News release

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‘Serial cross-border transactors’ add value, beating market returns by 67%

BRATISLAVA, 12 January 2012 – **New research released by Ernst & Young finds that organizations which undertook a series (three or more) of cross-border transactions beat the average market return by 67 per cent over a five year period from making the deal – a clear sign that mergers and acquisitions (M&A) have added value. *The Rise of the Cross-Border Transaction: The Serial Transactor Advantage* is an analysis of 332,532 acquisitions realized by organizations over the last fifteen years. The analysis, conducted in association with the Cass Business School, of nearly 3,000 of these series of deals, also shows a clear difference in returns between those series of transactions focused primarily domestically, which beat the market by 24% over five years, and cross–border strategies, which produce nearly three times as much value.**

Petra Wendelová, Transaction Advisory Services Partner at Ernst & Young in the Czech and Slovak Republic, says: *“Our analysis shows that having a high-quality, developed investment strategy with a focus on cross-border deals is a “serial transactor advantage” that will deliver far stronger returns than transacting domestically. The worst alternative is simply sitting on ever-growing piles of acquisition resources. More than ever, investors are concerned about low yields or losses on financial and capital markets and, moreover, they fear a loss in real value of their money due to potential inflation.”*

Jozef Mathia, Executive Director of the Transaction Advisory Services Department at Ernst & Young in the Slovak Republic, adds: “*During the last two cyclical peaks in 2001 and 2007, cross-border activity consisting of foreign mergers and acquisitions reached 27% and 26% of total investment transactions, respectively. Few would claim that 2011 is a typical peak year, hence it may come as a surprise in this context that 25% of deals so far this year have been cross-border.“*

Petra Wendelová says: *"While fluctuations in currency value may have had an impact, this would nevertheless suggest that cross-border activity, at around a quarter of overall levels, may be becoming the norm."*

The M&A Maturity Index

The index of the most mature markets in cross-border mergers and acquisitions continued to be dominated by mature nations such as Canada (1st – 2nd rank), Great Britain (1st – 2nd rank), USA (3), France (4th – 6th rank), Japan (4th – 6th rank), Netherlands (4th – 6th rank), Denmark (7), Sweden (8), Germany (9), Finland (10th – 11th rank) and Norway (10th – 11th rank). However, what is more surprising are the high rankings of the Czech Republic (24th – 26th rank), Israel (23rd rank), Chile (24th – 26th rank) and Malaysia (24th – 26th rank). These states outperformed all the BRIC countries (China: 29th rank, Brazil: 49th – 50th rank, Russia: 49th – 50th rank, India: 52nd rank).

The M&A Maturity Index analyzed 36 publicly available factors in six categories (economic, financial, political, regulatory, socio-cultural and technological factors). Israel scored the highest in technological factors, the Czech Republic in socio-cultural, Chile in the political arena and Malaysia in economic factors. These findings may come as a surprise to some but, given the significant rise in deals in these countries, it is clear that serial transactors have realized the potential and have learnt to navigate the challenges of acquisitions in these markets.

Emerging markets deals

In the first three quarters of 2011, acquisitions of emerging market companies constituted 40% of total global deal volume. This represents a doubling of levels over the last decade. Meanwhile, in this year to date, 21% of deals have been by emerging market acquirers.

The analysis of transaction patterns shows that average deal values begin to rise sharply around three to five years after M&A first emerges in key developing markets. Hence, those that undertake a series of deals in nascent markets now are likely to reap the rewards, while others struggle to find growth.

Jozef Mathia summarizes: *"While acquisitions in emerging markets are far from new, the trend for rapid-growth market companies to acquire overseas is less well-established. With strong growth, strengthening currencies and a desire to obtain brands, technology and market access,* *it is hardly surprising that those in emerging markets are increasingly buying in mature economies and in other rapid-growth markets — sometimes as part of a series of deals."*

Petra Wendelová concludes: *"Having an effective emerging market strategy is an absolute necessity for leading companies today. A balanced business portfolio needs to have an emerging market presence as well as mature market operations. The Asian emerging markets are among the most attractive, with their high-growth potential offering some protection against the current volatility in mature markets, although buyers will pay commensurately higher prices."*

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About the report "The Rise of the Cross-Border Transaction: The Serial Transactor Advantage"

This report is based on an analysis undertaken during September 2011 using public data from Thomson SDC Platinum. A total of 332,532 acquisition of control transactions realized over the last fifteen years were analyzed in the course of the research.

Acquirers having undertaken a series of largely "cross-border" transactions are defined as those with at least 50% of all acquisitions in the program being cross–border. Acquirers undertaking a largely "domestic" M&A series are defined as those with a majority of domestic deals in their program.

To evaluate the long–term performance of acquirers, a buy-and-hold methodology has been applied, where the monthly total returns of each acquirer were adjusted to the MSCI World monthly total return for the corresponding period. The results on acquirers' outperformance are statistically significant throughout.

In total, our sample of global acquirers includes 2,912 corporates (i.e., "serial transactors") that had performed three or more acquisitions (totaling 12,869 acquisitions) with a minimum size of 1% deal value to market value of the acquirer in any given five-year period from 1995 to 2010.

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