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SS&C Intralinks

2019 M&A Leaks Report

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

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Introduction

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

The annual *SS&C Intralinks M&A Leaks Report* analyzes and reports on deal leaks globally. This report looks at deal leaks for the period from 2009-2018, while placing emphasis on the 2018 findings compared to previous years. The analysis of data for this report was conducted together with the M&A Research Centre at Cass Business School, City, University of London.

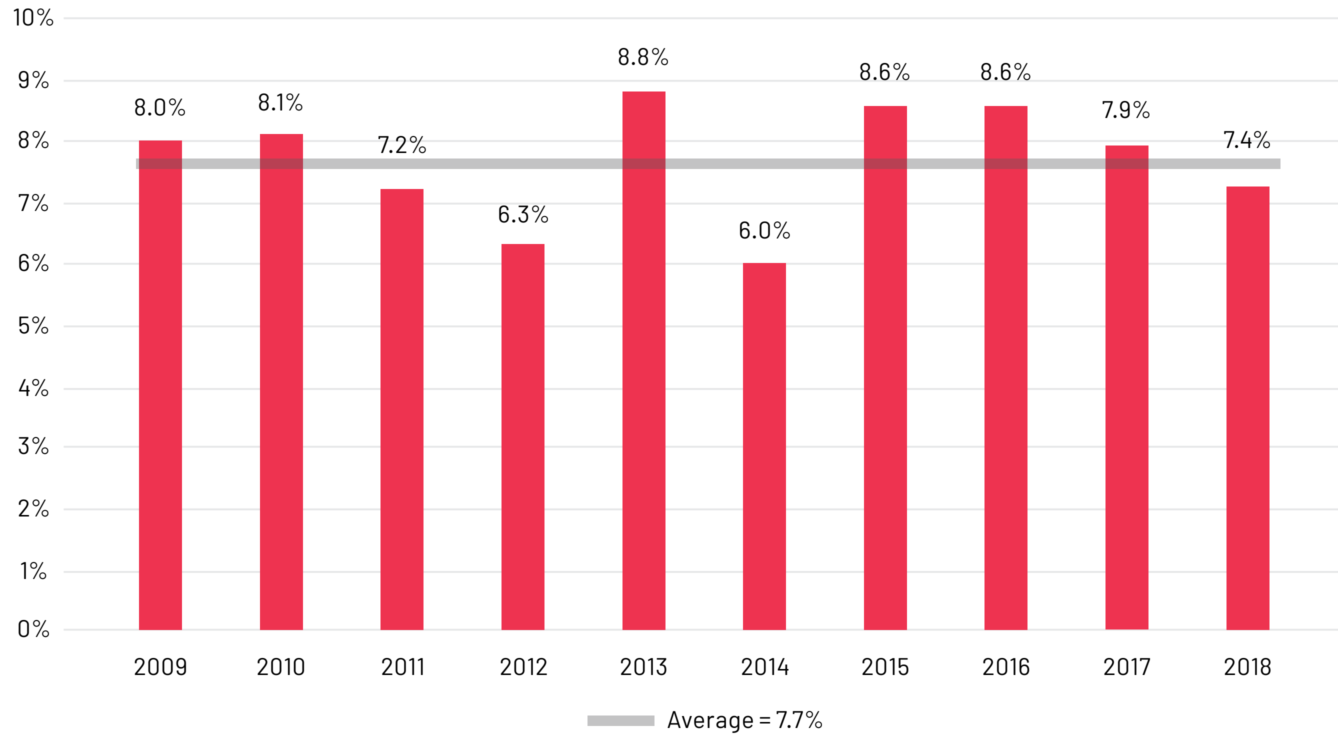
Methodology

M&A transaction data for announced deals during the period January 1, 2009 to December 31, 2018, 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 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 2009-2018 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 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 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 deals of 8,417.

Key Findings

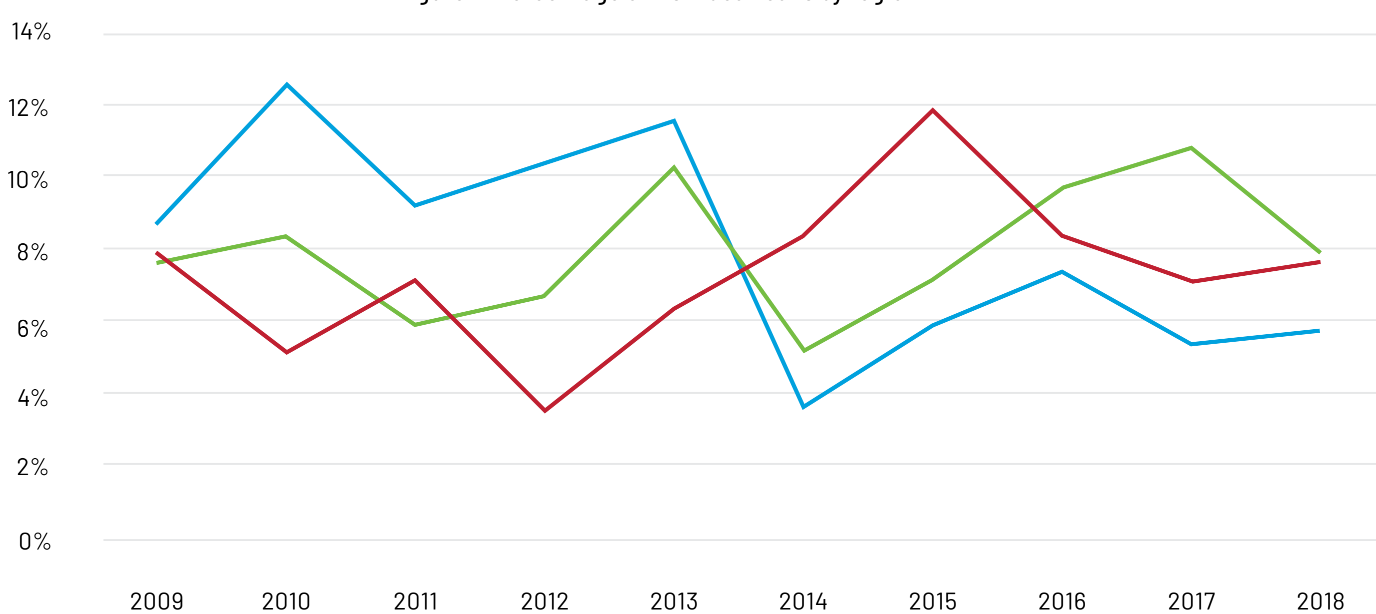
Worldwide, the rate of M&A deal leaks fell in 2018 for the second consecutive year. 7.4 percent of deals in 2018 involved a leak of the deal prior to its public announcement, compared to 7.9 percent in 2017 and 8.6 percent in 2016.

Figure 1. Percentage of worldwide M&A deal leaks, 2009-2018



The fall in the overall worldwide rate of deal leaks in 2018 was driven solely by the Asia-Pacific (APAC) region, where leaked deals declined to 7.9 percent from 10.8 percent the previous year. Both the Americas and Europe, the Middle East and Africa (EMEA) saw increases in the rate of deal leaks in 2018 of 0.5 and 0.4 percentage points, respectively. APAC remains the region with the highest rate of deal leaks, followed by the Americas at 7.6 percent and EMEA at 5.8 percent.

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



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Americas	7.9%	5.2%	7.1%	3.5%	6.4%	8.4%	11.9%	8.3%	7.1%	7.6%
APAC	7.6%	8.3%	5.8%	6.7%	10.2%	5.2%	7.2%	9.7%	10.8%	7.9%
EMEA	8.7%	12.5%	9.2%	10.5%	11.6%	3.8%	5.9%	7.6%	5.4%	5.8%

For the ten regions with the most M&A activity, the top three for deal leaks in 2018 were Hong Kong, Japan and the U.S. The bottom three countries for deal leaks in 2018 were the UK, Australia and France.

Countries with an increased rate of deal leaks in 2018, compared to the prior year, included Japan, the U.S., South Korea, Germany, Canada, France, Australia and the UK. Regions that reduced their rate of deal leaks in 2017 included Hong Kong and India.

Particularly notable was India's reduction in its rate of deal leaks in 2018 to a ten-year low of 6.4 percent, from 15.9 percent the previous year. Hong Kong's rate of leaked deals in 2018 also fell to 17 percent from 19.2 percent the previous year. Although the UK's rate of deal leaks in 2018 increased to 3.8 percent from 1.5 percent the previous year, this was still its second-lowest level in the last ten years. Japan's rate of leaked deals increased to 9.6 percent in 2018, from 7.0 percent the previous year, its second-highest level in the last ten years.

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

Target Listing Location	2018 (Rank)	2017 (Rank)	2009 - 2018 (Rank)
Hong Kong	17.0% (1)	19.2% (1)	16.0% (1)
Japan	9.6% (2)	7.0% (4)	5.6% (8)
United States	8.6% (3)	8.3% (3)	7.8% (6)
South Korea	7.1% (4)	3.3% (7)	9.2% (4)
Germany	7.1% (4)	4.3% (6)	8.7% (5)
Canada	6.5% (6)	5.3% (5)	5.9% (7)
India	6.4% (7)	15.9% (2)	12.9% (2)
France	5.3% (8)	0.0% (10)	4.7% (9)
Australia	4.0% (9)	1.6% 8)	3.7% (10)
United Kingdom	3.8% (10)	1.5% (9)	9.8% (3)

Worldwide, the top three sectors for deals leaks in 2018 were TMT (Technology, Media & Telecoms), Retail and Materials. Four sectors increased their rate of leaked deals in 2018: Materials, Real Estate, Financials and Energy & Power. Worldwide, the bottom three sectors for deal leaks in 2018 were Energy & Power, Healthcare and Consumer.

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

Target Sector	2018 (Rank)	2017 (Rank)	2009 - 2018 (Rank)
TMT	10.1% (1)	11.9% (1)	8.3% (3)
Retail	9.8% (2)	10.0% (3)	7.7% (5)
Materials	8.0% (3)	6.0% (7)	7.3% (6)
Real Estate	7.5% (4)	5.5% (8)	9.3% (1)
Industrials	7.1% (5)	7.8% (4)	8.2% (4)
Financials	6.9% (6)	6.4% (6)	7.0% (7)
Consumer	6.6% (7)	11.4% (2)	9.1% (2)
Healthcare	4.8% (8)	6.9% (5)	6.6% (8)
Energy & Power	4.2% (9)	2.2% (9)	5.7% (9)

Leaked deals are associated with significantly higher target takeover premiums than non-leaked deals. This has been true in each of the ten years analyzed for this report: from 2009-2018 the median takeover premium for leaked deals was 44.3 percent vs. 25.5 percent for non-leaked deals, a difference of almost 19 percentage points.

In 2018 targets in leaked deals achieved a median takeover premium of 50.9 percent vs. 20.2 percent for non-leaked deals, a difference of almost 31 percentage points. This was an increase from 2017, when the difference was around 11 percentage points.

Figure 5. Median worldwide target takeover premium (%)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2009 - 2018
Leak	50.9%	32.5%	38.2%	53.5%	36.9%	48.4%	41.7%	63.8%	40.3%	77.8%	44.3%
No Leak	20.2%	21.3%	26.1%	23.7%	21.4%	24.2%	31.8%	27.5%	28.8%	31.2%	25.5%

Historically, leaked deals have been associated with a higher rate of rival bids for the target than non-leaked deals: from 2009-2018 a higher proportion of leaked deals attracted one or more rival bids for the target than non-leaked deals in six out of the ten years. In 2018 the rate of rival bids for leaked deals was 6.2 percent compared to 4.2 percent for non-leaked deals. The historic tendency of leaked deals to attract a higher rate of rival bids for the target may also partly explain the higher target takeover premiums for leaked deals.

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2009 - 2018
Leak	6.2%	1.9%	3.6%	6.4%	11.6%	9.8%	6.5%	5.3%	7.7%	5.8%	5.9%
No Leak	4.2%	4.9%	4.8%	4.4%	5.8%	7.0%	5.9%	6.3%	6.2%	7.2%	5.6%

There is some historical evidence that leaked deals, on average, take longer to complete than non-leaked deals (although not over the past three years, when leaked deals completed more quickly than non-leaked deals). From 2009-2015 leaked deals took an average of six extra days to complete than non-leaked deals. However, from 2016-2018 leaked deals completed on average eight days more quickly than non-leaked deals.

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2009 - 2018
Leak	86	66	72	90	108	77	62	92	84	81	81
No Leak	92	77	82	82	89	80	74	75	82	63	79

One theory for the historic tendency for leaked deals to have extended completion times could be that leaking a deal adds additional complexity. Leaked deals require both acquirers and sellers to manage stakeholders, issue statements and address key deal issues such as financing, approvals and any political questions prematurely. This is likely to result in deals that are more complex (and may also be costlier to execute).

There is also some evidence that leaked deals have a marginally higher completion success rate than non-leaked deals: from 2009-2018 leaked deals had a higher completion success rate than non-leaked deals in six out of the ten years. Overall, on average, for the period 2009-2018, the completion success rate for leaked deals was one percentage point higher than for non-leaked deals.

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2009 - 2018
Leak	91%	91%	96%	90%	95%	84%	98%	82%	85%	90%	90%
No Leak	92%	90%	91%	89%	88%	90%	88%	90%	89%	85%	89%

These results could point to one other perceived benefit of leaking a deal – it potentially leads to a better match between acquirer and target. Leaking a deal may flush out the "optimal" acquirer, i.e., the one who has the greatest synergies with the target (and who can therefore pay the highest price, hence the higher target takeover premiums for leaked deals) and therefore also the acquirer who has the greatest incentive to complete the deal. To quantify this, in 2018 the difference in the median target takeover premium for leaked deals compared to non-leaked deals was USD 68.1 million, i.e., an average of an extra USD 68.1 million accrued to the shareholders of the targets in deals that leaked. This was the highest "leak premium" difference for three years.

Figure 9. Median worldwide target takeover premium (US$)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2009 - 2018
Leak	85.1	18.9	82.4	110	316.6	36.7	45.3	80.7	38.9	22.5	47
No Leak	17	8.9	26.9	18.2	25.6	28.1	35.7	29.7	28.7	13.5	22.6
Leak vs. No Leak	68.1	10	55.5	91.8	291	8.6	9.6	51	10.2	9	24.4

Conclusions

After peaking at around 9 percent of announced M&A transactions in 2013, worldwide deal leaks appear to be declining. This trend has occurred at the same time as increased regulations and enforcement actions by financial regulators against different forms of market abuse, including deal leaks, and there is undoubtedly a connection between increased regulatory attention and the decline in leaks. What is also noticeable from the data is that countries such as the UK and India, which regularly used to rank in the top three countries for leaks, have seen a significant decline.

Previous research we have published points to deliberate leaks by people with knowledge of deal discussions as the primary cause of deal leaks, rather than accidental disclosure. The reasons for this are primarily economic: leaking deals leads to higher target valuations and takeover premiums. Against these perceived benefits, dealmakers must weigh the risks to reputations and possibly livelihoods if they are caught. More sophisticated surveillance of markets by regulators as well as a tightening and alignment of global regulatory standards relating to market abuse mean that we can probably expect to see a continued declining trend in worldwide deal leaks.

About SS&C Intralinks

SS&C Intralinks is the pioneer of the virtual data room, enabling and securing the flow of information by facilitating M&A, capital raising and investor reporting. SS&C Intralinks has earned the trust and business of more than 99 percent of the Fortune 1000 and has executed over USD 34.7 trillion worth of financial transactions on its platform. For further information, visit intralinks.com.

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