January 2012

The Global Corporate Advisor

The Corporate Finance newsletter of Crowe Horwath International

Welcome to the January edition of the Global Corporate Advisor (GCA) newsletter

The Chinese year of the dragon is upon us, promising success and happiness in 2012. To help you reach your company's goals this year, we have two enlightening articles.

The first article by Brad Higgs from Crowe Horwath in Sydney looks back on the key influences on economies and financial markets in 2011, which should provide valuable insight into potential market developments in 2012. There is also an informative summary of merger and acquisition activity during the past 12 months.

Also in this issue, Chulanga Jayawardana with Crowe Horwath in London provides advice on how to prepare for the due diligence process involved in selling your business. In what can be a complicated and confusing task, his pearls of wisdom will help guide sellers through a trouble-free transaction.

I'd like to wish our readers a happy and prosperous New Year and let's hope the Mayans were not accurate with their predictions of the Apocalypse!

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Key Influences on Economies and Financial Markets in 2011

By Brad Higgs, Principal, Corporate Finance, Crowe Horwath Australia

Most analysts listed the European debt crisis and a spate of natural disasters as the key influences on economies and financial markets in 2011.

The debt crisis emerged in smaller economies Ireland, Greece and Portugal but then spread to Spain and Italy. As a result, rating agencies now have the entire euro region on credit watch.

Natural disasters included earthquakes in many regions and floods in Australia, Asia and Europe. The quake in Japan and the resulting tsunami and nuclear accident wreaked havoc across the north-east of the country's main island of Honshu, reducing the nation's industrial output.

Political wrangling over the European debt crisis, and the failure of the main political parties in the United States to agree on how to quickly deal with budget and debt problems, added to the instability that reigned over 2011.

Regional political upheaval occurred across North Africa and the Middle East; Egypt and Libya underwent regime changes.

While the financial outlook remains precarious with significant uncertainty in some financial markets, we consider that 2012 will present opportunities across regions and sectors for transactions. Areas such as cleantech, mining & resources, technology, health and staples (such as food and non-discretionary consumables) have performed well in 2011 and we expect will continue to do so 2012.

Growth or recession in 2011

Despite the issues in Europe and the US, the global economy did continue to expand in 2011 – largely due to the performance of emerging nations such as China, India, Brazil, Russia and some other eastern European and Asian countries.

In September 2011, the International Monetary Fund (IMF) estimated the global economy would grow by 4% in 2011 after 5.1% growth in 2010. It expected advanced economies to grow by 1.6% in 2011 and emerging and developing nations to expand by 6.4%. The IMF predicted another year of 4.0% growth for the global economy in 2012.

Global sharemarkets

Only eight of 73 global sharemarkets ended the year higher in 2011 – all other exchanges experienced losses.

The exchanges that gained were:

Percentage Gain on Exchange index between 1 January 2011 & 31 December 2011

		%
1. Venezuela	▲	79.1
2. US Dow Jones[1]	▲	5.5
3. Philippines	▲	4.1
4. Indonesia	▲	3.2
5. Ecuador	▲	1.5
6. Qatar	▲	1.1
7. Malaysia	▲	0.8
8. Ireland	▲	0.6

1 although the other US exchanges were mixed

The 10 biggest losing exchanges as reported by Business Insider (www.businessinsider.com) included:

Percentage Decrease on Exchange index between 1 January 2011 & 31 December 2011

		%
1. Cyprus	▼	75.8
2. Greece	▼	53.4
3. Egypt	▼	48.2
4. Ukraine	▼	42.4
5. Kazakhstan	▼	38.0
6. Montenegro	▼	37.1
7. Bangladesh	▼	36.9
8. Austria	▼	36.5
9. Finland	▼	32.2
10. Slovenia	▼	31.4

Other notable falls were experienced in Argentina and Italy, where the main stock exchanges fell by 30.9% and 26.5% respectively. In the UK the FTSE fell by 5.6% while the German Dax lost 14.7%. The Japanese Nikkei fell by 17.8% in 2011.

2011 M&A highlights

Global mergers and acquisitions for the year totalled $2.178T (trillion), up 2.5% from 2010 ($2.125 trillion), making it the busiest year since 2008, according to Mergermarket Group.

However, activity actually decreased over four successive quarters, with $432B worth of deals announced globally in the fourth quarter of 2011, down 22.5% from third quarter 2011 ($557.5B). Fourth quarter activity was 39% lower than in same 2010 period ($708.1B) and was the lowest quarterly total since third quarter 2009 ($325.4B).

M&A sentiment

The total dollar value of all M&A activity announced in the first half of 2011 was $1.27T, a 34% increase over the same period in 2010. However, Bloomberg said the second half of 2011 showed signs of slowing down with a deal volume of only $875B, a 29% decrease from the same period in 2010.

Cross border

There were over 9,400 announced cross-border deals worth roughly $1T in 2011. This represented a 5.5% increase from the $945B announced in 2010. However, the pace of growth showed signs of weakening when compared to the 41% increase in volume from 2009 to 2010, according to Bloomberg.

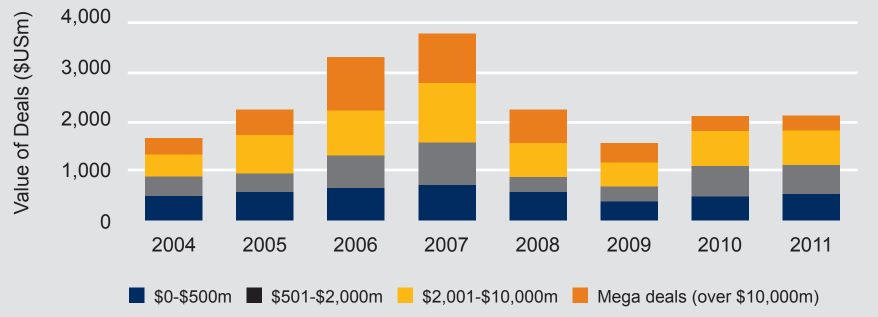
Mergermarket said 2011 was the busiest year for cross-border M&A since 2008, with deals between individual countries accounting for 41.5% of global M&A activity, the second highest proportion since 2007.

M&A volume by region

The major growth areas in M&A were the United States and Western Europe. While the market was very optimistic about M&A growth in the Asia-Pacific region, Mergermarket said total M&A volume in the region grew moderately to $405B. While Latin America experienced the greatest M&A increase from 2009 to 2010, it showed the greatest decrease from 2010 to 2011.

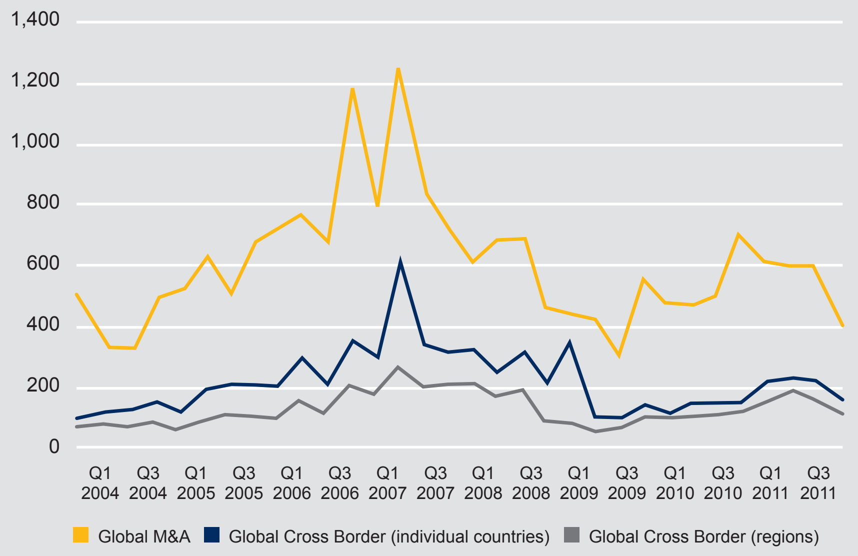
The regions showed mixed preferences for billion-dollar deals this year. North America saw an increase in 2011, with a total of 145 deals valued at $1B or more, totalling $620B, Bloomberg said.

Figure 1: Global M&A Deal Size Breakdown: Deal Value



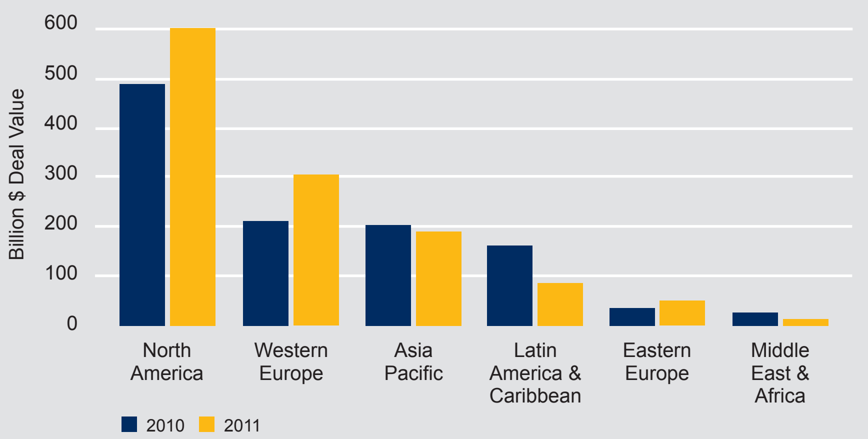
Source: Mergermarket

Figure 2: Cross Border M&A Analysis: Value



Source: Mergermarket

Figure 3: M&A Volume of $1B Deals 2010 vs 2011



Source: Bloomberg

The Americas

The Americas region announced over $1.04T in transaction volume in 2011, representing a 16% increase from the same period in 2010 (Mergermarket). According to Bloomberg the average deal size for transactions in the region for 2011 was $211M, and buyers paid a median multiple of 9.73 times EBITDA for publicly traded targets.

The US saw the announcement of US$820.6B worth of deals in 2011, the highest annual total deal value since 2007 (US$1,328.1B), and 14.4% higher than 2010 (US$717.2B). However, Mergermarket said activity waned in the fourth quarter with a decrease of 9.3% compared to the third quarter.

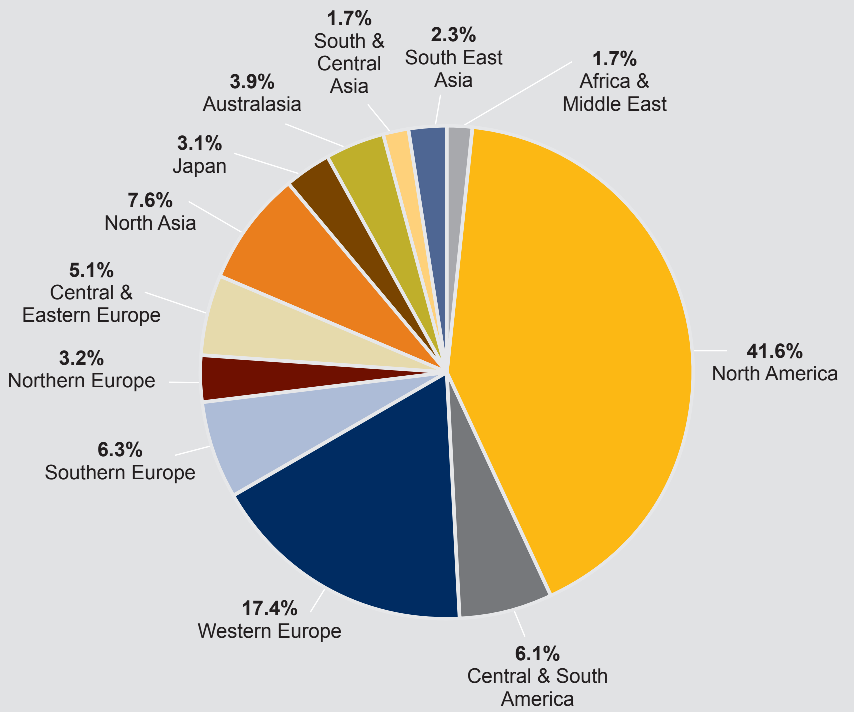
Europe, The Middle East and Africa

Europe, the Middle East and Africa (EMEA) was the second most active region with over $733B in transaction volume this year (Mergermarket). This represented a 10% increase from 2010, despite the region's numerous sovereign debt issues.

Asia Pacific

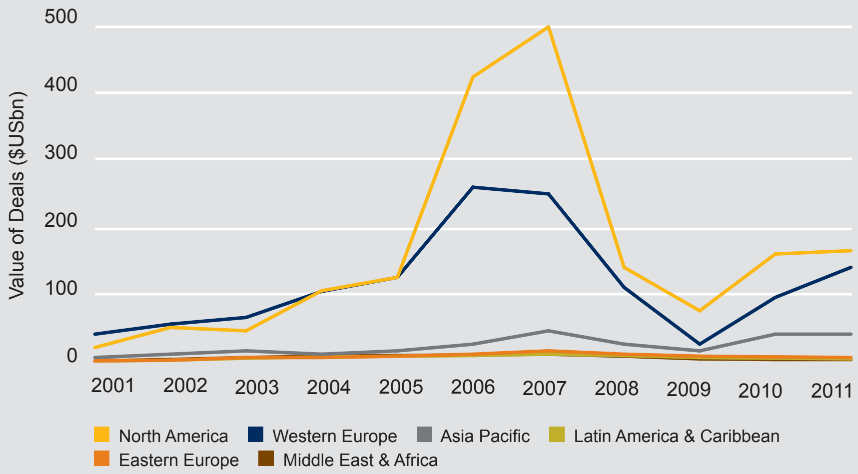
The developed and emerging economies of the Asia Pacific region announced $405B worth of deals in 2011, which represents a 7% increase in volume compared to the same period in 2010. This moderate increase did not live up to the more aggressive expectations prognosticated for the region going into 2011. Bloomberg data showed that China continued to acquire, with $158B worth of deals announced in 2011, a 9% increase from $145B in 2010.

Figure 4: Mix of Announced Deals by Geographic Region: Value



Source: Mergermarket

Figure 5: Private Equity Deal Volume 2001-2011



Source: Bloomberg

Buyout & Private Equity

Buyout deals totalled $277.7B in 2011, making it the strongest year for buyout activity since 2008 and representing a 15.3% increase in deals from the same period in 2010. The Mergermarket group said buyouts accounted for 12.9% of global M&A activity in 2011, up from 11.3% in 2010, and the highest proportion since 2007.

Private equity buyers accounted for 16% of company takeovers in 2011. From 2010 to 2011, every region but Latin America and the Caribbean saw an increase in private equity deal volume. Latin America and the Caribbean saw private equity investment decrease by almost 53%, from $6.98B in 2010 to $3.30B in 2011.

According to Bloomberg, private equity firms actively divested portfolio companies in 2011, particularly in the first half of the year. Six of the top 10 private equity transactions in 2011 were exits, representing a total of $51B in value.

Global M&A activity continued to grow, with aggregate volume and deal count figures surpassing 2010 levels. Through the end of November 2011, over 24,700 deals were announced with more than $2.11T in total volume. This represented a 9% increase from 2010 volume levels.

Private equity activity increased more in North America than in Asia, as Asia remained static at around $38B.

For more information:

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Preparing Your Business for Due Diligence

By Chulanga Jayawardana, Crowe Clark Whitehill

Due diligence is a challenging but essential stage in the process of selling your business. The glossy information memorandum and the impressive management presentations may attract potential buyers or investors, but due diligence will seal the deal.

Typically, once a potential buyer expresses interest through a Heads of Agreement or a Letter of Intent, the seller may grant an exclusivity period to the potential buyer in which to undertake the required due diligence.

The extent of the due diligence will depend on the requirements of the buyer, who will normally set the scope of the work to be carried out. Depending on the type of business you are selling, the buyer may wish to carry out due diligence on management, commercial operations, historical financials and the business plan, and legal and environmental considerations.

Do not underestimate the due diligence process – it can be stressful and time consuming, and can distract management from day-to-day operations. Early planning and preparation can help make the process as smooth as possible for all parties.

Due diligence tips for sellers

By setting a solid timetable with the potential buyer, the seller can fix a deadline for information request lists and data access. The schedule should also allocate time for a management Q&A session, however the format for this session should be established up front. Determine whether questions are submitted to management in writing prior to the interviews. This will give the seller an opportunity to prepare for the Q&A and gather any additional input from other facets of the business. Setting a date for the final round of information requests and queries will help to establish a finite closing date for the process.

If feasible, establish a small transaction team that will manage the due diligence process, and issue a confidentially agreement if it is appropriate.

The company also needs to determine whether to have a physical data room or a virtual data room. For a cross-border transaction with multiple parties, a virtual data room will be more effective than a conventional data room. In addition, if the proposed transaction is sensitive, the last thing you want is for your offices to be swamped with due diligence teams arousing staff suspicion. A virtual data room can be organized to provide discreet remote access to your records.

Gather the key documents for the sale at an early stage. It is normal practice for the parties undertaking the due diligence to issue an information request list. Your advisor can help you gather most of these documents in advance.

Make sure you properly document all the information you make available to the buyer and its advisors. You should include this as part of the disclosure lists that accompanies the Sale and Purchase Agreement.

Another important step is to inform your auditors of the potential transaction. It is common for the investigating accountants to request access to the audit working papers. This process requires hold harmless letters to be signed to protect the auditors. These are typically signed by the vendors on the one hand and the purchaser and its investigating accountants on the other, so it is a good idea to organise these early to avoid potential delays.

If your business has inventory, the buyer will almost certainly want to undertake an inventory count as part of the process. If this involves shutting down production, it is important to plan ahead and organise a suitable date to perform this count, potentially within the due diligence timeframe.

Financial due diligence will usually involve analyzing the financial results of your business over the past three years. This information should be easy to gather, since most companies already prepare monthly management accounts and statutory financial statements.

Balancing disclosure and confidentiality

The more information and analysis you can provide the better. However, this can be a delicate balance since some information will be commercially sensitive. In these instances, try to provide meaningful information while preserving confidentiality.

For example, instead of listing your key customers by name, you can simply list them as Customer A, B and C. This way you can still provide information on the customers, such as trading terms, volume purchases and types of goods or services procured.

These recommendations cover the main areas where management teams often struggle during the due diligence process. Planning ahead and preparing for the process will help you ensure the transaction runs smoothly and avoid the potential pitfalls of selling your business.

For more information:

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