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# *Getting on the right side of the delta:* A deal-maker's guide to growth economies

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# *Introduction*

Doing deals in growth markets is a topic that features regularly in our client conversations. For many companies doing a deal is the best – or only – way of tapping into growth markets, largely because it is faster than going-it-alone. And deals in growth markets are not just about low cost manufacturing, access to natural resources, or market access for basic global products. Doing a deal in a growth market can also provide buyers with access to best practice in core operations, innovation capabilities and capital.

For this study, we carried out an assessment of over 200 deals, including publicly announced deals and a broader set of private deals that PwC has advised on. We interviewed 20 senior deal makers who have bought businesses in growth markets to understand the root causes of problems, and how they overcame the challenges encountered. Collectively, the companies they represent have completed over 140 acquisitions in growth markets, with considerable success. In addition, the contributors to this study have been involved in hundreds of deals in growth markets.

Deals in growth markets remain incredibly challenging. Our research suggests that over 50% of deals that enter detailed external due diligence in growth markets fail to complete. We believe this is materially higher than in developed markets. One key reason for this is that many companies' boards struggle with perceived 'sky high' valuations in growth markets.

While there are plenty of examples of successful deals in growth markets, the deal makers we interviewed acknowledged that **deals in growth markets are inherently riskier**. There is a much bigger deviation, or range, of potential outcomes. We refer to this range as the delta, and **in growth economies, the delta between a good deal and a bad one is much bigger than in developed markets. If things go well, investors stand to make a lot of money. But if things go badly, investors can lose big** – an average of 50% of their investment in the deals analysed where transparent information was available. And the impact on reputations can be considerable, as evidenced by the many high profile examples of problems that emerge after the ink has dried on the sale and purchase agreement.

Growth markets are different, which is why our strongest recommendation is to **build the local machinery needed to get a deal done well in advance of executing the first deal**. This and other recommendations resulting from this study will help companies to avoid doing bad deals, to successfully complete on good deals, and to make sure a good deal doesn't turn bad after the deal trophy is on the shelf. In short, the study aims to help deal-makers get on the right side of the delta between a bad deal and a good one. **Anyone can get lucky on one deal, but it takes investment and a rigorous approach to consistently get it right.**

**John Dwyer**
PwC Global Head of Deals

**Alastair Rimmer**
PwC Global Head of Strategy

# Executive summary

### *It's tough, but you've got to do it*

Doing deals in growth markets is a tough business but not doing those deals, or failing to make them work could make the broader business outlook even tougher. Access to high growth economies, with large populations, rising affluence and the potential for innovation make a presence in growth markets a necessity for many companies. Doing deals in growth markets is a challenge worth taking on. And challenges abound: negotiations can drag on, and considerable time and effort can be spent on a deal that does not complete. Even if a deal does complete, a lot can still go wrong: it can emerge that risks were missed during due diligence, post-merger operations can be mismanaged, and conflicts with partners can arise, ultimately resulting in costly failure. In addition, once business managers have had their fingers burnt in a particular market, they are often reluctant to return, hence closing off key markets.

### *What we mean by growth markets*

In this report, we have taken a broad definition of growth markets that consists of the world excluding Western Europe, the US, Japan, Canada, Australia and New Zealand. Obviously, this represents a wide range of economies. The BRICs are in a league of their own, and within the BRICs, each market varies considerably. However, the rest of the E7 (Mexico, Indonesia, and Turkey), and the next tier of large and growing economies (South Africa, Nigeria, Egypt, South Korea, Vietnam, and the Philippines) also present attractive opportunities.

### *The majority fail to complete, and failure can hurt*

Our study shows that **50-60% of deals that go into external due diligence in growth markets fail to complete**. All of these failed deals represent a considerable opportunity cost – whether it is letting a good deal get away, or spending management attention, time and money that could have been better used elsewhere on a good deal. Exploring deals that don't complete can also damage credibility with investors. Though deal completion rates are also low elsewhere in the world, the cost of failing in a growth market can be much higher due to the scale of the opportunity lost.

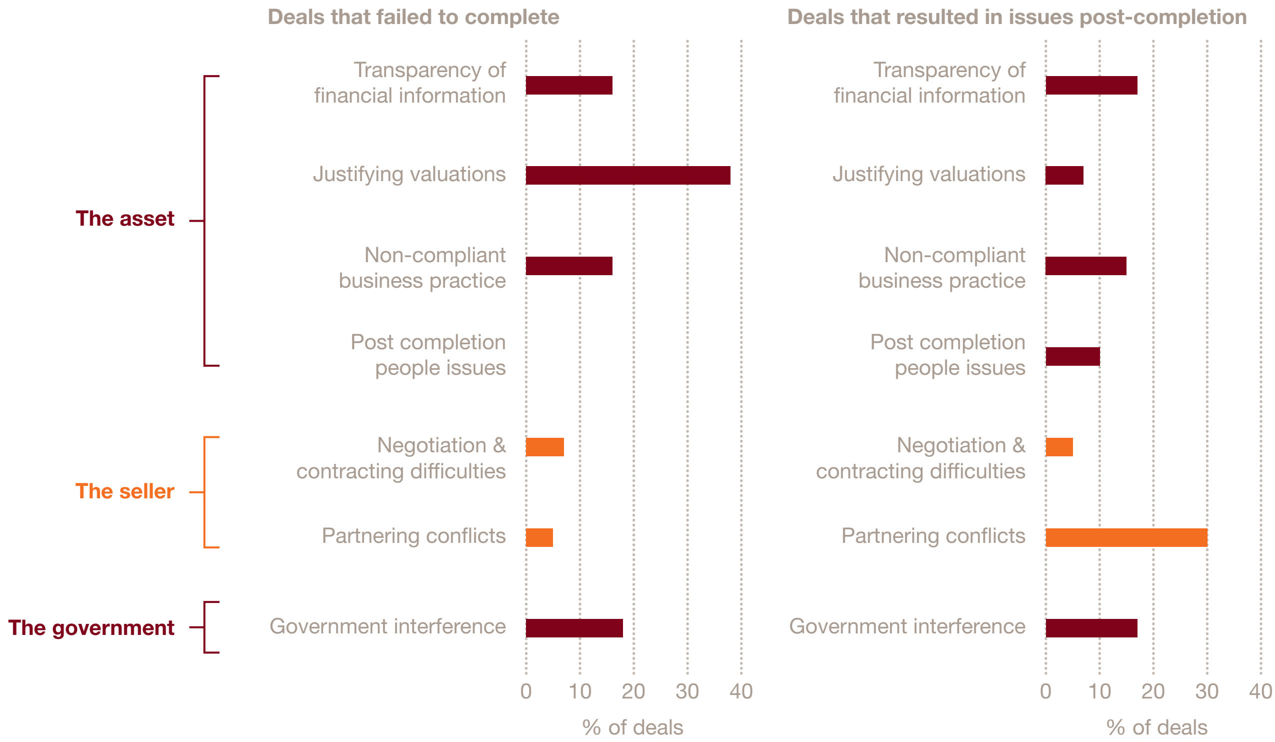
### *The delta factor for completed deals is high*

Even after a deal is sealed, a large percentage of deals subsequently result in significant difficulties – and at a very high cost. Where sufficient data was available in the public domain, we found **that post-deal problems cost the buyer on average c. 50% of the original investment**. And in half of these cases, the buyer either lost control or divested the business at a loss. Post-deal problems also bring a number of other intangible costs, foremost among them being negative investor sentiment and unrealised deal value. Conversely, if you get it right, the upside is great.

Although only a small percentage of deals that have problems make it into the public domain, there are a much larger number of deals with problems that don't make it into the press. This includes a group of under-performers that is potentially the most dangerous of all.

**Figure 1**

Assessment of deal issues in growth economies




Source: PwC Analysis database of growth market deals with problems.

Investments that under-perform, but not so much to justify closure or divestment, can be both difficult to fix and difficult to exit. These investments take up considerable management attention, and may prevent the company from pursuing a more successful strategy in the market. They're not dissimilar to the 'walking dead' of the venture capital industry.

### *Nearly 40% of deals failed to complete because of a valuation mismatch*

Deal risks typically relate to one or more of three key elements: the asset itself, the seller, or the government. Through our past deal analysis and through interviews, we have identified the most common pitfalls both before and after a deal completes. These problems are not unique to growth markets. What is specific to growth markets are the degree, frequency, and root causes of these problems.

As shown in Figure 1, the most common barrier to deal completion is an inability to get comfortable with valuations, explaining 40% of failed deals in our data set. The magnitude of future growth is uncertain, there are few comparables, and competition for assets in growth markets is stiff. Three other issues explain another 50% of problems. Teams fail to obtain approval from the government. Financial information is less transparent – there is less of it, managers are less willing to share it, and accounting practices are different – which make it difficult for buyers to get comfortable with a deal. Often there are non-compliant business practices (e.g. corruption, labour & tax compliance) which can become deal breakers.

### *30% of post-deal problems concern partnering*

The most common problems that emerge after a deal completes concern partnering, causing c. 30% of deal problems post deal identified in our survey. Even sophisticated investors can have problems in this area. High profile examples of partnering problems include Danone disputes with its partner in China, and the TNK-BP joint venture in Russia. Beyond partnering, the same issues that prevent deals from completing also frequently emerge after a deal completes. Direct government interference is a common problem, and with a prevalence of state-owned enterprises in many markets, government involvement is often part of partnering. Problems with financial information, such as a US private equity firm's recent concerns over accounting at an investment in a children's apparel company in India, can emerge after a deal completes. Financial information may have been signed off by an inexperienced auditor, financial information may not have been signed off at all, or there may be issues that are not identified by local standard auditing procedures. Non-compliant business practices are also common problems. For this reason, FCPA (Foreign Corrupt Practices Act) and Anti-Bribery reviews are critical. We have identified a number of situations where these were not carried out properly and problems were later encountered with outside authorities. There is also a range of potential operational issues that make it difficult to integrate and take control of an asset.

By examining a number of deals we traced the root causes of these problems to a set of critical differences in practices and governance between growth markets and developed markets. This has led to the following set of recommendations.

### *Recommendations*

There is no silver bullet to increase the chances of success in doing deals in growth economies, but drawing on the experience of successful deal-makers and our own expertise, we have five recommendations to ensure you are on the right side of the delta factor.

### 1) Understand the strategic rationale early

We see a common theme across less successful or less experienced companies of not developing a strategic rationale for growth market deals early enough. Companies often only have limited resource charged with developing business across a number of markets. Their boards wait until a target acquisition has been identified before seriously looking at a market.

The reason for this is understandable for many companies. It's difficult to build the international deal infrastructure of a multinational company. **Due diligence will be imperfect and valuations are high, so a strong strategic rationale is critical to completing a deal**. However, there is also a **tendency to under-invest in resources in doing deals in growth economies. Some companies focus on the short-term potential of growth economies**. We see companies that treat growth markets as high risk ventures that could generate a small percentage of current sales, as opposed to markets that could generate 30%, 40% or more of global sales. We also see companies that fail to consider strategic considerations for a deal like checking the rise of a potential global competitor.

There is also a risk of underestimating the need for developing a strong strategic rationale for a deal. The need to develop a strategy for a new market may sound obvious, but we are surprised that our survey suggests that some companies go ahead with a deal without addressing key questions about the market and competitors.

Finally, developing a rationale is hard. Developing a strategic rationale also takes time: 1-2 years in our experience. Often, it requires building up data from primary sources. Also, interviewees consistently highlighted the need to educate the boards and shareholders of Western companies. **Board members and shareholders often hold pre-conceived concerns about growth economies**, which may be easily dispelled myths, or easily addressed risks. Our view is that this element of developing the rationale is not given enough attention.

*"Doing deals in developing countries is a cultural challenge. There is a need to educate the management in mature markets on the necessity to take higher risks in growth markets."*

**M&A Director,**
**Global Electrical Distributor**

### 2) Prioritise markets

Although there are common themes across growth economies, each market is different. This is one reason why local capabilities are critical for success. With a requirement for increased investment in individual markets, there is a case for prioritising markets. This allows the company to **focus scarce resources on fewer markets to increase the chances of building scale positions** that can support future growth. This is particularly the case for smaller companies, who may lack the international deal infrastructure of a multinational company. Also, some of the most effective M&A strategies are 'platform strategies', or making a large initial acquisition to enter a new market and then bolting on smaller acquisitions. This strategy requires greater focus on fewer markets.

### 3) Go there

Growth markets are different. Reflecting this, being on the ground was consistently identified by interviewees as the best way to reduce risks in a number of areas, including:

- Giving **stakeholders** context to address their concerns;
- **Improving the quality of diligence** to increase the transparency of financial information and reduce risks from non-compliant business practices;
- Understanding **market potential** to help with **valuations**;
- Identifying a **target short-list** to **improve the chances of choosing the right partner**; and
- **Engaging with multiple levels of government** to increase the chances of obtaining approval and to understand potential future changes in the government's position.

*"I can't emphasise enough the importance of doing on the ground due diligence... If you don't ask the question, you don't get the answer. A lot of people discover key risks on day one, because they didn't ask the right questions."*

**Partner, Global Asset Manager**

**Figure 2**

Views of local PwC contributors

**_Eastern Europe_**

*"Eastern Europe is in some ways becoming closer to a developed rather than a growth market, but corruption in businesses related to government contracts is still an issue in many Eastern European countries."*

*"We strongly recommend that an FCPA or similar review is undertaken to identify any practices ongoing in the company that a western buyer cannot continue post deal."*

**Jonathan Thornton, Partner, Deals**

**_Russia & CIS_**

*"Very often, small-and medium-sized Russian companies have issues with tax compliance. This can lead to potential tax liabilities, especially as an acquisition often triggers a review by tax authorities."*

*"Thorough due diligence can often identify these practices and therefore the risks can be quantified. But this takes time and patience."*

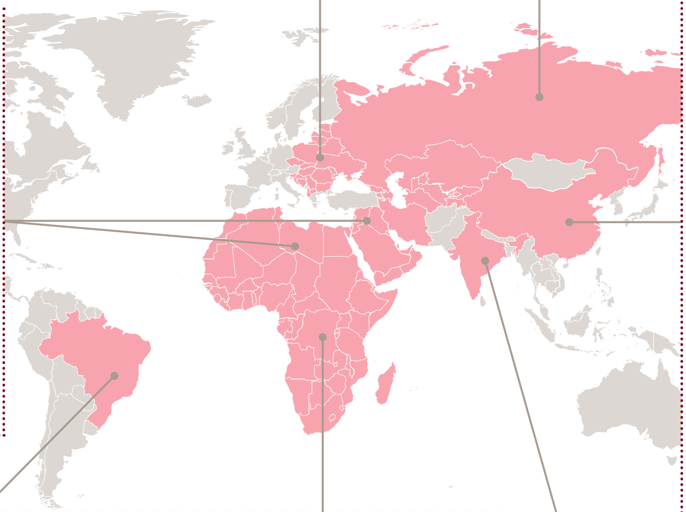
**Andrew Cann, Partner, Deals**

**_Middle East & North Africa_**

*"There are issues specific to individual markets such as living hardships and security risks.*

*"Companies need to start recruiting for key managers even earlier, and factor in higher costs for key staff."*

**Hani Ashkar, Partner, Middle East Deals Leader**



**_China_**

*"Strong competition from rival bidders and alternative sources of funds makes valuations the key issue for China. Based on our data, differences in expectations around valuations explain nearly 50% of deals withdrawn after beginning external due diligence."*

*"Bring your stakeholders on board early on. Spend more time on the strategic rationale for the investment. Discuss what approach you'll take to valuations."*

**Matthew Phillips, Partner, China Transactions Leader**

**_Brazil_**

*"The regulatory environment, particularly for tax and labour, is a complex one. There are high taxes and social charges on payroll, sales and income. Taxes are diverse and legislation changes fast."*

*"Conduct a phased approach to due diligence so you can identify the key issues, including corruption, and then focus on them."*

**Luis Madasi, Partner, Deals**

**_Sub-Sahara Africa_**

*"Government policy is more central to deals in Africa. There is often a higher level of political interest and perceived interference in deals. Some countries can change the rules on tax or legal parameters quickly."*

*"Local knowledge is paramount. Investors need to visit government departments and ambassadors to understand anything which could cause the government to intervene."*

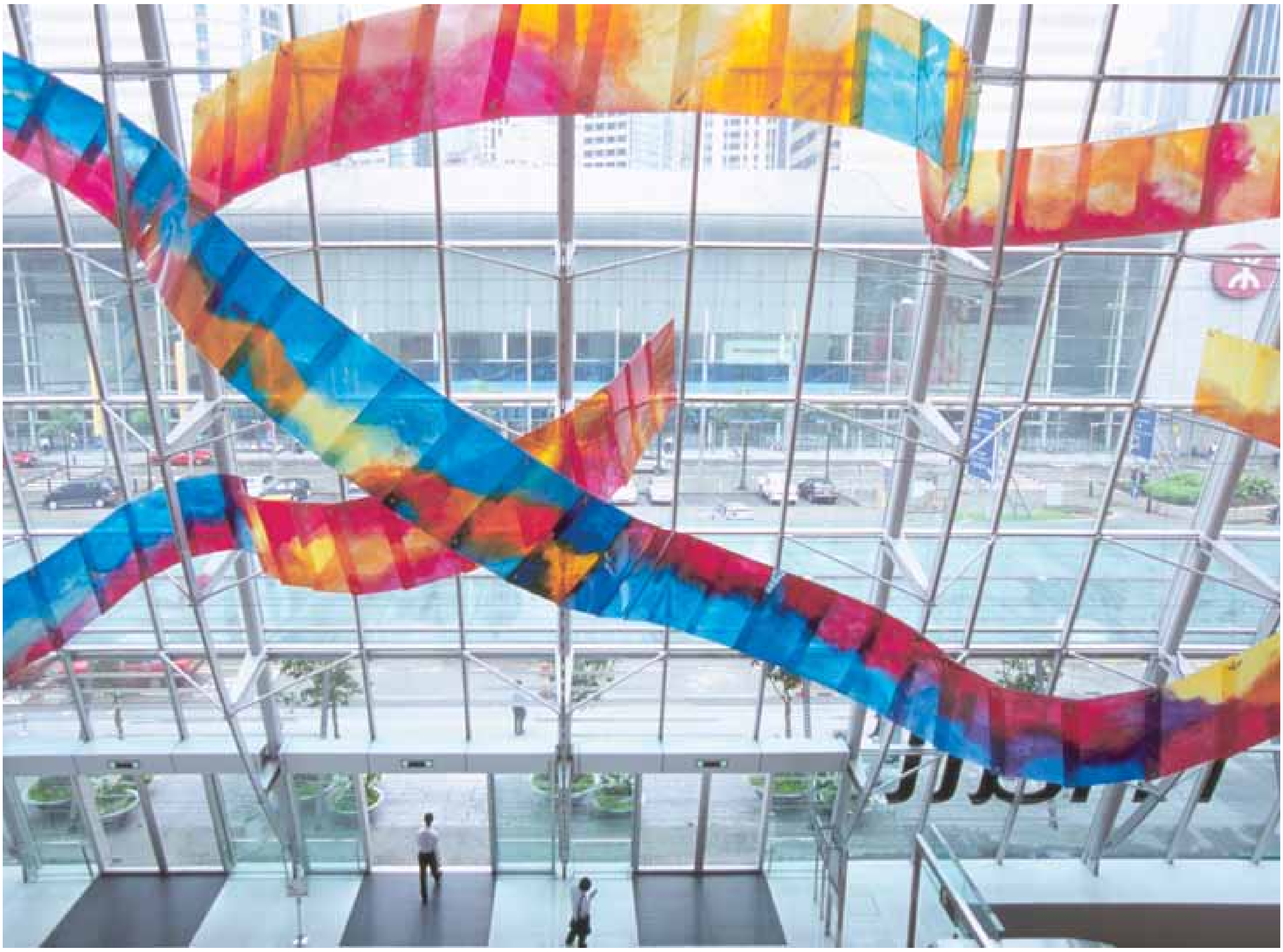
**Simon Venables, Partner, Southern Africa Deals Leader**

**_India_**

*"Indian companies often have a large number of transactions with companies owned by other family members. Other family members who are not in the forefront often play a significant role in making or breaking a deal."*

*"Find the real decision makers and start talking to them early on."*

**N.V. Sivakumar, Partner, India Deals Leader**



### 4) Put key people in place

Ultimately, **the people involved will most influence whether your deal is a success or not**. Companies should:

- Build a **short-list of local advisors** including finance, strategy, corporate finance, law, forensics, and integration specialists. In selecting advisors, local knowledge and experience are as important as previous relationships.

- Build a **deal team** of both dedicated deal leaders and deal 'moonlighters', people who can work part-time on a deal to provide specialist input across finance and operations. The deal team should include nationals who are on the ground, and should also include the people that will manage and go into the business post-completion.

Identifying people in the organisation or recruiting people to fill key positions will take time, but is worth the investment in any case.

*"By day one, decide on your project or integration manager – a local or someone who knows the market is best. Get your senior management in place and make sure all lines of communication are completely clear."*

**Head of M&A, Global Insurer**

*"When we do deals in emerging markets, we do the normal due diligence: financial, tax and legal. But that's not enough for some of these assets and some of these places. You have to do more than the normal due diligence. Sometimes you have to be creative."*

**Africa M&A Executive, Strategic Industry**

*"Due diligence needs to be wider in growth markets to cover things you would not normally consider in the West like employee relations, political risk, and market practices"*

**Head of Corporate Development, Global Bank**

*"It is difficult to use traditional valuation methods to come to a single figure. Having an option value is a key way to mitigate this. We use earn-outs. We like it when people are left with minority stakes to help crystallize value."*

**Partner, Global Asset Manager**

### 5) Adopt best practice for approaching deals in growth markets

Many boards need to accept that a **'normal' deal approach is not appropriate for a growth market**. There is too much ground to cover; competition from rival bidders can be strong and appear irrational; sellers' expectations are different; and there is too much uncertainty over future performance. Past deals show that there are a number of best practice measures and tips to manage individual risks in growth markets.

How a company applies these measures will be influenced from the outset by its size, culture and risk-appetite. There are a number of difficult choices about how to approach deals in growth economies – such as how much weight to give to the long-term strategic option value of a deal. These choices largely reflect trade-offs between risk and reward (either speed or upside). These choices do not have obvious answers, rather they reflect preferences specific to companies' cultures and strategies.

The delta between a good deal and a bad one is that much greater in growth markets, but we believe it's possible to get on the right side of this delta. Companies can de-risk deals in growth economies by recognising these markets as large opportunities that require some initial strategic thought, by prioritising markets and establishing a presence on the ground in those markets, putting key local resource in place, and adopting best practice for a deal. We believe companies that take these steps increase their chances of doing a good deal and avoiding bad ones.

**Figure 3**

Best practice measures and tips

| Area | Measures and tips |
|---|---|
| **Financial information** | • Phase diligence: first thorough high-level initial screen, then in-depth<br>• Gather data in a bottom-up manner in priority areas (with exclusivity if possible) |
| **Valuation** | • Conduct additional research to improve comfort with forecasts<br>• Use earn-outs/deferred consideration to align interests of management<br>• Combine long-term strategic option value with conservative DCF (e.g. scenarios, higher discounts) |
| **Business practices** | • Conduct FCPA/Anti-Bribery review<br>• Conduct diligence on key individuals/partners and common issues (tax, labour, related party transactions)<br>• Understand if non-compliant practices can be managed |
| **Post-completion operations issues** | • Address critical areas such as governance from day 1<br>• Slower pace thereafter |
| **Negotiation & contracting** | • Adapt to local negotiating approaches (e.g. relationship focused, more direct negotiations with stakeholders, engaging a broader group of stakeholders)<br>• Encourage seller to use an experienced advisor<br>• Have a back-up (e.g. negotiate with multiple parties, develop an organic option) |
| **Partnering** | • Avoid 50/50 JVs<br>• Research partner extensively<br>• Discuss exit plans with your partner early |
| **Government interference** | • Run scenarios for changes in government positions |

# *The importance of deals in growth markets*

*92% of CEOs expected growth in their Asian operations, 86% expected growth in Latin America, and 75% and 72% expected growth in Eastern Europe and Africa respectively. Conversely, only 55% and 48% of CEOs expected growth in North America and Western Europe respectively.*

**PwC 2011 Global CEO Survey**

***You have to be there***

Though the activity levels of multinational companies doing deals in growth markets in 2011 remained subdued in volume terms, in value terms 2011 activity surpassed 2006 levels.

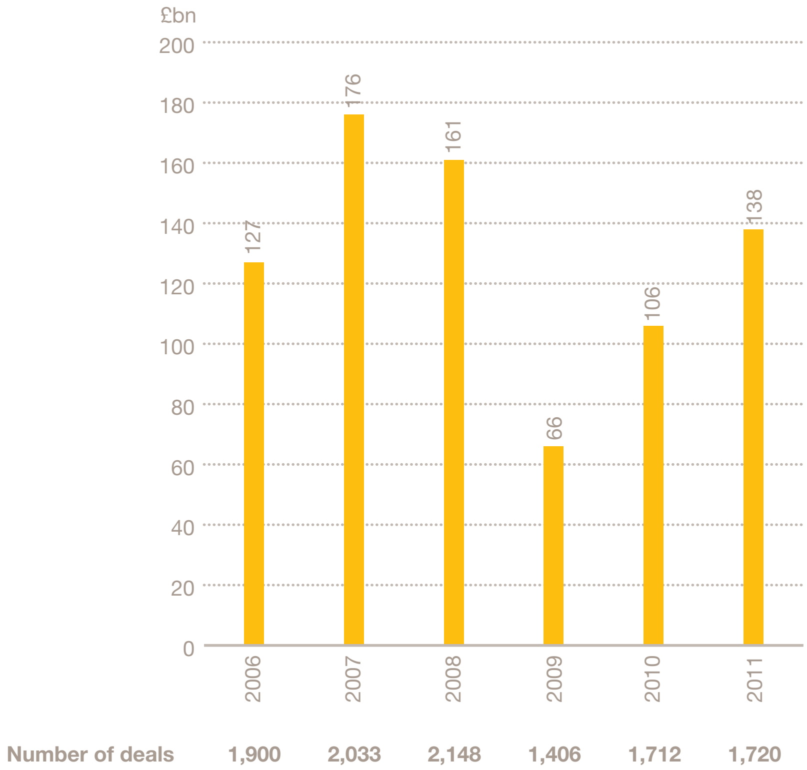
The key motivation behind both current and future activity is access to large and growing markets. Roughly six billion of the world's seven billion people live in growth economies.[1] PwC forecasts that, at current market exchange rates, the GDP of the E7 (The BRICs plus Mexico, Indonesia and Turkey) could surpass that of the G7 (the US, Japan, Germany, France, the UK, Italy and Canada) as early as 2031. Increasing productivity and wealth in growth markets are the key drivers of this economic growth. In particular, growth is based on increasing wealth for the circa 4 billion people who fall into the world's poorest socio-economic group, earning between $1,000 and $4,000 per year, and often referred to as 'the Next 4 billion'.

**Acquiring a business is one way – and in some countries the only way – for foreign companies to access these markets.** Deals can also provide multinationals with local capabilities, manufacturing bases, or access to resources. They can also be a way of acquiring growth markets rivals that may be tomorrow's key threat in the global market.

1 World Bank statistics.

**Figure 4**

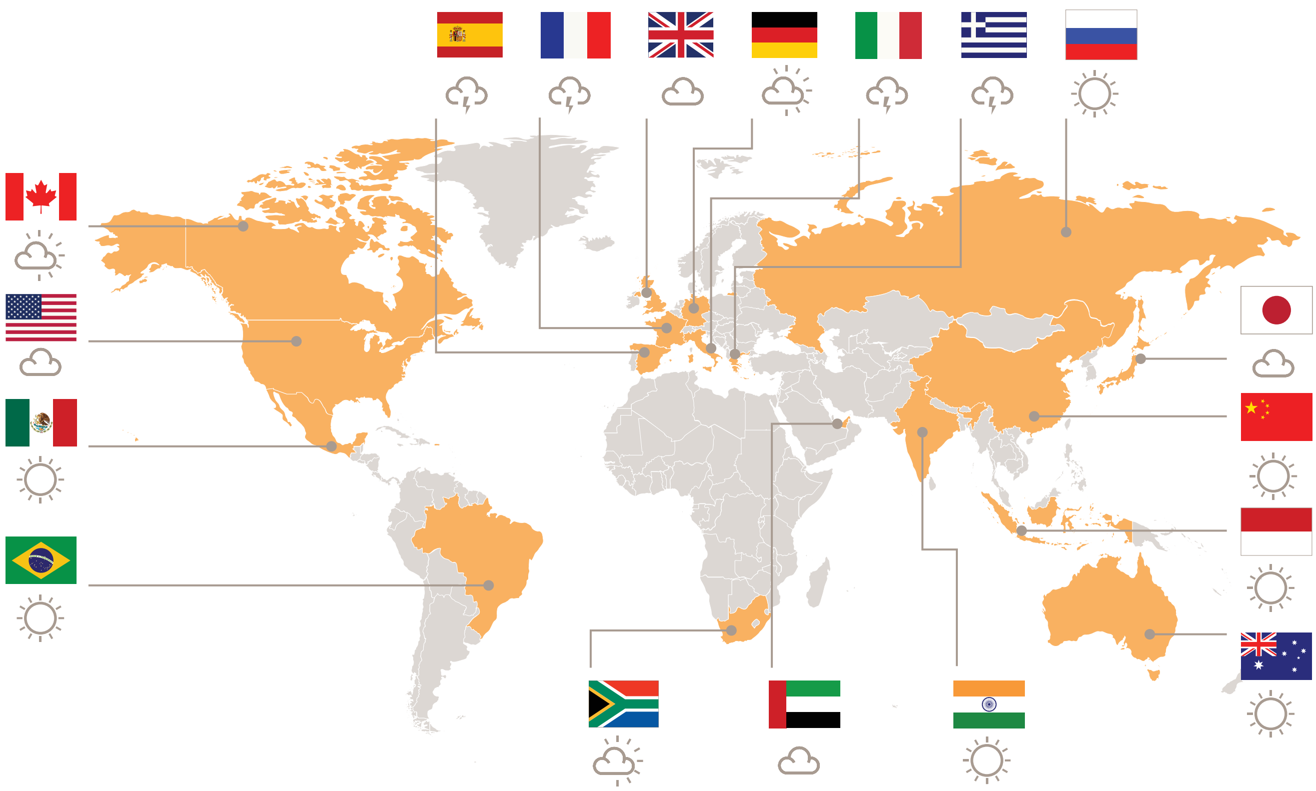
Deals from North American & Western Europe to growth economies, £bn




Source: Dealogic, PwC Analysis.

**Figure 5**

PwC macro economic outlook – January 2012



Source: PwC Economics.

It is important to note that deals in growth markets are not necessarily only about bringing best practice to growth markets. In many cases, companies in growth markets are not constrained by legacy investments, so building a business from scratch provides an opportunity to learn from the mistakes of the past to establish world class operations. The banking industry is a good example of this, where banks in Brazil and Turkey have developed some of the best technology in the world.

Also, capturing growth is likely to require local innovation capabilities. Customers and consumers have different tastes across growth markets. With increased competition for their Yuan, Rupees, Real and Roubles, **global products are insufficient** to gain share. This is even more so the case for serving the low income consumers within the next four billion. Many of the ground-breaking innovations to serve this market will come out of growth markets.

### *But deals in growth markets are costly from many angles*

Though the rationale for seeking deals in growth markets is clear, finding and vetting such deals can be costly and time-consuming. This upfront investment can make it hard to walk away if a deal proves to be a bad one. But **if the potential deal was truly bad, the effort to identify the risks that make it a bad deal represent time and money well spent**. Much more money will invariably be spent if a bad deal goes through.

Of the problem deals we looked at, 10 had sufficient public information available to estimate in a robust way the cost of the issues. For these, we found that **the cost of problems on these "bad" deals averaged around 50% of the total investment**. While this does not represent a statistically significant sample size, it indicates the order of magnitude of costs of post-deal problems. Costs consist of divesting the business at a loss relative to book value or initial investment, fines, and write-downs against book value.

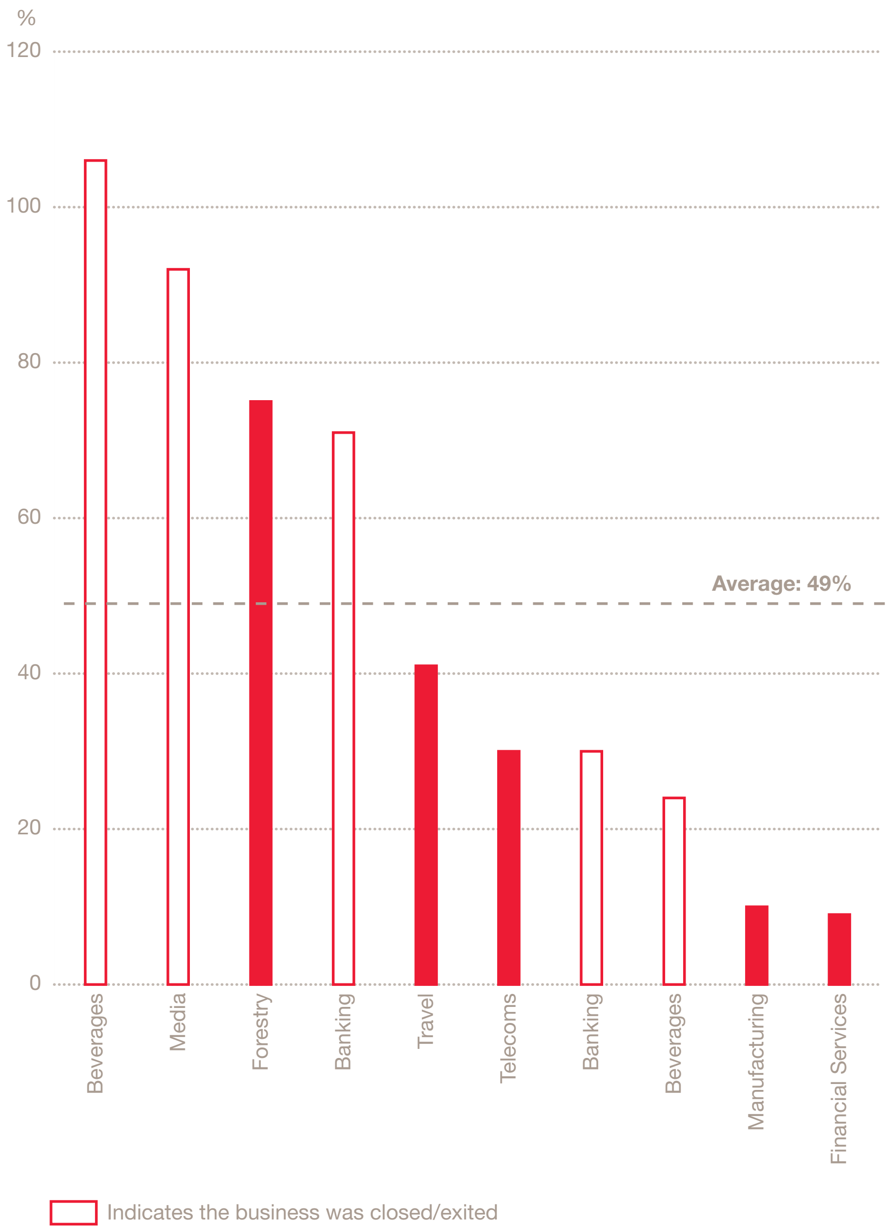
In addition, there are also considerable indirect, intangible, or personal costs, in terms of share price impact, negative investor reactions, or even individuals serving prison sentences. In many cases the total investment is written off or sold at a loss, meaning diminution of capital and strategic market position, as well as higher psychological and reputational risk hurdles when seeking to re-enter the market.

As the experience captured in our survey illustrates, **50-60% of deals that enter due diligence in growth markets fail to complete**. Comparing publicly announced deals, deals by developed economy companies in growth markets fail more often than the deals they do in developed countries.[2] We also believe deals in growth markets are more likely to result in problems after completing.

Over the next pages, we look at each of the most common pitfalls in turn, considering their root causes and the suggesting ways that companies of all sizes can mitigate those risks from pre-deal, through negotiation to post-completion.

**Figure 6**

Cost of deal issues as % of total investment or book value for ten public cases




Source: Company reports and press articles.

2 Source: Analysis of Dealogic data comprising deals by Western European and North American multinationals investing in growth economies vs. deals by the same buyer set investing in Western Europe and North America.

# Avoiding the pitfalls of past deals

## 1 *Lack of transparent financial information –* minding the gaps

***Common problems***

- Difficulty understanding financial information prevents necessary disclosure
- Risks are not given enough weight

***Root causes***

- Managers place less emphasis on financial information, so less is available – e.g. poorer accounting systems
- Accounting policies and practices differ from those in home markets – e.g. two sets of books
- Managers are less willing to provide information because of concerns with confidentiality
- Deal teams obtain insufficient local advice

***Mitigating actions***

- Conduct thorough initial review
- Prioritise issues: decide what is important in conjunction with local advisors
- Where possible, obtain exclusivity and spend time building up key data bottom-up
- Put risks in context to take calculated risks

***Common problems & root causes***

Difficulties understanding financial information in a business often **prevent deals from going ahead**. But there are a much greater number of examples of **completed deals** that had **worse than expected performance or where unexpected liabilities** emerged because the true financial position of a business was not understood before completing the deal. It is rare for a shareholder to publicly fall out over the validity of company accounts, but that is what has been reported in relation to a US private equity investment in an Indian children's apparel company.[3] Elsewhere, a series of allegations made by analysts and investors of false financial reporting by Chinese companies listed on Western exchanges remain unresolved and have led to regulatory investigations and market uncertainty.[4]

A lack of transparency can come in three forms. Firstly, there is **less information**. Many businesses are understaffed in finance and IT and have less developed financial reporting systems, because **companies in growth markets tend to have less stringent requirements for information** than companies in developed markets. Because owner managers and family-owned businesses are common, there is less need for financial and management reporting, and there is a greater focus on cash- rather than accrual- based accounting. This will vary by type of business. For example, public companies generally have better information than private companies, but even public companies in growth markets have less information than in similar companies in the West. In the case of a carve-out, building up information can be even more difficult.

Secondly, **information can be presented in a different way**, because **local accounting policies and practices can differ from those in the West**, making it difficult to verify financial information. Financial accounts are generally in the local language and may be in a different format. There may be less discipline around recognising bad debts, and a desire to avoid bad news can result in costs building up in the balance sheet and liabilities not being recognised.

*"There are a lot of family-owned companies who are often disorganized in how they keep information and are understaffed in key positions. This makes diligence difficult and lengthy."*

*"They don't understand what selling practices should be in terms of providing information on the business. They think a two page financial statement is sufficient and don't fully realise the time and effort required to carry out a full due diligence process."*

**South America Investment Manager, Global Private Equity Fund**

3 "Asia fundraising goes on despite fraud allegations", Financial Times, October 13, 2011

4 "Muddy Waters Claims on China Companies Have Yet to Be Proven," Bloomberg, December 1, 2011

*"In terms of accounting, lots of things are not completely clean in businesses in Eastern Europe. If it's totally misleading, we won't do it. But often, the entire industry in the market does it a certain way. It might technically be a liability, but in the local context the liability will never materialize."*

**Investment Manager, Global Private Equity Fund**

*"There was nothing malicious. It was a lack of experience and insufficient systems. Their attitude to the financial accounts was not cooking the books, but they were more flexible in representing financial information."*

*"We quantified the impact and asked ourselves, 'are we willing to take this risk?'"*

**Investment Manager, European Private Equity Fund**

A prevalence of local GAAP can make it difficult to present financial information in a way that is meaningful to foreign companies on IFRS or US GAAP. In markets such as Brazil, local GAAP is relatively easy to reconcile to IFRS, but compliance with local GAAP by many small and medium-sized enterprises is poor. Finally, third party confirmations can be unreliable.

One executive that we spoke with about a deal in Sub-Saharan Africa provided an example of the first problem area. He indicated that even three years after completing the deal, *"the financial systems are still appalling"*. What the deal team found after completing the deal was the target's finance team lack of basic spreadsheet skills.

There are also extreme examples, as a China-focused deal executive with a global FMCG company we spoke with highlighted. *"I have been to companies that said they have 30% growth, but when you get there, they have a warehouse full of finished products, and no raw materials."*

This would suggest flat or declining sales rather than growing sales and that the seller's portrayal of the growth of the business was better than reality, which can lead to valuation problems.

Thirdly, even if the information is available, the seller may be **unwilling to share information, because of concerns with confidentiality.**

*"They also don't want to provide information as they see it as confidential. There are also frequently 'creative accounting' decisions and the quality of accounting and financials is not good."*

**South America Investment Manager, Global Private Equity Fund**

***Case study – Latin America***

On a deal PwC worked on in Latin America, the team encountered both inadequate financial information and weak accounting policies. There were several short comings in accounting procedures and no control testing in the external audit. Most concerning, the auditors had not signed off on one set of accounts because one month's financial data had been lost when the company's server had been moved

To help address the inadequate financial information, a PwC team first spent time understanding what was available in the company and to identify critical gaps. A key objective at this stage of the due diligence was to explain what was common to the market and which areas were unique to the company. Subsequently, PwC continued to work with management to build information up from trial balances. They built profit & loss statements by product and region, identified key performance indicators and worked with the management team to alter systems to track these indicators.

*“When you do diligence in emerging markets, you have to roll-up your sleeves and get your hands dirty.”*

**Africa and Southeast Asia M&A Executive, Global Branded Drinks Company**

*“The problem is you can’t spend that much time with people during a diligence because you will scare management.”*

*“You can send in your advisors to help. It came down to PwC doing hard work on paper ledgers.”*

**Africa M&A Executive, Strategic Industry**

### *Mitigating actions*

In terms of how to overcome these issues, the key theme coming out of both our discussions and our experience is around **using local advisors in the diligence teams so the context of the risks involved can be put into focus**. Deal teams will be unlikely to get comfortable with all risks, but understanding context allows deal teams to take calculated risks.

By **understanding what is normal for an individual market, and what is not**, it is possible **to focus on the issues that are critical for the business in question**. Given the breadth of issues at play, this initial scan may need to be wider than a diligence in developed markets.

Once critical areas are identified, it is necessary to take an approach to due diligence that is different from that taken in developed economies. Local teams are important for this process. Shared language and culture help teams to explain the need for specific types of analysis, find solutions to build the data, and understand what the data is saying.

However, in order to do this, **significant access or exclusivity is needed**. To contrast the above case study, another PwC team worked on a separate deal in Latin America where the client did not have exclusivity. It faced the similar difficulties understanding financial information. The PwC team was able to produce an initial red flag report identifying information gaps, but the client was not able to persuade the target to work with PwC to address those gaps. In the end, the buyer lost out to a rival bidder. With increasing competition for assets from up-and-coming multinationals from growth markets, there is likely to be even greater pressure on deal teams. **Buyers from other growth markets are often more prepared to do a deal without data in key areas**, because they frequently are more focused on the strategic rationale for a deal (e.g. access to markets or raw materials) rather than the financial rationale. **This can put those less exposed to developing markets at a disadvantage**.

On average, there is less transparency in company accounts in growth markets than in more developed economies and this presents a risk to foreign investors. However, we do not think it is feasible or even necessary to eliminate all of this risk. What is important is to focus on critical areas and spend the time with local advisors to obtain data, bottom-up if necessary. Exclusivity greatly facilitates this: there is unlikely to be time or appetite for working with trial balances in an auction. This makes it **critical to identify off-market deals, rather than solely relying on a limited network of intermediaries and corporate finance houses**. Another challenge to obtaining exclusivity is that it exposes the vendor to the risk that the buyer withdraws. To obtain exclusivity, foreign buyers may need to offer some concessions, for example in terms of time frame, and they must be able to convince a vendor that they are likely to go ahead with the deal. To do this, it is important that Board members and senior executives are familiar with doing deals in growth markets and are bought in early into the strategic opportunity, and where possible into the specific deal in question.

# 2 *Justifying developing market valuations –* getting real

***Common problems***

- Large gaps in expectation between buyer and seller
- Worse than expected performance

***Root causes***

- Uncertainty over future growth: market demand, distribution channels, and future competitor actions
- Few comparables
- Competition for assets

***Mitigating actions***

- More research to increase comfort with projections
- Structures such as earn-outs
- Combine conservative short-term Discounted Cash Flow (e.g. scenarios, higher discount rate) with long-term strategic option value

*"There is always someone willing to pay the asking price and price in 12% growth, or more."*

*"The hard part was getting comfortable. There were no good historical precedents or data. Real estate had only been a real business in India since 2005, when the doors were opened to foreign investment in India, and there was not a lot of information available to help judge how much cash flow would be generated from these investments."*

**Director, Global Asset Manager**

### *Common problems*

Nearly 40% of the deals we assessed failed to complete because the bidder was unable to get comfortable with the valuation of the business. The beer industry, with frequent auctions, has numerous examples of international companies **losing deals because of high valuations** in growth markets. The bidding war over Harbin Brewery in China is one of the highest profile examples over the past decade, but there have been a number of recent auctions as well, for example the Sona Group in Nigeria. These competitive auctions were affected by a number of factors, but valuations were potentially the key determinant of who won the bid. For the winners, there is the risk of having over-paid, while those that lost the bid now lack a strategic asset.

High prices are often predicated on high growth, but there are cases of **lower than expected growth post-completion**. For example, several consumer banks from Western Europe invested in Russia just ahead of the financial crisis only to find subsequent performance was worse than expected. Not simply the result of the financial crisis, the main reason cited is actually stronger than expected competition. Barclays has divested its Russian retail business, and Swedbank is in discussions to divest its retail business in Russia after selling its retail banking unit in the Ukraine in 2011.[5]

### *Root causes*

Valuations using traditional techniques are difficult because **of greater uncertainty about future revenue growth**. The key sources of this uncertainty are future market demand, distribution channels, and competitor actions. Valuations may also be higher because many sellers have strong alternatives to doing a deal with a foreign investor. There are often rival bidders. Stock markets also offer attractive valuations. Finally, many companies have access to low cost capital from local banks.

*"The risk/return profile is often not there. Sellers have inflated price expectations. They're too big to fail in their own territory. They know the local banks, can get favourable terms, and can roll over loans. They never have to sell. I've not seen one distressed seller of a good, sizable Eastern European business."*

**Investment Manager, Global Private Equity Fund**

5 "Swedbank In Russia Retail Talks With Raiffeisen", Dow Jones News Wires, 4 August 2011.
"Barclays announces sale of Russian arm to Igor Kim", Reuters, 25 October 2011.

*"One of the pitfalls of doing deals in growth markets is getting reliable market and economic data. Understanding historical and projected beer consumption is key for valuations. It is difficult to get data that is reliable, precise and specific enough."*

**Head of M&A, Global Brewer**

*"It is difficult to make a valuation based on DCF. Growth hypotheses and wacc are more volatile in growth markets than in developed countries. Working capital is difficult to predict, as it is not necessarily followed in the financial reporting."*

*"PER and other multiple ratios are difficult to obtain. Multiples/ valuations are less often disclosed in the BRICs. Companies are not easy to compare in terms of growth dynamics."*

**M&A Project Leader, Global Facilities Management Provider**

As with financial information, the main challenge with valuations is a **lack of information**. It is difficult to obtain accurate historical data on market spend, much less good forecasts for future demand. While most companies are good at short-term cash management, there is generally less long-term planning. Companies may have a one-year budget, but many are unlikely to have a three- or five-year plan. There are fewer comparable transactions to suggest what growth rates other buyers have assumed in recent transactions.

### *Mitigating actions*

There are ways to mitigate these risks. The global brewer we interviewed does its **own consumer research** to underpin projections and uses **larger than normal contingencies with revenue projections**. Structuring solutions like **earn-outs can also share risk and align** the **interests** of managers and partners.

However, taking these actions is unlikely to provide the board of a global company with the same level of comfort as it would be able to obtain in home markets. Uncertainty around future growth, and difficulty in understanding the business' financial situation, mean that **the strategic rationale for a deal must be that much stronger** to justify proceeding with a transaction that might otherwise look expensive. As such, some **flexibility with traditional valuation mechanisms is necessary**. We believe what is important is a degree of **conservatism in short-term projections**, while **separately considering the strategic rationale** for an investment which might therefore justify a much higher multiple than in developed markets. Considering the option value of an acquisition in conjunction with a conservative Discounted Cash Flow model is one way to ensure that you are taking into account upside and strategic rationale without throwing the credibility of underlying assumptions into question.

### *Case study – forecasting out of a conflict*

In one private equity investment in a growth market, the minority private equity investor had developed a conflict with another shareholder. The parties reached an agreement for the private equity investor to buy out the other shareholder's stake. However, the private equity investor could not justify the valuation, largely because of uncertainty over future growth.

PwC was hired to build a detailed model to support long-term forecasts. The resulting growth projections helped to support the valuation, so the private equity fund could buy out the other shareholder.

*"You need to do as much as possible to ground the business commercially, but you have to apply more of a strategic lens. You need to be more flexible about how you think. No one can tell you what the market will look like in ten years time. You need to treat it more like an option play due to the high level of uncertainty."*

**Africa and Southeast Asia M&A Executive, Global Branded Drinks Company**

The high valuations and risks of growth markets mean that private equity firms must have clear value propositions to clear their hurdles rates for return on investment. For example, one value proposition in China is helping mid-market companies prepare for an initial public offering. Many of the largest private companies in China have access to lower cost capital from banks and public listings, while many smaller companies are unable to obtain debt financing and lack the financial reporting and governance capabilities required for a listing. For these smaller companies, private equity can provide much needed capital while putting in place the systems and controls to prepare the company for a public listing in three to five years.

The 3-7 year investment horizons of most private equity funds can present potential challenges when funds seek to help their portfolio companies invest in growth markets. Entry into a new market has a long-term strategic option value for a company. However, private equity investors may not be willing to fully value this option because they are unlikely to be able to realise the value at exit. Entry into a new market may not be valuable to a future trade buyer who already has a presence in that market. Also, in a secondary buyout, a private equity fund may not fully value the option value if it only impacts profits in the long-term.

## 3 *Non-compliant Business practices* – discerning the manageable from the deal breakers

### *Common problems*

- Tax compliance – "black cash" transactions
- Corruption
- Fraud & misappropriation
- Labour practices & compliance

### *Root causes*

- Less developed/unenforced business and regulatory environments
- Less formal governance structures

### *Mitigating actions*

- Spend time on the ground with local teams/advisors
- Targeted due diligence covering key individuals and common issues (e.g. tax, labour, corruption)
- Understand if the practice can be managed

### *Common problems*

In understanding financial information, there are a number of accounting and information practices in growth markets that differ from those in developed economies. In most cases, these practices are common and innocuous, but some reflect a more serious risk.

In the same vein, there are a number of business practices that may be more common in a developing economy, and thus present a limited risk for the business, but would not be acceptable for a subsidiary of a global corporation or private equity fund. Many of these business practices can present considerable risks for a foreign buyer. Common areas of problems include tax and labour compliance, corruption, and fraud & misappropriation. These problems can expose a foreign buyer to potential reputational damage from bad public relations, or investigations and fines from outside authorities. If rectified while local competitors continue the practice, the business may become uncompetitive.

**Figure 7**

Business practices that present problems for multinationals

| Area | Description | Example |
|---|---|---|
| **Tax compliance** | • Companies often keep two sets of books<br>• Low levels of tax compliance (both corporate and personal). We have come across staff paid in cash in paper envelopes, which did not go through the accounts to avoid payroll taxes<br>• For company directors who are also paid in dividends or shares, this can present a significant risk for the company | • In the Latin American case mentioned previously, PwC identified tax liabilities that represented 35% of the target's enterprise value |
| **Corruption** | • Some practices may be acceptable under local law or norms (or unacceptable but poorly enforced), but fall afoul of international bribery laws<br>– Foreign Corrupt Practices Act in the United States<br>– Bribery Act in the UK | • Within a year of eLandia International Inc.'s acquisition of Latin Node Inc., FCPA issues in Honduras had caused it to discontinue the target's operations, and incur additional costs relating to the FCPA investigation, its attempts at remediation, and Latin Node's bankruptcy[6] |
| **Fraud and misappropriation** | • More related party transactions[7] than in developed markets although more often than not, these are benign<br>• However, some will have unrecorded transactions, fraud (potentially including false audit evidence such as fake invoices) or misappropriation of funds | • One high profile example of alleged misappropriation of funds in growth markets concerns recent accusations of embezzlement in the NASDAQ-listed China Medical Technologies[8] |
| **Labour** | • If a foreign buyer discovers child labour in a business, it poses an ethical dilemma and a reputational risk. The child may be the sole bread winner for a household. The foreign owner may need to consult with government and local and international NGOS to find the right solution<br>• Foreign ownership may require the company to comply with new labour laws | • Black empowerment regulations in South Africa<br>• There are often stricter workers' rights regulations in former communist countries<br>• Other markets, such as Brazil, are difficult because of extensive labour laws and regulations |
| **Others** | • Range of other risks which may present risks for foreign investors, but primarily concern health & safety, and loss of intellectual property | • Melanine milk contamination scandal in China in 2008[9] |

6 "Latin Node Inc.: Undiscovered FCPA Violations Wipe Out an Investment", Shearman & Sterling, April 15, 2009.

7 A related party transaction is an arrangement between two parties who are joined by a special relationship prior to the deal, for example a shareholder's company being hired as a supplier.

8 "China Medical shares plunge on fraud allegations", Reuters, December 6, 2011.

9 "Fonterra puts up $8.4m to provide care in China", New Zealand Herald, October 11, 2008.

*"I can't emphasise enough the importance of doing on the ground due diligence. I was in the office on Friday and some cash arrived in a brown envelope. We wouldn't have discovered that in a normal management Q&A process."*

**Partner, Global Asset Manager**

*"There may be corruption, but unless the business has a high component of government interaction, then it's less likely that there are high levels of corruption in the business, and it should be manageable. If there are high levels of government interaction, then we spend a lot of time making sure the business doesn't rely on extra payments and bribes."*

**South America Investment Manager, Global Private Equity Fund**

*"There is rarely a sufficient level of control in place: no statutory audit processes, no business continuity planning, etc. It is necessary to understand and recognise this and put into place a programme to bring the business under control over a 12-15 month period."*

**Head of M&A, Global Insurer**

*"If we can cordon off the part of the business where [there are non-compliant practices] and put in place a plan to stop the practice – for example in parts of procurement – then we will do the deal. On the deal we did, procurement had to be rebuilt from the ground up. However, if there are questions around corruption in the core business, or its operating license, then it's a deal killer."*

**Africa M&A Executive, Strategic Industry**

Many of the issues we come across in this area concern related party transactions. For example, sales and purchases can be made through related party special purpose vehicles at below and above market rates respectively. This moved profits out of the target company (thus minimising taxes). Related party vehicles can be nearly impossible to trace to the ultimate shareholders, may be unregistered for tax purposes, and are often closed down after a short time frame (e.g. six months).

### *Root causes*

**While multinationals are subject to strict regulations and standards**, many growth market companies use **less formal governance structures**. We believe buyers can rectify these practices by putting in place specific policies and improved controls. The key risks are failing to complete a deal because of business practices that could be corrected, or failing to identify and plan to rectify inappropriate practices.

*"Partners can have a different approach to regulatory compliance. In China, some may open stores first and then ask for planning permission later."*

**Corporate Development Manager, Asia Pacific Retailer**

### *Mitigating actions*

The key challenge to managing business practice-related risks is determining what can be rectified and what cannot. **Spending time on the ground and asking targeted questions** is often the key to identifying business practice-related risks.

Once identified, it is possible to **understand if the risk can be managed**, or if it runs throughout the company. First and foremost, we recommend that companies conduct and FCPA or Anti-Bribery review. In general, we believe that tax compliance can be managed, either through new policies or indemnities in the sales & purchases agreement. However, indemnities are often only effective with an element of deferred consideration. The key to managing fraud and misappropriation is to understand if any identified irregularities are benign related party transactions, or evidence of something worse. We believe this can best be understood by assessing individual transactions, as well as **conducting due diligence on key managers and stakeholders**.

Industries with high levels of government involvement (e.g. mining & metals, industries where the government is a key customer) generally present the greatest risks for corruption. However, if corruption is not endemic, then it may be possible to put in place controls which limit corrupt practices and the risk of running foul of global regulations.

In some cases, it may also be possible to **employ constructive solutions to raise standards**. In one example of potential child labour, the buyer created an apprenticeship program with reduced hours, equal wages, and a training program. Whatever the solution, **rectifying these practices can add costs to the operations of a business which local competitors are unlikely to incur. But the impact of any rectifying measures on the competitiveness of the business should be considered** as part of the valuation of the business, and could therefore become a deal breaker.

## 4 *Post completion operations issues –* integrating and taking control

***Common problems***

- Wide range of factors causing worse than expected performance post completion

***Root causes***

- High requirements of foreign-owned businesses: local operating experience, deep business & finance expertise, foreign language skills, cultural affinity
- Different attitudes to management among local staff
- Living hardships in some markets

***Mitigating actions***

- Getting the right people in place
- Setting the right pace (address critical areas from day 1; slower thereafter)

***Common problems***

There were several instances of people issues post-completion creating operational difficulties in the deals we assessed. Given the nature of these issues, **we believe a large number of these people problems are likely to go unreported** and the actual percentage of deals that experience problems in the integration and taking control phase is much higher than reported.

In a joint venture we advised on in India, the buyer put none of its own employees on the ground in India. Within a few years, the JV ran into trouble. The foreign buyer had complaints around a lack of transparency, and difficulty achieving global standards for governance, quality and technology. After protracted legal proceedings, the international buyer was forced to surrender its share in the investment.

One public example of post-deal people issues is a major UK industrial group's investment in metal fabricating mills in Russia. There were delays launching operations and the investment under-performed against expectations.

*"Bringing people into Russia with good project management skills took us longer than we expected. And so we did not execute our projects... this is our delay. I thought we could do it much quicker. You are dealing with import licenses, you are dealing with approvals from the government and they are helpful, but it takes time. We thought it would be easy. But we have a language barrier."*

**Group President of Division**

A senior executive in the banking industry acknowledged these same language and cultural risks, but also difficulties navigating informal governance structures.

*"When you buy a company whose staff is local, they have often had no exposure to an international bank's policies and procedures and we have to impose these upon them. This is a massive cultural shift and people do not appreciate the extent of this. Language barriers only serve to make this more difficult."*

*"There are also informal social structures and deferential dealings. In Africa, we found the head of risk was deferring decisions to someone in the team two notches below him."*

**Head of Corporate Development, Global Bank**

*"Frequently we find the quality of admin and support staff is too low or understaffed in finance, IT and HR. Family-owned companies often do not have a CFO, just a controller or accountant that grew with the business but has limited knowledge and sophistication. Finance, IT and HR are not seen as functions that add value."*

**South America Investment Manager, Global Private Equity Fund**

*"Have a six month plan for day one."*

**Head of M&A, Global Insurer**

*"There's a honeymoon period for a while post deal but you have to activate. Post-merger integration consultants say that speed is the answer, but I'm not sure. Because of the speed of the market, it's important not to rock the boat. You need to decide the priority projects, only do those projects, and go step-by-step."*

**China Business Development Director, Consumer Goods Company**

*"A lot of market leaders [in Eastern Europe] are built from scratch and don't have any legacy issues."*

*"We've looked at hospitals that are better than those in developed markets."*

**Investment Manager, Global PE Fund**

*"When we sold a Turkish bank, the acquiring bank's consumer finance team went in during due diligence to see where they could add value. They actually found that the Turkish bank was ahead of them in many areas. They began looking for things to take and apply elsewhere in the business."*

**Former M&A Advisor, Global Investment Bank**

### *Root causes*

We believe that people issues emerge primarily because there is often a **shortage of managers that meet the strict requirements of foreign-owned businesses in growth markets**. To be successful, foreign invested companies require managers with **local operating experience, affinity with the buyer (loyalty and knowledge of company culture), deep expertise in business and finance, and considerable language skills**. Many have a smaller pool of business and finance expertise to pull from. This is also the result of **many local business owners not placing as much importance on finance, IT and HR as foreign buyers do**. Finally, in some markets (e.g. Saudi Arabia, Iraq) **local mores and customs, or difficult living conditions make attracting and deploying top talent difficult**.

### *Mitigating actions*

To manage these issues, the executives that we interviewed made suggestions in two broad areas: **getting the right people in place**, and **setting the right pace**. Most interviewees indicated the importance of bolstering key functions such as finance and IT. Most interviewees also suggested the importance of having at least one key person in the business loyal to the buyer, either a long-standing employee of the buyer or a direct hire. Given the need to strengthen capabilities in IT, finance and HR, and most global companies' expertise in this area, these functions are obvious areas for which to identify key staff to work in an acquired business. This however, brings its own complexities and there are countless examples of joint ventures failing because factions develop within the management team. In part to avoid these factions, many investors hire people from the local market. It is important to recruit these individuals early, and ideally provide them with some training and emersion into the company's culture.

In terms of pace, interviewees indicated it was important to plan early but not to rush the actual implementation. This contrasts with the need to communicate and address critical issues – in particular around unacceptable business practices – from day one.

*"We don't send in expats for integration. We tend to leave businesses fairly autonomous. We tend to do integration remotely. It's cost effective, but also causes growing pains."*

**Emerging market CFO, Information Technology Company**

*"You have to know what you are going to do about fraud and corruption by the time you complete the deal."*

**Head of Corporate Development, Global Bank**

*"It is important to anticipate the integration process before the acquisition, and to build the communication strategy. Communication is critical in Emerging countries where employees may be less loyal to their company, in order to retain employees after the acquisition."*

**M&A Project Leader, Global Facilities Management Provider**

When deal teams go into assess the operations of a target company, they should be sure to look for not only opportunities for improvement, but also elements of best practice that can be taken back to home markets.

# 5 *Difficulties with negotiating and contracting* – making it to the dotted line

***Common problems***

- 3rd party claims against the asset
- Enforceability of agreements
- Local negotiating practices

***Root causes***

- Less developed legal infrastructure
- Less experienced and less support in doing deals
- Different approaches to negotiating
- Stakeholders whose interests may be difficult to ascertain

***Mitigating actions***

- Establish local presence
- Adapt negotiating approach
- Prepare before starting the deal
- Encourage seller to use an experienced advisor
- Negotiate with multiple parties

*"We have no guarantee that the seller will have assets in the future if we need to go after them. When a dispute occurs, no one can get access to the money until the judge solves the issue. Any dispute can take years and years to resolve – a small dispute can take 4-6 years and parties can slow this down even more if they want to."*

**South America Investment Manager, Global Private Equity Fund**

### *Common problems*

We found these difficulties fell into four main areas: claims by a third party against the asset being purchased; negotiations taking longer than expected; difficulties enforcing legal agreements; and deals failing because of buyers fell foul of local negotiating practices.

One common problem in growth markets deal negotiations is the emergence of **a claim by a third party against the assets being purchased.** Examples of this in the public domain include a UK-listed mining company's efforts to sell assets in South East Asia. After the company agreed to sell the assets, its former partner in the region sued the company, claiming that it had previously agreed to sell the partner the assets.[10]

There are also several examples of **negotiations stretching** on far beyond the 18-24 months customary for deals in growth markets. One French company we spoke with spent over four years in discussions with a partner in Brazil before completing the transaction. In an example in China, the listed Dutch chemicals company, DSM, spent over six years in negotiations with North China Pharmaceutical Group before discussions were suspended in 2010. In 2011, DSM partnered with a different company, Sinochem.[11]

Another challenge is trust in the **enforceability of legal agreements**. For example, it can be very difficult to execute warranties and indemnities in many growth markets.

### *Root causes*

Evolving legal systems can and do contribute to the difficulty of negotiating and contracting. However, we believe that problems with negotiating and contracting are accentuated by several **attributes more common in growth markets.**

A **less developed legal infrastructure** in some markets is another root cause. This makes it more difficult to enforce agreements. Working with the courts can take a long time and if seeking compensation from a seller or partner, there may be limited assets to pursue. Also legal frameworks in some regions are not flexible enough to accommodate deal structures used elsewhere (e.g. special purpose vehicles, management incentive schemes).

10 "Avocet sued by former partner over Asian asset sale", Reuters Africa, November 28, 2011.
11 "Sinochem deal ends DSM's search for partner", Specialty Chemicals Magazine, September 2011.

*"It depends on the type of seller. Sellers can be extremely inexperienced and a traditional deal process is useless. The seller is often not used to selling businesses. If a seller is a self-made man, it can be a once-in-a-lifetime event for the seller."*

**Head of M&A, Global Brewer**

*"The classic problem is you have an investment bank send you 1-2 pages on a company. Sometimes, the investment bank hasn't even met these companies."*

**China Business Development Director, Consumer Goods Company**

*"The owner frequently has a price in his mind which he is looking for. To come to this, he has usually talked with people and bankers who have told him that US companies in the sector are trading at X."*

**South America Investment Manager, Global Private Equity Fund**

*"There is a prevalence of family-owned businesses. There is a culture of people who have a lot of intrinsic value built in. They may have seen lots of growth over the past 10-15 years, and project a trajectory of growth that people in developed markets aren't comfortable with."*

**Director, Global Asset Manager**

Growth market **sellers are frequently families or entrepreneurs, and often have less experience in the process of selling businesses**. Many **tend not to use experienced advisors**. In many markets, even if sellers do use advisors, they may be less sophisticated and may not have a trusted role. Because M&A markets are smaller and have been operating for a shorter period of time, advisors – investment banks, accountants and lawyers – tend to have less experienced teams in growth markets than in developed M&A centres like New York and London. While it may seem that an inexperienced seller would give a buyer an advantage, this is not the case. Given the complexity of negotiations, foreign buyers' needs for information, and the potential for the seller to stay on as a partner, it is better to foster an environment of open communication and trust, rather than pursue a zero sum game negotiation. Negotiating on a common footing and using a shared way of thinking about deals is a good starting point for this. Advisors also offer an opportunity for the seller to learn about deals and still save face.

Generally, growth market **sellers also have a different approach to negotiations**. Negotiations may be less formal and place a greater emphasis on trust and relationships than in developed markets. Also, sellers' bases for valuation often limit the ability for discussion and negotiation. Sellers often have a single number in mind based on transactions that may not be comparable in terms of industry, business model or size.

Many sellers, in particular state-owned businesses, also have **numerous stakeholders**, and it can be difficult to ascertain who holds influence and their interests. For family-owned businesses, in particular in the Middle East, the key decision-maker may not even be at the table. The same is true for Chinese state owned entities (SOEs).

Growth market **sellers often prefer cash**, but for buyers of developing market assets, it is more important to use mechanisms such as **deferred consideration** and a larger proportion of the consideration in escrow, because of the difficulty of enforcing contracts, to resolve valuation gaps and, as we discuss in the next section, to align interests with partners. The challenge is negotiating the right level of escrow.

*"Advisors suggested a 30% escrow guarantee. This was almost a deal breaker. Three years after the acquisition, only 2% of the acquisition price was at risk."*

**M&A Project Leader, Global Facilities Management Provider**

*"On a deal that failed, we were obliged to communicate solely through a local investment bank (that was unfortunately inexperienced), because it was owned by the seller. We tried to send messages through the advisor to the key decision makers, but the advisor wasn't passing on messages well enough."*

*"On one of our recent successful deals, we negotiated with the CEO, but we had an open line of communication with the owner too. Therefore, we could manage all the stakeholders and keep up communication throughout the process."*

**Head of M&A, Global Insurer**

***Mitigating actions***

**Deferred consideration, larger escrow accounts and taking a smaller stake with an option to buy a bigger stake at a later time** are all structural approaches to reducing risk.

A **local presence** is the best ways to identify potential claims on assets in a deal, and to increase the chances of being able to resolve a claim. This local presence should include **active use of local advisors** and a clear strategy to engage both national and local government, as well as key business partners.

It is important for foreign buyers **to adapt their approach** to local ways of negotiation and potentially using it to their advantage. In order to be flexible around changing timescales, **preparation** is needed. Buyers should also address stakeholders' preconceived market concerns before starting the deal, and have stakeholders bought-in to a walk-away price before making an initial offer.

To a degree, foreign buyers must recognize long lead times as par for the course for doing deals in growth markets, but it may be possible to reduce the chance of extremely long (e.g. 2-6 year) negotiations by ensuring that you are **have a line of communication open with decision makers** and are **considering multiple acquisition targets**.

*"We often establish escrow accounts against risks. Escrows are a necessity. The amounts tend to be higher than in the US. US escrow accounts are typically 5-10% of purchase price whereas in LATAM, it is 10-20%."*

**South America Investment Manager, Global Private Equity Fund**

*"Target companies are usually family owned businesses. It is important to understand the point of view of the family."*

*"Pricing is not the only concern. It is important to demonstrate the respectability of your company as a buyer, and its ability to take good care of the business and its employees after the acquisition. As a result, establishing a personal relationship with management is critical... and it takes time to build."*

*"I am very cautious in the selection of the right advisor. It takes time in emerging countries, but it enables us to avoid wasting time during the acquisition process."*

**M&A Director, Global Electrical Distributor**

***Case study – a tale of two private equity houses***

*"In our experience of working with private equity houses in Russia, we have seen sharply contrasting approaches. In one, the deal team brought in a small army and proposed a sales and purchase agreement 3 inches thick. In another fund, the team generally went in with a smaller team and a softer, more pragmatic approach. Obviously a number of other factors are at play, but the second fund is generally regarded as having been one of the first funds to 'get it right' in Russia."*

**Andrew Cann, PwC Deals, Russia**

## 6 *Partnering conflicts* – reconciling differences and managing great expectations

***Common problems***

- Conflicting views over strategy
- Conflicts of interest outside the venture
- Cultural differences

***Root causes***

- Misalignment of interests

***Mitigating actions***

- Choose the right partner by holding discussions with multiple companies identified through a bottom-up screening exercise
- Research any partner extensively
- Consider exit and avoid 50/50 joint ventures when structuring the partnership

*"We are brand new to this country. We don't want to write our own book of mistakes when somebody else that has been in this country for 60 years has already written the book and can say, hey come work with me and I will help you avoid the pitfalls."*

**Director, Global Asset Manager**

***Common problems***

Historically, the main reason for partnering was regulatory: certain industries did not permit wholly owned foreign investments. And in some sectors and some countries (e.g. retail in India), regulations still require partnering. While there has been a tendency to favour wholly-owned investments in growth markets in the past, partners offer a number of benefits. Foreign investors are increasingly partnering or taking minority stakes to obtain access to domestic markets.

*"A joint venture is attractive for the seller, as it enables the family to get cash, and still benefit from the company's growth. A JV is also interesting for the acquirer, as it enhances the management loyalty."*

**M&A Director, Global Electrical Distributor**

*"We kept the founder on post-deal as a partner. He knew the operations. When it came to decisions about new lines and new distribution channels, he was an invaluable advisor. He knew the market inside and out. We would have made many mistakes without him."*

**Investment Manager, European Private Equity Fund**

Problems in partnering were the most common reason for problems post-completion in the deals we assessed. Common issues were **differences of opinion over future strategy** or **conflicts over competition outside of the venture.**

Public examples of partnering problems generally concern conflicts over competition outside of the venture in question. French consumer giant Danone, one of the world's most experienced growth market investors, has had very different experiences in investments in China and Russia. The latter has been a resounding success while the relationship with their partner in China has been the source of a public dispute.[12]

Joint ventures can be notoriously difficult to manage, particularly in the developing markets where litigation is regarded as day-to-day business practice. One high profile example is the 50/50 TNK-BP joint venture in Russia between BP and a group of Russian billionaires known as AAR. In early 2011, when BP negotiated a separate alliance with OAO Rosneft, a Russian state-controlled oil company, AAR attempted to block the agreement, claiming that the new alliance would have violated exclusivity provisions in the TNK-BP joint venture agreement.[13]

12 "Danone: Russia get the cream", Financial Times, February 15, 2011.
"Danone ends Wahaha dispute, to sell China JV stake", Reuters, September 30, 2009.
13 "TKN-BP partner relishes conflict", WSJ, November 14, 2011.

“We find a local partner we can trust and with competitive advantage. The key driver for us is getting the right partner in the first place, getting the cultural affinity so we can work together in the future. It takes a lot of ongoing TLC to make sure you’re in bed with the right person.”

“We always seek control. If we can’t, we seek at least blocking control.”

**Partner, Global Asset Manager**

***Root causes***

We believe the key reasons for most partnering problems is that partners often have **horizons beyond the investment in question**, and there is also a strong chance that these **expectations can change**. We believe the attributes that make a partner attractive are competitive advantage, alignment of interests, similar business cultures, and capabilities that are complementary to the buyer. As mentioned previously, holding **discussions with multiple companies** increases the chance of choosing the right partner.

Where there are conflicts, they can all too easily become protracted, because for partners in growth markets, time may be less important than it is for global private equity investors focused on IRR, or listed companies with short-term pressures from the markets.

“Local partners don’t care about timing. They’re happy with their lives. In a dispute, a local partner often just sits on their hands.”

**Investment Manager, Global Private Equity Fund**

**Identifying the right partner can be difficult because of low level of quality deal flow.** There are generally fewer auctions in growth markets, and industries are generally smaller, with fewer strong companies, than in developed economies. Ways to increase the chances of finding the right partner include considering a broader range of targets and spending more time getting to know them and their shareholders.

*"The partner has to appreciate and actually need the value you can add. Otherwise, it will not be a true partnership."*

*"Uncovering true intentions is one of the most difficult aspects of partner due diligence. Often, companies will say what they think you want to hear to attract investment. Never pass up an opportunity for a meeting. In India, it's about having lunches, coffees and getting to know each other. You can't rush the process."*

**Director, Global Asset Manager**

*"We never consider 50/50 JVs because you need to know who is in control."*

**China Business Development Director, Fast Moving Consumer Goods Company**

*"We believe in reaching a majority stake, and increasing it with time : 51% in the first year, 70% to 75% after 3 years, and 100% after 5 years."*

**M&A Director, Global Electrical Distributor**

*"People often say that a contract signed in China is a right to future negotiations. You have to rely on goodwill and interests.*

*The problem is that within a few years, the people in Western companies who sign the deals have usually moved onto different roles or different companies."*

**Sir John Stuttard, Former Lord Mayor of the City of London and Chairman of PwC China**

***Mitigating actions***

We recommend that **companies identify potential partners via a bottom-up screening exercise**, also considering potential new entrants from adjacent sectors. Once buyers have conducted initial research into a company's background, we recommend that the deal team spends time getting to know the partner face-to-face and doing detailed research on the ground.

*"For new markets, we tend to do a large initial acquisition and then smaller bolt-ons. We engage someone to do a market study when we enter a market and for large deals. For new markets, we use the study and do a scan to identify target opportunities."*

**Emerging Market CFO, Information Technology Company**

The key considerations for structuring partnerships are **avoiding 50/50 joint ventures and planning for exit**. The majority of deals with partnering problems that we assessed were 50/50 joint ventures.

This may not mean taking control immediately. In more mature growth markets like the BRICs, strong domestic companies often require majority control. This represents a change in position from the first wave of joint ventures after these economies first opened. One of the reasons for this is that listed companies may want to be able to consolidate joint venture results. If you are not in control, it is important to negotiate to obtain veto and other protective rights, while balancing the need to establish a foundation of trust for a broad and long-standing relationship.

It is also important to plan for exit. In these same joint ventures, problems only began to arise after the initial years of partnership. **The longer the partnership is, the greater the potential for changes in interests**. Also, after initial years, partners will bring less benefit to each other – the foreign buyer will have gained local knowledge, and the local partner is likely to have learned best practice. In cases of entrepreneurs and family-owned business, they often have a long-term interest in exiting the business. Thus, **structuring an effective partnership may also mean appropriately defining under what circumstances and how it will end to align interests**. For example, when one partner intends to ultimately leave the business, it is important to define valuation mechanisms in anticipation of exit.

However, many state-owned businesses and larger private companies aspire to grow into different geographic markets or different product areas. This can bring them into direct competition with the foreign investor. In these cases, we believe discussion of exit is likely to bring any conflicts of interest to the forefront, potentially illuminating a way to exit the partnership that is amenable to both parties. For example, an IPO may be a domestic partner's long-term goal for a business, while a foreign partner may intend to ultimately take full control. Facing up to the realities of these situations up front can help to avoid conflict in the future.

Even with the best structured of partnerships, changing interests mean that there is likely to be a need for further negotiation in a partnership. Therefore, deal teams should ensure continuity between initial negotiations and subsequent responsibility for the partnership. One way to do this is to have the person who will be ultimately responsible for the venture as a key person on the deal team.

## 7 Government interference – managing an additional stakeholder

### Common problems

- Government delay or non-approval of transactions (e.g. anti-competition commission)
- Post-deal changes in government positions

### Root causes

- Grey regulations
- Changing power within government
- National or regional interests in strategic industries and foreign direct investment

### Mitigating actions

- Engaging with multiple levels of government
- Scenario planning

*"The deal was referenced in the [incoming] party's manifesto, and parts of the sales and purchase agreement were read on radio. Because there was no concept of a freehold agreement, we used a 999 year lease. This was read on air as an example of imperial colonialism."*

**Africa M&A executive, Strategic Industry**

### Common problems

In the deals we assessed, government interference prevented a large number of deals from completing and also created a number of issues down the road for deals that did complete. Key problems identified include **governments not approving transactions** (e.g. because of competition considerations) and **post-deal changes in government positions** – either on regulation, tax, or specific its approval of specific transactions.

There are several relatively high profile examples of government interference in deals, particularly post-completion. In 2006, Shell was forced to cede control of its investment on Sakhalin Island in Russia to Gazprom. The case is a complex one, with local public relations issues and environmental concerns, in addition to control over a strategic asset.[14] Three years later, Shell was invited to invest in two new fields on Sakhalin Island.[15]

Two deals with government interference that we assessed in detail took place in Africa. After investing in Nigeria in 2004, Virgin Atlantic claimed that the government forced it to move its operations from the international terminal to the domestic terminal, violating a deal signed by the previous government.[16] In another deal in Africa, after the deal completed, there was a change in government, and negotiations were re-opened.

In India, there is currently a high profile case concerning a major UK corporate in the courts about the tax treatment of investments in business activities in India. The case has potential wide-ranging implications for a number of foreign investments. In China, tax circular 698 will increase the scrutiny of the sale and related capital gains from shares in offshore holding companies whose only asset is a China business.

In addition, the recent suspension of the decision to open the Indian retail sector to foreign investment, to permit 51% foreign ownership of supermarkets will limit the level of foreign investment in the sector. Moreover, a lot of planning done by foreign companies

### Root causes

While government interference is not specific to growth economies, there remains a much greater level of uncertainty as to timing and impact. We believe several connected issues lie at the heart of deal problems stemming from government interference. Many areas of **regulation are grey**, largely because they remain under development. Combined with the fact that in many growth markets, as in developed markets, governments and power within **governments can change**, this presents a risk that the government's position can shift. This can have unintended effects, to the detriment of foreign investors, because of **national interests to control foreign investment and nurture the development of strategic industries**. Also, a less developed appeals process and lengthier time-lines for legal and administrative proceedings makes decision makers in the civil service more important.

We believe the risks of government interference are greatest in three main areas: industries that are important to the national economy, that are sensitive because of their impact on the population, and that are a source of government revenue beyond corporate taxes.

The nature of government involvement is changing as regulatory regimes in growth markets develop. For example, the BRICs have achieved considerable economic success, and are now less incentivized to court FDI.

14 "Shell shakedown", CNN Money, February 1, 2007.
15 "Russia invites Shell back to Sakhalin as finances plummet", The Telegraph, June 28, 2009.
16 "Virgin in talks to sell out of Nigeria", Financial Times, August 19, 2008.

*"The biggest government risk now is that political and regulatory systems are still changing and the governments do not anticipate the medium- and long-term impact of their policy changes. For example, in Brazil in 2009, the government put in capital constraints to prevent the Real from further depreciating against the dollar. This had a significant impact for us as it restricted the currency transactions we were making."*

**Partner, Global Asset Manager**

**Figure 8**

Industries subject to greater government involvement

| Important to the national economy | Sensitive because of impact on population | Sources of government revenue |
|---|---|---|
| • Retail<br>• Financial services<br>• Natural resources (e.g. oil & gas in Russia)<br>• Energy & utilities<br>• Certain manufacturing sectors (e.g. auto in China) | • Media<br>• Pharmaceutical/healthcare | • Telecommunications (e.g. bandwidth licences)<br>• Natural resources (e.g. exploration rights) |

There is arguably now a greater incentive to protect local industry and encourage the development of national champions. Examples of this include Brazil's domestic sourcing requirements. Some of the countries with policies most conducive to FDI could now lie just beyond the BRICs, in countries like Mexico, Vietnam and Indonesia.[17]

### *Mitigating actions*

Although there is no way to remove the risk of government interference completely, we believe it is possible to hedge this risk by developing a government strategy before doing a deal. The strategy should include scenario planning and engaging the relevant parts of government as a key stakeholder.

Through **scenario planning**, it is possible to anticipate the impact of a change in government by engaging with strong opposition parties and considering strategic responses to them coming into power. An advisor that focuses on country risk, embassies, chambers of commerce, and business councils can help to understand how the government is likely to change and the impact on business.

**Engaging with multiple levels of government** enables the diversification of this risk, and engaging with industry level regulators can further reduce the risk of changes in power. Engaging the government often has the additional benefit of minimising other risks such as intellectual property loss. This should include identifying decision-makers and understanding their individual perspectives. It is important not to rely solely on your partners as the conduit to discussions with government officials. Independent channels should be created.

*"It's important to understand the attitudes of the person responsible for making a decision towards your industry, your company, and even your country. These attitudes can be biased based on their personal experiences."*

**Sir John Stuttard, Former Lord Mayor of the City of London and Former Chairman of PwC China**

There is a corruption and bribery risk associated with developing direct relationships with government officials, but there are ways to develop relationships while avoiding this risk. For example, many regulators are interested in learning how industries are regulated abroad. Companies can facilitate this process through educating the regulators and making introductions.

Whichever strategy is pursued, it is important to begin developing a government strategy early. This may be able to turn government involvement into a source of advantage over rival foreign bidders.

*"We would have kicked off both the corporate social responsibility programme earlier, as well as addressing areas like pensions that are important to the government. It is important to start on the more complicated issues earlier, so you can drive it, so you can help the government to understand the issues."*

**Africa M&A executive, Strategic Industry**

17 Eurasia Group.

*"We would have done more scenario planning with mitigation strategies – pre and post deal. It's important to lobby both the current government as well as the opposition."*

**Africa M&A executive, Strategic Industry**

*"It is important to get the support of the right people in China, in order to lead an efficient lobbying effort and ease the process with government institutions."*

**M&A Director, Global Electrical Distributor**

*"Protectionism and the role of the government are both a challenge and an opportunity. Because we enter the market early and develop it, staying for a long time, we build up good relationships with some governments. They appreciate that we are not just coming in when the market is hot and then disappearing. Our local network enables us to navigate through the regulatory system quicker."*

*"We don't get involved with presidents and prime ministers, because they have a short shelf-life. We work with ministries of finance."*

**Partner, Global Asset Manager**

*"It is necessary to get to know the important influencers and decision makers a long time before you do a deal in growth markets. It is necessary to lay the ground work."*

**Head of Corporate Development, Global Bank**

**Figure 9**

Key ways in which governments influence deals

| Type of interaction / Level of government | Local | National |
|---|---|---|
| Formal | • Taxes<br>• Subsidies | • Competition/ M&A commission<br>• Foreign investment regulations<br>• Industry-specific regulations |
| Informal | • Access to partners<br>• Planning/land and utilities access<br>• Access to local financing<br>• Industrial relations | • Access to partners<br>• Access to foreign exchange, raw materials, import/ export quotas, etc.<br>• Public relations |

Source: PwC analysis.

***Private equity: an even stronger case for working with the government***

In developed markets, private equity has had to manage negative public perceptions on a number of occasions. In growth economies, where the asset class is likely to be even less well understood, the risk of negative public perception is potentially even greater than in developed markets. Working with the government as part of a social responsibility programme is one way to address this risk.

In addition, the combination of low quality deal flow and a broader coverage of industries mean that private equity funds should spend time thinking about different ways of sourcing deals in growth markets. Working with local government is one alternative way of sourcing deals.

# Nuances of individual markets

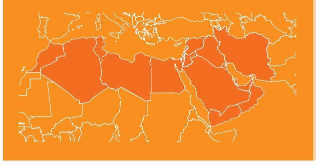
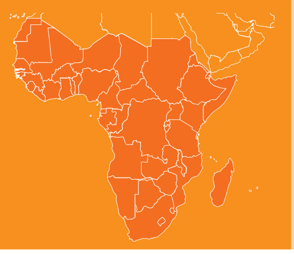
The risks discussed throughout this report are common themes across growth markets, but some risks are more prevalent in specific markets. There are also nuances to how risks manifest themselves in individual markets.

This reinforces the need to tailor deal processes to specific markets, to have nationals on the deal team, to have team members spend considerable time on the ground, and to use local advisors.

**Figure 10**

Regional differences to deals in emerging markets

| Market | Local nuances | Mitigating actions |
|---|---|---|
| **China**<br>**Matthew Philips**<br>Partner, China Transactions Leader<br> | *"Strong competition from rival bidders and alternative sources of funds makes valuations the key issue for China. Based on our data, close to 50% of deals withdrawn after beginning diligence are aborted because of valuations .This is not surprising, given the fierce competition in the Chinese M&A market, and IPO markets in Shanghai, Hong Kong and overseas. This has been exacerbated by the emergence of local PE funds over the past few years."*<br><br>*"Government interference is largely a legacy of the late 90s and early 2000s. We see government interference most often in deals with state-owned enterprises, but deals with SOEs are not that common anymore."* | *"Bring your stakeholders on board early on. Spend more time on the strategic rationale for the investment. Educate them about multiples in the market, in particular for IPOs. Discuss what approach you'll take to valuations. How conservative will you be with DCF assumptions? How will you calculate the option value of a presence in the market?"* |
| **India**<br>**N.V. Sivakumar**<br>Partner, India Deals Leader<br> | *"Indian companies often have a large number of transactions with companies owned by other family members. These related party transactions need to be appropriately identified, understood and factored in order to obtain reassurance that the revenue and profitability is reflected correctly."*<br><br>*"In private or family run companies, the key decision makers may not be the people on the negotiation table. – Other family members who are not in the forefront often play a significant role in making or breaking a deal. Although a deal might appear to be going well, it could easily fall through."*<br><br>*"Sell-side advisors are often local lawyers or family members with little M&A experience."* | *"Find the real decision makers and start talking to them early on. This often requires industry contacts, local intelligence and talking to advisors and accountants to determine who this may be."*<br><br>*"It is critical to get buy-in with the target's support network, especially when it relies on a large distribution network (such as in retail or consumer goods), which may not stay loyal to new owners."*<br><br>*"Have back up options to fall back on, and start the process with them so you don't lose too much time if your preferred deal falls through."* |
| **Brazil**<br>**Luis Madasi**<br>Partner, Deals<br> | *"The environment is improving rapidly, and has been for the past ten years, because of growth of the private equity industry, increased awareness of issues from IPOs, the implementation of mandatory statutory audits and a number of other developments. However, a number of issues remain"*<br><br>*"The regulatory environment, particularly for tax and labour, is a complex one. There are high taxes and social charges on payroll, sales and income. Taxes are diverse and legislation changes fast."*<br><br>*"Compliance with corruption laws is an issue in many companies, and there may be undisclosed off-balance sheet transactions and commitments."*<br><br>*"There are post-merger integration challenges as well. Many companies are not organised in the best way, and the costs of employee termination is high."* | *"Conduct a phased approach to due diligence so you can identify the key issues, including corruption, and then focus on them. Engage tax advisors. Work with industry regulators to understand where the regulations are going."*<br><br>*"Consider post-deal changes like addressing corruption or any organisational changes. It's important to understand these costs as part of your valuation."* |

| Market | Local nuances | Mitigating actions |
|---|---|---|
| **Russia & CIS**<br>Andrew Cann<br>Partner, Deals<br> | *"Very often, small-and medium-sized Russian companies have issues with tax compliance. This can lead to potential tax liabilities, especially as an acquisition often triggers a review by tax authorities."*<br><br>*"In some small- and medium-sized companies, there is the potential for infringements of the FCPA or UK Bribery Act."* | *"Thorough due diligence can often identify these practices and therefore the risks can be quantified. But this takes time and patience."*<br><br>*"Investors must be very careful to commission an FCPA review."*<br><br>*"Understand legal frameworks and use local Russian lawyers. If things go wrong, you will be subject to the Russian courts."*<br><br>*"While there may be problems to overcome, you can still make a lot of money out of doing deals in Russia."* |
| **Eastern Europe**<br>Jonathan Thornton<br>Partner, Deals<br> | *"Eastern Europe is in some ways becoming closer to a developed rather than a growth market. Many countries in the region are members of the EU and some, such as Slovakia, are also members of the Euro zone. As a result many of the issues found in other growth markets, such as black cash schemes, have become significantly less prevalent over the last 10-15 years. However, the region is still diverse and some countries have developed much further than others."*<br><br>*"Corruption in businesses related to government contracts is still an issue in many Eastern European countries, although Governments are taking steps to be more transparent in their purchasing, for example using on-line auctions."*<br><br>*"Another continuing concern is the quality of financial information, which is still typically lower than in the West."* | *"Investors need to be very careful in these areas. We strongly recommend that an FCPA or similar review is undertaken to identify any practices ongoing in the company that a western buyer cannot continue post deal."*<br><br>*"Investors need to focus on what is really important and manage the expectations within their own company as to what level of financial information they can reasonably expect to get."* |
| **Middle East & North Africa**<br>Hani Ashkar<br>Partner, Middle East Deals Leader<br> | *"In two specific deals, the main reason for post deal issues was that management was not experienced enough to deliver on the business plan."*<br><br>*"Many local businesses have under developed control and reporting systems. If this issue is not addressed early, it results in delay in reporting red flags in the business and related issues, which could have a significant negative impact on operations."*<br><br>*"There are also issues specific to individual markets such as living hardships and security risks."* | *"Investors cannot rely solely on management. They have to monitor KPIs, even more closely than in other markets."*<br><br>*"Investors should hire a competent CFO as well as actively follow-up to make sure that the control system and financial reporting functions improve to an acceptable level."*<br><br>*"Companies need to start recruiting for key managers even earlier, and factor in higher costs for key staff."* |
| **Sub-Sahara Africa**<br>Simon Venables<br>Partner, Southern Africa Deals Leader<br> | *"Government policy is more central to deals in Africa. There is often a higher level of political interest perceived interference in deals. Some countries can change the rules on tax or legal parameters quickly."*<br><br>*"People with 'untested' political and business connections who make a living out of these connections can convince companies to invest and therefore testing the underlying relationships is key."*<br><br>*"There is a massive deviation of culture and economies within regions. Companies which have failed often have not had enough of a grasp of the local people, business conditions and environment."* | *"Go there. Local knowledge is paramount. Investors need to visit government departments and ambassadors to understand the political views on the acquirer country and anything else which could cause the government to intervene."* |

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