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BUREAU VAN DIJK

M&A Report

Global Mergers and Acquisitions Reports and Analyses

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M&A Activities on a Steady Course – for now

The ZEW-ZEPHYR M&A Index Germany confirms its earlier bottoming-out in the first six months of 2011. In June 2011 the index reached about 55 points and thus is clearly below its starting level of 100 points in 2000. For about a year now, the index has levelled between 40 and 60 points. Fortunately, it rests with the upper section of this range for now. However, the prognosis shows that the sideways-trend will continue. Thus, the index is expected to remain between 40 and 60 points until the first half of 2012.

No Strong Impetus in Sight

The ZEW-ZEPHYR M&A Index for Germany follows the same pattern as the worldwide ZEW-ZEPHYR M&A index and makes little if only sideways progress without new impetus. Even so, the current development of the determinants used for the prognosis is unstable and could drag the index down, which would only become visible in 2012. The economical development appears to be decelerating in the second half of 2011. This is backed not only by the Federal Ministry of Economy. The lead indicator of the OECD for the economic development in Germany has clearly slumped in June in comparison to earlier months. Although bargains become possible due to the falling stock prices in Germany, the stock price development correlates positively with the M&A activity. As the stock price developments usually mirror the expected corporate developments and investors tend to put promising companies on their buying lists, the currently falling stock prices could lead to a decline in M&A activity. One can only hope that the slide in prices is of a temporary nature. The only bright spot right now is the number of rumours and announcements of imminent deals. While a steady decline of rumours could be witnessed at the end of 2010, their numbers have risen considerably since the beginning of 2011. This is due to the strong development of the prognosis' determinants in the first half of 2011. If the managers do not shy away from but realise their deals despite the current developments, the index will develop positively. The effects will become visible at the end of 2011. According to the present calculations, the positive and negative signals for the M&A Index in Germany are balanced, making the sideways-tendency last, only this time at the upper end of the range.

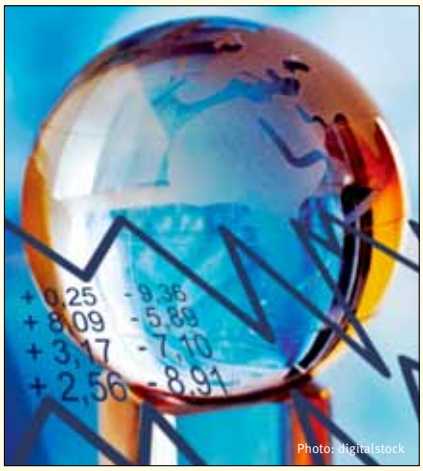
Photo: digitalstock

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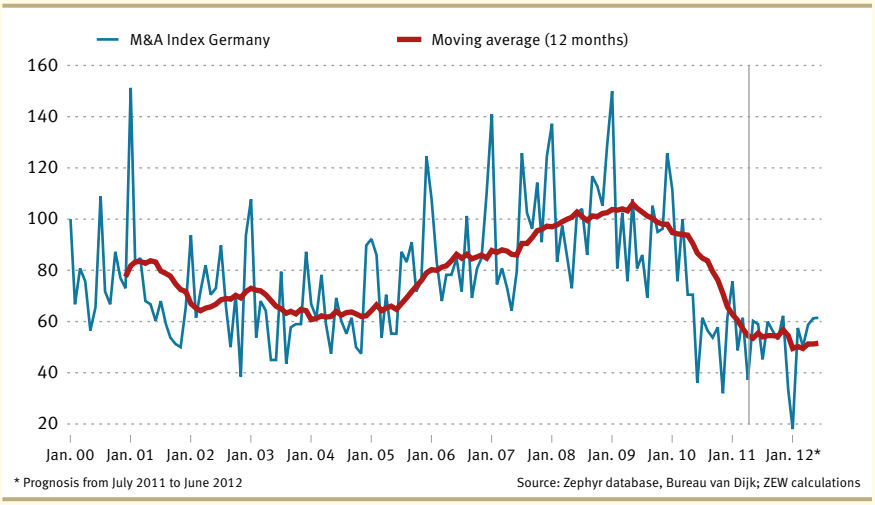
ZWE-ZEPHYR M&A Index Germany



* Prognosis from July 2011 to June 2012

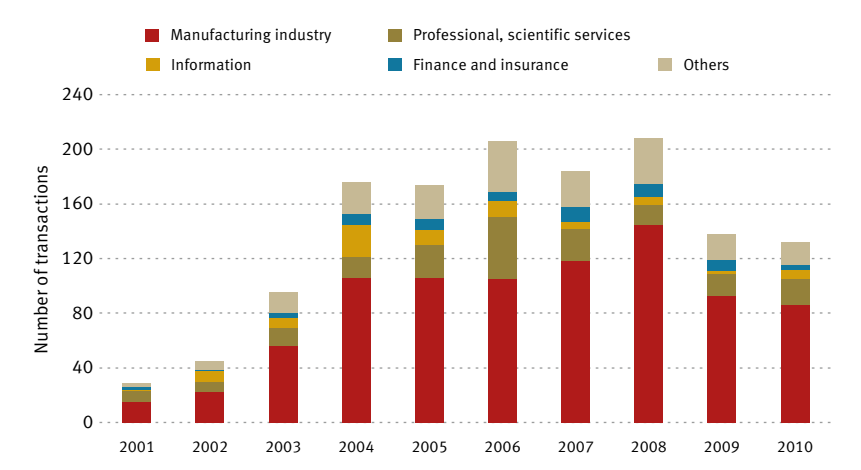
Source: Zephyr database, Bureau van Dijk; ZEW calculations

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.

China - Ten Year Membership in the WTO

The market for M&A transactions in China is still active ten years after China joined the World Trade Organisation (WTO), which regulates international trade relations and supports free trade. The opening of the Chinese economy for foreign imports and investment, as negotiated in their accession treaty, as well as the liberation of the market in general have enhanced legal security and made entering the Chinese market more attractive for foreign businesses.

Transnational M&A Transactions with Chinese Target Companies



The industry sectors are classified according to the North American Industry Classification System (NAICS 2007)
Source: Zephyr database, Bureau van Dijk; ZEW calculations

Still, restrictions remain. Thus, transactions in certain industries or with a special value for the competition may be denied by the ministry of economy. This affected, for example, the failed acquisition of Huiyuan by Coca-Cola in 2009. The acquisition of Joyou by Grohe in this year is an example for a successful transaction.

The positive development after China joined the WTO in 2001 becomes apparent through the transnational transactions in particular (see illustration). Since 2003, the year of accession of the current Chinese president Hu Jintao, the number of transactions per year involving Chinese businesses rose rapidly and has settled at a high level. Together with the international M&A activity, however, M&A activity in general has decreased since 2008. Most mergers and acquisitions of Chinese businesses took place in the manufacturing industry. This indicates that China remains an attractive production location for foreign investors.

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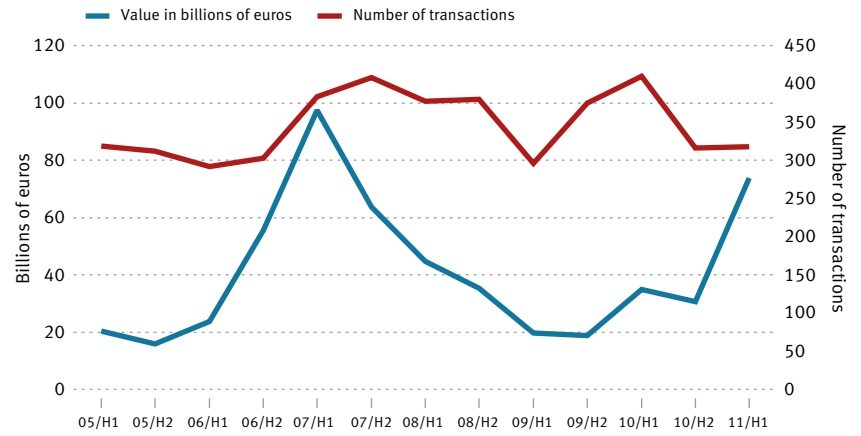
More M&A Activity in the Mining Sector

Increased prices for natural resources and good results from primary producers have livened up worldwide M&A activities in the mining sector. In the first half of the year 2011 the mining sector (excluding extraction of fossil fuels) registered an aggregated value of transactions of 74 billion euro and thus already reached the same volume of the entire last year. While the number of transactions did not rise significantly towards the previous year, the transaction values are heading for a record. Similar to the situation in the year 2007, bigger deals, mostly involving the aluminium, coal and gold sectors, are realised.

Worldwide M&A Transactions in the Mining Sector



Source: Zephyr database, Bureau van Dijk; ZEW calculations

In the assessment period from 2005 to 2011 Canada has taken up the leading role on the M&A market. 25 per cent of the buying companies and 21 per cent of the target companies were from Canada. Russia, with a considerable amount of natural resources, also covers a significant part of business transactions and holds the second place with 13 per cent. The United States and Australia intensified their investments in primary producers. They constitute 12 per cent of the worldwide M&A activity.

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Federal Cartel Office Keeps a Cautious Eye on the Food Retailing Industry in Germany

The German food retailing industry has been experiencing a growing concentration of businesses for years. Through many mergers and acquisitions (M&A) in the past years the four leading trade businesses, EDEKA, Schwarz-Gruppe (Lidl among others), REWE and Aldi, now hold 85 per cent of the market shares together. The Federal Cartel Office, the German competition authority, is carefully watching this development and makes use of its available controlling instruments.

Strong Negotiation Power

A high concentration of businesses within an industry harbours problems: the high power of demand makes it possible for large chains to force through particularly poor delivery conditions with the food producers. For one, being delisted by a single big retailer may mean a financial predicament for manufacturers. Secondly, smaller retail businesses which do not own a strong negotiation position must accept poorer delivery conditions. This worsening of procurement conditions for smaller retailers through no fault of their own – known as the "waterbed effect" – appears as a result of the improvement of conditions for bigger retailers (due to their stronger negotiating power).

The consequence is a further marginalisation of small retailers: their inevitably higher selling prices reduce their own profitability as well as their competitive pressure on the big retailers. If in the long-term only big retailers remain and the competitive pressure has sunken, it is considered unlikely that the big retailers pass on their low procurement conditions to the consumer in the form of low selling prices.

The Federal Cartel Office is trying different strategies to retain control of the problem: On the one hand, they have been conducting a sector survey in food retailing since mid-February. The survey of a specific industrial sector is indicated when special circumstances suggest that the domestic competition is possibly constrained or distorted. Even if the procedure does not concern individual companies, the federal cartel office possesses extensive information access rights. It specified at a press conference in September that the situation on the procurement market will be looked at more closely. Through mandatory questionnaires for 21 retailers and 200 producers the procurement volume for the bigger commodity groups and for nine random product markets is to be determined to acquire a more detailed picture of the market structure. A second step of this investigation, starting early in 2012, is to determine in how far the leading retailers have purchasing benefits compared to their competitors. On the other hand, the Office announced in August this year to review even small M&A activities more closely in the future, to prevent a further concentration of businesses and the accompanying side effects.

EDEKA, the Schwarz group, REWE and Aldi together cover 85 per cent of the German food retailing market.

Strict Conditions from the Cartel Office

The explosive nature of this subject became apparent during the last big deal of the German food retailing industry, the acquisition of the Tengelmann discounter group Plus by EDEKA in 2008. Subject to strict conditions from the Federal Cartel Office about 2,300 Plus stores were integrated into EDEKA's discount concept, the Netto Marken-Discount. By either selling stores to competitors or closing all in all 345 stores a strengthening of supply power on regional markets was to be counteracted. To prevent further increase of purchasing power of EDEKA, the Cartel Office forbid a purchase cooperation between EDEKA and the Tengelmann group. The fusion could still cause problems as a complaint by the trade mark association (Markenverband) from 2009 suggests: EDEKA has not only demanded the customary price reduction at retailer mergers from producers, the "wedding bonus", but further price reductions and these – to top it off – retroactive. The process is still pending. As a consequence, even small merger deals are scrutinized by the Cartel Office. Therefore, with the rumoured upcoming sale of the Metro subsidiaries Real and Kaufhof chances of German buyers are deemed low.

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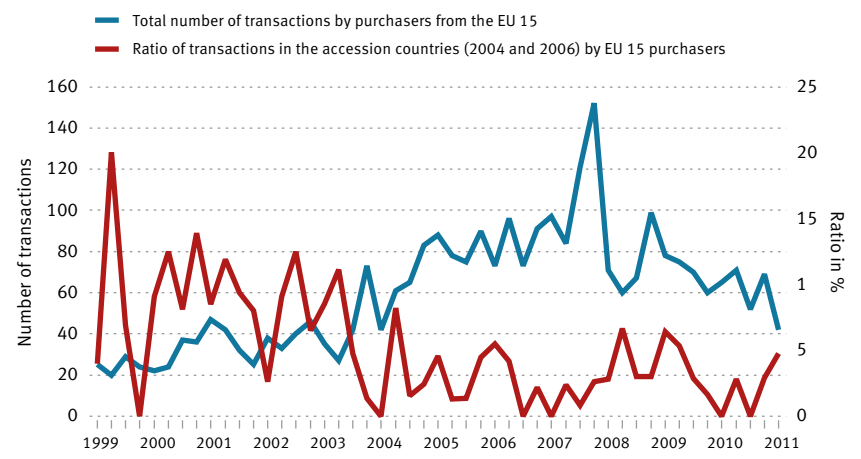
Stronger National Competition Raises European Concentration in the Power Sector

The European power sector had been liberalised by the end of the 1990s. Since then a steady adaption of the market structures could be witnessed. New technological possibilities, politically induced restrictions and new competitors for major customers and ultimate consumers further the new development. Established businesses reacted and are reacting to this by strategical reorientations and mergers. Examples range from Electricité de France (EdF) investing in EnBW in 2000, RWE acquiring Essent, a power company from the Netherlands, in 2009 to the acquisition of a Bulgarian wind farm by the Austrian power company Verbund in 2009.

This last example in particular is exemplary for a series of investments of established power companies from the EU 15 in new member states shortly after the liberalisation. The illustration portrays the number of transactions per quarter by purchasers located within the EU 15. Compared with this is the ratio of additional purchases of EU 15 countries in the new EU member states. Only deals are considered that took place within the EU since the liberation. It shows that in the years right after the liberation the number of deals with new member states, which were close to entering the EU at that time, was much higher. The comparison with the overall figure of deals indicates, however, that due to the increased amount of M&A activity, the ratio but not the number of transactions of EU 15 purchasers in new member states has been declining over time. The behaviour of purchasers from the new member states shows that they are generally far more reluctant concerning M&A activities. Their ratio of completed transactions rises in time but remains, expressed in absolute numbers, between one and three transactions per quarter at the end of the assessment period. Transactions of EU 15 States are mostly conducted on a national level, whereas the companies of the older member states additionally make use of joint ventures, minority shareholding and acquisitions to invest in new EU member states.

M&A Transactions in the European Power Sector



Source: Zephyr database, Bureau van Dijk; ZEW calculations

Rising Concentration on EU Scale

While the ongoing European integration encourages a stronger competition especially within the EU 15 states, large power companies secure their strong position through an international orientation and thus are able to establish their supremacy on a long-term basis.

Transnational M&A activities, therefore, entail a reduction of concentration on the national market but at the same time an increase of international links between businesses and thus of the entire European concentration in the power sector. Lower emission requirements and the possibility to secure access to fossil energy sources have lead to an eastward orientation of power companies of the EU 15, which, however, has also lessened since 2008 in the course of the economic downturn.

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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 870,000 M&A, IPO and private equity transactions worldwide.

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