

The International: Cross Border Transactions Bulletin

Sept. 2006 Vol. 1 No.1

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The International Committee of ACG Chicago, co-chaired by Andy Rice of The Jordan Company, and Mike Carsella of LaSalle Business Credit, Cross-Border Finance, was formed following directions from the Board of Directors to allow ACG Chicago to better respond to the needs of its members, all of whom conduct business in an integrated global economy. The Committee's mandate is to further the understanding of corporate growth in other parts of the world and identify domestic and international opportunities that are created by that growth. In addition to a number of planned educational, networking and social events, the Committee has committed to publish this periodic Newsletter on international economic trends, cross-border transactions and global financial issues.

With this inaugural issue of The International, the Committee is introducing our Feature Article, our Regional Watches and our Cross-Border Deal of the Period. In creating this Newsletter, the Committee believes it has identified a true need – namely, that members of ACG Chicago, in order to remain thought leaders in their respective fields, need to not only follow the rapidly changing deal-making and corporate growth circumstances within the United States, but also at the international level.

The Newsletter seeks to be a resource to our readers by giving them a global perspective of the deal-making environment and providing a broader base of information to make more informed decisions on behalf of their clients, investors or constituents.

The editors of the Newsletter, Linc Rogers of Blake, Cassels & Graydon – Canadian Lawyers and Kurt Roth of Intercap Merchant Partners, LLC, would like to acknowledge the contributions made by ACG Chicago staff and members to this Newsletter. Without their hard work and entirely volunteer effort, this project would not be possible. If you would like to make a submission, please contact either Linc or Kurt. Contact information can be found at the side column.

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Feature Article –

Each issue of this Newsletter will have a Feature Article. The Feature Article highlights an issue that transcends the boundaries of one particular country or region. In particular, it will identify global trends that impact corporate deal-makers around the world.

How Do You Put a Price Tag on the Panama Canal?

A Case Study on International Finance and the Global Transportation Infrastructure

*by William J. Hughes and Bryan H. Browning, CFA, ASA,
Valuation Research Corporation*

Since World War II there has been an exponential increase in global trade, requiring the transportation of an unprecedented amount of goods to every corner of the world. The existing global transportation infrastructure (seaports, seaways, railways, etc.) – some of which pre-dates the second world war – is no longer adequate to satisfy current global demands. Significant improvements must be made. In order to facilitate these improvements, capital will have to be raised through international financiers. These improvements will also require the assistance of professional service providers including investment bankers, lawyers, accountants, business consultants and valuation professionals. Valuation professionals play a unique role in international finance as other participants rely on valuers to provide a threshold level of assurance with respect to the overall viability of a project or undertaking. The Panama Canal expansion project provides a clear example of the importance of the valuation process in international finance.

Background

Completed in 1914, the Canal is considered one of the largest and most difficult engineering projects ever undertaken. The Canal extends approximately 50 miles, through the Isthmus of Panama, from the

twin ports of Critobal-Colón on the Atlantic Ocean side to the port of Balboa (near Panama City) on the Pacific Ocean side. Tropical forests and mountains made for arduous conditions during the building of the Canal. In fact, more than 27,000 workers perished during its construction due to tropical diseases, such as yellow fever and malaria, and environmental conditions such as landslides.

The Canal, controlled by the United States until 1999 when it was turned over to Panama, has had an enormous impact on shipping. The Canal shortened the distance between the Atlantic and Pacific Oceans by up to 9,000 miles, saving ships from the long and treacherous journey around Cape Horn, the southern tip of South America. For example, ships bound for Japan from the East Coast of the United States save approximately 3,000 miles by going through the Canal. More than 13,000 ships pass through the Canal annually. In 2003, commercial transportation activities through the Canal represented approximately 5% of world trade.

The Canal has also had a transformative impact on Panama and the region. Despite its small population and area, 3.2 million people and 30,193 square miles, respectively, Panama has become an important center for international trade in the Western Hemisphere, as both a major shipping thoroughfare and a regional economic power.

As a means to extract part of the time and cost savings, a toll is charged to any ship traversing the Canal. Tolls for the Canal are determined by the Panama Canal Authority or Autoridad del Canal de Panamá (ACP), the autonomous agency of the Government of Panama charged with managing, operating and maintaining the Canal. Tolls are based on vessel type, size, and type of cargo carried. The most expensive toll for Canal passage to date was charged on September 25, 2003 to the luxurious passenger vessel Coral Princess, which paid \$226,194.25 for passage. The average toll, however, is around \$54,000.

The Need for Expansion

Now more than 90 years old, the Canal handles more vessel traffic than had been envisioned by its builders, with a continuous queue of ships in Panama Bay, and some ships waiting up to five days to pass. According to Canal officials, ship movement is increasing at a rate of two percent a year, while cargo tonnage goes up eight percent a year. Despite gains in efficiency, the Canal is already operating at more than 90% capacity, and is soon expected to reach its maximum.

The size and design of ships themselves have changed beyond recognition since the Canal was designed. Panamax ships, the largest that can use the waterway, are about 100 feet wide, and must painstakingly maneuver through the Canal's locks with just two feet to spare on each side. The post-Panamax ships under construction are too wide to fit through the Canal's narrowest stretches. Currently, close to 50% of the transiting vessels are using the full width of the Canal's locks, and it is anticipated that by 2011, 37% of the world's container ships will be too large for the current Canal. In addition, Mexico and Canada hope to pull shipping traffic from Panama with their railway systems.

To ensure that the Canal remains a vital link in world trade, Panamanian President Martin Torrijos proposed an expansion calling for the creation of a second, wider Canal which would handle the overflow of ships, as well as accommodate the wider post-Panamax ships. Torrijos has called the expansion, "the most important decision about the Canal and its role in the 21st century."

The Panamanian Constitution requires that expansion be approved by the Cabinet, the National Assembly and by referendum. The expansion has been approved by the Cabinet and the National Assembly. Next, the people of Panama will vote on the \$5 billion expansion in a referendum set to take place on October 22, 2006.

Ultimately, Panama's economic and strategic future may rest on whether the expansion moves ahead. If the Canal is not upgraded, it would be not only a loss of opportunity, but also a decrease in the total usage of the Canal. The Canal would likely become a regional hub, where the larger ships come into port and drop off goods for reshipping to smaller vessels around the region.

Financing

The ACP will likely turn to the shipping companies or the World Bank to help finance the project. It is anticipated that financing will be raised through an issuance of bonds analogous to municipal bonds. Financing groups will require that the ACP present the Canal not unlike any other public international business concern. Accordingly, international financiers will require comfort that the underlying enterprise in which they are investing has the financial wherewithal to repay its debt obligations in accordance

with the terms of the issued bonds. Informed investors are able to extrapolate this information based on a review of an independent and objective third party valuation (together with other due diligence).

A consolidated business enterprise valuation of the ACP, including the Panama Canal, was also required for purposes of obtaining the appropriate credit rating with the SEC and for financial reporting purposes under International Financial Reporting Standards.

Valuation

At first blush it seems like a truly daunting task to place a quantifiable value on an entity that has had a revolutionary impact on the global shipping industry, is the economic life blood of an entire country and is one of the world's great engineering marvels. When these factors are considered together with the fact that the Canal's construction cost the lives of tens of thousands of Panamanians, the political, social, cultural and economic forces that can impede a reliable and unbiased valuation become all the more palpable.

However, there were certain factors that allowed the valuation to be based on objective and verifiable criteria, rather than the subjective perception of various stakeholders. There are three basic approaches to valuation: The Cost Approach, based on the cost to reproduce assets, the Market Approach, which considers market exchange for comparable assets, and the Income Approach, which relies on capitalization of potential future income.

While it is often preferable to utilize more than one valuation approach, the Income Approach was determined to be the best approach for the valuation of the consolidated ACP. The lack of publicly traded comparable companies made it difficult to implement the Market Approach. Although the Cost Approach was utilized to determine a floor value in the event that assets were liquidated, it was the Income Approach that best predicted the future earning potential of an expanded Canal and the capacity of the ACP to service additional long term debt.

The Income Approach was used to determine the Business Enterprise Value (BEV) of the Canal, which represents the total entity value or total capitalization of the ACP. The BEV was derived using a discounted cash flow (DCF) analysis, which involves developing future cash flow projections and determining their present value. For example, an estimate of the number of ships that are too large to traverse the Canal and are thus currently using alternate routes was determined. An estimate was then made of the number of those ships that would use the Canal once the expansion took place and of the revenue that would be generated by the increased traffic. That revenue stream was then given a present value. This Income Approach was consistently applied to all relevant factors and the BEV of the ACP was determined to be \$6.5 billion to \$7.3 billion.

Confidence in the Income Approach was bolstered by the fact that the ACP had audited financial statements which were based on U.S. Generally Accepted Accounting Principles (GAAP). In addition, the Canal had fairly controllable sources of revenue and expenses which made forecasting of future income more predictable.

Conclusion

To the uninitiated, undertaking a valuation of something of the scope, complexity and history of the Panama Canal may seem overwhelming. However, through the use of GAAP and the rigorous application of internationally recognized valuation standards the core drivers of the Canal's value could be identified and measured. Ultimately, this objective approach is the best way to acknowledge both the global importance of the Canal and the legacy of those who built it.

*Details of the analysis are available for review at the Canal's web site:
<http://www.panCanal.com/esp/plan/estudios/0266.html>.*

* * *

Valuation Research Corporation was retained by the ACP to conduct the valuation and Valuation Research Group member Valuation Research Suramericana S.A. supported the analysis by providing valuations of the real estate associated with the Canal.

Asia Watch:

The Return of the “TIGERS”

by *Mike Sklar, Partner, DLA Piper US LLP, President, ACG Chicago*

The original four “Asian Tigers”—Singapore, South Korea, Hong Kong and Taiwan—were the focus of much international attention during their period of rapid economic development between 1960 and 1990. Investors were intrigued by the Tigers’ export-driven model of economic development which focused on the production of goods for highly-industrialized nations. In fact, the term “Tiger” became synonymous with nations that achieve high growth by pursuing an export-driven trade strategy. Accordingly, other Asian countries with similar economies such as Indonesia, Malaysia, Thailand and others are often given this moniker. (“Tigers” as used in this article refers to the original Tigers (except for Hong Kong which is now part of China) and their principal Southeast Asian neighbors.) The attention lavished on these Tigers, however, has largely dissipated and been replaced by a fixation on China, their enormous neighbor. Nonetheless, US investors should look beyond China when considering investments in Asia and consider the lucrative opportunities available in the economies of the Asian Tigers.

One suspects that part of the reason why the Tigers have not received more attention is that only a few short years ago the so called “Asian Monetary Crisis” hobbled many of the Southeast Asian economies. As currencies weakened, imports fell and debt, whether denominated in dollars or yen, became an increasing burden for governments and private industry alike. The cycle played out with depressed consumption spending both domestically and in foreign trade and in some countries, political instability. As demands for capital retreated, returns fell and new investment plummeted. Today, however, the scene is much different.

After currencies and interest rates stabilized at attractive levels, investment in the region – both foreign and domestic – began to pick up. Japan’s monetary policies of low (or in some cases no) interest contributed to the return of industrial funding and the refinancing of government and private debt. The Tigers themselves have aided this process by tax incentives to foreign investors and, especially in Singapore, quasi-governmental investing along side of private sources. A middle class emerged and consumption resumed – this time mostly consuming domestically produced products because imports were still too dear. This, in turn, aided local manufacturing.

While this was happening in the late 1990’s and early 2000’s, in China, the fruit of what Deng Xiao Ping had initiated more than a decade earlier was blossoming. China has a deep hunger for what makes a modern economy hum: oil, metals, capital, management know how and engineered products. Until it can produce these products and services internally, it is going to buy them from its neighbors, several of whom are now happily feeding at the trough of Chinese industrial and capital needs.

Another fact aiding the process of Tiger growth was the spread of democracy and the rule of law in Indonesia and Malaysia, both predominant Islamic countries and two of the region’s historic trouble spots. Is it mere coincidence that these two countries have come the furthest economically?

The end result is the creation of significant commercial opportunities for US investors, including those in the Midwest United States. Case in point: Motorola. In recent years, this Midwest electronic giant, has established its Asian Pacific International Headquarters in Singapore. A 10% incentive tax rate from the government and a side by side investment of \$29 million from the Singapore government (of a \$100 million budget) helped establish a supply chain center and train engineers. Motorola now produces 60% of its world output of advanced 3G telephones from its facilities in Singapore. This cross border activity with the Tigers is not limited to our industrial giants. Significant opportunities in the mid-market have also been created.

The lesson is simple. “Everyone” is chasing deals in China, still one of the hardest places for non-natives to get a business going and make money. For opportunistic US investors, the Tigers of Southeast Asia can be a fertile alternative ground for capital deployment and deal sourcing, not only there but in our own back yard.

* * *

The author, Michael Sklar, is the President of ACG Chicago and a partner in the global law firm of DLA Piper US LLP. Some of the anecdotal information for this article was provided by DLA Piper partners in the firm’s Singapore and other Asian offices.

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Regional Watches –

The Regional Watches will include Asia (ex. China), Canada, China, Europe, Latin America and the Middle East and North African Region. Each Watch will be authored by an ACG Chicago member with experience in his or her respective region. The author will seek to monitor developments within the region to identify significant business trends and highlight the implications.

Canada Watch: Northern (Under)Exposure: Private Equity in Canada

by Linc A. Rogers, Blake, Cassels and Graydon, Canadian Lawyers

It should not be surprising that shock waves emanating from the global private equity boom are reverberating throughout Canada (like a number of other major industrialized countries) with unprecedented force. Predictably, Canada, a G8 country of approximately 32.5 million people with a GDP of just over US\$1.1 trillion, has seen substantial growth in both fund formation and investment activity. Indeed, it is estimated that more than C\$50 billion is now committed to private equity in Canada. Key players include Birch Hill, TorQuest Partners, EdgeStone, Tricor Pacific Capital and Onex Corp's OnCap fund. What is more surprising is that the private equity opportunities that have been created in recent years, predominately (although not exclusively) in the Canadian mid-market, have gone largely unnoticed by many US players, despite the fact that these players are well positioned to exploit them and should be active in this market. The arguments in favor of this proposition are convincing ones.

Major Trading Partners

Canada and the US share a common language and similar legal, economic and political systems. Moreover, Canada and the US (which along with Mexico form the massive North America wide free trade area created by NAFTA) are each others largest trading partners with approximately \$1.2 billion of trade moving across the border each day. To put that in perspective, a greater value of trade crosses the Ambassador Bridge between Windsor, Ontario and Detroit, Michigan than crosses the entire Pacific Ocean between Japan and the US. The US is also the largest source of foreign direct investment in Canada, accounting for 65% of the country's total foreign direct investment. Thus, the historical evidence that Canada provides a stable and profitable environment for US investors is compelling.

Similar Deal Structure

Canadian private equity funds and their governing documents look very much like US funds and documents. As competition for private equity investments increases, institutional investors view co-investment opportunities as an excellent means of sourcing direct private equity investments with fund managers they trust. As a result, the Canadian private equity market has seen a growing emphasis on firm, detailed US style co-investment rights. This level of similarity allows US investors to work from a template with which they are already familiar, decrease transaction costs and minimize time spent on due diligence and preliminary review.

Investment Returns

A recent report in a leading international publication suggested that the Canadian market is as attractive as the US in terms of rates of returns on investments and noted a recent survey that indicated Canadian buyout funds have outperformed US buyout funds over the last 10 years on this basis. Accordingly, the opportunities north of the border are simply too lucrative to ignore.

Important structural and legal differences between raising and investing private capital in Canada and the US remain; however, the continued growth of Canada's private equity markets and continued positive experiences by US sponsors with Canadian businesses suggest that there will be an increasing flow of cross-border equity transactions. Further, increased competition from US firms is not necessarily a negative development for their Canadian counterparts. Canadian private equity firms will benefit in being able to partner with US firms on larger, more rewarding transactions (and may find more willing buyers for their portfolio companies). They will, however, no longer be able to keep their success to themselves.

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China Watch: State Administration of Taxation Targets Key Areas for Tax Audits for 2006

by *David Chan, Director-Transaction Services, KPMG*

One of the challenges facing China as it attempts to attract vital foreign investment is the establishment of an efficient and fair taxation regime. Not only have businesses complained about arbitrariness and irregularities in the system, but the lack of strong controls and oversight has allowed for extensive tax evasion and in many cases, overt fraud, robbing China of much needed revenue. The State Administration of Taxation (SAT) is seeking to remedy this situation, in part, by the establishment of a new program to improve the effectiveness of its tax audits of businesses that operate in China and has identified the key industries and enterprises that will be audit targets in 2006.

As part of the audit, the tax authorities will review the nature of the businesses and inspect the relevant taxes, including business tax, enterprise income tax, foreign enterprise income tax (FEIT), value-added tax, individual income tax, withholding tax, land appreciation tax and stamp duty. According to SAT, FEIT has been identified as a key audit item for most of the industries in the scope. Foreign entities subject to this tax include businesses majority owned by non-Chinese.

The main purpose of the audit is to identify weaknesses and strengthen controls over tax collection within problem areas, and to increase awareness in relevant tax laws and regulations. The audit program also promotes joint inspections and sharing of information between SAT and provincial tax authorities.

According to a Notice issued by SAT outlining the audit program, each provincial tax authority must prepare an implementation plan and perform the inspections between March and September 2006. The provincial tax authorities will issue a final report with results and their conclusions by October 2006, in order for the SAT to review the findings.

Each provincial tax authority is required to select two to three key areas based on its local distribution of industries and enterprises. The areas include both domestic companies and foreign invested enterprises (such as services and entertainment, financial services, coal manufacturing and transportation).

The inspection period will cover the 2004 and 2005 taxation years. However, the tax authorities could revert to prior years to collect any unpaid taxes if tax avoidance instances are identified. The issuance of the Notice and the audit program itself are indicative of China's more aggressive stance in this area, particularly with respect to foreign owned entities. Thus it is of critical importance that companies that have expanded aggressively in China diligently review their tax compliance status and maintain themselves in good standing at all times.

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Europe Watch: Best of Times and Worst of Times

by *Fred Tannenbaum, Partner, Gould & Ratner*

Many specters continue to haunt Europe. Sclerotic growth appears to be endemic, not cyclical, and reduces the attractiveness of new hiring, capital spending and investment. Massive structural budget deficits fuel inflation, raising interest rates which in turn increase the cost of doing business and render goods denominated in Euros less competitive. An inflexible labor force and work rules stifle employee mobility and bloat costs. Strong trade unions add to business costs and inflexibility. Coddled state favored industries reduce competitiveness. Weak national governments fail to face difficult fiscal and social policy issues, delaying the denouement to another day. Overly generous social welfare systems burden already large budget deficits and diminish workers' motivation as well as corporate profitability and willingness to hire and retrain. An aging workforce and increasing burdens on state retirement systems due to households replacing only an average of 1.8 children per family intensify social conflict and budget deficits. An influx of immigration

from diverse culturally heterogeneous regions as well as the inability or unwillingness to integrate new residents into the productive economy further intensify society's polarization and tensions. While some corporate tax rates have been declining (Germany for example is lowering the top marginal corporate tax bracket), value added taxes are increasing.

Despite these daunting hurdles, private industry in Europe and U.S. private equity capital are gradually transforming the face of European business. The plethora of LBO and private equity funds making large buyouts on the continent evoked the epithet "locusts" from the former German Finance Minister. Later-stage venture capital investments in Europe surged to 1.76 billion Euro in 2005, the highest level since 2002, according to Ernst & Young. M&A transaction values in Eastern Europe surged by 32% year over year according to PWC. Large combinations such as the Nokia-Siemens joint venture of the telecom equipment groups (annual sales of 20 billion Euro combined), and the just concluded minuet or hostile mating dance between the two steel industry giants Mittal and Arcelor, as well as major divestitures of grand conglomerates like ABB are also reshaping the face of European industry with the goal of making industry more efficient and competitive.

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Latin America Watch: Latin American Politics and Business Investments

by James A. Valderrama, Director – Corporate Development, Navigant, Consulting, Inc.

In order to capitalize on the number of lucrative commercial opportunities that Latin America offers, it is of critical importance that US investors understand the demographic composition of the region and the influence that political movements, ideologies and leaders may have on the economic arena. Indeed, an inability to properly assess these factors may lead US businesses to miscalculate their risk profile, fail to compose a properly targeted strategic plan and incorrectly allocate internal resources. Accordingly, having a basic understanding of the demographics of the region, its politics and economy is a necessary first step of a much longer excursion which can eventually lead to successfully doing business in Latin America.

Demographics

Although, the Caribbean is oft mistaken as part of Latin America, Latin America is technically defined as the 22 countries that encompass Central and South America. The majority of these countries are Spanish speaking, though the largest country in the region, Brazil, uses Portuguese as its primary language. In addition, a handful of countries use French as their main language. The region's population is 561 million people. It has a GDP of \$4.5 trillion and a literacy rate of 90 percent.

Politics

All the countries that comprise Latin America have democratically elected leaders. Over the past few years, however, the political landscape has been changing, moving from political leaders who tend to be more conservative, toward a current trend of more populist leaders with more socialist tendencies. In Mexico's most recent presidential election held in June, the conservative party narrowly beat out the populist candidate. The margin of victory was so close (less than 0.6 percent of the vote) that despite the fact that the national election commission declared the conservative the winner, the election results will undoubtedly be disputed in the Mexican court system. Those disputes will lead to even more political instability in the region. Other political hotspots are Brazil and Venezuela, where the populist candidates are either leading or running a close second in their upcoming elections.

Politics and Commerce

The election of these populist leaders can have a profound effect on commerce and impact the risk profile of US investors in the region. In two recent examples, popular leaders have created sweeping changes that have surprised even their most avid supporters.

- On May 1, 2006 the recently elected president of Bolivia, Evo Morales, nationalized the nation's gas and oil reserves.
- In Venezuela, President Chavez has been attempting (with some success) over the past few years to nationalize the countries massive oil reserves.

Even though there are many business and growth opportunities in Latin America for US investment, it is important for any business contemplating an investment in the region to realize that the environment it enters can dramatically and unexpectedly change as a consequence of what happens in the voting booth.

Recommendations

The investor can take some precautions when investing to mitigate some of these potential pitfalls. These precautions include purchasing insurance, engaging a local partner who can help navigate the culture and most importantly, understanding the political environment of the country in which one plans to invest.

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Middle East and North Africa Watch: Opportunities in the Middle East and North Africa Region?

by Chari Aweidah, CPA, LJ Soldinger Associates

The Middle East and North Africa (“MENA”) region includes the countries that span across North Africa (from Morocco to Egypt) and the Arabian Peninsula (from Yemen northward to Syria). The region is marked by diversity, complexity and opportunity and not simply chaos and war—often the only image conveyed by the Western media. In the face of this perceived anarchy, US investors have been understandably slow in attempting to realize the opportunities that the region affords. However, executives with an eye to the future, should know that amidst the instability, windows are opening for US investment. The principal reasons for this optimism are:

Economic Reform

Middle Eastern economies vary drastically from country to country. Although economic reform has been slow or non-existent in some countries, extensive progress has been made in others. The reforms, in large part stemming from a new generation of leaders focused on global competitiveness, include trade liberalization, implementation of the rule of law, governance reform, private sector development, and protection of property rights (including intellectual property).

Increased Liquidity

The surge in oil prices has led to unprecedented liquidity levels in oil rich countries. This has resulted in growing economies with significant need for modernization and expanding, young, educated populations with increasing disposable income and high demand for US products and services. This market, nearing 350 million people, has one of the world's highest population growth rates and a \$70 billion trading relationship with the US.

Low Cost Alternative

Some US multinationals use countries in the MENA region not only as expansion targets, but also as low-cost alternatives to serve markets in close proximity to the region, including the European Union, Africa and Asia. For example, Kraft Foods, a long time participant in the area, recently announced its plan to build the largest foreign food and beverage manufacturing plant in the Gulf Cooperation Council region (consisting of Kuwait, Qatar, Oman, Saudi Arabia, Bahrain and UAE) in the Bahrain International Investment Park.

Free Trade Areas

The Jordan Free Trade Area (FTA), America's third FTA anywhere in the world and first with an Arab state, was signed in October 2000. The development of FTAs represents an advancement in international trade regulations over the Qualified Industrial Zones (QIZs) that were previously established in Jordan and other Middle East countries in the late 1990s and early 2000s. QIZs are designated zones in industrial parks where goods can be manufactured and exported to the US quota and duty free. FTAs are far more comprehensive.

US companies already taking advantage of Jordan's FTA and QIZ include many textile and clothes manufacturing companies with brand names such as Wal-Mart, Sears, Victoria Secret and Sara Lee. In addition to Jordan, the US concluded FTAs with Israel, Morocco, Bahrain and Oman. FTA negotiations are in progress with the UAE as well as Trade and Investment Framework Agreements (TIFAs, often a precursor to an FTA) with Algeria, Egypt, Kuwait, Qatar, Saudi Arabia, Tunisia and Yemen. Moreover, the creation of a more ambitious US/Middle East FTA has been set in motion by the Bush Administration and should be completed by 2013.

* * *

Although at present tensions in the region are high and the future uncertain, business and investment opportunities are often greatest in areas that are poorly understood. US businesses would be wise to look beyond the glare of media focus and carefully watch this interesting market and when appropriate, move to participate in a region which has already proven to be a lucrative one for many non-US companies.

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Switzerland's Holcim Ltd. Agrees to Acquire Illinois' Meyer Material Co. for \$281 million

by Kurt Roth, Partner, Intercap Merchant Partners, LLC

On July 21, 2006, Holcim Ltd. of Zurich, Switzerland (Holcim) completed the acquisition of Meyer Material Co. of McHenry, Illinois ("Meyer") from its equity holders Park Avenue Equity Partners, L.P., ("Park Avenue") and Wasserstein & Co., L.P. (via its fund U.S. Equity Partners I), ("US Equity Partners") for a reported consideration of \$231 million in cash.

Just over one year ago in April 2005, Park Avenue and U.S. Equity Partners partnered with management in the acquisition of Meyer. At the time, Park Avenue stated that the competitive advantages of a vertically integrated operation, Meyer's leading position in the expanding Chicago-land and southern Wisconsin markets, and Meyer's history and reputation for quality and service provided a strong basis for the investment.

Meyer

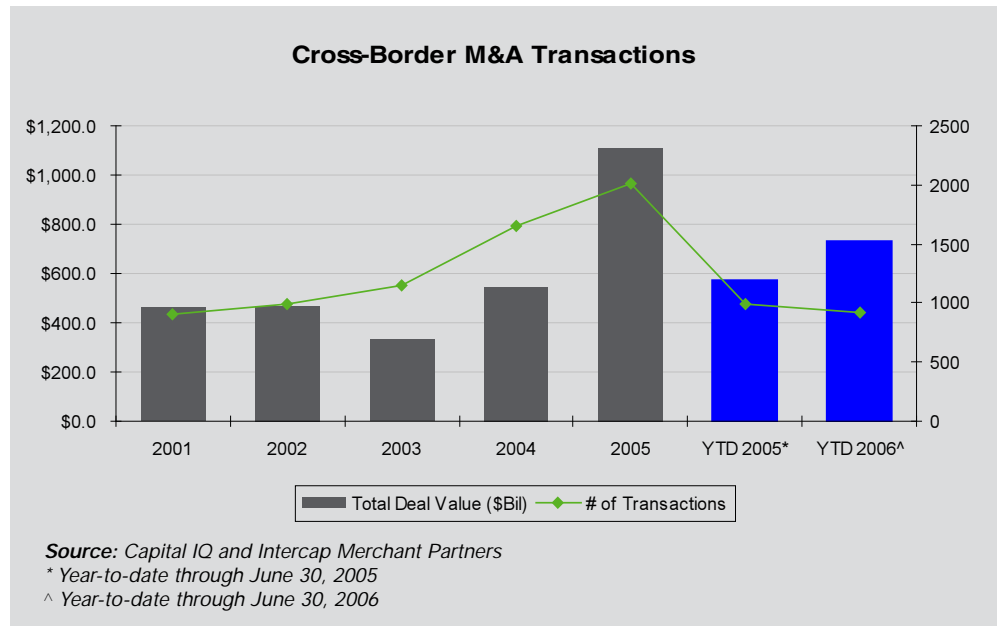
Meyer is a leading supplier of aggregates (crushed stone, sand and gravel), ready-mix concrete and concrete paving products. The company's primary markets are located in the Northwestern part of Metropolitan Chicago and Southeastern Wisconsin. Meyer, which employs approximately 750 people, operates 6 sand and gravel pits as well as 25 ready-mix concrete plants and a modern concrete paving products manufacturing facility. Meyer has 125 million tons of reserves as well as considerable underground reserves which may be considered for future development. In 2005, net sales reached approximately \$190 million (Holcim Ltd. Press Release, 6/26/06).

Holcim

Holcim is one of the world's leading suppliers of cement and aggregates. Holcim holds majority and minority interests in more than 70 countries around the globe.

According to statements made by Holcim, Meyer is to be fully integrated into Aggregate Industries, a UK-based subsidiary of Holcim that already has a large US presence ("Holcim US"). Meyer will provide a new platform for the future growth of the Holcim US in the fast growing suburbs of Chicago. Holcim expects to achieve significant synergies from more efficient cement logistics and product optimization at Holcim US. The acquisition is consistent with Holcim's dual product strategy focused on cement and aggregates in the US.

Cross-Border Deal of the Period – The Cross-Border Deal of the Period will discuss a significant middle market transaction involving an Illinois-based company or investment group and an international counter party.



The Holcim and Meyer combination is an example of the growing globalization of M&A transactions. As illustrated in the graph above, cross-border mergers and acquisitions surged to about 40% of total deal volume, or approximately \$730 billion of transactions in the first half of the year. This is an increase from about 30% of all M&A transactions in 2004. Year-to-date volume through June is already ahead of annual totals for 2001 through 2004, and the full-year 2006 run-rate is \$1,460 billion in transaction value, which would represent an increase of 32% over 2005.

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