



M&A REPORT

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The **M&A Report** is a biannual publication issued by the ZEW – Leibniz Centre for European Economic Research und 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.

Project team M&A Report:

Dr. Niklas Duerr, ZEW · Phone +49 621 1235-183 · niklas.duerr@zew.de
Christine Knorr, Bureau van Dijk · Phone +49 69 963 665-45
christine.knorr@bvdinfo.com

Editors:

Gunter Grittmann · Phone +49 621 1235-132 · gunter.grittmann@zew.de
Sarah Tiedemann · Phone +49 621 1235-135 · sarah.tiedemann@zew.de

ZEW – Leibniz Centre for European Economic Research

L 7,1 · 68161 Mannheim · www.zew.de
President: Prof. Achim Wambach, PhD · Director: Thomas Kohl

Bureau van Dijk Electronic Publishing GmbH

Hanauer Landstraße 175 – 179 · 60314 Frankfurt am Main
Phone +49 69 963 665-65 · Fax +49 69 963 665-50 · www.bvdinfo.com

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M & A REPORT

German M&A Market in Distress

The number of mergers and acquisitions (M&As) involving German companies has fallen sharply since the beginning of 2019. Signs that M&A activity was cooling off had already become apparent in the summer of 2018. But this year the decline took a dramatic turn. In April, the ZEW-ZEPHYR M&A Index – established in 2005 to measure M&A transactions involving German companies – dropped to 58 points, its lowest level ever. In May, it climbed only two points to a reading of 60 points, which represents the German M&A market’s second-poorest showing.

Automobile branch among the hardest hit by decrease in investments

The twelve-month moving average has also tanked since January, dropping 21 points. Never before in its history has the index fallen so far so quickly. In June and July, the index recovered slightly but still remained far below average.

In the first six months of 2019, the largest acquisition involving a German company was construction products maker Knauf

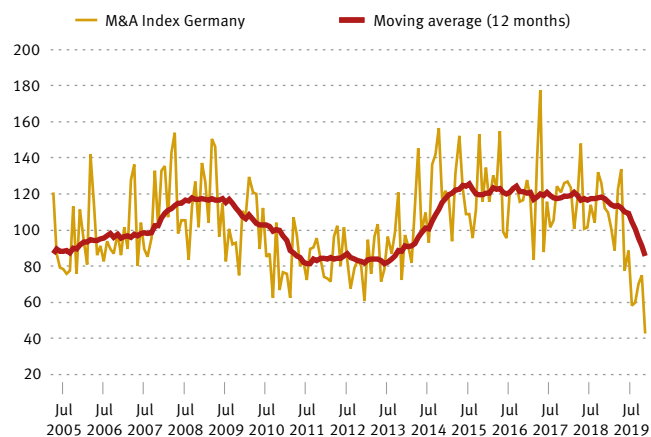
AG’s purchase of USG, a US competitor in building materials, for almost six billion euros in April. However, the German family-owned company’s acquisition of its Chicago-based competitor had been in the works for a while due to months of back-and-forth negotiations, and originated at a time when the economy was still in better shape.

Since the beginning of this year, many corporate decision-makers have been reluctant to make large investments. This also includes investments such as mergers and acquisitions. Among the hardest hit was the manufacturing sector, the automobile branch in particular.

Due to decreased demand in China and the United Kingdom and the lingering effects of the diesel scandal, car sales have declined by 17 per cent since the beginning of the year, which has had strong impact on activities regarding mergers and acquisitions in Germany. Judging by this indicator, it is likely to take some time before the German economy gets back into gear.

Dr. Niklas Dürr, niklas.duerr@zew.de
Ilona Tsanko, ilona.tsanko@zew.de

ZEW-ZEPHYR M&A-INDEX GERMANY



Source: Zephyr database, Bureau van Dijk, calculations by ZEW

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 1.8 million mergers and acquisitions, IPOs, and private equity transactions around the world.

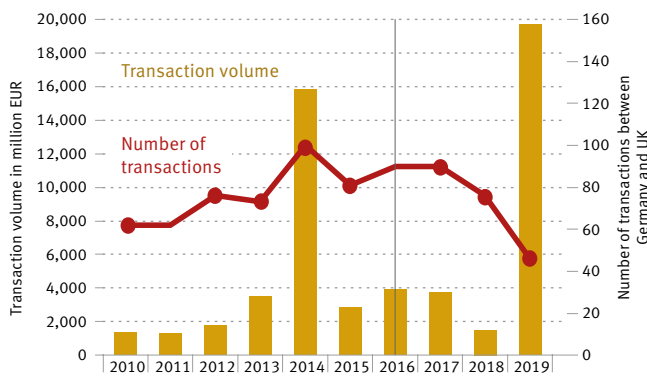

BUREAU VAN DIJK
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Brexit Hampers M&A Activity with the UK

Since the Brexit vote three years ago, uncertainty about the future of trade relations between the United Kingdom and the European Union has had a significant effect on M&A activity. Though the total number of transactions with UK companies remained stable in 2017 and 2018, the transaction volume quickly collapsed after the vote. Between 2011 and 2016, the transaction volume of M&A activity rose from under two billion euros

to just under four billion euros. The year 2014 was an exception with a volume of about 16 billion euros. The number of transactions started to fall in 2018, when it slipped to 76. Through August of this year, only 46 transactions took place, which coincides with the general decline of M&A activity in Germany. Though this is mainly the result of the economic slump, the Brexit vote has additionally fanned the flames of uncertainty in the business world.

M&A ACTIVITY BETWEEN GERMANY AND THE UK



Source: ZEW

A look at the volume of German purchases in the UK and British acquisitions in Germany shows them to be roughly equal. The high transaction volume in 2019 is largely due to a single deal: Vodafone’s takeover of Liberty Global’s European cable network for 18.4 billion euros, which included the cable operator Unitymedia.

The number of transactions shows a slightly different picture. Whereas the number of British purchases of German companies was slightly higher than German purchases before the Brexit vote, the situation reversed itself after the votes were tallied, with German companies buying more British firms than the other way around. This may indicate that uncertainty is even greater in Britain than on the Continent.

Dr. Niklas Dürr, niklas.duerr@zew.de
Ilona Tsanko, ilona.tsanko@zew.de

Transactions in European Real Estate and Housing Fall Sharply

The number of mergers and acquisitions involving companies in Europe’s real estate and housing sector have fluctuated greatly over the past 20 years. From the beginning of the 2000s until the start of the global financial crisis in 2007, the sector saw more than 200 transactions per half year on average. Transactions are defined as mergers or acquisitions with target real estate companies in the EU. This number then dropped to less than 100 transactions in 2009 amid the financial crisis and the subsequent recession. In 2010 and 2011, the volume increased to more than 300 transactions as the European economy recovered. However, by the time M&A activity reached its peak – 510 transactions in the second half of 2013 – economy growth had slowed. 2018 was a mirror image of this incongruity. M&A activity slipped to just under 100 transactions despite a two per cent average growth rate of the EU’s real GDP.

reached an all-time low. The low-yield environment and the increased liquidity foregrounded alternative investment opportunities, especially in mergers and acquisitions. This was especially true in the real estate sector, where the promise of steady rental income proved irresistible to many.

The monetary policy of the European Central Bank (ECB) provides some insight into these developments. With its “Whatever it takes” pledge in the summer of 2012, the ECB began to stabilise the yields on the crisis-ridden bond market. At the same time, it gradually lowered the base rate, which eventually

The rapidly increasing number of transactions at the beginning of the 2010s included the acquisition of industry jewels by big players with deep pockets. The most important examples were the purchase of the Austrian Immoeast AG by the Austrian Immofinanz AG for approximately 1.5 billion euros and the sale of the London department store Harrods to Qatar Holding for 1.7 billion euros. Beginning in 2012, Germany saw its own share of major deals. In 2012, Deutsche Wohnen AG acquired around 23,500 residential units from the BauBeCon Group for almost 1.2 billion euros. One year later, it purchased GSW Immobilien AG with around 60,000 residential units for 1.7 billion euros. In 2014, Deutsche Annington Immobilien SE acquired 30,000 residential units of the Vitus Group for 1.4 billion euros. Over the next two years, Deutsche Annington Immobilien SE took over SÜDEWO for 1.9 billion euros and GAGFAH SA for 4.3 bil-



lion euros. Under the new name Vonovia SE, it is now the largest residential property company in Germany, with around 350,000 units in total.

Though the number of M&A transactions has been declining since 2015, the transaction volume has risen sharply. This indicates that the period of market adjustment to the low-interest environment is coming to an end and the companies that remain are going for very high prices. In 2017 and 2018, the average deal totalled almost 300 million euros, practically double the average between 2012 and 2014, which was 160 million euros. For instance, Vonovia SE acquired the Austrian real estate com-

pany Conwert in 2017 for 2.9 billion euros and the Austrian BUWOG AG in 2018 for 3.6 billion euros. Other massive deals in 2018 include the Promotora Marina's purchase of an 80 per cent stake in the Anida real estate group for four billion euros in Spain and the Covivo Hotels' acquisition of the real estate investor FDM Management for 4.8 billion euros in France. And in Eastern Europe, the real estate fund Rockcastle Global Real Estate acquired New Europe Property Investment for 3.4 billion euros in 2017. The resulting fund, NEPI Rockcastle, is the largest real estate investor in Central and Eastern Europe.

Michael Hellwig, michael.hellwig@zew.de

The European Steel Sector Is Still Waiting for the Next Big Consolidation

In June 2019, the European Commission rejected Thyssenkrupp's bid to buy the Indian steel producer Tata Steel, which would have made Thyssenkrupp Group the second-largest steel manufacturer in Europe. With this deal off the table, European steel continues to wait for the next big step on consolidation.

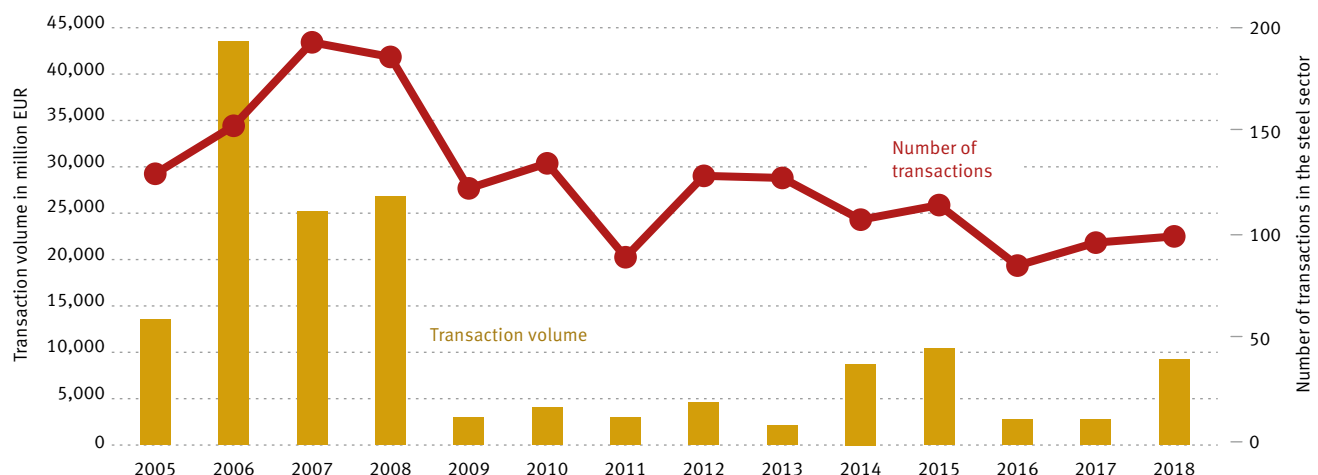
The industry's last major acquisition took place in 2006, when the Dutch Mittal Steel Company acquired the Luxembourg-based Arcelor for 26 billion euros. By the time the Arcelor-Mittal Group had absorbed Milan's ILVA in 2012, it had become the world's largest steel manufacturer with 97 million tons of steel produced annually, more than twice the volume produced by the Hesteel Group of China, the world's number two. Thyssenkrupp and Tata Steel are further down, producing 26 and 17 million tons of steel annually, respectively. Apparently, the creation of another dominant player through the merger of Thyssen und Tata was too much for antitrust officials in Brussels.

EU steel makers have been struggling amid declining revenues. The main source of the slump is the poor performance of the automotive industry, which in past years has accounted for half the world's steel deliveries. But the tariffs that Trump has imposed on US steel imports have also put more steel from China and Turkey on the world market, further pushing down prices.

Following the wave of consolidation from 2006 to 2008, M&A activity on the European steel market weakened sharply. By 2016, the number of transactions had fallen to 86, less than half the number in 2007 and 2008. The same goes for the transaction volume in the steel industry, which has been at a very low level since 2009. The European Commission's recent rejection of the Thyssenkrupp-Tata deal means that no major acquisitions are likely in the near future, either.

Dr. Niklas Dürr, niklas.duerr@zew.de
Ilona Tsanko, ilona.tsanko@zew.de

M&A ACTIVITY IN THE EUROPEAN STEEL SECTOR



Source: ZEW