PRESS RELEASE

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Page	1 of 3
Subject	Private equity panel 2017/II

Private equity panel 2017/II survey by CMS and FINANCE: Purchase prices hit new peak – alternative financiers gaining ground

Frankfurt/Main – German private equity managers are increasingly uneasy about high purchase prices. Accordingly, 70% of the surveyed SME funds operating in Germany currently see themselves as sellers rather than buyers in the M&A market. This is the highest level since the private equity panel was formed seven years ago. The survey is conducted three times a year by CMS Germany and FINANCE magazine. Some 50 private equity (PE) firms provide anonymous assessments of the market for the survey. “With valuations close to record highs, it’s understandable that PE firms are toying with the idea of cashing in. If there is a downturn in the market, no one wants to be open to the accusation that they missed the boat,” commented Dr Jacob Siebert, a partner at commercial law firm CMS.

Upsurge in prices being fuelled by banks and private debt funds

The market appears more and more expensive to private equity investors. On a scale from 1 (extremely expensive) to 10 (extremely cheap), they put current purchase prices at 2.87. This is a new low for the assessment of company valuations, with the figure having fallen steadily since 2010. “This trend is double-edged, of course, since it also shrinks the pool of possible buyers,” said Siebert.

One of the reasons for this development is tough competition on the financing side. Banks are seeking to counteract the growing role of private debt funds by offering borrower-friendly terms. From the panellists’ perspective, this competition is reflected in favourable terms, both for buy-out finance (7.65 points; 10 = very good outlook) and buy-out loans (8.09 points). “Banks and debt funds keep outbidding each other,” warns CMS partner Dr Tobias Schneider. “It’s questionable whether these finance arrangements will still be viable in choppier waters.”

Alternative finance models welcomed by PE managers

Overall, the involvement of private debt funds is welcomed by 85% of the private equity managers surveyed. Almost half of the panellist expect the market share of alternative financiers to continue to rise over the next two years. Their market share is currently 20 to 25%, having declined recently after reaching more than 30% in 2015. “There is simply a lot of money in the market. For that reason, debt funds will make life difficult for banks over the medium term as well unless something unforeseen happens, such as changes to the regulatory regime,” said Schneider.

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