2020 M&A Leaks Report

A study by SS&C Intralinks and The M&A Research Centre at The Business School (formerly Cass), City, University of London

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Introduction

Deal leaks are more common than one might expect, given the regulatory oversight of financial markets and laws governing insider trading. Before a public merger and acquisition (M&A) bid announcement, any noticeable surge in trading in the target company's shares may suggest that market parties are privy to the proposed deal and seek to benefit from the attendant bid premium.

There will be exceptions. However, observing pre-announcement trading in a broad sample diversified by geography and industry provides convincing evidence that this exists and, further, offers insights into the nature of this trend.

The annual *SS&C Intralinks M&A Leaks Report* analyzes deal leaks globally from 2009-2019, with an emphasis on the findings of 2019, the most recent full year, compared with previous years. The analysis of data for this report was conducted together with The M&A Research Centre at The Business School (formerly Cass), City, University of London.

Methodology

M&A transaction data for announced deals during the period January 1, 2009, to December 31, 2019, share price, and index price information were sourced from Refinitiv. The criteria for inclusion in the sample were that the target must be an entity listed on a public stock exchange, that the transaction must involve the acquisition of a majority control of the target, and that the target's equity must have a sufficient trading history for its returns to be calculated.

The total sample of deals for the period 2009-2019 was 8,417. A transaction was identified as involving a leak of the deal prior to its public announcement using the event study methodology, which compares the cumulative daily returns of the target in the period from -40 to -1 days before the public announcement of the deal with its expected returns.

The target's expected returns are calculated using a linear regression model of the target's returns during a "normal" trading period against the market return. A transaction was identified as involving a leak of the deal if the difference in cumulative daily returns of the target in the period -40 to -1 days prior to the public announcement of the deal was statistically significant compared to its expected returns, at the 95 percent confidence interval for a normal distribution, meaning that there is only a 5 percent probability that the target's observed returns compared to its expected returns would occur in a random distribution of data, i.e., would be due to chance.

Unless otherwise indicated, all references to the region or country location of the target refer to the target's primary listing location. The total number of leaked deals for the entire period was 647 out of the total number of 8,417 deals.

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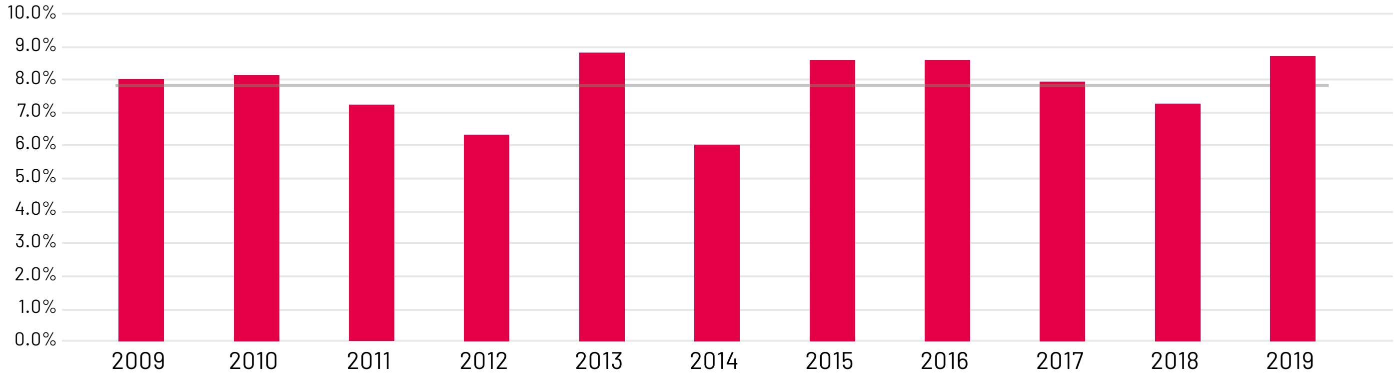
Key Findings

1. Deal leaks on the rise

Globally, the rate of M&A deal leaks increased to 8.7 percent in 2019, the first rise in four years and the second-highest level of leaked deal activity since the start of our study in 2009. This represents an annual gain of 1.3 percentage points and is comfortably above the mean of 7.8 percent over the past ten years.

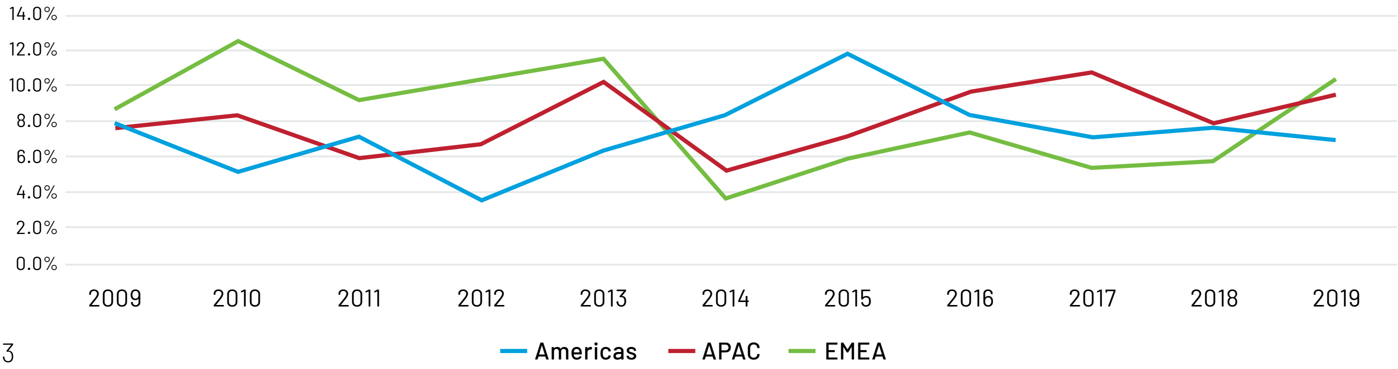
Figure 1. Percentage of worldwide M&A deal leaks, 2009-2019



2. EMEA driving deal leaks

This increase was driven primarily by the EMEA region where the percentage of deals involving abnormally high levels of trading immediately pre-announcement increased by 75 percent year on year, from 5.8 percent to 10.2 percent in 2019. This is the largest relative annual gain for any region since the start of this report. By contrast, the Americas had the lowest rate of deal leaks at 6.8 percent and was the only region to show a decline for the year, from 7.6 percent. The rate of APAC deal leaks, meanwhile, came to 9.5 percent in 2019, having risen from 7.9 percent.

Figure 2. Percentage of M&A deal leaks by region



3. South Korea leaps to top of leak table

On a country-by-country basis, the top three markets for rates of deal leaks in 2019 were South Korea, Germany and the U.K. The strong showing of these latter two explains why EMEA had the biggest relative share of leaks in 2019. Further, the yearly 75 percent gain in deal leaks in the EMEA region is the result of the U.K. surging up the ranks from tenth position (3.8 percent) to third (15.9 percent). South Korea's annual increase in leaks, from 7.1 percent to 19.6 percent, had a similar cumulative impact for the APAC region.

France, a major M&A market like Germany and the U.K., is an outlier in the EMEA, given its low ranking for 2019, continuing a trend observed over the past ten years (mean 4.8 percent).

Deal leaks in India continued their recent marked descent. Despite being the national market with the second-highest number of leaks over the past decade (11.5 percent), the country came in ninth place in 2019 with just 3.8 percent. Regionally, this tempered the massive gains South Korea and, to a lesser extent, Japan.

Figure 3. Percentage of M&A deal leaks by country

(Figures in parentheses are rankings based on the respective time period)

Target Listing Location	2019	2018	2017	2009-2019
South Korea	19.6% (1)	7.1% (5)	3.3% (7)	10.8% (3)
Germany	17.6% (2)	7.1% (4)	4.3% (6)	9.3% (5)
United Kingdom	17.6% (2)	3.8% (10)	1.5% (9)	10.6% (4)
Japan	13.2% (4)	9.6% (2)	7.0% (4)	6.0% (7)
Hong Kong	7.5% (5)	17.0% (1)	19.2% (1)	15.1% (1)
United States	7.1% (6)	8.6% (3)	8.3% (3)	7.8% (6)
Canada	6.5% (7)	6.5% (6)	5.3% (5)	5.9% (8)
France	6.3% (8)	5.3% (8)	0% (10)	4.8% (9)
India	3.8% (9)	6.4% (7)	15.9% (2)	11.5% (2)
Australia	1.5% (10)	4.0% (9)	1.6% (8)	3.5% (10)

4. Energy leaks abound

Globally, the top three sectors for deals leaks in 2019 were Energy & Power, Healthcare and Industrials, all of which saw an increase in their rate of leaked deals. The only other industry which upped its rate of leaks was TMT.

The bottom three sectors for deal leaks were Real Estate, Materials and Retail. These bottom three industries all showed annual falls in their deal leak rates.

In 2019, Consumer surpassed Real Estate as the sector with the most average M&A leaks since the inception of this report in 2009.

Figure 4. Percentage of worldwide M&A deal leaks by sector

(Figures in parentheses are rankings based on the respective time period)

Target Sector	2019 (rank)	2018 (rank)	2017 (rank)	2009-2019 (rank)
Energy and Power	14.1% (1)	4.2% (9)	2.2% (9)	6.5% (9)
Healthcare	12.0% (2)	4.8% (8)	6.9% (5)	7.2% (7)
Industrials	11.9% (2)	7.1% (5)	7.8% (4)	8.6% (3)
TMT	10.3% (4)	10.1% (1)	11.9% (1)	8.5% (4)
Consumer	6.5% (5)	6.6% (7)	11.4% (2)	8.9% (1)
Financials	5.9% (6)	6.9% (6)	6.4% (6)	6.9% (8)
Real Estate	5.7% (7)	7.5% (4)	5.5% (8)	8.8% (2)
Materials	5.5% (8)	8.0% (3)	6.0% (7)	7.2% (6)
Retail	4.5% (9)	9.8% (2)	10.0% (3)	7.3% (5)

5. Leaks drive up premiums

As anticipated, leaked deals once again delivered substantially higher target takeover premiums than non-leaked deals, continuing a trend witnessed in every year of this report. The median takeover premium for targets in leaked deals was 48.2 percent compared with 23.5 percent for non-leaked deals, a gap of 24.7 percentage points.

This "leak premium differential" in 2019 was significantly above the average between 2009 and 2019 of 19.4 percentage points (i.e., 44.4 percent for leaked deals vs. 25 percent for non-leaked deals over the period). Nevertheless, the differential almost exactly matches the previous year: it stood at 24.5 percentage points in 2018.

Figure 5. Median worldwide target takeover preminum (%)

Target Sector	2019	2018	2017	2009-2019
Leak	48.2%	44.5%	33.3%	33.3%
No Leak	23.5%	20.0%	21.3%	25.0%

6. More leaks, more suitors

Consistent with higher takeover premiums is the trend that leaked deals are typically associated with higher rates of rival bids. The inference is that as rumor of the deal reaches certain market actors, more bidders are likely to target the company, competition pushing the takeover price upwards.

In 2019, 7.3 percent of leaked deals attracted one or more rival bids compared with 4.4 percent of non-leaked deals. This gap is notably higher than the 0.5 percentage point average over the past ten years (6 percent for leaked deals vs. 5.5 percent for non-leaked deals).

Figure 6. Percentage of worldwide M&A deals attracting rival bids for the target

Percentage Premium	2019	2018	2017	2009-2019
Leak	7.3%	6.2%	1.9%	6.0%
No Leak	4.4%	4.4%	4.9%	5.5%

7. Leaked deals finish faster

Over the past ten years, leaked and non-leaked deals have both taken an average of 80 days to complete, suggesting that there is no impact of leaks on the length of time it takes to get deals over the finish line. However, this belies a trend that reversed four years ago.

In 2019, leaked deals took noticeably less time to complete (median of 66 days) compared with deals without a leak (median of 81 days). This 15-day gap brings the average contraction from 2016-2019 to ten days. By contrast, from 2009-2015 leaked deals took longer to complete, by an average of six extra days.

Figure 7. Median time from announcement to completion of worldwide M&A deals (days)

	2019	2018	2017	2009-2019
Leak	66	87	67	80
No Leak	81	97	78	80

8. Getting over the finish line

Over the sample period of 2009-2019, non-leaked deals were almost as likely to complete as leaked deals, with just a 0.8 percentage point differential observed. This gap did widen in 2019, the completion rate for leaked deals being 1.4 percentage points higher than that for non-leaked deals.

It is conceivable that leaked deals would be more likely to complete since they attract higher numbers of bids, therefore increasing the chance of a deal concluding.

However, the most recent result is unlikely to hold statistical significance. There is little evidence over the past ten years of this report that leaked deals have a higher or lower rate of success than non-leaked deals.

Figure 8. Median worldwide M&A deal completion success rate

	2019	2018	2017	2009-2019
Leak	91.2%	90.1%	90.9%	89.9%
No Leak	89.8%	92.3%	90.2%	89.1%

9. Leaks mean premium gains

In 2019, shareholders benefitted from an additional USD 32.1 million from deals being leaked before bids being publicly disclosed, less than half the "leak premium" enjoyed by investors a year prior. While the gap has closed substantially year on year in absolute terms it is still significant on a relative basis, representing a four-fold premium.

There is a huge variance in the median target takeover premium for leaked deals compared with non-leaked deals from year to year, ranging from as low as USD 8.6 million (2013) up to USD 291 million (2014). However, what is common is the significance of the relative gains attributed to leaked deals. From 2009-2019 the average dollar gap was USD 25.1 million (leaked USD 45.4 million versus non-leaked USD 20.3 million. This delta represents an average 124 percent leak premium over the past ten years.

Figure 9. Median worldwide target takeover premium (USD)

Premium dollar value (USD mil)	2019	2018	2017	2009-2019
Leak	42.2	85.1	18.9	45.4
No Leak	10.1	17.0	8.9	20.3
Dollar Gap (Leak - No Leak)	32.1	68.1	10.0	25.1

Conclusion

Last year's data have confounded expectations. After years of trending downwards, there was an uptick in deal leaks in 2019 to 8.7 percent of total M&A. This comes despite the long-term global trend of heightened financial regulatory oversight and enforcement.

This surprise annual increase was regionally led by EMEA, with the U.K., in particular, driving such change. This coincides with the Financial Conduct Authority (FCA), the U.K.'s securities regulator, setting as its immediate priority for 2019/2020 the orderly transition of Britain's departure from the European Union. The FCA's bandwidth has been fully consumed by Brexit.

The country with the single greatest annual rise in deal leaks in 2019 was South Korea. The nation's market regulator, the Financial Supervisory Service, vowed last year to monitor potential market abuses, including M&A disclosures, by looking for suspicious trading activity.

This suggests that these recent rises in the U.K. and in South Korea could be short-lived, although the coronavirus pandemic may allow for similarly heightened levels of leaks in 2020 as regulators are preoccupied with the stability of financial markets.

The motivations for intermediaries and other sell-side parties related to M&A transactions to leak information are clear. Our research shows that over the past ten years leaked deals have commanded an average premium that is 124 percent higher than for non-leaked deals. These economic benefits come with the risk of financial penalties and even criminal prosecution. Awareness of this risk is likely to keep the deal leak rate at or below the 7.8 percent rate measured over the last ten years of our research.

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