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ISSUE BRIEF:
**The Role of Economic Developers in Cross-Border
Mergers & Acquisitions**

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About EDRP

The Economic Development Research Partners Program (EDRP) is an IEDC membership level which supports practice-oriented research. The resources developed under EDRP's guidance and sponsorship are designed to increase the knowledge base of the economic development profession and help practitioners navigate through today's rapidly changing economy. Through the EDRP program, IEDC is taking its mission to a new level: to assist practitioners in successfully competing in the global economy, increasing prosperity for communities at an accelerated pace and empowering economic development professionals to better define their vision and value.

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The Role of the Economic Developer in Cross-Border Mergers & Acquisitions

With globalization and the resulting interconnection of markets, flows of cross-border investment have risen exponentially. Foreign investment enters the US market in two general ways: through so-called Greenfield investment wherein an investor finds an appropriate site and creates a new enterprise or by merging with or acquiring a local company, division or asset.

Mergers and Acquisitions (M&A) comprise by far the vast majority of cross-border investment activity by value and deal volume. Global corporations, government-controlled investment entities and private equity firms alike are actively acquiring assets to secure access to the resources, innovations and markets which offer the greatest promise for growth and returns.

Mergers & Acquisitions vary tremendously in their impact on communities. In some cases they provide new blood to revive failing companies, and in other cases, they can lead to downsizing or closure. In the following pages, IEDC provides a broad-sweeping overview of current trends in foreign M&A into the US, listing the range of impacts communities can anticipate depending on their size, location and industrial composition.

Building on a sound understanding of the motivating principles behind M&A, this Issue Brief provides a step-by-step guide to the role of economic developers at each stage of an investment transaction. Armed with this information, Economic Development Organizations can assist local businesses and their communities navigate M&A experiences.

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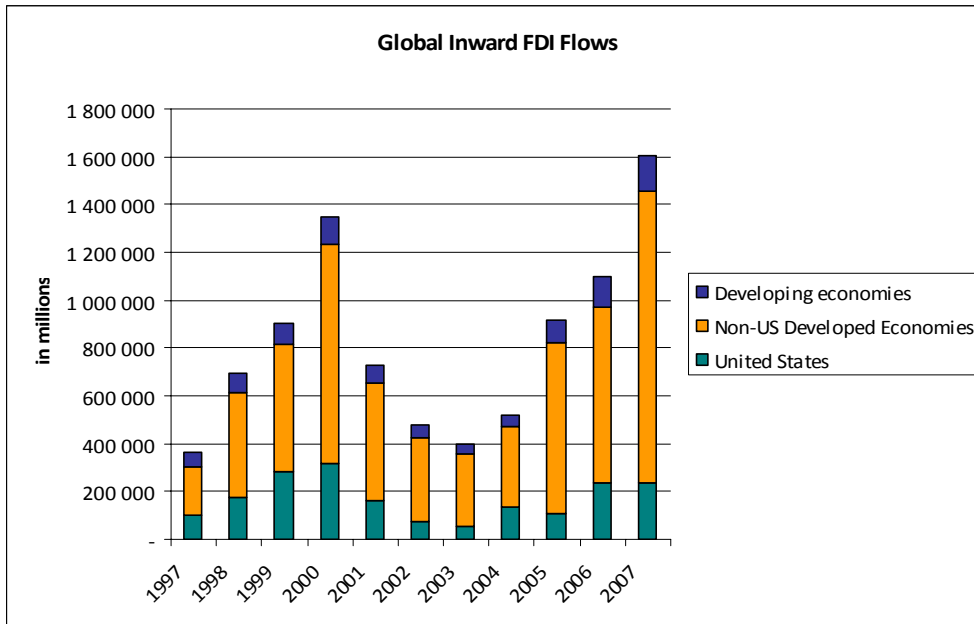
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I. Trends in Cross-Border Mergers & Acquisitions

The following pages provide an introduction to the current state of cross-border investment, with particular emphasis on the dynamics of foreign Mergers & Acquisitions in the US. The major investment players, driving forces and local impacts are profiled, along with the hot button issues of national security, protectionism and antitrust concerns.

Nature and magnitude of cross-border investment. Foreign Direct Investment (FDI) has grown considerably in recent years, rebounding from a low in the early '00s.



- This growth trend continued into '08, with a 37% increase in global FDI volume, even despite a dramatic drop off of activity in Q4 '08.

- The US is closely trailed by the UK as the largest single recipient of inward FDI.

- While developed economies remain the dominant destination for FDI, the share going into developing economies is growing.

Sources: UNCTAD, *Inward FDI Flows by Host Region & Economy, 1970-2007*

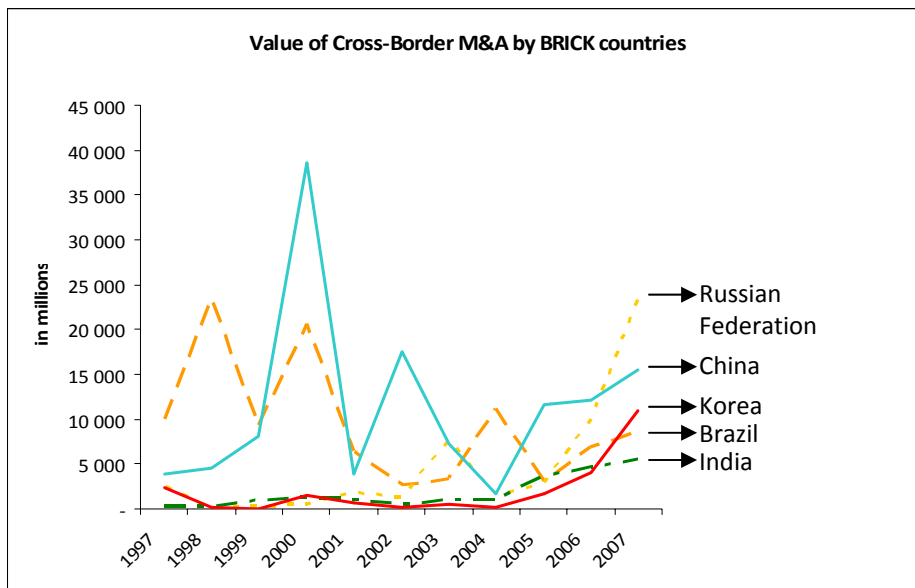
- So far in 2009, the financial, materials, energy & power (including mining and utilities), and healthcare industries have seen the most M&A activity.

Mergers & Acquisitions as a key source of FDI. Though exact figures vary by agency and collection method, Mergers & Acquisitions (M&A) of existing U.S. firms, assets and divisions—by Globally Integrated Enterprises (GIEs), private equity firms and government-controlled entities like Sovereign Wealth Funds (SWFs) and State Owned Enterprises (SOEs)—account for the vast majority (between 80-90%) of incoming FDI. M&A is the predominant method corporations use to enter and expand in the US market, eclipsing Greenfield activity. Though cross-border M&A may not always be as attractive as Greenfield FDI in terms of job creation and positive-sum economic growth, it is a growing phenomenon which will continue to have significant impacts on a number of US communities.

New players. The US is by far the largest source of global outbound M&A, both in terms of dollar value and number of deals. That said, based on research conducted by the private analytics firm Dealogic, since 2006, the value of US companies acquired by foreign firms has exceeded that of foreign firms taken over by US-based businesses. The UK, Germany, Netherlands, Canada, France and Italy are the dominant source countries for these takeovers. However, the pool of investors is expanding to include a host of new international entities.

- The value of outward FDI (both M&A and Greenfield) from emerging economies is growing rapidly, though the total volume still remains well below that originating from the developed world. UNCTAD data calculates outward FDI from all developing countries combined at just over \$235 billion in 2007 while outbound FDI from the US alone topped \$313 billion that year.

- The Russian Federation, China, Korea, Kuwait, Saudi Arabia, India & Brazil make up the lion's share of global FDI from emerging economies. These nations have experienced above-average economic growth in recent years thanks to serving as the workshops and back offices of the developed world, plus having abundant labor forces and lucrative deposits of natural resources.
- Additionally, we are seeing an up tick in acquisitions through Sovereign Wealth Funds, which are financial assets controlled by foreign governments looking to invest their growing current account surpluses. While they are growing strong, these still represent a fraction of the overall investment flow.



- An increasing number of emerging market firms and State Owned Enterprises are joining the ranks of GIEs, expanding their global presence through strategic foreign acquisitions.

- Recent notable deals by emerging market companies include:
Tata Motors-Jaguar Land Rover
Evraz -Oregon Steel
Lenovo-IBM

Source: UNCTAD, *Value of Cross-Border M&As by Region, 1987-2008*

Forces influencing the growth of cross-border M&A. The ability to expand into new markets via cross-border M&A is increasingly a competitive differentiator for firms. Corporations use an acquisition to edge out competitors, access innovative knowledge and processes, gain purchasing power in commodity markets, tap into established supplier networks, access the resources needed for production, and enter new consumer markets. Other forces include:

- Globalization—As a result of progressive waves of trade liberalization and technology development, the developing world has experienced an influx of investment from GIEs which are competing along side domestic firms for market share. This has forced companies from emerging markets to either seek the same advantages of global market integration or succumb to their competitors.¹
- Consolidation pressures—Shareholders seeking ever-growing profit margins are driving industry leaders to seek revenue synergies and cost savings.
- Limits to domestic growth—According to an article from Accenture, “In many industries, telecommunications and banking for example, further national consolidation is constrained in more mature markets by antitrust regulations, forcing companies to look abroad for new targets.”² Beyond antitrust regulations, companies in some developed markets like Japan are constrained by small or shrinking domestic consumer markets.

US remains a prime destination for cross-border M&A. Several factors make the US an attractive target:

- The declining dollar makes US companies relatively cheap for foreign investors
- Tight domestic credit market increases likelihood a US company will seek or need foreign investment

¹ See IEDC's *Primer on Globalization* for an in-depth examination of the dynamics shaping the global market.

² Firstbrook, Caroline, *Cross-border M&A Handle with Care*, Accenture Outlook 2008, Number 3, p.2.

- Sophisticated financial markets and lower geopolitical risk (if lower return)
- Predictable regulatory environment with strong rule of law protections
- Size of domestic market
- Workforce skills and innovation ecosystems
- Marquee brands

Impacts of US affiliates of foreign companies. The specific impacts of acquisitions are contingent upon the nature of the deal and will be explored in more detail below. On aggregate, inward M&A provides the following series of potential benefits to a community³:

- Supports good jobs—In-sourced jobs pay an average of 25% higher wages than the national average.
- Reinforces the manufacturing sector—In 2004, 33% of manufacturing jobs were supported by foreign companies in the US.
- Links to global markets—U.S. companies use multinationals’ distribution networks to boost exports, especially in emerging markets where relationships are paramount. Approximately 19 percent of all U.S. exports (\$195 billion) come from U.S. subsidiaries of foreign companies.
- Funds R&D—US affiliates of foreign firms spent \$34.3 billion on domestic R&D in 2006.
- Increases Spending—US subsidiaries of global companies purchase about 75% of their inputs from US firms

National security concerns and protectionism. The increased volume of inward M&A from emerging economies has elicited concerns over foreign control of sensitive assets and intelligence. Sparked by a handful of failed takeover bids turned front-page news à la Dubai Ports World, Unocal and 3Com, and the foreign acquisition of American corporate icons, cross-border M&A has also attracted more intense public scrutiny. Crucial security concerns surrounding the increase of cross-border M&A are summarized below:

- The increasing pool of investors racing to secure control over a finite pool of resources, particularly related to energy and the raw materials of production.
- Unfair competition, especially from SOEs which may exercise strong control of their respective domestic markets and have easier access to capital, putting them at an advantage in bidding contests.
- The possible connection between foreign government economic and defense policies and the strategic acquisitions of SOEs and SWFs.
- Protecting technologies and know-how critical to US military and economic independence.

One response has been an expanded mandate for the Committee on Foreign Investment in the United States (CFIUS), a multi-agency committee which reviews the national security implications of foreign M&A transactions. CFIUS applies varying degrees of scrutiny depending on the nature of the transaction, the industry involved and the investor. Foreign government-owned or controlled entities are now subject to mandatory review, for instance. The number of cases subject to formal review is relatively low, but has increased since the Foreign Investment and National Security Act of 2007 modified CFIUS; 23 transactions were investigated in 2008, up from 6 in 2007. The US Congress can also intercede on transactions in sensitive sectors, in response to public disapproval, perceived security threats or other political factors.

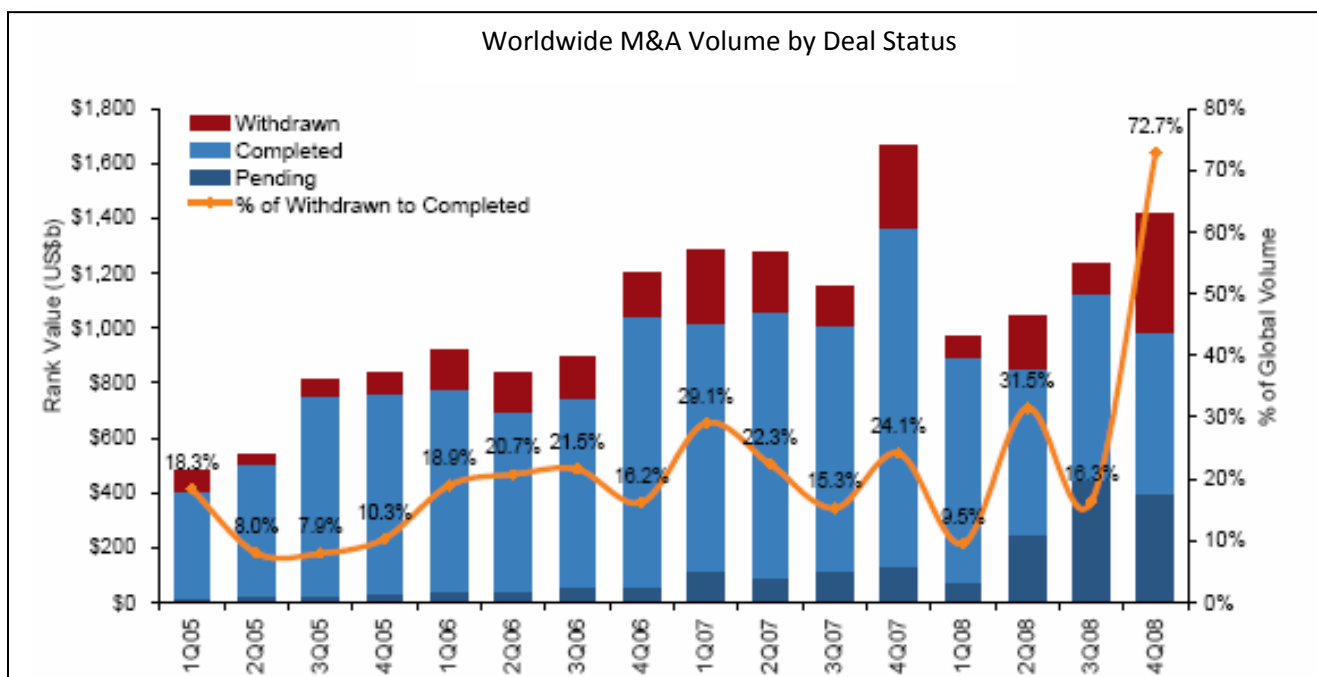
Anti-takeover sentiment is not isolated to the developed world. Coca-Cola’s bid to take over the Huiyuan Juice Group was recently blocked via a controversial new Chinese anti-monopoly law which

³ Sources: Department of Treasury, *Fact Sheet: Open Investment*; International Trade Administration, *Impacts of FDI*; State Department’s Bureau of Economic, Energy and Business Affairs, *Open Investment & American Jobs*.

international investors are labeling as thinly veiled protectionism.⁴ This rejection has elevated concerns about the predictability of China’s operating environment. The key for the US going forward will be balancing concern and careful review of M&A with retaining a reputation for having a fair and transparent regulatory environment and sustaining an open market for investment.

Antitrust issues. Recent actions by the newly minted Antitrust Chief at the Department of Justice (DOJ), Christine Varney, plus comments from President Obama and senior Congressional delegates indicate that M&A deals will be subject to stricter anti-trust controls in the near future. Takeovers among firms in the telecommunications and healthcare industries, and mergers by companies in the same supply chain, are among those targeted for increased scrutiny. Key legislation on this matter (the Securities Exchange Act and the Hart-Scott-Rodino Act) governs disclosure of financial transactions with publicly-held US entities and provides for a competition review by the SEC, the Federal Trade Commission and the DOJ.

Initial and projected impacts of the global economic downturn. M&A has taken a big hit in response to the credit crunch and stock market slip. A significant number of deals have been scrapped or deferred, as financing is tight, company valuations are down, and the market continues to show signs of instability with retail sales lagging and unemployment still rising. According to Thompson-Reuters, global cross-border deals totaled \$1.1 trillion during 2008, a 38.5% decline over 2007. As the graph below illustrates, the ratio of withdraw bids to completed acquisitions skyrocketed in the last quarter of 2008.



Source: Thompson Reuters, *Merger & Acquisition Review 2008*

- While the private sector is hindered by a lack of financing, national government entities, especially Asian sovereign and petrodollar investors, remain stable sources of cross-border investment.⁵
- Though developed countries across the board have witnessed a decline in FDI as a result of the global recession, both inbound and outbound M&A activity continued to grow in China in 2008.
- In the near future, the environment may be more conducive to hostile and unsolicited acquisitions, especially of companies hungry for capital or carrying significant debt.

⁴ See for instance, Economist April 1, 2009, “China’s troubled international deals”.

⁵ For more analysis, see McKinsey Global Institute’s July 2009 report, *The New Power Brokers: How Oil, Asia, Hedge Funds, and Private Equity Are Faring in the Financial Crisis*

II: The Role of the Economic Developer

Given the current lull in cross-border investment, this is the perfect time to analyze your community's assets and vulnerabilities and prepare for the inevitable resurgence of M&A activity. The following pages provide guidance on the role of the economic development professional in anticipating and responding to a range of foreign M&A scenarios. It is divided into three sections—what to do before, during, and after a deal is announced—as the ED professional's role is distinct in each phase. Ultimately, the goal is to build a resilient business environment, mitigate the negative repercussions of deals, and capitalize on the upside of these transactions.

The Role of the Economic Developer—Pre-Acquisition

As the trends outlined above demonstrate, a growing portion of global growth is being driven by actors outside the US. All signs indicate that, as the economy rebounds, so too will foreign M&A activity and its attendant effects on US communities. There are a handful of ways that economic developers can prepare for opportunities and mitigate against the downsides before a potential deal is even floated. Better understanding what companies in your backyard are most likely to be affected and keeping close tabs on major employers through a relationship-based business retention program are key.

Gauging your community's susceptibility. The degree to which a community will experience foreign M&A activity depends primarily on its economic composition. Companies in high-growth industries, such as healthcare and energy, are more likely to be involved in M&A bids. Sectors in decline, such as manufacturing and finance, are also more vulnerable to takeover bids and consolidation pressures. Conversely, industries designated as sensitive due to national security concerns, like telecom or defense, are more insulated from foreign acquisitions. Finally, some communities are experiencing a spike in M&A activity based on the down market and resulting low purchase prices for businesses facing bankruptcy and/or the need to reorganize.

Monitoring the economy for signs of takeover activity. Where possible, use Business Retention & Expansion (BRE) programs and track company performance (employment rolls, sales figures) to identify employers which are rife for takeover. For public companies, analyst and major shareholder opinions on the trading value can be a strong indicator of impending M&A bids, as they reveal whether there is room for significantly increasing margins through restructuring. Local business journals and business reporters from your local dailies are a valuable source of information. You can also prepare by staying abreast of global economic forces and industry-specific trends and their implications for core employers.

The disclosure of Mergers & Acquisitions varies depending on if the players involved are public or private entities. In the US, publically-held companies cannot provide advanced notice of moves towards acquisition or plans to maintain or close acquired facilities as this could be interpreted as stock manipulation. With private companies, you may either know earlier, or not receive any warning at all as there is no government-mandated transparency requirement.

Proactive support to vulnerable sectors and employers. Proactive business assistance will augment your chances of mitigating negative impacts and hostile deals and increase your chances of providing timely support to a struggling business. Consider:

- Providing visibility for companies looking for foreign partners or acquirers
- Tracking large companies which are on the prowl and shopping your assets
- Working with smaller private companies which lack the appropriate expertise to negotiate M&A. This may include assistance with navigating the state and federal regulatory environment for inward investment or connecting them to legal, tax and accounting advisors. There may also be room to

prepare small firms expecting imminent takeover bids to negotiate deals based on factors essential to local economic development such as job level/salary/benefit maintenance and charitable giving and community engagement levels.

The Role of the Economic Developer—During Acquisition

Economic developers can try to avoid being blindsided by a deal if they pay attention to the market and macroeconomic forces, but in most cases can exert only nominal influence during negotiation, if they are even called to the table. Generally with cross-border Mergers & Acquisitions, deals are hammered out in law offices and boardrooms.

This does not mean that EDOs should sit idly and wait for the deal to be completed to react. As the details of the takeover are finalized, economic developers should endeavor to understand the nature of the transaction, negotiate incentives where appropriate and prepare for any job losses or closures. To this end, communities should have a defined group in place to react quickly to a potential M&A. Required players for such a resource team include international, legal and accounting representatives.

Determine the type of deal and motivation for acquisition. Understanding the details of the acquisition is paramount to defining your role during negotiations and anticipating impacts. The key factors to evaluate are:

- Relationship between the acquiring and target companies—A hostile takeover will produce different ramifications than a partnership between equals. Note the circumstances of the target entity; is it negotiating from a position of strength or saddled by debt and struggling to meet pay-roll? Targets operating from an embattled position are more vulnerable to cut backs after acquisition.
- Value of the buyout—An offer that is inflated above current share price or market value is often indicative of large cutbacks after the deal is completed.
- Nature of acquired facility—The acquisition of an R&D facility or other operation with a high concentration of knowledge workers is less likely to result in significant job loss and restructuring than the acquisition of a factory whose production output is duplicated in the acquirer's value chain.
- Motivation for the bid—If the deal is executed to gain entrance into a new market, either geographically or functionally (i.e. to add an additional service or product), the acquired entity's current footprint is likely to be maintained with a few changes related to new management models and back office efficiencies. Conversely, it will be harder to argue for the maintenance of a facility following an M&A deal purely aimed at obtaining intellectual property (i.e. patents and processes) or shutting down a competitor. Finally, the M&A may be sparked by sector transformation. Impacts will vary: if it's a rapidly growing sector like biotech, community impacts will likely be more positive than an M&A in a distressed industry facing consolidation pressures, such as are currently seen in the financial industry. The latter will likely foreshadow downsizing, renegotiation or termination of supplier orders and a reduced philanthropic role.
- Culture of acquiring company—Profile company leadership, tracing their individual and the company's overall historical patterns of acquisition for clues on how your M&A will unfold. This requires creative sleuthing beyond what is available on their website. Some questions to ask: Is the acquiring firm willing to use local supply chains; do they recruit global suppliers to also locate locally; or do they tend to maintain global supply chains and sever the initial company's relations with local vendors?

Other layers of due diligence. In addition to determining what you can about the nature of the proposed deal, you can add value by gathering and sharing intelligence in the following arenas:

- Educate decision makers regarding business protocols and laws in the acquirer's home country—For example, strict labor laws in the acquiring country may make it easier to fire US employees.
- Research the financial backing of the deal and track any fluctuations in credit availability to the acquirer which might indicate a bid withdrawal.
- Follow any reported significant losses, market collapses, or tech breakthroughs which would affect the acquirer or could affect the market value of the target.
- Evaluate transportation connections/international air service between the two locations—A well-connected location has a better chance of retaining corporate headquarters.
- Conduct an inventory of properties owned by the target company—Be aware of the real estate that might be in play, both in terms of potential closures or contractions, and for potential expansion opportunities.

Negotiate Incentives. In rare circumstances, there is a role for EDOs during negotiations to offer attractive incentive packages to entice bidders to maintain, upgrade or expand the target operation's local footprint. Be prepared to respond quickly if the nature of the transaction leaves room for offering incentives. Treat this as a business attraction situation, striving to understand what the acquiring company stands to gain in the deal and honing a message based on your location's specific strengths.

- On clawback provisions—If the acquirer asks for incentives as part of their acquisition, i.e. if they are investing in capital and looking for tax breaks, you've got a hook from which to negotiate a more positive local economic impact. Alternately, if the foreign company is a white knight saving a failing company, there is less room to attach requirements.

Monitor and help shape public opinion. It is important to reiterate that M&A activity is not necessarily bad. Cross-border investment can be quite beneficial to communities, especially in cases where the acquired US company was struggling.

- Perceived or real hostility to the takeover or the company's presence may hinder future relations or investment decisions on the part of the acquiring company. Any work by the EDO which can paint the acquisition in a positive light will help ease relations between the company and the community in the future. In some instances however, emotions are high and any attempt to soften the public backlash will not be fruitful, possibly damaging the EDOs reputation with the community.

Early interventions in anticipation of negative impacts. In cases where all signs point to drastic negative outcomes, there are a few preemptive ways for EDOs to try and mitigate the downsides.

- Activate clawbacks or extractions based on existing incentive agreements with the target company.
- Launch a PR campaign which puts pressure on the acquirer to keep some residual knowledge or physical assets in place.
- Prepare speaking points for local leadership lobbying on behalf of keeping the business open.
- Locate another buyer for the company or coordinate a management buy out to keep the business locally owned—Note that success on this front depends on the reasoning behind the post-deal downsizing. If the motivation is to take out a competitor, for instance, such an option is unlikely to meet with favor. Furthermore, there are generally financial reasons why an acquirer is shuttering a location; it will be difficult to secure funding for the acquisition of a struggling operation.

The Role of the Economic Developer—Post-Acquisition

After a transaction is finalized, there is a distinct role for economic developers to maximize the value of opportunities and protect the community to the furthest extent possible from negative impacts. Immediate priorities include building a relationship with the new management, retaining talent, finding a productive channel for affected individuals and small businesses, and seeking additional funds to support the community through the transition.

Post deal role varies by organization type. It is typically only after a deal is inked that a distinct role for economic developers emerges. Of course, the specific course of action depends on the type of organization and the relationship it has with the acquiring company.

For instance, to lessen local economic impacts, city or county agencies may apply for supplemental state and federal funds to extend entrepreneurship programs and support affected small business. On the other hand, Chambers of Commerce are well positioned to approach the new ownership via CEO-to-CEO outreach to encourage a strong local presence and further investment. Other organizations with distinct post-merger roles include: state agencies, the state commerce department, international trade entities, port authorities, universities and utility providers. Each organization should evaluate their unique relationship with the company and let that influence further action.

More important than which organization plays what role is to coordinate activities to the greatest extent possible and ensure that the entire range of professional services is delivered.

Invest in relationship building. Once the acquisition is completed, it is integral to foster a healthy relationship with the acquiring company. This includes re-establishing BRE efforts with the new management. Some key actions are listed below:

- Know the company—Understand the corporate culture, business model, global operational structure and economic conditions in their home country, especially currency exchange rates and hiring/firing practices. These two factors can provide an ED practitioner with knowledge on how the company may react and contract during economic declines. If the acquiring country's currency rapidly devalues, for instance, positions could be lost from the US location as the company may repatriate production or otherwise reduce their engagement in your community. Depending on the firm's decision making structure, it may be more advisable to engage with local leaders versus those at the international HQ.
- Provide immediate assistance—Offering a few targeted services off the bat may help you protect some jobs and maintain a higher corporate presence in the community. Some ideas include permitting assistance, offering to prepare redevelopment plans for the acquired facility, financing workforce training in the new management model, or connecting the company with local sources of intellectual property or small businesses developing sector-specific innovations.
- Create a receptive environment—Demonstrate that the community is hospitable to the new management and that there is a proactive and receptive environment for investment. These efforts can pay dividends in terms of future philanthropic activity, public-private partnerships, and most importantly, the retention of a strong corporate presence. Additionally, investing in positive relationships with the new management will garner your community a pro-business reputation and result in word of mouth advertising which encourage future investments from other companies. One effective tool is the development of foreign language courses or student exchange programs.
- Encourage growth—Provide incentives and direct support to encourage future investment in the location. Beyond direct cash incentives and tax credits, cooperative initiatives between the community and the company on place branding and/or talent acquisition can also increase the company's local involvement. Finally, connect the company with university leaders to spark partnership opportunities.

Track and respond to negative economic impacts. In the event of a closure or significant restructuring, EDOs must evaluate the impacts and the subsequent needs of the community. Most solutions can be drawn from the economic developer's existing toolbox and supplemented with additional funds and customized to serve the impacted parties. Priority actions:

- Contact laid-off employees and pair the jobless with alternative employment sources in complementary fields, perhaps through the creation of a local job-listing or freelancers website.
- Access local leadership and creative talent which may be lost as a result of the M&A and work to retain these resources within the community by providing financing, mentoring and space for entrepreneurial endeavors. One direct connection to affected workers is through outplacement companies which the acquirer might engage to help soften the blow of layoffs for high-level employees.
- Establish training programs for displaced workers to strengthen and diversify the skills base.
- Survey affected suppliers, customers and contractors to adapt existing business development programs to acute needs. This outreach will also serve to make impacted parties aware of available services.
- Map affected supply chains and evaluate where growth can occur through new business attraction.

III. Conclusions—Building Resilient Economies

The trends section of this Issue Brief provides a quick, digestible source of the most salient features of the market for inbound cross-border M&A. The overall message is that foreign acquisition of US assets, firms and divisions is an inevitable by-product of globalization, which presents both challenges and opportunities for US communities. To help economic developers better anticipate and effectively respond to M&A transactions, Section II of this document serves as a step-by-step action guide. After reading, file this resource to use as a reference when a potential takeover deal emerges.

Knowing how to navigate these business transactions is just one part of is just one part of the economic developers role in responding to cross-border M&A. The key to resilience in the face of M&A activity—and global competition writ large—is proactive investment in economic development. Retaining and expanding the footprint of an operation after it changes hands depends on your ability to support enterprise competitiveness in an economy which delivers increasing returns to knowledge and innovation. To strengthen your position with regards to foreign M&A, identify and cultivate your community's unique value proposition.

Winning communities distinguish themselves along several dimensions:

- Physical assets & location—Factors such as a concentration of suppliers, synergistic industry clusters, well-maintained multi-modal transportation networks, and access to consumer markets combine to make a community attractive to investors.
- Policy environment—Determine how your regulatory and tax environment impacts the industries of core employers and work to ensure comparative ease of operation.
- Innovation eco-systems—Innovation is the life blood of business growth. EDOs can support the creation of new knowledge and processes through entrepreneurship programs, R&D infrastructure, tech-transfer, commercialization, and university partnerships.
- Talent—A skilled workforce and flexible training programs yield competitive dividends. Quality of life factors are an important draw for talent, especially the dynamic Generation Y.

Sharpening these dimensions proactively is the only sustainable way to reduce the negative brunt of foreign M&A. Demonstrate this connection when communicating the value of economic development to your elected officials, stakeholders and constituents.

Attached to this document are two appendixes which provide illustrative examples of the analysis provided here. In Appendix I, we tell the story of the infamous InBev—Anheuser-Busch takeover with a new spin depicting how the deal unfolded from the perspective of regional EDOs. Appendix II contains several very short cases which highlight the breadth of industries affected, investor countries, takeover motives, and economic impacts.

Appendix I: Case Study—InBev’s Acquisition of Anheuser-Busch

Amidst much public outcry, the Belgian/Brazilian brewing conglomerate InBev acquired American beer company Anheuser-Busch (A-B) in July 2008 for \$52 billion, catapulting it into the top spot worldwide for beer production. Through this takeover, InBev stood to gain global distribution channels and reduce the costs of major inputs such as grain by employing greater purchasing power. As the companies were publically traded, economic developers did not learn the official details of the deal until it was all but completed. Some valuable hints did emerge however in the business press, where stock analysts and reporters speculated about the potential acquisition. In retrospect, local ED practitioners were able to identify several signs that revealed Anheuser-Busch as a prime target for acquisition and foreshadowed the cutbacks which would follow the deal.

One sign was the generous compensation, supplier relationships and broad philanthropic tradition of Anheuser-Busch, characteristic of a family-founded business with longstanding roots in a community, but also rife for cost-cutting. In addition, prior to the announcement, A-B was trading at a level below what analysts regarded as its true potential, indicating room for increasing the firm’s profit margins. While A-B stock was trading at \$50/share before takeover speculation began, InBev’s final offer of \$70/share revealed that the purchasing company and its financiers projected strong returns via streamlined management, production & distribution. Finally, InBev’s track record of aggressive acquisitions revealed a company culture for seeking efficiencies through global consolidation, tipping economic developers off to the type of economic impacts to anticipate post-deal.

Since the merger, InBev has eliminated 1,000 positions in St. Louis, frozen pensions, increased inventory requests of wholesalers, and extended invoice repayment timelines, which squeezes cash-strapped businesses. While InBev has maintained its contributions to high profile institutions, it is unclear whether the network of smaller local causes previously supported by A-B will retain their sponsorship. What’s more, following waves of employee buyouts, especially at upper management levels, St. Louis economic developers fear an out-migration of local leadership and creative talent. At the same time, AB InBev remains one of the region’s largest employers, and some job loss was inevitable even in the absence of a merger. Tough restructuring and cost-cutting decisions were likely in the pipeline for A-B as it struggled to stay profitable in an aggressively consolidating industry.

In this particular case of cross-border M&A, regional ED practitioners became engaged only after the deal was inked, as there was no invitation to the negotiating table or purpose to offer incentives. In the wake of the merger, ED responses have varied by organization type. The regional chamber of commerce is leveraging its private sector connections to establish a relationship with the new management, demonstrating that the community is hospitable to the InBev team and learning about the company’s workings to seek strategic opportunities for investment and expansion of the firm’s presence. Meanwhile, the city and county ED agencies are focusing on leveraging federal funds for economic adjustment and tailoring entrepreneurship programs to the needs of the newly unemployed. The county agency, for example, has prioritized talent retention and is working directly with AB-InBev’s outplacement firms.

This case reinforces the idea that most M&A transactions are motivated by economic forces which economic developers cannot influence. It is important to be prepared to respond quickly in the event that the nature of the deal leaves room to offer incentives or support an alternative buyer, but often the role of ED practitioners begins only after the fact.

Appendix II: Additional Profiles of Recent Foreign Acquisitions of US Entities

Siemens (Germany) and US Filter (owned by Vivendi—France)

In 2004, Holland, MI was experiencing a downturn not uncommon to fading industrial Michigan towns. In that year, Siemens purchased US Filter, a wastewater treatment equipment company from its current owner, the failing French conglomerate Vivendi. This acquisition was motivated by a drive to strengthen Siemens' portfolio and shrink the gap between itself and its main competitor, General Electric.

This acquisition has resulted in a doubling of jobs at the US Filter operation from 105 in 2004 to 249 in 2008 and a 2006 expansion which added 20,000 square feet and a second shift. Siemens' investment was bolstered by a Michigan Economic Development Council incentive package which included tax abatements and a job training grant.

Evraz (Russia) and Oregon Steel

The Russian company Evraz acquired Oregon Steel headquartered in Portland, OR in January of 2007 for \$2.3 billion. The merger, motivated by a trend toward consolidation in the steel industry and a push by Russian countries to become larger players in the global market, combined the growing company Evraz with healthy Oregon Steel having just announced record third quarter earnings in 2006. The acquisition was endorsed by the United Steel Workers union and was thought to provide increased security for workers.

While initially performing well thanks to the high demand for steel worldwide and US military contracts for mine-resistant armor, Oregon Steel later saw losses in 2008 and 2009 due to the changing economic climate.

Groupe Danone (France) and Stonyfield Farms

In a very equitable merger, the French food giant Groupe Danone and organic yogurt maker Stonyfield Farms agreed to a deal whereby Danone first acquired 40% of company shares in 2001 and then obtained an additional 40% in 2004 for a controlling interest in the small company. While many might be concerned with the merger, especially considering Stonyfield's substantial commitments to dairy standards and community outreach, the deal has emerged as a model for win-win acquisitions.

Both companies have benefited from the merger, with Stonyfield gaining expertise in production and food research while Danone now has a stake in the organic dairy market. The smaller company, Stonyfield Farms, retained its entire staff as well as executive leadership and remains committed to environmental and social goals as a company, most notably the sourcing of a set percentage of milk from local sustainable dairy farms. Danone is now preparing to launch Stonyfield's organic yogurt in the French market.

Roche (Switzerland) and Genentech

Biotechnology pioneer Genentech has fostered an environment in which employees thrive and feel free to explore and has long been seen as a leader in the industry. In large part because of these strengths, pharmaceutical giant Roche purchased Genentech for \$46.8 billion in 2008. Already owning 56% of the

company, Roche's acquisition would further strengthen its company with the innovative capacity of Genentech's skilled workforce.

This merger was met with skepticism and fear on the part of industry groups and Genentech workers. Many felt that the culture which enabled Genentech to become a biotech powerhouse would be crushed under the weight of global giant Roche. In a reversal from M&A experiences where employees fear job cutbacks in the wake of a merger, Roche worried about retaining the valuable Genentech employee base and offered substantial retention bonuses to those who stayed.

These tactics have had mixed results. In April of 2009, for example, both Chief Executive Arthur Levinson and Product Development President, Susan Desmond-Hellmann stepped down. Levinson will have a place on the board of directors and Desmond-Hellmann will act as an advisor but neither will be involved with day-to-day decisions. It remains to be seen what the long-term repercussions of this loss of local leadership will be.

Alcatel (France) and DSC Communications

The marriage of Alcatel and DSC Communications began positively for both companies in 1998, especially given DSC Communications' precarious financial situation. Shortly after the deal was inked there were rough moments when Alcatel stock dropped by 40% and DSC shareholders sued claiming Alcatel misrepresented itself. In spite of this near-fall, Alcatel and DSC were able to regain their footing and form a successful partnership, especially in Richardson, Texas where DSC is headquartered.

Alcatel orchestrated the merger to enter the US market where it had a weak presence and to take advantage of DSC's large facility in Texas. DSC, a slumping firm, and the Richardson community have both benefited from the merger. Local management has been retained, and Alcatel has become an active community partner, donating money to local colleges.

Alcatel (France) and Lucent Technologies

The 2006 merger between Lucent Technologies and Alcatel has been plagued with corporate confusion and financial losses. The \$10.7 billion deal was promoted as an opportunity to combine the strengths of the two companies but instead has exacerbated on each company's weaknesses.

Many of the high profile challenges hinge on cultural differences between the two companies. Lucent CEO Pat Russo was named the CEO of the combined entity though she spoke no French while Alcatel CEO Serge Tchuruk became the chairman. Corporate culture in the US would deem Russo the head of the company but the French culture gives more importance to the Chairman. This corporate inconsistency left the newly merged company without a strong leader.

The aforementioned confusion in conjunction with stiff competition and the market downturn has resulted in consistent quarterly losses since the merger. Things may be improving as indicated by the June 2009 announcement of a strategic marketing partnership with HP. The telecommunications market is marked by strong competition however, with Nortel and Nokia Siemens merging in response to the global economic crisis.

Lenovo (China) and IBM

In December of 2004, the Chinese company Lenovo purchased the personal computer division of IBM for \$1.75 billion. Lenovo, which at the time was not well-known outside of Asia, knew that it could not

take over the much bigger company and excel while running the business from Beijing. As a result, they moved to Purchase, New York and benefited from the proximity of the IBM team in Armonk. The acquisition served Lenovo well by introducing the company to the US market and enabled them to learn global management skills from international powerhouse IBM.

This deal has not been without pain though. In 2006, Lenovo announced a restructuring plan in order to gain efficiencies. This involved the reduction of their worldwide workforce by 1,000 and moving corporate headquarters from Purchase to Raleigh, North Carolina where its research and development facilities were already located. Most recently in January of 2009, Lenovo announced another worldwide workforce reduction of 2,500 in the wake of record quarterly losses.

Royal Philips Electronics (Netherlands) and Lifeline Systems

In 2006, Royal Philips Electronics acquired Framingham, MA's Lifeline Systems for \$750 million in an attempt to take the corporation in a new direction. The global home electronics manufacturer had been shrinking in the years prior to the merger and had hatched plans to jump start growth. This expansion took the form of a two-year shopping spree in which it purchased 16 companies, 11 in the United States including Lifeline Systems. Seen as a market-leader, Lifeline's success in the health service sector made it a good purchase for Royal Philips because it gave them immediate inclusion into a growing and important industry sector.

This acquisition is an example of the differing motivations for deals. In this case, Royal Philips did not want to attain and transform the company but rather take it over with few changes in order to assume their position in the healthcare industry and benefit from the experienced management team and employees. As Royal Philips repurposes its company, Lifeline provides know-how and an already successful business which taps an ever-growing audience in elderly and chronically ill people in need of emergency safeguards.