

Up for sale: German family businesses - but they need help

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Many of Germany's predominately family-owned Mittelstand businesses are likely to come under the hammer over the next ten years presenting a boom in mergers and acquisitions in Europe's biggest economy. But these businesses will need help to navigate the sales process, says an M&A specialist.

The post World War Two economic boom in Germany gave rise to many mid-sized family businesses as well as seeing existing businesses flourish. Many of these businesses are today dealing with succession issues and question marks over how they can continue to grow in a world economy dealing with unprecedented disruptive forces. Some will adapt through innovation driven by the next generation of owners and continue to grow as family businesses, but others will see an opportunity to sell, or at least bring in outside capital to accelerate their growth efforts.

"Germany's family businesses will look to find an internal solution to grow their businesses, but if that isn't found and succession presents a problem then they will look to sell the company," says Harald Link, who runs an M&A specialist consultancy in Hamburg and works with many of the country's Mittelstand businesses.

"A trade sale is the preferred option, then followed by a private equity or family office sale. The least preferred option is to go public through a listing," says Link.

The sale of the Wirtgen Group in 2017 to US company John Deere is perhaps an example of this trend. Wirtgen, a construction machinery group based in a town called Windhagen, south of the city of Cologne, is a good example of a family-owned Mittelstand business that grew rapidly after it was founded in 1961. Facing succession issues and an offer too good to refuse, second generation owners Stefan and Jürgen Wirtgen decided to move on to other opportunities and sell the business.

Other businesses are likely to sell to often foreign buyers looking to gain access to German businesses like Wirtgen, which is a specialist in making high-quality road construction equipment. "Buyers from places like the US and China want these businesses technology," says Link.

Others will look to sell minority stakes to bring in outside capital and expertise in an effort to grow their businesses, but to remain in control. An example of this trend is Ottobock, a family-owned prosthetics company based in Duderstadt in the middle of the country, which sold 20% of its equity to Swedish private equity group, EQT, last summer.

Private equity groups and family offices are particularly looking to do deals in Germany, says Link. “Right now a lot of music is playing in this area.”

Link together with Ulrich Hemel, a prominent German entrepreneur, economist and theologian, who has worked with many of the country’s family businesses, has written a book in German entitled: *Zukunftssicherung für Familienunternehmen Beteiligungen, Verkäufe, Übernahmen* (Securing the future for family businesses: participations, sales, acquisitions). The book offers a guide for the country’s family businesses on how to navigate the next steps on their business journey, which could involve their sale.

“The many options open to family businesses also presents them with a challenge,” says Link. “These businesses often aren’t equipped to deal with issues like selling equity to outside buyers. External consultants also use their own jargon, making decisions often difficult for these businesses. This book is designed to provide a guide specially tailored to family entrepreneurs.”