The M&A Report is a biannual publication issued by the ZEW – Leibniz Centre for European Economic Research and Bureau van Dijk. It uses the Zephyr database to report on current topics and developments in global mergers and acquisitions. The Zephyr database, which is updated on a daily basis, contains detailed information on over one million M&As, IPOs and private equity transactions around the world.

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German M&A Index Declines Further

The number of mergers and acquisitions (M&A) involving German firms continues to decline for the second year in a row. In the second half of 2019, the ZEW-ZEPHYR M&A Index – established in 2005 to measure M&A transactions involving German companies – recorded its lowest levels. In August 2019, the index dropped to 59 points, before showing signs of recovery in the beginning of 2020. The twelve-month moving average highlights the persistence of the index’s negative trend, which can be traced back to summer 2018.

This decline in M&A activities would have been even more pronounced if there had not been three major takeovers in the past six months: One of the biggest M&A deals in the German energy sector materialized in September 2019. As part of E.ON’s plan to merge with Innogy, a subsidiary originally founded by RWE in 2016, E.ON acquired RWE’s stakes in Innogy for an estimated 37.8 billion euros, creating one of the largest energy suppliers in Europe. The deal – already announced in 2018 – was completed after the approval of the EU competition authorities.

Besides this big merger in the energy sector, the German chemical industry also experienced two of the largest M&A deals in the past six months. Merck KGaA acquired Versum Materials Inc., a leading electronic materials company based in the US, for approximately 5.8 billion euros. The deal is the second largest German M&A deal in the last six months and marks another step for Merck in becoming the leading supplier of electronic materials for the semiconductor and display industries. Another notable deal in the chemical industry was the acquisition of the polyamide division from Belgium-based Solvay by chemicals giant BASF for 1.6 billion euros in February 2020. Through this merger, the Ludwigshafen-based company has extended its polyamide competencies with engineering plastics.

In times of crisis, activities on the M&A market traditionally decline. Though the coronavirus crisis has created considerable uncertainty for M&A transactions, it is too early to tell how the pandemic will affect the performance of the M&A index.

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The ZEW-ZEPHYR M&A-Index measures the number of M&A transactions completed in Germany each month. It considers only mergers and acquisitions by and with German companies. It does not differentiate between the country of origin of the buyer or partner. This means that both domestic and international buyer companies are considered, provided that the target companies are active in Germany. The M&A Report is a biannual publication issued by ZEW and Bureau van Dijk. It uses the Zephyr database to report current topics and developments in global mergers and acquisitions. The Zephyr database, which is updated on a daily basis, contains detailed information on over 1.9 million mergers and acquisitions, IPOs, and private equity transactions around the world.
Are Takeovers by Big Tech in Decline?

The rise of big tech has been accompanied by large-scale takeovers in the ICT sector. Acquisitions of the Big 5 (Amazon, Apple, Facebook, Google and Microsoft) have made it to the news headlines several times in the last decade, with major deals including Google’s 12.5 billion US dollar (11.2 billion euros) takeover of Motorola in 2012; Facebook paying 13.7 billion dollars (12.3 billion euros) for WhatsApp in 2014; and Microsoft acquiring LinkedIn in 2016 for 26.2 billion dollars (23.5 billion euros), to name but a few.

Despite the staggering size of these mega deals, it seems that acquisition activity of the Big 5 in ICT industries has been in decline since 2014. A look at the data indicates that the number of acquisitions made, as well as the relative importance of those acquisitions compared to other takeovers in the ICT sector, has declined, including the relative size of mega deals.

So are the times of takeovers in big tech over? Presumably not. Last year, Apple’s CEO Tim Cook claimed that his company acquired up to 25 companies in the first half of 2019. This amounts to acquiring a new company almost every week. Cook said that Apple did not publicly announce most of these deals and that the companies involved were too small to be considered by the Federal Trade Commission (FTC) and other regulators. Many of those acquisitions are targeted towards a startup’s human capital, instead of products or assets. These so called ‘acqui-hires’ typically involve paying a sizeable amount to the hired employees, paying out investors and debtors, and eventually shutting down the startup’s original operations. When not announced, these deals happen under the radar and are unlikely to be reflected in the data.

This conduct has spurred a discussion among antitrust authorities and other competition experts to enforce antitrust regulation on big tech. The tech companies argue that their takeover activity is primarily a means to acquire talent and intellectual property, which should result in better and more innovative products. Competition authorities are concerned that rather than to hire talent, big tech companies use acquisitions to shut down competitors early. These ‘killer acquisitions’ are considered to stifle future competition, resulting in adverse effects for consumers, such as reduced data security.

The FTC has announced to review last decade’s merger cases of the Big 5, requesting access to detailed information on hundreds of small-scale acquisitions. It made clear that if the study reveals that some transactions were problematic, it had all options on the table, including initiating enforcement actions with those deals. Meanwhile, antitrust regulators in the EU are planning their own enquiry into big tech, with now almost a third of all ICT takeovers of the Big 5 taking place in the EU and the UK.

Chinese Firms Dominate M&A Deals in the Automotive Industry

The past decade has witnessed many fundamental changes in the automotive industry: the emergence of different technologies such as electric vehicles and self-driving technology, as well as tougher environmental standards and a declining demand for new cars. These industry dynamics may also be the reason for the 27 per cent rise in M&A activities between 2009 and 2019.

One of the largest deals took place in 2015 and involved the German auto parts supplier ZF Friedrichshafen AG and the US TRW Automotive Holdings Corp. The deal is worth around 12 billion euros and created the second largest auto parts supplier, just behind the German engineering and technology company Robert Bosch GmbH.

China is biggest market for electric vehicles

The rise of China’s economic impact is observable in the automotive industry. In 2019, almost 40 per cent of the deals involved Chinese firms. It might not be accidental that these dynamics occur in parallel to the rise of electric vehicles. In 2019...
China was the biggest market for electric vehicles, with approximately 1.2 million cars sold, mainly by Chinese manufacturers such as BAIC and BYD. In comparison, only about 0.6 million electric vehicles were sold in Europe, which is the second biggest market.

China is also the largest domestic manufacturer of electric vehicles, with approximately 80 Chinese brands and a total of over 200 models. Chinese firms were involved in about 58 per cent of the deals related to electric vehicle technologies. While Chinese automotive companies are still facing difficulties in the production of internal combustion engines, which lowers their global competitiveness in that segment, the growing demand for electric vehicles and related components may pave the way for China’s leadership in the future.

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Have M&A Activities in the European Energy Sector Passed Their Peak?

Few sectors have been subject to as much regulatory scrutiny and change as the European energy generation sector in recent years. The energy generation sector encompasses firms whose core business relates to the generation and transmission of energy sources (such as gas and electricity) used by businesses and households. With increasing pressure to focus on renewables and rising consumer awareness of sustainable energy needs, the firms in the industry face a variety of key trade-offs. Maintaining affordable energy prices is a key priority, while regulators and consumers are setting incentives to transition to more sustainable business models and to phase out environmentally harmful capacities. The competitive pressures entailed in this changing regulatory environment have led to a flurry of M&A activity amongst the affected companies in recent years. Between 2005 and 2017, the EU energy generation sector maintained a steady average of slightly more than 150 completed deals per year, on average accounting for a total deal volume of almost 52 billion euros. However, the volume of M&A activity has noticeably declined since 2017. In the two years since, the number of deals completed dropped from over 160 in 2017 to just above 80 in 2019. While the combined volume of transactions rose between 2017 and 2018, the 12 billion euros recorded in 2019 marks a 15-year low. While these trends deviate from long-run averages, it remains open whether they indicate that the sector has moved past its activity peak and will see continuously lower levels of M&A, or whether the industry is simply taking a break before returning to previous levels of activity.

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