Corporate Development Roundtable

Doing deals in emerging markets
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### The Transaction Services roundtable library

This report covers one in a series of roundtables sponsored by PricewaterhouseCoopers in which leading M&A executives talk candidly about the hard lessons of doing a deal.

These reports have proven to be valuable sources of current thinking on and fresh approaches to many challenges faced by corporate development specialists.

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- **Maximizing the Value of Transactions,** a review of the four major steps in deal-making: aligning with corporate strategy, conducting due diligence, negotiating successfully and integrating the new unit.

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Emerging markets beckon, but deciding when and how to invest is an exercise in uncertainty

The siren calls of populous nations shaking off the restraints of the past and moving toward a free market economy are enormously tempting for corporations in mature economies. These companies see that an opportunity for rapid growth lies overseas, not at home, where they have to slug it out daily for market share. And it also seems apparent at first glance that all those companies that dared to move into China a decade or so ago are reaping tremendous benefits today. Democracy is sweeping the world. How do we get a piece of the action?

That’s the basic question examined during a corporate development roundtable sponsored by PricewaterhouseCoopers and attended by mergers and acquisitions executives from companies that have long operated internationally.

The short answer is that moving into emerging markets—or expanding your presence there—is both difficult and hazardous, a complex exercise in risk-minimization. The rules of the game are always subject to sudden change. The due diligence process, which has become a disciplined acquisitions activity for many U.S. companies, tends to falter when applied in developing nations. Methods designed to measure or anticipate economic factors and corporate performance turn into guesswork in regions where even the ownership of some companies can be an almost impenetrable secret.

On top of that, emerging economies are fragile. They can easily become the victims of geopolitical and economic forces well outside their borders.

All these factors were explored in the roundtable, held in mid-2005 in New York. The discussion featured a special presentation by John Green, Deputy Director of Research at Eurasia Group, which specializes in assessing political and social risks in developing countries.

The conversation lasted more than three hours and, understandably, focused on the risks involved in deal making. Much of the conversation involved China, where the M&A market has become red-hot and, in the opinion of several panelists, overheated.

Here are some of the key points made:

• **Due diligence is crucial.** Even though due diligence is difficult and its results are less dependable than in mature markets, the process is essential to provide at least a framework for decision-making. Management and investors demand it. You can’t control geopolitical events, but you can make a determined effort to understand what you’re buying.

• **Patience and courage are important.** Companies that are entering an emerging market for the first time are advised to move incrementally but deliberately. Early movers understand that upsets and setbacks are part of the price of entry. But they also know that the only way to reap benefits later is to start now. That’s what happened in China.

• **Seek a careful balance.** The panelists talked about carefully weighing a company’s strengths against the apparent risks. In its simplest form it means the greater your experience or expertise, the more risk you are willing to take.

• **Don’t get caught up in buyer’s fever.** China is an overheated M&A market now, the panelists said. You must be willing to walk away from attractive deals when the bidding becomes unreasonable.

• **Modify your standards to meet your goals.** If a company wants to play in a hot market such as China, it may have to make some changes in its M&A processes to be able to act more quickly.

• **Articulate a clear strategy.** Analysts and investors are watching closely and are often unforgiving of missteps. This has made many companies cautious about placing major investments in emerging markets. Part of the answer is to clearly communicate the strategy behind the risk.

• **Carefully track political events throughout the region.** Emerging economies and unstable governments go hand-in-hand. Investment decisions should be tempered with an understanding of political and social change occurring not only in the target country but among its neighbors as well.

PricewaterhouseCoopers’ Transaction Services Group works on thousands of deals around the world every year, helping clients evaluate every M&A decision point—from the initial steps in deciding to buy or sell to implementing integration plans that capture profits or value after the deal is done. Our goal is to help our clients beat the odds of failure that experts have observed are so high in this field.

We believe you will find this report informative and enlightening. We especially thank our panelists for so generously sharing their insights and experiences.
Participants

Panelists

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Guest Speaker

John Green
Deputy Director of Research
Director of the Asia Practice
*Eurasia Group*

All these possibilities, and more, were played out for M&A executives at the roundtable by John Green, Deputy Director of Research of a highly respected political risk consulting firm, Eurasia Group, which specializes in emerging markets.

Warning his audience that his remarks would emphasize “darker” interpretations, Green, who is also the Director of the Asia Practice for the Eurasia Group, launched into a wide ranging overview that was provocative, opinionated and often unsettling.

Green’s over-arching themes were that the economies and governments of the world are connected by an “interstitial tissue,” so that what happens in one region has “huge ramifications” elsewhere and that the political, social and security developments in emerging market countries “can come up and bite you even when the economics of your deals makes sense.”

Here is a summary of some of his key points.

**The big two.** There are only two countries whose actions can affect developments across all emerging markets: the U.S. and China. In 10 or 15 years, India may join the group.

“But for now, the relationship between China and the U.S. represents in a sense, one economic phenomenon. It’s hard to imagine one half the relationship unwinding without the other half unwinding as well,” Green said. The relationship has remained “remarkably stable” despite its imbalances. Chinese savings support U.S. spending, he explained, as U.S. debt piles up in the Chinese treasury and Chinese goods flow into U.S. homes.

“China is supplying the savings and the U.S. is providing the spending on which the global economy is running,” Green continued. Investments in other parts of the world are no protection against a breakdown of this partnership. “You can’t really hedge against the possibility that this savings/consumption machine might sputter.” Green noted that key issues in the relationship at the moment are the rise of protectionist feelings in the U.S., which could lead to high import duties on Chinese goods, and the widely held belief that China must revalue its currency, a step Green feels is inevitable.

**Inside China.** The short-term political outlook for China is “fairly positive,” with new leadership that is generally “more qualified, more technocratic and better educated,” Green said. However, he continued, China faces a serious challenge in managing what are actually three economies—the booming coastal region, a central region that is developing more slowly and the interior, which “is among the least developed areas in the world.” For example, a monetary policy designed to cool the overheating economy along the coast could be devastating to the impoverished interior.

Green noted that making matters more difficult, China is relying almost entirely on administrative measures rather than the types of market-oriented controls used in the West. These controls are administered not only by the government but also by the Communist party and are often undermined at the local level.

“Corruption is a serious problem across the emerging markets, and this includes China,” Green said. Beijing’s attempts to root out corruption have been only partly effective. While corruption per se will not fatally undermine the regime, it may contribute a more serious problem: social tension. Social tensions are rising and there have been local demonstrations by workers over unpaid pensions or salaries and by the unemployed over lack of work. “I think social tensions will become a big story in China over the next few years,” Green said. Without proper government action, social tensions someday “could come to threaten the stability of China,” he added.

The Chinese economy is not likely to suffer “a hard landing” in the near- to medium-turn, Green said, but even if economic growth slows to as little as 5% there could be serious repercussions in terms of social protest among people flooding into the workforce.

**Indonesia stabilizing.** Green noted that although Indonesia has a reputation for corruption, a chaotic government and disruptive social tensions, serious reforms are underway and two national elections have been held successfully. If the country stays on its current path for another 10 years it may become a more welcoming place for investments than China will be at that time, Green predicted. “One could argue that trends are going in the right direction in Indonesia and in the wrong direction in China.”

**China and Taiwan.** Green observed that relations between China and Taiwan will remain a “persistent security threat” until one of two “wildly unlikely” events occur: dramatic liberalization on the mainland or acceptance by the Taiwanese of some sort of confederal arrangement with China. Practical economic ties to the mainland may someday force Taiwan in that direction, Green said, and the U.S. has made it clear that “its support for Taiwan is not
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John Green, Eurasia Group
unconditional.” Still, this will continue to be a hot spot for years to come.

China, Japan feud. The relationship between China and Japan, two nations with long-simmering differences, has been damaged recently by disagreements over rights to undersea oil and gas reserves and by Japan’s pursuit of membership on the U.N. Security Council. Green commented that China does not want Japan on the council and for years has fostered “popular anger” toward that country, as well as Taiwan, among the Chinese people. Japan, for its part, is beginning to think about developing its military power, which unsettles both China and Korea. Although the confrontations over drilling rights and Security Council membership are both serious, Green said that it appears both governments are attempting to be moderate and that the current crisis may soon abate. The underlying problems, however, won’t go away and could flare up in the future.

Nuclear proliferation. As Iran and North Korea move closer to developing an atomic bomb, the risk profile of many countries increases, especially Israel and South Korea. “South Korea has a very stable political system,” Green said, “but it’s in a bad neighborhood.” Iran is “driving a truck through the loopholes” in the international nonproliferation treaty and the U.S. has no legal recourse at this point, either in Iran or North Korea, which has no intention of ceasing its work on nuclear weapons.

Both of these situations are “fundamentally unacceptable” to the U.S., Green noted. But even though the standoffs over the Iranian and North Korean nuclear programs are at a serious stage right now, Green added that “I think in the long run the problem of nuclear proliferation may not be as awful as it seems today. Nations will learn that in today’s environment possessing nuclear weapons actually makes you less safe. It’s a guarantee you will be one of the top priorities of the U.S. National Security Council day in and day out. Most states don’t want that.”

For the time being, Green said, the U.S. is committed to multilateral negotiations on North Korea, which offers a “far less attractive” military target than Iran. He added that China may be driven to play a more forceful role in sanctioning its long-time ally, North Korea, in an effort to placate both the U.S. and Japan, especially because the latter feels threatened by North Korea and wants to rebuild its own military.

India developing slowly. After 10 years of steady reform in India, it’s surprising the country hasn’t attracted more investment, Green said. All signs from the peace process with Pakistan are positive. The country is opening up to foreign investors and is slowly taking some of its state-owned industries private. The country is still plagued with “huge inequalities” among its people, Green said. Overall, however, “I’m convinced that India will prosper someday. The trick is predicting when it will happen.”

Tensions in Europe. Green noted that the aspirations of free-market countries in Eastern Europe are clashing with the traditions of France and Germany, which are clinging to their social welfare policies. This is causing increased tension over fiscal and monetary policies developed by the European Commission. A pro-market bloc including Poland, Hungary, Slovakia, Ireland, Spain and the U.K. is lining up against “the demographic and political heart of Europe,” essentially France and Germany. A “real fracas” could develop in time, and the long-term tug of war over monetary policies may undercut the strength of the Euro. Slovakia has instituted a flat income tax and Poland may soon do so. “This will create a fantastic draw for investors,” Green suggested, “and France and Germany are terrified by this.”

Russian puzzle. The takeover of the Yukos oil company should not be interpreted as a wholesale attempt by Moscow to grab the assets of private businesses in the country, Green said. Rather, it more likely signals the country’s determination to remain a world power by nationalizing its significant untapped oil and gas reserves.

Instead, he may function as a “weather vane,” responding to pressures from moderates, liberals and a still-powerful faction of holdovers from the old regime.

Regardless of which party wins in 2008, he continued, there is little likelihood of a major change in foreign policy. Although the Iraq war was a rupture in the overall pattern, the differences between the two parties on foreign relations are not dramatic. This is at least partially due to the fact the U.S. is the lone super power in the world and as such is often impelled to act on its own. “Structurally, most multilateral organizations have the effect of limiting U.S. action, which is an uncomfortable thing whether you are a Republican or a Democrat,” Green said.
Even at its most disciplined, and even in the most stable economies, the art of deal-making always requires a step into the unknown. And when it comes to investing in an under-developed country, an acquisition may seem to be little more than a leap of faith. Yet he who hesitates may lose the opportunity of the century—or, on the other hand, may save his company from financial loss and public embarrassment. At the moment of decision, you’re never certain which.

The panelists, who as a whole represent large global companies with active, sophisticated acquisition and divestiture programs staffed with experienced professionals, have made significant strides over the past five years or so in reducing risks in the mergers and acquisitions process in the United States. Still, they have made it clear that even in the best of circumstances, you never really know what you’ve bought until you own it.

The state of unknowing expands in geometrical proportions when a U.S. company seeks an acquisition in an emerging market. The companies represented by the panelists have been successful in entering these markets and building strong businesses, typically through partnerships with local owners and managers. But some emerging markets, especially China, are hot—and perhaps becoming overheated—as some buyers, often Asian companies or private equity firms, snap up companies at a pace and at prices that stun the more cautious executives on the panel.

Most of the panelists work for companies that have long been active in international markets and whose over-arching acquisition strategies are clear: these companies want to be leaders wherever in the world growth opportunities exist. Over the years, they have entered into ventures in unstable and unpredictable economies, willing to take their lumps in order to establish a beachhead, learn about the market and position themselves for better times.

Now, as they talked about China and other promising regions, the panelists worried not so much about strategic issues as about political change, economic volatility, insufficient information, cultural differences and competitors with deep pockets and quick trigger fingers.

“The big issue for me is knowing how to do M&A activity in countries where everything changes so fast relative to ownership issues, such as whether you have to have a partner or not and under what circumstances,” said one panelist.

“We don’t like change,” agreed another. “That’s what makes us nervous about whether to invest. I think we can play in any kind of system if we can figure out the rules and get good people on board. If we can understand the system we’re comfortable investing for the very long term.”

Risk-minimizing structures. But that doesn’t mean these companies will entirely avoid countries where the future is unsettled. “At a strategic level, we probably prioritize away from those places,” a panelist said, “And then if we find a need to do something there, we would apply a higher level of diligence.” In other words, the door is open to strong opportunities in weak markets.

But the best diligence, the panelists agreed, can be rendered useless in a politically unstable country. “So you go in with a structure that minimizes risk,” the panelist continued. “Maybe it’s a smaller investment, or you structure it in a way that gives you greater control.”

While some companies have poured billions of dollars into China, one panelist’s company is proceeding cautiously. “Everybody asks, ‘Why aren’t you in China in a bigger way?’ We’ve been very cautious because we haven’t been able to justify the returns. But we’ve gotten a lot of advice and help from consultants, bankers and others to help us wade through the political situation.”

There are no satisfactory formulas for calculating the risks in making an acquisition in an emerging market, the panelists agreed. Some companies use special discount rates in an attempt to apply a factor for political or economic instability; in fact, one company uses five different discount rates, depending on the risk and the country.

“But with five different discount rates, the whole process becomes arbitrary,” commented a panelist. Another agreed, saying, “You don’t know where the economy of China or India is really going over a three- to five-year period, so you’re strictly guessing in terms of your models.” Another chimed in, “It’s impossible to model a value structure when the goal posts are always moving. You can have your legs cut out from under you overnight.”

“You’re absolutely right,” said the panelist using the five discount rates. “But you can at least try to bring some process to bear on how you allocate your capital. If we had a crystal ball, we wouldn’t use a blunt measurement like discount rates. At the end of the day all it really says is that you need a higher pay-off in the riskier markets.”

We’re not in Kansas anymore: M&A specialists seek riches in nations where politics, cultures and even business practices are unfamiliar and unpredictable
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A self-hedging strategy. At least one company, a giant in consumer products, doesn’t use discount rates. “Our view is that as a global multinational, we’re self-hedged,” this executive said. “Rather than try to put each market under a microscope, we think we operate in enough countries and enough currencies that we are self-insured. We do some deals where the cost may be too high and some where it’s probably too low. Some things work better than we expect; some don’t do as well.”

“You say you are doing the prudent thing to manage your risk, but you can also manage yourself into never getting any deals done. You can assign a discount rate, but then you compete with Japanese companies that have incredibly low costs of capital. So you have to find a balance in situations like that.”

The concept of minimizing risks and balancing them with corporate strengths struck a chord with the panelists.

“Everything is so nuanced and complicated that risk minimization is probably the best approach,” a panelist said. “You make smaller investments, you build institutional knowledge and forge relationships. You can’t go in overnight and buy the market leader and become the market leader.”

“You have to balance your own capabilities in a country,” another pointed out. “We feel great about investing in China today because we’ve got a long history there and have incredibly competent teams on the ground. So we provide a different risk profile to China than somebody who doesn’t have an established business there.”

“Finally,” said Mike Wathen of PricewaterhouseCoopers, “a company’s long-term strategy often simply drives it into a market, compelling it to make the best deal it can. We’ve observed some situations where the valuation models get set aside because the company decides it just has to get in the market. Companies are looking down the road, saying, ‘We’ve got to get in there.’ So they just go in, knowing they are going to get their nose bloodied. It’s a first move; they don’t bet the ranch, but they’ve got some chips in the game. If you insist on a deep discount or try to price a deal with a higher risk factor, you can get priced out of the market early on when the stakes are small, and miss out on the early innings’ learnings.”

No rose-colored glasses allowed

If measuring risk is an exercise loaded with guesswork, how then does a company project the upside potential, what is called the “option value” (the value associated with learning the ropes in a territory where you will have to “play big” in the future) of a possible acquisition?

Very gingerly it seems. “I’ve done it for my own benefit,” a panelist said, “but I think it takes a lot of guts to put that kind of analysis forward to the people you are accountable to. It leads to counter-intuitive recommendations, such as jumping into a market when things are going bad. I think most managers want to see things tracking up.”

“If there’s a crisis in the South Korean credit card market and you think maybe it would be smart to buy a good company at a low price, you could lose your job by telling your chairman that now’s the time to jump in.”

“Not necessarily,” said another panelist. “If you know Korea cold and you know credit cards, the absolute best thing to do is buy in a crisis. If it’s a market and a product that you know well, you should absolutely double up.”

“Maybe,” said another, “but nothing is ever that clear.”
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Mike Wathen, PricewaterhouseCoopers
Asian buyers are quick to spend in red-hot Chinese M&A market, forcing more cautious U.S. buyers to walk away from attractive deals

A gold-rush mentality has taken hold in China as Asian companies and global private equity firms compete with U.S. corporations to buy promising Chinese businesses, the panelists said. Not only are prices being bid up well beyond the comfort level of many U.S. companies, but the Asian companies are snatching up targets with what appears to be an almost total disregard for even the rudiments of due diligence.

“People are paying crazy prices for consumer companies in China today,” a panelist said, “and they are putting huge amounts of money down with very little due diligence. We’re comfortable putting large amounts of money into China, but not into incredibly opaque companies that we haven’t figured out. It’s not macro-economic issues that trouble us, it’s basic issues, such as who owns this business and what are its contingent liabilities.”

“And while you’re trying to figure that out, some people come in and buy it for hundreds of millions of dollars on maybe a week’s due diligence and a handshake! That’s happened twice with companies we would have loved to invest in. We had to walk away. We could project revenues and we could project margins fairly well, but it was the liabilities, the unknown liabilities, which gave us pause.”

PE firms bidding aggressively. Other panelists also noted this type of behavior by Asian companies, often Japanese, Taiwanese or Korean. Private equity buyers are also very active in China and are bidding aggressively, but they also insist upon careful due diligence. Private equity firms also provide the “useful step of cleaning up companies for us to buy later,” one panelist said. This is fine for patient companies, but others want to increase their stake right now.

“It’s usually an Asian strategic buyer we go toe-to-toe with, and they do some very illogical things in deal structuring and due diligence,” a panelist said. “Either they know more than we do or they’re much more willing to take risks.”

Graham Matthews, a partner who leads the Transactions Strategy group in the Shanghai office of PricewaterhouseCoopers, noted the same phenomenon. “Many Japanese companies are now throwing a lot of money into China. It’s not always easy to figure out what they’re trying to achieve. A lot of people have incentive to get the deal done and tell the good news and they may not be paying enough attention to important details.”

“In addition,” Matthews continued, “the Japanese or Korean buyers probably have a better understanding of the company and the region and how Asian companies are structured. When American companies work on a deal they want to be able to explain the strategy and logic and credibility of the deal back to the head office. But the issues are often so unfamiliar that the messenger loses credibility, the head office loses confidence and the process slows down. However, the Asian companies tend to come at the deal with a common shared vision because it’s on their home turf. This means they can move faster.”

“There are some clear differences between the way different nationalities approach investment decision-making. American companies are often deeply involved in the due diligence process, wanting to understand the positives and negatives of the deal, while Japanese companies tend to want to see a report that confirms their rationale for the deal,” Matthews said. But other non-Japanese Asian companies often completely bypass detailed due diligence. “There’s a whole chunk of deals out there where the buyers don’t yet see the value of thorough diligence,” Matthews noted.

“What happens to us,” a panelist said, “is that usually we don’t feel we have enough information to make a good bid by the time somebody else feels they have enough information to go forward.”

Asian buyers rely on local knowledge. Larry Ma, Associate Director in the Transactions Strategy group for PricewaterhouseCoopers in Shanghai, added this perspective on the cultural differences between American and Asian buyers. “Asian companies, especially those that have operated in China, obviously think they know the country, and they are usually interested in acquisitions in their own areas. So they know the industry and they know the market. So this is a form of due diligence. They are not doing something without any basis; they have people who can come in and manage the business if a problem develops.”
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“The other reason they can move faster involves corporate governance. The decision-making process is focused on a few individuals who are often entrepreneurs, family owners, and they are involved from the start. There is seldom a large delegation of teams from lower levels of management.”

“So the lesson for Western companies is that they should not be too rigid in due diligence, but focus on key issues and strategies. The other possible lesson is to focus on targets that have better corporate governance, such as companies that have been privatized or those that have been purchased by private equity firms for resale.”

The panelists absorbed this advice, but did not abandon their conviction that Asian companies and private equity firms were in many cases overpaying for what they got. “I see very savvy people playing with family money who seem to be willing to just throw the dice,” a panelist said.

“There is no shortage of bad investments to absorb excess capital,” a colleague added.

“You just have to take solace knowing your competitor just overpaid for a bunch of problems,” another remarked.

“Right,” the other panelist replied, “but that’s an event not generally celebrated at headquarters.”
“There are some clear differences between the way different nationalities approach investment decision-making. American companies are often deeply involved in the due diligence process, wanting to understand the positives and negatives of the deal, while Japanese companies tend to want to see a report that confirms their rationale for the deal. But other non-Japanese Asian companies often completely bypass detailed due diligence. There’s a whole chunk of deals out there where the buyers don’t yet see the value of thorough diligence.”

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Larry Ma,
PricewaterhouseCoopers
It appeared from the conversation that American companies bear special burdens in their quest for acquisition targets in emerging markets. These burdens are imposed both at home and abroad and help explain why due diligence is so crucial for these global buyers.

Here are some factors that were mentioned briefly at various points during the discussion:

**The Street is watching.** Analysts and investors are paying a great deal of attention to the progress of overseas investments, and they often are impatient with the long view required for success in emerging markets. “You have to be able to communicate a cohesive strategy very clearly if you are a public company under quarterly analysis,” a panelist said. Neither private equity firms nor Asian companies have this degree of public oversight.

Sometimes, the panelists said, a large company can make a small investment in a small emerging market without attracting undue attention, but that is not the case with larger markets requiring major capital allocations, such as China, India, Russia and Brazil.

“If you do a deal that is going to move the needle (in the financial statements), you have to be able to explain it,” a panelist said. Neither private equity firms nor Asian companies have this degree of public oversight.

**More cautious leadership.** Because investor scrutiny is so intense, corporate leaders insist on M&A processes that will minimize risk. This was not always the case, some panelists said. They gave credit to past entrepreneurial leaders whose personal leadership and vision moved their companies into foreign markets where they are prospering today. “I don’t think we can do that anymore,” a panelist said.

**American values.** The national conscience places certain standards on American companies that may not affect some foreign organizations. For example, one panelist pointed out that his company’s operations in China were virtually shut down after the Tiananmen Square massacre because “the public won’t allow you to participate” in a country with an unpopular government.

Similarly, the reputation of American companies could be tarnished by a widely publicized business failure in an emerging market. A panelist put it this way: “One of the things we discuss internally is whether we would let one of our subsidiaries go bankrupt or whether we would default on interest payments. We speculate that other companies from other countries might have different answers than the ones we come up with.”

“Yes,” agreed another panelist. “It changes the risk profile tremendously if you won’t let a company go bankrupt.”

**The “gotcha” factor.** When American companies buy foreign businesses, contingent liabilities frequently occur. “Our people are encountering difficulty with unpaid social taxes,” a panelist said, meaning payments into government health and pension programs. “Senior managers are all paid up, but there is a big problem with people in lower positions. And the tax authorities are walloping companies over there at the moment.”

“The standard of enforcement is very different for a local company than for the foreign company that makes an acquisition,” a panelist added. “The local company could have been breaking the rules for 20 years and the government never did anything about it. Now that you own the company they want the 20 years’ assessment paid back with interest and penalties because you’ve got deep pockets and don’t want the PR problem.”

When being American isn’t easy: special requirements and standards slow the acquisitions process for U.S. companies
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There is no substitute for experience in achieving success in mergers and acquisitions, and nowhere is that more obvious than when making investments in emerging markets. A company contemplating a move into an underdeveloped country faces a situation that might be aptly summed up by combining two competing clichés:

Fools rush in where angels fear to tread, but he who hesitates is lost.

The trick, our panelists made clear, is to avoid being the fool by hesitating only in the most prudent manner.

The miracle of the Chinese economy, overheated though it may be at the moment, is ample evidence that investing in emerging markets can prove to be a wise decision when done carefully, patiently and with realistic expectations. The amount of M&A activity in emerging markets is on the rise around the world. China, India, Russia and other emerging markets in Asia, Eastern Europe and Latin America will continue to attract investors for years to come.

At PricewaterhouseCoopers, we have helped clients make hundreds of successful acquisitions in emerging markets—and, just as importantly, we have helped them avoid investments that turned out to be less promising than they first appeared to be.

We have found that managing risk in emerging market transactions may call for different processes than those applied in developed markets. But careful risk management can help maximize deal value. This entails analysis of local markets and use of local resources to assess the opportunity and perform diligence. It’s important to calibrate the amount of risk to the size and the strategic importance of the transaction—it’s not a one size fits all process. And too much caution can mean walking away from deals that hold future value.

Each company’s strategies, goals and tactics are unique, and all are shaped by the forces at work in the industry and the region where they want to invest. We welcome the opportunity to meet with you to discuss your plans and tell you more about our capabilities.

We thank our roundtable participants for sharing their own experiences with us and with you.
About PricewaterhouseCoopers

PricewaterhouseCoopers’ Transaction Services group advises companies on how to use transactions more effectively to reach their business goals and improve returns on capital invested by helping them uncover risks and deal issues regardless of whether the objective is to diversify, enter new markets, reduce costs, exit non-core or less profitable businesses, or deploy capital more efficiently.

We help companies evaluate every M&A decision—from qualifying a target through strategies for capturing post-deal profits—thereby helping them deliver value. We help clients objectively assess the pros and cons of acquisitions, alliances, joint ventures and even outsourcing and marketing arrangements, before they begin screening candidates. And we help companies prepare for divestitures and assist them in maximizing the value of the transaction through preparation and planning. We also assist companies in gaining access to global capital markets.

With over 2,400 professionals in more than 40 countries and 16 U.S. cities, PricewaterhouseCoopers’ Transaction Services group can meet your company's needs wherever you’re doing transactions. Our services reflect our ongoing research on leading M&A practices and direct experience advising many of the world’s leading corporations and private equity firms. For more information on our services, please visit our website at www.pwc.com/ustransactionservices

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About Eurasia Group

Eurasia Group is a research and consulting firm that focuses on political-risk analysis and industry research for global markets. Eurasia Group has expertise on 65 countries in Asia, Latin America, Emerging Europe and Eurasia and Middle East and Africa. The group’s analysts track political trends and their impact on business, financial markets and the foreign investment climate.

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