CLIFFORD
CHANCE

The Clifford Chance/FinanceAsia M&A Survey 2010

FinanceAsia

Reprinted from FinanceAsia October 2010

And the sur

M&A deals will continue to proliferate but Asian buyers will be demanding

by Sameera Anand

It's been a bumper year for M&A — and that's only with three quarters of the calendar year behind us. China's state-owned enterprises continued their quests to globalise, striking mega deals, mostly in natural resources but in other select industries as well. Indian companies were back on the acquisition trail, after taking a hiatus last year when financing markets tightened and some sounded a death knell for India outbound M&A. But it's not only the world's two most populous countries that have been active — across Asia, M&A deals have been keeping advisers busy.

And if the 250 respondents to our fourth annual M&A survey are in the know (and we think they are), 2011 will bring more of the same.

"On the assumption that the global economy continues to rebound from the crisis I would expect the M&A market [in 2011] to be more active than 2010," agreed Mark Florance, head of investment banking for Southeast Asia at Rothschild. Some of the factors Florance cites are: stagnant growth in the US and Europe resulting in greater Western interest in positioning their businesses in the region; well-capitalised private equity buyers seeking investments; Asian corporates realising they need to grow beyond their borders; and cheap money.

Nearly half of those who completed our survey are employed directly in the financial services industry. The majority of our respondents are in decision-making roles in their organisations thus can reasonably be expected to have the inside track. And as in previous years, Asia's financial centres, Hong Kong and Singapore, are home to the largest number of our respondents.

"Outbound [M&A] activity has been very active during the past few months with Asian corporates trying to take advantage of relatively depressed market conditions and valuations in the Western economies whilst supported by strong and favourable exchange rates," said Colin Banfield, head of M&A for Asia-Pacific at Citi.

And our respondents believe this trend will continue. More than 70% expect cross-border outbound M&A from strategic acquirers based in the Asia-Pacific region as well as intra-regional M&A within the Asia-Pacific region to show an increase on last year. Even those who are not as bullish expect that it will stay at the same level with only 2% predicting cross-border outbound M&A will decrease year-on-year and only 1% predicting intra-Asia-Pacific M&A will drop compared with last year.

Respondents are not as unanimous that cross-border inbound M&A from non-Asian strategic acquirers will increase with only 50% suggesting it will rise and 16% expecting it to decrease.

"There is uncertainty in the global economy — this is no doubt holding back Western investors," said Florance. "In addition the focus on Asia as the growth engine of the world has meant some attractive Asian businesses have unrealistic valuation expectations."

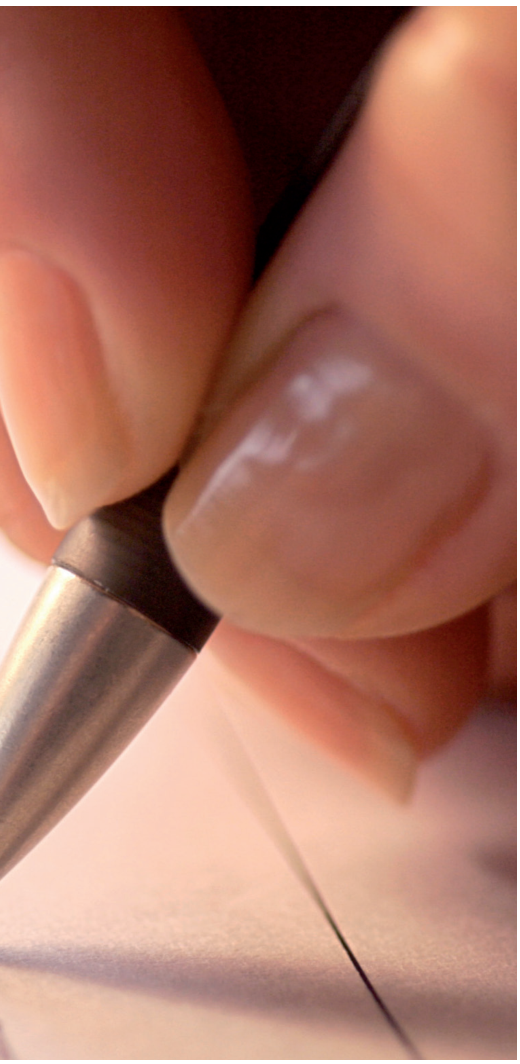
Deals will continue to be mostly in the $100 million to $1 billion range, said 63% of our respondents.

"Deal sizes have doubled over the last decade and we expect to see some activity in the larger deal space. In general it is the less than $2 billion to $3 billion space which has been active, not only in Asia but across the rest of the world as well," said Jason Rynbeck, vice

chairman of M&A for Asia Pacific at Barclays Capital. "But we do expect a few jumbo deals greater than $5 billion such as Bharti's $10.7 billion takeover of Zain Telecom's African assets earlier this year."

Mirroring the activity to date most of our respondents expect China to be home to the most buy-side activity: 62% of our respondents named China as the country that will produce the maximum number of investors and acquirers

vey says...



during the next 12 to 18 month period and a whopping 85% named China in their top three.

"We've seen strong levels of outbound M&A activity from China and I would expect that to continue," said Banfield.

Other countries expected to be home to companies on the prowl for acquisitions are the US, India, Europe and Japan.

In terms of inbound M&A activity China, followed by India, topped the list with Indonesia, Australia and New Zealand, and Vietnam rounding out the top five.

"Indonesia is very high on the radar screen for our clients in the natural resources, financial services and consumer industries," said Roger Denny, head of M&A for Asia at Clifford Chance, commenting on the specific countries cited. "As for Vietnam, the situation has changed dramatically from a few years ago when it was perceived to be a challenging place to do deals to now when there is a sense that the opportunities outweigh the efforts, certainly in industries like financial services and for some manufacturers." But Denny is candid that despite the environments in these countries being more conducive to M&A, emerging markets risks still remain and need to be addressed by those seeking to strike acquisitions.

Deals in the natural resources sector are expected to continue to grab the headlines and consequently top our charts too for the second year running. Two-thirds of our respondents named the industry as either their first, second or third pick for the priority sector for M&A investment in the next year to year and a half.

Following natural resources was financial services with 44% of our respondents saying it was one of their three picks for a sector that will witness activity in the next year.

"We expect there will be a decent level of activity in the financial services sector as most players re-assess their strategy," said Denny. "Forced sales are probably behind us but there will still be strategy-driven sales and exits," he added, citing the sale of ING's private banking business to Singapore-based Oversea-Chinese Banking Corporation (OCBC) for $1.46 billion, which was concluded earlier this year.

Deals such as the takeover of Shenzhen Development Bank by China's second-largest insurance company, Ping An, and HSBC's attempt to gain control of South Africa's Nedbank suggest the sector still remains one where the strategic rationale underlying using M&A to grow will drive acquirers to pursue deals.

"We're seeing reasonable levels of activity in financial services where Chinese financial institutions look to invest in overseas markets so that they can tap Chinese trade flows as well as to capture inbound investments from China into the target markets," said Citi's Banfield.

"We've seen strong levels of outbound M&A activity from China and I would expect that to continue"

Colin Banfield, head of M&A for Asia-Pacific at Citi.

But there have also been three high-profile failures in financial services M&A this year, specifically in the insurance sector. The largest of these was British insurer Prudential's $35.5 billion bid to buy AIA Group, the Asian life insurance unit of American International Group (AIG), which could not secure the backing of Prudential's shareholders this summer. AIG has had trouble hawking other assets in its Asia portfolio as well. In August Taiwan regulators blocked the takeover of AIG's Taiwanese life insurance business, Nan Shan Life Insurance, by a consortium led by private equity investor Primus Financial. The deal was announced around a year ago and since then the buy- and sell-side have been in negotiations with regulators on various aspects including the involvement of mainland Chinese money in the bid. And most recently the Australian Competition and Consumer Commission rejected a A$13.3 billion ($12.2 billion) proposal by National Australia Bank (NAB) to acquire Axa Asia Pacific, the regional assets of French insurance major Axa.

"There have been some headwinds to grapple with," agreed Denny. "The insurance sector world over is highly regulated and we expect the focus by the sell-side on the buyers' ability to execute to increase even further going forward."

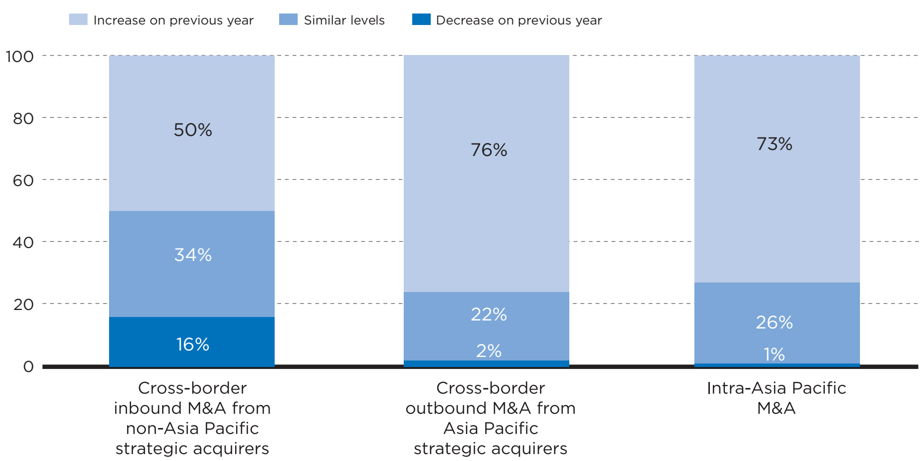
Other industries that are expected to witness M&A activity include oil and gas, technology, media and telecommunications (TMT), manufacturing, real estate and pharmaceuticals, and healthcare.

"The active sectors will be: natural resources (oil and gas, coal, agriculture); consumer (retail, food and beverages, healthcare); and infrastructure (energy utilities, power, transport, water) without which growth will be constrained," said Florance.

The need for natural resources will drive a large proportion of the deals, said around one-third of our respondents. And Citi's Banfield is in agreement, citing this specifically with request to outbound M&A by Chinese acquirers. "There are a few themes at play here but the most important remains the securing of natural resource assets ,which has been a prominent theme for several years now but which shows no signs of slowing down," he said. "I don't expect to see any decline in demand or interest in that area and the mandated pipeline of activity remains strong."

Asian companies adopting a global strategy and the desire to find new markets will also drive deals, suggested our respondents, with 57% citing the former as one of the three most important reasons Asia outbound M&A activity will continue to grow and 51% citing the latter. These reasons also drove deals before the subprime-sparked credit crisis and some acquirers have had to cope with a vastly changed landscape. Oft-cited in a cautionary way is the case of leading Indian conglomerate, the Tata group, which acquired British steelmaker Corus for $12.2 billion in February 2007 and then bought the Jaguar and Land Rover businesses from Ford for $2.3 billion in March 2008. The Tatas have faced challenges with both acquisitions as

EXPECTATIONS ON THE LEVEL OF INVESTMENTS DURING THE NEXT YEAR TO 18 MONTHS



market downturns in subsequent years forced them to revise the assumptions they had made when they struck the deals.

"Opportunities for Asian companies continue to proliferate but there have been changes in the way they approach

KEY REASONS DRIVING CONTINUED ASIA OUTBOUND M&A ACTIVITY

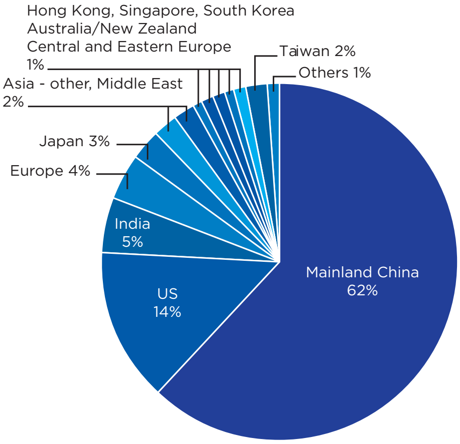
deals," said Denny. "Asian companies are now as focused on due diligence and legal documentation as their Western counterparts to ensure risks are identified and addressed."

Also scoring high as a reason Asia outbound M&A deals will be struck was the desire to secure knowhow/ technology and brands.

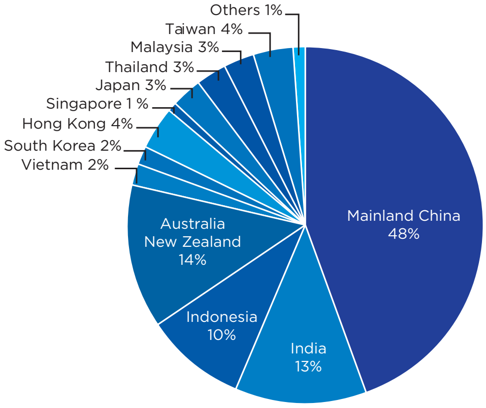
"Take the Geely-Volvo deal, which Citi advised on, where there was a clear demand for a technology-rich business with a strong brand name to help upgrade Geely's existing capabilities and to take its products to another level and price point," said Banfield, citing the $1.8 billion acquisition by Zhejiang Geely of the Volvo brand name from Ford Motor Company earlier this year.

Responses to our questions on market prospects were rife with contradictions, suggesting that our respondents, much like us here at *FinanceAsia*, don't have a crystal clear view on the M&A landscape. More than two-thirds of our respondents, 68% to be precise, either somewhat or completely agree that there are good opportunities for Asian companies to acquire businesses in the US and Europe. However, 45% somewhat agree that concerns about the state of the economic recovery in the US and Europe are making Asian buyers wary of acquisitions in these markets and another 11% totally agree that this is the case. And 60% of our respondents are in part or totally in agreement that Asian

COUNTRY AND TERRITORY EXPECTED BREAKDOWN DURING THE NEXT YEAR TO 18 MONTHS



INVESTORS/ACQUIRERS



M&A ACQUISITIONS

companies are likely to focus on acquisitions in emerging rather than mature markets.

"Asian companies are interested in opportunities but aware of risks," commented Denny on the findings. "They are comfortable with the growth rates emerging markets offer and may focus their efforts on opportunities within Asia," he said.

Concerns on protectionism have multiplied since last year with more than three-quarters of our respondents in agreement that this is one of the most significant worries for buyers. A few bad experiences have made Asian buyers wary, explained Denny.

Our respondents gave the highest weight for Asian M&A deals to be successfully completed to acquirers undertaking comprehensive due diligence on targets to ensure no surprises post-acquisition: 20% of respondents said this was the most important factor and 56% named it in their top three. Ranking almost as high was managing and clearing regulatory hurdles.

Top of mind last year for our respondents for successful closure was managing stakeholders' expectations, especially those of shareholders and the board. This year this factor fell to third place, with 15% citing it as the most important and 52% placing it in their top three. Two deals that failed to close after being announced this year were abandoned because company management could not convince stakeholders of the imperative for the acquisition. We referred earlier to Prudential's failed bid to buy AIA. In July US drug company Charles River Laboratories aborted a $1.6 billion takeover of Chinese drug research and development company WuXi PharmaTech. The deal was announced in April and would have been the largest-ever China inbound M&A deal. Charles River decided not to put the deal to a shareholder vote after it could not counter criticism on various counts, most notably that it was over-paying for WuXi. A banker who was not involved in the deal said subsequently that Western acquirers were having a hard time convincing their shareholders that the hefty price tags on acquisitions in Asia were justified. On the flip side Asian sellers saw no reason to lower their expectations, given that the region has emerged strong from the subprime crisis.

Devising appropriate deal structures and protection in legal agreements also struck a chord with our respondents, with 48% putting it in their top three. And Rynbeck concurs.

"This year, given the volatility in equity and foreign exchange markets, devising structures such as contingent FX hedging products and total return swaps for downside protection has been particularly important," he said. "However, there is a price-value trade-off and buy-side clients always evaluate such products but may not always choose to take them."

More than three-quarters of our respondents say the balance of power in M&A deals continues to lie with the buyer. This is good news for private equity firms, who remain interested in doing deals in Asia and, indeed, have done a reasonable if not blockbuster number of deals year-to-date. However, private equity continues to be very disciplined on pricing.

"Private equity firms are active in markets such as Southeast Asia," said Rynbeck. "They are being helped by the fact that growth is attractive and financing is available."

Given the ongoing interest in China, this year we decided to ask some questions related to expectations for M&A in China. Our respondents expect inbound M&A from non-Asia-Pacific acquirers looking specifically at China to continue unabated or grow: 42% of our respondents expect the level to increase on last year while 44% expect it will stay at similar levels. Only 14% expect it will fall.

On outbound M&A from China the bullishness is apparent – 76% of our respondents expect outbound M&A from Chinese strategic acquirers to grow over last year.

"Respective to their global peers, Chinese corporates have developed competitive advantages when it comes to exploring [M&A] opportunities — they have the strategic imperative; access to capital; typically lower immediate return hurdles and longer investment time horizons; more flexibility on the deal structures that they are prepared to invest in and, maybe surprisingly, increasingly quick decision making," said Banfield.

Chinese companies are expected to look to Southeast Asia, Africa, Australia and New Zealand, North America and South America, in that order, for opportunities in response to our question on which five territories or regions would see deals. However, on a disaggregated basis Africa topped the list with 22% of respondents expecting the continent to see the greatest investment, followed by North America and then Southeast Asia.

"We are well past any questions on the significance of China as an acquirer," summed up Denny. "Chinese companies are definitely serious M&A players." ■