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M&A Telegram

2017

+++ The German M&A market has remained robust in 2017. While the number of transactions has fallen, transaction volumes remain significant. Testament to this were the agreed merger of Siemens' rail operations with Alstom, the acquisition of Bayer's seeds and herbicides business by BASF, the Stada takeover, General Motors' sale of Opel to PSA or the merger between Linde and Praxair, which finally appears to be nearing a successful conclusion. The steel JV between ThyssenKrupp and Tata is still in the works, as is the takeover of Uniper by Fortum. However, yet another attempt at a London Stock Exchange and Deutsche Börse merger failed in 2017. +++

+++ Active industrial policy and the new German foreign trade law complicate M&A processes. Following the failure to orchestrate a national Kuka deal or a "German Steel AG" despite political intervention, the new foreign trade law is to give German companies greater protection from a potential takeover by foreign investors. A new reporting requirement has been introduced, and the range of transactions that could come under review expanded. In addition, review periods were also extended. On a European level, discussions surround the involvement of the EU and other member states in national review proceedings and extending review criteria to include possible foreign state influence on buyers. +++

+++ Private Equity investors are very active. The takeover of Stada by a Bain/Cinven consortium was one of the largest European Private Equity transactions in recent years, closely followed by CVC's sale of smart-metering specialist ista to a Hong Kong-based investor. Secondaries continue to dominate the Private Equity market. Club deals enable even large transaction volumes, and minority stakes such as KKR's investment in market-research firm GfK or EQT's investment in prosthetics maker Otto Bock underline the shift in the value-creation model for portfolio companies. +++

+++ Hedge funds have discovered the German M&A market. After AOC's investment in Stada led to the latter putting itself up for sale, the acquisition by Elliott of a stake in Stada finally helped seal the deal. Elliott now hopes to profit from the windfall from subsequent structural measures, and has adopted a similar strategy with Uniper, building a stake in anticipation of Fortum's planned takeover. Hedge funds' activity is also having a lasting impact on M&A process itself. The process of companies putting themselves up for sale could become standard market practice in comparable situations. +++

+++ IPOs pave the way for Private Equity exits. After a slow start at first, 2017 did eventually see a number of successful IPOs. German engineering group Aumann followed restaurant chain Vapiano and Internet platform Delivery Hero in listing on the stock exchange. Battery maker Varta and Voltabox followed suit after the summer break, as did meal-kit startup HelloFresh. The IPO of German truck parts maker Jost enabled a partial exit for Cinven. Retail investors were excluded to expedite the process. +++

+++ The pipeline for 2018 is filling up. The transactions already announced alone allow a positive outlook for 2018. BASF and LetterOne intend to merge their oil and gas subsidiaries Wintershall and DEA, creating one of Europe's largest exploration and production companies, with an IPO planned in the medium-term. The sales process for Merck's consumer health unit has begun and will enter the decisive phase in the new year. Hochtief's bid for Spain's toll road operator Abertis is deemed promising not least for political reasons. The spinoff of Siemens' medical technology arm Healthineers, which would lead to the largest IPO since that of Deutsche Telekom, is planned for the first half of 2018. Work is also already underway on the IPO of Deutsche Bank's Asset Management division and specialist publishers Springer Science+Business Media.

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This M&A Telegram is addressed to clients and friends of Cleary Gottlieb who are interested in developments in the German M&A market. It does not constitute legal advice.

