European M&A: On the road to recovery?
Insights on the TMT sector

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Telecoms has been the best-performing industry group among the S&P 500 over the past year* and the Media and Technology industries have generally been resilient during the economic downturn. Many segments of these industries face significant challenges, however, forcing industry players to rethink the way they operate and interact with other players in the market.

In the first half of 2013 the Economist Intelligence Unit carried out a global survey on cross-border M&A on behalf of Clifford Chance. With a focus on Europe, the survey explored M&A opportunities and current perceptions of key risks, against the backdrop of the complex political and economic environment. 370 Board-level executives from companies with annual revenues in excess of US$ 500m were surveyed, from across Europe, Asia Pacific, the Americas and the Middle East, and from across a range of industry sectors, including the Telecoms, Media and Technology sector.

The challenges faced by the industry range from making consumers pay for online content to the love/hate relationship between telecoms network owners and the internet businesses that have become household names. These challenges are likely to lead to transformative transactions across these sectors. The market survey bears this out by confirming that various types of transactions can be expected in the TMT sector in the short to medium term (two to five years) and that the key trends in TMT currently include M&A in Europe, further consolidation and investments to and from emerging markets.

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Top 5 attractions for M&A in Europe according to TMT players

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<thead>
<tr>
<th>Rank</th>
<th>Attraction</th>
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<tbody>
<tr>
<td>1</td>
<td>Europe's highly developed infrastructure (i.e. transport, energy, technology, etc.)</td>
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<tr>
<td>2</td>
<td>Access to developed technological know-how (ex aequo)</td>
</tr>
<tr>
<td>3</td>
<td>Europe's socio-political, regulatory and legal environment (ex aequo)</td>
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<tr>
<td>4</td>
<td>Ability to secure higher profit margin in Europe</td>
</tr>
<tr>
<td>5</td>
<td>High consumer spending levels in Europe</td>
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* Financial Times, 25 April 2013
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M&A in Europe

Traditionally seen as a very mature and almost saturated market, the financial downturn appears to have brought Europe back as an important market to consider for M&A in the TMT sector. In fact, it turns out that the socio-economic uncertainty in Europe has increased appetite for deals in Europe, including in the TMT sector. Close to 60% of the TMT sector respondents to our survey consider Europe to be a potential growth market that offers attractive M&A opportunities.

Two-thirds of the sector respondents (including 75% of the Asian respondents) say that the main driver for TMT M&A in Europe is to secure unique know-how, expertise and technology, and to eliminate IP risks. We have seen a few examples of these, including the acquisition by NTT Communications Corporation of an 85% stake in Gyron Internet Limited, a leading data centre service provider based in the UK.

One of the other reasons why European targets in the TMT sector remain interesting is their significant and steady free cash flow, in particular that of telecoms operators and software vendors. Europe’s highly developed infrastructure is cited by 41% of the TMT sector respondents as making it attractive for M&A deals. Europe indeed presents a positive combination of strong logistics, broadband penetration (Europe reached 72% broadband penetration in 2012), transport and energy. In addition, Europe represents a market of 500 million people, including some of the world’s highest spenders on consumer goods and some of the most sophisticated and prolific users of online retail.

The TMT sector survived the financial crisis with only minimal losses, making it an attractive market for acquisition. The current economic context actually causes Europe to be seen by TMT players as offering more reasonable pricing compared to other regions, such as Asia and the United States. A significant proportion of respondents (50%) state that socio-economic uncertainty in Europe is actually increasing their appetite for M&A deals, and 19% state that it is having no effect on their plans and their companies remain highly interested in Europe.

Taking the above into account, it is no surprise that a majority of the TMT companies who responded to the survey expect to be in a position to look for businesses to buy in Europe in the next three years.

Further consolidation

Consolidation continues to be a prominent trend in the TMT sector. The various pressures on revenues and costs experienced by TMT players have led to a wave of consolidation. Fixed broadband providers in developed economies have also been driven to consolidate by saturation and competition from mobile broadband (a trend which may be further exacerbated by the roll-out of LTE networks). Technology players are under pressure to consolidate to create an ever-larger global footprint.

Various examples have been seen, including U.S. cable giant Liberty Global’s $23.3 billion (€18.1 billion) deal to buy British cable giant Virgin Media, in a move that will create one of the largest broadband companies in the world.

Alongside consolidation are efforts to create joint ventures and partnerships that are not paths towards an acquisition or merger; for example, in the context of infrastructure sharing, the establishment of MVNOs (essentially a form of partnership, pioneered in Europe and now being “exported” to Asia, the Middle East and elsewhere) or potential co-operation between mobile operators and content providers, such as Facebook, Twitter, Whatsapp and others, for which new forms of partnership are being developed.

With companies focusing on how they can operate more efficiently and improve returns, consolidation is expected to continue, although smaller deals are more likely to occur in the short to medium term.

US companies and European SMEs – seen as most likely sellers of European assets over the next two years
The growth strategy of many TMT players continues to focus on emerging markets, which has been confirmed by 66% of respondents to the survey. A strong majority (61%) of TMT respondents believe that European companies will increasingly have to make acquisitions in high-growth markets to stay competitive.

Whether it is the interest shown for the telecom licences in Myanmar, the competitive process for the sale of a controlling stake in Maroc Telecom or TeliaSonera’s multiple transactions involving Kcell, one of Kazakhstan’s largest mobile operators, assets in emerging markets clearly continue to raise very high interest in the TMT sector. After Europe, the Asia Pacific region is seen by TMT senior executives as offering better M&A prospects, well ahead of both North and Latin America and the relatively fast-growing markets of the Middle East and Africa.

There is, however, also a growing interest from emerging markets’ players for investing into developed markets. América Móvil’s investment in KPN, which represented América Móvil’s first significant investment in Europe, is a very good example of this trend. Non-European TMT companies nonetheless remain wary of doing M&A in Europe (citing the European economic growth rates and the Eurozone’s economic instability as the two main reasons which makes the European market unattractive), but recognise the opportunity to buy technology and talented resources at knock-down prices.

TMT players generally prefer using traditional M&A where possible. The survey confirms this, with 50% of sector respondents identifying traditional M&A as the preferred deal structure for the next two years, as opposed to 22% identifying joint ventures and partnerships. That being said, transactions involving companies from emerging markets (whether as buyer or seller) often involve the use of joint ventures or partnerships. A third of the non-European TMT sector respondents actually mention joint ventures and partnerships as their preferred deal structure over the next two years.

The outsiders seem to agree: if you want to be a global player, sooner or later you need to be in Europe.”
Hotspots for TMT sector M&A opportunities

In addition to opportunities in the key regions of Europe, Asia and America, we are clearly seeing an increase of TMT related transactions in Africa.

Top 3 risks for executing M&A strategy over the next two years outside Europe

1. Currency fluctuation risk: 28%
2. Increased competition for the same assets: 24%
3. Restrictive or challenging regulatory environment (e.g. operating licence regime; lack of IPR protection): 22%

67% of TMT respondents cite “securing unique know-how, expertise, technology and eliminate emerging IP risks” as the main driver for pursuing M&A opportunities in Europe.
Our strength in Europe

**Telecoms**

Advising América Móvil on its €2.4 billion partial offer for Royal KPN N.V., the former state-owned Dutch telecom provider

**Media**

Advising Technicolor S.A. on the disposal to Ericsson of its broadcast services activities located in France, the Netherlands and the UK

**Technology**

Advising NTT Communications Corporation on its acquisition of an 85 per cent. stake in Gyron Internet Limited, a leading data centre service provider based in the UK

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