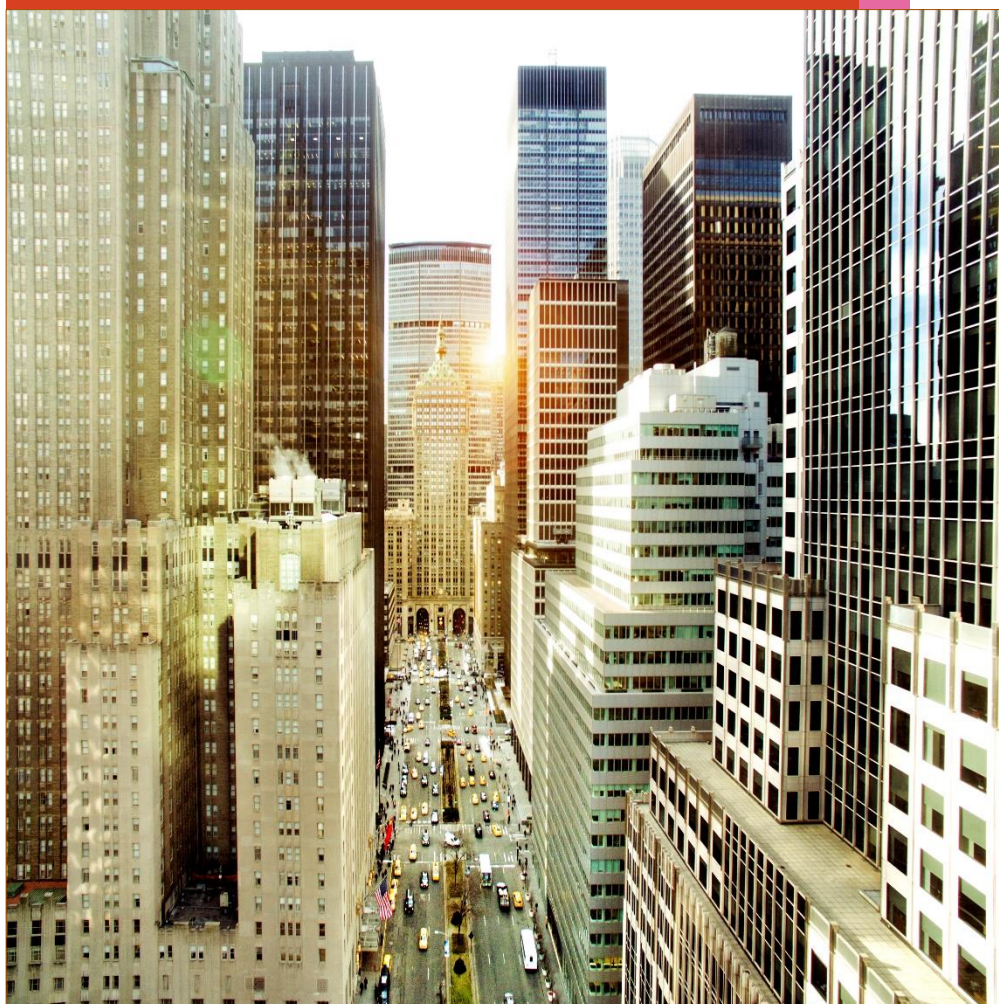


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# *PwC Deal Talk*

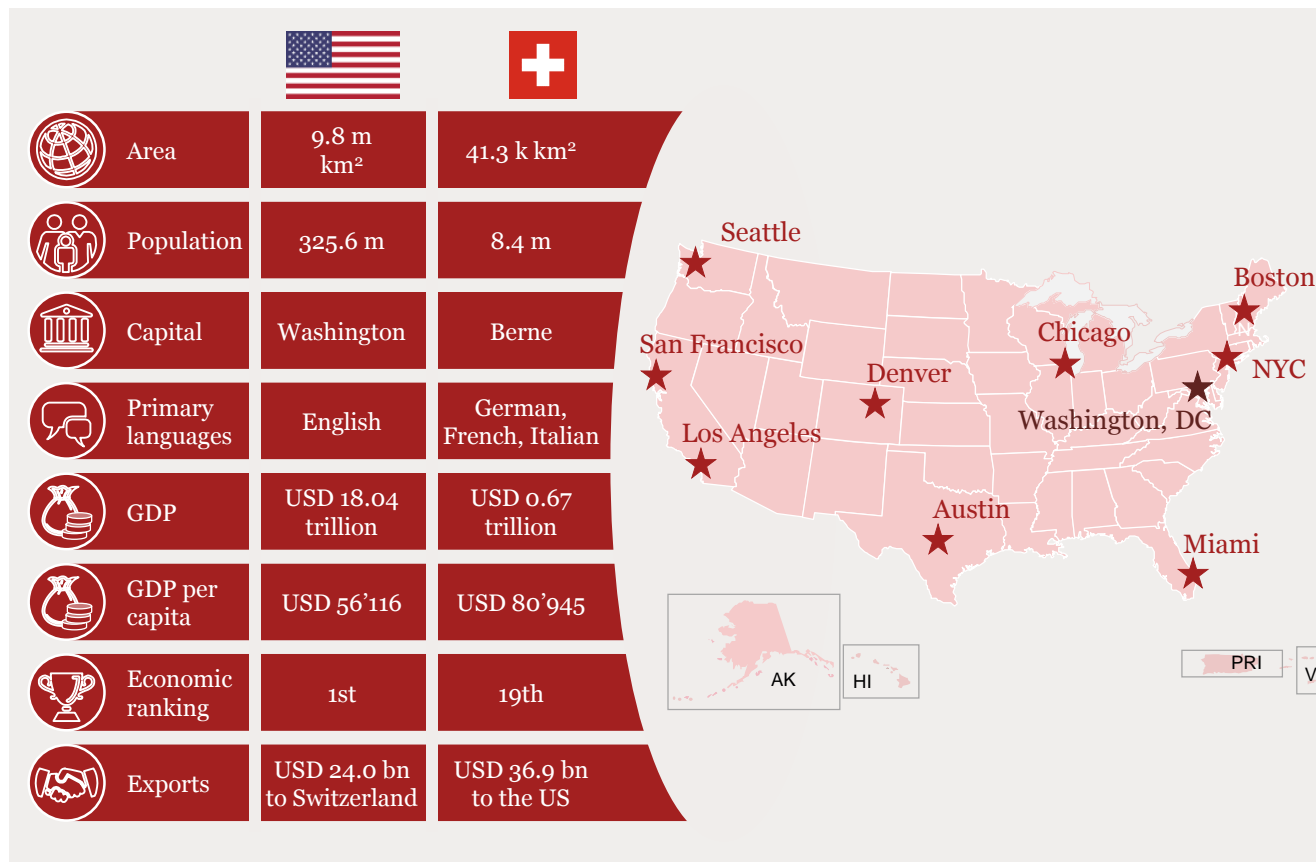
Doing Deals in the US from a  
Swiss Investor's Perspective

*Edition: 2/2017*



**pwc**

# Key facts about the US



## Largest economy in the world

The US consists of 50 states. While 48 states are contiguous, Alaska is located in the northwest of North America and Hawaii is located in the Pacific Ocean. With a total area of 9.8 m km<sup>2</sup> the US is the world's third-largest country ranked behind Russia and Canada.

With a GDP of approx. USD 18 trillion in 2015, which is almost one quarter of the gross world product, the US remains the largest economy in the world, closely followed by China.

## Strong bilateral trade relationship

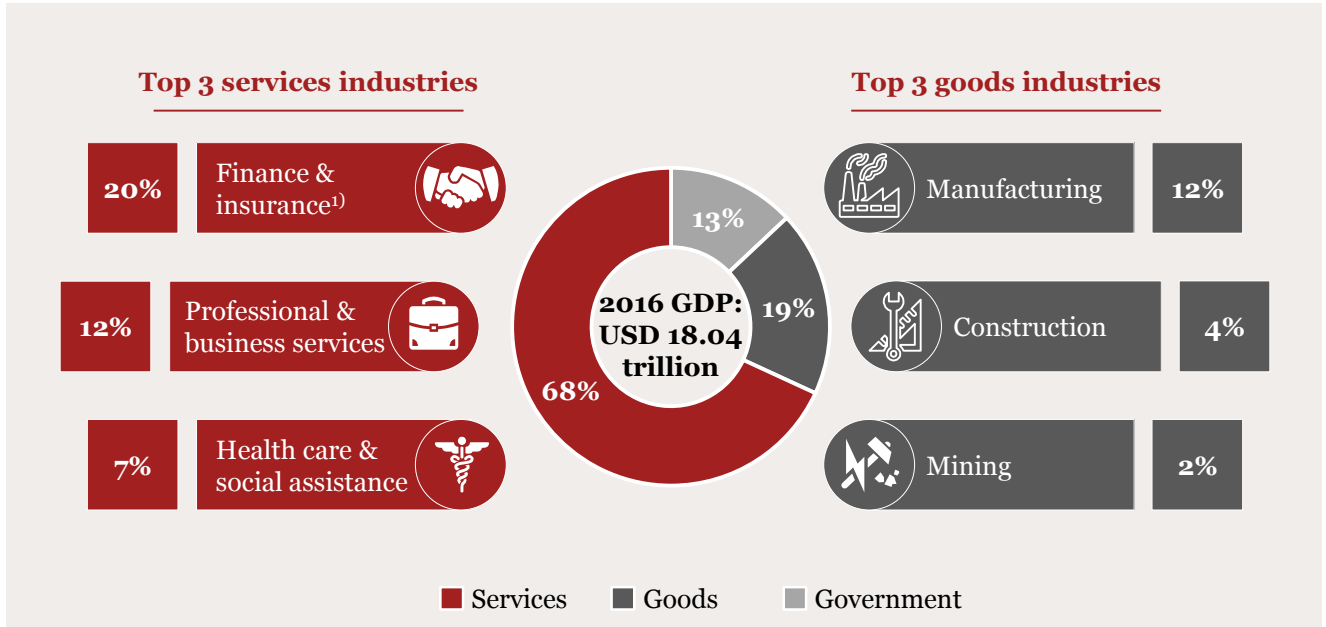
In 2015, imports from the US amounted to USD 24 bn and consisted mainly of gold, pharmaceutical products, aircraft / spacecraft & parts thereof, optical & medical instruments and

machinery & mechanical appliances. Exports to the US amounted to USD 37 bn and mainly consisted of pharmaceutical products, metals, optical & medical instruments, organic chemicals, clocks & watches and machinery & mechanical appliances.

Switzerland is currently the 15th largest trading partner in goods with the US and both countries have signed an agreement to create a trade and investment forum aimed at improving trade and investment relations.

With a total cumulated invested capital of USD 258 bn as of 2015, Switzerland is among the ten largest foreign direct investors in the US. Moreover, approx. 18% of all direct investments originated in Switzerland in 2014 are accountable to the US.

# The US economy is shaped by the service industry



## The US economy profits from a strong service and manufacturing industry

Similar to other developed nations, the US economy is dominated by a technologically-advanced service industry. Service companies are especially active in finance, insurance, real estate, rental & leasing, as well as professional & business services and health care & social assistance.

However, the US also has a sizeable manufacturing industry, representing roughly 12% of the total GDP. The US is the second largest manufacturer worldwide and leads in high-value industries such as automotive, aerospace, telecommunication and chemicals.

Even though only 1% of the total GDP is attributable to the agricultural sector, the US is the largest exporting country of agricultural products. On the one hand, this is due to the large amount of land that can be used for farming, but new farming technology as well as government subsidies play an important role as well.

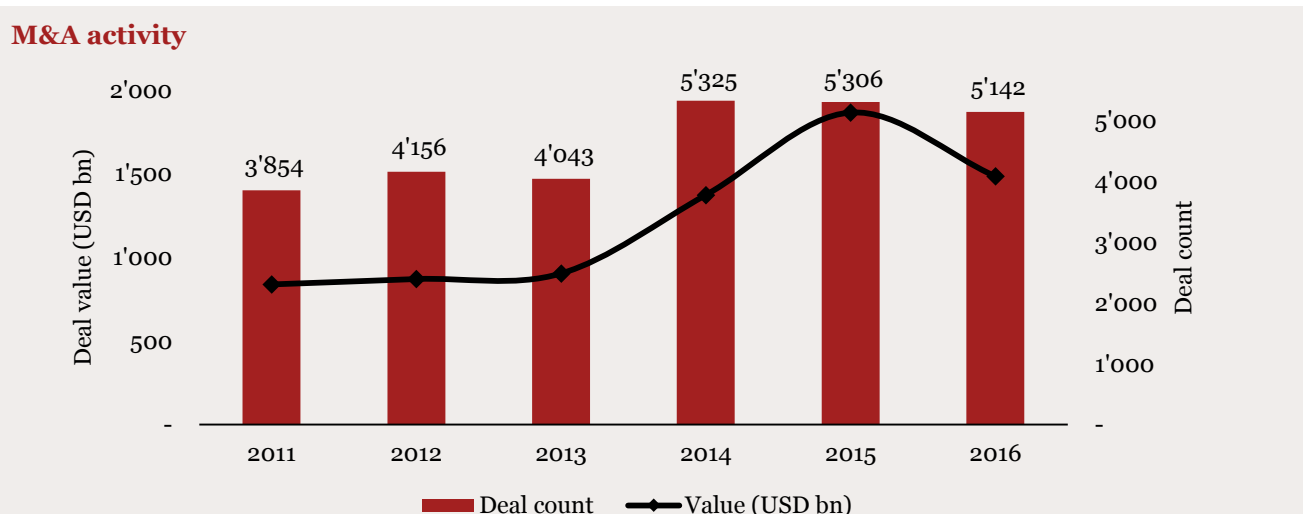
The US economy remains strong due to various factors.

Firstly, the country is rich in natural resources and has a fully developed infrastructure. In particular, the exploration of shale gas and other fossil fuel resources has decreased the dependency on other oil exporting countries. In an effort to reverse the effects of the recession, the US government has engaged in an expansionary fiscal policy. Under the current government, further government spending on infrastructure seems likely.

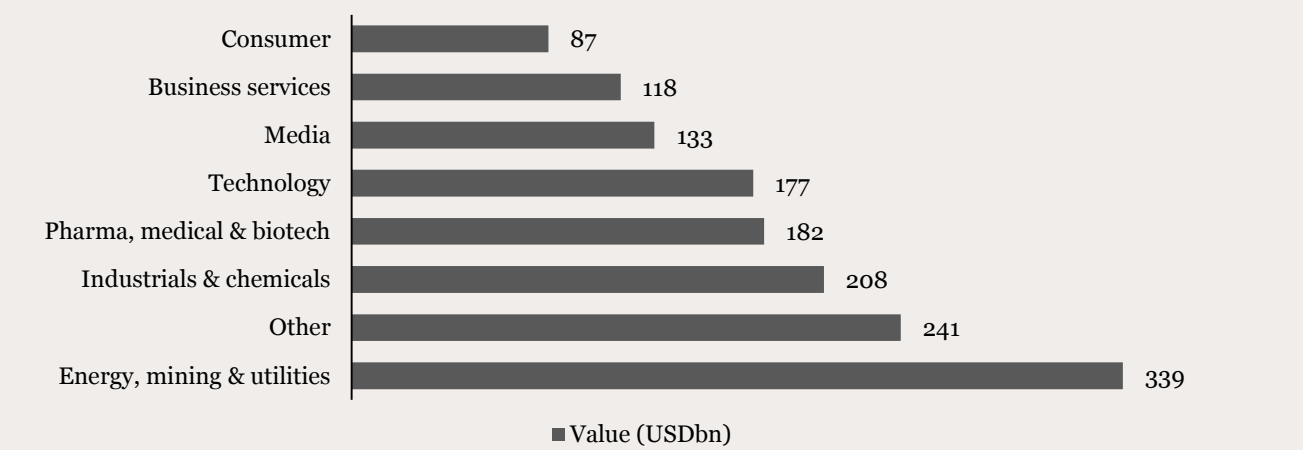
Secondly, companies profit from a large and well educated workforce. The higher education and academic research system in the US holds a leading position globally. Meanwhile, economic growth is constantly enabled by investments in innovation, research and development.

In general, the US represents the largest free-market and business-oriented economic environment worldwide.

## Stable M&A activity over the last few years



### Sector breakdown (2016)



### Strong deal flow

After a relatively weak start in the first three quarters, 2016 finished strongly in terms of US M&A activity due to a number of large scale deals conducted in the fourth quarter of 2016. Nevertheless, the market experienced a downturn compared to 2015. In particular, deal value decreased significantly from USD 1.9 trillion in 2015 to USD 1.5 trillion. The number of deals closed amounted to 5,142 in 2016 compared to 5,306 in 2015.

In the second half of the year, however, a substantial number of large scale deals have been announced, including Time Warner's USD 105 bn acquisition of AT&T in October and the USD 63 bn takeover of Monsanto by Bayer in September.

Sources: MergerMarket, CapitalIQ

Note: Deal count and value figures include all deals valued over USD 5m. Where deal value was not disclosed, deals have been included based on target turnover exceeding USD 10m.

### Energy, mining & utilities dominating in terms of deal value

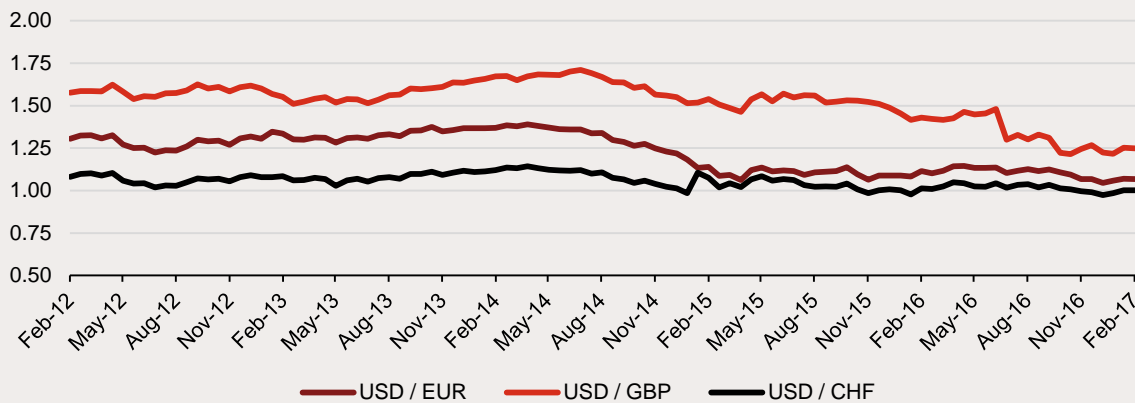
With 454 deals and a total deal value of USD 339 bn, energy, mining & utilities was the US' top sector in 2016 by value.

With a total of 909 deals and a combined deal value of USD 177 bn, the technology sector ranked first in terms of number of deals, including several mega deals.

Moreover, the industrials & chemicals sector has been highly active in terms of M&A. By the end of 2016, 846 deals had been closed, including several large scale deals. All 2016 deals in this sector combined amounted to a total of USD 208 bn.

# Attractive economic environment likely to boost M&A activity

## Currency development



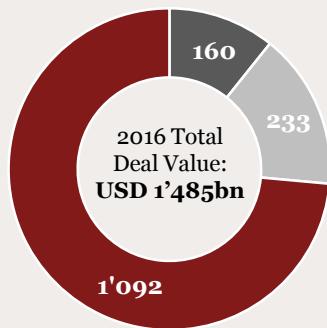
## Cross border and private equity activity (2016 in USD bn)

Top 5 target countries<sup>1)</sup>:



Outbound Deal Value

271



■ PE Buyout ■ PE Exit ■ Pure Strategic

Inbound Deal Value

450

Top 5 investor countries<sup>1)</sup>:



## Attractive economic environment for domestic and cross-border M&A

Due to the uplift in the US economy, increasing employment rates and downward pressure on foreign currencies (especially the Euro and Pound Sterling), the US Dollar has been on the rise in recent years.

The strong US Dollar might dampen inbound M&A activity, but overall growth prospects combined with relatively low interest rates are likely to build a strong momentum for both, domestic and cross-border M&A in the near-term. This is especially pertinent given the economic and political uncertainty in other major markets such as China and Europe.

Sources: MergerMarket, CapitalIQ  
1) By deal value

## Diversified cross-border geographies

Despite protectionist measures taken by the Committee on Foreign Investment in the United States, cross-border M&A activity remains essential for the overall M&A landscape. Almost 50% of the total deal value relates back to cross-border deals, with Canada and European countries being the most relevant buyers. In addition, Chinese investors remain one of the driving forces behind inbound M&A activity.

## Established PE landscape

US institutional investors are very well established and play a vital role in the M&A landscape, both domestically and internationally. The TMT sector was the most popular sector for PE investments in 2016.

# What's the deal in the US?



## **Review regime**

The Committee on Foreign Investment in the United States (CFIUS) reviews transactions where non-US acquirers are involved and holds according veto rights.



## **Litigation**

Even though only a small number of acquisitions are blocked due to shareholder litigations, acquirers of public companies should at all time be aware of stockholder litigation.



## **Tax considerations**

It is important to understand the target's state tax footprint, as all 50 states have separate income tax and non-income tax regimes. Potential US corporate and international tax reforms should be considered in the context of deal evaluation, including the potential reduction in the US corporate income tax rate, adoption of a territorial system of taxation and elimination of interest deductions.



## **Antitrust and competition regulation**

HSR (Hart-Scott-Rodino Act) filing with the US department of Justice and the federal trade commission is required in order to rule out antitrust issues. Regulators have the authority to prevent deals if antitrust issues are confirmed. In 2015, the Federal Trade Commission and the Department of Justice blocked seven proposed deals and required remedies in 23 more.



## **Industry specific regulations**

In certain sensitive sectors, industry-specific federal and state regulatory rules might apply. Heavily regulated industries are aviation, banking, communications and broadcasting, defense, insurance, maritime and mineral leases and resources.



## **Key deal terms**

Purchase price adjustments are very common in the US compared to Europe, as are earn-out clauses. Indemnity caps are typically lower than in Europe and the use of R&W insurance is more prevalent. Limitation periods for warranty claims are also shorter than in most European countries.



## **Due diligence**

Bidders have to follow US due diligence standards and are advised to channel requests through professional advisors familiar with domestic due diligence procedures.



## **Labor unions**

As of 2015, only 11% of workers from all industries in the US are part of a union. However, the number of strikes is low, especially compared to other countries.

While the US market has some similarities to the European market, there are some unique features that investors need to be aware of. With first-hand experience and local teams on the ground, PwC can help you to avoid common pitfalls when doing deals in the US.

# Contacts and credentials

## Key contacts



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From 2011 to 2013, Andreas spent two years on secondment working with PwC's Corporate Finance / M&A Team in Chicago.

From 2007 to 2009, Patrick spent two years on secondment working with PwC's Transaction Services Group in New York.

## Selected US deals with involvement from PwC Switzerland team members

**maag group**

was sold to

**FSG**

Seller advised by

**pwc**

Sascha Beer worked on the sell side advising the owners of Maag Group on the sale of the business to Dover Corporation.

**[ECP]**

was sold to

**ABIOMED**

Recovering hearts. Saving lives.

Seller advised by

**pwc**

PwC Corporate Finance advised the owners of ECP on the sale of the business to Abiomed Inc.

**AlphaPetroVision**

Sold its McCamey oilfield in West Texas

Seller advised by

**pwc**

PwC Corporate Finance advised Alpha PetroVision Holding AG on the sale of its McCamey oilfield in West Texas.

**dormakaba**

acquired the Mechanical Security business of

**StanleyBlack&Decker**

Buyer advised by

**pwc**

Patrick Amstutz worked on the buy side due diligence advising dormakaba on their acquisition of the Mechanical Security business of Stanley Black & Decker

**Roche**

Entered a strategic collaboration with

**FOUNDATION MEDICINE**

Buyer advised by

**pwc**

Patrick Amstutz worked on the buy side financial due diligence advising Roche on their strategic collaboration with Foundation Medicine.

**DUFREY**

acquired

**HUDSON GROUP**

A DUFREY Company

Buyer advised by

**pwc**

PwC Transaction Services provided buy side due diligence to Dufrey on their acquisition of Hudson Group.

