

Androschin & Partner

Acquisitions as an opportunity in the crisis: The chance to permanently change market and competitive structures

Like every crisis in machine and plant engineering, the extremely challenging situation we're currently in will lead to market consolidation – and as always, it will be the companies that successfully seize opportunities through making acquisitions in a more favorable environment that will emerge stronger from the crisis.

A crisis always leads to a reduction in supplier numbers, thus making certain markets less fragmented – and giving the leading suppliers an even bigger share of the market. This is an effect that has been observed in many parts of the mechanical engineering industry and can be documented in the form of numerous examples, especially in the wake of the crises of 1992-94, 2001/2002 and 2009/2010.

Leading companies don't just use a crisis to gain market share by making acquisitions in the markets they already serve. They seek and find opportunities in complementary markets too, for example to pursue the goal of horizontal or vertical integration. In other words, they either broaden their offering, for instance to cover entire process chains in the future, or they expand in the direction of existing suppliers or value-add partners, such as by insourcing the development and production of critical components or entering the systems business. In doing so, these companies are actively changing market and competitive structures – much faster than if there were not a crisis – and will benefit from this for a long time after the crisis has passed.

Recent years were characterized by exceptionally high valuation multiples, driven in part by very low interest rates and a high level of liquidity in the investment markets. In some cases, it was also very difficult to prevail against financial investors in auctions. That has already changed, and the current situation can be expected to continue, at least in the short term. It is now much harder to obtain leveraged buy-out financing (50% to 70% of company value) from the banks. This fact, coupled with the state of the economy, makes it difficult for financial investors to realize acquisitions. Industrial companies, which are not dependent on such forms of financing and may also be able to realize synergies, currently have a significant advantage here.

Business plans for 2020f have become obsolete, and company valuations are likely to be adjusted downwards by at least 35% in line with valuations on the financial markets. Many owners will be more willing to sell, and customers, employees and suppliers alike will be more tolerant of the idea of a takeover. It is anticipated, for example, that automotive OEMs will be more relaxed about takeovers among automotive production system manufacturers today than they were before the crisis.

Our approach:

We propose an approach consisting of the following steps:

- Conduct a quick and pragmatic strategy review and adjust as necessary, especially with regard to product/market positioning. This will ensure that the changed conditions are reflected in your strategy
- Define different areas for action or "playing fields". Examples include growing market share in established markets, regional expansion, globalization, manufacturing footprint, horizontal integration, vertical integration
- Quickly analyze and evaluate the "playing fields" – examine their attractiveness, viability, feasibility of short-term implementation and the possibility of acquisitions
- Detail the highest priority areas for action; draw up longlists of potential acquisition targets; analyze and evaluate targets; create shortlists
- Develop ways to approach the specific target, including the right story; experience shows that the more specific and the more adapted to the individual circumstances your approach is, the higher your likelihood of success
- Execute the transaction; prepare the integration/develop the integration concept

A crisis always has the effect of disrupting market and competitive structures. These structures usually change more dramatically in a very short timeframe (6-12 months) during a crisis than they do in long upturns of even 6 to 8 years. If you miss this opportunity, you will see that others have acted – and that the structures have changed to the detriment of your company. If you take action, on the other hand, you can change the market and competitive structures in your favor. Waiting to see what happens is not a good option for anyone.

Androschin & Partner regularly supports clients in the machine and plant engineering industry in developing acquisition strategies, realizing them and handling the subsequent post-merger integration. We have carried out projects in segments such as hydraulics, automation technology, pharmaceutical and food processing technology as well as in the plastics machinery, packaging machinery and machine tool industries.

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Androschin & Partner Management Consulting GmbH was founded by Christian Androschin in 2005 as a boutique consultancy specializing in machine and plant engineering and automation technology. Our focus is on executing strategy projects, developing and implementing value-add concepts, preparing and consulting on acquisitions and mergers, facilitating business integration and providing management coaching.

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