



M&A
REPORT

// NOVEMBER 2024

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ZEW M&A Index Rises, Signs of Positive Trend

For the first time in four years, the moving average of the ZEW-Orbis M&A Index has risen above the 100-point threshold. This positive development could herald a turnaround for German M&A deals, which have fallen sharply and stagnated at a low level since 2020. The short-term increase in German M&A deals could be linked to changes in the ECB's interest rate policy. In 2014, the deposit rate fell below the zero-per-cent mark for the first time and remained there until 2022. German M&A activity was at a high level in these years until the Covid crisis, which triggered a sharp decline in M&A deals. In response to the rise in inflation, the ECB gradually raised the deposit rate until it reached four percent in 2023. Meanwhile, German M&A activity stagnated at a low level. In 2024, the ECB lowered the deposit rate by 25 basis points in both June and September to 3.5 per cent. These decreases in the deposit rate could be a potential cause for the recent increase in M&A activity.

The most notable M&A deal is the acquisition of the German Wintershall NewCo GmbH by the British Harbour Energy PLC for 10.1 billion euros. The target operates in the exploration and production business and its largest shareholder was BASF. With the sale, BASF is taking a first step towards the final separation from the oil and gas business. Another noteworthy deal took place in the related sector of oil and gas production services. The German firm IKAV Capital Partners GmbH acquired Aera En-

ergy LLC for 3.6 billion euros from the US-based Exxon Mobil Corporation and the UK-based Shell plc. The German acquirer is an international asset management group that invests in renewable and conventional energy assets.

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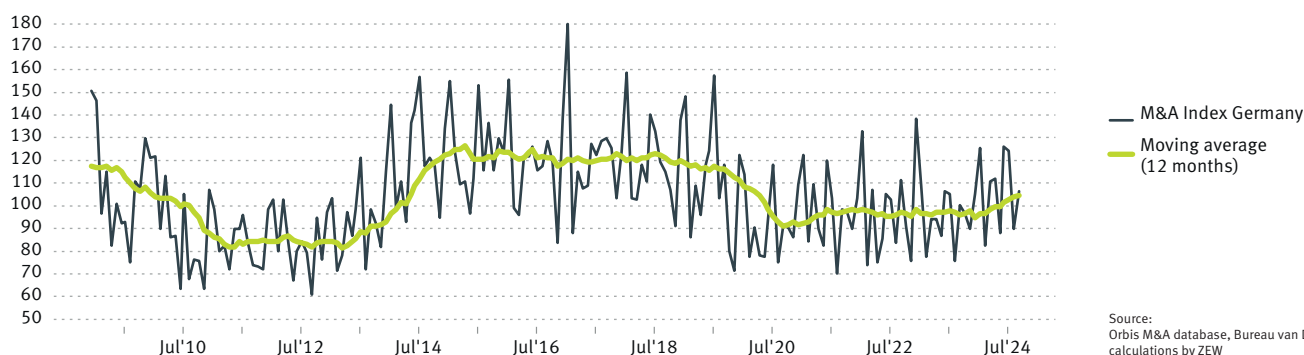
The **ZEW-Orbis M&A Index** measures the number of M&A transactions completed in Germany each month. It only considers mergers and acquisitions by and with German companies. It does not differentiate between the country of origin of the buyer or partner. This means that both domestic and international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

basis, contains detailed information on over 2.7 million mergers and acquisitions, IPOs, and private equity transactions around the world.



BUREAU VAN DIJK
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ZEW-ORBIS M&A INDEX GERMANY



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



Mergers and Acquisitions of German Retailers in the Food Sector

Increased market concentration has been noticeable in the food retail sector in Germany in recent years. The four dominant companies in German food retailing – Rewe, Edeka, the Schwarz Group (Lidl and Kaufland) and Aldi – have used M&As in the retail and food production sectors to strengthen their market positions. However, Aldi has only been involved in one takeover since 2005.

Overall, M&A activity in the food retail sector is rather low. Between 2005 and 2014, Rewe, Edeka and the Schwarz Group were involved in 31 of 36 takeovers involving German companies in the sector. M&A activity decreased after 2014. Here, Rewe, Edeka, the Schwarz Group and Aldi were involved in 17 out of 23 takeovers.

M&A OF GERMAN RETAILERS



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

Internationalisation of the four largest food retailers

The companies acquired tend to consist of several shops from other chains or entire smaller retail chains. On the other hand, with six takeovers between 2005 and 2023, it is relatively rare for German companies from the food retail sector to take over food producers. In the case of international takeovers, the concentration on the four major companies in the sector in Germany is evident: 22 of the 25 takeovers of foreign food retailers between 2005 and 2023 were carried out by the big four German food retail companies. The decreasing merger activity is also a sign of the consolidation of the market structure, as there are fewer players that can grow through M&As. The observed increase in market concentration makes it unlikely that other retailers can build an international infrastructure to compete with the largest domestic companies.

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Does Cheaper Money Trigger More M&A Activity?

The ongoing debate over whether the ECB should take a more aggressive stance by instituting a further cut in its deposit rate does not go unnoticed in the M&A departments of law firms and consultancies, as well as the executive suites of potential acquirers and targets. For some, lower interest rates mean cheaper money that will make it easier to fund future acquisitions (a cost effect); for others, interest rate cuts offer new opportunities for potential targets with newfound alternatives to mergers (a price effect). With the next interest rate cut possibly just around the corner, what does this mean for M&A activity in Germany?

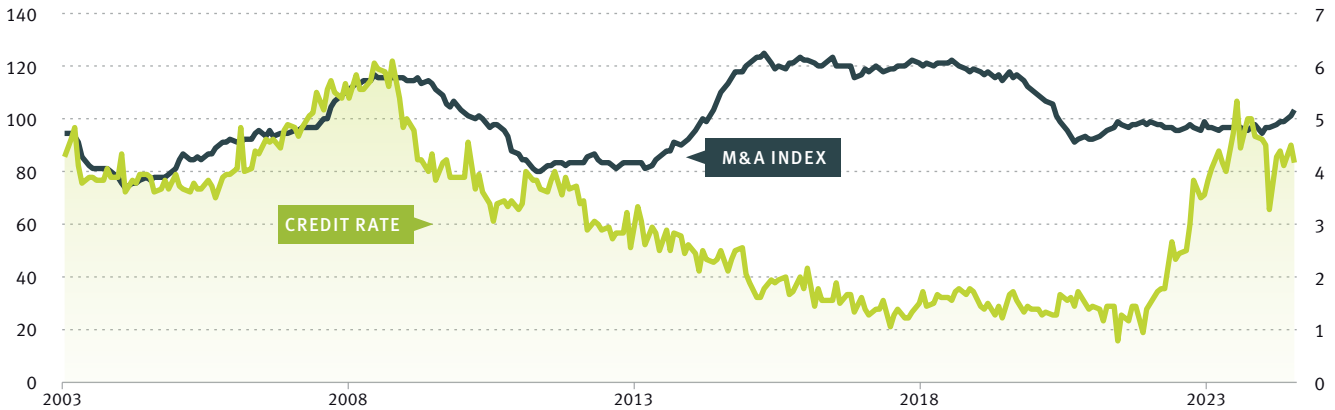
Let's look at the acquisitions-only part of the ZEW-Orbis M&A Index and the effective interest rates for commercial loans (Source: Deutsche Bundesbank's MFI interest rate statistics). The following figure presents the time series going back to 2005. In the earlier years of our time window, both time series went

hand in hand, where higher interest rates for commercial loans were associated with higher M&A activity. This relationship eventually broke but, with some squinting, resurfaced in recent years. Correlation analyses (with moving sample windows) confirm our eyeballed econometrics insights: an initial strongly positive relationship between interest rates and M&A activity was followed by a strong negative relationship but has recovered recently to what is now a positive (albeit weaker) relationship. The relative importance of the cost effect on M&A versus the price effect has changed over the years, and it seems the price effect is currently in the driver's seat.

In our ZEW-Orbis M&A reports, we have discussed many factors that contribute to the M&A landscape in Germany. Now, interest rates must be added to the list! The role of commercial credit rates has changed over the years. Still, given the recent



M&A INDEX AND COMMERCIAL CREDIT RATES



Source: Orbis M&A database, Bureau van Dijk and Deutsche Bundesbank, MFI interest rate statistics, calculations by ZEW

positive relationship between the ZEW-Orbis M&A Index (or rather, the acquisitions-only part of the index) and credit rates, it seems prudent to prepare for slower M&A activity in Germany once the ECB takes further steps in reducing its benchmark rate.

All this is *ceteris paribus*: all else equal. The world does not stand still, and only next year’s numbers will tell how reliable and robust the merger-credit rate association really is.

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Different Reasons for Mergers, Joint Ventures and Acquisitions

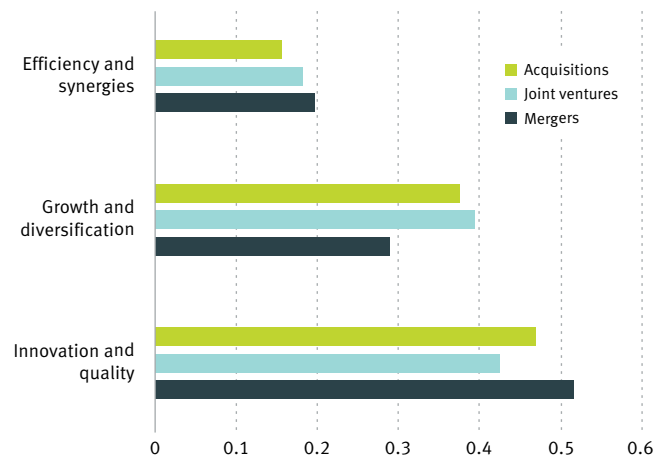
There are three major activities that fall under the mantle of M&A: mergers, joint ventures, and acquisitions. In a merger, two firms form a new entity; in a joint venture, two firms partner up (often more limited in scope); and in an acquisition, one firm takes over another. While mergers and joint ventures are often considered a cooperation between equals, in an acquisition, a large firm often acquires a smaller one. Given this background, it’s natural to assume that the motives (and their prevalence) for M&A activities differ between mergers, joint ventures and acquisitions.

Evidence from M&A rationales

The Orbis M&A database includes M&A rationales, in which firms describe the reasons for their M&A activities. For example, if a merger aims to exploit synergies or a firm acquires another firm to use its technology, this is likely picked up by the M&A rationales. We use a keyword-based approach to explore the motives for M&A activities.

The figure displays the share of rationales mentioning keywords associated with the topics “innovation and quality”, “growth and diversification”, and “efficiency and synergies” for each of the activity types. As expected, there are differences between the activity types. “Innovation and quality” is the most commonly named rationale for mergers (52%) and acquisitions (42%). For “growth and diversification”, the roles are

KEY M&A RATIONALES ACROSS DIFFERENT ACTIVITY TYPES



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

swapped: mergers (29%) and acquisitions (40%). In the rationales for joint ventures, both topics are of similar importance (~40%). “Efficiency and integration” is the least commonly named rationale for all activity types, with the most mentions for mergers (20%).

In conclusion, the reasons for and prevalence of engaging in M&A activities vary notably across different types.

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PUBLISHER

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Hanauer Landstraße 175 – 179 · 60314 Frankfurt am Main
www.bvdinfo.com

Full or partial reprint:

please indicate source and forward a copy

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