Q3 2011

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Post-Quake Update from CDI Japan

Radboud Van Kleef
Partner, CDI Japan

Radboud Van Kleef

In the aftermath of the massive earthquake that devastated northeast Japan, Japanese companies have increased their M&A activities to expand abroad. The quake created a disruption of supply chains around the globe, and the continuous problems with Japanese nuclear power plants have driven Japan in the direction of the quick development of alternative sources of sustainable energy production, including the purchase of technologies from overseas.

Full story...

In This Issue

Jeff Schmidt
Editor-in-Chief
Partner, CDI Global

Jeff Schmidt

In this mid-year edition of the *CDI Global Newsletter*, we announce several important developments that expand the capabilities and resources of our worldwide network. We are pleased to announce that we have established a business alliance with Deutsche Bank Private Wealth Management. Through this alliance, CDI Global will provide middle-market M&A advisory services to private wealth clients of Deutsche Bank. Additionally, CDI Global will refer its clients looking for private wealth management and other banking services to Deutsche Bank. We have already begun to launch our alliance in Europe and will extend the scope of our joint activities to other parts of the world in the coming months.

Full story...

Indian M&A Falls in Q1 2011 But Prospects Still Bright
By Aniket Pargaonkar, Project Manager
(Reprinted from *ValueNotes*)

With close to seven years of experience in research, consulting, and investment banking support operations, Aniket has worked on a variety of projects such as mergers & acquisitions, private placements, restructuring of companies, turnaround strategies, industry & sector studies, opportunity assessment studies, and competitive intelligence. He has an MBA in finance from the ICFAI Business School, a postgraduate degree in Commerce, and a degree in Law from the Mumbai University.


Aniket Pargaonkar

The first quarter of 2011 saw a decline of more than 60% in the number of M&A (mergers and acquisitions) deals, as compared to the earlier quarter (Q4 2010). This was primarily due to high valuations and increasing uncertainty about macroeconomic factors such as fiscal deficit, interest rates and inflation, all of which made corporates watchful.

Full story...

Bo Hjelt Foundation Supports Fundamental Research into Spina Bifida Because I Didn t Want Other People to Go Through What I d Gone Through


Bo Hjelt

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Full story...

CDI Global and Deutsche Bank Private Wealth Management Form Strategic Alliance


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CDI Global has entered into a strategic alliance with Deutsche Bank Private Wealth Management to provide a new service for existing and prospective Deutsche Bank clients who own significant mid-market operating businesses. Under the alliance, CDI Global will help clients grow and globalize, or monetize, their businesses. CDI will also perform strategic advisory and company search services to assist Deutsche Bank in serving the broader needs of wealth management clients.

Full story...

M&A Deals in India Telecom Sector Likely to Soar
By Shima Kalyanpur, Business Editor, *ValueNotes*
(Reprinted from ValueNotes)

Shima Kalyanpur

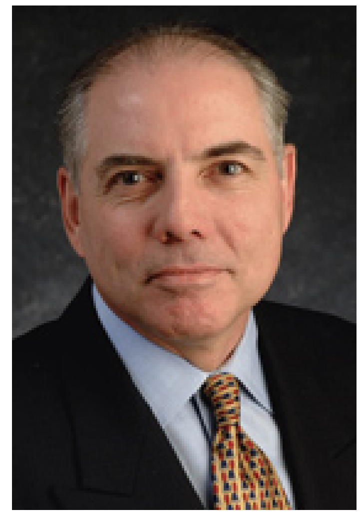
Shima was part of the core team that provides ongoing research support to a European competitive intelligence firm. She regularly tracked the global pharmaceutical, telecom, medical device and chemical industries, and provided the client with daily news feeds. She has a postgraduate degree in English Literature from Mumbai University.

More than 21,000 M&A deals were announced in 2010, with its total value exceeding USD 1.9 trillion. Of this, the telecom sector accounted for $163 billion worth of deals, as compared to $99 billion worth of deals in the sector in 2009. In 2010, this sector witnessed megadeals like CenturyLink's $23 billion acquisition of Qwest, América Móvil's $21 billion deal for Telemex, and Bharti Airtel s $11 billion acquisition of Zain s African operations. According to a Wall Street Journal blog post, the telecom sector in 2010 surpassed the financial services sector as the "busiest" M&A market.

AMERGE Corporation Joins CDI Global

Ted Gardiner

AMERGE Corporation, a specialized merger and acquisition consulting firm working with buyers and sellers of closely held businesses in the middle market ($2.5M to $100M+) is now a Partner in CDI Global. AMERGE brings to CDI clients a practice focused on maximizing business value and personal net worth for shareholders/members.



Ron Lasko

This merger brings CDI clients exceptional capabilities for handling divestitures and funding for recapitalizations and other business financing, enhanced product-licensing capabilities, and buy- and sell-side representations for owners of closely held businesses. This merger brings access to a wide array of private equity groups and strategic buyers in every industry, collaborating with private equity sources to assist in financing acquisition opportunities for middle-market companies.

Full story...

CDI Global Now Has Office in Rio de Janeiro

Through its new associates, Aria Capital Partners, CDI Global now has an office in Rio de Janeiro, Brazil, to complement its office in São Paulo. Aria Capital Partners brings to CDI Global and its clients a team of 15 professionals with specialties in corporate finance, M&A advisory, asset management, and real estate trust.

Aria Capital Partners is a Brazilian Independent Investment House Boutique whose professionals are dedicated to M&A advisory, structured financial solutions, business development, and operations with judicial bonds and credit rights.

Full story...

Which Road to Take? The Future of China s Automobile Industry
Stefan Kracht
Managing Director, Fiducia China
(Reprinted from Fiducia's *China Focus*)

China s automobile market grew by 32% in 2010 with sales of over 18 million vehicles.

Stefan Kracht

This new all-time high makes China the world s biggest market for automobiles, followed by the US and Japan. Passenger vehicles constituted the largest share of the market with sales of 13.8 million, while commercial vehicle sales amounted to 4.2 million. Both categories saw equally high annual growth rates of above 30%.

Full story...

The CDI Global team at Aria Capital Partners includes (left to right): Jose Carlos Osorio (founding partner), Paula Perazzi (in-house attorney), Diego Maurell, Bruno Nahon, Fernando Kunzel (partner and principal liaison with CDI), Camila Barbara, João Paulo Cavalcanti, and Ana Luisa Reis.

Full story...

Why Preparing Your Company before Selling It Makes a Big Difference
By Magnus Lovden
Partner
Skarpa M&A / CDI Global Sweden

Magnus Lovden

Sellers always have a multitude of questions about selling their companies. Among the most common: Will the buyer agree to pay a premium for a refurbished office space? How about a brand name? Ongoing (but not yet commercialized) R&D activities? Well, don t count on it, especially not in the market of privately owned companies. Rule number one: The perceptions of value always differ between a seller and a buyer. And the differences in perception are not only to the seller s disadvantage.

Full story...

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Clarifying Acquisition Strategies

Jeff Schmidt
Partner, CDI Global

When asked to describe his company's current acquisition strategy, a corporate development manager paused for a moment and then responded as follows, "Basically, we look at what comes in over the transom, sniff at it, and then throw in a low-ball offer. If we get the deal, that's okay. But, if not, that's okay, too." While this reply was tongue in cheek, it reflects a common dilemma of acquisition programs. More specifically, the corporate development manager is describing the tendency of some companies to be completely opportunistic in deal making. Even for companies with annual strategic planning cycles, the consideration of how acquisitions fit within a company's overall growth plan and what would represent the ideal acquisition in terms of strategic fit, affordability, and other pertinent factors is frequently an afterthought in the strategic plan. When this eventuality happens, it is not surprising that a company may have an extremely difficult time finding the right acquisitions at the right price. And defaulting to a purely opportunistic approach to acquisitions may become a company's effective strategy regardless of stated intentions.

Full story...

CDI Global welcomes your comments, questions and enquiries.

Please email or call us via James McIlwraith: McIlwraith@CDIGlobal.CO.UK or +44 20 7265 0077.

Please also visit our website, www.CDIGlobal.com.

Our Business: Leading non-bank strategic advisors and company search specialists for global business combinations since 1973

Our Focus: Middle-market transactions, typically under $250 million

Our Reach: Fifty offices in the major economic centers of 35 countries

We are known for the quality of our international personnel, our industry focus, our trademark interview process, and our in-depth business development expertise.

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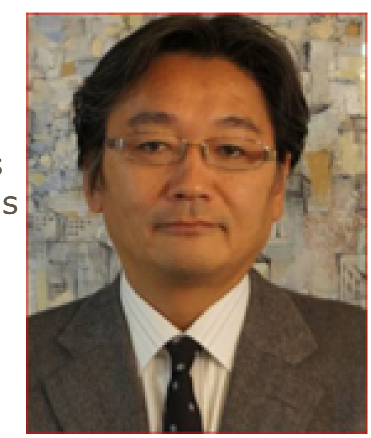
CDI Japan has added key personnel to its offices, especially in energy and

Yumi Hasegawa

environmental technology, expanding its teams in both Amsterdam and Tokyo. In mid-May, Yumi Hasegawa joined the Amsterdam office as senior analyst, replacing Dimitri van Schaik, who is continuing his career at Teijin, a CDI Japan client. Yumi speaks Japanese, English, French, Dutch, and Spanish and was one of the first women to enter All Nippon Airways, where she worked in the launching of new international routes in Europe and Oceania and represented the company at International Air Transportation Association conferences. She has additional experience in European financial and advertising sectors, was a journalist for *The Japan Times*, and worked for a major Japanese firm in the healthcare sector. Her research and international management experience are key assets she brings to CDI Japan.

In Tokyo, CDI Japan s core team now includes:

Masashi Imai
Masashi, partner, worked for 20 years as a system engineer at a Japanese securities house and then built a career as a trader and seller of financial products such as FX, Bond, and financial derivatives for institutional investors at various banks. In 2000, he established his own company, specializing in private equity funds and financial advisory businesses, including M&A. His recent interest and experience in environmental issues add expertise to CDI Japan s expansion into green energy as well as environmental technologies.



Masahi Imai

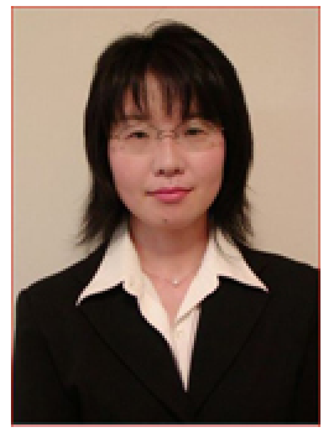
Takeshi Yoshida

Takeshi Yoshida

Takeshi, project manager, worked for more than 10 years as a corporate financial expert at a Japanese securities house, which focused on underwriting transactions for equity finance. He then built a career in capital markets as a trader and seller of financial products for institutional investors. Beginning in 1997, his work focused on development and implementation of advanced products for R&D, partnership establishment, and marketing as a business development director, and in 2007, he established his own company specializing in business development, financial advisory, M&A, and IPO consultation. Takeshi, too, brings expertise to CDI Japan in environmental technology innovation.

Mutsuko Matsuki

Mutsuko, assistant, began her professional career in the travel industry, where she gained broad international experience, and then moved her career to banking. Over the past 10 years she has been active in the field of foreign exchange.



Mutsuko Matsuki

CDI GLOBAL

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We also introduce in this edition, our new colleagues in the United States and Brazil. In both of these strategic markets for M&A advisory services, we believe our new colleagues will make significant contributions to our growth and to the range of services that we can provide to middle-market clients. The additions reflect our commitment to building our capabilities in both the existing and emerging economic centers around the globe.

A special feature in this edition describes the important contribution that CDI Global's founder, Bo Hjelt, has made to understanding the causes and to reducing the incidence of Spina Bifida. This is a personal story because Spina Bifida tragically touched Bo's own family. Creating the Bo Hjelt Foundation has made ground-breaking medical research possible through which the causes of this disease could be understood and important changes in nutrition could be implemented to help prevent Spina Bifida. We are very proud of the achievements that the medical researchers were able to make in no small measure due to the philanthropy and commitment of Bo Hjelt.

As we are accustomed to do in our newsletter editions, we have several features on the BRIC countries in this edition. Specifically, these features cover two important industry sectors - that is, the automotive industry in China and the telecom industry in India. We also have included an analysis of the M&A market in India. On the geographic front, we have also provided our perspectives on the situation in Japan following the catastrophic earthquake and tsunami from earlier this year.

This edition includes two features on M&A approaches. In the first of these, we focus on sell-side transactions. Magnus Lovden explains why preparing carefully to sell a company pays big dividends for the owner in terms of the results achieved. The second article covers the acquisition strategy conclave process, which CDI Global has used to help clients clarify or develop comprehensive acquisition programs before embarking on buy-side searches.

CDI Global welcomes comments and suggestions from readers of our newsletter. If you would like to learn more about our firm and the services that we provide, you can visit our website at www.cdiglobal.com or contact the local CDI office. The directory of our offices is shown on our website.

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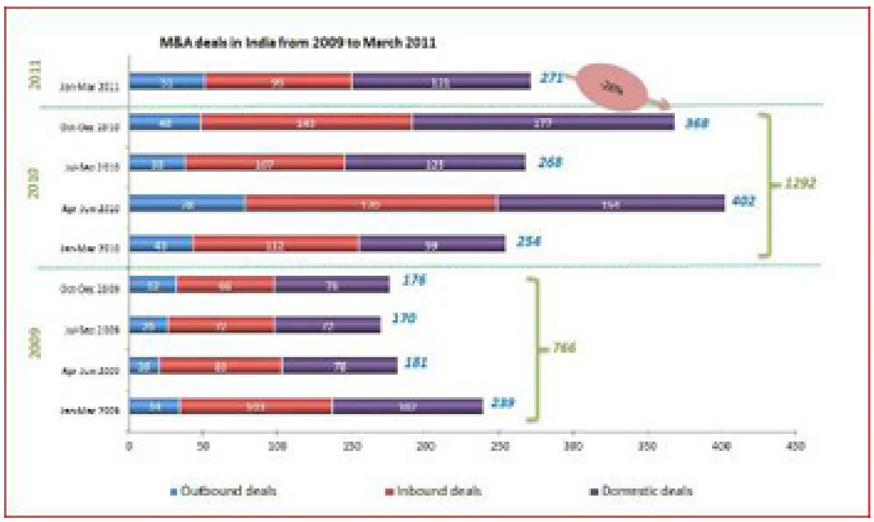
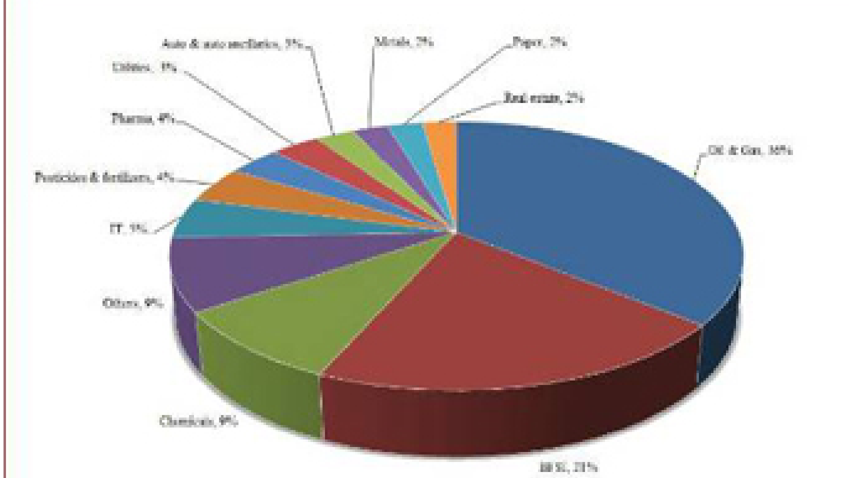
The first quarter of 2011 saw a decline of more than 60% in the number of M&A (mergers and acquisitions) deals, as compared to the earlier quarter (Q4 2010). This was primarily due to high valuations and increasing uncertainty about macroeconomic factors such as fiscal deficit, interest rates and inflation, all of which made corporates watchful.

According to data from ISI Emerging Markets, only 40 M&A deals were announced in the first quarter of 2011 (Jan-Mar), as compared to 80 in Q1 2010, and 79 in Q1 2009. But net deal value (excluding undisclosed deal values) amounted to USD 9.4bn in Q1 2011, while it was USD 6.3bn in Q1 2010, and USD 5.6bn in Q1 2009. This was mainly because of the USD 7.2bn Reliance-BP deal which was announced in Feb 2011.



Out of these, 17 were domestic deals amounting to a deal value of USD 358m, 8 were outbound deals where Indian companies acquired a foreign target (deal value USD 362m), while 15 inbound deals saw Indian companies being acquired by foreign firms (deal value USD 8.6bn).

The biggest deal of the quarter was UK s BP buying a 30% stake in Reliance Industries 23 oil and gas blocks, including the producing KG-D6 gas field off the east coast for USD 7.2bn. Other big deals include British consumer goods firm Reckitt Benckiser agreeing to buy Paras Pharmaceuticals for about USD 726m, International Paper agreeing to buy 53.5% of Andhra Pradesh Paper Mills (APPM) for approximately USD 257m in cash, and Essar Oil acquiring Shell s Stanlow refinery in the UK for USD 350m.



Sector wise distribution of M&A deals based on deal value - From Jan-Mar 2011

Sector wise break-up of the M&A deals for Q1 2011 shows that the healthcare sector continues to be the biggest contributor as it accounted for 25% of the total deal value, while the Banking, Financial Services and Insurance (BFSI) sector accounted for 19%. The manufacturing sector was the third highest contributor as it contributed 14% in deal value.

As cash-rich Indian companies continue to hunt for strategic bargains globally, despite the slow start, it is expected that 2011 will see a high volume of M&A activity in India. In fact, India and China are expected to be the most active buyers in 2011, as attractive valuations drive deals globally. We are already seeing Indian (Aditya Birla Group) and Chinese companies (Yanzhou Coal Mining Co) trying to bid for the USD 3.5bn sale of Australian coal miner, Whitehaven Coal Ltd.

Telecom Minister Kapil Sibal has been stressing on the need to have liberal M&A guidelines in telecom, which will facilitate smooth passage for M&A deals in the sector. The Indian Government has further unveiled plans to spend USD 1 trillion to improve infrastructure such as power, roads and rail networks. I think this will considerably pace up India s demand for metals and minerals in the future. We could see a particular focus on Indian public sector companies targeting global oil assets, as well as domestic companies looking to acquire iron ore and coal for their growing steel and power operations. Thus the main sectors where I expect major M&A activity in 2011 are oil, gas, coal and other natural resources which will help fuel India s industrial growth.

Notes: Includes deals announced in the period of Jan-Mar 2011; includes joint ventures & undisclosed deals.
Source: ISI Emerging Markets database

About *ValueNotes*

ValueNotes (www.valuenotes.biz), based in India, is a leading provider of business research, competitive intelligence and financial research services, with expertise across industries. We operate at multiple points of the knowledge value chain to provide competitor information, research, analytics, knowledge management and intelligence. Our customers include some of the leading global corporations, asset and wealth managers, consulting firms, research publishers, PE and VC firms, and money managers.

Bo Hjelt Foundation Supports Fundamental Research into Spina Bifida Because I Didn t Want Other People to Go Through What I d Gone Through

When CDI founder Bo Hjelt s fourth child, Madeleine, died of Spina Bifida at the age of 11, Bo decided he had to do something to prevent this birth defect that affects 1 in 1,000 newborns around the world and had affected three of his children two of whom did not survive birth. In 1985 Bo formed the CDI Foundation, now the Bo Hjelt Foundation (in memory of Madeleine), to support fundamental research into the causes and prevention of Spina Bifida. I didn t want other people to go through what I d gone through, Bo explains.

Spina Bifida occurs when the spine and neural tissue fail to form a closed tube during the first weeks of pregnancy, damaging the nerves and the spinal cord. This Neural Tube Disorder (NTD) can produce disabilities ranging from a mild spinal deformation to full or partial paralysis of the legs, bladder, and bowel. The disorder is often complicated by hydrocephalus (water on the brain) that can cause convulsions and mental retardation. Because, at present, the damaged nerves cannot be replaced or repaired, there is no cure for Spina Bifida.

Shortly before Bo began the CDI Foundation, researchers most prominently Professor Tom Eskes at the University of Nijmegen in the Netherlands had discovered a link between folic acid and Spina Bifida. Their research indicated that expectant mothers who had low levels of the B vitamin folate in their blood were at an increased risk of producing a child with Spina Bifida. The researchers found that this risk factor can be treated if women take a folic acid supplement before and during the first months of pregnancy. Furthermore, this finding contributed to the explanation of the 50 to 70% reduction in the risk of Spina Bifida by folic acid supplement use.

While the relationship between folic acid and Spina Bifida became clearer, the actual causes of the disorder and the precise role of folic acid were not known. In order to find answers to these and other fundamental questions, Bo started the CDI Foundation, funded until 1998 by a percentage of the firm s annual turnover.

The additional research not only confirmed the connection between folic acid and Spina Bifida but also demonstrated the connection between folic acid and other birth defects. Now, throughout the world, it is accepted that folic supplementation during conception and pregnancy will prevent the majority of Spina Bifida children.

That recognition has led to governments approving fortification of foods with folic acid. In fact, Bo says perhaps his proudest moment came when the Food and Drug Administration (FDA) in the United States agreed to do food fortification in the U.S. That was a fantastic moment. We were the ones who went to the FDA. They tested it for five years, and they came out and said, This is valid. We think we ll put this in as food fortification. Before a came out and said, This is valid. We think we ll put this in as food fortification. Before a country decides to make an addition in general terms to food, there has to be some very strong reasons.

Since the retirement of Professor Eskes, much of the Foundation s work has focused on supporting the research of Professor Regine Steegers-Theunissen, Professor Eskes s former PhD student, then at Nijmegen University and now Professor at the Erasmus University Medical Center. One breakthrough of Professor Steegers-Theunissen s work has been the explanation of why folic acid is beneficial, which is because of its effects on the homocysteine pathway.   The pathway should be in balance, Professor Regine Steegers-Theunissen says.

Professor Steegers-Theunissen s research also helped explain why the addition of folic acid reduces the risk of Spina Bifida and other congenital defects in most, but not all, cases. There can be multiple mechanisms involved, including, of course, genetics.

In fact, that is where Bo sees the future work of the Foundation.   Our hope is that we will discover something, perhaps together with other researchers, that will show the role genetics play in Spina Bifida and hydrocephalus.

Taking this broader view of the research the Bo Hjelt Foundation funds makes the Foundation an especially beneficial sponsor, according to Professor Steegers-Theunissen.

In the view of Marina Laureau, former Director and Board Member of the Foundation, giving researchers that kind of freedom to pursue promising ideas is very much what the organization has always been about.

The Foundation doesn t have predetermined rules for the size or duration of a grant.   If potential recipients have a very promising research proposal, then the Foundation is very willing to donate a large amount for ongoing research, Marina says. To help ensure that the grants go to promising work, she notes that the Board has taken on more members in recent years with specifically related backgrounds:

- Andrew Copp, who is Professor of Developmental Neurobiology and the Head of the Neural Development Unit at UCL (London) in addition to being Honorary Consultant at Great Ormond Street Hospital for Children
- Pierre Mertens, President of the International Federation for Spina Bifida and Hydrocephalus (IFSBH)
- Bo Hjelt s third daughter, Paola Hjelt.

With the continuing support of Bo Hjelt and outside contributions and the guidance of the Board, the Foundation should carry on the tradition remarked by Tom Eskes shortly after his retirement.   It is exceptional, he said, that the money donated by a group of businessmen and women (the CDI organization) has led to such a successful medical research program that, in the best cases, the disabling effects of Spina Bifida have been reduced by 72%.

To learn more about the Bo Hjelt Spina Bifida Foundation, including how to make a contribution, go to its website, www.hjeltfoundations.org.

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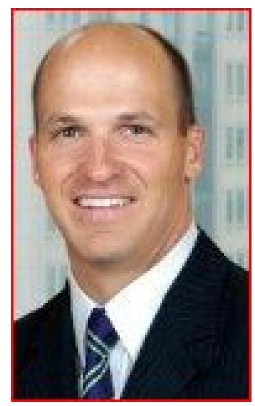
CDI Global brings to the alliance its capabilities in company search, joint venture structuring, mergers and alliances, privatization, and restructurings, and other strategic growth initiatives.

Deutsche Bank brings its capabilities in business valuations, financial engineering, financial planning, fairness opinions, project feasibility studies, investment analysis, commercial banking services, transaction financing, public offerings, project financing, and private wealth management.



David Plimpton

The key CDI personnel managing the alliance include Philippe Tischhauser in Geneva who will focus on Europe, the Middle East, and Africa. For the Americas and the Far East, the alliance will be managed by David Plimpton in the U.S.

We are gratified that Deutsche Bank has selected CDI Global for this alliance, says Jeff Schmidt, North American Partner for CDI, who will serve as the firm s Executive Committee sponsor. We think it is a perfect fit.

Jeff Schmidt

Deutsche Bank s investment bank does not provide full M&A advisory services to companies in the lower middle market, which is our sweet spot at CDI. Through the alliance, the Private Wealth Management division can now refer CDI as a cross-border, global M&A advisory service to their clients.

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The new Managing Directors are:

Ted Gardiner, JD
Ted is a partner of CDI Global North America and is based in Cleveland, Ohio. Ted has 30 years of experience in mergers and acquisitions as a lawyer and dealmaker. He began his career with the Antitrust Division of the United States Department of Justice and later practiced law with the international law firm of Jones Day. He also advised and managed the acquisition program at The Lubrizol Corporation, a Fortune 500 specialty chemical company.

Ron Lasko, JD
Ron is a partner of CDI Global North America and is based in Cleveland, Ohio. Ron focuses on entrepreneurial buy-side and sell-side transactions in a variety of business sectors, including the manufacturing, distribution, and service industries. Prior to joining CDI Global, Ron worked for Deloitte Touche and was a co-founder of AMERGE.

Ted may be contacted by e-mail at ted.gardiner@cdiglobal.com or by phone at +1 216 928 6007; Ron is available by email at ron.lasko@cdiglobal.com or by phone at +1 216 574 2602.

M&A Deals in India Telecom Sector Likely to Soar
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Acquirer	Target	Amount (in USD bln)
VimpleCom Ltd	Weather investments SpA	22
America Movil	Carso Global Telecom	26
Windstream	Iowa Telecom	1
Bharti Airtel	Zain's African operations	11
CenturyLink Inc	Qwest Communications	22
CSG	Intec	0.3
Reliance Industries	95% stake in Infotel Broadband	1
Telefonica SA	Brasilcel NV	10
GTL	Aircel	188

Major M&A deals in 2010

M&A key trends

Convergence increase across mobile and media: An increase in convergence has taken place across mobile broadband and media. Services and products like mobile TV, wireless broadband, 3G, etc. have gained popularity among customers, resulting in a greater usage. Some mobile operators have begun exploring and making their presence felt in the broadband and media sector. Likewise, in an attempt to capture new business opportunities, even cable operators have started offering broadband and IP-based digital voice services, among various other services.

Therefore, in order to be at par with the competition, even the remaining operators have to employ similar means; i.e. increase activity in broadband and media, which in turn will result in an increase in the number of M&A deals.

Divestment/Integration across the value chain: Some operators prefer to concentrate on their core competency and provide services rather than deploy networks. Due to this, they often have to divest their tower activity and outsource the network. Other players have begun setting up integrated operations that cover the entire value chain. For instance, the acquisition of even banks and ICT system integrators fulfils the purpose of serving customers and enterprises, respectively. This trend further accredits to the increase in the volume of M&A s in the telecom sector.

Address larger market opportunities: In order to address a larger market opportunity, established vendors and service companies are turning to acquisitions to broaden the scope of their offerings.

These trends predict an inevitable increase in the volume of M&A deals in the telecom sector in 2011. Tempting target valuations are expected to be the primary driver presenting M&A opportunities. Apart from this factor, even domestic competition could possibly incite greater M&A activity. Specifically, the market in the Asia-Pacific region is optimistically expecting to witness an increase in the number of accumulative buyers in 2011.

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Managing Director, Fiducia China
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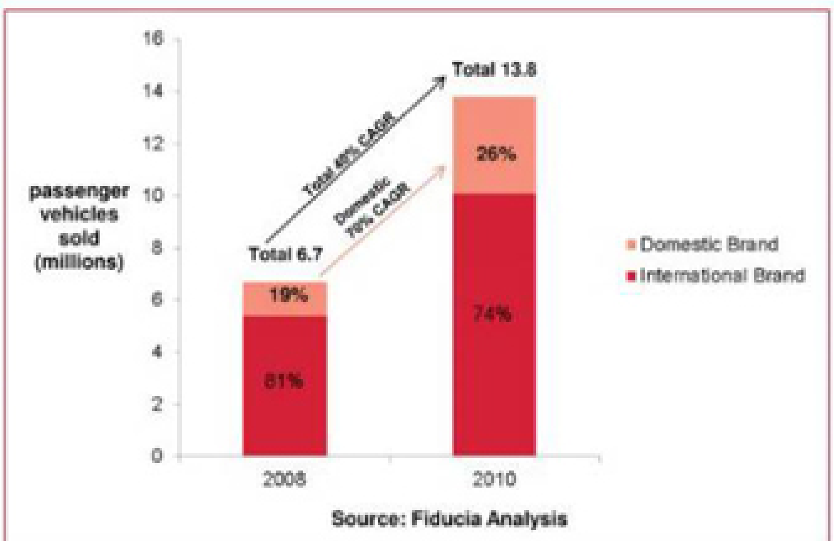
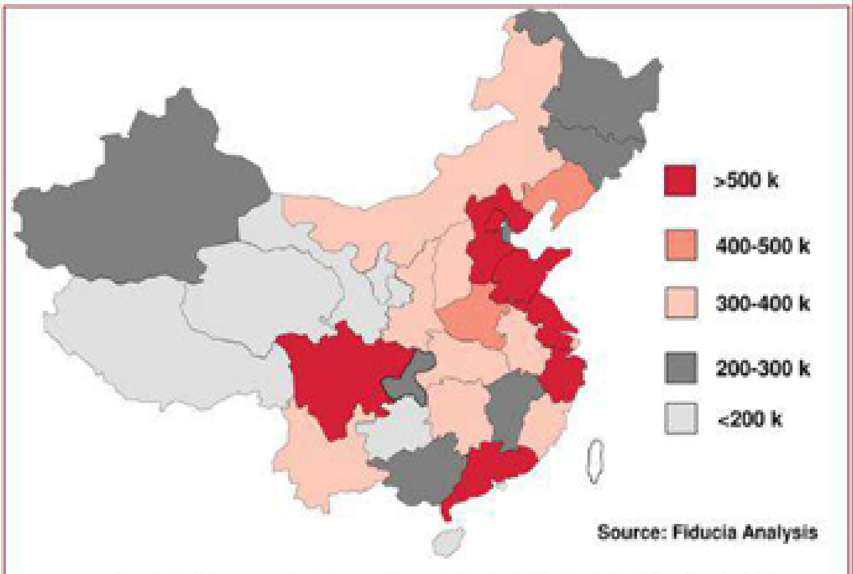
China s automobile market grew by 32% in 2010 with sales of over 18 million vehicles. This new all-time high makes China the world s biggest market for automobiles, followed by the US and Japan. Passenger vehicles constituted the largest share of the market with sales of 13.8 million, while commercial vehicle sales amounted to 4.2 million. Both categories saw equally high annual growth rates of above 30%.

The government s stimulus policies in reaction to the global financial crisis spurred low-end demand from first-car buyers and boosted the sales of domestic vehicles (e.g. tax reduction for cars smaller than 1.6 litres and Auto Goes Country program - see *China Focus* Jul/Aug 2009). From 2008 to 2010 domestic carmakers sales increased by 70%, notably much faster than the overall growth rate of 40% for overall sales.



Domestic carmakers have increased their market share.

China may sell a lot of cars as a nation, but a closer look at what is happening within the country reveals a highly fragmented distribution where the majority of sales concentration is in the coastal areas. The top 8 provinces contributed 50% of the new vehicle registrations in 2010.

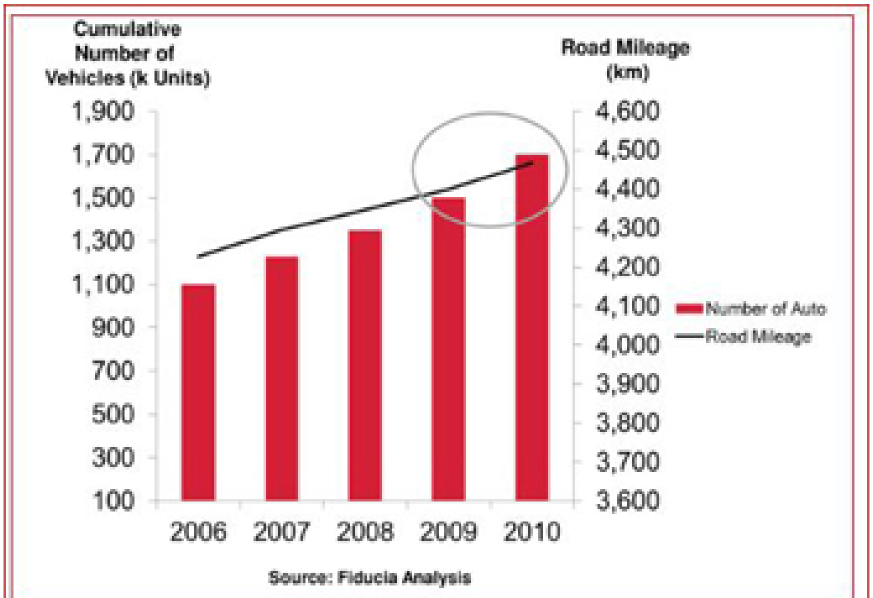


New car registrations in 2010 – a highly disproportionate distribution.

China s car sales: the other side of the coin
The enormous growth of the number of vehicles on the streets is leading to serious problems; development of public infrastructure cannot keep up with the growth of the car community. Beijing is already infamous for its frequent traffic congestions in the inner center   in August 2010 the traffic came to a halt for twelve days on a national highway linking Beijing to Tibet. Cars did not move more than 1 km per day, and at its peak the traffic jam was longer than 100 km.

Infrastructure development takes time so the government turns to alternative measures to alleviate the situation. In Beijing we ve seen a driving ban on certain weekdays for odd- and even-numbered license plates, a ban for outside license plates during rush hours, and a rule where big trucks are only allowed to enter the city at night. The latest measure introduced in January 2011 is a license plate lottery where only 20,000 people picked at random are permitted to buy a car each month. The aim is to limit the number of new plates to a third of the 800,000 sales in 2010.

These problems are not limited to Beijing. In Shanghai, road traffic volume has been up 10% each year since 2008. Guangzhou in 2010 recorded an average speed on the city's 60 main roads at below 20 km/h during rush hour. It is likely that the measures in Beijing will be adopted in other trouble spots; for example, Guangzhou also used the odd- and even-numbered license plate ban during the Asian Games.



Shanghai's number of cars grew faster than roads constructed.

Car Rental business profits from restrictions

Although restrictions are increasing and owning costs are surging, the demand to drive is still there. This has triggered the growth of the previously not-so-popular car rental industry. Beijing's car rentals surged to 300% during the 2011 Spring Festival, and overall rental rates have risen by 90% during peak times.

Not only are domestic car rental companies expanding, foreign companies have also begun to invest in this immature market. Goldman Sachs led a EUR 50.7 million investment into Shanghai-based eHi Car Rental in August 2010, which plans to expand its business within one year to about 100 cities across China. Mitsubishi invested EUR 14.5 million to set up a joint venture with Zhejiang-based Cheeyo Car Rental in November 2010. US car rental giant Avis, which entered the China market eight years ago, also released a plan to expand its branches from currently 38 to 500 in the next five years.

Will the latest fashion trend be EVs instead of LVs?

The government continues to promote electric vehicles (EVs) usage despite curbing car sales. For example, Beijing released the plans to promote individual sales of EVs to 30,000 units by 2012. Additionally, the city plans to experiment on the use of solar and wind power for charging car batteries. The Ministry of Finance initiated an incentive policy in five pilot cities Shanghai, Shenzhen, Hangzhou, Changchun, and Hefei. For example, in Hangzhou, EV buyers can receive subsidies of RMB 6,000 (EUR 660) and additional RMB 3,000 (EUR 330) by exchanging their existing gas-powered vehicle. They are also eligible to receive RMB 0.09 (EUR 0.01) reimbursement on recharging for every kilometre driven. Whether this will be enough to lead the EV breakthrough in China is questionable.

New avenues to pursue

After the fading out of stimulus programs, and assuming that a large amount of the demand for smaller cars was satisfied in the last two years, Fiducia expects that personal vehicle growth has already reached its peak and will start to slow down to 10-20% over the next 3 years. It is very likely that domestic producers will shift their focus from volume and put more emphasis on quality, emission, and safety instead. Currently Chinese carmakers clearly lag behind their international competitors in these areas. For instance, China is many years behind Europe in terms of achieving emission standards; however, China is catching up quite rapidly.

	Implementation Time	Implementation Time
Emission Standard	Europe	China
Euro III	2000	2008
Euro IV	2005	2010
Euro V	2008	2012

In turn, many international car makers together with their JV partners are working on plans to launch new domestic brands, specifically developed for the Chinese market. With this move they want to tap into the potential at the lower end of the market, which is so far dominated by the domestic producers. It also follows pressure by the central government to increase local innovation and development work by accelerating knowledge transfer. Some industry insiders are skeptical if this move will eventually pay off or rather nurture domestic independence in the end.

Info Box

"The world's most expensive metal"

Ask a Shanghainese what the world's most expensive metal is: "a Shanghai license plate!" Since the 1990s only a limited amount of license plates in Shanghai have been available, moreover these plates are auctioned off. And every once in a while reports about new record prices at these auctions hit the news. In February 2011 the average price was EUR 4,886 (up a staggering EUR , making the licence plate more expensive than the average car in China. Good news for some foreign companies: If the paid-in registered capital of a WFOE exceeds USD 100,000, one licence plate can be obtained for free.

click image to enlarge

CDI Global Now Has Office in Rio de Janeiro

Through its new associates, Aria Capital Partners, CDI Global now has an office in Rio de Janeiro, Brazil, to complement its office in São Paulo. Aria Capital Partners brings to CDI Global and its clients a team of 15 professionals with specialties in corporate finance, M&A advisory, asset management, and real estate trust.

Aria Capital Partners is a Brazilian Independent Investment House Boutique whose professionals are dedicated to M&A advisory, structured financial solutions, business development, and operations with judicial bonds and credit rights.

Their local expertise in mergers and acquisitions and credit operation structuring enables the firm to work as the local advisor to foreign investors and companies. The company also has expertise in developing projects in the real estate sector and energy sector.

The key members of CDI s global team at Aria Capital Partners include:

José Carlos C. Osorio

José Carlos founded Aria Capital Partners in January of 2007 and has worked more than 20 years in financial markets in the areas of operations and asset management of securities houses and banks. His experience in business strategy includes structuring transactions in corporate finance and in the management of investee companies.

Fernando A. Künzel

Fernando, partner, has worked in large financial institutions such as Lloyds TSB Bank and Citibank as a private banker in on/off-shore markets. He also worked for seven years at Pactual Bank/UBS Pactual in the commercial credit area and later in corporate banking in the structuring of private debt and M&A transactions.

Bruno F. Nahon

Bruno, partner, worked at CR2 Bank as credit officer focusing on the middle market, especially in the oil & gas and energy sector. Later, he worked at UBS Pactual Bank, assisting the Corporate Desk and Investment Bank Division.

Diego Maurell

Diego, partner, worked at UBS Pactual Bank in the leverage finance area, structuring credit operations, and at ABN Amro Real Bank in corporate banking on large corporate accounts, focusing on energy, oil and gas and metallurgy and mining.

Ana Luisa C. Reis

Ana Luisa, partner, has been working in the real estate sector since 2005. She worked at the real estate division of Bank CR2. Between 2007 and 2010, she was responsible for the backoffice, treasury, and funding divisions of CR2 Empreendimentos Imobiliários S/A.

Why Preparing Your Company before Selling It Makes a Big Difference

By Magnus Lovden
Partner
Skarpa M&A / CDI Global Sweden

Sellers always have a multitude of questions about selling their companies. Among the most common: Will the buyer agree to pay a premium for a refurbished office space? How about a brand name? Ongoing (but not yet commercialized) R&D activities? Well, don t count on it, especially not in the market of privately owned companies. Rule number one: The perceptions of value always differ between a seller and a buyer. And the differences in perception are not only to the seller s disadvantage.

Three important factors always precede a successful deal between a buyer and a seller: general market demand, making the company saleable, and conducting a proper M&A process. And that process should always start with drawing a clear picture of the market and the real reasons anyone would like to buy the particular target company. In short, sellers need help preparing their companies for sale. Below are a few more rules of the game and reasons why preparation is so advantageous.

Market Demand   The industrial and overall economic climate must in itself facilitate the strategic or financial buyer to seek acquisitions. There is always a rationale behind increased demand for acquisitions. As in any market, there must be a buyer for any particular item that is for sale; if not, you will not receive the asking price. There are no exceptions to this rule. You cannot lure a buyer to the table unless there is either an industrial rationale to go through the expensive and exhausting process of buying a company or the deal makes economic sense. So a seller should begin the selling process by asking: What possible rational reasons are there to acquire my company in this market, at this time, and at my asking price? And who is that buyer?

Example: Currently there is a strong need for technical engineers in Europe, which is increasing the demand to acquire consulting businesses. Staffing companies are also taking the opportunity provided by the current climate to move up the value chain to earn higher margins on engineers.

What to do: Always keep a close watch on the movements in your own value chain and the margins earned at different levels. Try to read the patterns and learn about deals in your segment. Keep an eye on, and maybe even contact, two or three potential buyers. Make sure you understand where they are going strategically and what their needs are or will be.

Is Your Company Saleable?   Have you any idea what aspects of your company drive value or destroy value?

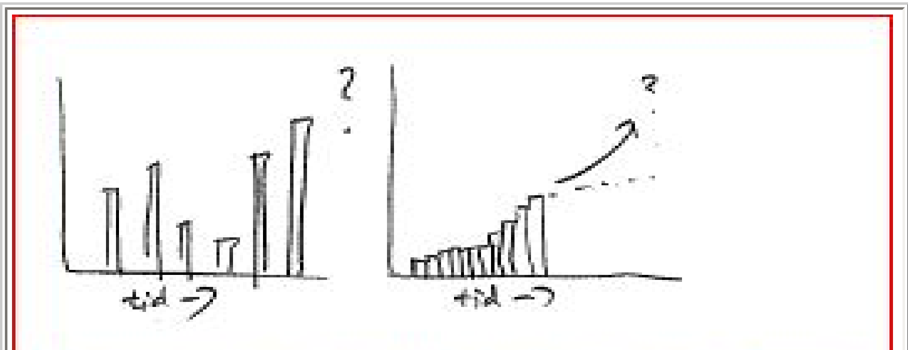


Illustration: predictable cash flows

You may think that notions of value are all subjective and differ between buyers. Well, not really, because, in my experience, every buyer will accept certain value drivers while disregarding (or at least diminishing) others. For example, there may be fantastic synergies between the buyer and seller and the buyer may agree to pay a premium because of these synergies, but the buyer will normally never admit this. It is much easier to achieve a higher price based on earnings (cash flow) than synergies.

Example: The most important value driver is forecasted cash flow to equity. Period. And the best determinant for a buyer is a stable history and contracts to prove the future forecasts.

What to do: Make yourself understand the concept of cash flow and how the way you run the company affects cash flow in the short term and long term. This analysis may require outside help and should be conducted regularly so that the cash flow is optimized, both short and long term. These analyses may show significant opportunities for improvement in terms of future profit margins, capital investments, working capital, and so on.

Other important factors are making sure that the company is not dependent on the owner transforming knowledge into processes (establish a functional executive management) and making sure that the company has not neglected to invest in the sales generation. There are many more factors, but discussing all of them would require a book.

Conduct a Proper M&A Process   Make sure you spend time and effort on a focused sales process.

All privately held companies that are acquired face a certain discount in relation to stocks traded over a stock market. This discount occurs because a buyer must invest six to twelve months of activity in a private acquisition, pay advisor fees, and, above all, forfeit the possibility of reversing the transaction should something not turn out right. The discount I note here is widely debated but is normally from 10% up to 50-60% depending on different factors. The true job of the M&A advisor/business broker is to lead a process that is accessible (easily entered and with early information easily accessed) and transparent (no hidden skeletons in the closet) and that contains a competitive auction (time all buyers to make decisions on the same day). The desirable effect is a reduced discount applied to the transaction in the bidding process and no price reductions after due diligence and post-auction negotiations.

Example: Sometimes buyers ask me what price they need to indicate in the auction in order to enter an exclusivity (no-shop) agreement. Why would they do that? Well, simply because they are confident that they will find discrepancies in the information they have received and the due diligence findings. By the time other bidders are gone, they will dictate the process and final pricing of the company.

What to do: Make sure the sell side controls the process. Never sign a letter of intent unless pricing structure, major parts of the agreement, and so on, have been resolved. Never, ever hide anything material from a buyer before signing any terms of agreement. Buyers will find out anyway and make it affect the price and warranties. Make sure to keep the timeline tight so that the competitive bidders are ready to step in.

Finally. Don t try this on your own.

Clarifying Acquisition Strategies

Jeff Schmidt
Partner, CDI Global

When asked to describe his company's current acquisition strategy, a corporate development manager paused for a moment and then responded as follows, "Basically, we look at what comes in over the transom, sniff at it, and then throw in a low-ball offer. If we get the deal, that's okay. But, if not, that's okay, too." While this reply was tongue in cheek, it reflects a common dilemma of acquisition programs. More specifically, the corporate development manager is describing the tendency of some companies to be completely opportunistic in deal making. Even for companies with annual strategic planning cycles, the consideration of how acquisitions fit within a company's overall growth plan and what would represent the ideal acquisition in terms of strategic fit, affordability, and other pertinent factors is frequently an afterthought in the strategic plan. When this eventuality happens, it is not surprising that a company may have an extremely difficult time finding the right acquisitions at the right price. And defaulting to a purely opportunistic approach to acquisitions may become a company's effective strategy regardless of stated intentions.

Jeff Schmidt

The acquisition strategy conclave is an approach that CDI Global has used effectively to help clients clarify and focus their acquisition programs. The conclave, which is made up of facilitated working sessions of senior business line and support executives, is intended to build alignment regarding the key growth challenges facing a company and the best steps for addressing them. The goal of the conclave process is to reach agreement on a focused and clear acquisitions program. Such a program specifies priorities, strategies and tactics, budgets, and timetable and must have broad management support and be actionable within the near to intermediate term. Because the conclave is results-oriented, the process does not conclude until management has agreed to a coherent acquisitions strategy and implementation framework.

When is conclave appropriate? There are many, many circumstances for which the conclave process can be an effective and efficient growth driver for a company. A handful of examples follow:

- Diverse interpretations exist among key executives regarding strategic growth challenges and the implications that cause inaction on available opportunities.

- A company has recently established a new strategic direction but has not yet worked through all the details of implementation, including the possible role for acquisitions or other types of business combination.
- The strategic plan for growing the core business of a company will not achieve the financial performance objectives that have been set, and there is a need to make the right acquisitions to close the "performance gap."

Whether or not the conclave process is appropriate for a given company can be explored by asking a few simple diagnostic questions. For example, does the senior leadership team have a clear line of sight regarding the correct balance between organic and non-organic growth investments? Does the management team need to come together on particularly difficult or contentious issues surrounding a company's growth strategy priorities or implementation? Does the company need to develop its acquisitions strategy and supporting program in more detail in order to better translate its components into meaningful line-of-business strategies?

How does the conclave process work? Typically, the conclave process consists of two or three facilitated meetings with a group of 8-12 senior executives. Prior to each conclave meeting, CDI Global interviews the conclave participants and other senior executives to identify and clarify the issues to be addressed at the conclave meeting and to compile available research and internal information pertinent to the issues that will be discussed at the conclave meeting. A pre-read document is prepared for review by the conclave participants in advance of each meeting. The facilitation process focuses the conclave participants squarely on the issues at hand, while encouraging candor and breakthrough thinking. Techniques are used for capturing differences of view regarding acquisition priorities and characteristics among other important issues. Following the initial conclave meeting, participants may be assigned to teams that fill gaps in the fact base or analysis necessary for reaching consensus on key issues and making decisions about a course of action. CDI Global supports the teams in completing their assignments. Following each conclave meeting, the results are documented so that they can be used as input for briefings to the board of directors as well as for developing an explicit acquisitions program and funding plan. At the end of the process, executive management is positioned to advocate to the board of directors a clear and coherent acquisition strategy and supporting plan.

A selected case of successful application of the acquisition strategy conclave is summarized in the chart below. The principal benefit of this process is simple. It works! The reason is that the process is an efficient, issue-driven way of articulating an acquisitions strategy and program that are purposeful and effective rather than opportunistic and serendipitous. The process itself is fact-based and future-oriented and aims at achieving the best growth strategy and action plan that all key executives and the company understand and support -- and, thereby, will act on. As such, the acquisition strategy conclave accelerates growth by making the right deals with the right strategic fit and at the right price.

A Selected Case Example

Client Case: Stalled Growth

The senior leadership team of an international specialty chemicals company had successfully completed a multi-year turnaround of its business and developed a new strategy for re-starting growth. The team found a gap between the strategy's growth objectives and what could be delivered through the core business. It was decided the difference would be made up through a focused acquisitions program. However, past efforts to make acquisitions had been largely unsuccessful, and current management was not aligned regarding product-market and technology priorities and the scale of transactions to be pursued. The conclave explored in-depth what geographies, end-use markets, products, and chemistry platforms were most likely to fill the growth gap in the strategic plan. The results were used to develop a comprehensive acquisitions program and complementary funding plan to accelerate growth in the priority product-market segments.