



M&A REPORT

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PUBLISHER

The **M&A Report** is a biannual publication issued by the ZEW – Leibniz Centre for European Economic Research 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

ZEW-ZEPHYR M&A Index Shows Decline in German Deals Due to COVID-19

Due to the COVID-19 pandemic, the number of mergers and acquisitions (M&A) involving German companies has fallen sharply. In 2020, the ZEW-ZEPHYR M&A Index – established in 2005 to measure M&A transactions involving German companies – fell to a record low of 78.91 points on an annual average. The lowest previously recorded annual average was 83.84 points in 2011. While the number of M&A deals by and with German companies is declining, the average transaction value has increased from 657 million euros to 766 million euros since 2019.

The largest deal with German participation in the past six months took place at the beginning of 2021. The French rolling stock manufacturer Alstom took over the Germany-based rail equipment division of the company Bombardier for 6.4 billion euros. Rumours about the deal were already circulating in early 2020. After the European Commission approved the deal last

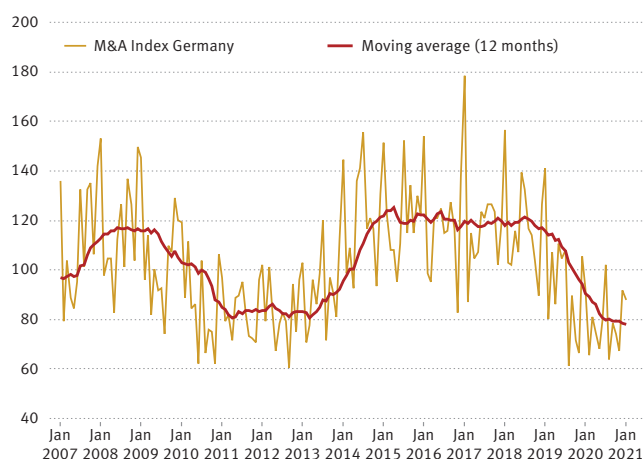
July, the takeover was officially announced in September. About two years ago, a planned merger between Alstom and the train division of the German Siemens group had been rejected by the EU Commission.

Another deal that caused a stir was Bayer's acquisition of the US pharmaceutical company Asklepios BioPharmaceutical (commonly known as AskBio) for four billion euros. The purchase of AskBio, which specialises in gene therapy, strengthens Bayer's pharmaceuticals division.

It remains to be seen how the M&A index will develop in the coming months. On the one hand, corporate budgets for M&A activities are restricted in times of crisis; on the other hand, crises offer unique buying opportunities for financially stronger companies.

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ZEW-ZEPHYR M&A INDEX GERMANY



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

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. The M&A Report is a biannual publication issued by ZEW and Bureau van Dijk. It uses the Zephyr database to report current topics and developments in global mergers and acquisitions. The Zephyr database,

which is updated on a daily basis, contains detailed information on over 1.9 million mergers and acquisitions, IPOs, and private equity transactions around the world.

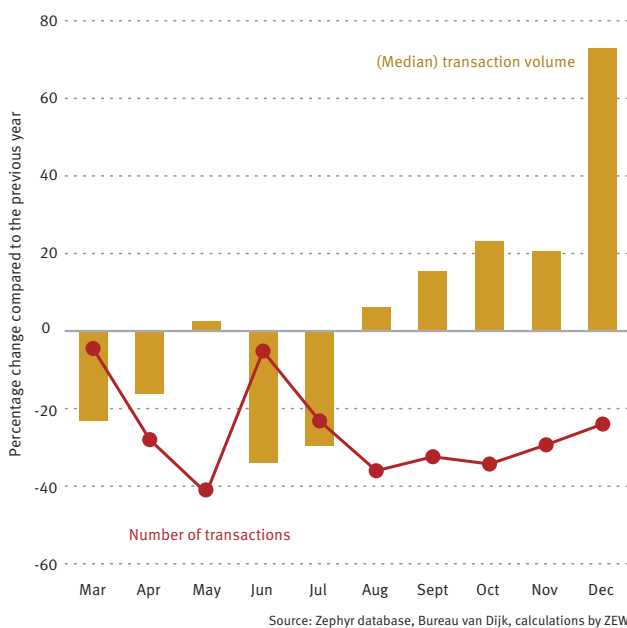


Fewer M&A Deals, but Higher Transaction Volume During the Pandemic

The coronavirus pandemic has had a huge impact on economies around the world. While some companies have been severely affected by the pandemic, others – especially large, publicly traded companies – have already recovered from the consequences and even increased their market value. But how

has the pandemic affected the number and volume of M&A deals? Looking at the number of M&A transactions by and with companies based in North America, China or Western Europe, one can see that the number of completed M&A deals has so far declined during the COVID-19 pandemic.

M&A ACTIVITIES 2020 VS 2019



For example, M&A activity between March and December 2020 was about 20 to 40 per cent lower than in the corresponding months of the previous year. On average, however, deals achieved higher transaction volumes. While the volume of a typical M&A deal in the first half of 2020 was below the previous year's value, the volume of the typical deal in the second half of 2020 was up to 75 per cent higher than the previous year's value.

State aid measures reduce the chance of cheap takeovers

One possible explanation for these results is that the government relief measures not only prevented companies from filing for insolvency but also reduced the opportunities for 'cheap' takeovers.

Another explanation could be that smaller firms are more strongly affected than large firms by the uncertainty caused by the pandemic and therefore do not make deals among themselves. This uncertainty could also discourage large firms from acquiring small firms that are not yet well established in the market and thus carry a higher risk.

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Majority of Takeovers in Germany Are Still Domestic Deals

Over the last ten years, a total of 20,732 German companies were acquired by other companies. With a share of 62 per cent, the majority of these acquisitions are domestic deals, meaning that both the target and the acquiring company are based in Germany.

US-based companies second most frequent buyers of German companies

This high share of domestic M&A transactions has remained almost constant over the past ten years, with the exception of a slight decline in 2004 to 55 per cent and small increases in 2008 and 2009 to 67 and 68 per cent, respectively.

The second largest group of acquirers of German companies are US-based companies: On average, eight per cent of all M&A transactions with a German target company involved a buyer from the United States.

Within Europe, German firms are most frequently acquired by firms from the United Kingdom – on average four per cent of all M&A deals – followed by companies based in Switzerland, France and the Netherlands (each with an average share of three per cent).

In addition, an increase in the share of takeovers of German companies by Chinese buyers can be observed. While there were hardly any takeovers with Chinese participation in the early 2000s, the share of M&A deals involving a Chinese buyer increased in the



following years. In 2019, the share of Chinese purchases already accounted for around two per cent of all M&A transactions involving German target companies.

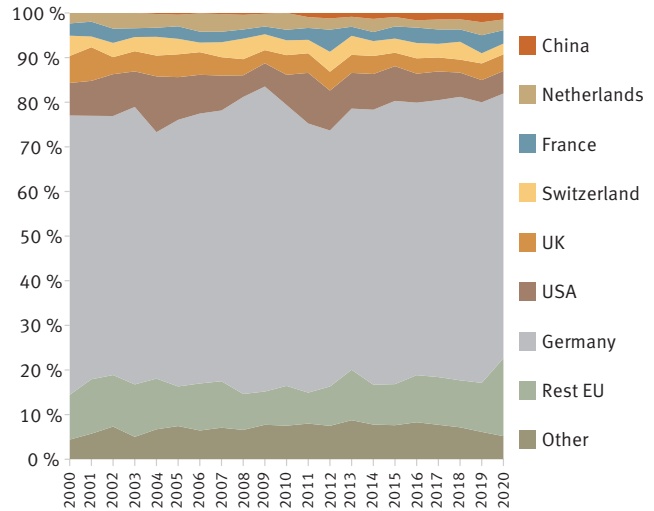
Fears of transfers of key technologies from Germany to China

Nevertheless, the share of M&A transactions with Chinese buyers is still significantly lower than those with US buyers or those from the United Kingdom. In the past five years, for example, there have been a total of 425 takeovers by US-based companies, while only 101 takeover deals were concluded with a Chinese company.

Even if this share is still comparatively small, the acquisition of German firms by Chinese companies is generally viewed with great concern in Germany. It is feared, for example, that a takeover by a Chinese firm will also lead to a transfer of key technologies from Germany to China.

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SHARE OF ACQUIRERS OF GERMAN FIRMS BY COUNTRY



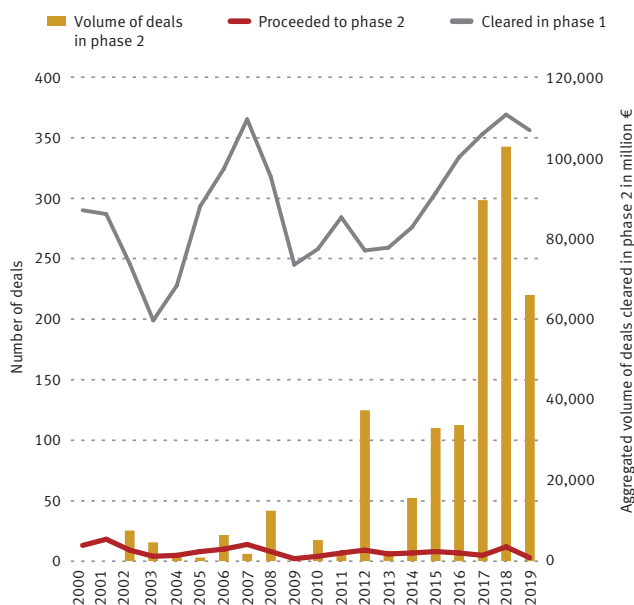
Source: Zephyr database, Bureau van Dijk, calculations by ZEW

EU Merger Control: Number of In-Depth Investigations Declining

EU merger control examines the impact of large mergers on the competitive environment of firms and prohibits those mergers that would significantly reduce competition in the EU Single Market. For this purpose, the EU Commission carries out a two-

stage investigation. During the first phase, the Commission has 25 working days to decide whether to approve the merger (possibly under certain conditions) or whether to proceed to the second phase and open an in-depth investigation.

M&A DEALS REVIEWED BY THE EUROPEAN COMMISSION



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

Volume of approved mergers increased by 825 per cent

The European Commission in principle only investigates large mergers that have an EU dimension, meaning that the merging firms exceed certain turnover thresholds. Smaller mergers which do not have an EU dimension may fall instead under the remit of Member States' competition authorities.

The number of M&A deals that underwent a phase 1 investigation increased from 300 in 2000 to 359 in 2019. The share of M&A deals which were cleared in phase 1 increased from 96 per cent in 2000 to 99 per cent in 2019.

In parallel with the decline in the share of M&A deals that the European Commission reviews in-depth in the second phase, a significant increase in the value of M&A deals that were cleared after a phase 2 investigation can be observed. For example, the total annual volume of mergers cleared after an in-depth review process averaged around 42.45 billion euros between the years 2011 and 2020, while the average between 2011 and 2020 was still 4.56 billion euros. This corresponds to an increase of 825 per cent.

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