



December 2015

The Global Corporate Advisor

The Corporate Finance newsletter of Crowe Horwath International



Welcome to the December 2015 issue of Global Corporate Advisor.

In our final issue for 2015, we review M&A trends for 2015 and the outlook for 2016 in Australia, India, the MENA region, the Nordics, South Korea, Spain, UK and the USA. Several other countries will be covered in our January 2016 issue.

In Australia and the USA, there was a move towards larger value transactions with a decline in deal count. Domestic transactions were ahead of cross-border activity in

Australia while the UK relied mainly on outbound investments to enjoy a strong M&A year.

South Korea continues to attract investment interest; there is also significant activity within the country as Chaebols restructure to enhance control and minimize inheritance taxes. India attracted fewer but larger value inbound deals, otherwise remaining flat in total deal value.

Middle East and North Africa suffered reduced activity levels as regional political turmoil and the impact of the slump in oil prices took effect, even in the historically strong GCC countries.

Spain and the Nordic region continue the feature of larger deal values, but contrast in overall performance – strong M&A activity levels in Spain compared to a slower year for the Nordic region.

The outlook for 2016 continues to be good with most of our offices forecasting M&A activity to go beyond current levels.

On this optimistic note, on behalf of GCA, I wish you enjoyable holidays and a prosperous New Year.

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Inside This Issue:

Welcome	1
M&A update: Australia	2
M&A update: India	4
M&A update: Middle East and North Africa	5
M&A update: The Nordic Region	6
M&A update: South Korea	7
M&A update: Spain	8
M&A update: The United Kingdom	9
M&A update: The United States of America	10

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 update

Australia

By Andrew Fressl, Sydney

The value of Australian M&A transactions continued to grow in 2015. However, there has been a decrease in activity in almost all sectors and segments except for the large deal segment (> AU\$5bn) which contributed significant growth. Completed M&A deal value was the highest it has been since 2011 and the fourth highest in the previous 10 years. Domestic deals outperformed cross-border deals for the first time since 2006 and the value of out-bound deals was higher than inbound deals for the first time since 2007.

There were 302 M&A deals completed in 2015 for a combined total of AU\$105.1bn, an increase in value of 25.6% on 2014 (AU\$83.7bn, 519 deals). The fall in the number of deals was offset by growth in the large deal segment where six deals worth AU\$51.9bn was a significant increase on the one deal worth AU\$6.7bn in 2014. Lower transaction numbers for all other segments impacted negatively on value. The AU\$50mn-1bn and AU\$1-5bn deal bands saw value fall from AU\$32.5bn and AU\$38.3bn to AU\$23.4bn and AU\$26.4bn, respectively.

Sector highlights

The energy, mining and utilities (EMU) sector has been the dominant performer in Australian M&A, having topped activity and value charts for each of the 10 years to 2014. This trend continued in 2015 with 44 deals completed for AU\$39.5bn, representing value growth of 59.2% despite a fall in activity against 2014 (AU\$24.8bn, 96 deals). 2015 EMU value was boosted by the completion of two large deals compared to none in the segment in 2014. The large deals completed in 2015 were BHP's demerger of South32 for AU\$14.8bn (the largest deal of 2015) and APA Group's purchase of the QCLNG Pipeline for AU\$6.0bn.

The transportation sector produced impressive growth with 18 deals worth AU\$19.3bn, an increase of 68.8%

Figure 1. Annual Australian M&A value contribution by segment

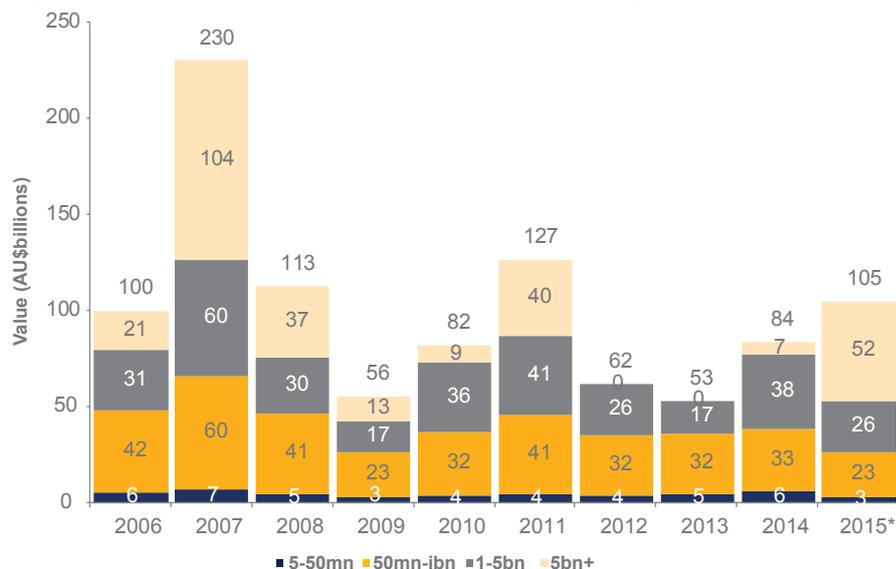
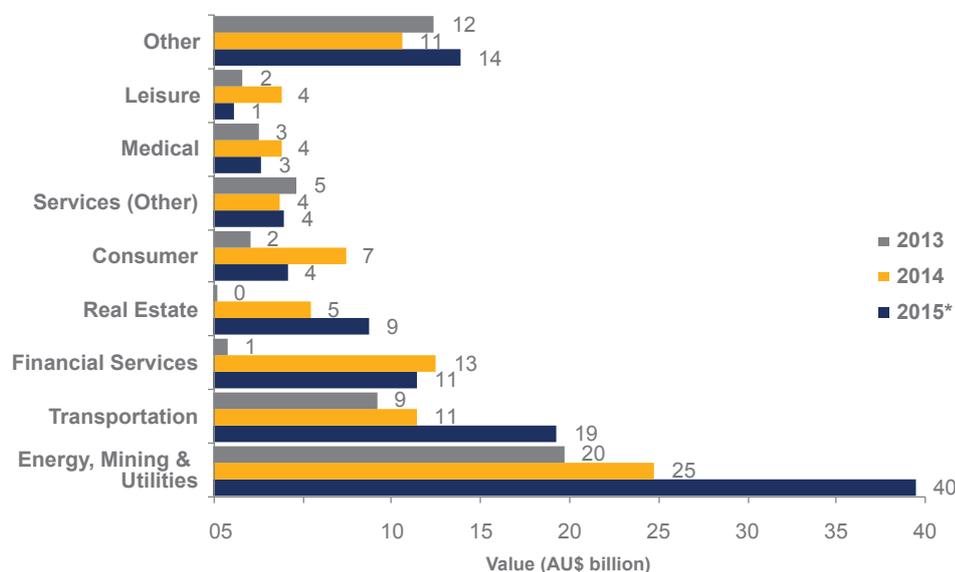


Figure 2. Annual Australian M&A value contribution by sector



against 2014 despite a fall in activity (AU\$11.4bn, 26 deals). Value gains were generated in the large deal segment, with two deals worth AU\$15.5bn compared to one worth AU\$6.7bn in 2014. The large deals completed in 2015 were Japan Post's acquisition of Toll Holdings (AU\$ 8.0bn) and Industry Funds Management's acquisition of the Indiana Toll Road (AU\$ 7.5bn).

The financial services sector lost ground on 2014 with 23 deals worth AU\$11.5bn down on 38 deals worth AU\$12.6bn from 2014. The number of deals worth less than AU\$5bn fell from 38 in 2014 to 22 in 2015. The value loss in these segments was AU\$8.5bn to AU\$4.0bn in 2015. Improvements in the large deal space of AU\$7.4bn buoyed total sector value.

Domestic versus cross-border highlights

Domestic deal value rose 80.8% to AU\$53.1bn despite a fall in deal numbers relative to 2014 (AU\$29.4bn, 265 deals). Value growth was generated in the large deal segment with three deals worth AU\$28.9bn, a significant improvement on 2014 (AU\$6.7bn, one deal). The largest domestic deals to be completed in 2015 were the demerger of South32 (AU\$14.8bn) and Federation Centre's acquisition of Novion Property Group (AU\$8.0bn).

Domestic deals outperformed cross border deals in terms of value for the first time since 2006. Cross border deal value fell 4.3% to AU\$52.0bn due to a drop in activity of 39.4% relative to 2014 (AU\$54.4bn, 254 deals).

Outbound deal value grew 135.7% to AU\$27.7bn despite a fall in the number of deals relative to 2014 (AU\$11.7bn, 76 deals). Australian firms targeted the transportation (AU\$9.2bn) and financial services (AU\$8.6bn) sectors with the largest deals being the Indiana Toll Road (AU\$7.5bn) and Angel Trains (AU\$7.4bn) acquisitions, which represented 54.1% of total outbound deal value.

Inbound deal value fell 42.9% to AU\$24.3bn due to a fall in deal numbers of 50.3% relative to 2014 (AU\$42.6bn, 178 deals). Foreign investors targeted the transportation sector (AU\$8.1bn) with the largest deals being Toll Holdings (AU\$8.0bn) and Envestra (AU\$4.0bn), which represented 49.5% of total inbound deal value.

2016 outlook

Crowe Horwath Australia expects Australian M&A activity to grow beyond current levels. While the depressed state of global commodity markets is

Figure 3. Annual Australian M&A activity: domestic versus cross border



Figure 4. Annual Australian cross-border M&A activity: inbound versus outbound



expected to dampen interest in mining and energy deals, public asset privatisation, particularly in the utility and transport sectors, is increasing in Australia. The New South Wales government has scheduled the sale of AusGrid and Endeavour Energy for 2016 looking to raise circa AU\$10bn. While inbound deals fell in 2015, the falling Australian dollar is expected to improve foreign investor sentiment.

At the time of writing, a number of large inbound deals had been announced but not completed including Asciano (AU\$12.7bn) and TransGrid (AU\$10.3bn). In fact, 199 deals had been announced but not completed through 2015. The deals were worth a cumulative AU\$73.2bn and targeted the financial services (AU\$13.8bn), transportation (AU\$13.6bn) and EMU (AU\$19.6bn) sectors.

*All deal data sourced from MergerMarket and 2015 data is up to December 7, 2015.

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M&A update

India

By Sanjay Bansal, New Delhi

The Indian economy started showing signs of revival in the year 2015. Economic growth picked up, several positive policy announcements were made and the country is on track towards achieving its fiscal deficit target of 3.9% of GDP for 2015-16. There has been a decline in both inflation and current account deficit, aided in part by lower global crude prices.

Mergers and acquisitions activity in India during the year 2015 has remained at par with 2014 levels. India has so far (January 1 to December, 15, 2015) recorded a total of 414 M&A deals worth \$30bn compared to \$30bn worth deals across 436 transactions in all of 2014.

Inbound M&A activity has increased in value compared to 2014 as foreign investors are increasingly looking to tap the Indian market. Balance sheets of Indian corporates remained stretched for cash in 2015, which restricted capital outlay for inorganic growth, thereby limiting domestic deal activity. Outbound activity has increased but has remained comparatively small over the past two years as foreign assets have become expensive due to rupee depreciation.

A sector-wise analysis shows energy, technology and financial services sectors were the top sectors in terms of deal value, while industrials, technology and financial services were the top sectors by deal volume in 2015.

Figure 1. Summary of M&A deals in India¹

Type of M&A	Deals in 2014		Deals in 2015 ²	
	Count	Value (USD bn)	Count	Value (USD bn)
Domestic	267	18.2	259	14.1
Inbound	142	10.2	121	12.2
Outbound	27	1.8	34	3.8
Total	436	30.2	414	30.0

¹Thomson Reuters database used for reporting of Indian M&A deals; only completed, pending, and intended M&A deals with disclosed deal values included

²For the period January 01, 2015- December 15, 2015

The biggest transaction during the year was the \$2.2bn merger of two listed companies of diversified natural resources giant, Vedanta Group (Vedanta Limited and Cairn India Limited). Other big-ticket M&A transactions during the year 2015 included:

- State-owned ONGC Videsh's acquisition of 15% stake in Vankorneft oil project in Russia (\$1.3bn)
- American Tower Corporation's acquisition of 51% stake in Indian telecom tower company Viom Network (\$1.2 bn)
- Lupin's acquisition of US-based Gavis Pharmaceuticals and Novel Laboratories for \$880mn.

The year 2016 is expected to be a much better year in terms of M&A deal activity. The revival of the Indian economy is in full swing, and Indian business sector is increasingly experiencing positive vibes. With a stable union government, the easing of M&A regulatory norms and increasing consolidation in the e-commerce sector, M&A transactions are expected to swell in 2016 both in terms of value and volume.

Moreover, with recent amendments in India's FDI policy and the country's "Make in India" campaign, the stage is set for high growth in the inbound deal activity over the next few quarters. Healthcare, technology, consumer retail and industrials sectors may see most of the M&A action.

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M&A update

Middle East and North Africa

By Mohamed Raof, Kuwait

The Middle East and North Africa (MENA) Region witnessed a significantly reduced level of activity in 2015 and fell short of any sign of rebound. The impact of the regional political turmoil and economic spillover of the slump in oil prices are among the major factors weighing on investor confidence in the MENA region.

The announced value of completed M&A Deals in MENA region was \$11 billion for Q1 2015. The values declined sharply thereafter to around \$3 billion in each of the subsequent two quarters of 2015. This trend has depressed the average deal sizes as well.

While deal activity remains largely driven by strong performance in the Gulf Cooperation Council (GCC) countries, the non-GCC MENA countries attracted most of the deal count. The lower value of completed deals during Q3 2015 is an indication of weaknesses witnessed within the oil exporting GCC countries.

During Q3, the GCC region accounted for only 45% and 44%, respectively, of the announced value and the volume of completed deals. This is in contrast to historical shares of 63% of deal values and 36% deal volumes.

The number of closed M&A transactions in the GCC in Q3 2015 decreased by 35% compared to Q3 2014. Within the GCC, the number of transactions in Kuwait grew by 67%, no change was observed in Qatar and the remaining

Figure 1. Country wise numbers of closed transactions in the GCC for Q1 to Q3, 2015

Country	Q3 2015	Q2 2015	Q1 2015	% Change (Q2 2015)	% Change (Q3 2014)
Bahrain	3	1	1	200%	N/A
Kuwait	5	8	2	-38%	67%
Oman	0	1	1	-100%	-100%
Qatar	2	1	2	100%	0%
Saudi Arabia	3	4	8	-25%	-75%
United Arab Emirates	7	16	14	-56%	-42%
Total	20	31	28	-35%	-35%

Sources: MENA M&A Update 3Q 2015, Bureau Van Duk; GCC M&A Report – Q3 2015, Markaz; Emirates NBD Research; Articles from Zawya, Khaleej Times, AME Info; EY Global Capital Confidence Barometer, October 2015.

countries witnessed a decline. Between Q2 and Q3 the number of closed M&A transactions decreased from 31 to 20.

For the MENA region as a whole, construction and chemicals sectors have picked up relative to other sectors, while the banking sector consolidation has paused compared to previous years.

Minority acquisitions accounted for most of the regional deal numbers in 2015, sustaining their lead over the past years in comparison with deals resulting in acquisition of majority positions.

Foreign acquirers have remained influential in the MENA M&A market, accounting for 52% of the number of completed deals. Domestic deals would reflect investment within the GCC market.

Outlook

Despite the reduced level of activity in 2015, reports indicate that the outlook on M&A activity in the region is likely to remain very strong over the medium term. For the long term, the region still carries largely attractive fundamentals to sufficiently propel more transactions. A recent survey suggests that despite continued pressure on oil prices through 2015, MENA executives are quietly confident in their regional outlook and believe petroleum dependent economies have been able to weather the storm. Overall, MENA companies' appetite for M&A continues to be strong.

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M&A update

The Nordic region

By Niels Storm, Copenhagen

M&A Activity in 2015 in the Nordic region has been significantly slower compared to the strong performance in 2014 when total deal values increased by 40.1% from 2013 to €61.7bn. The value of M&A deals targeting companies based in the Nordics was €14.2bn in Q1 2015, €13.4bn in Q2 and halved to €6.5bn in the third quarter of this year.

The highest valued deals involving companies in the Nordics came from two large scale transactions in Sweden, a Canadian consortium (led by Borealis Infrastructure Management) acquired Fortum distribution AB for €6.6bn and a Japanese bidder (Canon) acquired Axid AB Bidder for €2.4bn.

Sweden has been the most active country in terms of inbound M&A, and Norway in terms of outbound M&A activities this year until mid-December.

Following the global trend of increasing cross-border M&A activity, the Nordics is no exception.

In terms of the deal size we have only seen the beginning of large scale transactions and large scale international interest in the region could be a catalyst for more to follow during the coming years.

The outlook for 2016 looks promising

The Nordic region is perceived by many investors as stable and attractive for investments. Despite the relatively high cost base in the Nordics, industries have repeatedly demonstrated an ability to compete internationally based on innovation and technology.

Greater spending power and competitive environment have been instrumental in driving deal values up across most sectors in the Nordics and the rest of Europe, reinforced by strategic and financial investors' increased appetite for quality assets. Valuations in the Nordics are up, creating a strong environment for private equity (PE) exits.

One of the most notable developments in the acquisition finance debt market in the Nordics during 2015 is improved liquidity in the banking sector. Following a period of fundraising and cost cutting, banks, in the region in general and in Sweden in particular, now meet their capital adequacy requirements and are ready to lend out. This, combined with the debt of the Nordic bond market, has provided borrowers with plenty of financing options. Many banks are now

ready to offer 5x-6x leverage – meaning that funds and others funders has to be very competitive to win deals otherwise they will be forced to lend in special situation transactions that have been rejected by banks.

Both alternatives pave the way for companies to issue debt to finance deals if they choose that route.

Combined, those factors may continue to spur companies and PE firms to initiate transactions that can position them to outpace the growth of the economy.

At Crowe Horwath Advisory Nordic, approximately 75-80% of our activities have been based on cross-border consulting services this year, completing projects in transaction valuation, integration, strategy and development and financing in sectors as diverse as life sciences and chemicals, production, marine and offshore engineering, IT and services, jewelry and financial services.

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M&A update

South Korea

By EY Hwang, Seoul

M&A activities in 2015 have been noticeable in a variety of industries, mainly retail distribution, heavy industry, entertainment and pharmaceutical sectors. Korea's regulator, the Financial Supervisory Service has recorded 885 cases and reported closing of \$84 billion aggregated deal volume in 2015, as of October; this includes one of the biggest M&A cases in Korea, which was the acquisition of Homeplus, a Korean discount store retail chain owned by UK TESCO, at around \$ 6.1 billion by MBK Partners (a Korean private equity fund).

Out of \$84 billion deal volume, only 1% was outbound M&A, which includes Samsung Electronics acquisition of wireless mobile payment system company, LoopPay at around \$250 million in February 2015. This is in contrast to global companies that are increasing investments in Korean companies.

According to Korea Financial Investment Association (KOFIA), foreign investments made in Korean companies through M&A activities increased from \$1.9 billion to \$13 billion between 2010 and 2014. On the other hand, over 90% of the cases in 2015 were achieved between domestic corporations.

Family-owned Korean conglomerates, called Chaebols, have been aggressive in M&A activities for two reasons – by using creative deal structures to minimize inheritance tax for hereditary successions to eldest grandsons or great-grandsons of the group founder, or increasing shares in stock market to up their shareholding for tighter management control.

Recently, Deputy Prime Minister and Minister of Strategy and Finance (MSOF) announced that the government will interfere to accelerate

restructuring of ailing companies. This is due to slowing economic growth, and because a survey conducted by the country's business lobby group for conglomerates forecast Korean economic growth below 3% next year – lower than the government's estimate¹.

To counterbalance the business climate, the National Assembly is reviewing approval of a special law to encourage corporate activities through deregulations in tax codes and fair trade laws related to M&A activities, to make it easier for companies to sell assets and reform businesses before they run into trouble. This will encourage corporate takeovers and private equity funds in M&A activities; however, definite legislative and regulatory changes have yet to be approved.

¹Source: Maeil Business Newspaper

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M&A update

Spain

By Iñaki Salazar, Madrid

Spain has experienced strong increase in the M&A activity during 2014 and 2015, confirming the recovery of the activity in line with the trend experienced in the rest of the world. According to Transactional Track Record (TTR), during the first nine months of this year, M&A market in Spain has grown by 39% in the number of closed transactions and more than 25% in aggregated volume, in comparison with the same period in 2014.

During 2015, national industrial players have kept transitioning from a defensive divesting phase to an acquiring phase, while foreign investors, both industrial players and private equity (PE) funds, have maintained or even increased their interest in the country. This has led to smooth recovery of the transaction prices due to increase in liquidity in the economy and competition in the search for good opportunities.

According to available information, the average size of transactions has also increased in 2015. This year, 3.5% of the transactions fell in the high market range (>€500mn) and 5.5% in the middle market range (>€100 mn), compared to 2.3% and 5.4% respectively in 2014. As an investor type, industrial players have increased their activity the most, representing 76.0% of the transactions in 2015 compared to 72.8% in 2014. The most active industry in 2015 has been real estate (with 15.6% of the transactions originating from foreign investors and 9.7% from Spanish investors) followed by the insurance and financial services (7.2% and 1.3%, respectively), and technology (6.5% and 7.9%).

The main origin of foreign investment has been the US (18.4% of the transactions and 26.9% of the aggregated volume), followed by the UK (16.5% and 26.3%) and France (17.9% and 14.7%). The main overseas investment destination of Spanish companies and investors has also been the US (18% of the

Figure 1. Transactions by type of investor

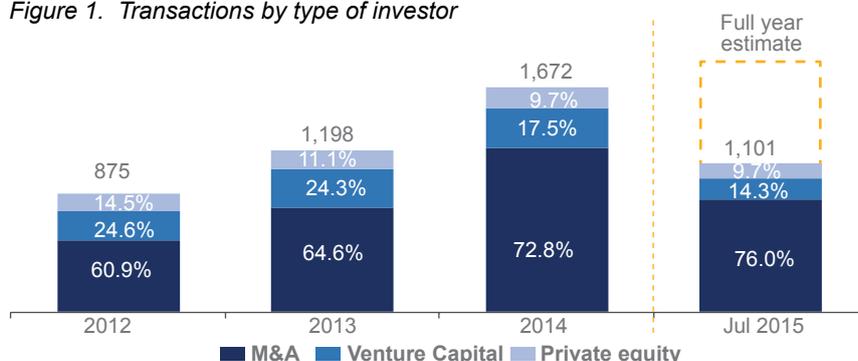
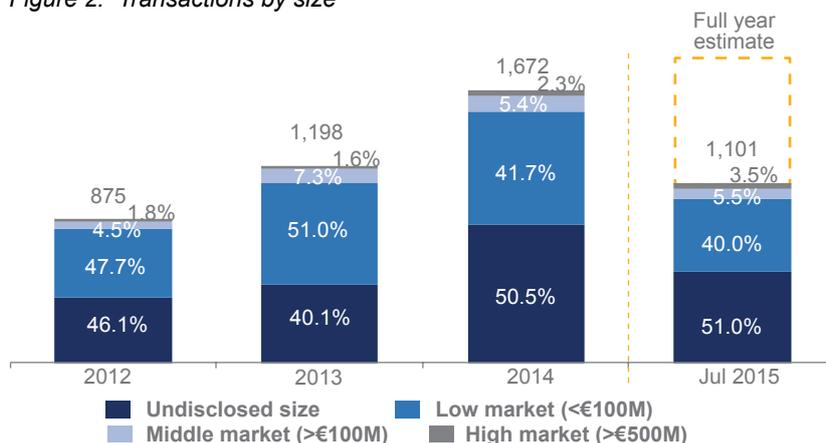


Figure 2. Transactions by size



transactions and 7.4% of the aggregated volume), followed by the UK and Latin America, especially Mexico.

Outlook

The perspectives for the M&A and the PE activity in Spain for 2016 are very favorable. The main macro-economic indicators show that the Spanish economy will keep growing at a healthy rate of almost 3%. Spain should remain an attractive investment destination compared to the rest of Europe. Also, the concern about the potential instability coming from the general elections to be held December 20, 2015 has declined as polls have shown reduced presence of the most extreme parties, which had secured a high number of votes in the local elections held in May.

The financing conditions will keep improving, making money more available for bigger deals at good prices. The government will continue fueling Spanish PE industry with more capital through the Fond-ICO Global, a state-owned fund of funds which invests in PE and venture capital funds that only target companies located in Spain. Additionally, the IPO market will continue being active thanks to higher appetite in the market.

In conclusion, 2015 has been a good year for M&A and for PE sector in Spain and 2016 is likely to follow the upward trend as long as the macroeconomic environment remains favorable (weak euro, low oil prices and expansionary monetary policy of the ECB) and the political environment does not become especially unstable.

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M&A update

The United Kingdom

By Chulanga Jayawardana, London

After a strong finish in 2014, coupled with strong performance in the M&A market in the first half of 2015, the UK sought to continue this positive trend into the second half of the year.

The British Chamber of Commerce (BCC) has, in the first weeks of December, cut its UK economic growth forecasts from 2.6% to 2.4%. Furthermore, the 2016 and 2017 forecasts have also been reduced from 2.7% to 2.5%. This revision to forecasts has been blamed on disappointment in trade and manufacturing performance as a result of a decline in global prospects.

The Financial Times reported in December 2015 that global M&A is “booming”, however deals between UK companies are at their lowest rate since the Office for National Statistics (ONS) started recording data in 1969. In the first three quarters of 2015, only 98 wholly UK deals occurred. Acquisitions of UK companies by overseas businesses have also reduced in the same period, with figures at their lowest since 2003.

Acquisitions by UK companies of overseas companies have, however, followed a different trend. In the first three quarters of 2015, such M&A

transactions have increased by 150% to £22billion, being the largest value since 2010.

The UK market is expected to feel the effects of the announcement by the Conservative party that an “In/Out referendum” will be held by the end of 2017 regarding the UK’s continued inclusion and involvement in the EU. Whatever the outcome, the UK market is expected to show some instability in the period leading up to the result and potentially for some time after, depending on the outcome.

In spite of this, we see that the deal appetite in the UK remains high. In particular, private equity (PE) groups and strategic buyers still have significant firepower and are continuing to drive up competitive bids, making it a more attractive market for sellers who may have been waiting for the effects of the recent recession to abate. EBITDA multiples appear to generally be on an upward trend, with strong businesses with quality earnings and high growth potential, attracting multiples of over 10 times.

Debt markets are returning to the M&A sector and, whilst we remain a long way from the highly leveraged deal

structures that were prevalent in the years leading up to the financial crisis in 2008, deals involving businesses with robust recurring cash flows can expect leverage to be more available that has been in the case in the last few years. Debt multiples are beginning to creep back up, and given the increased sources of facilities from alternative lenders, the right deal can attract leverage with multiples up to four times and terms that are increasingly covenant light.

In the UK, we have seen a change in the complexion of capital market transactions when compared to 2014. In the first nine months of 2015, on the AIM market, only £758 mn of new money has been raised, compared to £1,933 mn during the same period in 2014. On the other hand, secondary fundraising totalled £3,279 mn in 2015, being an increase on the £2,595 mn raised in the prior period.

Nevertheless, we have seen a number of companies considering raising equity on AIM in 2016. IPOs on the Main Market have been noticeably stronger this year, with circa 19% increase in equity issues.

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M&A update

The United States of America

By Michael Lux, Chicago

Over the last several months, US M&A activity has been characterized by increased dollar volume and generally lower deal count. October dollar volume of all reported deals was \$242.2 billion, the second highest on record, trailing only July 2015. This trend is expected to continue when November figures are released because they will include the \$160 billion Pfizer-Allergan merger.

Robert W. Baird & Co. reported that year-to-date October US deal count for all transactions was down 2.3% to 9,859; however, dollar volume has already eclipsed an annual record at \$1.87 trillion, with two months to go in the year. October deal count of 929 trailed the last twelve month's (LTM) average of 964.

Baird reported that US middle market activity, defined as transactions under \$1 billion in value, increased 8.4% to 3,390 for the year-to-date October. Transactions valued under \$100 million increased 14.8% over the same period. Capital IQ and Baird reported that the median EBITDA multiple on transactions under \$100 million was 6.8x for the LTM ended October 2015, compared to 7.4x and 8.1x in 2013 and 2014, respectively.

US debt capital is expected to remain available at least through the end of 2015, particularly for high quality credits. This is expected to continue fueling strong deal flow through the remainder of the year and into the first quarter of 2016. However, the market has been

awaiting the Fed's decision on whether to increase benchmark interest rates at its December meeting. As expected, the Fed raised its benchmark rate by 25 basis points to 0.25%. It marks the first rate increase since June 2006, and the market will now try to guess whether the Fed will continue raising rates in 2016.

Some are forecasting that a combination of increased interest rates, an anticipated slowdown in the US economy in 2016, and an upcoming Presidential election could lead to reduced deal volume in the upcoming year.

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