PROTECTIONISM & CROSS-BORDER M&A

BRIDGING THE GAP

EURODEV

EUROPEAN BUSINESS DEVELOPMENT GROUP

THE PROTECTIONISM CLOUD

In the wake of strong dealmaking globally, attributed to a strong fundraising environment and favourable macroeconomic conditions, storm clouds have gradually moved over the M&A landscape in the form of protectionism. The U.S. has targeted the European Union, Canada and China with trade policies aimed at counteracting what the President perceives to be unfair trade practices. The tariffs may disrupt an otherwise positive environment for M&A. Most countries responded with reciprocal tariffs of their own on U.S. goods – and more import duties are being planned. Ripple effects are being felt throughout the world economy, as tension between the two largest economies begins to take effect.

Although Q3 2018 depicted a 22% increase in global deal value for the first nine months of this year compared to last, it has not stopped protectionism from dampening spirits and causing corporates to pause over the summer. This increase is divided disproportionally – there was an 11% YoY increase in cross-border M&A value, whilst domestic dealmaking saw a 30% increase in value.

60%
QoQ decline in inbound Europe M&A (Q2 to Q3)

0
Megadeals (>$10bn) in Europe in Q3

$59 bn
Lowest value of intra-European M&A since 2016

Source: Deloitte, *TMT Quarterly Update*, 2018

Source: Mergermarket, *Q3 2018 Global & Regional M&A Report*, 2018

ACROSS THE GLOBE

KEY

FDI (2017)

$354 billion

$47 billion

$64 billion

$168 billion

U.S.

A rise in tariffs, the threat of a trade war, and greater scrutiny over foreign acquisitions of American assets suggest the greatest step towards protectionism. Perhaps the most publicised example is when Chinese-owned Ralls Corporation, was ordered in 2012 to divest wind farms in Oregon as the sites were too close to a U.S. navy restricted airspace.

FRANCE

A French listed company now has more protection against a hostile bid following the implementation of a law that provides automatic double voting rights for longer-term shareholders.

Source: World Bank, *Foreign Direct Investment Inflows*, 2017

U.K.

In an attempt to protect its national champions, a limit on the period under which a target can be subject to siege was introduced, to give more power to targets against hostile bids. Although few deals are ultimately blocked, the increasingly stringent regulations create uncertainty and disincentivise foreign bidders.

CHINA

Despite a loosening of restrictions on inbound and outbound investments, the substantial fines placed on US Qualcomm for abusive patent licensing practices has created doubts about the level of legal protection enjoyed by companies already in China. More scrutiny can be expected in these IP-heavy and consumer goods sectors.

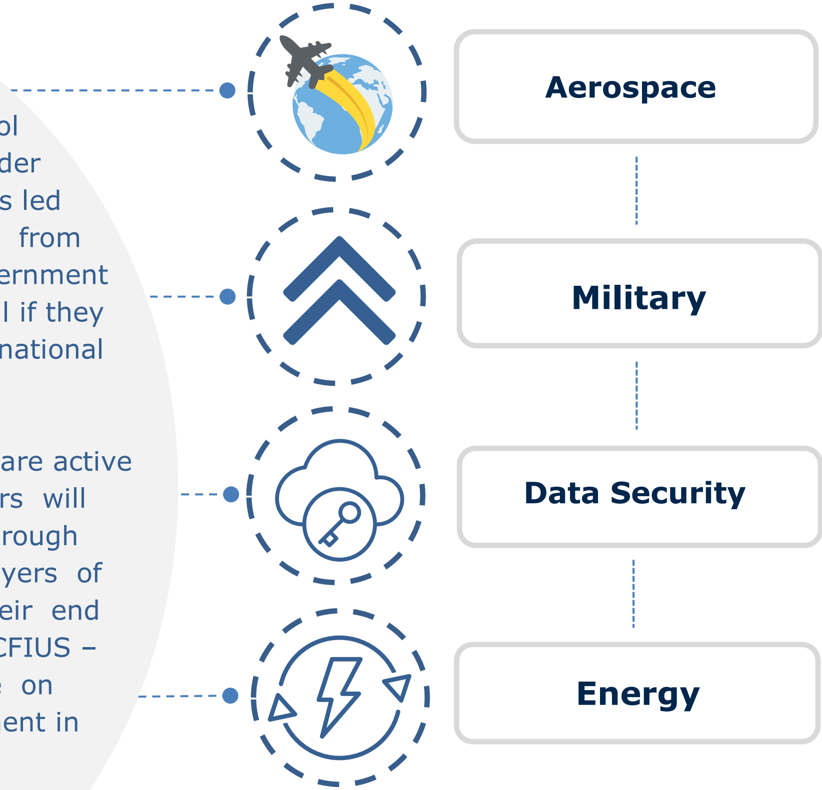
CLOSER TO HOME

The impact of levied tariffs in the U.S. is yet to be determined and is dependent on the inclusion of capital inflows. If so, U.S. firms will be incentivised to transfer their supply chain back behind tariff lines as to maintain competitiveness. A continuation of trade tensions in the steel industry – a low-cost and heavily price elastic industry – with China could cause a boost in U.S. manufacturing.

Tariffs are not the only hindrance of protectionism to M&A. In January, the U.S. CFIUS rejected the acquisition by China's Ant Financial of Moneygram, the U.S. money transfer company, due to national security concerns.

Stringent control over cross-border transactions has led to intervention from China. The government can block a deal if they feel it conflicts national interest.

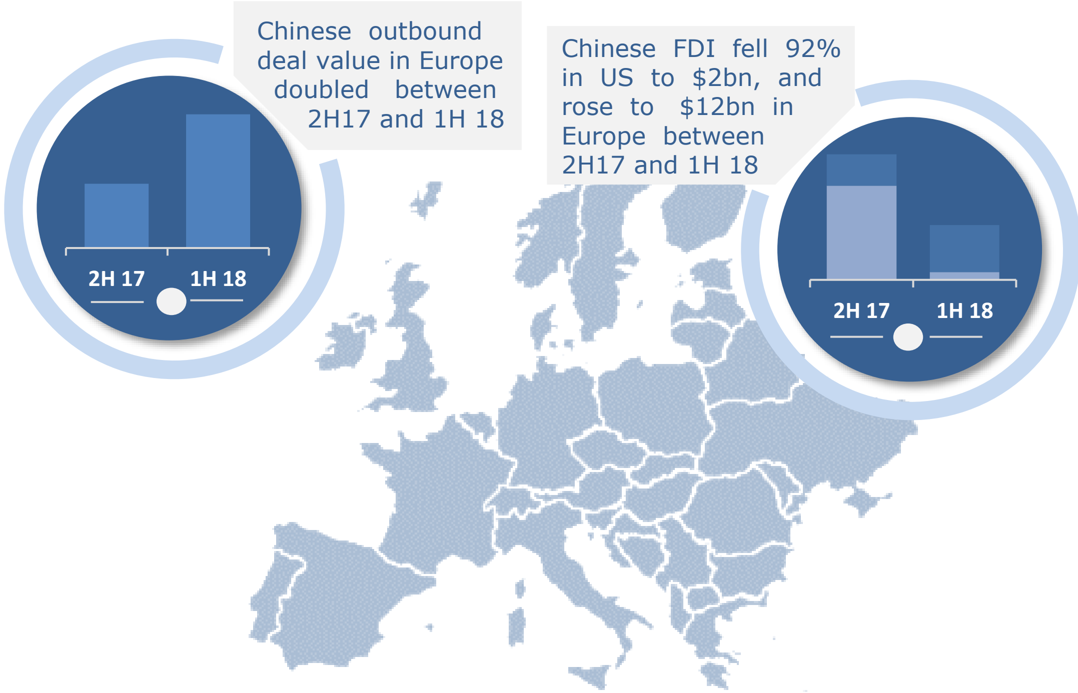
U.S. firms that are active in these sectors will have to go through layers upon layers of approval on their end as well by the CFIUS – the Committee on foreign investment in the U.S.



A EUROPEAN HORIZON

With reduced Chinese activity in the U.S. market to be expected, opportunities have opened up for emerging markets in Europe, as well as established economies in the UK and France.

In fact, 2018 is the first year Europe has displaced Asia as China's primary target location in terms of value. U.S. firms may also decide to acquire European based outfits, to alleviate the imposition of EU tariffs on U.S. produced goods.



Source: Baker Mckenzie, *Chinese Investment in Europe*, 2018

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SOURCES

World Bank, *Foreign Direct Investment Inflows*, 2017
EY, *M&A Confidence in TMT Sector*, 2018
Deloitte, *TMT Quarterly Update*, 2018
Mergermarket, *Q3 2018 Global & Regional M&A Report,* 2018

DISCLAIMER

ABOUT EURODEV M&A

EuroDev M&A, with offices in the Netherlands and France, specializes in European acquisition searches for US based Private Equity Groups and corporations. It is part of the EuroDev Group, a Business Development Group providing its US clients with integrated services to develop and expand their operations in Europe. Services include sales outsourcing, recruitment, HR advisory and M&A advisory.

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