

Thought leadership series

Global mergers & acquisitions



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Foreword

Mergers and acquisitions (“M&A”)s have been widely used in developed as well as developing economies, as a tool to propel growth; an aspect which is increasingly being used by organisations as a critical component of their business strategy. In fact M&A activity has become an important ingredient of an expansion strategy for evolving businesses, specially those in the sectors of information technology, telecommunications, business process outsourcing as well as in certain traditional manufacturing businesses.

There are some fundamental factors which drive M&A deals around the world. A significant factor is the pursuit of instantaneous growth and the consequent enhancement of market share. M&A is also considered as a strategy to acquire new competencies and in the process diversify an existing business, enter into an entirely new line of business or a previously uncharted jurisdiction. Accessibility of funds and benefits of tax or corporate restructuring are other important drivers that have facilitated M&A activity over the past few years.

During the global economic recession of 2008 and 2009, M&A transactions were mainly focused on creating collaborations to improve integration. This period also saw organisations integrating and consolidating, consequently giving rise to a focussed set of new considerations for M&A activity. However, some of these trends started to change in 2011 and strategic growth has become a key consideration for organisations which until recently were concentrating on cost-cutting and survival strategies through M&A. The 22% increase in global M&A activity, to reach a consolidated value of USD 1.7 trillion in the first nine months of 2011 illustrates this further. However, as fears of the Eurozone debt crisis grip Europe and other parts of the world, there are concerns being raised by experts on implications of continuing the growth momentum through a sustained M&A focus.

Mazars have been closely associated with some significant M&A transactions both at a national as well as international arena, while actively supporting organisations with their “buy-side” and “sell-side” considerations. In this publication, we have assessed the M&A scenario and analysed several M&A deals across some of the more active regions across the globe, across several sectors in order to provide expert views on issues that have been managed and considerations that have been driving (including those which are expected to influence) M&A activity.



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Executive summary

As the world recovered from the worst economic downturn of the decade in the latter part of 2010, both cross-border and domestic M&A transactions saw an increase in volumes as well as value. During the period of the recession, M&A transactions were largely driven by consolidation and survival strategies.

M&A transactions were on the rise in Europe, Asia Pacific and North America, while the US has continued to prove its leadership in terms of total M&A deal volume in the first half of 2011, closely followed by Europe and Asia-Pacific. The ensuing table provides the announced deal values in these regions in the first half (“H1”) of 2011 and the growth over the same period in 2010.

The Asia-Pacific region grew the least in terms of M&A activity, due to the fact that outbound M&A transactions have been in excess of inbound transactions, with organisations from the Asia-Pacific making significant inroads in international markets by acquiring companies in the US and Europe. Apart from these regions, M&A activities from emerging countries such as Brazil, Russia, India and China and the South East Asian countries including Thailand, are increasingly becoming prominent. Several organisations in emerging markets have often experienced difficult policy environments in their home countries and consequently have found their outbound ventures in developed countries relatively easier, where regulatory policies

Region	Total Value (USDbn)	Growth in %
US	484.1	49.6
Europe	392.9	58
Asia-Pacific (ex-Japan)	164.9	8

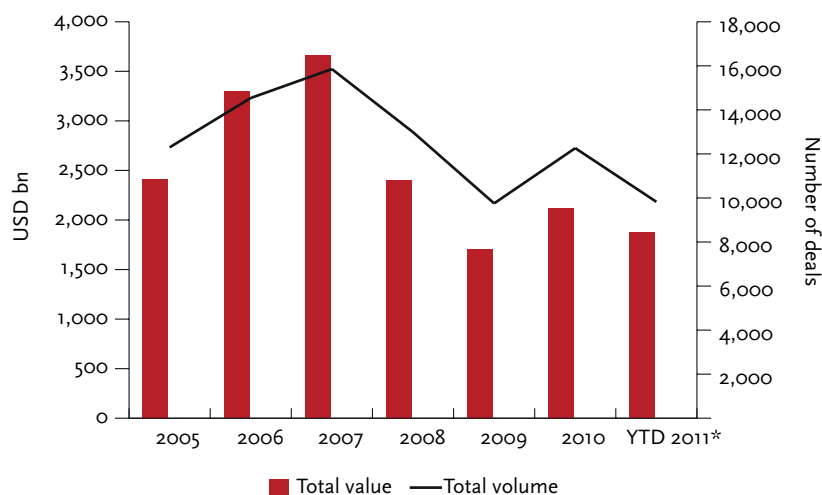
and the process of collecting information (including fact finding) is more defined.

Although various sources provide different data relating to M&A, there is no ambiguity in the fact that significant deals have taken place during the twelve month period ended June 30, 2011. However, the scenario has changed drastically in major markets of North America and Europe with the advent of the debt crisis that has engulfed the Eurozone and the US. The tables have turned within a short period of time with deals drying up in the later part of 2011 and big volume transactions either getting postponed or aborted (in their infancy), unless there is an indication of a recovery in the economic situation. What started as a manageable

problem in Greece has now reached the heart of Europe. According to a source, global deals valued at USD 573.3bn in Q3 of 2011 were announced, which is a sharp decline from USD 748.75bn in the same quarter in 2010.

Experts believe that unless there is an effective solution to cope with the current European crisis, the global M&A market globally would be impacted adversely. Coupled with this, traditional challenges such as cultural differences, complexities of cross border due diligence, political and regulatory issues, economic constraints and business sustainability are emerging as key challenges of today, thus significantly affecting the nature, complexion, scale and size of M&A activity worldwide.

Global M&A trends



* Upto October 2011

Global M&A overview

Cross-border M&A activity was once viewed as the means for multinational companies to extend their scale of operations and diversify geographically. However, this is now an essential and powerful option used by large and medium size organizations as well, specially those who are striving to become more competitive or cost-efficient. Other considerations for M&A include enhancement of market share, attainment of business synergies and effective integration.

The global economic recession, which hit the financial markets around the world in 2008, had a significant impact on M&A activity. As many market observers had predicted, the excess cash that some companies held on to during the financial downturn, started trickling down to the market through acquisitions from 2010. Since then there has been an upward trend in activity and though experts had predicted that this upward trend in M&A activity would continue in 2011, the current situation, with financial markets in Europe and America reeling under the pressure of a fresh wave of financial crisis, have led to a slowdown in M&A activities in the second half of 2011.

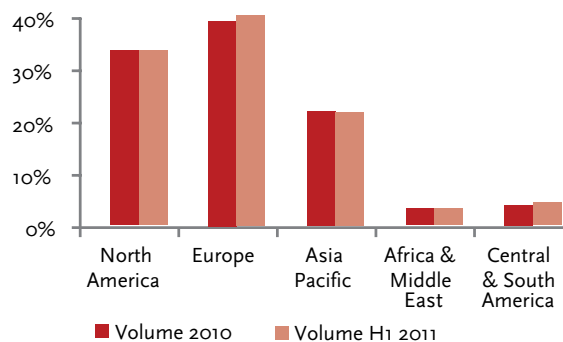
The value of global M&A activities, for the first three quarters (“Q1-Q3”) of 2011 aggregated USD 1,728bn, showing a growth of 21.5% from the same period in 2010. An aggregate of about 9,000 deals have been reported in the first nine months of the current year, marginally ahead of the deal volume in the same period of 2010. The largest deal in this period was Deutsche Telecom’s USD 39bn disposal of T-Mobile USA to AT&T, which is also the largest corporate deal since Exxon Mobil’s USD 40.6bn acquisition of XTO Energy in December 2009. Express Scripts’ USD 33.4bn offer to acquire US-based Medco Health Solutions was Q3 of 2011’s largest reported deal, whereas Johnson & Johnson’s USD 21.2bn offer to acquire Swiss based Synthes GmbH was Q2’s largest deal.

On a regional front, the value of European M&A deals in Q1-Q3 of 2011 aggregated USD 538.3bn, which is an increase of 26.9%, when compared with the Q1-Q3 of 2010, while the aggregate value of deals relating to Asia-Pacific crossed USD 250bn, up 4.9% from Q1-Q3 of 2010.

The aggregate value of global M&A deals was USD 1,161bn during H1 of 2011, up 27.9% from the same period in 2010 (USD 907.8bn). The deal count though was down by 2.7% with 5,684 deals. **In 2011, cross-border M&A market saw the busiest first half of a year since 2008.** Cross-border deals (by individual countries) that were reported in H1 of 2011, aggregated USD 468bn in terms of value, a 53.3% increase from H1 of 2010. **H1 of 2011 saw cross-border deals between individual countries accounting for 40.7% of global M&A activity,** the highest proportion for the first half of a year since 2008.

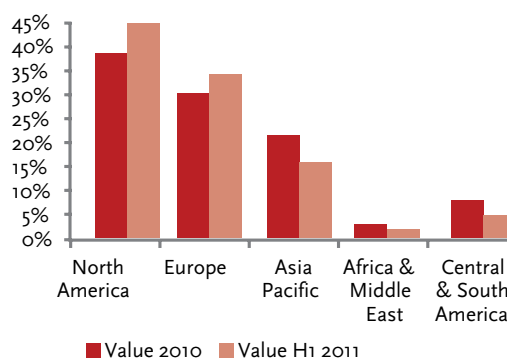
A large part of the increase in global M&A transactions was a result of financial investors returning to the market. The ensuing graph shows the global deal volume by region.

Figure 1: Geographic distribution of global M&A deal by volume



In terms of value, a slightly different trend has emerged over the last five years. Emerging markets have accounted for 33% of M&A, at an estimated level of over USD 800bn in 2010, which is a remarkable growth in the region of 76%, when compared with 2009. The energy and utilities was the most active sector contributing one-fifth of the total announced M&A deals in 2010. Private equity sponsored M&A activity stood at USD 225bn in 2010. In the same year, Asia's reported deal value increased by 53% to USD 452bn.

Figure 2: Geographical distribution of global M&A deals by value



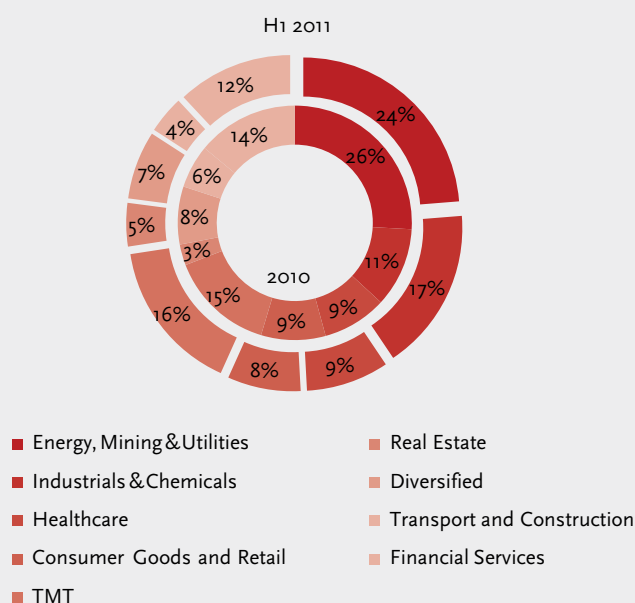
Q1, Q2, Q3 and Q4 wherever appear refers to the quarters of the calendar year unless otherwise mentioned. H1 refers to first 6 months and H2 refers to last 6 months of a calendar year.

Sector specific M&A deals

Our analysis of completed deals by sector in 2011, reveals a continued focus on commodities, particularly mining, as industrial producers seek to secure greater security relating to supply of raw materials and replenishment of stocks. The Energy & Utilities sector has continued to see stable M&A activity levels as producers have sought growth by acquisition in addition to their organic growth in regulated markets and the move towards greener energy production continues to drive such growth.

Consolidation in the pharmaceutical & biotechnology industry has in the meanwhile continued with many takeover deals in 2011. The ensuing graph shows a comparative share by industry in 2010 and the H1 of 2011 at a global level.

Figure 3: Sector-wise global M&A deals by value



Energy and natural resources

In terms of deal value, M&A activity bounced back in 2010 and continued to show an upward trend during the first three quarters of 2011. The oil & gas vertical led the sector for cross border M&A in the first nine months of 2011 with USD 103bn worth of transactions through 516 deals. This has shown an upward trend of 57% over the same period of 2010. The US was the leading target nation for inbound cross border oil & gas M&A with an aggregate value of USD 41.9bn, which is almost double the level of the first nine months of 2010.

Key drivers

The energy and natural resources vertical has been characterised by large individual investment funds, relatively stable and long term deals and a unified global supply chain. However, various factors across the globe such as security issues in the Middle East, the consequent sharp rise in oil prices, tax regulations in key regions and the economic and technological impact of Japan's nuclear crisis have resulted in relatively unstable supply.

While some significant disposals are indicative of an active marketplace, the reality appears to be slightly different. There is, in fact, a surplus of downstream assets on the market, particularly in Europe. Rapid rationalisation of refining capacity is being driven at a high speed due to tight refining margins and the building of more competitive and capable plants in some key emerging economies. Shell, for example, had protracted negotiations before agreeing to a USD 1.3bn sale of their Stanlow refinery in the UK, to Essar. Decisions driven by tax considerations also presented a hurdle for upstream deals in some regions. The UK government's decision for a windfall tax on North Sea producers has sent the share prices of companies focused on that region into a spin and is largely seen to be responsible for forcing both Conoco Phillips and Noreco pulling out of some of their proposed transactions.





Financial services

In the period Q1-Q3 of 2011, financial services accounted for USD 208.5bn with an aggregate deal count of 780. In terms of value, it represented a growth of 37.4% from USD 151.7bn, over 2010. However, the volume of deals has gone down (Q1-Q3 of 2011) from 904 deals in the Q1-Q3 of 2010.

Key drivers

Recent and prospective regulatory changes (related to assets, credit and liquidity), such as those which require banks to hold larger capital cushions in many countries are expected to increasingly drive deals in small and medium-sized banks. For example, the Spanish Government announced various measures to consolidate and recapitalise the country's savings and bank loans. Elsewhere, nationalised and semi-nationalised banks have also been forced to offload distressed assets and toxic debts.

Growing protectionism is however, a counter-theme. The Italian Government has recently tried to block the sale of its banking assets to foreign buyers. The UK Takeover Panel has introduced new "put up or shut up" bid disclosure rules which, although could well be a direct response to the furore over Kraft's acquisition of Cadbury, the same could temper M&A activity across sectors. In addition, issues such as the separation of retail and investment banking could take some years to settle.

There is also a spike of M&A activity relating to stock exchanges themselves. Some prominent stock exchanges are in fear of losing their secondary regulatory oversight roles. They are now behaving more like conventional businesses and are seeking to consolidate and even enhance their positions. In the process, some of them are seeking to diversify beyond equities into other asset classes such as derivatives.

UK continues to lead the way in enabling mutual societies to consolidate, following the groundbreaking the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 commonly referred to as Butterfill Act – a development that other European countries could emulate.

The two fundamental drivers of M&A activity in this sector remained the same irrespective of the market conditions. The first is a raft of regulatory changes that could take some years, to work through the global financial system. The second is the need for individual institutions to reshape their balance sheets, capital bases and business models to get back on the path to secure long-term growth. In this environment, buyers are in short supply partly driven by regulatory uncertainty hanging over the sector. Experts believe that there is no shortage of cash available for sound deals. Middle and far Eastern sovereign wealth funds, for instance, have shown that they have the capital to complete transactions.

Pharma, medical & biotech

For the first three quarters of 2011, this sector experienced a total of 713 deals valued USD 160.7bn, compared with 669 deals valued USD 114.5bn for the same period in 2010.

The prime reason cited for the relative sluggish growth in M&A activity across the sector is that companies are making slower than expected progress in expanding their operations internationally. The US remained the sector's busiest region for M&A in Q1 of 2011 and there were some sizeable deals, notably in the medical technology vertical where, for instance, Beckman Coulter accepted a USD 6.8bn takeover from Danaher. Western Europe saw some reasonable activity, particularly in the midmarket, but Asia-Pacific remained relatively quiet, contrary to expectations.

Key drivers

Several major organisations in this segment are focusing on M&A opportunities in the Asia-Pacific region. They are eager to enter the burgeoning healthcare markets of India and China, where spending on services and treatments by an emerging middle class promises huge growth. Though they are driven by the cost arbitrage of labour and manufacturing in these and other developing economies, yet they continue to be worried about government and regulatory policies in the region and some lingering concerns around intellectual property rights. According to some experts, the deal activity in this region is expected pick up considerably in the near future.

Elsewhere, consolidation continues to drive M&A activity in the sector. This is particularly true in medical technology and services, where there is a larger scope for efficiencies by combining complementary businesses and product lines. Some major organisations in this sector are also seeking to diversify into consumer and over-the-counter products, however, pressure on national healthcare budgets remains intense across most countries. Both UK and Japan have announced measures to boost R&D spending in the life sciences vertical. Despite this, Pfizer, Novartis and GSK have announced closures of their research facilities in the UK along with cuts in their research expenditure.





Industries & chemicals

The industries & chemicals sector saw USD 297.4bn worth of deals in the first nine months of 2011, which is an increase of 8.5% from USD 176.5bn worth of deals during the same period last year. It is this sector which dominated Q3 of 2011, with USD 100bn-worth of deals, up by 14.8% when compared to USD 87bn in Q2 of 2011.

M&A activity in the chemical compounds vertical has shot up in 2010 from the depressed levels of 2009. In 2010, there were a total of 864

deals, valued at USD 51.4bn that were announced, compared with 656 deals worth USD 27.2bn in 2009. In H1 of 2011, an aggregate of 573 deals were announced with a deal value of USD 57bn. These included 11 mega deals aggregating USD 45.78bn. Creditors of US acquired Mosaic Co. for USD 8.9bn, while Berkshire Hathaway Inc acquired Lubrizol Corp for USD 8.8bn and Belgium-based chemicals and plastic company Solvay SA acquired French specialty manufacturer Rhodia for USD 4.84bn. However, the number of deals announced in Q2 of 2011 declined to 262 by more than 15% from 311 in Q1 of 2011. With this, the deal value in Q2 of 2011 also declined by 64% to USD 15.2bn, from USD 41.8bn in Q1 of 2011.

Key drivers

Some experts also believe that the next few years are poised to be extraordinarily active in the chemicals space due to various inherent factors prevailing in the market. Cash balances have been growing among chemicals producers in the recent quarters. Well-capitalised, cash-rich corporations are seeking external growth to supplement their weak organic growth outlook. Moreover, companies from emerging economies, particularly China, India and Brazil are seeking to establish businesses in the US and Europe. The strong competitive position of commodity chemical conglomerates in the US, strengthened by relatively cheap natural gas, is also expected to attract buyers from other regions.

Mining and metals

In H1 of 2011, as many as 511 major deals were announced in the mining and metal sector, that were collectively valued at USD 96.3bn. Although this represented a decrease of around 11% in volumes from 573 deals in 2010, the same represented a 101% increase in terms of value over USD 47.9bn that was reported in the same period of 2010. In H1 of 2011, mining & metals companies completed 19 mega deals worth more than USD 1bn each, which is nearly double the volume of deals reported in H1 of 2010. These include the Alpha Natural Resources acquisition of Massey Energy for USD 7.2bn and Cliff Natural Resources Inc.'s take over of Consolidated Thompson Iron Mines Ltd. for USD 4.1bn. North America has taken the lead as most active acquiring region and also the preferred destination, attracting USD 39bn with 40% of the activity in H1 of 2011.



Key drivers

Rising commodity prices have led to increased interests in the precious metals mining vertical. In terms of value, mines with five key resources namely gold, copper, coal, fertiliser minerals and iron ore have dominated the M&A space, representing 88% of deals in 2010 and this trend has continued in 2011.

However, macro-economic issues, rising resource nationalism and an uncertain pricing environment have increased the volatility and risk for M&A, and consequently decision making is taking more time. This is reflected in the fact that the volume of deals is actually lower in 2010. Strategic and 'one chance' deals are being undertaken whilst some speculative deals are being deferred. In order to conserve cash and considering the relatively inadequate access to credit, most mining companies have scaled back on their capital programs and are focusing on their most important strategic projects. Some experts believe that future deals are likely to continue to focus on Canada and Latin America, which are particularly rich in copper and iron ore. Political risk will, however, continue to pose a deterrent in countries such as Venezuela and Bolivia. At the same time some experts also expect, Chinese companies to continue buying mining companies on the international market as they strive to secure raw materials for future use.

Australia has emerged as one of the most sought after destinations for mining companies worldwide. Currently Australia holds about 14% of the market share in terms of deal volume and 4% in value terms of all M&A activity taking place in this industry worldwide. There has been significant decline of as much as 15% in M&A deal value in Australia during the first half of 2011, over the previous year. Experts believe that this is possibly due to most mining companies (in Australia) facing severe input cost appreciation including a 40% rise in labour costs since 2009.



Technology, media and telecommunication (“TMT”)

In the first nine months of 2011, the TMT sector experienced an aggregate of 1,348 deals valued at USD 271.9bn. The telecommunication vertical lead this sector with 109 deals valued at USD 125.9bn followed by technology with 964 deals valued at USD 112.6bn and media with 275 deals valued at USD 33.4bn. The enhancement in the value is also driven by AT&T and T-mobile’s USD 39bn deal, the largest in 2011 (till November 2011).

Key drivers

Experts believe that a significant consideration that will drive deal-making in the telecom space is cloud computing. Telecom M&A in 2011 shifted more toward cloud-centric services, including hosted communications, particularly after Verizon’s USD 1.4bn acquisition of Terremark Worldwide in January. The other big theme in telecom M&A involves optical fibre companies, which is seen as the backbone of internet traffic. With the surging use of broadband, companies that own and operate underground networks that direct web traffic in cities and rural areas are fetching attractive prices. Driven by trends like cloud computing, software as a service (“SaaS”), social networking, mobile communications and information security; M&A deals in the technology vertical have grown during the first three quarters with an impressive 69% growth in terms of value, over the same period in 2010.

Experts also believe that some significant technology companies have the appetite to considerably increase their M&A activity. In aggregate, the cash and investments held by this vertical’s largest companies has increased significantly. However, there are concerns over the increasing divergence between buyers and sellers over valuation, geopolitical unrest and issues relating to the debt crisis in Europe which could delay their decisions.

M&A scenario in emerging markets

Organisations based in emerging markets such as BRIC countries (i.e. Brazil, Russia, India and China) and certain South East Asian countries (including Thailand) are expected to play an increasingly prominent role in global M&A activity. Many organisations in emerging markets often have an advantage over developed countries in navigating difficult policy environments in developing countries, since they have the experience of managing similar conditions in their home countries. M&A activity by organisations in developing countries is on the rise and is leading to their enhanced levels of Foreign Direct Investment (“FDI”) over a long term. Due to the fact that such transactions typically occur within close geographical proximity, they not only serve to deepen regional economic ties, but also accelerate the integration of low-income countries into the global economy. Organisations in emerging-market economies have also been active in relatively advanced economies. According to some experts the annual value of cross-border M&A transactions undertaken by organisations in emerging-markets is projected to more than double the present level by 2025, while the annual number of cross-border M&A deals is expected to more than triple (from less than 2,500 in 2011) to almost 8,000 in 2025.

M&A activity between developed and emerging markets ran at the near record high levels of the pre-recession era, for some part of 2011, despite fears that increased protectionism could well impinge on cross-border flows of activity. The availability of natural resources, low-cost labour and growth opportunities, has made investments in some emerging nations a stimulating, viable and profitable proposition for countries in the developed world.

Organisations from emerging markets are becoming powerful agents of change in the global industrial and financial landscape. Trends in FDI flows are one indication of this shifting status. Between 1997 and 2003, companies based in emerging economies engaged in cross-border investment through M&A deals of USD 189bn, or 4% of the value of all global M&A investments over the period. Between 2004 and 2010, that amount increased to USD 1,100bn, a four-fold jump contributing about 17% of the global aggregate. Since 2003, approximately 5,000 organisations based in emerging markets have established a global presence through 12,516 green-field investments of USD 1,720bn. More than one-third of the FDI inflows to developing countries currently originate from other developing countries. Of the 11,113 cross-border M&A deals announced worldwide in 2010, as many as 5,623, which is more than 50%, related to emerging market organisations, who have been involved as either as buyers or as takeover targets of firms from developed nations.

As they venture overseas, organisations based in emerging markets tend to seek assets that will help them accomplish one or more goals in terms of diversification of their growth, achieve larger global market share by exploiting the growth opportunities not available in their domestic economies, or freedom from an unfavourable domestic economic climate.

Emerging markets accounted for 19.8% of the global M&A activity in the first half of the current year, which is 7% less than the share they accounted for in the first half of 2010. The emerging markets have seen M&A activity with a total value of USD 228bn in the first half of 2011, down 3.9% from the first half of 2010's with a combined ticket size of USD 237.4bn. BRIC countries saw an aggregate of USD 143.5bn worth of M&A, representing 62.9% of overall emerging markets activity and the strongest first half year performance post recession. Inbound cross-border activity in the first half of 2011 aggregated USD 110.3bn. Outbound cross-border activity amounted to USD 48.1bn, down 32.2% from its value of USD 71bn in the first half of 2010.

Outbound activity currently represents a major portion of all M&A volume by emerging markets, suggesting that companies in the developing economies are again eyeing assets in developed markets. This is particularly true for the oil and gas vertical, which represents almost half of the total M&A deal value, with M&A activities reaching a record high of USD 26.7bn for the first four months of the current year. Health care and chemicals were the second and third most active sectors during that period.

China is the most active acquirer by some distance, with organisations from the country generating USD 15.5bn in deal volume through 90 deals, almost double the level of the same period in 2010. China has been active especially within the mining industry. Demand for raw materials in the country has propelled the growth in takeovers. Israel ranks second with United Arab Emirates, India and Singapore taking the third, fourth and fifth position respectively. The US is the most targeted country, with USD 17.8bn in value through 102 deals, while Spain and Canada rank second and third respectively. In 2010, much of the activity was focused on resources, where China's state-owned firms, backed by soft loans, have been making a land grab for commodities, often in competition with India.

In the five years since China's Lenovo bought IBM's PC business for USD 1.25bn, cross-border deals have changed other parts of the industrial landscape – ranging from cars to food products.

Jaguar and Land Rover are now owned by India's Tata Motors, while Mexico's Grupo Bimbo will become the world's largest bread maker when it closes the purchase of Sara Lee's North American bakery business. In the meanwhile, India's Bharti Airtel became the world's fifth largest mobile operator, on the basis of subscribers, after buying Zain's African operations for USD 9bn in 2010. Moreover, last year's USD 1.8bn purchase of Ford's Volvo unit by Geely was a notable development for the emerging corporate China.

For organisations from emerging markets, investing in sluggish but developed world economies is a long-term play that sits alongside a parallel drive to snap up targets in other developing economies. Asian groups like Sinopec of China and Thailand's PTT Exploration and Production struck deals last year ranging from buying stakes in oil fields to Korea National Oil Corp's hostile takeover of Britain's Dana Petroleum. Helped by strong currencies, emerging market companies have also undertaken deals in more

advanced sectors. Significantly, the largest deal of any kind in 2010 was America Movil's USD 27.5bn purchase, including debt, of Carso Global Telecom.

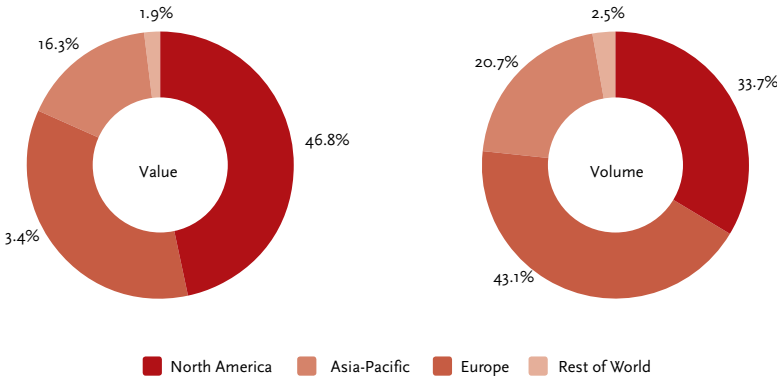
The surge in activity comes despite fears of protectionism, with Australia recently blocking the Singapore Stock Exchange's proposed acquisition of its Australian counterpart on grounds of national interest.

After suffering relatively less in the downturn and rebounding faster than their US and European counterparts, companies from emerging markets are taking advantage of their strength to acquire varied ranges of businesses. Traditionally, while most of the focus has been on Western firms buying assets in fast-growing developing economies, to hedge against sluggish growth at home, the same is now shifting now to organisations in the emerging markets. Organisations in emerging markets are seeking to move beyond the advantage of cheap labour, to create global organisations with a skill base found in developed nations. According to some experts, by 2020, the top 100 organisations of the developing world could collectively generate USD 8,000bn in revenues, roughly equivalent to an aggregate of S&P 500* companies' revenues today. The GDP growth and infrastructure demands in emerging markets make additional grounds for such investment opportunities to continue to grow. As such, there appears to be a real shift in cross-border deal making, with developed markets losing their lead as target countries in such transactions. Taking their place are emerging markets, which are quickly taking over as both originators and destinations in M&A activity.

* The S&P 500 is a free-float capitalisation-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the US. The stocks included in the S&P 500 are those of large publicly held companies that trade on either of the two largest American stock market exchanges: the New York Stock Exchange and the NASDAQ.



Regional landscape





“ The value of deals with companies based in North America jumped 38% in the first half of 2011 to USD 628.6 billion compared to the second half of 2010, bringing an end to four successive periods of decline. The result accounted for 36% of total global value of USD 1,728 billion.”

M&A in North America

In 2010, North America which comprises the US, Mexico and Canada and some smaller nations of the Caribbean, with a deal value of USD 772bn represented about 40% of the total M&A deals globally. The value of deals, where the targeted organisations were based in North America jumped by 38% in H1 of 2011 to USD 628.6bn, compared with the second half of 2010, bringing an end to four successive periods of decline. This also accounted for 47% of the total global value in H1 of 2011 and the increase itself was due to a string of large-scale strategic mergers, including the USD 25.8bn acquisition of Progress Energy by Duke Energy and the USD 39bn acquisition of T-Mobile USA by AT&T. Against this improvement in value, the overall volume continued to weaken in H1 of 2011, slipping back 5% for the third consecutive period (of six months) to 6,422 deals, from 6,736 transactions in H2 of 2010.

The value of deals with US based companies in H1 of 2011 accounted for 87% of the total investment in North America for the period. US based targets dominated the top 20 deals by value in H1 of 2011. In Q3 of 2011, Capital One's USD 53.3bn purchase of HSBC's credit card portfolio and branch network in August 2011 provided a significant boost in the M&A value for North America. This is the largest global deal announced so far in 2011.

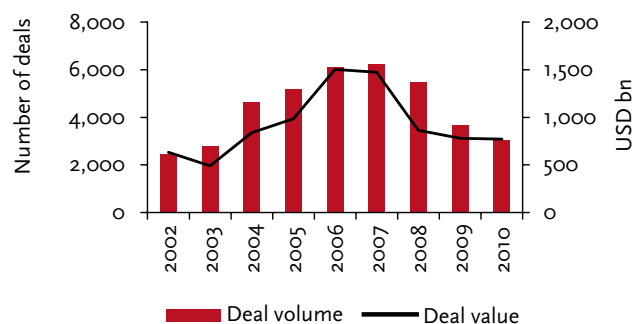
Healthcare led the US sectoral rankings with USD 126.8bn worth of deals in the first nine months of 2011, led by Express Scripts' pending USD 34bn M&A deal for Medco Health Solutions, the largest prospective global healthcare deal for the year so far.

In Canada, the energy, mining and consumer sectors led the way. According to reports although mid-market transactions are expected to continue to dominate the Canadian marketplace, having represented approximately 90% of all M&A activity in 2010, megadeal activity (deals over USD 1bn) are also expected to strengthen in the near term. Q2 of 2011 saw 10 mega deal announcements for a total value of USD 25.4bn representing a strong increase from 4 mega deals announced in the Q1 of 2011 for a total of USD 10bn. Canadian targeted M&A deals cumulatively stood at USD 70.7bn in the first nine months of 2011, down 1% against the first nine months of 2010 (USD 71.4bn). With these figures, Canada represented 6% of the total M&A deals worldwide for the first nine months of 2011. Energy and mining organisations have been the largest targets for foreign buyers accounting for 36% and 24% of all inbound deals, respectively.

Past trends

The ensuing graph provides an overview of M&A activities in North America in terms of value and volume, from 2002 to 2010.

Figure 4: Deal value and volume in North America



Following the slowdown in the economies of the US in 2001, M&A activities were sluggish and did not pick up until Q3 of 2003 when the Federal Reserve dropped the federal funds rate to a historic 1%. Those low interest rates helped launch a second wave of leveraged buyouts, not seen since the mid 1980's (when there was a spat of over-bidding and auction sales of companies). This in turn created highly levered M&A transactions with unprecedented values for deals (especially in Q2 of 2007).

In 2008, North America saw the largest decline in M&A, with the aggregate deal value dropping from USD 1,500bn in 2007 to USD 848bn (a drop of 44%), with the US entering a recession and the debt as well as equity markets seizing up. In 2008, Bank of America acquired Merrill Lynch for USD 50bn making them the largest financial services company in the world. Trends in the M&A activity in North America in 2008 mirrored the trends of the US economy, where high deal sizes came from major mergers of banks in 2008. Most of the year's mega deals were witnessed in sectors which were reeling under financial pressures, with several organisations seeking to consolidate, in order to tide through the crisis.

The manufacturing, chemicals and engineering verticals recorded the highest volume of deals in 2008. The volume of deals in Canada's energy vertical accounted for 31.2% of the country's deal volume and a whopping 69.9% of its deal value.

During 2009, M&A activity in North America saw a decline of about 25% in volume and 7.6% in value, with 3,032 deals worth USD 763.6bn being reported. Approximately 57% of the total transaction value in 2009 emanated from three sectors: life sciences and healthcare (24.9%), energy (19.7%) and financial services (12%). In December 2009, US based ExxonMobil acquired XTO Energy for USD 40bn, while Canadian oil companies announced major acquisitions including Suncor Energy's USD 18.4bn acquisition of

Petro-Canada Resources. The largest global transaction in 2009 was Pfizer’s acquisition of Wyeth for USD 64.5bn in the US.

North America witnessed consecutive reductions in deal volumes in 2008 and 2009. In 2008 the deal volume decreased by 14% whereas the following year saw a further dip of 22%. This trend continued in 2010 mainly due to a decline in the volume and value of deals targeting US based companies. M&A activity was led by energy, manufacturing and TMT sectors, which accounted for approximately half of all value and volume in North America. Experts believe that Canada’s rich natural resources has been a key deal driver in North America and is expected to continue to attract foreign investors who are seeking to enhance their supply chain integration.

The graphs below, show an analysis of deals by sector in 2010 and the H1 of 2011.

Figure 5: Industry-wise M&A deal volume comparison 2010 and 2011 (to June)

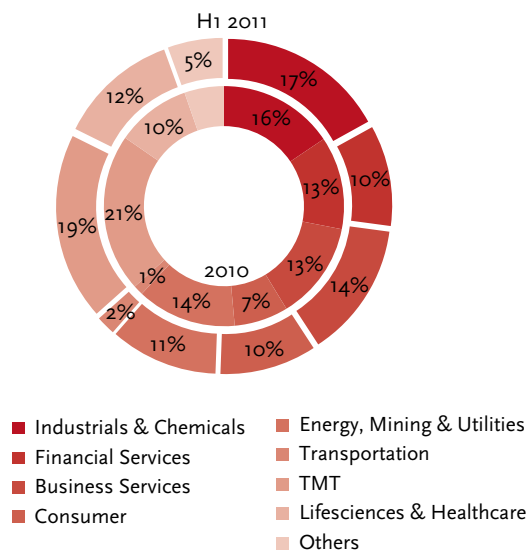
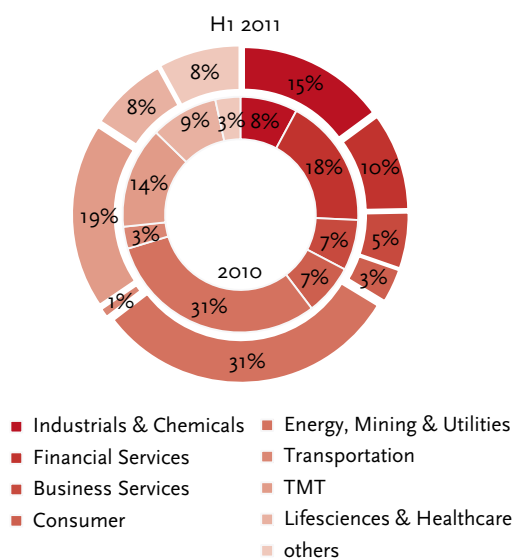


Figure 6: Industry-wise M&A deal value comparison 2010 and 2011 (to June)



Highlights

In the life sciences and healthcare sector, a USD 47bn hostile takeover of Genentech Inc. by Switzerland based Roche Holdings, coupled with a USD 68bn merger of pharmaceutical giants Pfizer and Wyeth and the USD 43bn merger of Merck & Co. and Schering-Plough Corporation, propelled deal values in 2009 to levels far above 2008's aggregate of USD 79bn. This trend has continued into 2011 with an aggregate value of USD 146bn, and a total of 1,366 North American M&A deals being reported in the healthcare sector between April 2010 and March 2011. This is almost twice the value of USD 78bn from the previous period of twelve months (i.e April 2009 to March 2010).

During early 2011 the increase in activity in the Power and Utility verticals in US were largely driven by Duke Energy's announcement to buy Progress Energy for USD 26bn. In Q2 of 2011, an aggregate of 13 deals that were valued more than USD 50 million each, with an aggregate deal value of USD 20bn were reported, representing a 26% increase over the same period in 2010. The power and utility verticals have witnessed large-scale consolidation as well as smaller asset deals. With more than 140 investor-owned utilities organizations, the regulated utilities vertical has pursued mergers to expand their territories, strengthen financials and ease regulatory burdens. In the Mining sector, in 2010, North American companies accounted for approximately 52% of the global M&A activity. Canada, which is a global hub for mining companies, accounted for 36% of the North American activity. The largest transaction in 2010 in Canada's mining sector was Kinross Gold's USD 7bn acquisition of Red Back Mining. Entities from the US overtook Canadian entities as the most acquisitive buyers with a 31% market share by value in announced acquisitions.

As the economic situation improved, an aggregate of 293 deals were reported in the Industries and Chemical sector in Q1 of 2011, which was a 7% increase in terms of volume over the same period of 2010. North America led the the value of deal activity in the first quarter with 12 transactions worth USD 50 million or more, collectively aggregating USD 21bn. In the Energy vertical, in early 2011, North America accounted for 45% of the deal value with over USD 20bn worth of activity. Of this total 78% of the value came from oil shale resources. Unconventional gas resources have been the primary drivers in such levels of M&A activity in North America.

In the financial sector, there were about 11,000 mergers which took place in the last two decades, averaging 440 a year and reducing the total number of banks to 7,500 towards the middle of 2008. Some of the large mergers took place in 2008-2009 during the height of economic crisis. In 2010, there were a significant number of smaller deals made by the stronger US financial companies and banks. One of the most significant exceptions in the year was the Berkshire Hathaway and Sun Life Financial reinsurance deal valued at USD 109bn. The value of deals targeting banks increased six folds to USD 62.5bn from January to August 2011, from USD 10.3bn during the same period previous year, boosted by Capital One's purchase of HSBC assets.

In the Metals industry segment, strong earnings and a relatively better situation in terms of availability of capital are creating an ideal environment for M&A. The increase in cross border deals is being driven by the need to secure raw materials and to gain a greater presence in fast growth markets. In North America, deal activity had dipped in 2009 and the increases in 2010 added very little, in comparison with the levels of deal value transacted before the recession. The total deal value in North America rose from USD 1.6bn in 2009 to USD 4bn in 2010 whereas the number of deals increased to 91 from 73 in 2009. In the current year, North America has taken the lead as the most active region and also emerged as one of the most preferred destinations, attracting USD 39bn which is equivalent to 40% of activity in H1 of 2011 in the sector globally. Two large deals contributed to this: Alpha Natural Resources taking over Massey Energy for USD 7.2bn and Cliffs Natural Resources Inc acquiring Consolidated Thompson Iron Mines Ltd for USD 4.1bn.

Challenges and issues

While North American economies remain largely open to FDIs, the Foreign Investment and National Security Act of 2007 of the US adds a new element of political exposure to foreign investments. Currently, any foreign investment that may pose a threat to national security can be blocked. In addition the Committee on Foreign Investment in the United States ("CFIUS") has the ability to review transactions where a foreign acquirer proposes to acquire 'control' of a US business or when a foreign acquirer invests in US infrastructure, technology or energy assets. In the recent years, several high-profile strategic investments by Chinese companies have been blocked by the US on grounds of

national security. These failed deals included a proposed 51% investment by a government-controlled Chinese company in Nevada-based gold mining company Firstgold Corp., a 60% proposed investment by a Chinese investment company in New Mexico-based fiber optics company Emcore Corp. and, most recently, the somewhat controversial proposed purchase of 3Leaf Systems by Huawei Technologies.

CFIUS can restrict non-US control of US companies including situations where such companies have access to classified US national security information, radio and/ or television broadcast licenses, government mining leases or nuclear energy facilities, or are engaged in domestic aviation, banking etc. Foreign buyers of (or investors in) US government contracting firms face special considerations in terms of potential CFIUS reviews and issues relating to foreign ownership, control, or influence (“FOCI”). The early evaluation and development of a strategy for addressing CFIUS and FOCI issues is critical, both from the standpoint of completing deals and post deal integration. Although a CFIUS application for review remains mostly voluntary, failure to seek a CFIUS review may leave a transaction open to future scrutiny and even to dissolution. The decision to seek a review should be part of the due diligence mandate, particularly in industries with implications relating to national security.

M&A activity is on the rise in two highly regulated market – healthcare and life sciences. The passing of the Patient Protection and Affordable Care Act by the US government, as well as increasing budgetary pressures on state and federal governments, has resulted in a heightened regulatory focus on healthcare fraud and abuse. The Mexican legal regime applicable to M&A transactions is relatively flexible and generally allows parties to tailor transactions to the underlying business agreement. However, the Mexican law is very formalistic and both the form and substance should be considered carefully in M&A transactions. Mexico does not have a specific M&A statute and before entering into an M&A transaction in Mexico, non-Mexican businesses should consider the labour law implications for each prospective employee.

In the last 2 years, a number of significant legislative changes have altered the Canadian M&A landscape for foreign investors as well. Such changes have improved Canada’s attractiveness to foreign investment further. The two major areas of relevance to any entity assessing Canadian investments or acquisitions would be tax law and competition law.

Since many of Canada’s international tax treaties provide that sales of certain types of transition capital partners (“TCP”) by foreign vendors are exempt from Canadian tax, certain sections of the treaty often resulted in an unnecessary delay in the full payment of the purchase price and created administrative burdens. These factors have discouraged investors from considering investment opportunities in Canada. However, the amendment to the definition of TCP represents a significant and positive development for foreign investments in Canada, particularly in sectors such as technology where the shares of the target are not likely to qualify as TCP. Recent amendments to Canada’s Competition Act have also included the adoption of a two-stage review procedure.

Future outlook

In H1 of 2011, some acquirers emerged from the downturn with cash resources from restructuring and cost reductions, making them dominant forces in the deal market.

The M&A market in the US began 2011 with strong growth, with results of Q1 of 2011 showing an aggregate of USD 293.6bn in announced deals. However, with the subsequent tightening of financial markets, this growth momentum gave way to a 34% drop in the following two quarters. With the economic turmoil continuing in some parts of the globe, the M&A market, is not expected to show much growth in Q4 of 2011, which contrasts with high growth levels in Q4 of the previous two years.


Experts expect M&A in oil and gas and mining to continue to dominate activity in Canada. Among others, China's sovereign wealth fund and a variety of state owned enterprises can be expected to make strategic investments in Canada's energy, mining and agricultural sectors. These investments will be characterised by creative deal structures, such as partnerships, joint ventures, minority investments and long-term supply arrangements to mitigate ownership risks and address the Canadian government's concerns over foreign control in these sectors. Inbound deals will continue to be driven by the energy and mining sectors while outbound deals will continue their upward trend given the relative strength of Canadian dollar and the strength of Canadian companies' acquisition currency. Moreover, Canada's large pension funds and pools of institutional capital are also expected to drive future outbound M&A in sectors such as real estate, manufacturing and utilities.



“ Cross-border activity formed 61% of the total European M&A in first half of 2011. ”



M&A in Europe



The current economic situation in Europe is possibly also a grim sense of realisation that the models which sustained national economies and the economy of the EU now need substantial corrections and radical remodelling.

Although such reforms are inevitable, the eurozone* remains relatively prosperous when considered as a single entity. In terms of M&A, the European cross-border M&A market is hindered by the existence of different national systems of regulation in addition to structural and technical barriers, relating to takeovers. Despite these barriers, M&A activity has been remarkable post the recession of 2009. The volume of M&A by European companies is comparable to that of their American counterparts. One of the main advantages of the eurozone organisations for convenient M&A deals is that they rely on a single currency which reduces risks associated with foreign currency volatility, increased globalisation, technological innovation in Europe, deregulation and privatisation.

During the period 2001-2010, British, German and French companies have accounted for more than half the total number of completed deals in EU.

They have also been hot targets of cross border acquisitions within the EU. In 2010, UK remained the largest market for foreign corporate in terms of the deal value with USD 140bn via more than 1,250 deals, followed by Germany and France. In the first nine months of 2011, UK continued to remain the most targeted nation with USD 109bn in terms of deal value despite volumes dropping 9% from USD 119.3bn for the first nine months in 2010. Cross border accounted for 62% of UK targeted M&As, the highest share on record.

Another country that was targeted for potential acquisitions is Russia (possibly one of the most targeted nation in terms of deal activity for the first nine months of 2011), where the largest number of 2,148 deals were reported, accounting for 23% of European deal activity. Other key growth markets included Italy, Germany and France. Interestingly Switzerland emerged as the most active acquirer with a market share of 28% in 2010, a position which has of late been replaced by UK.

* Current eurozone countries: France, Germany, Austria, Finland, Luxembourg, Netherlands, Belgium, Cyprus, Estonia, Greece, Ireland, Italy, Malta, Portugal, Slovakia, Slovenia and Spain

Trend analysis

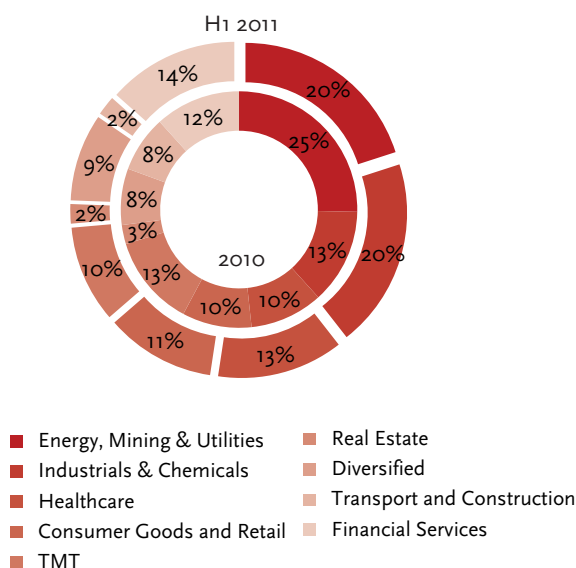
Domestic M&A deals were dominant in the last decade contributing to almost 81% of total deals, while the number of cross-border M&A deals gradually increased in number as greater emphasis were put on the legal and economic integration of European countries with the introduction of the Euro. The values of cross border transactions have increased from 20% in 2001 to about 34% in 2007. However, cross-border M&A transactions since 2007 fell to the financial crises as the European outbound M&A volume fell by 82% in 2009 in comparison to the previous year.

The financial crisis took a severe toll on the European M&A deals in 2008. Despite a relatively strong beginning to 2011, the recent economic downturn proved to be another dampener for M&A activity. In 2008 around 5,000 deals valued at USD 1,020bn were announced, which was an overall decrease of around 32% in deal value compared to 2007. Due to the distressed financial markets, PE firms faced financing issues, amongst others, which have been impediments to deal making. Consequently, buyouts in 2008 dropped significantly in value by 62% in contrast to 2007. The total value of lapsed deals in 2008 stood at more than USD 500bn, with a majority (i.e. 60%) occurring during Q4 of 2008.

The following year (2009) was even worse with European M&A activity slowing down by 55%, when compared with the previous year. The reported number of 3,485 transactions, valued at USD 472.8bn, in Europe in 2009 signified a decrease of 55% by value and 36% by volume from 2008. Half of the total value of European M&A in 2009 took place in the financial services and energy, mining & utilities sectors.

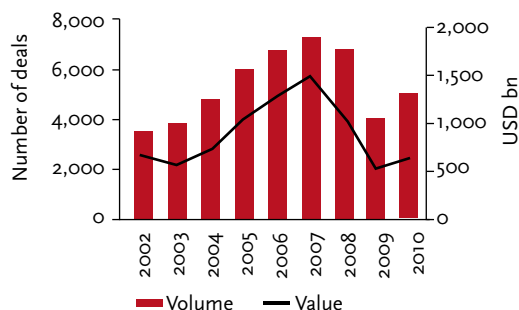
In 2010, M&A in Europe finally ended two years of decline in tandem with the global M&A market. Close to 14,550 M&A deals with a total value of USD 630bn were announced in Europe in 2010. The ensuing chart gives an overview of deal value by industry in 2010 and H1 of 2011.

Figure 7: Industry-wise M&A deal value comparison in Europe



The ensuing chart shows the last 8 years' M&A activity in Europe.

Figure 8: European M&A deal volume and value trend.



Highlights

From 2001 to 2010, the industrials and chemical sector in Europe accounted for the largest number of deals (approximately 16% of total completed deals), followed closely by the TMT and the financial services sector. In the first nine months of 2011, the total deal value jumped 21% from USD 78.1bn to USD 95.1bn with an aggregate of 806 deals that were reported in the industrial and chemical sectors, compared to 693 deals announced during the same period in 2010. The finance and banking verticals were badly hit by the financial crisis of 2008 and 2009. For the first nine months of 2011, an aggregate of 270 deals with a collective deal value of USD 76.1bn were reported which represented a 69.7% increase from the same period of 2010. In the consumer and retail verticals there was a gradual increase in this sector after a decline in 2008 and 2009. Food & beverage continued to be the leading verticals accounting for 44% of the deals in Q1 of 2011. For the period of first nine months of 2011, a total of 579 deals were announced with a deal value of USD 57.1bn, a 49% increase from the same period of 2010. Similarly, the healthcare vertical has been showing a gradual increase in the number of deals being conducted in Europe. The beginning of 2011 got off to 19% increase, with the European healthcare M&A value aggregating USD 13bn, over the previous quarter. In the first nine months of 2011, an aggregate of 228 deals worth USD 54.8bn were announced, which represented a 27% increase from USD 43.1bn for the same period of 2010.

The energy, mining and utilities sector saw a busy time in 2010, both in terms of volume and value. The sector saw M&A deal value grow by more than double at the beginning of 2011 to USD 87bn. This increase coincides by the rising cost of oil which has risen 43% in the last 12 months. Oil and gas have remained the verticals with largest aggregated deal values, followed by utility and mining. For the first nine months of 2011, this sector has again occupied the highest share (21.8%) in the European M&A market with 269 deals worth USD 117.4bn. Real estate prices in most parts have declined drastically as the property market faced the brunt of the financial crisis with deal volumes and values in 2009 and 2010 falling drastically. However, in the first nine months of 2011 there were a

total 50 major deals announced worth USD 14.4bn, a 39% increase in value compared to 68 deals valued at USD 10.3bn announced in the same period of 2010. The year of 2011 has been an encouraging year for the TMT sector driven by the USD 39bn divestment of T-Mobile USA Inc by Deutsche Telekom, which has almost quadrupled the deal value in the Q1 of 2011 to USD 78bn compared to Q1 of 2010. Telecom had the largest share in TMT sector's M&A transactions by value in 2010 followed by technology and media.

Challenges and issues

The implementation of the EU takeover directive has resulted in large differences in the takeover mechanism among member countries. Furthermore the implementation of the 'board neutrality' rule and the 'breakthrough' rule is likely to bring more barriers to further integration. The European Commission's takeover directive for European companies aims to create favourable conditions for the emergence of a European market through efficient takeover mechanisms, a common regulatory framework and the provision of strong rights for shareholders. Yet, according to experts the final outcome has been far from satisfactory until now.

Apart from the above, transaction security in the mid-cap sector has witnessed some improvement owing to a better pricing and financing environment. However, with the debt crisis hitting hard on the eurozone economy, experts believe that it would be hard to sustain such improvement. In addition, more and more investors are deciding whether to sell a company to a strategist or financial investor, or whether they should place their trust in an initial public offering.

Strategic investors from China and India in particular are very active on the European M&A market. The number of M&A transactions in Europe involving Indian investors have doubled in 2010 from 9 in the previous year while Chinese investors in European acquisitions have risen from 13 in 2009, to 18 in 2010. For buyers from Asia and the Middle East, this is an important step toward advancing the globalisation of their business, but for the European companies it is becoming a challenge to cope with a different business acquisition approach of the East.

Future outlook

The future outlook of the European countries appears somewhat negative as they enter into a challenging phase of the financial crisis. With companies now approaching deals with an added degree of caution, the focus currently remains on less risky consolidation by avoiding extensions to the business model. Horizontal-consolidation deals among direct competitors are seen as the most likely type by far and M&A to extend business models, have become less attractive since last year.

Companies are cautious about antitrust concerns among other issues hindering their M&A activity. The capital market environment continues to provide challenges for investors, with relatively low loan availability and a volatile market limiting opportunities for acquisition and channels for exit. In spite of successful PE-backed IPOs last year, the potential for IPOs as an exit channel is limited. Industry experts believe that development in current year depends heavily on the measures the eurozone deploys to resolve the debt crisis.

Cross-border acquisitions and the return of larger deals is anticipated in the long term. Experts also expect an increase in activity from Asian and Middle Eastern buyers in Europe – particularly from Chinese strategic buyers.



“ Asia Pacific M&A activity, excluding Japan, in the first nine months of 2011 hit a record volume of USD 449.1 billion, a 15.9% increase from the same period of 2010 triggered by growth in domestic activity and inbound acquisitions. ”



M&A in the Asia-Pacific region

The economic downturn (of 2008 to 2010) did not affect the Asia-Pacific region as much as it did in the West. However, it cannot be said that this region was immune to the crisis, though some countries in the region demonstrated resilience and showed a relatively healthy level of activity in both inbound and outbound M&A during this period. The overall economic growth of China and India also contributed to Asia's M&A strength. Acquirers and sellers from the region have treaded cautiously and realistically while considering deals and some investors from this region were also able to seize some very attractive opportunities during these years.

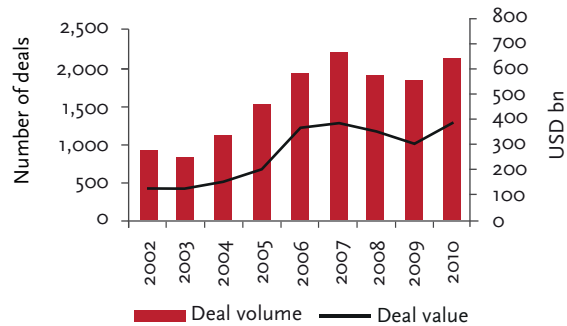
Following a record year for M&A in the region in 2010, M&A activity is continuing its momentum in 2011, sustained by a rallying economy. A strong recovery has pushed M&A activity ahead (first nine months of 2011 compared with the same period in 2010), with strong intra-region deals making up for lower investments from outside.

With transactions in materials and oil and gas sector driving the momentum in the region, the total value of M&A deals announced during the first nine months this year was USD 255.5bn, an increase of 4.9% over 2010. Asia-Pacific inbound cross-border deals for the first nine months of 2011 aggregated USD 80bn which is a 27.7% increase over the same period previous year. Outbound cross-border deals from the region amounted to USD 88bn.

Chinese companies were the preferred target by both domestic and foreign acquirers, accounting for almost 30% of Asia-Pacific target M&A deals. This was followed closely by Australia with a share of 27.5%. Of the top 20 inbound deals that took place in 2010, 13 companies were acquired by companies from the US, three by UK, one each by Netherlands, Italy, South Africa and Switzerland.

Real estate and mining verticals have attracted the majority of deals and are driving the growth in Asia-Pacific, with 15% and 74% (respectively) increases in terms of volume. There were USD 23.9bn worth of deals in the real estate vertical, while the mining vertical witnessed mid-size M&A deals worth USD 11.3bn. Australian energy major BHP Billiton's acquisition of US-based Petrohawk Energy's entire share capital through the tender offer for USD 12.1bn was the largest Asia-Pacific deal this year and the second largest energy and power transaction on record in the region.

Figure 9: Trend in volume and value of deals announced in Asia-Pacific

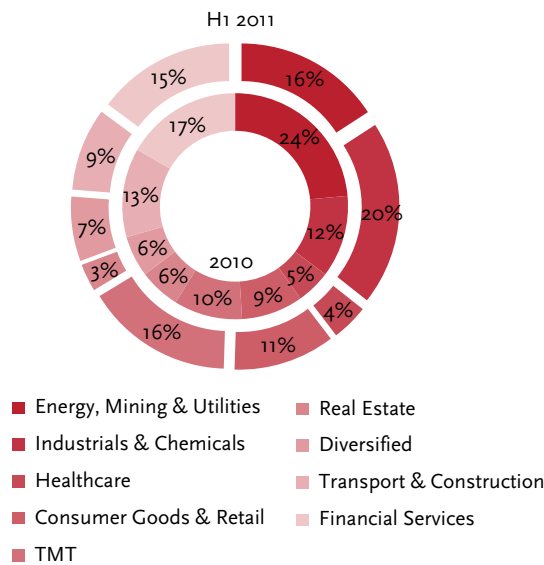


The increasing importance of the Asia-Pacific region in global deal making was evident in 2010. This region contributed about 23% of the worldwide M&A during that period. The most acquisitive country was China, which announced over USD 144.52bn of deals. Japan and Australia followed, with USD 85bn and USD 58bn worth of transactions, respectively.

Tapping the potential of growth in the Asia-Pacific pharmaceutical market, which has emerged as one of the most promising sectors, many foreign brands such as Cephalon, GlaxoSmithKline, Cardinal Health, and Novartis Pharma have made significant investments or acquisitions.

The ensuing graph shows the industry-wise breakup of deal value in 2010 and H1 of 2011.

Figure 10: Industry-wise value of deals announced in Asia-Pacific in 2010 and 2011 (to June)



Highlights

In the TMT sector, some of the major deals in the region in the last 24 months include Bharti Airtel's purchase of Zain Africa BV from Mobile Telecommunications for USD 10.7bn, the merger of Sumitomo Trust and Chuo Mitsui Trust Holdings valued at USD 9.1bn and the Vodafone group's acquisition of a 33% stake in Vodafone Essar Limited in India for USD 4.6bn. In the TMT sector, 315 deals worth USD 33.7bn were announced in the first three quarters of 2011. M&A in the construction industry experienced a significant push in 2011 with the 35% stake sale of South Korean Hyundai Engineering & Construction to a consortium of Hyundai Motor, Hyundai Mobis and Kia Motors for USD 4.4bn. In the first three quarters of 2011, the total deal value jumped 45% over the same period of the previous year. 2010 marked a 54% increase in deal value in the energy, utilities and mining sector. Some major deals included Hong Kong's private investors' acquisition of EDF Energy-UK Power for USD 9.1bn and China's Sinopec Group's 40% acquisition of Repsol YPF Brasil SA for USD 7.1bn and BP's 30% stake in twenty three different oil and gas production sharing contracts of Reliance Industries of India for a total of USD 7.2bn. There has been a stupendous growth in M&A transactions in the oil and gas sector which stood at USD 57.6bn for the first nine months of 2011 pushing the value of transactions in the energy, utilities and mining verticals to USD 77.1bn, making 2011 the highest, in terms of volumes in the first nine months for the energy, utilities and mining verticals.

Financial services has emerged as an active area with major transactions like the China Mobile Group Guangdong Co Ltd's USD 5.8bn acquisition of 20% interest in Shanghai Pudong Development Bank and PetroChina Co Ltd's USD 1.4bn acquisition of an additional 41.5% interest in China Petroleum Finance Co Ltd (a provider of financial services). In the first three quarters of 2011, an aggregate of 127 deals worth USD 42.1bn were reported - a 35% growth from USD 31.1bn with 145 deals announced for the same period in 2010. The first nine months of 2011 reported 1,509 deals worth USD 84.6bn in the Material industry sector, gaining 8.4% from the levels of the first nine months of 2010 with Metals and Mining accounting for 73.8% of the materials sector at USD 62.4bn with 921 deals. In the Real Estate vertical an aggregate of 43 deals worth USD 7.5bn were announced during the first three quarters in 2011.

Challenges and issues

Regulators prohibited AIG's proposed USD 2.2bn sale of its Taiwan insurance arm, Nan Shan Life, to a Hong Kong consortium, raising issues about the consortium's ability to raise funds and run the insurer. National Australia Bank's proposed USD 13.3bn acquisition of AXA Asia-Pacific was refuted by regulators on anti-monopoly grounds. With such aspects in the minds of investors, management of 'regulatory risk' is high on the agenda for most buyers and sellers. M&A deals are increasingly facing regulatory challenges across jurisdictions from the new merger control regimes that have been created in recent years.

The increase in the importance of compliance with the requirements of global trade organisations such as the WTO as well as a desire by many Asian countries to avoid unfair dominance of various industry sectors by individual groups has resulted in a greater focus by Asian Governments in restricting what they perceive to be anti competitive actions. In turn, this has resulted in numerous Asian jurisdictions either introducing new anti-trust and merger control regulation or concentrating on a more rigorous approach to the enforcement of existing regulation. China introduced EU-style merger control rules in 2008 and used them to extract commitments from merging parties or prohibit transactions that were affecting competition in markets in China. Effective June 2011, the Government of India has issued notifications on how the Competition Act 2002 will apply to companies with assets of less than USD 56 million and turnover of less than USD 166 million.

Indonesia introduced a voluntary merger review mechanism in 2009 and continues to scrutinise mergers that lead to high levels of market concentration, with the authorities prepared to unwind transactions that lead to monopolistic practices.

Japan has broadened the scope of its merger control rules to bring them more in alignment with international practices. Competition authorities in South Korea and Taiwan continue to subject numerous transactions to pre-merger clearance. The Competition Commission of Singapore conducts increasingly detailed reviews of mergers with an effect on the Singapore economy.

The other significant trend in the region is the increase in sanctions for anti-competitive behaviour. Many Asian based companies and businesses face investigations by foreign regulators (mainly in Europe, the US and Australia) and civil litigation related to conduct in Asia which could restrict competition overseas. In the M&A context, this has led to a greater emphasis on anti-trust due diligence, in particular, the identification of potential significant liabilities arising from violations of anti-trust regulations.

Industries that are seen more prone to protectionism include natural resources, agricultural commodity-related sectors, and defence-related companies. In some parts of Asia, banks and stock exchanges are also seen as vulnerable to protectionism. The Singapore Exchange Ltd's proposed USD 7.8bn takeover of Australia's stock market operator, ASX Ltd, has already run into opposition from Australian lawmakers who may advocate for legislative changes needed for the deal to go ahead. Protectionism is rearing its head, particularly as takeovers get larger and attract greater public and political scrutiny. Any large deal (generally a threshold of over USD 10bn) now attracts a significant amount of public attention and therefore political scrutiny. Another deal running into political problems is UK explorer Cairn Energy's plan to sell a USD 9.6bn majority stake in its Indian unit to Vedanta Resources.

Regulatory issues and sovereign concerns are a natural part of large cross-border activity and as companies engage in such transactions, they will naturally attract more attention from shareholders and regulators alike. In some cases, politically sensitive deals need to be packaged as a merger, with benefits flowing to the vendor's home country.

Future outlook

The insatiable demand for energy and natural resources continues to drive outbound transactions within and outside the region, while inbound investors showing keenness to tap the burgeoning consumer markets of the East and to take advantage of lower cost manufacturing. In contrast to the developed economies which are currently limping due to slow growth and fiscal woes, the Asia-Pacific region promises to be a better alternative. M&A in Asia is expected to be driven by European and American enterprises seeking market access and also private equity.

R&D deals are expected to drive the growth in M&A in the region as Asian organisations continue to get support from local governments and research institutes.

Despite fears of asset bubbles coupled with slowing Western economies undergoing fiscal stress, and a regulations starved financial services sector, experts believe that the prolonged slowdown of M&A in the region is distant. Going forward, Japan, China and India are expected to continue to drive both inbound and outbound deals. Deal activity is expected to become more prominent. Experts also believe that the Asia growth story (where China and India play an important role) will continue to drive investments in 2011 and beyond.

Challenges and opportunities

M&A is an important component of an organisation's business strategy. Generally the motive behind any M&A is to create value by entering prospective global markets, acquiring new technologies or products resulting in synergies between two or more organisations. Such synergies may result from the combined ability to eliminate duplicate functions, exploit economies of scale, share managerial expertise and raise larger amounts of capital. M&A deals are inherently complicated and involve a host of management, regulatory, and operational issues. Typical issues include inadequate support from senior executives and conflicts with the target company's management team while regulatory issues include obscure legal frameworks and in some cases outright opposition from governments. Operational issues include insufficient or unreliable information to conduct a fair valuation, along with the challenges of extracting cost synergies and integrating operations.

Companies are moving with the times as they follow their customers, who are going global themselves, in order to respond to the pressures of obtaining scale in a rapidly consolidating global economy. In combination with other trends, such as increased deregulation, privatisation, and corporate restructuring, globalisation has spurred an unprecedented surge in cross-border M&A activity. Despite the increasing volume and innovation, cross-border M&A remains more complex than domestic transactions.

Cultural differences and integration

All M&A transactions carry a certain risk. In order to unlock the full value from a M&A transaction there must be a cohesive acceptance to the transaction at an entity wide level as well as an alignment of the organisational structure with suitable changes in operations, reward systems and personnel management strategies. It is common to find a drop in the performance of acquirer firms, with cultural issues most often believed to be the reason for the same. It requires effective interaction and coordination between merging firms to realise the strategic potential of the deal, which also necessitates a strong focus on human resource management.

Cultural differences, varied approaches towards governance, the power of employees, job security, regulatory environments, customer expectations, and country specific cultures all representing additional layers of complexity that executives engaged in cross-border M&A need to manage. The anticipation of such challenges requires an intelligent due diligence and lead acquiring firms need to set high standards for expected synergies before completing deals.

Political and regulatory issues

Political and regulatory issues, including antitrust considerations and employment laws, often have a pivotal impact on the effectiveness of cross-border mergers. In some cases, the reluctance of state shareholders to sell to foreign firms has scuttled planned transactions. Reluctance to cede jobs and tax revenues to other states is another, potentially more enduring, obstacle. In other cases, political concerns about domestic competition and antitrust may in fact accelerate cross-border consolidation, as companies with few options at home are forced to seek scale abroad.

In addition regulatory review periods and constraints imposed on some cross-border deals can also create difficulties. For Asian and US companies that are used to operating in environments with relatively little employment regulation, Europe's labor laws can come as a surprise. These laws can have a major impact on the timing of any proposed workforce reductions, owing to the need to consult with a wide range of stakeholders.

Sustainability and M&A

The need to address sustainability issues in the M&A process is intensifying in the face of expanding government attention, growing shareholder activism, highlighting of environmental issues and a greater level of expectation of sustainability issues in the media. Globally, governments are actively enforcing existing regulations and issuing new regulations that address stakeholder concerns regarding natural resource conservation along with environmental and social impact of operations. Sustainability related considerations genuinely threaten M&A deals and are gaining increasing attention.

Due diligence

Emerging markets pose obstacles such as political red tape, labour laws that vary from one jurisdiction to another, imposition of high severance costs, strict limitation to the number of foreign nationals that can be brought in for critical jobs etc. The macroeconomic factors such as GDP growth, wage rates, inflation, and the quantity and productivity of labour of the particular market must also be understood clearly before going in for a M&A activity. Social benefit costs are also part of the economic considerations in emerging markets. Inadequate levels of transparency combined with the greater overlap between political, regulatory, and economic policies in emerging markets add to the unpredictability.

Due diligence remains a fundamental component of any M&A transaction. All markets, whether emerging or not, are driven by different regulatory, political, and economic forces and organisations need to perform appropriate due diligence in order to ascertain a fair picture of the target and its markets.

Legal and tax implications of cross-border M&A

Cross-border acquisitions can involve multiple legal and regulatory regimes, where some of those rules may be unique to a jurisdiction or may be incompatible with each other, including those with respect to fiduciary duties, requirements from security laws and often deal structures.

Many countries adopt and maintain certain regulations to exercise control over cross-border M&A transactions. On the taxation front, despite some harmonised rules, taxation issues are mainly dealt within national rules and are not necessarily clear or exhaustive to ascertain the real impact of a cross-border merger or acquisition. Such uncertainty on tax arrangements at times requires special agreements or arrangements from the tax authorities on an ad hoc basis, whereas in the case of a domestic deal the process is much more deterministic.

Several countries have removed tax related impediments to cross-border acquisitions, in the knowledge that in-bound M&A could be a potent instrument of economic growth and development. At the same time with transfer pricing, thin capitalisation, and earnings-stripping rules, there are concerns that a sizable chunk of the value created by foreign investment will be retained locally.

Financial risk

In almost all cross border deals, financial risks are considered to be the most prominent amongst all risks, especially since substantial volumes of debt and equity transfers remains at stake.

Approaches to risk mitigation

M&A needs to be handled with care, since there is little scope for trial and error. The risks involved are not merely financial ones. A failed merger can disrupt work processes, diminish customer confidence, damage the company's reputation, cause employees to leave and result in poor employee motivation levels. A comprehensive assessment of various risks is a must before striking an M&A deal. Financing methods and the size of the payment are often key decisions for investments. While there are choices ranging from cash, stock or mixed to meet the acquisition needs, M&A decisions should consider factors such as mobility of funds, diluted earnings per share, price instability, changes in ownership structure and the tax situation of target companies amongst others.

Post merger business development strategy including a comprehensive analysis of the target company's future free cash flow should be carefully drawn. For the acquirer it is important to make reasonable predictions based on the comprehensive planning, target validation and target company's industry environment, business, financial condition and operating capabilities.

Methodology

While deciding on the blueprint for the global M&A publication, the international M&A market was divided into various regions with a view to gain an in-depth understanding of the intricacies unique to a particular region. Our initial research showed that almost 90% of the M&A deals that take place globally, occur in three important regions of the world, namely, North America, Europe and Asia-Pacific. These are the dominant markets in the global M&A scenario with both North America and Europe individually accounting for 30-40% share of the market while Asia is currently contributing 10-20% to the global M&A deals. Consequently, the focus of this report was largely driven towards understanding these markets and to assess the drivers that lead to a significant volume of deals in these regions. We have analysed the deal trends for last one decade, particularly focussing on the period during and the post global economic recession of 2008 to 2010. With the objective of assessing the global scenario of M&A deals for this publication, we have evaluated some macro level deal propellers and also delved deeper to identify considerations and challenges for deal making in various industrial segments. In addition to an analysis of such trends, specific deals that can be termed as 'market changers' were also assessed. These deals mainly took place in the emerging markets of the world. Consequently, we have provided a separate section on the M&A market scenario in these emerging markets, in this publication.

The facts and figures about the M&A deals for each region were collected from various sources believed to be reliable.

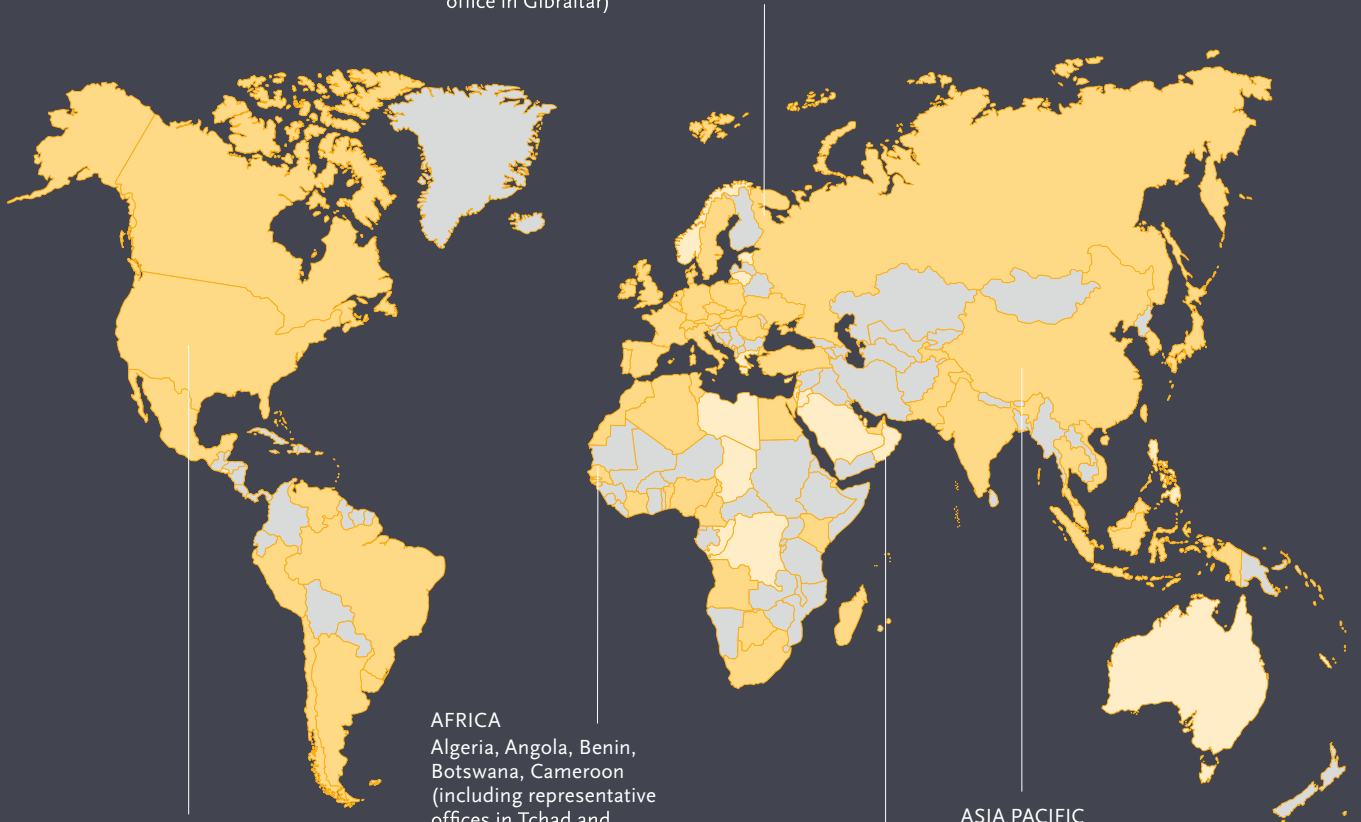
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