

PRESS RELEASE

Private equity banks on internationalisation

**Study: Currently M&A less favoured as value creation strategy /
“Mittelstand” profits**

Frankfurt am Main, 10 May 2012. To generate value appreciation in their portfolio companies, private equity investors today most frequently rely on internationalising business models, whereas optimising production ranks second. According to PE specialists, internationalisation strategies constitute a significant lever in measuring enterprise values. And the trend has just begun: internationalisation is set to advance strongly in the coming four years. No such sharp increase is expected for other value creation strategies. M&A strategies, in particular, are considered less important momentarily. These are the key findings of a study conducted by FINANCE Research on behalf of international law firm Noerr LLP and Deutsche Beteiligungs AG (DBAG) entitled “Private Equity: Impulsgeber im Mittelstand” that was published today. Compared to large corporations, mid-sized companies are present in international markets to a lesser extent. They stand to profit particularly from financial investors’ sponsorship.

More than 120 investment managers from some 100 different private equity firms took part in the study, representing a major portion of Germany’s private equity landscape. A key objective of the study was to find out which value creation strategies are being implemented by companies in the portfolio of financial investors, what impact these strategies have on NAV returns and how their opportunity/risk ratio is assessed.

According to the study, nearly two thirds of the portfolio companies are internationalising their business models “strongly” or “very strongly”. Sixty percent of the companies are seeking to optimise their production processes to the same extent, whereas a higher vertical range of manufacture or building a stronger brand presence is of lesser significance (50 percent and 33 percent, respectively). The main reason for giving preference to internationalisation is its “significant” or “very significant” effects on NAV returns. 72 percent of the respondents were of this opinion. Other strategies scored clearly lower (31 to 63 percent). However, it takes a comparatively long period of time before internationalisation strategies are reflected in operating profits, and they also carry a relatively high risk of failure.

In the coming years, private equity financings will be used even more intensively to extend the companies' geographical reach – to set up manufacturing sites, deploy research and development facilities, establish sales or franchise networks, or build an integrated international corporate group: more than 60 percent of the PE investment managers interviewed stated that their portfolio companies will turn to such activities to a greater degree. All other value creation strategies were weighted considerably lower (21 to 44 percent). Less than one out of three respondents currently expects M&A activities or buy-and-build strategies to gain in importance again. A similar study conducted five years ago came to the conclusion that almost all financial investors at the time opted for M&A to create value in their portfolio companies. (“Private Equity im Mittelstand – Wie verändern Finanzinvestoren deutsche Unternehmen?”, FINANCE Research, June 2007).

“The study demonstrates once more that financial investors move their portfolio companies forward and enhance their competitiveness.” Wilken von Hodenberg, Spokesman of the Board of Management of Deutsche Beteiligungs AG, emphasised when presenting the study. “Gone are the days when you made a company more valuable solely by cutting costs, optimising processes and pushing sales. Today, many companies attempt to become global players with the help of a private equity sponsor – to broaden their positioning and be better equipped to compete with new competitors.”

“The results show that the private equity industry is currently undergoing fundamental change”, said Noerr partner Dr Georg Christoph Schneider when commenting on the research. Private equity experts believe that focusing more intently on value creation strategies such as internationalisation entails a change in the skill-set that private equity investors require. “Private equity investors today have in-depth market and sector knowledge.”

Huge potential for “Mittelstand” companies

“Mid-sized companies profit from an investment by financial investors,” says Schneider. According to a study by KfW Bankengruppe on the globalisation of SMEs, about 50 percent of Germany's “Mittelstand” companies do not yet operate internationally at all. Tapping new international markets frequently fails due to the inadequate financial and human resources these companies have. “However, the equity, knowledge and experience of financial investors can accelerate the process,” Dr Schneider underscored. “Financial investors regularly back the internationalisation projects of their portfolio companies and have access to networks – so that an investment by financial investors evolves into a competitive advantage when mid-sized companies seek to go global.”

These developments are destined to change the private equity industry:

“Compared to former fund generations, private equity firms have realigned

themselves through teams that are focused on sectors and markets and through their readiness to invest with longer time horizons,” Dr Schneider concludes.

About Deutsche Beteiligungs AG

Deutsche Beteiligungs AG (www.deutsche-beteiligung.de) is a leading publicly listed private equity company. With a track record of nearly 50 years, it is the oldest private equity firm in Germany. Deutsche Beteiligungs AG focuses on market-leading mid-sized enterprises in Germany and neighbouring European countries. It invests from its own balance sheet and from the assets of co-investment funds. Currently, the company has approximately 800 million euros under management.

About Noerr LLP

Noerr is a leading European law firm – with more than 470 professionals, five offices in Germany, seven in central and Eastern Europe, one office in London, one in Alicante (Spain) and a representative office in New York. The internationally operating Noerr Private Equity team is composed of attorneys, tax advisors and auditors. In 2011, Noerr experts were involved in more than 130 transactions with private equity involvement. The team is headed by Dr Georg Christoph Schneider and Dr Thomas Schulz.

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