

Deals & Dealmakers

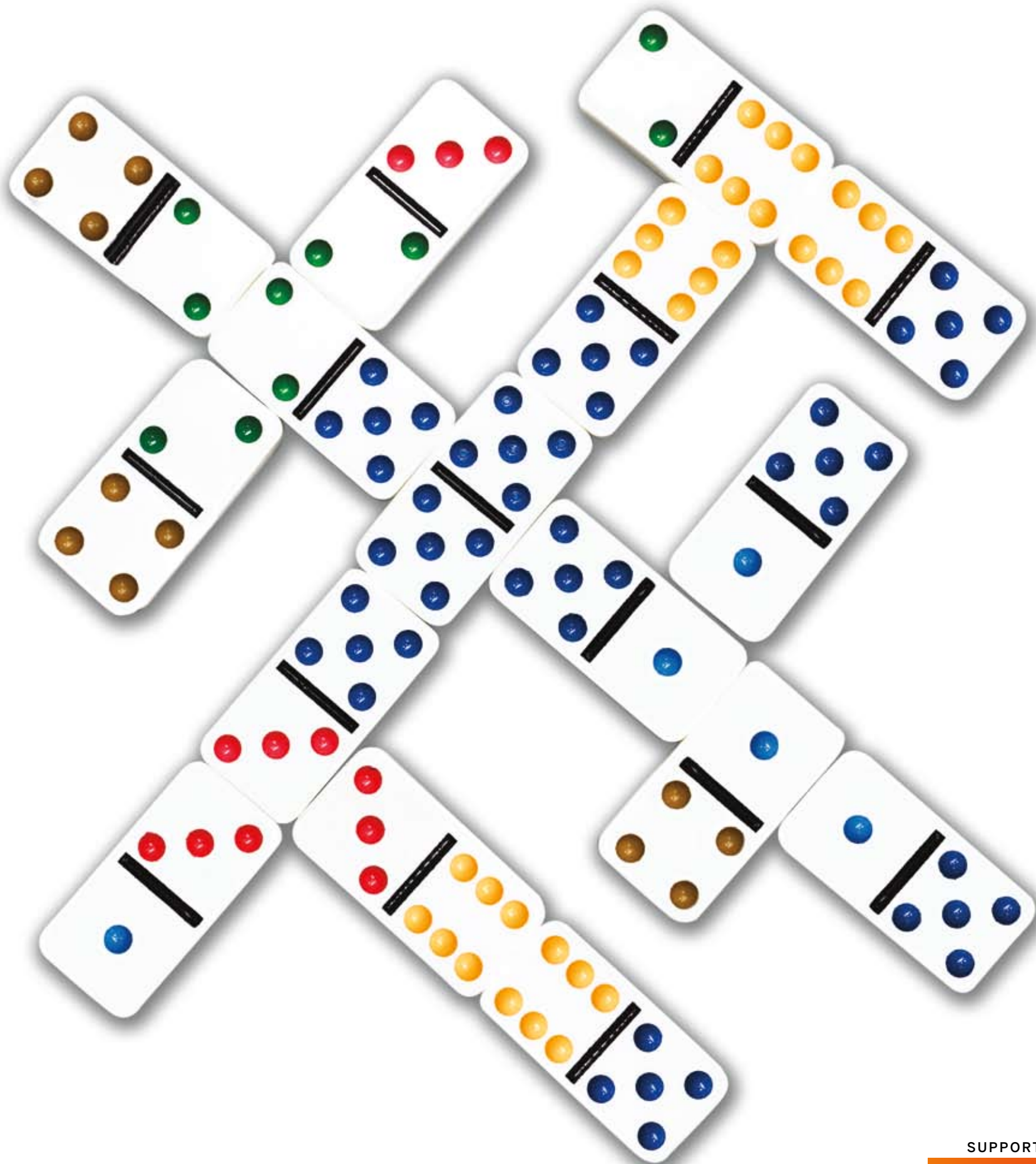
Part three: the changing face of M&A

Join the dots

How the numbers add up for mergers in developing markets

The players

Clive Cowdery, Hugh Osmond and Nat Rothschild profiled



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New direction: companies in emerging markets are increasingly looking to international acquisitions

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More on M&A

Part 4 of the Deals & Dealmakers series will be published on December 7. For previous parts of the series and special, online-only coverage, go to www.ft.com/dealmakers

Emerging markets

The developing economies are producing companies that are

FOR THE PAST THREE YEARS, the mantra among global dealmakers was that emerging markets would pick up the slack as their US and European counterparts hunkered down. This now appears to have come true as companies in developing countries cement their position as a new breed of global dealmakers.

Although Asian economies have not been immune to the global financial crisis, the region's capacity to overcome the downturn, while western economies are still suffering, has confirmed the notion that the balance of commercial power is shifting from west to east. Chinese investment is surging in Africa, Latin America and south-east Asia, while Russian and central Asian natural resources companies are looking to list shares in Hong Kong.

This has resulted in companies in emerging economies recording a 25 per cent increase in cross-border deal activity in the first six months of the year, according to KPMG's latest annual Emerging Markets International Acquisition Tracker.

"Emerging-market companies have become acutely aware of the global dimension in which they operate. They are fast learners and will be after intellectual capital, access to developed markets and, inevitably, commodities," says Carlo Calabria, vice-chairman at Bank of America Merrill Lynch.

South-east Asia has been the most popular destination for inbound deals, with China ahead of India as the next most popular market, KPMG's analysis found. Jeremy Fearnley, head of M&A at KPMG Corporate Finance in Hong Kong, notes that dealmaking confidence is returning far more quickly for emerging economies than for their developed-market counterparts.

"One reason for this trend is that emerging economies are capital rich," he says. "In the case of China, for example, there is increasing demand for commodities in this market as it continues to industrialise and invest heavily in infrastructure."

The race to acquire natural resources is fierce, with Chinese, Indian and Brazilian companies all competing for assets. As a result, the tactics of acquisitive companies are starting to mirror those of their western counterparts.

Korea National Oil's \$1.87bn cash bid for Dana Petroleum, the UK oil explorer, shows just how aggressive some companies are prepared to be to secure their targets. The bid is the first of its kind launched by a state-backed Asian company that may have seen similar deals slip away because it was too timid in its pursuits. The South Korean group wants to double its production to 300,000 barrels a day, and buying Dana is central to achieving this goal, especially at a time when global oil assets are not getting any cheaper.

"The other side of the coin is the emerging-market domestic consumption story, where we continue to see increased demand for western products and brands," says Mr Fearnley. "The focus of Chinese outbound acquisition activity is therefore introspective as buyers seek to acquire more established western brands to sell into their domestic market."

The services industry in China accounts for roughly 40 per cent of China's gross domestic product in 2009, compared with roughly 75 per cent in the US, suggesting there is considerable room for growth.

But mergers and acquisitions activity is not flowing only one way. On the hunt for growth, companies in Europe and the US are taking advantage of good valuations to position themselves for the new world economy. Having spent the past two years cost-cutting and repairing their balance



sheets, S&P 500 companies are flush with cash that they are keen to put to use via M&A.

"US corporates are clearly interested in strategic emerging-market opportunities. Equally, some of the emerging-market leaders are looking cross-border and taking advantage of significant liquidity, strengthening exchange rates and a more positive local economic climate," says Glenn Schiffman, head of investment banking for the Americas at Nomura.

WILHELM SCHULZ, HEAD OF European M&A at Citigroup, says that with the likelihood of another macroeconomic shock receding, European corporate boards have also started to execute their long-planned M&A strategies. "This – across most industries – involves geographic diversification and gaining scale to combat muted organic growth prospects at home," he says.

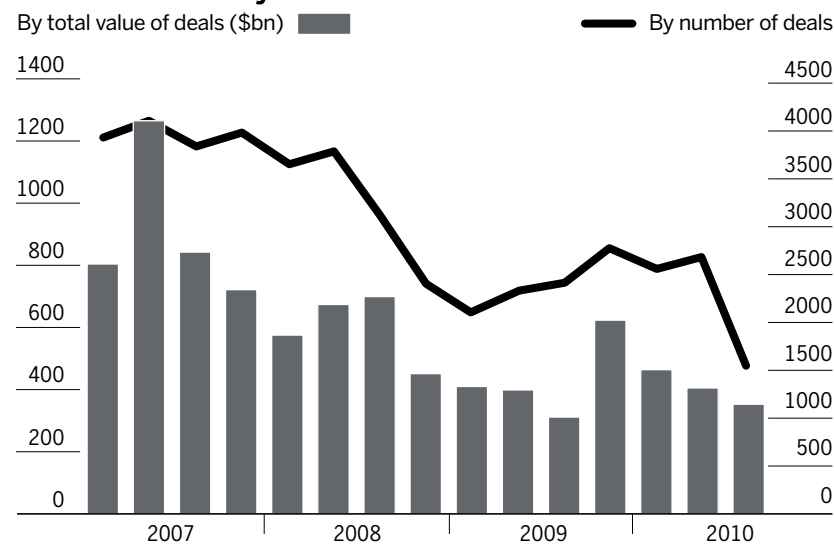
BHP Billiton's recent hostile \$39bn bid for PotashCorp, the world's biggest fertiliser maker, comes at a time when global demand and output for the potash business are expected to increase

point the way forward

often determined to be aggressive to secure their targets, reports *Lina Saigol*

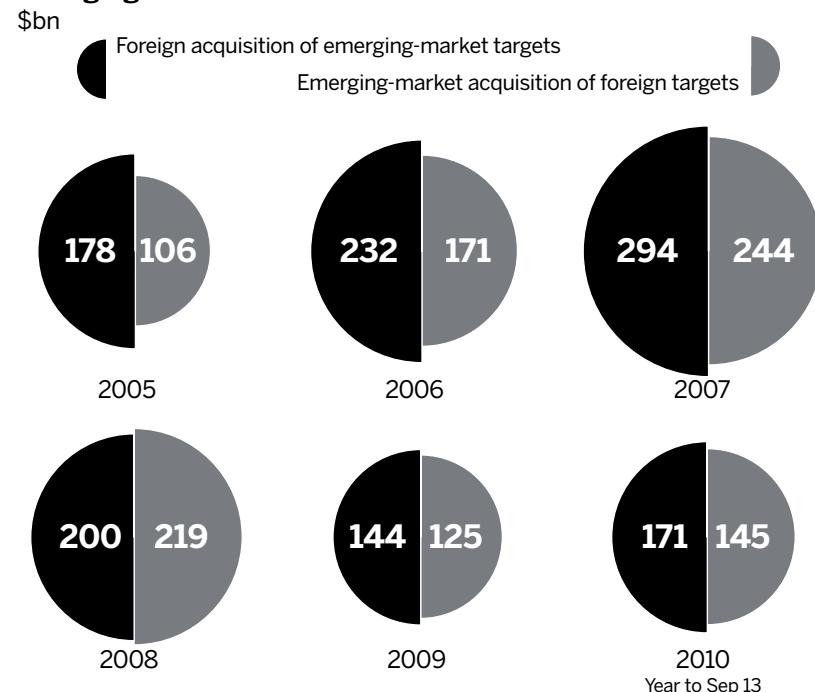


Global M&A activity



Source: Mergermarket

Emerging-market cross-border M&A



Source: Thomson Reuters

South-east Asia has been the most popular destination for inbound deals, a KPMG analysis has found

dramatically. The Paris-based International Fertilizer Industry Association estimates that potash demand could rise by almost 20 per cent this year, from an estimated 49m tonnes of potassium chloride to 58.7m tonnes in 2014 – and BHP wants a large slice of that.

Financial services companies are also looking to emerging markets for expansion. Santander, the highly acquisitive Spanish bank, recently won an auction for a controlling stake in one of Poland's largest banks. It fought off stiff competition from European rivals to purchase the 70 per cent stake of Bank Zachodni WBK that Allied Irish Banks has been forced to sell as a condition of the state aid it has received from the Irish

government. HSBC, meanwhile, is in exclusive talks to buy 70 per cent of South Africa's Nedbank, giving the world's biggest bank outside China a significant foothold in Africa.

With dealmaking in emerging markets outpacing the US and Europe for the first time in years, many of the new merger arbitrage funds have shifted their focus to Latin America and Asia. These funds aim to profit from the difference between a target's share price after a takeover announcement and the closing price at completion. There is roughly \$15bn in funds specifically focused on merger arbitrage worldwide, estimates Hedge Fund Research, although other event-driven funds also invest around deals.

One of the biggest trades for merger arbitrage funds at the moment is BHP's bid for Potash. Since going public with its offer, more than 145m shares in the Canadian fertiliser company have been traded, and BHP is hoping these will help influence the outcome of the deal.

Likewise, hedge funds including Jabre Capital have taken positions in Dana Petroleum following Korea National Oil's offer. The Korean group needs acceptances from 75 per cent of sharehold-

ers before it can delist Dana from the London Stock Exchange, and 90 per cent before it can begin a squeeze-out process.

If it succeeds in reaching its target, it may provide peers in the region with the impetus to become more aggressive when pursuing western targets.

But while investors may welcome more emerging-market activity, they will not approve any deal at any price. Prudential was one of the first companies to discover this after shareholders forced the UK life insurer to abandon its \$35.5bn attempted takeover of the Asian assets of AIG, the US insurance group. Investors holding more than 20 per cent of the Pru were concerned that the economics of the deal left virtually no margin for error in delivering the promised returns and cost synergies.

But while it is inevitable that some of these deals will fail to succeed, the impetus to keep trying is unlikely to wane. International companies that in the past have dismissed emerging-market M&A as nothing but a passing phase have taken stock of reality: the new breed of dealmakers is here to stay.

Swimming upstream

Who are the main companies in the boutique category? By *Megan Murphy* and *Helen Thomas*

IN THE AFTERMATH OF THE financial crisis, amid the wreckage of some of Wall Street's most venerable investment banks, independent advisory firms that had long nipped at the heels of the bulge bracket sensed their time had come. Boasting decades-long relationships with senior executives and free of the conflicts that can hamstring full-service rivals, they believed the instability that had rocked the sector would create opportunities for truly "independent" advice in the boardroom.

Two years on, however, the picture is more mixed. The long-predicted revival in the mergers and acquisitions markets has only just started to take hold, with big mandates still few and far between. While winning roles on several high-profile transactions, boutiques as a group have failed to seize market share. So far this year, independent advisory firms have advised on deals worth \$483.5bn, representing 25.4 per cent of total announced M&A, according to data from Dealogic. That compares with all of last year when boutiques advised on \$617.8bn-worth of deals, accounting for 26.4 per cent of total announced M&A volume.

Some of the firms typically included in the "boutique" category, specifically Lazard and Rothschild, are too big and dominant to fit the description. Instead, the FT has profiled some of the sector's rising stars, as well as its more established forces.

Evercore

Founded in 1996 by Roger Altman, the former deputy secretary of the US Treasury, Evercore ranks among the largest of the independent investment banks. Listed on the New York Stock Exchange, the group employs 550 people and has spent the past year building its business in areas such as asset and wealth management. Under chief executive Ralph Schlosstein, Evercore is also starting up a sales and trading business and is expanding its geographical reach. In addition to its alliances with banks in Japan and China,

Evercore recently bought a 50 per cent stake in G5, an independent Brazilian advisory firm.

Greenhill

While other boutiques have expanded their businesses into new areas, Greenhill has notably stuck to its knitting, focusing on providing independent advice to its clients on dealmaking, restructuring and capital raising. The NYSE-listed group, founded 14 years ago, now has 12 offices globally and recently acquired Caliburn, the Australian independent financial adviser. Among the largest of the independent firms, Greenhill this year advised industrial technology company Emerson on its unsolicited \$1.5bn bid for UK rival Chloride.

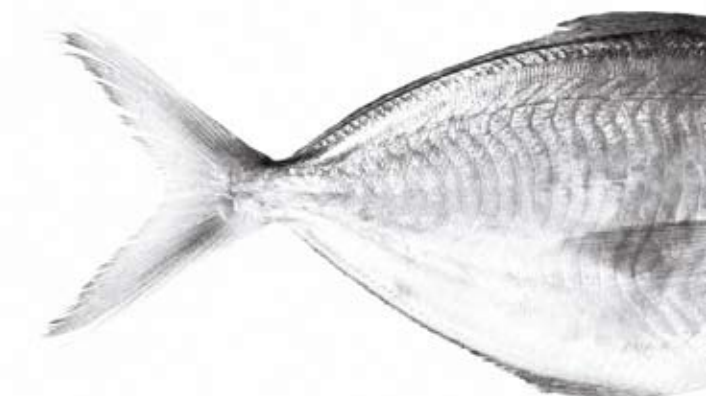
Foros

Jean Manas left his post as US head of M&A at Deutsche Bank last year to start his own firm. In its first year, Foros advised on 10 deals, including the \$5.2bn buy-out of IMS Health in November 2009. Intent on growing at a measured pace, Foros employs just 12 bankers. That means eschewing the weighty pitchbooks that large banks use to win business. "The sophisticated clients recognise that not very much customised thought goes into those big books," says Mr Manas. "They recognise that they will get more value where there are back-and-forth conversations and focused analyses."

Perella Weinberg

Perella Weinberg Partners was launched in 2006 by Wall Street stalwarts Joe Perella, Peter Weinberg and Terry Mcguid. Backed by 12 investors, the firm stresses its role as an adviser – whether on clients' investments or their strategic options. It focuses on corporate advisory and asset management, with more than \$6bn under

'The sophisticated clients recognise that not very much customised thought goes into those big books'



management. "We are trying to replicate the old firms of Wall Street and the City of London in the sense that we are singularly focused on serving the client," says Mr Weinberg. "We like the discipline and teamwork that results from operating as a privately owned partnership."

Blackstone Group

Blackstone's advisory group is headed by John "Studz" Studzinski, the former HSBC and Morgan Stanley star. Set up in 1985 by Steve Schwarzman and Peter Peterson as a "pure play" M&A boutique, the company grew into one of Wall Street's biggest leveraged buy-out and real estate specialists, as well as the world's largest private equity firm. Its advisory business has made dramatic gains in the M&A league tables in recent years, acting for GDF Suez on its tie-up with International Power and advising AIG's board of directors on the \$15.5bn sale of Alico, its foreign life insurance business, to MetLife.

Centerview Partners

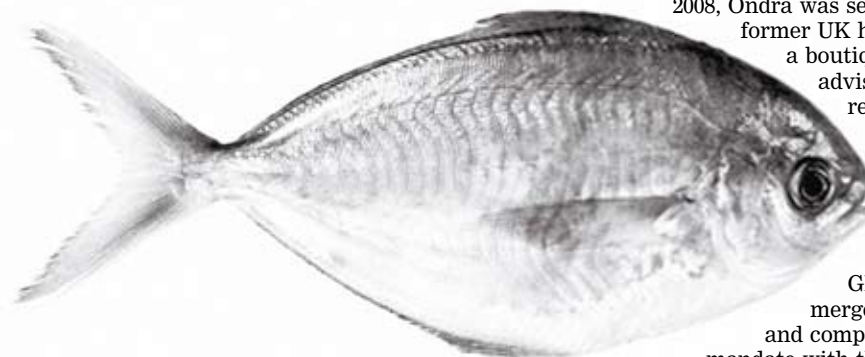
Founded four years ago by a group of senior Wall Street executives, New York-based Centerview Partners has rapidly climbed the advisory league tables, winning mandates on some of the market's biggest, most glamorous deals. Its choice mandates include advising Kraft, the US food maker, on its \$17.4bn acquisition of the UK's Cadbury and News Corp on its \$5bn deal for Dow Jones. The boutique, which also has a \$500m private equity fund that focuses on US investments, recruited former US Treasury secretary Robert Rubin as an adviser earlier this year as the firm looks to further expand its profile.

Ondra Partners

Part of a rush of financial services firms founded in the wake of Lehman Brothers' implosion in 2008, Ondra was set up by Michael Tory, Lehman's former UK head of investment banking, as a boutique M&A and capital markets advisory franchise. Having quickly recruited a clutch of former Lehman colleagues, including Benoit d'Angelin and Adam Gishen, Ondra has since been involved in several big deals, including acting as an adviser to French utility GDF Suez on its \$21.5bn asset merger with International Power, and completing its first significant IPO mandate with the listing of Gartmore, the UK fund manager, in December.

Allen & Co

Known for its annual pow-wow in Sun Valley, Idaho, that attracts media moguls from across the globe, New York-based Allen & Co specialises in advising the entertainment, communications and technology industries. Founded in 1922 by famed investor Charles Allen and run today by Herb Allen, the grandson of Charles's brother, the famously private firm has thrived on developing close relationships with chief executives building next-generation businesses.



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Special measures

Banks' M&A income is picking up, but bidders' shareholders want a clampdown on fees, writes *Kate Burgess*

THE LATE-SUMMER RUSH OF global mergers and acquisitions will have come as a relief to the M&A advisers and banks that strengthened their M&A divisions at the start of the year, hoping takeover activity would pick up as economies recovered. Deals were slow to emerge in the early part of the year, but by July and August the value of bids on the table was more than \$145bn, according to Thomson Reuters. These bids ranged from the mining concern BHP Billiton's \$39bn bid for PotashCorp of Canada, to the offer of roughly \$8.5bn by Vedanta, the Indian mining group, for a majority stake in Cairn Energy's Indian subsidiary, Cairn India.

Data provider Dealogic estimates that M&A deals in natural resources companies (miners, oil and natural gas producers, fertiliser makers and so forth) had reached \$316bn by the end of August; this is on course to beat the previous annual record of \$384bn, set in 2006.

The earnings from structuring these deals and advising companies will be a welcome boost to the coffers of banks hit by the financial crisis, even if the multimillion-dollar fees they receive cause alarm elsewhere. Last year's takeover of Cadbury by Kraft, the US food group, rekindled the tensions over the scale of rewards attached to deals. Some politicians were spurred to look at the conflicts between the short-term incentives accruing to banks and some shareholders, versus the broader long-term economic benefits of takeovers.

Earlier this year in the UK, Vince Cable, business secretary, reported to parliament (after considering M&A activity in the light of the Cadbury takeover): "It is clear that many of those involved in a takeover have a vested interest in the bid proceeding and being accepted ... In 2009, fees paid to advisers in the global M&A market were typically around 0.2 per cent of total deal value, with the top 10 advisers each earning between \$500m and \$1bn."

The cost of M&A and the bankers' fees for advising on and financing deals has long been a bone of contention

Investment banks earned \$7bn from advising on global mergers and acquisitions in the first six months of the year

between investors and banks. But pressure on banks to cut their fees has been building since the financial crisis began, with regulators, politicians and shareholders demanding lower costs, in the long-term interests of companies, shareholders, staff and the wider economy.

The banks that earn most from this work are a small band of US-based institutions led by Goldman Sachs. JP Morgan topped the charts in the first half of this year, earning \$2.3bn in investment banking revenues. Goldman Sachs earned more in the same period for advising on M&A than any other bank, according to Dealogic; between January and July, its revenues for advising on M&A were \$654m, which represented a market share of 9.4 per cent (JP Morgan was ranked second, with Morgan Stanley third).

Credit Suisse led the field in European M&A, and UBS in the Asia-Pacific region. Investment banks, led by the US groups, earned \$7bn in total from advising on transactions globally in the first six months of the year – up from \$6.2bn in 2009. The volume of M&A work rose by 7 per cent in the first half to \$1,230bn, with deals worth roughly \$600bn in each quarter.

ACTIVITY IN EMERGING MARKETS and Asia was notably buoyant. The total value of deals in these regions (\$388bn) was up by nearly two-thirds on the corresponding period in 2009, and accounted for a third of global M&A – the highest share on record. Nonetheless, the US accounted for 41 per cent of the fees earned by banks for advising on deals. The total value of deals was \$408bn, down 10 per cent on the year before, but the number of deals, at 5,232, was the highest in a six-month period since 2007.

Hostile bids were down nearly 40 per cent, from \$96bn in the first half of 2009. Most of these took place in the UK, followed by the US and Australia, which, between them, accounted for 97 per cent of the total.

Fair shares? There is growing controversy over advisers' earnings from M&A work



Pressure mounts to curb 'deadweight costs'

TOP UK SHAREHOLDERS HAVE BEEN lobbying hard for banks to reduce the fees they charge for promising companies that all shares issued will be snapped up and that they will get the money they need to finance their acquisition ambitions. Over the past year, many of the country's biggest investment groups have complained to politicians and regulators about banks fattening up their margins.

Earlier this year, the Association of British Insurers said that the "enormous" fees charged by banks amounted to a "deadweight cost" for investors, and may also be skewing the outcomes of takeovers. Investors claim that banks have been taking an increasing share of underwriting fees, while passing to shareholders most of the actual risk of being left with unwanted shares.

Partly in response to this lobbying, Philip Collins, chairman of the Office of Fair Trading, said earlier this year that the competition regulator was looking at bank fees.

Shareholders' complaints focus on the fact that in the past, bankers would have charged companies a 2 per cent fee to ensure a successful rights issue, keeping a quarter for themselves and spreading the rest among investors who guaranteed they would buy up all shares issued. But now banks charge up to 4 per cent and keep about half for themselves, while routinely ensuring success by pre-marketing issues. They also normally advise companies to offer new shares at wide discounts to the old shares to attract buyers.

The Institutional Shareholders Committee, which represents more than a third of UK shareholders, has also launched an investigation into the rise in fees. The ISC itself has little power to change the fee structures of banks, but this is a sign of the intense public pressure on banks to justify their charges. It may also be an omen for bankers who were hoping that the past few months of activity signalled a return to the bonanza years before the crash. *Kate Burgess*

Legal action

Law firms say activity is hotting up. By *Jane Croft*



Hostile bids are extremely lucrative for banks; the bigger and more complex a deal, the more it costs – even if it fails

Hostile bids are extremely lucrative for banks; the bigger and more complex a deal, the more it costs – even if it fails. Prudential's failed \$35.5bn bid for AIA, the Asian arm of US insurer AIG, cost its shareholders more than £377m (\$588m), of which about £124m went in advisory fees to bankers, lawyers and accountants. Last month, the Pru detailed for investors what that £377m in fees included: £100m for hedging the currency risk involved in a UK group buying an Asian business, as well as £153m as a break fee to AIG.

Then there was the £66m of advisers' fees for hundreds of hours spent on structuring the deal, including the cost of the 900-page prospectus.

The cost of the abandoned transaction was lower than the Pru had led investors to expect. Nonetheless, some leading shareholders, such as Schroders, have called on the chief executive or the chairman to be made accountable.

There was also £58m in underwriting fees; most of it was paid to the global co-ordinators – HSBC, JP Morgan and Credit Suisse – for devising the deal and promising that the

Pru would get the \$21bn it would have needed to fund it from issuing new shares in a rights issue. The banks claim that, had the rights issue gone ahead, they would have made \$740m in underwriting fees and \$112m in advisory fees. Investors, however, are aghast that the banks were paid £58m even though the rights issue never took place.

INTERNATIONAL LAW FIRMS HAVE been among those to benefit from the recent flurry of cross-border mergers and acquisitions activity by companies trying to acquire assets in fast-growing Bric and other Asian economies. Big international takeover deals – which had generated huge fees for the top corporate law firms – virtually dried up in the downturn, prompting many firms to cut costs.

During the financial crisis, M&A lawyers also focused on maintaining high-level client relationships by advising on asset divestitures or restructuring, but this was often not enough to compensate for the lack of deals activity, and many firms had to lay off staff. But in the first half of this year, the M&A levels began to climb again – with deals in the financial sector, in energy and in natural resources as Asian capital was invested in the fast-growing markets of Africa and the Middle East.

Some of the biggest deals this year – including Prudential's ill-fated \$35.5bn bid for AIG's Asian assets and the \$10.7bn bid by Bharti Airtel, the Indian telecommunications company, for Zain Nigeria – have involved attempts by companies to move into emerging markets. This activity has bolstered law firms, which make massive fees advising on deals – particularly those with a global reach that can serve big corporate clients engaged in multi-national operations.

According to league tables compiled by Mergermarket for the first half of the year, Simpson Thacher & Bartlett, the US law firm, led the global rankings, advising on 71 deals across the globe worth a total of \$145.2bn. This firm also led the tables for the Americas and the US by value of deals, with Sullivan & Cromwell topping the European league, advising on 14 deals worth a total of \$83.6bn. DLA Piper was the most active globally, with a total of 138 deals worth a total of \$8.1bn.

"There was a real build-up in M&A in 2007-08 and then we went through the banking crisis in 2008, and a much slower 2009," says David Barnes, partner at Linklaters, the law firm. "Law firms thought that 2010 might be a sticky year, but actually there has been more M&A activity, and companies have been doing deals in the aftermath of the crisis for much better, sounder reasons."

But while corporate activity is up, the volume of deals worldwide is a fraction of the numbers reached at the peak of the debt boom in 2007 – and clients remain cautious. The volume of deals worldwide rose by 2.9 per cent to \$828.9bn during the first half of this year; in the same period in 2009, the figure was \$805.9bn, according to Mergermarket.

Law firms say many corporations are concerned about the fragility of the global economy and are looking to acquire businesses in fast-growing economies that have been less affected by the crisis. "People remain uncertain whether or not there will be a double-dip recession," says Andrew Ballheimer, managing partner at Allen & Overy's corporate department in London.

"Many of the deals happening now are ones that people have been looking at for some time [but did not complete] two or three years ago because they were more

cautious, given the global financial crisis. Many of these deals are taking advantage of existing synergies. Private equity is still doing deals, although these tend to be smaller transactions than [those we were seeing a few years ago] – and below the £1bn (\$1.56bn) mark."

Activity has been greater among Asian companies seeking raw materials and commodities for their fast-growing economies. This can be seen in the battle for Canada's PotashCorp, which is currently the subject of a hostile bid from BHP Billiton; this has sparked interest from other bidders, including China's state-owned chemicals group Sinochem. (China is the world's largest importer of potash, a mineral that enhances crop yields.)

"A lot of the smaller oil and mining companies need scale and so they are doing deals, and India and China need access to resources for their own development," says Mr Ballheimer. Mr Barnes of Linklaters says that in "sectors such as mining and energy there has been a quicker bounce-back, because globally there is a shortage of commodities. There has been a lot of interest from Asia ... in buying companies to guarantee their supply of raw materials – as can be seen in the current battle for Potash, for example, or the battle for Dana Petroleum."

He adds: "A number of companies are seeing that the world is changing; they feel it's time to get out of certain areas and move more strongly into Asia. Another trend we are seeing is activity in healthcare and pharmaceuticals, which is consolidating in the US and other societies with maturing populations."

THE BANKING SECTOR HAS also seen a flurry of corporate deals, with the likes of Deutsche Bank raising fresh capital and others such as Royal Bank of Scotland and Citigroup selling off non-core assets to raise money to bolster their capital reserves.

"In the financial sector some of the banks that have received government support, such as Lloyds and RBS, have been required to sell assets," says Mr Barnes. "Other banks are selling off non-core assets because they know the cost of capital will increase."

It is also worth noting that many law firms, particularly those in the "magic circle" in London, are now global businesses and therefore less dependent on revenues they gain from acting as corporate advisers on M&A deals. One partner suggest that many international law firms managed to offset last year's drop in M&A revenues by deploying lawyers in other growing areas, such as corporate restructuring or litigation.

Mr Ballheimer of Allen & Overy adds: "Law firms had a reasonable 2009, but the 'magic circle' firms are much more global and diverse, and so haven't been as dependent on M&A volumes as some of the smaller law firms."

Mr Barnes agrees that restructurings were more commonplace in 2009. "On the M&A side, we were quieter last year than in the boom times," he says, "but there was some activity as companies did reorganise themselves. Now we are not back to the boom times, but we are seeing strong growth in demand."



The rise of the developing world

Dealmaking in emerging markets is recovering quickly from the downturn, writes *Stefan Wagstyl*

IN MERGERS AND ACQUISITIONS, IT is sometimes possible to forget that the world economy is recovering – hesitantly – from its biggest crisis in more than 60 years, such is the pace of activity in corporate finance.

As Bob McDonald, chief executive of Procter & Gamble, said in a recent interview: “The climate for acquisitions is good, the climate for mergers is good ... Companies are starved for growth. They’re looking for opportunities to grow.”

Dealmaking is, of course, recovering from a recession-hit few years and still some way off its pre-crisis record levels. But corporate finance departments have been buzzing in recent months – and much of the buzz comes from groups in the world’s emerging markets.

It has been breathtaking to see the Chinese government encouraging a state company to consider intervening in BHP Billiton’s hostile \$39bn bid for Canada’s PotashCorp. If Sinochem were to mount a counter-offer, it would be by far the largest overseas bid by a Chinese enterprise or, indeed, by any company based in the emerging world.

Even if such a move does not materialise, it is proving to be an active year for bids and deals in the emerging markets.

Over the summer, India’s Bharti Airtel completed its \$10.7bn acquisition of Zain Africa, the African operations of Zain, the Kuwaiti state telecoms company – so far, the largest cross-border deal in the emerging world this year.

On the domestic front in the emerging world, the front-runner is even bigger – the \$28bn move by Carlos Slim, the Mexican billionaire, for his América Móvil mobile telephone company to buy Carso Global Telecom, the controlling company for his fixed-line assets.

Nor have emerging-market companies been shy to expand their fast-growing portfolios of developed-world assets. In the largest deal so far this year, China’s Sinopec is paying \$4.65bn to ConocoPhillips of the US for a 9.03 per cent stake in Syncrude, a huge oil sands project in Canada.

But what is striking is the activity between emerging markets. Simon Hargreaves, head of advisory for central and eastern Europe, the Middle East and Africa at Barclays Capital, the investment banking arm of Barclays, says: “Now we are seeing an emerging-market-to-emerging-market trend. Companies are coming out of their wait-and-see mode ... Western multinationals are also coming back into the market.”

But Mr Hargreaves warns that securing financing depends on preparing solid, “bankable” deals. The market is “selective”, he says.

Emerging-market M&A retains a modest share of global M&A – but has recovered faster from the downturn. Mergermarket, a financial information provider, calculates that global M&A to the end of August totalled \$1,251bn, putting it comfortably on track to beat last year’s \$1,766bn but well short of the pre-crisis record of \$3,653bn reached in 2007.

For emerging markets, the year to the end of August saw \$308bn in M&A, compared with \$346bn in 2009 and \$482bn in 2007, according to Mergermarket.

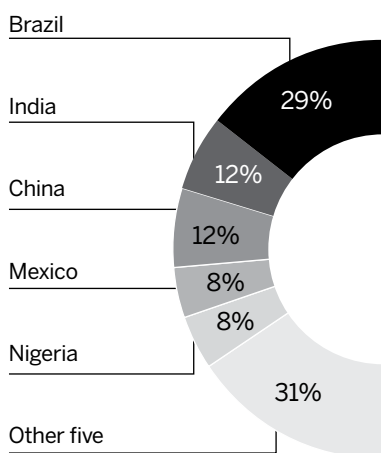
Emerging-market companies are increasingly active in pursuing targets, both in other developing markets and in the developed world. Mergermarket estimates that total outbound M&A from emerging markets was \$101bn in the year to the end of August, compared with \$99bn in the whole of 2009 and \$147bn in 2007. Companies in emerging countries split their investments fairly evenly between other developing markets and the developed world.

The numbers reflect some important trends. First, emerging-market companies have recovered from the crisis faster than their developed-world counterparts, thanks to the more rapid recovery of their economies. Multinationals in the developed

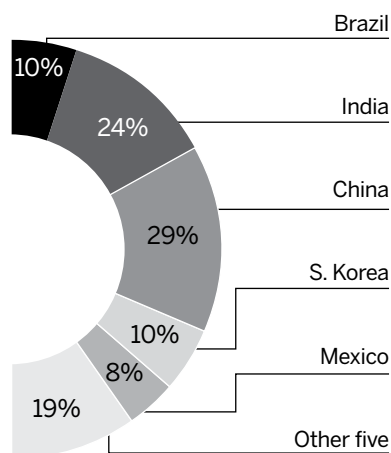


Emerging-market M&A, by volume

Ten most targeted nations



Ten most acquisitive nations



Source: Thomson Reuters

world have caught up somewhat in recent months, but emerging-world companies, especially in China, have considerable momentum behind them.

Next, emerging-market groups, especially those based in Asia, have access to large pools of liquidity, both state-backed (as in China) and private. International investors are lapping up emerging-market bond issues – including corporate paper – in their search for yield.

Third, the drive to acquire natural resources is a central feature of today’s M&A market in emerging economies, with Chinese state groups leading the way. But companies in other sectors, including banking and telecoms, are very active.

Then, as often with big corporate deals, politics rears its unlovely head. Chinese state company acquisitions of North American energy assets have prompted US and Canadian politicians to question the strategic risks involved in selling key reserves to entities run by foreign governments.

Meanwhile, foreign companies active in China have criticised business conditions and accused Beijing of failing to provide a level playing field.

Latin fervour

M&A activity is on the rise in the region. By *Helen Thomas*



The investors have been particularly concerned about losing control of their technology to Chinese partners and customers for little benefit in return. The chief executives of General Electric in the US and Siemens and BASF of Germany are among those who have hit out at Beijing.

But the outlook for further cross-border investment remains positive. A study published this month by the United Nations Conference on Trade and Development (Unctad) says companies are planning to boost international investment with a big focus on emerging economies.

China, India and Brazil top the list of target countries for foreign direct investment until the end of 2012, pushing the US, for years the number-one destination, into fourth place. Other emerging markets in the top 15 in Unctad's rankings include Russia in fifth place and Mexico in sixth, followed by Vietnam, Indonesia, Thailand, Poland and Malaysia.

Traditionally popular destinations such as the UK, Germany and France remain on the list, but they are gradually sliding down as the world tilts in favour of the emerging markets.

Developing economy: rich and poor areas exist side by side in São Paulo, Brazil

PHOTO: TUCA VIEIRA

ONE CORNER OF THE GLOBE has been bristling with life this year, even as much of the dealmaking world was struggling to generate a meaningful recovery. Latin America is on course for a record year in mergers and acquisitions activity, exhibiting a pick-up that has largely eluded the US and Europe, where confidence and activity remain patchy.

By the end of August, the region had already logged its biggest year to date, according to data provider Dealogic, with four months still to run.

Even excluding the restructuring of billionaire Carlos Slim's telecoms empire – at \$28bn the region's largest deal – Latin America's share of global M&A topped 6 per cent to the end of August. That sets another record and compares with just 3.7 per cent last year.

For the people charged with finding, developing and executing deals in the region, it has meant a busy time – and a growing haul of air miles.

One regional boss at a Wall Street institution laments skipping between six countries, as well as back and forth to New York, in the previous month. Another bemoans the fact that while he has been to Peru countless times, he has yet to visit Machu Picchu.

But the growing importance of Latin America to clients of the large investment banks means the region's bankers are finding themselves in the spotlight.

"It's as high as it has ever been," notes Antonio Pereira, the head of M&A and corporate finance for Goldman Sachs in Brazil, referring to his country's profile within the bank.

"This is an area we are investing in and, like India and China, we believe this is a huge opportunity for the firm," adds Mr Pereira, who has been based in São Paulo for almost 12 years but originally comes from Rio de Janeiro.

Others who have worked in the region for many years also appreciate its coming of age. Nicolas Aguzin, chief executive of Latin America for JP Morgan, explains that the development of local capital markets – most notably in Brazil – has transformed the business landscape in the past decade.

"In the past five years, we have seen the emergence of Latin American multinationals – the *multilatinas*," says Mr Aguzin, an Argentine citizen. "With that you have to cover clients on a much more global basis."

Udi Margulies, who manages M&A in the region for Barclays Capital, agrees that in Brazil in particular, companies now have global ambitions.

"We're seeing the creation of national champions in Brazil who are encouraged to merge with local competitors or expand internationally," he says.

Those include Vale, the mining company; Itaú and Banco do Brasil in financial services; and Marfrig and JBS, the protein producers that bought Keystone and Pilgrim's Pride, respectively, in the US.

Bankers also point to greater interest in dealmaking around the rest of the continent as contributing to an upswing in activity.

"In Mexico, the team is the busiest they've been in years," says Jim Allen, head of M&A in Latin America for Morgan Stanley. "Mexico is starting to get close to its fair share of regional activity, given the size of its economy."

By the end of August, Latin America had already logged its biggest year to date in M&A

Eduardo Cruz, who in May this year was charged with co-ordinating all of Citigroup's investment and corporate banking in the region after a period when the top regional job remained vacant, argues that companies are looking for growth further afield.

"The Brazilian market is big enough that you can do really well growing inside Brazil," notes Mr Cruz, who grew up in Nicaragua. "In the rest of the region, there is more interest in transactions looking north and south. And companies in the Andean region are interested in sizeable opportunities in the US."

The interest of Latin American companies in deals outside their home markets is matched by global companies' desire to tap into the region.

"We've seen a lot of clients saying, 'We need to grow via M&A in this region and we want to get educated,'" says Barclays' Mr Margulies.

Most notably, Asian companies have looked to the continent as a place to secure natural resources. Mitsui, the Japanese trading and investment company, in 2008 increased its investment in Valepar, the controlling shareholder of Vale, the Brazilian mining group, while Sumitomo this year paid \$1.9bn for 30 per cent of Mineração Usiminas, another Brazilian mining company.

"We're going to see much more cross-border activity intra-emerging markets," says Pedro Chomnalez, head of emerging markets investment banking at Credit Suisse.

For Credit Suisse, which tops the M&A league tables in Latin America, that means working on co-ordinating the bank's efforts with clients in different emerging regions. This month, the bank hosted a conference in Beijing specifically for its Latin American clients.

The basic logic, notes JP Morgan's Mr Aguzin, is that these countries "are short products that Latin America is long. And companies need substantial capital to develop these assets – all these transactions are devised to inject capital to develop the assets themselves."

YET WHILE THE COMPANIES AND economies of Latin America become ever more global, the banks that aim to do deals there emphasise the importance of being local. "In Latin America, the old coverage model of flying back and forth to the region from New York doesn't work anymore," says Mr Chomnalez. "If you are not present in the local markets with critical mass and substance, you can't be top ranked."

That includes a command of the local language, with most bankers overseeing the region speaking both Spanish and Portuguese – or at least *Portañol*, the make-do combination of the two that serves its purpose.

And as the deals flow, competition between the advisers increases to win their share of the business. "Everyone in the industry is focused on emerging markets, investing heavily and building teams and local presence," says Mr Chomnalez. "That includes the commercial banks and local players in every market as well."

Citigroup's Mr Cruz is among the many who is actively hiring, hoping to capitalise on Citi's corporate banking infrastructure in the region to win more investment banking business.

"Citi is the only global bank that has had a presence in the majority of these countries for decades – through thick and thin," he says, adding that he has found a complete transformation in terms of business opportunity as he has travelled the countries in the region.

"In the current age of globalisation, once people realise that a country is a big market opportunity there is no turning back," adds Goldman Sachs' Mr Pereira. "It's a self-fulfilling prophecy. The level of sophistication that you'll see in deals, and the global aspirations, are here to stay."

The heavy hitters

How three movers and shakers made their names – and fortunes

Nat Rothschild

THERE CAN BE FEW FAMILY NAMES tougher to live up to. In the 200 years since Nathan Rothschild moved from Frankfurt am Main to Manchester to found a textile trading business, his name has become synonymous with huge wealth, earned by banking and by broking enormous business deals across national boundaries.

His descendant Nathaniel – “Nat” – Rothschild, born in 1971 as the last of five children and heir to the title of Baron Rothschild, is a chip off the old block. His little black book of connections and contacts is impressive: he is a stalwart of the British smart set, a friend of Oleg Deripaska, the Russian oligarch, and of Lord Mandelson, former Labour minister. Schooled at Eton, he studied history at Oxford, where he drove a blue Porsche and partied with future chancellor George Osborne *et al* as a member of the Bullingdon Club. His pastimes include horse-racing and skiing.

True to his family background, Mr Rothschild started his first business venture – car trading – at 21 (even if it was short-lived and not very successful). However, close friends say he is ambitious and resilient. Above all, he knows, as his forbears did, the power of connections and how to broker that power.

From Oxford he joined Lazard Brothers, a bank that closely rivals the Rothschild family's enterprises in New York, Paris and London, and then Gleacher Partners, the New York advisory boutique. In the mid-1990s he gave up tobacco and alcohol for Diet Coke and a more serious lifestyle, joining Atticus, the hedge fund, as co-chairman.

While at Atticus he led the attack on the board of Groupe André, the French shoe retailer, alongside veteran investor activist Guy Wyser-Pratte, with whom he ousted the company's board. In 2007, the year the fund's assets hit their peak of \$20bn, he and his fellow bosses at Atticus, Tim Barakett and David Slager, were estimated to have made \$250m-\$300m from the fund.

But Atticus funds, after being badly burned in the financial crisis, were closed down last year. Mr Rothschild remains busy, however. He has a private jet to fly him between Klosters, London and New York in pursuit of his business interests, and to Corfu, where he holidays with the likes of Mr Osborne and Mr Deripaska.

He is chairman of TriGranit, a large European property developer; has interests in Black Sea and Montenegrin oil; owns JNR, a banking advisory group; and is on the board of Barrick Gold. Mining and extraction feature large in his portfolio of interests. He invested \$40m in bonds in Glencore that will convert to shares when the miner is listed, and took a stake in Rusal, the Russian oil group controlled by Mr Deripaska (listed in Hong Kong last year).

Most recently, he set up

Big players: (from left) Nat Rothschild, Hugh Osmond and Clive Cowdery

Vallar, a “special purpose acquisition company” quoted on a stock market. Vallar was designed to raise money to buy unloved mining assets (such as base metals, iron ore and coal operations) from big resource groups. The co-founder and chief executive is Jim Campbell, formerly of Anglo American. It raised more than £700m (\$1bn) this summer, and will target groups with enterprise values of up to £5bn. In time, Mr Rothschild may well have a business empire to match his illustrious forbear. *Kate Burgess*

Hugh Osmond

ANYONE WHO CAN BRING A company to the brink of financial collapse, persuade its lenders to take a hit on their debilitating debt, and still emerge with a significant stake and a fat profit clearly has some very particular skills. Often described as the “pizza to pubs” entrepreneur, Hugh Osmond enjoyed just such a progression at Pearl Group – the closed-life fund business that was renamed Phoenix following its financial bonfire last year.

This regeneration saw a large capital injection from new owners, and cuts to its debt load. But Mr Osmond's next step was to raise money for Horizon, a publicly listed vehicle that would hunt out overleveraged targets in need of the same sort of balance-sheet clear-out.

Such a move suggests someone exhibiting classic entrepreneurial traits: seeing opportunity in adversity, or finding ways to exploit the lessons learnt.

Some, however, saw the move as Mr Osmond simply finding a new vehicle to help him do what he has always done. As one banker who has worked with him says: “Hugh's unique selling point has always been negotiating with bankers.”

Mr Osmond had his first big success with the PizzaExpress chain, built with his then business partner Luke Johnson and floated in 1996. He went on to construct a huge pub empire, Punch Taverns, listed in 2002, five years after it was founded. But having raised roughly £500m (\$780m) for his new vehicle, Horizon, at the start of this year, he is still hunting for its first deal, although he appeared to have got close with at least one company, the building firm Crest Nicholson.

However, Mr Osmond is in no hurry. Horizon has a two-year mandate to find a deal and is monitoring up to a dozen businesses closely.

A 49-year-old and a father of three, Mr Osmond believes

that the current environment is the best he has ever seen for financial restructurings.

“There is just so much stuff that fits our profile,” he says, “and more is coming along all the time, although with many situations there has to be some sort of event – a covenant breach, for example – to make it happen.”

Horizon is looking for companies with growth prospects that are basically sound, but struggling under the weight of too much debt. This was the picture at Pearl Group, Mr Osmond argues, after it took on more than £3bn of debt to buy Clive Cowdery's Resolution, its main rival in consolidating life insurers that have closed to new businesses (see profile of Mr Cowdery, below).

The individual life businesses owned by Pearl generated plenty of cash, but the debt load of the holding company came under huge pressure during the financial crisis. The market turmoil and regulatory reaction put severe restrictions on the money that the Pearl funds were able to pay in dividends and loans to its parent company, which held the debt.

Mr Osmond had to negotiate with 17 banks to get the Pearl restructuring done, and saw the stake of his vehicle, Sun Capital, cut dramatically, even after putting in more money.

However, he has since rebuilt his stake, which is now back to 20 per cent and worth more than £200m. And that is – reportedly – after having already taken out more than his original stake in dividends before the crisis hit. *Paul J. Davies*

Clive Cowdery

CLIVE COWDERY'S CURRENT project under his Resolution brand – to spark a reshaping of the UK life industry, while delivering mid-teens percentages returns to investors – looks no easy task. It is a much tougher affair than the first Resolution project, which rolled up a bundle of underappreciated life insurers that were closed to new business. It is more complicated: both operationally, in terms of how functioning life businesses can be fused together; and tactically, in terms of finding willing sellers at sensible values now, and excitable buyers for the bigger beast created in the future.

But it is a sign of the respect that Mr Cowdery earned with his first Resolution project that – while industry executives and bankers will agree with the analysis of all the obstacles – most conversations about him and his new project



tend to conclude along the lines of, “Well, I wouldn’t bet against Clive...”

The first incarnation of Resolution was – at the very least – a work of exquisite timing. Mr Cowdery was not the first to think of buying closed life funds and gaining capital, tax and operating efficiencies from merging them, but he had the ambition to try it on a bigger scale than had been done before. He completed a string of deals (starting with the life book of RSA in 2003) at escalating valuations, and often competing with the Pearl Group, set up around the same time by Hugh Osmond (see profile, above). But in 2008 he sold the lot to Pearl – in the biggest deal in the sector, at the highest-ever valuation.

Mr Cowdery appears to see his role as that of an enabler. He talks often of spotting gaps, joining dots, removing obstacles or creating efficiencies. The first Resolution project did not truly integrate any of the businesses it bought, in spite of his long-time employment of Ian Maidens – the former actuary and consultant widely regarded as the “technical brains”. Rather, the last project – and in all probability the current one – seemed more focused on identifying where gains could be made, and then selling the opportunity to a new owner. But Mr Cowdery’s leading competitive advantage lies in the social network he has built over the past couple of decades – almost everybody in, or related to, the insurance sector says they “know Clive”.

Having come relatively late to the realisation that he was interested in making money, Mr Cowdery moved from the voluntary sector to become an insurance broker in the West Country in his mid-twenties. In the late 1980s, he set up his own marketing and product design consultancy and won financial backing from the Rothschild family (see above), when he designed products that could be sold across borders. That company was sold to Scottish Amicable and he left to join General Electric’s insurance business, quickly rising to become European chief executive. Five years after joining – and after trying to interest GE in his closed life funds project – Mr Cowdery left and risked everything he had on bankrolling his first Resolution deal. With RSA’s book in the bag, real financial backing was not far behind. Another five years later he was sitting on the £150m (\$235m) proceeds of the sale to Pearl.
PJD



Anthony Parsons The signs are good, but is recovery really on the way?



IT WAS NOT THE SUMMER WE WERE expecting. BHP Billiton made a hostile \$39bn cash bid for PotashCorp; HP and Dell competed for 3Par, which finally sold at a 242 per cent premium; Intel bought McAfee for \$7.7bn; the state-backed Korea National Oil Corporation made a hostile offer for Dana Petroleum; and Reckitt Benckiser bid for SSL. These and other deals contributed to what Thomson Reuters reported to be the highest volume of mergers and acquisition activity in July and August since it began monitoring back in 1987.

What is driving this rise in activity? And does it presage a return to more buoyant conditions in the M&A market? Or is it merely a temporary aberration, a coincidence of several deals being announced at once, with no discernible trend?

Many companies have come out of the recession in comparatively good shape – probably far better than governments and individual households. Businesses have cut costs, focused on cash flow, reduced debt and shed non-core activities. At the end of the first quarter this year, according to FactSet Research, US public companies had roughly \$2,000bn of cash and short-term investments on their balance sheets. Corporates are keen to find a use for it.

Does this rise in M&A activity presage a return to buoyant conditions? Or is it merely a temporary aberration?

A key theme across many sectors is how to secure growth. Unsurprisingly, this has led companies to look internationally to access new markets, and it is striking that cross-border M&A is up 112 per cent on the comparable period last year, with significant focus on the emerging markets within the developed economies.

However, unlike previous economic cycles, the emerging markets have come through in robust health, and the corporate champions in these economies are also looking to globalise, most noticeably in the natural resources sector.

The timing of doing deals also looks good from a number of perspectives. The financing markets are in much better shape than they were a year ago; credit spreads have tightened materially; and interest rates remain low, in absolute terms. Equity valuations still look relatively attractive, with a significant number of companies trading on multiples some way lower than has been the case.

Nevertheless, deals remain difficult to consummate because of the differences in perception of value that exist between buyers and sellers.

“Good” companies are not selling themselves cheaply, and the premiums for public deals have risen significantly since the credit crisis.

In the UK, the average premium in a large public market deal – with a value of greater than £200m (\$315m) – since the start of 2008 has been

Disagreements between buyers and sellers about value means we are seeing far more hostile, ‘bear hug’ activity

more than 50 per cent, while “bad” companies are struggling to find buyers.

These disagreements between buyers and sellers about value are why we are seeing far more hostile and “bear hug” activity as bidders adopt a “bypass the board” strategy, taking their argument directly to shareholders. As a result, in many of these public deals flawless execution has been more important than ever before in getting deals done.

The market’s reaction to many of the (announced) transactions has provided a clear message: those deals with strong industrial logic, synergies and appropriate financing structures that deliver sensible returns to shareholders are well received.

While this has bolstered corporates’ confidence, they have learned lessons from the credit crisis and are generally being disciplined in their approach to M&A, in particular how it relates to financial leverage, as we see fewer all-cash deals and more deals with a stock component.

SO ARE WE SET FOR A SUSTAINED surge in dealmaking? Many of the factors outlined above are likely to remain in place. Also, the gross domestic product growth rate forecasts for the emerging markets mean that we are likely to see ever more activity from their largest corporations, which are seeking to internationalise their businesses and find access to the developed economies.

Then there is the private equity sector, which has been quiet for a couple of years and has substantial uninvested capital. Yet unlike corporates, private equity groups remain hamstrung by the availability of financing in the leveraged loan markets for larger deal sizes.

It is also worth observing that, even at the peak of the M&A cycle in 2007, private equity never comprised more than roughly 17 per cent of global announced M&A volumes; it is the corporates and financial institutions that drive volumes.

We still need to be cautious about making predictions. A series of poor macroeconomic announcements could damage boardroom confidence, with some uncertainty over the precise impact of government spending cuts and tax rises.

By far the best indicator of M&A activity is the state of the equity markets, with M&A volumes closely following the performance of equity indices. And where are the equity markets going? Well, that is an altogether different story.

The writer is the managing director of UK M&A at Deutsche Bank

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