

## There's no stopping M&A

Bhavin Dhanani

In a time of extreme volatility and drier economic conditions it may come as a surprise that two major takeover bids were making headlines in the financial press.

The first of the two was a belated offer for Rio Tinto by BHP Billiton totalling a staggering £75 billion. An initial bid of £63 billion back in November was branded too low by the Rio board. The offer comprised of shares with Rio investors given 3.4 BHP shares for every share that they have.

The Rio board later dismissed the new offer again as being too low.

Many believe the refusal was due to the 9% stake Chinalco, China's government owned miner, and Alcoa together bought last week. In their raid on Rio they paid £60 for each share which is 11% more than the latest offer by BHP.

Microsoft has also launched a bid for search engine Yahoo. The bid, understood to be £23 billion, the biggest ever on Wall Street, is being considered by Yahoo. The offer is thought to be a last ditch attempt by Bill Gates' empire to halt the runaway success of Google.

Google has stated that it wants the deal to be regulated but Microsoft claim that Google are in a monopolistic position in the search engine industry. There are suggestions that Yahoo would consider aligning itself with Google, causing a bidding war, which would drive the price to unprecedented levels.

Despite having an immense amount of money, Microsoft will have to borrow for the first time in their history to finance the deal.



Yahoo is debating whether a sale to Microsoft is in the company's best interests.

## Two horse race for Rock

Phillip Butler

Private equity firm Olivant withdrew from the running for Northern Rock this week. This left the Virgin led consortium as favourites for the takeover with only an in-house management bid left in the running.

Olivant has blamed its abandonment of the Northern Rock bid on the British Government. The short time scale on the repayment of the loans received from the Bank of England were too constraining. The Government is demanding that the loans have to be paid back within three years, not the five that Olivant were hoping for.

With the Government preferring a private sector takeover it has distanced itself from possible nationalisation of Northern Rock.

With Richard Branson one step closer to re-launching Northern Rock as Virgin Money, he also announced this week that should it take over job losses would occur. He had originally declared that jobs would be safe but has now sparked fears of thousands of job cuts due to Virgin's plans to scale down lending. This downsizing means less customers and therefore fewer staff are needed.

### Markets

### Winners, Losers

- After its rally last week the FTSE 100 was down again falling just over 4% on the week.
- Tuesday will see the release of the consumer price index (CPI) for the year to January. The figures will have factored in rising utilities prices and is expected to increase 0.2% to 2.3%. The producer price index out Monday is also expected to increase, up to 5.1% due to rising prices of raw materials.
- Iceland's index this week was the worst affected by global problems falling a massive 8% following a seven year boom.

Company	Price	Change
Biffa (recycling)	369.5p	14.4%
Homeserve (utilities)	1810p	6.5%
Inmarsat (mobile)	515p	5.4%
Aquarius Pt (platinum)	695.5p	4.3%
Nikanor (mining)	410.5p	-16.2%
Premier Foods (food)	108.75p	-17.3%
Arm Holdings (architecture)	95p	-19.7%
Yell (search engine)	262p	-23.4%

## Company Profile

**Name:** Fortis NV

**Share price:** €13.65

**Business sectors:**

**Retail Banking**, offers financial services to retail customers across insurance, credit and investments

**Insurance**, further divided into insurance products in Belgium, Netherlands and International

**Merchant and Private Banking**, works with large, medium and small companies with exhibited strong growth. Specialises in advice for the energy, transport and commodities sectors.

**Notable M&A;**

**October 2007**, succeed as part of RBS consortium in ABN Amro acquisition taking Dutch Banking, Global Private Clients and Asset Management

**June 2007** acquired 95.6% of Pacific Century Insurance in Hong Kong

**Employees:** 56,886

**Sales Revenue:** Insurance 64%, Banking 36%, 80% revenues Europe based

**Total Revenue:** Interest income for nine months of 2007 €69.78bn

## Credit Rating

With the current market turmoil the credit rating agencies have had a busy few months. The agencies are being criticised for their poor pace in downgrading companies. Also recent press has surrounded the conflict of interest the agencies may have.

While the companies involved have made sure their analysts and sales people are separate, their main source of revenue is through the issuers of the securities they rate. The agencies of late have been misinterpreted. They rate the risk of default but many believe it is in accordance with their predictions for a market change. The high rating they gave collateralised debt obligations (CDOs) has led to vast criticism considering the recent collapse of the sub-prime market.

The agencies have tried to react before the bad press increases and on February 4th Moody's announced plans for a new ratings system structure. They will use numbers instead of the famous letters with a suffix pertaining to their perceived level of volatility. S&P quickly followed suit on February 7th and announced plans for almost 25 reforms to their ratings procedure.

## Following the Fed...almost

Bhavin Dhanani

The Bank of England's Monetary Policy Committee met for their scheduled meeting last Thursday and as expected cut the UK base rate by 25 basis points.

A cut was widely expected given the huge fluctuations that have affected global stock markets. Many were predicting that the MPC would follow the Federal Reserve and cut rates heavily.

However, with inflation on the rise in the UK, the MPC decided

to take a more cautious stance. With inflation on the rise and economic growth stagnating there are some tough times ahead for the MPC.

There will be mixed reactions from mortgage holders. Although a rate cut would normally be met with glee, some banks including Barclays and HSBC have not yet cut their variable mortgage rates.

The European Central Bank also met last week and decided to hold

## Strictly Bites

**SocGen** trader **Jerome Kerviel** has been jailed for his role in losing the bank **€4.9bn**.

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Oil company **Exxon Mobil** announced record profits for an **American** company of **\$40.6bn**. **Royal Dutch Shell** also made huge profits, \$27.6bn, a record for a European company.

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For the first time since **2003** **America** has reported a net monthly fall in **employment** of **17,000**.

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**BP** announced a **profit plummet** of **22%** in the past year, disastrous considering other players in the industry's **yearly figures**.

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**Egg**, acquired by **Citigroup** last year, has announced it is cancelling **161,000** customers' **credit cards** as they are deemed too **risky**, sparking outrage by some claiming spotless credit records.

**America's Securities and Exchange Commission** is looking at share sales of a **SocGen** Board member just before the scandal was revealed.

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**GE Money**, the personal finance arm of **General Electric**, is moving **headquarters** from the **US** to **London**, enhancing **London's** bid to be the **worlds financial centre**.

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The **Euro** posted its largest decline against the **dollar** this week amid fears that the **European Central Bank** will have to follow the **Fed Reserve** in cutting rates.

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The **FTSE Aim all share index** has fallen below the **1000 mark**, the value it started at in **1995**, signifying how hard times are in the **markets** no matter the size of the company.

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**G7** announced in **Tokyo** that they expect market **volatility** to persist as the market **re-prices risk**.