

Dealmakers in Davos see more M&A despite geopolitical risks

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- M&A deal volumes surged to seven-year high in 2014
- CEOs, bankers, investors see another strong year in 2015
- Driven by U.S. companies and some cost cutting in Europe

Low borrowing costs, currency shifts and the hunt for both cost savings and growth opportunities will drive a steady flow of merger and acquisition deals this year despite geopolitical tensions, according to business leaders meeting this week.

Chief executives, bankers and investors gathering at the World Economic Forum in Davos, Switzerland, said they expected U.S. companies to take advantage of a rising dollar and robust growth at home to strengthen their position in global markets.

On the other side of the Atlantic, sluggish growth will encourage European firms to buy revenues overseas and tie up with rivals to cut costs.

"There are always great opportunities in the aftermath of a crisis," said Federico Ghizzoni, chief executive of Italian bank Unicredit. "The key is to be in a position that allows (you) to seize them."

However, an unstable economic backdrop with divergent monetary policies among leading nations, and the possible flare up of conflict zones and diplomatic tensions, pose big risks.

"2015 and 2016 are going to be very volatile, economically but also politically and socially," said John Studzinski, vice chairman of private equity firm Blackstone.

"We are a little bit too complacent at the moment," he told Reuters Insider TV, adding he nonetheless expected a strong year for mergers and acquisitions (M&A), mostly in the United States and also in specific European sectors, such as telecommunications, media and technology (TMT).

Despite geopolitical shocks such as conflicts in Ukraine and the Middle East, global M&A deal volumes surged 40 percent in the year to Dec. 11, 2014, compared with the year before -- the highest level since 2007.

DIFFERENT MOTIVES

Many CEOs and bankers advising them expect an equally good harvest this year, in large part driven by inbound and outbound activity in the United States.

Companies in the chemicals, industrials, healthcare, technology and oil and gas sectors are expected to use their cash reserves to consolidate their industries and buy undervalued companies overseas.

"It's going to be bargain hunting," predicted Bill McDermott, CEO of software group SAP.

Some U.S. firms could also seek to benefit from a loophole allowing them to redomicile in Europe and use their overseas cash without having to pay U.S. taxes.

Fears over retaliation from U.S. Congress have killed some of these so-called "tax inversion" deals last year, such as Abbvie's \$55 billion bid for London-listed rare diseases drugmaker Shire.

But tax-driven deals could still happen in industries that do not depend on government spending, business leaders believe.

In Europe, meanwhile, there will be a division between struggling companies looking at deals as a way to cut costs and stronger ones paying up to tap faster-growing markets abroad.

According to credit rating agency Moody's, companies in the Europe, Middle East and Africa (EMEA) region had built up a combined cash pile of \$1.06 trillion in 2014.

Martin Sorrell, CEO of advertising group WPP, said the European Central Bank's decision to launch a so-called quantitative easing (QE) policy to kick-start euro zone growth could encourage companies to loosen their purse strings.

"QE will boost short-term returns and help people focus on the long term and invest," he said.

THE RIGHT CHEMISTRY

One space to watch in particular this year could be the chemicals industry.

"Our industry is very capital-intensive," said Tony Will, CEO of U.S. group CF Industries, which last year came close to merging with Norwegian fertiliser rival Yara in a deal partly motivated by tax advantages.

"Scale and cost-base do matter a lot. So if you can lower your tax bill through a deal that creates value for shareholders, there is a very compelling case to pull the trigger."

Monsanto, the world's largest seeds company, could also see an opportunity to revive its attempt to snap up Swiss rival Syngenta after the Swiss central bank's decision to lift its cap on the franc hit local stocks. That move was in part motivated by tax benefits too.

Syngenta shares are down 10.5 percent this year, though a surge in the franc could offset this for a foreign bidder.

Analysts are expecting other deals in the sector as players such as Monsanto, Bayer and BASF look to broaden their reach in crop protection and seeds.

Canada's Agrium could also see some action "one way or another", said Will, after activist hedge fund Value Act bought a 5.7 percent stake in the company last October.

