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# Europeans risk missing party again



STEPHEN SCHURR  
ON WALL STREET

The US merger party has officially kicked off, and it is likely to rage all year. One of the big surprises is the group that has not accepted the invite: the Europeans.

This week witnessed all forms of M&A activity. We had hostility, courtesy of Comcast's bid for Disney and Oracle's pursuit of PeopleSoft. We had an open auction, as AT&T Wireless courted rival suitors Cingular and Vodafone in an exception to European caginess. And we had a friendly deal between Juniper Networks and NetScreen Technologies, with Juniper offering a 56 per cent premium over NetScreen's stock price - "friendly" hardly does the \$1.6bn price tag justice.

"All the stars are in alignment," said Robert Kindler, managing director of global M&A for JP Morgan Securities, which advised Juniper on its deal. "You have low interest rates, so you can do a cash deal. You have a big increase in the stock market, so you can do stock deals," said Mr Kindler.

For European companies, there is another aligned star for US takeovers: the weak dollar, which provides unprecedented purchasing power. Nonetheless, M&A advisers say Europeans remain gun shy. "We have heard somewhat more from Europeans, but it's not as significant as you would think," said Mr Kindler.

In early 2003, strategists predicted a European takeover binge as US equities were depressed - it did not happen.

There are several reasons for European reticence, including a chilly regulatory environment at home. But the primary reason is that, for many European companies, the memories of the 1999-2000 merger frenzy, which included Deutsche Telekom's disastrous \$34.6bn acquisition of VoiceStream Wireless in July 2000, are still raw.

"Europeans are still smarting from the difficult process of integrating US companies they purchased in the last merger wave," said Christopher Acito, principal at merger consultant Casey, Quirk & Acito. "It didn't help that the purchases came just ahead of the market's peak."

This highlights a point about Europe-to-US takeovers: the Europeans do not have a rich history of buying low in the US.

"Europeans are much more pessimistic about the US economy and often at the wrong time," said Anirvan Banerji, director of research at the Economic Cycle Research Institute. Mr Banerji said European companies were generally sceptical about the US rally in the mid-1990s. "They were very slow to get on board - incorrectly sceptical. By the time they started making deals, they called the top."

Merger waves historically have been a mid-to-late bull market cycle phenomenon, New York University market historian Richard Sylla said. "If we really get into a full-fledged merger wave, then the outlook for stock prices after it ends would not be good."

Perhaps Europeans are right to be hesitant. Studies show about 70 per cent to 80 per cent of mergers fail to meet envisioned revenue synergies once the hoopla dies down (AGL Time Warner, anyone?). The only surefire winners in merger manias are the Wall Street shops such as Goldman Sachs and JP Morgan that reap huge profits for handling the deals.

Nonetheless, M&A watchers say corporate governance in post-Sarbanes-Oxley Corporate America is uncharacteristically conscientious - at least for now. "The merger frenzy is going to happen no matter what, but we are seeing a lot more thoughtfulness from companies about execution this time," said Michael Ellington, managing director of Strategic Equity Group, a merger-advisory firm in Southern California.

Funnily enough, despite the quiet across the pond, many US M&A watchers express confidence that Europeans will jump into the M&A game as their suspicions about the current rally subside. Mario Gabelli, founder of Gabelli Asset Management, said European companies were starting to sniff around, including Nestlé, Unilever and Diageo.

No one would be more pleased by European suitors than US companies themselves, albeit not for reasons that would hearten acquirers. Mr Ellington said one client specifically sought European suitors because the client did not think a US company would offer a high-enough price tag. Mr Ellington said: "There's a sense that European owners are going to pay more."

If European companies opt to be fashionably late for the merger party, say in late 2004 or 2005 - post-election years in the US often spawn bear markets - they risk once again arriving just as the scene turns ugly.