ZEW
Zentrum für Europäische Wirtschaftsforschung GmbH
Centre for European Economic Research

BUREAU VAN DIJK
ELECTRONIC PUBLISHING

M&A Report

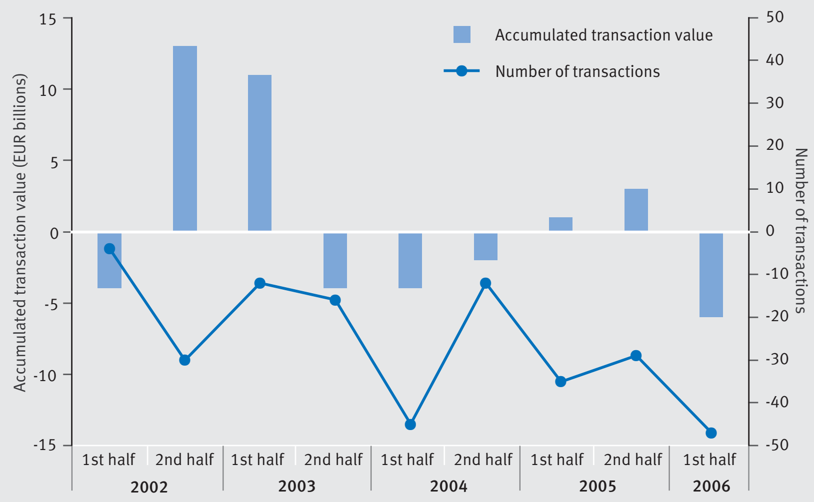
Reports and analyses on global mergers and takeovers

October 2006

Are German companies in clearence sale?

Are German companies an „easy victim“ for foreign investors? Is a clearance sale of German industry taking place? Judging by the press releases issued by traditional German companies that have fallen within the sights of British or American private equity companies, the answer would seem to be yes. Despite this, German conglomerates have also come to prominence recently by making acquisitions abroad. For example, the energy company E.ON AG is just about to take over the Spanish company Endesa in a deal worth billions, and this is after it paid several billion euros to take over the British company PowerGen in 2002.

Transaction volume totals and the number of transactions of German companies abroad and foreign companies in Germany



Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

German M&A balance sheet

Nevertheless, there is still no clear illustration that indicates the balance of the numerous M&A transactions that have taken place; and this is something which, against the background of this emotive debate seems essential. To this end, this analysis balances both the transaction volumes and the number of transactions that German companies have completed abroad against those of foreign investors in Germany. We have only reviewed here completed mergers and acquisitions within a period of 2002 to mid-2006, in which at least 50% of the ownership rights were transferred.

Initially, this analysis appears to confirm our initial assumption: In all the six-month periods under observation, a negative balance in relation to the number of transactions emerges. Foreign investors are certainly operating more in Germany than vice versa. However, the picture in relation to transaction volumes is less clear. For four of the nine 6-month periods, the balance is positive. On average, German acquisitions abroad also enjoyed a higher volume than takeovers completed by foreign investors in Germany.

It is also interesting to see the proportion of the entire M&A market constituted by international transactions. Here, it appears that international mergers and takeovers amount to 82% of transaction volume and 61% of the total number of transactions. In other words: Only 18 and 39% respectively of all transactions are domestic German. If, in a next step, we reduce the scale of the picture from abroad in general to EU member states only, the proportions of national transaction volume and the total number of transactions rise only moderately, to 38% and barely 50% respectively. Thus, the lion’s share of international transactions is clearly constituted by those undertaken within the EU.

Major transactions abroad

It is clear from this that the data does not show anything like a clearance sale of German industry. On the contrary: German companies are increasingly playing a conspicuous role abroad by engaging in spectacular, large-scale transactions. At the same time, increasing numbers of foreign investors seem to be shopping around for medium-sized firms in Germany.

Dr. Christoph Grimpe, grimpe@zew.de
Tobias Pröll

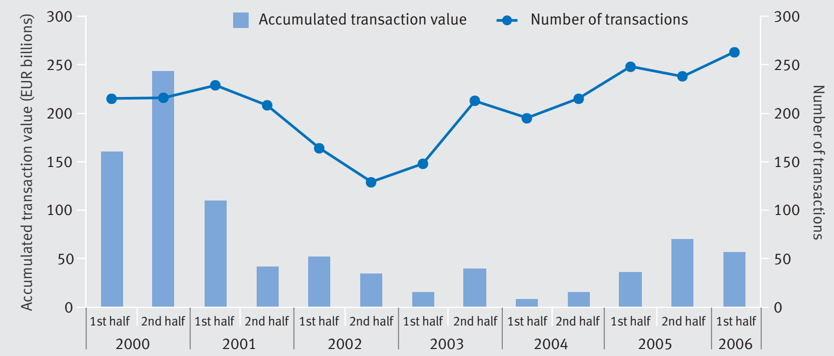
M&A activity in telecommunications sector on the rise

Over the last 12 months, the global transactions activity in the telecommunications sector has picked up once more. Even before the drastic collapse of 2001, the M&A market was displaying a rising tendency in this sector. In the first six months of 2006, the acquisition of the British mobile phone operator O2 by the Spanish company Telefónica constituted the major contribution to transaction activity.

Prior to this, there had been a lot of wild speculation precisely around the takeover of O2, as O2 had been up for sale for a lengthy period. Even Deutsche Telekom showed some interest in a takeover and, at EUR 26 billion, its offer was actually higher than the purchase price eventually paid by Telefónica. For the shareholders of O2, however, the offer of Deutsche Telekom proved less attractive in the end: The German conglomerate wanted to pay the bulk of the purchase price in shares, whereas Telefónica's offer was essentially in cash. In the meantime, the fifth largest European telecoms company, Telecom Italia, has been looking at a sale of its mobile phone subsidiary. The main interest here could come from both Deutsche Telekom and France Télécom.

Dr. Christoph Grimpe, grimpe@zew.de
Sven Jung

Transactions in the telecommunications sector



Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

M&A consultancy sector faces a record year

There is less movement over last six months in investment bank rankings. Lazard was the only new entry in the top 10. Morgan Stanley is now in pole position, having risen from third to first place. Overall, the number of investment bank-attended transactions increased by around 14%, rising from 3,334 in the previous six-month period to 3,895 at present. Accumulated transaction value increased by 13% to around EUR 2.5 billion.

Overall, this means that the M&A consultancy sector is facing another record year. There is also a lot more movement in the rankings of private equity companies. Here, both Blackstone and the Carlyle Group are leading the pack. Apart from these two companies, however, only three others managed to remain in the top 10. The 6 to 10 spots were all occupied by companies that had never been in the ranking before.

The number of private equity transactions concluded remains virtually unchanged. In contrast, accumulated transaction value fell by more or less 50% to EUR 324 billion.

Dr. Christoph Grimpe, grimpe@zew.de
Tobias Pröll

Investment bank ranking

Position		Investment bank	Transaction value (EUR billions)	Number of transactions
1	(3)	Morgan Stanley	216	125
2	(2)	Goldman Sachs	209	76
3	(6)	Citigroup	192	144
4	(5)	JP Morgan	189	106
5	(1)	Merrill Lynch	189	114
6	(4)	UBS	181	149
7	(7)	Lehman Brothers	111	73
8	(-)	Lazard	101	79
9	(9)	Deutsche Bank	99	58
10	(10)	Credit Suisse First Boston	86	89
		Other	889	2.882
		Total	2.462	3.895

Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

Private equity company ranking

Position		Company	Transaction value (EUR billions)	Number of transactions
1	(1)	Blackstone Group LP	25	11
2	(2)	Carlyle Group	15	20
3	(7)	Cerberus Capital Management LP	14	2
4	(3)	Kohlberg Kravis Roberts & Company	12	6
5	(6)	Thomas H Lee Partners LP	12	3
6	(-)	Hellman & Friedman LLC	9	4
7	(-)	Alpinvest Partners N.V.	9	3
8	(-)	Bain Capital Inc.	8	13
9	(-)	Colony Capital Inc.	7	2
10	(-)	Goldman Sachs	6	22
		Other	107	4.956
		Total	324	5.042

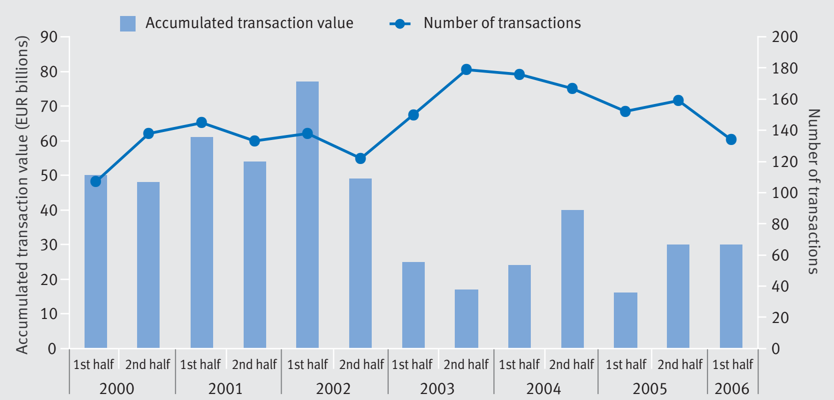
Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

New M&A wave in the European energy sector?

After a number of transactions at the start of the decade – including the takeover of VIAG AG by VEBA AG in 2000 for EUR 13.9 billion, of Coastal Corporation by El Paso Corporation in 2001 for EUR 17.0 billion and of PowerGen PLC by E.ON AG in 2002 for EUR 14.2 billion – the accumulated transaction value of M&A activities in the energy sector dropped significantly in 2003, despite an increasing number of transactions, and since then has remained at a relatively low level. So, the imminent takeover of the largest Spanish supplier Endesa by the German energy conglomerate E.ON could just turn out to be the opening shot in a new round of consolidations in the European energy sector. The clear position taken by the European Commission, which is intensively promoting the free internal market, is also encouraging international transactions. In addition, Russian suppliers, led by Gazprom, are playing an increasingly important role on the global energy market. Over the last three years, Gazprom has significantly been building up its position through acquisitions, especially on the Russian market. The largest of these transactions was the takeover of Sibneft for EUR 9.7 billion last year. Gazprom's market capitalisation is now greater than its largest European counterparts, such as E.ON, ENI or Electricité de France.

Dr. Tereza Tykvová, tykvova@zew.de

Transactions in the energy sector



Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

Private equity firms increasingly active outside IT sector

More and more use is being made of participations as a corporate financing instrument in the production sector. Thus, in the last 12 quarters, private equity participations in the chemicals industry (NACE 24), the engineering sector and producers of electrical equipment and components have increased fourfold. This shows the increasing use being made of this financing instrument. With IT service providers and software houses (NACE 72), in contrast, the number of participations has remained constant over the same period. The use of private equity lends itself to this sector in particular, where companies operate with relatively little investment capital. The positive experience provided by these transactions could explain why this instrument is increasingly being used in the sectors in which external financing is the norm.

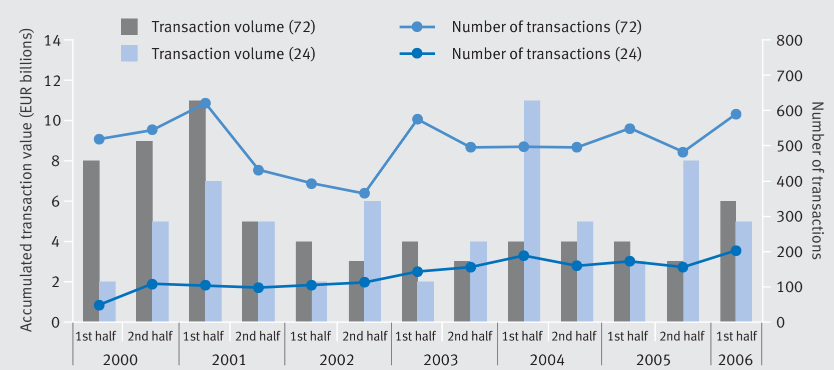
In addition to their involvement in the above-mentioned sectors, there have also been signs recently that private equity companies have jumped into the semiconductor industry. Thus, Philips Electronis sold 80% of its semiconductor branch to a group of private equity companies.

Furthermore, a consortium of investors took over the American company Freescale Semiconductor (previously Motorola), with a transaction volume of 16 billion US dollars. This is a sign that the semiconductor industry has now established itself and has left behind the volatility of its early years. Whether this trend will continue, however, remains to be seen. The Financial Times Germany reports that private equity participations in automotive sub-suppliers are expected to involve major credit losses over the next two years.

Dr. Patrick Beschorner, beschomer@zew.de

Tobias Pröll

Transactions in the chemical industry (NACE 24)/with IT service providers (NACE 72)



Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

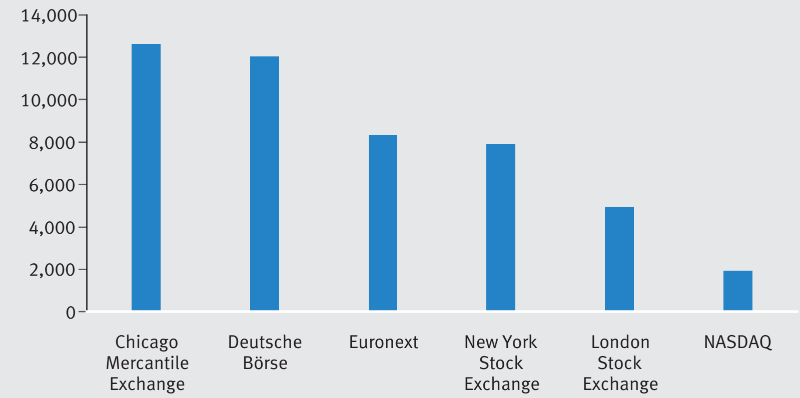
Changes to the European stock exchange scene

For a while the European stock exchange scene has been undergoing a period of significant change. Owing to differences between national regulatory frameworks, the European stock exchange scene is heavily fragmented. For this reason, cross-border transactions are harder to process than domestic transactions and can only be handled by incurring higher costs. Thus, the disparities between stock exchange systems are an obstacle to the creation of a single European capital market.

This is why the stock exchange environment has been in need of consolidation considerable time and this process has begun to gather momentum in recent years. This was triggered by the general migration from broker-supported trading floor activity to electronic trading systems. Although these systems enable securities transactions to be carried out in seconds, they also necessitate higher investment costs. The common use of these trading systems could reduce transaction costs considerably.

The complete integration of European share markets is, however, a distant prospect. This was demonstrated recently by the failed merger project between the German stock exchange and the European international exchange, Euronext. Previously, the merger between the German Stock Exchange and the London Stock Exchange (LSE) also collapsed. The sticking points responsible for this failure were both the choice of headquarters of the merged company and the two companies' different business models. The German Stock Exchange model integrates in organisational terms trading and processing of securities transactions. This means that it is possible to offer all services, from implementation to processing of securities transactions, under one roof. In the Euronext model, in contrast, trading and processing are separated from each other and provided by different companies. For this reason, the fee creation process is more transparent right along the value addition chain.

Market capitalisation (EUR millions)



Source: Own research

The collapse of the merger offered provided an opportunity to other stock exchange operators to participate in European stock exchanges. Instead of merging with the German Stock Exchange, Euronext is now about to merge with the New York Stock Exchange (NYSE). Its competitor, the technology exchange NASDAQ, has meanwhile risen to become the largest shareholder in the LSE and, according to newspaper reports, is now planning a hostile takeover bid for autumn this year. Hence, the German stock exchange is gradually running out of potential merger partners. It is certainly true that after the takeover of Euronext, the NYSE, when measured in terms of market capitalisation, continues to be one of the three largest stock exchanges in the world and, with its future exchange Eurex, has the global market leader in futures trading under its roof. Nevertheless, the pressure to merge will continue to increase. This is why the German exchange has joined up with the Swiss WX group, in order to set up a common exchange for securitised derivatives.

However, merger fever is also putting smaller exchanges under pressure. Mergers between the major exchanges are threatening to push them onto the sidelines. Thus, the stock exchanges in Stockholm, Helsinki and Copenhagen and also the three stock exchanges in the Baltic states have merged to become the Nordic stock exchange company OMX, while the Italian exchange Borsa Italiana is seeking a three-handed linkup with both the German Stock Exchange and Euronext. It remains to be seen whether the German Stock Exchange can maintain its position in Europe without having to enter into another merger.

Matthias Köhler, koehler@zew.de

ZEW
Zentrum für Europäische Wirtschaftsforschung GmbH
Centre for European Economic Research

BUREAU VAN DIJK
ELECTRONIC PUBLISHING
Europe's leading provider of electronic corporate data

Publication Details

The M&A Report is produced jointly by Zentrum für Europäische Wirtschaftsforschung (ZEW) and Bureau van Dijk Electronic Publishing (BvDEP). It reports twice a year on current topics and developments in global corporate mergers, drawing on the ZEPHYR database. ZEPHYR provides detailed information on 330,000 M&A, IPO and private equity transactions worldwide.

M&A Report Project Team: Dr. Christoph Grimpe (Point of Contact), ZEW
Telefon 0621/1235-381, Telefax -170, E-Mail grimpe@zew.de;
Dr. Patrick Beschorner, Sven Jung, Matthias Köhler, Tobias Pröll, Dr. Tereza Tykvová, ZEW; Nina Krafft, BvDEP

Zentrum für Europäische Wirtschaftsforschung GmbH (ZEW) Mannheim
L 7, 1 · 68161 Mannheim
Tel. +49 621 1235-01 · Fax +49 621 1235-224
Internet: www.zew.de

Bureau van Dijk Electronic Publishing GmbH
Hanauer Landstraße 175 - 179
60314 Frankfurt am Main
Telefon Tel. +69 963665-40 · +49 69 963665-50
Internet: www.bvdep.com