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MID-YEAR INVESTMENT MANAGEMENT & SECURITIES INDUSTRY REVIEW

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THE DEALS KEEP COMING

THE CONTINUING MIX OF ABUNDANT CASH, STRONG PROFITS AND ATTRACTIVE BORROWING COSTS DROVE MERGERS AND ACQUISITIONS TO NEW HEIGHTS IN THE FIRST HALF OF THE YEAR, WITH THE WORLDWIDE VALUE OF ANNOUNCED DEALS JUMPING 44% OVER THE SAME PERIOD IN 2005 TO A STUNNING \$1.8 TRILLION, ACCORDING TO THOMSON FINANCIAL, AND EUROPE (\$718 BILLION IN DEALS) ECLIPSING THE U.S. (\$702 BILLION) IN THE VALUE OF DEALS.

Not coincidentally, investment-grade corporate borrowing rose 19% worldwide in the first quarter to \$513 billion, according to Dealogic, with a significant portion of that designed to finance deals. Cisco, for example, floated \$6.5 billion in bonds to facilitate its acquisition of Scientific Atlanta and Oracle \$5.8 billion for its purchase of Siebel Systems. Buyers were more willing to press resistant targets, too, as hostile bids jumped to the highest level (\$381 billion in the first half) in years.

Private equity firms, which last year accounted for 15% of acquisitions worldwide (by value) and raked in an estimated \$175 billion in new cash, continued to be active buyers in the first half of 2006, accounting for \$335 billion in deal value. That represented a 51%

increase over the same period in 2005, according to Dealogic. In Europe, the value of private equity deals reached \$43 billion in the first quarter, the second-highest total ever. In the U.S., private equity firms raised \$96 billion in the first

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half, a 43% increase over the same period in 2005, according to Dow Jones & Co. Among the notable U.S. deals involving these players was **Blackstone's** acquisition, with **Brookfield Properties**, of **Trizec Properties**, at \$8.9 billion the largest-ever real estate transaction involving private equity. Separately, Blackstone attracted more than \$15 billion for what turned out to be the largest private equity fund on record.

The management buyout sector also took flight, led by Kinder Morgan's proposed record \$13.5 billion buyout. In the first half of 2006 alone, the value of MBOs (\$60 billion) was two to five times the value in any comparable period since 2000. Notably, **Kohlberg Kravis Roberts & Co.** raised \$5 billion via the IPO of a private equity fund listed on the Amsterdam stock exchange, while **Lehman Brothers** is reportedly raising \$1 billion for its own buyout fund.