

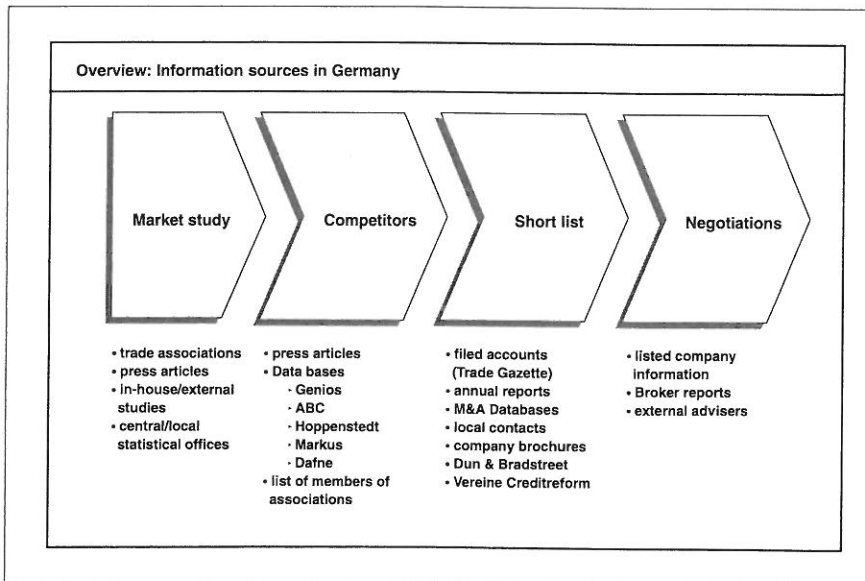
Acquiring in Germany (II)

Using Research to your advantage

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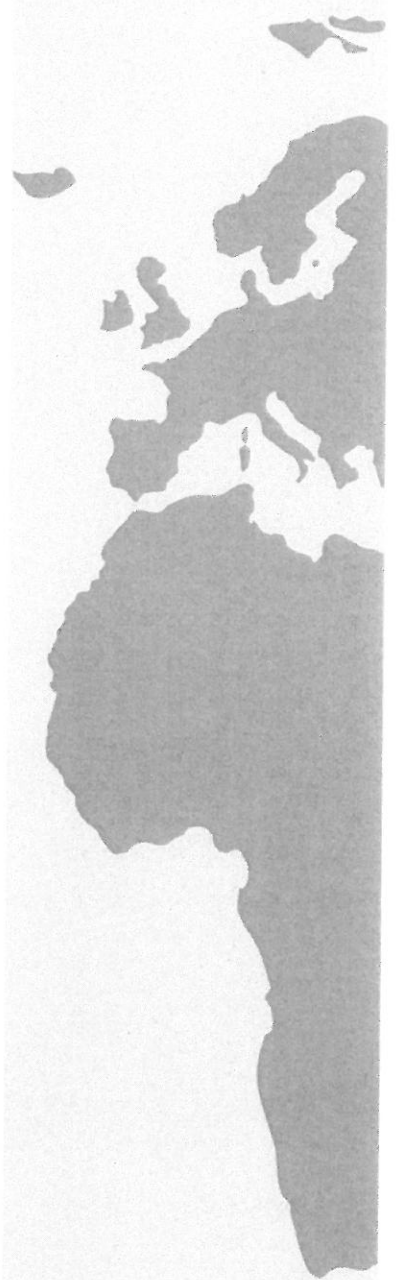
In the hectic world of M&A where companies are constantly seeking to identify the right targets in the right market segments the importance of the role of research should not be underestimated. With regard to the German market in particular, research often tends to get neglected, very often because people find it simply too difficult to obtain the required information. The dangers of such an approach of course are that one might enter a market in which it will prove to be difficult to succeed or that one might overlook certain companies, particularly the smaller ones, which are in fact the most suitable candidates.

Research, in the context of M&A, is equally important whether you are buying or selling a business. Although most people would agree that obtaining information on the German market is far more difficult than what they are used to in an Anglo-Saxon environment, there are still a number of ways in which one can go about obtaining the information that is required. In this article we will attempt to demonstrate the importance of research throughout the M&A process. As can be seen from the table below, information is required continually, whether you are simply trying to identify the right partner or whether you are interested in obtaining detailed information on a particular company. Although in this article we have taken an acquisition in Germany as an example to illustrate the importance of research, the sale process could have been used just as easily.



Market Study

Before embarking upon an acquisition in Germany, most companies would attempt to obtain at least some background on their proposed market. They would be interested in knowing more about the structure of the market, the number of players the identities of the main competitors, the key success factors, the regulatory framework, historic and projected growth patterns etc.. This information can be obtained either by carrying out an in-house





study or by appointing consultants to do the work. However, if the target market in Germany is somewhat removed from the company's existing activities, it will probably be necessary to enlist the support of external consultants.

Where a company decides to go it alone, it must ensure that it has a native speaker on board, who is familiar with the sector being examined and at ease with the business culture. In order to make the research effective, the questionnaires should be carefully formulated and the right balance must be struck between the length of the questionnaire and the level of detail required. Certainly, it would be insensitive to ask very detailed questions on production processes and product margins early on in such discussions.

Even where a company has carried out its own market study it would still be useful to consider information from other sources, if only to corroborate the authenticity of the information that the interviewed companies have provided. In this regard, useful sources of information would include the annual reports of the appropriate trade associations, press articles (both in the national financial press and in the local press), or other research institutes such as IFO, Prognos, or Gruner + Jahr, who may already have carried out such studies or have at least compiled information on the market sector.

There are now in Germany several on-line databases which can be accessed if one wishes to carry out a quick review of press articles (Genios from Handelsblatt is one such example).

Furthermore, publications from the German Statistical Office and other local ministries ought to be reviewed. Information from these sources is particularly useful in establishing market sizes and developments in specific market segments.

Competitors

Having once established that a particular market segment is of interest, the company would next need to identify the players active in its targeted sector. In order to obtain a preliminary list (or, „long list“) of potential acquisition candidates, the company would need to carry out detailed research. There are fortunately a wide range of information sources which could be consulted.

Recently, a number of databases have come on to the German Market. Databases such as ABC and Markus have details on a few hundred thousand companies and are very useful for the purposes of drawing up an initial list. ABC in particular is very strong on product information on manufacturing companies whilst Markus professes to have at least basic information on every registered company.

The details obtained from such databases can then be supplemented by further information from company directories or branch surveys. In the case of larger companies it is normally possible to obtain summary financial information for the last five years from, for instance, the Dafne database.

It is also important to know in which direction one's competitors are heading. There are various M&A databases which record transactions taking place both in Germany as well as internationally. Although one would naturally not blindly follow the moves made by one's competitors, it is nevertheless important to keep track of the market segments in which they are expanding. For such purposes, the databases listed in the two tables below are ideally suited.

I. German M&A databases

MAF (M&A Firm data base)	MAR (M&A Review)	MACQ (Mergers & Acquisitions)
Tel.: (0)69-92019102	Tel.: (0)69-92019102	Tel.: (0)89-9570064
over 20.000 transactions involving German companies. No minimum value. Information on acquiror, seller, target, structure, date, price (if available), comments	on-line version of the magazine - industrial and country reports, legal aspects, transaction statistics, deal reviews	over 6.300 documents from the German-language press covering M&A activities worldwide, including MBOs, JVs etc. Information on acquiror, target, level of holdings etc.
Online	Online	Online
since 1985	since 1990	since 1990

II. English M&A databases

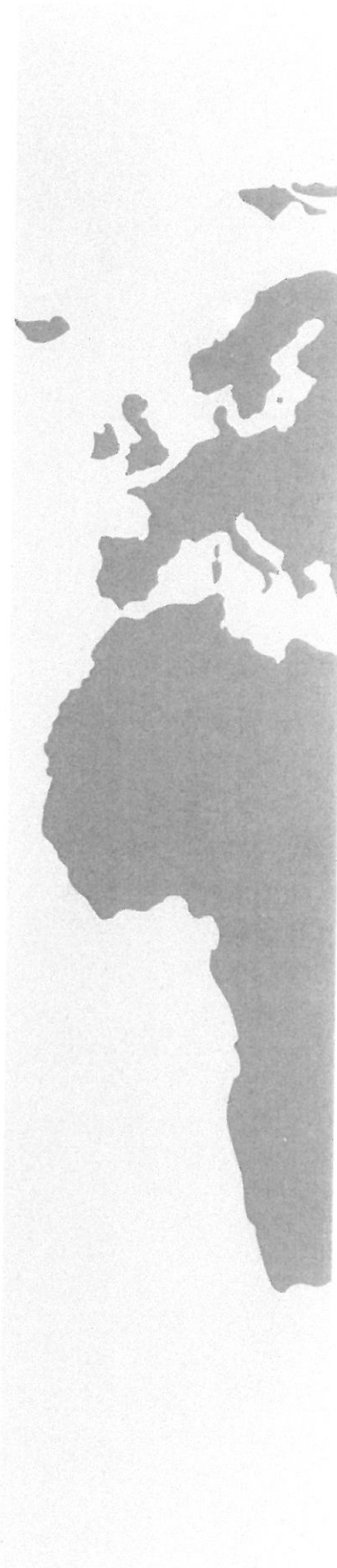
Global Merger and Corporate Transaction Database	Amdata	FT Mergers & Acquisitions
Tel.: +44-71-8153800	Tel.: +44-892-515454	Tel.: +44-71-7020991
about 130.000 transactions with prices in excess of US\$ 1 million and holdings of at least 5%. USA 40%, Europe 40%. Transaction details, company information (Balance sheet, Profit & Loss), multiples, premiums, advisers, comments	over 50.000 transactions worldwide - acquisitions, MBOs, divestments, alliances etc.. UK 30%, France 10%, Germany 14%	acquisitions covered by the Financial Times - worldwide (emphasis on English-speaking countries). Transaction details include parties involved, financial information, advisers etc.
Online, CD-Rom in preparation	PC-version (Standalone)	Online
USA: since 1980, UK: since 1985	since 1984	since 1987

Having obtained preliminary information on the main players, it is now possible to whittle down the initial list to a handful of potential targets.

Short List

As the information requirements get more detailed, one needs to display a certain amount of creativity and ingenuity to help build a fuller picture of the company under examination. As far as financial information is concerned, if the company has not filed its annual accounts the chances are that you will not be able to obtain any further details.

However, more comprehensive press searches can often throw up critical information on turnover, profitability trends, employees etc. Even organisations such as Dun and Bradstreet and Creditreform are generally unable to provide detailed financial information on the smaller and medium-sized companies. This is largely because their information is based on what is voluntarily disclosed to them by German companies. It is obviously impor-





tant at this stage to obtain a deeper understanding of the products and services provided by the target companies.

Naturally, company brochures provide a very good insight into a company's activities and are consequently important in determining whether a company is of an interest at all. Most large organisations in Germany have a network of offices through which often very useful information can be gleaned through the grapevine. Such local contacts can often tell how shareholders would react to an approach made by a foreign company.

Negotiations

Very often the success of negotiations depends on the extent to which one is prepared. This means, ideally speaking, that one has a firm grip on the market in which the target company operates and, furthermore, is aware of the prices at which similar companies have changed hands. This is, however, easier said than done. As price information is very seldom published on German transactions often companies resort to using earnings multiples that might be relevant in their own countries. Naturally, this gives rise to the possibility that the target company is valued incorrectly. Therefore, in order to strengthen one's negotiating stance, it is important to try and gather as much information as possible on pricing matters.

One could obviously start by looking at similar quoted companies on the various German stock exchanges. Unfortunately, in view of the relatively small number of quoted companies, this will not prove to be sufficient. If one is fortunate, there might have been similar acquisitions by foreign companies and price information might be available from international databases such as those compiled by Amdata. If this is not the case, all that one can really do is to consult with people who have experience of valuing German companies or, even better, to find someone with the appropriate industry expertise and experience of similar transactions.

However, before tackling such technical and intricate matters, it is generally advisable to make an initial contact with the target company either directly or through a local intermediary. In our experience, we have found that most German shareholders are in fact quite open and willing to have an informal conversation with interested parties. In fact, more often than not after an initial informal discussion with a potential vendor one can establish very soon whether or not the company could be of interest based upon production, product and customer information.

Although in this article we have only looked at the relevance of research from the point of view of an acquisition in Germany it is, needless to say, equally important in the case of a sale. It is hard to imagine that one can succeed in identifying the right buyer for a particular company without knowing which players on a world-wide basis might contemplate making such an acquisition. Such players can, in turn, only be identified if one has comprehensive market knowledge.

We do not wish to convey the impression that research, however exhaustive it may be, can be displaced by the need to carry out the usual procedures such as valuation and due diligence.

However, it is safe to say that extensive research does help one prepare well for the acquisition. It also has the not inconsiderable benefits of either finding a particular gem, or, equally, preventing one being cajoled into paying a price significantly higher than that dictated by the market.

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