Opportunities Across High-Growth Markets:

Trends in Cross-Border M&A

Baker & McKenzie

The Economist Intelligence Unit

A note from Baker & McKenzie

Open a newspaper today and you are bound to read about the next wave of emerging or high-growth markets. Whether it be a headline on Turkey becoming the third fastest-growing country in the world by 2017, the passing of a new foreign investment law in Myanmar, or a new acronym touting a group of countries as the next BRICS, there is no doubt the global M&A market is changing. Shifting patterns in outbound M&A signal a greater proportion of deals involving high-growth markets in the years ahead.

We have seen this trend in the deals we are doing, and continue to witness it through the needs of our clients. Our clients require us in more places, and they have always been the driving force behind the Firm's growth. In 2012, we became the first global law firm in Peru, and over the past three years, we opened offices in Morocco, South Africa, Turkey, Qatar and the United Arab Emirates. Being on the ground in new and promising markets provides unique awareness of the cultural differences and the standards needed to be successful.

To gain a better understanding of shifting investments into and from high-growth markets, we commissioned the Economist Intelligence Unit to survey senior executives across a range of high-growth and developed markets to ask what they saw as the most important factors influencing the success of their transactions. Respondents provided compelling insight into previous experiences in high-growth market deals, their outlook on future investment opportunities and their appetite for cross-border M&A over the next two years.

What we confirmed through this research is that it is no small feat to turn promising GDP growth in a new market into profitable revenue. Today's buyers are vastly different from a decade ago. While they are looking beyond traditional emerging economies toward unchartered waters, they are asking tougher questions about long-term target value. Many of the findings reinforce the importance of the attributes we focus on as we help our clients thrive in unfamiliar territory, especially having a multijurisdictional approach to compliance and planning for post-acquisition integration at the beginning stages of the deal. But there are also new insights, which we have combined with commentary from our M&A partners from developed markets and key high-growth markets of Brazil, Russia, India, China, South Africa, Vietnam, Indonesia and Turkey to bring you this report.

We hope that you find these insights useful as you consider your path forward and pursue M&A opportunities in new markets.

Tim Gee
Chair, Global M&A Practice Group

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Executive Summary

Optimism surrounds the current outlook for global M&A activity, particularly in terms of cross-border deals. The cost-cutting carried out by a number of entities in the wake of the global financial crisis has resulted in many companies now having cash to deploy. With cheaper financing options and more robust market conditions, executives are increasingly confident and thinking more creatively about their growth strategies. Meanwhile, companies in the emerging and high-growth market countries that were less affected by global economic woes are eager to expand, and one of the quickest routes to do so is via M&A.

Investment activity is still strong into Brazil, Russia, India, China and also South Africa, which officially joined the BRICS bloc in December 2010, but some buyers are expanding the scope of their targets to include a promising next generation of high-growth markets, including Indonesia, Turkey and Vietnam, among others. Interestingly, it is not just Western companies on the acquisition side anymore. Companies from across high-growth markets[1] are increasingly turning their attention to targets in both developed and emerging markets. For example, Chinese companies spent more than US$10 billion on 46 inbound deals in the US in 2012. Meanwhile, Russian-based companies, such as INTER RAO, are investing in Turkey. (Please see the Case Study on page 50.)

As growth strategies become more varied and include a wider range of target countries, anti-corruption and anti-bribery laws are being enforced more stringently and with farther reach. For example, regulators are holding US corporate buyers accountable for prior US Foreign Corrupt Practices Act (FCPA) violations, even if the violations were not known at the time of purchase. The impact is being felt by both sellers in high-growth markets as they become more upfront about corruption and bribery issues and by acquirers as they conduct more thorough due diligence.

Regardless, M&A advisers expect to see cross-border transactions into and from these markets continue to increase over the next few years. In a recent survey of senior executives across these individual high-growth markets, the Economist Intelligence Unit (EIU) found that cross-border transactions are likely to increase. To succeed, however, company executives will need to develop new strategies to leverage opportunities, mitigate risk and thrive in unfamiliar markets.

1 For the purposes of this study, "high-growth markets" refers to Brazil, Russia, India, China, South Africa, Indonesia, Turkey, and Vietnam, collectively.

The EIU study, sponsored by Baker & McKenzie, looks at current and emerging trends in the cross-border M&A market. It identifies factors influencing success and potential risk factors that can affect companies as they expand internationally. This study is based on a survey of 357 senior executives, complemented by in-depth interviews with dealmakers from around the world. Key findings of the report include:

Cross-border M&A has been on the rise, with the market expected to further heat up. Executives responding from both developed and high-growth markets reported an increase in cross-border M&A activity over the past five years even as overall M&A activity has been subdued. Most believe that the pace of cross-border activity will continue to increase. Nearly half of all respondents say that the appetite for cross-border M&A will grow over the next two years.

Companies in high-growth markets look further afield for opportunity. Developed market organizations proved to be less geographically adventurous, reporting transactions primarily in North America, Western Europe and the original four BRIC countries. Respondents domiciled in high-growth markets considered a much wider range of target destinations, acting as pioneers in many locations that attract significantly less interest from developed market organizations. A number of respondent organizations are also expanding into areas that the World Bank has identified as fragile states, or countries that face particularly severe developmental challenges.

Corporate compliance is the primary concern for dealmakers. In the past, cultural barriers were the number one concern of companies entering new markets, but, overall, corporate compliance issues now appear to outweigh country- and target-specific risks as the greatest legal concern when conducting cross-border M&A transactions. Respondents indicated that thorough due diligence is still key to assessing and mitigating risk. Due diligence will also be instrumental in facilitating successful price negotiations.

Strategic buyers have the advantage in high-growth markets. Executives responding to the survey expressed a strong preference for strategic buyers, with more than twice as many (44%) preferring to deal with corporations, compared with 21% who favored financial buyers.

The key to a successful acquisition is an effective pre-transaction integration strategy. Nearly 50% of survey respondents pointed to pre-transaction integration planning as the most significant factor in mitigating deal-execution risk. Day-one readiness is critical for the successful completion of a cross-border M&A deal. Buyers must build relationships with stakeholders on the ground before moving ahead in their acquisitions if they are to retain customers and expand margins, the two greatest indicators of effective integration, according to survey respondents. Buyers should also plan for integration well before the deal closes.

Introduction

With globalization making the world smaller every day, opportunities for companies to expand across borders are becoming increasingly attractive. Some of the most exciting opportunities are found outside of OECD markets; the EIU anticipates that high-growth markets will become a focal point for M&A activity in 2013 and beyond.

In recent years, the global M&A environment has faced a number of challenges, with transaction volume declining considerably following the global financial crisis. Global economic uncertainty, the European debt crisis and fiscal anxieties in the US all dampened enthusiasm for expansion. Companies in developed markets cut costs and retrenched. Many have now accumulated significant cash reserves, which they are more frequently looking to deploy in high-growth markets. At the same time, organizations based in high-growth markets suffered significantly less from the downturn and are becoming more ambitious in their plans for global expansion.

To examine these trends in greater depth, the EIU conducted a survey, sponsored by Baker & McKenzie, of more than 350 senior-level executives (nearly 50% at C-level) across a range of high-growth and developed markets to gauge their appetite for cross-border M&A deals, to reveal the most important factors influencing the success of their transactions and to discover their strategies for mitigating risk.

1

M&A on the Rise

Cross-border M&A in high-growth markets – the temperature is rising

Baker & McKenzie's perspective

Why M&A activity will continue rising

"Every US$1-billion company wants to be a US$2-billion company. Every US$5-billion company wants to be a US$10-billion company. They can't get there by turning the factory settings a little higher or hiring more sales people. The only way they can achieve meaningful growth is by acquisition — by accumulating new assets, going into new markets and entering new segments. That's why M&A will continue to be active."

: Dieter Schmitz, M&A Partner, Baker & McKenzie LLP, Chicago

Global M&A activity remained relatively subdued throughout the first three quarters of 2012, but surged in the fourth quarter to reach US$2.6 trillion for the full year. While this was only a 2% increase over 2011, high-growth markets saw M&A activity rise by 9% year-over-year to US$723 billion[2].

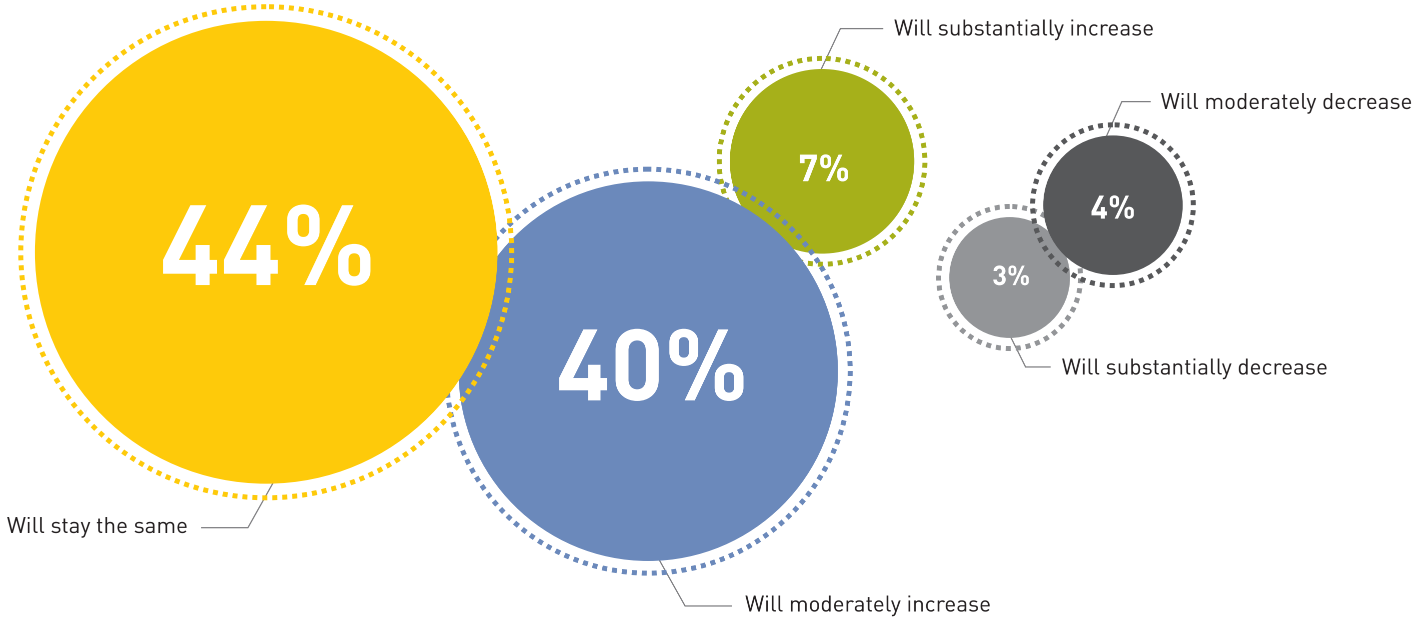
Looking at foreign direct investment (FDI), of which M&A activity is a significant component, a shift has occurred in the distribution of FDI inflows between developed and high-growth markets. For much of the two decades prior to 2007, developed markets absorbed two-thirds of aggregate FDI inflows. Since then, their share has fallen to half. Inflows to developed countries fell by 41% to US$550 billion last year according to UNCTAD. Flows to developing economies dipped by only 3% to US$680 billion, the second-highest level ever recorded and US$130 billion more than the developed market figure.

Many organizations surveyed in both developed and high-growth markets, particularly larger organizations, reported an increase in cross-border M&A activity over the past five years. Survey results suggest that the business climate in high-growth markets in particular is experiencing positive momentum. In addition, respondents from both developed and high-growth markets indicated that they are optimistic about the possibility of undertaking more cross-border transactions in the future.

The majority of executives surveyed (53%) reported an increase in cross-border transactions during the past five years. Moreover, cross-border deal making has been an almost universally positive experience for survey respondents, with 90% reporting that their cross-border transactions have been moderately to extremely helpful. These positive experiences with past cross-border M&A deals will invariably be a contributing factor to the anticipated increase in M&A activity over the near term.

[2] Source: Thomson Reuters 2012 Mergers & Acquisitions Review, http://dmi.thomsonreuters.com/Content/Files/4Q2012_MA_Financial_Advisory_Review.pdf

Figure 1: How do you think your organization's appetite for cross-border M&A activity will increase or decrease over the next two years?



2

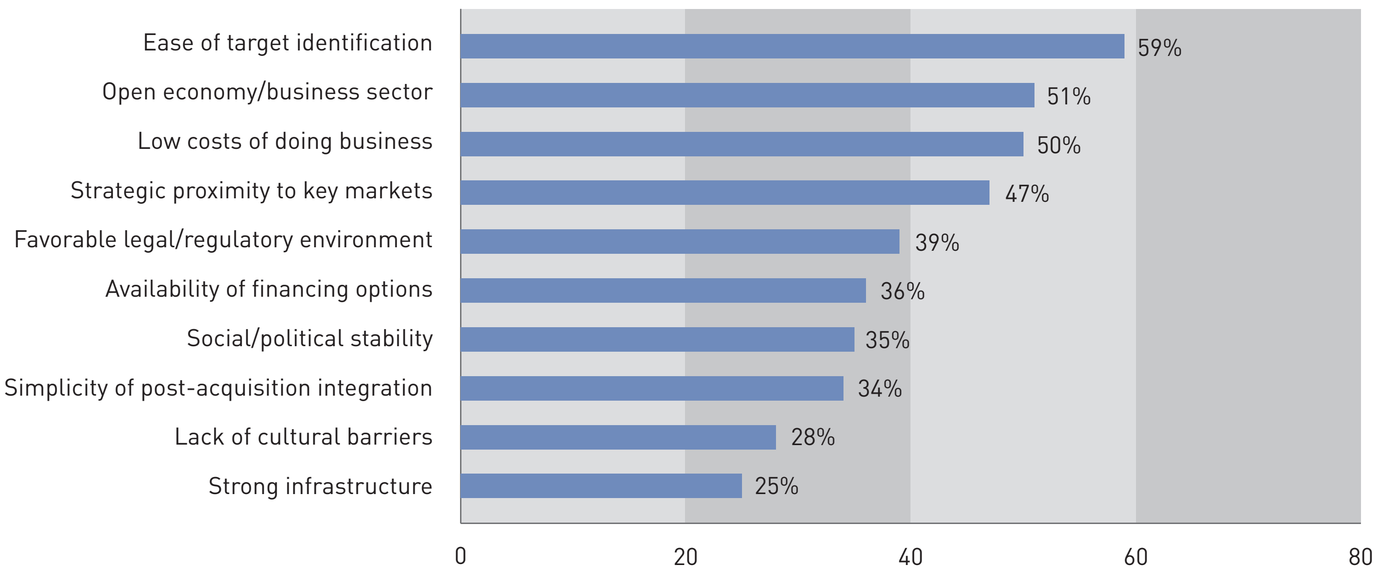
Ambitious Acquirers

Companies domiciled in high-growth countries seem more adventurous than their developed-market counterparts

Respondents from developed market companies reported transactions in 82 different countries, while those in high-growth markets reported deals in 103 different countries. Developed-market companies proved to be less geographically adventurous, reporting transactions primarily in North America, Western Europe and the original four BRIC countries. Conversely, respondents domiciled in high-growth markets were found to consider a significantly wider range of target destinations, acting as trailblazers in many countries. Their pioneering outlook may reflect confidence bred from experience at home, since they are likely to have already faced and overcome many of the risks and challenges that characterize more adventurous investment destinations.

All respondents placed a high emphasis on an open economy as an important feature in the choice of destination. A majority (59%) cited ease of identifying acquisition targets as the most important factor in choosing an investment destination, with slightly more than 60% of high-growth market executives holding this view. In less frequented markets, the relatively lower number of potential targets may make it easier to identify the most attractive companies for investment. Respondents from developed economies cited strategic proximity to key markets as a highly significant factor.

Figure 2: What makes a country an attractive destination for M&A activity?



Cross-border M&A in fragile states[1]

The World Bank defines fragile states as countries "facing particularly severe development challenges: weak institutional capacity, poor governance and political instability." The countries often experience continuing violence in the wake of past armed conflicts or civil unrest, and three-quarters of these states continue to experience armed conflict. However, many of these states are also resource rich and attractive to foreign direct investment on this basis.

According to results from our survey, the majority of respondents investing in fragile states were headquartered in Vietnam (30%), South Africa (16%) and the US (11%).

In which country is your organization's primary headquarters/head office ?	Fragile state investors
Vietnam	30.4 %
South Africa	16.1 %
United States of America	10.7 %
India	8.9 %
Russia	8.9 %
Turkey	7.1 %
Indonesia	5.4 %
Brazil	3.6 %

In many cases, the governments of these countries (most of which run trade deficits) may be more open to investments involving mining and mineral extraction given their contribution to developing export-oriented sectors.

What is your primary industry?	Total	Fragile state investors
Energy and natural resources	19.3 %	28.6 %
Financial services	19.0 %	23.2 %
Manufacturing	14.0 %	12.5 %
Construction and real estate	3.6 %	5.4 %
Consumer goods	9.5 %	5.4 %

1 List of Fragile States includes those identified by the World Bank as either Fragile States, or ranked as having characteristics of fragile nations from 2008 – 2013. Countries identified by respondents in this research include: Afghanistan, Angola, Armenia, Azerbaijan, Bangladesh, Bhutan, Bolivia, Bosnia and Herzegovina, Cambodia, Cameroon, Cote d'Ivoire, Ethiopia, Georgia, Haiti, Kenya, Lao PDR, Malawi, Maldives, Mauritania, Moldova, Mozambique, Myanmar, Nepal, Nicaragua, Nigeria, Papua New Guinea, Senegal, Sierra Leone, Sudan, Tanzania, Uganda, and Zimbabwe.

An overwhelming 95% of respondents from companies investing in fragile states reported that their acquisitions in these markets over the past five years were helpful to very helpful in regard to their companies' overall market position. Not surprisingly though, they were concerned about fraud and corruption as the principal sources of legal and regulatory risk. Given the political instability that characterizes these countries, in-depth political analysis and a broad network of relationships, as well as presence on the ground, all contribute significantly to risk-mitigation strategies.

When it comes to non-regulatory risk, cultural barriers and valuation misalignments were the top concerns of fragile state investors and general survey participants alike. However, fragile state investors were significantly more concerned than the rest about the inability to secure adequate financing for acquisitions—likely reflecting concerns among lenders and investors about the volatility of these markets.

Fragile states can give even the most hardened emerging markets investors qualms. Like other respondents, they worry about the high cost of doing business. Given the additional uncertainties they are likely to face, they exhibit an even higher level of attention to risk. However, they show significantly more concern regarding shareholder pushback on transactions. The reason is that in highly volatile fragile state markets, the shareholder base is likely to be small but extremely powerful. As with any cross-border deal, pre-transaction integration planning was cited by fragile state investors as the most effective strategy for risk-mitigation. However, given the nature of these markets, investors in fragile states are much more likely to rely on holdbacks, payment over time and earn-outs to protect themselves from value-destroying risks that may be less visible and quantifiable in an atmosphere of extremely low transparency.

In the past 5 years , which of the following general (i.e., non-legal/regulatory) issues have created the greatest challenges to the success of your organization's cross-border acquisitions?

	Total	Fragile state investors
Cultural barriers	33.1 %	35.7 %
Buyer/seller valuation misalignment	32.2 %	32.1 %
Decline in target's profits	30.5 %	26.8 %
Employee-related issues (e.g., unrest/loss of key executives)	21.8 %	19.6 %
High cost of doing business	21.8 %	26.8 %
Inability to secure adequate financing	19.9 %	30.4 %
Lack of synergies	21.8 %	26.8 %
Political/social instability	22.1 %	25.0 %
Economic instability	30.0 %	23.2 %
Post-acquisition integration issues	22.7 %	23.2 %
Stakeholder pushback	7.0 %	5.4 %
None of the above	5.0 %	1.8 %
Don't know	2.8 %	0.0 %
Total	100.0 %	100.0 %

Baker & McKenzie's perspective

Bigger risk takers

Our survey findings suggest that companies based in high-growth markets are more geographically adventurous than their developed market counterparts. Here are some examples of their greater risk appetite.

Vietnam: Viettel, the largest mobile phone company in Vietnam, began expanding into foreign markets in 2009, starting with neighboring countries Cambodia and Laos. Today it also provides telecom services in Argentina, Burundi, Cameroon, Haiti, Peru, Mozambique and Tanzania, and foreign markets account for 15% of company revenue. "It's definitely a sign that Viettel sees itself as suitable for markets where the US and Europe don't dominate because it can't compete with that kind of capital, technology and management," says Fred Burke, an M&A Partner in Ho Chi Minh City. "Other multinationals may not touch these countries because of FCPA and labor issues."

South Africa: Bidvest Group, an industrial wholesale and distribution company based in Johannesburg, generates one-third of its revenues from its foreign operations in markets such as India, Egypt, Chile, Slovakia and Namibia – places where investors from developed markets may be less likely to enter. "It's not because Bidvest isn't prudent in assessing risk," says Morne van der Merwe, an M&A Partner in the Firm's Johannesburg office. "It's because they are entrepreneurial and realize they can get comfortable in those environments because they are similar to their own."

India: Indian conglomerates also seem to feel at home in a broader range of emerging markets. Telecom giant Bharti Airtel's US$9 billion acquisition of Zain Africa expanded its network into 15 African countries, including Gabon and Burkina Faso. "Indian companies are generally confident that having navigated their local market, which is one of the most difficult in the world, they can go anywhere," says Ashok Lalwani, Chair of Baker & McKenzie's India Practice. "They have the bravado and skills."

3

Calculating Risk

Mitigating risk is the key to leveraging opportunities in high-growth markets

Baker & McKenzie's perspective

The right kind of risk

"The Russian market rewards investors who take calculated risks, not those who play Russian roulette. A focused due diligence is key to understanding risks, but it is even more important to have a strong team with good knowledge of local issues that will implement post-transaction integration and clean-up, and deal with problems that arise after closing."

: Sergei Voitishkin, CIS Managing Partner, Baker & McKenzie - CIS, Limited, Moscow

"Enforcement authorities around the world have joined the US in holding companies and senior managers accountable for missteps involving corruption, collusion, trade, financing, data privacy and other areas of economic crime. When it comes to corporate misconduct, the stakes have never been higher. Staying out of trouble is a high priority for almost every company."

: Paul McNulty, Partner, Baker & McKenzie LLP, Washington DC

Acquiring a company is never straightforward. In high-growth markets, the buyer typically needs to dig deeper and longer during the due diligence process to identify the range of risks and to determine which can be mitigated and which are acceptable. Ivan Pronin, head of M&A at Russian utility company INTER RAO, emphasizes that "certain risks can be accepted if they are not fundamental risks that would lower the value of the asset in question. The buyer must quantify the risks, weigh their impact against the value of the transaction and determine the probability of achieving the target return on the investment."

Among the various types of risk that investors face in high-growth markets, legal/regulatory risks can have costly implications if they are not properly managed. Among survey respondents, 30% of executives from high-growth markets cited corruption as one of the most significant legal/regulatory challenges to future dealmaking activity, while 25% of developed-market executives agreed. Particularly in high-growth market deals, the acquirer should consider conducting forensic due diligence to evaluate the potential for loss of value from illegal or unethical practices by the target company. A detailed analysis of potential risks arising from corruption, bribery, fraud, money laundering, conflicts of interest and related-party transactions can reduce exposure to reputational damage and potential regulatory or criminal liability. Taking stock of potential risks can also help protect organizations from both financial losses and higher overall costs of doing business.

Looking forward, corporate compliance issues appear to outweigh country- and target-specific risks as the greatest concern of investors—all of which increase the importance of market-aware due diligence in those destinations. The significance of internal corporate compliance is partly attributable to its complexity in cross-border deals. First and foremost, companies must comply with the laws of their home country regarding financial reporting and ethical business practices. For example, Grant Phillips, the CEO of TransUnion Africa, emphasizes the need for US-owned organizations to comply with the US FCPA; many other countries—including the UK in the form of the 2010 Bribery Act—have similar legislation.

According to Mr. Phillips, "When you look at emerging markets, one of the key questions to come up early in the negotiation process is access to records and information and understanding the nature of transactions and business behavior in these markets." A lack of transparency and differing accounting standards in many high-growth markets can create significant challenges to complying with home country anti-corruption laws and in reconciling financial reporting. Differences in financial reporting can also have significant tax implications that must be taken into account. Data security and privacy issues are also concerns, since control measures to guard against data loss and leakage may be less stringent than in developed markets.

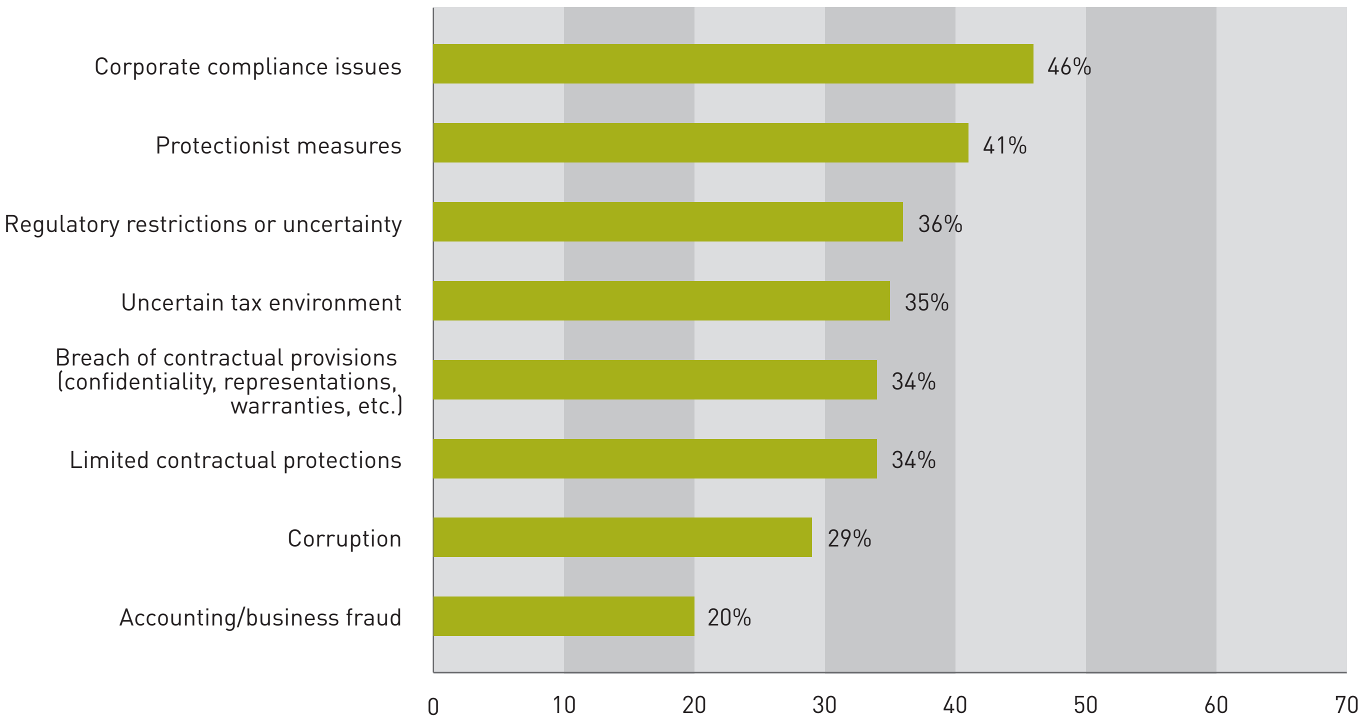
Baker & McKenzie's perspective

Increased focus on pre-integration planning

"Sometimes Chinese companies rush foreign deals because management wants it done in two weeks. They cut corners and don't give their lawyers enough time to do due diligence. But many have become more sophisticated and experienced. They've learned from their own mistakes and those of other Chinese companies. They're more cautious and selective about what they want to do and pay more attention to due diligence and planning for the future."

: Stanley Jia, M&A Partner, Baker & McKenzie, Beijing

Figure 3: Which do you expect to be the main challenges that must be overcome to ensure the success of your organization's cross-border acquisitions over the next two years?



Baker & McKenzie's perspective

Growing concerns about compliance

Brazil: "In the past three years M&A clients have become much more concerned about compliance due diligence because of stricter anti-corruption laws in Brazil, the enactment of the UK Bribery Act and increased enforcement of the US FCPA." – Anna Mello, M&A Partner, Trench Rossi e Watanabe Advogados associated with Baker & McKenzie International, Rio de Janeiro.

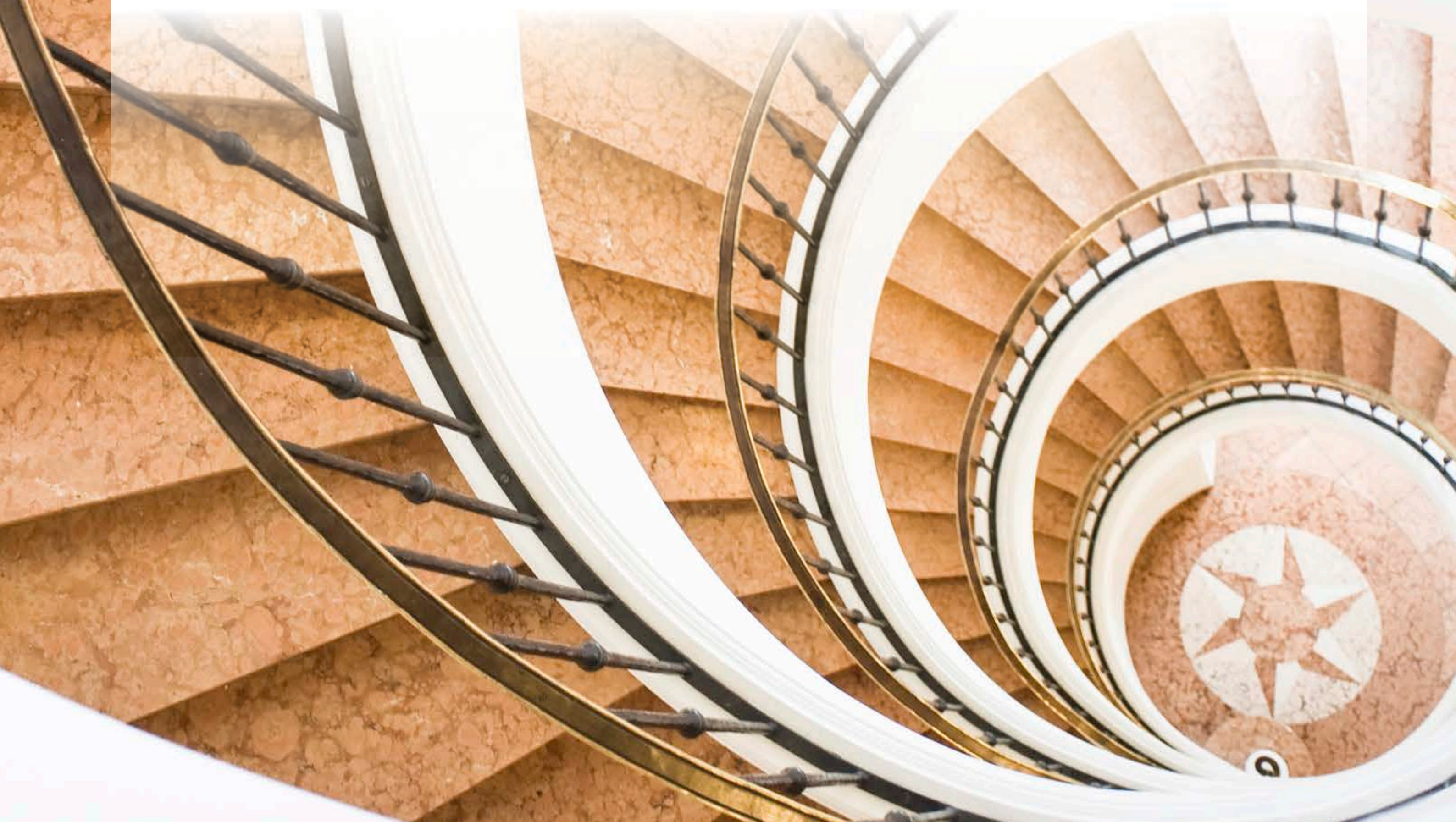
India: "Corruption in India is endemic at every level and market participants tell me it's gotten even worse since the market opened up to foreign investment. Companies facilitate transactions and obtain favorable treatment by paying bribes. Those that won't pay bribes find it takes longer to get things done because they're not at the front of the line. Foreign investors have to pay close attention to compliance issues in India." – Ashok Lalwani, Chair of Baker & McKenzie's India Practice

Indonesia: "For buyers from Europe and the US, compliance is one of their greatest concerns. There is a reason Indonesia ranks among the most corrupt countries on global surveys such as Transparency International's Corruption Perception Index." – Mark Innis, M&A Foreign Legal Consultant, Hadiputranto, Hadinoto & Partners, Jakarta

Russia: "More and more businesses are worried about the US FCPA and the UK Bribery Act. Plus, there is a greater focus on enforcing Russian anti-corruption legislation. For corporate executives, compliance is the No. 1 issue in Russia." – Sergei Voitishkin, CIS Managing Partner, Moscow

South Africa: "In relation to investment coming from Western markets, we are seeing anti-bribery and anti-corruption due diligence playing a major role in conducting those deals. Over the past three to four years, concerns about compliance have slowed deals and in some cases, stopped them completely." – Morne van der Merwe, M&A Partner, Johannesburg

Vietnam: "Many foreign companies have learned the hard way that avoiding taxes and paying kickbacks are still part of Vietnam's business culture. In some cases, a Vietnamese business would not even be viable if the bad practices were eliminated." – Fred Burke, M&A Partner, Ho Chi Minh City



In addition to legal and regulatory challenges, non-legal risk factors can also threaten the success of a transaction. For example, cultural issues were once a serious concern for executives who were considering cross-border M&A. Today, however, they are no longer as serious a concern as they once were. Company executives now have considerably more international experience and global business culture is developing. Many developed-market organizations have a far greater understanding of high-growth countries, putting their best people in those markets, while many high-growth market companies have Western-educated managers. Together, they are forging a consensus around wider global business practices. While acquiring organizations should certainly continue to be sensitive to cultural differences, survey respondents suggest that economic stability (33%) and financial strength/profitability (32%) are the non-legal factors that will be of primary concern going forward. However, this does not mean that the effects of cultural sensitivity and difference should be downplayed, as they are likely to remain a key factor to consider in cross-border transactions.

Figure 4: In the past five years, which of the following general issues have created the greatest challenges to the success of your organization's cross-border acquisitions?

33%	Cultural barriers
32%	Buyer/seller valuation misalignment
31%	Decline in target's profits
30%	Economic instability
23%	Post-acquisition integration issues
22%	Political/social instability Employee-related issues (e.g., unrest/loss of key executives) High cost of doing business Lack of synergies
20%	Inability to secure adequate financing
7%	Stakeholder push back

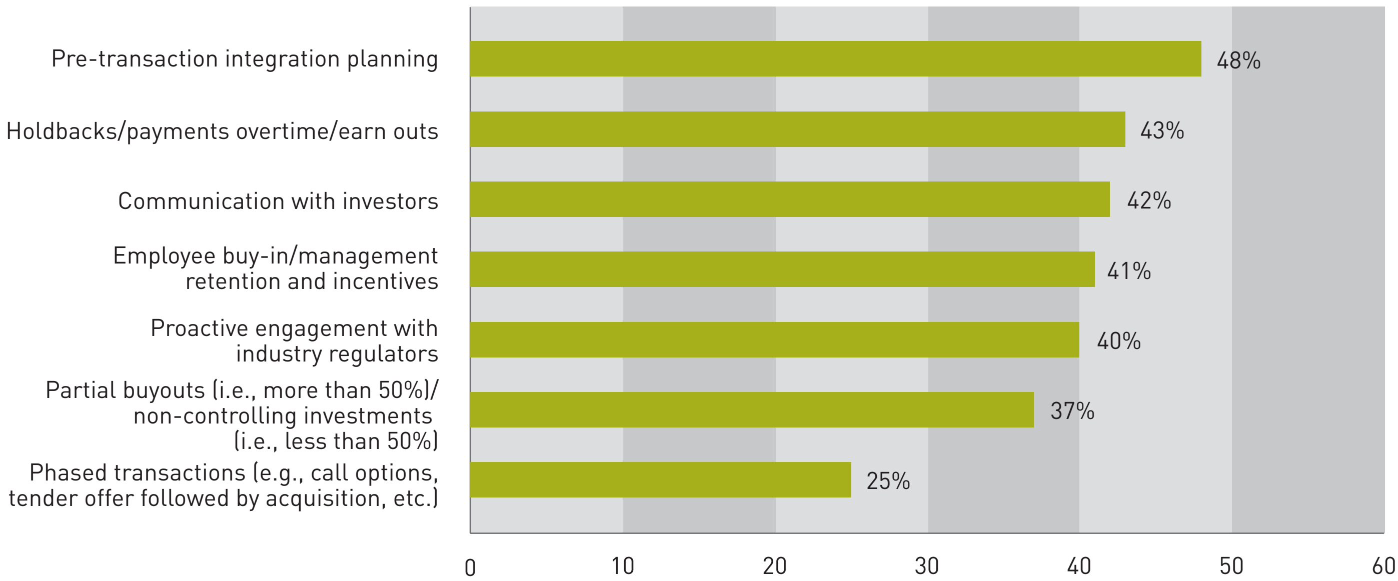
Figure 5: Which of the following general (i.e., non-legal/regulatory) issues do you expect to be the main threats to the success of your organization's cross-border acquisitions over the next two years?

33%	Economic instability
32%	Decline in target's profits
29%	Political/social instability
27%	Post-acquisition integration issues High cost of doing business
24%	Inability to secure adequate financing Lack of synergies
23%	Cultural barriers Employee-related issues (e.g., unrest/loss of key executives)
22%	Inability to secure adequate financing
13%	Stakeholder push back
1%	Inability to secure adequate financing

Execution risk and day-one readiness.

According to survey respondents, pre-transaction planning, particularly pre-transaction integration planning, are the most successful strategies to ensure that a deal goes smoothly. In fact, pre-transaction planning is widely emphasized as the best way to manage execution risk. Deep analysis and contingency planning, as well as integration planning from the outset, are key factors in ensuring a successful transaction. However, as regulators worldwide are becoming more stringent in their oversight, respondents agree that engagement with regulatory authorities is another prerequisite for success. Communication with investors and building relationships with employees and managers were also cited as critical factors in the efficacious completion of a deal. To ensure a successful transaction, all of these measures should be considered part of day-one readiness.

Figure 6: What are the most successful options/strategies for mitigating execution risk in cross-border M&A transactions?



4

Beyond the Deal

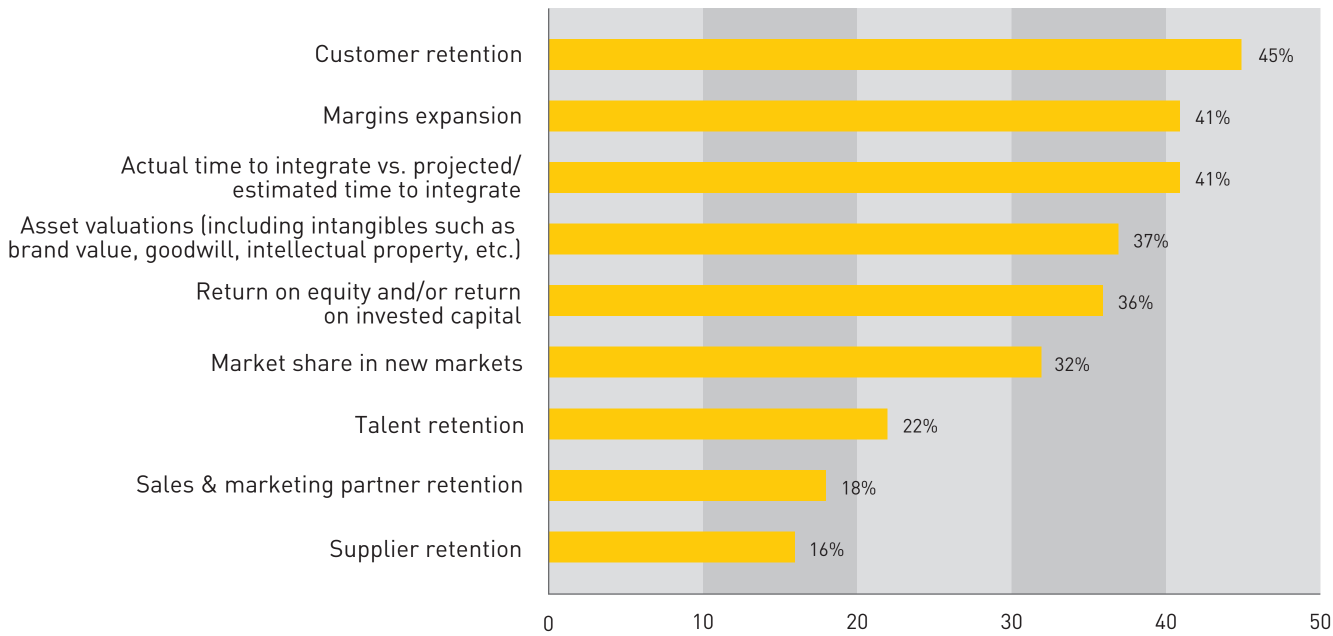
Everyone agrees: a successful acquisition demands comprehensive integration planning

Organizations may need to be conservative in projecting cost-savings, improved efficiency and revenue growth because the practical difficulties in implementing cost-cutting measures are often greater than anticipated. One way that acquiring organizations can ensure a smoother integration process is through making more decisions locally and empowering managers on the ground. Acquiring companies are often separated by thousands of miles and a number of time zones, so empowering local decision-making ensures that the business is integrated into the local market. The acquiring entity under such conditions is better able to "keep its finger on the pulse" of the target.

Of course, the metrics that measure the success of an acquisition vary among industries and, consequently, inform the design of the pre- and post-acquisition integration strategy. The EIU found that these metrics can also vary across industries. For example, organizations in consumer goods and manufacturing cited time-to-integration and customer retention as the key elements of success. Financial services companies compete based on service—thereby making customer retention key for them as well. Energy and natural resources companies, which produce commodities based on ownership of resources, naturally look toward asset valuations. Finally, IT companies similarly emphasize customer retention but are also extremely concerned with capital since their business requires significant investment to remain competitive.

Good integration plans take these factors into account and ultimately will succeed or fail based on the acquiring company's knowledge of both the asset and the local environment. Moreover, Mr. Phillips from TransUnion emphasizes that with integration, "there is never a finite start and end point. Integration is an ongoing and iterative process, particularly on the people and the brand side."

Figure 7: What are the most important factors to measure when determining the effectiveness of post-transaction integration in cross-border deals?



Cultural hurdles

Every country has its own rules, regulations and customs for conducting business, which can be challenging for foreign investors to navigate and decipher. Knowing what to expect is the first step in making a successful cross-border merger or acquisition.

Navigating Vietnam's culture of consensus: "To get a license to do many types of business in Vietnam, especially in the service sector, you have to send the application through all of the relevant ministries, which could take months, depending on the type of business. The officials that are supposed to put chops (stamps) on the papers don't have an interest in doing so because if anything goes wrong with that business, they could be punished. So you have to make the case to each official that the venture will be good for the country." – Fred Burke, M&A Partner, Ho Chi Minh City

Standing your ground with Russian executives: "During negotiations, Russian business owners will often take strong positions on certain issues and refuse to compromise. Their counterparts should do the same. Russian executives often view those who compromise as weak and may try to take advantage of them." – Sergei Voitishkin, CIS Managing Partner, Moscow

Playing nice with Brazilian regulators: "Because our market is highly regulated, it can take a long time to get all the government approvals you need to pursue your business opportunity. We have to educate some foreign clients that they can't come here and think they can dictate to Brazilian authorities how a deal is going to work. They cannot be arrogant or they will not get the approvals they need." – Anna Mello, M&A Partner, Trench Rossi e Watanabe Advogados associated with Baker & McKenzie International, Rio de Janeiro

Overcoming Indonesia's aversion to lawyers: "The law in Indonesia is principle-based, so regulators have a lot of discretion in determining policy. Many do not like lawyers coming in and challenging them and doing so is actually a disservice to your client. As a result, we focus on showing the regulators, 'This is how it's done in 10 to 15 other countries.' Thus, some matters can become a long educational process." – Mark Innis, M&A foreign legal consultant, Hadiputranto, Hadinoto & Partners, Jakarta

Understanding that "yes" does not always mean "yes" in India: "During a transaction, Indian businessmen typically don't put all of their cards on the table. They sometimes don't even tell their own lawyers everything, so as you move through a transaction, you deal with lots of surprises. You have to know that 'yes' could actually mean 'no' or 'I'll think about it,' and you often have to go back and redo what you thought you had already negotiated. It doesn't just happen once, but multiple times during the course of a transaction. But this is all part of the dance and people should understand this and be prepared for the long haul." – Ashok Lalwani, Chair of Baker & McKenzie's India Practice

Showing respect to Turkish partners: "Sometimes big corporates come to Turkey and say, 'These are our rules and you have to comply or there's no deal.' But if a Turkish businessman feels forced, he starts to prepare his exit strategy. If you don't have a personal touch and manage personalities in this country, your international capabilities and corporate structure will not help you." – Ismail Esin, M&A Partner, Esin Attorney Partnership, Istanbul

Negotiating with European works councils: "China does not have strong labor unions so sometimes when a Chinese company acquires a European workforce they don't know how to negotiate collective bargaining agreements and are less sensitive to the local work culture. That can be one of the reasons an acquisition fails." – Stanley Jia, M&A Partner, Beijing

Industry highlights

Financial services

In the financial services sector, slowing growth and increasing regulatory restrictions in developed markets along with new competitive opportunities are likely to increase cross-border transactions in high-growth markets. A number of developed market companies pulled out of overseas markets rapidly in 2008, but are likely to return now that their own financial stability has recovered. According to the EIU's survey results, 48% of respondents from the financial services sector expected cross-border deals to increase while 46% projected they would remain at current levels. Among reasons cited for increased dealmaking included changes in corporate growth strategy (32%) and a changing business environment (27%). Of survey respondents from this industry, 70% cited foreign trade and payments (e.g., trade embargos, discriminatory tariffs, etc.) as the most challenging operating risk, with tax issues cited by 69%. Pre-transaction integration planning was cited by 53% of respondents as the most effective strategy for mitigating execution risk.

Energy, natural resources & mining

Energy demand is increasing around the world, with China becoming the world's largest energy consumer in 2012. Russia and India are also seeing higher demand, and now outpace developed economies such as Germany and Japan, according to EIU data. Mergermarket data indicates that 46% of outbound cross-border deals in emerging markets were from the energy and natural resources sector in 2012. Increasing demand, coupled with the dominant role of extractive industries in many high-growth markets suggests that the strong pace of activity should continue. EIU survey respondents in the sector reported that dealmaking will continue at the same (52%) or at a higher (41%) pace. Executives in this industry also see foreign trade and payment issues as a significant operating risk (66%), while labor market issues are of the strongest concern to 57% of energy and natural resources respondents. Pre-transaction integration planning is cited as the most effective method of mitigating risk by 48% of respondents, as is proactive engagement with regulators.

Consumer

Although global retail sales are slowly returning to pre-2008 levels, the market structure is evolving. The swing in power toward emerging retail markets is most evident in China, which is expected to become the world's largest retail market by 2013. In India, legislation governing multi-brand retail continues to be the center of national debate, and a positive decision should see significant investment inflows in the sector. Sub-Saharan African markets are also emerging as future sources of retail growth, although political instability and poor infrastructure are likely to be a hindrance.

Among survey respondents from the sector, 38% plan to increase cross-border activity, while 56% plan to carry on at the same pace. Forty-one per cent of consumer sector respondents cited GDP growth in target markets as the principal factor underlying their plans. Operating risks causing the most concern include foreign trade and payment issues followed closely by labor market concerns. An overwhelming 74% of industry respondents stated that pre-transaction integration planning is the most effective measure for mitigating execution risk.

Manufacturing

Manufacturing is another sector in which the EIU expects to see a continuing brisk pace of cross-border dealmaking. Of survey respondents from this sector, 39% stated that cross-border activity will be on the rise, while another 51% said transactions are expected to continue at the same pace. Over the past five years, slightly more than half of respondents reported that cross-border M&A activity had increased. Developed market companies tend to see significant opportunity in sourcing new markets, although rising labor costs in high-growth countries are also driving the trend by some companies to return manufacturing to their home countries or seek out other, less expensive locales like Vietnam.

In high-growth markets, manufacturing executives see cross-border acquisitions as a way to leapfrog into the international market, gaining access to new customers, products, distribution networks and technologies. Not surprisingly, given the often labor-intensive nature of manufacturing, respondents from the sector cited labor market concerns as the most significant operating risk (65%) while tax issues were cited by 63% of respondents. Unlike other industry respondents, manufacturing executives cited holdbacks and earn-outs as the most effective measures in mitigating execution risk.

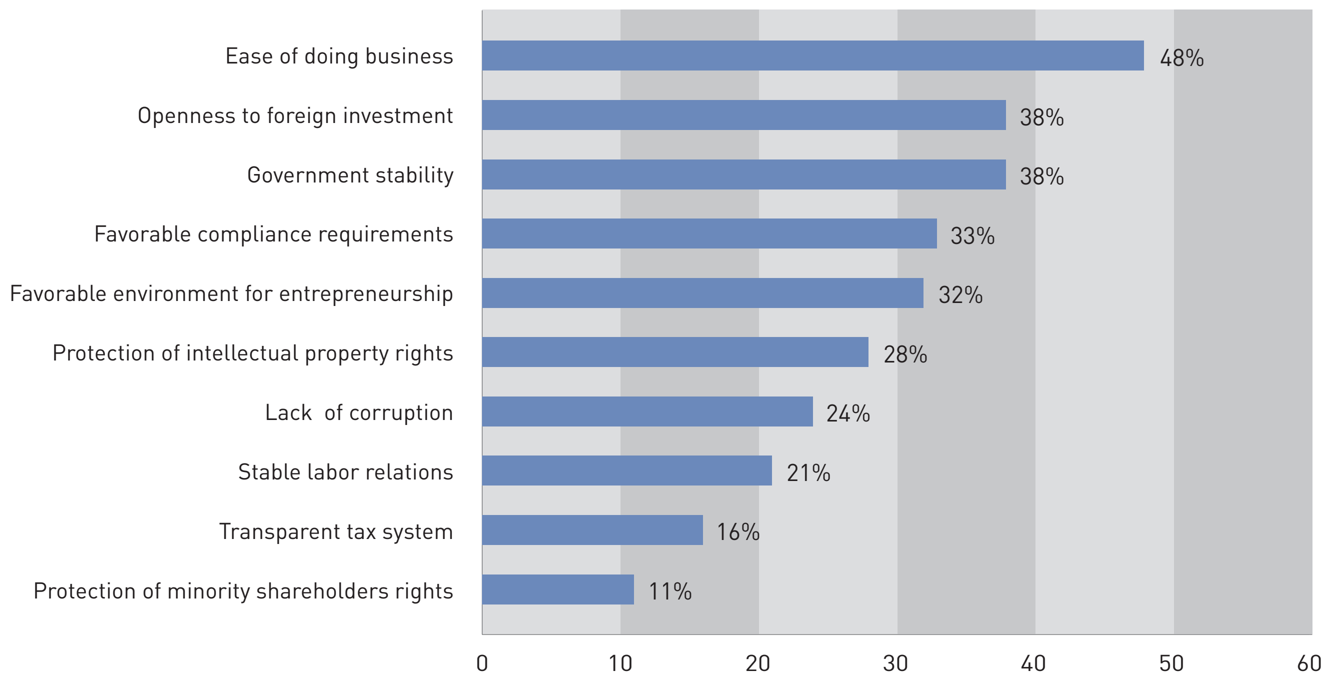
5

Deal Destination

Companies across markets agree on the characteristics that make a country an attractive destination for cross-border deals

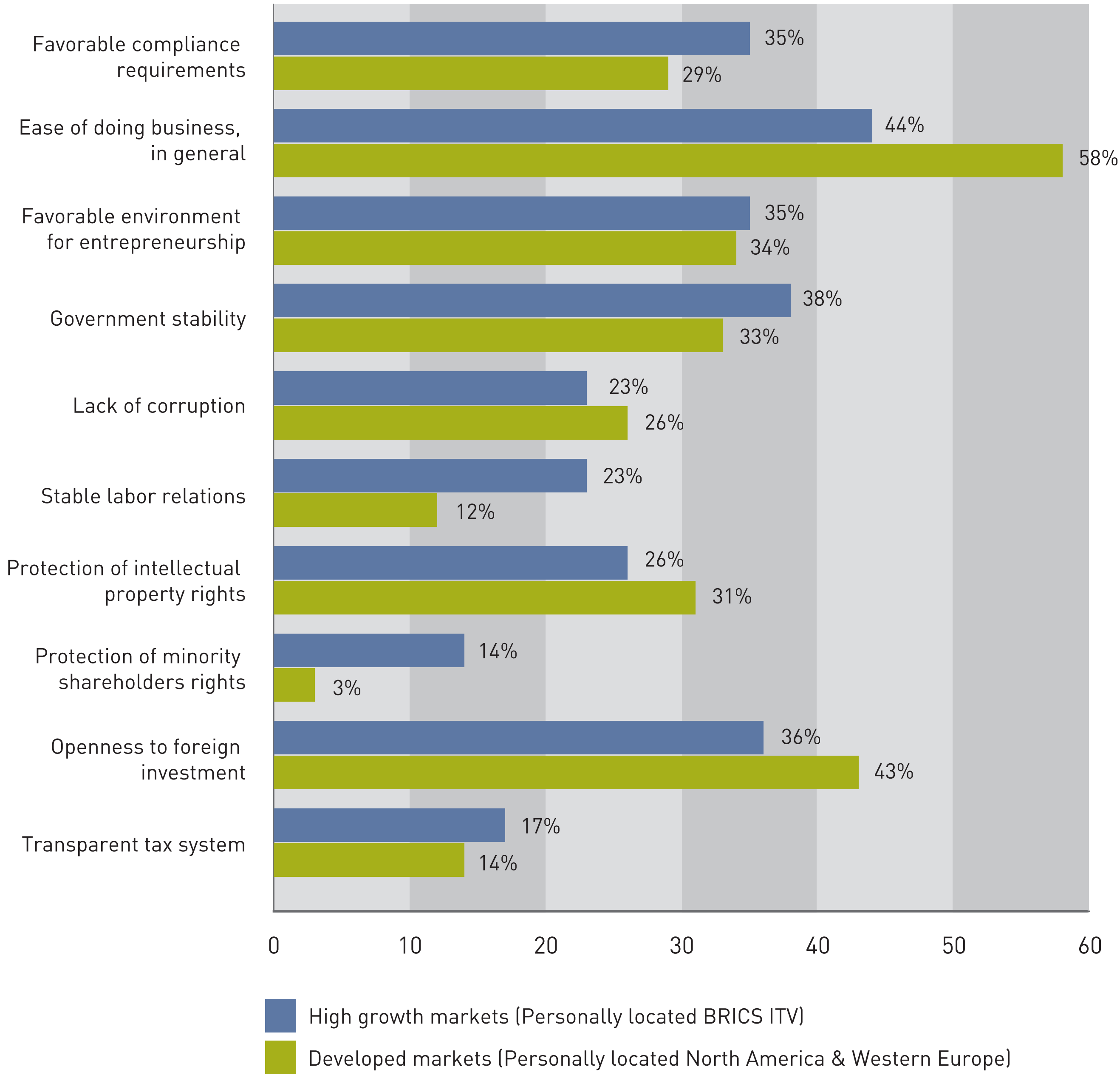
A majority of survey respondents from developed markets (58%) cited ease of doing business as the factor playing the most significant role in a country's appeal as a cross-border deal destination, while this seems to be less of a concern for executives from high-growth markets—14% fewer of them expressed a similar opinion.

Figure 8: Based on your market perception and any previous experiences, which factors best facilitate cross-border acquisitions?



Perceptions around factors facilitating cross-border M&A vary between high-growth and developed market respondents

Figure 9: Based on your market perception and any previous experiences, which factors best facilitate cross-border acquisitions?



Where markets are less open to foreign investment, the greatest obstacles (cited by 49% of respondents) are government monopoly over key industries, followed by protectionist government policies (cited by 42%). Companies that succeed in developing relationships at the government level, as well as the target level, seem likely to enjoy greater success in such markets.

Overly protective?

A key concern for foreign investors in many high-growth markets is protectionist government policies. Here are some examples.

Indonesia's mining & banking sectors: In a resurgence of economic protectionism, the Indonesian government issued regulations in March 2011 that require foreign miners to divest 51 percent of their Indonesian operations to locals after operating for 10 years, an action that has discouraged M&A activity in the sector. Banking regulators have also frozen M&A approvals since August 2011 while developing new rules to address concerns that too many of Indonesia's banks are foreign owned. Under the new rules, no one shareholder, including Indonesians, can have a controlling interest in a bank. The government is also considering amending the Banking Law to reduce the 99 percent cap on total foreign investment in an individual bank, further closing the sector. "Whenever Indonesia feels confident, there is an increase in economic nationalism," says Mark Innis, M&A foreign legal consultant in Jakarta.

Vietnam's retail & pharmaceutical sectors: Getting a retail license to operate in Vietnam can take up to 15 months, and foreign retailers are subject to an economic needs test, which gives authorities the power to reject their applications to expand beyond one store. It's a rule that has made large foreign retailers wary of entering Vietnam. Pharmaceuticals is an even harder industry to break into because foreign drug companies can't sell their products directly to the market, but must go through local distributors. "Anytime you're trying to compete in an industry like healthcare where most of the local players are government owned, there are bound to be barriers," says Fred Burke, M&A Partner in Ho Chi Minh City.

India's retail and insurance sectors: The multi-brand retail sector in India was recently opened up to allow foreign retailers like Wal-Mart and Carrefour to have up to a 51 percent interest in multi-brand stores. But that's only allowed in states that have approved the entry of foreign multi-brand retailers. Foreign investors in the insurance sector are limited to 26 percent ownership despite industry demands to increase the FDI limit to expand the sector. "Because of foreign exchange and capital controls, India did not feel the global economic crisis as much as other countries," says Ashok Lalwani, Chair of Baker & McKenzie's India Practice. "What affected the country more was internal missteps on policy, keeping certain sectors closed or restricted to foreign investment."

6

No Two Are Alike

One high-growth market is not like another

The EIU projects that the G7 economies should see average growth of 1.2% in 2013, while the high-growth market economies surveyed here are forecasted to enjoy average GDP growth of 4.6% for the same period. Of the high-growth markets included in this study, even the lowest projected growth rate (South Africa at 2.8%) is more than double the G7 figure.

EIU GDP Forecast 2013-2016 (%)

	2011	2012	2013	2014	2015	2016
Brazil	2.74	1.00	3.50	3.80	3.50	3.70
China	9.30	7.79	8.50	7.80	7.70	7.30
India	6.86	5.30	6.40	7.20	7.30	7.50
Indonesia	6.46	6.30	6.40	6.50	6.60	6.70
Russia	4.26	3.42	3.30	3.90	4.00	4.10
South Africa	3.46	2.60	2.80	3.80	4.00	4.50
Turkey	8.58	2.70	3.80	5.20	5.20	4.90
Vietnam	5.96	5.03	5.40	6.10	7.10	7.20

2008-2012 EIU Foreign Investment Policy Ranking*

	Score	Rank
Singapore	10.00	1
Brazil	7.30	32
China	6.85	40
Turkey	6.40	52
Vietnam	6.40	52
South Africa	5.95	60
India	5.50	64
Indonesia	5.05	67
Russia	3.70	79
Iran	1.90	82

* The Economist Intelligence Unit ranks the business environments of 82 countries on a 10-pt scale, with 10 points being a perfect score.

High-growth markets also vary according to their policies around foreign investments, with markets like Brazil ranked #32 out of 82 countries over 2008-2012, while Russia ranked #79 during the same period. To put these rankings into context, Singapore was ranked #1 and Iran ranked #82 for their foreign investment policies.

With high-growth markets projected to increase their M&A activity over the near term, companies that want to succeed in cross-border transactions should gain the deepest possible understanding of each market's individual and nuanced environment. In the following section, we offer a brief overview of eight selected high-growth markets and their particular features.

Strategic investors have the advantage in high-growth markets

Strategic and financial investors often have extremely different goals. Strategic buyers are operating companies and look for targets with products or services that they can integrate with their own operations to create long-term value for shareholders. Financial buyers, for example private equity firms, venture capitalists, hedge funds and family offices, seek return on investment by identifying growth companies and ultimately exiting through a sale or IPO. Strategic buyers will look at valuation from a different perspective, focusing more on synergies rather than on cash flow and earnings growth. They tend to know the industry, and have longer-term investment horizons. Financial buyers have considerable transactional experience and tend to conclude deals more quickly. However, their shorter investment horizons make for greater sensitivity to the business cycle.

Executives responding to our survey expressed a strong preference for strategic buyers, with 44% preferring to deal with corporations than with financial buyers. Around 35% of respondents expressed no preference between strategic and financial buyers, while the remaining 21% preferred financial buyers. Respondents who offered additional comments on their choices emphasized that strategic buyers typically have a better understanding of the core business and are driven more by business objectives that add value to the company than purely financial results. Reservations include the fear that private equity firms will want more control over the business than is acceptable, and may strip out essential functions or outsource core processes. However, other respondents see the value in financial buyers who can provide access to capital as well as dealmaking expertise and knowledge of financial engineering. Finally, some proponents of financial buyers believe that they will be more likely than strategic buyers to keep current management in place.

7

High-Growth Market Country Profiles

Brazil:
One of the most attractive destinations among the BRICS markets

Brazil's large and growing domestic market, diversified economy and political stability make the country one of the most attractive among emerging market investment destinations. A strong financial system and openness toward foreign investment are some of the country's principal strengths. However, the complex tax system and high tax burden, as well as weaknesses in public services, will continue to weigh on the business environment.

According to our survey results, slightly more than 70% of Brazil-based respondents cite legal and regulatory issues as the operating risks that most strongly affect their businesses, while approximately 60% highlight tax policy and weak infrastructure as the most significant operating risks. In terms of cross-border activity originating in this market, Brazil ranked behind only China in the number of transactions valued at more than US$1 billion in the last five years. The vast majority of Brazil-based respondents predicted their companies will be increasing cross-border transactions over the next two years, with 48% attributing the increase to changes in corporate growth strategies.

Trench Rossi e Watanabe's perspective

Brazil's regulatory issues

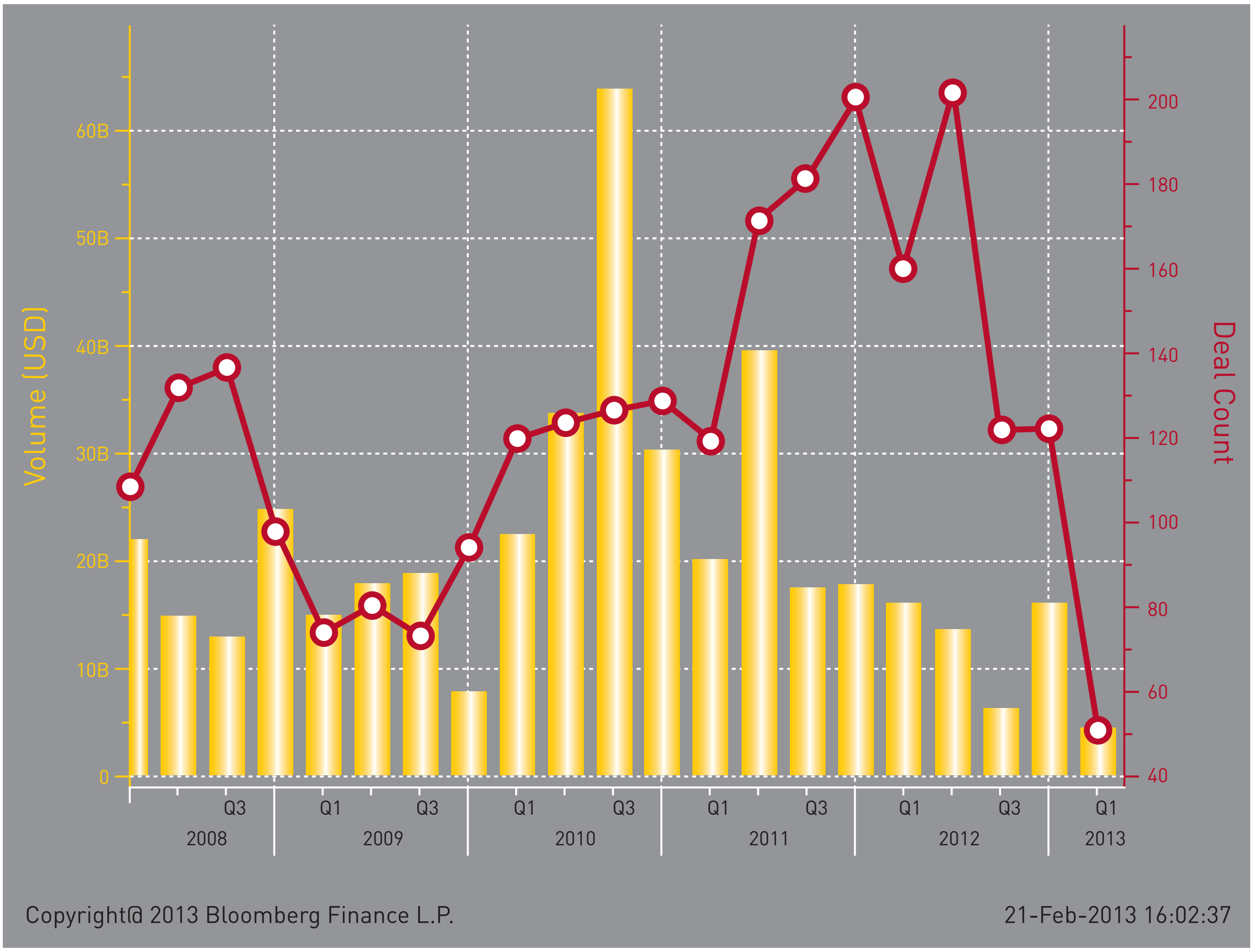
"Many foreign oil companies have come to Brazil to establish operations because they wanted to participate in the auction for a piece of the Pre-Salt area, one of the largest oil field discoveries in 30 years. Now some of them have left the country because nothing has happened for two years. Our government isn't moving fast enough to sustain the expectations of foreign investors."

: Anna Mello, M&A Partner, Trench Rossi e Watanabe Advogados associated with Baker & McKenzie International, Rio de Janeiro

Top 10 Brazilian M&A deals from February 2012 - February 2013				
Date	Target Name	Acquirer Name	Announced Total Value (USD mil.)	Payment Type
30-Mar-12	Cimpor Cimentos de Portugal SGPS SA	Camargo Correa SA	5,431.06	Cash
8-Oct-12	JPLSPE Empreendimentos e Participacoes SA	UnitedHealth Group Inc	3,201.13	Cash
20-Apr-11	PortX Operacoes Portuarias SA	MMX Mineracao e Metalicos SA	2,091.43	Stock
26-Mar-12	EBX Group Co Ltd	Mubadala Development Co PJSC	2,000.00	Cash
3-May-12	Cia de Gas de Sao Paulo	Cosan SA Industria e Comercio	1,765.04	Cash
6-Aug-12	Participes De Brasil SL	Abertis Infraestructuras SA,Brookfield Infrastructure Partners LP	1,659.84	Cash and Stock
23-Oct-12	Serasa SA	Experian PLC	1,528.37	Cash
14-Nov-12	Properties Portfolio in Brazil	Government of Singapore Investment Corp Pte Ltd,Canada Pension Plan Investment Board,China...	1,450.00	Undisclosed
28-Jun-12	Centrais Eletricas do Para SA	Equatorial Energia SA	1,185.89	Cash
16-Apr-12	Cerveceria Nacional Dominicana SA	Cia de Bebidas das Americas	1,000.00	Cash

Source: Bloomberg

Brazil total M&A deal volume 2008-2013 (Source: Bloomberg)



Russia: Increasingly attractive with an expanding consumer market

Russia's appeal as an investment destination is increasing, based largely on its burgeoning consumer market and expanding industrial base. According to Ernst & Young's 2012 Attractiveness Survey, 19% of the investors they spoke with rated the country one of the most attractive global investment destinations, up 8 percentage points over the 2011 figure. This was the largest increase for any destination. However, long-standing weaknesses in the investment environment will persist as market-oriented policies are likely to be mixed with increased state intervention in some areas.

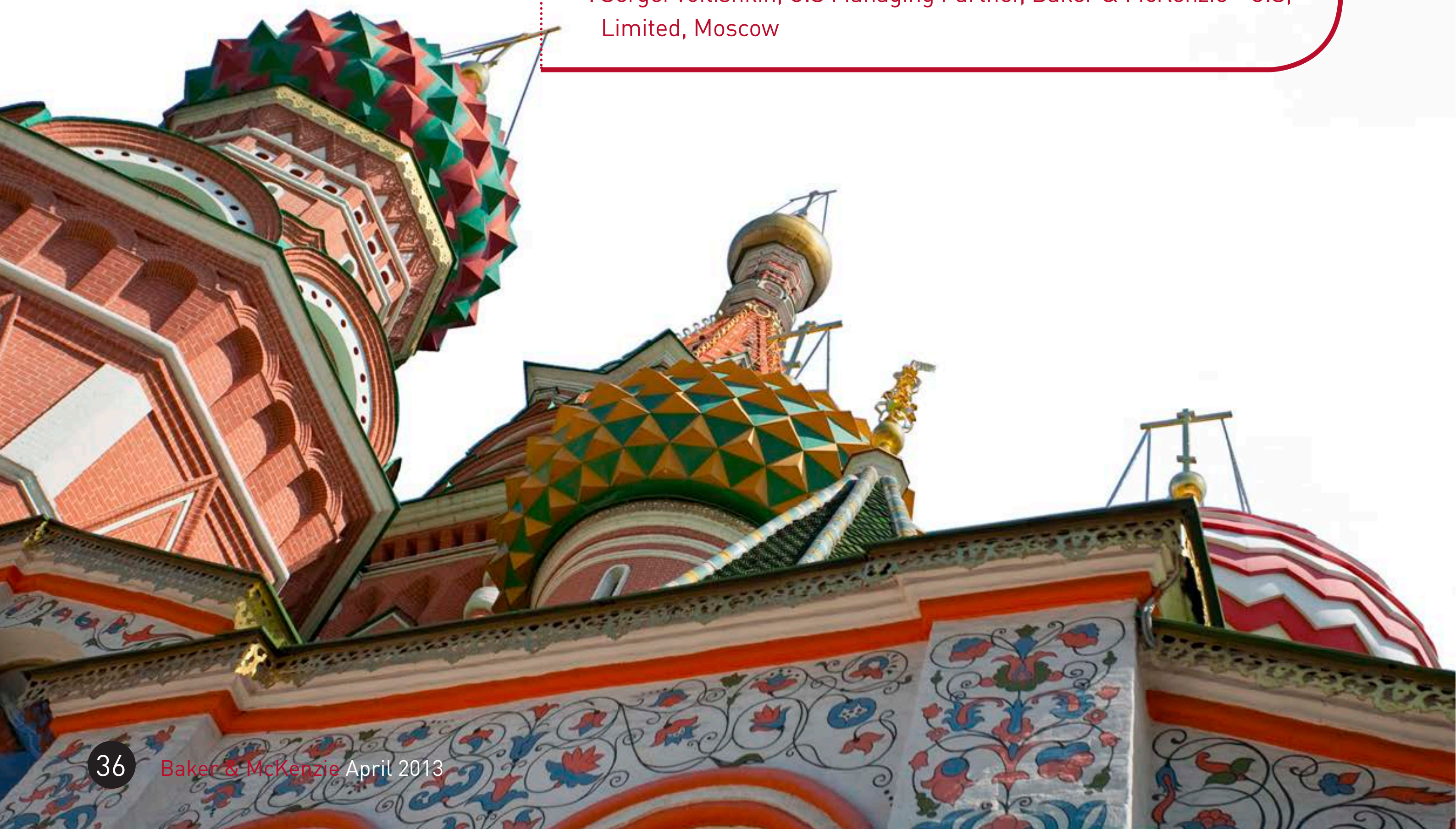
Last year, cross-border M&A transactions involving Russia (i.e., including both Russian acquirers and Russian targets) totaled US$78 billion. Unlike respondents from other high-growth markets included in this study, who cited ease of doing business as the most important factor facilitating cross-border transactions, Russian respondents emphasized openness to foreign investment as the most significant factor. Like the Chinese, 42% of Russian-based executives surveyed cited valuation misalignment as one of the most prevalent obstacles to cross-border deals, while 59% cited operating risks such as weak infrastructure and legal/regulatory issues as factors that strongly or very strongly affected their businesses.

Baker & McKenzie's perspective

Russia's overseas challenges

"Russia is expanding into other parts of the world but it's difficult because there's a lot of competition and politics."

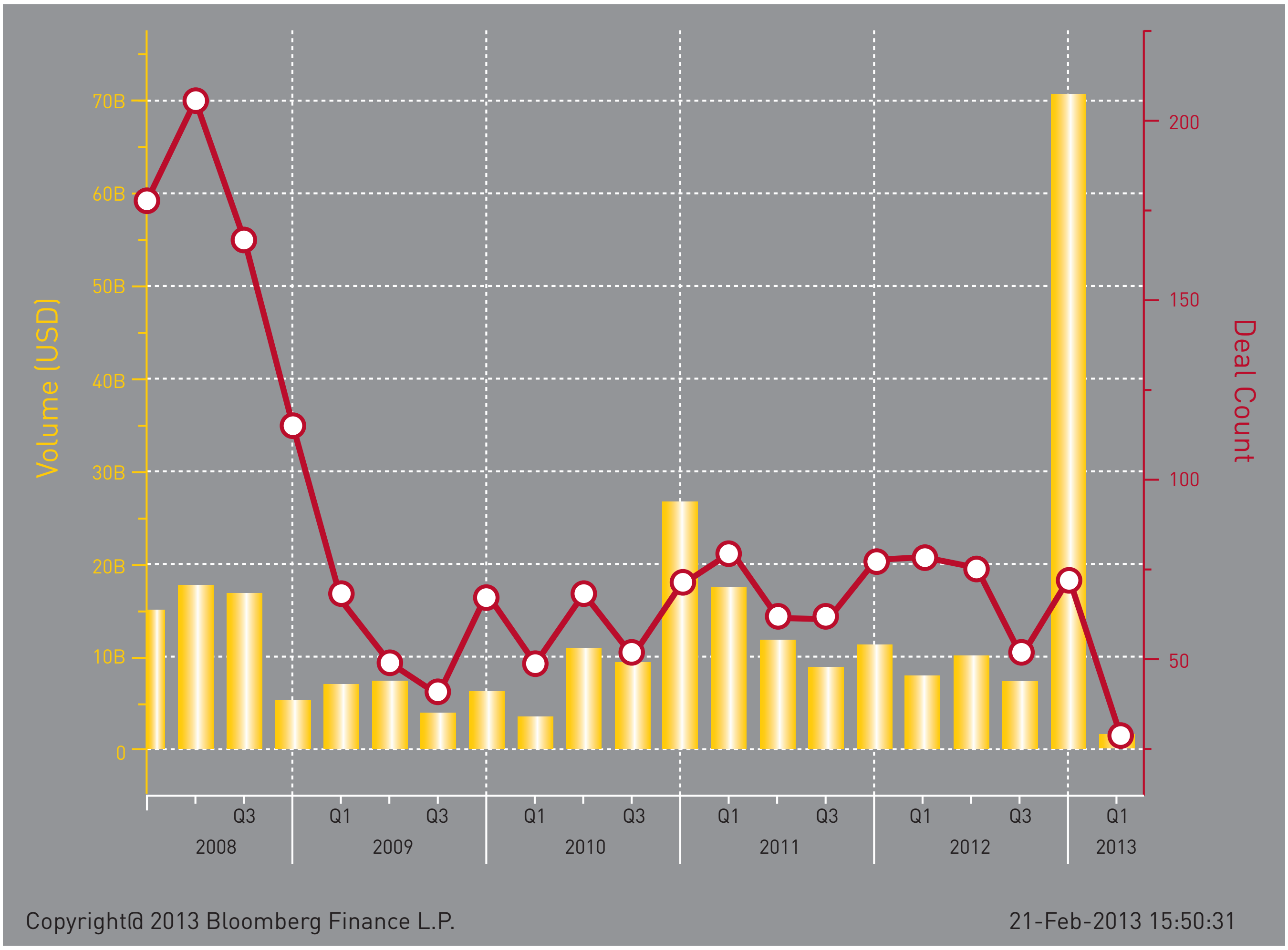
: Sergei Voitishkin, CIS Managing Partner, Baker & McKenzie - CIS, Limited, Moscow



Top 10 Russian M&A deals from February 2012 - February 2013				
Announce Date	Target Name	Acquirer Name	Announced Total Value (USD mil.)	Payment Type
15-Aug-12	VimpelCom Ltd	Alfa Group	3,600.00	Cash
8-Jun-12	Denizbank AS	Sberbank of Russia	3,542.52	Undisclosed
3-May-12	AvtoVAZ OAO	Renault-Nissan BV	2,317.60	Cash
29-Feb-12	Severstal OAO	Shareholders	2,268.96	
24-Apr-12	MegaFon OAO	MegaFon OAO	2,160.00	Cash
17-Oct-12	Freight One Co OJSC	Nezavisimaya Transportnaya Kompaniya OOO	1,625.71	Cash
24-Apr-12	MegaFon OAO	AF Telecom Holding	1,610.00	Cash
24-Apr-12	Telecominvest OJSC	AF Telecom Holding	1,450.00	Cash
4-Feb-13	Metropolis shopping center	Morgan Stanley	1,200.00	Cash
4-Oct-12	Corber Enterprises Ltd	Evraz PLC	1,086.44	Cash and Stock

Source: Bloomberg

Russia total M&A deal volume 2008-2013 (Source: Bloomberg)



India:

Striving to be more investor-friendly and reform-minded

Liberalization of the economy and a growing need for investment, particularly in infrastructure and industry, have resulted in a more investor-friendly climate in India. The government has undertaken a series of modest economic reforms since September 2012 to tackle the fiscal deficit and boost foreign investment. Nearly all sectors of the economy (with the exceptions of nuclear energy, gambling and some forms of retail and services) are now open to foreign investment, although in varying degrees.

Despite a strong economic outlook, India saw a decrease in cross-border M&A activity while domestic M&A remained consistent with 2011 totals. Among high-growth country respondents to the survey, more Indian executives (48%) viewed protectionist policies as an impediment to successful transactions. These investors may be influenced by India's own historically protectionist stance. The survey indicated that compared to other high-growth market respondents, a larger number of Indian-based executives (46%) also viewed the political environment as one of the most important factors in considering cross-border transactions.

Baker & McKenzie's perspective

India's new overseas outlook

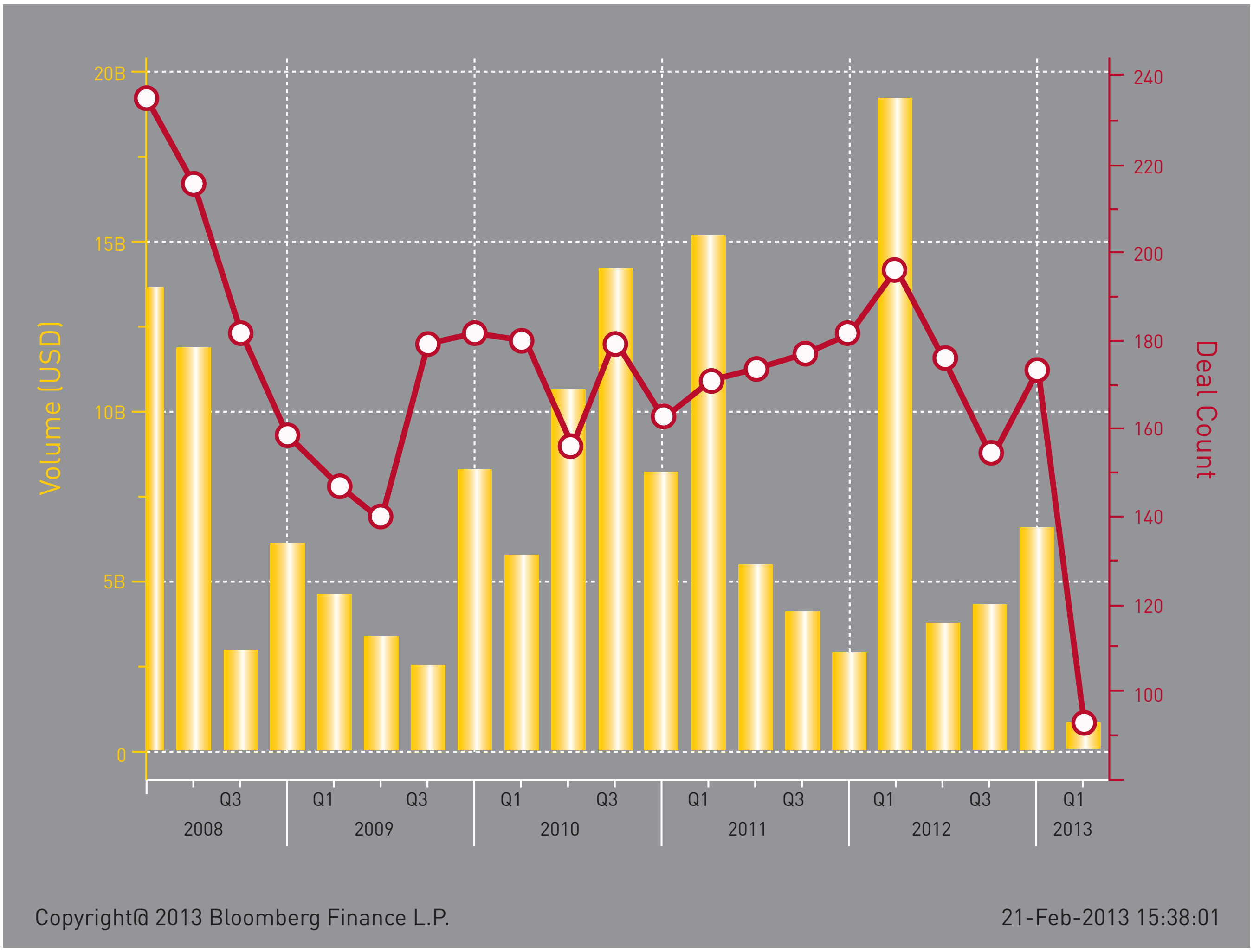
“ Acquisitions by Indian companies are much smaller than they used to be five years ago, when multibillion-dollar deals were commonplace. They've been taking stock of what they already have and being more strategic about what they target. They're also focusing more on M&A in the local market as acquisitions overseas have become more expensive. ”

: Ashok Lalwani, Chair of Baker & McKenzie's India Practice

Top 10 Indian M&A deals from February 2012 - February 2013				
Announce Date	Target Name	Acquirer Name	Announced Total Value (USD mil.)	Payment Type
25-Feb-12	Sterlite Industries India Ltd	Sesa Goa Ltd	6,853.62	Stock
25-Feb-12	Cairn India Ltd	Sesa Goa Ltd	5,900.00	Cash
26-Nov-12	Kashagan assets	Oil & Natural Gas Corp Ltd	5,000.00	Cash
18-Oct-12	Orient-Express Hotels Ltd	Indian Hotels Co Ltd,Montezemolo & Partners SGR SpA	1,573.36	Cash
3-Sep-12	JSW ISPAT Steel Ltd	JSW Steel Ltd	1,360.84	Stock
21-Mar-12	Satyam Computer Services Ltd	Tech Mahindra Ltd	1,226.56	Stock
9-Nov-12	United Spirits Ltd	Diageo PLC	1,046.98	Cash
6-Nov-12	Houghton International Inc	Gulf Oil Corp Ltd	1,045.00	Cash
7-Sep-12	Multiple Targets	Oil & Natural Gas Corp Ltd	1,000.00	Cash
22-Oct-12	Rutgers Belgium NV	Rain Commodities Ltd	916.74	Cash

Source: Bloomberg

India total M&A deal volume 2008-2013 (Source: Bloomberg)



China:
An emerging market darling breaking records for growth

With the economy expected to expand by 8.5% this year, China remains the world's most rapidly growing market, as well as the second-biggest economy. Last year China reported 704 transactions for total M&A activity of US$147.88 billion. Of this figure, US$52 billion was cross-border activity. According to the survey, of the 31 respondents reporting individual transactions over US$1 billion, 14 were with Chinese companies.

Of the US$52 billion in cross-border deals, the majority were outbound, as Chinese companies have developed a near-insatiable appetite for acquiring assets abroad. EIU data released in April 2013 indicates that Chinese companies rank the US as the destination they are most likely to target for outbound deals, followed by Asian countries including Singapore, Hong Kong, Japan and Australia. However, incoming deals are becoming less prolific, particularly following the 2011 implementation of the National Security Review of Mergers and Acquisitions—which effectively allows influential domestic market players to block any deal that they perceive to be threatening.

Baker & McKenzie's perspective

China's unique outbound hurdle

“Chinese companies have particular challenges in cross-border M&A because they are state-owned enterprises, which causes concern in countries like the US, Australia and Canada. Those governments can reject a proposed acquisition by a Chinese company on grounds of national security, which creates a lot of deal uncertainty for Chinese investors.”

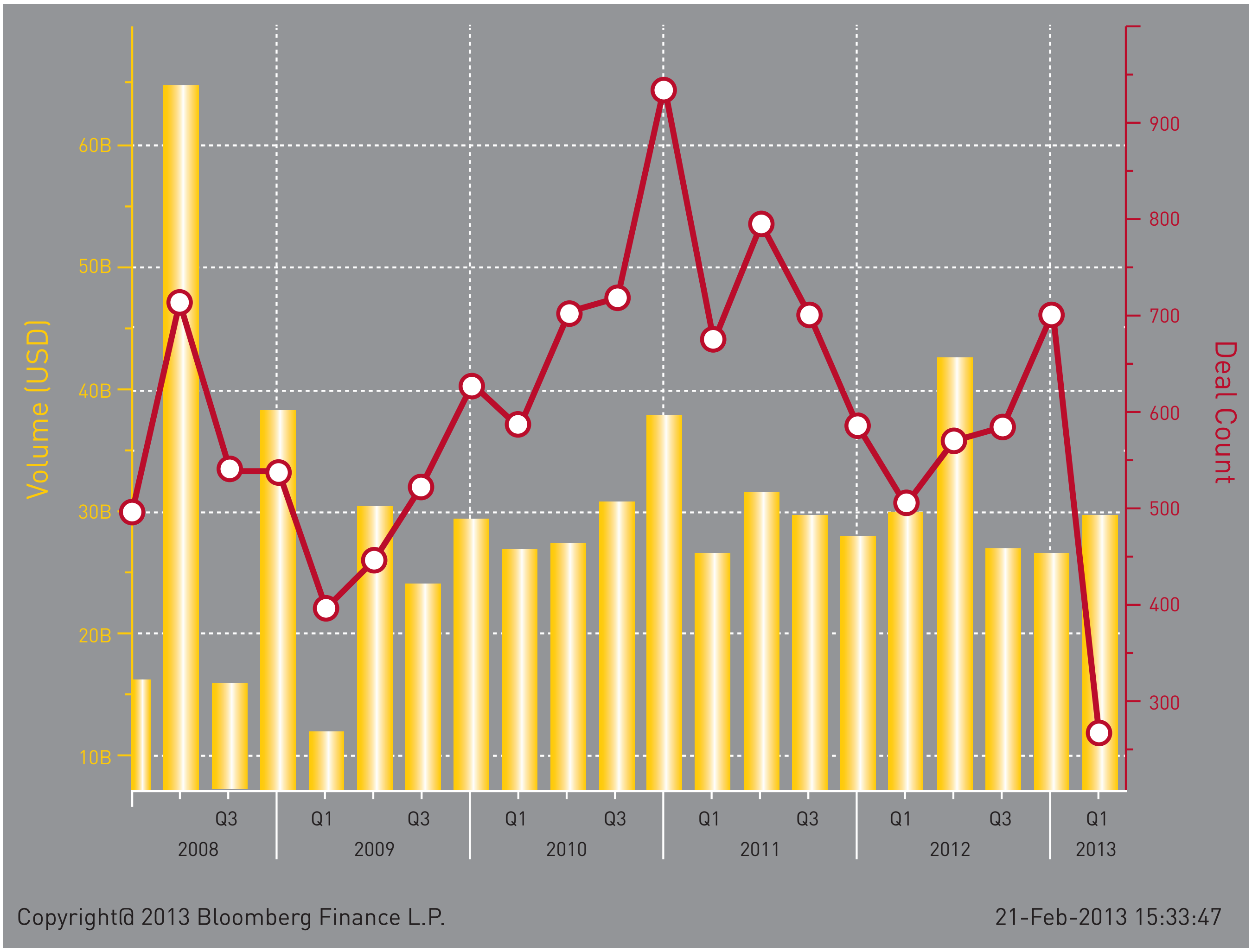
: Stanley Jia, M&A Partner, Baker & McKenzie Beijing Office

Recently the Chinese Ministry of Commerce told *China Daily* that between 2008 and 2011, outward FDI grew at an annualized rate of 44%. As the country seeks to feed its resource-hungry development, mining, manufacturing and power generation are among the most favored sectors for Chinese investors. However, according to the government agency, many deals have suffered as a result of lack of operating experience and weak risk controls. The survey found Chinese respondents focus on valuation misalignment as one of the greatest non-legal obstacles to transactions.

Top 10 Chinese M&A deals from February 2012 - February 2013				
Announce Date	Target Name	Acquirer Name	Announced Total Value (USD mil.)	Payment Type
21-May-12	Alibaba Group Holding Ltd	Alibaba Group Holding Ltd	7,100.00	Cash and Stock
22-Aug-12	CDMA Network Assets	China Telecom Corp Ltd	3,876.11	Cash
21-May-12	AMC Entertainment Holdings Inc	Dalian Wanda Group Corp Ltd	2,600.00	Cash
21-Feb-12	Alibaba.com Ltd	Alibaba Group Holding Ltd	2,353.93	Cash
21-Nov-12	Unicom Xinshikong Communication Co Ltd	China Unicom Hong Kong Ltd	1,954.09	Cash
14-Nov-12	Properties Portfolio in Brazil	Government of Singapore Investment Corp Pte Ltd,Canada Pension Plan Investment Board,China...	1,450.00	Undisclosed
10-Jun-12	China Unicom Hong Kong Ltd	China United Network Communications Ltd	1,414.15	Cash
11-May-12	Multiple Targets	Beijing Jingneng Thermal Power Co Ltd	1,409.92	Stock
22-Dec-11	Gloucester Coal Ltd	Yanzhou Coal Mining Co Ltd	1,299.31	Stock
3-May-12	Weetabix Ltd	Bright Food Group Co Ltd	1,165.18	Cash

Source: Bloomberg

China total M&A deal volume 2008-2013 (Source: Bloomberg)



South Africa:

Africa's largest economy and open for business

South Africa is an important center of business for all of Sub-Saharan Africa, boasting the largest economy on the continent and a government committed to developing a free market. Long regarded as a gateway to Africa, the country has the continent's fifth-largest population and was acknowledged as a crucial market for investors when it was added to the BRICS bloc of countries in December 2010. Further, the EIU projects that the country's GDP will increase to 2.8% in 2013 and 3.8% in 2014, well above the level for G7 economies.

South Africa's infrastructure is by far the best on the continent, as home to 80% of the continent's rail network and to the region's biggest stock exchange. It also has the largest middle class, proportional to its population, of any African country. In the World Bank's "Ease of Doing Business" index, South Africa ranks 35th out of 183 and second in Africa (after Mauritius). For the soundness of auditing standards and the regulation of its securities exchanges, it is second to none. According to Mr. Lucky Phakeng, the Executive Director of the Takeover Regulation Panel, the country's M&A regulations are distinctive in that South Africa requires that the target valuation price be disclosed, thus providing additional transparency to investors.

Baker & McKenzie's perspective

South Africa's growth potential

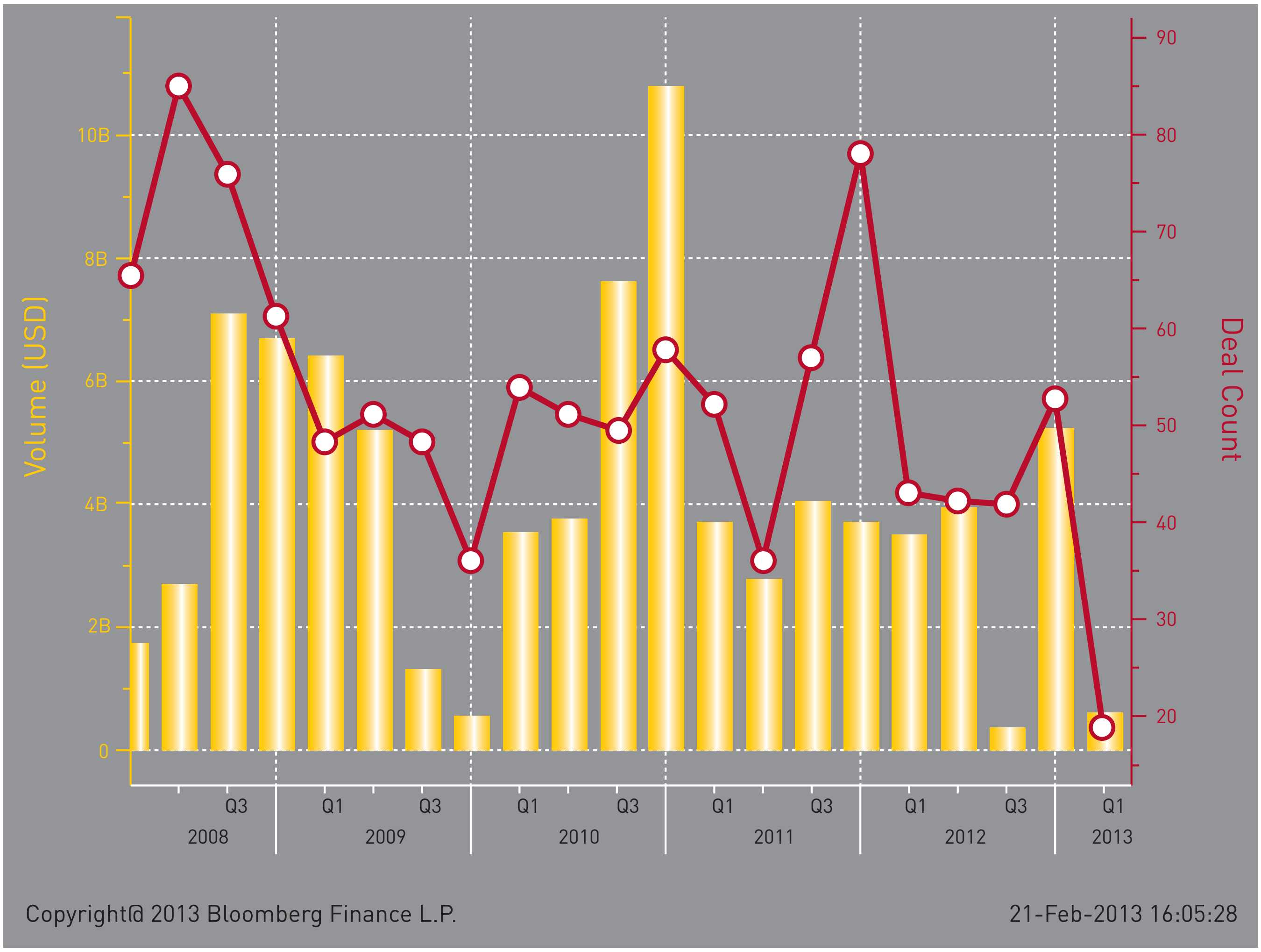
"Investors are attracted to South Africa because of the high rates of return on investment plus anticipated capital appreciation. Success stories involving investment from nontraditional markets like China and India have also stimulated international M&A interest."

: Morne van der Merwe, M&A Partner, Baker & McKenzie Johannesburg

Top 10 South African M&A deals from February 2012 - February 2013				
Announce Date	Target Name	Acquirer Name	Announced Total Value (USD mil.)	Payment Type
29-Nov-12	Sibanye Gold Ltd	Shareholders	1086.36	
7-Jun-12	Consolidated Infrastructure Group Ltd	Shareholders	1064.39	
11-Jul-12	Mondi Consumer Packaging International AG	Mondi Ltd,Mondi PLC	781.81	Cash
24-Apr-12	Scaw South Africa Pty Ltd	Industrial Development Corp of South Africa Ltd, Shanduka Group Pty Ltd, Izingwe Holdings	435.23	Cash
27-Mar-12	Optimum Coal Holdings	Glencore International PLC, Lexshell 849 Investments Proporietary Ltd	406.07	Cash
31-May-12	Impala Platinum Holdings Ltd	Shareholders	402.49	
28-Nov-12	MTN Nigeria Communication Ltd	Shanduka Group Pty Ltd	335	Undisclosed
2-Mar-12	First Uranium Pty Ltd South Africa	AngloGold Ashanti Ltd	335	Cash
12-Jun-12	Avusa Ltd	New Bond Capital Ltd	286.3	Cash or Stock
15-Aug-12	25 Classic Brands	Aspen Pharmacare Holdings Ltd	269.76	Cash
10-Jan-12	African Iron Ltd	Exxaro Resources Ltd	254.19	Cash

Source: Bloomberg

South Africa total M&A deal volume 2008-2013 (Source: Bloomberg)



Indonesia:

Short-term concerns cloud an otherwise improving investment climate

A gradual consolidation of Indonesia's 13-year old democracy is helping improve long-term prospects for investment in Southeast Asia's largest economy. Yet uncertainty ahead of parliamentary and presidential elections scheduled for 2014 seems to be keeping some investors on the sidelines in the short term, at least according to a survey by The American Chamber of Commerce in Indonesia.

On the bright side, investors are able to borrow on reasonably straightforward terms domestically—unlike in several other Asian markets—and local financing can hedge against exchange rate risk. However, the country's investment environment continues to suffer from considerable restrictions on foreign investment, with certain sectors completely restricted (e.g., communications, ports and gambling) and investment in others such as natural resources, banking and mining either limited or subject to requirements on foreign investors to begin divesting ownership to locals within specified timeframes. The government is currently discussing additional restrictions on foreign ownership in the mining sector to increase opportunities for national companies, and in the run-up to the 2014 presidential election a more nationalistic tone with respect to mining regulation could discourage foreign investment.

Baker & McKenzie's perspective

Uncertainty in the Indonesia market

"I always tell clients, 'Either you will make a lot of money in Indonesia or you will lose a lot.' You have to come into this market with your eyes wide open, with a considered plan and foresight in managing an enterprise in an emerging market."

: Mark Innis, M&A Foreign Legal Consultant, Hadiputranto, Hadinoto & Partners, Jakarta

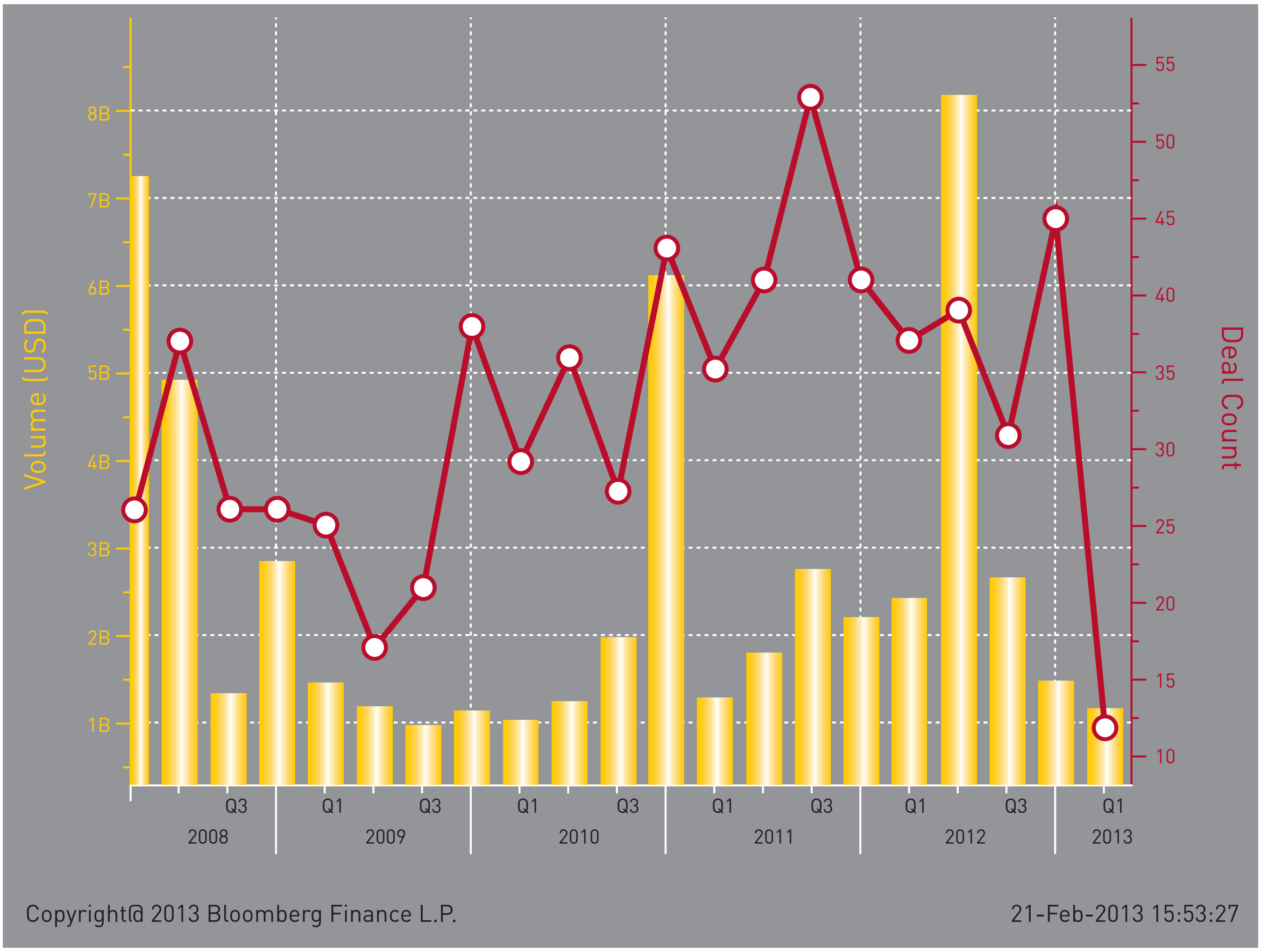
The American Chamber of Commerce in Indonesia surveyed 356 members across seven Southeast Asian countries in June/July of 2012, and only 25% cited plans to expand in Indonesia in the near future, compared to 72% in 2011. Factors underlying the significant decline were unclear, but respondents regularly state that government regulations, corruption, infrastructure and protectionism continue to be top concerns.

Over the past 12 months, Indonesia saw US$11.7 billion in cross-border transactions. Among high-growth market respondents, Indonesian executives reported the greatest increase in cross-border M&A over the past five years with 67% of respondents stating that activity had moderately or significantly risen.

Top 10 Indonesian M&A deals from February 2012 - February 2013				
Announce Date	Target Name	Acquirer Name	Announced Total Value (USD mil.)	Payment Type
27-Aug-12	Sakari Resources Ltd	PTT PCL	1,122.49	Cash
9-Jul-12	NUSANTARA REGAS SATU	Golar LNG Partners LP	385.00	Cash
29-Jun-12	Ganda Alam Makmur PT	LG International Corp	212.57	Cash
27-Apr-12	Garuda Indonesia Persero Tbk PT	Trans Airways PT	166.51	Cash
13-Jun-12	Asuransi Jaya Proteksi PT	ACE Ltd	130.00	Cash
21-Sep-12	Multiple Targets	First Real Estate Investment Trust	116.78	Cash
21-Dec-12	API Metra Graha PT	Medco Energi Internasional Tbk PT	101.61	Cash
30-Aug-12	Rutan PT	Iseki & Co Ltd	93.75	Cash
10-Aug-12	Block 9/Yemen	Medco Energi Internasional Tbk PT	90.00	Cash
16-Jun-12	Garuda Adhimatra Indonesia PT	Alam Sutera Realty Tbk PT	78.47	Cash

Source: Bloomberg

Indonesia total M&A deal volume 2008-2013 (Source: Bloomberg)



Turkey:
A rising star in a strategic location

In 2011, Turkey saw GDP growth of 8.58%, and rivaled China in terms of expansion, becoming the 16th-largest economy among the 30 OECD countries. Growth fell to 2.7% for 2012, largely attributable to contamination from the Eurozone, and is projected at 3.8% in 2013.

Cross-border transactions totaled approximately US$7 billion last year, with Russians being some of the keenest investors. Turkish respondents to the EIU's survey were the most satisfied with M&A activity. All reported that they were pleased or very pleased with the outcomes of their transactions. Given the overall satisfaction with cross-border investing, it appears that Turkish companies are set to increase activity over the next two years, with 82% expecting transactions to moderately or significantly increase. While economies of scale ranked as the most important factor in assessing acquisition targets for several high-growth market respondents, Turkey placed the greatest emphasis (73%) on this factor.

Baker & McKenzie's perspective

How Turkey became so attractive

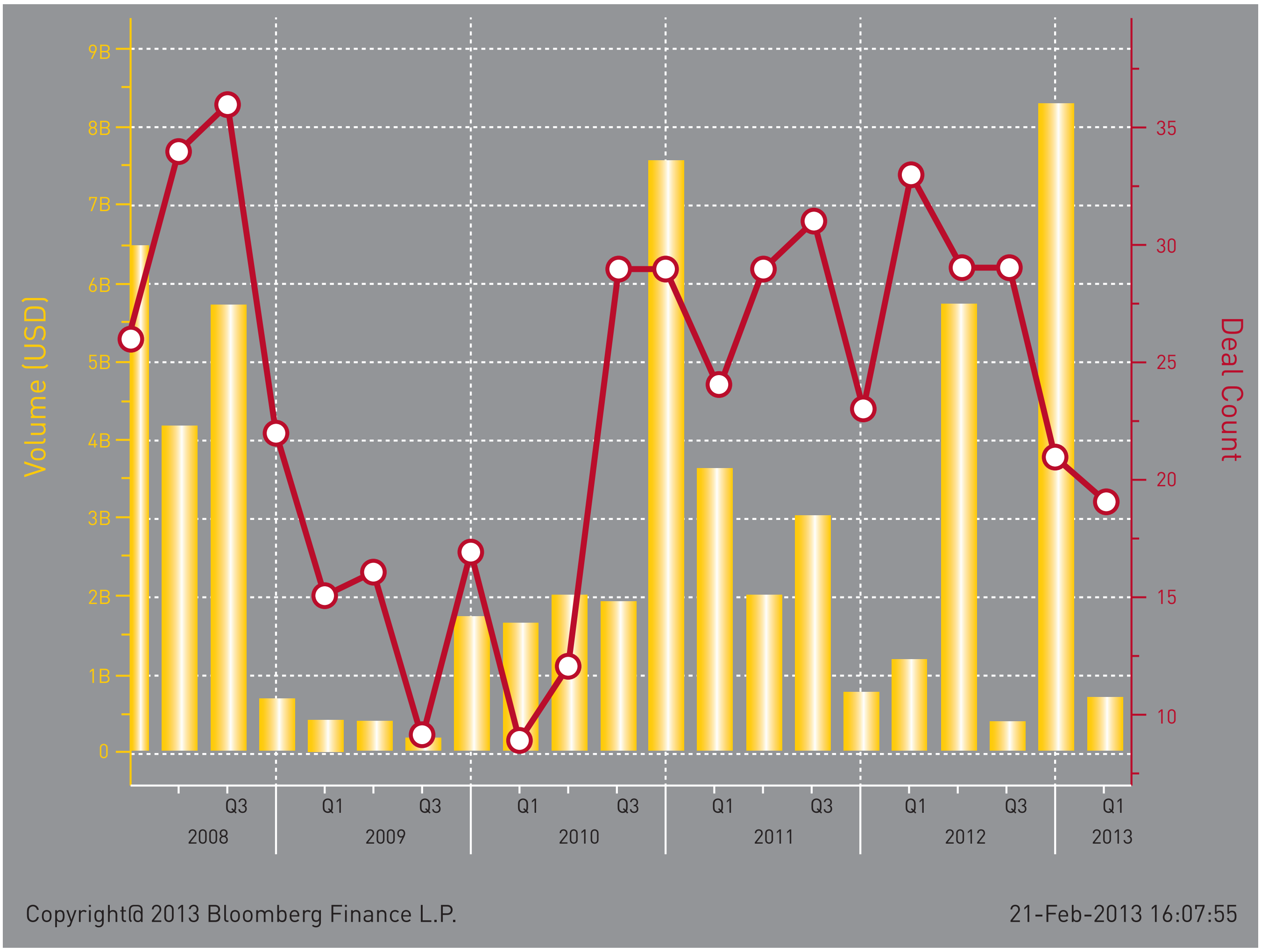
“Turkey went through its own banking crisis in 2001. As a result, the government passed legislation to limit risky lending practices and strengthen bank capitals. Because of those reforms, we didn't even feel the global economic crisis. Turkish banks didn't lose money, which made Turkey an attractive market for foreign investment.”

: Ismail Esin, M&A Partner, Esin Attorney Partnership, Istanbul

Top 10 Turkish M&A deals from February 2012 - February 2013				
Announce Date	Target Name	Acquirer Name	Announced Total Value (USD mil.)	Payment Type
8-Jun-12	Denizbank AS	Sberbank of Russia	3542.52	Undisclosed
12-Mar-12	TAV Havalimanlari Holding AS	Aeroports de Paris	874	Undisclosed
25-Apr-12	Mustafa Nevzat Ilac Sanayi AS	Amgen Inc	669.2	Cash
9-Apr-12	Burgan Bank AS	Burgan Bank SAK	356.13	Cash
29-May-12	Multiple Targets	Dogan Sirketler Grubu Holding AS	299.57	Cash
14-May-12	Kumas Manyezit	Gozde Girisim Sermayesi Yatirim Ortakligi AS	285.5	Cash
24-Jan-13	Akdeniz Kimya Sanayi Ve Ticaret AS	Oyak Girisim Danismanligi AS	280	Undisclosed
25-Jun-12	Pronet Guvenlik ve Danismanlik Hizmetleri AS	Cinven Ltd	200	Cash
12-Dec-12	Trakya Elektrik Uretim ve Ticaret AS	Inter Rao Ues OAO	67.5	Cash
3-Jan-13	Olmuksa International Paper Sabanci Ambalaj Sanayi	International Paper Co	56	Cash

Source: Bloomberg

Turkey total M&A deal volume 2008-2013 (Source: Bloomberg)



Vietnam: Considerable opportunity, even as growth decelerates

Vietnam experienced an economic boom in 2005-07, with the economy growing at 8% annually and foreign investment flowing in. Since then, rising business debt, increased competition and a recent (September 2012) crisis in the banking system, has seen Vietnam growth decelerate to an average 5%-6%. Yet these are still fast growth rates compared to the developed world. According to one local M&A advisor, the consumer goods and fast-moving consumer goods (FMCG) sectors remain extremely attractive to international investors given demographic factors including a large young population eager to follow international trends. Moreover, the FMCG sector is a principal source of acquisition targets as it is one of the few sectors in which strong local brands have been developed over the past 10-15 years and remain privately held. These relatively strong companies are well-known brands; and foreign companies are able to acquire majority shares.

Baker & McKenzie's perspective

Vietnam's dependence on foreign trade

"In Vietnam, international trade accounts for a bigger part of the economy than in most other countries and they have a lot of foreign investment that is heavily impacted by trade agreements. When I got to Vietnam 20 years ago, two-way trade with the entire planet was less than US$5 billion. Today it has grown to US$113 billion in imports and slightly more in exports. Trade issues hit home to tens of millions of people in Vietnam and they are a source of everyday conversation."

: Fred Burke, M&A Partner, Baker & McKenzie (Vietnam) Ltd., Ho Chi Minh City

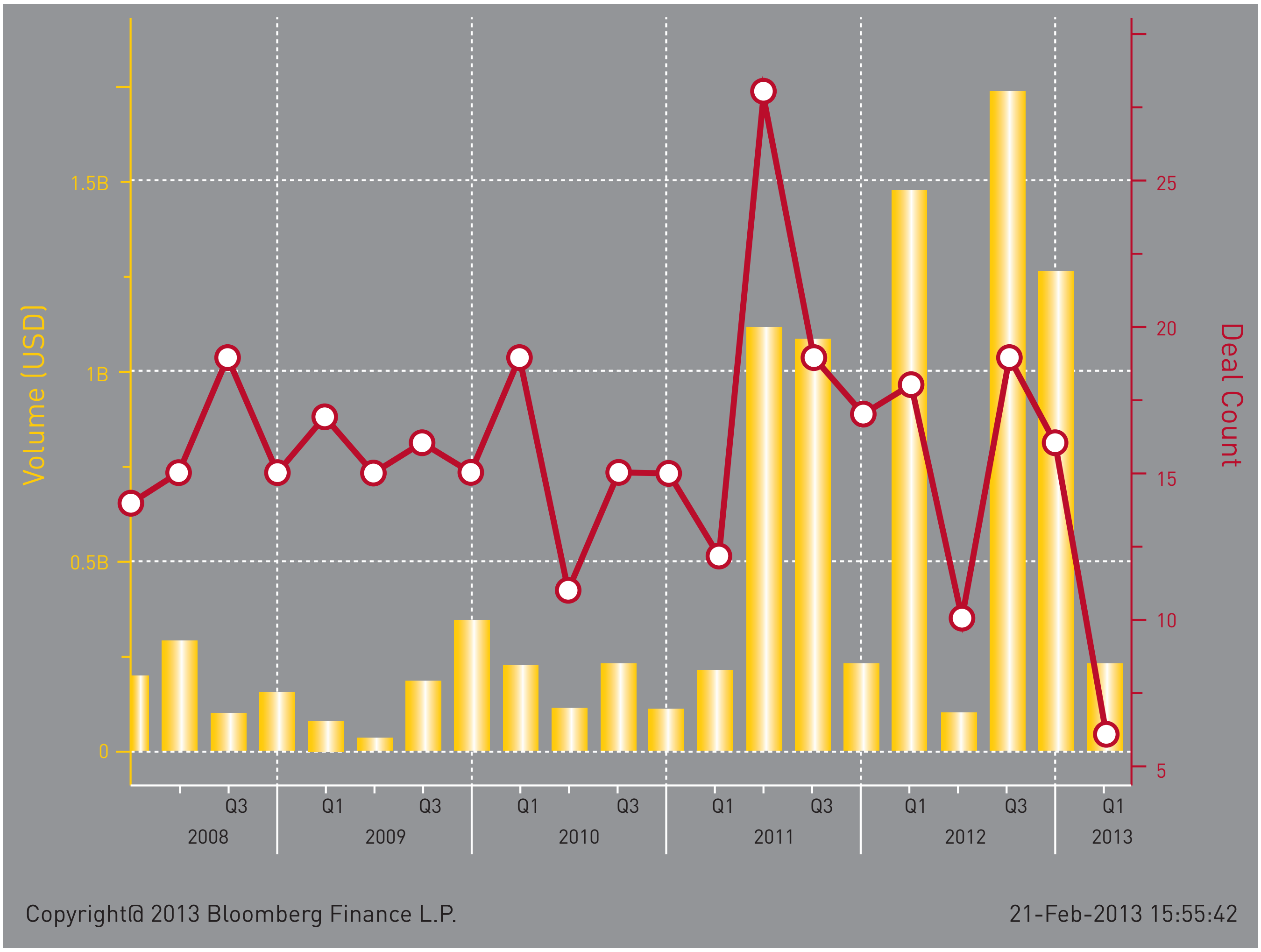
State enterprises still account for 40% of the country's output and issues surrounding less-than-competent but well-connected managers working in an atmosphere of bloated spending, graft and misallocation of resources drag down performance. The government continues to resist reducing the role of state enterprises in the economy, although efforts are slowly being made to reform these companies. Growth is still estimated at 5.2% in 2013.

Vietnam saw only US$3 billion in cross-border activity in 2012, but this constituted more than 90% of the country's M&A activity. As Vietnam is one of the most open economies in the world (exports of goods and services account for more than 80% of GDP) it is not suprising that Vietnam-based respondents to the EIU's survey see foreign trade issues as a significantly greater concern than do other high-growth market executives, with 77% of respondents saying these issues would affect their businesses strongly or very strongly. In terms of mitigating execution risk, Vietnamese respondents (62%) place significant emphasis on both employee buy-in/management retention and partial buyouts.

Top 10 Vietnamese M&A deals from February 2012 - February 2013				
Announce Date	Target Name	Acquirer Name	Announced Total Value (USD mil.)	Payment Type
5-Mar-12	Vi Vi Media Trading Corp	GS Home Shopping Inc	150	Cash
10-Aug-12	Hanoi Building Commercial Joint Stock Bank	Saigon - Hanoi Commercial Joint Stock Bank	127.23	Stock
2-Jul-12	SOCO Vietnam Ltd	Soco International PLC	95	Cash
15-Jul-12	Kenh Dong Water Supply JSC	Manila Water Co Inc	50	Cash
26-Jul-12	PVI Holdings/Vietnam	HDI Haftpflichtverband der Deutschen Industrie VaG	26.87	Cash
17-Apr-12	AAA Assurance Corp	Insurance Australia Group Ltd	20.82	Cash
5-Jun-12	Multiple Targets	Intel Capital Corp	17	Cash
8-Feb-13	Life Heritage Resort Hoi An and Life Resort Quy Nh	Minor International PCL	16	Cash
26-Apr-12	Ho Chi Minh City Infrastructure Investment JSC	Ayala Corp	15.9	Cash
28-Aug-12	Mekelong Vietnam Co Ltd	Twilight Profitable Enterprise Corp	7.06	Cash

Source: Bloomberg

Vietnam total M&A deal volume 2008-2013 (Source: Bloomberg)



Case Study

Russia's INTER RAO acquires 90% stake in Turkey's TrakyaElektrik

On December 11, 2012, INTER RAO acquired a 90% stake in TrakyaElektrik, paying US$67.5 million. INTER RAO characterized the transaction as the first milestone in a long-term strategy that will strengthen the company's presence in the region and provide a substantial platform for further expansion in Turkey.

According to Ivan Pronin, Director and Head of the M&A Department, and Oksana Maksimovich, Head of the M&A Division, Europe is a target area for INTER RAO, with Turkey, Poland, the Commonwealth of Independent States (CIS) and the Balkan States of particular interest. The continued privatization and liberalization of energy markets in the region (particularly in Turkey), the current relatively low cost of energy assets and the shutdown of nuclear programs in the wake of the Fukushima disaster all work together to make the region attractive.

One of the biggest lessons Mr. Pronin's team learned during the Trakya deal was that the government approval process is extremely difficult to project. INTER RAO's timeline estimated two months to receive the approvals, while the process actually took five months to complete.

Unexpected legal hurdles can also present problems. For example, at the close of the transaction in December, changes in the Turkish Commercial Code remained forthcoming. Pending legislation had the potential to involve significant changes in corporate governance, possibilities for reorganization, and implications for Turkish commercial assets.

Ms. Maksimovich emphasized that due diligence is critical, and the company follows the same due diligence procedure whether looking at developed or high-growth market companies. An investment decision is based solely on the internal rate of return (IRR), and the only difference between developed and high-growth markets is a higher IRR requirement for the latter to compensate for the increased level of country, regulatory, environmental and other risks.

Finally, both Pronin and Maksimovich agree on one essential point—good integration planning is the key to success, and planning at the pre-transaction stage is one of the most important steps for any company to successfully conclude a deal.

Conclusion: High-growth markets will continue to drive cross-border deal volumes

Although the executives surveyed may not agree on where or how to do deals, they find common ground in predicting a more active future for global M&A and a significant role for high-growth markets. In the high-growth markets considered in this report, almost half of respondents said they would continue to make acquisitions at the same pace, compared with only a quarter from developed markets, and they expect to expand their presence in the cross-border market.

Nonetheless, the global crises and economic upheavals over the past five years have left their mark, and organizations across the board are likely to approach deals with greater caution. Companies that want to succeed will spend more time on due diligence and risk management and, most of all, pre-transaction integration planning. Meanwhile, high-growth and developed market companies alike will seek to identify economically viable targets in politically stable, growth-oriented environments. Respondents participated in the survey as economic turmoil in Europe was still fresh in the minds of investors, ramping up risk aversion around the globe; yet they still reported an anticipated uptick in planned deal making. With developed economy growth remaining sluggish and more companies sitting on heaps of cash, it only makes sense that companies looking for growth will turn to high-growth markets.

As high-growth markets become more active in M&A, new risks will also emerge. However, executives are still optimistic about growth strategies over the next two years. Business is no longer limited by borders, and in the 21st century companies able to adapt to new environments and accurately assess and mitigate the risks that accompany expanding opportunities will be able to achieve new levels of success.

This report is published by Baker & McKenzie and written by The Economist Intelligence Unit (EIU). The EIU conducted the research, survey and interviews independently. The findings and views expressed in this report are those of the EIU alone and do not necessarily reflect the views of Baker & McKenzie. The paper was authored by Rebecca Baldridge and edited by Diallo Hall.

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- Grant Phillips, CEO of TransUnion Africa
- Ivan Pronin, Director and Head of the M&A Department, INTER RAO
- Oksana Maksimovich, Head of the M&A Division, INTER RAO
- Lucky Phakeng, Executive Director of Takeover Regulation Panel

About the research

This report is based on a survey of 357 senior executives around the world, all of whom have significant input into the M&A decision-making process. Fifty-two percent were from BRICS countries, 27% from across Indonesia, Turkey, and Vietnam, and 21% are were located in developed markets. Sixty-two percent worked for companies with annual revenues of US$1 billion plus, and the rest for companies with revenues between US$500 million to US$1 billion. While 49% of executives were C-level, they came from a broad range of industries. Eighty-four percent indicated that their company had participated in at least one cross-border transaction valued at US$50 million or more over the past five years. The survey was carried out in November 2012.