

Frankfurt am Main, December 14, 2022

M&A Telegram 2022

+++ Strategic transactions dominate the German M&A market. In a highly competitive process, Deutsche Telekom sells a 51% stake in its wireless towers business to Digital Bridge and Brookfield at a reported enterprise value of approx. EUR 17.5 bn. Together with Advent, Lanxess acquires the plastics business of Royal DSM for approx. EUR 3.7 bn. Lanxess is contributing its High Performance Materials business to the joint venture in preparation for its exit from this segment. RWE acquires Con Edison Clean Energy at an enterprise value of approx. USD 6.8 bn. RWE is supported by QIA, which thus becomes RWE's largest shareholder. Siemens Energy intends to take over Siemens Gamesa Renewable in its entirety with a takeover bid for approx. EUR 4.2 bn. VW establishes a battery joint venture with Umicore to cover the entire production supply chain, and BMW succeeds in acquiring a majority stake in the Chinese joint venture BMW Brilliance Automotive following the easing of local investment restrictions. +++

+++ Financial investors' business model adapts. Advent's DSM transaction not only confirms that PE deals are becoming increasingly complex. With an equity check of 50% and an expected holding period of around eight years, the financial investors' business model is also adapting to market conditions. KKR and other investors are structuring one of the largest dividend payouts to date in the European buy-out market at Wella. Morgan Stanley sells rail logistics company VTG to GIP for reportedly more than EUR 5 bn., while Cinven acquires Bayer's non-agricultural pest control business for approx. USD 2.6 bn. Apart from the wireless towers joint venture between Vodafone and a consortium around GIP and KKR, financial investors are taking it easy in the second half of the year in view of the significant rise in financing costs. +++

+++ Activist investors are back. Initially, Petrus and Teleios prevent the takeover of Aareal Bank by Advent, Centerbridge and CPPIB. When management no longer rejects the activists' demand to spin off the IT subsidiary Aareon, the activists reach an agreement with the financial investors on the takeover, however at a higher price. Cerberus, on the other hand, significantly reduces its stakes in Deutsche Bank and Commerzbank. It remains to be seen whether Elliott will be successful in pushing Fresenius to separate from Fresenius Medical Care. +++

+++ Industrial policy determines events and the state becomes a player. The acquisitions of Siltronic, Heyer Medical and Elmos fail because of investment controls under foreign trade law. The entry of the Chinese shipping company Cosco at a Hamburg port terminal becomes a political issue and is ultimately approved with severe restrictions. The foreign investment control regime is to be tightened further. A comprehensive "China strategy" is being worked on. At the same time, the state rescues energy group Uniper with its takeover and nationalizes the gas trader and operator of gas storage facilities Gazprom Germania. The acquisition of the insolvent shipyard in Rostock-Warnemünde by the Federal Government is intended to secure the maintenance of naval vessels in the future. While the state exits Lufthansa at a profit the Commerzbank shareholding is still being held. +++

+++ Only Porsche moves the capital markets. Porsche's successful IPO, followed by its rise to the DAX 40, is the highlight of the German capital market in 2022, although CEO Blume's dual role at VW and Porsche and the blocking minority granted to the Porsche and Piëch families were definitely viewed critically by the market. For the time being, IPOs will only play a minor role as an exit alternative. +++

+++ Many things are possible. Inflation, rising interest rates and a possible recession have left their first mark on the M&A market in the second half of 2022. However, market participants are beginning to adapt to the changed environment and already recognize opportunities in it. In 2023, strategically based transactions will continue to play a role. The focus will be on a long-term approach. The equity check demanded of financial investors is likely to grow. The state will continue to play an increasing role and exert significant influence on transactions through intensified investment control. In 2023, many things seem possible in the M&A market. +++

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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.

