

M&A Report

Global Mergers and Acquisitions Reports and Analyses

June 2012

M&A Index Germany – Turning Point in Sight

The prognosis for the further development of the ZEW-ZEPHYR M&A Index for Germany, calculated in July 2011, has been proven correct. It had predicted a sideways movement of the indicator until the end of 2011 (see M&A Report October 2011). Even so, the M&A Index for Germany registered peaks as well as troughs. The reason for this, among others, was the German stock index (DAX) plummeting in August 2011, driven by fears of recession and the euro crisis. The average development of the M&A Index, however, remained unaffected. The 12-month moving average settled just at 60 points in December 2011.

Although the OECD composite leading indicator (CLI) for Germany, which maps economic development, has been point-

ing downwards since January 2011, the euro crisis has only made a mark in specific industries. Companies in other industries are still achieving record sales.

M&A Activity in Germany Seems to Pick up Pace in 2012

An interesting development is showing with regard to rumours and announcements of impending M&A deals in Germany: since early 2011 these are clearly rising in number. The sudden drop of the DAX halted this trend, but the number of rumours and announcements of future deals continued at a relatively high level. This could be a sign of M&A activity picking up pace in 2012. Supported by rising stock prices, the German M&A Index

could reach a turning point and begin its long-awaited resurgence. The current prognosis, projecting the development of the German M&A Index from January through December 2012, also supports this prediction. It shows a rising number of completed transactions until the end of the year. The trend reversal also becomes visible in the 12-month moving average of the Index.

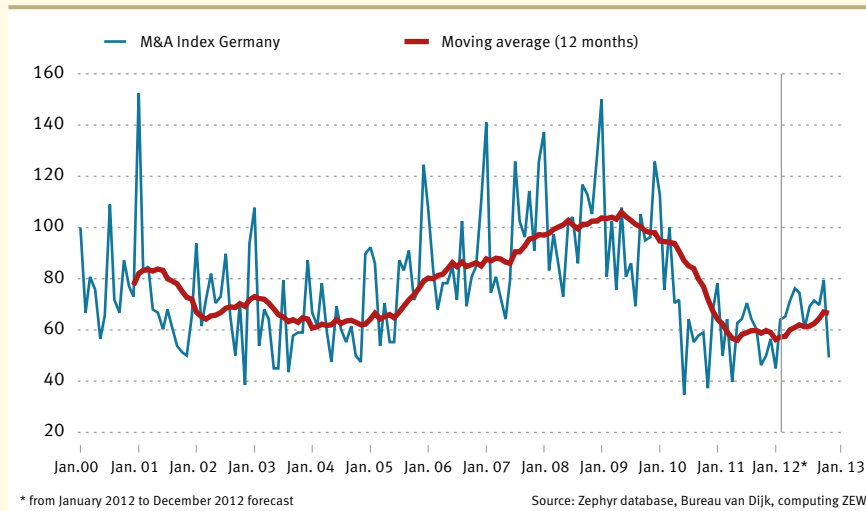
Revitalisation Through Successful Deals

The deals that were planned and successfully accomplished last year have had a positive effect. Even though Deutsche Börse failed in their attempt at a merger, there have been success stories as well, e.g. the approval of the acquisition of MAN through VW. Another important decision is due this year: with the sale of Inoxum GmbH, the stainless steel unit of ThyssenKrupp, to the Finnish corporation Outokumpu, a new world leader in stainless steel production could emerge – assuming the competition authorities allow it.

The Federal Cartel Office, the German competition authority, was occupied with some deals as well. The acquisition of Kabel-BW by Liberty Global, who supply customers in Hesse and North Rhine-Westphalia with TV connections, was approved subject to certain conditions. The acquisition of E-Plus by communications provider Telefonica O2 could keep competition watchdogs busy if the rumours prove to be true.

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ZEW-ZEPHYR M&A Index Germany



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.

Aviation Industry: Leaving the Crisis Behind

As the currently published results of the International Airlines Group (IAG), a merger of British Airways and Iberia, show: mergers in the aviation industry can be successful. In their first joint business year, 2011, the profit of the merged companies has increased fivefold. Despite the fact that fuel prices have risen considerably, IAG has profited from

a strong demand for transatlantic flights as well as substantial cost and sales synergies. Motivated by success, IAG has agreed to acquire the loss-making airline British Midland International (BMI) from Lufthansa. The sale has yet to be approved by competition authorities.

Another company with financial problems has announced a new investor in

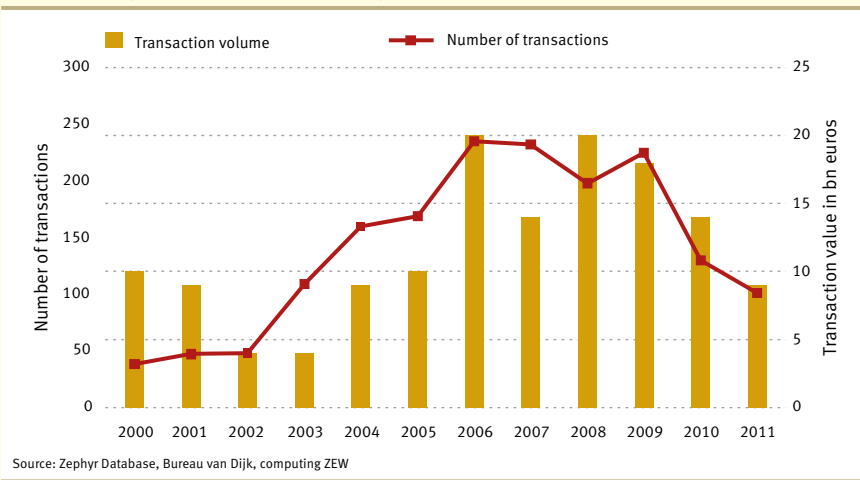
2011. Etihad Airways from Abu Dhabi is going to get on board with Air Berlin. This could solve Air Berlin's financial problems on a short-term basis and Etihad Airways could enter into the European short and middle haul routes.

Trend Towards Smaller and Fewer Transactions

In 2011 the trend towards smaller and fewer transactions in the aviation industry continues. Many deals were triggered by target companies' financial problems. After transaction volumes had reached 20 billion euros in 2008, transaction values dropped continuously to a value of nearly nine billion euros in 2011. The record volume of 2008 was partly driven by huge transactions, such as the acquisition of Northwest Airlines by Delta Air Lines for about 2.3 billion euros, as well as numerous smaller deals, such as the 15.6 per cent involvement of Lufthansa in JetBlue Airways for 200 million euros.

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M&A Activity in the Aviation Industry



Uncertainty in the Renewable Energies Industry

The government aid and rising demand for power generation systems has made the market for renewable energies attractive for investors and market entries. After the initial euphoria, which abated due to

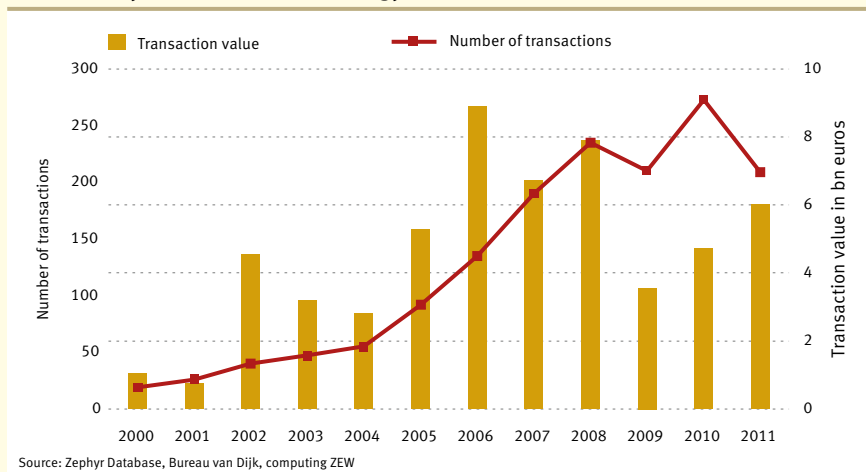
decreasing government aid and emerging competition from Asia, a consolidation process has begun. A growing uncertainty can be seen in the development of M&A deals in the EU-27 countries.

After a peak had been reached in 2008 with 235 transactions, deal numbers have since experienced a number of ups and downs.

In the year 2011 a drop to 209 transactions was registered. After a steep fall from nearly eight billion euros in 2008 to 3.6 billion euros in 2009, the volume of transactions has somewhat recovered in the past two years. In 2011 transaction volume has risen to six billion euros, an increase of 27 per cent in comparison to the previous year. Still, if the acquisition of the remaining 50 per cent of shares of EDF Energies Nouvelle by Electricité de France (EDF), the biggest transaction in the year 2011 at 1.5 billion euros, were to be taken out of the equation, the aggregated transaction volume would register a decline of six per cent compared to the previous year.

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M&A Activity in the Renewable Energy Sector



Greece: M&A Activity has Collapsed

Greece has been in a state of crisis for more than two years now. This also shows in its M&A activities. While in 2009 the decline of transactions with Greek involvement was still comparable to other European countries due to the worldwide economic crisis, between 2009 and 2011 the number of transactions in Greece has dropped by about 73 per cent. The sharp-

est decrease shows for the number of transactions in which Greek companies have acted as buyers. The number of domestic transactions fell by about 85 per cent between 2009 and 2011. Foreign acquisitions by Greek companies dropped by about 76 per cent in the same period.

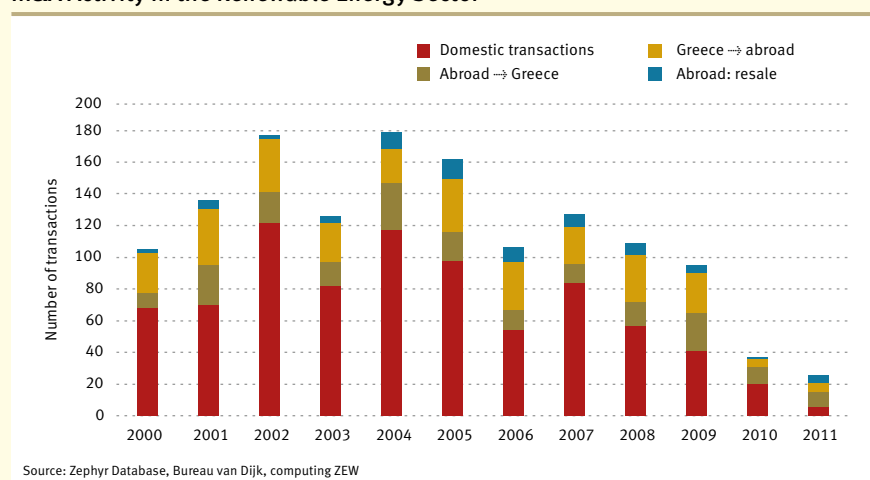
In the decade before the crisis mainly Greek financial institutions had made ac-

quisitions in the Balkan and other Eastern European countries as well as Turkey and Egypt. Since they hold a considerable amount of Greek government bonds and are therefore subject to financial restrictions, these institutions are unable to act as buyers. Greek companies are currently unable to raise enough capital for mergers due to the sharp decline of Greece's economic performance. For the same reason, an external financing of M&A activity is not feasible.

Registering a drop of about 63 per cent, transactions where foreign buyers acquired Greek companies have fallen – comparably – slower. Although increased activity was registered in 2009, the current unreliable situation makes investors hesitant. If the Greek recession continues, a consolidation within certain industries could become the reasonable step as an alternative to closings. If government programs were issued against this lasting recession, an increase in M&A activity may be expected in the not-too-distant future.

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M&A Activity in the Renewable Energy Sector



Declining M&A Activity in the Auto Industry

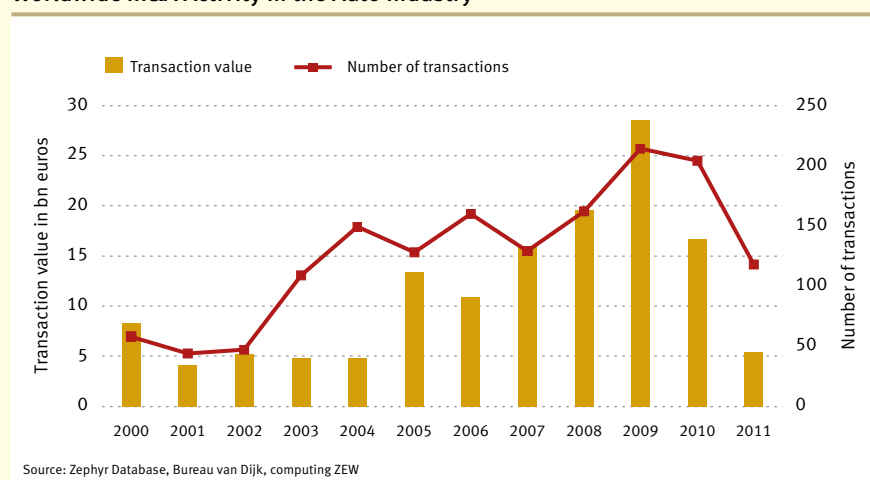
Despite strong sales growth, a notable decline in M&A activity was registered in the auto industry in 2011. The worldwide number of acquisitions, mergers and

shareholdings has dropped by about 42 per cent in comparison to the previous year. The aggregated transaction volume even dropped by about 68 per cent in

the same period. This is the lowest value recorded since 2004. The most striking decline was registered for European M&A targets. Here, the transaction volume dropped by 91 per cent from 9.5 billion to less than one billion euros, which constitutes the lowest value since 2000. In 2010 an obvious decline in M&A activity was already noticeable, after record investments had been reached in 2008 and 2009. Overall, the transaction volume had been rising continuously since 2003 and remained on a historically high level for the second half of the past decade. A pinnacle was reached in 2009 with a transaction volume of 28.6 billion euros. Encompassing six of the ten biggest transactions and a total volume of more than 16 billion euros this was mostly due to the M&A activity of Porsche and Volkswagen and their takeover battle in 2009.

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Worldwide M&A Activity in the Auto Industry



European Electricity Grids up for Sale

Within the framework of the third EU-single market agreement to further promote the liberalisation of electricity and gas markets, new guidelines for the separation of the grid operation from production and distribution were determined in 2009. Competition and regulatory authorities intended to counter fears of discrimination of competitors due to the vertical integration of value-adding levels of providers. With the concluded transfer of EnBW Transportnetze AG to Transnet-BW GmbH on 2 March 2012, the last transmission grid provider completed the im-

a sale of its subsidiary, confirming current trends. As recently as June 2011, RWE sold 74.9 per cent of the transmission grid provider Amprion to an investment consortium lead by the Commerzbank subsidiary Commerz Real. This deal was worth about a billion euros. In 2009 Eon completed the sale of its transmission grid – subject to conditions imposed by the competition authorities of the European Commission – to the Dutch network operator TenneT, also for almost a billion euro. A few months later the Swedish energy corporation Vattenfall followed suit

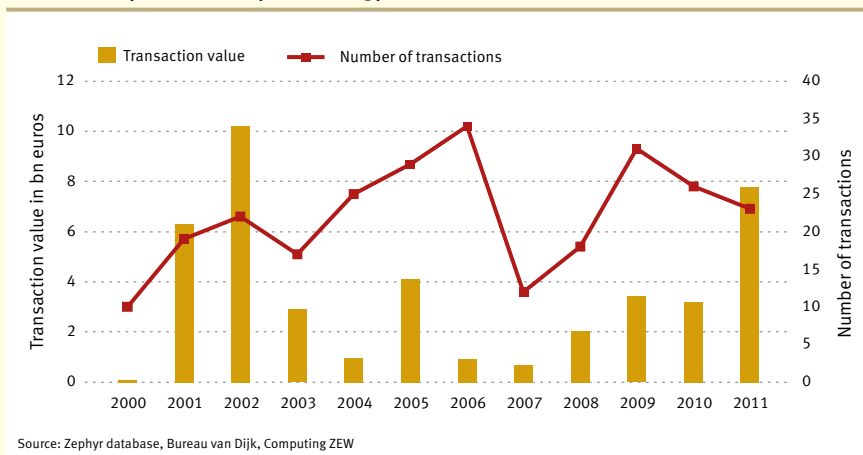
markets and facilitates the coupling of wholesale markets and the efficient use of short cross-border capacities. Germany, France and the Benelux countries are joined in the regional coupling initiative Central Western European Market Coupling (CWE). Similar initiatives are the European Market Coupling Company (EM-CC) between Germany and Scandinavia as well as the Trilateral Market Coupling of France, Belgium and the Netherlands.

Definite Rise of M&A Intensity

All in all, the profitability of the networks has fallen in recent years due to strong regulatory measures of the grid charges and investment requirements. The sale of the networks widens the scope for the formerly vertically integrated companies to invest in more profitable and high-risk business segments. On the other hand, the relatively low risk of the networks makes them attractive for institutional investors. Generated by the third EU-single market agreement and country specific regulation requirements within the EU27, recent years have shown a clear rise in M&A intensity. A first wave of divestments could already be witnessed at the beginning of the century as a consequence of the liberalisation of the energy market through ownership unbundlings. The second highest transaction volume of recent years was achieved by Eon. In the course of their consolidation Eon sold their British energy grid to the US-provider PPL for about 4.6 billion euros.

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M&A Activity in the European Energy Market



plementation of the agreement. While Vattenfall, Eon and RWE have sold their transmission grids in recent years, thus pursuing the “full ownership-unbundling”, EnBW chose the equally permitted model of the “independent network operator”. In the meantime, EnBW is reviewing

and sold its transmission grid to the Belgian network operator Elia for about 0.8 billion euros. The sale to pure network operators in neighbouring network areas is not only interesting due to competitive aspects but it also constitutes a huge step in integrating the European energy

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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 detailed information of nearly one million M&A, IPO and private equity transactions worldwide.

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