

# Mergers and acquisitions: looking beyond the global downturn.

## International Business Report 2009

Today's headlines may be dominated by the global economic downturn, but when privately held businesses (PHBs) are asked about their plans for the next three years, a more balanced picture emerges. The Grant Thornton International Business Report (IBR) has been researching the attitudes and opinions of PHBs for the last 17 years and recently surveyed over 7,200 senior executives across 36 economies about their appetite for acquisitions. While the current tightening of lending policy and uncertain economic outlook is clearly impacting transaction volumes at the moment, the results suggest that PHBs retain a surprisingly robust attitude to deals over the next three years.

Although the percentage of respondents planning an acquisition showed a slight reduction (37 per cent plan to acquire against 44 per cent last year) there has actually been an increase in the proportion planning to transact cross-border, suggesting that international mergers and acquisitions (M&As) remain on the agenda as a key strategic tool to drive growth.

We believe that arising from these turbulent times there will be attractive opportunities to undertake well thought-out and carefully executed M&A transactions, both domestically and overseas. Indeed, in today's market, opportunities exist for cash rich or well capitalised businesses to achieve a step change in their business by acquiring struggling but fundamentally sound rivals. Increasingly, such transactions are expected to be cross-border providing genuine strategic upside for buyers.

And as PHBs expand, our own global organisation of over 90 member firms is there to offer specialist M&A services in every major trading centre in the world.

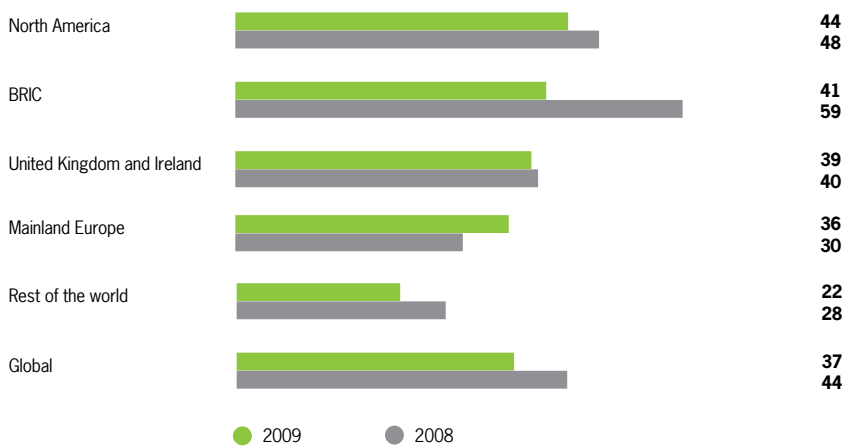


“Our research shows that despite the current economic downturn M&A remains a valuable corporate tool for growing shareholder value.”



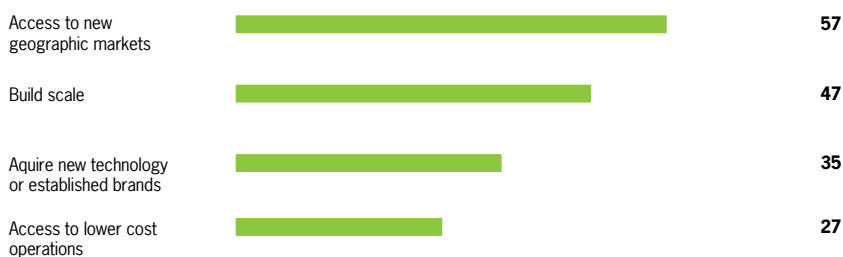
# Global overview

**Figure 1: Planning to grow through acquisition in the next three years**  
Average percentage of businesses



Source: Grant Thornton IBR 2009

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



Source: Grant Thornton IBR 2009

Findings of the Grant Thornton IBR 2009 show the medium term outlook for M&A amongst PHBs remains robust. This is despite the current difficult economic environment and a drop in the value of the global M&A market in 2008.

Our research reveals that globally the proportion of PHBs expecting to expand by making acquisitions in the next three years is a resilient 37 per cent - a fall of only 7 per cent compared to our study last year (figure 1). There are some important regional differences, notably that companies in BRIC economies (Brazil, Russia, India and mainland China) are planning to be much less acquisitive. But the medium term acquisition plans of PHBs in mainland Europe have actually increased and those in many other developed economies have held comparatively steady.

Globally, 57 per cent of respondents stated that access to new geographic markets was the most important driver behind their acquisition plans (figure 2). However, here too there were some important regional differences. In India, acquiring new technology and new brands was given as the most important driver (50 per cent). Only 31 per cent cited access to new geographic markets, confirming the importance of technology and brands for Indian PHBs as they continue to develop.

For those PHBs with the financial capability to make an acquisition, the next twelve months is likely to be a 'buyers market' and offers the prospect of picking up strategic acquisitions at attractive valuations. However, for PHBs looking to expand through M&A, it has never been more important to make sound strategic decisions based on solid due diligence and ensure the correct

financing structure is in place to cope with possible downsides in the short term as a result of the sluggish economy.

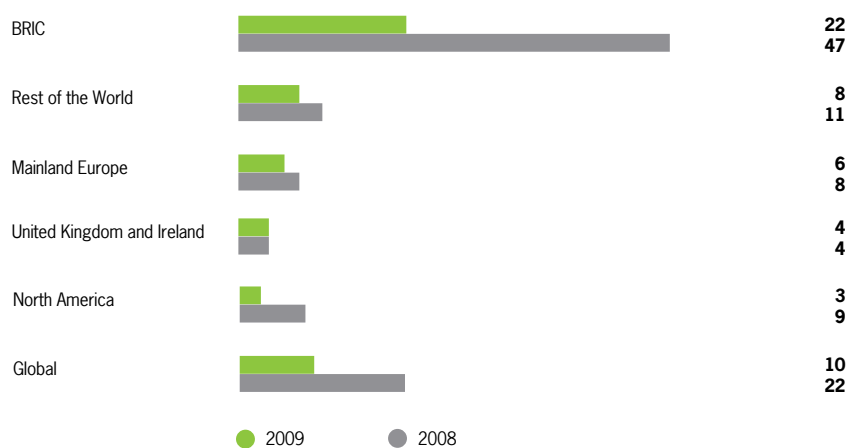
Not surprisingly, our survey also reveals that the turmoil in the financial markets has reduced the appetite of PHBs to raise capital through a public listing, with the proportion of respondents globally falling from 22 per cent to a meagre 10 per cent, with the steepest fall in interest amongst the BRIC economies (figure 3).

Unsurprisingly in light of the economic difficulties, the results show a fall in business owners anticipating selling their business in the next three years, down from 8 per cent to 6 per cent. For those business owners who can choose when to exit, some may decide to ride out the current economic storm hoping they will achieve a better valuation as the world economy improves.

However, not every business loses value in a recession and for those planning to sell in the immediate future, exits at attractive valuations will still be possible, especially for high performing PHBs with robust earning streams. Soundly managed businesses that perform well during the downturn represent a choice target and will continue to attract interest from corporates and private equity houses looking to acquire high quality assets.

**Figure 3: Plans to undertake a public listing in the next three years**

Average percentage of businesses



Source: Grant Thornton IBR 2009

# Regional focus

“Some businesses are looking forward to the opportunities that may emerge.”

**Jack DiFranco**  
Grant Thornton, United States



## North America and United Kingdom

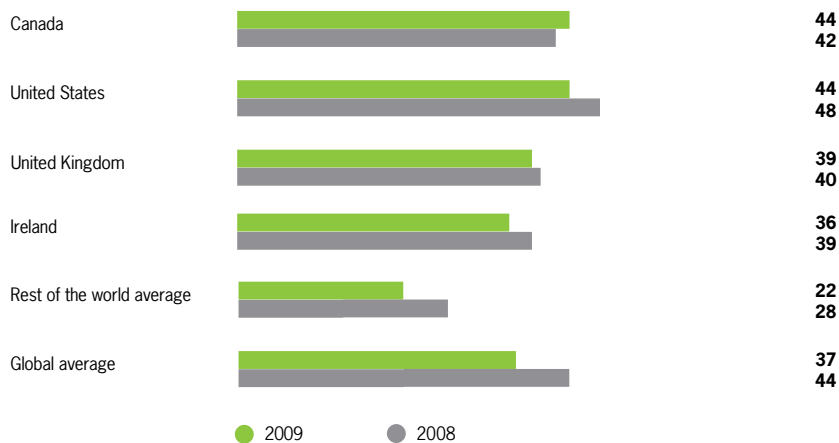
There is a noticeable but relatively modest fall in the percentage of PHBs with acquisition plans in the mature economies of North America (down from 48 per cent in 2008 to 44 per cent in 2009) and the UK (down from 40 per cent to 39 per cent) (figure 4).

With their highly developed M&A markets, the results suggest that PHBs in North America and the UK believe that, while debt financing might not be possible in the short term as banks de-leverage, opportunities will emerge again in the next two to three years, not just for domestic transactions but also for cross-border deals.

For example, of those PHBs planning an acquisition within the next three years, 72 per cent of North American and 67 per cent of UK respondents cited access to new geographic markets as the key driver. As a result, it is perhaps no surprise that there has been an increase in the proportion of acquisitive companies expecting cross-border transactions, with some 12 per cent more in the UK (up to 38 per cent) and 4 per cent more in North America (up to 29 per cent).

Commenting on the North American results, Jack DiFranco, partner at Grant Thornton, United States says, “M&A is an important element of the commercial environment and the modest drop in privately held businesses anticipating making an acquisition compared to last year still suggests that businesses are looking forward to the opportunities that may emerge over the next 12 to 18 months to pursue attractive strategic acquisitions at reasonable valuations.”

**Figure 4: Plans to grow through acquisition in the next three years**  
Percentage of businesses



Source: Grant Thornton IBR 2009

**Mainland Europe**

Overall, 37 per cent of PHBs in the region expect to make acquisitions in the next three years, up from 30 per cent last year (figure 5).

There were some notable differences across individual countries, for example Poland showed the greatest increase (up 29 per cent to 59 per cent) whereas more modest rises were recorded in France, Germany and Sweden, and fewer respondents in Denmark and Italy anticipated making an acquisition in the next three years (down to 41 per cent and 20 per cent respectively).

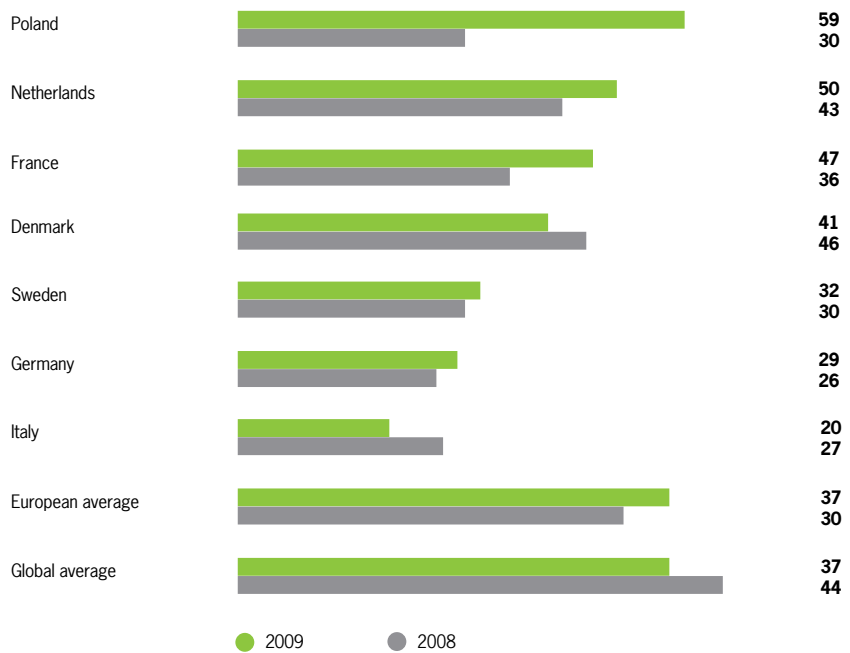
For European businesses, access to new geographic markets was considered the most important driver behind their acquisition plans followed by a desire to build scale. Commenting on the survey, Karine Curtis, partner at Grant Thornton, France, remarks, “The current strength of the euro against the pound and the dollar is encouraging companies to consider cross-border acquisitions. I am working with a number of businesses who believe now is an opportune time to make strategic acquisitions in the UK.”



“The current strength of the euro against the pound and the dollar is encouraging companies to consider cross-border acquisitions.”

**Karine Curtis**  
Grant Thornton, France

**Figure 5: Plans to grow through acquisition in the next three years**  
Percentage of businesses from mainland Europe



Source: Grant Thornton IBR 2009

## BRIC economies

Overall, PHBs in the less established M&A markets of Brazil, Russia, India and mainland China show the biggest changes since our last study, with only 41 per cent of companies intending to make acquisitions in the next three years compared to 59 per cent last year (figure 6). Mainland Chinese companies in particular, which showed a burst of enthusiasm for dealmaking last year, have revised their plans in the new climate, with only 41 per cent now looking for targets as against 67 per cent previously. Indian PHBs are also much less acquisitive (down to 30 per cent from 46 per cent), although Brazilian and Russian companies are only marginally less likely to be seeking targets than last year.

Nonetheless, even among mainland Chinese and Indian companies there remain strong strategic factors encouraging them towards transactions. In particular, acquisitive businesses in the BRIC economies are increasingly inclined to consider cross-border transactions, up from 17 per cent to 22 per cent. Reflecting on the findings, Pankaj Karna, partner at Grant Thornton, India, notes, “For Indian businesses with cash resources or ready access to funding, cross-border M&A offers the opportunity to progress up the value chain by acquiring established brands or new technology.”

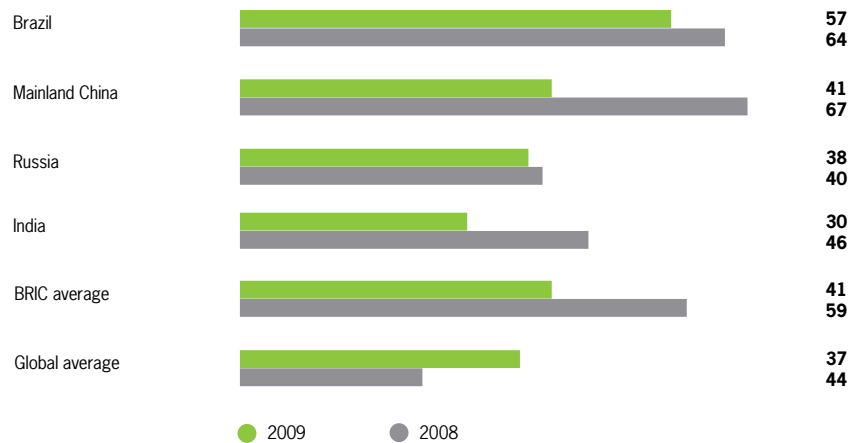
Mainland China and India also show the biggest fall in businesses planning a public listing in the next three years. Whereas a year ago 60 per cent of PHBs in mainland China and 37 per cent in India were bullish about listings, this year the figures have dropped to 20 per cent and 22 per cent respectively. Catherine Fung, M&A director at Grant Thornton, Hong Kong, remarks, “The growth of public markets during 2006 and 2007 created an aspiration for public listings amongst many PHBs in the region. However, with the decline in equity markets throughout 2008, the ability to raise capital through this route has significantly reduced, at least in the short term.”

“Cross-border M&A offers the opportunity to progress up the value chain.”



**Pankaj Karna**  
Grant Thornton, India

**Figure 6: Plans to grow through acquisition in the next three years**  
Percentage of businesses from BRIC economies



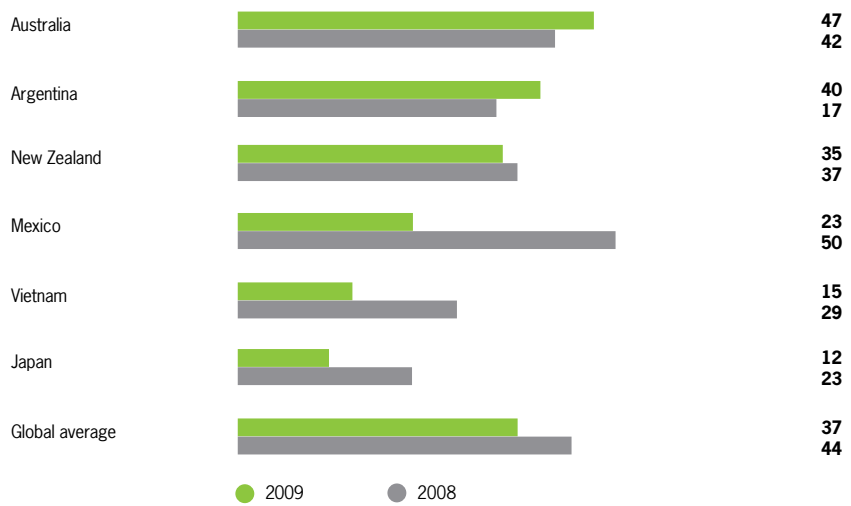
Source: Grant Thornton IBR 2009

### Rest of the world

A number of other developing economies are less positive about the future too, although the picture is mixed (figure 7).

Mexico is a dramatic case: last year 50 per cent of respondents had acquisitions plans, but now only 23 per cent say they intend to buy a company in the next three years. Overall, only 42 per cent of Latin American PHBs are acquisitive this year compared to 51 per cent last year. By contrast, PHBs in Australia are marginally more acquisitive compared to last year. However, they have seen a significant drop in the proportion of PHBs planning on selling up. In Australia, only 14 per cent said they would sell in the next three years compared to 22 per cent last year, reflecting falling valuations amid the general slowdown in China and Southeast Asia.

**Figure 7: Plans to grow through acquisition in the next three years**  
Percentage of businesses from the rest of the world



Source: Grant Thornton IBR 2009

# Our M&A capability

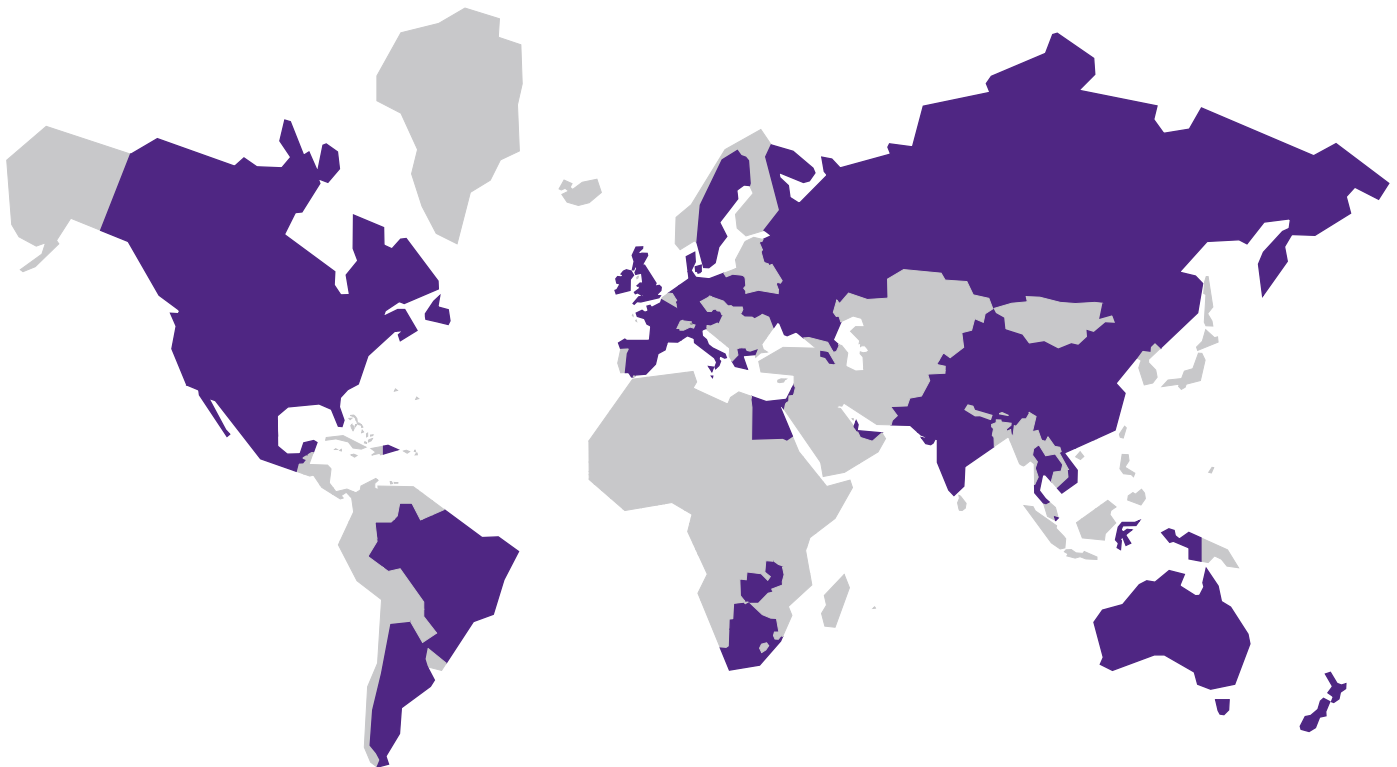
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