WE ARE READY FOR 2020. ARE YOU?

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M&A globally dropped 6.9% in 2019 from the exceptional 2018 records, bringing the total deal value to USD 3.33 trillion. European M&A, which was hampered by heightened geopolitical and economic uncertainty, trade wars, and slow global growth, drove down the deal value to EUR 698.84 billion across the year, which represents a 21.9% fall, compared to the 2018 figures. Despite this drop in Europe, M&A actually did very well in the Benelux: 837 transactions worth EUR 55.2 billion, representing an 18.3% increase in deal value, compared to the value achieved in 2018 (source: Merger Market). M&A transaction value in Belgium in particular increased by 11% from 2018. With various legal reforms enacted last year, its geographic location, and the continued lack of certainty surrounding Brexit, it can be said that Belgium has seemingly become an increasingly attractive investment destination.

Aside from these 2019 M&A figures, we will discuss in this Strelia M&A Series the trends from last year and those that will likely continue throughout 2020.

Deals getting bigger

Investors had low interest rates and appealing debt financing options at their disposal last year, which gave rise to an increase in the average size deal (from US$353 million in 2018 to US$389 million in 2019). Some major notable deals are Bristol-Myers Squibb Company's takeover of Celgene Corporation (in the USA) and Fiat Chrysler Automobiles' merger with Peugeot (in Europe), which created the world's fourth largest carmaker. There were noteworthy transactions on the Belgian front too, with Belgium's AB InBev sale of its Australian subsidiary, Carlton & United Breweries, to Japan's Asahi Group (for EUR 11 billion) and AB InBev's minority listing of its Asia Pacific business on the Hong Kong Stock Exchange (EUR 4.5 billion).

This year, we will have our eyes on the following anticipated deals in Belgium: Fenix Holding's takeover of retail chain E5 Mode; entertainment group, Studio 100, search for a 4th shareholder and the potential sale by Belgian investment company, Cobepa of its stake in US based bakery Pain Quotidien, 2020 promises to become an interesting year.

Fewer IPOs

Globally, the number of IPOs reduced by 20% compared to 2018, and the amount of money raised was 8% lower compared to 2018. Geopolitical tensions, protectionism, trade wars, the Brexit saga, and upheaval in Hong Kong have been blamed as being the "culprits". This climate can be seen affecting Euronext Brussels also, with Sequana Medical being the only company to have successfully completed an IPO last year, albeit at the bottom of the indicative per share price range, with a total of EUR 27.5 million raised from existing shareholders. With EUR 2.5 billion raised at Euronext Brussels in 2019, capital operations — all of them being in real estate and biotech — did slightly better. This year, Euronext Brussels might get two newcomers: digital document manager Unified Post has announced that it wants to raise EUR 1 billion through an IPO on Euronext Brussels, and financial market infrastructure provider Euroclear is looking into various scenarios, such as an IPO.

Shareholder activism on the rise

A total of 518 companies were targeted by shareholder activists last year. Elliot Management and Icahn Associates have been reported as top activists in terms of stake value, with targets being AT&T, CVS Health, and Bristol-Myers Squibb Company. As seen in 2018, shareholder activists have also targeted companies in Europe. For example, in Belgium in 2018, hedge fund Lucerne went to court to have investigation into the corporate governance at Telenet and the relationship with its shareholder Liberty Global ordered. In 2019, Luxembourg investment fund Active Ownership (a 13.42 % shareholder) was the driving force behind Agfa's envisaged selling of its profitable IT healthcare division to Italian software company Dedalus. Belgian-based mining and metals company Nyrstar was confronted in 2019 with minority shareholders who brought legal proceedings because they oppose the deal with Swiss petroleum company Trafigura Group. With the new Code on Corporate Governance in force since 1 January 2020 imposing new, more demanding governance and transparency obligations on listed companies, including duties regarding related party transactions, listed companies are certainly bracing for a threat of shareholder activism this year.

Numerous regulatory reforms

Many legal reforms occurred in 2019: the new company law code known as the Code of Companies and Associations with mandatory provisions applying to all companies as from 1 January 2020; a new Code of Corporate Governance increasing demands for board diversity and director independence as from 1 January 2020; the creation of an ultimate beneficial owners registry; creation of Costa, a database for companies' articles of association; the adoption of a foreign investment tool allowing the Flemish Government to protect strategic investment in Flanders; and a new prospectus regulation and prospectus law.

This year, we will be seeing the following legal developments too: the implementation of the second EU Shareholders' Rights Directive; the reform of the property law rules in the Belgian Civil Code; the implementation and/or entry into force of the bulk of the clean energy package; social elections in companies to take place; and the entry into force of phase II of the corporate income tax reform. All these will certainly impact M&A activity and will require deal makers and companies to rapidly adapt themselves to an ever-changing regulatory environment.