



# M&A REPORT

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# ZEW M&A Index at All-Time Low

High inflation rates, increasing job cuts, disruptions in supply chains and rising interest rates – all these are signs of an impending recession. These signs of a downturn also leave their mark on the ZEW-Orbis M&A Index. The index, which has existed since 2005, repeatedly breaks negative records. In February 2022, the index recorded its lowest value since its creation at 57 points. The war between Russia and Ukraine had a significant impact on Germany, as its economy is heavily dependent on Russian energy. Continued lockdowns in China – Germany’s largest goods trading partner – are taking a toll on the economy as well. As the lack of geopolitical and economic certainty remains a constant trait of today’s world, we can expect to observe continued lower M&A activity.

Among the most notable deals in the last six months involving a German firm was the takeover of Brightly Software, a US-based software provider, by Germany-based Siemens. The deal was closed on 8 August. The takeover, valued at 1.8 billion euros, was made by Siemens’ smart infrastructure division and is part of the company’s strategic plan to expand its software solutions as a service offering. The takeover had been announced two months earlier in June.

Another notable transaction is the takeover of the real estate bank Berlin Hyp by Landesbank Baden-Württemberg (LBBW) for 1.5 billion euros. The deal was announced in January 2022 and

closed on 30 June after the authorities gave the green light. With this deal LBBW hopes to strengthen its position in commercial real estate financing and increase its presence in the area of green assets.

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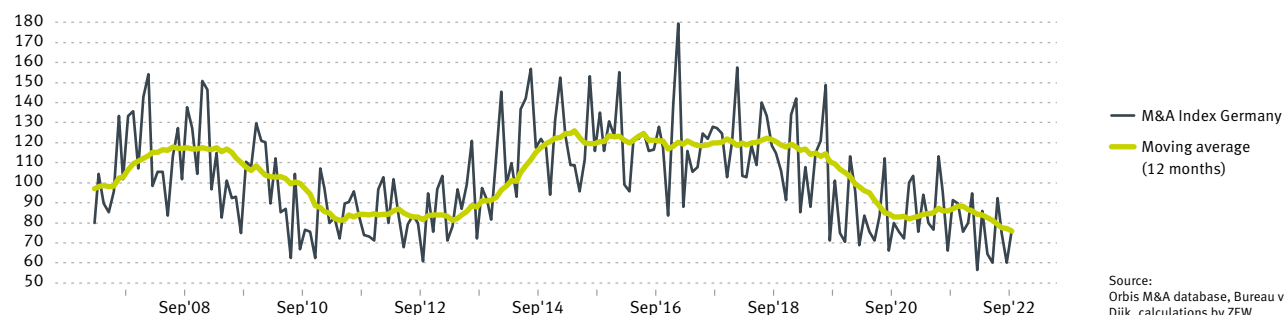
The **ZEW-Orbis M&A Index** measures the number of M&A transactions completed in Germany each month. It considers only mergers and acquisitions by and with German companies. It does not differentiate between the country of origin of the buyer or partner. This means that both domestic and international 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, a Moody’s Analytics company. It uses the Orbis database to report current topics and developments in global mergers and acquisitions. The Orbis database, which is updated on a daily basis, contains

detailed information on over 2.4 million mergers and acquisitions, IPOs, and private equity transactions around the world.



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ZEW-ORBIS M&A INDEX GERMANY



Source:  
Orbis M&A database, Bureau van Dijk, calculations by ZEW



# Crisis in M&A Deals: Unclear Picture

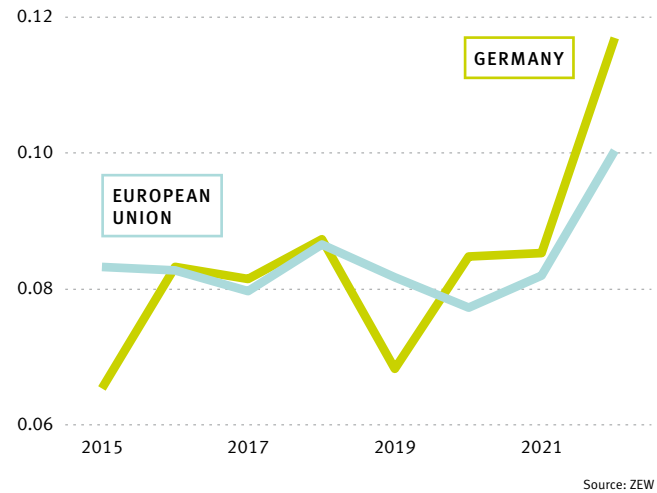
The European economy has been in a constant state of crisis since the outbreak of the Covid-19 pandemic. While the direct effects of the pandemic seem to have faded away – i.e. further lockdowns outside of China are not expected – the supply-chain crisis is still ongoing. And with the war in Ukraine unfolding, an energy crisis has emerged in Europe. It is not yet clear how severe the European economy will ultimately be hit but experts agree that a recession is looming. Naturally the crises have an effect on the number and value of M&A deals. However, mergers and acquisitions can also be a reaction to a crisis. For example, a downstream firm may choose to acquire a supplier to secure its supply chain.

## Are M&A rationales influenced by the current crises?

In order to detect the acquisitions and mergers that are influenced by the current crises, the ZEW researchers examine the rationales behind the M&A deals. The rationales contain statements in which the acquiring company or merging parties describe the reasons for an acquisition or merger. While typical reasons for M&A activity are productivity gains or acquiring new technologies, coping with a crisis can also be an important motivation.

In the EU, the share of M&A rationales with “crisis” keywords in them – e.g. supply chain, shortage and gas – increased to ten per cent in 2022 after remaining constant at around eight per cent in prior years. This increase is partially driven by Germany where the share increased from 8.5 per cent in 2021 to 11.7 per

SHARE OF “CRISIS” M&A DEALS



cent in 2022. Since German industry is highly reliant on Russian gas, it is not surprising that the energy crisis plays a role in M&A rationales of German firms. In conclusion, the method based on recognition of “crisis” keywords in M&A rationales suggest that firms take the recent energy crisis into account when engaging in M&A activities.

It remains to be examined whether firms only acknowledge the current crises in their M&A rationales or if the M&A activity is a direct reaction to them.

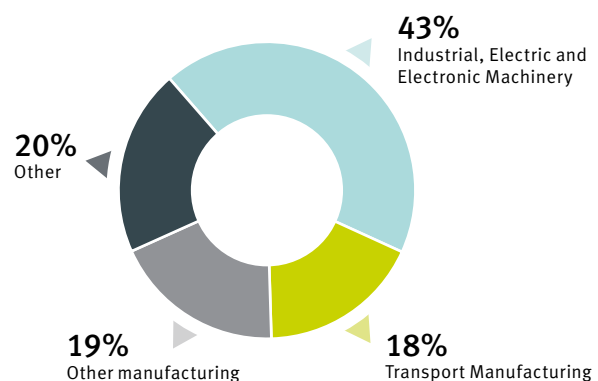
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# Which German Target Companies Do Chinese Firms Buy?

One of the main consequences of the Russia-Ukraine war has been the realisation of how problematic the economic dependence on an autocracy can be. However, it is still unclear how Germany will use the lessons learned from the Russia-Ukraine war in regard to China, its largest trading partner. While in October Germany let the Chinese shipping company COSCO acquire a stake in a Hamburg port terminal, a few weeks later it blocked the takeovers of Elmos Semiconductor SE and ERS Electronics by Chinese firms. How the German authorities will respond to future takeover bids by Chinese buyers is yet to be seen. We used the Orbis M&A database to take a look at which German target companies are being acquired by Chinese firms.

Between 2005 and 2022, 183 merger and acquisition deals were recorded between German targets and Chinese buyers. For comparison, a total of 7,273 M&A deals took place during this

GERMAN TARGETS OF CHINESE ACQUISITIONS BY MAIN INDUSTRY





time between German targets and non-German buyers, 1,428 of which involved a US-based buyer.

Chinese buyers seem to focus mainly on German manufacturers – 84 per cent of the deals involved a German target active in manufacturing. For comparison, only 46 per cent of mergers and acquisitions initiated by a US-based buyer involved a target active in the manufacturing industry. Chinese buyers acquire

German manufacturers of highly complex components, such as systems for automation of factories and automotive components. The focus of Chinese buyers on the manufacturing of complex components could indicate that these deals are used to bring know-how to China. Know-how serves China well, but do these deals also serve German interests?

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## High-Tech Sector to Tighten Its Belt

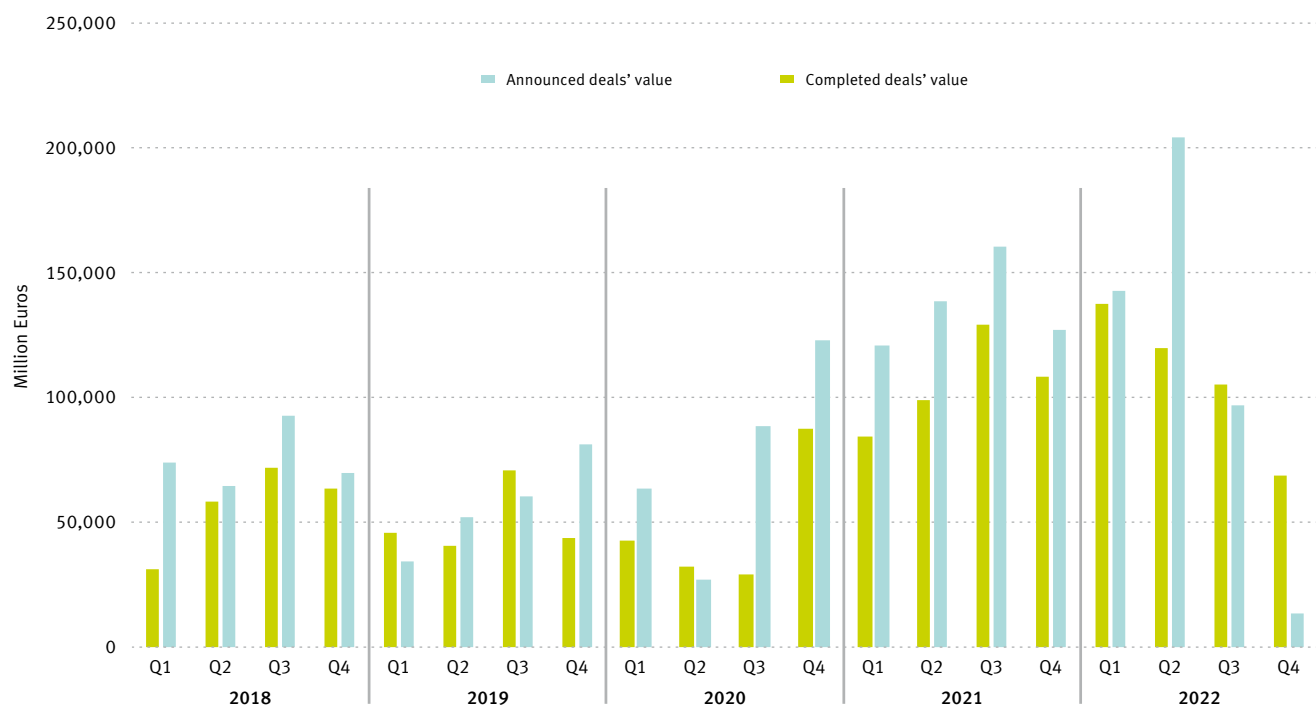
The last two years, culminating in Elon Musk’s 44 billion euro acquisition of Twitter, have presented some of the most valuable transactions in the high-tech industry. Among the most notable deals are the acquisition of Slack Technologies – an online workplace messaging platform – by Salesforce, an online customer data management platform, for 23.5 billion euros and the Microsoft’s acquisition of Nuance Communications, an AI cloud-based voice recognition software, for 17.8 billion euros. Other major transactions, such as Microsoft’s acquisition of Activision Blizzard, a computer games publisher, for over 60 billion euros, are awaiting approval from authorities.

It seems, however, that the splurging high-tech sector is preparing to tighten its belt. The last two years were a boon for

the high-tech sector; as quarantines and restrictions brought people online, the future looked brighter than ever for the industry. But as the world gradually began to return to pre-Covid order and the inflation induced by the Ukraine war started to hit the economy, many firms realised that their bets may have been too optimistic. The slowdown in M&A activity in the industry is also visible. Even though the values for the fourth quarter of 2022 include only those up to 15 November, the negative trend is apparent. After an all-time peak in aggregated announced deals’ value in the second quarter of 2022, the craze is slowly fading. It could be a while before the industry announces another mega deal.

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ANNOUNCED AND COMPLETED DEALS’ AGGREGATED VALUES



\* Q4 2022 – Includes values only until mid-November.



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