DEAL ECONOMY UPDATE

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CORPORATE DEALMAKERS: Examining growth strategies for different markets

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Cross-border transactions demand cultural sensitivity, patience and understanding. Valuations can be tricky. Due diligence is, almost by definition, harder and more time consuming than domestic planning, with different regulatory regimes, tax codes and legal systems. In the end, however, with strategic focus leading the way, these deals across can be hugely successful.

Those are some of the insights provided by a panel in the Deal Economy conference discussing the topic: "Corporate Dealmakers: examining growth strategies for different markets."

The conference took place Dec. 3, 2015, at the Marriott Marquis Times Square.

Panelists included **Jorge Espinel**, head of global business development at **Spotify**; **Joe LaPlume**, corporate senior vice president, corporate development at **Charles River**; **Bill McNichols**, senior vice president, corporate development and business alliances at **Starbucks**; **James Rosener**, a partner at **Pepper Hamilton**; and **Aileen Stockburger**, vice president of worldwide business development at **Johnson & Johnson**. **Rhonda Schaffler**, editor-at-large and anchor at **TheStreet, Inc.** served as moderator.

"For Starbucks, we spend a great deal and will continue to spend a great deal of time looking at international deal flow, probably a predominant amount of time, and that will continue for the next couple years," McNichols said. Referring to the controversy surrounding taxation of overseas profits when repatriated to the U.S., McNichols responded: "I'd rather have my cash earned overseas invested in great companies or building our own brand, earning a nice rate of return, as opposed to sitting in a bank making 30 basis points."

All panelists stressed a need for cross-cultural understanding as a prerequisite for doing successful deals. "Too often … we seem to go in and expect other folks and especially cross border to think the way we do and follow a process the way we do," Stockburger said. "I think it's really about learning, listening more than talking and being patient."

JAMES ROSENER PEPPER HAMILTON

AILEEN STOCKBURGER JOHNSON & JOHNSON

What's more, Stockburger said, cultural variances don't have to be problematic. "They're a huge asset, and, frequently, they're the reason why you're doing the deal, because of those cultural differences, because the local team will have insights that we won't necessarily have coming in from another country."

That's not the same, panelists stressed, as sacrificing standards or strategies for the sake of offshore acquisitions. "Stick to your strategy and focus on execution integration," LaPlume said emphatically.

Adhering to a disciplined approach should extend to valuations and metrics, Stockburger added, even if competitors are willing to pay high. "There are some deals out there that folks have regretted because they just kind of got caught up in what I refer to as deal fever. You're so excited you kind of lose your own perspective," she said. "Trust your own gut."

In a cross-border deal, communication is essential, not just between parties but within the corporation itself. "It's really synchronizing everybody's pace, getting everybody on the same deal cadence, making sure that you're not ahead of the deal or somebody's not too far behind the deal," Rosener said.

He cited two examples of failed cross-border deals: On the day one deal was to be signed, the acquirer's board turned down the acquisition. "This is one where the deal team got way ahead of its management," Rosener related.

On another note, the target's CEO only met with the potential U.S. buyer the day before signing. "That meeting didn't go well and neither did the deal," Rosener said.

Almost by definition, doing an offshore deal means navigating choppy waters. Panelists listed various risks: Running afoul of America's Foreign Corruption Practices Act, the treatment of workers, the reputation of the target, tax regimes, currency fluctuation, cultural peculiarities and values. "So you could have a real misalignment before you even begin the process," Stockburger said.

Stockburger's advice: "If you feel there are some improprieties going on and that's inherent in the company and in the business practices, you have to recognize that that's not going to be something you're going to easily be able to shift or change," she said. "You would be naïve to think you're going to be able to change practices immediately upon acquisition."

Culture, though, can be a positive, LaPlume stressed. "We have collaborations in over 20 countries and usually we take the best of those cultures," he said.

What's more, Rosener added, American companies must realize that "you can't make a one-size-fits-all," when it comes

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to negotiating a potential transaction and understanding the target.

As companies gain experience in doing deals especially in emerging markets what helps as well, LaPlume said, is sitting down with one's own board and senior executive team and putting them "at ease early on in the process rather than have those emergency-type meetings as you're going through. Just set people's expectations early on."

There's a fine balance, however, between taking into account cultural differences and obtaining a company whose interests aren't well aligned. "Depending on the culture of the country, we come across folks that are more interested in the financial reasons of the deal or the marketing as the primary goals of why they're securing a transaction as opposed to what it is we're trying to accomplish with this transaction for consumers or customers," Espinel said. "That's where we tend to hit a wall."

Panelists singled out China as a particularly tough deal environment, although one that is extremely important to be in for a global concern. Stockburger cited "as the most challenging" Johnson & Johnson's first acquisition in China some 10 years back. It took three years of negotiations because of the learning curve on both sides. Subsequent acquisitions, she said, took far less time.

McNichols added that an acquisition in China by Starbucks of a ready-to-drink company took five years, "not with that one partner but just from a process standpoint."

"Going into a new market where … you're not sure how it plays and then the diligence matters a lot more," he said. "We'd probably more likely to move slowly in that environment, making sure we truly understand what the brand exposure is if we make a bad decision."

On the other hand, some deals can get done with lightning speed. McNichols cited a 2014 deal where Starbucks bought back its Japanese business. "I think that from the price agreement with the private seller before we went to the public tender process, we were completely done, with the money moving, in 53 days, which was pretty quick for Japan standards."

Espinel added that Spotify has fashioned a letter of intent in as little as 24 hours, although it "may take three months, four months to get everyone comfortable" with a potential transaction.

LaPlume talked of the process as "setting up a very clear strategic roadmap" in advance and working with a special committee of his board to communicate progress on "hundreds of companies we're meeting with on a regular basis." That means, he said, "if it's the right time and the right company we can move incredibly quickly."

For every deal that gets done, panelists related, many more are seriously considered. Panelists suggested a ratio of maybe 10-to-1.

"We're looking and kicking tires at maybe a couple hundred companies per year," LaPlume said. "We have serious conversations with 20 to 30, and we'll close no more than three or four a year."

On the other side of the equation, post-integration is absolutely essential.

"Making money from what you buy is all about the value you drive post-acquisition," McNichols said. "I think cross-border we spend more time just debating it and making sure that we have the right checks and balances so that the integration works."

Even with that planning, there are bound to be surprises. "You can have a lot of assumptions in international markets, but, in many cases, you will be a lot more surprised than in the more mature markets where the dynamics are much more predictable," Espinel said.

"Of course there are risks there," Rosener concluded. "The issue is understanding it and know how to manage it, and that's what your deal team is there to help you with." ■