

MID-MARKET CORPORATE M&A SURVEY 2010

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RESEARCH METHODOLOGY

■ Between January and March 2010, 100 interviews were carried out with senior decision-makers involved in corporate strategy within acquisitive mid-market UK companies. Most respondents were at FD/CFO (56 per cent), MD/CEO (18 per cent) or M&A/development/investment director (15 per cent) level.

■ Companies were selected across a spread of business sectors, representing: property (18 per cent), manufacturing (15 per cent), business services (14 per cent), technology, media and telecoms (12 per cent), support services and transport (12 per cent), healthcare (9 per cent), retail (6 per cent) and others (14 per cent).

■ Companies represented a spread of turnover:

Up to £20m	21%
£20m–£50m	15%
£50m–£100m	18%
£100m–£250m	11%
Over £250m	31%
Not disclosed	4%

■ The survey examines the recent experience of corporate M&A activity, appetite for corporate M&A activity in the next 12 months and use of independent advisers when considering acquisitions.

■ The survey was managed and analysed by David Burton Associates (DBA), an independent research consultancy, with fieldwork conducted by Critical Research.

FOREWORD

OVER THE LAST YEAR COMPANIES HAVE BEEN FOCUSING ON COST REDUCTIONS AND NOW, WITH THIS BEHIND THEM, SIGHTS ARE SET ON THE FUTURE. GROWTH IS AGAIN ON THE AGENDA, WITH SOME COMPANIES SETTING THEMSELVES AMBITIOUS TARGETS.



Chris Grove
Corporate Finance Partner
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June 2010

Current economic conditions make organic growth difficult. It's not surprising then to see that 79 per cent of the companies we surveyed are looking to make an acquisition. The majority of these acquisitions are targeting gains in market share or improved product offerings. Whilst many companies are contemplating small, bolt-on acquisitions, a reasonable number have their sights on larger, transformational transactions.

60 per cent of the companies we spoke to saw improvements in M&A opportunities but there are still some significant challenges. In particular, the expectation gap between buyers and sellers was noted as a barrier for 91 per cent of respondents. The expectation for raising bank debt has improved but this understandably is still a concern for 48 per cent of respondents and over the last year many companies have been frustrated in their attempts to raise bank debt.

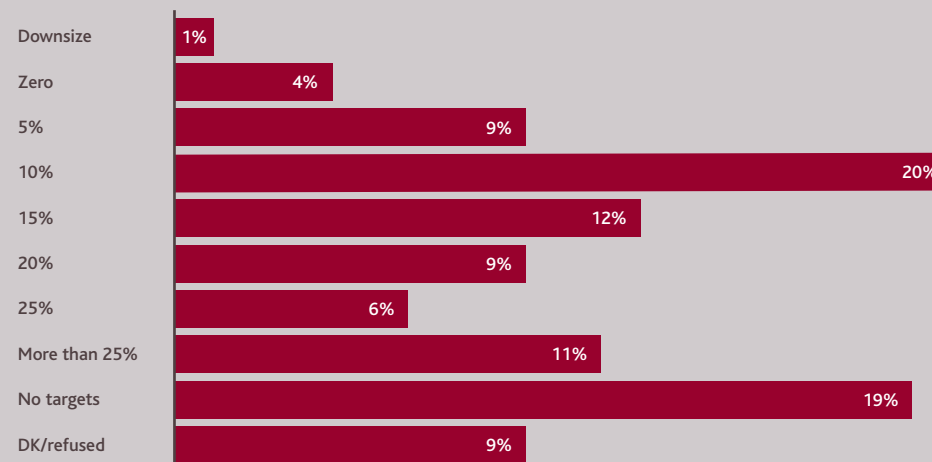
So what does it all mean? With increasing demand from corporate buyers and a build up in pressure from financial buyers to invest, prices are likely to increase, maintaining the price gap between buyers and sellers, at least in the short term. Funding is likely to remain challenging with leverage proving difficult. Companies with low leverage, cash reserves and a real strategic reason for a transaction are likely to find themselves best placed to achieve their acquisition objectives.

GROWTH STRATEGY

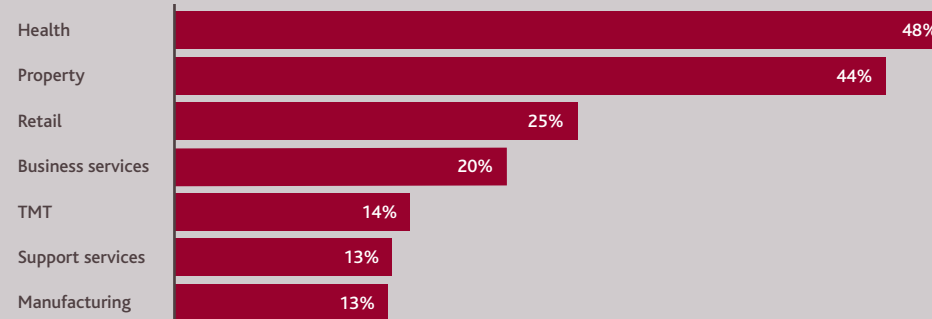
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MOST COMPANIES PLAN GROWTH OVER THE NEXT THREE YEARS AND MANY HAVE AMBITIOUS TARGETS

▶ Q. What annual turnover growth targets does your business have for the next three years?



Average growth rate by sector



Average growth targets: 24 per cent
 Businesses t/o < £100m: 29 per cent
 Businesses t/o £100m+: 19 per cent

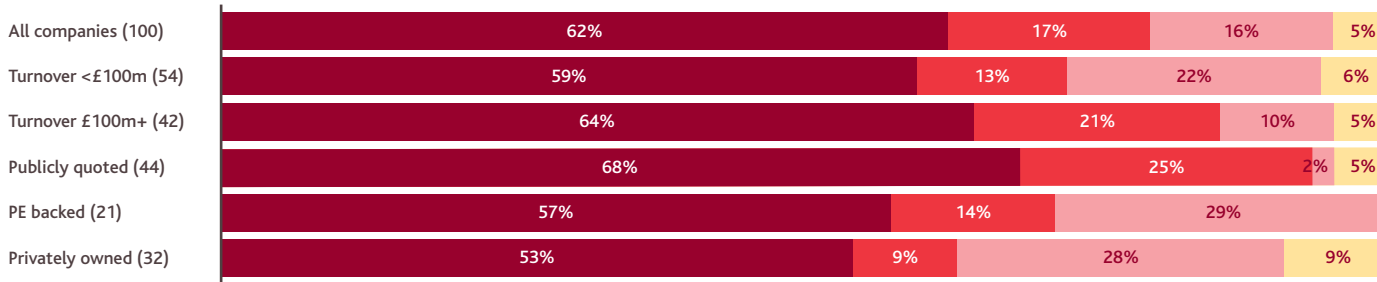
ACQUISITIONS ARE PART OF CORPORATE STRATEGY FOR NEARLY 80 PER CENT OF COMPANIES

▶ Q. Do acquisitions form part of your corporate strategy in the next (a) year? (b) 2-5 years?
 Q. If no to both: Would you still consider opportunistic acquisitions?

79%

The number of companies planning an acquisition in the next 5 years.

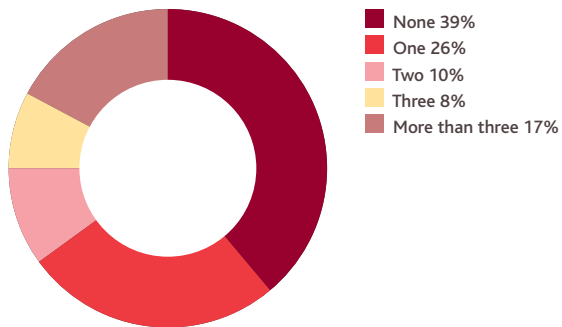
Companies with turnover of £100m+ have considered an average of 11.7 and completed 3.4 transactions; smaller companies 5.6 and 1.2 respectively.



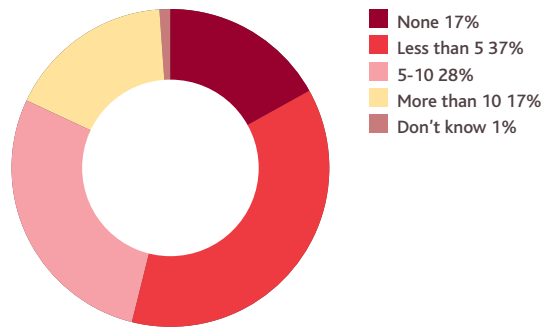
■ In next year ■ In 2-5 years ■ Consider opportunistic acquisitions ■ Not interested in acquisition

COMPANIES SURVEYED CONSIDERED ON AVERAGE EIGHT TRANSACTIONS AND COMPLETED TWO IN THE LAST 24 MONTHS

▶ Q. How many transactions (mergers or acquisitions) has your business completed in the last 24 months?



▶ Q. How many transactions (mergers or acquisitions) did your business consider in the last 24 months (including those completed?)

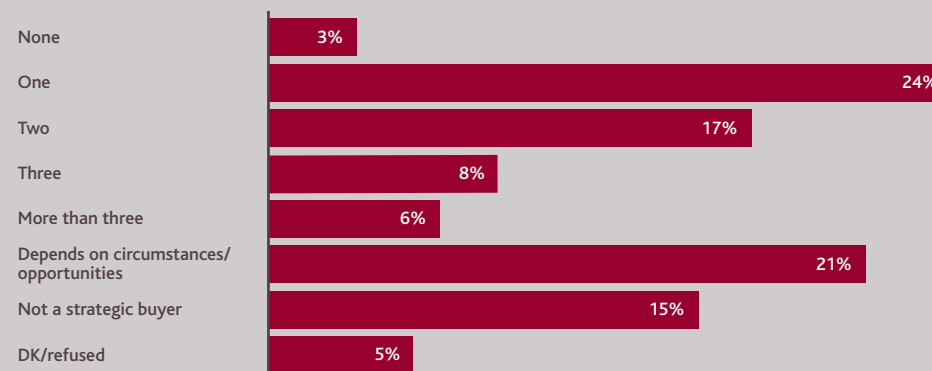


M&A LEVELS

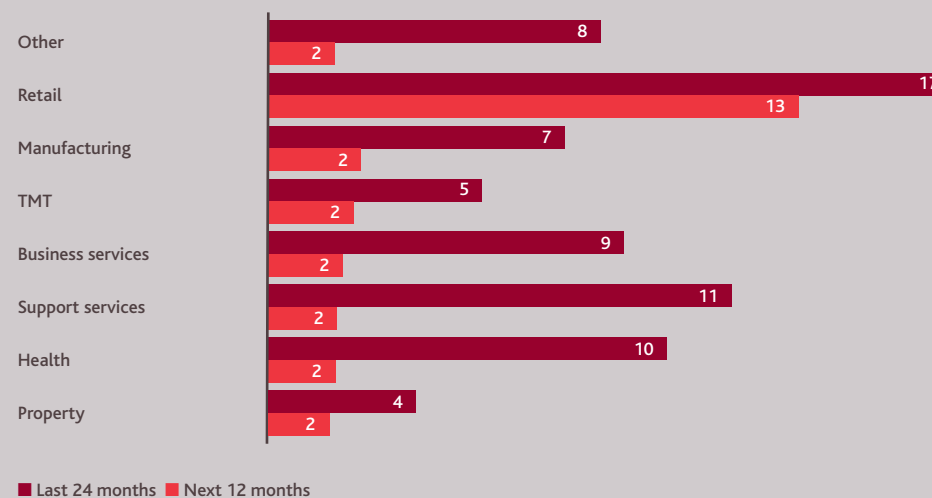
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A MAJORITY OF COMPANIES ARE PLANNING ACQUISITIONS IN THE NEXT 12 MONTHS

► Q. If your business is a strategic buyer, how many companies will you be looking to acquire in the next 12 months? (Base: All with interest in acquisitions: 95)



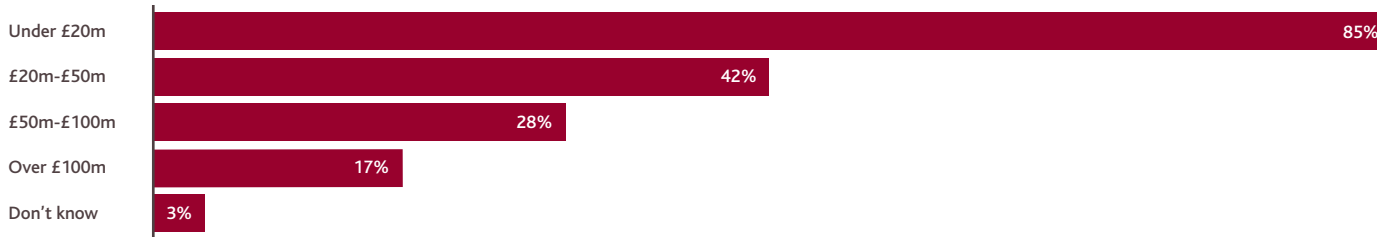
► Number of past and expected acquisitions by sector



Average target acquisitions: 2.5, Businesses t/o < £100m: 1.8, Businesses t/o £100m+: 3.6

MOST DEALS LIKELY TO BE UNDER £20M, BUT NEARLY ONE IN FIVE LOOKING AT £100M+

► Q. What size of deal would you consider looking at? (Base: All with interest in acquisitions: 95)



80%

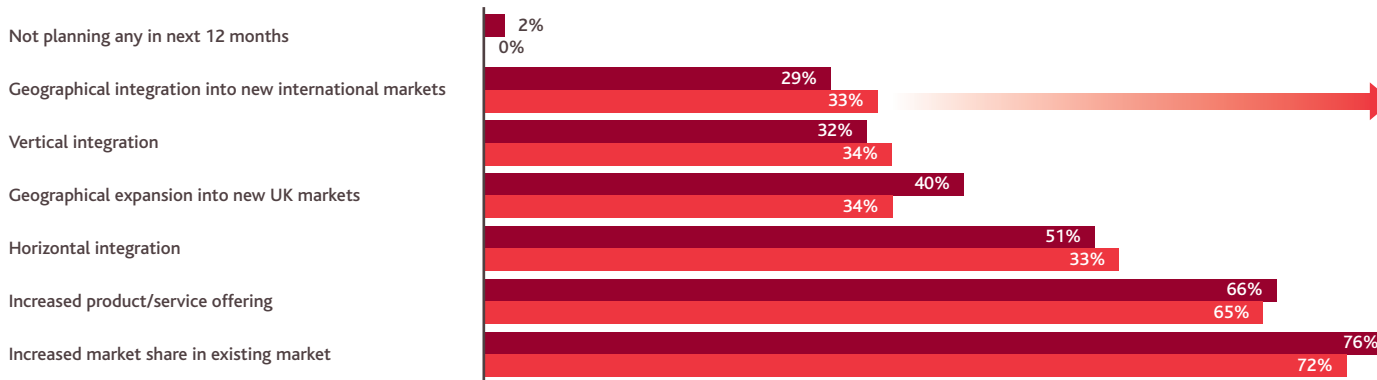
say that they would consider distressed deals.

ACQUISITIVE COMPANIES ARE HOPING TO ACHIEVE FURTHER INCREASED MARKET SHARE, INCREASED PRODUCT OFFERING AND HORIZONTAL INTEGRATION

► Q1. What has been the principal strategic objective of the transactions your business has considered or completed?

(Base: all who have considered/completed in last 24 months: 83)

Q2. What will you be looking to achieve through M&A in the next 12 months? (Base: All with interest in acquisitions: 95)



■ Q2 ■ Q1

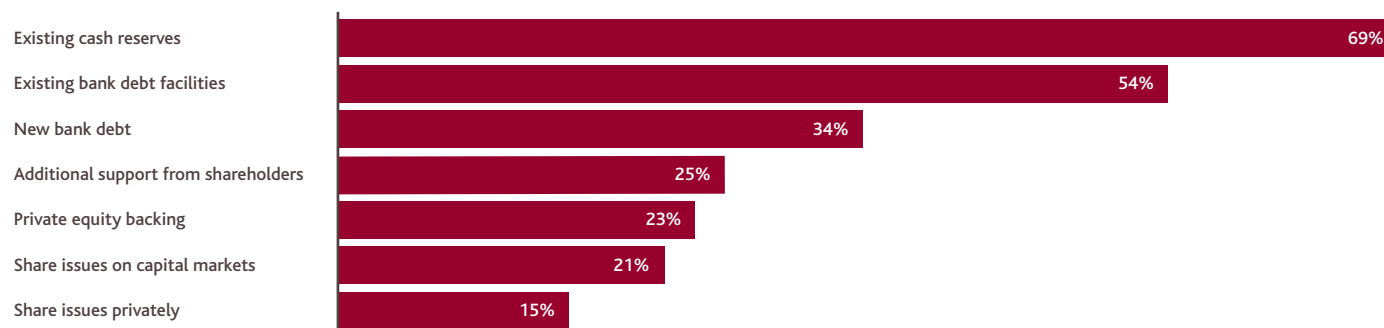
Main target territories for inter-national expansion (Base: 28):

Continental Europe	57%
Asia-Pacific	57%
North America	54%
South America	32%
Middle East	25%
East Europe/Russia	18%
India	18%

Other objectives cited include financing, consolidation of core business and buying distressed/good value companies.

MOST ACQUIRERS FUNDED ACQUISITIONS THROUGH EXISTING CASH RESERVES AND BANK FACILITIES

► Q. In the past 24 months, how has your business funded its acquisitions? (Base: All making acquisitions: 61)



One in five said that they did face some difficulty in securing funding, mainly in respect of the lack of bank financing available during this period

"Lack of availability due to general market conditions."

"Reluctance from the bank to be realistic on pricing."

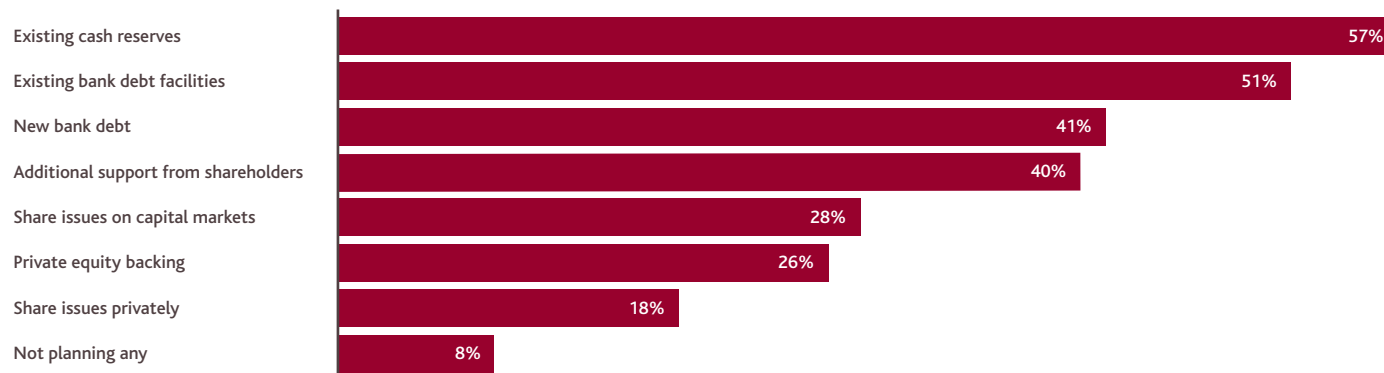
"Bank debt, in terms of getting acceptable terms and getting the right quantity."

"We had exceptional difficulty in getting money from banks. We are a company with growing profits and turnover and hitting our plans and targets, but the hurdles to get money out of banks were exceptionally high. I cannot see how ninety five percent of businesses get funding. The banks are incredibly risk averse, which means they are missing commercial opportunities. It took a year to get the funding we required."

"We need to meet certain criteria to secure funding and in 2009 the capitals market were difficult to raise funds."

FUNDING WILL BE FROM EXISTING CASH AND DEBT FACILITIES, AND MANY WILL SEEK NEW FUNDING

► Q. In the next 12 months, how do you plan to fund acquisitions (if any)? (Base: All with interest in acquisitions: 95)



92%

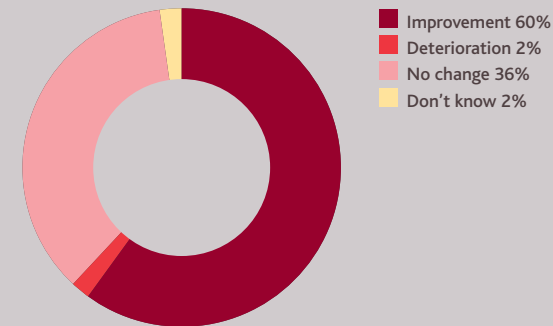
anticipate using existing and new facilities to fund acquisitions.

BARRIERS TO M&A

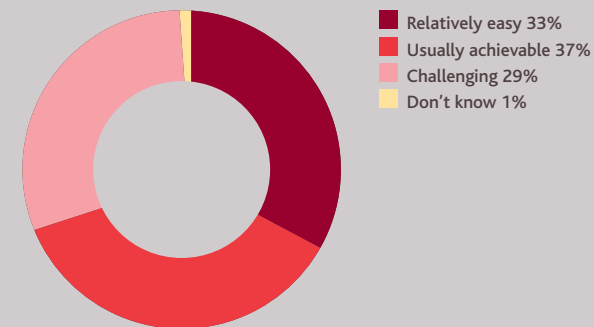
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COMPANIES BELIEVE THERE WILL BE AN IMPROVEMENT IN M&A OPPORTUNITIES IN THE NEXT 12 MONTHS, ALTHOUGH SOME FIND IDENTIFYING TARGETS CHALLENGING

▶ Q. Looking at M&A opportunities for your business in the next 12 months, would you forecast there to be an overall: (Base: All with interest in acquisitions: 95)

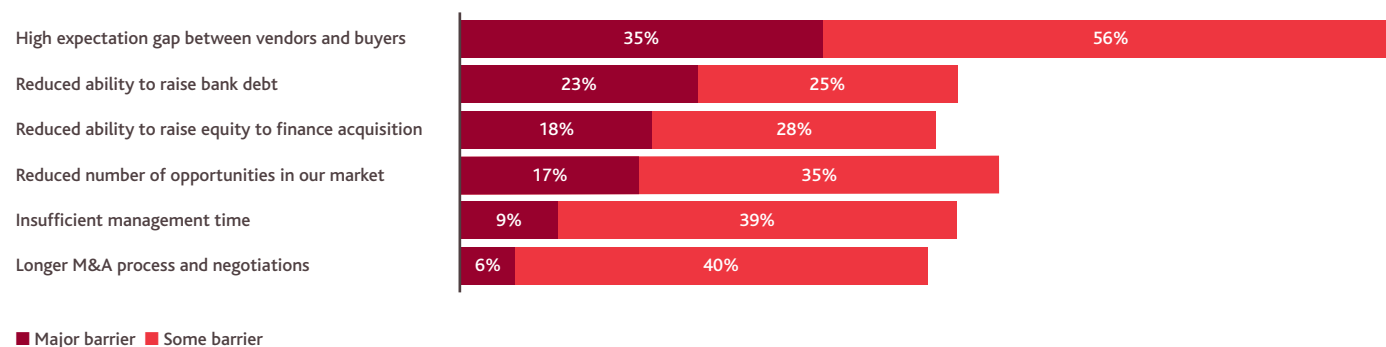


▶ Q. How easy do you find it to identify suitable acquisition targets? (Base: All with interest in acquisitions: 95)



THE HIGH EXPECTATION GAP BETWEEN VENDORS AND BUYERS IS THE MAIN BARRIER TO CORPORATE M&A ACTIVITY, BUT FINANCING, TIME AND OPPORTUNITIES ARE ALSO ISSUES

► Q. In the next 12 months, which of the following barriers, if any, do you expect your business to face in its corporate M&A activity?
(Base: All with interest in acquisitions: 95)



Availability of finance and management time issues are particular barriers to smaller companies.

Other barriers include competition, vendor recognition of need to sell, regulatory issues, risk tolerance and possible new legislative changes.

51%

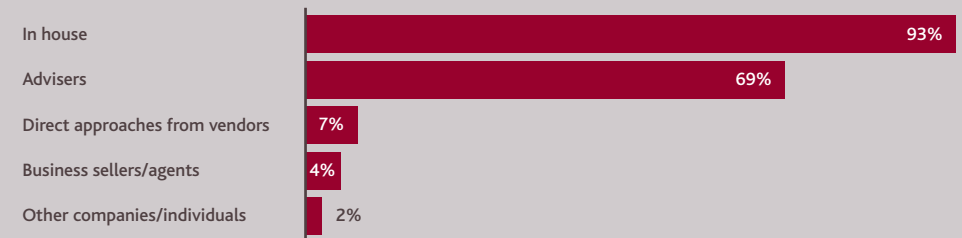
Half of privately owned companies say they find identifying suitable targets 'challenging'.

USE OF ADVISERS

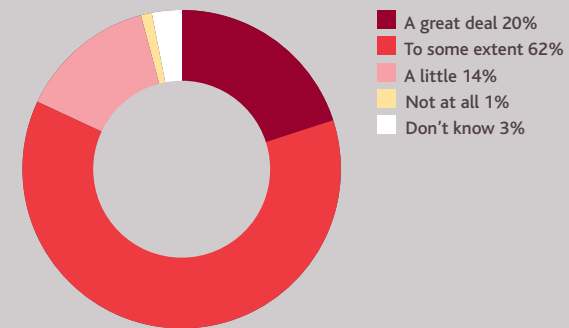
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TWO-THIRDS WILL LOOK TO ADVISERS TO SOURCE DEALS. NEARLY ALL USERS SAY THAT INDEPENDENT ADVISERS HAVE ADDED VALUE TO THE PROCESS

▶ **Q. Where will you be looking to source your deals from?**
(Base: All with interest in acquisitions: 95)



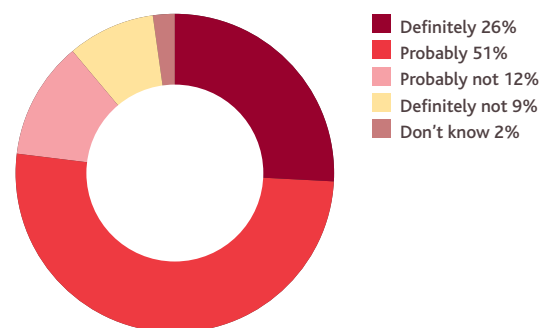
▶ **Q. To what extent do you believe (advisers) added value to the process?**
(Base: All using independent advisers: 74)



78% have used independent advisers on their transactions

MORE THAN THREE-QUARTERS WOULD CONSIDER USING AN INDEPENDENT ADVISER FOR ACQUISITIONS BECAUSE OF THEIR ADDITIONAL EXPERTISE AND WIDER KNOWLEDGE

► Q. Would you consider an independent adviser when you next contemplate an acquisition? Why do you say that?
(Base: All with interest in acquisitions: 95)



Likely to use (main responses) (Base: 73):

Offer additional expertise/wider/specialist knowledge	52%
Ensure follow corporate governance / due diligence	18%
Useful having someone independent / objective	16%
Useful to have go-between / intermediary	8%
Shareholders / VCs / banks request third party	6%

Unlikely to use (main responses) (Base: 20):

Have in-house advisers / no need	65%
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78%

say they have used independent advisers on previous transactions.

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'Tax Team of the Year' 2009 and 2008
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