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### M&A in 2008

After a very strong start in the first half of 2007, stimulated by readily available debt financing on very attractive terms, U.S. and global M&A activity slowed dramatically after July. The collapse of the housing bubble and the drying up of liquidity put the brakes on the debt fueled M&A activity, particularly private equity activity which for a while was accounting for about 25% of total activity.

With the timing of recovery of the debt markets and with predictions, by Alan Greenspan and others, of a 50% chance of recession, it is not possible to predict with any degree of confidence what M&A activity will be in 2008. The restoration of liquidity and confidence will be the determining factors. I am not optimistic and I think we will see a decline of more than 25% in M&A activity in 2008.

As the current BHP Billiton mega-bid for Rio Tinto demonstrates, the benefits of consolidation will overcome problems in the debt markets, provided the equity markets are receptive to the use of stock in lieu of cash.

Several of the factors that stimulated M&A activity in 2007 will continue to be present in 2008:

- The desire of some countries to create “national champions” in basic industries, and of a few countries, like Russia, to create “global champions.”
- The dismantling of defenses against hostile takeovers in response to shareholder pressure and the reluctance of boards of directors to “just say no.”
- The arrival of mergers and LBOs in countries that until now have had little such activity.
- The receptivity (and strong encouragement) of institutional investors and activist hedge funds to M&A transactions.
- Greatly expanded privatization of infrastructure.
- Dispositions, demergers and spinoffs by companies adopting (often in response to shareholder pressure) policies to focus on core competencies.

The wild card in 2008 will be the M&A activity of companies in the commodity-rich countries and China and India and the investment activity of their sovereign wealth funds. During 2007 the SWFs made major investments in private equity funds and their management companies and in financial companies seeking additional capital. The activities of SWFs in 2008 could be a major factor in overall global M&A activity.

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