



**KPMG's *Global M&A Predictor*:  
Global deal activity set to hit bottom in Q2/Q3, with gradual recovery  
from late 2009**

**KPMG Corporate Finance's *Global M&A Predictor* – a forward looking survey of 1,000 leading companies' estimated net debt to EBITDA ratios and prospective Price Earnings ratios – forecasts that 2009 will see a continued fall in global mergers and acquisitions (M&A) but that deal activity should slowly return late in the year as liquidity improves and attractive value is recognized in certain sectors.**

*The Predictor* reveals a significant fall in 12-month forward corporate valuations and therefore appetite to do deals (down globally 22.2 percent from 15.3x end May 2008 to 11.9x at the end of November 2008). Forecast Net debt to EBITDA ratios have moved from 0.93 times to 1.06 times, a 13.5 percent deterioration, signaling a decreasing capacity to do deals.

Findings confirm our view that 2009 will be a bad year for M&A activity. We expect global deal volumes to continue to fall through to Q3. With less liquidity in the market and reduced availability of debt, appetite and capacity for doing deals will continue to decline.

However, our analysis leads us to believe that the corner may well be turned late in the second half of this year. Those people who ended 2008 feeling tired and disappointed from endless bad news stories, have started the New Year with a desire to kick-start the deals market. This will be facilitated by the opportunities which will inevitably emerge for value investors in certain regions and sectors.

The market players to watch will be those able to execute cash deals - such as companies who have preserved cash funds; some sovereign wealth funds; and private family offices. Within 12 months, we will start to see some clear signals of a slow, but purposeful, recovery in the M&A transactions marketplace. A reliable indicator that this time has arrived will be when quality assets come on the market and go for reasonable, rather than fire-sale, prices.

The latest *Predictor* indicates that by Q2/Q3 of 2009 the point will come where deal appetite will improve as cash-rich investors find it hard to resist the very low valuations in the market. This forecast pick-up in M&A activity, may provide one of the positive indicators needed by economic commentators if they are to signal an upturn in the broader economy.

**Czech Republic and CEE**

The Czech Republic and the CEE will see a similar dramatic fall in deal activity. In the last 3 months of 2008 we have seen several almost finalized deals falling through at the last moment. This has been due to a combination of factors. On the one hand it has been

very difficult to obtain bank acquisition financing and the other hand potential buyers are waiting for prices to come down further.

In terms of bank financing it has been extremely difficult in the past few months and this is expected to continue. If banks are already willing to provide finance in this market, then only at significantly increased interest margins (several hundreds of basis points) and at extremely low leverage. As what may seem a paradox, this shortage in debt availability is also likely to lead to new deal activity. Companies that are currently short term financed and need to refinance or companies that may come in breach of debt agreement covenants as a result of the economic crises, may be forced to sell assets. This will provide good opportunities for cash rich investors.

The impact of all this will very likely also be seen on the privatisation of CSA and Prague Airport. Even such strong assets will likely attract less potential buyers and will be sold for less.

### **Forecast M&A Activity by World Region**

For the first time, the *Predictor* indicates a declining valuation trend in all regions of the world demonstrating the global decline in M&A activity. As last time, the region which had the biggest drop in valuation was Africa and Middle East (PEs down 31.6 percent from 13.3x to 9.1x). Latin America had the second largest fall (28.7 percent from 16.1x to 11.5x) followed by North America (24.6 percent down from 15.9x to 12.0). In contrast to the last *Predictor* in which Europe experienced the second largest fall, six months on, Europe saw the second smallest fall (21 percent from 13.5x to 10.7x) behind Asia Pacific down 19.9 percent from 17.0x to 13.6x.

Although the capacity to do deals has decreased with the global forecast Net Debt to EBITDA ratio moving from 0.93 times to 1.06 times, some regions have seen an improvement in their balance sheets.

Latin America and Africa and the Middle East bucked the trend and both saw improvements of 3.2 percent and 35.7 percent respectively with Africa and the Middle East ratio of 0.33 times, the most modest of all. Europe maintains its position as having the highest regional ratio of 1.15 having moved from 0.97 times, a deterioration of 19.0 percent.

Whilst the Americas and Europe have all witnessed significant falls in forward PE ratios, balance sheets remain robust in North America and Latin America, suggesting that some corporates will remain in a strong position should value enhancing acquisitive opportunities arise. Within Europe however, balance sheets have deteriorated by 19 percent, implying that these companies are increasingly less likely to execute deals in the near term.

### **Forecast M&A Activity by Global Sector**



The Predictor has shown a decline in forward PE valuation across all sectors, with Technology (18.4x to 12.6x), Basic Materials (13.8x to 9.6x) and Industrials (15.5x to 11.1x) registering the most significant deterioration. Unlike the previous Predictor, Oil & Gas fell significantly (11.8x to 8.6x) along with Telecommunications (14.1x to 10.8x) Consumer Services (17.0x to 13.5x) and Health Care (15.5x to 12.5x). The smallest decline was the Consumer Goods sector (16.2x to 14.6x).

Utilities and Industrials continue to maintain the highest debt ratios, with net debt to EBITDA at 2.68 times and 2.27 times respectively. The Technology sector continues to show net cash which reflects a traditional balance sheet structure for this peer group but Health Care has moved from a net cash position to one of net debt.

*Alex Verbeek*  
*CEE chairman of KPMG's corporate finance practice*

KPMG Czech Republic  
Pobřežní 1a  
186 00 Praha 8

[www.kpmg.cz](http://www.kpmg.cz)