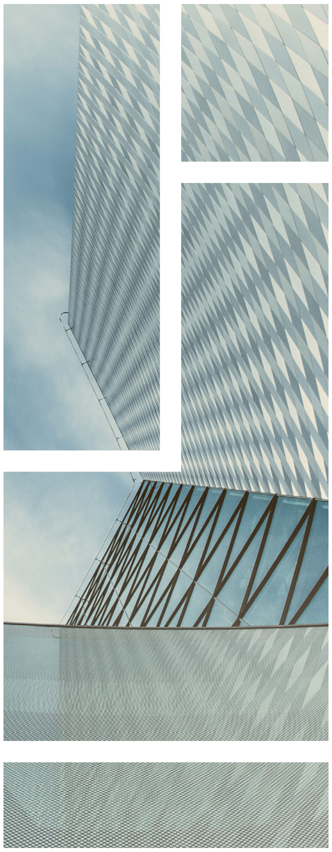
State of M&A in Germany: COVID-19 and Beyond



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The COVID-19 pandemic has led to a drastic lockdown since March 2020, placing the global economy in unprecedented shock. The economic consequences are not yet fully foreseeable today. There is a consensus among top economists that Germany will fall into a deep recession of unprecedented magnitude this year. The price crashes on the stock markets anticipate dramatic falls in sales and liquidity bottlenecks among companies.

In an environment characterized by declining profits, uncertainties and pessimism, it is not surprising that the corona virus has severely infected M&A business in some industries and largely brought it to a standstill in the coming months. In many ongoing M&A processes, prospective buyers are very cautious; Strategists are hardly able to make decisions these days. In addition, they have to keep their powder dry at times when "Cash King" is, and private equity will only invest when the fire in the portfolio companies is extinguished, bank financing has been put in place and, above all, there is sufficient visibility into future business developments. Numerous transactions are therefore delayed or put on hold by the seller until early summer. Based on our experience from the financial market crisis of 2008/09, we expect the number of transactions in Germany to drop by more than 50% in the first half of 2020.

As soon as companies start to produce trouble-free again and the markets stabilize to a large extent, the M&A sentiment should turn quickly again. As a result, we expect a noticeable revival in deal activity in Germany from July 2020 not only as a result of catch-up effects. While a booming economy, high purchase prices, low interest rates, high investment pressure and strong euphoria have shaped the market in recent years, other drivers of mergers and acquisitions will be in the foreground in the future.

CHARACTERISTICS OF THE GERMAN M&A MARKET ACCORDING TO CORONA

Significant change from the seller to the buyer market	Defensive deals and emergency sales are in the foreground	Strategically motivated deals only in certain industries	Increased sales of peripheral activities at large corporations	Increase in distressed transactions	Greater spread among valuation multipliers	Hostile takeovers of undervalued listed AGs

Declining earnings and subdued economic prospects are forcing many medium-sized companies to sell to a larger or financially strong partner. Large corporations need to prioritize their portfolio roundups in order to generate liquidity and focus better on their core business. The M & A will experience a special boom in the automotive industry, which has come under severe pressure. Conversely, however, some sectors will emerge from the corona crisis stronger. For example, strategically motivated, highly rated deals will continue to take place in the areas of healthcare, biotechnology, IT or e-commerce.

The German mid-cap segment in particular is likely to be very active in the next 18 months. In M&A processes, we will likely see smaller fields of bidders and more cautious prospective buyers who take a close look at current trading and hardly push for quick completion. Purchase agreements will increasingly use earn-out and MAC clauses to bridge valuation differences and hedge risks.

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