

PRESS STATEMENT

Increasing appetite for cross-border deals, as businesses seek growth outside home markets

Clifford Chance survey identifies top drivers and risks for growth through M&A across an increasingly complex global landscape

New York 3 May 2012 - More than three-quarters (78%) of respondents to Clifford Chance's *Cross-border M&A: Perspectives on a changing world* survey of large global companies are looking for growth outside of their established domestic markets. The research study into current trends in cross-border M&A found that over half of companies surveyed (56%) are focusing their M&A strategy on the high growth economies.

The research, which was conducted by the Economist Intelligence Unit on behalf of Clifford Chance, surveyed nearly 400 companies each with revenues of more than US\$1 billion, including 80 chief executives and 185 other C-level executives from a wide range of industries and regions. Respondents were asked to rank their top strategic drivers and perceived risks and barriers to cross-border M&A activity.

Current political, social and economic uncertainties and cultural challenges, particularly in growth markets, are leading many organisations to adapt their strategies and look towards joint ventures and partnerships as the preferred route to accessing new markets - and this trend is reinforced by the survey findings. Cash is king, with more than a third of companies (37%) planning to use their accumulated cash reserves to finance future deals, rather than bank lending or raising finance through equity or debt on public markets.

Diversification into new areas of business is low on the agenda for many, with the top driver for M&A being a focus on strengthening core business. Staying ahead of the competition came next in the survey results, followed by driving growth in key geographies. The survey also revealed that shareholders are increasingly influencing M&A strategies. This is manifested through an increased scrutiny of proposed transactions as well as shareholder activism influencing board strategies – from the application and use of cash reserves to disposals or break-up plans.

With many large companies seeing the prospect of increased cross-border M&A activity, the survey also examined the top risks and barriers to cross-border M&A deals. Competition for assets took the number one spot, reflecting that there are currently more potential buyers than there are attractive targets and investment opportunities. Political uncertainty, currency fluctuations, rising costs and regulatory concerns are also concerns for many considering M&A activity in the current market.

Commenting on the results of the survey Matthew Layton, Global Head of Clifford Chance's Corporate practice said: "The survey supports what we are seeing across our offices around the world – many companies with strong balance sheets and cash resources have the appetite and confidence to

pursue the right M&A opportunities to strengthen and grow their core businesses, particularly in high growth markets."

"Yet the environment is increasingly complex for these companies. In many markets and sectors there is a heightened level of scrutiny from regulators, politicians and shareholders alike, set against the backdrop of heated competition for the best assets. Sensitivity to the political and socio-cultural challenges in specific regions can be as important to the success of a deal as clearing the regulatory hurdles."

"Although the first-quarter of 2012 saw a fall in M&A activity – with, for example, FDI into China down significantly year on year, the results of the survey reinforce the signs of boardroom confidence, with nearly 50% of respondents seeing M&A as key to their growth strategy. Given a stable market environment, we expect that this boardroom confidence will translate into an upturn in M&A activity in due course – particularly cross-border activity focused on those markets offering the greatest potential for growth, in what are now truly global markets for many sectors."

A number of significant themes emerge from the survey findings:

- **Growth markets** feature highly as attractive destinations for M&A. When asked which markets they consider to be prime targets for M&A opportunities, while unsurprisingly given its size, North America was the region with the highest number of prime M&A opportunities, China, India and Brazil all appear in the top 6.

Although China was named as the number two destination for M&A, it is also one of the regions considered to have the highest risk factors for cross-border M&A, with respondents ranking South East Asia, Russia, China and Sub-Saharan Africa as the 4 most risky markets.

Those surveyed indicated divestments would be focused primarily on Western economies, with North America, the UK, Germany, France and Italy all featuring highly in the top 10.

- **Financing M&A - cash is king** - 37% of companies surveyed prefer to finance M&A deals through their accumulated cash reserves.

Nearly a third of companies (30%) confirmed that a key financial concern for them over the next two years was the availability of financing, no doubt reflecting concerns as to the impact on liquidity of increased regulation of the bank sector. Currency fluctuation (32%), asset price volatility (27%) and the volatility of equity markets (26%) also ranked highly.

- **Shareholder scrutiny** – Shareholder pressure is identified by respondents as a driver for pursuing cross-border M&A activity. Many companies are enjoying favourable balance sheet conditions, having amassed healthy reserves of cash, and shareholder sentiment over whether reserves of cash should be deployed or returned to shareholders is an increasingly important factor in their strategic planning.

- **Red tape and protectionism** - businesses across the globe continue to be cautious and survey respondents cite over-regulation as a key barrier to M&A activity. Protectionism is seen as the top legal or regulatory risk, with 28% of survey respondents fearing its impact on cross-border M&A activity over the next two years. High-profile scrutiny by politicians and regulators of several recent large M&A transactions has put a spotlight on these issues.

Many of those surveyed claimed that the regulatory landscape across Asia could deter their M&A efforts (South East Asia 22%; China 21%; Japan (10%); rest of Asia 17%). The regulatory environments across North America (16%) and Russia (14%) were also notable key regions identified by respondents as regulatory black-spots.

- **Concerns about cultural differences** – despite the growing need for companies to invest in new markets more than half say that they are discouraged from acquiring in new markets because of concerns about bridging cultural differences. Many companies surveyed admitted that they found the 'softer side' of deal-making challenging – just 44% ranked themselves as effective at handling cultural integration.
- **Joint ventures to manage risk** - joint ventures and other minority structures are being used to manage sector-specific regulation and foreign ownership restrictions, and 37% of respondents selected joint ventures and strategic partnerships as their preferred deal structure. Also used for risk-sharing, particularly managing cultural risk, these structures can help to mitigate risks associated with entering new markets - but they can of course also can bring their own challenges in the future.

Global perceptions

The survey exposed various regional perceptions and attitudes. European respondents rank China as a prime region for M&A opportunities, followed by Germany with India in third place. North Americans don't share this optimistic view of the East - they rank China down in tenth place, with South East Asia and Japan in 13th and 15th places respectively. The feeling appears to be mutual: only 16% of respondents from the Asia Pacific region chose North America as a prime region for M&A with their plans for M&A mostly residing within the region, with South East Asia selected most frequently, followed by China and Australia/New Zealand in second and third place respectively.

More than half of North Americans selected South East Asia as the most risky destination for M&A activity, compared with only 8% of European respondents. Europeans however, do agree that China's regulatory landscape may deter them from selecting the country as a target for M&A activity, followed by North America in second place.

Matthew Layton concludes, "Clifford Chance's *Cross-border M&A: Perspectives on a changing world* survey provides many insights into the current mind-set of companies considering M&A, demonstrating that today's global M&A market is diverse and complex. Drivers of M&A strategy and the perceptions of barriers and challenges to deal-making vary dramatically around the world. As the world begins to re-shape following the crisis, companies need to acknowledge and understand these risks in order to successfully grasp the much sought after new market opportunities."

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Notes to Editors:

1. About the report: the research conducted in the first quarter of 2012 by the Economist Intelligence Unit surveyed nearly 400 companies with revenues of more than US\$1 billion, including 80 chief executives and 185 other C-level executives from a wide range of industries and regions
2. Clifford Chance is one of the world's leading law firms, helping clients achieve their goals by combining the highest global standards with local expertise. The Firm has unrivalled scale and depth of legal resources across the five key markets of Africa, the Americas, Asia Pacific, Europe and the Middle East, and focuses on the core areas of commercial activity: capital markets; corporate and M&A; finance and banking; real estate; tax; pensions and employment; litigation and dispute resolution. Clifford Chance has 34 offices in 24 countries with some 3,200 legal advisers. The Firm also operates a co-operation agreement with Al-Jadaan & Partners Law Firm in Saudi Arabia.
3. Clifford Chance was ranked 'tier one' in more cross-border tables than any other firm in the Chambers Global 2012 Directory. This independent analysis focuses on firms' legal ability, professional conduct, client service, and commercial awareness, and these rankings provide outstanding recognition for the Firm's breadth of expertise and consistency of quality across global markets.
4. Clifford Chance's corporate practice has 750 legal advisers worldwide. Lawyers advise on M&A, commercial contracts, competition and antitrust, funds, investment banking and private equity. For more information please visit:
http://www.cliffordchance.com/legal_area/manda_corporate.html

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