International Business

Business Destination Germany

Benefiting from Opportunities in Europe's Largest National Economy

Contents

Foreword

AN INVESTMENT-FRIENDLY GERMANY OFFERS MAJOR OPPORTUNITIES FOR INTERNATIONAL INVESTORS

Germany is known as one of the strongest export-oriented economies. A lesser known fact is that foreign direct investments into Germany are substantially contributing to the strength of the German economy too: Around one fourth of the country's gross domestic product is attributed to German subsidiaries of foreign companies, and this ration is on the increase. This market segment is very dynamic, with many acquisitions, foundations, mergers and divestments taking place on a daily basis, and follows its own set of rules, as our study shows.

As Germany is the strongest and most populous country in Europe, it does not come as a big surprise that Germany is also the main destination for investment capital from its direct neighbouring countries. However, more susprisingly, investors from other continents also clearly favour Germany as an investor-friendly and ideal base to do business in the EMA region. This is because, during the last four decades, German politics has attracted foreign investors to do business in Germany with arms wide open.

The strong and well-known brand "Made in Germany" is a synonym for the premium-quality products sold across the world. Simultaneously it characterizes the unique investment environment that the country provides. The advanced infrastructure, high level of education and political stability encourage a wide range of investments.

Although well developed, many opportunities have yet to be taken advantage of by international investors: Germany of today is a country with a vibrant start-up scene and up-and-coming high-tech industries, but also many traditional, family-owned global players seeking successors. Also, our regional analysis reveals significant catch-up potentials for certain regions.

Our analysis provides a comprehensive overview of the current state of foreign direct investment in Germany and supplies a guide for your investment decision, explaining to which industries and regions the capital is flowing, and from which countries it is originating.

I am confident that our insights are valuable to you and will enable you to take the right next steps to be successful.

Andreas Glunz
Managing Partner
International Business
KPMG Germany

Approach

"Business Destination Germany" is KPMG's annual assessment of Germany's current and future prospects for international investors.

This year's analysis combines client insights with KPMG's expertise on country and subject specific topics, as well as detailed analyses of historic and current trends.

Executive Summary

1.

FOREIGN DIRECT INVESTMENT IN GERMANY

Germany's current investor landscape is highly diversified. Recent developments point to strong activity in the services segment.

» There is a strong FDI track-record and continuing activity across all sectors. German assets are in high demand and are expected to remain so thanks to the country's exceptional competitive position.
» Germany is one of the top destinations for FDI worldwide. Current investment in Germany is on a record high, with a total of 1,483 M&A and greenfield projects into Germany in 2014. H1 2015 also showed strong activity.
» Western European neighbours and the US are the largest investors in Germany. Interest from a number of high-growth markets is also increasingly strong. In recent years, China has been more active in Germany than some traditional investor countries.
» Investment in manufacturing remains strong, however growth is also notable in hi-tech and real estate.
» Investors tend to focus on certain regions or states and may miss out on interesting opportunities elsewhere in Germany.

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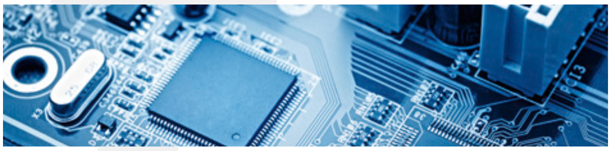

2.

THE GERMAN COMPETITIVE ADVANTAGE

Very strong economic and structural indicators point to a continuing competitive advantage of German assets.

» Germany's large export-oriented industry is stable.
» Unique trade structures through a well developed web of SMEs, which are often global leaders.
» Innovation is a driving force based on a well-educated and efficient workforce.
» Germany is ready for next generation industries, but also very focused on other segments – including IT and business services.

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3.

COMPETING FOR TARGETS: KEY COUNTRIES INVESTING IN GERMANY

The run for German assets could potentially be even more competitive, as targets often suit a wide range of acquirers with entirely different investment rationales.

- » A broad spectrum of acquirers is focusing on Germany, from those focused on identifying outstanding opportunities to those who are interested in specific technologies or entry into European markets.
- » Their reasoning is to a great extent dependent on the country of origin and their dominant (acquirer) industries. Key clusters evolve continuously and may identify similar targets – both within clusters and between them.

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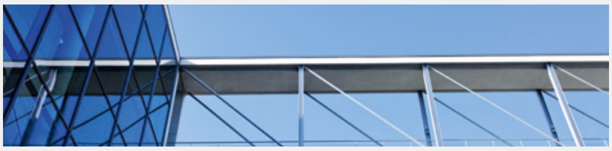

4.

OUTLOOK AND INVESTOR STRATEGIES

Current strategic priorities in German companies not only demonstrate the tremendous challenge that they face, but also their willingness to be the first mover in a changing world, as well as the opportunities awaiting the right kind of investor.

- » Global investors looking to Germany need to fully understand the competitive environment in which they are operating. Those who are well prepared will be rewarded with opportunities that are hard to find elsewhere.
- » Top issues – identified as game changers – will affect several industries.
- » Sectors such as IT and Energy will see significant changes and opportunities.
- » Identifying the right investment strategy and continuing monitoring are essential.
- » Investors must ensure that they understand local requirements and fit in culturally.

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1.

FOREIGN DIRECT INVESTMENT IN GERMANY

1.1 Germany is in a leading position worldwide

» Current investment in Germany is on a record high, with a total of 1,483 investment projects
» Ranked number 3 for M&A activities, with 592 entities sold in 2014
» Ranked number 4 worldwide for its number of greenfield projects, with 891 established businesses
» Net surplus of in-flows – companies are continuously strengthening their position in Germany
» Investors are especially interested in strategic assets
» Greenfield and M&A activity rose significantly in 2014, remaining on a strong track for H1 2015
» Recent top investors: the US, Western Europe and new players such as China

1.2 Foreign investors play a significant role in the German economy

» The largest job-creators come from the US, Switzerland and the Netherlands
» About one quarter of the German gross domestic product (GDP) is generated by foreign owned non-financial-services companies
» These companies employ about 12 percent of the German workforce in this area

1.3 Hi-tech, real estate and business services among the most important targets in recent years

» A continuous strong demand for machinery
» Strong increase in demand for hi-tech and real estate. Large differences in industries targeted by country
» Cross-industry acquisitions in technology are trending – certain countries seem to be missing out on opportunities here

1.4 Investors overlook certain regions

» A strong focus on North-Rhine Westphalia and Bavaria
» Investment is somewhat diversified regionally (based on economic activity), however investors are overlooking interesting states which offer very competitive options

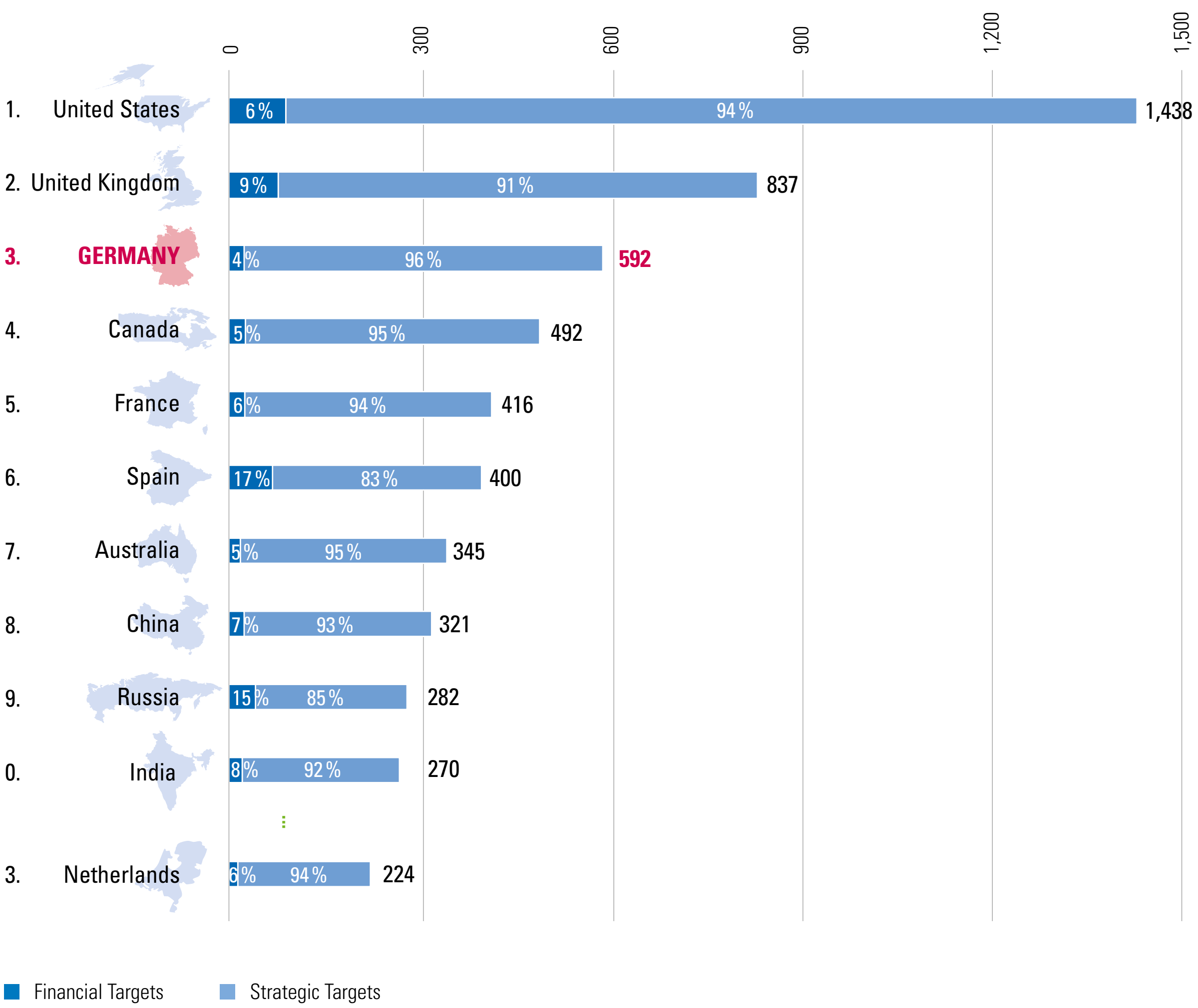
1.1 Germany is in a leading position worldwide

Germany is one of the most attractive locations for foreign direct investment worldwide. In 2014, 592 M&A-projects, German companies or parts of German companies were sold to foreign investors, including financial investors (see graphic below). This ranks Germany number 3 worldwide, with only the US and UK being more attractive for M&A. It also ranks Germany number 1 within the Eurozone.

When investors buy targets in Germany, their main focus is to buy strategic assets: 96 percent of all targets in 2014 were strategic, more than in any other top investment country for M&A projects.

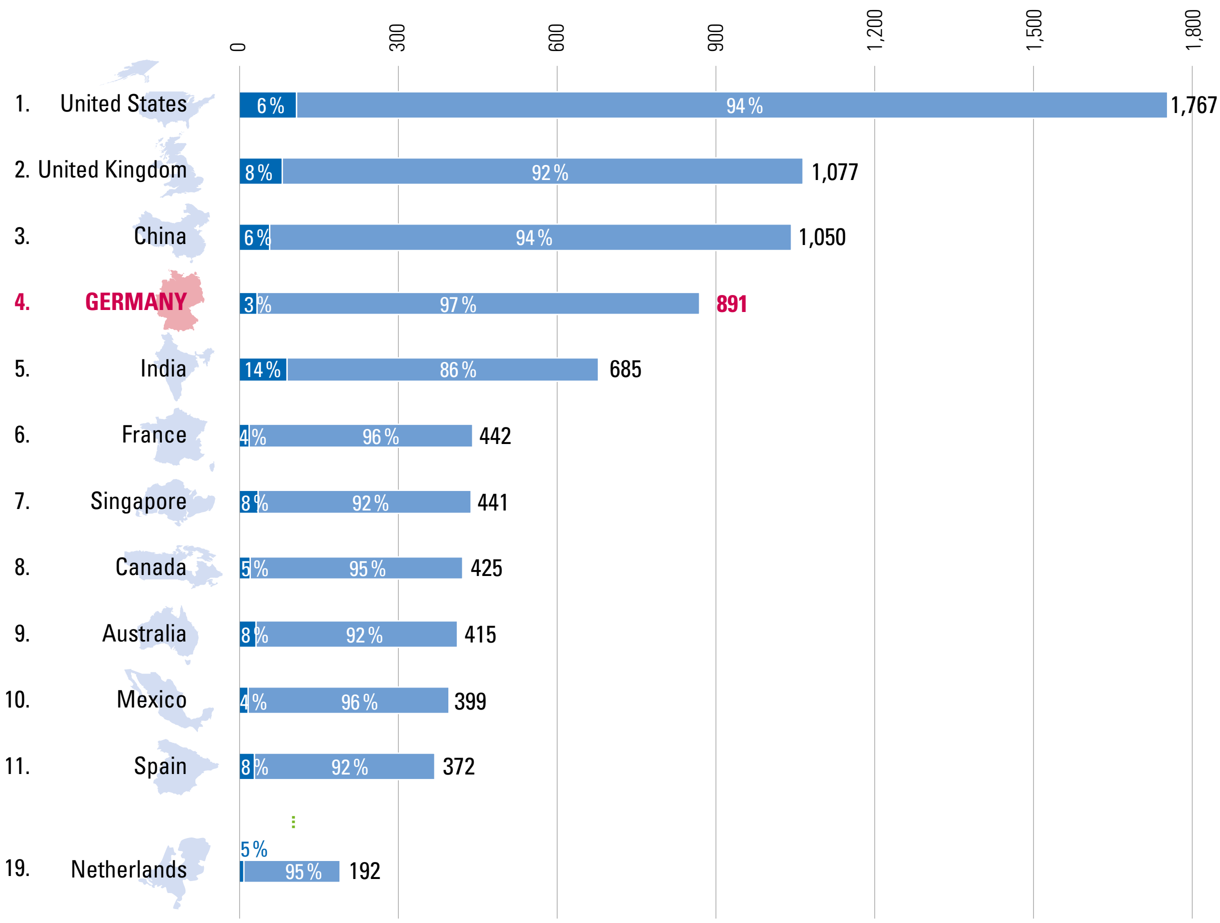
In 2014, 891 greenfield projects were registered in Germany by fDi Markets, making Germany the number 4 location worldwide for establishing a new business, number 2 in Europe and again, the most attractive location within the Eurozone.

Number of cross-border M&A projects 2014, seller countries



Source: Thomson One 2015

Greenfield project destination countries 2014



Financial Services Projects Other Industry Projects

Source: fDi Markets 2015

Investments in 2014 were significantly higher than in 2013

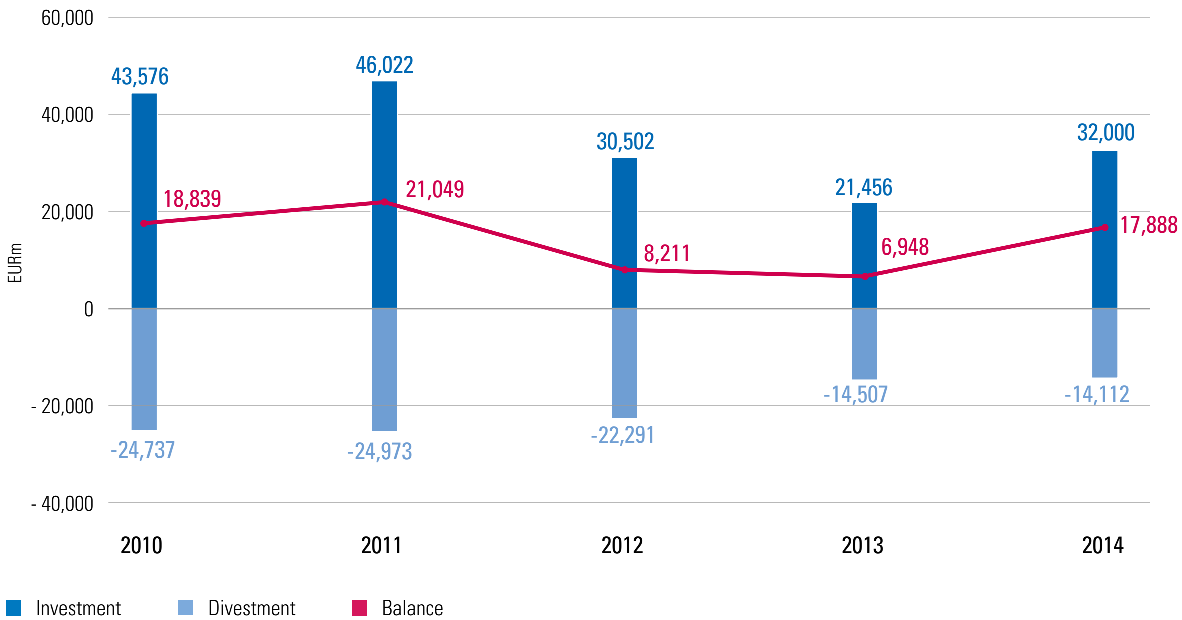
Over the last five years, investment activity in Germany has been consistently high. While investment activity fell slightly in 2012 and 2013, investment rose tremendously in 2014 and continues to grow in 2015, against a global 2014 trend of generally lower investment activity, according to the UNCTAD.

Looking at the number of projects, 2014 was even a record year for FDI into Germany, with a total of 1,483 investments. The number of greenfield projects stood at 891, higher than ever before. Looking at M&A activity, 2014 saw a 20 percent increase, compared to 2013, with a great majority of strategic targets over the entire period. Looking at buyers, the number of strategic acquisitions and financial acquisitions both rose by 20 percent, reaching a total of 592 acquisitions, with 375 strategic and 217 financial acquirers.

Furthermore, the total inbound deal value almost doubled: a record high of 62.9 billion USD were spent for German assets in 2014 including mayor deals in several industries such as media, telco and healthcare. This trend continues into the first half of 2015, with another increase in M&A activity with 288 completed transactions compared 275 completed transactions in the first half of 2014.

Equity capital investment rose by almost 50 percent compared to 2013 according to the Deutsche Bundesbank*. Liquidation of foreign capital was about 400 million euros less than 2013, resulting in an increase of more than 157 percent. Divestment decreased over the past four years, showing that companies are more likely to keep their money in Germany.

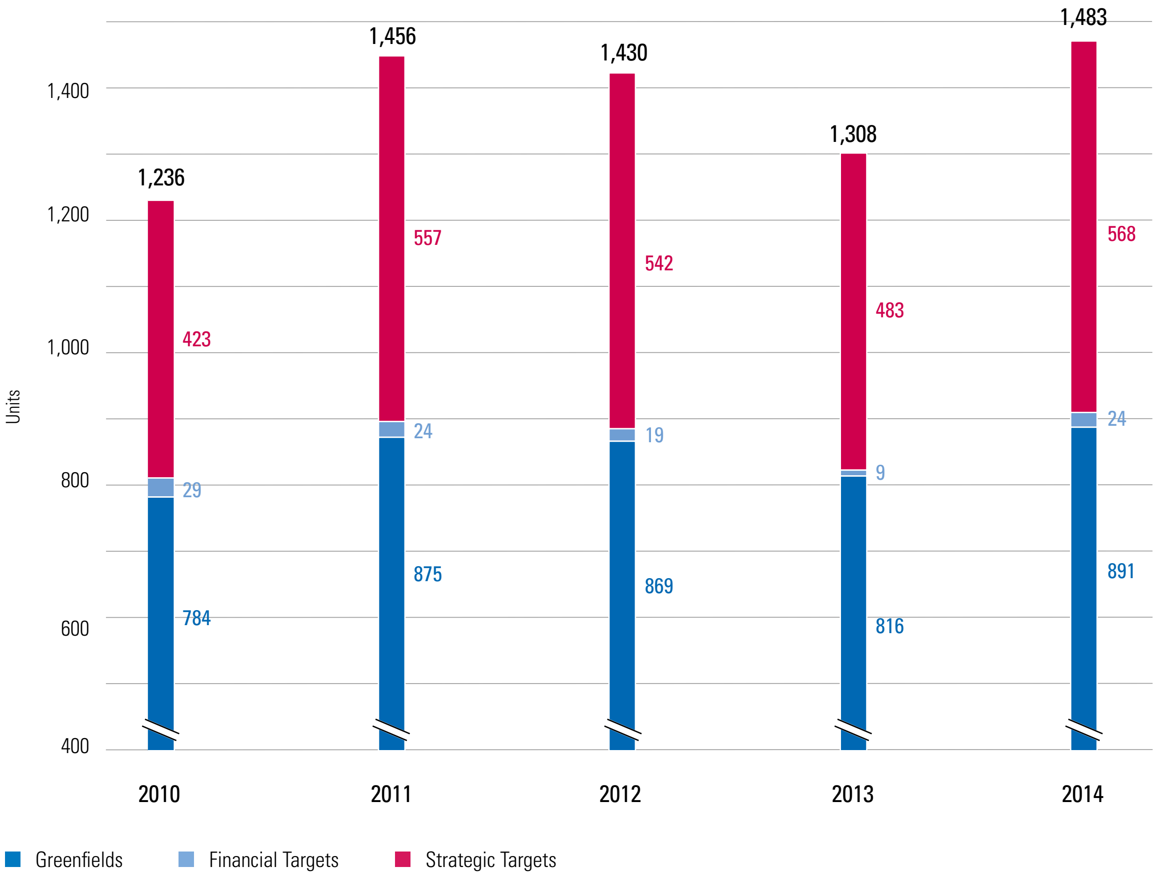
FDI flows (equity capital) all countries into Germany in EURm



Source: Deutsche Bundesbank 2015

* Please note that equity capital flows published by the Deutsche Bundesbank are not comparable to deal values published by Thomson One. Equity capital investment statistics published by the Deutsche Bundesbank only include investments of new foreign equity capital into Germany. This statistic does not include reinvested earnings or FDI-loans. Therefore, it is a good indicator for how much new foreign capital was invested into Germany. However, due to reasons of confidentiality, single investments are not included if the investment value indicates specific deals.

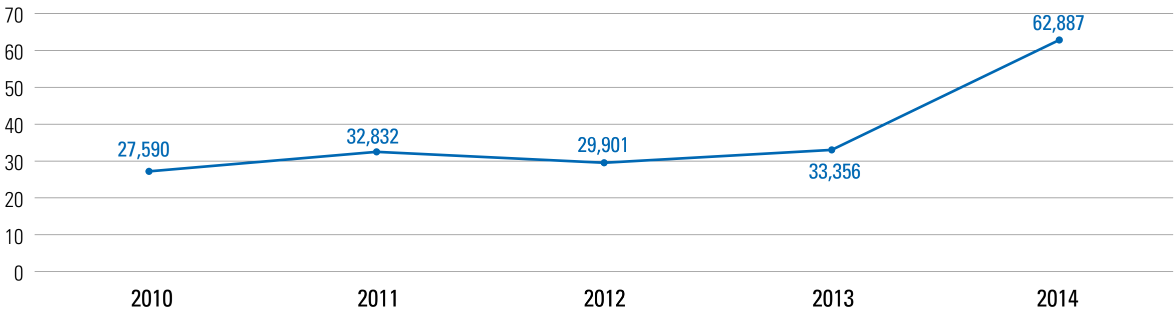
Total number of projects (greenfields and M & A)



Note: for better readability, scales are not proportional.

Source: fDi Markets 2015. Thomson One 2015

Deal value in million USD



Source: Thomson One 2015

KPMG Viewpoint

2014 was a record year for investments in Germany. The rising equity capital inflows as well as the rising deal values and number of projects show that companies seem to have strong confidence in the German economy. The increase in transactions in the first half of 2015 underlines the current trend: the demand for German assets could increase even further.

Recent top investors include the US, Western Europe and China

The top 10 investor countries in M&A and greenfield activity between 2010 and June 2015 are dominated by European countries, out of which four of the ten most important investor countries by number of projects are direct neighbours of Germany. In 2014, those top 10 countries accounted for almost 80 percent of all projects into Germany.

US companies are the most important investors in terms of deals and greenfield projects, with a total of 304 projects completed in 2014. The US is also the most important investor country for the first half 2015, with a total number of 142 projects registered, including 78 transactions.

In the first half of 2015, British transaction activity rose by more than 25 percent compared to the first half of 2014, with a total of 39 acquisitions completed.

Analyzing the total number of projects for 2010–2015 (first half), China is already number 5 amongst all investing countries. China had its peak around 2010/2011, especially in the greenfields sector. Since 2010, acquisitions have also become more interesting for Chinese investors, with a total of 26 acquisitions in 2014. Lower activity for 2015 may also be due to the fact that not all investments have yet been registered. This may also be the case for other countries.

KPMG Viewpoint

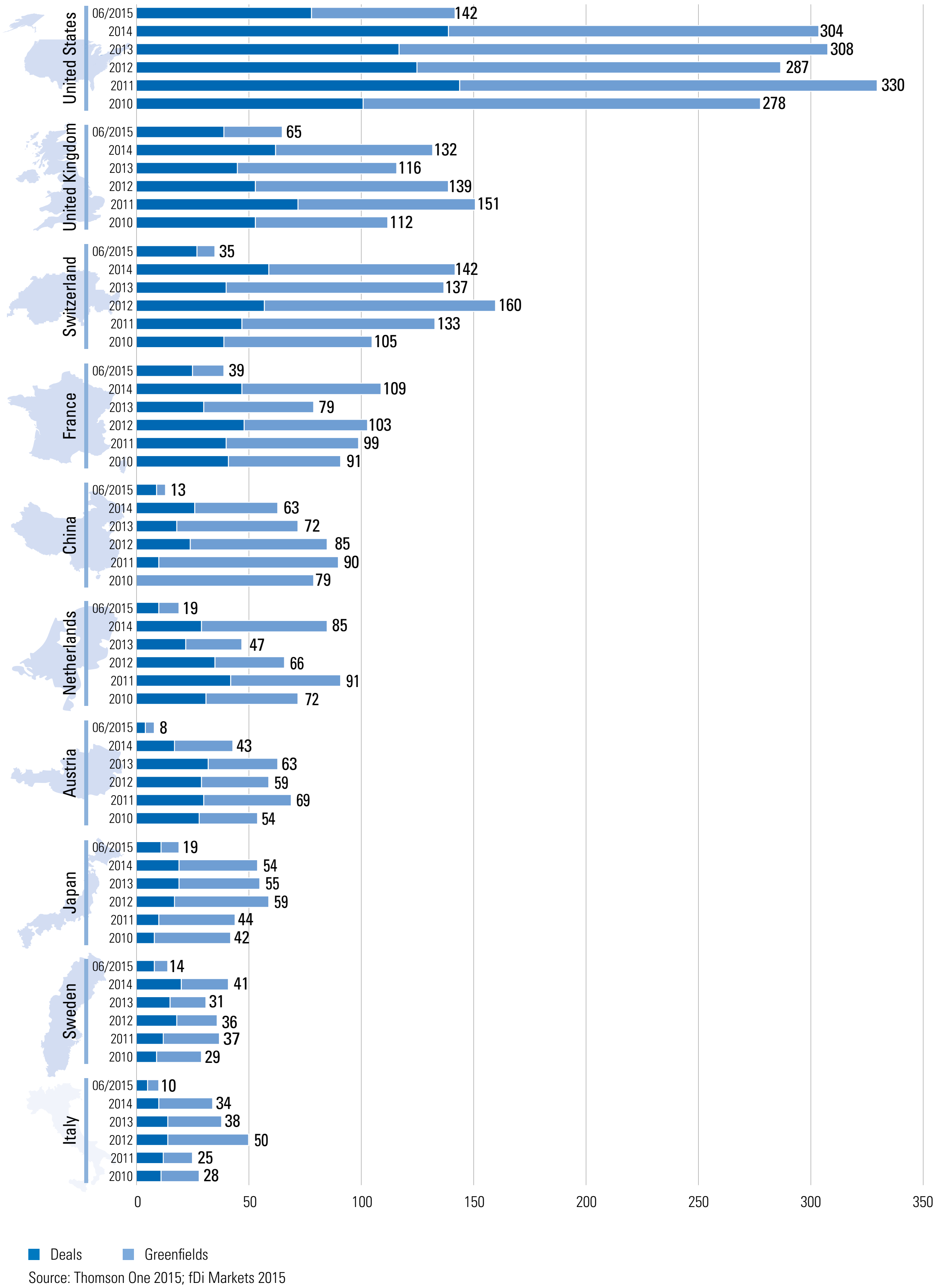
Although we live in a globalized world, geographical proximity remains crucial for foreign direct investments, with four of Germany's top 10 investor countries being Germany's direct neighbours and seven of Germany's top 10 investor countries being European.

China is a rising star and is now already established as one of the most important foreign investors in Germany. However, China still needs to catch up with other top-investor nations.

"Investments from China are expected to increase significantly, especially within technologies, as the current basis is still low in comparison to the size of the Chinese economy and compared to other foreign investors."

Andreas Feege, Partner, German Head of Country Practice China

Number of M & A- and greenfield projects into Germany 2010–06/2015 Top 10 countries



Source: Thomson One 2015; fDi Markets 2015

The biggest job creators come from the US and Switzerland

1.2 Foreign investors play a significant role in the German economy

Companies owned by foreign investors play a considerable role in the German economy. In 2013, according to the German Federal Statistical Office more than 26,800 German companies from outside the financial services sector were held by foreign investors, earning more than 1.3 trillion euros in sales. This is equivalent to 24 percent of all sales of non-FS companies within Germany. Equally, about one fourth of the German gross domestic product (GDP) is generated by foreign owned companies from outside the financial services sector. In 2013, they employed more than 3.2 million people, which is about 12 percent of the total German workforce employed by non-FS companies.

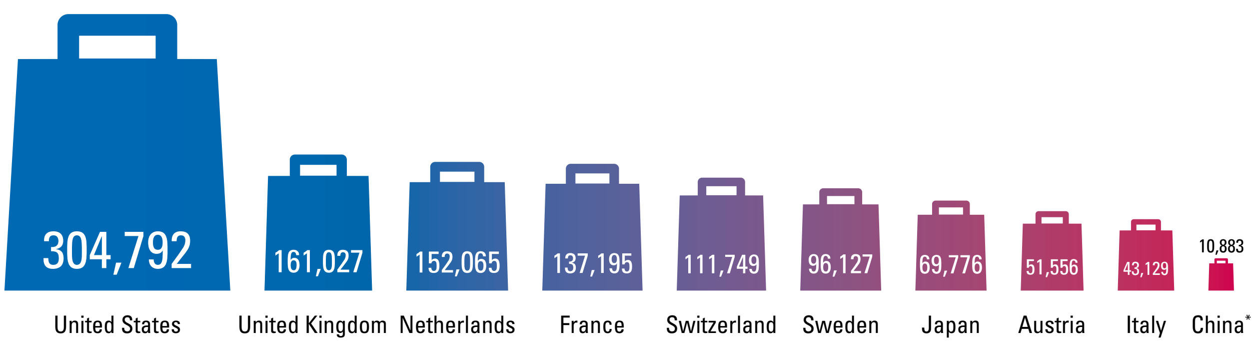
Companies owned by foreign investors make more than 50 percent higher sales per employee than German-owned companies and are therefore, at first glance, significantly more productive.

Subsidiaries of US companies generate the highest sales, with total sales of nearly EUR 305 billion*, followed by UK, Dutch and French companies, when comparing recent top investor countries.

Job creators come from the US, Switzerland and the Netherlands: Most jobs are created by companies from the US (845,309), followed by Swiss (444,036) and Dutch (404,664) companies. Swiss and Italian subsidiaries seem to be more labour-intensive than others, with around four jobs per 1 million euros in sales.

Although China is one of the top investor countries in recent years, it must still catch up with more traditional investor countries as sales and number of employees by Chinese-owned companies are still relatively low.

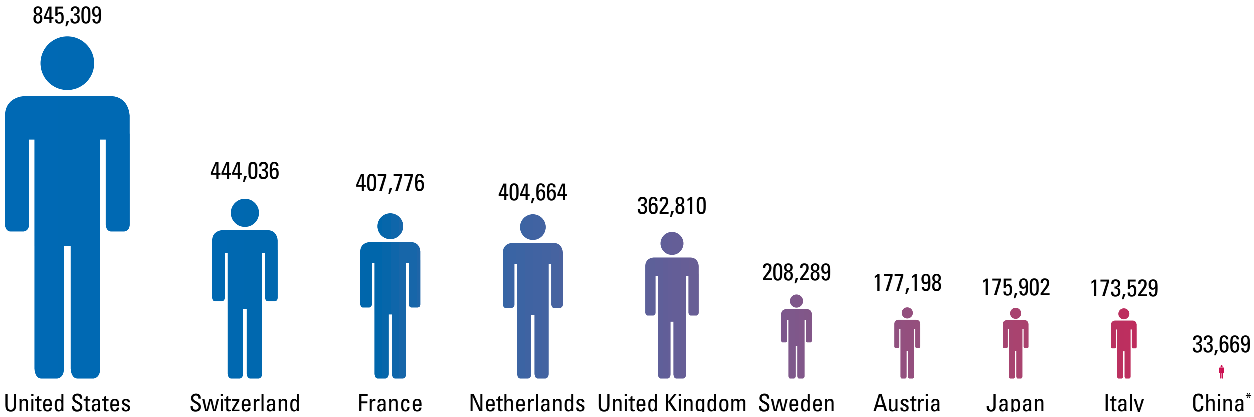
Sales of top investor countries' companies (in EURm)



Source: Hoppenstedt, annual reports, * KPMG estimates

* This data and following data for sales and jobs by country: KPMG analysis based on Hoppenstedt data.

Number of employees of companies from top investor countries



Source: Hoppenstedt, annual reports, * KPMG estimates

Developing countries as rising investor stars

"No complaint [...] is more common than that of a scarcity of money," noted Adam Smith in his magnum opus "The Wealth of Nations". From an investment perspective, this scarcity is a positive sign, as it indicates opportunities – of which rich Germany suddenly seems to have plenty to offer.

The German economy is in admirable shape. Its resilience is based on a fairly favourable business environment, political stability, and a unique economic structure. The often cited "Mittelstand", or medium-sized business sector, include numerous world market leaders in their respective industries, exporting to developed and developing countries. Opportunities attract investment, thus Germany is increasingly attractive to foreign direct investments, in particular those from developing countries.

Germany has a long history of strong research institutions supplied with state-of-the-art equipment. As an example, this matches perfectly with the highly developed Indian IT industry. While in general developing countries still trail behind regarding productivity and quality levels, their capacity to catch up has been tremendous. However, some industries have outpaced others and deficiencies are still present. This is exactly where cooperating with Germany can be highly beneficial to both sides.

History is also helpful, at times. Vietnamese companies are increasingly active in eastern Germany, thanks to historic ties. Many Vietnamese CEOs once studied in the former German Democratic Republic (GDR). This is even more noteworthy as Vietnam belongs to a group of ambitious developing economies undertaking to surpass the BRICS in terms of opportunities and growth.

Investments from developing countries are well worth it. They offer access to know-how, a huge market in itself and an ideal hub into Western, Eastern and Northern Europe.

Of course, this cooperation is also beneficial for the German economy. It injects new ideas and fresh money, which can be hard to find in Germany due to the comparably low equity levels of the German Mittelstand. As odd as such partnerships may look today, I am sure they will be quite common a few years from now.

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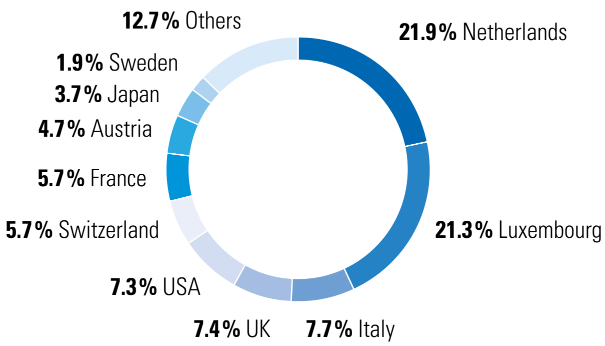
Total FDI stocks in Germany are EUR 458 billion, according to the Deutsche Bundesbank. Over 40 percent of this amount statistically originates from the Netherlands and Luxembourg: both countries are used as offshore investment hubs for tax avoidance reasons by other countries when investing into a developed economy such as Germany (Source: UNCTAD World Investment Report). Most of the money from the Netherlands and Luxembourg therefore originates in other countries, such as the US. This can also be seen when comparing FDI stocks to recent top investor countries, where a lot of FDI through offshore tax hubs is already attributed to the original investor country. Surprisingly, besides offshore tax hubs, Italy has the greatest share of FDI stocks, which is mainly due to investment in the financial sector. Investments from Austria and Switzerland include companies which have their headquarters in those two countries due to inheritance tax reasons, although their operating business is mainly in Germany. Overall, most recent top investor countries such as Western European countries, the US and Japan also have a high share of German FDI stocks. Those countries all have a long economic relationship with Germany.

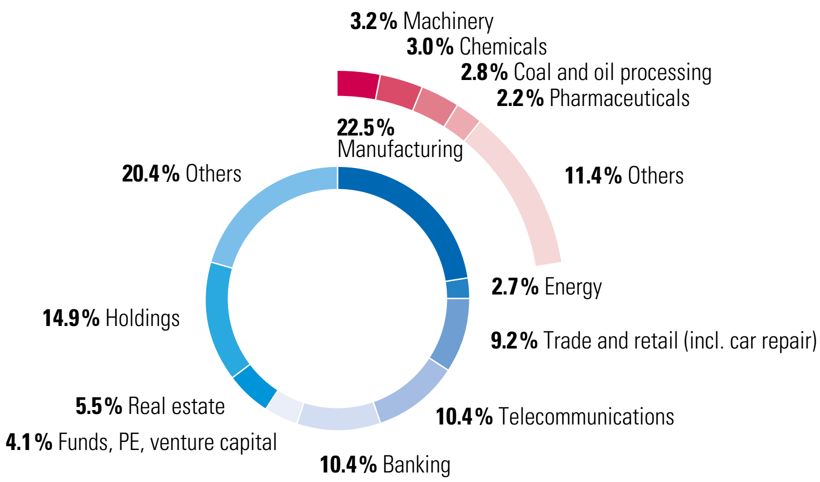
FDI stocks by investor country



Source: Deutsche Bundesbank, 2015

Almost one fourth of all foreign direct investments in Germany lies in the manufacturing industry. But only 3 percent of all FDI stocks being invested in the famous German "Maschinenbau", or mechanical engineering/machine building sector. Other important manufacturing industries include chemicals, coal and oil as well as pharmaceuticals. However, most FDI stocks can be found in the services industries: Important sectors with foreign direct investments include trade & retail, with 9.2 percent of all foreign direct investment, telco, with 10.4 percent of all FDI and banking (10.4 percent). Furthermore, funds, PE and venture capital companies are also attractive targets for foreign investors. Also, almost 15 percent of all FDI is invested into holding companies, making Germany one of the most attractive holding locations in Europe.

FDI stocks 2013 by industry



Please note: Due to rounding, the sum of percentages does not necessarily add up to 100%.
Source: Deutsche Bundesbank, 2015

KPMG Viewpoint

FDI stocks show great interest by foreign investors in a variety of German industries in the long term. Even the manufacturing sector is highly diverse. Furthermore, Germany is not only a great location for production and services, but is also an attractive holding location for many investors who want to invest in Europe and use Germany as a bridgehead.

1.3 Hi-tech, real estate and business services among the most important targets in recent years

Recent investment trends confirm what the analysis of FDI stocks already indicated. Following the global trend, investments in services for both M&A and greenfields were extremely important over the last five years. Five of the ten biggest acquisitions in the first half of 2015 occurred in the telecom sector, with a total deal value of EUR 33.5 billion.

However, in terms of the number of deals, recent M&A activity shows that Germany is still a very sought-after location for FDI into manufacturing – aside from the importance of FDI in services: Half of the top 10 targeted industries for acquisitions since 2010 belong to manufacturing and classic German industries, including machinery, automotive or engineering. Moreover, a considerably higher interest in non-residential real estate companies has been observed, with 29 transactions completed in the first half 2015, almost as many as in all of 2014.

Recent greenfield projects also have a strong focus on services: Over 640 projects have been recorded by fDi Markets since 2010 for software and IT services and over 460 projects for business services. However, manufacturing industries also remain very important for Germany when considering greenfields.

KPMG Viewpoint

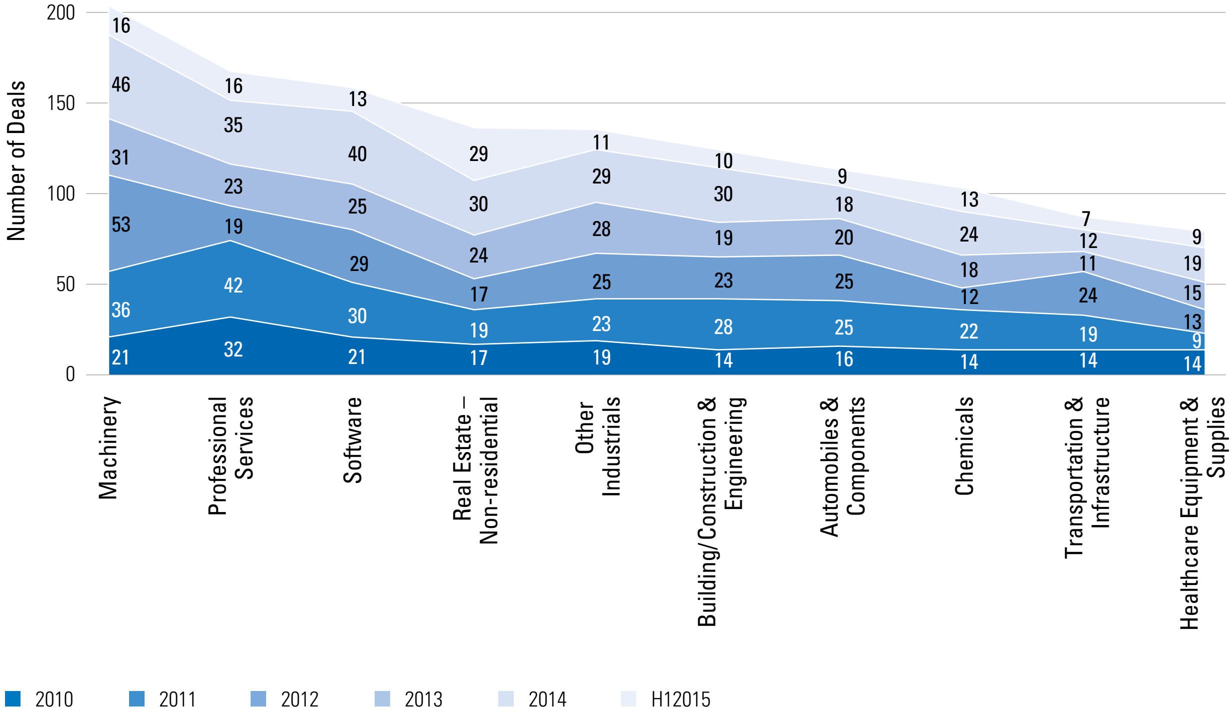
In terms of recent acquisitions and greenfield projects, foreign investors still have a strong focus on German know-how and technology. However, classic German industries such as automotive continue to be very popular for investors, too. Comparing deal value to FDI stocks, we can see a high general interest in German assets, especially in the machinery industry.

Additionally, Germany offers some of the most attractive real estate markets worldwide, including Berlin, with still relatively low prices and high growth outlooks. Right now, especially companies from the US and UK value German real estate for offices, sales offices or logistics.

"The Japanese automobile industry is highly interested in automobile targets worldwide. Germany is qualified as one of the best countries for investment, considering criteria such as market opportunity, growth, security and quality of workforce. For manufacturing companies in general, Germany is a high-potential market that definitely also has a quality workforce."

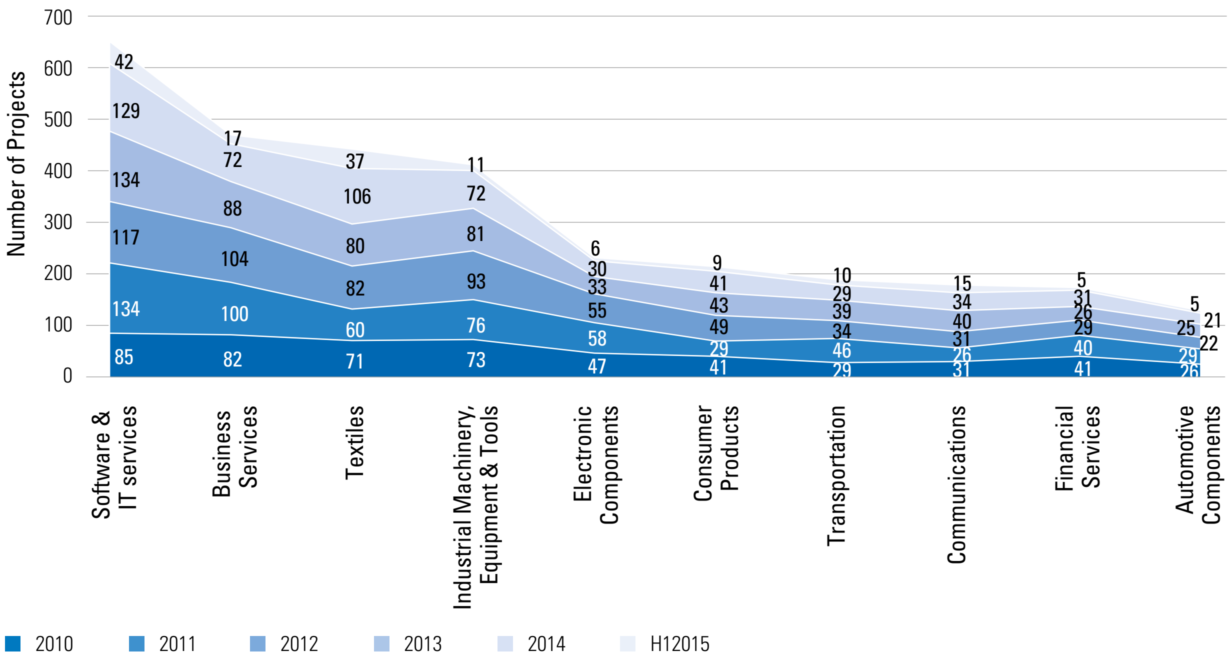
Hiroto Kaneko, Partner, KPMG in Japan

Top 10 M & A target industries 2010 – 06/2015



Source: Thomson, 2015

Top 10 greenfield project industries 2010 – 06/2015



Source: fDi Markets 2015. Note: Not all projects for H12015 are registered yet.

A lucrative demand for technology and IT services

Germany has a reputation for automotive and large-scale industries. However this is about to change as a third sector is starting to claim its share: technology. Compared to other sectors, technology investments are among the highest and lead to innovation, growth and success. This pays off and puts Germany among the top three countries worldwide, as shown by the number of technology patent applications.

More importantly, the technology sector is a major facilitator of innovations in other areas of the German economy. IT spending is increasing across all economic sectors, especially in utilities, business services and financial services. In particular, high competition and low demand lead utilities to significant IT investments. In business services, larger and more advanced companies in particular need investments to rationalize their processes and adapt to a new competitive landscape. Financial companies show a very positive attitude towards mobile services (e.g. new payment solutions and customer apps) and data & analytics (related to model risk management), but these solutions have rarely been realized. In other words, Germany's well-established industrial and financial environment has an increasing demand for software development, IT services as well as hardware and IT components.

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PE investors – a driver for change

Private Equity has undergone a remarkable transition in Germany. Ten years ago, leading politicians were comparing the behaviour of PE investors to that of locusts. Today, that debate seems long forgotten and PE is now more than welcome.

It has developed into a mutually beneficial relationship. The efficient management and the capital of PE investors have given whole sectors a positive impulse, and in some cases, invigorated firms previously doomed to bankruptcy. The strategic know-how and less risk-averse attitude allowed for innovation, ultimately leading to competitive advantages. The shift to longer term commitments helped change the public perception for the better.

Germany is an ideal target for PE, as it offers the perfect environment for sustainable investments. Its world-famous industry is the main target, thanks to constant cash flows and high barriers to entry. But there are also remarkable success stories in other sectors.

Private Equity has definitely become a viable and appreciated alternative to credit-based capital in Germany.

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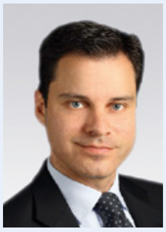

An attractive economic environment for investors

Germany is and remains one of the most attractive investment destinations in Europe. As an economy driven by mid-sized companies, Germany provides international investors with access to excellent expertise in an attractive and stable economic environment.

Outstanding infrastructure, qualified staff, along with high ethical, compliance and legal standards create a reliable environment for business and investments. This is currently further facilitated by a favourable euro exchange rate for investments from outside the Eurozone.

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Chinese investors focus on traditional German industries

Judging by the acquisitions of top investor countries since 2010, Western countries investing in Germany, such as the US or Switzerland, have a significantly higher diversified investment spectrum than others, such as China or Japan. However, there is still a strong focus on industrial, and partly on technology targets, for all countries. Analyzing investors, top Western investor countries have a significantly higher percentage of financial acquirers compared with others.

A few country-specific issues should be pointed out: Non-tech companies from Switzerland, Japan and the UK have a high interest in German technology. Cross-industry acquisitions are relatively high. Japanese companies additionally have a strong focus on industrials, high-tech and materials. US companies acquire a wide range of German companies from all industries with a focus on high-tech and industrials. Chinese investors, however, still focus on traditional German top industries, such as machinery, automotive and industrials. Chinese acquisitions include a range of German SME companies that are specialists in their specific fields of operations.

KPMG Viewpoint

Companies from countries such as the US or Switzerland, which focus on a wide variety of sectors when making acquisitions in Germany, might buy the best targets now, while other countries still focus on the industrials sector. Focusing on traditional German industries only, foreign investors from countries such as China might miss out on good opportunities in other sectors.

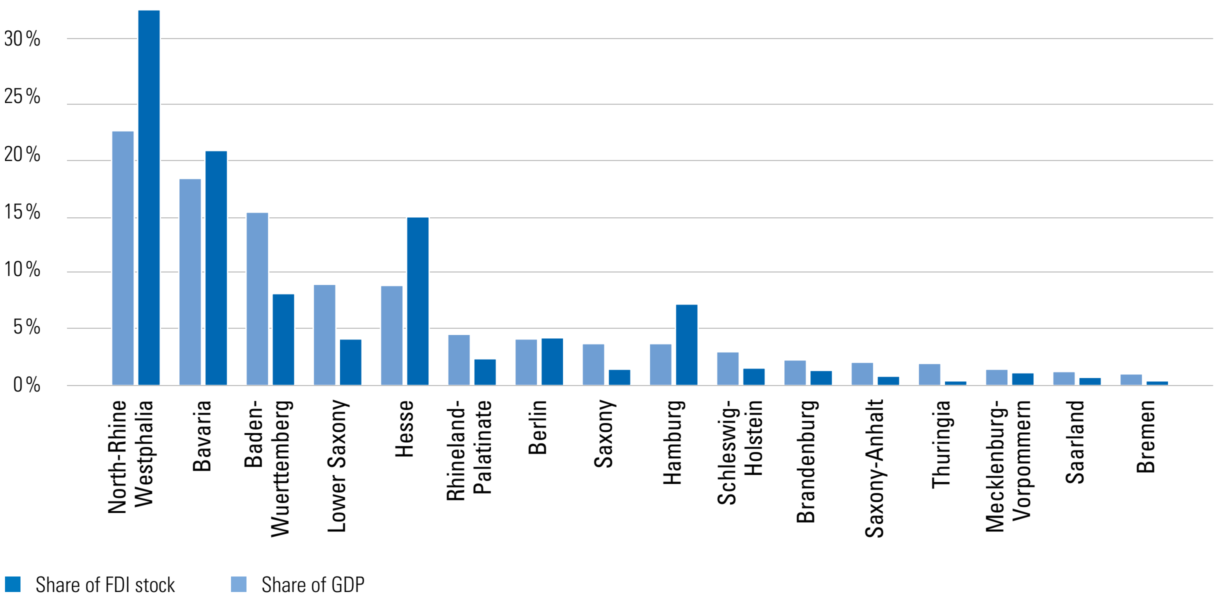
1.4 Investors overlook certain regions

FDI, though diversified throughout all German federal states, is not equally divided between the states according to their share of GDP. Some regions are much more popular, while other regions receive less FDI compared to their share of GDP. North Rhine-Westphalia alone accounts for almost one third of all FDI stocks, with 62 percent of the money coming from the Netherlands and Luxembourg. Together with Bavaria, both federal states account for almost 53 percent of all stocks and are therefore very dominant regions. Investment in Bavaria comes mostly from Italy (25 percent).

Other investment hubs are Hesse (14.5 percent) and Hamburg (7 percent), together accounting for significantly more FDI stock shares than their contribution share to the German GDP. Hesse is also home of more than 62 percent of all Chinese FDI stocks within Germany. Berlin also is a small hub, with the FDI stock share being equal to GDP share.

The graph shows that some German states have a relatively low FDI stock relative to their GDP. Baden Württemberg for example, being the third strongest state economically and popular with Swiss investors, has a significantly smaller share of FDI stocks compared to its share of GDP. In addition, the eastern German states such as Brandenburg or Thuringia also have significantly smaller shares of FDI compared to their GDP contribution.

Share of GDP and FDI by state 2013



Source: Statista, 2015, Deutsche Bundesbank, 2015

KPMG Viewpoint

By focusing on a specific region, companies might miss out on other attractive targets available throughout Germany. Looking beyond their “traditional” investment regions, companies might find a range of attractive targets, such as highly developed start-ups in Berlin or hidden champions (SMEs) in all German states.

2.

THE GERMAN COMPETITIVE ADVANTAGE

2.1 Benchmarking: Germany compares very well to other top European inbound countries

» Top factors include strategic position, market size and education
» Germany offers favourable tax conditions for foreign investors

2.2 A large export-oriented, stable economy

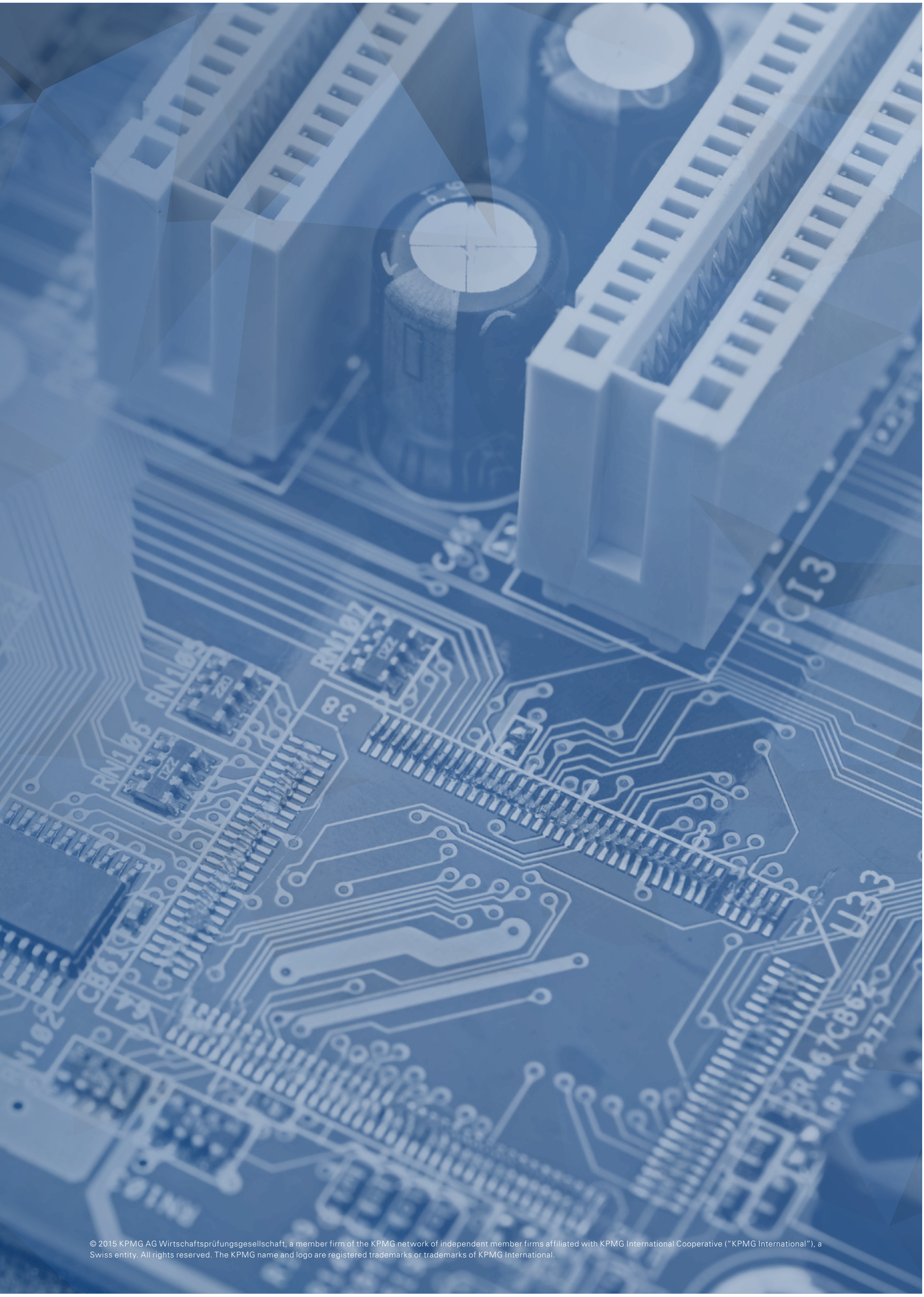
» Germany is a large market and a base for expansion within the EU
» Taking advantage of global trade, while remaining stable even in more critical scenarios

2.3 New opportunities: diversity and innovation as driving forces

» A nation of cutting edge technology and innovation
» The next "smart factory" generation expected to offer significant opportunities
» Skilled workers, good education, strong productivity

2.4 A progressive economy

» Significant opportunities outside traditional industrial sectors
» Germany, Europe's start-up centre
» SMEs are global leaders
» Family-owned businesses looking for successors



2.1 Benchmarking: Germany compares very well to other top European inbound countries

Germany offers more advantages than any other top-investment country in Europe – overview of top inbound investment countries in Europe.

Country	FDI attractiveness	Strategic position	Political stability	Skilled workforce	Labour market flexibility and stability
GERMANY	VERY HIGH	Very good central position in Europe for distribution to all EU-member countries.	Politically stable. Strong position in the EU.	Strong academic and non-academic education. A well-balanced system with a focus on specialized skills.	Strong employee rights, which complicates restructuring, while also leading to high satisfaction and low strike activity.
Netherlands	VERY HIGH	Good position for distribution within Europe – especially to Western countries. A strong international hub.	Increasing fragmentation and a strong Party for Freedom (PVV, far right) could weaken political stability.	Good education system including top business schools. However, lack of investment could lead to issues in the future.	Highly flexible labour market. Low strike activity points to a stable, satisfied workforce.
United Kingdom	HIGH	Difficult position for distribution to continental European markets. Strong global ties, notably with the US.	Political uncertainty both internally and externally towards the future integration with the EU.	Good education system including top-ranking international universities. A lack of specialized technical skills.	Highly flexible labour market when compared to the rest of Europe. In some case, however, this could lead to uncertain working conditions in turn affecting performance.
France	MEDIUM	Good position for serving western-European markets. Ties to Eastern European markets could prove more difficult.	Rising political uncertainty due in part to the increasing popularity of extreme political viewpoints.	Despite renowned universities, difficulties in offering equal chances to all. Structural issues are also a concern.	Highly regulated labour market. Despite this, France has the highest number of lost working days due to strikes.
Spain	MEDIUM	Difficult position for distribution within Europe, but strong ties to Latin America.	The transition from a two-party system to a multi-party system, including Podemos, the radical leftist party, has created political uncertainty, all the while leading to increased transparency.	Some of Europe's best business schools, but other areas fall behind when compared to the rest of Europe. Structural issues.	Spain's rigid labour market has been struggling to readjust, although improvements and recent reforms are leading to more flexibility.

Regional and industrial diversity	Productivity	Business tax environment	Domestic market size	FDI attractiveness	
Highly decentralized system with various clusters across the entire country. Strong regional diversity in many industries and services.	High productivity which is expected to improve further as current investment priorities target productivity-related issues.	Medium expenditure on taxes and other contributions.	Largest market in Europe	VERY HIGH	GERMANY
Decentralized with various centres, but doesn't reach the level of larger countries due to its size.	High productivity and relatively strong productivity growth.	Medium expenditure on taxes and other contributions.	Relatively small market	VERY HIGH	Netherlands
Very focused structure. A concentrated business hub in London without any significant regional diversity can make investment expensive. Strong focus on financial and business services.	Weak productivity remains an issue, with an output per hour worked that is significantly lower than in top-ranking European countries.	Medium expenditure on taxes and other contributions.	Large domestic market	HIGH	United Kingdom
Very focused structure. A concentrated business hub in Paris without any significant regional diversity can make investment expensive.	Productivity per hour worked comparable to that of Germany, although lower overall working hours result in lower output. Furthermore, relatively low productivity growth over the past years.	Relatively high expenditure on taxes and other contributions.	Large market	MEDIUM	France
Still very centralized around Madrid and Barcelona. Increased decentralization in recent years has created a new level of over-regulation and bureaucracy.	Relatively low productivity. Many industries are currently restructuring their processes.	Medium expenditure on taxes and other contributions.	Medium-sized market	MEDIUM	Spain

Highest score · Medium score · Lowest score

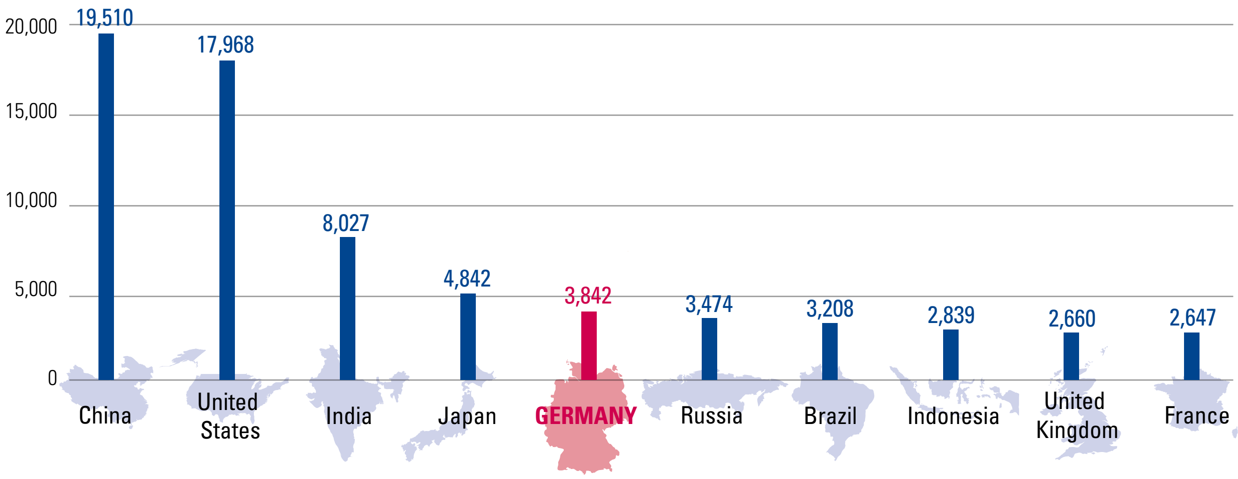
Source: KPMG, OECD

2.2 A large, export-oriented, stable economy

Germany is one of the world's largest economies, and the largest economy in Europe. Private consumption has risen constantly over the last five years – it is now slightly higher than total government spending – further driving economic growth. In 2014, private consumption spending was above 1.5 trillion euros (Source: Federal Statistical Office).

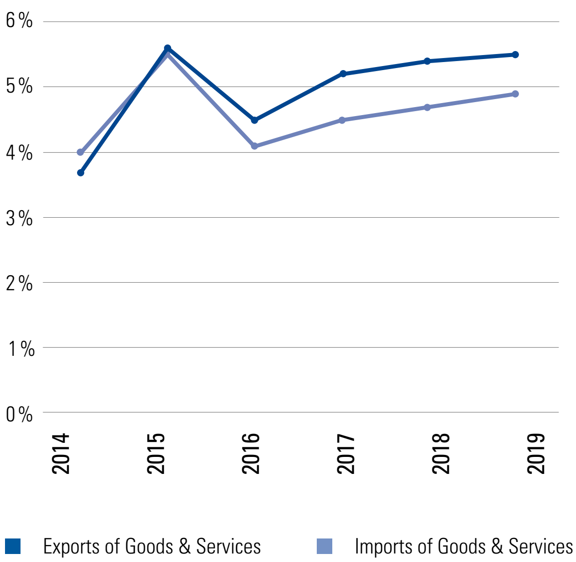
The German economy is furthermore very dependent on export markets. Exports took a hit in 2009 following the global financial crisis, but have recovered significantly since and are continuing to increase (see chart on page 29). Germany's largest trading partner is France, followed by the Netherlands, China and the United States, according to data published by the Federal Statistical Office. China was the largest export partner for German machinery in 2014, with a value of 17 billion euros, followed by the US and France (Source: Federal Statistical Office, VDMA, 2015).

Largest countries by nominal GDP at purchasing power parity, 2015e (in USD billion)



Source: IMF, 2015

Foreign trade, percentage change of volume of goods and services – Germany – 2014 – 2019e



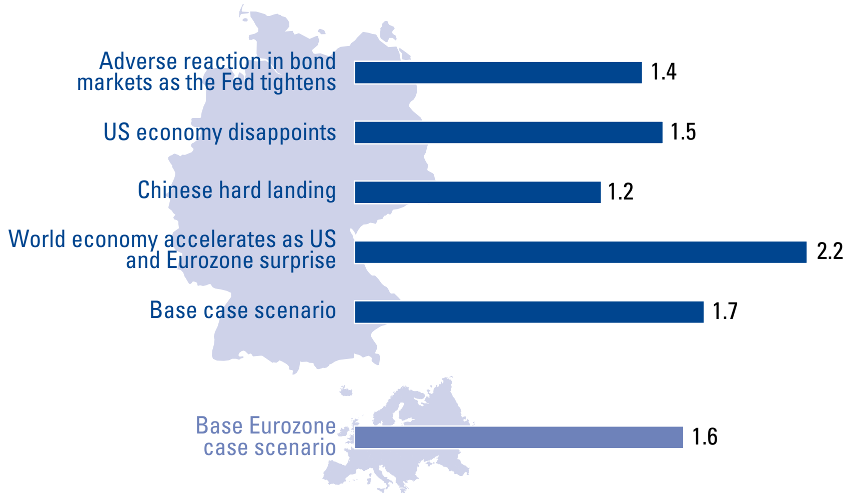
Source: IMF, 2015

A stable economy –

even in serious risk scenarios

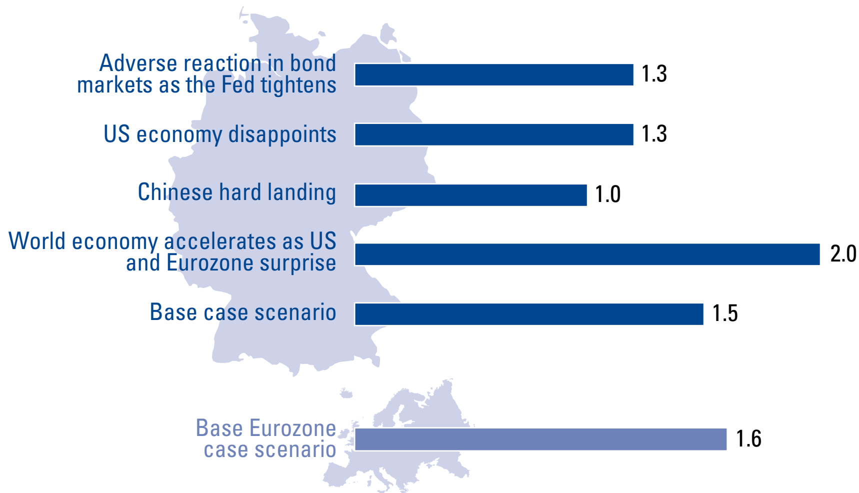
In 2015, Germany's expected GDP growth is around 1.7 percent. However, a scenario analysis of four currently likely events shows that the German economy is highly resilient (see charts below). Even in worst case scenarios, the economy should only suffer from a brief impact before recovering. According to scenario analyses, Germany remains a safe harbour for investments even in an uncertain global environment.

Real GDP forecast under various scenarios – CAGR 2015–2018e (yearly change in %)



Source: Oxford Economics, 2015

Industrial Production Index under various scenarios – CAGR 2015–2018e (yearly change in %)



Source: Oxford Economics, 2015

"The German economy has managed the financial crisis years considerably better than other countries and shows encouraging signs for continued technological leadership and strong competitiveness."

Oliver Doerfler, Partner, German Head of Country Practice UK

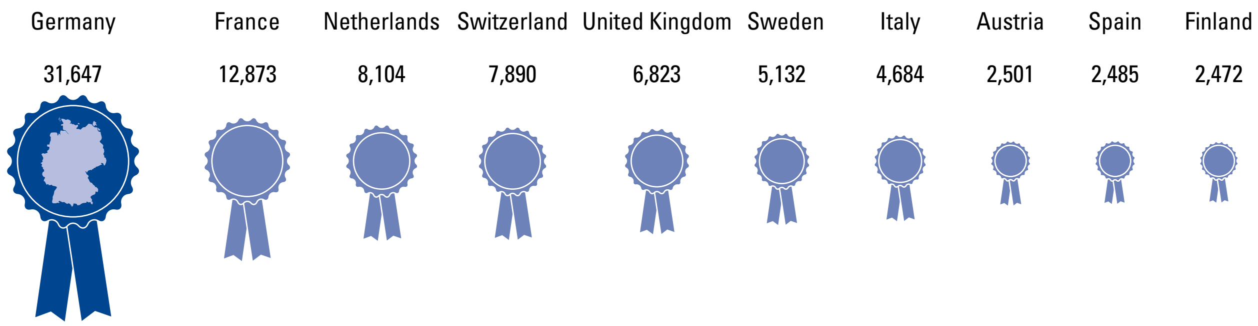
2.3 New opportunities: diversity and innovation as driving forces

Germany is Europe's leading patent applicant and a leading global force in high-tech solutions. Significant added value is expected due to the "smart factory". BITKOM and Fraunhofer expect a 30 percent rise in key industries such as cars, machinery or chemicals.

In innovation, Germany scored 3rd and 4th place respectively in the 2014 EU Innovation Union Scoreboard (IUS) and in the iit-Indicator ranking (2014). Looking at specific industries, the German Automotive industry has the highest share of innovation intensity, meaning innovation expenses relative to total sales, followed by the Electronics and Communications industries.

Moreover, the WEF Global Competitiveness Report 2014–2015 acknowledges Germany's competitiveness strengths, which include highly sophisticated businesses (3rd place).

Number of new patents among EPO-members in 2014 – Top 10 countries



Source: European Patent Organisation 2015

KPMG Viewpoint

The "smart factory" or smart manufacturing has attracted tremendous interest over the past two years. German companies see themselves as highly innovative in this area.

However, many companies will have to significantly increase their investment activity in order to stay on top. This provides great opportunities for foreign investors: 1) Investors have the possibility to acquire highly innovative companies including technological knowledge; and 2) tech-companies can implement their knowledge to strengthen companies, which are still global leaders but need external (digital) input.

German companies need foreign investors for innovation

Germany has historically been and is still profiting from a positive international reputation, especially in fields that include core competencies, such as automotive, energy supply, pharma and mechanical engineering. Germany is one of the leading exporting nations in the world: Products made in Germany recognized for their high quality standards, innovation and reliability, while German engineers have the reputation of being conscientious and highly educated. In 2014, EUR 56 billion were invested into R&D in the automotive sector to stay on top of the game (GTAI, 2015).

The government as well as the industry have identified the issues of low risk capital and research and development investments in other industry fields. One focus is on attracting foreign investors who tend to follow a less risk-averse culture than German investors. Although the German economy is politically stable and characterized by a highly developed infrastructure, German investors are often too cautious, often missing profitable investment opportunities. The goal is to foster growth and innovation in order to further develop industries such as high-tech and knowledge-intense services. Close cooperation between highly reputable research institutes (e.g. Fraunhofer Institute), universities and the economy will help close the existing gap, combining practical and technical research and insights. First steps have already been taken: The number of newly declared patents increased by 4.4 percent in 2014 – an indicator for the innovative capacity that lies within Germany (DPMA, 2015). Moreover, an extensive middle class, a high number of mid-sized and family-owned businesses, as well as numerous hidden champions in niche markets make the German market what it is: flexible, adaptable and innovative at its core. The combination of smaller, flexible firms and highly skilled labour is an incentive for innovation. Internationally, Germany ranked a confident 5th place for economic innovativeness (BDI, 2014) and is still two years ahead in research and development in terms of the smart factory ("Industry 4.0") (Wirtschaftsrat, 2014). Nevertheless, Germany has demonstrated that relying solely on existing strengths is not a sustainable strategy to stay on top. New structures and strategies, such as the nationally introduced "High-tech Strategy 2020" (BMBF, 2010), will ensure top international performance.

To stay competitive in the international market and various industries in the future, Germany will further adjust its economic structures to the emerging trends and changes, especially in the field of data & analytics. The goal is to reinforce its superiority, to stay competitive, and to further expand Germany's outstanding reputation by not only focusing on existing strengths, but by investing in chosen emerging industries.

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"Germany is positioned very well related to technological know-how and costumer access."

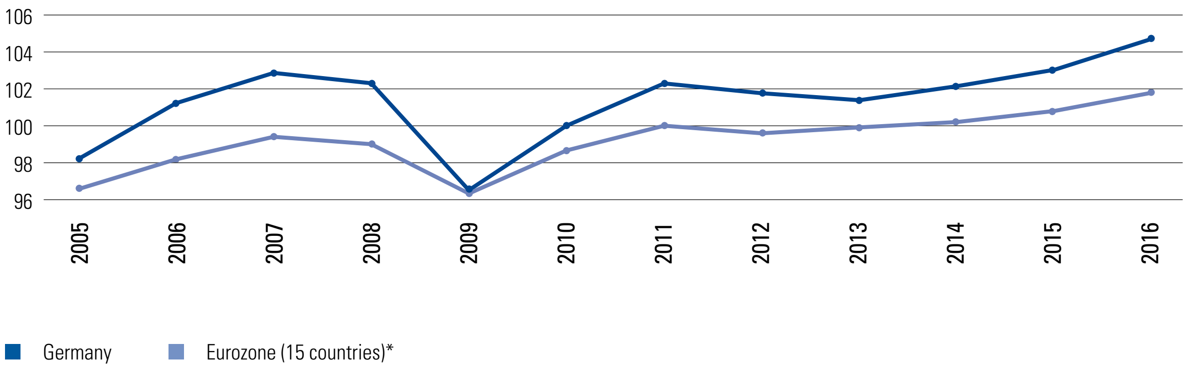
Finance Director Industrial Division,
High tech automotive supplier headquartered in the Netherlands

A well-educated and effective workforce

Germany is home to a highly motivated, qualified and conscientious workforce. Its skilled talent pool consists of both students and trainees. Over the last five years, according to Germany's Federal Statistical Office, the number of students and trainees has risen by more than 400,000.

Furthermore, the cooperative approach of German industry relations and wage bargaining is resulting in moderate unit labour costs compared to the rest of the EU. As a result, labour productivity consistently ranks above the EU average, thus promoting Germany's competitiveness and attractiveness as a business location.

Hourly labour productivity 2005–2016 (OECD base 2010 = 100)



Source: OECD, 2015

* Aggregated data includes the following countries: Austria, Belgium, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, the Slovak Republic, Slovenia and Spain.

KPMG Viewpoint

The fact that Germany is not only a world leader in innovations across a broad range of different industries but has simultaneously managed to keep labour costs down is highly unique.

The German system, offering a very high number of traineeship-based education programs, is unparalleled and has created a well diversified and highly skilled workforce.

German business is diverse

If you are looking for a giga-yacht, a door security system or crop seeds, would you initially turn to a German brand? Probably not… But you should! Besides its well-known brands in the automotive and engineering industries, Germany has a solid and diverse business landscape.

Its broad range of products and services is matched by a rather unique blend of companies in terms of size and management structures. Huge, multinational brands coexist alongside small and medium-sized hidden champions, of which quite a few are market leaders in their niche. You will find public companies as well as family-owned businesses – both of which offer a solid capital base for investments.

Diversity is also at the heart of a very German structure, its so-called "clusters". Clusters are regional accumulations of companies which work along the same value chain. Within these clusters, universities, research companies, chambers of commerce and trade associations work closely together to drive innovation, cost optimization, foster start-ups or align more closely with potential customers.

Finally, Germany's highly qualified workforce is based on diversity in education. Thanks to top-notch universities as well as vocational education and training, you can be sure to find the best trained specialists for your business.

Yet there is another reason for investing in Germany: German CEOs! According to our recent CEO-survey, 63 percent of top decision makers in Germany are quite optimistic about growth perspectives for their companies. Additionally, most of them (70 percent) are planning to transform their company significantly in the next three years in order to align with the new (digital) environment.

Compared to other countries – for example the USA – 57 percent of German CEOs will strongly foster innovation and concentrate on adjusting strategy and business models in the next three years. From our perspective, German CEOs already foster and shape business transformation in a way that is unmatched around the world in order to carry the strength of our industries to the next level.

We think that German business is well prepared for the future and would like to encourage you to take a closer look, as there is much to gain from business "Made in Germany".

Angelika Huber-Straßer
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2.4 A progressive economy

Germany is a progressive economy based on small and medium-sized companies consisting mainly of the services and manufacturing industries. In 2014, more than two thirds of the German GDP was produced in the services sector, including banking and telecom industries.

Segment share of total GDP in Germany in 2014 (in %)

68.6 Services

25.9 Manufacturing (excl. construction)

4.8 Construction

0.8 Agriculture

Please note: Due to rounding, the sum of percentages does not necessarily add up to 100 %.
Source: Federal Statistical Office, 2015

Traditional family-owned businesses that have been operating for over a century coexist alongside new technology start-ups. However, traditional in this context does not mean that German family-owned businesses are not dynamic.

A closer look at these two highly dynamic types of German businesses reveals that although they might appear to be different at first glance, they are similar in terms of innovation.

The Start-up Centre of Europe

There is no question that Berlin is currently the go-to city in continental Europe for starting up a business. Why? Over the last five years, Berlin has developed a well-established start-up ecosystem with the necessary ingredients to successfully build world-class start-ups. The ingredients are talent, capital, infrastructure and visibility vis à vis the public.

First of all – and maybe most importantly – Berlin is a great place to live. It attracts young, highly talented people from around the globe who bring their entrepreneurial spirit. While Berlin may be lacking highly experienced "been-there-done-thats" who have reached their fifth IPO in a row, as time goes by, the Berlin-based crowd is also gaining valuable experience. And capital is available – especially in the seed and early stage.

There is a developing scene of Business Angels and serial entrepreneurs providing experience and money, as well as a series of public VCs who are very active. Although Berlin is still a little behind at big Series B onward-financing rounds, it has seen some stunning nine-digit financing rounds in the past year. Despite the recent developments, investors will find tremendous opportunity in valuations that are still significantly lower than in the US.

Another factor is infrastructure – primarily office space – which is still easily available in Berlin at affordable cost, especially in comparison to London or the Bay Area. Founders often say that starting a business in Berlin costs a third less than in Silicon Valley. When it comes to networking, Berlin is great. Its start-up community is exchanging know-how in countless meetings, conferences and other formats. It is a truly open-minded scene.

Last but not least, all this has become public knowledge. The Berlin City Government and community members spread the word about Berlin via open channels to let everyone know that Berlin is the place to invest. If you put all of that together, Berlin breeds major opportunities for foreign investors.

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Segments of greenfields in Germany in 2014 (in % of total)

35 Business Services

27 Personal Services

18 Trade

6 Manufacturing

6 Finance Services, Traffic, and News

5 Construction

3 Other Manufacturing Services

Source: KfW, 2015

SMEs and family-owned businesses offer unique advantages

Strong financing is key to accelerating growth. 58 percent of German SMEs are currently searching for external financial resources in order to enhance their growth. Their focus is to expand in their existing and new markets and to find a long-term partner to finance this growth.

German SMEs expect long-term orientation, industry experience and restrained influence from an investor. Other entrepreneurial families or high-net-worth individuals from abroad are especially welcomed, since they have a similar set of values and goals and often accept minority and non-controlling shareholding. This is one reason why they are appealing to entrepreneurs, whose top priority is independence.

German family businesses are quite attractive. They have a unique innovation culture and the staying power to implement unconventional ideas. Many founders were previously engineers and this fact still characterizes German corporate culture. No wonder Germany is the country of "hidden champions" – highly successful companies operating globally in a niche market. There are roughly 3,000 hidden champions, approximately 50 percent are in Germany.

However, digitalization is one of the biggest challenges for German family firms, despite their considerable competitive advantage. Due to their short decision-making processes, they are able to operate fast, giving them the potential to catch up quickly. For instance, more and more traditional family businesses collaborate with start-ups to develop new products and services.

As an export nation, Germany benefits from the advantages of free trade. Consequently, TTIP will be an opportunity for German mid-sized businesses.

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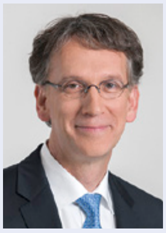
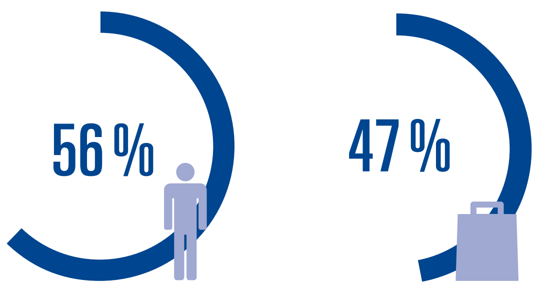


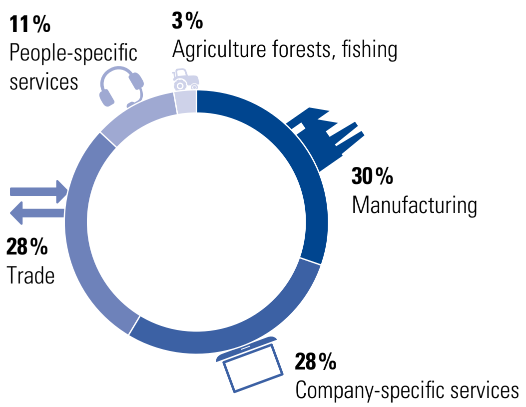
Family-owned businesses seeking successors.

Share of family-owned companies in Germany 2013 (by share of employees and total sales)



Source: Stiftung Familienunternehmen, 2014

Business successions 2014 – 2018 – share of companies by segment (% of total)



Source: Institut für Mittelstandsforschung (IfM) Bonn, 2013

Family-owned businesses represent a highly attractive segment for international investors

Family firms make up almost half of Germany's total sales. Their particular characteristic is that families want to hold on to their business over generations. However, each generation needs to decide whether or not to hand over the business to their children, and subsequent generations need to show their willingness and capability for taking over, which is not always the case.

According to a study by the renowned ifm Institute in Bonn, over 5,000 family businesses with a yearly turnover of EUR 10 million will have to solve a succession issue in the next ten years. About 700 large companies with yearly revenues of EUR 50 million or more will face succession issues within the next five years.

Many entrepreneurs prefer to pass on their business within the family (about 50 percent). But if there is a lack of entrepreneurial spirit in the next generation, investors are needed to fill this gap. Nearly a third of businesses are sold to external investors.

If the business stays within the family, the succession period is a time for strategic change, often requiring additional financial resources. At this point, minority shareholdings can be of interest to the owners. External investors also have a beneficial effect by bringing in new experiences, stabilizing the company and neutralizing emotional discussions between generations.

The most urgent issue for family businesses is the inheritance and gift tax reform. Handing over a business to the next generation can become considerably more expensive. To pay inheritance taxes, some family businesses need outside financial support. A willingness to reach out to external investors could therefore grow. Even going public is no longer stigmatized within German family enterprises.

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3.

COMPETING FOR TARGETS: KEY COUNTRIES INVESTING IN GERMANY

3.1 The country of choice when investing in Europe

» Germany is among the top foreign destinations for investment; particularly for European countries Germany is a top FDI location
» Reasons for investment include strong interest in German technology and innovation, a large market and a low-risk-environment
» Germany is the number one destination in Europe for Chinese investors

3.2 Competition for targets may increase

» Investor rationales targeting Germany tend to depend on an investor's country of origin
» Three clusters of top investor countries emerge – mainly dependent on the preference for technologies or market opportunities
» Not only will certain targets meet the requirements of entirely different investors, but clusters may also merge, further increasing competition

3.1 The country of choice when investing in Europe

The following pages provide an overview of major criteria for investments into Germany from the point of view of top investor countries. Analysis is based on an assessment of KPMG country specialists, country-specific analyst information and media coverage.

Some criteria are key drivers for investment for a number of top investor countries and are therefore named for various countries, such as interest in technology, geographic proximity or the German market size. However, other reasons are more country-specific, such as the interest in renewable energies or in acquiring bargains.

USA

Top target countries, number of deals 2010–06/2015

United Kingdom	1771
Canada	1421
Germany	704
Australia	586
France	491

"Germany will continue to be a strategic FDI market. Key industries where Germany is recognized as a leader, particularly with regard to IP and process development, will continue to attract US companies. Furthermore, as the German economy continues to diversify and become more service-based, it is likely to attract the interest of established companies in related industries that are looking to expand."

Warren Marine, Partner, German Head of Country Practice USA

General criteria and industries of interest worldwide

» Criteria range from market expansion to offshoring services or manufacturing to IP acquisition
» Industries of interest: technology, manufacturing, business services, FS, communications
» Acquirers include virtually all industries

Reasons for investing in Germany

» Technology and knowledge intensive industries
» A weak euro makes investment cheaper
» High data security
» Well performing targets
» Germany as a base for serving German-speaking markets

Future drivers and opportunities in Germany

» A more focused investment horizon. Integration and compliance issues will continue to play a important role
» Centralization of back office functions to an offshore location will continue to shape the size and structure of foreign-owned entities and groups in Germany
» The Transatlantic Trade and Investment Partnership (TTIP) may have positive effects on market and sales-led US FDI activity in Germany
» US companies are chasing good M&A opportunities
» Changes in tax treatment of foreign capital
» US companies with cash reserves

UNITED KINGDOM

Top target countries, number of deals 2010–06/2015

United States	1022
Germany	323
France	229
Australia	217
Canada	179

"Technology, media and telecommunications as well as real estate are among the most interesting German industries for British investors, as they offer great opportunities. Investment in those sectors will continue to play an important role for British investment activity in Germany."

Oliver Doerfler, Partner, German Head of Country Practice UK

General criteria and industries of interest worldwide

» Market size and potential
» Technology leadership
» Stable environment
» Strong ties with the US and Commonwealth Countries
» Industries of interest: business services, technology, communications, manufacturing, FS, real estate

Reasons for investing in Germany

» Big market size with growth perspectives
» Low risk, high security
» Germany has a good image with UK companies
» Germany as a bridgehead for investing in continental Europe
» EU market makes investment easier

Future drivers and opportunities in Germany

» Germany offers a big market for technology and communication industries as well as for the retail industry and good real estate opportunities
» Positive investment climate

SWITZERLAND

Top target countries, number of deals 2010–06/2015

Germany	269
United States	222
France	104
United Kingdom	97
Italy	76

"Germany offers good opportunities for Swiss companies to start producing within the Eurozone. Advantages include minimizing currency risks and cheaper costs compared to Switzerland."

Thomas Brantner, Partner,
German Head of Country Practice Switzerland

General criteria and industries of interest worldwide

» Criteria are often based on the search for larger markets – sales opportunities, economies of scale, currency hedging
» Industries of interest: consumer products, FS, chemicals, pharmaceuticals, machine building

Reasons for investing in Germany

» Geographic proximity
» Germany as a base for expansion to the EU
» Similar culture, language and economic structure
» Strong ties with Germany

Future drivers and opportunities in Germany

» After stopping the fixed rate policy towards the euro, the current exchange rate makes investment abroad cheaper and increases the need for cheaper production abroad (natural hedge)
» Highly intertwined value-chains between the two countries will mean that companies will continue to focus cross-border activities

FRANCE

Top target countries, number of deals 2010–06/2015

United States	348
United Kingdom	246
Germany	231
Spain	172
Italy	147

"Investment activities from France may be expected to increase in the event that taxation pressure is reduced and labour laws are made more flexible."

Elisabeth Roumegoux, Partner,
German Head of Country Practice France

General criteria and industries of interest worldwide

» Reduced labour costs, access to more flexible labour rules/taxation, proximity to clients, access to raw materials (agriculture)
» Industries of interest: FS, industrial production, energy, IT, consumer products

Reasons for investing in Germany

» A strategic position in the heart of Europe
» The largest population in the European Union
» Most highly developed infrastructure in Europe
» Technologies and advanced expertise
» Competitive taxation
» EU market makes investment easier

Future drivers and opportunities in Germany

» Due to demographic changes, more investments in the medical sector and in retirement homes can be expected
» Renewable energies technology will become interesting for French companies
» Financial services, high-tech, media and machine construction are also sectors that will continue to attract investments
» Overall less corporate, more family-owned businesses

CHINA

Top target countries, number of deals 2010–06/2015

Hong Kong	236
United States	176
Australia	171
Germany	87
Canada	80

"Chinese investors value the reliable business partners, good quality, good infrastructure and legal system when investing in Germany."

Andreas Feege, Partner, German Head of Country Practice China

General criteria and industries of interest worldwide

- Various investment drivers: new technology and know-how, search for talent, market expansion, synergies, bargains
- Industries of interest: communications, FS, technology, natural resources, machine building

Reasons for investing in Germany

- German standards have a high reputation in China
- Interest in knowledge, know-how and technology
- Access to the European market
- Search for new markets
- High cash reserves
- Possibility of acquiring bargains

Future drivers and opportunities in Germany

- Structural growth slackening: slowing growth at home makes companies look to new markets
- Activity still relatively low compared to the size of the economy
- Chinese investors are very present in German public discussions, which could lead to good opportunities
- Chinese companies are very interested in bargains
- Renewable energies are becoming more and more important

NETHERLANDS

Top target countries, number of deals 2010–06/2015

Germany	169
United States	160
United Kingdom	121
Russia	107
Belgium	84

"The proximity to the Netherlands has a positive impact on investment decisions relating to Germany."

Michael Buchwald, Partner,
German Head of Country Practice Netherlands

General criteria and industries of interest worldwide

- Market size and growth, workforce, political environment, manufacturing technology, profit-costs ratio
- Industries of interest: business services, IT, engineering, chemicals, FS, retail, real estate

Reasons for investing in Germany

- Growth expectations for German market
- Foreign companies (eg. from the US) invest in Germany via the Netherlands
- Geographic proximity
- EU market makes investment easier

Future drivers and opportunities in Germany

- Large and stable economy
- Economic climate; succession problems in owner-managed businesses

AUSTRIA

Top target countries, number of deals 2010–06/2015

Germany	140
United States	30
Switzerland	25
Russia	21
Netherlands	19

"Austrian companies value Germany's proximity to Austria, with no currency or language issues. Having a similar mentality is also an advantage."

Michael Diehl, Partner, German Head of Country Practice Austria

General criteria and industries of interest worldwide

- Production close to market (e.g. automotive), labour cost, well educated workforce, infrastructure, stability of law and predictability of legal decisions.
- Industries of interest: FS, real estate, consumer products, mechanical engineering

Reasons for investing in Germany

- Big and stable market
- Similar economic structure and same language means low barriers for investment
- Well positioned due to wage restraints over the last 8 years
- Geographic proximity
- EU market makes investment easier

Future drivers and opportunities in Germany

- Large and stable economy
- Interesting investment opportunities, i.e. acquisition of mid-size (family-owned) companies
- Cultural and geographic proximity will continue to drive investment

JAPAN

Top target countries, number of deals 2010–06/2015

United States	594
China	137
India	132
United Kingdom	121
place 5–6	
Germany	84

"Prime Minister Abe and his policy encourage Japanese multinationals to invest in further globalizing their businesses ("Abenomics"). I consequently expect overall investments by Japanese groups in Europe and Germany to increase. We will also see more joint ventures and partnerships in addition to takeovers and acquisitions."

Jörg Grünenberger, Partner, German Head of Country Practice Japan

General criteria and industries of interest worldwide

» Primarily driven by sales opportunities – following customers. However, larger acquisitions also focus on know-how and technologies
» Industries of interest: automotive, electronics, infrastructure, chemicals

Reasons for investing in Germany

» Access the European market
» Interest in renewable energy
» Safe investment opportunities, as other targets such as ASEAN countries have higher risks
» Focused opportunities in new and advanced technologies

Future drivers and opportunities in Germany

» Much like Germany, Japanese industry is also undergoing a transformation, going from a manufacturing focus towards focusing on software and IP related issues. This will also affect investment activity
» The government is encouraging business to invest globally

SWEDEN

Top target countries, number of deals 2010–06/2015

Norway	209
United States	150
Denmark	145
Finland	136
United Kingdom	92
Germany	81

"Renewable energy developments and the German health economy & management market provide promising investment prospects and market growth for Swedish investors. In these areas, Germany's position is considered outstanding."

Sven Westphälinger, Partner, German Head of Country Practice Sweden

General criteria and industries of interest worldwide

» Internationalization is key. Sales and established markets including market growth perspectives are also highly relevant
» Industries of interest: consumer goods, IT, medicals and pharma, energy & natural resources

Reasons for investing in Germany

» Stable economic circumstances and a well-established infrastructural environment provide an excellent framework
» EU market makes investment easier

Future drivers and opportunities in Germany

» Promising economic outlook, established infrastructural circumstances, cutting edge developments in the renewable energy sector
» Increasing market relevance of digital data
» Possible interest in renewable energies technology and in selling power to Germany

ITALY

Top target countries, number of deals 2010–06/2015

France	83
United States	66
Germany	65
United Kingdom	54
Spain	53

"Rising Italian exports lead to a growing number of SMEs discovering new markets abroad and making investments in order to take growth opportunities, particularly in Germany.

Furthermore, a well-established tradition of large Italian companies investing in Germany has led to a close relationship, with positive effects on investment activity."

Marco Pazzaglia, Director, German Head of Country Practice Italy

General criteria and industries of interest worldwide

» Market growth, penetration in new markets, technology
» Industries of interest: textile and consumer goods, mechanical engineering, power and utilities, FS

Reasons for investing in Germany

» Strong internal demand for market growth and increasingly, for high technology
» Stable economy
» Geographic proximity and long investment tradition
» EU market makes investment easier

Future drivers and opportunities in Germany

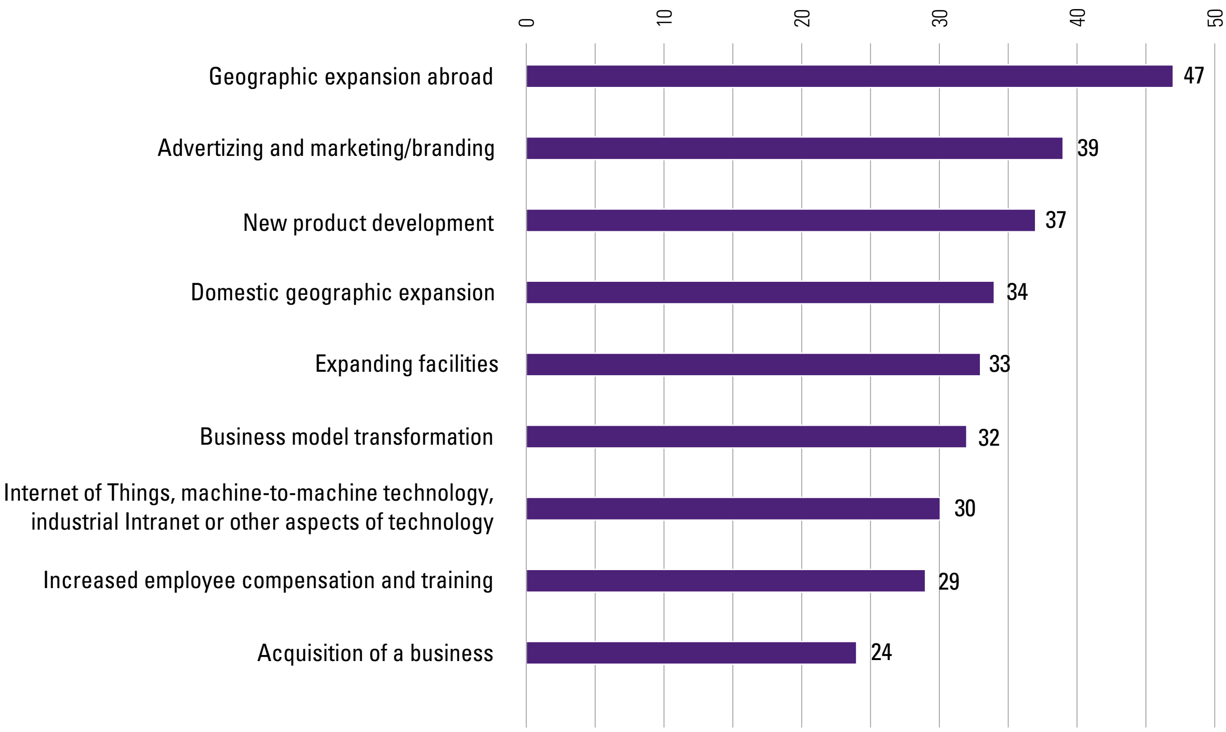
» A weak Italian economy will be a driver for further investments abroad, especially into the European and German markets, to strengthen positioning worldwide
» Rising exports especially into the EU and Germany will drive investment

Sources: Thomson One 2015, GTAI, KPMG

3.2 Competition for targets may increase

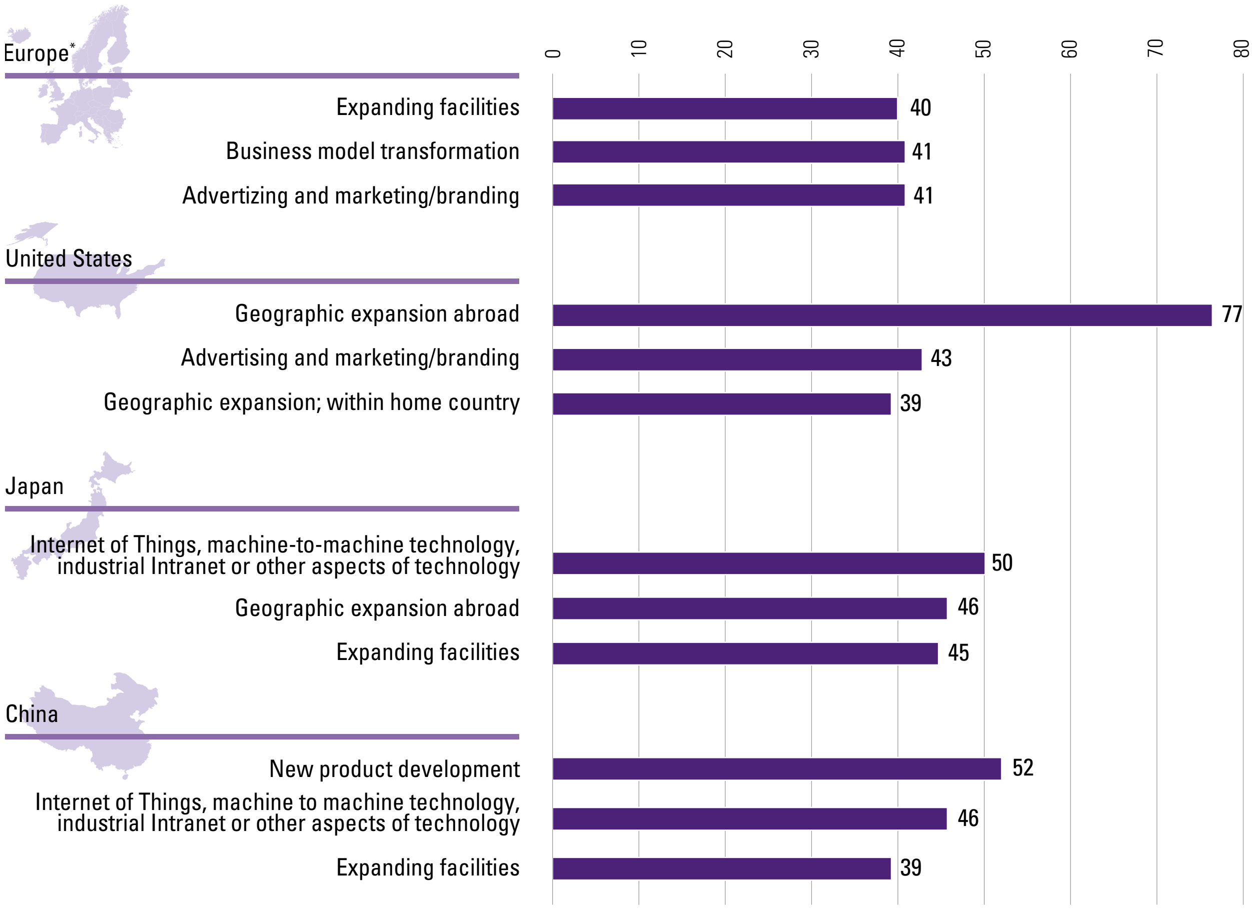
Overall, geographic expansion is the single most important priority over the next three years (see graphic below). Companies in high-growth economies seem to have a higher interest in new products and technologies than others. Companies in mature markets, however, seem to be mainly interested in new sales opportunities through geographic expansion or business model innovation (see graphic on page 45).

Which of the following will you be devoting significant capital to in the next three years? (Totals, in % of answers from respondents)



Source: KPMG's Global CEO Survey, 2015

Which of the following will you be devoting significant capital to in the next three years?
(Total per region/country, in % of answers from respondents)



* France, Italy, UK, Spain

Source: KPMG's Global CEO Survey, 2015

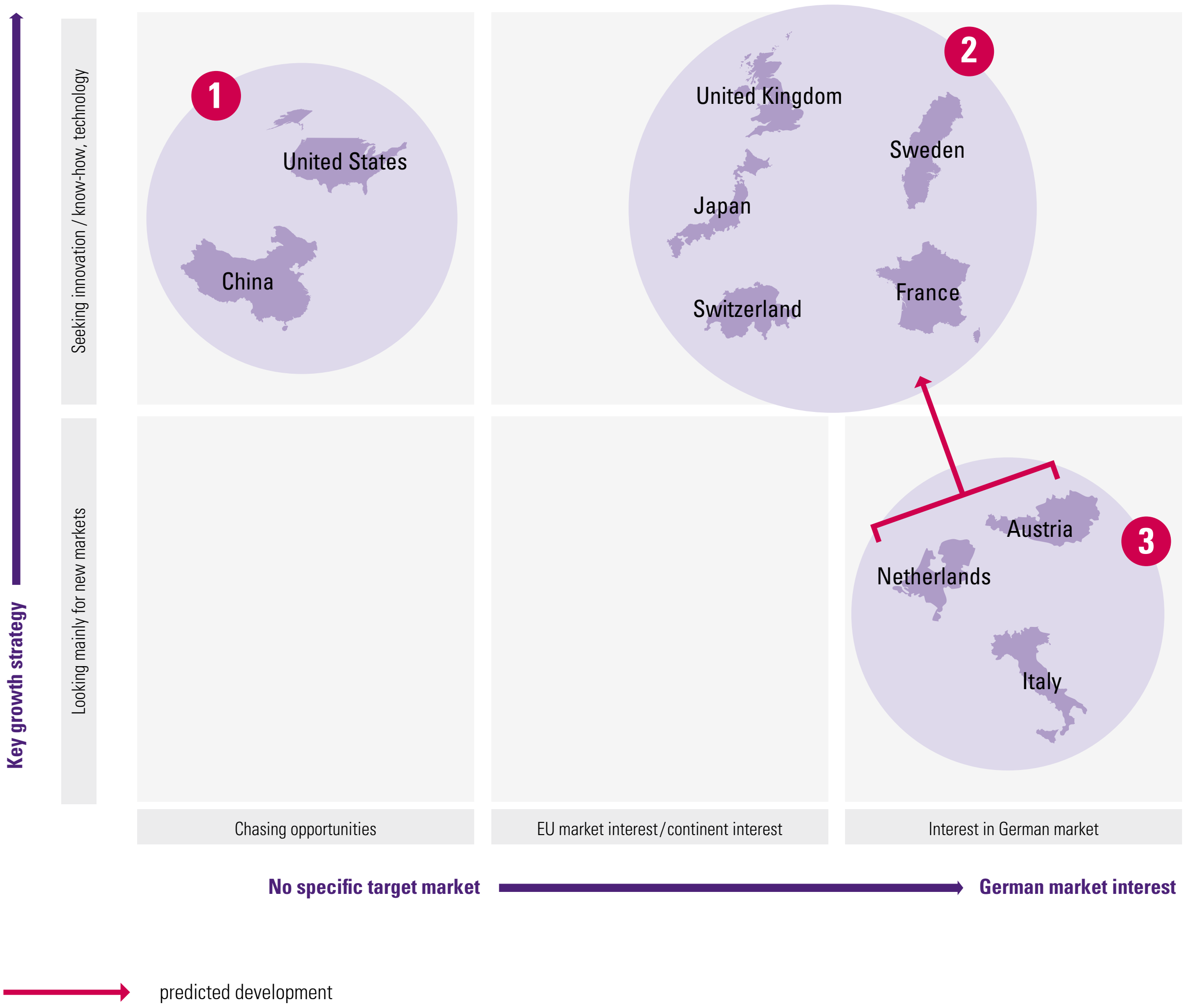
KPMG Viewpoint

Overall, companies worldwide are expected to channel significant capital towards expanding the business, and it must be assumed that a large part of this will include international investments.

Depending on home-country industry structures, it is possible to cluster investor priorities (see graphic below). This is important as it will give good indication as to future demand and competition for assets. Competition can be seen for targets between different clusters as well as within the clusters between different countries. If clusters merge, competition may increase further. The country cluster analysis is based on an assessment by KPMG country specialists and investor analyst information, as well as media coverage.

Clusters – Priorities by country, when investing in Germany

Key Issues*



Source: KPMG

Top investor countries can be divided into 3 clusters*:

1 CLUSTER 1: OPPORTUNITY CHASING

Countries that are chasing opportunities. Companies in this category tend to have a high technology interest

USA, CHINA

» High interest in market growth and technologies as well as a rising interest in renewable energies.
» Companies from both countries are searching for innovation abroad; leap-jump competition.
» Many companies from these countries have high cash reserves and are able to execute a deal relatively quickly.

These countries will acquire any suitable target. Depending on the level of their investment willingness, competition for assets across all clusters may increase significantly.

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2 CLUSTER 2: INTEREST IN TECHNOLOGY, INNOVATION AND MARKET

Countries that are interested in innovation and technology as well as in new markets (Germany and the EU) for sales

UK, JAPAN, SWITZERLAND, FRANCE, SWEDEN

» Companies from these countries generally seek innovation and market growth outside their home countries – either because their domestic market does not offer the necessary knowledge to stay competitive or because it has limited growth potential.
» Depending on the nature of the target business, stable market conditions may also play a significant role.

These companies are often looking for hidden champions within a specialized field and tend to act as first movers in their industry. This cluster can potentially be extremely competitive, depending on the nature of the businesses they seek to acquire.

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3 CLUSTER 3: INTEREST IN THE GERMAN MARKET

Countries that – when investing – are mainly interested in Germany as a new market for sales

AUSTRIA, NETHERLANDS, ITALY

» Companies from these countries are mainly looking for new sales opportunities in geographic proximity.
» A large stable market is their key priority.
» Investment priorities are (slowly) starting to focus more on knowledge-intensive targets.

This cluster is highly competitive, due to the fact that especially Italian and Austrian companies not only tend to look towards the same targets market-wise, but also in the same region (southern Germany). This can also be an issue for French (part of cluster 2) and Dutch companies, when focusing on near-border regions.

As companies from this cluster gradually adopt a more knowledge-based focus, they may realize that many potential targets are no longer available.

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* Please note that this is a simplified model describing general trends dependent on the acquirer country. A more in-depth analysis by sector would be required in order to establish a more detailed picture of competition for assets.

4.

OUTLOOK AND INVESTOR STRATEGIES

4.1 Significant changes lead to new investment opportunities

» Current top priorities at German firms witness significant change and opportunities
» Internal and external financing are a deciding factor. Companies need to identify appropriate financing in order to be ahead of the curve
» German companies not only offer tremendous investment opportunities, they should also welcome international investors to take full advantage of growth prospects

4.2 Investors must ask the right questions

» Specific local knowledge of all involved stakeholders is crucial in evaluating and carrying out a successful investment
» Key to identifying the right targets lies in asking the right questions
» Local knowledge and understanding of potential conflict situations are essential

4.1 Significant changes lead to new investment opportunities

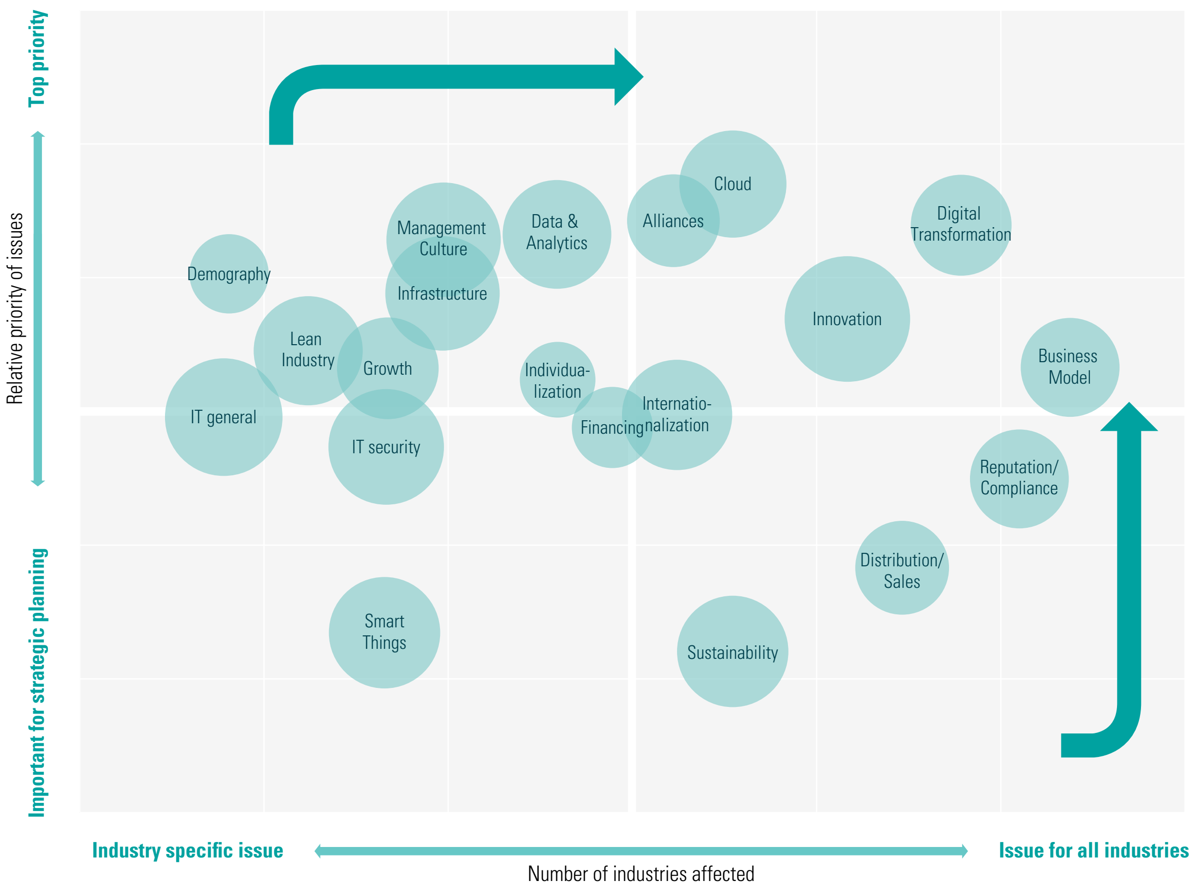
Companies around the world are undergoing rapid and significant changes. German businesses are at the forefront of this new age. On the one hand, they need investors to see and embrace the opportunities these changes offer. On the other hand, investors should be aware of risks and ask the right questions.

Whereas a majority of the current top strategic issues, including demographic changes, IT security and lean industry, tend to be more industry-specific, others, including digital transformation, cloud new business models, data & analytics, alliances/cooperation affect a wide range of different industries simultaneously.

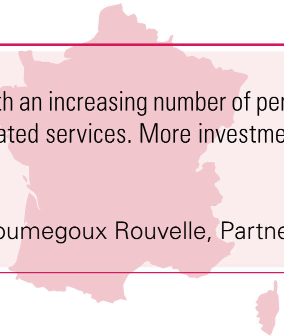
Furthermore, it is important to acknowledge that more traditional issues relating to sustainability and regulation not only play a major role in shaping the future strategy of many companies, but also open up entirely new market opportunities (such as in the energy sector).

The following graphic shows which key issues are currently trending for German industries, and which might be key issues in the future. The strategic issue analysis is based on an assessment from KPMG industry specialists, economic analyst information and media coverage.

Current strategic issues



Source: KPMG



"The demographic development in Germany, with an increasing number of pensioners, may influence investments in particular in the consumer goods segment and people-related services. More investments in the medical sector and in homes for aged persons can be expected."

Elisabeth Roumegoux Rouvelle, Partner, German Head of Country Practice France

IT investments on the rise

New trends in information technology will open up unprecedented opportunities, especially for IT companies. So-called third platform technologies like Data & Analytics, Cloud Computing and Internet of Things are no longer empty buzzwords, as German companies from a multitude of industries show noticeable interest to turn these into reality. Among the technologies mentioned, cloud services have found the broadest application; more than two thirds of the enterprises already use or plan to use private or public clouds. The real interest in Data & Analytics is on the brink of developing: Companies already facilitating analytical approaches signal very positive experiences and the demand for deeper and broader data investigations is increasing. Internet of Things dimensions like Smart Living, Smart Building, Smart Health and Smart Grids, to name just a few, are in the embryonic stage in Germany. According to forecasts, investments in IoT will rise drastically in the coming years.

To take advantage of the opportunities, investors must understand and address challenges already present in the technology market in Germany. The transition from traditional IT services and infrastructures to innovative approaches is still a challenge and should be performed more effectively. In the anticipation of the Big Data era, trust and security have already become hot topics. Technology incompatibility is one of the main problems for implementing the IoT. Most importantly, there is still a shortage of IT specialists in the country, regardless of Germany's relatively high indicator in human capital, according to the Digital Economy and Society index. The bottom line: Germany will only be able to tackle such challenges with international support and smart investments in the technology sector.

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One of the industries that is currently going through a dramatic change is the German energy sector. After the Fukushima nuclear disaster, the German government decided to shut down all nuclear power plants by 2022. As a consequence, the German energy landscape will change immensely over the next years.

The new energy landscape demands significant investment

The German energy sector is undergoing a radical transition. Germany's commitment to climate protection targets, the transition from nuclear energy, security of supply and a boom in renewable energies have led to a structural change in the industry, which is developing faster than in any other country. Germany will be comprised of two energy worlds: renewable, green energy and conventional energy, including strategic reserve capacities. The "Energiewende", or the German energy transition, positions Germany – in its own view – as the avant-garde country for new climate policies.

Germany has subsidized green energies: Its solar market is the biggest worldwide, with a high concentration of photovoltaic companies and qualified technical laboratories. In offshore wind energy, Germany excels as a technological pioneer with an exceptional infrastructure and an innovative value-added chain. Customers also accept the trend and demand for efficient and environmentally sustainable products. Energy efficiency is becoming a lifestyle trend.

With regard to industry, Germany's energy transition is much more than a simple nuclear phase-out resulting in chances for renewable energies. As conventional energies become less profitable, Germany is becoming a catalyst for the implementation of innovative business models – and ways of financing them – particularly by establishing partnerships. Utilities have set their change in strategy at the top of the agenda, constantly looking for new ways to identify business opportunities and become energy managers, rather than pure suppliers. They will concentrate on one of the two worlds.

Customer demands will move to the core of all strategic debates: Germany's energy supply will become more decentralized as more customers begin to produce energy themselves. Established market players will have to cope with new competitors: With an upcoming Internet of energy, ITC companies will enter the market. Telco companies are expected to drive smart energy initiatives.

The new energy world, comprised of renewable energies on the one side and a conventional energy supply including reserve capacities on the other, will demand significant investments. Germany will be a frontrunner, with its engineering ingenuity combined with well-established research institutions and its geographical position at the centre of Europe becoming a blueprint for energy transition.

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"Currently, our major investments focus on energy and feedstock-advantaged targets, so raw material costs are key. In the mid- and long-term we will rather concentrate on technology-driven specialty chemicals. Stability, well-educated people, decent infrastructure and growth potential are always important criteria.

We are confident that Germany remains faithful to a decent industry policy and that the energy challenge can be overcome. However, some uncertainty remains. Much depends on the future of the euro and the European market. Predictions are difficult."

Dr. Willem Huisman, Chief Executive Officer, Dow Deutschland Inc.
The Dow Chemical Co. is a US-headquartered chemical corporation.

Finding the right investment

In times of rapid change, geopolitical disruption and financial uncertainty, the value of dependable markets, reliable infrastructures as well as a stable regulatory environment become even more important for the economic well-being of a country and heighten attractiveness for foreign investors.

Despite Germany's complex investment environment, for example with regard to its legal system, labour regulation and worker participation rights, Germany offers unique investment opportunities for foreign investors. In recent years, Germany's mid-sized companies, the so-called "Mittelstand", have especially attracted foreign investors.

German mid-sized companies are known for their technological leadership and have managed to expand their global footprint. Their internal and external growth has led to financing becoming a deciding factor for company development. The attractiveness of the German market hereby holds true for equity and debt investors, both of whom rely on a stable market environment and a continuing success story. The overwhelming export success of the German industry is a convincing reason for many market players to invest.

Another key external factor is Germany's historical low-interest environment. The low rates also foster an increase in investments at company level. At the same time, with government bond yields nearing record lows, investors are indulging in another desperate "hunt for yield" akin to the one that sparked the subprime-mortgage boom before the crisis. This "hunt for yield" is expressed by a higher willingness to take risks when it comes to investing.

In particular, the German real estate market has attracted the interest of investors and remains fertile ground, considering that the rise in prices reflects, at least in part, a catching-up process following a period of weak price growth that persisted for a number of years.

However, despite the "hunt for yield", investors still appreciate companies with stable financing structures and, as a result, favour issuers with good credit ratings. As a consequence, lenders' risk-adjusted credit policies and pricing are becoming more diversified.

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4.2 Investors must ask the right questions

When investing in Germany, investors must ask the right questions at every stage. Investors will have to think about strategic positioning, find the right balance between risk and returns, and find the right financing instrument. Both setting up a business and buying a business require particular attention and specific knowledge. Especially in Germany, certain unique facts are worth focusing on before investing.

This chapter gives an overview of key questions that will be important for investors at different stages of the investment.

Entering the German market requires local knowledge

Germany's specific takeover and governance legislation requires particular attention. Works councils representing employee interests have considerable say and influence over decisions during transaction processes. This is associated with strong legal ties between employees and their company, ranging from investment decisions to a mandatory representation of employees on supervisory boards. In the capital market environment, the 30-percent threshold for investments requires a mandatory offer to all shareholders to acquire remaining shares.

As a powerful engine of growth in Europe, Germany is and remains a safe investment overall. Even though German legal requirements require specific expertise and market knowledge, the highly professional transaction and advisory market provides the necessary security for successfully implementing investments in Germany.

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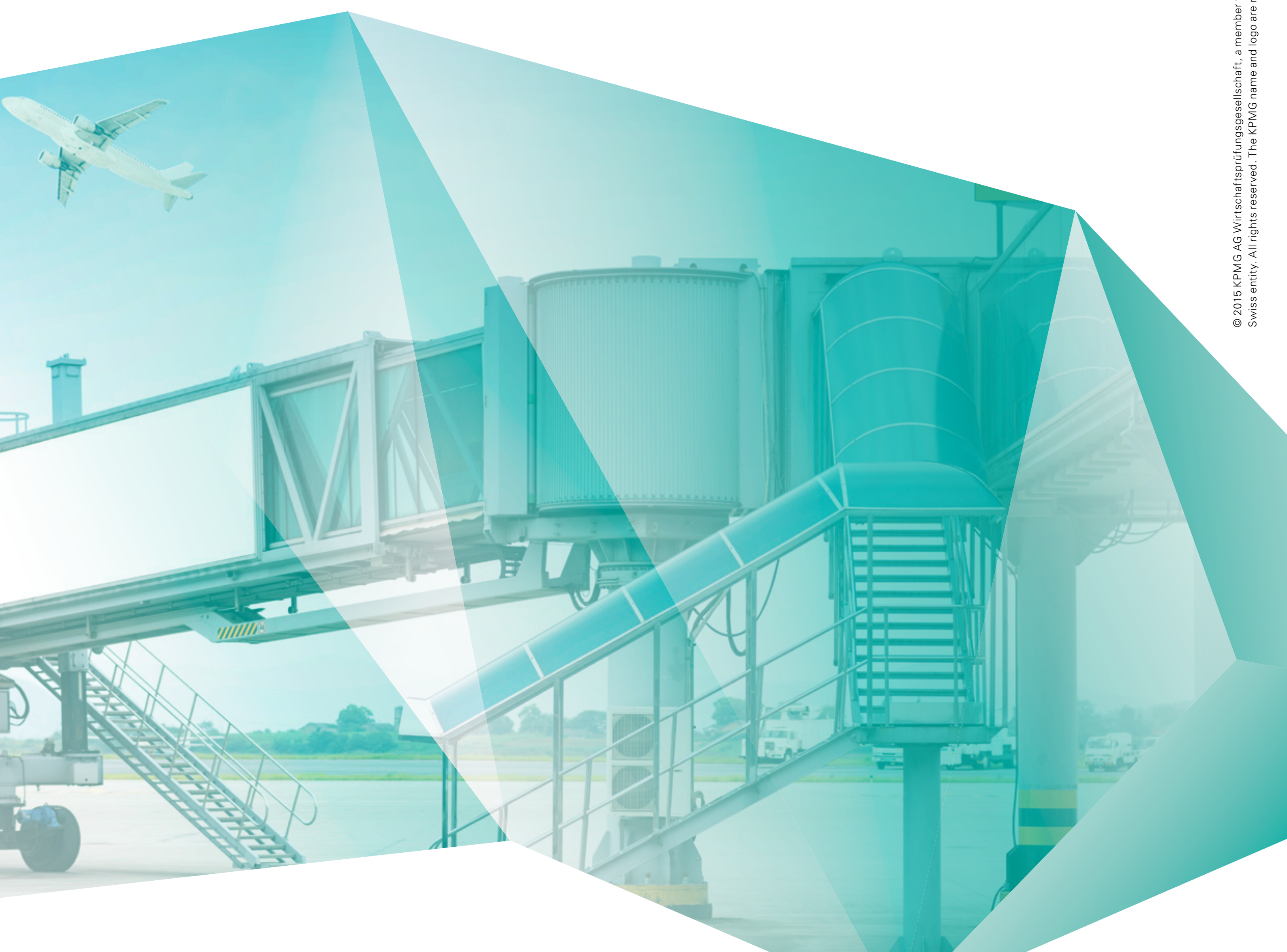
“For infrastructure investment, it is mandatory for us to win the trust of the local community and understand the limit of foreigner to play in the market. So we basically invest together with local and/or reliable partners. We believe that having a partner is the most effective risk mitigation to the investment and at the same time can be the most dangerous part of the investment.

In our partnering strategy, philosophy and chemistry of the partner are very important. The key to success is good communication between the partner and us from the early stages and on both execution team and top management levels.”

Shin Tada, Deputy General Manager,
EMEA Power Business Development Department, Mitsubishi Corporation.



Overview of key questions at various stages of investment

Strategic Positioning

- Does my current position sufficiently reflect international business and operations?
- Where can I add value to my business internationally – in supply, production or distribution?

SETTING UP A BUSINESS

Opportunity Evaluation & Design

- Where is my target region to set up the business, and how do I access my target markets from there?
- What are my strategy and business plan for my new business?
- What are local legal, regulatory and tax requirements and hurdles to the set-up?
- How should I set up the operational model, control and govern the business?
- How can I finance my new business?

Execution & Implementation

- How do I identify and set up the new site(s) and facilities?
- What is the best operational and organizational structure for the business?
- How do I gain access to new suppliers, servicers and customers and coordinate with existing ones?
- How can I set up state-of-the-art finance, accounting and reporting structures, systems and processes aligned with local and group requirements?
- How do I set up the governance and risk control system and interfaces to the group?
- How can I manage and control this set-up?

BUYING A BUSINESS

Deal Strategy, Option Identification & Evaluation

- What are the target markets, and which target companies meet my requirements?
- How do I approach my target?
- What are legal, regulatory and governance requirements for the acquisition?
- What are my target's key assets, competences and processes that add value to my business?
- What are the cost base, operating model and governance structure, and how does it fit to my business?

Deal Execution & Pre-close

- How do I finance the acquisition?
- What are the business' financial situation, business plan and synergies potential?
- What are the key risks (financially, legal, tax, operations) of my business and of its integration?
- How can I be sure to pay an appropriate price for the transaction?
- How do I create a tax-effective and optimal legal acquisition structure and establish contractual protection?

Power Up

» Have the objectives changed and are we still aligned? How do we have to adjust?
» Where do we have to adjust our business plan, our strategy and target operating model?

100 Days

Value Realization

» How do I keep and motivate key personnel?
» How do I integrate the new business into my finance and accounting system?
» How do I integrate operations and technology?
» How do I set up governance and risk controls?
» How do I get back into 'business as usual' mode?
» How do I ensure that benefits are delivered?

NEXT STEPS & ISSUES

Partnering a Business (Creation & Set-up, Exit)

Fixing a Business (Turnaround, Restructuring, Solvency)

Selling a Business

Closing a Business

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Remarks

NOTE

- » To make data more comparable between countries, aggregated data over the last past 5.5 years (01/2010–06/2015) was used in some cases to show investment strategy differences between countries. "The last 5 years" refers to projects implemented between 01/2010–06/2015.
- » Greenfield investment project data provided by fDi Markets refers to announced projects. Data may differ from FDI data from other sources, as a project may be cancelled or may not start in the year it is announced. Data is updated continuously and therefore subject to change.
- » M&A investment data provided by Thomson One is updated continuously and therefore subject to change. Analysis of over 2,960 completed transactions for 2010 – first half 2015 (deals effective), with German companies as a target and foreign acquirer parents.
  Analysis of over 22,260 cross-border transactions worldwide in the last year.
- » All investor country information refers to the company's parent country.

EXTERNAL SOURCES

AG Mittelstand: "Mittelstandsbericht 2015", Factiva (total of 40,000 new articles), fDi Markets, a service from The Financial Times Limited 2015. All Rights Reserved. In the following: fDi Markets, 2015; Deutsche Bundesbank: "Sonderveröffentlichung 10: Bestandserhebung über Direktinvestitionen 2015"; "Direktinvestitionen laut Zahlungsbilanz"; "Direktinvestitionen nach Bundesländern 2013" (most recent data available); German Federal Statistical Office, IMF (forecast from October 2015), OECD, Oxford Economics (forecast from September 2015), Thomson One, UNCTAD World Investment Report 2015, Verband Deutscher Maschinen- und Anlagenbau e.V. (VDMA), Worldbank

INTERNAL SOURCES

Country specialists, industry analysts, international client feedback, subject matter specialists

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