

M&A Report

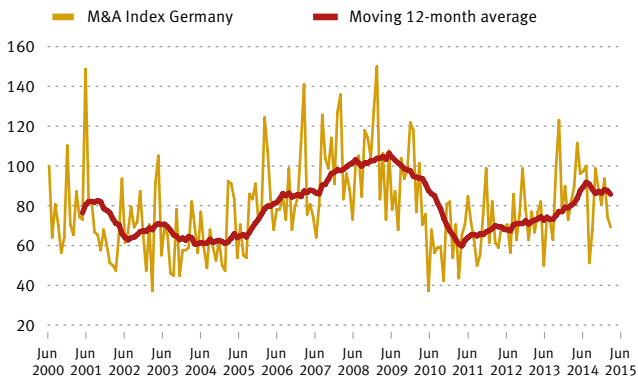
Global Mergers and Acquisitions Reports and Analyses

November 2015

Fewer Mergers and Acquisitions in Germany – But Higher Volumes

ZEW-ZEPHYR M&A Index – The frenzy in Germany has come to an end – for now. The past months have seen a stagnating to downward trend in the number of mergers and acquisitions (M&A) involving German companies. Since mergers and acquisitions usually occur in waves, it is still uncertain whether the current situation represents a temporary ebb or whether the tide has already turned. The average transaction volume, however, has ticked upward.

ZEW-ZEPHYR M&A INDEX GERMANY



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

The ZEW-Zephyr M&A Index Germany shows scant variance in 2015

M&A activity collapsed toward the end of 2014, reaching the lowest November reading since 2011 and the lowest December reading since recording began, in 2000. While this collapse did not spill over into 2015, the dynamics of past years has not returned. The ZEW-ZEPHYR M&A moving 12-month average shows

scant variance in 2015, with totals fluctuating between 86 and 88 points.

The number of M&A transactions involving German companies may have fallen, but the average size of each deal has gone up. In the moving 12-month average of transaction volumes – the index only considers deals with known values – the average size in September 2013 was 116 million euros. Average transaction volume has risen steadily in the meantime, almost tripling by June 2015, when it reached 303 million euros per deal, the highest average since recording began. Driving those numbers was a mega deal in March between Russian investor group LetterOne and DEA, an oil and gas business previously owned by Essen-based energy giant RWE. LetterOne invested 5.1 billion euros in DEA, thereby achieving the largest acquisition of a German company in months. The deal was met with strong protest from the British government, who feared supply shortages in Europe, should further sanctions be imposed on Russia over the Ukraine conflict.

German companies have gone on their own shopping spree

German companies have gone on their own shopping spree. The acquisition of TRW Automotive Holding by the technology conglomerate ZF Friedrichshafen in May was, at 11.3 billion eu-

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 Germany companies. It does not differentiate between the country of origin of the buyer or partner. Both domestic and international buyer companies are considered as long as the target companies are active in Germany.



ros, the largest in Germany since 2006. In October of last year, chemical giant Bayer sold its Consumer Care division to its competitor Merck for more than ten billion euros.

This rise in transaction volumes can be attributed mostly to the re-entry of major players in the M&A market, which was re-

structured and trimmed during the financial crisis that began in 2007. In this period, the M&A market was characterised by the activities of mid-size companies. Now branch giants are pursuing strategic acquisitions and mergers once again

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With a Spate of Megadeals, 2015 Is on Track to Become a Record Year

Global M&A activity this year is on track to hit record volumes. Mostly responsible for the upswing are favourable financial conditions and company growth plans. Between January and July 2015, 189 deals valued at one billion euros or more were closed, for an aggregate volume of 1,020 billion euros.

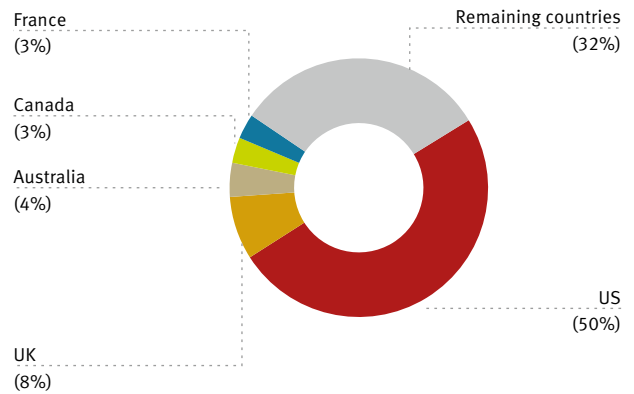
The projected end-of-year totals are 1,750 billion euros over 324 transactions, far more than the aggregated transaction volumes from the years 2008 to 2014. If M&A activity continues at its current pace, it is almost certain to surpass the previous record of 1,056 billion euros set in 2007.

The average transaction size of megadeals in the current year was also very high, reaching 5.41 billion euros. In the years following the financial crisis, the average transaction size was significantly lower – just shy of three billion euros in 2011 and 2012, 3.37 billion in 2013 and 3.36 billion in 2014. In 2007, when M&A was strong, the average total for megadeals was 4.2 billion euros.

US deals dominate global mergers and acquisitions market

So far this year, 50 per cent of transactions on the global M&A market have involved target companies in the United States.

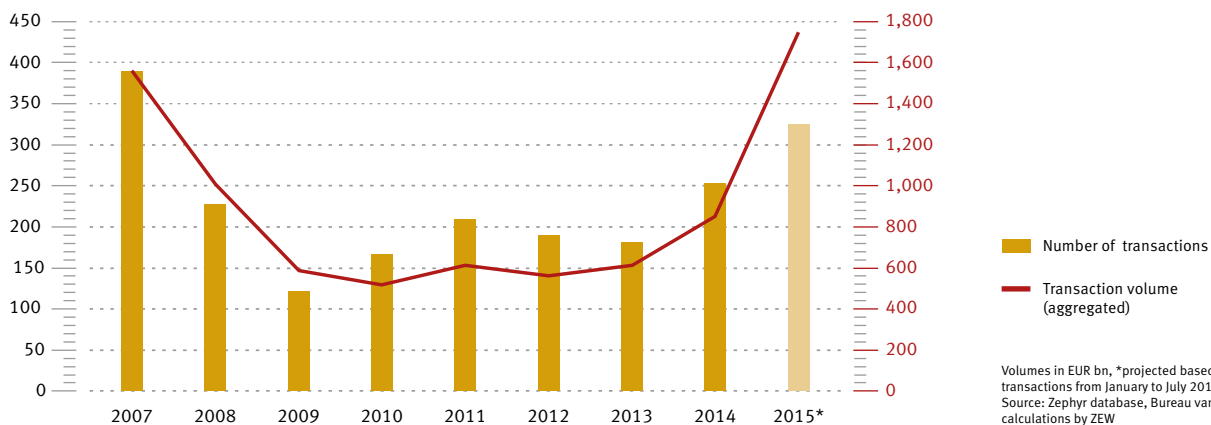
TARGET COUNTRIES FOR MEGADEALS IN 2015



Target countries of all M&A transactions with a minimum value of one billion euros in 2015. A total of 189 transactions were recorded as of July 2015. Source: Zephyr database, Bureau van Dijk; calculations by ZEW

Trailing far behind on second and third place are the UK, with eight per cent, and Australia, with four per cent. It is worth noting that interest in the acquisition of Russian companies has waned noticeably compared with 2007–2014 levels. While

NUMBER AND AGGREGATED VOLUME OF GLOBAL MEGADEALS FROM 2007 TO 2015*





megadeals with Russian businesses in the previous eight years made up four per cent of transactions, 2015 has seen only one single large acquisition.

What stands to be the most expensive merger this year is the acquisition of the British liquid gas specialist BG Group by Royal Dutch Shell for 64 billion euros in a move to bring Shell closer to its American competitors.

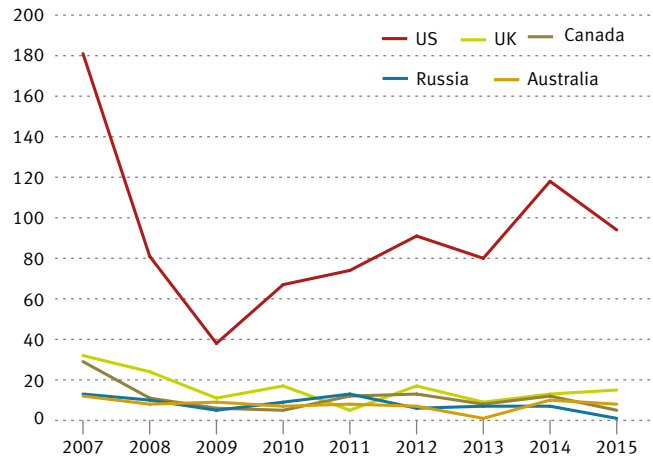
Another megadeal in 2015 is the acquisition of Time Warner Cable (TWC) by its competitor Charter Communications. This transaction is expected to cause upheaval in the United States' cable market.

Warren Buffet enters food business

The most talked-about merger this year has been the merger of food giants Heinz and the Kraft Foods Group. Warren Buffett's investment company, Berkshire Hathaway, was behind the 36-billion-euro deal.

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NUMBER OF MEGADEALS IN THE US, UK, CANADA, RUSSIA AND AUSTRALIA



Number of megadeals in the strongest markets from 2007 to July 2015. Source: Zephyr database, Bureau van Dijk; calculations by ZEW

Under Pressure to Consolidate, M&A Activity in Spain Reaches Peak

Since 2012, M&A activity involving Spanish companies has risen by leaps and bounds. In 2013 the number of transactions totalled 3,217, more than nine times the figure in 2000. In most transactions, both companies were Spanish. From 2000 to 2014, this was the case in around 72 per cent of transactions. In 2013, the number of domestic transactions alone was 18 times higher than the 2000 level.

Broken down by target company sector, the figures show that most transactions involve branches under strong pressure to consolidate. Between 2012 and 2014, real estate agencies topped the list, making up nine per cent of transactions, closely followed by construction companies, at 8.8 per cent. Wholesalers (8.5 per cent) and retailers (four per cent) came in third and fourth, while fifth place went to the financial sector (excluding insurance and pension funds), which totalled 3.9 per cent of transactions.

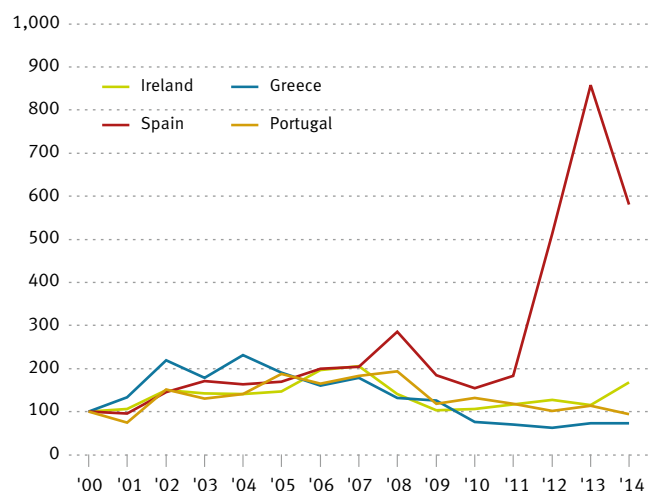
Real estate bubble led to shakeout

The enormous real estate bubble in Spain that burst in 2007 necessitated market shakeouts. This distinguishes Spain from the other EU states which were strongly affected or still are affected by the sovereign debt crisis. The number of transactions in Greece and Portugal is still far below pre-crisis levels. Ireland has recovered slightly, but is nowhere near its record levels of 2007, lagging far behind Spain's skyrocketing numbers. Greece may expect to experience similar consolidation waves soon, but

these might have been hindered by uncertainty in the wake of the sovereign debt crisis. In the long run, investment could once again become more attractive for foreign companies.

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NUMBER OF M&A TRANSACTIONS IN IRELAND, GREECE, SPAIN AND PORTUGAL



The graph shows all transactions in which a company from one of the four countries was a buyer, seller or purchase target. To improve comparability, the number of transactions was standardised using the base value of 100 for the year 2000. Source: Zephyr database, Bureau van Dijk; calculations by ZEW



Concentration in European Landline Communication Markets Increasing

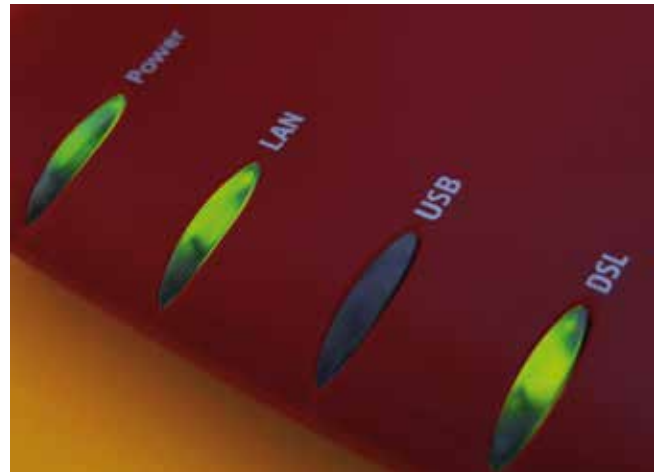
For several years now, European telecommunication markets have been undergoing a massive consolidation. On mobile markets, as previously described in the April 2014 M&A Report, transaction volumes have increased significantly. This year the pace has quickened, as shown by the approved acquisition of E-Plus by Telefónica Germany.

Landline communication markets (fixed-linked) have also been in a consolidation phase for years now. Though the number of acquisitions has dropped almost continuously in recent years – now at the lowest level since 2003 –, a large increase in aggregated volumes began in 2013 after sinking at the onset of consolidation (see figure). This suggests that most of the companies that merged in the past two years were mid-to-large sized – such as the acquisition of the Dutch company Ziggo by Liberty Global, which itself had purchased Germany’s Kabel BW.

A number of transactions have sought to consolidate communication infrastructure

Beyond the acquisition of cable network operators, a number of transactions have sought to consolidate communications infrastructure, such as landline and mobile networks. Some examples are the 2014 acquisition of SFR (France’s second largest mobile provider) by Numericable Group (France’s largest cable network operator), and the 2013–2014 acquisitions of Kabel Deutschland and ONO (Germany’s and Spain’s largest cable network operators) by Vodafone. These transactions are partly the result of increasing customer demand for highly integrated product bundles.

The growth in competition on the landline communication market can primarily be attributed to the restructuring of busi-



ness models that has accompanied IP convergence. The term IP convergence refers to the merging of voice communication and data communication on a single IP network, allowing multiple services to be offered on a platform. This means that, say, traditional voice telephony services can be performed by different Internet service providers such as Skype, Viber or Whatsapp.

Aside from increased competitive pressure, recent years have seen adjustments in the business models of telecommunication providers. Some of these adjustments include contractual agreements with Internet content providers stipulating, say, the pre-installation of mobile device applications. The development has especially affected mobile communication. Mobile communication products, however, are increasingly in competition with landline voice telephony and broadband services.

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NUMBER AND AGGREGATED VOLUMES OF MERGERS AND ACQUISITIONS ON EU 28 LANDLINE MARKETS, 2003 – 2015

