2018 Intralinks
Annual M&A Leaks Report

A study by 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 *Intralinks Annual M&A Leaks Report* analyzes and reports on deal leaks globally. This report looks at deal leaks for the period from 2009-2017, while placing emphasis on the 2017 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.

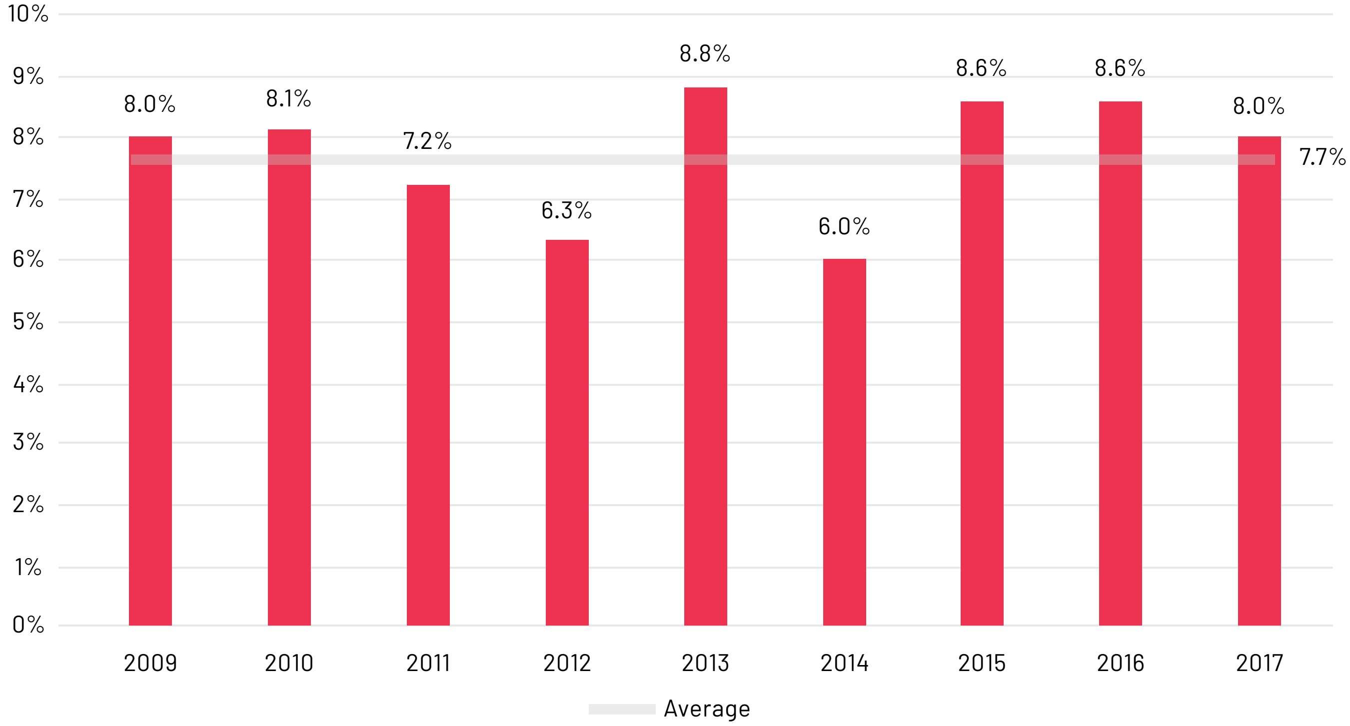
Methodology

M&A transaction data for announced deals during the period January 1, 2009 to December 31, 2017, share price and index price information were sourced from Thomson Reuters. 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 2009-2017 was 7,201. 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 refers to the target's primary listing location. The total number of leaked deals for the entire period was 558 out of the total number of deals of 7,201.

Key Findings

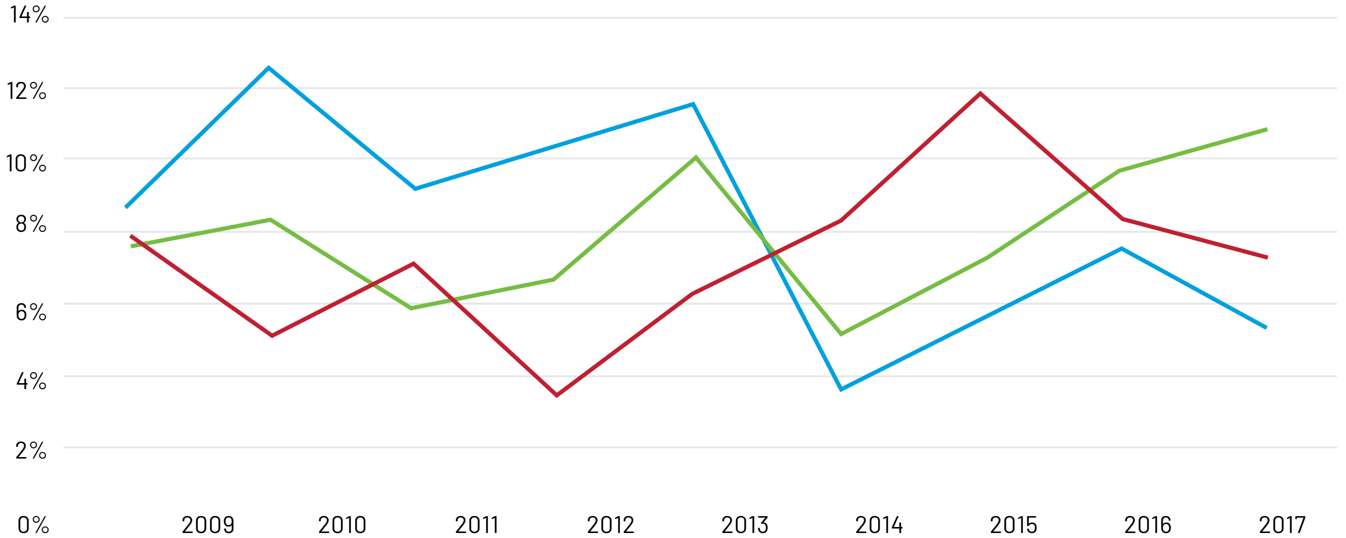
M&A deal leaks worldwide fell in 2017 compared to the prior year: 8 percent of all deals in 2017 involved a leak of the deal prior to its public announcement, compared to 8.6 percent in 2016. Despite the fall, the rate of leaks in 2017 was still above the average rate of deal leaks of 7.7 percent over the nine-year period from 2009-2017.

Figure 1. Percentage of worldwide M&A deal leaks, 2009-2017



Over the period 2009-2013, Europe, the Middle East and Africa (EMEA) had the highest average rate of leaked deals at 10.4 percent; Asia Pacific (APAC) had the second highest average rate of leaked deals at 7.6 percent; and the Americas had the lowest average rate of leaked deals at 6 percent. However, since 2014, this trend has reversed: in each of the last four years, the rate of deal leaks in the Americas and APAC has been higher than in EMEA. The rate of deal leaks in the Americas peaked in 2015 and has since declined in each of the past two years. The rate of deal leaks in APAC has increased in each of the last three years to a nine-year high in 2017, making APAC the region with the highest rate of deal leaks for the second year running. In EMEA, the rate of deal leaks in 2017 fell compared to the previous year.

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



	2009	2010	2011	2012	2013	2014	2015	2016	2017
Americas	7.9%	5.2%	7.1%	3.5%	6.4%	8.4%	11.9%	8.3%	7.3%
APAC	7.6%	8.3%	5.8%	6.7%	10.2%	5.2%	7.2%	9.7%	10.8%
EMEA	8.7%	12.5	9.2%	10.5%	11.6%	3.8	5.9%	7.6%	5.3%

Americas APAC EMEA

For the ten countries with the most M&A activity, the top three for deal leaks in 2017 were Hong Kong, India and the U.S. The bottom three countries for deal leaks in 2017 were France, Germany and South Korea.

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

Hong Kong's rate of deal leaks in 2017 more than doubled to 20.8 percent. The U.K.'s rate of deal leaks in 2017, at 1.5 percent, was the lowest for nine years. Three countries had no deal leaks at all in 2017: France, Germany and South Korea. South Korea's reduction in deal leaks was particularly dramatic, as the country had the second highest rate of deal leaks in 2016.

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

Target Listing Location	2017 (Rank)	2016 (Rank)	2009 - 2017 (Rank)
Hong Kong	20.8% (1)	10.0% (4)	16.1% (1)
India	14.3% (2)	16.7% (1)	15.3% (2)
United States	8.5% (3)	9.8% (5)	7.7% (6)
Japan	7.0% (4)	12.0% (3)	5.2% (8)
Canada	5.5% (5)	4.3% (10)	5.8% (7)
Australia	1.8% (6)	7.5% (7)	3.7% (10)
United Kingdom	1.5% (7)	7.0% (8)	10.7% (3)
France	0.0% (8)	4.3% (9)	9.2% (4)
Germany	0.0% (8)	9.1% (6)	8.4% (5)
South Korea	0.0% (8)	16.1% (2)	4.7% (9)

The top three sectors for deal leaks worldwide in 2017 were TMT (Technology, Media and Telecoms), Consumer and Retail. Only two sectors increased their rate of deal leaks in 2017: TMT and Healthcare. The Real Estate sector, which has the highest long-term average rate of deal leaks, continued its fall to seventh place in 2017. The bottom three sectors for deal leaks worldwide in 2017 were Financials, Real Estate and Energy & Power.

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

Target Sector	2017 (Rank)	2016 (Rank)	2009 - 2017 (Rank)
TMT	12.1% (1)	8.5% (5)	8.0% (4)
Consumer	11.3% (2)	15.5% (1)	9.4% (2)
Retail	11.1% (3)	12.2% (2)	7.5% (5)
Healthcare	7.5% (4)	5.0% (9)	7.0% (7)
Industrials	7.1% (5)	7.2% (7)	8.2% (3)
Materials	6.1% (6)	8.9% (4)	7.3% (6)
Financials	6.0% (7)	7.6% (6)	6.9% (8)
Real Estate	6.0% (7)	9.4% (3)	9.8% (1)
Energy & Power	2.6% (8)	5.6% (8)	6.1% (9)

Leaked deals are associated with significantly higher target takeover premiums than non-leaked deals. This has been true in each of the nine years analyzed for this report: from 2009-2017, the median takeover premium for leaked deals was 44.4 percent vs. 26.5 percent for non-leaked deals, a difference of almost 18 percentage points.

In 2017, targets in leaked deals achieved a median takeover premium of 34.4 percent vs. 20.6 percent for non-leaked deals, a difference of almost 14 percentage points. This was an increase from 2016, when the difference was around 12 percentage points.

Figure 5. Median worldwide target takeover premium (%)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2009 - 2017
Leak	34.4%	38.2%	53.5%	36.9%	48.4%	41.7%	63.8%	40.3%	77.8%	44.4%
No Leak	20.6%	26.1%	23.7%	21.4%	24.2%	31.8%	27.5%	28.8%	31.2%	26.5%

Historically, leaked deals have been associated with a higher rate of rival bids for the target than non-leaked deals: from 2009-2017, a higher proportion of leaked deals attracted one or more rival bids for the target than non-leaked deals in five out of the nine years. However, in 2017, for the second year running, the rate of rival bids for leaked deals was less than for non-leaked deals. The historic tendency of leaked deals to attract a higher rate of rival bids for the target may partly explain the higher target takeover premiums for leaked deals, so it is interesting to note that the breakdown of this relationship in 2016 and 2017 occurred at the same time as a reduction in the difference in the target takeover premium between leaked and non-leaked deals.

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2009 - 2017
Leak	1.0%	3.6%	6.4%	11.6%	9.8%	6.5%	5.3%	7.7%	5.8%	5.7%
No Leak	4.4%	4.8%	4.4%	5.8%	7.0%	5.9%	6.3%	6.2%	7.2%	5.7%

There is some evidence that leaked deals, on average, take longer to complete than non-leaked deals (although not in 2016 or 2017): from 2009-2017, leaked deals took longer to complete than non-leaked deals in five of the nine years. Analyzing the five years when leaked deals took longer to complete shows that the median difference in those years was 13 days, whereas in the four years when non-leaked deals took longer to complete, the median difference was 11 days.

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2009 - 2017
Leak	56	72	90	108	77	62	92	84	81	77
No Leak	70	82	82	89	80	74	75	82	63	77

One theory for the increased 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 2009-2017, leaked deals had a higher completion success rate than non-leaked deals in six of those years, whereas in the other three years non-leaked deals had a higher completion success rate. Overall, on average, for the period 2009-2017, the completion success rate for leaked deals was one percentage point higher than for non-leaked deals. In the last three years, however, the completion success rate for leaked deals has been over two percentage points higher, on average, than for non-leaked deals.

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2009 - 2017
Leak	92%	96%	90%	95%	84%	98%	82%	85%	90%	90%
No Leak	91%	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 2017 the difference in the median target takeover premium for leaked deals compared to non-leaked deals was US$7.7 million, i.e., an average of an extra US$7.7 million accrued to the shareholders of the targets in deals that leaked. However, this was the lowest "leak premium" difference for nine years.

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2009 - 2017
Leak	17.0	82.4	110.0	316.6	36.7	45.3	80.7	38.9	22.5	44.5
No Leak	9.3	26.9	18.2	25.6	28.1	35.7	29.7	28.7	13.5	23.5
Leak vs. No Leak	7.7	55.5	91.8	291	8.6	9.6	51	10.2	9	21

Conclusions

M&A deals leaks are a function of a number of competing pressures. Our research has conclusively shown that leaking deals leads to higher takeover premiums. Therefore, there is an economic incentive on the sell-side of a deal to engage in a leak which may increase the valuation of the target. However, financial services regulators worldwide are increasing regulations and enforcement against what they consider to be different forms of market abuse, including M&A deals leaks.

A statement from the U.K.'s Financial Conduct Authority's *Market Watch* newsletter in 2010 perfectly illustrates this trend: "Strategic leaks, designed to be advantageous to a party to a transaction, are particularly damaging to market confidence and do not serve shareholders' or investors' wider interests. It is therefore in all interests to ensure that senior management of all organizations who handle inside information establish (and are seen to establish) a much stricter culture that firmly and actively discourages leaks."

Therefore, M&A dealmakers must weigh the perceived benefits of leaking deals against the regulatory and reputational risks if they are caught. High-profile cases, such that of Ian Hannam[1] in the U.K., have undoubtedly focused minds among dealmakers and contributed to the decline in the rate of deal leaks in developed markets.

While the worldwide rate of M&A deal leaks fell in 2017, the APAC region continued to see an increase. This is undoubtedly a reflection of a less well developed regulatory and enforcement environment against market abuse in that region, as well as a culture of greater acceptance of deal leaking. As developing markets align their regulatory standards and levels of enforcement with developed ones, we can expect the worldwide trend in deal leaks to continue to fall.

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 cass.city.ac.uk or on Twitter follow @cassbusiness.

About Intralinks

Intralinks is a leading financial technology provider for the global banking, deal making and capital markets communities. As pioneers of the virtual data room, Intralinks enables and secures the flow of information facilitating strategic initiatives such as mergers and acquisitions, capital raising and investor reporting. In its 22-year history Intralinks has earned the trust and business of more than 99 percent of the Fortune 1000 and has executed over US$34.7 trillion worth of financial transactions on its platform.

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References

[1] In February 2012, the U.K. financial services regulator fined Mr. Hannam, the former Chairman of Capital Markets at J.P. Morgan and global co-head of U.K. Capital Markets at J.P. Morgan Cazenove, £450,000 for improper disclosure of inside information contrary to section 118 (3) Financial Services and Markets Act 2000. The Upper Tribunal found that Mr. Hannam had leaked inside information in an email about a potential M&A deal that one of his clients may be involved in as the target. No insider trading occurred in this case, but Mr. Hannam received a heavy fine and the disgrace of a court appearance, and he resigned from J.P. Morgan.

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