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Mid-Market M&A Activity On the rebound

M&A International Inc. Quarterly Mid-Market Report
Q3 2009

Foreword

As the world's leading M&A alliance of over 600 professionals in 45 M&A advisory and investment banking firms operating in 42 countries, M&A International Inc. offers a unique source of information on the current state of M&A activity in the mid-market (*Figure 1*).

In the first of a series of quarterly reports, we give you an overview of the state of mid-market M&A on a global basis. Over time, the report will also show how sentiment develops each quarter.

The report consists of two integral parts where we combine an analysis of all reported transactions advised on by M&A International's member firms with a survey completed by our senior professionals representing all alliance members within M&A International (*Figure 2*).

Interestingly, the compiled data indicates that the trend for mid-market M&A activity on a global basis

has turned, though from a very low trough. As one respondent puts it, "Bumping along the bottom, expect upturn 2010".

It is a buyer's market where trade buyers – bidders who are in the same industry as the target – are showing the strongest increase in activity on the buy-side. On the sell-side, the upswing is coming from family-owned businesses, primarily in Western Europe and Central Eastern Europe.

From a geographical perspective, Asia and Australia have had the sharpest upturn, while North America has had the steadiest recovery albeit on a more modest level coming from a deeper depression. The upturn in Western Europe is proving to be somewhat slower.

Figure 1: M&A International Inc. – the world's leading mid-market M&A advisor

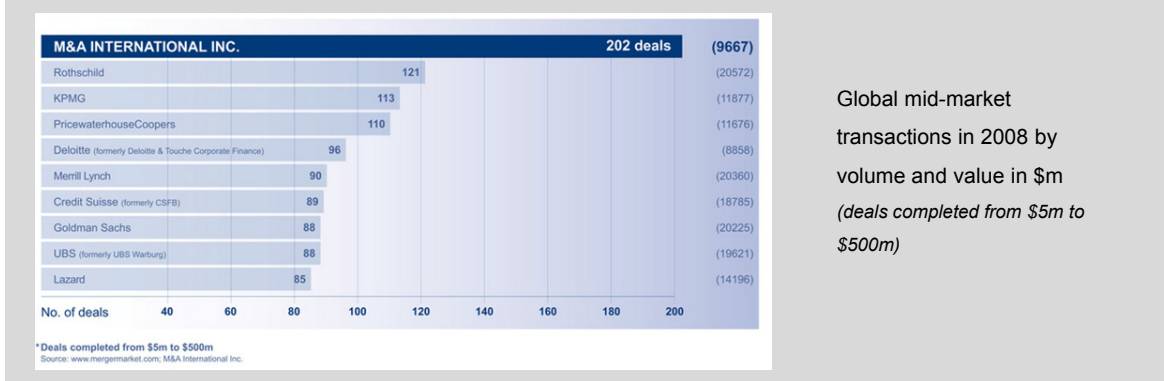
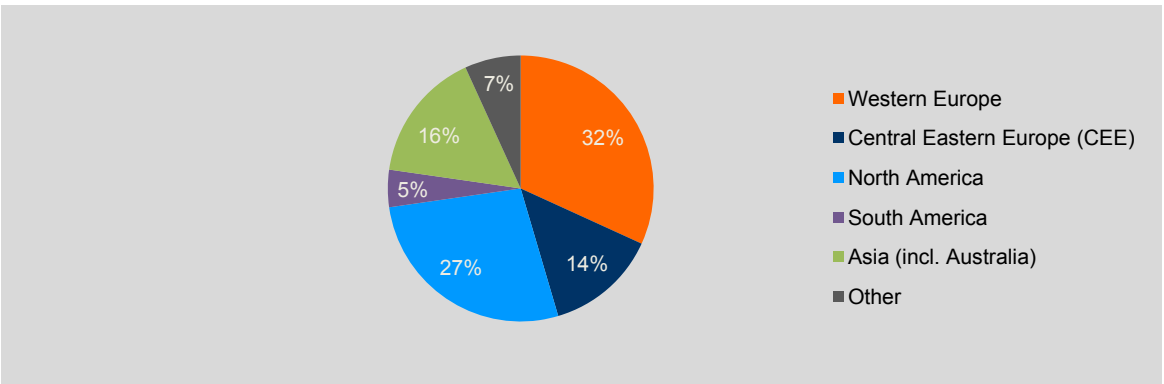


Figure 2: Location of M&A International Inc. members



The trend has turned for mid-market M&A activity on a global basis

After an unusually slow first three quarters in 2009, showing an index-adjusted decrease in transaction volume of more than 50%, everyone is now expecting an upturn in activity.

The slowdown started in the third quarter of 2007 in the US market, followed by Western Europe in the fourth quarter. The free fall in activity set in following the collapse of Lehman Brothers, with activity in M&A suffering a severe drop in the first quarter of 2009 (Figure 3).

However, while the number of successfully completed buy-side transactions has continued to be sluggish through the third quarter of 2009, sell-side transaction activity increased in the second quarter of 2009 and is now showing an upward trend (Figure 4).

A significant part of the respondents verified that their actual deal volumes are up compared with the previous quarter (Figure 5).

“Bumping along the bottom, expect upturn 2010”

This is a picture that is supported by the survey, where an overwhelming majority replied that the market in the third quarter of 2009 is stronger than in the previous quarter. Even stronger are expectations for mid-market M&A activity for the following four quarters compared with the previous four quarters – no one is expecting lower activity (Figures 6 and 7).

On a regional basis, it can be noted that, while the overall view is very positive, Central Eastern Europe has somewhat less positive expectations of an upswing.

Figure 3: M&A International Inc.'s indexed number of closed M&A transactions per quarter*

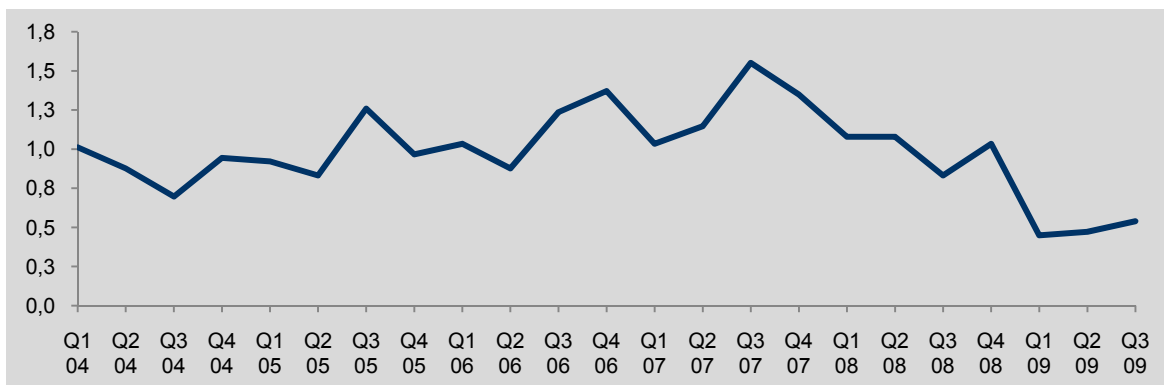
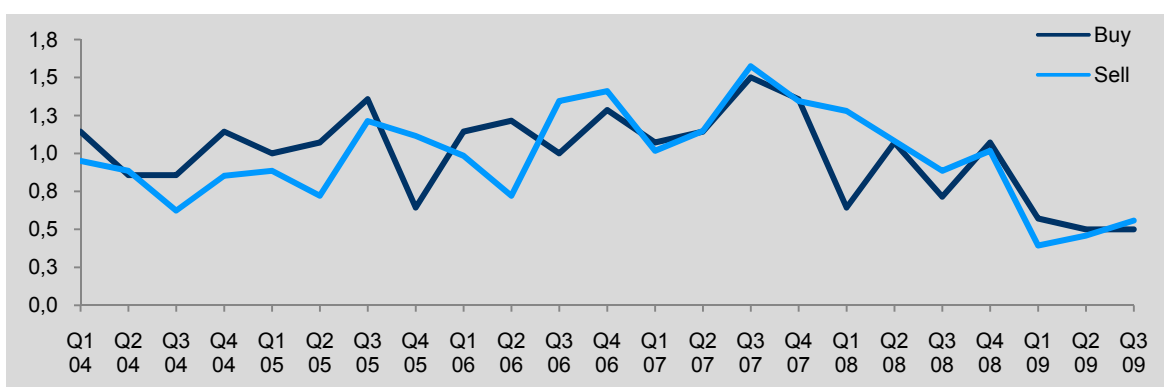


Figure 4: M&A International Inc.'s indexed number of closed buy and sell transactions per quarter*



*Index 100 represents a 5-year average capturing an economic cycle. Buy-side = M&A International Inc. representing the buyer. Sell-side = M&A International Inc. representing the seller.

Figure 5: For many M&A International firms, actual deal volumes are up compared with last quarter

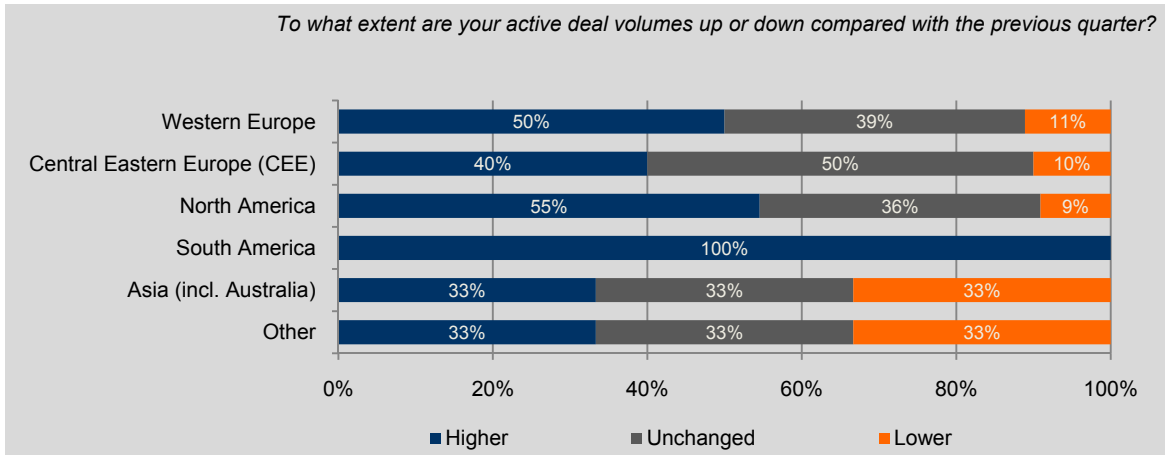


Figure 6: Strong optimism in this quarter compared with the previous quarter

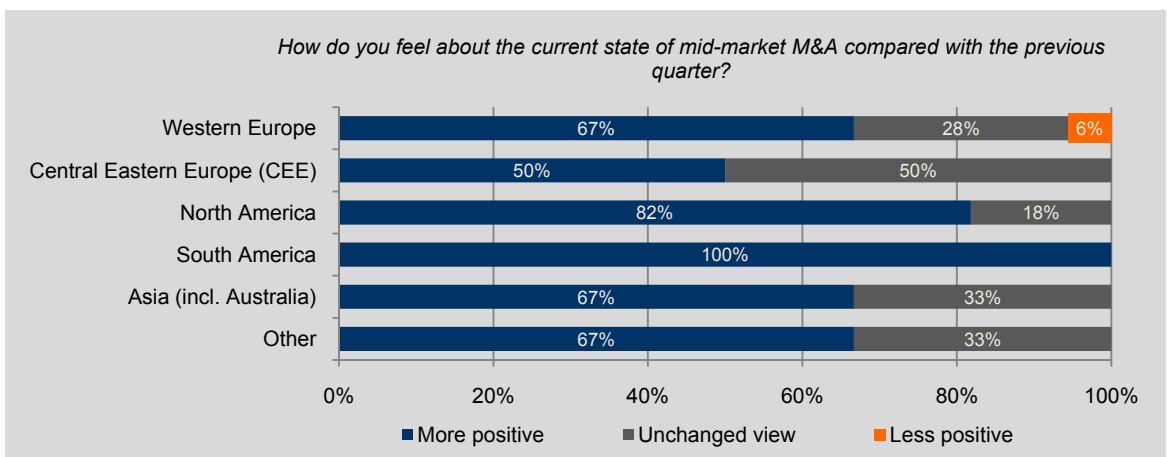
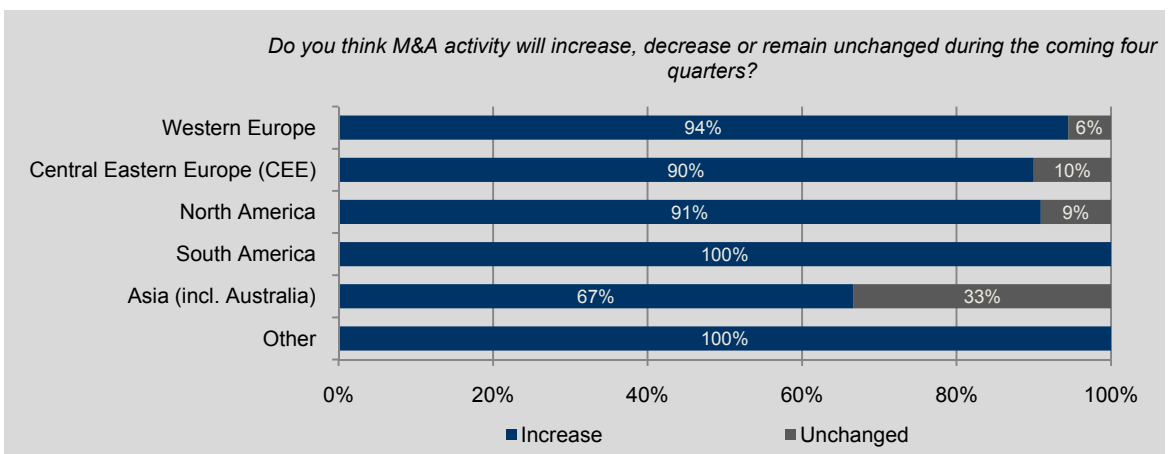


Figure 7: An overwhelming majority are expecting an increase in M&A activity during the coming four quarters – no one is expecting lower activity



It's a buyer's market

With only small regional deviations, the market is still seen as more of a buyer's market. This is supported by the fact that valuations in general have remained unchanged from the previous quarter (Figures 8 and 9).

The fact that the time span in which transactions are concluded remains long, and is even getting longer, may indicate that while activity is picking up, there is little pressure on parties to close a transaction on a timely basis. This will continue to depress M&A valuations (Figure 10).

"Cash-rich trade buyers are selectively active"

In Western Europe and Central Eastern Europe, family-owned companies are increasingly active on the sell-side. Succession in European family-owned businesses tends to be solved outside the family to a larger extent than in similar North American companies, which may be the explanation behind why North America is reported as being unchanged (Figure 11).

In this environment, it is worth noting that trade buyers are significantly more active compared with the previous quarter (Figure 12).

Figure 8: It's a buyer's market

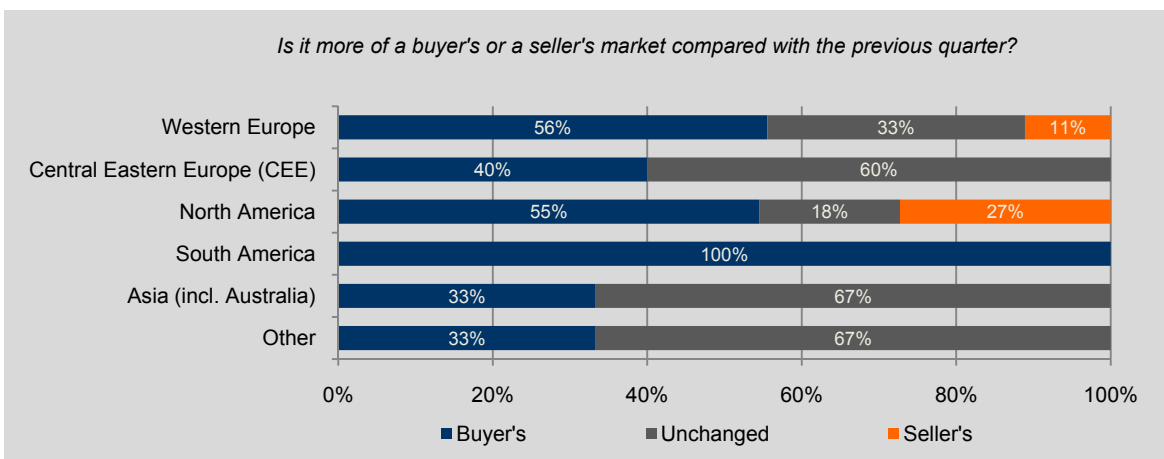


Figure 9: Mainly unchanged valuations albeit regional differences

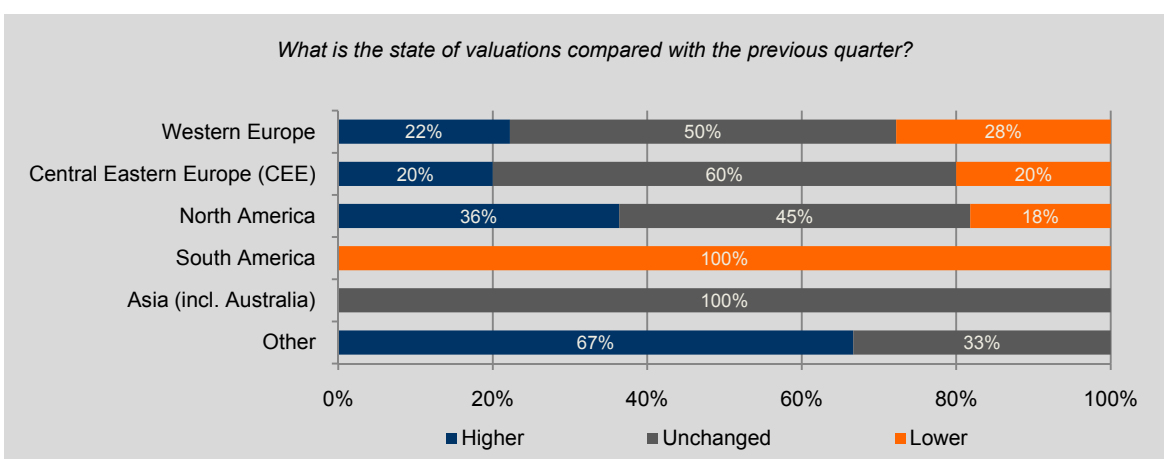


Figure 10: The time span in which transactions are concluded remain long / are getting longer

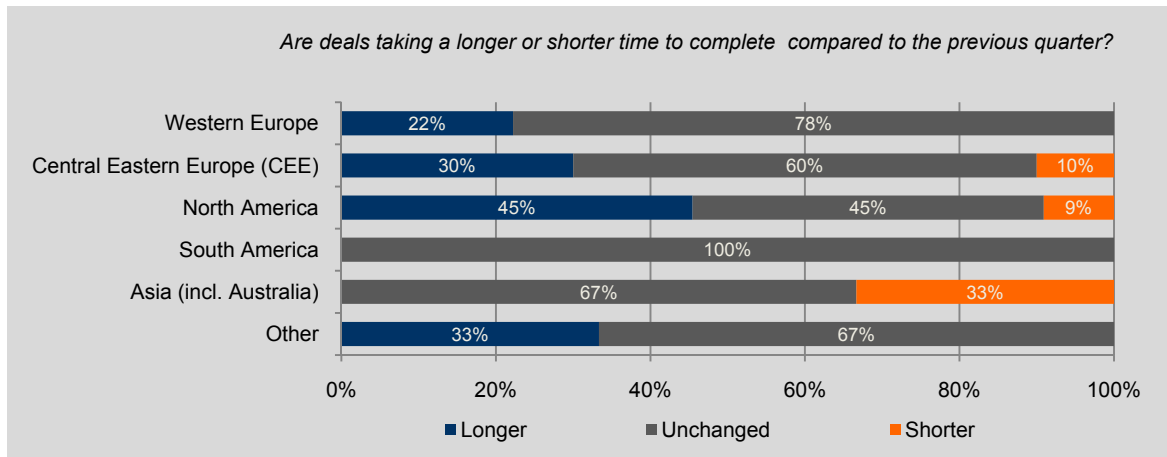


Figure 11: European family-owned businesses are showing the strongest increase in activity

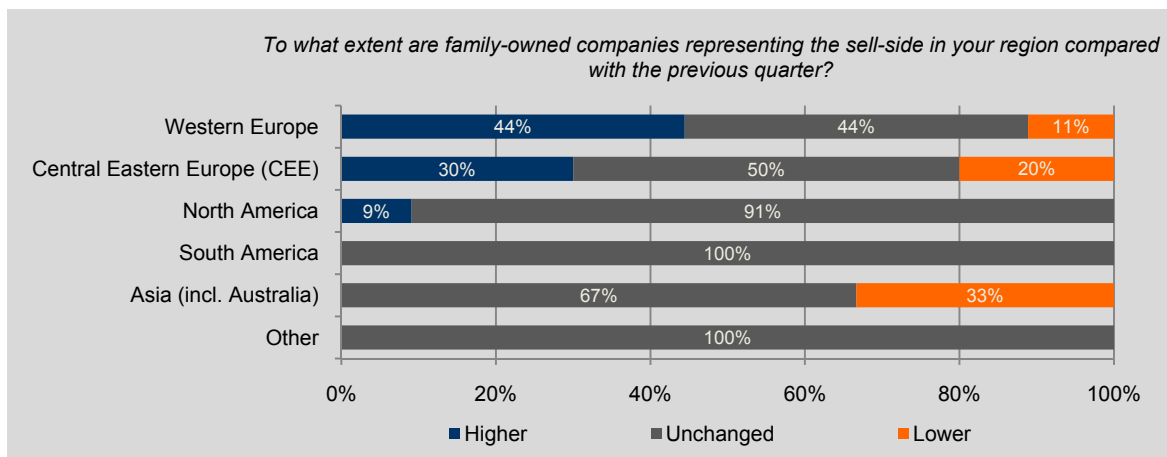
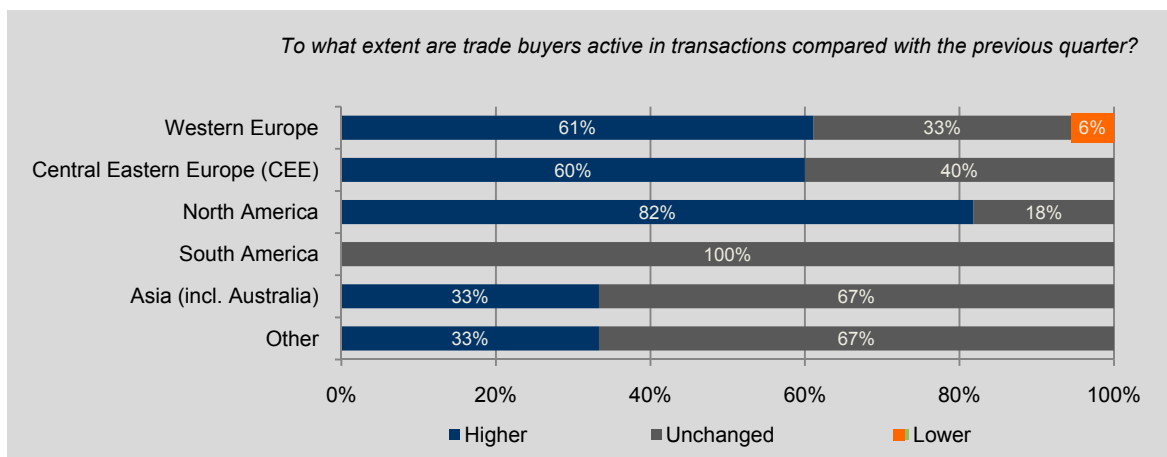


Figure 12: Striking increase in trade buyer activity



Private equity activity is picking up slowly

Private equity-related M&A activity is seen to be higher in all regions, except in South America where it has remained unchanged. In North America, PE-related activity was especially higher.

Overall, private equity-related M&A activity is seen to be increasing at a much slower rate than that of trade buyers (Figure 13).

“Panic is over, leverage is still scarce”

One reason for this is likely to be the availability of debt where, in general, the situation is unchanged compared with the previous quarter. On this subject, there is a mixed picture in all regions (Figure 14).

Figure 13: Private equity activity is picking up slowly

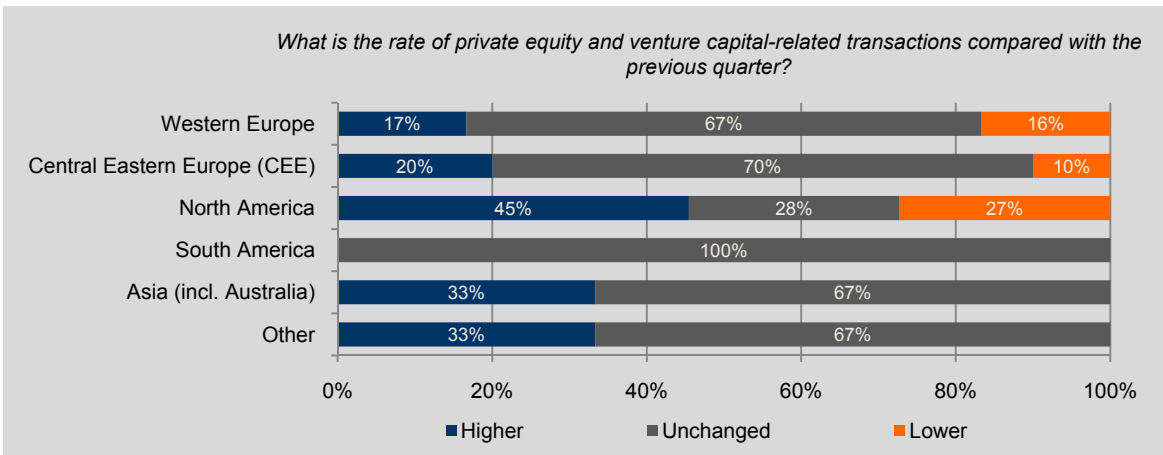
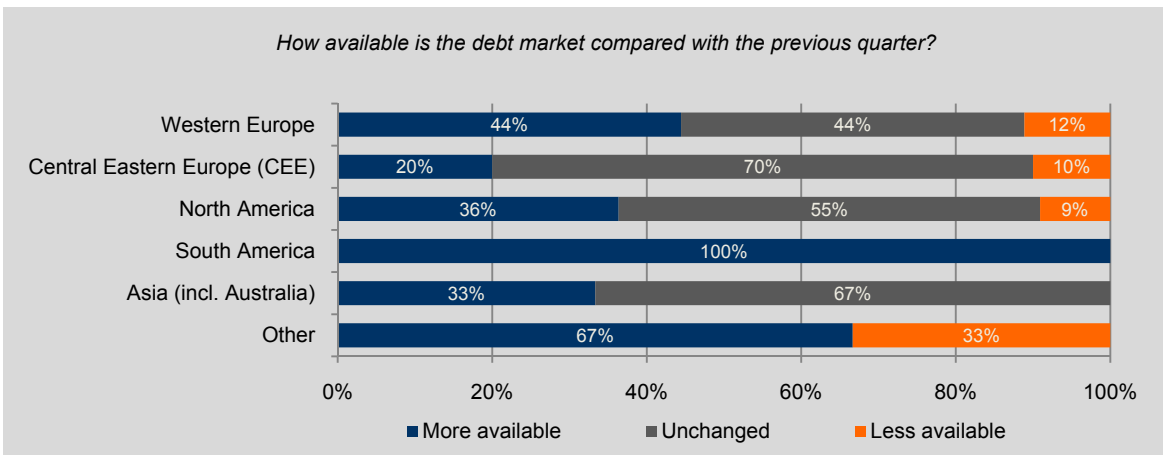


Figure 14: Availability of debt is improving slightly



Australasia the quickest, USA the most solid and Western Europe struggling to keep up

While activity in all regions has increased following a lull in the first quarter of 2009, markets have developed somewhat differently. On a 12-month rolling perspective, Australasia is the only market that shows a positive trend, although with slightly lower activity in the third quarter of this year.

The North American market however, on a more modest upturn from a lower slump, is maintaining a steady increase in activity.

There is also an upswing in Western Europe, although minor and with a slightly slower third quarter in 2009.

This picture is confirmed by the survey where the opinion on the current state is slightly more positive for North America than for Western Europe and Central Eastern Europe.

Selective cross-border interest is also increasing

Cross-border activity is also picking up. In particular, the survey shows an increase in Asian interest in Western Europe and North America, Western European interest into Central Eastern Europe and Asia as well as North American interest into Asia.

Figure 15: M&A International Inc.'s indexed number of closed M&A transactions per quarter and region*

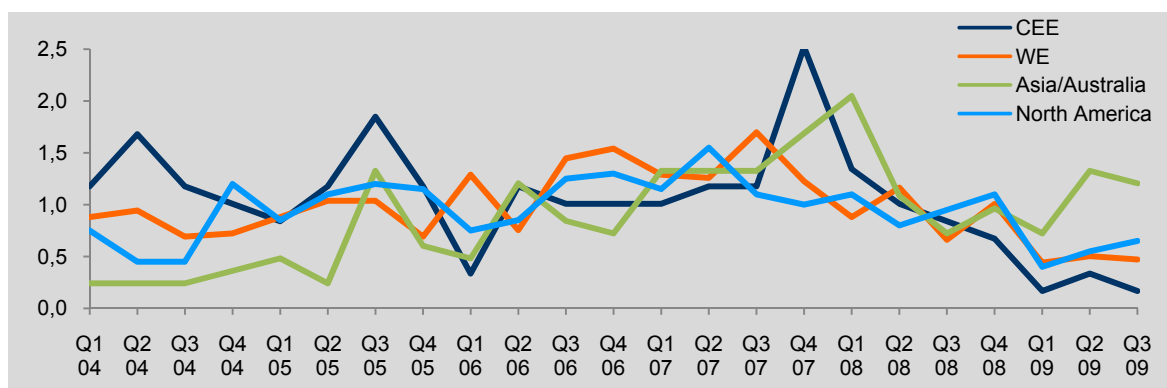
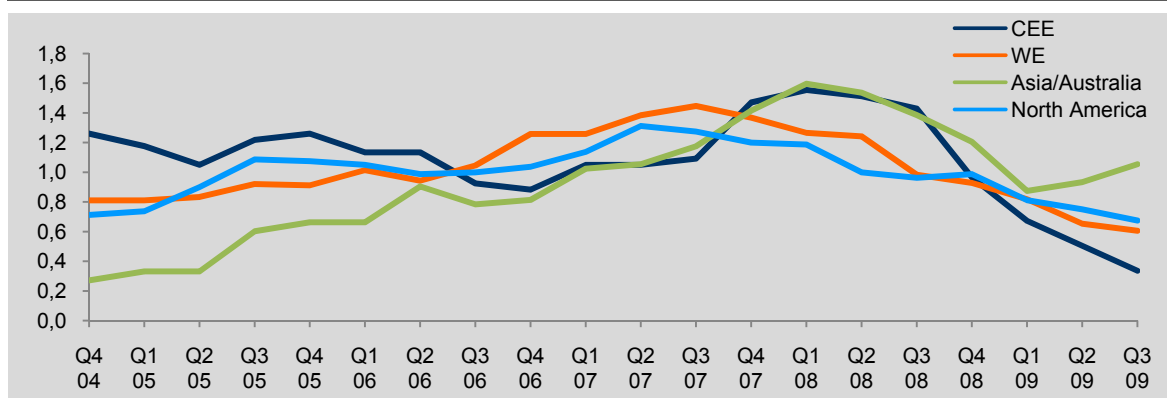


Figure 16: M&A International Inc.'s indexed number of closed M&A transactions per quarter and region on a 12-month rolling basis*



*Index 100 represents a 5-year average capturing an economic cycle

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