

BUSINESS WITHOUT BORDERS

INTERNATIONAL GROWTH AT MID-CAP COMPANIES





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FOREWORD

As the world becomes increasingly global, most mid-market firms are looking at ways of driving growth through expansion into new international markets. To gain a greater understanding of this trend, we surveyed 150 senior corporate decision makers (CEO, COO, CFO or Head of Strategy) at mid-market companies. In a collaboration with Mergermarket, the survey aims to determine which markets and regions mid-cap companies are targeting, where they are already achieving success and how they intend to finance their international growth plans.

This report contains valuable insights into the attitudes and behaviours of mid-cap companies and their strategies for international – and domestic – growth. Defined for this study as companies with revenues of between €250m and €2.5bn, the middle market includes an incredible diversity of business structures. Some of these businesses have only recently transitioned from being start-ups. Some are well established enterprises with solid growth and consistent business practices. And some are firms that are either already large global corporations, or are starting to resemble them.

We found that in general mid-cap firms are eager for international expansion, with international growth seen as a key part of company strategy for 56% of the firms involved in our survey, and 50% of respondents intending to make an acquisition over the next three years.

The findings also reveal that mid-market firms see Asia as a particularly attractive market for growth, with respondents based in EMEA, the Americas and Asia all most likely to cite a country in this region as one where they are most likely to build new operations. However, expansion in Asia is also revealed to be challenging, with respondents from all three regions also most likely to cite an Asian country as their most difficult existing market.

We are pleased to present this report, which we feel provides an illuminating insight into the international strategies being pursued by mid-cap companies, along with the unique challenges that come with operating in the middle market. We welcome the opportunity to discuss with you any of the issues raised in more detail.

KEY FINDINGS

THE IMPORTANCE OF INTERNATIONAL GROWTH

45%

of mid-market firms generate more than half of their revenues internationally

47%

of respondents already operate in more than 10 international markets

50%

of respondents say they used a greenfield investment to enter their most successful market

INTERNATIONAL GROWTH STRATEGY

56%

of respondents say international growth is a key part of their current strategy

50%

of all respondents intend to make an acquisition over the next three years

34%

anticipate making at least three acquisitions

73%

say access to a proven business model is a key driver of their acquisition strategy

FINANCING INTERNATIONAL GROWTH

58%

of mid-market firms are most likely to use bank debt to finance their international strategy, with 56% looking to internal profits

31%

of respondents expect private equity capital to be one of their top funding sources

THE IMPORTANCE OF INTERNATIONAL GROWTH FOR MID-MARKET FIRMS

For the very biggest companies and conglomerates, the global market is native territory. But while the acceleration of globalisation through mechanisms such as market openness and technology has clearly had an impact on every business, its effect has been uneven. This is particularly true for the mid-cap companies that are neither fleet-footed start-ups for whom global barriers are meaningless, nor established global giants with ongoing presences in multiple markets.

It is these companies that represent the most interesting stories of global expansion. For them, expanding operations internationally, acquiring overseas businesses and entering export agreements or joint ventures (JVs) represents a significant project – often one that’s essential to their overall growth ambitions.

And because of their scale, these businesses are rarely doing deals simply to find new customers. Our research shows that the drivers are hugely varied. As one finance director from Indonesia explains: “We have spread our business internationally in areas where we feel there are more chances of higher productivity.” A US CFO echoes this view: “We have transformed our international business from being a money saver to a money maker as we rethought our revenue and expansion strategy.”

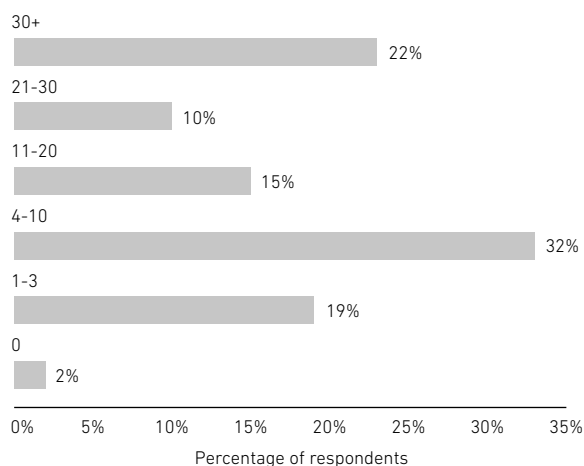
Mid-market activity and intentions

That’s not to suggest mid-market companies around the world are only just beginning to globalise. Far from it: only 2% of the respondents to our survey currently have no international exposure – and 22% are active in 30 or more markets around the world.

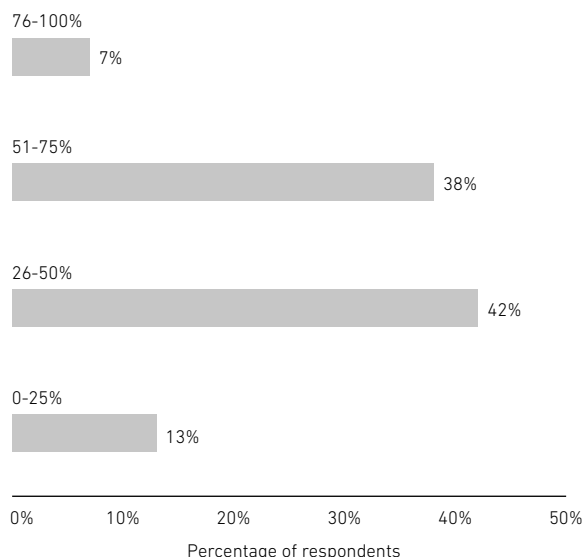
GETTING ACCESS TO INTERNATIONAL MARKETS CAN HELP US CHANGE OUR POSITION IN THE BUSINESS GAME

COO, NORWAY

In how many international markets do you currently have operations?



What proportion of your turnover do you currently generate internationally?



The turnover figures are equally impressive: 45% of the executives we talked to attribute a majority of their turnover to international operations. Of the mid-market companies surveyed, 42% currently generate 26-50% of their turnover internationally, while 38% generate 51-75% of their turnover in overseas markets.

Only 13% generate less than a quarter of their revenues internationally – while 7% generate more than three-quarters of their turnover in foreign markets.

Perhaps more significantly, 56% of firms say that international growth is a major part of their current strategy. Despite already establishing international operations, they want more – and more developed – exposure to overseas markets. Only 17% of respondents say it's not part of their current strategy at all.

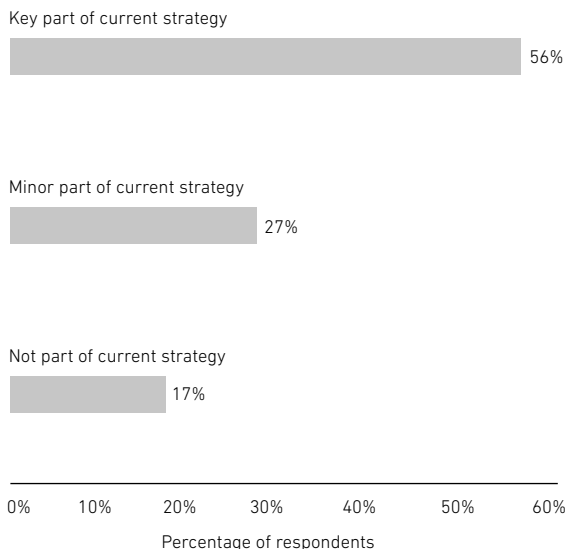
Given the evident opportunities for mid-market companies on the international stage, why would companies *not* prioritise overseas growth? Of the 44% of companies that didn't see it as a major part of their strategy, the most commonly cited reason was a need to focus on their domestic market. Trailing a distant second were difficulties getting financing and limited opportunities for market entry.

Insightful success stories

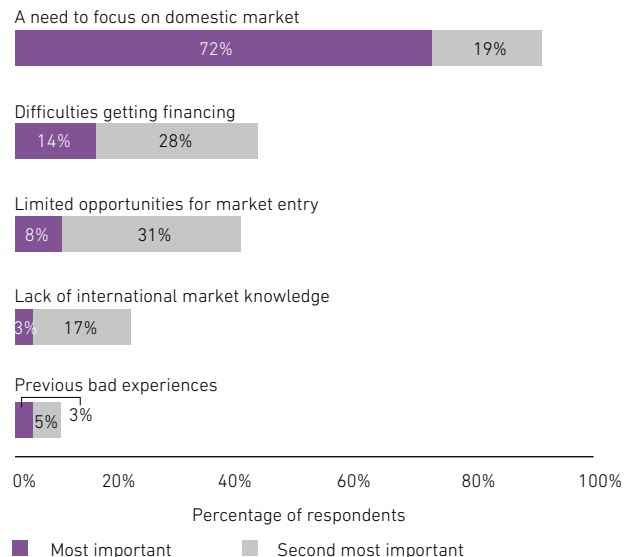
Our research generated some fascinating insights into the factors that correlate with success in international growth. It's worth noting that for many mid-market companies, the logical and sensible approach is to grow regionally first. Many companies identified their most successful international operations as ones in nearby markets.

OUR STRATEGIC FOCUS HAS BEEN CONSTANT ON GROWTH, PROFITABILITY AND PRODUCT EFFICIENCY
FD, SWITZERLAND

What role does international growth play in your current strategy?



Why does international growth not play a greater role in your current strategy? (Please rank top two)



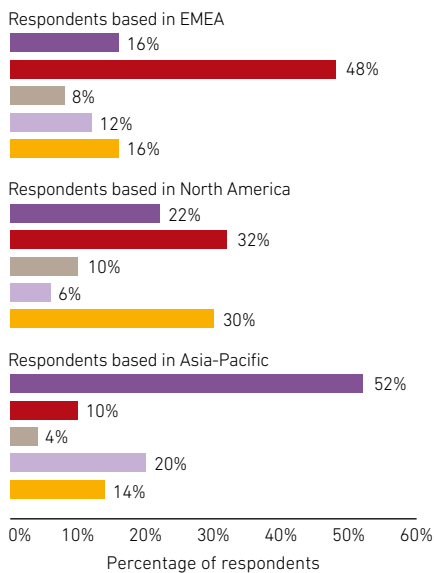
However, we can also see that where international markets are considered to be big enough – and have sufficiently low barriers to entry – they are also attractive. And, as we'll see later, this same combination of neighbouring and/or large-scale markets features in the list of countries where mid-market companies have had their most challenging experiences, as well as successful ones.

Hence, companies based in Asia-Pacific were most likely to cite China and Singapore as successful expansion locations – with the US and the UAE also in the list of attractive options. For companies based in EMEA, it was the US by some distance. Those based in North America have had most success within their own continent (for instance, US to Canada, Canada to US) as well as in the UK and in India.

A finance director in the Asia-Pacific region explains: “We will focus on neighbouring countries – with market proximity and with elements that are similar to our home market. Also, with less distance in business operations, we can attract more clients.”

Regionally, respondents from Asia-Pacific and EMEA were most likely to cite countries within their own region as the most successful cross-border investment. The exception to this regional bias is in North America, where firms were most likely to cite countries in EMEA.

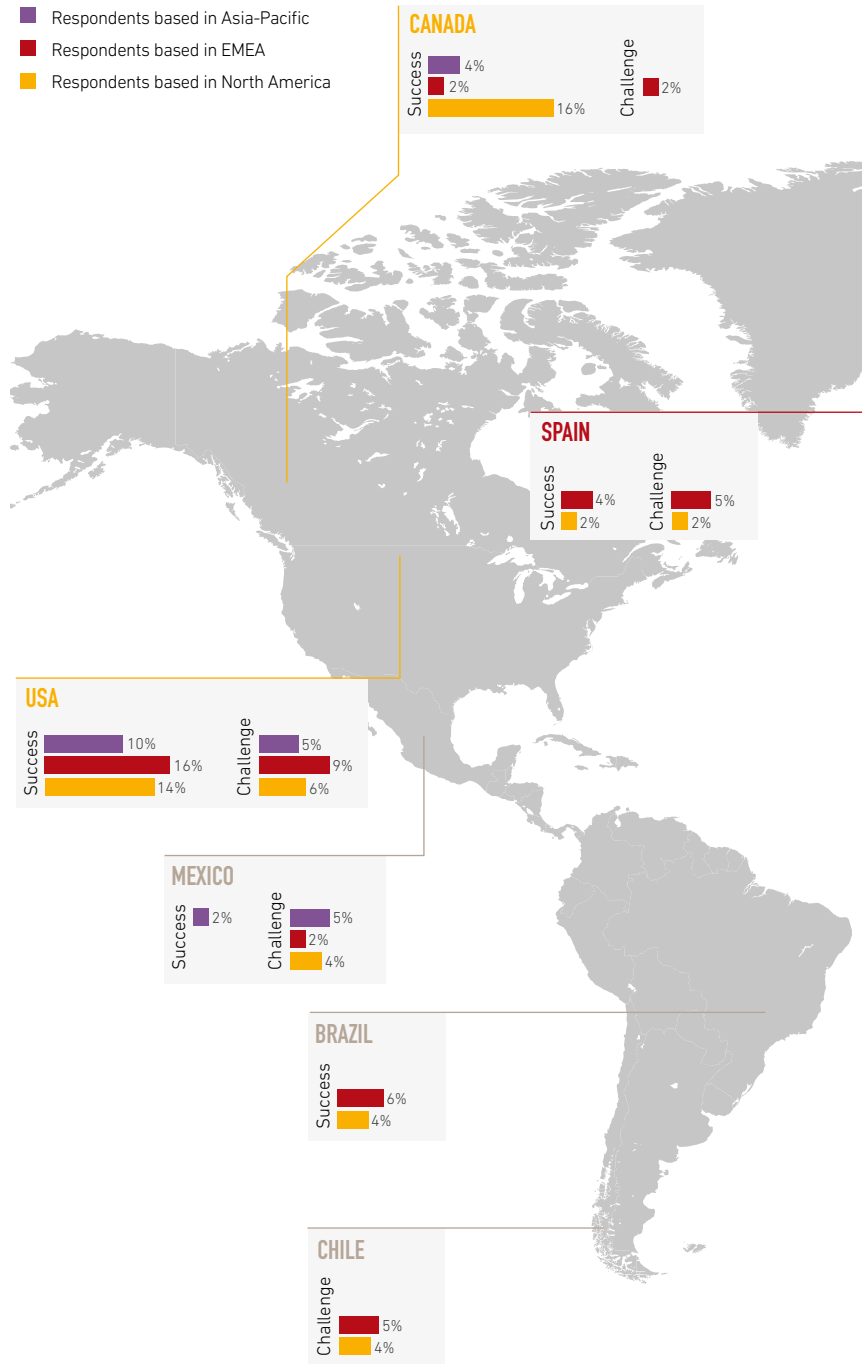
Looking at your current international operations, in which overseas market have you enjoyed the most success?



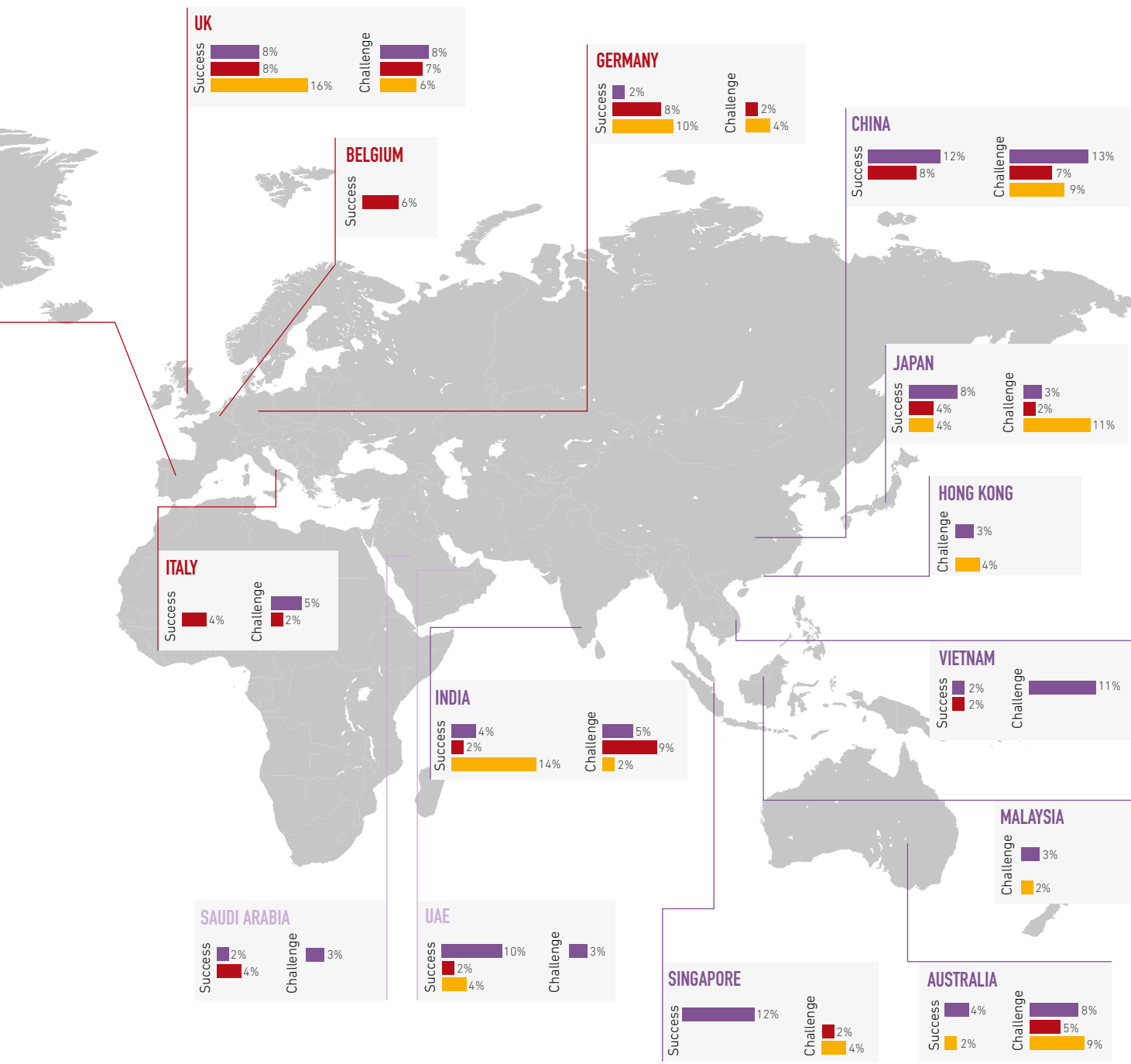
■ Asia-Pacific ■ Europe ■ Latin America
 ■ Middle East ■ North America

Looking at your current international operations, in which overseas market have you enjoyed the most success and which is the most challenging?

Key:
 ■ Respondents based in Asia-Pacific
 ■ Respondents based in EMEA
 ■ Respondents based in North America



Note: other selected countries are included in the appendix on page 33



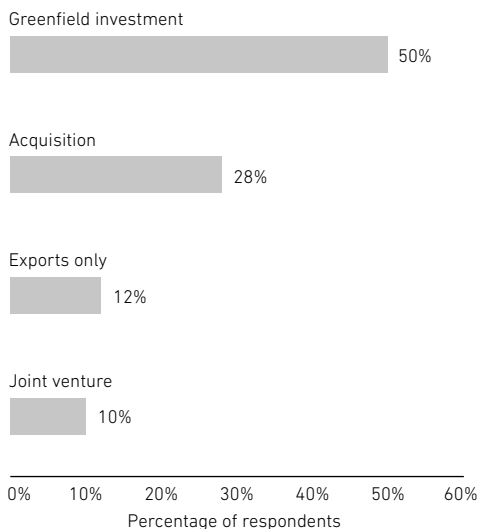
When asked for the reasons behind their success, respondents were most likely to cite strong economic growth and stability in the target market (63%), followed by a large potential customer base (57%), skilled local workforce (37%) and good infrastructure (37%). When asked to select the most important of these reasons, a large potential customer base (21%), followed by strong economic growth (17%) and favourable legal environment (12%) were the top three choices.

Sector is tremendously important to success and the selection of target markets. For example, companies in extractive industries naturally focus their international operations on countries with significant mineral deposits. Companies selling fast-moving consumer goods look for a cultural fit and the right demographics. And at the other end of the spectrum, many companies whose chief asset is intellectual property can expand faster and further afield through partnerships.

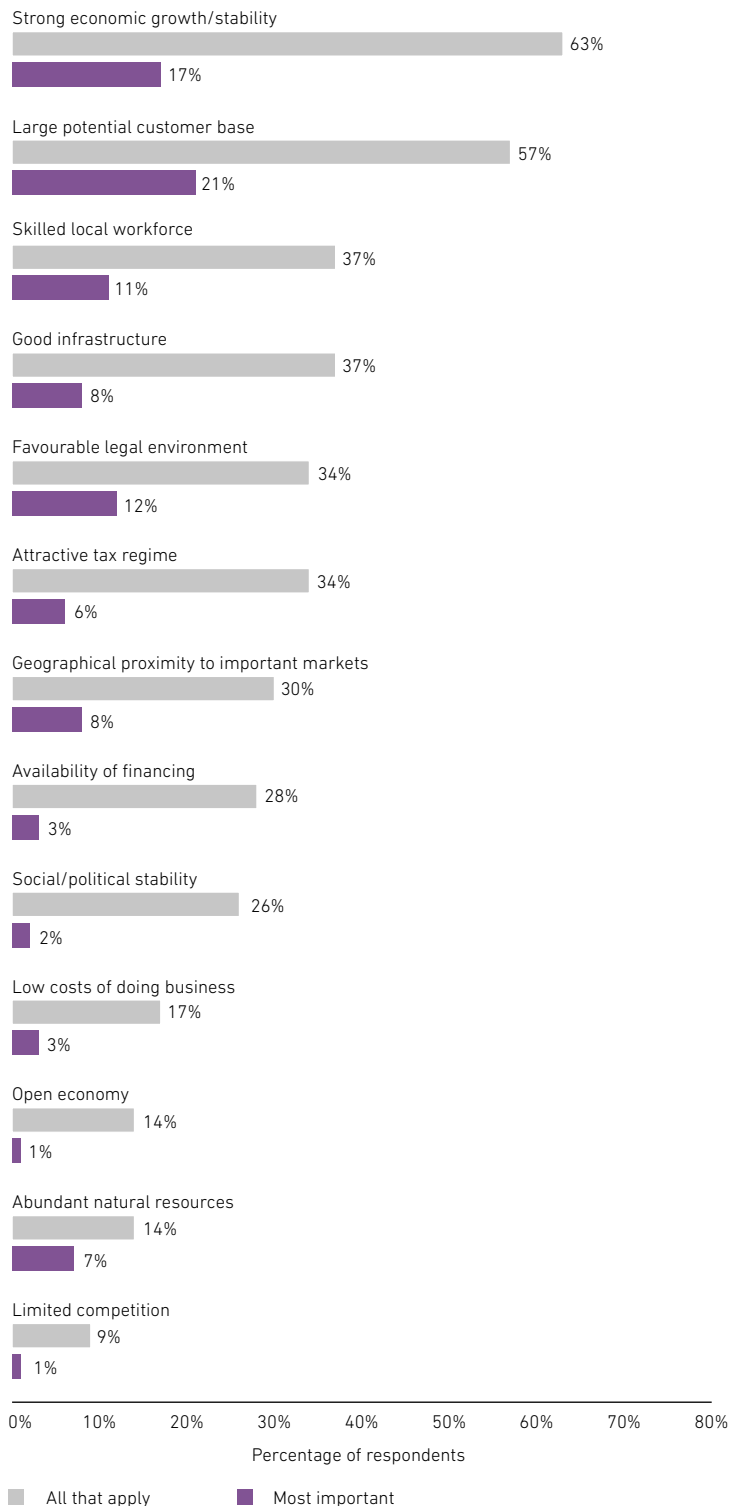
Each company's experience is unique, of course. A chief operating officer at one German mid-market company explains: "The Chinese and Japanese markets have a skilled population which makes it easier to attract talent. The customer base is also huge and most keep up with technological development, making them ideal prospects."

Expanding internationally is not simply a case of setting up shop in a new market. We asked respondents to tell us how they gained access to their most successful overseas territory. Half were built through greenfield investments, while 28% were established through acquisitions, 12% were based on exports only and 10% were through a JV.

How did you enter your most successful market?



Why has this market been the most successful? (Please select all that apply and the most important)





CUSTOMER BASE HAS BEEN THE MOST SUCCESSFUL FACTOR; IT HAS CONTRIBUTED ENORMOUSLY TO OUR OVERALL BUSINESS SUCCESS
 FD, SPAIN

Interestingly, these figures are similar to those reported when respondents were asked for the route of their most challenging international operations. This suggests that the means of accessing a market is not closely correlated to success or failure.

Several respondents mentioned the importance of local intelligence to their successes overseas, whichever market they were entering and regardless of approach. And as we'll see, advisors on the ground and strong local management are also vital tools for overcoming challenges in international operations.

Overcoming mid-market challenges

Unsurprisingly – given the bias towards larger markets, regional proximity and cultural fit as deal drivers – there is some crossover between the countries where mid-market companies have had their most challenging experiences internationally and the locations of their successes.

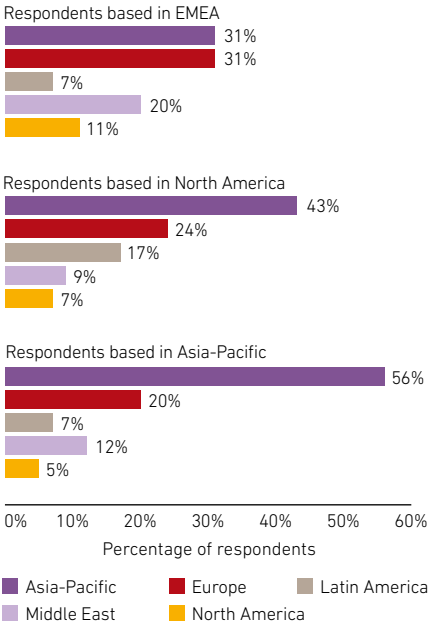
Respondents from Asia-Pacific were most likely to select China; those from EMEA were most likely to say the US and India had been most challenging, followed by China and the UK.

We did find that respondents from North America were most likely to say they had faced challenges in Japan, followed by Australia and China – a different selection from the success locations for US firms. And while Singapore was often cited as a successful expansion option by companies in Asia-Pacific, it barely featured as a challenging location.

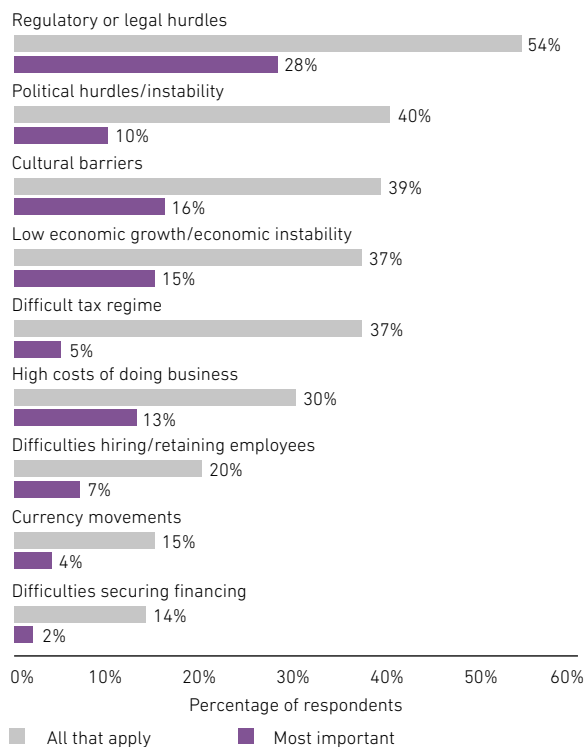
On a regional basis, respondents from all three regions were most likely to cite a country in Asia-Pacific as their most challenging (although in EMEA, the number of countries from the Asia-Pacific region was tied with the number of countries from EMEA).

Companies are therefore often discovering the biggest challenges where the local cultural and regulatory environment is less familiar.

Looking at your current international operations, which overseas market have you found the most challenging? (Showing region)



**Why has this market been the most challenging?
(Please select all that apply and the most important)**

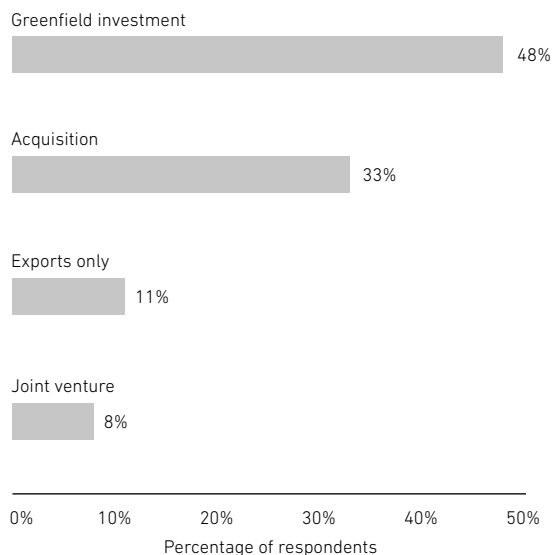


“Cultural barriers can affect effectiveness – without proper coordination and a collective business culture, there are added complications and more stress in achieving performance,” one US operations director says.

Regulatory and macroeconomic factors are also a key concern, as a Taiwanese finance director that has operations in Europe mentioned: “Rising labour costs and regulatory requirements are the main barriers to successfully managing our business in the European region,” he says. “We are finding it difficult to manage logistical services in Europe. Finance availability is also an issue due to the unstable economy and slow pace of growth.”

For those markets that were mentioned, the most likely reasons behind the challenges faced were regulatory and legal hurdles (54%), political hurdles/instability (40%), cultural barriers (39%), low economic growth/instability (37%) and a difficult tax regime (37%). When asked for the most important of these reasons, the stand out factor was regulatory and legal hurdles, chosen by 28% of respondents. It’s a compelling argument for seeking sound professional advice with a strong local and international dimension.

How did you enter your most challenging market?



“RISING LABOUR COSTS AND REGULATORY REQUIREMENTS ARE THE MAIN BARRIERS TO SUCCESSFULLY MANAGING OPERATIONS IN EUROPE”
FD, TAIWAN

A problem shared is a problem halved

How firms overcame these challenges provides valuable insights, with respondents more eager to explain how they had solved difficulties with their international expansion plans than to complain about the difficulties they had faced.

Given the context of the challenges, many solutions revolve around boosting local knowledge. A Canadian operations director told us how the company overcame issues with his company’s UK acquisition: “We were determined to get access to the market and were therefore ready to take risks. The most important step in overcoming the challenges we faced was getting in touch with locally based consultants to get help on approvals and general guidance on doing business in the UK market.”

This US strategy director also looked to external advisors to smooth a greenfield investment his company made in France: “We managed to overcome the regulatory challenges by approaching the right set of people who had the expertise and knowledge of foreign markets. We used an international consultant who has been supporting us and has helped us make decisions through a secondary research team that we use to validate information.”

WE ADAPTED THE BUSINESS CULTURE AND WORKED ON AN APPROACH FEASIBLE TO ALL AND INCULCATED COMMON VALUES TO SUPPORT BUSINESS WELL-BEING
COO, NORWAY



Answering the culture question

While local professional expertise is a must for issues such as tax and regulations, several respondents also highlight the value of talented local staff. "We've managed to have success in the majority of our overseas activities because we have a simplified approach which is easy to communicate and understand," says one UK operations director – a strategy that overcame regulatory hurdles in their business's US investment. "We believe in training and sharing essential insights with the staff so that they get a fair idea of the transaction – we reveal our objectives and how it is going to help them grow along with the business."

This tactic of open communication and transparency was used by respondents to overcome challenges in many different markets – from China, where one respondent says: "we kept employees updated about the whole process", to Serbia, where another echoed the sentiment: "we involved local management to handle the decision making as they had good social and political influence in the local market."

But there is one other dimension to consider. For small companies, culture is often exemplified by a founder entrepreneur. New businesses, even overseas, will often be culturally or behaviourally defined by that individual. For large multinationals, there's often a very well-defined and dominant culture that quickly permeates acquisitions and even JVs.

Mid-market companies often have a bigger challenge. They can lack the international brand presence that easily dominates or subsumes local culture; but they're not always defined by one individual. So it was interesting to note that several respondents highlight the importance of finding a way to create some cultural middle-ground when they've expanded overseas.

For example, a finance director of a UK firm investing in India says: "In terms of cultural barriers, we decided to give importance to common attributes like integrity, commitment and loyalty for starters – and later we will transition into other, more complex, business attributes."

A German operations director relates a similar story on his company's Chinese acquisition: "Collectively we got into an exchange of managerial staff across offices and invested in training and mentoring sessions to create an organisational culture that promotes respect, honesty and teamwork."

The good news is that very few companies reported that their challenges were insurmountable. With expert external advice, engaged local management and a willingness to think flexibly, the mid-market companies were able to surmount almost any difficulty.

DOING BUSINESS IN BRAZIL

FIVE QUESTIONS: ROBERTO SANCHEZ, REGIONAL FINANCE DIRECTOR, SOUTHERN EUROPE AND LATAM AT RENTOKIL INITIAL

1 Rentokil Initial entered the Brazilian market in 2012 by acquiring the country's third largest pest control brand. However, Brazil is expected to close 2014 with a GDP growth of less than 0.3% and an expected growth of just 1.0% in 2015. In this global context, is Brazil still a strategic market for an international group such as Rentokil Initial?

Most South American markets are attractive; principally because both the GDP and middle classes in these countries are growing more than in the other markets where we operate. At the same time, Brazil is especially attractive due to the size of its population and high level of urbanisation.

The Brazilian pest control market in particular is very attractive, as it is the largest in Latin America and one of the largest when compared to European markets. It has been growing rapidly in the last five years as the Brazilian population demands ever-higher hygiene levels in restaurants, hotels, offices, food areas, and so on.

At the same time, it is a fragmented market and control services provided by pest control companies are still in their earliest stage: mainly oriented toward tackling existing pest problems rather than ongoing control and monitoring. Integrated pest management services are not yet mainstream. Brazil is the perfect place for Rentokil, a worldwide leader recognised as "the experts in pest control".

2 In addition to Brazil, you managed a number of transactions in Southern Europe. In your opinion, what are the main differences and difficulties in conducting a transaction in Brazil when compared to other countries?

There are not any major differences in Brazil compared to other markets, although we have faced some difficulties in understanding the country's complex tax system.

3 In addition to having high price expectations, Brazilian sellers, especially in the case of family-owned businesses, are not always knowledgeable about complex transaction structures implying price adjustments, earn-outs, and so on. Did you experience this difficulty and how did you manage to implement minimum safeguards in your transactions?

Indeed, although this isn't different from other markets in our industry. Building a good relationship and trust with the owners of the business is important in any industry but even more so in Brazil where one might face these difficult points in negotiations. I also believe it is key to use the right advisors (financial and legal) who have experience in both Brazil and with European multinationals. This helped us overcome issues with simple and pragmatic solutions.

4 A complex tax system and low corporate governance are often cited as the key obstacles for foreign corporations developing business in Brazil. How did Rentokil Initial deal with these obstacles following the Brazilian acquisition?

Once again, you must look for the right advisors.

5 What would be your recommendations to a foreign corporation seeking to enter the Brazilian market through an M&A transaction as Rentokil Initial did in 2012?

I would definitely recommend getting into the Brazilian market. However, things to consider include:

- It will take longer than expected.
- Relationships are important and building trust is key.
- Choose the right advisors.



About Roberto Sanchez and Rentokil Initial

Roberto Sanchez is the Regional Finance Director, Southern Europe and Latam at Rentokil Initial. He assumed this role in 2008 after a position as M&A manager for the company from 2006, and following more than five years in the banking sector. He currently oversees external growth projects in Brazil and Latin America.

Rentokil Initial is one of the largest business services companies in the world, founded in 1925 in the UK, and specialises in the supply and laundering of textiles, disposal of hazardous and clinical waste, pest control, hygiene services, facility management and interior landscaping. The company, listed on the London Stock Exchange, has over 60,000 employees providing a range of support services in more than 60 countries.

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THE INTERNATIONAL STRATEGY OF MID-MARKET FIRMS

Understanding the extensive international experiences of mid-market companies is a useful benchmark. But at a time of both accelerating globalisation and a degree of global economic uncertainty, what are their future plans?

Target markets for future expansion

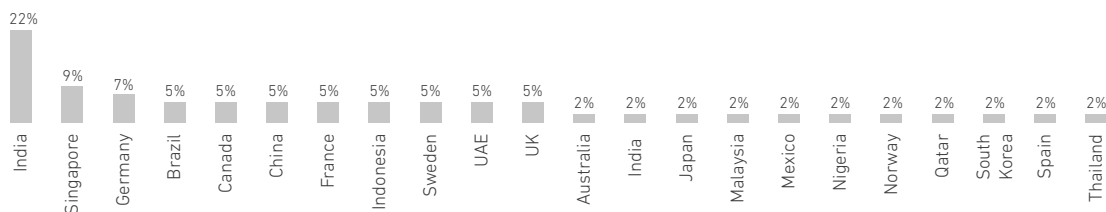
We've already established that mid-market companies – with a degree of scale and a desire to grow – are keen on markets where they can find a lot of customers; where regulations are relatively easy to manage; and where the economy is growing. It's no shock to learn, then, that the countries on the target list for future expansion generally exhibit these qualities, too.

When asked which international market they are not currently in that they would most like to enter, respondents from the Asia-Pacific region were most likely to say India – as did those from EMEA, who also want to target the US, Australia and Brazil. Respondents from North America were most likely to say Australia, UAE and Malaysia – followed by Brazil and India.

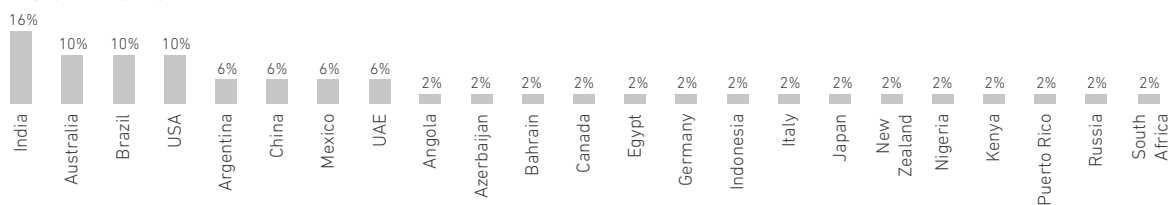
AFRICAN ECONOMIC CONDITIONS ARE GREAT AND THERE SEEMS TO BE MORE SCOPE FOR DEVELOPMENT
FD, USA

Which international market that you are currently not in, would you most like to expand into?

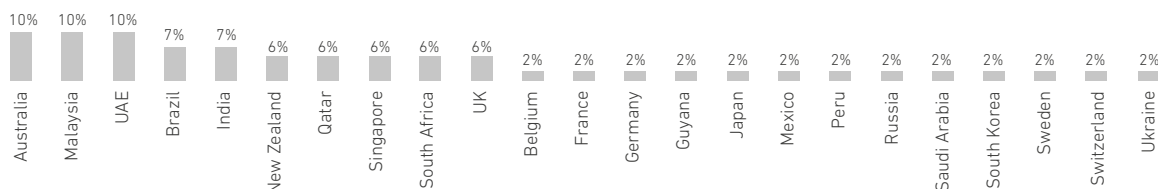
RESPONDENTS BASED IN ASIA-PACIFIC



RESPONDENTS BASED IN EMEA



RESPONDENTS BASED IN NORTH AMERICA



India is seen as an untapped market by many respondents, but not only because of the booming middle class and fast-growing GDP. "India is an attractive target," says the director of strategy at a French pharmaceutical business. "The economy's growth and development has been outstanding – but also its contribution towards the healthcare industry, including R&D and the development of human talent, has been significant."

As one Indian CFO says: "The Southeast Asian region has been successful in drawing in professionals from different cultural and geographic backgrounds – which is a real attraction for any business."

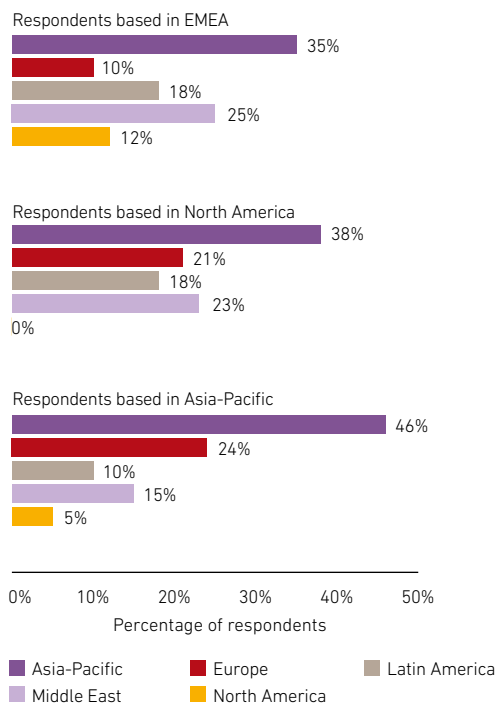
On a regional basis, respondents from Asia-Pacific, EMEA and North America were all most likely to select a country

in the Asia-Pacific region, demonstrating that this region is still seen as very attractive and that emerging markets are still seen as a key growth avenue for firms based in developed markets.

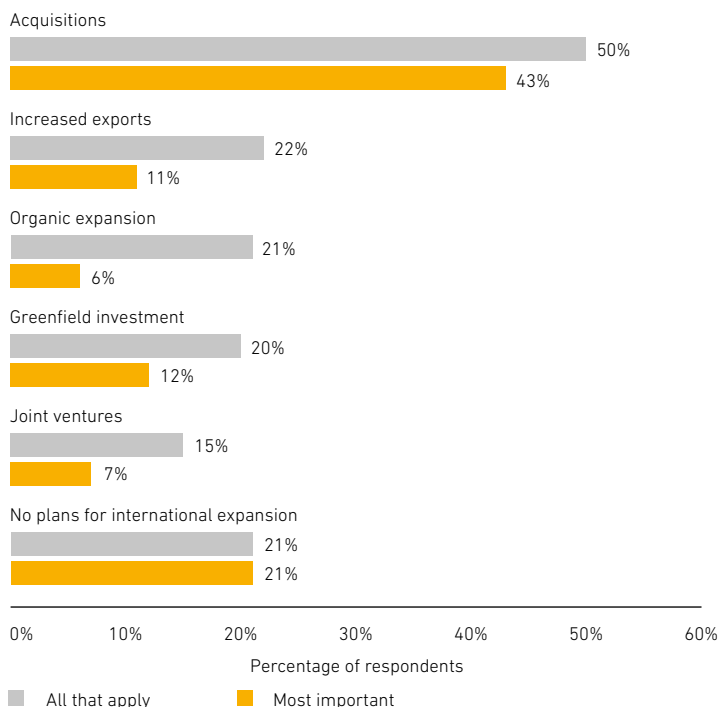
How will this international strategy be achieved?

When it comes to respondents' strategies for growing in international markets over the next three years, 50% cited acquisitions as the main way to achieve this – by far the most popular option. This was followed by increased exports (22%), organic expansion (21%), greenfield investment (20%) and JVs (15%). Just over a fifth of respondents say they have no plans for international expansion – often because they feel they've already positioned themselves in their priority markets and are now consolidating.

Which international market that you are currently not in, would you most like to expand into? (Showing region of chosen country)

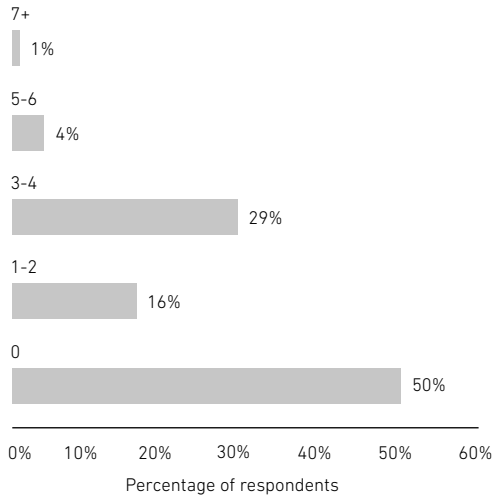


What is your strategy for growing in international markets over the next three years? (Please select all that apply and the most important)

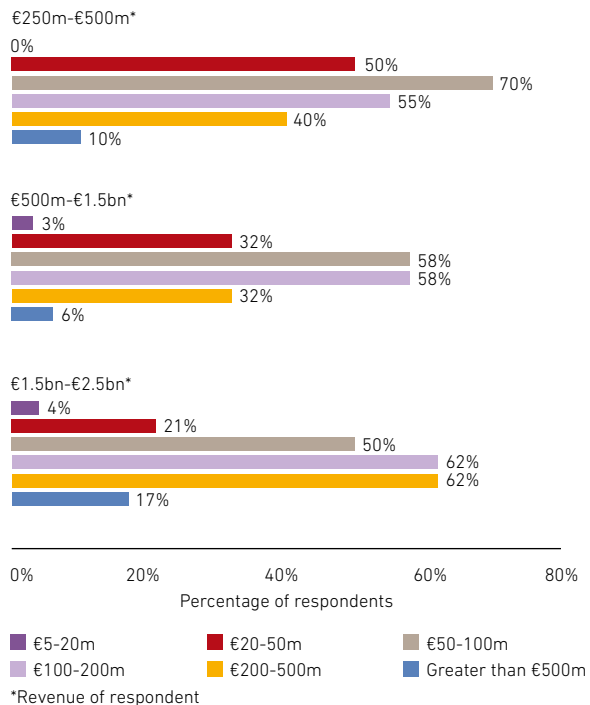


Of the firms planning acquisitions within the next three years, 29% say they anticipate making three to four deals, while 16% expect to make one to two deals; 5% expect to make five or more deals. The likely size of these acquisitions is closely related to the size of the respondent. Firms that have a turnover of €250-500m are most likely to make acquisitions of firms with a turnover of €50-100m. Firms that have a turnover of €500m-€1.5bn are most likely to make acquisitions of €50-200m. Firms that have a turnover of €1.5-2.5bn are most likely to make acquisitions of firms with revenues of €100-500m.

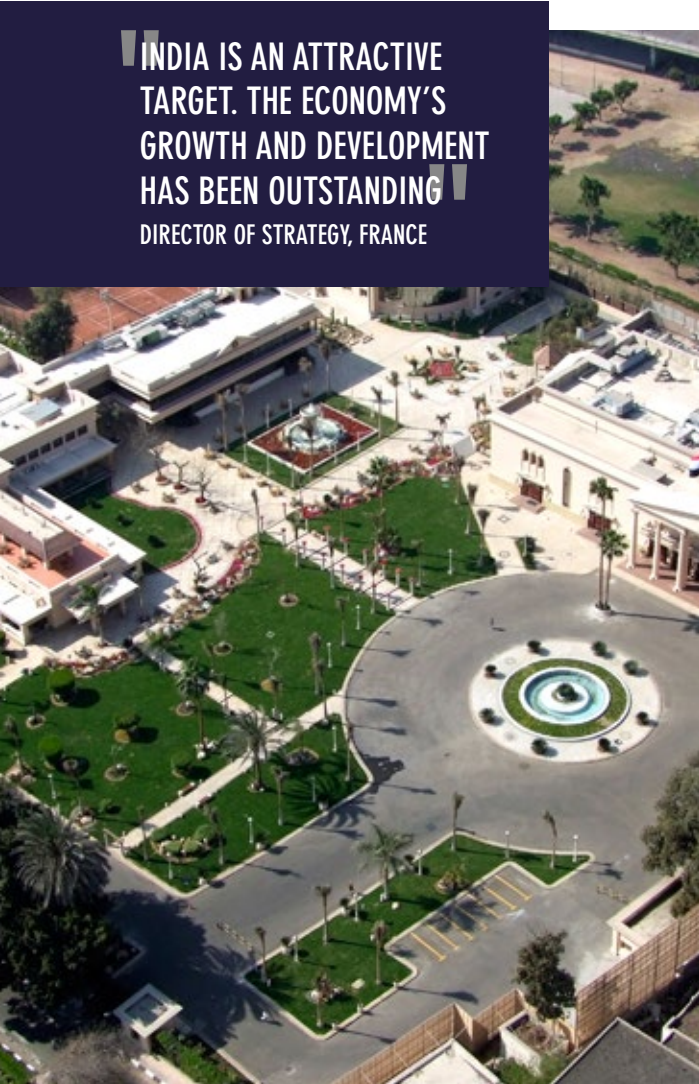
How many overseas acquisitions do you anticipate making over the next three years?



What size acquisitions will you consider, by turnover of target? (Please select all that apply)



INDIA IS AN ATTRACTIVE TARGET. THE ECONOMY'S GROWTH AND DEVELOPMENT HAS BEEN OUTSTANDING
DIRECTOR OF STRATEGY, FRANCE



To buy or not to buy...

The most popular motivating factors for overseas acquisitions are access to a proven business model (73%) and the ability to quickly build scale and market share (73%).

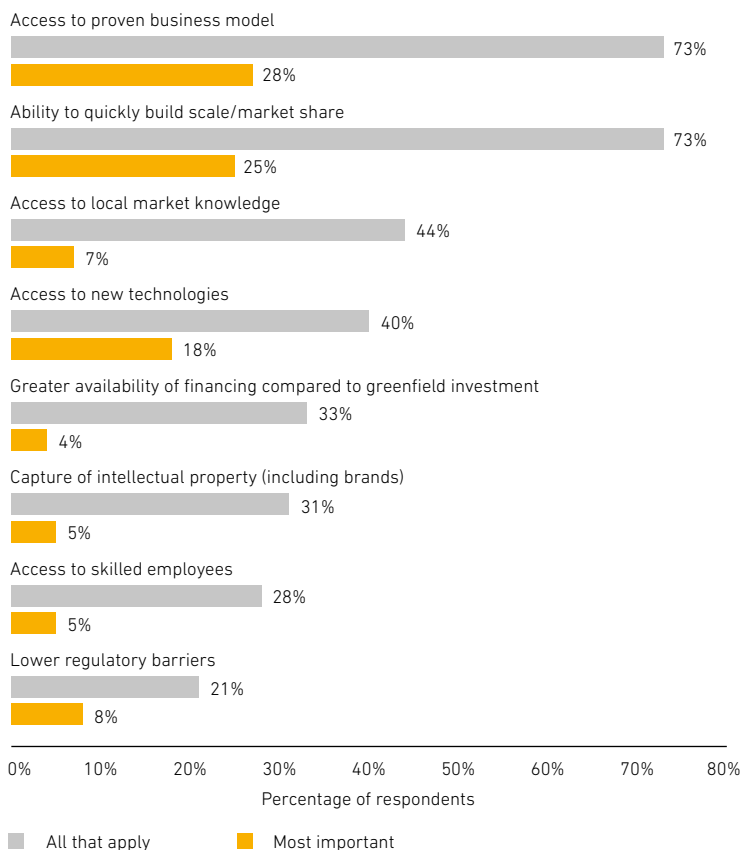
Access to local knowledge (44%) was also considered important. "With acquisitions, we get access to local market information which can help us get going quickly and we have less to worry about around regulatory barriers as we can rely on the target management to help us out, based on their local relationships and market knowledge," explains a Malaysian operations director.

Or, as one US finance director puts it: "We always focus on acquiring within the region and prioritise well established targets. Greenfield investment is subject to more regulation and requires more expenditure. This type of investment is also often accompanied by political pressure and interference which has to be tackled single-handedly."

Because an acquisition target is already trading and has strong local knowledge, it can be much easier to leverage their position than build a new one. And by selecting targets in areas where there's support for inward investment, these deals can be managed more smoothly. "Nigeria is known for its favourability for inbound acquisitions," explained one Australian CFO. "The assets are often undervalued and have high potential for growth."

Access to new technologies (40%), and the greater availability of financing compared to greenfield investment (33%) also weighed in favour of the acquisition route.

What motivates you to expand through acquisitions? (Please select all that apply and the most important)



WITH ACQUISITIONS, WE GET ACCESS TO LOCAL MARKET INFORMATION WHICH CAN HELP US GET GOING QUICKLY AND WE HAVE LESS TO WORRY ABOUT AROUND REGULATORY BARRIERS AS WE CAN RELY ON THE TARGET MANAGEMENT TO HELP US OUT, BASED ON THEIR LOCAL RELATIONSHIPS AND MARKET KNOWLEDGE

OPERATIONS DIRECTOR, MALAYSIA

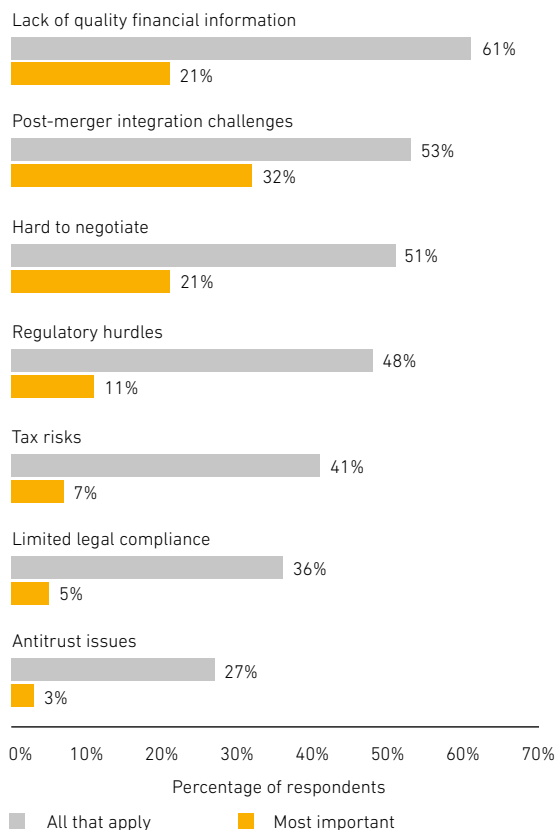
But it's not always plain sailing. For many respondents, M&A deals overseas are less attractive. And the biggest single reason for avoiding international acquisitions is related to challenges around due diligence, with a lack of quality financial information cited by 61% of respondents. "Transparency risk is the most significant factor," says the finance director of a Spanish company. "Often the information available is incorrect which creates massive disruption during the deal flow."

A Spain-based CFO concurs: "Due diligence is the most challenging aspect when conducting an acquisition, with a lack of transparency and misleading information the biggest potential barriers. The things we pay most attention to are internal control standards, anti-corruption policies and the ethics of the target." Get any of these wrong, and an ambitious, growing, mid-market company risks its entire reputation.

CROSS-BORDER TRANSACTIONS ARE GETTING DIFFICULT WITH THE INCREASE IN REGULATORY AND POLICY CHANGES

DIRECTOR OF OPERATIONS, CANADA

What do you see as your biggest challenge when conducting acquisitions? (Please select all that apply and the most important)



Why are you not planning to grow through acquisitions in the short/medium term? (Please select all that apply and the most important)



Respondents were also likely to cite regulatory hurdles (48%), particularly those operating in certain highly-regulated sectors such as healthcare and energy. Local tax issues (41%) were also problems for acquirers – and further highlight the need for strong external advice on local compliance issues.

But outside those areas, the biggest challenges will be familiar to anyone who has done domestic M&A deals: post-merger integration challenges (cited by 53%) and difficulties in negotiating (51%). “Acquisitions require a lot of time and resources to successfully integrate,” a Canadian CFO says. “It is easy to get distracted by aligning internal processes rather than focusing on customers’ demands and the need for continued innovation.”

The good news is that the most common reason given for choosing not to undertake acquisitions was a preference for building their business organically (64%). The number of executives who told us that regulatory burdens were their main issue was less than half of those who gave prioritising organic options as their principal reason for avoiding overseas M&A.

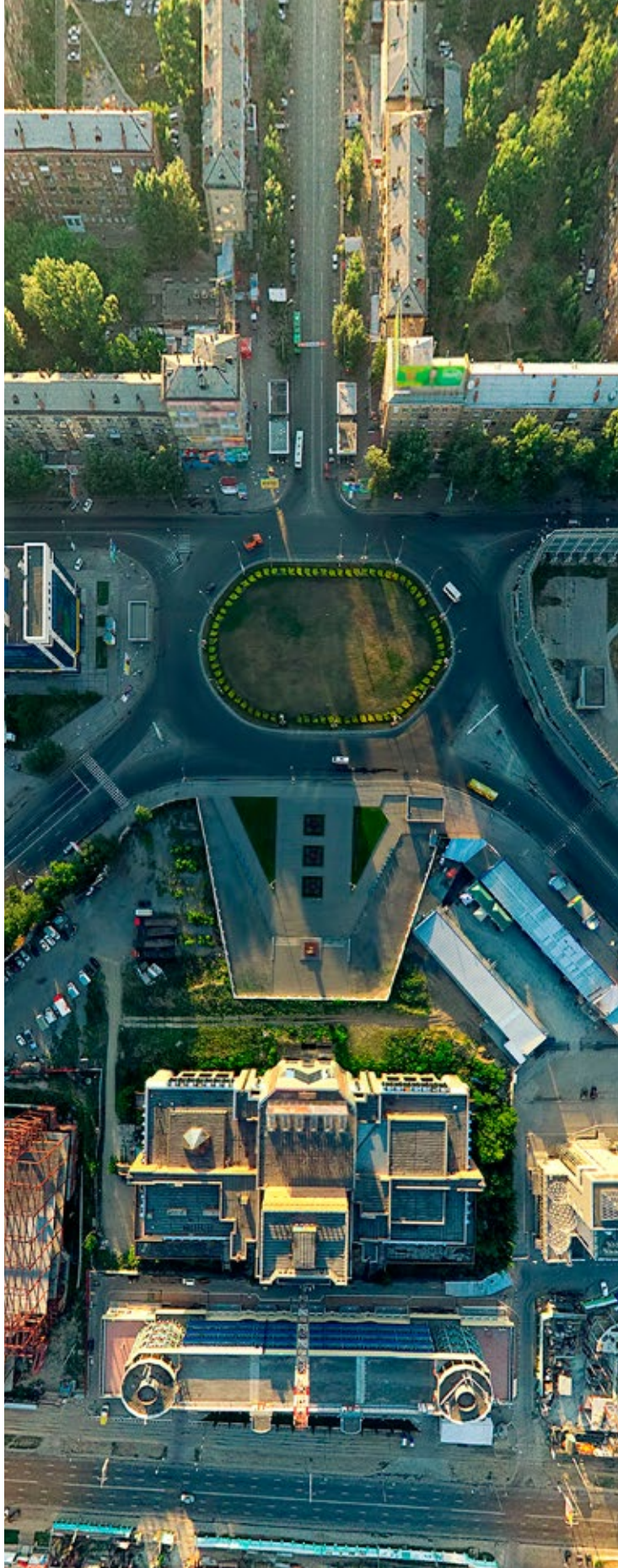
Taking the organic route

Organic expansion and greenfield investment were together chosen by 18% of mid-market respondents as their most important route for international growth. In some respects the challenges here are no less severe than for acquisitions. It’s true that companies don’t face issues with due diligence; but they also don’t get access to ready-made local expertise and pre-existing compliance with local regulations.

Naturally, that means seeking out relevant advice on those key issues – and recruiting local talent to manage operations as they expand. But, anecdotally at least, one key reason for preferring the organic route is quality control.

“Organic expansion has many benefits, such as the ability to use existing distributors, better customer proximity and the implementation of a prompt service – which most clients and partners crave,” explains one US strategy director.

A Saudi CFO concurs with this view: “We want to keep our technological utility levels and productivity constant in all operational areas. We look to greenfield investments as we have tested our processes and they meet the necessary requirements globally. We want to go to areas where we can grow quickly and do not mind making huge investments as long as we are confident that the market will be receptive.”



The joint venture alternative

There is a half-way house, of course: the JV approach, which 15% of respondents plan on using as a means of expanding overseas (including 7% that see JVs as their most important means of expansion).

Interestingly, the top motivator for JVs is the same as that for acquisitions – access to a proven business model. This was mentioned by 78% as a reason to choose JVs, and by 46% as their top motivator. The second most cited JV factor is the opportunity to partner with someone with local market knowledge (70%), followed by lower regulatory barriers (30%) and the fact that a JV represents a lower commitment than acquisitions (also 30%).

One Norwegian chief operating officer points out that a JV partner doesn't just bring knowledge of local markets. "Support from a JV partner can help our business grow and provide insights which can help in building future positive partnerships," he says. "Also, there are fewer regulatory obstacles as the partner will be well versed with the business requirements and permissions."

But it's no surprise that with only 15% of respondents considering JVs over the next three years, there are plenty of catches, too. The most common reasons among respondents who were not planning to grow through JVs are the possibility of disagreement with their JV partner around decision making (64%), followed by due diligence challenges (52%), and the legal challenges around drawing up the terms of the JV (42%).

"There are always conflicts when two different opinions meet, and this is likely to happen in a JV when the two sets of management may compete against each other rather than focusing on the core objectives," warns one Chinese COO.

A Dutch CFO highlights just how relying on a JV partner can also introduce additional risks that need to be mitigated: "We have the confidence in ourselves that we will follow compliance religiously," she says. "And even though the same is to be expected from the other party, one simply can't assume that will be the actual outcome."

When looking only at respondents' most important deterrent, a preference for owning 100% of assets also comes through strongly, with over a quarter of respondents stating that this is the most important reason why they are not planning to grow through JVs.

JOINT VENTURES HELP BUSINESSES TO GROW WITH SUPPORT ... THERE ARE FEWER REGULATORY OBSTACLES
COO, NORWAY

WHAT IS A JOINT VENTURE?

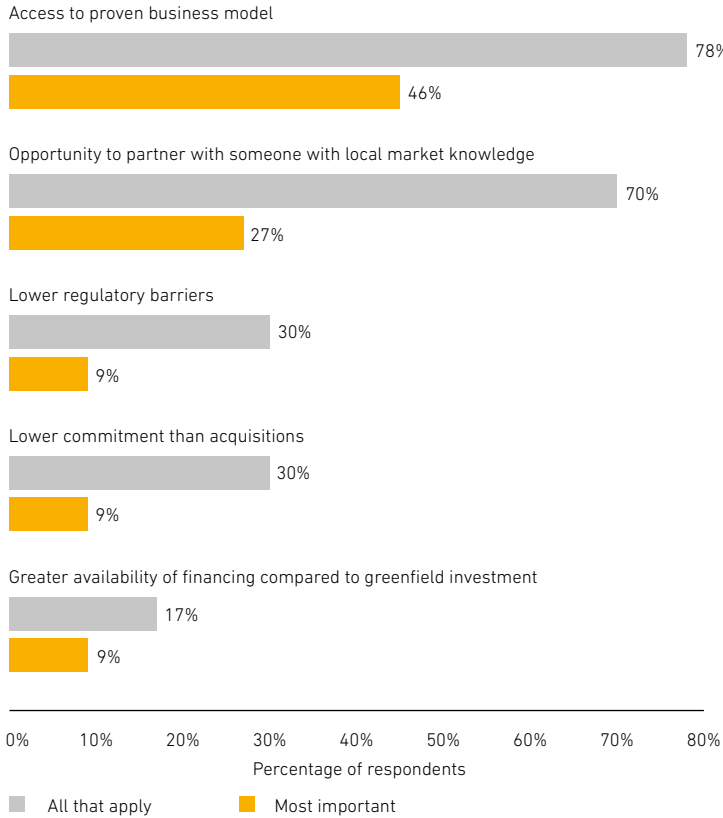
A joint venture (JV) is a business arrangement in which two or more parties agree to combine their resources to accomplish a specific task. This task can be a new project or other business activity. In a JV, each participant is responsible for profits, losses and associated costs. However, the venture is its own entity, separate and apart from the participants' other business interests.

A successful JV can offer access to new markets and distribution networks, increase capacity and provide access to greater resources. A JV can also be flexible in terms of

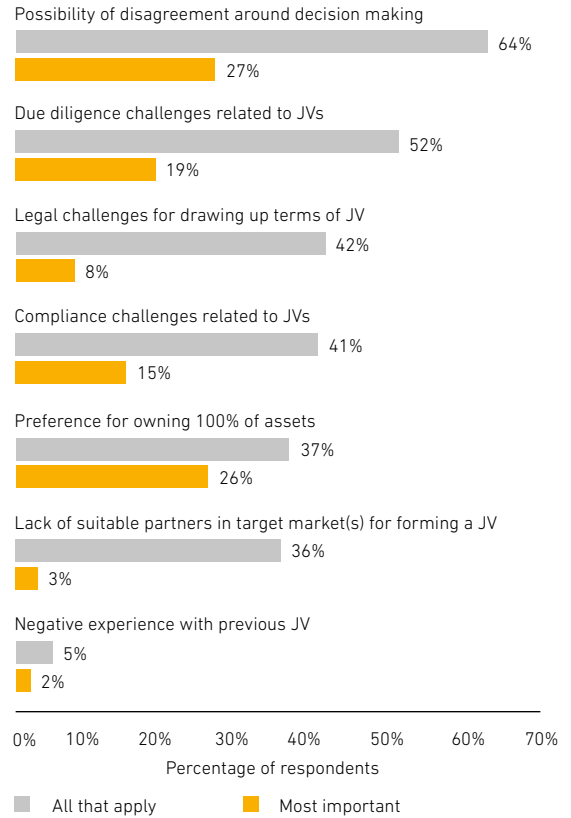
the venture lifespan and each party's contribution to it. Success in a joint venture depends on thorough research and analysis of aims and objectives, and communicating these clearly with all parties involved.

Partnering with another business can be complex however, and problems often arise if there are not clear aims and objectives, an imbalance in expertise, investment or assets brought to the venture, or differences in business culture and management styles.

**What motivates you to expand through joint ventures?
(Please select all that apply and the most important)**



**Why are you not planning to grow through joint ventures?
(Please select all that apply and the most important)**



EXPANDING YOUR BUSINESS GLOBALLY

SEVEN QUESTIONS: OLIVIER SALAUN, CEO AND CHAIRMAN, AND PIERRE-ANTOINE HENRY, STRATEGY AND BUSINESS DEVELOPMENT MANAGER, PSB INDUSTRIES

1 PSB Industries manufactures and sells packaging and chemical products in France and internationally. What is your global growth and acquisition strategy?

After both joining the company around two years ago, one of the first big things that was done within the group and all of the subsidiaries was the new strategic plan called 'Ambition 2020'. In this plan, there were some external growth opportunities to help us develop worldwide and acquire new technologies.

2 Could you give some examples of recent transactions you have conducted and any others you may have on the horizon?

At this time our luxury and beauty business was mainly in Europe. We had a plant in Boston, which was mainly dedicated to the hygiene market, and a plant in Mexico which was for the beauty market, but this was primarily used for one big French client. So the main rationale for the development in North America, and the acquisition of C+N Packaging, was to reinforce our presence, firstly because it's an attractive market for cosmetics with around 3-4% growth and secondly because it has a lot of different customers as well.

In France, our main customers are the big French groups like L'Oreal, LVMH, and Chanel, and we realised from our knowledge of the market that we need to be near the country of origin of the main players to work more closely with them. Considering the time it takes to get qualified as a supplier, to build a reputation and develop business, one of the fastest ways of growing our North American customer base, and to benefit from the growth of the local market, was to make an acquisition in North America.

We had a few discussions going on with some players and the opportunity to assess the different strategic fits. C+N Packaging was interesting to us for a few reasons. The seller was potentially retiring. So we contacted him, and he was indeed looking for the next step for his company. C+N Packaging answered a lot of what we were looking for.



3 What were the challenges faced by your group for that specific transaction?

All acquisitions have their ups and downs. Of course, you have to discuss the price and the terms in general. In this transaction, the seller had an M&A firm working for him. That sometimes made the negotiations a bit difficult, but at the same time they knew how it worked really well and they added to the sensibility of the seller himself while efficiently managing the transaction (data room, definitive documents and so on). So they were a great help in terms of speaking the same language.

The entire process from when the LOI was first accepted, excluding prior negotiation, took four months, which was a relatively smooth process. The integration is going in the same way, so we're very satisfied with that.


4 You have mentioned that you did not use an M&A advisor during the acquisition process. Is this your usual strategy for making acquisitions?

We believe that the best process is to do it ourselves when the size enables us to do so and when we have existing teams on the ground. It was one of the biggest acquisitions for PSB Industries, but it was still less than 10% of overall sales, so we were able to handle it. When we start looking at geographies where we don't have any teams present, we will probably require a partner to advise us. Furthermore, we found that owners were more receptive to a frontal approach made by an industrial player.

5 What differences in approach need to be made for acquisitions in the different parts of the world in which you operate – namely North America, Europe and Asia?

First of all, it depends who the owner is – you do not approach it the same way if the owner actually built the company compared to an acquisition target that is owned by an equity fund, for example. That's one consideration regardless of the geography.

From a geographical perspective, the first consideration is cultural difference. We did not in our own discussions with C+N find big differences. It's a pretty smooth process here, as smooth as an M&A process can be. Compare that to China – we have not yet made an acquisition in China, but it forms part of our Ambition 2020 strategy – what we have learned from first contacts is that the approach is completely different. The relationship is always important, but it is even more important in Asia to know each other before entering into any discussion on a possible acquisition. There is also the language barrier. We see that discussions for an acquisition in Asia are going to be a lot more time consuming with a lot more risk of not closing the deal compared to Europe or the US. One recent statistic that I have seen is that once you sign an exclusive LOI, there is a 30% chance of going to closing in Asia, which is a relatively small percentage compared to Western regions.



6 What are you looking for in acquisition targets as per your Ambition 2020 strategy?

There are different elements that we are looking for. From a geographical point of view, we want to bring high quality products and service to our customers in all parts of the world. The second thing is that we want to develop new customers as well. The third element is knowhow. We are looking to develop new technologies and adjacent technologies.

The perfect acquisition would be one that has a complementary customer portfolio that enables us to enter into a new geographical region and that has additional knowhow in terms of technology.

At the same time, we are pretty careful in the selection of our acquisition targets because we want to mitigate the risk as much as possible. So, within all those pre-requisites that we want to find in a target company, we want to make sure that it's not all different: a different market, a different geography, a different culture and a different technology. The level of complexity would be too high and therefore the associated risk (integration, culture, etc.) would be too high as well.

7 What has been your most successful geographical market entrance?

We have had a very good experience with our first acquisition in the US, in 2008, which was Mar-Lee Company. It had significant growth and is seen as a strong small-sized player in the hygiene and healthcare industry. So our experience in the US so far, although limited, has been very successful. Another example of a very successful partnership that we have is in the specialty chemicals business in Japan, with a joint venture for polishing; this has been a very big success from a cultural point of view. And it is now one of the most high-tech, niche labs on the Asian market.

So, all the experiences that we have internationally so far have gone very well.

Nevertheless, we did have one difficulty which was a greenfield investment in Mexico in 1994. It was our first experience of building a plant from scratch internationally, and in the beginning there was a bit of difficulty finding the right management and growing the business as we expected it to. But in terms of acquisitions and joint ventures so far, and C+N Packaging follows the same vein, we are having a lot of success, so it pushes us to look forward and use those strengths.

We are restarting this trend of external growth – it was in the genes of PSB Industries in the past, it's in our DNA. But I think one of the takeaways is that a target needs to have a strategic fit, a cultural fit, but also the right teams with the right internal leadership skills to manage the process.



About PSB Industries

PSB Industries manufactures and sells packaging and specialty chemical products in France and internationally. It develops, injects, assembles, decorates, lacquers, varnishes, and metalises various types of packages for the beauty packaging sector; and moulds and produces plastic parts for the personal care and healthcare markets. The company also designs and manufactures packaging solutions for the agrifood, health care, and non-food retail industries. In addition, it develops alumina powders for lighting: powders that are used as an ingredient in special, transparent technical ceramics, bio-ceramics, and luminescent materials for plasma screens; and fine mineral oxide formulations and ready-to-use formulas for polishing electronic and ophthalmic products. The company was founded in 1904 and is based in Annecy, France.

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FINANCING OF INTERNATIONAL GROWTH AT MID-MARKET FIRMS

There are a huge number of considerations that must be made when considering international expansion. Cultural barriers, local regulations, tax management, people issues, brand protection and smart dealmaking are all critical to successful international expansion for mid-market companies. Whether they seek external advisors with strong international experience or rely on their own people on the ground, solving those local dimensions when they grow abroad is a must.

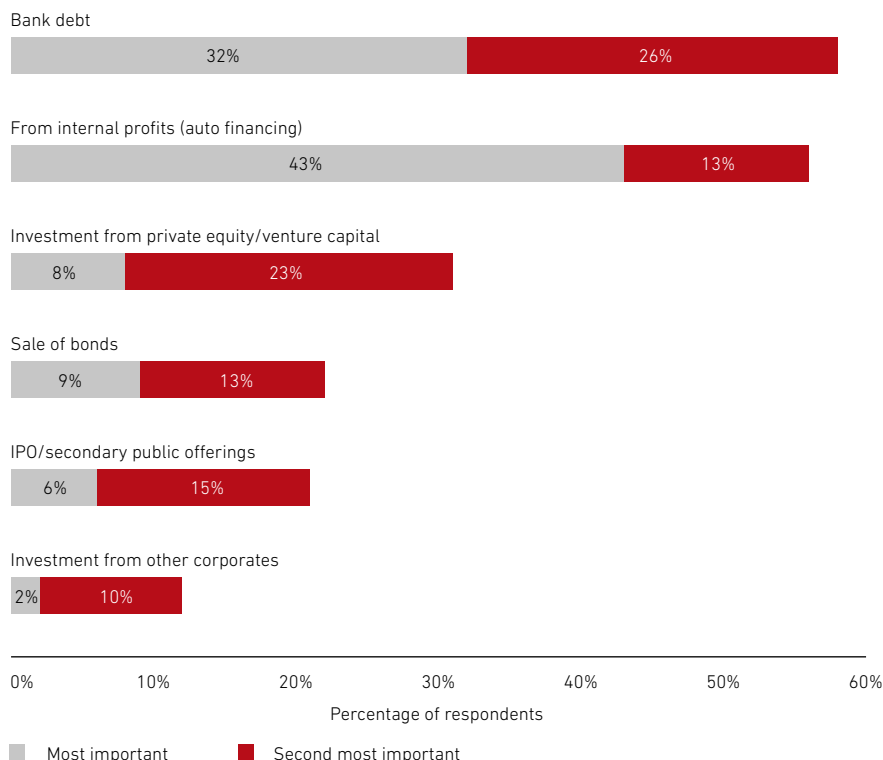
But there is another vital pre-requisite for overseas growth: finance. Again, mid-market companies face some unique challenges here.

Small businesses, by definition, will be taking small steps. Large conglomerates tend to have sophisticated treasury functions and relatively simple access to capital markets.

Some mid-market companies will have the option to take both of those routes – thinking small or exploiting well-established financial strategies. But making serious acquisitions or investing in significant overseas facilities is much more likely to stretch their financial resources and require them to seek additional capital. So how have they been raising funds – and what are their plans for financing future expansion?

WE FEEL CONFIDENT INVESTING INTERNAL PROFITS, GROWING THOSE FUNDS, AND ENJOYING THE PROFITS INDEPENDENTLY
COO, TAIWAN

How do you plan to finance your international strategy? (Please rank top two)





OUR FOCUS IS TO PROCURE PROJECT LOANS AND DEBTS FROM BANKS THAT SUIT THE SPECIFIC STRATEGIC REQUIREMENTS AND ARE MORE FLEXIBLE

CFO, GERMANY

Businesses choose banks

Bank debt and internal financing are cited as the most important sources of financing for international growth, with bank debt chosen by 58% of respondents as one of their top two options and internal financing chosen by 56%.

For many businesses on a growth trajectory, these options make a lot of sense. "We trust the bank for any kind of financing as they have shown faith in us," explains one Canadian COO. "We have built a sound relationship with our bank that helps keep the business growing."

Anecdotally, however, a big reason for the popularity of these options is control. An Israeli head of finance explains: "Banks tend to invest and only wait for the returns without needing to be involved. Other types of lenders usually have too many restrictions and conditions."

A CFO from Spain agrees: "Bank debt, rather than the alternative sources of finance, will allow us to maintain independence in decision making and control. Banks also give us more support and guidance in regulatory as well as legal matters." Even in the US, we found suspicion of institutional investors, with one director of strategy pointing out that market volatility and credit risk are pushing private equity funds into less predictable exit strategies – a significant negative for companies looking to build long-term investments internationally.

For companies with a strong balance sheet, funding international expansion using retained profits is also a very popular option. "Using internal profits helps in maintaining accountability for the decisions made," points out a head of finance in Germany. "The outcome will be in the favour of the business: as we take the risk, so we don't have to share the profits and can enjoy long-lasting benefits." An FD from Indonesia adds: "Using internal profits means we have fewer delays in making investments and higher efficiency in allocating capital."

Private equity: in the know

As a result, only 31% of mid-market companies rated investment from private equity (PE) as one of their top two choices. Interestingly, those who favour PE investment tend to dispel some of the arguments from those less enamoured with the approach. "Private equity firms are much more accountable compared to the other sources of finance and are patient in terms of seeking returns," explains the finance director of a Spanish company. "This approach eases the pressure and makes it more convenient for achieving objectives."

Better yet, argue other respondents, the advice PE firms can offer on investments and operational excellence makes them welcome additions to the expansion team. "The strategic expertise on offer from PE firms can help improve performance and profit margins," says one Canada-based strategy director.

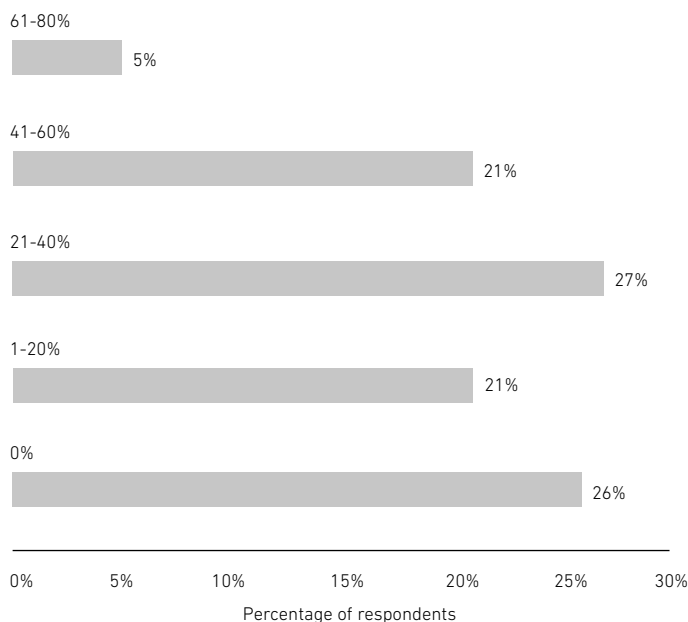
Positivity for capital markets

Then there are the capital markets. In the survey, 22% of respondents said they'd look to sell bonds and just 21% plan to issue some kind of equity to raise overseas expansion capital. This might be a reflection of the number of companies with prior experience of capital markets as, among those who like the approach, sentiment towards the markets was positive.

Perhaps that's because – as with the fans of PE – they already know about the ancillary benefits. "We would sell shares to the public as we already have a good reputation and our stocks have been performing well," says a Danish finance director. "By gaining the trust of the general public, we can build a better rating overall based on our value generation capabilities."

And the CFO of a Taiwanese energy business was clear: going to the markets had far fewer disbenefits than other routes: "Funding from banks has been cut back and if we involve private equity firms there is a high chance of management interference and the demand for a certain return on exit, so it becomes a risky affair. In contrast, the sale of bonds is more reliable and hassle-free."

What proportion of your acquisition(s) do you aim to finance locally within the target market(s)?



THE STRATEGIC EXPERTISE ON OFFER FROM PE FIRMS CAN HELP IMPROVE PERFORMANCE AND PROFIT MARGINS
STRATEGIC DIRECTOR, CANADA

Tapping into local sources

The wider reticence to tap non-bank finance could potentially be restricting the level of growth of mid-market companies. The adoption of more ambitious financing plans could perhaps provide firms with options for expanding internationally at a much faster rate. And given the current reluctance of many banks to agree term loans, as the Taiwanese energy business CFO points out above, many of these companies could be needlessly restricted from executing compelling growth strategies overseas.

The survey results clearly illustrate this hypothesis, with 38% of the respondent firms saying that international growth plays a minor role/no role in their current strategy, stating that difficulty getting financing is one of the main reasons for this.

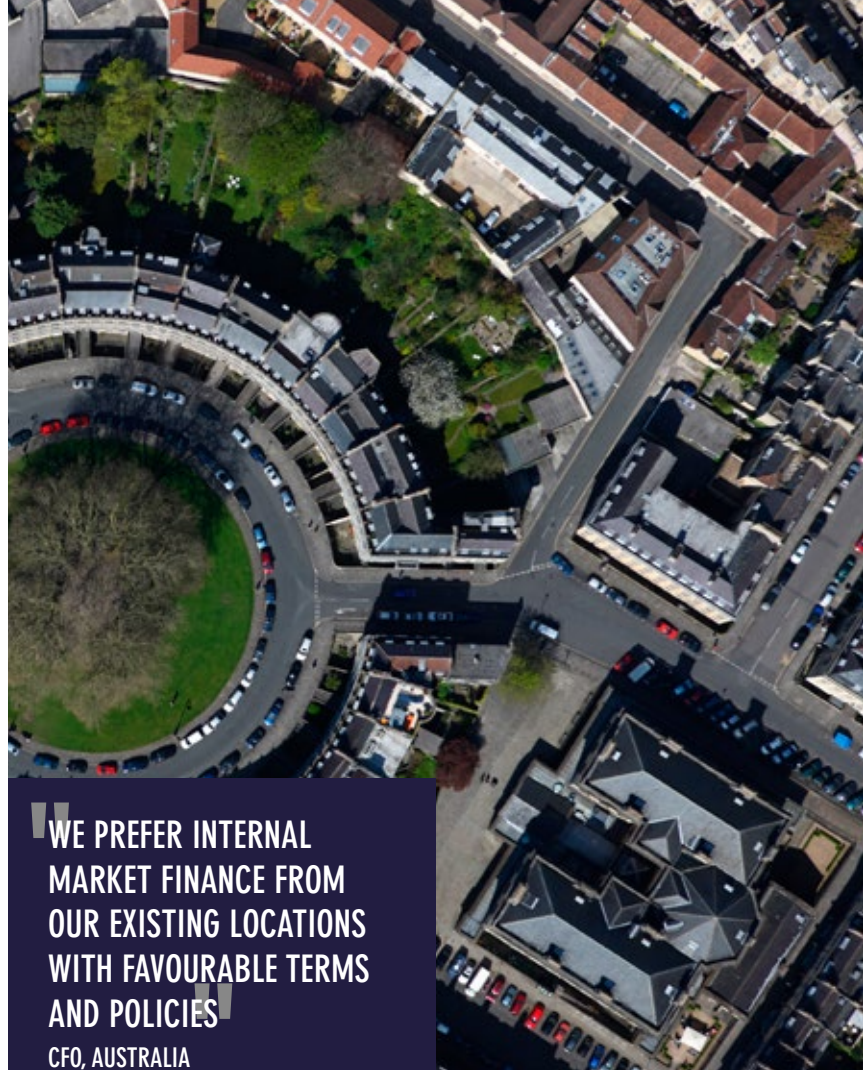
Might there be more scope to raise capital locally, in the target markets? More than a quarter of respondents do not aim to finance any proportion of international acquisitions locally, while 21% state that they aim to finance under 20% of any acquisition finance within target markets.

Of the remaining 53% of respondents, just over half expect to finance 21-40% in the local market, over a third expect to finance 41-60% – and around one-in-ten expect to finance 61-80% in the target country. However, many also noted that it would depend on the target country and the business's existing network in that country or region.

The reasons for seeking or shunning local financing are varied. Among the reluctant group, this comment from a Swiss CFO was typical: "We will raise most of the financing centrally, and rely on the target region for a minimal contribution as we are sure there will be obstacles." Again, it seems to be a question of perceived control and reliability. For many businesses with existing funding relationships or a strong balance sheet, they see little reason to seek out additional capital in a relatively alien environment.

At the other end of the spectrum, however, we did encounter some businesses that actively seek out local finance, whether that's financial support from local banks or investors. "We will approach lenders that have a history of extending financial support to our M&A targets. Given the size and strength of our business, there is a low chance of us being turned down," says one operations director from Malaysia.

For one Russia-based director, an adverse lending environment and currency risks at home have also been important factors



**WE PREFER INTERNAL
MARKET FINANCE FROM
OUR EXISTING LOCATIONS
WITH FAVOURABLE TERMS
AND POLICIES**
CFO, AUSTRALIA

in seeking finance within target markets: "We have been identifying specific local finance partners as the lending standards are less complex compared to our domestic market." And the director of operations at a Canadian equipment manufacturer claims some marketing benefits: "Local finance helps in gaining value and reputation among local players as well," he says.

But the middle ground is occupied mostly by pragmatists. Where borrowing locally makes sense for risk management (especially around currency fluctuations), credit availability and particularly the target's own balance sheet, the prevailing attitude seems to be, "why not?"

"The finances that we use are mostly from our reserves accumulated in the past years," says one Singapore-based COO. "But we also take advantage of the target's financial credibility and raise finance from their investors."

This looks to be another case where the extent of local knowledge makes a huge difference. Local advice on financing options allied to strategic support at home on the most suitable blend of finance to meet any specific international expansion plans would seem to be a sensible pre-deal step.

CONCLUSION

Mid-cap companies are already seeing the value in international growth, with 45% of those surveyed already generating more than half of their revenues internationally, and 47% already operating in more than 10 international markets.

Our findings indicate that this looks set to grow, driven by an increase in the volume of mid-cap acquisitions. Some 50% of respondents indicate that they plan to make an acquisition over the next three years, and of those, 34% are planning to carry out at least three deals.

Mid-cap firms are acquiring overseas primarily to access proven business models, as well as to gain the ability to build scale and market share. Access to local knowledge is also important, and ranked high on the motivating factors of mid-cap firms.

Despite less accessibility since the financial crisis of 2008, bank debt still ranks high on mid-cap firms' modes of financing their international strategy (58%), closely followed by the use of internal profits (56%).

This may indicate an increase in confidence in both the global banking system, but also suggests some reluctance to make more use of the opportunities afforded by global capital markets, and could result in restricted levels of growth for those firms that are unwilling or unable to tap the additional financing available through bond and equity instruments.

Other challenges that mid-cap firms need to address when pursuing an international strategy include dealing with local regulations, overcoming cultural differences and preparing for the possibility of political hurdles or instability. For all these issues the availability of local knowledge and experience is likely to be key.

THE REASON FOR OUR SUCCESS IN INTERNATIONAL MARKETS IS MAINLY BECAUSE WE OVERCAME LIMITATIONS AND WENT BY OUR GUT FEELING AND TRUSTED OUR WORKFORCE AND SENIOR MANAGERS

HEAD OF STRATEGY, USA

APPENDIX

Looking at your current international operations, in which overseas market have you enjoyed the most success and which is the most challenging?

Key:
S: Success
C: Challenge

	Percentage of respondents split by based region		
	Asia-Pacific	EMEA	North America
Algeria		C:2%	
Angola		C:2%	
Argentina			C:2%
Bermuda			C:2%
Botswana			C:2%
Brunei	C:3%		
Burkina Faso			C:2%
Cambodia	S:2% C:5%		
Caribbean			S:4%
Colombia		S:2% C:2%	
Ethiopia		S:2% C:2%	
Ghana			S:2%
Finland	C:3%	C:2%	
France			C:4%
Indonesia	S:2%	C:2%	
Iraq		C:2%	
Ireland		S:4%	
Israel			C:4%
Kazakhstan	C:3%		
Kuwait	S:2%	S:2% C:2%	
Lithuania		S:2%	
Luxembourg		S:2% C:2%	
New Zealand	S:2%		
Norway			S:4%
Mongolia		C:2%	
Panama		S:2%	
Philippines	C:3%	C:2%	
Poland		S:2%	
Puerto Rico	C:3%		C:2%
Qatar	S:4%		
Romania		C:2%	
Russia		C:2%	
Senegal	C:3%	C:2%	
Serbia		C:2%	
South Africa	S:2% C:3%		C:2%
South Korea	S:2%	S:2%	C:2%
Switzerland		S:2%	C:2%
Taiwan	C:3%		C:2%
Thailand	S:2% C:3%		C:2%
Turkey		C:5%	
Ukraine		S:4% C:2%	
Zimbabwe		S:2%	

Methodology

In Q4 2014, Mergermarket surveyed 150 senior corporate decision makers (CEO, COO, CFO or Head of Strategy) at middle-market companies on behalf of Mazars.

For the purpose of this report, mid-market companies are defined as having revenues of between €250m and €2.5bn.

Geographically, the respondents are split 50 each from EMEA, North America and Asia-Pacific and have also been split evenly (50 each) between companies with revenues between €250–€500m, €500–€1.5bn and €1.5bn–€2.5bn.

The survey included a combination of qualitative and quantitative questions and all interviews were conducted over the telephone by appointment. Results were analysed and collated by Mergermarket and all responses are anonymised and presented in aggregate.

This research was complemented by a number of interviews conducted by Mazars and Mergermarket with clients and senior practitioners in a number of jurisdictions.

About Mergermarket

Mergermarket is an unparalleled, independent mergers & acquisitions (M&A) proprietary intelligence tool. Unlike any other service of its kind, Mergermarket provides a complete overview of the M&A market by offering both a forward-looking intelligence database and a historical deals database, achieving real revenues for Mergermarket clients.

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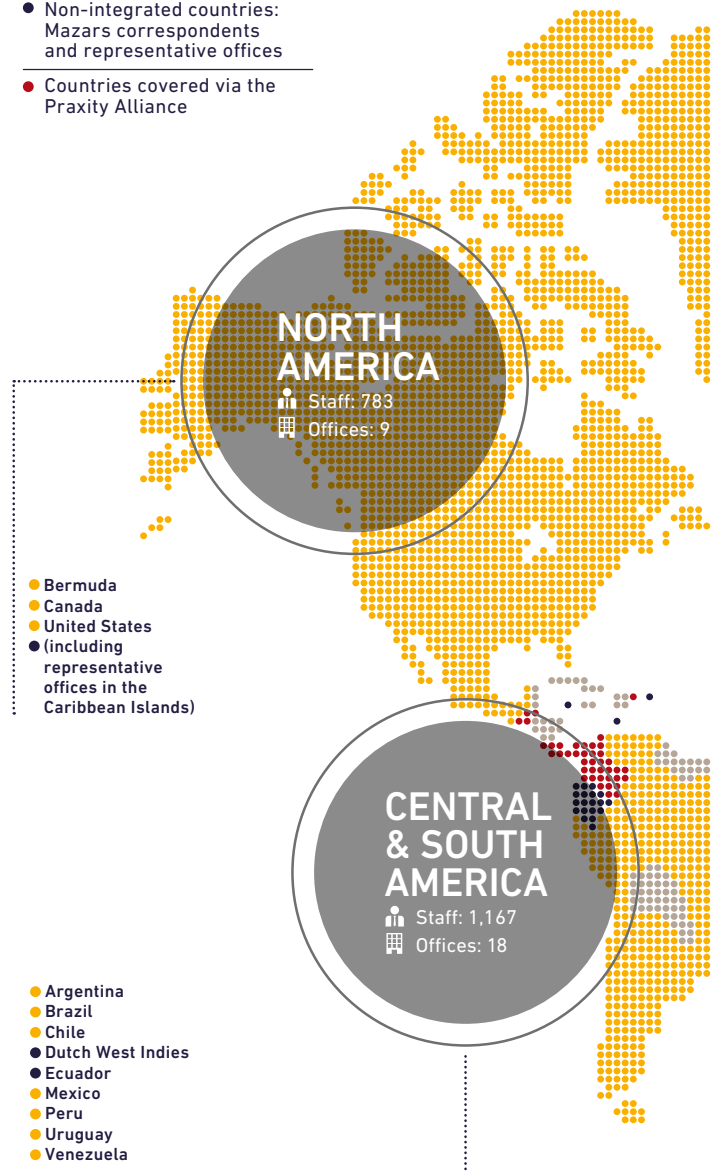
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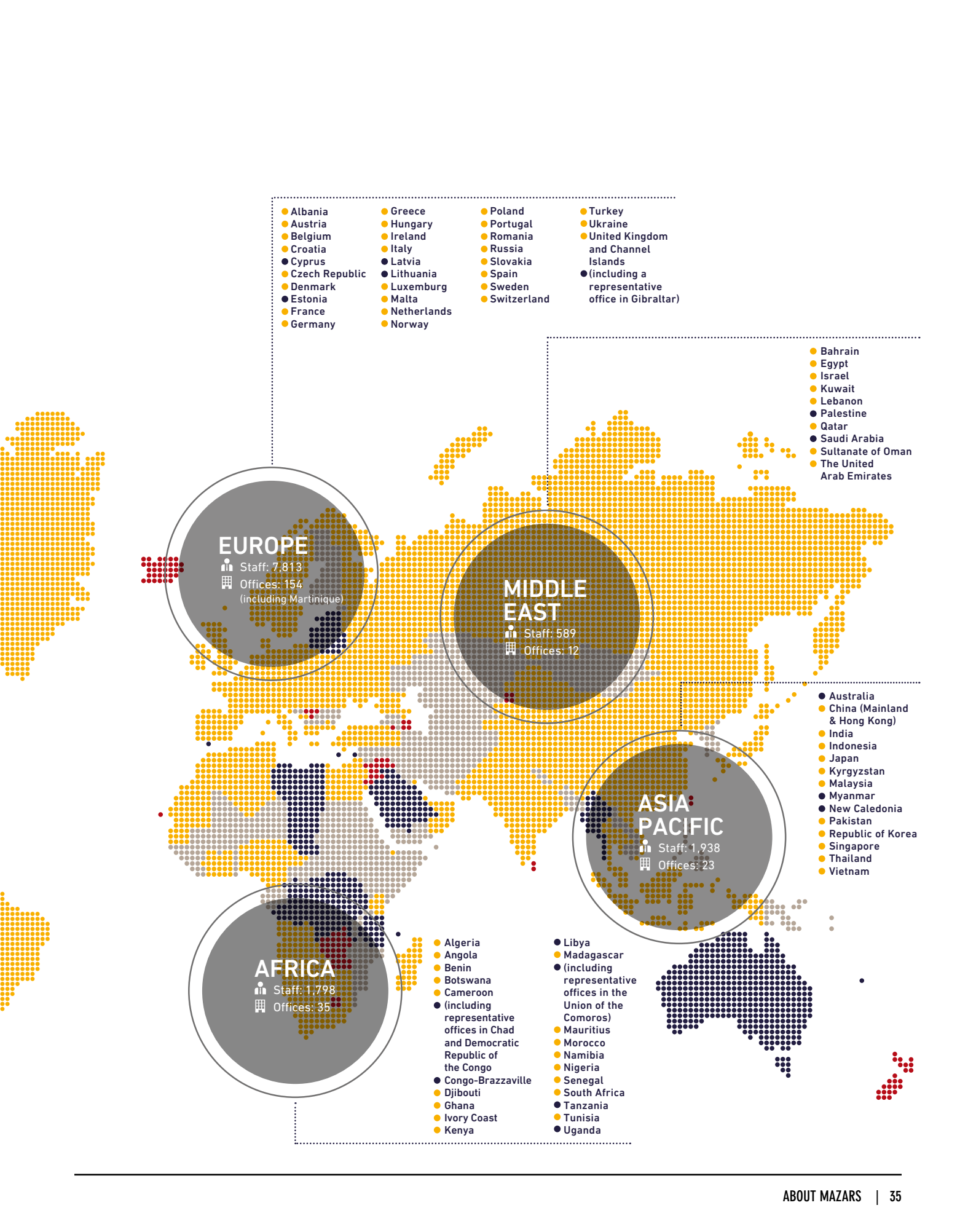
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- Integrated countries
- Non-integrated countries:
Mazars correspondents
and representative offices
- Countries covered via the
Praxity Alliance





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- Austria
- Belgium
- Croatia
- Cyprus
- Czech Republic
- Denmark
- Estonia
- France
- Germany

- Greece
- Hungary
- Ireland
- Italy
- Latvia
- Lithuania
- Luxembourg
- Malta
- Netherlands
- Norway

- Poland
- Portugal
- Romania
- Russia
- Slovakia
- Spain
- Sweden
- Switzerland

- Turkey
- Ukraine
- United Kingdom and Channel Islands
- (including a representative office in Gibraltar)

EUROPE

Staff: 7,813

Offices: 154 (including Martinique)

MIDDLE EAST

Staff: 589

Offices: 12

ASIA PACIFIC

Staff: 1,938

Offices: 23

AFRICA

Staff: 1,798

Offices: 35

- Bahrain
- Egypt
- Israel
- Kuwait
- Lebanon
- Palestine
- Qatar
- Saudi Arabia
- Sultanate of Oman
- The United Arab Emirates

- Australia
- China (Mainland & Hong Kong)
- India
- Indonesia
- Japan
- Kyrgyzstan
- Malaysia
- Myanmar
- New Caledonia
- Pakistan
- Republic of Korea
- Singapore
- Thailand
- Vietnam

- Algeria
- Angola
- Benin
- Botswana
- Cameroon
- (including representative offices in Chad and Democratic Republic of the Congo)
- Congo-Brazzaville
- Djibouti
- Ghana
- Ivory Coast
- Kenya

- Libya
- Madagascar
- (including representative offices in the Union of the Comoros)
- Mauritius
- Morocco
- Namibia
- Nigeria
- Senegal
- South Africa
- Tanzania
- Tunisia
- Uganda



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