Deutsche Beteiligungs AG

PRESS RELEASE

After the coronavirus: "More realism in the private equity sector"

- **Sector survey: No portfolio meltdowns – limited need for capital injection but longer holding periods**
- **Advantage for investors with long-term focus to be expected**
- **Torsten Grede, Spokesman of DBAG's Board of Management: "The requirements for the quality of business models have again increased"**

Frankfurt/Main, 2 July 2020 – More realism, longer holding periods and an advantage for investors with long-term focus – these are the main changes that investment managers in the private equity business expect as a result of the coronavirus crisis. This is according to a recent survey conducted amongst investment managers at more than 40 private equity firms active in Germany. The firms are polled every six months by FINANCE magazine about trends in the German private equity market, on behalf of Deutsche Beteiligungs AG (DBAG). The survey conducted in June also clearly illustrated that transaction activity is not expected to increase in the near future: deal flow – the pipeline of potential transactions for investors – has deteriorated materially. For the first time in five years, investors perceive it as below average. This goes hand in hand with the fact that competition amongst private equity investors is also considered to be at its lowest level since the beginning of the regular survey in 2015.

Portfolio meltdowns occur only in exceptional cases: only one in ten investment managers surveyed reported that either all or at least three quarters of their portfolio companies were severely impaired by the pandemic. However, a further 30 per cent stated that between one and three quarters of the portfolio companies were suffering significantly from the crisis. Accordingly, one in four private equity houses reported that at least 25 per cent of their portfolio companies were facing liquidity shortages and therefore needed external capital injections. "Nobody could have predicted a crisis of this magnitude – nevertheless, even now a healthy level of debt financing pays off", Torsten Grede, Spokesman DBAG's Board of Management, commented on the result of the survey.

The collaboration between investors and lenders has clearly been working well in the first months of the crisis: almost two-thirds of investment managers rate it as constructive, only one in ten perceives the collaboration as difficult. It remains to be seen how this assessment will evolve in the months ahead as the consequences of the crises are tackled. The question about the difference between bank financings and debt funds showed no significant difference. However, about half of all respondents did not want to make a final assessment. The survey also confirmed the general expectation that in future debt funds "will play an even more prominent part in acquisition financing than before."

Even though in view of the crisis private equity houses are likely to have their hands full with their portfolios, most of them indicated that they would be open for new transactions. According to almost 80 per cent of respondents, there is demand for those companies that proved resistant to the coronavirus crisis, as well as for those that are essentially healthy but have temporary liquidity concerns during the crisis. Overall, according to their own statements, only around ten per cent of the surveyed investors intend to limit themselves to maintaining and expanding their existing portfolios. Not a single participant stated that they were too busy with their portfolios to think about new business.

In view of the macro-economic situation, it is not surprising that non-cyclical business models are now highly demanded among investors. Software and IT were ranked first by 29 per cent of the participants, followed by healthcare and telecommunications, media and technology. Industrial companies, as well as companies operating in the food and beverage industry are currently regarded as less attractive.

The current crisis is attributed with transformative power. On a scale of 1 (maximum rejection) to 10 (maximum approval), the statement that the coronavirus crisis will not change the private equity business at all only achieved a value of 3.2. On the contrary: the crisis will sustainably change the private equity business. The statement that the private equity sector will, in general, return to more realism achieved an approval rating of 6.2. A possible meaning of this is indicated by the approval rating of 8.2 for the expectation that the average holding period of portfolio companies will be extended. "Even before the coronavirus crisis, the manufacturing industry, which is the key driver of our economy, had been hit by an economic slowdown and the Trump administration's trade policy", said Mr Grede, Spokesman of DBAG's Board of Management, recalling the economic background to the survey. He added: "It cannot be ruled out that the recovery will take longer than we all wish. Thus, in future, investors with an adequate long-term focus will be in demand." The surveyed investment managers also believe that patient investors will have an advantage (approval rate 7.6). After all: "Regardless of potential holding periods, successful investments can be made even during difficult times – for example, when well-positioned companies require equity capital as a result of the crisis. However, quality requirements for business models, their strategic importance and the potential of the respective markets have certainly not decreased", Mr Grede concluded.

Deutsche Beteiligungs AG, a listed private equity company, initiates closed-end private equity funds, and itself invests alongside those funds predominantly in well-positioned mid-market companies with development potential. DBAG focuses on those industry sectors where Germany's 'Mittelstand' is strong in international comparison. A growing portion of DBAG's equity investments is deployed in its new focus sectors of broadband/telecommunications, IT services/software and healthcare. Its long-term, value-enhancing entrepreneurial investment approach makes DBAG a sought-after investment partner in the German-speaking world. With the recently closed DBAG Fund VIII, DBAG Group's assets under management and under advice will rise to 2.5 billion euros.

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