MERGERS & ACQUISITIONS

ANNUAL REVIEW **2015**

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Financier Worldwide canvasses the opinions of leading professionals around the world on the latest trends in mergers and acquisitions.

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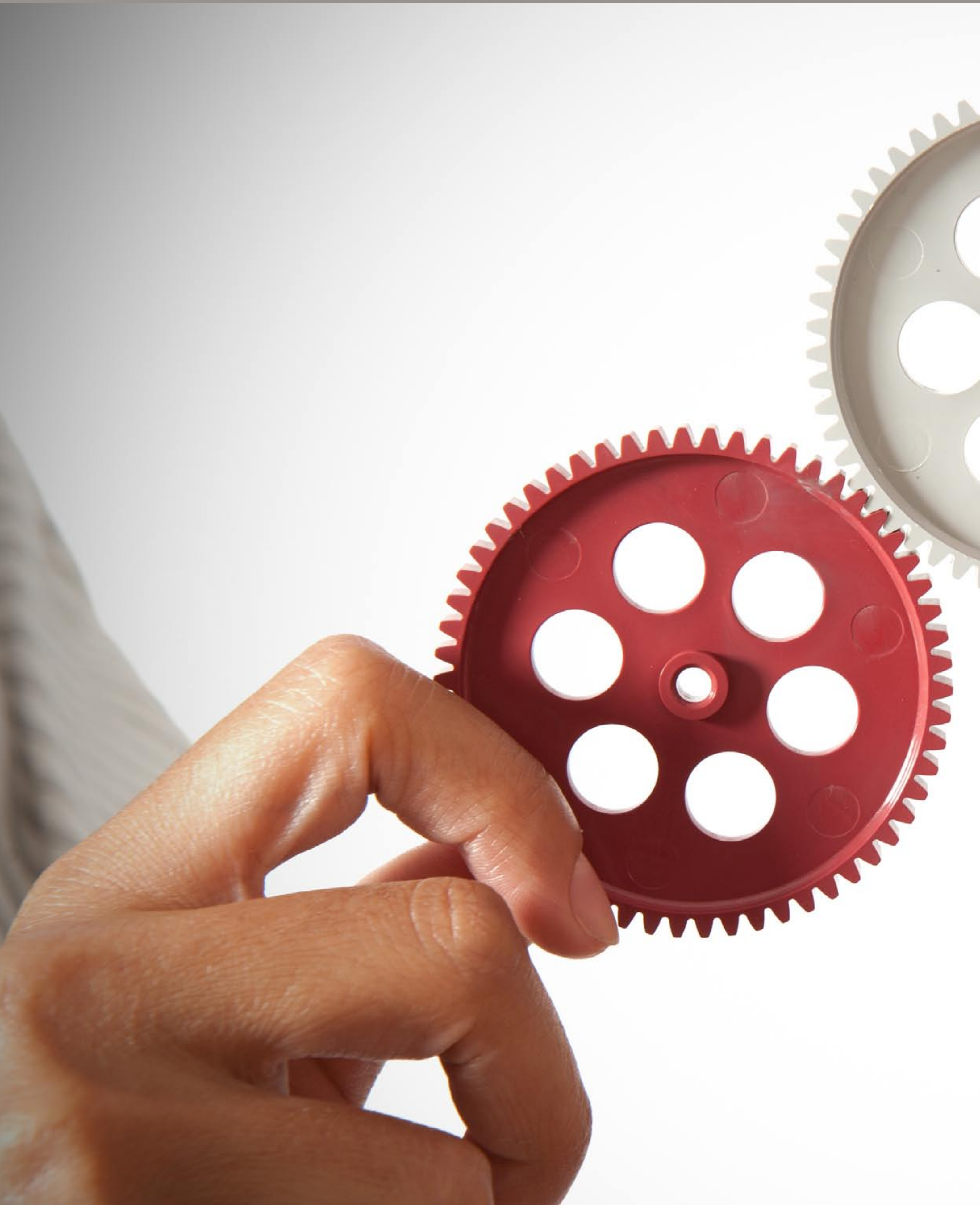

INTRODUCTION

2014 was certainly a strong year in terms of global mergers and acquisitions (M&A) activity. In fact, it was something of a bonanza. A year which saw companies, buoyed by record levels of cash, flourishing markets and executives imbued with newfound confidence, negotiate a succession of record-setting and transformative deals to the tune of $3.5 trillion.

This global M&A activity, as well as being the highest levels seen since the 2008 financial crisis, is continuing apace, with the 2014 dealmaking frenzy being mirrored in 2015.

Driven by a series of large deals, worldwide second quarter 2015 M&A figures were up 34.6 percent year-on-year to $1.33 trillion. In Europe, fast emerging as the preferred target for inbound acquisitions, six of the top 10 deals were closed by non-European acquirers. In the Far East, Chinese companies have been responsible for a sharp increase in acquisitions, with the telecommunications, media and technology sectors proving to be particularly fluid.

Across the globe, the factors driving such activity are of course diverse, and there are a number of major trends that have been shaping the M&A landscape, region by region. In the US, the confidence of strategic buyers and the strong performance of entrepreneurial private middle market businesses have been influential factors.

Across the North Atlantic, there has been a substantial increase in the number of acquisitions in the UK by overseas companies, much of which has been driven by an improving economic backdrop and the ready availability of financing.

Overall, there is a sense of sustained confidence which suggests that the global M&A dealmaking extravaganza observed over the previous year is set to continue.

ROMANIA

SILVIU STOICA
POPOVICI NITU & ASOCIATII

Q WHAT DO YOU CONSIDER TO BE THE MAJOR TRENDS SHAPING M&A ACTIVITY IN ROMANIA OVER THE LAST 12 MONTHS? WHAT FACTORS ARE DRIVING DEALS IN THE CURRENT MARKET?

STOICA: The general feeling around M&A activity across emerging Europe remains one of cautious optimism, fuelled by clear signs of steady, albeit slow economic growth. The trend is positive as the first half of 2015 brought a fresh round of slight growth around the region. Although investors' confidence in the region has been really hurt by continued financial and political uncertainty, particularly tensions between Moscow and Kiev, plus Greece's slide towards an exit from the Eurozone, some of the CEE countries – including Poland and Romania – have remained relatively unaffected, and are considered as increasingly stable investment targets. So, we may see an increased appetite for doing M&A in Romania, mainly fuelled by markedly increased relief in terms of access to finance, fewer regulatory issues, higher confidence in political and economic certainty and a fading of the misguided perception that M&A is value-destructive.

Q DO TRANSACTIONS SEEM TO BE CONCENTRATED IN PARTICULAR SECTORS, OR IS THIS ACTIVITY SPREAD ACROSS A RANGE OF INDUSTRIES?

STOICA: Featuring predominantly in the local M&A charts in 2014 were the services sector, which accounted for no less than 25 deals, closely followed by retail & wholesale with 20 deals and IT with 16 deals, according to data from the M&A Barometer for 2014 for Romania issued by Ernst & Young. Overall, CEE has seen less cash available for investing in recent years, as some of the major players with a solid CEE track record seemed to be pulling out of the region. But now, abundant pools of capital are available, and investors' desire and confidence to invest are growing, so they seem keen to approach various industries, mainly looking for 'quality' businesses. So, organisations are tapping into viable business opportunities in emergent markets like Romania, looking closely into various sectors, notably energy, real estate, agribusiness, public to private deals, IT and services, especially financial.

Q WHAT STEPS SHOULD A BUYER TAKE TO MINIMISE TRANSACTIONAL RISK IN A DEAL? IS THOROUGH DUE DILIGENCE AN INDISPENSABLE PART OF THE PROCESS?

STOICA: Lowering transactional risk is a prerequisite for ensuring a deal's success and the future integration and development of the business. Key areas to keep in mind in order to avoid aborted deals and to help guide buyers' major decisions are accurate target valuation and effective integration, as well as the use of 'data analytics' tools in all essential parts of a business. A primary focus should be on customer and market analysis, workforce and compensation analysis, commercial contracts and various material agreements and synergy identification. Due diligence investigations also rank high among the factors leading to a 'successful deal' as they allow the buyer to uncover contingencies, commitments, liabilities and understand and assess the feasibility of projected cash flow and earnings. And warranty & indemnity policies also seem to have re-taken their place in buyers' minds.

Q WHAT TRENDS ARE YOU SEEING IN TERMS OF VALUATIONS AND TRANSACTION MULTIPLES? IS THERE OFTEN A GAP IN PRICE EXPECTATIONS BETWEEN BUYERS AND SELLERS?

STOICA: Lately, the most commonly used valuation methods seem to be balance sheet and income statement. The target is often acquired on a debt-free, cash-free basis, assuming sufficient or 'normalised' levels of working capital. Multiples per sales, EBITDA, profit or other multiples are mostly used by private equity investors as a tool providing more predictability of the expected investment return ratio. Choosing the best valuation method depends on the type of business, market conditions and investor profile, and is of utmost importance as a mismatch in valuations leads to protracted negotiations and aborted deals. Converging buyer and seller expectations are hard to achieve when sellers come with overstated revenue forecasts, understated expenses and capital needs. So, presumably successful deals fail if these two paramount concerns of arriving at an accurate valuation are not solved. Continued disparity between buyer and seller valuations leads to sellers' price expectations being much higher than the offer.

Q HOW WOULD YOU DESCRIBE GENERAL LIQUIDITY LEVELS FOR M&A FINANCING IN THE CURRENT MARKET? TO WHAT EXTENT IS DEBT AVAILABLE TO SUPPORT M&A ACTIVITY?

STOICA: With a reluctant attitude in recent years due to the global crisis, investors now come with cash reserves and generally have access to capital either via debt or equity markets, abundant pools of capital, ready to buy, and are in search of growth outside of stagnating home markets. So they come to Romania, which looks pretty appealing as several factors align to provide a strong environment for M&A: steady economic growth, an increasingly friendly regulatory environment and low asset prices. All these features are able to create attractive investment opportunities for buyers that take a long term view on their investments. So financing seems to be less of an issue if we also consider a relatively low interest rate environment, increasing confidence, strong corporate balance sheets and an increased number of companies that are stable and confident now and ready to take the next step toward development.

Q HOW IMPORTANT IS LOCAL MARKET KNOWLEDGE WHEN IT COMES TO CLOSING DEALS IN A TOUGH ECONOMIC ENVIRONMENT?

STOICA: Key to closing deals is having a deep knowledge of the target market. For this purpose, using and correctly applying data analytics instruments is crucial. Market analysis, with a particular focus on competitors, market maturity, suppliers and clients should not be missing from any major investment decision. In order to avoid post-closing gaps and failure to achieve synergies, companies should also focus on execution and integration plans and realistic detailed synergies. Generally, the blame for transactions failing to generate the expected results is pinned on forces largely outside the control of buyers or sellers. Among the chief two reasons for deals not delivering seem to be economic factors and, as expected, sector or market forces.

"Investors now come with cash reserves and generally have access to capital"

Q WHAT IS YOUR ADVICE TO BUYERS ON PLANNING FOR POST-DEAL INTEGRATION? HOW IMPORTANT IS THIS PROCESS IN UNLOCKING FUTURE VALUE?

STOICA: Aside from exiting positions that have run their course, a key trend in the local M&A transactional market is an expanding customer base – basically, acquiring add-ons to existing businesses, thus increasing buyer penetration. This means that buyers' investment objective is to create more industry-specific portfolios, rather than focus on an amalgamation of diverse businesses. In this context, having a sound post-deal integration plan is of paramount importance for future business development and for ensuring the investor gets the best return when the time comes for portfolio exit.

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