

EUROPEAN CROSS BORDER M&As:  
*The Making Of Global Leaders and  
Emerging Central-Eastern Europe*

Pete Chatziplis, CFA, ACCA, CF

Weissman Center for International Business, Baruch College

World Trade Week, New York

May 22, 2008

# Topics

---

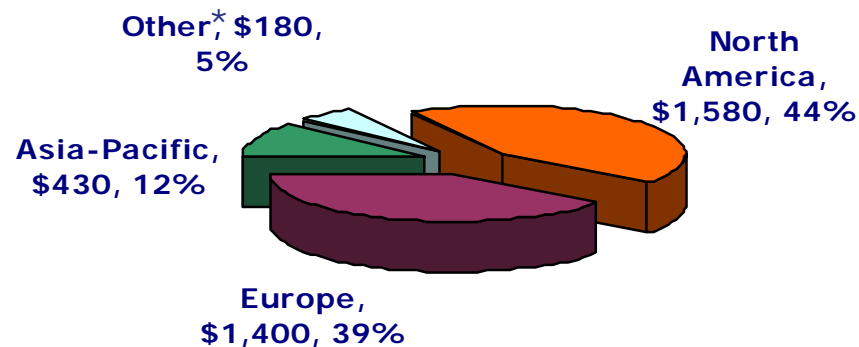
- Global M&A activity
- Current M&A trends in Europe
- European M&A Deal Analysis: sectors and sizes
- Sources of financing: what's the role of private equity?
- Eastern Europe
- Areas of importance in planning and executing an M&A
- Q&A session

# Global M&A Activity

## 2007 a record year for Global M&As:

- Total Global M&A Deal Value in 2007 \$ 3.6 trillion (\$3.7 trillion in 2006)
- North America: \$ 1.58 trillion, 9% growth/ 4,950 deals
- Europe: \$1.4 trillion, same as in 2006/ 6,290 deals
- Asia: \$ 430 billion, 5% growth/ 2,700 deals

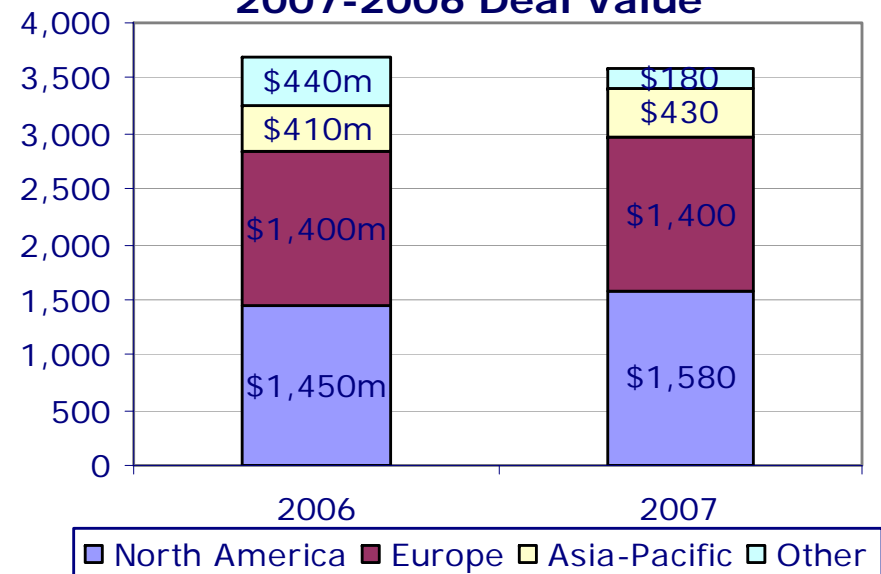
2007 Deal Value by Region



*Other includes: Latin America, Africa, Middle East.*

Source: Mergermarket, *The Comprehensive Review of North American Mergers & Acquisitions, Mergermarket Full Year 2007.*

2007-2006 Deal Value



# Top 2007 Deals Globally

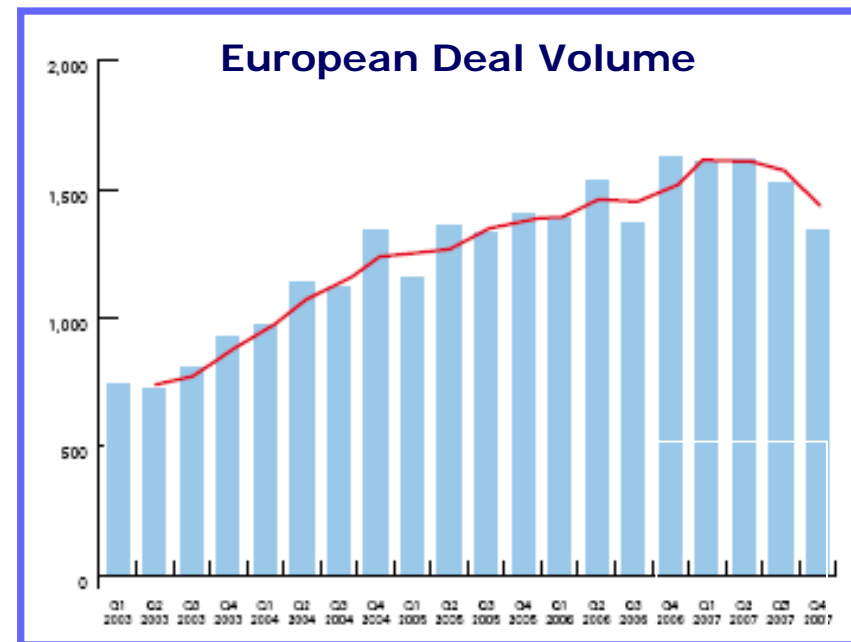
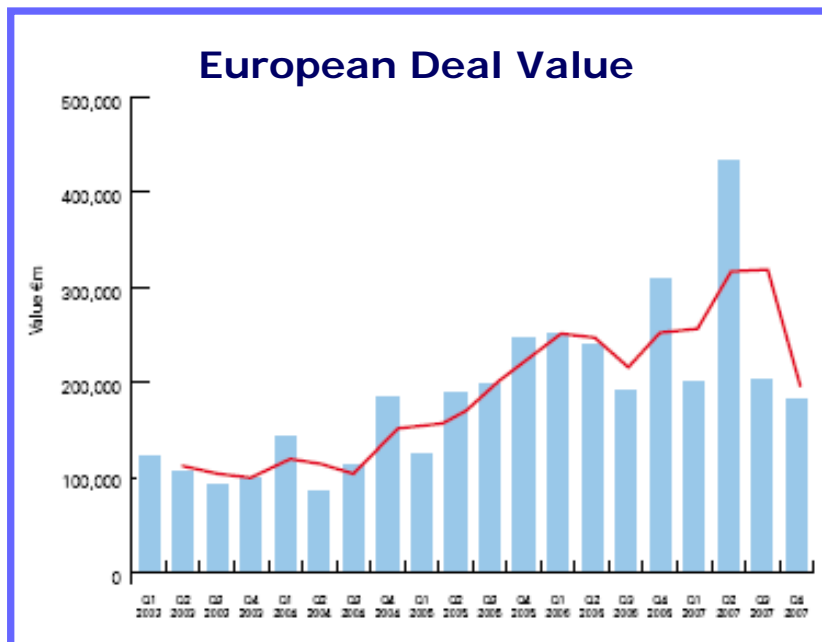
---

• RBS-Fortis-BSCH/ABN Amro	€71bn	Banks
• Altria Group/Kraft	\$61 bn	Consumer
• Enel&Acciona/Endesa	€48 bn	Energy
• Providence, Madison, Teachers/BCE	\$44 bn	Telecoms
• KKR, TPG, GS/TXU Corp	\$44 bn	Energy
• Rio Tinto/Alcan	€32 bn	Industrials
• Unicredit/Capitalia	€22 bn	Financials
• KKR&Pessina/Alliance Boots	€18 bn	Consumer
• KKR/First Data	\$27 bn	Business Services
• TPG, GS/Alltel	\$27 bn	Telecoms
• Blackstone/ Hilton	\$25 bn	Leisure
• Bank of America/LaSalle	€15 bn	Financials

# European M&A Activity

## 2007 close to 2006 at historical high:

- Slowdown in 2H'07 due to credit crunch
- Credit crisis affected mega deals but not volume; deals take longer time
- 1Q 2008 deal volume down by 10%
- Drivers: Strategic activity; cash availability in PEs; weakening US\$

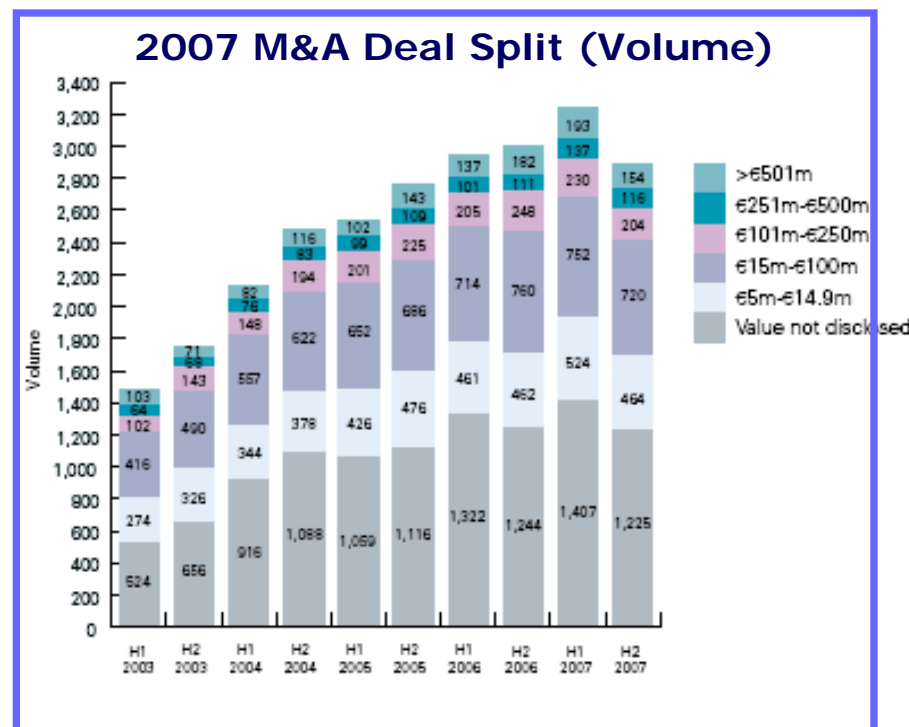


Source: Mergermarket, Deal Drivers, A Comprehensive Review of European M&As, Full Year Edition 2006.

# European M&A Activity – Deal Sizes

## 2007 a mega-deal year; middle market is strong:

- Continued increase in average size; deals over €500 m totaled €800 billion (80% of total); 350 transactions
- Significant middle market activity: 700 deals for a total of €160 billion



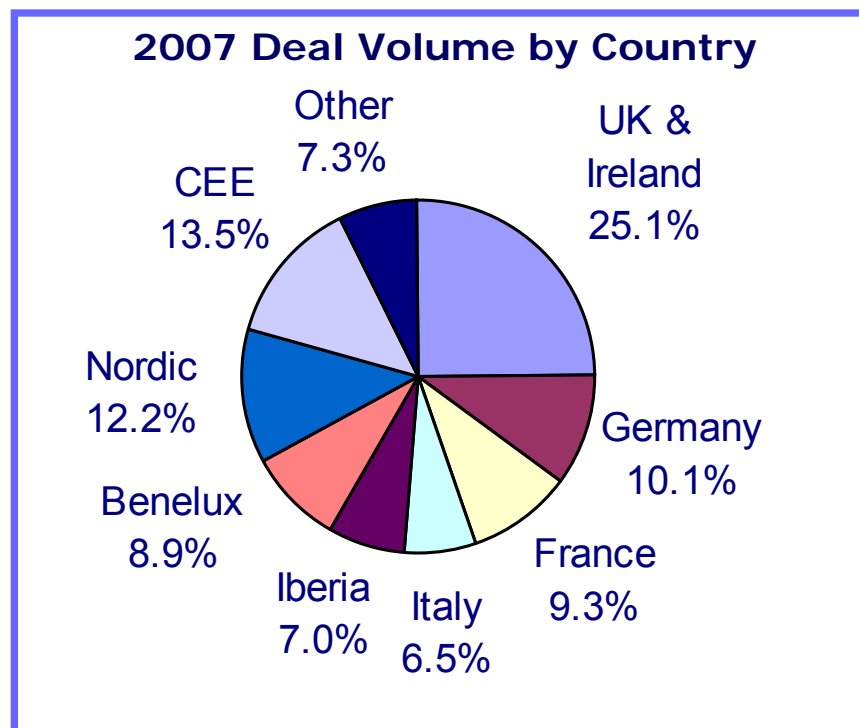
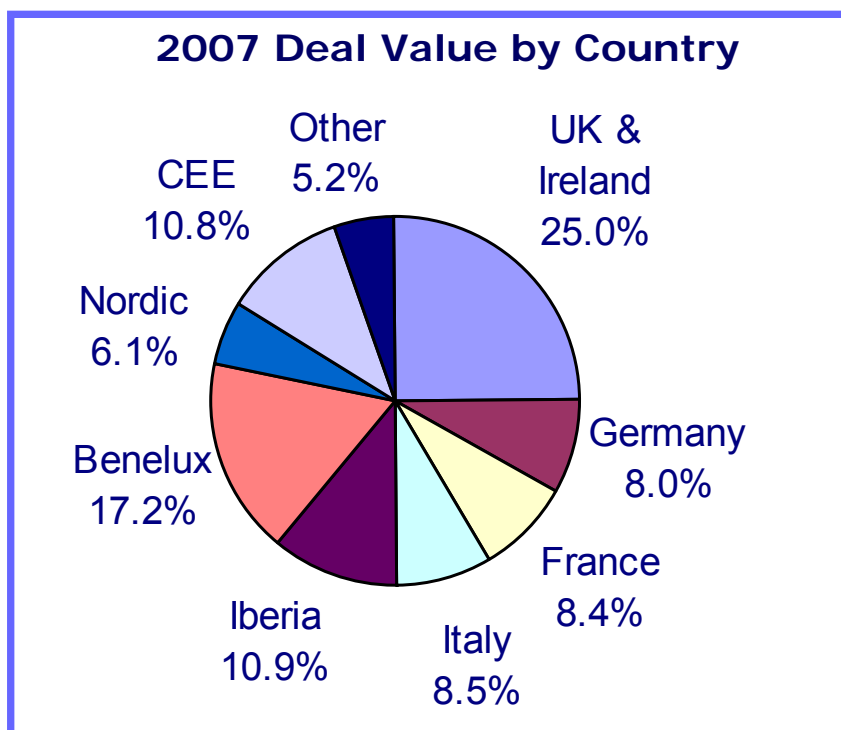
Source: Deal Drivers, The Comprehensive Review of North American Mergers & Acquisitions, Mergermarket Full Year 2007.

Pete Chatziplis, European Cross Border M&As, Baruch College, World Trade Week, New York, May 22, 2008

# European M&A Activity – Countries

## Growth and regulations are critical:

- UK traditionally with the bulk of the M&A activity
- France is viewed as the most protectionist country, followed by Italy, Germany
- Eastern Europe growing is perceived as the most attractive region



Source: Deal Drivers, The Comprehensive Review of North American Mergers & Acquisitions, Mergermarket Full Year 2007.

Pete Chatziplis, European Cross Border M&As, Baruch College, World Trade Week, New York, May 22, 2008

# European M&A Activity – Sectors

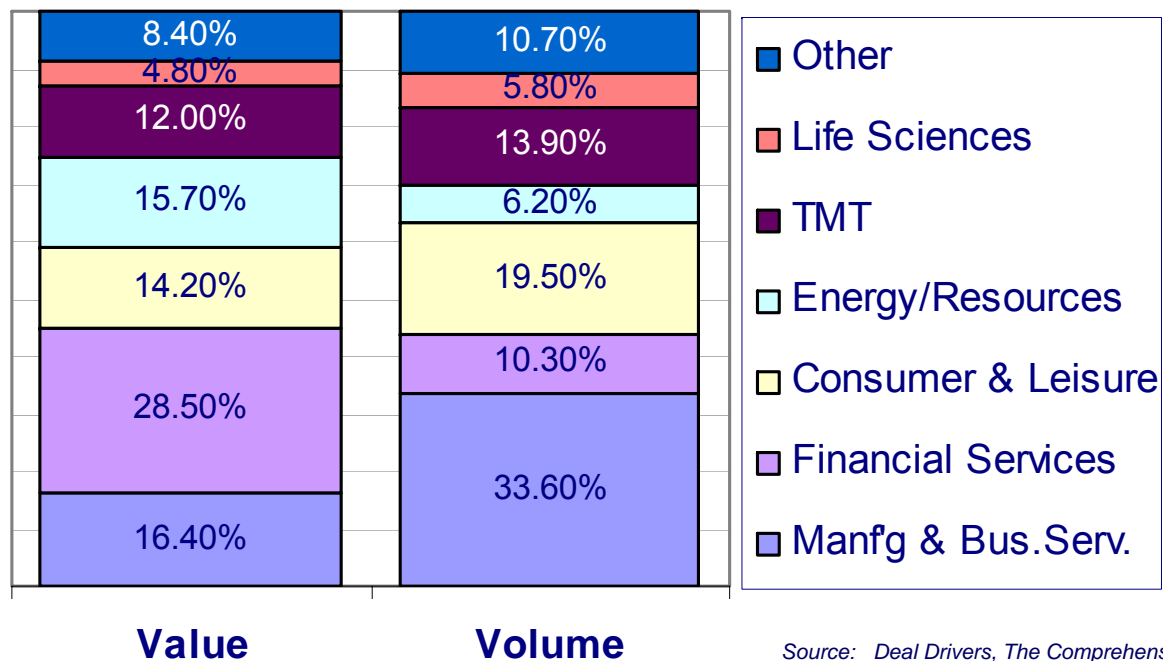
## Financial Services strong/Energy of growing importance:

-Financial: \$99 bn acquisition of ABN AMRO by BSCH/Fortis/RBS

-Energy: \$67 bn acquisition of Endesa by Enel SpA

-Consumer: \$25 bn acquisition of Alliance Boots by KKR/Pessina

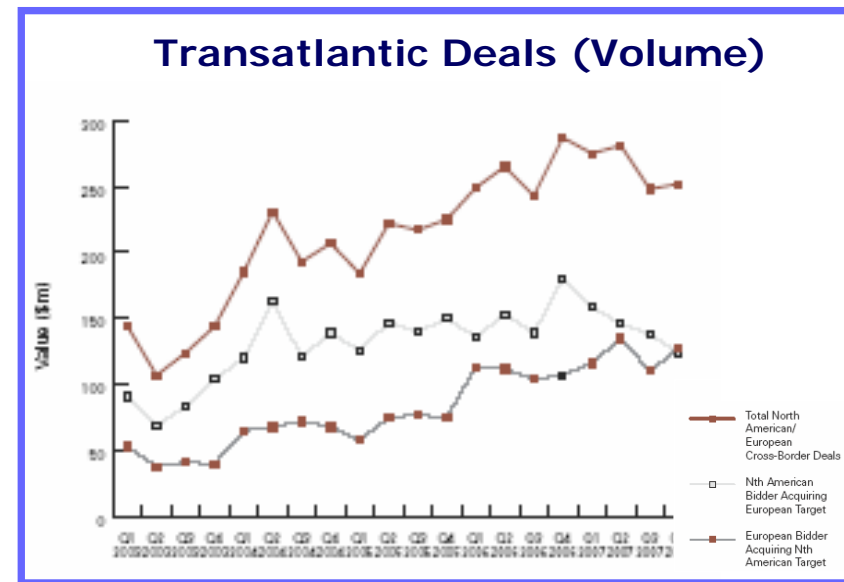
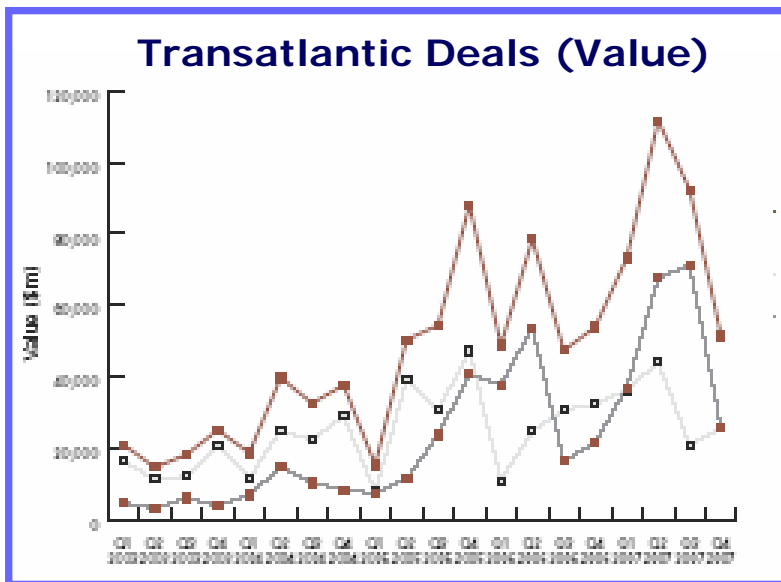
-Industrials: consolidation; Rio Tinto/Alcan, Akzo Nobel/ICI, Cerberus/Chrysler



# Cross-Border M&A Activity

## Cross Border activity grows:

- Record year in transatlantic deals; \$330 billion (1,040 deals)
- Increase in European buyers
- Factors: Strategic activity; cash availability in PEs; weakening US\$
- Significant Deals: Rio Tinto/Alcan, Thompson/Reuters
- Rise of Sovereign Wealth Funds
- Concerns over sectors of strategic importance and subsidized M&As



Source: Deal Drivers, The Comprehensive Review of North American Mergers & Acquisitions, Mergermarket Full Year 2007.

Pete Chatziplis, European Cross Border M&As, Baruch College, World Trade Week, New York, May 22, 2008

# M&A Financing Sector

---

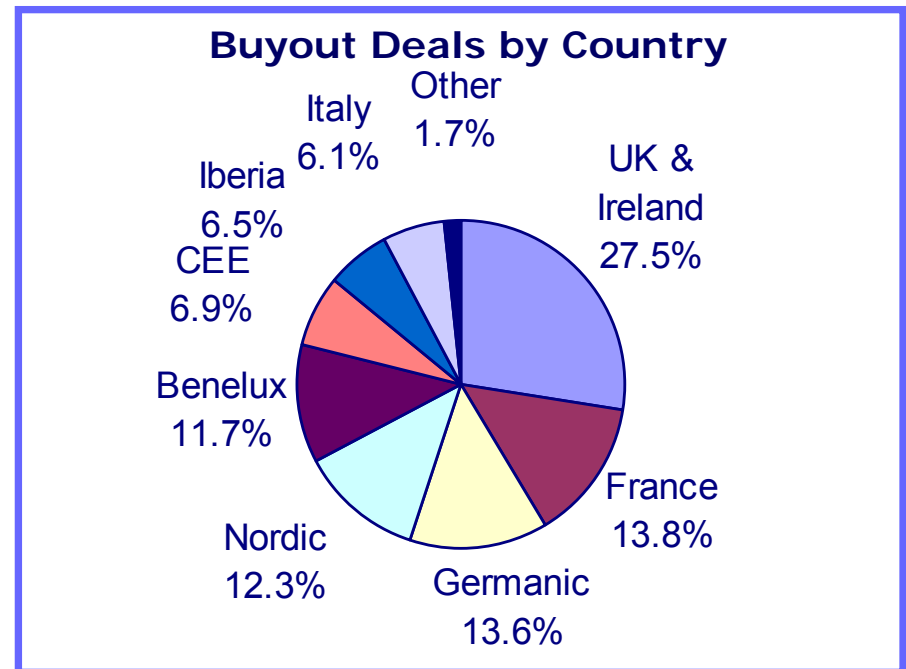
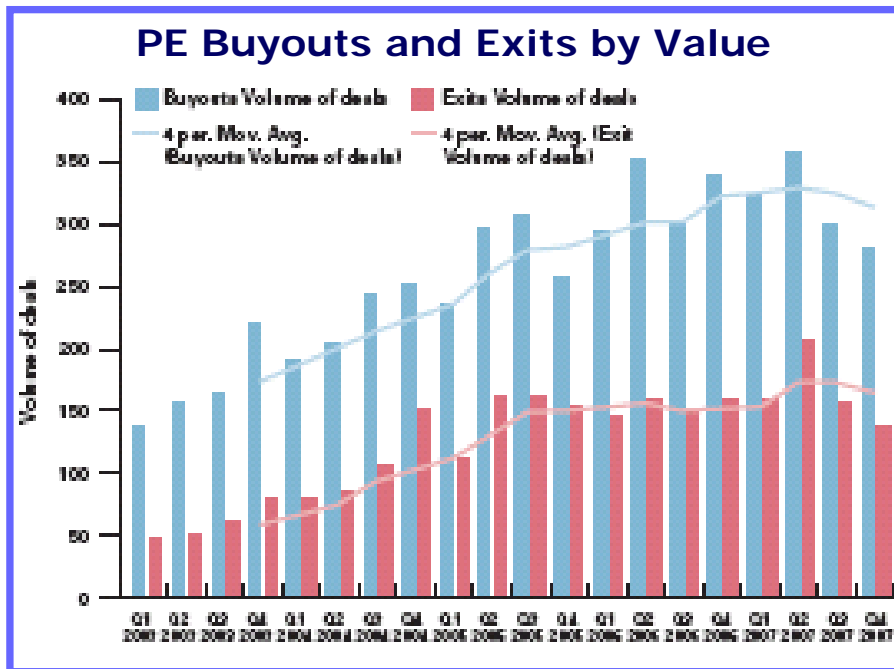
## Increased importance of PEs

- Europe: €212 bn in 1,270 deals, 20% of total activity in 2007
- US: \$490 bn in 910 buyouts in 2007; 35% of total activity;
- Asia: \$42 bn, 700 deals (*India \$10 bn, China \$9.5 bn, Taiwan \$5.8 bn*)
- PE investment patterns in Europe:
  - 80% increase in targets' value over 3.5 years mainly through revenue growth and cost reduction
  - 13% EBITDA growth vs. 21% in the US
  - EBITDA Improvements through geographical expansion, improved selling/pricing/product mix, operational efficiency
  - IPO 3 times more likely exit in US than Europe; secondary sales 4 times more frequent in Europe

# European PE Activity

## Increased importance of PEs

- Sectors: Consumer 24%, TMT 17%, Industrials 15%, Energy 11%, Business Services 9%, Pharma 7%, Financial 5%
- Fall in confidence in 2H2007 and 2008 but still strong
- Focus on middle market and turnarounds, cash deals at discount
- Largest buyout ever: Boots/Pessina, KKR at €17.8 billion



Source: *European Private Equity in Review, Mergermarket, February 2008*

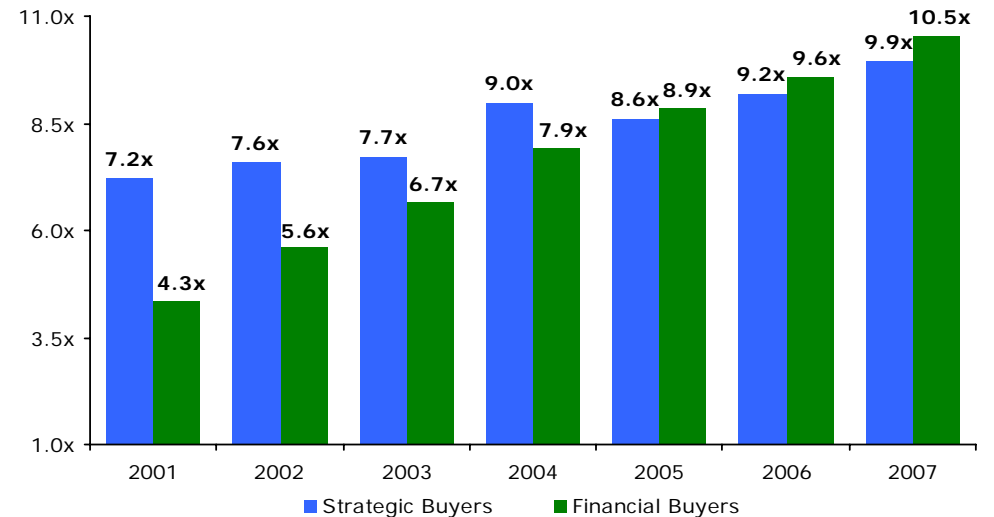
Pete Chatziplis, *European Cross Border M&As, Baruch College, World Trade Week, New York, May 22, 2008*

# M&A Pricing Trends

## Increase in Valuations:

- average multiple reached 10.5x in 2007
- Higher multiples offered in electronics and large deals
- Higher multiples in CEE but rationalizing
- Cash rich PEs; average multiple increased from 4.3X to 10.5X
- Strategic and financial buyers competing head to head

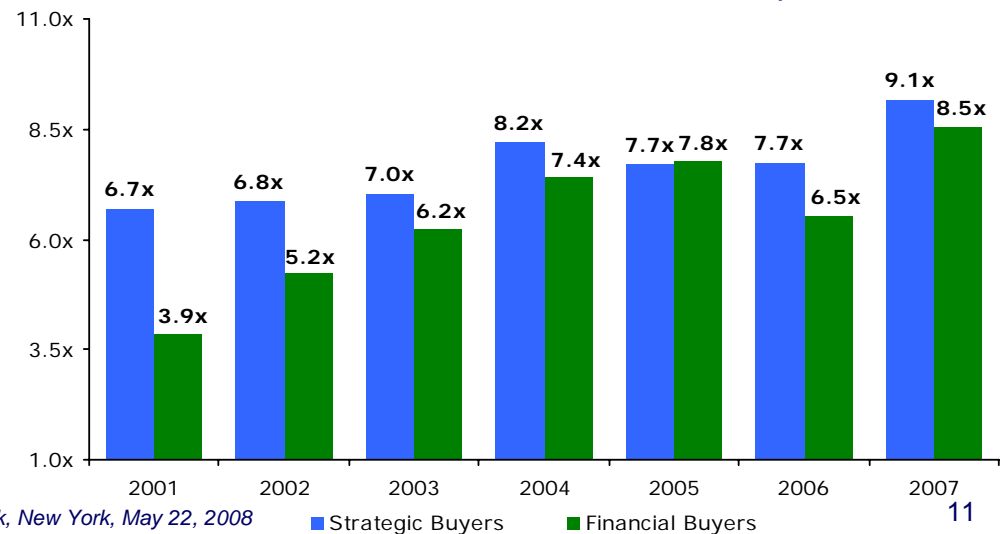
Median EV/EBITDA- Global



Source: Thomson Financial

Includes only positive multiples less than 25x.

Median EV/EBITDA- Global < \$250m



Source: Thomson Financial

Includes only positive multiples less than 25x.

# European M&As – Cultural Themes

---

- Strong protectionist sentiments / cultural/ national sensitivities:
  - Vary by sector: stronger in Banks, Utilities, and Infrastructure
  - Vary by market (stronger in France, Germany, Italy)
  
- Regulatory framework a critical factor:
  - European Commission approvals; anti-monopoly regulation
  - Foreign Corrupt Practices Act (“FCPA”)
  - Sarbanes-Oxley considered as an obstacle
  - Fair Value Accounting
  
- Concern over Sovereign Wealth Funds
  
- CEE in the focus; large PE have setup specialized teams

# Successful M&As – Best Practices

---

## Five Disciplines:

- Establish Clarity of Purpose
- Safeguard Parent Power
- Know your Target
- Provide Incentives to Execute
- Integration Planning

Source: Deloitte, *Making the Deal Work, Avoiding Merger Failure* (page 5 and 17)

Pete Chatziplis, *European Cross Border M&As*, Baruch College, World Trade Week, New York, May 22, 2008

# Damodaran – 7 sins in Acquisitions

---

1. Risk Transference: attributing acquiring company risk characteristics to target firm
2. Debt subsidies: subsidizing target firm for the strengths of the acquirer
3. Auto-pilot Control: The “20% control premium” and other myths...
4. Elusive Synergy: Misidentifying and misvaluing synergy
5. It's all relative: Transaction multiples, exit multiples..
6. Verdict first, trial afterwards: Price first, valuation to follow
7. It's not my fault: Holding no one responsible for delivering results

# Issues in M&A Due Diligence

---

## Problem areas

- “Deal fever” may lead to oversee problems or try hide when too late
- Unclear deadlines and priorities
- Inefficient structure and coordination among due diligence/deal teams
- “Ad hoc” approach and practices (error prone/inefficient process)
- Distraction and stress on deal team
- Unavailability of information
- No performance monitoring, no accountability
- Ignore country/industry-specific issues; get trapped in “mind-sets”

## Remedial Action

- Define a clear DD plan (team, objectives, methods, deadlines)
- Structure effectively DD team and assign responsibilities, milestones and incentives
- Prioritize: identify and focus on basics (“cost-benefit” trade-off)
- Use qualified staff/advisors, tested technology and methods
- Negotiate over problem areas early in the deal
- “If it doesn’t look good, it’s not good”

***Inefficiencies can cost significantly in dollars and reputation***

# Concluding Notes

---

- Slowdown due to credit crisis; unavailability of debt financing (LBOs) increase in the importance of strategic buyers
- Markets believed to recover in a year; at least
- Transatlantic deal flow increasing
- Protectionism exists; an obstacle in cross-border deals
- The most active sectors in cross border M&A Technology, Life Sciences and Financial Services; the least Infrastructure and Energy
- Growth expectations in Central-Eastern Europe
- M&A activity in Europe to remain strong but
- “Look before you leap” on cross-border M&As

---

# Q&A ?

