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M&A Report

Global Mergers and Acquisitions Reports and Analyses

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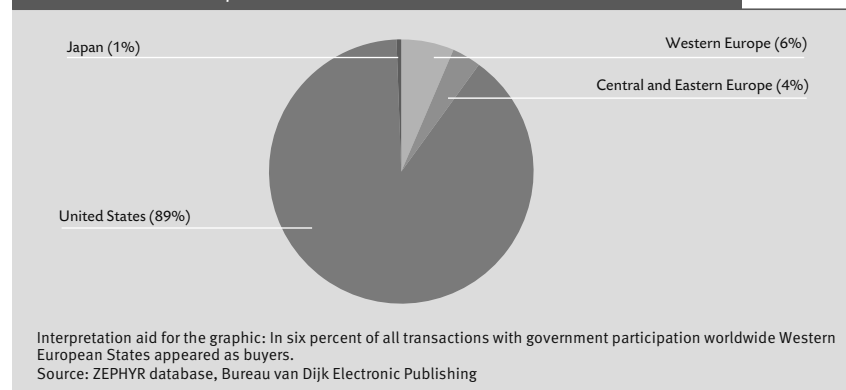
The State as Saviour in a Time of Crisis

Since the outbreak of the global financial crisis there have been losses on the scale of billions and banks declaring bankruptcy. In Germany, IKB (Deutsche Industriebank) was the first bank to be drawn into the crisis due to its business dealings on the United States property market. The institution was only saved by a rescue package from the government and banks. In August 2008 it was sold to the US financial investor Lone Star. In the meantime, the German government has invested significantly more in order to rescue local banks. Around 480 billion euro can be attributed to the Financial Market Stabilisation Fund (SOFFIN) alone. Of this amount, around 400 billion euro is available for guarantees for debt securities and liabilities linked to investments, for which the government receives a fee from the banks. Furthermore, the fund provides banks with participation capital on the scale of around 80 billion euro. The government has so far acquired a stake in Commerzbank. Through the purchase of shares to the value of around 18 billion euro, the government is acquiring 25 percent of the voting rights and therefore becomes the largest single shareholder. The government now holds a blocking minority and can therefore block individual corporate decisions. The bank, in exchange, has to fulfil government conditions, such as the limitation of management salaries and bonus payments. The government is even planning to acquire a stake of at least 90 percent in crisis-ridden Hypo Real Estate. The acquisition has so far failed due to opposition from the US large-scale investor JC Flowers

which holds almost 25 percent of the shares together with an allied hedge fund and as such has a blocking minority.

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Government Participation in Transactions Worldwide 2008



Governments have also become shareholders in banks in other European countries. In Great Britain, the major banks Royal Bank of Scotland, Lloyds TSB and HBOS, amongst others, have been partially nationalised. Meanwhile, in the Netherlands the government has invested in ING and the Dutch business of the Belgian-Dutch financial group Fortis has been nationalised. The Belgian government subsequently acquired the Belgian business of Fortis and has invested in KBS Group. In other European countries, too, governments have had to rush to the aid of ailing banks. Even in the United States the national government is no longer hesitant with regard to state investment in banks. According to media reports Citigroup, for example, is attempting to rescue itself from insolvency through a partial nationalisation of up to 40 percent. Altogether the US government has invested in 152 financial institutions since the be-

ginning of last year. This represents almost 90 percent of all transactions in which the government had a buyer role

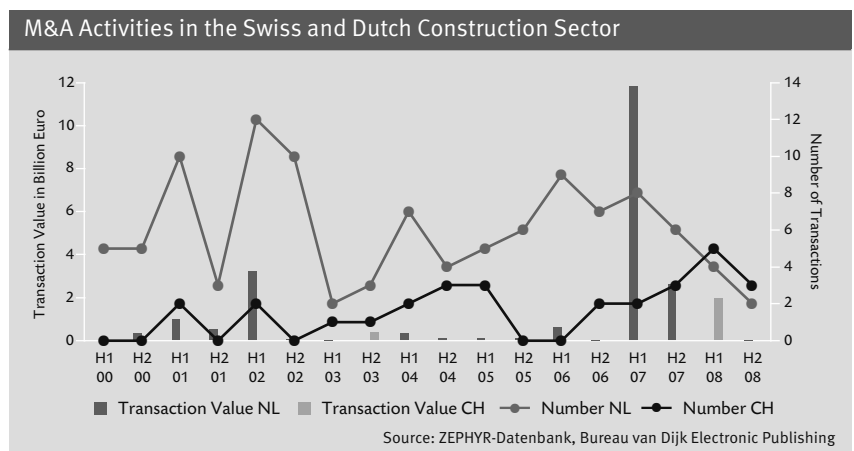
in this period. In western, central and eastern Europe and Japan in comparison, significantly fewer transactions with a state investment have been completed since the beginning of 2008. A consolidation of the banking landscape is emerging. This could be further accelerated through the participation of the government. Meanwhile in Great Britain, HBOS has been acquired by Lloyds TSB. In Belgium the government has parted with 75 percent of its shares in Fortis. Hence a dismantling of Fortis is imminent. In Germany, Allianz has sold Dresdner Bank to Commerzbank, moreover a reorganisation of the Landesbanks (state banks) is expected. Hence the financial crisis could trigger the consolidation of the German banking sector that experts consider to be necessary. Credit institutions could emerge from the crisis stronger and more efficient in the long term.

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Alternatives to Cartel Agreements in the Construction Sector

Cartels and price-fixing agreements are illegal forms of cooperation between companies, whilst mergers are explicitly approved by competition authorities. The latter can, however, achieve the same effect as a cartel and form a substitute to cartel agreements. In the event of a tightening of the ban on cartels a greater use of mergers is to be expected.

Whilst in Switzerland sanctions against cartel agreements were legally tightened in April 2004, the discovery in 2001 and 2004 of approximately 3,000 illegal agreements related to bid submissions in the construction sector in the Netherlands has led to an increased vigilance with respect to cartels. Subsequently, almost 500 applications for leniency were received by the Dutch competition authorities from the construction sector alone. It can be assumed that



companies are increasingly considering mergers to be a legal form of cooperation. The diagram shows 134 mergers within the construction sector in the Netherlands and 31 corresponding transactions in Switzerland. Moreover it shows

that a wave of takeovers began in the construction sector in the Netherlands between 2001 and 2004. A similar trend can be observed in Switzerland.

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Slight Increase in Transaction Values

The effects of the global financial crisis which had led to a significant decline in transaction values in the first half of 2008 remained largely without consequences for the business of investment banks and private equity firms in the second half of 2008. A slight increase in transaction values can even be observed, from around 680 billion

euro to 841 billion euro for investment banks and from 114 billion euro to 119 billion euro for private equity firms. The number of transactions, both for investment banks and private equity firms, remains largely unchanged.

In the ranking of investment banks, names which will probably be appearing in this table for the last time, for

example Lehman Brothers, can be found. JP Morgan is at the top in the rankings, followed by Goldman Sachs. Amongst the private equity firms, Bain Capital and Thomas H Lee Partners have exchanged places, otherwise predominantly new entries can be found in the rankings.

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Ranking of Investment Banks 2008			
Pos.	Investment Bank	Number of Transactions	Transaction Value (Billion Euro)
1	(9) JP Morgan	111	303.3
2	(1) Goldman Sachs	67	254.4
3	(3) UBS	105	222.2
4	(4) Merrill Lynch	99	219.8
5	(2) Morgan Stanley	114	194.8
6	(7) Citigroup Inc.	81	192.3
7	(5) Lehman Brothers	53	143.1
8	(6) Rothschild	109	132.1
9	(-) Lazard	60	131.8
10	(-) Deutsche Bank	67	122.7
	Others	2,044	125.9
	Total*	2,667	841.4

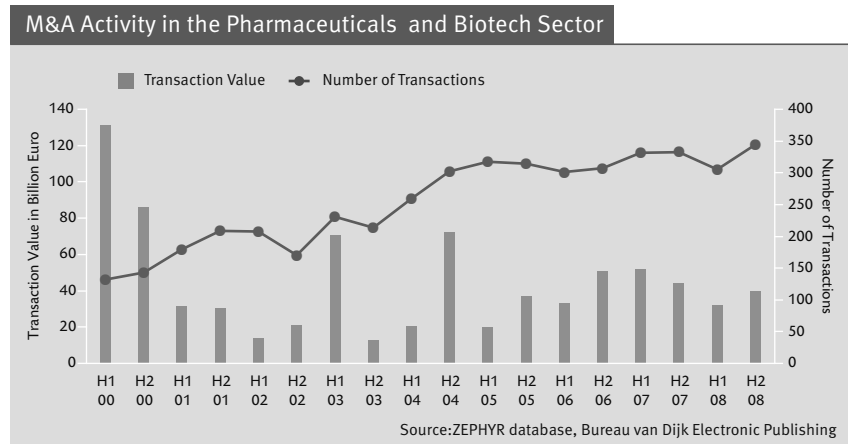
Source: ZEPHYR database, Bureau van Dijk Electronic Publishing
* Total sum due to transactions being handled by various investment banks or private equity firms.

Ranking of Private Equity Firms 2008			
Pos.	Investment Bank	Number of Transactions	Transaction Value (Billion Euro)
1	(2) Bain Capital LLC	10	18.8
2	(1) Thomas H Lee Partners LP	1	15.4
3	(-) Deutsche Bank	3	5.9
4	(-) Access Capital Advisers Ltd	1	4.5
5	(-) Babcock & Brown Capital Ltd	1	4.5
6	(-) AMP Capital Investors Ltd	1	4.5
7	(-) Blackstone Group LP	5	4.2
8	(-) Lone Star Funds	3	4.1
9	(10) Goldman Sachs Capital Partners	2	4.1
10	(9) Avista Capital Partners	5	3.0
	Others	2,613	81.5
	Total*	2,640	119.1

Source: ZEPHYR database, Bureau van Dijk Electronic Publishing
* Total sum due to transactions being handled by various investment banks or private equity firms.

New Mega-Deal in the Pharmaceuticals and Biotech Sector

The number of acquisitions in the pharmaceuticals and biotechnology sector has once again significantly increased in the second half of 2008. The US pharmaceuticals firm Pfizer attracted attention recently through the acquisition of rival Wyeth valued at 68 billion US dollar. Wyeth is the third mega-acquisition to be carried out by Pfizer in the last ten years. With the acquisition of Wyeth, Pfizer is acquiring several leading pharmaceuticals with an annual turnover of more than a billion US dollars. As a result, dependence on individual products, for example the cholesterol-lowering drug Lipitor, should be reduced. Through the acquisition Pfizer is obtaining access to the lucrative vaccines market. Vaccines, with a global turnover of approximately 16 billion US dollar, are, compared with



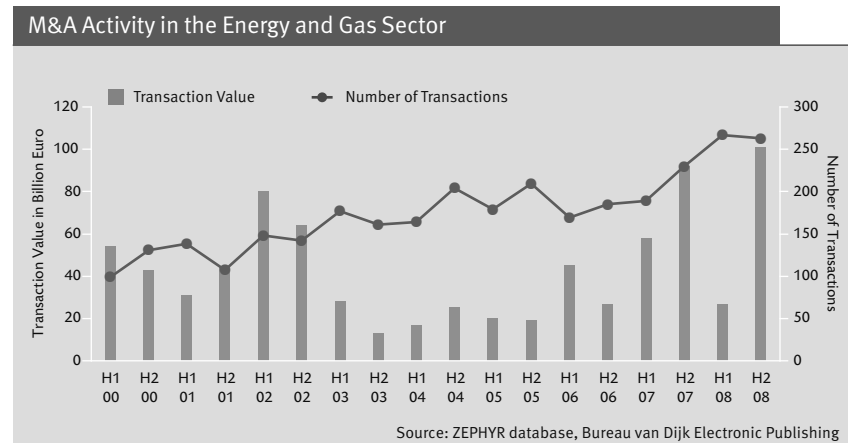
the pharmaceuticals market, a much smaller market but with more potential for growth. Since the outbreak of bird flu and the respiratory disease SARS the global demand for vaccines has vastly increased. As well as being a profitable

business, the vaccines market also offers protection from excessive competition because of the rigid barriers for new competitors.

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Significant Increase of Transactions in the Energy and Gas Sector

Acquisition activity in the global energy and gas sector reached a new high in the second half of last year. Whilst the number of transactions fell slightly compared with the first half of 2008, the total transaction value increased significantly due to several mega-deals. The largest transaction by far was the merger of Unión Fenosa and Gas Natural in Spain with a transaction value of over 13 billion euro. This year, too, there have already been two large acquisitions. The German utility company RWE announced the acquisition of Dutch energy company Essent in January 2009 for more than 9 billion euro. Through the acquisition of Essent, RWE will become a leading energy supplier in the Benelux region. Just six weeks later Swedish electricity firm Vattenfall announced the acquisition of Nuon for almost 8.5 billion euro. Thus another Dutch energy company loses its independence within the space of several weeks. Under terms of an agreement between the two companies, Vattenfall will initially only acquire a 49 percent stake. The remaining 51 percent stake in



Nuon will be acquired over the next six years. The acquisition could restrict competition in the German electricity market. Up until now Nuon has acted as a discounter and has recorded growing customer numbers. The company promotes its electricity as environmentally-friendly since the electricity does not originate from nuclear or coal-fired power stations. Vattenfall, on the other hand, has recently lost a considerable number of customers in Germany due to incidents at the Brunsbüttel and Krümmel

nuclear reactors, amongst other reasons. Despite the acquisition of Essent and Nuon, overall there are indications of a significant slowdown of merger and acquisition activity in the energy and gas sector in the first half of 2009. This is due to the fact that the global financial crisis has resulted in more stringent credit conditions for electricity companies, such that only smaller deals are to be expected in the coming months.

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Reduced Valuation Multiples for M&A Transactions in 2009

The global merger and acquisition business is currently experiencing several problems. Financing possibilities for M&A transactions have worsened in the course of the global financial crisis. The risk that accompanies the acquisition of companies has increased significantly in a volatile market environment. At the same time, however, many quoted companies are already heavily undervalued due to the high level of instability and the current economic downturn.

detailed business valuation. They serve as an indicator of undervaluations and overvaluations or of the attractiveness of particular target sectors.

If the valuation multiples in 2007, 2008 and 2009 – in each case in the period January to February – are compared, it can be observed across almost every sector that the average multiples for EBITDA and turnover for 2009 have decreased in relation to the comparative values for 2008 and 2007.

the beginning of 2009. The ratio between enterprise value and EBITDA has also fallen significantly in other sectors. Whilst the corresponding ratio in the service industry was 11.6 in 2007, in 2008 it fell to 8.2 and in 2009 to 6.3. Companies in the retail sector are valued in a particularly cautious manner. Considerations for companies in this sector represented ten times their EBITDA in 2007. In 2009 the companies are valued at 4.6 times their EBITDA. Many firms in the manufacturing industry and the construction sector are confronted in the course of the global economic crisis with a low order volume and tougher financing conditions. The uncertain future prospects in the medium term are also reflected in the relative considerations paid for companies in this industrial sector. The valuation multiples for EBITDA and turnover in the construction industry fall in 2009 from 6 to 3.8 and from 0.7 to 0.4 respectively compared with the same period in the previous year.

The downward trend of EBITDA and turnover multiples, in some cases by more than 50 percent, which spans several sectors of the economy, reflects the vastly increased uncertainty with regard to corporate mergers and acquisitions against the background of the global financial crisis. The current cautious business valuations could, however, also open up chances of recovery for the M&A market, since they allow strategic acquisitions of companies with stable long term prospects under comparatively favourable conditions.

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One possible way of gaining a quick overview of the valuation of a company is provided by valuation multiples or also multiples which can be applied to financial ratios such as EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) or turnover. Valuation multiples are admittedly sector-specific and therefore consider various risks and revenue expectations of companies within a sector. Nevertheless, they only provide a comparatively approximate and temporary indication of the possible scale of a

This is indicative of a considerably more conservative business valuation. This development is particularly marked in the crisis-ridden financial, insurance and real estate sector. Whilst in 2007 and 2008 15 and eleven times the EBITDA respectively was paid for companies on average, the corresponding multiple in the current calendar year is only just over five. This represents almost a third of the multiple at the beginning of 2007. A similar trend can be seen with the turnover multiple of this sector. It fell from 1.2 in 2007 to 0.6 at

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I M P R E S S U M

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