

M&A Evolution: Strategies for the New Deal Landscape

St. Petersburg International Legal Forum 2012

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M&A Evolution: Strategies for the New Deal Landscape

160 Board members across the UK, Continental Europe, Asia and the US

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- A global study of leading corporations into the evolving M&A landscape

M&A Evolution

- 160 Board Members, and Heads of 158

34%

Changes in the target company's **tax regime** or **regulatory environment** is the greatest issue

23%

Economic outlook remains uncertain and will impact strategic thinking

28%

Sellers' expectation of greatest obstacle to a fair **valuation** for acquisitions

Availability of **finance**, particularly equity finance, was a leading concern

Strategies for the New Deal Landscape

Cash on balance sheets worldwide



55%

Cash on the balance sheet most favoured source of funding

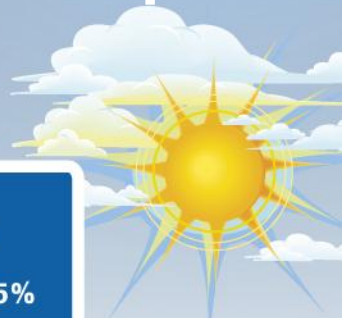
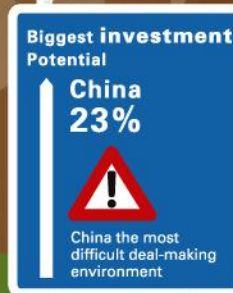
83%

The pursuit of **organic growth** is an important element in overall strategy



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Growth through **acquisition** among the three most important options



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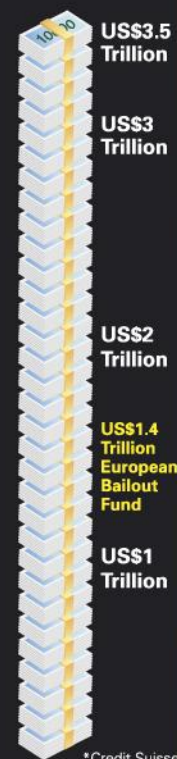
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Biggest investment Potential

China 23%



China the most difficult deal-making environment

Potential for investment

U.S. 15%

Southeast Asia 12%

Western Europe 11%



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- Uncertainty about tax and regulation is a major concern, more so post-crisis
- Financial regulation in particular was cited, e.g. Basel III's impact on bank lending
- Competition issues were felt strongly by those in Continental Europe and the US
- EU-imposed work regulation is also a barrier to getting deals done in the region



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- Worries over sovereign debt and the failure of the US economy to recover
- US and Continental European respondents were most concerned
- However, many claim that uncertainty will not affect their M&A strategy directly
- Only 5% of Asian respondents cited economic uncertainty as a concern

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- Sellers' expectations are the greatest obstacle to achieving a fair valuation
- A lack of suitable valuation metrics **75%** regarded as the second greatest obstacle
- Equity market volatility ranked

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Availability of **finance**, particularly equity finance, was a leading concern

- Concerns over finance was a leading issue in the UK (40%) and US (35%)
- In the UK access to debt and particularly equity finance remains problematic
- Many noted that their corporations' balance sheet position is an enabling factor
- A number said that together with cash conditions support deal-making

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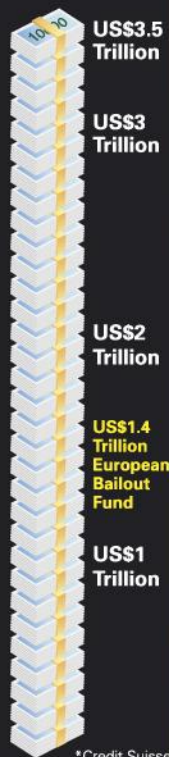
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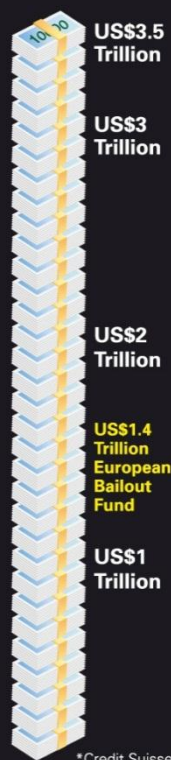
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- Credit Suisse estimates there is US\$3.5 trillion on balance sheets worldwide
- To put that into context, the European bailout fund is US\$1.4 trillion

55% cash on balance sheets was overwhelmingly the most favoured source of funding

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*Credit Suisse

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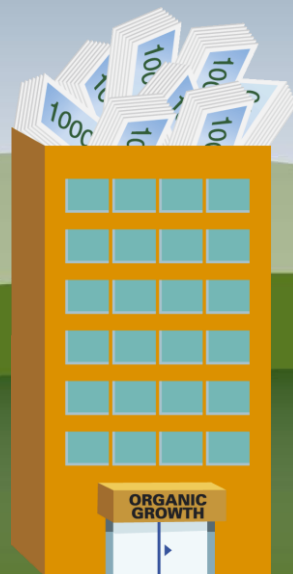
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The pursuit of **organic growth** is an important element in overall strategy

- 34% of respondents cited organic growth as their most favoured growth strategy
- UK respondents are most cautious, with 48% favouring organic growth
- Continental European's are split between organic growth and outright acquisition

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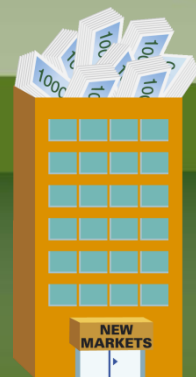
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- Many also believe that there are strategic benefits to making outright acquisitions
- Weakened competitors present interesting opportunities to stronger corporates
- 30% of Asian respondents rank international acquisition as their first priority
- Minority investments and JVs remain important options, but enthusiasm is cooler



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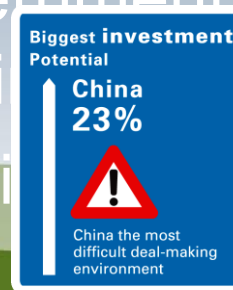
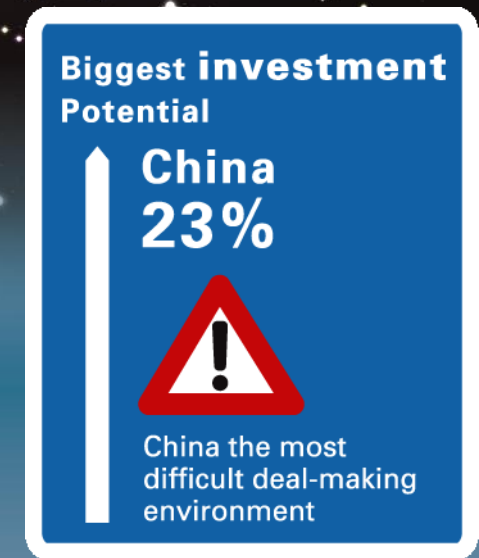
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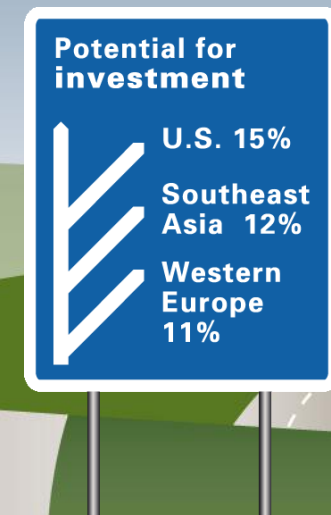
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- China ranked first as the geographical investment priority for the next two years
- 2/5ths of US respondents chose China, compared to 10% in the UK and 18% in Europe
- Respondents also rated China as the most difficult environment for deal-making
- 52% cited regulatory and government approvals as the real barriers in China
- High valuations (18%) and political risk (15%) also received a mention



- SE Asia (12%) and Western Europe (11%) also ranked highly as investment priorities
- Asian respondents expressed a clear preference for investment in SE Asia (58%)
- UK and Continental European respondents favour Europe
- Only 9% included Eastern Europe (excl. Russia) among their top three priorities



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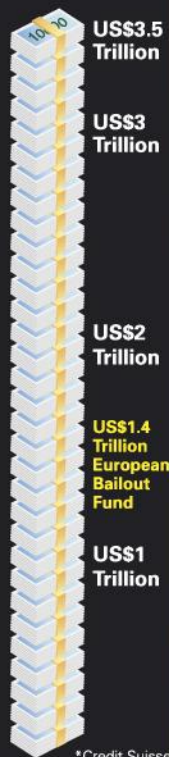
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- The financial crisis that started in late 2007 has changed M&A profoundly
- Regulation, economic uncertainty, difficulties raising financing and issues around price erodes deal-making
- But there is an appetite for deals and cash on balance sheets
- Those that navigate around regulation, funding and price are getting deals done
- Robust negotiation and creative structuring are essential in bringing deals to close



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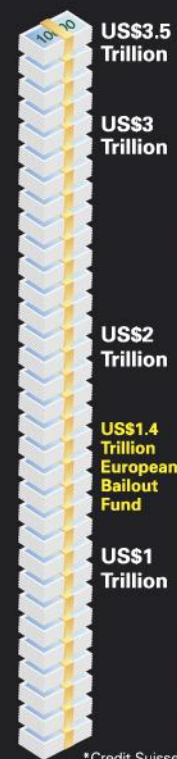
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