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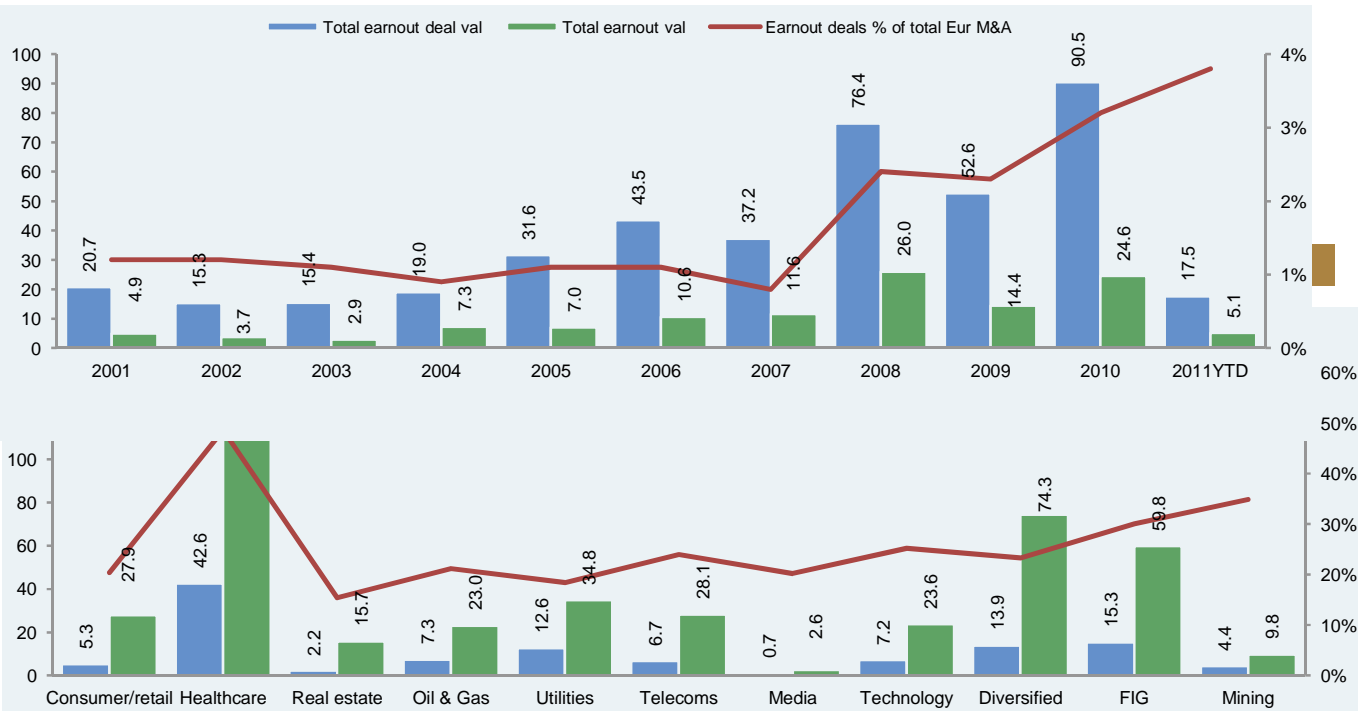
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Contingent consideration

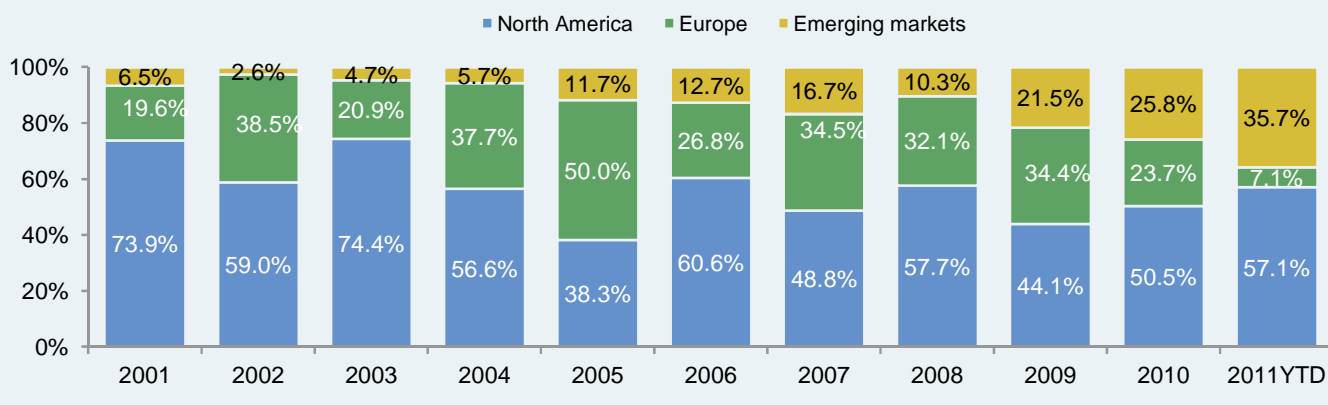
Our analysis of contingent earn-out payments used in M&A transactions globally since 2001 shows a sharp increase in the potential value of contingent payments as a percentage of total deal size, and as a percentage of overall M&A deal value.

- **The number of earn-out related deals is on the rise**
 - Last week saw three significant announced deals (Reliance Industries/BP; Santander/Zurich Financial; and Clinical Data Inc/Forest Laboratories Inc) which included an earn-out component in the consideration, increasing the number of transactions involving contingent payments in 2011 up to 14. Since 2001¹ the number of deals involving contingent considerations averaged 66 transactions per year (56 deals) until 2007 and (88 deals) since 2008, however the downturn resulted in a rapid increase in the use of earn-out structures to narrow bid/ask spreads.
- **Earn-out deal value as % of total M&A deal value**
 - Since 2001 earn-outs have accounted for around 1% of total M&A and have been steadily increasing as an effective tool to narrow difference between buyers and sellers. In 2010, as in 2011 earn-out deal value now accounts for between 3%- 4% of all deal value.
- **The value of earn-out related deals is on the increase**
 - We have seen year-on-year increases in the value of earn-outs as a percentage of the total value since 2007, rising to a new high in 2011 of 41%, up from 37% in 2010 and up from 25% in 2001. Sanofi-Aventis agreement to acquire Genzyme includes a contingent value right (CVR), valued at approximately \$3.6bn or 18% of the total value but the biggest use of a CVR was when EDF acquired British Energy for \$23bn in 2008, which included CVR value of around \$10bn or 44% of the total deal value.
- **Healthcare is the leading sector in the use of contingent payments**
 - Since 2001, healthcare has averaged contingent value portion of the total deal value of 49%, the highest percentage of any sector. Healthcare has also produced the highest number of transactions which include earn-outs (166). The use of earn-outs in healthcare transactions reflects uncertainty of product trials in development pipelines. The second highest average earn-out was in mining with 35%, followed by financial institutions with 30%. The lowest incidence was found in real estate with 15%.
- **Geographic allocation of contingent payments since 2001³**
 - Since 2010 and based on the number of deals with contingent consideration, Emerging markets² has surpassed Europe as the second most targeted region behind North America. Emerging markets year-to-date account for 36% (5 transactions) of all deals with a contingent payment while back in 2010 they accounted for 26% (24 deals). North America year-to-date accounts for 57% (8 transactions) and in 2010 had 51% market share (47 deals). Since 2001 Europe has averaged 32% market share of deals with a contingent payment and last year accounted for 24% (22 transactions) but 2011 year-to-date has seen a marked fall to 7.1% (1 deal).

Earn-out value as a percentage of total M&A value since 2001



Global earn-out M&A by region, 2001–2011YTD (# of deals)



Top deals by earn-out (2001-2011YTD)

Ann. Date	Deal Value (\$mm)	Target	Acquiror	Target Region	Acquiror Region	Earn-out (\$mm)	% Earnout
24-Sep-08	23,143.5	British Energy plc	Electricite de France	Europe	Europe	10,100.0	43.6%
29-Aug-10	24,476.7	Genzyme Corp	Sanofi-Aventis	N. America	Europe	3,664.9	15.0%
Mobile Telephone							
18-Feb-04	2,952.5	Licence	MTN Group	MEA	MEA	2,567.4	87.0%
10-Nov-08	3,375.0	Marcellus shale assets	StatoilHydro	N. America	Europe	2,125.0	63.0%
08-Sep-08	7,938.9	Coal seam gas assets	ConocoPhillips	Australia	N. America	2,000.1	25.2%
30-Apr-10	2,500.0	BSG Resources (51%)	Vale SA	Africa	S. America	2,000.0	80.0%

		Reliance Industries Ltd					
21-Feb-11	9,000.0	(23 Oil and Gas Blocks)	BP plc	India	Europe	1,800.0	20.0%
08-Dec-10	1,830.0	Mesoblast Ltd	Cephalon Inc	Australia	N. America	1,700.0	92.9%
30-Jun-08	3,300.0	Chesapeake Energy	Plains Exploration & Production Co	N. America	N. America	1,650.0	50.0%
		Piramal Healthcare Ltd (Domestic Formulations Business)					
21-May-10	3,800.0		Abbott Laboratories	India	N. America	1,600.0	42.1%

Mergers & Acquisitions

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¹Sample includes any deals with earn-out and total value of the deal is greater than \$100mm

²Emerging markets comprise of Asia-Pacific, Latin America and Middle East and Africa

³Based on target region

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