

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

We believe these turbulent times create 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 capitalized 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 a genuine strategic upside for buyers.

As PHBs expand, the Grant Thornton global organization of over 90 member firms is there to offer specialist M&A services in every major economy around the world.

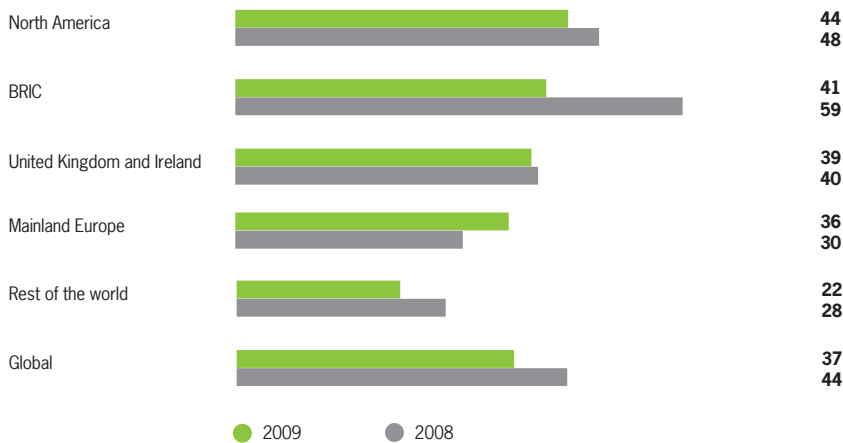


“Our research shows that despite the current economic downturn M&A remains a valuable corporate tool for growing shareholder value.”



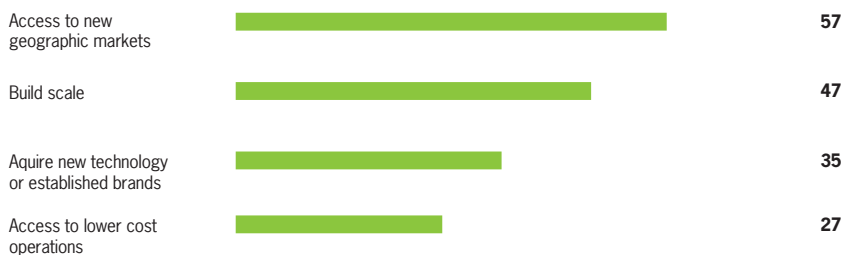
# Global overview

**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 percent—a fall of only 7 percent 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 and Canada have actually increased and those in many other developed economies have held comparatively steady.

Globally, 57 percent 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 percent). Only 31 percent 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 wherewithal 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 acquisitions, it has never been more

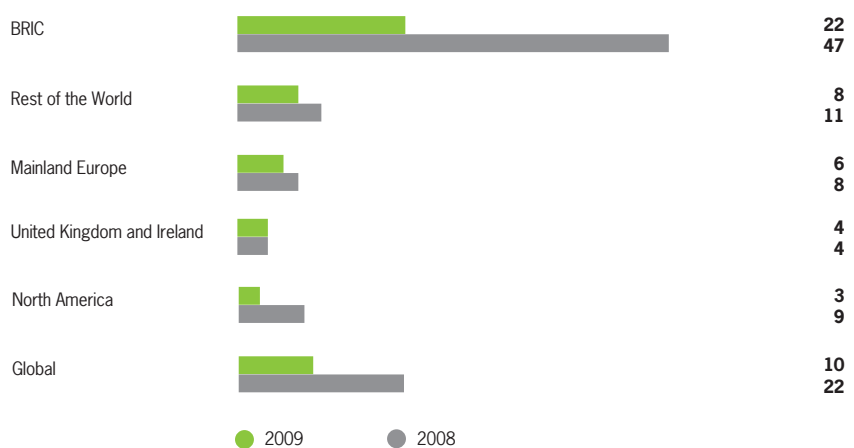
important to make sound strategic decisions based on solid due diligence—ensuring the correct financing structure is in place to cope with short-term challenges as a result of the sluggish economy.

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 percent to a meager 10 percent, with the steepest fall in interest amongst the BRIC economies (figure 3).

In light of the economic difficulties, the results also show a fall in business owners anticipating selling their business in the next three years, down from 8 percent to 6 percent. 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 and those counter-cyclical businesses represent attractive targets and will continue to garner interest from strategic buyers and private equity investors 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

“Success will hinge on realistic value expectations for both buyers and sellers, as the effects of the economic shakeout settle in.”

**Andy Langer**  
Grant Thornton, Canada



## North America and United Kingdom

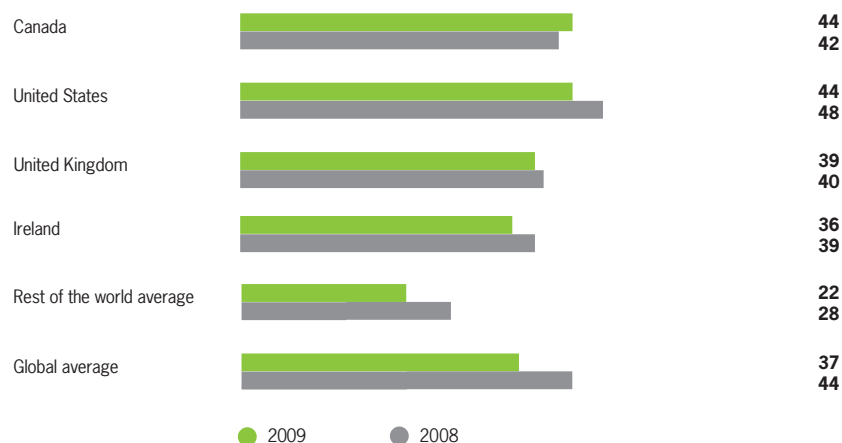
There is a noticeable but relatively modest fall in the percentage of PHBs with acquisition plans in the mature economies of North America (although up slightly from 42 percent in 2008 to 44 percent in 2009) and the UK (down from 40 percent to 39 percent) (figure 4).

With their highly-developed 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 deleverage, 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 percent of North American and 67 percent 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 4 percent more in North America (up to 29 percent).

Commenting on the Canadian results, Andy Langer, Grant Thornton, Canada says, “M&A is an important growth strategy for well-capitalized privately held businesses. We were surprised the research showed almost half of Canadian privately held businesses are looking for acquisition opportunities. When compared to last year, the increased number in businesses who anticipate making an acquisition suggests that businesses continue to look for opportunities that may emerge over the next 12 to 18 months to pursue attractive strategic acquisitions at reasonable valuations. As the effects of the economic shakeout settle in, success will hinge on realistic value expectations for both buyers and sellers.”

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



Source: Grant Thornton IBR 2009

**Mainland Europe**

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

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

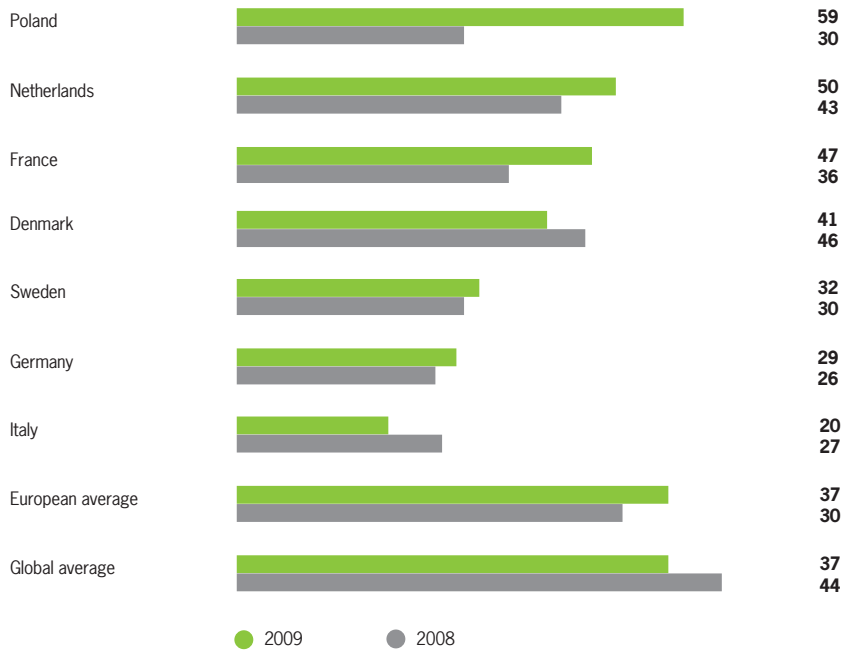
For European businesses, access to new geographic markets was considered the most important driver behind their acquisition plans, followed by a desire to build scale. Commenting on the survey, Karine Curtis, partner at Grant Thornton, France, remarks, “The current strength of the euro against the pound 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 percent of companies intending to make acquisitions in the next three years compared to 59 percent last year (figure 6). Mainland Chinese companies in particular, which showed a burst of enthusiasm for deal making last year, have revised their plans in the new climate, with only 41 percent now looking for targets as versus 67 percent previously. Indian PHBs are also much less acquisitive (down to 30 percent from 46 percent), with Brazilian and Russian companies only marginally less likely to be seeking targets compared to 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 percent to 22 percent. 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.”

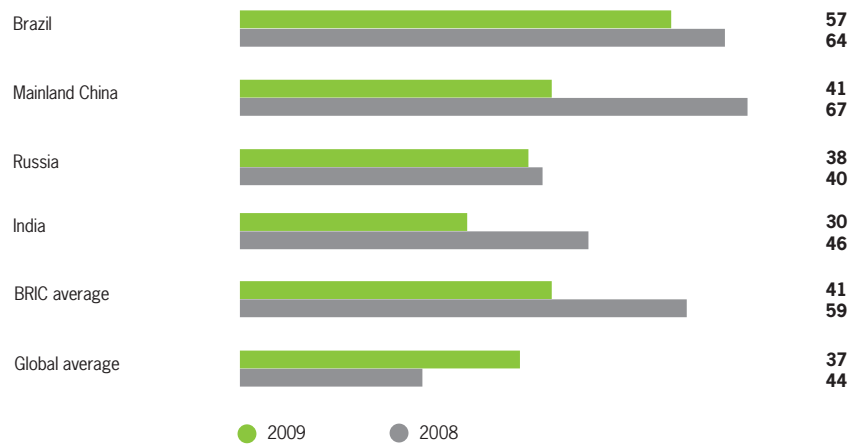
Mainland China and India also show the biggest fall in businesses planning a public listing in the next three years. Whereas a year ago 60 percent of PHBs in mainland China and 37 percent in India were bullish about listings, this year the figures have dropped to 20 percent and 22 percent respectively. 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



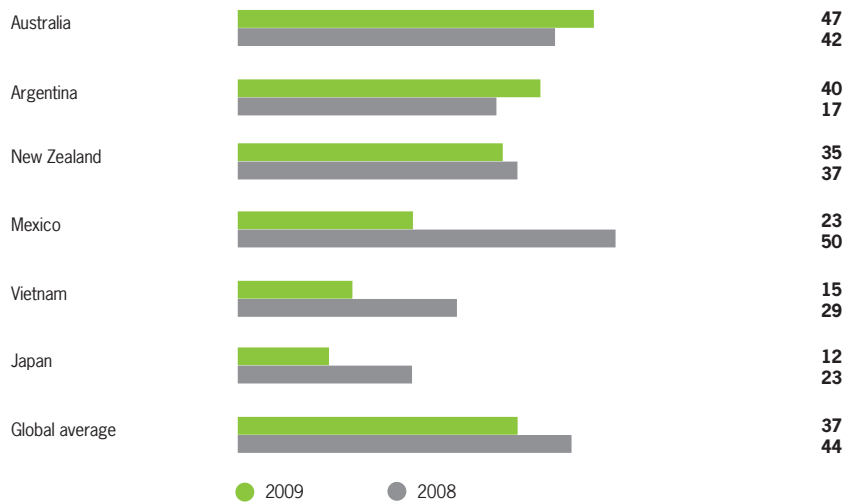
Source: Grant Thornton IBR 2009

### 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 percent of respondents had acquisitions plans, but now only 23 percent say they intend to buy a company in the next three years. Overall, only 42 percent of Latin American PHBs are acquisitive this year compared to 51 percent 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 percent said they would sell in the next three years compared to 22 percent 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

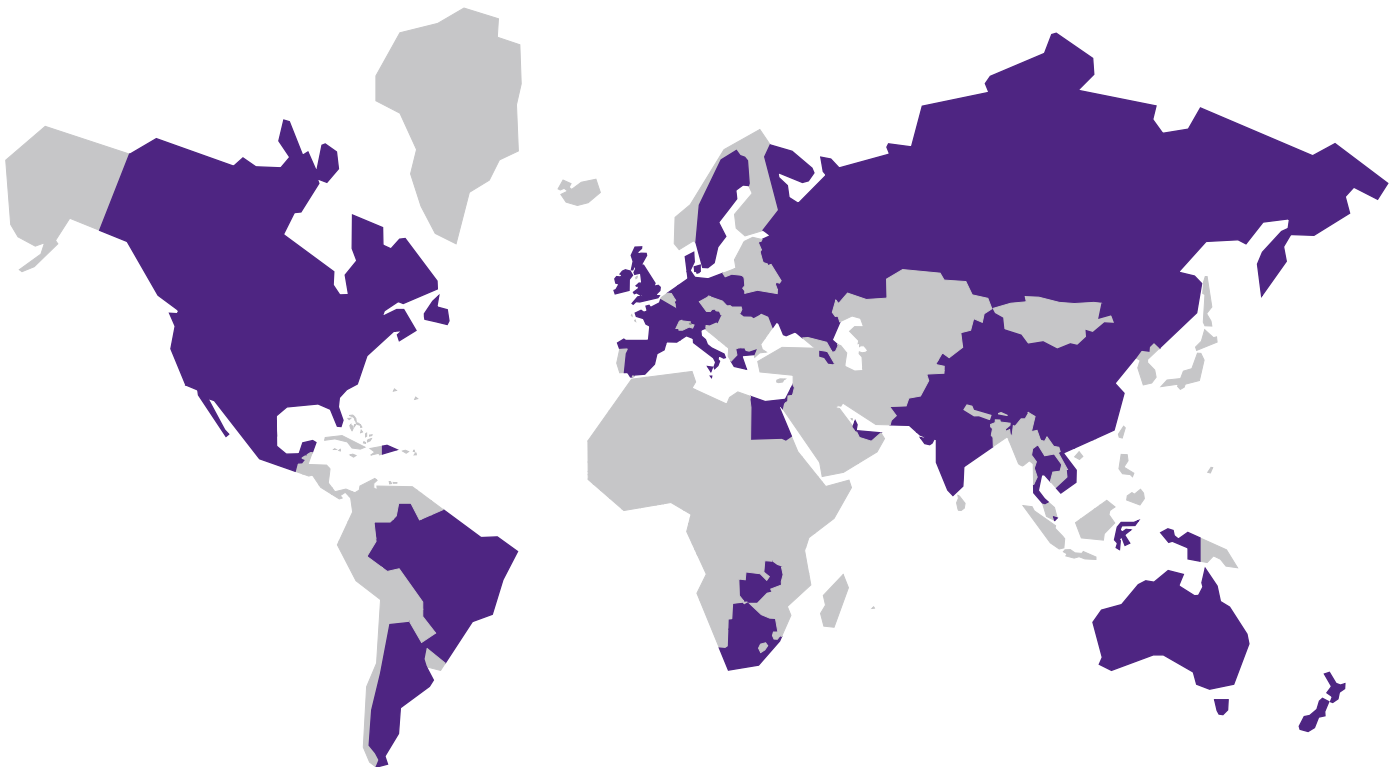
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## About IBR

Grant Thornton has been surveying the opinions of privately held businesses since 1992 through the International Business Report, analysing the attitudes and expectations of senior executives in over 7,200 PHBs across 36 economies. In addition to providing businesses, governments and the media with year on year data tracking business optimism, constraints to business growth and employment trends, the survey has also reported on topics as varied as the environment, women in business, workforce issues and corporate social responsibility. To find out more about the Grant Thornton International Business Report please visit [www.internationalbusinessreport.com](http://www.internationalbusinessreport.com)



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