

M&A Evolution:
Strategies for the New Deal Landscape



HEADLINES

34%

cite **state regulation** and **tax issues** as one of the **major factors** impacting the M&A market

23%

cite **macro economic outlook** as one of the **major factors**

83%

want to pursue **organic growth**

55%

rank **growth through outright acquisition** among their **three most important strategy options**

55%

cite cash on **balance sheet** as the most **favoured source** of funding

71%

cite **sellers' expectations** as the **greatest impediment** to achieving a **fair valuation** for acquisitions

23%

rank **China** as having the **best investment potential**

29%

say **China** is the **most difficult region** for deal-making

EXECUTIVE SUMMARY

Since the start of the global financial crisis the M&A landscape has not only been transformed, it continues to evolve apace. Turmoil in financial markets, recession and the more recent emergence of concern about sovereign indebtedness have caused a great deal of economic uncertainty, which has inevitably affected the M&A environment.

Despite this, the outlook among board members and directors of M&A at major corporations is mixed. Although respondents are clearly worried about macroeconomic instability, few of them seem to think that the current drama over sovereign debt will change their fundamental strategic thinking very much, if at all.

It cannot be overlooked that after a period of relatively little investment, many companies have strong cash balances and have by no means ruled out the possibility of engaging in acquisitions in the next year or two. Most of those whom we interviewed indicated that the pursuit of organic growth is the single most important element in their overall strategy. This suggests that in the first instance their M&A activity is likely to be in support of extending existing business models.

Our findings also indicate that nearly as many respondents believed that there are strategic benefits to acquiring market share or entering into new markets through outright acquisition. Indeed, Boards are pursuing opportunities to do just this, particularly in emerging markets, which remain the geographic priority for most companies' acquisitive investment.

So if it is not just macroeconomic uncertainty, what other issues are of concern to Boards? The additional challenges that our respondents feel that they are facing are centred on the many changes to tax and regulatory regimes post-crisis, as well as continuing difficulties around the availability of acquisition finance and the valuation of acquisitions.

Indeed, concern about the regulatory and tax environment was mentioned by the greatest number of our respondents. It is indisputable that the financial crisis has motivated a great deal of legislative and regulatory innovation, and even some drift in the direction of protectionism. Changes to competition and labour law also continue to muddy the waters, and although 43% of those whom we interviewed commented that such factors have had no significant effect on their ability to complete deals, a majority stated that they have been a major hindrance.

Scepticism surrounding the availability of finance, and in particular equity finance, also remains a leading issue for corporate strategists in the UK and the US, and especially to those whose companies are in weaker balance sheet positions.

Finally, challenges to valuing acquisitions and the related issue of how businesses can protect themselves against the risk of overpayment have become significant concerns amongst potential investors. It is an inevitable consequence of a major financial dislocation, especially in conjunction with the continued volatility of the equity markets, that valuation metrics are distorted and the signposts to appropriate pricing become uncertain.

In spite of all of this, deals are still being done and it would appear that, for a majority of businesses, strategies for M&A are determined over the longer-term. With many companies' balance sheets flush with cash and with credit cheap (although not always easy to obtain), prospects for acquisitive activity in the next year or two are good.

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