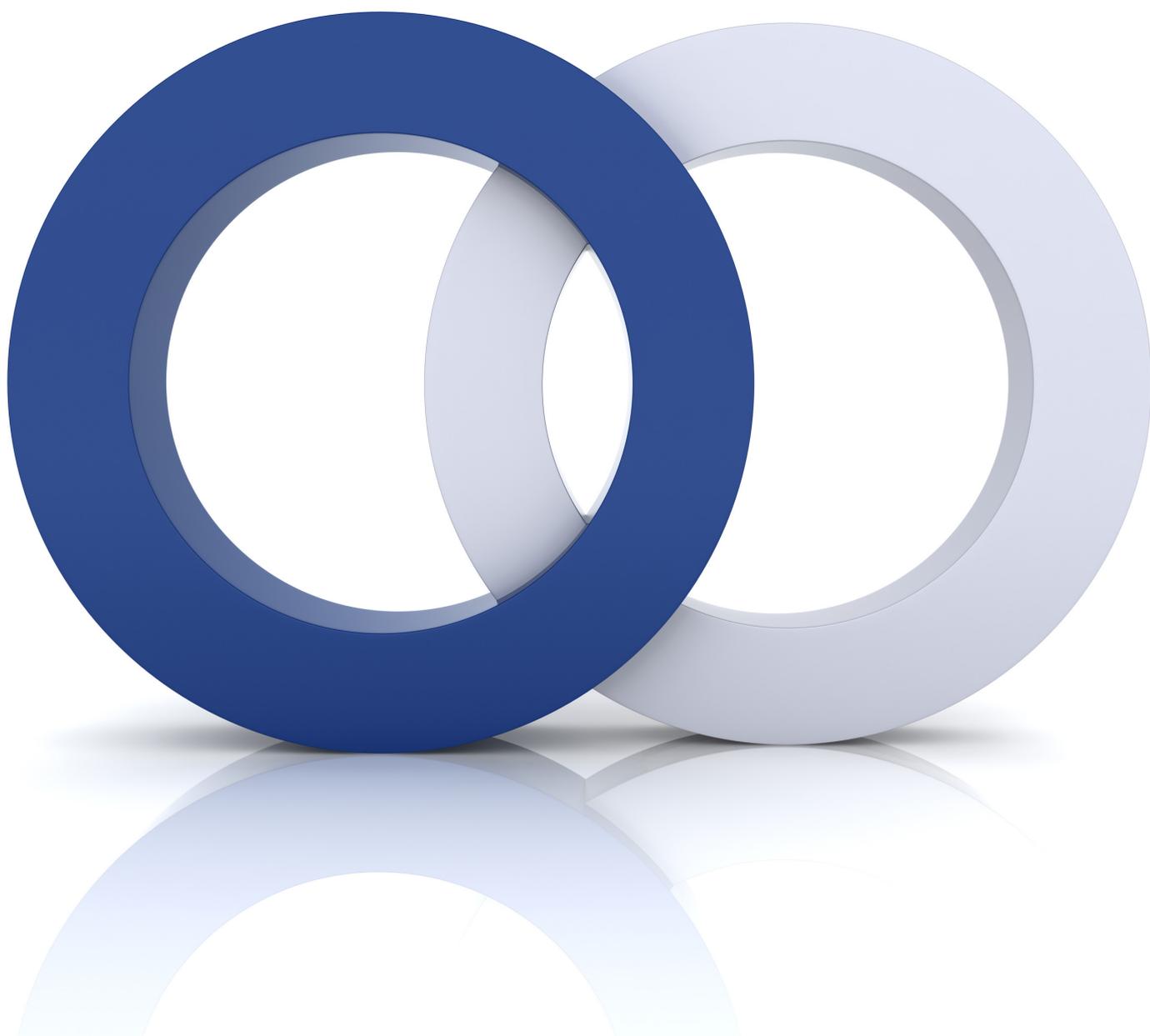


ALLEN & OVERY



Pre-event survey questions to 100 German Deal Makers

Key findings | 2019

Introduction

Allen & Overy and Mergermarket conducted an exclusive pre-event survey with 100 German deal makers including corporates with revenues over EUR500 million, private equity houses with assets under management exceeding EUR100m and bankers as well as financial advisers. All of them have done a deal in Germany in the past three years and are mainly headquartered in Germany.

We are delighted to share the results and key findings of the survey with you in this brochure and are keen to learn about your opinion on the range of topics.

“Allen & Overy has it all: impressive geographic coverage and the depth of expertise to take on the most complex work.”

Chambers 2016

Key findings

The top three challenges with respect to deals in 2019 cited by German M&A dealmakers include the global macroeconomic outlook (69%), global political instability (39%) and foreign regulatory/legal obstacles (38%). Macroeconomic uncertainty linked to a U.S.-China-Germany trade triangle impacted by a war of tariffs and words, alongside conservative buyers unwilling to match sellers' high expectations has been instrumental in driving sentiment down.

Meantime, German private equity buying activity has had an active start to the year. Buyout deal value has reached EUR11.2 billion, already exceeding all quarterly figures seen in 2017 and 2018. In line with these figures, 85% of respondents expect the level of private equity buyouts on German targets in 2019 to increase compared to the previous year (including 18% who expect a significant increase).

Nils Koffka, Private Equity partner at Allen & Overy comments: “Despite the anticipated slow-down in the economy, we assume an active buyout market in 2019 as many PE houses will consider selling their portfolio assets quicker and turbulent stock markets create more opportunities for P2P transactions.”

Take-privates in the private equity space have also increased in recent years. Between 2016 and 2018, Germany saw eight take-private deals. In Europe overall during the same time frame there were 78 such deals worth a total of EUR57.8bn. In 2019 so far, there have been a further six take-private deals in Europe, including the EUR5.7bn takeover of Scout 24. 47% of respondents see a sale to another PE firm (secondary buyout) as the favoured exit route for private equity. Another 41% feel trade sales will be the preferred option. Only 12% of respondents see minority sales and IPOs as an option.

Check out all findings of the survey on the following pages. Please feel free to contact our team if you would like to discuss the results any further.

Key contacts



Dr Nils Koffka
Partner
Tel +49 40 82221 2112
nils.koffka@allenoverly.com



Thomas Neubaum
Partner
Tel +49 69 2648 5679
thomas.neubaum@allenoverly.com

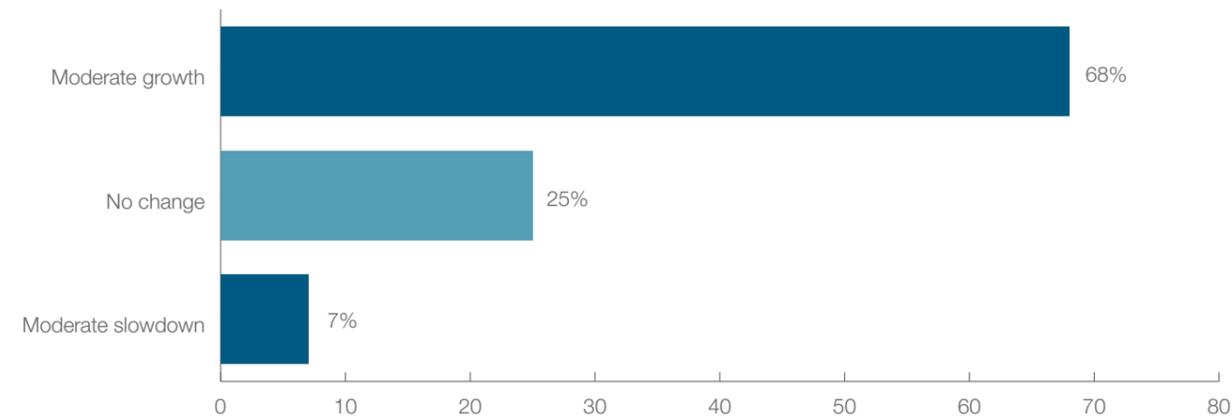


Dr Knut Sauer
Partner
Tel +49 69 2648 5375
knut.sauer@allenoverly.com

Trends

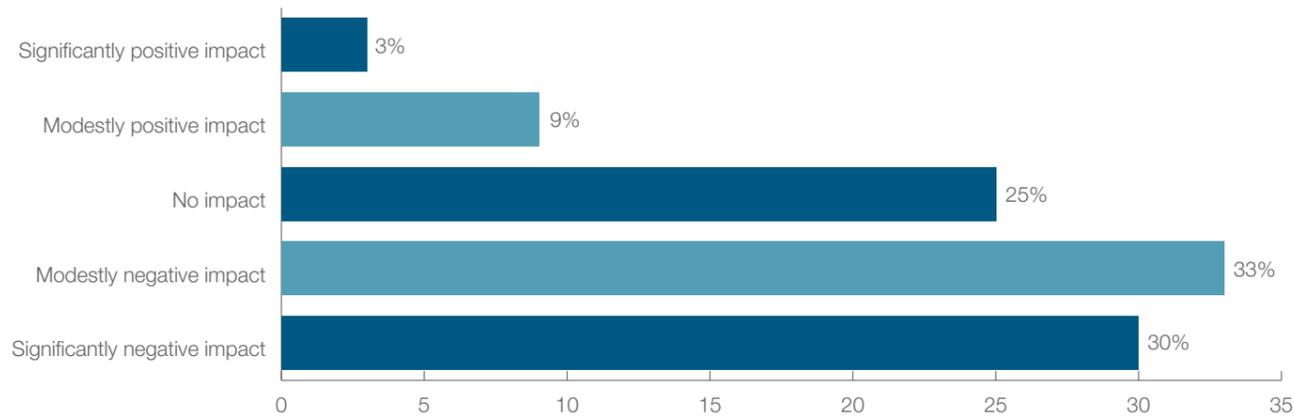
1.1 German Economy

What will happen to German GDP in 2019 in relation to the rate of growth in 2018?



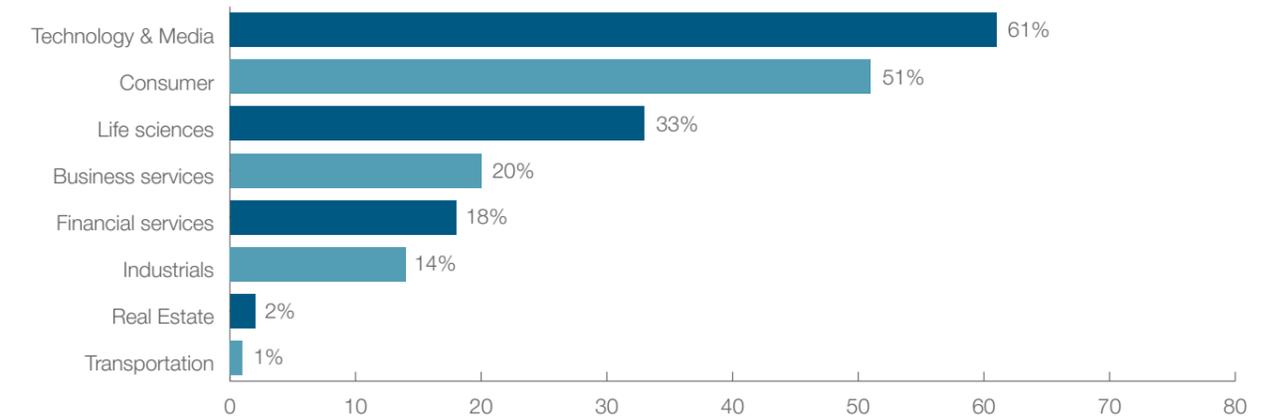
68% of respondents say they expect German GDP to experience moderate growth in 2019 compared to the rate of growth in 2018.

In your opinion, what impact would a no-deal Brexit have on the German economy in 2019?



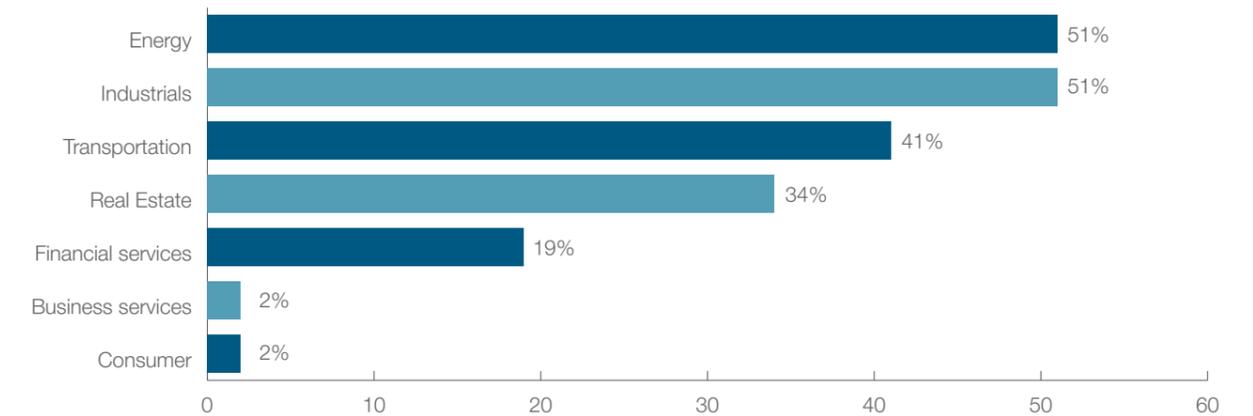
63% of respondents say a no-deal Brexit would have a negative impact on the German economy (whether modestly or significantly negative). Just 12% say such a Brexit would have a positive impact.

Which sectors are most resilient to the next economic downturn in Germany?



When asked about the two most resilient sectors of the German economy in a downturn, 61% point to technology and media while 51% cite the consumer sector.

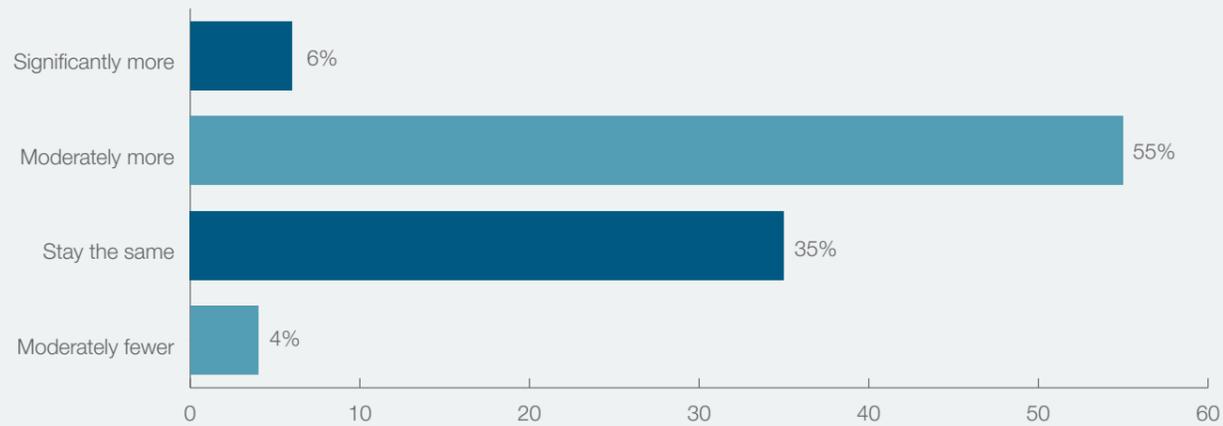
Which sectors will be most negatively affected by the next economic slowdown in Germany?



51% of respondents say the energy sector is among the top two sectors they anticipate will be most negatively affected by a slowdown. The same number of respondents point to the industrial sector.

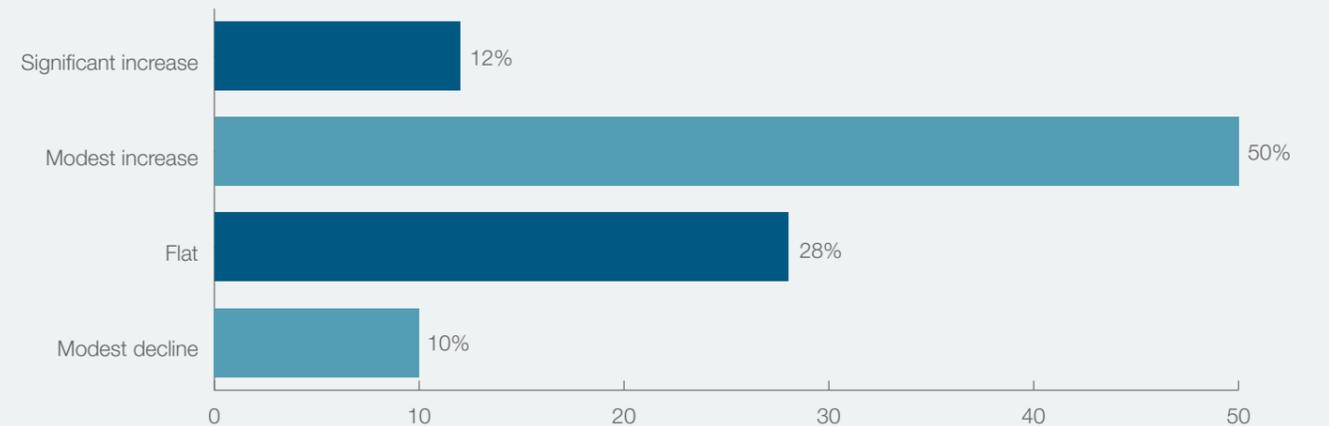
1.2 M&A in Germany

Over the next 12 months do you expect your organisation to be mandated on more or fewer M&A deals compared to the previous 12 months?



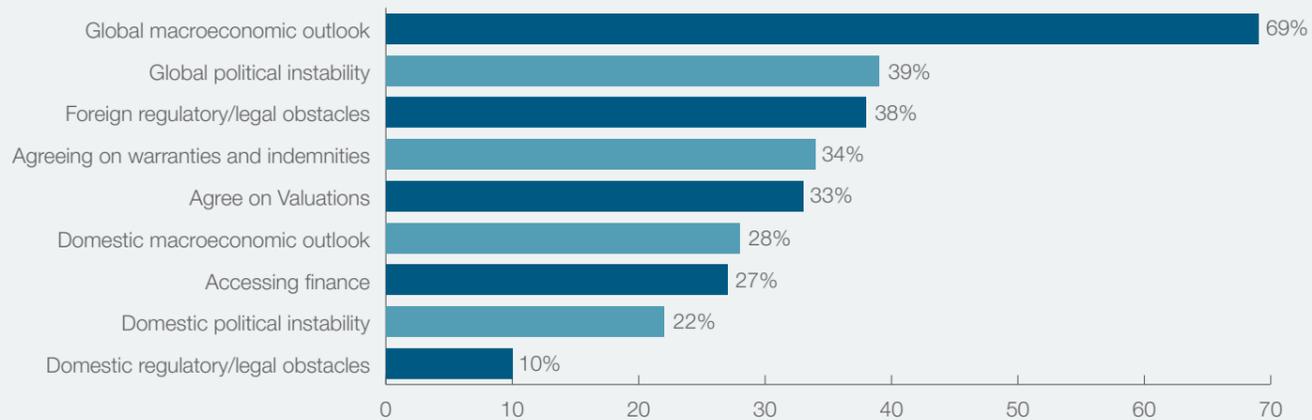
61% of respondents say they expect their organisation to be mandated on more M&A deals compared to the previous 12 months. Just 4% expect to see fewer mandates.

What is your expectation for the level of cross-border M&A between Germany and China in 2019, compared to 2018?



62% say they expect the level of cross-border deal-making with China to increase in 2019 compared to the previous year. Just 10% expect a decline.

What will be the top three challenges to German M&A deal making over the next 12 months?



When asked about the top three challenges to German M&A deal making over the next 12 months:

- 69% point to the global macroeconomic outlook
- 39% cite global political instability
- 38% point to foreign regulatory/legal obstacles.

“German companies operating in China know the vast potential the Chinese market has and they will continue to expand in China through M&A and we will also see many more new companies getting into China driven by the vast consumer and industrial market China has.”

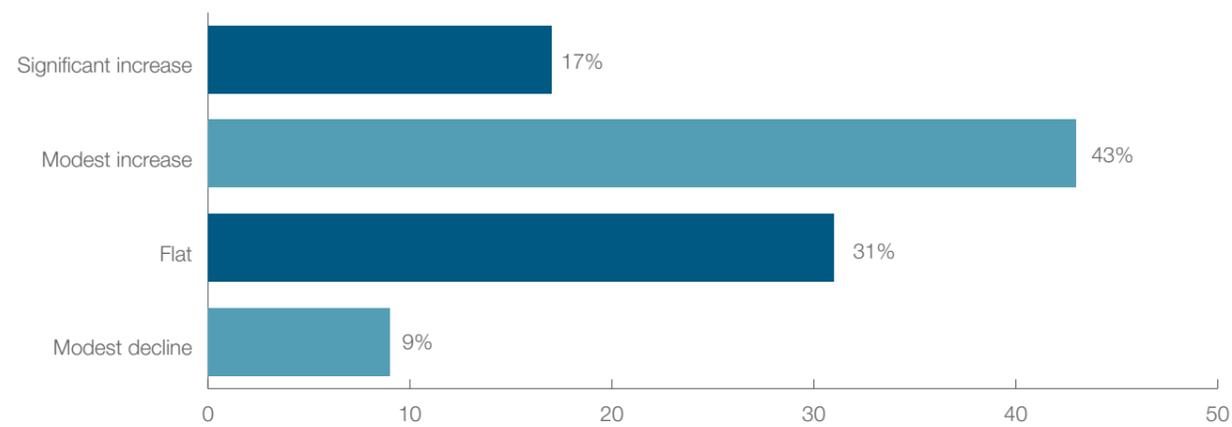
Head of M&A at a German tech company

“I think our government will intensify scrutiny of Chinese M&A as it has been observed that China is using M&A to acquire sophisticated technologies... with scrutiny and restrictions coming in I doubt Chinese companies will be coming to Germany in the same numbers – their main driver for doing M&A in Germany is to acquire technology.”

Partner in a PE firm

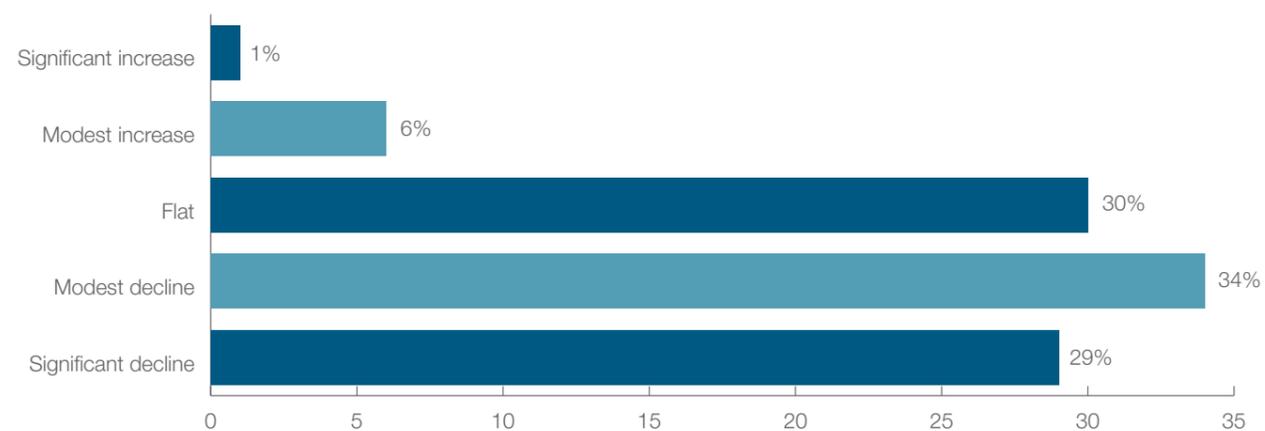
Survey source: Mergermarket

What is your expectation for the level of cross-border M&A between Germany and the U.S. in 2019 compared to 2018?



60% say they expect cross-border deal-making with the U.S. to increase in 2019 compared to the previous year. Just 9% expect a decline.

What is your expectation for the level of cross-border M&A between Germany and the UK in 2019 compared to 2018?



Just 7% of respondents expect the level of cross-border M&A with the UK to increase in 2019. Some 63% expect a decline to take place.

“There is every possibility that the trade tension between the U.S. and Germany will increase. If Trump continues his stand and increases protectionist measures then certainly Germany will retaliate and that will further strain the economic relations and under these circumstances I don’t think M&A activity between the two countries will increase at all.”

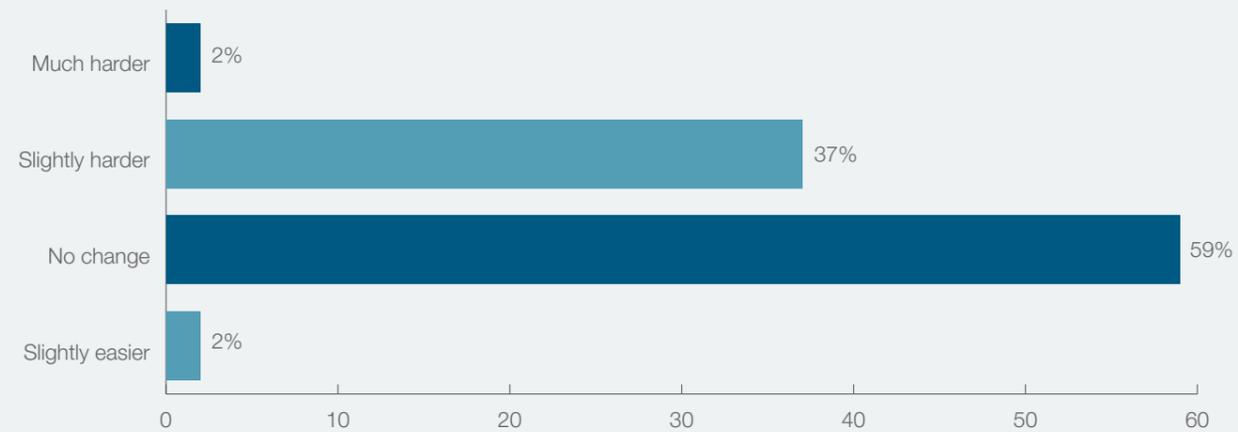
CFO at a consumer company

“Decline is imminent as both political and economic conditions are uncertain now. The UK is having severe economic and political crises and has no road map to recover from the Brexit crisis. There are regulatory and political crises in the UK and because of this a lot of German companies will shy away from making any new M&A.”

Partner in a PE firm

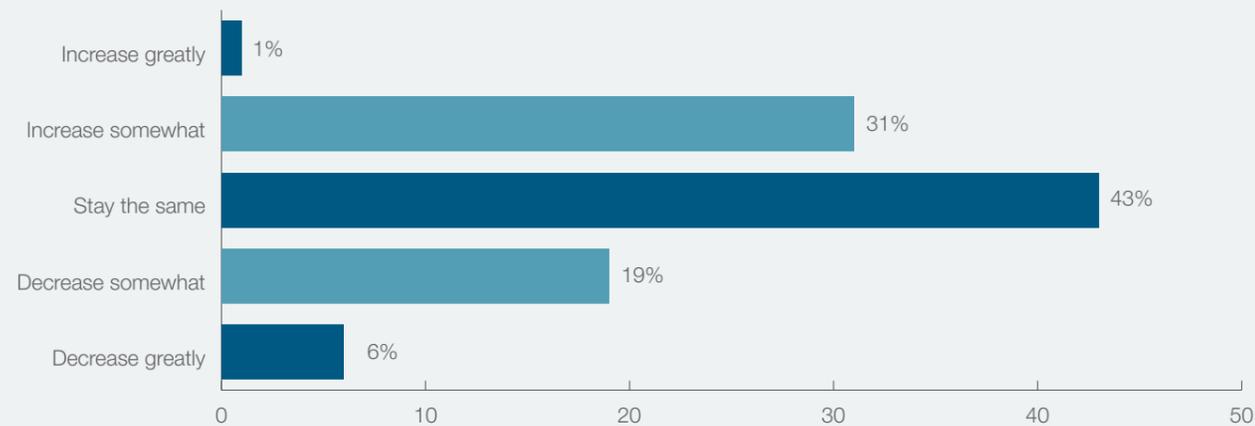
2. Financing transactions in Germany

How do you expect the availability of finance in Germany to be in 2019 compared to 2018?



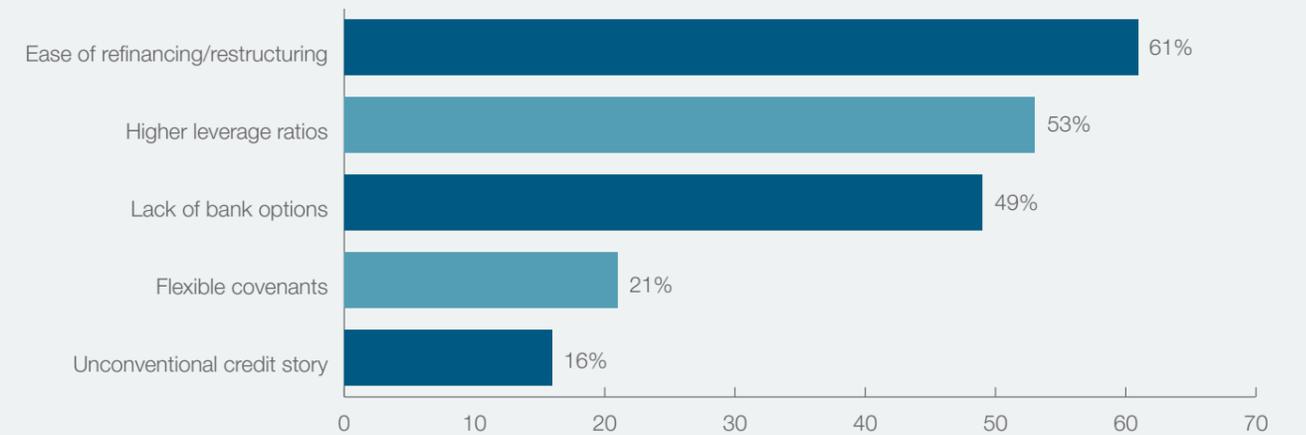
59% expect to see no change to the availability of finance in Germany in 2019 compared to 2018.
39% expect financing conditions to get harder.

What do you expect to happen to the frequency of inclusion of financial covenants by the banks in 2019 compared to 2018 in Germany?



43% expect no change to the frequency of including financial covenants by banks in 2019 compared to 2018.
32% expect the frequency to increase and 25% expect it to decrease.

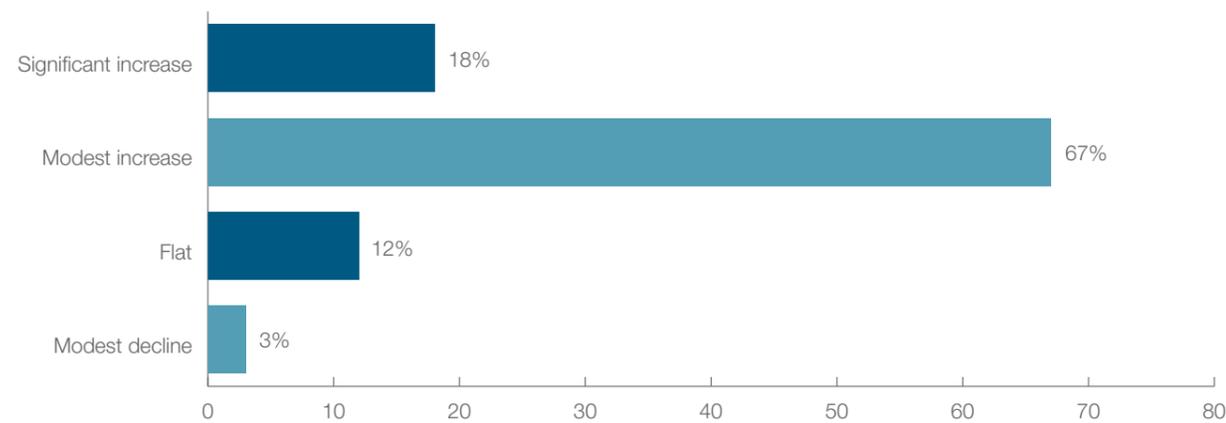
What are the reasons why borrowers or private equity firms choose to source finance from alternative lenders?



The top reasons cited for PE choosing to source finance from alternative lenders are the ease of refinancing/restructuring (61%) and higher leverage ratios (53%).

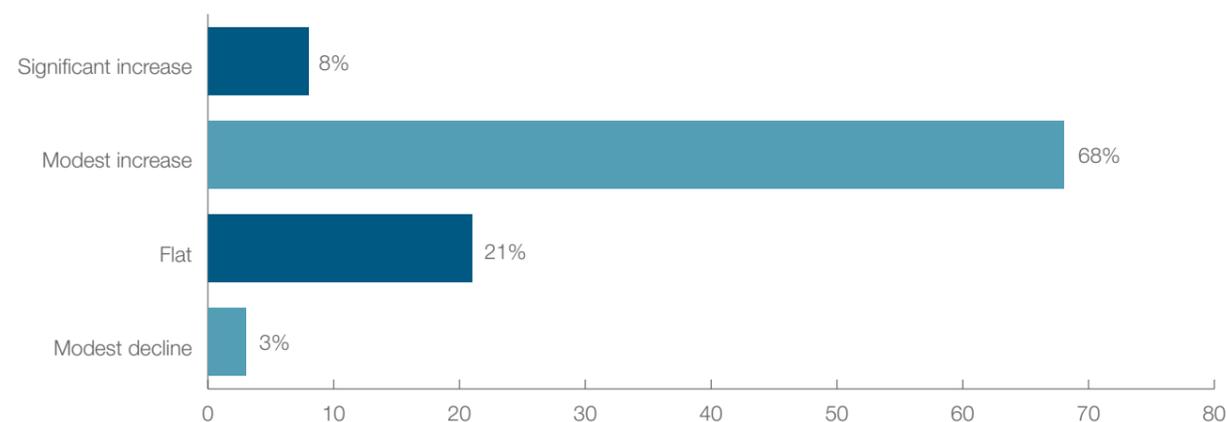
3. Private Equity

What is your expectation for the level of private equity buyouts on German targets in 2019, compared to 2018?



85% of respondents expect the level of private equity buyouts on German targets in 2019 to increase compared to the previous year (including 18% who expect a significant increase).

What is your expectation for the level of private equity exits on German targets in 2019, compared to 2018?

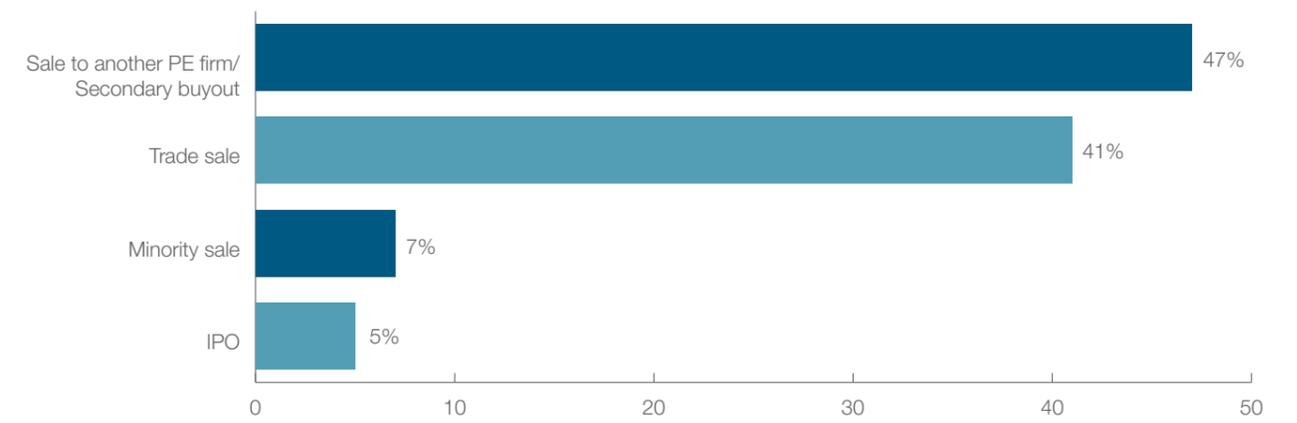


76% expect the level of private equity exits from German companies to increase in 2019 compared to 2018 (including 8% who expect a significant increase).

“Private equity buyouts in Germany will strengthen in 2019. It is the right time for private equity to make use of the situation and buy companies at low valuations.”

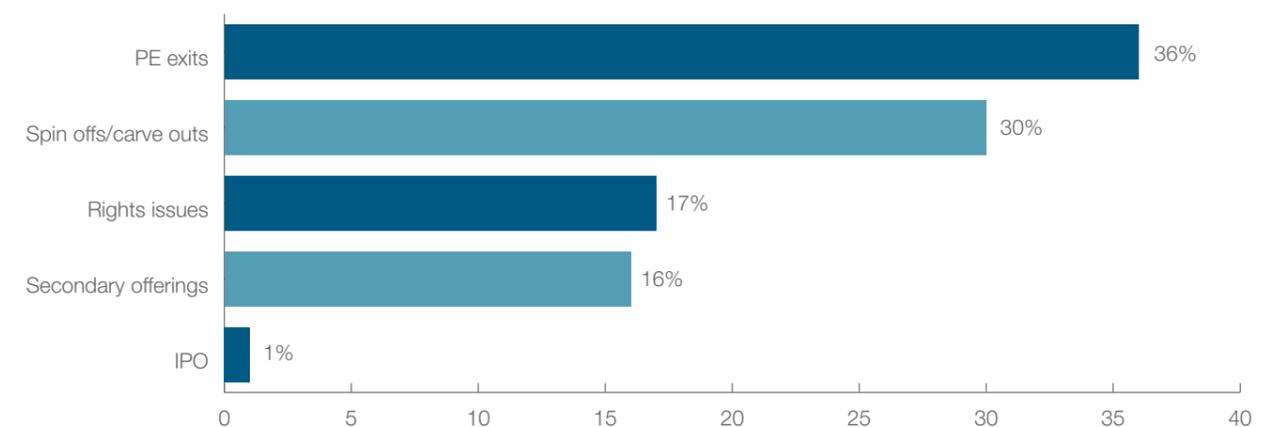
MD of a PE firm

What is your expectation for the favoured exit route for private equity?



When asked about the favoured exit route for private equity, sale to another PE firm/secondary buyout was the top answer (47%) followed by trade sales (41%).

What do you expect to be the largest driver of equity capital markets activity in Germany in 2019?



When asked what the largest driver of equity capital markets activity will be in Germany in 2019, 36% say PE exits while 30% point to spin offs/carve outs.

Survey source: Mergermarket

GLOBAL PRESENCE

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Bangkok	Doha	Jakarta (associated office)	Paris	Sydney
Barcelona	Dubai	Johannesburg	Perth	Tokyo
Beijing	Düsseldorf	London	Prague	Warsaw
Belfast	Frankfurt	Luxembourg	Riyadh (cooperation office)	Washington, D.C.
Bratislava	Hamburg	Madrid	Rome	Yangon
Brussels	Hanoi	Milan	São Paulo	

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