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Market Facts

Mergers & Acquisitions: Then And Now

By Greg Blaha (847) 304-1511
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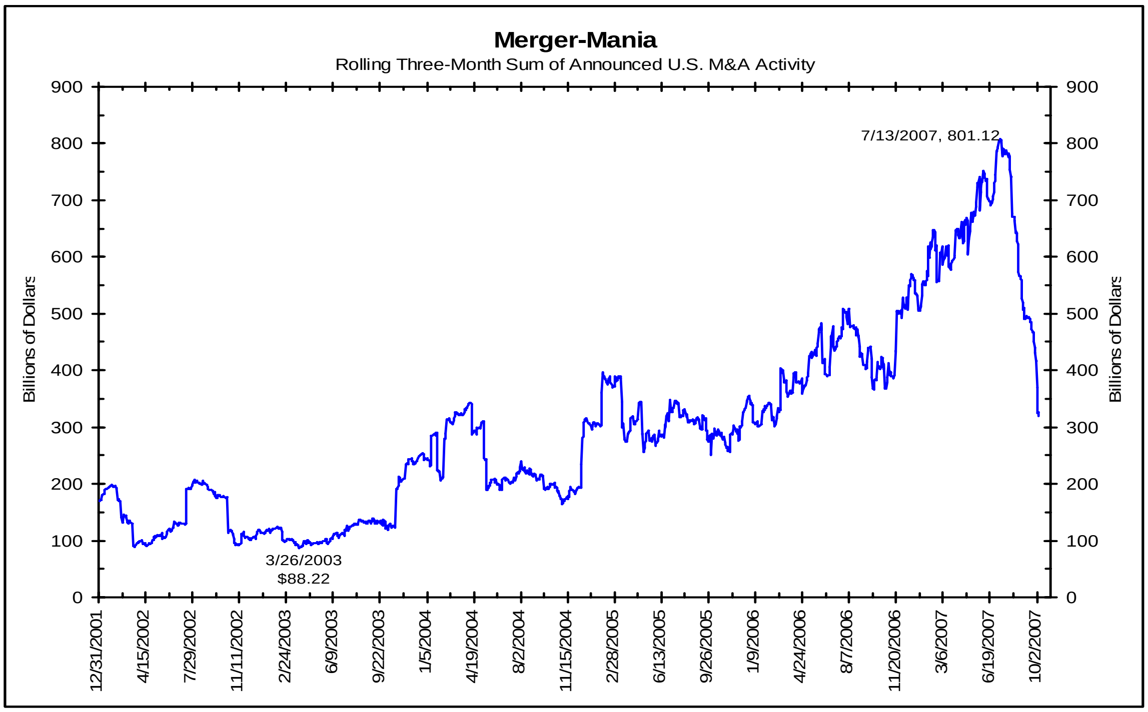
We noted in a May Commentary that private equity firms were instrumental in an equity shrink rivaling the 1980s LBO era. Prior to July 10, when Moody's and Standard & Poors downgraded over 1,000 subprime debt structures, every day seemed to bring about news of a bigger and better M&A deal in the works. As these deals priced stocks for control as opposed to ownership, prices of both the target firm and its competitors rose. That was only a few months ago, but it seems much further in the past.

Merger Mania Is No More

As the chart below shows, the 3-month rolling sum of announced M&A activity peaked on July 13, 2007, and ceased being a primary driver of the U.S. stock market immediately thereafter.



M&A's Effect Prior To July 10

From January 1 - July 19, 2007, the stock market was in a bull market, save for the late-February/early-March drawdown. Even allowing for this bearish phase, the days with large M&A announcements showed disproportionate gains.

As the first table on the following page shows, the 20 trading days with the **largest** amount of deals announced during this period returned 4.83%. Or, these 20 days, which represent only 15% of all the trading days this year, coincided with the vast majority of the S&P 500 gains up to that point. These top 20 days witnessed deals of at least $16.8 billion per day.

Conversely, the 20 trading days with the **smallest** amount of deals announced during this period coincided with returns of just 0.88%. These 20 days, which again represent only 15% of all trading days from January 1 to July 10, accounted for a small minority of the S&P 500 gains this year. These bottom 20 days saw announced deals of less than $1.7 billion per day.

Based on these statistics, one could argue equity investors were reacting to the announcement deals by pricing stocks higher in general prior to July 10.

M&A Activity's Effect On 2007 S&P 500 Total Returns

January 1, 2007 to July 10, 2007

Period	Days	% of Days	Total Return	Comment
All of 2007	**137**	**100%**	**7.50%**	**Avg. Day = $10.7B Announced MA**
Top M&A Days	20	15%	4.83%	All M&A Days Greater Than $16.8 Billion
Bottom M&A Days	20	15%	0.88%	All M&A Days Less Than $1.7 Billion

Data Source: Bloomberg (MA <go>)

M&A Activity (MAATUS) = M&A announced transactions, US, is the daily sum of mergers, acquisitions, divestitures, self-tenders and spinoffs announced involving either a US target or acquirer. All Amounts not in US dollars have been converted using the spot rate on announcement date of the transaction. The values are based on a seven day week that begins on Saturday and end on Friday. All daily values for Monday include activity from the previous weekend. These include terminated transactions.

What Has Happened Since July 10?

Since July 10, as the table below shows, M&A activity ceased acting as a driving force in the stock market. The 20 trading days with the **largest** amount of deals announced during this period returned 1.70%. Conversely, the 10 trading days with the **smallest** amount of deals announced during this period coincided with returns of 3.64%.

M&A Activity's Effect On 2007 S&P 500 Total Returns

July 10, 2007 Through October 2, 2007

Period	Days	% of Days	Total Return	Comment
All of 2007	**61**	**100%**	**1.39%**	**Avg. Day = $4.93B Announced MA**
Top M&A Days	10	16%	1.70%	All M&A Days Greater Than $7.6 Billion
Bottom M&A Days	10	16%	3.64%	All M&A Days Less Than $1.3 Billion

Data Source: Bloomberg (MA <go>)

M&A Activity (MAATUS) = M&A announced transactions, US, is the daily sum of mergers, acquisitions, divestitures, self-tenders and spinoffs announced involving either a US target or acquirer. All Amounts not in US dollars have been converted using the spot rate on announcement date of the transaction. The values are based on a seven day week that begins on Saturday and end on Friday. All daily values for Monday include activity from the previous weekend. These include terminated transactions.

Conclusion

Prior to July 10, announced M&A activity was an important force driving the stock market. As private equity companies took public stock private, the float shrunk, which in turn sent the market higher.

However, likening the current financial markets to the pre-July 10 markets is comparing apples to oranges. Once Moody's and S&P made everyone reexamine the credit quality of complicated debt structures, the stock market had bigger concerns than M&A activity.

As investors work their way through the current credit crunch, it is possible that M&A activity *might* someday rebound. Until then, this indicator can be declared temporarily defunct.

Bianco Research L.L.C.

1731 North Marcey, Suite 510
Chicago IL 60614

Phone: (847) 304-1511
Fax (847) 304-1749
e-mail: research@biancoresearch.com
http://www.biancoresearch.com

For more information about the contents/ opinions contained in these reports:

President (847) 756-3599
James A. Bianco jbianco@biancoresearch.com

Strategist/Analysts (847) 304-1511
Howard L. Simons hsimons@biancoresearch.com
Greg Blaha gblaha@biancoresearch.com
Ryan Malo rmalo@biancoresearch.com

For subscription/service Information:

Arbor Research & Trading, Inc.
Director of Sales & Marketing (800) 625-1860
Fritz Handler fritz.handler@arborresearch.com

Arbor Research & Trading, Inc.

1000 Hart Road, Suite 260
Barrington IL 60010

Phone (847) 304-1560 Fax (847) 304-1595

e-mail inforequest@arborresearch.com
http://www.arborresearch.com

Domestic - For more information about Arbor Research & Trading and its services:

Chicago Sales Office

1 North LaSalle Street, 40th Floor
Chicago IL 60602
Daniel Lustig dan.lustig@arborresearch.com
Phone (866) 877-0266 Fax (312) 269-1681

New York Sales Office

The Chrysler Building, 405 Lexington Ave
New York, NY 10174
Edward T. McElwreath ed.mcelwreath@arborresearch.com
Phone (212) 867-5326 Fax (212) 370-1218

International - For more information about Arbor Research & Trading and its services:

London Sales Office

4 Broadgate, 2nd Floor, Room 57
London England EC2M 2QY
Phone 44-207-965-4784 Fax 44-207-965-4787

Neil Tritton neil.tritton@arborresearch.com
Ben Gibson ben.gibson@arborresearch.com

European Sales

James L. Perry james.perry@arborresearch.com
Phone (847) 756-3510 Fax (847) 304-1595
Rich Kleinbauer rich.kleinbauer@arborresearch.com
Phone (41) 22 363-9229

Far East Sales

Robert Reynolds robert.reynolds@arborresearch.com
Phone (847) 756-3680 Fax (435) 647-3073