

GLOBAL M&A: A FRENCH PERSPECTIVE

ALTANA
Société d'Avocats à la Cour de Paris

JEAN-NICOLAS SORET, a partner at Altana, a full service law firm based in Paris, France, specializes in mergers and acquisitions with a particular focus on cross-border transactions, joint venture, group reorganizations and carve outs. Mr. Soret took time to discuss current business trends and future opportunities on the French M&A market and how his firm positions itself in this market.

TO WHAT EXTENT HAS THE FRENCH M&A MARKET BEEN AFFECTED BY THE CRISIS?

Whereas the French M&A market was marked in 2011 by a very active first semester and a dramatic fall in the second half, 2012 appeared to be steadier, at an intermediate level. It is expected that 2013 might be quite similar to 2012. The market will remain affected by difficult bank financing conditions, mainly due the Eurozone crisis and a low GDP growth rate, and by less financial resources injected by financial institutions in private equity funds due to the upcoming "Basel III" regulation. This situation will probably continue limiting the number of major transactions. That being said, several factors should fuel the M&A activity, which should remain relatively active in 2013, at least on the mid-market segment.

WHAT FACTORS DO YOU THINK WILL FUEL THE FRENCH M&A MARKET IN 2013?

The market should be sustained by the following main factors:

Innovation. France favors innovation and a good number of high growth potential companies can be found in France in the biotech of the high tech sectors. Thomson Reuters published a study in December 2012 whereby France is ranked #3 among the "Top 100 Global Innovators". One reason for this is the tax incentive for innovation, the *crédit d'impôt recherche*, which

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allows all companies investing in innovation to benefit from significant corporate income tax exemptions. This is a differentiating factor for France as very few other European countries offer such incentive.

Consolidation. The French business landscape is characterized by a strong gap between major multinationals and a family-held or founder-held SMEs (small and mid-size enterprises). The latter have to merge in order to survive in a more competitive and global world. In this respect, build-up transactions led by private equity funds help create larger groups with stronger financial strengths and a more international reach.

The crisis. The crisis also creates a lot of opportunities for investors in France, with groups willing to divest non-core assets and other ones experiencing cash shortage. The economic downturn combined with increasingly difficult access to financing has created unexpected opportunities for us, such as our recent representation of a private equity fund in the acquisition of a distressed business previously held by a listed company which was facing financial difficulties. Values of profitable businesses are low and opportunities can be found for strategic investors as well as for private equity funds.

Rotation. Last but not least, private equity funds need a rotation of their portfolio, which may stimulate the market.

DOES FRANCE REMAIN AN ATTRACTIVE COUNTRY FOR FOREIGN INVESTORS?

Ernst & Young published a study in November 2012, "Opportunities in a Downturn", showing that Europe remains a very attractive region, while France was in the first semester of 2012 the #2 destination for foreign direct



Jean-Nicolas Soret
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investments in Europe. For investors, Europe - mainly France and Germany- means certainty and visibility, steady returns and a clear, secured and efficient legal environment with no adverse surprises.

HOW DOES GLOBALIZATION AFFECT YOUR M&A BUSINESS AT ALTANA IN PARIS?

Globalization is a true opportunity for us. Our French clients invest outside of France - for example, Limagrain-Vilmorin, the world's fourth-largest seed group, recently made a significant investment in India, whereas construction giants Bouygues and Vinci keep running infrastructure projects outside of France-. Symmetrically, foreign investment now comes from all over the world. Inbound investment

keeps mainly coming from within Europe and from the U.S., although emerging markets play an increasing role. For us as a law firm, this creates a lot of opportunities, with many referrals to and from firms like Altana, i.e. independent full service firms with a size sufficiently big to provide first class service to our clients, but small enough to avoid significant costs which affect the rates of many of our competitors operating an integrated international office network.

WHAT SPECIFIC CHALLENGES DO AMERICAN COMPANIES EXPERIENCE IN FRANCE?

The main challenge for all foreign investors is to overcome the common cultural clichés that stick to France's image, such as "France is only good for wine and vacation," or "France is a communist country!" However, we are used to dealing with this, as we represent a good number of clients headquartered in the U.S., such as Johnson Controls, Nike, Quintiles, Systemax, Idexx Laboratories, Bank of America, Pfizer... We have formed a U.S.-oriented M&A team, with former partners of U.S. firms, as well as lawyers who have lived in the U.S. for several years and lawyers who are admitted both to the Paris and to the New York bars. A good example of an innovative and recent transaction on which we acted for one of our U.S. clients is our recent representation of Quintiles, a U.S.-based leading service provider to top pharmaceuticals (with a network of more than 27,000 professionals spread out in more than 80 countries) on the acquisition of a minority stake in a French listed biotech company, through warrants issued as a consideration for cooperation services.

HOW MUCH BUSINESS ARE YOU SEEING FROM EMERGING MARKETS AND OTHER REGIONS OF THE WORLD?

Emerging markets play an increasingly significant role in global M&A, because our clients are investing there and France is viewed as a go-to investment destination for many of their decision makers. We represent clients from India, including Tata International, and China. For example, we recently represented a Chinese distributor in its acquisition of a high-tech business in order to better meet its home market demand. We also advise clients located in other regions of the world, such as Samsung in Korea and Alrov in Israël. However, Europe and the U.S. remain preferred partners for France, because we have a common set of cultural and business roots. ■

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