Q&A

REPORTER MARIA JACKSON PUTS THE QUESTIONS TO P+P PÖLLATH + PARTNERS

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GERMAN M&A: MAPPING THE TRENDS

As competition for deal targets heats up, P+P Pöllath + Partners outlines the main headlines driving M&A transactions

Last year represented a robust performance in terms of deal flow for Germany. The total amount of deals conducted in the country during 2013 reached a combined value of $94 billion (EUR 72 billion), which marked the highest value recorded since the financial crisis rocked global markets in 2008. Momentum has remained stable going into 2014: according to Mergermarket research, Germany racked up around $41.6 billion (EUR 31.8 billion) worth of deals in the first half of 2014. Importantly, the value of inbound transactions saw an 18.1 percent hike in the first half of this year compared to the first half of 2013, to $38.3 billion (EUR 29.2 billion).

P+P Pöllath + Partners has had a hand in many of the headline deals that have hit the German market, particularly for its strong roster of private equity clients. Among its recent highlights, in 2013 the firm advised private equity investor EQT, as one of the owners of Springer Science + Business Media, in the $4.4 billion (EUR 3.3 billion) sale of the global publishing company to private equity firm BC Partners. The firm has also secured prominent roles in deals arising from the country's flourishing equity capital markets scene. Most notably, in June 2014 the firm advised the management of Braas Monier, in its $1.28 billion (EUR 940 million) IPO.

Otto Haberstock and Dr. Georg Greitemann, M&A partners at P+P Pöllath + Partners, discuss how the investment market has been developing in Germany over the past 12 months.

TO WHAT EXTENT IS PRIVATE EQUITY ACTIVITY ON THE RISE?

P+P: Private equity investment has increased quite significantly in recent years; it has gained significant traction since the stagnation occurred in the wake of the financial crisis. Established funds have been more successful in their recent fundraisings and a large volume of capital is available for deals. The German market has therefore seen a significant number of transactions being closed by PE houses, including many secondary (tertiary, etc.) transactions. In the first six months of 2014, private equity houses invested EUR 2.8 billion in 700 German businesses, the same as during the second half of 2013 and more than a third more than in the first half of 2013 (EUR 2 billion).

However, the deal flow is still not back to the volumes reached before the financial crisis and competition among PE houses throughout all deal sizes is fierce. Bank financing is no longer a bottleneck for PE transactions. The assets that have been sold in the past six months have received very healthy valuations and PE houses have used that opportunity on the sell side. Since good assets with attractive valuations are rather scarce at the moment, PE houses have not done as many buy-side deals as they would have liked to do. Given current low interest rates, price increases in other asset classes, and the good financial condition of the German economy, many German business owners are rather hesitant to sell now.

U.S.-BASED PRIVATE EQUITY HOUSES HAVE INCREASED THEIR INVESTMENTS INTO EUROPE; TO WHAT EXTENT IS THIS BEING SEEN IN GERMANY?

P+P: Germany has traditionally been a focus for U.S.-based private equity houses, due to its strong track record in harboring investment, and this has been increasingly visible over recent years. U.S.-based private equity investors have been able to close on some of the largest transactions in Germany since the financial crisis, such as Koch Equity Development and Goldman Sach's $2.9 billion acquisition of printing ink maker, Flint Group in 2014.

That said; European private equity is also having some high-profile successes, such as CVC Capital

Partners' 2013 acquisition of Germany metering business Ista for around $4.1 billion (EUR 3.1 billion).

HOW ACTIVE HAVE U.S.-BASED INVESTORS BEEN GENERALLY IN GERMANY OVER THE PAST YEAR?

P+P: U.S.-based investors are still the biggest group of foreign investors in Germany (counted by number of new investments). These funds are provided not only via the U.S. PE houses but also by U.S. investors making direct capital commitments to first class German or other European PE houses. Last year saw the IPO of the KKR-owned Kion Group as well as the IPO of GS-owned real estate group LEG.

THE FIRM RECENTLY ADVISED THE MANAGEMENT TEAM OF BRAAS MONIER IN GERMANY'S BIGGEST IPO OF 2014; TO WHAT EXTENT IS THIS IPO BEING VIEWED AS A BELLWETHER FOR CAPITAL MARKET ACTIVITY?

P+P: With only few IPOs in the German market this year, Braas Monier is absolutely a very important indicator. It is certainly proof of investors' appetite for businesses which have built innovative market strategies on top of their solid product portfolio.

It will be interesting to see how the IPO announced for Europe's largest online fashion retailer, Zalando, will be received, which is slated to list later this year. Already, it is being mooted that it could become Europe's largest technology IPO since Germany's T-Online debut in 2000. The Samwer brothers' incubator, Rocket Internet, is also planning to go public in the second half of 2014.

Following a successful IPO and post-IPO phase of Zalando and Rocket Internet, other e-commerce businesses may follow later in the year or next year.

TO WHAT EXTENT ARE YOU SEEING AN UP-TICK IN CROSS-BORDER INVESTMENT WITH CHINA?

P+P: Over recent years, Chinese investors have shown very significant interest in making investments in German businesses and/or real estate portfolios. It seems that following the longstanding very intense activity and cooperation of many German companies in China, Chinese business-owners have become increasingly encouraged to make similar

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investment moves into Germany. The robustness of many German businesses, and the economy as a whole even through the crisis years, has created confidence in the solidness of investment into the German market.

In addition, Chinese investors (like most investors from other countries) appreciate the reliable investment climate, which of course includes the reliability of the legal system. China's recent decision to make internal government approvals for foreign investment significantly easier to obtain, or abolishing them altogether, will certainly lead to an even greater number of successful investments.

On the political level, the countries have continued their concerted cooperation efforts, with a new treaty on double taxation signed in March 2014; it is expected to come into effect in January 2015.

Chinese investors are now the third-biggest group of foreign investors in Germany (counted by number of new investments), just after U.S. investors and Swiss investors.

TO WHAT EXTENT IS GERMANY'S ECONOMY EXPECTED TO WEATHER RECENT GEOPOLITICAL UNCERTAINTIES TO CONTINUE ON ITS UPWARD TRAJECTORY?

P+P: The most important development will certainly be what influence the sanctions on Russia enacted by the European Union will have on German businesses. Business cooperation with Russia has been strong over the last few years and it is very likely that there will be disruption on some level. Given the large diversification of most German businesses, however, the general expectation is that the economy as a whole will only suffer mildly.

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