

# Dynamic businesses at the forefront of M&A activity

Grant Thornton International Business Report 2014



# Overview

The Grant Thornton International Business Report 2014 highlights an increasing importance for M&A in driving growth. There is a clear acknowledgment from the 12,500 businesses surveyed that acquisitions will be needed to supplement existing operations.



“Where many businesses have been operating in a holding pattern since the financial crisis, our research reveals that businesses are now shifting from considering M&A, to actively putting financial and management resources behind acquisitions. This renewed appetite is combined with prospective sellers, with realistic valuations, entering the market. Now the market is moving, dynamic businesses need to formulate their M&A strategy, understand the opportunities and risks in the global market and take action to drive their next phase of growth.”

## Mike Hughes

International service line leader  
Mergers and Acquisitions  
Grant Thornton

### Transaction activity

Almost 40% of businesses surveyed around the globe reported looking seriously at one or more acquisitions during 2013; 20% of these considering more than five acquisitions.

- The USA led the pack in M&A activity with 54% of respondents seriously exploring at least one acquisition in 2013
- 14% of German businesses surveyed stated that they had seriously considered more than five transactions in 2013, indicating a lot of transaction interest
- Chinese businesses seriously exploring acquisitions fell significantly in 2013 from the previous year.

This report analyses regional M&A highlights for 2013 and the outlook by industry. These perspectives are presented alongside insight from Grant Thornton professionals.

### Cross border deals

Appetite for cross border M&A activity remains constant at 39% this year, but still well up on the 33% recorded this time two years ago.

Businesses in North America in particular are far more likely to be looking at overseas acquisitions compared with this time last year, the proportion rising 11 percentage points to 49%. In Japan too, businesses are now more likely to be looking at overseas activity, underpinned by the strength of the yen.

By contrast, the interest of business leaders in Europe in making cross-border acquisitions has waned somewhat over the past 12 months, dropping 7 percentage points to 35%, possibly reflecting burgeoning domestic prospects as regional economies return to growth. There has been an even more dramatic fall in China where 19% fewer businesses are now looking at overseas transactions, although the overall figure remains relatively high at 29%.

### Industry activity

Percentage of respondents who seriously considered an acquisition in 2013:



Financial services



Technology



Cleantech



Professional services

# Prospects for strategic M&A

In addition to an active current market, the prospects for strategic M&A activity over the next three years are also strengthening, in fact 31% of businesses globally stated that they had plans to look at M&A opportunities during this period, up from 28% this time last year. The industries driving this activity, as identified in our survey, are outlined below.

## Percentage of respondents expecting to grow by acquisition in the next three years



Professional services



Mining



Financial services



Agriculture



Technology

## Dynamic businesses

As expected, anticipated M&A activity was particularly marked for \*dynamic businesses. 55% of such businesses reported a continuing desire to grow by acquisition in the next three years. This increased by 6.5% during 2013 compared to the previous year.

## Appetite for an exit

The supply of available targets are key for a successful M&A market. In recent years there has been a reluctance to explore an exit; this being driven by modest financial performance, valuation concerns and perceived transaction risks, such as availability of buyer funding.

These constraints on the M&A market appear to be relaxing with our survey indicating a significant increase in the amount of businesses expecting a change in ownership in the next three years (up from 7.6% in 2012 to 10.5%). This trend was particularly prominent in North America and the UK.

## Conclusion

The results of our survey and the anecdotal evidence of our global M&A team confirm that we are entering an exciting phase for the M&A market, particularly with the most dynamic businesses increasingly embracing acquisitions and seeing M&A as a vital strategic tool.

This momentum is of course driven by improving economic conditions, but it is also bolstered by:

- increasing appetites for exit by those who have held assets through the economic downturn
- realism in valuation expectations
- more fluidity in the debt and equity markets.

Therefore, now is a good time to consider your M&A strategy.

## \*How do we identify dynamic businesses?

- Organisations that are growing revenues, employment, exports, R&D
- Organisations operating internationally or planning for cross-border expansion
- Organisations able to adapt to different and often challenging market conditions
- Organisations dealing with complex events, transactions and restructurings

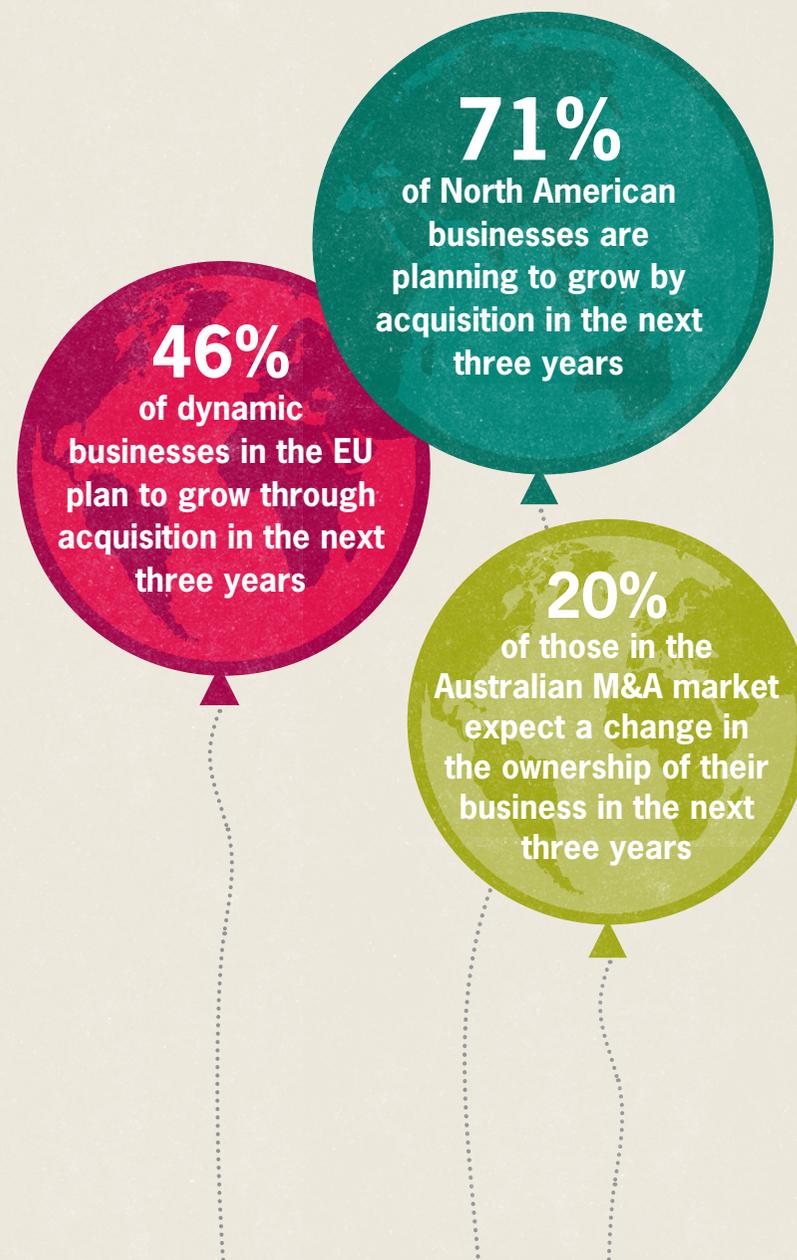
# Regional M&A highlights

The IBR indicates that 31% of businesses globally are looking to grow through M&A over the next three years, up from 28% in 2012. However, this rises to 55% of dynamic businesses and is a pattern repeated across all regions. Interestingly just 19% of businesses in the BRIC economies expect to grow through M&A over the next three years, down from 27% this time last year. By contrast the G7 M&A prospects have risen from 29% to 36% over the same period.

Percentage of businesses planning to grow by acquisition in the next three years

	2012	2013	Change*
Asia Pacific	22%	16%	-27%
EU	25%	29%	16%
Latin America	31%	35%	13%
North America	37%	47%	27%
Global	28%	31%	11%

\*Proportional % increase/decrease



“The positive outlook for M&A activity is supported by growing volumes of bank lending, with increasingly borrower friendly terms, particularly for larger transactions. Additionally, corporates are sitting on record high levels of cash, which they need either to return to shareholders, invest in their existing operations or use to acquire new businesses. The equity markets are also returning to more normalised levels, with IPO activity increasing significantly.”

**Ali Sharifi, Head of corporate finance  
Grant Thornton UK**

“In early 2013, potential vendors lacked confidence that they would find the right buyer willing to pay the right price. Recent evidence has shown seller confidence increasing due to better financial performance across many industries.”

**Luc Daemen, Corporate finance  
Grant Thornton Netherlands**

“Although only 10% of survey respondents expected growth by acquisition in the next three years, our experience with clients is that M&A activity has recovered strongly in the second half of 2013. We expect strong growth trends to continue into 2014. Key drivers fuelling M&A growth include the new Chinese leadership who are very committed to reform and expediting a market-based economy; further liberalisation of markets; state-owned enterprise reforms; and the re-opened A-share IPO market.”

**Stanley Chang, Head of advisory  
Grant Thornton China**

“In the United States, we expect some sustainable middle market M&A growth in the coming years as there continues to be plenty of investable capital from cash on corporate balance sheets. A recent supply and demand imbalance has seen middle market valuations see an all-time high and we are witnessing quality high growth companies receiving double digit valuation multiples.”

**Daniel Galante, Head of transaction services  
Grant Thornton US**

“Despite turbulent conditions in the political landscape and high inflation, Argentina offers significant opportunities for investment in the near future. Presidential elections are due in October 2015, following which we anticipate M&A activity to increase.”

**Alejandro Chiappe, Corporate finance  
Grant Thornton Argentina**

“The Australian M&A market experienced an increase in activity levels in the last quarter of 2013. Early indications for 2014 are promising with particular interest in the healthcare, education, financial services and IT industries. The continued ageing of private company owners is providing an increasing supply of businesses looking to transact in these improving conditions.”

**Paul Gooley, National head of corporate finance  
Grant Thornton Australia**

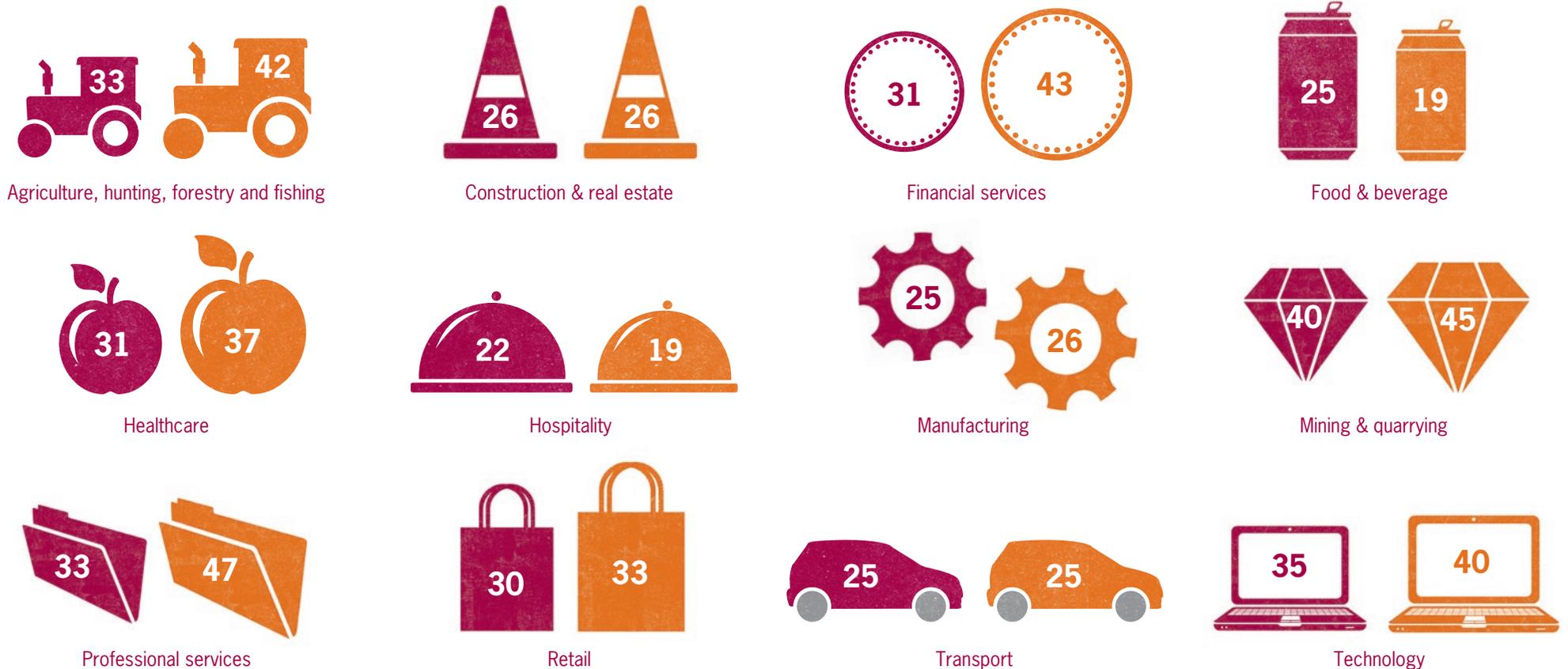
# Industry M&A outlook

In an increasingly global environment, businesses need to look beyond regional boundaries to understand which industries have the best M&A opportunities.

● 2012

● 2013

Percentage of respondents in industry planning to grow by acquisition in the next three years



### Technology

“As technology markets evolve and mature, driven by digitisation and globalisation, there are opportunities to benefit from vertical and horizontal integration. In general, economies in northern Europe, especially Germany, have been resilient. Companies within this region are experiencing healthy growth.”

**Hanno Hepke, Partner**  
Grant Thornton Germany

### Mining

“Over the last couple of years the mining sector has experienced contraction resulting from slower global economic growth and depressed commodity prices. This contraction has impacted mining company valuations and created buying opportunities for those sector participants able to fund acquisitions. Mining companies willing and able to grow are expected to increase their M&A activity in the near term.”

**Mark Zastre, Partner**  
Grant Thornton Canada

### Healthcare

“ASEAN countries are integrating their economies and collectively comprise of more than 600 million citizens. Healthcare has been nominated a “high priority sector” vital to its success with relaxing foreign ownership laws to support this. Additionally, the needs of an increasingly aging population are encouraging healthcare consolidation.”

**Ian Pascoe, Managing partner**  
Grant Thornton Thailand

### Financial services

“Although a cautionary attitude towards M&A remains in financial services, the effects of more stringent monitoring of capital, increasing regulatory demands and operational ‘belt-tightening’ have left some firms with capital to deploy and others with insufficient funding. Improved market conditions, allied to the availability of attractive financing options and new strategic drivers are having a positive effect on firms’ appetites to re-enter the M&A market.”

**Peter Allen, Head of financial services**  
Grant Thornton UK



As a global M&A team with extensive experience of delivering transactions, we work with businesses that wish to make M&A a core part of their growth strategy.

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### IBR 2014 methodology

The data in this report are drawn from interviews with more than 12,500 interviews chief executive officers, managing directors, chairmen and other senior decision-makers across all sectors conducted between January and December 2013.

### To find out more about IBR, please visit:

[www.internationalbusinessreport.com](http://www.internationalbusinessreport.com)

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