

# ALLEN & OVERY



*M&A Index, H1 2014*

---

# Contents



Executive summary	4
Global M&A in numbers H1 2014	5
In focus	
– Trading up – how IP became the real deal	6
– Time for a new home?	8
Regional insights	
– U.S.	10
– Latin America	10
– Western Europe	11
– CEE and CIS	12
– Middle East and North Africa	12
– Sub-Saharan Africa	13
– India	14
– Asia Pacific	15
Sector insights	
– Financial services	16
– Infrastructure and utilities	16
– Life sciences	17
– Private equity	18
– Mining	19
– Telecoms, media and technology	19
A global snapshot	
– Top 20 global outbound acquirers and inbound target markets	20
– Top target markets for the world's largest acquiring countries	22
Global deal types: H1 2009-H1 2014	24
Definitions	25
About the research	26

# Executive summary

## *The global picture – our key observations*

*A number of key themes emerge from the statistics and analysis contained in this report. Having reviewed deals with values of over USD100 million, here are our observations about the current state of the global M&A market.*

Recovery in global M&A markets is continuing to take hold, although different regions are growing at different rates and a number of sectors, notably TMT and life sciences, are moving ahead far more quickly than others. We expect activity to increase further in H2.

### The regions

The **U.S.** transactions market remains very robust and this is helping to bring confidence to the equity markets. Companies seeking a tax inversion have been driving considerable outbound activity, particularly in the life sciences sector, but domestic transactions still dominate and continue to be sizeable and highly strategic.

Some key **Latin American** markets, notably Brazil, are experiencing something of a lull at the moment. However, we have seen some significant deals in natural resources and increased outbound activity by companies in the region.

France was **Western Europe's** leading M&A market in Q2 by value, and here, as in Germany and the UK, big strategic deals are to the fore. Both the German and French governments have been intervening more actively in the transactions market, seeking to protect national interests in key economic sectors.

The Ukrainian crisis has undoubtedly forced many potential inbound investors in Russia to hold fire, but the long-term attractions of investing there remain. Across the **CEE and CIS** region, we have seen a big upswing in work on non-performing loans as banks prepare for a new round of stress-testing.

In the absence of significant megadeals, the aggregate value of transactions in the **MENA** region fell in H1. There are plenty of positives likely to drive activity in the second half of the year, even though political instability is a clear issue in some markets.

Transaction pipelines in **sub-Saharan Africa** are beginning to bear fruit, with telecoms and oil and gas being dominant sectors. Cross-border institutions are gaining strength, not least the COMESA organisation, which spans 19 East African states and has its own competition regime.

Following an astonishing victory in **India's** national elections in May, all eyes are now on Narendra Modi's first budget which will be announced on 10 July. Investors expect a strong accent on economic reform.

A healthy spike in public deals has helped to lift the value of **Asia Pacific** transactions, but there is still a dearth of investment from the U.S. and Europe, a prerequisite for stronger recovery. Greater China remains busier. The global hunt for natural resources continues, and new simplified competition procedures should boost inbound activity.

### The sectors

Regulatory concerns, restructuring and the selling-off of legacy assets remain the preoccupations in the **financial services** sector, not least in Europe, where a new Asset Quality Review (AQR) process, expected to be more rigorous, is getting under way.

Considerable activity is building in the **infrastructure and utilities** sector, promising a much busier second half of the year. Australia's nascent, but likely to be wide-ranging, privatisation programme is attracting global interest and funds are showing a growing willingness to invest overseas.

It was an astonishing Q2 for **life sciences** deals, which rose to their highest level since the first quarter of 2009. U.S. companies seeking a tax inversion by buying UK and Irish companies was a feature, but so was the disposal of non-core assets by majors and a move towards 'precision M&A' through acquisitions, asset swaps and joint ventures.

Exits continue to dominate the **PE** sector. Although transaction levels continue to rise, it seems clear that funds are staying away from auction processes now that strategic buyers – often willing to pay higher prices – are back in force.

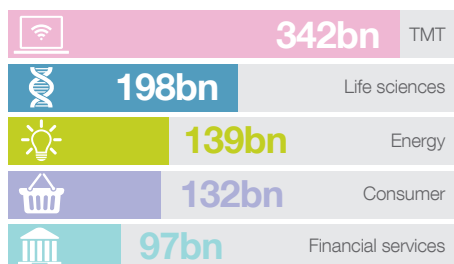
**Mining** transactions continue to be relatively flat, although China's state-owned enterprises are back on the hunt for key raw materials in markets as diverse as Australia, Peru and Zimbabwe. The majors continue to be under pressure from investors to avoid big-ticket acquisitions.

The **TMT** sector continued to power ahead in H1, with telecoms deals dominating – many focused on in-market consolidation, particularly in Europe, and the continuing convergence between mobile and cable operators.

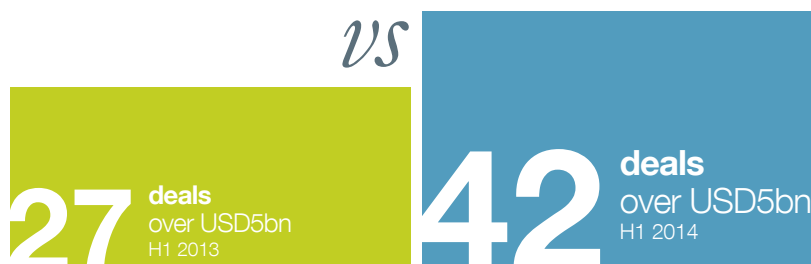


# Global M&A in numbers H1 2014

## Top 5 sectors by value (USD)



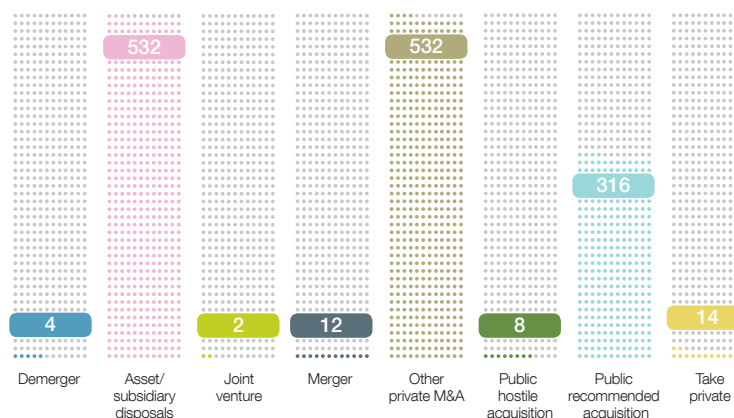
## Increase in megadeals



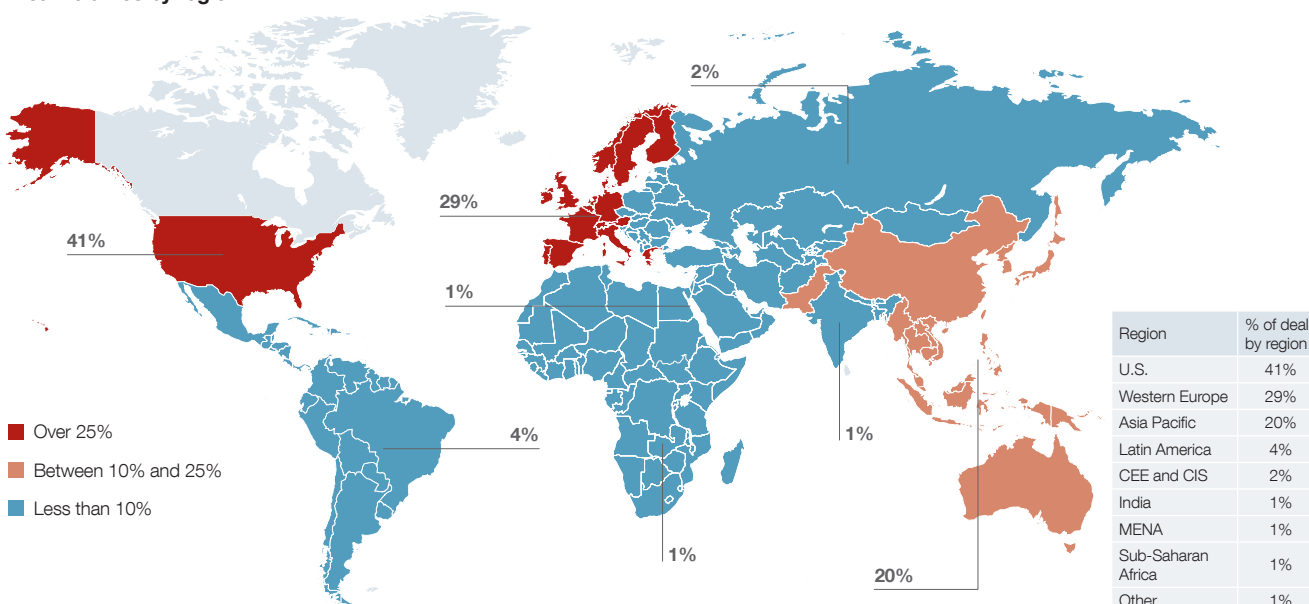
## A positive outlook



## Deal types by volume



## Deal volumes by region



Note: These numbers represent deals worth over USD100m and span 1 January 2014 to 15 June 2014 inclusive

---

# In focus

## *Trading up – how IP became the real deal*

The value of intellectual property assets in M&A deals has grown exponentially in recent years, yet too often, dealmakers fail to realise that value, due to hidden problems that are not uncovered or not fully understood at the time that the deal completes. Protecting these assets properly requires the right mix of dedicated IP, M&A and antitrust expertise.

There are many reasons why a company sets off on the acquisitions trail. It may be to gain a foothold in a new market, to expand global market share, to gain an advantage over a near competitor or to achieve economies of scale in areas such as production and distribution.

But increasingly, a particular asset, or set of assets, is what is most sharply in focus – and they collect under the general title ‘intellectual property’ (IP). More and more deals are about getting access to ideas, market-changing technologies, patents, brands and copyright.

It is easy to understand the lure. Here is a chance to acquire an asset of great value, which, if properly exploited, can yield a massive competitive advantage, without the huge cost – and risk – of researching and developing new ideas and inventions from scratch.

That is certainly the model pursued by Canadian drugs giant Valeant, currently embroiled in a USD53 billion battle for control of Allergan, the makers of Botox® – a bid battle made all the more heated by the involvement of activist shareholder Pershing Square, which is supporting the Valeant offer.

Valeant’s CEO, J. Michael Pearson, has led the company through some 100 share-price-boosting deals since taking over in 2008 and has openly argued that buying IP is a more successful growth

strategy than the high-risk, research-driven approach favoured by Allergan. Others worry about the company’s track record of cutting valuable research once deals complete.

The bid battle is a good illustration of why IP-led acquisitions have undoubtedly become the real deal for many companies – particularly in IP-rich industries like life sciences, TMT and high-tech manufacturing, but also in fashion, luxury and consumer goods.

But completing a deal with IP at its heart, whatever the motivation, is no mean feat, and a whole host of hazards lie in the way. Negotiating them requires expert legal advice.

### IP – a growing and more complex market

This is a growing market, and one that is becoming more complex. Estimates of the rising value of IP in overall M&A transactions can be a bit arbitrary, but it is undoubtedly true that its share is climbing, and steeply.

That is partly because the sheer number of patents filed has grown rapidly in recent years, as organisations have realised the value and competitive advantage they can deliver. For example, in the 12 years to 2012, the number of patents filed in the U.S. almost doubled to 580,000.

Strategies for acquiring IP vary widely. Sometimes it is about achieving a strategic change of direction or a new business model

for an established business. In Microsoft’s acquisition of Nokia’s handset business, for example, hundreds of patents gave the software giant a rocket boost in the smartphone market.

Sometimes the deal may be all about achieving a specific tax advantage. Pfizer’s recent attempted takeover of AstraZeneca was said to be partly motivated by the chance to move its domicile to the UK and qualify for so-called Patent Box tax reliefs. These were introduced in 2012 to stimulate R&D in the UK by offering a 10% tax rate on profits from patents.

The search for valuable IP has also seen fierce rivals join forces to buy huge portfolios of patents with the aim of containing R&D costs and to strengthen their hand in licensing negotiations. Typically they join forces to bid for patent portfolios, then, subsequently, divide up the IP assets between them. That was the case when Google, Microsoft and Apple were part of a consortium that bought digital imaging patents from the collapsed Eastman Kodak for USD525m in 2012.

Another growing trend is for companies – looking to enter emerging markets, but struggling to get their own branded products or trademarks taken up there – to buy into leading local brands.

Reckitt Benckiser, owner of many market-leading consumer product brands including Strepsils®, the throat lozenges,

bought one of China's leading makers of sore throat treatments – products already registered in China and cleared by the local food and drug authorities, a process that can take a long time in China's notoriously slow approvals system.

With the high cost of developing innovative technologies in new markets – such as electric cars and renewable energy technologies – there is a growing trend for market leaders in two separate sectors to form joint ventures and share the cost of development. In May of this year, for example, Renault and the South Korean battery maker LG Chem agreed to jointly develop long-range lithium-ion batteries for electric vehicles.

PE funds are also getting in on the act. We have seen a growing number of funds eye up technologies, and, particularly, brands whose value they believe they can increase very significantly and comparably quickly. In 2012, for instance, Advent, who already owned and expanded fashion brand Gérard Darel, bid USD1.9bn for beauty retailer Douglas. KKR took over from Capvis a share in German cutlery and coffee machines maker WMF with the plan to expand the brand mainly into the U.S. and Asia.

And there is another reason why the IP market has grown more liquid in recent years – the emergence of so-called non-practising entities (NPEs) or patent trolls. These are funds set up specifically to buy valuable patents either to trade them on or to enforce them at a price through large and sometimes indiscriminate litigation, but with no intention of actually developing any products.

A damning report from the Obama administration last year revealed that suits brought by NPEs had tripled in two years, rising from 29% of all infringement suits to 62%, with an estimated 100,000 companies threatened with patent infringement suits in 2012 alone.



## Prospects and pitfalls

So M&A strategies, where IP is a major feature of the planned transaction, need to be very carefully planned and have a clear eye to both potential IP and competition issues. Detailed and expert due diligence is an absolute prerequisite and this is best achieved by a legal team that has access to the right mix of specialist M&A, IP and antitrust legal advice during the due diligence process.

As the process gets underway, dealmakers need to be absolutely clear about a number of potential hazards:

- Does the target own the IP rights the buyer is aiming at? Are they properly registered?
- Do existing licensing arrangements limit future exploitation of these rights?
- Does the target depend on third party licences, and will these survive the transaction?
- Is there any litigation risk (such as pending infringement and damages claims)?
- Do third parties have blocking IP rights, leaving the buyer with no 'freedom to operate'?
- Do any of the assets in question rely on open-source code or otherwise stem from open innovation? This may limit future commercial exploitation.

Such questions may seem relatively straightforward, but finding the right answers can sometimes be a complicated undertaking.

This is not only problematic in emerging economies, where standards of governance, compliance and record-keeping may not be as sophisticated as in other jurisdictions – it is a problem in all industry sectors and in all regions of the world.

From an antitrust perspective, the buyer needs to be clear what market power it will achieve by owning a new portfolio of IP assets and whether that is likely to be perceived by the authorities as having an unfair impact on competition.

Recent years have seen war break out between the big smartphone makers including Google, Samsung, Microsoft and Apple, with pitched battles for IT leadership fought out both in courtrooms and in front of the antitrust authorities in multiple jurisdictions.

Acquiring IP can be, and often is, immensely valuable. But without the right support and advice, it is an activity that can quickly turn a potential gold mine into a dangerous minefield.

*“More and more deals are about getting access to ideas, market-changing technologies, patents, brands and copyright.”*

---

# In focus

## *Time for a new home?*

The high number of companies, mostly U.S., eyeing acquisitions or ventures that will allow them to redomicile their business in the UK and Ireland is a major theme of this report. Mostly, it is about tax. But there is quite a bit more to it than that.

Flick through the pages of this report and a recurrent theme will immediately leap out at you – the growing number of U.S. companies trying to buy UK or Irish competitors so that they can achieve a so-called inversion, cutting their corporate tax bills significantly.

The last 18 months has seen a growing stream of businesses, across a variety of sectors, trying to redomicile their operations to take advantage of lower tax rates.

Liberty Global's USD23bn merger with Virgin Media last year had a clear commercial logic, but tax planning was also reportedly at the heart of it. The deal allowed it to set up a new corporate structure, with a 'topco' based in the UK (although its headquarters remain in the U.S.), and enabled it to take advantage of a raft of recent, targeted, UK tax reforms.

Life sciences companies have been at the forefront of the trend. Inversion is a manoeuvre that suits companies with large stockpiles of foreign earnings, as many global pharma businesses have.

So it is not surprising that, in the last few months, this sort of tax planning was a fundamental part of a large number of life sciences deals, including Pfizer's attempted USD69bn takeover of AstraZeneca, AbbVie's unsuccessful approach to Shire, and Medtronic's current USD43bn bid for Ireland's Covidien.

But relocations of this sort appeal to non-U.S. companies, too. Fiat – the Italian carmaker that now controls Chrysler – has courted controversy at home and in the U.S. by announcing that it will headquarter its operations in the UK, for example.

Four or five years ago, it was unthinkable that the UK would become the destination of choice for corporations looking for tax efficiencies.

At that time, we were witnessing the process in reverse. Think, for instance, of advertising giant WPP moving its tax domicile to Ireland in 2008, if only temporarily – it was back in the UK by 2013 once those tax reforms had been introduced.

### Making sense of the trend – the U.S. angle

On the surface, it is easy to see why this trend has developed. The U.S. corporate tax rate, at 35%, is one of the highest in the industrialised world. By contrast, the UK rate – now set at 21% and soon to fall to 20% – is the lowest in the G20; Ireland's rate is much lower still.

By accident rather than design, the U.S. system is facilitating the trend in two ways.

It encourages businesses to raise money at home for foreign acquisitions, with interest costs fully deductible against domestic profits. At the same time, it encourages companies to keep overseas earnings offshore – they are only taxed when

repatriated (and then, as we have noted, at punitive rates). This is further compounded by accounting provisions, which mean profits built up abroad can boost the earnings per share of the U.S. parent company without taking account of the tax costs involved if the profits were actually paid back to shareholders.

It is reported that trillions of dollars are held offshore by U.S. companies – because they are caught in a kind of tax-deferral treadmill.

But there comes a time when storing cash up in this way no longer makes sense. It needs to be put to use, or shareholders will certainly start to demand it is brought back onshore and used to fund better dividends or share buybacks.

Given that background, it may seem surprising that more U.S. companies have not simply relocated abroad, as UK companies have done in the past. The reason is that U.S. tax rules make that quite difficult to do – U.S. law does not have a concept of 'residence' that can be moved to a different jurisdiction, and companies organised under U.S. law will always be regarded as U.S. taxpayers.

But mergers offer a way out. Done in the right way, a merger can remove the U.S. company as the parent of the combined group, without adverse tax consequences – although to avoid other penalties, the new holding company may need to be based in a jurisdiction where the combined group books a substantial amount of business.



This gives the group an opportunity to repatriate overseas profits to shareholders without incurring significant tax cost.

A wide range of substantial merger partners and a relatively benign tax environment for holding companies, are, therefore, key attractions of the UK to U.S. companies looking to achieve an inversion.

### The UK – why else?

Raw tax advantage is very rarely a justification in itself for an M&A transaction, especially one of the scale and complexity of recently attempted megadeals. Inversion is only part of the strategy. And inversions are not the only situation where the UK is an attractive option for a holding company location. For example, it is used as a (sometimes neutral) jurisdiction for joint venture companies or even for regional holding companies within a group structure.

The UK has one of the largest double tax treaty networks, covering more than 100 countries. There is no dividend withholding tax on outbound dividends, wherever shareholders are located,

and inbound dividends will usually qualify for exemption from corporation tax. A new territorial controlled foreign companies (CFC) regime is also a spur, making it easier, among other things, to do intra-group financing. Furthermore, a new system of tax reliefs on profits from exploiting intellectual property, the so-called Patent Box, also applies. The list goes on.

But other cultural and legal issues also hold sway. It matters that the UK is part of the EU and a founder member of the OECD; that it is English-speaking; that London is a leading financial centre sitting in a central time zone between the U.S. and Asia, with good global transport links.

It is important, too, that the UK has an established, common law legal system with an efficient Companies Court; that there are no restrictions on where shareholder meetings are held; and that executive remuneration requirements are flexible (a tightening of Swiss rules here has led to several global companies relocating their parent company recently – once again, to the UK and Ireland).

Lifestyle issues might also play a role. The UK in general and London in particular are attractive to company executives who need to relocate or travel here.

### A loophole closed?

The U.S. inversion rules are already something of a minefield, and there is widespread speculation that the U.S. may soon seek to tighten the rules on inversion still further.

Certainly, some businesses expect the inversion window to be relatively narrow, which might explain the growing rush of recent transactions even in the face of continuing public disquiet about corporate tax avoidance.

It may be a short-lived phenomenon. But while it lasts, it is proof once again of another important fact.

Governments, looking to create tax environments that will attract investment, can be as competitive as business. Despite public disquiet, they are likely to remain so.



# Regional insights

Big strategic deals dominated the global M&A scene in the first half of the year, but markets around the world continue to recover at different rates and many of the biggest transactions are focused on the U.S. and Europe. In most markets, however, deal pipelines are filling, suggesting that the pattern of steady recovery will continue beyond H2.

## U.S.



The U.S. transactions market continues to be very robust and we believe it will stay that way for the rest of the year.

Indeed, there is evidence that growing deal activity is actually underpinning the continuing strength of the equity markets here, at a time when you might have expected potential shocks – the continued tapering of the Federal Reserve’s quantitative easing programme and the Iraq crisis, for instance – to cause major jitters. It seems shareholders are encouraged to keep investing when they see CEOs continuing to write big cheques on significant deals.

Tax has become a big driver for overseas deals, notably in the life sciences sector, where U.S. groups are seeking to buy Irish or UK businesses in so-called inversion transactions to take advantage of lower corporate tax rates. That was a factor in the proposed Pfizer/AstraZeneca tie-up, and is definitely a feature of Medtronic’s USD43bn proposed acquisition of Ireland’s Covidien and the rebuffed USD46bn approach to Shire of the UK by AbbVie. Punitive U.S.

taxes on repatriated foreign earnings are also encouraging U.S. companies to keep their cash overseas and spend it on transactions.

More generally, outbound deals are on the rise, as we saw with GE’s successful USD17bn bid for parts of the energy business of France’s engineering giant Alstom, in direct competition with a joint German/Japanese offer by Siemens and Mitsubishi.

U.S. domestic deals still dominate, though, and continue to be big and highly strategic. AT&T’s USD49bn acquisition of DIRECTV is a case in point – marking a strategic response to Comcast’s tie-up with Time Warner Cable earlier in the year.

Competition for bids is growing, too. That was clear in the takeover of Hillshire Farm – the former Sara Lee food business – which set out on the acquisitions trail only to provoke two rival takeovers for itself from Pilgrim’s Pride and the eventually successful Tyson, the price tag inflating swiftly as the bidding war progressed.

With an increasingly busy pipeline, the U.S. IPO market is now at its strongest since the dot-com boom of the late 1990s. Notable IPOs include GoPro, maker of the mini-cameras which are hugely popular with extreme sports enthusiasts, which went public in June, as well as the IPOs of Alibaba and GE’s Synchrony Financial, which are expected later this year.

Shareholder activists continue to be highly influential in the deal market. But as the involvement of hedge fund Pershing Square in the Allergan takeover battle shows, many are now prepared to be part of the deal itself rather than just agitating from the sidelines.

## Latin America



While the statistics suggest that activity in Latin America remains relatively buoyant compared with the first half of 2013, there is a sense that some key markets have become temporarily becalmed, not least Brazil.

Economic growth has slowed, contrary to expectations, and there are a number of fairly important distractions, including the football World Cup and upcoming presidential elections. A quiet summer looks to be in order, although we do expect the autumn to be considerably busier.

One sign of hope is in the number of Brazilian companies looking to do outbound transactions, either selling or restructuring overseas assets or looking to acquire new ones. Mining group Vale is, for example, restructuring its global coal business and

this might include the sale of an equity interest in at least a portion of these assets. We expect to see some acquisitions announced shortly in Asia, Europe and the Middle East in other sectors, food among them. Elsewhere, América Móvil, controlled by Mexican tycoon Carlos Slim, is continuing its tilt at the European telecoms market, offering to buy the shares it does not already own in Telekom Austria.

In the past, inbound investors have often seen Brazil as a beachhead, a place to establish a presence in the region from which to expand into other Latin American markets. The inbound picture is a little quieter right now, although PE funds with an already established presence in Brazil are once again looking seriously to do deals here and a number of big corporations are actively scouting, not least Glencore in the food and agriculture sector.

Glencore was at the centre of the region's biggest deal in Q2, selling its Las Bambas copper mine in Peru to a consortium of Chinese companies led by MMG for USD5.8bn. Natural resources still tends to be the sector for headline deals in other key markets such as Chile and Colombia. But Q2 did see Alliance Boots take its first step into the Latin American market, spending more than GBP400m to buy Farmacias Ahumada, with some 1,400 retail outlets across Chile and Mexico. It has since talked of entering other markets in the region and is also looking to add a wholesale business too.

One of the biggest transactions in Brazil was Santander's controversial EUR4.9bn offer to buy back a 25% stake in its Brazilian subsidiary listed on the stock market since an IPO in 2009, a move that will help boost the parent company's capital base. The shares have underperformed, but buying them back at below the IPO listing price has not gone down too well with some investors.

## Western Europe



Overall values are pretty sharply up, in the first half of the year, indicating that big, often strategically driven, transactions are on the increase.

That is certainly the case in France, the leading market in the region by value this quarter, Germany and the UK, where confidence is clearly up among the bigger players, although that buoyant mood has yet to filter down to the middle market.

Despite the collapse of the Publicis/Omnicom merger, France saw a number of very high-profile transactions, including Vivendi's EUR17bn disposal of SFR to Numericable; Lafarge's proposed USD40bn merger with Swiss rival cement maker Holcim; L'Oréal's EUR6bn deal to buy back 8% of its shares from Nestlé; and GE's USD17bn offer for Alstom's energy assets. Strong debt markets are helping drive activity – Numericable's high yield issue to fund the SFR takeover broke records in terms of investor demand. Commercial real estate is also very lively.

Politics has played a prominent role in both France and Germany. In the wake of the Alstom bid activity, which also saw Siemens bidding with Mitsubishi, the French government raced through emergency powers to regulate foreign investments in key strategic industries, including telecoms, energy and transport, although the EU Commission has raised concerns that they may violate provisions on the free movement of capital. It has also obtained from Bouygues an option to buy Bouygues' 20% stake in Alstom, together with a stock loan of such stake (in order to vote the shares).

The German government has used the rarely invoked Foreign Investment Act to investigate Dea's sale of its oil and gas subsidiary, RWE Dea, to LetterOne, ultimately controlled by Russian tycoon, Mikhail Fridman – a deal struck just as EU sanctions against Russia over the Ukraine crisis were announced. The Foreign Investment Act can be used to block non-EU/EFTA deals that threaten national security interests. It is too soon to say if this indicates a growing protectionist or 'Fortress Europe' stance.

But the Italian government, now stronger than ever after a clear left-wing victory in May's European elections, has also made some important reforms. These include 'golden powers' on inbound acquisitions in strategic sectors – such as defence, energy, infrastructure and telecoms – but, interestingly, also include changes in takeover laws making it easier to bid for Italian mid-cap companies.

Significant strategic deals in Germany included Bayer's USD14.2bn acquisition of Merck & Co.'s over-the-counter business. Deutsche Telecom is also in talks with SoftBank and Sprint about acquiring T-Mobile USA in a deal that could be worth some USD32bn.

A significant factor behind some of the big Q2 deals is the search by U.S. companies for targets, particularly in the UK and Ireland, so that they can achieve an inversion – creating a topco structure here to benefit from lower corporate tax rates. Although it is a manoeuvre finding big favour with pharma companies, it is one that appeals to any U.S. corporation with large offshore cash piles, as repatriating that cash incurs a big tax hit at home. Plenty of U.S. transactions in Europe are about other things than tax – GE's Alstom bid, for example, was clearly driven by straightforward industrial logic as was UK defence contractor Cobham's GBP869m bid for U.S. communications group Aeroflex.



The Dutch market quietened down in Q2 after a livelier start to the year, in line with a renewed slowdown in the economy. Confidence remains fragile. Deal volumes remained similar to Q2 2013, but values plummeted from EUR68bn down to EUR18bn – a huge change. However, the pipeline for the coming months looks promising.

There were two significant cross-border deals, however: D.E Master Blenders 1753's EUR3.58bn acquisition of the Mondelēz International coffee business, and Liberty Global's EUR4.9bn bid for Ziggo.

Although there was one significant PE deal – CVC Capital Partners acquiring AVAST Software for EUR721.5m – most of the activity came from smaller funds, like Eugenia, H2, Bencis and Glide. By contrast, Germany saw a pick-up in larger PE deals, with a number in the EUR1bn to EUR2bn range.

IPO activity is also picking up across the region, with Poundland and the AA – both exits by PE funds – among big listings in H1. Euronext and NN Group, the former insurance arm of ING, also launched successfully in the Netherlands, the latter agreeing to a pre-listing agreement with three Asian investors to buy EUR1.27bn of IPO shares.

## CEE and CIS



Ukraine has undoubtedly been the dominant theme in Russia and it is clear that a number of inbound investors have put transactions on hold while they wait to see how the crisis will be resolved.

The attractions of investing in Russia remain significant, especially for European investors, and some of the fundamentals have improved since the height of the crisis – the stock market and the rouble have both begun to recover, for instance.

Given that background, it is not surprising that domestic deals dominate what activity we have seen and, once again, the oil and gas sector is centre stage. Deals completed include Rosneft's acquisition of 100% of Orenburg Drilling Company from VTB-Leasing and the acquisition by a consortium made up of the Russian Direct Investment Fund, Gazprombank and Macquarie of an LPG terminal at Ust-Luga port from SIBUR. Rosneft also created a joint venture to distribute wholesale petroleum products in Armenia.

It remains unclear when and if Russia will launch its promised privatisation programme and if the current quiet state of the market will hurry that process along. But there is a growing awareness that the economy is too energy-dependent and needs rebalancing. The need to woo back inbound investors is strong.

The Polish M&A market has been relatively lively in H1 2014 as compared to previous years. Although there have not been many megadeals we have seen a reasonable number of mid-size transactions, including the sale by Orkla Foods of one of its Polish subsidiaries, Delecta, to funds managed by Innova, as well as the sale by Advent of ULTIMO – a leading debt collection company. H2, and in particular Q4, should bring some of the long-awaited large deals, with the market expecting Montagu and Ares Life Sciences to launch the sale of Euromedic, and Advent to start the sale process of American Heart of Poland. The sectors attracting most investors' attention are healthcare, retail and TMT.

Across the CEE and CIS region, the increased activity seen in Q1 has continued at more or less the same pace, if not at a slightly higher rate. Buyers are still fairly timid, though, and processes are still taking a little time to warm up as a result.

We are seeing a sharp uptick in bank activity on the acquisition of non-performing loans, as a fresh round of bank stress-testing kicks off in the Eurozone. While there are still some banks for sale (and being sold) across the CEE and CIS region, and while, for example, Sberbank has publicly announced that it is acquisitive in the region, many players are opting to look at portfolio sales as another option instead of acquiring banks as a whole.

TMT continues to be a lively sector, as ever, with Deutsche Telekom closing its acquisition of GTS in June and with a number of processes mentioned in the press in the Czech Republic, Romania, Hungary and Slovakia in particular, in a variety of sub-sectors including infrastructure/network and cable. The privatisation process for Telekom Slovenije was making progress, though elections loom, and recently the Slovenian government has instituted a privatisation freeze until a new government is formed. The government of Serbia is expected to launch a tender to hire an adviser for the sale of Telekom Srbija within several weeks, though realistically, concrete steps are not expected to be taken this year. Despite all the attention on these key megadeals, the real activity is being seen, in fact, in the much more vibrant and fast-moving mid-market.

In a deal that has been signed but not closed, Italy's Eni is selling its stake in the Czech Republic's oil refinery Česká rafinářská to Hungary's MOL. The deal includes over 200 Agip-branded petrol stations in the Czech Republic, Slovakia and Romania.

The retail sector saw two large deals: the sale by Austrian SPAR of its food retail operations in the Czech Republic to Dutch group Ahold, and Dixons Retail selling its Electroworld shops in the Czech Republic and Slovakia to Slovak company NAY. Commercial real estate is starting to pick up in several key CEE markets, with some large disposals anticipated. The largest transaction so far was the acquisition by PPF of City Tower, the tallest office building in Prague.

## Middle East and North Africa



The volume of deals in H1 was similar to the volume in H1 2013, but, with no megadeals gaining traction so far this year, the aggregate value of deals has fallen.

But there remain good reasons to be optimistic. Cash levels in regional businesses



are high, which is likely to drive further activity, and international investors are showing renewed interest in the region. Credit availability for M&A is good and confidence in the market is at a high, with participants convinced local economies are improving.

On the downside, political instability in the region is likely to continue to be an issue in certain markets. The situation in Iraq is worsening and Libya appears to be slowly sinking back into civil war. Elsewhere, there are more encouraging signs. While challenges remain, Tunisia seems to be heading towards stability, and it is hoped the same will be the case in Egypt following May's presidential elections. It also remains true that certain investors are undeterred by political instability, willing to make strategic investments with defined objectives even in a turbulent climate.

Notable deals in H1 include Samena Capital's acquisition of 30.58% of RAK Ceramics (one of the world's largest manufacturers of ceramics) from the ruler of the Emirate of Ras Al Khaimah. The acquisition was

one of only a few large public M&A deals in the UAE and the wider region.

The disposal by dnata, part of the Emirates Group, of a majority stake in its mercator business to Warburg Pincus represented the first investment by Warburg Pincus in the Middle East and is evidence of the increasing interest of U.S. and European PE sponsors in investing in the region, a trend which is expected to continue. In Qatar, Ezdan Holding Group acquired a 20% stake in cement manufacturer Qatari Investors Group, in a deal worth USD446m.

Equity capital markets activity also appears to be on the rise. Emaar, controlled by the Dubai government, plans to raise as much as USD2.4bn from the IPO of 25% of its Emaar Malls Group on the Dubai Financial Market shortly. The recent upgrade of the UAE and Qatar to the Emerging Market status by global markets index provider MSCI is expected to increase capital flows into the region.

## Sub-Saharan Africa



Transaction volumes and values are up on Q1 as the pipeline of deals begins to bear fruit, with the telecoms and oil and gas sectors leading the way. There are also signs that international PE funds are again looking to invest in Africa and get involved in regional transactions.

Social and political unrest remains a key challenge in some markets, but there is optimism here, too. External forces from the U.S. and other countries are providing counterterrorism training in Nigeria, while international pressure seems to be forcing the government to take more action itself.

Institutions are getting stronger, as we have seen with the creation of the 19-nation COMESA organisation in East Africa, which has its own cross-border competition regime. Investors in



the region tend to take a long and robust view of political and economic risk.

A dynamic shift in economic power occurred overnight, with South Africa, which teeters on the brink of recession, being replaced by Nigeria as Africa's largest economy, after the Nigerian GDP figures were rebased to include a different variety of industries.

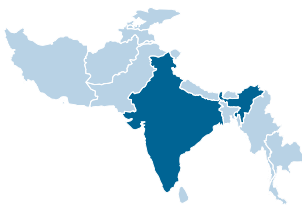
One of the largest transactions in Q2 was the announcement by VimpelCom and Global Telecom Holding of an agreement with Fonds National d'Investissement to sell its 51% stake in Orascom Telecom Algérie – a privately owned telecoms company for USD2.6bn.

We expect to see continued investment across the region in this sector, with a few deals already in the pipeline. Other hot sectors include consumer goods and natural resources. Financial services is also attracting renewed interest – from, among others, specialist funds set up to build a presence in the region, as we saw with the acquisition of a 77% government holding in the Development Bank of Rwanda by Atlas Mara, a fund whose co-founders include ex-Barclays CEO Bob Diamond and the tycoon Ashish J. Thakkar.

Another notable deal was the sale by Actis, the pan-African PE house, of a 39% stake in Uganda-based, dual-listed energy distributor Umeme. It was heavily oversubscribed by institutional investors – evidence that demand for investment in infrastructure in stable African economies remains strong.

Equity capital markets activity is also on the rise. The Nairobi Securities Exchange is pushing ahead with an IPO floating 38% of its business, and Nigeria's oil and gas group SEPLAT successfully pulled off a dual listing, in Lagos and London, valuing the group at USD1.9bn.

## India



The wait is over; most people expected that Narendra Modi would win India's drawn-out national elections, but few guessed that the victory would be quite so emphatic for a controversial political leader who is widely seen as being pro-business and pro-development, but culturally divisive.

India woke up on 16 May to find it had a majority government after many years of complicated coalition politics which many felt had left key areas of policymaking, not least economic reform, increasingly paralysed.

It is still too early to tell the direction that Modi's BJP government will go in, though speculation and rumour is rife. There is talk, for instance, that foreign investment limits will be lifted to 49% across all sectors. More specifically, there has been talk of further liberalisation in key sectors, notably telecoms, defence and insurance.

Modi has also made some surprising foreign policy initiatives, not least inviting Pakistan's prime minister, Nawaz Sharif, and seven other leaders of the South Asian Association for Regional Cooperation (SAARC) countries to his inauguration, sending a strong signal that he is serious about regional engagement.

The big question is: can Modi recreate the success of economic policies he pursued as chief minister of Gujarat State at a national level? We will get some idea of the scope of his ambition on 10 July, when he unveils his first budget, but it is safe to say that economic liberalism will be high on the agenda. That is certainly the expectation of investors, who are very supportive of the



new administration and expect it to act as a spur to renewed growth after recent economic difficulties.

Unsurprisingly, transaction levels have been pretty muted in India in recent quarters, although there was an uplift in deal values in Q2. That is mainly down to a few big transactions, including Diageo's offer to more than double its stake in United Spirits and Vodafone's move to take full control of its Indian subsidiary by buying an 11% stake from Piramal Enterprises.

But the biggest deal of the quarter was the USD4bn all share acquisition of Ranbaxy from Daiichi Sankyo of Japan by Sun Pharma (Sun) – a deal that creates India's biggest pharma company, the world's fifth-largest generics drug maker and leaves Daiichi Sankyo holding a minority stake in Sun.

## Asia Pacific



Although H1 deal volumes in the Asia Pacific region outside China fell slightly compared to the same time last year, values did lift by around USD22bn to USD132.1bn, showing that transactions are getting bigger, if not more numerous. The pick-up in activity is being fuelled by a healthy spike in public deals.

We are also continuing to see high levels of cross-border deals within the region, with Japanese and South Korean investors leading the charge and with South East Asian businesses, particularly in financial services, looking to establish a foothold in North Asia. That was certainly the motivation behind the USD4.95bn public acquisition of Wing Hang Bank by Singapore's OCBC.

But there remains a dearth of investment coming from both Europe and the U.S., with investors in both regions content to

focus on their own recovering economies. Some may still have cold feet about emerging markets after recent turbulent times. We expect the current level of activity to continue building but a change of gear is unlikely before these investors return. We believe that is only a matter of time.

For the time being, a number of sectors are attracting keen interest, including consumer goods, real estate and financial services. We are also seeing a disproportionate number of TMT deals in the pipeline, many of them focused on South East Asia. A lot of the telecoms deals are likely to be between operators seeking to share the cost of developing expensive networks across the region.

Australia is showing some real signs of life, with public companies once more contemplating deals, big companies looking to offload non-core assets to trade buyers and cash rich-funds, and with the Federal Government and various State Governments planning to manage national debt and tackle an infrastructure gap by launching a very wide-ranging privatisation programme. Ports, motorways, power stations, transmission networks, water assets and services companies (eg health insurance) are likely to be sold.

Recent unrest has dampened activity in Thailand, although June did see China Mobile, the world's largest mobile operator, agree to buy an 18% stake in True, the Thai fixed-line phone and mobile phone business, for USD880m. Interest in neighbouring Myanmar continues to grow at a steady pace, with consumer goods an increasing focus for some investors. Indonesia, while still in the grips of a drawn-out presidential election process, also continues to attract interest from inbound investors.

Transactions in Greater China continue to show solid year-on-year growth – the values nearly doubled in the period and volumes were up 50% – and we believe a healthy pipeline of significant deals, domestic, outbound and inbound, is now in place and will carry the market forward strongly into 2015.

Government efforts to take the heat out of an overvalued property sector and to encourage long-term investment rather than speculation have had a dampening effect on pure property plays. But we are seeing a growing number of hybrid deals – infrastructure or corporate transactions that have a significant property element to them. Many of these deals, likely to come to fruition later in the year, will be of significant value and will be spread across a wide geography.

State-owned enterprises continue to dominate China's outbound investment story, although by no means exclusively, and the search for natural resources and key commodities continues to be a spur.

Baosteel's USD1.04bn bid, in conjunction with rail freighter Aurizon, for outright control of the Aquila Resources Australian iron ore project is a case in point. A Chinese consortium led by MMG has acquired the Las Bambas copper mine in Peru from Glencore for USD5.8bn, a deal forged as a condition for China clearing the Glencore/Xstrata merger.

This points to the growing international influence of China's competition authority, MOFCOM, and its relatively new antitrust regime. On the plus side, however, MOFCOM has now introduced simplified clearance procedures for non-controversial deals, which should help to unblock the antitrust logjam for inbound deals. Meanwhile, the Chinese government's continued crackdown on bribery and corruption and the long arm of U.S. and UK anti-bribery laws remain a major concern for inbound investors.

Less significantly, the new Competition Ordinance in Hong Kong has now come into operation, with enforcement powers likely to take effect in 2015.

# Sector insights

Life sciences and TMT continued to see extraordinary levels of activity in Q2, far outstripping other sectors and with an accent on big strategic transactions and an upsurge in tax-related deals. While financial services and mining remain mostly focused on restructuring, activity in other, quieter, sectors, behind the scenes, is picking up noticeably.

## Financial services



Continuing regulatory concerns put a dampener on deal activity

Continuing regulatory concerns and ongoing efforts to restructure and sell off legacy assets are continuing to put a dampener on deal activity in the financial services sector.

Transactions continue to lag behind the growth we are seeing in other key sectors – most notably in TMT and the life sciences. Volumes were down quarter to quarter in Q2 and values were relatively flat. The first half of 2014 has seen a small pick-up in volumes, but values have fallen back slightly. It is a picture we expect to remain unchanged in the months ahead.

Europe in particular remains at a low ebb. That is not surprising, as institutions are awaiting the latest AQR of Eurozone banks by the authorities and the European Banking Authority's EU-wide stress test as well as the Bank of England's own stress test exercise, both of which will take place over the summer, with results due in October.

Banks go into the review slightly nervously. The consensus is that past exercises have been relatively light in touch and that this one will be a lot more stringent. The focus, therefore, is on the likely need to raise more

fresh capital and to shrug off legacy assets. A number of banks – Barclays and Credit Suisse among them – have signalled plans to carry through 'good bank/bad bank' restructuring exercises. So the focus is unlikely to be on big acquisitions for some time.

While U.S. banks are generally thought to have emerged faster and stronger from the financial crisis than their European counterparts, they still remain under tougher regulatory scrutiny and, therefore, remain inward- rather than outward-looking. Those contemplating deals also seem more focused on the recovering domestic market, and earlier interest in emerging markets has definitely waned.

The Asia Pacific region also remains relatively quiet, although three deals perhaps point to some interesting trends. The USD4.95bn public acquisition of Wing Hang Bank by Singapore's OCBC is part of a growing trend for South East Asian institutions – having prospered at home – to tap into the markets of North Asia. They like the relative stability of Hong Kong and its proximity and exposure to China's explosive growth prospects.

One of the biggest financial services deals of the quarter saw Japan's Dai-ichi Life Insurance Company buy Protective Life Corporation of the U.S. for USD5.5bn, indicating that the outbound investment story by Japanese institutions still has a long way to run.

The company has said it is looking to do other, similar, deals.

The smaller USD416m acquisition of Turkey's Tekstilbank by the Industrial and Commercial Bank of China is part of a growing tendency for China's big banks to set up operations in key markets, as new trade routes develop and grow.

## Infrastructure and utilities



Uptick in pipeline activity behind the scenes

While the data points to a quiet period, with the number of completed deals consistent with previous years, we are seeing an uptick in pipeline activity behind the scenes and we expect the rest of the year to be much busier.

One reason for the quiet M&A market is the re-engaged debt and equity capital markets, particularly across Europe and North America, encouraging investors to realise value outside of disposals and by refinancing debt. An interesting trend has been sponsors' search for diversification from bank financing – the traditional route to the credit markets. We have seen a deepening of the bond market interest in infrastructure and, away from listed issuances, significant





growth in private placements in the U.S. and Europe and the development of interesting new greenfield project bond structures.

A pattern is also emerging from the length of time assets have been held by the first generation of infrastructure investors. Funds coming to the end of their life are looking to monetise their investments and are in sale mode. However, we expect that many of the second generation of infrastructure owners will be longer-term holders, with investors such as pension plans and sovereign wealth funds with no exit mandates being the obvious candidates. We are also seeing an internationalisation of the secondary infrastructure market, with specialist investors drawn from a global pool increasingly buying assets in new markets. One example is Australia's AUD5bn privatisation of Queensland motorways, which attracted substantial interest from investors across the world, demonstrating how Australia is attracting interest from investors looking for higher yields in a stable economic and political environment.

Likely sectors in forthcoming deals include rail, airports, energy networks and telecoms. State or quasi-monopoly energy companies

across Southern Europe are looking to offload minority interests in assets to raise finance for upgrades in their core businesses.

One-off projects on the horizon include the proposed GBP4.2bn Thames Tideway Tunnel 'super sewer' project. Although structured as an M&A deal, it is a hybrid transaction, with M&A, projects and utility finance elements. Thames Water, the regulator and the government are creating a semi-regulated structure to deliver a greenfield project with predictable revenue streams from the start of construction, intended to attract long-term investors from the start. Structuring a construction phase for investors more used to investing in operating businesses presents challenges, but if it can be made to work, it potentially unlocks a number of difficult greenfield projects in the pipeline.

Australia's potentially huge privatisation programme will continue to be of wide interest to domestic and international investors. The sale by New South Wales of Port Botany, Port Kembla and the Port of Newcastle was successful, achieving high multiples. This, together with fiscal

incentives flagged by the federal government, has encouraged other states to consider the privatisation of a range of assets.

We predict a second half of the year of real M&A activity in the sector, consistent with the general optimism in the market.

### Life sciences



An astonishing quarter of 'precision M&A'

With the value of life science deals rising to USD130.9bn, Q2 was an astonishing quarter for the sector. We have not seen deals at this level since Q1 2009, and that period was an anomaly. Huge deals did help to swell the numbers, in particular Medtronic's proposed acquisition of the Irish group Covidien for USD43bn, the sector's biggest transaction this year by some way.

That deal highlights the growing trend for U.S. companies in general, and life sciences companies in particular, to acquire UK or Irish businesses to take advantage of lower

corporate tax rates and as a way of spending offshore cash piles overseas to avoid a hefty U.S. tax on repatriated profits. Tax is not the only driver in these deals, but it is a significant one, nonetheless. It was also part of the logic behind the now-withdrawn Pfizer offer for AstraZeneca, and similar moves by Actavis, Perrigo and Endo Health Solutions, who have all picked Ireland as a domicile.

Big pharma companies continue to sell off non-core businesses to bring sharper strategic focus. Novartis, for instance, sold its animal health interests to Lilly and its vaccines business to GSK, which itself sold its Ribena and Lucozade brands last year.

Often, these divestments are part of a wider reshuffling of businesses, a process which Novartis CEO Joe Jimenez calls 'precision M&A'. This describes the way companies pick and choose the markets they want to focus on and the assets most valuable to them. They then look to acquire businesses in that area, swap assets with competitors or do joint ventures.

The USD19bn asset swap deal between GSK and Novartis is a case in point, with Novartis providing GSK with a vaccine unit, while GSK passed its cancer treatment business to Novartis. The two companies are also setting up a consumer health care joint venture.

Bayer and Merck's cardiovascular collaboration is another example. It will enable joint product development, lowering the risk and costs of developing and bringing new products to market. Separately, Merck & Co. is also in the process of selling its USD14.2bn consumer healthcare unit to Bayer, in a bid to achieve economies of scale in distribution – another growing preoccupation in the sector.

This year is an important one for a wide range of drugs soon to fall over the so-called 'patent cliff' and it leaves many in a quandary about what strategy to pursue in selling previously patented drugs. Merck is said to be considering selling a big portfolio of mature drugs for an estimated USD15bn; GSK is looking to do the same, according to press reports.

Likely buyers will come from the speciality pharma sector or the generics world, but we could also see PE funds entering the fray. The problem is that these drugs tend to have more value in emerging markets because consumers favour them over other, less well known, brands. The big players are looking to expand in these markets, so selling could derail that effort. On the other hand, buyers are unlikely to want to acquire portfolios stripped of these attractive emerging market assets.

Biotech appears to be on the rise in the deal arena. In Q2, Roche bought both IQum and Genia, and Charles River announced that its biotech revenues have for the first time outstripped those from traditional pharma. It would not be surprising to see more activity here in the months ahead.

## Private equity



Exits dominating the landscape

The number and value of PE deals continues to grow – if not spectacularly, then certainly steadily. But the consistent trend between the first half of last year and H1 2014 is that exits – and particularly funds selling businesses to trade buyers – are dominating the landscape. In fact, in the U.S. and UK, trade exits have shown steady quarter-on-quarter growth since the beginning of 2013.

This trend towards realising value from existing portfolios rather than looking for pure investment opportunities is partly a reflection of a dearth of attractive targets. More importantly, it reflects a growing caution among funds over valuations and an unwillingness to compete with strategic buyers, who are now back in force in many auction processes. Funds have become much more disciplined about which assets they compete for and if a strategic buyer, often willing to pay a higher price, is present, they tend to beat a hasty retreat.

Activity varies from market to market.

The UK saw activity tail off slightly in Q2, while Germany and the Netherlands both saw a pick-up after a quiet Q1. German transactions included Clayton, Dubilier & Rice's USD1.7bn acquisition of MAUSER from Dubai International Capital and IK's sale of fire extinguisher maker Minimax to KIRKBI for EUR1.4bn. Dutch deals included CVC Capital Partners' EUR721.5m acquisition of a stake in AVAST Software, and some smaller funds were even more active. There is growing interest in Africa and parts of the Middle East. Warburg Pincus, for instance, made its first ever Middle East investment, buying the aviation software business mercator from dnata, part of the Emirates Group.

The IPO market has continued to be an attractive exit route, although some issues, notably Saga, have disappointed and the market is likely to go into a traditional summer lull in the next quarter. The AA, Saga's sister company, was one that got away, with the group being valued at just under GBP1.4bn. Private hospitals group Spire has announced its intention to float and has revealed its IPO price range at 210p to 300p per share, valuing the company at up to GBP1.12bn.

In general, deal processes are taking longer to complete. That is partly due to the fact that funds are shying away from auctions, which, driven by the investment banks, always work to a more pressing timetable. It certainly does not reflect a shortage of cash or debt to finance deals. With those previously invested in debt being repaid by IPOs and trade exits, the opposite is true and, in fact, the terms on which debt is provided have improved markedly in recent months.

Traditional sectors favoured by PE houses – those, like telecoms and healthcare, which offer solid cash flows – continue to be among the most sought after. But a dearth of deal supply means funds are increasingly looking to non-traditional sectors for potential acquisitions.



With the economic fundamentals looking better in key economies than at any time since 2007, we fully expect activity to liven up later in the year and certainly, there is quite a strong pipeline of deals building up.

## Mining



Emphasis remains on cutting costs and selling non-core assets

The mining M&A market remains relatively flat, although China seems to be on the hunt again for key raw materials and, while not at the same level we saw three or four years ago, this activity is resulting in a fairly impressive stream of transactions. Of the 15 Q2 deals in our statistics, nine involve Chinese investors.

Two deals in particular underline the fact that China's state-owned enterprises, now benefiting from a more streamlined approvals process, have been instructed to go out and secure supplies. The USD1.04bn bid for Australia's Aquila iron ore project, led by China's Baosteel, the world's second-largest steel maker, is nearing completion after the company, in an unusually aggressive stance, saw off a rival bidder with a 'take-it-or-leave-it' final offer. With rail freight partner Aurizon it is planning to spend between USD6bn and USD7bn to develop the mine and supporting infrastructure over 15 to 20 years.

Glencore's sale of the Las Bambas copper mine in Peru to a Chinese consortium was, at USD5.8bn, the biggest mining deal of Q2. It was agreed as a condition for securing clearance from the Chinese competition authorities for its Xstrata merger.

We are still seeing some auction activity – BHP Billiton has processes under way, and Anglo American is nearing the end of a strategic review, which should lead to disposals. Chinese players usually feature in these auctions. But finding buyers remains a major challenge at a time when most commodity prices – with the interesting

exception of nickel and, now perhaps, gold – remain stuck in their current range.

For the majors, the emphasis remains on cutting costs and selling non-core assets rather than doing major acquisitions. CEO confidence remains at a low ebb where M&A is concerned, and investors certainly have no appetite for transactions. From a European and North American perspective, the market remains as tricky as it has been for 20 years.

Key African markets – which Western majors are shying away from at the moment – continue to attract interest from China, with deals mostly agreed at the political level. Zimbabwe is a case in point. South Africa is an increasingly difficult market, however, thanks to continuing labour unrest, rocketing energy prices, power disruptions and overall economic weakness.

While the outlook remains challenging, we believe there is enough activity in the pipeline to encourage a slight pick-up in activity as the year progresses, buoyed by long-term Chinese investment. It will probably be slow going, however.

## Telecoms, media and technology



In-market consolidation and convergence drive activity

TMT transactions continued to power ahead in the first half of this year, with an increase of over 100% in the value of deals compared to the same period last year, with telecoms taking centre stage.

In the telecoms sector, the big deals are led by two distinct trends: in-market consolidation, particularly in Europe, and a continuing tie-up between mobile operators and pay TV companies. Indeed, there seems to be an acceptance that in-market consolidation is possible. Q2 saw the European Commission clear Hutchison

Whampoa's USD1bn bid for Telefónica's Irish mobile business. Hutchison already owns Three, Ireland's third-largest operator. And the Commission has taken a similar stance – using a 'capacity based model' to ensure enhanced competition by at least one mobile virtual network operator – on Telefónica's EUR8.6bn bid for KPN's German subsidiary, E-Plus. The acquisition would combine the third- and fourth-largest mobile network operators in Germany. It is thought this case could now act as a precedent for future assessment in larger markets.

In France, Numericable eventually triumphed in its EUR13.5bn bid for Verizon's SFR mobile business – a convergence between pay TV and mobile. It leaves rival bidder Bouygues out in the cold amid rumours, considered unlikely, that it might now become a target for its bigger rival Orange (an in-market consolidation).

The same trends are seen in the biggest deals, which have been in the U.S. AT&T's USD49bn bid for DIRECTV is a convergence of mobile (and fixed) telephony with a pay TV provider, and seen as a strategic riposte to the recent USD45bn Comcast/Time Warner Cable tie-up. And rumours continue of a possible consolidation between the number three and four wireless operators, Sprint and T-Mobile USA, in a deal which could be worth USD32bn.

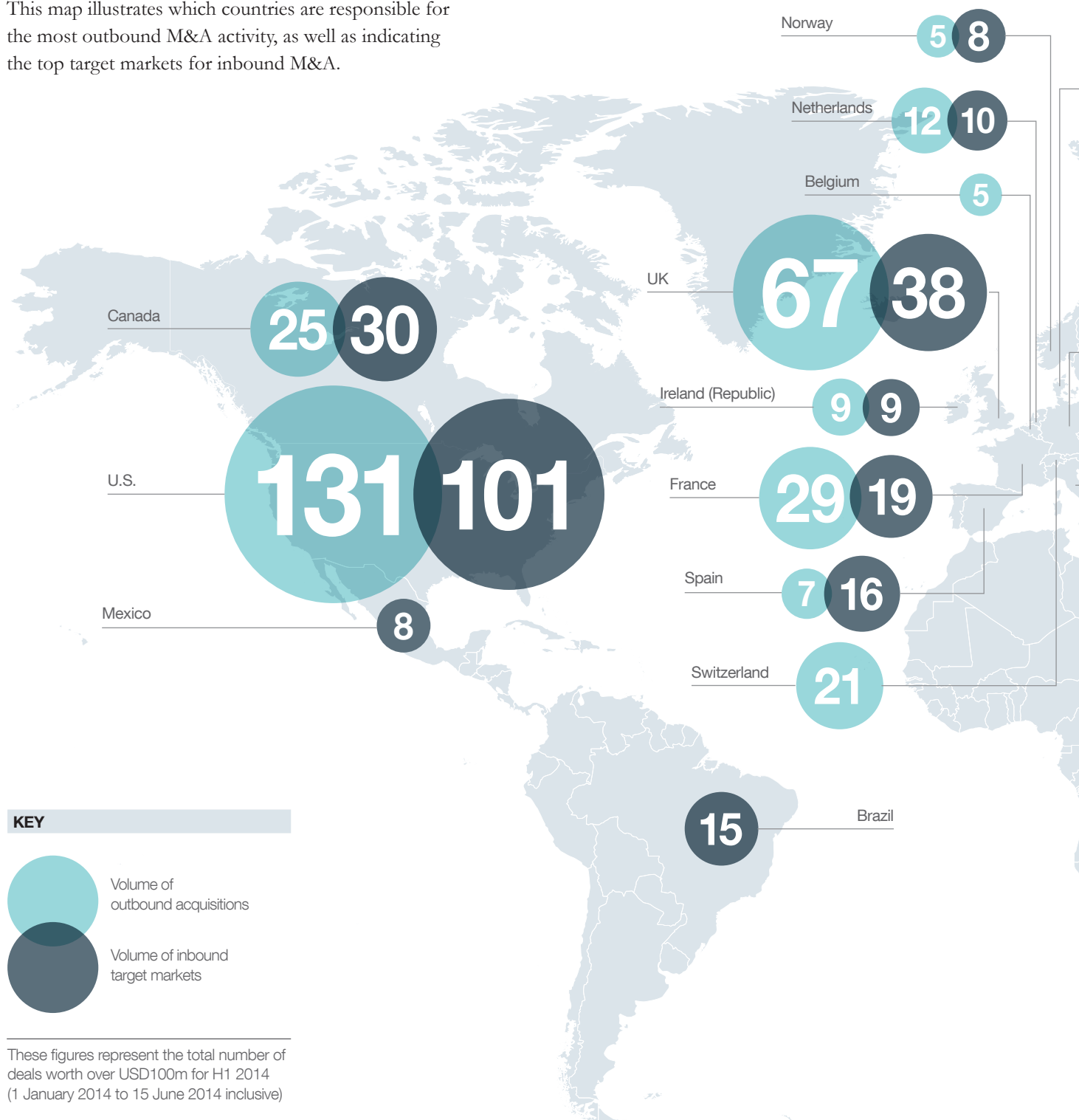
In the technology and media sectors, Apple's USD3bn acquisition of Beats Electronic, the audio equipment and music streaming business backed by rapper Dr Dre, is evidence of the continuing effort by the big tech companies to bolster their existing business and look for new avenues of growth. West Coast tech companies also continue to search for strategic acquisitions in Europe, with the UK a particular target.

But the fiercest battle for dominance is centred on China's two top internet firms, Alibaba and Tencent, who have both been splashing out in recent months, completing seven and six deals, respectively. Most forays have been domestic, but Alibaba has done two deals in the U.S. and Tencent has completed one in South Korea.

# A global snapshot

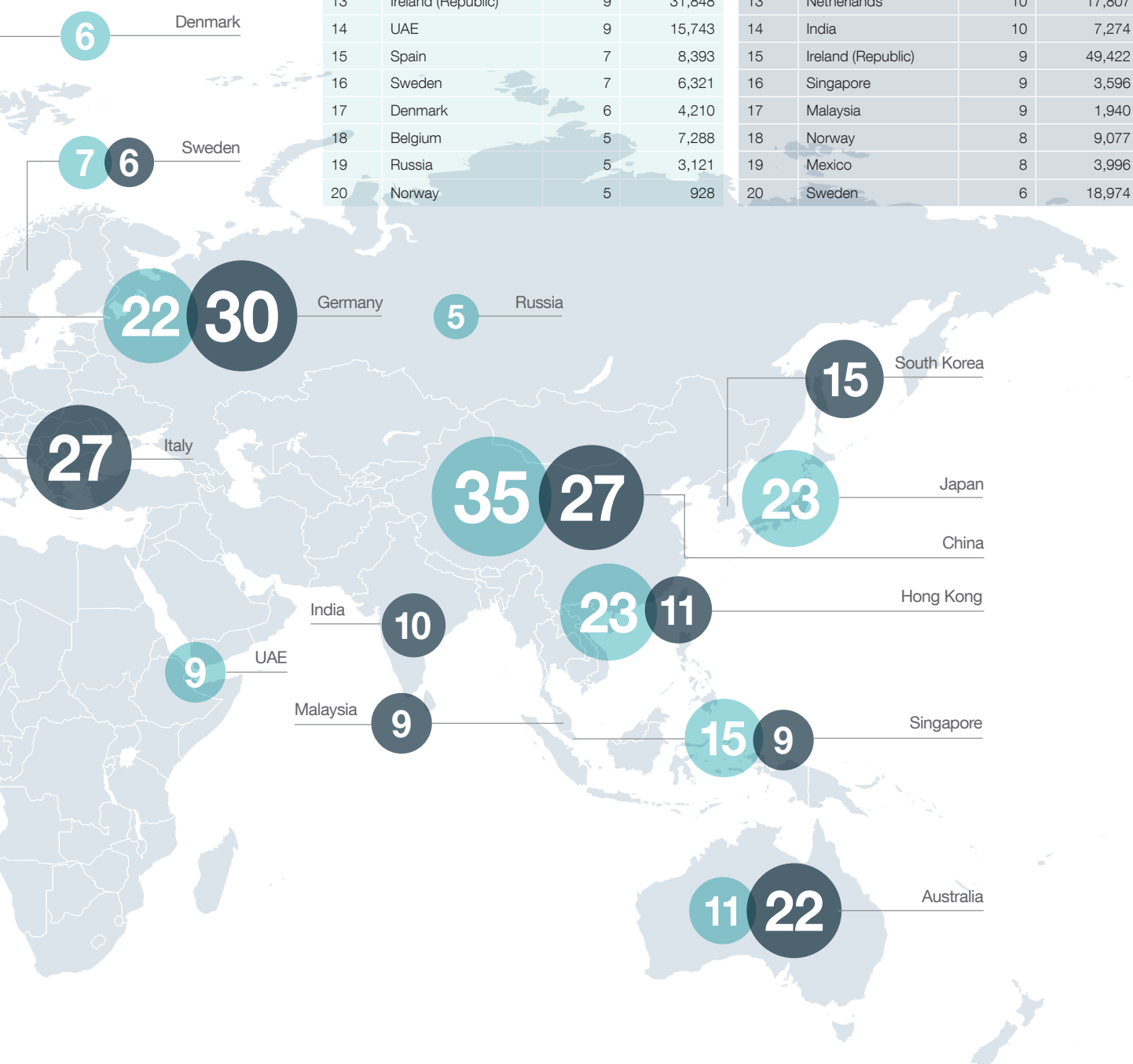
## *Top 20 global outbound acquirers and inbound target markets*

This map illustrates which countries are responsible for the most outbound M&A activity, as well as indicating the top target markets for inbound M&A.



Volume of outbound acquisitions			
Rank	Country	Volume of deals	Value of deals USDm
1	U.S.	131	137,228
2	UK	67	59,958
3	China	35	34,822
4	France	29	13,351
5	Canada	25	20,862
6	Hong Kong	23	54,886
7	Japan	23	29,984
8	Germany	22	47,203
9	Switzerland	21	68,625
10	Singapore	15	18,124
11	Netherlands	12	3,031
12	Australia	11	8,372
13	Ireland (Republic)	9	31,848
14	UAE	9	15,743
15	Spain	7	8,393
16	Sweden	7	6,321
17	Denmark	6	4,210
18	Belgium	5	7,288
19	Russia	5	3,121
20	Norway	5	928

Volume of inbound target markets			
Rank	Country	Volume of deals	Value of deals USDm
1	U.S.	101	134,086
2	UK	38	33,735
3	Germany	30	36,419
4	Canada	30	15,446
5	China	27	50,561
6	Italy	27	11,240
7	Australia	22	29,753
8	France	19	78,499
9	Spain	16	15,216
10	Brazil	15	12,628
11	South Korea	15	12,175
12	Hong Kong	11	22,087
13	Netherlands	10	17,807
14	India	10	7,274
15	Ireland (Republic)	9	49,422
16	Singapore	9	3,596
17	Malaysia	9	1,940
18	Norway	8	9,077
19	Mexico	8	3,996
20	Sweden	6	18,974

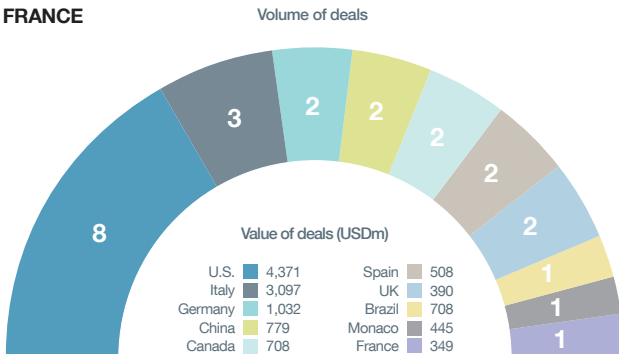
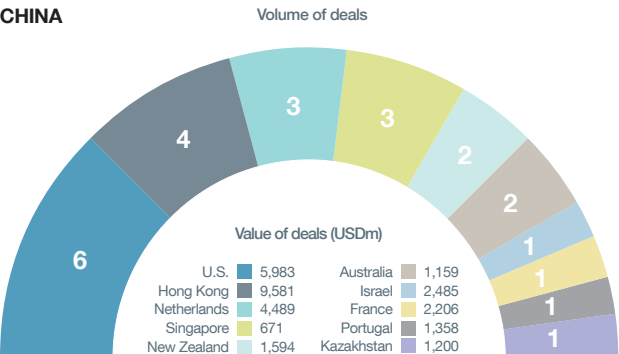
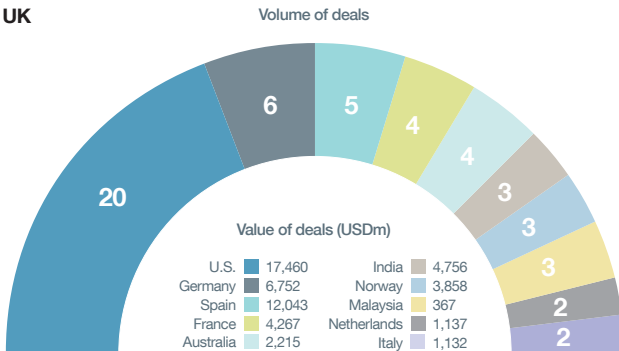
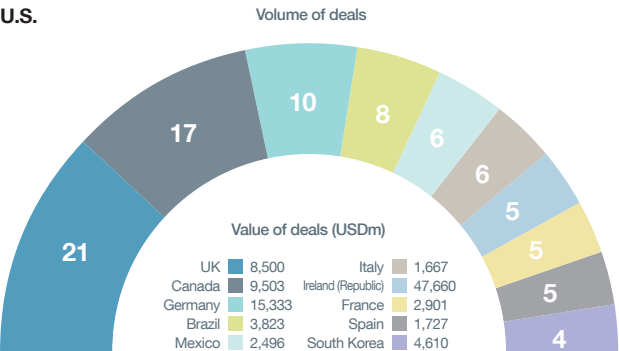


# Top target markets for the world's largest acquiring countries

The charts reveal where the world's largest acquiring countries are carrying out deals. For each of the ten countries responsible for the most outbound M&A activity, the data ranks the top ten overseas target markets for M&A, by volume of deals.

Rank	Country	Volume of deals	Value of deals USDm
1	U.S.	87	98,220
2	UK	52	53,987
3	China	24	30,726
4	France	24	12,387
5	Japan	18	29,354

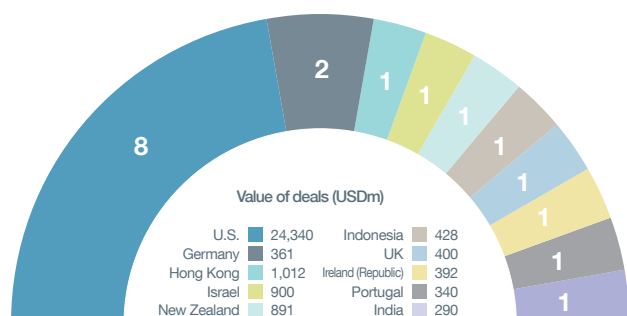
Rank	Country	Volume of deals	Value of deals USDm
6	Canada	25	20,862
7	Hong Kong	23	54,886
8	Germany	18	46,367
9	Singapore	15	18,124
10	Switzerland	19	68,347



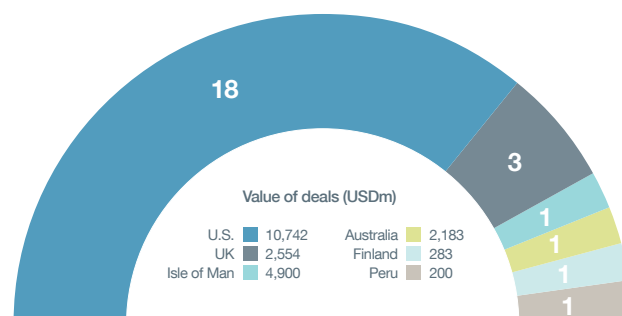
\*These numbers represent deals worth over USD100m and span 1 January 2014 to 15 June 2014 inclusive

**JAPAN**

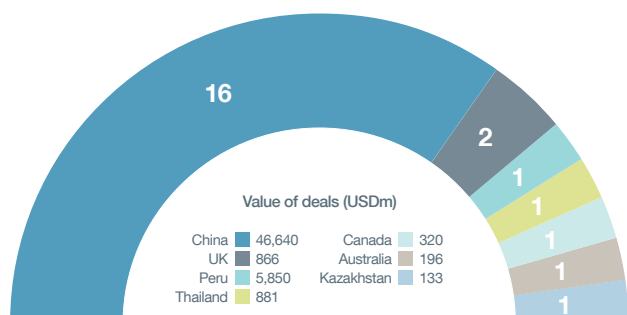
Volume of deals

**CANADA**

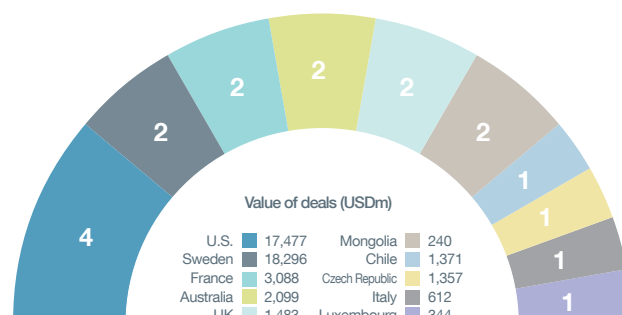
Volume of deals

**HONG KONG**

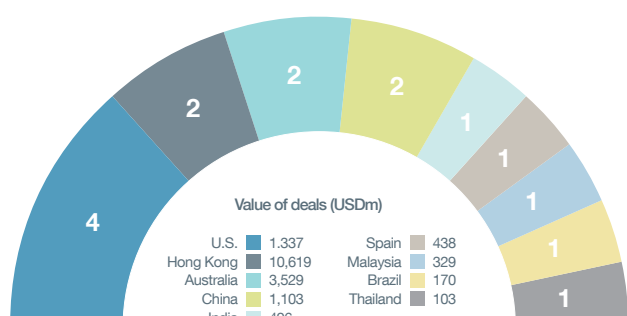
Volume of deals

**GERMANY**

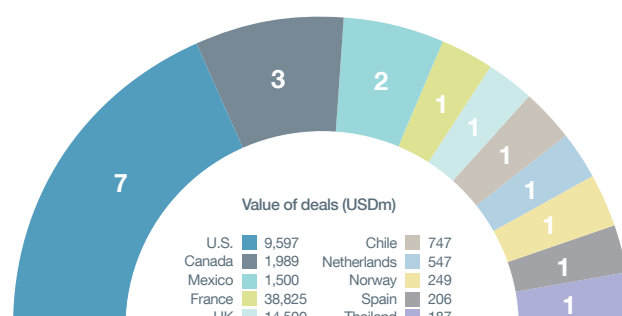
Volume of deals

**SINGAPORE**

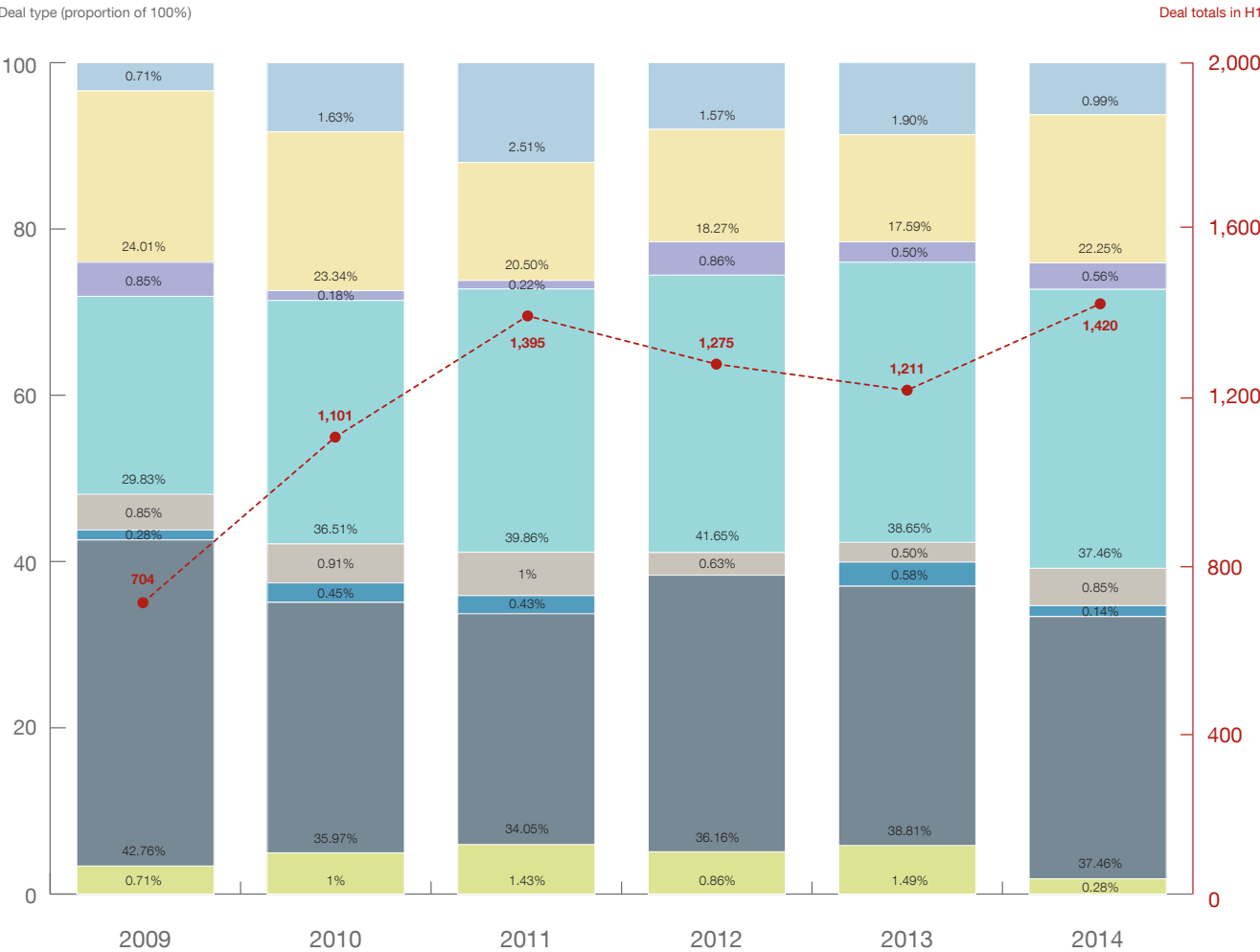
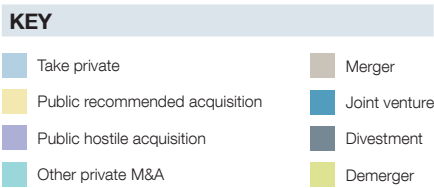
Volume of deals

**SWITZERLAND**

Volume of deals



# Global deal types: H1 2009-H1 2014



The diagram above represents the breakdown of the total number of deals in H1 from 2009 to 2014.

# Definitions

## Divestment

A disposal where the seller is a corporate selling a controlling interest (>30%) in one or more of its businesses. This excludes private equity exits and disposals made by high net worth private individuals and families. Includes government-related sales and disposals made by non-private equity financial investors, such as investment holding companies.

## Cross-border

A transaction that is conducted across national boundaries. The deal involves parties from at least two different countries.

## Demerger

A transaction where a company spins off one of its subsidiaries, resulting in the creation of a separate listed business independent from the activities or influence of the former parent. The shareholders ultimately hold shares in each company and neither the former parent company nor shareholders receive any cash as a result of the deal (as opposed to a flotation/IPO).

## Domestic

A transaction conducted within a national boundary. The deal involves parties that are incumbent nationals of that country.

## Insolvency-related

A transaction where a company has filed for bankruptcy or is subject to another insolvency process or procedure, and sells off part or all of its assets to generate the cash necessary to pay creditors.

## Joint venture

A transaction that involves the pooling of assets between different companies, whereby the ownership of the new joint venture is shared between the parent companies involved. Does not include so-called joint ventures where a company's sole contribution is cash rather than assets.

## Merger

A transaction that involves the combination of two or more separate businesses into one, with broadly equal holding and governance rights assigned to the respective shareholders of each company.

## Other private M&A

Acquisitions or disposals not covered by the other classifications. Includes PE exits and disposals made by high net worth individuals and families.

## Public recommended acquisition (excl PE-related take privates)

A friendly acquisition where the parties involved reach agreement over the terms of the deal, normally prior to the acquisition being formally announced. The transaction requires approval from either the bidder, target or vendor shareholders in a public forum.

## Public hostile acquisition (excl PE-related take privates)

An acquisition of a publicly-quoted target where the target management does not recommend the offer within two weeks.

## Take privates (hostile and recommended)

An acquisition of a publicly-quoted company by financial investors such as private equity houses or venture capital firms (as opposed to a trade buyer). The target company is subsequently delisted.



---

# About the research

The underlying data to this research comes from Remark's sister product, Mergermarket. Both products are part of the Pearson-owned Mergermarket Group.

Remark, the publishing, market research and events division of The Mergermarket Group, offers a range of services that give clients the opportunity to enhance their brand profile, and to develop new business opportunities.

Remark publishes over 50 thought leadership reports and holds over 70 events across the globe each year which enable its clients to demonstrate their expertise and underline their credentials in a given market, sector or product.

Remark is part of The Mergermarket Group, a division of the Financial Times Group.

To find out more please visit

[www.mergermarket.com/remark/](http://www.mergermarket.com/remark/) or  
[www.mergermarket.com/events/](http://www.mergermarket.com/events/)

- This report only includes deals worth USD100m and over.
- The data contained in the H1 2014 results spans 1 January 2014 to 15 June 2014 inclusive.



---

## GLOBAL PRESENCE

---

Allen & Overy is an international legal practice with approximately 5,150 people, including some 525 partners, working in 44 offices worldwide. Allen & Overy LLP or an affiliated undertaking has an office in each of:

Abu Dhabi	Budapest	Jakarta (associated office)	Prague
Amsterdam	Casablanca	London	Riyadh (associated office)
Antwerp	Doha	Luxembourg	Rome
Athens (representative office)	Dubai	Madrid	São Paulo
Bangkok	Düsseldorf	Mannheim	Shanghai
Barcelona	Frankfurt	Milan	Singapore
Beijing	Hamburg	Moscow	Sydney
Belfast	Hanoi	Munich	Tokyo
Bratislava	Ho Chi Minh City	New York	Warsaw
Brussels	Hong Kong	Paris	Washington, D.C.
Bucharest (associated office)	Istanbul	Perth	Yangon

**Allen & Overy** means Allen & Overy LLP and/or its affiliated undertakings. The term **partner** is used to refer to a member of Allen & Overy LLP or an employee or consultant with equivalent standing and qualifications or an individual with equivalent status in one of Allen & Overy LLP's affiliated undertakings.

Allen & Overy maintains a database of business contact details in order to develop and improve its services to its clients. The information is not traded with any external bodies or organisations. If any of your details are incorrect or you no longer wish to receive marketing materials from Allen & Overy, please email [corporatepublications@allenoverly.com](mailto:corporatepublications@allenoverly.com).