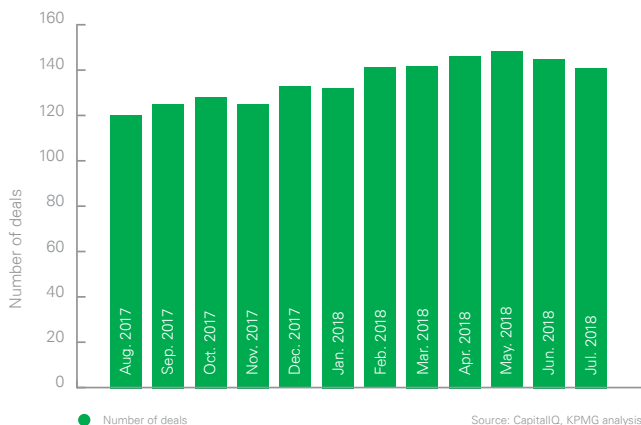
Forward multiples have decreased for all companies in the first half of 2018. The decrease is more pronounced for small and mid-sized firms (-15.0%) as compared to larger firms (-12.6%).

M&A capacity of Belgian companies



Analysts expect the funding capacity to improve for both larger and smaller corporations, despite tighter monetary policy and interest rate rise. Economic fundamentals remain in good shape allowing corporates and private equity funds to increase their leverage capacity.

Trailing statistics for worldwide completed deals involving Belgian bidders



The graph on the left shows trailing statistics for deals completed worldwide involving Belgian bidders. The deal flow continues to remain strong over the first half of 2018 after record-high levels in 2017, fueled by a high activity of private equity players in the market and Belgian corporates aiming to enlarge international footprint or technology-driven transforming through M&A. Mid-market transactions are continuing to be a driver of volume. In this respect, we observed numerous deals involving private equity players like GIMV and Waterland. Some large Belgian corporations have also been particularly active, such as Bpost and Econocom.