

M&A Report

Global Mergers and Acquisitions Reports and Analyses

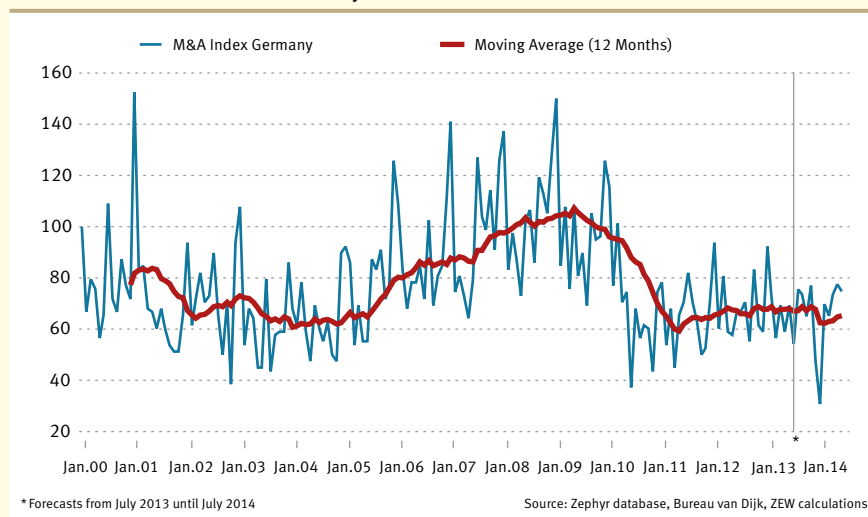
November 2013

M&A Index Germany: Movement Still Sluggish

In the first half of 2013, Germany's mergers and acquisitions market saw little movement. Since February ZEW's ZEPHYR M&A Index has fluctuated between 56 and 73 points. At no point did the index exceed 70 points for a pro-

longed period in the first six months of the year. In June, the ZEW-ZEPHYR M&A Index for Germany measured 69 points, two higher than in June of last year. January 2012, values deviated by no more than four points, from 65 to 69. Despite this protracted stagnation, M&A activity in Germany is doing better than on the international market. The international ZEW-ZEPHYR M&A Index, which meas-

ZEW-ZEPHYR M&A Index Germany



longed period in the first six months of the year. In June, the ZEW-ZEPHYR M&A Index for Germany measured 69 points, two higher than in June of last year.

Protracted Stagnation

The protracted stagnation on the German M&A market is also shown by the course of the index-linked 12-month average. After the marked drop in 2010, the index fluctuated between 60 and 69 points since the beginning of 2011. Since

January 2012, values deviated by no more than four points, from 65 to 69. Despite this protracted stagnation, M&A activity in Germany is doing better than on the international market. The international ZEW-ZEPHYR M&A Index, which meas-

Market Unlikely to Pick up soon

The current ZEW-ZEPHYR M&A Index for Germany predicts that market activity will remain constant, hovering around 70



ures mergers and acquisitions worldwide, has been trending downwards since July 2011; unlike the German index, it has shown scarce signs of stabilization. Despite the continued uncertainties in the Eurozone, German M&A markets remain comparatively attractive for investors.

Mega Deal Announced

Nevertheless, on the Germany mobile phone market, the planned acquisition of E-Plus by O2 means a new billion-euro merger in the offing. In case the intended merger goes through, the customer numbers for these companies, which now trail T-Mobile and Vodafone, will change considerably, making O2 the new market leader in Germany's mobile phone branch. To what extent the planned merger of O2 and E-Plus will disadvantage consumers – for example, in the form of increased prices – will be judged in the coming months by the responsible competition authorities.

Florian Smuda, smuda@zew.de

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.

Mergers Among German Statutory Health Insurers Are in Decline

According to information provided by the umbrella association of German statutory health insurers, the number of statutory health insurance providers has declined continuously, from 1,223 in 1992 to 134 in 2013. The smaller number of insurers raises the risk of abuse of market power by insurance providers due to increased market concentration.

In the past, Germany’s statutory health insurers were exempted from antitrust law because they are public institutions. The passing of the eighth amendment of Germany’s Federal Cartel Law (GWB) in October 2012 was intended to make the law expressly applicable to statutory health insurers. After objections by the Bundestag, the German parliament, a mediation committee drafted a compromise that was ratified by both houses of Ger-

the statutory health insurers can lodge complaints before social courts should a merger request be denied.

Poor Financial Situation

The poor financial situation of social insurance is the main reason for increased mergers among statutory health insurers. Small providers in particular can save money with mergers due to the synergy effects that result from joining administrative structures. In addition, a merger of statutory health insurers can diversify the risk profile of members and lower average costs. Health insurers with large member pools can use their leverage to negotiate with healthcare providers – hospitals, doctors, and pharmaceutical companies – and thus limit increased expenditures in the



health insurers to prevent strategic behavior and collusion on the part of insurers vis-à-vis healthcare providers.

Little Pressure to Consolidate

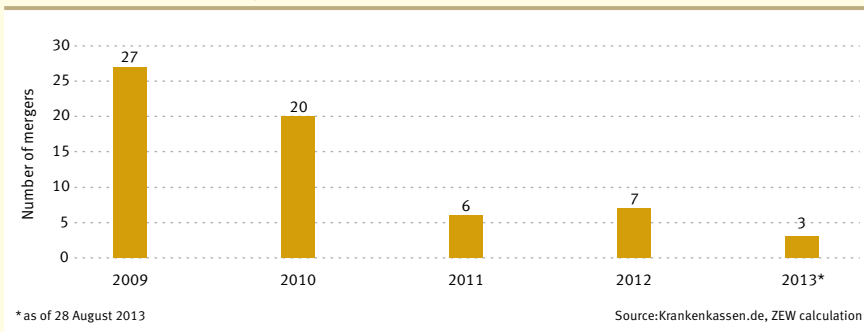
Mergers among statutory health insurance providers have declined in the past two-and-a-half years. In 2009 and 2010 there were 27 and 30 mergers, respectively. By contrast there were only six and seven mergers in 2011 and 2012, respectively. In 2013, there have only been three mergers to date (see table). After years of increased mergers and a decline in the number of insurers it would appear as if the market has consolidated. Thanks to the stable financial situation of the German welfare social system, pressure on statutory health insurers to sink costs has abated.

For the most part, statutory health insurers merged with providers of the same type (see table). For instance, Local Sickness Funds (in German: Allgemeine Ortskrankenkassen) mostly merged with other local funds. Company Health Insurance Funds (in German: Betriebskrankenkassen) were most frequently involved in mergers, with a total of 109 funds involved in mergers in the past four years. A total of 42 other insurers were affected by mergers.

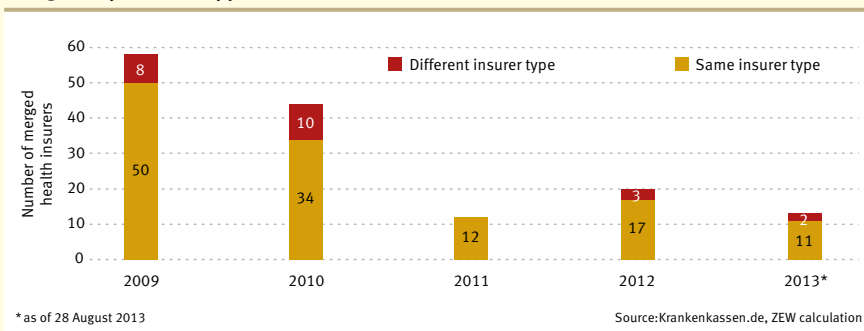
Whether the number of statutory insurance providers will remain stable or drop below 100 in the next years remains to be seen. What is certain is that the Federal Cartel Office will comment more frequently on future mergers between insurers.

Marco Kotschedoff, kotschedoff@zew.de

Mergers on the Statutory Health Insurance Market



Mergers by Insurer Type



man parliament in June of 2013. The new law stipulates that antitrust legislation does not apply to statutory health insurance markets, but that mergers of statutory health insurers must be approved by the Federal Cartel Office. In contrast to the standard merger control procedures,

healthcare industry. On the other hand, an increased market concentration runs the risk of collusion among insurance providers on the procurement market where they could jointly exercise their buyer power. Accordingly, the application of merger control was expanded to include statutory

Recapitalizing Greek Banks

A government debt crisis, domestic economic recession, a debt haircut – in the past years Greek banks have been faced with a constant barrage of new challenges. According to estimates by the National Bank of Greece, the debt haircut imposed at the beginning of 2012 caused losses of around 37.7 billion euro for Greek banks, shrinking the core capital ratio of the country's four largest institutions – the National Bank of Greece, Piraeus Bank, Alpha Bank, and Eurobank – to only three per cent. Now Greece plans to recapitalize its banks so they can invigorate the domestic economy.

A main role in Greek recapitalization is being played by the Hellenic Financial Stability Fund. The fund has received a total of 50 billion euro from the IMF, the ECB, and the EU. Of that amount, 27.5 billion

euro is earmarked for Greece's four leading banks. According to the conditions of recapitalization, banks must cover at least ten per cent of their capital requirements from private shareholders if they are to remain in private hands. Banks that fall below this level will be nationalized.

Eurobank Nationalized

At the beginning of May, Alpha Bank became the first Greek bank to announce that it had raised more than ten per cent of its funding requirement (4.57 billion euro) from private investors. The Piraeus Bank also recorded several large investments, including a 400 million euro package from the Banco Comercial Português (BCP). In return, Piraeus promised to acquire the BCP's Greek subsidiary Mille-

nium Bank for one million euro. With the private funding it received, the Piraeus Bank exceeded the ten per cent minimum. The National Bank of Greece was also able to reach the mark. Only the Eurobank came up short, and has now been nationalized, entirely financed by the Hellenic Financial Stability Fund. A planned merger with the National Bank of Greece failed due to reservations on the part of international investors that the resulting institution might be "too big to fail."

Thanks to the recapitalization program the volume of transactions in the Greek bank sector has already surpassed 20 billion euro this year after levels in the past five years fluctuated between two and ten billion euro annually.

Mariela Borell, borell@zew.de
Tobias Anger

Upheaval in the Publishing Sector

In July, Axel Springer AG announced that it planned to sell its regional newspapers Hamburger Abendblatt and Berliner Morgenpost as well as two women's magazines and five listings publications to the Essen-based Funke Media Group for 920 million euro. An antitrust decision from the competition regulator is expected to come as early as late 2013.

Expansion of Digital Business

The Axel Springer Group explained that the sale was needed to fund a planned expansion of its digital business. It also cit-

ed the growth potential in the digital sector for its sale of the academic publishing house Springer Science to the private equity firm BC Partners for around 3.3 billion euro in June 2013.

In the United States, as well, digital media have been leading to upheaval in the media sector, especially in the newspaper branch. At the beginning of August, The New York Times Company announced the sale of The Boston Globe and the other assets in its New England Media Group to John W. Henry & Company for 70 million. In 1993 The New York Times Company had paid an estimated 1.1 billion

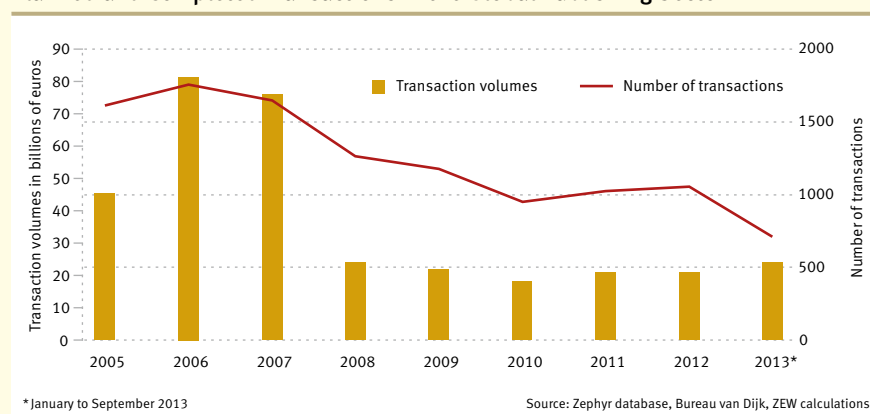
US-dollar for the acquisition of The Boston Globe. A short time after the sale of The Boston Globe, the Graham family created headlines when they decided to sell The Washington Post to Amazon-founder Jeff Bezos for 250 million US-dollar after the paper's circulation and revenue had fallen since 2006.

Transaction Volume Reached new Highs

The volume of announced and completed transactions in the publishing sector (not counting software) hit new highs in 2006 and in 2007, at 81 billion euro and 76 billion euro, respectively (see table). After the onset of the global financial crisis, in 2008, the volume fell dramatically and later stabilized at around 20 billion euro. Then, strikingly, 2013 volumes reached a higher value by September (24 billion euro) than for all of 2012 (20.9 billion euro) (see table).

It should be noted that 2013's relatively high volume is mostly attributable to the announced transactions mentioned above; the volume of the previous transactions in 2013 was just over seven billion euro.

Planned and Completed Transactions in the Global Publishing Sector



Mariela Borell, borell@zew.de
Tobias Anger

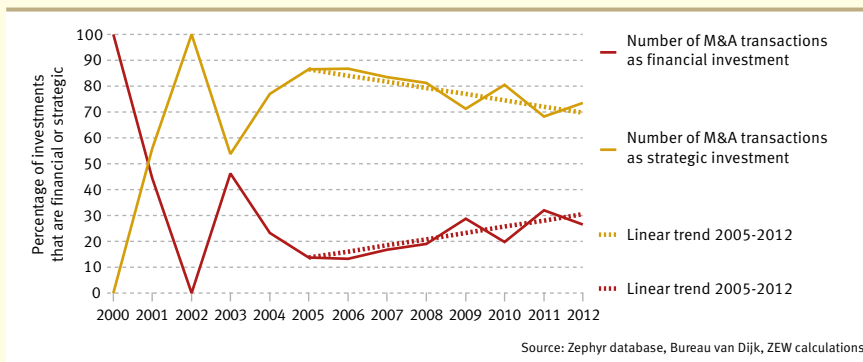
Equity Ratio and Strategic Investments in the European Power Sector

The financial and debt crisis and the period of consolidation that followed have brought about extensive economic dislocation during the past decade. The years between 2006 and 2008 were also shaped by a variety of mergers and acquisitions. In the power generation sector – the stage on the power value chain most affected

position for making new acquisitions, as it makes it easier for them to offset future setbacks. If a branch already has high levels of competition, companies might have to rely more on borrowed capital. Increased competition is also accompanied by a conservative investment strategy, in which minority investments in the form

predominated, though most were of short duration and changed frequently on account of the limited number of mergers and acquisitions in this period. Accordingly, it is impossible to make clear pronouncements about investment trends in this period. However, in the wake of the EU's 2003 accelerated directives and their implementation in the states of Central and Western Europe, a significant downward trend in high-risk strategic investments arose, and continued to 2012. Likewise, there was a light upward trend in minority investment stakes driven by financial interests.

Investments in Power Generation



by competition – the EU implemented far-reaching reforms known as acceleration directives. These directives have encouraged the integration of the European domestic market and intensified competition. They have also affected the equity ratios of companies on the energy market, as well as ownership and investment structures. Based on the equity ratio, it is possible under certain circumstances to make predictions about competitive intensity. Increasing competition can put companies financed by equity in a better

of financial investments are preferred to higher-risk strategic investments. In contrast, acquisitions of bankrupt firms might also increase.

These developments can be observed in the European power sector. Up until 2005, power companies showed a sinking equity ratio on average. Between 2005 and 2008 the levels stabilized; by 2011 they were higher than in 2002. The effects of more intensive competition are just as visible when it comes to investment type. From 2000 to 2004 strategic investments

Sinking Numbers of Strategic Acquisitions

The increased promotion of renewable energy in the power sector will, for the foreseeable future, continue to cause difficulties for conventional electricity providers that rely on nuclear power, coal, or natural gas. In this atmosphere of uncertainty, the number of strategic acquisitions can be expected to drop. If competition remains high, then equity ratios are likely to drop for conventional producers, as initial indications from 2012 suggest. As a result, acquisitions could be more risky for these companies, while companies in difficult financial straits could increasingly become targets of acquisition raising strategic acquisitions.

Jannik Schäfer,
Dominik Schober, schober@zew.de

ZEW

Zentrum für Europäische
Wirtschaftsforschung GmbH
Centre for European
Economic Research

BUREAU VAN DIJK

Europe's leading provider
of electronic corporate data

The M&A Report is drawn up jointly by the Zentrum für Europäische Wirtschaftsforschung (ZEW) and Bureau van Dijk (BvD). It provides six-monthly reports on current themes and developments of worldwide corporate mergers on the basis of the Zephyr database. Zephyr provides daily information of more than one million M&A, IPO and private equity transactions worldwide.

M&A report project team:

Florian Smuda (contact person), ZEW
Phone +49/621/1235-233, Fax -170, e-mail smuda@zew.de;
Mariela Borell, Marco Kotschedoff, Kai Hüschelrath, Dominik Schober, Florian Smuda, ZEW;
Christine Stühler, Bureau van Dijk

Centre for European
Economic Research (ZEW) Mannheim
L 7, 1 · 68161 Mannheim
Phone +49/621/1235-01 · Fax +49/621/1235-224
Internet: www.zew.de
© Zentrum für Europäische Wirtschaftsforschung GmbH (ZEW), Mannheim, 2013

Bureau van Dijk
Hanauer Landstraße 175 - 179
60314 Frankfurt am Main
Phone +49/69/963 665-65 · Fax +49/69/963 665-50
Internet: www.bvdinfo.com