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GRANT THORNTON INTERNATIONAL BUSINESS REPORT 2012

Cross-border mergers and acquisitions: building momentum



Foreword



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Despite the on-going global economic challenges, the latest results of the Grant Thornton International Business Report (IBR) indicate that dynamic businesses have retained last year's renewed appetite for mergers and acquisitions (M&A) activity.

The market revival in M&A interest, that emerged in last year's survey, is still in evidence and is an indication that many corporates, who have successfully plotted their way through the global downturn, are now seeking to invest the cash resources built up over a period of limited M&A activity.

Domestic M&A remains notably high on business owners' agendas, as this report illustrates. There are also some interesting trends regarding their interest in overseas expansion which no doubt reflects the particular market conditions within individual regions globally.

With recent positive economic data from the US and impressive growth continuing to be experienced in the BRIC countries, the global economy is undoubtedly entering a new phase. To take advantage of this, enterprising corporates appreciate that M&A remains a vital strategic tool to enable them to benefit from these trends.

As dynamic businesses look to M&A within their own borders or across the globe, Grant Thornton's M&A teams across our global organisation of more than 100 member firms have the experience and expertise to help business owners and management teams achieve their strategic goals.

Appetite for M&A remains strong

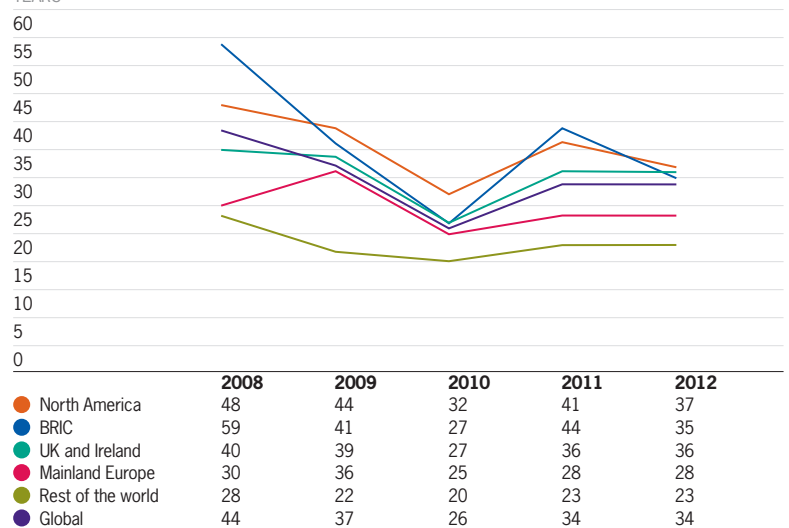
Despite the traumatic economic events in the second half of 2011 and the on-going challenges within the banking sector and the eurozone, the results of the 2012 Grant Thornton International Business Report, which surveyed 12,000 businesses in 40 economies, show that businesses across the globe (34%) remain significantly more interested in acquisitions than they were in 2010 (26%), reflecting the upward trend seen in 2011.

Whilst the anticipated activity does not scale the heights seen in 2007/8, businesses appear to have retained the increased confidence that was evident last year. Furthermore, there are some interesting results that can be extracted from the data, on an individual country basis, including:

- United States (37%) and Canadian (42%) businesses continue to be at or near the top of these results, a trend that has been evident for a number of years
- mainland Europe appears to be cautiously returning to the M&A market, with the key eurozone countries of France (34%) and Germany (18%) both showing an increased expectation of M&A activity compared to 2011
- the UK and Irish market appetite for M&A remains at a high level, with 36% of respondents planning an acquisition
- the BRIC economies have provided the most volatile results over the past five years, perhaps not surprisingly as M&A markets continue to develop. The 2012 survey suggests that overall the BRIC economies are now aligned with the rest of the world in terms of their current appetite for acquisitive growth. How these results evolve in the coming years will be of much interest to businesses and advisers involved in M&A globally.

FIGURE 1: 2011'S RENEWED INTEREST IN M&A RETAINED

PERCENTAGE OF BUSINESSES PLANNING TO GROW THROUGH ACQUISITION OVER THE NEXT THREE YEARS



SOURCE: GRANT THORNTON IBR 2012

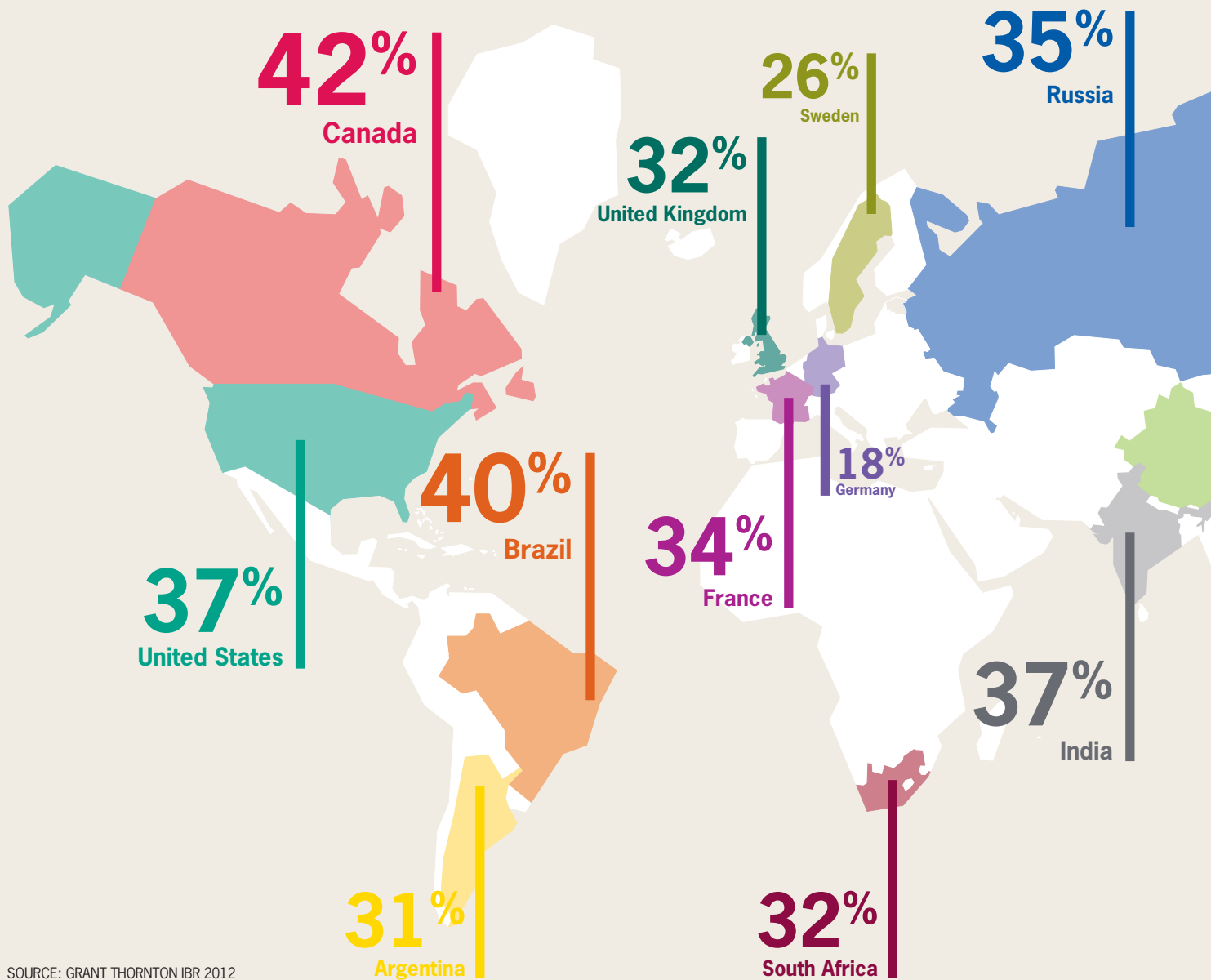
“The US economy continues to improve and mid-market corporates have growth ambitions high on their agenda. However, uncertainties abound with an upcoming election and changes to the tax code.”

STEPHEN MCGEE
GRANT THORNTON US

“Acquisitive growth is very much on the agenda for Indian business leaders as they continue to focus on driving value.”

MUNESH KHANNA
GRANT THORNTON INDIA

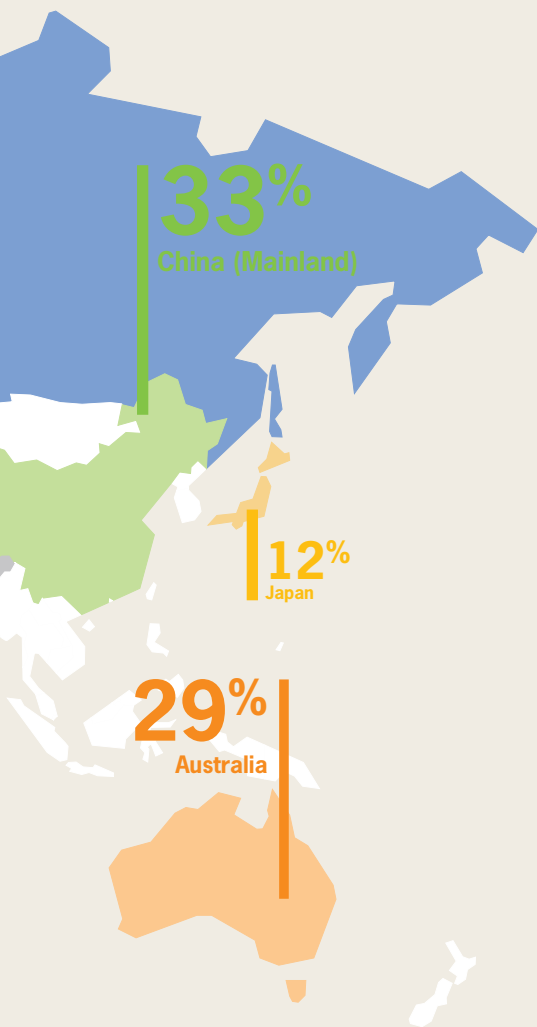
FIGURE 2: CANADA AND BRAZIL EXPECTING TO BE MOST ACTIVE
PERCENTAGE OF BUSINESSES PLANNING A MERGER OR ACQUISITION OVER NEXT THREE YEARS



SOURCE: GRANT THORNTON IBR 2012

PERCENTAGE OF BUSINESSES GLOBALLY PLANNING TO GROW THROUGH M&A:

34%



Acquisition rationale

Whilst the target location of M&A activity may be evolving and changing, for many, the reason for engaging in M&A remains the same. Either access to geographical markets (63%) or building scale (57%) remain the likeliest motivation to participate, indicating that M&A remains the simplest and most effective way for businesses to gain a footprint and build scale in new geographies.

“M&A activity is being driven by growth hungry companies in a tepid economic environment, the ageing population of the Western world and strong access to funding. In general, mid-market corporates that have emerged from the last few years relatively unscathed are commanding significant premiums as competition for good businesses increases.”

GREG WRIGHT
GRANT THORNTON CANADA

FIGURE 3: MATURE MARKETS INCREASINGLY LOOKING OVERSEAS
 PERCENTAGE OF BUSINESSES PLANNING A MERGER OR ACQUISITION OVER NEXT THREE YEARS



SOURCE: GRANT THORNTON IBR 2012

Domestic vs Cross-border expansion

The headline of continued interest in M&A indicates that many businesses have growth through M&A well and truly on their agenda. Of additional interest are the geographies in which this M&A activity will be taking place in the coming years.

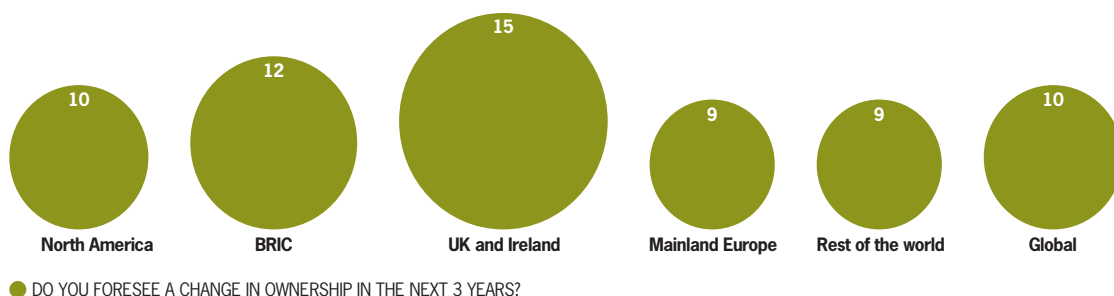
For obvious reasons, such as knowledge of the local market forces and drivers, a domestic acquisition remains the most likely option for many companies. 85% of acquisition minded businesses stated that they expect their acquisitions to be domestic compared to 33% who are looking at cross-border transactions.

- globally, North America (91%) and, perhaps surprisingly, the BRIC countries (90%) continue to place the most importance on making acquisitions within their own borders, though the results illustrate that Japan’s businesses have the greatest appetite (94%) for domestic acquisition.
- businesses in Europe place proportionally more emphasis on expanding overseas (44%) compared to wanting to acquire within their own country (75%). This may reflect a relatively mature and sophisticated M&A market as well as the lack of economic growth within that region when compared to the growth and opportunities available in emerging markets.
- within the BRIC economies, there appear to be two distinct themes. Whilst all see value from domestic acquisitions, indicating an increasingly vibrant and exciting local M&A market, only India (29%) and China (26%) show real enthusiasm to expand overseas. Clearly, at present businesses in these economies are more focused on expanding domestically, a situation we expect to change in the near future as Brazil and Russia continue to develop international links.

“Mid-market German businesses have traditionally been cautious on acquisitions. Now even these companies are increasingly looking with interest at mainland European acquisition opportunities.”

KAI BARTELS
 GRANT THORNTON GERMANY

FIGURE 4: UK & IRELAND BUSINESSES MOST LIKELY TO SELL
 PERCENTAGE OF BUSINESSES FORESEEING A CHANGE OF OWNERSHIP IN THE BUSINESS OVER NEXT THREE YEARS



SOURCE: GRANT THORNTON IBR 2012

Exit horizons

Whilst respondents are generally bullish about M&A activity, business owners are often more circumspect about openly stating that they may be seeking to sell their business in the near future. The survey's results illustrate this with, globally, only 10% (2011: 11%) of businesses stating that they foresee an exit over the next three years.

Whilst globally the data is broadly unchanged, regionally there are some interesting trends to note:

- UK businesses (17%) remain upbeat about selling their business within the next three years and claim to be almost twice as likely to seek a buyer than their mainland European counterparts (8%). Whilst this may be a surprising outcome given the macro economic issues facing the UK, the result may be influenced by a wider appreciation of exit options amongst UK businesses and the effects of a highly mature private equity market, which has made substantial investments into UK businesses over recent years.
- many other regions remain discreet about stating whether they expect to exit in the future. Interestingly, Latin America (24%) is the region showing most interest, with a significant number of Brazil's business owners (40% up from 22%) stating that they are looking to exit within the next three years. This may reflect the general feeling of confidence within that region. Business owners appear to be riding this wave of optimism and hence expect to realise value from the forecast growth in the coming years.

- despite challenges in funding markets across the world, financial investors are still seen as the most credible buyer (29%) for businesses. Historically, trade buyers (now at 26%) have been viewed as the most likely purchaser but with institutional investors, such as private equity and sovereign wealth funds, with sizable funds to invest, financial buyers look set to remain a dominant player in M&A markets globally.

Summary

Overall the data is thought-provoking in the context of the global macroeconomic background and the impact this is having on different regions.

Across the world M&A remains high on the agenda for companies in all territories and it remains a key strategic tool to drive growth and build scale. Certainly, in the eyes of businesses, it remains the most effective way to enter a new territory.

Grant Thornton's member firms remain focused on helping businesses unlock their individual growth strategies and to provide insightful and global advice to those companies seeking to expand their global operations.

“Private equity buy and build activity and well-funded corporates continue to stimulate the acquisition market.”

GEOFF DAVIES
 GRANT THORNTON UK

The Grant Thornton International Business Report (IBR) is a quarterly survey of 3,000 senior executives in listed and privately-held businesses all over the world. Launched in 1992 in nine European countries the report now surveys 12,000 businesses leaders in 40 economies on an annual basis providing insights on the economic and commercial issues affecting companies globally.

The data in this report are drawn from 12,000 interviews with business leaders conducted between January and December 2011.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com.

Participating economies

Argentina	Malaysia
Armenia	Mexico
Australia	Netherlands
Belgium	New Zealand
Botswana	Peru
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Georgia	Switzerland
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Arab Emirates
Ireland	United Kingdom
Italy	United States
Japan	Vietnam



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