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“Merger of Equals” Transactions – An Analysis of Relevant Considerations and Deal Trends

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I. Introduction

Greek mythology moots the existence of a grand red-gold feathered bird with a body that emits rays of sunlight. The phoenix is famous for its cyclical regeneration or rebirth from the ashes of its predecessor which died in a dramatic show of flames.1 “Merger of Equals” transactions (“MoEs”) have also experienced a regeneration, with merger announcements such as Lafarge/Holcim, Publicis/Omnicom, Dow/DuPont, London Stock Exchange/Deutsche Börse, Linde/Praxair, Clariant/Huntsman and, most recently, Siemens Mobility/Alstom making financial news headlines. Many of the business combinations sampled during the most recent MoE cycle are, or will be, “transformational” not only for the merging companies but also for the industries in which they operate. They are frequently also of significant size, thus resembling the end of the MoE cycle of the late 1990s. The overwhelming media presence of these transactions has sparked a renewed interest in MoEs and their cyclical recurrence. While MoE trends come in much shorter phases than the several hundred-year lifespan of the mythical phoenix, they are also widely perceived to bear a high risk of failure. *We wonder whether this perception is just a myth or genuinely anchored in reality?*

Despite the increased occurrence of MoEs over the last few years, these remain a phenomenon on which relatively little research has been written. Only a few academics have conducted detailed analyses on MoEs.2 The remainder of available information mostly comprises articles and commentary of industry experts or market participants. There are also no available databases or generally accepted numerical criteria for designating a merger as a MoE.3 Therefore, the trends identified in this paper were compiled with reference to publicly available data and through an

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1 “Phoenix” Greek Mythology.com available at https://www.greekmythology.com/Myths/Creatures/Phoenix/phoenix.html
3 F. Cheng supra note 2, at page 4.
analysis of MoE transactions in the public domain announced between 1997 and 2016 ("sample period") consisting of 210 transactions ("sample data")⁴.

This paper seeks to examine more closely recent trends in MoE activity as well as comparing these trends with the MoEs of the last 20 years. We will address both familiar MoE considerations and concerns based on the latest MoE cycle, and new considerations and complexities (of both a legal and a corporate finance nature) that should be borne in mind by stakeholders and the market when assessing MoEs, particularly in the context of cross-border transactions. After making some general observations about MoEs, by way of a backdrop to our analysis, we will proceed to discuss in detail these trends and considerations.

II. Definition and characteristics of a Merger of Equals

MoEs are not a generally recognized form of transaction in a legal sense. Therefore, labeling a transaction as a MoE does not per se trigger the application of a distinct legal regime with associated consequences for the parties involved.⁵ These consequences or rules follow primarily from the chosen form of transaction(s), be it as one or more mergers and/or tender offers.

While there is no formal definition of a MoE, it is commonly referred to as the combination of two similar-sized firms to form a single company⁶ where there is no designated acquirer.⁷ A transaction is described as a MoE primarily to serve the parties’ intent to create a desired market perception surrounding the transaction.⁸ Certain characteristics have, however, been identified over the years to help classify a transaction as a MoE.

Firstly, it is expected that shareholders of each of the merging companies will have a more or less equal ownership share in the combined entity.⁹ In reality, however, only approximately a fifth of all MoEs announced during the sample period had an assumed or estimated 50:50 ownership split between shareholders of each of the merging companies in the combined entity. The remainder of

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⁴ Majority of transaction data were obtained from MergerMarket, supplemented by Wulf supra note 2, company announcements and other press articles.
⁶ In terms of sales, competitive position, profitability and market capitalization, as in D. DePamphilis, Mergers, Acquisitions, and Other Restructuring Activities (2014) ⁷th ed., at page 412-413.
⁸ Refer to D. Wolf, supra note 5, at para 1.
the sample transactions involved one merging company having up to 60% ownership in the new entity, apart from a few outliers which had more than a 60% ownership share (Appendix 1).

Secondly, MoEs are categorized as being a nil premium stock-for-stock transaction at a fixed-exchange ratio involving two companies with reasonably balanced value. However, most commentators would rather describe this as a “low or nil premium” merger as the enterprise values of the merging companies are hardly ever truly equal. This discrepancy in size then requires the smaller company to be valued at a (small) premium which will be reflected in a more favourable exchange ratio for its shareholders. Appendix 2 provides information on deal values, the ownership split between shareholders of the merging companies and the premium offered to the shareholders of the smaller of the merging companies, as implied in the share exchange ratio for a sample of transactions announced during the current MoE cycle.

Finally, often seen as an important determining factor of MoEs, there will be some meaningful participation by the senior management of both companies in the governance of the combined entity. The board of directors and management of the combined company will be composed of a roughly equal number of representatives from each of the merging companies, typically with the CEO of the combined company being elected from one company and the Chairman from the other company, at least for an initial period after completion of the transaction. It has also occurred in some MoEs that an external candidate was appointed to head the combined company. For example, in the MoE of French Alcatel and US American Lucent Technologies Inc. in 2006 the companies appointed a US resident but French national as Chairman and a Dutch CEO to lead the company, after the initial period following completion had expired.

There are also other “social” issues which will have to be negotiated between the merging companies, which are not typically negotiated in takeover transactions. The parties will need to agree on the name of the combined company, the location(s) of its headquarters, its legal domicile, its home equity market(s) for the listing of its shares and any workforce reductions required to facilitate optimal synergies.

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10 S. Bae/H. Aldrich, supra note 2, at page 100.
11 D. Wolf, supra note 5, at para 1.
12 J. Wulf, supra note 2, at page 14.
13 P. Sinha/S. Kovacic, supra note 9, at page 2-3.
15 D. Wolf, supra note 5, at para 3; P. Sinha/S. Kovacic, supra note 9, at page 2-3.
Certain structural questions, such as whether the companies are merged into a "Newco" (Appendix 3A) or, alternatively, one of the two merging companies survives by absorbing the other company (Appendix 3B), do not appear to be defining characteristics from a capital markets perspective. This is because there are many different ways to structure a merger, which may have characteristics specific to the jurisdiction(s) concerned\textsuperscript{16}. However, it should be noted that structuring a MoE is an extremely challenging task and the structure is a critical component of its future success. Structuring typically involves several transaction steps, frequently in multiple jurisdictions, and requires complex documentation and coordination of shareholder action, typically at both merging companies. The merging parties will try to achieve maximum transaction security by reducing the risks of shareholder intervention and/or contestation, competing bids and regulatory action. They will seek to obtain and/or retain the benefit of low corporate taxes, tax losses and/or credits carried forward and a favourable governance regime by choosing an appropriate legal domicile. Furthermore, the new entity’s shares will need to be listed at one or several stock exchanges and effectively marketed in order to retain as many of the merging companies’ shareholders as possible and to support its share price and avoid share “flow-back”.\textsuperscript{17}

In addition to meeting the above characteristics, the deals included in the sample data were all publicly announced by the merging companies or publicly perceived as “MoEs”.

III. Reasons for Mergers of Equals

There are various reasons why companies choose to frame a transaction as a MoE as opposed to a takeover, even where a financial side-by-side analysis may suggest otherwise. Key reasons include the following:

Firstly, the boards of the merging companies will have concluded that the proposed business combination promises strategic benefits such as allowing the merged entity to gain critical size and stronger financial capacity, to exploit competitive advantages and/or to increase its regional footprint.\textsuperscript{18} Importantly, they will also expect to create value through operational and financial

\textsuperscript{16} P. Sinha/S. Kovacic, supra note 9, at page 4-6.

\textsuperscript{17} Flow-back is a common problem in share exchange cross-border M&A transactions. It is typically associated with the obligation of passive (index) investors to replicate a regional equity index (e.g. S&P 500, Euro Stoxx 50, Dax 30, etc.) or pension funds’ bias towards home country equities, see P. Sinha/S. Kovacic, supra note 9, at page 5. These investors may be obliged to sell the new company’s shares if they are not included in the same equity index (e.g. in 1998 the new DaimlerChrysler AG was not initially included in the S&P 500 index because the company was not domiciled in the US, see A. Karolyi, “DaimlerChrysler AG, the first truly global share”, Journal of Corporate Finance (2003), vol. 9, at pages 409-430). Flow-back management requires the development and communication of a strong equity story for the merged company, active market making, lock-up agreements and, where appropriate, targeted share buybacks and/or private placements/block trades to absorb initial selling pressure.

\textsuperscript{18} P. Sinha/S. Kovacic, supra note 9, at page 2.
synergies which will exceed the combined incremental value achievable by the merging companies on a stand-alone basis.

Secondly, presenting a transaction as a MoE may help the parties to bridge otherwise irreconcilable perceptions of enterprise value and expectations of the new entity's future leadership and governance.19

Thirdly, portraying a transaction as a MoE may also assist in appeasing otherwise hostile constituencies such as employees, trade unions, regulators and governments.

Finally, the merging parties may pursue defensive objectives, especially if they are operating in a consolidating industry. Their MoE may remove them as potential takeover targets, create an antitrust shield and enhance their importance from a national interest perspective.

Achieving these objectives may be dependent on presenting the transaction as being of equal benefit to both parties involved and preserving employee morale by not identifying one company as being acquired.20 The MoE label may thus also assist in facilitating the post-merger integration process by promoting a cooperative rather than competitive environment between the merging companies.21

IV. Criticism of Mergers of Equals

In spite of the above potential benefits, MoEs are frequently received with a significant dose of scepticism. Some authors argue that there is no such thing as a merger of equals as there is no true equality between distinct organizations.22 There are many examples of MoE transactions that either prior to closing (which ultimately resulted in the transaction not being completed) or ex post facto were exposed as a ruse or a tactic to facilitate the transaction. Most infamous was the merger of Daimler-Benz AG and Chrysler Inc. in 1998 where the then CEO of the combined entity (and previously CEO of Daimler-Benz), Jürgen Schrempp, claimed in an interview only two years after the deal closed that the term “merger of equals” was used purely for “psychological reasons” and

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19 D. Wolf, supra note 5, at para 6.
20 D. Wolf, supra note 5, at para 3.
21 F. Cheng, supra note 2, at page 5.
that he always intended Chrysler to be a division of Daimler.\textsuperscript{23} His admission formed the basis for a lawsuit for alleged fraud brought against DaimlerChrysler AG by one of the largest shareholders of Chrysler prior to the merger, Kirk Kerkorian.\textsuperscript{24} However, the lawsuit was dismissed.\textsuperscript{25} The constituent parties of the combined entity ultimately separated in 2007.\textsuperscript{26}

It is thus understandable that MoEs have been criticized as a “symbolic gesture aimed at defusing potential conflicts and smoothing cultural differences”.\textsuperscript{27} Concealing the true intentions of the parties behind the mask of a MoE can cause a significant loss in credibility should these intentions be exposed. Therefore, it is essential for companies to articulate clearly and convincingly why it is in the best interest of all stakeholders to structure the deal as a MoE and how “one plus one will equal more than two”\textsuperscript{28}.\textsuperscript{29}

The perception of MoEs has also suffered due to significant value destruction associated with high-profile transactions announced in the second half of the 1990s, in particular Daimler/Chrysler (1998) and AOL/Time Warner (2000). The merging companies' shareholders will therefore carefully review both the strategic objectives and the value propositions of an announced MoE. They will measure the proposed strategic benefits expected to result from the merger against their respective company's stand-alone strategy and perspectives. Their assessment and perception of the proposed financial benefits will much depend on their respective company's relative size prior to the merger: the smaller company's shareholders will trade a short term exit premium for their share of the expected longer term value creation potential of the new entity; the larger company's shareholders will save the "control" premium but will have to share governance control and the

\begin{footnotesize}
\begin{enumerate}
\item D. Hakim, \textit{supra} note 23, at para 2.
\item In re DaimlerChrysler AG Securities Litigation, 294 F. Supp. 2d 616 (D. Del. 2003).
\item I. Drori et al, \textit{supra} note 2, at page 626.
\item M. Berlin, \textit{supra} note 22, at para 6.
\item Zaheer et al (2003) in I. Drori \textit{supra} note 2 at page 626, state that “by defining a merger as being between equals, an expectation of distributive equality may be created, in which the parties expect that every aspect of the merger will be equal, rather than one of integrative equality, where on balance, each side will gain in some areas and lose in others.” It is consequently critical to maintain good employee morale and engagement during the MoE process, to avoid disappointment and frustration, and it should be emphasized that the combined entity serves a different and even greater purpose than its separate predecessors. Mitch Berlin, \textit{supra} note 22 at para 10, accurately points out that this is especially important when the workforce is dominated by millennials, to whom purpose is a key performance driver. Some authors, such as Brew \textit{supra} note 26, have also suggested that companies should stop calling announced transactions mergers of “equals” due to the stigma attached to this label. Describing a transaction as a, for example, “strategic combination” sufficiently indicates that there is no target and acquirer in the transaction to impact executive egos and employee morale - at least investors, customers and employees will in that case not be under any illusion of distributive equality.
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benefits of expected synergies and value creation. Or, in other words, shareholders are advised that their premium is to come later, in a stronger combined entity.

V. Recent trends in relation to Mergers of Equals

Our analysis of the sample data revealed several trends during the sample period concerning the number of announced MoE transactions, their value, domestic vs. cross-border MoEs and, importantly, the percentage share of, and reasons for, failed transactions.

1. Number of announced MoE transactions

A total of 210 MoEs have been announced in the last 20 years, which amounts to an average of 10-11 deals per year. Appendix 4 illustrates the number of MoEs announced annually during the sample period, including an additional two years (1995 and 1996) for purposes of trend identification. The sample data reveals cycles of MoE activity. The first cycle of significant MoE activity occurred during the second half of the 1990s (1997-2001). It peaked in 1998. During this first cycle, the average annual number of MoEs was 10 deals. The cycle was marked by a number of high-profile “mega-deals” such as the mergers of Daimler-Benz AG/Chrysler Inc, Citicorp/Travelers Group, BankAmerica Corporation/NationsBank Corporation, GTE Corporation/Bell Atlantic Corporation and Time Warner/AOL. The current cycle of MoE activity commenced in 2012. Since then, there has been a clear upward trend in the number of announced deals, which reached a record level in 2016. During the current cycle, the average annual number of MoEs has been 12-13 transactions. There were also some single years with notably high MoE activity, such as 2004, 2006, 2008 and 2011.

While not included in the sample data, only 9 MoEs were announced during the first three quarters of 2017 (two of which had closed by 30th September 2017). Although too early to be certain, this possible slowdown could suggest that the current cycle of MoE activity may have reached its peak in 2016 and might be coming to an end, or, at least, be in decline.

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30 J. Wulf, supra note 2, at page 2.
31 S. Davidoff, supra note 7, at para 2.
2. **Value of announced MoE transactions**

The long term historic average deal value of MoEs is approximately €12.9 billion. This was exceeded in the first cycle (1997 to 2001) and nearly matched more recently (2014 to 2016), with average deal values of €31.1 billion and €12.1 billion, respectively. 2000 was the year with the highest announced absolute (€554.5 billion) and average deal (€79.2 billion) value during the sample period. This resulted predominantly from the high-profile “mega-deals” mentioned above. ([Appendix 5](#) shows the average annual deal value per year from 1997 to 2016.)

3. **Share of announced cross-border MoEs**

Of all the deals comprising the sample data, 48 or 23% were cross-border transactions. During the first MoE cycle in the 1990s, cross-border MoEs as a percentage of all MoEs marked a high in 2000 – at the end of the first cycle, possibly indicating that cross-border MoEs are a late cycle phenomenon. The sample data also reveal a very high percentage of cross-border deals between 2011 and 2013. And again, after three years of average activity (2014-2016), the share of cross-border MoE activity is expected during the current year 2017 to exceed its historic average, just as the current MoE cycle may have already passed its peak ([Appendix 6](#)).

4. **Failed (non-completed) MoEs**

When referring to the failure of MoEs, it is important to distinguish between two types of failure – situations where a MoE completed but failed to achieve its stated objectives post-completion and situations where companies announced but failed to complete the MoE at all. The mergers of Daimler-Benz and Chrysler\(^\text{32}\) and of AOL and Time Warner Inc.\(^\text{33}\), which completed but failed to achieve their objectives, are examples of the former, and the various attempts of the London Stock Exchange (LSE) Plc and Deutsche Börse AG\(^\text{34}\) to merge, and the abandoned merger of Publicis Groupe SA and Omnicom Group Inc.\(^\text{35}\), illustrate the latter.

The sample data refer only to “non-completed” MoEs, i.e. transactions where the companies announced but failed to complete the MoE revealing that, of the 210 announced deals during the

\(^{32}\) Daimler-Benz AG and Chrysler Inc announced their merger on 6 May 1998 and completed the deal on 12 November 1998.

\(^{33}\) Time Warner Inc. and AOL announced their merger on 10 January 2000 and completed the deal on 11 January 2001.

\(^{34}\) London Stock Exchange (LSE) Plc and Deutsche Börse AG announced their three attempts to combine their businesses on 3 May 2000, 27 January 2005 and 16 March 2016.

\(^{35}\) Publicis Groupe SA and Omnicom Group Inc. announced their merger on 28 July 2013.
sample period, 172 have been completed or are still pending, i.e. 37 failed to complete. This represents a failure rate of 17.6%. (Appendix 7 illustrates the failure rate for all MoEs in each year during the sample period.)

It is not surprising that the failure rate of MoEs was relatively high in years of economic turmoil such as 2000 (50%), 2001 (30%), 2003 (40%) and 2008 (27%). However, the higher than average failure rates in 2012 (29%), 2013 (25%) and 2015 (24%) during the current cycle of MoEs are also noteworthy. The contrast to the success rate at the end of the 1990s during the first MoE cycle, which was above 90%, is particularly interesting. This might be attributable to the fact that companies are now more inclined than in the past to withdraw from negotiations post-announcement if it becomes evident after further due diligence (both commercial and cultural) that post-completion integration and synergies would be too challenging (if not impossible) to achieve. This was, for example, the case with the failed cross-border MoE of Publicis Groupe SA and Omnicom Group Inc.

5. Failed (non-completed) cross-border MoEs

Our analysis also shows that cross-border deals had a much lower rate of success. 35% of all cross-border mergers announced during the sample period failed (17 of the 48 cross-border transactions announced), as opposed to the significantly lower 12% failure rate for domestic MoEs (20 of the 162 domestic transactions announced), which comprised 77% of the sample data. Or, if viewed from a different perspective, 46% of all failed MoEs (37 deals) were cross-border transactions (Appendix 8).

This does not come as a surprise given the numerous additional complexities associated with cross-border transactions, including differences in legal regimes and governance, investor relations, cultural environment, as well as the degree of political and regulatory attention (please refer to the chapter “Key reasons for the failure (non-completion) of MoEs” below).

6. Recent MoE trends in the context of the broader M&A market

The recent increase in MoEs can be attributed to a large extent to the general M&A cycle as it seems to match the overall market trend. Rising equity valuations and a re-emergence of stock-for-stock deals after a long period of dominance of all-cash transactions, were observed starting from
2012, which inspired a new wave of MoEs.\textsuperscript{36} During 2014, the market attained the highest transaction value since 2007 (Appendix 9). This development (in both MoE activity and the M&A market generally) was also driven by the return of “mega-deals” such as the MoE between Lafarge S.A. and Holcim Ltd. to form LafargeHolcim Ltd.\textsuperscript{37}

JP Morgan, in its review of the 2016 M&A market and its predictions for 2017, highlighted some noteworthy characteristics of the year 2016 that also seem to match the current MoE trend.

Firstly, it observed that 2016 was a vibrant year for M&A, notwithstanding substantial global uncertainty due to political changes, heightened regulatory scrutiny and speculation around Brexit.\textsuperscript{38} The global M&A market recorded volumes amounting to the level of the third best year on record, as companies sought to complement organic growth with acquisitions to access new regions, products and know-how, while benefiting from the continued low cost of funding.\textsuperscript{39}

Secondly, equity market valuations reached an all-time high towards the end of 2016. Share exchange offers, including MoEs, are more frequently used at times of such high valuations as this helps acquirers to mitigate the risk of overpaying for an acquisition.\textsuperscript{40} The larger and more financially challenging a potential combination, the more likely it will contain an equity (share for share exchange) component. Accordingly, when seeking to achieve a strategic quantum leap, the larger of the two merger partners in such circumstances is often more inclined to pursue a “nil or low premium” MoE rather than a takeover bid at a full control premium, to avoid the financial and execution risks associated with a highly leveraged takeover\textsuperscript{41}, even if this means that it has “to trade power for premium” through negotiated ownership and governance solutions.\textsuperscript{42} This also explains the high number of MoEs announced in 2016.

The last two characteristics JP Morgan identified which correspond to the recent MoE trend are, first, the fact that 2016 recorded the largest withdrawn deal volume since 2008, despite the previously mentioned high number of transactions announced; and, second, a rising trend in cross-

\textsuperscript{36} D. Wolf, supra note 5, at para 1.


\textsuperscript{39} JP Morgan, supra note 38, at page 3.

\textsuperscript{40} JP Morgan, supra note 38, at page 4.

\textsuperscript{41} The proposed takeover of Monsanto by Bayer is an example of a leveraged takeover which was announced in May 2016. Bayer’s announcement is available at http://www.press.bayer.com/baynews/baynews.nsf/id/Bayer-Offers-to-Acquire-Monsanto-to-Create-a-Global-Leader-in-Agriculture

\textsuperscript{42} J. Wulf, supra note 2, at page 2.
border deals.\(^{43}\) JP Morgan reported that transactions withdrawn amounted to $842 billion (769 deals) and cross-border deals accounted for 36% of total deal volume in 2016 versus 31% in 2015.\(^{44}\) This seems to be no different in the first three quarters of 2017 as equity markets retained but struggled to surpass the high valuations reached in the previous year and as an increasing number of announced transactions have either been withdrawn or are still experiencing completion difficulties, including several of the MoEs proposed in 2017.

VI. Key reasons for the failure (non-completion) of MoEs

There are a variety of reasons why MoEs fail either pre-completion or post-completion (as distinguished above). The key reasons why MoEs may collapse include regulatory issues, political concerns, irreconcilable cultural differences between the merging companies and, importantly, failure to convince shareholders of the proposed transaction’s strategic and/or financial rationale. (Appendix 10A provides a detailed break-down.) This is no different for cross-border MoEs. Of the 48 cross-border MoEs announced during the sample period, 17 transactions failed to complete. Of these 17 transactions, seven transactions were withdrawn for various reasons ranging from strategic to cultural differences between the merging companies, three failed to obtain regulatory approval and seven were either opposed by shareholders of one or both companies or resulted in the shareholders of one or both companies preferring a takeover transaction by either one of the same companies or of one of the companies by a third-party bidder (Appendix 10B).

1. Antitrust

The most common regulatory consideration relates to a transaction’s anti-trust compliance. It can be expected that if two globally operating companies wish to combine their businesses in order to, for example, obtain a greater market share or a better regional footprint, anti-trust clearance will be required, typically in multiple jurisdictions. Each competent regulator will have to ensure that competition in that market is not negatively impacted. The recent Tokyo Electron Ltd. and US Applied Materials Inc. transaction failed based on predominantly anti-trust grounds.\(^{45}\) Similarly, The London Stock Exchange Plc and Deutsche Börse AG’s (altogether) third attempt at combining

\(^{43}\) JP Morgan, supra note 38, at page 3.
\(^{44}\) JP Morgan, supra note 38, at page 3 and 9.
the companies announced in 2016 was blocked by the European Commission earlier this year due to anti-trust concerns.  

2. National security interests

Another regulatory obstacle that parties must bear in mind when contemplating a significant M&A transaction, including a MoE, is the re-emergence of nationalism and protectionism. This has influenced national legislation concerning the control of foreign investments and increased political interference in the merger review process. The review procedure of the Committee on Foreign Investment in the United States (“CFIUS”) is a good example. CFIUS is a US regulatory authority mandated to review certain foreign investments in US companies to determine whether such transactions are a threat to US national security. It may suspend, prohibit or even unwind the transaction post-completion if the transaction was not voluntarily submitted for CFIUS clearance.  

It is important to note that this mandate has also been applied extraterritorially, (including) to transactions with no apparent US nexus, which are nonetheless deemed to effect US national security interests (e.g. the prohibited takeover of German company Aixtron by the Chinese bidder Fujian Grand Chip Investment Fund LP). More recently, Germany introduced notification obligations regarding certain foreign investment transactions. Furthermore the European Commission announced plans to introduce measures for the vetting on security grounds of proposed foreign takeovers of companies in sensitive industries such as energy and high technology.

3. Political opposition

In the context of rising protectionist sentiment, several contemplated transactions encountered strong political opposition and failed to proceed. These included, inter alia, Pfizer Inc. and

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47 The CFIUS review practice is codified in The Foreign Investment and National Security Act of 2007 and CFIUS issued amended regulations in November 2008. These regulations are found in Chapter 31, Part 800, of the Code of Federal Regulations.  
51 J. Brunsden, “Juncker to lay out plans for screening foreign takeovers in EU”, Financial Times (2017) available at https://www.ft.com/content/b59475aa-9701-11e7-b83c-9588e51488a0.
AstraZeneca (2014)\(^\text{52}\) and the most recent attempt of the London Stock Exchange (LSE) Plc and Deutsche Börse AG to merge in the aftermath of the Brexit vote (2016)\(^\text{53}\). The merger of the turbine businesses of General Electric and Alstom (2015)\(^\text{54}\), which also encountered strong initial political opposition, completed in the end.

4. Cultural issues

Irreconcilable cultural differences between merging companies are another widely discussed reason for the failure of MoEs.\(^\text{55}\) Cultural clashes could include differences in business and operating procedures and style, decision-making processes, compensation philosophies and communication protocols. During the wave of MoEs in the late 1990s, cultural issues were predominant in causing the failure of several high profile MoEs post-completion.\(^\text{56}\) Again, during the most recent MoE wave they seem to have led to the abandonment of some MoEs even during the negotiation phase. This was the case, for instance, with the failed MoE of French Publicis Groupe SA and US Omnicom Group Inc in 2013.\(^\text{57}\) It follows that companies considering to frame their transaction as a MoE will need to carefully consider cultural issues and plan their post-completion strategy to ensure that the “[combined] company acquire[s] a personality of its own independent form its two predecessors”.\(^\text{58}\)

5. Shareholder opposition

Shareholders need to be convinced of the proposed merger’s strategic rationale and its financial terms, including projected cost, revenue and innovation synergies. They will require detailed information and communication concerning the deal process and analysis, in particular with respect to valuation and consideration of alternatives. It is, however, sometimes difficult to explain the benefits of a MoE and why it is deemed to be fair in the absence of a premium.

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\(^{54}\) See C. Oliver, “General Electric set to secure approval for Alstom deal”, Financial Times (2015) available at https://www.ft.com/content/25289654-50ae-11e5-8642-453585f2cfcd; the deal ultimately completed - see the deal completion announcement at https://www.gepower.com/about/alstom-acquisition.

\(^{55}\) I. Drori et al, supra note 2, at page 625.

\(^{56}\) S. Davidoff, supra note 7, at para 3.

\(^{57}\) M. Herndon, supra note 22.

\(^{58}\) A. Brew, supra note 26, at para 16.
Many corporate takeovers and mergers attract upon their announcement the interest of event-driven investors such as arbitrageurs and activists. This is especially true for cross-border MoEs, which require multiple transaction steps towards completion (each of which may be vulnerable to legal challenges).

Activist shareholder intervention in M&A transactions, and even more so in MoEs, must be distinguished from merger arbitrage. This is a strategy where an investor aims to benefit merely from the merger spread. A merger arbitrageur places a bet on the completion risk of a transaction subject to the fulfillment of certain conditions such as minimum acceptance rates or anti-trust clearance. By contrast, an activist investor actively attempts to exploit the opportunity arising upon the announcement of a M&A transaction, including a MoE, by acquiring shares (or share derivatives) to oppose it in order either to force an alternative, potentially more value accretive strategy or to demand better deal terms. The latter option is also referred to as “bumpitrage”. Both activists and arbitrageurs may also seek to benefit from the potentially attractive upside from a successful appraisal or minority shareholder squeeze-out process.

Although activist investors have been known to pursue M&A strategies such as inducing companies to consider an acquisition or to sell a division, or even bidding themselves, more recently they have often simply opposed deals. A recent study has shown that more than 20% of M&A related activist demands at North American (US and Canadian) companies since 2010 sought to prevent a transaction as proposed. Another study revealed that out of a total of 46 merger votes or tender offers at US companies with a market capitalisation exceeding $500 million, and which have been targeted by activist investors since 2010, 15 have failed to complete (12 of which were withdrawn, and 3 are still pending).

59 H. Bader/A. Georgieff “Shareholder Activism in Germany: Similar but different”, International Bar Association, Corporate and M&A Law Committee newsletter article, June 2015, at page 4.
60 H. Bader/A. Georgieff, supra note 59, at page 5.
62 Ibid.
63 M. Cole/D. Fisher/P. Mills in Practising Law Institute, Hot Topics in Mergers & Acquisitions (Sep 26, 2017), at page 7. For example, in the proposed and ultimately abandoned merger of Swiss Clariant AG and US Huntsman Corporation announced in May 2017, activist investors prevented the MoE from completing. Corvex Management, and 40 North Management disclosed that they had bought shares to raise their combined stake in Clariant to 20% to induce the company to pursue alternatives to the Huntsman deal. The activists also lobbied other investors to oppose the merger. They attacked the proposed deal for having “no strategic rationale” and said it is a “value destructive merger”. The activists also claimed that the two companies have little overlap in their product portfolios and in their manufacturing operations. Clariant investors would have owned 52% of the combined entity, with Huntsman’s shareholders owning the remainder. The deal would have needed approval of 66% of Clariant shareholders and a majority of Huntsman’s to be successfully completed. It was called off by the companies on 27th October 2017 due to “too much uncertainty” over whether shareholder approval could be obtained. See M. Bomgardner “Activist investors attack Clariant-Huntsman deal” Chemical & Engineering News (2017) available at https://cen.acs.org/articles/95/i28/Activist-investors-attack-Clariant-Huntsman.html?type=paidArticleContent; A. Schuetze et al “Clariant hires Goldman to fend off activist opposed to Huntsman merger” Reuters (2017) available at https://www.reuters.com/article/us-clariant-m-a-huntsman-c/clariant-hires-goldman-to-fend-off-activist-opposed-to-huntsman-merger-idUSKBN1AG18R; J. Miller “Corvex, NYC investment group seek to scuttle Clariant-
Inspired by the apparent success of activist investors, there is a trend amongst large active investment managers, passive index funds and proxy advisors to scrutinize M&A deals more closely. Corporate governance groups at the large index funds with authority to vote proxies will consider deal terms and activist investors’ arguments, and may vote against transactions. The number of M&A transactions opposed by Institutional Shareholder Services Inc. (“ISS”), the largest proxy advisory firm, has doubled from 2014 to 2016. In its 2016 Europe Summary Proxy Voting Guidelines, ISS states as key considerations for its M&A deal reviews, amongst others, a proposed transaction’s strategic rationale, valuation and the market’s reaction. Appendix 11 summarizes the equity market’s reaction to deal announcements during the current MoE cycle (2011 to 2016).

6. Third party takeover bid

Our analysis has also found that a meaningful number (24%) of announced MoEs failed to complete because one of the two companies seeking to merge became the subject of a takeover bid. Given that the shareholders of both merger parties need to approve the proposed MoE, and the typically lengthy timelines from announcement and obtaining all necessary regulatory consents to shareholder approvals and closing of the transaction (Appendix 12), this can put one or both companies “in play”. The MoE proposal will then compete with a premium bid where the consideration offered may be all cash, or at least a significant percentage in cash. This will make it difficult for the board of the target company to continue to pursue the MoE exclusively; and may make it difficult for the board to retain its recommendation to shareholders to vote for the MoE. This is frequently reflected in tight deal protection measures, including sizeable termination fees, and the agreement of so-called “force the vote” provisions (which require the merger parties to take the MoE proposal to their shareholders even if a board changes its recommendation following the receipt of a third-party bid).

64 ISS Analytics, referred to in Activist Insight, supra note 61, at page 8.


66 Wolf, supra note 5, at para 5.
VII. Conclusion

The perceived renaissance of MoEs is real. The current cycle of MoE activity commenced in 2012. Since then, there has been a clear upward trend in the number of deals announced, which reached a record level in 2016. Of all the deals comprising the sample data, 48 deals or 23% were cross-border transactions. Our analysis indicates that cross-border MoEs increase in frequency at a later stage in economic and financial market cycles.

MoE sponsors pursue these transactions with great enthusiasm as they promise transformational change without the financial leverage typically associated with large acquisitions. The average value of MoEs covered by this study amounted to €12.9 billion. MoEs are also meant to be entered into in a cooperative rather than a hostile spirit, broadly supported by all relevant constituencies.

However, MoEs are frequently received with a significant dose of scepticism. This is because many MoEs have transpired to be rather unequal. Some authors have therefore suggested that companies should stop calling these transactions “mergers of equals” but rather refer to them as “strategic combinations”. The perception of MoEs has also suffered due to significant value destruction associated with several high-profile transactions announced in the second half of 1990s.

The relatively substantial failure rate of MoEs in years of economic turmoil such as 2000, 2001, 2003 and 2008 is unsurprising. However, the (historically) above average failure rates in 2012, 2013 and 2015 during the current cycle are surprising, especially compared to the more than 90% success rate at the end of the 1990s during the first MoE cycle. This might be attributable to the fact that companies are now more inclined than in the past to withdraw from negotiations post-announcement if it becomes evident after further due diligence (both commercial and cultural) that post-completion integration and synergies would be too challenging (if not impossible) to achieve.

The unsuccessful MoE projects included in our study collapsed due to regulatory issues, political concerns, irreconcilable cultural differences between the merging companies, competing bids and, importantly, failure to convince shareholders of the proposed transaction’s strategic and/or financial rationale.

Cross-border deals have a much lower rate of success. 35% of all cross-border mergers announced during the sample period failed (17 of the 48 cross-border transactions announced), as opposed to the significantly lower 12% failure rate for domestic MoEs (20 of the 162 domestic transactions
announced). This does not come as a surprise given the numerous additional complexities associated with cross-border transactions, including differences in legal regimes and governance, investor relations, cultural environment, as well as the degree of political and regulatory attention. With the hurdle for cross-border mergers so much higher than for other types of transaction, (the) deal logic must be particularly compelling to compensate for completion risk and associated costs.

We had asked ourselves at the outset whether the widely held perception that MoEs bear a high risk of failure is supported by hard evidence. Our analysis clearly shows that cross-border MoEs, in particular, do indeed face many significant challenges. These cause every third such project to fail. On the other hand, the remaining deals have every chance to succeed and, as it were, to rise from the ashes of their unsuccessful predecessors.
Appendix 1: Total Announced MoEs by Equity Ownership Share

Appendix 2: Sample of recent relevant transactions

<table>
<thead>
<tr>
<th>Year</th>
<th>Deal</th>
<th>Deal Value (^{67})</th>
<th>Ownership Split</th>
<th>Premium (%) (^{68})</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>Siemens Mobility (a division of Siemens AG) / Alstom S.A. (^{69})</td>
<td>€15.1bn</td>
<td>50% / 50%</td>
<td>4.2%</td>
</tr>
<tr>
<td>2017</td>
<td>Huntsman Corporation / Clariant AG (^{70})</td>
<td>€12.4bn</td>
<td>48% / 52%</td>
<td>---</td>
</tr>
<tr>
<td>2017</td>
<td>Linde AG / Praxair Inc. (^{71})</td>
<td>€66.2bn</td>
<td>50% / 50%</td>
<td>7.0%</td>
</tr>
<tr>
<td>2016</td>
<td>London Stock Exchange Plc / Deutsche Börse AG (^{72})</td>
<td>€26.7bn</td>
<td>45.6% / 54.4%</td>
<td>10.0%</td>
</tr>
<tr>
<td>2015</td>
<td>The Dow Chemical Company / E. I. du Pont de Nemours and Company (^{73})</td>
<td>€121.0bn</td>
<td>50% / 50%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2014</td>
<td>Lafarge S.A. / Holcim Ltd. (^{74})</td>
<td>€40.1bn</td>
<td>46% / 54%</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

\(^{67}\) Combined market capitalization.

\(^{68}\) As per MergerMarket deal reports.


\(^{70}\) Premium of 37.9% based on Huntsman’s closing share price one month prior to the date of announcement; see Clariant deal announcement available at https://www.clariant.com/en/Corporate/News/2017/05/Clariant-and-Huntsman-to-Combine-in-Merger-of-Equals


\(^{72}\) See Deutsche Börse deal announcement available at http://deutsche-boerse.com/blob/2452464/7aebd2b4c6d7049799faa76d9f2f4d/data/Press_Release-1.pdf

Appendix 3A: Structural Considerations: Companies Merged Into a “Newco“

Pre announcement structure

<table>
<thead>
<tr>
<th>Step 1</th>
<th>Step 2 (after tender offer)</th>
</tr>
</thead>
<tbody>
<tr>
<td>One step mergers (if domestic) or simultaneous tender offers by NewCo</td>
<td>Integration of target companies into NewCo (if tender offer results in &lt;50% (US)* or &lt;75% (Germany)**)</td>
</tr>
</tbody>
</table>

### Pre announcement structure

- **Company A**
  - Shareholders: 100%
  - HQ Country A
  - Stock Exchange A

- **Company B**
  - Shareholders: 100%
  - HQ Country B
  - Stock Exchange B

### Step 1

- **NewCo**
  - Share for share exchange

### Step 2 (after tender offer)

- **Company A Shareholders**
  - [Share exchange] [52%]

- **Company B Shareholders**
  - [Share exchange] [48%]

- **NewCo**
  - Merger

* Short form merger (US)
** Domination agreement and/or squeeze-out (Germany)

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76 See Publicis Groupe SA deal announcement available at http://www.publicisgroupe.com/download/d349f515681c19f18b5717cb753df7a
Appendix 3B: Structural Considerations: One Merging Company Absorbs the Other

Pre announcement structure

<table>
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<tr>
<th>Company A</th>
<th>Company B</th>
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</thead>
<tbody>
<tr>
<td>Shareholders</td>
<td>Shareholders</td>
</tr>
<tr>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Company A
- HQ Country A
- Stock Exchange A

Company B
- HQ Country B
- Stock Exchange B

Alternative 1
B merges into A

<table>
<thead>
<tr>
<th>Company A</th>
<th>Company B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders</td>
<td>Shareholders</td>
</tr>
<tr>
<td>52%</td>
<td>48%</td>
</tr>
</tbody>
</table>

Merger*

Alternative 2
B merges into A preceded by a tender offer by A for shares of B

<table>
<thead>
<tr>
<th>Company A</th>
<th>Company B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders</td>
<td>Shareholders</td>
</tr>
<tr>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Share for share offer

Integration**

Appendix 4: Total Announced MoEs (1995-2016)

- Number of announced MoEs
- Trend line (polynomial regression)

Appendix 5: Average Deal Value (€ billion) of Total Announced MoEs
Appendix 6: Share of Cross-border MoEs (% of Total Announced MoEs)

Appendix 7: Failure to Complete Rate of Announced MoEs (% of Total Announced MoEs)

Appendix 8

Total Announced MoEs

- Cross-border: 48 deals (23%)
- National: 162 deals (77%)
- Total: 210 deals

Non-completed MoEs

- National: 20 deals (54%)
- Cross-border: 17 deals (46%)
- Total: 37 deals

Source: Mergermarket

Appendix 10: Key Reasons for the Failure (to Complete) of MoEs

10A: All Announced MoEs

- Competing bid 24%
- No shareholder approval 16%
- Regulatory issues 14%
- Developm. of business/market 11%
- Corporate governance/cultural issues 8%
- Others 8%
- Unknown 14%
- Changed to takeover 5%

37 deals

10B: Announced Cross-border MoEs

- Competing bid 29%
- No shareholder approval 6%
- Regulatory issues 17%
- Corporate governance/cultural issues 12%
- Unknown 12%
- Others 18%
- Changed to takeover 6%

17 deals
Appendix 11: Equity Market’s Reaction (Announced MoEs 2011-2016)

2 days after vs. 2 days prior to announcement

- Positive: 54%
- Negative: 38%
- Neutral*: 8%

30 days after vs. 2 days prior to announcement

- Positive: 49%
- Negative: 45%
- Neutral*: 6%

Note: * Neutral means a share price change from minus 1% to plus 1%

Appendix 12: Time between Announcement and Closing (Total Completed MoEs) (days)

- 1997: 156 d
- 1998: 184 d
- 1999: 222 d
- 2000: 219 d
- 2001: 222 d
- 2002: 201 d
- 2003: 201 d
- 2004: 222 d
- 2005: 222 d
- 2006: 214 d
- 2007: 161 d
- 2008: 169 d
- 2009: 166 d
- 2010: 173 d
- 2011: 169 d
- 2012: 166 d
- 2013: 173 d
- 2014: 169 d
- 2015: 166 d
- 2016: 173 d

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