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BUREAU VAN DIJK

M&A Report

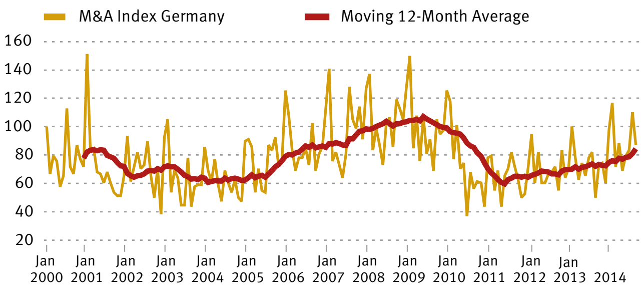
Global Mergers and Acquisitions Reports and Analyses

November/December 2014

Mergers and Acquisitions in Germany: M&A Activity Is Picking up Pace Again

An upward trend in mergers and acquisitions (M&A) with German participation has recently begun to take shape. In the meantime, this trend has become consolidated: M&A activities have notably picked up pace. In August 2013, the ZEW-ZEPHYR M&A Index was at a rather low level of 50 points. Within just one year, until August 2014, the index increased by about 75 per cent to the current total of 87.5 points. Even though several of the previous months were characterised by a large number of mergers and acquisitions, these outliers were barely reflected in the twelve-month moving average of the ZEW-ZEPHYR M&A Index. That has changed now.

ZEW-ZEPHYR M&A INDEX GERMANY



Source: Zephyr Database, Bureau van Dijk, ZEW Calculation

M&A Activity Is Growing in Numbers and Volume

The twelve-month average of the index is growing continuously. In August 2014, the value climbed to 84 points, which corresponds to a year-on-year increase of 17 per cent. Compared with August 2012, the increase amounts to a considerable gain of 26 per cent. It is the highest value of the twelve-month average since August 2010 (85 points). In addition to the growth of M&A activity in numbers, the average transaction volume per M&A deal is rising as well. The average transaction volume over the past twelve months was 361 million USD per deal. This value was last exceeded in February 2010 with an average transaction volume of 386 million USD per deal.

New Wave of Mergers in the Offing

The upward trend in M&A business as well as the recent increase in M&A intensity might indicate an accelerating merger wave. This hypothesis is supported by the exceptionally large number of rumours and announcements in the M&A market in the past few months.

In Germany, the last merger wave was observed between mid-2005 and mid-2011. It peaked in 2008 and then increasingly flagged due to the outbreak of the financial crisis. In April 2011, M&A activities bottomed out.

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The **ZEW-ZEPHYR M&A Index** measures the number of M&A transactions completed in Germany each month. It considers only mergers and acquisitions by and with German companies. It does not differentiate between the country of origin of the buyer or partner. This means that both domestic as well as international buyer companies are considered, provided the target companies are active in Germany.
The M&A Report is a biyearly publication issued by the Centre for European Economic Research (ZEW) and Bureau van Dijk (BvD). It uses the Zephyr database to report on current topics and developments in global mergers and acquisitions. The Zephyr database, which is updated daily, contains detailed information on over one million M&A, IPO, and private equity transactions across the world.

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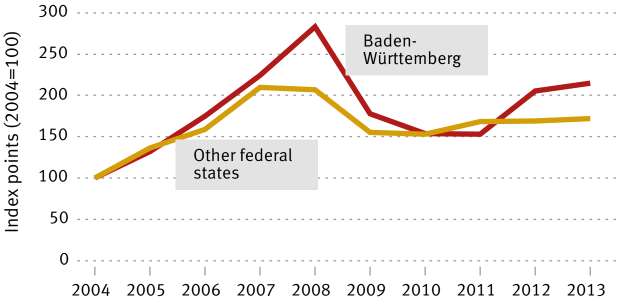
Baden-Württemberg Is Booming

In the past ten years M&A activities in Baden-Württemberg have grown to a greater extent than in the other German federal states. Compared to the base year 2004 (100 index points), the number of mergers and acquisitions involving companies from south-west Germany was 115 per cent higher in 2013. The other federal states saw an increase of only 72 per cent in the same period of time.

M&A ACTIVITIES IN BADEN-WÜRTTEMBERG AND OTHER FEDERAL STATES



Source: Zephyr database, Bureau van Dijk, ZEW Calculation

However, M&A activity in Baden-Württemberg is subject to stronger fluctuation than in the rest of Germany. From 2004 to 2008, Baden-Württemberg's economy experienced a true M&A boom. The number of mergers and acquisitions increased by 183 per cent until 2008, while the growth of M&A activities in the remaining federal states rose by only 107 per cent. During the recent economic crisis, however, the number of transactions in Baden-Württemberg collapsed, declining even more drastically than in other parts of Germany. From the peak level of 283 index points in 2008, the number of transactions fell to 153 index points in 2011, reaching the lowest value since 2005. In the other federal states, where the index decreased by only 39 points, the effects of the crisis were less than half as devastating. The index value for Baden-Württemberg dropped below the level of the remaining federal states for the first time in 2011.

At the moment, the trend seems to be changing again: In the period between 2011 and 2013, M&A activities climbed to a level of 215 index points again.

Baden-Württemberg-based companies have a preference to engage in cross-border M&A activities: Almost half of their M&A activities are acquisitions of companies from outside Baden-Württemberg. Buyers and target companies are based in Baden-Württemberg in ten per cent of transactions.

The automotive and engineering industries have contributed to this positive development significantly. These sectors were hit hard by the crisis in 2008, but since 2010 the number of sales has increased by 80 per cent, from 15 to 27 per year. Due to the crisis many companies were undervalued and suffered from liquidity shortages, which created ideal conditions for acquisitions by investors. Nevertheless, ownership changes in companies can also entail advantages for the economy, because they prevent closures and generate cost savings. If the recovery is to continue, M&A activities in Baden-Württemberg are expected to increase over the medium term as well.

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Breweries Swallow Fewer Competitors

Despite extensive public screening of football events and numerous "summers' fairytales" since the 2006 World Cup, sales figures in the German beer industry, by far the largest and most important sales market in Europe, have been dropping over the past years. Moreover, at the beginning of this year, breweries grabbed the headlines as the Federal Cartel Office imposed penalties on renowned producers such as Bitburger, Krombacher, Veltins and Warsteiner. Anheuser-Busch InBev, the largest brewery group in the world, regarding sales volumes, was also involved in the cartel, which operated from 2006 to 2008. The multinational company, however, escaped punishment by acting as a principle witness under a leniency programme. Yet all companies will have to face actions for damages.

The April 2014 M&A Report shows a cross-sector trend: A cartel collapse is usually followed by increased merger activity. However, this trend does not apply to the brewing industry. The number of M&A deals concluded by buyers and target com-

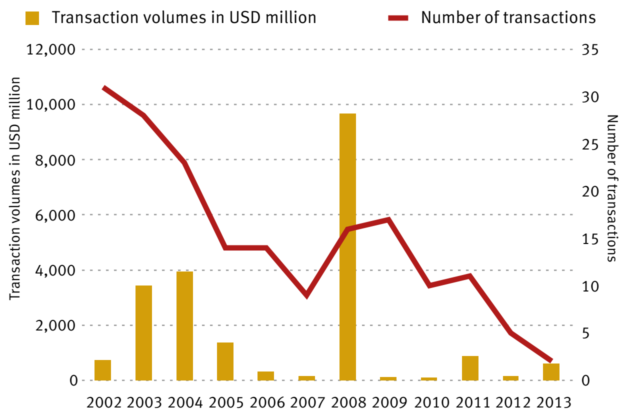
panies located in the EU flagged between the years 2002 and 2013. Acquisitions of minority interests were not taken into account.

The high transaction volume in 2008 stems from the takeover of the British brewery Scottish & Newcastle by Danish and Dutch beer giants Carlsberg and Heineken. The German market did not contribute substantially to the high 2008 figures. In addition, the report indicates a downward trend in the overall transaction volume.

While the number of European M&A activities is decreasing, many additional purchases are carried out in non-European countries, e.g. by global market leader Anheuser-Busch InBev. However, the signs are that the European downward trend might soon bottom out.

In September, Heineken, the world's number three in the brewing business, confirmed a takeover bid by English brewery SABMiller, the second largest brewery worldwide. Before that, there had been rumours about a takeover of SABMiller by Anheuser-Busch InBev. SABMiller's offer to Heineken was seen as an attempt to protect the company against a possible takeover through growth. The Dutch company, still owned by the family of the founder, Alfred Heineken, rejected the offer. Against the

MERGERS AND ACQUISITIONS OF COMPANIES IN THE BREWING INDUSTRY WITHIN THE EU-28 (2002-2013)



Source: Zephyr database, Bureau van Dijk, ZEW calculation

backdrop of the highly concentrated US beer market, the North American competition authorities will carefully look into the case, should one of the mergers be put forward.

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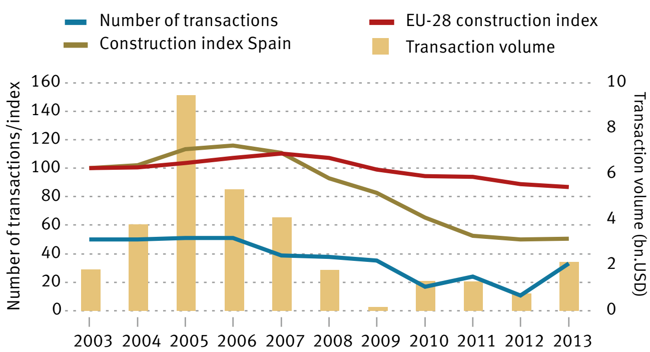
Construction Lull and Euro Crisis Leave Cracks in the Cement Industry

In the early 2000s the construction industry in Europe was booming, particularly in Spain. The bursting of the housing bubble and the subsequent crisis in the eurozone from 2007 onward hit the Spanish building industry hard. Although the construction industry stabilised in most European countries, the consequences for M&A activity in the EU's cement industry were serious. Between 2004 and 2007, the volume of transactions (including takeovers, mergers, joint ventures and minority investments) was on average 5.7 billion euros. 2005 took the record with a transaction volume of 9.5 billion euros. However, this figure then sunk continuously, reaching a record low of 150 million euros in 2009. Up to 2012 the one-billion-euro threshold was barely exceeded. The downward trend in M&A activity since 2005 was mirrored by a significant reduction in the number of transactions; 2012 was the nadir of the whole period, with eleven transactions in total.

M&A ACTIVITY IN THE CEMENT INDUSTRY WITHIN THE EU-28



Source: Zephyr database, Bureau van Dijk, ZEW calculation

Strategic Behaviour in the Cement Industry

Highly strategic activity can be seen in the cement and construction industry over the whole period of study. Whilst in the boom years, transactions were mainly internal European matters, non-European firms intensified their M&A activity when the crisis hit. M&As with European firms aim above all to harness synergy effects, whereas non-European transactions are aimed at diversifying and developing new markets.

At present a recovery seems to be emerging. The number of transactions trebled to 33 in 2013 from the previous year, the highest value in the past five years. For the first time since the crisis began in 2007, the transaction volume in 2013 at 2.1 billion euros is higher than that of the base year, 2003.

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PE Performance Determination Depends on the Data and Calculation Method Used

The performance of the private equity (PE) industry has long been the focus of controversial economic and political debates. Depending on the data used and the methodology applied, the calculated performance can move in a wide range of values. Analysing the historical performance of private equity funds in a global view remains a serious challenge for both researchers and investors. The methods applied to investigate the stock market cannot be used for private equity investments due to the lack of active and transparent markets for the private equity asset class. Furthermore, fund managers are not obliged to disclose the performance or the cash flows of their funds. Data from specialised data providers is often available only in aggregated or anonymous form, making verification and comparison difficult.

Institutional Investors as a Source for Cash Flow Data

Some researchers take the approach of collecting cash flow data from one or more institutional investors (Limited Partners) directly. It is argued that such data is reliable because Limited Partners use it as a basis for their own investments. Studies that adopt this approach tend to conclude that investments in the private equity asset class significantly outperform investments in the public equity benchmarks, which are usually represented by a stock market index. Ljungqvist and Richardson (2003) show an excess return from private equity funds between five and eight percentage points per annum in comparison to the S&P 500 index between 1981 and 2001. Robinson and Sensoy (2011) find that on average, private equity funds have outperformed the S&P 500 on a net of fee basis by about 18 per cent over the lifetime of the fund for the years 1984 to 2010.

Commercial Databases more Appropriate for Research

Lerner, Schoar and Wong (2007), however, report significant differences in skills and performance between Limited Partners. This finding makes it difficult to generalise the results from studies using data from Limited Partners.

Commercial databases are more appropriate for research, as they avoid such biases on potentially inaccurate data from single Limited Partners. The study by Kaplan and Schoar (2005), which was met with great response in the research community and also in the areas of politics and industry, finds slightly lower net returns for US private equity funds for the years 1980 to 2001 than those of the S&P 500 index. However, the gross of returns exceed those of the benchmark.

Based on an updated and extended sample of the dataset from Kaplan and Schoar (2005), Phalippou and Gottschalg (2009) show significantly lower returns across the whole private equity asset class from 1980 to 2003 in comparison to other studies. They use an alternative approach to treat final residual values reported by mature funds for non-exited investments. Using a database specifically tailored to funds' cash flows, Higson and Stucke (2013) show that US private equity funds with vintage years from 1980 to 2008 have outperformed the S&P 500 index by over 500 basis points per annum.

More Attention Should Be Paid to Risks

In their current study, Harris, Jenkinson and Kaplan (2014) calculate average fund returns exceeding those of public markets for most vintage years since 1984. The public market equivalent shows private equity funds outperforming the S&P 500 by an average of 20 to 27 percent over the fund's lifetime and more than three per cent per year. Private equity funds similarly outperform other benchmarks like the Nasdaq and Russell (2000).

All authors agree over one point, however: although most studies calculate higher returns of PE funds compared to investments in public markets, researchers should take greater account of the higher risks resulting from investments in PE.

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Most studies calculate higher returns of private equity funds, but researchers should take greater account of the associated risks.