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M&A Views

Deloitte M&A Views podcast:
Exploring deals abroad: Cross-border considerations (part two)

Transcript

Greg Jarrett: Welcome to Deloitte M&A Views, a Deloitte podcast series exploring the latest trends and topics in mergers and acquisitions (M&A). I'm Greg Jarrett and today, part two of our two-part discussion of cross-border M&A deals, as they are expected to play a huge role as companies choose to expand beyond their local markets. We are joined today by Jack Koenigsknecht, a partner with Deloitte & Touche LLP and the US consumer industry leader for the M&A practice, and Nik Chickermane, a principal with Deloitte Consulting LLP and part of the technology and media industry M&A practice. They both have tremendous experience in complex cross-border transactions and are here to share their insights with us.

Jack, when we look at global deal activity, it seems there's a sudden and steep rise in interest from Asian buyers, especially from buyers in China, for these overseas assets. Cross-border activities for Southeast Asia regions, for example, rose by 25 percent in 2017. How's this expected to shape the landscape going forward?

Jack Koenigsknecht: Yeah, absolutely. I mean, China, particularly, is expected to continue to play a major role in the global M&A landscape. However, as we're seeing, it'll play out before our eyes on a daily basis. You know, possible trade wars and tariffs, tit for tat, can dampen that appetite a bit, especially for the mega deals, across at least the US and China corridor. But you know, the Asian players broadly have been quite bullish on foreign assets for the past several years. And as we mentioned earlier, the Asian players, just like other global M&A participants, as they continue to mature in their own markets, they look for foreign assets to grow, right, and new markets to tap, and so that's one of the drivers here.

And right now, I mentioned China, the One Belt One Road initiative is certainly facilitating greater market access to economies along those key trade routes for Chinese companies. And it's opened various avenues for massive construction projects and financial investments.

And then we see capital control as a major issue in China, and yet another element of M&A in Asia and in China, particularly right now, with increased scrutiny on outbound payments and fund flows. And so Chinese corporate, needing to open up and share more with authorities about, you know, information and evidence around the sources of funds. And this all goes in both directions and both parties. Any cross-border deal, not just with Asia, needs to build that trust and understand who's really on the other side of the table. Where's the money coming from, and going, and does everyone trust and believe and get comfortable with the counterparties, in order to feel good about a deal? And all those other risks, right, and complexities that we've mentioned so far—and get comfortable to move forward and close a deal.

Greg Jarrett: Nik, no matter what you're talking about, anywhere around the globe, it seems that Brexit comes up in the conversation. I'm wondering, what are the key implications of Brexit on the overall cross-border M&A landscape?

Nik Chickermane: Brexit is evolving as we speak, Greg, and so we did see a sudden spurt in M&A activity, primarily driven by depreciation of the pound, right after the announcement. And there was a fair bit of undervalued assets there, in the UK.

But what we are finding is that [in] the medium and the long term, the UK may not be an attractive source of targets for, especially when it comes to larger deals at these firms. And in addition to that, what we are also finding is that Brexit has resulted in transaction processes taking longer, due to the rising legal and regulatory complexities that come with Brexit. And so, hence, we see more companies taking time to assess the new environment, resulting in some additional work that is required around Brexit implications by acquirers.

Greg Jarrett: Jack, we've talked a bit about politics. Why don't we look ahead, if we can, and try and figure out what might happen—how world events could shape M&A transactions in the future? For example, we've got the Bank of Japan, we've got the European Central Bank, we've got the Bank of England, and then we've got the Fed—all in divergence. Everyone seems to be going their own way. Then we have all these political concerns. So with all of this to digest, what are your thoughts on possible effects on the future M&A outlook for cross-border transactions?

Jack Koenigsknecht: So Greg, I think the cross-border M&A outlook seems very bright, despite the extended run-up of activity that we've already seen for an extended period of time. I think there's more to come. There are some factors, however, that could present headwinds to cross-border activity, particularly the mega deals, such as protectionist measures by the US and various countries in response, as we're seeing play out, and tariffs and capital controls in China and elsewhere—Brexit, you just mentioned. However, there's still very strong fundamentals in terms of the attractiveness of deal making.

And firms are going to continuously look for opportunities to find growth. For instance, in the past year, we have seen an uptick in those mega deals, even if the total number of deals may be flattish to slightly down. In prior years, it had been the inverse. Maybe more deals, but less mega deals. And it was almost like there was a pent-up demand, waiting with the US election, to see what would happen. And then that demand is sort of released and the levy broke a bit with line of sight to US corporate tax reform and crystallization of the environment that was very deal-making friendly.

And so the US companies, I think, in particular, will continue to benefit from the reduction of corporate tax rates. And you know, this is going to mean more cash on the balance sheets for corporates. And an ability to have dry powder to get deals done, and the same dry powder for private equity, and to the tune of call it a trillion dollars out there, and this excess cash is going to be deployed, has to be deployed, for those funds to make money and [to] close those funds and open new ones.

Beyond that, though, the high growth in emerging markets is expected to drive more deals, as that's been a big story. Asia, particularly, [is] one of the world's dynamic growth stories, and so I think strategic and sponsors alike are both looking to continue to strengthen their presence in Asia, through those inorganic growth opportunities there. And this is a trend that I think just gets magnified by a very strong dollar, that makes those investments relatively cheaper, at least for the US-based firms and funds.

Greg Jarrett: I'm Greg Jarrett. Thanks for listening to Deloitte M&A views, sponsored by Deloitte's M&A Institute. This podcast is provided by Deloitte and is intended to provide general information only. This podcast is not intended to constitute advice or services of any kind. For additional information about Deloitte go to www.deloitte.com/about. We also release new podcasts regularly and if you subscribe, you won't miss a single one. To stay connected and receive more information on Deloitte's M&A service offerings, visit www.deloitte.com/us/masubscribe, and follow us on Twitter @DeloitteM&A. Until next time.