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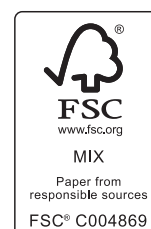
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# Is the wurst of times behind Germany?

German private equity is on the up, with fresh funds raised by GPs as well as local and foreign lenders willing to back businesses. [Kimberly Romaine](#) reports

**T**HE GERMAN private equity market has been recovering steadily since the onset of the crisis. Last year's aggregate deal value reached €13.8bn, more than a third higher than 2011's total, which itself was up a third on 2010.

A handful of fundraises this year means half a dozen local GPs have fresh coffers from which to deploy – but their varying experiences highlight how polarised the market has become. Triton has reputedly raised €3.3bn for its fourth fund (though it's not technically closed) to back businesses in Germany and the Nordic region, a record for a Germany-based GP. Mid-market players Afinum, CGS and DPE all hit their hard-caps in April, with Afinum and DPE doing so in just five months. On the other hand, other well-known names such as Quadriga and Steadfast both toiled for two years before raising €529m and €128m respectively – the latter roughly half the GP's initial target. These varied successes have raised a collective €1.4bn. Add to this German remits from global and pan-European players such as Advent, Apax and Cinven to name a few, and it's clear there is money to put to work in Europe's strongest economy.

## More than meets the eye

"Germany is a market where we are constantly both encouraged and surprised by the level of dealflow we see," explains Christiian Marriott, partner at Equistone. "Our investors tell us that they generally see it as a fairly quiet market with not too many deals being done – so we find it hugely encouraging that our Munich team has bucked that view by investing more than 40% of the capital we've so far invested from the new fund."

His sentiment is backed up by Nick Fenn, founding partner at Beechbrook Capital, a European mezzanine lender: "We are seeing a lot of opportunity in Germany; there

is an abundance of high-quality companies. The challenge is convincing owners to sell." Indeed, though value is markedly up, it has been driven by three mega-deals (*see box*); volume is down 23% in the first seven months of this year.

Equistone, a European fund with a focus on the UK, France and Germany, feels its strengths in Germany helped it achieve its €1.5bn target for its first independent fund in January: "It helped us because while we were fundraising, the French market was looking incredibly quiet. We did no deals in France in 2012, whereas our German and UK partners were very busy – in fact our Munich office was our busiest from a deal point of view during our fundraise."

## Strong pipeline

Indeed, Equistone has done three deals in Germany over the last 12 months, most recently the purchase of German tyre cutter Karl Eugen Fischer from Equita. Equistone's most recent exit also came out of Germany when it agreed to sell Computerlinks for €230m in a trade sale to a US corporate this summer. According to one LP, the exit generated around 3.5x money during the five-year hold. Says Marriott: "We always have an incredibly strong pipeline in Germany. At any one time, it's the country where we have the most on our work-in-progress list."

IBB Beteiligungsgesellschaft and BMP Media Investors have also generated strong returns in Germany recently with their sale of MBR Targeting to Ströer Digital for a 268% IRR. But the exit market isn't entirely straightforward. KKR and Permira, for example, are struggling to find a buyer for their remaining 44% joint stake in ProSiebenSat.1, a German broadcaster worth around €3.4bn.

Despite a healthy number of local GPs, Germany is attracting increasing levels of interest from investors



*“Germany is clearly one of the best countries to raise funding in at the moment”*

**Markus Ehrler,**  
Marlborough Partners

outside its borders. In August, UK-based Cinven purchased a majority stake in insurance firm Heidelberger Leben from Lloyds for €300m. That same month, Equistone bought Karl Eugen Fischer for around €100m. And global investor Carlyle did two deals that month: the purchase of wood products manufacturer Klenk Holz from a group of German banks and the acquisition of elderly residences Alloheim Senioren-Residenzen from Star Capital for €180m. That deal saw UniCredit and BNP lead a five-bank syndicate to support the deal. And all three of the country's mega-deals were done by international GPs (*see box*).

#### Bankfurt

These deals are made possible by a lending market which remains strong vis-à-vis other European markets, according to Markus Ehrler, partner at Marlborough Partners. “Germany is clearly one of the best countries to raise funding in at the moment. The country is powering ahead

in Europe so if you're a European bank or debt fund, Germany is where your shareholders and LPs want you to put money to work,” he says, adding that the Nordic and Benelux countries are also attractive at the moment. The lure of Germany persuaded Marlborough to open its first office outside the UK in July, with Ehrler heading up the Frankfurt site.

But business is not entirely straightforward. “The German banking market is very segmented and not all participants are purely commercially driven, making it difficult to compete at times,” Fenn says. Indeed, that five banks were needed in the €180m Alloheim deal is telling. Says

Ehrler: “For banks, the take-and-hold level hasn't changed much: commercial banks do €25-30m; investment banks do €15-20m and Landesbanken familiar with target companies may do slightly more. But debt funds will do €50-75m, so a step above the banks. The debt funds prefer to be a big part of the capital structure though – say 25-50% – and so look for deals small enough to make their contribution significant.”

Further up the value spectrum, high-yield bonds play a crucial role. “Geography is becoming less important for bonds as it's more about credit quality and yield,” says Ehrler. “If you overlay that with the strength of the German market, it should make sense, but we're yet to see much bond finance, apart from mainstream names. This may be because banks remain active – there are roughly 10-12 actively lending in Germany (versus just three or four in the UK) so there is less demand for bonds. This may change as regulation impacts banks' appetite for lending.” ■

## Three mega-deals account for 70% of 2013's activity

The second quarter of the year saw three mega-deals boost deal value totals by €7.9bn. First came the buyout of Ista in April, which saw CVC buy back the German metering business it had sold to Charterhouse in 2007. CVC had originally bought the business in 2003, and the four-year hold period saw the enterprise value grow by 50%, largely on the back of an acquisitive growth strategy. The growth in the six years since has been less meteoric, with a relatively modest €700m uptick. The latest €3.1bn deal included a €1bn equity cushion, with Deutsche Bank leading the debt at signing.

June saw the other two mega-deals. First off was Ceramtec, Cinven's €1.5bn purchase of the ceramics division of NYSE-listed Rockwood Holdings. The carve-out was done with a view to growing the business in

China and the US. BC Partners and Bain had been linked to the target in press reports prior to the announcement.

Two days after the Ceramtec deal was sealed, EQT and GIC announced the long-awaited sale of private equity darling Springer Science. The €3.3bn sale to BC Partners followed months of speculation over an IPO (including market reports less than a week prior to BC's revised offer sealing the sale). The transaction marks the next chapter of private equity ownership for Springer Science, which was created by Candover and Cinven in 2003 with the acquisitions of Kluwer Academic Publishers and Bertelsmann Springer. The company went on to struggle under its debt burden before being acquired at the end of 2009 by EQT and GIC for €2.3bn, making it the largest deal of that year.

What does Merkel's win of an historic third term mean for private equity in Germany? [Kim Richters](#) reports

# German election: Mutti's here to stay

**U**NTIL NOW, Germany was ruled by a government that sought to improve the regulatory framework for private equity. Merkel's party and the liberal FDP were in favour of the market, even drawing up a 10-point plan to value the advantages of a flourishing private equity industry.

Perhaps the biggest sign of how favourable the ruling coalition had been for private equity was that the industry was conspicuously absent from the pre-election debates. This puts it in stark contrast to the heated US election last year.

Ulrike Hinrichs, CEO at the Bundesverband Deutscher Kapitalbeteiligungsgesellschaften, says: "Chancellor Angela Merkel is coming out of the election stronger than ever. It was on the agenda of her party's coalition with the FDP to improve the regulatory framework for private equity in Germany. Now, we hope the new government under Chancellor Angela Merkel is going to equally recognise this task as important – no matter who is going to be her party's coalition partner."

## Voters want venture

Venture capital has become increasingly popular as many politicians realised how valuable the nation's image as a start-up country is. Olaf Jacobi, partner at German venture capital firm Target Partners, says: "The importance of venture for the economy is imminent when we look back at all the politicians across a range of political parties in Germany, who started to take a special interest in the start-up scene in the run-up to the election. You can look at the venture capital scene in Germany as an ecosystem that slowly reaches independence, with the start-up founder in its centre. We have many founders in Germany, who are willing to take risks, set up their own companies, are well connected and well educated. The start-up scene in Germany is flourishing, why would anybody threaten this situation?"



Hinrichs says: "Looking back at the past governments in Germany, it is impossible to say whether the great or the red-green coalition introduced any worse or better laws or regulations for the private equity sector than the black-yellow government. Taxation laws such as the carried interest one were introduced by the red-green coalition. This government did not act against us and I doubt that even a great coalition of CDU/SPD would worsen our sector's situation."

One possible coalition could be with Die Grünen. However, the party received a lot of criticism in the run-up to the election due to its drastic tax increase and financial market regulations plans, which are likely reasons for Die Grünen's decreasing popularity.

The other reason that was likely to have cost the party a lot of votes was Die Grünen's aim to introduce a meat-free veggie day in Germany's canteens. The results are in: do not come between a German and their sausage. ■

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# Financing deals in Germany

**Stuart Hewer**, an acquisition finance executive at **SEB**, discusses the appetite for lending in a bifurcated German market, the prevalence of international lenders and US appetite for German high-yield bonds

## How would you describe the current level of debt accessibility in the German market? How does this fit with the rest of Europe?

At the top end of the market, debt levels are probably the same as they are in other parts of Europe. But I think there is a bifurcation in the market between larger mid-cap and large deals, and then small mid-cap and smaller deals in Germany.

The recent AHT deal [bought by Bridgepoint from Quadriga Capital and Partners Group] is all senior debt and is leveraged at about 5x. That's about €280m in term loans, and you can structure that to tap institutional liquidity. This results in a higher leverage level, more term loan A and more term loan B and less amortisation, because it's catered to the institutional market. That's a case of a larger deal where you have EBITDA of probably more than €50m.

For smaller deals, it's much more of a bank market. You can't offer sufficient quantum of term loan B to cater to the institutional market. It becomes a lot harder the smaller you get. So you're dependent on the bank market or direct lenders, which tend to be more focused on special situations. They do more conventional, less cookie-cutter-shaped deals. So, most deals that are senior or senior-mezz in the small segment tend to turn to the German bank market for financing.

And then the leverage level comes in, because it's a less aggressive market and the credit metrics for these deals tend to come down. You don't have the scale of the business; you're usually talking about strong niche market players or companies with lower market share. As such, the market positioning of the borrower is potentially a bit more

fragile than it is for the larger deals. The appetite for lending in those sorts of deals is generally less aggressive and so they tend to turn into maximum 4x leverage deals – typically 3.5-4x.

## How would you describe foreign banks' appetite for taking part in German club deals?

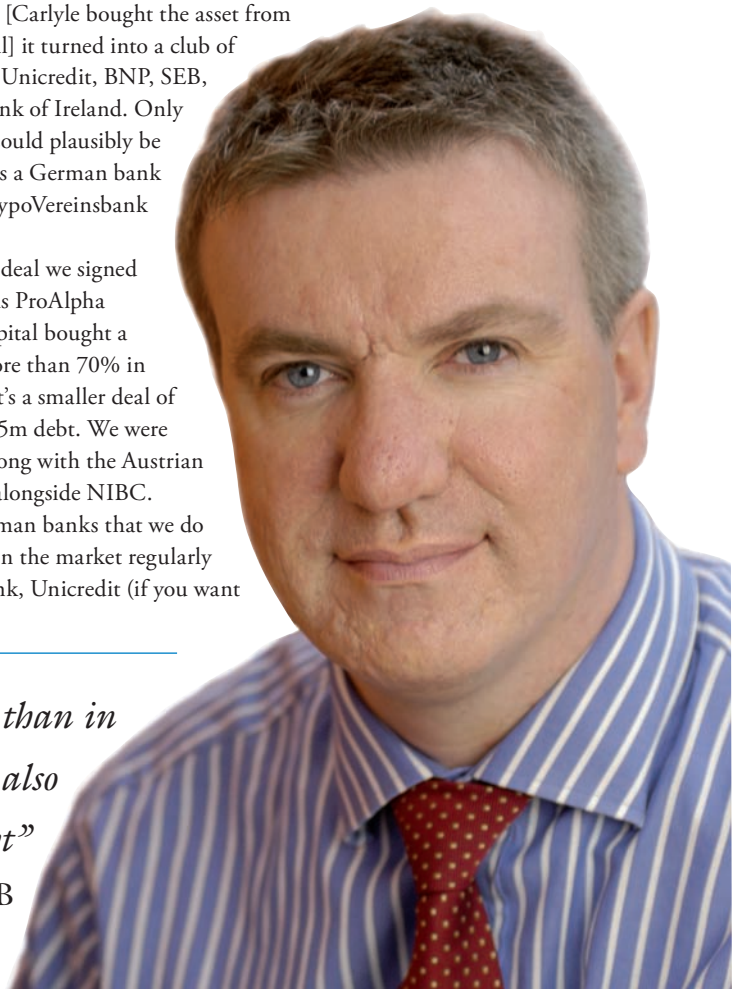
It is very strong. If you look at the recent Alloheim deal we were involved in [Carlyle bought the asset from Star Capital] it turned into a club of five banks: Unicredit, BNP, SEB, GE and Bank of Ireland. Only Unicredit could plausibly be described as a German bank given its HypoVereinsbank pedigree.

Another deal we signed recently was ProAlpha [Bregal Capital bought a stake of more than 70% in the firm]. It's a smaller deal of around €65m debt. We were involved along with the Austrian bank RBI alongside NIBC.

The German banks that we do encounter in the market regularly are DZ Bank, Unicredit (if you want

*“Leverage levels do tend to be a bit higher in the US than in Europe, so the opportunity of tapping that liquidity also pushed up the availability of debt”*

**Stuart Hewer, SEB**





to call it a German bank), Commerzbank, IKB and then some of the Landesbanken. But there are probably more international banks that are active in this space.

**Mega-buyouts have made a comeback in Germany and were particularly prominent in Q2 2013. How have the debt markets supported this trend?**

For the larger buyouts there are four major drivers on the debt side. One of which is the liquidity available in the institutional market in Europe. And there we have this whole dynamic around CLOs whose re-investment periods are running out and so CLOs are desperate to find assets to buy. They're getting liquidity through refinancings through the loan and bond market. So they've got liquidity and they are looking to put it to work while they still can.

Another source of liquidity is dedicated lending funds; not leveraged money as is the case of CLOs but unleveraged money. Pension funds and so on. These lenders are looking for that kind of risk class, return and five- to seven-year tenor.

A further driver is the bond market, although it got a bit wobbly at the end of the second quarter, when there was talk of tapering quantitative easing and people thought it would lead to a potential increase in interest rates. But overall the market did see quite a lot of bond deals, bond refinancings and availability of bond liquidity. That generally pushes up leverage and pushes down pricing given the usual competitive dynamic.

You've also got some deals that sought to tap US liquidity. We had deals like Ceramtec [bought by Cinven] and Armacell [bought by Charterhouse from Investcorp]. They had a fair amount of turnover in the US market, so the buyers could present the deals to the US lenders who were quite keen. The US is a very liquid market; with only about 30% of it coming from banks – the rest is institutions. So those institutions are keen to look at high-yielding assets and they're fully comfortable doing covenant-lite deals, so there is an advantage of the sponsor to tap that market where they can get away with a lighter covenant package than they can in Europe.

Leverage levels do tend to be a bit higher in the US than in Europe, so the opportunity of tapping that liquidity also pushed up the availability of debt. And that had a beneficial effect for the borrower on leverage, pricing and friendlier documentation.

**How popular is unitranche in Germany?**

It's probably less popular than it is elsewhere in Europe; we've only seen two or three unitranche deals. It has to be a particular sort of deal for it to make sense for the sponsor to take unitranche. There is an argument to take it because you're dealing with one party rather

than trying to align senior and mezzanine. If you're looking to move away from just the senior- and equity-type structure, then unitranche is definitely an option for a certain size of deal.

There are also challenges. A unitranche offer still needs a bank to be there to do the working capital requirements and finance undrawn facilities. It is relatively untested; people haven't lived with the product in Germany for long enough to be fully comfortable with it and see how the unitranche lender reacts in a crisis situation. It's effectively shadow banking – an unregulated market. As yet, people don't know what regulation is going to come in and change the way unitranche offers will play in the market.

But it's a good product and it has its niche application areas; people just need to get comfortable with it. It's a question of time, but that will come. I think the overall dynamic is going to be a gradual reduction of bank lending in the market and that needs to be filled by something else.

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*“Germany is the pearl of the eurozone so US investors are probably more comfortable with Germany as the core country of a borrower”*

**Stuart Hewer, SEB**

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**Do US investors have much appetite for German high-yield bonds?**

I think there is appetite, yes. The Ista deal involved high-yield bonds, and on the corporate side Schaeffler and Continental deals have had huge successes tapping the bond space. US high-yield investors generally have got as comfortable as you can get with the current euro crisis dynamic. Germany is the pearl of the eurozone so US investors are probably more comfortable with Germany as the core country of a borrower. Despite currency risks, they're looking for assets and depending on what deal activity there is in the States, they are going to invest in Europe. Within Europe, Germany is the place to do that: from an outside perspective, it's the engine of Europe and a much more stable counterparty jurisdiction than other countries.

Having said that, they're probably going to look for the larger borrowers with a global footprint that aren't just dependent on Europe for revenues, and this means exposure to growth in Latin America, Russia and Asia. At the end of the day, eurozone growth is probably going to be less than 1% this year and next. Germany might be around 2% but it's not a high-growth region. ■

# Sino-European advantage

**Markus Solibieda, partner at Mandarin Capital Partners, explains the motivation behind his firm's Sino-European investment strategy, discusses its current fundraise and highlights opportunities in China for investors in tech and healthcare**

**Your investment strategy focuses on expanding European companies into China. What are the benefits of this strategy?**

China is the most important growth market in the world for us. It's changed over time; it's no longer a low-cost production base. But it's really interesting for sales of consumer, industrial and capital goods. Regardless of whether China grows 9% or 7.5% per year, it will be a very important market in the future.

We have seven years' experience in China. Our teams in Shanghai and Beijing are completely integrated with our teams in Europe. That really makes a big difference when supporting our portfolio companies. And our Chinese LPs really open doors and help us find our way through any regulatory challenges. The influence we have and our connections are very valuable.

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*"Regardless of whether China grows 9% or 7.5% per year, it will be a very important market in the future"*

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**You recently held a first close on your second fund, Mandarin Capital Partners II, on €110.5m. What are your expectations for the continued fundraising?**

We held a first close quickly due to the incoming AIFM directive. But we're happy to have Banca Intesa Sanpaolo, our cornerstone Italian investor, re-up in time for the first close. Roland Berger, entrepreneur and founder of the largest German management consultancy, has also joined our LP base. Bank foundations and family offices are among other early investors in our fund.

We're also addressing other European and Chinese investors. We want to hold a final close on €500m in spring 2014, with an interim close hopefully in autumn

this year. We expect the money we raise in Italy and Europe to be matched by Chinese investors.

**Why did you decide to include Germany as an investment destination in this fund?**

The Chinese economy is upgrading from a low-cost production base to a high-class manufacturer of consumer and capital goods. The companies that fit that growth plan are common in Germany, as well as northern Italy.

We want to invest the new fund between Florence and Hamburg and put a focus on high-tech machinery, healthcare and environmental technology. In terms of healthcare, Chinese standards are far behind those in Europe, so there are interesting opportunities. We are also interested in consumer goods, because of the growing middle class in China and the desire to purchase high-end, branded goods. Here we'll be looking mainly at Italy rather than Germany, of course.

**MCP recently completed three exits in a period of around one month. Why did you identify this period as a strong time to sell?**

These three assets were the first investments MCP completed, all before the crisis. Of course, 2008 and 2009 were challenging years. With the recovery starting in 2010, we approached the end of our investment cycle and we were able to show that we didn't just rebound from the crisis but we also achieved the strategic goals of each of these companies, which were drawn up five years ago. Our successful exits demonstrate that although we had this sharp decline in the crisis, we could still achieve the targets.

We have returned 74% of the money we originally collected from investors just with the four exits we realised, one last year and three this summer. So we have high hopes for the fund. ■



**Markus Solibieda,**  
Mandarin Capital  
Partners

Allianz Capital Partners managing director Michael Lindauer plays down the impact of the general election and emphasises the importance of environmental and social governance

# Fundraising & the AIFMD

## How has your allocation to Germany changed since the start of the eurozone crisis?

It's basically unchanged, which is also a result of the fact that we don't have specific geographic allocations while trying to avoid related concentration issues.

If you would ask me how my assessment on the attractiveness has changed, it's very neutral. What we've seen is that, given that Germany has been perceived as a bit of a 'safe haven', a lot of money has flown into Germany and the private equity market. I'm not sure how the market, which on the supply side has always been more or less flatish, will cope with the additional demand. It remains to be seen.

guidelines in this regard, but once this is solved I guess people will just learn to live with it. I wouldn't say I'm negative towards it, it's a piece of law that we have to abide by. Could we also live without it? Probably yes.

## How strongly do you feel about ESG and how do think German managers fare in that respect?

I feel very strongly about ESG, because it's at the core of what we do at Allianz. It's also what we expect from any fund manager, to whom we commit to an investment and then have a relationship with for at least 10-12 years. ESG should also be common sense, not only since the topic became a bit more *en vogue* in



**Michael Lindauer,**  
Allianz Capital  
Partners

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*"The AIFMD is an additional administrative burden for everybody. But at the end of the day, it probably won't kill anyone"*

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## Do you feel the election result could have a significant impact on German private equity?

No, not really. A lot has been done already, or is in the process of being done with the AIFMD and similar measures on the European level. I guess that any leading party, either the Social Democrats or the Conservatives, will probably have other issues to deal with at the forefront. I don't think the elections will have a major impact.

The AIFMD is an additional administrative burden for everybody. But at the end of the day, it probably won't kill anyone. There are obviously some open questions around certain key definitions in the directive and we hope for sensible implementation

recent years. It is very important to us. I think German managers fare pretty well on average. People are aware of the issue and take an ethical approach to what they do, which is a good thing.

## What expectations do you have for the current vintage compared to previous vintages?

I don't think there will be big differences, because, in a simplistic way, there are two potential outcomes: either these will be good vintage years because the economy will pick up eventually and the current and previous post-crisis vintages will participate in the uptick, or there is a prolonged recession or relatively flat period, from which the returns won't be too different anyway. ■

Ralph Guenther, principal at Pantheon, stresses the importance of environmental and social governance, and has high hopes for current vintages

# Landing local talent



Ralph Guenther,  
Pantheon

## How has your allocation to Germany changed since the start of the eurozone crisis?

Northern European markets always have been an important element of our European allocation. This includes the UK, Germany, Scandinavia and Benelux. Within this group we have slightly increased our allocation to Germany.

More importantly, we have increased our focus on European businesses that are benefiting from exports – to that extent, Germany is an obvious place to go. With respect to Germany, we try to mix local (and often country-specific) managers with pan-European managers with a strong local presence in Germany.

## Do you feel the election result will have a significant impact on German private equity?

No. In general we are not worried about significant changes in Germany as a result of the elections. All major decisions related to the euro crisis have been backed by a broad group of political parties including the major opposition groups in the Bundestag.

Furthermore, the “locust debate” is long gone and very unlikely to make a comeback. Today, large parts of society are accepting private equity as an important source of capital for private enterprises.

## How strongly do you feel about environmental and social governance (ESG) and how do German managers fare in that respect?

Pantheon is very passionate about ESG. We have been very active in the area of implementing ESG across all areas of our business. Since the start of this initiative in 2007, we have developed a framework that allows us to integrate proper ESG in our day to day business along the value chain. A lot of end investors in Germany are

pretty aware of ESG and are increasingly demanding that their private equity managers are compliant with ESG standards.

As a result, managers in Germany in general are very open for discussions around ESG and often have implemented standards accordingly. This also holds true for the larger pan-European groups that are active in Germany.

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*“Today, large parts of society are accepting private equity as an important source of capital for private enterprises”*

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## What expectations do you have for the current vintage compared to previous vintages?

As in previous cycles, we expect the current vintages to be good ones since the current economic conditions are rather difficult providing good investment opportunities for the skilled manager.

## What sets German private equity firms apart from their European counterparts?

To be successful in Germany deep local knowledge is required. The economy is to a large extent dominated by the Mittelstand – speaking the language and understanding the culture are mission critical and a deep understanding of the legal and regulatory framework is of the essence. All three factors have a major influence on deal sourcing, portfolio management and making an exit. Local teams are generally better equipped to cope with this, but we also see some pan-European managers with very strong local teams on the ground in Germany. ■



# GPs' ESG must 'catch up'

**Daniela Hauenstein**, partner at Alpha Associates, discusses under-allocation to the German market and the growing importance of ESG in a maturing private equity industry



**Daniela Hauenstein**,  
Alpha Associates

## How has your allocation to Germany changed since the start of the eurozone crisis?

I think Germany has weathered the crisis well, much better than expected. Since the crisis our allocation has actually increased, but that hasn't been a result of the crisis itself. If I look at our portfolio, the German market is under-allocated; it's the most important economy in Europe and it's certainly not the biggest exposure in our European portfolio.

We may increase our allocation over time, but not immediately because there is still a substantial difference in terms of private equity market maturity when you compare Germany to the UK or the Nordic countries. Even more so when you compare it to the US.

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*"If you compare Germany to France today, it really has gained in competitiveness. So we have strong hopes for the current vintage"*

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## Do you feel the election result could have a significant impact on German private equity?

I don't expect any dramatic changes in the political landscape after the elections. Private equity hasn't really been a big topic in Germany recently.

Interestingly, more of those really negative headlines have come from the Nordic region in terms of tax treatment of carried interest. I don't think potential negative effects as a result of the elections are at the top of the agenda for the German private equity industry.

## How strongly do you feel about environmental and social governance (ESG) and how do German managers fare in that respect?

Our investor base includes some government-backed entities where ESG has been a strong focus for a long time. On the public equity side, there is a clear demand from some investors who want to invest in products where the manager pays attention to this issue, so I think it will be more important over time.

In terms of Germany, I have seen more efforts in other countries such as the UK. I think it probably has something to do with the composition of the investor base and the maturity of the market. On the other hand, if you talk about ESG standards in Germany you start from a very different level when you compare it to some emerging markets.

I expect the weight on it to increase in the coming years. But the main focus today is on other aspects such as performance, track record, team composition, experience and strategy. There is certainly some catching up to do.

## What expectations do you have for the current vintage compared to previous vintages?

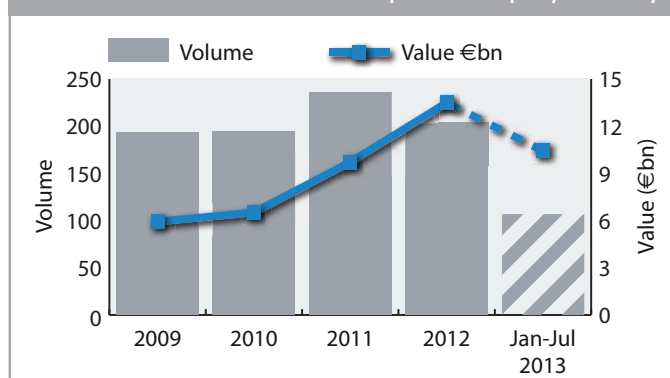
When compared to the more challenging years that were really hit by the crisis, but we expect the current vintage to outperform. But there are risks. Not only from the European crisis but also from slowing emerging markets, because the proportion of the German economy in these markets has been growing.

But there are many very good German companies that stand to profit from the long-term cycle towards emerging markets. In addition, the regulatory environment has improved compared to 10 years ago. If you compare Germany to France today, it really has gained in competitiveness. So we have strong hopes for the current vintage. ■

# STATISTICAL COMMENTARY

By Greg Gille

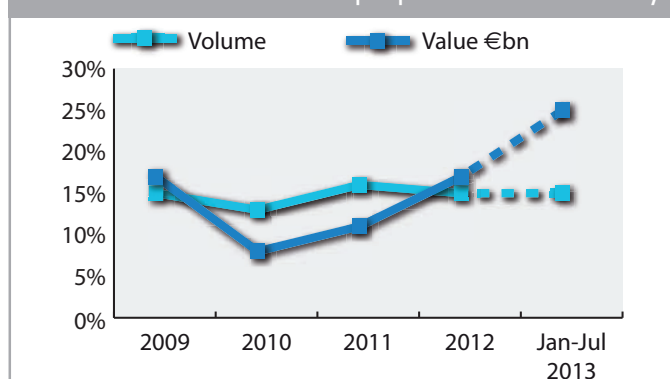
German private equity activity



## Pump up the value

Although the market showed promising signs of recovery in 2011 after two years of muted activity – with the volume and value of local private equity transactions reaching 236 and €9.7bn that year – 2012 was a reminder that Germany has not been spared the challenges affecting the rest of the continent. Dealflow slowed to 2009 and 2010 levels, with 203 deals done last year. However, aggregate value has been rising steadily for the past four years – clearly local and international players remain eager to deploy capital in the country. So far, 2013 is conforming to these two contrasting trends: the 107 deals recorded in the first seven months of this year hint at a year-end figure roughly in line with last year's, while the impressive €10.5bn of capital already deployed in the country should comfortably exceed 2012's €13.5bn, bar any dramatic slowdown.

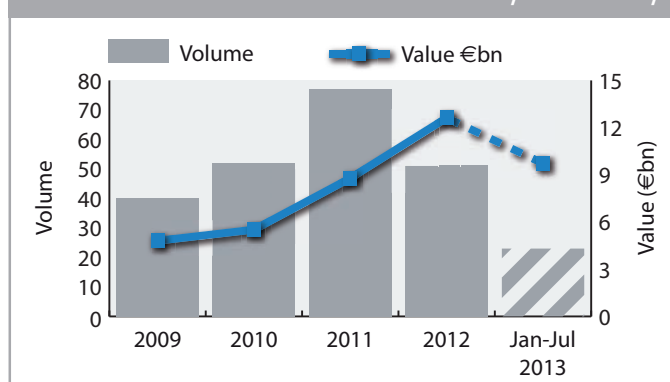
German deals as a proportion of EU activity



## Outspend thy neighbours

Germany's share of the European private equity market has remained remarkably steady in the past five years, volume-wise. Although dealflow has oscillated year-on-year as seen in the previous chart, similar trends across the rest of the continent mean that Germany's contribution to overall activity has kept hovering around the 15% mark. This remains true so far in 2013 – by comparison, UK deals account for a third of the European volume total, with France coming in second at 19%. The value picture is much less consistent, with Germany rapidly gaining in prominence in parallel with the increasing amounts of capital deployed in the country after 2010. The uptick in mega-buyouts this year has led to Germany accounting for a quarter of the European value total, just shy of the UK's 28%.

German buyout activity

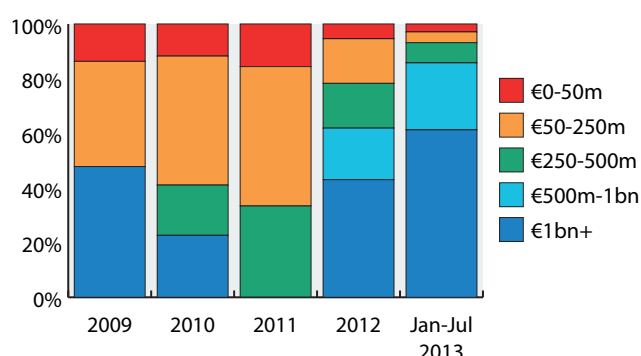


## Less is more

The slowdown in dealflow is even more marked when isolating German buyouts. Their number nearly doubled between 2009 and 2011, a steady increase that left local players optimistic about a sustained recovery. But while 2012 started off strong, Germany was afflicted by a sharp slowdown in activity in the second half of the year. As a result, the country was home to 51 buyouts by year-end, on par with 2010's 52 transactions and far shy of the 77 deals recorded in 2011. With 23 buyouts witnessed so far in 2013, year-end volume figures could end up even closer to the 2009 nadir. Overall value is a different story though: buyouts completed in 2013 to date are already worth a collective €9.7bn (surpassing the 2011 full-year figure), and topping the €12.6bn seen in 2012 seems a reasonable prospect.

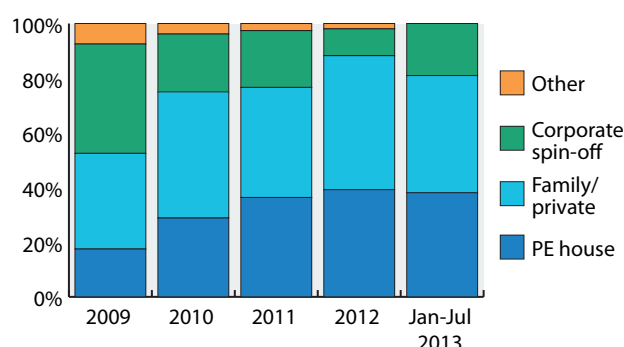
Source: unquote® data

Overall value of German buyouts by value range

**Go big or go home**

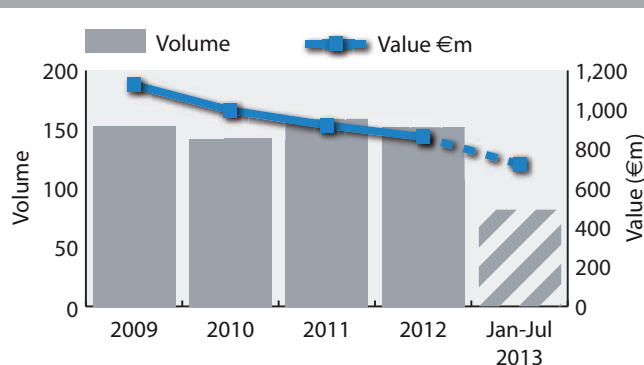
Germany's buyout value figures were particularly impressive in Q2 this year. With deals worth €9bn completed between April and June, Germany comfortably outpaced the UK's €5.5bn to become the most prominent market in Europe. The comparison wasn't as flattering in volume terms though, since this substantial value total was heavily skewed by two deals valued at more than €3bn each: BC Partners' Springer Science and CVC's Ista. In fact, over the past few years, mega-buyouts have increasingly accounted for the lion's share of capital deployed in Germany. While there were no buyouts valued at more than €1bn in 2011, these deals accounted for 43% of the market in value terms last year, and an even more lopsided 60% so far in 2013.

Volume of German buyouts by vendor type

**High watermark for SBOs**

The proportion of secondary buyouts in relation to the overall volume of deals rose steadily in Germany between 2009 and 2012, from a low 17% in the first post-crash year to nearly 40% last year. So far in 2013, this figure has remained virtually steady, with 38% of all buyouts transacted between GPs. Conforming to the trend that sees such deals usually more prominent at the upper end of the market, both the €3.3bn Springer Science and the €3.1bn Ista deals were SBOs; the assets were sold by EQT Partners and Charterhouse respectively. Germany fares slightly better than the European average in that regard: 43% of all European buyouts completed in the first seven months of 2013 were SBOs. That proportion is much higher in France (65%) and roughly equivalent in the UK (37.5%).

German early-stage &amp; expansion deals

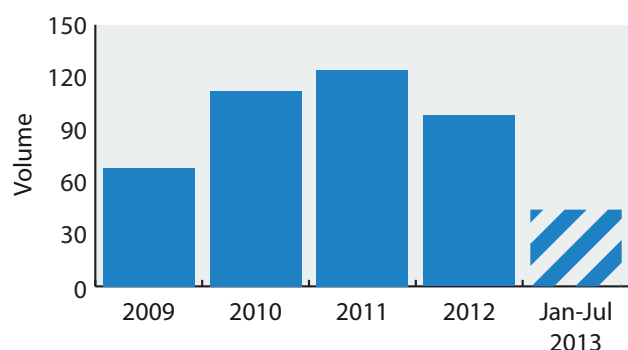


Source: unquote data

**Cruise control**

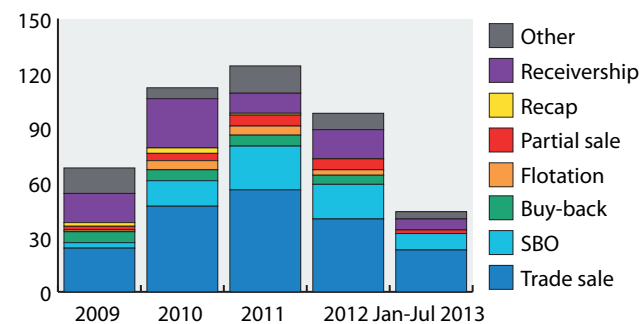
The levels of early-stage and growth capital investment have remained remarkably stable in Germany over the past five years, hovering around the 150-deals mark every year since 2009. With 82 deals executed in the first seven months of the year, 2013 should not see this trend significantly altered. Year-end figures could, however, put an end to a downward slide when it comes to the overall value of these growth deals – a phenomenon which might hint at difficulties for Germany's many start-ups and SMEs to attract significant amounts of capital past early funding rounds. With €723m deployed between January and July in that space, exceeding the €861m recorded for the whole of 2012 shouldn't prove too much of a challenge.

Volume of German exits

**Tough exit environment**

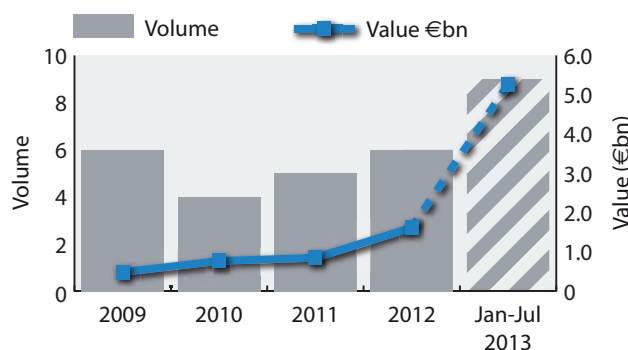
The volume of divestments seen for the past couple of years in Germany serves as a reminder that it remains tough for GPs to navigate exit routes in the current environment. Exit activity increased sharply between 2009 and 2011 to settle at 124 divestments that year, but fell back by 20% to 98 deals in 2012. With just 44 exits recorded between January and July this year, 2013 might even struggle to match that figure. That said, Germany doesn't seem as badly affected by boom-era stragglers compared with some of its neighbours: according to *unquote* data, less than 20% of the German buyouts done in 2006 are still left in portfolios, against 44% for Europe as a whole.

Volume of German exits by type

**Open for trade**

In a further positive development, it appears German businesses remain attractive to strategic buyers: 52% of exits realised in the country in 2013 have been trade sales, against 33% in the rest of Europe. One example was organic light-emitting diode specialist Novaled, sold by its VC backers in August to Samsung Electronics and Samsung's subsidiary Cheil Industries in a transaction valued at €260m. That same month, Equistone sold Computerlinks, a distributor of IT security, network performance and internet technology solutions, to Arrow Electronics for €230m. Secondary buyouts were undeniably the high-profile exits (with the Ista and Springer Science deals), but this exit route only accounted for 20% of all the exits recorded so far this year, a significantly lower figure than the 32% witnessed in France.

German private equity funds reaching final close

Source: *unquote* data**Das Kapital**

The number of funds raised by German players – and the amount of capital they have been able to draw in – have increased steadily in the post-crash years. In 2010, *unquote* recorded four fund closes, raising a collective €775m. Last year, this was up to six vehicles and €1.6bn in commitments, thanks notably to DBAG, which closed its sixth fund at its €700m hard-cap in August. The first seven months of 2013 have already seen these achievements comfortably surpassed, with nine German funds raising a total of €5.25bn. This last figure is however skewed by Triton's latest effort: although the GP is understood to be in the final stages of the closing, it is thought to have raised €3.3bn for Triton Fund IV, setting a record for a Germany-based player.



## GERMANY REPORT

unquote.com/research

**Buyout fundraising for DACH, 2013 (Jan-Sept)**

Fund	Raised	Remit	Notes
Triton	€3.3bn ( <i>Not technically closed</i> )	German and Nordic industrials	Largest ever fund raised by a German GP
Afinum VII	€280m	DACH mid-market	Exceeded €250m target in five months
CGS III	CHF 208m	DACH buy and build	Exceeded CHF 180m target
DPE Germany II	€350m	DACH mid-market	Exceeded €300m target in five months
Quadriga IV	€529m	DACH Mittelstand	Two-year fundraising
Steadfast	€128m	DACH, Benelux mid-market	Target had been €300m

**Top 10 German deals 2013 (Jan-Sept)**

Deal name	Deal date	Deal value (€m)	Sector	Equity
Springer Science	Jun 2013	3,300	Media	BC Partners
Ista International GmbH	Apr 2013	3,100	Industrial goods & services	CVC Capital Partners
Ceramtec	Jun 2013	1,500	Industrial goods & services	Cinven
Armcell International GmbH	Apr 2013	500	Construction & materials	Charterhouse Capital Partners
FTE Automotive GmbH	May 2013	450	Automobiles & parts	Bain Capital Europe
Heidelberger Leben	Aug 2013	300	Insurance	Cinven
Klenk Holz AG	Aug 2013	200	Construction & materials	Carlyle Group
Alloheim Senioren-Residenzen	Aug 2013	180	Healthcare	Carlyle Group
Generator Hostels	Aug 2013	150	Travel & leisure	Patron Capital Partners
Eterna Mode	Apr 2013	140	Personal & household goods	Quadriga Capital Management

Source: unquote™ data

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