INTERNATIONAL

Germany - Europe’s sleeping giant

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Patrick Luhr, Partner at CMS Germany, addresses the findings of our most recent CMS European M&A Outlook survey and reiterates the resilience and growth opportunities at the heart of Europe’s largest economy.

This article is an extract from the CMS European M&A Outlook 2026. To download the full report please click here

Respondents to our survey were downbeat about the German deal market’s prospects for 2025. What factors are giving rise to this gloomy attitude, and is this near-term pessimism deserved?

Patrick Lühr: The cautious sentiment around Germany’s M&A prospects reflects broader macroeconomic and structural challenges. Persistent geopolitical conflicts and recession fears are dampening corporate and investor confidence, slowing deal momentum. Valuation gaps, a drop in high-quality deal flow and subdued consumer sentiment are also weighing on the outlook.

However, this short-term pessimism may underestimate the resilience of the German market, which offers numerous investment opportunities. German companies are adapting their business models in response to ongoing trends in digitalisation, AI and sustainability. These strategic imperatives point towards long-term dynamism. In addition, considerable investment is needed in the areas of healthcare, housing, e-mobility and energy supply. Moreover, the dispute over tariffs with the US has been mitigated, monetary policy in the Eurozone has recently been eased, and Germany’s new federal government has set out plans for substantial investment in the country’s defence capabilities and infrastructure and is working on stimulating economic growth. The German government is also working with its European partners to find solutions to the ongoing geopolitical conflicts. Finally, there is a substantial backlog of exits of private equity funds and deals in connection with succession planning. Against this backdrop, there are many reasons to feel cautiously optimistic that the German M&A market will soon gain more momentum.

Two key obstacles to M&A seem to be weighing on dealmakers – Germany’s perceived administrative and compliance burden, and its competitive bidding environment. How should dealmakers approach these hurdles, and how can valuation gaps in Germany be bridged?

PL: These hurdles are not insurmountable – in fact, they can serve as filters that reward well-prepared investors. To navigate regulatory complexity, dealmakers should invest early in local expertise to streamline due diligence and regulatory processes. Being proactive on this front can differentiate bidders and accelerate deal timelines.

In terms of competitive bidding and valuation gaps – particularly within the Mittelstand – building trust and offering strategic, long-term value often outweighs price alone. Sellers in Germany, especially family-owned businesses, value continuity, cultural fit and growth vision. Dealmakers can bridge valuation gaps by structuring deals creatively, using earn-outs, minority investments or staged acquisitions to align expectations while reducing upfront risk.

Ultimately, those who approach the German market with patience, understanding and a solutions-oriented mindset will be best positioned to unlock high-quality opportunities.

Dealmakers expect cash reserves to be a key source of capital to finance M&A in Europe in 2025. German dealmakers in particular suggest credit funds will play a larger role in M&A financing over the next 12 months. How significant is non-bank lending to German M&A? EU regulators have recently announced that they are planning stress tests for non-banks. Is this something to be concerned about?

PL: Non-bank lending, particularly from credit funds, is becoming increasingly significant in German M&A, especially as traditional financing channels remain constrained. With interest rates still elevated and banks taking a more conservative stance, dealmakers are turning to alternative lenders for greater flexibility, speed, and tailored financing solutions. These trends are especially evident in Germany’s mid-market and private equity-driven deals.

The growing role of credit funds is a positive development, offering buyers access to capital that might otherwise be difficult to secure. However, the planned EU regulatory stress tests for non-banks do reflect a broader concern about systemic stability.

That said, increased regulatory oversight should not be seen as a major deterrent. On the contrary, it signals that the non-bank sector is maturing and becoming more integrated into the financial system. For dealmakers, this may even enhance confidence in alternative lenders’ long-term reliability. In short, while due diligence on financing partners remains essential, the rise of non-bank lending in Germany should be viewed as an enabler of M&A activity, not a risk.

Germany maintains a strong reputation for generating high-calibre M&A in the industrials & chemicals space and in other asset-heavy industries. But which other sectors are likely to become bright spots for dealmaking over the next 12 months beyond these traditional fortes?

PL: While Germany's industrials & chemicals sector remain a pillar of its M&A landscape, several other industries are emerging as bright spots for dealmaking.

Technology and digital infrastructure are gaining momentum, driven by Germany's push towards digital transformation, including AI solutions, and the overall modernisation of its Mittelstand. Cybersecurity, enterprise software and automation solutions are attracting increasing investor interest. Healthcare and life sciences also present strong potential, especially in areas such as medtech and biotech, where Germany's research ecosystem and aging population create long-term growth drivers. Furthermore, the energy transition is opening new avenues in renewables, energy storage, clean tech and e-mobility. Finally, Germany plans to increase its military spend as well as investments in its infrastructure, which may create further opportunities in these sectors as well. On multiple fronts, Germany's evolving economic priorities are creating fertile ground for M&A in future-focused sectors.

According to Mergermarket, eight of the 20 largest deals announced in H1 2025 targeting German assets were led by bidders from North America. How will inbound M&A shape the German market through the rest of 2025? And for German dealmakers themselves, what role is outbound M&A playing in their deal strategies?

PL: Inbound M&A will continue to play an important role in shaping the German market. Lower valuations compared to the US, high-quality assets, engineering excellence and a reputation for innovation make German companies attractive platforms for strategic international buyers seeking long-term value and access to the EU market.

At the same time, outbound M&A remains a key lever for German dealmakers who are increasingly looking abroad to diversify, scale and access innovation. Whether targeting growth markets in North America and Asia or acquiring emerging technologies, outbound strategies are helping German firms stay competitive in a rapidly evolving global landscape.

Increasing political conflict could lead to corporations deciding to strengthen or reduce their presence in certain markets for strategic reasons, in order to reduce their vulnerability. This could also impact inbound or outbound M&A activity in or from Germany.

Together, inbound and outbound deal flows reflect Germany's deep integration into global M&A trends. This dual dynamic enhances cross-border connectivity, fosters strategic partnerships, and positions Germany as both a prime destination and an active global player in the dealmaking arena.

Authors

Patrick Martin Lühr, LL.M. (King's College London)
Berlin
Partner
Rechtsanwalt

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