



New paradigm in M&A

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M&A coexists with an uncertain business climate

- ▶ After almost 4 years of economic difficulties still not surpassed, businesses have been learning to **behave in an uncertain environment**
- ▶ Consequently, corporate executives run **M&A activity despite the context of market volatility**, austerity measures and structural issues (primarily driven by the Eurozone crisis)
- ▶ They are still **fundamentally cautious**, we can not speak of an M&A frenzy:
- ▶ Caution is the dictating M&A sentiment among the respondents of our *Global Capital Confidence Barometer - Outlook April 2012 – October 2012*.
- ▶ If buyers are proceeding with caution, divesting has moved up on the Corporates agenda: **intention to sell has moved up nearly 20%** from the last Capital Confidence Barometer issued last April.



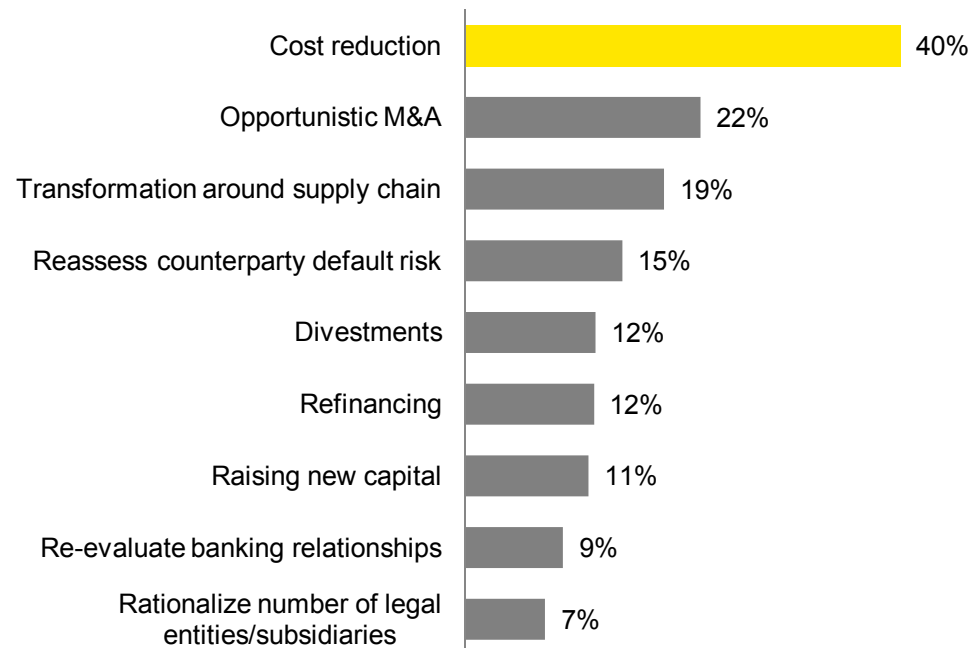
Paradigm shift in M&A

**Intention to sell
intensified**

M&A as opportunity in the Eurozone crisis

- ▶ Second most probable measure in the current business environment to be taken by businesses impacted by the Eurozone crisis: **taking advantage of growing through M&A**
- ▶ The most significant impact of the European crisis is on revenue and margin (40% of those impacted by the Eurozone crisis) driven by downward pressure on sales and pricing coupled with increased costs; 86% of respondents said they are impacted by the Eurozone crisis

What measures/plans are you putting in place to manage risk or take advantage of opportunities presented by the Eurozone crisis?

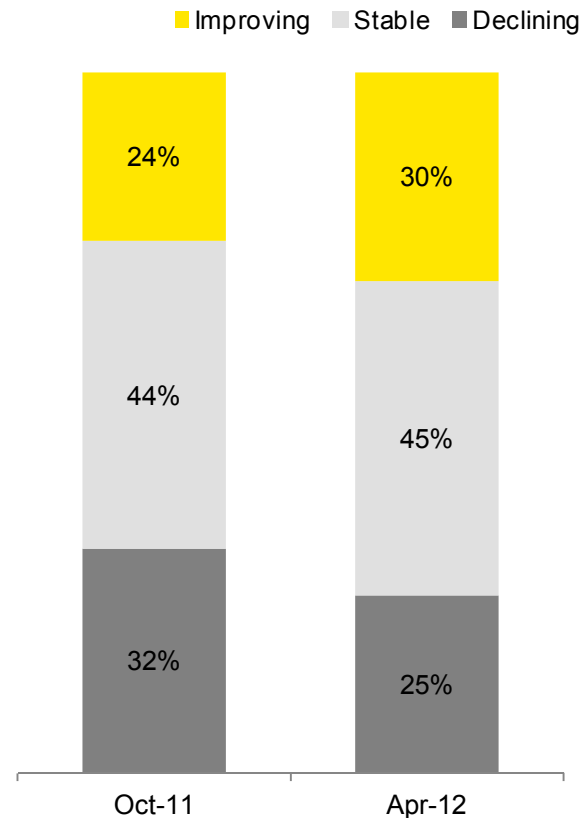


Source: Capital Confidence Barometer, The respondents could choose 2 possible answers

Confidence in credit availability

- ▶ **75% view credit availability** as stable or improving at a global level, an increase of 7 percentage points from October 2011 reflecting the improved economic conditions
- ▶ The **US and UK Corporates** have seen 12% and 10% increases, respectively, in those viewing credit availability as improving compared with October 2011
- ▶ Conversely, **emerging markets** as China is more pessimistic (10 percentage points decline in “improving” credit availability, while India remains flat (at 20%))

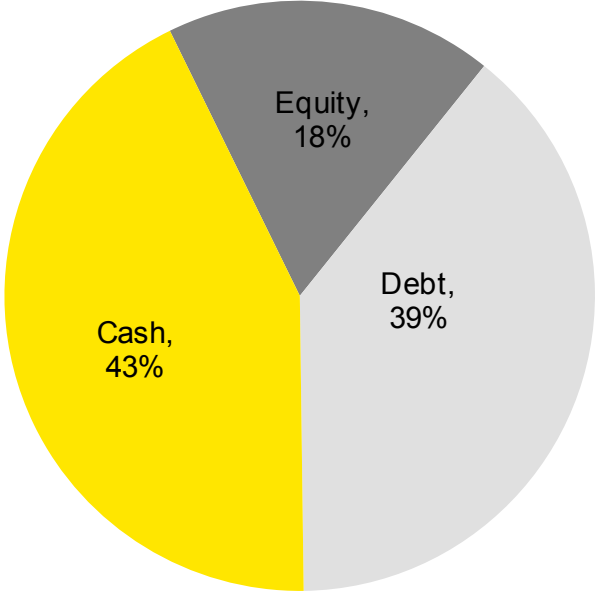
Level of confidence in credit availability at the global level



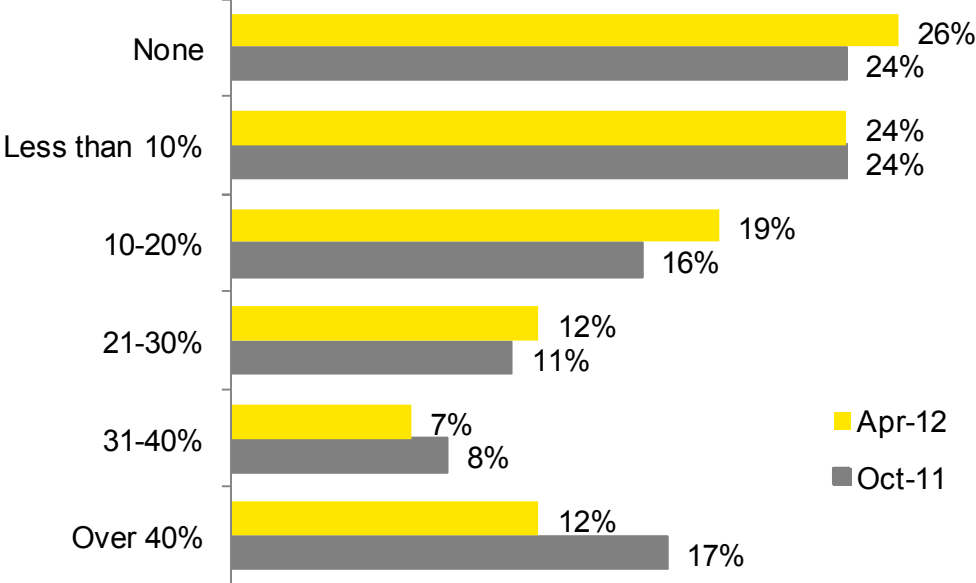
Source: Ernst & Young Capital Confidence Barometer

Cash remains the primary source for financing deals

What is your likely primary source of deal financing in the next 12 months?



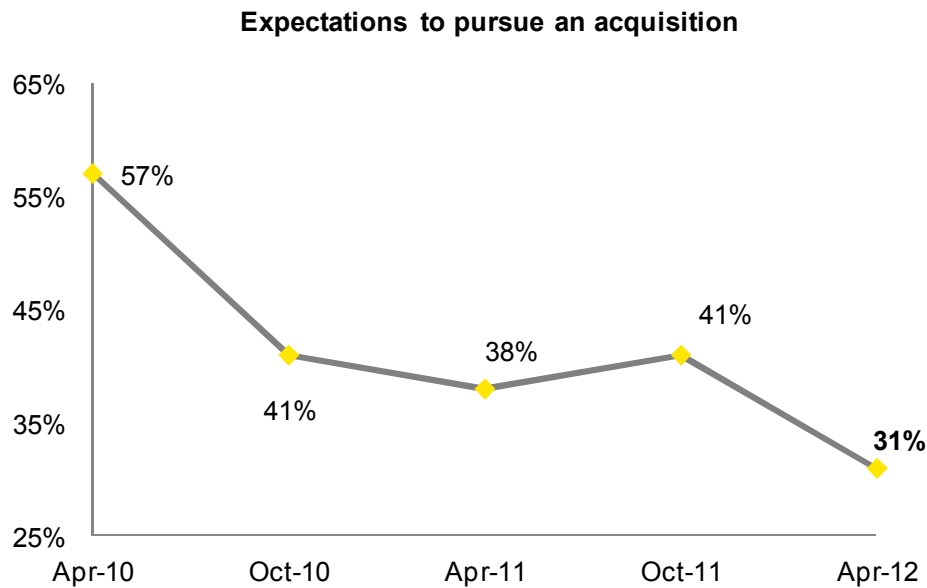
What percentage of your acquisition funding in the next 12 months will be in the form of debt?



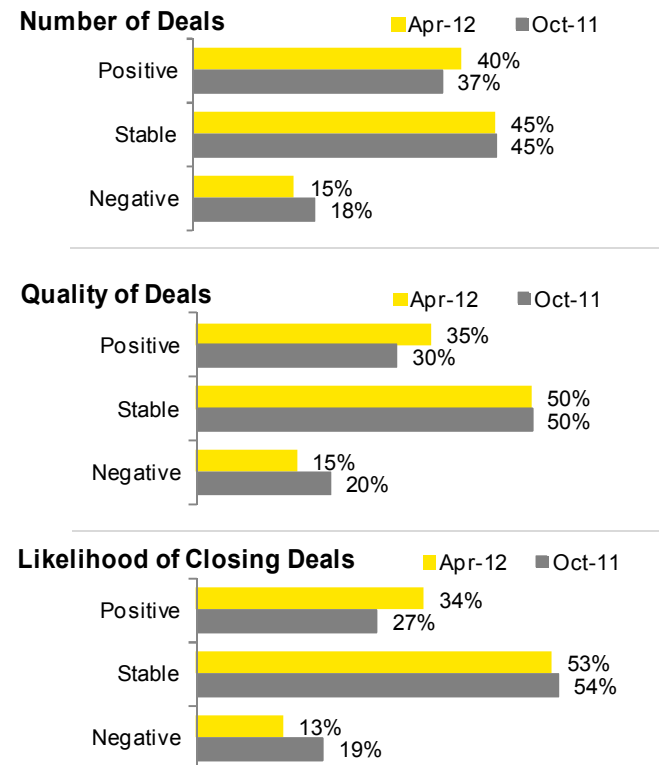
Source: Ernst & Young Capital Confidence Barometer

Improving confidence in characteristics of deal flow not reflected by corporate intentions

Do you expect your company to pursue acquisitions in the next 12 months?



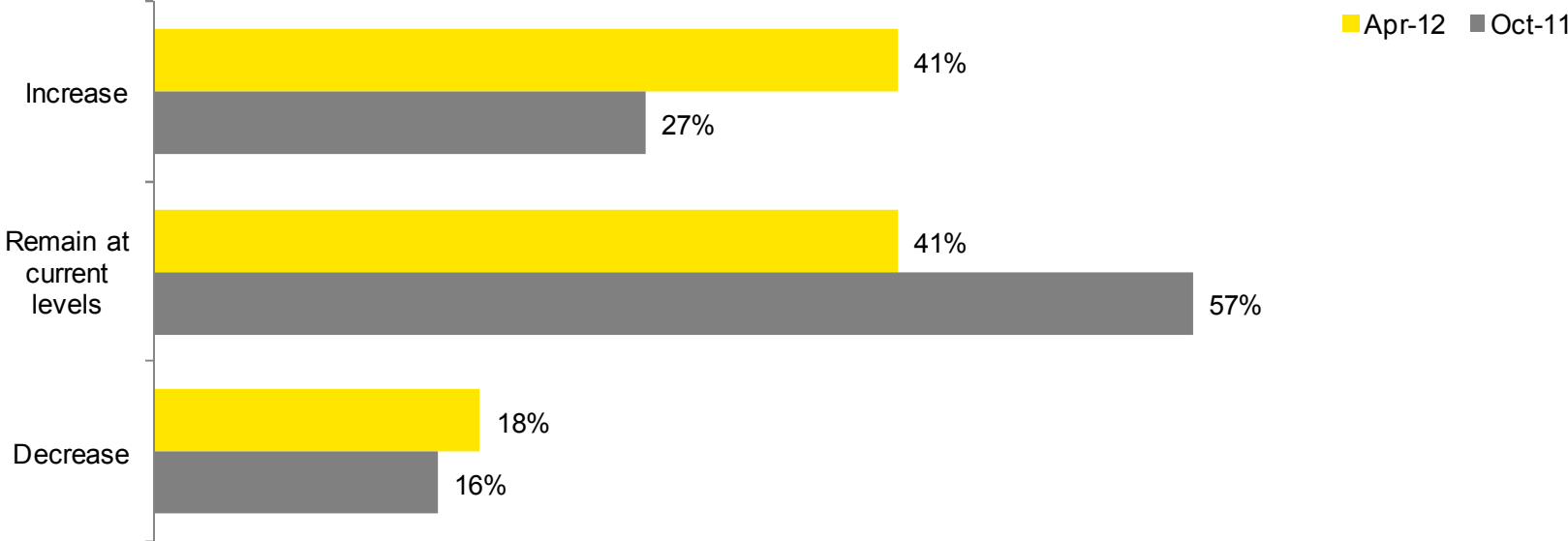
Level of confidence at the global level



Source: Ernst & Young Capital Confidence Barometer

Increasing valuation levels consistent with improved growth expectations

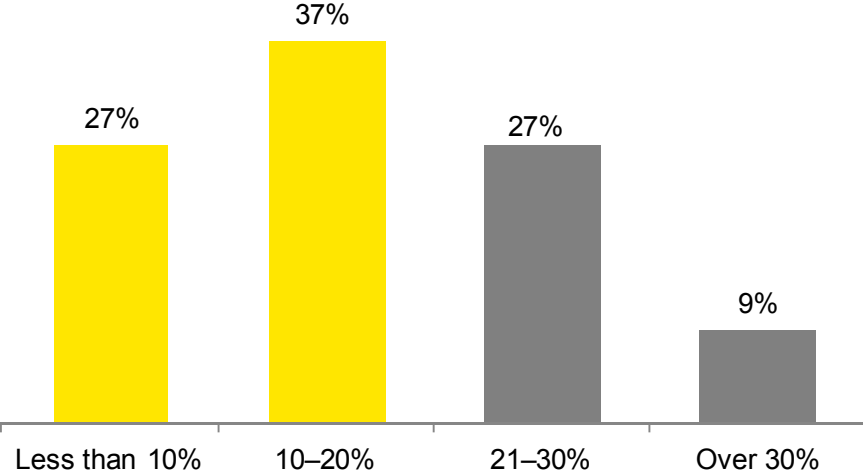
What do you expect the price/valuation of M&A assets to do over the next 12 months?



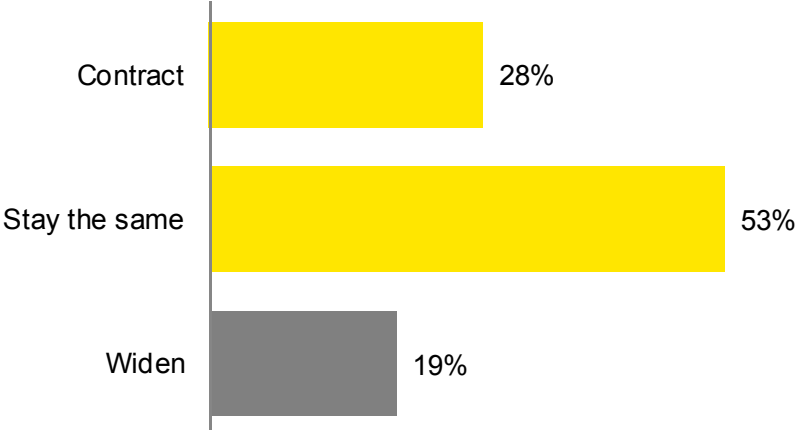
Source: Ernst & Young Capital Confidence Barometer

Valuation gap – a reality not only in the Romanian market

Do you believe the valuation gap today between buyers and sellers is...



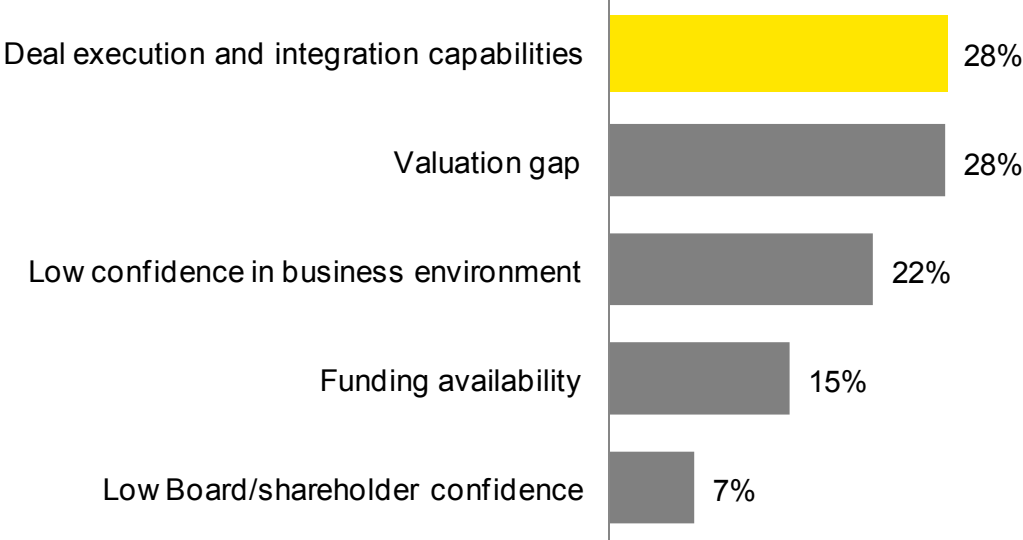
Do you expect the valuation gap between buyers and sellers in the next 12 months to...



Source: Ernst & Young Capital Confidence Barometer

Execution capabilities and valuation gap - the primary reasons for not pursuing acquisitions

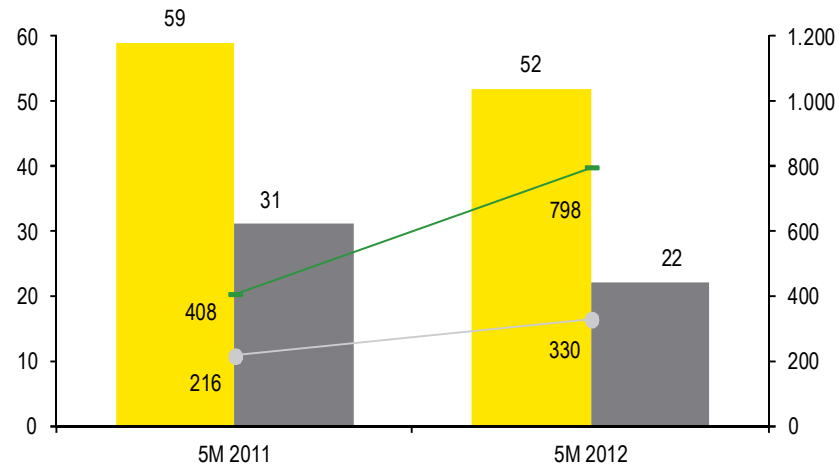
What is the primary reason for not pursuing an acquisition in the next 12 months?



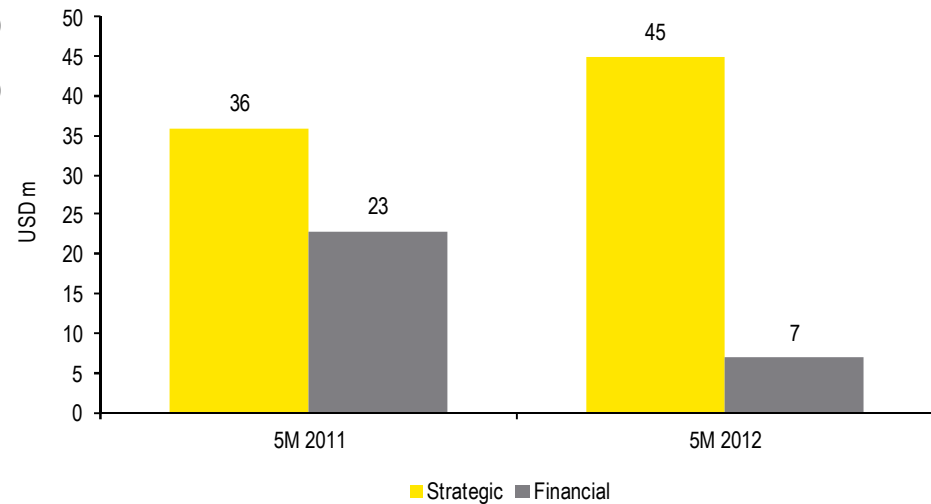
Source: Ernst & Young Capital Confidence Barometer

Romanian M&A market in 5M2012 (1/2)

Number and value of total deals vs. disclosed deals



Deals by strategic vs. financial investors



- Number of transactions
- Number of disclosed deals
- Estimated market size (USD m), deals with disclosed value, excluding cross border
- Extrapolated market size (USD m), excluding cross-border

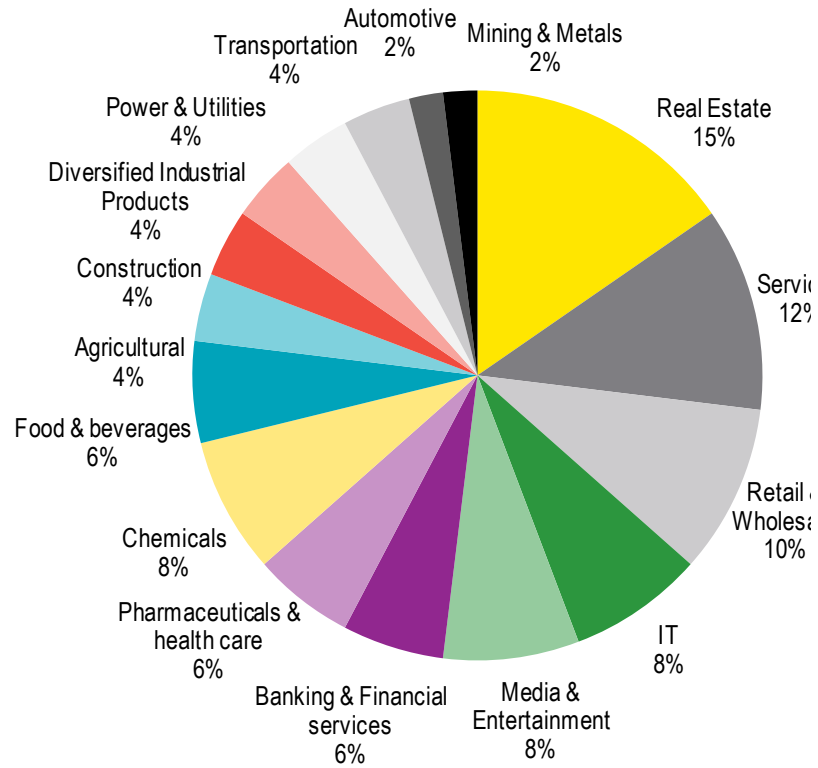
Note : Extrapolated market size includes all deals excluding crossborder, with market value computed based on average value of disclosed deals

Source: Ernst & Young calculations based on DealWatch and Romanian press

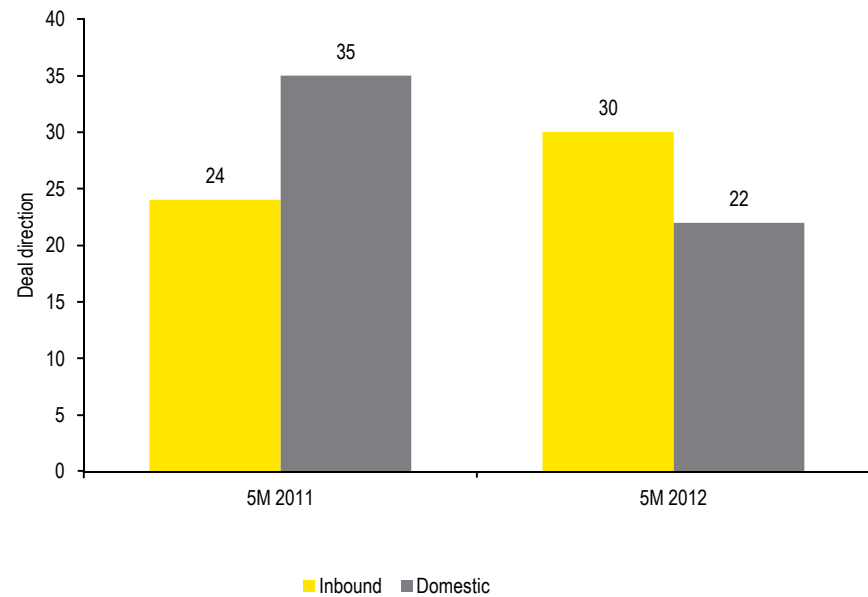
First 5M of 2012 meant an increase in market value and strategic acquisitions

Romanian M&A market in 5M2012 (2/2)

Deals by industry (by number)



Inbound vs. domestic deals (by number)

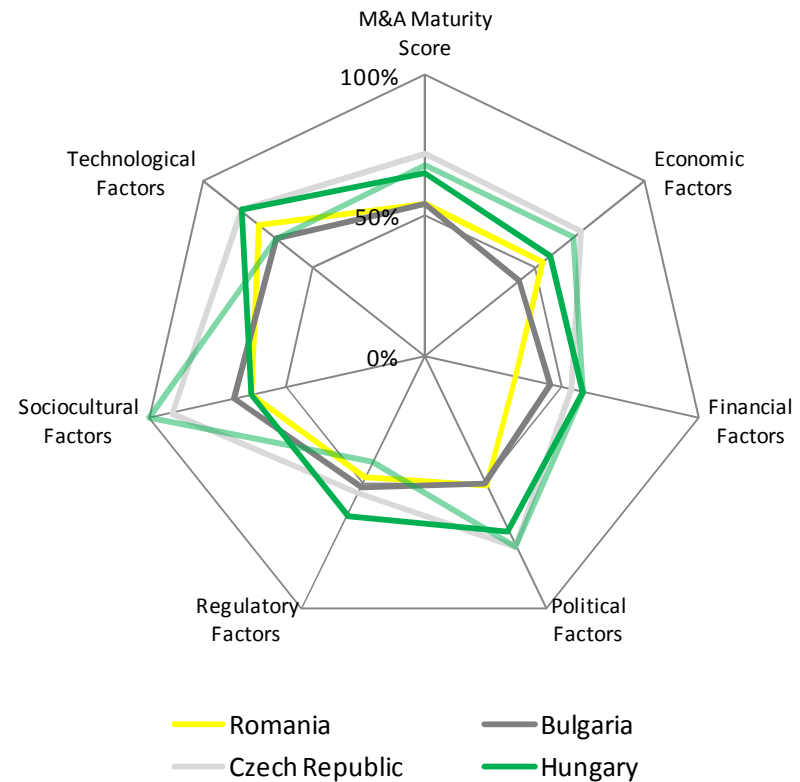
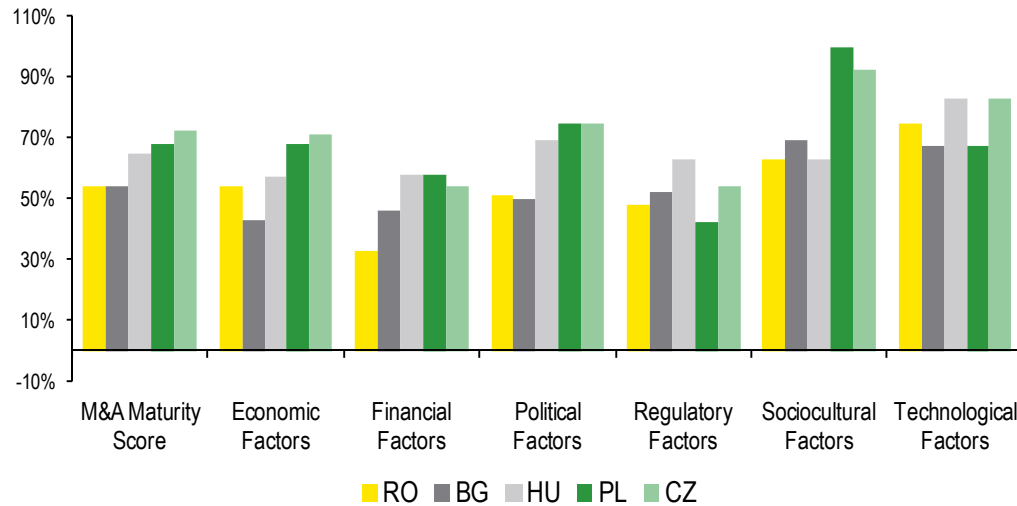


**Top industries:
Real Estate, Services,
Retail & Wholesale**

Source: Ernst & Young calculations based on DealWatch and Romanian press

Maturity of the Romanian M&A market

M&A maturity score



	RO	BG	HU	PL	CZ
M&A Maturity Score	54%	54%	65%	68%	72%
Economic Factors	54%	43%	57%	68%	71%
Financial Factors	33%	46%	58%	58%	54%
Political Factors	51%	50%	69%	75%	75%
Regulatory Factors	48%	52%	63%	42%	54%
Sociocultural Factors	63%	69%	63%	100%	92%
Technological Factors	75%	67%	83%	67%	83%

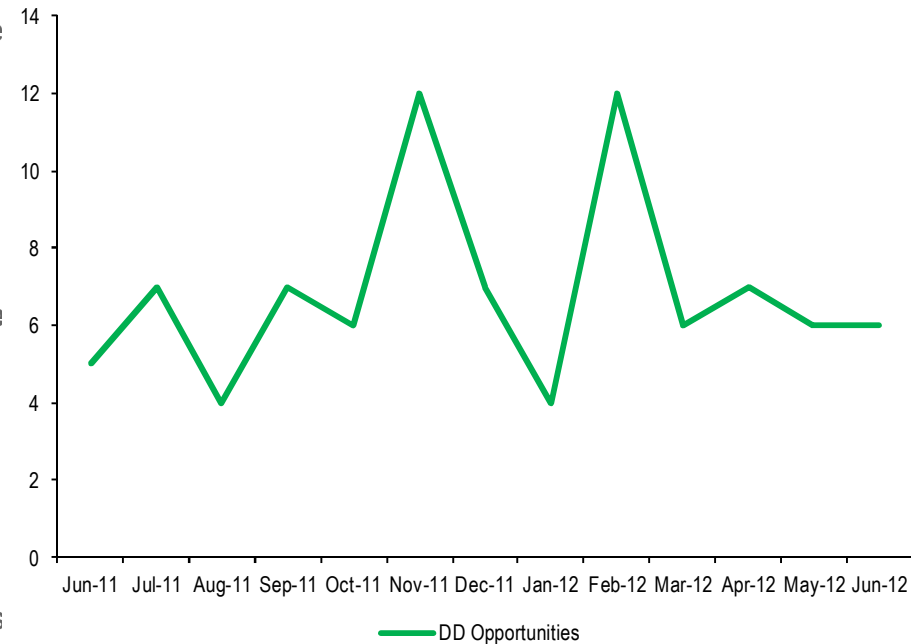
Strong score for Romania in technological factors.

Source: Ernst & Young Maturity Index

M&A outlook in Romania

- ▶ Post-crisis “depression” shall be surpassed by **realism**, led by pursuit of new opportunities or maybe “old revitalized” deals
- ▶ For sure the Romanian market is not that liquid nor strong in the number of appealing targets for foreign investors, as other countries in the region, but domestic investors could and should consider **inorganic growth opportunities and become more active in the M&A field**
- ▶ In addition, Romanian businesses are expected and encouraged to become **regional**, to expand their vision to a larger geographical area, which would boost outbound M&A
- ▶ Many Romanian family businesses are in the process of **generation change**, the new generation being more knowledgeable on the M&A subject and more willing to aggressively grow businesses
- ▶ In the short run, the fact that 2012 is an **election year** is expected to hamper M&A activity, however further **consolidation** is expected to take place in some sectors

Ernst & Young DD opportunities



Realism vs. post-crisis depression

Regional focus

Generation change

Appendices



About the Ernst & Young Capital Confidence Barometer

Ernst & Young's Capital Confidence Barometer is a regular survey of senior executives from large companies around the world conducted by the Economist Intelligence Unit (EIU).

The respondent community is comprised of an independent EIU panel of senior executives and selected Ernst & Young clients and contacts.

This snapshot of our findings gauges corporate confidence in the economic outlook and identifies boardroom trends and practices in the way companies manage their Capital Agenda.

Respondent profile:

- ▶ EIU panel of over 1,500 executives surveyed in February and March 2012
- ▶ Companies from 57 countries
- ▶ Respondents from more than 40 industry sectors
- ▶ 770 CEO, CFO and other C-level respondents
- ▶ More than 400 would qualify for the Fortune 500 based on revenues

Criteria for inclusion in the Romanian M&A market analysis

M&A activity and data include private to private transactions and exclude:

- ▶ Acquisitions of minority stakes below 15%
- ▶ Majority shareholder further acquisition of minority interest
- ▶ Real estate transactions (except for when target and/or buyer was a real estate company or real estate fund)
- ▶ Capital market transactions (except for transactions that resulted in a change of control)
- ▶ IPOs
- ▶ Acquisitions of licenses
- ▶ Joint venture agreements
- ▶ Greenfield investments
- ▶ Privatizations
- ▶ Internal reorganizations

Note : Cross border deals (value of these deals was ignored, but the number was counted in).



M&A Maturity Index

- ▶ The M&A maturity index provides a high-level summary of risks and opportunities for M&A transactions in 175 countries around the world. It has been developed by MARC, the M&A Research Centre at Cass Business School, City University, London of which Ernst & Young is a senior sponsor.
- ▶ The concept behind the index is that the more mature a country, the greater propensity for, or ease of doing M&A deals. Where there are risks, there are however opportunities.
- ▶ M&A maturity index is based upon the following factors: Economic factors, Financial factors, Regulatory factors, Socio-cultural factors and Technological factors.
- ▶ For more details, access: www.mandamaturity.com

Regulatory Factors
Business Licensing And Permits
Completing Formalities
Enforcing Contracts
Foreign Investment Approval
Labor Regulations
Merger Control
Paying Taxes
Protecting Investors
Registering Property
Regulatory Quality
Rule Of Law
Trading Across Borders

Economic Factors	Financial Factors	Political Factors	Technological Factors	Sociocultural Factors
Current Account Balance	Access To Finance	Control Of Corruption	High-Technology Exports	Labour Skill
Economic Freedom	Availability Of Domestic Banking Credit	Corruption Potential	Innovation	Level Of Education
Economic Structure Risk	Currency Risk	Political Issues	RD Expenditure	Level Of Training Offered
Gdp Growth	Development Of Bond Market	Sovereign Debt Rating		Population Size
Gdp Size	Development Of Equity Market			
Inflation	Financial Factors			
Investment Climate	Labor Costs			