What you missed over the summer: recap of the most important M&A deals

After stalling in winter and spring 2020 due to the coronavirus, M&A activity picked up over the summer, fuelled by a bullish stock market. The situation remains dire however: according to MergerMarket data, companies have struck €620bn worth of M&A deals in the three months from June to August, which represents a 30% decline from the same period last year. The fall was sharpest in Europe, which saw aggregate deal value for the summer decline 64%. North America saw a dramatic 47% drop while Asia fared the best out of the three, with a 41% increase due to less restrictive COVID-19 measures across the continent. The technology sector was one of the most resilient, boasting a 17% surge in aggregate deal value compared to summer last year.

For more insight, check out BSIC's selection below of the summer's important M&A deals, broken down by sector.

Consumer

7-Eleven to acquire Speedway assets

Deal Value: **$21bn** | Deal Type: **Asset purchase** | Premium: **N/A** | Date: **2-Aug-2020** | Nationality: **US**| Subsector: **Retail**

7-Eleven has entered into an agreement to acquire Speedway from Marathon Petroleum for $21bn, making it the largest acquisition in the company's history.

At a time when oil demand is crushed by the pandemic and electric vehicle manufacturer Tesla has become the world's most valuable carmaker, acquiring petrol stations seems like a dangerous bet at first glance. However, bidders for Speedway were in a race to dominate the convenience store market and thus betted that growing demand for the sites' fast food and grocery offerings would offset any drop in fuel sales.

Speedway, with annual pre-synergy run-rate EBITDA of approximately $1.5bn prior to the acquisition, has significant opportunities for future growth. 7-Eleven said it expects to achieve $475m to $575m of run-rate synergies through the third year following closing, while maintaining financial flexibility and a strong balance sheet.

The deal should accelerate 7-Eleven's growth trajectory and diversify its presence in the US. According to 7-Eleven, the two convenience chains have complementary geographic footprints and would position the combined entity as a clear industry leader in the US.

Healthcare

Gilead to acquire Immunomedics

Deal Value: **$21bn**| Deal Type: **Acquisition** | Premium: **108%** | Date: **13-Sep-2020** | Nationality: **US** | Subsector: **Pharmaceuticals**

Gilead Sciences will acquire biopharmaceutical company Immunomedics at $88 per share, an astronomical 108% premium that values the drug maker at $21bn.

The acquisition is meant to expand Gilead's portfolio of treatments for various types of cancer. Specifically, this deal provides Gilead with Trodelvy, an antibody drug for advanced triple-negative breast cancer that received approval from the U.S. FDA last April and recorded more than $20m in sales in its first two months on the market.

Over the years, Gilead has received enormous pressure from investors to put its massive cash pile to work. At the end of June 2020, Gilead had $21bn in cash and after this deal Gilead's cash pile is expected to drop to around $6bn, given the company intends to use $15bn of cash and roughly $6 billion in newly issued debt to fund the Immunomedics deal.

Siemens Healthineers to acquire Varian

Deal Value: **$16.4bn** | Deal Type: **Acquisition**| Premium: **24%** | Date: **2-Aug-2020** | Nationality: **DE, US** | Subsector: **Medical Technology**

Entering the high-growth cancer treatment industry came at a hefty price for Siemens Healthineers. The group bought oncology treatments and software maker Varian at a whopping 28.7x EV / 2020 EBITDA in what was the second largest healthcare acquisition of 2020.

The deal fits within Siemens' Vision 2020+ Plan, which encourages Siemens' individual businesses to take on more entrepreneurial activities to sharpen the focus of their respective markets. The acquisition formalizes a longstanding relation, pairing Varian's remedial frameworks with Siemens Healthineers' imaging innovation. It aims to strengthen Siemen Healthineers' position in the healthcare industry and progress its fight against cancer.

Synergies, which are expected to reach only €300m by 2025 or about 1%-2% of revenue, can hardly justify the acquisition price. Varian's market-leading position the fast-growing $20bn+ market for cancer care, on the other hand, can. The Varian acquisition launches Siemens Healthineers in a new strategic direction and could propel its market share in radiotherapy to around 60%.

Industrials

Alstom to acquire Bombardier Transportation

Deal Value: **€5.5-5.9bn** | Deal Type: **Acquisition** | Premium: **n.m.** | Date: **31-Jul-2020** | Nationality: **FR, DE** | Subsector: **Transportation**

In this landmark anti-trust case, the French manufacturer of rail solutions Alstom reached an agreement to acquire Bombardier Transportation, a German manufacturer of business jets and rail, at a price range between €5.5bn and €5.9bn.

The European Commission cleared the proposed acquisition on July 31st, 2020 after five months of gruelling probes and several concessions, including forcing both companies to sell several assets. This deal will create the second-largest seller of rail equipment, behind the Chinese CRRC. It stands out as one of the largest rail equipment deals in recent years and one of the most uncertain: the EU's approval was difficult to predict since it blocked the similar Alstom / Siemens combination just 18 months earlier.

Alstom's rationale behind this acquisition is to respond to the ever-increasing demand for sustainable mobility and expand its global reach to markets such as China, Germany, Great Britain, and North America, where Bombardier has a strong presence. A mix of cash and new shares will finance this acquisition, whose pricing range is €300m lower than originally proposed. Caisse de Dépot et Placement du Quebec (CDPQ), an institutional investor who had a large stake in Bombardier, will become the largest shareholder of Alstom with an 18% stake. The transaction is expected to be accretive to Alstom's EPS, to maintain Alstom's credit profile and to provide €400m of run-rate cost synergies from 2025 onwards.

INEOS to acquire BP's petrochemical business

Deal Value: **£4.1bn** | Deal Type: **Asset purchase** | Premium: **N/A** | Date: **29-Jun-2020**| Nationality: **CH, UK** | Subsector: **Petrochemicals**

BP announced it will divest its independent petrochemical assets in a sale to INEOS worth $5bn.

The announcement goes against the grain, as many oil producers and refiners see chemicals as a key target area for the future. Indeed, they are a lower-carbon alternative which can sustain companies through the energy transition.

This deal was nonetheless expected, as it helps BP achieve its target of selling $15bn worth of assets a year in order to reduce its debt levels, which are among the highest in the sector.

At the same time, it allows INEOS to focus on its long-term strategic goal to become a "net zero company" by 2050. The British chemical producer expects significant operational synergies as it integrates the two paraxylene and acetyls businesses. INEOS said these assets would give the group a strong foothold in two areas where it is not well represented and would significantly boost its presence in Asia.

Natural Resources

PipeChina to acquire certain midstream assets of PetroChina and Sinopec

Deal Value: **$56bn** | Deal Type: **Asset purchase** | Premium: **N/A** | Date: **23-Jul-2020** | Nationality: **CN** | Subsector: **Energy**

Following the trend of using natural gas instead of coal, two Chinese energy giants, PetroChina Co and Sinopec, sold $56bn of assets to a new national pipeline firm. The assets transferred included pipelines, storage facilities and natural gas receiving terminals. Following this deal and cash injections from other investors, PipeChina, which was established only last year, will be valued at RMB 500bn. The company was created with the aim to provide neutral access to the country's pipeline infrastructure and to help small and non-state-owned companies, thus encouraging investment in the sector.

Chevron to acquire Noble Energy

Deal Value: **$5bn** | Deal Type: **Acquisition** | Premium: **7.5%** |Date: **20-Jul-2020** | Nationality: **US** | Subsector: **Energy**

The acquisition of Noble Energy by Chevron is the biggest deal in the US oil industry since the coronavirus pandemic hit. However, even though oil prices recovered from the historic lows they reached in April this year, they remain depressed. As such, the acquisition premium for this deal was roughly 7.5% but it is worth noting that Noble Energy's stock had lost about 60% of its value since the start of the year. Activist investor Elliott Management pushed to stop the sale, arguing that the deal undervalues the company.

This transaction fits in perfectly with recent trends in the industry that have begun even before the Covid-19 outbreak. Small and mid-size oil-and-gas companies have performed poorly in last few years and have faced pressure from investors to deliver more consistent profits and cash flow at the expense of growth. Consequently, the strongest players are expected to absorb their weaker rivals. According to Palissy Advisors, "Chevron (is) taking advantage of its strong relative performance versus the US exploration and production companies and capitalizing on the downturn to buy into some high-quality assets."

With this deal, Chevron will expand its presence in the DJ Basin of Colorado, the Permian Basin across West Texas and New Mexico and most importantly, in the eastern Mediterranean. As Israel, Egypt and Jordan shift away from coal energy generation, the future Chevron Mediterranean assets will increase the supply of natural gas in this key area.

Technology

Nvidia to acquire Arm

Deal Value: **$40bn** | Deal Type: **Acquisition** | Premium: **N/A** | Date: **13-Sep-2020** | Nationality: **US, UK|** Subsector: **Semiconductors**

In 2016, SoftBank acquired Arm for $31.4bn in what was at that time the largest semiconductor deal. Just a week ago, Nvidia announced it will acquire Arm, thus beating the 2016 transaction and becoming the largest semiconductor deal in history.

Nvidia is best known for producing graphics chips but it has recently grown in artificial intelligence, self-driving cars, and data centers among others. On the other hand, Arm supplies the chip technology for virtually all mobile devices with the distinction that it does not produce chips itself: it licenses out the underlying technology instead. The two companies have previously collaborated with each other on projects such as the development of supercomputers' systems modelling climate change predictions last year.

Arm's relatively low valuation came as a surprise: it could suggest that Softbank has not managed the company efficiently. Consequently, some analysts and investors believe that Nvidia will ultimately help Arm live up to its potential. The deal will create even more intense competition within the data centre chip market, especially with Intel and Advanced Micro Devices, rivals that Arm has been running against in the past.

Adevinta to acquire eBay online classifieds business

Deal Value: **$9.2bn** | Deal Type: **Asset purchase** | Premium: **N/A** | Date: **21-Jul-2020** | Nationality: **multi|** Subsector: **Internet & Media**

A close race this summer saw Norway-based Adevinta unexpectedly win the auction for eBay's classifieds ads portfolio, which includes mobile.de, Gumtree and Kijiji amongst others.

Adevinta's bid beat those of both Prosus and a consortium of private equity investors, which had coveted eBay's classifieds assets for several months. The Norwegian internet company offered eBay $2.5bn in cash as well a 44% stake in the combined entity, pricing the business at 20.9x EV / FY19 EBITDA. This cash-and-stock structure likely differentiated Adevinta's offer as it allows for eBay to benefit from future upside. This proved to be the right call for eBay since Adevinta's share price shot up 25.9% upon announcement of the deal, a rare feat. The official deal value is thus an understatement: by the end of the day, the value of Adevinta's offer had ballooned to almost $11bn.

The deal will lead to the emergence of a globally scaled classifieds group leader, with the largest market share in 20 countries, including France, Spain, USA, and Australia. eBay's online classifieds portfolio is highly complementary to Adevinta's and shows a strong cultural alignment. Furthermore, Adevinta will expand its position in Mobile and advertising know-how, transactional services, motors, and more. Expected to close in Q1 of 2021, this deal has projected synergy opportunities of $150-185m, two thirds of which would originate from cost synergies.

Just Eat Takeaway.com to acquire Grubhub

Deal Value: **$7.3bn** | Deal Type: **Acquisition** | Premium: **27%** | Date: **10-Jun-2020** | Nationality: **NL, US** | Subsector: **Internet & Media**

Just Eat Takeaway.com has agreed to buy Grubhub in an all-stock transaction worth about $7.3 billion, a move that will create the world's largest online food-delivery company outside of China in terms of revenue.

This transaction represents Just Eat Takeaway.com's entry into online food delivery in the US. It builds on the strategic rationale for its recent $7.9bn merger with Just Eat, increasing the combined Group's ability to deploy capital and resources to strengthen its competitive positions in all markets.

Even if the pandemic has led to a surge in demand for food delivery, the industry has been defined by tight or non-existent profit margins due to stiff competition. In fact, the combined group's management said it will prioritise sustainable growth over profits, as this has been a major driver of its strategy and success in Europe.

This acquisition deals a major blow to Uber Eats, which had also been trying to acquire Grubhub. Uber Eats wanted to gain control over most of the U.S. food delivery business, but discussions with Grubhub faltered over price and regulatory concerns.

Telecommunications

GCI Liberty to merge with Liberty Broadband

Deal Value: **$11.4bn** | Deal Type: **Merger**| Premium: **N/A** | Date: **6-Aug-2020** | Nationality: **US** | Subsector: **Cable, Wireless**

Liberty Broadband Corporation, a company that engages in the cable, broadband and mobile location technology industry plans to acquire GCI Liberty, which operates and owns interests in a broad range of telecommunications corporations. Pre-acquisition, GCI already possessed a non-controlling interest in Liberty Broadband Corporation. The combination will allow both GCI Liberty and Liberty Broadband Corporation to save on overhead costs, reduce trading discounts to equities, improve flexibility for potential strategic combinations in addition to simplify its management and administrative structure. This acquisition will be an all-stock transaction and will strengthen the consolidated company's presence in the telecommunications industry.

KKR to acquire minority stake in FiberCop

Deal Value: **€1.8bn**|Deal Type: **Minority stake**| Premium: **N/A** |Date: **31-Aug-2020** | Nationality: **IT**| Subsector: **Fibre**

After half a year of talks, Telecom Italia's board has approved the sale of a minority stake in FiberCop to private equity group KKR. After the deal, KKR will hold 37.5% of the company, leaving TIM with a 58% stake and Fastweb with 4.5%. The newly formed entity will operate according to a co-investment model and will offer passive copper and fibre access services to service providers.

The deal is the result of Rome's objective to create a single full-fibre network to close Italy's digital divide with other European countries. The transaction itself paves the way for the future merger of TIM with its smaller state-backed rival Open Fiber. This merger will create an Italian champion under the name AccessCo, which will be eligible for grants from Europe's Recovery Fund.

This transaction falls into a wider trend: private equity buyers accounted for 33% of deal activity in the sector during Q2 2020, which represents the strongest quarter for PE in recent history. This trend is not surprising given private equity firms' record amounts of dry powder and even greater PE activity is expected in the second half of the year, as companies will keep seeking out capital infusions.

TAGS: Summer, recap, M&A, Merger, Acquisition, Consumer, Healthcare, Industrials, Natural Resources, TMT, Technology, Tech, Telecoms, Telcos, 7-Eleven, Speedway, Gilead, Immunomedics, Siemens Healthineers, Varian, Alstom, Bombardier, INEOS, BP, PipeChina, PetroChina, Sinopec, Chevron, Noble Energy, Adevinta, eBay, Just Eat, Takeaway.com, Grubhub, GCI Liberty, Liberty Broadband, KKR, FiberCop, TIM, Fastweb