

M&A Report

Global Mergers and Acquisitions Reports and Analyses

May / June 2017

German M&A Market Starts off Strong in 2017

The worldwide post-financial crisis merger wave has been going on for some time now, and many attractive targets have already been acquired. It seems that the merger wave has reached its peak in many countries, and that the number of mergers has started to decrease in the United States as well as in Europe. Germany, however, is an exception, as the country's level of mergers and acquisitions (M&As) is still very high. A plausible explanation is that Germany provides a rather safe investment environment compared with other countries which are characterised by political uncertainties, such as US President Trump's politics, Brexit, or insecurities associated with the recent French presidential elections.

M&As involving German businesses have experienced a strong upward trend in the last few years. According to the current ZEW-ZEPHYR M&A Index, this upward trend will continue to persist. The index, which is based on the number of completed M&As per month, climbed to 132 index points in January, kicking off the year 2017 on a very positive note. The only time the index exceeded this level was exactly one year ago, in January 2016, when the ZEW-ZEPHYR M&A Index recorded a monthly average of 133 points. The moving twelve-month average of the M&A Index has also grown continually. The index now reads 98 points (as of January 2017) and is thus on the verge of exceeding the 100-point mark for the first time since 2009.

The largest deal in the past six months was the takeover of the German manufacturer of industrial robots and production machines Kuka. Mecca International, a Chinese electrical appli-

ance manufacturer, spent 3.7 billion euros on the takeover. In Germany, the acquisition was subject of many public debates surrounding the transfer of German technical know-how into Chinese hands. Previous attempts to sell Kuka to a German company had, however, failed.

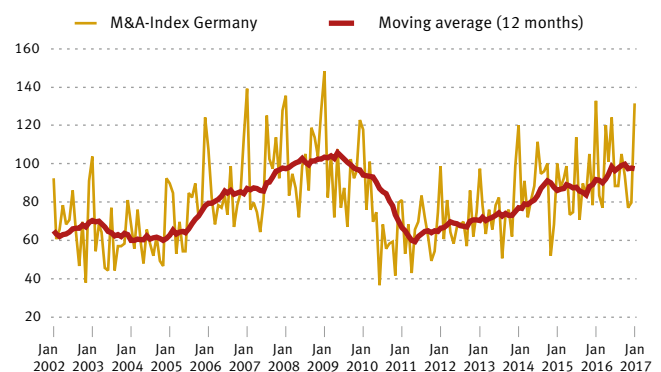
In the chemical industry, BASF completed its acquisition of Chemetall, a leading global surface treatment business for the auto and aerospace industries, thus succeeding in keeping the acquired company in German hands. The Ludwigshafen-based BASF bought Chemetall for around three billion euros from US company Albemarle. Before this takeover, BASF had not made any acquisitions of this scale during the ongoing merger wave in the chemical industry.

From December 2016 to January 2017, the ZEW-ZEPHYR M&A Index measured five more deals with a transaction volume of over one billion euros. One of those large-scale acquisitions includes, for instance, the takeover of the German tableware manufacturer WMF by the French company SEB. Another major deal was the French PSA Group's recent acquisition of the German automobile manufacturer Opel.

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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.

ZEW-ZEPHYR M&A-INDEX GERMANY



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



US Politics Fuel Uncertainty on Mergers and Acquisitions Market in the EU

Since taking office in January, US President Donald Trump has announced numerous changes to his country's economic policy, including the imposition of punitive tariffs on China, Mexico and the EU, and the renegotiation of various international trade agreements. Yet, the USA's economic success is tied in multiple ways to other countries. The EU, in particular, represents one of the most important US partners for private corporate mergers and acquisitions.

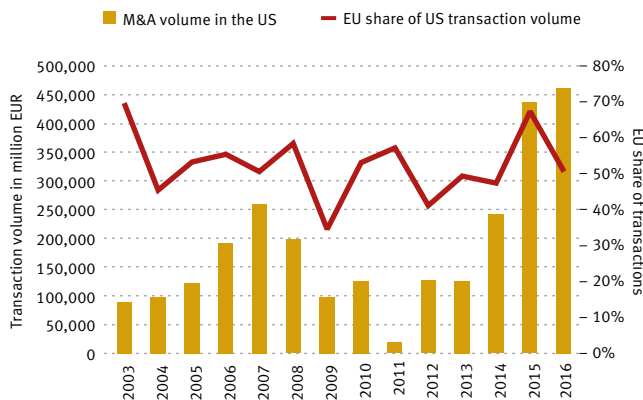
As the graph below illustrates, many of the companies that make up the absolute volume of M&A transactions between private US and foreign companies are based in the EU. This trans-

action volume roughly reflects the economic cycles of the past few years. Despite the striking decline of M&A activity after the financial crisis in 2008–2009, the transaction volume in 2016 reached a record high of 461.8 billion euros, with the lion's share (50.54 per cent) involving private EU businesses. The crisis year of 2009 was the only year in which European companies made up less than 40 per cent of US transaction volume.

In case of a trade war between the US and the EU, M&A activities in both regions would be severely affected. Punitive tariffs could lead to a sharp fall-off in transaction volumes, given the significant share made up by large individual companies. The absence of synergy between the US and the EU would affect mega deals and hurt smaller companies even more. This uncertainty damages M&A activities, which already carry many risks, and could motivate investors to seek more attractive options in other markets.

At the same time, there has been recent speculation about reforms that will tax companies in the countries they sell their products. This would be a change from the common practice of taxing company revenues in the country they are produced. In theory, a reform like this can eliminate offshore tax havens. But if this regulation is introduced in the US and nowhere else, perturbations could result. Companies that sell many goods in the US would have an incentive to shift production there. In the short term, M&A activities could serve as a springboard for this shift, which, in turn, would increase the number of transactions between the US and the EU.

SHARE OF TRANSACTIONS INVOLVING EUROPEAN COMPANIES IN US GLOBAL M&A ACTIVITIES



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

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Large International Acquisitions Shape Europe's Telecommunications Sector

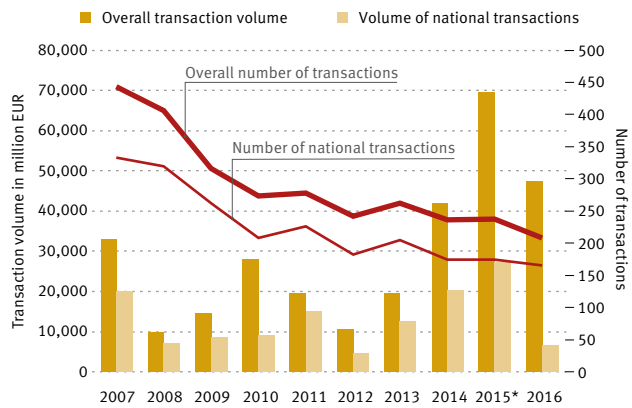
Two trends have shown on US and European telecommunications markets alike. For one, the numbers of M&A transactions have been declining annually and are now less than half of what they were in 2007. At the same time, transaction volumes have been increasing for several years now, which points to ever larger deals. On the European market, two developments have played a role in these trends: national markets have consolidated, and pan-European telecommunications firms have expanded into other markets and increased the size of foreign subsidiaries.

The largest national transaction in the past few years was British Telecom's 2016 acquisition of Everything Everywhere, a

joint venture of Deutsche Telekom and Orange (formerly France Télécom). The 16.3-billion-euro deal made British Telecom, the largest landline operator, also UK's largest mobile network operator. Similarly, the domestic acquisition of Base, a Belgian company, by the broadband provider Telenet in 2016 for around 1.3 billion euros shows how attractive the acquisition of mobile providers has become for landline operators. These types of acquisitions have been a relevant factor in market consolidation.

Though the European landline and mobile segments are more fragmented than their US counterparts, they too have witnessed cross-border consolidations. Pan-European telecommunications

M&A ACTIVITIES IN EUROPE'S TELECOMMUNICATIONS SECTOR



Source: Zephyr database, Bureau van Dijk. *Adjustment by ZEW: The merger of Altice SA with Altice N.V. was an internal restructuring measure without substantial changes in ownership. Accordingly, in 2015 the total transaction volume was adjusted by the restructuring volume, which amounted to 61.9 billion euros.

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companies such as Vodafone, Deutsche Telekom, Telefónica, Liberty Global and Altice have expanded their infrastructure footprints abroad. An example of this phenomenon is the acquisition of SFR by Altice in 2014 for around 14.25 billion euros. The deal allowed Altice to offer both mobile services and broadband services through its subsidiary Numericable. The largest cross-border transactions affecting the German market are the 2010 and 2011 acquisitions of the cable network operators Unitymedia and Kabel BW by the UK-based Liberty Global for around 6.7 billion euros.

Furthermore, a few national transactions have confirmed the trend in pan-European consolidation. The acquisition of Base by Telenet, a subsidiary of Liberty Global, is one such case. The acquisition of E-Plus by the German Telefónica subsidiary O2 in 2014 for around 8.6 billion euros is another example of how pan-European players are consolidating national markets.

Transaction Volume of M&As Between Turkey and EU Countries Plummets

The volume of mergers and acquisitions (M&A) between Turkish and EU companies (EU-28, including Croatia and the United Kingdom) decreased significantly in 2016. This development could possibly be due to political tensions as well as the fact that Turkey's prospects of accession to the European Union have worsened considerably.

The evaluation is based on impending and completed M&A deals, whose transaction volumes have been calculated, or estimated. In 2007, the M&A activity between companies in Turkey and the European Union had reached a record high, with a transaction volume of almost 37 billion euros. Over the course of the global financial crisis, however, the transaction volume took a considerable nosedive, falling to a value of about one billion euros

in 2009. After the crisis, the volume increased steadily for a few years, reaching a total of 7.7 billion euros in 2015. In 2016, which was marked by the failed coup attempt by a faction of the Turkish armed forces and the controversies surrounding the authoritarian tendencies in Turkey, the country experienced a sharp decrease in the overall transaction volume of over 73 per cent, falling to a total of merely two billion euros.

The most important sector in terms of the transaction volume recorded in M&As between Turkish and European companies was the banking sector, followed by the utility sector (gas, water, electricity), the chemical industry, the post and telecommunications sector, as well as the food industry.

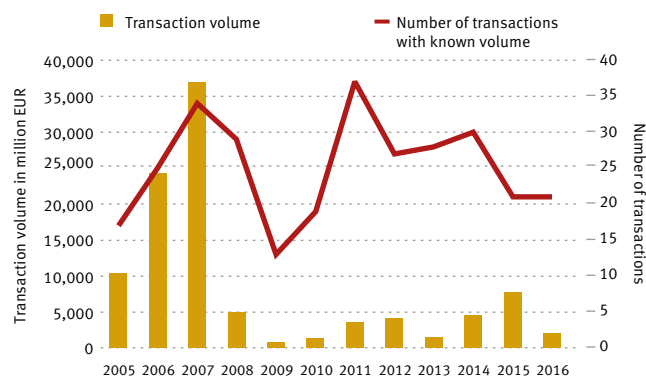
Number of M&As between Turkish and European companies remains relatively stable

About a year ago, the M&A Report published in April 2016 had reported about the dramatic decrease in the number of M&A transactions between Russia and OECD countries. As a result of the latest political events surrounding the Crimea crisis, the number of mergers and acquisitions between Russian firms and companies in OECD countries had then almost come to a complete standstill.

Compared with the development in this other European crisis region, the number of M&As between Turkish and EU companies have remained relatively stable: in 2016, the number of transactions still amounted to 21. The greatest number of transactions ever recorded was in 2011, with a total of 37 transactions.

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M&A TRANSACTIONS BETWEEN TURKEY AND EU COUNTRIES



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