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HGM Tracker

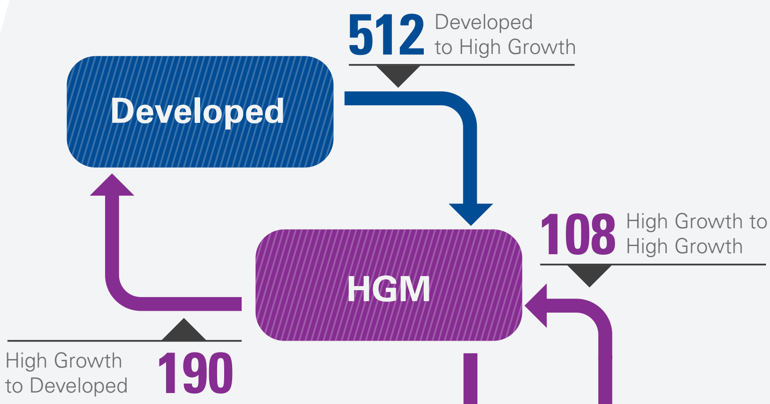
March 2014

High Growth Markets International Acquisition Tracker

Deal volumes lag rising confidence

Rising domestic confidence in many developed markets is not yet translating into an increase in cross-border acquisitions.

Deals between developed market acquirers and high growth market targets (D2H) continued the downward trend of the last 3 years, falling back to 2009 levels in H2 2013. To put it in context, 2009 was the low point of the global downturn, with the fewest D2H transactions since 2005.



Source: Thomson Reuters SDC; KPMG analysis, 2014

High growth market acquirers appear to be more proactive, prioritizing deals in developed markets over investments in other high growth markets. Currency fluctuations, too, could be influencing the pattern of deals coming out of key high growth markets, such as South America.

What is the HGM Tracker?

The HGM Tracker looks at deal flows between 15 developed economies (or groups of economies) and 13 high growth economies (or groups of economies).* The Tracker is produced every 6 months to give an up-to-date picture of cross-border merger and acquisition activity, with the current edition featuring deals between July and December 2013.

Established in 2003, the Tracker includes data from completed transactions where a trade buyer has taken a minimum of 5 percent shareholding in an overseas company. All raw data is sourced from Thomson Reuters SDC and excludes deals backed by governments, private equity firms or other financial institutions.

* The 15 developed countries or groups are: UK, US, Canada, Spain, France, Germany, Netherlands, Italy, Australia, Singapore, Hong Kong, Japan, Europe (Other), the Offshore Group and Oceania. The 13 high growth economies or groups are: Brazil, Russia, India, China, Central & Eastern Europe (CEE), the CIS (Commonwealth of Independent States), Malaysia, Southeast Asia, South Africa, Middle East & North Africa, Sub-Saharan Africa, South America (excluding Brazil) and Central America & the Caribbean.

> Two of the biggest decliners were Brazil and South America (excl. Brazil) which both saw H2D deal volumes tumble by around 50 percent"

D2H deals continue steady decline

The glimmers of returning confidence that have been glimpsed in some major developed economies do not appear to be filtering through to the cross-border deals market yet.

The number of developed market acquisitions of high growth market targets (D2H) fell by 11 percent between H1 and H2 2013, from 575 to 512 deals. There were notable declines in North America, where deal volumes fell by over 20 percent; in Hong Kong, which saw a 23 percent decline; and in the UK, where D2H deal volumes decreased by 18 percent.

Bucking this trend, however, were Italy, Germany and Singapore, which all saw significant increases in D2H activity. Italy D2H deals rose 63 percent, Germany rose by 37 percent, while Singapore recorded a 23 percent increase.

We also saw Japan and Singapore ramp up acquisitions in Southeast Asia during this period. "Thanks to the 'Abenomics', Japanese CEOs are now feeling more optimistic about the economy and more confident about their company's health," says Ikuo Mori, Head of M&A, KPMG in Japan. "At the same time, Japan is a mature economy and in order to grow, they must go overseas to emerging economies such as Southeast Asia."

China the favoured location

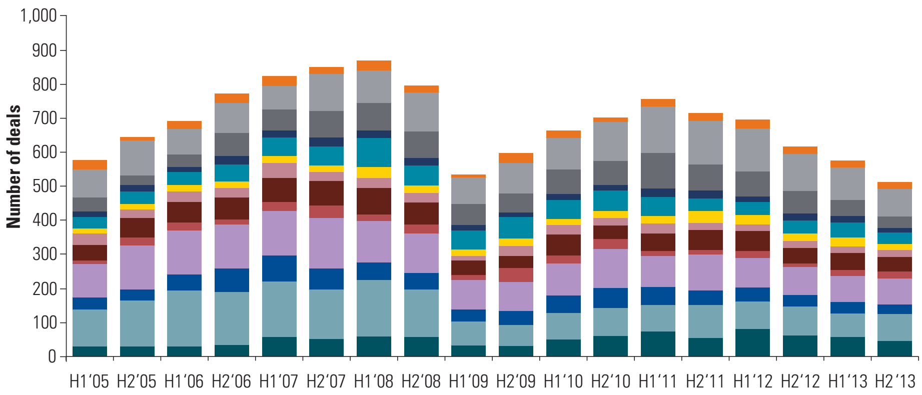
In terms of D2H targets, China is still the most popular country market, with 76 deals. However, it is some way short of the 120-plus deals routinely completed before the downturn. 2013 was, in fact, the lowest cumulative total of D2H deals into China since 2005.

The other BRIC markets (Brazil, Russia and India) all saw declines in incoming D2H deals of around 20 percent, reflecting the overall decline in D2H acquisitions. Deals involving Brazilian targets fell from 56 to 45 between H1 and H2 2013. "2012 was a record year for acquisitions into Brazil. It was clearly unsustainable in 2013." says Luis Motta, Partner, KPMG in Brazil, "We also saw investors lose interest in favor of other HGMs with relatively healthier growth potential." Those involving Russian targets decreased from 44 to 35, and D2H deals into India saw a decline from 51 to 42 deals.

Other notable declines in D2H volumes included South America (excl. Brazil), where the number of deals slumped by 29 percent, from 48 to 34; and also South East Asia, where deal totals fell from 95 to 81, a reduction of 15 percent.

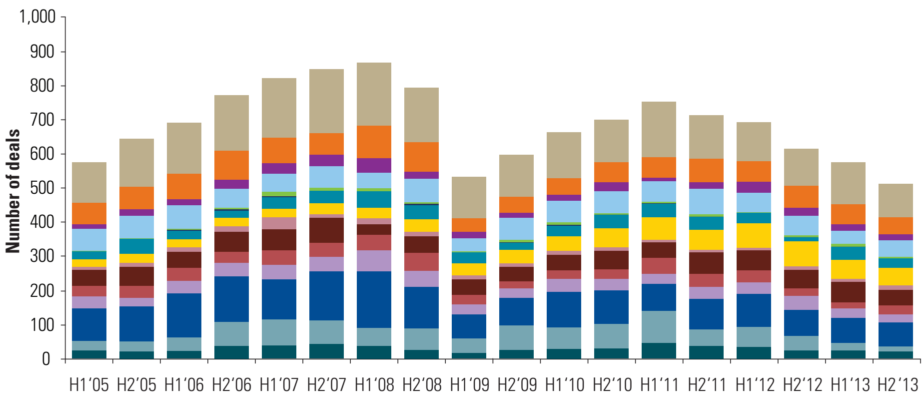
Tom Franks, KPMG's Global Head of Corporate Finance, commented, "Although domestic confidence in North America and Western Europe has risen recently, we are not seeing that reflected in the D2H deals market. Companies seem to be eschewing high growth opportunities in favor of safer options."

Developed market acquirers of high growth market targets, by target



Source: Thomson Reuters SDC; KPMG analysis, 2014

Developed market acquirers of high growth market targets, by acquirer



Source: Thomson Reuters SDC; KPMG analysis, 2014

H2D deals holding steady

In contrast to the on-going decline in D2H deals, the appetite for deals involving high growth markets acquiring developed market targets (H2D) seems to be more robust.

H2D deals completed between July and December 2013 climbed from 177 to 190, a rise of 7 percent. This was from a low base, however. While the 190 deals completed in H2 should be considered a welcomed return, it remains the lowest total since H2 2006, matched only by the 191 deals in H2 2009.

Asian markets, in particular, enjoyed a strong performance in H2 2013, in terms of acquisitions of developed market targets. China was particularly active. There were 51 H2D deals involving Chinese acquirers, an impressive 70 percent rise on the 30 deals completed during H1. In fact, 51 deals is the highest number of Chinese H2D deals since before 2005, by a significant margin.

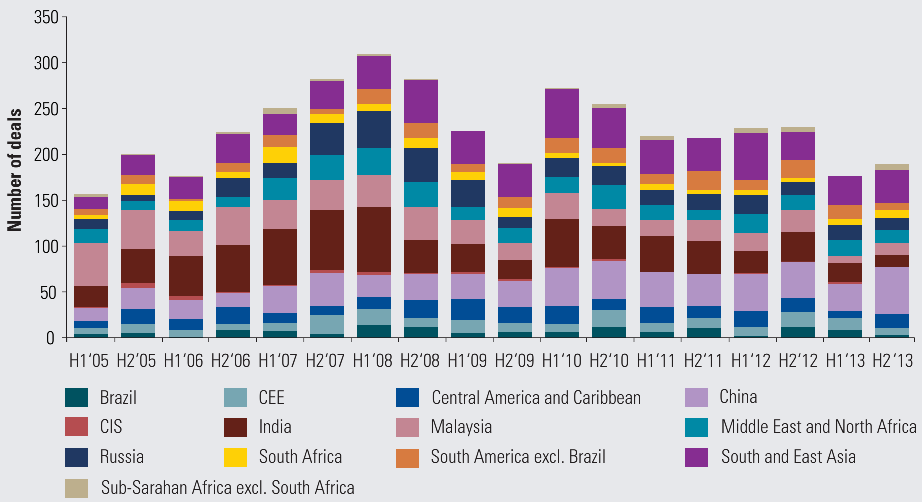
The strong Chinese performance may at least be partially explained by a change in leadership during H1, which led to a backlog of deal completions. "Once the leadership situation had stabilized, we saw a normalization of activity plus the clearing of the backlog – leading to the spike in deal completions during H2", said Honson To, Head of Transactions and Restructuring and ASPAC Head of Advisory, KPMG China. The Chinese Yuan also maintained a strong performance against the dollar during H2 2013, which may have facilitated Chinese deal-making.

Malaysia was another strong H2D performer, with the number of deals rising by 63 percent to 13, and South and East Asia saw H2D deal volumes increase from 31 to 36 during H2 2013. "We are beginning to see signs of increase in transaction volume particularly in the mid-market level. With the anticipated increase in GDP growth in most of the ASEAN countries, this trend is expected to continue," said Bob Yap, Head of ASPAC T&R.

Other notable increases were Central America and the Caribbean, where deal volumes rose from 8 to 15, and Sub-Saharan Africa (excl. South Africa), where H2D deals increased from 1 to 7.

Most other countries and regions saw a fall in H2D deals, or at most a negligible increase. Two of the biggest decliners were Brazil and South America which both saw H2D deal volumes tumble by around 50 percent.

High growth market acquirers of developed market targets, by acquirer



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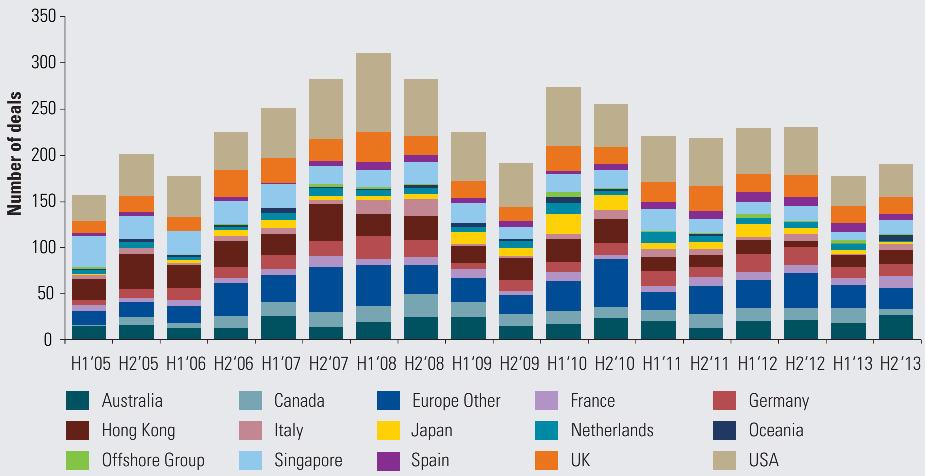
High growth market acquirers of developed market targets, by target



Source: Thomson Reuters SDC; KPMG analysis, 2014

> Figures suggest that high growth market companies are prioritizing investments in developed markets over opportunities in other high growth markets

High growth acquirers target US

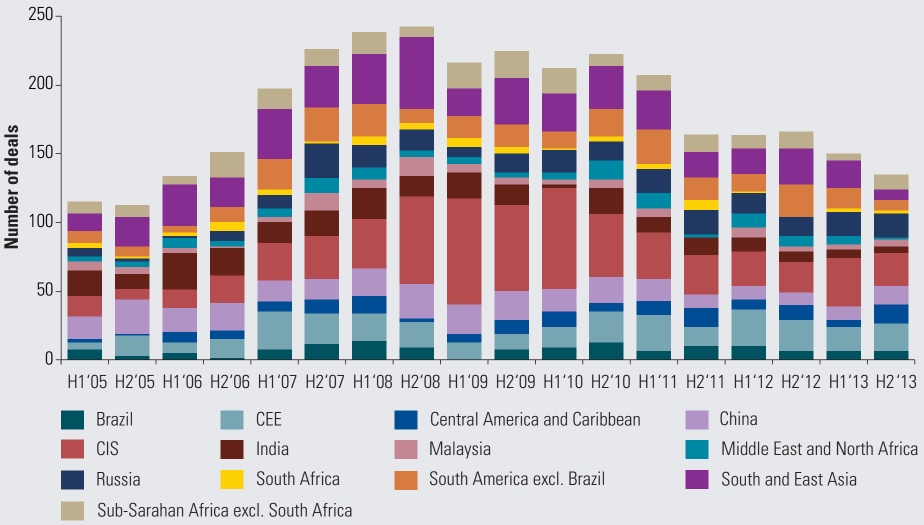
At 36 deals, the US was the most popular investment target for high growth acquirers during H2 2013, maintaining a steady share of approximately 19 percent of all H2D deals. This compares to the 33 deals completed during H1 2013, but represents a 31 percent decline in the same period last year, when 52 deals were completed.

Australia saw a strong second half of the year, with the volume of H2D deals climbing from 18 to 26. "Australia continues to be of interest to global buyers," says Curtis Smith, Partner, Corporate Finance, KPMG Australia. "Deals are largely driven by a desire to achieve growth in the same business. 'Branching out' transactions are limited so far." Other strong performers included France, with deals up from 8 to 13, and Singapore, which saw an increase from 9 to 15 H2D deals.

In contrast, Canadian H2D deals plummeted by over 50 percent from 16 to 7, linked to the slide in M&A activity in two of its stalwart industries, mining and energy.

H2H activity struggling

High growth market acquirers of high growth market targets, by target



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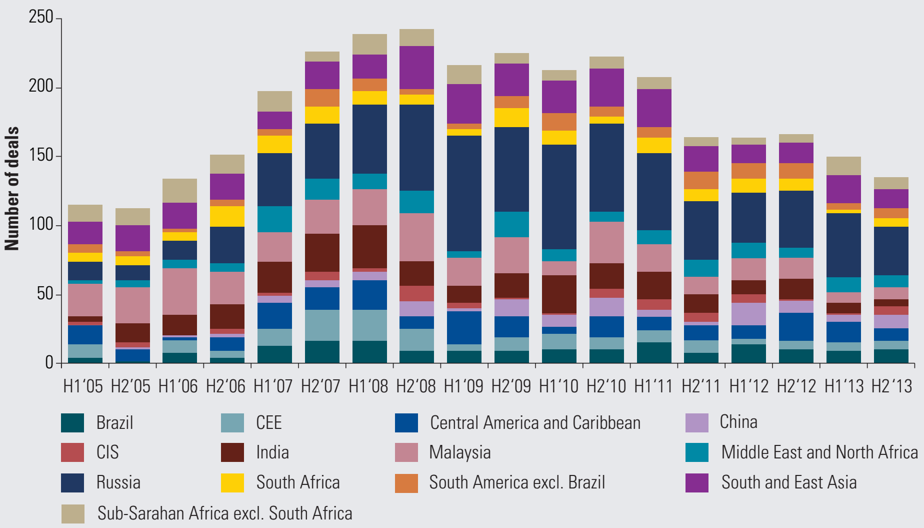
High growth market acquirers of high growth market targets, by acquirer



Source: Thomson Reuters SDC; KPMG analysis, 2014

H2H deals appear to be mirroring the downward trend in D2H deals and in the overall deals market globally, where global M&A decreased from 1,273 deals to 1,221 deals over the course of 2013.

The number of H2H deals during H2 2013 fell from 120 to 108, the lowest volume since H1 2006 and a 10 percent drop.

In the Commonwealth of Independent States (CIS – former states of the USSR), H2H deal volumes involving CIS targets fell from 28 to 19, a fall of 32 percent. Combined with a total lack of H2D deals involving CIS acquirers, it suggests a very tough time for the region's M&A market. There were also big declines in South America (excl. Brazil), where H2H deals involving local targets fell from 12 to 6, and in South and East Asia, where deals fell from 16 to 6.

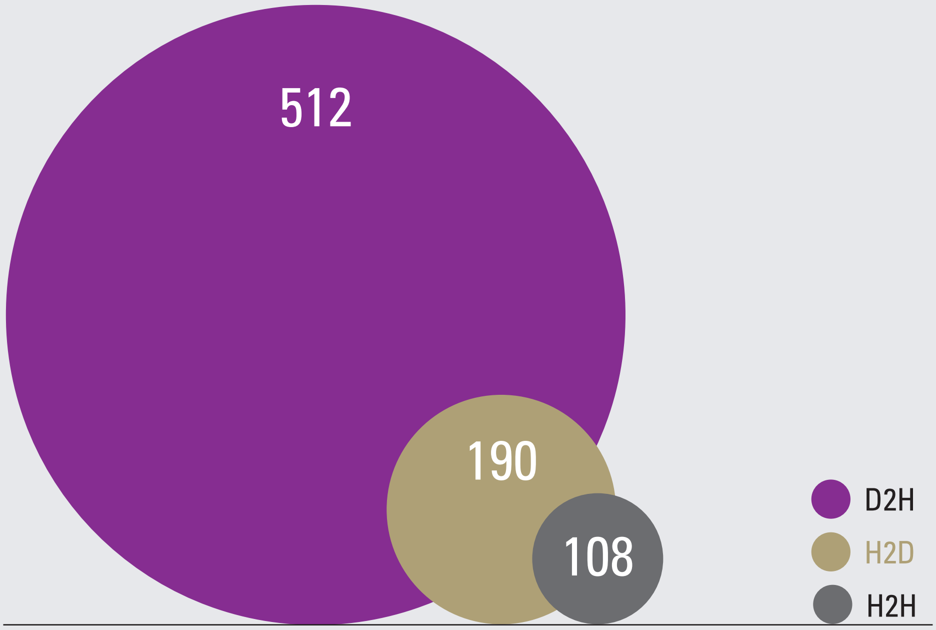
China, Central America and the Caribbean and Sub-Saharan Africa (excl. South Africa) had more success attracting investors, with the number of H2H deals involving local targets rising by 38 percent in the case of China, and over 50 percent for the others.

China was also one of the few countries that saw a significant increase in H2H deals as acquirers, with the number of deals rising by 50 percent, from 4 to 8. Brazil also saw a slight rise, from 7 to 8, as did South America (excl. Brazil).

In India, H2H deals involving Indian acquirers declined from 6 to 4, while in Russia the drop was also significant, from 37 to 28.

Taken together with the rise in H2D deals, the H2H figures suggest that high growth market companies are prioritizing investments in developed markets over opportunities in other high growth markets, as they develop their portfolios.

Deal volume in H2 2013



Source: Thomson Reuters SDC; KPMG analysis, 2014

Exchange rates influencing deal patterns

Another factor that may be affecting the level of M&A investment coming out of specific high growth markets is the fluctuation in the value of local currencies against the dollar.

With the dollar generally on an upward trajectory during 2013, the commercial attractiveness of H2D deals inevitably suffers as targets become more expensive to acquire. Conversely, opportunities in other high growth markets become more attractive.

Hence Brazil saw a significant decline in M&A activity into developed countries, but an increase in H2H activity. Similarly, currency depreciations in Argentina, Colombia and Peru during 2013 were reflected by a decline in H2D activity from these markets, but an increase in H2H transactions. "The combined effect of lower purchasing power due to unfavorable currency movements and a more conservative approach by Brazilian corporates has led to a lowering of M&A activity," says Claudio Ramos, Lead Partner for Transactions and Restructuring, KPMG in Brazil. "With a slowing economy, there is less appetite for risky and pricey maneuvers into developed countries."

This contrasts with the situation at a macro level, where overall H2D deals are up and H2H deals are down.

"Globally speaking, the vehicle powering deals involving high growth markets is stuck in neutral," says Tom Franks. "We are seeing a trend towards high growth markets acquiring in developed markets in order to diversify their portfolios. But currency movements have significantly hampered those efforts, particularly in markets in South America, and we have seen a relative upswing in investments from these markets into other high growth markets."

Vs. USD	% '11-'12	% '12-'13
Developed Markets		
Australian Dollar	1.80%	-14.2%
British Pound	4.60%	1.9%
Euro	1.80%	4.2%
Japanese Yen	-11.30%	-17.6%
HGM Markets		
Argentine Peso	-12.40%	-24.6%
Brazilian Real	-9.10%	-13.2%
Chinese Yuan	1.10%	2.9%
Colombian Peso	9.70%	-8.4%
Indian Rupee	-3.10%	-11.4%
Indonesian Rupiah	-5.50%	-20.9%
Malaysian Ringgit	3.60%	-6.8%
Peruvian New Sol	5.40%	-8.7%
Philippine Peso	6.80%	-7.4%
Russian Ruble	5.30%	-7.1%
Thai Baht	3.20%	-6.5%

Want to know more

To see the figures behind the HGM Tracker, including a breakdown of the deal flow for all 28 economies (or groups of economies) featured in this flyer, visit **kpmg.com/hgmtracker**

Contacts

Tom Franks
Global Head of Corporate Finance
Partner, KPMG in the UK
T: +44 20 73118416
E: tom.franks@kpmg.co.uk

Americas

Peter Hatges
Head of Corporate Finance Canada & Americas
Partner, KPMG in Canada
T: +416 777 3614
E: phatges@kpmg.ca

David Bunce
Head of Corporate Finance Latin America
Partner, KPMG in Brazil
T: +55 11 32458002
E: dbunce@kpmg.com.br

EMA

Wouter Van De Bunt
Head of Global M&A and EMA
Partner, KPMG in the Netherlands
T: +31206 567373
E: vandebunt.wouter@kpmg.nl

Asia Pacific

Vishal Sharma
Head of M&A Asia Pacific
Partner, KPMG in Singapore
T: +65 6213 2430
E: vishalsharma@kpmg.com.sg

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