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M&A Monitor

Piper Jaffray M&A Monitor
Analyzing M&A Activity—August 23, 2006

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Feature Article

Trans-Atlantic M&A Activity on the Rise

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In recent months, we have witnessed an increase in the volume of cross-border M&A activity between the United States and Europe. This marks a significant shift in the trans-Atlantic M&A transaction market from 2001 to 2004, when weak corporate earnings, governmental regulations, the introduction of the euro and the European Union enlargement process forced both European and American buyers to focus on their respective domestic affairs.

However, the trend appears to have turned in the last year. In 2005, the value of European M&A deals in the United States rose for the first time in five years, to approximately $53 billion, up almost 40 percent from $38 billion in 2004. The growth has continued in 2006, with a robust first six months pointing toward the strongest trans-Atlantic M&A year since 2000.

Number of U.S.–Europe Cross Border M&A Deals, 1995-2006

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006*
U.S. acquisition of European company	1518	1707	1944	2419	2010	1023	721	584	661	793	800	446
European acquisition of U.S. company	354	396	442	565	739	917	535	346	317	366	409	294

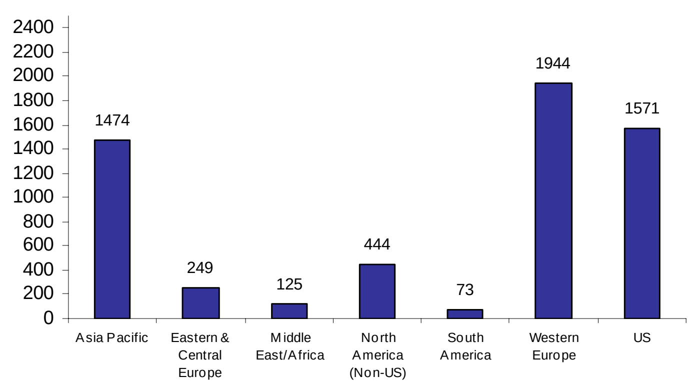
Source: SDC Platinum: Data encompasses all announced M&A transactions as of 7/20/06.

The following are some of the positive trends we expect to see in the U.S.-European M&A market in the next year, which could further increase the number and aggregate value of cross-border transactions:

Increased European and U.S. M&A Spending

The global M&A market has continued to grow in 2006, with announced worldwide M&A volume reaching $1.8 trillion in the first half of 2006, a 43 percent increase from the same period last year. This surge in spending is reflected in the European and U.S. M&A markets. Europe has been the most active buyer region in the world in the last six months with $645.5 billion invested, up significantly from $531.1 billion for the same period in 2005. Moreover, European cross-border deal value increased 24 percent in the first six months of 2006 to $142.3 billion. UK, Germany and Russia were the most active acquirers, with U.S. (294 transactions) and Eastern European companies the most popular targets. One of the key catalysts to the growth in both intra-European and cross-border M&A activity has been solid earnings by European companies. In addition to aggressive cost-cutting in recent years, these strong earnings have generated substantial cash for European public companies, which is now available for acquisitions and other growth initiatives.

Deal Flow by Buyer Region (L3M)



Source: FactSet Mergerstat

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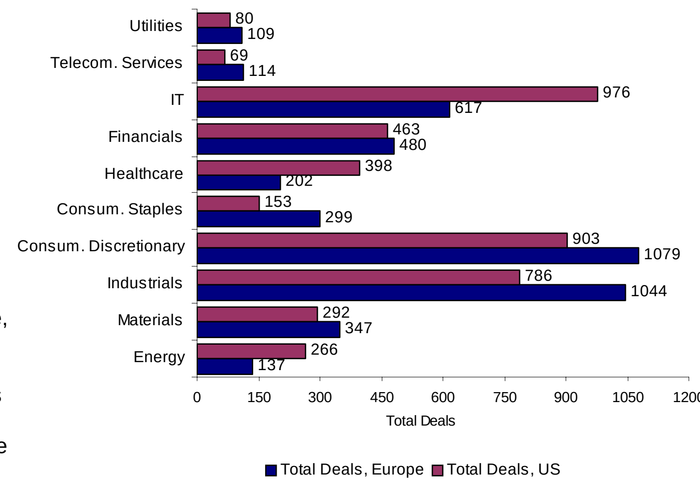
M&A activity in the United States has been similarly vigorous in 2006. For the first half of the year, announced U.S. M&A volume rose 24 percent to $628.9 billion from $507.6 billion a year earlier. With 446 acquisitions of European businesses year-to-date, up 10 percent from the first half of 2005, and favorable conditions in the European M&A market, U.S. companies are poised to continue shopping for attractive deals in Europe.

Europe and U.S. M&A Deal Flow by Industry (L6M)



Source: Capital IQ, SDC Platinum

Diverse Industry Activity

In the last six months, we have noticed an increase in the diversity of industries active in European and U.S. M&A transactions. In Europe, the most dynamic industries for M&A activity have been utilities, industrials and banking, which collectively account for almost one-third of total European M&A activity. Recent deals such as Gaz de France's $46 billion acquisition of Suez, EON's $35.4 billion bid to acquire the Spanish utility company, Endesa, and Mittal Steel's $32.9 billion hostile takeover bid for Arcelor reflect the recent consolidation trend in the European M&A market.

In the United States, meanwhile, recent M&A growth has been largely fueled by the telecommunications and energy sectors. Year-to-date telecom deals in 2006 are up more than 160 percent to $127.7 billion from $49 billion in the first half of 2005. In the energy sector, meanwhile, deal volume is up almost 55 percent, from $80 billion in the first half of 2005 to $123.8 billion this year. The point is that with a diversity of sectors active in both the United States and Europe, cross-border M&A deals are possible in a variety of industries, and are not limited to a select few.

Growth of European Private Equity Investments

A final important consideration is the maturation of the European private equity market. While private equity investment is widespread in the United States, until recently private equity funds have not been as active in Europe. Armed with significant funds to invest but faced with intense competition here at home, U.S. private equity has increasingly sought out new opportunities abroad, particularly in Europe. The abundance of U.S. private equity capital is reflected in the historical discrepancy between the number of cross-border acquisitions where U.S. private equity funds purchase European companies, versus the other way around.

In recent years, however, European private-equity funds have grown larger, while fund managers have become more adept at operating within the European regulatory regime and at managing compliance issues. This growth is reflected in the fact that in 2005 the number of leveraged buyouts in Europe reached a record €117 billion, and 2006 continues to register strong growth. Furthermore, with billions of dollars of relatively low-cost credit offered by major European banks, European private equity funds have access to increased leverage and have the wherewithal to pursue new M&A opportunities abroad. Interestingly, in a recent Deloitte & Touche report, 22 percent of European private equity investors indicated the United States as their primary destination for investing outside of Europe. Offsetting the encouraging factors cited above are two considerations that could hinder growth in the number of trans-Atlantic deals:

EU and U.S. Foreign Investment Regulations

As the rate of economic globalization has increased, governments in the United States and Europe have selectively become more protective of domestic businesses from foreign investors. In the wake of the political uproar that forced UAE-based Dubai Ports World to give up control of six U.S. ports it acquired from Britain's P&O, U.S. lawmakers are considering legislation that would tighten the process for foreign acquisition of American companies. On March 31, 2006, the Senate Banking Committee unanimously approved a bill that would make the national security review procedure tougher for foreign companies buying a wide range of American assets. At the same time, many European governments are taking steps to block foreign takeovers, which now account for more than half of all M&A in the region. The EU recently implemented a Takeover Directive which aims to harmonize the takeover process of EU-registered companies. Although neither of these regulations is directly intended to decrease the number of trans-Atlantic acquisitions, it could make the review process more prolonged and challenging.

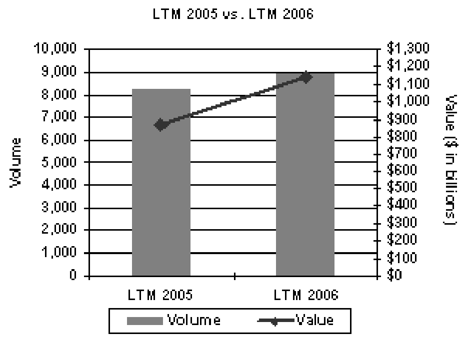
Increased Competition for European Funds

With the expansion of the EU and economic growth in Central and Eastern Europe, an increasing number of European corporate and private equity investors are directing their funds toward higher risk/reward investments in developing European countries. With harmonizing EU regulations, intra-European acquisitions have grown significantly in the last five years, with pronounced consolidation in the energy and industrial sectors. Furthermore, countries such as Russia, Poland and Serbia offer European investors the opportunity to acquire recently privatized companies – particularly in the industrial and building sectors – for very attractive multiples. These and other alternative investment opportunities now available to European strategic and financial buyers present competition for trans-Atlantic acquisition dollars.

On balance, however, we believe that the trend toward increased cross-border M&A between the United States and Europe will continue to build. With strong corporate balance sheets, large pools of uninvested U.S. and European private equity capital and attractive acquisition targets on both continents, there is little question that both the means and the opportunities exist for this important market to expand.

Domestic Transactions

($ in billions)	Value*	Volume
LTM: 2005	$927.9	8,313
LTM: 2006	$1,140.7	8,935



*Total value based on deals with reported values
Source: Thomson Financial Securities Data Corporation
LTM median deal value for 2006 is $33.9 million compared to $27.0 million for 2005.

LTM Transaction Multiples

By Size ($ in millions)	EBIT	EBITDA
Less than $25	7.4x	4.1x
$25 to $100	12.0x	8.3x
$100 to $250	13.2x	8.4x
$250 to $1,000	12.2x	7.5x
Over $1,000	13.4x	9.0x

Current data as of August 18, 2006
Source: Thomson Financial Securities Data Corporation
Based on multiples between 0x and 25x; excluding media and telecom.

Public Company Premiums

1 week prior to announcement	23.1%
4 weeks prior to announcement	25.6%

Current data as of August 18, 2006
Source: Thomson Financial Securities Data Corporation

Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	8.16%	5.84%
High Yield Bond Rate	8.31%	7.52%
Senior Debt/EBITDA*	4.7x	4.6x
Total Debt/EBITDA*	5.3x	4.7x

Current data as of August 18, 2006
Source: Portfolio Management Data, The Wall Street Journal and LCD Comps
*Represents leverage statistics for middle market LBOs (less than $50 million of EBITDA)

Buyout Fund Market

($ in billions)	2005	2004	2003
Funds Raised	$173.5	$42.2	$24.0
Deals Completed	$198.0	$136.5	$94.8

Data as of August 8, 2006
Source: Buyouts

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