



FOCUS Current M&A wave may have negative long-term impact on Dutch market

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AMSTERDAM (Thomson Financial) - There is little disagreement among experts that listed companies in the Netherlands are currently caught up in a genuine wave of M&A activity and speculation, but consensus on the long-term effects of such a wave on the market is harder to find.

According to Hans Schenk, economics professor at the University of Utrecht and mergers and acquisitions expert, this wave - the 6th in the last century and part of a cycle involving failed mergers, break-ups and eventual restoration through recession - could lead to a downturn in the quality of trading in Amsterdam. In turn, this could make the city's indices less attractive to investors.

He is more divided on the long-term effects on the economy, which he says can be both good and bad.

He says this wave differs from its predecessor because of the increased role of private equity, noting that 40 pct of current M&A transactions involve private equity, as opposed to around 5 pct in the 1990s. Schenk says that takeovers offer a chance for a buyer to make its target healthier in the long term, but that the way in which they are financed and executed - largely with borrowed capital - creates risks if debts are not kept in balance.

Schenk says that according to a recent study, the odds of a company ending up in bankruptcy proceedings are 4.5 times greater in a leveraged buy-out than in another takeover scenario.

The companies that are being targeted, or rumored to be targeted, stretch across several sectors, from blue-chip financials to midcap IT shares, and their departure or possible departure raises the question of which companies will be left, which companies will fill the void and what will happen to the index as a whole.

Euronext Amsterdam has seen some initial public offerings of late, with private equity firms like KKR and Carlyle Capital listing shares on the exchange, while Lehman Brothers is planning an IPO for July 25. While Schenk acknowledges that these IPOs are 'part of the cycle,' he raises doubts about whether or not these investments are a viable substitution for the companies that have been de-listed.

'You have to question if it's worth investing in a private equity firm,' Schenk says. 'At the moment I think the market for private equity has peaked.'

He also notes that the investment funds coming to the market are small in number compared to the volume of companies being bought up.

On the other hand, Christopher Kummer, director of the Institute of Mergers, Acquisitions and Alliances (MANDA) and a junior research professor at Webster University, says that 'Amsterdam, as part of NYSE/Euronext, needs not to worry about size,' and that 'there will always be a good stream of

initial public offerings,' making the draught that can result when companies disappear from the index only temporary.

Kummer also says that companies purchased by private equity are not gone for good, and that 'private equity companies will try to find an exit again and will 'release' those companies again to the public via IPOs.'

Both experts agree that the process is cyclical and will not last forever. Hans Schenk says an M&A wave like this one can last up to five years, and Kummer says that they 'usually last as long as the stock markets are booming,' while their duration is affected by the interest rates that impact on financing for M&A deals. With ABN Amro Holdings NV at the centre of a bidding war, companies like Rodamco Europe NV and Endemol heading for de-listing, takeover efforts proceeding at Univar NV and Stork NV and speculation running wild about which company will be targeted next, one thing that seems certain is that the current M&A wave will dominate the market's attention and drive share prices for the foreseeable future.

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