



# TRENDS IN THE GERMAN BUYOUT MARKET

**2019 PRESS CONFERENCE**

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# TRENDS IN THE GERMAN BUYOUT MARKET

FAMILY OFFICES AND PRIVATE EQUITY –  
PEACEFUL COEXISTENCE OR COMPETITION?

MANAGEMENT BUYOUTS IN GERMANY

Capital supply and demand

Price development

Market structure in 2018

OUTLOOK

▶ **FAMILY OFFICES AND PRIVATE EQUITY – PEACEFUL  
COEXISTENCE OR COMPETITION?**

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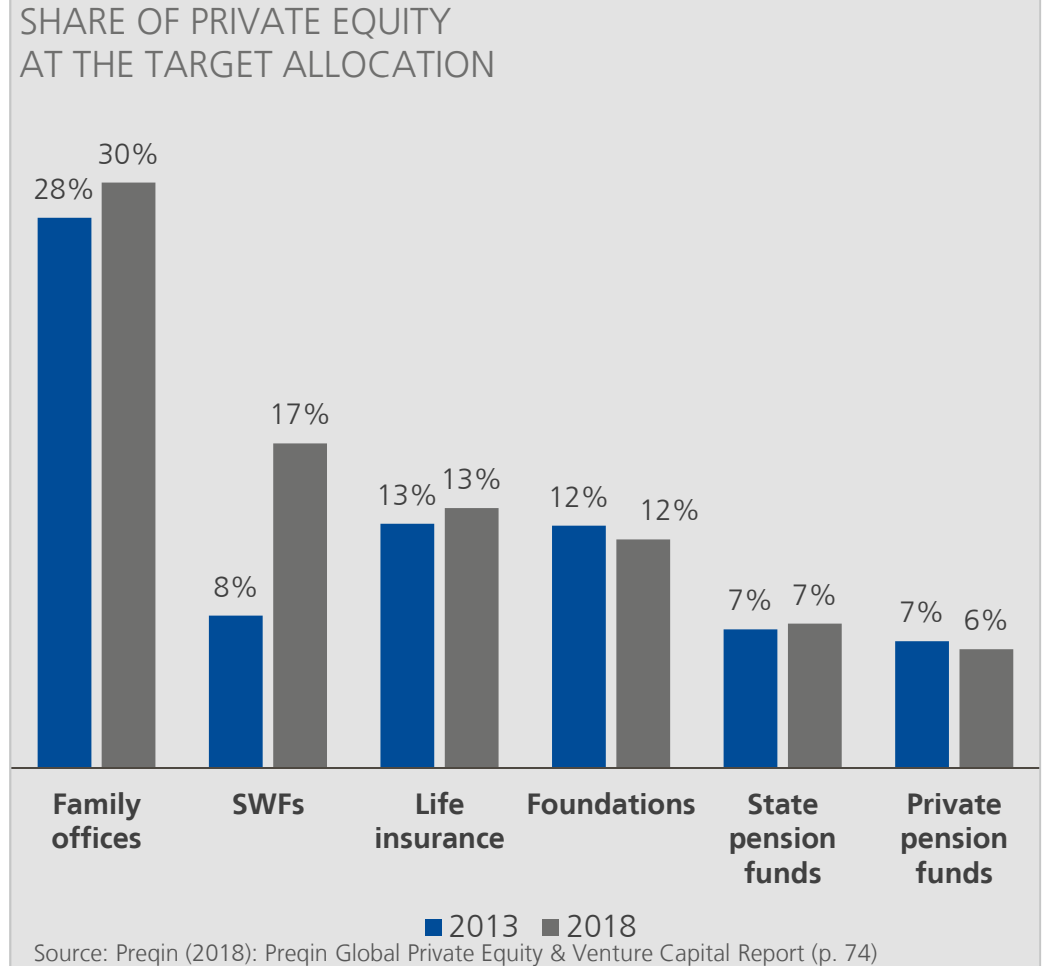
OUTLOOK

**Worldwide, the number of family offices investing in private equity funds almost rivals the number of pension funds investing in private equity funds**

**More than 60 percent of family offices worldwide want to invest more in PE funds than they did a year ago**

**The total share of PE investments attributable to family offices has doubled between 2013 and 2018, starting at a low level**

**Germany: the share of fundraising by German funds attributable to family offices is fluctuating at around an average of ten percent**



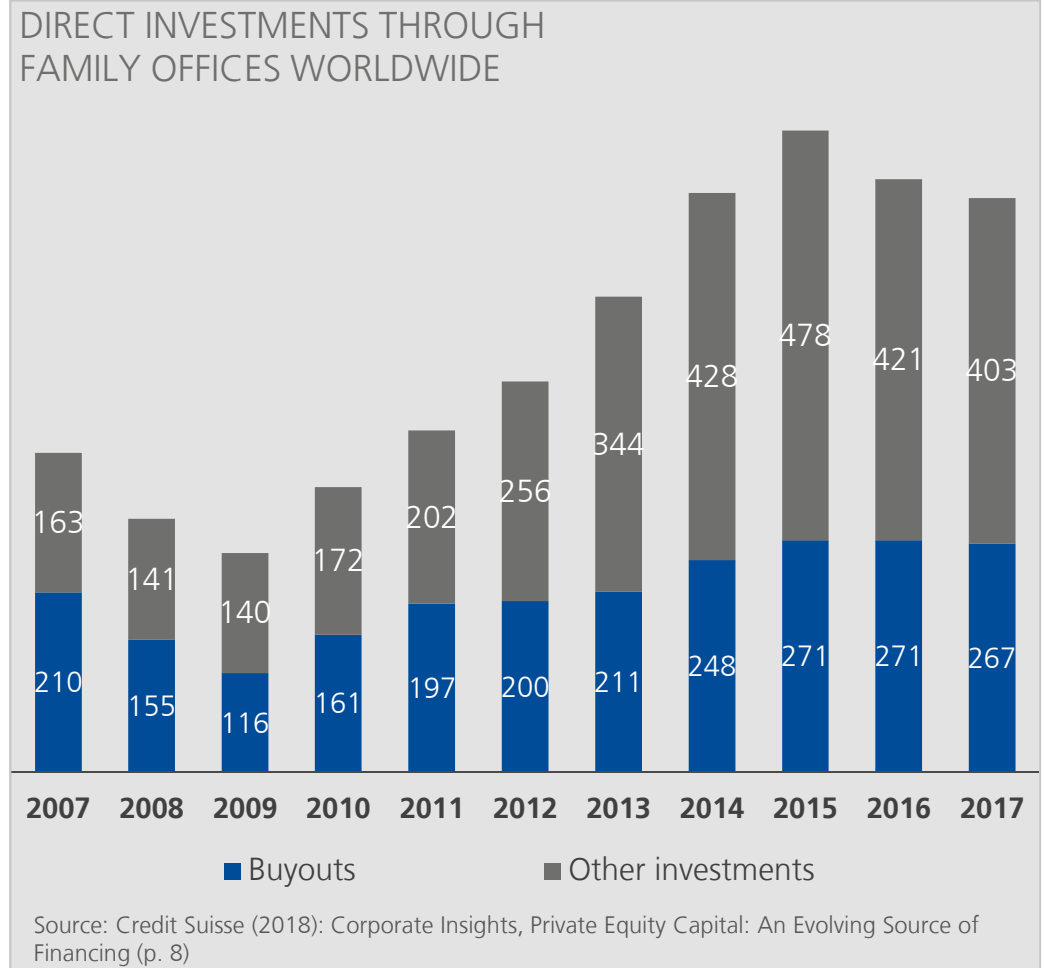
# DIRECT INVESTMENTS AS AN ALTERNATIVE TO PRIVATE EQUITY FUNDS



## Germany: increasing preference for direct investments in German family offices

- > Greater control in selecting investments
- > Greater influence over the development of the investment
- > Greater transparency compared with fund investment
- > Avoiding cyclical investment activity on the part of PE funds (choosing the ideal time to invest)
- > Avoiding conflicts of interest
- > (Supposedly?) better return

Source: "Direktinvestments – eine Alternative zu Private-Equity-Fonds für Family Offices?" – Marvin Schlimpen, Bachelor Thesis, Frankfurt School of Finance & Management, January 2019



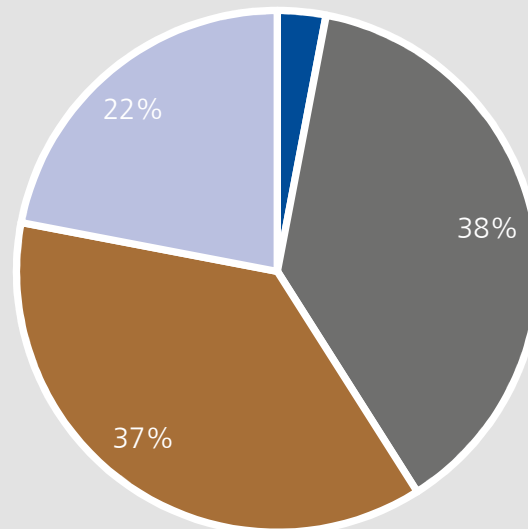
# FAMILY OFFICES IN GERMANY: LONGER HOLDING PERIODS ARE ASSOCIATED WITH LOWER EXPECTED RETURNS



## Comparable investment criteria

- › Focus on companies with a tried-and-tested business model or high-growth companies
- › “Sectors that we know and understand”
- › Cautious attitude to turnaround situations

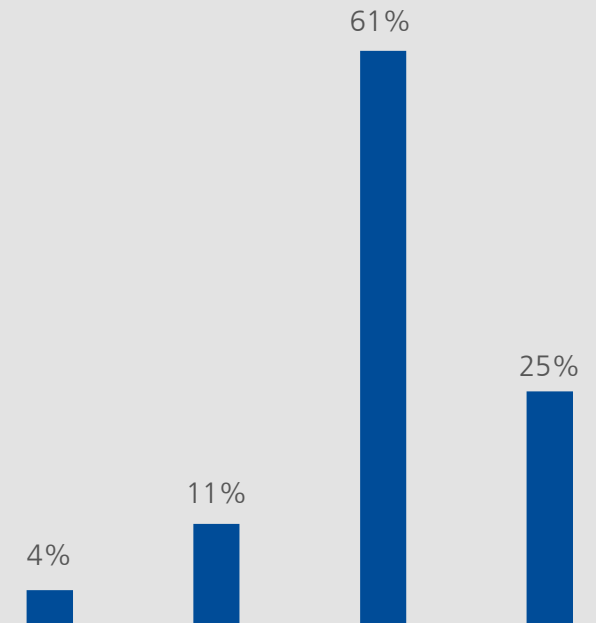
INVESTMENT HORIZON OF GERMAN FAMILY OFFICES (DIRECT INVEST.)



- Short-term (up to 3 years)
- Medium-term (3 to 7 years)
- Long-term (more than 7 years)
- n/a

Source: Bayerisches Finanzzentrum (2015): BFZ Complementa Family Office Studie 2015 (p. 34)

EXPECTED RETURNS (P.A.), SINGLE FAMILY OFFICES



- More than 30%
- Between 20% and 30%
- Between 10% and 20%
- Between 5% and 10%

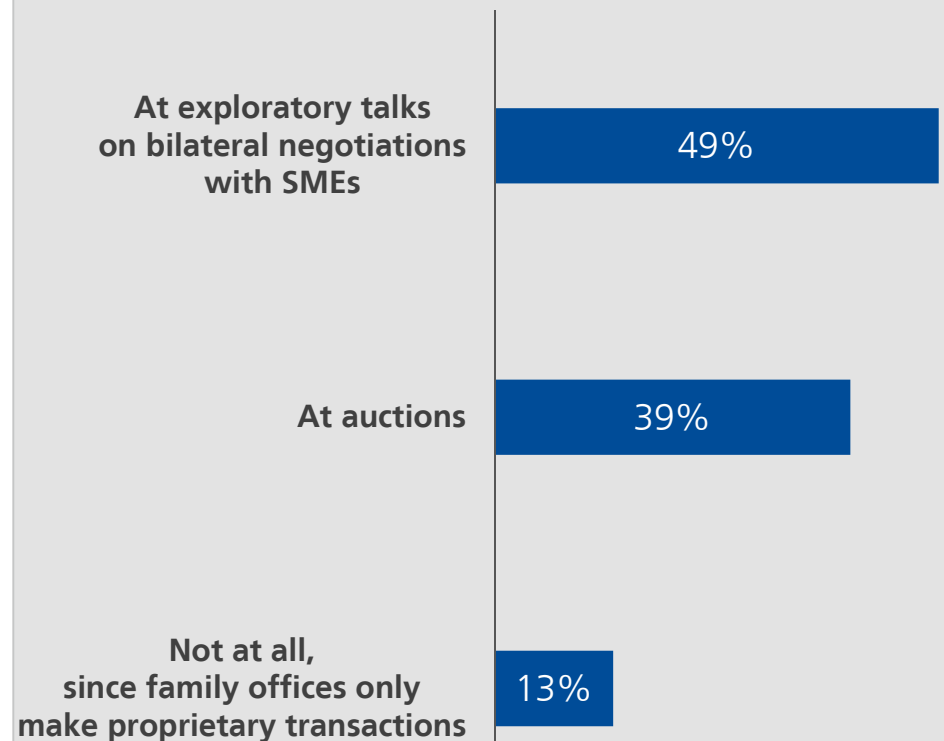
Source: Bayerisches Finanzzentrum (2015): BFZ Complementa Family Office Studie 2015 (p. 35)

## CURRENT ROLE OF FAMILY OFFICES IN COMPETITION FOR ATTRACTIVE COMPANIES

**“Family offices are now making life more difficult for private equity funds than they were 12 to 24 months ago” – four out of five PE managers agree with this statement**

**With the exception of strategic investors – family offices are seen as the main competitors (Dec. 2018: 72 percent, Dec. 2017: 59 percent)**

### WHERE DO PRIVATE EQUITY FIRMS AND FAMILY OFFICES MEET MOST FREQUENTLY?



Source: Survey of top managers from more than 50 private equity firms for the DBAG Midmarket Private Equity Monitor in collaboration with FINANCE, Nov./Dec. 2018

## Family offices...

- › are becoming more visible on the market
- › are adopting structures similar to PE in some cases
- › are accumulating expertise
- › are recruiting staff from PE companies

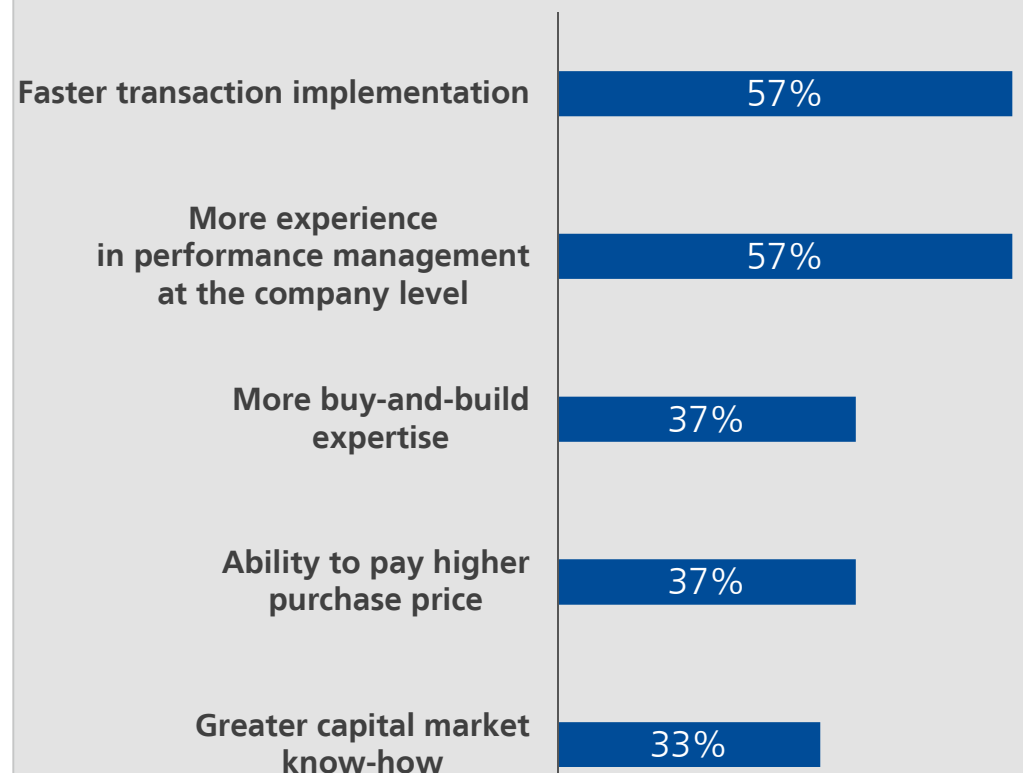
## “Families buy from families”

**Target structure (in some cases): industrial holding company**

## Private equity companies score points with...

- › professionalism shown in transactions (e.g. speed, due diligence)
- › expertise regarding the further development of the companies (e.g. internationalisation and inorganic growth through M&A)

WHERE ARE THE CLASSIC BUYOUT FIRMS THAT FAMILY OFFICES CONSIDER?



Source: Survey of top managers from more than 50 private equity firms for the DBAG Midmarket Private Equity Monitor in collaboration with FINANCE, Nov./Dec. 2018



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COEXISTENCE OR COMPETITION?

## **MANAGEMENT BUYOUTS IN GERMANY**

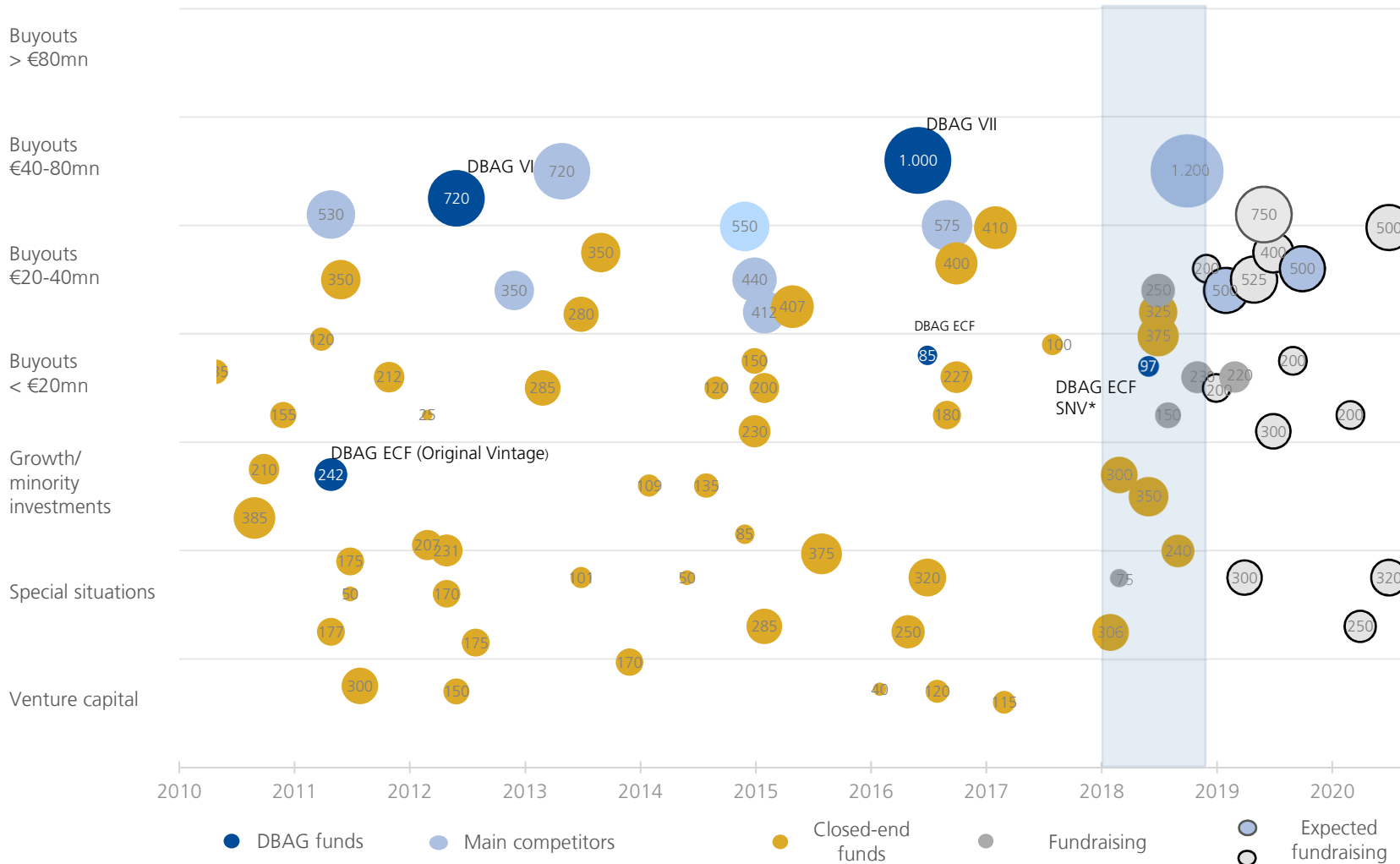
Capital supply and demand

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OUTLOOK

# SUSTAINED GOOD MARKET ENVIRONMENT DRIVING FUNDRAISING AMONG GERMAN PRIVATE EQUITY FIRMS



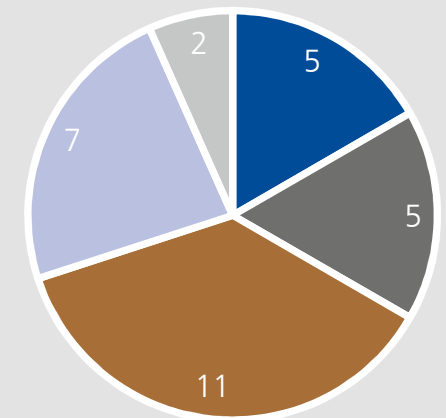
**Germany, Austria and Switzerland specialists with fundraising plans for 2019**

# 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, two disposals
- DBAG Fund VII     ▶ Six MBOs since December 2016
- DBAG Fund ECF    ▶ Six MBOs since June 2017

CAPITAL MULTIPLES  
(30 MBOs SINCE 1997)

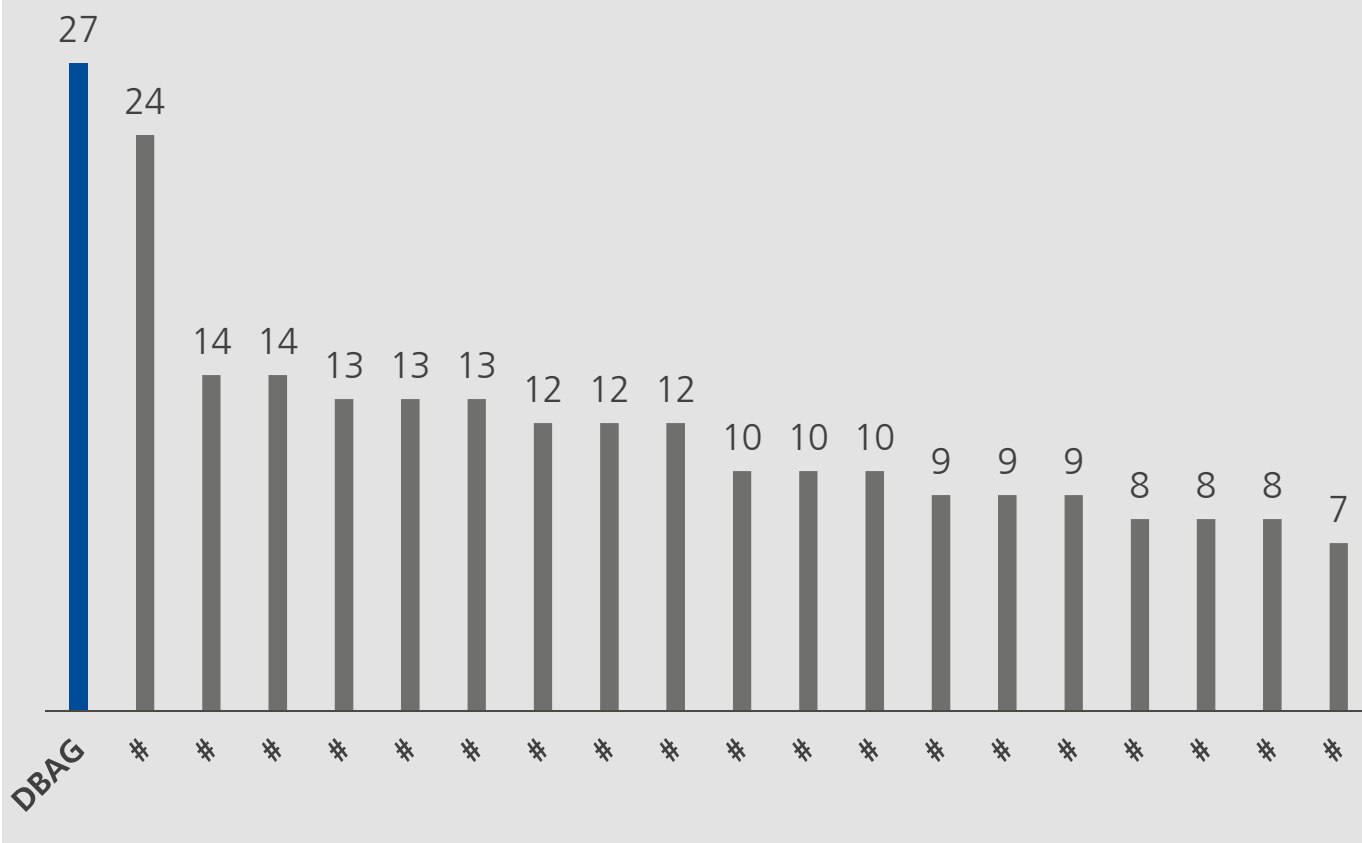


■ < 1      ■ 1- < 2  
■ 2- < 4    ■ 4- < 6  
■ > 6

**Unweighted average: 2.9x as of 31 Dec. 2018**

# INTENSE COMPETITION BETWEEN A LARGE NUMBER OF MARKET PARTICIPANTS

TOP PE INVESTORS FROM GERMAN SMEs 2004-2018  
(Market participants with over seven transactions)

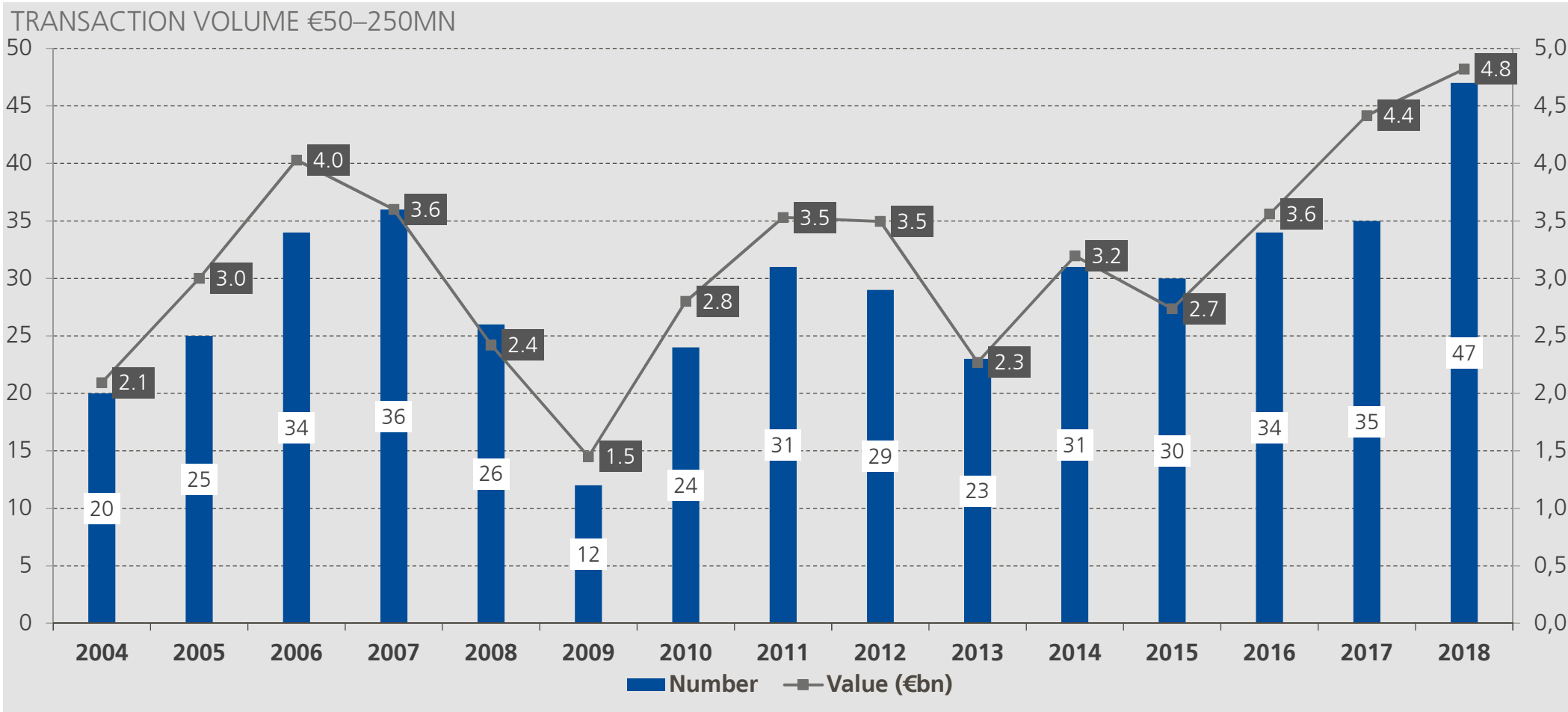


Majority takeovers in the context of MBOs, MBIs, secondary/tertiary buyouts involving a financial investor; transaction volume of €50mn to €250mn. Source: publicly available information, research by FINANCE and DBAG; population: 440 transactions

## 437 MBOs in the mid-range market segment between 2004-2018 (15 years)

- › The top 20 investors account for 55 percent of all MBOs
- › Financial investors focusing on Germany, Austria and Switzerland account for a long-term share of between 40 and 60 percent
- › Countless new financial investors emerged for the first time in 2018
- › Quote: “ten new GPs in Germany since Jan. 2017”
- › Multinational funds are driving competition, although some of them only have intermittent activities in the Germany, Austria and Switzerland region

# CAPITAL DEMAND FOR MBOs IN GERMAN SME SECTOR REACHES NEW RECORD LEVEL IN 2018



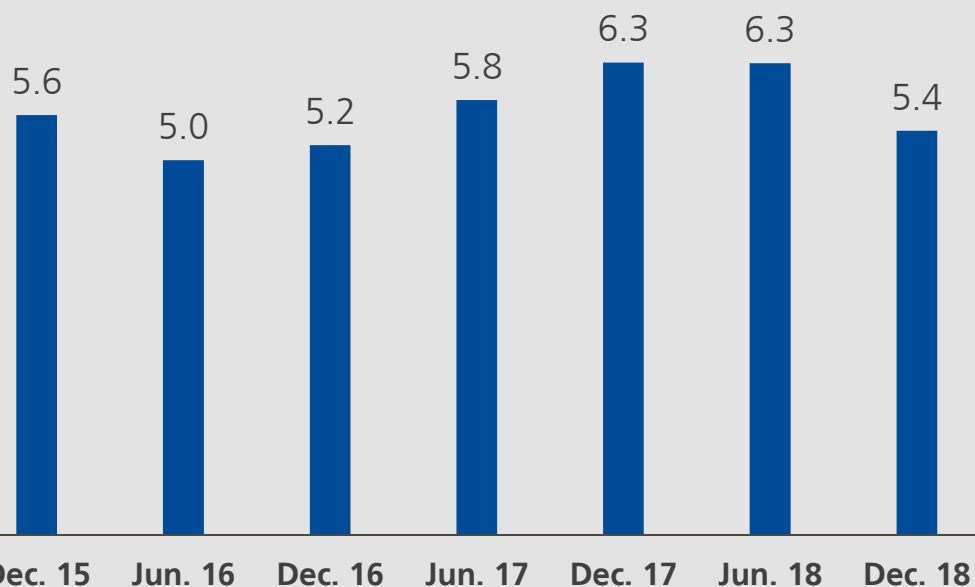
Majority takeovers in the context of MBOs, MBIs, secondary/tertiary buyouts involving a financial investor; transaction volume of €50mn to €250mn.

Source: publicly available information, research by FINANCE and DBAG

# TRANSACTION OPPORTUNITIES ON OFFER DOWN SLIGHTLY



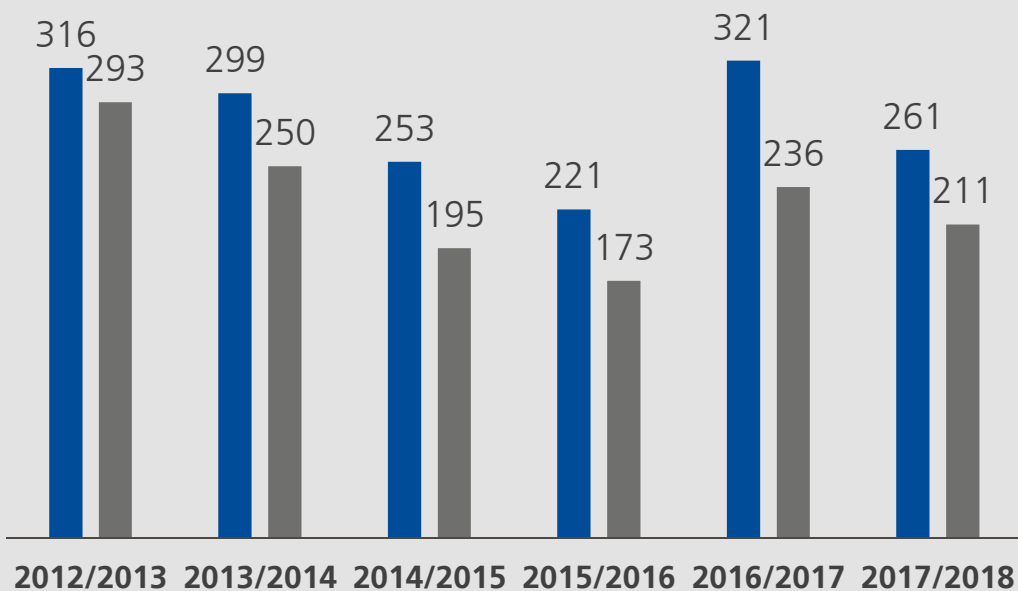
Survey among 50 PE companies with an office in Germany:  
 "HOW DO YOU EVALUATE THE CURRENT DEAL FLOW COMPARED WITH THE LONG-TERM AVERAGE?"



■ 1 = significantly worse, 5 = identical, 10 = significantly better

Source: Survey of top managers from more than 50 private equity firms for the DBAG Midmarket Private Equity Monitor in collaboration with FINANCE, Nov./Dec. 2018

DBAG deal flow with better quality:  
 HIGHER SHARE OF PURSUED OPPORTUNITIES



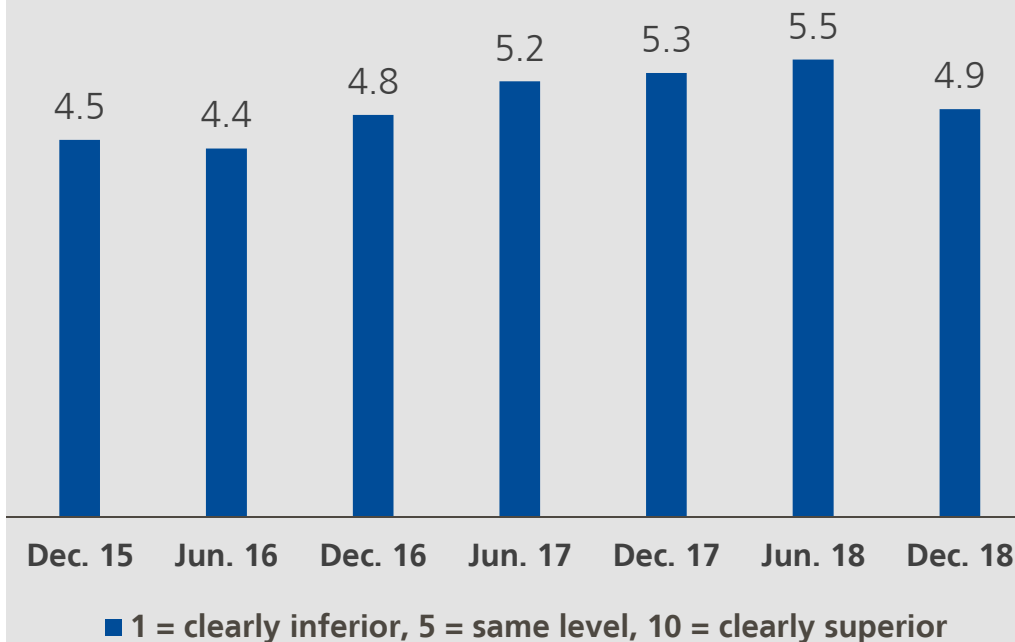
■ Transaction opportunities ■ Thereof followed up

Transaction opportunities in financial year 2017/2018, see DBAG Annual Report 2017/2018, p. 75

# COMPETITIVENESS OF PRIVATE EQUITY

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 private equity firms for the DBAG Midmarket Private Equity Monitor in collaboration with FINANCE, Nov./Dec. 2018

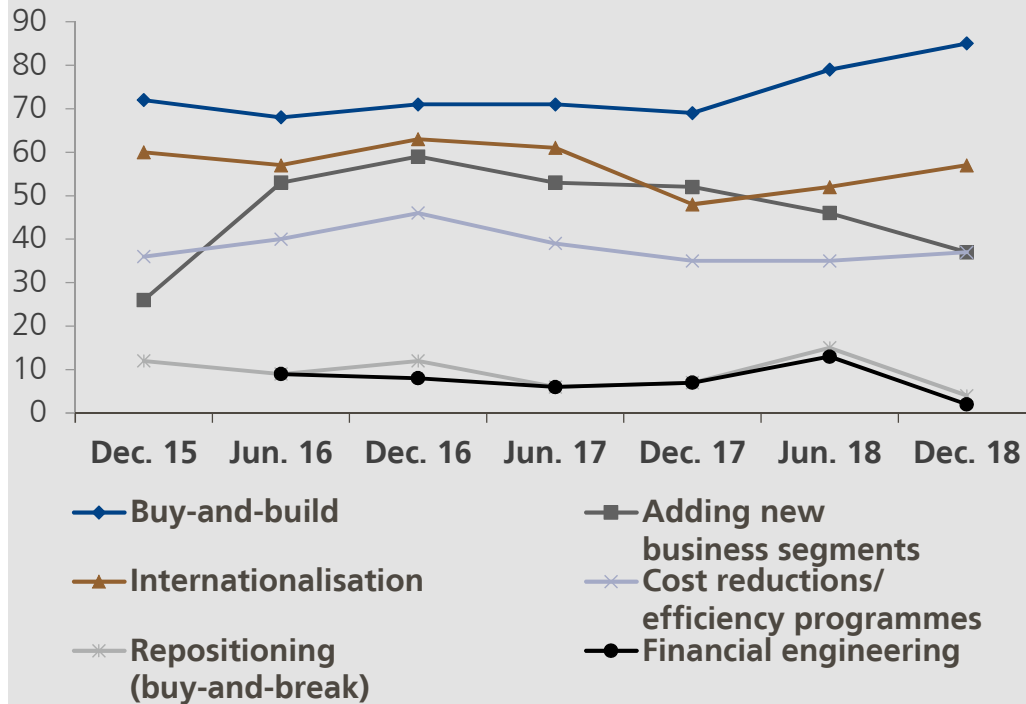
## Competition among financial investors remains intense

- › On a scale of 1 (“very low”) to 10 (“very high”), PE managers scored the competition among each other at 8.4 at the end of 2018
- › Slight increase in the number of PE managers saying that they were looking to recruit more investment managers
  - More than half of the PE firms surveyed said that they expected a “slight” or “considerable” increase in the number of investment managers working in-house
  - Almost nobody expects the number to drop (Dec. 2015: 10 percent)

# INCREASE IN VALUE ONLY THROUGH SIGNIFICANT CHANGE AT PORTFOLIO COMPANIES

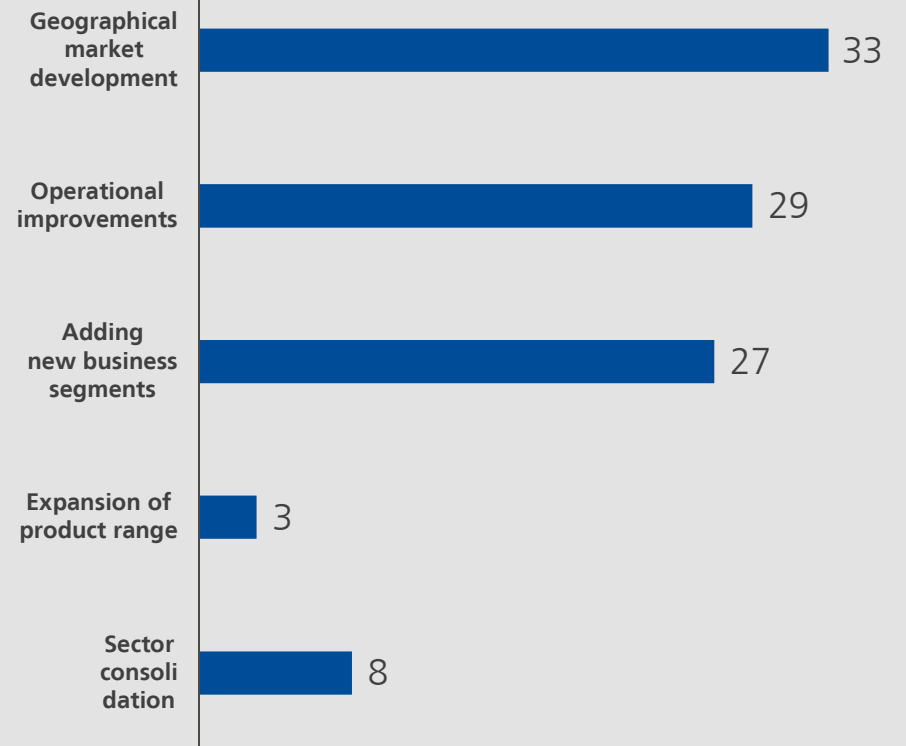


Survey among 50 PE companies with an office in Germany:  
 "WHAT ARE THE MOST PROMISING VALUE-ENHANCING METHODS AT THE MOMENT?"



Source: Survey of top managers from more than 50 private equity firms for the DBAG Midmarket Private Equity Monitor in collaboration with FINANCE, Nov./Dec. 2018

VALUE APPRECIATION METHODS BY VALUE OF DBAG PORTFOLIO (IN %)



Breakdown of DBAG's portfolio value as of 30 September 2018 according to (predominantly) underlying value enhancement strategy, cf. DBAG Annual Report 2017/2018, p. 17



## DBAG PORTFOLIO: INORGANIC GROWTH IS AN IMPORTANT ELEMENT OF MANY INVESTMENT CASES

### Investments in company acquisitions

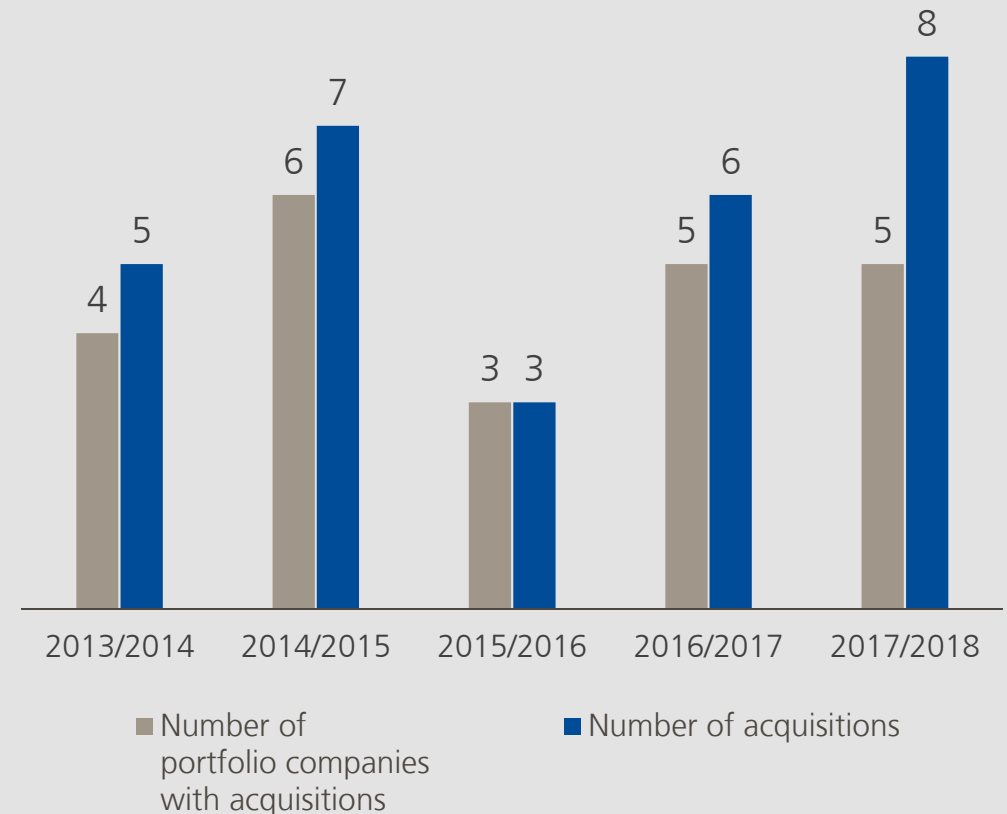
- › Sector consolidation
- › Expansion of product range
- › Tapping into new geographical markets

### 2017/2018: five portfolio companies execute eight company acquisitions, two further acquisitions agreed upon

- › DBAG and DBAG funds make additional equity available in three cases

### Two companies merge with other companies

### COMPANY ACQUISITIONS IN THE PORTFOLIO



Company acquisitions through investments in the DBAG portfolio in financial year 2017/2018

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Capital supply and demand

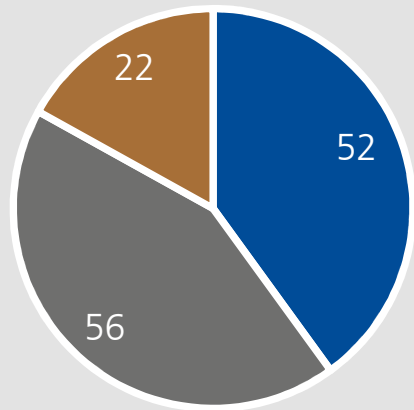
Price development

Market structure in 2018

OUTLOOK

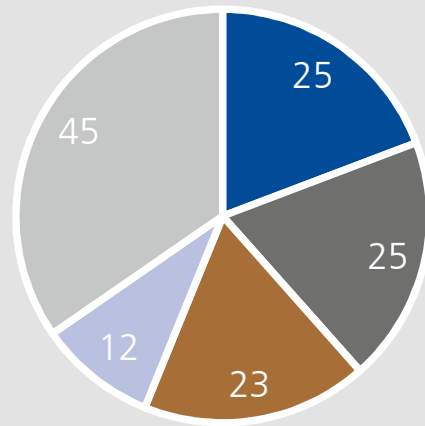
# EVALUATION OF DBAG OFFERS – DATA POOL: 130 OFFERS FROM 2013 TO 2018

## SELLER



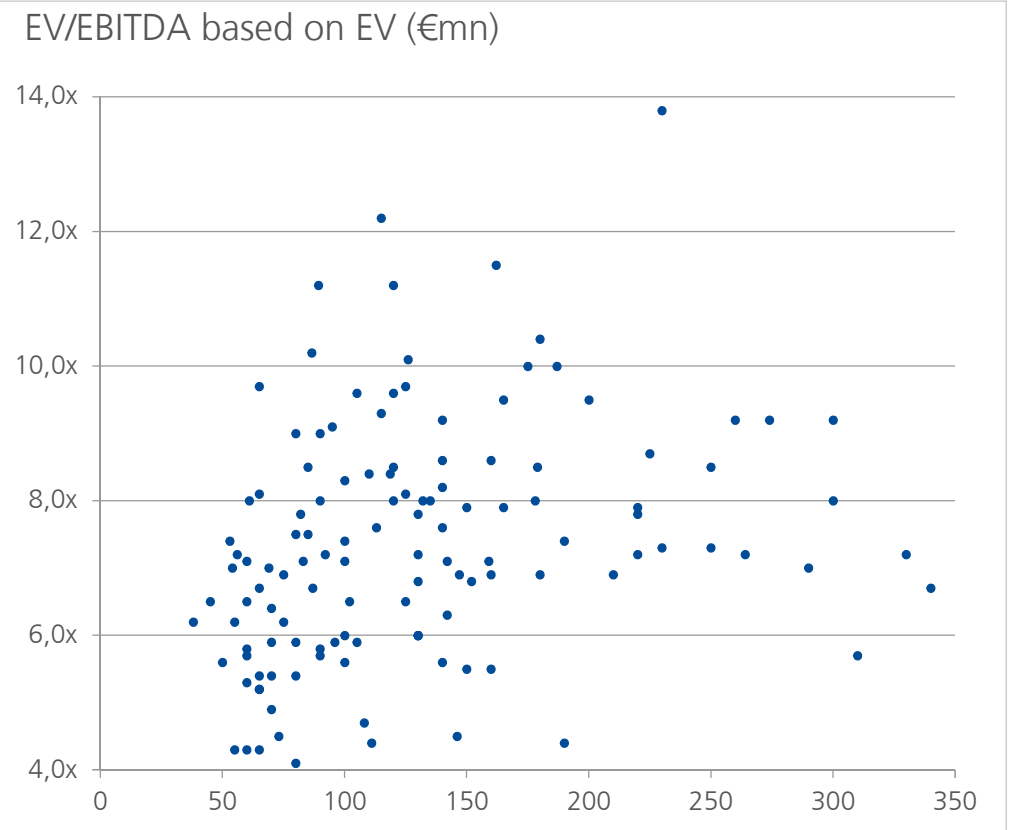
- Family
- Financial investor
- Group

## SECTOR



- Mechanical and plant engineering
- Automotive suppliers
- Industrial components
- Industrial services
- Other

## Business model impacts valuation level



Source: DBAG

# DBAG OFFERS WITH LOWER PRICES THAN IN THE PREVIOUS YEAR

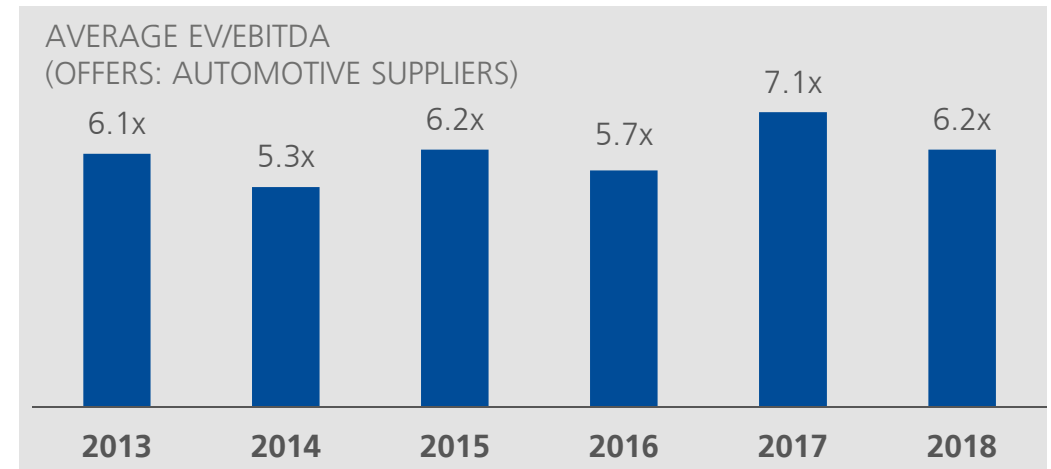
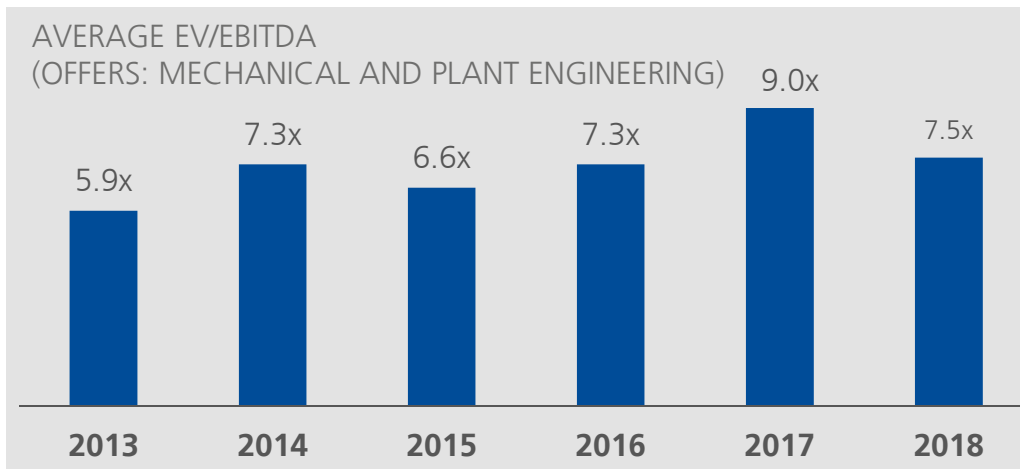
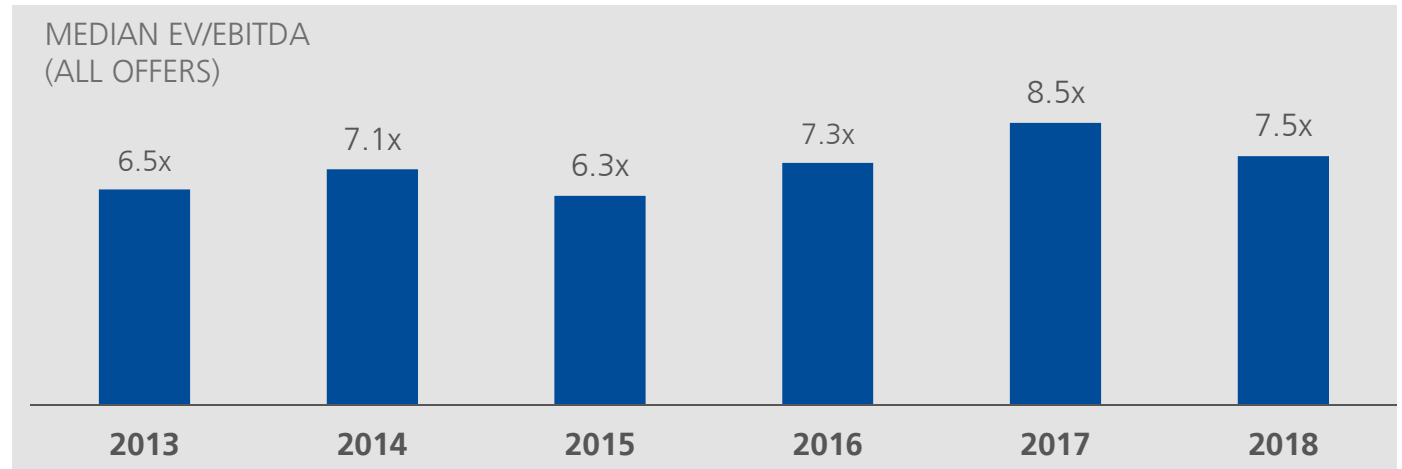


## 130 offers in six years

### Different valuation level depending on the business model

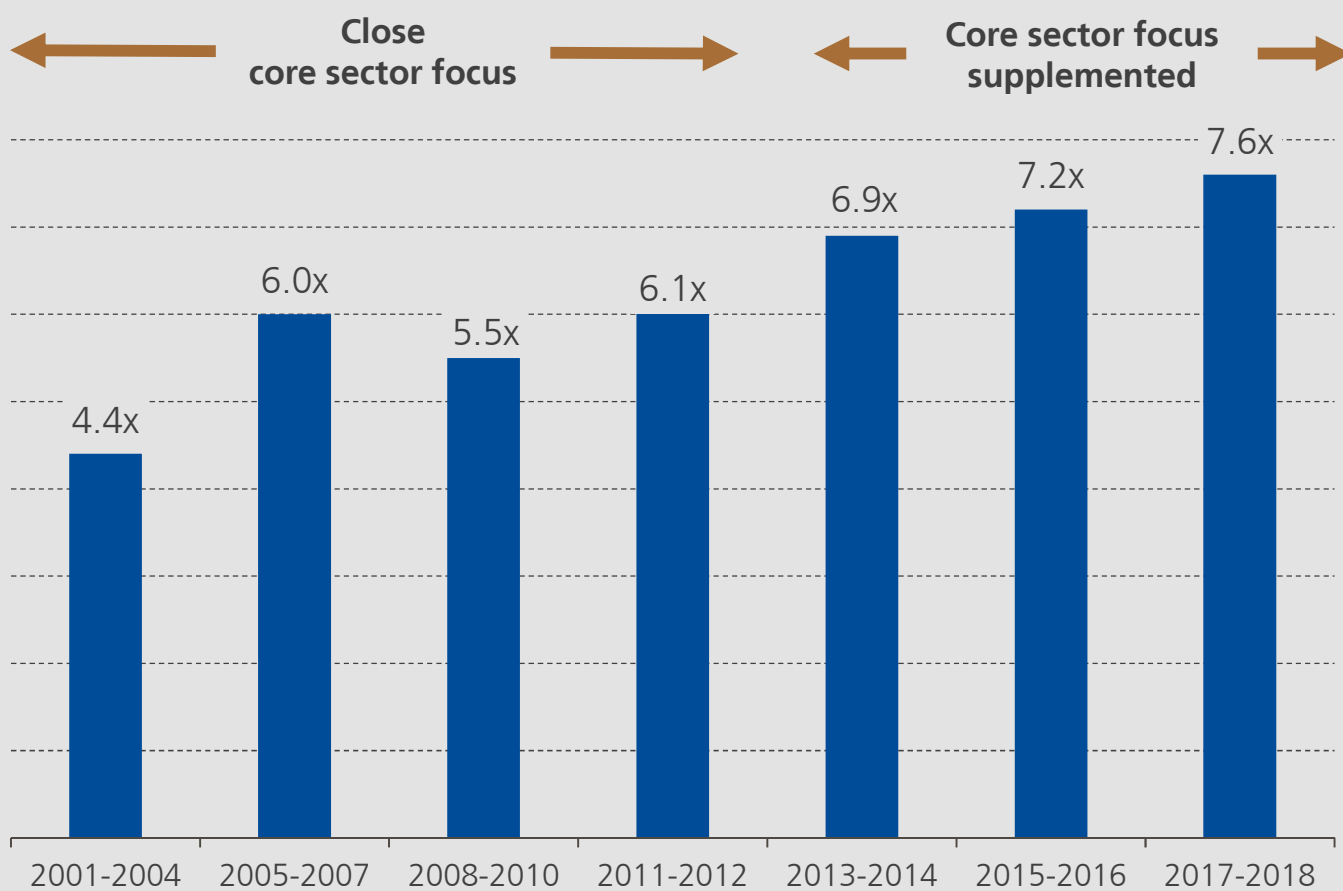
- › Range (2018) from 4.1x to 11.2x

### 2018: lower valuations



# MODERATE INCREASE IN THE ENTRY VALUATIONS OF DBAG MBOs since 2001

## AVERAGE EV/EBITDA



Data pool: 42 buyouts from 2001 until 2018 (DBAG Fund IV, V, VI, VII and DBAG ECF)

### Limited comparability

- > Different business models
- > Different sectors
- > Different company sizes

### Broad range of entry valuations

- > 2017-2018 (12 MBOs): 4.0x to 13.6x
- > 2015-2016 (6 MBOs): 4.5x to 10.1x

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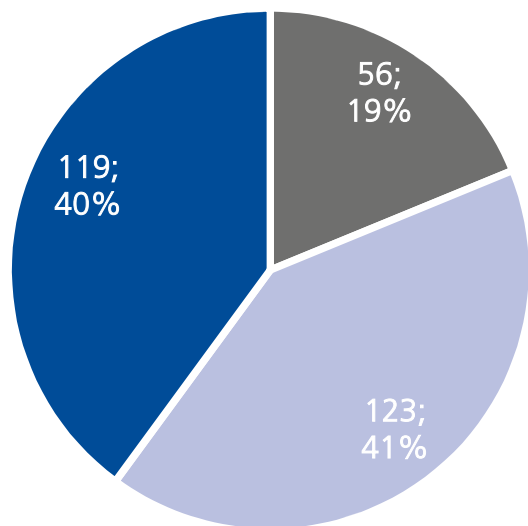
**Market structure in 2018**

OUTLOOK

# 2018: SIGNIFICANT MARKET GROWTH – TREND TOWARD FAMILY SUCCESSION CONFIRMED, MAINLY DIRECTLY BY THE FOUNDER

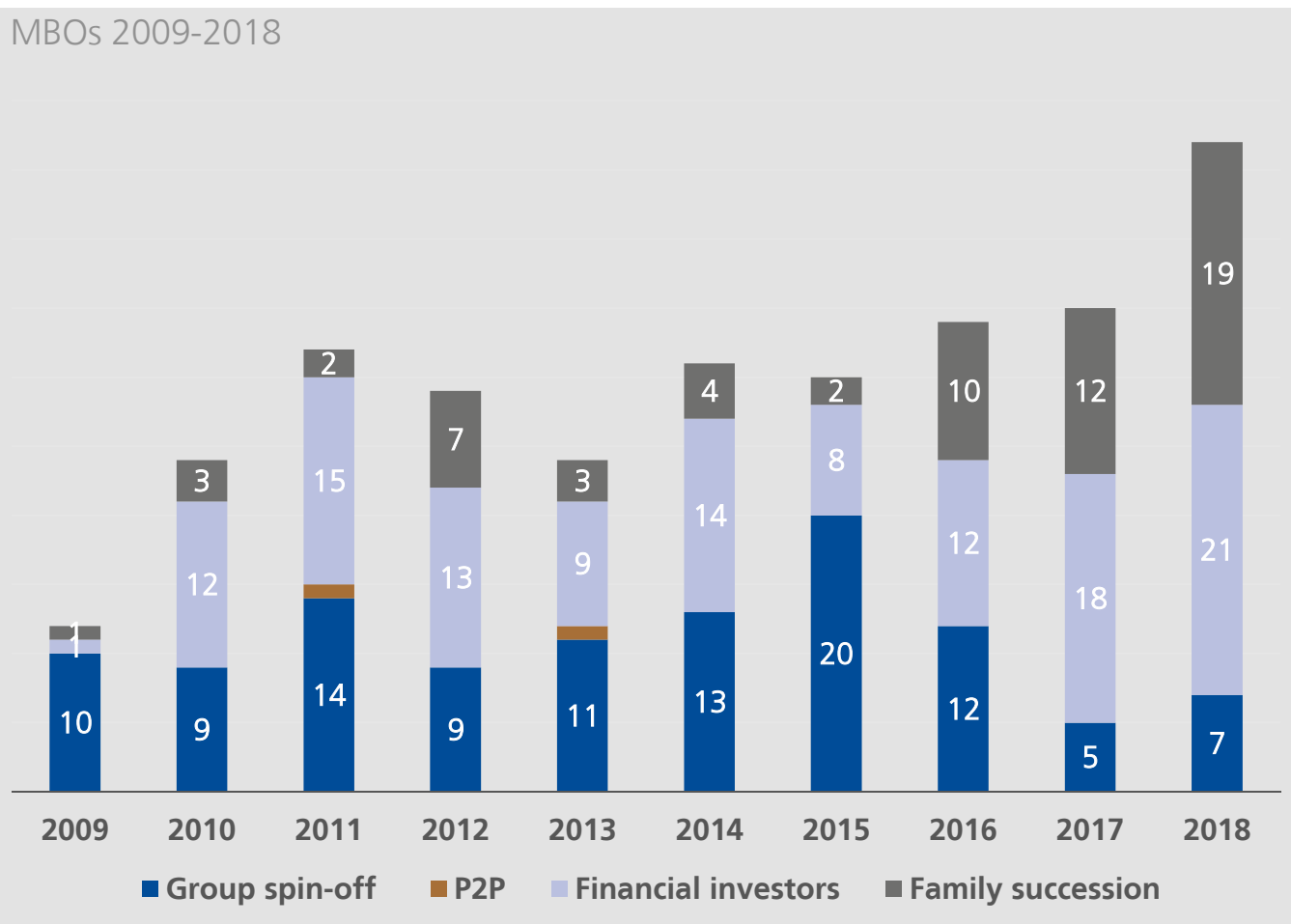


MBOs 2009-2018 (cumulative)



- Family succession
- Financial investors
- Group spin-off

MBOs 2009-2018



296 MBOs in German mid-market sector in 2009-2018 (see p. 13): majority takeovers in the context of MBOs, MBIs, secondary/tertiary buyouts involving a financial investor; transaction volume of €50mn to €250mn; source: publicly available information, research by FINANCE and DBAG

## NEW GENERATION OF “FAMILY ENTREPRENEURS”

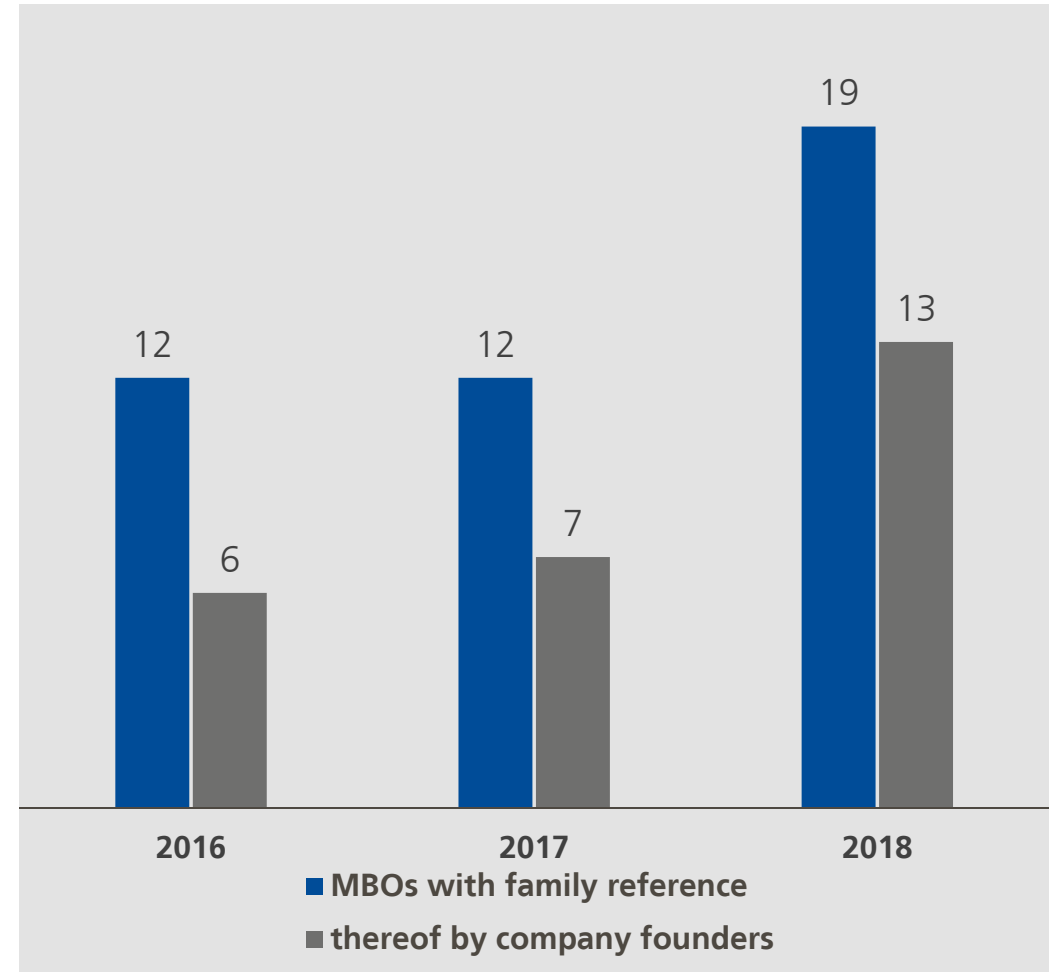
### A significant number of MBOs with family reference only since 2016

- › 2016-2018: 43 transactions (Ø 14 p.a.)
- › 2009-2015: 22 transactions (Ø 3 p.a.)

### More frequent disposals already in the first generation by the founder

### Every third founder MBO from the following sectors

- › Software
- › Electronics
- › Financial services
- › Healthcare

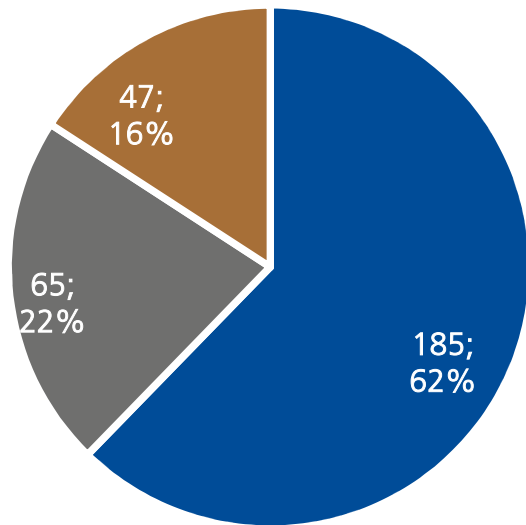




# 2018: AVERAGE TRANSACTION VOLUME DECREASES, HIGHER PROPORTION OF SMALLER TRANSACTIONS

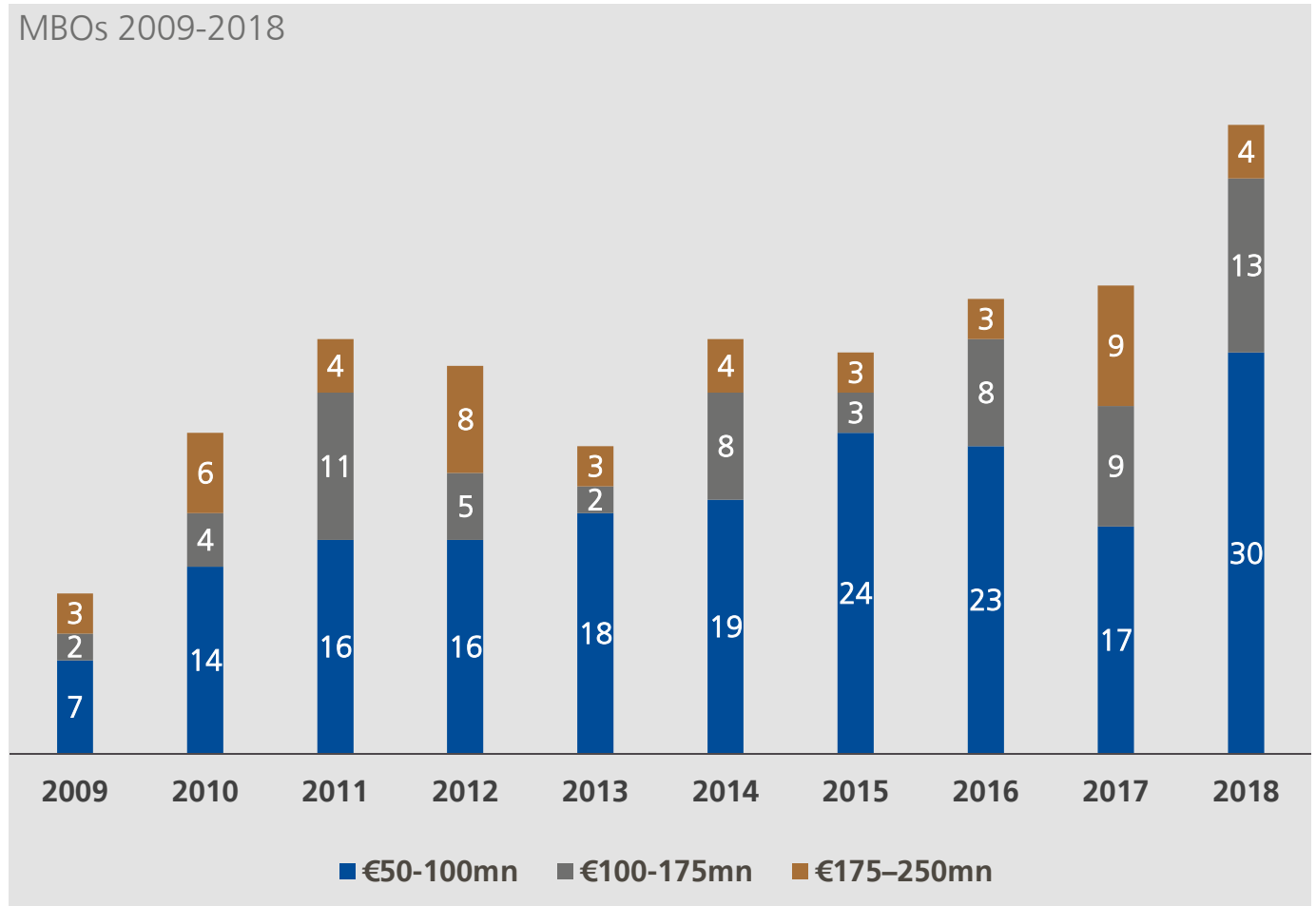


MBOs 2009-2018 (cumulative)



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

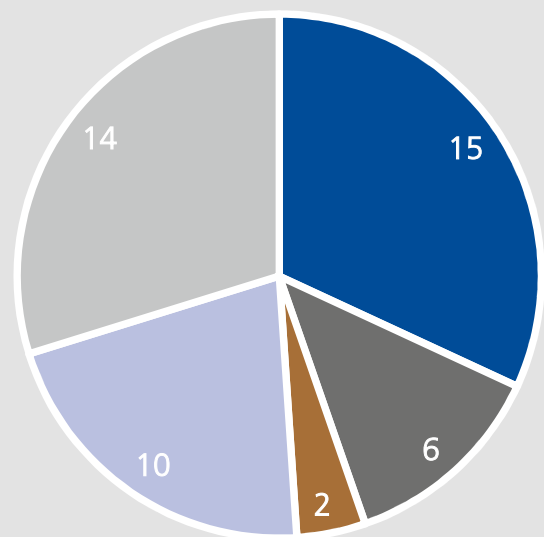
MBOs 2009-2018



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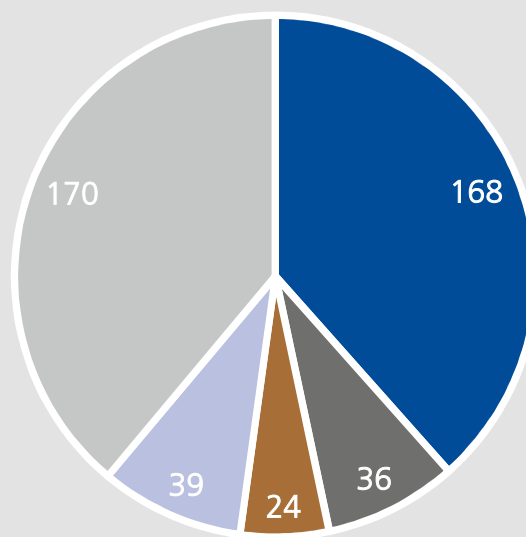
# BREAKDOWN BY SECTOR: PRIVATE EQUITY TURNING TO NEW SECTORS

MBOs IN 2018



- Industry
- Healthcare
- Trade
- Electronics and software
- Other

MBOs 2004-2018



- Industry
- Healthcare
- Trade
- Electronics and software
- Other

## 2018: electronics and software account for one in five transactions

- › Share has more than doubled as against long-term average (9 percent)

## Conventional industry playing less of a role for private equity

- › Share of automotive suppliers, mechanical and plant engineering, chemicals and (industrial) services down from long-term average of 38 percent to 32 percent

437 MBOs in German mid-market sector in 2004-2018 (see p. 13): majority takeovers in the context of MBOs, MBIs, secondary/tertiary buyouts involving a financial investor; transaction volume of €50mn to €250mn; source: publicly available information, research by FINANCE and DBAG

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▶ **OUTLOOK**

## AVAILABILITY OF CAPITAL

- ▶ Private equity remains very attractive for institutional investors
- Fundraising activity remains high

## MARKET CULTIVATION

- ▶ Capital market and macroeconomic development influence price development and transaction volume

## PORTFOLIO DEVELOPMENT

- ▶ General conditions are becoming more difficult in some sectors
- ▶ Digitisation can have a disruptive effect

## GENERAL CONDITIONS 2019

- › Macroeconomic slowdown with partly structural causes
- › US/China customs dispute, Brexit and other protectionist efforts affect capital market sentiment and hit cyclical values over-proportionally