Oaklins

2019 EDITION

German M&A Market Report

M&A activity with German participation

DR. FLORIAN VON ALTEN
Member of Executive Board
Oaklins Germany – Hamburg
f.vonalten@de.oaklins.com
+49 40 34914 x168

MORITZ BOEMKE
Associate
Oaklins Germany – Hamburg
m.boemke@de.oaklins.com
+49 40 34914 x152

DR. BASTIAN BREITMAYER
Associate
Oaklins Germany – Hamburg
b.breitmayer@de.oaklins.com
+49 40 34914 x246

Oaklins

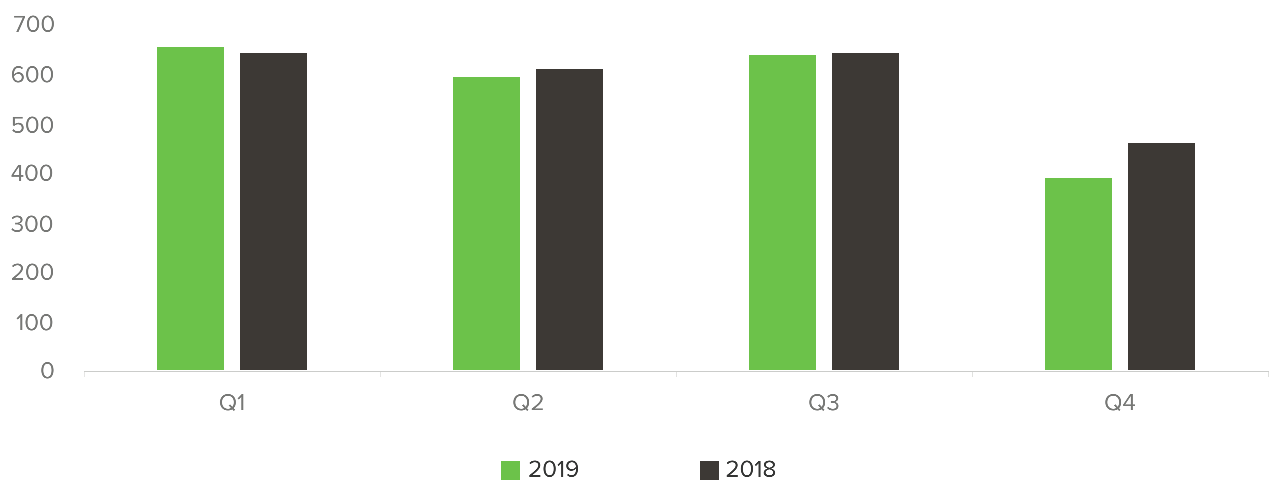
Despite the first agreement between the US and China upon economic world leadership, the ongoing trade war, uncertainty about the outcome of Brexit, a volatile macroeconomic environment, and increasing geopolitical risks were just some of the dominant topics in the media over the last twelve months. What are the implications for the M&A market in general and for Germany in particular?

As one of the global leading mid-market M&A advisory firms, we at Oaklins would like to provide some first-hand insights into the last year of M&A activity in Germany.

In response to an increasingly uncertain macroeconomic environment within the European Union, the potential for an unorganized Brexit during 2019, and the trade conflict between the US and China, many of the 2019's press reports have expected a significant decline in M&A activity for the German market.

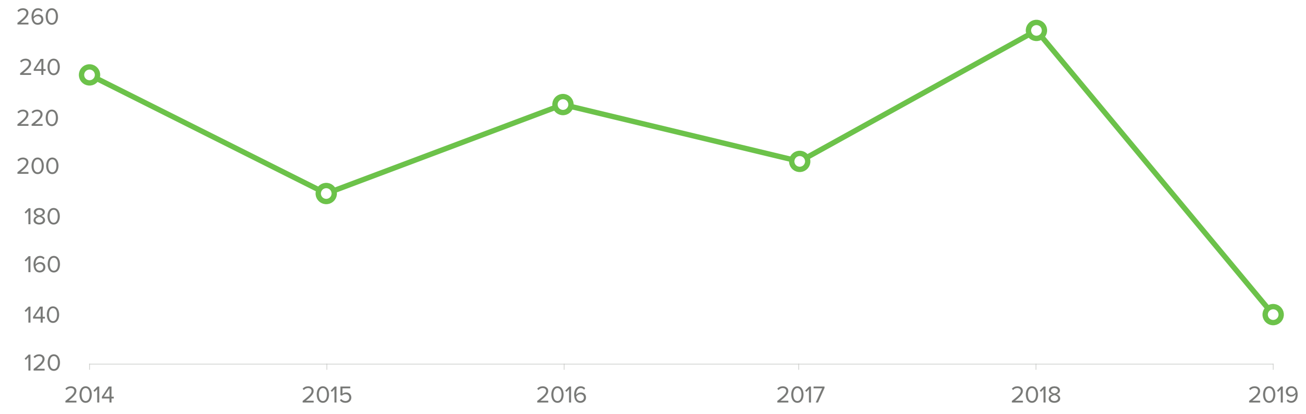
A thorough market analysis, however, reveals that the number of announced deals with at least one German counterpart (buyer, seller or target) was only slightly down by 3.4% compared to 2018 – mainly driven by a relatively stable small- and mid-market segment. Only the number of mega deals has significantly decreased compared to the previous financial year. In fact, not a single transaction with a deal value of more than EUR 10bn and German participation was closed in 2019. Last year, the takeover of Cypress Semiconductor Corporation by Infineon Technologies for approximately EUR 8.3bn was by far the outstanding deal with German participation. Consequently, overall aggregated deal volume dropped by approximately -45% down to EUR 140bn compared to EUR 255bn in 2018. Even though we cannot report a domestic deal within the top 30 largest deal list, almost half (46%) of the top 30 acquisitions were made by German firms. Precisely, German firms spent more than EUR 35bn on just 14 acquisitions. While the number of mega deals has been declining since 2018, we observe an increasing number of joint ventures and strategic cooperation agreements. We see that as a clear sign of risk reduction in an increasingly uncertain economic environment. After reporting exceptionally high price levels, i.e., target valuation up to the end of the 3rd quarter in 2018, multiples have been declining across most sectors over the last year. The only exceptions are valuations of specialized high-tech, battery technology, software, and healthcare and pharmaceutical firms.

Number of announced transactions (quarterly) in 2018 and 2019



Source: Transactions announced in Mergermarket, Zephyr and Majunke until 6th of Dec 2019

Deal volume (EUR Billion)



Source: Estimated by Oaklins

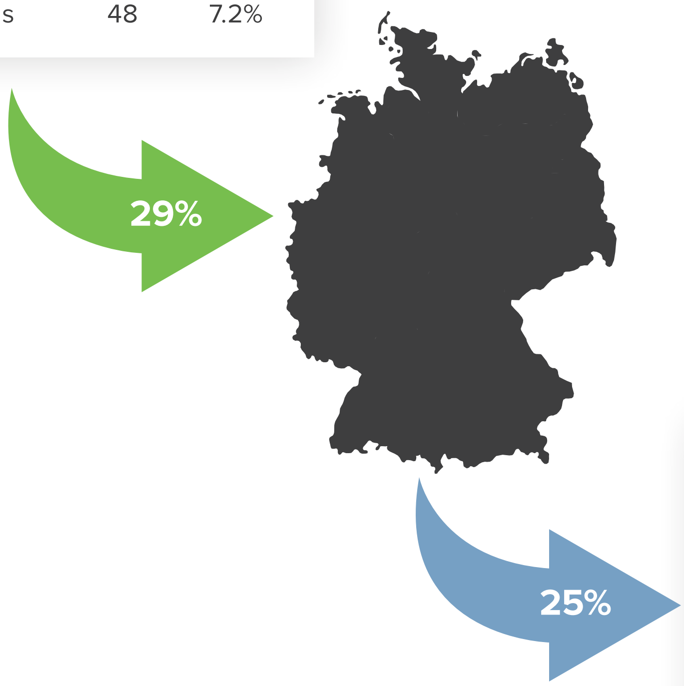
GERMAN FIRMS ARE STILL POPULAR AMONG INTERNATIONAL INVESTORS

While the number of domestic deals is down by 5.3% compared to 2018, we observed only a slight decrease of cross-border deals (-1.7%). A more detailed analysis of the German M&A market reveals a surprisingly stable inbound segment. Indeed, the inbound business has proven to be the pillar of the German M&A market and has only dropped by 0.7%. Attractive German targets are the key driver for an active German M&A market. Interestingly, six of the top ten deals (by transaction volume) were inbound. As in previous years, the most active foreign investors came from the US, accounting for 19.6% of all inbound deals in 2019. In addition, German targets were popular among investors from France, Switzerland, United Kingdom, and the Netherlands.
Chinese investors have acquired major stakes in 29 German firms with a particular interest in the (high-tech) mechanical engineering, automotive, and construction sector. Notably, 17% of Chinese takeovers focused on ailing or already insolvent targets with either attractive (high-tech) product portfolio or customer access in Europe. Despite the investment into stressed firms and its positive effects on local labour markets, we observe increasing reservation from German and European authorities to approve Chinese – German transactions in sensitive or high-tech areas.

Favoured by both the US tax reform as well as the defence of protectionist measures, most targets of outbound deals were located in the US (89), followed by the United Kingdom (63), Netherlands (37), France (37), and Austria (35). Even though the UK still ranks second, the number of announced acquisitions by German investors is down by 13% after a significant decline of 16% in 2018. This is highly driven by the uncertainty about the future economic relationship to the United Kingdom after Brexit.

INBOUND

Country	Deals	in %
USA	131	19.6%
France	62	9.3%
Swiss	58	8.7%
UK	57	8.5%
Netherlands	48	7.2%



OUTBOUND

Country	Deals	in %
USA	89	15.9%
UK	55	9.8%
Netherlands	37	6.6%
France	37	6.6%
Austria	35	6.3%

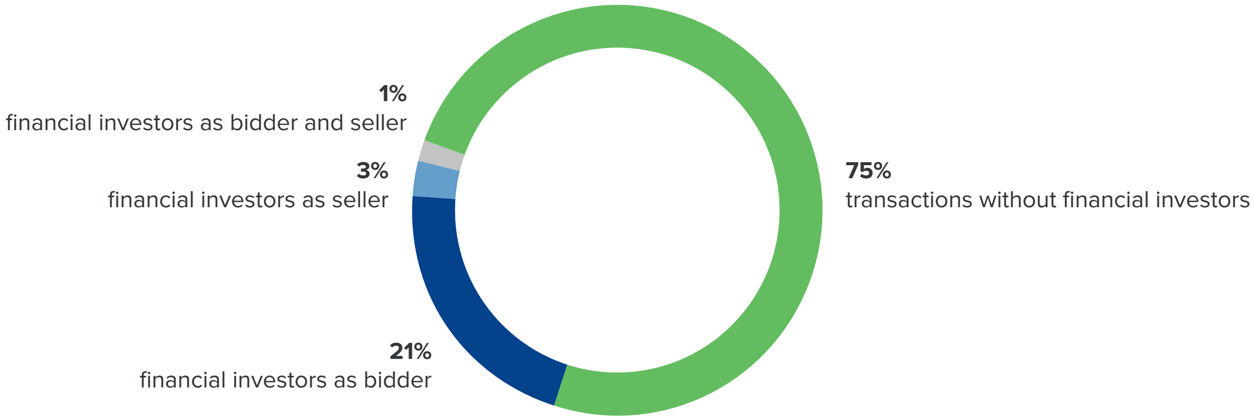
Source: Transactions announced in Mergermarket, Zephyr and Majunke until 6th of Dec 2019

EXCESS AVAILABILITY OF FINANCIAL FUNDS AND BUILDING PORTFOLIOS OF PRIVATE EQUITY FIRMS

Similar to 2018 we can report a strong activity of private equity investors. In fact, financial investors were involved in every fourth transaction (25.6%) with more than five times as many acquisitions (520) than exits (97). At the same time, the number of exits decreased by about 28% compared to the previous financial year. These numbers indicate the continuing trend that financial investors pursue buy-and-build strategies. While acquisitions between two German counterparts (domestic) were up by 6.6% and account for half of all private equity purchases, takeovers by foreign private equity investors (inbound) increased by 26.8% to 175 deals. On the other hand, German private equity investors were more cautious about foreign targets and announced only 85 takeovers (-35%). Of all private equity acquisitions, 33 transactions were secondary buy-outs from other financial investors.

By far the most active three private equity firms in Germany in 2019 were Triton, Deutsche Beteiligungs AG and Elavaton Capital with accumulated more than 40 acquisitions. The largest deal, however, was announced by the US investor KKR with the acquisition of a 54.6% stake in Axel Springer SE recording a value of EUR 4.9bn. The major reason for the continuously high activity of private equity investors is the enduring expansive monetary policy associated with low interest rates leaving investors with a lot of dry powder and investment pressure. In addition, the increasing activity of firms such as Aurelius and Murates indicates a higher restructuring demand in the market.

Activity of financial investors



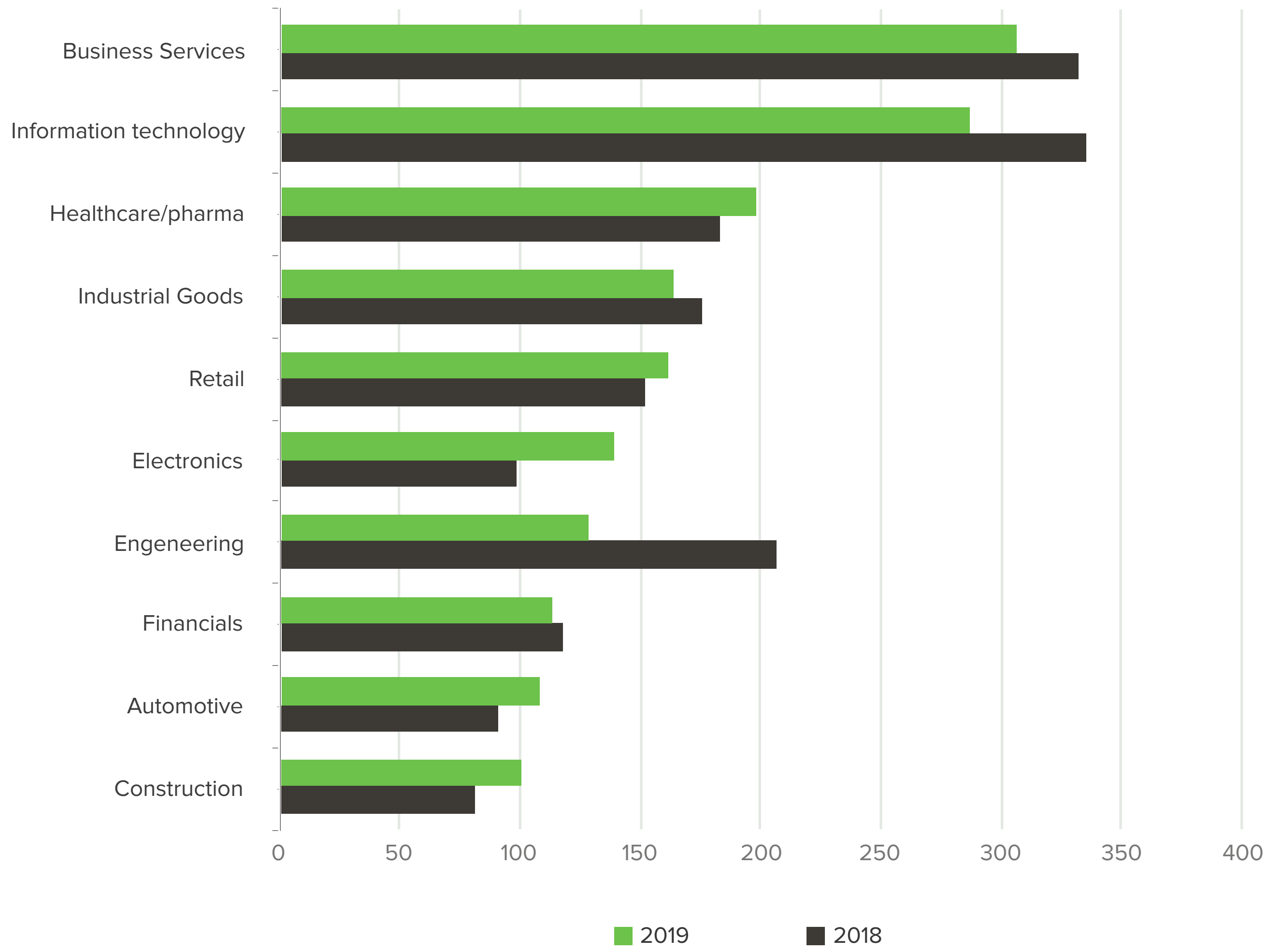
Source: Transactions announced in Mergermarket, Zephyr and Majunke until 6th of Dec 2019

CHANGES AT THE TOP OF THE SECTOR RANKING

At first glance, the business services and information technology sectors are still the driving forces of the M&A business accounting for about 26% of all deals. Healthcare/pharmaceuticals is, however, the only top three sector that reports an increasing deal flow (+8.2%). This was strongly driven by increasing interest of private equity investors into the growing and robust healthcare sector that does not heavily depend on the economic cycle.

Taking a more detailed look at growth rates uncovers some hidden champions in the sector ranking. Firstly, we can report a strong growth in electronic deals (+41% / 41 deals), driven by an increasing demand for sensor technology. Second and more surprisingly, the numbers show a slight recovery of the automotive and construction sector with an increase of 17 (+18%) and 20 (+24%) announced deals, respectively. Especially the rebound of automotive deals is a result of increasing investment activity from China, the ongoing development of new engine technologies beyond combustion engines, as well as the progression towards autonomous driving. In contrast, sectors with more exposure to the macroeconomic cycle had a rough year. For instance, the number of deals in mechanical engineering went down by 37% (-78 deals).

Number of deals in 2018 and 2019



Source: Transactions announced in Mergermarket, Zephyr and Majunke until 6th of Dec 2019

REAL ESTATE IN FOCUS

We would like to mention the recent development within the real estate M&A sector. Continuously rising real estate prices over the past decade makes it more challenging to find assets with promising returns. As a result, investors do not only hunt for promising single assets but also consider share deals to expand their portfolios. In fact, four of the top thirty deals (by deal volume) were share deals in the real estate sector. For instance, the merger of TGL Immobilien GmbH and Aroundtown SA (EUR 5.2bn) or the acquisition of 69% of the Swedish real estate firm Hembla AB by Vonovia SE for EUR 3.4bn. Share deals are an alternative way to access more property and investors might hope to find some hidden reserves.

THE FINANCE AND INSURANCE SECTOR

The German finance and insurance industry is undergoing radical changes. In 2019, established market players have continued to expand their multi-channel competence by acquiring comparison platforms and intermediary providers, e.g. the takeover of Berliner Finanzen Group by German Allianz SE. In addition, more and more FinTech related transactions reflect the accelerating digital transformation of the whole industry. Prominent examples in 2019 were the participation of the US major bank Goldman Sachs with the Berlin based FinTech company Elinvar GmbH as well as the acquisition of 20% of Credi2 GmbH by Volkswagen Bank AG. The trend of digitalisation in the financial and insurance sectors also puts increasing pressure on established market participants to rethink their business models and to sell off parts of their operations. Berenberg Bank, for instance, sold its independent asset management business to Donner & Reuschel AG and Deutsche Bank AG sold its prime brokerage business service for hedge funds to BNP Paribas S.A.

ACTIVITY OF THE BLUE-CHIPS

This year, the M&A activity of German listed firms was mainly driven by two strategic issues. Firstly, the ongoing digital transformation has been affected firms of all sizes and sectors. Thus, it is no surprise that the majority (20%) of acquisitions of German listed companies were tech related. Especially, software firms related to Artificial Intelligence, Cloud Computing and ERP systems cover a large part of the shopping list. Secondly, German blue-chips increasingly focus on their core business while non-core assets were put for sale to strengthen own financial power (e.g. Bayer AG sold its animal health segment to Elanco and Evonik Industries AG sold its Methacrylat business to the private equity firm Advent International).

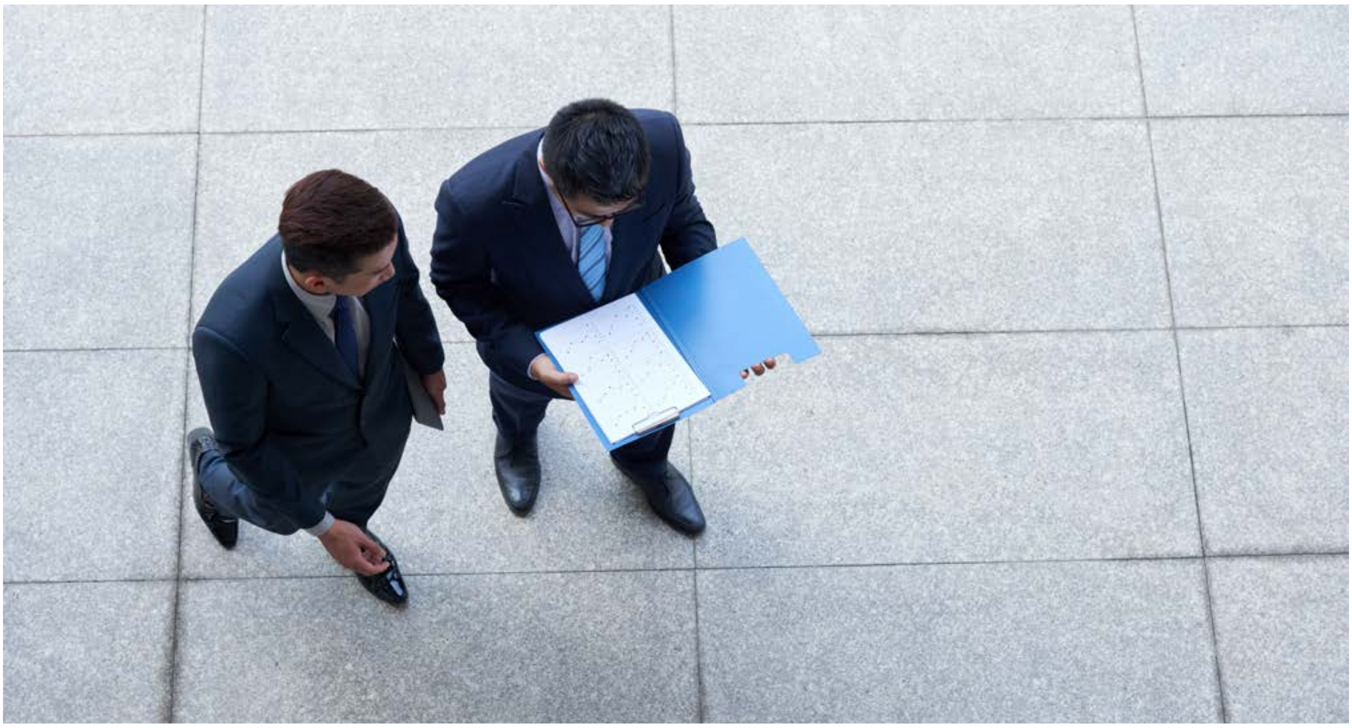
For 2020, with an increasing uncertain economic environment, we expect even more blue-chip carve outs. In terms of acquisitions, some of the most active listed investors were Siemens, Volkswagen and RIB Software AG. Interestingly, almost half of all acquisitions (45%) were domestic. The second largest market for German blue-chips was the US with 43 takeovers, which accounts for half of all German outbound deals to the US.

IN A NUTSHELL

In absence of mega deals with a deal value beyond EUR 10bn in 2019, it is no surprise that the overall aggregated deal value was significantly lower than in 2018. This shall remain the only “bad news” for the year. In fact, the German M&A sector has been remarkably stable. Especially the persistently strong inbound activity can be seen as a quality seal of German corporations. Nevertheless, shareholders who consider selling their business should keep a few things in mind: Careful preparation of a sale means hard cash. What we see from our daily M&A consultancy work, investors are on the hunt for attractive unicorns. Bidders are increasingly cautious and spend more money on due diligence and target analysis before paying premiums. Therefore, our recommendation to interested sellers is to properly prepare their data room and to develop a detailed business plan for the next years. A well-organized documentation as well as a professionally set-up business plan lowers information asymmetry, accelerates the M&A process, and consequently results in higher transaction success as well as more attractive purchase prices. As decisions to sell a company are often driven by all-time high multiples expectations, we see a growing risk of diverging purchase price expectations and increasing negotiation phases between sellers and bidders.

In conclusion, we expect deal complexity and requirements to increase. The ongoing digitalisation as well as consumer behaviour will be the most important drivers of market activty in the near future.

Overall, for 2020, we expect a stable M&A market with a similar number of transactions as in 2019, if no economic downturn or new political crisis arise.



OAKLINS INTERNATIONAL

Our focus and reach

Oaklins is the world's most experienced midmarket M&A advisor, with 850+ professionals globally and dedicated industry teams in 40 countries and 70 offices worldwide. We have closed over 1,500 transactions in the past five years.

Oaklins – our locations around the world

Quick facts about Oaklins

850+ professionals

70 offices

45+ countries

5,500+ transactions

15 sectors

Oaklins

OAKLINS GERMANY

Our company

Oaklins Germany (formaly Angermann M&A International AG) is the german team of Oaklins International Inc. and the oldest M&A advisory firm in Germany. As part of the Angermann Group (with over 200 employees) Oaklins Germany is specialised in advisory for M&A buy- and sell-side projects, succession plans, carve-outs, as well as the execution of strategic growth plans. Oaklins Germany has over 20 adivisors in three offices.

Our expertise

Since 1953, Oaklins Germany has successfully adviced clients in more than 1.000 national and cross-boarder transactions covering various industries. Over 50% of all transactions were cross-boarder.

What we do

M&A SELL-SIDE
Closing a chapter
- Succession plans
- Carve-outs
- Sale of investment companies
- Share deals

M&A BUY-SIDE
Finding a perfect fit
- Strategic expansion plans
- Diversification
- Joint Venture

DEBT ADVISORY
Increasing leverage
- Balance sheet structuring / restructuring
- Verification of business plans
- Company valuation
- Expert opinions

GROWTH EQUITY & ECM
Getting the right support
- Mediation of equity capital
- Mediation of mezzanin captial

Oaklins | GERMANY

Oaklins Angermann AG

www.oaklins.com/de

Oaklins Germany serves clients from offices in Hamburg and Frankfurt

Hamburg
ABC-Straße 35
20354 Hamburg
+49 40 34 914-170

Frankfurt
Guiollettstraße 48
60325 Frankfurt

Disclaimer
This report is provided for information purposes only. Oaklins and its member firms make no guarantee, representation or warranty of any kind regarding the timeliness, accuracy or completeness of its content. This report is not intended to convey investment advice or solicit investments of any kind whatsoever. No investment decisions should be taken based on the contents and views expressed herein. Oaklins and its member firms shall not be responsible for any loss sustained by any person who relies on this publication.

Oaklins is the collective trade name of independent member firms affiliated with Oaklins International Inc. Oaklins itself does not provide advisory services.

For details of the nature of affiliation, please refer to www.oaklins.com/legal