

Handling upheaval

The impact of Brexit and the US election on M&A

The Brexit referendum on June 23 kicked off a season of confounding political events across the globe, including the unpredictable US election. As dealmakers gear up for the busy year-end period, how are these events affecting the M&A environment? Five leading experts weigh in.

MM **Mergermarket: What effect do you think the Brexit vote has had on global and North American M&A?**

PS It really depends on what geography you're talking about. Certainly, the epicenter is going to be the UK, and secondarily Europe. As far as North American M&A is concerned, so long as there isn't a UK party in the middle of a deal, the effect has been somewhat muted. Obviously, equity markets sold off a bit after Brexit, but they have recovered strongly.

I think what we are seeing is opportunities for savvy acquirers that are looking at assets in the UK. This might be a good time to execute on deals for those willing to take on measured amounts of risk. It's

worth remembering that with all the processes under the treaties, it's going to be at least two years before the UK fully separates itself from Europe, and most deals are not taking anywhere near that long.

I also think there has been a tendency to overreact somewhat when it comes to evaluating the long-term effects of Brexit. Private company M&A in the UK is all governed by English law – EU rules never really had an effect on that. From a public company standpoint, in the UK, deals are governed by the City Code, which predates a lot of the rules of the EU. The City Code is well-known, respected, and unlikely to change significantly as a result. Depending on how the UK separates from the EU, it is possible that new UK regulations could be promulgated across

The experts:



- 1. Paul Scrivano (PS)**
 Head of Global M&A and Private Equity, O'Melveny
- 2. Robert A. Bartell (RB)**
 Head of Corporate Finance, Duff & Phelps
- 3. Geoffrey D. Baldwin (GB)**
 Co-President & CEO, GCA
- 4. Victor Boyajian (VB)**
 Partner, Head of Global Venture Technology practice, Dentons
- 5. David Collins (DC)**
 Partner, Co-Chair of Global M&A group, Dentons

several areas, including merger control (antitrust), intellectual property and data security. However, I think when you look at the rules that govern M&A on the whole, we don't see a high prospect for significant changes due to Brexit.

RB From a North American perspective, while many of us were quite surprised by the vote, there wasn't actually much of a reaction in terms of the M&A world. There was a lot of chatter, but no one could really see how it would affect businesses here. Now, three months later, things have settled down even more. US stock markets have hit all-time highs, and to the global investor, that signals that the US is the safest haven. The US markets appear to be one of the safest places to be right now.

If you look forward, I agree with Paul that people see this as a buying opportunity. When I lived in London nine years ago, the UK pound was worth about \$2.05 – right before Lehman Brothers failed. Now, it's close to \$1.30. So I think you will see more acquisitions of UK targets by US and Chinese buyers as a result. Chinese investors almost certainly view this as a big buying opportunity. They've been wanting to move money into Western Europe and the US, and this is another great entry point now.

GB My personal view is that Brexit is a dangerous precedent for global companies. Over the past 25 years, most large companies have established a strong global presence, intertwining themselves

“
It's quite hard to separate out the impact of Brexit from the run-up to Brexit, when there was already some pause for thought in areas of the market.
”

David Collins, Dentons

in the world economy. And the UK was a central part of that. Anti-globalization played a part in the Brexit vote as it is doing in the current US election, and there is a chance that Brexit represents the first step in what could become the unravelling of a lot of this globalization.

As far as M&A activity goes, I think there will be many concrete consequences. For instance, a good example would be a lot of these reverse mergers that have taken place that re-domicile US corporations outside the United States, including in the UK. An immediate driving factor has been lower taxes, but a fundamental assumption is that being in the UK would still afford you the ability to fully access relevant markets in Europe. That may no longer be the case, and until that question is resolved, it would be surprising to see any global companies re-domiciling in the UK.

For GCA, we just acquired a 120-person European investment bank called Altium, and we were fortunate, because unlike most of the bulge-bracket firms that cover Europe out of London, Altium's coverage is regional. We've got offices in the UK, but they are really there to serve UK clients, and then we have offices in Frankfurt, Munich, Zurich, Milan, and elsewhere on the continent. I would say we are really blessed by the fact that we have regional coverage.

DC To be entirely honest with you, it's quite hard to separate out the impact of Brexit and the run-

up to Brexit, when there was already some pause for thought in areas of the market. You have to bear in mind that we are in a slower global growth environment in any event. We've had the slowdown in China and lower commodity prices. We've had greater degrees of bank regulation affecting the supply of debt, which has led to some of the alternative credit providers coming in and doing well. Then once you get towards the end of June, there tends to be a seasonal lull. So while Brexit is clearly a very meaningful issue politically and socially, it's difficult to assess how meaningful the impact has been on M&A.

What I can say is that people have been adjusting to a new normal for a while now, and by that I mean a new normal in terms of economic growth and macroeconomic conditions. In the UK, there do appear to be signs of a rebound from the post-Brexit shock. In early September, levels of consumer and purchasing manager confidence were higher, and the value of sterling has increased. Confidence is absolutely key to this. This is very much a sentiment-driven market, and I think sentiment is actually pretty good bearing in mind what's been happening in the world generally.

VB In my mind, this all comes down to David's last point – the importance of investor confidence. This is critical to how the big buyers, the private equity players, and the debt providers all look at things. As we know, markets hate uncertainty, and I do

think that Brexit has impacted and will impact the overall level of global growth as a result of this. But it's not the end of the world, as some pundits made it sound immediately after the vote. I also think that the situation is actually better now, after the vote, than it was beforehand, because there was dramatically more uncertainty then.

I also agree with David that if we look at markets on the whole, there are things that are actually much bigger than Brexit. Take what's going on in China, for instance – this is having much more of an impact on global markets. There is also regulatory action in Europe against US tech companies, as well as US government action against inversions, which has had an impact on activity in the life sciences.

If you look at the trends likely to shape the market over the next 10 years, I remain bullish in terms of global transaction activity. I work with companies across the gamut, from large public companies to venture-backed private firms, and they're all focused on growth and growth strategies. They will all consider M&A as part of their arsenal for growth.



MM In North America, deal activity declined 31% by value in the first half of 2016, part of a worldwide drop in M&A. In your opinion, how much of this is due to the uncertainty of the approaching US presidential election? Do you expect dealmaking to pick up again after the vote?

VB I would say we are seeing the traditional dampening effect on commercial activity that you get with a US election cycle. It's generally cyclical, and we always make sure we advise clients, especially in the equity capital markets, that there will be a quieting of the markets in the fall. I would say this particular election cycle is no different.

I think there is some concern as to certain political contenders' remarks about examining our alliances and trade pacts, things like that. Folks do think about that in the context of what they're trying to accomplish through a global acquisition strategy. But beyond that, I don't think a lot of companies are focused on these issues, because they don't see it as 100% plausible that we will actually pull out of these alliances and trade pacts and so on.

PS

Certainly in an election year, you tend to find some uncertainty in the markets, as Victor mentioned. And confidence in the markets is often what drives M&A. But at the same time, it is not really the case that people have held off from doing deals this year – there have been many sizable transactions. For savvy acquirers, the fact that there is a presidential election in November is not a reason to postpone a deal that makes a lot of sense strategically. Interest rates and the health of the overall economy are more likely to have an effect on M&A than the election.

Looking forward, people are thinking about what the election could mean in terms of regulation. Over the last several years, we have seen very muscular anti-trust enforcement in the United States – the Obama administration has been very aggressive in blocking deals. So regardless of which way the election turns out, we're all hopeful for a relaxing of that.

The final point I would make is that while the US election and Brexit are obviously significant events,

“

Is Apple going to sell fewer iPhones if Hillary Clinton gets elected versus Donald Trump? I don't think it's going to make a difference. Is Facebook going to have fewer new users if Trump gets elected versus Clinton? I doubt it.

”

**Geoffrey D. Baldwin,
GCA**

we find that it's best to take a dispassionate view of how things are likely to turn out ultimately. Having been doing this for over 20 years, it's rare that events like this mean that the sky is falling. While these are seismic shocks to the market now, the market tends to ride them out in the longer run.

GB

I frankly have not seen the election have a significant effect on M&A. I haven't had a single client who has said, "You know, maybe I won't do that deal until after the election." While everybody talks about the election, and obviously it's going to be one of the more interesting presidential votes this country has ever seen, it simply has not come up in the context of M&A.

One factor is that I live and work in the Silicon Valley, and so far the Silicon Valley has been reasonably removed from many broader economic trends. Is Apple going to sell fewer iPhones if Hillary Clinton gets elected versus Donald Trump? I don't think it's going to make a difference. Is Facebook going to have fewer new users if Trump gets elected versus Clinton? I doubt it.

The Chair of the Federal Reserve seems to have the greatest impact on the economy today. The trillion-dollar question is: What will a Trump presidency do with Janet Yellen?

RB Regardless of who wins the US election, we are not seeing a major effect on credit availability, valuations, or M&A activity at the moment. One of the great things about the US capital markets and government system is that regulatory changes take a long time to come into effect. So market players have time to react and adapt. Even if the new president comes out with a big initiative or tax law changes, they probably won't kick in until 2018 or 2019, and that's too long to sit around and wait to do a deal. So, as far as I'm aware, no one is trying to push a deal to make sure it happens before the end of the year, or waiting until next year to see what happens in the election.

As for the drop in M&A so far this year, I do think that 2015 was a bit of an outlier. So even though 2016 has seen a sizable drop in percentage terms,

“ Even though 2016 has seen a sizable drop in M&A relative to 2015, I think the level is still quite robust compared to previous years. ”

Robert A. Bartell, Duff & Phelps



I think the level is still quite robust compared to previous years. We're continuing to see a regular pace of closings. Also, you have to keep in mind the turbulence that can affect markets.

If you remember the start of the year, it was a completely different picture. People weren't talking about the US election or Brexit – they were talking about the stock market crash, and the hedge fund crash. Then the sun came out and the clouds went away. Going into the fourth quarter, I think we could actually see a pick-up in deals that had been in the works or under discussion.

MM In your particular sectors of expertise, what is the current situation regarding M&A activity? Are Brexit and the US presidential vote affecting them in specific ways? (E.g., due to currency fluctuations, regulatory uncertainty, etc.)

VB The primary focus of my practice is technology, and frankly I don't think that the Googles of the world, companies that do many, many deals on a regular basis, are pausing in their M&A strategies as a result of world events. They're looking for good value, and they're looking for new technologies to advance their push into various marketplaces. Those priorities have not changed. It's true that there may be greater value in certain markets right now because of currency rates – they're quite favorable from the US perspective. And low interest rates make debt financing widely available for acquisitions. But the fundamental motivations for deals in the technology space have not shifted significantly due to Brexit or the US election.

PS My practice is diverse, but when I look at which sectors have been particularly active this year, technology stands out, which isn't surprising. Developed countries are becoming more reliant on technology year in and year out and we're

unlikely to see a reversal in that trend. Within technology, we've seen a wave of consolidation in the semi-conductor space. SoftBank buying ARM, for example – ARM is a UK company, and that deal was struck after Brexit. I'm sure weakness in the pound had a positive effect on that deal, but that was not a principal reason for the deal. Instead, it's a long-term bet by SoftBank on where they think the technology is heading.

There are also bets being made with a view toward the so-called Internet of Things. The idea is that at some point, your home will be wired and you'll be picking up your iPad to control the temperature of your oven or the coolness of your refrigerator.

RB

I'll start with the energy/oil sector, which is still in a major slump. Lately, just when it appears to be stabilizing, it reverses again and looks like the decline will last a while. So I think the activity you'll see is more strategic deals, where it makes sense for companies to combine scale. You'll also have special situations and tie-ups that make sense for the environment we're in. But I don't think anyone expects it to recover in the short-term.

Technology continues to be very robust – it drives so many things these days. In the consumer business, activity is a bit mixed. You have a number of apparel companies and retailers that are facing very challenging times as consumers spend more money on technology, leisure, and travel, and less

and less on clothing. Areas like food continue to be strong.

The picture is also mixed in the industrials sector. For instance, the sustained drop in oil prices has clobbered the Canadian dollar, so Canadian manufacturing is booming right now. Then if you look at the US auto market, there is still a very strong pace of new vehicle production. The auto supply businesses recognize that this may be a peak, but there are still well-run, strong companies with great products and technology.

MM

The Fed has pumped the breaks on an interest rate hike, with Brexit serving as a potential headwind to growth. What effect do you think the global upheaval is having on the availability and cost of credit for M&A?

GB

After the first interest rate increase in a decade late last year, debt markets started getting very tight around January and February 2016. One reason was that everybody was waiting to see how things were going to shake out with additional increases. But as we all know now, rates held steady. And nobody is anticipating any rate hike in the foreseeable future. Unsurprisingly, the credit markets are very strong as a result.

PS

I would say that debt markets have normalized compared to January 2016, at which point they were quite turbulent, as Geoff pointed out. At that

51%

Decline in UK deal value over first nine months of 2016 to US\$114bn

10%

Increase in technology deal value in first nine months of 2016 to US\$302bn

Source: Mergermarket

time, we were coming off a number of events in fall and winter 2015, such as the implosion of the Third Avenue Focused Credit Fund, a fairly large high-yield bond fund. That sent shockwaves through the market. Anecdotally, there was news that it was becoming harder and harder for banks to sell off leveraged loans.

That has shifted, and certainly the ability to do large-leveraged deals is back. For instance, you see deals like Dell arranging the financing for the EMC transaction. At the moment, the debt markets are quite active and the bond markets are also open. I think we're all waiting to see what happens next. If interest rates go up, that's obviously a significant variable, and the presidential election and geopolitical events will fit into that as well.

VB Given the current US economic performance, we don't think that interest rates are going to go up anytime soon. The US economy is seeing steady growth, although not exactly robust growth. Of course, compared to the rest of the world, I would say the US is performing rather well. But in terms of rates, there doesn't appear to be a hike on the near-term horizon, and that's positive on many levels for M&A.

RB There is definitely good access to credit at the moment for deals. Relative to, say, two or three years ago, credit is still bit more difficult to obtain, but the market is much more receptive than six

months ago. One challenge is figuring out what to do with the current yield environment, which has caused everyone to question whether they want to be in fixed income or not. People are asking themselves, "Where do I want to put my money?"

DC We have seen pretty stable lending from the banks. And a lot of the specialty-finance companies, the business development companies, are very active. On the bigger deals, you're seeing a little less leverage and higher spreads, but again the yields are low.

We are in a very low interest-rate environment, and I think if it goes anywhere, it will only go even lower. So in theory at least, the availability of leverage in M&A deals for corporates or private equity firms is pretty strong at the moment.

MM **How do you expect the current political upheaval in the US and EU to affect private equity activity in North American M&A over the coming 6-12 months?**

RB Overall, you have private equity loaded up with money. One fascinating trend we are seeing is increased transatlantic activity between US and European mid-market firms. There didn't used to be many deals between North America and Europe, but now private equity sponsors are realizing that they can get alpha that way. We're seeing the likes of a mid-market PE fund in Chicago buying a company in Germany or Ireland or the UK.

PS Over the last four or five years, a lot of PE sponsors were returning capital to their limited partners after harvesting successful investments. But now many of them are back looking to do new deals. They have a lot of dry powder.

The thing about private equity sponsors is that they're often better positioned to capitalize on periods of market upheaval and geopolitical risk. They have shown an appetite to do deals that strategics may not be willing to do during periods of uncertainty. You have a very astute group of professionals in the private equity world.

GB Private equity activity remains quite busy. In particular, we're seeing a lot of smaller industrial-engineering deals done by growth private equity firms. These are smaller companies that have a high level of growth, and the keys are getting turned over from start-up entrepreneurs to PE firms with more commercial operating expertise. We're working on a lot of deals like that right now.

Some of these deals are levered and frankly some of them are not. We're doing private equity deals for technology companies where there



is no leverage. These are high-growth companies that don't naturally lend themselves to leverage, and the potential returns on the equity are so great that you don't need leverage to ensure returns.

DC

In the UK, there were a number of quite opportunistic PE deals that went through after the Brexit vote. The devaluation of sterling suddenly made deals look cheaper. Longer term, I think it will be very much sector-dependent. Overall, private equity firms are still actively raising funds – there is still a wall of money. And bear in mind that the private equity-to-private equity market has been quite prevalent over the last two years. I don't see any reason why that shouldn't continue.

VB

I think David is right – there is a significant wall of money out there, and those dollars have to go somewhere. Keep in mind that a lot of investors are thinking about how to re-balance their investments given the global uncertainty. There used to be a lot of money deployed in the hopes of a stable Russia, for instance, and significant money is being pulled out of China. So, where do you put those dollars? Typically, a lot of them would go to US, UK, and EU funds, including private equity. I think that's going to keep deal activity at levels we're currently at, if not a bit higher.

Jeffrey Riback, President of Toppan Vite New York, on the impact of Brexit



The United Kingdom's decision to leave the European Union stunned the world and markets. In the immediate aftermath, the pound dropped 11% on the night of the vote and has since plunged to its lowest level since 1985. The Friday immediately after Brexit, American shares dropped 3.6%, and the Dow Jones Industrial Average dropped 611 points. And things could get worse. For example, research from Barclays says that by the end of 2016, the UK will slip into recession all because of the uncertainty of what the future holds.

However, while the long-term ramifications of the vote cannot yet be accurately forecast, we should pay special attention to this vital moment in European politics and what it means for both US and global capital markets. The nature of the UK and America's relationship means that the state of one nation is almost guaranteed to impact the other. The US is one of the biggest investors in the UK, for example, ploughing US\$588bn into sectors including banking, manufacturing and real estate.

Brexit will take years to organize, negotiate and execute, so we can expect to wait a significant amount of time before we see the full ramifications on US and global markets. It could ultimately lead to a global fall in equity prices due to growing investor fears regarding Brexit's impact on global economies. At this point, we just have to wait and see what a post-Brexit world looks like.

Excerpted from Sept. 12 article in International Banker titled "Brexit's Impact on US and Global Capital Markets"

About Toppan Vite

Toppan Vite, a leader in financial printing, is part of the Toppan Printing Group, the world's largest printing group, headquartered in Tokyo with approximately US\$18 billion in annual sales.

Our expanding U.S. operations deliver a hassle-free experience for mission-critical content for capital markets transactions, financial reporting and regulatory compliance filings, investment companies and insurance providers.

Toppan Vite has been a pioneer and trusted partner in the financial markets for three decades, serving the financial, legal and corporate communities with meticulous, responsive service and unparalleled local market expertise and capabilities.

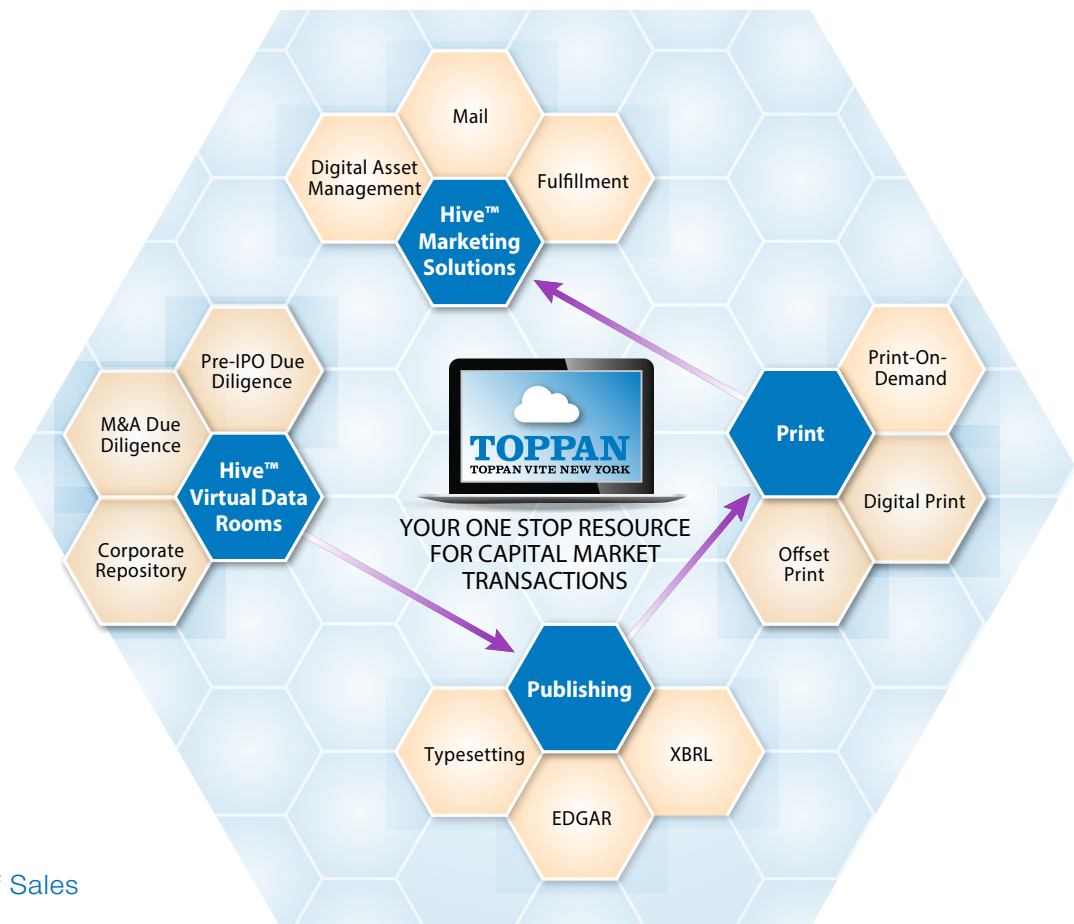
For more information, please contact one of the following Toppan Vite representatives:

Glen Buchbaum

Senior Vice President of Sales
GlenBuchbaum@toppanlf.com
201.518.9720

Bill Lee

Senior Vice President of Sales
BillLee@toppanlf.com
212.596.7769



For more information, please go to www.toppanvite.com/us
Stay connected with our [linkedin](#) and [blog](#) webpages.

**A Hive of
deal activity?**

Intuitive

**No
plugins**



Secure

Control



HIVE™
VIRTUAL DATA ROOMS



**24/7
Support**

**Transparent
Pricing**

Take control with Hive™ Virtual Data Rooms

You asked for a user-friendly VDR platform...you got it!

Built and managed by a team with more than 25 years of experience in serving the financial community, Toppan Vite's Hive™ VDR has the highest security and document encryption levels available. It offers an uncluttered interface for ease-of-use and a suite of dynamic real-time activity reports that give dealmakers total control and insight on the data of their transactions.

Learn more about how we can make your
VDR experience more hassle-free.

TOPPAN
TOPPAN VITE NEW YORK
CHANGE YOUR EXPERIENCE
OF FINANCIAL PRINTING

212.596.7747 | Marketing@toppanf.com
www.us.toppanvite.com

Toppan Vite Global Offices

New Jersey

109 North 5th Street
Saddle Brook, NJ 07663
U.S.A.
Email: csnj@toppanlf.com
Tel: (1) 800 866 637

New York

747 Third Avenue, 7th Floor
New York, NY 10017
U.S.A.
Email: cs@toppanlf.com
Tel: (1) 212 596 7747

Massachusetts

Fulfillment Facility
3 Paterson Road
Shirley, MA
01464

Hong Kong

Suite 4602, One Exchange Square
8 Connaught Place, Central, Hong Kong

Suite 2001, International Commerce Centre
1 Austin Road West, Kowloon, Hong Kong
Email: vite-enquiry@toppanleefung.com
Tel: (852) 2877 8773

Singapore

3 Church Street
#10-03, Samsung Hub, Singapore
049483
Email: vite-enquiry@toppanleefung.com
Tel: (65) 6578 6522

