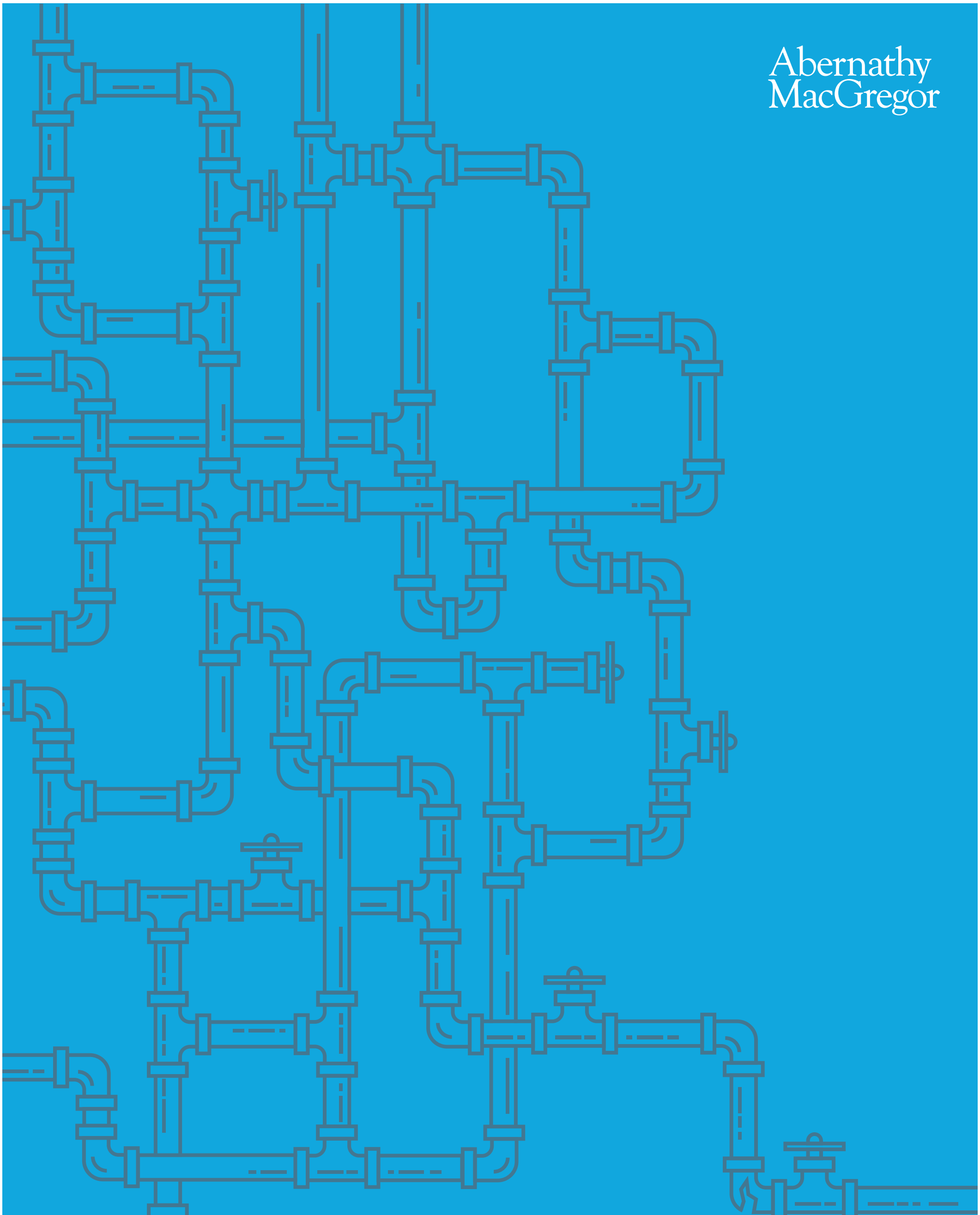
Abernathy MacGregor



VOLUME 2

When deals spring a leak

An analysis on the predictability of deal leaks

“How do we avoid a leak?”

It is the first question from corporate leaders embarking on an M&A process. Preparing for and managing through leaks is a fact of life in the world of transactions.

Our inaugural report on deal leaks revealed how this point of risk impacts M&A communications. The report identified the prevalence of leaks for large transactions, showing that nearly half of deals were reported on prior to announcement. Our first report also showed that leaks steal media attention from deal announcements, which can meaningfully impact the narrative set with stakeholders.

If leaks are so prevalent, then can we use data to anticipate this risk? In our second analysis, we sought to examine the predictability of leaks. We reviewed how often deals leak year-over-year and how many days prior to announcement leaks typically occur, how the frequency of leaks changes across industries and if there is a seasonality component to when leaks may occur.

Our study used the “AMG Deal Database,” a specific set of transactions for which Abernathy MacGregor has compiled related communications data. We reviewed 339 transactions dating back to 2015 with announcement values of $5 billion or greater in enterprise value, as recorded by Mergermarket, and where at least one party (buyer or target) was based in the United States.

No leak slowdown in the pandemic

48% of transactions are publicly reported on *prior* to announcement

Leaks are **SEASONAL**

Deals are almost

2x

more likely to leak in the summer than in the winter

MEGA DEALS can’t be kept secret

86%

of deals above $76bn in enterprise value leaked

Some **sectors** leak more than others

67% of telecoms deals leaked

29% of energy sector deals leaked

31% of leaks happen right at the finish line

Most leaks occur a week or more before announcement day

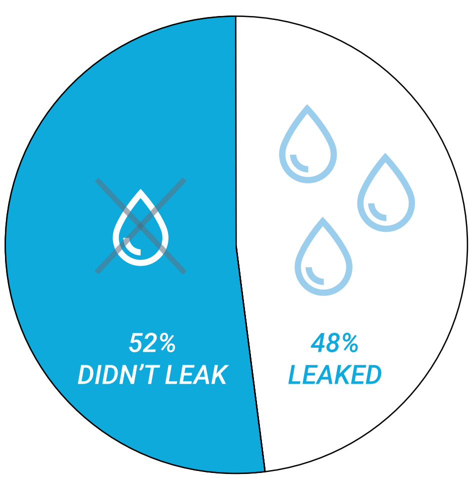
No leak slowdown in the pandemic.

COVID proved no match for the allure of leaks.

Our study has shown that, on average, nearly half of all major* deals over the past six years were publicly reported on prior to the company announcement. This review only accounts for transactions that were ultimately announced, leaving out a potentially large portion of "dead" deals that fell apart.

With the onset of a global pandemic sending dealmakers to virtual environments, one might expect a reduction in leaks as social settings and loose lips disappeared as a risk. Somewhat surprisingly though, leaks showed no signs of slowing, even in a global pandemic. In 2020, exactly 48% of major deals leaked, perfectly in line with the six-year average.

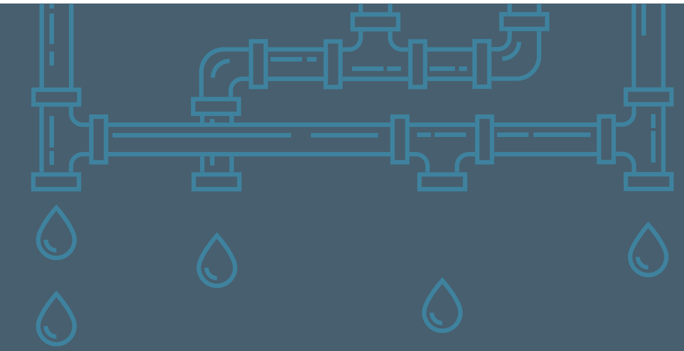
The most concrete takeaway from this finding is the affirmation of the sophistication and capability of M&A media at the leading financial outlets to break this type of news even in a work-from-home environment. The sole goal of these media is to break news before it becomes public.



2015-2020 Leaked Deals Percentage

Nearly half of all major* deals over the past six years were publicly reported on prior to the company announcement.

* Study exclusively examined transactions defined as $5bn or greater in enterprise value as recorded by Mergermarket



Leaks are seasonal.

Leaks are clearly prevalent each and every year. But are they a consistent risk throughout the entire year? Our analysis found that seasonality had a significant impact on the frequency of leaks. Deals announced in the summer had a 57% chance of suffering a leak whereas deals with a winter announcement typically had just a 42% chance of leaking. For deals announced in the spring and fall, their likelihood of leaking was nearly 50%. Notably, over the past six years we have seen a fairly even distribution of deals through the seasons.

Leak Percentage by season

Winter	Spring	Summer	Fall
Dec 1 – Feb 28	Mar 1 – May 31	Jun 1 – Aug 31	Sep 1 – Nov 30
42%	47%	57%	46%

The frequency of leaks tends to change with the seasons.

The reason for this 15-point change between winter and summer is difficult to discern. It is possible that a more social season through the summer could influence this result, but that assertion is undermined by the consistency of leaks through the pandemic. While it's clear the M&A rumor mill slows through the winter, reporters are still able to report on nearly half of all major deals – so there is no reason to relax.

Mega deals can't be kept secret.

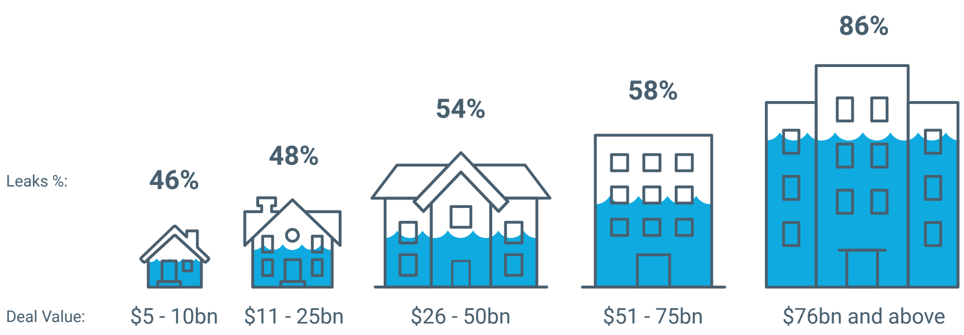
In addition to seasonality, value has a sizeable impact on leak frequency. Generally, the larger the deal, the more likely it is to leak.

We organized our data set into five distinct enterprise value ranges: $5 to $10 billion, $11 to $25 billion, $26 to $50 billion, $51 to $75 billion, and $76 billion and up. Our analysis found that as the size of the deal increased, so did the risk of a leak. We found that the increase in leak likelihood was fairly gradual from the $5 billion to the $75 billion range deals. These deals leaked between 46% and 58% of the time. However, for deals with an enterprise value of $76 billion and greater, there was a spike in the leak likelihood with 86% of the deals we examined in that grouping reported on prior to announcement.

This perhaps is an expected finding. Mega-mergers require a much broader net of involved dealmakers and company executives. Reporters are always on the hunt for the "big one," creating a competitive focus any time these larger deals are suspected to be in the offing.

As the size of deal increased, so did the likelihood of a leak.

As mega-deals disappeared for much of 2020 due to the pandemic, we saw an interesting shift in this trend. Throughout the year, a higher percentage of lower value deals leaked while larger deals leaked at a far lower rate. Deals ranging from $5 to $25 billion in enterprise value leaked roughly 50% of the time, slightly above the six-year trend. The larger deals, those $26 to $50 billion in enterprise value, leaked just 33% of the time.



Some sectors leak more than others.

Our analysis also found that certain sectors are more prone to leaks than others. Highly visible sectors including retail, technology, telecommunications and media all have a clear track record of a higher rate of leaks. Over two-thirds of the more than 60 deals in the telecommunications, media and technology space (TMT) have leaked in the past six years. Conversely, only 29% of the 52 energy sector transactions leaked.

67% of telecoms deals leaked

Notably, as demonstrated in our recent congressional letters research, deals in the media and telecommunications sectors are not only more likely to leak, but also more likely to get the attention of Congress.

It should come as no surprise that deals in sectors that comprise highly visible consumer brands and impact broad parts of the economy draw more attention. The combined political scrutiny and high leak risk for certain sectors should encourage careful attention to confidentiality.

29% of energy sector deals leaked

Getting to the finish line is hard.

There is a broad suspicion in the dealmaker community that deals often leak shortly prior to announcement. This could be intentional and strategic, but also a reflection of leak risk rising as deal announcement certainty rises.

A strong majority of leaks occur several days, or more, before the company's announcement.

The data doesn't show that this is the riskiest window for deals, though. Just under a third of leaks happen right at the finish line – the day of or a day prior to announcement. That means a strong majority of leaks occur several days, or more, before the company's announcement. Anyone who has been through a large deal knows firsthand that there is no such thing as certainty until signature pages are exchanged.

Notably, we saw another interesting pandemic impact in this data. Last year there was a meaningful increase in the percentage of deals that leaked the day of or day prior with 40% of leaks falling in this timeframe.

Our Recommendations

Put a Plan on the Shelf

Even for well-known brands, a leak can have a meaningful impact on a company's reputation and on the integrity of deal negotiations. Thoughtful, integrated, compelling omni-channel communications can take time to create – time that deal talks don't always allow, particularly if your sector, the size of your transaction and the timing of your deal make it more susceptible to a leak. It is difficult to plan for everything, but solid foundational work can be done around broad scenarios. Companies should think through acquisition communications early in the process to put a framework in place

Engage Communicators Early

Often communicators are kept at arm's length in early deal talks. Things are fluid and a transaction is never assured. However, a small group of communicators can add real value in serving as an early warning on leaks, managing leaks if they arise and setting a framework in place to maximize any announcement

Set a Tone at the Top

Everyone knows that leaks are problematic. But they happen a lot and as our analysis has found, more and more frequently. The most leak-proof deal processes start with a tone at the top. When Boards and CEOs make it explicit early and often that confidentiality is paramount and leaks will not be tolerated, we see fewer leaks

Adapt to the Leak

Once a deal has leaked, negotiators tend to go heads down to work frantically to sign a deal. However, communicators must work heads up in the new reality. Leaks start the conversation with stakeholders, even if the companies aren't speaking. The best announcements recognize that fact and find a way to join the conversation with stakeholders to gain their acceptance and support.

About Abernathy MacGregor

Abernathy MacGregor is a leading strategic communications advisor. The firm provides communications, engagement and advocacy expertise that helps clients build and preserve value, seize opportunities and solve problems in today's highly complex, dynamic and interconnected world. Since 1984, the firm has brought to every engagement superior, customized strategies and an intensely collaborative and high-energy commitment to its clients. Abernathy MacGregor operates from offices in New York, Houston, Los Angeles, San Francisco and Washington, D.C. and is a founding member of AMO, which is the leading international network of strategic communications consultancies

A recognized leader in M&A communications

Abernathy MacGregor consistently ranks as a top adviser in M&A in the U.S. and globally. With a distinctive data-driven practice and a tailored approach that incorporates a focus on all stakeholders, the M&A team has established itself as the leader in transformative transactions. The firm ranked #1 in 2019 worldwide deals based on average transaction size and has advised on more than 1,000 transactions in the past decade. The firm offers comprehensive transaction communications services reaching all stakeholder groups across all channels. The team supports clients prior to announcement, on announcement day, in securing key approvals and through integration.

#1

International network, AMO, ranked first in 2020 by deal count

1000+

*Transactions advised on in the past decade**

Key Definitions and Methodology

Deal Criteria

Period of Analysis:
Data set features transactions announced from January 2015 to December 2020

Size Consideration:
Announcement value of $5bn or greater in enterprise value as recorded by Mergermarket

Geographic Consideration:
Data set includes transactions where at least one party (buyer or target) is based in the United States

Volume of Deals: 339

"Leak"

For purposes of this study, a "leak" was defined as a deal-related media mention of both bidder and target company names prior to company disclosure of deal negotiations or an announced transaction

For further information please contact:

Pat Tucker, Managing Director (PCT@abmac.com)
Eliza Ruggiero, Senior Vice President (EPR@abmac.com)
Amal Robleh-Gessel, Senior Researcher (ARG@abmac.com)

Abernathy MacGregor

NEW YORK HOUSTON LOS ANGELES SAN FRANCISCO WASHINGTON, D.C.