

The renaissance of rights issues

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A Passion to Perform.

Deutsche Bank





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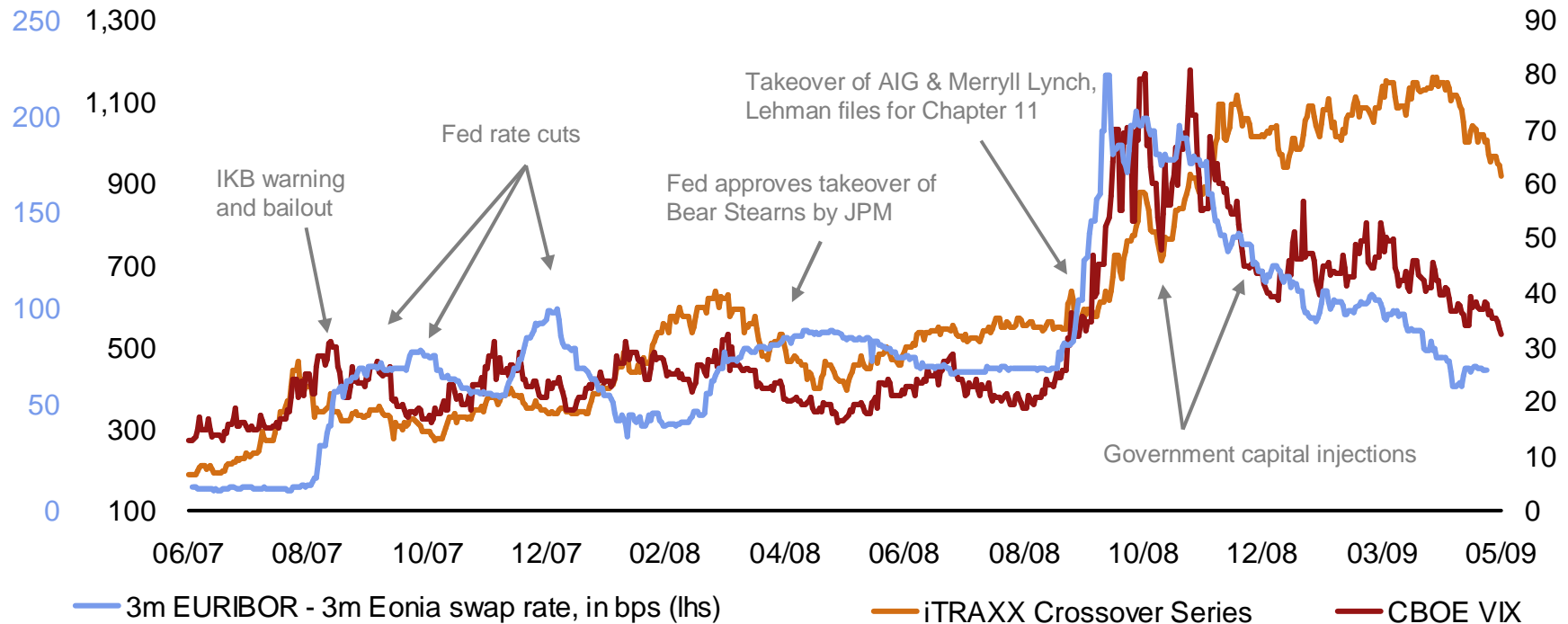
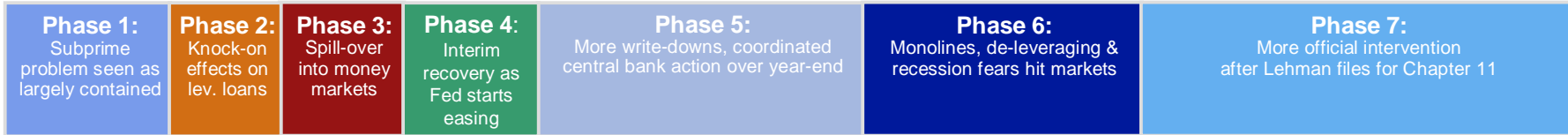
Equity issuance environment

Section 1



Escalation of the financial crisis

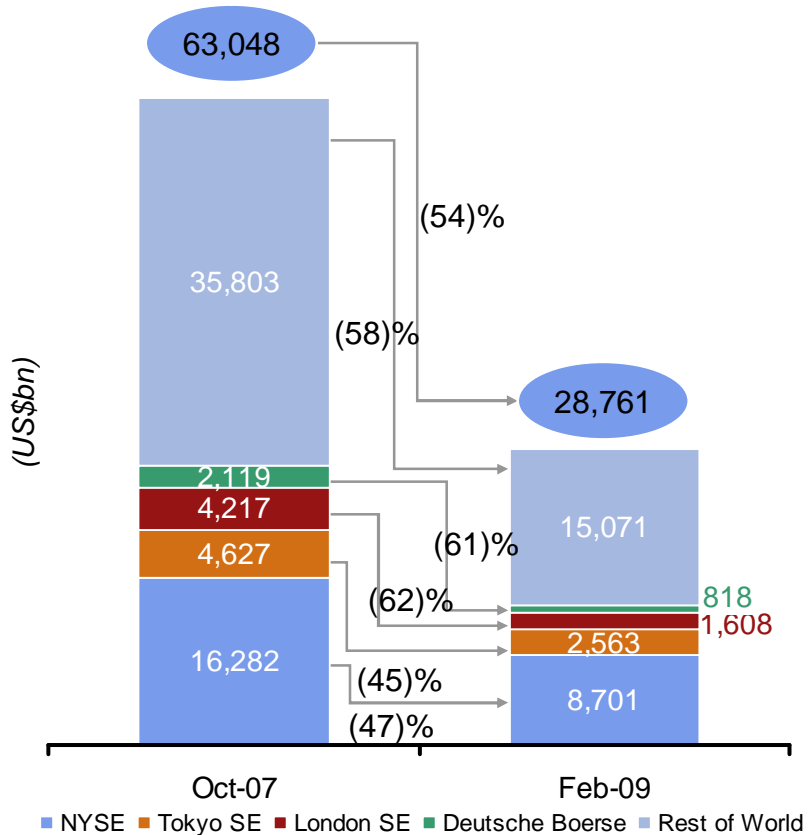
Crisis takes longer than anticipated and has escalated since Lehman's collapse



Source: Bloomberg, Deutsche Bank Global Markets, Deutsche Bank Research
 *iTraxx Europe Crossover, 5-year, series 10/9/8/7

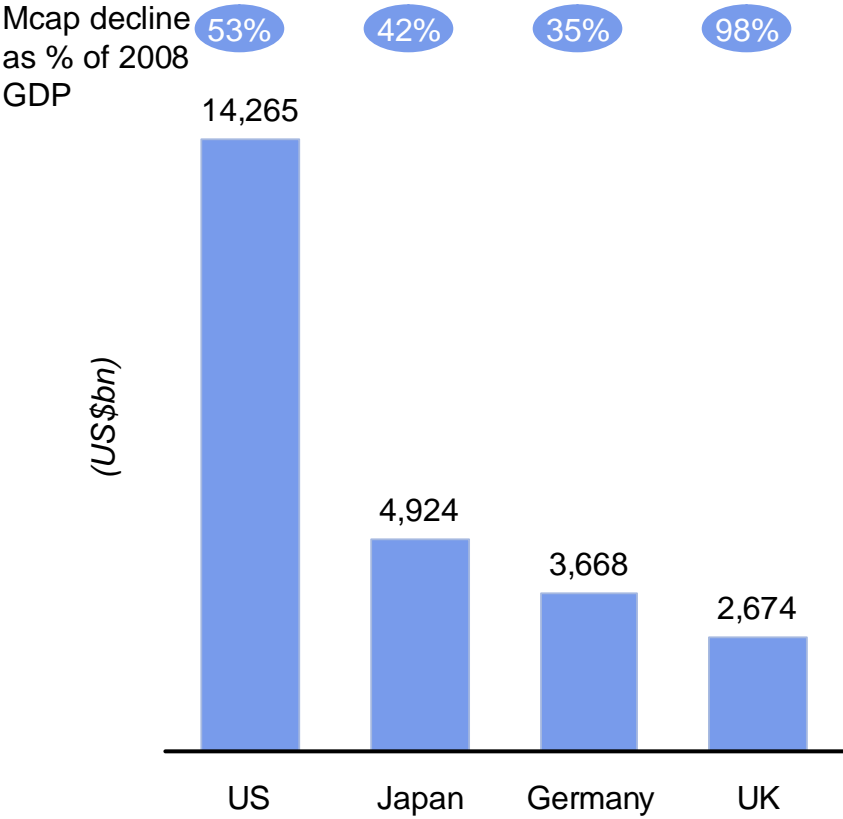
Equity markets sell off

Development of market capitalisation (US\$bn)



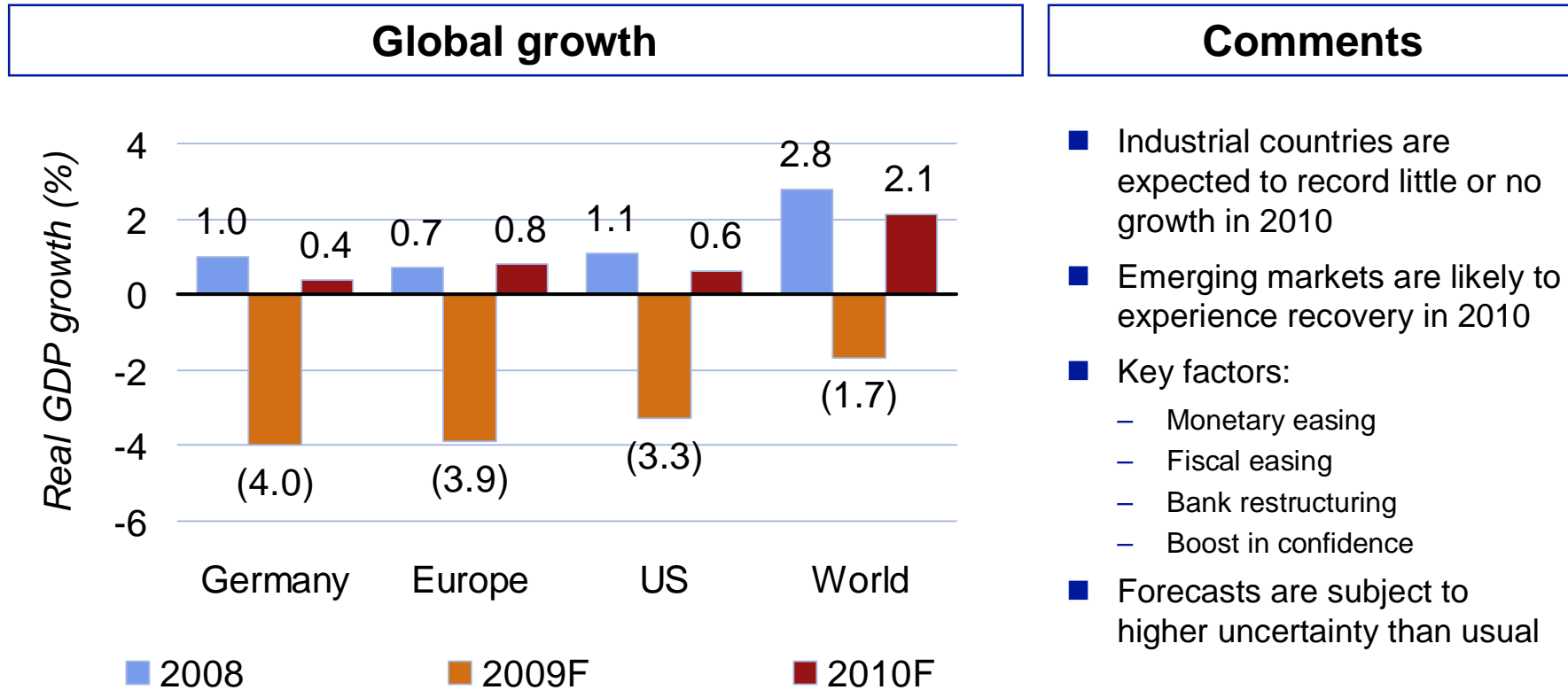
Source: World Federation of Exchange members, Deutsche Bank analysis

Equity loss in relation to GDP



Source: International Monetary Fund

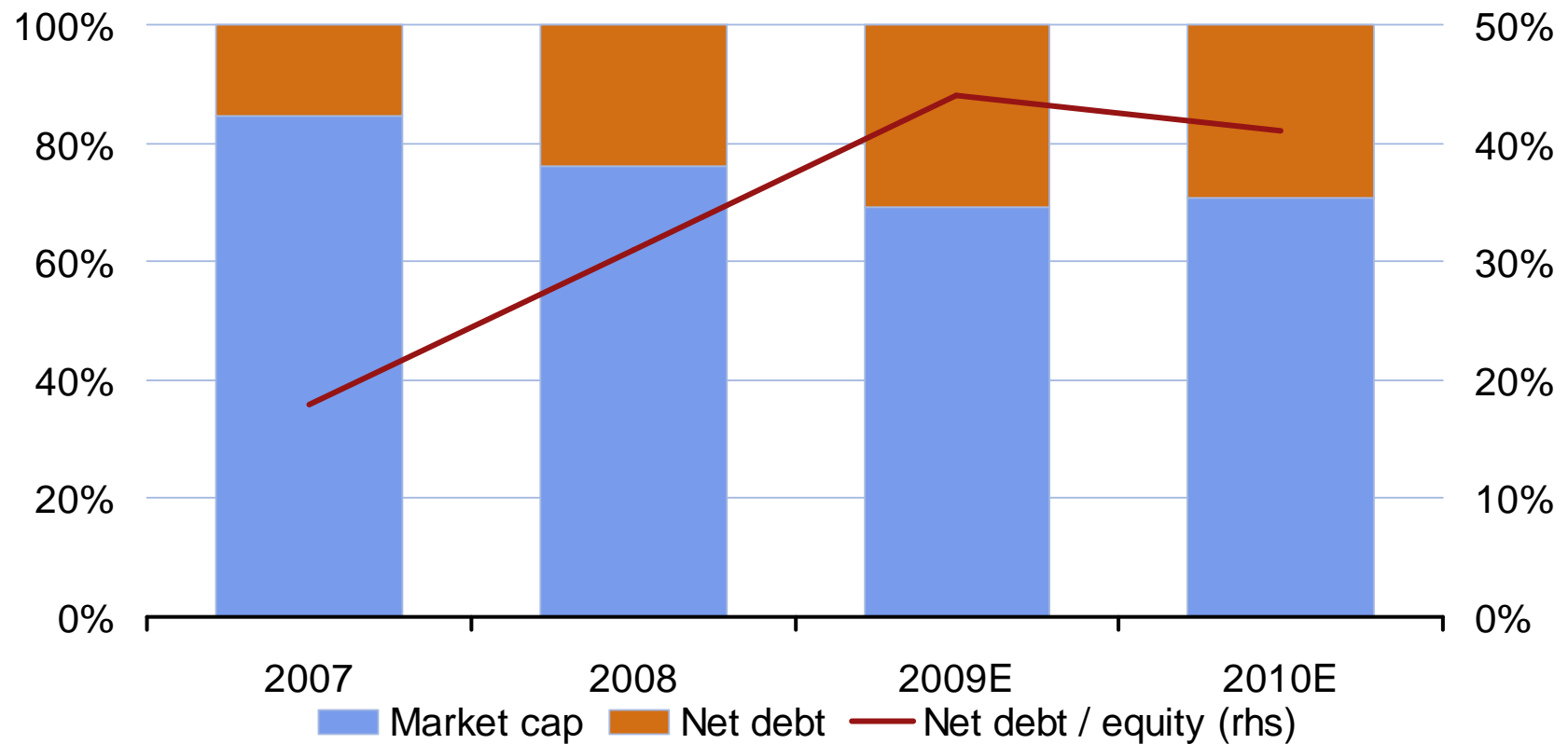
Macro environment not likely to recover soon



Source: Deutsche Bank Global Markets Research

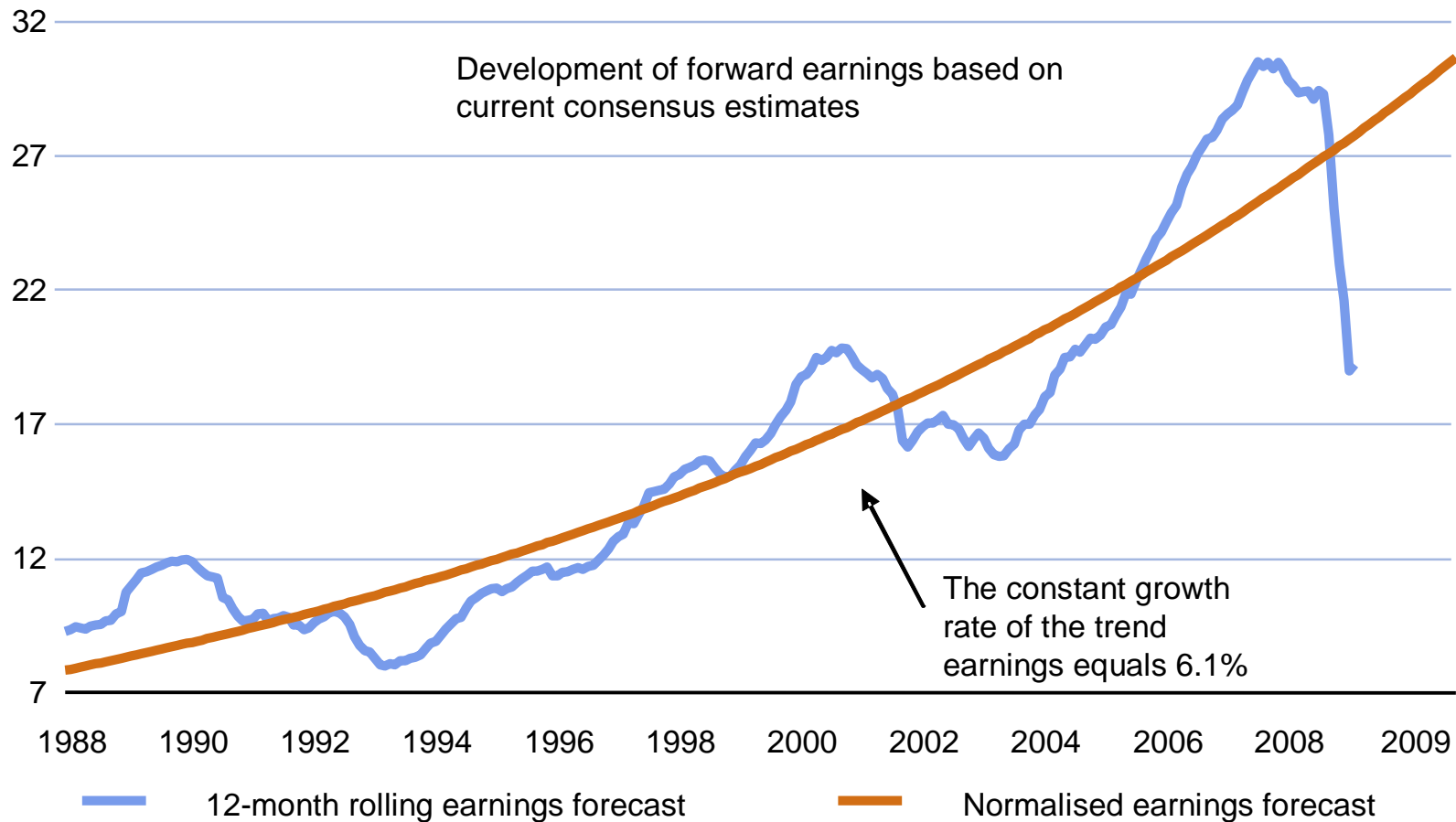
Falling equity markets cause leverage to rise

Enterprise value composition DAX Industrial



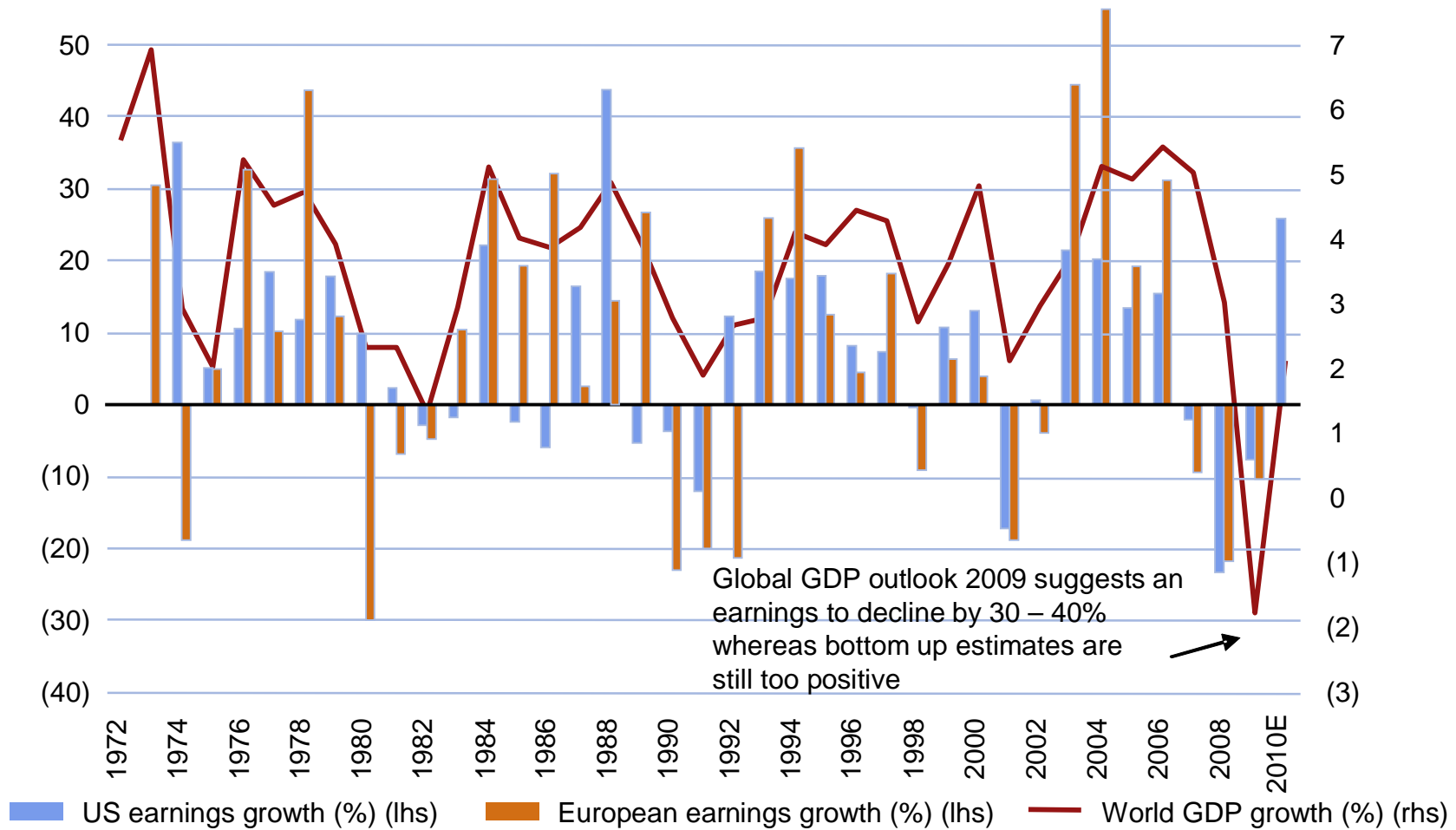
Source: Deutsche Bank Global Markets Research

How long will European earnings continue to decline and is there a chance to recover to the longer trend?



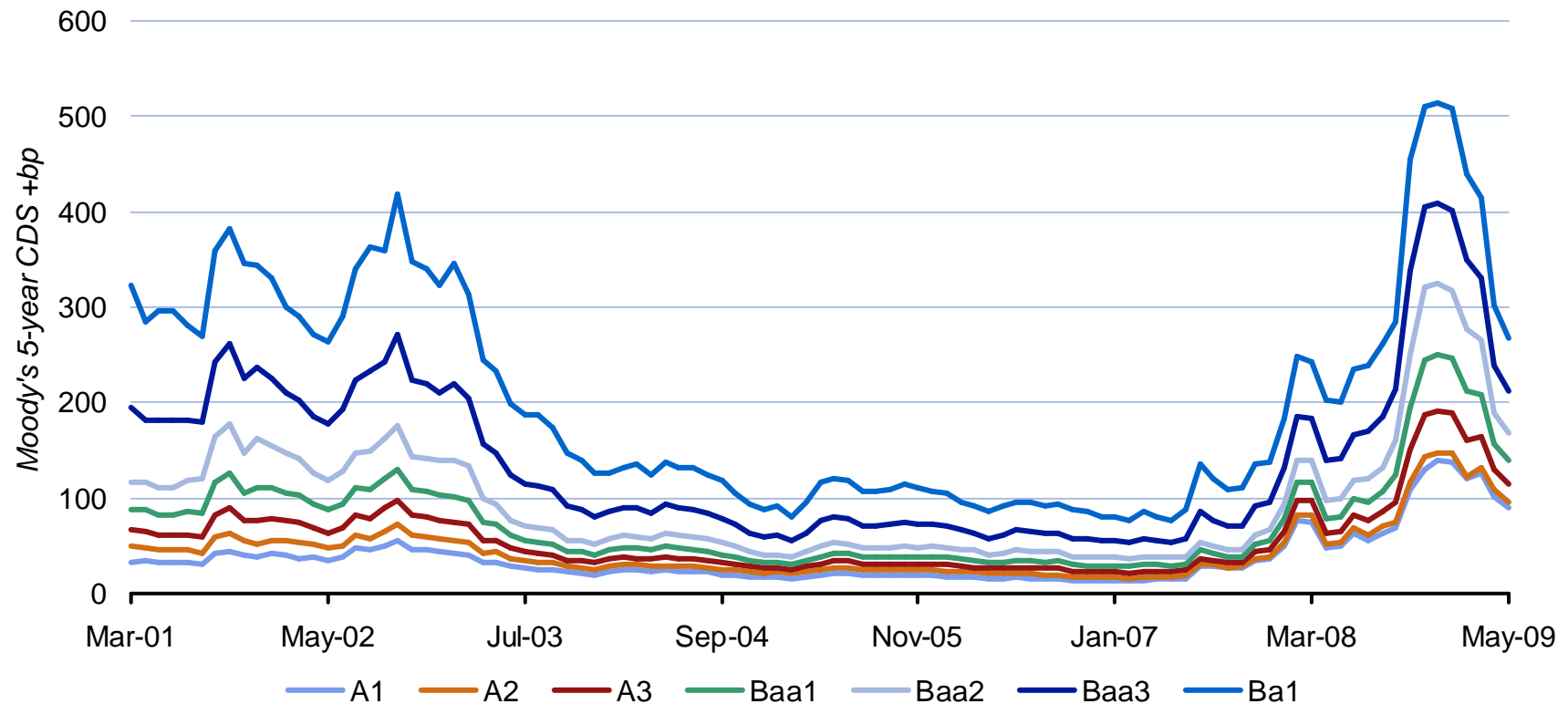
Sources: IBES, Deutsche Bank Global Markets Research

Global GDP decline 2009 by 1.7% for 2009E means earnings should decline by 30 – 40%



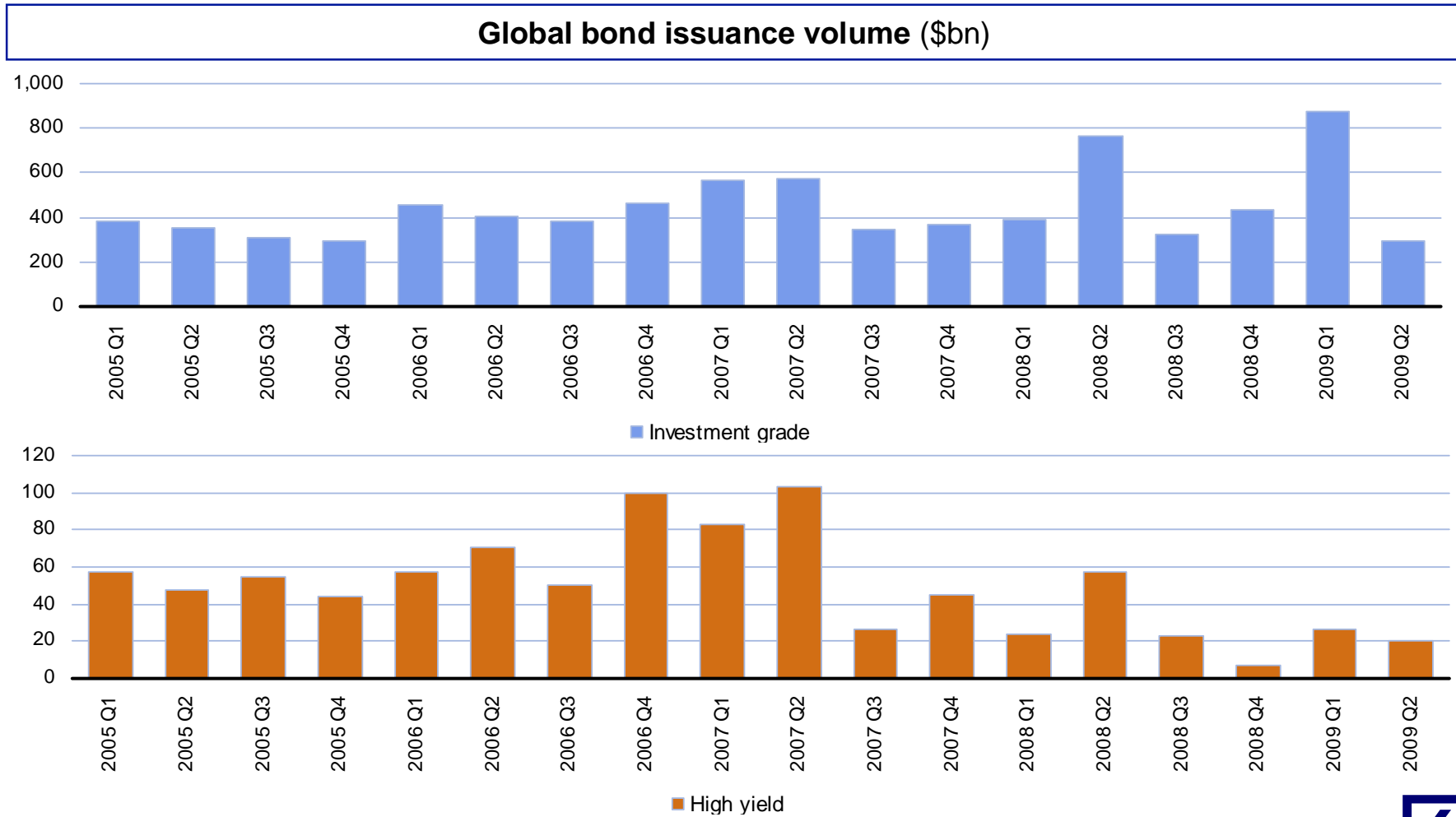
Source: Thomson Financial IBES, Deutsche Bank Global Markets Research

Wide credit spreads reflect increased default risk



Source: Moody's

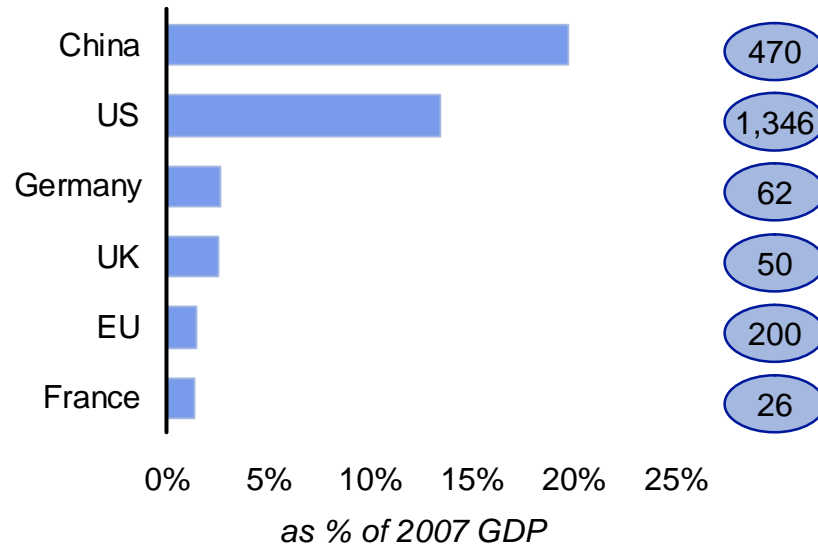
Access to liquidity is limited for leveraged corporates



Source: Dealogic

Government stimulus programs support for economy, but will lead to major increase in sovereign debt

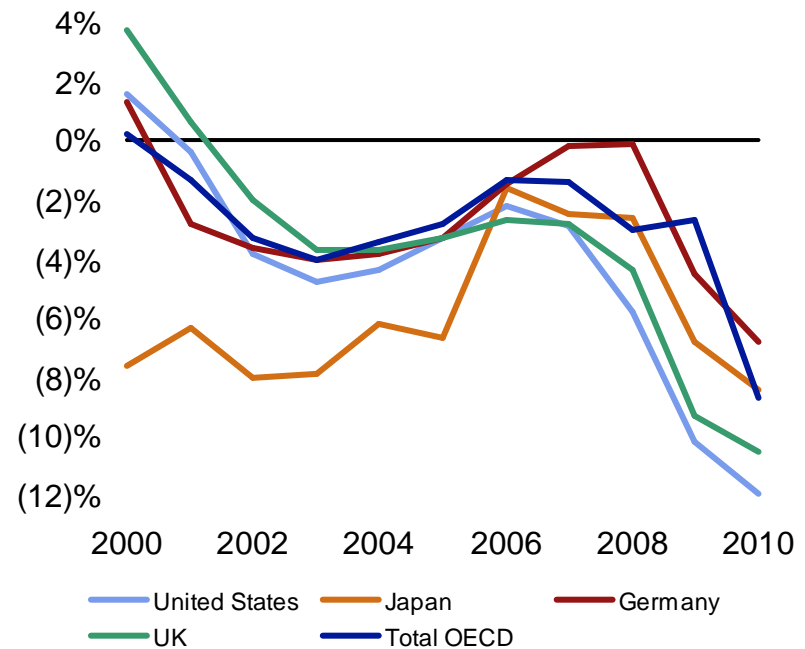
Government stimulus programs (€bn)



- Total of €2,154bn in stimulus packages announced
- Focus on infrastructure, construction, automobile and SME and consumer in general

Source: European Central Bank, Deutsche Bank

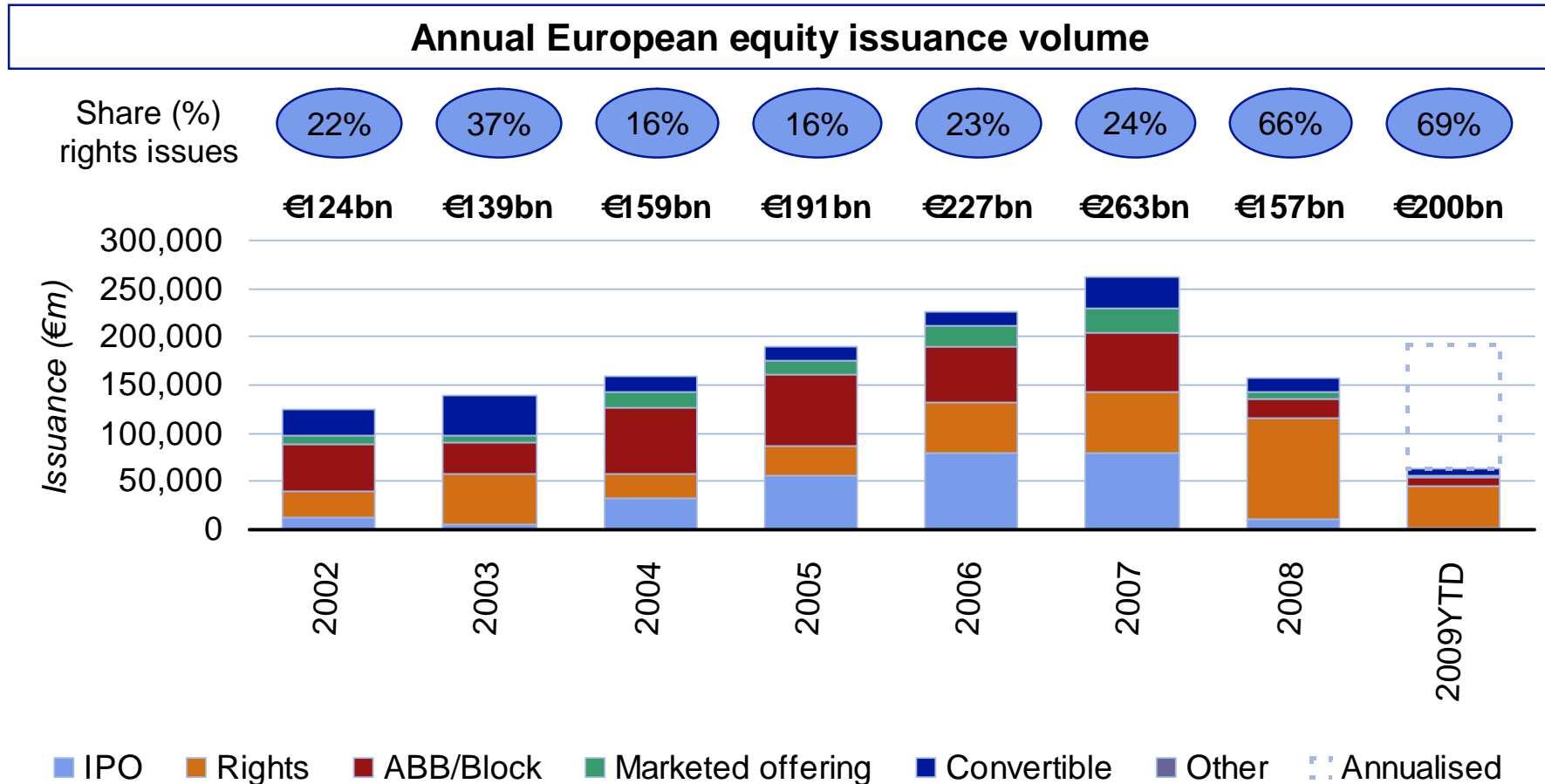
General government financial imbalance



Note: Surplus/(deficit) as a percentage of nominal GDP
Source: OECD economic outlook

Who will buy the bonds?

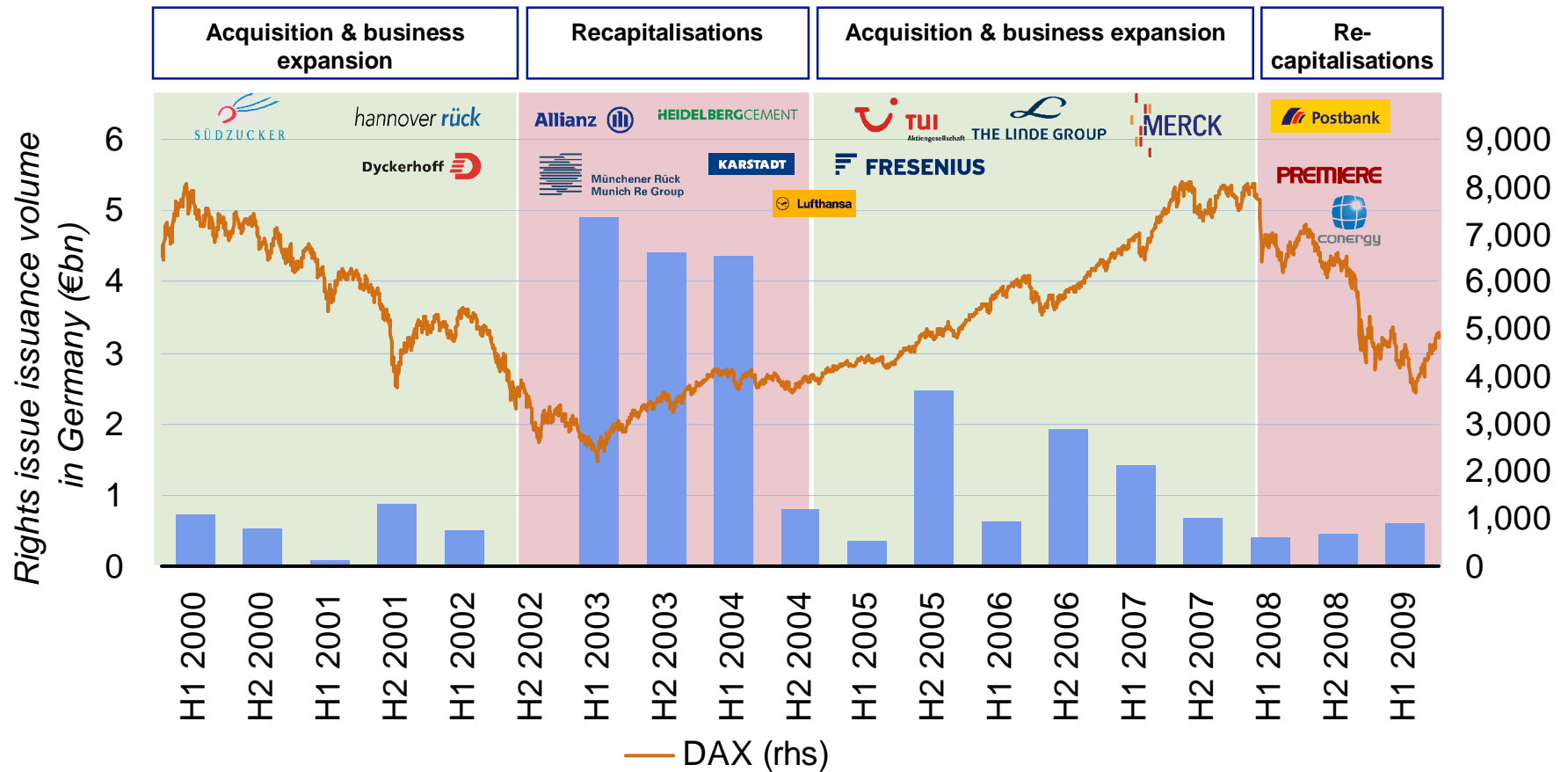
Equity placement activity in Europe dominated by rights issues 2009YTD



Note: Total deal value in Europe; excluding government recapitalisations
 Source: Dealogic

Rationale for rights issues change over time

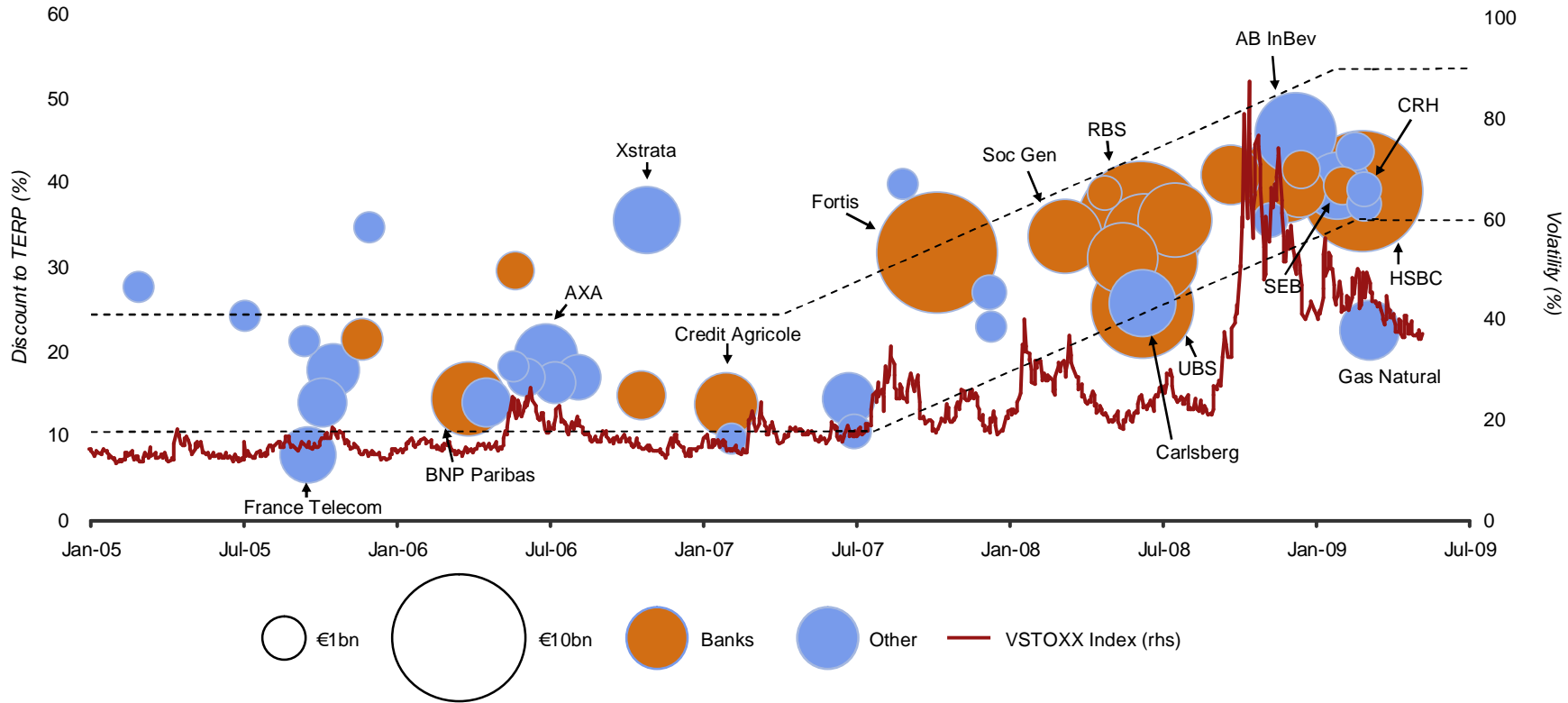
New wave of restructuring rights issues likely to evolve in Germany in H2 2009



Source: Dealogic

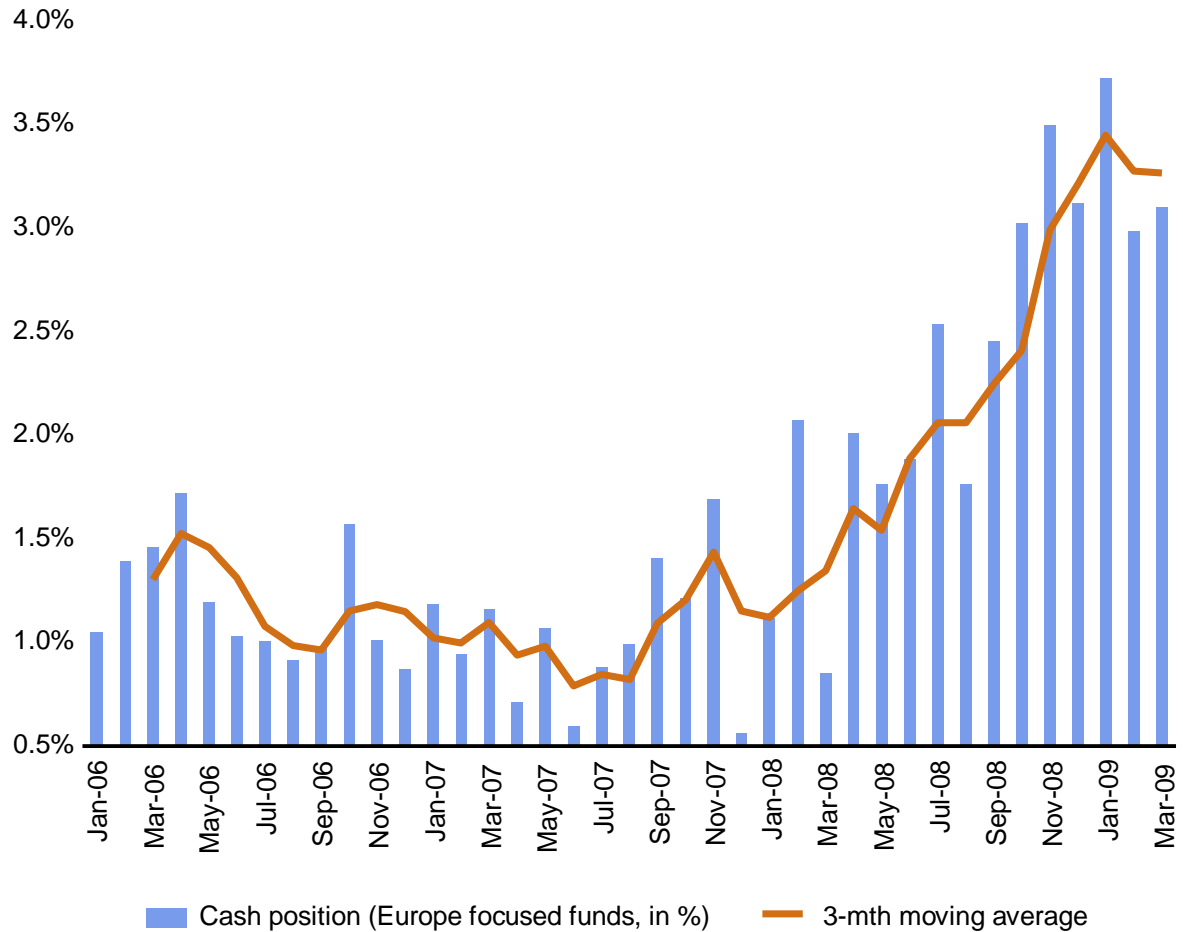
Larger TERP discounts reflect the increased volatility

European rights issues since January 2005 greater than €1bn^(a)



(a) Excludes Greece and Austria
Source: Dealogic, Bloomberg

Investors still hold high cash positions and are looking to put these to work



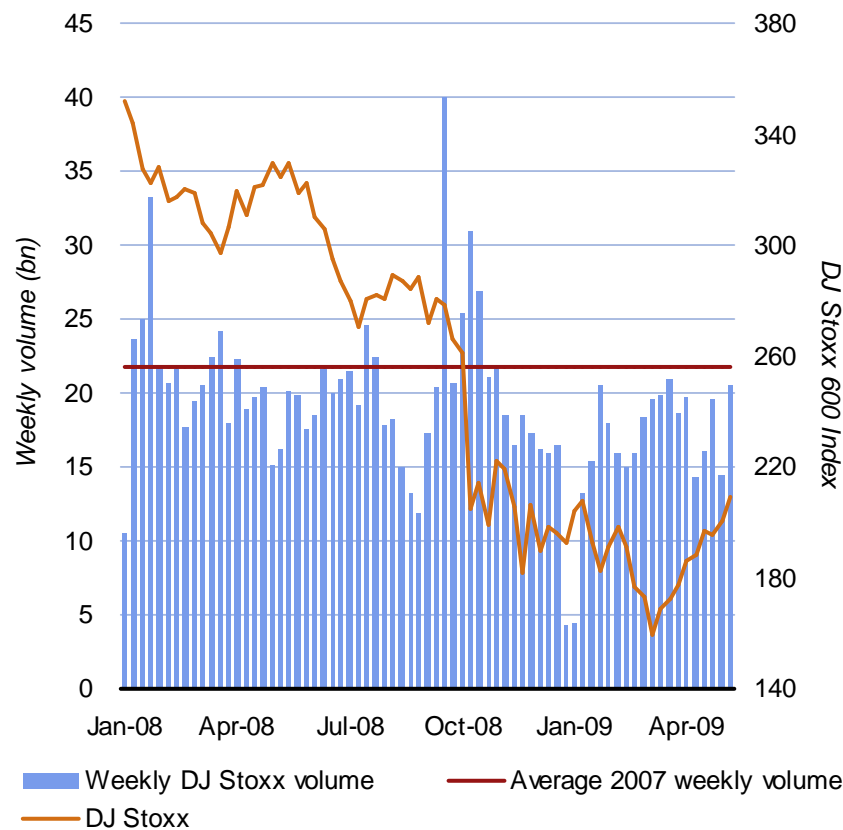
Comments

- Hedge funds are sitting on approx US\$300bn of cash
- Approx US\$80bn of this is expected to be put to work within the next 6 months
- Consistent with the rally in stock markets in March/April the cash positions dropped slightly but still remain at elevated levels

Source: EPFR, Deutsche Bank calculations

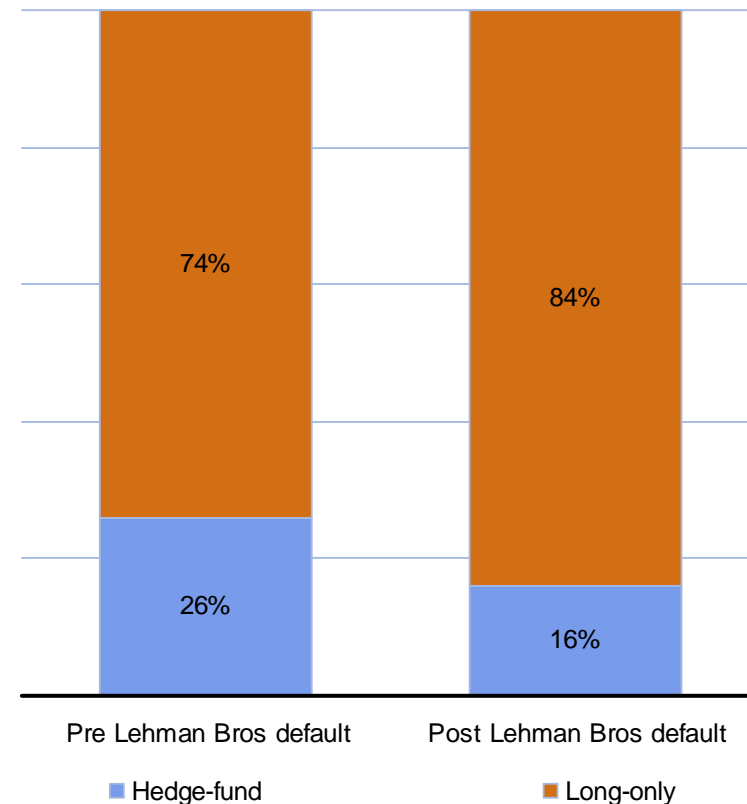
Changed trading patterns leading to different investor communication approach

Low trading volume



Source: Bloomberg

Reduced hedge fund activity



Note: Trading split of current DAX companies via Deutsche Bank

Source: Deutsche Bank

Distribution of risk is a core element of deal execution

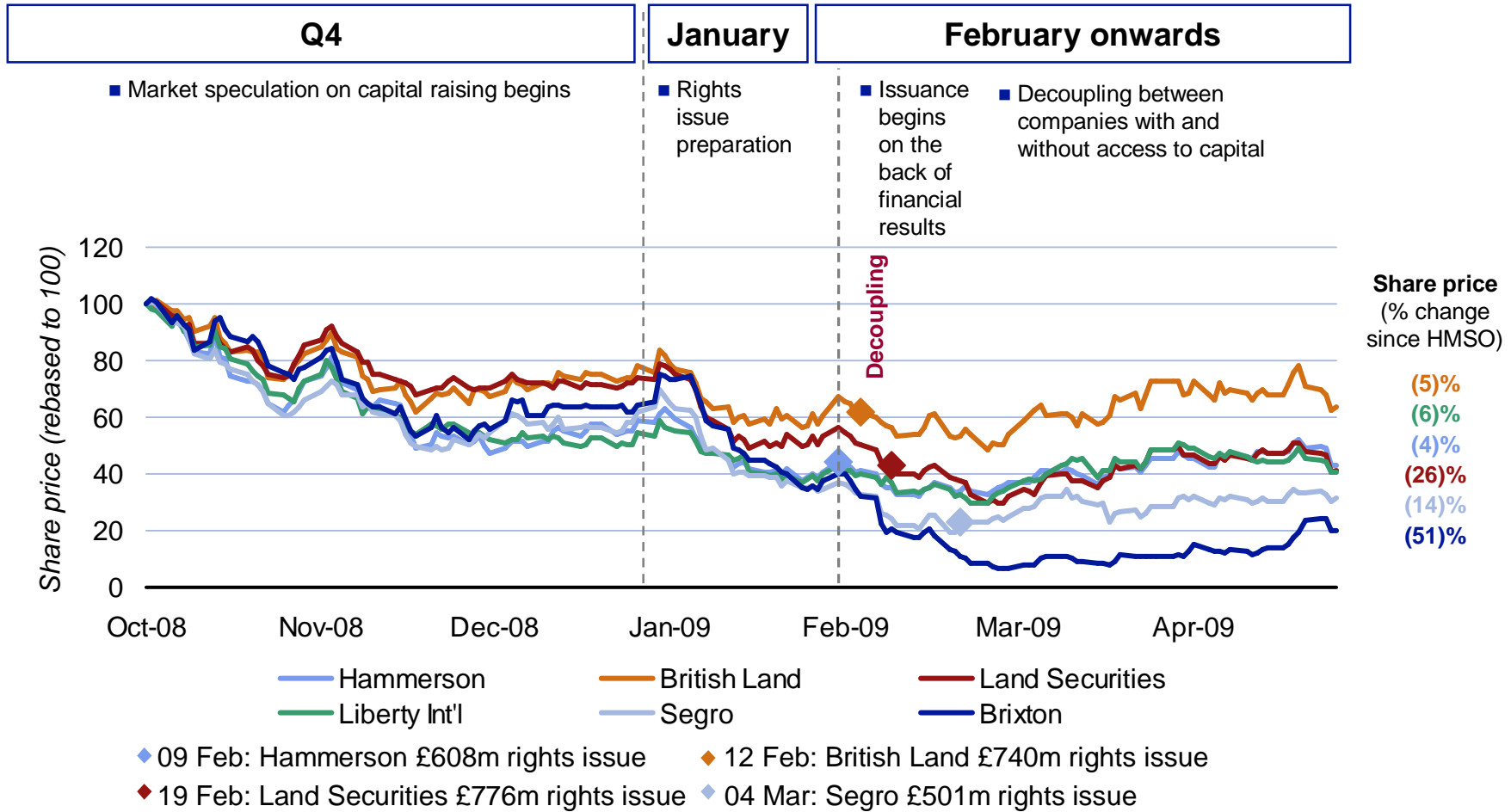
- The vast majority of recent equity transactions have incorporated extensive pre marketing
 - securing the support of major shareholders is critical to the success of deals
- Shareholder sub-underwriting is becoming increasingly common across Europe
- Confidential investor briefings generally take place 2 – 3 days ahead of launch with demand indications required prior to launch

Selected transactions where major shareholders have acted as underwriters

Issuer	Offer size (€m)	Country	Major shareholder underwriters	% underwritten by shareholders
Xstrata	4,700	UK	Glencore	35%
Gas Natural	3,500	Spain	Repsol and Criteria Caixacorp	67%
Snam Rete Gas	3,500	Italy	Eni	55%
Nordea	2,500	Sweden	Government, Sampo, Nordea Foundation	36%
SEB	1,397	Sweden	Investor AB Other institutions	24% 27%
Emporiki	850	Greece	Credit Agricole	100%
British Land	782	UK	GIC	34%
Faurecia	455	France	Peugeot	71%
Premiere	412	Germany	NewCorp	100%
Colt Telecom	201	UK	Fidelity	100%

Anatomy of a rights issue

The benefit of being a first-mover



Source: Bloomberg

Section 2

Rights issue mechanics in Germany



Equity financing alternatives

		Description
Non-preemptive capital increase	Private placement	<ul style="list-style-type: none"> ■ Capital increase without subscription rights ■ Anchor investor invests larger stake via capital increase in cash or in kind
	Block trade	<ul style="list-style-type: none"> ■ Capital increase without subscription rights ■ Accelerated bookbuilding to limit market risk
Pre-emptive rights	Rights issue	<ul style="list-style-type: none"> ■ Capital increase with pre-emptive rights ■ Existing shareholders can either subscribe to the capital increase or monetise their rights
Equity-linked instruments	Convertible	<ul style="list-style-type: none"> ■ Bond with an embedded call option on the issuer's equity providing investors with the right to convert into shares of the issuer (usually no equity credit)
	Mandatory convertible	<ul style="list-style-type: none"> ■ Bond that mandatorily converts into shares at maturity

Capital authorisations and direct resolution

Authorised capital

- Authorisation approved by AGM or EGM for max five years
- In cash or in kind
- Subscription rights exclusion of max 10% of share capital (§186 III AktG)
- Max 50% of share capital (25% of market capitalisation assuming a 50% nominal discount)

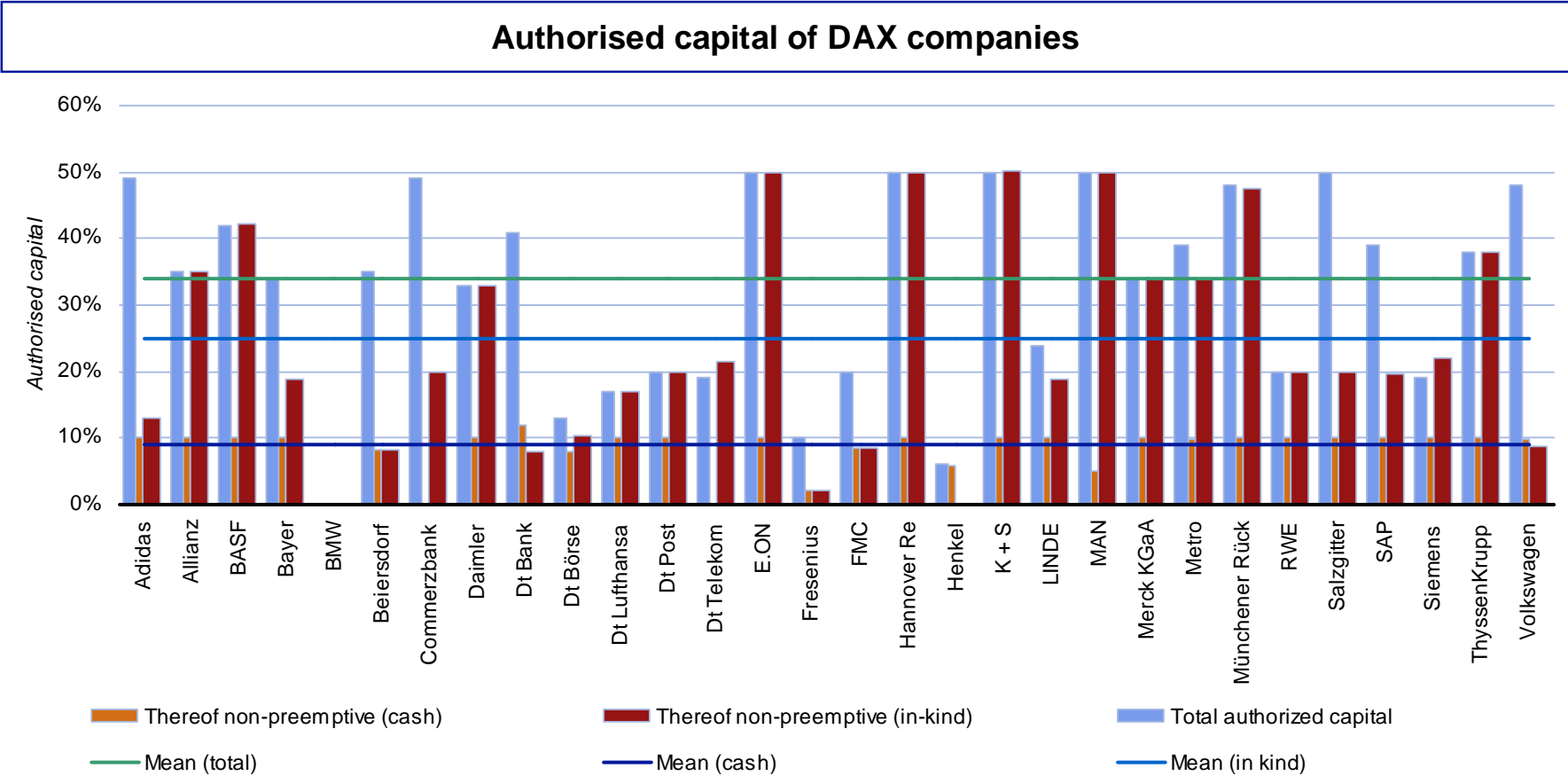
Conditional capital

- Authorisation approved by AGM or EGM for max five years
- Convertibles and employee participation programmes
- Subscription rights exclusion of max 10% of share capital (§186 III AktG)
- Max 50% of share capital (25% of market capitalisation assuming a 50% nominal discount)

Direct resolution (‘Direktbeschluss’)

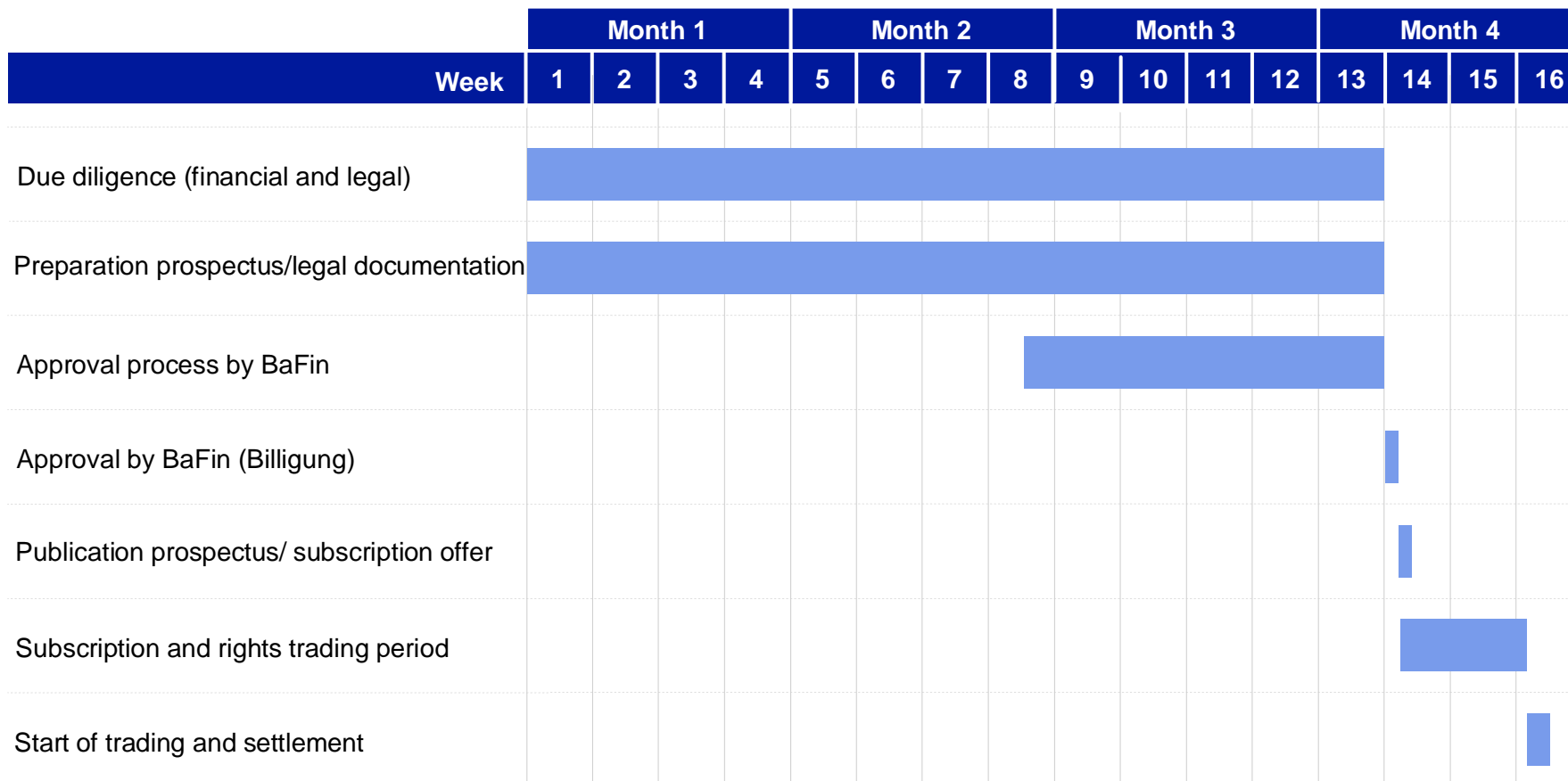
- Capital increase approved by AGM or EGM
- Authorisation valid for max 6 months
- No limit in size

German corporates filling authorisations

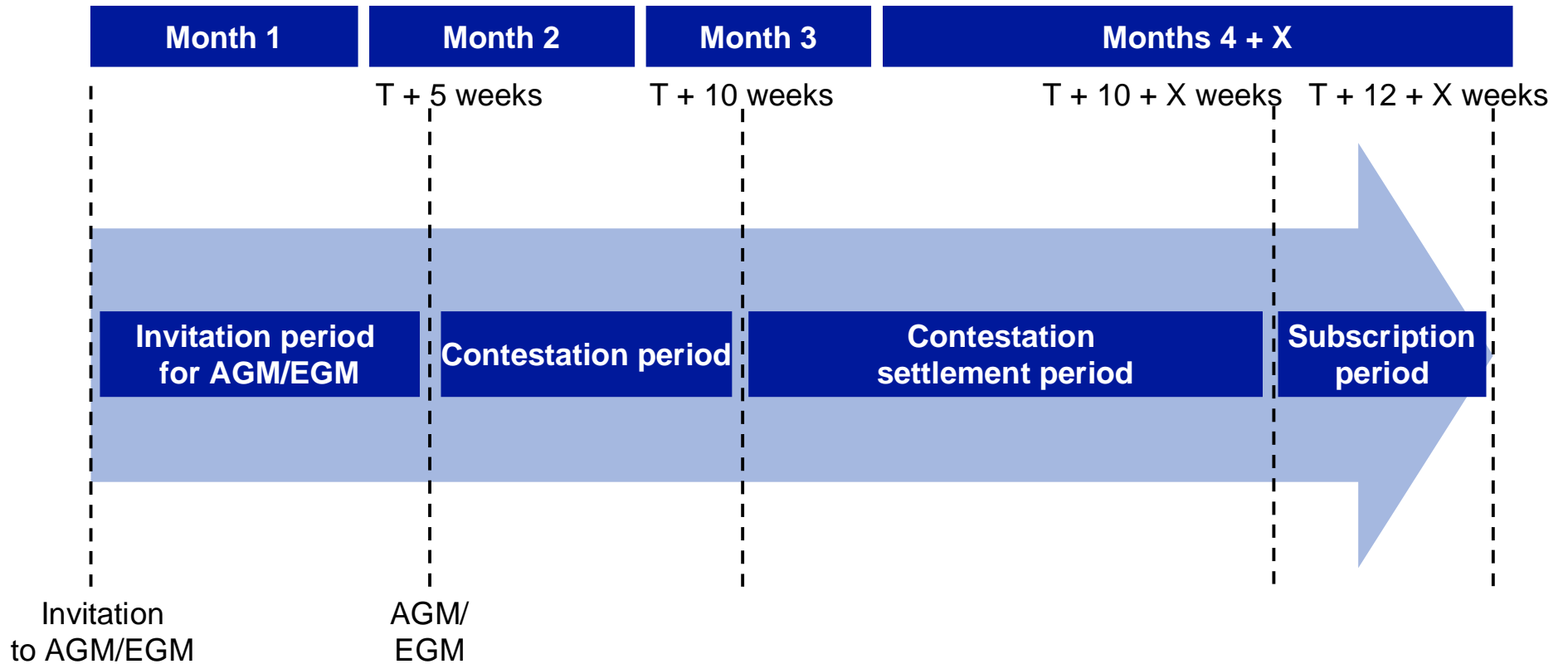


Note: Authorised capital as % of share capital

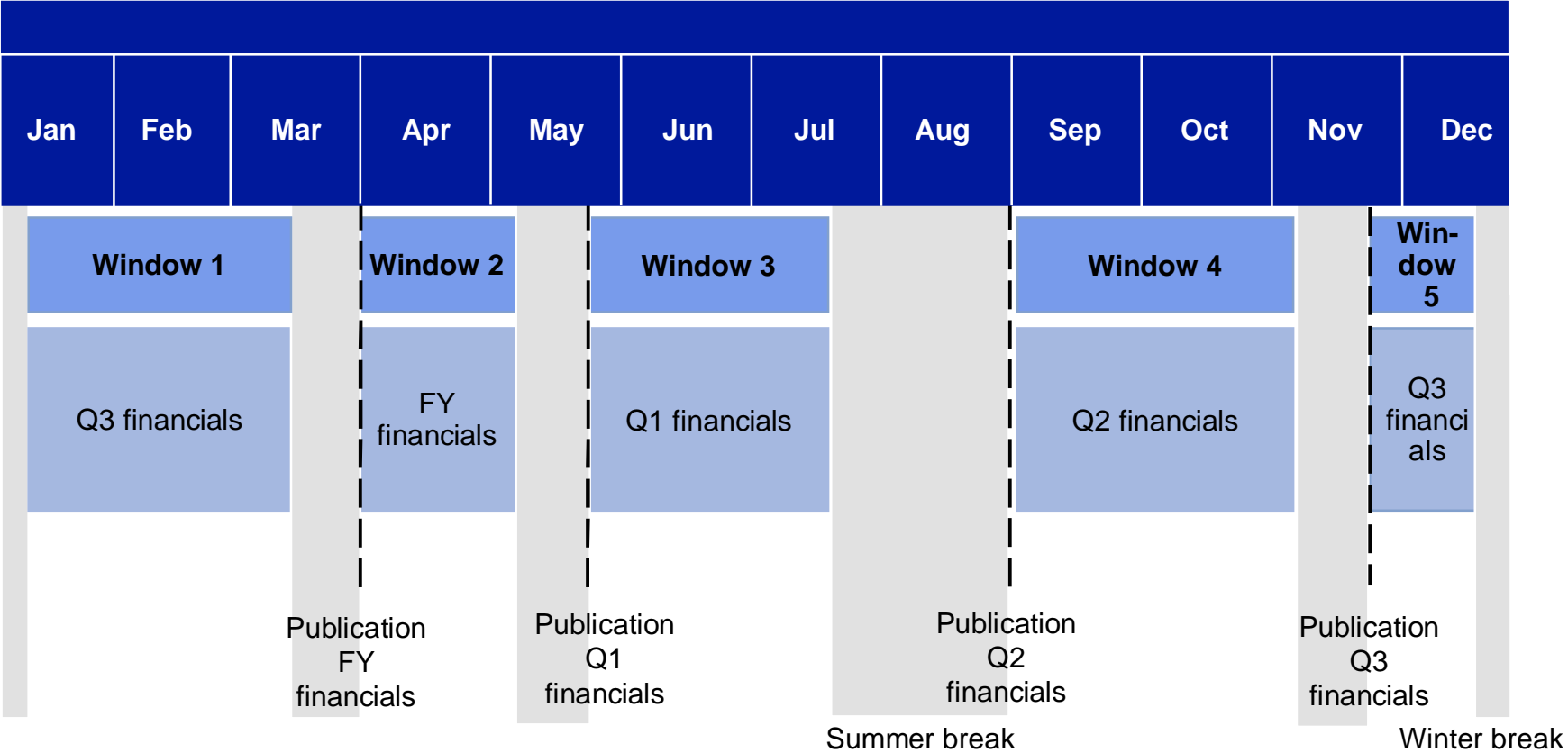
Illustrative timetable for a rights issue



Timeline for direct resolution



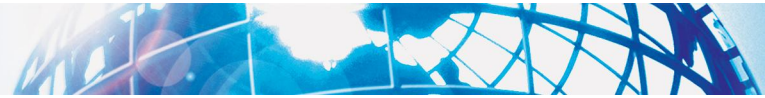
Potential placement windows driven by financials and marketing considerations



Structure and key terms of a discounted rights issue

Key terms		Illustrative example
Subscription price	Price at which the new shares are offered	5
Subscription ratio	Ratio of new shares to old shares	1 for 4
Theoretical ex rights price ('TERP')	$\frac{\text{Issuance volume} + \text{market cap pre CI}}{\text{No new shares} + \text{no old shares}}$	$\frac{€5 \times 25 + €10 \times 100}{25 + 100} = €9$
Reference price	$\frac{\text{Last closing market price prior to the shares going ex-rights}}{\text{}}$	€10
Nominal discount	$\frac{(\text{Reference price} - \text{subscription price})}{\text{Reference price}}$	$\frac{€10 - €5}{€10} = 50\%$
TERP discount	$\frac{(\text{TERP} - \text{subscription price})}{\text{TERP}}$	$\frac{€9 - €5}{€9} = 44\%$
Theoretical rights price	$(\text{TERP} - \text{subscription price}) \times \text{subscription ratio}$	$(€9 - €5) \cdot 1/4 = €1$

Assumptions: Shares outstanding pre-rights issue: 100



Existing investors should be indifferent towards the discount from an economic point of view

'Neutrality' of the discount

(A) Exercise rights

- Subscribes in cash for new shares at the subscription price
- Acquires the new ordinary shares subscribed for
 - owns greater absolute number of shares
 - maintains % ownership of the company

OR

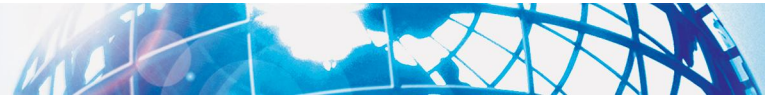
(B) Sell rights

- Sells the rights for cash
- Maintains existing holding of shares
 - reduced % ownership of the company

Value of increased No of shares now owned times ex-rights price less cash subscribed for new shares

=

Value of original No of shares owned times ex-rights price plus cash proceeds from selling rights



Existing investors should be indifferent towards the discount from an economic point of view (continued)

Illustrative example

Assumptions

Shares outstanding pre rights issue: 100	TERP: €9
Shares offered: 25	Value of subscription right = €1
Subscription ratio: 1 for 4	Shares existing shareholder pre rights issue: 4
Reference price: €10	Wealth shareholder: $4 \times €10 = €40$
Issue price: €5	

(A) Exercise rights

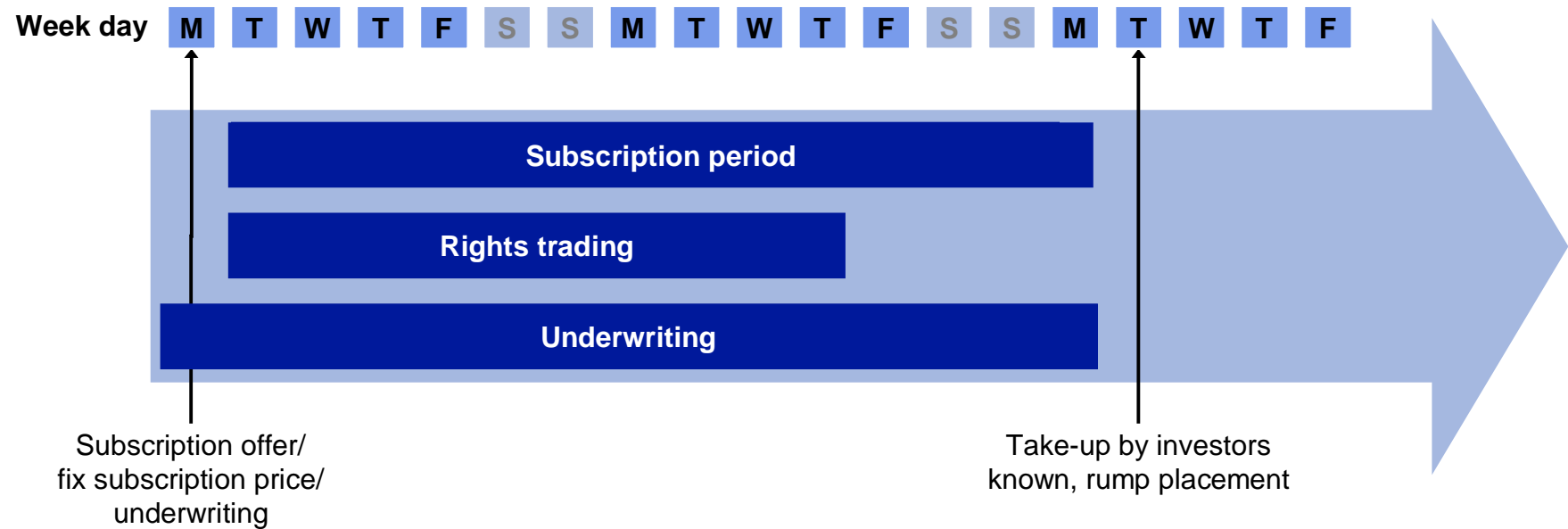
OR

(B) Sell rights

Value of 'old' shares: $4 \times €9 = €36$	Value of shares: $4 \times €9 = €36$
+ Value of 'new' share: €9	+ Cash received for sold rights: $4 \times €1 = €4$
- Subscription price: -€5	
Wealth: €40	Wealth: €40

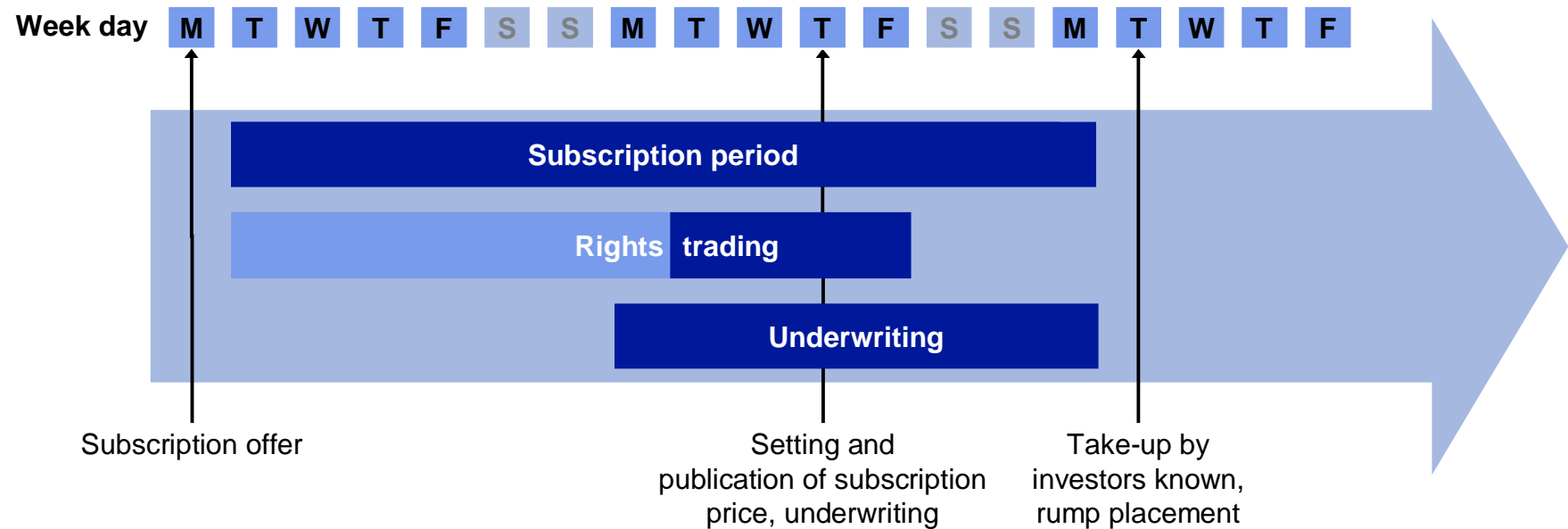
Structural alternatives – fixed price rights issue

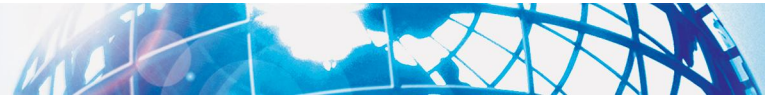
Subscription price set prior to subscription period giving more certainty about level of proceeds



Structural alternatives – variable price rights issue (TransPuG)

Higher execution certainty through late fixing of subscription price





Pros and cons for raising equity in today's market

Pros

- ✓ Insurance policy against worst case scenario
- ✓ Expected re-rating through removal of financing risks
- ✓ Reduced financing costs and risks
- ✓ Capital increase without rights can be targeted towards anchor investor

Cons

- ✗ Forced cash call for investors at inopportune time
- ✗ Potentially signalling effect regarding operational and financial performance
- ✗ Potentially not necessary in hind sight
- ✗ Perceived management credibility