



M&A Report

Global Mergers and Acquisitions Reports and Analyses

November 2007

Europe's banking landscape in motion

Up until now, more has been invested in mergers across all industrial sectors in 2007 than ever before. Almost \$3 trillion has already been paid out for corporate acquisitions. Acquisition fever has also seized the European banking sector: The value of transactions has tripled over the past few years to \$290 billion currently. Cross-border mergers and acquisitions have contributed most to this. For example, the acquisition by the Spanish Santander Central Hispano of the British Abbey National in 2004 for €12 billion, and the acquisition of the German Hypovereinsbank by the Italian UniCredit in 2005.

Furthermore, another large merger has been on the horizon for several months. The catalyst was the demand by British hedge fund TCI – one of the main shareholders of ABN Amro – to break up the Dutch bank or to seek a merger with another bank. The hedge fund had long been dissatisfied with the sluggish development of ABN Amro. For this reason, almost a month later exclusive negotiations were entered into with the British Barclays Bank. Barclays hopes that through a merger it will profit from the Dutch bank's strong market position in the USA, Brazil and Asia. However, a consortium consisting of the British Royal Bank of Scotland (RBS), the Dutch-Belgian Fortis and the Spanish Santander entered into the running with a significantly higher bid at the end of April. The intention is to divide the bank amongst the members of the RFS consortium following the purchase. This acquisition would also have important effects on the corporate client, investment banking and private client sectors in

Asia. Meanwhile, TCI has indicated that it is in favour of the bid from the RFS consortium, whilst the management of ABN is striving for a partnership with Barclays. If either of the bidders are selected, it would represent by far the largest acquisition in the European financial sector. In spite of the mortgage crisis in the United States and its consequences for the equity markets, international merger and acquisition activity appears to be continuing to develop positively.

The increasing tendency towards cross-border mergers and acquisitions indicates that the importance of possible obstacles such as bureaucratic complications or different regulations has declined over the past few years. Thus, a higher number of transactions would signal an increased degree of integration of the banking markets. Particularly, retail-banking markets appear to be more integrated, since the most effective way to gain access to foreign bank-

Top five deals in the European financial sector since 2000

| Value in € billion | Deal type | Bidder | Target | Year |
|--------------------|---|---|---|----------------------|
| 71,1 (est.) | planned 100% acquisition | Consortium led by RBS (RFS Holding, NL) | ABN Amro (NL) | expected end of 2007 |
| 38,9 | 100% acquisition | Royal Bank of Scotland (GB) | National Westminster (GB) | 2000 |
| 29,6 | 100% acquisition | Banca Intesa (IT) | SanPaolo IMI (IT) | 2006 |
| 19,0 | Increase in stake from 17.8% to 97.57% | Crédit Agricole SA (F) | Crédit Lyonnais SA (F) | 2003 |
| 17,8 | Merger of corporate banking divisions to form „Natexis“ | Natexis Banques Populaires (F) | Caisse Nationale des Caisses d'Epargne et de Prevoyance (F) | 2006 |

Source: ZEPHYR-database, Bureau van Dijk Electronic Publishing

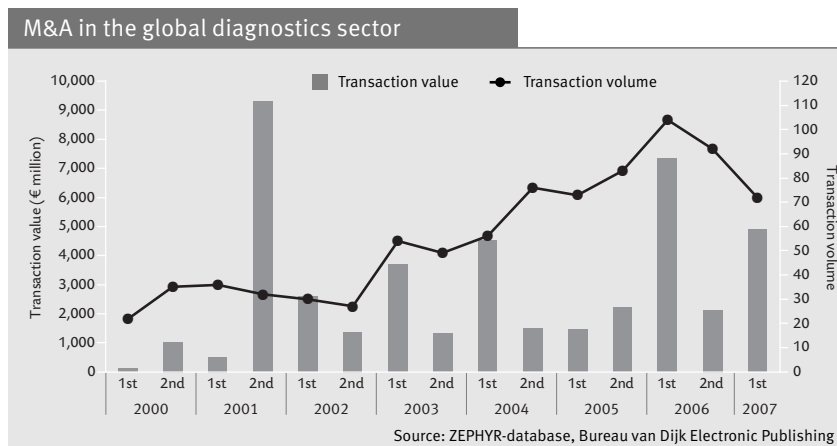
The trend appears to be towards large transactions. This is also reflected by the increasing average size of mergers and acquisitions in the banking sector. Most notably large banks are increasingly emerging as purchasers. They take over or merge with existing banks to increase efficiency and to get local market power. Since they are rarely able to acquire competitors within national borders for antitrust reasons, more cross-border mergers are to be expected in the future.

ing markets seem to remain the merger with or the acquisition of an existing local bank. A comparison with the number of domestic and cross-border transactions in other sectors of the economy, however, shows that cross-border mergers in the banking sector still play a subordinate role. It therefore seems that despite regulatory harmonisation EU retail-banking market integration is still incomplete.

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High level of transaction activity in the diagnostics sector

The ongoing international restructuring within the diagnostics sector is not yet complete. Siemens is currently planning an acquisition of the US company Dade Behring worth billions. This is the third large acquisition in this area to be carried out by Siemens in the space of only one and a half years since Siemens' medical technology division entered into this business area, following its acquisition of Diagnostic Products Corporation and of the diagnostics division of Bayer. Other large companies have also been active in this field. Several months ago General Electric was interested in the number two in this sector, the diagnostics division of Abbott, but was not successful. Philips, Hewlett-Packard, Toshiba or Microsoft are also regarded as potential bidders



for diagnostic companies. Simultaneously with the arrival of buyers from outside the industry, the sector has also undergone intense consolidation from within. For instance, the market leader

Roche has strengthened itself over the past few months via several acquisitions, for example through the acquisition of the US company Ventana.

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Transaction values and volumes rise significantly

The size of M&A transactions handled by investment banks has risen significantly in the last half-year both in terms of transaction value and transaction volume. The transaction value has doubled to more than €7.7 trillion, whilst the volume has risen by around a third to around 4,600. With slight shifts amongst them, the trio consisting of Morgan Stanley, Citigroup and Goldman

Sachs has retained its leading position. There are few changes in the other positions. Only Deutsche Bank achieved a return to the top ten at number nine.

Whilst the total value of private equity deals also rose by almost 100 per cent to €996 billion, the volume of transactions declined by almost 50 per cent to 2,474. This indicates a substantial increase in average transaction size.

The market leader here is Kohlberg Kravis Roberts (KKR), which retained its top position as a result. Furthermore, there have been several new entries which carried out fewer, but similarly large, transactions.

Among these, Morgan Stanley, Thomas H Lee Partners and Providence Equity Partners lead the field.

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| Ranking of investment banks | | | | |
|-----------------------------|---------------------|-------------------------------|--------------------|--|
| Position | Investment bank | Transaction value (€ billion) | Transaction volume | |
| 1 | (3) Morgan Stanley | 927 | 231 | |
| 2 | (1) Citigroup Inc. | 924 | 279 | |
| 3 | (2) Goldman Sachs | 909 | 204 | |
| 4 | (8) UBS | 853 | 275 | |
| 5 | (7) Lehman Brothers | 758 | 161 | |
| 6 | (5) Credit Suisse | 699 | 202 | |
| 7 | (4) Merrill Lynch | 647 | 200 | |
| 8 | (6) JP Morgan | 629 | 195 | |
| 9 | (-) Deutsche Bank | 597 | 109 | |
| 10 | (9) Rothschild | 463 | 221 | |
| | Others | 314 | 2,530 | |
| | Total | 7,720 | 4,607 | |

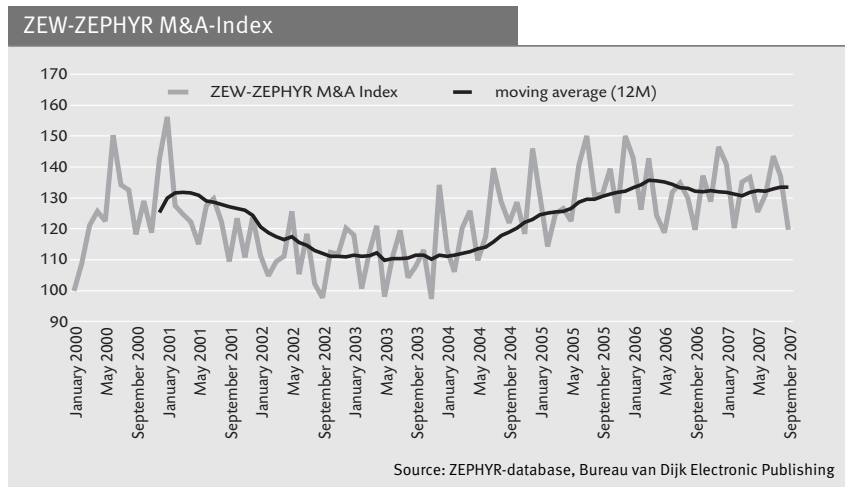
Source: ZEPHYR-database, Bureau van Dijk Electronic Publishing

| Ranking of private equity firms | | | | |
|---------------------------------|---------------------------------------|-------------------------------|--------------------|--|
| Position | Company | Transaction value (€ billion) | Transaction volume | |
| 1 | (2) Kohlberg Kravis Roberts & Company | 83 | 13 | |
| 2 | (-) Morgan Stanley | 57 | 15 | |
| 3 | (-) Thomas H Lee Partners LP | 55 | 4 | |
| 4 | (-) Providence Equity Partners Inc. | 52 | 7 | |
| 5 | (10) Citigroup Inc. | 51 | 8 | |
| 6 | (6) Carlyle Group, The | 50 | 27 | |
| 7 | (3) Bain Capital LLC | 48 | 9 | |
| 8 | (-) Madison Dearborn Partners LLC | 46 | 3 | |
| 9 | (-) Deutsche Bank | 45 | 3 | |
| 10 | (-) Credit Suisse | 41 | 12 | |
| | Others | 468 | 2,373 | |
| | Total | 996 | 2,474 | |

Source: ZEPHYR-database, Bureau van Dijk Electronic Publishing

Global M&A activity slightly down

Global merger and acquisition activity has slightly decreased until the end of September 2007. The ZEW-ZEPHYR M&A Index records a slight decline in September with 120 points compared with 137 points in August and 143 points in July. In this respect, the September index value also marks a decrease below its average level of 123 points since records began in January 2000. In addition, the index seems to be far away from the previous peaks of January 2001 (156 points) as well as July and December 2005 (150 points in each case). The trend for further development is not clear. On one hand, the mortgage crisis in the USA, which has already left its mark on the equity markets, may also have an effect on the M&A market and further slow down M&A activity. On the other hand, opportunities for



larger mergers and acquisitions may arise precisely as a result of crisis situations, for example in the banking sector. Furthermore, the international economic climate continues to be robust,

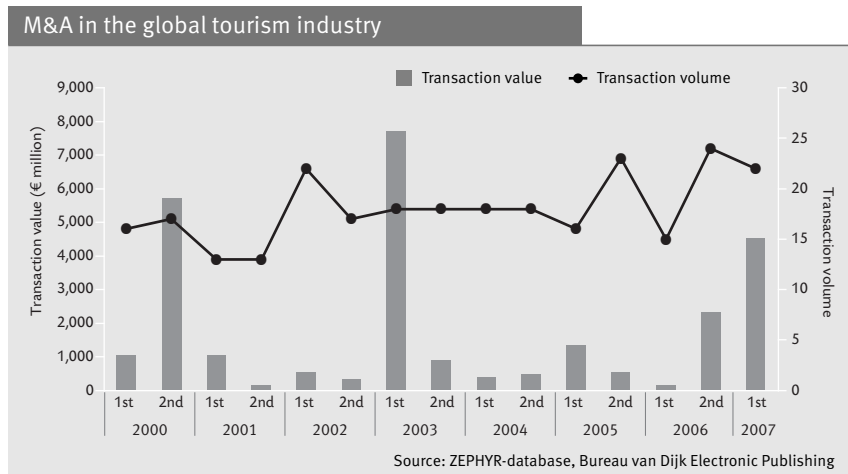
in such a way that the merger and acquisition market may still experience a fundamental revival leading to higher index values.

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Tour operators lead where airlines follow

The global tourism industry has drawn attention recently with several spectacular mergers. Whilst travel agencies and tour operators are characterised by only small annual fluctuations and the annual transaction value only rarely surpasses the billion Euro mark, single transactions with exceptionally high transaction values are particularly noticeable. These then dominate the annual transaction value.

The current market leader TUI initiated a series of large transactions with the acquisition of Thomson Travel Group in 2000 valued at €3 billion. In 2003, Carnival Corporation acquired P&P Cruises for almost €7 billion. In the first half of 2007, the value is mainly determined by transactions carried out by market leaders. Thomas Cook, the second largest tour operator in Europe, merged with KarstadtQuelle subsidiary MyTravel in February this year and thereby reduced the gap between itself and the market leader TUI. The latter promptly reacted with a merger with the British First Choice Holidays. However, when the Eu-



ropean Commission approved this transaction in June this year, it imposed the condition that TUI divests its Irish unit Budget Travel.

M&A transactions amongst tour operators are closely connected to mergers between airlines such as Air Berlin and LTU, which offer flights as part of tour operator packages. This merger was approved by the German Cartel Office which expressly observed in its de-

cision in August this year that tour operators can exert a great deal of power in negotiations compared to smaller airlines. The concentration of the air traffic market could therefore be seen as a reaction to increasing concentration in the upstream market. Both developments could lead to higher travel costs for consumer in Europe.

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Wave of consolidation of local electricity suppliers subsides

The German Verbundunternehmen (i.e., vertically integrated electricity suppliers which own the country's electricity transmission network and the bulk of generation), in particular E.ON and RWE, have pursued a distinct policy of vertical expansion seemingly in antici-

particularly as the willingness of energy consumers to change suppliers remains extremely low.

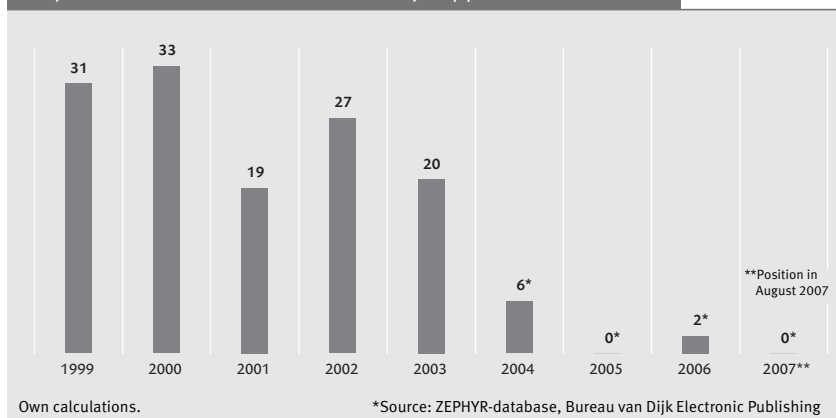
The German Federal Cartel Office revised its merger control policy in 2002 and has increasingly rejected mergers or imposed conditions and obligations

2007. The expectation expressed by industry experts that institutional investors would have a greater interest in participations in municipal utilities has thus far not been confirmed. This is despite the fact that the prospects in terms of earning power in the energy sector are regarded as stable and predominantly municipally controlled suppliers display large potential for efficiency improvements. It is only in isolated cases that municipal utilities are acquired by investors from outside the sector.

One explanation could be that the best companies are unavailable and the remaining potential targets are not very attractive to private equity companies. The increasing pressure by the European Commission could negatively affect the earning prospects of the energy utilities. An alternative explanation could be that municipal utilities only appear profitable to upstream energy suppliers. This could either be because they enable synergies in the process of vertical integration (efficiency effect) or because they can restrict the access of competitors to the network through continuous control at different levels of the network (market power effect). Even though the reasons are as yet unclear, the selling off of predominantly municipally controlled local suppliers appears, at present, to be ceasing. It remains to be seen over the next few years whether and with which partners the restructuring plans announced in industry circles are put into action.

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Acquisitions of German local electricity suppliers



pation of the competition triggered by the liberalisation of the energy market. By the end of 2003 they had acquired over 130 equity participations at the local supplier level, mostly within their grid net areas. Typically, incumbent suppliers have very high market shares in their distribution areas. In all regional markets which were investigated by the German Federal Cartel Office, these market shares exceed the threshold for market domination imposed by the German Act against Restraints of Competition. In this way, the vertical integration of electricity suppliers and municipal utilities allows suppliers to secure almost exclusive access to private households and commercial consumers, par-

on mergers between local suppliers and the four leading suppliers in Germany. This is also one of the reasons why greater interest is expected in the sector from financial investors. There are still several hundred independent suppliers active in Germany. In the face of the growing pressure of competition and the precarious municipal budgets, municipalities are increasingly willing to sell off their utilities.

Nevertheless, the number of mergers has greatly decreased following the amendment of the merger control policy. The Zephyr database only records eight completed participations in local suppliers carried out by the four Verbundunternehmen between 2004 and

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I M P R I N T

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