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The Clifford Chance/FinanceAsia M&A Survey 2011

FinanceAsia

Reprinted from FinanceAsia October 2011

M&A

The renaissance of Asian M&A

Respondents to our fifth annual M&A survey remain sanguine about the prospects for increased M&A activity.

By Sameera Anand

We could finally be on the cusp of the M&A renaissance that we have been waiting for since cross-border M&A activity peaked in 2007. Judging by the findings from our fifth annual M&A survey, conducted jointly with Clifford Chance, all the makings are in place for a strong year for Asian M&A.

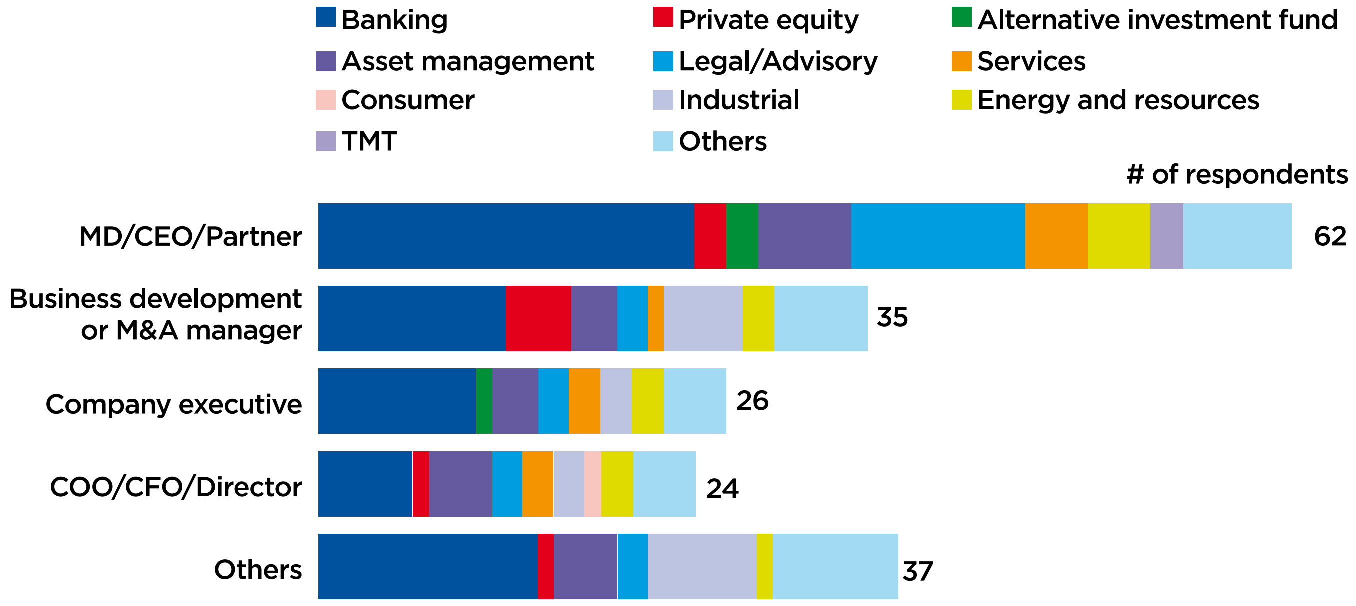
Almost three-quarters of our respondents expect cross-border outbound M&A from strategic acquirers based in the Asia-Pacific region to increase on last year in the next 12 to 18 months. Two-thirds expect intra-Asia-Pacific M&A to grow from last year. And given that 34% of the 183 respondents to our survey this year are in positions of leadership in their firms and another 46% are either business development or M&A managers, company executives, CFOs or COOs, we'd reckon our respondents have the inside track.

"Many CEOs in the region are reasonably confident about their businesses long term," said Roger Denny, Head of M&A Asia Pacific at Clifford Chance. "The opportunity to acquire assets that might otherwise not be available will drive them, despite uncertainties regarding some target markets."

Since we started this survey five years ago the majority of our respondents have forecast that individual deal activity will be mostly in the range of $100 million to $500 million. And they've been right. However, this year we do have some optimists: 25% of respondents expect deals to be larger than half a billion dollars.

The maximum deals will be struck in the mining and resources sectors, followed by oil and gas, and consumer goods and retail, said our respondents. Some specialists are predicting a pick-up specifically in Asian buyers taking over Western brands. Mid-level and upper end brand owners in Europe are trying to tap into the opportunity to create demand for their products in Asia and boost sales, explained Melvin Glapion from Kroll, the global risk consultancy. "The interest is

RESPONDENT PROFILE



RESPONDENT PROFILE
COUNTRY/TERRITORY BASED IN

mostly driven by availability and the supply side," he added.

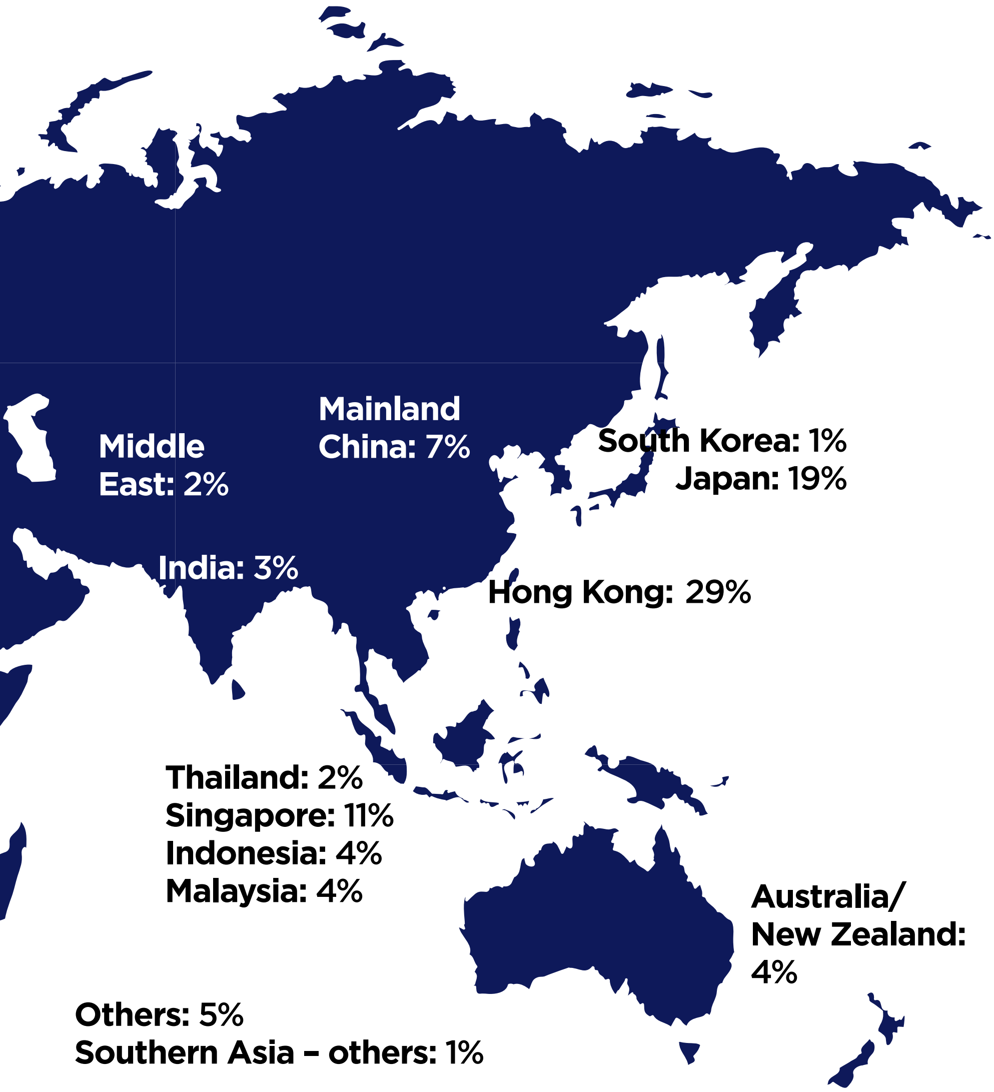
Less deal activity is expected in financial services, pharmaceuticals and healthcare, and real estate. But some specialists who we interviewed disagree with this assessment, suggesting that respondents could be overly pessimistic on M&A in the financial services sector.

"We expect to see Chinese FIs [financial institutions] making more acquisitions in the US and Europe, driven by both the currency advantage and depressed valuations in target markets," said Mike Netterfield, head of corporate finance, Royal Bank of Scotland. He expects acquirers to gain confidence to navigate the regulatory framework by starting with small deals and non-control stakes that will lead to bigger, control deals.

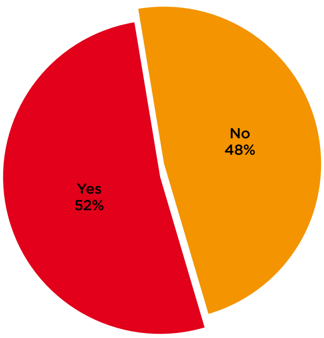
Denny is also seeing activity in the FI sector. "It is very broad-based, involving bank, insurance, asset management, wealth management and securities businesses," he explained. "There are various drivers for this, notably strategic refocusing or repositioning, the desire to acquire platforms in new markets for future growth and a reaction to changes in the regulatory landscape."

The desire to secure supplies of natural resources continues to be the key driver of Asia outbound activity for the majority of our respondents. And Prahlad Shantigram, who heads M&A at Standard Chartered, agrees, citing resources as one of the sectors he expects to see the most activity in, followed by consumer and healthcare.

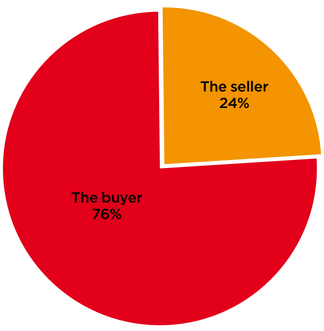
"Companies in the Asia-Pacific region



PREDICTED SUBSTANTIAL PICK-UP IN M&A VOLUMES



BALANCE OF POWER IN M&A DEALS OVER THE NEXT 18 MONTHS



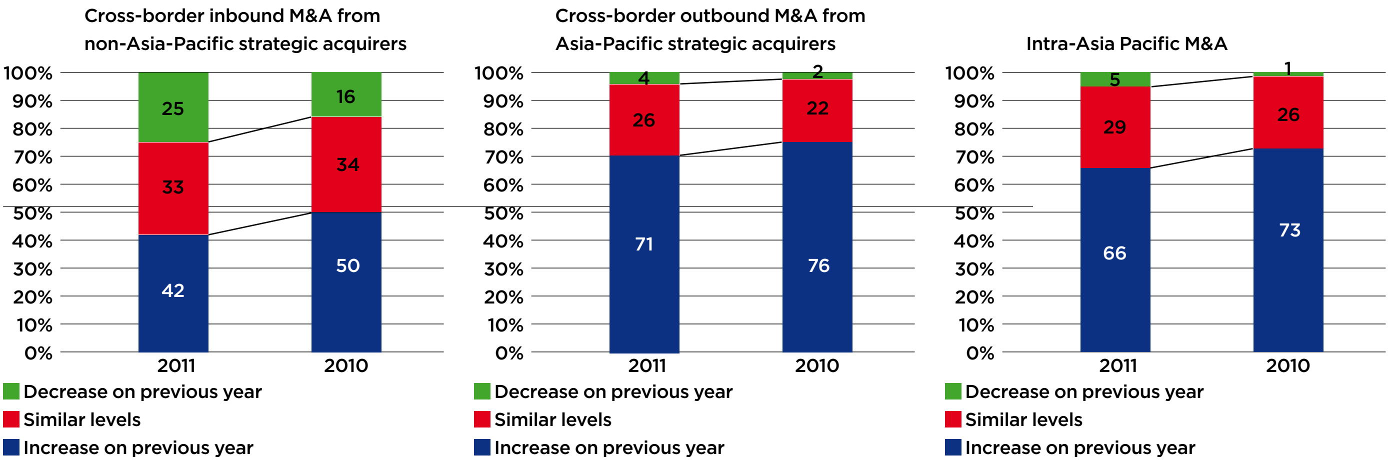
also see the environment as an opportunity for strategic transactions and to take advantage of depressed valuations and we are optimistic that will continue to drive outbound activity," said Denny. "The rationale for companies in the region to secure supplies of natural resources, acquire new platforms for growth, and reposition their businesses remains unchanged."

However, our respondents are split on whether the substantial pick-up in M&A volumes, which was predicted last year, has happened or not, with 48% suggesting it did not and the remaining 52% saying it did. Looking at specific categories of respondents, the majority of business development and M&A managers who responded to our survey said that the pick-up in volumes did happen, while all other categories are more equally divided. Of the 89 respondents who said M&A volumes did not grow this year over last year, almost 90% attribute this to the continued market volatility and uncertainty. Another two-thirds suggest that the hype surrounding M&A has always exceeded reality.

For deals to get done, one of the most important prerequisites is that the buyer and seller have a meeting of minds with respect to the value they attach to the asset that is changing hands. And 60 respondents suggest the reason deals did not get done is that it is difficult to reconcile the value expectations of sellers in Asia-Pacific with the prices buyers are willing to pay.

"Our experience thus far has been that buyers are willing to do deals even in this

EXPECTATIONS ON THE LEVEL OF INVESTMENT IN THE NEXT YEAR TO 18 MONTHS



environment," said Netterfield "The impediment will be the willingness of sellers to exit at valuations that have come off considerably."

Challenges

Comprehensive due diligence on targets to ensure there are no surprises post-acquisition is one of the key ingredients for an M&A deal to be successfully completed, said our respondents.

"One of the biggest challenges for inbound M&A by companies based in the West is getting comfortable with targets," said Denny.

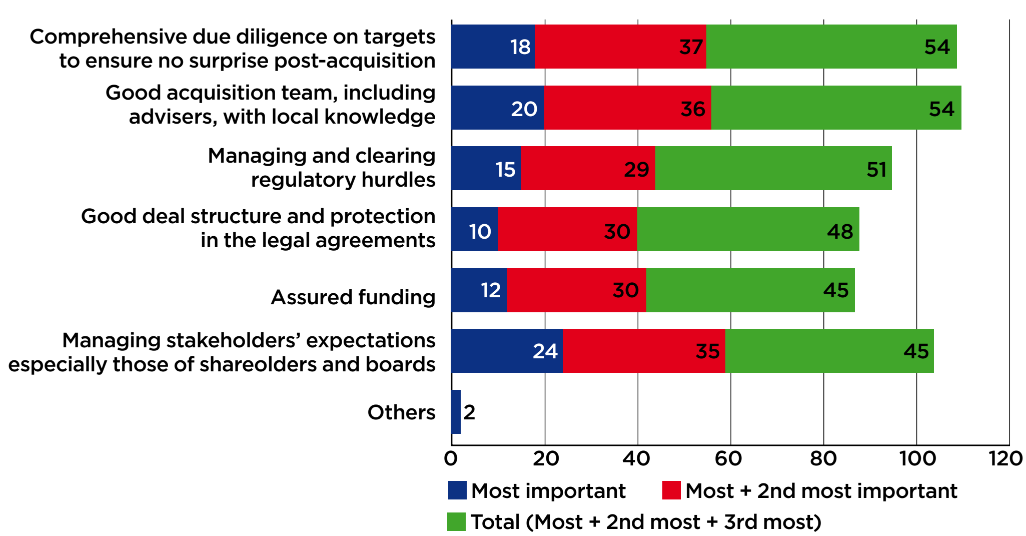
Kroll's Glapion agreed, citing the brand takeovers he has worked on. "The 'halo effect' of buying a well-known brand oftentimes obscures the actual financial weakness underlying the business, and with ongoing economic worries in the Eurozone, due diligence efforts on even the most established of brands is necessary," he said.

Another factor that our respondents suggest contributes to a successful M&A deal should bring cheer to all the service providers reading this story: a good acquisition team, including advisers with local knowledge. Indeed, this was the factor ranked as most important by the maximum number of respondents.

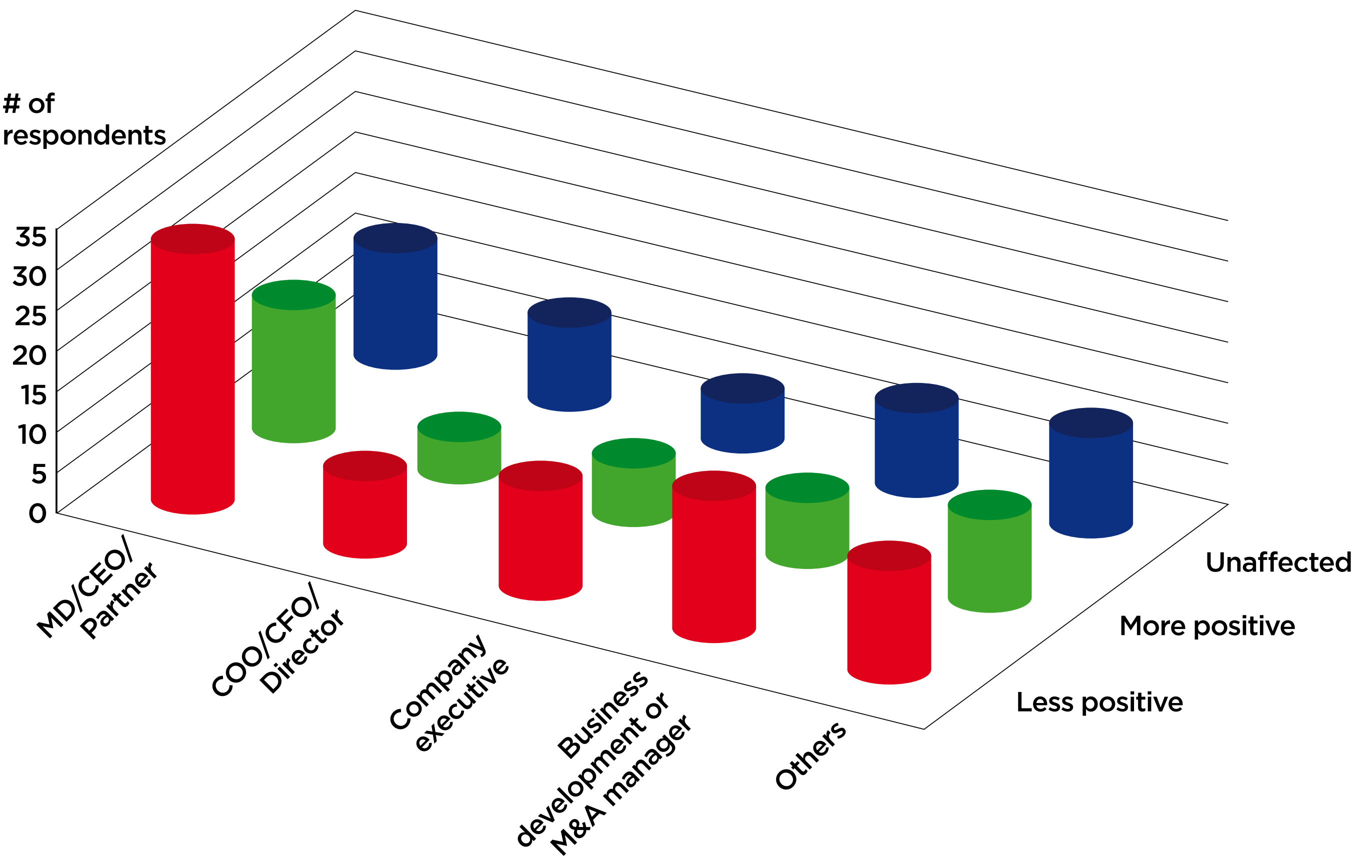
Despite the tightening of liquidity and some banks scaling back lending activities, financing is not a top-of-mind concern for our respondents.

"That could reflect the fact that navigating various other hurdles in cross-border M&A deals in Asia continues to be challenging before they even reach the issue of funding," said Denny.

IMPORTANT FACTORS FOR ASIAN M&A DEALS TO BE SUCCESSFULLY COMPLETED



THE POSSIBILITY THAT VOLATILITY AND UNCERTAINTIES MIGHT AFFECT THE LEVEL OF INVESTMENTS CONCERNS CEOS, WHILE CFOS ARE LESS WORRIED



Another possible reason could be that our respondents expect acquirers to work more closely with financing banks.

"Ability to provide financing has always been and will continue to be important to Asian buyers," said Shantigram. "Buyers increasingly want their advisers to be aligned with them and providing financing is an important element of this alignment."

Netterfield added: "The ability to arrange financing is always an advantage and as liquidity dries up in some markets that advantage is being accentuated."

Not surprisingly, 76% of the respondents to our survey said the balance of power in M&A deals during the next 18 months will lie with buyers.

"In China, structural issues and regulations will continue to constrain deals," said Nikhil Nath, head of M&A for Asia ex-Japan at Nomura. Our respondents agree with 65% expecting inbound M&A activity into China from non-Asia-pacific strategic acquirers to either decrease on previous years or stay at the same levels.

Three-quarters of our respondents said that Western companies are likely to increase their focus on emerging-market strategy as a result of the market uncertainties in the US and Eurozone. "Western companies, whose balance sheets are strong, are likely to provide an increased thrust in Asian inbound M&A to gain growth, especially in sectors that rely on domestic consumption," said Shantigram.

A number of boutique investment banks have opened shop in Asia in the recent past — and one of the core activities for such firms is providing M&A advice. "The main driver for companies to hire us is to get conflict-free, independent advice," said Eduardo Mestre, vice-chairman and head of US banking at Evercore Partners, a New York-based independent investment bank that has recently scaled up in Asia. But our respondents are on the fence about whether such firms will win more business gong forward on the back of the platform of objective advice, with 38% neutral on this and 39% in partial or complete agreement.

M&A has traditionally accounted for less than one-third of the investment banking wallet in Asia. It remains to be seen if the activity increases to a level where that percentage changes. But Nath puts the matter of fees in perspective, saying M&A revenues cannot be viewed in isolation. "They add value as a strategic product that significantly enhances a bank's client franchise, while driving other related revenue on transactions including acquisition financing and risk solutions/hedging." ■