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M&A in 2002

With M&A activity down about 50% in 2001 versus 2000, there is considerable interest in what is expected for 2002. In our view, the short answer is about the same as 2001 with a bias toward even less rather than more activity.

Major factors in M&A activity are confidence and currency. As long as companies continue to suffer business problems and earnings declines, confidence to undertake major mergers will be lacking in both the executive suite and the boardroom. As long as stock values are significantly below year 2000 levels and the stock market does not receive merger announcements with enthusiasm, there will be reluctance to pursue mergers.

Industries where the fundamentals militate further consolidation, such as financial services, energy and healthcare, will continue to supply the major portion of M&A activity in 2002. While low stock prices and earnings and balance sheet problems will inhibit deals in the tech and telecom areas, these same problems will stimulate some bargain hunting by the more successful companies.

Assuming no major change in present general economic and financial conditions, we expect to see a significant increase in the percentage of M&A transactions that are no-premium common stock merger of equals. Recent favorable reception accorded to the Mead/Westvaco and the Conoco/Phillips merger announcements will encourage others to follow this format.

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