February 2013

The Global Corporate Advisor

The Corporate Finance newsletter of Crowe Horwath International

Welcome to the February edition of the Global Corporate Advisor (GCA) newsletter. I'm happy to bring you this month's issue, which contains the latest thought leadership on M&A activity from around the world.

As the Regional Leader for Central and Eastern Europe, I'm based in Prague and responsible for corporate finance services in the Czech Republic and Slovakia. Before joining TPA Horwath in February 2010, I spent ten years at Ernst & Young, where I worked on M&A transactions in Bulgaria, the Czech Republic, Poland, Romania and Slovakia. As well as advising on M&A transactions, I also provide clients with advice on valuations, privatizations and restructuring.

In the past few months, those of us working in Central and Eastern Europe have seen an ambiguous situation. The number of acquisition-seeking investors has emerged. Yet, it is noticeably more demanding to match buyer's and seller's appetite. The sellers tend to tie their price expectations to before-crisis prospects. Which is what buyers sometimes fail to meet.

In 2012, Germany's initial public offering (IPO) market slumped to new lows, but the good news is that IPO are once again on the rise. In this month's issue, Gerald Hespelt from the Frankfurt office provides a forecast for the rest of 2013.

Mark Calvetti from Sydney provides us with a global overview of M&A transactions in 2012, with a focus on Australia and the Asia-Pacific region. Meanwhile, on the other side of the globe, Elvan Karakus and Dr Hasan Yalçın in Istanbul provides us with a case study on a recent Turkish M&A transaction – one of many that has companies in that region feeling optimistic about the country's future economic prospects.

We also have insights from Raphaël Leveau in Geneva, who looks at the changes Switzerland's healthcare industry is undergoing, and the impact on due diligence when acquiring Swiss hospitals.

As always, if you need M&A transaction support, valuations, M&A advisory services and related services, don't hesitate to contact your local advisor.

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Inside This Issue:

M&A Activity in 2012: An Overview

By Mark Calvetti, Sydney

The turbulent market conditions of the last few years continued into 2012. In this article, we will examine the market activity that took place around the world, including private equity activity, and provide an outlook for 2013.

Worldwide M&A activity

M&A activity across the world fell by 2.7% in 2012, with the total value of deals decreasing to US$2.2 trillion. The number of deals that took place fell by 4.7% to 12,512.

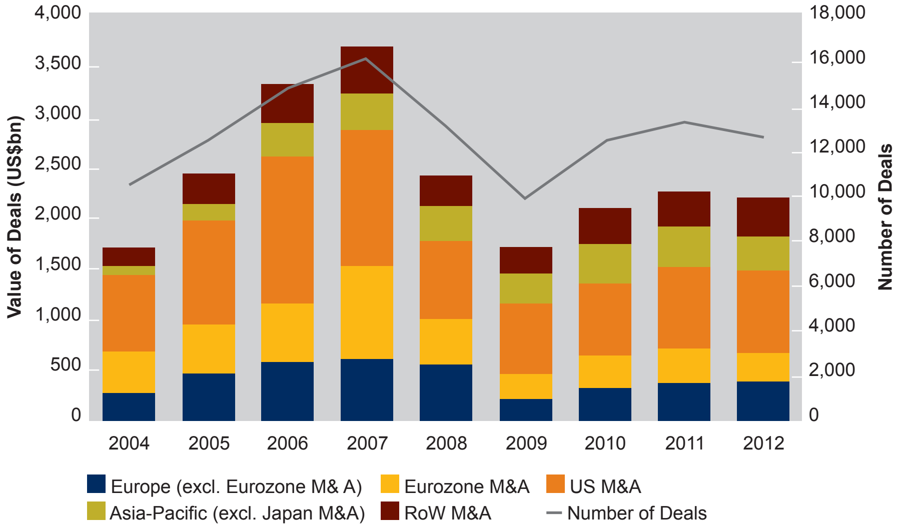
The North American region accounted for 40.9% of global activity by value, followed by Europe (30.8%) and the Asia-Pacific region (20.1%).

The energy, mining and utilities sector saw the most activity in 2012, accounting for 26.5% of global deal value, totaling US$568 billion. The largest percentage increase in deal value occurred in the agriculture and consumer sectors, which saw the total value of M&A activity rise by 57.4% and 41.3% respectively.

The largest single transactions in 2012 were Glencore International's US$46 billion acquisition of Xstrata, followed by Softbank's US$36 billion purchase of Sprint Nextel. However, both were dwarfed by Rosneft Oil Company's two-part acquisition of TNK-BP Limited, which came to a combined total of US$59 billion.

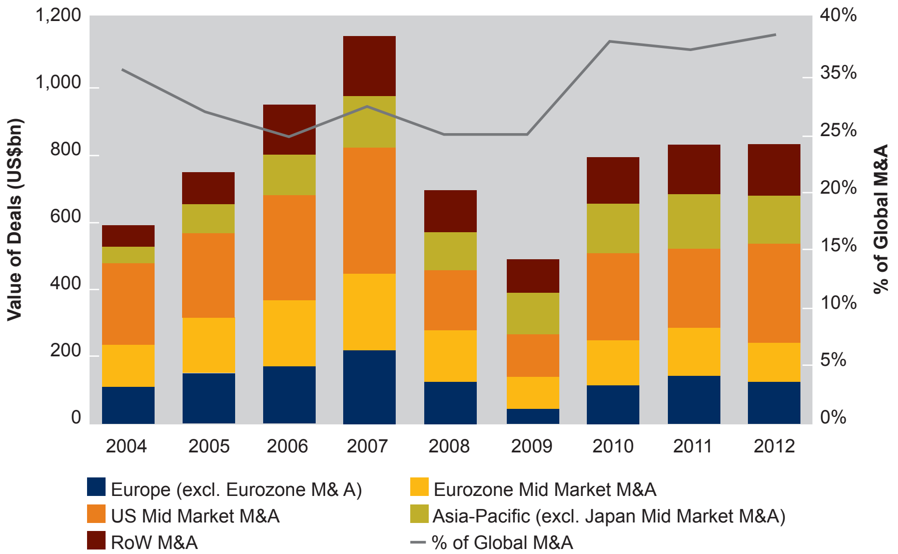
Other notable deals included Anheuser-Busch InBev's US$20 billion acquisition of Grupo Modelo and China National Offshore Oil Corporation purchasing Nexen Incorporated for US$18 billion.

Figure 1: Annual global M&A activity



Source: Mergermarket

Figure 2: Annual global mid-market activity



Source: Mergermarket

Private equity activity

Private equity buyouts totaled US$255 billion in 2012, 45.9% of which came from the US. Buyouts in the Asia-Pacific region (excluding Japan) decreased by 30.7%, with a total value of US$27 billion.

The Carlyle Group carried out the greatest number of deals, namely 25 transactions worth a combined total of US$18 billion.

In addition, private equity exits increased by 4.5% in 2012, adding up to US$305 billion. Close to 50% of exits took place in the US. Private equity firm Draper Fisher Jurvetson realized the highest total value of exits, receiving a total of US$2 billion on 13 deals.

Mid-market deals

The total value of mid-market deals increased marginally to US$820 billion from the 2011 total of US$819 billion. Nearly a quarter of all mid-market transactions took place in the energy, mining and utilities sector.

Notable mid-market transactions in 2012 include Sumitomo Group's US$454 million acquisition of Aquila Resources' interest in the Isaac Plains coal mining operation and Leggett & Platt's US$188 million acquisition of the Western Pneumatic Tube Company, a fabricator of metals in the aerospace industry.

Asia-Pacific M&A in 2012

The total value of M&A activity in the Asia-Pacific region (excluding Japan) increased to US$331 billion in 2012 from US$262 billion in 2011, despite the number of deals in the region falling to 5,160 from 6,045.

The increase in deal value was primarily driven by several high-profile acquisitions in the beverage sector. These included Heineken's US$6.6 billion acquisition of Fraser and Neave's minority stake in Asia Pacific Breweries, and UK-based Diageo acquiring a controlling interest in India's United Spirits.

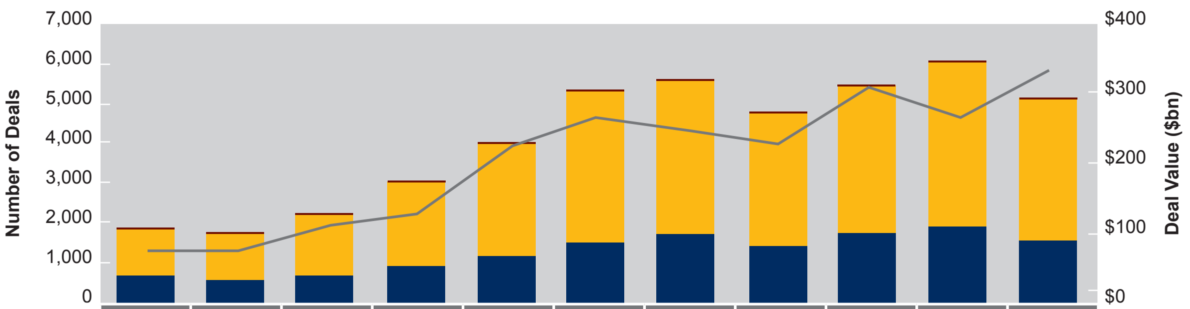
Cross-border deals

The number of inbound deals in the larger Asia-Pacific markets – China, India and Japan – fell to 476 in 2012 from the 707 inbound transactions carried out in 2011. The number of outbound deals remained consistent, however, with 865 deals carried out in 2012 – just six more than in 2011.

Transactions between Asia-Pacific countries accounted for 64% of cross-border deals in the region in the first half of 2012, with smaller transactions continuing to make up the majority of deals. Over the last decade, more than half of deals in the Asia-Pacific region have been worth less than US$50 million.

As the global economy improves, we expect that more Asia-Pacific based companies will turn to other regions to explore expansion opportunities. Tokyo-listed NTT Data Corp's acquisition of Sydney-based SAP Business Intelligence services firm Innogence is an excellent example of what could be a major new trend.

Figure 3: Asia-Pacific M&A activity (excluding Japan)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total	1,794	1,672	2,135	3,010	3,975	5,267	5,478	4,716	5,454	6,045	5,160
No. of Deals – >$1B	13	13	20	19	41	39	37	31	55	45	49
No. of Deals Middle-Market	1,125	1,164	1,513	2,130	2,816	3,766	3,718	3,280	3,692	4,104	3,574
No. of Deals – Undisclosed	656	495	602	861	1,118	1,462	1,723	1,405	1,707	1,896	1,537
Deal Value	$72	$74	$108	$126	$219	$263	$248	$225	$302	$263	$331

No. of Deals – Undisclosed No. of Deals – Middle-Market No. of Deals – >$1B — Deal Value

Source: Robert W. Baird & Co Incorporated M&A Market Analysis

Australian M&A

The total value of Australian M&A activity fell by 41.5% to A$45 billion in 2012 compared to 2011. However, the number of deals increased to 414 in 2012 from 405 in 2011.

The energy, mining and utilities industries continued to dominate the Australian M&A scene in 2012, accounting for 44.5% of the market and A$20 billion worth of deals. This was largely due to recovering iron ore and commodities prices.

Notable transactions in this sector included a consortium made up of Marubeni Corporation, POSCO and STX Corporation purchasing a 30% stake in Roy Hill Holdings for A$4 billion. Another major purchase was the A$2 billion acquisition of Sydney Desalination Plant by a consortium that included the Ontario Teachers' Pension Plan Board and Hastings Funds Management.

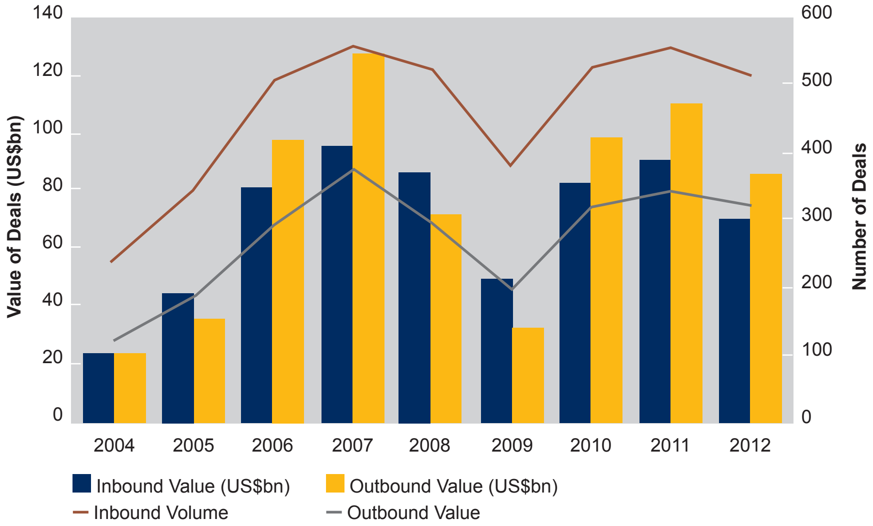
The media sector saw the largest rise in the number of deals, which more than doubled from 12 to 25. The number of transactions in the consumer sector fell to 34 in 2012 from 47 in 2011, and the total deal value also fell by 82.2% to A$3.48 billion over this timeframe.

The outlook for 2013

Several transactions have already taken place in 2013. In the first week of January, US company Riverside announced an investment in CorporateRewards, a facilitator of incentive, recognition and wellness programs. In Europe, Silverfleet announced the acquisition of Cimbria Group, a manufacturer of seed and grain processing equipment, for €137m from private equity fund Axcel.

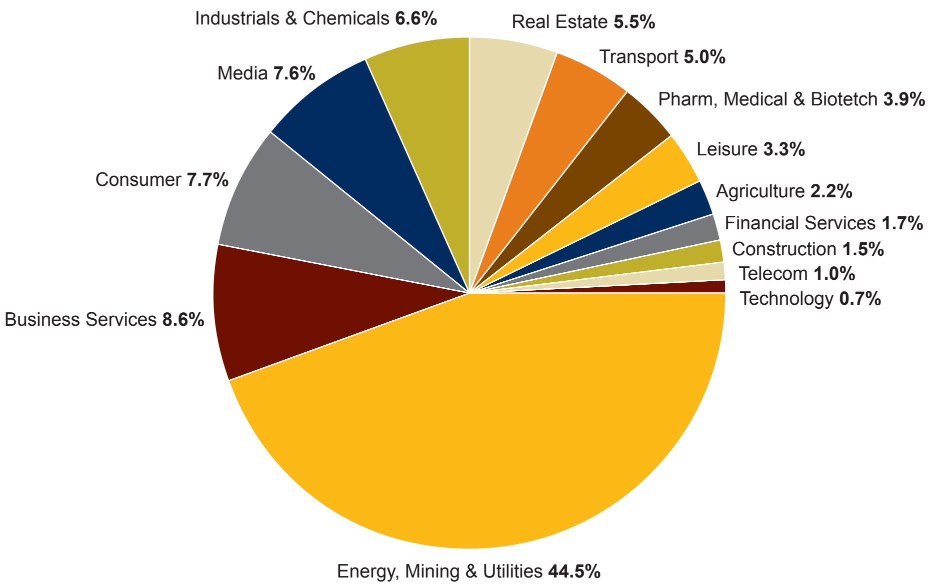
Crowe Horwath expects the technology, media and telecommunications sector to be the most active for deals in 2013. We believe market participants will prefer to make strategic acquisitions to remain competitive.

Figure 4: Asia-Pacific cross-border M&A (excluding Japan)



Source: Mergermarket

Figure 5: Australian M&A activity by industry



Source: Mergermarket

We also expect multinational mining companies to continue reducing costs, as well as their exposure to maturing assets and risk-adjusted capital. This means the energy, mining and utilities industry, as well as the industrial and chemicals sector, is likely continue to account for a large proportion of global deal volumes.

The majority of deal volume will continue to come from the Americas in 2013. However, Europe and Asia are expected to account for nearly two-thirds of deals this year.

Figure 6: Global M&A activity 2013 heat chart

Sector	Americas	Europe	Asia	Africa	Middle East	Total
TMT	1,138	670	579	21	79	2,487
Energy, Mining & Utilities	894	516	595	113	30	2,148
Industrials & Chemicals	520	772	756	24	21	2,093
Consumer	555	713	545	22	9	1,844
Pharma, Medical & Biotech	633	280	293	5	20	1,231
Financial Services	347	371	319	39	19	1,095
Business Services	509	293	229	16	9	1,056
Leisure	209	301	198	10	9	727
Transportation	154	228	168	10	7	567
Real Estate	79	103	193	17	12	404
Construction	80	159	137	17	8	401
Agriculture	29	53	135	9		226
Defence	96	19	7	1	3	126
Other	6	16	15	2		39
Government	15	12	7			34
Total	5,264	4,506	4,176	306	226	14,478

Source: Mergermarket

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Making a Comeback: the Positive Outlook for Germany's IPO Market

By Gerald Hespelt, Frankfurt

Germany's initial public offering (IPO) market slumped to a new low in 2012 on the back of weak global market conditions. Only 11 companies floated on the Frankfurt Stock Exchange last year, down from 14 in 2011.

However, we believe that the number and value of IPOs in Germany will rise in 2013, driven by growing positive sentiment, declining volatility in global share markets and a potential resurgence in real estate listings.

Looking back

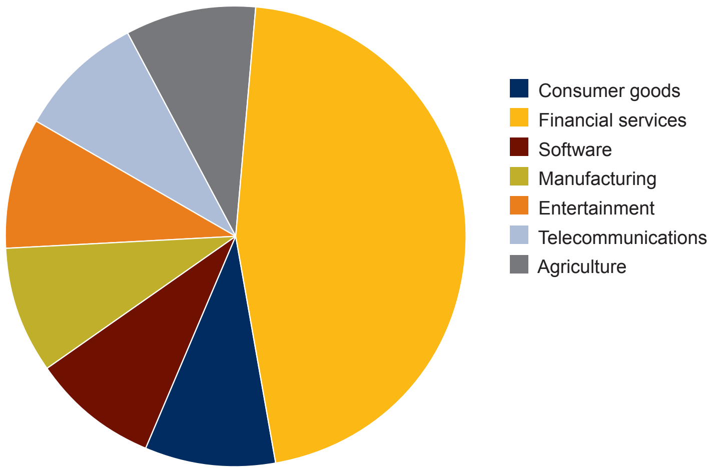
During 2012, the majority of floats occurred in the consumer goods sector (46% of the total number of companies that listed). In 2011, companies undertaking floats were drawn from a wider variety of sectors. For example, 86% of the companies launching an IPO that year came from the industrial, consumer goods and real estate sectors.

However, even though the number of IPOs fell in 2012, placement volumes rose to €2.38 billion in 2012 from €1.61 billion in 2011.

Germany's two largest IPOs in 2012 were the float of telecom company Telefonica Germany Holding AG (worth €1.45 billion) and of insurance company Talanx AG (worth €817 million). These two deals accounted for 95% of the placement volume last year. Several large IPOs that had been announced were postponed due to turbulent market conditions.

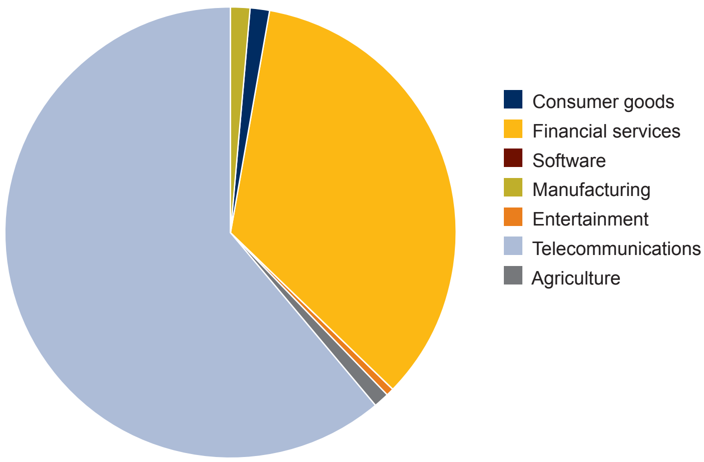
Six Chinese companies also listed on the stock market in 2012. However, their average placement was relatively low – around €6.4 million in 2012 – and down from the average of €27.6 million recorded in 2011. None of the Chinese companies sold all the shares they offered.

Figure 1: Number of IPOs per sector, 2012



Source: Crowe Horwath and Blättchen & Partner

Figure 2: IPO placement volume by sector, 2012 (€ millions)



Source: Crowe Horwath and Blättchen & Partner

Market activity was also affected by the lack of real estate companies undertaking listings last year. In 2011, the two real estate companies that floated resulted in the two largest IPOs of the year. In addition, eight out of 11 companies decided to list in the Prime Standard segment (an EU-regulated market for companies which has high international-transparency standards) and only three chose the Entry Standard segment – which was a similar result to 2011.

One interesting aspect of 2012 was that Q4 was particularly active with four IPOs taking place. This helped to make Frankfurt the second-busiest European IPO market (after London) over this timeframe, which bodes well for 2013.

Looking ahead

We're often asked whether the market will pick up again in 2013. We believe that we will see more IPOs and a much larger placement volume this year, due to the low volatility in stock prices in recent months and the DAX (the index of the top 30 listed companies in Germany) being close to its all-time high.

Also, according to the latest Deutsche Börse IPO Sentiment Indicator, investor sentiment remains positive for Q1 of 2013, as it was in Q4 last year. Several IPOs in the billion-euro range are also rumored for the second half of 2013.

The first IPO of this year was undertaken by real estate company LEG Immobilien AG, which is owned by PE investors Whitehall and Perry Capital. This listing raised €1.4 billion on 1 February 2013. After the Telefonica Germany IPO in October 2012, it was the second-largest IPO since 2008. Due to the strong real estate market and the high valuation of real estate companies, our team believes that real estate company listings could become one of the main areas of IPO activity in Germany in 2013.

Although it is relatively early in 2013, the outlook for IPOs is quite positive following a very difficult 2012.

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A Clean Bill of Health: Managing Due Diligence When Acquiring Swiss Private Hospitals

By Raphaël Leveau, Geneva

Switzerland's healthcare industry is undergoing major changes. The demand for health services has substantially expanded over recent years, driven by an ageing population, higher levels of disposal income and accelerating technological innovation.

In coming years, we expect healthcare spending and the capital needs of private hospitals to grow, boosted by the impact of healthcare tourism. In this environment, we expect larger private hospitals in Switzerland to acquire competitors and increasingly benefit from this growing demand.

Seeking out healthy opportunities

At present, we are seeing some large, privately-owned hospitals express interest in acquiring underperforming clinics that can be restructured to enhance their operations. However, a constantly changing regulatory environment means potential buyers must continually revise their approach, reassessing the risks and opportunities of a transaction.

These assessments should be underpinned by a robust due diligence process that involves industry-specific analysis to help identify business and value drivers. Due diligence also plays a critical role in highlighting warning signs or potential issues that could be deal breakers.

In the rapidly-evolving Swiss healthcare environment, buyers should undertake sophisticated due diligence in the following areas:

- regulatory compliance
- underinvestment in medical equipment
- debt levels
- underfunded pension liabilities
- enterprise structure (including operating company and property company structures).

How healthy is your target?

When examining potential acquisitions, a buyer should carry out due diligence to evaluate the sustainability of a target's business model and its operational performance. This includes an examination of revenues, operating expenses, employee statistics (such as the age of doctors and their contributions to revenue), and key business drivers including the hospital's occupancy rate and average length of stay.

The due diligence team should also investigate a target's efficiency, quality of service, risk factors and future capital expenditures (for new medical activities) when determining valuations. Further, the team should analyze the value of existing equipment to identify where underinvestment (if any) is taking place.

In our experience, it may be challenging to form an accurate picture of a private hospital based on reported earnings. This is because earnings can be subject to accounting and normalization adjustments which can affect their quality. For example, work-in-progress may be inappropriately recognized, non-recurring revenues and expenses may be eliminated, or the accounts may include inappropriate depreciation expenses.

During transactions, buyers can also be confronted with related-party transactions that favor existing shareholders or board members, in the form of higher salaries or management fees. However, in our opinion, buyers should not be too concerned about these issues as they reduce the earnings before interest, taxes, depreciation, and amortization (EBITDA) or EBIT base for price negotiations.

The need for trusted advice

Due to the flexibility of Swiss accounting regulations for preparing accounts, it can be hard for private hospital buyers to comprehensively evaluate potential targets by simply analyzing their financial statements. During due diligence, we have seen buyers often find it difficult to rely on accounts that comply with Swiss accounting standards. We recommend that companies pursuing deals in the Swiss private hospital market consult experienced industry specialists who can confidently navigate this space and deliver valuable deals.

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Crowe Horwath

A Package Deal: Crowe Horwath's Role in Turkish Merger and Acqusition Activity

Elvan Karakus and Dr Hasan Yalçın, Instanbul and Klaus Bauermitterlehner, Partner, TPA Vienna

Turkey has been one of the world's best performing economies throughout the global financial crisis.[1] While the country's growth rates slowed in 2012, many companies remain optimistic of the country's future economic prospects.

At Crowe Horwath Turkey, we have been active in helping companies close major deals. On 13 December 2012, Dunapack Mosburger Packaging, part of the Austrian-based Prinzhorn Holding, announced they would acquire the majority of the Turkish publicly traded paper and packaging producer, Dentaş Ambalaj Ve Kağit Sanayi A.Ş.

Klaus Bauermitterlehner, a member of the GCA team in Vienna, recommended GCA Troy to Dunapack Mosburger Packaging. GCA's Troy-based team worked on the deal for eight months, advising Dunapack Mosburger Packaging and Prinzhorn Holding on the transaction. The deal was worth US$110.8 million and was one of the major M&A transactions in Turkey in 2012, following Russia's Sber Bank acquisition of Denizbank.

Behind the deal

The deal target, Dentaş Ambalaj, was the fourth largest provider of corrugated packaging solutions in Turkey, holding 10% of the market. Each year the company produces 360 million square meters of corrugated board (equivalent to 180,000 tons). The company provides tailor-made packaging solutions for around 3,000 clients across the agriculture, food and beverage sectors.

Dunapack Mosburger Packaging, who was driving the deal, is the market leader for corrugated packaging in Central and Eastern Europe. By acquiring Dentaş Ambalaj, the company will boost its annual sales volume by 33% to 1.4 billion square meters (equivalent to 700,000 tons) of corrugated packaging. Dunapack will also advance towards its strategic goal of doubling production to 2 billion square meters by 2020.

Dentaş Ambalaj was divided into three divisions – recycling (collection and trading of recycled paper), containerboard and corrugated packaging. Prinzhorn Holding CFO Cord Prinzhorn said this structure was similar to Prinzhorn, and represented a "perfect addition to our group".

"With the acquisition we can exploit synergies in all three divisions, increase our strong market position in the region and further develop the high quality and service standards of our group," he said.

Expanding into the growing Turkish market

Dunapack Mosburger Packaging sees strong growth potential in Turkey and the Black Sea region as a whole. The company has been steadily building its presence in and around Turkey, and in November 2012, the company opened a new packaging plant in Kherson in the Southern Ukraine. In addition, it has production facilities in Romania and Bulgaria.

With the acqusition of Dentaş Ambalaj, the company will have six production sites in the countries bordering the Black Sea. "Turkey is a logical addition for Dunapack in this geographical region", Dunapack Mosburger Packaging Managing Director Alexander Enzenberg said.

1 Iyigun, S., *Cautious Turkish central bank pressured by growth-hungry government*, Reuters, www.reuters.com/article/2013/02/13/turkey-economy-growth-idUSL5N0BD1UR20130213, 13 February 2013.

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