Globalization impacts businesses everywhere and in ways that even practitioners can have difficulty fully understanding. The arena of mergers and acquisitions is no exception. Far more than even many insiders realize, the economic environment in one country or region can direct, motivate or impair M&A elsewhere. It can spark deals and underpin mergers. Or, it can damper activity considerably. Global economics help determine where mergers and acquisitions are made, in what sectors and how aggressive acquirers will be.

That calculus can be described as the Global X Factor. These days, it’s rooted in an environment of little or no growth, but one awash in liquidity.

“The global economy is not growing, so you have to bet on efficiency, critical mass and value added,” explained Silverio Davoli, a Milan-based partner with Cross-Border, an Italian mergers and acquisitions advisory firm. “Excess liquidity in the global economy means that companies are pushed to invest in M&A. It’s the only way to generate growth, the only way to generate synergies.”

M&A represents one of the biggest investment components of globalization, an activity supercharged recently by huge amounts of capital coursing around the world. Governments, in turn, enact policies that respond to the state of business and investment domestically and internationally. Those policies can play a major role as well in shaping the contours of M&A. Look no farther than Washington. The Department of Treasury in April altered U.S. tax policy that had allowed American corporations to acquire foreign residency through acquisitions. That change scuttled last year’s biggest single deal, the $160 billion merger of Ireland’s Allergan plc and Pfizer Inc. of the United States.

In our ever-more interconnected world, an important commercial decision or economic event, whether triggered in New York, Brussels, Sao Paulo or Shanghai, ricochets around the globe in seconds, with reverberations that can shake the business terrain for years to come.
Likewise, the importance of cross-border deals within M&A in general can’t be overstated. Last year, the global M&A market topped $4.7 trillion. It’s the highest on record and a staggering 42% gain over 2014, according to data compiled by Thompson Reuters. Cross-border deals accounted for fully one-third of all M&A last year. In 2015, those transactions totaled $1.6 trillion, a 27% gain, according to Thompson Reuters.

The global economic landscape is in a state of constant change. In recent months, what’s happened with China dominates the economic terrain. The continued woes in the European Union are a major factor as well, a situation made far more uncertain by Britain’s possible exit from the EU.

China’s commercial and industrial production has slowed. At the same time, the country’s planners push for more sophisticated and higher technology industries. It’s no coincidence the shift corresponds to an investment drive that is anchored in M&A. Chinese companies are using M&A to both jumpstart and consolidate global expansion. Chinese companies want to move funds abroad to hedge against the lackluster domestic economy as they look overseas for expansion and diversification. At the same time, some are laying the groundwork for a more consumer-driven economy back home.

That has profound ramifications for investment climates far and wide.

“China seems set to enter the fast lane as a global investor,” wrote Vaughn Barber, a KPMG partner, in a report last year. “Overseas investments are helping more Chinese companies from more sectors access new markets, and acquire the experience, technology, brands and human capital necessary to become more competitive.”

In 2015, Chinese outbound M&A totaled a record $112.3 billion, according to data provider Dealogic, and 2016 promises to be another banner year.

The chain linking China, global economics and M&A winds its way far and wide. Take four different deals on four continents this year:

Silverio Davoli, CrossBorder
## CHINESE BUYING SPREE
### Ten Large Outbound Acquisitions

<table>
<thead>
<tr>
<th>Target</th>
<th>Seller</th>
<th>Acquirer</th>
<th>Date</th>
<th>Target Industry</th>
<th>Value ($mil)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Import Micro Inc.</td>
<td>Ingram Micro Inc.</td>
<td>Tianjin Tianhai Investment Co. Ltd.</td>
<td>2/17/16</td>
<td>Technology; Technology - Electronics; Technology - Computer hardware and computer software</td>
<td>6000</td>
</tr>
<tr>
<td>2 General Electric Appliances Unit</td>
<td>General Electric Co.</td>
<td>Qingdao Haier Co. Ltd.</td>
<td>1/15/16</td>
<td>Consumer and household products</td>
<td>5400</td>
</tr>
<tr>
<td>3 Swissport International</td>
<td>PAI Partners SAS</td>
<td>HNA Group Co. Ltd.</td>
<td>7/31/15</td>
<td>Automotive</td>
<td>2780</td>
</tr>
<tr>
<td>4 Sirius International Insurance Group Ltd.</td>
<td>White Mountains Insurance Group Ltd.</td>
<td>China Minsheng Investment Corp. Ltd.</td>
<td>7/27/15</td>
<td>Financial Services</td>
<td>2592</td>
</tr>
<tr>
<td>5 Avolon Holdings Ltd.</td>
<td>GIC Pte. Ltd.; Oak Hill Capital Partners LP; CVC Capital Partners Ltd.; Seller Group - multiple shareholders</td>
<td>Bohai Leasing Co. Ltd.</td>
<td>7/14/15</td>
<td>Automotive; Transportation; Financial Services; Automotive - Aerospace</td>
<td>2500</td>
</tr>
<tr>
<td>6 EEW Energy from Waste GmbH</td>
<td>EQT Partners AB</td>
<td>Beijing Enterprises Holdings Ltd.</td>
<td>2/4/16</td>
<td>Energy</td>
<td>1580</td>
</tr>
<tr>
<td>7 Gategroup Holding AG</td>
<td>Gategroup Holding AG</td>
<td>HNA Group Co. Ltd.</td>
<td>4/11/16</td>
<td>Automotive; Services; Automotive - Aerospace</td>
<td>1500</td>
</tr>
<tr>
<td>8 Groupe SMCP</td>
<td>Kohlberg Kravis Roberts &amp; Co. LP</td>
<td>Shandong Ruyi Technology Group Co. Ltd.</td>
<td>3/31/16</td>
<td>Textiles</td>
<td>1480</td>
</tr>
<tr>
<td>9 Noble Agri Ltd.;Cofco Agri Ltd.</td>
<td>Noble Group Ltd.</td>
<td>Cofco Corp.</td>
<td>12/16/15</td>
<td>Agriculture</td>
<td>750</td>
</tr>
<tr>
<td>10 Mattson Technology Inc.</td>
<td>Mattson Technology Inc.</td>
<td>Beijing E-Dragon Semiconductor Industry Investment Center</td>
<td>12/2/15</td>
<td>Technology</td>
<td>285.82</td>
</tr>
</tbody>
</table>

Source: The Deal
In January, Chinese dam operator China Three Gorges Corp. acquired a 30-year lease on two massive hydroelectric plants in Brazil for $3.7 billion, a follow up to the company’s $538 million controlling stakes investment last August in three Brazilian energy companies. In February, two Chinese ship lines—China Shipping Group and China Ocean Shipping Co., or Cosco—merged to form China Cosco Shipping Corp.

Also, in February, Chinese shipping concern Tianjin Tianhai Investment Co. announced it would pay $6 billion for the American computer and software distribution company Ingram Micro Co.

Then, in April, China Cosco Shipping said it would pay €368.5 million for a 67% stake in Greece’s biggest port, Piraeus. The Chinese shipping company, which is also one of the biggest terminal operators in the world, said it would invest an additional €350 million in the port over the next decade.

Shipping reflects global economics so closely it is a proxy for what’s happening in international trade. These days, cargo rates have fallen to record lows, and the Chinese economy is a big reason why. Demand from China for commodities has fallen off a cliff.

Production of Chinese goods has declined. Construction in China has nosedived. Stockpiles of materials sit idle.

All that has coupled with serious ship overbuilding in China and elsewhere to produce enormous oversupply in the number of ships sailing the seas.

Shipping lines are fighting furiously for business. Especially when it comes to containerized freight or bulk items carried over major routes, the only way to gain more customers is to offer lower rates. This race to the bottom has ripped through the industry, which has anticipated merger-related consolidation for years.

Shipping lines have resisted consolidation. Beijing broke this impasse by mandating the country’s two main lines—both state-owned enterprises—combine into one. Xu Lirong, who heads the newly combined company, has said that mergers were the way to ride out the shipping slump.

“Overseas investments are helping more Chinese companies from more sectors access new markets, and acquire the experience, technology, brands and human capital necessary to become more competitive.”

*Vaughn Barber, KPMG*
Tianjin Tianhai is taking another tack. It is attempting to diversify its business and acquire its way into a more broadly based logistics and supply-chain company.

In the Piraeus deal, European challenges align with China’s as the hardest hit EU countries are attempting to sell state-owned assets to gain desperately needed cash.

Chinese companies “are acquiring facilities in crisis countries,” says Andre Sapir, an economist and senior fellow at the Brussels think tank, Bruegel. “They can buy assets at a fairly good price or because government-owned assets are being privatized.”

The severe decline in demand for commodities from China has hammered countries from Angola to Australia.

Brazil is in particularly bad shape, buffeted by economic woes and a political crisis that threatens the current government. According to a World Bank report, confidence by both consumers and investors has fallen dramatically. This has been exacerbated by the severe drop in the price of commodities, many of which Brazil depended upon for export-led growth. There’s reason for pessimism. The IMF forecasts Brazil’s economy will contract 3.5% this year, after declining 3.7% in 2015. Its currency has devalued by almost half in the past two years.

It may sound counterintuitive, but Brazil’s downbeat environment has proven a boon for M&A and not primarily among distressed companies.

“There are lots of opportunities for acquisitions, most taking place in the middle market,” said Carlos Parizotto, who heads the M&A practice and is a founder of the Brazilian financial advisory firm Cypress. “The currency devaluation is helping a lot. Smaller companies that didn’t have access to capital now do.”

Parizotto notes health services, education and technology as active sectors. He cites United Healthcare’s $383 million acquisition of Samaritano Hospital in Sao Paolo.

Three years ago, United Healthcare acquired a majority stake in Brazilian private health insurer Amil Participacoes and has been acquiring hospitals since, a strategy

Continued on Page 9
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assisted by local laws that make it easier for overseas interests to buy local facilities. The EU languishes as well, a struggle that is fundamental to global economics today. It has taken far longer than expected for an anemic EU economy to recover from the 2008-09 global financial crisis, and even leaders like Germany are having a tough time boosting economic growth.

“It’s been very, very disappointing,” says Kieran McQuinn, a research professor at the Economic and Social Research Institute in Dublin.

One big concern is a June referendum that will determine whether Britain stays in the EU. Polls say it’s a tossup. If British voters opt to leave, the impact of what’s called “Brexit” is unknown, in part because it will be unchartered territory.

“It’s a large question mark,” says Sapir, who believes that Brexit would disrupt Britain and the EU, both politically and economically. “It’s not a zero-sum gain. Everyone would lose.”

How Brexit will affect investment and M&A is also uncertain, not only in Britain, but across Europe. “It would not be conducive for investment, and therefore for growth,” Sapir believes.

Ireland, for example, might gain some EU-focused financial services, forced to relocate from London if it’s no longer part of the EU. But overall, “we’d lose more than we’d gain,” McQuinn believes.

While the quest for deals in Europe has slowed over the past several weeks in anticipation of the British referendum, Europe’s weakened economic environment has provided a boost to cross-regional M&A, and in both directions.

“There’s a large outflow and a large inflow of [foreign direct investment] to and from Europe,” Sapir said. “It never was, and still isn’t, a one-way street.”

To counter a softer Eurozone economy, many European companies have turned
“There’s a large outflow and a large inflow of [foreign direct investment] to and from Europe. It never was, and still isn’t, a one-way street.”

Andre Sapir, Bruegel

...to acquisitions to diversify their markets. The U.S. has been the favorite refuge.

In September 2014 alone, three German companies—Siemens, SAP and ZF Freidrichshafen—made acquisitions of American companies that totaled almost $28 billion.

Over the past two years, the euro has dropped by almost 20% against the dollar. A weakened euro has provided a boost to acquirers of European companies. General Electric Co., for example, in November completed its $9.5 billion acquisition of Alstom SA’s power business.

American concerns acquired more than 100 European technology companies in 2014 alone, according to a study by the firm Tech.eu.

Deloitte calls North America and Europe “a vibrant deal corridor.”

“The U.S. is the main destination of FDI and the main source of FDI,” Sapir added. “That bilateral relationship is even more pronounced than in trade.”

Now, Chinese companies are making a push as well.

“China’s changing global [outbound foreign direct investment] footprint presents a once in a lifetime opportunity for attracting capital to Europe,” wrote the economic research firm Rhodium Group, in a report last year.

In September, for example, Shanghai-based food giant Bright Food (Group) Co. led a Chinese investment consortium in acquiring Miquel Alimentacio Grup, Spain’s second-largest food distributor, for €110 million. Bright Food said it will use Miquel Alimentacio as its European distribution center and, at the same time, will import to China, through Miquel Alimentacio, such Spanish products as wine and olive oil. There’s a growing taste among Chinese consumers for those kinds of imported foodstuffs.

That spreading of Chinese corporate wings through M&A often comes with the blessing—and sometimes the active encouragement—of Beijing officials. Perhaps the most dramatic case came in February, when the state-owned ChemChina
announced it would pay $45.8 billion for Syngenta, the Swiss seeds and pesticide group. It is China’s largest-ever cross-border acquisition and one fraught with policy considerations.

China has rapidly turned from an agrarian to an industrial economy. Agriculture now accounts for less than 10% of GDP. Yet, memories of food shortages and famine are long, and China constantly wrestles with food-security issues.

The acquisition represents a platform for securing food and the technology necessary for food production, Sygenta’s chairman, Michel Demare, said after the announcement. He hinted Sygenta could engage in more acquisitions in the months ahead.

Priorities evolve and policymakers’ acquisition priorities shift with them. When China’s economy was booming, companies and economic planners pushed to acquire offshore mining and minerals companies as a way to insure supplies of raw materials. Now, with a commodities glut, that motivation has disappeared. A study last year by KPMG and the University of Sydney highlighted Chinese investments in Australia that have shifted from mining and toward infrastructure and commercial real estate.

Chinese companies, with the active encouragement of economic planners, are on the lookout for technology gained through M&A.

Douglas Rodgers is Washington-based CEO of Focus Investment Banking, part of a global network of independent investment banks. He cites the aviation industry and, in particular, Avic, the acquisitively aggressive Chinese state-owned Aviation Industry Corp. Avic is close to acquiring, for an undisclosed sum, AIM Altitude, based in Dorset, Britain, pending various regulatory approvals. That would mark Avic’s seventh acquisition in Europe and the U.S. in the past five years. Avic paid $800 million last year as well for Michigan-based auto parts maker Henniges Automotive Holdings Inc.

Chinese policy push can stimulate deals, but it can also conflict with security considerations of other governments. That became most apparent in two
In February, San Jose, Calif.-based Fairchild Semiconductor turned down a $2.6 billion offer from China Resources and Hua Capital in favor of a $200 million less-valuable proposal from Phoenix-based ON Semiconductor. Fairchild was concerned the Committee on Foreign Investment in the U.S., or Cfius, which reviews deals that might harm U.S. national interest, would block the deal. In 2015, Micron scuttled a $23 billion offer from China’s Tsinghua Unigroup over the same concerns.

Chinese policymakers have identified certain sectors that need a technological boost to move up the value chain. The semiconductor industry is one. Chinese interest has come at a particularly opportune time. The semiconductor industry is undergoing mammoth consolidation as growth slows, market pressures mount and companies look to cut costs. Last year, semiconductor-related M&A topped $100 billion.

Cfius in turn has been reviewing more and more transactions, and semiconductors are an obvious focus.

“Critical technology is going to get a harder look,” said Christopher Brewster, a Washington-based lawyer with Stroock & Stroock & Lavan LLP, and a specialist in national security and Cfius.

Brewster is quick to say that Cfius doesn’t have “an anti-China bias” and that many Chinese acquisitions of American companies aren’t blocked. However, “Cfius has been looking at China-related cases hard for several years now,” he explained. “Because it’s doing a lot of transactions, it’s China, and the Chinese are testing the waters, they’re getting close scrutiny.”

Companies and their M&A advisers alike must weigh numerous factors in determining what transactions to pursue, where, with whom, and at what price. That calculus must include the current state of global economics and how it translates into the deal environment.

“We always say to our clients, ‘let’s look at the whole world, and here’s what we find,’ ” Rodgers said.
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