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BUREAU VAN DIJK

M&A Report

Global Mergers and Acquisitions Reports and Analyses

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China, India and Russia Increase M&A Activities Abroad

The M&A activities of emerging countries such as China, Russia and India have been affected by the financial and economic crisis with varying degrees of intensity. Acquisition activities declined particularly strong in India during the crisis, with Russian transactions only recording moderate falls in contrast. Conversely, Chinese companies have maintained their growth course in mergers and acquisitions. The 145 worldwide transactions with Chinese involvement in the second half of 2009 hit a new peak since the year 2000. At the same time, only some 65 transactions with Indian involvement were recorded.

Suppliers of Commodities in Demand

The economic recovery and continuing globalisation mean that M&A activity is now also becoming increasingly dynamic in India and Russia. However, investors from the emerging countries are pursuing different goals. Chinese companies have shown particularly strong interest in companies abroad having access to commodities as well as in companies of the engineering sector. This can be seen for instance in the latest announcements of interest in raw materials and technology suppliers, for example in Australia, Canada or Brazil. According to sources in the industry, the Chinese commodities suppliers Sinopec and CNOOC would like to invest in the Brazilian oil group OGX. Similarly, the attempted takeover of the Canadian fertiliser manufacturer Potash by Chinese state-run company Sinochem is an indication of the significance of raw materials to the Chinese market.

In Europe, Chinese companies are eyeing up firms with products exposed to minimal profit risks. This applies, for example, to the electricity grid in the United Kingdom, which Electricité de France would like to sell to Cheung Kong Group of Hong Kong. There is also interest in European companies with products that can also be marketed well in China. For example, the Chinese buyer of Volvo not only aims to gain a foothold in the European market, but also to serve its home market with the brand. Investors from Russia are also on a global search for raw material suppliers. For example, there are plans of the Russian steel producer, Severstal, to invest in gold producer Crew Gold, based in the United Kingdom. Similarly, banks and investment companies are also high on the Russian shopping list. Indian investments in contrast have primarily been in the chemicals and engineering sectors, as well as services. The most recent example is the acquisition of Lycos by the Indian service provider Ybrant Digital for around 28 million Euros.

M&A activity is also geographically disparate. Chinese M&A players favour companies on the American continent, South America in particular. Russian investments on the other hand are to be found primarily in Europe, particularly Western Europe. Investors from India are also strongly focused on Western Europe. In addition, North American companies also feature on their shopping list. In the years from 2000 to the first half of 2010 there were 370 transactions with Indian participation in Western Europe, 320 with Russian involvement and 120 with Chinese investment. In South and Central America the Chinese occupy first place, however, with 370 transactions. India and Russia follow way behind with around 40 and 30 transactions respectively.

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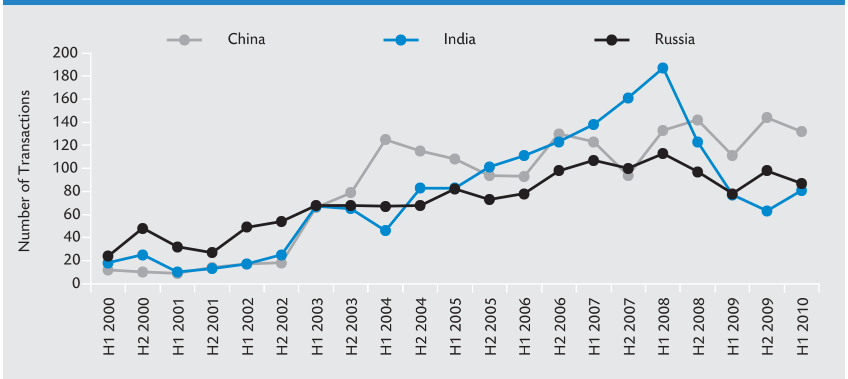
Worldwide M&A Activity from 2000 to 2010 (1st half of the year)



Source: Zephyr database, Bureau van Dijk

Pharmaceuticals Giants Aim to Lower Costs after Mega-Merger

2009 was a year plentiful in transactions, with two mega-mergers in the United States – pharmaceuticals group Wyeth was taken over by Pfizer for around 68 billion dollars and Merck & Co. acquired Schering-Plough for around 41 billion dollars. In contrast, the number and volumes of global M&A activities in the pharmaceuticals sector declined significantly in the first half of 2010. The reasons for the major mergers of the past years were primarily increased cost pressures, the lapsing of patent protection for key pharmaceuticals and the intense competition with generic manufacturers. In the current year US pharmaceuticals giants are primarily focusing on restructuring in order to achieve post-merger synergy effects. Measures planned include the closure of research and production sites, which should lead to high savings. Significant M&A transactions in Germany in the first half of 2010 include the takeover of the American company Millipore Corp. by Merck KGaA for 5.3 billion euros. With the acquisition Merck KGaA plans to realign its chemicals business and to become a worldwide partner to the life science industry. In addition, the generic pioneer on the German market, Ratiopharm Group, is to be sold by VEM Vermögensverwaltung, part of the Merckle Group, to the Israeli company Teva Pharmaceutical Industries Ltd. The company value agreed amounts to 3.6 billion euros. Together with Teva, Ratiopharm will expand its position as a worldwide leader in the production of generic pharmaceuticals.

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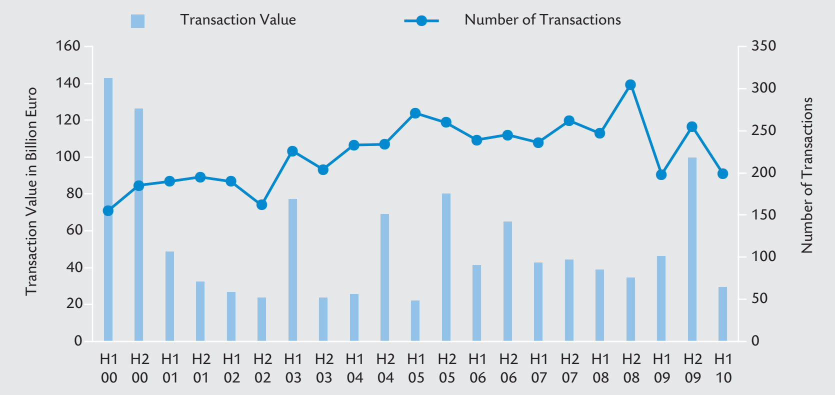
M&A Activities in the Pharmaceuticals Sector



Source: Zephyr database, Bureau van Dijk

Merger Planned in the Milk Market

In September 2010 two of the largest German dairy companies, Nordmilch AG and Humana Milchindustrie GmbH, applied to the Federal Cartel Office for permission to merge. Sales activities were already combined last year in the joint venture Nord Contor GmbH. In 2009 there were around 99 milk processing companies in Germany, with total sales of 18 billion euros. The dairies with the highest turnover include Nordmilch, Humana, Müller and Hochwald. Taken together, Nordmilch and Humana generated sales of around four billion euros. This corresponds to a share of approximately 22 percent in the turnover of the German milk industry and would result in clear leadership of the German market.

In the international comparison, however, German dairies are small. In Europe the merged company would only be in the top 12 largest dairies. The leaders here, according to sales in 2009, are Nestle of Switzerland (18.55 billion euros), Danone of France (10.60 billion euros) and Lactalis of France (9.09 billion euros).

Strong Vertical Integration

40 percent of German dairies are privately organised, 60 percent are co-operatives – including Nordmilch and Humana. Many of the approximately 96,000 German dairy producers hold shares in the dairies to which they sell their milk. There is subsequently remarkable vertical integration within these production levels. In the case at hand the representatives of the co-operative umbrella organisation still need to approve the merger.

Around 40 percent of domestic dairy production goes to the highly-concentrated domestic food retail market. The negotiating position of the dairies is relatively weak in comparison, particularly in the field of easily-replaceable milk-based products and private labels.

Around 40 percent of German dairy production is destined for export. A similarly high share is also imported. German dairies are therefore not only required to face up to the strong retail sector, but also to the significantly larger foreign competitors. A merger of Nordmilch and Humana is therefore a practical step towards a stronger market position. According to Nordmilch boss Josef Schwaiger, a major cut in the workforce, which would result in significant increases in productivity in the case of joint production, is not planned, however.

Firstly, however, the Federal Cartel Office must approve the merger. It will be interesting to see how other dairies react. The German Farmers' Association is urging dairies to cooperate more closely and join forces to form a counterweight to the food retailers.

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Consolidation and Cooperation in Airline Industry

The airline industry has faced a strongly declining demand for business and private flights in recent years. In particular, the global recession triggered the decline in passengers. Against this background, two major mergers took place in 2010 in the airline industry: British Airways merged with Iberia and United Airlines joined forces with Continental Airlines. British Airways and Iberia have become one of the largest carriers in the world. Through the merger, they have moved closer to the European giants Air France-KLM and Lufthansa. The merger of United Airlines and Continental Airlines resulted in a new number one in the global airline industry. In addition to mergers and acquisitions, the airlines have further instruments to enter into new markets. For example, many airlines are organised into alliances. British Airways and Iberia are part of the Oneworld alliance, United Airlines and Continental Airlines are members of the Star Alliance.

Alliances and Joint Ventures

Similarly to mergers, alliances can bring a number of advantages with regard to economies of scale, scope and density. Furthermore, alliances enable airlines to gain market access abroad. Joint ventures provide greater business opportunities as well, particularly on transatlantic routes. Already in July 2010 the European Commission gave the green light to the planned joint venture between British Airways, American Airlines and Iberia. However, the airlines had to offer a number of binding commitments in order to alleviate the competition concerns of the Commission. Amongst other things, they have suggested to provide time slots for landing and take-off at London Heathrow airport to facilitate the entry of competitors on routes between London and New York, Boston, Dallas and Miami. As a rule, joint ventures for transatlantic routes receive so-called antitrust immunity that exempts them from cartel law provisions. This gives the airlines an opportunity to collaborate on pricing, marketing, frequent flyer programmes, flight schedule management and other areas as well as share their revenues. Although the joint ventures can deliver significant benefits to the end customers, they may also pose several risks such as market entry barriers for potential competitors, fewer choices for air passengers and weaker competition between alliance partners.

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Decline in Transaction Values

Following the leap in global share prices in the second half of 2009, the first half of 2010 saw an adjustment with a consequent effect on transaction values: In the second half of 2009 the number of transactions and the number of transaction values from investment banks doubled. In the first six months of the year 2010 this was followed by a decline of around 60 percent in transaction values and 40 percent in the number of transactions. The case was similar for transaction values with private equity companies. These displayed a fall of 40 percent. However, the number of transactions and the number of transaction values with investment banks and private equity companies lie clearly above the level of a year ago.

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Ranking of Investment Banks

Pos. H1 2010	(H2 2009)	Investment Bank	Number of Transactions	Transaction Value (Billions of Euro)
1	(4)	JP Morgan	80	101.61
2	(1)	Morgan Stanley	124	98.50
3	(9)	Barclays Capital plc	38	77.54
4	(5)	Citigroup	57	76.85
5	(2)	Goldman Sachs	55	74.19
6	(3)	Credit Suisse	76	61.34
7	(7)	UBS	85	60.65
8	(8)	Bank of America Corp.	80	60.15
9	(10)	Deutsche Bank	39	49.22
10	(-)	Evercore Partners Inc.	7	45.34
		Others	2 ,456	113.06
		Total*	2, 921	455.86

Source: Zephyr database, Bureau van Dijk
* Consolidated total sum, as individual transactions may be conducted via multiple investment banks or private equity companies.

Ranking of Private Equity Firms

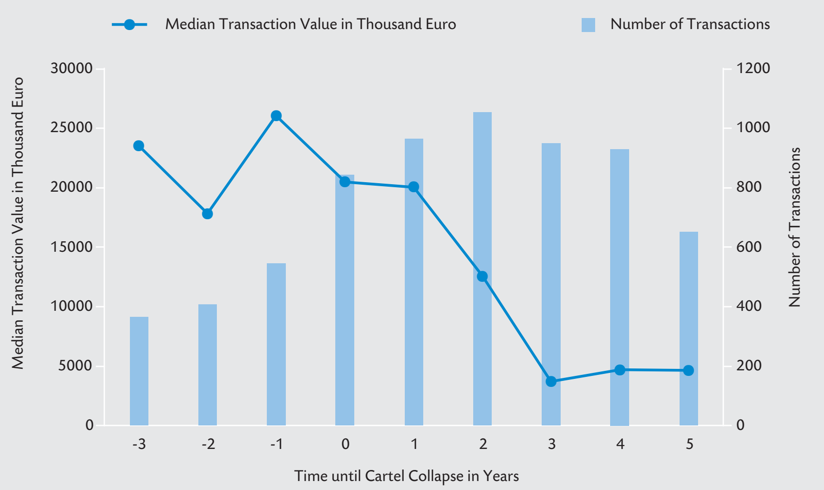
Pos. H1 2010	(H2 2009)	Private Equity Firm	Number of Transactions	Transaction Value (Billions of Euro)
1	(4)	TPG Inc.	13	5.44
2	(-)	CPP Investment Board	3	4.31
3	(-)	Libra Advisors LLC	6	2.64
4	(-)	Sprott Asset Management LP	4	2.59
5	(-)	Goldmax Asia Investments	1	2.59
6	(-)	Baker Steel Cap. Managers LLP	1	2.59
7	(8)	Kohlberg Kravis Roberts & Comp.	7	2.37
8	(-)	Goldman Sachs	11	2.29
9	(10)	Bain Capital Partners LLC	2	2.21
10	(-)	Bravia Capital Partners Inc	1	2.08
		Others	2,590	48.60
		Total*	2,635	66.10

Source: Zephyr database, Bureau van Dijk
* Consolidated total sum, as individual transactions may be conducted via multiple investment banks or private equity companies.

Cartel Collapses Revitalise M&A Market

Cartels lead to an artificial concentration of supply or demand within a market. This enables cartel members to represent their interests towards other players in the market in a disproportionately strong manner. If a cartel is uncovered, movement comes to the market: former cartel members and former outsiders may attempt to secure or improve their position, for example by merging. The exposure of a cartel would then be reflected in increased M&A activities in the economic sector concerned.

M&A Activities Around the Time of Cartel Collapses



Source: Zephyr database, Bureau van Dijk

To explore this hypothesis, on the basis of cartel decisions of the European Commission we have selected existing cartels in twelve different sectors Europe-wide and analysed the M&A activities from the Zephyr database in the respective sectors three years before to five years after the collapse of the cartel. The investigation of M&A activities is based on cases in which anti-competitive agreements ended in the period 2001 to 2005.

As the figure shows, the mean number of transactions rises noticeably for all markets in the year the cartel collapses and settles at a high level. At the same time, there is a delayed, falling pattern in the median transaction values. The median transaction value is the transaction where 50 percent of the transaction values are smaller and 50 percent of the transaction values greater. It is therefore less susceptible to extreme values than, for example the arithmetic mean.

From these observations it may be concluded that cartel collapses may stimulate M&A activities over several years. Moreover, it is apparent that cartel collapses in the medium term tend to lead to lower transaction values of deals with a simultaneous falling number of transactions.

Detailed Analysis Required

In this observation it must be considered that a strongly cyclical behaviour exists for M&A activities with minority shareholdings in particular, with a peak in the years 2004 to 2006. In view of the chronological concentration of the selected cartel cases, a distorting effect on the frequency of activity may therefore exist. However, with the aid of further descriptive investigations we were able to determine that this had no influence on the average transaction value.

So far there are only very few empirical works that investigate the strategic behaviour of companies affected following the exposure of cartels. Our brief view permits us to assume a causal link between cartel exposure and M&A activities, which should be examined more closely in a more detailed competition policy analysis.

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