GLOBAL INVESTMENT TRENDS MONITOR

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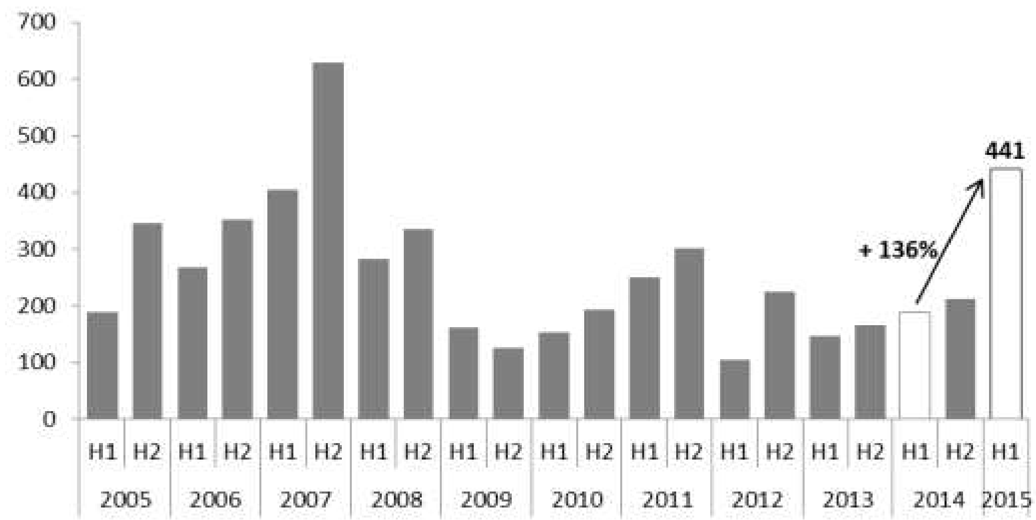
RECOVERY IN CROSS-BORDER MERGERS AND ACQUISITIONS

HIGHLIGHTS

- *Cross-border merger and acquisition (M&A) activity increased significantly in the first half of 2015, but may be slowing down in the second half of the year.* The value of cross-border M&A purchases, which is an indicator of outward FDI flows, rose to US$441 billion, a 136% increase over the same period of 2014 (figure 1).

Figure 1. Value of cross-border M&As, 2005H1-2015H1
(Billions of US dollars)



Source: ©UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
Abbreviation: H1–first half of the year.

- *Multinational enterprises (MNEs) from developed countries were the principal drivers of the global cross-border M&A trend.* European MNEs, after a number of years of high divestment levels, registered a sharp rise in the value of acquisitions in 2015.

- *Cross-border M&As carried out by MNEs from North America continued to grow strongly* (up more than 100%). Acquisitions by Canadian MNEs reached their highest half-year level. Tax inversions accounted for half of outbound deals by value from the United States, although they represented a small share (10%) of global cross-border M&A purchases.

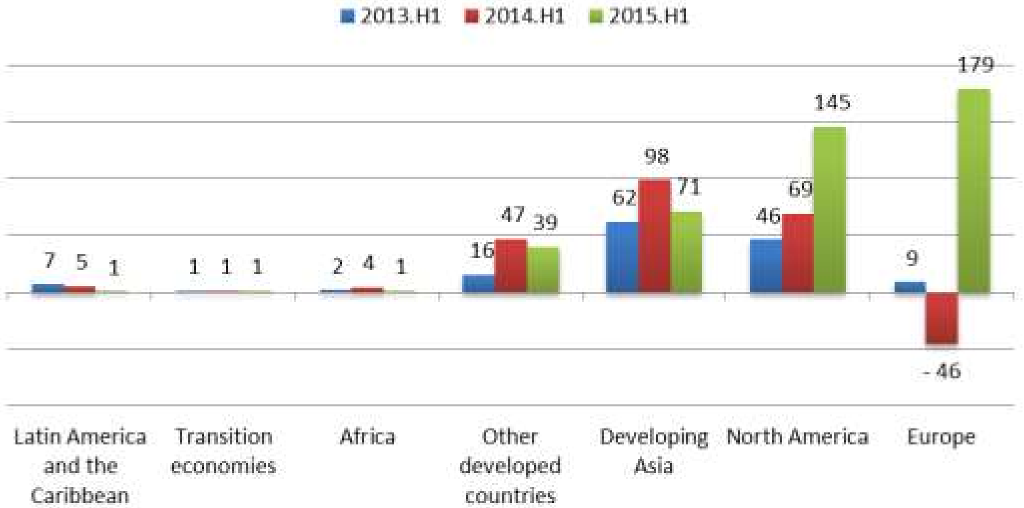
- *After emerging as the largest investing region in the world for the first time in 2014, cross-border M&As by firms from developing Asia registered a decline this year (-27%).* Activity by MNEs from Latin America and the Caribbean, as well as from Africa also decreased, reflecting the consequences of depreciating domestic currencies and falling commodity prices.

- *The growth of cross-border M&A purchases is projected to slow in the second half of 2015, but the full year value will be well above that of 2014, based on the first ten months of the year.* While economic, financial, and structural trends support this forecast, potential downside factors could limit the scale and length of this current wave of cross-border M&As going forward.

Cross-border M&A activity gathered strength in the first half of 2015 as MNEs took advantage of record cash positions, as well as exceptional global liquidity conditions, to make acquisitions with a view to boosting revenue growth and generating cost efficiencies. The value of net purchases rose to US$441 billion in the first six months of the year, a 136% increase over the same period of 2014, and the highest level since the second half of 2007.

A strong rebound in purchases by European MNEs, coupled with a sharp decline in their divestments, fueled this global trend (figure 2). The net value of their purchases rose to US$179 billion in the first half of 2015, a swing of US$225 billion when compared with a net divestment of assets during the same period of 2014. North American MNEs' purchases more than doubled to reach US$145 billion, with acquisitions by Canadian MNEs hitting their highest half-year level on record. Acquisitions by MNEs based in the United States were boosted by a small number of high-value tax inversion deals.

Figure 2. Value of cross-border M&As, by purchasing region, 2013H1-2015H1
(Billions of US dollars)



Source: ©UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

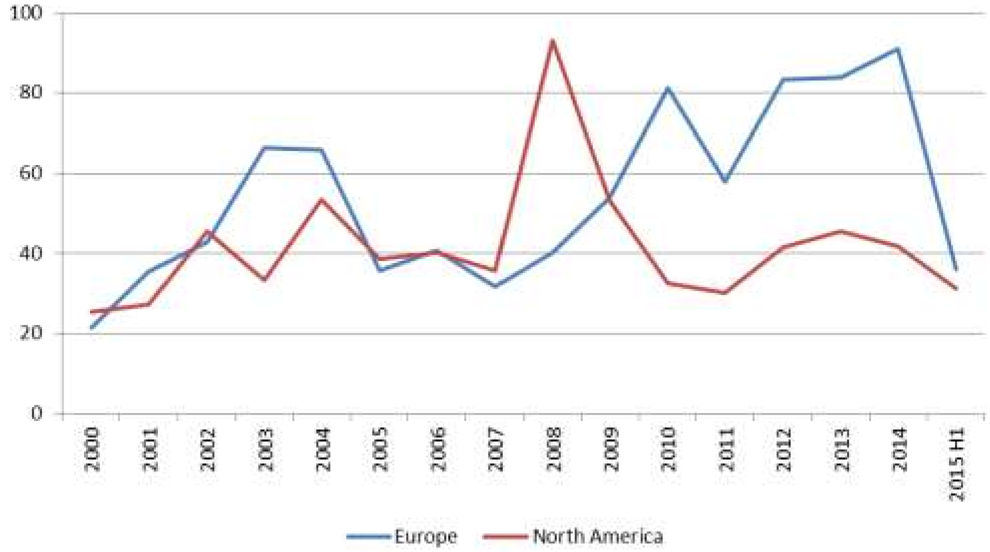
Acquisitions by MNEs from developing regions fell in the first six months of 2015. M&As by companies from developing Asia, which was the largest investor region worldwide in 2014, cooled to US$71 billion in the first half of 2015, down from US$98 billion in the same period of 2014 (figure 2). MNEs from Latin America and the Caribbean (excluding offshore financial centers) and those from Africa sharply reduced their purchases. Both regions have been hit by the decline in international commodity prices, which has reduced the ability of their principal MNEs to carry out deals as a result of reduced profits and market value, as well as limiting access to financial markets.

A slowdown in divestments boosts the net value of M&As concluded by European MNEs

A major driver of the resurgence of cross-border M&As in the first half of 2015 has been the reduction in divestments by European MNEs. Though the value of their gross purchases rose sharply by 72% in 2014, this was more than offset by a high level of divestments. In contrast, during the first six months of this year their divestments plummeted, which, coupled with a steady level of gross purchases, resulted in a swing from a net divestment of US$46 billion in the first half of 2014 to a net acquisition of assets of US$179 billion in 2015.

While divestments by North American MNEs peaked in 2008 and have since returned to pre-crisis levels, European MNEs have experienced a prolonged period of deleveraging (figure 3). Between 2009 and 2012 their divestments averaged 69% of their gross purchases, rising to 87% in 2013-2014. The latter period was heavily influenced by major divestments by MNEs from the United Kingdom, such as Vodafone Group PLC's sale of its stake in Verizon Wireless (United States) in 2014 for US$133 billion.

Figure 3. Divestment to gross purchases ratio, by purchasing region, 2000-2015H1
(In percentages)



Source: ©UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

The poor economic situation in Europe in the aftermath of the global crisis, as well as the heightened uncertainty resulting from the repeated shocks associated with the Eurozone debt crisis, led to MNEs from many European countries divesting assets for either economic or strategic considerations. MNEs from countries that were most impacted by the Eurozone crisis – such as Greece, Ireland, Italy, Portugal and Spain – registered particularly high levels of divestments, with divestment to gross purchase ratios averaging around 150% between 2012 and 2013.

In 2015 this trend reversed, though not necessarily to the same extent in every country, as economic circumstances improved and financial conditions stabilized thanks to intervention by the European Central Bank. The level of divestments by Spanish MNEs, for example, declined markedly; moreover they were particularly active in the first half of the year, completing a number of large acquisitions. These included Repsol SA's purchase of Talisman Energy Inc (Canada) for US$8.3 billion and Banco de Sabadell SA's acquisition of TSB Banking Group Plc (United Kingdom) for US$2.5 billion.

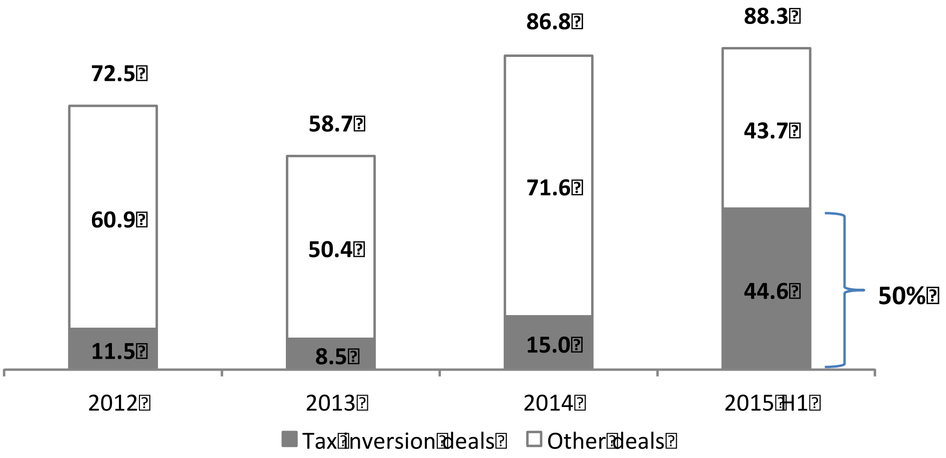
Tax inversion deals play a role in cross-border deals by United States firms

The overall surge in cross-border M&As concluded by MNEs from developed countries in the first half 2015 was also contributed to by investors located in North America. Their net purchases rose sharply in the first half of 2015 (+110% compared with the same period in the previous year), reaching US$145 billion.

Acquisitions by Canadian MNEs grew particularly strong, posting a 130% increase to reach their highest half-year level on record (US$57 billion). The completion of a number of important megadeals that involved the state-owned, but independently managed, Canada Pension Plan Investment Board was a major factor. These deals included the US$12 billion purchase of GE Antares Capital (United States) and the $5.3 billion acquisition, jointly with Permira (United Kingdom), of Informatica Corporation (United States).

The value of net purchases of MNEs from the United States also doubled in the first six months of the year, reaching US$88 billion. A rising US dollar, historically high cash levels and low funding costs have strengthened the purchasing power of MNEs from the United States. In addition, a significant share of outbound deals in value terms was motivated by tax considerations. While few in number, the value of so-called tax inversion deals rose to US$45 billion in the first half of 2015, accounting for 50% of net purchases by MNEs from the United States (figure 4). However, this was driven largely by Medtronic Inc's acquisition of Covidien PLC (Ireland) for US$42.7 billion.

Figure 4. Value of tax inversion deals in completed net cross-border M&A purchases by MNEs from the United States, 2012-2015H1
(Billions of US dollars)



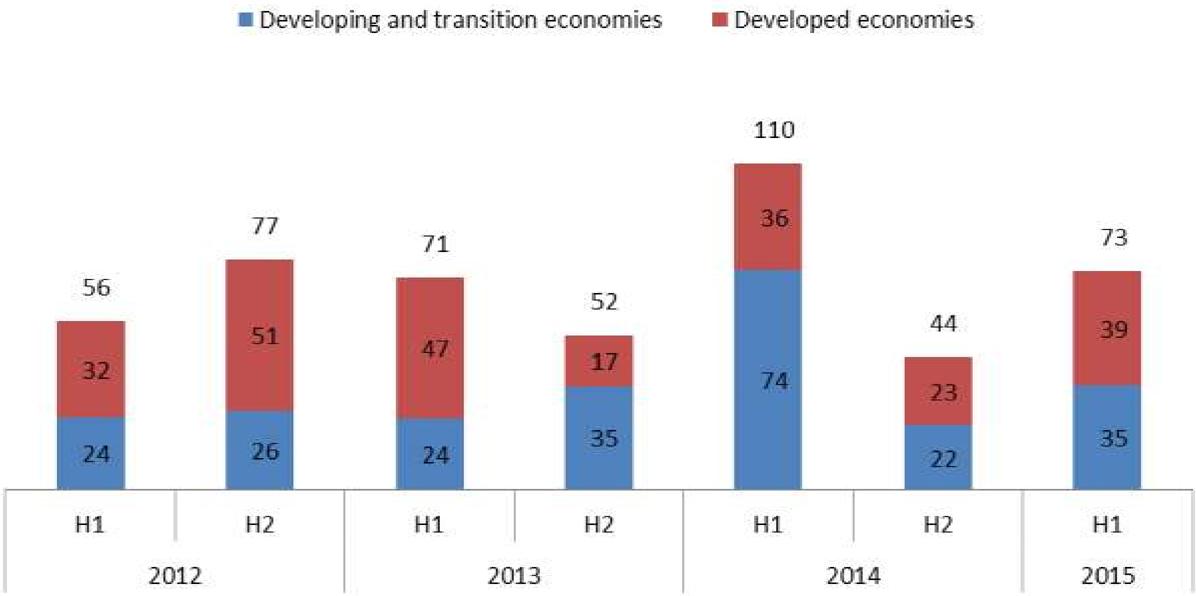
Source: ©UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
Note: Tax inversion deals as identified by Bloomberg and Thomson Reuters.

Tax, or corporate, inversions normally are acquisitions by MNEs domiciled in the United States of a foreign firm where the latter is transformed into the new headquarter and domicile of the combined entity, reducing its exposure to the worldwide tax system of the United States. Recent regulatory measures adopted by the Treasury Department of the United States led to some deals being called off in 2014 – notably the proposed US$54 billion acquisition of Shire Plc (Ireland) by AbbVie Inc – but other inversions have nonetheless gone forward in 2015.

A lull in South-South mega deals dampens cross-border M&A activity in developing and transition economies

The value of cross-border M&A activity, both in terms of purchases and sales, fell in developing and transition economies in the first half of 2015. Net purchases by MNEs from these economies fell 34%, compared with the same period of the previous year, to US$72 billion (figure 5). The majority of this decline was due to a sharp reduction in the value of acquisitions in other developing and transition economies.

Figure 5. MNEs from developing and transition economies: value of net purchases by target region, 2012H1-2015H1
(Billions of US dollars)



Source: ©UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

Developing Asia, which was the world's largest investing region in 2014, registered the sharpest decline in net purchases in 2015. Nevertheless there was brisk activity by MNEs from a number of countries, including Singapore. Large deals included the purchase by a Singapore-based investor group of IndCor Properties Inc (United States) for $8.1 billion and United Fiber System Ltd's (Singapore) acquisition of a 67% stake in Golden Energy Mines Tbk PT (Indonesia) for US$2.3 billion.

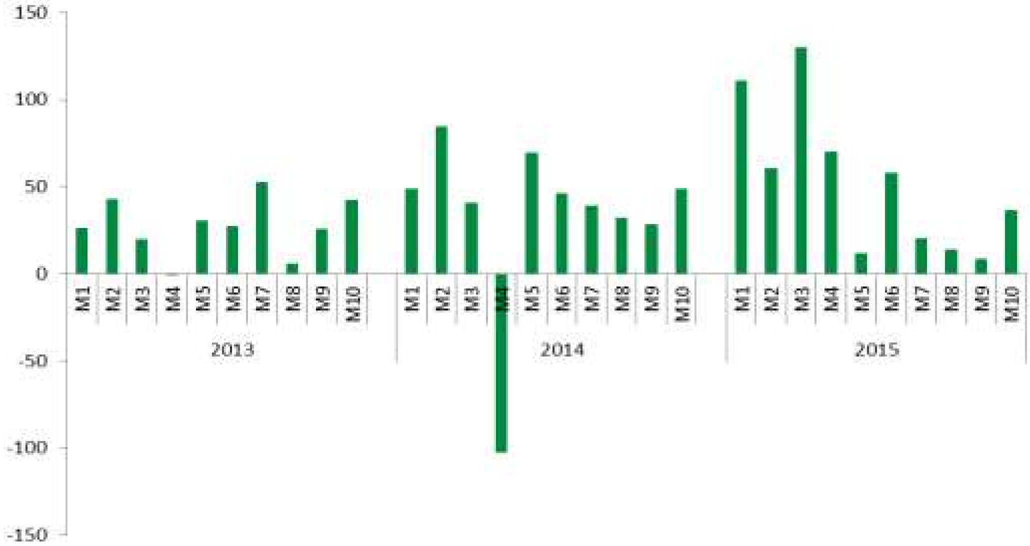
The value of net M&As carried out by MNEs from Latin America and the Caribbean fell sharply (-90%) in the first half of 2015. Their divestments rose to US$8.3 billion, largely as a result of Oi SA's (Brazil) sales of its Portuguese assets to Altice SA (Luxembourg) for US$7.2 billion. African MNEs registered a similar decline, but the level of their sales was not sufficient to push them to net divestment. A slowdown in large deals carried out by the region's MNEs contributed to the decline in net value.

MNEs from transition economies have slowed their purchases in 2015. Net purchases by MNEs from the Russian Federation fell 24% to US$866 million in the first six months of the year. These firms have been impacted by the rapid decline in commodity prices, in particular of crude oil, and reduced access to international financial markets.

Will this wave of cross-border M&As continue?

The growth of cross-border M&A purchases is projected to slow in the second half of 2015, but the full year value will still be well above that of 2014, based on preliminary data for the first ten months of the year (figure 6).

Figure 6. Value of cross-border M&As, 2013M1-M10 to 2015M1-M10
(Millions of US dollars)



Source: ©UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
Abbreviation: M1–first month of the year

A number of economic, financial and structural factors suggest that cross-border M&As will continue to grow in value in the coming years, although at a slower pace:

- Cross-border M&As are an attractive way to secure higher revenues when faced with slower organic growth, especially as emerging markets slow and developed countries register only modest growth. This tendency is likely to be bolstered by MNEs' cash-holding which remain at record levels.
- While previous M&A waves have often served to create large conglomerates that operate over a number of industries, current business conditions accord greater weight on a return to core competencies, driving firms to shed non-core operations and acquire strategic assets that complement their existing activities.

At the same time, there are downside factors that could limit the scale and length of the current M&A wave. For instance, the high levels of corporate debt in emerging markets issued in previous years will become increasingly costly to roll over as interest rates might rise. This will be especially true for MNEs from developing and transition economies whose currencies have depreciated in 2015.

The next issue of UNCTAD's Global Investment Trends Monitor will be released in mid-January 2016.

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