

M&A Report

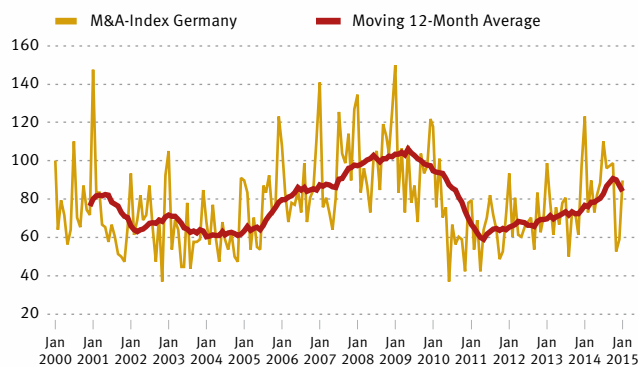
Global Mergers and Acquisitions Reports and Analyses

April 2015

Mergers and Acquisitions in Germany: M&A Market Slows After Four-Year Surge

The four-year rise in M&A activity among German holdings has apparently ended. Although the rise continued through the autumn of 2014, the sluggish M&A activity at year's end put a stop to the upward trend. This is shown by the ZEW-ZEPHYR M&A Index, which rose from 96 to 99 points in the period from August to October 2014 before it collapsed in November and December dropping below the 60-point mark for the first time since August

ZEW-ZEPHYR M&A INDEX GERMANY



Source: Zephyr Database, Bureau van Dijk, ZEW Calculation

2013. This is also shown by the moving twelve-month average of the ZEW-ZEPHYR. In October the index climbed to a quarterly high of 91 points before it slipped to 84 points in January 2015, the same value it had in August of 2014.

Despite fluctuations several significant deals took place. Overshadowing all else was Bayer's 11.3-billion acquisition of the consumer care business of US pharmaceutical giant Merck & Co. After tough negotiations and receiving the necessary antitrust approvals, Bayer finalised the deal in October 2014, becoming the world's second largest provider of over-the-counter

medications and health care products. The acquisition was the largest deal involving a German company since the horizontal acquisition of automotive supplier VDO, a subsidiary of Siemens, for which Continental AG paid 11.4 billion euros.

Many rumours of mergers and acquisitions

Whether the recent slump is only temporary remains to be seen. The ZEW-ZEPHYR M&A Index did increase significantly in January 2015, once again passing the 90-point mark. But since January is traditionally the strongest month for M&A activity, this rise should not be overinterpreted. Of the past ten index values for January, only that of 2011 was lower, at 79 points. At the same time, the many rumours of mergers and acquisitions on the horizon give hope of a speedy recovery for investment by German companies.

Sven Heim, heim@zew.de

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, IPOs, and private equity transactions across the world.

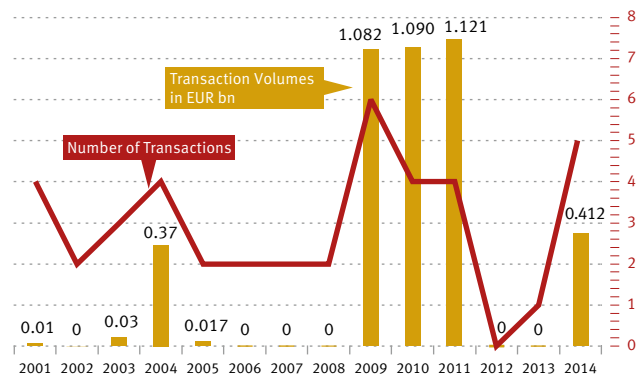


BUREAU VAN DIJK

M&A Activities in German Power Sector Ease After Fleeting High

In the past fifteen years, mergers and acquisitions among power-grid companies in Germany averaged just short of three transactions a year. Yet some variance has been noticeable. From 2009 to 2011 – years shaped by financial crisis and new incentive-based regulation that broke with the previous system of fees for power and gas in Germany – the number was much

M&A ACTIVITIES IN THE GERMAN POWER TRANSMISSION AND DISTRIBUTION SECTOR



Source: Zephyr database, Bureau van Dijk, ZEW Calculation

higher. In 2012, by contrast, not a single transaction occurred. Since purchase prices usually go unreported, transactions volumes are known only in a few cases.

Large transactions in the power transmission sector

The years 2009 to 2011 were characterised by multiple high-volume transactions in the power transmission sector. For instance, in June of 2011 RWE AG sold almost three quarters of its shares in the transmission system operator Amprion to an infrastructure fund owned mostly by German investors for 974 million euros. In March 2010, Vattenfall Europe AG relinquished its subsidiary 50Hertz Transmission to the Belgium operator Elia and the Australian Industry Funds Management to the tune of 810 million euros. The Vattenfall deal followed the November 2009 sale of E.ON’s power transmission grid to Dutch network operator TenneT Holding BV for 885 million euros – an effort to dispel antitrust concerns at the European Commission.

By comparison, the power distribution sector saw low transaction volumes on account of its more compartmentalized structure, with more than 700 network operators. For instance, in 2011 EnergieVerbund Dresden GmbH acquired a stake in ENSO Energie Sachsen Ost AG from Vattenfall for 147 million euros. And in 2009 Vattenfall sold its subsidiary WEMAG AG to several municipalities and Thüga AG for 17 million euros. Many of the

sector’s mergers involved municipal utility service providers – what is referred to as Stadtwerke. In 2011, Technische Werke Friedrichshafen and Stadtwerke Überlingen merged to become Stadtwerk am See. In 2008, Stadtwerke Ludwigsburg joined Kornwestheim to create Stadtwerke Ludwigsburg-Kornwestheim. The 2007 fusion of Stadtwerke Ennigerloh, Telgte, and Energieversorgung Ostbevern resulted in Stadtwerke ETO. The absence of mergers and acquisitions in 2012 might be due to the increased production base for 2011 cost accounting. If so, similar effects might occur in 2016 as well, though they will also depend on the regulatory regime introduced in 2019.

Several instances of deprivatization

There were also several instances of deprivatization. These included acquisitions made by EnergieVerbund Dresden, a full subsidiary of the Saxon capital, and Darmstadt’s 280-million-euro repurchase of the HEAG Süd Hessische Energie AG from E.ON. In January 2014, after a city-wide referendum, Hamburg bought the municipal power grid from Vattenfall for some 412 million euros. Since the majority of power and gas grid concession contracts will expire in the coming years, this trend could pick up if other municipalities decide to reacquire power grid services.

It is conceivable that the future regulatory environment will lead to stronger M&A activity. The incentive-based regulatory system of the German Federal Network Agency defines sinking revenue caps for network operators based on industry averages. This might lead to an increased risk of bankruptcy, and thus to more mergers. In addition, the details of E.ON SE’s radical new direction – it plans to sell off its nuclear-, coal- and gas-fuelled power plants and focus on renewable energy – will emerge this year. It is not yet known whether E.ON SE will retain its retail and network business.

Michael Hellwig
Dr. Dominik Schober, schober@zew.de



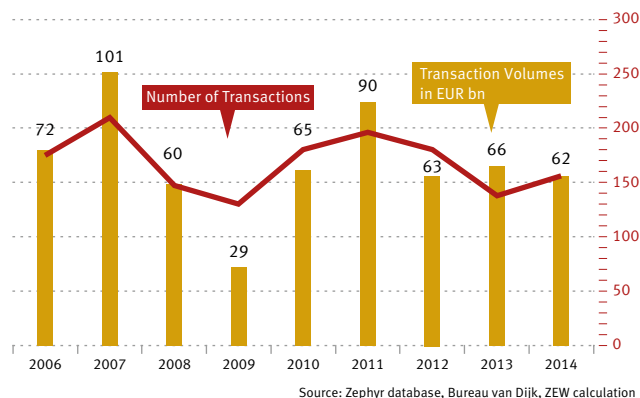
Crisis Overcome: M&A Activity in the Chemical Industry Stabilises on High Level

In 2009, global M&A activity in the chemical industry collapsed in the wake of the subprime mortgage crisis. But over the next two years the market shot back up. In 2010, there were 180 transactions, none of which was worth less than 50 million euros, with a total volume of 64.5 billion euros. The 196 deals that

took place in 2011 amounted to almost 90 billion euros. Investment legend Warren Buffett was partly responsible for the upsurge in 2011. His holding company Berkshire Hathaway purchased Ohio-based Lubrizol for seven billion euros. After the activity in 2010-11, M&A volumes in the following years levelled out, hovering around 65 billion euros. At the same time the number of deals dropped, an indication of a larger average transaction size.

The past few months have seen a number of mega deals in the US market. At the beginning of 2015, Albemarle Corp. bought Rockwood Holdings for 5.23 billion euros. In December 2014, Eastman Chemical acquired Tamino Corp for 2.26 billion euros. The ten deals that took place in the first two months of 2015 comprised a total volume of 6.3 billion euros. Not surprisingly, when it comes to the total value of global deals in the chemical industry from 2006 to February 2015, the US continues to be the uncontested leader, with a share of 36 per cent. Tied for second place are Germany and Russia, with eight per cent each. They are followed by the UK, which has six per cent of the global share.

M&A ACTIVITY IN THE CHEMICAL INDUSTRY



Patrick Seidelmann
Dr. Mariela Borell, borell@zew.de

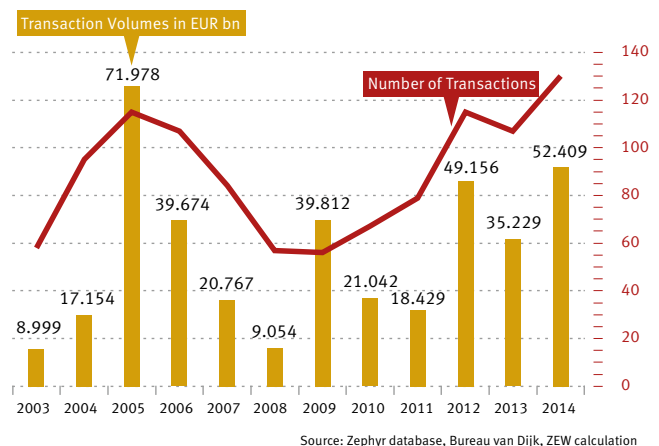
Acquisition High in US Oil and Gas Industry

In 2014, the number of M&A transactions in the US oil and gas extraction industry reached 130, an all-time high, while the 52 billion euros' worth of transactions was greater than they had been since 2005, when they fell just short of 72 billion euros. Compared with 2013, this represents an 80 per cent rise in transactions (up from 107) and 49 per cent rise in volume (up from 35 billion euros).

There are two main reasons for increased M&A activity in the sector. The first reason is that since autumn 2014 crude oil prices have fallen rapidly on the global market. By January 2015 Brent crude was dipping below 50 USD a barrel. The low trading prices have depressed enterprise values and have made smaller companies more affordable to buy. Especially in the final quarter of 2014 this led to more mergers and acquisitions. Large companies are not necessarily immune. Although London-based oil giant BP survived the massive Gulf of Mexico spill in 2010, its profit per share is still markedly lower and its costs higher than those of similarly-sized competitors. There are rumours that the British company has received a takeover bid from its rival Royal Dutch Shell PLC. Both companies have refused to comment.

The second reason for the increased M&A activity is that the shale industry is still consolidating. Fracking has increased enor-

M&A ACTIVITY IN THE US OIL AND GAS EXTRACTION INDUSTRY



mously in the past few years, especially in the US, and the young market is still concentrating, leading to numerous mergers and acquisitions. Should the oil price remain low, forecasts project more M&A activity for 2015, given the expectation of further consolidation in the shale gas sector.

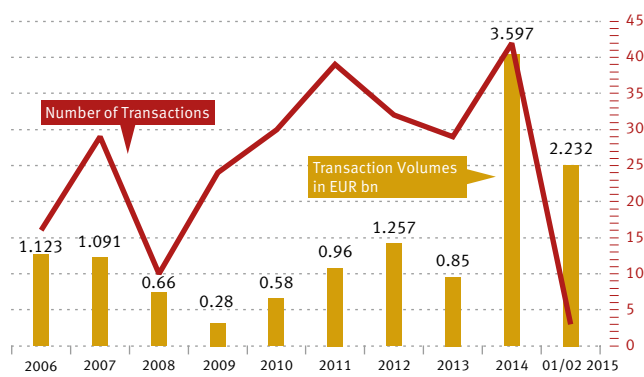
Niklas Dürr, duerr@zew.de

Growing Mergers and Acquisitions in the Market for Pet Food and Pet Health

Pet owners treat their animals almost like family members. It is not only the pets, but the whole pet industry that benefits from this love of animals. The size of the market for pet food, other pet-related articles, and services is enormous, and the

P&G brands Iams, Eukanuba and Natura. Since the deal in particular comprises the American markets, P&G is now searching for alternatives for several European countries.

M&A ACTIVITY IN THE PET INDUSTRY



Source: Zephyr database, Bureau van Dijk, ZEW calculation

sector has become attractive for investors. This is reflected in the high volumes of recent transactions. In August 2014, the Mars company acquired a majority stake in the pet food business of Procter & Gamble (P&G) for 2.17 billion euros. Even before the takeover, Mars was one of the world's largest suppliers of pet food, the maker of brands such as Whiskas, Frolic, Pedigree, and Roy-al Canin. Mars is now also controlling the former

A new transaction record could be reached in 2015

In February 2015, another billion-dollar deal was closed. AmersourceBergen Corporation, one of the world's largest service providers for the pharmaceutical industry, paid 2.21 billion euros for MWI Veterinary Supply, a distributor of animal health products in the US and the UK. This acquisition alone drove the transaction volume in the industry for the first two months of the current year, putting it at twice the average annual level in the period from 2006 to 2013. The chances are good that 2015 could beat the record set in 2014, when transactions totalled 3.6 billion euros.

Private equity investors show increasing interest

Private equity investors have also shown increasing interest in the pet product industry. In 2014, Thomas H. Lee Partners acquired Phillips Feed Service Inc., a provider of pet food and pet services, for just under 370 million euros. Measured by the geographic distribution of transactions, the US market occupies the dominant position, with 43 per cent of total volume. Japan and France take the second and third position with 9.4 and 6.6 per cent respectively.

Dr. Mariela Borell, borell@zew.de



The size of the market for pet food, other pet-related articles, and services is enormous, and the sector has become attractive for investors. This is reflected in the high volumes of recent transactions.