

## Q1 Review The year so far ...

A report released by the Piper Jaffray M&A team predicts M&A activity in 2008 will cool from the previous year, but it will remain well above the recessionary levels seen in 2002 due to the strength of the global economy. The report indicates large deal activity will likely be the hardest hit, as the "mega-buyouts" will have difficulty securing financing in the first half of the year.

The latest version of KPMG's Global M&A Predictor suggests that 2008 deal levels may just about hold steady compared to 2007 but deal values are expected to fall away. However, with corporate balance sheets generally looking strong, the capacity for "intelligent" deals to be struck does still remain.

ACQ looks at corporate finance activity during the first quarter of 2008, and what industry experts and analysts are expecting to see in the following quarters, and the effects of the credit crunch. Phil Grainger reports.

### USA

The year 2007 was marked by pessimism and a never-ending fusillade of fear. With the credit crunch in full swing, the mainstream press never tired of hypnotizing people into believing the stock market would collapse. With all the talk of the weak dollar and the predictions of a worsening liquidity crisis, prognosticators have all but written off the prospects for a bullish 2008. Calls for a recession in the year ahead are also on the rise. ACQ speaks to the experts to get a better understanding of the American market. Phil Grainger reports.

**Beth Myers Graham is principal scientist and Due Diligence group leader in Cincinnati, and National Due Diligence Technology Services Group co-leader for URS Corporation in their Cincinnati, Ohio office.**

"2007 was a very busy year for URS. Large portfolios of

properties, specifically those with a healthcare related focus, were evaluated in the first, second and third quarters. An increase in residential development joint ventures was noticeable in the fourth quarter. Overall, the year was one of our busiest with regards to M&A projects.

"URS has noted an increase in residential development joint ventures with private equity clients. Smaller portfolios have been more prominent to date in 2008. M&A, especially with European clients looking at US properties, has been active. Healthcare, private equity, international clients, and industrial sectors have had continued M&A activity in the last 12 months. Opportunities previously passed over early in 2007 were re-evaluated in late 2007 due to price fluctuation.

"By the fourth quarter of 2007, a drop in the number of large portfolios of properties was evident. We noticed that clients were cautiously evaluating deals and that our lending clients were seeing increased competition. The number of small commercial transactions appeared to decline, but there was not a noticeable impact on the number of medium to large transactions. Consumer confidence is cautious at the moment. Lending clients are waiting to see how the markets rebound in first and second quarter 2008. M&A continues to be very steady in the industrial sector.

"Clients are looking toward the second half of 2008 to be "back on track." 2009 is also being touted as a

#### DETAILS

Berkery Noyes & Co., LLC

**URS**

Chris Curran  
Berkery Noyes  
+1 212 668 3022  
chris.curran@berkerynoyes.com

Beth Myers Graham  
URS Corp  
+1 513 419 3441  
beth\_myers-graham@urscorp.com

"The Swedish M&A market was extremely intense during the first half of 2007, but no industry sectors can easily be singled out as most active. The private equity firms were particularly active during this period."

Jens Bengtsson

DETAILS

ROSCHIER



Gärde Wesslau Advokatbyrå



Mika Alanko  
Roschier  
+358 (0)20 506 6270  
mika.alanko@roschier.com

Jürgen Conzen  
Gärde Wesslau Advokatbyrå  
+46 8-587 240 00  
jurguen.conzen@garde.se

Ragnheiður Margrét  
Ólafsdóttir  
LEX Law Offices  
+354 590 2600  
ragnheidur@lex.is

Gísli Hjálmtýsson  
Thule Investments  
+354 545 5400  
gisli@thuleinvestments.is

growth year for many of the platforms. Global M&A continues to be strong with the current status of the US Dollar allowing increased foreign investment in the US."

**Christopher Curran is managing director of Berkery Noyes.**

"From the classrooms of America's K-12 schools to the boardrooms of companies that sell to them the most newsworthy trend in education is the advent of electronic whiteboards – computerized, interactive chalkboards now used in thousands of U.S. classrooms.

"Teachers love them. Students respond to them. And suppliers and investors in the education market seem eager to participate in the boom. In 2007 Berkery Noyes closed two deals with companies involved in the electronic whiteboard and student response system (SRS) hardware and formative assessment software market—Leeds Equity Partners' acquisition of elnstruction and elnstruction's purchase of Interwrite Learning. We expect to at least double that number in 2008 and expect the broad formative and summative assessment market to sizzle.

"Electronic whiteboards and SRS are ideal commercially viable tools for those who believe in the value of group instruction in part because of their ability to animate a lesson with vivid graphics and capture content as it is generated. But even more important are the student response features built into these classroom networks. Using an electronic clicker connected via Wi-Fi or radio frequency, students can instantly respond to multiple choice questions, participate in assessments and operate computer-based instruction programs in a face-to-face or virtual group setting. Electronic whiteboard systems seem to solve many of the challenges posed by computer-based instruction, not least of which are the high costs, security issues and student isolation associated with the use of individual laptop computers.

"No matter what happens in the 2008 election, the reforms associated with the No Child Left Behind (NCLB) legislation are not going away. Among the other key trends creating new opportunities in the education market are tools that help schools and districts comply with NCLB standards through longitudinal data analyses of how different demographic groups perform over time. As school districts expand their investment in NCLB measures, they are fueling a market for more sophisticated tools that support data-driven decision-making. We will be announcing several deals in this area in early 2008."

**Sweden**

Sweden is currently one of Europe's top destinations for foreign investors. The main attractions are thought to be the country's highly educated population and the ability of Swedish companies to think globally from the word go. Last year, Swedish companies attracted

US\$1.07bn in start-up and growth capital, according to the European Venture Capital Association.

Sweden is a mature private equity market with several large private equity firms with Swedish roots and with several international private equity firms managing their Nordic operations out of Sweden. Sweden is Europe's second largest market for private equity investment as a percentage of GDP. The number of foreign private equity firms that participate in controlled auctions in Sweden has increased considerably during the last year.

**Jens Bengtsson is head of Roschier's Stockholm Corporate Transactions practice and firm wide head of the private equity practice.**

"The Swedish M&A market was extremely intense during the first half of 2007, but no industry sectors can easily be singled out as most active. The private equity firms were particularly active during this period. The availability of financing and the different valuation models used by the leveraged buyers resulted in the corporate buyers being driven out of the M&A market during the first part of 2007.

The corporate buyers were not able to justify the valuation methods and levels being used by the leveraged buyers.

"After the recent credit crunch, the activity of the private equity firms slowed down as the banks became more cautious with their lending activities. Small cap private equity transactions have still taken place to a rather large extent, but private equity deals valued above €1bn have been very few. Corporate institutional buyers have become more involved in the transactions and the trend that the private equity firms have lost pace after the summer is still quite evident on the Swedish market



"2007 was a good year for Thule, with two notable exits, one of which exceeded \$150m. With increasing cost of borrowing, we see more opportunities for our fund. In particular we foresee opportunities in distress buyouts of venture backed companies."

Gísli Hjálmtýsson

although the market has picked up during the last quarter of 2007 and the first quarter of 2008."

**Jürgen Conzen is partner and member of the Gärde Wesslau Advokatbyrå's Corporate M&A and the Banking & Finance practice areas.**

"2007 was the law firm's best year ever and we had a significant increase in both volume and profitability. A number of significant changes of financial market regulation have been passed recently, which have brought about much activity with capital markets law.

"The credit crunch has not affected business in Sweden as much as was perhaps expected. Sweden seems to have very strong fundamentals at this time and is apparently able to stand tall in the tighter credit environment. There will still be a good number of interesting transactions during 2008 and we do not foresee any dramatic decrease of small and midsized transactions for 2008."

### Iceland

Last year saw a significant number M&A transactions involving Icelandic companies. In June 2007 the buyout of Actavis Group became not only the largest deal involving an Icelandic firm, but also the largest deal to that point in the Nordic region. With a comparably smaller population than most of its European neighbours, Iceland has managed to gain a strong position firmly on the map of European private equity

**Ragnheiður Margrét Ólafsdóttir has been a partner at LEX Law Offices since January**

**2004 and specialises in banking and finance, acquisitions and mergers.**

"2007 was quite special due to the increase in due diligence work and projects relating to large acquisitions and mergers. If I should mention any one trend, it would be the many different and new types of derivative agreements along with the exercise of different tax provisions in double tax treaties.

"The financial sector has seen the most activity in Iceland over the past 12 months. The rapid growth of the Icelandic banks and Icelandic investment companies and their globalization has led to vastly increased activity in this sector.

"In my opinion Iceland has shown that it is fully capable to compete against the other European countries in the financing sector. The globalization of Icelandic companies has given them a better position than they had before and made them ready to compete with any other European companies within the sector."

**Gísli Hjálmtýsson is a CEO and partner of Thule Investments.**

"2007 was a good year for Thule, with two notable exits, one of which exceeded \$150m. With increasing cost of borrowing, we see more opportunities for our fund. In particular we foresee opportunities in distress buyouts of venture backed companies.

"Iceland is not immune to external conditions and as such will probably not see the same type of economic growth in 2008 as experienced last year. However, apart from government spending, I believe that the fundamentals of the Icelandic economy are strong and that the economy will continue to grow faster than the rest of the western world. Icelandic pension funds are strong and growing fast.

"Iceland has competed favorably with its aggressive neighbors for some time and in particular over the last few years. I believe we will continue to do so, in part, because of solid foundation, in part due to backing of the pension funds, and in part because Icelandic companies are still small enough to grow fast by simply entering new markets."

### Germany

After a slowdown following the summer's credit squeeze, the German capital markets are beginning to stabilise. Private equity, M&A and IPO transactions have been particularly active, with real estate and pharmaceuticals experiencing something of a boom. There has been high activity in the legal market, with several new entrants as well as some strategic closures. German lawyers have reported strong growth in cross-border transactions with an increasing number of clients looking for investment opportunities in Central and Eastern Europe. Asia has also been a growing focus for the larger law firms.

DETAILS



Matthias Bruse  
P+P Pöllath + Partners  
+49 (0) 89-24 240-270  
matthias.bruse@pplaw.com

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Matthias Bruse

## DETAILS



Merseyside Special Investment Fund

Angela White  
Merseyside Special  
Investment Fund  
+44 (0) 151 242 6376  
Angela.White@msif.co.uk

**Matthias Bruse is a founding partner of P+P Pöllath + Partners, an independent German law firm with offices in Berlin, Frankfurt and Munich.**

"2007 was an excellent year for the firm. We had the opportunity to advise our clients on various transactions, in particular small and mid-cap transactions, but also big private equity and real estate transactions.

"The German economy has been affected by the credit crunch. In general, many German banks have been affected with regard to their loan and other portfolios. The perception is that the confidence in the banking system in general needs to be re-established.

"Following the credit crunch, we experienced the reluctance of banks when it comes to the financing of mega private equity transactions. In our perception, however, small and mid-cap transactions have not been seriously affected.

"We foresee that the German economy will grow further. However, the growth rate of the last years cannot be upheld. As regards M&A transactions, we expect a rather strong second half of the year after a moderate first half."

## North West Review

According to Mark Lister, PKF Corporate Finance partner in Leeds, the North of England's M&A landscape has traditionally been dominated by the smaller type of mid market M&A deals with occasional large strategic deals. ACQ speaks to Angela White for more detail on the North West region.

**Angela White is marketing manager of Merseyside Special Investment Fund.**

"The credit crunch has had little impact on the sub £20m North West deal market with banks still prepared to lend on attractive multiples. So far, the credit crunch has affected the larger leveraged buyout market, with price reductions and a lower level of completions. We may start to see this trend filter down to the mid-market, which could lead to a reduction in transactional activity.

"The credit crunch is a wholesale cash market issue and will resolve itself over time. It has caused people to be cautious and belts to tighten but we are already into the bank reporting season and results look good despite significant provisions. Anticipated increases in consumer costs will put fewer pounds in the pocket and is likely to impact spending. The housing market is experiencing a big slow down. Businesses that are consumer facing have some interesting planning ahead whereas those that are business facing ought to have more positive prospects. There is a real mix of messages in the market and I expect things to be relatively flat overall for the next year with perhaps some more positive indicators into next." **ACQ**



“2007 saw a significant increase in the real estate sector and consolidation of the oil and gas segment of the Russian economy. The level of M&A activity also remained high with continued investment into Russia from abroad. By far, the real estate sector saw the most activity in 2007.”

Alexander Skoblo

**Alexander Skoblo is a partner at Salans.**

“Salans is one of the most experienced law firms in the Russian Federation having represented clients involved in the East-West trade since the late 1970s. Our understanding of the Russian law is second to no other international law firm with majority of our partners having Russian law qualifications. This combined with in-depth knowledge of how to structure, negotiate and close complicated transactions puts us at the very top. Another factor that we bring to the table is our size (we are one of the largest law firms in Russia in terms of lawyers which means that we can handle large scale transactions simultaneously). We have been involved in a number of sizable, complicated deals in the first quarter of 2008, but for most part, they remain confidential.

“2007 saw a significant increase in the real estate sector and consolidation of the oil and gas segment of the Russian economy. The level of M&A activity also remained high with continued investment into Russia from abroad. By far, the real estate sector saw the most activity in 2007.

“The legal, economic and financial markets continue to be strong in view of everyone’s understanding of who will succeed President Putin in the spring. The credit crunch has affected the liquidity in the banking sector in Russia, but has not had nearly the impact it did in North America and Europe.

“Over the remainder of 2008, we foresee a moderate level of activity as the banking crunch continues. There will be a “cooling off” period after the presidential elections and an increase in activity in Q4 of 2008.”

**Keith Dempster is a partner in the Corporate and Commerical Dept at Kerman & Co LLP.**

“We specialise in advising companies seeking admission to AIM and meeting their post listing needs including advising on raising further finance and acquisitions. We also focus on mid-tier M&A in the £5m to £50m deal space. Our approach is commercial in nature – we always look to find pre-emptive solutions to even very complex problems and consider transaction management to be an important part of our role.

“We were very busy throughout 2007 particularly in Q4. Despite reportedly fewer companies listing in 2007 we are involved in nine admissions to AIM and a large number of refinancings and related transactions. One point of interest

is that some of our clients who previously raised money exclusively in Europe must now look to the USA to ensure their placings are fully subscribed.

“The sectors we saw most activity in 2007 were resource exploration and extraction, particularly oil and gas, coal and metals. This in part is as a result of a substantial number of international companies conducting IPOs on AIM and reportedly raising in excess of £16.2 billion with a substantial amount of this coming from non-UK investors.

“There has been a marked decrease in the number of companies being admitted to AIM in Q1 compared to the same period in 2007. However there has been an increase in acquisitions due to a trend towards consolidation in several sectors. There has also been an increase in disposals of private companies by entrepreneurs seeking to lock-in the value they have created before the proposed changes to the CGT regime in April 2008.

“We have seen fewer transactions (including admission to AIM of cash shells) which are speculative in nature. The companies that are successfully raising money in Q1 2008 are established companies with established projects and existing revenue streams.

“We are seeing fewer companies seeking admission to AIM since the credit crunch. There are more public and private company refinancings taking place. There is also a consolidation trend in some sectors of the market through mergers, some of which are becoming hostile. Overall there is still a good volume of work coming through.

“We have seen heavier and more extensive covenants in finance documents. Banks are now securing greater protection through the use of covenants and the security package obtained. This means transactions are typically taking longer than a year ago as the banks are undertaking more detailed and lengthy due diligence processes. One point of interest is that clients who previously raised money exclusively in the UK or even Europe must now look further afield.

“There are likely to be fewer companies listing on the LSE. There will be fewer disposals of private companies by entrepreneurs as these have been brought forward to complete prior to the CGT regime changing in April 2008. There will be more refinancing work being undertaken by both public and private companies. There will be an



Keith Dempster

DETAILS



Peter L Brechan  
Advokattfirmaet Haavind  
Vislie AS  
+47 22 43 30 00  
p.brechan@haavind.no

Alexandra Beaumont  
AIB Capital Markets  
+44 (0) 207 090 7162  
alexandra.j.beaumont@aib.ie

Seebe Raj Arun  
ALMT Legal  
+44 (0) 20 7610 4421  
sranun@almtlegal.com

Florence Leibovitch  
Atisreal Expertise  
+33 (0) 1 47 59 21 81  
Florence.leibovitch@atisreal.com

"In the UK mid market we saw volumes of primary deal introductions and completions materially reduce in Q4. At the same time the average transaction value fell materially as buyers found the level at which bank clubs could complete deals, typically up to £150m."

Steven Clarke

DETAILS



BORENIUS & KEMPPINEN



ADVOKATFIRMAN  
HAMMARSKIÖLD & Co  
STOCKHOLM

HOGAN &  
HARTSON

Maria Soini  
Borenius & Kempainen Ltd  
+358 9 6153 3475  
maria.soini@borenius.com

Sam Bell  
Curzon Partnership LLP  
+44 207 470 7160  
sbell@curzonpartnership.com

Lars Ulrichs  
Hammarstiöld  
+46 8 578 450 00  
lars.ulrichs@hammarstiold.se

Grażyna Postępska  
Hogan & Hartson Jamka  
Galos SPK  
+48 22 653 4215  
gpostepska@hllaw.com

increase in corporate insolvencies. There will continue to be activity in typical counter cyclical sectors such as oil and gas.

"As banks finish identifying, writing-off and restructuring their businesses to take account of the sub prime problems inter-bank lending should recover and the market should return to normality. We anticipate this process of adjustment may be completed by Q4 2008. Financiers' lending priorities are likely to reflect the impact of the credit crunch for the foreseeable future making it harder for companies to finance speculative deals."

**Steven Clarke is head of Mezzanine, UK, at Intermediate Capital Group PLC.**

"ICG is at its best in difficult markets. Our ability to maintain a very disciplined approach to investments and proactively support companies and the sponsors has enabled us to return 1.1 times our investment in the worst 10% of investments that we have made historically. We take a long-term view of companies and investments and relationships which enables us to be very flexible about structuring and process. We can very quickly identify the sponsors and companies that we want to back and have a focus on first class execution and consistent post-deal support.

"In the UK mid market we saw volumes of primary deal introductions and completions materially reduce in Q4. At the same time the average transaction value fell materially as buyers found the level at which bank clubs could complete deals, typically up to £150m.

"In the UK large buyout market we saw our deal introductions increase materially in Q4.

In late 2007 (and even early 2008) there have been buyouts completing that commenced Q2/Q3 of 2007 with 'old' structures and terms so the Credit Crunch has taken a while to wash through. The market is slowly discovering the 'new' structures and terms.

"The service sectors were most active, particularly business/support services. We also have very strong deal flow in financial services, healthcare, software, media and leisure. We are focussed on non-cyclical markets and businesses with robust defensible positions in the long term.

"2008 opened with a surge in new deal introductions but of course the funding is more complicated to put in place in terms of the number of parties involved and the evolving views on what is the right terms for that funding in this

challenging and dynamic market. There is a resurgence of interest in public to privates particularly in the larger buyout segment. The risk/reward balance for mezzanine is improving with more covenants, call protection and warrants.

"Prospects have improved considerably since the changes in the credit markets. Mezzanine is playing an increasingly central part in successful LBO financings. We see considerable opportunity to invest on attractive terms in both primary and secondary markets. In addition, the reduced level of repayments means that we expect continued growth in the our loan book which benefits our core income.

"The relentless media coverage rarely gets to the heart of the detailed impacts of the sub prime mortgage crisis on every consumer. It takes a long time to trickle through to the consumer but the impact is significant when it does. Economic weakness is now a real possibility and it could take until late 2008 for the full impact to take effect and be clear. In due course it could result in higher default rates.

"Q1 2008 will probably show decent levels of activity compared to the long term historical average but much lower than pre-credit crunch levels. This will probably be influenced by the change in CGT in April and the appetite for better pricing on debt and mezzanine.

"Q2 will be crucial to the momentum in the market. If the deal volumes and values fall then there is a real risk that the holiday period during the Summer will take even more momentum out of the market and result in a very poor Q4. There may be further tightening in the availability of debt after Q1 as capacity is used up and economic conditions deteriorate.

"Overall it feels like the market needs three consecutive quarters of positive momentum to really address the concern that we are still in a temporary phase before a further step change for worse in the markets. It will probably take until late 2009 for a long recovery period to commence."

**Peter L Brechan is a partner at Advokatfirmaet Haavind Vislie AS.**

"We feel that an experienced lawyer should assist not only in drafting and DD, but also in explaining cultural differences and practical approaches. Often cultural differences are overlooked and misinterpreted. We often function as the main point of contact in finalizing a

“We are currently busy with a number of large and medium EDD projects in Continental Europe and UK. Recently completed EDD jobs concern the Stork deal and deals for Icopal, VION, Richard Ellis, CSM, and Heineken.”

Flip Kips

transaction, and thus have a vital role in ironing out all hurdles pre-completion.

“We saw an increased interest in public to private transactions and inward investments by international property funds in 2007. In number of transactions, the property sector definitively saw the most activity, with an unheard of increase in transactions.

“So far in 2008 there are no signs of the interest in the real estate panning out. Securities, and in particular IPOs, have definitively panned out from the last part of 2007 onwards. International property funds have definitively increased its interest in the Norwegian sector. With initial investment, financing and refinancings, this has lead to a substantial increase of work for law firms.

“The credit crunch has not so far been evident in Norway, apart for investments abroad, in particular in the US and US CDOs and hedge funds. Quite contrary, we see many refinancings by Scandinavian banks, based on both lower margins and stricter assignability than the LMA-standard - as many hedge funds have now started to acquire participations in LMA-documented syndicated transactions, to the dislike of borrowers. Norway has not had the same crunch as much of US and Europe because of the satiability offered by the petroleum sector and the increased demand and prices offered within that sector.

“It looks like the increased activity from Q4 2007 will continue in 2008, albeit with some reduction. We see that there is so much capital that needs investing, and not enough qualified institutions to do so. This has lead to many club-deals where minority investors have co-invested with seasoned investors.”

Flip Kips is senior project manager and CAT Alliance technical director for the Tauw Group BV.

“As M&A nearly always concerns cross border deals involving multi-countries international presence of EDD consultancies is key. Tauw Group is one of the three founding members of the CAT Alliance Ltd with a combined home office and partner network in more than 50 countries worldwide. The combination of global knowledge and local expertise make for customised EDD projects fitting the needs of our clients very well. Site visits are an essential part of our work and that is where the local legislative/regulative expertise of our partners is particularly important. Furthermore our partners are abreast with the cultural

context which is a great help in delivering successful EDD jobs. Sound advice and effective assistance in the SPA and deal closure stage are important as well and bring added value to our clients, apart from post deal portfolio care and consultancy in the field of liability and asset management.

“We are currently busy with a number of large and medium EDD projects, mostly in Europe. Recently completed EDD jobs concern the Stork deal and deals for Icopal, Vion Food, CB Richard Ellis, CSM, Wavin and Heineken.

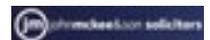
“In 2007 we saw traditional EDD work develop more and more into business consultancy type of services in 2007. We were increasingly involved in SPA advice and in transaction negotiations helping to identify deal solutions, be it price adaptations, reps, warranties, escrow arrangements or insurance solutions. Clients are more and more requiring high quality information beyond traditional EDD directly assisting in business decision making. From a purely technical focus in the past EDD work becoming more and more financially quantified, with emphasis on determining business consequences and CAPEX estimates. This however is not at the expense of the technical nature of EDD, the traditional aspects such as contaminated land and legislative compliance issues remain the core of EDD work. So it is rather an extension of services bridging the gap with other involved DD parties. Consequently a new generation of EDD auditors is developing with multiple skills hence not only technical.

“The industrial sector and private equity (vendor capital) have seen the most activity. There appeared to be increased M&A activity in the food and drink sector, specifically food ingredients, convenience food and bakery products, but also the chemical and plastics sectors were active as ever.

“It appears the credit crunch is felt more in the bigger deals whereas the mid market is less affected. It seems that the financing of deals has become more difficult. However strong strategic buyers remain unaffected and they are regaining importance in the market. In Central Europe the real estate market is somehow hesitant at the moment.

“One important trend is that companies are putting more emphasis on compliance care of their portfolios as part of wider liability and asset management. This is again linked with sustainability and supply chain issues and the general trend toward transparency in the light of IFRS/Sarbanes-Oxley Act. We find that companies are looking after their

DETAILS



KERMAN & Co LLP  
SOLICITORS



Steven Clarke  
Intermediate Capital Group  
PLC  
+44 (0) 20 7628 9898  
steven.clarke@icgplc.com

Avril McCammon  
J McKee & Son Solicitors  
+44 (0) 28 9023 2303  
avril\_mccammon@  
jmckee.co.uk

Keith Dempster  
Kerman & Co LLP  
+44 (0) 20 7539 7272  
keith.dempster@kermanco.com

Paul Saper  
LCS International  
Consulting Ltd  
+44 (0) 20 7034 3490  
paul@lcsic.com

“Germany saw a number of deals in temporary staffing, which we still believe is a very promising sector with high growth potential. Another sector we were active in was engineering, mainly in the mid-cap range.”

Rainer Mayer

DETAILS

Linklaters

LOYENS LOEFF

maconda  
Corporate Development

Noble &  
Scheidecker

James Douglas  
Linklaters  
+44 (0) 20 7456 2000  
james.douglass@linklaters.com

Thibaut Partsch  
Loyens & Loeff Luxembourg  
+352 466 230 233  
thibaut.partsch@loyens  
sloeff.com

Rainer Mayer  
maconda Corporate  
Development  
+49 (0) 221 56964-0  
r.mayer@maconda.de

Jean-François Findling  
Noble & Scheidecker  
+352 26 48 42 35 21  
findling@mnks.com

Marie-Béatrice Noble  
Noble & Scheidecker  
+352 26 48 42 35 07  
noble@mnks.com

assets in a more sensible way. We have an increasing number of clients interested in post transaction plans for taking effective action in the portfolio integration and consolidation stage. Part of this exercise are so-called update audits, these are compliance re-assessment of sites some years after the initial EDD assessment.

“Another trend is turning business risks into business opportunities and commercial advantages thereby raising the environmental reputation of a company. An example is carbon foot printing. Private equity firms will be interested particularly as increasing the company’s value near the exit stage is of paramount importance.

“It is a challenge to be able to offer expertise in the ever expanding range of aspects to be taken into account: Health & Safety, Corporate Social Responsibility, Carbon foot printing and energy supply, but also the REACH (Registration, Evaluation and Authorization of Chemicals) Regulation and EU Directives such as the Environmental Liability Directive and the forthcoming EU Soil Framework Directive. REACH deals with the environmental quality of products introduced to the European market, which are often based on a chain of suppliers located outside European countries.

“As the majority of our EDD projects concern the mid-market, which in itself is huge, we are less affected, but overall we do feel a more reluctant market, which has resulted in somewhat lower turnover figures in the second half of 2007 and so far in Q1 of 2008.

“We expect that there will be more focus on post-transaction work related to wider liability and asset management in 2008. We also expect that the credit crunch and the more complex financing of deals will require more due diligence and hence EDD, as financiers are more risk conscious. Overall we see that the perceptions vary a lot. More clarity might be obtained after all banks have presented their 2007 results. Another important factor will be the behaviour of the dollar.”

**Rainer Mayer is managing partner at maconda Corporate Development.**

“We mainly assist private equity investors with commercial due diligence services. We are able to react very quickly with respect to staffing our team, starting work and finalising our reports in a bankable manner. We always include, on a

confidential basis, highly experienced industry experts who are able to kick off without any adjustment time. This gives us a strong lead as we are able to quickly detect the really crucial aspects of a market and a given company, by that helping our client to draw realistic conclusions.

“We are still involved in temporary staffing transactions – a sector where some sceptical sponsors and banks already had doubts two years ago, despite annual growth prospects of far above 10%. In the beginning of 2008, one of our clients signed a SPA in the security services sector. A very promising deal with many buy & build opportunities.

“2007 was a very active year for us: the bottleneck was more in finding enough appropriate employees rather than deals to that we could contribute with our commercial due diligence experience. We could have done double the business we actually did. In spite of the credit crunch, 2007 kept the full team busy until New Years Eve.

“Germany saw a number of deals in temporary staffing, which we still believe is a very promising sector with high growth potential. Another sector we were active in was engineering, mainly in the mid-cap range.

“Although we have been quite busy until now, and also will be in the coming weeks, the German market is not comparable to 2007. There are significantly less potential transactions on the market, at the same time more parties trying to hook into. We have the impression that some investors spend a significant portion of their time for portfolio work rather than the usual deal generation and processing. Also we do spend some time, besides working on mandates, to prepare for the deals that are announced to get onto market in 2008.

“As we were not able to accept all mandates we were asked for in 2007, the level of activity is more or less on the same level, nevertheless with a bit thinner pipeline. However, there are several transactions expected for Q2 and Q3.

“We do not expect a significant relaxation of the credit markets until at least midyear. That will keep also the deal number comparably low. However, there are some potential transactions waiting for coming onto the market like spin-offs. Eventually, those will come despite a possibly lower valuation compared to last year. Finally, the credit crisis will also contribute to rectify the previous situation of somewhat racy valuations, by that bringing also more cautious investors back to the negotiation table.

“It is difficult to outline a specific sector as being the most active: obviously Luxembourg economy being strongly represented by the financial sector, this sector is in volume always one of the most active.”

Jean-François Findling

Subsequently business for us.”

**Sam Bell is a partner at Curzon Partnership LLP / IIC Partners.**

“We saw a full range of deal activity for the first six months of 2007, reducing to small-mid market in the second half. This tendency to have smaller-middle deals running successfully is continuing if they are at a good value. Very large deals are currently not happening. FIG, energy, and real estate saw the most activity in 2007.

“There has been a more sensible appreciation of value, reasonable levels of leverage. The only worry is that with the lack of transparency in the banking sector there is still reluctance for banks to lend to each other and some banks have frankly closed for business. A couple of further problems (banks in trouble, political problems in Pakistan/Iran, or even unrelated problems) could tip the problem into the real economy.

“Uncertainty since the credit crunch means that financing for large deals has dried up. So far the “real” economy unaffected, hopefully this will stay unaffected. It will take this year to digest the crunch as we know it. If it goes downhill from here it will take considerably longer.”

**Jean-François Findling and Marie-Béatrice Noble are corporate partners at Noble & Scheidecker, Luxembourg.**

“While acquisitions involving Luxembourg targets have remained constant, we have seen many M&A transactions involving Luxembourg but targeting foreign companies. We can see many joint ventures being set up in Luxembourg by foreign investors. The lesser booming in private equity can be explained by a considerable growth in recent years and is compensated to a certain extent by the strong interest in SIF. For the moment, we have not notice a perceptible slow down of activity regarding financing transaction. Some real estate funds may be delaying new investments.

“It is difficult to outline a specific sector as being the most active in 2007; obviously Luxembourg economy is strongly driven by the financial sector, this sector is always one of the most active in terms of volume.

“2007 was probably the year when our law firm made most local and international transactions in M&A in such

diverse economic sectors as food, banking, insurance and real estate. The credit crunch has not adversely affected the firm: a slight slowdown in private equity activities was offset by other types of transactions. The overall volume of business continues to expand significantly. There has been no real tangible impact so far, except for securitization. The future might lead to adaptations of the fund industry.”

**Thibaut Partsch is a counsel at Loyens & Loeff Luxembourg.**

“Building on a strong Luxembourg base of know-how and the experience of our Dutch colleagues, our firm also enjoys the qualities of attorneys who have been educated and have practiced in the best American institutions and law firms. This unique conciliation of talents provides our clients with a pragmatic approach and a capacity to find innovative solutions which are instrumental in getting deals done.

“In 2007 the level of transactions has continued the steady increase witnessed over the last years. The patterns of activity have slightly evolved, with an increased activity in the private equity sector. The corporate practice has been important, while new laws in Luxembourg (the Law of February 13, 2007 on Specialised Investment Funds) have attracted new investors in Luxembourg for private equity transactions.

“The first quarter has been more active than expected at the end of last year, and the slowdown that affects certain sectors of our practice, especially highly leveraged transactions, will probably be partly replaced by other kinds of private equity transactions. The growing importance of private equity transactions, which we had already announced in previous reports, is confirmed on a daily basis in Luxembourg. It may be a substitute for financings obtained from banks before the credit crunch.

“The credit crunch did not materially affect our business besides a limited slowdown in the banking sector in the end of 2007. In the overall, the impact is fairly limited. We see private equity as a substitute for financings previously obtained from banks. Since the influence of the crunch has been fairly limited in Luxembourg, there is no need for a recovery. Our growth might not be as fast in the next coming months, but this will have to be reassessed in the end of next quarter. The current level of activity has been better than foreseen, and we do not expect a material slowdown in the next three quarters.” **ACQ**

DETAILS



Jocasta London  
OC&C Strategy Consultants  
+44 20 70 10 8000  
jocasta.london@occ  
strategy.com

Alexander Skoblo  
Salans Russia  
+7 495 644 0500  
askoblo@salans.com

Flip Kips  
Tauw Group BV and CAT  
Alliance Ltd  
+31 570 699 615  
flip.kips@tauw.com