

Article

# UK mergers and acquisitions in context, activity by industry: 2015 to 2017

Transactions that result in a change of ultimate control of the target company, analysed at an industry group level.

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# 1 . Main points

- Outward and domestic mergers and acquisitions (M&A) activity has followed a downward trend in number terms since the early 1990s, while inward activity has experienced a less pronounced trend.
- Cross-border M&A activity has increased in value, particularly for inward deals in recent years, while domestic M&A activity has notably fluctuated in value.
- New analysis finds that most (almost three-quarters) domestic M&A deals from 2015 to 2017 occurred between companies in the same industry group.
- New industry figures show that a few high-value deals in manufacturing, and professional and support industries dominated the value of inward M&A in 2016.
- Between 2016 and 2017, a few very high-value deals in both manufacturing, and professional and support services led the increases in the value of international M&A activity.
- Around one-quarter of inward and outward M&A deals between 2015 and 2017 involved UK companies in professional and support industries; manufacturing companies also accounted for a large share of outward deals, while information and communication were more prominent for inward M&A deals.

## 2 . Introduction

Office for National Statistics (ONS) collects data on mergers and acquisitions (M&A) involving UK companies. These are published for transactions above £1 million that result in a change of majority share ownership (at least 50.1% of ordinary shares) upon completion of the deal. M&A can be classified into:

- outward: acquisitions by UK companies abroad
- inward: acquisitions in the UK by foreign companies
- domestic: acquisitions in the UK by other UK-based companies

M&A statistics can be grouped by industry for inward, outward and domestic transactions. These are defined using the [UK Standard Industrial Classification of Economic Activities 2007: UK SIC 2007](#) and those used in this analysis can be found in Annex 1. This article uses the following industrial groupings:

- manufacturing
- wholesale, transportation and accommodation
- information and communication
- financial and insurance
- professional and support
- other

This article provides an overview of M&A activity, with a specific focus on the industrial composition of M&A deals. We classify industries from the UK perspective of M&A deals. When looking at outward M&A, we will investigate the industry of the acquiring company, whereas inward deals are examined by the industry of the acquired (or target) company. Domestic deals will be examined to see if the industry group of the acquiring business is the same as that of the acquired business, as industrial information is available for both. Information on quarterly M&A activity can be found in the [latest statistical bulletin](#).

### **3 . Overview of M&A since 1988**

#### **The overall number of M&A deals have declined since comparable records began, although we do see an uptick in activity during the 2015 to 2017 period**

Headline mergers and acquisitions (M&A) transaction numbers and values can be volatile when comparing annual figures, therefore the total values and numbers of deals presented in Table 1 have been grouped into three-year intervals to examine longer-term underlying trends in the data.

The overall number of M&A – inward, outward and domestic combined – completed have followed a downward trend since comparable records began, although this mainly reflects declines in outward and domestic deals. While the overall number of deals has declined, the overall value has increased, mainly due to increases in the value of cross-border M&A. The values of domestic M&A deals have tended to fall since the early 2000s.

The number of outward M&A deals (acquisitions abroad by UK companies) has followed a general downward trend over the three-year periods shown in Table 1, with declines in six of the nine periods presented. There were 1,915 outward transactions completed in 1988 to 1990, which fell to 293 by the 2012 to 2014 period, before rising to 461 in the three years following. Over the same period, the value of outward M&A deals has been more varied. The highest values in outward M&A activity were recorded in 2000 to 2002 (£249 billion), while the £26 billion recorded in 1991 to 1993 was the lowest seen over the period. In addition to the recovery in the number of outward M&A deals in 2015 to 2017, values also recovered to £120 billion.

Table 1: Overview of mergers and acquisitions transactions by number and by value, UK, 1988 to 2017

	Value (£ billion)			Number		
	Inward	Outward	Domestic	Inward	Outward	Domestic
<b>1988-1990</b>	29	53	58	410	1915	3615
<b>1991-1993</b>	16	26	23	623	1750	1464
<b>1994-1996</b>	28	41	72	466	1229	1763
<b>1997-1999</b>	109	185	83	697	1623	1634
<b>2000-2002</b>	106	249	161	506	1190	1509
<b>2003-2005</b>	90	72	75	549	913	2068
<b>2006-2008</b>	212	125	92	780	1144	2206
<b>2009-2011</b>	102	73	33	561	603	984
<b>2012-2014</b>	64	..	19	412	293	693
<b>2015-2017</b>	259	120	50	656	461	1032

Source: Office for National Statistics

#### Notes

1. Figures are grouped into three-year periods. [Back to table](#)
2. At Quarter 1 2010, the deal identification threshold was raised for the mergers and acquisitions surveys from £0.1 million to £1 million. There is therefore a discontinuity in the number of transactions reported as illustrated in the table. [Back to table](#)
3. Outward M&A excludes data for 2012-2014 due to suppressed data values (".." indicates data are disclosive.). [Back to table](#)
4. Figures may not exactly match those published due to rounding. [Back to table](#)

The number of inward M&A deals appears more stable than trends seen in the outward and domestic M&A series. There were 410 acquisitions in 1988 to 1990, which increased to 780 inward deals in 2006 to 2008 – albeit with some fluctuations in between. Following the financial crisis, the number of deals fell for two consecutive periods, reaching 412 in 2012 to 2014, before recovering in 2015 to 2017 with 656 deals.

In contrast, the values of inward M&A have followed a broadly upward trend over time, rising from £29 billion in 1988 to 1990 to £212 billion by 2006 to 2008. The value of M&A inward deals fell between 2009 and 2014, before reaching a record £259 billion in 2015 to 2017. The pick-up in activity in recent years reflects the impact of some very high-value deals (each above £10 billion) completed in 2016. More information can be found in [UK mergers and acquisitions activity in context: 2016](#).

The number of domestic M&A deals showed an overall downward trend, falling from 3,615 deals in 1988 to 1990 to 1,032 deals by 2015 to 2017. A medium-term upward trend is noticeable between 1991 and 2008, where the number of deals increased from 1,464 to 2,206, the second-highest number since 1988. Domestic M&A values tended to increase until 2000 to 2002, reaching £161 billion in those three years, before later reversing this trend. Yet there are signs that domestic M&A activity is increasing in recent years; deals in 2015 to 2017 more than doubled the value recorded in the three years to 2014, increasing from £19 billion to £50 billion.

## **4 . The nature of domestic M&A activity**

### **M&A deals may occur between companies in the same or different industries**

This section considers the nature of domestic UK mergers and acquisitions (M&A) activity, looking specifically at whether companies acquire other businesses within a similar industry group (intra-industry) or companies operating in different industry groups (extra-industry). If a company acquires another business within the same industrial classification, this is labelled as a “same industry merger”, otherwise it is labelled as a “different industry merger”. The level of industrial classification breakdown is shown in Annex 1.

Intra-industry mergers occur when two companies belonging to the same industry group combine into a single unit in terms of ownership. The motive behind acquiring competitors – referred to as horizontal integration – can be to increase market share and product range. It is important to point out that if the two companies belong to a different sub-industry of the same industry group (for example, food manufacturing and metal manufacturing) the motive may be different.

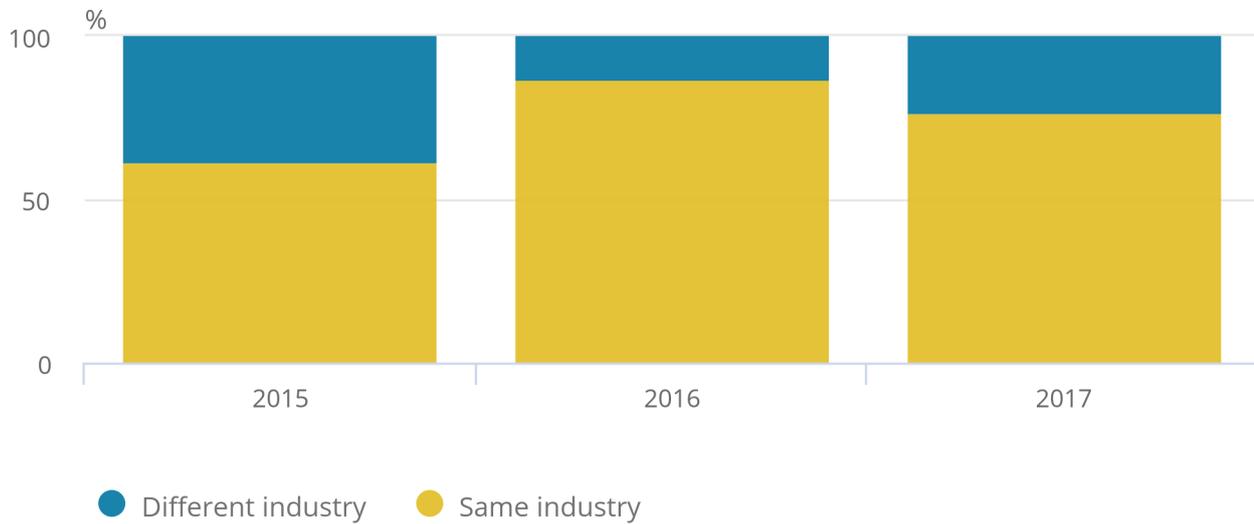
In contrast, extra-industry mergers may arise when a company decides to acquire another at a different level within their supply chain to improve efficiency and reduce costs – referred to as vertical integration. Such an example would be a car dealership (retail and wholesale) acquiring a tyre factory (manufacturing). Mergers can also occur between companies in industries with little or no relevance with each other, creating a conglomerate. The main motives are often diversification risk or raising capital, among others.

### **Most domestic M&A deals occur between companies operating within the same industry grouping**

The total value of domestic M&A activity between 2015 and 2017 was £50.4 billion; four-fifths (80%) of which occurred between companies operating within the same industry group, and the remainder involving businesses operating in different industries. The dominance of same industry mergers is observed in each of the three years presented in Figure 1. This is especially notable in 2016, where approximately nine-tenths (87%) of all domestic M&A activity was between companies in the same industry group.

**Figure 1: Proportions of domestic mergers and acquisitions activity into industry types by value, UK, 2015 to 2017**

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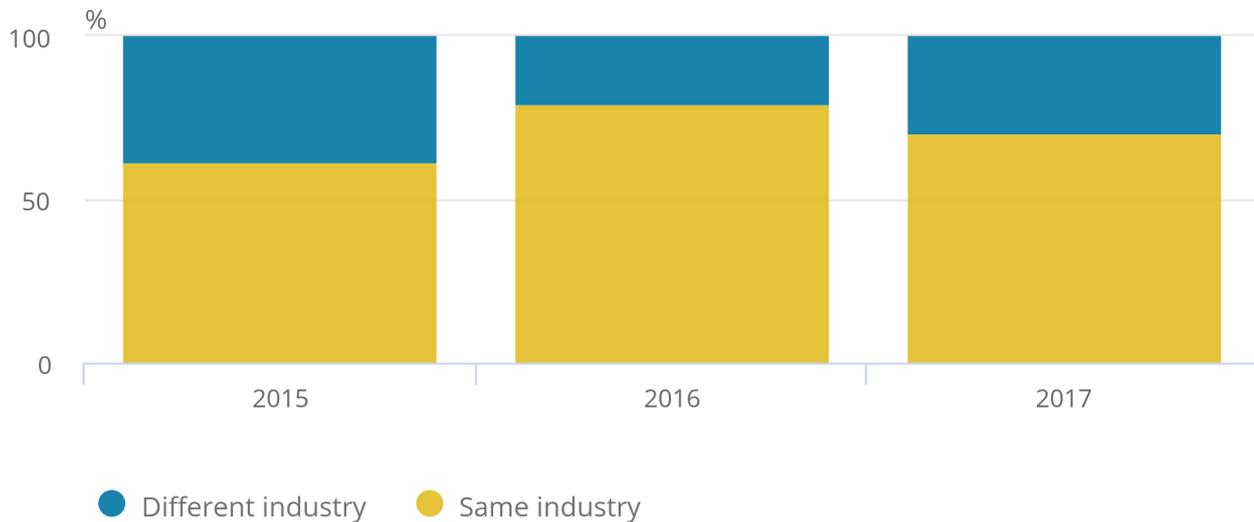


**Source: Office for National Statistics**

The number of domestic M&A deals showed a similar trend to that observed in value; most M&A deals recorded occurred between companies operating in the same industry group in all years presented, ranging from three-fifths (62%) in 2015 to four-fifths (80%) in 2016, as shown in Figure 2.

**Figure 2: Proportion of domestic mergers and acquisitions activity into industry types by number, UK, 2015 to 2017**

Figure 2: Proportion of domestic mergers and acquisitions activity into industry types by number, UK, 2015 to 2017



Source: Office for National Statistics

### **Companies within the wholesale, transportation and accommodation industry group completed the highest proportion of domestic intra-industry M&A activity**

Analysis was also undertaken on the industry breakdowns of both the acquiring and target company. Figure 3 presents these results for the main industry groupings and highlights how most of the M&A values recorded between 2015 and 2017 occurred among companies in the same industry group.

Most of the values of M&A activity for the main industries presented were intra-industry; though proportions ranged from two-thirds (68%) for acquirers in manufacturing industries, to 87% for acquirers in wholesale, transportation and accommodation industries. The largest proportion of extra-industry M&A activity involved acquirers in the manufacturing industry group, where one-fifth (19%) of acquisitions were of companies within the wholesale, transportation and accommodation industry grouping.

### **Figure 3: Distributions across industries of domestic mergers and acquisitions deals by value, UK, 2015 to 2017**

Notes:

1. For the purposes of this analysis, mining and quarrying industries were placed within the "other" industrial grouping.
2. The four largest industry groups by value are analysed for acquiring businesses to mitigate disclosure risk.

Similar trends are observed when analysing the numbers of deals, where most M&A deals are intra-industry in the industries examined; the lowest proportion in terms of number were by businesses in financial and insurance services (68%), whereas the highest proportion were by businesses in wholesale, transportation and accommodation services (82%) (Figure 4).

#### **Figure 4: Distributions across industries of domestic mergers and acquisitions deals by number, UK, 2015 to 2017**

##### **Notes:**

1. For the purposes of this analysis, mining and quarrying industries were placed within the "other" industrial grouping.
2. The four largest industry groups by value are analysed for acquiring businesses to mitigate disclosure risk.

## **5 . Inward M&A industrial composition**

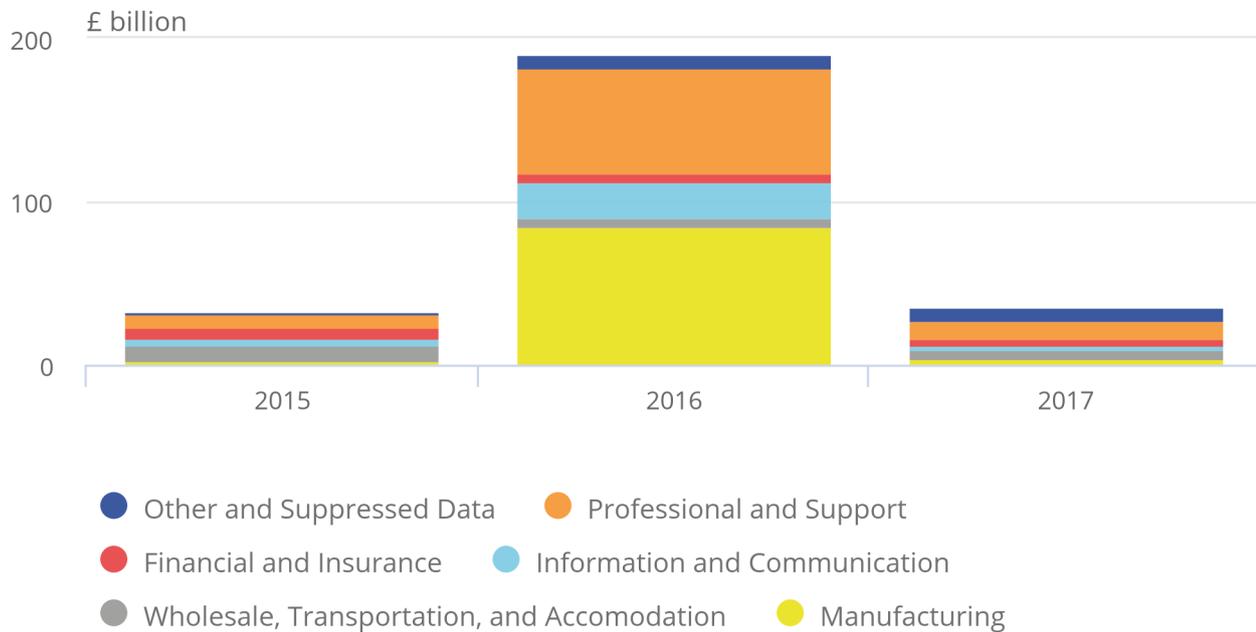
### **A few high-value deals dominated the value of foreign acquisitions of UK firms in 2016, in the manufacturing, and professional and support industries**

Acquisitions of UK companies by foreign investors are presented by industry in Figure 5. The figure suggests the demand for acquisition of UK firms by foreign investors has been diverse, with all industry groupings presented accounting for over one-tenth (10%) of the value of inward mergers and acquisitions (M&A) in at least one of the three years presented.

The sharp increase in the value of inward M&A transactions over 2016 is explained by a small number of high-value deals. These are explained in more depth in our [UK mergers and acquisitions activity in context: 2016](#). The total value of inward M&A activity in the other years presented is much more in line with historical data. This suggests that these few high-value inward M&A deals in 2016 led the increase in value for this year. Financial and insurance services was the only industry group to show a decreasing trend in value for the 2015 to 2017 period, although this was not reflected in proportions due to the unusually large value of inward M&A activity in 2016.

**Figure 5: The value of inward mergers and acquisitions deals by industry, UK, 2015 to 2017**

Figure 5: The value of inward mergers and acquisitions deals by industry, UK, 2015 to 2017



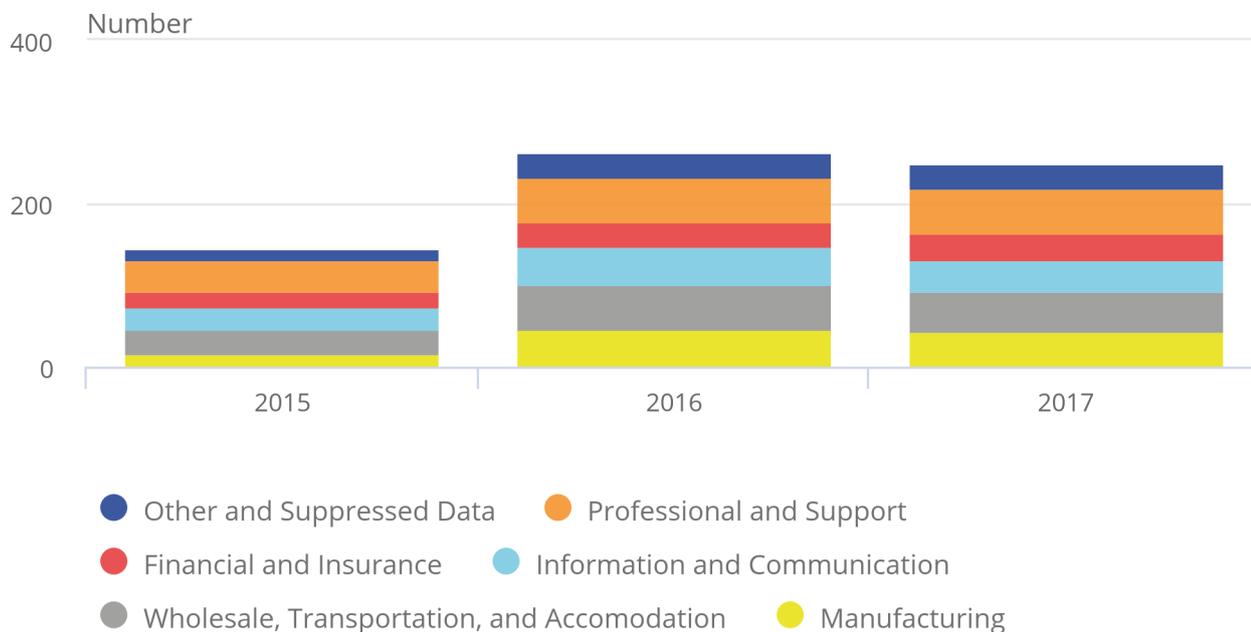
**Source: Office for National Statistics**

The industrial composition of inward M&A by number also shows a diverse demand for UK companies, with every industry group accounting for one-tenth or more in at least one year of the three years presented. No industry groups played a dominant role in the number of inward M&A deals over this time, although professional and support industries represented the largest proportion of deals in 2015 and 2017, and the second-largest proportion in 2016.

Despite the number of foreign acquisitions of UK companies in the professional and support industry and manufacturing industry groupings increasing in 2016 from the previous year, the average value of these deals was considerably larger in 2016 than in 2015. The average deal value was also much higher in 2016 than in 2017; this is due to a small number of previously mentioned high-value deals.

**Figure 6: The number of inward mergers and acquisitions deals by industry, UK, 2015 to 2017**

Figure 6: The number of inward mergers and acquisitions deals by industry, UK, 2015 to 2017



Source: Office for National Statistics

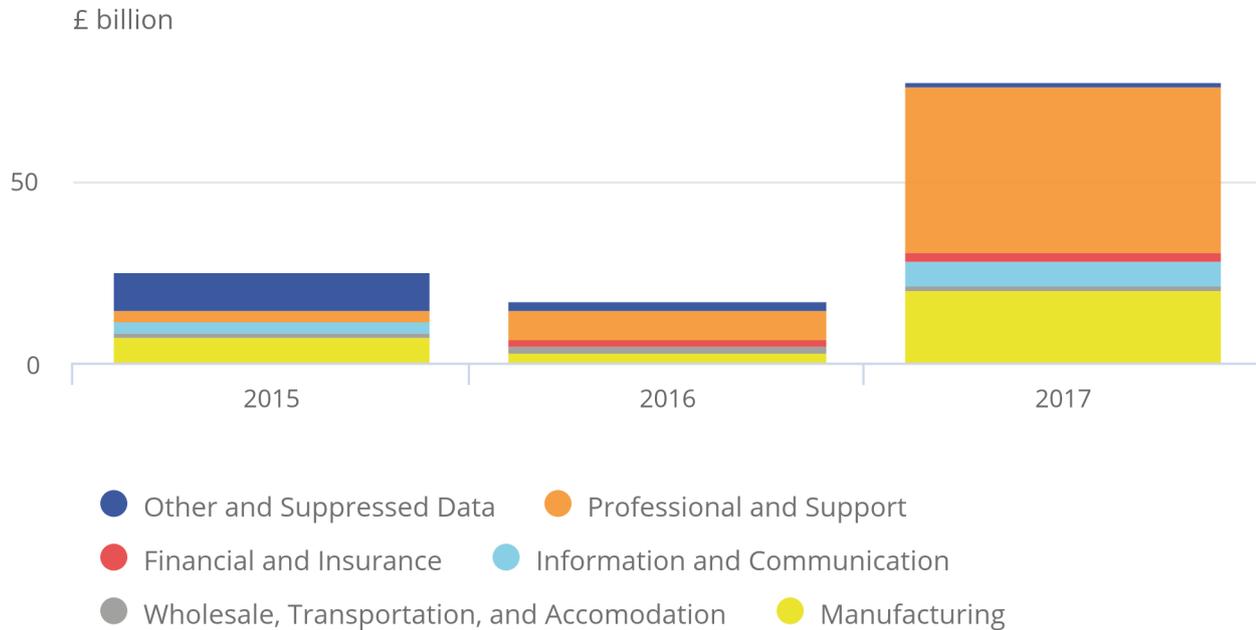
## 6 . Outward M&A industrial composition

### UK acquisitions of foreign firms reached their highest value in 2017 since 2000

Acquisitions of foreign companies by UK companies reached the highest value in 2017 since 2000. This was led by a few high-value deals, notably British American Tobacco acquiring Reynolds American Inc. of the US, and Reckitt Benckiser acquiring Mead Johnson Inc. also of the US. Each transaction was above £10 billion and these two deals alone accounted for around three-quarters of the total value of outward mergers and acquisitions (M&A) activity in 2017. Further details on these deals is available in our [UK mergers and acquisitions activity in context: 2017](#). Such overseas acquisitions by UK companies operating in both manufacturing industries, and professional and support services led a notable increase in value for these industries in 2017 (Figure 7), resulting in their highest value in comparable outward M&A statistics.

**Figure 7: The value of outward mergers and acquisitions deals by industry, UK, 2015 to 2017**

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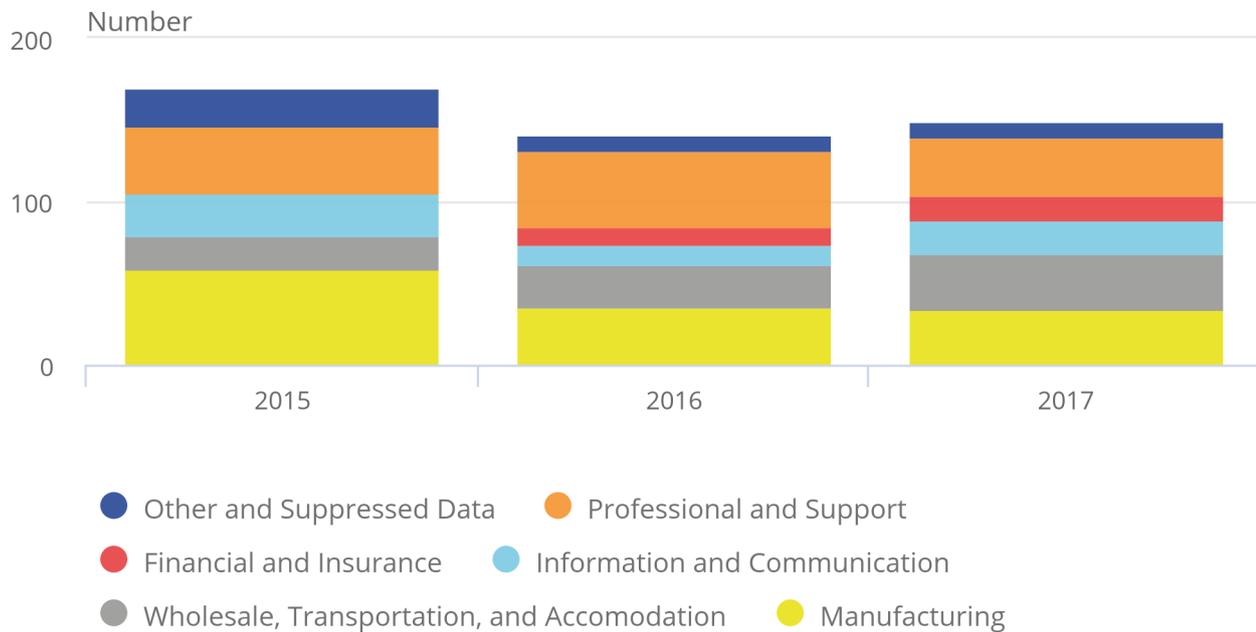
**Source: Office for National Statistics**

In terms of the number of outward transactions, UK businesses were much more split by industry group. No single industry group represented much over one-third of deals in any year presented. Manufacturing industries registered the greatest number of outward M&A deals in 2015, while professional and support services had the highest number in 2016 and 2017.

Notably, the number of acquisitions by UK firms in professional and support services remained relatively stable throughout this three-year period. This again highlights that a few deals of unusually high value supported the prominent increase in the value of outward M&A activity seen in 2017 (Figure 8).

**Figure 8: The number of outward mergers and acquisitions deals by industry, UK, 2015 to 2017**

Figure 8: The number of outward mergers and acquisitions deals by industry, UK, 2015 to 2017



Source: Office for National Statistics

## 7 . Conclusion

Results show that the majority of domestic mergers and acquisitions (M&A) activity between 2015 and 2017 involved companies operating in the same industry groups, although the concentration of intra-industry M&A varied depending on the industry examined – two-thirds (68%) of the value of M&A by companies operating in manufacturing industries was with other manufacturing businesses, compared with 87% for wholesale, transportation and accommodation services.

We see that the number of M&A deals (both domestic and international) has been on a general downward trend since the early 1990s, but the value of international deals has been broadly increasing over this time, with fluctuations for domestic deals. This suggests that the average value of deals has risen over the last 30 years.

Additionally, statistics presented provide a new dataset for analysing the industrial composition of UK M&A activity. At a headline level, statistics suggest that between 2015 and 2017, manufacturing, and professional and support services were the largest industry groups in terms of value for both inward and outward M&A, predominantly led by a few high-value deals in these industries.

## 8 . Acknowledgments

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## 9 . Annex 1: Details of Standard Industrial Classification 2007: SIC 2007 industries for each industrial grouping used

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<b>Industry grouping</b>	<b>Section(s) within SIC 2007</b>
Manufacturing	C - Manufacturing
Wholesale, transportation and accomodation	G - Wholesale and retail trade; repair of motor vehicles and motorcycles H - Transportation and storage I - Accommodation and food service activities
Information and communication	J - Information and communication
Financial and insurance	K - Financial and insurance activities
Professional and support	M - Professional, scientific and technical activities N - Administrative and support service activities
Other	A - Agriculture, forestry and fishing B – Mining and quarrying D - Electricity, gas, steam and air conditioning supply E - Water supply, sewerage, waste management and remediation activities F - Construction L - Real estate activities O - Public administration and defence; compulsory social security P - Education Q - Human health and social work activities R - Arts, entertainment and recreation S - Other service activities T - Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use U - Activities of extra-territorial organisations and bodies