

# Financial investors in the M&A market for SMEs: activities are picking up slightly



No. 167, 22 November 2018

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Financial investors<sup>1</sup> regularly attract media attention as buyers of German enterprises. That is because this group of investors is typically much more exit-oriented than strategic investors. They are more focused on the development of the company value because the yield requirements are often higher. Strategic investors also target returns but other motives are usually more important to them.

### Financial investors have SMEs in their sights

Small and medium-sized enterprises (SMEs) in Germany are also sought-after targets of financial investors. Between 2005 and 2017, this group of investors was on the buyer side in around 12% of all mergers and acquisitions (M&A) in the SME sector. A moderately rising trend can be observed. From 2005 to 2008 the share was only 10.3%. It has risen to 13.8% since 2013.<sup>2</sup>

### Most are from Germany

Most financial investors operating in the M&A market for SMEs came from Germany (52%). This is slightly less than their share in other investors, where German enterprises accounted for 59%. Companies from the USA (9%) and Great Britain (9%), on the other hand, were slightly more represented in the group of financial investors.

### Manufacturers are most sought-after

Manufacturing SMEs were particularly popular among financial investors. More than one in three M&A deals in the German SME sector targeted a manufacturing firm (36%). This is comparable to other investor groups. SMEs providing financial and insurance services came in second on the shopping list of financial investors, with a share of 14%. This sector was thus much more sought after than among other groups of

acquirers, where the share was a mere 6%.

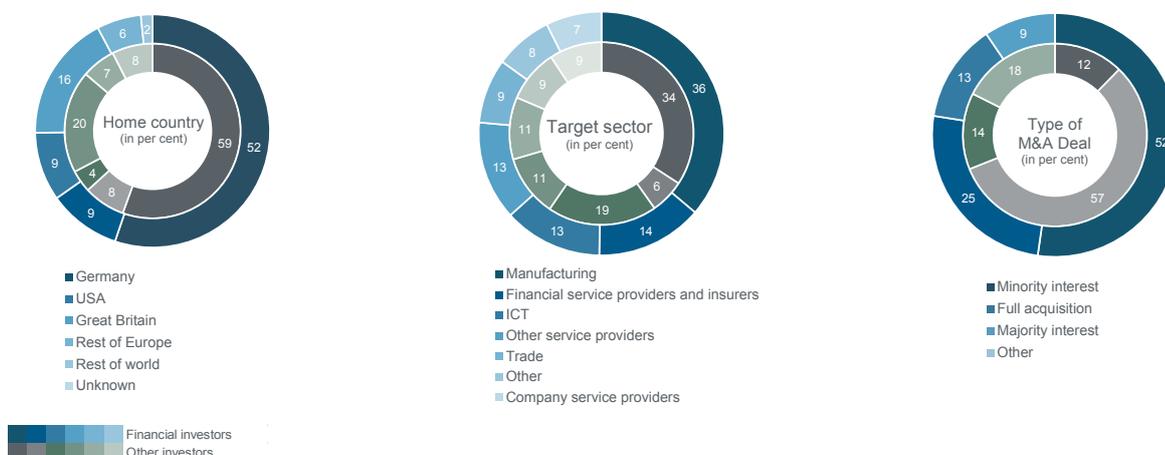
SMEs from the information and communications technology sector (ICT), by comparison, are less likely to be the target of financial investors. Only 13% of M&A transactions targeted SMEs from this sector. They have a share of 19% in the acquisition mix of other investors.

### Significantly more minority interests

Financial investors were mainly interested in acquiring minority shareholdings. In 52% of the M&A deals closed during the period analysed, a financial investor acquired less than 50% of the capital of the acquisition target. In the group of other investors this type of M&A deal accounted for a mere 12%. Full acquisitions by financial investors are much less common by comparison. This is the case in only around 25% of M&A deals in the SME sector. ■

Figure: Comparison of financial and other investors

Notes: Shares in per cent, mean values 2005–2017



Source: Zephyr, own calculations.

<sup>1</sup> In this paper the group of financial investors includes, among others, private equity companies / portfolio / investment firms, as well as industrial companies and private investors.

<sup>2</sup> For a description of the underlying data set and the methodology applied, see: Gerstenberger J. (2018), **M&A deals in the German SME sector – manufacturers are most sought after**, Focus on Economics No. 228, KfW Research.