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Life after the recession Jon Moulton talks to ACQ

Germany bounces back

After a terrible 2009, M&A activities in Germany in 2010 have improved. Although there are still economic uncertainties and not much acquisition financing, the market is expecting more deals for the second half of this year.



Ralf-Georg Mittler

Ralf-Georg Mittler is Head of MidMarket M&A Germany for Deutsche Bank AG. The bank has a dedicated and focussed MidMarket M&A-team for transactions in German-speaking Europe that is embedded in its global investment banking platform.

What has been the most challenging element in relation to the impact the recession has had on the M&A market in Germany?

Besides the heavy backdrop of deal opportunities in general we thought in it was especially challenging to mediate the often quite large gap between bid and ask prices with a) innovative deal structuring and pricing mechanisms and b) providing valuation argumentation to both sides. Furthermore, the difficult financing environment prevented some deals that were sensible to do from a strategic perspective from finally being realized.

Why do you think the M&A market seems to be improving this year, in comparison to 2009?

The general economic environment in Germany has shown a stronger rebound than most parties expected and the macro indicators also look rather promising. This results in higher visibility and validity of business plans. The clients we speak to mostly either feel encouraged that this tailwind will be sustainable and therefore also seek external growth opportunities or feel that their exit prices move towards acceptable levels.

How would you summarise M&A and Private Equity activity in Germany for 2010 so far? What particular trends have you seen?

We have experienced a significant increase in activity in corporate M&A as well as in PE activities. Given increased valuation levels and improving financing environment, exit options become more feasible. At the same time, trust in the continuing economic upswing will facilitate external growth options.

What business sectors is your company the most active in at the moment?

We are especially active in industrials, consumer and technology related transactions as well as real estate.

What transactions has your company been involved in as of late?

In the midmarket segment we advised e.g. Otto

Group on its acquisitions of selected assets of Quelle Germany, the Russian as well as the Swiss Quelle Business, Pro7Sat1 AG with their disposal of N24 Nachrichten, the Deilmann family on their search for new shareholders for the MS Deutschland ('Traumschiff') or the Schoerghuber Group on the sale of their South African hotel activities.

Finally, please tell us a little about your company.

With a dedicated and focussed MidMarket M&A-team for transactions in German-speaking Europe that is truly embedded in the global investment banking platform, Deutsche Bank uniquely offers global reach within one firm. Our clients benefit from the extensive know how in corporate finance products as well as in the relevant industries and regions.

Dr Maximilian Koch is a Partner at MKRG. The firm was established in 2004. Due to the Sabanes-Oxley regulations, PricewaterhouseCoopers (PwC) separated from its former law firm of which the Dusseldorf and Cologne offices finally became MKRG.

How has the recession impacted the German M&A market?

The German M&A business has been hit markedly by the global credit crisis. The recession had two major impacts on German firms. Firstly, it was extremely difficult for them and for many companies, in particular from the automotive supplier industry, almost impossible to get or even to sustain external debt financing at reasonable costs and conditions. Secondly, due to the dimension of the global financial crisis a recession followed which hit the real economy and induced an abrupt slump in market demand on a broad scale. Hence, many businesses were experiencing an abrupt shortage in operative cash flows. This in turn added to aggravating their overall financing situation fiercely. As a consequence the firms here were struggling to cope with the global economic downturn and were, mostly, tied up with cutting costs. It was extremely difficult to obtain external credit to leverage M&A transactions. As a consequence, except for distressed transactions the M&A market was down.

MKRG has been advising a lot of German corporate groups on how analyse and, if possible, to overcome the crisis and to restructure their business, or – if a re-

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structuring avoiding insolvency was not feasible any more - we helped them lead their business into controlled insolvency proceedings.

Sometimes we were also asked by our clients how to get access to (additional) financial means. And often we were able to help them – in many cases in cooperation with our various network partners - achieve a tailor-made solution.

In my opinion for MKRG's corporate department the situations described above, which had been of course triggered by the recession, were the most challenging in two dimensions: the professional one as well as the human one regarding the human beings who were on the client's side not only involved in such cases, but also often feared to lose what they had built up successfully over decades.

What reasons do you give for the German M&A market improving?

In 2010, the firms that made their homework, performed their necessary cost cutting exercises and managed to keep or even to gain a good competitive foothold in 2009 are now positioned to pursue a growth strategy via mergers. In addition we are experiencing a significant economic upturn in Germany right now which helps many German firms to strengthen their operative cash flows. The situation for Private Equity is improving as well in Germany. Hence, this year the market for "normal" M&A, i. e. not distressed transactions, has been improving in Germany, yet. On the other hand, for the remainder of 2010 we are still expecting many restructuring deals via divestitures of businesses.

Dr. Albert Schander is a Managing Partner at SynCap. The firm is an exclusive partner for Clairfield in Germany and Belgium with four offices and 25 staff. It is surrounded by its industry advisors board of more than 30 industry professionals/managers that support our projects.

How has the recession impacted Germany's M&A market?

The market was facing a dramatic drop in order intake in 2008/2009 for some of the most traditional German industry sectors like mechanical engineering, machine tools manufacturing, automotive supplies and related services such as temporary staffing.

Lending banks became highly restrictive in taking on new financing projects and there were no real drivers to contemplate a transaction "under pressure". In the contrary both buyers and sellers preferred to wait for improved market conditions and financial performance figures.

Why has the market now improved?

A transaction, that makes strategic sense need to be closed sooner or later, hence the 'hold-on' period had a logical termination. This is supported by obvious recovery signals in most sectors and thus an improved economic environment leading to increasing export quota and filled order books. The political support provide by its "short-time work" instrument enabled companies to boot-up internal capacities rather quickly.

What trends have you seen in the market this year?

We see an increasing deal-flow from both strategic owners using the crisis as an argument to 'clean-up' their corporate structures/ divesting non-core assets. Distressed M&A is pretty strong since some interesting and economically sound companies have been hit by the crisis and the reluctance of house-banks to provide the requested working capital. Those companies will ultimately find their 'fitting' buyer. One clear trend is certainly the increased flexibility shown by financial investors both concerning the target profile and financing structure moving to "equity only" financed deals for the time being. Industrial buyers especially from Asia are strongly looking for "lucky shots" and various financial investors recently approached our group with a clear preference for proprietary situations or avoidance of cost-intensive auctions.

What business sectors is your company the most active in at the moment?

Mechanical Engineering, Steel Construction EPC, Medical Technology/ labs, IT-Software, high-end Automotive Supplies, Renewable Energy and Recycling.

What transactions has your company been involved in recently?

Clairfield closed around 40 transactions this year to date totalling in a TTC of 1bln + USD. "Highlight" transactions include: The acquisition of Endinet by Aliander NV; the takeover of the Sanders Supermarket



Dr. Albert Schander

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Prof. Dr. Peter Fissenewert

Chain by Sligro Food Group; the acquisition of Eden technologies by Siemens; the acquisition of Yosemite Waters by DS Waters.

Prof. Dr. Peter Fissenewert is from Buse Heberer Fromm, one of the largest independent lawyers' offices in Germany. More than 120 professionals advise domestic and international clients in all areas of business and tax law from six German locations as well as offices in London, Brussels, Milan, New York, Palma de Mallorca, Paris, Sydney and Zurich.

How did the recession affect Germany's M&A market?

The greatest challenge was certainly that the year 2009 was also the nadir, the "valley of tears" in the area of mergers and acquisitions. In 2009 M & A in Germany was clearly influenced by the effects of global financial and business crises. Statistics show that market development in the last year can be described as "historically bad". These low numbers reflect the considerable challenges in the crisis as well. Thus there is no lack of ideas for take-overs, both from the side of buyers as well as sellers. Often the banks, themselves more involved in the whirlpool of the crisis, were unwilling or unable to accompany the transaction financially. The challenge therefore consists of convincing the financial institutions of the appeal and feasibility of the deal. This was accomplished by individual cases, giving us confidence that the already described "valley of tears" can be passed through and that 2010 can be characterized as having clear increases, although these are at a low level.

Why do you believe the market is becoming healthier?

The banks and other financial institutions have also learned something over the past year. They have come to recognize that it is once again profitable to accompany transactions financially. One particularity has come about due to the crisis. As opposed to the decline described above, in particular the so-called "distressed M & A" sector has experienced a noticeable upswing. These undercapitalized businesses, characterised by a great need to restructure and redevelop, brought about transactions that were characteristic for 2009 and, at the same time, will continue through the year 2010. The presence of such transactions on the market can be proven, based on a number of

businesses which have a long history, such as Porsche, Daimler, Karmann, Sal. Oppenheim or Arcandor.

What transactions has your company been involved with recently?

Buse Heberer Fromms Berlin office recently accompanied the IMW Immobilien AG in the sale of a portfolio. This was the second largest transaction in the German real estate market.

The Frankfurt offices of Buse Heberer Fromm recently advised the stock market listed company Franconofurt AG in the sales of its stocks during a real estate transaction with another high value.

Other transactions that have been accompanied by Buse Heberer Fromm are known in the market or cannot be here named, due to distressed M & As.

Dr. Rainer Mayer is a Partner at Maconda Corporate Development, a firm that uses its combined experience in corporate restructuring and commercial due diligence when working on deals and transactions.

Why do you think the German market is faring better this year, compared to last?

In general, there are still not many deals above € 100m EV on the market and there is still much to do in the small cap segment which seems to be much more unaffected by the crisis deal-wise. On the one hand, potential vendors understand that prices will not be as high as back in 2007 or until mid 2008 and therefore valuations are coming down. On the other hand, a couple of banks seem to be back to high debt multiples, at least compared to 2009, thus giving PE sponsors the opportunity for a nice lever.

How would you summarise M&A and Private Equity activity in Germany for 2010 so far?

There has clearly been more activity than in 2009. However, the high expectations from the first half of 2010 have still not been achieved, but there is a bit of calm at least in the universe of larger transactions.

There are still several PE funds with neither an investment nor an divestment during 2010, some not even for two years. These most likely need to show their LPs some activity soon, which could drive prices.

Also, we saw a couple of distressed companies this year, among them also some well-known brands; although being in insolvency proceedings, such cases can be very interesting for an investor, provided he has experience with buying out of insolvency.

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