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The Global Corporate Advisor

The Corporate Finance newsletter of Crowe Horwath International



Welcome to the January issue of The Global Corporate Advisor. Over the past few years many studies performed on listed companies have shown that goodwill represents an important part of total assets. We examine various methodologies of establishing the asset value of goodwill.

From Dubai and Venezuela, we examine newer approaches to valuation in light of changing investment and consumption cycles. Across the world, some of the long followed principles of the value paradigm need to be revisited, thus impacting business valuations.

Also in this issue, we provide a mergers and acquisitions update from Turkey, where the outlook is pretty good.

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Contact Us

The GCA team is here to respond to your needs relating to M&A transaction support, valuations and advisory services. If there is a topic you would like us to cover in future issues of the GCA newsletter, don't hesitate to contact Peter Varley, Chairman of GCA, at peter.varley@crowecw.co.uk. Alternatively, please contact your local GCA team member to discuss your ideas.

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Focus on Goodwill and Impairment Tests under IAS 36

by **Olivier Grivillers, Paris**

Over the past few years many studies performed on listed companies have shown that goodwill represents an important part of total assets.

Goodwill can be defined as the result of the difference between the purchase price of a company and its net equity amount. As a consequence, goodwill only results from external growth, i.e. the acquisition of another company, which means that companies growing organically do not record any goodwill in their accounts.

In 2012, companies listed on the French index CAC 40 displayed more than €500 billion of intangible assets (goodwill included), i.e. roughly 60% of equity.

International accounting standards (IAS 36 – Impairment of Assets) force companies to follow goodwill value over time. Indeed, goodwill can be impaired but cannot be subject to reevaluation. In Europe, most goodwill impairments recorded in 2013 were related to the energy and telecommunications sectors.

The strong increase of the total amount of impairments conveys a degradation of economic outlooks in the short and medium term. In spite of a record amount of impairment charges in 2012, these impairments only represent 2% of the total value of tangible and intangible assets.

The weight of goodwill depends on company policy. A high level of goodwill is synonymous with external growth and acquisitions. The goodwill impairment reflects a poor acquisition since it points to market value inferior to its acquisition value. It is then important to know the methodology followed to determine the goodwill value, which is indirectly the acquisition value.

It is suitable to consider the methodology to carry out the follow up of goodwill value in company accounts.

When considering the valuation methodology used for impairment tests to determine the recoverable amount, around 60% of a sample composed of the 40 French companies retained only the value in use and 40% retained both the value in use and the fair value.

Impairment of intangible assets under IAS 36

Impairment testing (according to IFRS) is a procedure that an entity applies to ensure that its assets are carried at no more than their recoverable amount, i.e. it is a comparison of recoverable and carrying amount of the asset. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through the use or the sale of the asset.

If this is the case, the asset is described as impaired and IAS 36 requires the entity to recognize an impairment loss.

Identifying an asset that may be impaired

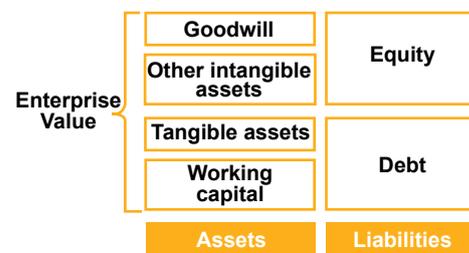
An asset is impaired when the carrying amount is higher than the recoverable amount.

Regarding tangible assets and intangible assets with definite useful life, if there is an indication of impairment (whenever during the reporting period), an entity is required to make a formal estimate of recoverable amount.

If there are no indications of impairment, the formal estimate is not required and the entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired.

Irrespective of whether there is any indication of impairment, an entity shall also test:

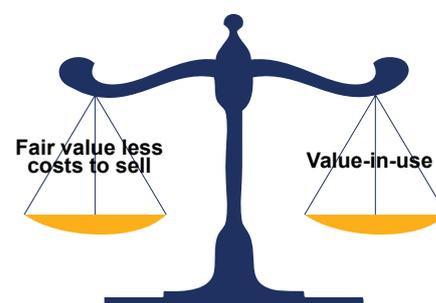
- intangible asset(s) with an indefinite useful life;
- goodwill.



Measuring recoverable amount

a) Recoverable amount

Recoverable amount is defined as the higher of the two amounts between the fair value less costs to sell and the value-in-use of an asset or a cash-generating unit.



It is not always necessary to determine both an asset's fair value less costs to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

The recoverable amount is determined for an individual asset. If the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

A cash generating unit corresponds to the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Cash generating units shall be identified consistently from period to period for the same asset or types of assets, unless a change is justified. The carrying amount of a cash-generating unit includes the carrying amount of only those assets that can be attributed directly, or allocated on a reasonable and consistent basis, to the cash-generating unit and will generate the future cash inflows used in determining the cash-generating unit's value in use.

The cash-generating units tested must be consistent with the operating segments used within the framework of IFRS 8.

b) Value-in-use

Value-in-use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

The following elements shall be reflected in the calculation of an asset's value-in-use:

- an estimate of the future cash flows the entity expects to derive from the asset,
- the time value of money, represented by the current market risk-free rate of interest,
- the price for bearing the uncertainty inherent in the asset, and
- other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

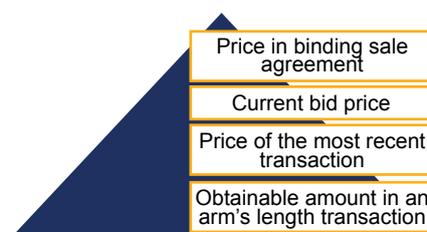
The techniques used to estimate future cash flows and interest rates will vary depending on the circumstances surrounding the asset in question.

The calculation of the value-in-use is usually performed under the discounted cash flow method, which consists of discounting the future cash flows expected at a discount rate corresponding to the weighted average cost of capital.

c) Fair value less costs to sell

Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

It may be possible to determine fair value less costs to sell, even if an asset is not traded in an active market.



The best evidence of an asset's fair value less costs to sell is a price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset.

If there is no binding sale agreement but an asset is traded in an active market, fair value less costs to sell is the asset's market price less the costs of disposal. The appropriate market price is usually the current bid price.

When current bid prices are unavailable, the price of the most recent transaction may provide a basis for estimate, provided that there has not been a significant change in economic circumstances between the transaction date and the date at which the estimate is made. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at

the end of the reporting period, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In that case, comparable multiples can be used.

Costs of disposal, other than those that have been recognized as liabilities, are deducted in determining fair value less costs to sell. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale.

Conclusion

Goodwill is an accounting concept that is used when dealing with acquisitions. When one company acquires another entire company, the purchase price is likely to exceed the total value of the acquired firm's net identifiable assets. This difference between the purchase price and the firm's identifiable assets value is called goodwill.

Goodwill is treated as an intangible, long-term asset account held on the balance sheet. It is not depreciated or amortized, but it is subjected to a regular test for impairment to make sure the account balance is not overstated.

Learning how to account for goodwill impairment is a matter of using a relatively simple impairment test being compliant with the international accounting standards. From an accounting perspective, when the carrying value of the goodwill exceeds the recoverable value which is the highest value between the value-in-use and the fair value less costs to sell, then it is considered to be impaired.

This flexible rule explains that numerous goodwill amounts remain not impaired in financial statements when market conditions are adverse since the company will be able to use a value computed on the long-term under the discounted cash flow method to justify not impairing the goodwill.

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Valuation in Developing Markets: Managing Exchange, Inflation and Discount Rates

by Rafael Stroobants, Caracas

In a previous article (A Valuable Lesson: Undertaking Company Valuations in Venezuela, May 2013), we concluded, “During an acquisition, it is crucial for a buyer to accurately calculate the value of the target. However, this can be a particularly difficult task in developing or state-controlled economies.” We discussed the (sometimes politically tinted) application of fair value, valuation techniques and cash flow forecasts in these markets. At the end of the article, we mentioned the importance of using consequent exchange rates, inflation rates and discount rates. This topic will be further analyzed in this article.

Exchange rate

If a country's exchange rate were constant, currency choice would not matter. In reality this is not the case and currency revaluations/devaluations do occur and affect valuation, especially in the absence of a free market and a floating rate, as in the case of many developing countries. So these fluctuations should be considered. This is not easy in Venezuela, where three official exchange rates exist for the bolivar (based on the object of exchange: oil sector, import of priority products, import of luxury products, academic studies abroad, repatriation of dividends, etc.), in addition to a black-market rate. Moreover, it is legally forbidden to project future devaluations of the official rates, or refer to the black-market rate in economic studies. Accordingly, all calculations must be done using the appropriate official exchange rate. Simply translating ever-inflating bolivar cash flows into dollar cash flows at a fixed exchange rate leads, of course, to huge overestimations.

A solution is to model and forecast cash flow only in bolivars. In fact, this approach is in line with IAS/IFRS, which states, “Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. The entity translates the present value using the spot exchange rate at the date of the value calculation.” (IAS 36, Impairment of Assets). Two problems nevertheless arise when using the local currency: 1. How to handle the effect of inflation on cash flow and the discount rate (see next paragraphs), and 2. What is the “spot exchange rate” when different exchange rates exist?

To solve these problems, Crowe Horwath Venezuela has designed an electronic model that carefully manages inflation and discount rates, and calculates cash flows and net present values in both US dollars and bolivars, by simulating an implicit exchange rate based on projected US and local inflation rates – the Differential Method.

Inflation rate

Conventional wisdom says that cash flows can be projected in either nominal or real terms – that is, including or excluding the effect of inflation. Given the problems mentioned above, real term forecasting seems to be advisable. As long as the corresponding nominal or real discount rate is used, the result should be the same. Unfortunately, this is a fallacy; while the differences might be small in developed economies with low inflation, in high-inflation economies the effect of inflation on value is considerable, and real term valuations (without inflation) generally lead to considerable overestimations. This is mostly due to mixing – often unconsciously – variables of a world with inflation into a model without inflation.

Regarding profit and loss items, often complex and non-linear relationships exist between inflation and prices, costs, wages, taxes, asset depreciation, financial costs, and so on, which are not compensated simply by supposing zero inflation and using the real discount rate (termed adjustment for inflation, a common accounting practice in high-inflation economies).

The main impact of inflation, however, is on balance sheet items. A common error is using the present accounts payable, accounts receivable, stock, and financing policies in the so called real term simulation. In the case of Venezuela, doing this can lead to rather surreal results – for instance, how would one translate the present 20% interest rates in a 60% inflation environment in real terms? Obviously, 20% is wrong, but it is what we usually see in real term models. Or is the answer -25% ($1.2/1.60 - 1$), which is mathematically correct, but economically nonsense? Or is it 0% (zero cost of debt)?

As it applies here, the terminology is badly chosen, since it is the nominal term model that describes the real world and the real term model that describes an imaginary situation.

Theoretically, it is possible to adjust all inflation-related variables so that a model without inflation yields exactly the same results as a model with inflation. Let's imagine, for instance, a company with constant sales (in volume) and a 30-day raw material stock policy. In an inflation-free environment, inventories remain constant in physical and monetary units, so no extra working capital has to be invested. Now suppose inflation goes up to 30%. In this case, stocks, though constant in volume, will rise permanently in monetary value and require an annual investment in working capital, which is only partially offset by the inflation-adjusted nominal discount rate.

This occurrence is well known to Latin American economists who call it the “inflation eats capital” phenomenon. In practice, if this happened, the company would try to change its stock policy, lowering its inventories to, for instance, 20 days. In conclusion, policies regarding inventories, accounts receivable, accounts payable, financing, etc., are tied to inflation and should be adjusted in a real term (zero inflation) model. But this almost never happens in practice, and real term valuations generously borrow variables from the actual inflationary environment, which leads to huge differences in net present value (generally overestimations).

For these reasons, it is our opinion that with computing tools now readily available, cash flows should be modeled using actual and verifiable nominal variables, with inflation, rather than hypothetical real variables without inflation. Crowe Horwath generally uses both approaches in order to analyze the impact of inflation-related variables on value.

Discount rate

Matching cash flows and corresponding discount rates is always tricky – for instance, do we match cash flow to equity or to company, after tax or before tax, etc. Emerging market conditions make it worse. There are numerous factors to consider. What is the impact of currency, inflation and devaluation on discount rates? Are some related risks already included in the concept of country risk? How to avoid double-counting

of risks? What is the cost of capital in an economy with negative real interest rates? As a consequence, it is generally difficult to value companies in developing markets and controlled economies with a single discount rate, and multiple rates have to be considered in valuation studies. If this is done correctly, all previously mentioned methods should result in the same value, as is shown in Figure 1, which summarizes fair value of a Venezuelan company’s shares in bolivar/nominal terms (purpose: correct calculation of value), bolivar/real terms (purpose: double-checking of results), and finally dollar/nominal terms, with both variable and fixed rates (purpose: presentation to customer). Although each approach uses completely different cash flow numbers and discount rates, Crowe Horwath’s valuation model yields exactly the same result in each case.

Figure 1

YEAR		X	X+1	X+2	X+3	X+4	X+5	RESIDUAL
EXCHANGE RATE - INFLATION RATE - DISCOUNT RATE								
Official Exchange rate (fixed)	Bs/\$	4.30	4.30	4.30	4.30	4.30	4.30	
Inflation rate Venezuela (projected)	%	25.00%	22.50%	20.00%	17.50%	15.00%	12.50%	
Risk Venezuela EMBI+ (projected)	BPS	1,100	1,000	900	800	700	680	
Nominal Discount rate Bs.	%	45.12%	41.87%	37.09%	32.98%	29.02%	26.00%	
VALUATION IN BS. / NOMINAL TERMS								
Sales	Bs.	272,448,980	333,750,000	400,500,000	470,587,500	541,175,625	608,822,578	
Net Profit	Bs.		42,028,809	50,434,570	59,260,620	68,149,713	76,668,427	
Depreciation / Non-cash	Bs.		27,966,750	33,560,100	39,433,118	45,348,085	51,016,596	
Capex	Bs.		-14,210,511	-17,052,613	-20,036,820	-23,042,343	-25,922,636	
Working Capital	Bs.		-91,368,945	-18,618,179	-19,549,088	-19,688,724	-18,868,361	
Other inflows/outflows	Bs.		25,732,082	-48,323,878	-16,123,829	-5,882,344	-5,637,246	
Free Cash Flow to Equity	Bs.		-9,851,815	0	42,984,001	64,884,387	77,256,780	Growth: 12.5%
Discount rate (Bs., Nominal, Variable)	%	45.12%	41.87%	37.09%	32.98%	29.02%	26.00%	26.00%
Discounted Free Cash Flow to Equity	Bs.	200,618,756	-6,944,325	0	16,620,184	19,444,526	18,374,825	153,123,545
(Net Present Value - Equity Value)	US\$	46,655,525						
VALUATION IN BS. / REAL TERMS								
Sales		272,448,980	272,448,980	272,448,980	272,448,980	272,448,980	272,448,980	
Net Profit	Bs.		34,309,231	34,309,231	34,309,231	34,309,231	34,309,231	
Depreciation / Non-cash	Bs.		22,830,000	22,830,000	22,830,000	22,830,000	22,830,000	
Capex	Bs.		-11,600,417	-11,600,417	-11,600,417	-11,600,417	-11,600,417	
Working Capital	Bs.		-74,883,825	-12,665,428	-10,762,370	-8,927,549	-7,401,611	
Other inflows/outflows	Bs.		19,196,264	-32,873,387	-15,784,269	-2,961,402	-2,522,676	
Free Cash Flow to Equity	Bs.		-10,148,746	0	18,992,176	33,649,864	35,614,527	Growth: 0%
Discount rate (Bs., Real, Variable)	%	16.10%	15.81%	14.24%	13.17%	12.20%	12.00%	12.00%
Discounted Free Cash Flow to Equity	Bs.	200,618,756	-8,763,191	0	12,684,078	20,030,580	18,928,638	157,738,651
(Net Present Value - Equity Value)	US\$	46,655,525						
VALUATION IN US\$								
Sales (at official exchange rate)	US\$	63,360,228	77,616,279	93,139,535	109,438,953	125,854,797	141,586,646	
Sales (at implicit exchange rate)	US\$	63,360,228	64,944,234	66,567,839	68,232,035	69,937,836	71,686,282	
Net Profit	US\$		8,178,363	8,382,822	8,592,393	8,807,203	9,027,383	
Depreciation / Non-cash	US\$		5,442,035	5,578,086	5,717,538	5,860,476	6,006,988	
Capex	US\$		-2,765,216	-2,834,346	-2,905,205	-2,977,835	-3,052,281	
Working Capital	US\$		-17,779,434	-3,094,562	-2,834,487	-2,544,436	-2,221,670	
Other inflows/outflows	US\$		5,007,192	-8,032,000	-2,337,847	-760,194	-663,762	
Free Cash Flow to Equity	US\$		-1,917,059	0	6,232,392	8,385,214	9,096,659	Growth: 2.5%
Discount rate (US\$, Real, Variable)	%	19.00%	18.71%	17.10%	16.00%	15.00%	14.80%	14.80%
Discount rate (US\$, Real, Fixed)	%	15.45%	15.45%	15.45%	15.45%	15.45%	15.45%	15.45%
Discounted Free Cash Flow to Equity	US\$	46,655,525	-1,614,959	0	3,865,159	4,521,983	4,273,215	35,610,127
(Net Present Value - Equity Value)	US\$	46,655,525	-1,660,529	0	4,050,301	4,720,168	4,435,434	35,110,151

Discount rates and scenarios (seller value, buyer value, fair value)

According to the International Glossary of Business Valuation Terms, fair market value is, “the price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm’s length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.”

Often, one or more of the assumptions in this definition are not present in developing markets. This is the reason, as we explained in our May 2013 article, that Crowe Horwath recommends calculating different types of value (minimum value, seller’s value, fair value, buyer’s value, and maximum value, among others), which allows our clients to design and fine tune their M&A negotiation strategy, including elements such as the opening bid, target price, maximum offer and tangibles vs. intangibles. In each of these scenarios, discount rates to be applied to the respective business plans can vary due to different risk perceptions and desired returns. For instance, in the example of Figure 1, a real term rate of 16.1% was used for calculating fair value (using a CAPM approach). Buyer’s value nevertheless was based on corporate guidelines requiring the use of a fixed 12.0% real rate. The expected seller’s price was estimated based on the 11.8% average rate of return from other investments made by the controlling shareholders.

Discount rates in both bolivar and dollar terms (effect of devaluation)

As we mentioned before, calculations are performed in the cash flow generating monetary unit, but are double-checked in dollars, each currency with its corresponding discount rate. For example, the 16.1% real rate used in Figure 1 is equivalent to a nominal rate (including inflation) of 45.1% in bolivar terms and 19.0% in dollar terms.

Discount rates in nominal and real terms (effect of inflation)

As explained above, calculations are made in nominal terms and also often presented in inflation-adjusted real terms. Projected inflation rates, however, can vary annually, just like corresponding interest rates. The same is true for other projected variables. For instance, country risk can go up or down over the following years, although modeling this is a controversial practice. So one could ask: should the discount rate vary annually? Our answer is yes – in order to avoid contradictions due to annually changing variables, which are used in both the cash flow projections and the discount rate calculation, a variable discount rate is recommended instead of a fixed one.

In Figure 1, for instance, the nominal 45.1% rate is projected to go down to 41.9% or 37.1% in coming years, as are the corresponding interest rates. This approach is justified by IAS 36 (appendix A): “An entity normally uses a single discount rate for the estimate of an asset’s value. However, an entity uses separate discount rates for different future periods when value is sensitive to a difference in risks for different periods or to the term structure of interest rates.”

Conclusion

Emerging markets, developing countries and state-controlled economies require an in-depth analysis of exchange rates, inflation rates and discount rates. Crowe Horwath has developed a valuation model that simulates all these variables in a coherent manner and allows our clients to fine-tune their M&A valuation and negotiation strategies in these markets.

For more information

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Valuations – New Perspectives

By Naresh Phanfat, Dubai

Global economies have recently witnessed a series of unprecedented backwardations and a whole host of trial attempts toward financial resolution. The deepest impact of this conundrum has been on worldwide investment and consumption cycles at both, corporate and consumer levels. As the world order is once again beginning to adapt to the new found cautious optimism, there appears to be light at the end of the tunnel, at least for a few developed countries to regain their pre-crisis supremacy and for some emerging/developing countries to try and become forces to be reckoned with during these thinner times.

UAE has recently been granted an upgraded status of an Emerging Market from the erstwhile classification as a Frontier Market by global market index provider MSCI and Dubai has won the hosting rights for the EXPO 2020. These events, in our opinion, are likely to be mid- to long-term positives for the country, in general, and, for Dubai, in particular.

Against this backdrop, it becomes imperative that we take a step back, and revisit some of the long followed principles of the enduring value paradigm and the resulting implications on business valuation concepts. This article endeavors to reflect upon some such paradigm shifts.

Enterprise value: Debt levels have recently ballooned out of proportion, globally, primarily owing to increased borrowings in developed markets and adverse currency fluctuations in emerging markets. Macro impacts of this high-gearing scenario are being felt on the economies' unserviceable net account balances, while at the micro level, corporate balance sheets are getting more and more indebted.

Enterprise valuation approach, as opposed to a pure equity valuation, is gaining in prominence to make a more meaningful assessment of business value.

P/E ratio: One of the most widely followed valuation tools – the P/E ratio – has, all of a sudden, become not applicable for a whole host of companies, particularly those that are functioning with high levels of operating and/or financial leverages, as more and more corporate bottom-lines have turned red recently in the aftermath of the global crisis.

Book value: The traditional net book value approach based on the historical cost convention is giving way to current replacement cost value metrics or fair value assessments.

Franchise value: Sustainable competitive advantages built after years of weathering systemic shifts in consumer demands and preferences have been the underlying success mantra for some of the leading corporations today to generate incremental economic benefits compared to competition, thereby creating massive brand values across the globe.

Innovation value: New age innovation and technology-led corporations have created humongous value for investors in the last two decades. In the words of Bill Gates, "Never before in the history of mankind has innovation offered so much, to so many, in so short a time".

Growth value: Widely accepted as the most predominant value determining factor, the growth rate of earnings and related cash flows have taken away the limelight from the erstwhile valuation harbinger offered by highly capitalized brick and mortar businesses.

Liquidity value: Capital markets across the world have risen sharply recently on the back of benign monetary policies and incessant liquidity flows in the form of Quantitative Easing (QE) in the USA and Long Term Refinancing Option (LTRO) in Europe, thereby raising the market capitalizations of companies. Given that developed economies will soon be incapacitated from maintaining such ostensibly loose monetary policies in perpetuity (which has already started taking shape in the form of USA's QE tapering measures), the marginal value derived from liquidity from here on may decline, yet there is no denying the fact that, at least in the immediate past and for now, liquidity has offered the world a significant cushion of value reservoir.

Contingency value: Under the premise of contingency claims approach, based on contingent new territory scalability models adopted by corporates thriving on large investments in research and development year after year, the Binomial model, the Black Scholes Option Pricing model, and the Decision Tree Analysis model have gained in popularity in recent times allowing the value of flexibility to be factored whilst orchestrating strategic decisions in corporate boardrooms.

Intangibles and IPRs value: Lastly, but perhaps most importantly, the growing prominence coupled with alarming absence of two of the greatest value propositions – intangibles (brand name, human resources, franchise, etc.) and Intellectual Property Rights (patents, trademarks, copyrights, etc.) in the standard frameworks and reporting structures is getting bridged, with more and more professionals and corporate decision makers across the globe allowing recognition/disclosure of intangibles in financial reports and ascribing bigger allocations of deal values toward qualitative intangible values.

For more information

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Good Indicators for Turkish Mergers and Acquisitions

by Elvan Inanli, Istanbul

Foreign direct investments (FDI) into Turkey in the January-August 2014 period registered an increase of 9.8% y-o-y, reaching a total of US\$8.6 billion, according to data released by the Ministry of Economy. With deals worth an estimated \$7.7bn in the first half of 2014, the outlook looks pretty good.

In the given period, the manufacturing sector attracted the highest portion of foreign direct investments with \$2.1 billion, followed by the financial intermediation sector which received \$1.1 billion. The majority of investments, which corresponds to 63%, originated from the EU.

Foreign investors established 2,850 companies in the first eight months of 2014, taking the total number of foreign owned or partnered companies in Turkey to 40,506. FDI inflow into Turkey reached \$12.9 billion in 2013.

Just over half the deals concluded this year have been cross-border transactions, hinting at renewed interest by foreign investors. A sizeable chunk of 2013's \$17.5bn in M&A deals came from domestic companies, which snatched up assets through privatisation tenders.

■ There are two more elections within the next year. However, outside investors have been reassured by the stability suggested by the victory of the ruling Justice and Development Party (AKP) in the March 30, 2014 polls. In economic terms, people are relieved that they won't have to decipher any new party or coalition.

Some of the transactions that were realized in 2014 have been as follows:

■ In line with its strategy of overseas expansion, Spanish Banco Bilbao Vizcaya Argentaria (BBVA) announced that it has priced a €2 billion (\$2.5 billion) rights issue to fund the raise in its stake in Turkey's Garanti Bank at €8.25 per share. Spain's second-largest lender, BBVA announced on November 19 that it was raising its stake in Garanti, one of Turkey's biggest banks, in a deal that will give it control of the board.

■ With an ever increasing energy demand, Turkey continues to present huge opportunities in its energy sector. Switzerland-based Partners Group, the global private markets investment manager, has acquired 30% stake in Turkish STFA Group's energy subsidiary, Enerya. The remainder of the Enerya shares will be owned by the Turkish side. "Turkey's energy sector will require \$120 billion of energy investments in the next decade. The JV with Partner Group will enable us to expand our energy business across Turkey..", according to STFA CEO, Mehmet Ali Neyzi. Enerya owns and operates nine natural gas distribution firms in several regions in Turkey. Turkey's current installed capacity of 62,000 MWs is expected to reach 120,000 MWs in 2023.

■ German payment services provider Wirecard has reached an acquisition agreement with Turkish mobile payment systems company Mikro Odeme Sistemleri AS.

The Istanbul-based company's 3Pay brand is one of the leading payment providers in Turkey with a market share of 65%.

The German company will pay TRY 80 million (approximately \$37 million) for the acquisition, which will be its first foray into the Turkish market. The acquisition will also serve Wirecard's expansion plans into the Middle Eastern and North African markets. The acquisition is subject to approval by relevant authorities in Turkey. With over 70 million cell phone subscribers, one fifth of them smart phone owners, in a population of nearly 77 million, Turkish people are increasingly relying on their mobile devices for e-shopping. The country is among the world's top three countries, after the UK and Germany, in using mobile devices for e-commerce, according to Turkey's Interbank Card Center (BKM). In recent years, other global brands such as MasterCard, Malaysia's MOL and UK's Monitise acquired Turkish payment specialists to take part in the country's fast growing mobile payments sector.

■ Kuwait-based gas company Gulf Cryo has announced the acquisition of Turkish industrial gas producer, Deniz Gaz. Specializing in the production and filling of helium, oxygen, nitrogen, argon and similar gases for medical and industrial applications, Deniz Gaz has facilities in Turkey's Denizli, Izmir and Ankara provinces. Active in 14 countries throughout the Middle East, Gulf Cryo employs some 2,000 people in 14 countries. "Turkey is the largest market of industrial gases in the Middle East region", according to Naji Skaf, CEO of Gulf Cryo. Skaf cited Turkey's stable economy, strong industrial base and well-educated population as key factors in Gulf Cryo's investment decision and said that the Turkish industrial gases market was growing by double-digit figures year-on-year. "This solid growth in the midst of a global downturn is very attractive for industrial gas companies looking for investment opportunities," he noted. The financial details of the acquisition deal were not disclosed.

■ The Industrial and Commercial Bank of China (ICBC), has filed an application to Turkey's Banking Regulation and Supervision Agency (BDDK) to complete the acquisition of Tekstilbank, as per the agreement reached last April. One of the largest lenders in China, ICBC agreed to acquire 75.5 percent shares in the Turkish bank from its owner GSD Holding for TRY 669 million (approx. \$306 million). Founded in 1986, Tekstilbank is active in corporate, retail and investment banking. The rest of Tekstilbank shares are publicly traded on the Borsa Istanbul. The state-owned ICBC is the world's largest by total assets with over 18,000 branches and 400,000 employees. A crisis-tested financial system and a sturdy and profitable banking sector have encouraged many new lenders into Turkey in recent years. The Commercial Bank of Qatar, Kuwaiti Burgan, and Saudi National Commercial Bank have all made their entries into the Turkish banking market via acquisitions in recent years.

■ The volume of investment by Azerbaijan's energy giant SOCAR in Turkey's economy will reach \$5 billion by late 2014. Executive Director of SOCAR Energy Turkey, Kenan Yavuz, said, "To date, some \$3.5 billion has been invested in the projects in Turkey and this figure will reach nearly \$5 billion by late 2014."

Meanwhile, Turkish companies have an increasing appetite for investing abroad. The total volume of outbound M&A in 2012 and 2013 came to about \$6.5bn, almost as much as the previous five years combined.

Turkish companies have acquired marinas in the Balkans, mines in Russia and Canada, stakes in shopping malls in the UK, and hydrocarbon exploration blocs in northern Iraq.

And there appears to be more in the pipeline. In January 2014, Ülker, a Turkish food giant that made waves in 2007 with its \$850m purchase of Godiva, the US chocolatier, announced that it was setting aside at least \$500m for acquisitions in 2014. Ülker's parent company, Yildiz, also owns America's De Met's Candy Company. The company has a presence in the US, the UK, Middle East, North Africa, China, and Japan.

Yildiz acquired UK-based United Biscuits in November 2014. America's Kellogg's was thought to have been among several firms interested in buying United Biscuits, whose products include Twiglets and Mini Cheddars.

Yildiz said it would look to drive United Biscuits's growth using its own global distribution network. Chairman Murat Ülker said: "We want to grow United Biscuits to be a global player as part of Yildiz. This will include enhancing its position in the UK, where Yildiz currently has minimal presence, so we will continue to invest in the UK and Europe."

Although no sale price was disclosed in United Biscuits' statement, several reports said the figure was around £2bn.

Lionel Assant, European head of private equity at Blackstone, said: "United Biscuits is a great business and has been an excellent investment for us. Yildiz is the best home for the company and will allow UB to fulfil its international growth ambitions."

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