

Bloomberg BRIEF

Mergers

NEWS, ANALYSIS AND COMMENTARY

12.16.11
FRIDAY

M&A
WATCH

DEALS. **United Rentals Inc.** agreed to **RSC Holdings Inc.** for \$1.9 billion to accelerate business growth with industrial customers. **Credit Agricole SA**, France's second-largest bank by assets, agreed to sell its private-equity unit to Collier Capital for an undisclosed sum to boost reserves. **Vattenfall AB** agreed to sell Finnish power grid and heating assets for about 1.54 billion euros (\$2 billion) to a party including **3i Group Plc** as the Nordic area's largest utility focuses on Sweden, Germany and the Netherlands. **King & Wood** and **Mallesons Stephen Jaques** said they will combine to create Asia's largest law firm with more than 2,180 lawyers in China and Australia.

PEOPLE. **Bill Walter**, the ex-CEO of **FMC Corp.**, was hired by **Valence Group** to pursue M&A in the chemicals industry. **Gary Bullock** will lead global operations when **Credit Suisse Group AG** combines the functions of its private banking and investment-banking units next year. Page 3.

MARKET CALLS. **Wells Fargo & Co.** is "optimistic" about buying more European bank assets as the region's lenders act to weather the debt crisis, said Robert W. Baird & Co.

SNAPSHOT. **Martin Marietta Materials Inc.**'s \$7.4 billion all-stock bid for **Vulcan Materials Co.** is the largest announced takeover in the quarrying industry since 1999. Page 5.

ARB ANALYSIS. The U.S. water industry is highly fragmented with very few large participants, possibly making it ready for consolidation, according to **Tom Burnett**, director of research at Wall Street Access. Page 6.

Arbs Bet on Canada Properties for Profits

BY CHARLES MEAD

For the biggest takeover profits in North America, investors are betting on Canadian real estate.

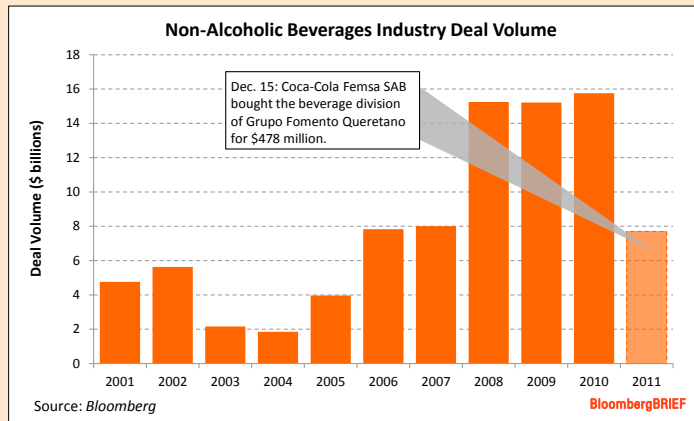
Canmarc Real Estate Investment Trust of Montreal is trading 4.1 percent above a C\$15.30-a-share hostile bid from **Cominar Real Estate Investment Trust** after rejecting the offer. The gap between the shares and the proposal indicates traders are wagering on a steeper price increase than any other pending deal in North America greater than \$1 billion that includes cash, according to data compiled by Bloomberg.

With office vacancies in Canada at half the U.S. rate, Canmarc's office buildings

Daily Data (includes announced and amended deals)

Comparisons

SUMMARY	TOTAL	YEAR TO DATE	PRIOR YTD
Number of Deals	54	26,285	24,989
Volume	\$8.3 billion	\$2.25 trillion	\$2.1 trillion
Avg Disclosed Deal Size	\$219 million	\$157.4 million	\$154.6 million
Average Premium	37%	22%	22%



The non-alcoholic beverages industry has reached \$7.7 billion in announced transactions this year, the lowest level since 2005, Bloomberg data show.

Breaking Deals

TARGET NAME	ACQUIRER NAME	TOTAL VALUE (\$M)	TARGET PRICE/EBITDA
RSC Holdings Inc	United Rentals Inc	4,168.6	2.3
Electricity business	LNI Acquisition Oy	2,006.3	-
Taminco Group NV	Apollo Global Management	1,431.1	-
Uniao Norte do Parana	Kroton Educacional SA	698.9	-
Arrowhead General Insur.	Brown & Brown Inc	395.0	-
Hotel Management busin.	Multiple acquirers	326.6	-
AMI Insurance Ltd	Insurance Australia Group Ltd	289.6	-
Kverneland ASA	Kubota Corp	227.8	8.5
Aichi Machine Industry Co	Nissan Motor Co Ltd	199.1	1.5
Morton's Restaurant Group	Fertitta's Morton's Restaurants	179.0	3.3

Yesterday's Deals

TARGET NAME	ACQUIRER NAME	TOTAL VALUE (\$M)	TARGET PRICE/EBITDA
SonoSite Inc	Fujifilm Holdings Corp	803.4	22.2
Red Desert complex	Western Gas Partners LP	483.8	-
Bottling Operations	Coca-Cola Femsa SAB de CV	479.9	-
Collins Stewart Hawkpoint	Canaccord Financial Inc	375.0	9.0
Eastwin Global Investment	Sugih Energy Tbk PT	230.0	-
Bank of Cyprus Australia Ltd	Bendigo and Adelaide Bank	129.1	-
Greatek Electronics Inc	Powertech Technology Inc	117.2	4.1
Vantec Corp	Hitachi Transport System Ltd	113.2	5.1
Airway Centre 2-4 in Ontario	Whiterock REIT	106.3	-
Unnamed Target	Surge Energy Inc	100.1	-

CANMARC ...

may lure rival bids from property trusts including **Dundee** and **Whiterock**, according to **Canadian Imperial Bank of Commerce**. Its 84 retail properties may also interest **RioCan** or **Crombie**, said **Canaccord Genuity Inc.** Canmarc could command as much as a 30 percent premium to its net asset value, said **Canaccord**, equal to about C\$17.71 a share, based on the average of five analysts' estimates for the value of its underlying assets compiled by **SNL Financial**.

"Clearly the market is pricing in a higher bid," said **Alex Avery**, a Toronto-based analyst at **CIBC**.

"With a very strong demand for property and a scarcity of portfolios available for sale, it's not unreasonable to expect a slightly larger premium. It's logical that at the very least they would pursue alternatives."

Cominar, Quebec province's largest commercial-property owner, offered on Nov. 28 to buy the 85 percent of Canmarc that it doesn't own for C\$15.30 a share in cash. Shareholders may also choose 0.7054 share of Cominar for each Canmarc share, up to 16 million Cominar shares. The deal valued Canmarc at almost C\$1.6 billion (\$1.55 billion) including C\$713 million of net debt, Bloomberg data show.

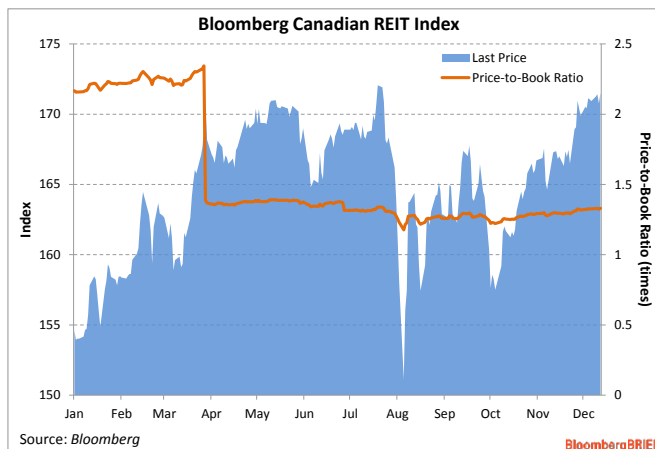
Canmarc's board rejected the "opportunistic" bid and said shareholders should expect a "substantial" premium, according to a Dec. 13 statement. It also adopted a so-called poison pill to help prevent unwanted takeovers and allow time to "explore and surface all other strategic alternatives."

Michel Dallaire, chief executive officer of Quebec City-based Cominar, said a day later he was "highly confident" that investors would accept the bid, which he noted is the only offer on the table.

Dallaire didn't return a voicemail left with his assistant. **Melanie Tardif**, a spokeswoman for Canmarc, said the company appointed a committee to look at all alternatives with the goal of ensuring that unit holders are fully compensated. She declined to comment further.

While Cominar's proposal was 15 percent higher than Canmarc's 20-day stock trading average, the bid values the property trust at only a 12 percent premium to its average net asset value of C\$13.62 a share, based on estimates compiled by SNL.

Canadian property trusts have typically



been acquired at a 15 percent to 30 percent premium to analysts' consensus net asset value, according to **Shant Poladian**, an analyst at **Canaccord**. "It's a steal," said Poladian. "It was a premium to Canmarc's share price, but it wasn't a premium to the types of valuations that we saw across the rest of Canadian commercial REITs."

Even after climbing 33 percent since its initial public offering in May 2010, Canmarc traded at a 2.5 percent discount to the estimated value of its underlying real estate as of Nov. 25, before the offer was disclosed.

To give Canmarc "full credit" for its diversified portfolio amid a rising Canadian real estate market, the price may reach C\$19.50 a share, based on his estimated net asset value of C\$15.10, said **Canaccord's Poladian**. **CIBC's Avery** is projecting the takeover price could increase to C\$16.50, about a 22 percent premium to his estimated asset value of C\$13.50.

Since the transaction was announced, Canmarc's shares have gained 20 percent to as high as C\$16.10 on Dec. 9. The stock fell 8 cents to C\$15.93 yesterday, 4.1 percent higher than the value of the cash offer. No other pending deal in North America greater than \$1 billion including cash payment was trading further above its offer price, Bloomberg data show.

Property trusts bidding on separate pieces of Canmarc's holdings may deliver the best return for investors, said **CIBC's Avery**. Its 2.9 million square feet of office space may attract Toronto-based **Whiterock Real Estate Investment Trust**, **Artis Real Estate Investment Trust** of Winnipeg or Toronto-based **Dundee Real Estate Investment Trust**, said **Avery** and **Canaccord's Poladian**. While Toronto-based **RioCan Real Estate Investment Trust** or

Crombie Real Estate Investment Trust of Nova Scotia may consider offers for the 4.2 million square feet of retail property, Canmarc's entire portfolio may also draw bids from pension funds or life-insurance companies, said **Poladian**.

Cominar has an advantage over potential outside bidders because it already ranks as Canmarc's second-biggest shareholder with a 15 percent stake, said **Sachin Shah**, New Jersey-based merger arbitrage strategist for **Tullett Prebon Plc**. "It may make a white knight suitor think twice," Shah said. "The chances are higher

that Cominar has to increase its offer" to as much as C\$17 a share, he said. The real estate market in Canada has been "exceptionally good" because there wasn't overbuilding, making Canmarc's assets more valuable than the current bid, said **Canaccord's Poladian**.

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PEOPLE WATCH

■ **Bill Walter**, the ex-CEO of **FMC Corp.**, was hired by Valence Group to pursue M&A in the chemicals industry. The former chemical deals team at **Bear Stearns** started Valence in 2007. "Bill's industry insight will be invaluable as we continue to navigate clients through an active chemical sector M&A landscape," said **Telly Zachariades**, a co-founder and partner at Valence.

■ **Helga Jung**, 50, and **Maximilian Zimmerer**, 53, will replace **Paul Achleitner** as finance head of **Allianz SE** and split his responsibilities when he joins **Deutsche Bank AG** next year. Jung, Allianz's mergers and acquisitions chief, becomes the first woman on the management board as of Jan. 1. She will be responsible for mergers and acquisitions, legal and compliance, Allianz's stakes in other companies and the insurance business in Spain, Portugal and Latin America. Zimmerer will be responsible for investment management and the insurer's global life unit.

■ **Gary Bullock** will lead global operations when **Credit Suisse Group AG** combines the operational functions of its private banking and investment-banking units beginning next year as part of an effort to lower costs. Bullock will report to CFO **David Mathers**, the Zurich-based bank said in a memo to employees. Credit Suisse spokesman **Marc Dosch** confirmed the memo's contents. Bullock joined Credit Suisse in 2008 as head of operations for the investment bank after working for **Morgan Stanley** and **UBS AG** for 22 years.

■ **Morgan Stanley**, the New York-based investment bank whose shares have slid 45 percent this year, plans to cut about 1,600 jobs globally.

—Elena Logutenkova, Michael J. Moore, Andrew Noel and Oliver Suess

E-mail people news to mergerbrief@bloomberg.net.

THE WIRE

United Rentals to Purchase RSC Holdings for \$1.9 Billion

United Rentals Inc., an equipment-leasing company, said it will buy **RSC Holdings Inc.** for \$1.9 billion to accelerate business growth with industrial customers. The deal has an enterprise value of \$4.2 billion, including \$2.3 billion in net debt, Greenwich, Connecticut-based United Rentals said in a statement. The purchase will generate more than \$200 million in annual cost savings and will add to earnings per share in the first full year after closing, the company said.

The cash and stock transaction values Scottsdale, Arizona-based RSC Holdings at \$18 a share, or 58 percent more than the closing share price in New York.

"The proposed transaction will create a leading North American equipment rental company with a more attractive business mix, greater scale and enhanced growth prospects," United Rentals said.

—David Risser

Credit Agricole Sells Private-Equity Unit to Collier Capital

Credit Agricole SA, France's second-largest bank by assets, agreed to sell its private-equity unit to **Collier Capital** for an undisclosed sum to boost reserves.

The sale of **Credit Agricole Private Equity** will reduce the bank's risk-weighted assets by about 900 million euros (\$1.2 billion), the company, based outside Paris, said in an e-mailed statement today.

"Credit Agricole SA's decision to sell CAPE forms part of a plan to optimize capital allocation and refocus the bank's private equity activities on local business," the bank said.

The bank said two days ago it will report a loss for 2011 and eliminate 2,350 jobs at its investment-banking and consumer-finance units as Europe's debt crisis erodes economic growth. The company will book about 2.5 billion euros in fourth-quarter writedowns on investments, including stakes in Spain's **Bankinter SA** and **Banco Espirito Santo SA** of Portugal, it said Dec. 14.

In today's statement, Credit Agricole said it expects approval for the sale to London-based Collier in the first quarter of 2012.

—Gregory Viscusi

Vattenfall Sells Finnish Businesses for 1.54 Billion Euros

Vattenfall AB agreed to sell Finnish power grid and heating assets for about 1.54 billion euros (\$2 billion) to a party including **3i Group Plc** as the Nordic area's largest utility focuses on Sweden, Germany and the Netherlands.

The purchase by the group, also including **3i Infrastructure Plc**, **GS Infrastructure Partners** and **Ilmarinen Mutual Pension Insurance Co.**, is expected to be completed in the first quarter, Vattenfall said in a statement on its website.

The **LNI Acquisition Oy** group will buy businesses including **Vattenfall Verkko Oy**, Finland's second-largest power grid, and **Vattenfall Lampo Oy**, a district heating supplier. Vattenfall will retain its Finnish power-sales and hydropower operations.

"The divestment is a significant step in delivering our new strategic direction, focusing on our core business and markets in Sweden, Germany and the Netherlands," Chief Executive Officer **Oeystein Loeseth** said in a statement. Vattenfall is ahead of target on the asset sale program it announced last year, the company said in September.

—Johan Carlstrom

Apollo Agrees to Purchase Taminco for 1.1 Billion Euros

Apollo Global Management LLC, the private equity firm started by **Leon Black**, agreed to buy **CVC Capital Partners Ltd.**'s amine-derivatives business for about 1.1 bil-

MARKET CALLS

■ **Wells Fargo & Co.** is “optimistic” about buying more European bank assets as the region’s lenders act to weather the debt crisis, said **Robert W. Baird & Co.** “Management is optimistic about the potential for additional asset purchases or business opportunities as European banks deleverage further,” **David George**, a Baird analyst, wrote in a note to clients after meeting with **David Hoyt**, head of the San Francisco-based lender’s wholesale-banking division.

■ **Deutsche Bank AG’s** non-core asset management businesses may be worth 1 billion euros (\$1.3 billion) to 2 billion euros in a sale, **Morgan Stanley** analysts said in a note. A sale would make “strategic sense” and boost capital levels by 10 to 40 basis points, analysts **Hubert Lam** and **Huw Van Steenis** said.

■ **Amgen Inc.** may potentially grow through acquisitions in prostate-cancer treatments, said **Goldman Sachs** analyst **Sapna Srivastava** in a note. Srivastava cited **Dendreon Corp.** and **Medivation Inc.** as possible targets.

■ “Brave companies” may seize M&A opportunities in 2012, despite a “squeeze” on financing and deleveraging, said **Gary Baker**, **Bank of America’s** head of European equity strategy at a London conference. Deals will largely be financed by cash, he said. If there is no visibility on funding, “those deals just won’t happen,” said Bank of America’s **Christian Dinesen**.

■ **Brocade Communications Systems Inc.** and **Sonus Networks Inc.** stand out as potential M&A targets, said **UBS** in a note, citing similar revenue trajectories for the companies. Private equity firms have recently been active in the communications-equipment market, it said.

— by Dakin Campbell, Aaron Kirchfeld, Sasha Damouni, Josh Fineman, Deborah L Hyde and Roger Neill,

THE WIRE...

lion euros (\$1.43 billion).

The purchase of **Taminco Group Holdings** is expected to close in the first half of next year, New York-based **Apollo** said in a statement. The firm outbid **Bain Capital LLC** and **Pamplona Capital Advisors Ltd.** for the company, people with knowledge of the talks said earlier this week.

The agreement ends a prolonged exit by CVC from Taminco, which the London-based private equity firm bought for 800 million euros in 2007. The fund manager canceled a planned initial public offering in February 2010, citing market volatility, and failed to reach a sale agreement with synthetic rubber maker **Lanxess AG** this year. CVC is set to make more than twice its initial investment in the sale, said the people, who declined to be identified because the talks are private.

Taminco, based in Ghent, Belgium, takes ammonia and blends it with alcohol to make amines that can be reacted with other chemicals to make derivatives for pharmaceuticals, foods, crop chemicals and solvents. It’s a consolidated market, with **BASF SE** of Germany as the other major supplier of amine derivatives.

— Edward Evans and Anne-Sylvaine Chassany

King & Wood, Mallesons to Form Asia’s Largest Law Firm

King & Wood and **Mallesons Stephen Jaques** said they will combine to create Asia’s largest law firm with more than 2,180 lawyers in China and Australia, as well as in cities including London, New York and Tokyo.

The firms’ Hong Kong offices will merge and combine with the partnerships in China and Australia through a so-called *verein* structure, maintaining separate finances.

The combined firm will be able to provide Chinese state-owned enterprises venturing abroad one-stop advice on energy and resource acquisitions said **Wang Ling**, King & Wood’s Beijing-based managing partner. King & Wood has won work from large Chinese state enterprises on deals in Canada and South Africa as a result of the tie-up, which had been discussed for a year, according to partner **Handel Lee**.

— Debra Mao and Joe Schneider

Wells Fargo Agrees to Buy EverKey for Asset Management

Wells Fargo & Co. said it agreed to purchase **EverKey Global Partners** to offer clients a greater variety of investment strategies. EverKey’s 11-person staff led by **Jeff Everett**, former chief investment officer of **Templeton Global Advisors Ltd.**, will become part of Wells Fargo’s asset-management group, the San Francisco-based bank said in a statement. EverKey oversees about \$215 million through global equity strategies including a long/short approach, said **Laura Fay**, a Wells Fargo spokeswoman. The purchase of EverKey furthers Wells Fargo’s strategy of making a collection of autonomous boutique investment firms and strategies available to clients.

— Dakin Campbell

Utilities Squeezed as States Tie Mergers to Clean Energy

The surging pace of power-industry consolidation, with more than \$31 billion in transactions pending in the U.S., is giving state officials such as Maryland Governor **Martin O’Malley** leverage to wrest more clean-energy investments from merging companies.

Exelon Corp. said yesterday it will invest \$1 billion in Maryland, almost doubling its previous offer, to gain O’Malley’s support for the company’s \$8.05 billion takeover of Baltimore-based **Constellation Energy Group Inc.** “Five years ago, you wouldn’t have seen a renewable commitment as the core element of a merger settlement,” said **Howard Learner**, executive director of the Environmental Law and Policy Center in Chicago.

— Julie Johnsson and Bradley Olson

SNAPSHOT

Quarrying Industry's Biggest Deals

ANNOUNCE DATE	COMPLETION DATE	TARGET NAME	ACQUIRER NAME	ANNOUNCED VALUE	PAYMENT TYPE	DEAL STATUS	EBITDA MULTIPLE
12/12/11	5/18/12	Vulcan Materials	Martin Marietta Materials	\$7,474	Stock	Pending	24.44
1/20/05	4/22/05	Aggregate Industries	Holcim	\$4,148	Cash	Complete	10.29
4/6/01	6/21/01	Alexander Russell	Cemex Investments	\$74	Cash	Complete	5.94
8/17/09	12/17/09	Brandrill	Ausdrill	\$70	Stock	Complete	3.65
2/27/07	12/1/08	Maffei	Gruppo Minerali	\$60	Cash	Complete	16.66

Source: Bloomberg

Martin Marietta Materials Inc.'s \$7.4 billion all-stock bid for **Vulcan Materials Co.** is the largest announced takeover in the quarrying industry since 1999.

The previous biggest transaction was in 2005, when Switzerland-based **Holcim Ltd.** purchased **Aggregate Industries Plc** for \$4.1 billion in cash.

Only 11 public companies in this industry have been acquired in the last 12 years, and the median Ebitda multiple paid is 10.29x, less than the 24.44x offered by Martin Marietta Materials.

– Pratik M. Patel, Data Analyst

LEAGUE TABLES

Global Financial Advisers

FINANCIAL FIRM	2011 YEAR-TO-DATE			
	RANK	MARKET SHARE (%)	VOLUME (\$ MLN)	DEAL COUNT
Goldman Sachs & Co	1	23.6	521,948	324
Morgan Stanley	2	20.7	457,140	297
JP Morgan	3	20.5	454,570	276
Credit Suisse	4	17.0	375,557	222
Barclays Capital	5	14.0	309,188	152
Citi	6	13.9	308,583	189
Bank of America Merrill Lynch	7	13.2	291,494	217
Deutsche Bank AG	8	12.0	266,666	186
Lazard Ltd	9	9.6	212,473	176
UBS	10	8.7	191,983	189
Evercore Partners Inc	11	6.4	140,781	57
Rothschild	12	6.3	139,414	206
HSBC Bank PLC	13	4.4	97,763	97
Nomura Holdings Inc	14	4.3	96,201	180
Societe Generale	15	3.6	80,090	89
RBC Capital Markets	16	3.3	73,611	140
BNP Paribas Group	17	3.1	68,764	87
Greenhill & Co	18	2.7	60,203	26
Jefferies Group Inc	19	2.2	49,754	118
Moelis & Co	20	2.2	48,771	47

Source: Bloomberg
Excludes terminated deals.

As of Dec. 15

Global Legal Advisers

LEGAL FIRM	2011 YEAR-TO-DATE			
	RANK	MARKET SHARE (%)	VOLUME (\$ MLN)	DEAL COUNT
Sullivan & Cromwell	1	15.8	349,457	121
Simpson Thacher & Bartlett	2	14.0	309,203	170
Skadden Arps Slate Meagher & Flom	3	12.7	281,781	219
Wachtell Lipton Rosen & Katz	4	12.7	280,890	64
Latham & Watkins LLP	5	10.8	238,521	253
Shearman & Sterling LLP	6	9.6	212,063	133
Dewey & LeBoeuf LLP	7	8.7	192,241	100
Freshfields Bruckhaus Deringer	8	7.4	164,133	228
Cravath Swaine & Moore	9	7.0	154,385	58
Linklaters LLP	10	6.9	153,002	221
Weil Gotshal & Manges LLP	11	6.6	145,855	123
Cleary Gottlieb Steen & Hamilton	12	6.2	137,447	73
Davis Polk & Wardwell	13	6.0	132,525	116
Allen & Overy LLP	14	5.9	129,671	170
Jones Day	15	5.3	116,926	419
Gibson Dunn & Crutcher	16	4.1	91,862	87
Blake Cassels & Graydon LLP	17	4.0	89,018	114
Vinson & Elkins LLP	18	3.8	84,622	79
Dechert	19	3.0	65,756	74
Fried Frank Harris Shriver & Jacobson	20	2.9	64,074	33

Source: Bloomberg
Excludes terminated deals.

As of Dec. 15

ARB ANALYSIS TOM BURNETT, GUEST COLUMNIST

U.S. Water Industry May See Greater Deal Activity as Hydro-Fracking Demand Grows

The U.S. water industry is highly fragmented with very few large participants, possibly making it ready for consolidation. Demand for water and treatment services is expected to grow as the natural-gas industry uses hydraulic fracturing technology to extract the energy source from underground rock formations.

The largest transaction in the water treatment industry was completed this month, as **Ecolab Inc.** closed its \$8 billion takeover of **Nalco Holding Co.** The agreement called for Ecolab to pay cash and stock for Nalco in a transaction whose deal value at announcement equated to a 34 percent premium to the pre-deal Nalco closing price.

Nalco, which claimed in its merger proxy statement to be “the world’s leading water treatment and process improvement company,” reported net sales of \$4.2 billion and operating earnings of \$577.7 million in 2010. Ecolab paid a full price for Nalco at 1.8 times annual revenues and 12 times Ebitda of the prior 12 months.

The Ecolab-Nalco merger and Basel, Switzerland-based **Lonza Group AG**’s acquisition of **Arch Chemicals Inc.** have drawn attention to the water-related industries as harboring other potential merger targets. The larger companies tend to be the water utilities, as most treatment companies have been acquired by larger players such as **General Electric Co.** and **Ashland Inc.**

The nearby table shows financial metrics of leading water utilities and one large water treatment company. The treatment

company is **Xylem Inc.**, which was spun off from **ITT Corp.** on Oct. 31, and trades under the ticker **XYL**.

Xylem had revenues of \$3.2 billion in 2010. For the first nine months of 2011, the White Plains, New York-based company reported revenues increased 22 percent to \$2.8 billion. Its net income declined 2.2 percent to \$227 million during that period. On a pro forma basis, Xylem reported EPS of \$1.23 in 2011’s first nine months, compared to \$1.26 in the comparable 2010 period. In 2011, the first nine months Ebitda was \$400 million, up 16 per cent from the comparable 2010 level.

Investors looking for a “pure play” in the water treatment industry may be interested in Xylem. Now that Nalco has been acquired, Xylem is the largest publicly traded water treatment supplier, and it claims to be “a leading water technology provider.”

The other four companies in the accompanying table are water utilities. Each company pays a cash dividend and all four utilities currently offer dividend yields exceeding 3.0 percent. In an environment where the 10-year Treasury bond is only yielding 2.0 percent, these 3.0 percent plus yields are relatively attractive. All four companies have achieved positive dividend growth rates of the past three years.

The largest company in the table is **American Water Works Co.**, which was a wholly owned affiliate of Germany’s **RWE AG** until its April 2008 public offering. The Voorhees, New Jersey-based company has raised its annual dividend from \$0.82 in 2009 to \$0.92 currently. The dividend

appears to be secure, since American Water issued EPS guidance of \$1.75 to \$1.82 when it reported third quarter 2011 operating results on Nov. 2.

The company has increased revenues every year since 2006 and is on pace to generate a 5 percent increase in 2011, based on results for the nine months ended Sept. 30. American Water benefits from its extensive water supply contracts and it operates the “largest seawater desalination plant in the country in Tampa, Florida.” Investors looking for a company with a strong, diversified presence in the U.S. water industry may well benefit from looking closely at **AWK** and its extensive operations.

The U.S. water industry is highly fragmented, with very few large participants. At the NYSSA 15th Annual Water Industry Conference on Dec. 1, water utility **Aqua America Inc.** indicated that there are 50,000 EPA-regulated water systems in the U.S., 85 per cent of which are municipal-owned. In that presentation, the Bryn Mawr, Pennsylvania-based company discussed the positive effect on the industry from natural gas fracturing, an extraction process heavily dependent on water usage and wastewater treatment.

The company is proud of its record, which includes 21 dividend increases in the past 20 years. It claims a 10-year dividend compound annual growth rate of 7.5 percent. Aqua America has increased Ebitda from \$150 million in 2000 to \$400 million in 2010.

The water utility group appears to offer steady earnings and dividend growth, along with the allure of energy-related prospects that were not available until recently. None of these four stocks will likely double in price over the short term, but they do offer attractive relative current income and a proven track record of stable earnings and dividends.

It is impossible to predict with confidence which companies will attract merger bids, but the water industry does appear to offer attractive candidates that could become targets, and we intend to watch the group closely.

Tom Burnett, CFA, is director of research at Wall Street Access. Linda Varoli, CFA, vice president of M&A Research at the firm, assisted with this report.

Water Utility/Treatment Companies

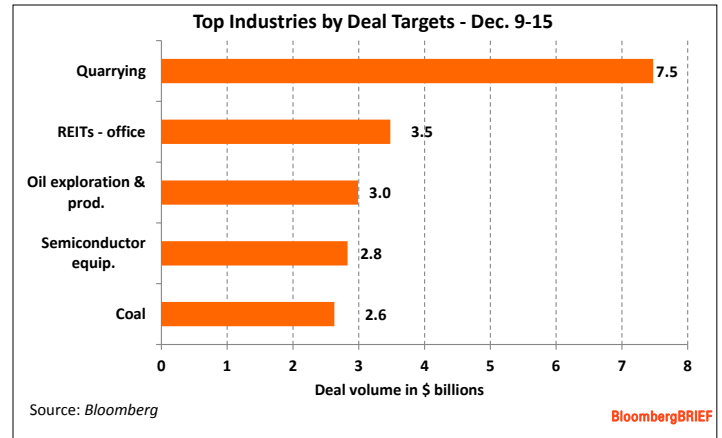
COMPANY	SYMBOL	RECENT PRICE	52-WEEK HIGH-LOW	DIVIDEND YIELD	MARKET CAPITALIZATION	ENTERPRISE VALUE
American Water Works	AWK	\$30.72	\$32-25	3.60%	\$5.4 billion	\$11.2 billion
Aqua America	WTR	\$21.30	\$24-19	3.10%	\$2.9 billion	\$4.5 billion
California Water Service	CWT	\$17.90	\$19-16	3.40%	\$0.8 billion	\$1.2 billion
American States Water	AWR	\$34.70	\$36-30	3.20%	\$0.6 billion	\$1.0 billion
Xylem Inc.	XYL	\$23.20	\$28-22	1.80%	\$4.2 billion	\$5.3 billion

Source: Company filings, Bloomberg LP

WEEKLY DEAL DATA

SUMMARY	TOTAL	PRIOR YEAR
Number of Deals	562	566
Volume	\$41.9 billion	\$48.7 billion
Average Disclosed Deal Size	\$145.3 million	\$145.1 million
Average Premium	26%	17%

DEAL TYPE	TOTAL	PRIOR YEAR
Company Takeover	\$28.3 billion	\$19.8 billion
Cross Border	\$10.5 billion	\$21.7 billion
Asset Sale	\$6.19 billion	\$7.41 billion
Private Equity	\$4.12 billion	\$5.61 billion
Leveraged Buyout	\$2.84 billion	\$1.06 billion



Top 25 Deals of the Week

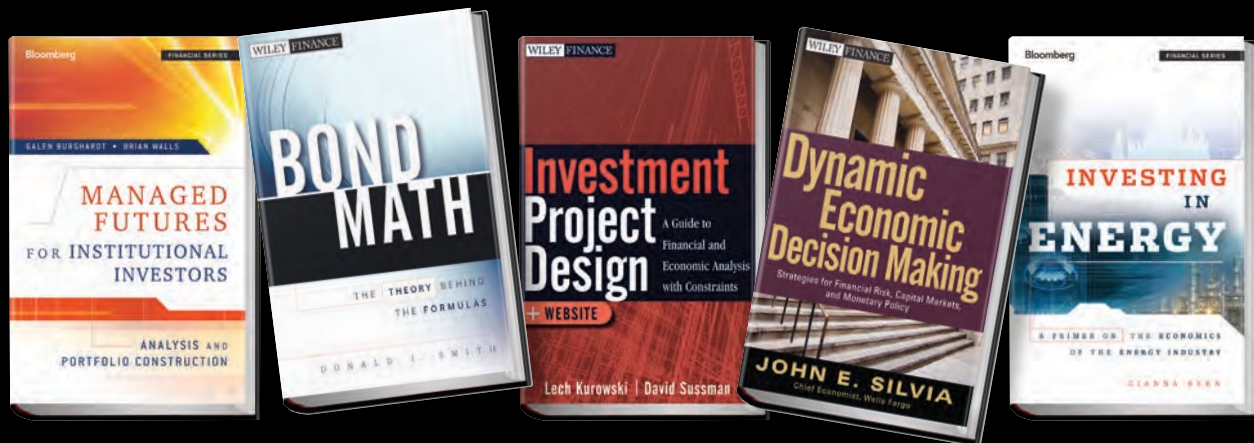
TARGET	INDUSTRY	COUNTRY	BUYER	% SOUGHT	ANNOUNCED TOTAL VALUE (\$ MIL)	TARGET PRICE/ EBITDA
Vulcan Materials Co.	Quarrying	U.S.	Martin Marietta Materials	100	7,474	16.4
Novellus Systems Inc.	Semiconductor equip.	U.S.	Lam Research Corp.	100	2,831	9.0
Silic	REITs - office property	France	ICADE	56	2,795	6.2
MarkWest Liberty Midstream & Resources	Oil exploration, product.	U.S.	MarkWest Energy Part.	49	2,064	-
Aston Resources Ltd	Coal	Australia	Whitehaven Coal Ltd.	100	1,990	-
Neuberger Berman Holdings LLC	Investment mgmt.	U.S.	Management Group	48	1,500	3.2
Maple Leaf Sports & Entertainment Ltd	Television	Canada	Multiple acquirers	75	1,295	-
KFC Holdings Malaysia Bhd	Restaurants	Malaysia	Massive Equity Sdn Bhd	100	1,023	-
Beverage business	Beverages	Saudi Arabia	Coca-Cola Co.	50	980	-
Blue Coat Systems Inc	Internet security	U.S.	Multiple acquirers	100	838	17.0
SonoSite Inc	Ultrasound imaging	U.S.	Fujifilm Holdings Corp.	100	803	22.2
QSR Brands Bhd	Restaurants	Malaysia	Massive Equity Sdn Bhd	100	724	-
FTSE International Ltd	Finance - other	U.S.	London Stock Exchange	50	702	-
Samsung Everland Inc	Resorts	South Korea	KCC Corp.	17	674	-
Guyenne et Gascogne SA	Food - retail	France	Carrefour SA	100	605	21.9
Silic	REITs - office	France	ICADE	38	591	6.2
Antucoya Project	Metal - copper	Chile	Marubeni Corp.	30	541	-
Boardwalk Resources Pty Ltd	Coal	Australia	Whitehaven Coal Ltd.	100	527	-
Towarzystwo Ubezpieczeniowe Europa	Multiline Insurance	Poland	HDI Haftpflichtverband	50	520	-
2,500 tower Sites	Cellular telecom	Mexico	American Tower Corp.	100	500	-
Red Desert complex	Oil exploration, product.	U.S.	Western Gas Partners LP	100	484	-
Bottling operations	Beverages - non-alcoholic	Mexico	Coca-Cola Femsa SAB de CV	100	481	-
Collins Stewart Hawkpoint PLC	Finance-Invest Bnkr/Brkr	Britain	Canaccord Financial Inc.	100	376	9.1
Bucyrus distribution business	Machinery - construction	U.S.	Sime Darby Bhd	100	360	-
2 office bldgs./Issy-Les-Moulineaux	Real estate mgmt.	France	Allianz SE	100	347	-

DEAL ARBITRAGE


TARGET	ACQUIRER	DEAL SIZE (\$M)	ANNOUNCED DATE	EXPECTED COMPLETION DATE	OFFER PER SHARE	ANNOUNCED PREMIUM IN %	LAST TARGET PRICE	CURRENT PREMIUM %	SPREAD	LAST SPREAD MOVE
Commercial Metals Co	Icahn Enterprises LP	2,570	11/28/11	01/10/12	15.00	17.94	13.87	8.15	1.13	-0.02
Complete Production Services Inc	Superior Energy Services Inc	3,357	10/10/11	12/31/11	31.71	59.26	31.45	0.83	0.26	0.07
Constellation Energy Group Inc	Exelon Corp	10,165	04/28/11	03/31/12	40.22	16.09	39.73	1.24	0.49	-0.48
Daylight Energy Ltd	Private	2,858	10/09/11	12/31/11	10.08	72.37	9.95	1.31	0.13	-0.02
El Paso Corp	Kinder Morgan Inc/Delaware	37,572	10/16/11	06/30/12	26.72	40.88	24.73	8.05	1.99	0.03
Goodrich Corp	United Technologies Corp	17,975	09/21/11	-	127.50	43.57	122.75	3.87	4.75	0.05
Healthspring Inc	Cigna Corp	3,803	10/24/11	06/30/12	55.00	45.15	54.45	1.01	0.55	0.00
Medco Health Solutions Inc	Express Scripts Inc	34,322	07/21/11	-	63.94	30.72	54.68	16.93	9.26	-0.12
Motorola Mobility Holdings Inc	Google Inc	9,813	08/15/11	-	40.00	72.94	38.80	3.09	1.20	-0.02
Netlogic Microsystems Inc	Broadcom Corp	3,397	09/12/11	06/30/12	50.00	68.82	49.50	1.01	0.50	0.00
Novellus Systems Inc	Lam Research Corp	2,831	12/14/11	06/30/12	40.69	32.57	40.37	0.80	0.32	-9.39
NYSE Euronext	Deutsche Boerse AG	9,532	02/15/11	-	26.61	8.10	26.45	0.59	0.16	0.49
Pharmasset Inc	Gilead Sciences Inc	10,606	11/21/11	01/12/12	137.00	93.92	127.79	7.21	9.21	0.10
Progress Energy Inc	Duke Energy Corp	25,531	01/10/11	12/31/11	54.97	6.13	53.75	2.26	1.22	1.18
Southern Union Co	Energy Transfer Equity LP	9,331	06/16/11	03/31/12	41.30	48.34	41.87	-1.37	-0.57	0.19
SuccessFactors Inc	SAP AG	3,276	12/03/11	03/31/12	40.00	53.94	39.73	0.68	0.27	0.05
Temple-Inland Inc	International Paper Co	4,276	06/06/11	03/31/12	32.00	37.19	31.75	0.79	0.25	0.00
TMX Group Inc	Multiple	3,732	05/13/11	01/31/12	50.00	24.77	41.61	20.16	8.39	1.73
Transatlantic Holdings Inc	Alleghany Corp	3,693	11/21/11	03/31/12	55.27	11.84	54.40	1.61	0.87	0.15
Vulcan Materials Co	Martin Marietta Materials Inc	7,474	12/12/11	05/18/12	36.76	17.14	38.68	-4.96	-1.92	0.33

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