

M&A Report

Global Mergers and Acquisitions Reports and Analyses

November 2012

M&A Index Germany – Still Waiting for Recovery

The ZEW-ZEPHYR M&A Index Germany has only marginally changed in the first half of 2012. Compared with the 63 points achieved in December 2011, June 2012's results were almost unchanged at 59 points. Thus, the current level of the M&A Index Germany is considerably below its initial value of 100 points in 2000. Indeed, the 87 points recorded in January this year represented the highest monthly value on record since March 2010, although the spike proved to be unsustainable. Similarly, the moving average for the last 12 months is unchanged, having hovered around the 60 point re-

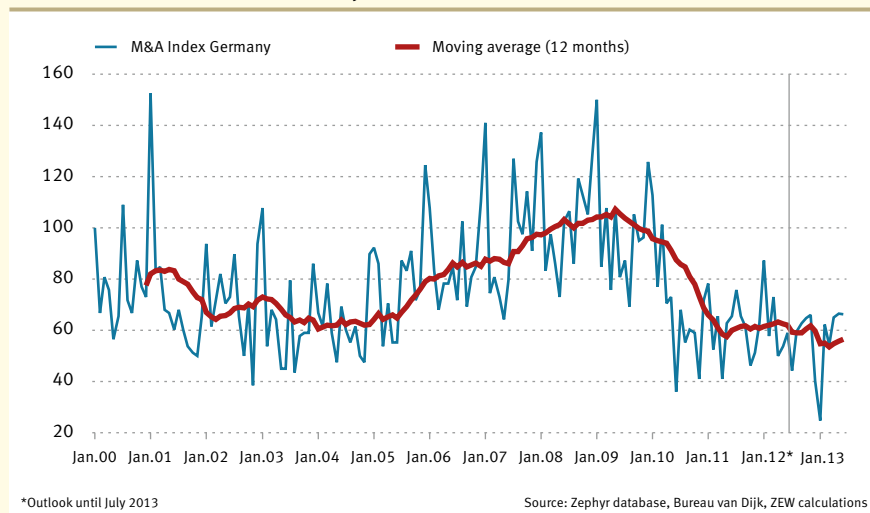
garding mergers and acquisitions is the global economic insecurity due to the still unsolved debt crisis.

M&A Activity Slows Down due to Higher Capital Requirements

A particular problem faced by the M&A sector is the unwillingness of banks to finance deals as a result of higher capital requirements. As a consequence of stricter capital requirements, banks still pursue a cautious policy when it comes to financing transactions, thereby slowing a stimulation of the M&A market. Appar-

The forecast for the next months is also sobering. The current forecast assumes a further sideward movement in the area of the 60 points-mark. Next year's indicator figures will more likely stay below this mark than above. One reason for the expected weak development of the indicator is the OECD Composite Leading Indicator (CLI), which is factored into the calculation. The June 2012 CLI showed the lowest value for Germany since October 2009. Furthermore, rumours regarding future M&A transactions, which have proven to be a good indicator for transactions realised in the future, have not noticeably intensified during the first half of 2012. A positive trend reversal of the M&A indicator is hence not likely until mid-2013.

ZEW-ZEPHYR M&A Index Germany



Notable Transactions Completed in the First Half of 2012

Several notable transactions are among those completed in the first half of 2012. Particularly in the German banking industry plenty of M&A activity can be observed. In April 2012, Deutsche Kreditbank AG (DKB) exited its subsidiary DKB Immobilien AG, selling it to Hamburg-based TAG Immobilien Gruppe for 160 million euros. In addition, the Sparkassenverband Bayern bought BayernLB's building society LBS for 1.6 billion euros and Deutsche Bank picked up Postbank for more than 2.4 billion euros in January. These two deals represent the largest transactions by value during the first half of 2012.

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gion since February 2011. This continues the bottoming-out process that has been seen since the beginning of 2011. One reason for the companies' hesitation

ently, even low long-term interest rates in Germany, which provide a profitable framework for mergers and acquisitions, have no positive impact.

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.

Sovereign Debt Crisis Hinders Recovery of the M&A Market

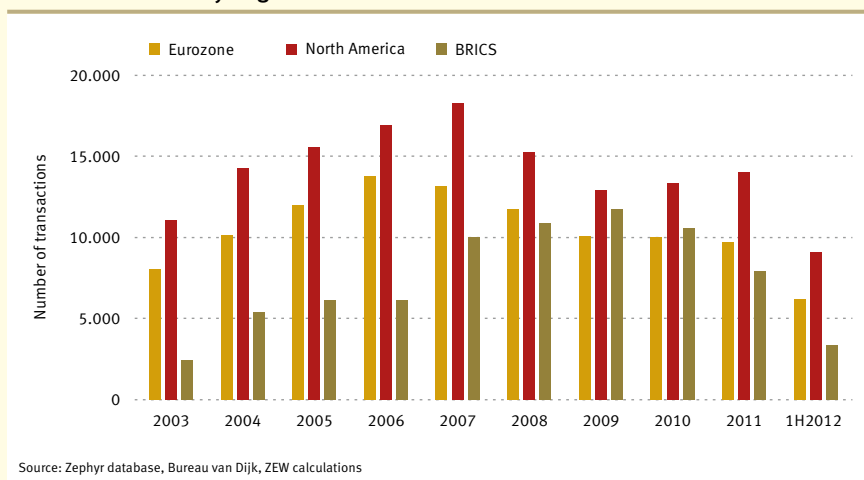
The European M&A sector had suffered as badly as the American market in the wake of the subprime mortgage crisis. Nevertheless, the European M&A market declined further during 2010 and 2011 whereas the situation in North America improved. The number of transactions in North America rose by 3.6 per cent in

2010 and increased even by 4.7 per cent in 2011. In the Eurozone, the number of deals in 2010 and 2011 were down by one per cent and 2.7 per cent respectively. The reason for the continued weakness of the European M&A market is linked to the financial crisis. The risks for large investors from outside Europe are incalculable.

Furthermore, banks have imposed tight restrictions on financing deals.

An analysis of the buyer structure of European transactions shows that investors from Brazil, Russia, India, China and South Africa (BRICS) were particularly strong engaged in Europe during the crisis, especially in Germany, Spain and Italy. This has made up for the reluctance shown by Eurozone-based investors, who were involved in more than 60.0 per cent of all transactions in the region. In addition, the BRICS countries were a popular destination for M&A deals by North American investors during the crisis. This has changed considerably since 2009. Now, North America is again proving popular as a location for investment, something that is reflected in the increased M&A activity there, while the BRICS countries suffered losses in the same results. Data from the first half of 2012 has shown increased activity in Europe and North America, but not in the BRICS countries.

M&A Transactions by Region



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Competition Authorities Intervene in Logistics Industry

The planned acquisition of Dutch express service TNT by American logistics business UPS has been put on ice until 28th November as a result of competition concerns raised by the European Commission. The deal was officially announced in February 2012 and was valued at 5.2 billion euros in March 2012.

In many EU member states, the deal would lead to a higher market concentration in the express delivery sector, which is normally occupied by just four companies. Current market leader DHL could lose some ground in the battle against UPS and the smaller TNT and FedEx. World leader UPS would then also be number one in Europe. However, many experts doubt this would give UPS the coveted

competition advantage. In this case, DHL and FedEx could benefit due to TNT's elimination without suffering many competitive disadvantages.

Debt Crisis Impacts M&A Activity

Overall, in 2009 the European logistics industry showed a sharp rise in M&A activity after its collapse in 2008 as a result of the financial crisis. However, the sovereign debt crisis subsequently caused another decline in the sector. As a result, the number of deals featuring a European logistics company as buyer or target dropped from 110 in 2009 to 69 and 67 in 2010 and 2011 respectively. Characteristically for the logistics sector, the num-

ber of deals featuring an acquirer from a different industry buying into a logistics business was high. These transactions accounted for on average 60 per cent of the deals recorded in the years under review. One reason for this development is the high market concentration and competition-related hurdles that make a deal more difficult or even impossible (as in the case of UPS and TNT). Among the international buyers are financial investors who want to participate and play a central role in the success of global industry players. For example, from 2007 to 2011 Barclays held a stake in TNT and periodically acquired minority interests.

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M&A Activities in the Commodities Sector Drop

Having been accustomed to much success, the commodities industry has now also begun to feel the effects of the weakened economy. In particular the unexpected slowing of the Chinese economy, as well as declining demand for mineral resources has led to a drop in prices and profits for commodities businesses. As such, the five largest resources companies worldwide all posted significant profit losses in the first half of 2012.

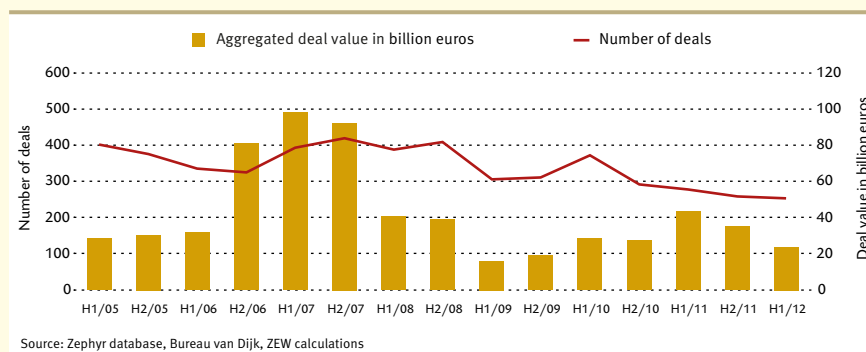
Falling Deal Numbers

The resulting uncertainty has had a clear impact on M&A activity in the sector. Worldwide deal values in the first half of 2012 amounted to just 23.6 billion euros. The only time when a lower figure was recorded was at the height of the financial crisis in 2009. By comparison with the second half of 2011, this represents a decrease of 33 per cent, and is 46 per cent lower than the first half of 2011. This is the fourth consecutive year where a decrease in deal numbers has been recorded, and brings the figures to their lowest level since 2005.

Even this year's takeover of Swiss commodities giant and the world's largest zinc producer Xstrata plc by the world's biggest commodities trader Glencore International AG began to look unlikely due to increased financial claims of Xstrata's

value of almost 36 billion euros, would be the industry's largest M&A transaction to date, thereby beating the previous record, which was set in 2007 when iron ore giant Rio Tinto took over aluminium player Alcan for 26.2 billion euros. Due to the very high

M&A Transactions in the Commodities Sector



shareholder Qatar Holding. However, the way has now been paved for an agreement to be reached and a completion date is imminent. The deal, which would see Glencore's stake increased from 34.1 per cent to 100 per cent and has a suspected

numbers of deal rumours and announcements in the pipeline, it can be assumed that the low figures are a temporary hitch and increased deal activity in the commodities sector is expected in 2013.

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Banks Facing New Challenges

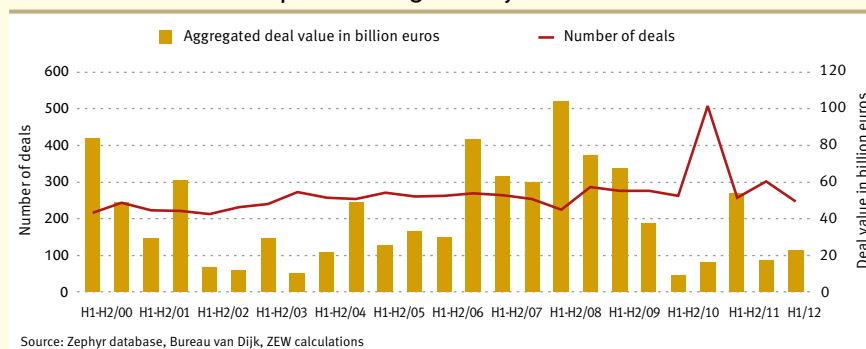
The wave of consolidation that started in the global financial sector in 2010 seems to be dying down. The same can be said of the M&A activities of European financial players, who are introducing stricter banking regulations in the wake of the crisis. This is happening in order to transfer risk from the state or taxpayer to banks' creditors, thus eliminating implicit government guarantees for risky banking. In doing so, the proposal to separate investment banking from other banking activities is being looked at. Such a move would change the industry's market structure significantly and most likely increase M&A activity in the sector considerably. Companies could use the resultant bureaucratic and organisational complexity to offload businesses that are no longer part of their core activities or will not be profitable in future. The banks would

have to reorganise their refinancing given that bank risks for the various businesses fail in different ways. As a result of this, risk differences would be reflected in market prices. It is hoped that the effort put into the proposed regulation package has the desired result. It is conditional upon

the investment banking sector ceasing to be of relevance to the government, so as not to put any unnecessary strain upon it or taxpayers. However, should a company go bankrupt, the system would prove difficult for creditors.

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M&A Activities in the European Banking Industry



High M&A Activity in Spanish Construction Sector

In the highly pressurised Spanish construction industry a consolidation wave is reflected by an abundance of bankruptcies and mergers. Prior to the bubble bursting in 2008, the construction sector was one of the country's most important industries, generating more than 12 per cent of its Gross Domestic Product (GDP) according to the Spanish Statisti-

cal Office. By 2011, its share of GDP had dropped to nine per cent and the sectors value added decreased by almost one third. A first phase of consolidation occurred in 2007. Due to the slump in construction activity a wave of mergers was initiated. With the collapse of the Spanish economy - the GDP declined by 3.7 per cent according to the OECD - M&A's in the construction sector declined temporarily. The financial crisis and resultant drop in demand exacerbated the problem though. The first wave of consolidation did not suffice. Between 2008 and 2010 around 4,400 companies in the construction industry filed for insolvency.

Additionally to the 1,914 bankruptcies recorded in 2011, a second phase of con-

solidation through mergers and acquisitions began and continues to this day. In the first half of 2012 48 deals were completed which is eight times more than in the whole year of 2011. As such, the current wave of mergers exceeds the value of the previous wave in 2007, reaching a peak of just 37 transactions. At the same time, the number of insolvencies by construction companies rose in the second

Spanish Phenomenon

quarter of 2012 and accounted for a third of all bankruptcies in Spain, according to the Spanish Statistical Office.

The country's construction industry is characterised by many small and a few large firms that are almost exclusively Spanish-owned. Transactions mainly occur between Spanish companies.

The wave of construction sector mergers is a Spanish phenomenon. This can be shown by a comparison to the rest of the Eurozone. There, the maximum of transactions could be observed in 2002, when 68 M&A deals were recorded. This year was characterised by particularly high activity levels in Finland. Afterwards only small fluctuations and a slight increase in deal numbers in 2011 could be observed, which has not continued in 2012.

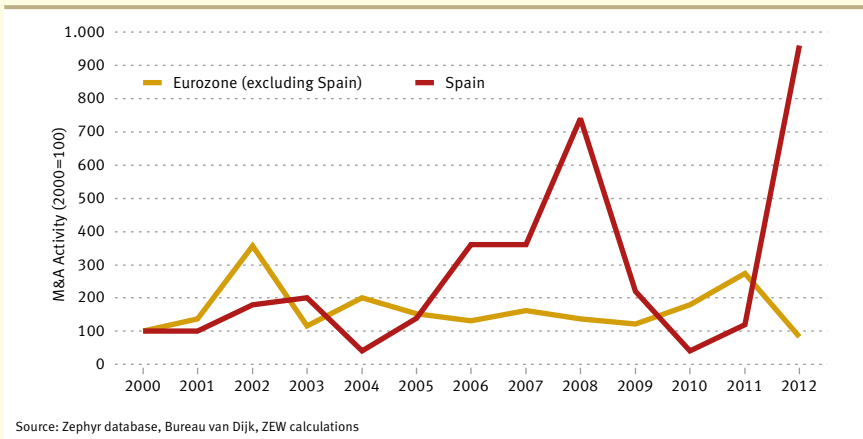
Falling prices due to the drop in housing demand and lower sales figures have also led to problems in the real estate sector, which is also facing the need to consolidate.

We expect the high transaction numbers in the Spanish construction sector to persist in the near future. In 2011, 100 merger and acquisition deals were announced that are expected to be completed either this or next year. The same hold for the real estate sector, where 46 announced deals have yet to be completed.

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M&A Transactions in the Spanish Construction Sector



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

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