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Zentrum für Europäische Wirtschaftsforschung GmbH

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BUREAU VAN DIJK

M&A Report

Global Mergers and Acquisitions Reports and Analyses

June 2011

Revitalisation of the German M&A Market

The German M&A market appears to be slowly recovering. Where the M&A index for Germany reached a record low of 32 points in November 2010, it rose slightly to reach 46 points in January. With this value the indicator is still far below its starting level of 100 points in January 2000, but this could represent the turning point for the negative trend of the past two years: the calculated 12-month forecast of the index for 2011 indicates that consolidation is occurring.

The economic recovery in Germany is set to increase M&A intensity. The positive development of the Dax, too, is raising hopes of an increasing number of transactions in 2011. However, the prerequisite for this is that the events in Japan have no effect on economic developments in Germany, or only a minor effect.

From the onset of the financial crisis the number of M&A transactions with German involvement declined continuously. In addition, the German M&A market was somewhat slow in following the global developments: following the severe slump as a result of the economic crisis, a gradual stabilisation could be noted worldwide as early as 2010, however, Germany recorded a further clear fall. This negative development is explained, amongst other factors, by the fact that German companies concentrated noticeably on internal restructuring in 2010. Companies seem nevertheless to have largely recovered from the consequences of the financial crisis, with the focus of management no longer limited to restructuring, but also beginning to view M&As as a growth strategy once again.

Photo: digitalstock

The underlying optimistic assessment of M&A development can be traced back to financing conditions in particular, which have improved considerably since the end of 2009. Companies have sufficient equity once again, banks are more generous with credit and interest rates remain low. Many M&A transactions are anticipated for the financial sector in particular, as credit institutes need to dispose of investments in order to meet EU criteria.

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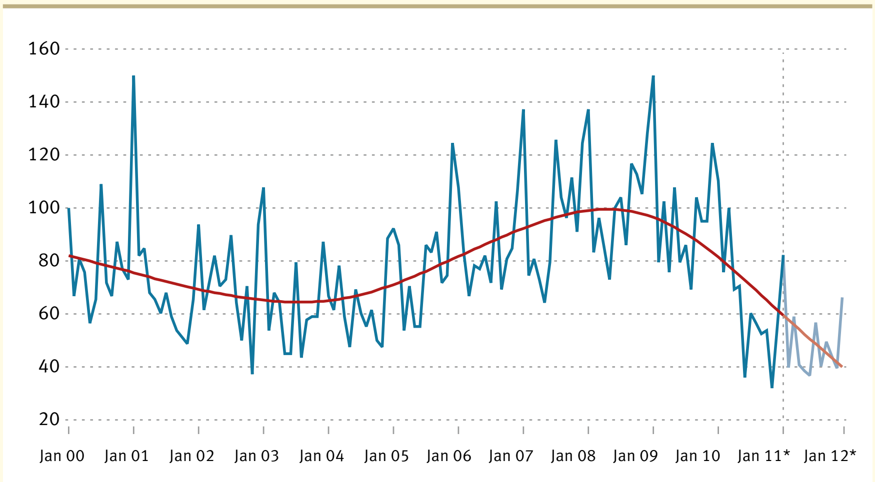
ZEW-ZEPHYR M&A-Index Germany



* from January 2011 forecast

Source: Zephyr Database, Bureau van Dijk, ZEW

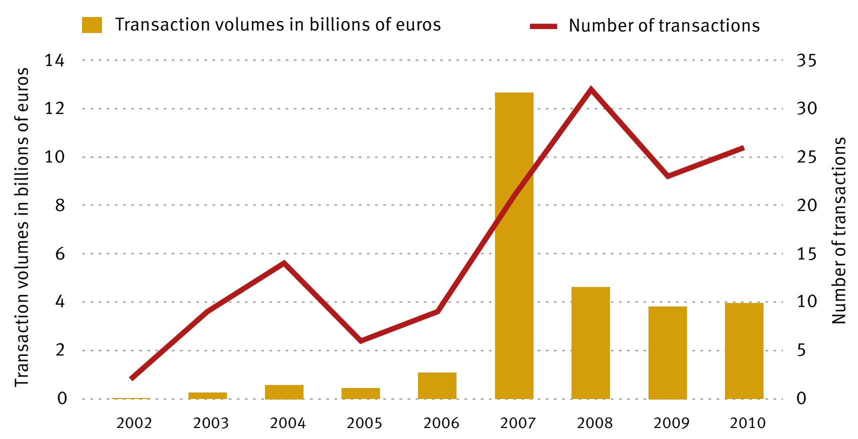
On the basis of the Zephyr Database of Bureau van Dijk (BvD) an M&A index has been drawn up specifically for Germany, reflecting the development in completed mergers and acquisitions since the year 2000. The M&A index Germany is calculated from the number of M&A transactions completed in Germany each month. Only acquisitions and mergers of and with German companies are taken into account in this index. However, no distinction is made according to country of origin of the purchaser or partner. This means that both domestic and foreign purchasing companies are taken into account, whilst the target companies are active in Germany. M&A activity is determined by macroeconomic conditions in particular, for example, economic development or development of the financial markets. Consequently, on the basis of an empirical study, alongside the OECD CLI index, the long-term interest rate level, the course of the Dax and rumours regarding future mergers are used for the forecasting of M&A activity in Germany.

China's Interest in the Financial Sector Undimmed

China has submitted a shareholding offer in the bidding process for WestLB and is on the shortlist of four favourites to receive the go-ahead to acquire the bank. Nevertheless, the boom, measured by the amount of the average price for shareholdings and acquisitions in the financial sector with regard to Chinese companies, appears to have lost impetus. China's merger and acquisition fervour was particularly strong during the financial crisis, as nearly all Western banks were forced to write off billions due to their subprime involvement and the financial sector struggled to deal with liquidity bottlenecks. Companies on the Chinese shopping list included Morgan Stanley, Fortis and Barclays.

However, after China had spent around 13 billion euros on mergers and acquisitions in the record year 2007, in 2008 the transaction volume fell to almost a third, despite the fact that the takeover activity amongst Western banks in the first half of 2008 had increased as a result of strong pressure to consolidate and further rescue measures.

China's Interest in Foreign Financial Companies



Source: Zephyr Database, Bureau van Dijk, ZEW

High Level of Investments in Foreign Financial Companies

At the beginning of the enormous fall in share values on the global share indices in the second half of 2008 China was still making efforts to acquire a number of financial firms, but major investments failed to occur.

The Chinese spent less money on the financial sector after the peak of the financial crisis had been reached. However, interest remains extensive and unwavering. An indicator of this is the consistently high level of investments in foreign financial companies over the past two years. The severely battered global financial companies appear to be recovering particularly quickly. The extent to which this recovery will drive China's urge to expand in other financial markets of the world remains to be seen.

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Merger Plans of Stock Exchange Operators

Several significant mergers have been heralded amongst the companies that operate the stock exchanges. In February 2011 the London Stock Exchange (LSE) announced the acquisition of the Toronto Stock Exchange (TMX Group). Of even greater significance, however, is the merger of the Deutsche Börse with the NYSE Euronext, also announced in February of this year. Measured by the market capitalisation of the listed companies, the company would be the largest stock market operator in the world by far. On April 1st, however, a counter offer for the acquisition of the NYSE has been jointly submitted by Nasdaq OMX and IntercontinentalExchange (ICE). The consolidation pressure resulting from these intended mergers could see further mergers or acquisitions come about as a result. Talks are already underway regarding a merger of the Tokyo Stock Exchange and Osaka Securities Exchange. After two active years in 2007 and 2008 the number of global M&A transactions had recently fallen within the sector. However, against the background of the current developments the number of global transactions in the stock exchange sector could increase again in the future.

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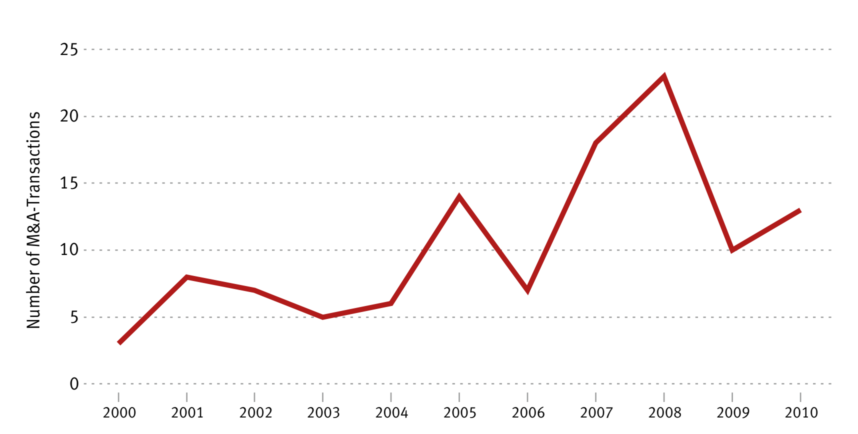
Worldwide M&A Transactions within the Stock Exchange Sector



Source: Zephyr Database, Bureau van Dijk, ZEW

Takeover Rumours at ProSiebenSat.1

It is an open secret that ProSiebenSat.1 is to be sold. The largest private broadcaster in Germany alongside RTL, after some difficult years ProSiebenSat.1 has posted good quarterly results again and announced payment of a dividend.

Photo: dgitalstock

ProSiebenSat.1 could soon be sold.

Reason enough for analysts to speculate about a possible sale.

The rumours surrounding ProSiebenSat.1 are not new. According to the M&A database Zephyr the media company has been identified as a potential acquisition target 23 times in the past ten years.

For example, in 2005 publisher Springer-Verlag attempted to make the acquisition, with the takeover vetoed by the Federal Cartel Office and the Commission on Concentration in the Media (KEK), a decision subsequently followed by the Supreme Court.

Under media concentration law, a prevailing opinion-forming ability is assumed where viewing figures of more than 30, respectively 25 percent in the case of a market-controlling position in media-related relevant markets exist. Although ProSiebenSat.1 remained below this threshold, the monopoly monitors ruled against a takeover. In 2011 it could be the turn of the officials in Belgium, the Netherlands and Scandinavia. Because it is thought likely that the television channels of the ProSiebenSat.1 subsidiary SBS active in those markets could be disposed of.

According to ProSiebenSat.1 the decision regarding the sale of SBS channels will be made in the second quarter of this year. Following this, the sale of ProSiebenSat.1 itself can get underway. The most likely scenario for this is a listing on the stock exchange.

In this manner the currently controlling investors Permira and Kohlberg Kravis Roberts & Co. could manage to avoid a lengthy legal dispute between the future owners and the regulatory authorities. Springer has already expressed an interest in 25 percent of the shares. There is no doubt that commission and cartel office will be watching proceedings with renewed interest again.

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Cartel Collapses and M&A Activity

An investigation of the ZEW compares the effects of cartel collapses on the M&A activities of cartel members and competitors in the sectors concerned in Europe since the early 1990s. The table (see illustration) provides an overview of the share of the various deal types occupied by cartel members and non-cartel members. For example, 49 percent of the deals in which non-cartel members were involved are acquisitions with non-cartel members as purchasers prior to the collapse of a cartel. The aspect of market restructuring is clearly reflected in the M&A activity: if a cartel is uncovered and a case is brought against it, little changes for non-cartel members. They continue to account for 49 percent of the purchasers in acquisitions. The situation for cartel members is a different one. Where in the time prior to the discovery of the cartel they make up over 70 percent of buyers, this share is reduced to 50 percent during the cartel proceedings. A more consistent pattern can be seen for disposals.

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Cartels and M&A Activity

		Non-cartel			Cartel		
	Type of deal	Cartel period	Period of proceedings	Subsequent period	Cartel period	Period of proceedings	Subsequent period
	Acquisition	49%	49%	55%	71%	51%	65%
	Joint Venture	5%	5%	4%	14%	13%	16%
Purchaser	Minority shareholding	5%	4%	4%	6%	2%	3%
	Acquisition	70%	50%	55%	66%	41%	63%
	Joint Venture	5%	5%	4%	9%	10%	5%
Subject of sale	Minority shareholding	5%	4%	4%	0%	0%	0%
	Acquisition	70%	48%	55%	83%	84%	82%
Vendor	Minority shareholding	4%	4%	4%	4%	5%	3%

Source: Zephyr Database, European Commission, ZEW calculations

Private Equity Investors Do Not Increase Bankruptcy Risks

Private equity (PE) investors are playing an increasingly important role in Europe, however, this has been curtailed by the financial crisis of 2008 and 2009.

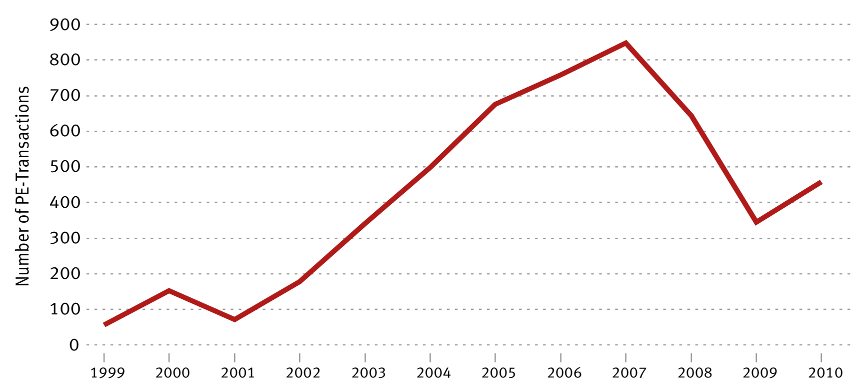
Now PE investors appear to be slowly recovering. In 2010 the number of PE transactions with target companies in one of the EU 15 countries increased by 30 percent compared to the previous year.

The financial market crisis has rendered the question on how PE investors influence the development in their portfolio companies. Political debate in particular is driven by the concern that PE investors could harm portfolio companies by burdening them with too much debt.

This debt arises from the third-party capital financing of the transaction (leveraged buyout) common in the sector. In this respect PE investors are frequently accused of driving the company into financial difficulties or even to the point of bankruptcy.

A current research project at the ZEW provides an indication of whether and how PE investors affect the financial situation and the insolvency risks of their portfolio companies. To investigate how PE investors affect companies' financial situation, the study compares 1,929 portfolio companies that were acquired by PE investors in 15 EU countries in the period 2000 to 2008 with that of similar companies that were not the subject of a PE transaction. In addition to leverage, various indicators signaling that a company was in a financial distress were also analysed (O-score, Z-score and Zmijewski-score), as well as insolvency rates. The project also addresses the question of the extent to which these effects depend on syndication behaviour and the experience of investors and the role capital markets play here.

Number of Private Equity Transactions



Source: Zephyr Database, Bureau van Dijk, ZEW

The study shows that portfolio companies typically manifest a lower level of financial difficulties prior to the transaction than comparable, non-PE-financed companies. However, after the transaction the financial situation of the companies deteriorates, as the different indicators mentioned above show. The negative effect is particularly marked in those buyouts that private equity investors have undertaken in periods of favourable conditions on the capital markets. However, the study shows that this tightening of the financial circumstances of the portfolio companies does not lead to higher insolvency rates when these companies are compared with similar, non-PE-financed companies.

Moreover, the analysis indicates that PE syndicates invest in companies with higher debt and more prominent financial difficulties than PE funds acting as stand-alone investors. Stand-alone investors increase the financial difficulties of their portfolio companies after the transaction. This finding could indicate that PE syndicates are more capable of managing companies in financial difficulties than stand-alone investors.

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