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BUREAU VAN DIJK

M&A Report

Global Mergers and Acquisitions Reports and Analyses

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Mergers and Acquisitions in Germany: M&A Index Hits Record Highs

According to the moving 12-month average of the ZEW-ZEPHYR M&A Index, mergers and acquisitions of German companies remain on course to reach the highest levels ever recorded. The moving 12-month average, which is based on the number of M&As of German companies, began its current trajectory with a merger wave at the beginning of 2011 and – apart from a relatively small decline in 2015 – has risen continuously ever since, reaching 96 points in August of 2016. This is the highest value observed since 2009. The high levels today cannot, however, be attributed to outliers. Though the January score – 132 points – was higher than for any single month since 2008, the M&A Index exceeded the 100 point-mark for two other months between February and August. Again, the last time this occurred was in the year 2009.

Number of Transactions Inside Germany Has Risen

What is striking is how attractive German companies have become for other German firms. Though the number of efforts to acquire German companies has generally increased, they have been strongest from other German companies. Almost 60 per cent of all current transactions have taken place inside Germany. In 2012, it was just under 50 per cent. The number of buyers from outside Germany in the eurozone has been increasing as well in the past three years, with their shares in M&A deals now at 14 per cent, 4 per cent higher than in 2012. Buyers from outside the eurozone are currently responsible for only 26 per cent of all transactions, their weakest showing in the German M&A market for more than five years.

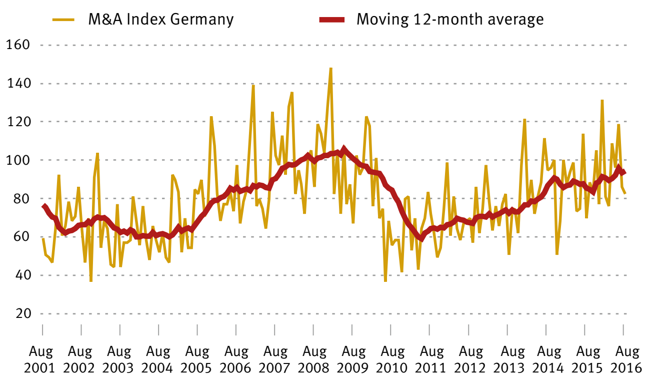
The **ZEW-ZEPHYR M&A Index** measures the number of M&A transactions completed in Germany each month. It considers only mergers and acquisitions by and with Germany companies. It does not differentiate between the country of origin of the buyer or partner. Both domestic and international buyer companies are considered as long as the target companies are active in Germany.

Record Acquisitions in the Third Quarter

The largest deal of the previous quarter occurred between ATM manufacturers. As the importance of cash has continued to wane in many countries, restructuring in the sector has been necessary. The Paderborn-based automatic teller manufacturer Wincor Nixdorf purchased the US-based competitor Diebold for around 1.8 billion euros.

What was probably the most spectacular and largest attempt to acquire a German company fell through. In March 2016, the agricultural chemicals corporation Monsanto from the United States tried and failed to purchase the agricultural chemicals division of Leverkusen-based Bayer AG. Monsanto was willing to pay around 30 billion euros. Had Monsanto succeeded, it

ZEW-ZEPHYR M&A-INDEX GERMANY



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

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The **M&A Report** is a biyearly publication issued by the Centre for European Economic Research (ZEW) and Bureau van Dijk (BvD). It uses the Zeyphr database to report on current topics and developments in global mergers and acquisitions. Zephyr delivers detailed daily information on over a million transactions in M&A, IPO, and private equity across the world.

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would have been by far the largest acquisition of a German company ever recorded. In September 2016, the tables turned drastically: Bayer absorbed Monsanto for the record sum of 59 billion euros. In doing so, Bayer outrivaled BASF, which was also vying for Monsanto.

The quick finalization of the transaction may have been helped by the similar stakeholder structure of both companies. The financial investor BlackRock is the largest shareholder at Bayer – during purchase negotiations it increased its share from six per cent to seven per cent – and the second-largest shareholder of Monsanto, owning six per cent of its stock. Only Vanguard, another US financial investor, holds a greater stake in Monsanto. Vanguard also has sizeable stock in Bayer.

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M&A Transactions Decline in the IT Sector

Globally, M&A activities in the IT branch have declined significantly in the past few years. This trend is particularly striking in the US, the most important market for established IT giants as well as for Internet start-ups. Since 2011, the number of transactions fell continuously from year to year and by 2015 sank to 521, a decline of 61 per cent. Transaction volumes have also been falling, with exception of 2012 and 2014. In 2015, they totalled only 20.48 billion euros, as low as they were in the crisis-riddled year of 2009.

Buyers Mostly Sceptical of Young Internet Companies

The high transaction volumes in 2012 and 2014 were on account of large individual deals, such as the acquisition of the instant message provider Whatsapp by the US Internet giant Facebook, whose value alone was estimated to be 15 billion euros. If these large-scale transactions were omitted, these two years would clearly reflect the downward trend. The data for 2016 has been recorded through June.

This negative trend could be linked to the burgeoning scepticism towards young IT start-ups. Many young companies face strong competition and are often unable to fulfil the hopes placed in them. As a result, many start-ups have difficulty turning a profit. With no other alternatives on offer, more and more start-ups are probably wondering whether to go public for an injection of fresh capital. One company that is reportedly preparing to take this risky step is the online data storage service Dropbox from San Francicso. Experts think the company might go public in the first quarter of 2017.

Concerns of a New IT-Bubble

Several Silicon Valley firms are valued very highly yet still face big challenges. The best example is the online transportation network company Uber, which recently had to retreat from the Chinese market regardless of its 70 billion dollar valuation. In view of such sobering reports, investors are worried that companies in the IT sector are overvalued, and, with growing fears of a bubble, they have become skittish about new purchases. Their reluctance is reflected in the economic data from the past few years (see graph below).

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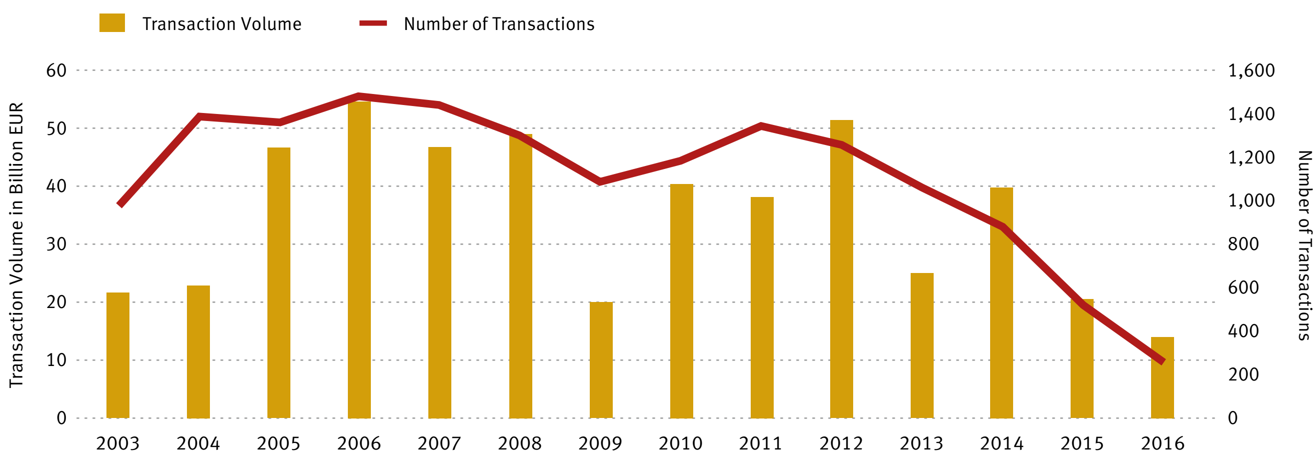
VOLUME AND NUMBER OF TRANSACTIONS IN THE US IT-SECTOR FROM 2003 TO JUNE 2016



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

Capital Gains Taxes Slow M&A Activities

In 2002, Germany and the United Kingdom eliminated corporate capital gains taxes for M&A transactions. Similar reforms have followed in other European countries such as France, Italy, and Scandinavia (see graph below). This development has been of momentous importance for acquisition activities.

In general, capital gains taxes are levied whenever a company earns a profit from the sale of its shareholdings. From the perspective of the seller, these taxes increase the transaction costs of the acquisition. To pass on some of these costs, sellers can be expected to demand higher prices while negotiating with potential buyers. If the buyer is not ready to pay more, the deal won't go through. Hence, capital gains taxes have a negative effect on the number of successful transactions. This mechanism is known as the "lock-in-effect."

Company Shareholders Especially Hard Hit

A recent ZEW study has tried to measure the extent of the lock-in-effect by looking at these reforms to capital gains taxes. The study estimates the elasticity in the number of M&A transactions with respect to the corporate capital gains tax rate and use it to compute the annual loss for shareholders resulting from the taxation of capital gains. These losses are caused when the lock-in-effect eliminates the synergistic gains from corporation acquisitions and mergers. The study primarily looked at M&A transactions to which the capital gains tax applies (i.e. inter-corporate share deals). The data on M&A was gathered from the Bureau van Dijk Zephyr database for 2002 to 2013. Since the Zephyr is linked to other enterprise databases, it is possible to identify the seller's location and whether the seller is a corporation or a private individual. This information is necessary to determine the capital gains tax liability for M&A transactions.

Number and Volume of M&A Transactions Negatively Affected

The results of the study show that the capital gains tax has a pronounced negative effect on the number and volume of M&A transactions. It finds that lowering the tax rate on the sale of shareholdings by 1 percentage point leads to a 1.1 per cent increase in the number of M&A transactions. The study then uses this finding to determine the shareholder losses caused by the capital gains tax. The study's authors approximate the value of the projected synergistic gains based on the acquisition premiums available in the Zephyr database by country and industry. They combine this data with the effect of capital gains taxes on acquisitions to simulate the influence of the tax reforms. On this basis, the study projected that exempting US companies from capital gains tax on M&A transactions would lead to a shareholder gain of 3.06 billion US dollars. In 2013, America's capital gains tax on companies for M&A transactions was 39.28 per cent, which includes applicable state taxes as well.

The study is available for download at: *www.zew.de/PU77087*

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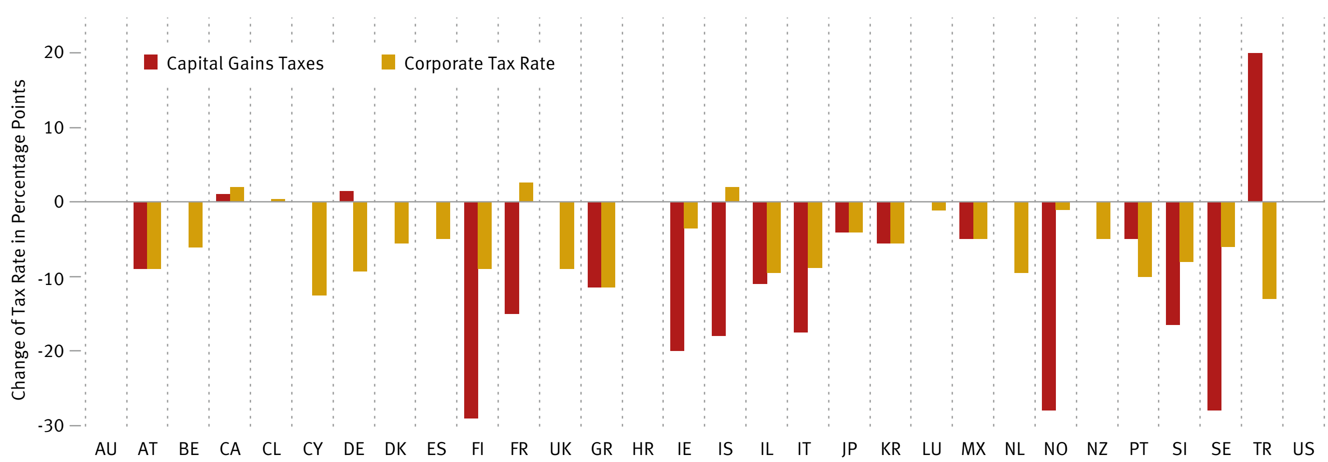
CUMULATIVE CHANGE OF CORPORATE CAPITAL GAINS TAXES FOR M&A FROM 2002 TO 2013



Source: ZEW

Few Large-Scale Acquisitions in the US Telecommunications Market

As in Europe, the telecommunication market in the United States has experienced massive consolidation in the past few years. This trend has raised the aggregate transaction volume while considerably lowering the number of M&A deals.

In the US, the number of M&A deals remains depressed after hitting a record low in 2015. At the same time, the aggregate transaction volume was very high at the end of August, exceeding the past decade's peaks. Not least among the big deals were large-scale acquisitions on the cable provider and broadband markets. In May of this year, Charter Communications announced the second-largest publicly known acquisition on the US telecommunication market. Its purchase of Time Warner Cable for 69.6 billion euros and Bright House Networks for 9.2 billion euros makes Charter (now operating under the brand name Spectrum) the second-largest broadband provider and the third-largest pay-TV provider in the US. Not long after, the Dutch telecommunications group Altice acquired Cablevision for 15.6 billion euros. Together with the purchase of Suddenlink in 2015, this deal turned the US division of the Dutch corporation into the fourth-largest cable network provider in America. Also in 2015, AT&T purchased the satellite television provider DirecTV for 61.1 billion euros, making it the country's largest pay-TV provider.

What these large-volume acquisitions have in common is the aim not only to cut costs via synergistic effects (as with previous deals) but also to strategically expand portfolios beyond the classical areas of telecommunication and Internet services. These portfolio expansions can be seen as a response to increasing customer demand for integrated product bundles encompassing as many services as possible. Moreover, the media rights included in the acquisitions have assumed an increasingly large significance. For instance, AT&T's purchase of DirecTV gave it highly sought-after broadcast rights for the NFL.

What this suggests is that traditional telecommunication network operators are responding not only to traditional challenges such as demands for ever larger capacities but also to new competitors from the Internet economy such as the online streaming providers Netflix and Amazon Prime Video.

Competition Law Lags Behind M&A Activities

Mergers carried out for the sake of diversification, with a special focus on Internet services and platforms have raised new challenges for regulators, especially when it comes to competition law. Consider the disproportion that often exists between the revenues an Internet start-up generates and its valuation on external capital markets. Successful start-ups are characterized by quickly acquiring users, whose data they mine and store, creating proprietary storehouses of personal information. This incentivizes dominant companies to acquire smaller start-ups and thus take possession of this very lucrative data. However, current regulations provide only for intervention thresholds based on company revenues but not on the value of the company or the monetary valuation of its data stores. It has thus been proposed by authorities such as the German Monopolies Commission to redefine thresholds in Europe and Germany to better reflect these realities. Given the ineffective regulatory instruments currently available, the Federal Cartel Office has also demanded more effective decision criteria to counter the monopolization tendencies in the Internet economy.

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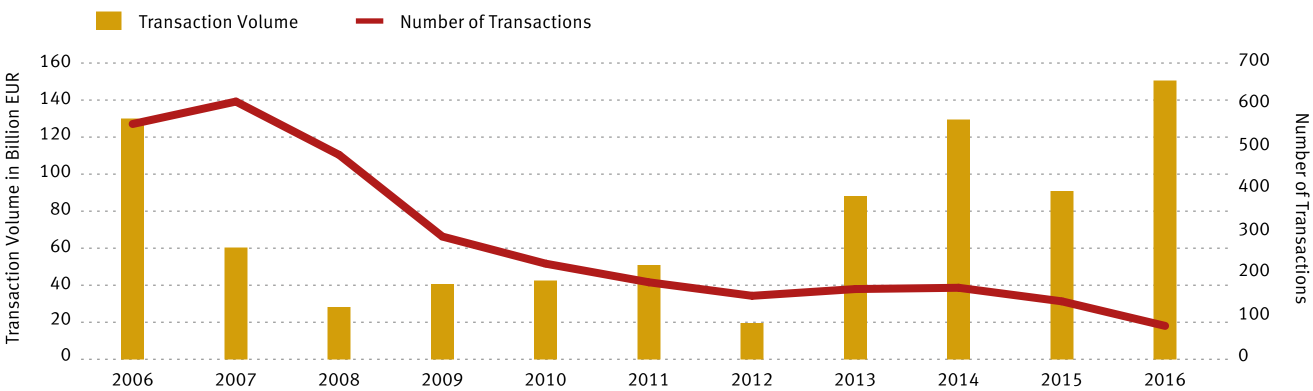
NUMBER AND AGGREGATED VOLUME OF COMPLETED M&A TRANSACTIONS WITHIN THE NAFTA TELECOMMUNICATIONS SECTOR FROM 2006 TO AUGUST 2016



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