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press release

M&A Panel – survey results October 2011:

Economic uncertainty causing transactions to fail and squeezing access to finance

Stuttgart/Frankfurt am Main – Economic uncertainty is having an increasingly negative impact on the success of transactions and squeezing access to acquisition finance. Those are the key findings of the quarterly survey in October 2011 of the M&A panel polled by commercial law firm CMS Hasche Sigle and Finance magazine, comprising some 70 investment bankers and corporate M&A professionals.

While corporates consider that the uncertain macroeconomic climate is having only a moderate impact on acquisitions, acquisition finance and company sales, the effects seen by investment banks have been dramatic. Companies have observed a marked increase in the number of buyers withdrawing from purchases, and attribute the failure of transactions to the financing situation. More often, though, they point to the uncertainty surrounding the short-term business prospects of the company up for sale.

Cautious approach set to continue

"Many market players are essentially adopting a 'wait and see' approach. If the debt crisis is not resolved, the impact on M&A market activity will be massive, as we saw during the financial crisis. However, the decisions taken at the recent EU summit in

Brussels are reason to hope that it won't come to that," says Dr Oliver C. Wolfgramm, a partner at CMS Hasche Sigle.

The panel findings suggest that overall M&A activity is currently stagnating, with the worst affected sectors being renewable energy, automotive, chemical, pharmaceutical and financial services.

Internal liquidity replacing external financing

Corporate M&A experts polled for the survey have noted a sharp drop in the availability of acquisition finance over the past 12 months. Investment bankers are even more pessimistic about the current financing environment for private equity investors, as Dr Thomas Meyding, a partner at CMS Hasche Sigle, explains: "Internal liquidity is becoming increasingly important and remains the most popular form of finance in terms of M&A strategy among corporate representatives. This may also be because some companies are using their liquidity to seek safety in tangible assets."

Colleague Dr Wolfgramm adds: "With access to acquisition finance having become all but impossible for private equity investors, strategic investors competing for attractive targets continue to have the upper hand. It had been thought that strategic investors would start to suffer compared to PE investors in the second half of 2011 as a result of increasing lending by banks, but that has not proved to be the case."

Although all the signs in mid-2011 pointed to expansion and competition in the transactions market, players have instead become increasingly cautious during the autumn. Nevertheless, corporate experts see themselves on the buyer side and increasingly regard market consolidation as essential. Both corporates and investment bankers confirm that negotiations have become more drawn out and due diligence more intensive.

Companies are increasingly gloomy about the market environment for deals over the next 12 months, while optimism among investment bankers seems to have evaporated completely. "We can see that despite increasing risk aversion, companies are currently implementing acquisition projects that until recently were being put on hold. We will continue to see steady M&A activity in the mid-market segment in particular, where deals take place under the radar of investment bankers, provided the uncertainty caused by the euro crisis does not escalate," says Meyding, summing up his assessment of the survey findings.

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