



M&A REPORT

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ZEW M&A Index Stabilises at Low Level

Almost three years after the start of the pandemic, the ZEW-Orbis M&A Index has now stabilised at a level of around 90 points. The decline in the M&A Index began in 2019, shortly before the UK's exit from the European Union, coinciding with a slowdown in the German economy and an increase in economic uncertainty. The turmoil caused by the COVID-19 pandemic and the ongoing war in Ukraine further exacerbated economic instability, leading to a decline in M&A deals involving German companies. The long history of the index, which was established in 2005, makes it possible to compare the current crisis with the last major one – the European debt crisis – which occurred between late 2009 and 2011. Although the index has stabilised at a slightly higher level than during the European debt crisis (then 84 points), the current crisis appears to more protracted and there are currently no signs of recovery.

One of the most notable deals involving a German company was the acquisition of German-based MBCC by Swiss-based Sika AG for 5.2 billion euros. With the takeover of MBCC, a leading global supplier of construction chemical products, Sika AG aims to strengthen its sustainable product portfolio and to facilitate the reduction of carbon emissions in the construction industry. The transaction was announced in November 2021.

Another notable deal was the acquisition of the Danish company Simcorp by the Deutsche Börse. With a value of four billion

euros, this is the largest acquisition in the history of the German-based stock exchange. Simcorp is known for its investment management software. Deutsche Börse expects the merger to result in more growth and efficiency gains.

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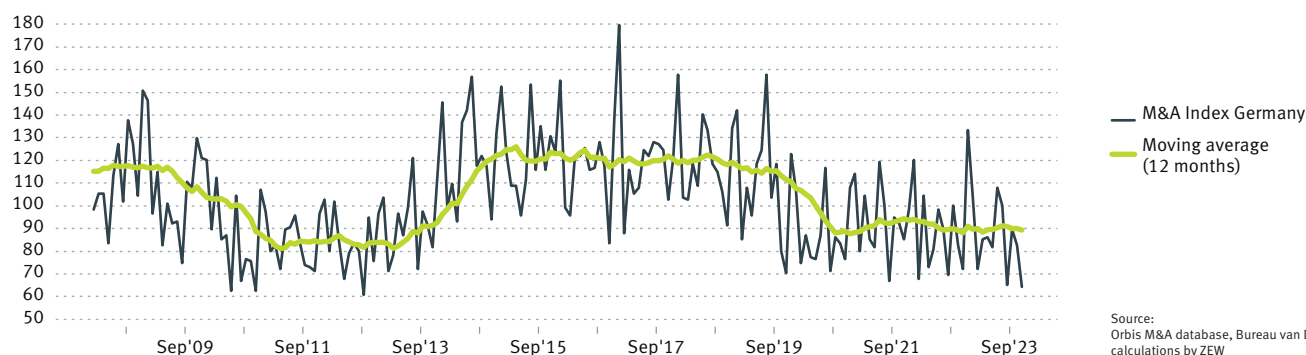
The **ZEW-Orbis M&A Index** measures the number of M&A transactions completed in Germany each month. It considers only mergers and acquisitions by and with German companies. It does not differentiate between the country of origin of the buyer or partner. This means that both domestic and international 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.



BUREAU VAN DIJK
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ZEW-ORBIS M&A INDEX GERMANY





Acquiring AI Expertise

With the release of ChatGPT in November 2022, the start-up company OpenAI kicked off much hype around artificial intelligence (AI). ChatGPT is capable of writing emails and essays, and with a recent update, is even acing bachelor-level exams in economics. Meanwhile, established companies like Alphabet/Google and Meta/Facebook are trying to catch up by releasing their own AI products. Microsoft, on the other hand, is pursu-

ing a strategy of integrating the OpenAI technology into its own products and services. Yet another way for established companies to gain AI expertise is to acquire companies specialising in this area.

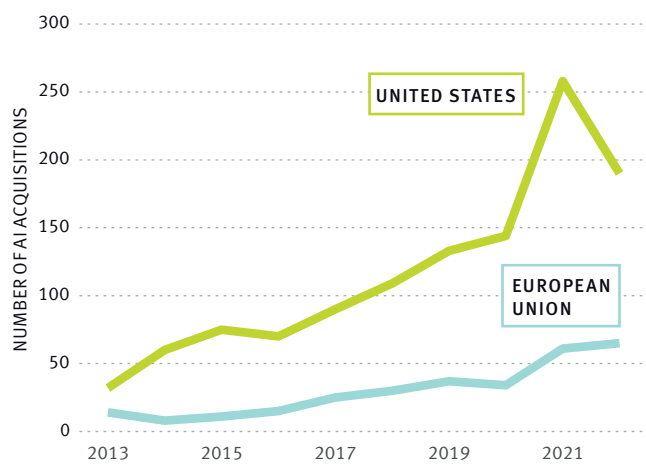
Rationale for AI in M&A?

In order to identify M&A deals that aim to strengthen the buyer's AI expertise, ZEW researchers analysed rationales, which are textual information about why certain mergers and acquisitions were carried out. If a company is acquired for its AI expertise, this is likely to be mentioned in the rationale of completed acquisitions. For this purpose, the researchers searched for keywords such as 'artificial intelligence' and 'machine learning.'

For both the United States and the European Union, an increase in the number of deals containing AI keywords was observed between 2013 and 2022. In both regions, the amount was more than five times higher in 2022 than in 2013, peaking in 2021. In general, the number of AI acquisitions increased steadily, suggesting that companies have been slowly acquiring AI expertise rather than suddenly starting to do so at the end of 2022. Since the hype around AI did not start until late 2022 and early 2023, and only completed deals were considered, it will be interesting to revisit the analysis as new data becomes available.

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AI ACQUISITIONS



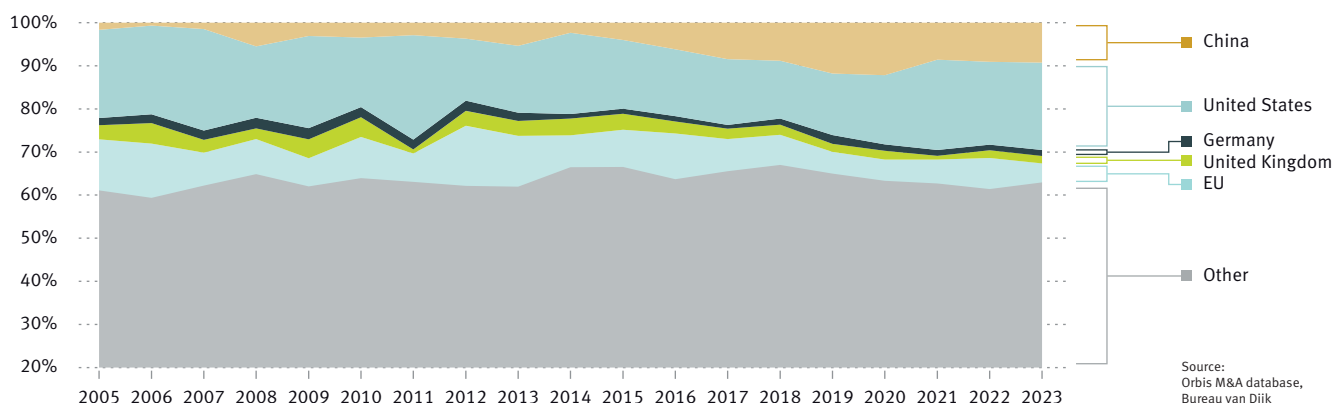
Source: Orbis M&A database, Bureau van Dijk, calculations by ZEW

M&A Activities in the Biotechnology Sector

Against the backdrop of the COVID-19 pandemic, M&A activity in the biotechnology sector is of particular interest to companies and policymakers. In a remarkable development, a mere ten months after the pandemic's onset, the German company BionTech SE successfully developed an mRNA vaccine against the coronavirus. From the beginning, BionTech's growth has been

driven by acquisitions: in 2009, just one year after its founding, the company acquired German-based Eufets SE, a service provider for the development of therapeutic approaches; and in 2011, it completed a deal to acquire JPT Peptide Technologies GmbH, a manufacturer of biochemical products. To date, BionTech has acquired nine companies. This success story contrasts

ACQUIRERS OF BIOTECHNOLOGY FIRMS BY COUNTRY



Source: Orbis M&A database, Bureau van Dijk



with the historically small percentage of German acquirers in the biotechnology sector over the past two decades. The share of German companies in biotechnology acquisitions declined from 1.6 percent in 2005 to 1.3 percent in 2022.

The rise of China in the biotechnology sector

In contrast, Chinese companies have recorded a strong increase in the number of acquisitions of biotechnology companies over the last decade. In 2005, China's M&A activity in the biotechnology sector was on par with that of Germany. The following years saw a remarkable increase in Chinese acquisitions, exceeding German activity by a factor of seven in 2022. By 2022, Chinese companies accounted for 9.1 percent of all biotechnol-

ogy acquisitions, up from 1.6 percent in 2005. In 2022, China was the second largest player in the biotechnology sector after the US (19.3 percent), with the European Union accounting for 8.9 percent of acquisitions. However, biotechnology is not the only industry where this phenomenon can be observed. In general, the acquisition of a particular company may be motivated by an interest in gaining access to its knowledge. The increase in Chinese M&A activity in the biotechnology sector may be an attempt to acquire knowledge through company acquisitions. The impact of these acquisitions in the biotechnology sector is unclear. However, it is possible that the next success stories in this sector will be written outside the European Union, especially if the EU's share of acquisitions continues to decline.

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Hospital Mergers and Acquisitions in Germany

M&A activity in the health care sector, particularly the privatisation of hospitals, has been a subject of public debate for many years. Some policymakers are not convinced that hospital privatisation is compatible with the public interest, expressing concern that increased privatisation could lead to a decline in hospital quality and an increase in the cost of care. Recent industry developments, however, differ from the worrisome M&A trends observed in the early 2000s.

Decline in total M&A activity since COVID-19 pandemic

Since 2003, German general medical and surgical hospitals have experienced a total of 301 mergers and acquisitions. As illustrated in the figure below, M&A activity has been subject to significant fluctuations, often coinciding with major economic crises in the EU, such as the financial crisis in 2007 and the European debt crisis, which occurred between 2009 and 2011.

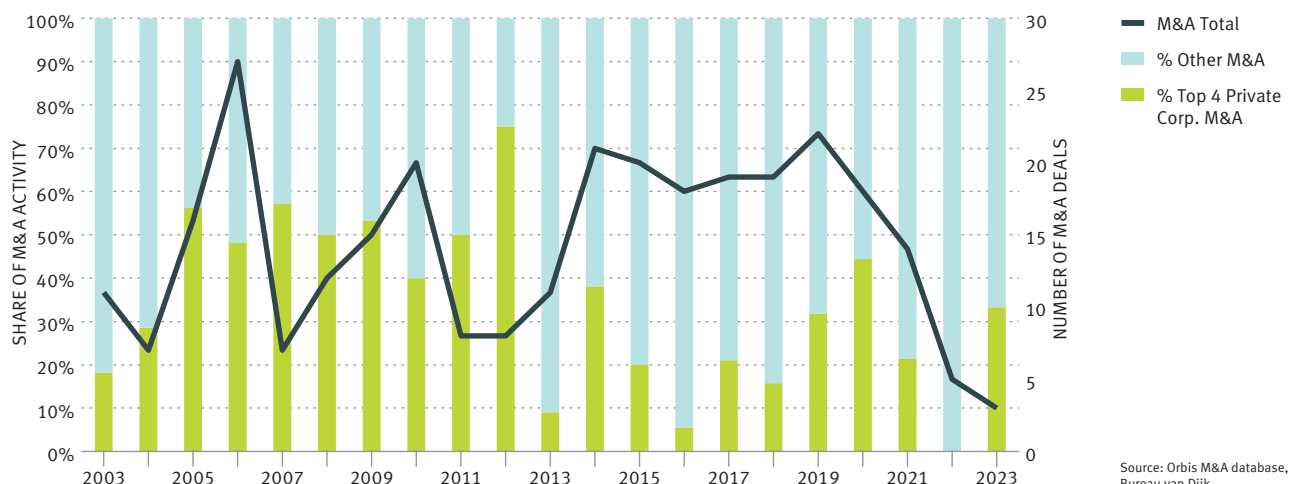
From 2014 to 2019, the number of mergers and acquisitions remained relatively stable, until the onset of the COVID-19 pandemic in 2020 led to a substantial decrease in M&A activity.

Drop in M&A activity by the top four private operators

From 2005 to 2011, the four largest private hospital operators in Germany – Helios, Asklepios, Rhon, and Sana – were involved in 47 percent of all mergers and acquisitions. Since then, their share of total M&A activity has dropped to about 22 percent of all deals. It is worth noting that in 2022, none of the completed transactions were conducted by these four operators. Given the diminished role of the top four largest private operators in M&A activity since 2015, it is expected that the impetus will instead come from other market participants in the future. Only time will tell whether M&A activity will return to pre-pandemic levels.

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M&A ACTIVITY IN THE GERMAN HOSPITAL SECTOR





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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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