THE M&A ADVISOR

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THE M&A ADVISOR SYMPOSIUM REPORT

Featuring

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KEYNOTE CONVERSATION

GLOBALIZATION AND CROSS-BORDER M&A: THE ENGINES OF ECONOMIC GROWTH

At The M&A Advisor's Annual Summit in New York on November 17, 2015, Marshall Sonenshine, Chairman, Sonenshine Partners and Professor, Columbia University, led a Keynote Conversation entitled "Globalization and Cross-Border M&A – The Engines of Economic Growth." Sonenshine and two high-level M&A professionals – Jonathan Rouner, Head of International M&A at Nomura Securities, and Gregory Bedrosian, CEO of Redwood Capital – presented a robust and lively discussion on recent trends in cross-border M&A that have resulted in its valuation approaching or exceeding that of domestic M&A in 2016.

In this report, we gather the insights and reflections of these three M&A stalwarts who participate in deals across borders around the globe, in all industries and sectors. We highlight the stalwarts' perspective on how buyers and sellers negotiate the peculiarities of M&A in different countries, legal jurisdictions and cultures.

The principle issues addressed in this report include:

- Deal Cobblers versus Momentum Markets
- Gaining Access to Growth through Cross-Border Deals
- Government and Business Collaboration in Cross-Border M&A
- Generalizations: Old Europe Bureaucratic; New Europe Entrepreneurial
- Changing Cultures: Old School and New School in Tech and Telecom

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The reasons that the value of cross-border M&A surpassed the value of domestic M&A in the United States in 2015 are multiple, but increasingly companies must look for global partners or acquisition targets to meet their goals for growth. In this session report, our stalwarts bring real life experience on the challenges and opportunities in the cross-border M&A arena.

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Executive Summary

Cross-border M&A in the past two years has approached or possibly surpassed the value of domestic M&A. While the large deals grab the headlines, most of the activity occurs in the middle market. Companies must look across borders to meet their strategic growth objectives. Regional differences in the approach to cross-border M&A include regulatory requirements and approvals, cultural differences and timing issues. In some areas, Asia in particular, governments are more closely involved with business in M&A than in others. The outlook for continued uneven global economic growth, more robust growth or recession is uncertain. But at the end of the day M&A activity will continue and in many ways is driven by economic uncertainties.

> "What really drives M&A is the 95% of deals that are below $500 million dollars, the middle market where most economies function and where two thirds or more of American workers actually work."
> – Marshall Sonenshine

Introduction

At The M&A Advisor's Annual Summit, held on November 17, 2015, Marshall Sonenshine, Chairman of Sonenshine Partners and Professor at Columbia University, led a Keynote Conversation on Globalization and Cross-Border M&A – The Engines of Economic Growth.

In this report, we summarize the observations and insights and of three veteran M&A professionals on changes that have occurred in cross-border M&A and what might be anticipated in the in the years ahead. The presenters were:

Marshall Sonenshine | Chairman, Sonenshine Partners; Professor, Columbia University
Jonathan Rouner | Head of International M&A, Nomura Securities
Gregory Bedrosian | CEO, Redwood Capital

Deal Cobblers versus Momentum Markets

Marshall Sonenshine wears two hats – dealmaker and professor. He opened the session on cross-border M&A by saying he talks to a lot of people – his clients, his students and often the media. But coming to the M&A Advisor Summits, he said, "I feel like I come home to talk to people that work in the trade." He explained: "This is where the craftspeople come, the people who cobble away on deals. Some folks in the history of capitalism were shoe cobblers, I think we here are deal cobblers. That's a good trade, a hard trade." Sonenshine then reported that the global equity market in 2015 was expected to be valued at about $4 trillion, "which is back where it was in 2007 before the financial crisis." Since the crisis, he said, the recovery from many financial categories became decoupled from the global equities market, "simply because the equity markets post-crisis became a very exaggerated form, in my judgment, of a momentum driven market, driven by cheap capital which caused a migration from fixed income to equities booting up the price of companies." By contrast, M&A was never a momentum market: "Really, it is a conviction market. You have to have conviction about a five year, ten year, or longer period in order to want to buy a company in the first place," he said. "And it's only in the last two years that we saw the M&A markets recover towards where they were in 2007."

Sonenshine said "flagship deals" around the globe grab headlines because they are substantial and are important indicators of consolidation. "They're mostly strategic," he said, noting "there are remarkably few private equity led deals of scale in the M&A market today. Private equity has become more a seller than a buyer in this cycle." Deals are dispersed around the globe. "Deals of $50 billion take place on all of the major continents except Latin America. And these deals are not what is driving the $4 trillion equity market," he said. "They drive the mega-cap component of it, but what really drives M&A is the 95% of deals that are below $500 million dollars, the middle market where most economies function and where two-thirds or more of American workers actually work… They work in companies principally below 50 employees. So we define the middle market probably more like 1,000 employees but middle market is where most M&A happens."

> "It seems to be very much the case that the Asian economies are certainly growing in the M&A market and represent now a quarter of global M&A activity."
> – Jonathan Rouner

Gaining Access to Growth Through Cross-Border Deals

Sonenshine added that he believes what has been called the "Asian century… is somewhat overstated. Asia accounts for about 25 percent of global M&A, the biggest component of which is Japan, not China," he said, although China is catching up to Japan in outward investment. "I think the drivers of M&A are largely strategic; it's the rationalization of companies from GE to AIG to Kraft and so forth. It is the dollar currency which remains very strong and therefore American companies are well positioned to go into Europe and buy. It is the need for export capital by China, where for the first time ever I think it is easier to get money out of the country than in – and that's probably going to drive some of that market. And, it is a series of technical elements of M&A including inversion transactions that we read about in governance issues." Sonenshine also pointed out that "China is a relatively low contribution to the 4 trillion dollars. It's about 100 billion this year, so it's about 2 percent in terms of outward M&A. Most of the M&A that goes on in China is actually domestic, it is not cross-border," although he predicts that it will grow. "Increasingly, what we're seeing out of China are services, services, and services. What we're continuing to see out of Japan are insurance, financial services and large industrial transactions. In Europe, growth is modest, though higher in Northern Europe than Southern Europe. Therefore, we have a particularly dispersed and uneven globe. The emerging markets that were once called BRICs were not solid like brick. They took a step back in terms of their development."

Gregory Bedrosian's firm, Redwood Capital, specializes in investments in Europe's tech, telecom and media markets. Bedrosian (who has spent over half of his twenty-year career in Europe) said that, in his experience, cross-border M&A has evolved and matured over time. "When we're working on a sell side opportunity, whether the buyer is in Boston or Berlin, or Silicon Valley or Stockholm, the geographic boundaries are secondary to whether there are strategic synergies with the opportunity." He said there are hurdles that are unique to cross-border deals versus purely domestic transactions. "In the middle market," he says, "many sellers are below half a billion dollars in size and are normally entrepreneurial, with private equity or venture sponsorship. We're often in the process of selling businesses to the big global brands," he said.

Jonathan Rouner, head of International M&A for Nomura Securities, picked up on Sonenshine's comment about the "Asian Century." "That may be an overstatement, but it seems to be very much the case that the Asian economies are certainly growing in the M&A market and represent now a quarter of global M&A activity," he said. Rouner added that two-thirds of the M&A activity

from Japan is "large investments by big Japanese companies into the US, into Europe, reflecting the globalization of their businesses." He asked why big Japanese or Chinese companies acquire abroad. "The same reasons that other companies do in domestic markets -- to get access to markets that they're not present in today, to get access to products that are appropriate for and well suited to international markets, to get access to technologies and brands."
As an example, Rouner cited Suntory's acquisition of Beam in 2014. "Suntory's been making whiskey for a hundred years, but they don't make bourbon, and it would take years to develop a big bourbon business here in the US. So they [paid $16 billion] to buy Beam last year, as an example of an aggressive move to expand internationally." Rouner also said he sees particularly close collaborations in the Asian markets between government and industry. "We see it in China for sure with the big state-owned enterprises making merger investments particularly in energy. We see it in Japan with the close collaboration between Japanese corporate clients and three large government agencies that are effectively established to help fund cross-border acquisitions by Japanese corporations."

"The hand of government [in France] tends to be very focused on employee rights, workers unions and whatnot."
– Gregory Bedrosian

Government and Business Collaboration in Cross-Border M&A

Sonenshine asked the panelists to elaborate further on government collaboration with business. "Is government particularly important in the way it is shaping business in Asia today?" he asked, adding a direct question to Bedrosian: "I'm going to ask you a similar question about the strange dynamics that take place in the EU, and in the birth of markets out of the collapse of the Soviet Union and the creation of new economies."

Jonathan Rouner responded, saying: "Government plays a very important role in the M&A business in Asia, and anyone looking to participate in that market needs to understand the role of government and how it shapes activity. The first is in the facilitation of cross-border M&A, and the second is obviously in the regulation or in approval of transactions. Those approvals are quite well established here in the United States, they're quite well established in Europe. In China it's very much in a black box. The regulations for any approvals are relatively new. They appear to be, from the outside, highly politicized. And the timing and certainty of receiving approvals is much more difficult to assess as a dealmaker than it is in other markets." Rouner added that, in Japan, the Abe administration is currently trying to promote economic activity with "the loose monetary policy that Japan has been taking" as well as trying "to bring Japanese corporate governance up to western standards, and make these big Japanese corporations more open to the needs of shareholders. That has created opportunities, limited opportunities, for western investment to buy businesses in Japan which previously were not available as Japanese companies are being forced to manage their portfolios of businesses in a way that's more akin to a western standard than they have in the past."

Bedrosian said that in Western Europe (and France in particular), "the hand of government tends to be very focused on employee rights, workers unions and whatnot." He said France is more predictable in what will and will not be approved than some Asian nations. In Eastern Europe, he said many former state-owned companies now look and behave more like entrepreneurial companies. "And a lot of the former state-owned companies – which in that part of the world tend to be in natural resources, or energy focused – tend to work and feel like a state-owned company, where [the approval of bureaucrats like] Vladimir Putin and others, formally or informally, are required for really anything to get done."

"The best activists are those that figure out what deals are about to happen, what breakups are about to happen in corporations and then invest and serve as a catalyst to make those happen."

- Jonathan Rouner

Generalizations: Old Europe Bureaucratic; New Europe Entrepreneurial

Moving the conversation along, Sonenshine began to discuss Europe. He said his impression is that "Old Europe on the continent still includes a lot of bureaucratic companies that are very powerful but very rigid… New Europe includes a wonderful array of entrepreneurial companies for a region that was for 50 years locked in some form of autocratic rule… And in China, the state-owned enterprises are neither fish nor fowl; we don't know exactly what they are, the government is a black box." He asked the panelists to then give their own impression about assessing corporate culture in different cultures, and how it affects their deals.

Rouner said he agreed with some Sonenshine's generalizations about different regions and cultures. "It's different to sell a company to a Russian buyer, a Japanese buyer or a Chinese buyer than it is to sell a business to a competitor down the street… [For instance], the corporate cultures in Japan are different. These tend to be very large companies. The boards tend to be insiders." But, he added: "The cultures are changing, both from the external factors and internal factors within Japan." In cross-border deals with Japanese companies, Rouner said, information needs to be provided in earlier stages and the parties need to leave substantial time for approvals at the end of the process. "In a Japanese corporate context, the board meets once a month, and frankly you need three weeks to notify anyone of what's on the agenda. So, it's effectively two months, which requires substantial planning and substantial patience to be able to convince a western seller that your deal has been agreed to but it won't be approved for another six weeks – because the board doesn't meet until the end of November."

Changing Cultures: Old School and New School in Tech and Telecom

Bedrosian began by saying that, in Europe 10 to 15 years ago, tech and telecom companies "tended to be run by ex-British telecom executives or ex-France telecom executives, people coming from the old kind of established large corporate players who then later in life became entrepreneurs. Today, what we're seeing is fewer and fewer of those, and more and more of – for lack of a better term – Silicon Valley-type kids in hoodies starting businesses in incubators in Berlin or outside of London, in Oxford or Cambridge. So their corporate culture and dynamic is looking more like an entrepreneurial business… I think their decision making therefore is different."

Sonenshine asked the panelists whether investor activism is taking hold in Europe and Asia. "Activism seems to have become all the rage in this country in the last ten years or so," Sonenshine said, adding that "It's not the first time in the history of capitalism that shareholders have come to the table and said, 'We have opinions you're going to listen in one form or another.' We in this country have opened up our markets to activists over the last twenty years…Are we seeing some of that take hold in global markets?"

Said Rouner: "We see activism as a big driver of M&A activity around the globe. Certainly, here in [the US], where many of the big corporate breakups have been fueled by activism, my personal point of view is: The best activists are those that figure out what deals are about to happen, what breakups are about to happen in corporations and then invest and serve as a catalyst to make those happen."

"Is there any way to predict whether we're going to have a recession, a growth period or different levels around the globe of activity in a fundamental economic sense?"
- Marshall Sonenshine

Bedrosian added that activism played a role in France when Club Med "publicly traded a multi-year bidding war, which ended up with Italian billionaires being outbid by French private equity groups [and] Fosun [a large global private equity group focused on China] ultimately taking the business." Wrapping up the discussion, Sonenshine observed that global growth is very spotty. "We don't know what it is in China anymore," he said. "It seems to be 6.8 percent, but the range of opinions on that market is huge. We think we're at 2.5 to 3 percent in this country. In Europe it's all over the place. Is there any way to predict whether we're going to have a recession, a growth period or different levels around the globe of activity in a fundamental economic sense?"

Rouner said he would avoid predictions. "One thing is clear – at the end of [the] day, business will continue. In a funny way…low growth and uncertain growth only drives the need for M&A. Much of the boom and activity over the last couple of years has been driven not by robust growth but by limited growth. Japan is a perfect example. The Japanese economy is now back in recession once again. It has not grown for a long time, but what is driving so much of the outbound investment is accessing other markets that are growing. They are making big investments here in the United States because it's a large, stable, and growing market. I think, regardless of the outlook – and I think outlook is uncertain and predictions are difficult – cross-border activity will continue to be critical for companies as they supplement the organic growth in their own markets expanded around the world."

Bedrosian added that Sonenshine's economic outlook question and Rouner's response "is literally what most corporate boards are going to be discussing in their year-end 2015 board meetings. It spurs decisions that will lead to phone calls that Jonathan and I will be getting in the new year about activity, as well as ways that we could help provide advice. This is the time of the year when all of that is happening."

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Gregory Bedrosian

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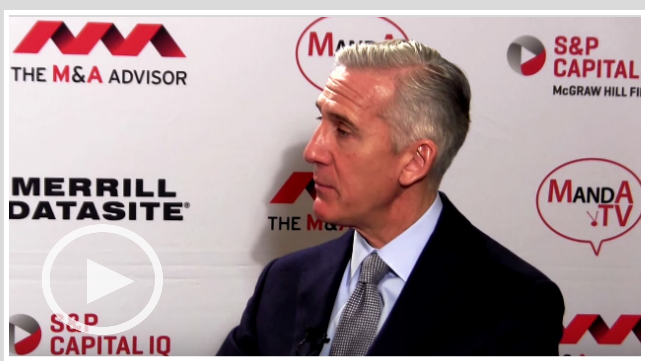
Redwood Capital



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Globalization and Cross-Border M&A – The Engines of Economic Growth

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Contributors' Profiles

Gregory Bedrosian
CEO
Redwood Capital

Gregory Bedrosian is the Co-Founder, CEO & Managing Partner of Redwood Capital Group. He is responsible for the overall strategic direction and management of the firm and takes an active role in Redwood's relationships across the corporate and investment communities. Mr. Bedrosian is an award-winning and seasoned Investment Banker and Private Equity Investor, who lived and worked in Europe for over half of his 20-plus year career, and whose experience spans both domestic and cross-border M&A and private equity transactions across the US, Europe and emerging markets. Prior to the formation of Redwood Capital, Mr. Bedrosian was a Co-Founder of Renaissance Capital, a leading investment bank focused on the emerging markets of Russia, Eastern Europe and Africa and Co-Founder and General Partner of The Sputnik Funds, a $1 billion private equity firm investing in the media, communications and other growth sectors. He has served on numerous corporate and non-profit boards across the US and Europe and he currently sits on the Harvard Business School Alumni Board of Directors (Emeritus), the Editorial Advisory Board of a Financial Times unit (ExecSense), Chairs the Investment Committee of a $100 million NewYork-based foundation and serves on the Board of an emerging markets-focused special situation hedge fund. Mr. Bedrosian holds an M.B.A. from Harvard Business School and a B.S. in Economics from the Wharton School of the University of Pennsylvania.

Jonathan Rouner
Head of International M&A
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Jonathan Rouner serves as Head of The Industrials Group and Head of M&A - The Americas at Nomura Holding America, Inc. Previously, Mr. Rouner served as Managing Director of Global Industrial Group of Lehman Brothers Inc. Mr. Rouner also served as Managing Director and Head of the automotive, logistics and transportation investment banking group at Credit Suisse First Boston.

Marshall Sonenshine
Chairman
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Marshall Sonenshine is the Chairman and Managing Partner of New York investment banking firm Sonenshine Partners. Mr. Sonenshine is also Professor of Finance and Economics at Columbia University and a frequent Global Finance Commentator on CNBC and Bloomberg Television and author of numerous publications on financial, legal and public affairs. Mr. Sonenshine began his banking career at Salomon Brothers and later became Partner to Paul Volcker and Jim Wolfensohn in Wolfensohn & Company. Sonenshine served on the leadership team that merged Wolfensohn first into Bankers Trust, where he headed Media M&A and Aerospace/Transportation M & A, and later into Deutsche Bank, where he was asked to serve as Co-Head of M&A. Mr. Sonenshine has counseled numerous major corporations worldwide including Alcoa, American Express, Blue Cross Blue Shield, Carlyle, Comcast, Conrail, Daimler Benz, Dun & Bradstreet, GE, ING Group, Invesco, KKR, LensCrafters, New York Times, NTT, Prisa, Proquest, Macy's, Sears, Tata Sons, Viacom, and Walt Disney. Mr. Sonenshine holds a BA, magna cum laude, from Brown University and a JD from Harvard Law School, where was Editor of the Harvard Law Review. He served as Teaching Fellow in Harvard University's Government Department and Law School, and as law clerk to Hon. Lawrence Pierce of the United States Court of Appeals for the Second Circuit in New York. Mr. Sonenshine is Chairman of RosettaBooks, the Harvard Law School Fund, and Mass General's Center for Law, Brain and Behavior. He is Trustee of Jazz at Lincoln Center and International Center of Photography, member of the Council on Foreign Relations and Emmy award winning Executive Producer of HBO's The Loving Story.

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The M&A Advisor

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Emerging Leaders Summit - New York, NY - June 10, 2016
M&A Advisor Summit - New York, NY - November 8-9, 2016

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Live Web Broadcast "2016 European M&A Outlook" - London, UK - February 22, 2016

For additional information about The M&A Advisor's leadership services, contact Liuda Pisareva at lpisareva@maadvisor.com.