

Box I

Recent trends in merger and acquisition finance

This box takes a closer look at some recent developments in the financing pattern of mergers and acquisitions (M&A) in the euro area. In the late 1990s the corporate restructuring process, as reflected in mergers and acquisitions, ran at an unprecedented pace (see Chart A). Reaching its peak in 2000, a sizeable part of this activity was accounted for by a few, very large deals: the Vodafone/Mannesmann transaction alone amounted to €204.8 billion and represented approximately 25% of the total M&A activity in 2000. The total number of deals also peaked in 2000, at over 6,500, compared with an average of 4,000 a year in the 1990s.

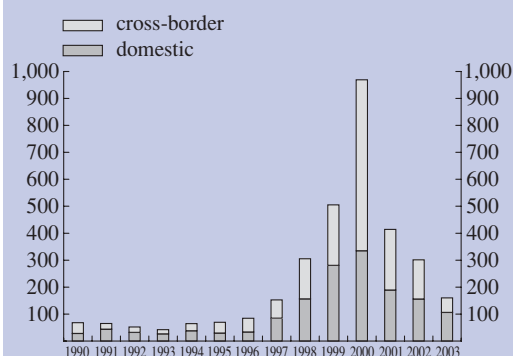
Between 1998 and 2000 the combination of the introduction of the euro, which enhanced the process of consolidation, and the boom in the stock markets contributed to the boost in M&A activity, which in turn led to a strong demand for funding. There is empirical evidence that the boost in M&A affected both the growth of MFI loans and the debt securities market.¹

Chart A outlines developments in M&A-related payments between 1990 and the first ten months of 2003. As can be seen from the chart, the decline in M&A activity after 2000 has been less pronounced for domestic, i.e. intra-euro area, flows and more pronounced for cross-border flows.

Chart B shows developments in intra-euro area M&A-related cash and non-cash payments, respectively. Non-cash payments, which are mostly exchanges of shares, as a portion of all domestic M&A deals in the euro area were high in 1999-2001, but have fallen to around 10% in the first few months of 2003. This has contributed to the very low levels of equity issuance in 2002 and 2003. In contrast, intra-euro area M&A-related cash payments are currently still at a high level compared with the early and mid-1990s. The ongoing need to finance substantial cash payments for M&A appears to be one factor contributing to the presently robust debt financing of corporations.

Chart A: M&A activity in the euro area¹⁾

(EUR billion)

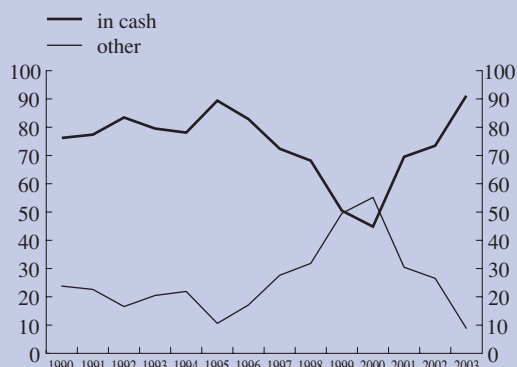


Source: Thomson Financial Deals.

1) Involving all deals where euro area firm is either bidder or target.

Chart B: Forms of payment of domestic M&A in the euro area¹⁾

(as % of total)



Source: Thomson Financial Deals.

1) Involving all deals where euro area firm is bidder and target.

¹ See "A monthly monetary model with banking intermediation for the euro area", A. Bruggeman and M. Donnay, 2003 (ECB Working Paper No. 264) and "Euro area corporate debt securities market: first empirical evidence", G. de Bondt, 2002 (ECB Working Paper No. 164).