

www.pwc.ch

PwC Deal Talk

Doing Deals in France from a Swiss Investor's Perspective

Edition: 3/2017



pwc

Key facts about France and Switzerland



	Area	643,8 k	41,3 k
	Population	66.9 m	8.4 m
	Capital	Paris	Berne
	Primary languages	French	German, French, Italian
	GDP	USD 2.42 trillion	USD 0.67 trillion
	GDP per capita	USD 36,200	USD 80,400
	Economic ranking	6th	19th
	Exports	USD 13.8 bn* to Switzerland	USD 14.4 bn* to France



Sources: 2015 figures from World Bank and Institut national de la statistique et des études économiques (INSEE)

* 2015 average exchange rate applied

Second largest country in Western Europe

France is the second largest country in Western Europe with the second largest population (behind Germany). It consists of 13 regions covering a total of 644 thousand square kilometres.

France is also present overseas with island territories in the Atlantic, Pacific and Indian oceans, French Guiana on the South American continent and several Peri-Antarctic Islands as well as a claim in Antarctica.

Switzerland and France share nearly 600 kilometres of common border.

A neutral trade balance with Switzerland

In 2015, imports from France amounted to USD 13.8 bn¹ (8.0% of imports) and consisted mainly of jewellery, agro-industry products, pharmaceutical products and cars. Exports to France amounted to USD 14.4 bn¹ (6.9% of exports) and consisted mainly of pharmaceutical and chemical products and watchmaking items.

With cumulative invested capital of EUR 42.4 bn at the end of 2015, Switzerland is amongst the biggest foreign investors in France.

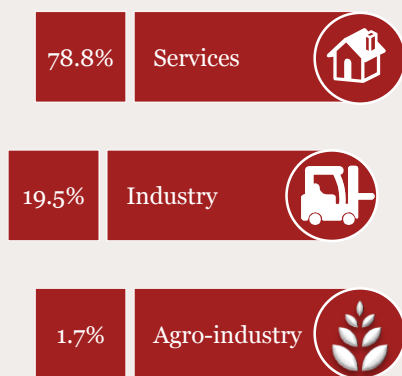
After rejecting European economic area membership in 1992, Switzerland and the EU agreed on a package of seven sectoral agreements signed in 1999 (Bilaterals I), which were extended to ten sectoral agreements (Bilaterals II) in 2004. These include free movement of people, technical trade barriers, public procurement, agriculture, and air and ground transportation.

Sources: European Commission website, Swiss international affairs bureau, French diplomacy website

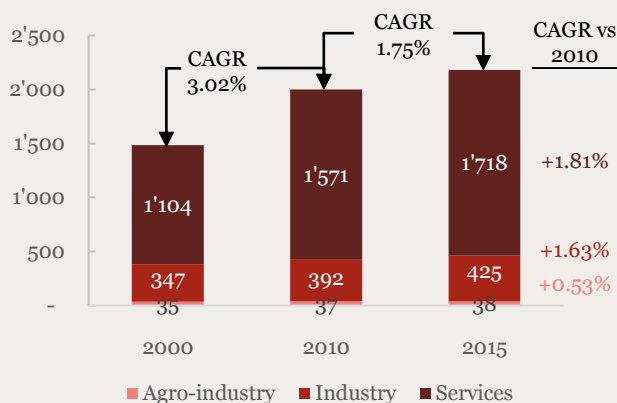
1: The figures exclude gold, gem stones, artefacts and antiques

A diversified economy back in motion

GDP contribution by sector
(2016)



GDP evolution by sector (in € bn)



Sources: Insee, Worldbank

France benefits from a well developed services industry

France benefits from a diverse and dynamic services industry that has driven the biggest part of the French economic growth in recent years; the contribution of the manufacturing and agro-industry was limited.

Although France is internationally renowned as a tourism destination, this sector only accounts for 7.3% of France's GDP. It employed about 2 million people out of a working population of 28.8 million in 2016 (6.9%).

A slow but durable recovery is on its way

After the country weathered the recession of 2008, the GDP has recovered over the past four years at a slow pace. French GDP grew by 1.1% in 2016 with an unemployment rate that went below the 10% level for the first time since 2012. On top, signs of improvement have recently appeared in corporate margins (average gross margins for non-financial companies increased to 31.5% in 2016 vs 29.9% in 2013), investments and jobs.



Innovation is a stepping stone for the French economy

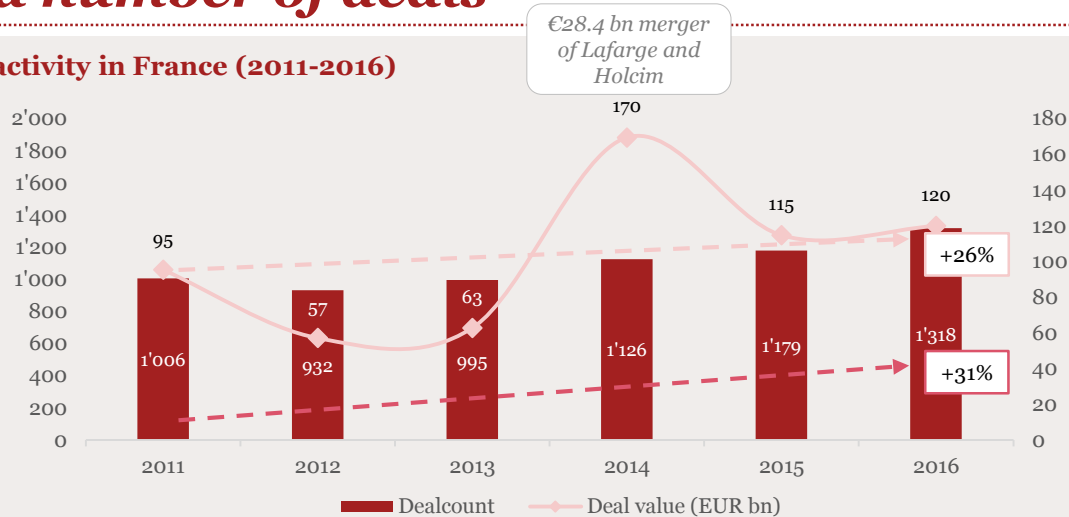
France is also emerging as one of the most active European countries in terms of venture capital investments.

The €5.5 bn invested in more than 1,000 companies in the first half of 2016 in France is a perfect case in point (vs €3.8 bn in 2015). The evolution of the number of VC players and capital raised follows the same pattern. This dynamic is well illustrated by a movement promoting the French "savoir-faire" and France as a country of entrepreneurs: "La French Tech". Private initiatives, such as the one led by Xavier Niel (Station F), are other examples for this dynamic.

According to the 2016 Clarivate analytics index, France ranks third in the world in terms of number of patents and innovation just behind the US and Japan; Switzerland is ranked sixth.

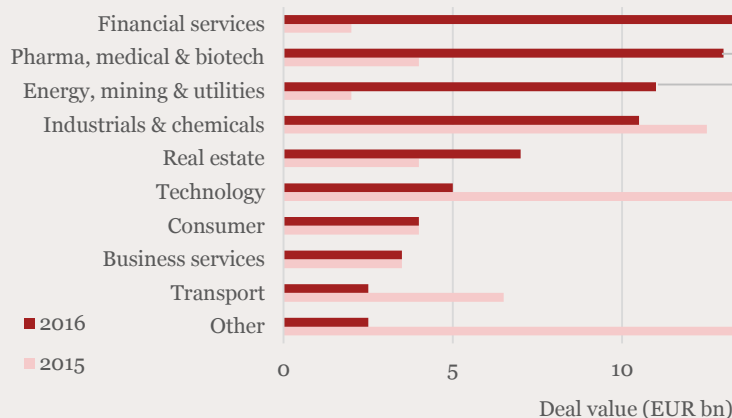
Increasing M&A activity in terms of value and number of deals

M&A activity in France (2011-2016)



Deal numbers and values include domestic, inbound and outbound M&A activity

M&A industry breakdown in €bn for 2015/2016 (targeting French companies)



€18.5bn sale of Credit Agricole's stake in its network of regional banks.

€11.4 bn asset swap between Sanofi and Boehringer

€4.1 bn sale of EDF's stake in RTE to Caisse des Dépôts

Nokia buys 92% of Alcatel for €13.5 bn

Values include French targets acquired by domestic or foreign buyers

Increasing deal flow

Over the past three years French M&A activity has been on the rise in terms of value compared to the 2011-2013 period with total deal value exceeding €100 bn every single year (2014 was an exceptional year, partly because of the merger between French Lafarge and Swiss Holcim with an enterprise value of €28.4 bn). 2012 and 2013 have seen lower M&A activity mainly due to the slowdown of the global economy, the Eurozone crisis and tax increases in France.

In the meantime, the total number of deals has experienced a steady growth since 2011 (+31%), showing an increasing appetite for and by French companies for M&A.

Financial services dominating in 2016

Financial services led French M&A activity in 2016 thanks to Crédit Agricole's sale of its stake in its network of regional banks (€18.5 bn). Over the 2015-2016 period and excluding mega deals, leading industries in terms of M&A activity were:

- 1) Industrials and chemicals
- 2) Real estate
- 3) Technology and energy, mining and utilities
- 4) Consumer and financial services

Established PE landscape

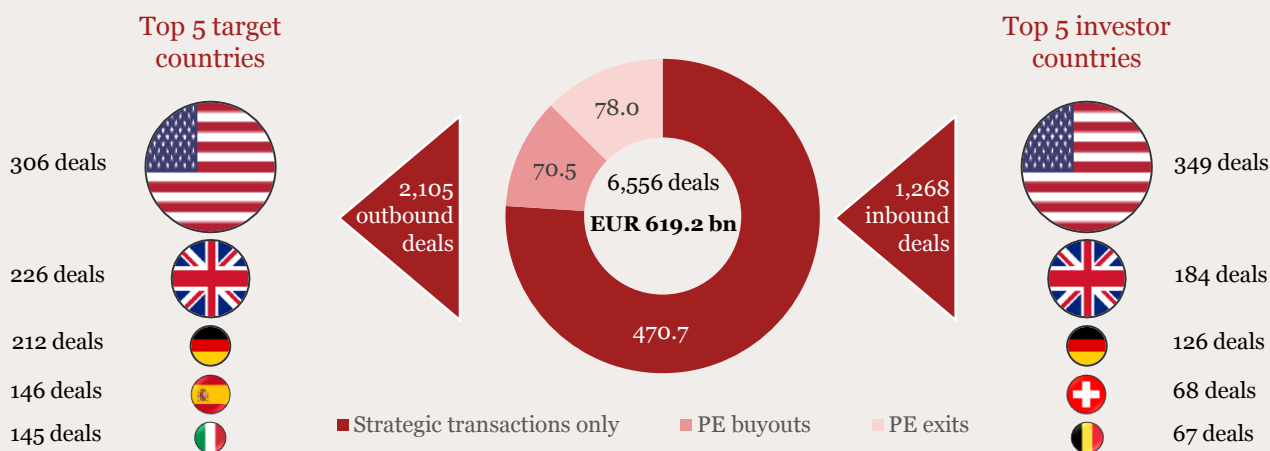
French institutional investors are well established and play an important role in the M&A landscape, having accounted for 30% of deals from 2011-2016.

Attractive economic environment likely to boost M&A activity

Currency development



Cross border and private equity activity (2011-2016)



An attractive economic environment for foreign investors

On 15 January 2015, the Swiss National Bank (SNB) abolished the minimum exchange rate of about EUR 0.83 per CHF. This rate was introduced in September 2011 at a time where the SNB was trying to limit the appreciation of the Swiss franc and its impact on exports. The current levels of the CHF-EUR and USD-EUR rates and the turnaround context in France offer attractive investment opportunities. In addition, a low exchange rate makes exports from the Eurozone relatively cheap, making production in the Eurozone more attractive.

Most deals done with the US

Over the past five years, the majority of both inbound and outbound deals were done with American companies. Switzerland ranks fourth for inbound deals.

Chinese companies are expected to continue to gain momentum and to increase their impact on French M&A activity. China ranked sixth for inbound deals over the 2011-2016 period in terms of volume. 2016 set a new record in terms of deal count with a total of 16 inbound M&A deals from China valued at €1 bn. Germany was the leading inbound investor in 2016 in terms of value (€11.9 bn out of €34.3 bn inbound deals in 2016) and third in terms of number of deals (26).

What's the deal in France?



Private equity

France enjoys a well-developed private equity market from seed capital to LBOs. 298 active members are registered at the “Association Française des Investisseurs pour la Croissance” AFIC (the French SECA). In addition, French authorities also enhance private equity through the Banque Publique d’Investissement (BPI). The market is mature, with transactions such as secondary, tertiary and even quaternary buyouts today.



Vendor due diligence

Vendor due diligence is extremely common in France regardless of the size of a deal. Furthermore, this type of service is often required by banks and private lenders in order to finance the deal.



Accounting standards

The French “Plan Comptable General” (PCG) defines a common and mandatory accountancy framework for all French companies. French GAAP has its own characteristics and is tax-oriented. Buyers will have to adapt their analysis when looking at the reported profitability and valuation.



Labour unions

Labour unions still have a prominent influence on the French workforce and have to be considered during deal negotiations. Since 2014, in the case of a sale of a company, the employees have to be notified ahead of the process. Companies with more than 50 employees have to request company committee (“Comité d’entreprise”) approval.



Legal characteristics

France has made deep changes in labour law in 2016. Agreements at a company level between the management and the employees will now prevail on agreements by industry (working hours and conditions).



Taxes

French authorities are very strict regarding tax payments and do not leave any room for negotiations. Fraud usually results in severe penalties. There is a unique tax rate for companies in France which amounts to 33.33%.



Salaries and benefits

Personnel costs include more than 25 different items for the employer (versus 10+ in Switzerland): URSAAF which notably regroups the accident and pension insurances, social security contributions, unemployment benefits, tax financing, professional training, etc. Employees are also entitled to a profit sharing scheme which involves specific accounting treatment.

Contacts and credentials

Key contacts



Sascha Beer
Partner, Corporate
Finance / M&A
+41 58 792 1539
sascha.beer
@ch.pwc.com



Nico Psarras
Partner, Head of
Transaction Services
+41 58 792 1572
nico.psarras
@ch.pwc.com

Contributors



Maxime Dubouloz
Head of M&A Western
Switzerland
+41 58 792 9058
maxime.dubouloz
@ch.pwc.com




















Mathieu Gravier
Senior Manager,
Transaction Services
+41 58 792 9300
mathieu.gravier
@ch.pwc.com

From 2007 to 2011
Maxime spent four
years in Paris working
in the M&A advisory
field.

Before joining PwC in
Switzerland, Mathieu
spent 10 years in audit
and transaction
services and
restructuring at PwC
in Paris.

Cross-border deals in France

<p>2016 Acquisition of Switzerland-based Edelway</p>  <p>By AKKA technologies</p>  <p>Financial due diligence provided by</p> 	<p>PwC carried out financial due diligence for the acquirer and provided negotiation support.</p>	<p>2015 Acquisition of the French leading fuel distributor</p>  <p>by the Chinese group</p>  <p>Seller advised by</p> 	<p>PwC acted as the sole lead advisor to Dyneff in its sale to the Chinese group.</p>	<p>2015 Sale of the insurance broker</p>  <p>to the PE house</p>  <p>Seller advised by</p> 	<p>PwC acted as the sole lead advisor to EURO Dommages in its sale to Cobalt Capital.</p>
<p>2015 Disposal of</p>  <p>high-tech initiation company to Chilean explosives group</p>  <p>Sellers advised by</p> 	<p>PwC acted as the sole lead advisor to Davey Bickford in its sale to Enaex.</p>	<p>2015 Acquisition of the French York lubricants</p>  <p>By Motorex</p>  <p>Buyer advised by</p> 	<p>PwC acted as sole financial advisor to Motorex on the acquisition of York Lubricants.</p>	<p>2015 Lafarge Holcim</p>  <p>Buyer and Seller advised by</p> 	<p>PwC carried out financial due diligence for Lafarge and provided negotiation support.</p>