Foreign Investment Bulletin

Monthly projections – June 2020

European Commission

TRENDS IN FOREIGN ACQUISITIONS AND GREENFIELD INVESTMENT IN EU

- **The negative trend of FDI deals in Europe persists in May**, with the total number of deals dropping by 36% with respect to the same month in 2019 and by 6% with respect to April.
- **US and Canada drive the poor performance of foreign FDI deals** in May with -40% with respect to the same month last year and -25% with respect to April 2020.
- **Manufacturing, with 300 deals from the beginning of 2020, is one of the sectors mostly affected** by the Covid-19 outbreak. May closes with year-on-year variation of -32.8%. ICT follows with -13.6% and Professional, Scientific and Technical activities record a -23.8%.
- In the first 5 months of the year we observe 1875 **greenfield projects in Europe** (752 done by non-European investors) with a reduction of 53.1% with respect to the same period in 2019. **The gloomy trend is confirmed in April and May 2020**, with a y-on-y variation of -85% and -79.6% respectively.

This note presents the latest trends in the investment behavior of multinational enterprises. It looks at merger and acquisition deals, as well as at equity investments for more than 10% of capital of the target company.

Given that the amount of the transaction is disclosed only for a fraction of the observed deals, we only show the number of deals having as target an EU company, regardless of the nationality of the investor. We refer to a foreign investor whenever this investor is ultimately controlled by a non-EU subject (either a company or an individual). We also report data on the establishment of new enterprises (greenfield investments). For these latter, we also observe data on capital invested and expected job creation.

We are aware that monthly observations are probably not the best choice for these types of long term investments: FDI have to do with business strategies of companies, with the organization of global value chains and with the response of multinational enterprises to economic challenges. If, on one hand, long term investments should be seen with a certain time perspective, the disruption of trade and the lockdown of people led to unprecedented economic shock worth monitoring closely.

The reader should consider these figures (particularly those referred to 2020) as first and incomplete projections. Our data sources are regularly updated, but a delay usually exists between the publication of a deal in the news and its presence in the dataset.

1. Trends in foreign investment deals in Europe

The negative trend of FDI deals in Europe persists in May, with the total number of deals dropping by 36% with respect to the same month in 2019 and by 6% with respect to April (Chart.1).

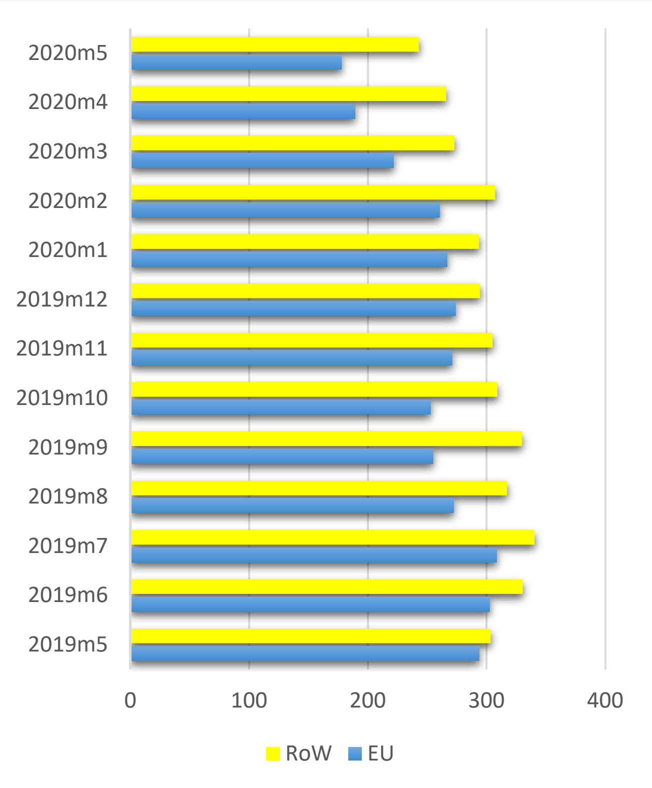
In May, recorded within-EU FDI were 187 versus 293 in May 2019 and foreign deals 191 (300 in 2019m5). The comparison with April points to a rebound of within-EU investments (+5.6%) while foreign deals still show a falling trend (-16%).

The poor performance of foreign FDI deals in May is driven by US and Canada with -40% with respect to the same month last year and -25% with respect to April (Fig.1).

Among the takeovers stands out the announced acquisition by the US Biotechnology firm Novavax of the Czech Republic-based Praha Vaccines for approximately $167ml to support the manufacture of its Covid-19 vaccine candidate, NVX-CoV2373. Praha Vaccines is a subsidiary of the Cyrus Poonawalla Group, the parent company of Serum Institute of India focused on manufacturing immuno-biologicals.

Actually April-may have been strong for healthcare funding. Companies around the world raised over $8.8bn across more than 600 financing deals between April 1, 2020 and May 24, 2020[1].

Chart 1. Number of FDI deals in Europe, monthly trends[2] by (ultimate) origin of the investor.



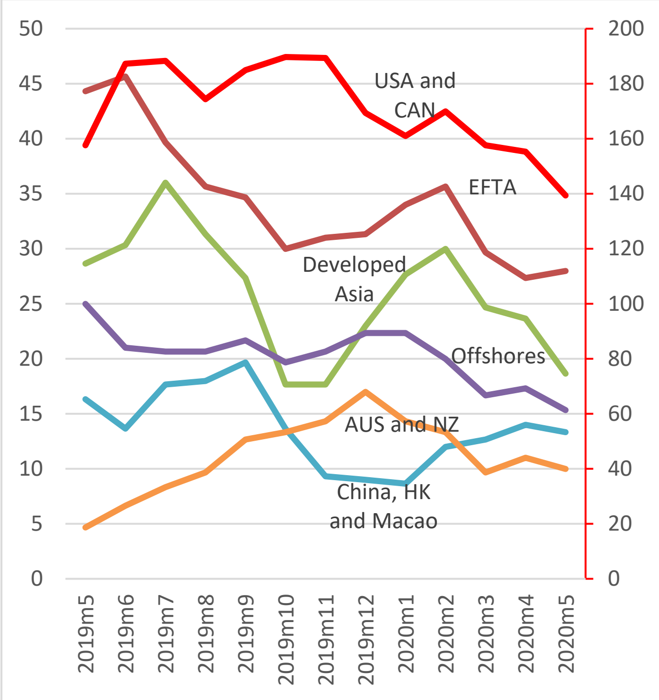
Source: JRC calculations on Bureau van Dijk data, extraction on the 05/06/2020. Monthly trend is computed using a 3 months moving average. We consider deals implying the purchase of more than 10% of shares in the capital of the target company. RoW stands for rest of the world.

FDI deals from Developed Asia (essentially Korea and Japan) are also falling in May (-65% with respect to May 2019 and -56% with respect to April 2020).

End of March, the Japanese Kokusai Pulp & Paper agreed to buy the 75.2% stake in the French Antalis[3] creating a €5.3bn merchanting giant selling some 3.3 million tonnes of paper worldwide. The conclusion of the deal is currently still pending. Antalis is one of the largest distributors of paper and paper-related products in Europe with sales reaching €2.3bn in 2018.

China's deals in Europe marked a -24% in May with respect to 2019m5 but rebounding with respect to April with a +18%. Overall, the average drop from the start of 2020 rounds 38%.

Figure 1. Number of FDI deals in Europe, monthly trends by (ultimate) origin of the investor**.** Details for a selected set of investors.



Source: JRC calculations on Bureau van Dijk data, extraction on the 05/06/2020. Monthly trends are computed using a 3 months moving average. US and Canada are measured on the right axis, all the rest of countries on the left axis.

The news in May signal as pending the acquisition of the 97.81 per cent stake in CNS Systems AB, a Sweden-based communication, navigation and surveillance systems manufacturer by the Chinese Navtech Inc.'s subsidiary, Qingzhou NAV Avionics Technology Co., Ltd. China Railway Construction Corporation Ltd in May completed the acquisition of Aldesa Construcciones SA, a Spain-based highways and roads construction services operator for a deal value between €250-300ml. The same China Railways is in partnership with the Chinese Tiejiuju Engineering and the Hungarian Opus Global to construct the 150-km Hungarian stretch of the railway Budapest-Belgrade, object of the loan agreement signed in April between China and Hungary.

Sectors

In May ICT had the highest numbers of foreign deals reaching 490 deals from Jan 2020 and confirming its

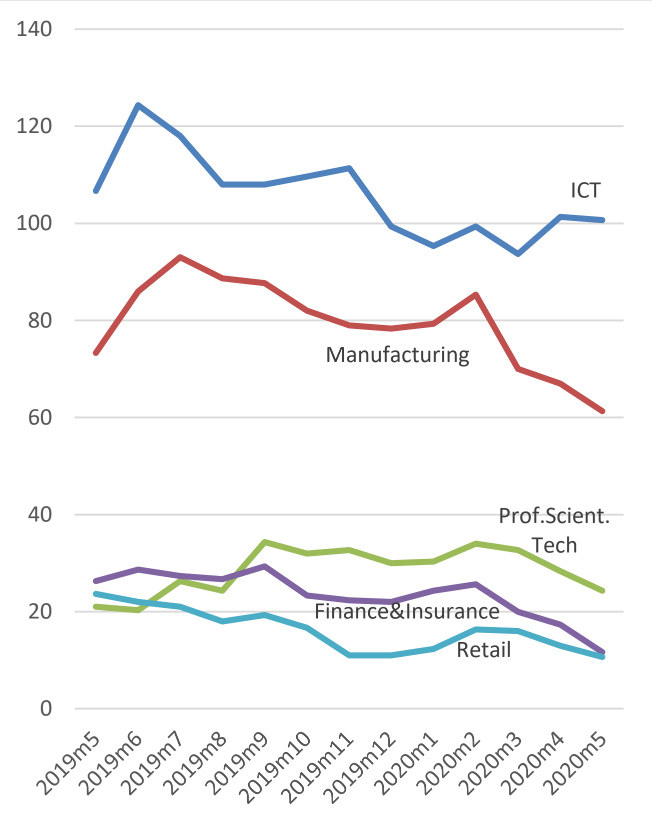
[1] Source: CB insights, June 2020.

[2] Smoothing techniques are designed to reduce or eliminate short-term volatility in data (due to random events) and highlight the trend component in time series. Here, trends are calculated using a moving average smoothing technique, which assigns to each data point the average of the past 3 months.

[3] Antalis is a global company with operating subsidiaries all over Europe and in many non EU countries.

relatively stable trend (Fig.2). Among the deals, the acquisition by the Swiss Kardex of the majority share in the Dutch company Robomotive that develops and implements smart robot technologies. In the field of Artificial Intelligence, we signal the acquisition of the Italian Checkout Technologies by the US Standard Cognition.

Figure 2. Number of FDI deals in Europe made by non-EU investors, monthly trends by sector of the target company**.** Details for a selected set of sectors.



Source: JRC calculations on Bureau van Dijk data. data extraction on the 05/06/2020. Monthly trends are computed using a 3 months moving average.

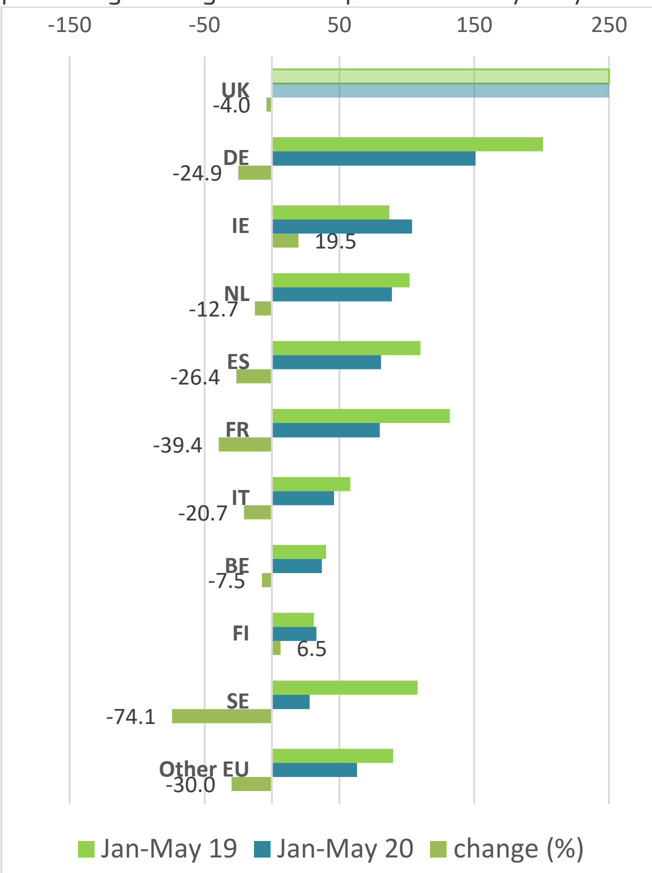
Manufacturing, with 300 deals from the beginning of 2020, ranks second and is one of the sectors mostly affected by the Covid-19 outbreak (-16% since the lockdown in March as compared with 2019). Professional, Scientific and Technical activities (incorporating research), the third sector with 130 deals, increased by 15.9% in the same period (March-May). A falling trend is shared by Finance and Insurance, and Retail, with 77 and 64 deals. They were 135 and 112 in the first five months of 2019.

Among the deals in manufacturing, stands out the announced purchase of the Dutch electric scooter company Etergo by the Indian electric vehicle company Ola Electric Mobility and the purchase of 10% equity in the Dutch ABV, by the Singapore based Indian company Tata Power International. With this purchase Tata Power rises its stake in ABV to 50%. The hydro-power generating company ABV owns 100 per cent stake in Adjaristsqali Georgia LLC, which has developed a 187-megawatt (MW) hydro project in Georgia at a cost of around $500ml.

Countries

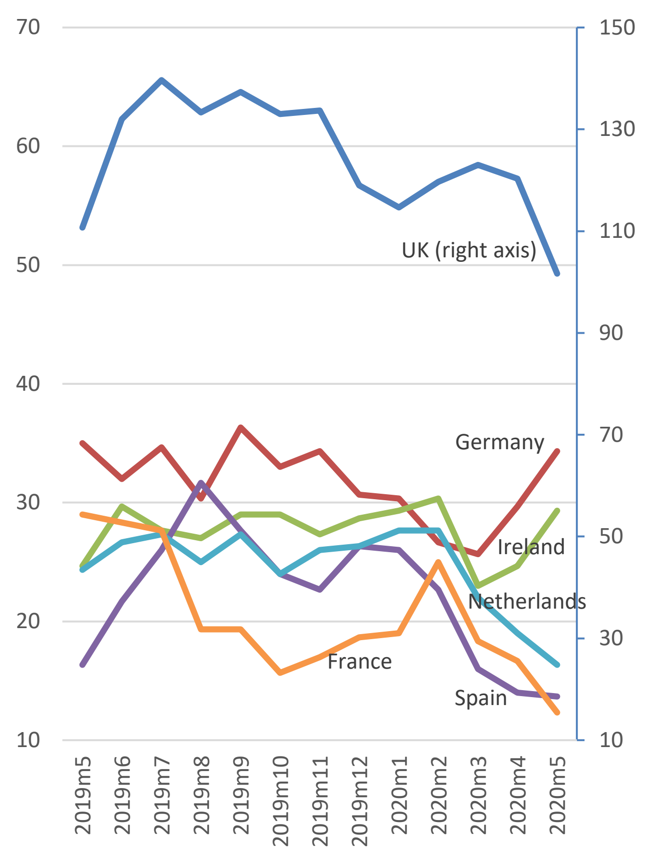
So far, Covid-19 hit all European countries with the notable exception of Ireland and Finland where the number of foreign deals increased between January and May 2020 as compared with the same period last year (Chart 2). As compared with the first 5 months of 2019, since the beginning of 2020 Germany lost around 25% of the deals, Spain the 26.4%, France 39%, and Italy 21%. Trends, however, show that acquisitions in Germany seem to have gone back to a normal pace compared to other countries such as the Netherlands, Spain or France (Fig.3).

Chart 2. Number of foreign deals in Europe. Sum and percentage change over the period January-May.



Source: JRC calculations on Bureau van Dijk data, extraction on the 05/06/2020. UK is represented in lighter colors being out of scale with 547 deals in Jan-May 2019 and 525 in Jan-May 2020.

Figure 3. Number of foreign deals in Europe. Monthly trends by (selected) target country**.**

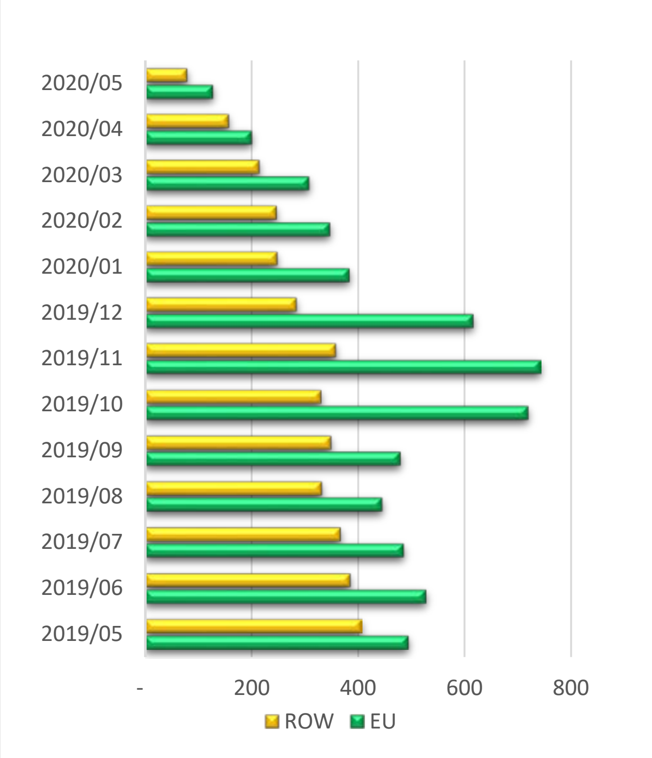


Source: JRC calculations on Bureau van Dijk data, extraction on the 05/06/2020. Note: monthly trends are computed using a 3 months moving average. United Kingdom is measured on the right axis, all the rest of countries on the left axis.

2. Trends in foreign greenfields in Europe

In the first 5 months of the year we detect 1875 greenfield projects in Europe[4] (752 done by non-European investors) with a reduction of 53.1% with respect to the same period in 2019. The declining trend is amplified in April and May 2020[5], with a year-on-year variation of -85% and -79.6% respectively (Chart 3). Expectedly, greenfields financed by foreign investors shrank more than those financed by European ones: 58% versus 49%. This reduction partly reflects the long-term nature of a greenfield investment which requires, in its initial phase, visits to the future production sites[6] and meetings with local authorities[7]. Greenfield projects also depend on government incentives (e.g tax rebates, land availability, trained HR). Whether these incentives will be maintained or extended further to attract foreign investments is still to be seen.

Chart 3. Number of greenfield projects in Europe, monthly trends by (ultimate) origin of the investor.



Source: JRC calculations on Bureau van Dijk data. extraction on the 05/06/2020. Number of projects per month are computed using the 3 months moving average. RoW = rest of the world.

Europe's main investors have all drastically reduced greenfield projects in EU as compared with the same five months in 2019 (Fig. 4): USA and Canada (-56.3%), Korea and Japan (-69.7%) China (-66%), EFTA (-65%). The outlook of April and May is not encouraging either (Fig. 5, trends).

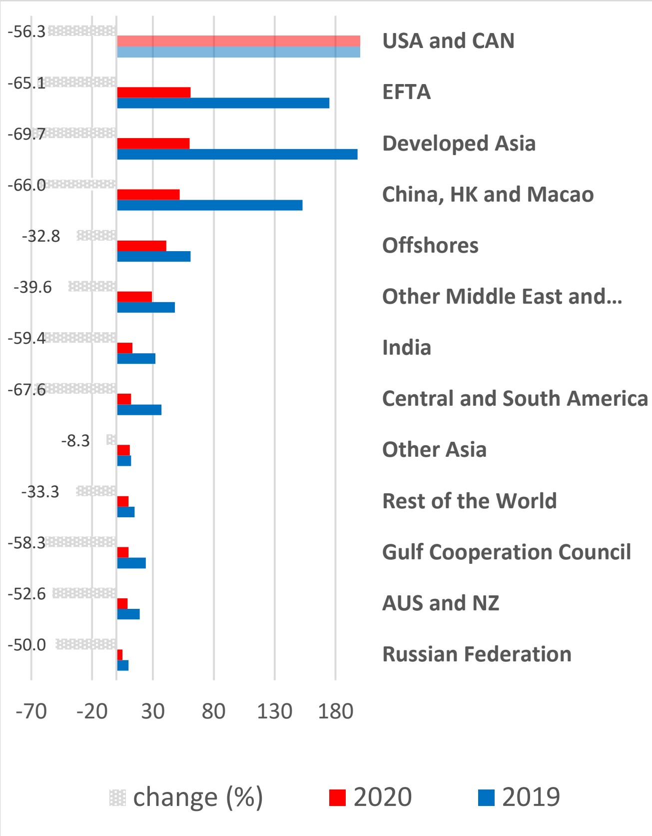
Among the top 5 greenfield foreign investors in EU from March 2020, 4 are from US[8] and are related to retail or transportation. The fifth is the Chinese Xiaomiu, world's fourth largest phone producer, opening 4 electronics stores in Poland and Spain, all

[4] Greenfield projects aim at setting up new installations or expand the capacity of existing sites. These projects can be rather large and might require several months, even years, before completion.
[5] Data for projects associated to 2020 and especially the month of May 2020 are provisional and reported as draft projections.
[6] Some investment agencies, Portugal and Poland, are organizing virtual site visits to assist in investors.

[7] More information on the Investment Promotion Agency activities are available in www.oecd.org/coronavirus/policy-responses/investment-promotion-agencies-in-the-time-of-covid-19-50f79678/#section-d1e48
[8] Amazon, Pride Mobility, TJX companies and Panattoni Development are concluding the list of Top5 investors from March to May 2020.

related to the launch of 5G devices. In particular Huawei planned a new investment in Luxemburg for an estimated value of $53ml

Figure 4 Number of foreign greenfield projects by origin of the investor. Sum and percentage change over the period January-May.



Source: JRC calculations on Bureau van Dijk data, extraction on the 05/06/2020. USA and CAN are represented in lighter colors being out of scale with 1004 projects in Jan-May 2019 and 439 in Jan-May 2020.

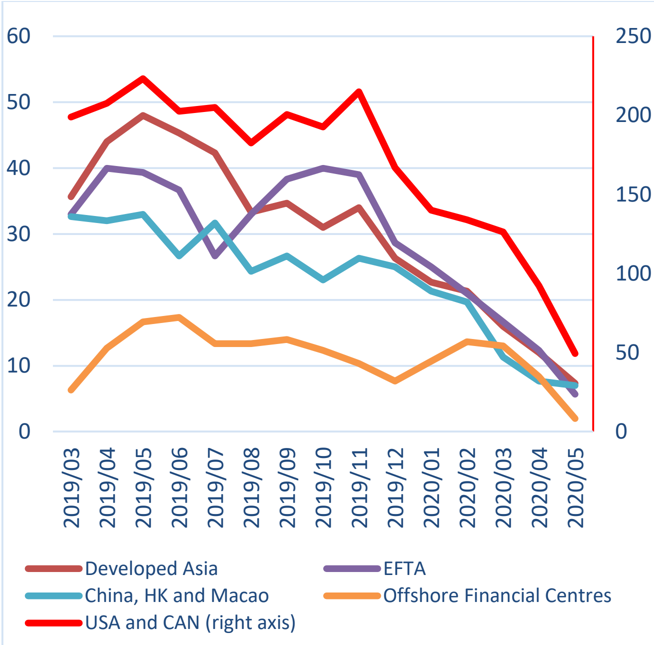
Sectors

All sectors are strongly hit by the Covid-19 pandemics (Fig. 6). Manufacturing, which encompasses 10.6% of all foreign greenfield since January, is heavily impacted between in 2020 with a reduction larger than 72%. May 2020 seems to confirm the trend with a drop of 76% as compared to April.

In the chemicals, Syngenta, a Switzerland-based agricultural pesticides and fertilisers manufacturer owned by China Chemical Corporation, announced the opening of a new research and development centre in Maasland, Netherlands investing about $65.9 ml. The Chinese and the Japanese AGC Pharma Chemicals announced in April its plan to open a research and development centre in Spain. The project is expected to be completed in March 2021 and is worth $64.7ml.

In the personal care industry, the Swiss chemical company Clariant planned to expand its production of mild surfactants for hand soaps and sanitizers, following covid-19, investing $53.5ml for the expansion of its manufacturing plant in Spain. Clariant, with a revenue of $6.7bn in 2019, and over 17th employees worldwide, is controlled by the state owned Saudi Basic Industries Corp.

Figure 5. Number of greenfield projects in Europe. Monthly trends by (ultimate) origin of the investor**.** Details for a selected set of investors.



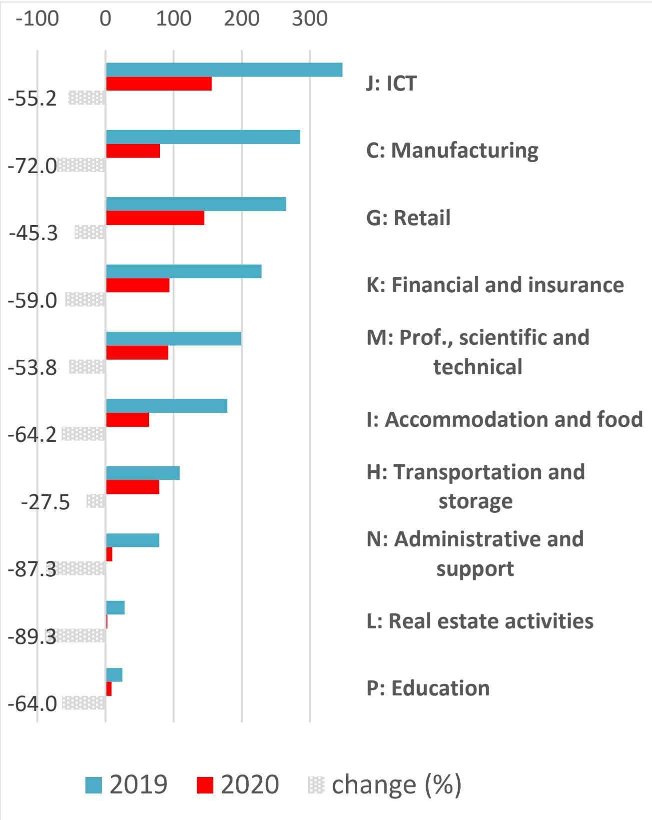
Source: JRC calculations on Bureau van Dijk data, extraction on the 05/06/2020. Monthly trends are computed using a 3 months moving average. US and Canada are measured on the right axis, all the rest of countries on the left axis

Among the ongoing projects, the larger investments are in automotive. The German Greenerity, controlled by the Japanese Toray, announced in March the opening of a new plant for hydrogen fuel cells components manufacturing in Alzenau (DE). The plant is expected to be operational in November 2021 and will have a production capacity of 10 million units per year for an investment worth $54ml. In February, LS Cable & System Ltd, a South Korea-based cable manufacturer, announced the expansion its electric vehicle battery components manufacturing plant in Dzierzoniow, Poland to serve the European regional market. The investment is worth $60ml and over 200 expected job creation.
Always in the automotive, the Italian Magneti-Marelli (subsidiary of Magneti Marelli CK Holdings Co., Ltd, a

Saitama, Japan-based company) has opened a research and development centre in Italy with an expected investment of $65ml.

Information and Communication is also showing no sign of rebound with an 79.4% of reduction in the outlook of May, larger than what observed at the beginning of the lockdown in Europe in March (-72%). In May, relatively large greenfields come from Google and Microsoft. Google announced the opening of a data centre in Ile de France (worth $132ml). Similarly, Microsoft is to open a data centre in Milan, Italy. This data centre is expected to be operational in the next 5 years and is part of a larger €1.5bn investment program in the country.

Figure 6: Number of foreign greenfield projects by sectors of investment. Sum and percentage change over the period January-May.



Source: JRC calculations on Bureau van Dijk data, extraction on the 05/06/2020.

Gloomy news also for the Wholesale&Retail sector that signs -79% on a year-on-year comparison. The largest greenfield in this area comes from the Chinese Alibaba (though officially based in the Cayman Islands).
On 29/05/20 it was announced that Alibaba is to open a distribution centre in Belin-Beliet, France. Since 2018, the online e-commerce website operator was looking for locations to serve the European market. The expected investment is of $44.3ml. Around 300 jobs will be created.

Countries

EU countries are all hit (Fig. 7). Denmark, Ireland and Spain experienced the largest drops in the first quarter of 2020 with respect to one year ago with a reduction of 89.6%, 70.4% and 68.2%. Ireland seem the only country with a rebound when considering the outlook of May.

Figure 7: Number of foreign greenfield projects by destination of the investment. Sum and percentage change over the period January-May.

Source: JRC calculations on Bureau van Dijk data, extraction on the 05/06/2020.

The data

Raw data come from Bureau van Dijk (BvD) datasets Orbis-global, Zephyr and Orbis-CrossBorder. We consider *foreign investment in the EU* all the investment made by investors whose ultimate owner is outside EU. When the ultimate owner cannot be found we rely on the location of the investing company. We consider EU as composed by 28 countries, therefore including UK. United Kingdom will be taken out of the EU average after the transition period.

The reader should consider these figures (particularly those referred to the latest months in the sample) as first and incomplete projections. Our data sources are regularly updated, but a delay usually exists between the publication of a deal in the news and its presence in the dataset. Notice also that the data provider updates also old deals when new information becomes available, so data extractions for the same time window but done in different points in time could lead to different figures.

Here we name *FDI investments* all the deals having as target the purchase of a stake equal or higher than 10% in a EU company. Our figures include observed Mergers and Acquisitions (M&A), i.e. all investments enabling the control of a company (ownership of at least 50,01% of shares) and Minority-FDI, i.e. investment stakes from 10% to 50% of the shares of a company. Even not formally giving the absolute control of a company, Minority-FDI could grant relative majority when the remaining shareholding is diluted (often the case for listed companies). Notice that FDI investments, as calculated by official statistics, are investments above 10% or voting rights or giving the control of the acquired company. This should correspond to the type of deals monitored here. As the amount of the deal is not disclosed for all recorded deals our analysis is based on the number of deals rather than their value. This implies that our data cannot be compared with official FDI statistics (which measure stock/flows of money and include as well other items, e.g. reverse investments, not observed here).

We consider deals and projects completed, assumed completed and announced. Rumors and postponed deals/projects are excluded. Pending deals are included with its announced date. The data provider classifies as *assumed completed* those deals/projects for which, after 2 years from the announcement, no additional information is available. In the period 2019-2020m5 we observe 1665 assumed completed deals, some of them announced in 2017 or even earlier. To correct for the two-years gap (unreasonable in case of M&As and equity investments) we include the deals assumed completed with the date in which they were announced. This leads to the suppression of about 500 deals, all those announced before Jan. 2019. Manual search on a subset of transactions confirmed the validity of this approach. Assumed completed greenfield projects, instead, are left unchanged recognising the long term nature of these investments.

A special treatment is given to multideals, i.e. deals where there are multiple targets and/or multiple investors. For the period 2019-2020m5 we observe 3968 multideals over a total of 9502 transactions in EU. Overall, we disregard all the transactions with multiple targets and multiple investors (about 70) as it is very difficult to devise a general rule to attribute the deal. For the remaining, we consider the multideal as a sum of multiple transactions. This means that if an investor acquires two companies, we record this as two transactions (whenever the value of the deal is available we split it in two). We apply this classification rule also to greenfield investments.

Contact information

This document has been prepared by the FDI Team in Unit JRC.B1. Authors are Gregori W., Nardo M., Ndacyayisenga N.

For further information, contact michela.nardo@ec.europa.eu.

How to cite and links

Gregori W., Nardo M., Ndacyayisenga N., 2020, Trends in foreign acquisitions and greenfield investments in Europe. Update of June 2020. JRC121049, European Commission, 2020.

Web: https://ec.europa.eu/jrc