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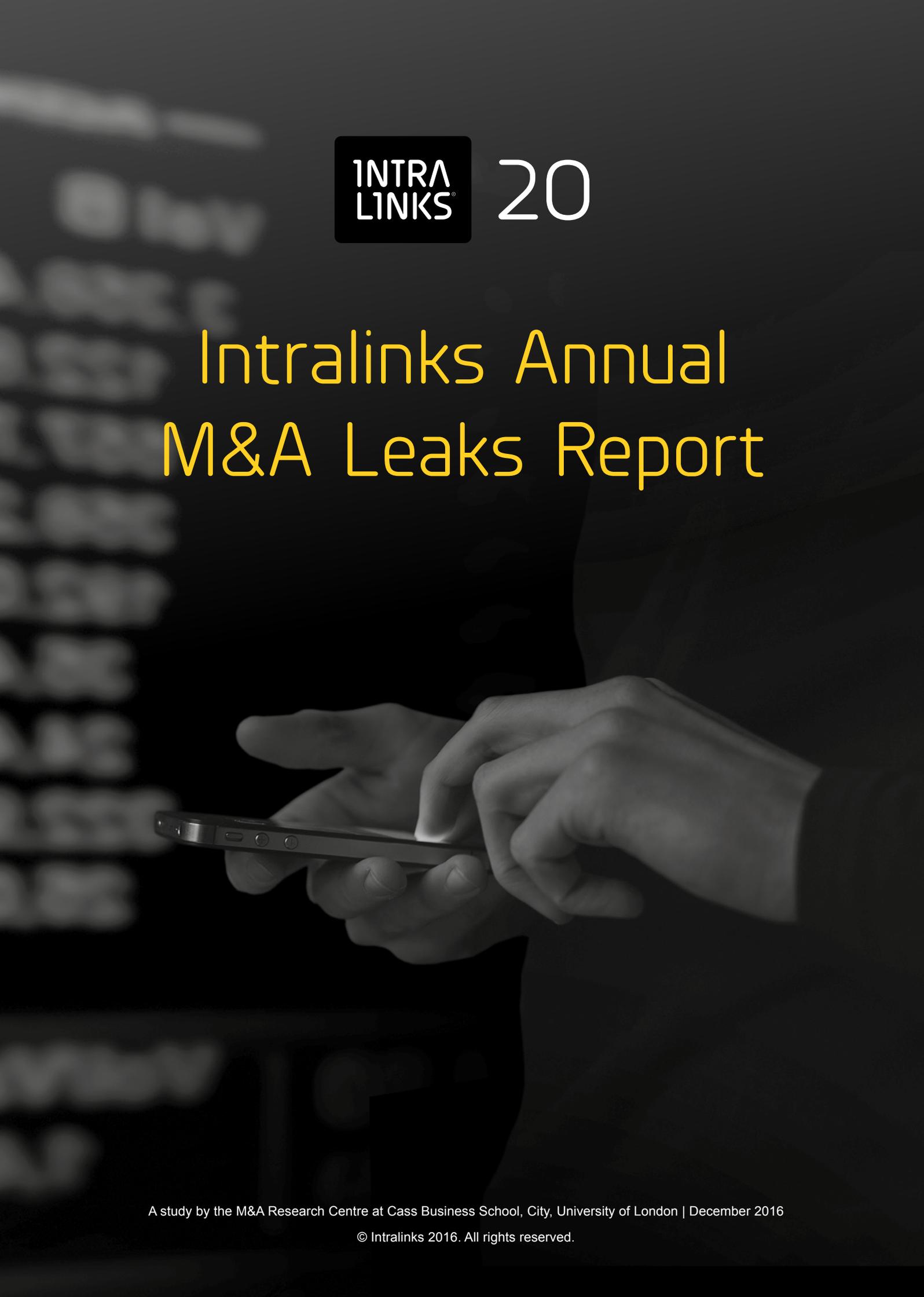
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Intralinks Annual M&A Leaks Report



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Introduction

In the days leading up to a bid announcement, significant trading in the shares of the target company can indicate information is leaking about the deal. While not providing absolute confirmation of a leak in an individual deal, significant pre-announcement trading (SPAT) across a large sample can be used to examine patterns and trends in leaking across time periods and geographies.

The Intralinks Annual M&A Leaks Report analyzes and reports on deal leaks globally. This report looks at deal leaks for the period 2009-2015, while placing emphasis on the 2015 findings compared to previous years. The analysis of data for this report was conducted in association with the M&A Research Centre at Cass Business School, City, University of London.

Methodology

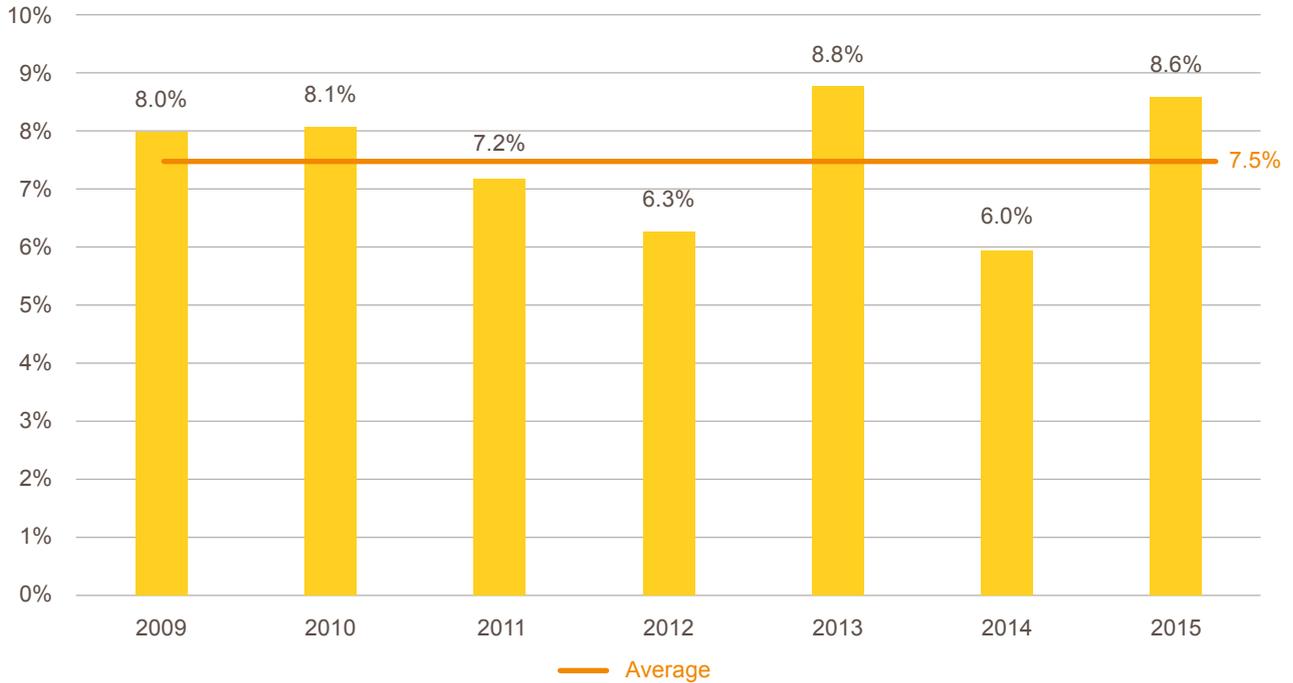
M&A transaction data for announced deals during the period 1 January 2009 to 31 December 2015, share price and index price information were sourced from Thomson Reuters. The criteria for inclusion in the sample were that the target must be a listed entity, that the transaction must involve the acquisition of majority control of the target and that the target's equity must have a sufficient trading history for its returns to be calculated. The final total sample of deals for the period 2009-2015 was 5,024. 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 prior to 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 cumulative daily returns of the target in the period -40 to -1 days prior to the public announcement of the deal was statistically significantly different 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 pure 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 378 out of the total number of deals of 5,024.



Key findings

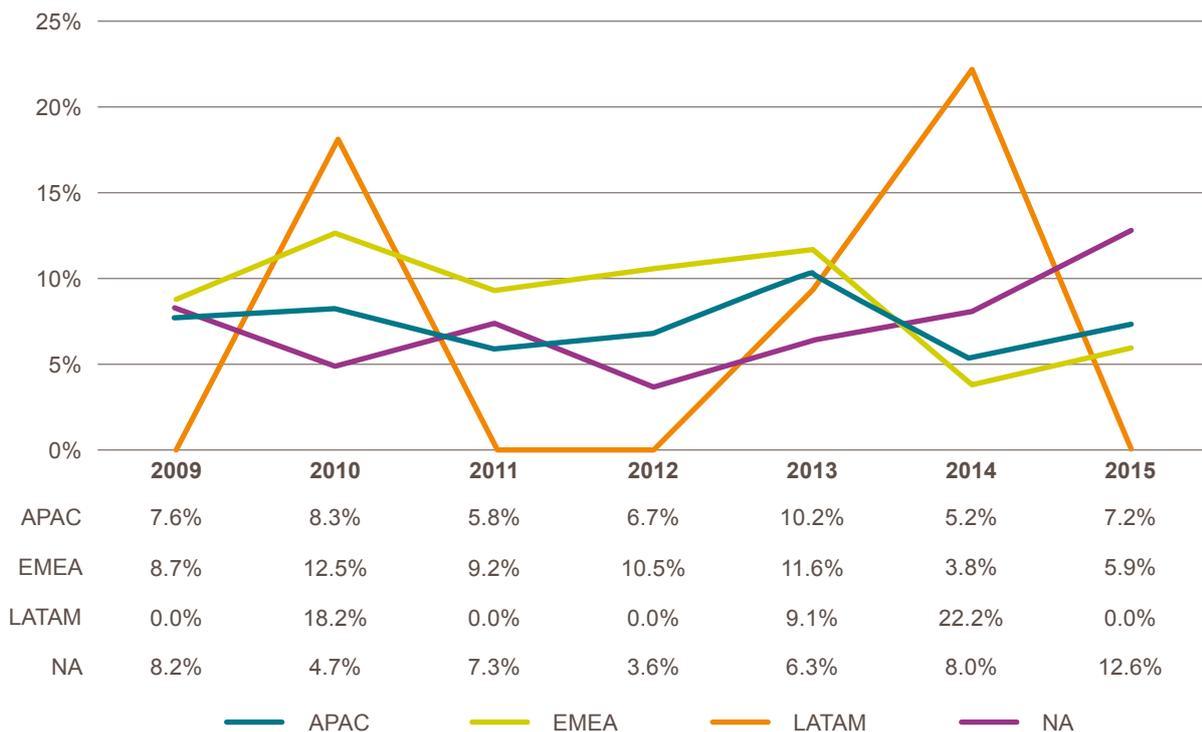
Globally, M&A deal leaks increased in 2015 compared to the prior year: 8.6 percent of all deals in 2015 involved a leak of the deal prior to its public announcement, compared to 6 percent in 2014 and an average of 7.5 percent over the seven-year time period.

Figure 1. Percentage of deal leaks globally



Over the period 2009-2015, Europe, the Middle East and Africa (EMEA) had the highest average percentage of leaked deals at 8.9 percent, whereas North America (NA) had the lowest average percentage at 6.9 percent. However, since 2014, this trend has reversed: in both 2014 and 2015, the percentages of deal leaks in NA were significantly higher than in EMEA. This trend reversal is due both to a fall in deal leaks in EMEA (below historical averages) and to a sharp increase in deal leaks in NA: the incidence of NA deal leaks has increased for four consecutive years since the beginning of 2012, to a seven-year high of 12.6 percent in 2015. The data for Latin America (LATAM) is very volatile due to the relatively small sample size in that region.

Figure 2. Percentage of deal leaks by region



For the top ten countries with the most M&A activity, the top three countries for deal leaks in 2015 were India, Hong Kong and the United States (US). Ranked in 5th place for deal leaks in 2015, the United Kingdom (UK) remains below its long-term average. Both the US and Canada had significantly increased incidences of deal leaks in 2015 compared to both 2014 and their long-term averages.

Figure 3. Percentage of deal leaks by country

Target Listing Location	2015 (Rank)	2014 (Rank)	2009-2015 (Rank)
India	20.0% (1)	15.8% (2)	15.7% (2)
Hong Kong	12.9% (2)	22.2% (1)	17.3% (1)
United States	12.6% (3)	8.0% (4)	7.2% (6)
Canada	12.5% (4)	7.7% (5)	6.2% (7)
United Kingdom	6.7% (5)	5.3% (6)	13.3% (3)
Korea	5.3% (6)	2.9% (7)	9.3% (5)
Japan	3.1% (7)	0.0% (10)	4.3% (9)
Australia	3.0% (8)	2.0% (8)	3.4% (10)
France	0.0% (9)	10.0% (3)	5.6% (8)
Germany	0.0% (10)	0.0% (9)	9.4% (4)

On a sector basis, globally, the top three sectors for deals leaks in 2015 were Real Estate, Healthcare and Energy & Power. The Real Estate sector maintained its position as the one with the highest incidence of deal leaks.

Figure 4. Percentage of deal leaks by sector

Target Sector	2015 (Rank)	2014 (Rank)	2009-2015 (Rank)
Real Estate	12.9% (1)	13.0% (1)	10.8% (1)
Healthcare	12.5% (2)	7.8% (4)	7.2% (5)
Energy & Power	9.3% (3)	2.6% (10)	6.7% (8)
TMT	9.2% (4)	5.8% (5)	7.1% (7)
Consumer Staples	8.6% (5)	8.3% (3)	5.7% (10)
Industrials	8.0% (6)	3.8% (9)	8.7% (3)
Materials	7.9% (7)	5.7% (6)	7.3% (4)
Financials	7.1% (8)	4.2% (8)	7.1% (6)
Consumer Products & Services	6.7% (9)	9.5% (2)	10.3% (2)
Retail	3.4% (10)	5.6% (7)	6.3% (9)

As in all but one of the previous years, in 2015 targets in leaked deals achieved significantly higher takeover premiums than those in non-leaked deals: the median takeover premium for targets in leaked deals was 53 percent compared to 24 percent for non-leaked deals, a difference of almost 30 percentage points.

Figure 5. Median takeover premium

	2015	2014	2009-2015
Leak	53%	37%	50%
No leak	24%	22%	28%

In 2015, as in the majority of the previous years, leaked deals had a higher incidence of attracting rival bids: 6.4 percent of leaked deals attracted one or more rival bids compared to 4.4 percent of non-leaked deals. This may partly explain the higher takeover premiums for leaked deals.

Figure 6. Percentage of deals attracting rival bids

	2015	2014	2009-2015
Leak	6.4%	11.6%	7.1%
No leak	4.4%	5.6%	6.2%

Our analysis also shows that while there is some evidence that leaked deals take longer to complete than non-leaked deals (although the difference in 2015 was only slight), there is no consistent evidence, over the longer term at least, that leaked deals have a higher or lower completion success rate than non-leaked deals.

Figure 7. Median time from announcement to completion (days)

	2015	2014	2009-2015
Leak	74	108	83
No leak	73	85	77

Figure 8. Median completion success rate

	2015	2014	2009-2015
Leak	89%	95%	88%
No leak	90%	89%	89%

What explains these results?

Globally, the incidence of leaked deals increased last year, breaking above the average of the last seven years. This is a reversal of the trend that we highlighted in our last Intralinks Annual M&A Leaks Report, which saw deal leaks fall to a six-year low of 6 percent in 2014. So what happened in 2015?

Regulatory enforcement in 2015

Regulatory enforcement statistics for 2015 show an aggregate rise in both enforcement actions and financial penalties by five major financial services regulators – the US Commodity Futures Trading Commission (CFTC), the UK Financial Conduct Authority (FCA), the US Financial Industry Regulatory Authority (FINRA), the US Securities and Exchange Commission (SEC) and the Hong Kong Securities and Futures Commission (SFC).

Figure 9. Global enforcement statistics (data courtesy of Duff & Phelps' Global Enforcement Reviews 2015 and 2016)¹

	CFTC	FCA	FINRA	SEC	SFC	Total
No. of enforcement actions						
2015	85	40	1,397	755	128	4,419
2014	134	40	1,512	807	88	4,596
Change 2015/2014	58%	0%	8%	7%	-31%	4%
Financial penalties (USDm)						
2015	1,797	1,825	132	4,149	8	9,924
2014	3,144	1,132	95	4,190	9	10,585
Change 2015/2014	75%	-38%	-28%	1%	18%	7%

Globally, regulators appear to be stepping up their game, introducing new regulations and frameworks, and enforcing fines pertaining to insider trading.

In 2015, the SEC charged 87 parties in cases involving trading on the basis of inside information², a 67 percent increase on the 52 charges brought in 2014³. Despite this increase in enforcement actions, according to the data in our latest Intralinks Annual M&A Leaks Report, the US saw a sharp rise in the incidence of deal leaks in 2015 compared to 2014: from 8 percent to almost 13 percent.

Our report also found that India replaced Hong Kong as the country with the highest incidence of deals leaks in 2015, with Hong Kong moving into second place having significantly reduced its percentage of deal leaks from 22 percent in 2014 to 13 percent in 2015. The SFC has made significant investments in 2015 and the previous two years in an attempt to combat Hong Kong's reputation as a financial center with a more permissive culture as far as market abuse is concerned: staff numbers and expenditure increased by 6 percent and 9 percent respectively in 2015 following similar increases in 2014⁴.

¹ The Global Enforcement Review 2015 and The Global Enforcement Review 2016

² <https://www.sec.gov/news/pressrelease/2015-245.html>

³ <https://www.sec.gov/news/newsroom/images/enfstats.pdf>

⁴ http://www.sfc.hk/web/EN/files/ER/Annual%20Report/SFC_AR2015-16_Eng.pdf

In India, at the end of 2014, the Securities and Exchange Board of India (SEBI) announced an overhaul of the insider trading rules governing Indian capital markets. It wasted no time enforcing these rules and, in 2015, SEBI found the top two executives at Indian technology firm Palred Technologies guilty of insider trading. Despite this new-found zeal, India moved into top place for the incidence of deal leaks in 2015, with 20 percent of all deals found to be leaked, up from 16 percent in 2014.

In the UK, the FCA is adopting a new Market Abuse Regulation (MAR), which came into effect on 3 July 2016. It aims to increase market integrity and investor protection, enhancing the attractiveness of securities markets for capital raising. MAR is intended to strengthen the existing UK market abuse framework by extending its scope to new markets, new platforms and new behaviors. It contains prohibitions of insider dealing and market manipulation, and provisions to prevent and detect these. The new MAR came too late to affect deal leaks in 2015: the UK moved up from 6th place in 2015 to 5th place in 2015, with the incidence of leaked deals in 2015 increasing to almost 7 percent in 2015 from 5 percent in 2014.

In early March 2016, the FCA also introduced the Senior Managers and Certification Regime to increase accountability by individuals within authorized firms. Senior managers can be held accountable for misconduct that falls within their area of responsibility and individuals working at all levels can be held to appropriate standards of conduct.

Benefits to leaking deals: too tempting?

Are increasing regulation and the threat of enforcement enough to deter deal leaks? In 2015, it appeared not to be the case, as the global incidence of deals leaks increased. It seems that the benefits of leaking deals remain too tempting despite the risks. According to our analysis, there are obvious benefits to leaking a deal. Deals that leak are more likely to encourage rival bids and the valuations of targets in leaked deals (as measured by takeover premiums) appear to be significantly higher. Against the benefits, those leaking deals must also weigh the risks. Increased regulatory enforcement and new market abuse regulations in Europe mean that the reputational and regulatory threat from leaking deals is unlikely to decrease, so, despite the increase in deals leaks in 2015, we would expect the long-term trend in deal leaks to continue to decrease.

About Cass

Cass Business School, which is part of City, University of London, is a leading global business school driven by world-class knowledge, innovative education and a vibrant community. Located in the heart of one of the world's leading financial centers, Cass has strong links to both the City of London and the thriving entrepreneurial hub of Tech City. It is among the global elite of business schools that hold the gold standard of triple-crown accreditation from the Association to Advance Collegiate Schools of Business (AACSB), the Association of MBAs (AMBA) and the European Quality Improvement System (EQUIS).

For further information visit: www.cass.city.ac.uk or on Twitter follow @cassbusiness

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