DEAL ADVISORY

April 2015

HGM TRACKER

High Growth Markets International Acquisition Tracker

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 2014.

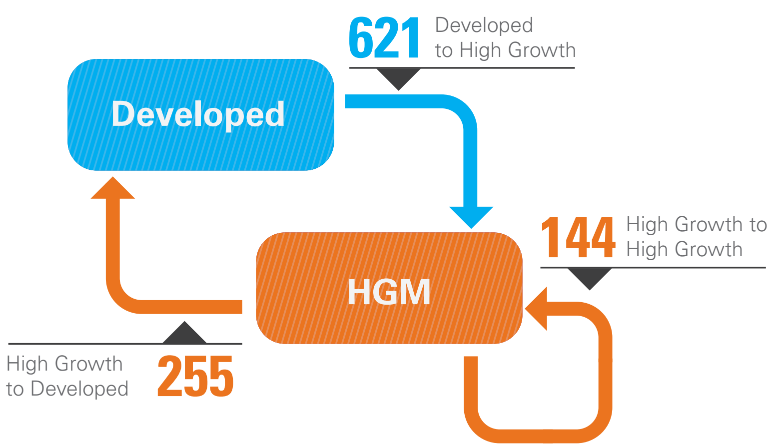
The Tracker includes data from completed transactions where a trade buyer has taken a minimum 5 percent shareholding in an overseas company. All raw data is sourced from Thomson Reuters SDC and excludes deals backed by government, private equity firms or other financial institutions.

RISING DEAL VOLUMES MARKS RETURN TO GROWTH

Continued improvement in the flow of M&A transactions between high growth and developed economies during the latter half of 2014 continues the return of cross-border deal flows over the past 18 months.

Two consecutive semesters of growth between December 2013 and December 2014 reversed the steady decline of the previous 2.5 years, suggesting a turning point has been reached in the performance of global M&A markets.

In particular, the number of deals between developed market acquirers and high growth market targets (D2H) rose by 11 percent between July and December 2014, the second semester in a row that the volume of D2H deals increased.



Source: Thomson Reuters SDC; KPMG analysis, 2014

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> The signs of a sustained return to growth in global HGM M&A transactions are very positive

Sustained increase in M&A transactions

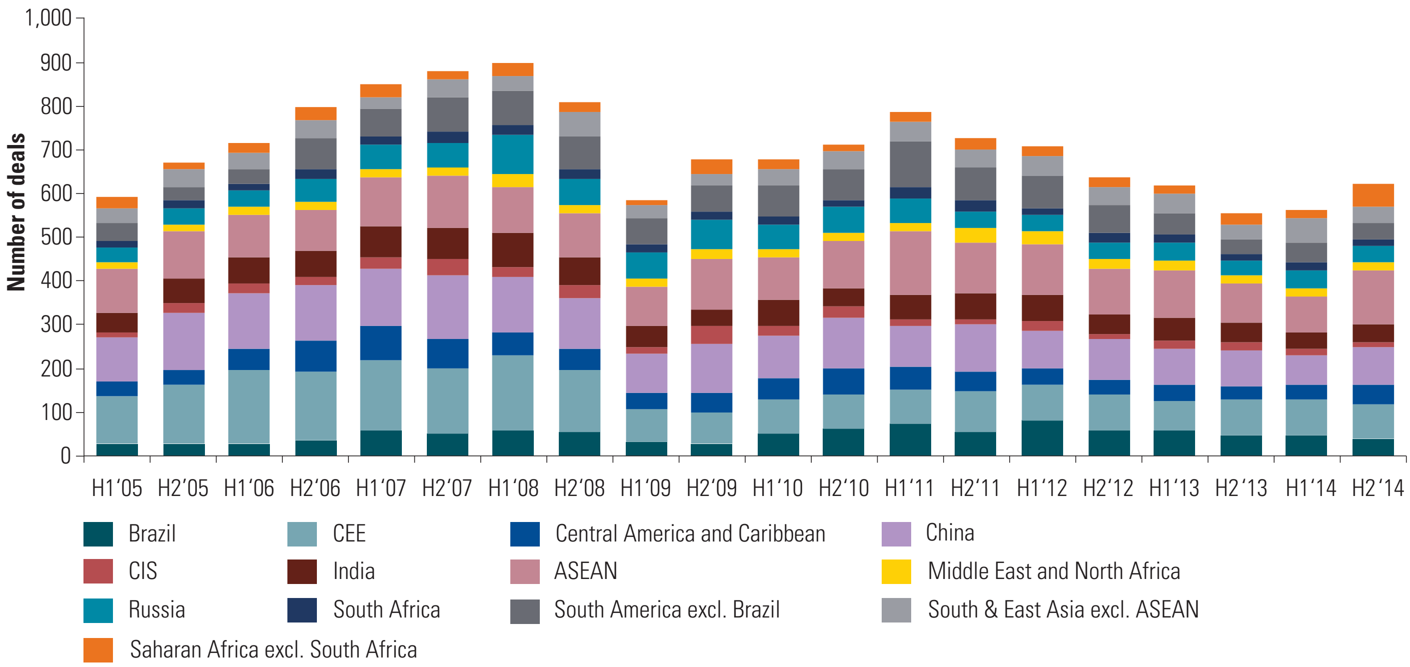
Two consecutive semesters of growth in D2H deals suggest the uptick in transactions is more than a temporary blip, and that the long decline in the volume of D2H M&A transactions over the past few years has been halted.

Even allowing for seasonal variations in the volume of deal completions, the 11 percent increase between the first and second half of 2014 is significantly above the 1.25 percent rise between December 2013 and June 2014, suggesting a more robust performance in global deals markets.

"The signs of a sustained return to growth in global HGM M&A transactions are very positive," commented Cláudio Ramos, Global Head of High Growth Markets, Deal Advisory and a partner at KPMG in Brazil.

"It is a strong picture all round, after so many semesters of falling volumes. The fact that this is the second consecutive rise in the number of deal completions, and that the growth rate is increasing, provides a more solid base for confidence going forward and suggests the upward trajectory marks a step change in global M&A markets."

Developed market acquirers of high growth market targets, by target



Source: Thomson Reuters SDC; KPMG analysis, 2014

Above average increases in key regions

The 11 percent increase in the overall volume of D2H deals over the latter half of 2014 is the highest since 2010/2011, and certain high growth economies showed a substantially stronger resurgence in incoming deal flows.

D2H deals involving Chinese targets, for example, rose by 26 percent, while those involving Central American and Caribbean targets increased 30 percent during the second half of the year.

In ASEAN, the volume of incoming D2H deals shot up by 46 percent to 120 deals, not far short of its post-crisis peak of 146 deals in the first half of 2011.

"The rise in M&A deals in Asia Pacific are mainly due to the growing confidence, positive sentiments and capacity in Asia Pacific. In addition, with restoration of political stability in both Indonesia and Thailand, the ASEAN region has seen a surge in the number of inbound M&A deals." commented Bob Yap, Head of Deal Advisory, AsPAC and a partner at KPMG in Singapore. "Southeast Asia including ASEAN is

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always an attractive destination for foreign direct investment driven by factors such as growing middle-class population, availability of young and cheap labourers, substitute for rising wages in China and often cheaper targets compared to developed markets."

But the most impressive resurgence was Sub-Saharan Africa (excluding South Africa), where incoming D2H M&A transactions rose by 200 percent, from 17 to 51, over the course of 2014. In fact, the region was the fourth highest recipient of D2H investment over the period, behind only ASEAN, China and the CEE (although the CEE figures reflect the high proportion of investments from Russia).

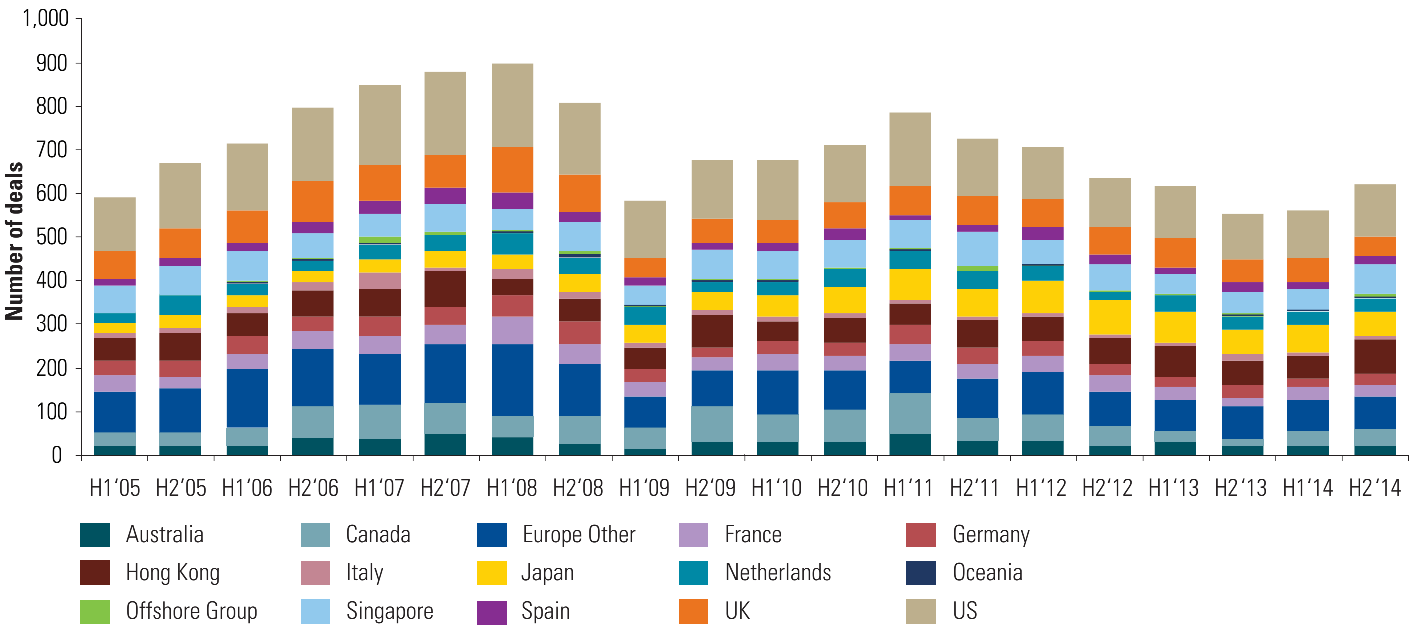
Mark Barnes, Global Lead Partner, KPMG High Growth Markets, commented: "With the increasing stability across the continent, including improved governance, there is increased investor confidence in Africa, particularly in areas such as manufacturing, healthcare and energy. The opportunity for investment in these areas is soaring. In ASEAN, it's really driven by the formation of the ASEAN Economic Community. With vast natural resources and a large consumer market base, companies have to look at its footprint in Asia and revise it to include China plus ASEAN."

As usual, the United States is the biggest acquirer of high growth market targets in terms of volume, but its growth between semesters during 2014 (10 percent) is marginally below average.

The highest growth rates among acquirers are Singapore, at 51 percent, and Germany and Hong Kong, both of which recorded a 47 percent increase in the volume of D2H acquisitions between the first and second halves of 2014.

> "Developed countries have gone through a strategic review process and are implementing their growth strategies now. Backed by strong financial capabilities, they are rediscovering high growth markets' growth potential, appreciating their recent positive economic development. We expect to see more activity in these markets as companies will continue to look for growth."
>
> **– Leif Zierz**, Global Head of Deal Advisory and a Partner at KPMG in Germany

Developed market acquirers of high growth targets, by acquirer



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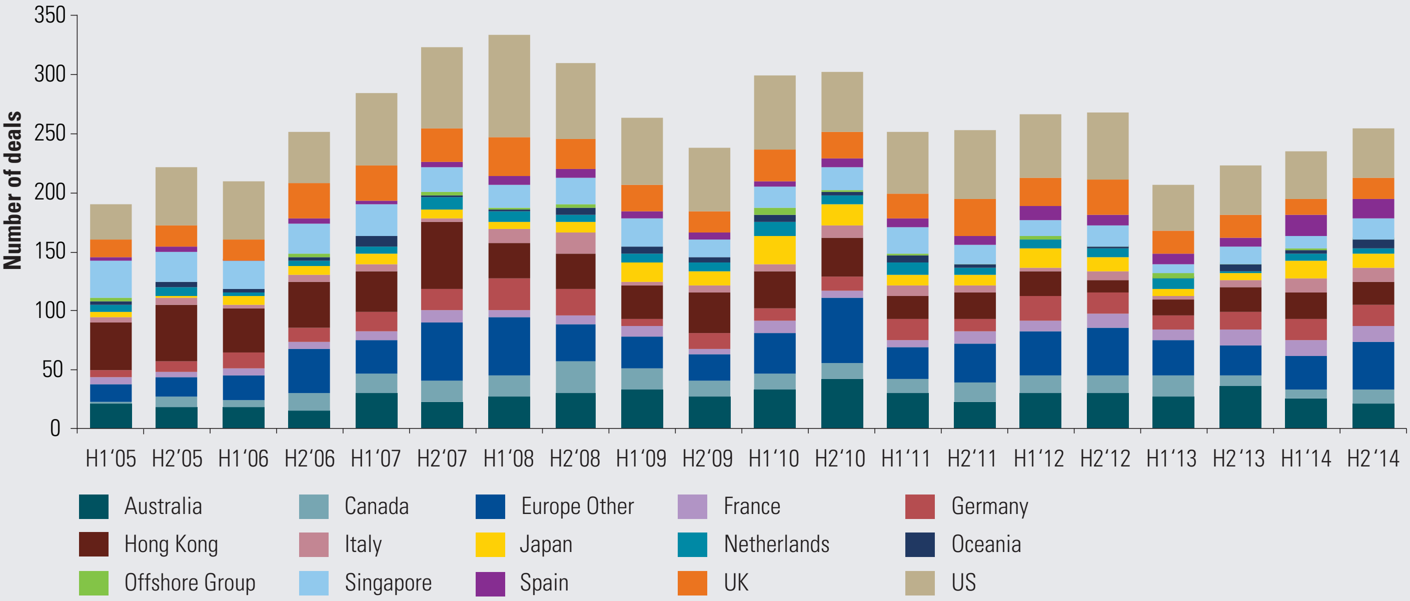
> HGM-related transactions will gain in importance in global M&A activity

High growth market acquirers of developed market targets, by target



Source: Thomson Reuters SDC; KPMG analysis, 2014

Two years of growth in H2D transactions

It is a similarly positive picture for deals involving high growth market acquirers of developed market targets (H2D).

The 9 percent increase in H2D deals in the second half of 2014 marks the third consecutive semester of growth in the volume of H2D transactions, and a 23 percent increase since 2013. The two years of uninterrupted growth in H2D deals would seem to indicate an undeniably robust resurgence and positive message of growth.

The most popular target markets for H2D acquirers are Singapore, which recorded an 80 percent rise in H2D deals involving local targets, Canada, where growth was 57 percent, and Europe (other) at 41 percent. Leif Zierz commented: "High Growth Markets have done their homework and maintained their growth potential. We will see an increasing connectivity between Developed and High Growth Markets through M&A to acquire client bases or know-how. HGM-related transactions will gain in importance in global M&A activity, creating additional challenges for cross-border M&A activity and integration."

Europe attracts more interest

In Europe, Germany maintained a high level of incoming H2D transactions, with 37 H2D deals completed during 2014 involving German targets. This was the second highest annual total since 2008.

Italy saw a record number of H2D transactions involving local targets, up from eight in 2013 to 25 in 2014 – an increase of 213 percent, and the highest level since 2008.

Spain, too, attracted a record level of H2D acquisitions, with 35 deals. This was a 119 percent increase on the 2013 figure, with the bulk of investment coming from acquirers in Central America and the Caribbean, and South America (excluding Brazil).

Looking at those markets doing the acquiring, China saw the strongest growth, with H2D deals involving Chinese acquirers rising from 39 to 51 over the latter half of 2014, an increase of 31 percent. Jeffrey Wong, China Head of Deal Advisory, commented:

"The figures are not surprising, in a time of volatility in the global currency markets, the Chinese Yuan is strong. As a result, targets are cheaper and Chinese companies are capitalizing on these favourable market conditions, looking to developed markets, Europe in particular." ASEAN also saw an above-average increase of 14 percent, while South Africa saw outgoing H2D deals increase by 50 percent to 10".

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Brazil looking flat in 2015

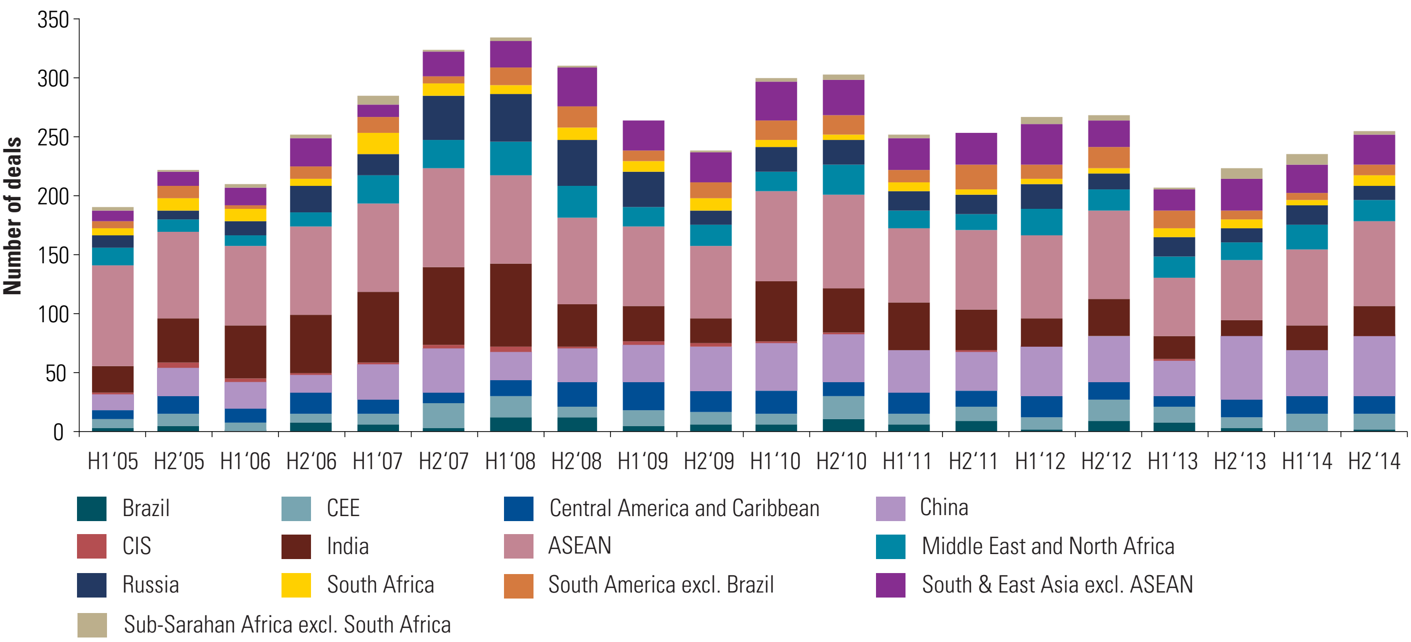
The picture is not universally rosy, however, and some major markets still appear to be struggling. Brazil, for example, only saw two H2D deal completions during the whole of 2014, while the volume of D2H transactions involving Brazilian targets has been on a downward trend since early 2012.

In many ways, 2014 was a period of transition for Brazil, however, which not only faced very close-run national elections and ongoing price interventions and compliance controversies in the energy sector, but also the diversion effect and high profile pressure of hosting the FIFA World Cup, in a period marked by negligible GDP growth.

Notwithstanding the weak cross-border transactional context for the country in 2014, an M&A study conducted by KPMG in Brazil showed a modest 3 percent year-on-year increase in local M&A transactions during 2014. This positive trend may generate momentum to help support the overall level of deals activity going forward, in a scenario marked by expected negative GDP growth and mounting inflationary pressures in 2015. As the government endeavors to implement counter-cyclical fiscal and monetary policy measures, cross-border prospects may not improve substantially before late 2015.

Cláudio Ramos commented: "2014 was a year of introspection in Brazil, not least due to the election. This is likely to have affected the decision-making process of corporates. We do not expect to see this trend substantially reversed in 2015, as investors exercise caution in a scenario of economic uncertainty. However, there might be some opportunistic deal spurs of in-bound deals in certain specific industry sectors more affected by the economic slowdown disposing assets at attractive prices, particularly considering the recent exchange rate devaluation in real terms against major currencies. As the political and economic environment returns to normal and Brazil becomes more attractive, deal flow should bounce back more significantly towards the end of the year."

High growth market acquirers of developed market targets, by acquirer



Source: Thomson Reuters SDC; KPMG analysis, 2014

Decline in H2H deals halted

The volume of M&A transactions between high growth market acquirers and targets (H2H) showed a marginal 4 percent increase over the course of 2014, but the overall level remains flat compared to previous years.

Nevertheless, this relative stability, coming after 4 years of relentless decline, could suggest that the worst is over and H2H deal volumes have bottomed out.

China and the CEE were the most popular target markets in H2H deals during the latter half of the year. China saw 23 deals completed, a 53 percent increase on the first 6 months of 2014, with CEE leading the pack with 26 H2H deals, a 24 percent increase.

In terms of those markets doing the most acquiring, ASEAN and Russia were the busiest by some way. ASEAN saw 41 deals completed during the second half of 2014, a 21 percent increase on the January-June total, while the 27 deals by Russian acquirers is on a par with the previous two semesters and is largely accounted for by deals

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in neighbouring CEE and CIS markets, mostly former satellite states of the USSR.

Sean Tiernan, EMA Head of Deal Advisory and a partner at KPMG in Russia, commented: "Despite the seemingly positive outbound acquisition numbers presented in 2014, I would expect both inbound and outbound M&A in Russia to contract in 2015. Political and economic turbulence, in the form of sanctions and a weak Russian Rouble, have taken their toll on Russian M&A. Those companies that do embark on inorganic growth strategies will be under increasing pressure to maximize the value of M&A in 2015"

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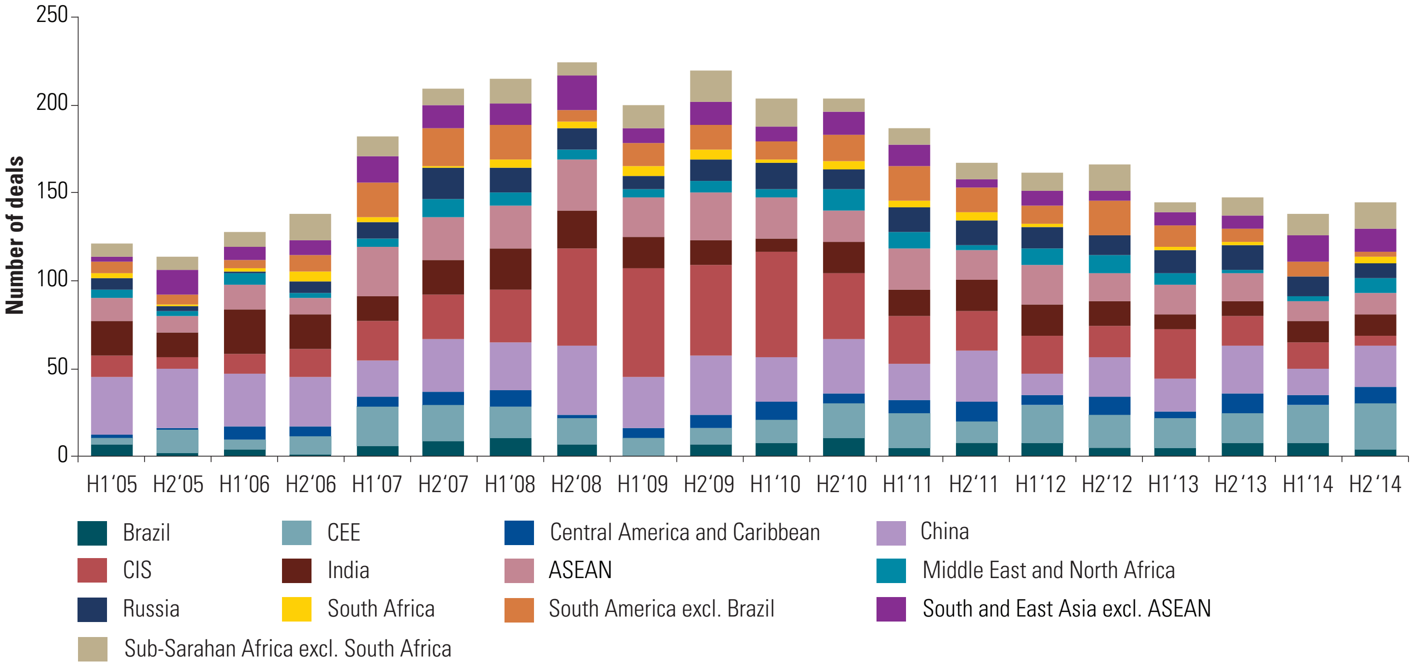

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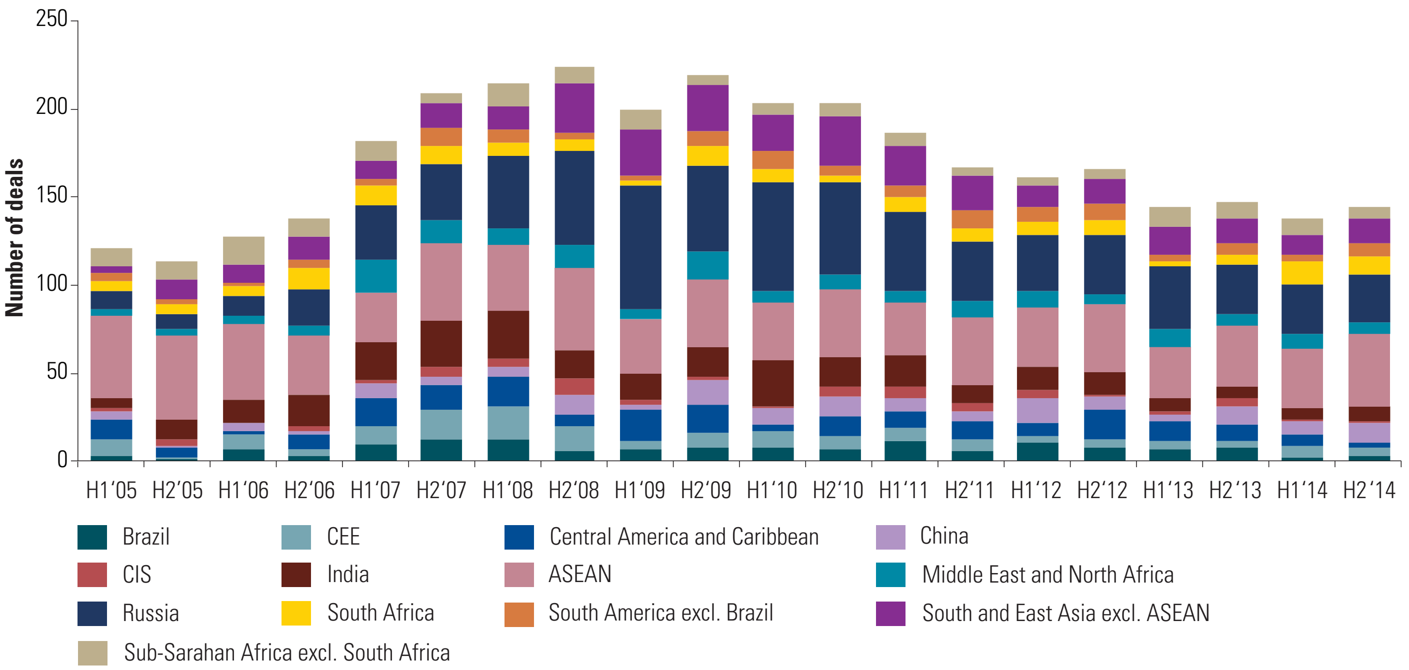
High growth market acquirers of high growth market targets, by acquirer



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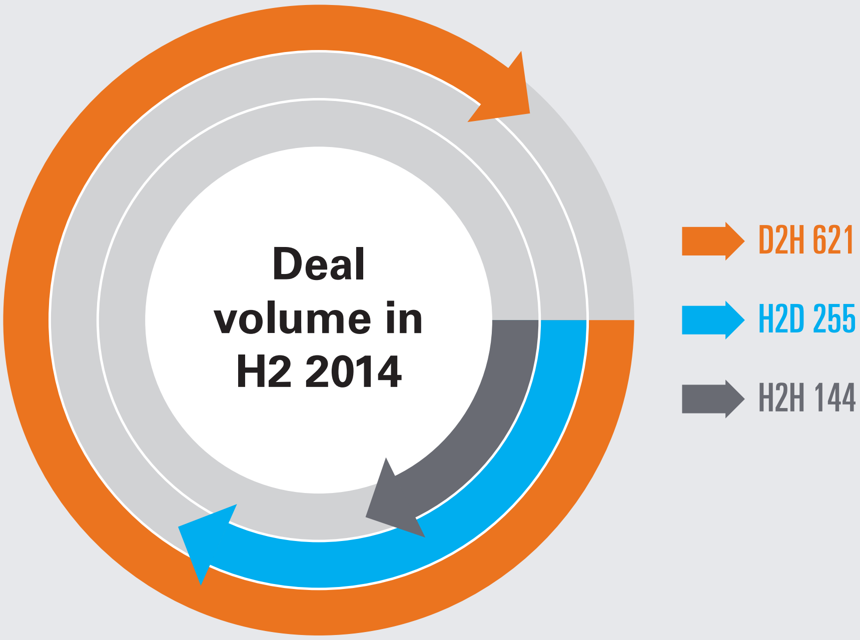
Overall deal volumes up

The total number of high growth market deals completed in H2 2014 (D2H, H2D and H2H) was 1,020. This was almost 100 more than during the first half of the year, which recorded 934 completed deals, and H2 2013 which had 924 completed deals. Of the total 1,020 deals in H2 2014, the proportion of deals between the three groupings remained virtually unchanged over the course of the year, with H2D deals accounting for 25 percent of the total number of high growth market deals - the same percentage as seen in H1 2014. 61 percent of deals were D2H and 14 percent were H2H.

"It is interesting that the High Growth to Developed deals, as a proportion of all high growth deals, remain fairly static and have not gained ground over the developed market acquirers. However, the figures need to be seen in the context of the global M&A market, that has been struggling and is only just beginning to see a return to form. In the long run, as macro-economic factors stabilize, I would expect to see the HGMs gain some market share," said Phil Isom, Global Head of M&A, Deal Advisory.



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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**

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Deal Advisory: Delivering real results

KPMG's integrated team of specialists works at deal speed to help you find, secure and drive value throughout the transaction lifecycle. By thinking like an investor, our M&A specialists can support you – whether you are on the buy side or the sell side – to see beyond immediate challenges to drive strategic change.

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*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), ASEAN, South & East Asia (excluding ASEAN), South Africa, Middle East & North Africa, Sub-Saharan Africa (excluding South Africa), South America (excluding Brazil) and Central America & the Caribbean.

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