

CAPITAL MARKET

A SURVEY OF INVESTMENT BANKERS IN GERMANY

PANEL II/ 2018

Development of the German private equity market

White paper on capital market-relevant
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H2/2018 | Development of the German private equity market

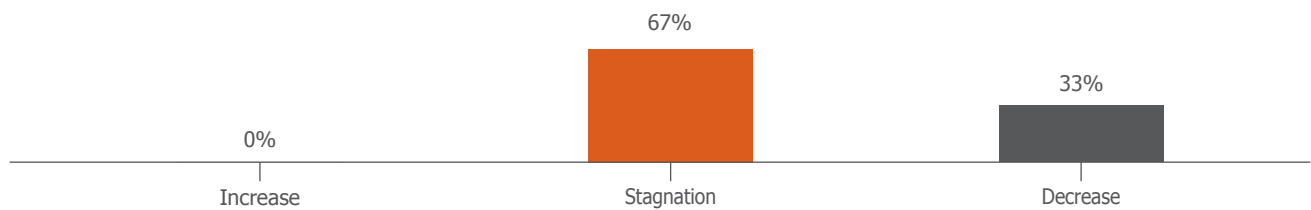
Key Findings Capital Market Panel H2/2018:

- **Development of the private equity investment volume:** According to the surveyed experts, the volume of German private equity investments **will not increase** in the upcoming year. **Two thirds** of the respondents predict **stagnation** and **one third** even forecast a **decrease in the investment volume**. As reported by the branch association BVK the volume of private equity investments was **EUR 5.3 billion** in the **first half of 2018** and **EUR 11.3 billion** in **2017**.
- **Private equity financing motives:** Concerning the financing motives of private equity, the majority of the respondents (45%) expect the **strongest growth for buyout transactions** in the upcoming year. As a result of high-volume investments, buyout transactions amounted to **EUR 8.9 billion in 2017**, which is significantly higher compared to the previous year (EUR 5.0 billion). However, in the first half of 2018 buyout transactions added up to **EUR 3.6 billion**, which is lower than in the corresponding period of 2017.
- **Attractive industries for private equity:** Half of the respondents expect **most private equity investments** of the upcoming year to be in the **technology and health care industries**. Simultaneously the respondents predict that private equity companies will also focus on the automotive as well as the consumer goods and services industries. As stated in a current study by Ernst & Young the **transport and logistics industry** as well as the **pharmaceutical and health care industry** experienced the **highest transaction volumes** in the **first half of 2018**.
- **IPO candidates:** The majority of experts expect that both **private equity backed companies and spin-offs of large corporations** will make up **most IPO candidates** in the upcoming year. In the course of 2018 there have been several IPOs of private equity backed companies (home 24 SE, STS Group AG, and Westwing Group AG) and spin-offs of large corporations (DWS Group and Siemens Healthineers).
- **Reasons for failing of private equity investments:** According to the respondents the main reasons for underperforming private equity investments are **low management quality as well as a lack of financial know how**.

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Question 1:

As reported by the branch association BVK the volume of private equity investments was EUR 11.3 billion in 2017 and EUR 5.3 billion in the first half of 2018. What is your prediction for the development of the German private equity investment volume in 2019?

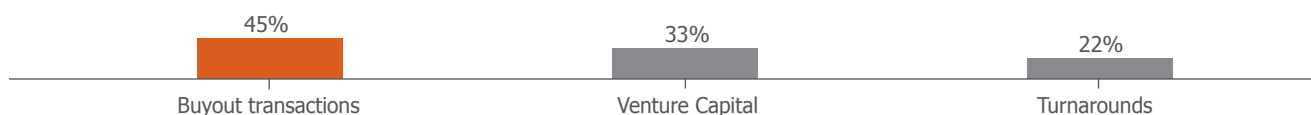


Comment

The opinions concerning the development of the German private equity investment volume for the upcoming year are mixed: Two thirds of the respondents (66.7%) predict stagnation and one third (33.3%) even forecast a decrease in the private equity investment volume. However, the experts all agree that the investment volume will not increase in 2019. In comparison to the previous panel from 2014 one can observe a movement in the opposite direction. Previously the majority of the experts predicted a slight increase in the investment volume.

Question 2:

For which private equity financing motive do you predict the strongest growth in 2019?



Comment

Most respondents predict buyout transactions (44.5%) to grow the most. One third (33.3%) believe that Venture capital will experience the highest growth rates. Only a fifth (22.2%) anticipate that turnarounds will demonstrate the strongest growth. These results are consistent with the findings of the previous panel in 2014, as buyouts remain the most relevant private equity investment motive.

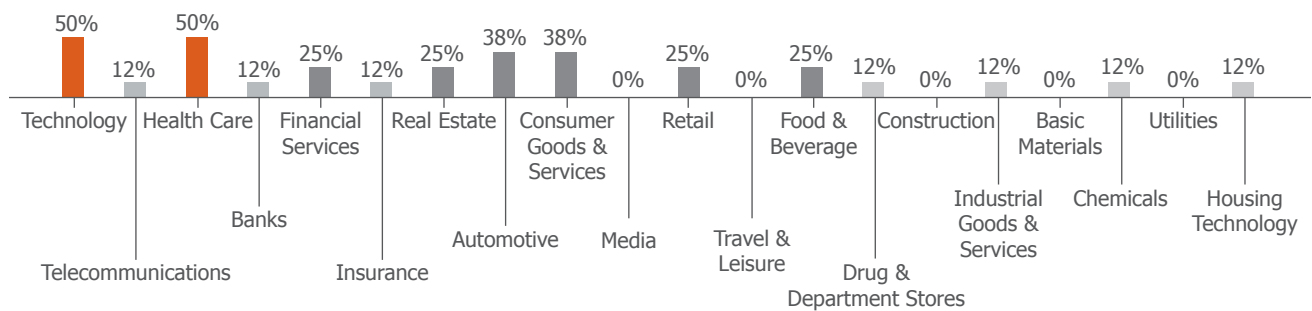
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Question 3:

Which industries will be most attractive for private equity investments in 2019?

[The industry definitions are based on the ICB Industry Classification Benchmark]

(Multiple answers possible)



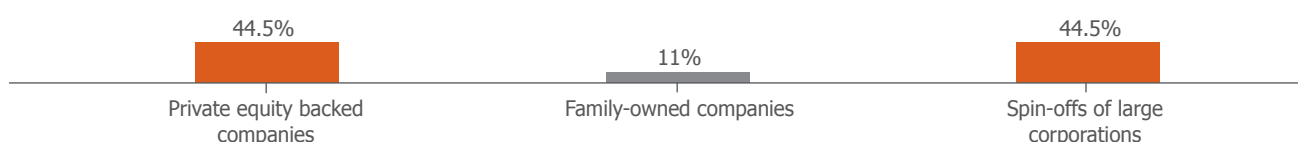
Comment

Half of the respondents expect most private equity investments of the upcoming year to be in the technology (50.0%) and health care industries (50.0%). The technology industry includes the sectors software and computer services as well as hardware and equipment. The health care industry includes the sectors health care equipment and services as well as pharmaceuticals and biotechnology. Simultaneously the respondents predict that private equity companies will also focus on the automotive (37.5%) as well as the consumer goods and services (37.5%) industries. The respondents also mention the financial services (25.0%), real estate (25.0%), retail (25.0%), as well as food and beverages (25.0%) industries. In comparison to the previous private equity panel, the technology industry continues to be perceived as the most relevant industry, whereas industrial goods and services have experienced a decrease in relevance.

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Question 4:

Which companies will provide most IPOs in 2019?

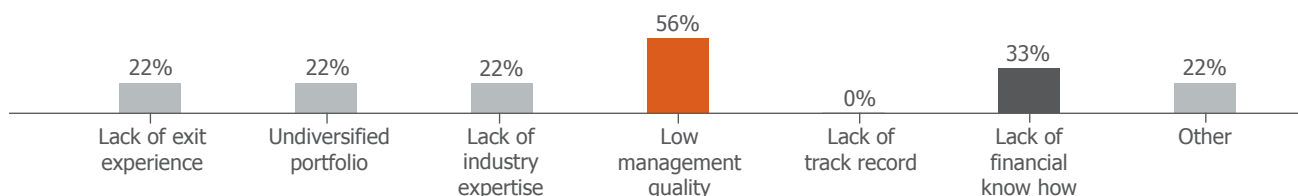


Comment

The experts forecast that both private equity backed companies (44.4%) and spin-offs of large corporations (44.4%) will make up most IPO candidates in 2019. Only 11.1% of the respondents are of the opinion that family-owned companies will provide most IPOs in the upcoming year. In the course of 2018 there have already been several IPOs of private equity backed companies (home 24 SE, STS Group AG, and Westwing Group AG) and spin-offs of large corporations (DWS Group and Siemens Healthineers). Hence the expert opinion of this panel is in accordance with the current developments of the German private equity market.

Question 5:

*What are the reasons for underperforming private equity investments?
(Three answers possible)*



Comment

The majority of the respondents (55.6%) believe that low management quality is the decisive reason for underperforming private equity investments. Moreover, one third of the respondents (33.3%) mention a lack of financial know how as a reason for failure. A lack of exit experience, an undiversified portfolio, as well as a lack of industry expertise are all listed by 22.2% of the respondents. A successful track record, however, does not play a significant role for the success of private equity investments according to the panel.