

# MERGERS & ACQUISITIONS

ANNUAL REVIEW 2017



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## **Mergers & Acquisitions**

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AUGUST 2017 • ANNUAL REVIEW

Financier Worldwide canvasses the opinions of leading professionals around the world on the latest trends in mergers & acquisitions.

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## INTRODUCTION

Despite the wave of protectionism and populism which emerged as major political forces, dealmaking activity has, for the most part, navigated the sea of change and recorded strong levels of activity. This activity was certainly boosted by high levels of available capital.

Many corporates have also benefitted from cash-rich balance sheets and, as a result, have been pursuing opportunities both at home and abroad. Outbound M&A, across a number of different sectors, has been a notable feature of recent activity.

The US has remained the most sought after location for dealmaking, both by deal value and volume, with many Chinese and Canadian acquirers seeking assets. However, the Chinese government has implemented a number of regulatory reforms which have tightened capital flows on outbound Chinese transactions. As a result, China may go from one of the most prolific and high profile global acquirers to a dealmaking outlier.

In terms of outbound activity, gaining the knowledge of a local expert is an important step for foreign buyers. This can benefit companies on a number of fronts, not least ensuring that the acquiring party gains a solid understanding of the local market and its culture. Furthermore, for those deals which trigger a merger review, it is imperative that local experts are consulted to oversee the mandatory review process. Sourcing local knowledge should form an essential part of an acquirer's efforts to manage transactional risk.



# PORTUGAL

**EDUARDO RUI PAULINO**

MORAIS LEITÃO, GALVÃO TELES, SOARES DA SILVA & ASSOCIADOS

**Q WHAT DO YOU CONSIDER TO BE THE MAJOR TRENDS SHAPING M&A ACTIVITY IN PORTUGAL OVER THE LAST 12 MONTHS? WHAT FACTORS ARE DRIVING DEALS IN THE CURRENT MARKET?**

**PAULINO:** M&A activity has been increasing over the last 12 months, especially in the first half of 2017. Increased market confidence and negative returns in low risk investments, coupled with some good investment opportunities, has captured the attention of many sophisticated international investors. I believe we are witnessing the end of the restructuring process in many sectors and slowly, yet surely, moving toward a slightly more seller-friendly environment. As always, insightful and better-prepared investors take advantage of being the first to pick up the best investment opportunities. Portuguese companies are great prospects – not only are there many great businesses in need of capital for restructuring, there is also a tremendous potential for international development, not only within the EU, but also considering Portugal's close ties with American, African and Asian Portuguese-speaking jurisdictions, such as Brazil, Angola, Mozambique and Macao in China.

**Q DO TRANSACTIONS SEEM TO BE CONCENTRATED IN PARTICULAR SECTORS, OR IS THIS ACTIVITY SPREAD ACROSS A RANGE OF INDUSTRIES?**

**PAULINO:** In addition to a surge of activity in more traditional areas, such as banking, real estate and concessions, there has been a huge level of interest in the energy sector. In particular, this interest concerns renewable energy, such as wind and solar, but also in more traditional oil & gas transactions. There is also interest in new technologies, as many of the start-ups that have been created in the last three to five years begin to mature.





**Q** WHAT TRENDS ARE YOU SEEING IN TERMS OF VALUATIONS AND TRANSACTION MULTIPLES? IS THERE OFTEN A GAP IN PRICE EXPECTATIONS BETWEEN BUYERS AND SELLERS?

**PAULINO:** As investors' confidence levels steadily increase, we see a narrowing of the price expectation gap between buyers and sellers. The fact that many sellers are already in their final restructuring stages also gives them more room to cope with potential losses, thus increasing flexibility in terms of being able to accept a slightly lower price than before. In any case, trends in valuation vary substantially depending on the sector in question. For example, we are seeing high valuations for tourism and prime real estate assets, while financial sector assets are still underpriced compared to their European peers.

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**Q** HOW WOULD YOU DESCRIBE GENERAL LIQUIDITY LEVELS FOR M&A FINANCING? TO WHAT EXTENT IS DEBT AVAILABLE TO SUPPORT M&A ACTIVITY?

**PAULINO:** Portuguese banks are finalising their restructuring process and are getting more active in trying to find good credit and proper transactions involving the right mix of their own as well as external funds. In addition, banks are looking to restructure some loans in their portfolios and there are very interesting opportunities in the acquisition of indebted companies in need of proper restructuring.

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**“A trusting relationship with local stakeholders, be it potential customers or regulators, is often the difference between a good or a not-so-good deal.”**

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**Q WHAT STEPS SHOULD A BUYER TAKE TO MINIMISE TRANSACTIONAL RISK IN A DEAL? IS THOROUGH DUE DILIGENCE AN INDISPENSABLE PART OF THE PROCESS?**

**PAULINO:** Due diligence is absolutely crucial. Knowing what we are investing in and identifying areas of potential concern as soon as possible, carving strategies to minimise and properly allocate and value risk, and allocating risks adequately are all essential to the success of any deal. Due diligence should not, however, be limited to technical aspects such as legal, financial, tax and so on. It is also important to become acquainted with the target’s culture and to understand how the buyer will be able to minimise integration and restructuring risk.

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**Q HOW IMPORTANT IS LOCAL MARKET KNOWLEDGE WHEN IT COMES TO CLOSING DEALS?**

**PAULINO:** Successfully closing deals depends greatly on the ability to build and maintain a fruitful, trusting relationship. Local knowledge is an essential part of this process. Understanding the environment and culture where counterparties and the actual business operate is a key advantage, to narrow divergences and build bridges that allow for smoother negotiations and, more importantly, successful deals. Knowing the local environment is also key to the successful integration of a newly-acquired business. A trusting relationship with local stakeholders, be it potential customers or regulators, is often the difference between a good or a not-so-good deal – and local advisers can play a vital role in assisting acquirers in gaining this insight.

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**Q WHAT IS YOUR ADVICE TO BUYERS ON PLANNING FOR POST-DEAL INTEGRATION? HOW IMPORTANT IS THIS PROCESS IN UNLOCKING FUTURE VALUE?**

**PAULINO:** Early integration planning is key to delivering the benefits of a merger. Precise planning is critical, not only for extracting the benefits of a deal, but – even at an earlier stage – determining whether it is actually a good idea to pursue the deal. Evidence suggests that some business combinations end up destroying value and this is in most instances a direct consequence of poor planning. The most common obstacles relate to scarce access to – and due organisation and systematisation of – due diligence materials in the initial stages of a transaction, often combined with a misperception of the added value that a proper due diligence exercise can bring, as a basis for creating and implementing a detailed integration plan.



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Eduardo Paulino joined the firm in 2002, and became a partner in 2015. He is a member of the corporate and commercial and capital markets team. Mr Paulino's main areas of practice include capital markets, company and corporate law and banking and finance. He especially focuses on M&A, public offerings, project finance and privatisations. He is also experienced in banking and finance law matters and compliance. He has recently been involved in complex high-profile M&A transactions in the banking sector and in the process of recapitalisation of the Portuguese banking sector. Mr Paulino regularly acts in equity and debt public and private offerings.





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