M&A REPORT

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The **M&A Report** is a biannual publication issued by the Centre for European Economic Research (ZEW) und Bureau van Dijk. It uses the Zephyr database to report on current topics and developments in global mergers and acquisitions. The Zephyr database, which is updated on a daily basis, contains detailed information on over one million M&As, IPOs and private equity transactions around the world.

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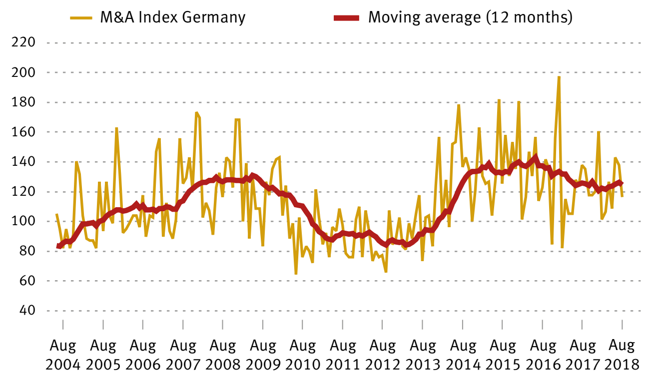
M&A REPORT

German M&A Index Stabilises Thanks to Increasing Number of Transactions

The number of mergers and acquisitions (M&As) involving German firms stabilised over the first half of 2018, after previously witnessing a decline. 2018 began – as is common at the beginning of the year – with a large number of transactions in January. After a somewhat modest spring, activities picked up again in the summer. This development is clearly discernible in the current ZEW-ZEPHYR M&A Index, which tracks the number of M&A transactions involving German companies on a monthly basis.

ZEW-ZEPHYR M&A INDEX GERMANY



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

The twelve-month moving average is up slightly as well after having fallen in the period between October 2017 and January 2018. But while the number of transactions has increased, their volume displayed a weaker development in the past few months. Only one deal in the first half of 2018 exceeded a transaction volume of one billion euros: the purchase of the Upper Bavaria-based Stahlgruber GmbH, a wholesale distributor of aftermarket spare parts, by its US competitor LKQ Corporation for 1.5 billion euros.

In another deal, Scout24, a Munich-based provider of online commercial services such as ImmobilienScout24, AutoScout24 and FinanceScout24, purchased the Hamburg-based financial service provider Finanzcheck.de for 285 million euros. With the new platform, Scout24 further expands its portfolio of online service platforms and now helps users find cars, while additionally providing financing options for car loans. With the new purchase, the company further acquires expertise in the area of machine learning.

Growth in M&A activities reverses downward trend

Another example of market consolidation is the acquisition of Parship Elite Group by NCG-Nucom Group, a subsidiary of ProSiebenSat.1 Media SE. The NCG Nucom Group now operates Verivox, mydays, Jochen Schweizer, and billiger-mietwagen.de, along with the dating sites Parship and ElitePartner.

Overall, the rise of M&A activities involving German companies this year reversed the downward trend that was ongoing since January of 2017, initiating a growth phase. This uptick is a reflection of the general economic situation in Germany, as economic performance has been robust in recent years, despite multiple indications of the economy entering a saturation phase.

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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.

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US Banks Pull Ahead of EU in Banking Sector

In the ten years since the collapse of Lehman Brothers, Europe's banks have fallen strongly behind their counterparts in the US. Although the stock performance of EU credit institutions was somewhat better than their US competitors during the financial crisis that began in 2007, US banks have been pulling ahead ever since 2011. The causes are multifarious, including the prompt and sweeping action taken by the US government to stabilize the financial system during the crisis, in contrast to Europe's hesitant collective response; the subsequent European debt crisis (whose consequences for Eurozone economies and banks can still be felt today); Britain's imminent departure from the EU; diverging interest rate levels; and unprofitable business models of some EU banks. The recent spate of corporate tax cuts and deregulation in the US are likely to increase the distance between the market values of the US and EU banking sectors. The only deficiency in the stock performance of US banks is that it took until the end of 2017 to make up the losses incurred during the financial crisis.

The significant divergence between US and EU banks is reflected in their respective M&A activities since 2006. The number of M&A transactions involving US banks began to increase again in 2010 after falling in the wake of the economic crisis. By contrast, the number of M&A transactions involving EU banks did not begin to increase again until 2014 after years of experiencing a downward trend. A further difference between the two markets concerns the extent of M&A activities immediately after the crisis in comparison with the level before the crisis. Transactions involving US banks exceeded their pre-crisis levels in 2014. By contrast, the number of M&A transactions involving EU banks is still behind their pre-crisis levels, despite an increase in 2014. Nevertheless, during the period from 2006 to 2017, EU banks were, on average, involved in more M&A transactions than US banks. Between January and August 2018, US banks saw 64 M&A transactions, down from the 75 transactions in the same period last year. This is somewhat surprising because tax reform and bank deregulation have increased the ease and desirability of acquisitions of US banks. In the medium term, these factors are expected to have a positive effect on M&A activities. In the EU, the same period saw 45 transactions (versus 42 last year). In the EU as well, more transactions are expected in the medium term, though the primary concern acting as a driving force here is maintaining competitiveness.

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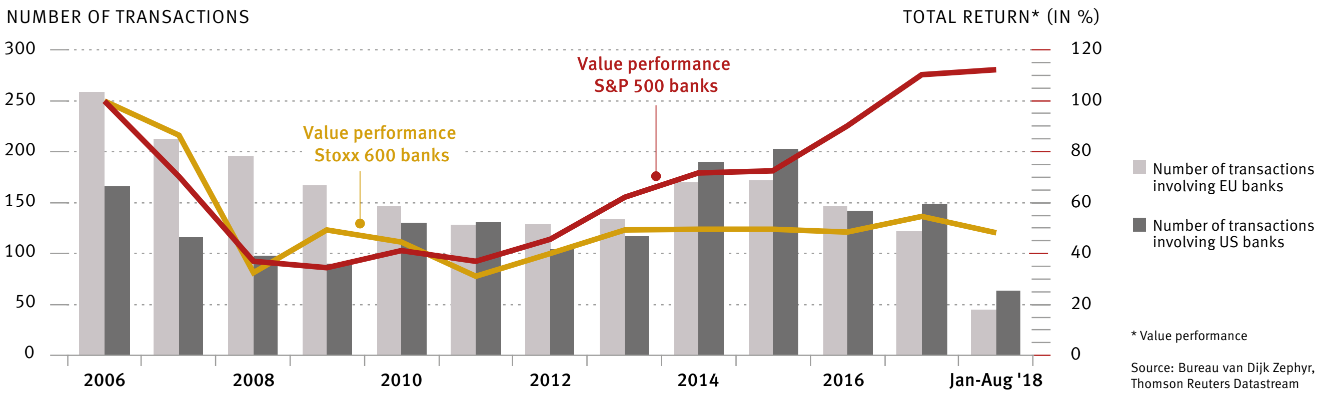
M&A TRANSACTIONS AND STOCK PERFORMANCE OF BANKS



Source: Bureau van Dijk Zephyr, Thomson Reuters Datastream

US Tech Companies Devour Smaller Rivals

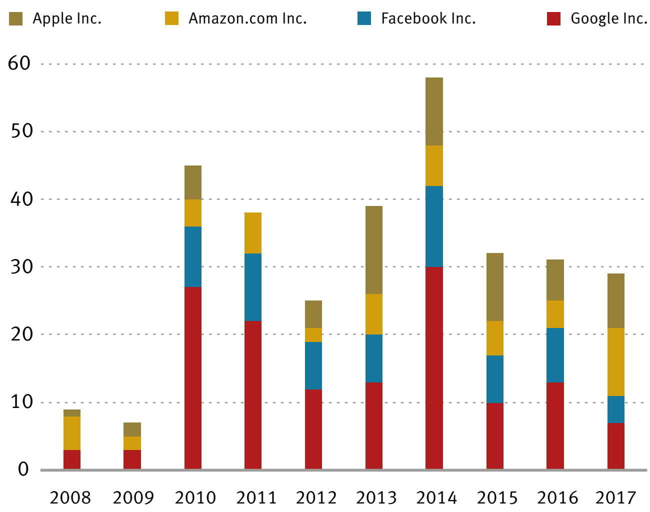
At the end of August 2018, the online retailer Amazon announced that it had acquired the US mail-order pharmacy PillPack. The price was estimated to be around one billion euros. Amazon already has a large share of the over-the-counter (OTC) drug market. With the PillPack deal, it is poised to increase its presence in the prescription drug market as well. What makes PillPack particularly attractive for Amazon is that it possesses online pharmacy licenses in all 50 states. This acquisition is yet another example of a US tech company making inroads into a new business segment.

Indeed, Amazon along with the other major US tech giants – Apple, Google and Facebook – have been on a buying spree. In 2009, these firms acquired fewer than ten companies in total. By 2010, their combined acquisitions had quintupled and since then each has averaged around twenty per year. In the past few decades, they bought a total of 313 companies, averaging 7.8 per year. Of them, Google has stood out, outperforming Apple, Facebook and Amazon every year except 2017, for a total of 140 acquisitions. The others have had fewer than half as many each.

There are many factors driving these acquisitions. The targeted companies have been competitors, promising start-ups, or gateways into a new market. In 2017, Amazon acquired the supermarket chain Whole Foods for 13.7 billion dollars. In 2009, the Seattle-based firm bought its competitor Zappos for 930 million dollars, a relative steal. Apple and Google both purchased promising start-ups with interesting technologies early on and integrated them into their ecosystems. Through acquisitions like these, Google was able to launch Google Docs and Google Maps. Apple used its acquisitions to start Siri. Facebook has been more defensive in its purchases, acquiring companies that threaten its own business such as the photo and video-sharing app Instagram and the instant-messaging service WhatsApp. When it has failed to acquire a potential competitor, Facebook has simply copied its services, as it did with the multimedia messaging app Snapchat.

Increasingly, the acquisitions of tech giants have been the subject of criticism. Because of their large reserves of cash, these companies can buy up any competitor that might harm their bottom line. And if they swallow very small companies early

NUMBER OF ACQUISITIONS



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

enough, it is hard for regulatory agencies to prevent acquisitions and the harm they do to the competition. What complicates the situation further is that many start-ups have an interest in being bought by large tech companies.

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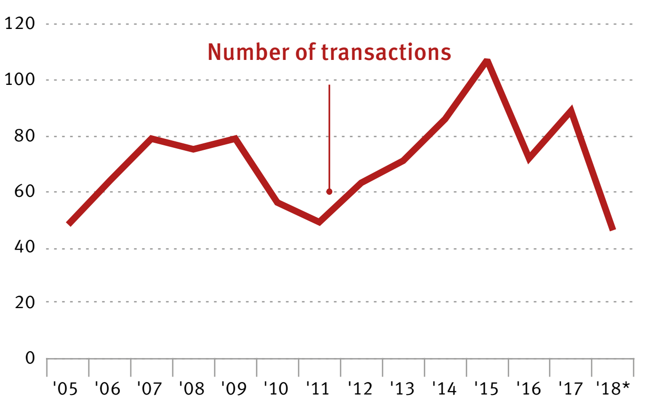
Sluggish M&A Activity for Family Businesses

In 2015, Germany's 500 largest privately owned companies saw the most M&A activity ever recorded. Totalling 107 transactions, the year marked the culmination of M&A growth in the years following the 2007–2008 financial crisis. 2015 also exhibited the strongest transaction volume and featured the biggest deal yet between family-owned enterprises: the acquisition

NUMBER OF TRANSACTIONS BETWEEN FAMILY-OWNED ENTERPRISES



*up to and including August

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

of the Sigma-Alderich Corporation by Merck KGaA for just under 16 billion euros. 2016 and 2017 were moderate by comparison, and so far 2018 has seen only 46 deals. At this rate, 2018 will at best be another moderate year. This is surprising because the economy continues to remain strong and cash is cheap, allowing which tends to make M&A activity more dynamic. The acquisition of the US firm eMarketer Inc by Axel Springer SE and the acquisition of the Canadian manufacturer JemPak Corporation by Henkel AG &Co. KGaA were the largest acquisitions in 2018, with transaction volumes of 206 million euros and 78 million euros, respectively. Most of Germany's M&A transactions in 2018 involved the acquisition of German firms. The main drivers for the acquisitions were digitalisation and automation, megatrends that have kept companies in the automobile, media, pharma, health and packaging industries very busy.

Family-owned companies are usually conservative and risk-averse when it comes to M&A. Most want to pass on the business to the next generation. Accordingly, they tend to prefer long-term acquisitions and organic growth to short-term profits. As a result, their M&A activity is significantly less than the corporate average. As family-owned companies become more professional and continue to grow, however, the difference between them and publicly traded companies begins to blur.

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