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press release

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Private equity panel surveyed by CMS Hasche Sigle and FINANCE: Private equity investors in cautious mode

Frankfurt/Main – Following the recovery in the spring, private equity investors' access to acquisition loans has now worsened significantly. While the finance market was on the road to recovery at the start of 2011 according to the members of the joint private equity panel surveyed by CMS Hasche Sigle and FINANCE, it is now once again depressed and hesitant. The uncertain economic situation and turmoil in the financial markets are having a serious impact on PE business in the German SME sector.

The leading representatives of some 40 PE firms who comprise the FINANCE private equity panel consider the availability of borrowing for buy-outs as 35% worse in October 2011 than in the spring. The index figure fell from 6.72 to 4.37 (maximum: 10), reflecting a situation where there is virtually no access to acquisition loans. The figure is actually lower than that recorded in May 2010 (4.7) when credit markets were beginning to free up again.

“Private equity has been seriously affected by the current widespread uncertainty,” says Dr Joachim Dietrich, partner at law firm CMS Hasche Sigle, commenting on the panel findings. “Many market players are simply waiting to see what happens. Some ongoing bidding processes have slowed down considerably, or companies are electing not to embark on new sales processes in view of the uncertainty.” Dr Tobias

Schneider, also a partner at CMS Hasche Sigle, fears that "the German PE market will continue sluggish until the turbulence in the financial markets dies down."

The business prospects of portfolio companies are likewise deteriorating, with a rating of just 6.06 in this area from the private equity experts, a drop of 20% from May. However, this value is still relatively high and does not indicate an impending recession. At the same time, PE managers have lost their appetite for new deals. All 15 sectors covered by the FINANCE private equity panel survey are now much less attractive in the eyes of the panellists, with engineering companies, chemical firms and electronics companies being the least favoured. "Good targets will remain in demand even in times like this because PE firms are still sitting on a lot of capital," says Schneider, putting the decline in attractiveness into perspective. "Purchase prices for these deals are also unlikely to weaken significantly due to continued strong competition, but companies that are less sought after could be left on the shelf."

A special set of questions related to the impact of the current crisis in the capital markets on key areas of investment activity. Financing is bearing the brunt of the crisis: 58% of those surveyed regard the impact on borrowing as severe, with a further 34% deeming it moderately severe. More than three quarters of all respondents also feel the crisis is having a severe or moderately severe impact on recapitalisations, company sales (exits) and new investment. "Development of the private equity market will also depend on whether market uncertainty can be brought to an end relatively quickly," predicts Dietrich. "Nothing hampers transactions more than prolonged planning uncertainty."

Those are the key findings of the autumn survey of the private equity panel polled three times a year by CMS Hasche Sigle in conjunction with specialist magazine FINANCE.