

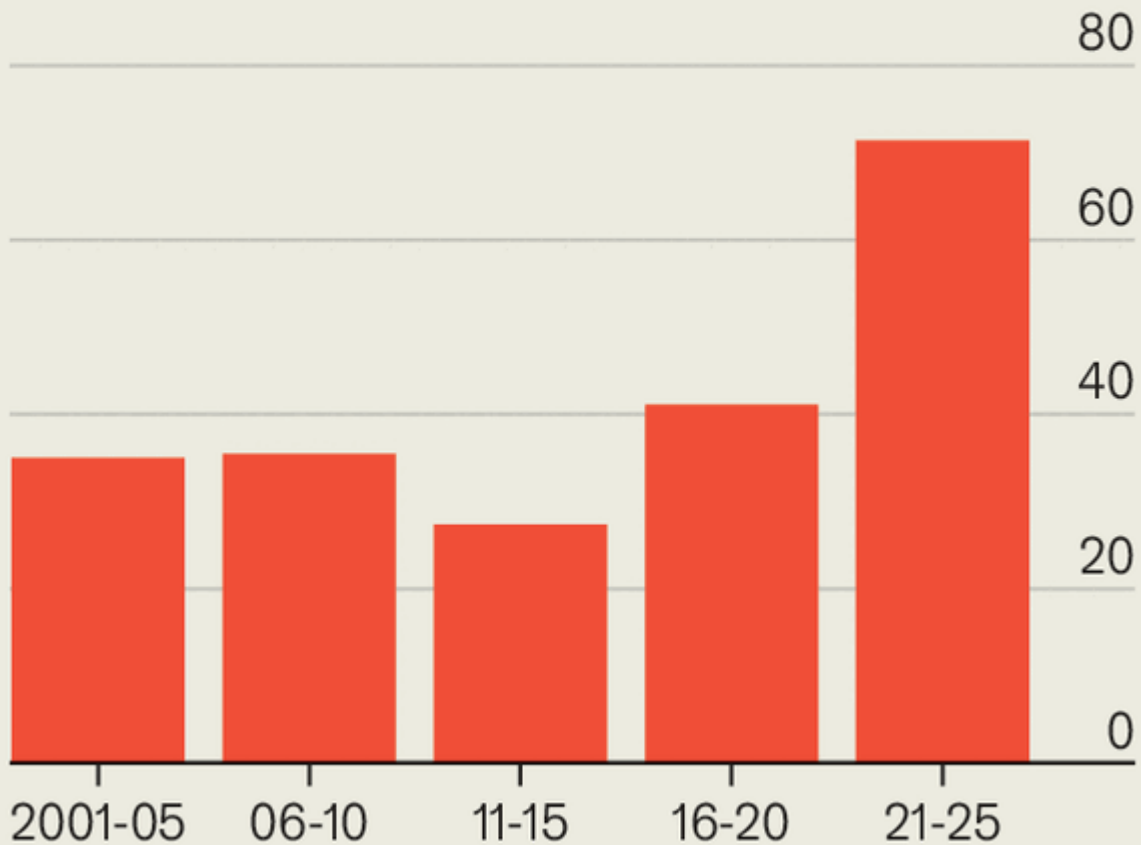
Germany's industrial conglomerates are breaking up to stay alive

Every December the German Economic Institute publishes a survey of 46 business associations that sets out their expectations for the new year. The latest shows that some industries—aerospace, shipbuilding, bits of construction—are optimistic. But after three years of stagnation most are still gloomy. “Anyone hoping for a swift and comprehensive end to the economic crisis will be disappointed in 2026,” said Michael Hüther, the institute’s boss.

One likely by-product of pessimism is another burst of sales and spin-offs by Germany’s industrial conglomerates, reinforcing an accelerating trend (see chart). Faced with fierce Chinese rivals, American tariffs, burdensome regulations and high labour and energy costs, they are shedding divisions in the hope of becoming more competitive. “German industrial groups will mostly sell or spin off business divisions this year,” predicts Tim Johannsen-Roth of Linklaters, a law firm.

Deunification

German industrial-company
divestments, deal value, €bn



Source: Dealogic

In America conglomerates went out of fashion decades ago. In Germany they stayed in vogue far longer. Giants such as Siemens, Thyssenkrupp, Bayer and BASF have already narrowed their scope: Bayer, these days focused on life sciences, spun off its industrial-chemicals division as far back as 2004. But corporate Germany still has more than its share of sprawl.

The case for conglomerates is that diversification reduces risk and helps with access to capital as strong divisions nurture weak ones. Critics reply that in a diversified group the healthiest parts are held back. Spin-offs and sales free up capital to be invested in core activities. Investors seem to prefer the transparency of standalone businesses; if

they want diversification, they can pick their own mix of stocks. Markets typically apply a “conglomerate discount”. The increase in investment in exchange-traded funds (ETFs) has sped the break-up of diversified groups, says Stefan Risse of Acatis, an investment firm. Many ETFs are devoted to specific industries.

Siemens started to undo its conglomerate structure under Joe Kaeser, chief executive from 2013 to 2021. In 2017 he spun out Healthineers, its medical-equipment division, as a separate listed company. He did the same with its energy arm in 2020, and has sold other smaller businesses. It seems to have worked. Siemens’s share price has almost doubled in the past three years, and rose by 25% over the past 12 months. This year Roland Busch, Mr Kaeser’s successor, plans to reduce Siemens’s remaining two-thirds stake in Healthineers by 30% (its stake in Siemens Energy is already down to 10%). He wants Siemens to be a focused [industrial-technology company](#).

Others are treading a similar path. In 2020 Thyssenkrupp sold its highly profitable elevator unit to a consortium of private-equity firms in order to reduce the conglomerate’s gigantic debts. In May last year Miguel Lopez, chief executive since 2023, launched a plan to restructure the remaining company. He started in October, spinning off Thyssenkrupp Marine Systems, a maker of submarines. He now wants the group’s remaining divisions to become independent businesses under a slim holding structure that oversees its subsidiaries via their supervisory boards. The steel unit will probably go: Thyssenkrupp has been in talks about its sale for months with Naveen Jindal, an Indian billionaire. “They will probably sell a majority stake first, as they did with their elevator business,” says Boris Bourdet of Kepler Cheuvreux, a broker.

In the automotive industry Chinese competition and trade restrictions are biting especially hard. One of its biggest names, Continental, will soon spin off ContiTech, which makes conveyor belts and industrial hoses—the last step of a plan to concentrate solely on tyres. In August it sold Original Equipment Solutions, a maker of hoses for cars; a month later it spun off Aumovio, its car-parts unit, on the Frankfurt stock exchange. The new-look Continental also has a new boss, Christian Kötz, an insider who succeeded Nikolai Setzer last month.

Elsewhere BASF, a chemicals giant, which last year sold its coatings business for €7.7bn (\$9bn) to Carlyle, a private-equity firm, might part with its agricultural division.

And Bayer, more than 20 years on, may narrow further, separating its prescription drugs from over-the-counter medicines or spinning off crop sciences. Difficult times are focusing minds.