16/07/2015

German Trendspotter: lowest share of European M&A since 2001 amid rise in IPOs, Consumer & Industrials deals - mergermarket

- YTD value of German IPOs triple over last year as M&A wane
- K+S/PCS deal or Axel Springer/ProSiebenSat merger could boost 2H15
- Market caution while Greek crisis pans out

A lack of large deals, economic uncertainty surrounding the Greek crisis, and an active IPO market, have all contributed to slowing down German M&A activity in 1H15, and could hamper an increase in deals during 2H15. Germany's share of European deal-making was down 5.9%, the lowest contribution towards European M&A for any 1H since 2001, according to *Mergermarket*'s trend report found here.

"The market risk factors relating to a potential default of Greece appear manageable for the time being. However, we currently see less large-scale transactions in Germany and I do not think this will change dramatically over the next few months," said Martin Reitz, Head of German Speaking Countries at Rothschild.

Germany generated deals worth EUR 24.7bn during 1H15, a decrease by 24% compared to the total of EUR 32.6bn in 1H14. In fact, 1H15 has shown the lowest values for the period since 2010, according to *Mergermarket*.

The biggest deal in Germany was the sale of German perfumery **Douglas** to **CVC Capital Partners** in June for EUR 2.8bn. Douglas was expected to list but opted for a trade sale last minute. This compares with 2H14's biggest deal which saw **Sky plc** [SKY:LON] acquire **Sky Deutschland** [FRA:SKYD] for EUR 6.2bn.

However, a large deal, such as a potential merger between **Axel Springer** [ETR:SPR] and **ProSiebenSat.1 Media** [ETR:PSM] in the media sector could boost Germany's 2H15 deal value significantly. Last week, Axel Springer shares jumped 6% on the back of press speculation regarding a merger of the digital publishing house with the German broadcaster. Early gains were pulled back by a statement from Axel Springer playing down speculation without ruling out a merger.

Potash Corp's [TSE:POT] ongoing bid for German agricultural firm **K+S** [ETR:SDF] could also shake up the German M&A landscape considerably. K+S rebuffed a EUR 41/share proposal from Potash Corp on 2 July. It cited undervaluation and redundancy concerns as key defence points, as reported by this news service.

As a result of the strong level of private equity activity in 1H15, the consumer industry was the most sought after sector with a 25.5% share of total deal making. It was closely followed by the industrials and chemicals sector, which contributed 23.9% to total transaction values and real estate with a 19.4% share.

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"There is a clear consolidation case in many industries – ranging from General Industrials, Capital Goods, Chemicals, or Automotive suppliers to Healthcare, Consumer products, Financial Services, Technology, or Real Estate. We see deals in all these segments," Reitz said.

Busy IPO activity

A flurry of initial public offerings year-to-date has shown strength in Germany's equity capital markets. A total of seven German companies listed successfully, totalling EUR 2.6bn, compared to four listings during the same period in 2014 worth EUR 857m. **Deutsche Pfandbriefbank** [ETR:PBB], which started trading Thursday morning, was Germany's largest IPO in 1H15, raising EUR 1.16bn. **German Startups Group**'s IPO is ongoing, having extended its offer period until 21 July.

However, **CBR Fashion Holding**, **ADO Properties** and **CHORUS Clean Energy** IPOs have all been postponed citing economic uncertainty and investor caution due to the Greek crisis. These companies are likely to try listing again in 2H15, as reported by this news service.

Packaging firm **Mauser** is also expected to announce its intention to float, and container shipping firm **Hapag Lloyd** has mandated Deutsche Bank, Berenberg and Goldman Sachs to manage its IPO, which could occur as soon as autumn, according to press reports.

"The market supports IPOs at the moment; there is a lot of money ready to be invested, equity is currently an attractive asset class, and valuations are high. Companies with sufficient size and a strong stand-alone equity story – which could be based on growth, but also on cash flow or dividend yield – can expect healthy investor demand," Reitz said.

In terms of LBO financings, investment grade credits and corporate acquisition financings the German market is wide open. "Despite a recent increase in rates and spreads, we still observe excellent pricings, very deep and liquid markets for most credits, a strong appetite for deals on the side of lending banks, and – important to note – still relatively disciplined approaches to leverage," Reitz said.

Macroeconomic indications

"Growing economy and political stability make Germany an attractive destination for investors," Felix Hoch, Partner at **CH Reynolds Corporate Finance** said. However, the influence of instable international situations such as Russia and Greece need to be considered, he added.

Greece is a small economy and Hoch believes that even in the case of an exit from the Euro, European countries will be able to face and handle the situation. He is more concerned about Russia and Putin's next steps.

"Russia is a large economy and has always represented an important market for German companies," Hoch said. Several OEMs such as **General Motors** [NYSE:GM] have already exited the country and others have kept only a limited presence, he added.

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Several deals have already taken place in 1H15, among the German mid-cap companies and more will follow, Hoch said. “German Mittelstand companies have cash available and are increasingly looking at acquisitions to grow,” Hoch said.

Industrie 4.0, the German government-backed initiative, is also driving technology deals among the Mittelstand, Hoch said. Equally, German companies are looking for local targets in the DACH region as well as foreign targets, he said.

International players are also actively looking for German candidates. “We are seeing Swiss investors, now favoured by the exchange rate, but also from Britain and other European countries,” Hoch said. American, Indian and Chinese make up the majority of non-European investors, he added.

Renewable energy sector

Investors have strongly returned to consider the renewable energy sector, said Patrick Lemcke-Braselmann, head of acquisition and financing at **Voigt & Collegen Group**, a German asset management firm.

“The yield offered by renewable assets is still attractive and in many countries higher than for other investments such as real estate,” he said.

Consolidation among companies managing renewable assets is expected to continue, since size matters in this sector and players are trying to grow their portfolios to reach a larger capacity, possibly of 1GW and above, Lemcke-Braselmann said.

Some deals have already taken place and more will follow, he said. Examples of recent activity in this sector include the acquisition of **Phoenix Solar**’s [ETR:PS4] O&M business by **SMA Solar Technology** [FRA:S92] and the acquisition of a majority stake in **Juwi** by **MVV Energie** [ETR:MVV1], he added.

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