The rise of the cross-border transaction

Grant Thornton International Business Report 2013
When reflecting on the results from this year’s International Business Report (IBR), one has to take into account the major political and economic events that have dominated the global agenda over the past twelve months.

With the on-going eurozone negotiations, the US ‘fiscal cliff’, the continuing Arab Spring and the various domestic elections, including those in France, the US, India and Japan, it is understandable that many business leaders surveyed remain cautious about their current and future commitment to M&A.

However, what is encouraging from this year’s results is the increased appetite of companies for cross-border acquisitions, which is at its highest level since the IBR first asked this question in 2008.

This trend underlines that this domain, previously dominated by large corporates, is progressively becoming a focus area for businesses of all sizes, whether they are acquiring or indeed looking to source potential acquirers for their own business.

Accessing global customers, relationships and new markets may well now be the most important strategic tool for companies seeking to grow, especially as many continue to experience either limited growth domestically or are operating in a highly competitive saturated domestic market.

As dynamic businesses look to M&A within their own borders or across the globe, Grant Thornton’s M&A experts across the global organisation of more than 110 member firms have the experience and expertise to assist business owners and management teams in achieving their strategic goals.
Cross-border deals set to rise

Whilst domestic acquisitions remain the focus of acquisitive growth for many businesses (84%), the desire to make a cross-border acquisition is becoming increasingly prominent. The global expectation that cross-border M&A will drive acquisitive growth has increased by 56% since 2008 and 18% in the last year alone.

Whilst overall the survey results indicate that some businesses may be holding back on committing to acquisitions in the next three years, there is no doubt that many of those that will be considering an acquisition will be looking overseas to facilitate their growth.

“The strong Yen led to unprecedented interest in cross-border deals for Japanese firms. The impact of the Yen devaluing may affect pricing but not appetite, as domestic opportunities remain scarce.”

YOSHI KAWAMURA
GRANT THORNTON JAPAN

FIGURE 1: MATURE MARKETS INCREASINGLY LOOKING OVERSEAS
PERCENTAGE OF BUSINESSES PLANNING A MERGER OR ACQUISITION OVER THE NEXT THREE YEARS

<table>
<thead>
<tr>
<th>Year</th>
<th>North America</th>
<th>BRIC</th>
<th>UK and Ireland</th>
<th>Mainland Europe</th>
<th>Rest of the world</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>88 (38)</td>
<td>87 (40)</td>
<td>84 (33)</td>
<td>71 (44)</td>
<td>82 (38)</td>
<td>84 (39)</td>
</tr>
<tr>
<td>2012</td>
<td>91 (37)</td>
<td>90 (33)</td>
<td>84 (35)</td>
<td>75 (44)</td>
<td>81 (35)</td>
<td>85 (33)</td>
</tr>
</tbody>
</table>

DOMESTIC ACQUISITION
CROSS-BORDER ACQUISITION

SOURCE: GRANT THORNTON IBR 2013
Regional highlights

North America
North American interest in growing through a domestic acquisition remains healthy with 88% expecting a domestic deal. However, what is fascinating is the escalation of the interest in cross-border acquisitions. Over the past four years, both US (56% increase) and Canadian (67% increase) respondents have shown a considerable rise in the expectation that cross-border acquisitions will underpin their acquisitive growth.

Europe
There is less emphasis on the importance of domestic acquisitions to drive acquisitive growth amongst European businesses (71%), as companies from this region continue to show an increasing desire to drive growth through a cross-border acquisition (44%). Spain (61%) is the country where businesses are most fervent about future cross-border M&A activity whilst, in contrast, German businesses have increased their support for domestic acquisitions (11% year on year increase). UK and Irish companies remain focused on domestic acquisitive growth (84%) but with 33% effecting their M&A activity to be cross-border, UK and Irish corporates remain keen global acquirers.

BRIC
BRIC countries (87%) continue to place significant importance on making acquisitions within their own borders with China (90%) leading that trend. However, the BRIC region’s mid-market respondents are now showing a greater interest in overseas acquisitive growth with an increase of 20% year on year.

The year on year increase in appetite for cross-border acquisitions from countries such as Russia (increase of 117%) and China (81% increase), emphasises the development and growing financial strength of mid-market companies within these countries that now have the ability and interest in sourcing growth internationally.

Asia Pacific

The results from India (59% increase) illustrate that the recent economic slowdown and political and economic issues still to be resolved appear to be impacting on where businesses seek acquisitions with a greater focus on overseas opportunities. Japanese respondents’ 50% increase in interest in cross-border acquisitive growth coupled with their high expectation of acquisitive growth being made through domestic acquisitions (91%) only further indicates how important acquisitions are to Japanese businesses seeking to grow. Singapore (86%) and the UAE (66%) are two of the countries most interested in growing through cross-border acquisition. Australian respondents (94%; an increase year on year of 25%) show the most support for domestic targets as the focus of their acquisition strategy.

“The global expectation that cross-border M&A will drive acquisitive growth has increased by 56% since 2008 and 18% in the last year alone.”
The results of the survey show that 28% of businesses across the globe expect to be participating in M&A activity in the next three years. Whilst a decrease in comparison to 2012, the results remain above those at the depths of the global down-turn in 2010.

It appears that with many key global and regional economic issues still to be resolved, there is a more subdued outlook for global M&A activity compared to the apparent optimism shown last year.

**M&A activity**

Regional highlights

**North America**

Businesses in Canada and the US continue to be as keen on M&A as they were last year with this region remaining the most supportive of M&A activity. 37% of respondents expect to grow through acquisition in the next three years.

**Europe**

European companies continue to be less enthusiastic about M&A than their North American counterparts, although there remains a strong expectation for M&A activity to facilitate growth in the Netherlands (55%) and France (31%), whilst notably German, UK and Irish respondents say they are less likely to undertake in M&A.

**BRIC**

The BRIC region’s respondents have historically been the most enthusiastic when forecasting future M&A activity. However, over the past two years, that desire appears to have been stifled by global economic events and their responses are now more aligned with the rest of the world (27%).

**Rest of the world**

From the developing and high growth markets, it is Latin American businesses that have the highest expectations of their future growth being driven by M&A (31%).

Noticeably it is Australian respondents whose opinions have been impacted the least by recent global events, with their survey results remaining relatively consistent over the past three years (28%).
Respondents expecting their acquisitive growth to be cross-border

SOURCE: GRANT THORNTON IBR 2013
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PERCENTAGE OF RESPONDENTS EXPECTING THEIR ACQUISITIVE GROWTH TO BE CROSS-BORDER – GLOBAL AVERAGE: 39%

- Singapore: 86%
- Australia: 31%
- UAE: 66%
- India: 46%
- China (mainland): 47%
- Japan: 18%
- Russia: 13%
- Sweden: 25%
Financing growth

Whilst M&A remains a key growth strategy, the ability to finance such growth in the current financing market is potentially impacting on respondents’ views on the likelihood of transacting in the short term.

When asked how they expect to finance their growth strategies, it is notable that bank finance slipped to 48% of respondents from 53% last year. On the contrary, the IPO funding option increased by 40% year on year with Polish respondents showing the greatest appetite for raising money through the public market (28%). As the private equity (PE) market continues to expand globally, it is notable to see Brazilian business the most expectant to raise PE funds (47%) to fund their growth, which is unsurprising considering the increasing number of PE firms now present in South America.

Acquisition rationale

The most likely reason for engaging in M&A remains similar year to year. Accessing geographical markets (65%) remains the main motivation to participate in M&A and this has increased in importance this year. French respondents (77%) put the most emphasis on using M&A to access new markets. This further illustrates that for well managed and funded businesses M&A remains the quickest and most effective way to gain a footprint and build scale in new geographies.

“With the Government now demonstrating policy initiatives and addressing some of the foreign investment deterrents, there are expectations of an increase in M&A activity in 2013, with private equity exits and investments at the forefront.”

MUNESH KHANNA
GRANT THORNTON INDIA
Exit perceptions

Business owners are often reticent about disclosing their long term ownership plans. This year’s results illustrate this once more with globally only 8% of businesses stating that they foresee an exit over the next three years, the lowest level since 2008.

This decrease indicates a reaction to a turbulent 2012 and maybe a reflection of business owner’s views that they may not be able to attract the level of interest or price acceptable to them.

Regional highlights

Europe

Owners of UK and Irish businesses (12%) remain some of the most open and upbeat about the potential to sell their business.

Respondents from countries across mainland Europe (8%) are generally less forthcoming or expectant to sell their business in the next three years. However French business owners showed an increased interest and are 25% more likely to sell in the next three years compared to last year. Interestingly it is business owners in the Netherlands (14%) and Finland (26%) who are amongst the most positive regarding a future sale of their business.

Rest of the world

Globally the trend is very similar with many respondents not showing an inclination to sell, though those from Brazil (19%) and South Africa (15%) expressed a far greater interest than the rest of the world.

Exit route

Selling to a competitor is the most likely exit route for businesses in the current climate. Whilst 44% of UK businesses expect to sell to a trade buyer, South African businesses (35%) see their most likely exit route being to management, 35% of Canadian firms expect to hand over their business to family and, to further underline the investment made by PE firms in South America, 40% of Brazilian companies expect to exit via private equity.
“Cross-border M&A activity has become increasingly important to the US over the last decade. Historically the US has been a net acquirer, though this changed slightly in 2012 as a result of significant investment from Asia Pacific buyers. There has been a flurry of deal announcements in recent weeks as credit markets have improved at a time when business optimism is increasing, which has been reflected by the level of the stock market.”

IAN COOKSON
GRANT THORNTON US

Summary
With a turbulent 2012 behind us in which significant political and economic decisions were made and with many key decisions and policies to be set in 2013, not least in the US, Europe, India and Japan, it is unsurprising that businesses are cautious.

However, across the world M&A remains a key strategic tool to drive growth and build scale. The marked increase in prominence and importance of cross-border M&A to business owners illustrates that accessing global markets and opportunities is now more than ever a vital growth strategy.

At Grant Thornton, we have the global advisory capability, expertise and reach to provide insightful global advice and support to domestic and international businesses seeking to expand their operations organically or through acquisition.
The Grant Thornton International Business Report (IBR) is a quarterly survey of 3,500 senior executives in listed and privately-held businesses all over the world. Launched in 1992 in nine European countries the report now surveys 13,000 businesses leaders in 44 economies on an annual basis providing insights on the economic and commercial issues affecting companies globally.

The data in this report are drawn from 12,156 interviews with business leaders conducted between January and December 2012.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com.

**Participating economies**
- Argentina
- Armenia
- Australia
- Belgium
- Botswana
- Brazil
- Canada
- Chile
- China (mainland)
- Denmark
- Estonia
- Finland
- France
- Georgia
- Germany
- Greece
- Hong Kong
- India
- Ireland
- Japan
- Latvia
- Lithuania
- Malaysia
- Mexico
- Netherlands
- New Zealand
- Norway
- Peru
- Philippines
- Poland
- Russia
- Singapore
- South Africa
- Spain
- Sweden
- Switzerland
- Taiwan
- Thailand
- Turkey
- United Arab Emirates
- United Kingdom
- United States
- Vietnam

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