



TRENDS IN THE GERMAN BUYOUT MARKET

PRESS CONFERENCE 2021

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TRENDS IN THE GERMAN BUYOUT MARKET

WHERE WILL THE MONEY COME FROM WHEN STATE AID
COMES TO AN END? PRIVATE EQUITY: TIME TO INVEST
AGAIN

MANAGEMENT BUYOUTS IN GERMANY
Capital supply and demand
Price developments
Market structure 2020

OUTLOOK

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OUTLOOK

“Banks have become more restrictive in lending to small and medium-sized enterprises.” (KfW, October 2020)

Banks are busy with their loan portfolios, as well as with KfW and other promotional loans

State measures ...

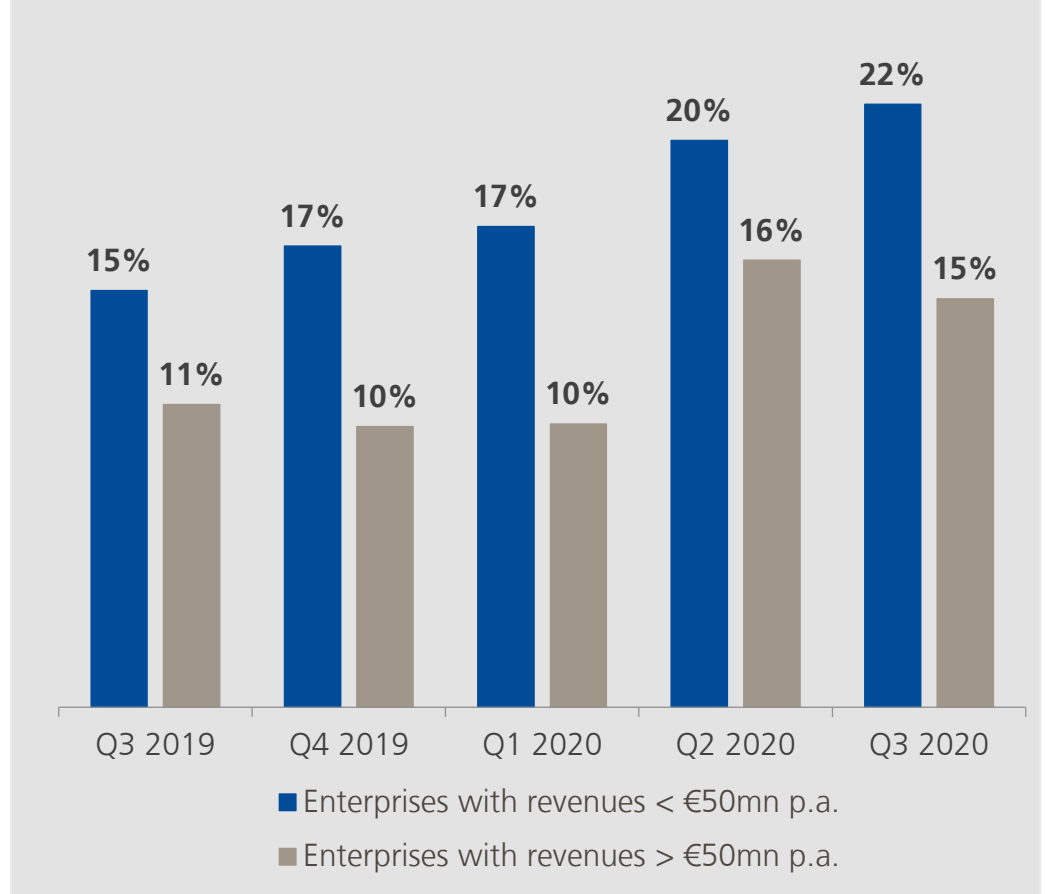
- › short-time work (Kurzarbeit)
- › emergency aid and KfW loans
- › suspension of the obligation to file for insolvency

... mask the true level of tension

Private debt funds strengthen market position vis-à-vis ...

- › banks in acquisition finance,
- › private equity – through transactions without a financial sponsor

SHARE OF ENTERPRISES PERCEIVING BANK BEHAVIOUR AS “RESTRICTIVE”



Source: KfW-ifo Credit Constraint Indicator, October 2020

EQUITY RATIOS FOR MID-MARKET COMPANIES – HAS THE UPWARD TREND COME TO AN END?

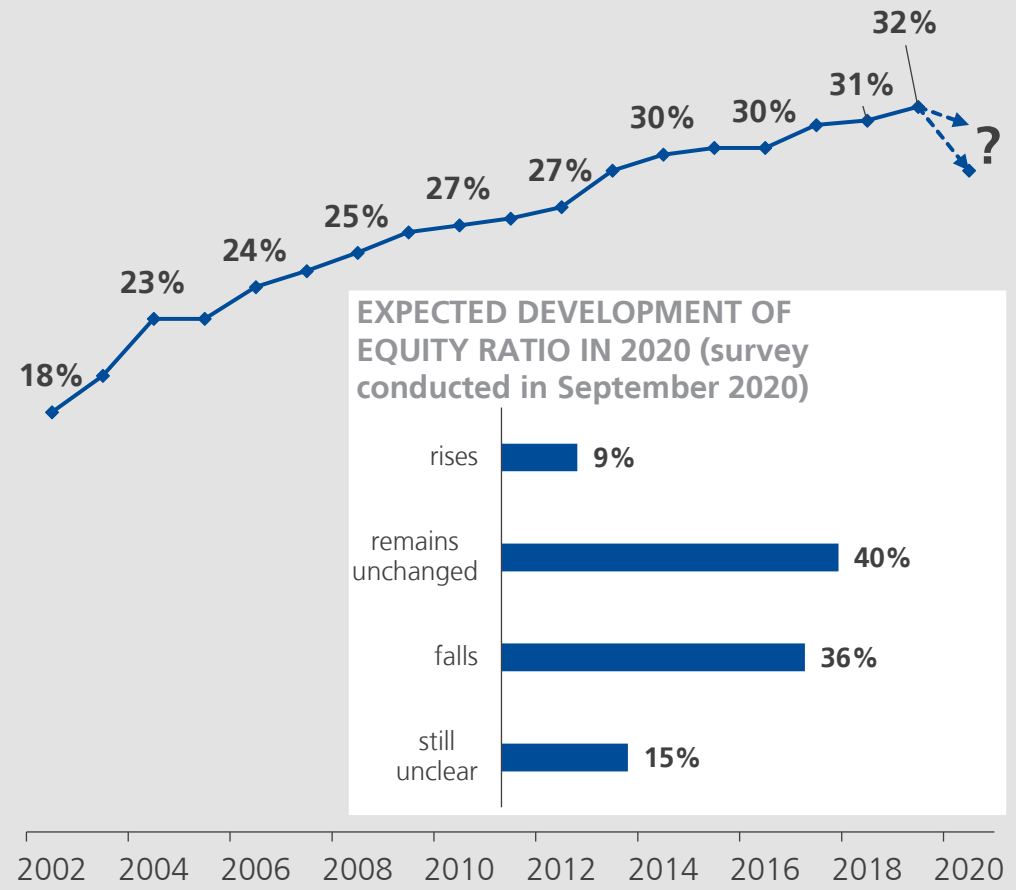


Financing trends in the mid-market sector

2000-2009: Capital market-based mezzanine instruments used as equity substitute

2010-2019: Abundance of debt capital and low interest rates (“SME bonds”)

EQUITY RATIO OF SMES (AVERAGE)



Source: KfW SME Panel, October 2020.

EXPECTATIONS FOR THE 2020S ... NEW OPPORTUNITIES FOR PRIVATE EQUITY

Financing trends in the mid-market sector

2020s **Restoring the capacity to act
following the pandemic
via external equity injections**



**Importance of capital market increases
for German SMEs**

DBAG has a strong track record in investing in family-owned businesses (2016-2020: 29 MBOs, 24 of them from founder/family ownership)

Management buyouts alongside DBAG Fund VIII

- › Equity investment between €40mn and €220mn
- › Investments in the Germany, Austria and Switzerland (DACH) region and in Northern Italy

Long-Term Investments

- › Minimum seven-year holding period
- › Minority interests in family-owned businesses

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ONGOING FAVOURABLE MARKET ENVIRONMENT FOR FUNDRAISING BY GERMAN PRIVATE EQUITY COMPANIES

Impressions 2020:

More new funds than 2019, especially VC-related

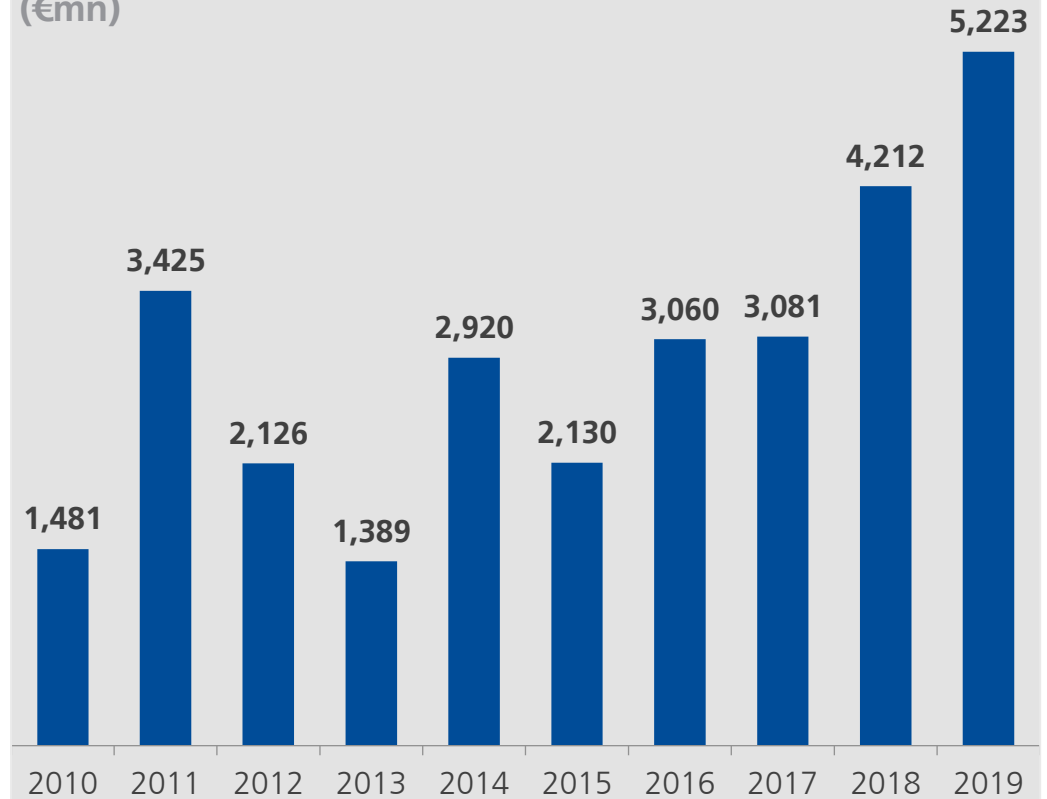
SMEs: less funds, higher volumes

- › Castik Capital (EPIC II) €1.25bn
- › DBAG Fund VIII €1.109bn
- › DPE Fonds IV €1bn



Competition for attractive investment opportunities remains elevated

FUND-RAISING OF GERMAN PRIVATE EQUITY COMPANIES (€mn)



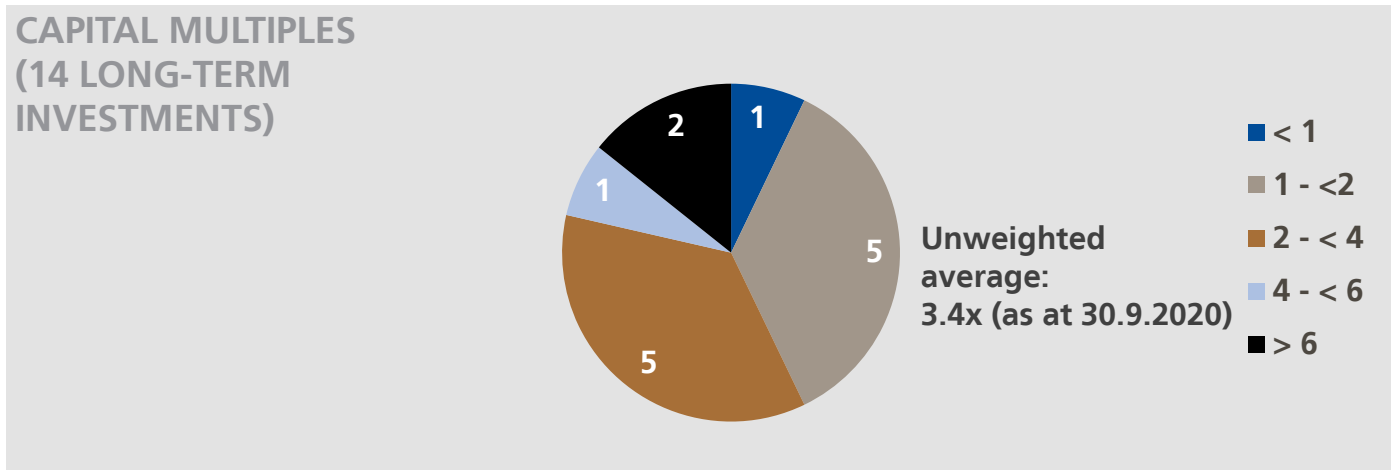
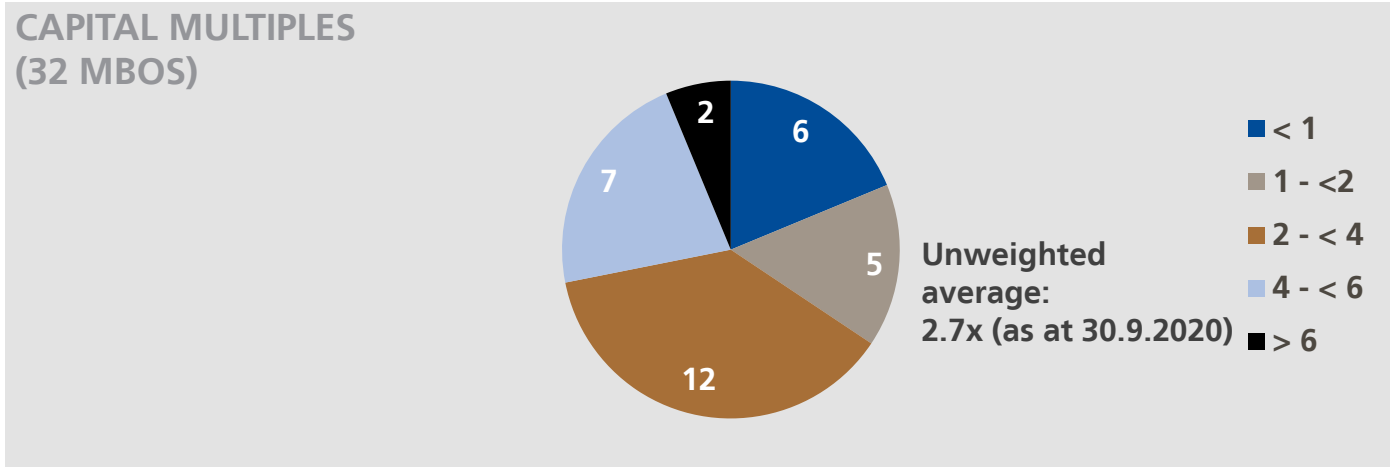
Source: 2019 statistics compiled by the German Private Equity and Venture Capital

INVESTMENT PERFORMANCE AND CAPITAL ALLOCATION AS CRITERIA IN THE COMPETITION FOR CAPITAL



59
MANAGEMENT BUYOUTS SINCE 1997

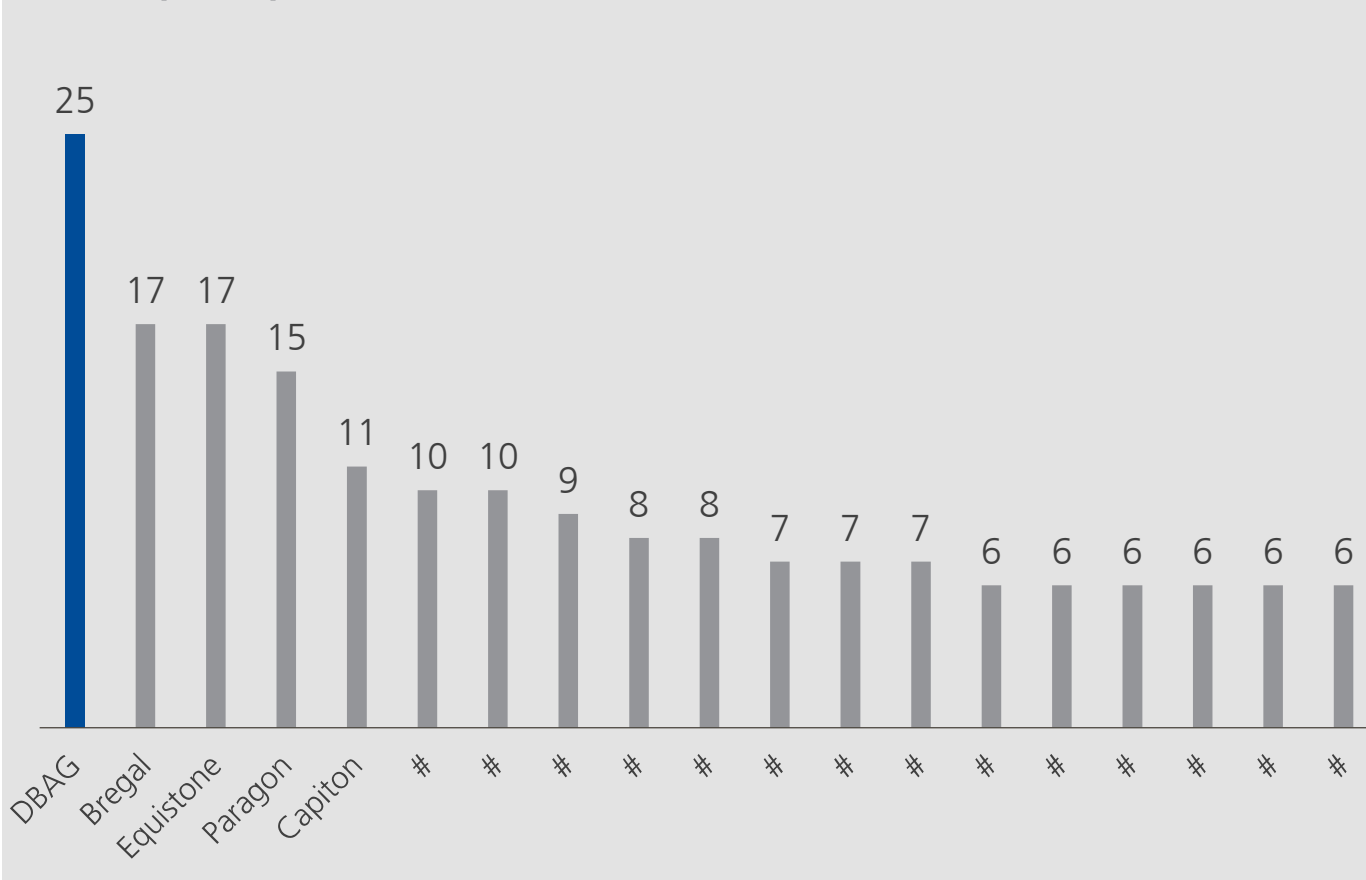
27
LONG-TERM INVESTMENTS SINCE 1995



INTENSE COMPETITION AMONG MANY MARKET PARTICIPANTS, ALSO DRIVEN BY HIGH AMOUNTS OF DRY POWDER



TOP PE INVESTORS FROM GERMAN SMEs 2011–2020
(Market participants with more than five transactions)

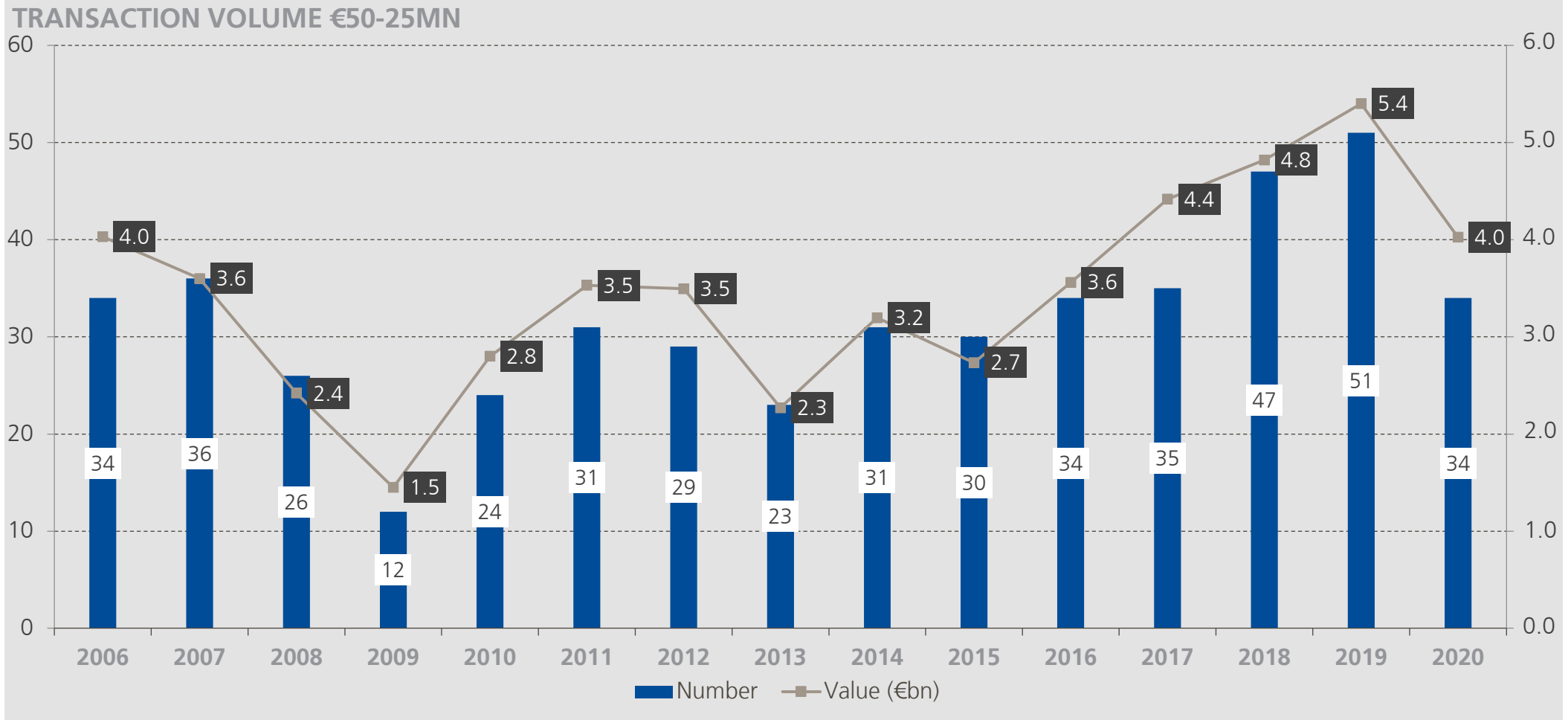


Majority takeovers in the context of MBOs, MBIs, secondary/tertiary buyouts involving a financial investor; transaction volume €50mn to €250mn; source: publicly available information, research by FINANCE and DBAG.

345 MBOs in the mid-market sector between 2011 and 2020

- › The top 10 investors account for 38 per cent of all MBOs, and the top 20 account for 57 per cent
- › The long-term share of financial investors focused on the DACH region is between 40 and 60 per cent
- › Multinational funds drive competition, but in some cases only selective activities in the DACH region

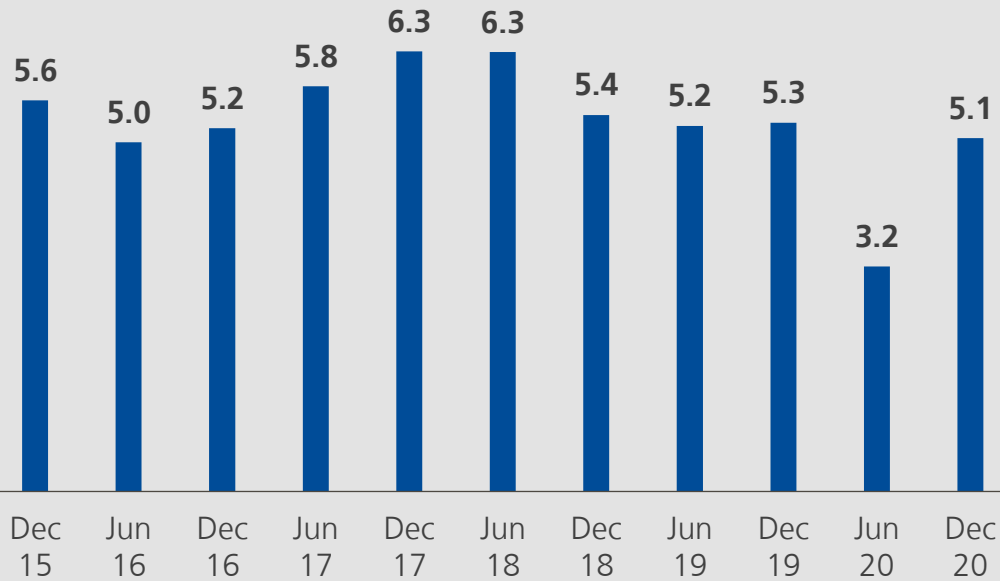
CAPITAL DEMAND FOR MBOs IN GERMAN MID-SIZED COMPANIES AT A HIGH LEVEL – DESPITE PANDEMIC



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

PANDEMIC APPARENTLY ONLY IMPACTS MBO ACTIVITY IN THE SHORT TERM

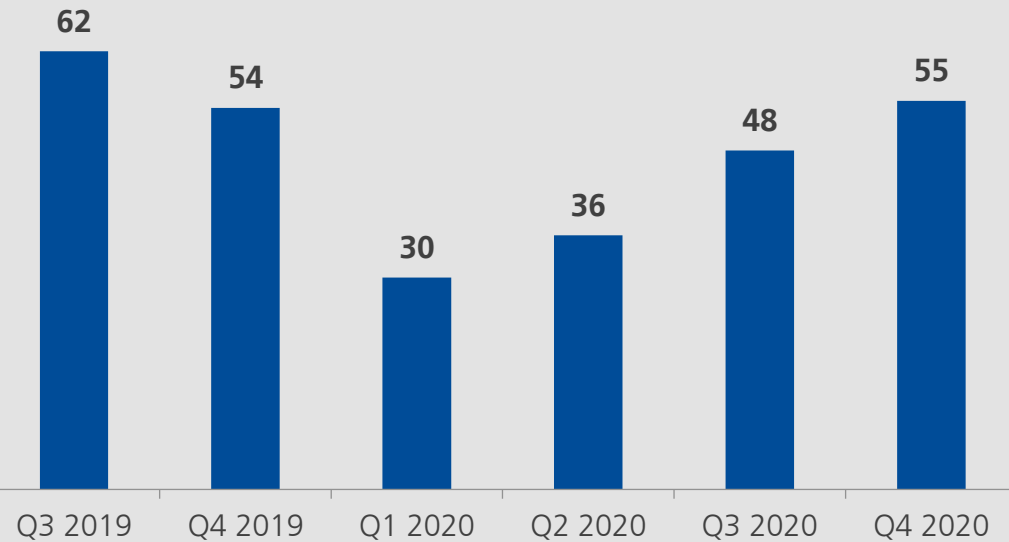
Survey of PE houses maintaining an office in Germany:
 “HOW DO YOU RATE THE CURRENT DEAL FLOW, COMPARED TO THE LONG-TERM AVERAGE?”



■ 1 = markedly weaker; 5 = unchanged; 10 = markedly better

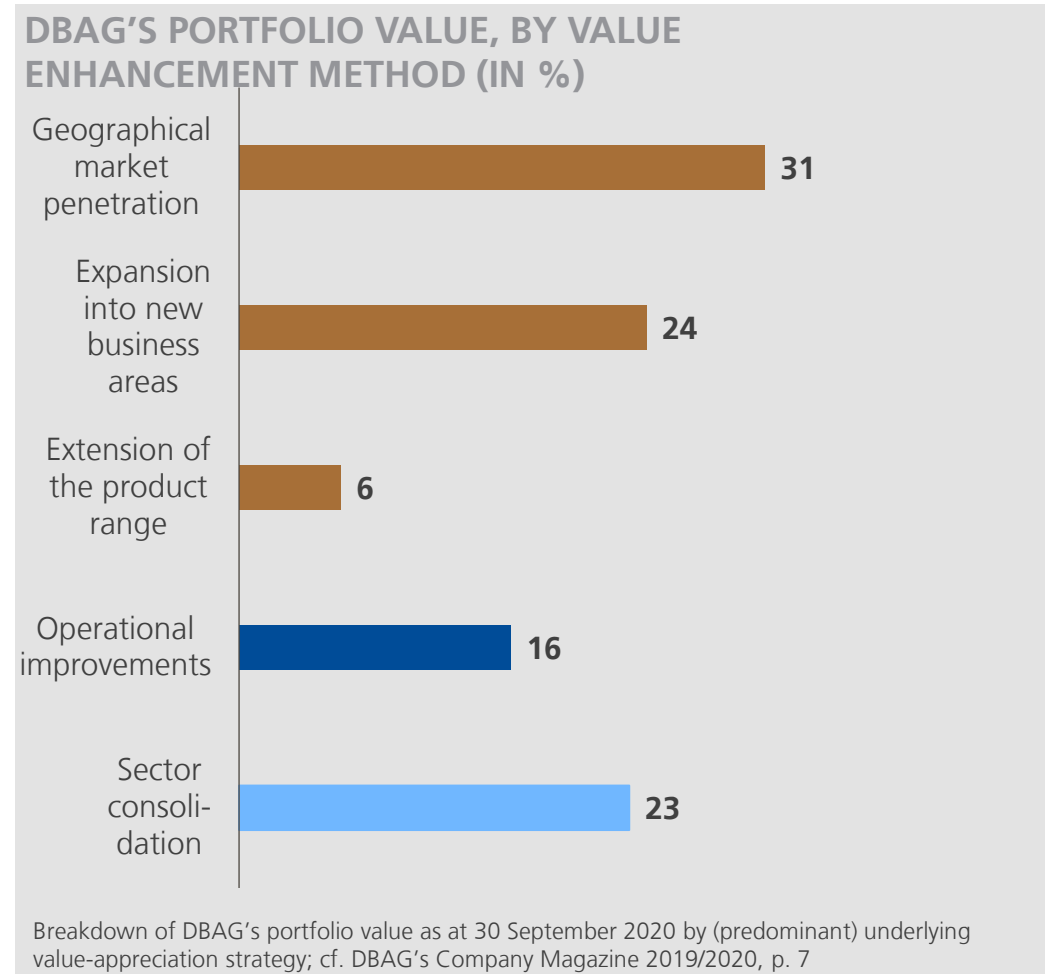
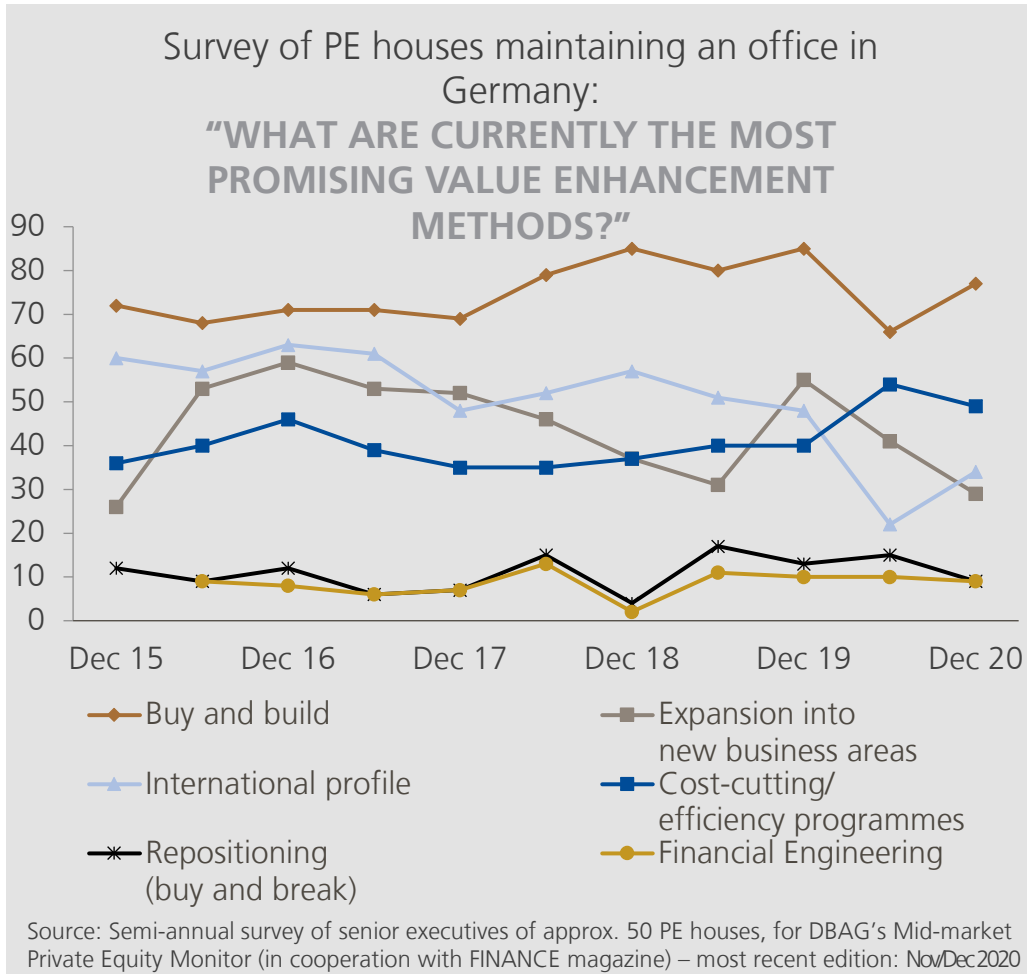
Source: Semi-annual survey of senior executives of approx. 50 PE houses, for DBAG’s Mid-market Private Equity Monitor (in cooperation with FINANCE magazine) – most recent edition: Nov/Dec 2020

Number of new MBO investment opportunities in DBAG’s target market (July 2019 - December 2020)



Source: DBAG deal sourcing; exclusively management buyouts

BUY-AND-BUILD REMAINS DOMINANT VALUE ENHANCEMENT STRATEGY ...



...AND THIS ALSO APPLIES TO DBAG'S PORTFOLIO: COMPANY ACQUISITIONS ACCELERATE CORPORATE DEVELOPMENT



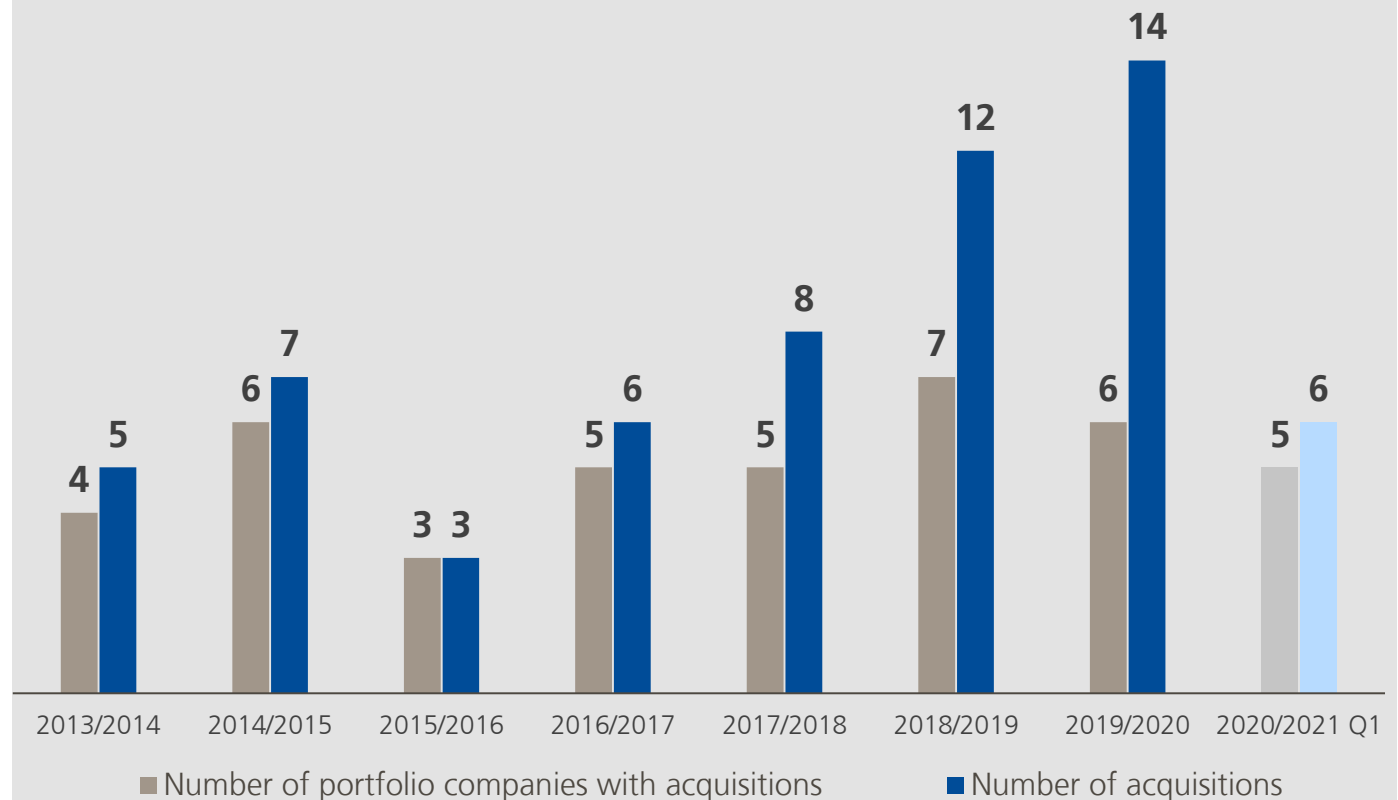
Company acquisitions as a means to an end ...

- > expansion into new business areas,
- > sector consolidation,
- > product range expansion,
- > geographical market penetration,

... as well as an end in itself

- > sector consolidation

ACQUISITIONS WITHIN DBAG'S PORTFOLIO



Company acquisitions through investments in the DBAG portfolio in the respective financial year (Q1 2020/2021: incl. transactions not yet completed).

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Capital supply and demand

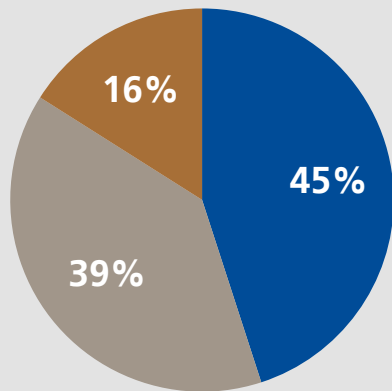
Price developments

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OUTLOOK

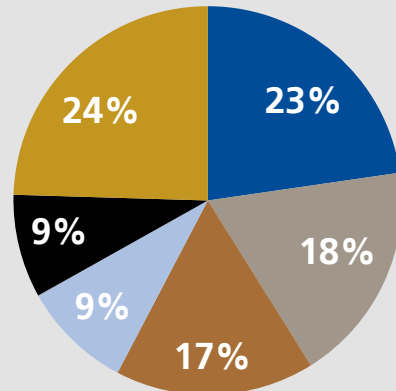
TRANSACTION SIZE AND VALUATION LEVEL POSITIVELY CORRELATED

SELLERS
(164 offers 2013-2020)



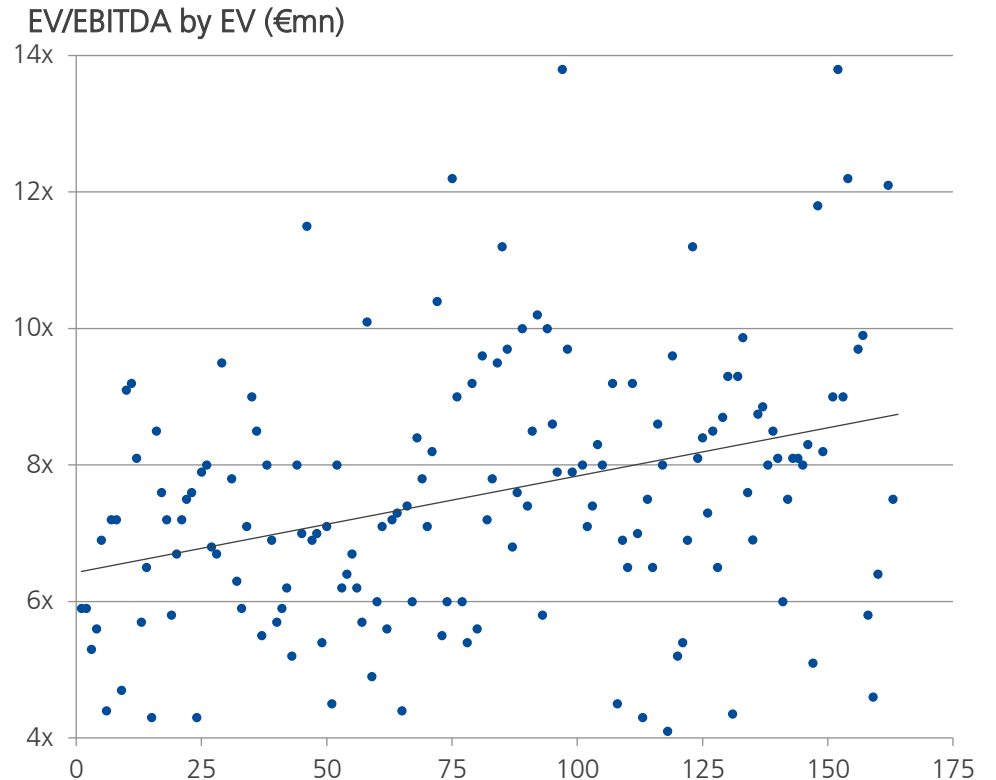
- Families
- Financial investors
- Groups

SECTORS
(164 offers 2013-2020)



- Industrial components
- Mechanical and plant engineering
- Automotive suppliers
- Industrial services
- IT services/software/telecommunications
- Other

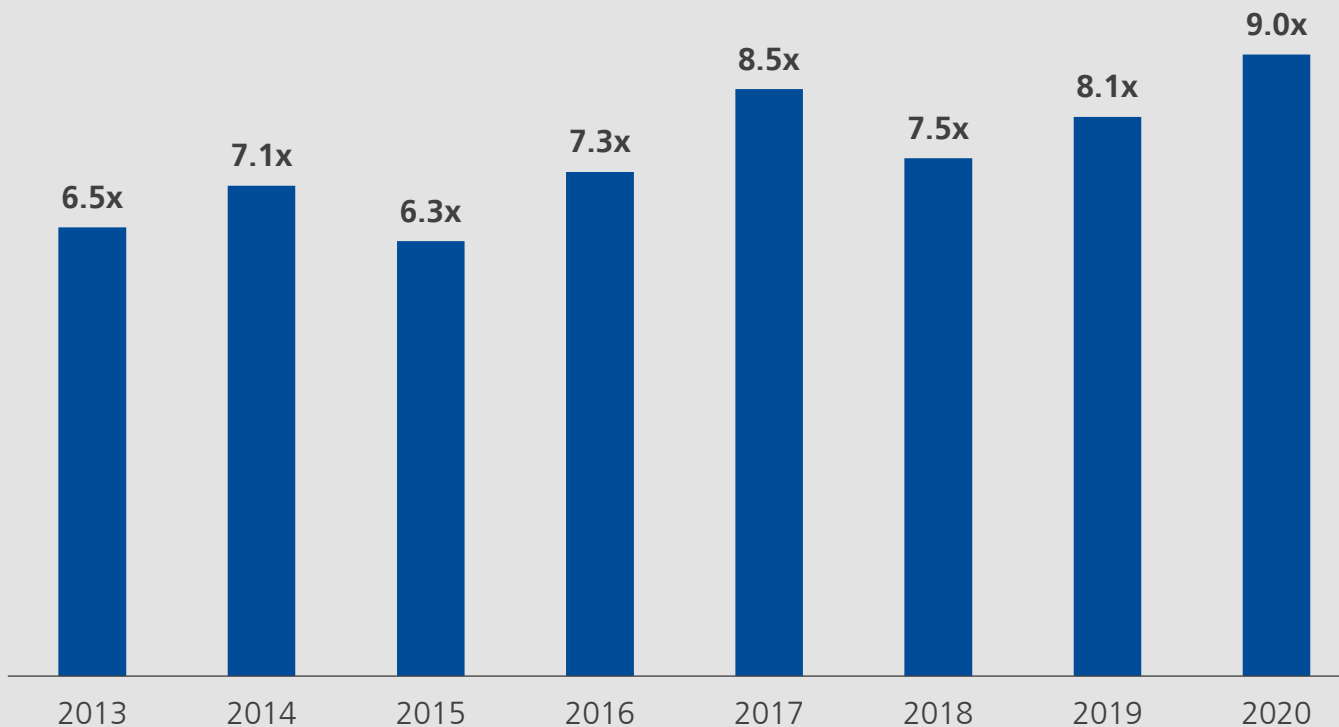
Analysis of DBAG transactions –
Data comprises 164 transactions between 2013 and 2020



Source: DBAG

DBAG'S OFFERS: INCREASING VALUATIONS

MEDIAN EV/EBITDA (all offers – “LOIs”)



Based on: 164 MBO transactions in the mid-market sector between 2013 and 2020.

Possible explanations:

Higher market price level
and increased leverage

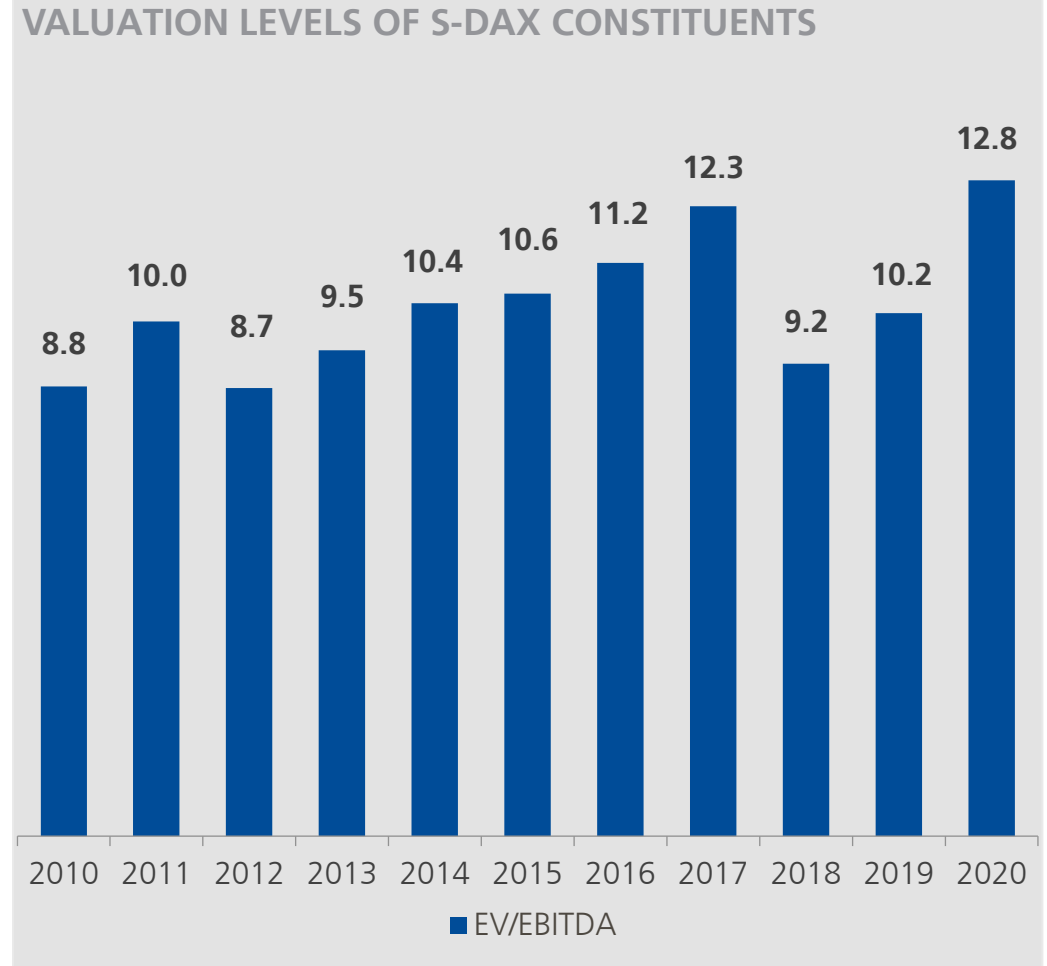
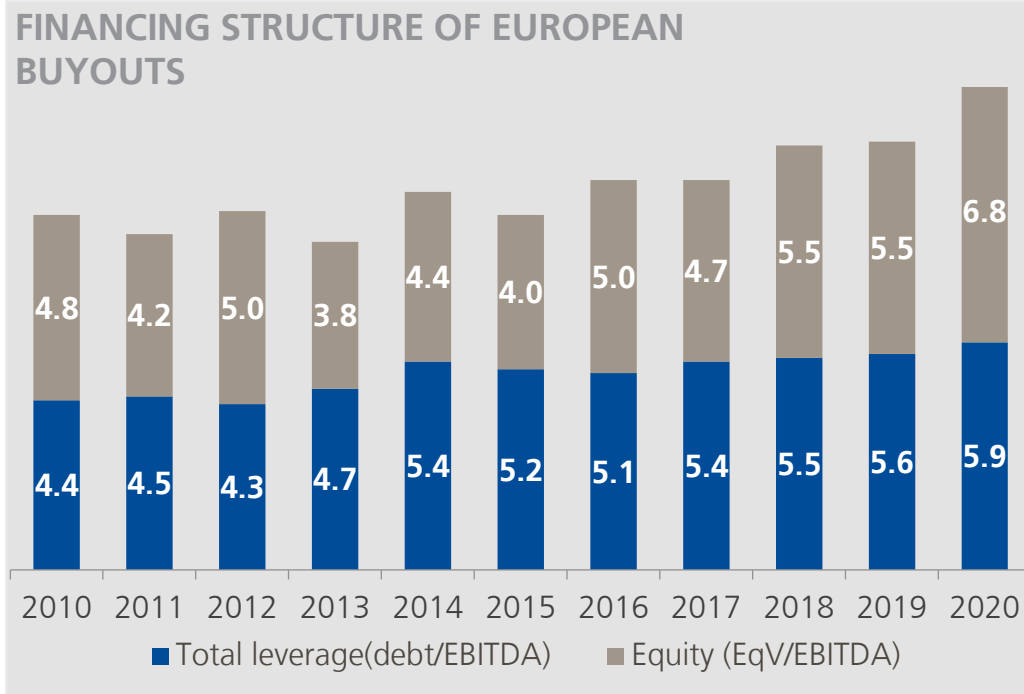
Change in sector mix

MARKET PRICE DEVELOPMENT TRACKS EQUITY MARKET AND LEVEL OF DEBT FINANCING



Equity ratio of European buyouts rises to more than 50 per cent in the pandemic year.

Share of subordinated or unsecured financing is significantly higher in 2020.

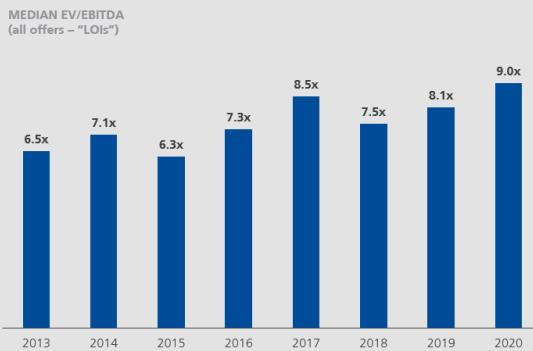


Sources: LCD European Private Equity Review, S&P Global Intelligence, January 2021; German buyouts included account for 23 per cent (2020); Bloomberg.

TRANSACTION VALUATION INFLUENCED BY COMPETITION AND BUSINESS MODELS

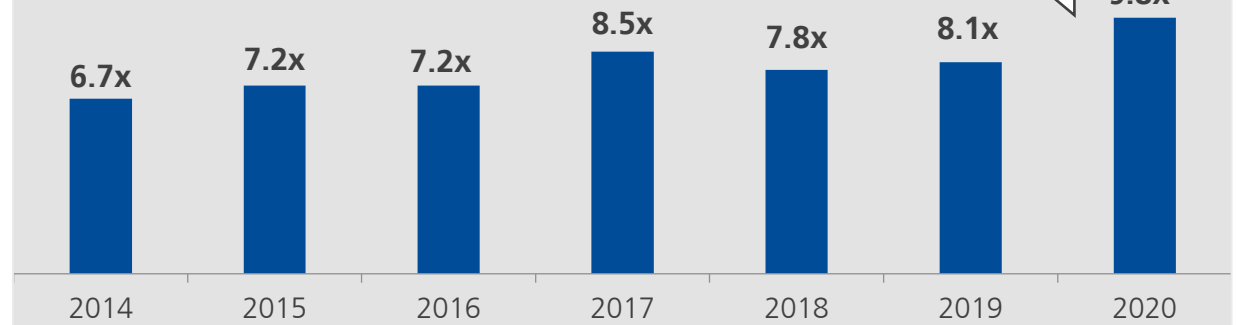
Slide #17:

MANAGEMENT BUYOUTS IN GERMANY – PRICE DEVELOPMENTS
DBAG'S OFFERS: INCREASING VALUATIONS

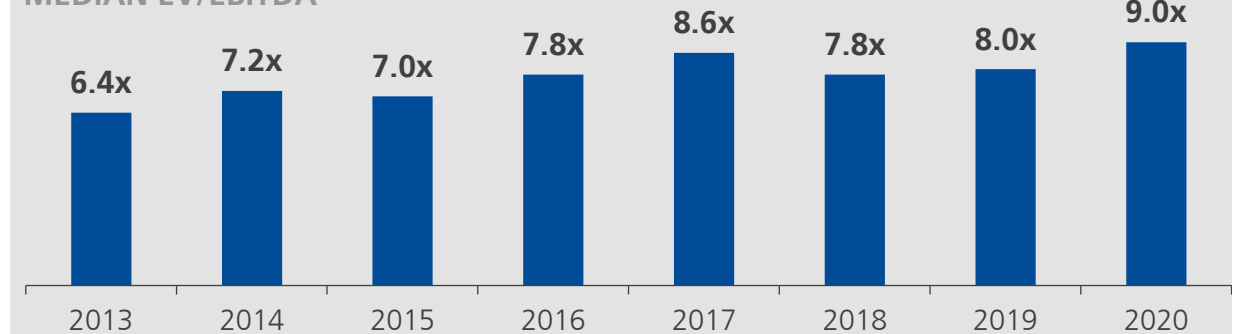


Possible explanations:
Higher market price level and increased leverage
Change in sector mix

OFFERS (37) – INDUSTRIAL COMPONENTS: MEDIAN EV/EBITDA

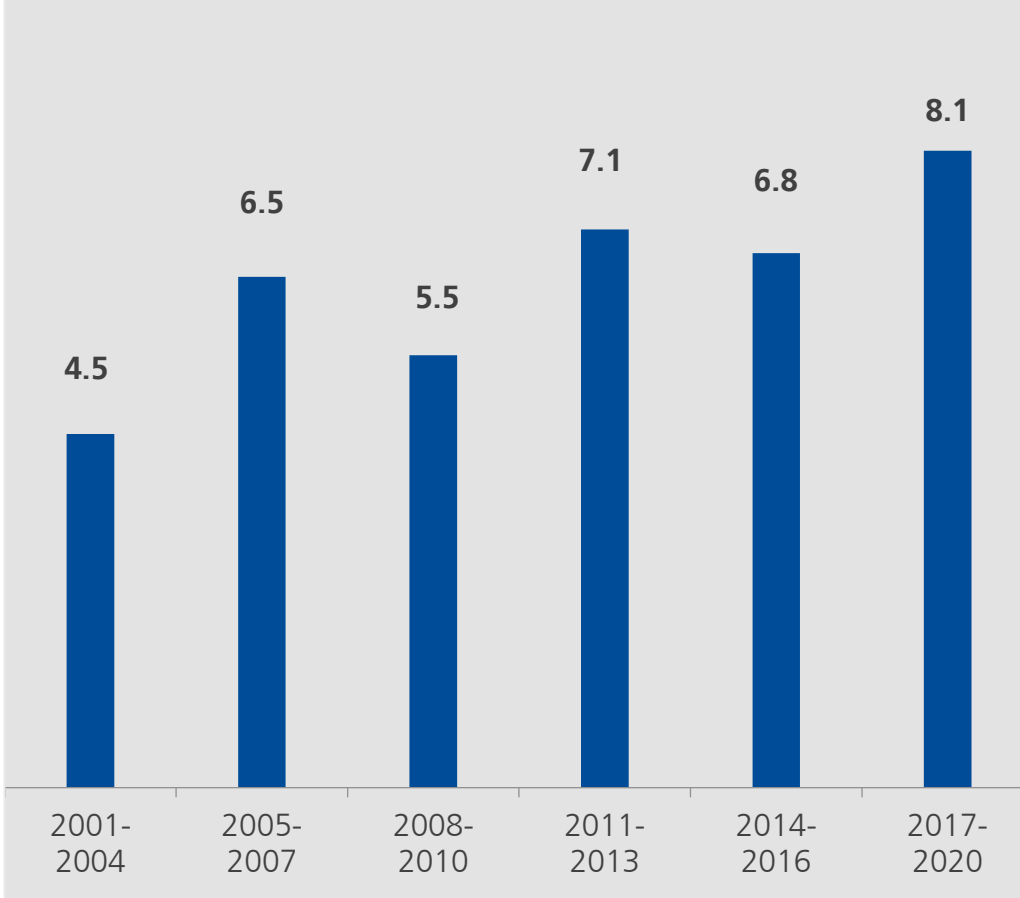


OFFERS (30) – MECHANICAL AND PLANT ENGINEERING: MEDIAN EV/EBITDA

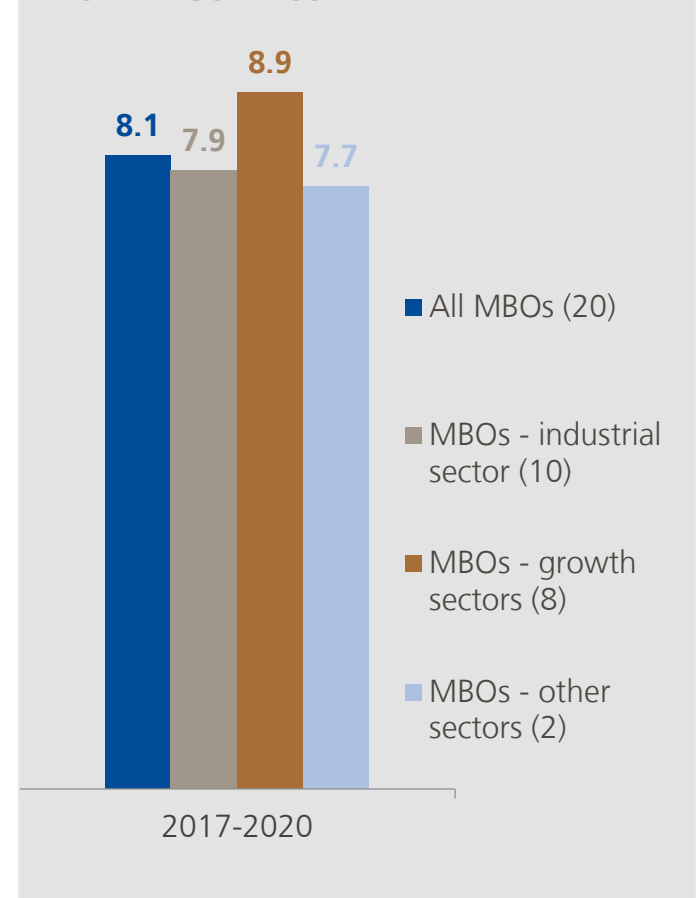


NEW SECTOR FOCUS INCREASES MBO ENTRY VALUATIONS

MEDIAN EV/EBITDA
All of DBAG's MBOs



MEDIAN EV/EBITDA
All of DBAG's MBOs



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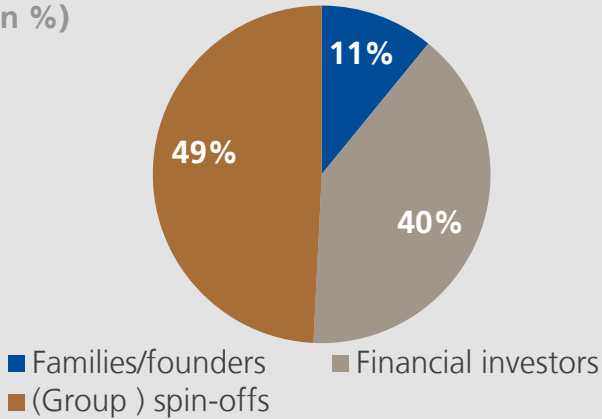
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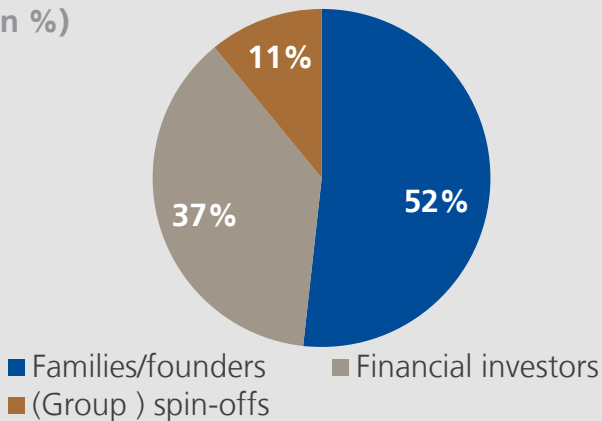
OUTLOOK

MARKED INCREASE IN THE PROPORTION OF FAMILY SUCCESSION TRANSACTIONS AS A SUSTAINABLE TREND

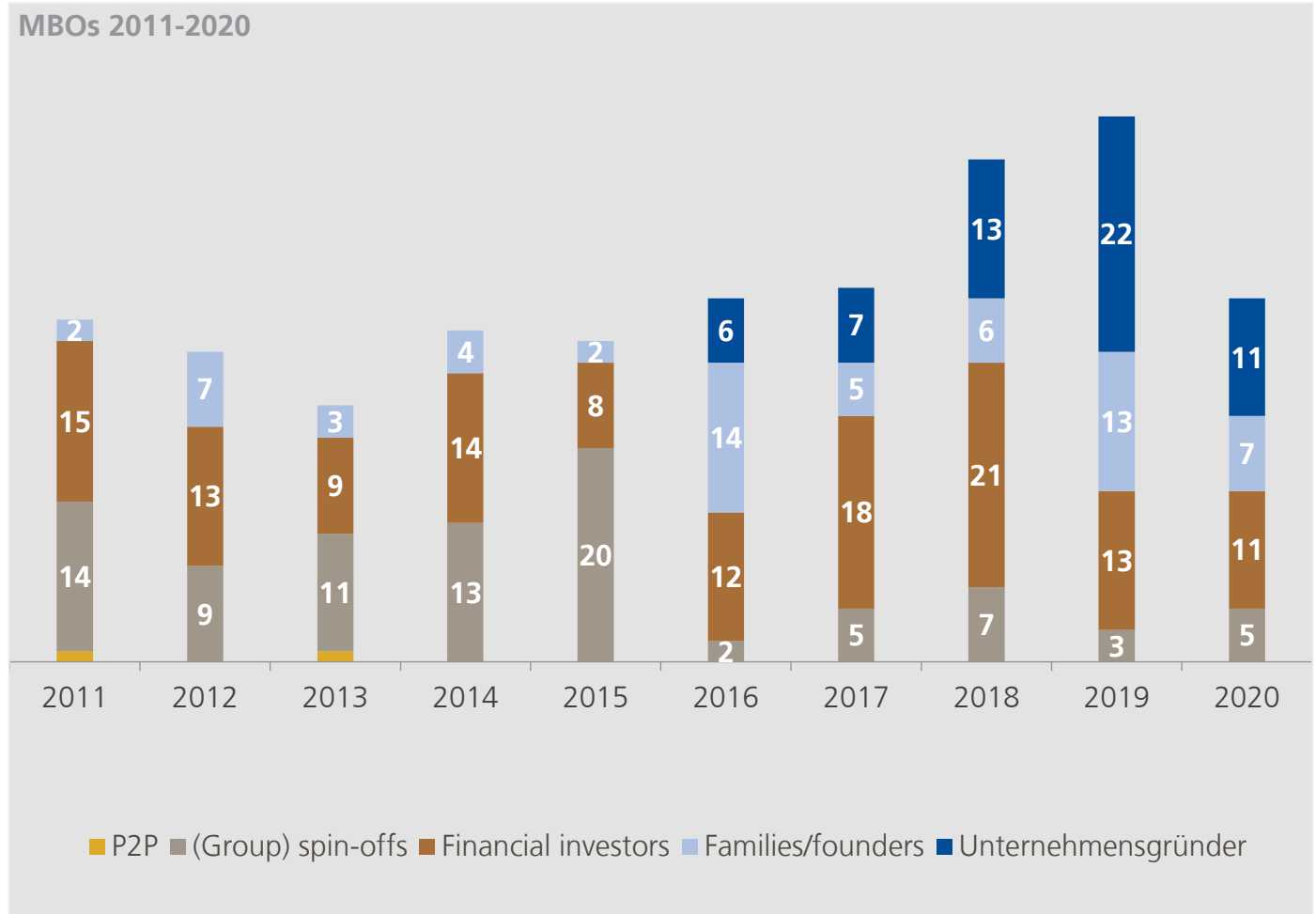
SELLERS WITHIN MBOS 2004-2015 (in %)



SELLERS WITHIN MBOS 2016-2020 (in %)



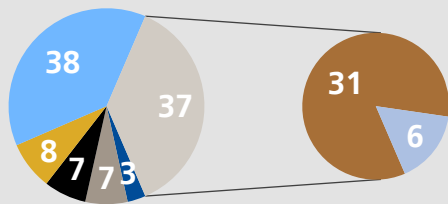
MBOs 2011-2020



345 MBOs in the German mid-market sector between 2011 and 2020 (cf. p. 11): majority takeovers in the context of MBOs, MBIs, secondary/tertiary buyouts involving a financial investor; transaction volume €50mn to €250mn; source: publicly available information, research by FINANCE and DBAG; "family/private owners" up to 2015, incl. company founders.

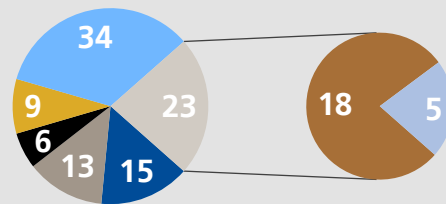
INDUSTRIAL SECTOR BECOMES LESS IMPORTANT IN RELATIVE TERMS

MBOs 2004-2015 (in %)



- Software/IT services
- Healthcare
- Retail
- Services
- Other
- Industrial sector
- Electronics

MBOs 2016-2020 (in %)



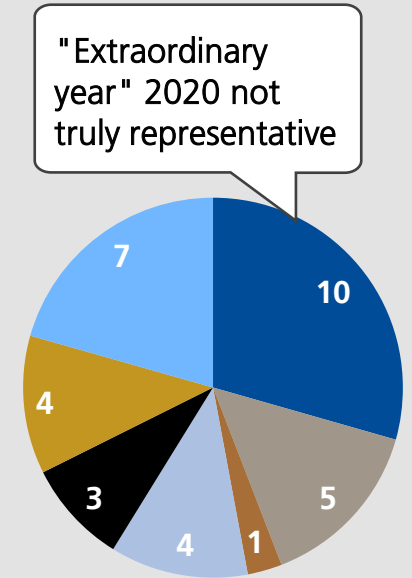
- Software/IT services
- Healthcare
- Retail
- Services
- Other
- Industrial sector
- Electronics

The number of investments has remained more or less stable, whilst the share of industrial and electronics MBOs has fallen from 37 (2004-15) to 23 per cent (2016-20).



A reflection of the foreseeable and likely changes in the structure of the German mid-market sector

MBOs 2020



- Software/IT services
- Healthcare
- Industrial sector
- Electronics
- Retail
- Services
- Other

522 MBOs in the German mid-market sector between 2004 and 2020 (cf. p. 11): majority takeovers in the context of MBOs, MBIs, secondary/tertiary buyouts involving a financial investor; transaction volume €50mn to €250mn; source: publicly available information, research by FINANCE and DBAG.

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AVAILABILITY OF CAPITAL

Low interest rate scenario continues:

- › Investors crowding into equity markets and alternative asset classes (private equity + private debt)
- › Prices remain high

MARKET

Marked increase in the number of founders and family shareholders looking to sell since 2016:

- › German buyout market is very healthy
- › Additional demand for capital likely to replace public finance

PORTFOLIO DEVELOPMENT

Prices remain high:

- › Accelerate and intensify corporate development (company acquisitions)
- › Additional challenges due to the pandemic