



FINAL RELEASE

Contact: Irene Vasilakopoulos
KPMG Corporate Finance LLC
410-949-8733
ivasilakopoulos@kpmg.com

KPMG Corporate Finance's *Global M&A Predictor* Indicates Global Deal Activity Set To Hit Bottom in Q2/Q3, With Gradual Recovery From Late 2009

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

Baltimore, Md., (January 12, 2009) – 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.

The latest *Predictor* – a forward looking survey of 1,000 leading companies' estimated net debt to EBITDA ratios and prospective Price to Earnings (PE) ratios – reveals a significant fall in 12-month forward corporate valuations and therefore appetite to do deals (down globally 22.2 percent from 15.3x at the end of May 2008 to 11.9x at the end of November 2008). Forecast net debt to EBITDA ratios have moved from 0.93x to 1.06x, a 13.5 percent deterioration, signaling a decreasing capacity to do deals.

Stephen Gaines, Head of KPMG Corporate Finance U.S., 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 Q3 as the lack of credit availability and concerns about the global economy reduce the appetite and capacity for doing deals."

"However, our detailed analysis of the results of KPMG Corporate Finance's *Predictor*, coupled with historic M&A cycle trends, leads us to believe that there are indications that the corner may well be turned late in the second half of this year. I believe that those people who ended 2008 feeling battle fatigued in the face of endless bad news stories have started the New Year with a more positive outlook on the deals market – something which may be facilitated by the opportunities which will inevitably emerge for value investors in certain regions and sectors. I also believe that the market players to watch will be those able to execute cash deals such as strategic buyers who continue to have significant cash reserves, as well as some sovereign wealth funds. 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, and after private equity can again compete effectively in a broad range of auctions."

When KPMG Corporate Finance's *Predictor* of June 2007 called the top of the M&A market, the latest peak in global deal activity was followed by a significant decline in the average value in deals. Heading into 2008, the January *Predictor* then provided compelling evidence of a

decreasing appetite for deals and a deterioration in the capacity to do deals across all regions and all sectors. By Q2/Q3 of 2009, the latest *Predictor* indicates that the point will come where deal appetite will improve as cash-rich investors find it hard to resist the deep value in the market. This forecast pick-up in M&A activity, if it materializes, may provide one of the positive indicators needed by economic commentators if they are to signal an upturn in the broader economy.

Stephen Gaines continued, “While this M&A downturn is different from previous ones in character, I think we can draw some parallels between the current situation in the deals market and how we emerged from one of the last big deals recession in the early 1990s. I am feeling very optimistic that we will see a similar pattern emerge this year and next, and that by the close of 2010 the M&A downturn will be behind us, with a sustained recovery in transactional activity.”

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 12.0x). 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 of net debt to EBITDA ratio moving from 0.93x to 1.06x, 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 0.33x, the most modest of all. Europe maintains its position as having the highest regional ratio of 1.15x having moved from 0.97x, a deterioration of 19.0 percent. The ratio that saw the greatest decline was Asia Pacific at 28.1 percent, which now stands at 1.14x. North America saw the smallest decline from 0.94x to 0.95x.

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 2.68x and 2.27x respectively. The Technology sector continues to show net cash which reflects a traditional balance sheet structure for this peer group but Healthcare 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 0.34x to 0.48x (though Oil and Gas retains the strongest balance sheets of all sectors except for Technology and Healthcare), which is a reflection of the falling oil price estimates, while Consumer Services has improved from 1.21x to 1.10x.

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.

Media inquiries:

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Notes to Editors: KPMG Corporate Finance’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.)

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KPMG Corporate Finance LLC is a U.S. subsidiary of KPMG LLP, the UK member firm of KPMG International, a Swiss cooperative. With offices in Atlanta, Austin, Baltimore, Chicago, Dallas, Long Island, Los Angeles, Orange County (California), and New York, the subsidiary provides a range of independent, investment banking services to clients throughout the U.S. and the rest of the world. Globally, KPMG Corporate Finance provides a range of independent, investment banking services internationally and comprises more than 2,100 investment banking advisory professionals operating in 60 countries. KPMG’s Corporate Finance practice provides strategic advisory and deal management services covering mergers and acquisitions, sales and divestitures, buy-outs, financings, restructurings, fairness opinions, infrastructure project finance and other advisory initiatives.

In 2008, as a leading financial adviser, KPMG’s Corporate Finance practice completed 390 deals totaling US\$51.5 billion, according to Thomson Financial’s global M&A league tables. (January 2, 2009).

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Figure 1:

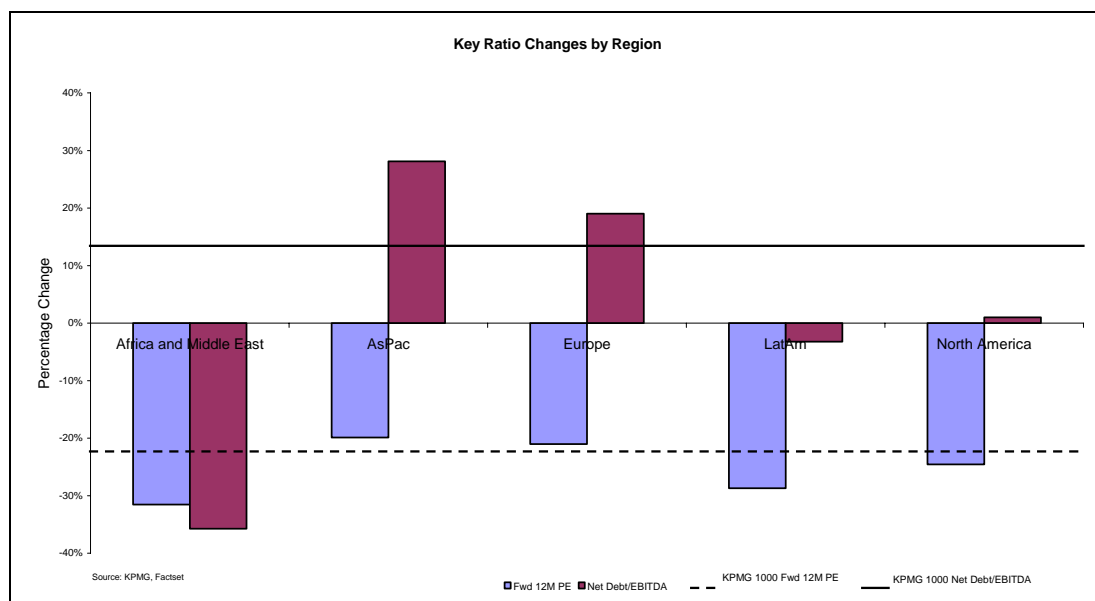
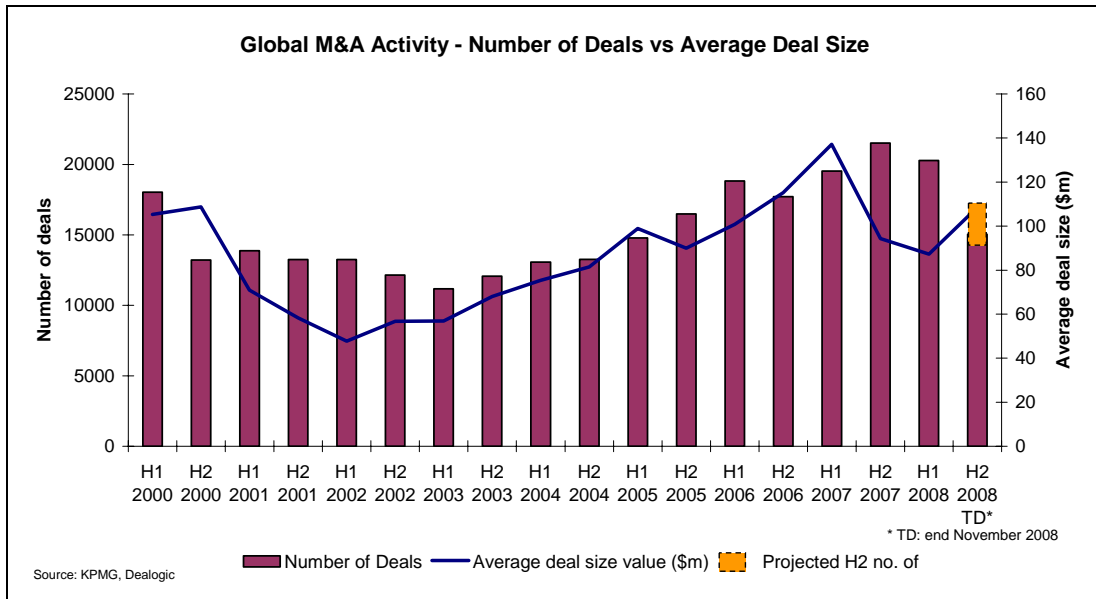


Figure 2:



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