

M&A Report

Global Mergers and Acquisitions Reports and Analyses

May 2013

M&A Index Germany: Upswing in Mergers and Acquisitions Expected for 2013

The long-awaited upswing in mergers and acquisitions could finally arrive in the course of 2013. The current forecast of the ZEW-ZEPHYR M&A Index Germany indicates a slight recovery of M&A activities in the first half of 2013 as well as a noticeable stimulation of the market in the second half of the year. This expected development is largely due to the positive signals of the indicators used for the calculation of the index. While the OECD's Composite Leading Indicator (CLI), an early indicator of the economic situation, had been decreasing continuously in the first half of 2012, it achieved a turnaround in October 2012 and has since then been growing slightly. The same applies for the number of rumours and acquisitions,

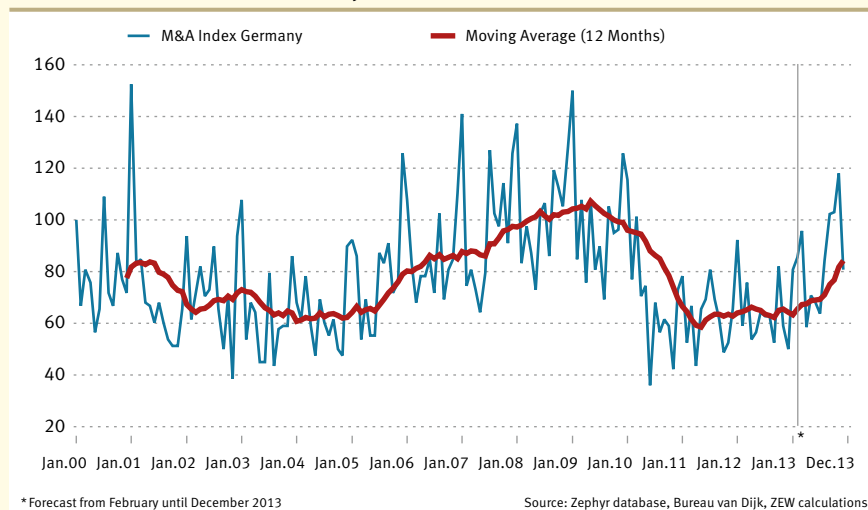
which is considered to be a suitable indicator for the number of deals that will actually be realised in the future. In the second half of 2012, it increased by about 18 per cent compared to the first half-year. Furthermore, the DAX increase of the past months and the still low interest rate level signal a turnaround and have a positive impact on the forecast. The stagnation in mergers and acquisitions that emerged in the beginning of 2011 could thus finally be terminated in 2013.

Since 2011, the 12-month moving average of the ZEW-ZEPHYR M&A Index Germany has constantly been close to the 60-points mark and thus proved the forecast of the last M&A report in October 2012 to be right. The forecast expected



a constant lateral movement around the 60-points mark for the second half of 2012. Displaying 81 points in January, the index had a promising start into 2013 and outstripped the value recorded in December 2012 by 31 points.

ZEW-ZEPHYR M&A Index Germany



Top Deals in the Automobile and Banking Sector

Last year, the highest-volume deal in Germany was completed in the automobile sector: Volkswagen paid about 4.5 billion euros for the acquisition of Porsche. Furthermore, intense movement could be observed in the German banking sector. The transfer of Postbank shares to Deutsche Bank covered a volume of about 2.4 billion euros, and the costs of the takeover of Bausparkasse LBS by Sparkassenverband Bayern amounted to 1.65 billion euros.

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The ZEW-ZEPHYR M&A Index Germany is calculated from the number of M&A transactions completed in Germany every month. Only mergers and acquisitions of and with German companies are taken into account in this index. However, no distinction is made with regard to the country of origin of the buyer or partner. This means that domestic as well as foreign buying companies are taken

into account while the target companies are active in Germany. For the calculation of the prognosis macroeconomic factors are considered. Thus, besides the OECD CLI (leading indicator for the economic development of Germany), the long-term level of interest-rates, the course of the DAX and rumours about future mergers are used for the calculation of a prognosis of M&A activity in Germany.

Consolidation Wave in the US Airline Industry Continues

After the completed mergers of Delta Air Lines and Northwest Airlines (2009) as well as United Airlines and Continental Airlines (2010), another merger of two major US airline companies was announced in February 2013: US Airways and American Airlines plan to merge their companies and create the largest airline company worldwide, based on passenger volumes.

Whether the merger plans will be realisable or not largely depends on the competition authority in charge, the Antitrust Division of the United States Department of Justice. It has to assess the merger's foreseeable effects on competition. On the one hand, horizontal mergers inevitably increase market concentration and are thus under suspicion of reducing com-

petition and causing price increases. On the other hand, such mergers can lead to efficiency advantages counteracting incentives for price increases.

Direct Competition on Routes

It is hard to identify and to quantify potentials for increasing efficiency prior to accomplishing a merger. But analysing individual route markets allows an assessment of the impact on competition. In particular, it will be a subject of such an analysis on which routes the merging parties are currently competing directly with each other, and which consequences are to be expected if this competition is weakened or even eliminated. Moreo-

ver, it has to be analysed to which extent a possible competition of low-cost carriers such as Southwest Airline or Jet-Blue Airways can discipline the remaining incumbent airlines.

If the Department of Justice finally approves the merger – perhaps subjects it to certain conditions which have to be fulfilled by the merging parties –, doubts remain if the consolidation wave among large US airlines of the past years will be continued. In view of more-and-more route markets overlaps between the three remaining major companies United, Delta, and American, further merger plans will certainly be assessed critically and are likely to be prohibited.

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Collapsing M&A Activities in the Pharma Industry

The M&A wave in the pharmaceutical industry of the past years seems to be declining. After years of super deals, reaching a peak in 2009, the worldwide aggregated volume of mergers, acquisitions, joint ventures, and investments of producers of pharmaceutical products decreased in 2012 for the third time in a row. With an aggregated transaction volume of 39.3 billion euros, 2012 is the weakest year re-

garding M&A activities since the beginning of the assessment period in 2003. Transaction volumes within the pharmaceutical industry decreased by 31 per cent in 2012 compared to the previous year. In comparison to the record-breaking year 2009, when the aggregated transaction volume amounted to 123.8 billion euros, the value even decreased by 76 per cent. 2009, however, was a special year since the three

largest transactions together already exceeded the 100 billion-euros mark. With a transaction volume of 45.6 billion euros, the acquisition of US pharmaceutical manufacturer Wyeth by the world's largest pharmaceutical company Pfizer alone exceeded the overall result of 2012.

Demergers Possibly Ahead

Gilead Sciences Inc. executed the largest deal in 2012. The US pharmaceutical and bio-technological company company paid some 8.9 billion euros for the acquisition of Pharmasset Inc., which was concluded in January 2012. It was the by far most expensive M&A deal in the company's history. Considering the current rumours regarding M&A activities, the last year's trend seems to be continuing in 2013, and large deals are not to be expected. Apparently, many diversified pharmaceutical companies want to strengthen their focus on their core business. Abbot Laboratories and Pfizer, for example, have already divested parts of their portfolio. According to rumours, this is the beginning of a wave of demergers.

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M&A Activities in the Pharmaceutical Industry



European Power Companies: No Frequent Shopping Trips Abroad – Focus Mainly on Europe

M&A activities of European power companies have increased significantly since the liberalization of the European energy sector in the 1990s. The acceleration directives helped to overcome the stagnation of M&A activities at the end of the 1990s and in the first decade of the 21st century. Since 2005 European energy suppliers are becoming more courageous. In February 2007 the cumulated value of mergers amounted to more than 100 billion euros. The focus of their acquisition activity, however, was mainly a European one.

Only Few Companies in Non-European Countries on the Buying List

In the middle of the last decade, European power companies' interest shifted towards Eastern Europe. After the severe financial and economic crisis in 2008 and 2009, M&A activities stabilized at a moderate level in Eastern Europe, too. The average volume of acquisitions in Europe, however, decreased over the years. The transaction volume melted from 360 billion euros in 2008 to 140 billion euros in 2012. The highest average transaction volume was realized in the year 2006, when slightly more than one billion euros per transaction were reached. It is striking that European power companies have hardly been interested in non-European countries, except of some individual transactions.

Is Europe Missing the Boat?

The large peaks in worldwide acquisitions in the middle of the last decade (see figures) are mainly driven by European acquisitions. They represent extreme outliers. Even compared to the active periods 2000/2001 and 2008 to 2010, duplication up to quadruplication of transaction volumes can be observed. Altogether, worldwide acquisition activities in the energy sector are less affected by the global economic crisis than with a purely European focus.

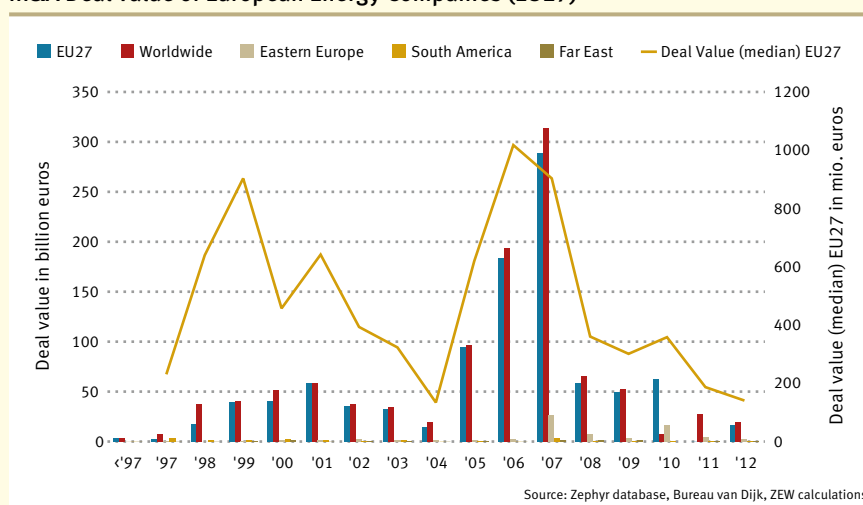
Comparing the three smaller M&A markets in Eastern Europe, South America, and Eastern Asia, it is striking that the

Eastern European market was indeed the most important one. However, in the last five years the South American as well as the Eastern Asian market have been developing more dynamically and have been experiencing an upswing. The Eastern European market, however, is increas-

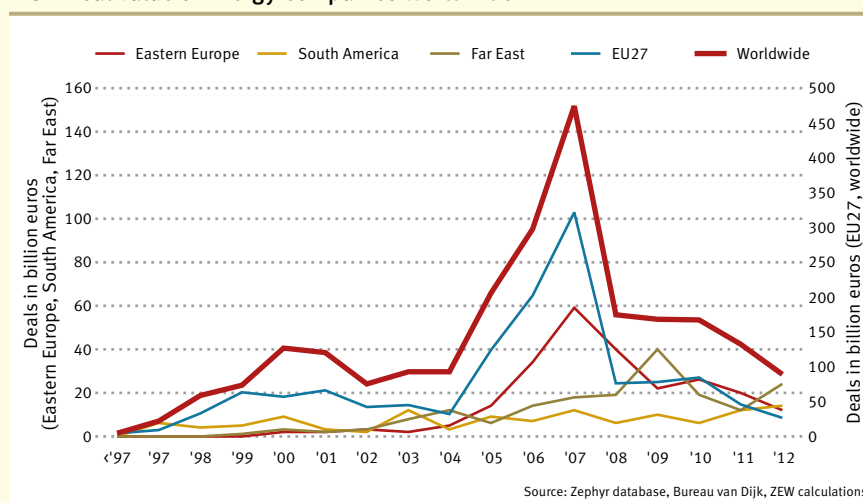
ing growth, for instance in China, whose economy has been growing continuously during the past years within at least a high single-digit range.

On the other hand, China is not only seeking strong growth within the conventional energy sector, but also with re-

M&A Deal Value of European Energy Companies (EU27)



M&A Deal Value of Energy Companies Worldwide



ingly regressive. The Asian acquisition market in particular did not show any signs of being affected by the global economic crisis and has had strong years in 2009 and 2012. Both markets, the South American and the Eastern Asian, have positive prospects. On the one hand, expectations are driven by strong econom-

newables, attracting foreign investors for mergers and acquisitions. "Eco-Cities", which were developed in joint projects with the German Energy Agency (DENA), are good examples of this strategy. Eco-Cities are mainly or even entirely fed with renewables.

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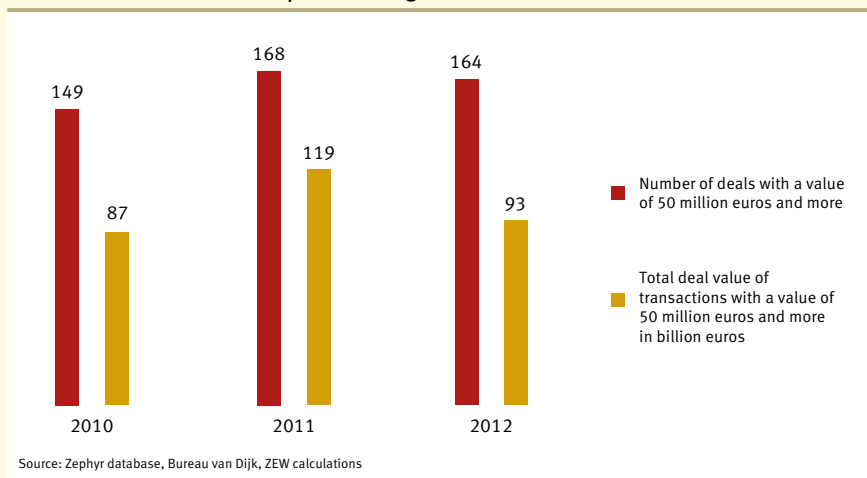
M&A Activities in the Transport and Logistics Sector – Large Transactions in 2013 Expected

In January 2013, the European Commission ruled out the acquisition of Dutch parcel service TNT Express by American logistics company UPS. UPS intended to catch up with the current market leader Deutsche Post DHL at the European market for express parcel services through

approved, this would have led to a high market concentration in the segment of express parcel services in many EU member states. Many customers would only have had the choice between UPS, DHL, and (in some cases) FedEx. In turn, this quite likely would have led to price in-

euro or more amounted to 164 mergers and acquisitions, as compared to 168 transactions in the previous year. European companies were involved as buyers or sellers in 45 transactions. The overall volume of transactions with a value of 50 million euros or more decreased from 118.5 billion euros in 2011 to 92.8 billion euros in 2012; the volume of transactions involving a European company was 20.5 billion euros.

M&A Activities in the Transport and Logistics Sector



the 5.2-billion-euro merger with TNT, announced at the EU Commission in June 2012. According to the EU Commission, however, the merger of these companies would have led to competition problems at the national markets of 15 EU member states. UPS's commitment to sell TNT affiliates in the respective member states was not enough to clear up the Commission's concerns. If the merger had been

approved, this would have led to a high market concentration in the segment of express parcel services in many EU member states. Many customers would only have had the choice between UPS, DHL, and (in some cases) FedEx. In turn, this quite likely would have led to price in-

creases. Advantages of the merger, such as the merging of the air freight networks of UPS and TNT would not have outbalanced the negative impacts of a leading market position of a merged company, according to the EU Commission. Altogether, M&A activity within the transport and logistics sector remained relatively constant in 2012: the number of transactions with a value of 50 million

Outlook for 2013

In 2013 further large transactions in the transport and logistics sector are to be expected. The anticipated privatization wave of US container ports will likely contribute to increased M&A activity within this area. Moreover, Russia plans a further round of privatizations for large companies with government involvement, including among others shipping and airline companies.

Positive impact on M&A activities is expected to emerge from Europe. The Europe 2020 Project Bond Initiative, which was launched by the European Investment Bank in order to finance infrastructure projects, will enter the pilot phase this year. The initiative is designed to improve the access to capital market financing from private investors for lead partners in the area of infrastructure.

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