

## PRESS RELEASE

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### **M&A panel II survey by CMS and FINANCE: M&A advisors fall short of own forecasts**

Frankfurt/Main – Many M&A advisors have seen the German mergers and acquisitions market perform less strongly than expected in recent months; the general environment for M&A transactions in Germany nonetheless remains very favourable. Those are the key findings of the latest survey of the M&A panel polled three times a year by commercial law firm CMS Germany and FINANCE magazine. The heads of the M&A departments at German companies plus leading investment bankers and M&A consultants provide anonymous assessments of the market for the survey.

#### **Increase in demand from abroad**

The current high level of activity in the M&A market is increasingly being driven by interest from outside Germany, particularly from the emerging markets. A majority of the panellists agreed with the statement that buyers from emerging markets are currently very active in the German market. The score of 7.16 (10 = full agreement) was the highest figure since the survey was first conducted in February 2011 and represents an 11% increase over the last survey in February. This result is probably due in part to keen interest from Chinese companies in German firms. "Chinese investor interest in German companies is definitely very pronounced. This year alone, we have already successfully advised on two acquisitions for Chinese investors," said CMS partner Dr Oliver Wolfgramm. "The sharp rise seen last year has thus been maintained into this year," added Wolfgramm.

#### **Purchase prices remain high**

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The very favourable financing conditions currently enjoyed by strategic investors and private equity investors alike, combined with an increase in demand from outside Germany, are helping to keep purchase prices in M&A transactions high. Corporates now mostly agree with the proposition that excessive purchase prices are being paid in many sectors, with a score of 8.13 out of 10, where 10 = full agreement. As a consequence, divergent price expectations are often the reason for failed transactions. "Creativity is needed in these cases," said CMS partner Dr Thomas Meyding. "A whole toolkit of different options is available for reconciling the opposing interests. The possibilities range from a vendor loan via reinvestment and earn-out to a partial sale with corresponding options in relation to the remaining stake."

### **Reluctance to use external support**

Despite high purchase prices, companies are continuing to make acquisitions, but increasingly without external support. In June 2014, one in two of the corporate M&A bosses polled for the survey stated that their firm tackled more than 50% of M&A transactions with external support. Now only around a third of respondents say that. 38% of the surveyed corporate M&A chiefs report that they only resort to external support in one in four transactions at most. "These figures are closely correlated with the increasing establishment and strengthening of companies' in-house M&A departments. These are then capable of conducting transactions without the support of investment banks and M&A advisors," explained CMS partner Dr Oliver Wolfgramm. "For major transactions or where there is a high degree of complexity, companies continue to rely on external support from investment banks and M&A advisory firms."

### **Decline in workload**

The reluctance of companies to draw on external advice could also be a factor in some M&A advisors being dissatisfied with their current workload. There has been a substantial drop in workload among consulting firms focusing on mid-caps and large caps, and also among those operating in the small-cap segment. The uncertainty in the run-up to the Brexit referendum may also have been a factor, since it led to a lot of market players adopting a wait-and-see attitude to their M&A projects. "We are seeing a number of transactions being put on hold due to the Brexit referendum in the UK, especially international projects, or that more time is being allowed for preparations," said Meyding.

The early summer lull in advisory business may nevertheless have caught some consulting firms off guard. The sector is falling well short of its own expectations if one compares the

figures cited for current workload and the forecasts made in the February survey. Back then, advisors were asked to estimate the expected level of project activity with deal signing taking place in the next three to eight months, based on instructions already awarded. In the February survey, respondents had estimated their future workload at 2.20, where 0 represents an average workload and 5 is strongly above average. The current reality, however, is that the sector is only achieving an average level of 1.57 overall. Consulting firms with a focus on small caps were particularly over-optimistic: their actual workload of 1.42 is significantly below their expectation of 2.40.

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