

THE GERMAN CONNECTION

Investment links between Germany and the Middle East are strong and set to grow, according to **Arno Fuchs**, founder of financing specialists Fox Corporate Finance **By John Butcher**

Middle Eastern investors were very US/UK focused in their overseas investment until a few years ago, when they began to shift their interest to Europe and Asia.

Now Germany is beginning to take its place as the leading investment location for Arab investors in Europe, according to Arno Fuchs, founder of Fox Corporate Finance (FCF), a firm that acts as middle-man between German companies seeking capital and Middle Eastern investors looking for strategic opportunities.

As Germany takes an increasingly large piece of the investment pie, Fuchs, who has spent the past four years establishing contacts in and knowledge of the Middle East, hopes to take a slice too.

Earlier this year he joined the German prime minister Angela Merkel on a trade mission to the Middle East, a sign of Germany's increasing interest in the region.

It was part of a ramping up of focus on the region for Fuchs and his firm, which has been operating since 2005, as it prepares to capitalise on its knowledge and relationships.

Fuchs found his space and set up FCF up as a financing company after leaving the crowded M&A adviser field. As he puts it: "I changed my focus from a can-do situation to a must have one - financing."

He placed FCF into an under-serviced slot, offering financing solutions to small and mid-cap German companies of between €25m and €1bn in size, dealing in transactions typically between €10m and €150m.

While under-serviced by larger firms, because the deals are too small, the area is not niche, according to Fuchs. "There are around 4,000 companies in the German-speaking region within our area."

FCF has carved its space in the German market and is now looking increasingly at links between Germany and the Middle East. The firm began operating in the Middle East in 2006, es-

tablishing contacts and doing the groundwork necessary to do business here.

In 2010 it has begun to push its Middle Eastern operations harder and plans to open an office in Dubai later this year, followed by another in Riyadh in 2011.

The basic reason for the firm's interest in the Middle East is simple: the region is awash with wealthy investors looking to diversify.

Fuchs admits to running up against some problems in Germany when faced with older company chairmen. Given a like for like choice, he says, they tend to go for the larger and more established firm, believing size and history offer greater security.

"To win over an older chairman I need something extra, or they will go with the bigger company," says Fuchs. That something extra is access to a wealth of high-net-worth investors across the Middle East. Once FCF can show it has this, "the chairman will drop his reservations," he says.

Making connections

Around four years ago, many of the firms in FCF's space began to make strategic decisions regarding emerging markets. While some of FCF's competitors went to Russia, China and India, looking for capital, Fuchs began establishing a network across the Middle East. "I found it easy to get in contact with people and connect," he says. "The problem was that most investors in the region were focused on the real estate boom. They were making lots of money and it was difficult to get their interest." That forced FCF to look for investors with a strategic focus.

In the Middle East around 60% of GDP is related to energy, with just 10% related to manufacturing. Governments are looking to diversify their economies, to maintain their energy sectors but grow their industrial sectors, according

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Fuchs job is to know where and how they want to diversify and grow and identify a company in Germany that fits their needs.

“To do this we look at industries they are in already,” he says. Dubai for example, has a small industrial base with interests in aluminium. To expand its aluminium business it can do two things: buy other aluminium firms to increase its market share; and migrate forward in the industrial chain. The next step up from producing raw aluminium would be to move into making products using aluminium, for example car parts.

“Dubai cannot build up a wheel manufacturer from scratch so it makes sense to buy rather than build,” according to Fuchs.

In Abu Dhabi a similar move forward using its oil industry as a base would be into the petrochemicals industry, and from there into plastics. This could lead on further, into manufacturing car parts or plastic bottles.

This makes sense because, “these offer much higher margins than making plastic as a raw material,” says Fuchs.

In other cases, there are industries that particular Middle Eastern regions want to build up. Abu Dhabi, for example, is aiming to create an aerospace industry. “It needs to buy to build this up in a short time,” says Fuchs.

In other cases governments and the local companies they part-own are looking to invest in leading companies in strategic sectors abroad. “These ideas are driven by strategic requirements of different economies in the region,” says Fuchs. “We need to understand both the Middle East and German industrial landscapes. If Dubai wants to invest in aluminium wheels, I know the company. We are market insiders and we understand the region.”

In some cases German companies are particularly keen to find investors from the Middle East, according to Fuchs. “Sometimes the CEO wants to place a transaction with an Arab investor because of the joint business potential that exists,” he says. “This is another factor.”

FCF basically acts as a middleman between Middle Eastern investors with a strategic rationale for investing in Germany, and German companies with an interest in gaining capital from the Middle East.

As FCF has gained contacts and expertise in the Middle East, its business model has begun to expand, according to Fuchs.

“Our original model when we came here was to import money from the region to Germany,” he says. “Now we are Middle East experts and we have relationships with investors and people in Germany are speaking to us if they have an interest in the Middle East.

“We are now advising German corporates that want to find investment targets here, to export money from Germany.”

In the short term, finding opportunities for German firms in the Middle East still offers the greatest potential however, as Arab governments and companies urgently seek ways to expand and diversify their business interests.

Finding the right partner

The Middle East’s rapid growth in infrastructure offers huge potential, according to Fuchs, but in order to realise the various projects that provide this, firms and governments need partners from abroad.

“They need German partners because in many cases they do not have the technology yet,” says Fuchs. “Germany is very strong in many industrial sectors and is developing fast. It is a natural choice.”

In Europe Germany is the most interesting country for Middle Eastern investors, he adds, although it was not so in the past.

“If you want to go into the industrial or infrastructure sector, then Germany can deliver,” he says. “The region, except for Saudi Arabia, was not industrially diversified. They imported equipment from Germany, but that’s it. Now, they are buying into German companies because they give them the know-how to set up the same industry here.”

Arab money has moved from the US, where investors were frustrated by losses and the Patriot Act, into Asia and Europe, according to Fuchs, and in Europe Germany is proving the most attractive.

Aside from the attractiveness of Germany’s industrial base, the country’s business characteristics – conservative, family run and relationship rather than sales driven – also appeal to Arab investors, he says.

Fuchs predicts FCF’s team will expand by 50 people over the next two years, with three in Dubai by the end of 2010, on the back of expanding business in the Middle East.

While it has not yet completed a transaction in the region, he is confident it will close between five and 10 each year over the next five years now the groundwork has been done.