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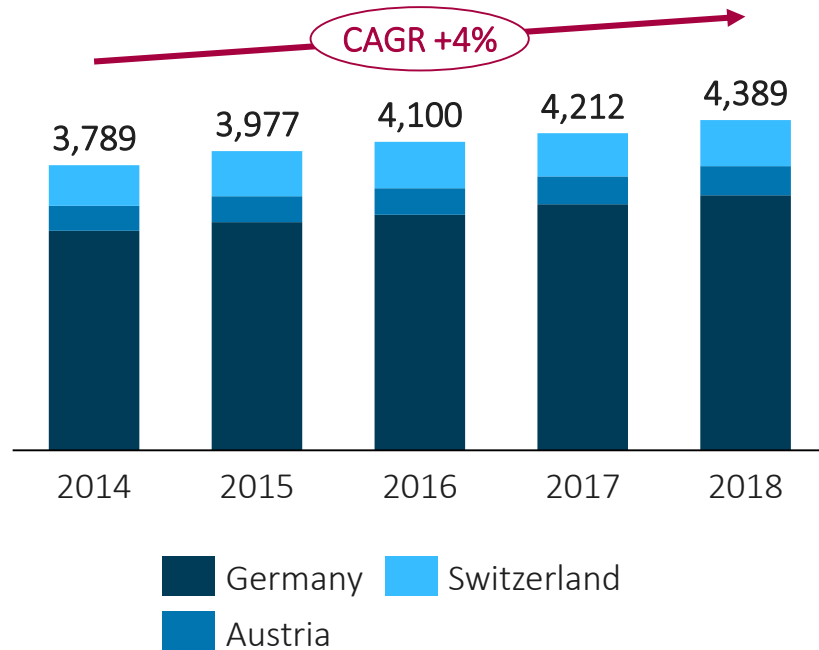
# Industrialization through investments – DACH industry structure and success factors for direct investments

Prof. Dr. Christian Aders

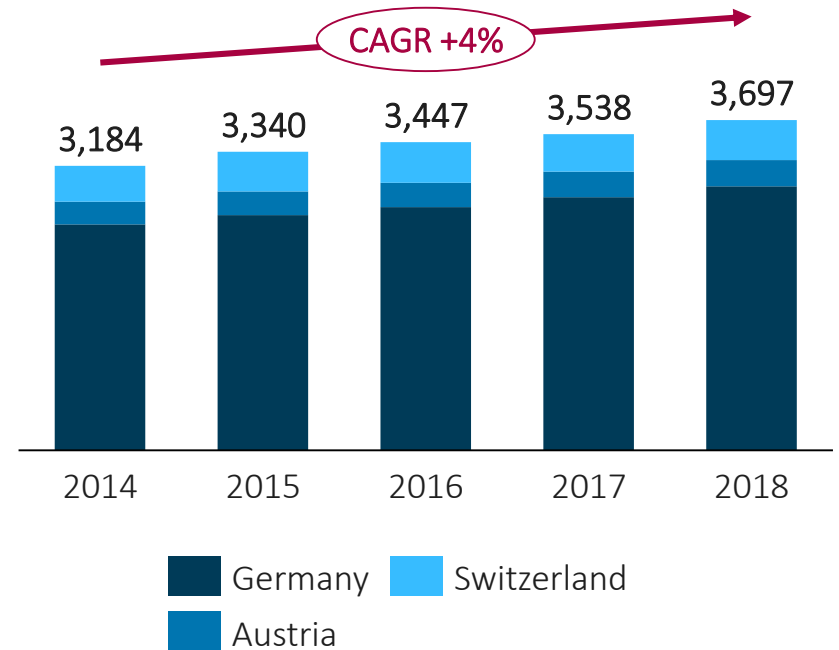
June 26, 2019

# Economic basis: Strong GDP in the DACH region (Germany, Austria and Switzerland)

Total GDP<sup>1)</sup> in DACH region (EUR bn)



GDP DACH w/o infrastructure & financial services<sup>2)</sup> (EUR bn)

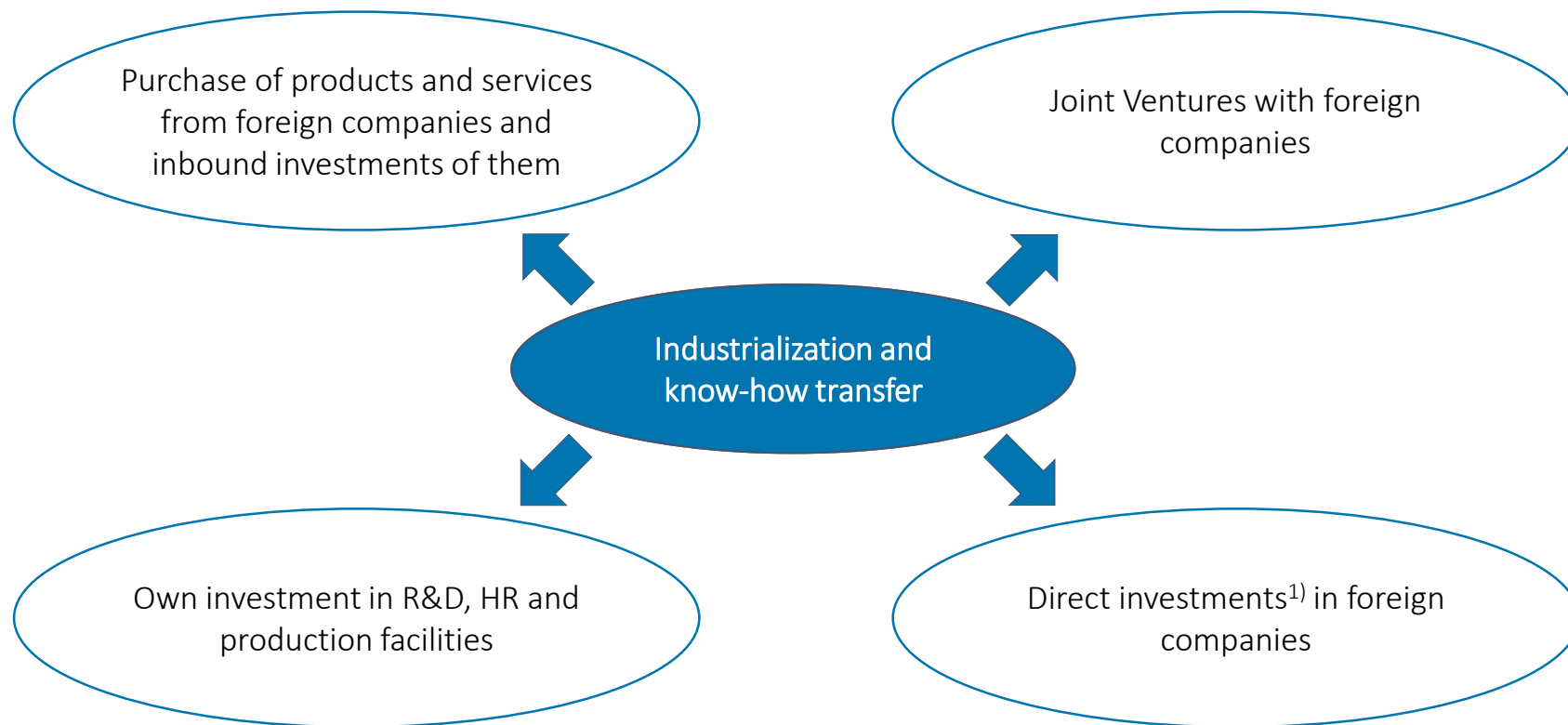


**Growing GDP (ca. 4% p.a.) in DACH region exceeded EUR 4,300 bn in 2018.  
The largest GDP share is contributed by Germany.**

<sup>1)</sup> Gross domestic product (GDP) is a key measure of the economic performance of a national economy and includes all goods and services produced within the geographical borders of an economy in a given period and valued at market prices, apart from intermediate goods used to produce other goods and services.

<sup>2)</sup> No data available for Switzerland in 2018; figures from previous year were extrapolated.

# Four strategic approaches exist to accelerate industrialization and know-how transfer into Arab world



High demand from foreign investors for companies “made in DACH” region due to leading edge technology & production know-how is one of the key drivers for M&A activity in the region.

<sup>1)</sup> Direct investments are defined by equity participations over 20%, which allow to influence company strategy, e.g. to invest in foreign production facilities to realize market synergies in foreign markets.

## A case study: The public takeover of a leading automotive components provider GRAMMER by a Chinese investor for about 0.8 bn

*“Jifeng is under pressure to succeed.*

*Their expansion is a building block in Beijing's strategy to significantly improve the quality of its own economy.*

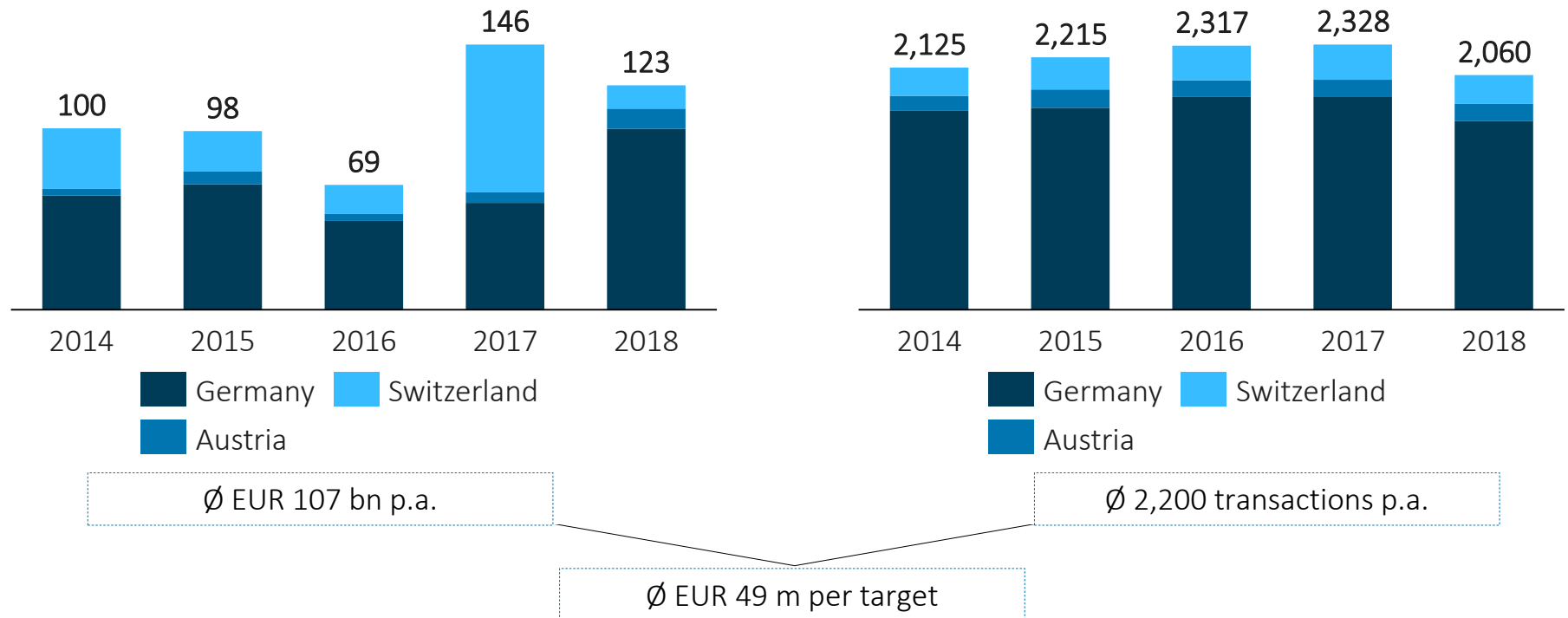
*The automotive industry is a key factor here. Therefore, Jifeng could possibly finance the takeover with loans from Chinese state banks.”*

Foreign investors do continuously direct investments to accelerate know-how transfer.

# Overall transactions in the DACH region of the last five years show a stable high volume and number of M&A transactions

Deal volume (EUR bn)

Number of transactions

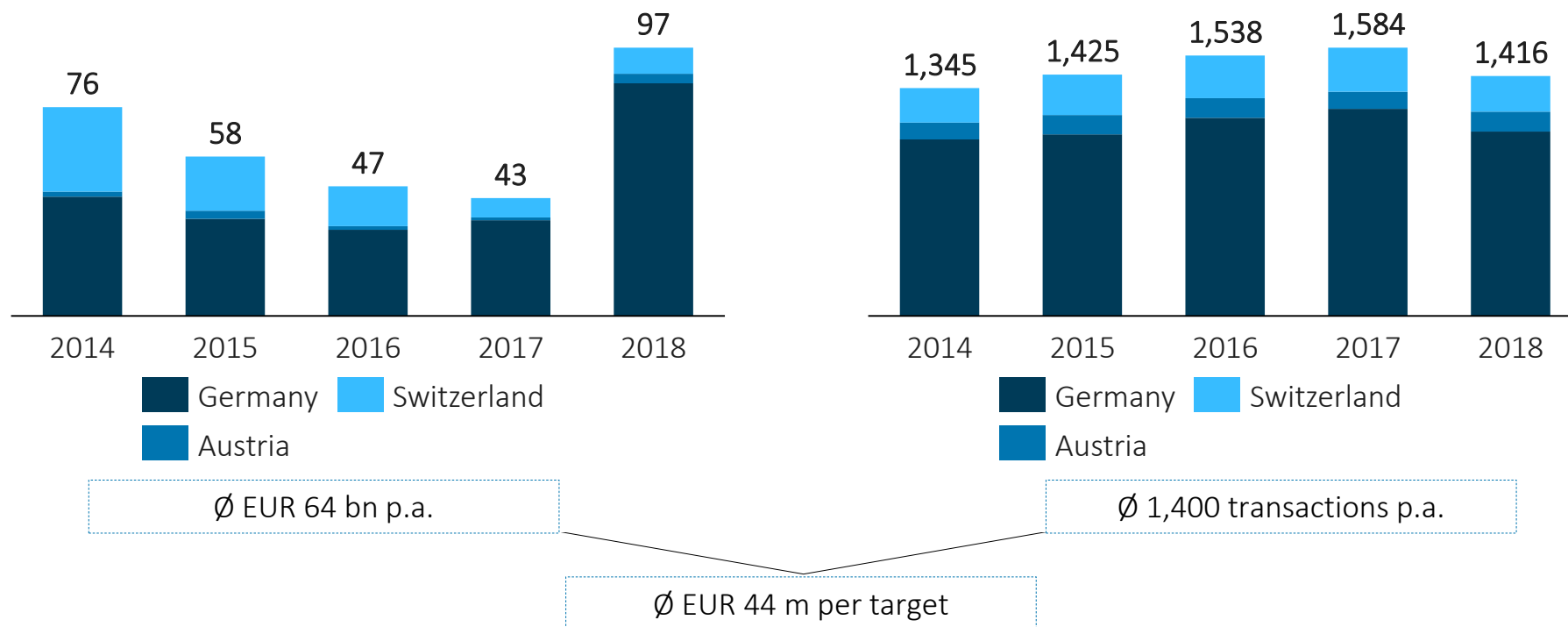


Large number of overall M&A transactions within the DACH region.

# Transaction landscape shows a decreasing deal volume up to 2017 when excluding real estate and financial targets as well as two Swiss mega transactions in 2017

Deal volume (EUR bn)<sup>1)</sup>

Number of transactions<sup>1)</sup>



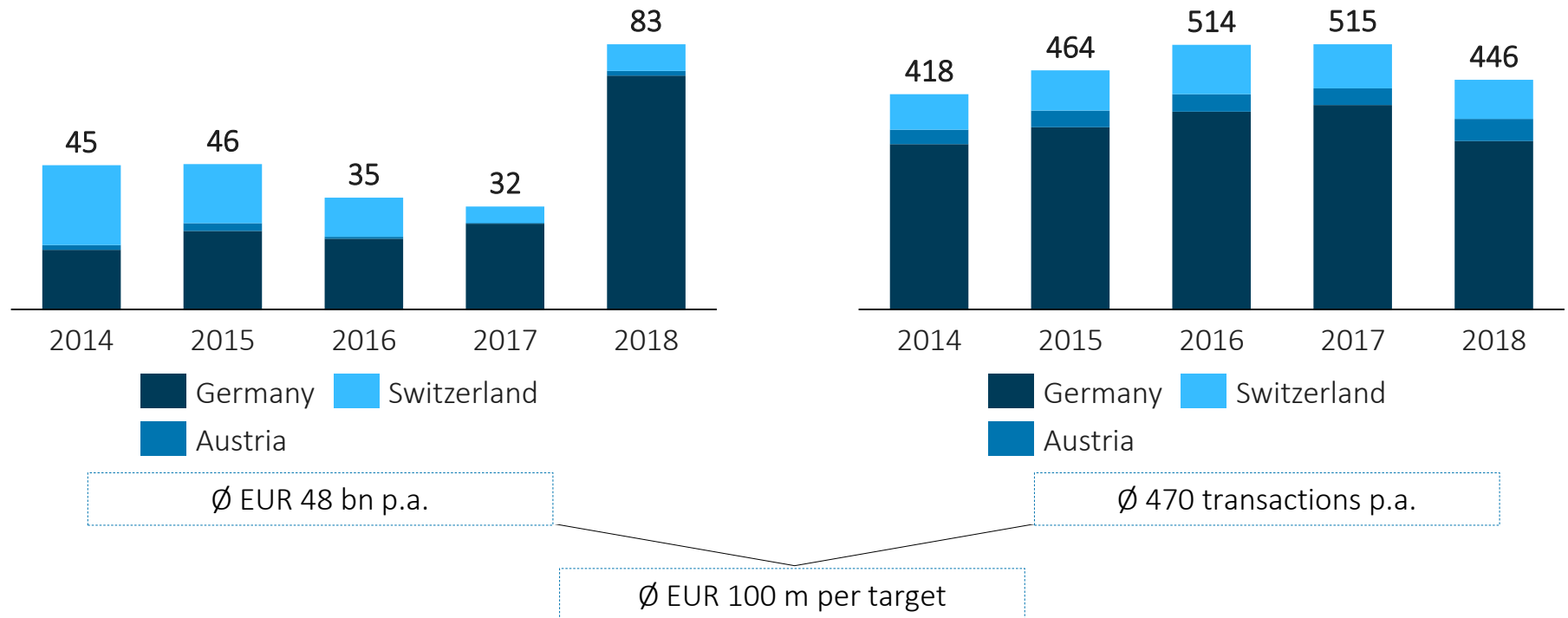
Peak in deal volume mainly driven by Linde Transaction (EUR 47 bn) and Fortum-Uniper Transaction (EUR 11 bn).

Source: S&P Capital IQ, ValueTrust Analysis; <sup>1)</sup> excl. real estate & financial target; excl. EUR 41 bn Syngenta and EUR 27 bn Actelion transaction in Switzerland in 2017.

# High and persistent levels of inbound M&A transactions into DACH region

Deal volume (EUR bn)<sup>1)</sup>

Number of transactions<sup>1)</sup>

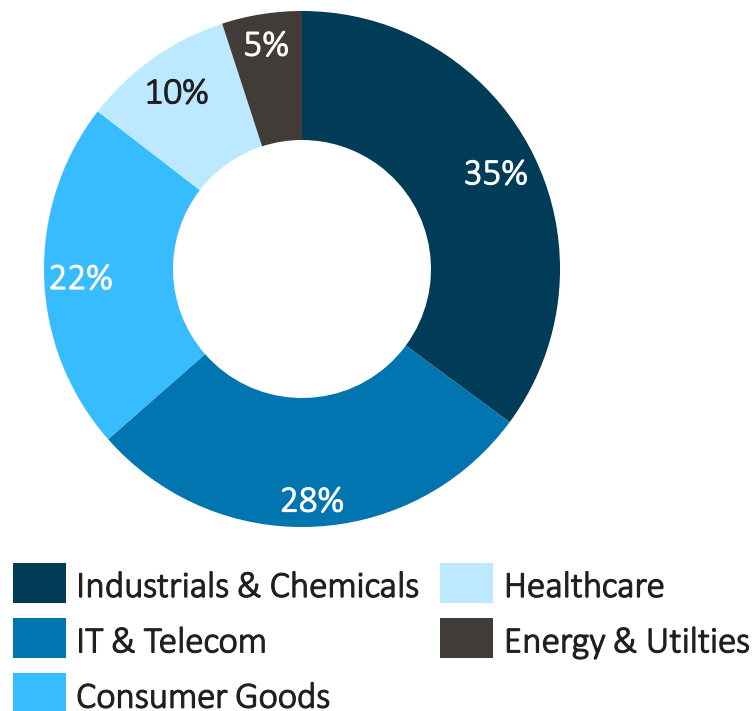


Stable amount of transactions of which about 30% are inbound.

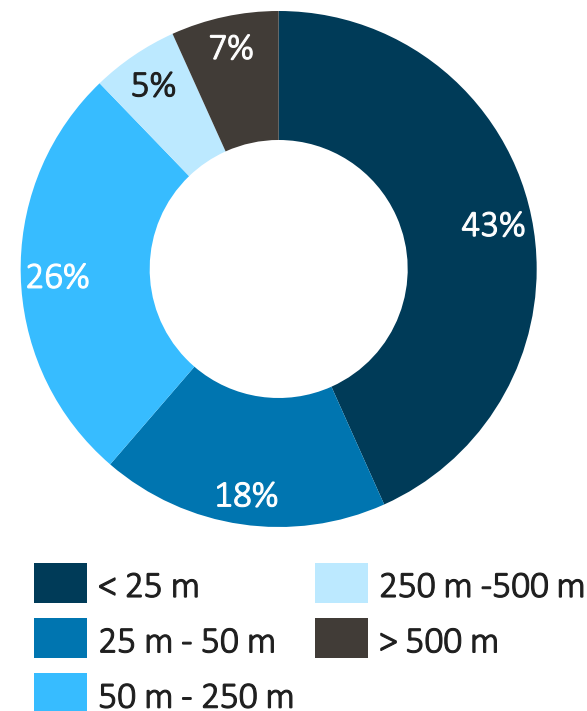
Source: S&P Capital IQ, ValueTrust Analysis; <sup>1)</sup> excl. real estate & financial target; excl. EUR 41 bn Syngenta and EUR 27 bn Actelion transaction in Switzerland in 2017.

# Most inbound M&A transactions are small sized and within three industries

Targets by industry (2014-2019)



Size classes of targets in EUR (2014-2019)



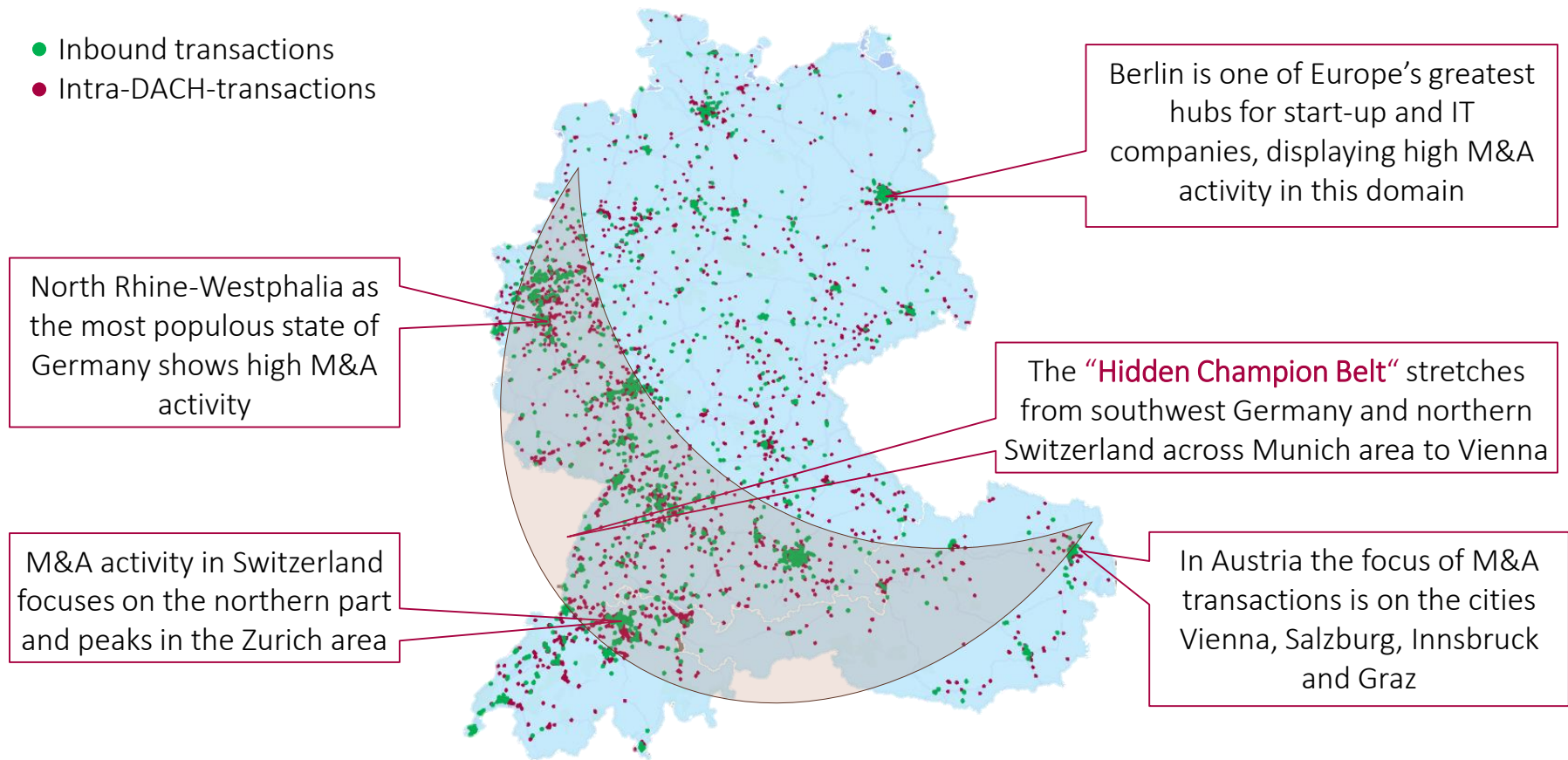
About 65% of all inbound M&A-targets between 2014 and 2018 are operating in the Industrials & Chemicals or IT & Telecom Industry. More than 60% of deals are below EUR 50 m.



# M&A activities focus on the hot spots in the DACH region. The “Hidden Champion Belt” is an attraction point for domestic and foreign investments

## Geographical distribution of targets in DACH region<sup>1)</sup>

- Inbound transactions
- Intra-DACH-transactions

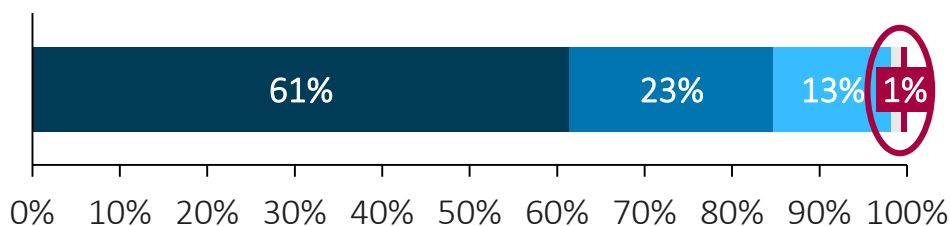


The “Hidden Champion Belt” has a high density of world-leading SME technology companies, which attracts large domestic and foreign investments.

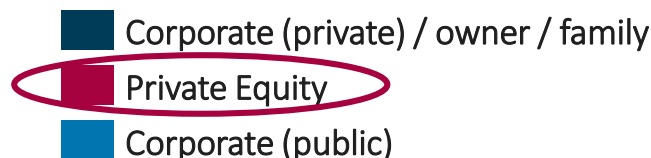
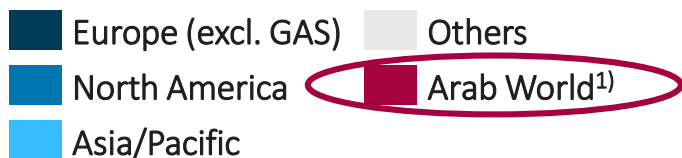
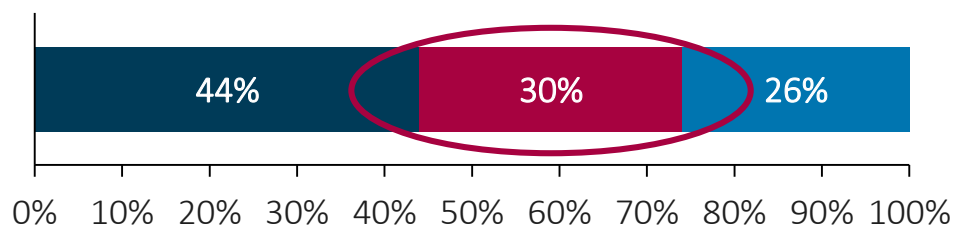
Source: ValueTrust Analysis, S&P Capital IQ; <sup>1)</sup>Data over the last 5 years (2014-2019), excl. real estate and financial targets.

# Mainly Europeans and Americans investing in diverse range of industries

Buyers by geography



Sellers by type<sup>2)</sup>



Investments from Arab world are falling massive behind.

The second largest seller group Private Equity (PE) is a natural source of deals to catch up fast and to buy well developed and excellent performing companies.

<sup>1)</sup> "Arab world" defined as Ghorfa members

<sup>2)</sup> Data over the last 5 years (2014-2019)

# DACH region provides a diverse universe of Private Equity funds as potential deal sources

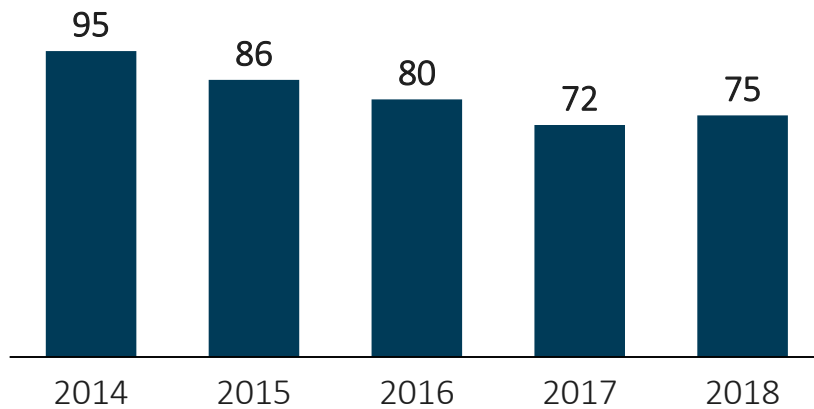
Overview of selected private equity funds:



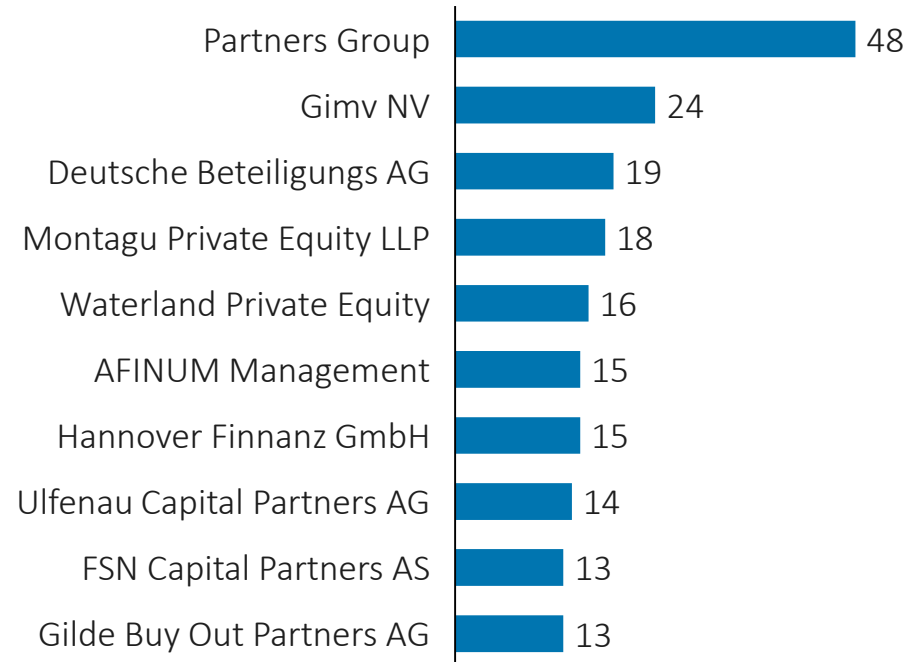
Source: ValueTrust Analysis, S&P Capital IQ.

# Large number of acquisitions shows stable interest in DACH companies from Private Equity (PE)

Total number of private equity funds acquisitions in DACH (2014-2018)



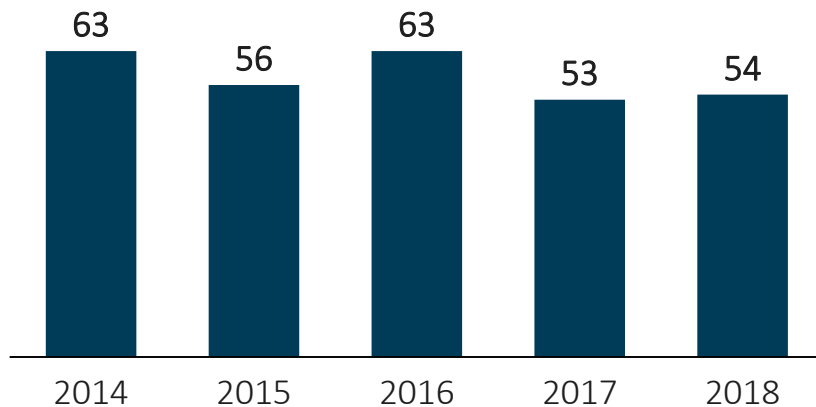
Number of acquisitions per Top 10 PE funds in DACH (2014-2018)



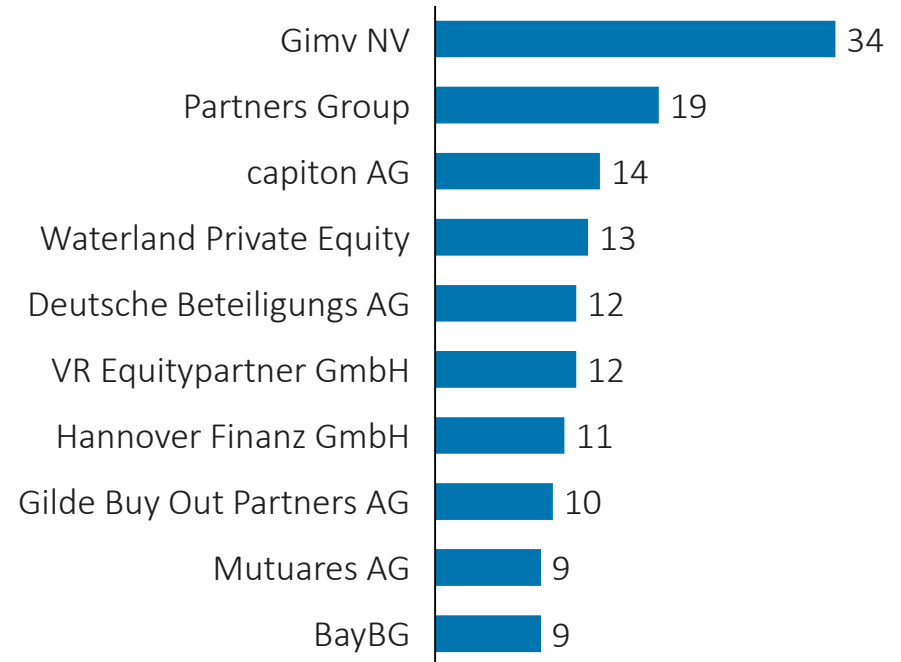
Large number of acquisitions shows stable interest in DACH companies from Private Equity. DACH Private Equity funds have stable investment portfolios throughout recent years and exit investments due to their business model on average after five years.

# Divestment universe of Top 10 DACH Private Equity (PE) funds shows stable number of divestments

Total number of private equity funds divestments in DACH (2014-2018)



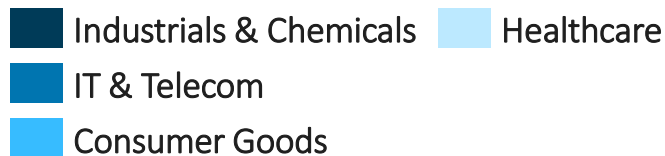
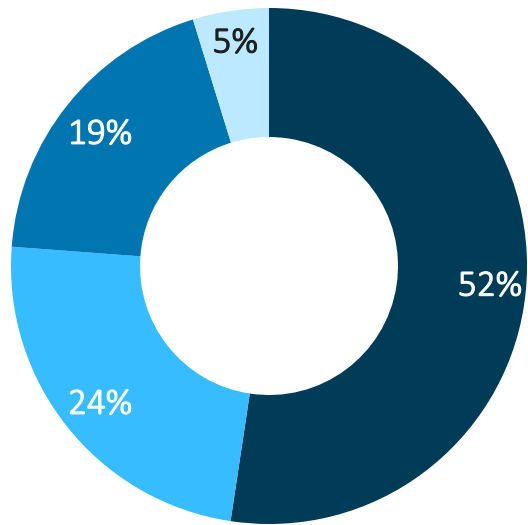
Number of divestments per Top 10 PE funds in DACH (2014-2018)



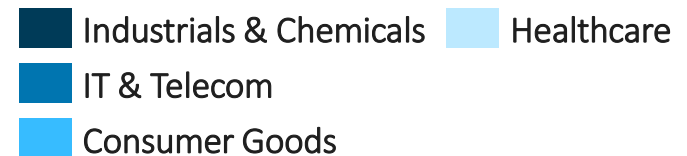
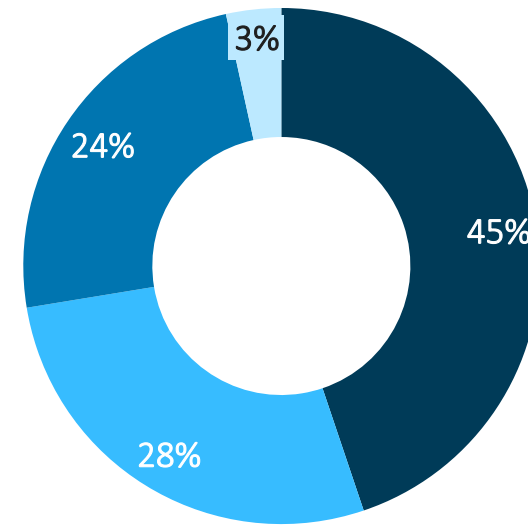
Divestments universe of Top 10 DACH Private Equity (PE) funds shows stable number of divestments. Stable number of DACH Private Equity (PE) divestments can be used as an entry point for investors.

# Divestment universe of DACH Private Equity (PE) funds shows focus on three main sectors

Divestment industries of top 15 DACH PE funds (2017)



Divestment industries of top 15 DACH PE funds (2018)



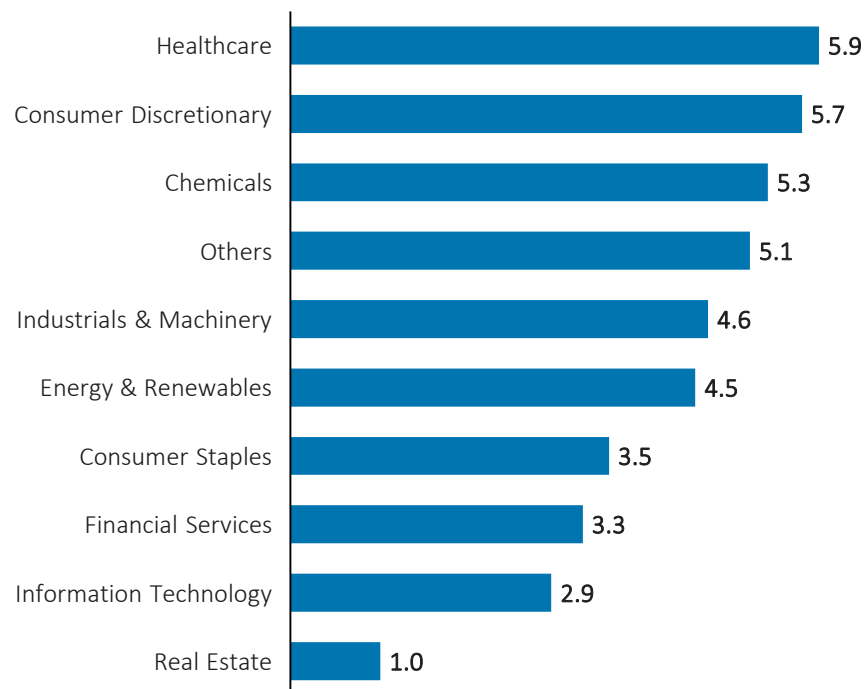
Divestments as a basis for Arab world's direct investments in the most relevant target industries: Industrials, Healthcare, Consumer Goods and IT.

Source: ValueTrust Analysis, S&P Capital IQ.

# Holding duration and industry overview of Top 15 DACH Private Equity funds

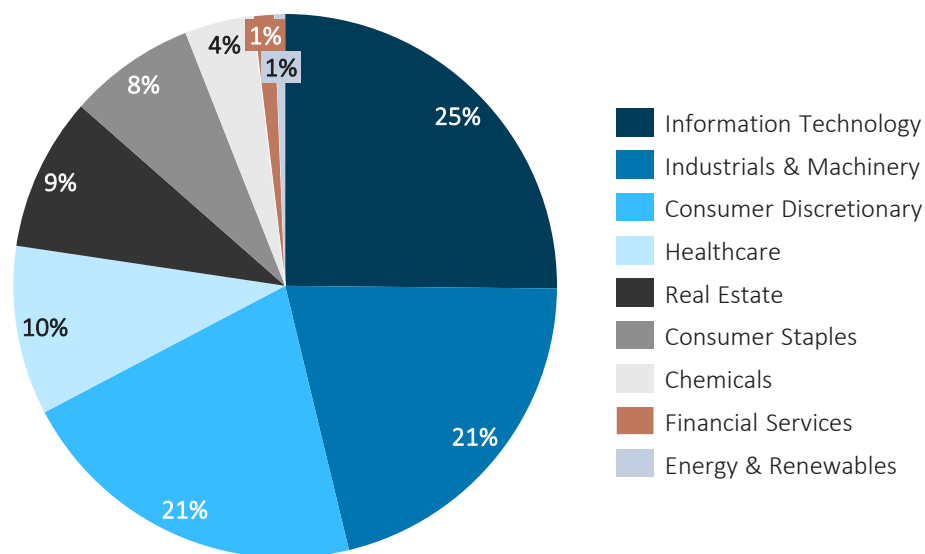
## Duration of Top 15 private equity funds in DACH region by industry

according to average holding duration of active DACH investments (June 2019)



## Industry overview of Top 15 private equity funds in DACH region

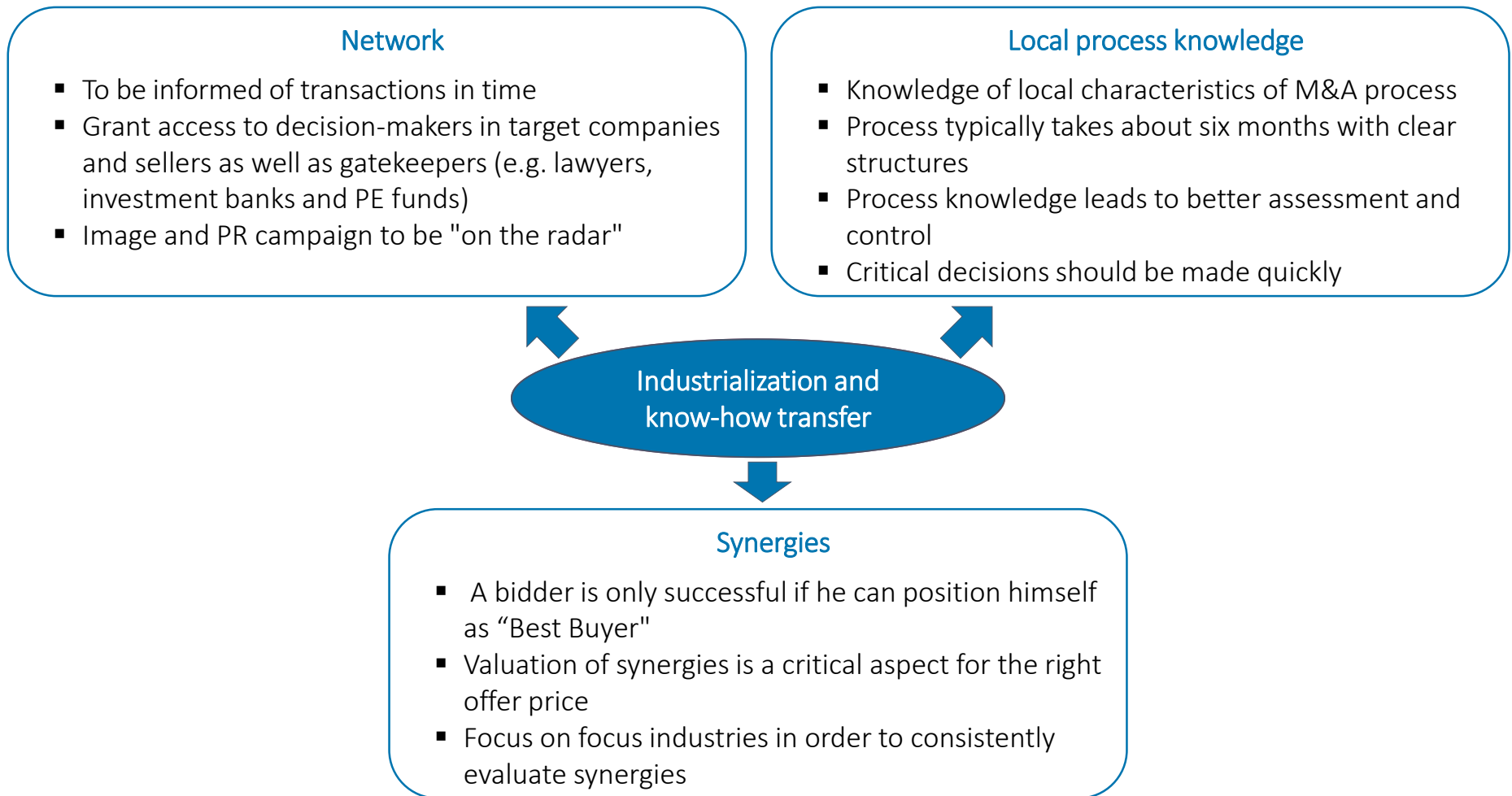
according to number of active DACH investments (June 2019)



Investments of Top 15 DACH PE funds show the longest holding duration in the healthcare industry, followed by investments in consumer discretionary and chemicals. Active DACH investments are mainly held in the IT, industrials & machinery as well as consumer discretionary sector.

Source: ValueTrust Analysis, S&P Capital IQ.

# Success factors for Arab investors to do direct investments



Key success factors are a local acquisition team with competence to make quick decisions and an acquisition strategy, which is based on Arab world's industrialization strategy to be the **"Best Buyer"** with highest synergies and a competitive bid price.



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