



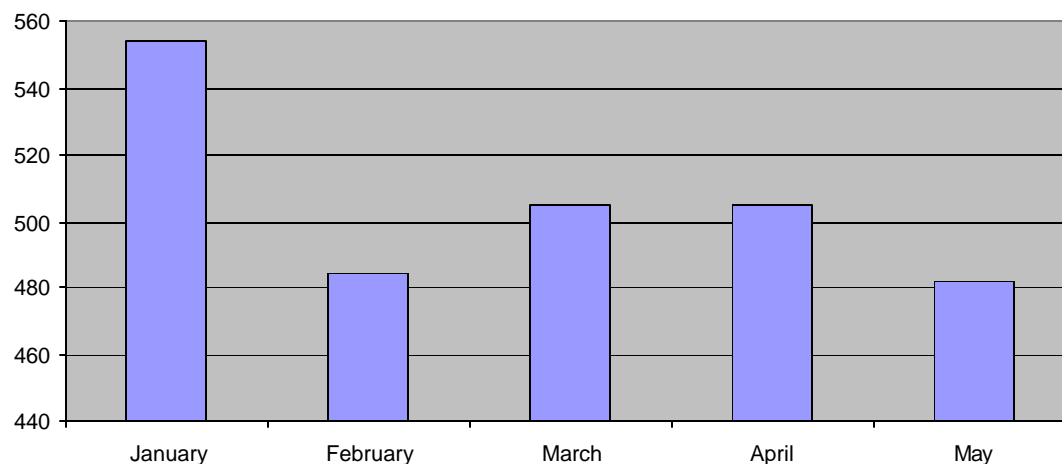
An Ever Evolving Equation: 1+1=3

The global credit crisis has spread “The Recession Virus” to countries near and far, plaguing economies with zero to negative growth, declining revenues and falling foreign direct investments. At the same time, lower commodity costs have had the effects of allaying fears of high inflation, and narrowing trade deficits in developed and emerging economies. With pessimism flourishing in the global market, would this leave room for something positive to emerge? More and more we see the news headlines filled with ‘Bankruptcies’ and ‘Bail-outs’ as companies worldwide crash under the strains of tight liquidity and falling asset prices. It is during these tough times especially, that the concept of Mergers and Acquisitions (M&A) gains popularity as the strong companies look to create a more competitive and cost-efficient company.

M&A refers to “the aspect of corporate strategy, corporate finance and management dealing with the buying, selling and combining of different companies that can aid, finance, or help a growing company in a given industry grow rapidly without having to create another business entity”. One of the main reasons for going through an M&A is to form a corporation whose value is above and beyond the sum of the two companies, or, as it has been referred to, “where one plus one makes three”.

In the last four (4) years, the most active industries across the globe each have had M&A deals accumulating to over 12,000 are, in order of the highest to the lowest: (1) Real Estate (2) Investment and (3) Commercial Services. Financial services fall just below Commercial services with over 9,000 M&A deals. In the US alone, at the time of writing, the number of M&A deals for the year totaled 2,530. From Figure 1, one can see that each month has so far had relatively the same number of M&A deals.

Figure 1: YTD US Announced M&A Deals



As an economy driven by private consumption, the U.S is experiencing a deep recession which has dampened access to credit and has led to rising unemployment. This has contributed to a contraction in consumer spending, particularly vehicle sales. Domestic vehicle sales for the month of March 2009 amounted to 7 million which is about 4 million less than the amount seen in the prior year. Meanwhile, total vehicle sales, which are broken down by cars and light trucks that are manufactured in the U.S., Mexico and Canada, and those manufactured elsewhere (imported), reached an all time low in February of this year to 9.1 million, approximately 5 million less than levels seen the year before.

A troubled auto industry has been an ongoing topic in the U.S. with the latest focus being on the nation's third-largest car manufacturer Chrysler. The company has filed for Chapter 11 bankruptcy protection after a group of creditors defied government pressure to wipe out Chrysler's debt. All is not lost for Chrysler though, as they plan to emerge in the near future as a 'leaner, more nimble company' due to an M&A deal with the Italian car company Fiat. Fiat will come out of this deal as the largest owner of Chrysler with an initial 20% holding of the company, but its share could rise to 35% if certain benchmarks are met and possibly an additional 16% by 2016 if Chrysler's U.S. government loans are repaid in full.

There is no doubt that this M&A will come with its challenges as both companies have different target markets and product focus. Chrysler owns cars which include the Dodge and Jeep marques with little presence outside the U.S. just as the Italian company, Fiat, is reliant on its home market. Fiat is not expected to pay for its stake in Chrysler but instead bring to the table its small engines and small-car platforms which will enable the U.S. company to produce 're-skinned, own-brand Fiat models' in its American factories. It will take some time before this M&A deal is turned into a 'happily ever after' story given the timing of this deal and the already established competition such as Toyota and the Volkswagen Group for example.

The largest M&A deal to date was announced on 26 January 2009 between Wyeth and Pfizer Inc. whose deal was valued at US\$67.29 billion. Pfizer Inc. is involved in the discovery, development, manufacture and marketing of prescription medicines for humans and animals worldwide while Wyeth operates as a research-based pharmaceutical and healthcare company in the U.S., U.K. and internationally. This deal stands as the eighth-largest M&A deal involving a US target and the third largest globally in the sector. Pfizer's takeover of Wyeth was expected to help strengthen and diversify its portfolio of products and likely to spark other pharmaceutical M&As.

On the local front, we have also seen our share of M&A deals, some of the more recent ones being the merger of Royal Bank of Canada (RBC) and RBTT by which the Canadian institution acquired the entire RBTT business in a US\$2.2 billion transaction. Currently, the M&A deal between First Citizens and CMMB will establish a larger financial services group with a combined asset base of TT\$25 billion, and is expected to offer 'new opportunities for investments and wealth creation for individuals and companies alike'.

Financial analyses and defining synergies play a key role in any M&A and due diligence in terms of cultural differences and human resource issues rank just as high as studies show that this can make or break a successful M&A. The question is does the value of a deal define its success? The M&A deal between a supplier of networking equipment and network management for the internet, Cisco Systems and Cerent Corp., a fiber-optics equipment maker, in 1999, valued at US\$7.2 billion has been deemed one of the most successful mergers of its kind as its success kicked in even before the deal was signed, according to the Wall Street Journal. This success was mainly due to Cisco's understanding of the importance of

culture and getting as many people on board through a transition team to oversee the details of the deal and communicate the necessary and valid information to the Cerant employees. Cisco has gone on buying more companies and is now a 'multinational corporation with more than 66,000 employees and annual revenues of US\$39 billion as of 2008'. Even with the high risks associated with M&As, or rather successful M&As, we see the number and value of such deals continuing to climb. This shows that companies are willing to take the risk in order to receive substantial shareholder return which may not be seen until the long term.

Hearing about M&A deals and actually experiencing M&A deals are two totally different scenarios. While some may be familiar with the process, it is un-chartered territory for others and more than just crunching numbers. The current downturn has shown the significance of 'whiteknights' to a small or even failing company which can take the form of either large companies or even sovereigns, as we see more and more businesses becoming nationalized. It is however, a growing phenomenon that we should expect to see a lot more of in the near future despite the high risks associated with it.

FINANCIAL & ECONOMIC INDICATORS

As at 28 May, 2009

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	96.85	94.41
Euro	1.39	1.39
Jamaica	89.00	89.04
Guyana	204.20	205.50

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	65.08	61.05
Natural Gas (US\$/mmbtu)	3.55	3.76
Gold (US\$/Troy Ounce)	959.45	953.80

Eurobond Indices (As at 28-May-09)

Lehman Brothers Global Aggregate Index (Return % YTD)	-0.22
JP Morgan EMBI+ (Basis points)	453
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	15.74

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
United States	0-0.25	0-0.25
Euro Zone	1.00	1.00
Japan	0.10	0.09
Brazil	10.25	10.25
Trinidad	8.00	8.00
Jamaica	17.00	17.00
Barbados	3.00	3.00

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	0.14	0.18
US 10-Yr Treasury	3.61	3.37
3-month UK Libor	1.28	1.30
Japan 90-day T-Bill	0.33	0.37
Brazil 90-day T-Bill	9.81	9.98
TT 90-day T-Bill	2.52	2.32
Jamaica 90-day T-Bill	19.82	19.82
Barbados 90-day T-Bill	3.93	3.91

Sources: Bloomberg, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com

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