



Weekly Letter:

# The Swedish-German love affair in M&A

18 January 2023

Carlsquare

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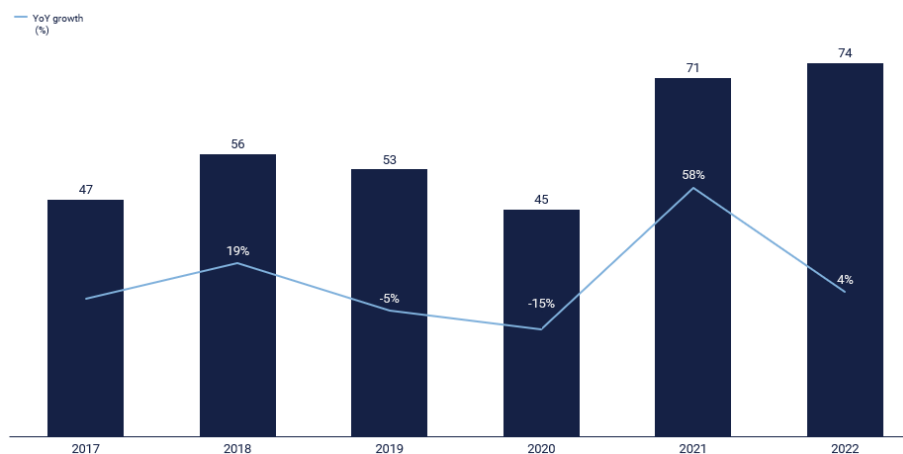
## The Swedish-German love affair in M&A

- The high momentum in cross-border deals between Sweden and Germany continues. After a cold autumn in 2022, the number of deals increases again
- The reporting season in the US has kicked off with a good start. Usually, the report seasons give energy to the stock market. There is room for some more upside in the charts, but it is still wise to play safe as the central banks are not done with fighting inflation yet. The inflation and downturn in the economy have also started to affect ordinary life

The cross-border M&A trend between Germany and Sweden has gained momentum recently.

**The number of yearly Swedish/German cross-border transactions has increased over the period 2017- 2022**

Number of closed deals (Jan 1, 2017 – Dec 31, 2022)



The number of cross-border M&A transactions between Germany and Sweden and the average deal size hit a new high point in 2021 and followed through with an even higher number of deals in 2022. The fact that 2022 is even higher than 2021 is astonishing, as it was obvious that momentum slowed down during last fall. Quite a lot of deals were done in the last month of the year.

All data is generated from Mergermarket statistics. Also, from the internal project flow in Carlsquare, momentum is picking up again. People are tired of being depressed, and the gap in price expectations between buyers and sellers is narrowing.

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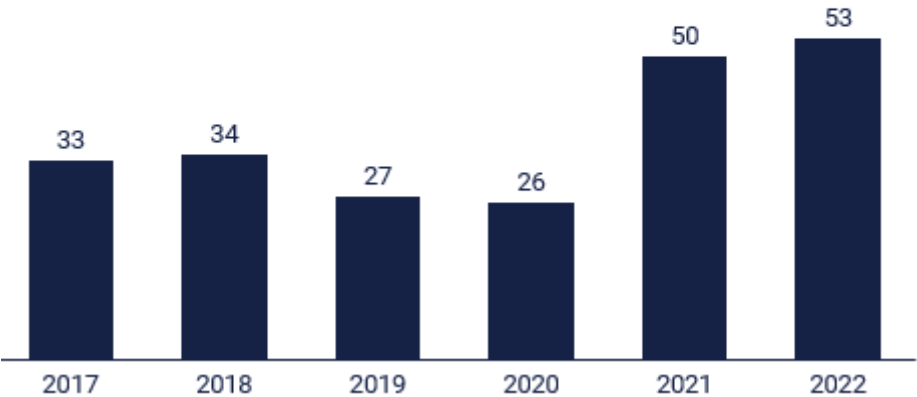
Given that both Sweden and Germany have been historically strong in creating industrial companies, it is no surprise that this is an attractive M&A sector for both sides.

Sweden is equally vital in technology and is incorporating this to drive the transformation to Industry 4.0.

## Deals completed per year (German target or seller / Swedish buyer)

### Top 3 Swedish buyers 2022:

- 1. Storskogen Group AB – Investment company (3 acquisitions)
- 2. Nordic Capital – PE/Buyout (3 acquisitions)
- 3. Medicover AB – Provider of diagnostic and healthcare services (3 acquisitions)



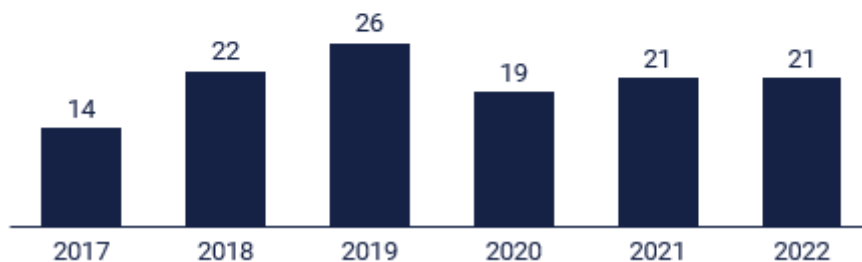
Sweden is a more active buyer in Germany than the opposite. From a Swedish perspective, Brexit has played a part in re-directing M&A activity to continental Europe from the UK.

Many Swedish firms are interested in the German Mittelstand segment, with small- and mid-sized companies in the industrial and tech space with many hidden champions.

### Deals completed per year (Swedish target or seller / German buyer)

**Top 3 German buyers 2022:**

1. Quantum Capital Partners AG – PE/Buyout (2 acquisitions)
2. Commerz Real AG - Real estate investment arm of Commerzbank (1 acquisition)
3. Mutares SE & Co. KGaA - PE/Buyout (1 acquisition)



Several factors behind Germany's lower level of M&A activities in Sweden exist, despite the countries being almost neighbours.

Firstly, Germany is ideally nestled in the middle of the European continent with many M&A opportunities just beyond its borders, particularly in the DACH region, where German is dominant as a language.

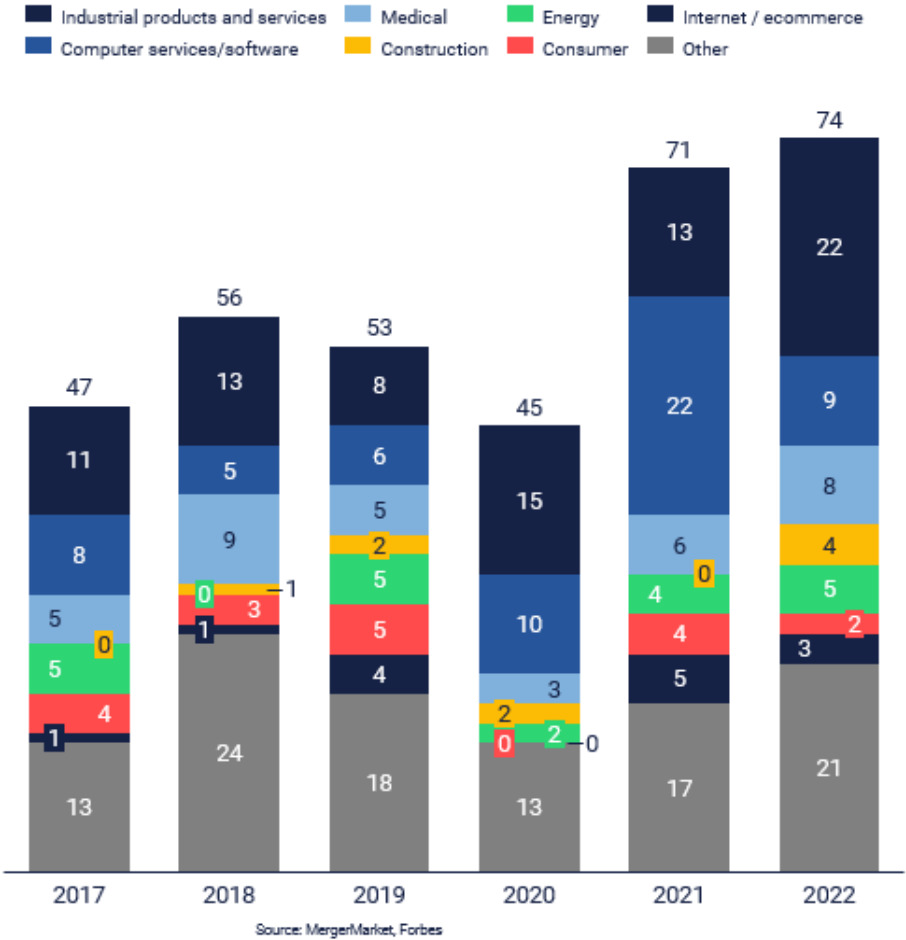
Secondly, Sweden's economy and population are approximately one-eighth of Germany's, resulting in a smaller universe of M&A targets.

Also - compared to Germany, Swedish companies have better access to public markets, providing them with a much more active stock market. This is also true for growth companies with access via Nasdaq First North Growth Market), thus competing with M&A transactions as an exit or liquidity opportunity.

Software and industrial products/services are the most active sectors regarding cross-border transactions between Sweden and Germany.

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## Number of transactions by sector



German companies acquired five industrial and six software and computer service Swedish companies in 2021 and six and two in 2022. Swedish companies acquired eight industrial and 16 software and computer service German companies in 2021 and 15 and 8 in 2022.

Rank	Financial Advisor (1)	Deal count 2017- 2022
1	J.P.Morgan	15
2	Houlihan Lokey GCA <sup>(2)</sup>	14 <small>(Houlihan Lokey: 5/ GCA 9)</small>
3	 CARLSQUARE	8
4	Goldman Sachs	8
5	 Rothschild & Co	8
6	Handelsbanken Capital Markets	6
7	LAZARD	6
8		6
9	Armapartners	5
10	Deutsche Bank 	5

Carlsquare is a leading advisor in cross-border deals between Sweden and Germany. Don't hesitate to contact us if you have any questions or need assistance.

### Q4 2022 Earnings season starts well

On Friday, 13 January, the official report season in the US kicked off, with US banks such as Bank of America, Citigroup, JP Morgan, and Wells Fargo reporting their Q4 2022 results. The US banks managed to surpass earnings expectations mainly due to higher interest rates that boosted income from loans. Meanwhile, earnings were hampered by lower deal activity.

The outcome compared to expectations of the Q4 2022 results and the share price reaction after each large-cap company report is shown in the table below. As can be seen, the results of the companies (mainly banks) were 7.0% better than expected on average, while share prices rose by 0.8% after the reports.

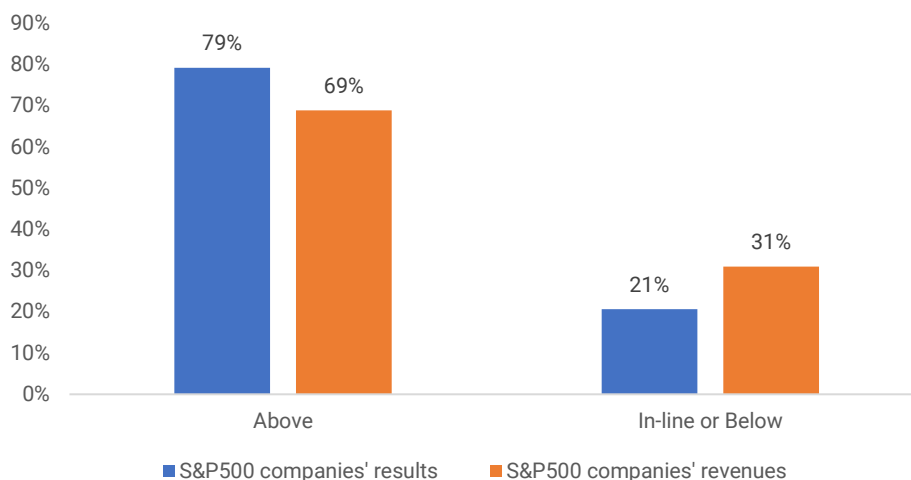
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<u>Company</u>	<u>Report Date</u>	<u>EPS estimate</u>	<u>EPS reported</u>	<u>Surprise</u>	<u>Price Change</u>
Infosys	12-Jan-23	0,19	0,19	0,0%	1,6%
Bank of America	13-Jan-23	0,76	0,85	11,8%	2,2%
Blackrock	13-Jan-23	7,99	8,93	11,8%	0,0%
Citigroup	13-Jan-23	1,18	1,1	-6,8%	1,7%
Delta Air Lines	13-Jan-23	1,29	1,48	14,7%	-3,5%
JP Morgan	13-Jan-23	3,11	3,57	14,8%	2,5%
United Health Group	13-Jan-23	5,17	5,34	3,3%	-1,2%
Wells Fargo	13-Jan-23	0,63	0,67	6,4%	3,3%
<b>Average</b>				<b>7,0%</b>	<b>0,8%</b>
<b>Median</b>				<b>9,1%</b>	<b>1,6%</b>

Source: Zacks Research.

For Q4 2022 (with 29 S&P500 companies reporting actual results), 23 companies have reported a positive earnings surprise, while 20 companies have surpassed analysts' revenue expectations. These 29 companies, in aggregate, exceeded earnings estimates by 7.7%, according to Factset Earnings Insight. The corresponding revenue surprise for the 29 reporting S&P500 companies was only 0.3%.

### S&P 500 Q4 2022 results vs expectations



Source: Factset Earnings Insight.

Of the 20 companies that have reported until the end of last week (6 January 2023), the most common negative factors influencing results are changes in exchange rates (primarily the USD) and labour costs.

So far, Industrials and Health Care have achieved the highest percentage of better-than-expected Q4 2022 results (100%), while Consumer Staples and Consumer Discretionary have fared the worst, with only 67% of Q4 2022 results better than

anticipated. About one in five S&P500 companies have provided earnings guidance ahead of the Q4 2022 results; of these, about 2 in 3 have been in negative territory.

Meanwhile, 75% of the earnings guidance ahead of Q1 2023 has been negative so far.

EARNINGS CALENDAR	
Date	EPSe Q4 2022 (USD)
18-Jan Alcoa	-0,76
18-Jan Charles Schwab	1,10
18-Jan Prologis	1,21
19-Jan Netflix	0,45
19-Jan Procter & Gamble	1,57
20-Jan Schlumberger	0,69
20-Jan HDFC Bank Ltd	0,82
23-Jan Baker Hughes	0,41
24-Jan Danaher	2,44
24-Jan General Electric	1,10
24-Jan Johnson&Johnson	2,22
24-Jan Lockheed Martin	7,40
24-Jan Microsoft	2,29
24-Jan Raytheon Technologies	1,24
24-Jan Texas Instruments	1,96
24-Jan Union Pacific	2,75
24-Jan Verizon	1,21

Source: Zacks Research.

## Momentum in the stock market improves

The reporting season usually gives much support to the stock market. The news flow from the companies tends to push away other negative themes. Let's see if that holds for this season as well. As soon as the financial companies are done, we start to get reports from the tech companies. They have fallen behind the rest of the market, but we can see a considerable improvement in the last weeks.

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It does not matter if you look at the tech group FANG or individual stocks; the trend is positive. The FANG index (Facebook, Apple, Netflix, and Google) shows rising bottoms and positive momentum in MACD. MA200 in green is a clear target. Let's see if that line also sets the limit for this upturn.



S&P 500 is struggling exactly at the blue resistance line and MA200. These lines can be broken with some good reports. The next target is the gap that should be filled. Another target is to follow the symmetry shown by the green lines.

## The Swedish-German love affair in M&A

This is not classical technical trading, but it will probably be more and more conventional since it reflects how the computer trades the market currently.



The energy sector boosts the stock market. The WTI oil price in the US is declining, decreasing the inflation rate. If prices can stabilise around these levels, it may give a faster normalisation in CPI, creating reasons for the central banks to reverse the hunt for inflation, which is an ongoing battle.



USD is a mirror of the stock market. Raising the US dollar puts pressure on the stock market and vice versa. The US dollar is currently falling, giving momentum to the stock market. Keep a close eye on the downward channel. If that breaks on the upside, it is a clear warning sign for the stock market.

Happy trading!

## Week Ahead

Company reports on Wednesday, 18 January: EQT, Alcoa, Charles Schwab, Prologis. Capital Markets Day: FLSmidth.

From 0.50 CET until 5.00 CET, Japan release machine orders and industrial production in November and an interest rate statement from the central bank (BOJ). At 8.00 CET, the UK's CPI and PPI for December will be released. We get the December CPI and November construction output three hours later from the Eurozone. Further, there will be a monthly oil report from IEA. From the US, there will be PPI, retail sales and industrial production in December, Redbook retail sales weekly data, unsold inventories in November and the NAHB housing market index in January.

Company reports on Thursday, 19 January: VNV Global, BHP (Operational Update), Fastenal, Netflix, Procter & Gamble. Capital Markets Day: Kambi.

At 0.50 CET Japan's trade balance in December will be presented. At 1.01 CET, the UK's nationwide house price index (RICS) for December is released. Once trading begins in Europe, we get the Eurozone current account balance for November at 10.00 CET. ECB release the protocol from its policy meeting on 15 December at 13.30 CET. From the US comes housing starts in December, the Philadelphia Fed Index in January, weekly jobless claims, and weekly oil inventories (DOE) statistics.

Company reports on Friday, 20 January: Ericsson, TF Bank, Avanza, Sandvik, Investor, Schlumberger, HDFC Bank Ltd. Capital Markets Day: Synsam.

At 0.30 CET, Japan's December CPI will be presented, and half an hour later, Gfk Consumer Confidence in January from the UK. At 8.00 CET, we get the UK retail sales and Germany PPI, both in December. From the US, existing home sales in December are released.

Company reports on Monday, 23 January: Elanders, Baker Hughes.

At 16:00 CET, we get the January Eurozone household confidence indicator and the US leading indicators in December.

Company reports on Tuesday, 24 January: Alleima, 3M, Associated British Foods, Danaher, General Electric, Johnson & Johnson, Lockheed Martin, Microsoft, Paccar, Raytheon Technologies, Texas Instruments, Union Pacific, and Verizon.

The January purchasing managers' indices from Japan, France, Germany, the UK, and the USA will be released on Tuesday. We also get Germany's Gfk Consumer Confidence in February, France's Manufacturing expectations in January and the UK's CBI Industrial Trends in January. From the US, we get (in addition to the PMI) Redbook retail sales weekly data and the Richmond Fed Index in January.

## Valuation Tables, Swedish Equities

### Lowest P/E-ratio

Bolag	Price	P/E NTM
CoinShares International Limited	27,9	0,1x
Eastnine AB	125,4	2,4x
Arise AB	49,7	2,9x
SSAB AB	65,4	3,0x
Rottneros AB	13,8	3,1x
Tethys Oil AB	62,9	3,3x
BE Group AB	101,0	3,3x
Maha Energy AB	9,1	3,7x
Bonava AB	33,7	4,4x
Bergs Timber AB	34,0	4,5x

Source: S&P Capital IQ/Carlsquare

### Highest Yield

Bolag	Price	Yield, %
Tele2 AB	95,9	20,5
SSAB AB	65,4	11,7
Rottneros AB	13,8	10,1
Clas Ohlson AB	72,2	10,0
Bonava AB	33,7	9,4
Intrum AB	136,7	9,0
Nordic Paper Holding AB	37,1	8,5
Svedbergs i Dalstorp AB	28,0	8,2
Tethys Oil AB	62,9	8,0
Resurs Holding	26,4	8,0

Source: S&P Capital IQ/Carlsquare

### Lowest priced Net Asset Value

Bolag	Price	P/B
Oscar Properties Holding AB	2,4	0,1x
Eniro Group AB	0,8	0,2x
Serneke Group AB	25,0	0,3x
Midsona AB	9,3	0,3x
Corem Property Group AB	12,1	0,4x
Vivesto AB	0,4	0,4x
Karolinska Development AB	2,1	0,4x
Bonava AB	33,7	0,4x
NGS Group AB	12,0	0,4x
VNV Global AB	29,0	0,4x

Source: S&P Capital IQ/Carlsquare

### Lowest priced NAV on a debt-free basis

Bolag	Price	EV/EB
Oscar Properties Holding AB	2,4	0,2x
Serneke Group AB	25,0	0,3x
Midsona AB	9,3	0,3x
Bonava AB	33,7	0,4x
Vivesto AB	0,4	0,4x
Karolinska Development AB	2,1	0,4x
Aktiebolaget Fastator	13,1	0,5x
K2A Knaust & Andersson Fastigheter AB	17,8	0,5x
Hoist Finance AB	30,3	0,5x
Concejo AB	32,9	0,5x

Source: S&P Capital IQ/Carlsquare

### Lowest priced earnings growth

Bolag	Price	PEG
Volvo Car AB	48,6	0,1x
Karnov Group AB	61,5	0,2x
Elanders AB	157,8	0,3x
Netel Holding AB	33,0	0,4x
Projektengagemang Sweden AB	12,6	0,4x
TF Bank AB	181,2	0,4x
Billerud AB	130,1	0,4x
Better Collective A/S	151,1	0,4x
Ambea AB	40,8	0,5x
New Wave Group AB	233,8	0,5x

Source: S&P Capital IQ/Carlsquare

### Top priced earnings growth

Bolag	Price	PEG
Cint Group AB	41,3	58,3x
Hufvudstaden AB	158,5	32,9x
Atlas Copco AB	131,8	21,1x
Wallenstam AB	53,4	7,1x
AB SKF	182,2	6,1x
Trelleborg AB	253,3	6,0x
Cloetta AB	22,0	5,3x
Storskogen Group AB	9,4	4,7x
Sweco AB	115,2	4,6x
Garö Aktiebolag	112,1	4,4x

Source: S&P Capital IQ/Carlsquare

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