M&A deals are back: companies are feeling confident again

Interview with Philippe Lecoq, manager of the Edmond de Rothschild Europe Synergy fund

Philippe Lecoq

European M&A deal volume has increased dramatically. Signs that Europe was returning to growth in mid-2013 helped restore confidence gradually and prepare the ground for a new M&A cycle.

Companies can no longer rely solely on organic growth to ensure long-term growth, which is why they are increasingly focusing on acquisitions. Tie-ups have come in very different shapes and involve a broad variety of sectors and company of all sizes.

What are the main characteristics of the current M&A cycle in Europe?

A new M&A cycle in Europe started in mid-2013. 2014 has so far seen very heavy deal volume: US$836bn in announced deals at August 31st vs. US$482bn for the same period in 2013. The number of deals this year is slightly down but volumes are much higher. This represents the best increase in Europe since 2007.

The economic environment is gradually improving, a sign that confidence is back. The industrial rationale behind recent deals is a key support factor. Bidders are looking to establish critical mass or build strong positions, achieving leadership in businesses with higher margins or greater pricing power, even if this means jettisoning peripheral activities to refocus on core businesses. When the pace of growth is lacklustre, companies have to capture growth wherever it might be.

Since the beginning of April, the number of large-scale deals has increased. There have been big deals such as the sale of SFR to Numericable, General Electric's acquisition of Alstom's energy division, AbbVie's purchase of Shire, the Holcim/Lafarge merger and the asset swap between Novartis and GlaxoSmithKline.

Recent deals have occurred in very diverse sectors and taken different forms. All manner of deals are possible, even between large-cap companies.

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Are all sectors concerned?

Given the reasons behind these transactions, most sectors could soon see deals, with the possible exception of the banking sector where tie-ups could take longer to materialise. However, we must remain highly selective. On the one hand, not all deals reach completion, sometimes because of problems over competition or management and sometimes because of government intervention. This was the case, for example, in the attempted Publicis/Omnicom merger. And not all deals necessarily create value for shareholders.

Your fund EDR Europe Synergy invests in European companies that might be involved in major events. What strong convictions do you have today?

As far as sectors are concerned, telecoms has been in the headlines for several months. The European Commission's decision in July to allow Telefonica Deutschland to buy E-Plus, thus reducing the number of operators in Germany from 4 to 3, will lead to more flexibility over competition rules. Market share could be reorganised and tie-ups might result. Telecom Italia is one of our high-conviction picks. It might sell its subsidiary TIM Brazil and gain from any consolidation on the Italian market.

These sector developments have now moved beyond Europe as Iliad is taking on the US market by bidding for part of T-Mobile US. And Vivendi has started exclusive talks with Telefonica for the sale of its Brazilian subsidiary GVT. Vivendi is one of our biggest positions. The group would book a significant capital gain from this deal and press on with efforts to refocus on media and content.

The pharmaceutical group Shire was also a strong-conviction position this year and it was acquired in July by the US group AbbVie. At the time, Shire was the portfolio's largest position and we sold the entire holding for a significant gain.

Company Profile:

Asset management is one of the Edmond de Rothschild Group's two strategic businesses. The Group was founded in 1953 and has been chaired since 1997 by Baron Benjamin de Rothschild. An independent, family-owned group that also specialises in private banking, the group has EUR 135.7bn under management and employs 2,800 people in 31 offices throughout the world.

With 6 investment hubs in the world (France, Switzerland, Germany, Hong Kong, Luxembourg and the UK), the Asset Management business of the Edmond de Rothschild Group is positioned as a multi specialist investment firm. Its offer seeks long term performance through active investing and strong convictions based on a tradition of constant innovation.

This builds on recognized areas of expertise such as European and US equities, corporate debt, multi manager, overlay management, asset allocation and quantitative asset management.

The Asset Management business of the Edmond de Rothschild group had EUR 45.5bn under management at December 31 2013 and employed 550 people including 100 investment professionals.

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