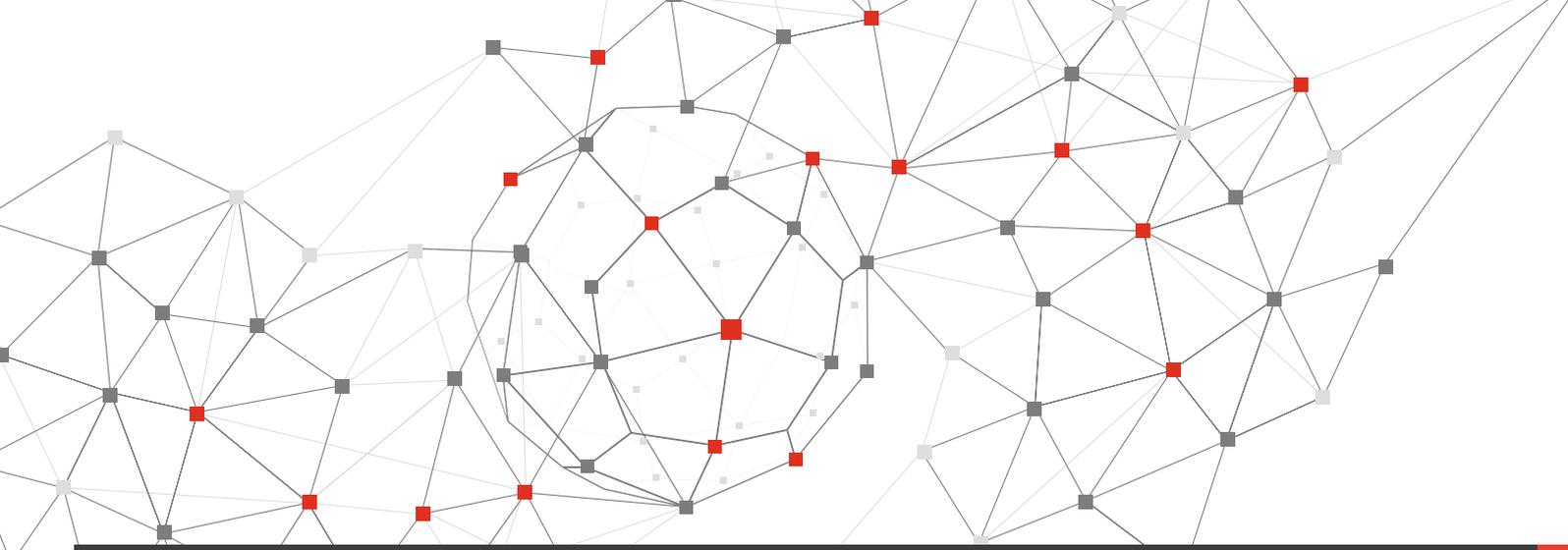


M&A in times of Corona

Interview with Martin Czoske



M&A in times of Corona – what really matters when acquiring companies in crisis

This year's **PwC M&A Integration Survey** shows that large transformational deals have been decreased in recent years, while absorption deals have gained importance. The survey also highlights which factors have always been essential. In the light of current challenges caused by the COVID-19 pandemic, decision makers engage in strategic thinking whether it's time to take over competitors and niche players they have been targeting for longer. Distressed M&A opens

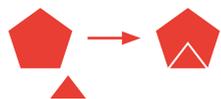
great opportunities for competitors and investors alike. However, how to ensure a successful integration and how to achieve the necessary turnaround later on?

Exactly this is being discussed by our M&A-Integration expert Rosi Liem, Director in Delivering Deal Value at PwC Germany, in an interview with Martin Czoske, Head of Holding Investment Management, M&A and Group Controlling at REWE Group,

who completed the takeover and full integration of the "Supermärkte Nord" (SuNo) into REWE Group at the end of last year. REWE Group already held a majority stake through a joint venture with coop eG in Kiel, acquired the coop share of SuNo in July 2019, and completed the successful integration at the end of 2019. Below's interview brings further insights on key success factors of turnaround transactions.

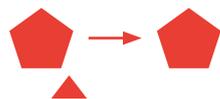
The PwC M&A Integration Survey shows a strong trend towards Tuck-In and Absorption Deals, while Transformational and Stand-alone deals become less prevalent.

37 %



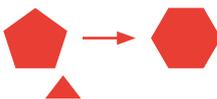
Tuck-In Deals describe the acquisition and integration of mostly smaller companies to gain access to innovations, new products and specific capabilities. Most critical business processes, structures and systems of the acquired company usually remain after the integration into the acquiring company.

34 %



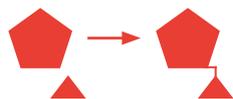
Absorption Deals refer to the acquisition and integration of companies that are similar to the buyer, such as industry competitors. This involves a quick and efficient transition of the target organisation to the strategy, structure, processes and systems of the acquiring company.

19 %

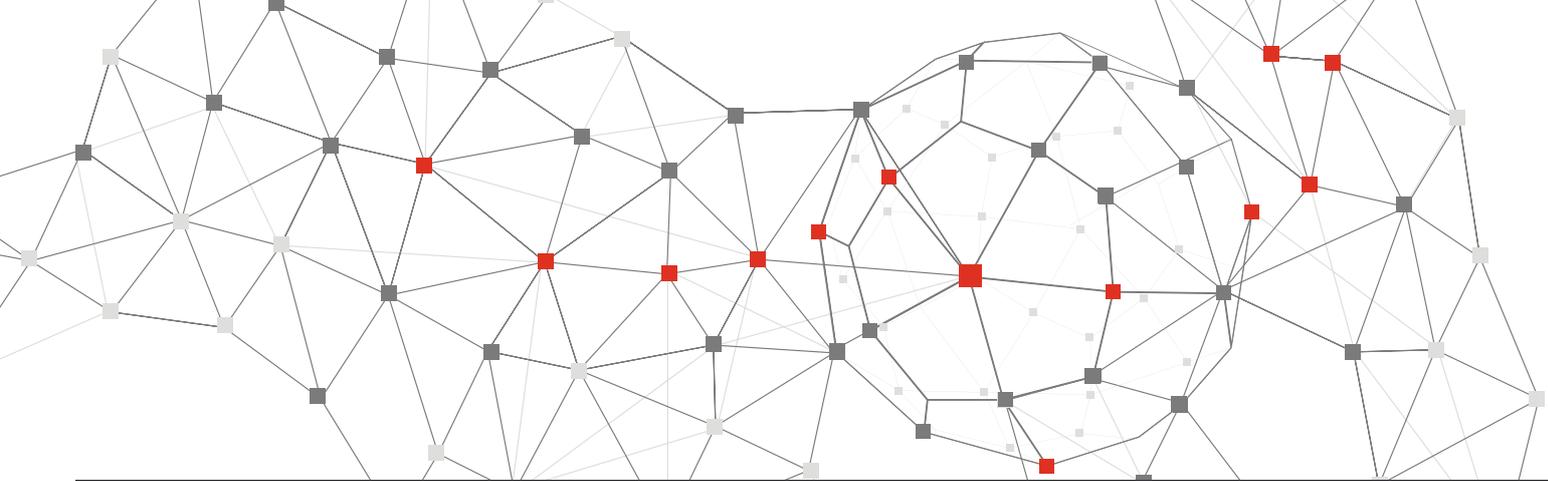


Transformation Deals encompass the acquisition and integration of companies, with different products and target markets. The integration typically leads to the overall best processes, structures and systems of both companies.

11 %



Stand-alone Deals describe the acquisition of a portfolio company which will continue to operate independently after transaction closing. The integration focuses on the implementation of reporting interfaces and processes between the acquired company and the management holding.



Interview with Martin Czoske, Head of Holding Investment Management, M&A and Group Controlling at REWE Group

Rosi Liem: Mr. Czoske, what are the decision criteria at REWE Group for acquiring companies in crisis?

Martin Czoske: The main criterion to engage in an M&A deal is to advance the strategic plan of the REWE group. As an example, the acquisition of SuNo was aimed at significantly increasing our retail presence in Northern Germany. During the due diligence, we identified significant potential to transform the distressed retail business with 150 stores into a long-term profitable business.

The acquisition of several local KUONI subsidiaries by our business unit DER Touristik had a different objective:

To strengthen its position in the European market, and to generate advantages within the destination areas. For this reason, we identified joint synergies at early stage, and were able to achieve a break-even within a foreseeable amount of time. As a result, we achieved a successful turnaround of the nonprofitable local business in Switzerland and Scandinavia, before the disruption caused by COVID-19.

Rosi Liem: What are the challenges during the due diligence of distressed companies and at which elements do you pay attention as the acquirer?

Martin Czoske: In our experience, acquisitions of companies in crisis are successful, if we already had a business relationship before. In this case, the acquirer knows both, the operational business as well as in individual cases even historical figures – and can thus easier assess the actual numbers. For companies in crisis, the acquirer should still conduct a proper and thorough due diligence, even if time pressure is high.

Rosi Liem: Which integration measures were key in achieving the turnaround at SuNo?

Martin Czoske: Three factors were particularly relevant for us to make the integration of the SuNo business a success: (1) speed, (2) the entire and well-planned integration of employees and (3) the transition of processes and systems REWE Group structures. Before Closing we developed hypothesis in regard to the legal entity structure and leadership roles, verified after closing. A side condition was to ensure employment of all SuNo employees within REWE Group which we achieved successfully.

Fundamentals of our integration work was the hypothesis-based approach, the alignment with all affected departments as well as the frequent involvement of the works council.

While transitioning SuNo processes and systems, we recognised early that the existing landscape was not state of the art and thus, initiated a rapid migration to REWE concepts and systems. As a result, this later enabled the gradual migration of SuNo stores to REWE concepts.

Rosi Liem: Which success factors were essential for the integration of KUONI into the business of DER Touristik?

Martin Czoske: In this transaction, the commitment of each local management team was crucial: At relevant local subsidiaries we retained more than 90 Percent of the local leadership within its role. In addition, as the highest body for decision making at DER we established an international Board with decision makers from all countries. As a consequence, we ensured the stronger integration and involvement of all subsidiaries: Furthermore, achieving identified synergies in relevant target regions and within touristic operations became a significant success factor.

Rosi Liem: Especially when screening distressed companies, their current economic situation and potential business development are not fully transparent. What measures do you recommend covering unforeseen risks of turnaround transactions?

Martin Czoske: We always make sure to anchor a reasonable catalogue of warranties and exemptions in the SPA. In particular, warranties regarding changes in the course of ordinary business between the due diligence phase and the actual business transition are essential. This is even more important for distressed companies in need of restructuring. For the coop-acquisition, the REWE share in the SuNo joint venture was raised from 51 to 70 percent, based on contractually anchored warranties.

Rosi Liem: Due to the COVID-19 pandemic the M&A market is stagnating since March 2020 – how do you assess the current market fluctuations? Which influence will the COVID-19 crisis have on the long-term M&A strategy of REWE Group?

Martin Czoske: Due to our solid retail business and our experience with any kind of acquisitions, we are in a good starting position for further mergers and acquisitions. We are continuously screening potential targets. Even in these times, we do not diverge from our principles and values. This includes an efficiently conducted due diligence as well – as a conclusion the findings are mirrored in the price or the contractual framework.

Furthermore, we have to be sure that the acquisition is strategically reasonable and advances the entire Group.



Martin Czoske

Martin Czoske is Head of Holding Investment Management, M&A and Group Controlling at REWE Group based in Cologne. In addition to his long-term experience in M&A at REWE Group, he was the CFO of the sky and plaza stores in Northern Germany (Supermärkte Nord Vertriebs GmbH SuNo) between December 2016 and December 2019.



Dr. Rosi Liem

Dr. Rosi Liem, Director of PwC Germany's Delivering Deal Value Practice conducted the interview. She combines many years in strategy consulting with industry experience in Energy, Chemicals and Retail to support corporate clients with post-merger integrations (PMI) and post-deal transformations of any size.

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