We are pleased to present the first issue of Squire Sanders' Global M&A Briefing, produced in association with Mergermarket.

Contents include:

The energy sector drove several game-changing deals at the beginning of 2013, with few signs of slowing down. **(see page 2)**

The US was the most active target country by volume in 2012 through 2013 year-to-date (YTD). **(see page 3)**

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Global M&A Series: China Outbound M&A Trends September 2012

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China Outbound M&A

Squire Sanders Global M&A Briefing

May 2013

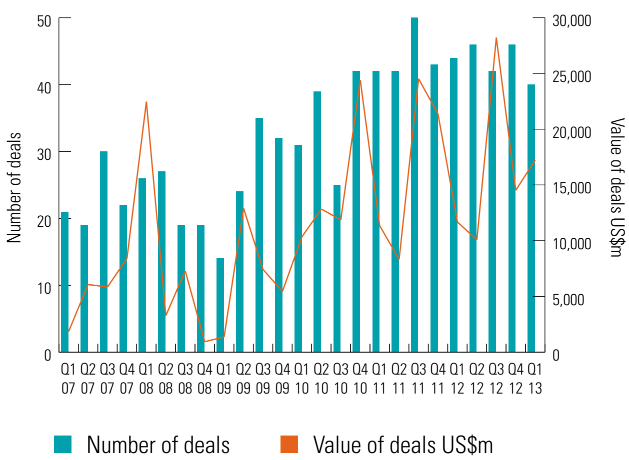
Chinese M&A has become an increasingly important part of the global dealmaking narrative. While appetites among Chinese acquirers for foreign assets were tepid as late as the mid-2000s, they have grown voraciously thanks to factors including weakened currencies in developed markets, attractive asset valuations overseas and China's vast stable of cash-rich buyers positioned for overseas consolidation.

China's strong outbound activity stands out as a bright spot domestically as the country contends with a slowing gross domestic product (GDP) and rapidly rising debt. And while the M&A climate worldwide remains in the doldrums, China seems to be a bastion of strength.

Chinese outbound M&A has picked up in earnest since the credit crunch: in 2007, there were 92 Chinese outbound deals, with a value of US$22.2bn. In 2012, there were 178 deals with values of US$64.5bn, or increases of 93% in volume and nearly threefold in value.

While there has been fairly consistent upward movement, outbound dealmaking encountered a snag last year. Compared to 2011, last year's growth was somewhat muted. Deal activity increased by one deal, while value decreased by 2%.

Chinese outbound M&A trends



Deal value has rebounded somewhat this year. The first quarter showed a YoY 9% drop-off in volume to 40 deals, but a 48% jump in value to US$17.2bn. Even with these fits and starts, China's continued strong (and usually rising) outbound activity has matured from an emergent trend to a fixture on the global M&A landscape.

China Outbound M&A

Sector Snapshots

China is home to a number of industries that turn to inorganic growth abroad. Yet, none do so as obviously and as frequently as the energy & resources sector. In order to satisfy China's extensive energy needs, energy & resources corporates are active buyers of upstream operations globally. This is due to a shortfall in domestic production and China's turn away from coal to stymie pollution. Energy & resources deals accounted for around a third of deal volume and two-thirds of value in 2012. In absolute terms, the sector totalled 48 outbound transactions in 2012, down 8% from 2011. The sector's value was also somewhat depressed, amounting to $39.6bn, an 11% drop from 2011. This is likely due to many of China's state-owned oil and gas operations – some of the sector's most active acquirers posting falling profits in 2012.

Even so, this year has already seen several blockbuster transactions in the sector. In March 2013, the China National Petroleum Corporation (CNPC) announced plans to purchase a stake in Mozambique's Eni East Africa for US$4.2bn, as East Africa is considered to be the next hot region for exploration due to its abundance of shale gas. Squire Sanders partner William Downs comments: "China is likely taking cues from the US, with its shale gas development and growing energy self-sufficiency".

Energy & resources is not the only bustling area of Chinese outbound M&A. Consumer deals are also growing their share of deal volume (up from 9% in 2007 through 2011 to 12% in 2012 through 2013 YTD) and value (up from 3% to 5% over the same period). In absolute terms, there has been a steady increase in the number and value of deals over the course of the past six years: there were three outbound consumer deals with a value of US$445m in 2007, compared with 19 valued at US$3.3bn in 2012.

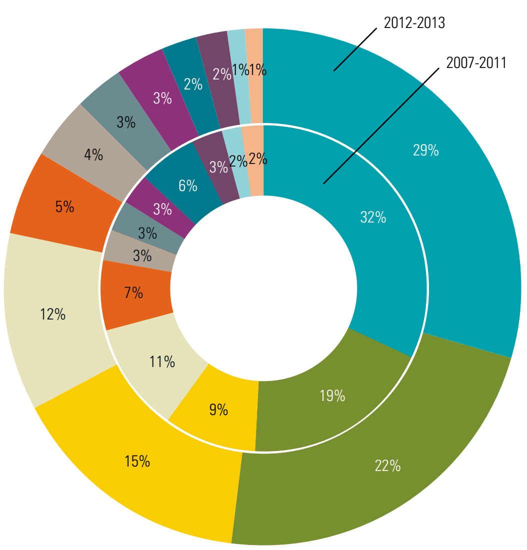
Unlike the energy sector's straightforward and consistent goals of meeting domestic demand, the rationale and nature of Chinese outbound consumer deals are highly varied. Many deals saw Chinese consumer businesses looking to benefit from moving into developed markets. Haier Electronics Group purchased a majority stake in New Zealand-based household appliances maker Fisher & Paykel for US$1bn in September. In addition to benefiting from Fisher & Paykel's popular makes of items such as two-drawer dishwashers, the deal will enable Haier to sell its branded appliances in developed markets at a higher profit.

In other instances, consumer deals were driven by Chinese corporates' desire to establish market-leading positions by swallowing up competitors. In February, China-based Pacific Andes Resources Development, a supplier of frozen fish and vegetables, announced plans to take over Peruvian fishmeal and fish oil producer Copeinca in a US$735m deal. Peru is one of the world's largest exporters of anchovies, making a foothold there crucial to rise to global prominence. Indeed, the transaction will help make Pacific Andes one of the world's largest producers of fishmeal and fish oil.

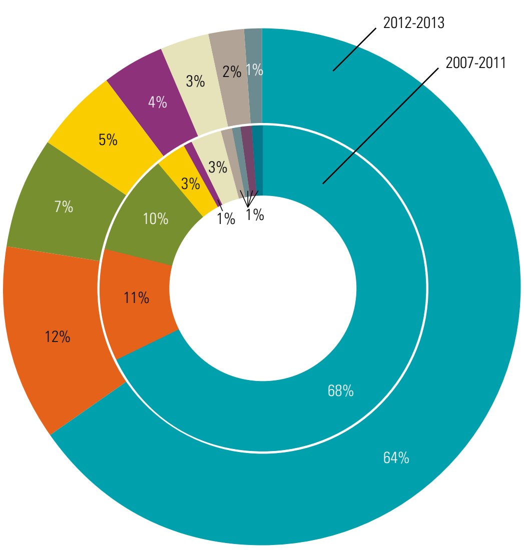
The financial services sector too forms an increasingly significant proportion of Chinese outbound M&A, growing its share of value from 11% in 2007 through 2011 to 12% in 2012 and 2013 YTD, although it dropped from 7% to 5% of volume over the same period. A generator of high-value activity is beleaguered financial institutions from developed markets disposing of assets to pay down debt, with opportunistic Chinese buyers eyeing bargains. For instance, the Netherlands' biggest financial services group, ING Groep, under instructions from EU regulators, was to jettison a number of peripheral operations. As part of this, ING sold its Malaysian insurance arm – the third largest in the country – to AIA Group for US$1.7bn.

The mid-market tells a different story from large-cap transactions. While energy plays a central role, deals with leisure, TMT and transportation targets are also common. The Haikou-headquartered HNA Group, a conglomerate with holdings across a range of sectors, made public plans to purchase a 20% share of NH Hoteles, which owns and operates hotels across Europe, Latin America and Africa for US$307m. The deal will see NH Hoteles enter the Chinese tourism market, one of the largest in the world.

Sector Volume



Sector Value



China Outbound M&A

Top 10 Chinese outbound M&A deals, 2012-2013 YTD

Announced	Status	Target	Target Sector	Target country	Bidder	Bidder country	Seller	Seller country	Deal value US$m
Jul-12	C	Nexen Inc	Energy & Resources	Canada	China National Offshore Oil Corporation Ltd	China			17,654
Dec-12	P	International Lease Finance Corporation (80.1% Stake)	Financial Services	USA	New China Trust and Investment Co Ltd; China Aviation Industry General Aircraft Co., Ltd; P3 Investments Ltd	China	American International Group Inc	USA	4,230
Mar-13	P	Eni East Africa Spa (28.57% Stake)	Energy & Resources	Mozambique	China National Petroleum Corporation	China	Eni SpA	Italy	4,210
Jul-12	C	Wales & West Utilities Ltd	Energy & Resources	United Kingdom	Cheung Kong Infrastructure Holdings Ltd; Power Assets Holdings Ltd; Li Ka Shing Foundation Ltd; Cheung Kong (Holdings) Ltd	Hong Kong	Industry Funds Management Pty Ltd; Canada Pension Plan Investment Board; Macquarie Global Infrastructure Fund II; AMP Capital Investors Ltd; Macquarie Luxembourg Gas SARL; Codan Trust Company Ltd; The Blackwater Trust	Australia	3,030
May-12	C	AMC Entertainment Inc	Leisure	USA	Dalian Wanda Group Corporation Ltd	China	Marquee Holdings	USA	2,600
Mar-13	P	Caspian Investments Resources Ltd (50% Stake); Mansarovar Energy Colombia Ltd (50% Stake); Taihu Ltd (49% Stake)	Energy & Resources	Kazakhstan	Sinopec International Petroleum E&P Hongkong Overseas Ltd	Hong Kong	China Petrochemical Corporation	China	2,559
Nov-12	P	Total Nigeria plc (offshore OML 138 block) (20% Stake)	Energy & Resources	Nigeria	China Petrochemical Corporation	China	Total SA; Total Nigeria plc	France	2,500
Jan-12	C	Devon Energy Corporation (33.3% stake in five US oil and gas projects)	Energy & Resources	USA	Sinopec International Petroleum Exploration and Production Corporation	China	Devon Energy Corporation	USA	2,500
Jun-12	C	London Metal Exchange Ltd	Financial Services	United Kingdom	Hong Kong Exchanges and Clearing Ltd	Hong Kong			2,131
Oct-12	P	ING Management Holdings (Malaysia) Sdn Bhd	Financial Services	Malaysia	AIA Group Ltd	Hong Kong	ING Groep NV	Netherlands	1,720

C = Complete; P = Pending

Regional Perspectives

Although M&A with regional neighbours is important to many Chinese buyers' expansion plans, far-flung target markets, including Canada, the USA and the UK are among the most active. This may be down to a scarcity of quality targets in the Asia-Pacific, or an effect of the ample opportunities borne by the crisis in Europe and North America, and the cache (both in terms of profits and brand equity) that often comes with acquiring businesses from these countries.

Among target markets, Canada stands out for its concentration of high value deals. This is largely due to a handful of large-cap energy and mining transactions, boosting Canada's overall value to US$20.9bn, despite a meagre 11 deals. Canada's strong value figures were undoubtedly boosted by the largest-ever acquisition with a Chinese outbound acquirer, when China National Offshore Oil Corporation (CNOOC) – majority owned by the Chinese government – purchased Canada-based Nexen in 2012. This deal follows CNOOC's takeover of American Unocal Oil Company blocked by the Securities and Exchange Commission in 2005.

Despite trailing Canada in value, the US was the most active target country by volume, with 29 deals in 2012 through 2013 YTD. Activity in terms of size and number has been increasing over the past few years. While there were 14 deals valued at US$3.8bn in 2007, there were 22 deals amounting to US$11.8bn in 2012. Unlike deals with Canadian targets, transactions involving American targets involve a broader range of industries than energy & resources.

For instance, the biggest deal since the beginning of last year into the US involved a target from the financial services industry. AIG, the commercial insurer that received an US$85bn bailout from the US government, has been disposing of several divisions in an effort to recapitalise and improve its credit rating. It announced plans to sell a majority stake in its commercial jet leasing and remarketing division to a consortium of investors led by New China Trust and Investment for US$4.2bn. "The deal is well-timed for its Chinese buyers," says Dan Roules, a partner based in the Shanghai office of Squire Sanders, "as air travel is becoming increasingly popular in Asia and the demand for airplanes is rising."

Europe also saw healthy levels of dealmaking in 2012 and 2013 YTD. European deals tend to be from a broader variety of sectors, with drivers including access to new technologies and products or geographical expansion. For instance, China Merchant Holdings' announced its US$535m acquisition of a 49% stake in France-based Terminal Link, giving the firm a foothold in Europe.

While farther-flung countries dominate the Chinese outbound narrative, there is significant movement into regional neighbours. The busiest of these countries is Australia, which is the second most active country by deal count, and the fourth most active by deal size. Like Canada, Australia saw a spate of energy and mining transactions, with deals from other sectors much smaller in value and fewer in number. The two biggest deals of 2012 and 2013 YTD involved government-backed businesses, China Africa Development Fund and Sinopec, purchasing Australian energy assets for US$1.3bn and US$1.1bn, respectively.

China Outbound M&A

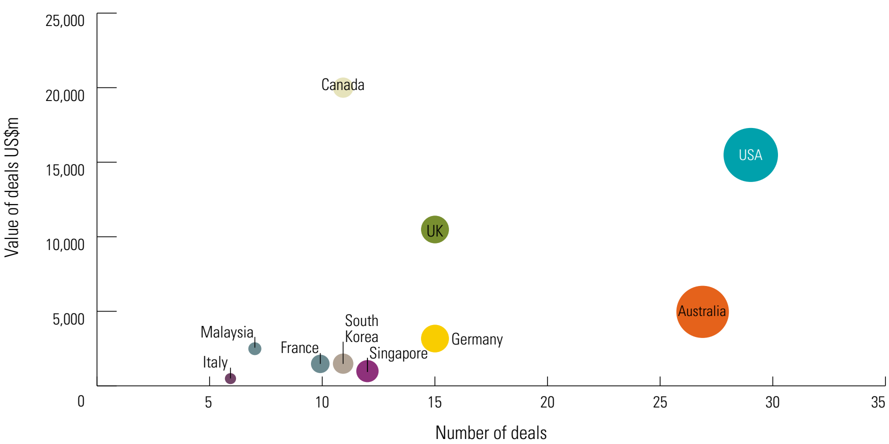
Outlook

It looks unlikely that strong Chinese outbound growth will abate any time soon. There are several encouraging signs that point to continued M&A in the near future. For starters, attitudes toward takeovers by Chinese companies are changing. Some developed-market countries were initially put off by Chinese acquirers, particularly those under full or partial state ownership. This trend is particularly evident in the energy sector, with oil giants such as Sinopec, China National Offshore Oil Corporation (CNOOC), the CNPC and PetroChina actively pursuing outbound acquisitions.

Governments, including the US and Canada, have publicly expressed concerns about these deals, especially transformative ones. They fear a foreign government could gain a major edge in their affairs, while in effect turning a private enterprise into a public entity under another state's control. However, there have been notable success stories, as when CNOOC cleared regulatory hurdles in Canada and the US to acquire Nexen in a deal that completed in February. Target countries have balanced the benefits of state-owned takeovers with their potential loss of autonomy by increasingly opting for partial takeovers by government-backed Chinese organisations. This is particularly important for the energy & resources sector, because it is a sure bet that China will remain one of the world's biggest energy consumers, without meeting these needs domestically.

Yet, there are a handful of troubling signs that may put a damper on targets' willingness to be taken over by a Chinese bidder, with macro-economic elements less rosy than they were a few years ago. There has been growing concern over China's rapid expansion of credit during former premier Web Jiabao's borrowing spree and a sizeable jump in new loans from minimally regulated shadow banks, the debt-to-GDP ratio, which soared to an estimated 198% in 2012. While shadow banking activities mean that there appear to be abundant lines of credit for acquirers in the short-term, the long-term risks to the financial sector have not gone unnoticed: in April 2013, Fitch downgraded China's local currency debt rating from AA- to A+. With confidence being an integral component in sustaining deal activity, such reports may make target companies skittish about a prospective takeover by a Chinese business.

Chinese outbound M&A trends



There has also been much made of China's cooling growth, with GDP slowing to 7.8%. Yet, this largely looks to be down to a natural developmental process China is undergoing, unable to sustain runaway growth rates seen over the past three decades, although it may see a drag in the future due to a rapidly ageing population and attendant diminishing workforce.

> "China's GDP was still an impressive 7.8% in 2012, and is still rife with potential."
>
> Mao Tong, Partner, Corporate and Corporate Finance Practice, Squire Sanders

That said, these factors appear unlikely to immediately impact Chinese corporates' ability to make acquisitions. While global sluggishness may have a corrosive effect on Chinese outbound activity, outbound acquirers have already proven themselves resilient over the past few years, and are well-positioned for steady activity in the months ahead.

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