

Oaklins

2020

M&A Market Report Germany

Transactions with German
counterparts



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In 2020, economic activity around the world was largely affected by the COVID-19 pandemic. Decision-makers in business and politics were forced to quickly implement a variety of measures to minimize the negative effects of the virus outbreak on public health and economies.

What were the implications of the pandemic on M&A activity? How did the German M&A market weather the storm caused by the crisis? Did German and foreign investors react differently? And what about Private Equity investors? Which industries were able to benefit from the crisis and who was especially negatively affected? What changes happened and what is the outlook for the M&A year 2021? Please find answers to these questions in our following report.

-19%

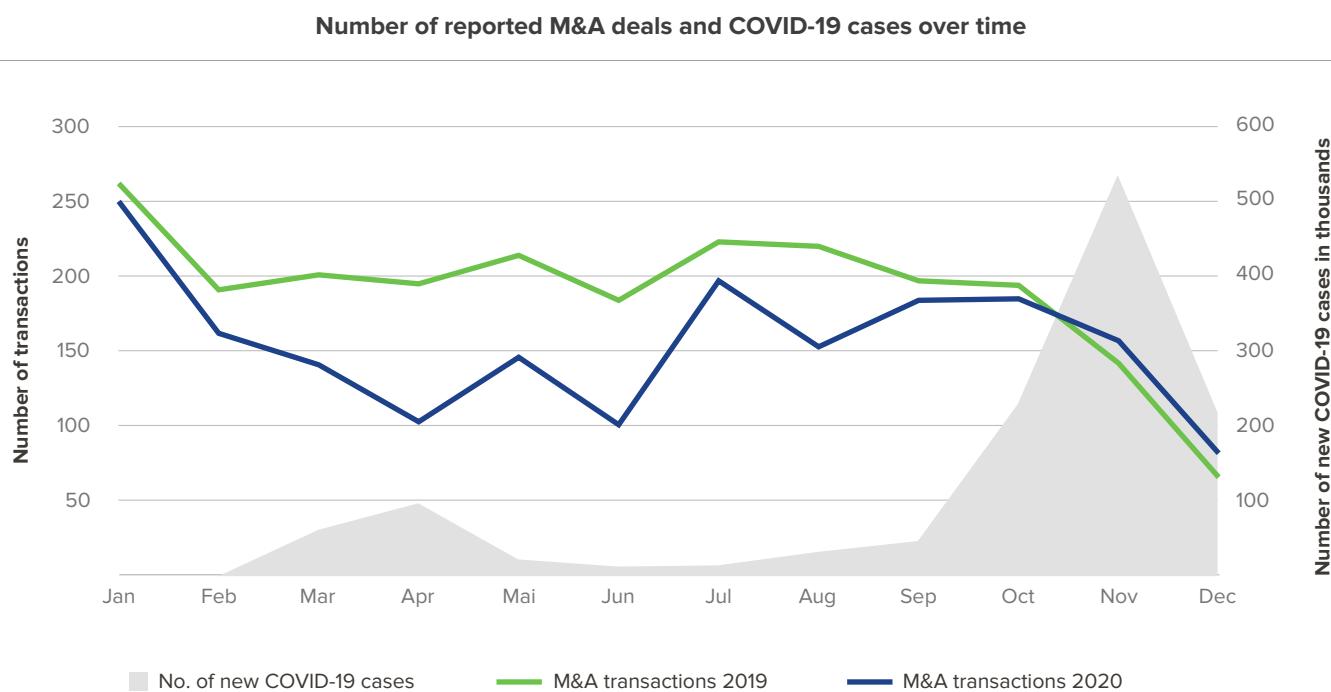
Reported deals in 2020
compared to 2019

2

Mega deals above EUR 10bn

As one of the global leading mid-market M&A advisory firm, our team from Oaklins Germany would like to share their experiences and insights into the German M&A market with interested readers.

To improve our knowledge about the implications of the COVID-19 pandemic and prevention measures for M&A activity, we take a detailed look at the development of reported M&A transactions as well as COVID-19 cases in Germany. Our analysis is based on announced and completed M&A deals with at least one German counterpart, i.e., target, buyer or seller, between the 1st of January and 14th of December 2020. On an annual basis, M&A activity was down by 19% compared to 2019 to only 1,861 reported deals. A more detailed analysis, however, shows similarity to the development of stock markets around the world. After the decline in March and April 2020, M&A activity has experienced a sustainable recovery over the recent months. Market participants regained confidence after the quick recovery of the economy during Q3 and have built some sort of immunity against the negative effects of COVID-19. During Q4 2020, M&A activity was even higher than in Q4 2019.



*Please note that the cut-off date for counted transactions is 14th of December.

M&A activity and reported COVID-19 cases over the course of the year

The results of our time series analysis indicate a diminishing impact of reported COVID-19 cases on reported M&A deals. At the beginning of the year, the rapid increase of reported virus patients in Germany was associated with a strong decline in M&A activity. Especially between 9th of March and 27th of April, the number of reported transactions was down by 48% compared to previous year's period. At the same time, the number of reported COVID-19 cases showed an exponential increase, reaching more than 37 thousand new patients in calendar week 14 which caused the government to introduce major public life restrictions, limiting economic activity in Germany.

After a sustainable decline of new COVID-19 cases and the step-by-step lifting of the restrictions, the M&A market started to slowly recover over the summer months. Between the first week of May and the end of September, the number of reported M&A deals was down by 22% compared to the same period in 2019. Surprisingly, the number of reported transactions indicates the usual seasonality with lower activity during the summer months. This indicates that decision-makers were not in a rush after the first shut-down.

Since the beginning of October, the M&A market has shown an even stronger recovery. In October, the number of M&A deals was only down by 5% compared to 2019. In November and December reported transactions exceeded the previous year's level by 10% and 24%, respectively. At the same time, the number of reported COVID-19 cases has experienced exponential growth rates since early October. This is consistent with the development of worldwide stock exchanges. Overall, the M&A market has not made up for the losses of early 2020 but has reached and exceeded the activity levels of a pre COVID-19 environment.



The reasons behind the signs of immunity

How sustainable is the recovery of M&A activity? To answer this question, we need to get a better understanding of the reasons for the major decline in M&A activity during the first months in 2020. From our daily work with clients and investors in the mid-market segment as well as an extensive market survey conducted in April 2020, we have carefully explored the reasons and rationale behind the decision-making in times of the COVID-19 pandemic. From our observations, we identified two main factors that had a major impact on decision-makers and M&A activity.

First, **economic uncertainty** about the future works as a blockage for the M&A market. Consistent with the development of stock markets, when uncertainty is high, participants usually secure liquidity and postpone or delay M&A transactions. Expansion plans and acquisitions are put on hold to focus on the operational core business. During the first months of the crisis, the magnitude of the negative impact of COVID-19 was not clear and associated with high uncertainty. After the government provided perceived unlimited liquidity to markets and corporations, uncertainty about the economic future and liquidity eased. Over time the consequences of COVID-19 on public health became more foreseeable and decision-makers regained confidence to pursue opportunities.

Second, **technical barriers** have prevented the deal execution. Even if sellers and buyers have reached a general agreement, transactions usually require multiple physical meetings between stakeholders and had to be put on hold during the time of public life restrictions. Until the end of 2019, especially mid-market transactions involved multiple physical meetings to build the required level of trust between stakeholders and to reach agreements during final stages of negotiation. Since early 2020, the M&A industry has gone through a remarkable transformation – also thanks to digital solutions. Today, professionally executed transactions can be successfully realized without a single site visit and or physical meeting between the participants. Video conferences and virtual site visits enable counterparts to exchange information and to build the required level of trust. This enables decision-makers to successfully pursue M&A opportunities nearly independently from travel and contact restrictions. Utilizing technical solutions, even notarization took place without physical meetings.

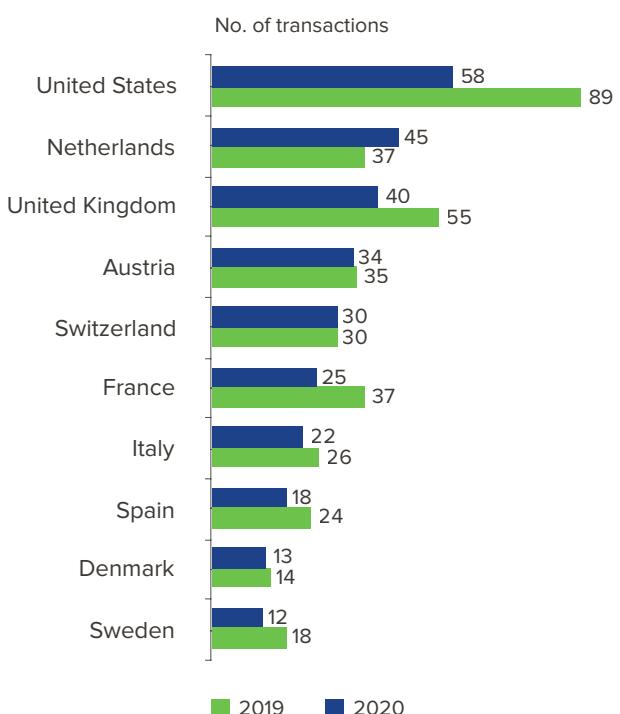
Activity of German and foreign investors in 2020

Target	Buyer	2020	Share in %	2019	%	Difference	Diff in %
German	German	874	47%	1.058	46%	-184	-17%
Foreign	German	426	23%	669	29%	-243	-36%
German	Foreign	561	30%	562	25%	-1	0%
Sum		1.861		2.288		-427	-19%

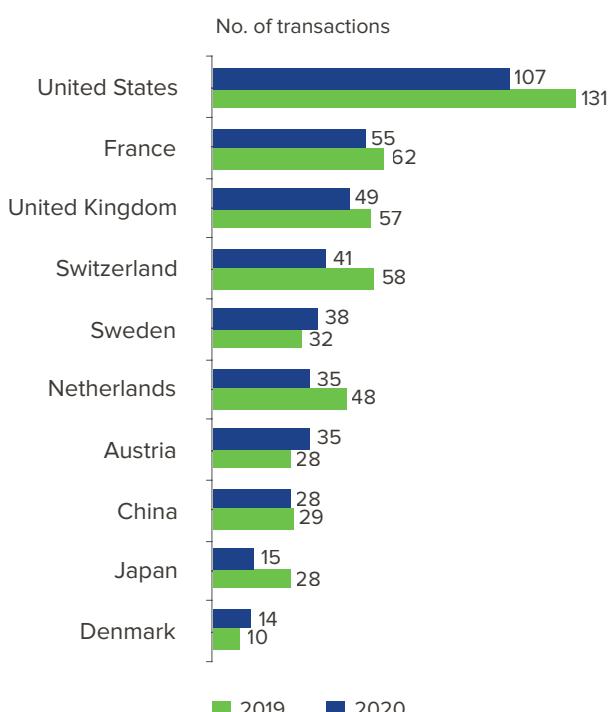
Risk aversion of German investors

Particularly German investors were more cautious with regards to acquisitions in 2020 compared to foreign investors. While the number of domestic deals went down by 17% compared to 2019, the number of acquired foreign targets by German investors dropped even further (36%). Significant declines in the number of acquired targets must be reported for the U.S. (-35%), Sweden (-33%), France (-32%), UK (-27%), and Spain (-25%). On the other hand, acquisitions from countries such as the Netherlands (+22%), Switzerland (0%), Austria (-3%), and Denmark (-7%) were above or nearly on previous year's level. German investors were particularly risk averse to acquisitions from countries with high levels of reported COVID-19 cases or substantially different prevention measures. This pattern indicates that increasing uncertainty is associated with increasing risk aversion by German investors.

Top 10 target countries (excl. Germany)



Top 10 bidder countries (excl. Germany)



Focus on German targets

The number of reported acquisitions of German targets by foreign investors, however, reached previous year's level. While investors from Denmark (+40%), Austria (+25%), and Sweden (+19%) were more active than in 2019, investments from Japan (-46%), Switzerland (-29%), and the Netherlands (-27%) showed significant declines. From an absolute perspective, investors from the U.S. (107 acquisitions) were still the most active international buyers of German targets, followed by French (55 acquisitions) and UK (49 acquisitions) on rank two and three, respectively. Interestingly, with 28 announced takeovers, Chinese investors show a stable activity level compared to 2019. This is particularly surprising, because the German government has implemented measures to prevent takeovers from critically relevant businesses by Chinese investors.



+27%

Reported deals in TMT

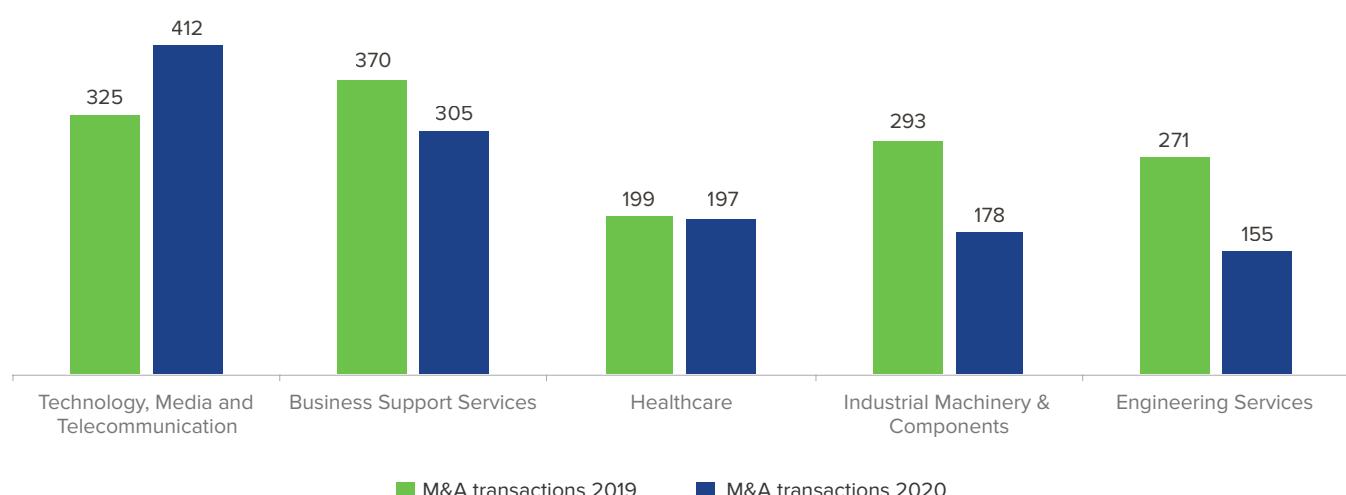
-49%

Reported deals in Automotive

Winners and losers of the COVID-19 pandemic

It is undisputed that the outbreak of COVID-19 has accelerated the ongoing digitalization. On the other hand, especially industries with stationary sales or global supply chains suffered from significant negative effects of the pandemic. The effects are reflected in the number of reported M&A transactions. With an increase of 27% on an annual basis, the Technology, Media and Telecommunication (TMT) sector was the only industry with increasing M&A activity. Other industries, such as Automotive (-49%), Consumer & Retail (-47%), Engineering Services (-43%), and Industrial Machinery (-39%), experienced a strong decline. The strong drop is, however, not only driven by the pandemic, but also reflects the ongoing transformation of some industries, i.e., Automotive towards alternative engines and Retail towards e-commerce. On an absolute level, TMT (412 transactions) remains the most active sector, followed by Business Support Services (305 transactions) and Healthcare (197 transactions), ranking two and three, respectively.

Top 5 Industry split 2019 and 2020

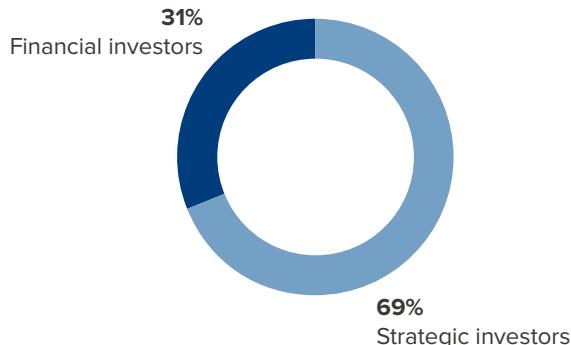




Record height for financial investors

In 2020, financial investors were involved in 31% of all transactions which is a further increase of 6 percentage points compared to 2019. Thereby, the activity of financial investors was at an all-time high in Germany. The increasing activity of financial investors is no surprise considering the large amounts of dry powder in the market. For instance, Blackrock, KKR, CVC, Ardian, and Carlyle have more than EUR 250bn to be invested. Especially during the first half of 2020, financial investors were able to successfully realize most transactions in their focus sectors TMT, Business Support Services, and Healthcare. Indeed, about 65% and 74% of all TMT and Business Support Services transactions with financial investors were executed in the first half of 2020. Particularly during this time, decision-makers of strategic investors were more occupied with the daily operations of their core business with less capacity to seriously explore and execute M&A transactions.

Activity of financial and strategic investors



Top 5 most active financial investor

#	Investor	Transactions
1	Triton Partners	15
2	AUCTUS Capital Partners	13
3	Mutares	12
4	Waterland Private Equity	11
5	DBAG	10

2

26

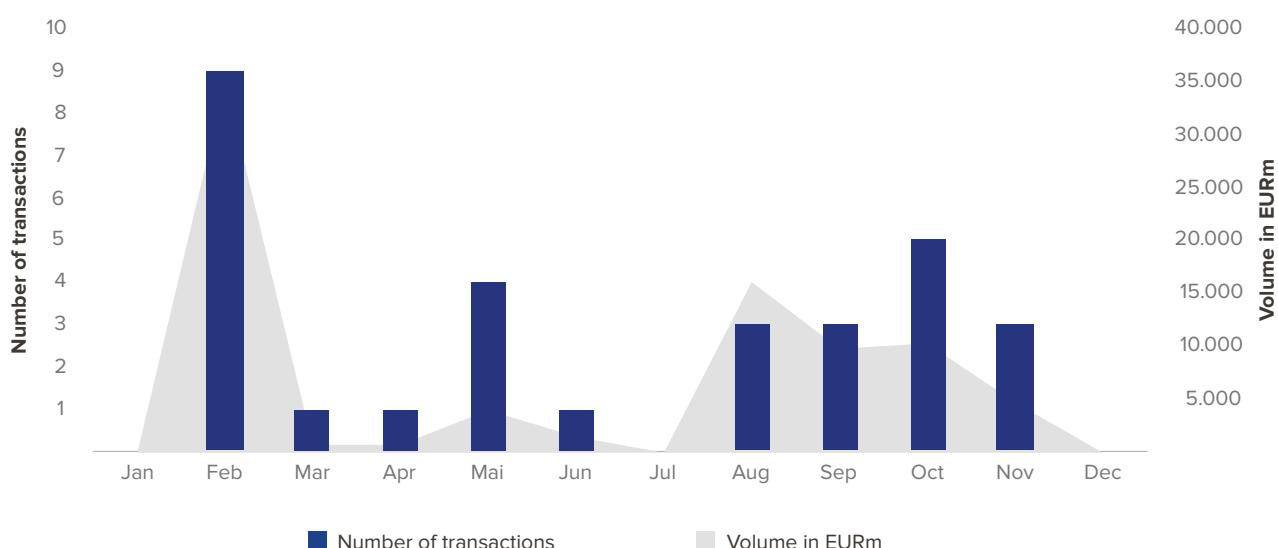
Mega deals above EUR 10bn

Deals above EUR 1bn

Top 30 Deals with German participation

We can report two mega deals above EUR 10bn for 2020. Firstly, the most important transactions with a German counterpart was the sale of Thyssenkrupp's highly profitable elevator division to Advent International, Cinven, and RAG Stiftung for about EUR 17.2bn, highlighting the financial power of Private Equity also in the Large Cap sector. The sale is part of the strategic restructuring process of the German blue-chip firm and was announced at the end of February 2020. Secondly, Siemens Healthineers AG acquired the U.S. provider of radiation oncology solutions, Varian Medical Systems, for nearly EUR 14bn in August 2020. Besides the two mega deals, we can report 26 transactions with a deal volume above the one-billion-euro mark, which is 5 transactions more than in 2019. The cumulative deal volume of the Top 30 deals was EUR 82.6bn and thereby EUR 5.4bn higher than in 2019.

Top 30 deals with at least one German counterpart



In a nutshell

In 2020, the COVID-19 pandemic had a large impact on economies and societies around the world. During the first outbreak of the virus, and particularly for the period of the most significant public life restrictions, M&A activity in Germany dropped to a minimum. After the step-by-step ease of public life restrictions in May, the market started to pick up again. Since September, the Robert-Koch-Institute (RKI) has been reporting exponential growth rates of COVID-19 patients. M&A activity, however, has turned out to be remarkably stable. In fact, the number of reported transactions exceeded previous year's level by 10% and 24% in November and December, respectively.

This is consistent with the development of the large international stock markets. Particularly TMT businesses can be highlighted as winners of the global pandemic. Learnings and less economic uncertainty as well as the digital transformation might explain the first signs of the immunity of the M&A market. Due to further quantitative easing and high liquidity, corporations with successful business models can realize attractive prices, despite the COVID-19 pandemic and public life restrictions. Even a global crisis uncovers new opportunities for business development and growth.

Since economic uncertainty has declined and participants have become more comfortable with a digitalized M&A process, the number of reported transactions has been able to recover and the M&A has been more resistant to the crisis. We expect that physical meetings and site visits will return to the agenda as soon as possible and will not be completely replaced by virtual meetings. Nevertheless, as participants got used to virtual meetings, M&A processes became more flexible and consequently resistant to external effects, such as the COVID-19 pandemic. High levels of liquidity in the market, the ongoing trend to carve out non-core business, and market consolidation associated with increasing insolvency rates are further factors that encourage M&A transactions in the coming months.

Overall, also thanks to the fast developed vaccines, we expect that the recovery of the M&A market is sustainable and foresee a growing number of reported transactions for 2021.



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-border transactions covering various industries. Over 50% of all transactions were cross-border.

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 mezzanine capital

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