

The New State of M&A

DACH



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Executive Summary

Spotlight on DACH

For all the advances in recent years, just how digitally mature and technologically sophisticated is the M&A, due diligence, and asset marketing process in the DACH countries (Germany, Austria and Switzerland)?

Moreover, what does the process look like today, and how might technology and accelerating digitization change the dealmaking process over the coming years?

These are some of the key questions we wanted to investigate and answer in this research, which involved surveying 101 DACH M&A practitioners from corporates, private equity firms, investment banks, and law and professional services firms, for their views on the subject.

The DACH respondents, who form part of a global survey of 2,235 practitioners, provide insight on the current and future state of the dealmaking process, and their responses reveal many similarities in opinion with their regional peers, too.

101 DACH-based M&A practitioners surveyed

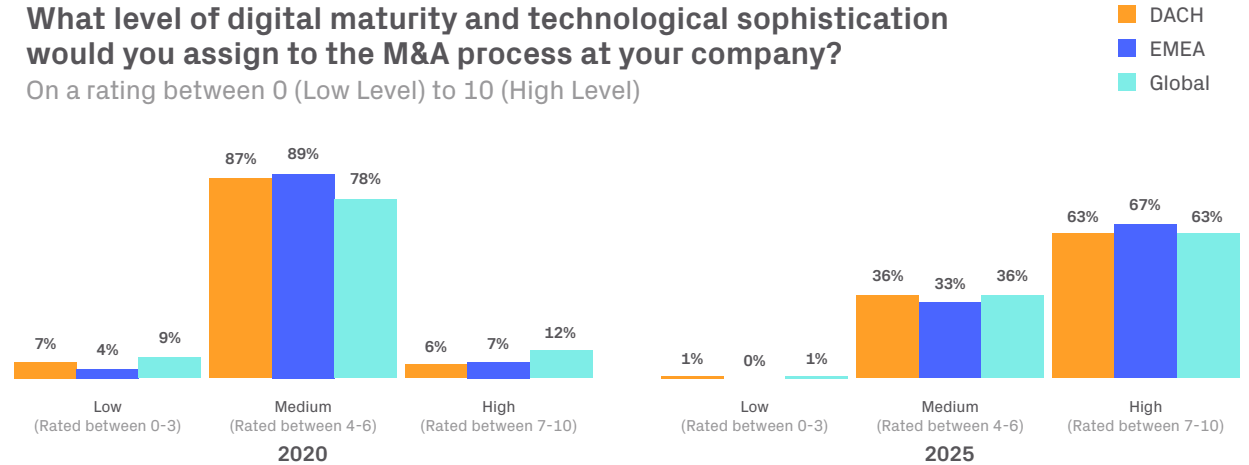
Conservative digital maturity and technological sophistication expectations vs EMEA peers

For instance, most DACH practitioners today assess that the digital maturity and technological sophistication of the M&A process at their company and industry-wide is at a medium level, and they expect this to rise to a high level in five years' time.

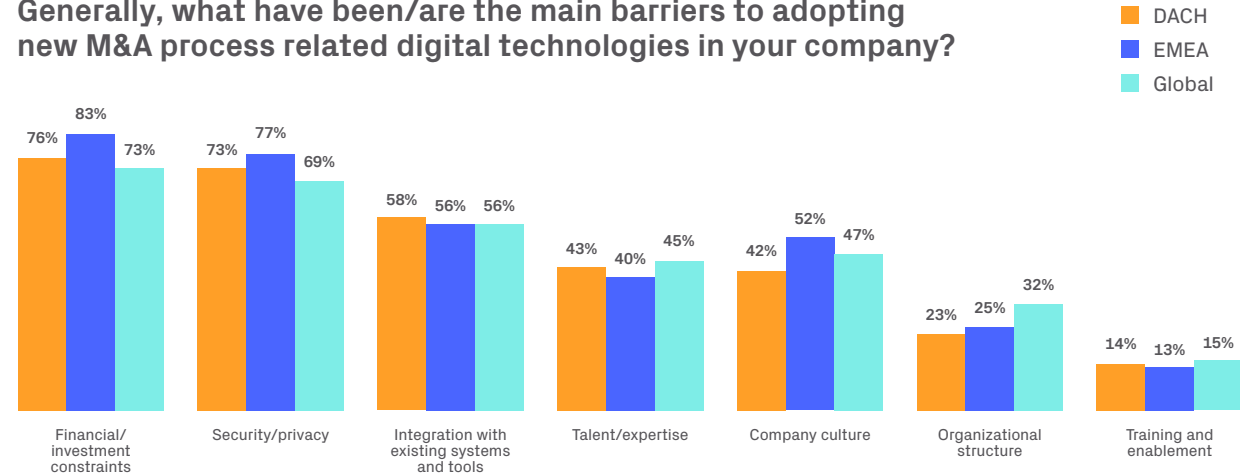
This view is shared by their EMEA peers, who also believe, similar to DACH practitioners, that financial constraints and security and privacy issues, are two of the main barriers to their company adopting M&A process-related digital technologies.

What level of digital maturity and technological sophistication would you assign to the M&A process at your company?

On a rating between 0 (Low Level) to 10 (High Level)



Generally, what have been/are the main barriers to adopting new M&A process related digital technologies in your company?

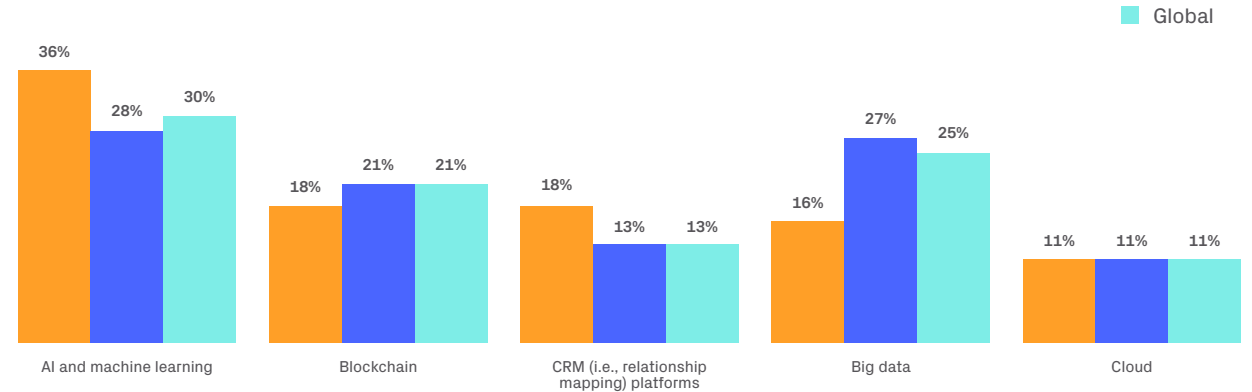


Big data, AI and ML, and blockchain to enhance M&A processes

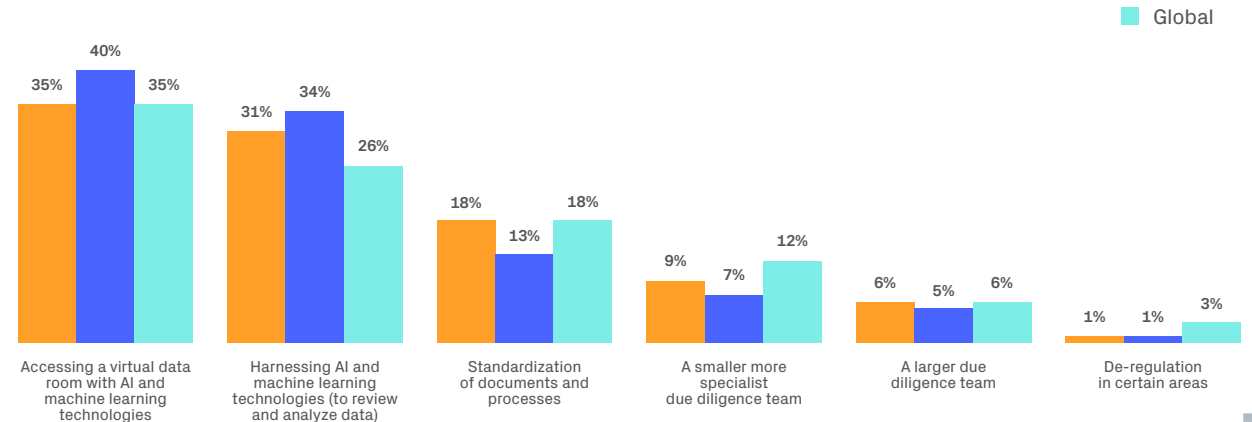
Technological advances are, however, being made. And over the next five years, most DACH practitioners, together with their EMEA peers, believe that technologies such as AI and machine learning, blockchain, and CRM platforms, could potentially have the most transformational impact on the M&A process, and in specific areas of it.

DACH and EMEA practitioners believe, for instance, that due diligence – the most time-consuming phase – could be enhanced most by new technologies and digitization. In fact, most DACH practitioners expect technology to enable greater analytical capability, and security, in the diligence process over the next five years. In particular, they are also placing greatest hope in AI and machine learning technologies, especially as part of virtual data rooms, to speed-up the due diligence process. They also see these technologies and others helping to improve data management and communications, analytics and reporting, and scenario analysis.

Which of the following technologies do you think will have the most transformational impact on the M&A process in the next five years?



Which of the following would help accelerate the due diligence process the most?

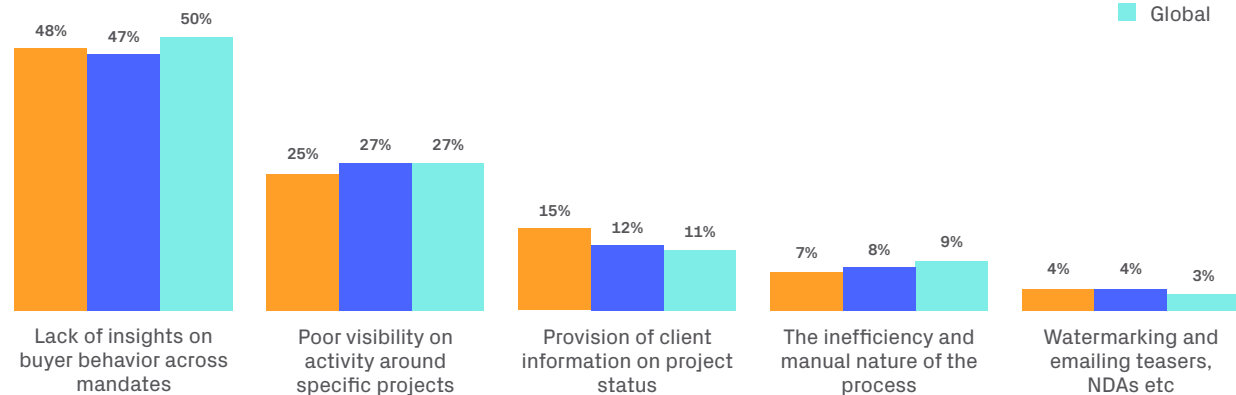


Technological benefits to and advances in other areas of M&A

What's more, these technologies have similarly beneficial uses in asset marketing, and could help address some of the key challenges in this process, such as a lack of insights on buyer behavior across mandates, according to most DACH practitioners.

Without doubt, there have been some significant technological advances across the M&A process in recent years. However, in the next five years and beyond, there is an expectation among DACH and their EMEA peers, that both established and emerging technologies, perhaps built-in to the next generation of virtual data rooms, could transform key areas of the process. They may even transform the M&A process entirely.

When marketing an asset for sale, what is most challenging?



2020 The Current State of M&A in DACH

Maturity and sophistication

87%

of DACH practitioners assess a medium level of digital maturity and technological sophistication in their company's M&A process. Some 91% of practitioners assess the same level industry-wide.

Barriers to digitization

76%

of DACH practitioners say financial or investment constraints is one of the main barriers to their company adopting M&A process-related digital technologies.

Enhancing deal sourcing

17%

of DACH practitioners believe the deal sourcing could be enhanced by technology and digitization – the highest response percentage for this across EMEA.

Diligence speed

82%

of DACH practitioners say due diligence takes on average 1-3 months to complete on a successful deal.

Technology upgrade

22%

of DACH practitioners say inadequate technology supporting them in their role is the factor that slows the due diligence process the most.

2025 The Future State of M&A in DACH



Maturity and sophistication

62%

62% of DACH practitioners assess a high level of digital maturity and technological sophistication in their company's M&A process by 2025. Some 58% of practitioners assess the same level industry-wide.

Transformational tech

37%

37% of DACH practitioners expect AI and machine learning technologies to have the most transformational impact on the M&A process over the next five years – one of the highest response percentages for this across EMEA.

Advanced analytics

79%

79% of DACH practitioners believe new technologies should enable greater analytical capability in the due diligence process over the next five years.

Diligence speed

58%

58% of DACH practitioners believe due diligence on a successful deal will accelerate to one month or less in five years' time.

AI-enabled analysis

36%

36% of DACH practitioners believe accessing a virtual data room with AI and machine learning technologies would help accelerate due diligence the most.

Case Study

Commerzbank

Algorithms aiding advisors in identifying buyers

M&A activity across German, Austrian, and Swiss markets has been hit hard by the pandemic. But as economies have begun to stabilize and recover, underpinned by unprecedented central bank support, dealmaking activity has rebounded.

For Dr Christoph Thierolf, Global Head of M&A at Commerzbank, this rebound is being partly driven by international companies in DACH countries, as elsewhere, looking again at expanding into new markets and securing their supply chains. Much of this activity is happening among the Mittelstand, the large universe of privately-owned small- and medium-sized companies in Germany, Austria, and Switzerland.

Transactions in this sector can take time, often due to deal complexity, less transparency around financial information compared to publicly-listed companies, and a lack of in-house expertise. What's more, such deals have a highly fragmented buyer base, which can make Mittelstand M&A challenging, partly contributing to a high number of transactions failing.



Commerzbank is one of Germany's leading international corporate and commercial banks, providing a comprehensive portfolio of financial and capital market services to its clients.



Dr Christoph Thierolf
Global Head of M&A



Technology solutions for deal support

To help, banks and other advisors are turning to third-party technology solutions for support on their sell-side mandates, using platforms that can match buyers and sellers in an automated fashion using big data and intelligent matching algorithms. Such an approach has attractive benefits, including sellers being able to “cast the net far wider than can be done by manual research alone,” says Thierolf. He adds that these types of technology solutions should enable banks to become more involved in transactions that would otherwise be hard to justify in terms of allocating resources.

This is particularly true in resource-intensive areas of the M&A process, such as due diligence. Here, the use of technology, particularly virtual data rooms, has grown and evolved rapidly in the past year due to Covid-19 and restrictions on international travel.

At the most basic level this has involved teams creating and sharing virtual presentations on assets as an alternative to site visits and in-person meetings. This is precisely what happened last year in a deal Commerzbank advised on between Bayer and a Chinese bidder, which was seeking to buy a chemical plant from the German pharmaceutical and life sciences company.

Technology adoption as a deal driver

Practitioners throughout the world have needed to adopt similar strategies to simply progress deals. Yet some practitioners are more sophisticated in their approach than others. “Technology is being adopted at varying pace across the world,” says Thierolf, adding that the North American market is probably the most advanced in the use of AI and big data in transactions, followed by Europe and Asia-Pacific.

There are differences between companies and private equity firms, too. Indeed, much of the innovation in technology is being driven by private equity firms, many of which are already using AI to screen targets and have automated the valuation process.

“By contrast, some medium-sized corporates have a lack of digitized information, and that can drag out a sale process. This makes private equity exits more attractive for a seller because it can shorten the M&A process by as much as 50%,” says Thierolf.

Case Study

Deutsche Bank

Applying data analytics to ESG in dealmaking

In the past year, some fundamental trends in business and M&A have gathered pace. One of the most important is the consideration of environmental, social, and governance (ESG) factors in strategy, operations, and acquisitions.

The rise and importance of ESG cuts across all industries and markets throughout the world. But the extent to which some industries have embraced, and have needed to embrace, ESG varies from one country to the next.

Some industries across the DACH economies, such as banking, finance, and investment, are at the forefront of the ESG movement in Europe and in other regions of the world. Others, such as the automotive manufacturing industry in Germany, are undergoing profound adjustment.

On one level this is due to the disruptive impact of the pandemic on global supply chains. On another, it is the need for the auto industry to transition to manufacturing more electric vehicles.

Deutsche Bank is one of the world's leading corporate and investment banks.



Berthold Fuerst
Co-Head of Investment
Banking and Advisory,
EMEA



Deutsche Bank

ESG due diligence core to M&A

For Berthold Fuerst, Co-Head of Investment Banking and Advisory for Europe, the Middle East, and Africa at Deutsche Bank in Frankfurt, the combination of ESG and the impact of Covid-19 will drive companies, in the automotive sector and outside of it, to adapt their businesses and supply chains. In turn, this will lead to acquisitions and divestments as companies rethink, and some instances re-engineer, their business or asset portfolio to pursue an ESG growth agenda.

And increasingly, advanced data analytics around ESG factors will play a key role in M&A. “We already calculate the financial accretion dilution impact on the company of the acquisition,” says Fuerst. “But where a company is being bought specifically for ESG, there needs to be a way of looking at ESG accretion dilution as well.”

As much as the pursuit of an ESG agenda can be seen as an opportunity for corporates, it is also a risk if they are a buyer, with potentially damaging financial consequences if they get a deal wrong. ESG due diligence has therefore become a core segment in the M&A process.

Digital transformation for innovation

As well as embracing ESG, companies across industries in Germany and wider DACH are engaged in another fundamental trend: digital transformation, primarily focused on increased operational automation and digitization. Where such capabilities do not already exist, companies are partnering, investing in, and acquiring the talent and technologies they need to help them transform, in turn creating intense competition for such assets, with “winners and losers in almost every sector,” says Fuerst.

Deutsche Bank is itself pursuing digital transformation, with increased automation and greater investment in technology a key part of the bank’s turnaround plan. It is in this context that the bank last year struck a strategic partnership with a cloud computing company to enable “co-innovation” and “create the next generation of technology-based financial products.”

The partnership will provide Deutsche Bank with access to data science, AI, and machine learning capabilities, leading to product innovation in several of the bank’s businesses, potentially including investment banking and advisory.

For now, however, Fuerst says much of the innovation in M&A is around market trends, such as the boom in special purpose acquisition companies (SPACs), which are listed companies formed specifically to pursue acquisitions. “This is a new type of process that sits between private and public company M&A,” says Fuerst. “M&A often innovates without machines.”



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Research Methodology

DACH

The analysis in this report is based on the survey responses from 101 DACH M&A practitioners.

These responses formed part of a larger global survey of 2,235 M&A practitioners.

By institution type, respondents were evenly split between companies and private equity firms (53%), representing acquirers; and investment banks, professional services and law firms (47%), representing M&A advisors.

By seniority, board and executive management level executives comprised 30% of respondents, with managing partner, managing director and partner level executives comprising 31%. Director, principal, associate level executives comprised 39%.

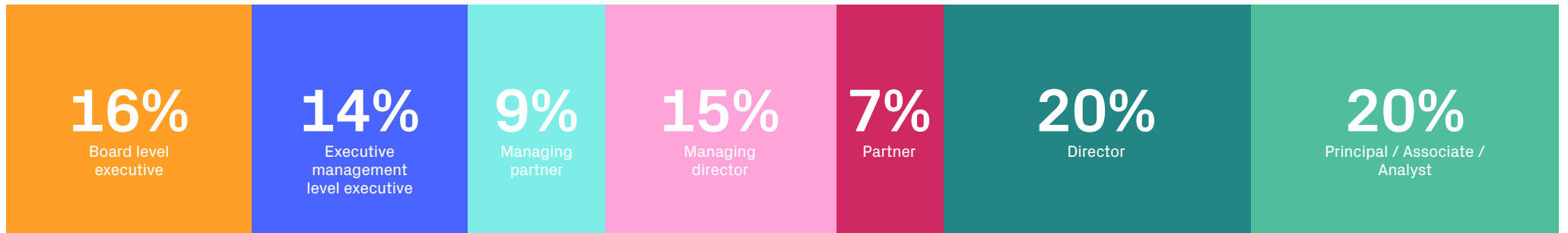
The global survey was conducted by Euromoney Thought Leadership Consulting between February and April 2020.

Research Demographics

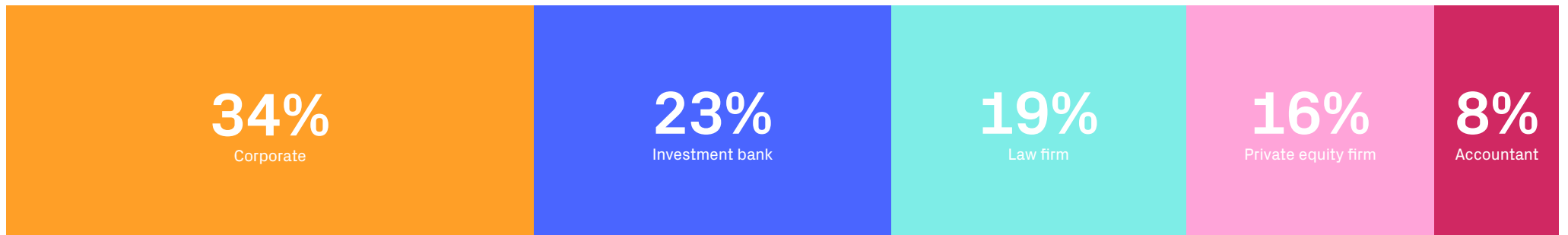
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Percentages in the following charts are rounded to the nearest 1%.

Which of the following best describes your position?



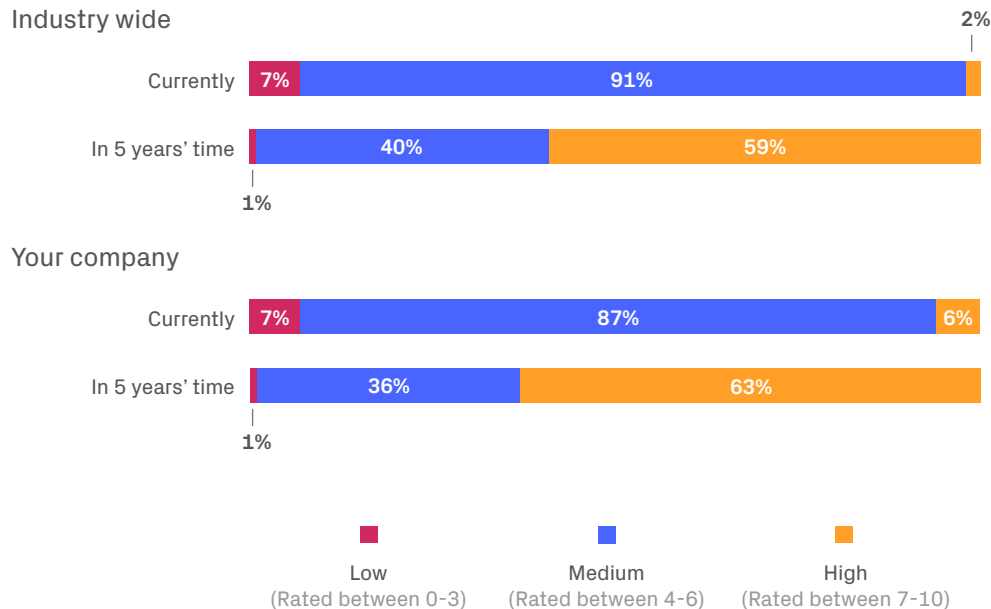
Company type



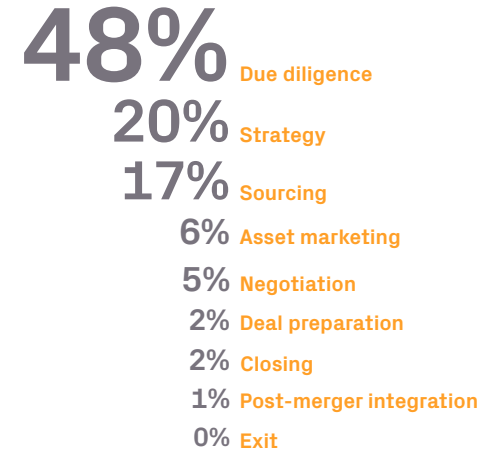
Digitization DACH

What level of digital maturity and technological sophistication would you assign to the M&A process?

On a rating between 0 (Low Level) to 10 (High Level)



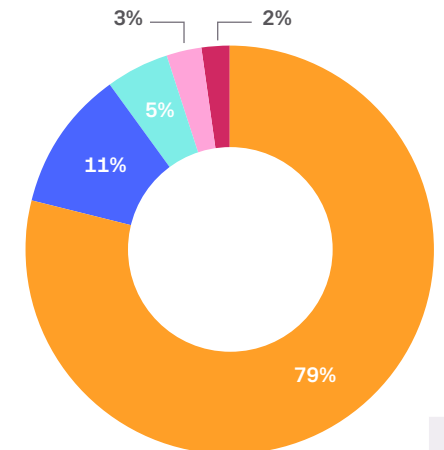
Of these key areas or stages, which do you believe could be enhanced most by new technologies and digitization?



In the context of a M&A transaction, how do you expect technology to change the due diligence process over the next five years (to 2025)?

New technologies should...

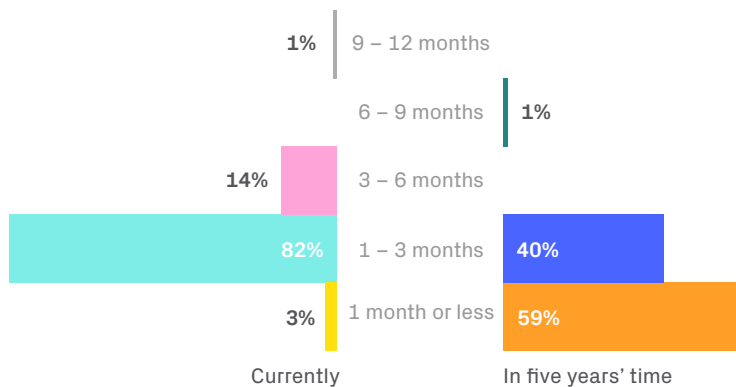
- Enable greater analytical capability
- Enable greater security
- Simplify the entire process
- Make it faster to close deals
- Reduce the total deal (resources and time) cost



Due Diligence Process

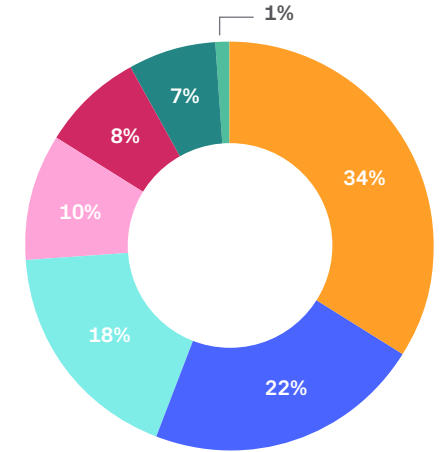
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From sourcing a deal to deal completion, how much time on average does due diligence take on a single successful M&A transaction?

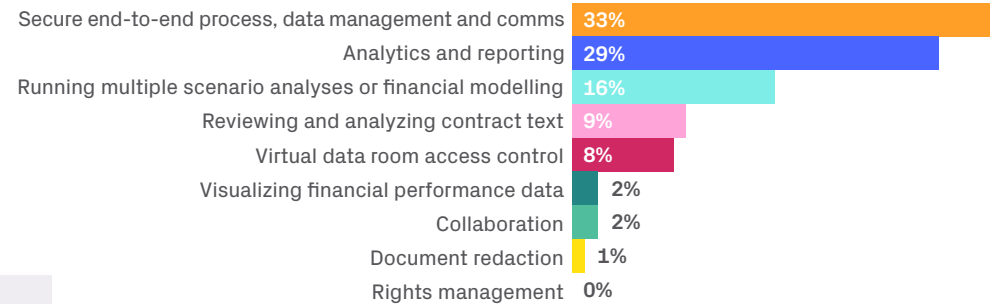


Which of the following factors tends to slow the due diligence process the most?

- Incomplete or inaccurate deal documents and information
- Inadequate technology supporting the process
- Document or contract review and analysis
- Insufficient number of people involved
- Poor communication between parties
- Regulatory compliance
- Too many people involved



Which of the following do you believe technology could help improve the most?

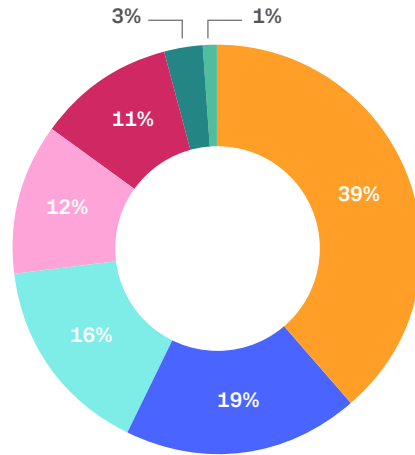


Due Diligence Concerns

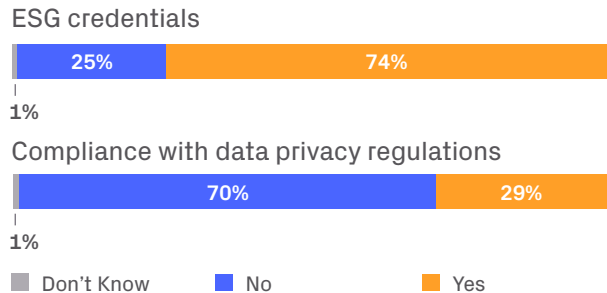
DACH

What is the most common issue uncovered in due diligence that causes the withdrawal from a deal?

- Data or cyber security concerns
- Financial weakness or fragility
- Leadership concerns
- Financial irregularities
- Excessive valuation
- Regulatory non-compliance
- Staff concerns

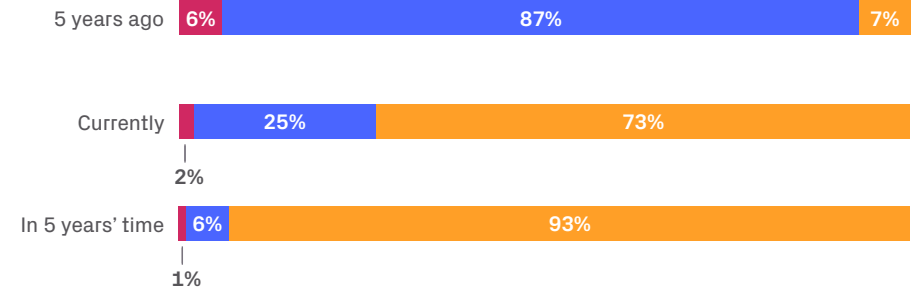


Have you worked on M&A transactions that have not progressed because of concerns about a target company's:

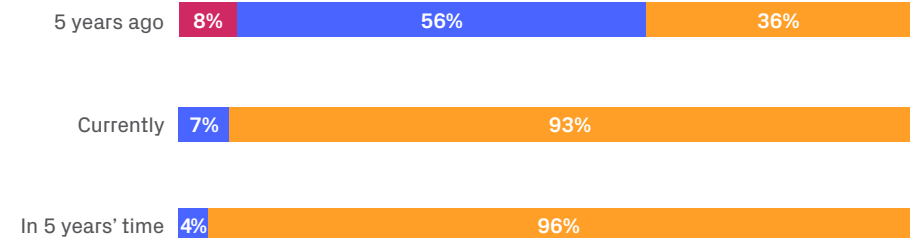


As a consideration in M&A due diligence, assess the importance of the following issues:

Environmental, social and governance (ESG)



Data privacy regulation (e.g.: EU's General Data Protection Regulation)

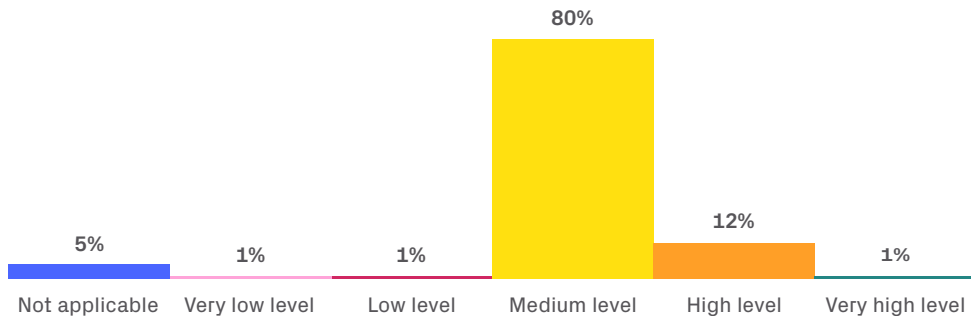


- Slightly important/Not important
- Moderately important
- Very important/Important

Asset Marketing and Acquisitions

DACH

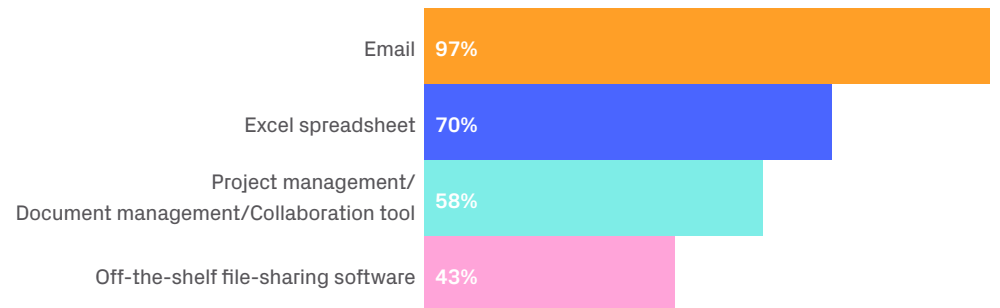
When marketing an asset for sale, how efficient and effective is your company's current process of identifying, marketing to and tracking potential buyers?



When marketing an asset for sale, what is most challenging?



What tools do you use today to execute the workflow of the due diligence process on a potential acquisition target?

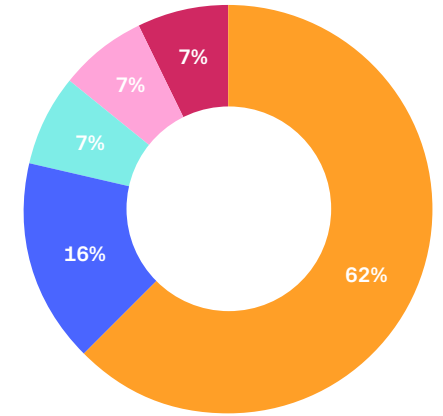


Restructuring DACH

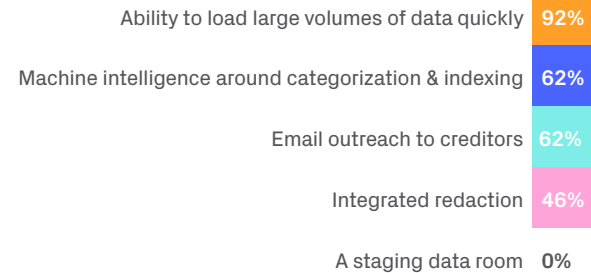


Which type of restructuring will dominate over the next 24 months?

- Debt-financing
- Divestitures and carve-outs
- Bankruptcy
- Liquidation
- Non-performing loans (NPLs)
- It won't be important (No votes)



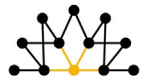
What tools are most useful for restructuring?



About this report

The survey was conducted by Euromoney Thought Leadership Consulting between February and April 2020.

Thought Leadership Consulting specializes in creating original, authoritative and impactful thematic research and content for global business and finance leaders.



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