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Latin America: Colombia emerging as global player

As dynamics change, Colombia is shifting its focus from traditional partners

By José Sauma, IMAP Central America

Colombia's attractiveness as an investment destination has increased noticeably, to the point that it is part of a second-tier group of large emerging markets called the CIVETSⁱ (BRICS — Brazil, Russia, India and China — being the first). Colombian firms have started to direct their attention and resources towards Central America and the Dominican Republic (CADR) as the business environment of Venezuela and Ecuador, their traditional partners, deteriorates. Correspondingly, CADR's business groups are looking towards Colombia for future growth after having consolidated their competitive position in their home market. IMAP office's in Central America, Mesoamerica, has experienced this trend first hand. We expect to see an increase in cross-border M&A activity between Colombia and CADR in the near future, presenting opportunities for our clients, for multinational companies and for our IMAP Partner firms.



Similarities between the Regions

Research indicates that while the probability of value creation in cross-border M&A is overall lowⁱⁱ, socioeconomic similarities among the acquirer's and the target's countries increase the chances of a deal's success. Colombia and CADR share cultural idiosyncrasies product of their predominantly Roman Catholic populations, similar human development indexes, common historical background, and shared language. Secondly, they have similar macroeconomic indicators:

Colombia and CADR Macroeconomic Data

Country	Population	GDP per head 2009 PPP (\$)	Avg annual GDP growth 2010-11	Services as % of GDP (2009)
Guatemala	13.7	5,100	2.3%	62%
Dominican Rep	9.5	8,300	4.5%	67%
Honduras	7.8	4,100	2.9%	61%
El Salvador	7.2	7,200	1.8%	61%
Nicaragua	5.9	2,800	2.2%	56%
Costa Rica	4.6	10,900	3.7%	69%
Panama	3.4	12,100	4.9%	77%
Total CADR	52.1	7,931	3.4%	66%
Colombia	46.3	9,200	4.5%	53%

Source: EIU, CIA

Thirdly, the countries' legal frameworks are akin, being based on Roman law. The existence of a free-trade agreement between Colombia and El Salvador, Honduras and Guatemala facilitates administrative procedures, while the free-trade agreement between CADR and the United States presents an opportunity for Colombian companies. Finally, firms in both regions have developed certain tolerance towards external perceptions of country risk after historically having dealt with challenging domestic markets. These resemblances should help acquirers realize their investment theses through successful post-transaction integration.

Colombia Looks North

Colombian companies have traditionally focused their internationalization efforts on Andean Community nations, mainly Venezuela and Ecuador. However, tough business conditions in these countries are well documented. According to *the Economist* Intelligence Unit, Venezuela has the worst investment climate in Latin America, highlighted by Forex shortages, threats of nationalization, and a gloomy macroeconomic outlook. Though somewhat in better shape, businesses in Ecuador face a sluggish economy with an increasingly protectionist government that provides frail investment security. As a result, Colombian firms are increasingly shunning their Andean counterparts and looking to CADR as a viable investment destination.

Colombia's Grupo Empresarial Antioqueno, a flagship conglomerate in the country, was one of the first entrants into the Central American market with its purchase of insurance companies in El Salvador and Panama in 1998. Other notable transactions in the 2000s include Grupo Bavaria's acquisition of Panama's breweries in 2001, Colombia's Compania Nacional de Chocolates purchase of Costa Rica's largest snack company, and Bancolombia's acquisition of El Salvador's Banagricola bank for \$900M, both in 2006. Industry-transforming mergers took place between the regions' airlines, with Colombia's AeroRepublica being acquired by Panama-based Copa in 2005, and El Salvador-based Taca merging with Avianca in 2009. Lastly, the visibility of CADR for Colombian firms was significantly raised by Aval Group's acquisition of GE Money's BAC Bank in Central America for \$1.9Bⁱⁱⁱ in July of this year, the largest cross-border transaction between the regions to date.

Sample of Public Cross-Border Deals (Companies' HQ in Parenthesis)

Target	Industry	Acquirer	Deal Size (\$M)	Year
Cerveceria Nacional (Panama)	Beer	Grupo Bavaria (Colombia)	260	2001
Cervecerías Baru (Panama)	Beer	Grupo Bavaria (Colombia)	52	2001
Grupo Alimenticio Pascual (Panama)	Food and beverage	Casa Luker (Colombia)	25	2004
AeroRepublica (Colombia)	Airlines	Copa (Panama)	N/A	2005
Banagricola (El Salvador)	Banking	Bancolombia (Colombia)	900	2006
Pozuelo (Costa Rica)	Snacks	Nacional de Chocolates (Colombia)	119	2006
Ernesto Berard (Panama)	Consumer staples	Nacional de Chocolates (Colombia)	16	2008
PVC Celta (Colombia)	PVC	Durman (Costa Rica)	12	2008
Terramed (El Salvador)	Pharmaceuticals	Tecnoquimicas (Colombia)	30	2009
Aceros Transformados (Panama)	Steel	Ferrasa (Colombia)	10	2009
Taca (El Salvador)	Airlines	Avianca (Colombia)	N/A	2009
BAC-Credomatic (Panama)	Banking	Grupo Aval (Colombia)	1,900	2010

Source: News sources

CADR Looks South

The traditional growth strategy of CADR's companies called for entry into each of the region's seven countries. As CADR's firms concluded their regional expansion, they targeted Colombia for further growth. This country's business conditions have improved notably since 2002, when Alvaro Uribe won the presidency. According to the World Economic Forum's 2010-11 Global Competitiveness Report, Colombia's macroeconomic environment ranking jumped 16 places from 2000-01 to 2010-11 (from 66 to 50^{iv}). Its market size^v now ranks 32nd globally and real GDP is expected to grow annually around 5% for the next five years (EIU). In addition, security conditions have improved dramatically over the past 10 years, as evidenced by a 50% reduction of the nation's homicide rate^{vi}. Accordingly, foreign direct investment into Colombia grew more than 4 times from 2001 to 2008, to over \$10.5B.

Revenues by Industry

Industry	2008 Industry Revenues (\$M)	Concentration of Revenues in Top 5 firms
Chemicals and agrochemicals	7,085	34%
Car dealerships	6,065	21%
Construction materials retail	4,678	29%
Machinery and equipment	3,856	19%
Plastics	3,658	19%
Pharma retail	3,499	38%
Poultry farming	2,196	29%

Source: La Nota Económica

El Salvador's Grupo Roble, CADR's real estate leader, recently opened two Marriott hotels in Bogota, and has plans for further developments. Similarly, other regional real estate developers have projects in developmental stages. Costa Rican companies have set up a construction equipment rental business, and obtained fast food franchises for Colombia. Additionally, analysis suggests that Colombia offers interesting investing opportunities in various

fragmented industries with potential for consolidation or “Greenfield” market entry. Table 3 shows 2008 revenues of a group of Colombian industries where we believe consolidation will take place^{vii}. For example, poultry farming throughout Central America is dominated by two companies, while Colombia features more than 100 firms in this sector. CADR’s firms, as well as other investors interested in Colombia, should focus their attention on these sectors.

Bridging the Regions

After more than a decade as the M&A leader in Central America, Mesoamerica opened an office in Colombia to facilitate cross-border activity between these regions in 2008. It complemented its ample knowledge of CADR with a team based in Bogota that since has developed a deep network of key Colombian players in diverse industries. In addition to offering experience and commitment to excellence in the execution of M&A advisory services, IMAP’s Central American office provides strategy consulting services through which it collaborates with clients to determine and implement the growth strategies that maximize the value of their firms. In the past year alone, IMAP Central America has advised Colombia’s Aval Group on the aforementioned acquisition of BAC Bank and Colombia’s Seguros Bolivar on its Greenfield entry strategy into the Costa Rican insurance market.



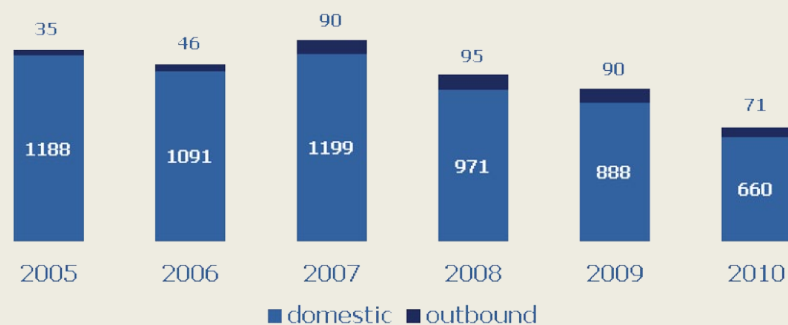
José Sauma has been the managing director of Mesoamerica, IMAP’s Central American office, for more than 10 years.

Asia: M&A in China is becoming more interesting

By Eduardo Morcillo, IMAP China

Although China’s economic growth slowed in the second quarter of this year, down to 10.3 percent from 11.9 percent in the first quarter, M&A activity is clearly showing signs of increasing its pace. Compared to 2009, the number of transactions in China went up from 229 transactions in Q2 2009 to 283 deals in Q2 2010. The total for number of 2010 transactions as of Aug. 11 was 660 with an average deal value of \$63 million USD (disclosed values). Compared with the same period last year, the total was 508 deals with an average value of \$55 million USD, which underlines the upward trend in M&A in China.

Number of domestic and outbound M&A deals 2005 - 2010
(up to 11 of august)



Source: Thomson Financial, InterChina (based on # deals completed)

M&A in China is increasingly becoming more and more interesting as a means for growth by both domestic and foreign players. “For foreign players who are keen on expanding their business in China in particular, M&A is becoming one of the few options available to quickly gain access to the Chinese market or an increased market share. The primary reason for this is that organic growth through Greenfield investments simply take too much time (one to two years). By the time the Greenfield becomes fully operational, the situation may have changed so significantly that the opportunity could be lost. Entering or expanding in the Chinese market through M&A can also help to gain market or distribution synergies that are quite difficult for foreign players to develop organically.”

However, the potential of this investment model needs to be carefully measured against the challenges of successfully closing transactions in China, advises Morcillo. This is a country without a sound corporate track record and where most players are still quite unsophisticated — both in terms of business content and transaction format.

Foreign players are forced to adapt their internal M&A approach to the day-to-day reality of Chinese corporate practices. Some of the key challenges for closing deals are the following.

Finding the right target

Finding the right target for a foreign company in China remains one of the biggest challenges, especially from an integration perspective (whether or not the acquired company can retain its core qualities after acquisition). Usually, post-integration acquired companies won't retain the same level of profitability as they did before being acquired. The chances of finding a clean target for foreign companies in China to acquire are slim. Most Chinese companies have at least some dirt mainly with regard to tax circumvention, social welfare evasion or a questionable style of doing business. Key to understand here is that these issues are simply everyday reality and foreign buyers will need to take at least some risks when engaging in an M&A deal in China. The capacity to identify such problems before acquisition and the balance to decide what can be accepted and what cannot is clearly one of the success factors in selecting the right target in China.

Extremely high valuations

When acquiring a target in China don't expect to find bargains. Chinese sellers are demanding high premiums for selling their companies, usually reflecting high revenue growth rates forecasts ranging from 20 to 40 percent (or higher) compared to 2 to 4 percent growth rates in many Western countries, which justifies high valuations or the possible high premiums fetched by Chinese companies going IPO. On top of that, foreign buyers very often have a preference for full acquisitions (100 percent of shares) instead of steadily increasing their stake in the target company, a fact that clearly reflects on extra premiums on top of the valuation, thus further adding to the price tag. Being able to understand if EBITDA multiples of 8 to 13 (or higher) represent the real growth potential of the target, and being able to negotiate them down, is part of the critical process of closing transactions in China.

China M&A timing issues

Moving quickly to close a transaction in China is essential for successfully winning a transaction in this country. Compared to many Western countries, where an M&A transaction usually takes between six to eight months to complete, completing an M&A transaction in China usually takes one year and can require up to a couple of years to close (this is mainly due to the unfamiliarity from both sides and the lack of a local team in China with strong decision-making capacity, from the buyer's side). Foreign buyers taking too much time to settle the price and close the deal run the risk having to pay even more in the end. As economic developments in China are so fast paced, within one or two years the target's revenues might simply have doubled or even tripled. In such an event the owner will likely increase his price expectations even though he signed an LOI.

This is exactly what happened to a leading European seasoning company interested in a Chinese target seasoning company located in the center of China. It took a half-year to come up with an initial offer, then it took the buyer another half-year to get approval of both the management committee and the board, after which the target upped its price by 20 percent as its business grew by 30 percent in the last year. Again it took the buyer another two to three months to get approval for the higher price and the MOU was signed. In China, time has a clear monetary value.

Protectionism, anti-trust

A more recent development with regard to M&A in China was the introduction of a new anti-monopoly law that went into effect Aug. 1, 2008. This law enables the NDRC (National Development and Reform Commission) to either block or impose conditions on major transactions (the failed acquisition of Huiyuan Juice Group by Coca-Cola is a prime example). Although this law somewhat alters the M&A landscape, it mainly affects large deals involving a foreign takeover of a domestic market leader. Deals of smaller scale remain largely under the radar. This new law is creating suspicion that China is perhaps moving towards a more protectionist policy, while there is also a growing sense of protectionism at local and provincial levels (although happening very seldom, there are known cases of competitors using their public connections to protect their home markets from new entrants).

To overcome these key issues in China, foreign buyers need to first of all choose the right strategy and carefully consider the synergy drivers of a possible merger. Strategy matters, when you face so many options and valuation divergences, in a context where you need to take decisions quickly.

Second, foreign buyers need to establish and empower local teams with decision-making authority. This can save a lot of time and increase the chances of successfully closing the transaction.

Finally, foreign buyers need to accept the fact that they will need to get into the grey areas and accept certain risks. This can be reflected in the need to accept more simple legal documents (LOIs and contracts spanning in length to up to 200 pages are just not acceptable by many Chinese), or accepting that a 100-percent watertight final contract isn't realistic in China, while a more simple (but sound) document, supported by extra contractual measures, could be the right solution.

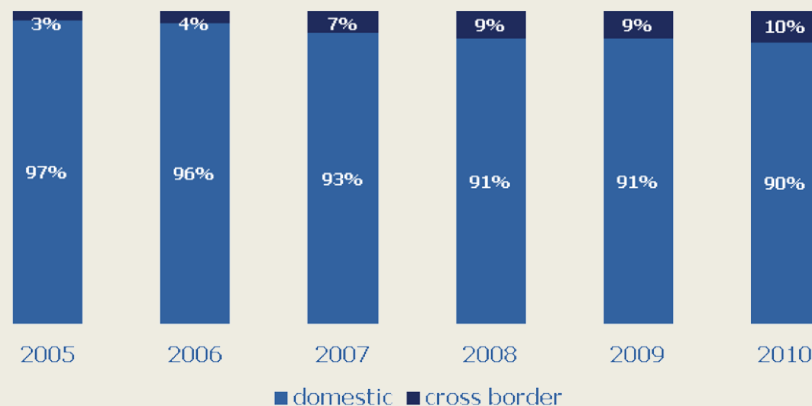
What can we expect of the Chinese Outbound M&A?

While outbound M&A currently accounts only for around 10 percent of Chinese or China-related M&A activity, we can see a clear upwards trend in this segment. The first half of 2010 saw a 50 percent increase in outbound transaction activity compared to the same period last year. This robust activity is likely to persist for the remainder of 2010 and into 2011.

Although natural resources in underdeveloped parts of the world will remain a key element of outbound Chinese M&A activity, we are starting to witness M&A activity from other industries such as telecom and manufacturing, with an increasing interest for developed regions such as the EU and the USA. Such investments are lured by distressed asset opportunities and opportunities to gain advanced technologies and building or acquiring global brands.

Also for Chinese buyers going abroad key challenges will need to be addressed for a successful transaction. The lack of experience or expertise for managing a global operation is a major issue for Chinese companies engaging in M&A abroad. Chinese buyers generally lack the human resources needed and are also unfamiliar with the political and legal environment abroad. Then there is the obstacle of gaining government approval for finalizing the transaction. In some cases, for example the failed acquisition of Hummer by Sichuan Tenzhong, failing to attain government approval can cause the deal to fall apart. Finally, there remains the challenge of post-merger integration and management. The new Chinese owners will need to build Chinese-Western teams to address trust issues that may arise.

Ratio of China domestic vs outbound M&A 2005 - 2010
(up to 11th of august)



Source: Thomson Financial, InterChina (based on # deals completed)



Eduardo Morcillo is a partner, corporate practice director and the Spanish market manager of InterChina Consulting, IMAP's office in China. He has worked in China for nearly 10 years.

Europe: High tech activity on the rise in the UK

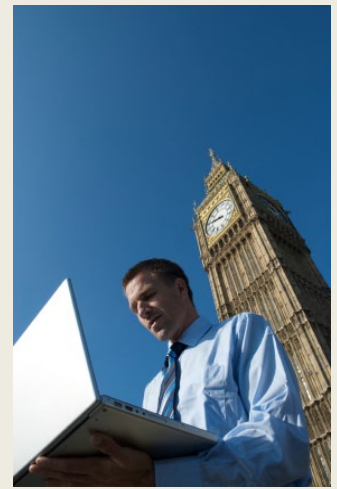
By Carl Houghton, IMAP UK

The technology sector is showing encouraging signs of recovery in the United Kingdom and given the number of new opportunities crossing our desks over the last few weeks, we are feeling pretty hopeful this return to form is here to stay. The first couple of months of the year were relatively slow for M&A in the IT sector in the UK, but there has been increasing activity since then. Overall deal volumes for the first half of 2010 were up 76 percent compared to the same period in 2009.

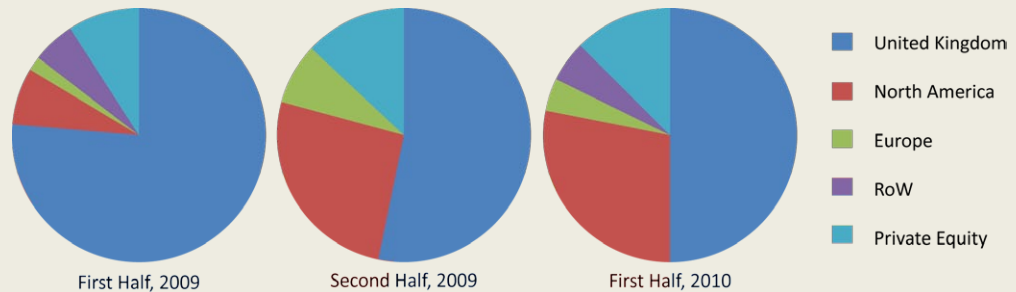
Major deals during the period included the acquisition of Sophos by Apax Partners and ACS's acquisition of Alchemy-backed COA solutions.

While the massive cuts in public-sector spending (such as those to public healthcare's "National Programme for IT" and education's "Building Schools for the Future" project) are going to continue to have an effect on the technology market, we are seeing some positive trends fermenting.

Private equity investors were involved with 25 transactions in the UK in the first half of 2010 compared to just seven in the first half of 2009. They have also continued to sell their assets at a level consistent with the start of 2008, before the downturn hit. Interestingly, the number of public companies exiting the market, whether to strategic trade or private equity, has also risen, with 10 transactions recorded in the first half of 2010 compared to 13 in total for 2009. We also are seeing renewed interest in secondary buy-outs, with a number of landmark deals in the period and 35 percent of private equity assets sold going to another investor.



Overseas buyers are also returning. Last year the market for the UK's technology businesses was dominated by UK buyers as, despite an attractive pound, overseas bidders became nervous about closing transactions in such a difficult and unpredictable market. In 2010, however, IMAP is seeing a return to normalcy in terms of the makeup of buyers' origins. North America bidders predictably kept their runner-up spot with 30 percent of transactions compared to 50 percent for UK buyers, but there were also a few interesting transactions involving buyers from elsewhere in the world, including India-based Cognizant's acquisition of program management consultant PIPC in May.



Following these trends, we're predicting for the rest of the year that the worst is behind us. While the public sector spending cuts will no doubt throw up serious issues for many businesses that have traditionally relied on government budgets, others will see an opportunity for the consolidation of a fragmented supplier base.

Here are the areas, we believe, deserve watching — and questions that will be answered — as we close out this first decade of the new millennium:

- Interest in the IT services landscape is heating up from strategic and private equity investors alike. With the number of buy-and-build vehicles popping up everywhere and the continued competition for assets from the likes of Capita; is this the time to sell your prized services asset?
- We've seen the warm-up acts but we're waiting for the next really big transaction in the telecoms market. Will a mobile player stomp up for Daisy before it gets too big for its boots? Will Daisy buy something bigger now that it has cut its teeth on the smaller stuff and raised a £75m war chest? And who's going to make the big play to try to emerge as the winner in the Unified Communications sector?
- As the market for public-sector software and services starts to dry up, will we see the smaller players make a quick dash for the exit making the big players even bigger?
- And finally, will those US private-equity investors keep giving the usual suspects a run for their money in the bidding for some of the UK's most interesting assets?

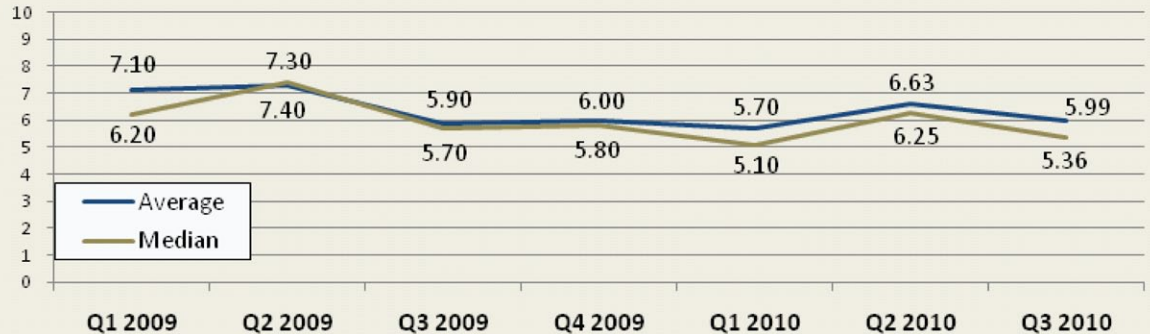


Carl Houghton, a partner with IMAP UK (Clearwater Corporate Finance), specializes in the technology sector. He has been advising companies and management teams for 18 years.

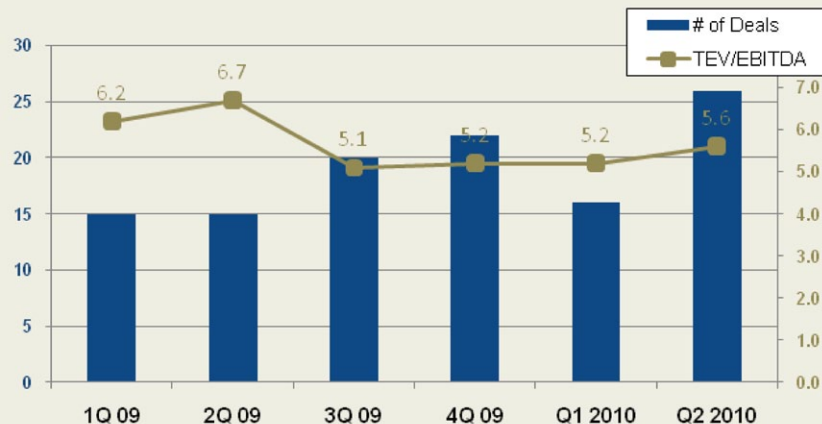
IMAP M&A multiples declined in 3Q 2010

The average value of multiples for transactions completed by IMAP in the third quarter of 2010 declined nearly 10 percent, to 5.99 x EBITDA on average from multiples in the second quarter. They remain, however, in line with pricing established in the previous three quarters prior to 2Q 2010. The spike in 2Q 2010 multiples tracks with the multiples increase in the GF Data table as well.

2009-2010 AVERAGE AND MEDIAN MULTIPLES FOR IMAP-COMPLETED TRANSACTIONS BY QUARTER



Completed transaction volume continued to accelerate, with GF Data Resources database of 146 active private-equity contributors reporting 26 completed transaction in the second quarter of 2010 – well off the 40-plus deals closed per quarter in 2007, but still the most productive quarter since 4Q 2008. Total enterprise value/adjusted EBITDA average 5.6X. This is a lift out of the trough of aggregate multiples in the “low fives” that had prevailed since more good, but not great, financial performers — B properties — reentered the market in mid-2009, accepted greater discount in pricing and pulled down the average. Our data continues to support the general impression that the premium for quality has never been greater, or as one investment banker put it, “everything is getting valued at either eight or four” times. Above-average financial performers were valued in 2Q at 107% the average for lesser-performers, the highest premium in any quarter in the past four years. GF Data is certainly hearing the reports of a more effervescent debt market available on deals with \$10 million or more of EBITDA. The transactions completed in 2Q through, even the larger ones, reflected the continued cautious use of leverage. Total debt/EBITDA has averaged 2.7X for the year to date.



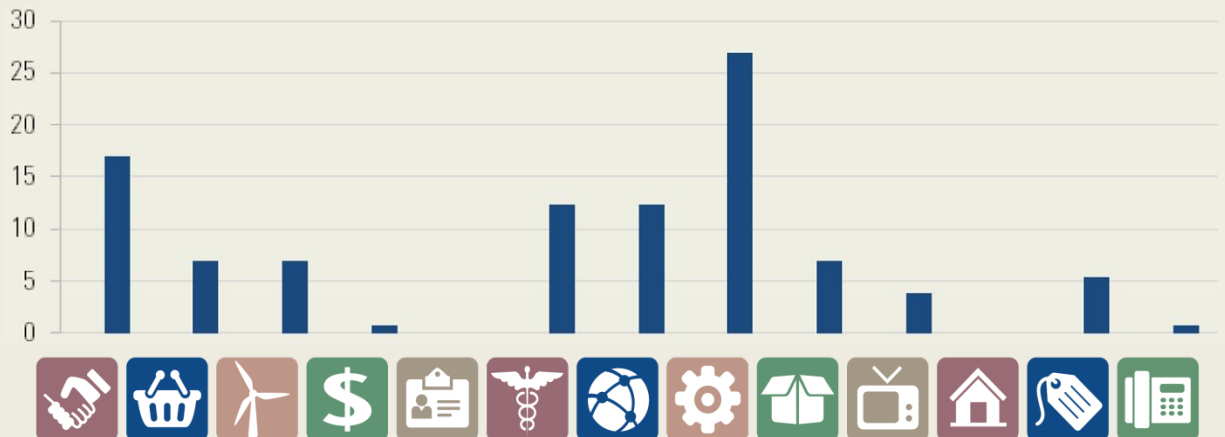
Source: GF Data Resources, LLC

Industrials continue to dominate M&A activity

Twenty-six percent of IMAP-facilitated transactions that closed during the third quarter of 2010 were in this sector. High technology also did well, with 21 percent of the transactions, followed by consumer products and services (16 percent) and consumer staples (10.5 percent).

Over the last 12 months, 27 percent of the companies sold have been in the industrials sector; 17 percent of the sold companies were in consumer products and services; 12 percent were healthcare firms and 12 percent were high technology companies.

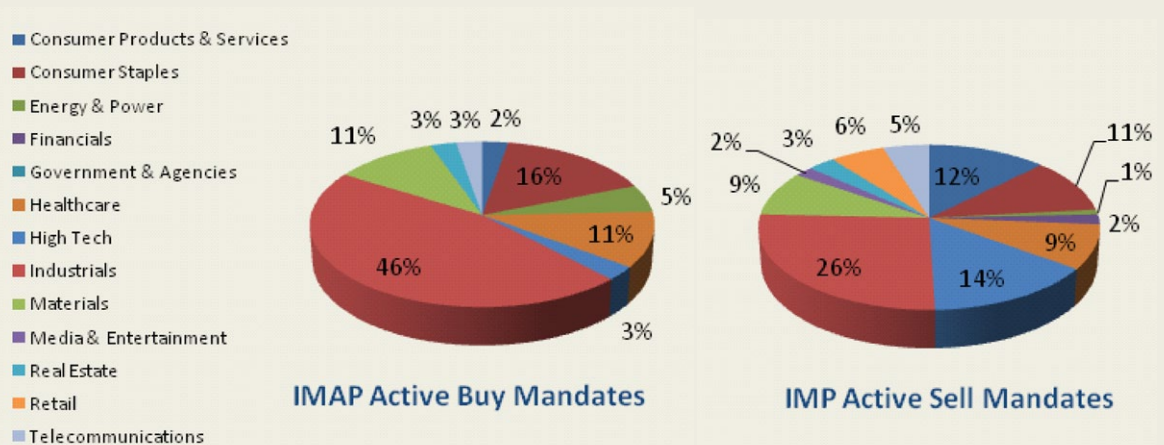
PERCENTAGE OF IMAP-COMPLETED TRANSACTIONS IN LAST 12 MONTHS, BY INDUSTRY SECTOR



Industrial and high tech lead active mandates

IMAP's active mandates indicate that activity in the industrials sector is not expected to slow, at least not in the short term. Forty-six percent of IMAP's active buy mandates and 26 percent of all sell mandates are for companies in the industrials sector. Interestingly, a number of high tech companies (14 percent of all sell-mandate issuers) are looking for buyers, but only 3 percent of IMAP clients actively looking for acquisitions are targeting this sector.

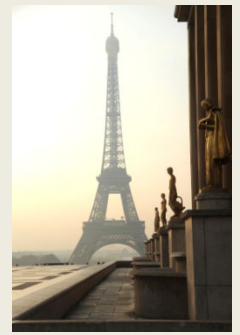
PERCENTAGE OF ACTIVE IMAP MANDATES BY INDUSTRY SECTOR



Contact. Collaborer. Conclure.

IMAP's International Mergers & Acquisitions Symposium will be held Oct. 21 in Paris

This October, M&A decision-makers will gather in Paris to explore the emerging technologies, trends and services driving the M&A industry during "Contact. Collaborer. Conclure." (Contact. Collaborate. Conclude.) — IMAP's Fall 2010 International Mergers & Acquisitions Symposium, hosted by Societex, IMAP's office in Paris.



The half-day event, which will be held at the Hotel Lutetia on Thursday, Oct. 21, will feature a panel of M&A experts, industry-specific presentations and opportunities for one-on-one meetings with senior M&A advisors. A number of noted private-equity investors, global M&A attorneys and strategic acquirers are expected to attend, as well as IMAP transaction professionals from more than 25 countries. For more information, visit www.imapconferences.com or call 1-941-378-5500.

Join us in New York March 31, 2011

IMAP's Spring International Mergers & Acquisitions Symposium will be held at the Jumeirah Essex House in New York City. Please plan to join us for a day of high-level content and collaboration. **Registration opens in December. Visit www.imapconferences.com or call 1-941-378-5500 for more information.**

IMAP Spring 2011 International Mergers & Acquisitions Symposium



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Every business day, somewhere in the world, an IMAP advisor is closing an M&A transaction.



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ⁱ Colombia, Indonesia, Vietnam, Egypt, Turkey, South Africa

ⁱⁱ 17%, according to a KPMG study published in the Economist, Dec 2nd, 1999, "Faites Vos Jeux"

ⁱⁱⁱ Pending regulatory approval

^{iv} Out of 139 countries

^v WEF measures market size as the sum of gross domestic product plus value of imports of goods and services

^{vi} From 70/100,000 in the 1990s to 35/100,000 in 2009

^{vii} Publication "La Nota Vademécum Empresarial," 2009/2010