

TRENDS IN CROSS-BORDER M&A



“Cross-border M&A transactions invariably involve a number of uncertain variables: whether your legal proceedings are being properly handled in the host country should not be one of them.”

A variety of pivotal events and global currents—from global economic recovery to the U.S. presidential elections to Brexit—has influenced cross-border M&A trends thus far in 2016 and will continue to make an impact in the foreseeable future.

ACTIVITY IN THE FIRST HALF OF 2016

Slow growth in Q1 transitioned into a somewhat turbulent Q2. Recent market volatility followed many issues, including the tumultuous U.S. presidential campaign, consistently low oil and commodity prices, and political fallout from the Brexit vote. All of these contributed to decreased cross-border M&A activity this past quarter. Global deals have dropped 20 percent in comparison to the same period last year, but 2015 boasted [record levels of M&A volumes](#).

By volume, North America was the largest outbound cross-border market in Q2. It made [263 outbound cross-border deals](#), totaling \$38.5 billion USD. Of those, 67 percent targeted the EU. Asia Pacific came in second with a total of \$50.5 billion USD invested in 188 cross-border transactions. A majority of those also targeted the EU.

By sector, industrials placed at the top of the volume charts in Q2 with 199 cross-border transactions, followed by technology with 182 deals, business services with 172 deals, and consumer with 160 deals.

KEY FACTORS INFLUENCING Q3 ACTIVITY

Chairman Roger Altman of Evercore Partners, an independent investment banking advisory firm, stated that the requisite elements for [“buoyancy in M&A”](#) are present. These include soaring stock prices, low interest rates, and high availability of credit. He opined that scant evidence exists to show that the U.K.’s decision to exit the EU has notably hampered deal making. Overall, while certain noteworthy events possess the potential to decrease deals, especially in certain regions, M&A activity is expected to remain fairly steady throughout Q3.

Japan and China

M&A agreements [increased 67.8 percent in Japan](#) during the first half of 2016, but the majority was domestic. Only 20 of the 195 announced transactions came from foreign investors. Japanese investment in foreign markets has also eased up.

Meanwhile, China continues to increase its outbound transactions. According to a [report by Mergermarket](#), a media company that specializes in corporate financial analysis, the Chinese government handpicks which firm is permitted to bid on a non-Asian firm, but it allows multiple companies to bid if the foreign company is valued at greater than \$2 billion USD. This increased spending by Chinese firms has put greater pressure on European and American

[continued on page 2](#)

companies during the bidding process because Chinese companies are prepared to pay a premium for valuable European assets.

Brexit

The U.K.'s June 23 vote to quit the EU led a number of investment banks and international organizations to lower their expectations for growth in Britain. Inbound transactions in Q2 fell to less than 50 percent of Q1's volume. This slowdown is expected to continue. Whether the impending U.K. exit from the EU is swift and organized will have a tremendous [impact on global deal making](#). Baker & McKenzie, one of the world's largest international law firms, released its [Global Transactions Forecast](#), which predicted that a disorderly exit could cause up to a \$1.6 trillion USD loss in global M&A activity. Baker & McKenzie forecasted that a middle-of-the-road response will lead to a 33 percent drop in global M&A activity in 2017, with a recovery timeframe of two years. One particular advantage of Brexit is that a weaker pound will make U.K. valuations more appealing. Nevertheless, a clear roadmap for exiting the EU is necessary for fostering the confidence required for a successful M&A market.

The U.S. Presidential Campaign

Political upheaval leads to market uncertainty, which negatively impacts M&A volume. Global technology provider [Intralinks'](#) Global M&A Sentiment Survey—an analysis of around 1,700 global dealmakers—found that 73 percent of respondents believe Hillary Clinton will win the presidential election. Only 23 percent believe her presidency would negatively impact M&A activity, and 54 percent think it would have no impact.

On the other hand, 27 percent of global dealmakers think Donald Trump will win the popular vote, with 52 percent believing he would have a negative impact and only 24 percent thinking he would have a positive impact. For the time being, this unpredictability is likely to hinder transaction growth, although in general, this impacts the region more than the globe.

Pharma, Healthcare and Insurance Industries

Pharma activity has been going strong and is expected to continue to do so. In fact, in Q2, Germany's Boehringer Ingelheim acquired Merial, a French veterinary pharma company, for \$12.56 billion USD, making it Q2's highest-valued transaction. In the U.K., much of the deal making is happening

with [specialized companies](#) that ship products around the world. For example, Martindale Pharma—a British drug maker that produces emergency room medicines—is currently in talks with advisors about a potential sale.

Compared to last year, hospital M&A activity is experiencing an uptick of 6.1 percent. At least 52 hospital and healthcare system transactions took place in the first half of 2016. According to management consulting service Kaufman Hall, this increase is likely due to [whirlwind changes](#) taking place in the industry and the existence of a number of organizations that are ill-prepared to independently provide value-based care.



“Even requirements and activities considered second nature to a company become complex in a foreign jurisdiction.”

In the nonprofit healthcare and hospital sector, [increasing patient volumes and low uninsured rates](#)—primarily as a result of Medicaid expansion—has led rating agency Moody's Investors Service to confirm a stable outlook for Q3. Moody's predicted the sector's growth over the upcoming quarters to moderate while remaining positive.

The insurance industry experienced a banner year in 2015, with U.S.-targeted mega deals and a large volume of activity in Asia Pacific. Baker & McKenzie maintained that insurers are more concerned with [long-term considerations](#), meaning short- to mid-term instability in the market—whether caused by Brexit, presidential elections or otherwise—is not likely to have a major impact.

NECESSITY OF A PROCESS AGENT IN CROSS-BORDER TRANSACTIONS

Cross-border M&A transactions invariably involve a number of uncertain variables: whether your legal proceedings are being properly handled in the host country should not be one of them.

With so much at stake, companies that are pursuing cross-border transactions need a dependable process agent to help them remain compliant in unknown territories and gather financing. Maintaining compliance in new and difficult countries can be burdensome. Additionally, legal agreements in international jurisdictions often require a local agent to

[continued on page 3](#)

accept service of process and miscellaneous legal documents. Even requirements and activities considered second nature to a company become complex in a foreign jurisdiction. Missing important deadlines or payments in the host country could lead to costly penalties and lost time.

Before appointing a process agent, all relevant parties should agree upon the terms of the transaction. Immediately after the terms have been defined, the parties must engage the process agent. Given the nature of M&A deals, swiftness is essential.

[When seeking to engage a process agent](#), choose someone who is flexible and well versed in the foreign jurisdiction's legal proceedings. Appointing a professional process agent will lend greater confidence to parties of cross-border M&A

deals that there will not be any missed or mishandled legal proceedings, which often lead to expensive default judgments, government penalties and bad public relations. By engaging a trusted point of contact in the foreign jurisdiction, you can relax knowing that someone is handling your compliance needs.

LEARN MORE

To learn more about how CT can help you better manage your [global transactional needs](#), contact your CT representative or call 844-701-2064 (toll-free U.S.).

Join the conversation. Follow us on [Twitter](#), [LinkedIn](#), [Google+](#) and [Facebook](#).