

M&A Academy

General trends in global M&A and the
rising influence of Emerging Markets

14 October 2010

Overview

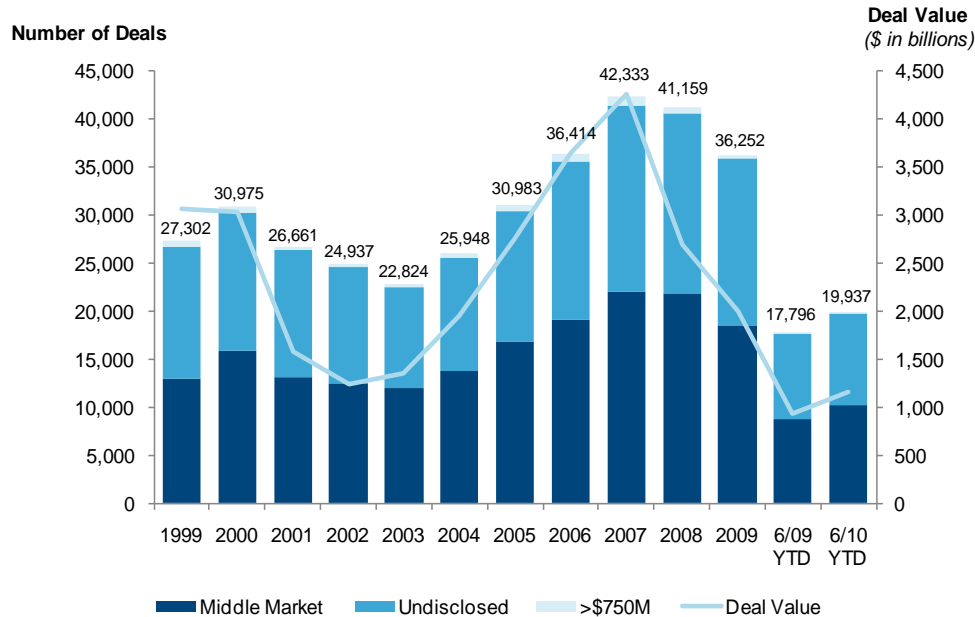
- M&A markets outside the Emerging Economies remain cautious due to concerns over a double-dip recession. The risk is on the downside
- Activity levels have improved but completions remain tough
 - Our global deal pipeline is up 50% but this is not yet reflected in completions
- Vendors are open to pre-emptive approaches as the preferred sale mechanism
- In emerging Economies the M&A markets are strong and there is a real focus on inorganic growth

Key messages

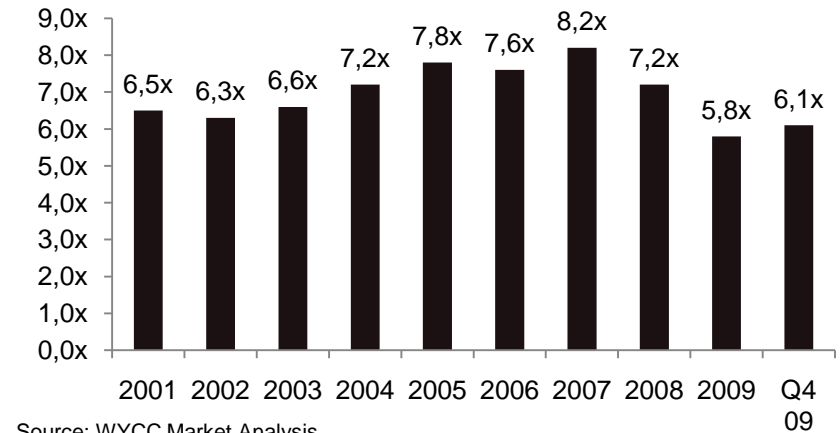
- Western companies are proactively seeking access to growth markets
- Emerging market buyers are seeking market advantage and margin
- Whilst debt availability has improved, leverage remains low and expensive
- The market still favours high quality, recession proof assets
- Private Equity continues to struggle, yielding opportunities for companies

The Global M&A Market bottomed in Q4 2009

Global M&A Activity



Middle Market Deal Statistics (1)



Source: WYCC Market Analysis

(1) Transactions between \$10 and \$250 million with EV/EBITDA multiples <15x excludes technology, media and telecom

- However, the upturn will be slow and protracted because:
 - IPO markets remain volatile
 - credit markets are tough

- economic outturn remains uncertain
- a price expectation gap persists

The long march to recovery

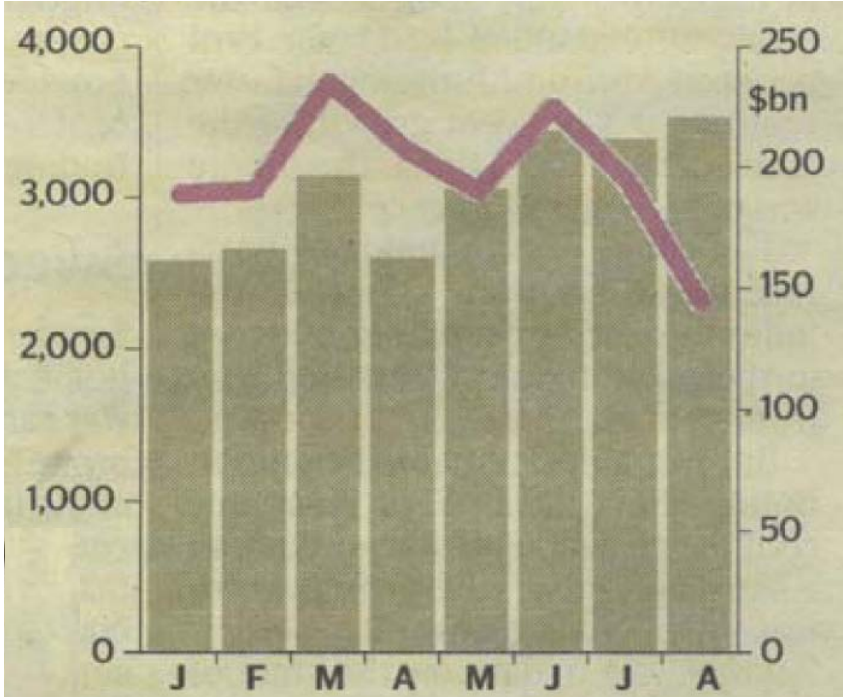
- Q2 global M&A volume was up 12% on Q1, making 8 months of year-on-year growth
- Volume increases have occurred across all major markets over the past 6 months
- The aggregate value of global M&A activity remains subdued, with Q2 down 5% on Q1 2010. The market remains middle market in nature
- The trend in overall M&A values has been volatile. Only the CEE and Asia-Pacific, ex Japan, saw consistent growth over the past 12 months
- Outside the Emerging Economies the market has yet to gain any real momentum
- There is a significant difference between deal announcements and completions

In relatively thin markets media comment on isolated deals can create unrealistic market perspectives

However, a note of caution...

- Western M&A markets adopted the continental European tradition of a long summer break this year

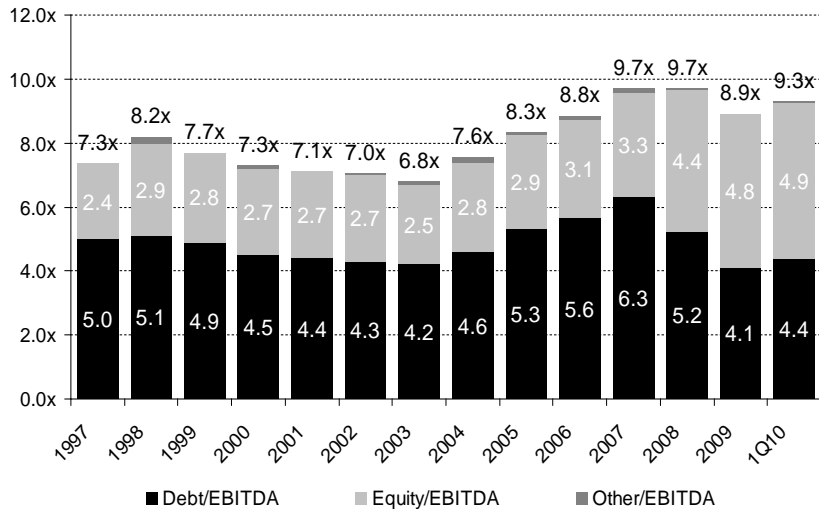
2010 Global M&A
by volume and value



Source: Thomson Reuters

Price Expectations remain a barrier to M&A

EV multiples of European LBOs



EBITDA valuation multiples on all M&A transactions

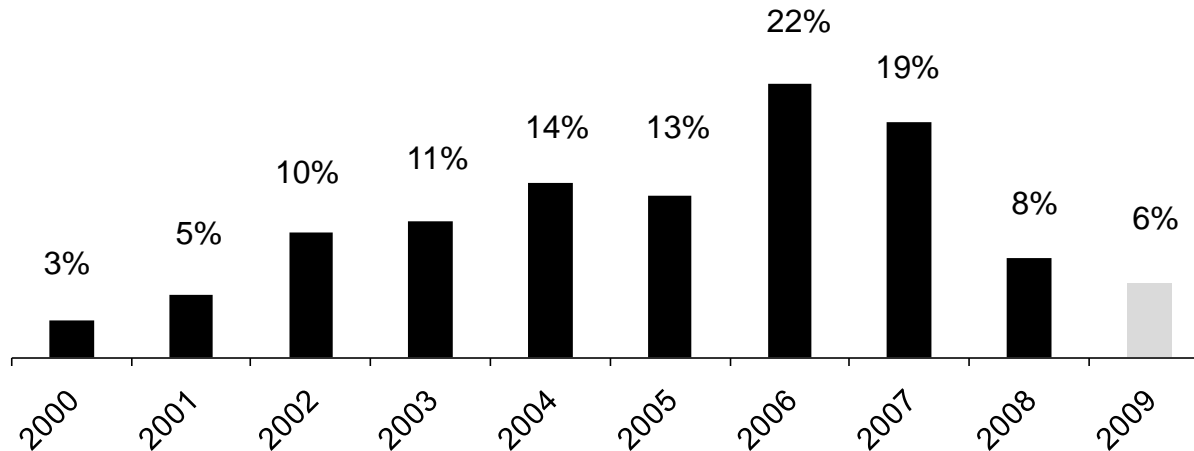
Deal size	US		Europe	
	Peak	2009	Peak	2009
< \$50m	10.2x	5.6x	10.0x	6.4x
\$50m - \$250m	11.1x	7.8x	11.6x	6.7x
\$250m - \$750m	11.2x	8.6x	11.8x	8.6x
Total market	10.4x	7.8x	11.0x	7.2x

Source: Dealogic

- A PE bubble exists for high quality secondary buyouts assets
- These multiples taint the overall market and make it harder to close deals

Corporates are now driving the M&A market

Sponsor buy sides as a % of global M&A volume



- The cheap debt fuelled PE surge has subsided and will not return
- PE interest is concentrated on certain niche classes of assets
- Corporates from diverse geographic backgrounds are now active in M&A

Key corporate drivers in Global M&A for 2010/11

Corporates in emerging market economies with high GDP growth

- Targeting control of natural resources
- Acquiring market differentiation for the home market
- Moving up the value chain

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Corporates in low GDP growth economies

- Re-focussing on the core business
- Strengthening core market positions
- Accessing high GDP growth markets

Emerging market M&A has arrived

“Deals and capital raisings in China’s booming financial services sector have outpaced those in the US for the first time since records began”

Financial Times, 23 September 2010

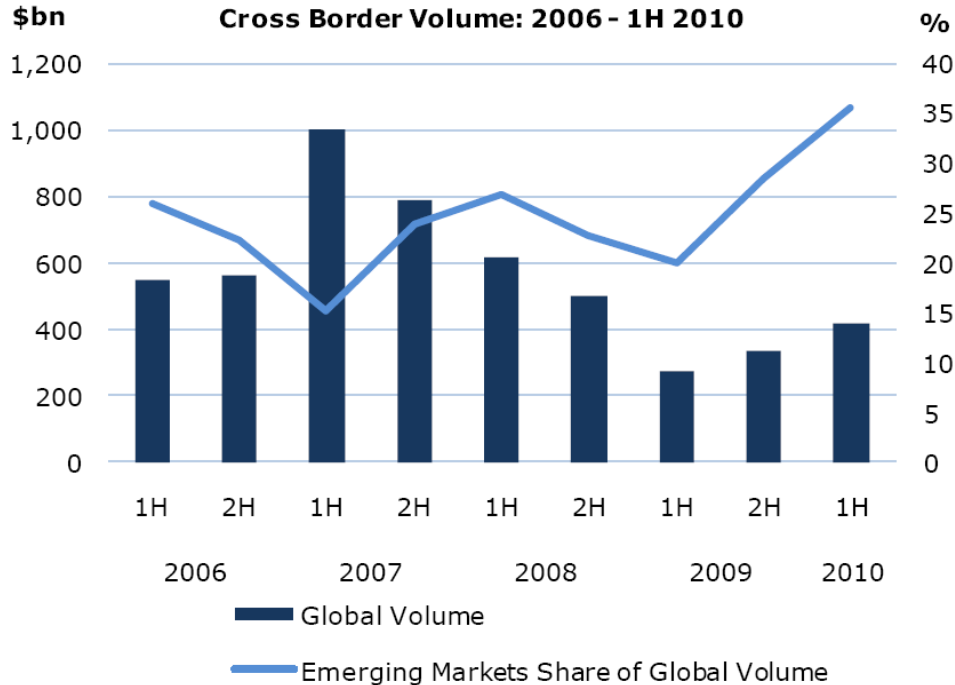
“.. companies in emerging economies recording a 25% increase in cross-border deal activity in the first six months of the year”

Financial Times, 27 September 2010

“For only the second quarter on record, Asian M&A outstripped European-targeted deals”

Financial Times, 6 April 2010

Emerging market activity



- China was the most targeted emerging territory for M&A
- Emerging markets accounted for 36% of global cross-border deal volume
- Healthcare was the most active cross-border sector for emerging markets
- All emerging markets were up dramatically in 2009 except South Korea

Emerging market transaction issues

Investing in Emerging Economies

- Valuation
- Allowing time for the process
- Market practices
- Who is the vendor?
- Finalising the deal
- Local knowledge

Selling to Emerging Economies

- Recognising value drivers
- Allowing time for appraisal
- Tailoring the sales memorandum
- Identifying the decision maker
- Finalising the deal
- Local knowledge

Sources of deal flow for 2010/11

- “Good” distress businesses will come to the market in 2011
- PE owners will be open to credible approaches for portfolio assets in 2011
- Banks will become serial vendors in 2011 and beyond
- Corporate spin-offs will ramp up in 2011
- European family owned companies requiring expansion capital will become available in 2011

M&A opportunities will arise from PE's problems

- PE coping mechanisms have included:

Implications for corporate buyers

- Preparing their very best assets for sale to create success stories
 - Started in Sept 2009 and the window will remain open until 2012
 - Pre-emptive approaches are taken seriously
 - Price expectations are high for these assets (pre-credit crunch)
 - PE are buyers of these assets at high prices (>10x EBITDA)

- Rationing additional capital for other portfolio companies
 - Management are under water in many of these deals
 - Strategy is focused on cash/cost control not growth
 - Management are often frustrated
 - Pre-emptive approaches are now be taken seriously
 - Price expectations are becoming realistic

- Focusing on bolt-ons for a select group of portfolio companies
 - PE investors want to buy cheap to average down their entry multiple
 - Sometimes the financial resources are not actually available

Key messages

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Corporate Finance

Upper Mid-Market Adviser of the Year for 2010¹

Leading Global Project Finance adviser²

¹Acquisitions Monthly, January 2010

²Number one by number and value of closed mandates in 2009 , Project Finance International January 2010

pwc.com/uk/cf