



Successful M&A execution in global frameworks

May 2017

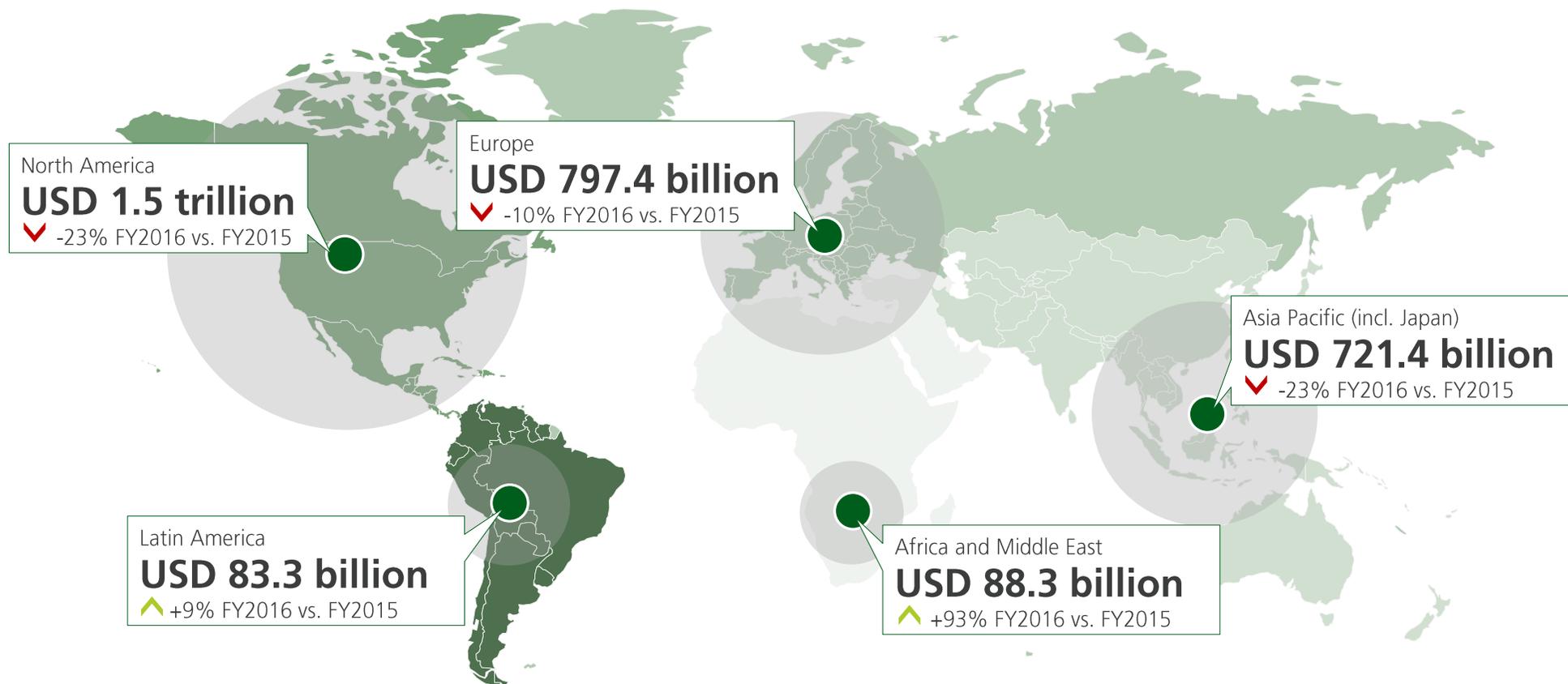
Agenda

- 1 Global M&A climate
- 2 Deal conditions and challenges
- 3 Cross-cultural M&A
- 4 Contact Proventis Partners

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Despite slight decreases, 2016 is the third best year on record with global deal activity amounting to USD 3.2 trillion.

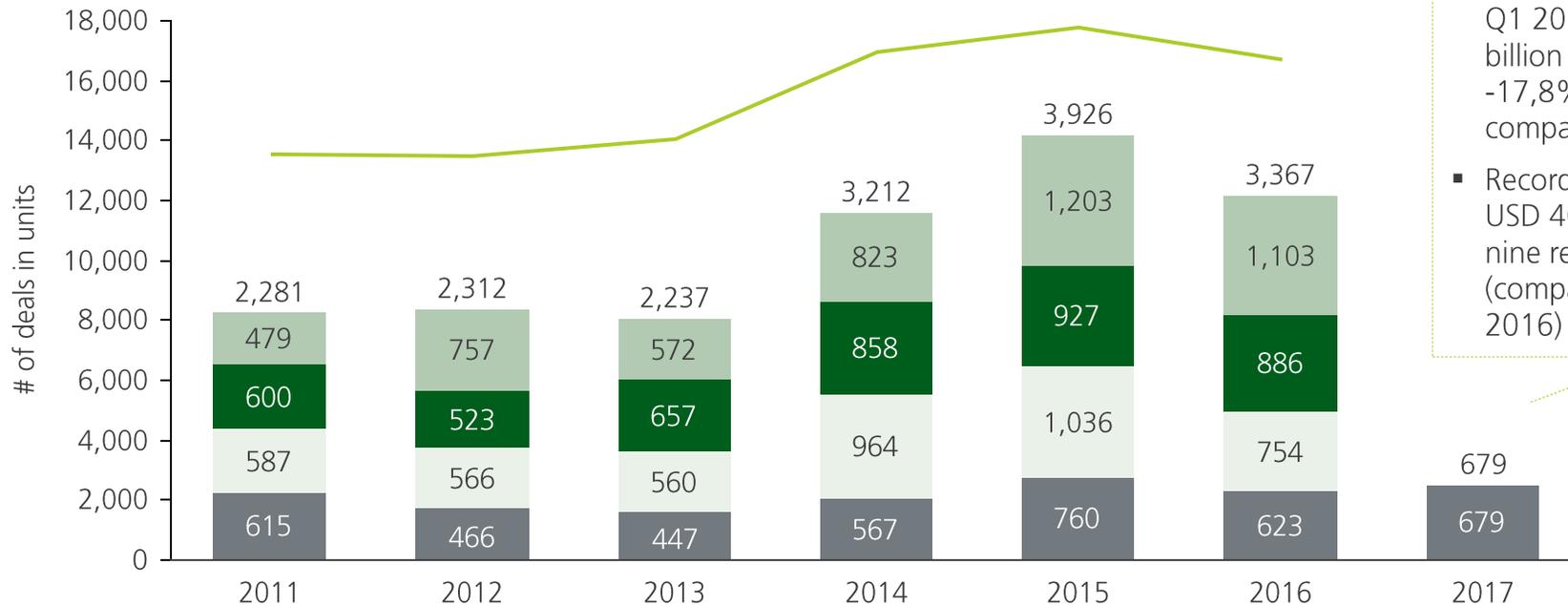


Q1 2017 keeps up the momentum of prior years and shows record deal sizes.

Global M&A activity 2011-2017

Deal volume (in USD billion) and deal value (in #)

■ Q4 ■ Q3 ■ Q2 ■ Q1 — # of deals



Q1 2017: Larger sums invested in fewer deals and record average deal size

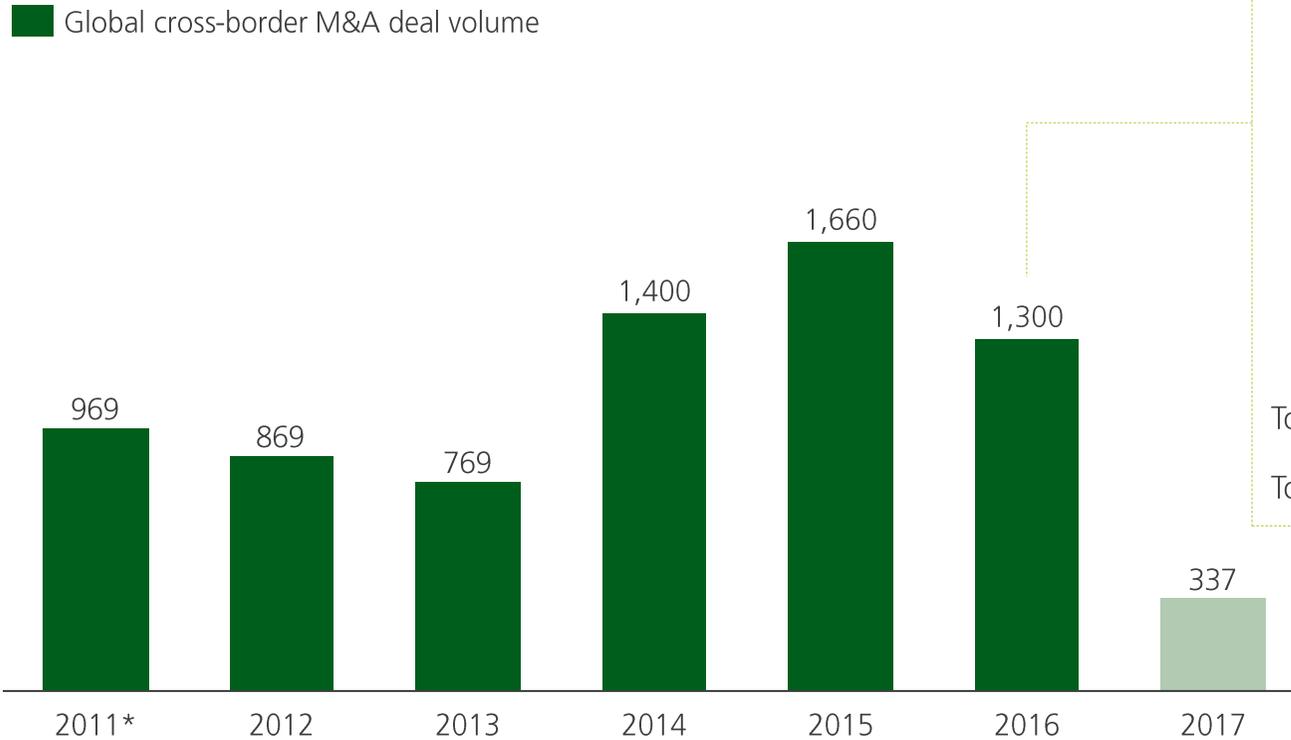
- 3,554 deals announced in Q1 2017 worth USD 678 billion (+8,9% in deal value, -17,8% in # of deals compared to Q1 2016)
- Record average deal size (Ø USD 403.4 million) due to nine recorded mega-deals* (compared to eight in Q1 2016)

*) > USD 10 billion

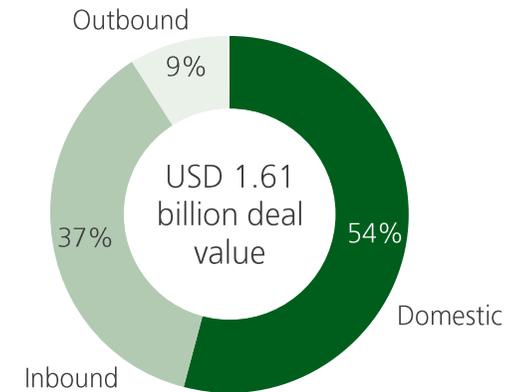
Global cross-border M&A activity accounted for 29% of total deal value in 2016.

Global cross-border M&A activity 2011-2017

Deal volume (in USD billion) and deal value (in #)



Hungarian M&A activity 2016



Top inbound investment origins:   

Top outbound investment origins: 

*) estimated

M&A activity of German buyers in Hungary

Closed Date	Target/Issuer	Buyers/Investors	Primary Industry of Target	Transaction Value mEUR	Revenue of Target mEUR	% stake
04.04.2017	VEIKI-VNL Villamos Nagylaboratóriumok Kft.	DEKRA SE	Research and Consulting Services	-	-	100,0
03.07.2017	MAK Mecsek Autopalya Koncesszios Zrt.	STRABAG AG (DB:STB1)	Construction and Engineering	18,93	-	20,0
01.17.2017	Danube House in Prague and Infopark in Budapest	CA Immobilien Anlagen Aktiengesellschaft (WBAG:CAI)	Real Estate Operating Companies	-	-	49,0
11.21.2016	VÁCI 1 in Downtown Budapest	GLL Real Estate Partners GmbH	Real Estate Operating Companies	-	-	100,0
09.19.2016	Budapest office complex	CA Immobilien Anlagen Aktiengesellschaft (WBAG:CAI)	Real Estate Operating Companies	195,65	13,42	100,0
06.14.2016	Eiffel Square Office Building in Budapest	KGAL GmbH & Co. KG	Real Estate Operating Companies	-	-	100,0
05.02.2016	NOVODATA Zrt.	Apotheken Dienstleistungsgesellschaft mbH	Application Software	-	-	90,0
03.23.2016	Diatron MI PLC	STRATEC Biomedical AG (DB:SBS)	Healthcare Equipment	-	37,92	100,0
03.03.2016	Beta-Roll Zrt.	Felix Böttcher GmbH & Co. KG	Industrial Machinery	-	-	100,0
12.31.2015	SCS Stahlschmidt Cable Systems Magyarország Korlatolt Felelossegu Tarsasag	Peter Möhrle Holding	Auto Parts and Equipment	-	-	100,0
02.03.2015	American Appraisal Associates, Inc.	Duff & Phelps Corporation	Research and Consulting Services	-	-	100,0
01.08.2015	General Insurance and Life Insurance Units of MKB Bank Zrt.	Versicherungskammer Bayern	Life and Health Insurance	1,18	-	36,5
12.31.2014	Caseking Kellytech Korlatolt Felelossegu Tarsasag	Caseking GmbH	Technology Distributors	-	-	100,0
09.15.2014	Metaco Union Kft	Johann Hay GmbH und Co. KG Automobiltechnik	Auto Parts and Equipment	-	-	100,0
06.16.2014	Radoop LLC	RapidMiner GmbH	Application Software	-	-	100,0

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Parameters influencing the sales process & Instruments to align interest

1. Parameters

Shareholders

- Deal type (cash, share, earn-Out)
- Reps & warranties
- Time frame of the transaction
- Shares to be sold
- Purchase price relevant regulations (drag-along, tag-along, liquidation preferences)
- Future role of the management team

Company

- Dependence on key persons (know-how, customer relationships)
- Current Trading and accuracy of the business planning
- Particularities in the balance sheets
- Change of control clauses

Buyer

- Strategic vs. financial investor
- Region
- Company size
- Strategic fit

2. Instruments

Earn-out / milestone payments

Additional payments, condition to achieving certain milestones or KPIs during an earn-out period.

Staged deal with put / call options

Acquiring only partial equity with the right and/or the obligation to acquire further shares in the future.

Vendor loan / re-investments

Re-investment of the purchase price from the seller in order to show commitment regarding future opportunities.

Variable multiples

Multiples of earn-out payments can be made subject to achieve KPIs.

M&A processes are often complex and challenges vary with the company stage and deal type.

		Preparation	Approach	Due Diligence	Commercial Terms	Legal Terms
Company Stage	Startup / Growth	Sound business plan	Access to business units		DCF / WACC Milestones	Vesting, Drag Rights
	Mature			Confidentiality	Entity vs Equity Value	Reps & Warranties
	Special Situations	Plausible documentation	Limited buyer scope			Asset Deal
Business Model	Asset light			Confidentiality Employee / Market	Earn-Out Put / Call Options	Leaver Terms
	IP based		Limited buyer scope	Freedom-To-Operate	Royalties & license fees	
	Asset heavy				Debt capacity CAPEX back-log	Reps & Warranties
Other specialities	Succession without successor	Second line management				
	Customer dependencies	Preparation of documentation		Comfort Letter	Earn-Out structure	

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Cross-Border M&A

- **Professor Geert Hofstede** conducted between 1967 and 1973 one of the most comprehensive studies of how values in the workplace are influenced by culture.
- The first empirical model of “dimensions“ of national culture, thus establishing a new paradigm for taking account of cultural elements in international economics, communication and cooperation.
- **Professor Geert Hofstede’s** study still lays the foundation for modern **Cross-Border M&A processes**



References and original sources for further information:

- Geert Hofstede, *Culture’s Consequences: Comparing Values, Behaviors, Institutions, and Organizations Across Nations*. Second Edition, Thousand Oaks CA: Sage Publications, 2001
- Geert Hofstede, Gert Jan Hofstede and Michael Minkov, *Cultures and Organizations: Software of the Mind*. Revised and Expanded 3rd Edition. McGraw-Hill 2010.
- Geert Hofstede - Compare Countries Tool :<https://geert-hofstede.com/countries.html>

Geert Hofstede's cultural dimensions represent independent preferences for one state of affairs over another that distinguish countries from each other.

Power Distance

Expresses the degree to which members of a society accept and expect that power is distributed unequally.



Individualism vs. Collectivism

A society's position on this dimension reflects whether people take care only of themselves and their immediate families or also of members of a particular in-group.



Masculinity vs. Femininity

Masculinity: preference in society for achievement, heroism and material rewards for success.

Femininity: preference for cooperation, modesty and caring for the weak.



Uncertainty Avoidance

How a society deals with the fact that the future can never be known. Preference to control the future or just let it happen?



Long Term Orientation

Societies' preference to maintain time-honored traditions and norms rigidly or to regard societal change as new and mandatory opportunities.



Indulgence vs. Restraint

Indulgence stands for a society that allows relatively free gratification of basic and natural human drives related to enjoying life and having fun.



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Uncertainty Avoidance

How a society deals with the fact that the future can never be known. Preference to control the future or just let it happen?



Typical Issue:
Dealing with the right person
Executive versus Specialist

Societies that value time-honored traditions and norms rigidly or to regard societal change as new and mandatory opportunities.



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Indulgence vs. Restraint

Human drives related to enjoying life and having fun.



Typical Issue:
Optimizing the price versus
Job guarantees for employees

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Individualism vs. Collectivism

A society's position on this dimension reflects whether people take care only of

Typical Issue:

Tough negotiations „win-loose“

Soft negotiations „win-win“

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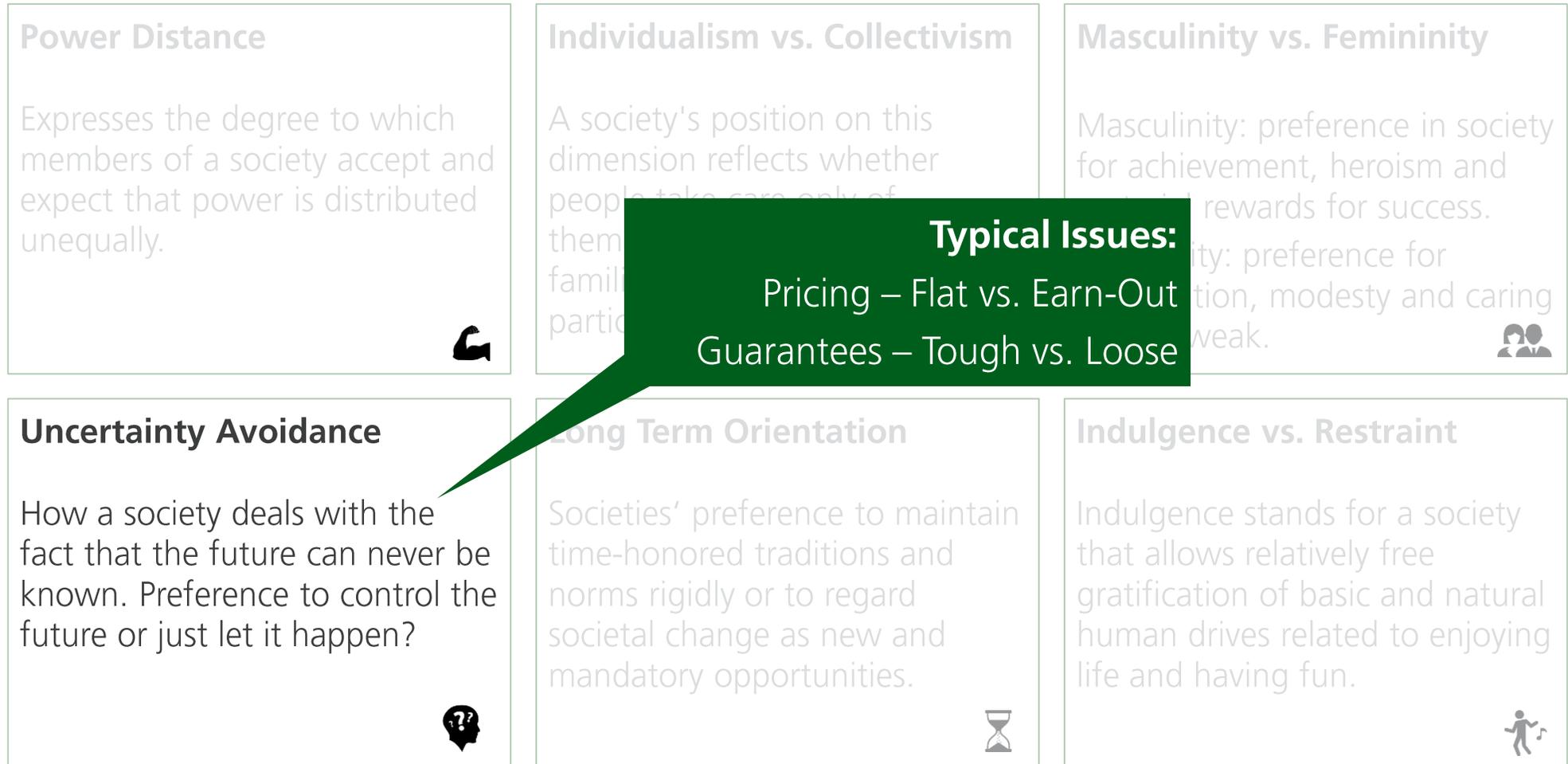


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Power Distance

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Typical Issue:

Different post-acquisition behaviour

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Power Distance

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Individualism vs. Collectivism

A society's position on this dimension reflects whether

Typical Issue:

Set-up of negotiation framework: timing / location, ...

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Indulgence vs. Restraint

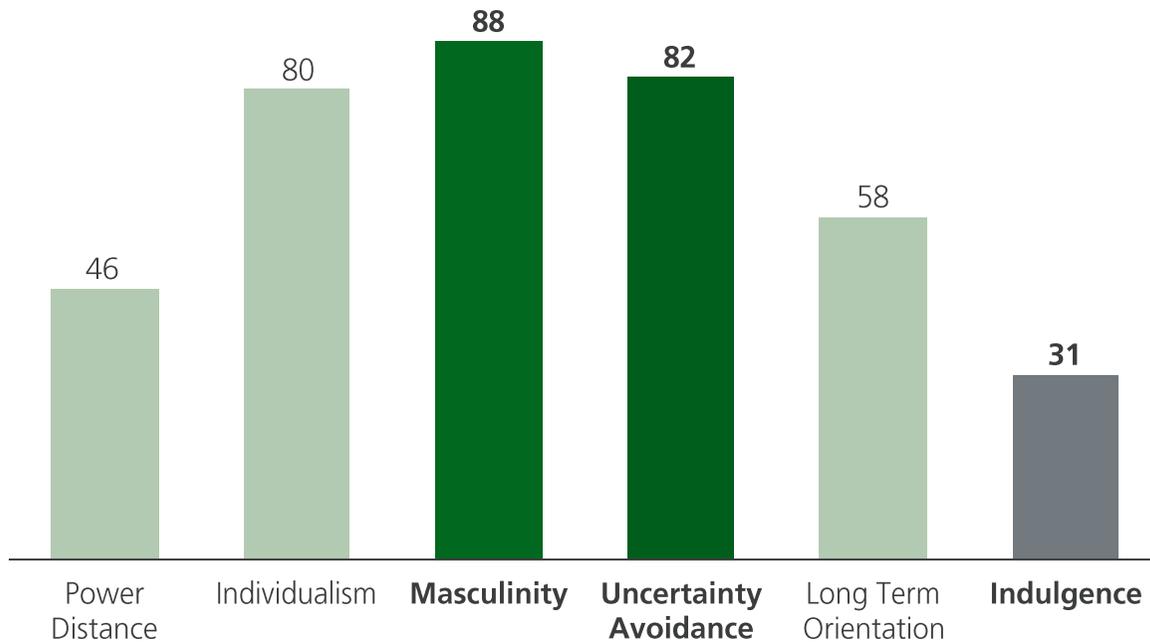
Indulgence stands for a society that allows relatively free gratification of basic and natural human drives related to enjoying life and having fun.



Hungary is shown to be a pragmatic country. In societies with a pragmatic orientation, people believe that truth depends very much on situation, context and time.

Country overview

Cultural dimensions ranging from 1 (lowest) to 100 (highest)



Masculinity

The society is driven by competition, achievement and success, with success being defined by the winner– a value system that starts in school and continues throughout organizational life.

Uncertainty Avoidance

People have an inner urge to be busy and work hard, precision and punctuality are the norm, innovation may be resisted, security is an important element in individual motivation.

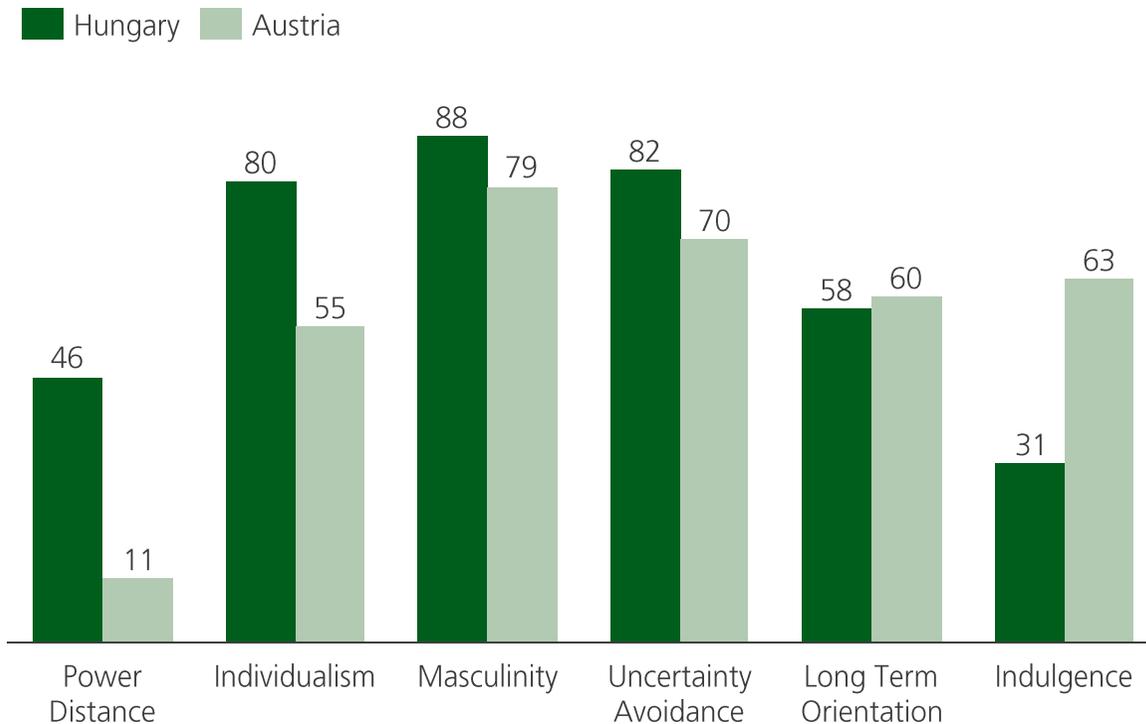
Indulgence

In contrast to Indulgent societies, **restrained** societies do not put much emphasis on leisure time and control the gratification of their desires. People with this orientation have the perception that their actions are restrained by social norms and feel that indulging themselves is somewhat wrong.

Regarding successful transactions in the past, Austria is due to the relatively similar business cultures, one of the most important M&A partners for Hungary.

Country comparison – Hungary and Austria

Cultural dimensions ranging from 1 (lowest) to 100 (highest)



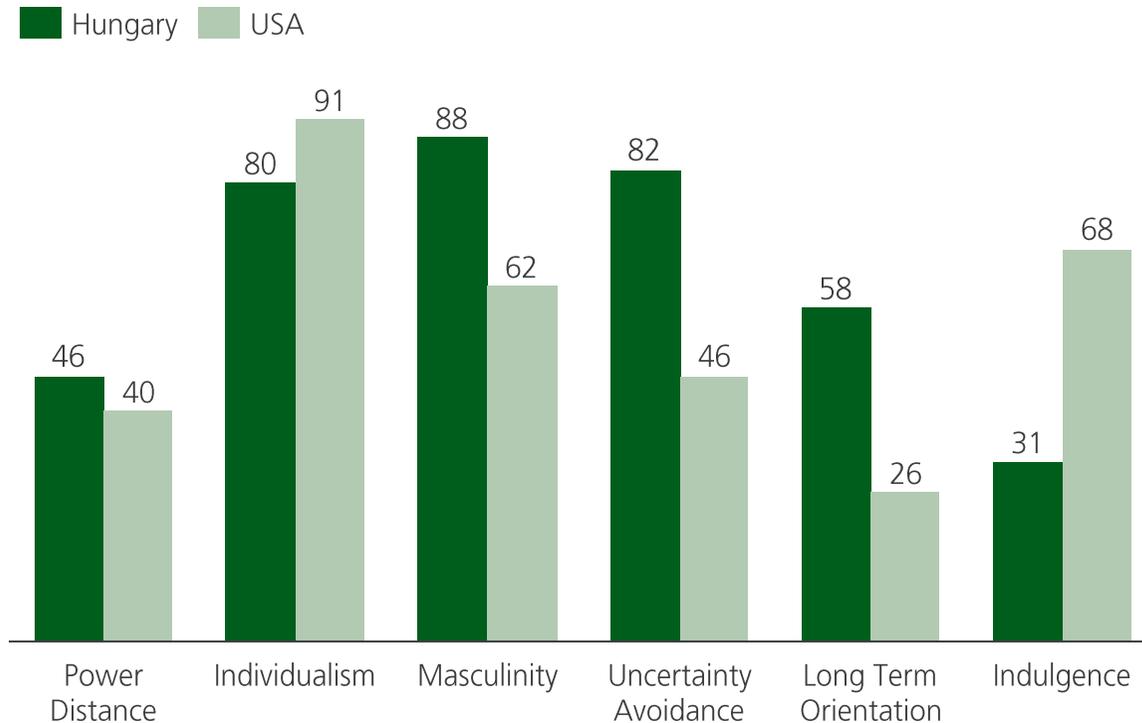
M&A Implications

- Similar to Hungary, Austria is a society that is driven by competition. Companies are seeking strategic M&A cooperations for inorganic growth in order to protect their market positions.
- Austrian companies are even more characterized by independent individuals with aversion against control mechanisms.
- Power is decentralized and managers count on the experience of their M&A team members.
- Collective decisions are more accepted than individual. Communication is direct and participative.
- The society protects and revives the traditions of the past, but is also looking for innovative cross-border cooperations.

The fairly low score on Power Distance of USA in combination with one of the most individualist cultures in the world is reflected in strong negotiating skills.

Country comparison – Hungary and USA

Cultural dimensions ranging from 1 (lowest) to 100 (highest)



M&A Implications

- Americans are accustomed to doing business or interacting with people they don't know well. Consequently, Americans are not shy about approaching their prospective counterparts in order to obtain or seek information.
- In the business world, employees and managers are expected to be self-reliant and display initiative.
- Within American organizations, hierarchy is established for convenience, superiors are accessible and managers rely on individual employees and teams for their expertise.
- Both managers and employees expect to be consulted and information is shared frequently. At the same time, communication is informal, direct and participative to a degree.

The combination of a high score on Power Distance and on Individualism creates a specific “tension” in Polish culture, making the relationship delicate but intense and fruitful once managed.

Country comparison – Hungary and Poland

Cultural dimensions ranging from 1 (lowest) to 100 (highest)



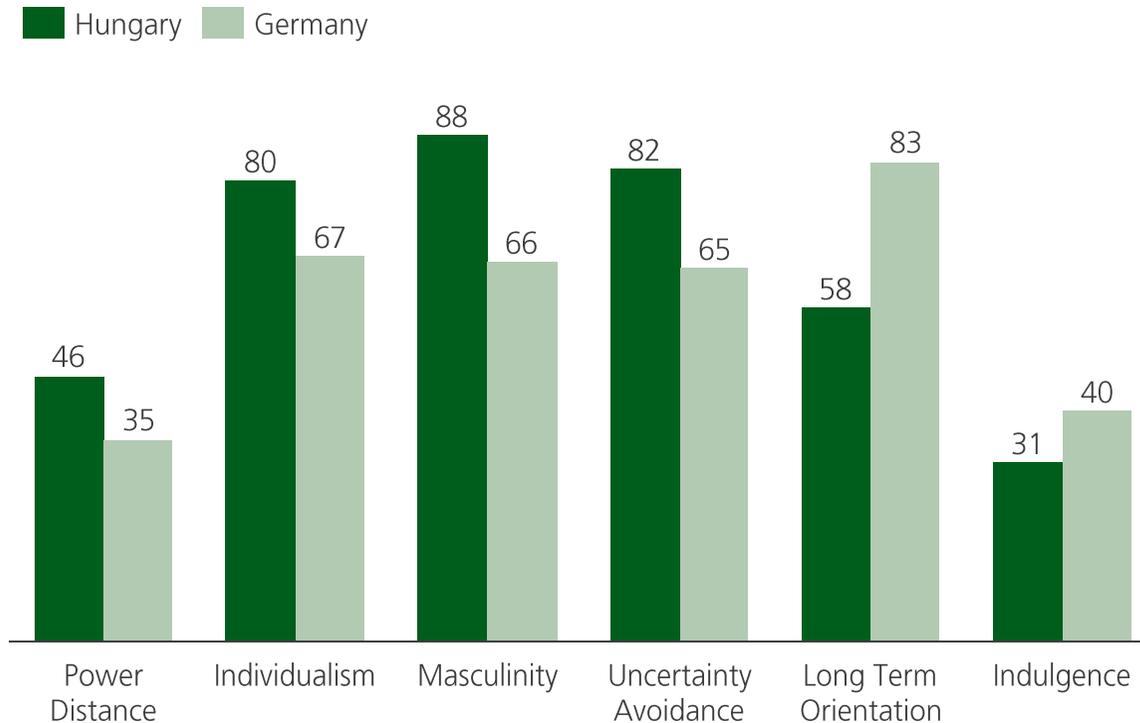
M&A Implications

- People accept a hierarchical order in which everybody has a place and which needs no further justification.
- Hierarchy in an organization is seen as reflecting inherent inequalities, centralization is popular, subordinates expect to be told what to do and the ideal boss is a benevolent autocrat.
- Very high preference for avoiding uncertainty. The society maintains rigid codes of belief and behavior and is intolerant of unorthodox behavior and ideas.
- Innovations may be resisted, security is an important element in individual and organizational motivation

Highly decentralized and supported by a strong middle class, Germany is not surprisingly among the lower power distant countries.

Country comparison – Hungary and Germany

Cultural dimensions ranging from 1 (lowest) to 100 (highest)



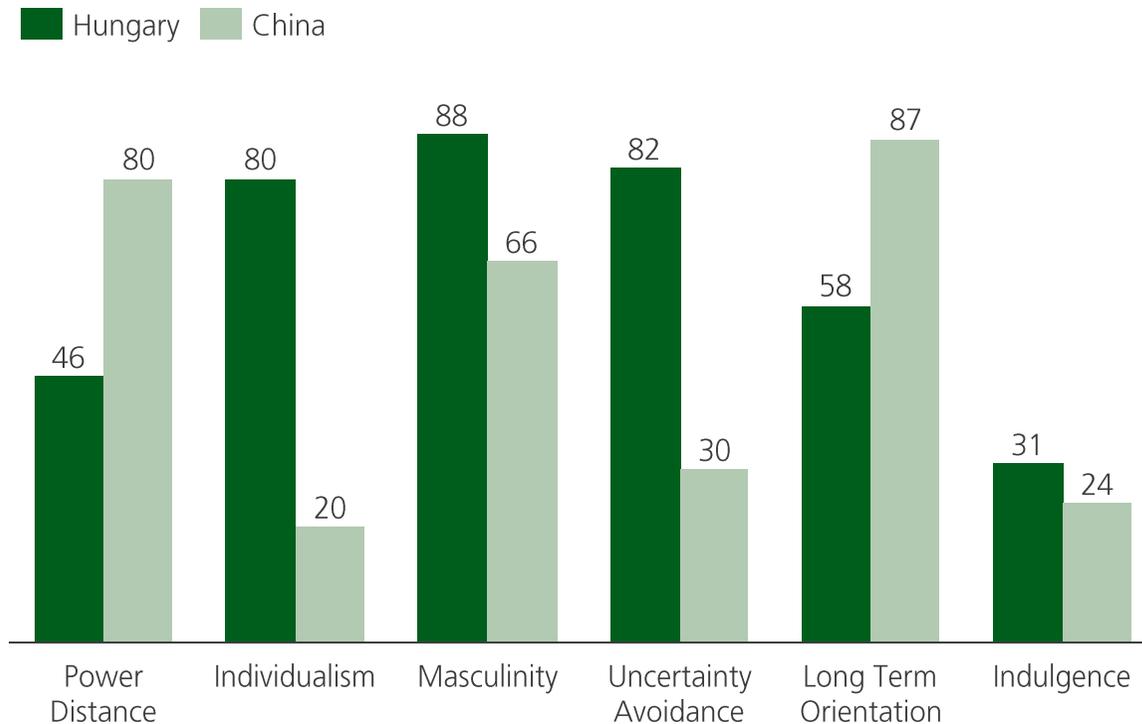
M&A Implications

- A direct and participative communication and meeting style is common, control is disliked and leadership is challenged to show expertise and best accepted when it's based on it.
- The systematic overview has to be given in order to proceed. This is also reflected by the law system. Details are equally important to create certainty that a certain topic or project is well-thought-out.
- Communication is among the most direct in the world following the ideal to be "honest, even if it hurts" – and by this giving the counterpart a fair chance understand the own position.
- Germany is also a pragmatic country. People show an ability to adapt traditions easily to changed conditions, a strong propensity to save and invest, thriftiness, and perseverance in achieving results.

China is a highly collectivist culture where people act in the interest of the group rather than of themselves.

Country comparison – Hungary and China

Cultural dimensions ranging from 1 (lowest) to 100 (highest)



M&A Implications

- The society believes that inequalities amongst people are acceptable. The subordinate-superior relationship tends to be polarized and there is no defense against power abuse by superiors.
- Individuals are influenced by formal authority and sanctions and are in general optimistic about people's capacity for leadership and initiative. People should not have aspirations beyond their rank.
- In-group considerations affect hiring and promotions with closer in-groups (such as family) are getting preferential treatment.
- Employee commitment to the organization (but not necessarily to the people in the organization) is low.
- Whereas relationships with colleagues are cooperative for in-groups they are cold or even hostile to out-groups. Personal relationships prevail over task and company.

Country pairs with maximum and minimum cultural distance:

Five country pairs with most similar cultures

Countries		Hofstede Distance (1 = identical cultures)
Australia	United States	6.56
Germany	Switzerland	8.19
United Kingdom	United States	12.88
Australia	Canada	14.11
Belgium	France	14.49

Five country pairs with most dissimilar cultures

Countries		Hofstede Distance (100 = contrary cultures)
New Zealand	Malaysia	98.82
Netherlands	Japan	97.44
Australia	Malaysia	95.22
United States	Greece	88.98
Chile	United States	88.93

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Contact

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XING

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Three offices based in Germany, Austria and Switzerland represent Proventis Partners. From Hamburg, Munich and Zurich, a team of 30 professionals supervises national and international projects. The clients profit from the regional roots and our partners' international network.

The local presence provides for short distances and a deep understanding of the needs particularly of mid-size customers. The location at important hubs broadens the reach for potential partners in transactions and simplifies the contact with international purchasers or sellers. We know: the M&A business is a global business. A happy twist of fate, then, that our team speaks ten languages.

Social Media and memberships



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