

AICPA International Issues
Conference

International Mergers & Acquisitions
Current Issues

January 10 – 11, 2008
Dan Reid

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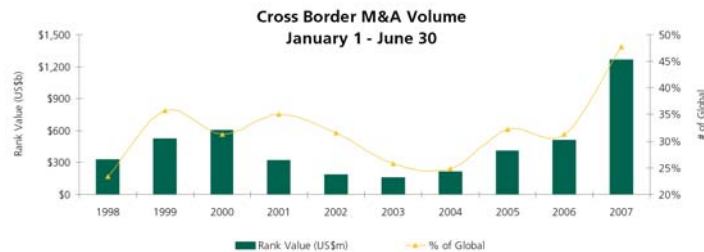
Agenda

- Current Environment for Cross-border M&A
- Trends & Factors Effecting Cross-border M&A
- Preparing for Cross-border M&A
- Performing Due Diligence
- Trends to Look for in Cross-border M&A
- Summary
- Questions & Answers

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Current environment

- Rapidly increasing participation of middle-market dealmakers in global cross-border M&A
- Cross-border M&A activity accounted for a record-breaking 47.5% of worldwide activity for the first half of 2007.



The trend continued through the second half of the year despite an overall slow-down in M&A activity. Through mid-December cross-border M&A still accounted for 47% of announced deals this year.

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Current environment

- Recent Thompson Financial/ACG Survey
 - 56% of respondents believe they will be doing a cross-border deal in the next six months
 - 31% indicated it was very likely
 - Up slightly from June survey (50%)
 - Western Europe (53%), Canada (45%), and China (37%) are the areas in which they are most likely to be involved.
- European private equity firms have opened U.S. based offices

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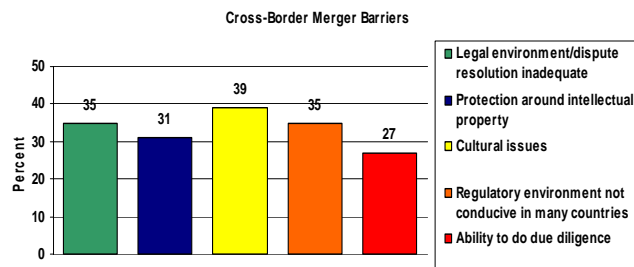
Current environment

- Several factors driving cross-border deal making:
 - Information and technology improvements
 - New consumer markets
 - Developments in finance, technology
 - Improved infrastructure in emerging markets
 - Greater access to capital

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Current environment

- New processes and collaboration across borders strengthening global market
- ACG/Grant Thornton/Eureka Private Equity survey finds middle-market private equity and company dealmakers bullish on cross-border deals

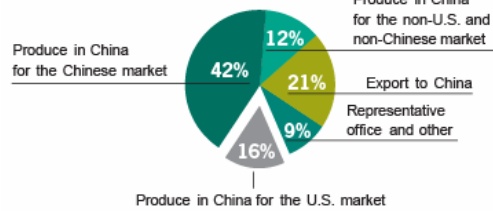


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Deal trends and expectations

- Why Go Global?
 - Additional consumer markets
 - Cost-efficient manufacturing
- Developing Regions
- Unique opportunities
 - Growing new markets, increasingly educated workforce
 - BRIC countries particularly attractive
 - The Chinese middle class

Reasons cited by U.S. companies for having a presence in China



Source: AmCham China

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Deal trends and expectations

- Search for opportunities, structural issues, among issues driving deals
- Developed Regions
 - Stable environment, lower ROI
 - Investments often strategic
- Developing Economies
 - Greater risk, greater return
 - Property rights, legal, infrastructure concerns
- Cultural issues for all

What are the **biggest barriers** to cross-border transactions?



Respondents were asked to list the three biggest barriers. Figures show the five most often-mentioned responses.

Source: ACG/Grant Thornton/Eureka private equity survey

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Factors affecting target markets for Cross-border M&A

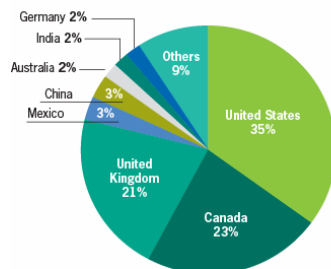
- Developed Regions
 - Mature markets present acquisition opportunities
 - High per-capita income, purchasing power offsets high costs
 - Strategic investments enhance existing operations
 - Sophisticated markets offer opportunities in commercial and financial sectors
- Emerging Regions
 - Market opportunities
 - Foreign investors feel a more receptive market

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Factors affecting target markets for Cross-border M&A

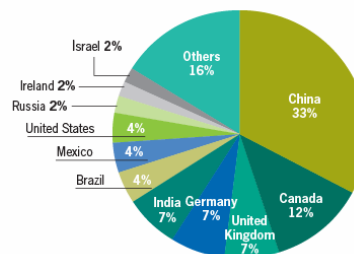
Which country is the **most accommodating** to cross-border acquisitions?

(Percentage of total number of respondents)



Which countries have experienced the most **positive change in receptivity** to cross-border deals in the last 3-5 years?

(Percentage of total number of respondents)



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Preparing for Cross-border M&A

- You have to understand the **culture** where you are planning to invest
 - Learn customs and practices
 - What works in one country may be considered inappropriate in another
 - Establish personal relationships
 - Spend the time to know the people and the country

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Preparing for Cross-border M&A

- Be sure the key issues of the transaction are clearly communicated
 - Target structure
 - Buyer's objective
- Assemble the proper team
 - Can/Should a U.S. team perform the due diligence in the foreign location?
 - What is the proper mix of team members?

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Preparing for Cross-border M&A

- Understand the Legal & Regulatory Environment
 - Ensure your historic principles will work where you are acquiring a business
 - Insurance requirements
 - Ownership, especially foreign ownership, requirements
 - Be prepared for unexpected legal/regulatory changes

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Preparing for Cross-border M&A

- Understand the Legal & Regulatory Environment
 - Local business practices
 - Will you have adequate dispute resolution mechanisms?
 - Does the home team always win?
 - Make sure everyone understands and complies with the Foreign Corrupt Practices Act

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Preparing for Cross-border M&A

- Consider internal risk-management issues (service providers)
 - Under which jurisdiction should you set your liability caps
 - Risk of litigation vs liability caps
 - Team needs to be seamless to the client

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Performing Due Diligence

- Items to consider when planning due diligence
 - What is the end product of due diligence work
 - Vendor due diligence
 - Buy-side due diligence
 - Will financial information be presented based on "home country" or "target country" accounting standards
 - GAAP vs IFRS

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Performing Due Diligence

- Items to consider when planning due diligence
 - Determine currency for presentation of findings
 - Will lending need access to the report
 - Reliance is an issue in some jurisdictions
 - Will you be able to report "consolidated" findings?
 - Sometimes separate country presentation is either desirable or necessary.

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Performing Due Diligence

- Key issues to consider
 - Quality of financial information
 - Don't be surprised by multiple sets of books
 - Quality of customer base
 - Is it all legitimate?
 - Are contracts all valid and transferable?

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Performing Due Diligence

- Key issues to consider
 - Related party transactions
 - Not always clearly documented
 - Transfer Pricing
 - Management add-backs can be quite different

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Performing Due Diligence

- Key issues to consider
 - What is considered a "normal business practice"
 - Developed region
 - Developing regions
 - Examine pension and workforce issues as they apply in each jurisdiction

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Performing Due Diligence

- Key issues to consider
 - Tax due diligence can be very complex
 - Almost always requires local expertise
 - Multiple jurisdictions
 - Do past liabilities follow assets?
 - Is this an opportunity to "put in a better structure"

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Trends to watch

- **Convergence of international regulatory, economic and judicial standards**
 - EU (and EU-applicant) countries
 - More world economies are opening to market forces
 - Abolition of ownership restrictions & nationalism
 - Protection of investors through effective regulation and enforcement
 - SEC listing of IFRS reporting companies
 - Elimination of the "home team advantage"

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Trends to watch

- **Accounting standards transparency**
 - The need for transparent accounting standards is pushing toward convergence of U.S. GAAP, IFRS and “local country GAAP”, driven by
 - The blurring of borders in terms of defining a company's operations
 - The need for seamless financial reporting across multiple jurisdictions
 - The need for transparency among investors and financing sources in multiple jurisdictions

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Trends to watch

- **Specialization of financial products for emerging markets M&A**
 - A need to facilitate transactions in Islamic countries led to Sharia-compliant financing products
 - Expect to see more financing products geared to meet local, regional or national needs as cross-border M&A continues to penetrate new markets

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Trends to watch

- **Standardization of dispute resolution processes in emerging economies**
 - Buyers need certainty regarding the process and fairness for settling disputes.
 - Need to eliminate the home team advantage
 - Ability to enforce judgments
 - To justify the risk of investments in these markets investors need to know they can achieve a fair (risk-adjusted) return

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Trends to watch

- **Increased globalization of middle-class consumer products**
 - The new middle-class consumer markets will influence trends and development of consumer products
 - China and India each have a “middle class” roughly the size of the entire U.S. population.
 - China's growth in the number of vehicles purchased over the next 30 years is expected to exceed that of the US by almost four to one.

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Trends to watch

- **The need to be "green"**
 - This is a global issue
 - Many emerging countries are understanding that they have to "clean up" now
 - China's problem with the Olympics
 - New industrialization will be greener
 - The ability to transfer green innovations and standards will need to "border agnostic"

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Conclusion

- Cross-border M&A is increasingly vital part of strategic plans for middle-market companies and private equity firms
- Drivers include: (1) the need for geographic diversification, (2) the availability of good acquisition candidates and (3) easier access to financing in many countries

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Conclusion

- The feasibility of cross-border M&A for middle-market dealmakers is much enhanced by: (1) the development of technological infrastructure, (2) free-flowing capital and (3) rapid economic development in emerging nations
- Essential due diligence for investors will include: (1) balancing financial reward and risk in opaque environments, (2) unfamiliar and changing legal and regulatory infrastructure and (3) unique business practices and other cultural factors

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Any Questions?



Grant Thornton at-a-glance

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Grant Thornton 	Global	United States
Revenues	\$3 billion +	\$1.1 billion
Personnel	20,529	5,454
Partners	2,200+	500+
Offices	519	52

Statistics as of December 31, 2006

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Dan Reid

National Managing Principal - Transaction Advisory Services

Dan is a Principal based in San Francisco and serves as the National and West Region Service Line Leader of the Transaction Advisory Services. Dan is also on the senior leadership team for the Firm's Private Equity industry initiative and Grant Thornton International's Leadership Board for Transaction Advisory Services. Dan has been involved directly, or as an advisor, to the private equity industry and strategic buyers for over 20 years and has advised on, or led, hundreds of transactions. Dan has extensive cross-border experience having worked on transactions in Canada, Japan, Russia, Western Europe, Israel, Egypt, Palestine, Latin America and SE Asia.

Dan has experience assisting clients during all phases of the acquisition including initial deal analysis, financial and tax due diligence, structuring, deal negotiation, analysis of valuation and identification of synergies and acquisition integration. He has also been extensively involved in post-acquisition processes such as the disposition process, including IPOs, sales to strategic buyers, sales to management and sales through an auction processes.

Prior to joining Grant Thornton, Dan led regional transaction advisory services practices for firms including Duff & Phelps and Arthur Andersen. Prior to that Dan was Vice-President of Merger and Acquisition Services for the private equity firm Fremont Partners (now Calera Capital) and Fremont Group.

Dan is a frequent speaker on topics relating to *Private Equity, Due Diligence, Mergers & Acquisitions and the Convergence of Hedge Funds & Private Equity Funds* and has authored several articles and papers on the topic. He recently co-authored the ACG/Grant Thornton Whitepaper *Cross-Border transactions: Bridging the global, cross-border transaction gap*.

Dan received a degree in Accounting while at Santa Clara University and later earned an M.B.A. from St. Mary's College and an M.S in Taxation from Golden Gate University.

Affiliations

Association for Corporate Growth - San Francisco, Board of Directors
American Bar Association - Member, Section on Business Law, Committee on Negotiated Acquisitions and Sub-Committees on Private Equity and M&A Trends
First Place for Youth, Board of Directors and Member of the Finance Committee
Campolindo High School Sports Boosters - Current Board President
Santa Clara University Alumni Association, East Bay Chapter, Past President (1988 - 1990)