

HERBERT SMITH FREEHILLS GLOBAL SURVEY REVEALS ROBUST APPETITE FOR M&A DESPITE Q1 MARKET VOLATILITY

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News

- Three-quarters of businesses indicate recent market volatility has either increased their appetite for M&A or had no impact on their plans for the next three years*
- Just 3% of respondents believed that M&A appetite will reduce significantly in the next 12 months*
- Capital being prioritised for M&A over capital investment or cash shareholder return
- Companies favouring multiple deals rather than major transactions in their M&A plans
- Looking forward, cross-border, geographical diversification is the key driver of deal making, facilitated by continued low interest rates and availability of funds
- Corporate buyers believe they can out-gun private equity rivals
- Antitrust tops the list of challenges faced by companies doing deals with anxieties over data protection and cyber security on

the rise

A global survey of attitudes and expectations on the future of M&A by international law firm Herbert Smith Freehills today revealed the extent to which businesses are prioritising M&A over alternative uses of funds, including returning cash to investors and making capital investments.

The report, entitled: 'Beyond borders: the future of dealmaking' draws on data and opinion from more than 700 senior executives around the world on their future plans for M&A and includes a further update of 100 respondents to gauge how opinions may have changed as global markets stuttered at the start of 2016. It finds that three-quarters of businesses indicate recent market volatility has either increased their appetite for M&A or had no impact on their plans for the next three years and that just 3% of respondents believed that M&A appetite will reduce significantly in the next 12 months.

The report also shows that of the 700 business leaders polled, 39% will focus on using capital for M&A in the three years ahead, an increase from 34% three years ago. In contrast, the percentage of companies that will be prioritising either capital investment or shareholder returns has declined. The second survey conducted in Q1 reinforced this trend further with M&A overtaking capital investment as the most important use of capital with 45% of respondents stating they would utilise their capital for M&A.

Where the volatility seen in markets during Q1 appears to have impacted M&A expectations most is in relation to the size of individual deals businesses believe they will do. 53% of businesses in the Q1 survey stated that none of their acquisitions will be major deals, compared with 43% in the original survey. The appetite for cross-border activity remains strong, despite the unpredictable market conditions, with 88% of business surveyed in Q1 looking to do at least one cross-border deal.

Stephen Wilkinson, Global Head of Mergers & Acquisitions at Herbert Smith Freehills said:

"There has been an acceptance over the last few years that growth and scale represent a way to create shareholder value in a way that wasn't accepted immediately after the global financial crisis. There is a clear and increasing view, supported by our first survey, that shareholders now see M&A as a robust value-creation strategy. Given the volatility in markets at the start of this year we decided to go back and ask 100 of our original respondents if their views had changed in the past few months and the message we received is clear - M&A is, and remains, a top priority over the medium term despite current head-wind."

The Herbert Smith Freehills Report, which uses data collected by research partner, Mergermarket, reveals that the key driver for M&A looking forward is geographical diversification with convergence and cross-sectors deals expected to be rare - just 17% of companies are considering an acquisition outside their own sector. Much of Asia, Latin-America and Eastern Europe are expected to be areas of low activity for M&A in the year ahead as the US, Western Europe, China and a resurgent India (where 95% of respondents

expect to see M&A growth) will attract higher numbers of deals.

A new dynamic in the M&A sector that comes through in the research is the 'upper-hand' corporates have over PE bidders. Data collected for the survey showed a perceived strong advantage for corporates over PE bidders with nearly 50% of respondents believing that strategic buyers could outcompete PE and just 14% believing PE had the advantage.

While the overall M&A outlook is robust, Herbert Smith Freehills also highlights in the report that while businesses believe conditions for doing deals remain ripe, there are a number of emerging challenges and risks that must be overcome which could dampen M&A appetite if not addressed. Most notably legal and regulatory environments are seen by almost one-third of respondents as the most challenging strategic factors in recent M&A activity, with such issues more prevalent when buyers are investing in developing markets, such as South Asia and Africa. 25% of dealmakers view the instability within the Eurozone as the factor most likely to dampen activity in next 12 months, closely followed by a slowdown in Chinese demand - cited by one fifth of respondents.

There is also a clear sense from the global audience who participated in the study that overall litigation risk will increase in the next few years and this could affect the level of deals undertaken. Nearly three quarters (71%) of respondents who had seen a deal collapse in the past year said that antitrust issues were a factor in the failure.

Stephen Wilkinson added:

"Compared to ten and even five years ago, there are many more regulatory regimes on a national level - in countries in Africa and South America, in China and other Asian countries - which in theory have jurisdiction not only over transactions that involve companies incorporated in those regions, but also over foreign-to-foreign transactions. Antitrust is a global phenomenon made more complicated by the increasing reach of competition regulators."

Report Methodology & background

Towards the end of 2015, Mergermarket surveyed 700 senior-level executives at major businesses around the globe about their experiences of cross-border M&A and their views on the outlook for deal-making in the future. Some 44% of respondents were EMEA-based, 37% were from the Asia-Pacific region and 19% were headquartered in the Americas. All companies had annual revenues of at least US\$1 billion and all participants have considered at least one cross-border acquisition over the past 24 months.

Following the market volatility since the start of 2016, a further survey update of 100 of the original respondents was conducted in February 2016. The constituents of this survey reflected the geographical and industry composition of the full report exactly. A full copy of the report is available at <http://www.hsfbeyondborders.com/>

About Herbert Smith Freehills' Global M&A Practice

Herbert Smith Freehills' M&A team provides market-leading capability on public and private mergers and acquisitions with particular strength and expertise in cross-border, high-value, complex M&A activity. We are consistently ranked in the top tiers in the UK and European directories for M&A and have a market-leading position in Asia-Pacific M&A league tables, by both volume and value of deals. Our key clients include major international and domestic corporate entities, the world's leading investment banks, financial buyers, and public sector and government clients.

We advise clients on their most complex domestic and cross-border transactions across the globe. Our role frequently puts us at the heart of industries that are reshaping, restructuring and expanding into the world's emerging markets. Our distinctive breadth of industry sector expertise gives us a top-tier reputation in industries such as energy, mining and infrastructure, financial services and TMT, some of the busiest industries for M&A activity in recent years.

About Herbert Smith Freehills

Operating from over 26 offices across Asia Pacific, EMEA and North America, Herbert Smith Freehills is at the heart of the new global business landscape providing premium quality, full-service legal advice. We provide many of the world's most important organisations with access to market-leading dispute resolution, projects and transactional legal advice, combined with expertise in a number of global industry sectors, including energy, natural resources, infrastructure, technology and financial services. www.herbertsmithfreehills.com

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