GLOBAL M&A BUSINESS: GREEN SHOOTS OF SPRING?

By Steven Lipin, Brunswick, New York and David Ashton, Brunswick, Hong Kong

Some positive indicators on the global economic front have led to optimism among dealmakers that there will be a revival in the mergers and acquisitions marketplace, in particular for cross-border deals involving some of the faster growing countries, such as India, China and Brazil.

According to the **5th Annual Brunswick Group M&A Survey**, leading advisers are generally optimistic about the level of deal activity in 2012, encouraged by improving economic conditions and greater cheer among corporate chieftains. Nearly half of the US advisers polled predict an increase in deal flow over last year's volume, while 28 per cent expect it to be about the same.

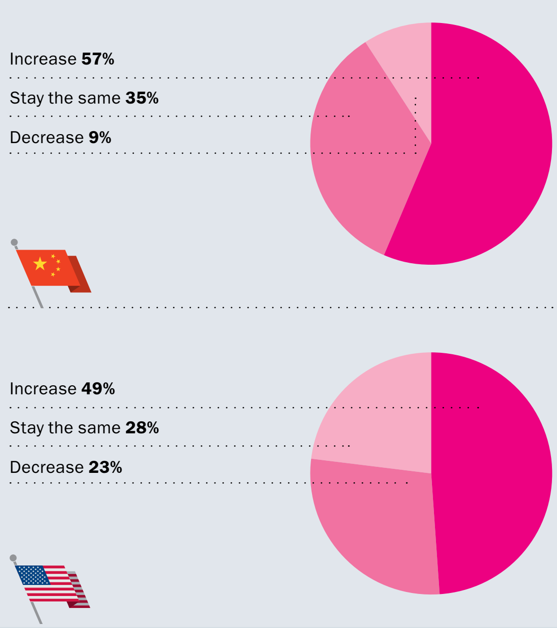
That relative optimism comes despite several quarters of stunted activity – worldwide M&A grew by 7 per cent last year, to $2.6 trillion, according to data from Thomson Reuters. However, deal value in the first quarter of 2012, at $419bn, was down 31 per cent on the previous year's Q1, marking the fifth consecutive quarterly decline, according to Mergermarket, a company that tracks M&A deals.

More than 100 top M&A bankers and lawyers responded to the 2012 poll about their views on the current deal landscape and trends. For the first time, the annual survey also asked top China-based M&A advisers for their views on deal dynamics in Asia and globally. Of the China experts polled, 57 per cent expect more global M&A activity this year. Even more – 74 per cent – are bullish on the expected level of domestic transactions in Greater China.

Among other trends that the Brunswick survey predicts: more cross-border activity; the continuation of mostly cash deals; and more activity in faster growing large countries, such as Brazil, China, Canada and Australia. The energy, natural resources and healthcare sectors are expected to be busiest in terms of M&A activity.

The biggest deals in Q1 2012 underlined the international nature of M&A, with the Top 10 including deals from India (Sesa Goa taking a stake in Sterlite); Brazil (Itaú Unibanco's stake in Redecard); as well as Switzerland, the UK, the US and Netherlands.

Compared to 2011, do you expect that the level of global M&A will increase, decrease or stay the same in 2012?



The Brunswick poll was released ahead of the 24th Annual Tulane University Law School Corporate Law Institute conference, an annual gathering of the deal community – including bankers, lawyers, and judges – in New Orleans in March.

Counting himself among the optimists was Peter Weinberg, founding partner at Perella Weinberg Partners, who made a case for an M&A boom over the next year or two. He argued that US companies are eager for growth, have plump cash balances, are being pressured by shareholders to get aggressive, and have relatively few options at home. Therefore, they may seek to buy cheaply in Europe or participate in fast-growing "BRIC" countries by acquiring leading companies and their growth rates.

SELECTED HIGHLIGHTS FROM THE SURVEY

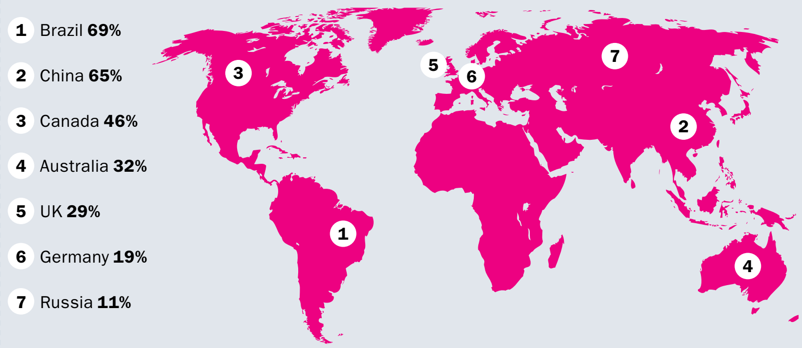
In some charts, percentages do not total 100% due to multiple response options; respondents were asked to select three

Other than the US, what countries will be the busiest this year for M&A?

For inbound transactions, 78 per cent of US advisers polled expect foreign acquirers to come from Asia, an increase from 56 per cent last year.

Brazil, China and Canada ranked highest as the countries that survey respondents expect to be the most active M&A markets outside the US.

Given the uncertainty over Europe's sovereign debt crisis, 51 per cent of US advisers believe that buyers will be wary of pursuing transactions in Europe. However, Europe was the most popular destination for buyers in the first quarter of 2012, accounting for nearly 40 per cent of the total, or $166bn. By contrast, US deal value was down 54 per cent on the previous year's Q1.

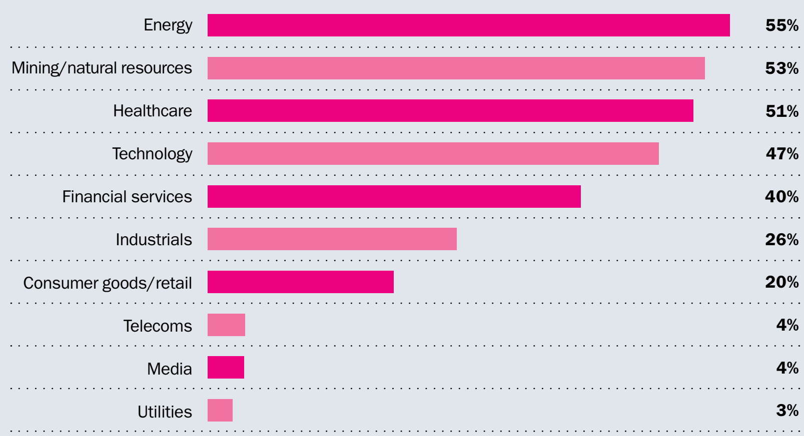


In what sectors do you expect to see the greatest amount of consolidation in 2012?

Among the top-rated sectors, mining and natural resources are seen as ripe for consolidation compared with past years, while the energy, healthcare and technology sectors will continue to be among the most active.

The biggest deal by far in Q1 was in the mining sector: Glencore, the Switzerland-based commodity giant, bidding $53bn for Anglo-Swiss miner Xstrata.

The energy sector in the US continues to be a focus of dealmaking interest: also on the Top 10 deal list for Q1, was a $7.2bn bid by a private equity consortium led by Apollo Global for El Paso (EP) Energy, a Houston-based natural gas infrastructure company.

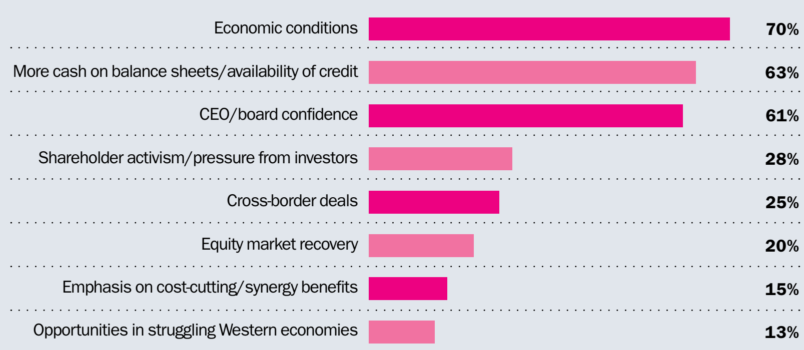


What are the key factors that will drive M&A in 2012?

US advisers see economic improvement, more cash on balance sheets, and CEO/board confidence as the top factors to spur 2012 deal activity, which is expected to come mostly from strategic buyers (41 per cent).

Continuing a three-year upward trend, 63 per cent of US advisers expect to see deals being done with cash rather than stock or a mix of the two. Half also believe there will be an increase in hostile activity in 2012.

Slightly fewer domestic private equity deals are expected this year – expensive US shares being the main reason. Additional scrutiny of the private equity industry is not seen as a dampener, though 75 per cent see it resulting in higher tax rates on carried interest.

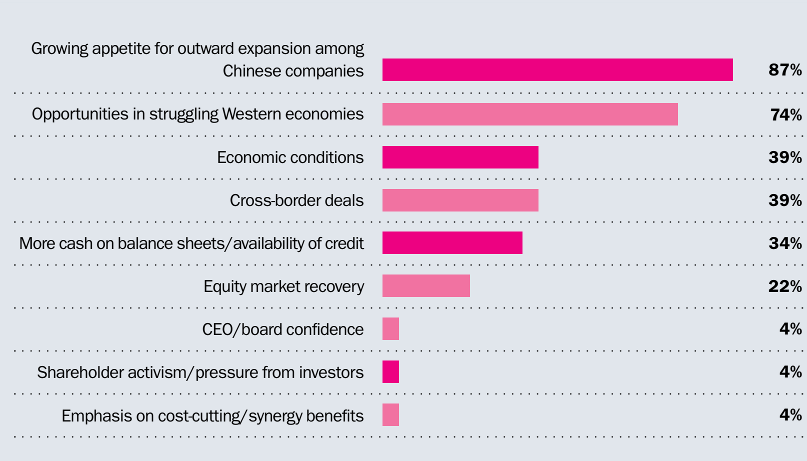


What are the key factors that will drive M&A activity in 2012?

The China advisers were less pessimistic than their US counterparts about prospects for the global economy: fewer than half as many China advisers expect the global M&A market to slow down (9 per cent versus 23 per cent among US advisers).

China advisers expect more domestic deals – 74 per cent of advisers surveyed expect domestic M&A to increase in 2012, compared with 48 per cent of advisers in the US.

In contrast to their US counterparts, Chinese M&A advisers expect Asian companies to see European turmoil as an opportunity – 61 per cent expect significant activity by Chinese companies in Europe in 2012. An appetite for outward expansion, opportunities among struggling European companies, and ample cash are behind it.

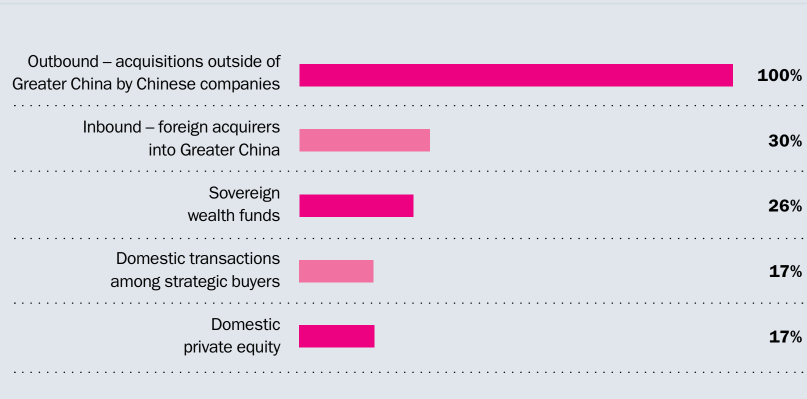


What type of deals do you expect to drive the Greater China M&A market in 2012?

Advisers are expecting to see more spin-offs and privatizations in Greater China in 2012, but they are split when it comes to the prospects for the initial public offering (IPO) market – roughly as many think there will be a decline as see it rising.

Asked about US-China transactions, China advisers noted that completing these transactions means successfully navigating regulatory, political and cross-cultural challenges (see next page).

In the open-ended response section, one survey participant wrote that he expected, “Few large transactions into China given the current ‘closed’ environment.”

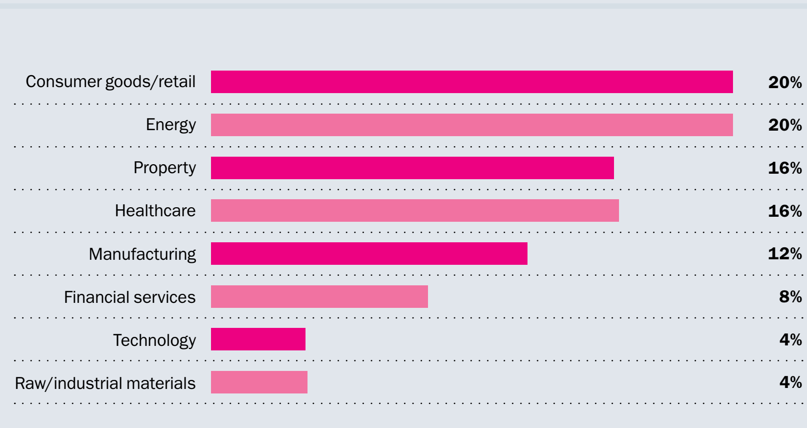


In what sector in Greater China do you expect to see the greatest amount of consolidation in 2012?

M&A advisers in China predict the energy and consumer goods/retail sectors will be most active in 2012.

In 2011, China cross-border M&A was up 5.7 per cent to $85bn, the highest level since the record $97bn in 2008. Outbound volume was $49bn, with almost half in the energy sector, according to Thomson Reuters. The biggest of those: Sinopec’s 30 per cent stake in Petrogal Brasil.

In Q1 2012, two of the biggest acquisitions were both by Shanghai Baosteel, buying other Chinese steel assets for a total of nearly $6.7bn. According to Mergermarket, Industrials & Chemicals shot to the top of its “Heat Index,” which tracks the number of companies for sale.



BRUNSWICK RESEARCH

The 5th Annual Brunswick Group M&A Survey polled more than 100 top bankers and lawyers in the US and China about their views of the current deal landscape, trends, opportunities, and expected challenges in 2012. Results for the cross-border survey were released on the eve of the 24th Tulane University Law School Corporate Law Institute, the leading M&A conference in the US.

PROSPECTS IN CHINA: A LONG LEARNING CURVE

This year, for the first time, the Brunswick survey polled non-US M&A advisers, extending it to include 25 senior advisers in Greater China.

China advisers were even more upbeat than their US counterparts about the prospects for dealmaking in general, and particularly for domestic M&A in Greater China. However, in terms of cross-border deals, there was a stark contrast between US and Asian M&A advisers' opinions about the challenges that impede transactions on each other's turf (see chart).

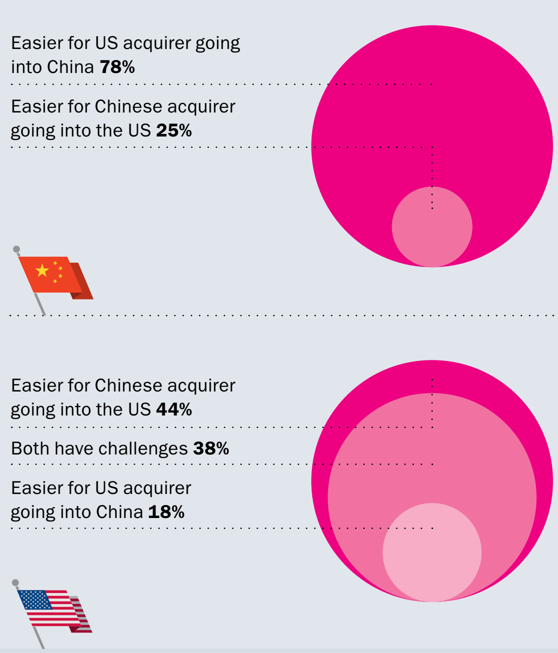
The biggest challenge for overseas buyers acquiring Chinese companies is getting regulatory approval from the Chinese government, according to 72 per cent of China advisers. Some 78 per cent also believe that it is easier for US companies to do deals in China than for Chinese companies to do deals in the US. In contrast, only 18 per cent of US advisers share this view. More US advisers say that both systems have challenges, citing protectionist tendencies, the US political environment, and the Chinese regulatory regime as obstacles to completing transactions.

In the survey, both US and China advisers observed that neither side knows each other's systems well enough. For example: "US acquirers have little understanding of how to get Chinese government support for a deal ... the Chinese don't know US companies well and do not know how to navigate the US regulatory system, nor do they know how to conduct the right level and type of PR to be anything more than a passive investor."

While deals have been blocked in the past, there is recent cause for optimism. Take Sinopec, the Chinese state-owned energy company. In his former role as Chairman of CNOOC, Sinopec's Chairman, Fu Chengyu, is best remembered for the unsuccessful attempt to buy Unocal in 2005. Earlier this year, under Fu's leadership, Sinopec agreed a $2.5bn deal with Devon Energy in the US, giving it a one-third stake in about 1.3m acres of US drilling property.

The deal barely created a ripple; a far cry from when Fu withdrew from the Unocal bid in the face of, as he put it at the time, "unprecedented political opposition."

Looking at the regulatory and political environments of the US and China, is it easier to do a deal in which a US acquirer is coming into China – or a Chinese acquirer is going into the US?



Sinopec and its Chinese peers have entered into numerous partnership agreements with energy companies in the US and Canada in recent years, and the Devon deal, with its less contentious and carefully negotiated minority position, reflects how far Chinese companies have come.

According to Dealogic data, Asia-Pacific inbound M&A in the US was at a record high last year. Whether levels this year can beat those dizzying heights – especially in a US presidential election year when rhetoric towards China is growing hostile – is questionable.

Brunswick was ranked #1 M&A Communications Advisers for 2011 by deal value, according to the Mergermarket Global League Table. Go to *www.brunswickgroup.com* for the full survey.

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