ZEW
Zentrum für Europäische Wirtschaftsforschung GmbH

BUREAU VAN DIJK
ELECTRONIC PUBLISHING

M&A Report

Berichte und Analysen zu weltweiten Fusionen und Übernahmen

April 2008

Multi-billion dollar poker game for Yahoo

Microsoft officially announced an offer to Yahoo shareholders at the beginning of February this year; Microsoft is seeking to acquire its rival for a total consideration of almost USD 45 billion. The software giant from Redmond is therefore aiming to reduce the gap between itself and Google, which is by far the number one in the fast-growing online services sector. The planned acquisition primarily challenges the supremacy of Google in the field of online search and advertising.

The USD 31 per share offer represents a huge premium of 62 per cent per share over the last closing share price prior to the announcement. Nevertheless, Yahoo considered the offer too low and argued that Microsoft is exploiting the recent low share price. The co-founder and CEO of Yahoo, Jerry Yang, is attempting to shoot down the acquisition with all the means available to him. Many shareholders are not convinced by these defensive measures and have already filed legal complaints.

Google currently dominates the market for online search engines with a market share of around 80 per cent. The rest of the market is controlled almost exclusively by Yahoo. Microsoft has so far not been able to find an adequate concept. Its search engine Live.com cannot by far compete with the products of its two rivals and has long failed to gain entry into this segment, which is of particular interest because of the multi-billion revenues from advertising that can be generated with searches for information on the internet.

A glance at the merger and acquisition strategies of the rivals Microsoft and Google up until now shows that Microsoft has made the first steps to catching up with Google with the acquisition of aQuantive Inc. (08/2007), an online advertising agency, and the recently announced acquisition of the Norwegian search technology developer Fast Search & Transfer ASA. Its rival has, however, carried out several major acquisitions in the last two years in order to consolidate its leading position and to expand further. This is highlighted particularly by the acquisition of Doubleclick Inc, one of the largest online marketing services providers, last April valued at around USD 3.1 billion, in which Google outbid both Yahoo and Microsoft. The purchase of the popular online video platform YouTube a year and a half ago also opened up new advertising possibilities.

With the planned acquisition of Yahoo, the largest deal in the IT sector since the merger of Time Warner and AOL in 2001, Microsoft could take a decisive step forward to positioning itself in the lucrative online advertising market and possibly challenge the preeminence of Google in this area. Due to the opposition it is probably becoming a hostile takeover.

The effects of a possible merger between Microsoft and Yahoo on the online sector remain to be seen. There is no telling what effects the transition from the existence of a quasi-monopoly to a possible duopoly will have on the market in terms of competition. Since this sector in particular relies on the ability to be innovative and on the pace of innovation, the regulatory authorities will examine the transaction as closely as possible.

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Microsoft's top five deals (since 2000)

Value*	Target	Sector	Date
6.0	aQuantive Inc. (US)	Online marketing	08/2007
1.4	Navision A/S (DK)	Software	08/2002
1.1	Great Plains Software Inc. (US)	Software	04/2001
0.8	Tellme Networks Inc. (US)	Internet telephony	05/2007
0.5 (estimated)	Fast Search & Transfer ASA (NO)	Development of online search engines	06/2008 (expected)

* in billion USD

Source: ZEPHYR database, Bureau van Dijk Electronic Publishing
Note: Only full acquisitions were taken into account

Google's top five deals (since 2000)

Value*	Target	Sector	Date
3.1	DoubleClick Inc. (US)	Online marketing	04/2007
1.6	YouTube Inc. (US)	Online video platform	11/2006
1.3	dMarc Broadcasting Inc. (US)	Media services	08/2006
0.6	Postini Inc. (US)	E-Mail security	09/2007
0.1	FeedBurner Inc. (US)	Software	06/2007

* in billion USD

Source: ZEPHYR database, Bureau van Dijk Electronic Publishing
Note: Only full acquisitions were taken into account

China's share of the global M&A market increases

China's share of the international M&A market, either as a buyer or as the target company, both with reference to the transaction value as well as the number of transactions, has increased from almost 0 per cent and 0.5 per cent respectively in 2000 to around 1 per cent and 2.5 per cent respectively. In the second half of 2004, both figures even rose to almost 4.5 per cent. This development is, however, driven by a considerable increase in acquisitions made by foreign companies in China rather than by acquisitions made by Chinese companies abroad. This is highlighted by comparing the around 1000 acquisitions in China with a total value of EUR 38 billion in the period between 2000 and 2007 with the 161 transactions made by Chinese companies abroad with a total value of around EUR 18 billion. The targets of Chinese bidders are thus on average significantly larger than the targets of foreign companies in China. One focus is on raw materials; China Petroleum & Chemical Corporation acquired Russian oil company Udmurtneft in August 2006 for EUR 2.7 billion.

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Global share of M&A deals with Chinese participation

Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

Marked decline in transaction values

International merger and acquisition activity went down significantly in the last months. Accordingly the aggregated transaction value decreased noticeably from EUR 7.7 trillion in October 2007 to EUR 2.5 trillion at the end of February 2008. The number of transactions declined less rapidly, which is an indication that the slowdown in mergers and acquisitions has a greater effect on large deals. There were hardly any changes in the ranking of investment banks in the previous six months. The first four positions remained unchanged, led by Morgan Stanley. Lazard re-entered the top ten following one and a half lower-performing years. The ranking of private equity firms exhibits considerably more variation. Kohlberg Kravis Roberts & Company again leads the rankings. However, only Citigroup and Morgan Stanley retained their positions in the top ten. All the other positions are occupied by firms which were previously unrepresented in the rankings. The ten biggest private equity companies achieve 72 per cent of the total transaction value. Whilst the number of private equity-financed transactions remained almost unchanged at 2,566, the total transaction value declined by 45 per cent to EUR 541 billion.

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Ranking of investment banks

Position		Investment bank	Transaction value (billion EUR)	Number of transactions
1	(1)	Morgan Stanley	349	131
2	(2)	Citigroup Inc.	320	107
3	(3)	Goldman Sachs	241	79
4	(4)	UBS	239	111
5	(7)	Merrill Lynch	230	91
6	(6)	Credit Suisse	229	108
7	(5)	Lehman Brothers	225	79
8	(8)	JP Morgan	209	92
9	(9)	Deutsche Bank	156	46
10	(-)	Lazard	114	78
		Others	143	2,117
		Total	2,454	3,039

Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

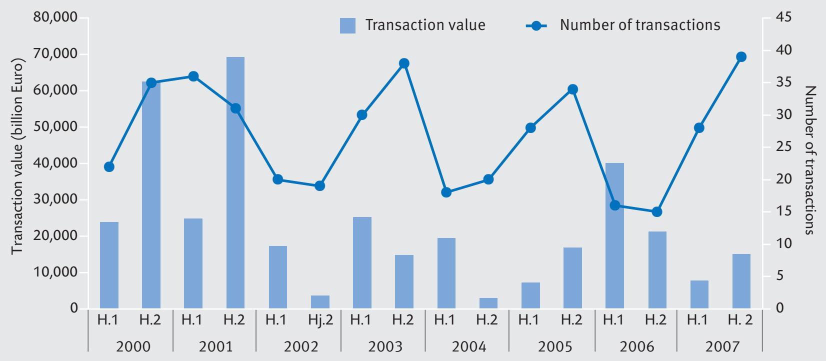
Ranking of private equity firms

Position		Company	Transaction value (billion EUR)	Number of transactions
1	(1)	Kohlberg Kravis Roberts & Comp. LP	64	10
2	(-)	Texas Pacific Group Inc.	59	4
3	(5)	Citigroup Inc.	56	8
4	(-)	Lehman Brothers	48	7
5	(2)	Morgan Stanley	37	6
6	(-)	Goldman Sachs	33	28
7	(-)	TPG Inc.	28	12
8	(-)	The Blackstone Group LP	27	5
9	(-)	Apollo Management LP	20	5
10	(-)	GS Capital Partners LP	19	1
		Others	151	2,480
		Total	541	2,566

Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

Re-emergence of bancassurance companies

Global M&A deals with banks and insurances involved



Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

Banks and insurance companies are increasingly relying on partnerships in order to be able to offer their clients a comprehensive package of financial and insurance services. Alongside basic brokerage, where the insurance company pays the bank a commission (eg. Allianz/Bavarian cooperative banks), and exclusive sales partnerships (eg. Talanx/Postbank), acquisitions of insurance companies by banks and vice versa are coming to the fore, and not just since the speculation regarding a possible sale of Postbank. In actual fact, the number of mergers between banks and insurance companies internationally has almost trebled in the last year. The total transaction value, however, is still low. Particularly noticeable is the fact that since 2000, banks, with around 280 acquisitions and a transaction value of EUR 245 billion, have acquired almost double as many insurance companies as insurance companies have sought acquisition targets in the banking sector. Both the average size of transactions and the role allocation indicate a shakeout of the market led by banks. Smaller insurance companies clearly represent attractive targets for companies to complete their range of services. However, insurers have made it clear, not only through the acquisition of Dresdner Bank by Allianz, that they want to take up an active role in the process of market adjustment. Postbank could be a further step in this direction. The acquisition of the Postbank could be a further step in this direction. Particularly Postbank is an attractive acquisition target as it serves a large customer base which could be exploited by insurance companies for extensive cross-selling activities.

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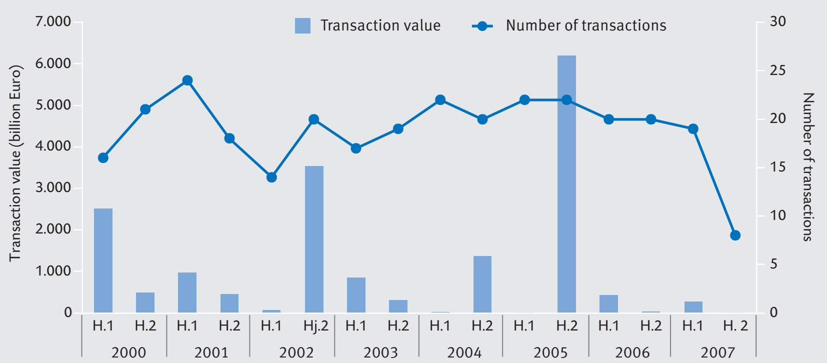
State-owned enterprises active in the logistics sector

M&A in the European postal services and logistic sector



Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

Numerous M&A transactions have taken place within the European postal and logistics sector. Mergers and acquisitions between 2000 and the first half of 2007 amounted to around 20 transactions every six months. This only sank to a lower level in the second half of 2007.

Transactions with values in the billions by Deutsche Post AG and Deutsche Bahn AG were particularly noticeable. The formerly state-owned company Deutsche Post emerged victorious in the sector with the EUR 6 billion acquisition in 2005 of Excel, the company which was only formed in 2000 through the merger of the private company NFC plc and Ocean Group plc (transaction value EUR 2.3 billion). The European Commission and the US antitrust authorities approved the deal in November 2005. The decision was criticised in particular by Swiss rival Kühne & Nagel, which described it as a “serious threat to free competition”. Deutsche Post had already acquired Danzas in February 1999 and DHL in 2002. But also TNT and the PIN Group acquired postal delivery services across Europe.

In September 2002 the European Commission approved the second largest transaction in the period examined with a value of almost EUR 2.5 billion – the acquisition of Stinnes AG by Deutsche Bahn AG. It is significant that the large deals can be traced back to formerly state-owned monopoly companies.

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Regulation as a barrier to the integration of EU banking markets

Although the European Union (EU) has eliminated several obstacles for cross-border banking transactions through the harmonisation of banking regulations, cross-border mergers and acquisitions (M&A) in the European banking sector continue to be less common than in other economic sectors. A current ZEW study examines whether, and to what extent, the merger review process undertaken by supervisory authorities in the banking sector represents a possible barrier to cross-border consolidation in the EU banking sector.

That M&A control by supervisory authorities has the potential to significantly restrict cross-border consolidation in the EU has been demonstrated in Italy where the Bank of Italy blocked the acquisition of two Italian credit institutions by by the Dutch bank ABN Amro and the Spanish Banco Bilbao Vizcaya Argentaria (BBVA) in 2005. This was possible because the supervisory review process of the Bank of Italy lacks procedural transparency and allows supervisory authorities and politicians to exert political influence. As a result of the delaying tactics of Banca d'Italia, the Italian insurer Unipol and Banca Popolare di Lodi were able to increase their stakes in the acquisition targets. They later submitted their own bids for both banks. Pressurized by the EU commission the Italien central bank finally approved the acquisition of one of the banks by ABN Amro. The acquisition of the other Italian bank by BBVA, however, failed.

The EU Commission subsequently brought actions against Italy for infringement of the principle of the free movement of capital. The Commission complained that the supervisory review process of the Bank of Italy lacks procedural transparency and can create legal uncertainty. This, as was argued, could lead to a situation in which the supervisory authority can refuse authorization based on opaque concerns, e.g. regarding the 'stability of governance'. A survey launched by the EU Commission on the barriers to cross-border banking in Europe indicates that protectionism in banking markets might not only be an Italian problem. According to market participants with previous experience in M&A in the banking sector, one of the main barriers to the integration of European banking markets is the 'misuse' of supervisory powers and political interference. Since the scope for protectionism is expected to be smaller if M&A control is more transparent, the EU Commission made a proposal in 2006 to change the articles of the banking directive that regulate the transfer of ownership in the EU banking sector.

Although there is anecdotal evidence that the prudential control may constitute a barrier to the integration of European retail banking markets, empirical evidence is missing until now. The aim of the ZEW study is to close this gap. It draws on a unique dataset relating to the transparency of merger controls in the banking sector which was compiled by the ZEW in 2007 based on a survey among supervisory authorities in 25 EU countries. To find out whether merger controls constitutes a barrier to cross-border consolidation in the EU banking sector, the ZEW study assesses the probability that a bank can be acquired subject to banking and country-specific control variables as well as the transparency of merger controls in the banking sector.

The study finds that the probability of being a target of an acquisition depends not only on bank- and location specific determinants, but also on the transparency of the regulatory process. The results indicate that a bank is systematically more likely to be taken over by foreign credit institutions if the process of merger approval is transparent. Particularly large banks are less likely to be taken over by foreign credit institutions if merger control lacks transparency. This supports the hypothesis that governments may block cross-border because they want the largest institution in the country to be domestically owned. That this may be a motive for political interference becomes clear in a recent statement made by the French government in relation to the crisis at Société Générale. The French prime minister countered speculations that the bank may be a target for foreign banks with the words "Société Générale is a great French bank... and the government intends it to remain a great French bank and globalised player."

For this reason, the ZEW studies regards the recent effort of the EU Commission to raise the transparency of the supervisor review process as an important step to lower market entry barriers and to increase the degree of banking market integration in Europe.

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The M&A report was compiled jointly by the Centre for European Economic Research (ZEW) and Bureau van Dijk Electronic Publishing (BvDEP). It informs twice yearly on current topics and developments related to global mergers and acquisitions based on the ZEPHYR database. ZEPHYR provides detailed information on 500,000 M&A, IPO and private equity transactions worldwide.

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