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Has the Fifth Merger Wave Ended

In 2000, for the first time since 1991, merger activity was less than in the prior year. On a global basis, total announced mergers in 2000 were about \$3.0 trillion, compared with about \$3.5 trillion in 1999.

This year started with the announcement of the record-setting \$187 billion acquisition of Time Warner by AOL. Through the first quarter new records were set and it looked like 2000 would be the ninth consecutive year of new highs. However, after a five-year burst of telecommunications, media and technology mergers, we experienced a dramatic slow down in the telecommunications, media and technology sector, as well as all mergers.

It started with the collapse of the internet stocks at the end of the first quarter followed by the earnings and financing problems of the telecoms. In Europe where the telecoms have spent \$200 billion in government license auctions, there has been a major downgrade of telecom stocks and the companies do not have the cash or the ability to finance the build-out of the facilities that will utilize the new licenses. In the U.S. the decline in earnings of most telecoms has resulted in major declines in their stocks and doubt that further mergers will be beneficial. While the fundamental pressures of consolidation, convergence, technology and globalization continue to impact the telecommunications, media and technology sector, it is unlikely that telecommunications, media and technology mergers will return to the level experienced in prior years and early in 2000.

Financial institution merger activity declined in the first half of 2000 and then revived in the second half. With the enactment of the Gramm-Leach-Bliley Act modernizing financial institution regulation, merger activity in this area is very likely to continue.

The pressure on industrial companies to improve their margins and maintain top-line growth also continues. Examples in 2000 are General Electric's acquisition of Honeywell, Chevron's acquisition of Texaco and Unilever's acquisition of Bestfoods.

The year-long concern with the impending demise of pooling merger accounting undoubtedly stimulated some of the 2000 merger activity but it is not possible to gauge accurately how many deals were announced to beat the deadline that shifted from year-end to the first half of 2001. With the FASB now proposing to switch from 20-year amortization of goodwill to write-off of goodwill only when impaired, merger accounting changes are not likely to be a factor in 2001.

At year-end the NASDAQ is down about 50% from its high, many internet, telecom and technology stocks are down more than 50% (some as high as 90%), the junk bond market is almost nonexistent, recent merger announcements have not been well received in the equity markets, banks have tightened their lending standards and there is some fear that the

landing will be hard rather than soft. Given these factors, it is doubtful that merger activity will be robust in 2001. The decline will not be as severe as the 1989 -1992 collapse. But it will be significant. However, the fundamental factors motivating mergers continue in bad markets as well as good and we expect 2000 -2001 to be more of a pause in the fifth merger wave than its end.

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