



The M&A-Market: Challenges going forward and how to cope with it.

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1. General trends and macroeconomic factors, which may have an influence

Positive Factors

- General interest in acquisitions is increasing
- Activist major-shareholders increase pressure on companies to sell non-core businesses
- Trend to carve-outs increasing sharply, because of
 - » Activist shareholders
 - » Need to focus on core-activities – and to finance either their development or
 - » Need to finance change into the “New World” (digitalization, environment, etc.)
 - » Need to reduce cost
- Rising globalization forces new critical mass

Negative Factors

- Political uncertainties gaining importance, especially outside the EU; (trade conflict US-China, uncontrolled Brexit,)
 - Less “larger” deals - maybe less relevant for mid-cap advisors
 - DD-processes getting more and more intensive and consequently lead to longer processes
 - Interest of buyers becomes more and more “digital”
→ “Either of interest or not”
 - “Coronavirus” → may not only paralyze economy in Asia → It’s already happening in other parts of the world
 - Growing protectionism and control of investments by foreign investors through respective governments
 - Germany 2019: 3 times as often payment defaults as in 2018.
 - Nearly every business is subject to review because of
 - Digitalization
 - Environmental issues
 - Different consumer behavior of “Generation y / z”
 - Changing consumer trends (food, packaging, etc.)
- => Are such assets, which are in question, still saleable?



2. Specific Factors influencing our business

Positive Factors

- Public-to-Private transactions are likely to increase
- Restructuring of larger companies / carve-outs
- Lots of liquidity (still...) and low interest rates
- More and more aggressive debt-funds stepping into gaps created by banks
 - » Faster and less risk-averse
 - » No limited time horizon
 - » Accept higher debt ratios as banks
 - » Not necessarily need for syndication
- Need for change from “old economy” into new business models (digitalization,etc)
- Increasing interest of foreign companies in Germanys “Hidden Champions”
- Financial investors reduce their ROI-expectation more and more to 15 % - 20 % instead of 25% previously

Negative Factors

- Risk of negative overvaluation
 - “Growing skepticism” and therefore leading to being overcautious
 - Specific sectors (e.g. automotive; machine building)
- Acquisition finance becomes tougher to get, because
 - Syndication of loans for banks becomes more difficult since investors are increasingly risk-averse
 - Need for more equity in structuring a deal (35 % - 40 %, even 50 %)
 - Longer and longer DD-processes that probably only have the goal of finding reasons not to make it??



3. Sectors: Where deals are likely to fly and where not

- The term “transformatory transaction” gets a new meaning. Not “volume” or “market entrance/ - share” is key but a “solution to the challenges of the “New World”
- Deals in cyclical sectors tend to become more difficult to close.

Sectors with Positive Image (examples)

- E-Commerce
- Electric mobility
- Traffic systems
- Healthcare, Medical devices
- Media & Communications
- Business Services
- Software
- Aviation
- Investments in Start-up’s – small companies offering a solution

Sectors with Negative Image (examples)

- Automotive
- Machine building
- Chemistry
- Fashion
- Food → selective
- Packaging → subject to repositioning
- Financial services
- Retail
- Some consumer goods



4. Conclusion

- The world is currently in upheaval and characterized by numerous uncertainties- despite Covid19!
- Most of the reasons for it are outside of the individual control of a CF-advisor but will have an impact on their business. However, are there any ways to react?
- Transaction advisors may need to be more careful / selective concerning projects they take on their books
- Some of the criteria could be:
 - Quality of client
 - Activity in a sector, positively regarded; watch cyclical sectors!
 - Critical size to be of interest for financial lenders
 - A business model having a future in the respective local market / industry
 - Be in line with new consumer habits / trends
 - Environmental impact
 - Restructuring of conglomerates / larger mid-caps
 - Offering “smart” solutions! Only “deal-processing” may not be sufficient!
 - The smart CF-advisor is gaining renewed importance!!

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