KPMG
cutting through complexity

HGM Tracker

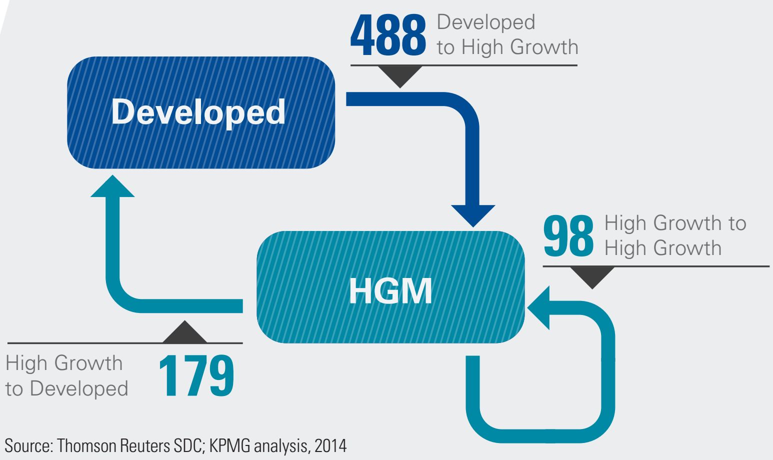
September 2014

High Growth Markets International Acquisition Tracker

Confidence still hindering deal volumes

Cross-border acquisitions involving high growth markets maintained their downward trajectory during the first half of 2014, despite the rising confidence in many developed markets.

The number of deals between developed market acquirers and high growth market targets (D2H) fell to its lowest level since before 2005. It suggests that the relative attractiveness of acquisitions in higher growth markets is diminishing as the potential returns available in developed markets improve.



Source: Thomson Reuters SDC; KPMG analysis, 2014

Deals involving high growth market acquisitions in developed markets (H2D) also decreased, although not as dramatically as D2H deals, as did deals where both acquirer and target were based in high growth markets (H2H).

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 January and June 2014.

Established in 2003, the Tracker includes data from completed transactions where a trade buyer has taken a minimum 5 percent shareholding in an overseas company. All raw data is sourced from Thomson Reuters SDC and excludes deals backed by government, 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.

> As developed markets have recovered, however, investment returns and growth prospects have risen, and the relative attractiveness of investment opportunities in high growth markets has declined

D2H deals slump to record low

The confidence and stability that is returning to many developed markets appears to be having an adverse effect on acquisitions in high growth markets.

The number of developed market acquisitions of high growth market targets (D2H) fell by 8 percent between H2 2013 and H1 2014, from 531 to 488 deals. This was on top of an 8 percent decline between H1 and H2 2013 and equates to a year-on-year decline of 16 percent. It is the lowest level of D2H deals recorded since at least 2005.

Claudio Ramos, KPMG's Head of Global Transactions & Restructuring High Growth Markets, commented, "It seems that, as developed markets continue to recover, opportunities in high growth markets are losing their lustre. In the aftermath of the economic crisis, high growth markets were seen as offering higher rates of return and stronger growth prospects compared to opportunities in developed markets that were still reeling from the downturn.

As developed markets have recovered, however, investment returns and growth prospects have risen, and the relative attractiveness of investment opportunities in high growth markets has declined. In addition, the most attractive high growth deals are likely to have been snapped already, so the quality of opportunities may not be as high as it previously was."

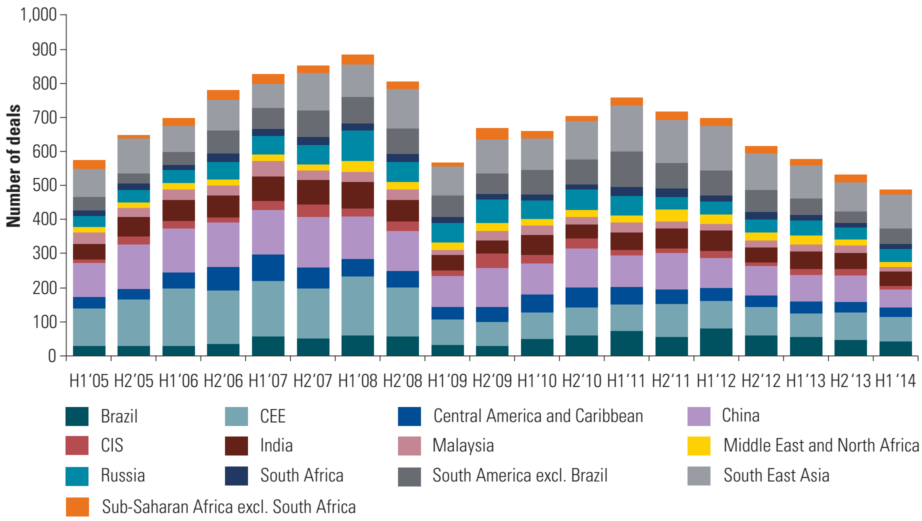
European D2H deals declining

Notable declines were seen in Germany, where D2H deal volumes fell by 37 percent, and in Italy, which saw a 64 percent drop. In Singapore, D2H deal volumes declined by 25 percent, while Spain saw a 35 percent reduction.

There were still some bright spots, however. Canada saw a massive 75 percent increase in D2H deal volumes, albeit from the historic low recorded in H2 2013. The country's resurgent natural resources sector may have been an influential factor on these figures.

France also saw a significant increase of 43 percent. The UK and the United States, on the other hand, were static.

Developed market acquirers of high growth market targets, by target



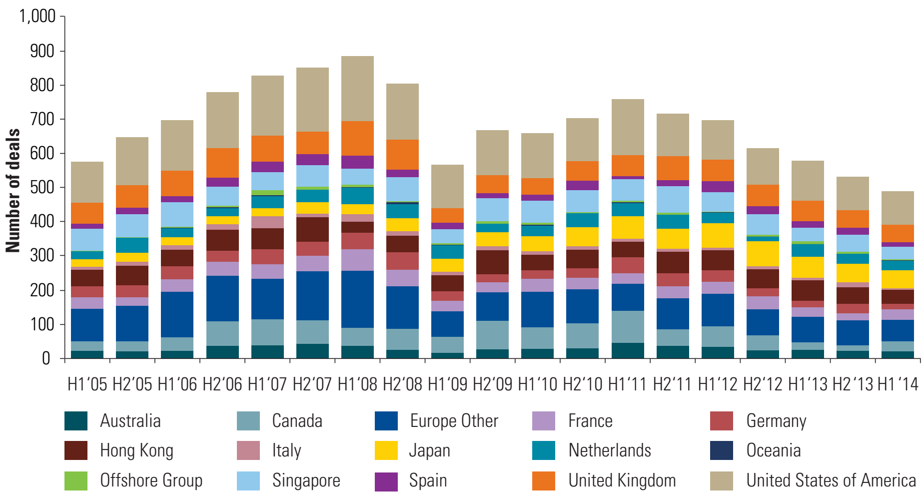
Source: Thomson Reuters SDC; KPMG analysis, 2014

South East Asia attracting more attention

In terms of D2H targets, there appears to have been a shift away from the so-called BRIC markets (Brazil, Russia, India and China), which saw an overall decline in the volume of investments from developed markets.

"In South East Asia (SEA), inward investment deals from developed markets rose by 18 percent from 84 to 99, where 60 percent of D2H deals were driven from Japan, Singapore and United States during H1-2014," said Bob Yap, Head of Transactions & Restructuring, AsPAC. "Indonesia, Thailand, Vietnam

Developed market acquirers of high growth market targets, by acquirer



Source: Thomson Reuters SDC; KPMG analysis, 2014

and South Korea were the key targets for D2H deals. There are fundamental strong growth and demographics (including GDP growth, consumer demand, lower labor costs etc) across SEA. We expect regional integration and investments from China to SEA by the Japanese investors to rise further, as local megabanks (in SEA) are open to offering loans to Japanese companies for their expansion in the region."

China, in particular, saw the number of D2H deals involving Chinese targets fall by one third, from 78 to 52 – the lowest level recorded in HGM Tracker or its predecessor publication. The falls in India and Brazil were less dramatic, but continue the downwards trend of the last 2 years, while D2H deal levels in Russia were unmoved.

Rupert Chamberlain, Head of Transaction Services, KPMG China commented, "The dynamics of China M&A continue to change rapidly leading to volatility in quarter on quarter data, but the trend is clear. Chinese companies continue to search for quality overseas acquisition targets to garner the resources and skills needed to enable them to compete domestically and on an increasingly global economic stage. China also remains an extremely important market globally that despite short term concerns in some specific areas cannot be ignored longer term. In other words, although current well versed issues relating to the domestic economy have slowed down cross border M&A, particularly for corporate investors, it is inevitable that we will see a rebalancing of inbound, outbound and domestic deals as the market matures."

It was a different story in South East Asia, where inward investment deals from developed markets rose by 18 percent from 84 to 99, and also in South America (ex. Brazil), where the number of deals increased by 29 percent, from 35 to 45.

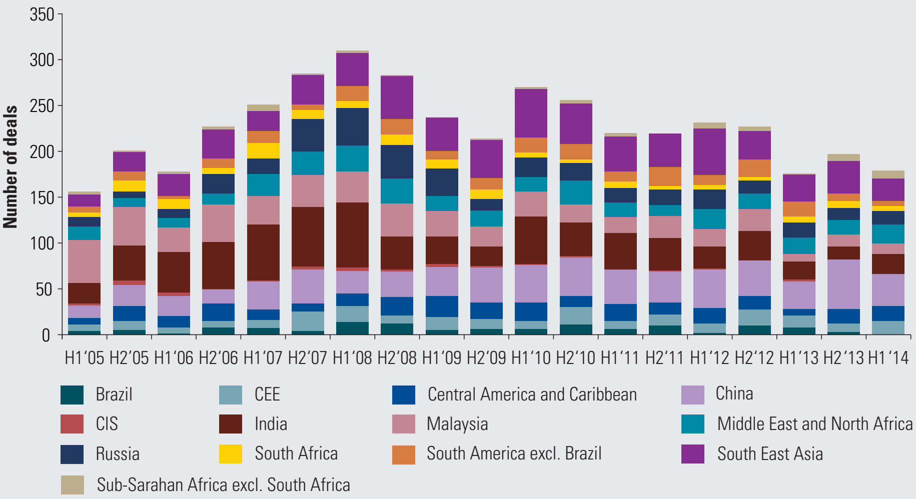
Claudio Ramos, Lead Partner, Transactions & Restructuring, KPMG Brazil, commented, "Some notable high growth markets are not seeing the rates of growth they were a few years ago, when they were partly fuelled by the booming natural resources sector and a high level of FDI activity coming out of China. As a result, opportunities in those markets are perhaps not as attractive to developed market investors as they once were."

H2D deals holding steady

The total volume of H2D deals also maintained its downwards trend of the last 6 years, falling from 197 to 179 between H2 2013 and H1 2014, a fall of 9 percent. Although this is marginally higher than the same period last year (176 deals), it is 23 percent down on H1 2012.

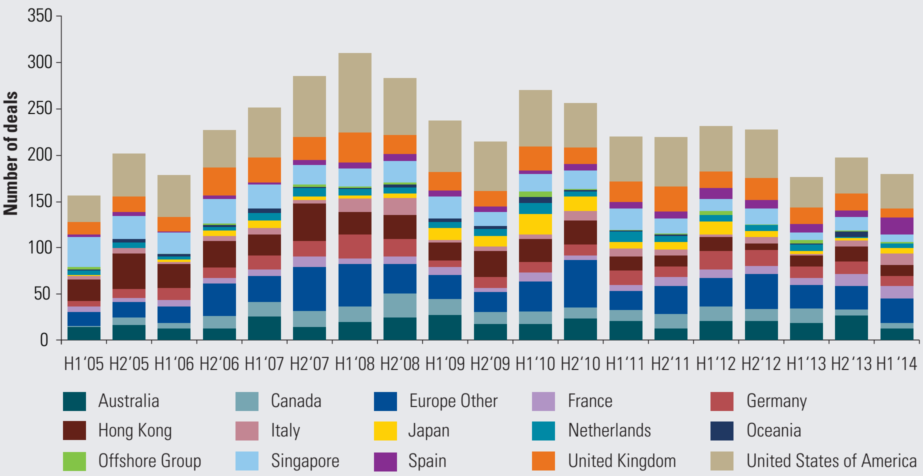
The decline ties in with the improving situation in developed markets. As confidence returns, asset prices rise and transaction opportunities become less attractive to high growth market acquirers who, at the same time, face increasing competition from developed market investors.

High growth market acquirers of developed market targets, by acquirer



Source: Thomson Reuters SDC; KPMG analysis, 2014

High growth market acquirers of developed market targets, by target



Source: Thomson Reuters SDC; KPMG analysis, 2014

> With 50 percent of the world's GDP now coming from HGMs, the range of opportunities is growing tremendously and I expect a rebound in HGM M&A deals

Overall, the H2D statistics are notable for their lack of consistency. The number of H2D deals involving UK targets in H1 2014 almost halved, from 18 to 10. Singapore saw a similar level of decline, from 15 to 8 deals, as did Australia, from 26 to 12. Hong Kong deals fell from 16 to 12. There was a smaller decline in Germany, from 14 to 11, and France remained steady at 13 deals.

In contrast, the number of H2D deals involving Italian and Spanish targets rose by 50 percent and 157 percent respectively. The Netherlands also saw a dramatic increase of 400 percent in the number of H2D deals, albeit from a historic low of only 1 deal during H2 2013. Japan, too, saw a 50 percent rise in the volume of H2D deals involving Japanese targets.

The most active high growth market acquirer was China, with 35 deals involving targets in developed markets. Although this is a significant fall on the 54 Chinese H2D deals during H2 2013, it is in line with the average deal volumes of the past 5 years. Next was South East Asia with 24 deals, but this also represents a reduction on the 35 deals completed during H2 2013.

Contrasting with the declining figures from China and South East Asia, the next two most active H2D acquirers saw their volume of deals increasing during H1 2014. Namely India, which saw H2D deals rise by 57 percent, from 14 to 22, and Middle East and North Africa, where deal volumes rose from 16 to 21, an increase of 31 percent.

H2H activity weak

H2H deals appear to be mirroring the downward trend in D2H deals, falling by 12.5 percent from 112 to 98. While the level of decline itself is not dramatic, the total volume of deals is the lowest since 2005.

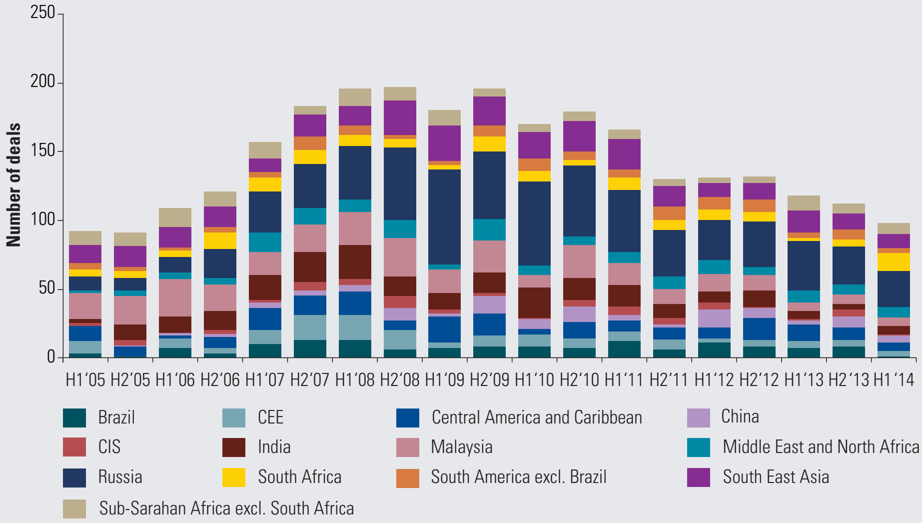
The most active investors were those in Central and Eastern Europe (CEE), where the number of H2H deals rose by 25 percent, from 16 to 20. It is only the fourth time since 2005 that the volume of CEE H2H deals has reached 20 or higher.

The second most active market in terms of H2H acquisitions was the Commonwealth of Independent States (CIS), with 14 deals. This is a 26 percent decline on H2 2013, however.

The only other two markets to break double figures in terms of the volume of H2H deals were South East Asia, which rose by 66 percent from 6 to 10, and Sub-Saharan Africa (excluding South Africa), where deals also increased by 33 percent, from 9 to 12.

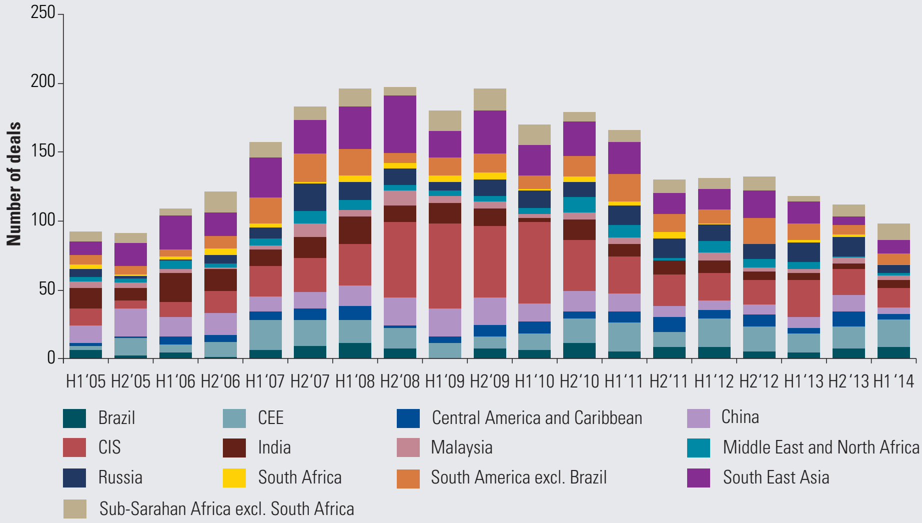
Interestingly, the volume of H2H involving Chinese acquirers fell from 12 to 5, the lowest level since pre-2005 and a far cry from the 20 H2H deals recorded in three consecutive semesters in 2008 and 2009.

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



Source: Thomson Reuters SDC; KPMG analysis, 2014

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



Source: Thomson Reuters SDC; KPMG analysis, 2014

Growing interest in Africa

If we look at H2H deals by target, almost 50 percent of the deals involve either Russian, South African or South East Asian targets.

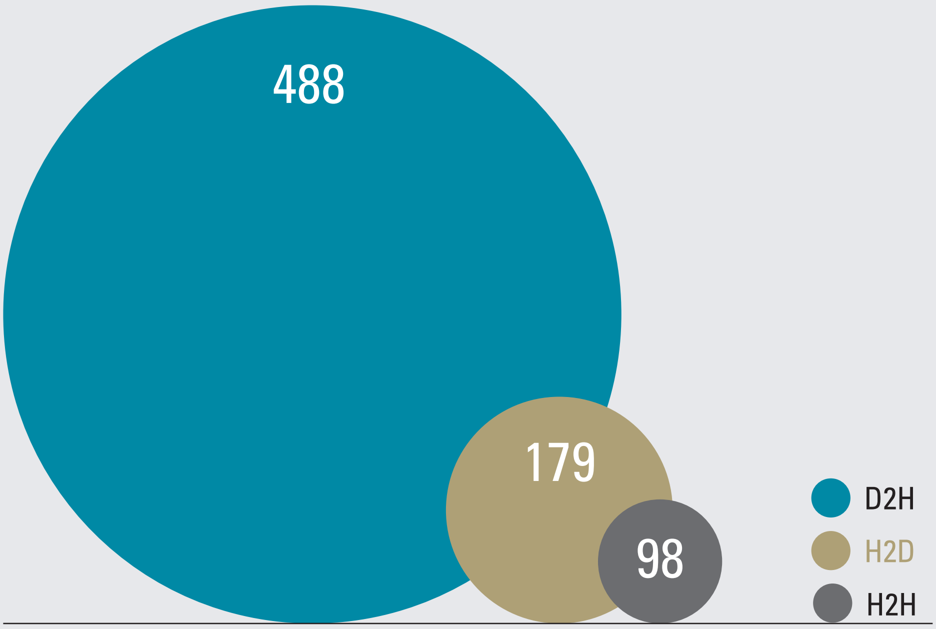
Deals involving Russian targets during H1 2014 remained relatively steady at 26, compared to 28 during the latter half of 2013.

The combined H2H figures for South Africa and Sub-Saharan Africa show there were 21 deals involving targets in these markets. South Africa in particular showed a spike of interest, with deal volumes more than doubling from five to 13.

The volume of H2H deals located in Brazil collapsed to just one in H1 2014. Those located in India remained low, with six deals, while H2H deals involving Chinese targets declining from eight to five.

Said Mark Barnes, Global Lead Partner, KPMG High Growth Markets: "As we know there is a huge HGM opportunity in the medium to long term. In recent years the tracker has demonstrated that this medium to long term opportunity has attracted a large number of M&A deals. This edition of the tracker highlights that in the last 6 months deal activity has focused on other short term opportunities. However, with 50 percent of the world's GDP now coming from HGMs, the range of opportunities is growing tremendously and I expect a rebound in HGM M&A deals. As companies look to take advantage of opportunities in India, where the newly elected government is easing the restrictions for investors in hopes to regain its status among the world's leading economies, or in Africa, where countries such as Nigeria and Kenya are resizing their GDPs to show the true value of their markets, the doors are open for a variety of businesses to enter."

Deal volume in H1 2014



Source: Thomson Reuters SDC; KPMG analysis, 2014

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

Claudio Ramos
Head of Global Transactions & Restructuring High Growth Markets
Partner, KPMG in Brazil
T: +55 11 32458313
E: crramos@kpmg.com.br

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

kpmg.com/socialmedia

kpmg.com/app

Download on the App Store

Designed by Evalueserve.

Publication name: HGM Tracker: High Growth Markets International Acquisition Tracker

Publication number: 131695

Publication date: September 2014