

PRESS RELEASE

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| Date | 27 October 2016 |
| Page | 1 of 3 |
| Subject | Private equity panel 2016 III |

Private equity panel 2016 III survey by CMS and FINANCE: German private equity market shrugs off Brexit

Frankfurt/Main – The German private equity market remains supportive for investors in this segment, despite the shock Brexit vote at the end of June. Neither access to credit nor new investments, exits or fund raising appear to have been adversely affected by the British decision. That is the finding of the latest private equity panel survey, which is conducted three times a year by CMS Germany and FINANCE magazine. Some 40 private equity (PE) firms provide anonymous assessments of the market for the survey.

The availability of finance for deals remains strong. Compared with the last survey, conducted in May before the Brexit vote, the rating actually improved slightly to 7.96 out of a possible 10 points (= excellent conditions). The loan packages on offer appear to come with less attractive terms, though, now being rated only 6.91 by PE professionals, down from 7.56 points. "There is still more than enough debt capital available. As such, even the marginally poorer terms are hardly going to dent positive investor sentiment," said CMS partner Dr Joachim Dietrich.

Investors still ready to buy

Very few PE investors perceive the upcoming Brexit negotiations as putting the brakes on their projects. Fewer than 10% of respondents see any deterioration in the market due to the Brexit vote. This applies not only to the practical implementation of M&A projects and purchase price negotiations, but also to finance and exit options. Just 13% of those surveyed stated that the Brexit decision has had an impact on the business activities of their portfolio

companies. Having said that, there seems to be some unease among transaction partners. Almost one in three respondents believes there is a degree of uncertainty in the M&A market. Around 30% of the panellists also noted a decline in risk appetite among finance partners. "At present, Brexit is not a focus of attention either among portfolio companies or with regard to upcoming transactions. Instead, most market players expect that the associated negotiations will deliver results that are acceptable to everyone involved," said Dr Joachim Dietrich.

Since no other external factors are negatively impacting the private equity market, the positive overall picture remains intact: at 6.83 out of 10 possible points (= very good outlook), the business prospects for private equity-financed companies remain stable. Although purchase prices are still regarded as expensive, 61% of the surveyed private equity investors currently tend to see themselves more as buyers, the highest percentage for more than ten years. "The fact that the general environment for private equity continues to be very supportive should not disguise the ongoing fierce competition for attractive targets. This results firstly in high purchase prices and secondly means that sellers are in a strong negotiating position," explained CMS partner Dr Tobias Schneider.

Exodus from automotive continues

The healthcare, software/IT and services sectors remain the favourites among private equity investors as targets for new investment. Financial services providers and automotive suppliers, by contrast, are unattractive. Despite the automotive industry having once been the darling of German PE investors, it is likely that the current exodus will continue over the coming months. Seen from a global perspective, private equity firms are now in their third year of reducing their automotive exposure. In Germany, there was another substantial trade sale in mid-October, when PE investor Equistone sold industrial and automotive supplier Hornschuch to the Dax-listed Continental Group. "It isn't surprising that we are currently seeing a lot of exits and not much new investment in the automotive sector. This may be rather hasty, however, since the automotive sector in particular has a lot of attractive and innovative companies with a huge amount of untapped potential – they just need to be identified," said Dr Tobias Schneider.

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