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Deloitte Corporate Finance LLC

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Divestiture M&A News

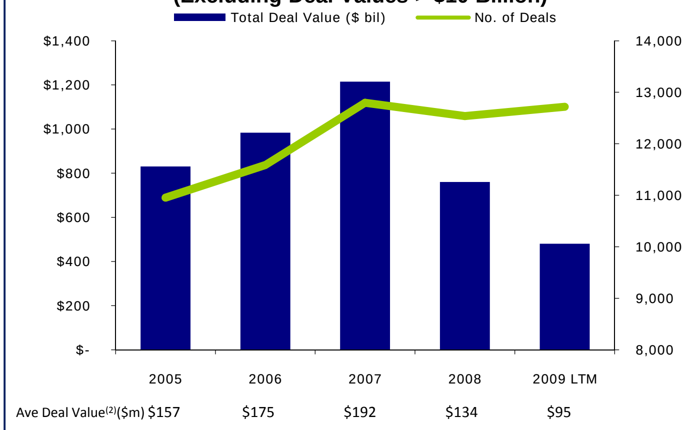
Divestiture Volumes Remain Strong Through Challenging Economy

Increase in Divestiture Volumes and Deal Values

Despite an 8 percent decline in transaction volume in the overall M&A market from CY2008 to Q3 2009LTM, divestiture activity continued to remain strong increasing by 1.5 percent during the same period. In line with the overall M&A market, average divestiture deal values have significantly dropped from their high of $192 million in 2007. Q3 2009 LTM average deal size of $95 million remains 29 percent down from an average deal value of $134 million in CY2008. However, from Q2 2009 to Q3 2009, average deal value increased 11 percent from $99 million to $110 million signaling a potential recovery in deal values. Three factors appear to be causing the decline in valuation: 1) Sales and earnings have declined reducing the value of these entities, 2) Overall multiples have declined due to buyer apprehension, and 3) Buyer appetite for larger deals has been significantly reduced further skewing the average deal value. As the end of the recession begins to restore market confidence and companies more aggressively pursue a growth strategy through acquisitions, it is expected that deal multiples will recover from current levels.

Divestitures contributed a larger portion to M&A activity during Q3 2009 LTM compared to recent highs experienced in CY2007. In Q3 2009 LTM, divestitures accounted for 33 percent of overall M&A volume and 43 percent of total value, compared to 29 percent of volume and 39 percent of value in CY2007.

2005 – 2009LTM[(1)] Global Divestiture Activity (Excluding Deal Values > $10 Billion)



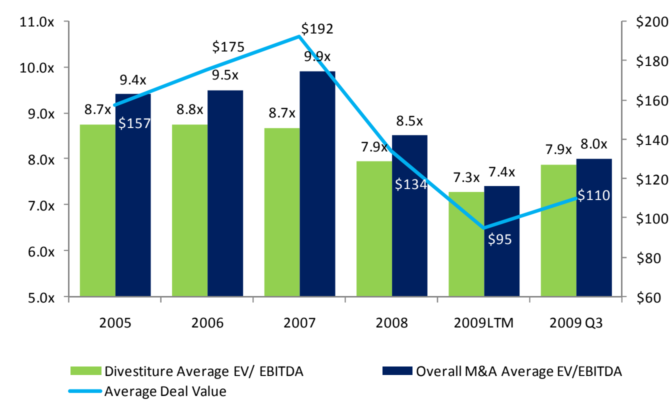
(1) Announced data as of September 30, 2009
(2) Average includes disclosed deal values only
Source: Thomson ONE Banker

Strategic Buyers and Sellers Drive M&A Markets

Historically, divestitures have exhibited lower valuation multiples relative to overall M&A transactions due to the limited availability of historical financial data and uncertainty around standalone operational performance. However, recent trends in EV/EBITDA multiples show a decreasing spread in valuation multiples between the overall M&A market and divestitures. Whereas the spread between divestitures and overall M&A multiples in CY2007 exceeded one turn of EBITDA, the spread in 2009 LTM has decreased to one tenth of a turn of EBITDA. This parity might be partially attributed to the diminished participation of private equity buyers in the overall M&A market which helped drive higher M&A valuations in CY2007.

Based on our experience of recent deals in the middle market, there remains a gap between buyers and sellers valuation expectations. However, for divestitures, this gap is minimized by the strategic intent of both buyer and seller which has likely helped support divestiture volumes . While divestiture deal volumes have remained strong, we would expect the improvement in deal multiples as seen in Q3 2009 to continue, as the economy emerges out of recession and market confidence is restored. Additionally, as credit becomes more accessible, private equity buyers and lightly capitalized strategic companies may enter the market again helping to support multiples.

Average Divestiture vs. Overall M&A Announced Deal Multiples



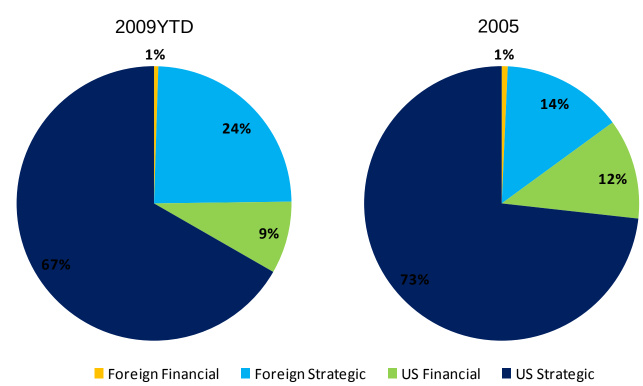
Source: Thomson ONE Banker

Weak Dollar Drives Significant Increase in Foreign Buyers of U.S. Targets

The recent weakening of the U.S. dollar combined with reduced valuations has helped drive a significant increase in foreign strategic acquirers of U.S. divestiture targets. Whereas foreign strategic buyers made up 14% of the buyer base in CY2005, this number increased to nearly one quarter of all deals for 2009YTD. The following transactions are examples of recent U.S. divestiture targets acquired by foreign strategic buyers.

- April 1, 2009: Germany based K+S Aktiengesellschaft announces acquisition of Morton International, Inc. from Rohm and Haas Company for $1.7 billion.
- August 24, 2009: Ireland based Warner Chilcott plc announces acquisition of Procter & Gamble Co., Pharmaceuticals Business from Proctor & Gamble Co. for $3.1 billion.
- September 5, 2009: Hong Kong based Pacific Century Group Holdings Limited announces acquisition of AIG Investments from American International Group, Inc. for $500 million.

Buyers of U.S. Divestiture Targets 2009YTD vs. 2005



Source: Thomson ONE Banker

Related Content

For additional M&A related news, refer to content made available through Deloitte Corporate Finance ("DCF") and the subsidiaries of Deloitte LLP:

- **DCF Industry Updates: Third Quarter 2009:** DCF's investment bankers have extensive industry-specific experience and knowledge. We produce industry updates that summarize the current M&A environment including the most recent transaction information on the most active buyers, current transaction valuation multiples and an overview of the public market's perception of the industry.

- **Economic & Market Review: Third Quarter 2009**

  The Economic & Market Review is produced by the Investment Consulting Services group of Deloitte Investment Advisers LLC. This newsletter is presented to provide perspective and context within which to evaluate your portfolio performance, as well as a forward look at the questions, events, and circumstances that may impact performance in the quarter ahead.

  Click here to read the full report in PDF format.

- **Counting on Finance: A CFO's Guide to Doing Deals:** The current credit crisis may have put a squeeze on some deal-making dreams, but for strategic buyers with strong balance sheets and the wherewithal to withstand the pressures of a major transaction, we believe this is a time of excellent opportunities. Merger, acquisition, divestiture, and spin-off activities remain solid business strategies that can offer significant possibilities for value capture when managed well.

  M&A transactions present unique opportunities and potential pitfalls for you—the senior finance leader. Value envisioned when the deal was conceived and value captured at the end are obvious areas for finance involvement. More than ever, the chief financial officer (CFO) is in a position to guide the company through the deal, with the most successful leaders filling four critical roles—what we call the **"Four Faces of the CFO"**.

  Click here to learn more in our full report, *Counting on Finance: A CFO's Guide to Doing Deals.*

Recent Transactions

AIG

AIG Systems Solutions Pvt. Ltd.

has been acquired by

MPHASIS an HP company

MphasiS Limited

The undersigned acted as exclusive financial advisor to AIG Global Services, Inc., a wholly-owned subsidiary of American International Group, Inc.

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DCF Advises on the Sale of Business Services Company

Transaction highlights extensive cross-border carve-out qualifications

Deloitte Corporate Finance LLC acted as the exclusive financial advisor to AIG Global Services, Inc. (AIGGS), a wholly owned subsidiary of American International Group, Inc. (AIG), in the sale of its captive information technology services business, AIG Systems Solutions Pvt. Ltd. (AIGSS), to MphasiS Limited (MphasiS).

DCF assisted AIG's management in navigating the transaction from the initial development of marketing materials and identification of potentially interested parties to advising on transaction negotiations and organizing the due diligence process. DCF teamed with other Deloitte professionals in the U.S. and India to provide consulting, tax and valuation services.

The transaction further highlights DCF's experience in cross-border, carve-out transactions and ability to team with professionals from around the globe.

Reynolds Packaging Group

a wholly-owned subsidiary of

Rank Group Limited

has sold its

Medical Packaging Business

to

BRENTWOOD INDUSTRIES

The undersigned acted as financial advisor to Reynolds Packaging Group

Deloitte.

Deloitte Corporate Finance LLC

DCF Completes Another Packaging Transaction

Reynolds Packaging Group carves-out medical packaging business

Deloitte Corporate Finance LLC acted as the financial advisor to Reynolds Packaging Group (Reynolds) in the sale of its medical packaging business to Brentwood Industries Inc.

The DCF team advised Reynolds during the sale process by assisting in the development of marketing materials and preparation of financial analyses. The Deloitte team also provided the client with seller due diligence services and assisted in the presentation of pro-forma financial information.

This engagement is another example of DCF's role as a financial advisor to a large corporate entity involving a carve-out of non-core assets. The sale highlights DCF's experience in the paper, plastic, and packaging sector and represents a cross-border, cross-functional transaction.

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