M&A monitor

Q2 2020

Freshfields Bruckhaus Deringer

The historic shock continues

It's no surprise deal-making fell off a cliff in Q2, but the drop over the period is truly eye-popping. Global M&A by value struggled to just $318.6bn in the three months to June, a total not seen since Q3 2003.

Put differently, the last time activity was this low, Lance Armstrong was still winning Tours de France, Lionel Messi was a year away from his Barcelona debut and Greta Thunberg was just six months old. There has never been such a steep decline in consecutive quarters since deal value data was first compiled back in 1977.

COVID-19 in 10 deals

Despite the collapse in activity, Q2's top 10 transactions paint a fascinating picture of COVID-19's impact (or lack of it) on M&A.

Two of the three biggest deals of the quarter were Virgin Media's $12.6bn merger with O2 (which will create a new competitor for BT and Sky in the UK mobile and broadband market) and Just Eat's $7.4bn buyout of US food delivery app GrubHub. Both prove that with a compelling strategic rationale, no crisis is insurmountable – even one so severe that advanced economies have tanked by more than 20 per cent.

Financial sponsors re-enter the fray

There is further evidence that the brief pause in financial sponsor activity may be over with Q2's second largest acquisition (the purchase of a 49 per cent stake in the Abu Dhabi National Oil Company's natural gas pipelines by an investor group including Brookfield, GIC and the Ontario Teachers' Pension Plan Board) and Cinven, KKR and Providence Equity Partners' buyout of Spanish mobile operator MasMovil (No. 6). The latter positions the trio for potential consolidation in the sector further down the line, a prospect made more likely by a recent 'watershed' ruling from Europe's General Court overturning the Commission's decision to block CK Hutchison's 2016 bid for O2. There are reports the MasMovil deal involved a lower leverage multiple than the standard LBO model – something we discuss in our special report on COVID's long-term impact on M&A. Overall, financial sponsors are buyside on 18 of Q2's top 50 deals, compared to just 12 in Q1.

Pandemic alters the geopolitical landscape

Number four in the list points to the geopolitical consequences of COVID-19. A consortium of sponsors including Warburg Pincus and General Atlantic announced the $6.42bn take-private of NY-listed 58.com, a classifieds platform dubbed 'China's Craigslist' (albeit with one major difference – 58.com is run purely for profit, in contrast to Craigslist's operating model). The deal is the latest example of a Chinese company delisting in the US, and with the Senate passing a bill at the height of lockdown that could bar PRC companies from trading on US exchanges, it won't be the last. (For those that choose to stay, the Hang Seng has recently announced it will allow businesses with primary listings overseas, alongside those with dual class shares, to be included in its benchmark index for the first time).

State bailout is among quarter's biggest deals

The list of flag-carriers to have received state support during the COVID crisis includes some of the biggest names in the industry. Air France-KLM, British Airways and Iberia have collectively received billions of dollars following the slump in international travel, while it was recently announced that the Hong Kong government is extending a financial lifeline to Cathay Pacific worth 1.5 times its market capitalisation.

The top 10 provides sobering evidence of the financial destruction wrought by COVID-19 on the aviation sector – Lufthansa's €9bn government bailout saw Germany's Economic Stabilization Fund take a 20 per cent stake in the airline, a $5.1bn purchase that was Q2's tenth-biggest deal. Had the transaction been executed in November – before coronavirus had emerged – Lufthansa's share price was such that it would have been in the top three.

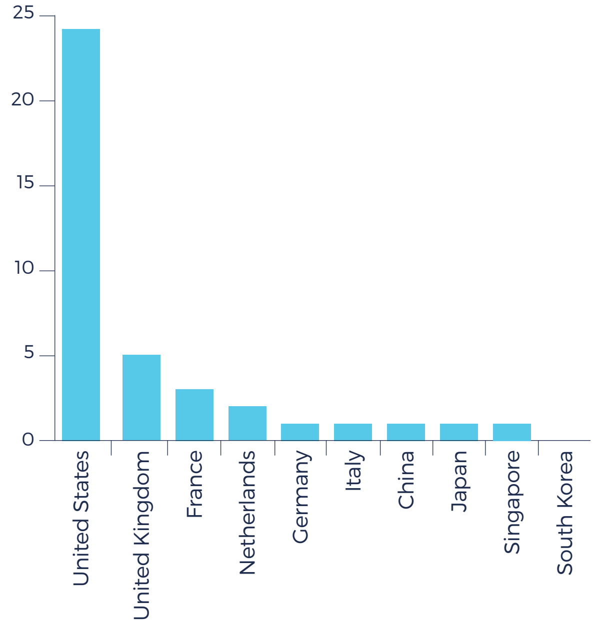
Q2's top 10 deals

	Target	Target nation	Acquiror	Acquiror nation	Deal value ($bn)
1	O2	UK	Virgin Media	UK	**12.59**
2	ADNOC gas pipeline assets	UAE	Investor group	US	**10.1**
3	Grubhub	US	Just Eat	Netherlands	**7.4**
4	58.com	China	Investor group	China	**6.42**
5	Bank of Jinzhou	China	Beijing Chengfang Huida Enterprise Management	China	**6.35**
6	Jio Platforms	India	Jaadhu Holdings (Facebook)	US	**5.69**
7	Masmovil	Spain	Investor group	Spain	**5.56**
8	China Everbright Bank	China	China Everbright Group	China	**5.39**
9	Sembcorp Marine	Singapore	Shareholders	Singapore	**5.36**
10	Lufthansa	Germany	Economic Stabilization Fund	Germany	**5.12**

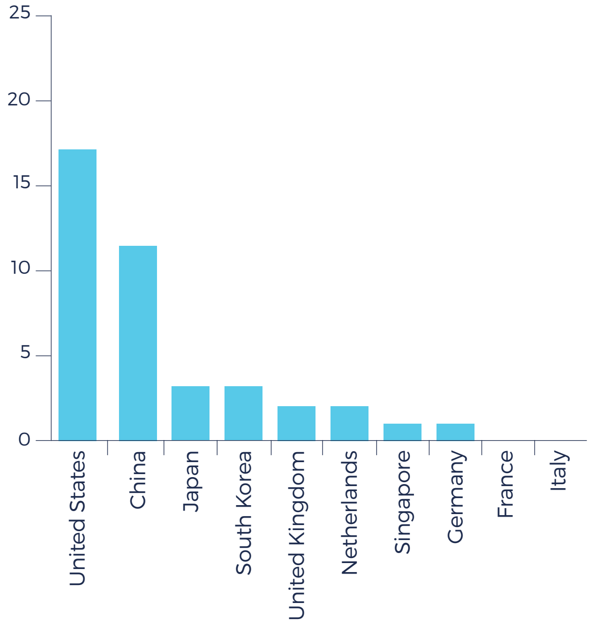
Top 50 transactions reveal regional shift

Finally, looking across the top 50 deals reveals a regional shift from Q1. In the first quarter, US companies were buy-side on 24 of the 50 biggest transactions, with just one involving a Chinese acquiror. This time round, US companies are behind 17 of the top 50 transactions, with 11 from the PRC. A similar uptick in Japanese- and South Korean-led buyouts suggests businesses in countries that have emerged from lockdown sooner – or that have managed COVID-19 more effectively – have been able to get out on the front foot. Of course, there is more to it than this – the average deal in Q2 was significantly smaller than in Q1, and two of the biggest Chinese-led transactions are actually the state bailout of troubled lender Bank of Jinzhou and an equity purchase by China Everbright Group in preparation for a listing. But it's interesting nonetheless to see Asian deals feature so prominently – and Q3's data will show whether deals elsewhere have bounced back.

No. of deals in top 50 (Q1)



No. of deals in top 50 (Q2)



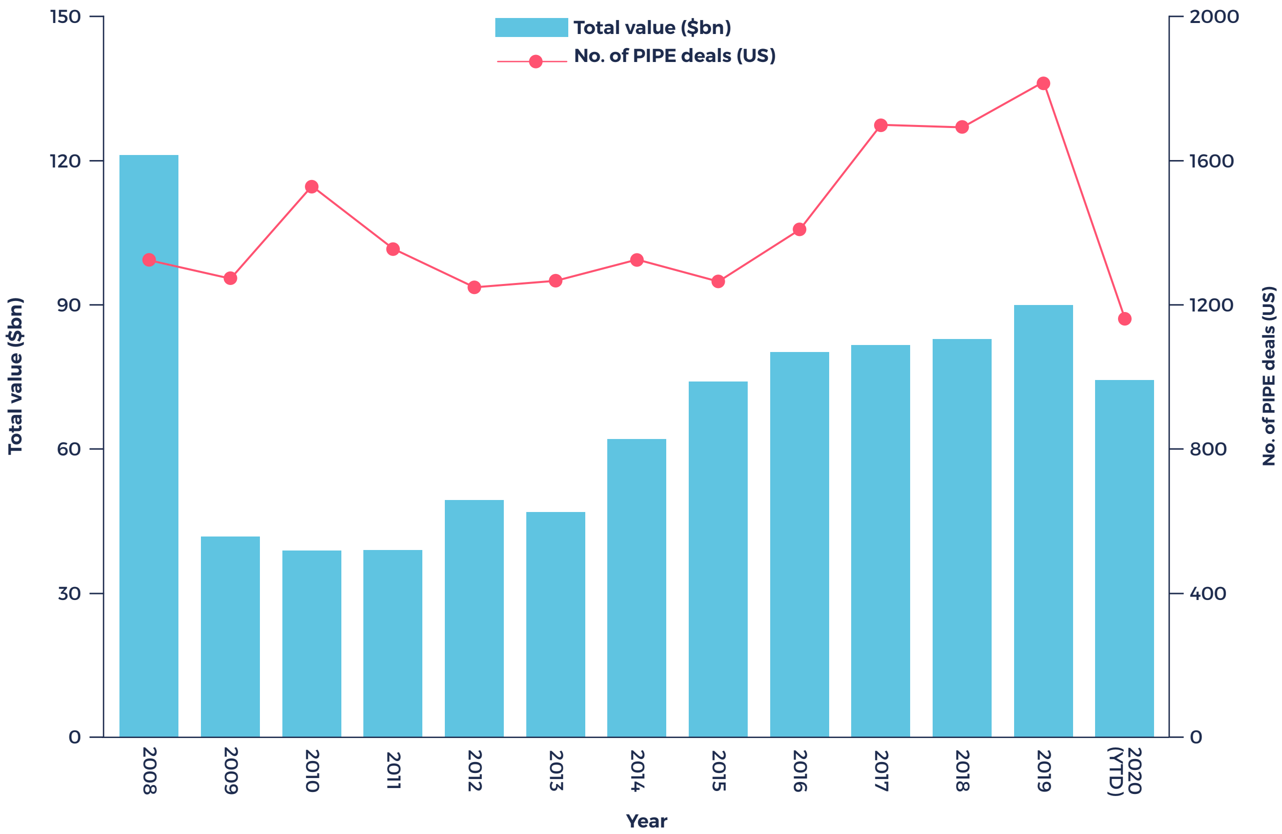
Why PIPE deals are heating up

Alongside buyouts, financial sponsors are also finding opportunities amid the COVID crisis in the shape of private investment in public equity (PIPE) deals, which have rocketed since the start of the year. Figures from data provider PrivateRaise, which tracks PIPEs in the US, reveal that more than 1,100 transactions worth a combined $74.3bn were confirmed between 1 January and the end of June, putting 2020 on course to surpass 2008 as the biggest ever year. (With just six months gone it is already the sixth-largest this century). There have been several major deals in recent months, including the [$400m investment in trade show operator Emerald Holdings] by its controlling stockholder, Onex.

PIPE deals involve public companies issuing securities in a private placement, typically convertible preferred stock but also common stock and convertible and non-convertible debt. For cash-strapped Nasdaq- or NYSE-listed corporates, they are a potentially fast, discrete way to enhance liquidity. Under the rules of both exchanges, PIPE deals don't require shareholder approval unless the issuance represents 20 per cent or more of the company's existing common stock or voting power (and even then there are exceptions for businesses in extreme difficulties), and they don't have to be disclosed to the market until the deal is signed. PIPEs are less common in Europe, where the way pre-emption rights are protected can make meaningful deals a more cumbersome process.

Once upon a time, PIPEs were the preserve of desperate corporates and the most voracious class of investor. But over time they have evolved into a more mainstream form of M&A, with sponsors often using them as a way to gain greater control of companies that under normal circumstances they might not be able to pursue. These deals often come with the right to appoint or nominate directors (albeit alongside standstill provisions that limit further equity purchases for a period), while sponsors and strategic investors willing to pay a premium can negotiate enhanced governance rights. However, as PIPEs have become more popular, so regulators have started to pay closer attention, with antitrust and foreign investment approvals becoming increasingly challenging.

For more on the dynamics of PIPE deals in the US, read [this post] on our Fresh Take blog.



Global M&A YTD activity by sector

Sector		Value $bn	%
1	TMT	90.1	28.3
2	Financials	43.4	13.6
3	Consumer*	39.9	12.5
4	Industrials and materials	39.7	12.5
5	Energy and power	36	11.3
6	Real estate	32.9	10.3
7	Healthcare	20.7	6.5
8	Infrastructure and transport	15.9	5
Total		**318.6**	**100**

* Includes retail

Sector		Volume	%
1	TMT	2,192	28.3
2	Consumer*	1,565	20.2
3	Industrials and materials	1,401	18
4	Financials	803	10.3
5	Healthcare	632	8.2
6	Real estate	498	6.3
7	Energy and power	480	6.2
8	Infrastructure and transport	183	2.5
Total		**7,754**	**100**

* Includes retail

Global M&A YTD – value and volume

Global*

M&A value: **$318.6bn**

M&A deal volume: **7,754**

Top 3 deals

1	O2 Holdings/ Virgin Media	$12.6bn
2	An investor group††	$10.1bn
3	Grubhub/Just Eat Takeaway.Com	$7.4bn

Inbound: most targeted markets

China	1,461 deals	$88bn
US	1,749 deals	$76bn
UK	399 deals	$19bn

Outbound: most acquisitive markets

China	1,414 deals	$86bn
US	1,678 deals	$77bn
UK	366 deals	$22bn

USA*†

M&A value: **$76bn**

M&A deal volume: **1,749**

Top 3 deals

1	Grubhub/Just Eat Takeaway.Com	$7.4bn
2	An investor group††	$3.3bn
3	Corvidia Therapeutics/ Novo Nordisk	$2.1bn

Inbound: markets investing into US companies

US	1,369 deals	$45bn
Netherlands	7 deals	$8bn
Canada	62 deals	$4bn

Outbound: markets US companies are investing into

US	1,369 deals	$45bn
UAE	2 deals	$10bn
India	21 deals	$6bn

Europe*†

M&A value: **$66bn**

M&A deal volume: **1,830**

Top 3 deals

1	O2 Holdings/ Virgin Media	$12.6bn
2	Masmovil Ibercom/ Lorca Telecom BidCo	$5.6bn
3	Deutsche Lufthansa AG-Assets/Economic Stabilization Fund	$5,1bn

Inbound: markets investing into European companies

UK	268 deals	$18bn
US	154 deals	$9bn
Germany	152 deals	$7bn

Outbound: markets European companies are investing into

UK	237 deals	$16bn
US	87 deals	$13bn
Germany	162 deals	$9bn

Asia-Pacific*†

M&A value: **$152bn**

M&A deal volume: **3,380**

Top 3 deals

1	58.com/ Quantum Bloom Group	$6.4bn
2	Bank of Jinzhou-Certain Credit & Other Assets/ Beijing Chengfang Huida Enterprise Management	$6.4bn
3	Jio Platforms/ Jaadhu Holdings	$5.7bn

Inbound: markets investing into Asia-Pacific companies

China	1,388 deals	$85bn
Singapore	83 deals	$12bn
South Korea	349 deals	$12bn

Outbound: markets Asia-Pacific companies are investing into

China	1,420 deals	$87bn
South Korea	342 deals	$13bn
Singapore	66 deals	$10bn

Financial sponsor M&A – top 3 deals with buyside financial sponsor involvement

1. **$10.1bn** – An investor group††
2. **$7.4bn** – Grubhub/Just Eat Takeaway.Com
3. **$6.4bn** – 58.com Inc/ Quantum Bloom Group

* Deal value includes net debt of target | † Includes domestic deals | Source: Refinitiv | Data correct to 25 June 2020

††ADNOC Gas Pipeline Assets LLC/An investor group comprised of Brookfield Asset Management, Global Infrastructure Partners, jointly owned by GE Infrastructure and Credit Suisse Group, Ontario Teachers' Pension Plan, NH Investment & Securities and GIC