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Not just a wedding for the cake:

How orchestrated mergers unleash synergies and enhance resilience in times of uncertainty.

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In an M&A environment characterised by risk aversion and tedious processes, capital raises with their associated valuations and deal certainties have recently become more challenging.

According to Philipp v. Hochberg and Maximilian Gailer of Rautenberg & Company, investors need to consider alternative, non-capital-intensive avenues for value creation – such as mergers.

It's been a while since we all saw a booming Continental European M&A market. The combination of political shocks, macroeconomic uncertainties and a depressed consumer confidence has not only led to an inflationary use of the word "polycrisis". In fact, today's M&A landscape is reflecting many of these difficulties, as most assets are attaining unsatisfactory valuations by cautious investors. This development obviously makes it very difficult for shareholders and management teams alike to reap the benefits of their efforts to create value, secure further commitments and move forward with confidence. This trend peaked in early 2025, on the back of tariff-related tensions on top of the overarching macroeconomic uncertainties, and contributed to the lowest Q1 deal count in two decades.

In this environment, determining the right time to exit a shareholding has become significantly more complex, as sellers must identify and weigh multiple trade-offs. While "waiting and doing nothing" is rarely a viable strategy, often resulting in a severe hit on IRRs, financial sponsors must, given predefined investment horizons, actively explore alternative value creation strategies to shape optimal exit outcomes.

At the same time, buyers face multiple challenges on their own: As many target companies are experiencing temporary profitability declines and trailing their business plans, valuation assumptions are often hard to justify to investment committees. As a result, acquisition momentum has slowed considerably, with both investors and corporates deferring activity until market conditions improve.

In light of these current challenges, investors and sellers are well-advised to reassess their strategic options and adopt a broader perspective. We firmly believe that mergers offer a compelling path to break free from the narrow choice between bad and worse – and instead create meaningful value in turbulent markets.

Engaging with peers who face similar headwinds can spark productive conversations around merger synergies, unlocking potential on both the revenue and cost side. With thoughtfully negotiated terms, a clearly defined combination strategy, and strong execution, partners can position themselves for outsized returns as the market rebounds.

By proactively exploring strategic combinations now – rather than waiting passively for a full recovery – investors can unlock hidden value and build greater resilience in the face of ongoing volatility.

MERGER RECAP

*"**A Merger** is a legal consolidation of two entities into one, after which both firms share a single corporate structure, combining their assets, liabilities, and business activities.*

The core rationale behind a merger is to create value by generating synergies – making the combined entity more valuable than the sum of its parts. This is achieved by leveraging complementary strengths, streamlining operations, broadening market access, and fostering innovation. Typical results are accelerated growth, stronger competitiveness, greater cost efficiency, and enhanced long-term resilience. Ultimately, the goal is to deliver lasting value for all stakeholders by unlocking benefits that neither company could realise on its own.

Every transaction begins with the selection of a suitable target or partner – and mergers are no exception. Both financial sponsors managing their portfolio companies as well as corporates pursuing value creation must carefully assess horizontal versus vertical integration options to identify the right fit – potentially even considering a merger of equals with a peer facing similar challenges and opportunities.

A commonly cited illustration of a merger's goal is the principle of 1 + 1 = 3. While this may indeed hold true in some cases, merely merging two legal entities into one only gets you halfway there. True synergies can only be unlocked if both partners genuinely align to pull on one string to create one new corporate identity, and structure.

Which are the benefits resulting from a synergetic merger?

- I **Sustainable EBITDA growth** by leveraging operational and organisational synergies
- II **Cash-efficient transactions** enabled by equity swaps in place of cash payments
- III **Reconciliation of stakeholder interests** through ongoing shareholder profit participation
- IV **Improved financing flexibility**, with scope for leverage and opportunities for external investor involvement
- V **Strengthened resilience** through diversified products, customer base, and geographic presence
- VI **Valuation uplift** driven by scale-related multiple arbitrage

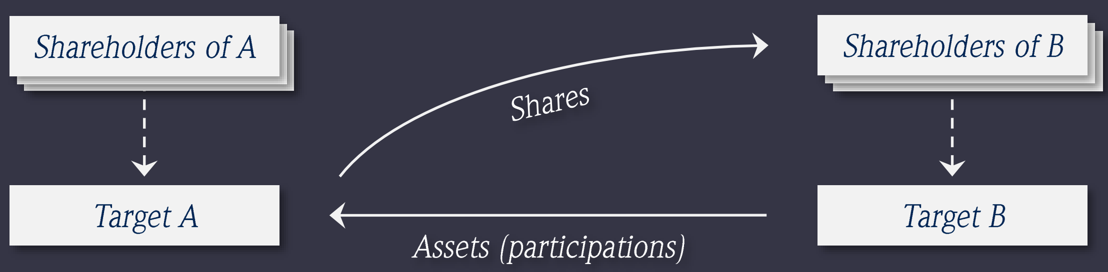
TRANSACTION DESIGN

While individual investors may pursue specific incentives in a merger, the overarching objective of strengthening competitive positioning and maximising returns is typically shared by all stakeholders involved.

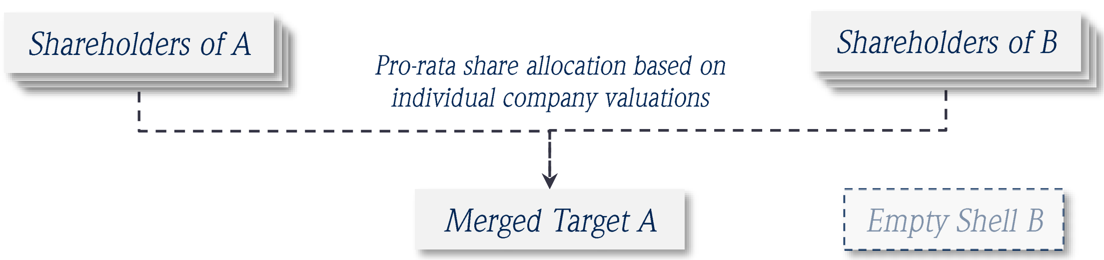
A key advantage of the most common merger structures compared to traditional acquisitions lies in their mechanics: Shares of one entity are transferred in exchange for the assets of the other, which means that limited cash is required to complete the transaction. As a result, valuations in a merger context primarily serve as a basis for allocating ownership in the combined entity – making the transaction effectively a "paper deal".

Even though mergers can be executed without additional acquisition financing, they offer an attractive opportunity for financial sponsors to enter through a primary injection of growth capital into the merged entity, typically in exchange for newly issued shares.

Pre-merger structure



Post-merger structure



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Having worked on many mergers, we know that real success depends on just a few key factors – which, unfortunately, tend to be the hardest to get right.

CRITICAL SUCCESS FACTORS

I Clear synergetic rationale

Defining and prioritizing actionable synergies – along with a forward-looking integration roadmap – must be a top priority to ensure alignment among all stakeholders on the strategic rationale for the merger.

II Process design

Early in merger discussions, a well-defined Memorandum of Understanding (MoU) sets the base for transaction security and effective collaboration among all parties. This MoU typically outlines the strategic rationale, valuation principles and exchange ratios, governance structure and management appointments, exit mechanisms, and an effective approach to bilateral due diligence – striking a balance between information protection and transparency. It often serves as the guiding framework for the entire process.

III Governance setup

Cash is typically not the primary consideration in mergers. Instead, key elements of future governance – including voting and veto rights, as well as exit arrangements – understandably take centre stage in negotiations.

IV Cultural alignment

Cultural differences between the merger parties need to be carefully mediated to align management practices and firm specific working modes in order to secure a successful integration, particularly in cross-border situations.

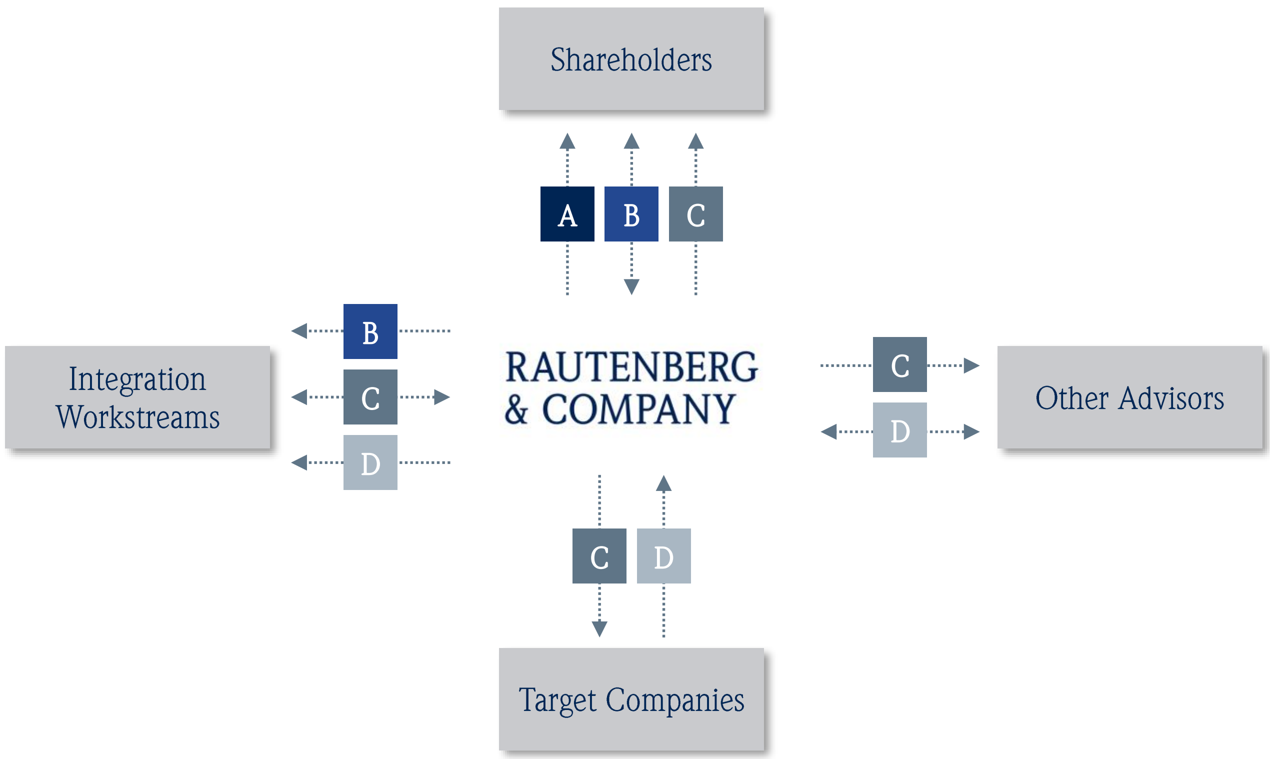
V Financial transparency

While valuation discussions often come up as last-minute negotiation points in typical M&A deals, establishing a level playing field through comprehensive and transparent indicative valuations is essential in a merger context – both to ensure alignment and to enable an optimal future financing and tax structure.

OUR APPROACH

Our experience with mergers leaves us convinced that a truly effective advisor must simultaneously fulfil four key roles to successfully orchestrate a merger:

A	**Trusted moderator**	balancing the interests of principal parties and minimising friction
B	**Strategic integrator**	providing corporate finance expertise across synergy, operating, and valuation models
C	**Project orchestrator**	coordinating all workstreams in a structured, stakeholder-oriented process
D	**Clean team operator**	facilitating sensitive information exchange where required



Through our integrated business model, Rautenberg & Company combines commercial strategy with corporate finance competence – making us the ideal partner to enable complex merger situations.

LET US SHOW YOU WHAT WE MEAN.

Especially in times of uncertainty in the M&A market, well-executed mergers offer a distinct opportunity to create value and turn volatility into strategic advantage for investors.

Successful merger advisory means much more than just process execution; establishing common goals, mediating different interests and bridging cultural gaps are key advisor responsibilities that require experience and technical finesse.

Join Philipp and Maximilan as we dive into the depths of merger cases – the supreme discipline in the transaction business and a unique way of value creation for all stakeholders.

Philipp v. Hochberg
Managing Partner

Philipp is a Managing Partner of Rautenberg & Company and works out of our Frankfurt office. For more than 25 years, he has advised family-owned companies and their shareholders, private equity houses, entrepreneurs and managers on several M&A transactions and financing. His major focus is on transactions in the process technology sector, such as machinery & equipment, automation, sensors and Industrial products such as plastic products, packaging, recycling etc. as well as in the B-to-B service (infrastructure and mobility) sector.

Philipp holds a graduate degree in economics from the University of Bonn. Alongside his studies in economics, he also studied political and historical science. As an advisor to principals, Philipp is an entrepreneur himself; for more than 12 years, he was founding Partner of C H Reynolds Corporate Finance AG, which he established with his co-founders in the German M&A market. Earlier positions in his career include Doertenbach & Co. in Frankfurt, Ernst & Young in Berlin.

Philipp co-founded the M&A-specialised transaction boutique Bassewitz & Hochberg in Frankfurt who merged with us in 2018.

Maximilian Gailer
Director

Maximilian is a Director at Rautenberg & Company and works in our Frankfurt office. He advises primarily mid- & large-cap as well as private equity clients on all aspects in the field of corporate finance and mergers & acquisitions.

Maximilian has several years of experience in mergers & acquisitions, executing sell- & buy-side projects in the German-speaking and European region. His focus includes industry consolidation and buy & build strategies, with an emphasis on infrastructure, infrastructure-related business services as well as German industrials.

Maximilian completed his master's degree in management at ESMT Berlin. Previous to joining Rautenberg & Company in 2021, he gained broad experience within European and intergovernmental institutions as well as investment banking divisions and boutiques in Germany and Austria.

About Rautenberg & Company

Rautenberg & Company accompanies financial investors and their portfolio companies as well as corporates and medium-sized companies in all phases of a transaction: from initiation and implementation to value creation, as well as the preparation and support of successful sales. The market-leading offer consists of two central components – Strategy and Value Creation Consulting and M&A Advisory – led by an exceptionally experienced and highly competent team.

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