DEAL ADVISORY

November 2015

HGM TRACKER

High Growth Markets International Acquisition Tracker

WHAT IS THE HGM TRACKER?

The HGM Tracker looks at deal flows between 15 developed economies (or groups of economies) and 13 high growth economies (or groups of economies).* The Tracker is produced every 6 months to give an up-to-date picture of cross-border merger and acquisition activity, with the current edition featuring deals between January and June 2015.

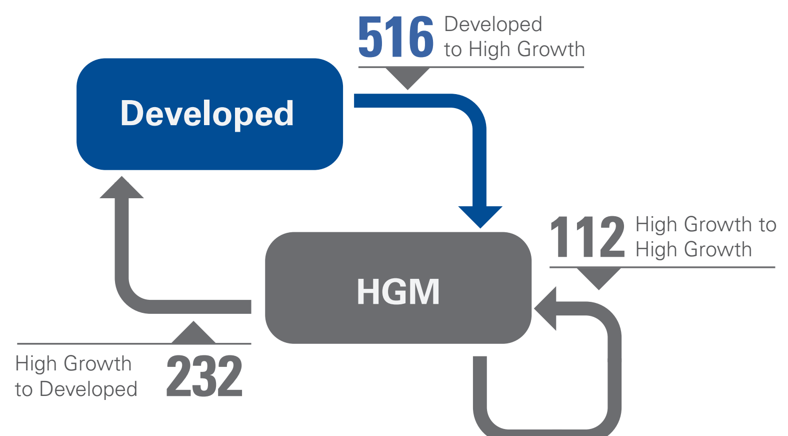
Established in 2003, the Tracker includes data from completed transactions where a trade buyer has taken a minimum 5 percent shareholding in an overseas company. All raw data is sourced from Thomson Reuters SDC and excludes deals backed by government, private equity firms or other financial institutions.

HIGH GROWTH MARKETS LOSING LUSTER FOR CORPORATE ACQUIRERS

The first half of 2015 saw a decline in the level of deals into high growth markets (HGMs), after a year of recovery.

"Despite a relatively stable global M&A market, both developed and high growth markets have cut their investments into HGMs significantly compared with 6 months ago, including into previous hot spots such as India and China", said Leif Zierz, KPMG's Global Head of Deal Advisory. In fact the level of deals between developed market acquirers and high growth market targets (D2H) fell to a 10-year low, as did the volume of deals between high growth market acquirers and targets (H2H).

The figures mask some interesting trends, however, with markets like Mexico and the US still showing a robust level of activity, and outbound HGM deals maintaining a healthy flow, particularly in some key markets.



Source: Thomson Reuters SDC; KPMG analysis, 2015

KPMG

> Both developed and high growth markets have cut their investments into HGMs significantly compared with six months ago

D2H deal flows drying up

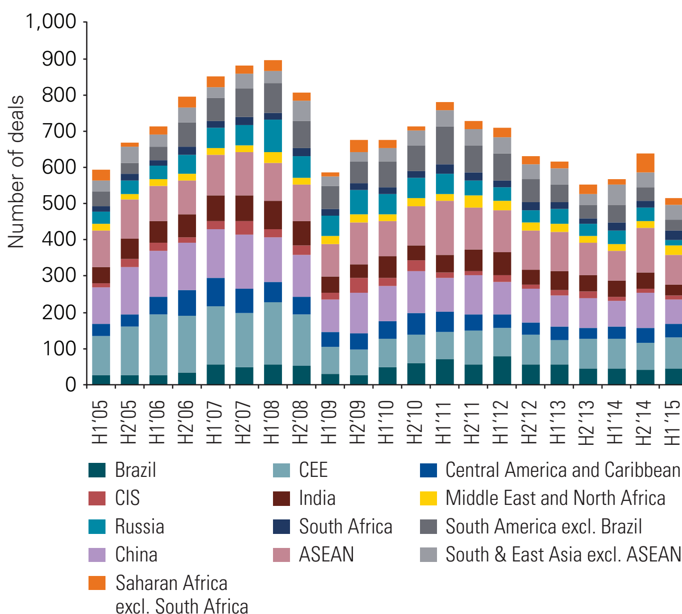
The volume of D2H deals completed between January to June 2015 tumbled 24 percent compared to the previous semester, from 639 deals to 516. This is the lowest number of D2H deals since at least 2005, possibly driven by uncertainty over issues such as US interest rates and slowing growth in China.

Big fallers included China, which saw the number of inbound D2H deals fall from 96 in the latter half of 2014 to 70 in the first six months of 2015, a decline of 25 percent. In India, the slowdown in D2H volumes was similar, with a 30 percent reduction. Russia, still beset by significant political and economic challenges, saw inbound D2H deals plummet from 37 to 14 – a 62 percent drop. Other markets which saw big declines were ASEAN, where inbound D2H deals fell by 34 percent in 6 months, and Sub-Saharan Africa, excluding South Africa, where the decline was 63 percent.

Against this background, some key HGMs still managed to increase the level of investment from developed market acquirers. In Brazil, inbound D2H deals increased by 10 percent. In CEE, the increase was 13 percent and Middle East and North Africa saw a 25 percent rise in inbound D2H deals.

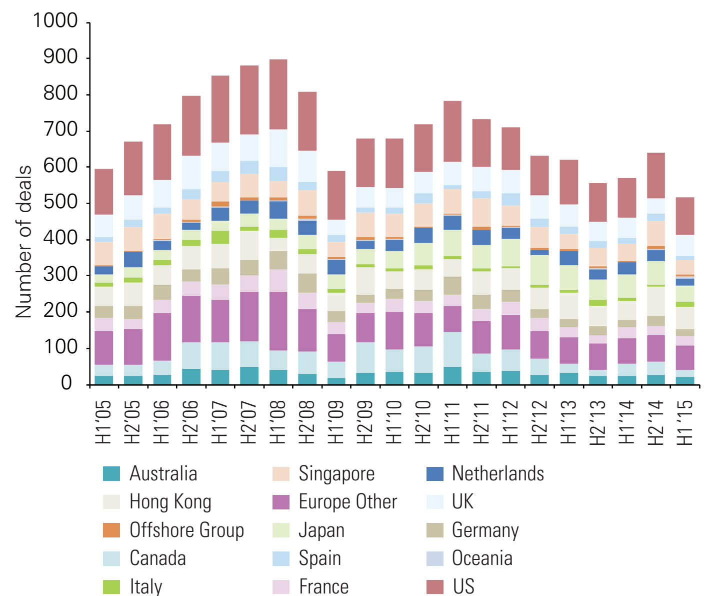
Of those developed markets doing the acquiring, there were dramatically lower outbound volumes into HGMs from Canada (a 49 percent reduction), Spain (-47 percent), Singapore (-44 percent), Germany (-36 percent) and Hong Kong (-23 percent).

Developed market acquirors of high growth market targets, by high growth



Source: Thomson Reuters SDC; KPMG analysis

High growth market acquirors of developed market targets by high growth



Source: Thomson Reuters SDC; KPMG analysis

HGMs still hunting deals in developed markets

The level of high growth market M&A investment into developed markets (H2D) saw a less dramatic fall-off. In fact, despite an 11 percent decline in the overall volume of H2D deals between the second half of 2014 and the first half of 2015, the volume of H2D deals (232) is still higher than it was in 2013.

Certain markets proved particularly resilient. The number of inbound H2D deals into Hong Kong increased from 18 to 26 (44 percent), the highest 6-month volume since 2010. Half of these were investments from China, the highest proportion since 2009.

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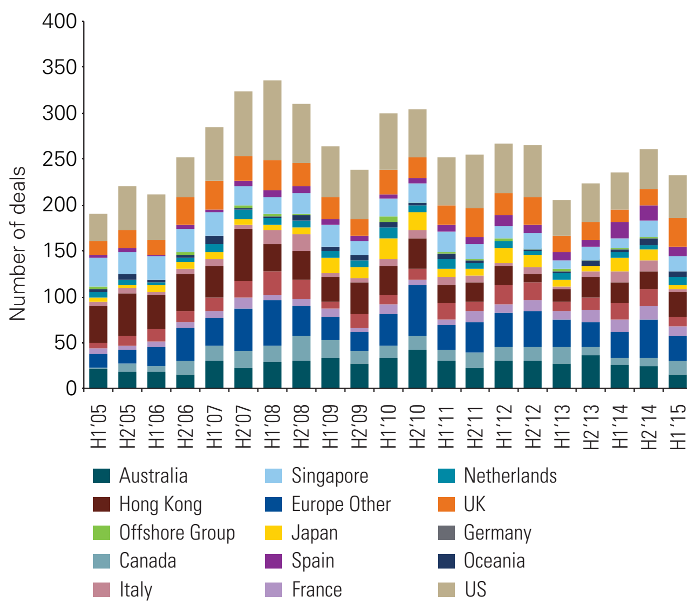
The UK saw a significant uptick in inbound H2D activity. Deal volumes rose 63 percent, from 19 to 31, with India, China and South Africa accounting for three deals apiece.

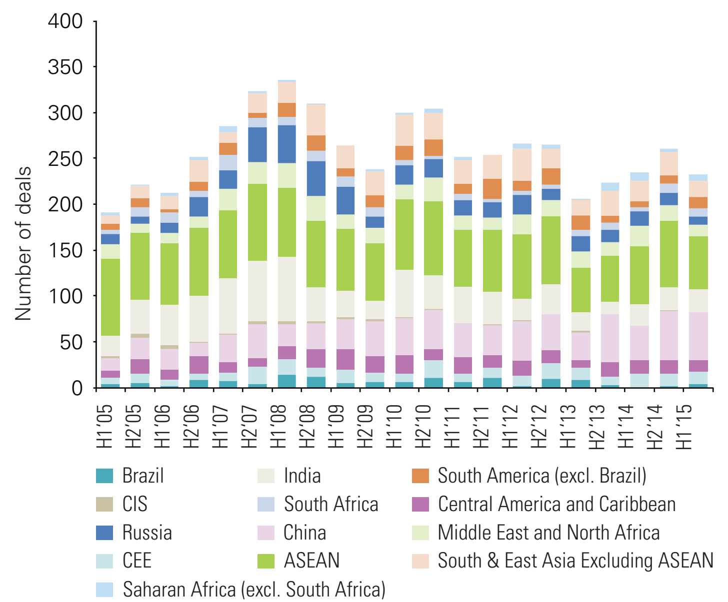
In contrast, ASEAN acquisitions in developed markets fell from 73 to 58, a drop of 21 percent, and South & East Asia excluding ASEAN saw a reduction of 31 percent in outbound H2D deals.

In terms of inbound H2D deals, the biggest declines were in Australia (-33 percent), Europe Other (-33 percent) and Italy (-77 percent).

High growth market acquirors of developed market targets, by developed



High growth market acquirors of developed market targets by high growth



Source: Thomson Reuters SDC; KPMG analysis

HGMs turn away from other HGM investments

In line with the reduction in appetite in developed markets for high growth market acquisitions, HGMs also seem to be losing interest in investing in other HGMs (H2H deals), with H2H deal volumes also hitting their lowest point for over 10 years.

Markets that saw a significant decline in inbound H2H deals include CEE (-32 percent), China and India (both -50 percent) and Middle East & North Africa (-63 percent).

ASEAN seems to account for much of this loss, with outbound H2H deal volumes falling from 41 to 24 (-41 percent). China saw a 25 percent drop from 12 deals to 9, while in South & East Asia excluding ASEAN, there was a 40 percent decline. There were no outbound H2H deals in Brazil at all during the first half of 2015.

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> Another factor, one that is often overlooked, is the scale of the domestic M&A market in China

Market Spotlights

China

China typifies the changing focus of the HGM M&A market. The 70 D2H deals into China during the first half of the year was the lowest total for 10 years. There were no acquisitions at all from the UK – the first time this has happened in over a decade – and Singapore, traditionally one of the biggest acquirers, saw deals into China tumble 66 percent from 15 to just 5. The number of deals from Hong Kong, although still the largest single investor in China, also dropped significantly, by 23 percent.

The decline in inbound deals during the first half of 2015 reflects a more reserved approach and wait-and-see attitude from many investors, in particular in the real estate sector, despite further easing of measures to open up to foreign investment.

Looking at deal flows the other way, though, the number of H2D deals out of China has maintained its highest level for 10 years – 53 deals between January and June 2015, the same level achieved during the latter halves of both 2014 and 2013.

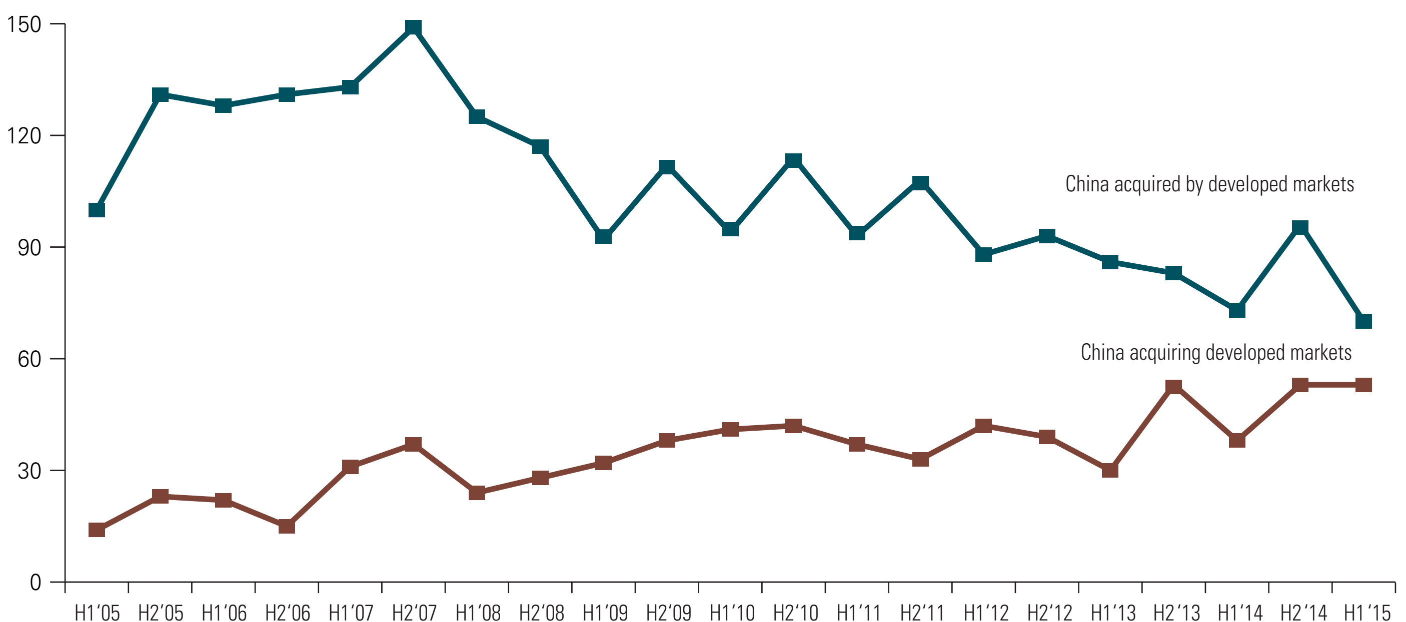
Deals into Hong Kong more than doubled, from 6 to 14. Acquisitions into Canada rose from 2 to 7 and into the UK from 3 to 5.

This trend ties in with a change of focus towards higher value businesses as Chinese investment continues to move to acquiring the knowhow, technology and skills necessary to support its transition to a more service- and domestic-led economy. Going forward, continued state sector reform is expected to result in an increase in both outbound M&A and inbound opportunities as businesses open up to external capital.

Near term volatility has increased uncertainty among multinational investors who, although confident over longer term prospects, remain challenged on how they can participate in the growth they foresee. This is leading to a more measured approach to market entry, careful selection of partners and more detailed consideration of sales channels and distribution models.

"Another factor, one that is often overlooked, is the scale of the domestic M&A market in China. This is likely to have an increasing impact on inbound M&A as stronger domestic players and importantly local private equity begin to participate in a more meaningful way in the reforms," commented Rupert Chamberlain, Head of Transaction Services, KPMG China.

10-year downward trend of Inbound vs 10 year upward trend for Outbound deals for Developed Markets



Source: Thomson Reuters SDC; KPMG analysis

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Mexico

Mexico seems to have successfully avoided the general instability in inbound HGM M&A transactions. On the contrary, inbound deals into Mexico are at their highest levels in a decade (28 deals), led by Europe (16) and the US (9).

The US has been fairly consistent with the number of deals into Mexico and has been the largest single investor in both 2014 and the first half of 2015.

From a global perspective, Mexico has done many of the right things and its popularity as a D2H investment location looks set to continue.

Policies such as continued diversification from natural resources and a move towards manufacturing, implementing reforms in key sectors and opening up trade have seen Mexico attracting the attention of corporate investors from many European countries, eager to capitalise on high growth opportunities.

Timing, too, is in Mexico's favour. While investments in manufacturing and infrastructure may not have appeared to pay off during times of high oil prices, now that prices are so low, the government's diversification policy looks remarkably prescient. Additionally, Mexico's largest trading partner, the United States, is buoyant and the economy looks set to continue its upward trajectory.

"Mexico missed out on some of the excitement of the last few years when more oil-focused South and Central American countries attracted more inbound activity. The focus on manufacturing was especially questionable after China was accepted into the WTO. But we are now forecasting more Chinese investments into Mexico in order to benefit from world's second most open economy, and its access to key markets such as NAFTA, and more recently TPP," commented Victor Esquivel, KPMG Head of Deal Advisory in Mexico.

With 80 percent of Mexico's exports heading north to the United States, European and Chinese companies see it as an opportunity to benefit from the improving US economy without the heavy penalty of US dollar exchange rates.

In terms of H2D deals out of Mexico, as some of its traditional outbound investment countries continue to struggle, Mexican investors have found opportunities in Europe.

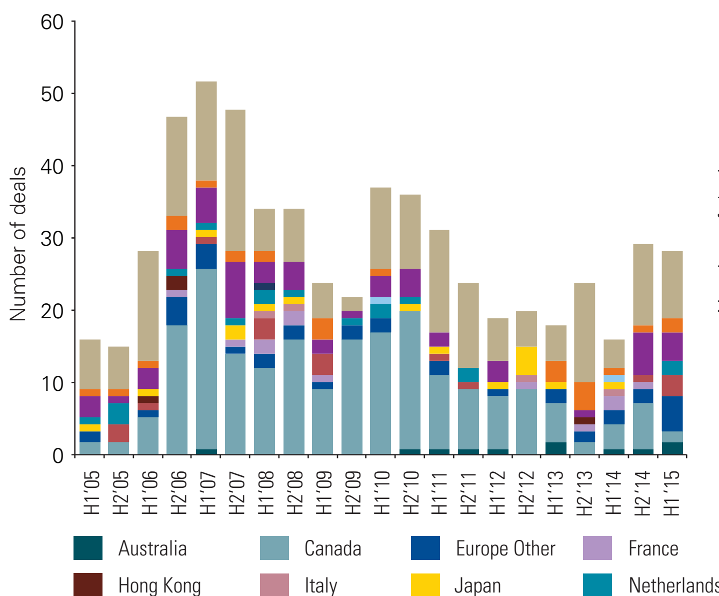
Over the last 10 years, 75 percent of Mexico's outbound HGM deals were in South America. However, there was little activity here in 2014 (two deals), and only a small pickup in 2015 (four deals). Instead, five of the largest outbound deals in 2015 so far are with Spain, as were four of the largest deals in 2014.

"Mexico's 'multi-latinas' are gaining more confidence in growing globally after consolidating growth in the Americas. With attractive Spanish valuations, a natural cultural connection and access to technology and R&D, we're expecting to see this trend continue and broaden to other developed markets", says Victor.

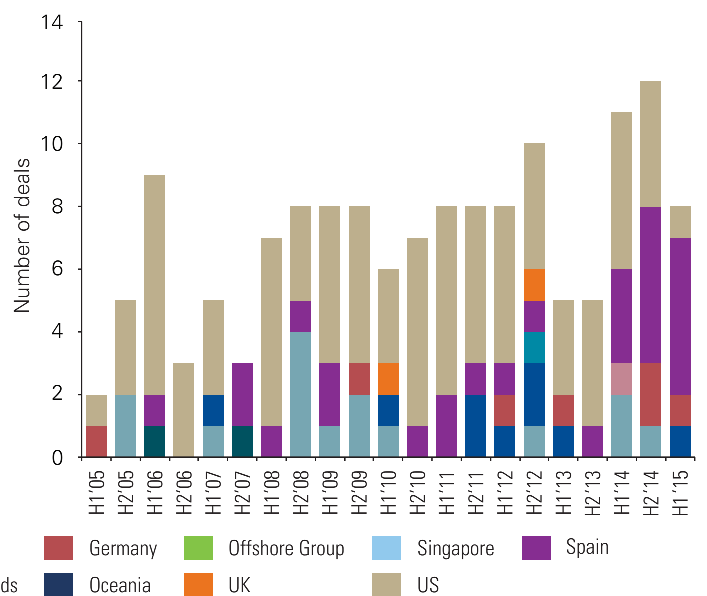
Overall, the reforms of the last few years seem to bearing fruit in Mexico, particularly in key industries such as telecoms, energy and oil and gas, and this looks set to continue.

Mexico inbound deals growing; outbound deals jumped over 18 months with developed markets, (# of deals)

Mexico acquired by developed markets (Mexico inbound)



Mexico acquired developed markets (Mexico outbound)



Australia | Canada | Europe Other | France | Germany | Offshore Group | Singapore | Spain
Hong Kong | Italy | Japan | Netherlands | Oceania | UK | US

Source: Thomson Reuters SDC; KPMG analysis

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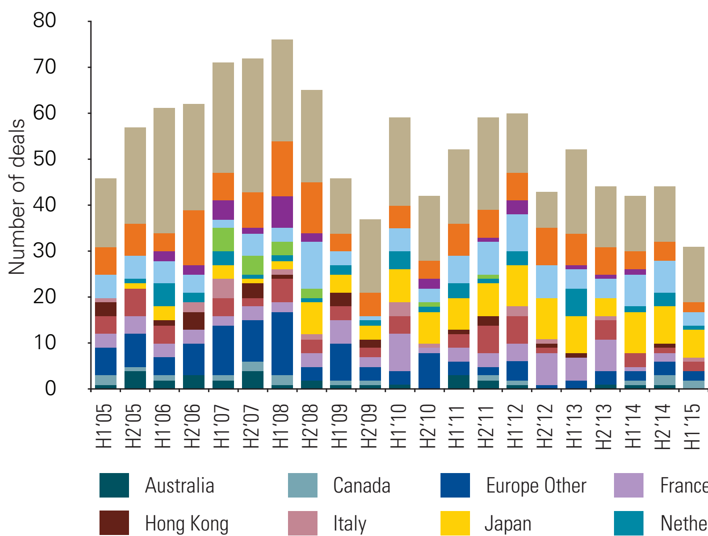
India

The volume of D2H deals into India fell by 30 percent in the first half of this year, from 44 deals to 31 deals completed. The majority of these (12) were investments from the US, with Japanese acquirers accounting for another six deals.

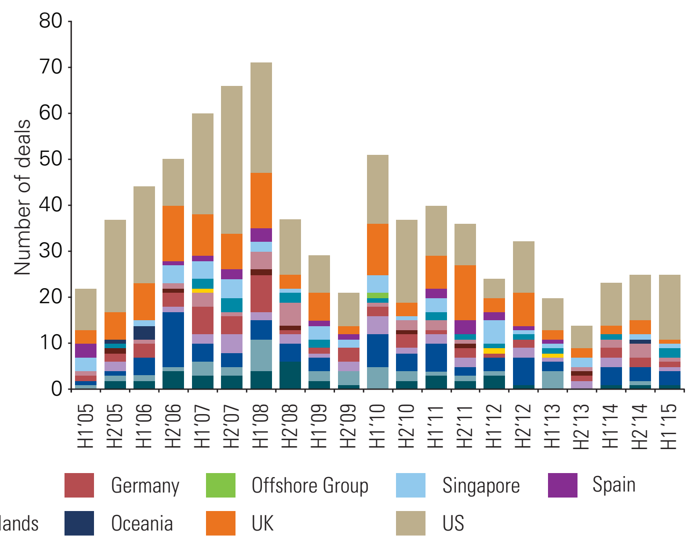
Prior to this, the level of inbound HGM M&A activity had been relatively stable for 2 or 3 years. Market sentiment has shown significant improvement since the general elections that took place in India. The country has been focused on economic growth and development,

India outbound and inbound deals with developed markets over 10 years (# of deals)

India acquired by developed markets (India Inbound)



India acquiring developed markets (India Outbound)



Australia, Canada, Europe Other, France, Germany, Offshore Group, Singapore, Spain, Hong Kong, Italy, Japan, Netherlands, Oceania, UK, US

Source: Thomson Reuters SDC; KPMG analysis

as well as improving the business environment through regulatory change.

"India's economic revival, the budget reforms and the pipeline of regulatory changes and developments in the works are transforming India into a viable M&A market. Plus, the country's fast growing consumer markets offer attractive growth opportunities for investors that are lacking opportunities in their home markets", commented Leif Zierz, KPMG's Global Head of Deal Advisory, in a recent point of view article on India.

The 17 month old government has undertaken several initiatives to make India an attractive investment destination with the Prime Minister having traveled to several countries garnering interest among foreign investors. The 'Make in India' initiative that seeks to convert India into a global manufacturing hub has gained significant visibility among overseas investors.

Relaxed FDI norms in many sectors, including multi-brand retail, telecom, insurance and defence and a quickened pace of approvals for businesses being put in place by the new government will help strengthen the investment potential further.

Looking ahead, infrastructure, e-commerce, pharmaceutical, healthcare and technology are key sectors that will gain the attention of inbound investors this year. These investors will most likely hail from the US, China and Japan as they have both the deal appetite and capacity to take advantage of India's huge growth potential.

For their part, Indian acquirers have maintained a consistent level of investment in developed market targets (H2D deals). There were 25 such deals during the first semester of 2015, two more than the same period 12 months earlier and maintaining the steadily upward trend that has been apparent since early 2013. The US remains the most popular location for H2D M&A investment, accounting for over half (14) of all Indian H2D transactions.

The interest in developed markets seems to be at the expense of HGMs, however, with outbound H2H deals falling by 50 percent, from 12 to 6, while inbound H2H deals dropped from 8 to 6.

Says Vikram Hosangady, Head of Deal Advisory, KPMG in India, "From a market perspective, the measures undertaken by the Reserve Bank of India in building currency reserves and curtailing inflation is expected to help

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the country tide through the external uncertainties. Falling commodity prices on account of the current slowdown is also most definitely a positive sign. Hence, keeping the investor sentiment in mind on account of these, the recovery will be gradual."

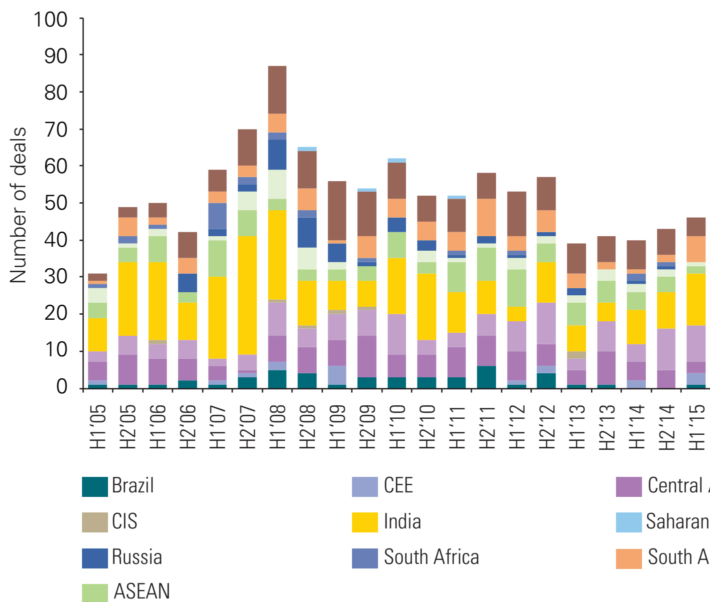
Hosangady goes on to say, "The M&A activity, although bullish, is now reflecting changed realities, with acquirers focusing more on due diligence prior to making an investment. As a result, the deal cycles have become longer. With regard to Private Equity investments, exits could form a key driver for transactions. We are also more likely to see control transactions especially by global buyout firms along with realistic valuations. The Pension funds committing substantial investment in the Indian infrastructure sector is also a welcome step."

United States

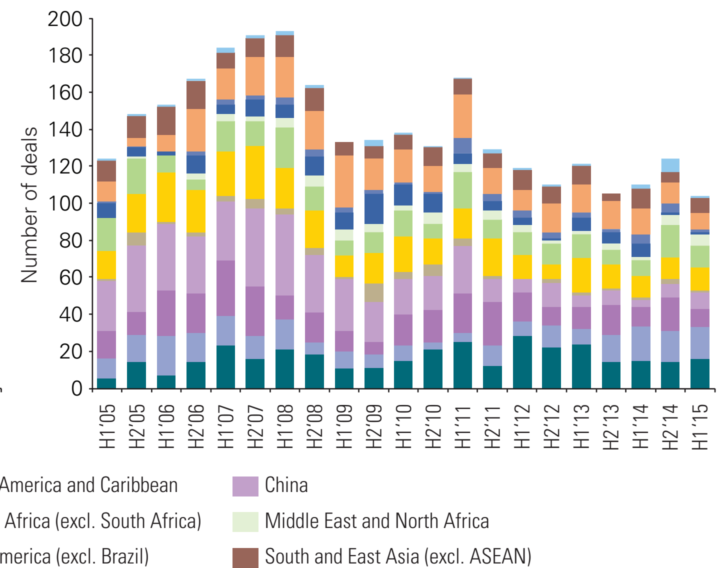
The first half of 2015 has proven to be highly active for the US, in terms of inbound HGM deals activity. As per KPMG's M&A Outlook Survey earlier this year, a rebound in global M&A activity was anticipated, with the US being a prime location. And despite currency concerns, deals activity is still quite high.

The top three HGM acquirers of US targets during the first half of 2015 were India (14), China (10) and South America ex Brazil (7). The top three developed acquirers of US targets were the UK (88), Canada (81) and Germany (38).

USA acquired by high growth markets



USA acquiring high growth markets



Source: Thomson Reuters SDC; KPMG analysis

Want to know more

To see the figures behind the HGM Tracker, including a breakdown of the deal flow for all 28 economies (or groups of economies) featured in this flyer, visit **kpmg.com/hgmtracker**

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Deal Advisory: Delivering real results

KPMG's integrated team of specialists works at deal speed to help you find, secure and drive value throughout the transaction lifecycle. By thinking like an investor, our M&A specialists can support you – whether you are on the buy side or the sell side – to see beyond immediate challenges to drive strategic change.

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*The 15 developed countries or groups are: UK, US, Canada, Spain, France, Germany, Netherlands, Italy, Australia, Singapore, Hong Kong, Japan, Europe (Other), the Offshore Group and Oceania. The 13 high growth economies or groups are: Brazil, Russia, India, China, Central & Eastern Europe (CEE), the CIS (Commonwealth of Independent States), ASEAN, South & East Asia (excluding ASEAN), South Africa, Middle East & North Africa, Sub-Saharan Africa (excluding South Africa), South America (excluding Brazil) and Central America & the Caribbean.

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