

CAPITAL MARKET

A SURVEY OF CAPITAL MARKET EXPERTS IN GERMANY

PANEL II / 2019

Current Opinion on the German Private Equity Market

White paper on capital market-relevant
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H2/2019 – Current opinion on the German Private Equity Market

Key Findings:

- **Further increase in volume expected:**

According to the experts surveyed, the volume of German private equity investments will increase in the coming year. Around two thirds of the panel participants forecast an increase in investment volume. According to the German Private Equity and Venture Capital Association (BVK), the volume of new corporate investments by German investment companies in 2018 amounted to EUR 9.6 billion. In 2017 it amounted to EUR 11.3 billion.
- **Low interest rate neutralizes fears of recession:**

The panel participants are divided as to whether the market in the coming year will be shaped by fears of recession and the associated reluctance of private equity investors to buy, or by a lack of investment alternatives, and thus a greater willingness to buy. Exactly half of them each expect a higher or lower willingness to buy.
- **Growth in venture capital on the horizon:**

As far as private equity financing events for German companies are concerned, most respondents (36.4%) expect strong growth in venture capital financing in 2020, closely followed by buyout transactions and turnarounds (31.8% each). The growth of the venture capital scene continued in 2018, partly due to the financing of around 680 start-ups. According to the German Private Equity and Venture Capital Association (BVK), venture capital investments of EUR 1.4 billion were up on the previous year's figures of EUR 1.1 billion (2016) and EUR 1.3 billion (2017), respectively.
- **Focus on technology and software:**

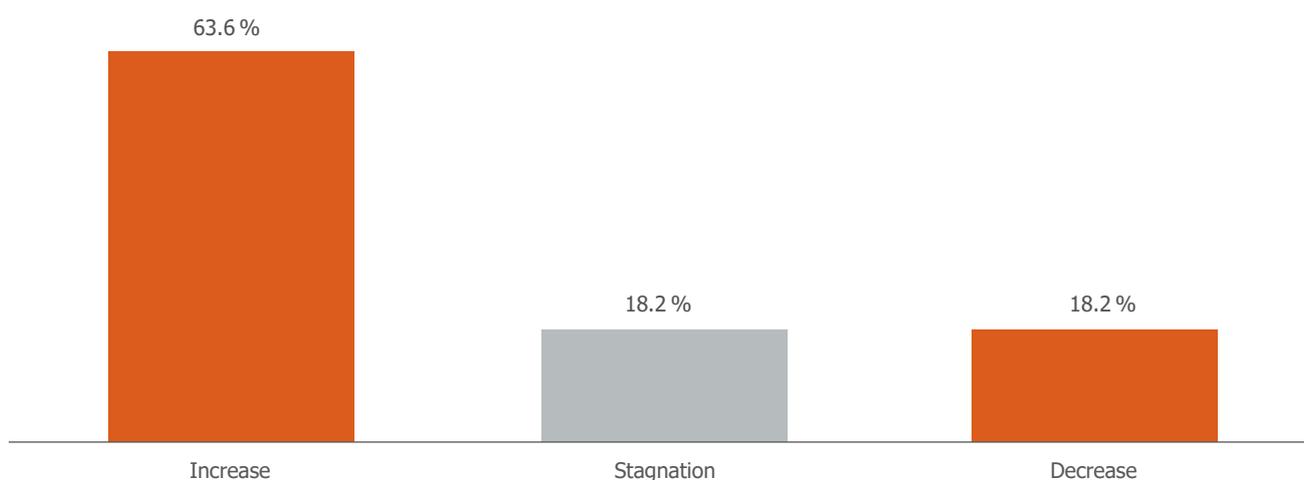
Nearly a quarter of the respondents expect most private equity investments in the coming year in the technology sector. At the same time, the participants believe that the software and industrial sectors will also be the focus of private equity companies. According to a recent study by Ernst & Young, the chemical and manufacturing sectors recorded the highest transaction values in the first half of 2019.
- **Sale to financial investors is preferred exit channel:**

In the opinion of the panel participants, the initial public offering with replacement as the ideal exit route is now a thing of the past. The vast majority of respondents expect that private equity investors will primarily sell to other financial investors (secondary buyouts) in the coming year.

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Question 1:

Private equity companies invested EUR 9.6 billion in German companies in 2018 according to the German Private Equity and Venture Capital Association (BVK). Demand remained high for the time being in 2019 as well. What result do you expect for 2019 as a whole?



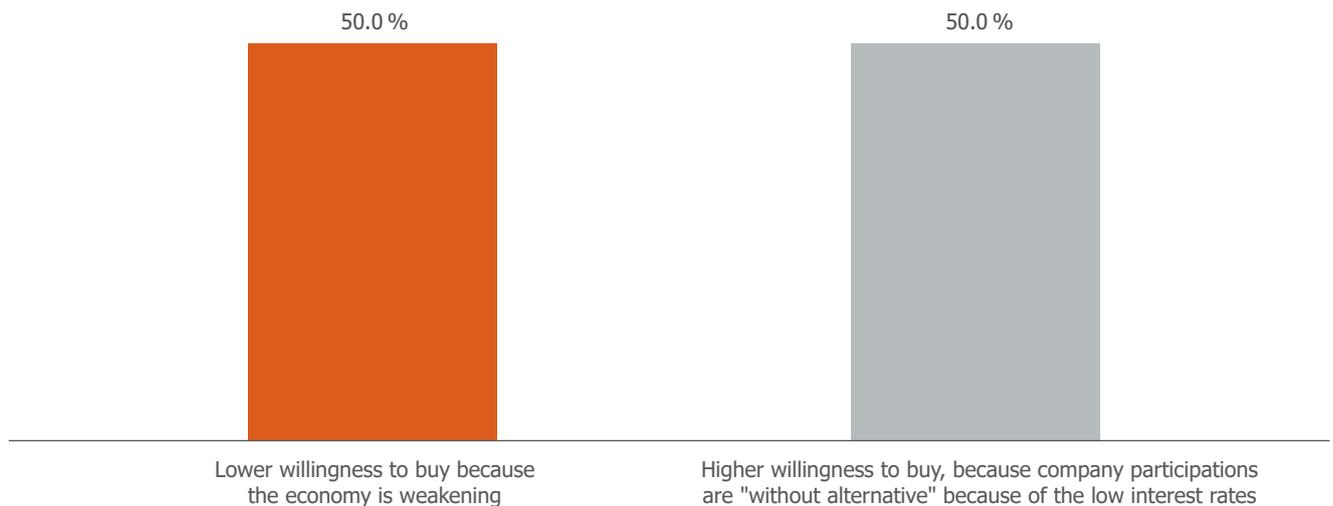
Comment

The opinion on the development of the investment volume of German investment companies for 2019 as a whole is clear: around two thirds of those surveyed (63.6%) expect the investment volume of German investment companies to increase in 2019. Only around one-sixth (18.2%) of the survey participants expect investment volumes to stagnate or decline. All signs point to growth in the private equity sector. In comparison with the panel survey from the second half of 2018, there is a contrary trend. At that time, the participants assumed stagnation (66.7%) or even a decline (33.3%) in the investment volume.

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Question 2:

Fears of recession vs. low interest rates – What will shape the private equity market in 2020?



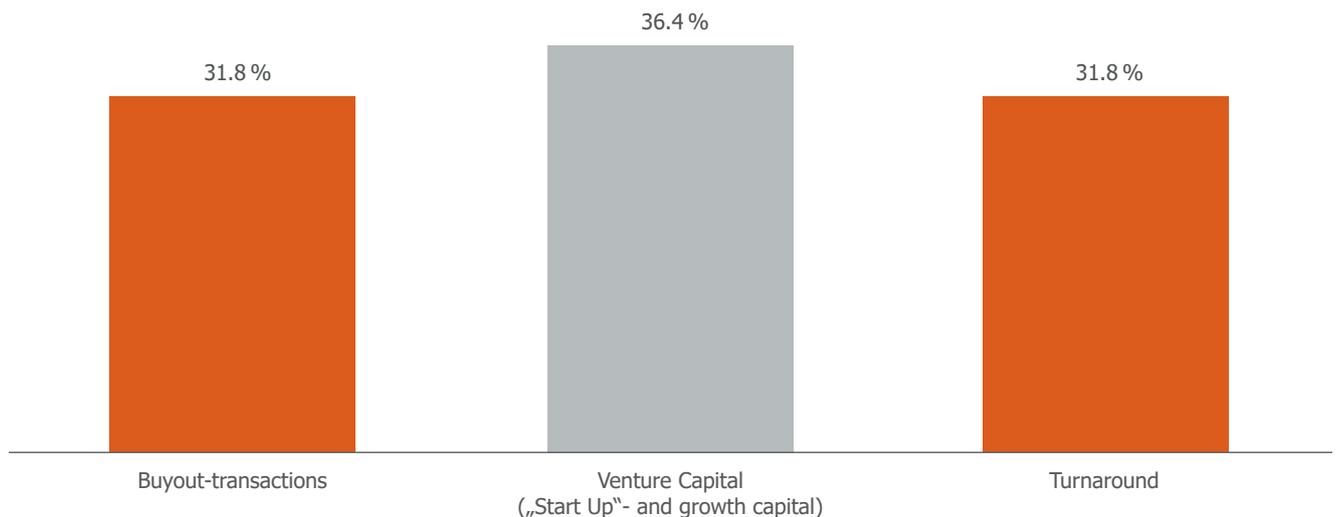
Comment

When asked whether fears of recession or low interest rates will have a greater impact on the private equity market in 2020, respondents split into two equally sized camps. While one half (50.0%) assumes that the weakening economy will be reflected in a lower willingness to buy on the part of the investment companies, the other half (50.0%) assumes that the willingness to buy will increase due to a lack of investment alternatives in the low-interest phase.

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Question 3:

Which private equity financing events of German companies do you see the strongest growth potential for in 2020?



Comment

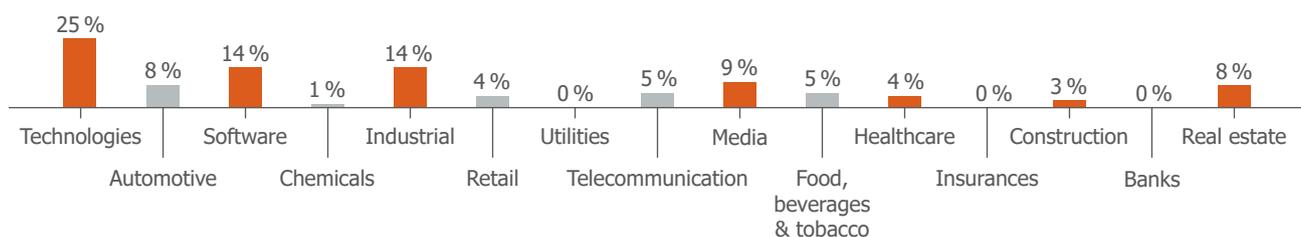
Opinion is divided on the question of the most rapidly growing private equity financing events for German companies in 2020: Most survey participants expect strong growth in venture capital financing (start-up and growth capital) (36.4%). Buyout transactions and turnarounds, however, are almost on a par with the front runners with 31.8% of the participants' opinions. The current panel thus draws a significantly different picture of opinion than its predecessor from the second half of 2018: At that time, almost half of the respondents voted for buyout transactions, a good third attributed venture capital financing the greatest growth potential in 2019.

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Question 4:

In which sectors do you expect most private equity investments in German companies in 2020 (sector definition based on ICB Industry Classification Benchmark)?

(Multiple answers possible)



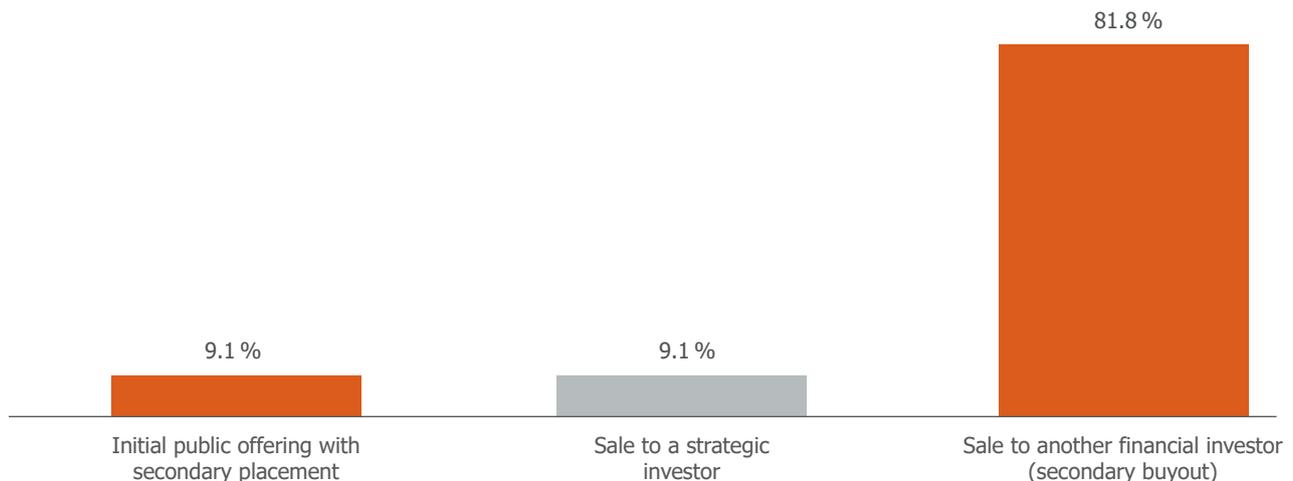
Comment

Respondents expect most private equity investments in the technology sector in 2020 (24.7% of all responses). Companies from the software and industrial sectors are also considered attractive (14.3% each). In contrast, the panel participants felt that the construction (2.6%) and chemicals (1.3%) sectors were less in focus. Insurance companies, banks and utilities, which, in the opinion of the respondents, are not in the focus of private equity, are lagging behind. Compared to the last private equity panel in the second half of 2018, the technology sector is still the most attractive for private equity investments from the perspective of the respondents, while the healthcare sector – at that time on a par with the technology sector – has clearly lost relevance.

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Question 5:

Which exit channel will private equity investors primarily use in the coming year?



Comment

The current gloomy mood for new issues also appears to be present among the participants in the capital market panel. The postponement of several IPOs in the second half of 2019 (e.g. congatec, Domicil Real Estate) has resulted in a rather subdued capital market picture. Only around one in ten panelists (9.1%) expects private equity investors to use an IPO with a secondary placement as an exit in the coming year. The participants also regard the sale to a strategic investor as rather unlikely (9.1%). Panel participants believe that sales to other financial investors (secondary buyout) (81.8%) are most likely as a possible exit channel. The panel participants' assessment thus differs significantly from that of the 2014 panel: at that time, the IPO with a secondary placement was the ideal solution, while sales to other investors were rather classified as an „emergency solution“.