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If you would like to submit an article to be considered for this newsletter, please email it to: karim.pakravan@sbcglobal.net

A Message from the Publisher

Global political and financial leaders will gather in October in two important venues: the G-20 Summit in South Korea and the Annual Meetings of the International Monetary Fund/World Bank in Washington D.C. The topics will include the global financial architecture, new rules for banks, global currency issues and the difficult balancing act between reining in outsized fiscal deficits and stimulating a sputtering world economy. The outcome of these meetings will affect the environment in which our businesses will operate, So stay tuned as we try to keep our members up-to-date on global economic and financial developments in the months to come. In this context, we have two articles in this issue of AM&AA Global, Our editor presents us with three economic success stories and one of our European members reviews German banking issues.

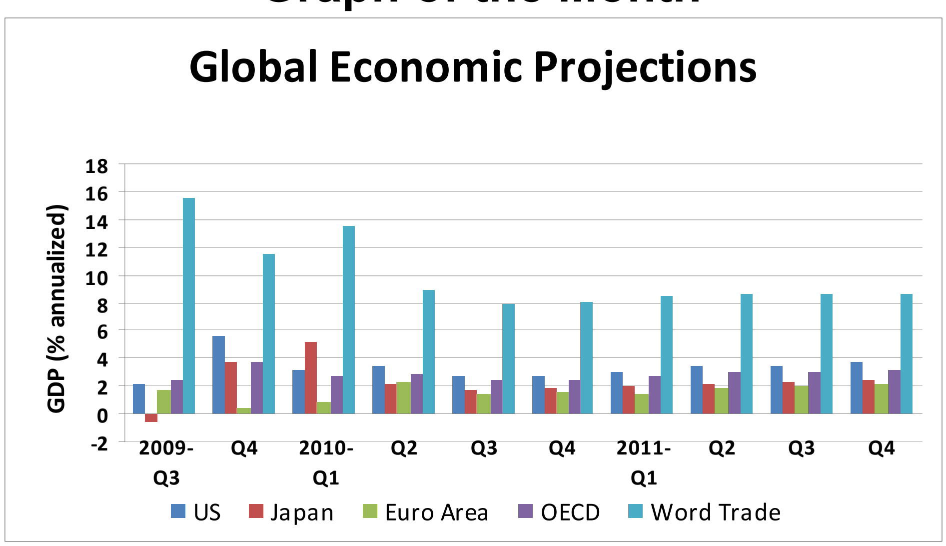
Mike Nall, Founder
Alliance of M&A Advisors

OF NOTE:

Germany celebrates the 20th anniversary of its reunification on October 3 with a further fall of the unemployment rate to its lowest level since April 1992 to a seasonally-adjusted 7.5%. Buoyant business confidence and strong exports have spurred robust hiring by the country's large corporations. The economic and labor markets recovery is putting upward pressures on wages and allowed workers to gain wage increases as well as other concessions after several difficult years.

- Karim Pakravan

Graph of the Month



Source: Organization for Economic Cooperation and Development, September 201[1]

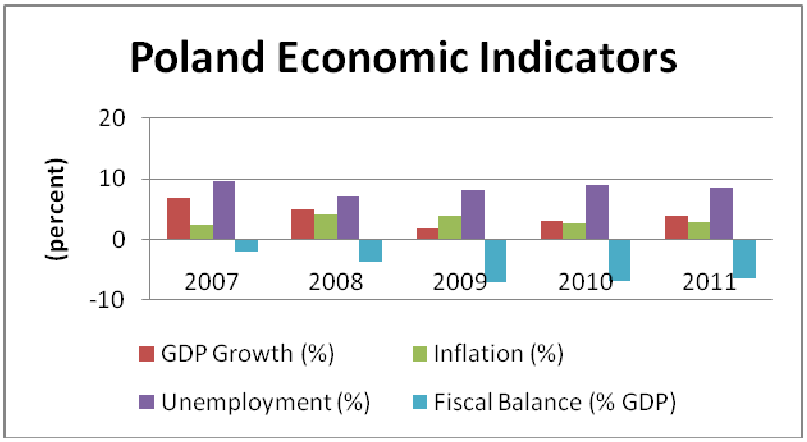
[1]The Organization for Economic Cooperation and Development OECD is a grouping of 33 major industrialized and major emerging market countries. OECD brings together the governments of countries committed to democracy and the market economy.

Editor's Macro Color:

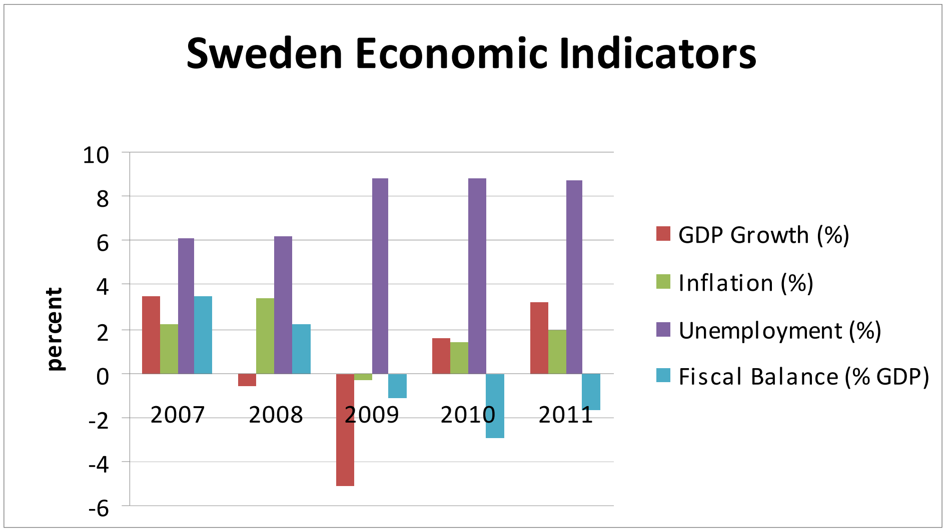
AND THE WINNERS ARE....

While the global economy facing severe challenges, several economies stand out for their strong economic performance. All of these countries benefit from low unemployment, robust consumer demand, broad-based economic dynamics and large capital inflows. While the reasons for their success vary, the common element is building up on several years of sustained economic reform and their ability to exploit their competitive advantages in the global economy. In what follows, I will look briefly at three such success stories: Poland, Sweden, and Australia.

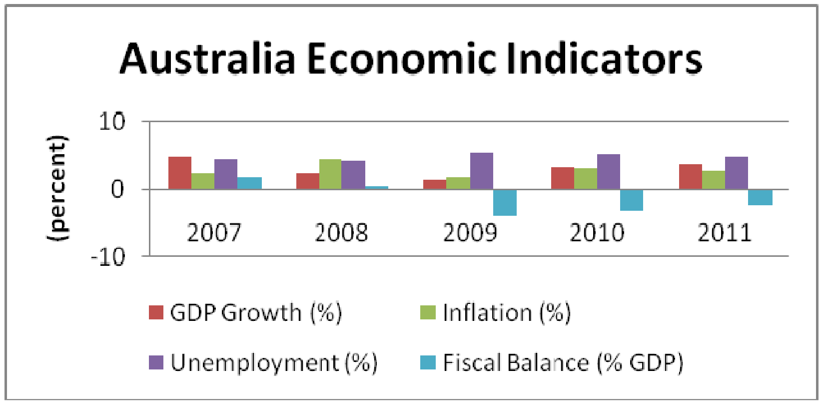
Poland: Poland is the largest country in the Central and Eastern Europe region. The country has outperformed not only its regional peers, but also the other member countries in the OECD. Economic growth accelerated in 2010 as a result of strong exports, robust domestic demand and infrastructure spending, rising to 4.5% (annualized) in 1Q10 from 2% in 1Q10 and 1.8% in 2009, and is expected to reach 3.1% for the year as a whole. However, the rapid economic expansion has fed into inflation, which is expected to accelerate from 2.0% (year on year, y/y) in August to 2.7% by year-end and forecast at 2.8% next year. The weak point remains fiscal policy, with a fiscal deficit reaching 6.9% of GDP in each of 2009 and 2010. Another area of weakness is unemployment, which remains at around 9%-high, albeit lower than the eurozone average. According to the OECD, the economy should accelerate to 3.9% next year as infrastructure spending for the 2012 European Soccer games (which Poland is hosting) adds to continued growth-friendly trends.



Sweden: The economic recovery from the 2008-09 recession has been impressive. The Swedish economy accelerated to an annualized 7% pace in the first half of 2010, after shrinking by 5.1% in 2009. Economic growth is expected to exceed 4% in 2010. The recovery has been broad-based, with domestic demand, exports and inventory build-up all contributing to the strong performance. Industrial production has expanded at a rapid pace for five consecutive quarters and unemployment fell to 4.6% at the end of 3Q10. Inflation is subdued at around 1% and the fiscal position is strong, with the fiscal deficit expected to be held under 3% in 2010. The Swedish krona is a clear favorite of the currency markets, with the second-strongest performance in 3Q10 behind the Australian dollar. The forecast for 2011 is equally favorable, with economic growth forecast at around 3%.



Australia: As a major commodity exporter strongly tied to the dynamic East Asian region, Australia is the only major industrialized country to have avoided sliding into recession during the current global economic and financial crisis. According to the OECD, economic growth is expected to accelerate to 3.2% in 2010 from 1.4% in 2009, carried by booming exports and domestic demand. Given the long upward cycle—the Australian economy has registered continued growth in the past two decades—the economy is subject to relatively strong inflationary pressures, with CPI rising to 3.1% (y/y) in 2Q10. This has led the Australian central bank to follow a tight economic policy, being the only major central bank to raise interest rates. Unemployment is low, at about 5%, and continues to fall. The fiscal deficit of around 3% of GDP is manageable. The Australian dollar has emerged as the top performing major currency in 2010. These favorable trends are expected to continue in 2010. While the East Asian economies are expected to slow down somewhat in 2010 and 2011, they will continue to provide support for Australia's commodities and industrial sectors. Strong foreign investment and robust domestic demand should provide the other components of economic growth, which is forecast to average 3.0-3.5% in 2011.



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Snapshot of Current Market Conditions of Lending Institutions in Germany By: Florian Oldenburg, Platinum Partners GmbH

Brief introduction to the German banking system

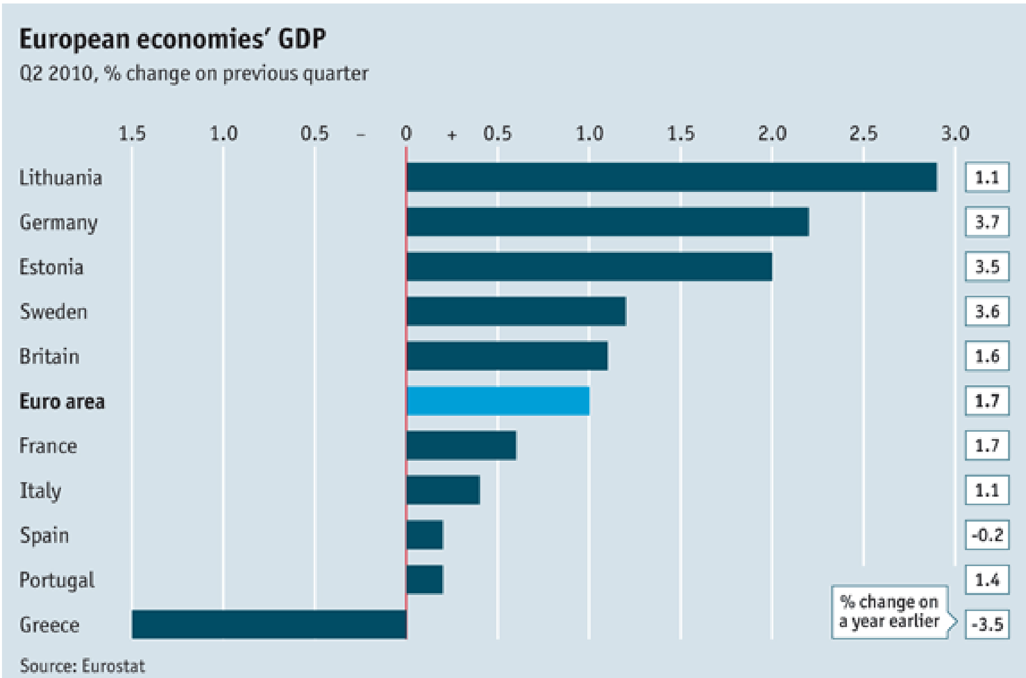
Germany's financial institutions landscape relies on three pillars: the public sector, the cooperative sector and the private sector. The public banking sector is the largest banking market in Germany, consisting of Sparkassen and Landesbanken (WestLB or Helaba Landesbank Hessen-Thüringen), which are all backed by the state. The business approach of the public sector has been historically more conservative and risk adverse, although several Landesbanken have been affected badly by the financial crises, amongst others by investing in the U.S. sub-prime mortgage markets.

The public sector is followed by the "Saving-Banks" ("Sparkassen") and the cooperative banking sector, which is represented by the Genossenschaftsbanken with its top institute DZ Bank AG. Moreover, a significant number of foreign financial institutions are operating in Germany but serving primarily corporate customers. As a result of the financial crises some of them have either pulled out completely from the German market or have reduced their local business.

The private sector has the smallest market share and comprises the commercial banks such as Commerzbank AG, Deutsche Bank AG, Hypo-Vereinsbank AG (Unicredit-Group) and formerly Hypo Real Estate which, due to its engagement in the U.S. sub-prime mortgage markets, collapsed and was bailed out by the German state.

Furthermore, there are a few privately held banks, the Privatbanken, with a long tradition. Their core business lies in wealth management of high net individual clients. Privatbanken such as Berenberg Bank Joh. Berenberg, Gossler & Co. KG, Hauck & Aufhäuser Privatbankiers KGaA or M.M. Warburg & CO are until today privately held. The majority of those did not participate in the high-risk taking investment banking business. On the other hand Sal. Oppenheim, formerly the largest European Privatbank, was involved heavily in the investment banking business and was sold in October 2009 to Deutsche Bank AG[2] after being in severe financial trouble. In comparison to most other countries no financial institution in Germany has a dominating market share, which makes it very difficult for single institutions to implement cost synergies or for foreign players to enter the market and gain a considerable position.

[2]http://www.db.com/presse/en/content/press_releases_2009_4645.htm?month=3



Present economic situation in Germany

During the economic turmoil Germany's GDP fell to an annualized -4.7%[3] and the country seemed to be moribund in the near future. But things turned out differently. Germany as the largest euro-area economy recovered quickest among its neighbors. This is owed to its export strength (Germany's export grew to the end of June by 2.2% GDP)[4] benefiting from the general upswing of the global economy and booming global demand, in particular from China. In Q1 2010 the pressure on the lending market seems to ease a little bit but the overall credit-market conditions remain strained as market specialist and leading economic institutions report.

Since then, global economy has recovered from its paralyzed state and German corporates have as of Q1 2010 begun to reestablished their M&A activities after being occupied in the last 1 ½ years with internal issues, also filling their war chest and restructuring their balance sheets.

Platinum Partners GmbH took this as underlying cause to contact a number of financial institutions in the public, cooperative and private sector as well as foreign institutions. The intention was to find out to what extent lending policy has changed by financial institutions since the crises. Moreover, what the current financing costs for acquisition loans and mezzanine products are and if there will be a significant impact for corporates in Germany when asking financial institutions for loans or mezzanine products?

The response we received varied. Apart from Privatbanken all others continued to finance corporates regardless of their industry while the majority does not provide mezzanine capital anymore or others provide mezzanine capital only in exceptional cases. All financial institutions, however, look very carefully at industry sectors, in particular at automotive or the building industry (some exclude the two industry sectors).

Is there a change in lending policy after the crises? What are the current financing costs for corporate borrowers?

Indeed there has been a change in the lending policy of financial institutions. All financial institutions in Germany have reviewed their risk business models and as a consequence their lending policy is affected in one way or the other. In particular the Privatbanken have tightened their business model as far as risk taking is concerned and have disbanded completely any sort of lending activity. Financial institutions from the public, cooperative or private sector have different

[3] http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/DE/Content/Statistiken/VolkswirtschaftlicheGesamtrechnungen/Inlandsprodukt/Tabellen/Content75/Gesamtwirtschaft,templateId=renderPrint.psml
[4] Table shown in the text: http://www.economist.com/blogs/freeexchange/2010/08/europes_economies

attitudes towards lending. Some exclude certain industry sectors which have suffered the most during the crises, for example the automotive industry which, according to senior bankers, is a cyclical industry, very capital intensive and the majority of the companies are highly dependent on one or two OEMs. But the overall tenor was that it depends on the company and decision is taken on a case by case basis.

However, the surge of the economy has had a positive impact on the overall lending situation because it developed concurrent to the economy, although we see a volatile lending policy of the financial institutions.

In the following table we have summarized the current market environment given us by the financial institutions with regard to acquisition finance and mezzanine capital. These figures represent on average given financing costs charged either by financial institutions or mezzanine providers.

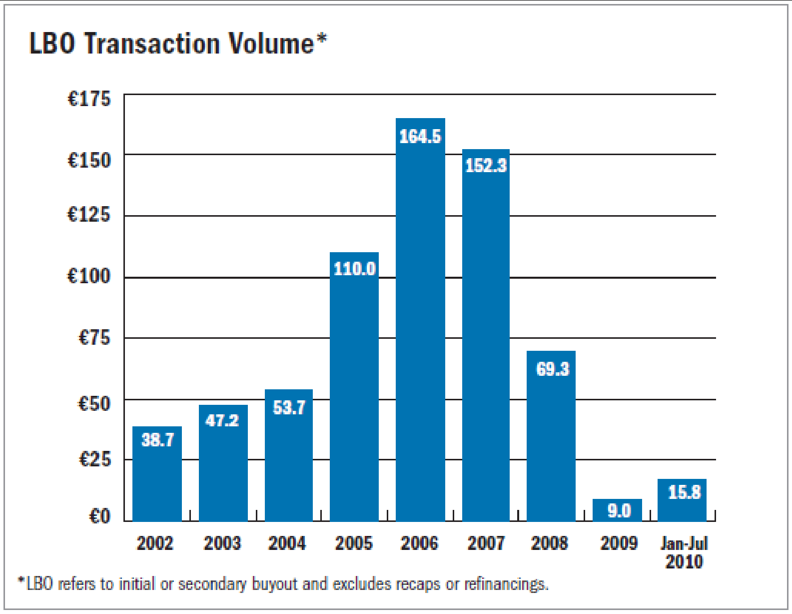
Snapshot of current market conditions: interest rate on acquisitions capital and mezzanine capital

Large Caps		**Small and medium Caps**	
Acquisition capital	**Mezzanine capital**	**Acquisition capital**	**Mezzanine capital**
Minimum of EBITDA EUR 20 mn. Tranches A range form 425 basis points to 450 Tranches B range from 475 basis points to 550 basis points This depends on various parameters: Tranche A : Amortization time 6 – 7 years Tranche B: Amortization time 7-8 years Transaction structure: min. equity contribu-	Mezzanine capital : Range 1120 basis points to 1250 basis points Transaction structure: min. 45% equity contribution Very often a PIK has to be paid after the duration ends	Turnover: From EUR 50 mn to EUR 500 mn Senior debt range from 3.5% to 5% This depends on e.g. financing volumes, industry, history / forecast and competition of financing banks	Turnover: Range EUR 5 mn to 500 mn Investment volume min. EUR 750k Mezzanine capital: Range 1200 basis points to 1500 basis points This depends on various parameter: Company rating Stable cash-flows Traditional industries Duration 5 to 8 years / repatriation

With regard to the above overview, we see a bandwidth of interest rates for acquisition and mezzanine capital provided by the lending institutions. The bandwidth can be best explained, that financial institutions as mentioned previously, decide on a case by case basis, since lending policy / conditions strongly depend on companies individual credit rating, financing volume, industry sector, financial history of the company etc…

Impact on M&A activities in Germany

M&A activity in Germany has a slowly recovered since spring 2010 but we are far away from the number of transactions before the crises. Also the private equity sector which was one of the driving players in the M&A market suffered strongly due to drain out of loans. Private Equity companies with focus on medium-sized transaction also suffered but not as much as PE firms with focus on large caps, which in some cases ceased their business activity in Germany. In the first nine months of this year we have seen quite a few activities of PE companies in Germany but all were small-



medium-sized transactions e.g. the purchase of Lautsprecher Teufel GmbH by HgCapital in June 2010 or the acquisition of Kamps GmbH by ECM Equity Capital Management GmbH in August 2010. A senior Leveraged Finance banker who does not want to be named believes the return to large private equity deals will not be seen until late 2011 in Germany. In the chart from Standard & Poor's[5] LCD European Private Equity publication in 2009, the LBO[6] transaction volume was the lowest in seven years on European level and just started to recover slightly. However, from the beginning of this year, M&A transactions in Germany were dominated by small-and mid-cap deals; only four transactions had an Enterprise Value of more than 1 Billion Euro[7]. Large transactions still do not have the same momentum as mid-sized deals. This is most probably due to the lasting risk adverse lending policy for large transactions by financial institutions.

Outlook

Recovery of the global economy will result in a further rebound of the financial market in the upcoming months. The Bundesbank raises forecast growth after second record quarter ("Gross domestic product will increase by about 3 percent in 2010"[8]). The ifo business climax index[9] which rose continuously in the last 6 months from 93.7 points to 108.2 points in August underlines the continues upswing in Germany. As all signs and data support a strong recovery of the German economy there is still a big question mark regarding financial markets where seeds have been laid but will they grow? Market experts believe conditions will continue to stay difficult for commercial lending, but the current development signals no lending shortage for the German economy.

As far as M&A activity is concerned, there will be from 2011[10] an increase in M&A transactions due to present low interest rates, low P/E ratios and strong balance sheets. Thus a number of companies with excess cash will most likely use it to finance acquisitions.

Florian Oldenburg, Platinum Partners GmbH. Florian Oldenburg started in December 2009 as an Associate at Platinum Partners after a short spell at SynCap Management GmbH, Frankfurt/Germany, an M & A boutique focused on the small and mid-cap market. Previously, he worked for 2 ½ years in the M&A Food & Agri team of the Dutch Rabobank International in Frankfurt and Amsterdam. During his time at Rabo, he accompanied various cross-border transactions in the food industry, including the Debt Restructuring of Nordmilch AG in 2007. Florian started his career in 2006 in the Corporate Finance/M&A team at the private bank Hauck & Aufhäuser in Frankfurt, Germany.

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[5]Published by Standard & Poor's Leveraged Commentary & Data
[6]Leveraged-Buy-Out
[7]According to MergerMarket 01/01/2010 – 07/09/2010
[8]http://www.bloomberg.com/news/2010-08-19/bundesbank-raises-german-growth-forecast-to-3-after-record-second-quarter.html
[9]Results of the August 2010 Ifo Business Survey / CESifo Group based in Munich and led by Prof. Hans-Werner Sinn
[10]http://www.handelsblatt.com/finanzen/anlagestrategie/fusionspoker-anleger-reiten-die-uebernahmewelle;2650346