

Mergers and acquisitions: prospects for global recovery

International Business Report 2010



Contents

- 01 Introduction
- 02 Global overview
- 05 North America
- 06 United Kingdom, Ireland and Mainland Europe
- 08 BRIC economies
- 10 Rest of the world
- 12 Our M&A capability



Our organisation

References in this publication to “Grant Thornton”, “we” and “our” refer to either Grant Thornton International Ltd, a global organisation of member firms, or one or more of the individual member firms of the global organisation, each of which is a separate legal entity and has no liability for each other’s acts or omissions.

Introduction

Privately held businesses (PHBs) are naturally cautious about their M&A plans for 2010 given the challenging economic conditions and difficulty in raising debt finance they experienced in 2009, but there are some encouraging signs for the future.

The Grant Thornton International Business Report (IBR) has been surveying the views of PHBs for 18 years. In its latest study, conducted in December 2009, it reveals that 26 per cent of the 7,400 respondents across 36 economies are planning acquisitions, a fall of 11 per cent on last year. Not surprisingly at a time of economic uncertainty and limited finance, a large number of PHBs are concentrating on survival rather than expansion.

Yet, despite the challenging conditions, a substantial proportion of entrepreneurial firms still want to grow through M&A and this is likely to increase if optimism about a global economic recovery spreads and credit markets ease. A majority of the PHBs surveyed (62 per cent) believe that the upturn has started already or will take place during the course of 2010.

Businesses with cash resources believe that the combination of a more stable global economy and comparatively low valuations is throwing up interesting acquisition opportunities. Indeed, Grant Thornton member firms are reporting a clear revival in M&A activity, a change evident both in the number of transactions being completed and in a general shift in mood.

In addition, the survey reveals that 10 per cent of PHBs expect a change in ownership in 2010, compared to only six per cent a year ago. Even more importantly, in a market reliant on underlying confidence, there is a significantly higher belief that trade and financial buyers are available for vendors wishing to exit.

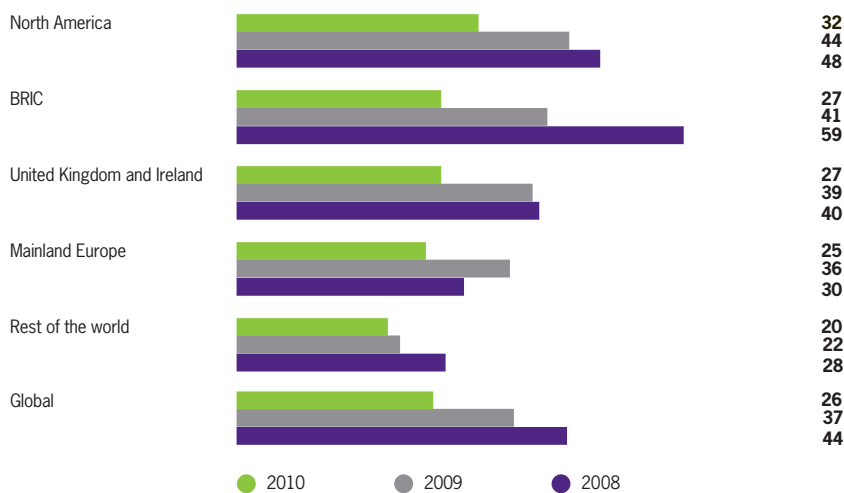
As PHBs return to the M&A market Grant Thornton's global organisation of over 100 member firms is there to offer specialist M&A advice in every important trading centre in the world.



Mike Hughes
Global service line leader - mergers & acquisitions
Grant Thornton International

Global overview

Figure 1: Planning to grow through acquisition
Percentage of businesses



Source: Grant Thornton IBR 2010

The research shows that the downturn has been global in its reach and has had a significant impact on PHBs and their plans for M&A activity in the short term. Overall, 26 per cent of PHBs say they plan to make acquisitions, compared to 37 per cent at the beginning of 2009 and 44 per cent in 2008.

Tellingly, even businesses in the BRIC (Brazil, Russia, India and mainland China) economies, which all avoided long recessions and in most cases continued to grow, are more cautious about making acquisitions than they were last year. At the beginning of 2010 they were no more likely to be in an acquisitive mood than the global average.

A region-by-region breakdown shows that PHBs in North America, which includes the world's most mature M&A market, are less likely to be thinking about M&A now than they were a year ago. But some 32 per cent (2009: 44 per cent) still want to make acquisitions, more than in any other region (see figure 1).

Mainland Europe is roughly consistent with the global average at 25 per cent (2009: 36 per cent), as are the UK and Ireland at 27 per cent (2009: 39 per cent) while PHBs in the Asia-Pacific area were among the most cautious.

For the most part only smaller economies have been able to buck the downward trend. They include Poland, where 66 per cent (2009: 59 per cent) of respondents say they are planning acquisitions. PHBs in New Zealand, Thailand and Vietnam, also recorded



small increases in their acquisitive intentions.

The decline in PHBs planning an acquisition seems at odds with the optimism expressed by 62 per cent of respondents globally believing that the upturn has started already or will take place during the course of 2010.

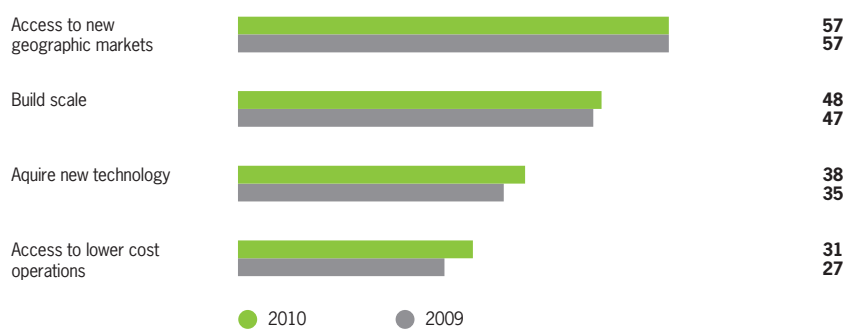
Commenting on the results, Mike Hughes remarks, “In retrospect, given the severity of the global downturn, the 2009 responses were too optimistic. Conversely, this year, despite an improving economic outlook, PHBs are naturally cautious when asked about their intentions for M&A. However, I believe M&A volumes will rise in 2010 as PHBs grow more confident and companies benefit from improved economic conditions and access to more stable funding.”

For those PHBs inclined to make acquisitions, accessing new markets and building scale remain the biggest drivers, but the proportion of those citing access to lower cost operations as a key driver has risen from 27 per cent in 2009 to 31 per cent this year (see figure 2).

On a positive note, the proportion of businesses across the world expecting a change of ownership increased to ten per cent this year compared with six per cent 12 months ago. A larger proportion of these owners (27 per cent compared with 18 per cent in 2009), expect any sale to be to a trade buyer (see figure 3).

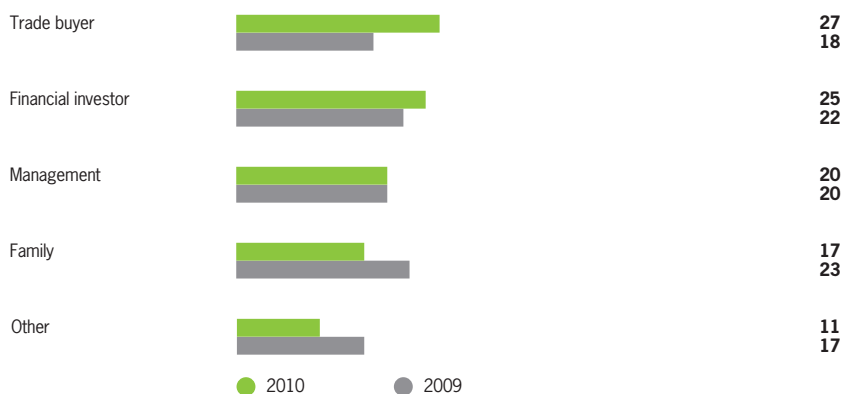
This is important as, in part, the low level of M&A activity in 2009 was due

Figure 2: Key drivers behind acquisition plans
Percentage of businesses globally



Source: Grant Thornton IBR 2010

Figure 3: Anticipated purchasers in the event of a change of ownership
Percentage of businesses globally



Source: Grant Thornton IBR 2010

to a lack of businesses available for sale, with many owners simply deciding to ride out the tough economic conditions of the last 18 months.

With PHBs seemingly more upbeat about the prospects of selling to either a trade buyer or financial institution, they are once again reviewing their strategic options as they sense the chances of closing a transaction have improved.

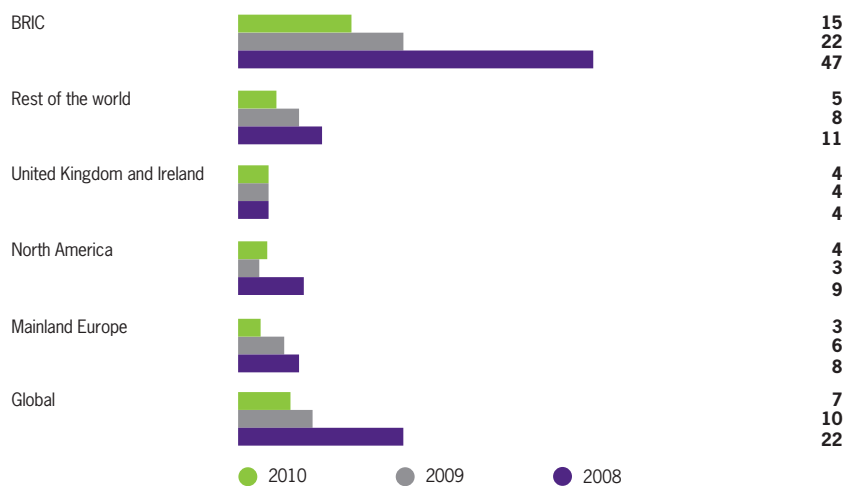
Undeniably, soundly managed businesses that performed well during the downturn represent choice targets and will continue to attract interest from corporates and private equity houses looking to acquire high quality assets.

Meanwhile, the appetite of PHBs for public listings has declined more sharply than that for acquisitions, as the excitement of the pre-credit crunch bull markets has given way to more guarded responses. Globally, only seven per cent say they are planning a listing compared to 22 per cent in 2008 and ten per cent in 2009 (see figure 4).

The BRIC economies have not been immune to this downward trend: only 15 per cent say they have plans for a listing, down from 47 per cent in 2008 and 22 per cent in 2009. As finance raised in the equity markets drove much of the M&A activity in these economies before the credit crunch, plans for public listings and for acquisitions are closely linked.

India, however, is more bullish, with 33 per cent of PHBs planning listings, an 11 per cent rise on last year. This reflects both robust economic growth in the country and its higher than average

Figure 4: Plans to undertake a public listing
Percentage of businesses



Source: Grant Thornton IBR 2010

degree of optimism about a global economic upturn: over 70 per cent of respondents believe there will be one in 2010.

In summary, at the start of 2010 PHBs are showing real signs of optimism both in their belief that the upturn has already started or is about to do so, and in their confidence that traditional exit routes of trade and financial buyers are once again open. Inevitably, there will be a lag before this wider economic confidence translates into specific M&A plans. Many PHBs, hurt financially by recent tough trading conditions and tightened credit lines, are showing sensible caution before returning to plans involving growth through acquisition.

Regional focus: North America

The United States and Canada show a decline in the proportion of PHBs planning acquisitions, down from 44 per cent in 2009 to 32 per cent and 35 per cent respectively in 2010, but both figures are above the global average of 26 per cent (see figure 5).

The considerable depth and maturity of these M&A markets is further reflected in the 26 per cent of respondents in the United States, and 17 per cent in Canada, saying they are increasingly focusing on M&A as they prepare for an upturn in the global economy; again, these are above the global average of 14 per cent. There is also a more even spread of key drivers of acquisitions in North America. Acquiring new technology was mentioned by 37 per cent of respondents, a rise of four per cent

on last year, and some 35 per cent (an increase of seven per cent) say access to lower cost operations is an important factor. In the North American market, acquisitions are a multi-purpose tool of business strategy, a means of achieving operational efficiency as well as of pursuing growth.

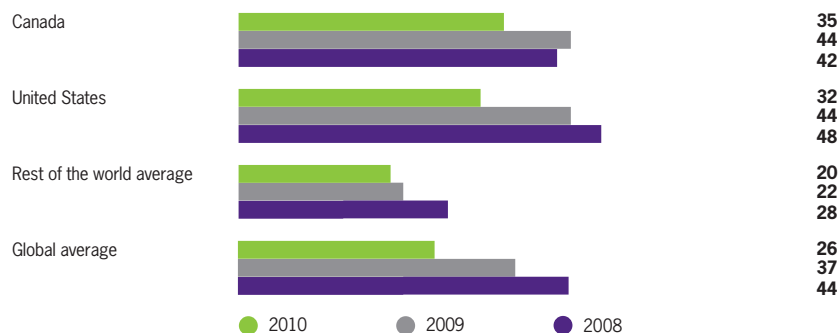
United States and Canadian PHBs are now increasingly willing to put themselves up for sale. The proportion of Canadian businesses willing to sell has risen from 10 per cent in 2009 to 12 per cent, while in the United States the figure is up from seven per cent to 10 per cent. Interestingly, and suggesting the continued strength of private equity in the region, PHBs cited financial investors as the most likely acquirers. In most other parts of the world, trade buyers were considered most likely.



“2010 is likely to see stronger PHBs undertaking strategic acquisitions to drive further efficiency, resume growth and enhance margins. The divestiture market will also be a key influencer in helping deal volume, as more corporates decide to exit non-core holdings and private equity groups seek to exit well performing portfolio companies to provide some liquidity to their general partners.”

Stephen McGee
Grant Thornton, United States

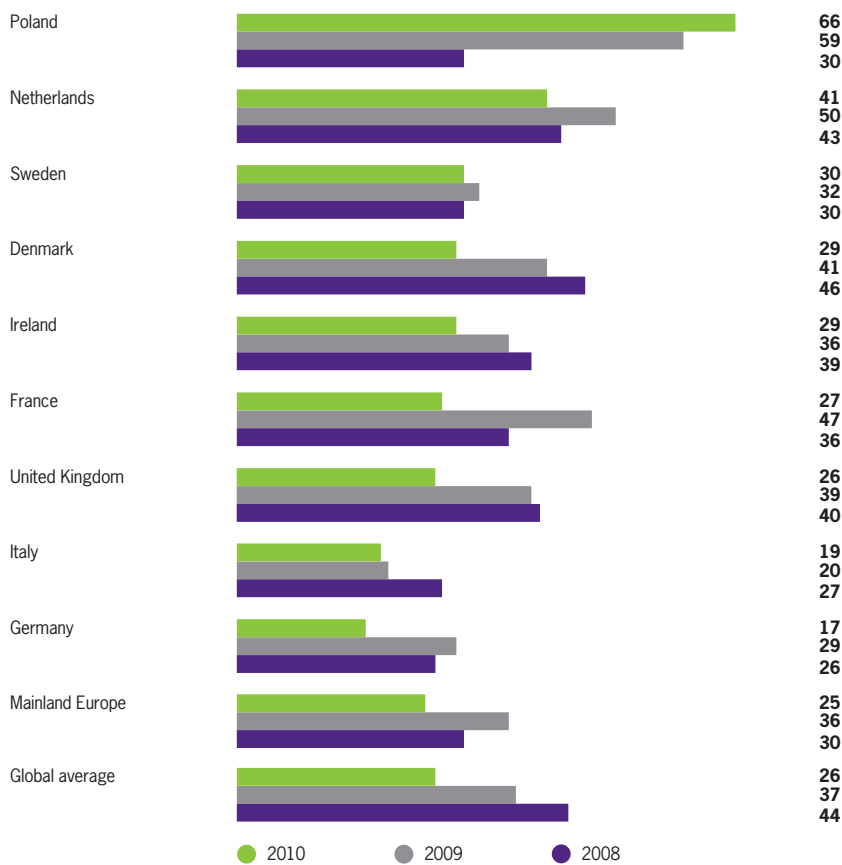
Figure 5: Plans to grow through acquisition
Percentage of businesses



Source: Grant Thornton IBR 2010

United Kingdom, Ireland and Mainland Europe

Figure 6: Plans to grow through acquisition
Percentage of businesses



Source: Grant Thornton IBR 2010

Europe overall tends to reflect global trends. But there is a marked difference between the more developed M&A centres and some of the smaller markets.

In the United Kingdom, 26 per cent of PHBs say they intend to make acquisitions, while the figure for Ireland is 29 per cent and 25 per cent for Mainland Europe (see figure 6). Despite improving confidence, in the short term buyers are likely to continue to be selective and only complete on transactions where compelling synergies exist or the financial risks appear low, for example on low cost distressed asset purchases, which helps to explain the year on year declines seen in figure 6.

Countries such as Sweden and Italy remain at roughly the level of the previous year, with, respectively, 30 per cent and 19 per cent of PHBs planning to make acquisitions. Poland, which avoided recession and has a solid basis for future growth, was one of the few countries posting a year on year increase, up seven per cent to 66 per cent.

Reflecting on the results, Karine Curtis, partner at Grant Thornton France remarks, “Even though the markets remain subdued, as the recession comes to an end, there are signs that M&A activity is starting to pick up. The prevailing weakness of sterling makes the United Kingdom an attractive place for foreign bidders.”

Dr Kai Bartels, partner at Grant Thornton Germany adds, “The European M&A market in 2009 largely consisted of opportunistic buyers with much of the sell-side activity driven by distress situations. While distressed M&A will remain a feature in 2010, we expect a return of the strategic purchaser willing to pay fuller value for the right business.”

The survey reveals that PHBs in the United Kingdom, the most mature of all the European markets, are slightly more open to the idea of selling their businesses: 12 per cent expect a change of ownership compared with nine per cent in mainland Europe. Also some 21 per cent of UK PHBs say they are focusing on M&A in preparation for the recovery, a proportion well above the global average of 14 per cent.

Commenting on the United Kingdom results, Mike Hughes notes, “Private equity activity is a key part of the M&A market, 2009 was a quiet year for them. With improvements in the banking market, 2010 is likely to see greater activity as private equity houses seek to invest in good quality businesses at the bottom of the cycle, where valuations are attractive and strong growth prospects are supported by an improving economy.”



“The prevailing weakness of sterling makes the United Kingdom an attractive place for foreign bidders.”

Karine Curtis Osorovitz
Grant Thornton, France

The European M&A market in 2009 largely consisted of opportunistic buyers with much of the sell-side activity driven by distress situations. While distressed M&A will remain a feature in 2010, we expect a return of the strategic purchaser willing to pay fuller value for the right business.

BRIC economies



“Indian companies are now more experienced in dealing with overseas M&A transactions and are considered serious contenders for acquiring global businesses. Acquiring global brands, gaining access to overseas markets and leveraging new technologies for Indian markets are some of the key drivers for outbound acquisitions by Indian companies.”

Mahad Narayanamoni
Grant Thornton, India

Only 27 per cent of PHBs in Brazil, Russia, India and China expect to make acquisitions in 2010 compared with 41 per cent last year and 59 per cent in 2008. There have been some dramatic changes of mood over the last three years in these countries, which are still relatively new to the idea of M&A as a strategic option.

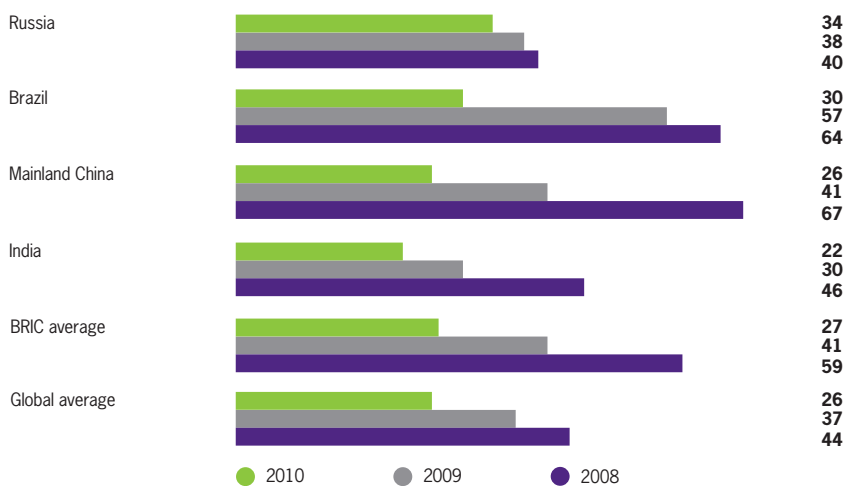
In China for instance, as figure 7 shows, 67 per cent of respondents in 2008 said they expected to make acquisitions, but they have now scaled back their ambitions and only 26 per cent are still considering deals. Indian and Brazilian PHBs have also reined in their acquisition plans significantly in the last two years, but Russian businesses have been much steadier. While 40 per cent were considering acquisitions in 2008, the figure has only slipped to 34 per cent this year.

Acquisitive PHBs in the BRIC economies are driven principally by the need for new markets and new technology or established brands. Indian PHBs are among the keenest to make cross-border acquisitions, with as many as 42 per cent expecting their deals to be international.

Indian businesses are also bullish on listings, indicating they expect an upturn. Some 33 per cent say they are planning listings, a figure that is almost back to the level of 2008, and is sharply at variance both with the more subdued BRIC average of 15 per cent and the global one of seven per cent. Fewer Chinese PHBs are planning listings (11 per cent compared with 20 per cent in 2009 and 60 per cent in 2008) but this could change if a global economic upturn takes hold in 2010.

Figure 7: Plans to grow through acquisition

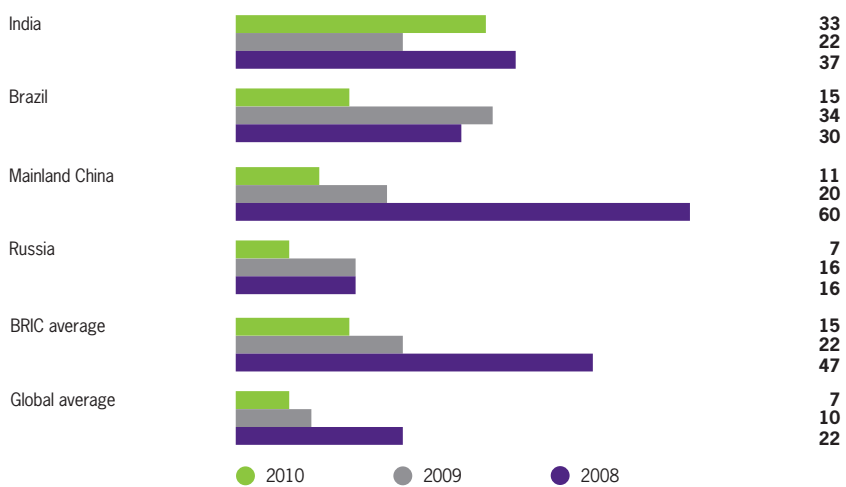
Percentage of businesses



Source: Grant Thornton IBR 2010

Figure 8: Plans to undertake a public listing

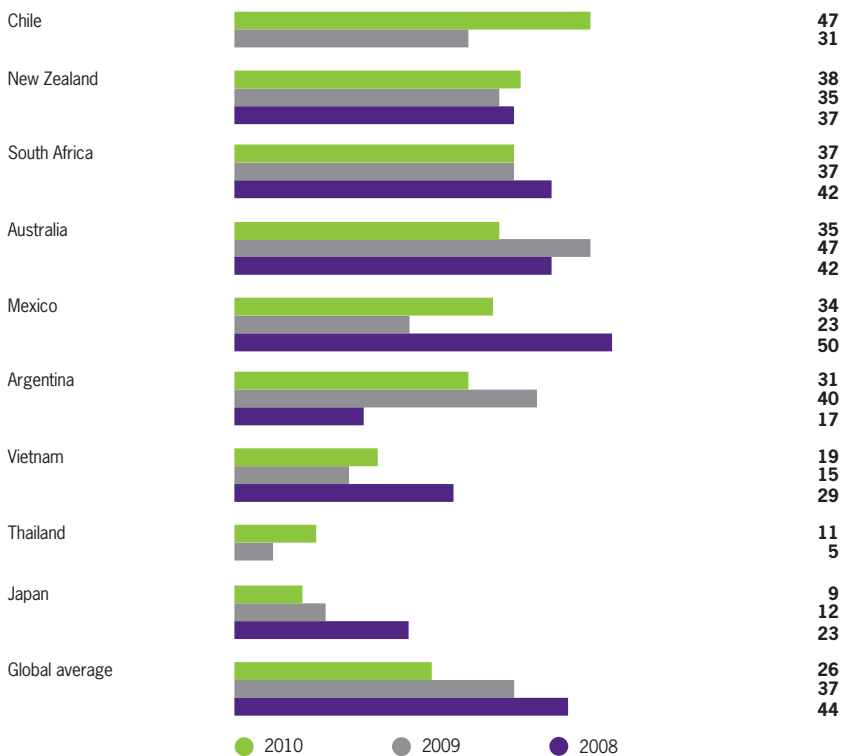
Percentage of businesses



Source: Grant Thornton IBR 2010

Rest of the world

Figure 9: Plans to grow through acquisition
Percentage of businesses



Source: Grant Thornton IBR 2010

PHBs in the rest of the world present a mixed picture. In most cases, the larger economies, such as Australia, have tended to follow the global trend and are less positive than they were in 2009 or 2008. Some 35 per cent of businesses in Australia plan to grow by acquisition, a 12 per cent fall on last year, but still well above the global average. They are also unusual in that 27 per cent of them are focusing more on M&A in preparation for an upturn, far above the global average and slightly ahead even of US businesses.

Several smaller economies, further from the centres of the financial crisis, are remarkably positive. In Chile, 47 per cent of PHBs are planning acquisitions, an increase of 16 per cent on 2009. More PHBs in New Zealand, Thailand and Vietnam are also planning deals compared with last year.

The important South African market also offers an upbeat picture with three-quarters of respondents expecting a global economic upturn in 2010. Thanks to the country's internal growth and its powerful position regionally, 37 per cent of businesses, the same proportion as last year, are planning acquisitions, and 41 per cent of those expect those transactions to be cross-border.

In line with the global average, PHBs from the rest of the world are also less inclined to undertake a public listing, although here again there are notable exceptions.

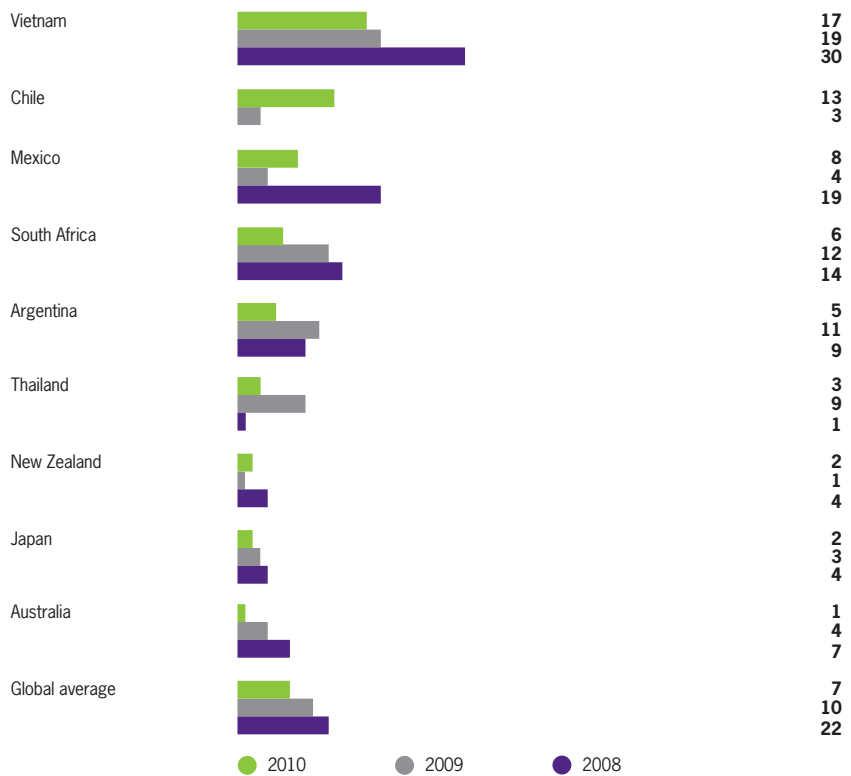


“Improving market confidence coupled with a decrease in interest rates and gradual increases in employment will help drive the upturn, and provide a boost to M&A activity in South Africa.”

Jeanette Hern
Grant Thornton, South Africa

For example, in Chile and Mexico there was an increase in respondents saying they have plans for a listing. Interestingly, PHBs in both Chile and Mexico are also more bullish about making acquisitions than they were last year. This differs markedly from PHBs in Argentina and Brazil, where the proportion of respondents looking to list approximately halved over the last 12 months, mirroring a decline in appetite for making acquisitions.

Figure 10: Plans to undertake a public listing
Percentage of businesses



Source: Grant Thornton IBR 2010

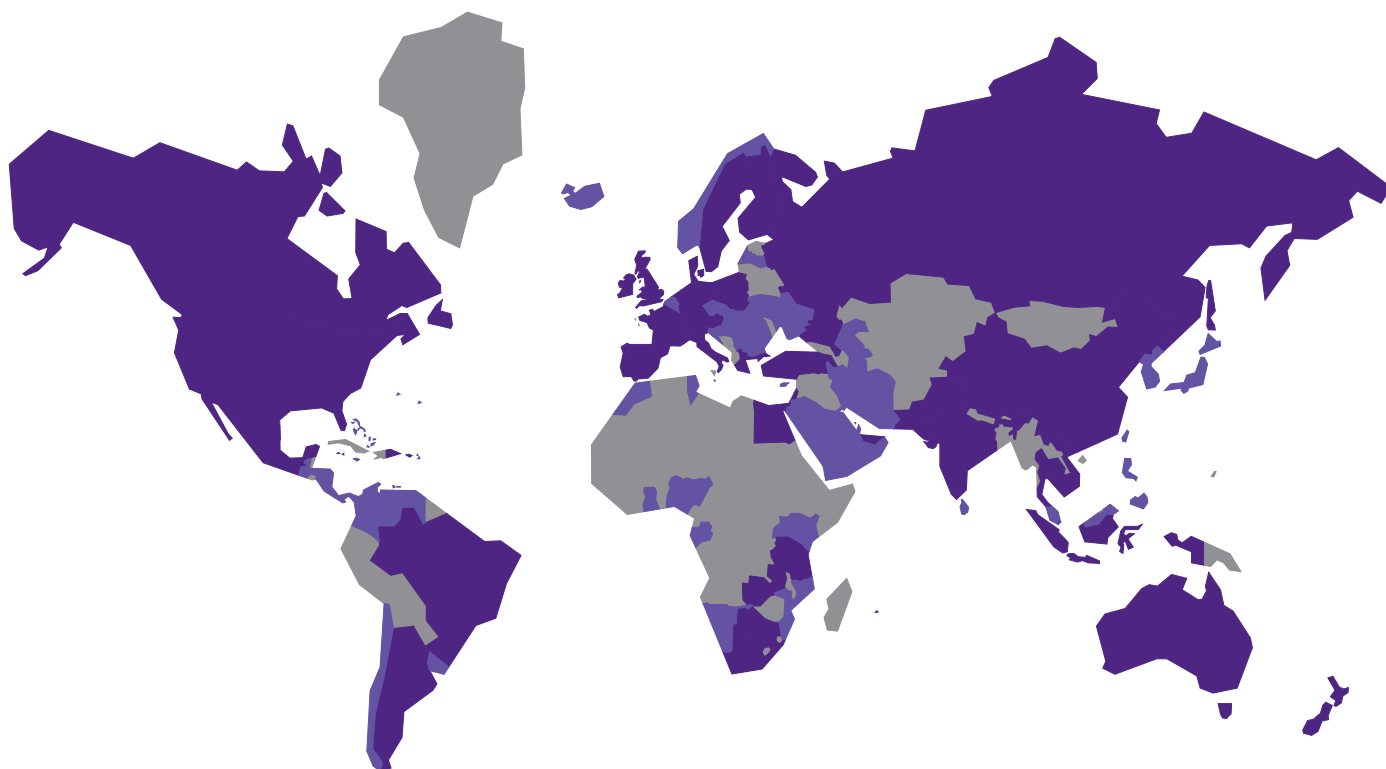
Our M&A capability

Grant Thornton International is one of the world's leading organisations of independently owned and managed accounting and consulting firms. These firms provide assurance, tax and specialist business advice to privately held businesses and public interest entities.

More than 2,600 partners provide clients with distinctive, high quality and personalised services in over 100 countries. This gives Grant Thornton the ability to operate as both a local and global partner, sharing knowledge, skills and resources with corporate clients and entrepreneurs

across the world. Our corporate finance teams offer M&A, transaction services, valuations and capital markets advice in over 60 countries.

For a detailed list of where Grant Thornton International member firms currently have operations please visit www.gti.org



- Grant Thornton member firms with M&A capability
- Countries with a Grant Thornton firm

M&A Contacts

Argentina

Grant Thornton
Alejandro Chiappe
T +54 11 4105 0079
E achiappe@gtar.com.ar

Armenia

Grant Thornton Amyot LLC
Gagik Gyulbudaghyan
T +374 10 260 964
E ggl@gta.am

Australia

Grant Thornton
Scott Griffin
T +61 2 8297 2755
E sgriffin@grantthornton.com.au

Austria

Grant Thornton
Walter Platzer
T +43 1 914 42 56 21
E walter.platzer@grantthornton.at

Botswana

Grant Thornton
Vijay Kalyanaraman
T +267 395 2313
E vijay@grantthornton.co.bw

Canada

Grant Thornton
Gordon McFarlane
T +1 403 2602520
E gmcfarlane@grantthornton.ca

Raymond Chabot Grant Thornton

Jean-Paul David
T +1 514 954 4636
E david.jean-paul@rcgt.com

Denmark

Jan Hetland Møller
Grant Thornton
T +45 35 27 13 83
E jhm@grantthornton.dk

Dominican Republic

Grant Thornton, República Dominicana, S.A.
José Luis De Ramón
T +1 809 563 6183
E jose.deramon@gtdominicana.com

Egypt

Grant Thornton Consultants
Hossam El Beshar
T + 202 574 4810
E hbeshar@gtegypt.org

France

Grant Thornton
Arnaud Limal
T +33 1 56 21 05 95
E arnaud.limal@grant-thornton.fr

Finland

Grant Thornton
Kari Niemenoja
T +358 9 5123 3316
E kari.niemenoja@gtfinland.com

Germany

Grant Thornton GmbH
Kai Bartels
T +49 40 415 22 495
E k.bartels@ham.grantthornton.de

Greece

Grant Thornton S.A
George Deligiannis
T +30 2 10 72 80 000
E gdeligiannis@grant-thornton.gr

Hong Kong

Grant Thornton
Alison Wong
T +852 2218 3037
E alison.wong@gthk.com.hk

India

Grant Thornton
Mahad Narayanamoni
T +91 40 6452 8666
E mahad.n@wcgt.in

Indonesia

Grant Thornton Hendrawinata
Renato Leuterio
T +62 21 251 4626
E ri@gthendrawinata.com

Ireland

Grant Thornton
Micheal Neary
T +353 1 680 5805
E michael.neary@grantthornton.ie

Israel

Fahn Kanne & Co
Shlomi Bartov
T +972 3 7111690
E shlomib@fk-consulting.co.il

Italy

Studio Bernoni
Stefano Salvadeo
T +39 02 76 00 87 51
E stefano.salvadeo@gtbernoni.it

Lebanon

Grant Thornton
Leila Hammoud
T +961 1 741614
E lhammoud@gtleb.com

Macedonia

Grant Thornton
Slavco Filipcev
T +389 2 3214 700
E slavco.f@grant-thornton.com.mk

Mexico

Salles, Sáinz – Grant Thornton S.C.
Miguel Quintero
T +52 55 5424 6500
E mquintero@ssgt.com.mx

Netherlands

Grant Thornton
Kees Slump
T +31 2 0547 5755
E kees.slump@gt.nl

New Zealand

Grant Thornton
Brendan Lyne
T +64 9 300 5806
E blyne@gtak.co.nz

Pakistan

Anjum Asim Shahid Rahman
Kamran Hafeez
T +92 21 587 8878
E k.hafeez@khiaasr.com.pk

Poland

Grant Thornton Frąckowiak Sp. z o.o.
Maciej Richter
T +48 61 85 09 200
E richter.maciej@gtfr.pl

Russia

Grant Thornton
Ivan Sapronov
T +7 495 258 99 90
E isapronov@gttrus.com

Singapore

Grant Thornton
Kon Yin Tong
T +65 6304 2301
E konyintong@grantthornton.com.sg

South Africa

Grant Thornton
Jeanette Hern
T +27 11 322 4562
E jhern@gt.co.za

Spain

Audihispana Grant Thornton
Ramón Galcerán
T +34 93 206 39 00
E rgalceran@ahgt.es

Sweden

Grant Thornton
Pär Ekengren
T +46 8 5630 7084
E par.ekengren@grantthornton.se

Thailand

Grant Thornton
Bill Hutchison
T +66 2 205 8266
E bill.hutchison@gt-thai.com

United Arab Emirates

Grant Thornton
Hisham Farouk
T +971 42688070
E hisham.farouk@gtuae.net

United Kingdom

Grant Thornton
Mike Hughes
T +44 1908 359581
E mike.hughes@gtuk.com

United States

Grant Thornton
Stephen McGee
T + 1 617 848 4988
E stephen.mcgee@gt.com

Vietnam

Grant Thornton
Ken Atkinson
T +84 8 39109108
E ken.atkinson@gt.com.vn

Zambia

Grant Thornton
Victor Mweene
T +260 122 7722
E vmweene@gt.com.zm



www.gti.org

© 2010 Grant Thornton International Ltd. All rights reserved.
References in this publication to "Grant Thornton", "we" and "our" refer to either Grant Thornton International Ltd, a global organisation of member firms, or one or more of the individual member firms of the global organisation, each of which is a separate legal entity and has no liability for each other's acts or omissions. Grant Thornton International Ltd, a UK private company limited by guarantee, does not provide services to clients. Services are delivered independently by the member firms. Grant Thornton International Ltd and the member firms are not a worldwide partnership.

Printed on 50% recycled content paper.