



# M&A REPORT

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# ZEW M&A Index Remains Low in Early 2024

Over the past four turbulent years, the ZEW-ZEPHYR M&A Index has plateaued around 90 points. In 2020 and 2021, the COVID-19 pandemic was the main reason for this low level of M&A activity as it brought economic instability. The escalation of the Ukraine conflict in February 2022 with Russia's invasion of Ukraine has continued to contribute to economic uncertainty. Consequently, geopolitical events seem to have been a major factor in the reduced number of M&A deals involving German companies. Another important event is the war in Israel and Gaza between the state of Israel and Hamas. This conflict, given the partnership between Western countries (e.g. the US) and Israel, has further impacted Germany's economic stability. Amid the ongoing wars in Ukraine and Israel, M&A activity in Germany is likely to remain low.

In terms of deal volume, the most significant M&A deal involving German companies is the acquisition of Viessmann Climate Solutions SE by Carrier Global Corporation for 12 billion euros. With the acquisition of Viessmann, a manufacturer of heating and cooling systems, US-based Carrier is expanding its air conditioning and refrigeration division.

Another noteworthy M&A deal involved Canadian convenience store operator Alimentation Couche-Tard Inc., which acquired 2,201 European retail sites from TotalEnergies SE, a French company in the oil and gas industry, in a deal worth 3.4

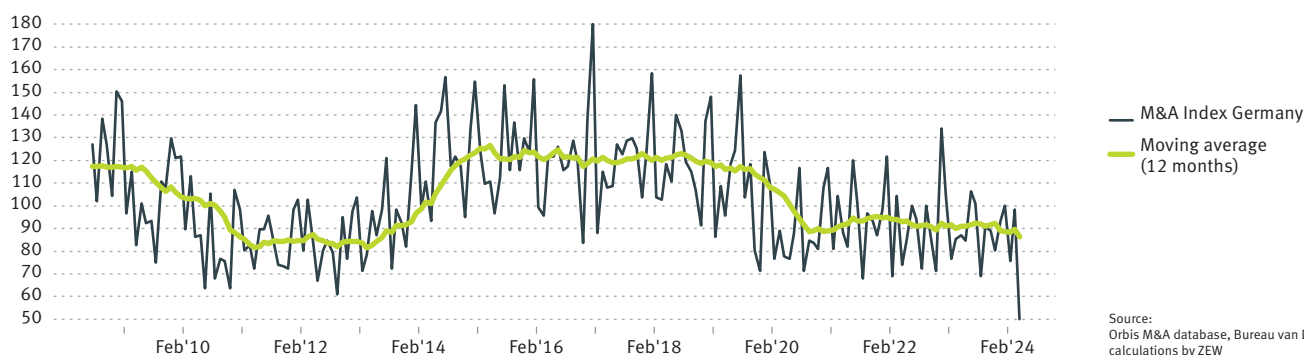
billion euros. Following the European Commission's decision in November 2023 not to raise any objections to the proposed agreement, the deal will result in the full acquisition of TotalEnergies' retail assets in Germany and the Netherlands.

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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.



ZEW-ORBIS M&A INDEX GERMANY



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

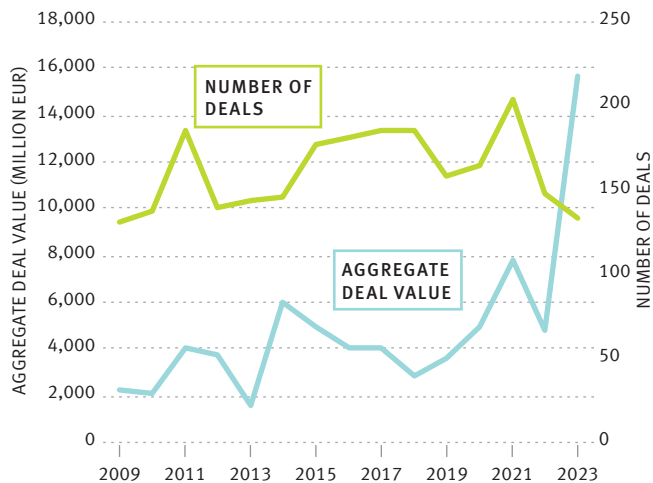


# Mergers and Acquisitions in Climate Solutions Manufacturing

The acquisition of Viessmann Climate Solutions SE by Carrier Global Corporation for approximately 12 billion euros prompted ZEW researchers to take a closer look at the industry. Viessmann, the German target company, produces heating and cooling systems in its climate solutions division. Carrier, the US-based acquirer, specialises in a heating, ventilation, air conditioning, refrigeration, and fire and security equipment. In 2023, Carrier sold its security business division for more than four billion eu-

ros. This sale and the acquisition of Viessmann indicate a strategic shift in Carrier's product portfolio. In the climate solutions manufacturing sector, Carrier (20.44 billion euros revenue) faces direct competition from Johnson Controls International plc (25.35 billion euros revenue) and Trane Technologies plc (16.04 billion euros revenue). Both competitors are headquartered in Ireland. In 2022, Trane also acquired the air technology business of Germany's AL-KO SE. These acquisitions of Carrier and its main competitors are important drivers of M&A activity in the climate solutions manufacturing industry.

## M&A ACTIVITY IN CLIMATE SOLUTIONS MANUFACTURING



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

## Rising deal value in the climate solutions manufacturing sector

An analysis of the climate solutions manufacturing sector reveals an increase in aggregate deal value over the last 15 years. Notably, the year 2023 recorded a new peak with an aggregate deal value exceeding 15 billion euros, largely driven by Carrier's acquisition of Viessmann. Although the number of deals in the sector rose from 131 in 2009 to 204 in 2021, last year it nearly fell back to 2009 levels. Despite this, the rise in aggregate deal value underscores the growing relevance of the climate solutions manufacturing industry. This trend, along with Carrier's strategic acquisition of Viessmann, points to a rising demand in the climate solutions industry. One possible explanation for this is the emerging challenges posed by global climate change.

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# Cross-Border M&A Activities with Russia Continue despite Ukraine War

The Russian invasion of Ukraine on 24 February 2022 marked a pivotal moment in global geopolitics, not only because it forced Western leaders to rethink their diplomatic and defence strategies. The conflict also triggered a shift in trade relations between Western countries and Russia, resulting in a significant decline in trade activity in the months following February 2022. To a large extent this was due to stringent sanctions imposed by Western countries in response to Russia's aggressive actions.

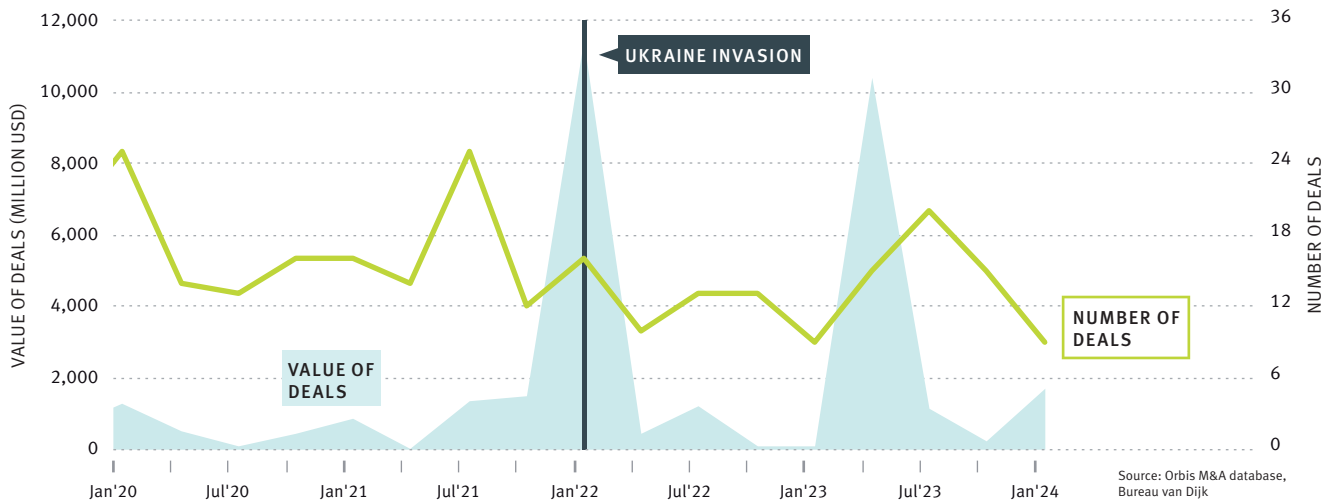
However, the war in Ukraine does not seem to have affected the number of M&A deals between Russia and other countries. While there was a temporary drop in the number of deals for the rest of 2022, no persistent trend emerged, and the amount of M&A deals increased again in 2023.

In fact, two large deals were completed in 2022 and 2023: In March 2022, Wandle Holdings – a Cyprus-based investment fund – acquired a stake in Polyus, Russia's largest gold producer, for over 11 billion dollars from Polyus Gold International Ltd in the UK. In June 2023, the Cyprus-based Fletcher Group Holding transferred its stake in Russia's Novolipetskii Metallurgicheskii Kombinat to Serenity II Holding and Nebula II Holdings, two investors based in the United Arab Emirates.

These two cases illustrate the shifting of wealth by Russian oligarchs to countries with more relaxed relations with Russia. The rationale behind this could be to reduce the risk of being hit by sanctions, which could explain the ongoing M&A activity involving Russian targets and acquirers.



RUSSIAN CROSS-BORDER M&A DEALS



Even before 2022, most of the M&A deals with Russia did not involve many companies or investors from Western and European countries. This is unlikely to change, especially as relations deteriorated following the attack on Ukraine. However,

there is still a number of investors interested in trading Russian assets, operating from countries such as Cyprus and the United Arab Emirates.

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# Why Do Companies Engage in M&A?

There are many theoretical reasons why companies merge with or acquire other companies. These can include achieving economies of scale, diversifying product lines, reducing competition, entering new markets or acquiring new technologies. Such strategic moves can lead to increased efficiency, improved revenue streams and a stronger competitive position in the marketplace. Beyond case studies, however, pinpointing the exact reasons for mergers and acquisitions can be challenging without concrete evidence.

phasing ‘competitive advantage’ and ‘market penetration’. For four per cent of the rationales, it is not possible to identify a single theme.

In the future, it will be worth revisiting and refining this methodology, for example, to analyse the differences in rationale for acquisitions, mergers and joint ventures.

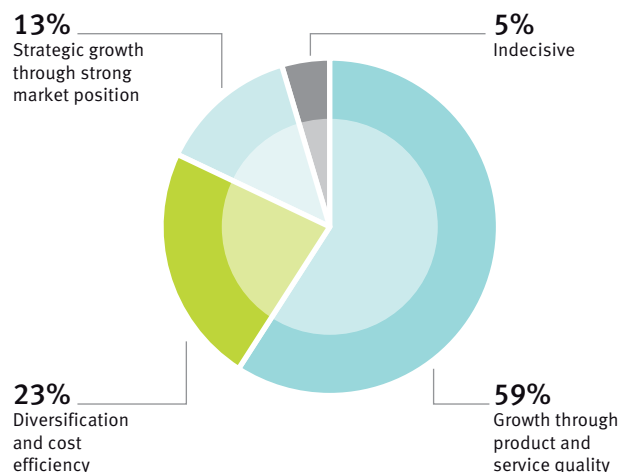
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## Evidence from M&A rationales

The M&A rationales – part of the Zephyr database – include statements where acquiring or merging companies describe their reasons for the transaction. For example, if a company acquires another for its expertise in a particular technology, this rationale is likely mentioned. ZEW researchers use a topic model to explore these motives for M&A activity.

The figure displays the most prevalent reasons for firms to engage in M&A deals, based on rationales between 2005 and 2022. Approximately 60 per cent of the rationales are related to ‘growth through product and service quality containing phrases such as ‘long-term growth’ and ‘high-quality products’. Another 22 per cent of the rationales, labelled ‘diversification and cost efficiency’, include phrases such as ‘product diversification’ and ‘cost reduction’. ‘Strategic growth through strong market position’ is the primary topic of 13 per cent of the rationales, em-

## TOPICS IN M&A RATIONALES



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



## PUBLISHER

The **M&A Report** is a biannual publication issued by the ZEW – Leibniz Centre for European Economic Research and Bureau van Dijk, a Moody's Analytics company. It uses the Orbis M&A database to report on 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 2.4 million M&As, IPOs and private equity transactions around the world.

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