



TRENDS IN THE  
GERMAN  
BUYOUT MARKET

PRESS CONFERENCE

FRANKFURT AM MAIN,  
24 JANUARY 2018





# A G E N D A

## PRESS CONFERENCE 2018

Private debt funds –  
sustainable trend or a passing fad?

Management buyouts in Germany:

- Capital supply and demand
  - Price development
- Structure of the market in 2017

Outlook





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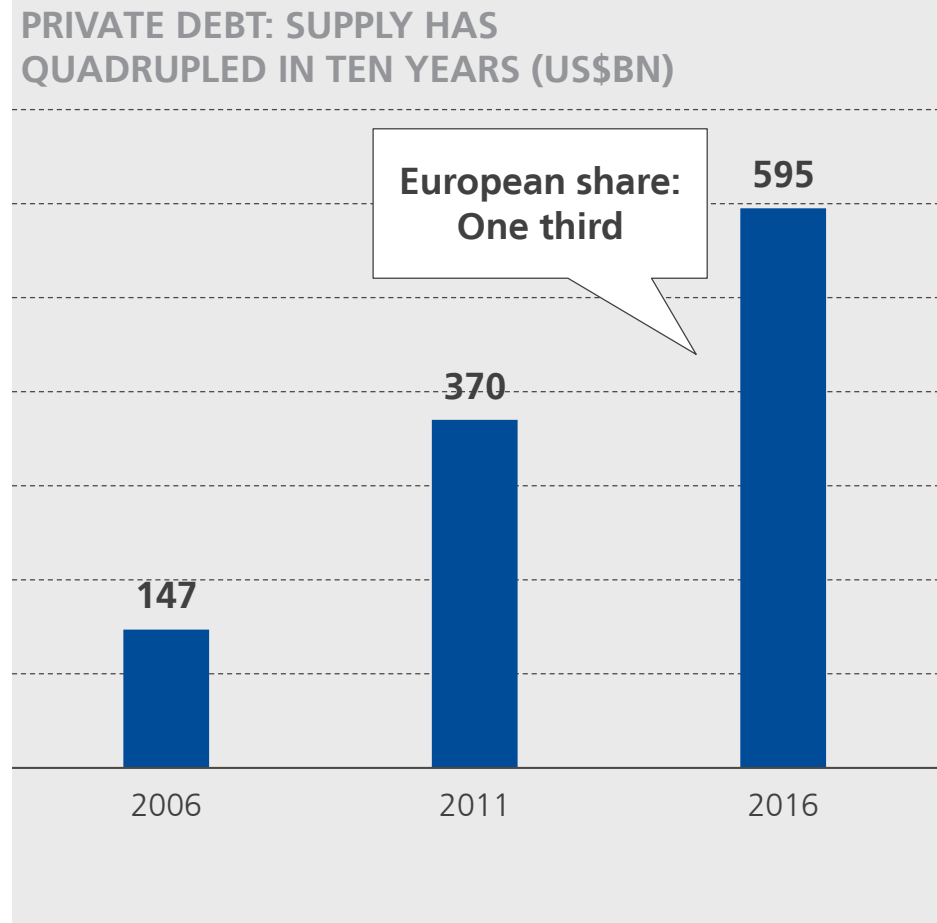
Outlook



**Higher requirements (equity securitisation, documentation) making bank lending more difficult, particularly in cases involving longer terms and low equity ratios**

## **Private debt funds as a new financing partner**

- Institutional investors (family offices, insurance companies, pension funds, pension plans)
- Statutory grey area for private debt funds in Germany clarified following BaFin decision



Source: 2017 Preqin Global Private Debt Report

# PRIVATE DEBT FUNDS WITH A FAST-GROWING MARKET SHARE, ALSO IN GERMANY

## Low interest rate policy: greater diversification among institutional investors

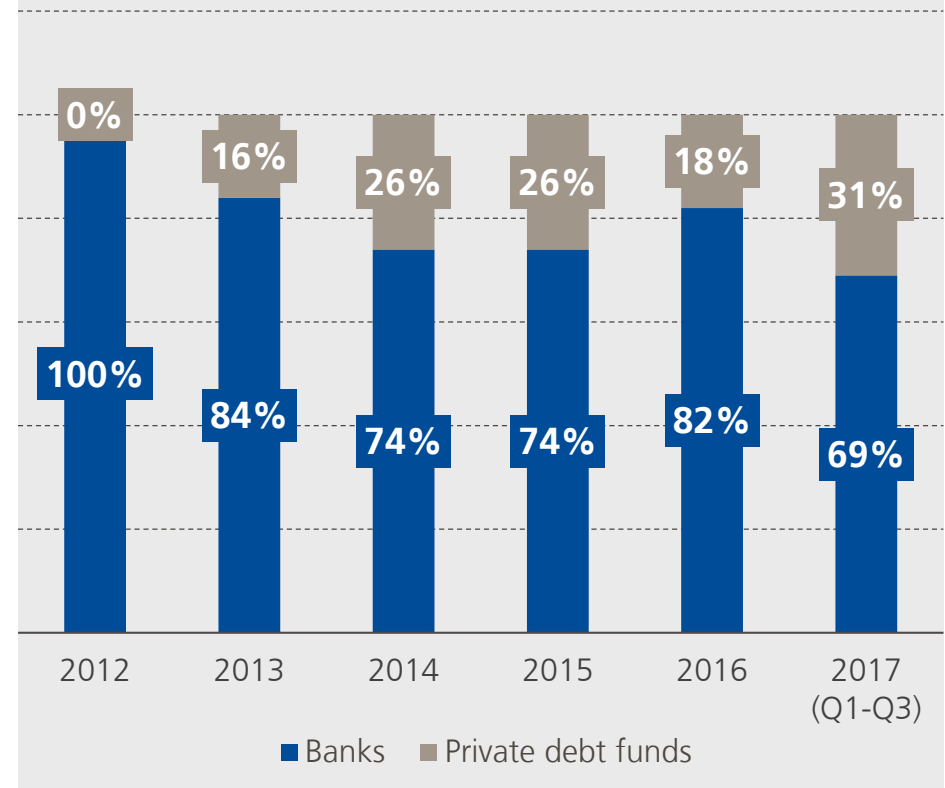
- Cash inflow for private debt funds

## 40 to 50 private debt providers in the German market

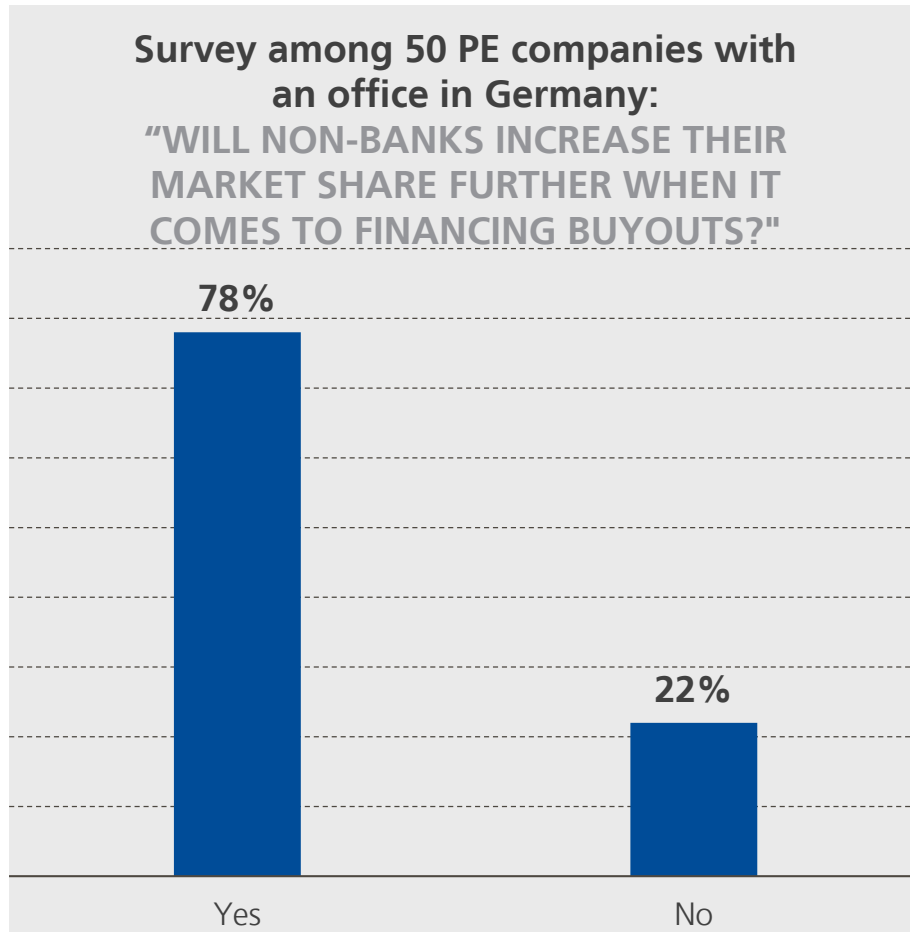
- Mainly interested in PE transactions
- But also: Growth financings in the “Mittelstand” sector

## DBAG: 21 MBOs between 2012 and 2017, two of which were financed using debt funds (2016, 2017)

PRIVATE DEBT FUNDS: GROWING SHARE OF MBO FINANCING IN GERMANY



Source: MidCap Monitor of the investment bank GCA Altium (looked at the financing of German MBOs with a lending volume of between 20 and 500 million euros, Oct. 2017)



## Advantages

- High degree of flexibility; final maturity relieves cash flow and provides greater scope for further company development
- More straightforward documentation
- Entrepreneurial decision-making processes
- Greater borrowing capacity

## Disadvantages

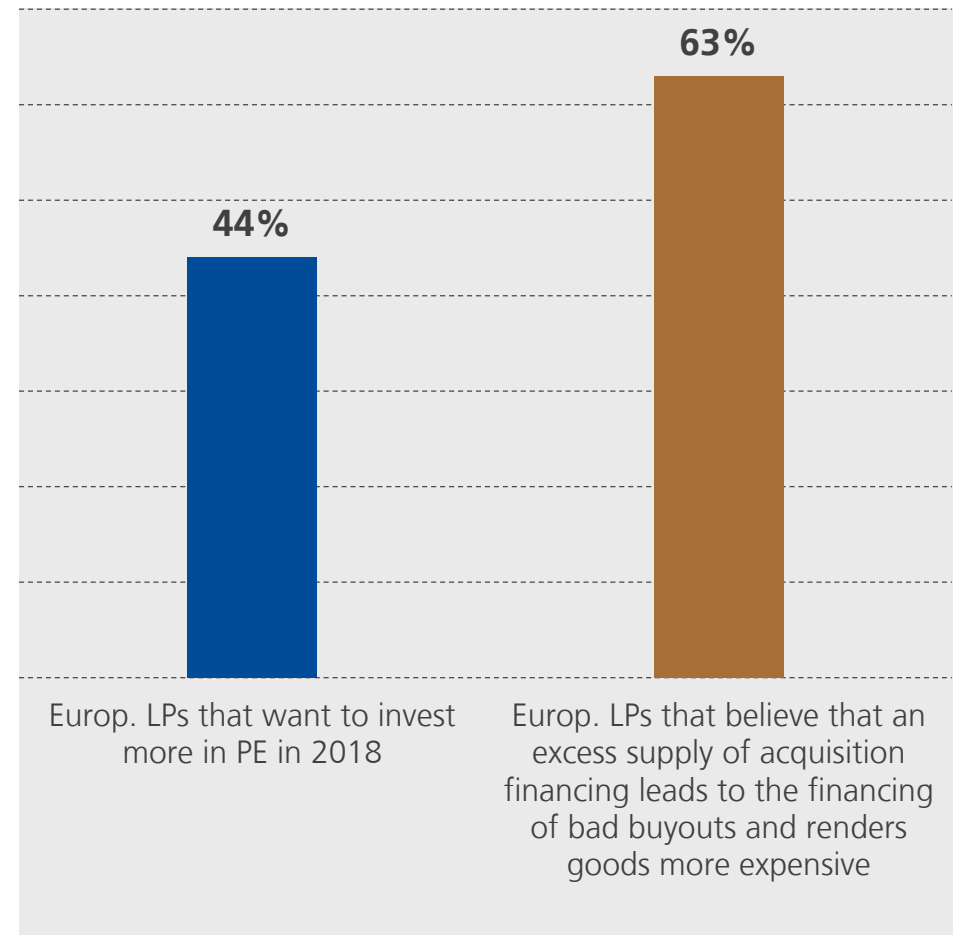
- Higher interest margins and upfront fees
- Limited services

Source: survey of top managers from more than 50 different private equity firms for the DBAG Mid-market Private Equity Monitor in collaboration with FINANCE

# GOOD SUPPLY OF ACQUISITION FINANCING COMES ALSO WITH A DOWNSIDE ...

## DBAG's experience

- Expensive form of debt financing, but the conditions can move close to those offered by banks in selected situations
- Ability to finance transactions that are difficult to communicate to banks
- Increase in the financing for company acquisitions involves a comparatively straightforward decision-making process



Source: "Global Private Equity Barometer Winter 2017-18", survey among > 100 investors in private equity funds for Collier Capital



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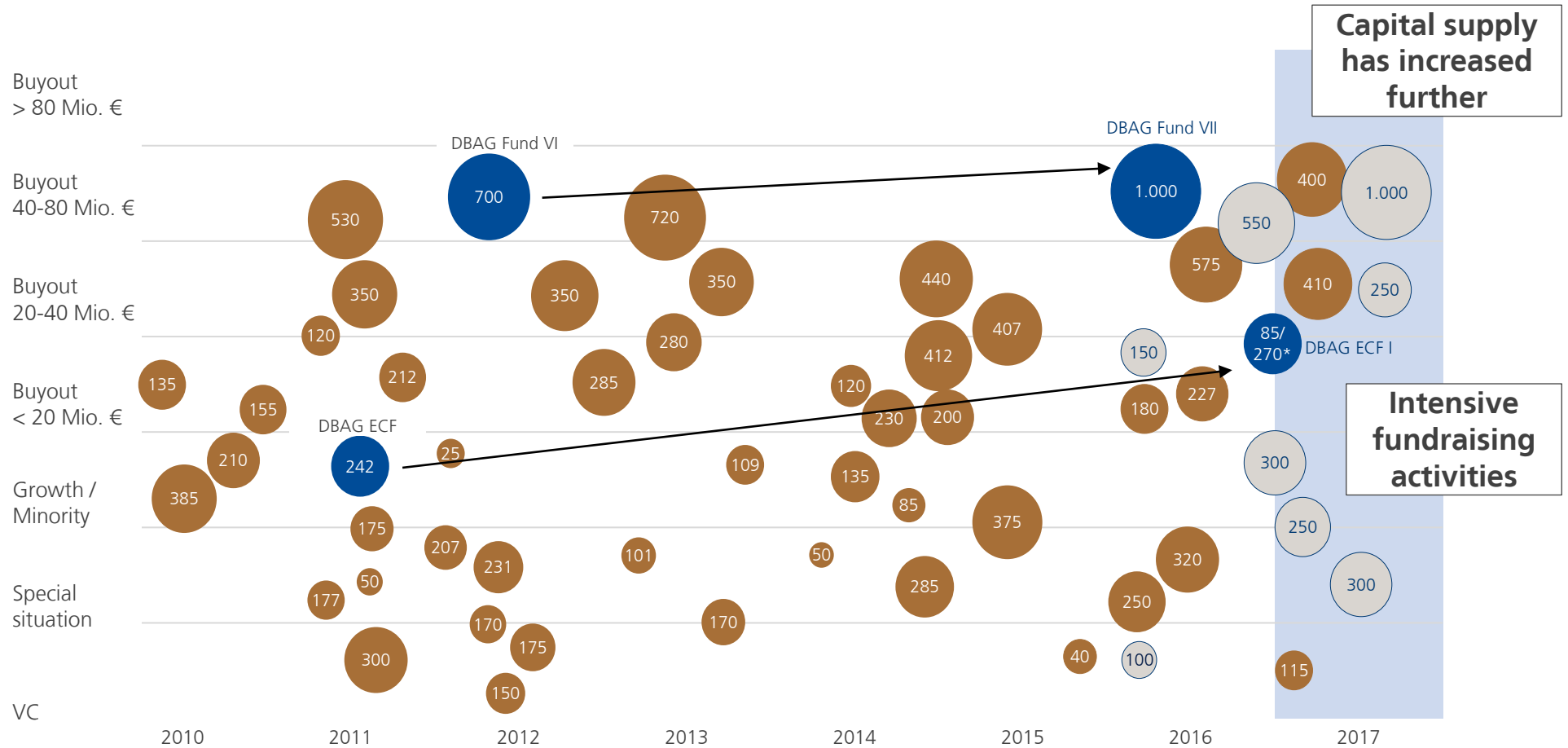
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# GOOD MARKET ENVIRONMENT DRIVING FUNDRAISING AMONG GERMAN PRIVATE EQUITY FIRMS



\*Capital commitments for two years / five-year investment period  
 Source: Preqin, Campbell Lutyens, DBAG

Amount in €mn    ● Closed    ● Closed DBAG    ○ Fundraising

# COMPETITIVE FACTORS: PERFORMANCE AND INVESTMENT SPEED

DBAG Fund IV

▶ Ten MBOs between Nov. 2001 and Feb. 2007, all investments sold

DBAG Fund V

▶ Eleven MBOs between Feb. 2007 and Feb. 2013, ten out of eleven investments sold

DBAG Fund VI

▶ Eleven MBOs between Feb. 2013 and Dec. 2016, one divestment

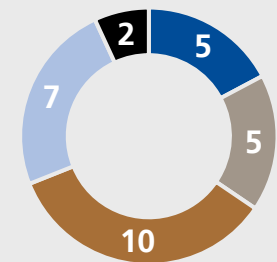
DBAG Fund VII

▶ Three MBOs since December 2016

DBAG ECF

▶ Three MBOs since June 2017

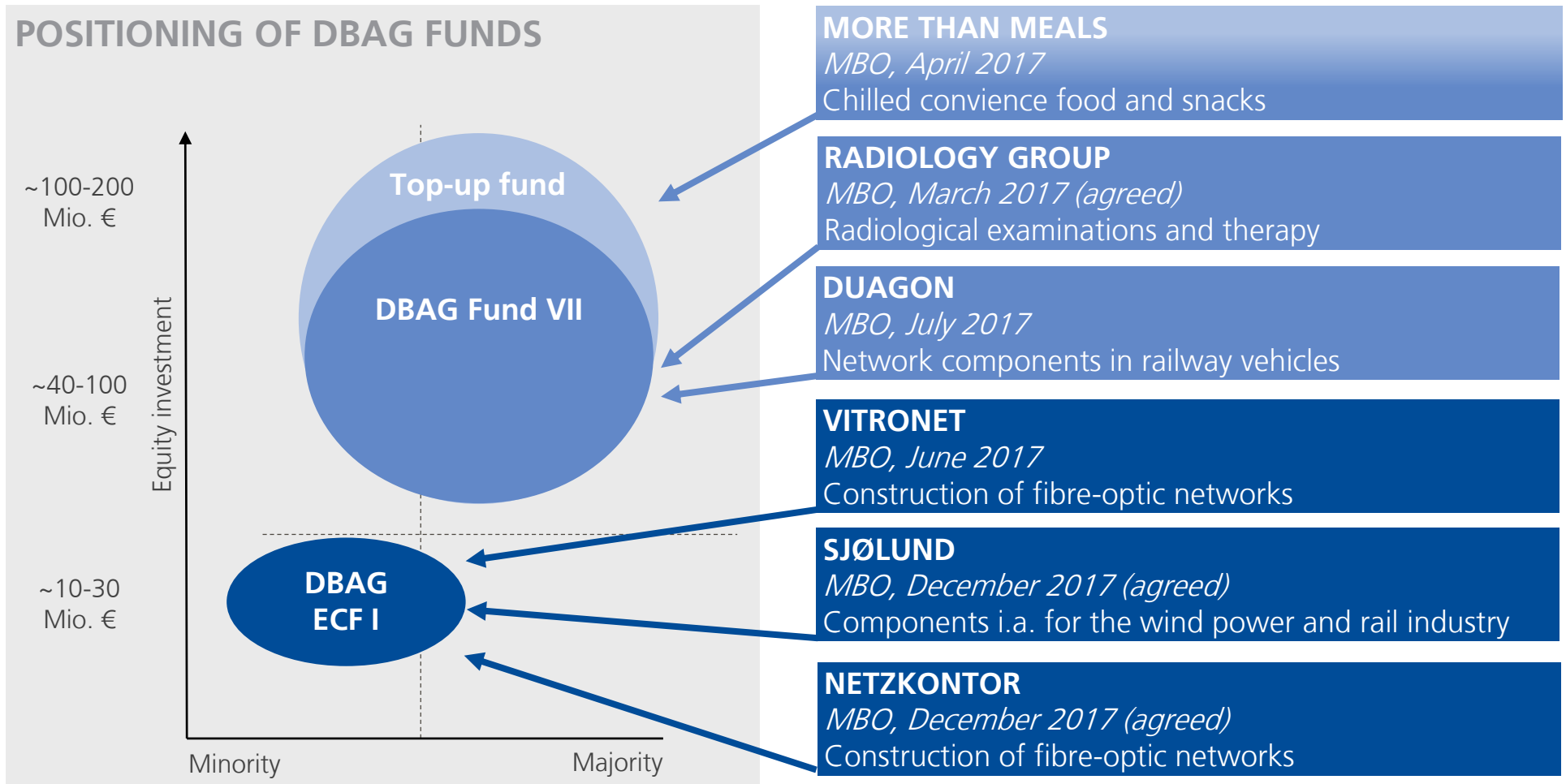
CAPITAL MULTIPLES (29 MBOS SINCE 1997)



■ < 1      ■ 1 - < 2  
■ 2 - < 4    ■ 4 - < 6  
■ > 6

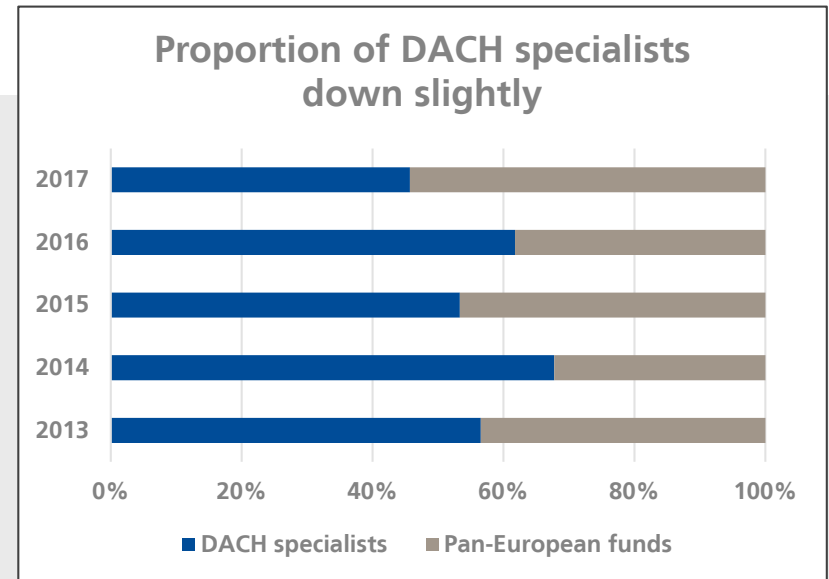
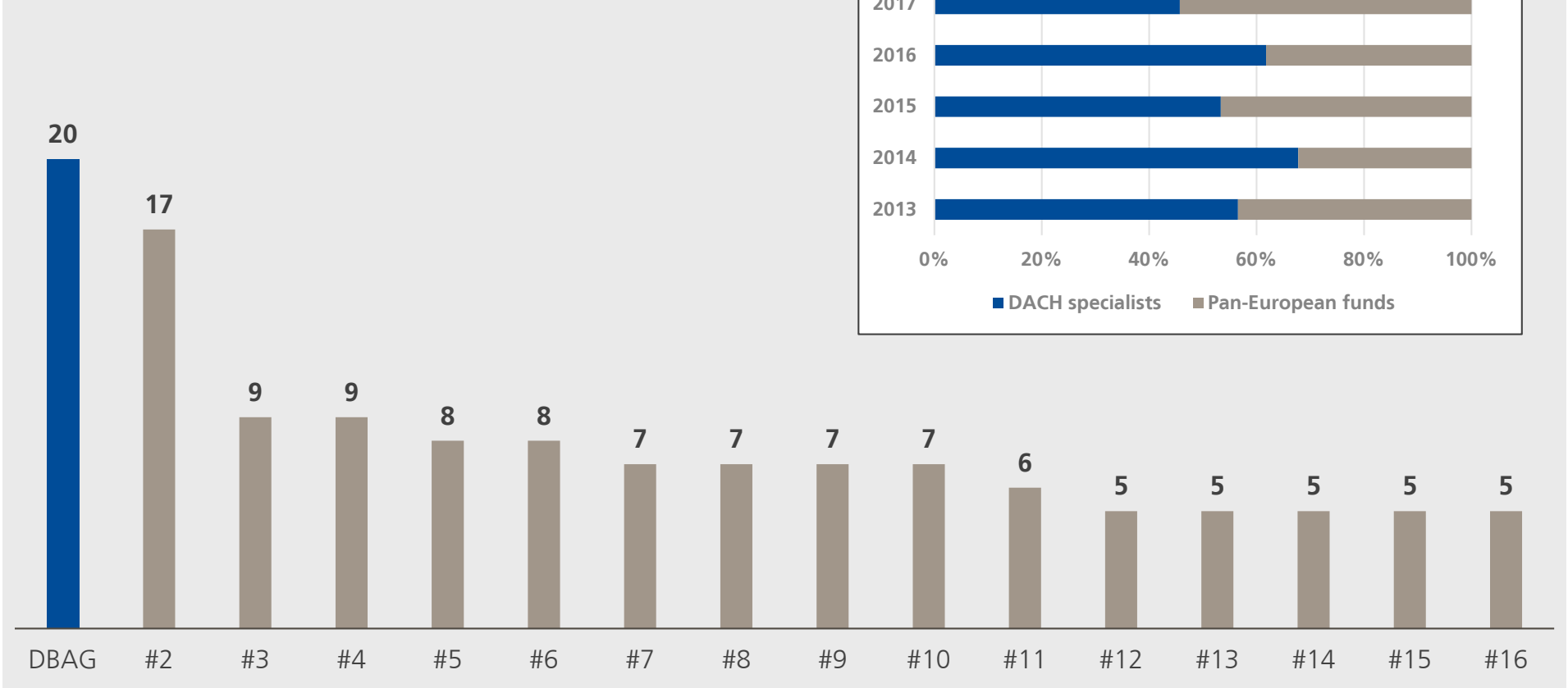
**Average (unweighted): 2.9x**

# EXPANDED DBAG OFFERING ACCEPTED BY THE MARKET



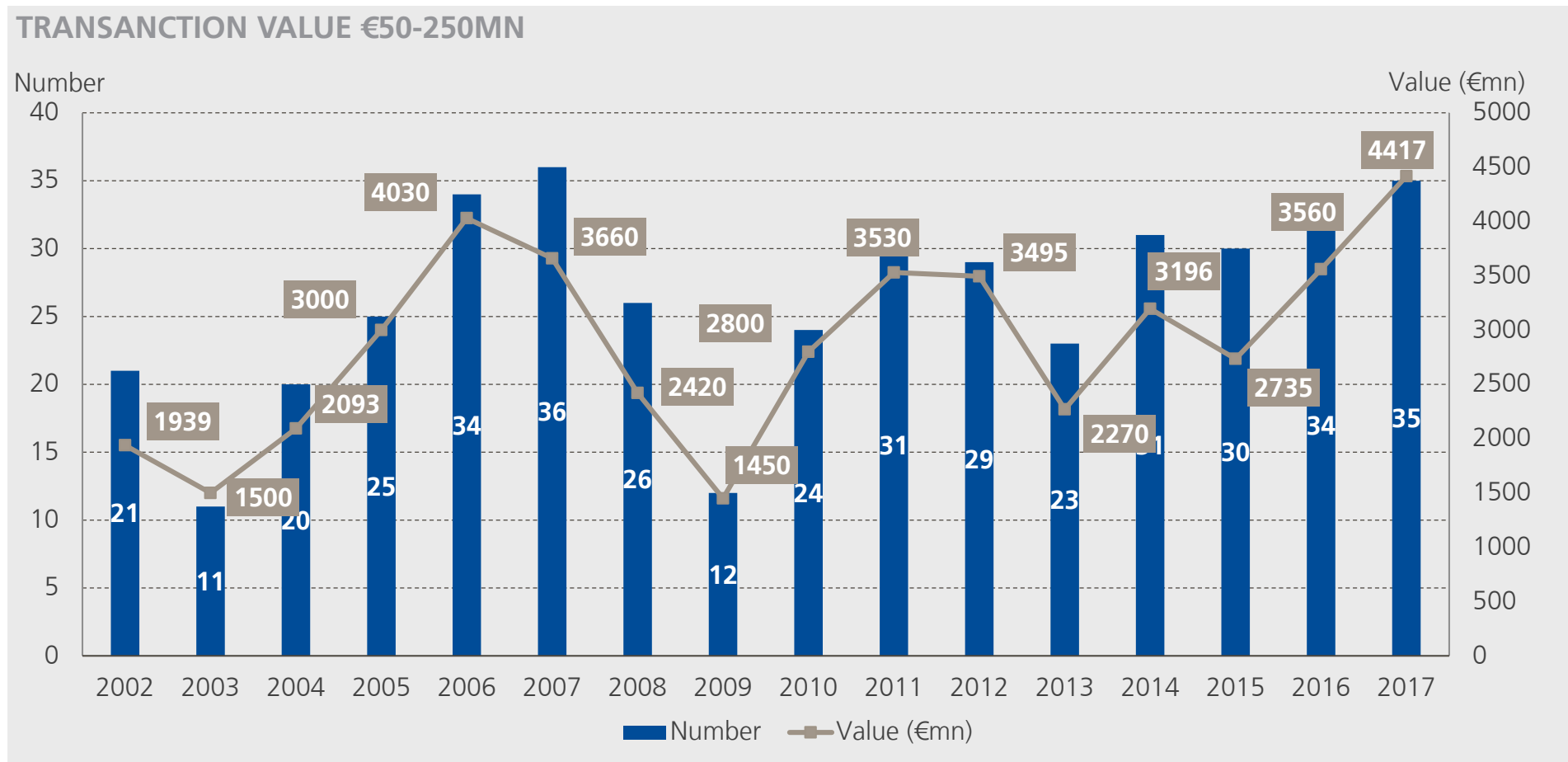
# CONTINUED HIGH CONCENTRATION OF BUYOUTS WITH A SMALL NUMBER OF MARKET PARTICIPANTS

TOP PE INVESTORS IN GERMAN MID-MARKET 2008-2017  
(market participants with five or more transactions)



Majority takeovers by financial investors via MBO, MBI, secondary/tertiary buyouts; transaction value: €50-250mn  
Source: public information, research by DBAG and FINANCE; population: 275 transactions

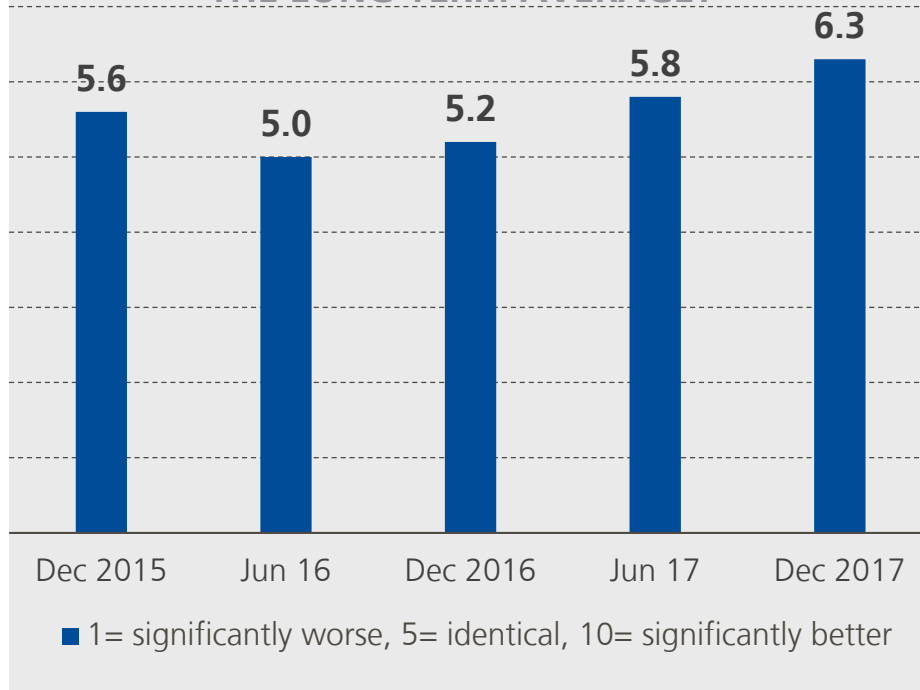
# CAPITAL DEMAND FOR MID-MARKET BUYOUTS AT RECORD HIGH IN 2017



Majority takeovers by financial investors via MBO, MBI, secondary/tertiary buyouts; transaction value: €50-250mn  
 Source: public information, research by DBAG and FINANCE

# TRANSACTION OPPORTUNITIES ON OFFER CONSIDERED TO BE "POSITIVE"

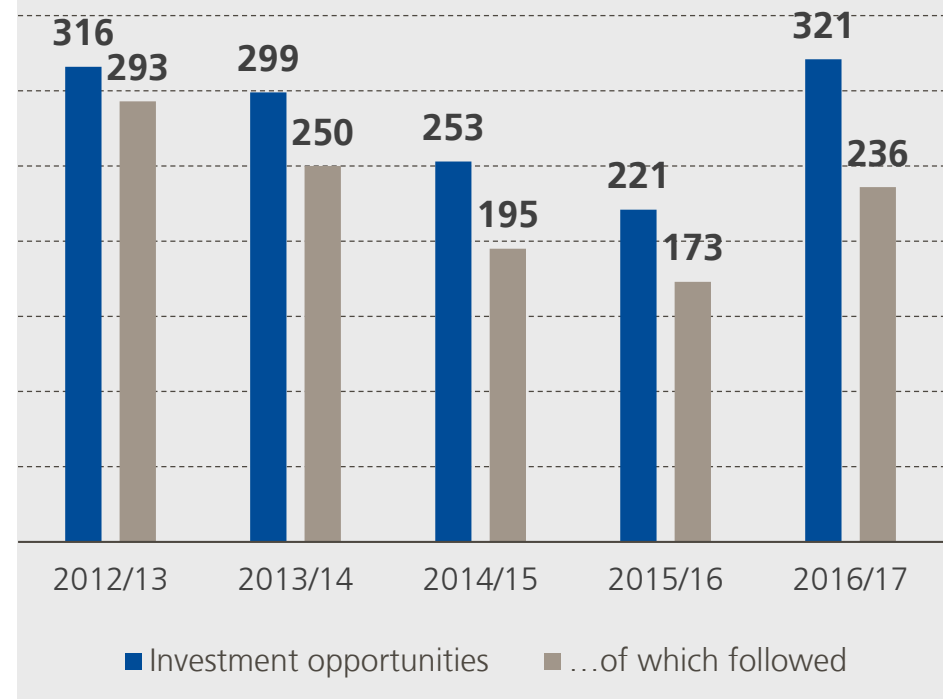
**Survey among 50 PE companies with an office in Germany:**  
 "HOW DO YOU EVALUATE THE CURRENT DEAL FLOW COMPARED WITH THE LONG-TERM AVERAGE?"



Source: survey of top managers from more than 50 different private equity firms for the DBAG Mid-market Private Equity Monitor in collaboration with FINANCE

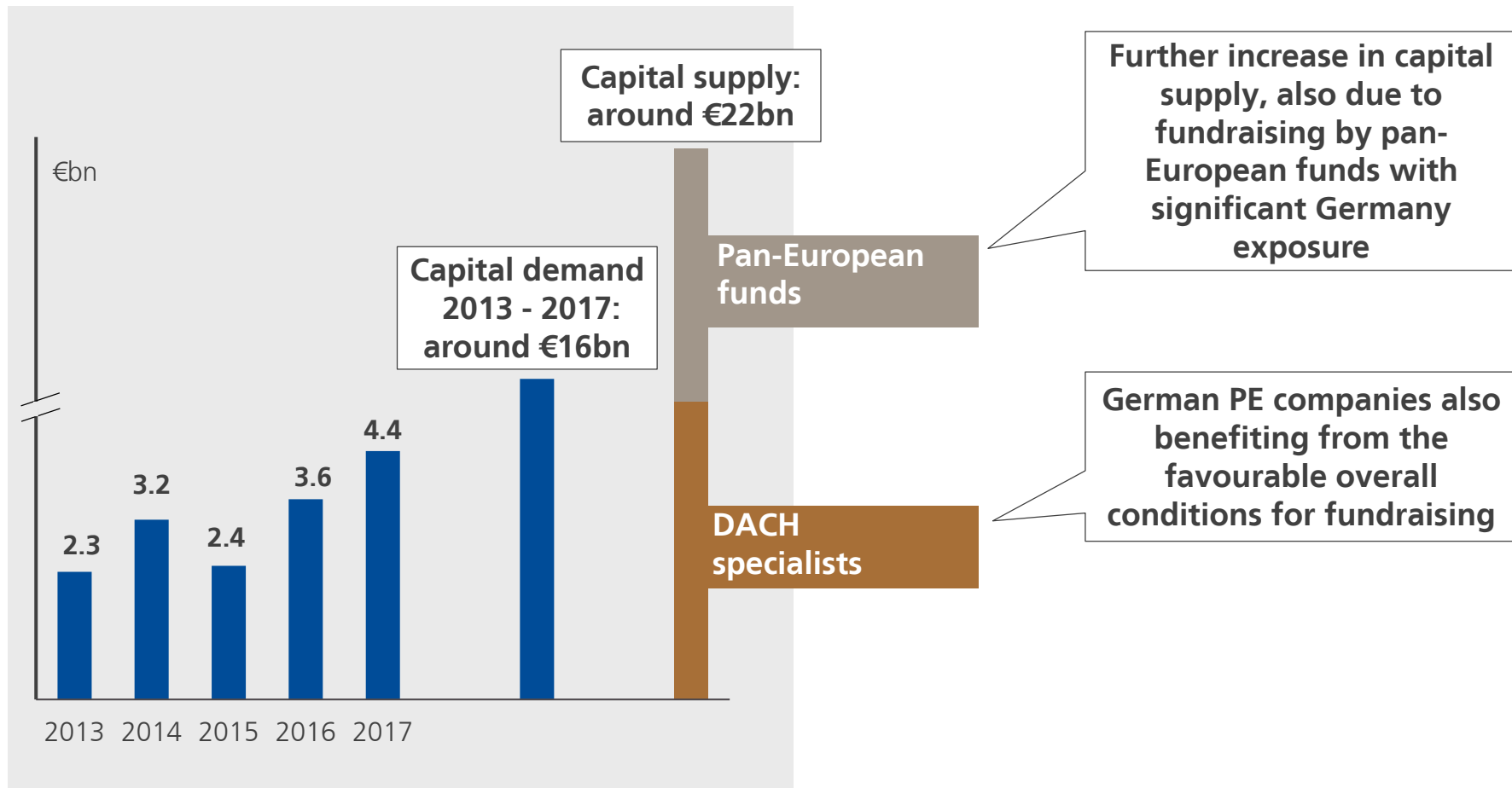
**DBAG DEAL FLOW: SIGNIFICANT INCREASE IN FY 2016/2017**

Expansion of the DBAG investment strategy



Source: DBAG

# FURTHER INCREASE IN CAPITAL OVERHANG FOR BUYOUTS IN THE GERMAN MID-MARKET

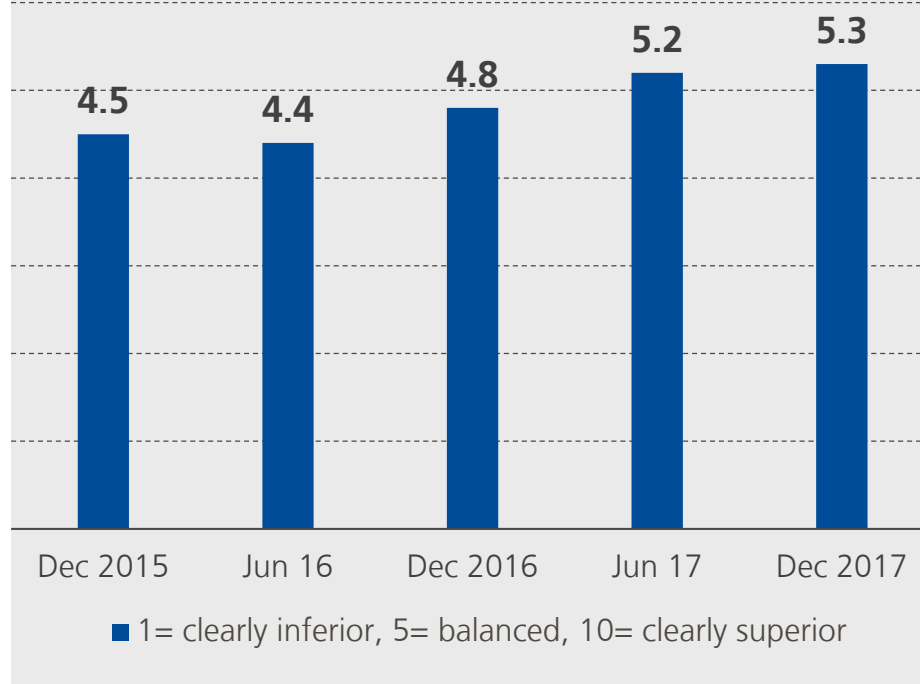


Assumption: equity ratio of 50 percent

Source: public information, research and estimates of DBAG and FINANCE

## Survey among 50 PE companies with an office in Germany:

“HOW COMPETITIVE ARE PE INVESTORS IN COMPARISON WITH STRATEGIC BUYERS AT THE MOMENT?”



Source: survey of top managers from more than 50 different private equity firms for the DBAG Mid-market Private Equity Monitor in collaboration with FINANCE

## Other buyer groups are perceived as less strong competitors

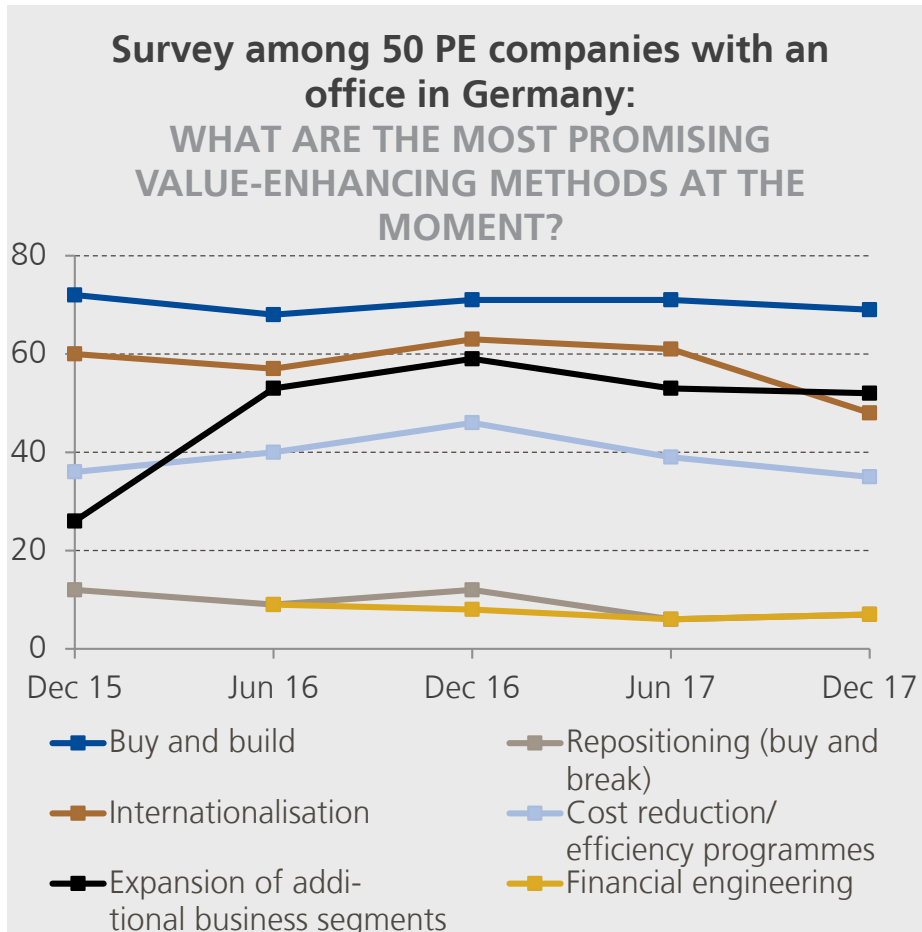
– For example, At the end of 2016, 76 percent of PE managers still said that “we are facing competition from family offices”; this had fallen to only 59 percent by the end of 2017

## At the same time, competition among financial investors is perceived as being increasingly intense

– On a scale of 1 (“very low”) to 10 (“very high”), PE managers scored the competition among each other at still 8.0 at the end of 2016, but at 8.6 at the end of 2017



# INCREASE IN VALUE REQUIRES SIGNIFICANT CHANGE AT PORTFOLIO COMPANIES



Source: survey of top managers from more than 50 different private equity firms for the DBAG Mid-market Private Equity Monitor in collaboration with FINANCE

## Focal points of further development

- Geographic market development
- Complementary additions to the product range
- Expansion of spare parts business
- Sector consolidation (buy and build)

**Accelerated implementation by way of company acquisitions**

## Cost reduction and financial engineering remains of lesser importance

**27 add-on acquisitions at DBAG portfolio companies since 2013 with (cumulative) transaction volume of €350mn**



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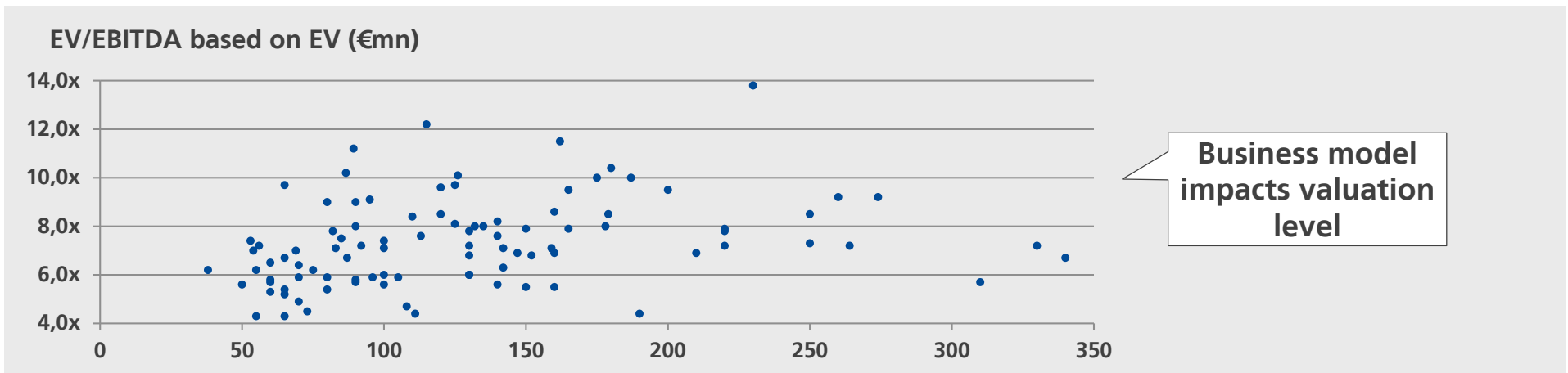
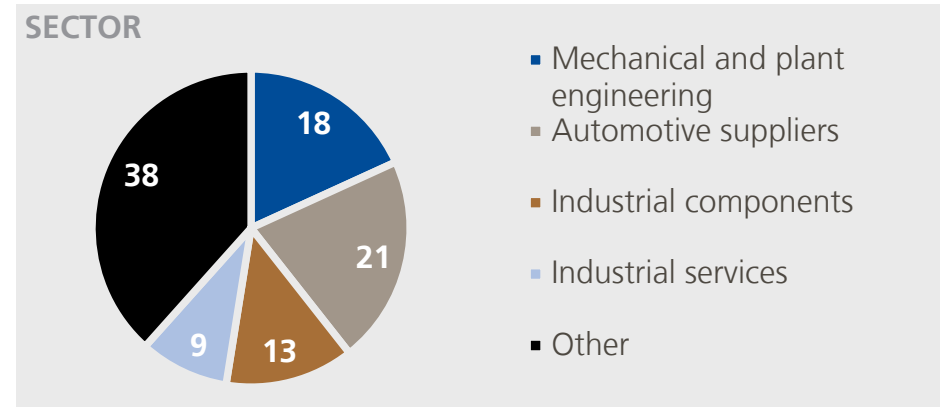
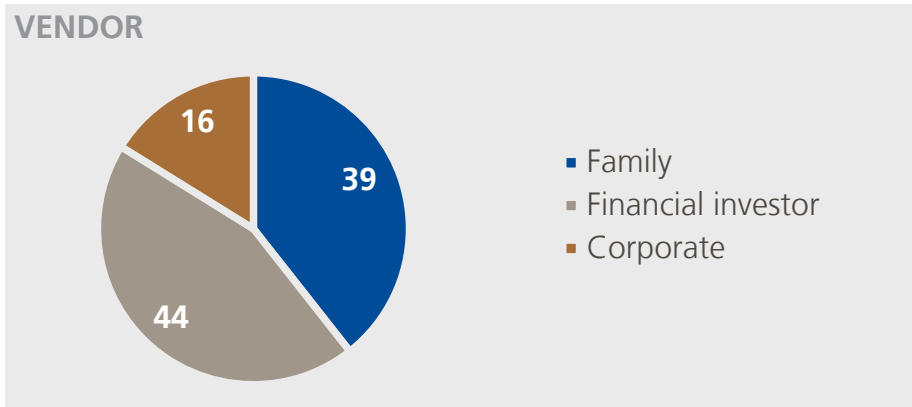


# FURTHER PRICE INCREASES FOR COMPANIES



# EVALUATION OF DBAG BIDS

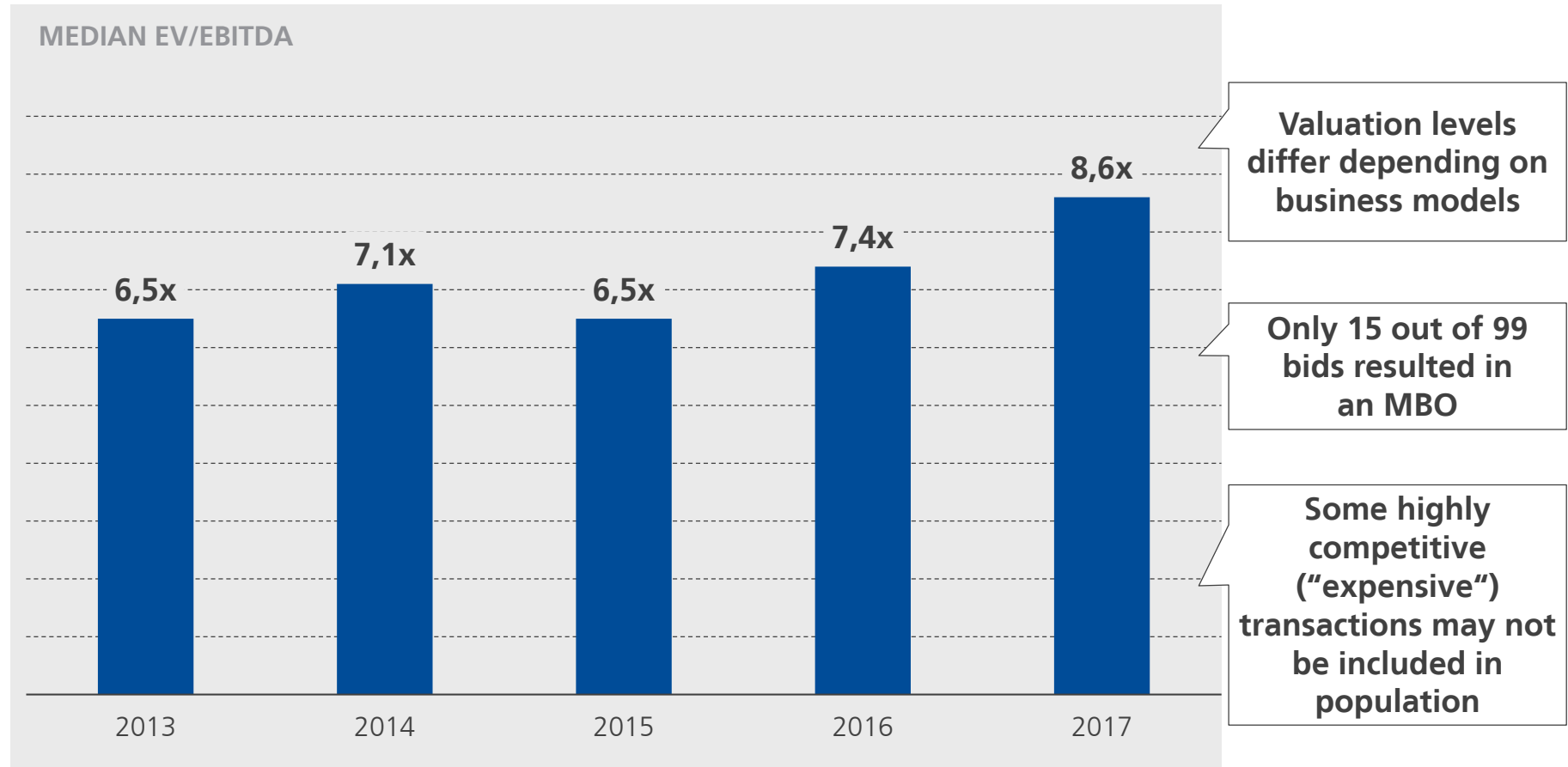
## Data base: 99 bids from 2013 to 2017



Source: DBAG

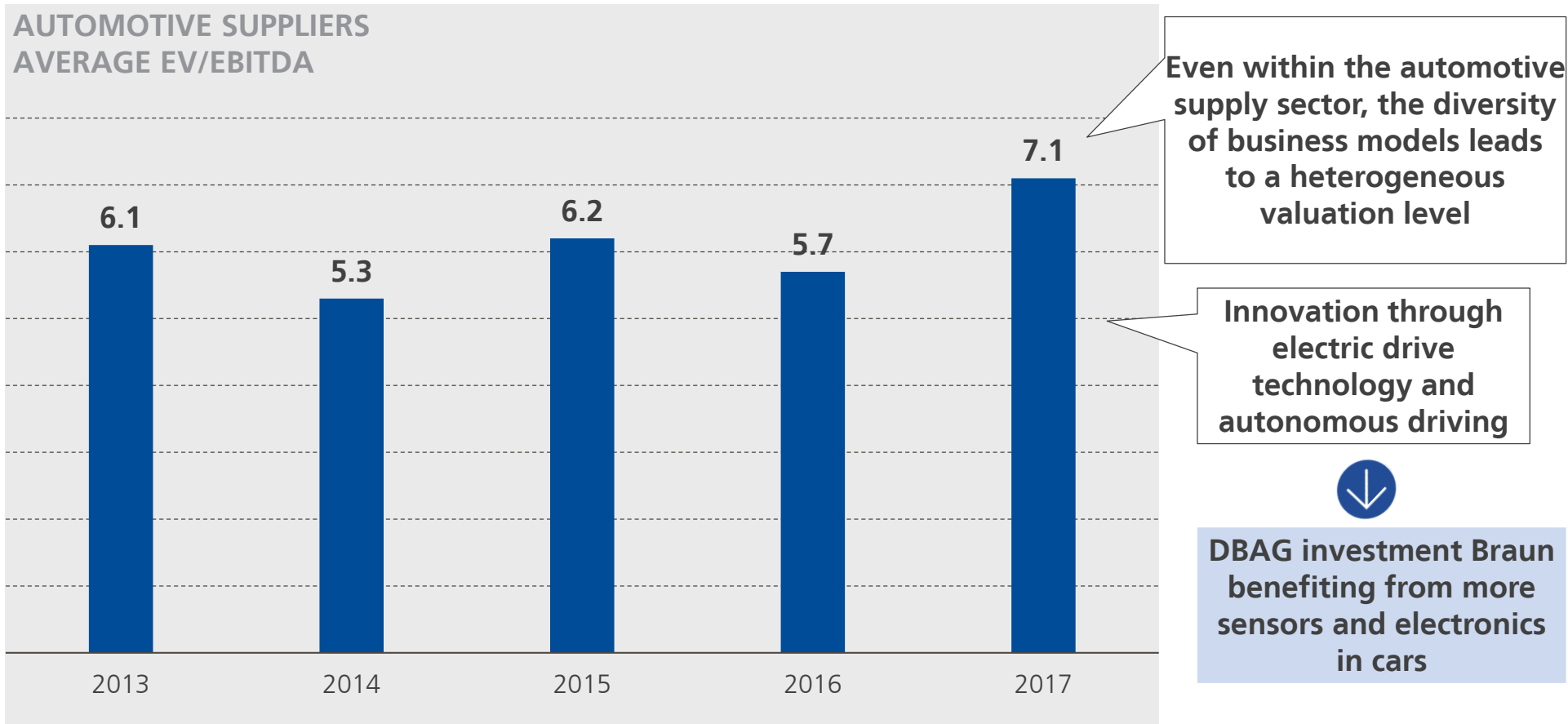
# DBAG BIDS WITH HIGHER PRICES IN 2017...

Data base: 99 bids from 2013 to 2017



Source: DBAG

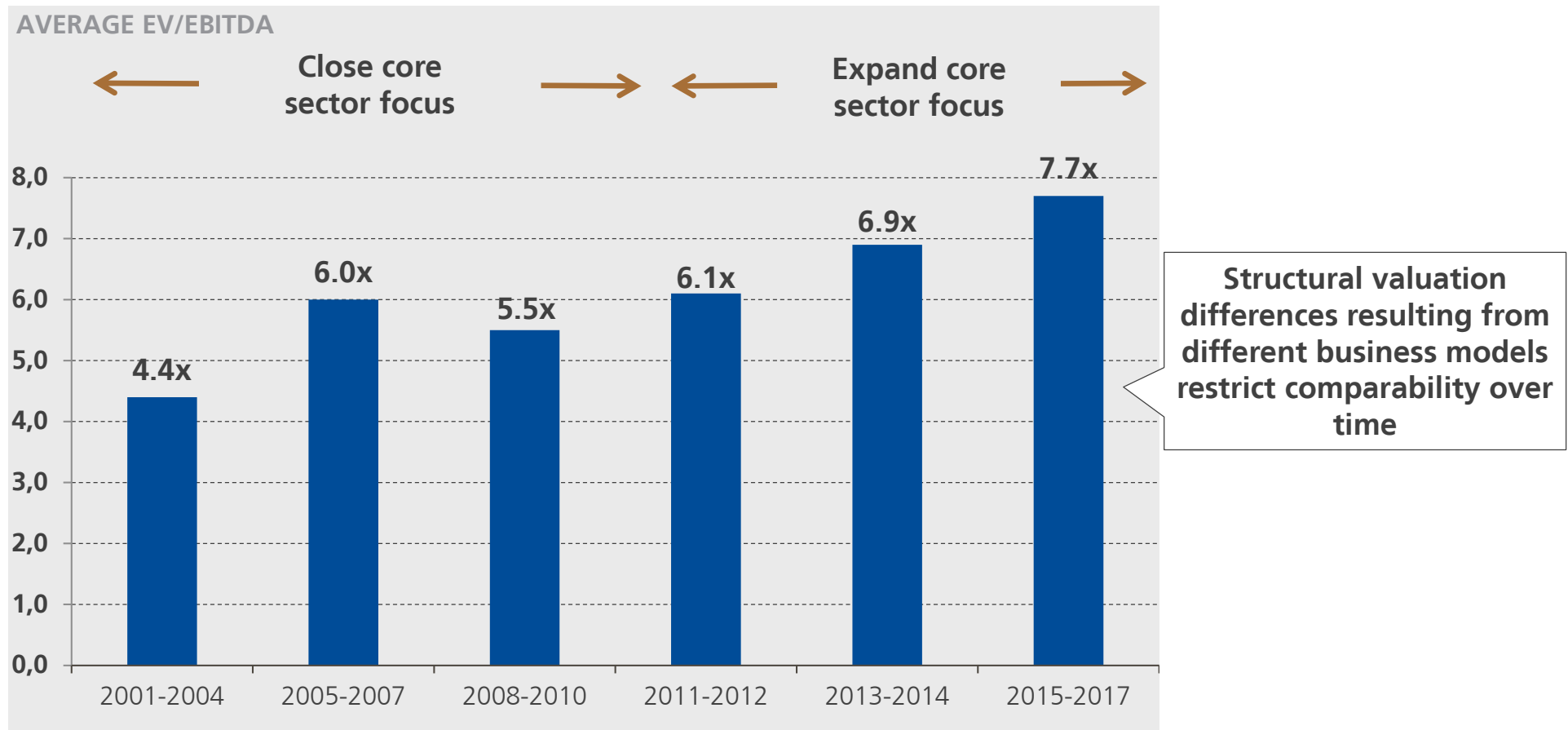
## Data base: 20 bids for automotive suppliers from 2013 to 2017



Source: DBAG

# MODERATE INCREASE IN THE ENTRY VALUATIONS OF DBAG MBOS SINCE 2001

Data base: 35 buyouts from 2001 to 2017 (DBAG Fund IV, V, VI and VII)



Source: DBAG



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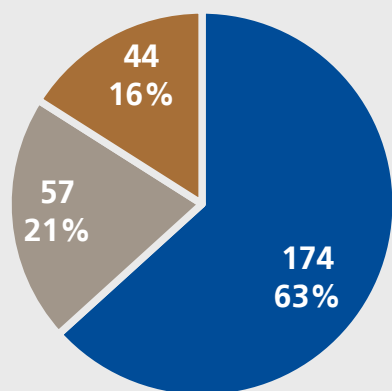
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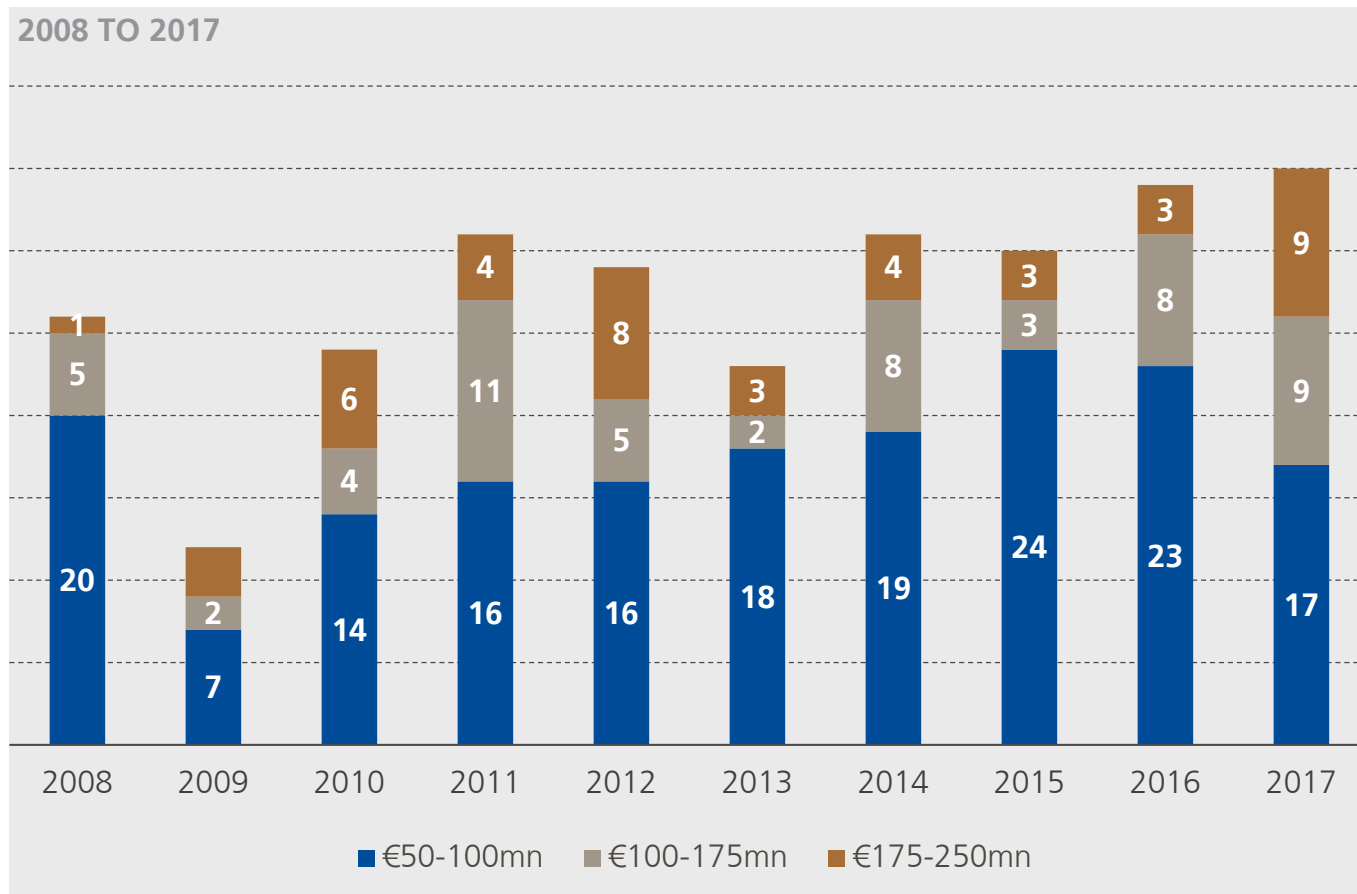
# SIGNIFICANTLY HIGHER PROPORTION OF LARGER TRANSACTIONS

2008-2017 (CUMULATIVE)



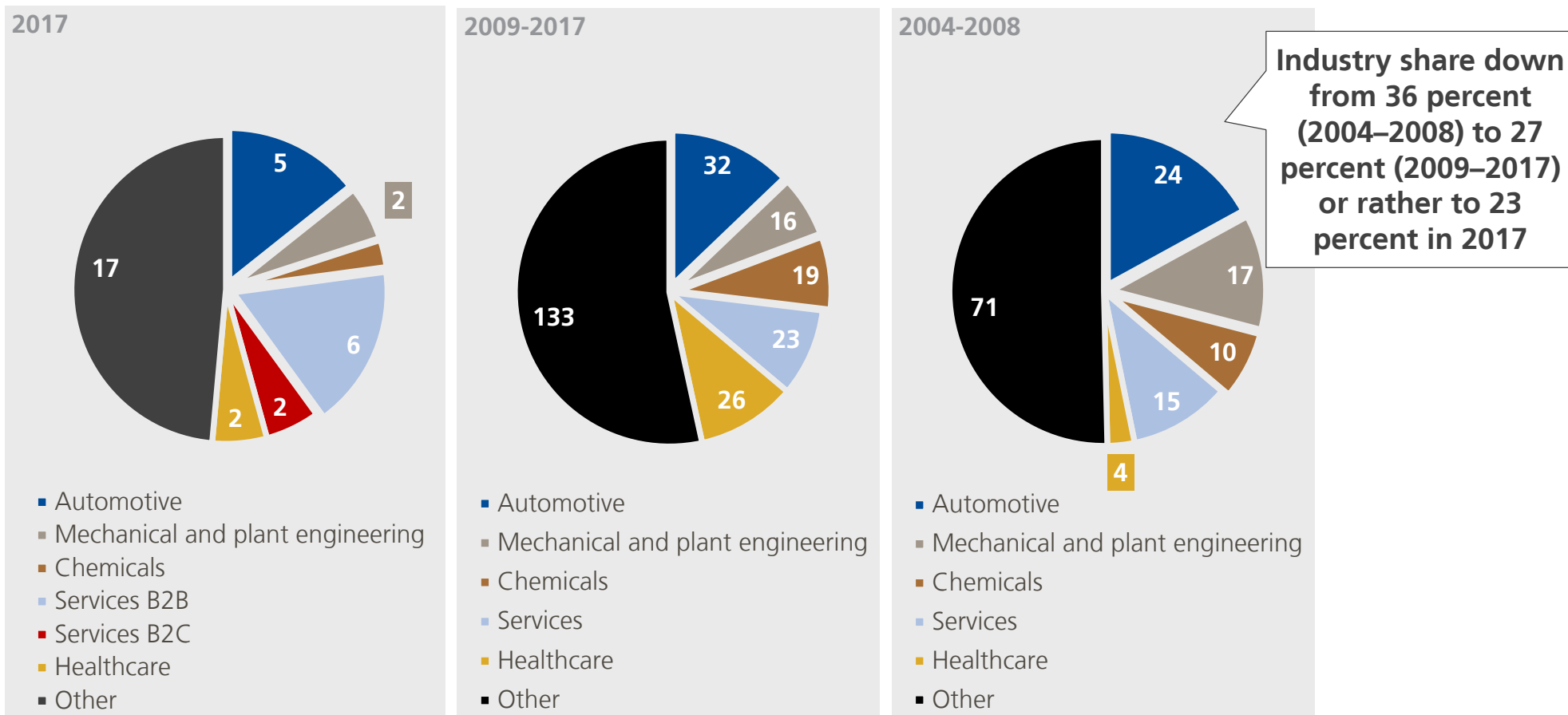
- €50-100mn
- €100-175mn
- €175-250mn

2008 TO 2017



275 MBOs in the German mid-market from 2008-2017 (see slide 13): majority takeovers by financial investors via MBO, MBI, secondary/tertiary buyouts; transaction value: €50-250mn; Source: public information, research by DBAG and FINANCE

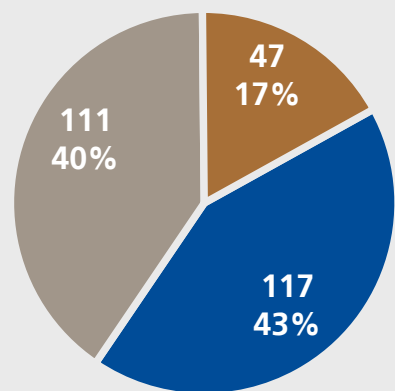
# SECTORS: INDUSTRY AND B2B-SERVICES LESS SIGNIFICANT, PE TURNING TO NEW SECTORS



35 MBOs in the German mid-market in 2017 (see slide 13) / 249 transactions from 2010-2017 and 141 transactions from 2004-2008: majority takeovers by financial investors via MBO, MBI, secondary/tertiary buyouts; transaction value: €50-250mn  
 Source: public information, research by DBAG and FINANCE

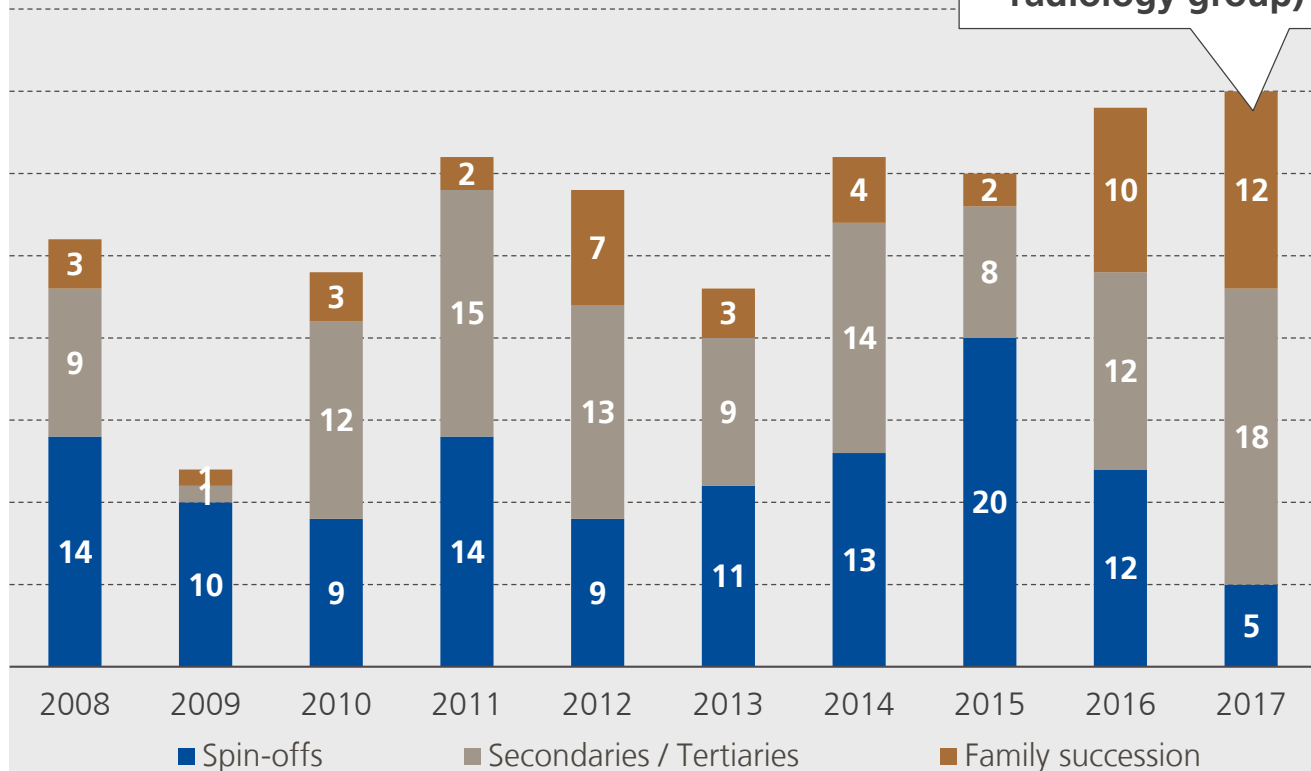
# STRONG SHIFT TOWARDS FOUNDER AND FAMILY SUCCESSION ARRANGEMENTS AND SECONDARIES

2017 (CUMULATIVE)



- Spin-offs
- Secondaries / Tertiaries
- Family succession

2008-2017



275 MBOs in the German mid-market from 2008-2017 (see slide 13): majority takeovers by financial investors via MBO, MBI, secondary/tertiary buyouts; transaction value: €50-250mn; Source: public information, research by DBAG and FINANCE



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Availability of capital

▶ **To remain high**

Challenge of portfolio  
development

▶ **Company acquisitions**  
**Digitalisation of business models**

Market cultivation

▶ **Intensive network maintenance**  
**Transparency, brand development,**  
**corporate governance**

Competition for talent

▶ **Cooperation with universities**  
**HR development**  
**Remuneration and incentive**  
**systems**

**OVERALL  
CONDITIONS 2018:**

**Workforce bottleneck/  
wage development**

**Turnaround in interest  
rates**

**Protectionist  
tendencies**