

PRESS RELEASE

Private equity investors vying for primaries

- **Huge supply of capital intensifies competition**
- **Sector trend: Investment teams supplemented by deal-sourcing specialists**
- **“Understanding business models and potential better and faster”**

Frankfurt am Main, 29 June 2017. Private equity firms see a greater challenge in finding target companies that have previously not been held by another financial investor. Every fifth firm is therefore hiring specialists who focus on deal sourcing and, as a rule, do not work operationally on transactions. That was one of the findings of the fourth Mid-Market Private Equity Monitor, for which FINANCE magazine polls investment managers at more than 50 private equity firms operating in Germany. The survey is carried out twice a year on behalf of Deutsche Beteiligungs AG (DBAG) to examine trends in the German mid-market segment.

Nearly 70 percent of those interviewed said that it has become more difficult to access so-called primaries – target companies that have previously not been owned by another private equity firm. Such companies generally offer the most opportunities for introducing development strategies and realising value creation potential.

The lack of primaries is hardly surprising, since ever more capital from institutional investors is seeking investment, which is continually increasing the competition for investment opportunities. Strong competition is probably also the reason for another trend revealed by the mid-market monitor: a significant number of private equity firms wants to engage specialists who focus on seeking target companies. One out of five of those interviewed said that his or her firm has hired a specialist in the past twelve months who is mainly occupied with deal-sourcing activities, or that the firm plans to do so within the next twelve months. Although the number of firms that do not have such plans is significantly higher at 80 percent, this position practically did not exist in the private equity sector until a few years ago, signalling that a new sector trend seems to be taking shape.

The survey's longitudinal data shows that private equity firms see themselves in a stronger position vis-à-vis strategic investors. On a scale of 1 to 10, they

rate their strength at 5.2; this is 0.7 points higher than two years ago. Competition among financial investors has recently increased again from an already very high level: currently, on a scale of 1 (“low”) to 10 (“high”), competition among investors is rated at 8.6. Nonetheless, the private equity firms interviewed feel that the momentary deal flow is better than the long-term average (5.8 on a scale of 1 to 10, with “5” being the average); this, too, is a more positive rating than in the previous survey, which took place at the end of 2016.

It is evidently not contradictory that financial investors consider their deal flow as having improved and as having an edge over conglomerates on the one hand, while sensing increased competitive pressure among private equity firms, on the other: “Insurance companies and pension funds have entrusted ever more capital to financial investors. On top of that, the conditions for borrowings are excellent. The generally high availability of capital makes it possible to pay higher prices for investments. That intensifies the competitive pressure,” said Torsten Grede, Spokesman of the DBAG Board of Management, commenting on the survey results.

Grede added: “In this environment only those private equity companies have good prospects of successfully concluding transactions that have proprietary access to attractive investment opportunities and have intensively analysed companies’ development options. Those wanting to prevail and meet their return targets must understand business models and their potential better and faster.”

Deutsche Beteiligungs AG, a listed private equity company, initiates closed-end private equity funds and invests alongside the DBAG funds in well-positioned mid-sized companies with potential for development. DBAG focuses on industrial sectors in which Germany’s ‘Mittelstand’ is particularly strong on an international comparison. With its experience, expertise and equity, DBAG supports the portfolio companies in implementing corporate strategies that sustainably create value. Its entrepreneurial approach to investing has made DBAG a sought-after investment partner in the German-speaking world. Assets under management or advisement by the DBAG Group amount to approximately 1.8 billion euros.

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