TRENDS IN GERMAN BUYOUT MARKET

PRESS CONFERENCE

FRANKFURT AM MAIN, 24 JANUARY 2017
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Development of the private equity asset class

Buyouts in Germany:
- Capital supply and demand
  - Price trend
- Market development in 2016

Outlook
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Outlook
“DRY POWDER” WORLDWIDE: CAPITAL AVAILABLE FOR PRIVATE EQUITY INVESTMENTS INCREASED

DRY POWDER (US$ BN) AT THE END OF 2016

US PENSION FUNDS RELY ON PRIVATE EQUITY

ASSET ALLOCATION OF THE 10 LEADING US PENSION FUNDS

- Private Equity: 11%
- Public Equity: 49%
- Fixed Income: 19%
- Real estate: 12%
- Other: 9%

Source: Financial reporting of the funds
LONG-TERM FOCUS OF INSTITUTIONAL INVESTORS: PRIVATE EQUITY, INFRASTRUCTURE AND PRIVATE DEBT

INSTITUTIONAL INVESTORS’ PLANS FOR ALLOCATIONS IN THE LONGER TERM

- **Private equity**: Reduce allocation 7% → Increase allocation 56%
- **Hedge funds**: Reduce allocation 33% → Increase allocation 17%
- **Real estate**: Reduce allocation 14% → Increase allocation 35%
- **Infrastructure**: Reduce allocation 8% → Increase allocation 50%
- **Private debt**: Reduce allocation 17% → Increase allocation 67%
- **Natural resources**: Reduce allocation 20% → Increase allocation 24%

*Source: Preqin Investor Outlook: Alternative Assets H2 2016*

*Debt funds are competing with banks*
INVESTORS STILL TARGET HIGH ANNUALIZED RETURNS FROM THEIR PRIVATE EQUITY PORTFOLIO

PRIVATE EQUITY

- **up to 8%**: 5%
- **8 to 12%**: 21%
- **12 to 16%**: 45%
- **up to 16%**: 29%

REAL ESTATE

- **up to 8%**: 35%
- **8 to 12%**: 45%
- **more than 12%**: 20%

INFRASTRUCTURE

- **up to 8%**: 35%
- **8 to 12%**: 50%
- **more than 12%**: 15%

PRIVATE DEBT

- **up to 8%**: 34%
- **8 to 12%**: 47%
- **more than 12%**: 19%


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FUNDS FOR PRIVATE EQUITY INVESTMENTS IN THE DACH REGION

*Capital commitments for two years / five-year investment period

Source: Preqin, Campbell Lutyens, DBAG

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DBAG EXPANDS OFFERING WITH 2016 FUNDRAISING

**POSITIONING OF DBAG FUNDS**

- **DBAG ECF II**
  - ~€10-30mn
  - Minority

- **DBAG fund VII**
  - ~€40-100mn
  - Minority

- **Top-up fund**
  - ~€100-200mn
  - Majority

**Equity investments of up to €200mn**

**Entering the small buyouts market segment**
PAN-EUROPEAN FUNDS IN THE GERMAN MID-MARKET

About ten pan-European funds with German branch invest most of their dry powder in Germany

Another ~25 pan-European funds with opportunistic / selective approach invest mostly in the upper segment of the mid-market
CAPITAL DEMAND HAS ALMOST REACHED PRE-CRISIS RECORD LEVEL

MID-MARKET MBOS IN GERMANY
(Transaction value: €50-250mn)

Majority takeovers by financial investors via MBO, MBI, secondary/tertiary buyouts; transaction value: €50-250mn
Source: public information, research by DBAG and FINANCE
BUYOUTS HIGHLY CONCENTRATED AMONG A SMALL NUMBER OF MARKET PARTICIPANTS

TOP PE-INVESTORS IN THE GERMAN MID-MARKET, 2007-2016
(PE-Investors with five or more Transactions)

Majority takeovers by financial investors via MBO, MBI, secondary/tertiary buyouts; transaction value: €50-250mn
Source: public information, research by DBAG and FINANCE
Two buyouts with transaction volume of >€250mn (Coperion, MCE), two buyouts outside Germany not included (2008, 2010)
CAPITAL SUPPLY FOR BUY-OUTS IN THE GERMAN MID-MARKET EXCEEDS DEMAND

Assumption: equity ratio of 50 percent
Source: public information, research and estimates of DBAG and FINANCE
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VALUATION LEVELS IN GERMANY: PRICE INCREASE OBSERVED IN SEVERAL SECTORS

From the DBAG Mid-Market Monitor (November 2016):

How would you evaluate overall valuation levels in the German private equity market?

- Normal when compared over the long term: 8%
- Expensive: 5%
- Dangerously excessive: 86%

In which sectors have prices increased most strongly?

- Medical engineering: 83%
- Technology: 73%
- Services: 39%
- Cleantech: 29%
- Consumer goods: 22%
- Chemicals: 22%
- Mech. and plant eng.: 17%
- Automotive: 17%
- Food and beverage: 17%
- Trade: 8%

Source: survey among investment managers from more than 50 private equity firms; DBAG Mid-Market Private Equity Monitor in collaboration with FINANCE
ANALYSIS OF DBAG BIDS

Database: 78 bids (2013 to 2016)

VENDOR
- Family: 33
- Financial investor: 30
- Corporate: 15

SECTOR
- Mechanical and plant engineering: 28
- Automotive suppliers: 17
- Industrial components: 16
- Industrial services: 8
- Other: 9

EV/EBITDA
- Valuation level influenced by business models

Source: DBAG

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NO FUNDAMENTAL PRICE INCREASE IN DBAG BIDS – NEITHER IN GENERAL ...

Database: 78 bids (2013-2016)

AVERAGE EV/EBITDA

Valuation levels differ depending on business models

Only eleven out of 78 bids resulted in buyouts

Some highly competitive (“expensive”) transactions may not be included

Source: DBAG
Database: 78 bids (2013-2016), thereof 17 bids for mechanical and plant engineering companies and 16 bids for automotive suppliers

Analysis confirms results of DBAG Mid-Market Monitor

No business model related distortions

Source: DBAG
DBAG BUYOUTS SINCE 2001: ENTRY VALUATIONS ONLY MODERATELY INCREASED

Database: 32 buyouts (2001-2016)

<table>
<thead>
<tr>
<th>Year Range</th>
<th>Average EV/EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2004</td>
<td>4.4x</td>
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<tr>
<td>2005-2007</td>
<td>6.0x</td>
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<tr>
<td>2008-2010</td>
<td>5.5x</td>
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<tr>
<td>2011-2013</td>
<td>6.5x</td>
</tr>
<tr>
<td>2014-2016</td>
<td>7.0x</td>
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</tbody>
</table>

Source: DBAG

Business model related distortions
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34 MBOs in the German mid-market in 2016 (see slide 12): majority takeovers by financial investors via MBO, MBI, secondary/tertiary buyouts; transaction value: €50-250mn
Source: public information, research by DBAG and FINANCE
BREAKDOWN BY SECTORS: SHARE OF INDUSTRIAL COMPANIES BELOW PRE-CRISIS LEVEL

- Automotive
- Mechanical and plant engineering
- Chemicals
- Services
- Healthcare
- Other

High level of strategic activity in industrial sector

34 MBOs in the German mid-market in 2016 (see slide 12): majority takeovers by financial investors via MBO, MBI, secondary/tertiary buyouts; transaction value: €50-250mn

Source: public information, research by DBAG and FINANCE
UNUSUALLY HIGH NUMBER OF FAMILY SUCCESSION TRANSACTIONS

Thereof two DBAG buyouts (Frimo, Polytech)

- Spin-offs
- Secondaries / Tertiaries
- Family succession

34 MBOs in the German mid-market in 2016 (see slide 12): majority takeovers by financial investors via MBO, MBI, secondary/tertiary buyouts; transaction value: €50-250mn

Source: public information, research by DBAG and FINANCE
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Capital availability
- Ongoing high capital availability among financial investors
- Easy access to debt financing

Competitors
- Strategic investors continue to drive competition for promising companies

Macro-economic environment
- Risks from central banks’ interest rate policy
- Increasing geopolitical risks

Deutsche Beteiligungs AG: Even stronger focus on the development of portfolio companies