

Oaklins

FIRST HALF YEAR 2020

M&A Market Report Germany

Transactions with German
counterparts





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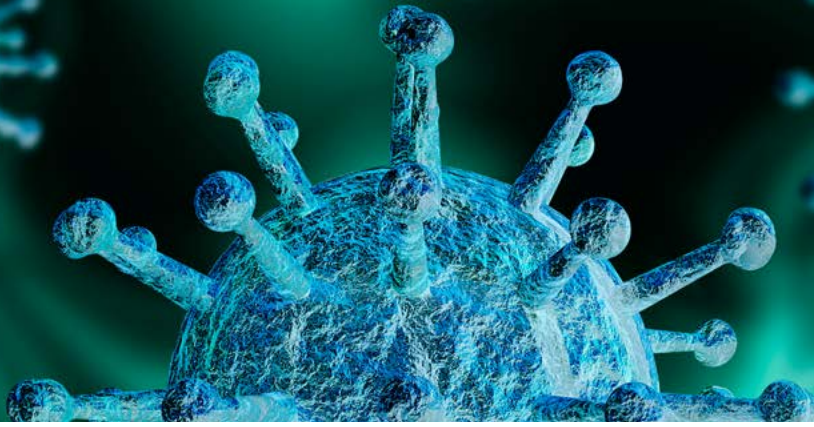
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The first half of 2020 was largely determined by the COVID-19 pandemic which had a massive impact on public life and economic activities worldwide. Prevention measures against the spread of the virus varied across countries with different consequences for local economies and M&A activities. How large was the impact of the crisis on the M&A activity in Germany – a country that was able to manage the virus outbreak relatively well?

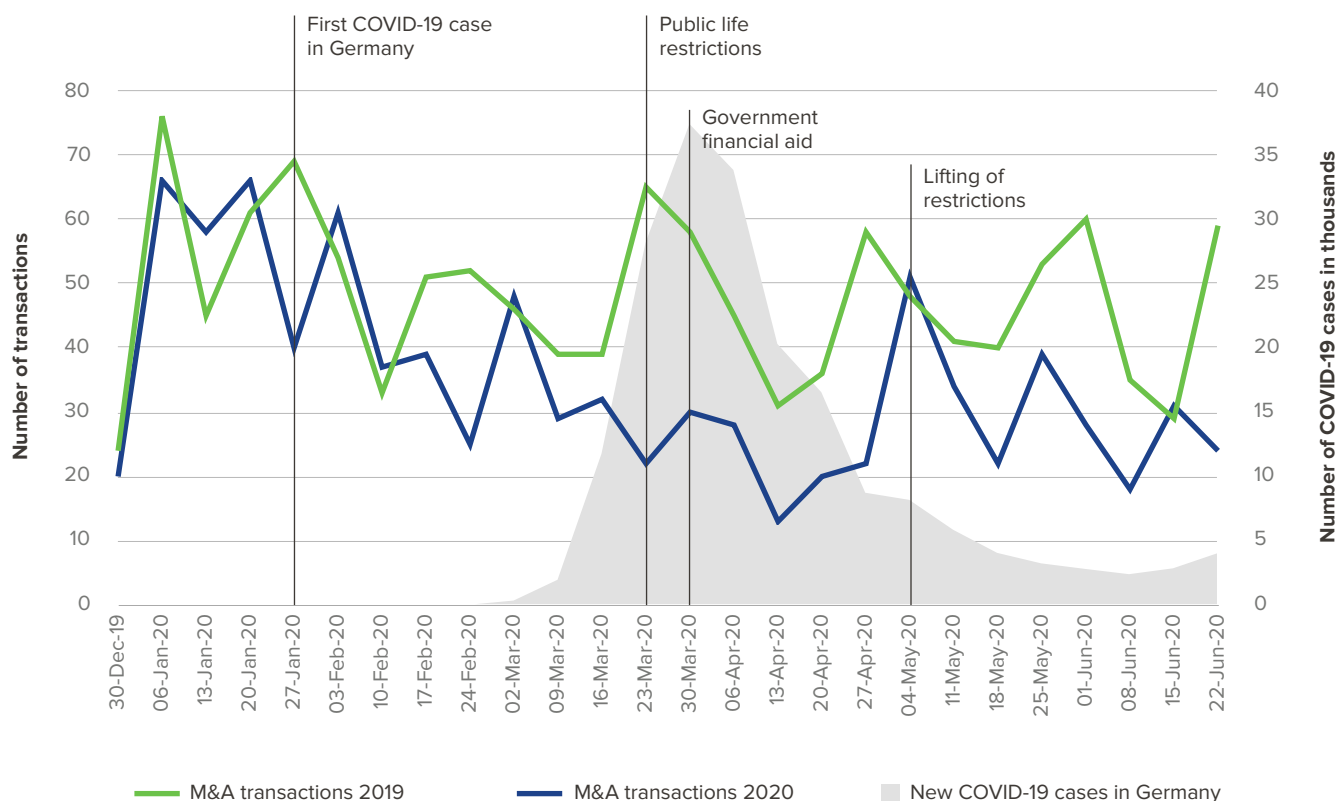
As one of the global leading mid-market M&A advisory firms, we would like to provide in-depth insights into the M&A activity in Germany during the first six months of 2020

To get a better understanding of the impact of the spreading virus and economic shutdown measures, we collected the number of announced and completed M&A deals with at least one German counterpart, i.e. target, buyer or seller, as well as the reported COVID-19 cases in Germany on a weekly basis. The results of our time series analysis indicate a strong relation between the reported COVID-19 cases, public life restrictions, and M&A market activity. Especially transactions among strategic parties have been concerned.

M&A ACTIVITY AND REPORTED COVID-19 CASES IN GERMANY

At the beginning, the M&A year 2020 made quite a promising start with the number of reported deals being on previous year level during the first four weeks. After the first reported COVID-19 patient on the 27th of January and a rising number of reported cases in the following weeks, however, uncertainty about a potential shutdown was increasing and COVID-19 became the most important determinant of M&A market activity. As shown in figure 1 on the following page, the number of reported M&A deals continuously decreased after 10th of February. Particularly during the time of the most rigorous public life restrictions between 25th of March and the announced lifting on 5th of May, the number of reported deals decreased by -54% compared to previous year's period. Overall, for the first half of 2020 we observe a decrease of -27.6% announced M&A deals compared to H1 2019 – mainly driven by the large decline (-41%) in the second quarter. With declining COVID-19 cases and lifted restrictions, however, we observe a slight recovery of market activity with 247 reported deals between 5th of May and the end of June 2020.

Number of M&A transactions and reported COVID-19 cases – figure 1

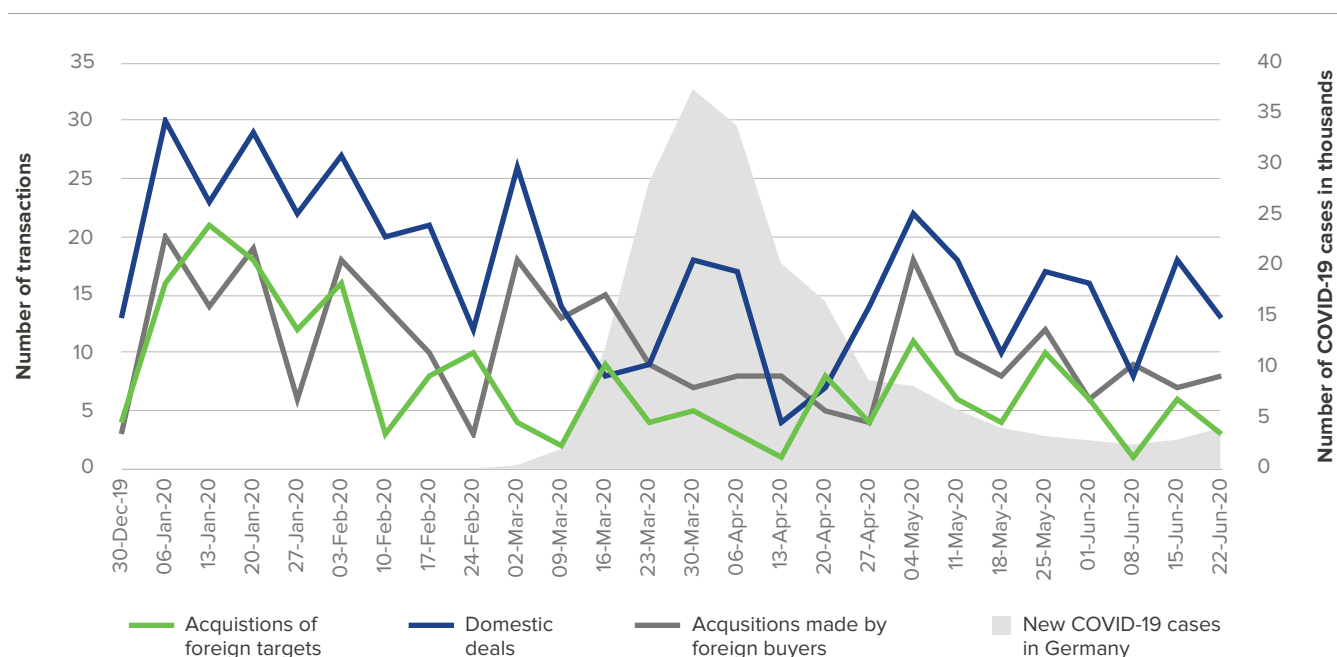


Source: Oaklins, Majunke, Mergermarket, Zephyr, European Union

German investors are cautious about foreign acquisitions

While the number of domestic deals went down by -24% compared to H1 2019, our results show an even larger drop of -38% for acquisitions of foreign targets by German investors. German investors were increasingly risk averse and cautious about the virus outbreak prevention measures in other countries. A more detailed look at the numbers reveals that particularly acquisitions of US targets have declined by -69% to just 18 transactions within the first half of 2020. Unsurprisingly, 14 of these acquisitions were reported until the 6th of March, before the US was hit by a major outbreak of the virus. Interestingly, with a drop of only -18% and 28 announced transactions, the United Kingdom is the most popular country for acquisitions of foreign targets by German investors. Like investments into US targets, more than 70% (20) of transactions were announced or completed by the end of March.

Comparing domestic and cross-border transactions – figure 2



Source: Oaklins, Majunke, Mergermarket, Zephyr, European Union

Looking at acquisitions of German targets by foreign investors reveals 55 announced deals (only a 5% drop) by US investors, showing acquisitions on a stable level and leaving the US on rank 1st of the most active foreign investor countries in Germany. In contrast, we record a significant activity decrease of European investors. Acquisitions of investors from France, the United Kingdom, Switzerland, the Netherlands, and Austria have all declined by at least -30% and up to -59% compared to the previous year. With nine announced transactions, only Belgian investors have increased their activity on the German market.

Surprisingly, Japan claims the 5th position in the ranking of most active buyer countries with 14 reported deals and has overtaken China in the first half of 2020. We have reported similar results for the first half of 2019, however, in the whole year table of 2019, China ranked before Japan again. In the first half of 2020, Chinese investors have announced 13 takeovers of German targets and thereby reached previous year's level.

Buyer country ranking (excl. German buyers) – figure 3

Rank	Buyer Country	H1 2020	H1 2019	Difference to H1 2019	Change in %	Share of total
1	United States	55	58	-3	-5%	6%
2	France	26	37	-11	-30%	3%
3	United Kingdom	20	32	-12	-38%	2%
4	Switzerland	19	28	-9	-32%	2%
5	Japan	14	19	-5	-26%	2%
6	China	13	13	0	0%	1%
7	Netherlands	11	27	-16	-59%	1%
8	Austria	11	19	-8	-42%	1%
9	Sweden	11	18	-7	-39%	1%
10	Belgium	9	5	4	80%	1%

Source: Oaklins, Majunke, Mergermarket, Zephyr

+15%

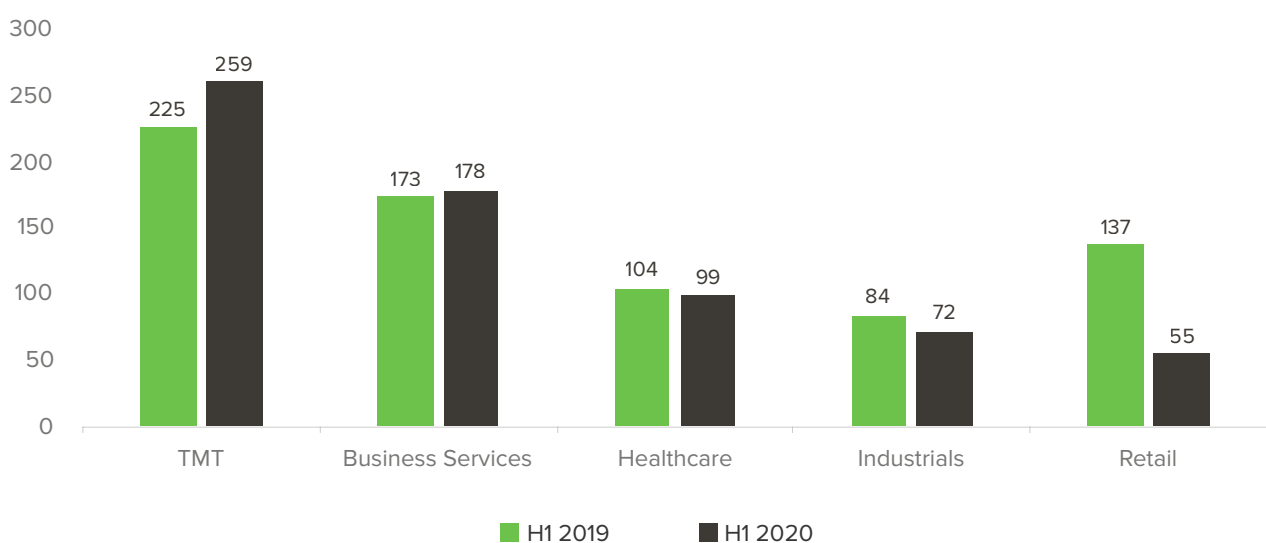
Reported deals in TMT

-60%

Reported deals in Retail and Automotive

FOCUS ON THE TMT AND BUSINESS SERVICES SECTOR – LARGE DECLINE IN RETAIL AND AUTOMOTIVE

We observe large differences in the sector ranking. With public life restrictions, closed retailers, and increasing working from home agreements, sectors such as TMT and Business Services were the winners of the Corona crisis. In line with the stock exchange developments, our results show a +15% and +3% increase in M&A deal activity for the TMT and Business Services sectors compared to H1 2019, respectively. Ranking as the 3rd most active sector, M&A activity in the Healthcare industry remains overall on a stable level. On the other hand, industries that were largely negatively affected by the public life restrictions also record significantly less M&A deals. Especially the number of Retail and Automotive deals declined by -60%. The results of our sector analysis clearly show how the Corona crisis has affected the economic activity, uncertainty, and associated M&A activity across different sectors.

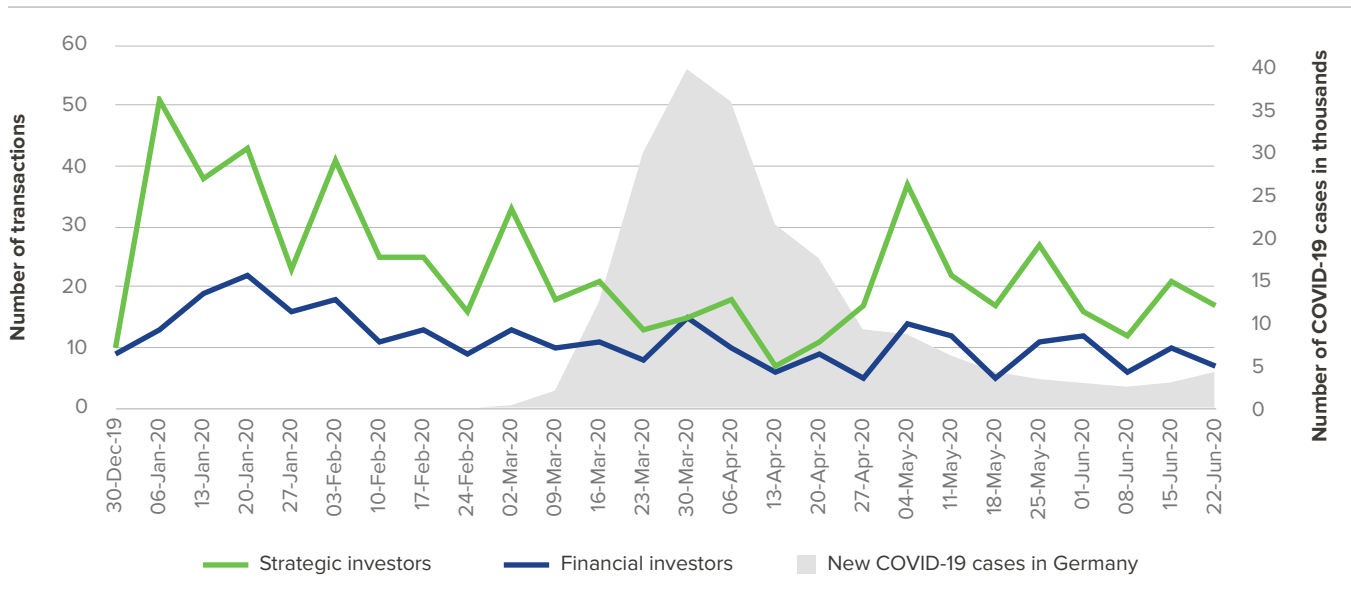
Top 5 most active sectors – figure 4

Source: Oaklins, Majunke, Mergermarket, Zephyr

SHARE OF DEALS WITH PRIVATE EQUITY REACHES A RECORD HIGH OF 33%

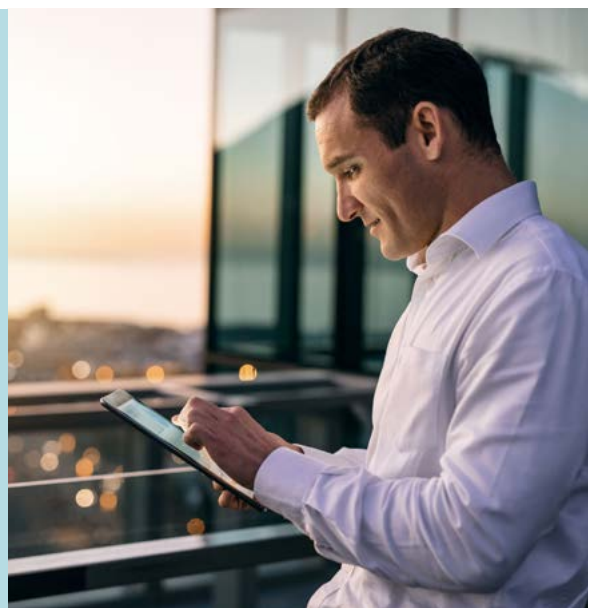
Comparing the behaviour of different investors reveals large differences. Strategic investors became increasingly reluctant to execute or announce takeovers. Particularly during the time of comprehensive travel restrictions within Germany, the activity of acquisitions made by strategic investors reached a minimum. The board members of most companies were preoccupied with managing the crisis and maintaining daily operation rather than focusing on expansion plans. On the other hand, after financial investors had successfully secured the liquidity of their portfolio companies, they were able to regain their acquisition appetite. Triton, DBAG, and Waterland rank among the most active financial investors in Germany. Large amounts of dry powder enable financial investors to execute transactions without major funding of commercial banks and to stay active in the market.

Activity of Financial and Strategic Investors over time – figure 5



Source: Oaklins, Majunke, Mergermarket, Zephyr, European Union

In total, financial investors were involved in 33% of all deals reported in the first half of 2020 which is a large increase compared to 23% private equity involvement in the first half of 2019. Our survey results show that private equity investors are willing and able to invest into healthy business models. 84% of participants reported that they can close transactions without any third-party financing. Furthermore, most investors will not claim price discounts for short-term liquidity issues of solid business models.





Of the top 30 deals were reported before 31st of March



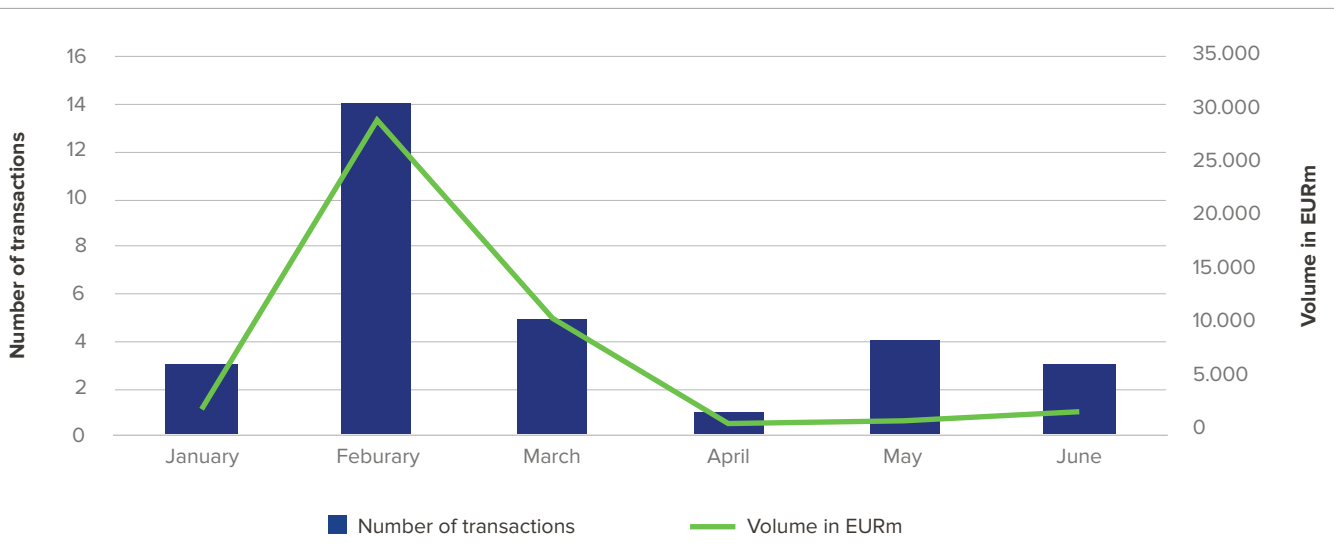
Is the dominant sector for the top 30 deals

TOP DEALS WERE MOSTLY REPORTED IN Q1

By far the most important transaction and only mega deal with a German counterpart was the sale of the highly profitable elevator business by Thyssenkrupp to Advert International, Cinven, and RAG Stiftung for about EUR 17.2 bn. The carve out is part of the strategic restructuring process of the German blue-chip company and was announced on 28th of February 2020. Likewise, 22 of the top 30 deals were announced in the first quarter 2020 which accounts for 89% of the deal volume of the top 30. While the sale of Thyssenkrupp Elevator AG was the only transaction with a volume above EUR 10 bn, we count two further deals, i.e. the acquisition of Bombardier Transportation GmbH by the French competitor Alstom (EUR 7.6 bn) and the purchase of Deutsche Glasfaser Holding GmbH by EQT and OMERS Infrastructure Management (EUR 2.8 bn) above the two billion Euro mark. We count 13 deals with a volume of at least EUR 1 bn.

About half of the top 30 transactions were reported with German buyers, while US and French investors rank second and third. Despite the large machinery deals, TMT remains the most prominent sector among the top 30 deals.

Top 30 deals with at least one German counterpart – figure 6



Source: Oaklins, Majunke, Mergermarket, Zephyr, European Union

IN A NUTSHELL

The worldwide spread of the Corona virus was the main blockage of M&A activity in the first half of 2020. Transactions that seemed to progress well were put on hold or cancelled and new acquisition plans postponed. During the time of the most rigorous public life restrictions, M&A activity dropped to a minimum. With the step-by-step lifting of restrictions, we also observe a slight recovery of the M&A market. Particularly sectors that have benefitted from the crisis record increasing numbers of deals within a short period of time. Overall, prices have declined across all sectors by a minimum of 1-1.5x EBITDA compared to 2019.

For the second half of 2020 we expect further recovery of M&A activity and reported deals if we don't experience a second major outbreak of COVID-19. Besides more frequently reported restructuring cases we expect an increasing M&A activity of companies that have weathered the storm much better than others. At the same time, the bargain hunters under the strategic and financial investors are expected to exploit high levels of liquidity and low interest rates far into the future. In addition, financial investors worldwide possess large amounts of free funds and face increasing investment pressure due to limited fund maturities. Sectors that were negatively affected by the crisis will have to accept high price discounts. For companies and sectors that were able to benefit from the political measures we expect prices on nearly pre-crisis levels.

Most importantly, the M&A activity will depend on the fact whether Germany will face a second outbreak of COVID-19 which would likely bring back uncertainty and hesitation of investors. In this regard, we expect an increasing share of transactions with variable pricing structures, e.g. earn-outs, in order to account for the risk of a second outbreak.

Overall, we expect that the M&A activity on the German market with respect to numbers of transactions and volume will be able to recover and to reach the levels of 2019 and 2018 by the end of 2022.



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 over 45 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 GERMANY

Our company

Oaklins Germany (formerly 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 advisors in three offices.

Our expertise

Since 1953, Oaklins Germany has successfully advised 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

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Closing a chapter

- Succession plans
- Carve-outs
- Sale of investment companies
- Share deals

DEBT ADVISORY

Increasing leverage

- Balance sheet structuring / restructuring
- Verification of business plans
- Company valuation
- Expert opinions

M&A BUY-SIDE

Finding a perfect fit

- Strategic expansion plans
- Diversification
- Joint Venture

GROWTH EQUITY & ECM

Getting the right support

- Mediation of equity capital
- Mediation of mezzanine capital

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