

UBS research focus

Summary

M&A: Still a big deal

Trends in M&A

Despite the record volume of announced mergers and acquisitions activity during 2007, the volume of corporate strategic M&A is hardly excessive by historical standards, especially after accounting for the effects of inflation and the rise of private equity transactions (see Fig. 1). M&A activity is more globally diversified than ever before, and the potential for new deals is influenced by more participants. The private equity business, sovereign wealth funds (SWFs), and cross-border M&A will likely remain permanent fixtures in this arena (see Fig. 2).

Does M&A create value?

Each individual deal must be weighed on its own specific merits. However, most studies conclude that M&A benefits the shareholders of targeted firms. While buyer firms have not fared as well historically, changes in the way that deals get done, as well as scrutiny on the part of pension funds, activist hedge funds, and private equity companies, may improve the success rate.

Outlook for M&A

While the risks to our macroeconomic forecasts have increased, the projected slowdown is insufficient to erase the potential for future corporate strategic deals. The emergence of SWFs and the globalization of financial markets are additional factors that will likely bolster overall M&A, especially cross-border deals (see Fig. 3). This is good news for equity investors generally, as well as investors in eventual takeover targets. Meanwhile, the conditions needed to support leveraged buyout activity are no longer as favorable as they were in 2006 and early 2007, which will likely force private equity firms to shift their business strategy in order to continue to generate strong returns for their investors.

Industry outlook

Globally, we highlight the financial and materials industries as having the greatest potential for M&A activity in the coming years. We also look for M&A activity from the US and European consumer staples sector, as companies pursue growth through acquisitions in emerging markets. We think European media companies are set to consolidate regionally, while some small-to mid-size Japanese pharmaceutical companies look ripe to merge for benefits of scale.

Fig. 1: Total completed M&A by region

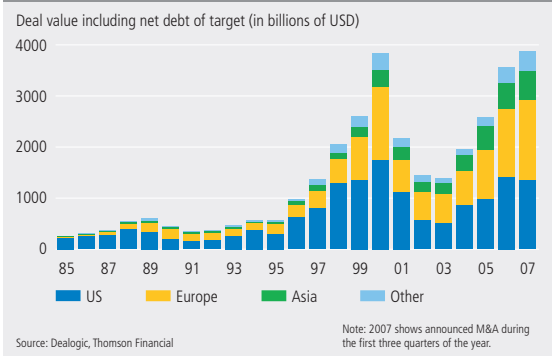


Fig. 2: Sovereign wealth fund assets

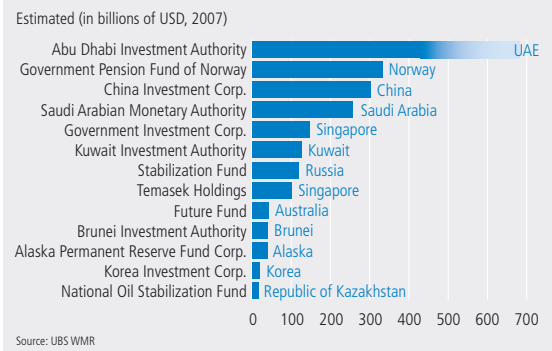
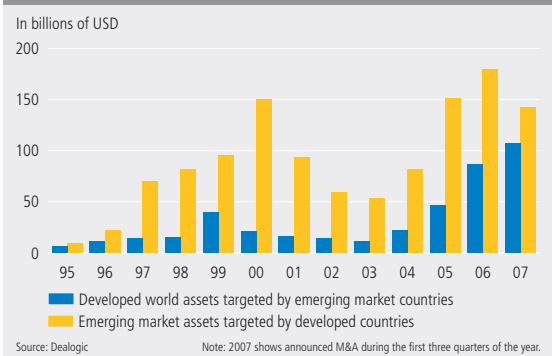
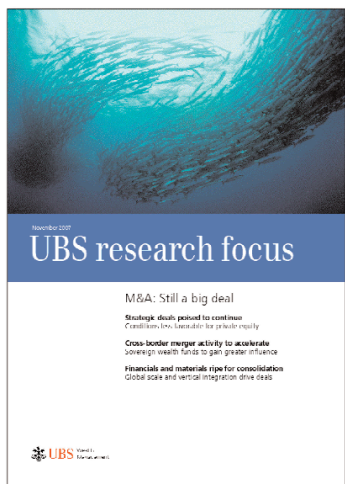


Fig. 3: Greater cross-border M&A activity





Published in English and German.

To order please contact your UBS client advisor.

Furthermore, you can order additional copies of this publication or as a UBS client subscribe to the "UBS research focus" series via the Printed & Branded Products mailbox: sh-iz-ubs-publikationen@ubs.com

This report has been prepared by Wealth Management Research, the Financial Analysis Group of Global Wealth Management & Business Banking, a Business Group of UBS AG (UBS). In certain countries UBS AG is referred to as UBS SA. This publication is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis. Although all information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, no representation or warranty, express or implied, is made as to its accuracy or completeness. All information and opinions as well as any prices indicated are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. At any time UBS AG and other companies in the UBS group (or employees thereof) may have a long or short position, or deal as principal or agent, in relevant securities or provide advisory or other services to the issuer of relevant securities or to a company connected with an issuer. Some investments may not be readily realisable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS. Futures and options trading is considered risky. Past performance of an investment is no guarantee for its future performance. Some investments may be subject to sudden and large falls in value and on realisation you may receive back less than you invested or may be required to pay more. Changes in FX rates may have an adverse effect on the price, value or income of an investment. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein.

For structured financial instruments and funds the sales prospectus is legally binding. If you are interested you may attain a copy via UBS or a subsidiary of UBS.

This document may not be reproduced or copies circulated without prior authority of UBS or a subsidiary of UBS. UBS expressly prohibits the distribution and transfer of this document to third parties for any reason. UBS will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document. This report is for distribution only under such circumstances as may be permitted by applicable law.

Australia: Distributed by UBS Wealth Management Australia Ltd (Holder of Australian Financial Services Licence No. 231127), Chifley Tower, 2 Chifley Square, Sydney, New South Wales, NSW 2000. **Bahamas:** This publication is distributed to private clients of UBS (Bahamas) Ltd and is not intended for distribution to persons designated as a Bahamian citizen or resident under the Bahamas Exchange Control Regulations. **Canada:** In Canada, this publication is distributed to clients of UBS Wealth Management Canada by UBS Investment Management Canada Inc. **France:** This publication is distributed to clients of UBS (France) SA, a duly authorized bank under the terms of the "Code Monétaire et Financier", regulated by French banking and financial authorities as the "Banque de France" and the "Autorité des Marchés Financiers". **Germany:** The issuer under German Law is UBS Deutschland AG, Stephanstrasse 14-16, 60313 Frankfurt am Main. UBS Deutschland AG is authorized and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht. **Hong Kong:** This publication is distributed to clients of UBS AG Hong Kong Branch by UBS AG Hong Kong Branch, a licensed bank under the Hong Kong Banking Ordinance and a registered institution under the Securities and Futures Ordinance. **Indonesia:** This research or publication is not intended and not prepared for purposes of public offering of securities under the Indonesian Capital Market Law and its implementing regulations. Securities mentioned in this material have not been, and will not be, registered under the Indonesian Capital Market Law and regulations. **Italy:** This publication is distributed to the clients of UBS (Italia) S.p.A., via del vecchio politecnico 3 - Milano, an Italian bank duly authorized by Bank of Italy to the provision of financial services and supervised by Consob and Bank of Italy. **Jersey:** UBS AG, Jersey Branch is regulated by the Jersey Financial Services Commission to carry on investment business and trust company business under the Financial Services (Jersey) Law 1998 (as amended) and to carry on banking business under the Banking Business (Jersey) Law 1991 (as amended). **Luxembourg:** This publication is not intended to constitute a public offer under Luxembourg law, but might be made available for information purposes to clients of UBS (Luxembourg) S.A., a regulated bank under the supervision of the "Commission de Surveillance du Secteur Financier" (CSSF), to which this publication has not been submitted for approval. **Singapore:** This material is distributed to clients of UBS AG Singapore Branch by UBS AG Singapore Branch, an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110) and a wholesale bank licensed under the Singapore Banking Act (Cap. 19), regulated by the Monetary Authority of Singapore. **Spain:** This publication is distributed to clients of UBS Bank, S.A. by UBS Bank, S.A., a bank registered with the Bank of Spain. **UAE:** This research report is not intended to constitute an offer, sale or delivery of shares or other securities under the laws of the United Arab Emirates (UAE). The contents of this report have not been and will not be approved by any authority in the United Arab Emirates including the UAE Central Bank or Dubai Financial Authorities, the Emirates Securities and Commodities Authority, the Dubai Financial Market, the Abu Dhabi Securities market or any other UAE exchange. **UK:** Approved by UBS AG, authorised and regulated in the UK by the Financial Services Authority. A member of the London Stock Exchange. This publication is distributed to private clients of UBS London in the UK. Where products or services are provided from outside the UK they will not be covered by the UK regulatory regime or the Financial Services Compensation Scheme. **USA:** Distributed to US persons by UBS Financial Services Inc., a subsidiary of UBS AG. UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when it distributes reports to US persons. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate.