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Dynamic, structure and trends of global mergers and acquisitions

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Аннотация

Реструктуризация компании через проведение сделки M&A позволяет компании-инициатору получить доступ к дополнительным конкурентным преимуществам и повысить эффективность как операционной, так и финансовой деятельности. Совокупность сделок M&A образует специфический и достаточно активный рынок. В этой статье будут рассмотрены динамика и структура сделок слияния и поглощения в мировом экономическом пространстве за последние 5 лет, а также охарактеризованы основные тенденции данного рынка.

Ключевые слова: слияния и поглощения, процессы интеграции, финансовые рынки, компания-поглотитель, компания-цель

Abstract

Restructuring the company through an M&A transaction allows the bidder company to gain access to additional competitive advantages and increase the efficiency of both operational and financial activities. The set of M&A transactions forms a specific and active market. This article will examine the dynamics and structure of mergers and acquisitions in the global economic space over the past 5 years, as well as describe the main trends in this market.

Keywords: mergers and acquisitions, integration processes, financial markets, bidder company, target company

In 2019, the global M&A transactions market slowed down compared to 2018. Despite the fact that the announced global transaction volumes for transactions corresponded to 2018 (due to an increase in transaction volumes in North America), the number of transactions exceeding \$250 million decreased by 9% worldwide in 2019.

Volume of M&A announced by target region (\$bn)

Considering the geographical structure of the M&A market, it should be noted that in North America the volume of announced transactions increased by 10%, while the volumes in EMEA countries (Europe, the Middle East and Africa - Europe (including Russia), Middle East and Africa) and the Asia-Pacific region decreased by 13% and 6% compared with 2018, respectively. The increase in sales in North America was due to an increase in the number of announced mega-deals of \$10 billion or more. In 2019, 47 mega-deals were announced worldwide - 36 of them in North America - the second largest number of mega-deals in North America in the entire history of observations, which is 38% more than in 2018.

However, the majority (23 of 36) mega deals in North America were announced in the first half of the year, as then the North American market began to be concerned about the global economic slowdown. Among the 23 mega-deals announced in the first half of 2019, five were the largest in value (table 1).

Table 1.

Largest M&A deals in the world in 2019

№	Value (\$bn)	Announcement Date	Bidder Company	Target Company
1	89,5	3 January 2019	Bristol-Myers Squibb	Celgene Corporation
2	88,9	9 June 2019	United Technologies Corporation	Raytheon
3	86,3	25 June 2019	AbbVie	Allergan
4	70,4	27 March 2019	Saudi Arabian Oil Co	Saudi Basic Industries Corporation (70% Stake)
5	54,4	9 May 2019	Occidental Petroleum Corporation	Anadarko Petroleum Corporation

Despite growing concern about the slowdown in economic growth, activity throughout the rest of the world outside of North America increased in volume in the second half of the year, and the appetite for major transformational transactions in general remained high among companies in 2019 (Fig. 2).

The number of announced M&A mega-deals in North America and other regions in 2019 (\$bn)

When conducting an industry analysis of the global M&A market, the following should be noted:

- the investment and attractive segments of the global M&A market over the past years have been the energy and high-tech sectors;
- in 2015, the leaders were: the health sector - 14.2%, fuel and energy complex - 12.7% and high technology - 12.7%, as well as industry - 9.9%;

- in 2016, the market leaders were: fuel and energy complex - 16.6%, high-tech sector - 13.3%, as well as building materials - 10.7%;
- in 2017, the market leaders noted: the real estate market - 14.7%, the fuel and energy sector - 13.4%, the high-tech sector - 12.8%.

Geopolitical uncertainty was noticeable throughout the year, which caused concern around the world and influenced activity in the field of mergers and acquisitions. The volume of cross-border operations decreased by 13% year on year and amounted to only 26% compared with 30% in the previous year. The largest cross-border deal was the acquisition by a US competitor of Newmont Mining Corporation Goldcorp, a Canadian competitor, as part of a \$10 billion share deal. Negative dynamics in cross-border transactions was caused by increased protectionist sentiment, a decrease in M&A activity in China (25% annual decrease), concerns over Britain's withdrawal from the European Union muted market activity throughout the EMEA region. Growing protectionist policies have led companies to focus more on internal mergers and acquisitions. It is noteworthy that the announced volume of intra-national mergers and acquisitions of the United States reached a record level in 2019.

The European M&A market has slowed due to the difficult macroeconomic situation and uncertainty. EMEA showed less market activity in 2019 than in 2018. The volume of transactions within EMEA decreased by 54% (\$186 billion in 2019 compared to \$404 billion in 2018). The region also saw a decrease in the number of mega deals (12 mega deals versus 16 in 2018). Market sentiment in Europe continued to be influenced by the economic downturn and geopolitical uncertainty, including the ongoing debate on Britain's exit from the EU. In recent years, the United States has seen a large number of mega deals as global consolidation continues. In addition, over the past 10 years, we have seen a shift in the geographical structure of the 50 leading global companies by market capitalization from Europe to North America. Europe risks losing its competitive edge after major transformational deals in North America in recent years. If the European market is not activated, there is a risk that the region will be sandwiched between the more powerful North America and the Asia-Pacific region, driven by the Chinese economy.

Activity in the EMEA region began to grow in the second half of 2019, when the number of transactions doubled compared to the 1st half of 2019 and reached more than \$10 billion. In 2019, EMEA saw record volumes of spin-off transactions as companies sought to actively improve corporate transparency. The two largest ever recorded spin-offs at EMEA were completed - Naspers allotted 27% of its international Internet assets division Prosus NV for \$34.4 billion and Novartis AG allotted Alcon for \$31.4 billion.

The regulatory environment remained complex. Over the past two decades, the mergers and acquisitions markets around the world have seen a steady increase in the number of transactions fully or partially blocked by antitrust authorities. Government agencies have begun to look more closely at mega-integrations in some sectors, such as the consolidation of the US mobile market (T-Mobile / Sprint and Telefonica O2 UK / Hutchison Whampoa), as well as the metals and mining sectors (BHP / Rio Tinto). Antitrust authorities are carefully examining new deals after several waves of industry consolidation. The tightening of antitrust control in Europe led to the collapse of two significant mergers in 2019, which exacerbated market concerns after the decision of the Competition and Markets Authority (UK antitrust authority) to block the acquisition of Asda Group by J Sainsbury for \$10 billion and the European Union decision to block Alstom's merger with Siemens Mobility Business in the first half of 2019 for \$8.7 billion. Since 2000, the average number of blocked transactions in the world was 4% per year, with the largest share falling to the most consolidated markets and - North America (52%) and Europe (27%). Over the past four years, this percentage has increased on average to 6%.

The M&A market is shaped by trends that affect both the selling side and the buying side, as well as the international business environment as a whole. Consider the main trends of the M&A market.

A large number of mega deals in 2019 were caused by the merger of the same size of companies (merger of equals - MOE) to expand the scale and improve their position in the global market. This was a general trend for deals in the fuel and energy sector, technology and healthcare, etc. Due to the continuing uncertainty regarding macroeconomic prospects, companies continued to use securities to reduce risks and were not ready to service additional debt, which led to an increase in the number of negotiations about MOE, as companies consolidated similar enterprises, and did not enter new business segments. The volume of transactions considered MOE has increased significantly in 2019. Although the total number of such transactions decreased by 18% compared to 2018, their volume reached a record level and increased by 68% worldwide. This increase was most common in North America, where the number of mega-deals between companies of the same size increased, increasing by 250% year on year, accounting for 93% of the total volume of such transactions in North America (seven announced in 2019 compared to two in 2018). As a result, the total volume of MOE transactions in the region grew by 180%.

In 2019, companies also continued to focus on core assets by withdrawing investments, selling part of non-core assets (divestments) or spin-offs of non-core units (spin-off and split-off deals). Many multidisciplinary companies have faced increasing pressure from shareholders who called on companies to conduct the above transactions to create more focused companies that are better prepared to implement their own growth strategy or participate in the mergers and acquisitions market in ways that are not available within the larger and more diverse company. It is noteworthy that 12 (60%) of the 20 largest transactions that were announced worldwide in 2019 were related to divestments, spin-offs, split-offs.

The convergence and integration of various sectors of the economy (for example, the manufacturing sector and the technology sector) contribute to non-standard transactions. The absolute number of venture capital investments from corporate investors and the relative share of all venture capital investments (in volume) has doubled since 2013. Increasingly, the purpose of transactions is not to seize control of the company, but to gain access to specific abilities, talents, technologies or establish partnerships.

The growing proliferation of technology-based business models erases the boundaries between industries and leads to the convergence of previously separate business sectors. For example, the distinction between mobile companies and technology companies has blurred as passenger service applications (such as Uber, Lyft, and Didi) and unmanned vehicle developers (such as Waymo, an Alphabet subsidiary) fall into the automotive industry. In the same way, traditional banks and insurers face increased competition from fintech, as well as digital payment providers. Industry convergence also occurs between the telecommunications and media industries, as evidenced by AT&T's acquisition of Time Warner.

These events give rise to an increase in the number of cross-industry transactions. In this context, non-traditional transactions, including joint ventures and alliances, corporate venture investments and the purchase of minority stakes, are becoming increasingly important. Here are examples that illustrate the growing role of alliances.

In January 2018, Amazon, Berkshire Hathaway and JPMorgan Chase announced that they will form an independent medical company that will provide services to its employees in the United States.

In September 2018, Netflix and numerous operator equipment, editing, color correction, and coding companies created the Post Technology Alliance. The goal is for participating companies to meet Netflix content requirements.

In May 2019, Toyota participated in the Uber unmanned vehicle financing round, Uber Advanced Technologies. Other participants included Vision Softbank and automotive component maker Denso.

Some companies are starting to build their entire business around ecosystems. For example, the Japanese group Softbank creates an integrated system of subsidiaries and makes other investments in sectors such as telecommunications and technology.

Thus, in 2019, a large number of M&A mega-deals were carried out (\$10 billion or more), especially in North America. Many of these transactions were a combination of companies of the same size to expand the scale and improve their position in the global market. North American M&A market showed high activity in the first half of 2019 due to mega deals, but fears of a slowdown in global growth in the second half of the year began to influence the region. Despite this concern, market activity throughout the rest of the world outside of North America increased in volume in the second half of 2019. However, geopolitical uncertainty remained an obstacle throughout the year, affecting activity in the field of mergers and acquisitions. As a result, cross-border activity declined, as the strengthening of protectionist policies led companies to concentrate more on internal (national) mergers and acquisitions.

Analysts believe that macroeconomic and geopolitical uncertainty, as well as current global epidemiological situation will continue to affect markets in 2020. Mergers and acquisitions are expected to be carried out by companies seeking to strengthen their business in order to better withstand uncertainty.

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