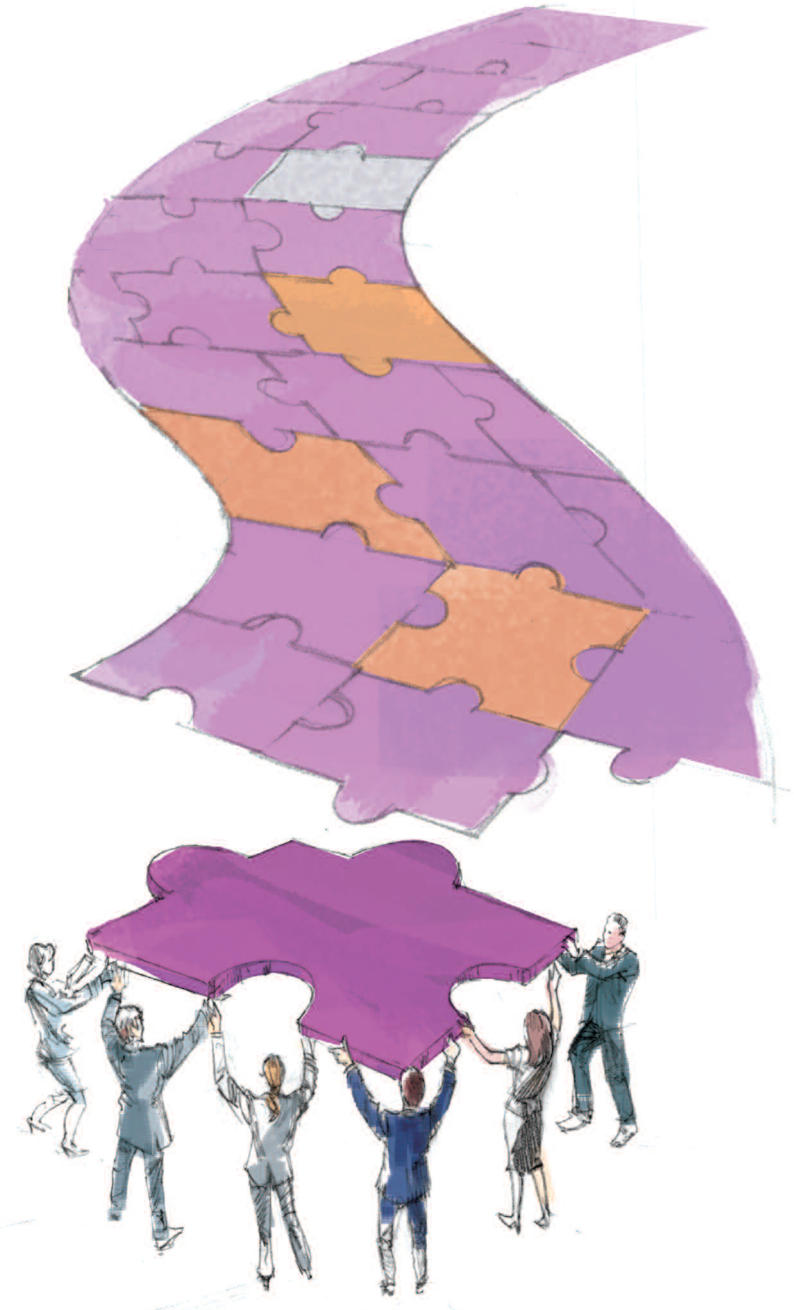
Grant Thornton

Mergers and acquisitions: global prospects for growth

International Business Report 2011



Contents

01 Introduction

02 Global overview

05 North America

06 Europe

08 BRIC

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

Backed by stronger credit and equity markets going into 2011, privately held businesses (PHBs) show renewed confidence about their M&A plans as the global economy gradually emerges from the downturn.

Grant Thornton International, through its International Business Report (IBR), has been surveying the views of PHBs for 19 years. Its latest study, conducted in December 2010, reveals that 34 per cent of the 6000 respondents across 39 economies are planning acquisitions, an increase of eight percentage points on last year. At a time of improving economic and financing conditions, PHBs are again looking towards acquisitions as they shift their mindset from survival to strategic growth.

Ambitious businesses now sense that the combination of a more stable global economy and receptive vendors is generating interesting acquisition opportunities. Furthermore, private equity buyers, with substantial capital to invest are also showing a strong appetite for deals. Indeed, Grant Thornton member firms are reporting a definite revival in M&A activity, a change evident both in the number of transactions being completed and in a general shift in mood, suggesting the pickup in activity will be sustained throughout 2011.

Significantly, in a market reliant on underlying confidence, there have been notable increases in the number of PHBs believing that trade and/or financial buyers are eager to engage with 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

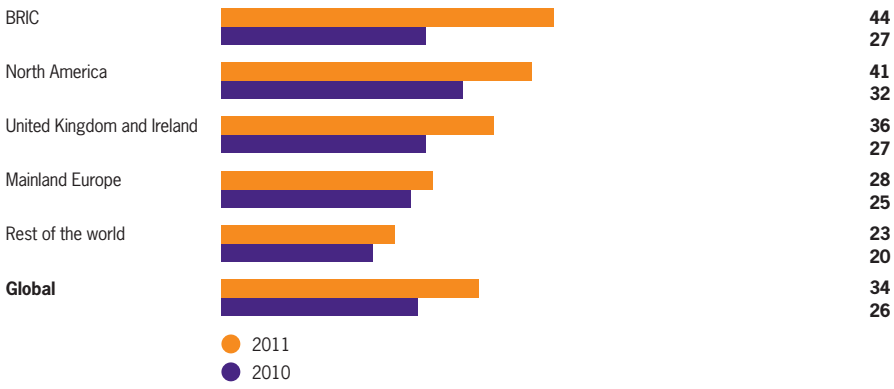
Global overview

As the global economy emerges from the economic downturn, the research shows signs of confidence spreading across PHBs.

Our survey suggests there will be an upswing in mergers and acquisitions in 2011 as some 34 per cent of respondents say they plan to grow through acquisition. This compares with 26 per cent of PHBs surveyed a year ago when there was much more caution about the global economy and the availability of finance (see figure 1).

PHBs in every major region are more positive about making acquisitions this year than in 2010. The BRIC economies (Brazil, Russia, India and China) are leading the way with 44 per cent saying they are planning to grow by acquisition, a big increase on last year when only 27 per cent responded positively. In North America, 41 per cent of PHBs are considering acquisitions (2010: 32 per cent), as are 36 per cent of PHBs in the UK (2010: 26 per cent). PHBs in mainland Europe are also planning to be more acquisitive, with 28 per cent looking to grow their business through acquisitions compared to 25 per cent in 2010. Prospects for acquisitions are similarly upbeat in other parts of the world with 23 per cent of PHBs considering deals (2010: 20 per cent).

Figure 1: Plans to grow through acquisition
Average percentage of businesses



Source: Grant Thornton IBR 2011

For the past 18 to 24 months, most businesses focused their deal making on synergies to improve cost structures to withstand the challenging economic environment. Now at the beginning of 2011, with many businesses emerging from the global downturn, strategic growth rather than cost-cutting and mere survival, has come to the fore again.

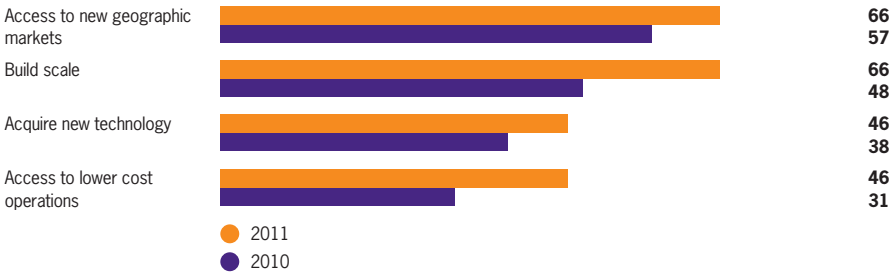
For those PHBs inclined to make acquisitions, some 66 per cent say that one of the key drivers behind their growth plans is the desire to build scale: only 48 per cent cited this reason in 2010 (see figure 2). And 66 per cent also cite access to new markets compared to 57 per cent last year. For the BRIC economies, the acquisition of new technology or established brands was almost as important, with 63 per cent identifying this as a driver for growth (2010: 44 per cent).

In the search for growth, some 32 per cent of acquisitive businesses are planning to grow through cross border acquisitions, up from 28 per cent a year ago. There is a particular drive towards cross border deals in mainland Europe where 41 per cent of respondents planning an acquisition say they are considering international deals (2010: 34 per cent), perhaps reflecting limited options for domestic growth.

At a headline level, there has been little year on year change in the numbers of PHBs anticipating a change in ownership (see figure 3). However, in important markets such as the United States, the United Kingdom, mainland China and India there has been a noticeable increase in owners expecting to sell to either a trade or private equity buyer.

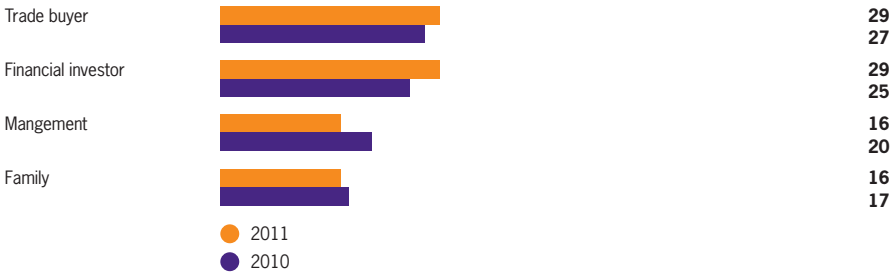
Commenting on the results, Mike Hughes remarks, "Well managed businesses represent choice targets and will attract strong interest. We have seen recent evidence of high quality businesses attracting premium prices again from corporate buyers. With significant cash balances on many corporate balance sheets and private equity funds desperate to deploy capital, PHBs have every reason to be more upbeat about the prospects of selling to either a trade buyer or financial institution."

Figure 2: Key drivers behind acquisition plans
Average percentage of businesses globally



Source: Grant Thornton IBR 2011

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



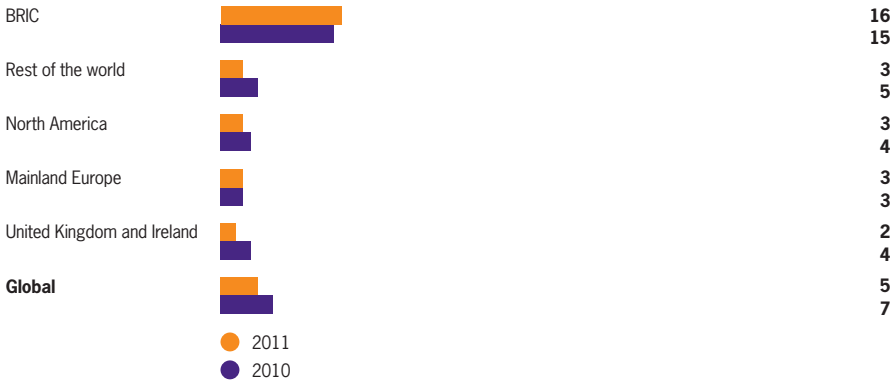
Source: Grant Thornton IBR 2011

Meanwhile, our survey shows that 69 per cent of respondents plan to fund growth through retained earnings and 54 per cent through bank finance, while 18 per cent intend to rely on private equity. The appetite amongst PHBs for public listings has declined slightly, only five per cent say they are planning a listing over the next three years compared to seven per cent in 2010 (see figure 4). Mainland China, however, is one of the most bullish, with 24 per cent planning listings, a 13 per cent rise on last year, reflecting the growth opportunities present in that country.

At the start of 2011 PHBs are showing real signs of optimism both in their appetite for acquisitions 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 confidence translates into transactions, but 2011 should see an increase in M&A volumes.

As confidence builds and companies benefit from improving economic conditions and access to more stable funding, the global outlook is looking more positive.

Figure 4: Plans to undertake a public listing
Average percentage of businesses



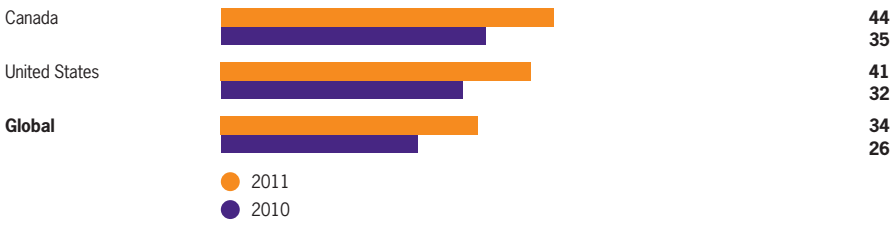
Source: Grant Thornton IBR 2011

"We have recently seen evidence of high quality businesses attracting premium prices again from corporate buyers."

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

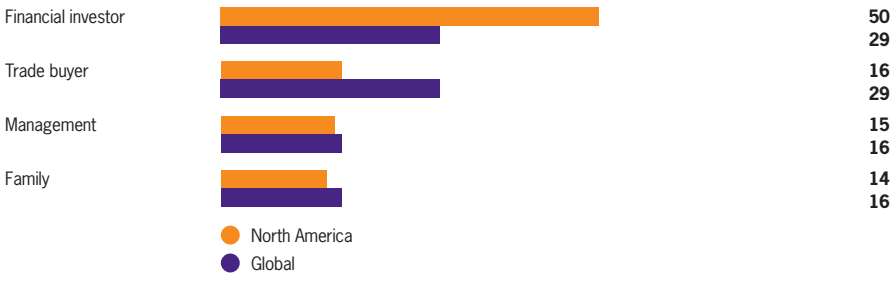
Regional focus: North America

Figure 5: Plans to grow through acquisition
Average percentage of businesses



Source: Grant Thornton IBR 2011

Figure 6: Anticipated purchasers in the event of a change of ownership
Average percentage of businesses



Source: Grant Thornton IBR 2011

Acquisitions are well-established tools of corporate strategy in the United States and Canada, so it is not surprising that 41 per cent of the region's PHBs, comfortably above the global average, are planning acquisitions (see figure 5). The figure is up nine percentage points on last year and growing confidence in the region is reflected in the fact that by far the biggest driver is the desire to build scale, cited by 70 per cent this year compared to only 51 per cent last year.

Stephen McGee, national practice leader of corporate finance at Grant Thornton US, remarks, "After two slow years, with an improving economy and easing credit market, there is considerable pent-up demand for acquisitions. Buyers, both corporates and private equity, are returning to the market looking for growth through acquisitions in what is expected to be a period of anemic GDP growth."

"There is considerable pent-up demand for acquisitions."

Stephen McGee
Grant Thornton, United States

Interestingly, the survey shows 50 per cent of those anticipating a sale now believe a financial investor is the most likely buyer, double the proportion of last year (see figure 6). Commenting on the results, Stephen adds, "Many private equity funds raised funds ahead of the downturn and have struggled to deploy that capital during the recession. With credit flowing again, and a certain amount of time pressure to get funds invested, most private equity funds are ramping up their investment activity. With earnings and valuations picking up, this will bring more sellers into the market, especially as Washington contemplates tax code reform and potential increases to the capital gains tax rate in 2013 or possibly sooner."

Europe

The European figures broadly reflect the global averages but there are some marked and interesting differences between the European countries.

The survey reveals that PHBs in the United Kingdom are more open to the idea of selling their businesses: 16 per cent anticipate a change of ownership as against nine per cent in mainland Europe. For PHBs in the United Kingdom who are anticipating an exit, there is a noticeable increase in the number who consider trade as the most likely buyer, 56 per cent this year compared to only 36 per cent in 2010. Reflecting on the United Kingdom results, Geoff Davies, partner at Grant Thornton UK notes, "Over the last 12 months there has been an improvement in the appetite and financial capability of trade buyers to do deals. We expect to see deal activity continuing to increase in 2011, with fierce competition for the best businesses. M&A valuations are on the rise, but they are not likely to reach the point where they would choke off deal activity. All in all it is a market conducive to deal making."

Across many European countries PHBs are increasingly considering acquisitions to drive growth (see figure 7). For example, 39 per cent of French PHBs are planning an acquisition, up from 27 per cent last year. A similar position is seen in the United Kingdom, where 36 per cent expect to grow through acquisition. Poland, which recorded one of the highest percentages of PHBs planning to make an acquisition in 2010, was again towards the top of the table in 2011, with 59 per cent of PHBs saying they intend to grow by acquisition. Maciej Richter, partner at Grant Thornton Poland, explains, "Acquisitions remain a key strategic tool for Polish businesses, particularly in circumstances where they can deliver cost synergies by relocating manufacturing operations from higher cost economies into Poland."

Interestingly in Ireland, which faces economic challenges given recent events, more PHBs anticipate making an acquisition compared to 2010. Michael Neary, partner, Grant Thornton Ireland, remarks, "There are a few themes at play in the Irish market, but most notably PHBs recognise that while domestic growth is forecast to be low in 2011 there were positive signs as 2010 produced a record performance by Irish exporters. We believe 2011 is likely to see well capitalised and performing PHBs acquiring potentially under valued assets. In addition we expect a number of sector consolidations as businesses seek scale to drive up efficiency and enhance margins."

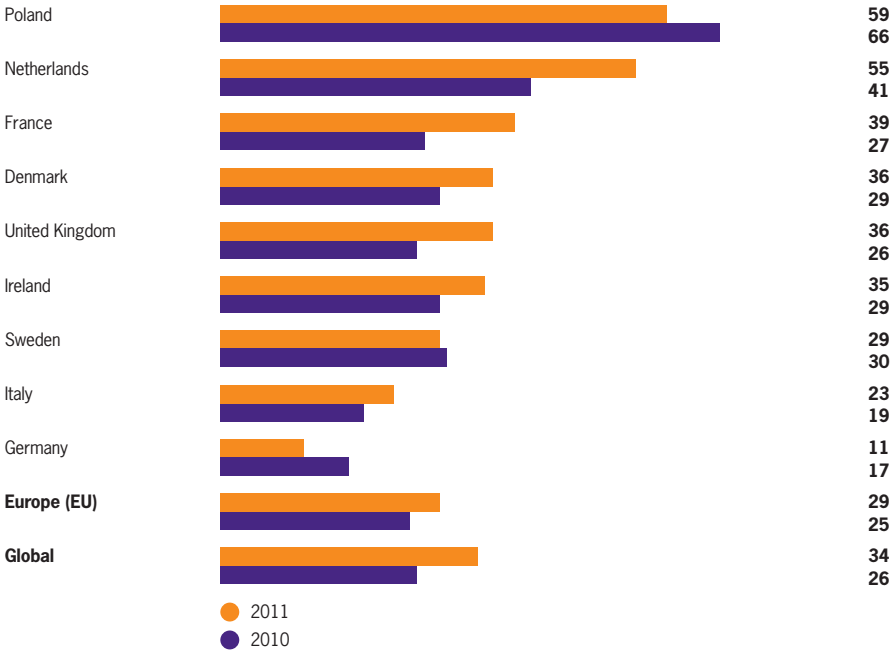
"I expect an upturn in transactions during 2011 as owner managers look to realise value."

Kai Bartels
Grant Thornton, Germany

For those PHBs in Europe looking to grow through acquisition, 41 per cent are considering cross border deals, compared to 34 per cent last year. In the past, cross border activity amongst PHBs was often frustrated by a lack of visibility of suitable targets. Over the last few years, this has changed significantly with international M&A advisers working together. With 48 per cent of acquisitive PHBs in the Netherlands planning cross border acquisitions, Peter den Hertog, partner at Grant Thornton Netherlands recognises this trend commenting, "It is becoming easier for businesses to operate on a global basis. I and my team regularly talk to our colleagues in Grant Thornton firms across the world to discuss suitable acquisition targets or buyers on behalf of clients."

One noticeable exception to the desire for growth through acquisition is Germany, where the survey shows only 11 per cent of PHBs are planning to grow through acquisition. Kai Bartels, partner at Grant Thornton Germany notes, "The legacy of the German family business culture is that many PHBs are inherently cautious when it comes to M&A. However, with succession a key driver of transactions in the German mid market, I expect an upturn in transactions during 2011 as owner managers look to realise value."

Figure 7: Plans to grow through acquisition
Average percentage of businesses



Source: Grant Thornton IBR 2011

For French PHBs, private equity is high on the agenda with 47 per cent citing it as a means of financing growth, compared to a European average of 22 per cent. Commenting on the results, Arnaud Limal, partner at Grant Thornton France, remarks, "Private equity buyers are making a comeback with financing becoming more available and at cheaper rates. Sponsors are keen to invest in good quality businesses where strong growth prospects are supported by an improving economy."

Arnaud adds that private equity will also feature on the sell side. "There is both a pent-up supply of long dated assets in financial sponsors hands and, for institutions who undertook deals in the boom years of 2006 and 2007, a debt refinancing wall approaching in 2013-2014. In today's world of lower leverage, there will not be enough debt to refinance everything, so institutions will need to consider exits sooner rather than later."

"Private equity buyers are making a comeback and sponsors are keen to invest in good quality businesses where strong growth prospects are supported by an improving economy."

Arnaud Limal
Grant Thornton, France

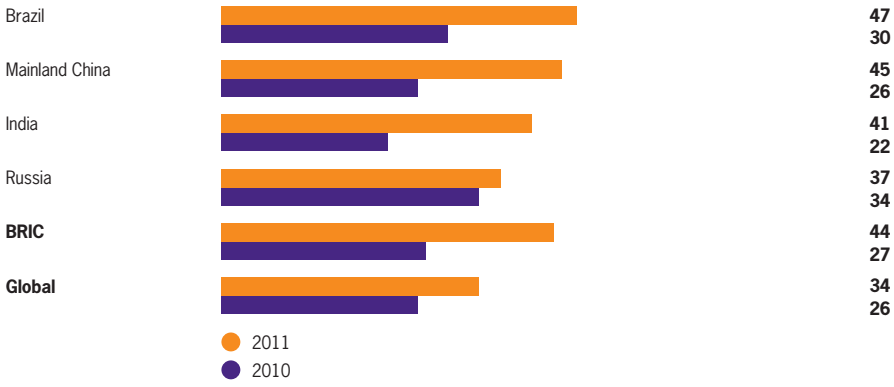
BRIC

PHBs in Brazil, Russia India and China are among the most acquisitive in the world, with on average 44 per cent of them considering an acquisition, an increase of some 17 per cent on last year (see figure 8).

Dongdong Liu, partner at Grant Thornton China, notes, "While inbound investments are rising, the domestic market is also highly active. There is massive untapped potential for M&A in the Greater China region. Chinese companies are very confident and optimistic about their prospects and are serious about M&A".

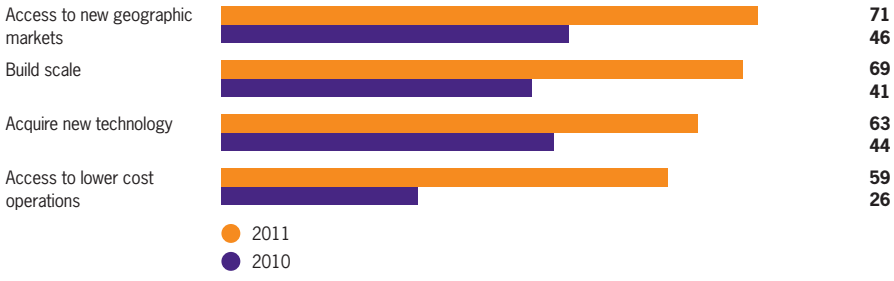
Acquisitive PHBs in the BRIC economies are driven principally by the desire to access new markets, build scale and acquire new technology or established brands. Indian PHBs are among the keenest to make cross border acquisitions, with as many as 40 per cent expecting their acquisitions to be international. Indian companies are now well experienced in dealing with overseas M&A markets and are back on the acquisition trail after a lull following the financial crisis.

Figure 8: Plans to grow through acquisition
Average percentage of businesses



Source: Grant Thornton IBR 2011

Figure 9: Key drivers behind acquisition plans of PHBs in BRIC economies
Average percentage of businesses



Source: Grant Thornton IBR 2011

Whilst many PHBs in the BRIC economies are focused on building value rather than looking to realise it at this stage, the 2011 survey shows there has been a noticeable increase in owners anticipating a change in ownership, with 14 per cent considering a sale compared to nine per cent last year. Mahad Narayanamoni, partner at Grant Thornton India, remarks, "The challenge in India has long been a lack of willing sellers, although this is now changing as Indian businesses are increasingly open to change of ownership. This, coupled with international businesses recognising limited growth opportunities in their domestic market, is driving more inbound activity as buyers seek to establish or increase their foothold in India."

Businesses in the BRIC economies also anticipate the need to raise capital to fund their growth. 16 per cent, significantly above the global average, plan to finance growth through a public listing. Some 24 per cent of mainland China firms mention this source, up from 11 per cent last year, although fewer Indian PHBs said they are considering public listings in this year's survey. Mahad comments, "I am somewhat surprised at this result, as the first half of 2011 is likely to be a good time for businesses to raise money through a public listing. Having said that, a number of high profile listings were postponed towards the end of 2010, which may well have dampened enthusiasm in the very short term and resulted in the cautious response. Also we are seeing an increasing number of businesses looking at private equity funding or private placements as a precursor to a public listing in early 2012."

"Indian businesses are increasingly open to change of ownership."

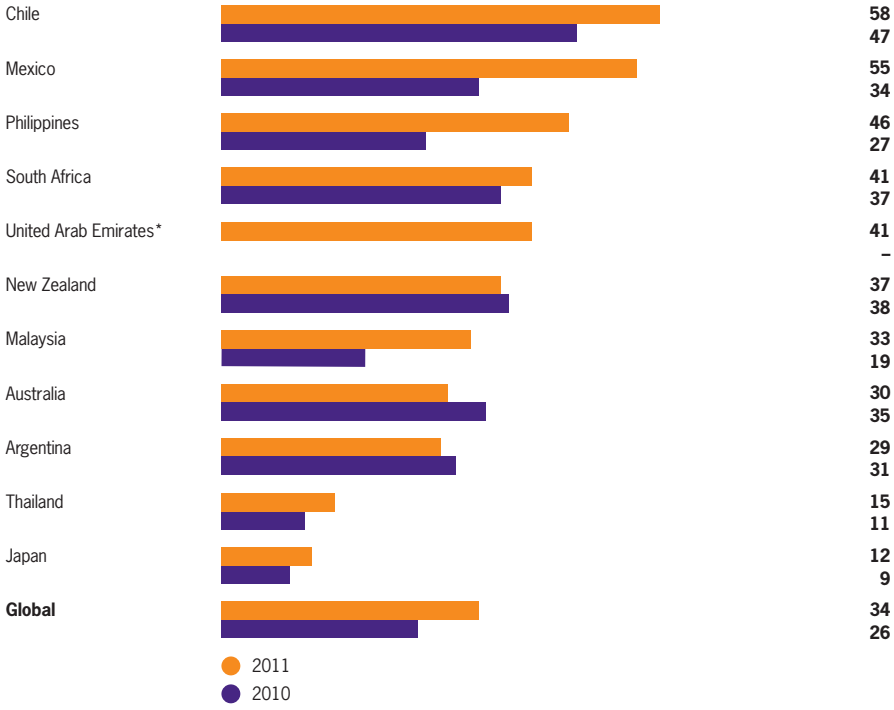
Mahad Narayanamoni
Grant Thornton, India

Rest of the world

"Many organisations in the Middle East are sitting with big cash positions and are well positioned to pursue both domestic and international deals."

David Fisher
Grant Thornton, Middle East Advisory Services

Figure 10: Plans to grow through acquisition
Average percentage of businesses



*2010 data not available
Source: Grant Thornton IBR 2011

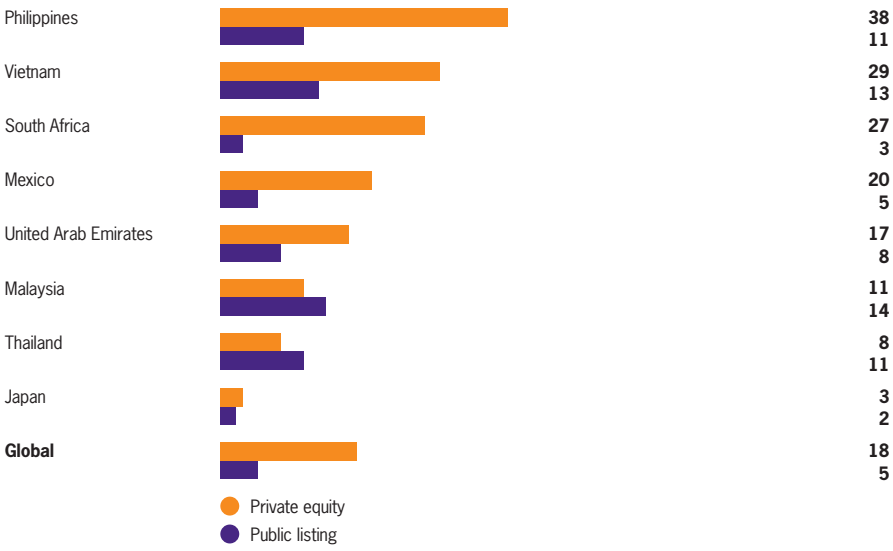
PHBs in the rest of the world present a mixed picture, ranging from the bullish businesses of Latin America and the United Arab Emirates to the more cautious approach in Japan.

Commenting on the outlook for M&A in the United Arab Emirates, David Fisher at Grant Thornton Middle East Advisory Services, remarks "With large parts of the region's wealth being in the hands of government organisations their vision for the region is key to growth.

Having recently made a number of high profile acquisitions they are now becoming much more strategic in their approach to investing and are refocusing on the region, with infrastructure investment as a key driver, rather than internationally. The large family investors no longer see private equity funds as flavour of the month and are instead turning their attention to more direct investment."

For Africa, following a buoyant 2010 FIFA World Cup year and calls for the economy to be considered alongside leading emerging markets, such as the BRIC economies, business sentiment remains positive, especially in the important South Africa market where 41 per cent of PHBs are looking to make acquisitions (37 per cent 2010). Interestingly, 27 per cent of South African businesses are considering utilising private equity as compared to the global average of 18 per cent. Jeanette Hern at Grant Thornton South Africa, commented, "There is strong competition in the market between the various local and global private equity funds looking to deploy capital in South Africa, with many viewing the country as a stepping stone into the rest of Africa. This is making private equity an increasingly attractive option for South African businesses looking to grow."

Figure 11: Plans to raise capital through private equity and public listings
Average percentage of businesses



Source: Grant Thornton IBR 2011

In Asian countries, even outside the fast growing markets of China and India, PHBs look set to step up their interest in acquisitions. Some 46 per cent of firms in the Philippines are planning deals, up from 27 per cent in 2010, and 33 per cent in Malaysia, up from 19 per cent last year (see figure 10).

An increasing proportion (20 per cent compared to 12 per cent in 2010) of PHBs surveyed in Vietnam expect a change of ownership, which is perhaps not surprising when 29 per cent plan to finance growth through private equity (see figure 11). Ken Atkinson, partner at Grant Thornton Vietnam, comments, "The general interest in private equity in Vietnam is high with a number of investors raising new funds and therefore the volume of transactions should continue to increase."

"Many view South Africa as a stepping stone into the rest of Africa."

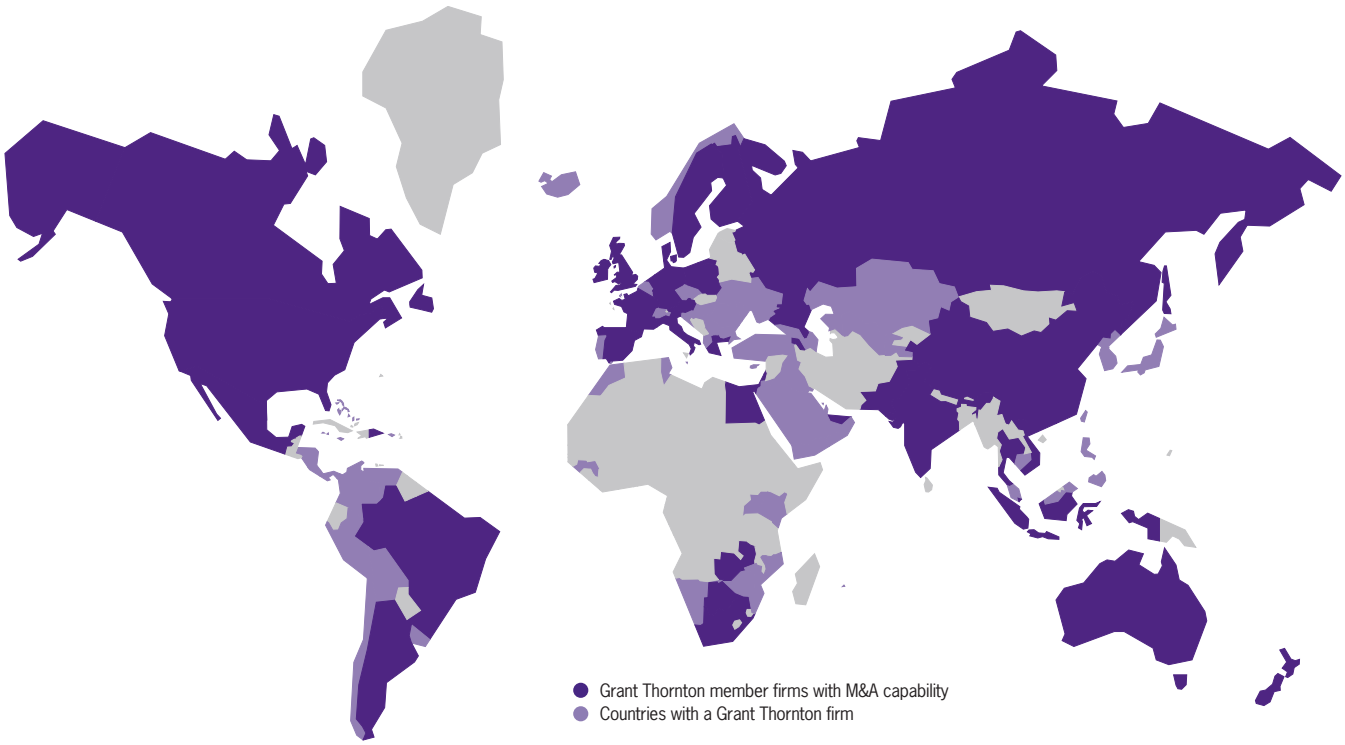
Jeanette Hern
Grant Thornton, South Africa

Our M&A capability

Grant Thornton 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 2,500 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 member firms currently have operations please visit www.gti.org



Please visit www.grantthorntonibos.com for information on the IBR survey methodology.

M&A contacts

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

Armenia
Grant Thornton Amyot LLC
Gagik Gyulbudaghyan
T +374 (0) 10 260 964
E ggl@gta.am

Australia
Grant Thornton
Scott Griffin
T +61 (0)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

Brazil
Grant Thornton
Link Costa
T +55 11 9142 8206
E link.costa@br.gt.com

Canada
Grant Thornton
Troy MacDonald
T +1 416 369 6401
E troymacdonald@grantthornton.ca

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

China
Grant Thornton
Dongdong Liu
T +86 8566 5588
E dongdong.liu@cn.gt.com

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

Dominican Republic
Grant Thornton, República Dominicana, S.A.
José Luis De Ramón
T (809) 563 6183
E jose.deramon@do.gt.com

Egypt
Grant Thornton Mohamed Hilal
Hossam El Besher
T +2 (02) 25770785 |
E hbesher@gtegypt.org

France
Grant Thornton
Arnaud Limal
T +33 (0) 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
Warth & Klein Grant Thornton AG
Kai Bartels
T +49 151 5444 0104
E kai.bartels@wkgt.com

Greece
Grant Thornton Greece
George Deligiannis
T +30 2 10 72 80 000
E george.deligiannis@gr.gt.com

Hong Kong
Grant Thornton Jingdu Tianhua
Barry Tong
T +852 3987 1266
E barry.tong@cn.gt.com

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

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

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

Israel
Fahn Kanne Consulting Ltd
Shlomi Bartov
T +972 3 7111690
E shlomi.bartov@il.gt.com

Italy
Grant Thornton Bernoni & Partners
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
Peter den Hertog
T +31 010 270 5111
E peter.den.hertog@gt.nl

New Zealand
Grant Thornton
Brendan Lyne
T +64 9 300 5806
E brendan.lyne@nz.gt.com

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

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

Russia
Grant Thornton
Ivan Sapronov
T +7 095 258 99 90
E isapronov@gtrus.com

Singapore
Grant Thornton
Kon Yin Tong
T +65 6304 2301
E yintong.kon@sg.gt.com.

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

Spain
Grant Thornton
Ramón Galcerán
T +34 93 206 39 00
E ramon.galceran@es.gt.com

Sweden
Grant Thornton
Isac Stenborg
T +46 8 563 070 47
E isac.stenborg@grantthornton.se

Thailand
Grant Thornton
Ian Pascoe
T +66 2205 8100
E ian.pascoe@gt-thai.com

United Arab Emirates
Grant Thornton Middle East Advisory Services
David Fisher
T +971 4 447 3874
E david.fisher@ae.gt.com

United Kingdom
Grant Thornton
Geoff Davies
T +44 1223 225630
E geoff.davies@uk.gt.com

United States
Grant Thornton
Stephen McGee
T + 1 617 848 4988
E stephen.mcgee@us.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

© 2011 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.