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Global deal activity set to hit bottom in Q2/Q3, with gradual recovery from late 2009 claims KPMG's *Global M&A Predictor*

KPMG Corporate Finance's *Global M&A Predictor* forecasts that 2009 will see a continued fall in global mergers and acquisitions (M&A) but that deal activity should slowly return late in the year as liquidity improves and attractive value is recognized in certain sectors. Simonyi Tamás, Director of Corporate Finance at KPMG in Hungary expects continuing decrease of M&A activity in the CEE region.

“Mergers and acquisitions have taken a major hit in Central and Eastern Europe since October, including Hungary. The appetite of companies to do deals has been dampened by events in the global economy, while to all intents and purposes financing has vanished; what is more, sovereign risks have become unbearable – especially in countries further east and south of Hungary” – said Simonyi.

“The next one or two quarters will be barren in terms of activity. Although there are some cash-rich investors around – which do not include the majority of the banking sector – they are also waiting until the market starts to brighten up. This will come when the stock markets are capable of generating sustainable price growth of 10-15-20%. Polish and Czech businesses are in a slightly better position as interest rates there are lower and they have been less affected by the downturn. The magic word just now is survival, and we can start talking about expansion when we see the light at the end of the tunnel”- Simonyi concluded.

Stephen Barrett, Corporate Finance International Chairman at KPMG, commented: “Findings from our latest Predictor confirm our view that 2009 will be a very subdued year for M&A activity. We expect global deal volumes to continue to fall through to Q3 and, with less liquidity in the market and reduced debt market liquidity, appetite and capacity for doing deals will continue to decline.”

Barrett believes that the market players to watch will be those able to execute cash deals - such as companies who have preserved cash contingency funds; some sovereign wealth funds; and private family offices. “Within 12 months, I think we will start to see some clear signals of a slow, but purposeful, recovery in the M&A transactions marketplace. A reliable indicator that this time has arrived will be when quality assets come on the market and go for reasonable, rather than fire-sale, prices” – he added.

Key findings:

- *Prospective valuations decline significantly across all regions;*
- *Balance sheet capacity deteriorating;*
- *KPMG believes its analysis signals a nadir for global M&A deal activity in Q2/Q3 2009 but with deep discounts in valuations in some sectors attracting confident buyers with liquidity.*

Appendix:

Forecast M&A activity by world region

For the first time, the *Predictor* indicates a declining valuation trend in all regions of the world (see Figure 1) demonstrating the global decline in M&A activity. As last time, the region which had the biggest drop in valuation was Africa and Middle East (PEs down 31.6 percent from 13.3x to 9.1x). Latin America had the second largest fall (28.7 percent from 16.1x to 11.5x) followed by North America (24.6 percent down from 15.9x to 12.0). In contrast to the last *Predictor* in which Europe experienced the second largest fall, six months on, Europe saw the second smallest fall (21 percent from 13.5x to 10.7x) behind Asia Pacific down 19.9 percent from 17.0x to 13.6x.

Although the capacity to do deals (see Figure 1) has decreased with the global forecast Net Debt to EBITDA ratio moving from 0.93 times to 1.06 times, some regions have seen an improvement in their balance sheets. Latin America and Africa and the Middle East bucked the trend and both saw improvements of 3.2 percent and 35.7 percent respectively with Africa and the Middle East ratio of 0.33 times, the most modest of all. Europe maintains its position as having the highest regional ratio of 1.15 having moved from 0.97 times, a deterioration of 19.0 percent. The ratio that saw the greatest decline was Asia Pacific at 28.1 percent and now stands at 1.14 times. North America saw the smallest decline from 0.94 to 0.95 times.

Commenting on M&A prospects in the Asia Pacific region, Julian Vella, KPMG's Corporate Finance Chair for the Asia Pacific region, said: "AsPac valuations have fallen the least, though a 19.9 percent decline in PEs is still significant. However, importantly, net debt to EBITDA has shown the largest deterioration of 28.1 percent, albeit from modest levels. Nevertheless, this indicates that the economic slowdown in the region is beginning to bite, stretching corporates' capital structures. However, we expect to see a number of cross-border deals across the region during 2009 as well capitalised corporates take advantage of the current environment to make strategic acquisitions, a trend that is already emerging as we move into the New Year."

Looking outside the Asia Pacific region at prospects in Europe and the Americas, Stephen Barrett commented: "Whilst the Americas and Europe have all witnessed significant falls in forward PE ratios, balance sheets remain robust in North America and Latin America, suggesting that some corporates will remain in a strong position should value enhancing acquisitive opportunities arise. Within Europe however, balance sheets have deteriorated by 19 percent, implying that these companies are increasingly less likely to execute deals in the near term."

Forecast M&A Activity by Global Sector

The *Predictor* has shown a decline in forward PE valuation across all sectors, with Technology (18.4x to 12.6x), Basic Materials (13.8x to 9.6x) and Industrials (15.5x to 11.1x) registering the most significant deterioration. Unlike the previous *Predictor*, Oil & Gas fell significantly (11.8x to 8.6x) along with Telecommunications (14.1x to 10.8x) Consumer Services (17.0x to 13.5x) and Health Care (15.5x to 12.5x). The smallest decline was the Consumer Goods sector (16.2x to 14.6x).

Utilities and Industrials continue to maintain the highest debt ratios, with net debt to EBITDA at 2.68 times and 2.27 times respectively. The Technology sector continues to show net cash which reflects a traditional balance sheet structure for this peer group but Health Care has moved from a net cash position to one of net debt.

Contrary to the last *Predictor*, the Net Debt to EBITDA ratio for Oil & Gas has weakened from 0.34 times to 0.48 times (though O&G retains the strongest balance sheets of all sectors bar Technology and Healthcare), a reflection of the falling oil price estimates, whilst Consumer Services has improved from 1.21 times to 1.10 times.

No sectors/regions have shown improvement in both valuation and balance sheet capacity in the last six months, providing evidence that all sectors and regions have seen a decrease in both appetite and capacity.

The biggest drop in forward PEs was witnessed by Industrial Africa & Middle East (17.9x to 7.3x) followed by Basic Materials Latin America (14.2x to 6.9x) and Health Care Latin America (17.4. x to 9.0x).

The sectors/regions with the greatest balance sheet deterioration were Technology Latin America (0.19 times to 0.34 times), Consumer Goods Europe (0.84 times to 1.49 times), Oil & Gas AsPac (0.39 times to 0.63 times) and Oil & Gas North America (0.31 times to 0.49 times).

Notes to Editors:

KPMG's *Global M&A Predictor* tracks 12 month forward Price to Earnings (PE) multiples and estimated net debt to earnings before interest, tax, depreciation and amortization (EBITDA) ratios to track and establish the potential direction of M&A activity.

KPMG's *Global 1,000* comprises 1,000 of the largest companies in the world by market capitalization, with a representative weighting of countries and sectors, to help ensure appropriate inclusion. A Global 1,000 panel of KPMG firms' professionals sits every half-year and reviews the constituents of the index to seek to ensure that it remains reflective of global changes in regional and sector weightings.

The data is sourced from FactSet, the corporate earnings estimates data provider. KPMG calculates 12 months forward PE ratios (expressed as a multiple) for each qualifying company of the 1,000, and aggregates these into regions and sectors to aid comparison. This valuation tool is used due to its transparency, the ready availability of data and widespread acceptance in the investment community. Our PEs test for "paper capacity" i.e. the relative ability of companies, sectors and regions to originate deals using shares only.

Net debt to EBITDA is calculated using estimates from FactSet, again by each company in our 1,000, and is a respected ratio that indicates capital structure and financial gearing. This ratio tests for "debt capacity" – that is, the relative ability of companies, sectors and regions to originate deals using debt only.

By comparing both sets of forward looking ratios, with sectors and regions weighted by market capitalization, KPMG's *Global M&A Predictor* attempts to identify changes over time that could imply trends in appetite for deals and indeed capacity for deals. It also attempts to compare and contrast sector regions to highlight possible areas of deal flow. (Note: Net debt/EBITDA ratio calculations are considered not relevant (for the Predictor's purposes) in the financial services and property sectors. These sectors have therefore been excluded from this analysis.)

KPMG's Corporate Finance practices provide a range of independent, investment banking advisory services internationally and comprise more than 2,300 investment banking advisory professionals operating in 62 countries. KPMG Corporate Finance provides strategic advisory and deal management services covering: acquisitions and disposals; mergers and takeovers; valuations and fairness opinions; structured and leveraged financing; private equity strategies; initial and secondary public offerings; joint ventures and transaction alliances.

Figure 1:

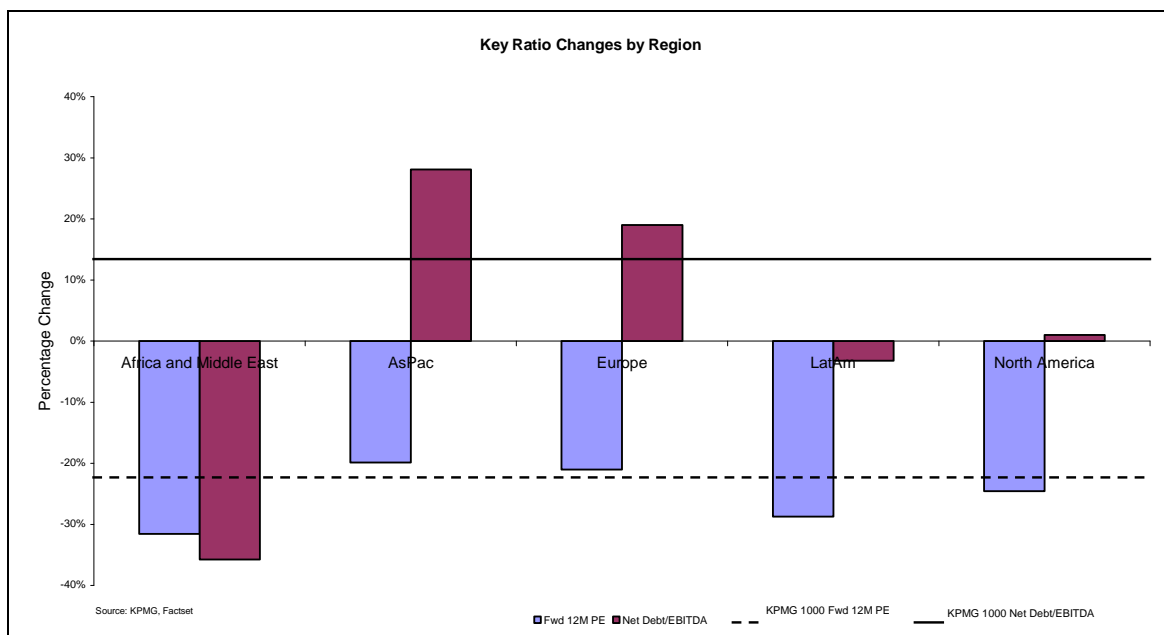
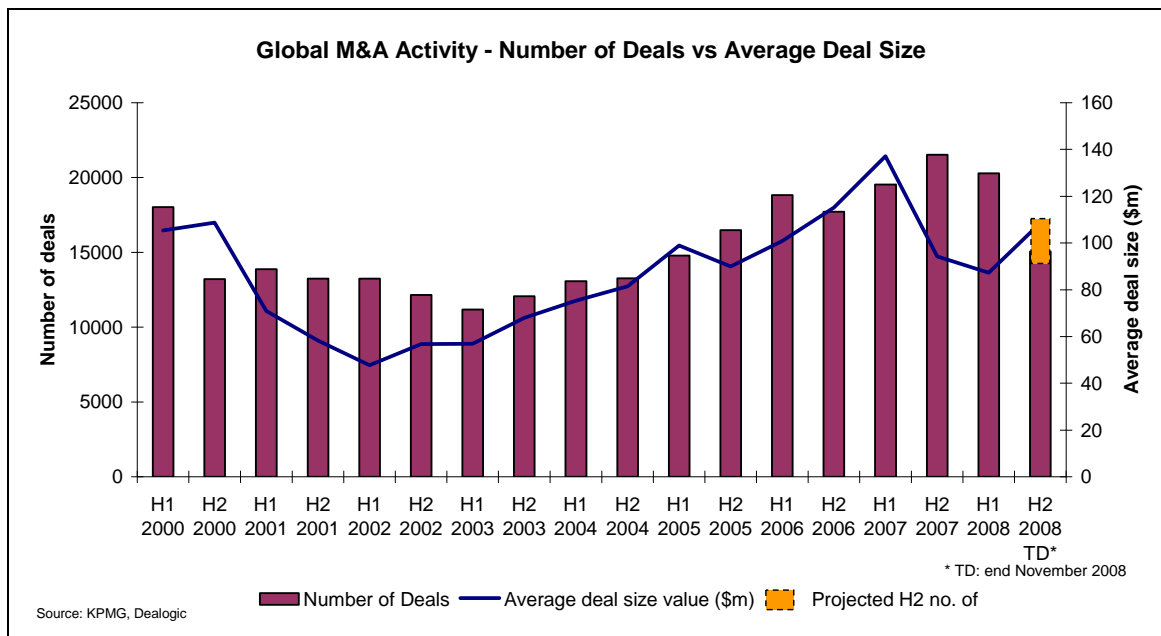


Figure 2:



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