

ACCA, NY/NJ/CT Chapter Meeting

2007 M&A Update

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Williams Club, New York

April 2, 2008

Topics

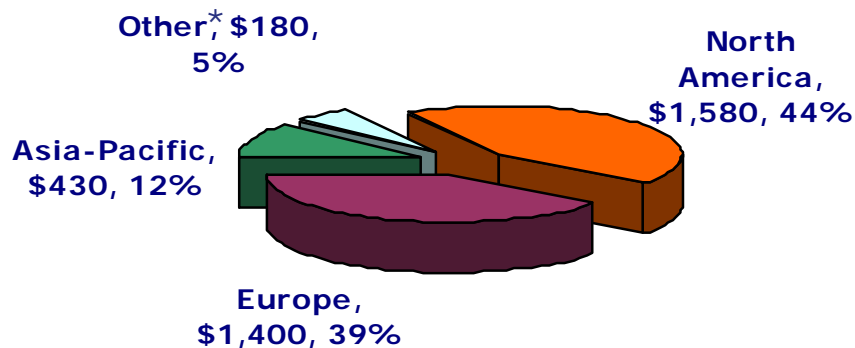
- Global M&A activity
- Current M&A trends in the US
- US M&A Deal Analysis: sectors and sizes
- Sources of financing: what's the role of private equity?
- Areas of importance in planning and executing an M&A
- IFRS and M&As
- Q&A session

Global M&A Activity

2007 a record year for Global M&As:

- Total Global M&A Deal Value in 2007 \$ 3.6 trillion (\$3.7 trillion in 2006)
- North America: \$ 1.58 trillion, 9% growth/ 4,950 deals
- Europe: \$1.4 trillion, same as in 2006/ 6,290 deals
- Asia: \$ 430 billion, 5% growth/ 2,700 deals

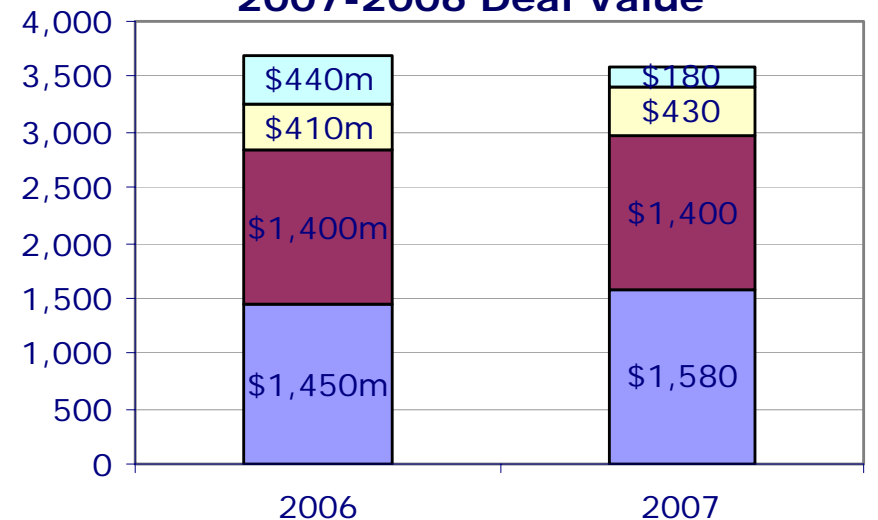
2007 Deal Value by Region



Other includes: Latin America, Africa, Middle East.

Source: Mergermarket, *The Comprehensive Review of North American Mergers & Acquisitions, Mergermarket Full Year 2007.*

2007-2006 Deal Value



Legend: North America (blue), Europe (maroon), Asia-Pacific (yellow), Other (light blue)

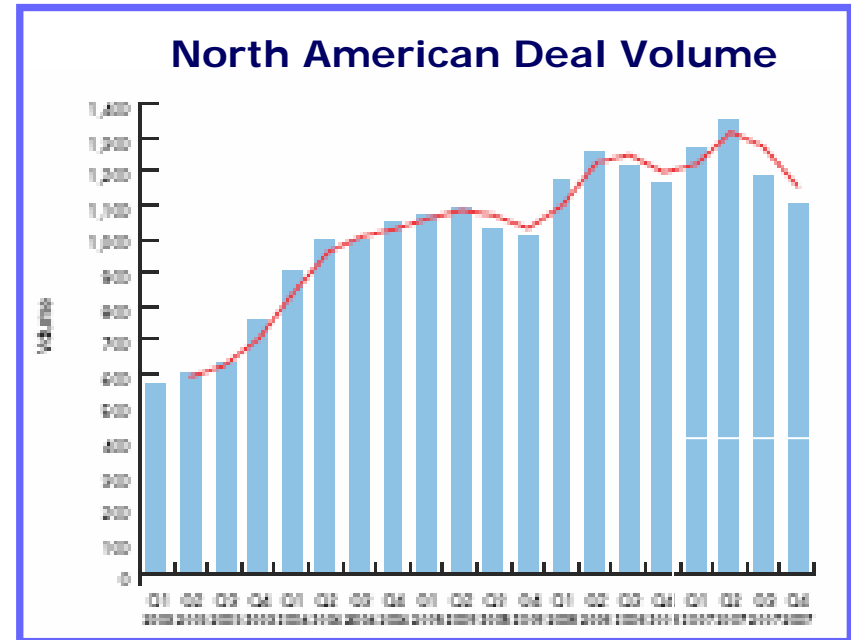
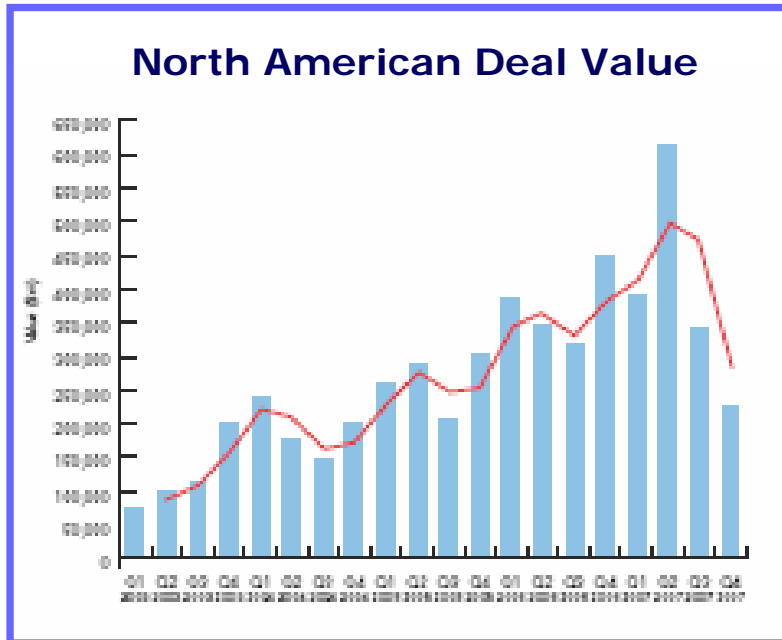
Top 2007 Deals Globally

- RBS-Fortis-BSCH/ABN Amro €71bn Banks
- Altria Group/Kraft \$61 bn Consumer
- Enel&Acciona/Endesa €48 bn Energy
- Providence, Madison, Teachers/BCE \$44 bn Telecoms
- KKR, TPG, GS/TXU Corp \$44 bn Energy
- Rio Tinto/Alcan €32 bn Industrials
- Unicredit/Capitalia €22 bn Financials
- KKR&Pessina/Alliance Boots €18 bn Consumer
- KKR/First Data \$27 bn Business Services
- TPG, GS/Alltel \$27 bn Telecoms
- Blackstone/ Hilton \$25 bn Leisure
- Bank of America/LaSalle €15 bn Financials

North American M&A Activity

2007 a record year in the US:

- Q2 '07 the highest M&A value ever (\$600 billion)
- Slowdown in 2H'07 due to credit crunch
- Main Sectors: Financial Services (17%), Energy & Mining (16.5%), Industrials (16%), TTM (17%); life sciences (8%)
- Northeast, West, Midwest, Southeast the more active regions

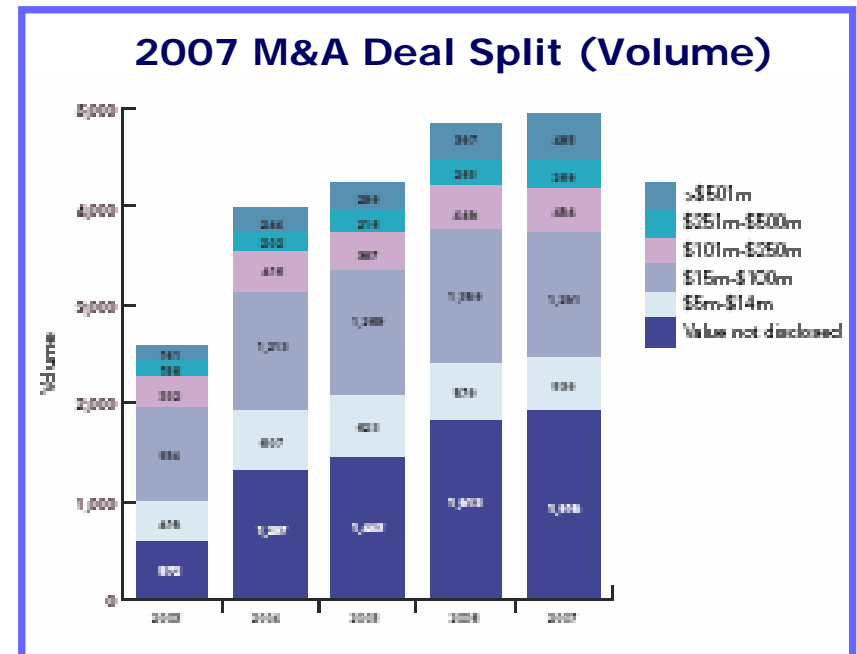


Source: Mergermarket, Deal Drivers, A Comprehensive Review of European M&A s, Full Year Edition 2006.

North American M&A Activity – Deal Size

2007 a mega-deal year; middle market is strong:

- Continued increase in average size; deals over \$500 m totaled \$1.35 trillion (85% of total); 495 transactions
- Significant middle market activity: 720 deals for a total of \$170 billion
- largest LBO ever: KKR,TPG,GS/TXU at \$45 billion

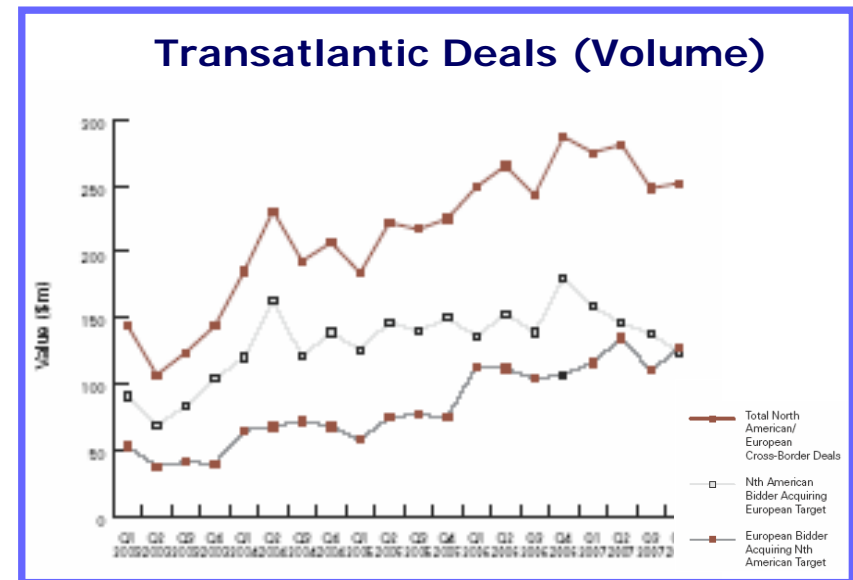
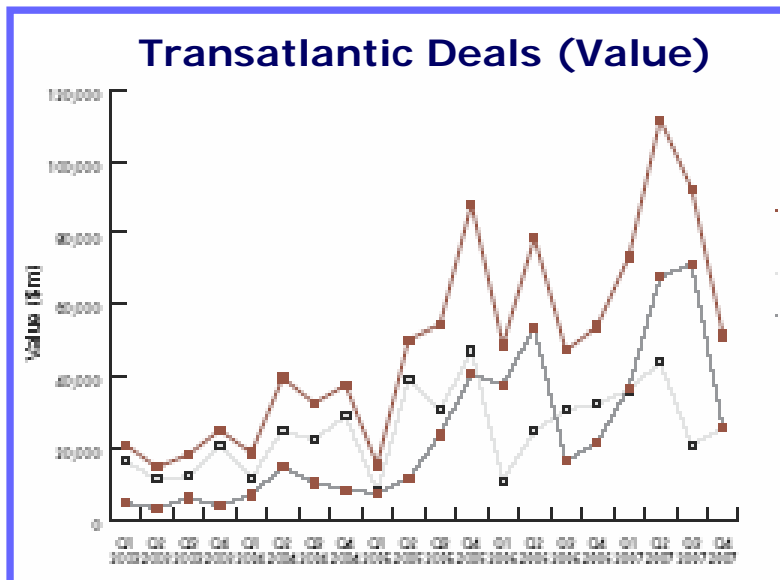


Source: Deal Drivers, The Comprehensive Review of North American Mergers & Acquisitions, Mergermarket Full Year 2007.

Cross-Border M&A Activity

Cross Border activity grows:

- Record year in transatlantic deals; \$330 billion (1,040 deals)
- Increase in European buyers
- Factors: Strategic activity; cash availability in PEs; weakening US\$
- Significant Deals: Rio Tinto/Alcan, Thompson/Reuters
- Rise of Sovereign Wealth Funds



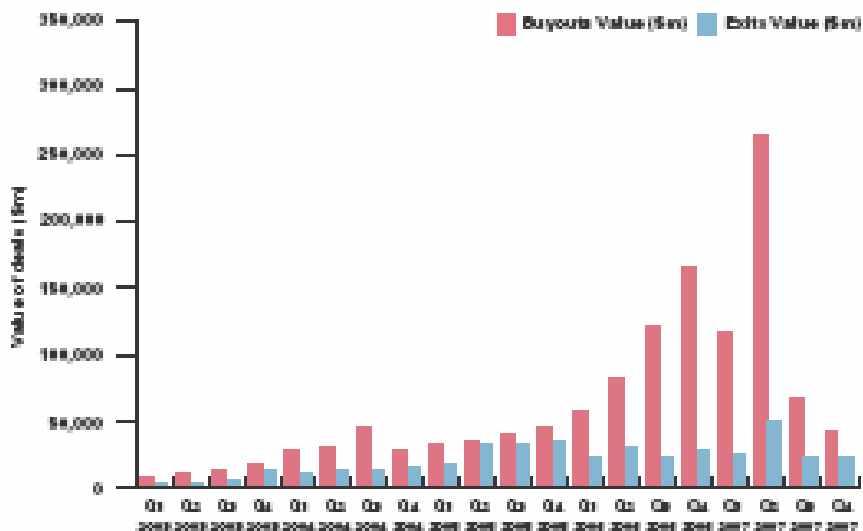
Source: Deal Drivers, The Comprehensive Review of North American Mergers & Acquisitions, Mergermarket Full Year 2007.

North American M&A Activity-PE

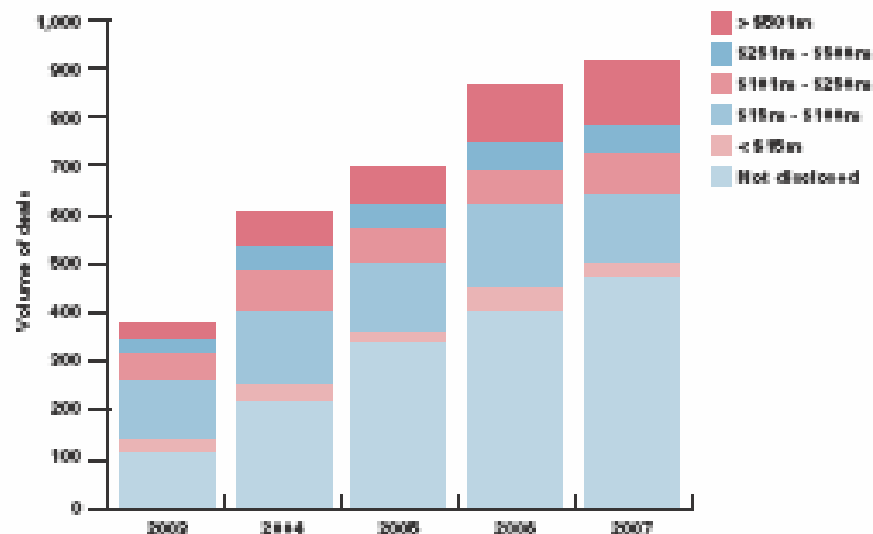
PE sector critical but in crisis:

- \$500 billion in buyouts in 2007; 35% of total activity
- Record activity in 1H '07, slowdown thereafter
- Many mega-deals canceled
- Fall in valuations due to credit tightening
- Blackstone IPO

Buyouts and Exits by Value



Buyout deal size by value



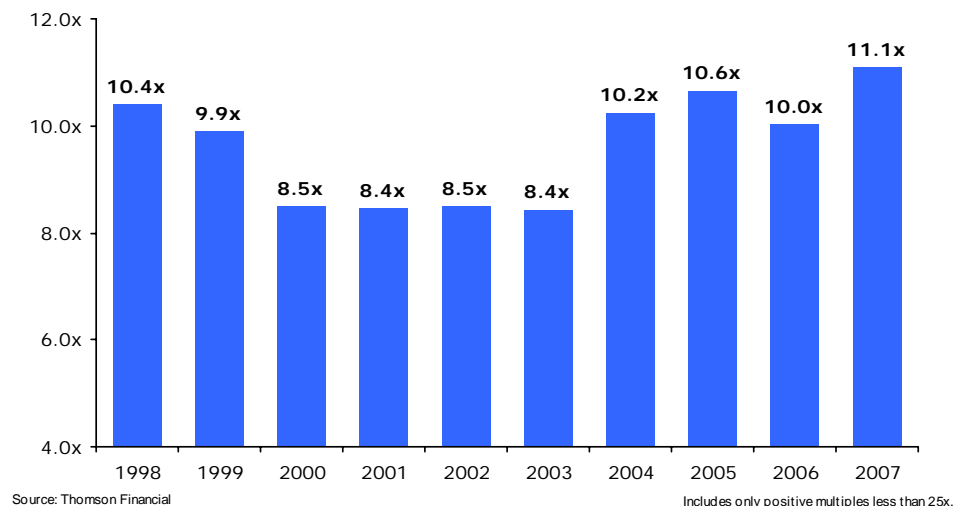
Source: North American Private Equity in Review, Mergermarket, February 2008.

M&A Pricing Trends

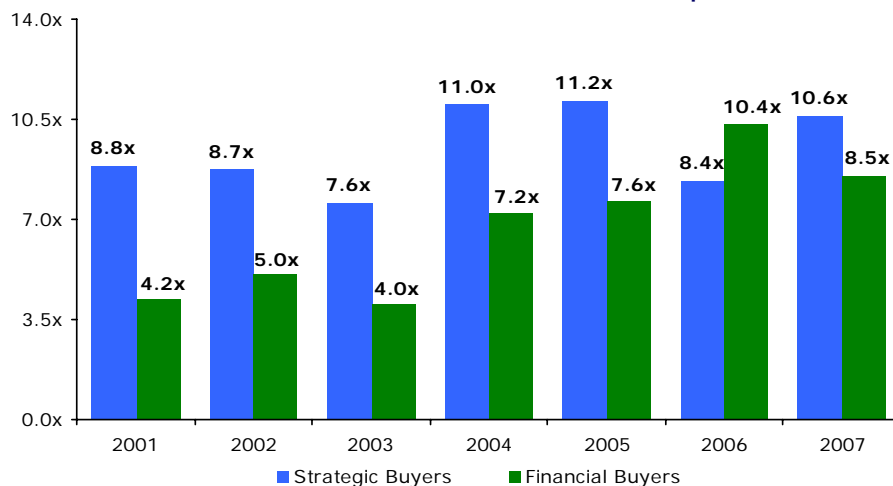
Increase in Valuations:

- average multiple reached 11x in 2007
- Higher multiples offered in electronics and large deals
- Cash rich PEs; average multiple from 4.2X to 8.5X
- Strategic buyers buy at a premium over PE
- Mainly cash-deals

Median EV/EBITDA- US



Median EV/EBITDA- US < \$250m



North American M&A Activity-Themes

- Credit crunch; unavailability of debt financing (LBOs)
- Many deals were aborted (“the year of the MAC”); mortgage /real estate sector seriously hit:
 - Sallie Mae/ JC Flowers, BofA, JPMChase, \$25 bn
 - Clear Channel/ Bain, Thomas Lee, \$19.5 bn
 - Home Depot/ Bain, Carlyle, Clayton Deubilier & Rice \$10.3 bn
 - PHH/ Goldman Sachs, \$1.8 bn
- Fall in valuations (EV/EBITDA)
- Markets believed to recover in a year
- Cross-border activity gaining pace
- Deals take longer time

DEAL OR NO DEAL

Damodaran – 7 sins in Acquisitions

1. Risk Transference: attributing acquiring company risk characteristics to target firm
2. Debt subsidies: subsidizing target firm for the strengths of the acquirer
3. Auto-pilot Control: The “20% control premium” and other myths...
4. Elusive Synergy: Misidentifying and misvaluing synergy
5. It's all relative: Transaction multiples, exit multiples..
6. Verdict first, trial afterwards: Price first, valuation to follow
7. It's not my fault: Holding no one responsible for delivering results

Successful M&As – Best Practice

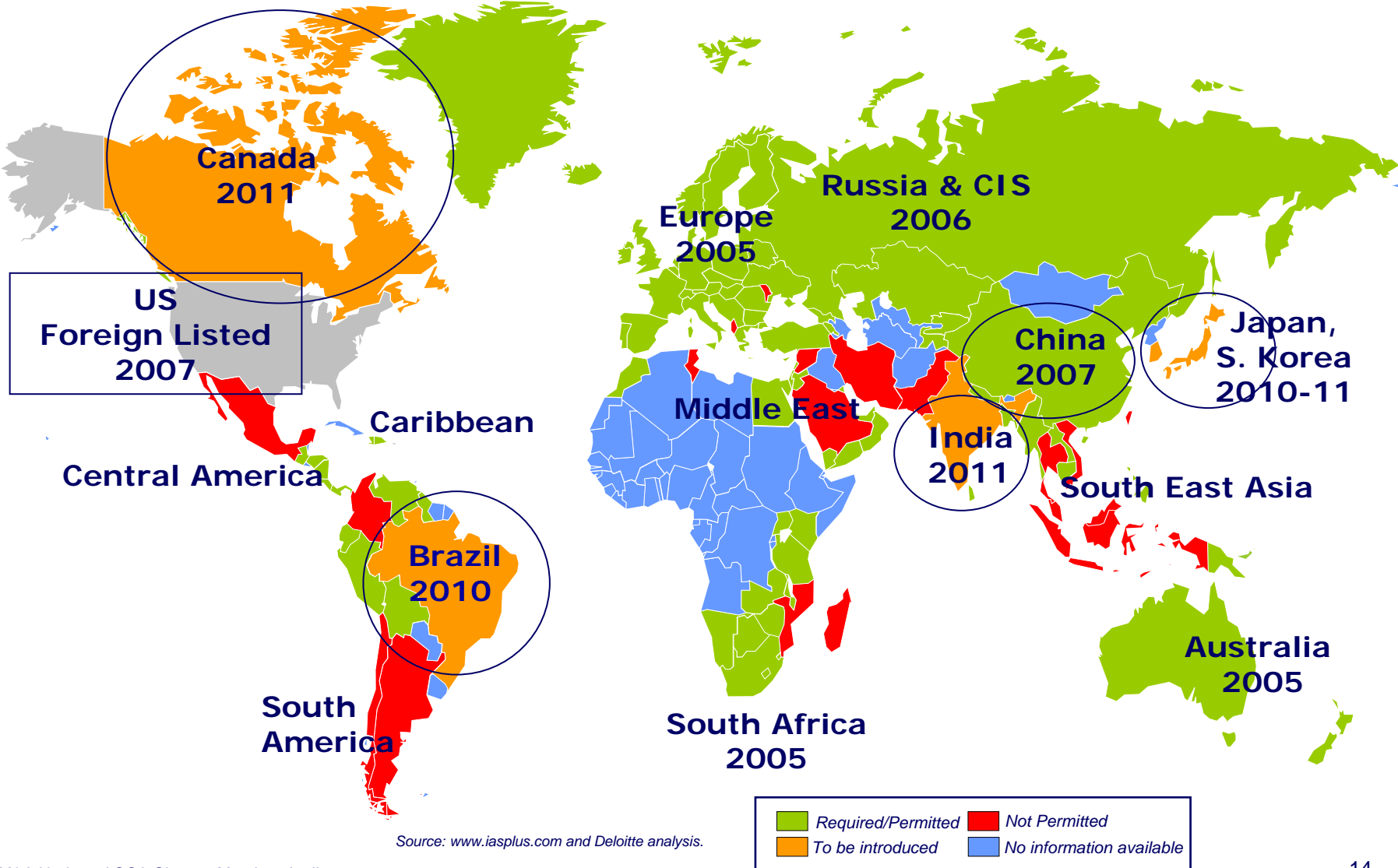
Five Disciplines:

- Establish Clarity of Purpose
- Safeguard Parent Power
- Know your Target
- Provide Incentives to Execute
- Integration Planning

M&As and IFRS - Background

- Increasing importance of IFRS:
 - Most of major economies have or will adopt IFRS (at least for listed companies) by 2011
 - SEC endorsed IFRS for foreign issues, considering for all
- A large part of M&As in IFRS domiciles
 - More than 40% (Europe, China)
- Increasing level of cross-border M&As:
 - Transatlantic
 - Asia

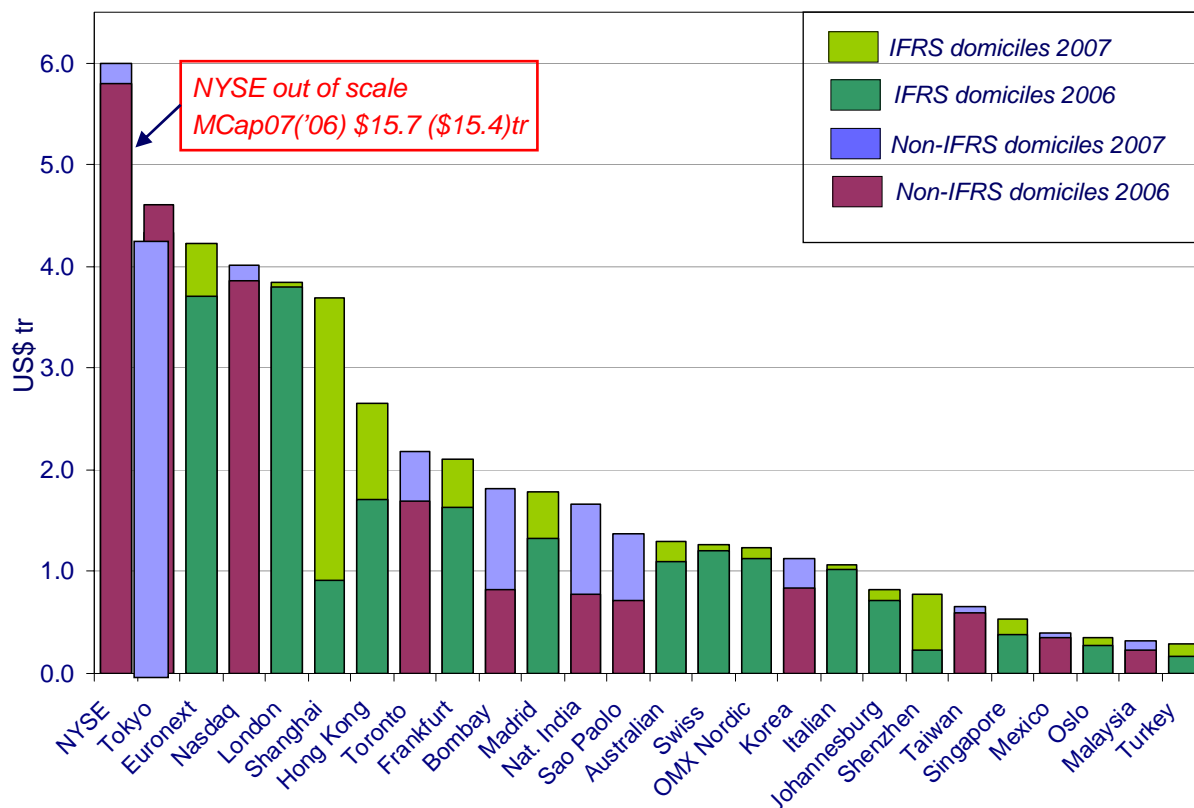
The World of IFRS



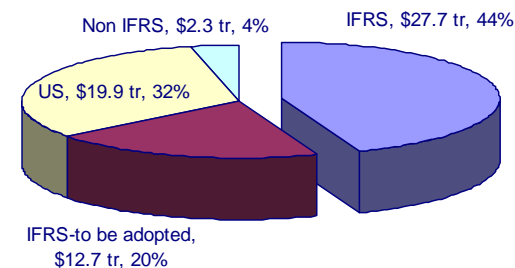
IFRS & Capital Markets

- Most stock exchanges already under IFRS
 - 31 stock exchanges, 44% of global market cap

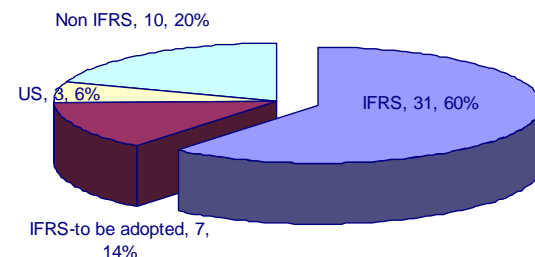
Capitalization of Exchanges (2006-2007)



Exchanges by Capitalization



Number of Exchanges



Source: World Federation of Exchanges, December 2007, www.iasplus.com and Deloitte analysis.

IFRS Statements with implications in M&As

- IFRS 3: Purchase Price Allocation
 - Significant part of Intangibles in PPAs
 - P/E, Capitalization issues
- IAS 36 (impairment test)
- IAS 38 (intangibles)
- Fair Value (under discussion)

Q&A ?

