



Middle Market Metrics



Fall 2009

International Metrics- Global Business Opportunities

We recently attended the International Network of M&A Partners (IMAP) Fall conference in Istanbul, Turkey. Dresner joined IMAP, a global partnership of middle-market investment banks in more than 30 different countries, to better facilitate transactions for our clients on a worldwide basis. At this four-day conference, we interacted with more than 100 English speaking M&A professionals from Asia, Latin America, Europe and North America, continuing to build valuable relationships with our overseas colleagues. We left the conference with a better sense of global and regional economic conditions and how steering our resources toward breaking down international borders can benefit our clients. Our past few newsletters have conveyed a cautious tone, and we continue to believe our economy is fragile, but we also have a feeling that we could be on the cusp of a strong worldwide M&A recovery.

The post-war United States economy has been consistently resilient. As in many recessions, businesses are accumulating cash as they scale back operations and new investment, and they remain cautious on mergers and acquisitions. In November, however, we received news of three large transactions: Black & Decker being acquired by Stanley Works, Burlington Northern by Berkshire Hathaway, and the NBC Universal joint venture involving GE and Comcast. Although the future remains uncertain, middle-market companies tend to follow the actions of their larger counterparts.

Furthermore, there are other positive signs for the M&A market. The dollar continues to fall and there are no indications of change in monetary policy. Our past experience suggests we could see a rush by large, cash rich companies to acquire their weakened competitors at very attractive prices. This could become a very competitive process as international players join in the buying spree while the dollar is cheap. There are multiple catalysts that could set off the chain reaction, but stronger employment numbers in early 2010 and faster economic recovery in other parts of the world (e.g. Asia and Latin America) could be the fuel we need. We left Istanbul with the impression that our international partners are poised to move quickly to facilitate acquisitions of U.S. companies by their clients. At the same time, Dresner is well positioned to assist its clients in pursuing opportunities overseas.

Follow the Leader

Amidst our declining dollar, CEOs globally are turning toward China and India to access growing markets. In a NYSE Euronext 2010 CEO Report¹ published in the third quarter 2009, nearly 90 percent said that the U.S. economy is in a 'poor' state. Stephen Roell, Chairman and CEO of Johnson Controls said, "China with its still robust growth rate presents the biggest opportunities for the years ahead, followed by India and Latin America."

Quaker Chemical Chairman, President and CEO Michael Barry said that his company has invested heavily in BRIC (Brazil, Russia, India and China) countries over the past several years and continues to see these nations as key areas of growth. Anglo-Dutch consumer-products giant Unilever was one of the first multinationals to enter China, nearly a quarter-century ago. But even today, top executives say the market remains too big and untapped to regard profitability as the main measure of success.

"The driver of our growth is not to make money, but to continue investing in this market," said Harish Manwani, president of Unilever's Asia, Africa, Central and Eastern Europe division. "No one has actually started penetrating the Chinese market in a real sense." However, nearly half of the respondents also expressed hope that the U.S. economy will recover by the second half of 2010. They feel that the American economy is not yet, "out of the woods." Nearly nine out of ten CEOs still cite the U.S. as a crucial venue for business, with two-thirds calling it the most crucial. China was tied for second with Western Europe as the most strategically important region.

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Region	Volume	Agg. Base Equity (\$Mil)
Europe	976	\$110,247
North America (ex. US)	435	\$554,052
Far East	306	\$24,494
Oceania	101	\$3,024
South America	68	\$8,676
Indian Subcont/Central Asia	61	\$573
Middle East/North Africa	58	\$1,686
Southeast Asia	49	\$2,931
Sub-Saharan Africa	12	\$442

Source: Mergerstat

¹ <http://www.nyse.com/about/publication/1250159601121.html>

MIDDLE MARKET METRICS

International Metrics - Global Business Opportunities (cont.)

China- The Fountainhead

Jan Borgonjon, Chairman of IMAP partner firm InterChina Consulting, said “Since China’s entry into the WTO in 2001, the share of cross-border M&A in China has grown by over 90 percent. Though the number of deals has decreased markedly during this economic downturn, deals are still getting done and activity is beginning to pick up in the second half of 2009. InterChina believes that five sectors offer strong opportunities for companies looking to enter China or expand their China business: (1) Chemicals, (2) Food and Beverage, (3) Transportation and Infrastructure, (4) Consumer Goods and Services and (5) Pharmaceuticals and Healthcare. Spending is increasing across the board in China, whether it is individual consumers or state and local governments, and these sectors each stand to gain greatly from these trends.”

Borgonjon went on to say that, “Large Chinese companies are very active as well, both domestically and abroad. In terms of domestic consolidation, Aluminum Corp. of China has been quite active, swallowing up majority stakes in many smaller Chinese competitors in the last two years. Although still in initial stages, Chinese companies have also become more active abroad in the last two years: Beijing Automotive Investment Corporation bid nearly U.S.\$1 billion – albeit unsuccessfully – for Opel, while Sinopec announced a U.S.\$7 billion takeover of Addax Petroleum. This outbound activity is expected to increase over the coming years.”

Mark R. Williams, JD, of DLA Piper’s Chicago office, recently returned from running their Chinese offices in Shanghai and Beijing. Mark said, “The big question on everyone’s mind today, however, is what impact the credit crisis and turmoil in the U.S. and global financial markets will have on the VC and PE markets in China. China’s 6.1 percent economy growth in the first quarter of 2009, amid the worldwide downturn, definitely helped support the quick recovery of the investment volume. There is no question that the Chinese government views private equity as an important means of financing for businesses, said Gao Wenlian, deputy director of the Department of Finance and Fiscal Affairs with the National Development and Reform Commission.”

Where’s the Beef?

So where are the middle market opportunities in these fluid, uncertain times?

While the U.S. continues to lead the world in GDP, intrinsic growth opportunities will be found in overseas markets. If we believe the published forecasts, China and India will continue their high growth, historically between 7 and 10 percent. The migration of certain industries to the Pacific Rim will continue; especially auto, consumer products, alternative energy, manufactured components, and aerospace.

The growth of the middle class in Rapidly Developing Economies (RDEs) is accelerating. Recovery trends in the BRICs indicate an early rebound. As these governments steadily institute basic social safety nets, their consumers will begin to spend at a higher rate, accelerating consumer-driven growth patterns. Growth opportunities for U.S. middle-market companies will be accessed via Cross Border Joint Ventures, Technology Licensing Agreements, Strategic Alliances, and Research and Development Centers. It is imperative that middle-market companies understand these emerging cross-border markets and the competitors who operate in those economies.

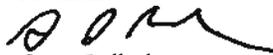
An excellent reference point is *The Boston Consulting Group’s 2009 BCG 100 New Global Challengers*. Whether it is the newly merged Brazilian food giant, Brazil Foods (BRF), or India’s Tata Motors’ new \$2,500 NANO auto and their “World Truck,” there are serious competitors out there who can and will become partners and customers if approached correctly. Dresner can facilitate these introductions, as well as assist our clients in understanding and identifying foreign opportunities and competitive factors. Through our IMAP partners, we can also assist our clients in arranging local financing and evaluating local management talent.

Introducing Dresner Partners International Practice

Dresner Partners and its professionals have completed cross-border transactions in 15 countries, including China, India, Brazil, the U.K., Germany, and France. Many of these transactions involved clients of Dresner, based in the U.S. and Canada. Dresner’s international practice, along with its affiliates in IMAP, is here to bridge the cultural divide to manage multifaceted ventures on a global basis. According to *Thomson Reuters Worldwide Mid-Market Rankings*, IMAP consistently ranks as one of the world’s top investment banking organizations. Have a happy holiday season and please contact us with any questions regarding your transactions.



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