The Americans are coming

Colin Welland famously announced at the 1981 Oscars that 'the British are coming'. In 2013 and in the less rarefied world of global M&A, it is the Americans that are coming. Indeed, they never really went away.

In recent years, the eye of the world's financial media has been trained on Asia's meteoric rise in the global M&A rankings. All the while, the US has quietly continued to do business and invest abroad, maintaining its position as the world's most acquisitive nation. In fact, as DC's seven European offices can testify, US bidders continue to account for more than 50% of all cross-border transactions into Europe.

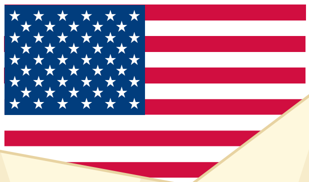
While the press decries that the US is avoiding 'toxic' European investment at all costs, our own transactions, and those of our US sister company Sagent Advisors, are telling a different and far more positive story:

"Our large corporate clients in the US continue to show keen interest in acquiring strong European businesses. For the most part, these clients are extremely liquid, have access to yet more capital on extraordinarily good terms and express almost universal interest in making appropriate tuck-in acquisitions in Europe, particularly within the stronger national economies. Notably though, demand for transformational acquisitions has fallen markedly."
Hal Ritch, CEO, *Sagent Advisors*

The US *is* open for business; the key to successful transactions is understanding a) the investment drivers and b) the key attributes of in-demand assets.

We hope you enjoy reading our perspectives
DC Advisory

The Drivers



① INVESTORS ARE WILLING

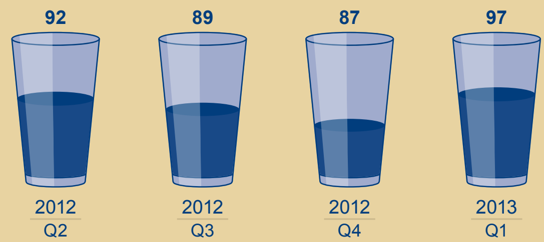
POSITIVE & CONFIDENT

US GDP Percentage Growth (2008 - 2012)

Confidence among American bidders is buoyed up by consistent GDP growth over the last three years.

Source: US Dept of Commerce

Vistage CEO confidence index (last 4 quarters)

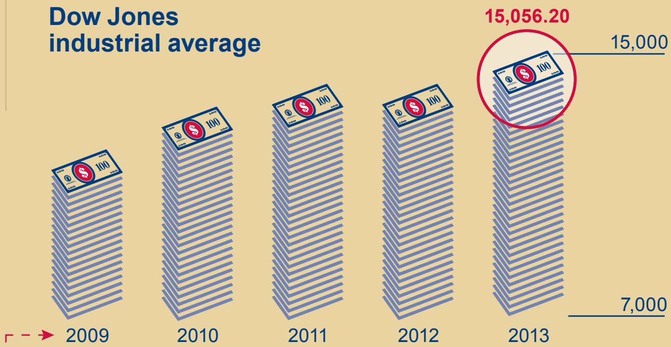


Optimism is now the prevalent feeling and 2013 has started with encouraging momentum.

One of the few positives resulting from the global financial crisis is that many U.S corporates are now leaner, higher margin businesses with increased stock prices and improved ratings.

The S&P and Dow Jones are now at their highest point ever and corporate ratings have doubled since the 2009 dip.

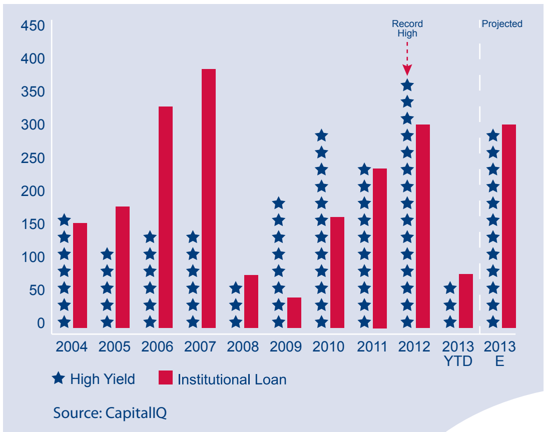
Dow Jones industrial average



Stronger balance sheets and higher ratings are driving M&A activity, putting US acquirers in a much better position to prevail in auctions.

② INVESTORS ARE ABLE

High yield & institutional loans - Annual new issuance



Beneath the renewed confidence is a deep and highly liquid US debt market that has rallied since the crisis and is flowing into American corporates in record amounts. The High Yield Bond market issued a record $360bn in 2012, up 140% from the $150bn of issuance in 2007 and institutional loan issuance reached $300bn, the highest amount since 2007. The US CLO market has been in rude health over the last 12 months and January 2013 was the busiest month for US CLO issuance since November 2007 with $9.9bn of funds issued.

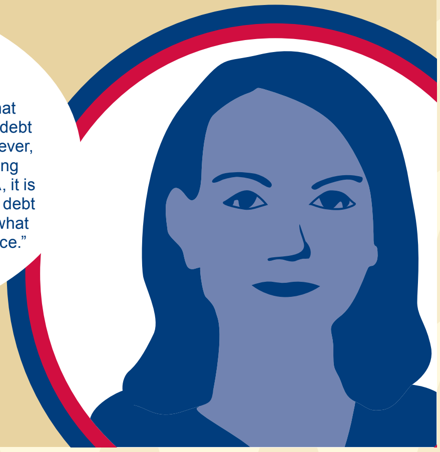
These unprecedented issuance levels stand in marked contrast with Europe where the debt market has, until recent months, been severely constrained. The European CLO market has seen just €900m of new CLO liquidity in Q1 2013, as institutional managers grapple with new regulatory hurdles and limited new product supply. Furthermore, bank lending in Europe remains constrained as banks continue their efforts to meet new capital adequacy rules.

Source: CapitalIQ; JP Morgan High Yield and Leveraged Loan Research

“There is no doubt that the rally in the American debt markets is supporting US buy-outs once again and that the opposite is in evidence in Europe where debt markets remain smaller and less liquid. However, it is not a lack of available debt that is holding back European domestic and outbound M&A, it is a lack of confidence. We can easily raise the debt in Europe for good quality transactions but what we can’t raise are the low levels of confidence.”

CIARA O’NEILL

Managing Director, Debt Advisory Group, DC Advisory



③ THERE IS PRESSURE TO INVEST

SHAREHOLDERS ARE BECOMING INCREASINGLY VOCAL

2011 alone accounted for 300 activist campaigns compared to an average of 150 in the period 2008 to 2010; and 37% have resulted in settlements, partial victories or dissident victories.

The principal motivator for activist campaigns is greater board representation and control, with the ultimate goal of transforming distribution policies, suboptimal capital structures and unfocused corporate strategies. Apple Corp is a notable example of where activist hedge fund shareholders have said ‘use it or lose it’ calling for greater distribution of cash, and succeeded.

Since 2008, 930 activist campaigns have been launched in the US. Of the 606 resolved cases, 116 have resulted in a dissident victory.

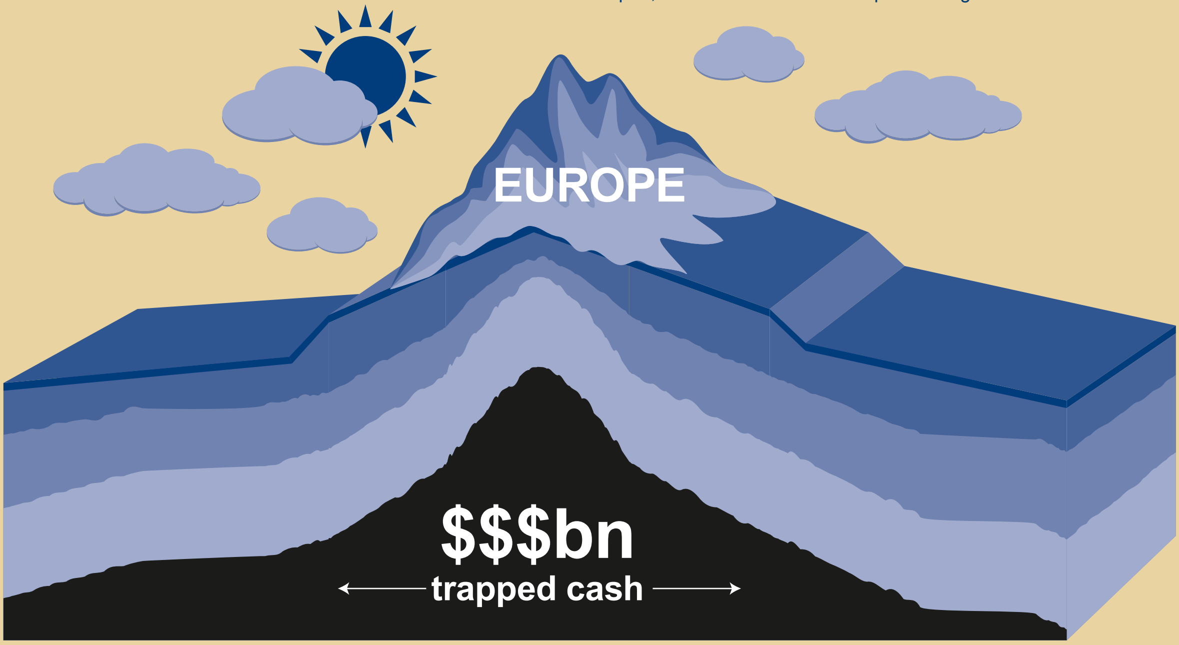
④ EXCHANGE RATES MAKE EUROPE AN IDEAL TARGET

TRAPPED CASH

US businesses are sitting on nearly $2tn in cash which represents a sizeable war chest for investment. A significant but unidentifiable portion of this sum represents trapped cash sitting overseas. Trapped cash – money earned abroad and liable for US tax if repatriated – is prompting US corporates to invest in further overseas expansion; a legitimate and lucrative option which sidesteps corporation tax and puts their money to good use elsewhere.

It is impossible to calculate an accurate total of the cash trapped overseas because there is no regulation enforcing its disclosure. Companies which have released precise figures have done so voluntarily.

Last year Moody's estimated that trapped cash for technology companies alone amounted to $289bn, some 60% of their total cash reserves. S&P have forecast this to top $400bn over the next three years due, in part, to a dearth of overseas acquisition targets.

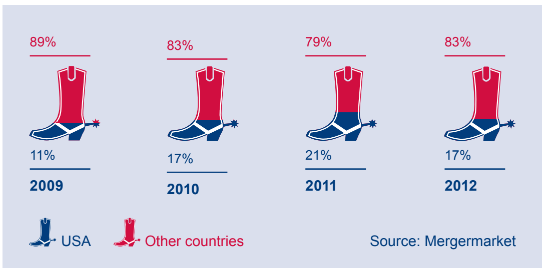


Underpinning all of the above is the added stimulus of a favourable exchange rate. The dollar has materially increased in value against the €/£ since 2008 and there is no reason to forecast a radical change any time soon.

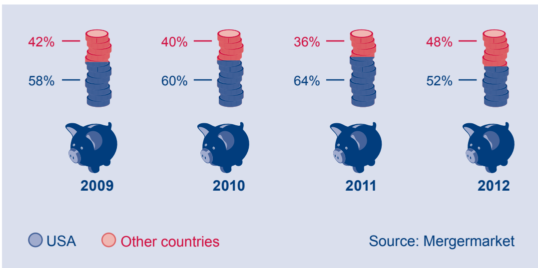
WRAP-UP

Throughout the recession, the US has continued to invest in Europe. It remains the number one acquirer of mid-market European assets and last year the US accounted for over half of all mid-market inbound European M&A.

M&A activity with a European target
All bidders 2009 - 2012



M&A activity with a European target
Non-European bidders 2009 - 2012



Sources: The Economist & JP Morgan

THESE TRENDS ARE DRIVING AMERICAN INVESTMENT IN EUROPE

Best Quality
GUARANTEED
100%

Where is the money going?

⑤ INVESTMENT RATIONALE

MICHAEL HART

Executive Director, DC Advisory, New York

The investment case varies in every transaction. Motivators include IP, synergies, low-cost manufacturing and access to emerging markets, to name just a few. The key is to identify situations in which the strategic fit is sufficiently strong to justify a premium price.

American investors are also wising up to the idea that Europe is not a single market. More than ever, jurisdiction within Europe is being treated as a primary consideration.

With these factors in mind, it's worth looking at the types of deal which are getting over the line. What turns an initial pitch into a home run?

"US investors continue to make acquisitions in Europe, albeit with a degree of caution. Strategic rationale is more important than ever and must overcome the understandable reticence caused by the fragile European macro-economy. As an adviser, a strong presence in, and knowledge of, both the US buyer universe and the European assets coming to market are invaluable."

Where is the money going?

⑥ HITTING A HOME RUN

The 'Fly ball'

DC advisory

1 Hit it high into the outfield. Investments are made to find new fields for growth.

Curtiss–Wright Corporation is an American engineering company with roots dating back to the Wright brothers' first flight in 1903; it has been publicly listed for over 80 years. Today it is an innovative multinational provider of technologically advanced products & services that support some of the largest industries in the world, including defence, energy and industrials.

Curtiss-Wright acquired the German valve manufacturer Phönix Group in February 2013. Phönix, headquartered in Germany, is a leading designer and manufacturer of severe-service valves and related support services to the global chemical, petrochemical and power markets.

Phönix has a strong track record of developing highly engineered, solution-specific valves for the most demanding applications. The acquisition of Phönix, whose three German factories will now operate within Curtiss-Wright's Flow Control segment, provides a unique opportunity for the American owner to expand into the chemical, petrochemical and power markets in Western Europe.

DC Advisory advised AXA Private Equity and management shareholders on the sale of Phönix-Strack Valve Group to Curtiss-Wright for approximately €82 million in cash.

Curtiss-Wright's acquisition of Phönix Group
February 2013

The 'Grounder'

DC advisory

2 Focus on keeping it close to the turf – your home turf. Investments are made to bring new products back home.

DC Advisory advised Sun European Partners on the sale of UK apparel brand Lee Cooper Jeans to Iconix Brand Group for $72m.

Iconix Brand Group Inc acquired Lee Cooper to grow its international business and bring what is largely a British brand into the United States. With Lee Cooper's portfolio of international licensees Iconix plans to leverage these new relationships to further grow its worldwide footprint.

Lee Cooper licenses casual wear, footwear and accessories under its namesake brand. The brand is sold in over 80 countries and represents about $500 million in annual global sales.

Iconix Brand Group's acquisition of Lee Cooper
February 2013

The 'Line drive'

DC advisory

3 The distressed investor stays focused in a tricky situation.

Headquartered in the UK, Hampson was a world leader in the design and manufacture of tooling and assembly systems for large aerostructures and was listed on the LSE until November 2012, when it went into administration and applied to delist its shares. In November 2012, Hampson was acquired by American Industrial Partners (AIP) via a pre-packaged administration.

AIP is a mid-market private equity firm that makes controlling investments in industrial businesses serving American and global markets.

The transaction demonstrates the continued interest and high risk tolerance of US financial investors committing capital into European distressed situations. American private equity houses, in particular distressed specialists, are keeping an eye out for good opportunities among the European casualties.

DC Advisory and Sagent Advisors jointly advised on the sale of Hampson Industries PLC's US Operating Subsidiaries to American Industrial Partners.

American Industrial Partners' acquisition of Hampson Industries
November 2012

The 'Swing for the fences'

DC advisory

4 Requiring a bold swing, a home run allows you to round all the bases. Investments are made with IP or global relevance in mind.

Based in the UK, Napier is a world leader in the design, manufacture and support of industrial turbochargers. The acquisition of Napier enables Wabtec to take valuable IP and technical capabilities to a global market; in particular the fast-growth Asian markets. Napier represents a strong strategic fit for Wabtec, allowing them to offer Napier's sophisticated technologies to some of their leading industrial customers.

Wabtec Corporation's acquisition of Napier Turbochargers
January 2013

'Bunt'

Nobody expects a bunt – it comes out of nowhere and can catch everyone off guard. Could be gap-year nostalgia or a good excuse to travel first class to Italy four times a year – the motive and strategy is either cleverly disguised or just darn hard to decipher.

Home Run