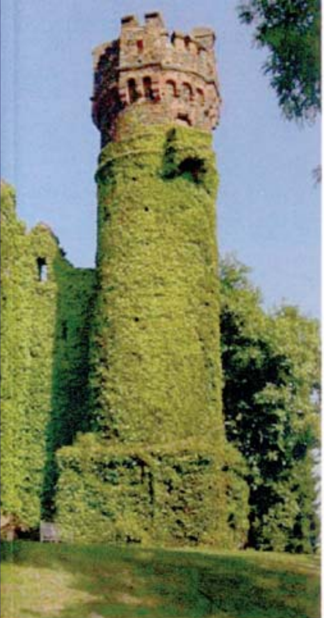

Rheingauer Monographien

Dirk Schiereck / Christof Sigl-Grüb / Christian Voigt (Editors)

The German Brewing Industry

EUROPEAN BUSINESS SCHOOL
International University Schloß Reichartshausen

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Preface

Although scientific research on mergers and acquisitions is exuberant, comparably little can be found on M&A activities focusing on specific industries. This book is one of the few M&A books concentrating on one single industry and its special regularities, value drivers and merger motives. But this is only one of the reasons for presenting this collection of articles. This book is first and foremost a documentation of a project course that brought together research and teaching more closely. It gives graduate students at the European Business School the opportunity to gain insights and practical experience in scientific research.

The book is a compilation of articles which emerged from the 'Project Course M&A – the German Brewing Industry' in the summer term 2005, a course offered to 8th semester students at the European Business School. The design of this project course has a special character. Departing from a single industry, students are asked to filter and elaborate on relevant aspects of finance related to M&A activities in this industry. In the course of their examinations they do not only have to bring their results in paper form but also present it and discuss it with their fellows as well.

The industry which was chosen for the 2005 course is the German brewing industry. The reasons why its respective companies are appreciative study objects are manifold:

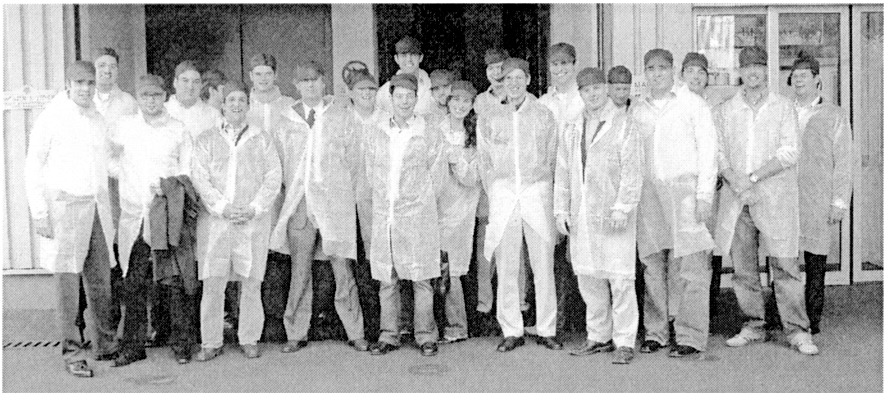
- Over the last decade, quite a big number of take-overs have changed this industry irreversibly. Big international players emerged from this consolidation process. The number of deals is exuberant.
- Still, the branch as a whole is in a deep flux. Decreasing sales volumes and revenues and changing markets demand a high degree of flexibility and efficiency from producers, providing the ground for further activities in the field of M&A.

- Particularly the German brewing industry is still quite fragmented with a great number of historically grown companies with a strong regional focus.
- With respect to newly opening Eastern markets, Germany plays an important role as a basis from which Eastern markets are entered due to its geographical location.
- The large number of exchange listed firms provide a stable basis for drawing empirical inferences.

Due to the underlying concept, the articles in this book cover a wide range of M&A-related topics. Starting with descriptive issues of brewing companies and deals, continuing with an empirical evaluation of trading and transaction valuation of aquirers and targets, going further to the issue of constructing industry indices and finally widening the focus to Central and Eastern European beer markets, this book provides insights into an industry which can hardly be found in one single source and in this compactness. On top, insights on depicted transactions are provided in the form of case studies.

Oestrich-Winkel,
December 2005

Dirk Schiereck
Christof Sigl-Grüb
Christian Voigt



The participants of the 'Project Course M&A – The German Brewing Industry' visiting the Radeberger brewing plant in Frankfurt.

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A Case Study: The Acquisition of Holsten Brauerei AG by Carlsberg A/S

by
Jochen Gast and Christian Johansson

1 Introduction

In recent years, the German brewing industry has seen tremendous changes. Big international brewery groups have discovered their interest in the German market, which is, even though shrinking, the third largest beer market in the world. To enter this heavily fragmented and regionalized market, foreign corporations have launched a series of acquisitions racing for the best pieces of the German beer-cake. One of the most spectacular take-overs of the recent past was the acquisition of Holsten, the second biggest German brewery group, by Carlsberg, the Danish beer-multi in January 2004. In the following, after having introduced both main actors, we will explain the details of this deal and the strategic rational behind it as well as the risks inherent in the deal. We will furthermore describe the market's reaction to the take-over and, as far as it is already recognizable, evaluate the acquisition's success.

2 The Main Characters

2.1 Facts and Figures

The Carlsberg brewery was founded in 1847 near Copenhagen, Denmark. Since then it has become the fifth biggest brewery group in the world producing in 40 countries and selling beer for more than € 4.5b in 140 countries each year. In addition to beer, the 31.375 Carlsberg employees produce and sell sodas and water, which together sum up to about one fifth of Carlsberg's production volume. Naturally, Carlsberg's core market can be found in Northern Europe, but the group is also active throughout all of Western and Eastern Europe as well as in Asia.[1]

Holsten, on the other side, sells more than 80% of its output within Germany, especially in the northern and eastern federal states. It was founded in 1879 in Altona near Hamburg and, just like Carlsberg, produces and sells beer, soft drinks and water. Before the take-over, the Holsten AG was Germany's second biggest brewery group. Nevertheless, it then only employed 2.840 people and had less than one fifth of Carlsberg's market capitalisation. Therefore, we can state that in this case presented, Carlsberg, a big multinational corporation, acquired the much smaller national player Holsten.[2]

Chart 1: Comparison of Carlsberg and Holsten (figures as of end 2003)

	Carlsberg	Holsten
Turnover (in mio. EUR)	4.657	752
Sales – Beer (in mio. hl)	81,4	9,1
Sales – Soft Drinks (in mio. hl)	21,2	3,8
Earnings (in mio. EUR)	203	6,7
Market Capitalization (in mio. EUR)	2.112	367
Employees	31.375	2.840

Source: Own depiction based on Carlsberg (2005), p. 4; Holsten (2004), p. 1, 3.

2.2 Holsten – Background and History

The year 2003 did not start well for Holsten. The new German regulation about can deposits, which became active on January 1st, nearly wiped out the can market segment completely, an area that used to be a traditional strength of the Holsten group.[3] Because management had missed to prepare properly for this important shift in market conditions, Holsten lost about 8.5% of its revenues within the first

[1] Cf. Carlsberg (2005a), p. 1.
[2] Cf. Holsten (2005b).
[3] Cf. CSFB Research (2003), p. 11f.

half of 2003. A new strategy that would allow regaining the lost market share quickly was not in sight.[4]

In this situation, Christian Eisenbeiss, so far the owner of a 34% stake in Holsten and chairman of the supervisory board acquired a 14.37 % package from Commerzbank, which gave him control over 49.37% of Holsten's shares. Rumors hold that the intention behind this deal was to gain a majority position in Holsten, which now could more easily be sold to strategic investors with an interest in acquiring the German brewery. Even though Eisenbeiss made publicly clear that he was not interested in selling Holsten, speculations thrived leading to a rise in share prices from € 20 in February to around € 35 in June (see Chart 2). [5]

On July 17th Eisenbeiss finally announced that he planned to sell his 49,37% stake. Holsten's management immediately started to search for a strategic investor that would take the majority position in the brewery group. During the following months, several big multinational breweries were discussed as potential buyers, which made the share price rise to around € 50 each.[6]

In September, the full extent of the decline in sales caused by the can deposit problem became public, and still no workable growth strategy seemed to be in place. So far, no strategic investor could be found and because of the newly published bad figures a successful search seemed more and more unrealistic. Share prices started to fall again and finally, on December 10th, Holsten's management announced the end of the search for an investor, thereby causing stock prices to fall below € 25.[7]

Only 40 days later, on January 20th 2004, Carlsberg suddenly announced that it would buy 51% of Holsten's shares including the 49,37% of C. Eisenbeiss. Furthermore, Carlsberg offered the remaining shareholders to buy their stocks for

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[4] Cf. Holsten (2003), S. 2.
[5] Cf. Hönighaus (2003).
[6] Cf. Fischer (2003).
[7] Cf. Rössig (2003).