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M&A Report

Reports and analyses on global mergers and takeovers

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High dynamism in M&A activity in Asia

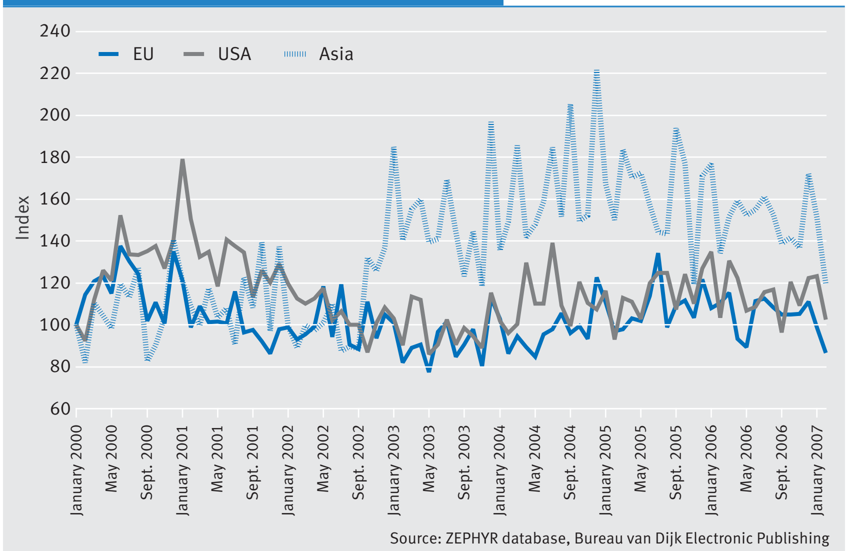
The value and volume of mergers and acquisitions have risen considerably in the past few years, above all in Asia. This is the conclusion of a comparison of M&A activity for the European Union, the USA and the Asian economic area based on the ZEW-ZEPHYR M&A Index. However, the EU and the USA only recorded moderate growth. The overall increase can be put down to a sharp rise in the significance of M&A transactions in Asia.

United States, EU: the lion's share of worldwide transactions

Despite the sharp rise of M&A activity in Asia, however, of the 46,497 transactions that were completed worldwide between January 2000 and February 2007, with a total value of around 9.19 trillion Euro, a total of 18,272 can be attributed to the European Union, (3.28 trillion Euro), 13,409 to the USA (4.42 trillion Euro) and only 5,022 transactions (530 billion Euro) to Asia. When the volume of transactions is compared, the EU and the USA continue to represent around 70 per cent of all transactions worldwide and over 80 per cent of the total value. This regional differentiation is based on the nationality of the target company, as is common in M&A research. In addition, the ZEW-ZEPHYR M&A Index in a regional breakdown enables a comparison of the development of M&A transactions in the three world regions. The analysis shows significantly higher growth dynamism in the Asian economic area, but also a higher degree of fluctuation with respect to volume and deal values.

The ZEW-ZEPHYR M&A Index has been introduced in a joint effort by the Centre for European Economic Research (ZEW) and Bureau van Dijk Electronic Publishing (BvDEP) to provide a more substantial understanding and monitoring of M&A activity worldwide. Both the value and the volume of mergers and acquisitions completed worldwide, as recorded in the BvDEP ZEPHYR database, form the basis for the calculations of the ZEW-ZEPHYR M&A Index. To reflect the market for corporate control, only mergers and acquisitions where more than 50% of the equity was transferred are taken into consideration. The index is based on the monthly percentage rate of change of the volume of mergers and acquisitions and transaction value, which are summarised in a volatility-adjusted form. As such, the index gives a much more accurate account of the level of worldwide M&A activity than could be provided by a simple examination of the transaction value. The reason for this is that the valuation of companies on the stock exchange has a considerable influence on the value of the transaction, particularly since many companies are paid via an exchange of shares and not exclusively by cash or debt. Therefore, when stock markets are booming, the share price would have an excessively large influence on the evaluation of the transaction activity. On the other hand, when the value is spread out across a higher volume of transactions over a month, the M&A Index also indicates a higher value, although the total transaction value remains constant. The ZEW-ZEPHYR M&A Index is published quarterly by ZEW and BvDEP.

Regional ZEW-ZEPHYR M&A Indices



Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

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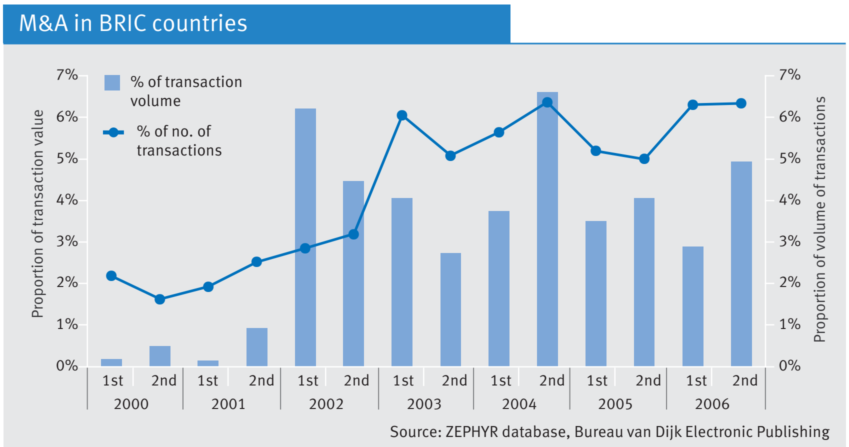
BRIC countries catching up



M&A activity in Brazil, Russia, India and China (the so-called BRIC countries) has recorded marked growth over the last few years. Between 2000 and 2006, companies from these countries increased their share of the worldwide M&A market from around 2 per cent to over 6 per cent in terms of the volume of acquisitions and from below 1 per cent to around 5 per cent by transaction value. The majority of transactions can be attributed to Chinese companies, both in terms of value and volume. However, it was India which recorded the highest growth rate, increasing its M&A activity in this period approximately tenfold. The high level of M&A activity took place predominantly in raw material based sectors such as food production, chemicals or steel. Particularly in the steel industry, Indian companies like Mittal Steel acquiring Luxembourg's Arcelor in the last year attracted attention abroad. Furthermore, market conditions have also shifted in the tertiary sector: whilst the BRIC countries represented around 2 per cent of all transactions in the financial servic-es sector in 2000, this figure had increased to over 9 per cent by the end of 2006.

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Significant increase in transaction values

In the last six months the volume of M&A transactions that were managed by investment banks fell by around 13 per cent to 3,371. This value almost equals that for the same period in the previous year. At the same time, the transaction value rose by around 42 per cent, reaching a new record high of 3.5 trillion Euro. This may serve as an indication that the average transaction size increased. The ranking of the most active banking houses in the M&A market has remained virtually unchanged in the last six months. The top three positions are occupied by last year's market leaders, with Citigroup climbing from third to first position. Private equity deals also recorded a clear increase in value, by 73 per cent to 559 billion Euro, despite a decrease in the volume of transactions of only 7 per cent. Blackstone, whose deal value more than doubled despite a lower volume of transactions, continues to head the ranking for private equity firms. The second position is occupied by KKR, previously ranked fourth, with a total deal value of 44 billion Euro spread over seven transactions.

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Ranking of investment banks

Position		Investment bank	Transaction value (Billion EUR)	Volume of transactions
1	(3)	Citigroup Inc.	374	123
2	(2)	Goldman Sachs	281	80
3	(1)	Morgan Stanley	277	123
4	(5)	Merrill Lynch	260	113
5	(10)	Credit Suisse	219	112
6	(4)	JP Morgan	194	97
7	(7)	Lehman Brothers	142	62
8	(6)	UBS	136	127
9	(-)	Rothschild	123	116
10	(-)	BNP Paribas SA	107	49
		Others	1.379	2.369
		Total	3.491	3.371

Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

Ranking of private equity firms

Position		Company	Transaction value (Billion EUR)	Volume of transactions
1	(1)	Blackstone Group LP	55	10
2	(4)	Kohlberg Kravis Roberts & Company	44	7
3	(8)	Bain Capital Inc.	37	9
4	(–)	Merrill Lynch Global Private Equity	26	4
5	(–)	Texas Pacific Group Inc.	20	7
6	(2)	Carlyle Group, The	17	19
7	(–)	Permira Advisers LLC	14	1
8	(–)	Macquarie Bank Ltd	13	6
9	(10)	Goldman Sachs Capital Partners	13	3
10	(–)	Citigroup Inc.	11	6
		Others	310	4.593
		Total	559	4.665

Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

Pharmaceuticals: market leaders under pressure

M&A activity in the pharmaceutical industry since the beginning of 2000 does not show a uniform trend. In addition, the development of transaction value and transaction activity varies considerably. The largest M&A transactions last year were the acquisition of a division of Pfizer by Johnson & Johnson and the merger of Schering and Bayer. Nevertheless, the worldwide trend for mega-mergers in the pharmaceutical industry to increase the financing base for costly research and development activities seems to continue. In fact, there appears to be another large transaction on the horizon for 2007. Pharmaceutical giants Sanofi-Aventis and Bristol-Meyer Squibb (BMS) are rumoured to have been in merger talks since the beginning of this year. This would create a company of the size of the current market leader Pfizer. The companies already co-operate on a number of products. These include the blood-thinning drug Plavix, the second most frequently sold drug in the world. Since both companies compete against generic drug manufacturers with this product, a merger could greatly improve the position of BMS in the US market. Furthermore, a merger would strengthen cooperation in the manufacture and sale of Plavix, create cost synergies and help BMS avoid the threat of weak growth due to drops in turnover for its key products. A merger would also make sense for Sanofi-Aventis, as it would gain access to the important US market as a result.

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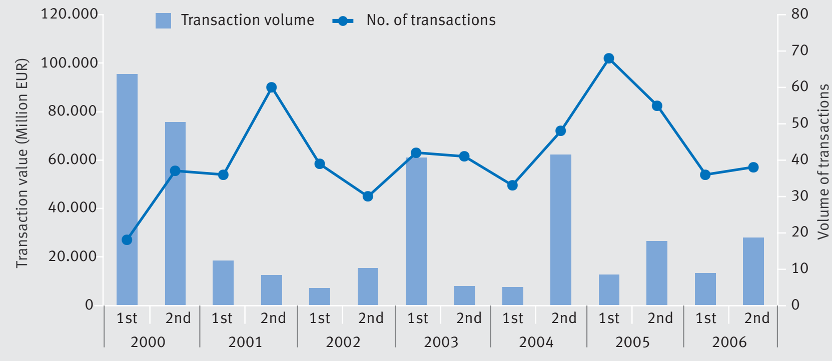
M&A in the worldwide pharmaceutical industry



Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

M&A in central and eastern Europe slowly declining

Following a record year in 2005, when almost 4,500 M&A transactions took place, with a total value of over 213 billion Euro, corporate transactions decreased slightly in 2006 for the first time since 2001 in central and eastern Europe. As a result, the end of the height of the privatisation process in many countries in the region and particularly in central Europe has become noticeable. The highest growth rates both in terms of total transaction value and the volume of transactions were attained in 2004 (111 or 85 per cent). After moderate growth in 2005, 8 per cent fewer transactions were completed in 2006, and the total value decreased by 2 per cent. Furthermore, a clear tendency towards larger corporate transactions can also be seen. Whilst the average transaction value was 37 million Euro in 2001, this value rose to 52 million Euro in 2006.

Russia is the most active market for corporate transactions, representing 56 per cent of all M&A transactions in central and eastern Europe. Russia also recorded the highest growth rate of any country in the region since 2000, with an average of 54 per cent per year, followed by the Ukraine with 33 per cent per year. In contrast, Poland, the Czech Republic and Slovakia, Hungary and the Baltic states occupy an ever decreasing share of the market. In addition, the largely completed privatisation process in these countries will limit the M&A potential for future years. The newest members of the EU, Bulgaria and Romania, are characterised by high dynamism. Years with a high rate of growth in the volume of transactions (114 and 224 per cent respectively in 2002) are followed by years with a low growth rate or even a fall in transactions (28 and -15 per cent in 2003 and -26 and 0 per cent respectively in 2006).

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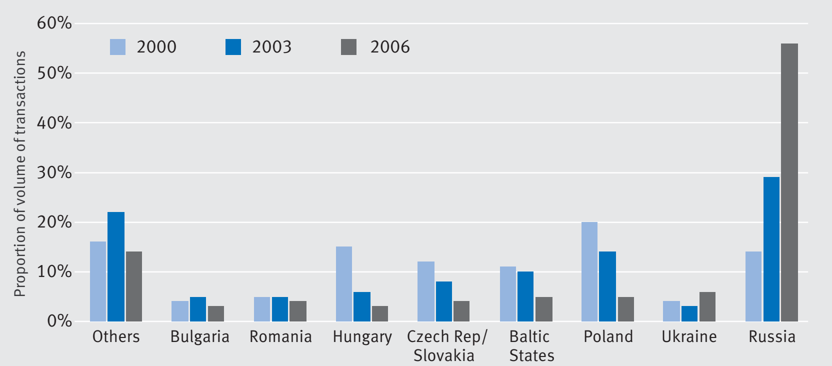
M&A transactions in central and eastern Europe



Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

Which countries attract European private equity investors?

The worldwide boom in cross-border transactions in the private equity sector in the last ten years has been enormous. Europe has been part of this trend and recorded an annual growth rate of over 36 per cent for international private equity deals between 1995 and 2005. Likewise, the number of international transactions as a proportion of total European private equity deals has continually increased. Whereas in 1996 the number of cross-border activities of European private equity investors only made up 16.3 per cent of all their transactions, this percentage had reached 36.1 per cent in 2005.

A current ZEW study is researching the international investments of European private equity funds, focussing in particular on the question of how strongly these investors fear competition in the target countries. If they are concerned about competition, they should prefer to invest in countries in which the private equity sector is not as developed and where they would have fewer rivals. However, another possibility could be that European investors do not view existing private equity funds in the target countries as rivals, but rather as potential partners, from whose know-how they can benefit. In this case, they would favour countries with a strong private equity sector.

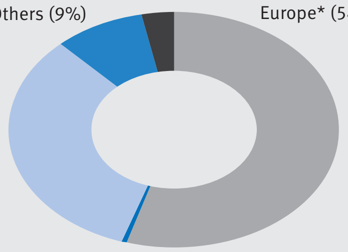
It emerges that the degree of development of the private equity sector in the target countries is a factor that has a substantial effect on the international flow of private equity. European private equity investors primarily target countries with strong private equity sectors and seek partners there with whom they can invest. Via this strategy of forming consortia with local partners, international investors are able to avoid the strong competition in the target countries and at the same time benefit from the know-how of their partners. The presence of a developed private equity sector in the target countries also has an influence on the exploitation of the differences in growth potential between the country of the investor and the target country. It appears that private equity investors react more sensitively to differences in growth when they are able to link up their investments with experienced local partners.

In addition to the issue mentioned above, the study also considers other factors. Amongst these are in particular the difference in growth rate between the country of the investor and that of the target, which has a strong influence on international transactions. Countries with a higher growth rate attract more international investments.

Following the literature regarding the international flow of capital, the study also researches the influence of many other factors on the international flow of private equity. Amongst these are factors which characterise the entrepreneurial climate, such as taxation, market capitalisation or provision of human resources. The study reveals that countries with a good entrepreneurial climate, which have particularly liquid money markets and which have a high provision of human resources, attract the flow of international private equity.

Furthermore, the geographical and cultural closeness of the investor and the target country are considered. Whilst geographical proximity is measured in kilometres, cultural similarity is estimated based on whether the countries had shared languages or legal traditions. Both geographical and cultural closeness between the two countries lead to more intensive investment activity.

Target countries for European private equity investors, 2000-2006



* Europe consists of the following 18 countries: Great Britain, Germany, France, Spain, Italy, Netherlands, Sweden, Finland, Denmark, Norway, Switzerland, Portugal, Ireland, Austria, Luxembourg, Belgium, Poland and the Czech Republic.

** 9 countries are included for Asia: Russia, Japan, China, India, Hong Kong, Singapore, Taiwan, Israel and Korea.

Source: ZEPHYR database, Bureau van Dijk Electronic Publishing

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The study can be downloaded at the following website: http://www.zew.de/publikationen/publikation.php3?action=detail&art=12&nr=3190

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