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Legal Guides

Mergers & Acquisitions 2021

A practical cross-border insight into mergers and acquisitions

15th Edition

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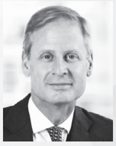
Global M&A Trends in 2020



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Introduction

In addition to COVID-19, there were a number of significant global trends in relation to M&A that emerged or continued to develop over the course of 2020. Most notable was the increasing impact of politics in M&A, driven by populism and amplified by digital transformation, data and national security. We expect many of these will continue to be key factors influencing M&A transactions throughout 2021 and in subsequent years.

In terms of global M&A activity in 2020, it was a tale of two halves. The first half of the year was clearly impacted by the COVID-19 crisis and, despite the fact that sudden and widespread falls in share prices as a result of the pandemic presented unprecedented opportunities to resourceful bidders, market volatility and difficulties in predicting how many companies would perform during, and in the near term following, the unprecedented economic disruption caused by the pandemic contributed to a significant reduction in the number and size of deals. Businesses and their leaders were also prioritising their response to the pandemic by raising capital, adapting to lockdowns, managing remote workforces and expanding their online presence, as opposed to focusing on deal-making.

However, by the second half of the year, data began to show how companies had been impacted by COVID-19 and buyers began extrapolating that data to predict earnings for the short term. At the same time, it was clear that the "new normal" of deal-making had emerged and the challenges presented by it (such as virtual management meetings and "diligence by drones") were starting to be overcome. H2 2020 turned out to be one of the busiest periods for deal-making in recent history. Global deal value was US$2.2tn (compared with US$971bn in H1 2020 and US$1.5tn in H2 2019) and deal value for 2020 in total reached US$3.2tn, a decrease of 6.6 per cent as compared to 2019.

We expect that 2021 will almost certainly be a more positive year for M&A activity, but whether it will rival or exceed pre-pandemic levels remains unclear.

The United States

The US experienced one of the sharpest declines in activity in the first half of the year, but this was followed by a strong rebound as pandemic-related restrictions were lifted and a number of large deals were announced. Deal value in the US in 2020 was US$1.3tn, a decrease of 21 per cent as compared to 2019. Notable megadeals included AstraZeneca's US$40bn acquisition of Alexion and Advanced Micro Devices' US$36bn acquisition of Xilinx.

We expect that this strong wave of US M&A activity will continue into 2021. There has been immense popularity in 2020 for special purpose acquisition companies (SPACs), which are expected to continue to drive acquisitions. In 2020, 255 SPACs were formed, raising US$83.1bn, the highest amount on record and more than the past 10 years combined. This is up from the 59 SPACS that were formed in 2019, which raised a combined total of US$13.6bn. More SPAC M&A activity is expected in 2021, as these vehicles actively seek opportunities in order to comply with their typical two-year deadline to complete a transaction.

President Biden's approach to protectionism with regard to both foreign investment and trade could be a key factor in inbound activity. The US continues to be locked in a trade war with China and CFIUS continues to regulate foreign investment while also being used as a political tool for trade policy. The remarkable growth in the market capitalisation and importance of technology companies will also cause transactions in that sector to be subject to increased scrutiny.

US private equity sponsors, which have spent much of 2020 focusing on their existing portfolio companies, are still sitting on record levels of dry powder (around US$1.7tn remains undeployed as at the end of 2020), which they will seek to invest, taking comfort from the more stable domestic political environment.

The after-effects of the pandemic on businesses will also drive distressed M&A, particularly in the most affected sectors such as retail, leisure and aviation.

Europe

In 2020, M&A activity in Europe followed a similar path to that of the US. Overall deal value was US$847.2bn, an increase of 5.6 per cent as compared to 2019. As noted above, the second half of the year was particularly strong and marked by a number of megadeals, including the US$39bn sale by Japan's SoftBank Group of ARM to Nvidia, S&P's US$43bn acquisition of IHS Markit and the US$10.2bn acquisition of France's Ingenico Group SA by its domestic rival, Worldline SA.

We are optimistic that this level of European M&A activity will continue in 2021. The Brexit trade deal will bring greater certainty and political stability to the region and we expect that, despite Brexit, the UK will remain the number one destination for transatlantic deals.

As with the US, distressed M&A situations are expected to increase, especially as government support for businesses is withdrawn. The growth of shareholder activism in Europe may also continue to drive spin-off and other corporate restructuring transactions. Shareholder activism was more limited in 2020 (807 activist campaigns were launched in 2020, a decrease of 10 per cent as compared to 2019), which can be explained by a lack of conviction by activists during the pandemic, resulting from uncertainty as to the effectiveness of launching a campaign during such times and its potential lasting impact. We expect the level of activist engagement to increase post-pandemic following the trend prior to 2020, as activists obtain sufficient information to assess relative performance during the pandemic and predict short-term earnings.

However, there will be challenges to businesses seeking to undertake transactions. Many national security measures were adopted by European countries in response to the pandemic and are likely to remain in force even as the region recovers. The increased review of foreign direct investment will continue to be a trend, particularly in areas involving personal data or sensitive technologies. Additionally, the UK (where the government has historically been reluctant to use its statutory powers to intervene in M&A transactions) has introduced a new National Security and Investment Bill, which, if adopted, would significantly widen the scope of foreign investment review in terms of the numbers and types of transactions that would be caught.

From an antitrust standpoint, as a result of Brexit, transactions may also be subject to parallel review by both the UK Competition and Markets Authority and the European Commission. European regulators are also increasingly focused on tech deals, which had flown under the radar in recent years and so we expect to see greater levels of intervention in transactions in that sector.

Asia

As the first region to be impacted by the effects of COVID-19, Asia's M&A activity in 2020 significantly dropped in the first half of the year before surging 88.3 per cent in the second half, from US$289.5bn to US$545.2bn. As the region emerged from the pandemic, activity was primarily driven by technology companies and continued to be dominated by China and Japan.

Chinese outbound M&A deals amounted to US$32.5bn in 2020, a decrease of 48.7 per cent as compared to 2019 (which in turn was a 22.5 per cent decrease from 2018). Conversely, China's inbound and domestic M&A deals thrived in 2020. Chinese inbound M&A in 2020 amounted to US$43.3bn, an increase of 112.3 per cent from US$20.4bn in 2019, and Chinese domestic M&A rose from US$297.9bn to US$442.5bn in 2020, an increase of 48.5 per cent. A Chinese domestic deal also provided the largest M&A deal announced in 2020, the US$49bn deal between PipeChina and PetroChina.

Japan's M&A activity amounted to US$109.1bn in 2020, an increase of 60.7 per cent as compared to 2019 and the highest such figure in 15 years. Activity was driven by tech deals, notably Nippon Telegraph and Telephone Corporation's US$40bn take-private of NTT Docomo.

The number of growth opportunities available in the region's emerging markets and attractive valuations are all expected to promote M&A activity in Asia in 2021. However, outbound M&A from the region may be curtailed by ongoing geopolitical concerns, the US-China trade war, issues of national security and the ongoing effects of the pandemic. China has also taken a strict approach to its tech giants, which is likely to affect domestic consolidation.

Conclusion

With the increase in populist policies being implemented by governments worldwide and the geopolitical tensions that existed prior to COVID-19 (some of which have been heightened by the pandemic and its effects), we expect issues such as economic protectionism and national security to continue to affect deal-making. The rapid growth of the digital sector and the related concerns regarding personal data have also started to seriously catch the eyes of regulators. We expect that an increasing number of transactions will be placed under much greater scrutiny, which could lead to significant delays in closings, the requirement for significant undertakings or even deals being blocked in certain circumstances.

In terms of levels of activity, looking toward 2021, and despite the economic challenges faced during 2020, there are a number of positive signs that indicate that the increased levels of M&A activity in the second half of 2020 will continue. The return of major COVID-19 lockdowns may hinder deal-making but with vaccination programmes in the early stages of being rolled-out, the outlook is positive. There is understood to be a large backlog of deals waiting to be done, private equity sponsors are still sitting on historic levels of dry powder that they can deploy, interest rates remain at record lows, financing remains cheap and many corporates are also sitting on extensive cash reserves.

Although we are optimistic that activity levels in the US will remain high, they could be impacted by the approach taken by the country's new political administration. We expect SPACs to fuel M&A activity and for corporations to utilise their sizeable war-chests to make opportunistic acquisitions.

In Europe, certainty around Brexit should help drive activity but issues around national security will remain relevant to inbound M&A, particularly from China. We expect M&A levels to remain high in the hope that life will be close to "normal" by summertime.

Asia is expected to continue to rebound from the pandemic ahead of other regions, with M&A activity already eclipsing pre-pandemic levels. However, due to the ongoing trade war with the US, China's investment into the US is expected to remain at reduced levels. The tech sector and other sectors that have experienced strong recoveries from the COVID-19 pandemic are expected to primarily drive M&A activity.

Note

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