



July 2014

# The Global Corporate Advisor

The Corporate Finance newsletter of Crowe Horwath International



Welcome to the July issue of The Global Corporate Advisor. As the global economy continues to recover in each of the countries with its own peculiarities, we've presented an overview of the M&A landscape in our various offices. We provide insight into some of the many transactions GCA was involved in during the first half of 2014 – from Australia to the UK, Singapore and Switzerland, among other places.

Our advisors have been hard at work on cross-border and high profile domestic transactions, conducting buy-and sell-side due diligence for organizations in a wide range of sectors including hospitality, pharmaceuticals, financial, engineering, agriculture and technology.

And from our UK office, Global Business Director, James Chappell examines M&A activity in the hotel sector. This year, 2014, is set to be a big year for hotel transactions with overall global transaction volume estimated to be around the \$50 billion mark, the highest level since the last peak in 2007 and a 10% rise on 2013.

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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](mailto:peter.varley@crowecw.co.uk). Alternatively, please contact your local GCA team member to discuss your ideas.

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## GCA Corporate Transactions Overview

As global markets return to normalcy, Crowe Horwath's Global Corporate Advisors team members have played a central role in enabling clients to assess and complete significant transactions worldwide. Here we provide a digest of recent deals by country.

### Australia

Our team in Sydney has been assisting Hills Limited with several transactions over the last 12 months as part of its transformation process, which includes its move into the health services space. On the buy-side, we provided financial advice and performed financial due diligence for Hills on the successful acquisitions of Merlon Technologies, HTR Rentals, Questek, Intek, Open Platform Systems and the Audio Product Group. We also performed sell-side vendor due diligence advice on the successful divestment of UHS to United Technologies.

The team was involved in CCH/Wolters Kluwer's successful acquisition of BPS Online and provided financial and tax due diligence advice during the transaction, and subsequently prepared the purchase price allocation report for accounting and tax purposes.

Other notable purchase price allocation work was performed for a global group, CK Life Sciences on its acquisition of the Peaty Group of companies, which distributes agricultural fertilizers and ancillary products, among other CK Life Sciences subsidiary transactions.

Financial and tax due diligence services were provided to Wesfarmers Industrial and Safety on its acquisition of National Safety Council of Australia, a training organization.

In collaboration with our US colleagues, we provided buy-side financial and tax due diligence services to Allegion Plc on its successful acquisition of Fire & Security Hardware Pty Ltd. We also prepared the purchase price allocation report for this transaction.

### France

In January 2014, Crowe Horwath France assisted Homair, a leading French operator for mobile-home vacations, on a share repurchase tender. Crowe Horwath France offered a fairness opinion on the deal, which was valued at \$103 million (€75 million).

Crowe Horwath also assisted Steria, an information technology services company, which has extensive operations in France and the United Kingdom, among other countries, on a share-exchange takeover bid with a target value of \$1.3 billion (€1 billion). The bid was initiated by Sopra, another French company, which specializes in information technology services. Crowe Horwath France issued a fairness opinion on the contribution of Steria securities held by the company's mutual fund.



### Germany

HSA Horwath provided financial and tax due diligence support, as well as cross-border tax structuring advice, to US company SmartPractice regarding its acquisition of the patch test business trademarked as Epiquick and Trolab from Spanish Almirall S.A.. SmartPractice is a global leader in diagnostic patch test allergens and chambers for the diagnosis of allergic contact dermatitis.



### Indonesia

In April 2014, Crowe Horwath Indonesia provided financial advisory services to PT Cipta Samudera Artha (CSA), a payment solutions provider, which also provides electronic data capture (EDC) equipment along with related software and services. Crowe Horwath Indonesia was consulted when CSA was in the start-up phase of a new mobile Point of Sale (mPOS) device business and was considering selling some shares to investors from Malaysia and Qatar. The advisory services provided were sell-side share valuation and advice on strategic matters regarding the business structure of CSA.



### Italy

In the first half of 2014 Crowe Horwath Italy provided buy-side due diligence in two instances for Kone, a European industry leader in the field of manufacture, maintenance and modernisation of lifts and escalators, among other products.

Crowe Horwath has also provided vendor due diligence for Aeromeccanica Stranich, a provider of industrial ventilation and dust control.

Crowe Horwath's M&A team provided sell-side advice to Hascon Engineering, a provider of industrial filters and dust control systems. Consequent to Crowe Horwath's advice, a shareholder of the company sold all its shares to an Italian competitor.

The team also provided buy-side advice to F.lli Pagani, a leader in the field of spices, herbs, aromas and fragrances, to buy a minority stake in La Collina Toscana, which operates in the same field and is more oriented to retail.

Between January and July 2014, the Crowe Horwath M&A team provided sell-side advice to companies operating across a wide cross-section of industries, including Technical Plast, which specializes in metal molds and moldings material, Euroclone, which specialises in human diagnostics and Get-a-Taxi, an app start-up.



TECHNICAL PLAST



## Switzerland

Crowe Horwath in Switzerland provided comprehensive buy-side due diligence services for Aevis Holding, a SIX Swiss Exchange-listed company, for its acquisition of Victoria-Jungfrau Collection, a group of Swiss-based luxury hotels listed on the SIX.

Crowe Horwath also provided financial and tax due diligence services to Dzeta Conseil, a private equity company based in Paris, France, for its acquisition of Antaes Consulting, a Swiss IT consulting company, in the context of a strategic build up with Technology & Strategy Group headquartered in Strasbourg, France.

In the context of Norinvest Holding's strategic financing discussions, a Swiss-based group of companies listed on the SIX Swiss Exchange with investments predominantly in the bank and finance industry, Crowe Horwath in Switzerland provided a fairness opinion on the share value of the group.

## United Kingdom

In May 2014, Crowe Horwath UK supported Crowe Horwath US and worked in collaboration with our colleagues in Italy, Hong Kong and China to provide buy-side due diligence advice to US-based ICM Products Inc on its acquisition of Amber Chemicals Company Limited. ICM, a portfolio company of Century Park Capital Partners, is a leader in the silicone chemicals market with expertise in developing specialized silicone polymers, defoamers and emulsions. Amber Chemicals, headquartered in Bridgewater, UK, is a specialty silicones chemical group with operating subsidiaries in the US, Italy, the UK and China.

In May 2014, the Crowe Horwath UK team acted as Reporting Accountant on the IPO of Galasys Plc in collaboration with Crowe Horwath Malaysia. Galasys is an integrated modular ticketing management systems solutions and services provider that supplies to amusement parks in China and South East Asia.

In March 2014, the Crowe Horwath UK team acted as Reporting Accountant on the IPO of Rame Energy Plc in collaboration with Crowe Horwath Chile. Rame is an international energy consultant, engineer and power generator with operations in the UK and Chile. In addition, the UK team provided buy-side financial diligence advice to Rame for its acquisition of Beco Ltd, one of the UK's longest established designers and installers of solar energy systems. The deal completed in June 2014.

## Singapore

In October 2013, Crowe Horwath Singapore provided buy-side financial due diligence and advisory services to one of the three largest banks in Russia.

The bank plans to acquire an asset management company incorporated in Singapore. The company manages several global funds with investments in over 40 different countries.

In May 2014, we provided buy-side due diligence service to a listed company in Singapore, which specialises in manufacturing precision components and PCB assembly.

The company is exploring the idea of venturing into a new industry via the acquisition of a company in oil mining services, with rights to operate and produce oil from two oilfields located in the central Java region of Indonesia.



## M&A Activity in the Hotel Sector

By James Chappell, Global Business Director, Horwath HTL, UK

This year, 2014, is set to be a big year for hotel transactions with overall global transaction volume estimated to be around the \$55 billion mark, the highest level since the last peak in 2007 and a 10% rise on 2013. This increase has been driven by the American market, where the banking sector – in significantly better shape than banks in Europe, Middle East and Africa (EMEA) – has fuelled a growth in transactional activity in excess of 25%. This is still some way off the \$125 billion of 2007, a level that is unlikely to be repeated for many years to come.

Much of the hotel transactional cycle is dependent on access to capital, bank appetite for risk and the levels of returns that investors are seeking. There are always counter cyclical investors looking to find bargains, but in many ways this has been a disappointing downturn for speculative investors with cash. The sheer volume of troubled assets actually had the opposite effect, with two significant events conspiring to keep transaction levels low. The first was the ‘pretend and extend’ policy by financial institutions that became the de-facto owners of a large number of hotel assets when owners were unable to service their debts. The number and size of assets that these institutions had on their books – the National Asset Management Agency (NAMA) in Ireland is the perfect example – meant that there was no way for these institutions to get them off their books without starting a fire sale. This forced them to keep these assets operating without calling in the loan or selling and crystallizing the loss.

There was, and in many markets, still is, a significant gap between buyers’ and sellers’ expectation of value tied into pre-crisis trading, where the gap in valuation was just too hard to breach. Additionally, banks and financial institutions that had been incredibly active pre-2007 simply disappeared and the few that were active were seeking draconian LTV ratios and incredibly strong covenants.

Stronger operating performance for the hotels and a return of debt and equity in the sector in 2013, however, has opened the gate on transactions.

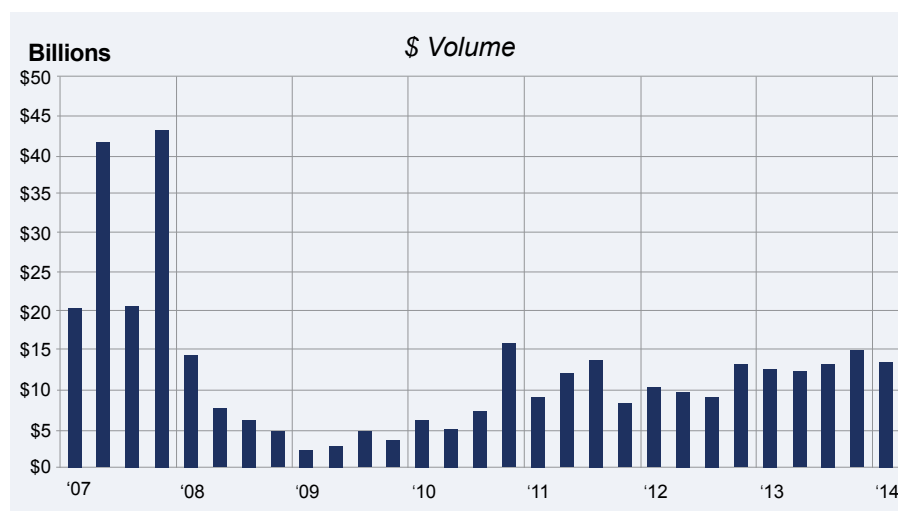
As you would expect, much of the activity is happening in primary markets, while secondary markets have begun to improve in 2013, as investors look for value that is missing from capital cities. Deal volumes for the year 2013 were high, driven by stable hotel operating performance and increased debt market activity, with other forms of debt, such as balance sheet lending, making a return. Another significant development is the recent takeover attempt by a large American corporation (rumored to be Wyndham) of the UK listed hotel group, Intercontinental Hotels Group (IHG). In an echo of the recent attempt by pharmaceutical company Pfizer’s attempt to acquire Astra Zenica, this looks to be part of the trend for US companies to use overseas acquisitions as a legal way of changing their

tax jurisdiction and significantly lowering their exposure. The bid of around £6 billion pounds was rebuffed, but that does not preclude them or others returning with improved terms.

Broken down into regional markets, the Americas region saw a 25% plus increase to \$24 billion from the previous year, while EMEA rose by 17% to \$13.2 billion. Asia Pacific, traditionally a slower market for transactions, saw the volume increase to \$9.5 billion.

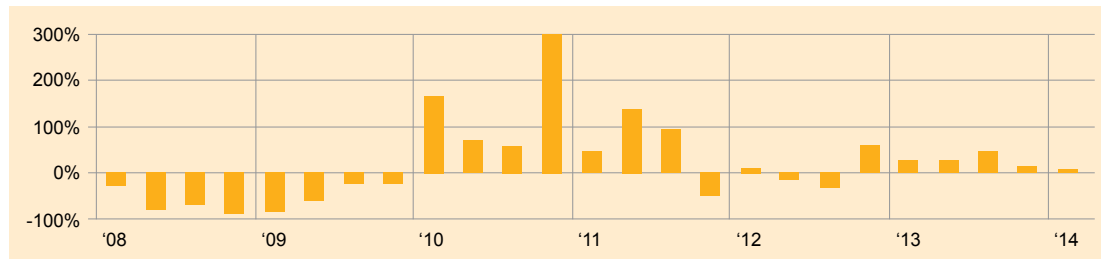
Overall, property markets are trending up with hotel operating results and values slowly improving, even though the economic recovery is more drawn out than expected and still vulnerable to a number of possible factors, such as increasing government debt and slowing growth rates in developing countries, with oversupply in China, high interest rates and land costs in India and lack of investment in Brazil – all areas of concern to would-be investors.

Figure 1: Yearly global hotel transactions by quarter.



Source: Real Capital Analytics

Figure 2: Year-on-year percentage change by quarter.



Source: Real Capital Analytics

## Market players: Buyers

Recently our office has seen a proliferation of emails starting with the words “I have a Russian client...” And whereas high net worth individuals (HNWI) are very active in the hotel space, private equity (PE) funds remain the real players. Blackstone leads the pack with over 8,500 properties in its portfolio and continued to be one of the largest acquirers of hotel properties in 2013, buying 52 in the US alone at a value in excess of \$700 million. All together, PE accounted for over 30% of investment last year and is expected to be the greatest buyers in 2014 as well.

Other large-scale buyers are the Real Estate Investment Trusts (REIT), which are most prevalent in the US, but are starting to develop in Asia. The year 2013 saw the listing of three new hotel REITs in Asia, including the first ever in China.

In terms of the global players, ARC Hospitality Trust was the largest buyer of hotels last year with over \$2 billion worth of acquisitions over 131 properties. The next up was Kokusai Kogyo, a Japanese fund with six refinancing deals of almost \$1.9 billion. Other significant players were Brookfield Asset Management with 75 acquisitions, Starwood Capital with 51 and Blackstone with 41. Accor, reflecting their new (old) strategy, had 97 purchases or refinances.

Source: Real Capital Analytics

## Market players: Sellers

Institutions and receivers have brought a significant amount of inventory to the market, which has been the primary driver for dispersals. This year could also see activity from PE players looking to generate returns after being forced to hold assets since the beginning of the financial crisis – much longer than their preferred cycle of 3-5 years. There could also be groups, such as Blackstone and Hilton last year, that make their investments public.

There were signs as well of how the strategies of hotel operating companies have impacted M&A activity. Accor went through a period in 2011-2013 where the holding company separated the very cash-rich business of lunch and other vouchers from the hotel business, meaning that they became the last of the major hotel companies to embrace an asset light model, beginning a significant divestment of real estate. This model has again changed, with the new chief executive returning to a more strategic asset position, where Accor will only divest a few underperforming assets and invest significantly in real estate. This gives them a competitive advantage to acquire and brand a property, as most of the other brands are reluctant to acquire hard assets (although most will take a sliver of equity, if they have to, in order to get a deal done).

Other companies are undertaking lease-deals in important markets where there is no option to get a management contract deal.

Significantly, the franchising model is picking up speed in EMEA with global brands happy to fuel growth in lower level brands by using this model and allowing third-party operators to run the hotels.

In terms of global dispersals, Cerberus was the largest, selling almost 60 assets worth over \$3 billion, followed by Goldman Sachs with 137 hotels. Other significant sellers were Hyatt Hotels, Thayer Lodging and Moore Capital Partners. Two of the larger brands, Marriott and Starwood also took advantage of improved conditions by disposing of several assets in sale and manage back deals.

Top Global Sellers 2014 Source: Real Capital Analytics

## General hotel performance

Most transactions, apart from trophy assets and hotels in London, Paris, Tokyo and New York are based on strong cash flow and bottom line performance. Hotel operating fundamentals are poised to remain strong this year and according to Smith Travel Research, most major markets have seen hotel demand levels recover to the previous peak, although adjusted for inflation this has yet to translate into peak average rates.

Corporate business has returned strongly, but the meetings and events, or the MICE market, continues to be affected and has not been performing at anything like the levels seen pre-crisis. There are a number of important factors that may impact demand, including outbound travel from China. Visa issues have been a problem, but as these are relaxed, the pent up demand from Chinese travelers to western destinations will be significant.

Overall, a gradual acceleration in the global economy is expected next year. China is showing signs that it has stabilized, growth in the U.S. is expected to be sparked by an energy boom caused by fracking, and a slow recovery in the housing market. While Eurozone countries are significantly improved over 2007-2011 performances, some countries remain firmly in the risk zone, specifically Spain, Greece and Portugal. On the other hand, Asia is expected to take the lead globally. However, the Middle East and North Africa region is a significant concern, since events in Syria and Iraq are likely to cause fluctuations in the global price of oil.

## Cross-border investment

Foreign investors are taking advantage of market conditions to purchase trophy assets in primary locations. Middle Eastern investors, especially the Qataris, remained active in 2014, in looking for special deals, but also interested in portfolios. The Rosewood Hotel Group's strategy is a prime example of this, with its acquisition of several trophy assets, including the Rosewood in London and the Crillon in Paris, as well as Penta Hotels in Germany. Other Far East investors are also actively looking for assets in Europe.

Outbound investment from EMEA is still very low and is expected to remain the same for 2014.

Chinese investors have begun to rival Singapore and Thai money with opportunistic purchases and there are several sovereign wealth funds with a track record in hotel assets still looking.

## M&A trends

Globally, the select service and budget sectors are attracting significant interest and are fashionable with investors. As these tend to be in secondary locations, this has also triggered a second trend of investors looking further afield for returns, into geographical locations that would not have been considered on this kind of scale before.

There are sound business reasons for this. In EMEA, Premier Inn and Travelodge are two of the best performing hotel companies, with Motel 1 and bread and breakfast (B&B) hotels also having great success. The budget sector is especially interesting for emerging markets that are not brand saturated, such as Russia and the CIS, Brazil and many African markets. Expect significant movement in this sector over the coming year.

Many of the branded hotel rooms under development in emerging countries are select service as larger hotel companies look to broaden their brand footprint into markets that would not support their four and five star flagship brands. Good examples of this are Hilton's pipeline of Hampton Inn and Doubletree in Russia, Turkey and the CIS, and IHG's expansion of Express by Holiday Inn in China.

Debt liquidity is slowly improving and is at the highest level since the downturn, with lenders' greater liquidity helping to keep margins compressed and costs stable. There is also a return to balance-sheet lending, something not seen for a while.

The US debt markets are seeing a resurgence of commercial mortgage-backed securities (CMBS) debt as well as more creative sources such as EB5. EB5 is a US government program that allows non-US individual investors to obtain green cards for themselves and family members if they invest in projects in the US or dependent territories that create jobs. In essence, an investment of \$500,000 to \$1m for 10 jobs, depending on where the project is, will secure an employment based immigration visa for investors. Needless to say, it's complicated in execution. It has been primarily focused on the Chinese, but could equally apply to other nationalities. This program has been used to finance the construction of hotels in, inter alia, San Diego and Chicago. New players have come forward to fill lending gaps, with developers looking to alternative groups, including sovereign wealth funds, pension funds and mutual funds.

In EMEA, access to debt is improving; in Asia Pacific debt is not a significant factor, with the reshuffling of CMBS becoming one of the drivers of significant transaction activity in 2013.

## Summary

The downturn we have just experienced will be considered unusual due to the low volume of distress and opportunistic buys that took place, caused by the sheer volume of assets on the books of banks and other major financial institutions. It's only now, six years on, that we can state with a degree of confidence that we are out of the worst.

There is every indication that 2014 and 2015 will be the most significant years in volume and number of transactions since the beginning of the global financial crisis. The signs are that in many significant global markets hotels are very much back as an asset class and trading levels will be high. In the US, the largest global market for transactions, consensus is that the market has 18 months to 2 years of high trading before interest rates rise and slow activity. EMEA is altogether riskier and smaller, with Spain, Portugal and Greece still in intensive care and Russian money potentially looking for a safer home. Asia Pacific looks to be the region with the greatest potential for growth as attitudes towards transacting hotel assets over a shorter period change and the emerging rich and middle classes look for a home for their money.

## About Horwath HTL

Horwath HTL is the largest and most experienced hotel, tourism and leisure consulting brand in the world, with over 55 offices in 39 countries. Horwath HTL's global reach is complimented by a deep local knowledge, gained from thousands of projects over many years. Horwath HTL remains the number one choice for hotel and real estate companies, as well as individuals and financial institutions looking to invest in the hospitality industry. Whatever and wherever your project, Horwath HTL offers the reassurance of an internationally consistent quality of service.

Horwath HTL is a member of Crowe Horwath International, a professional association of accounting and management consulting firms founded in New York in 1915. Crowe Horwath International is currently ranked among the top ten international professional service groups with offices in close to 600 cities in over 100 countries.

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