

Press release

MidCapMonitor from GCA Altium: For the first time in six years, fewer transactions on the German LBO market – market share of debt funds rises to nearly 50 percent

Despite strong first half-year, only 89 LBO financings in 2018 – first decline since 2012

Munich, Frankfurt, Zurich, 13. February 2019. After years of continuous growth, the German LBO market has dipped for the first time since the financial crisis ended. The number of transactions completed fell in the past year to 89, compared with 103 in 2017 – a decline of almost 15 percent. By contrast, alternative financiers steadfastly continued their success story in 2018 and bucked the general decline in the German LBO market. The latest MidCapMonitor prepared by the investment bank GCA Altium, which regularly tracks leveraged-buyout financing with a credit volume of between €20 million and €500 million, recorded a share of almost half of the German LBO market for debt funds for the whole of 2018: in comparison to 2017, when they achieved a 35 percent share, this marks another clear increase, to 48 percent. Of the 89 transactions in 2018, debt funds successfully completed 43 transactions. The market share of the banks was still 65 percent in 2017 and has now shrunk to 52 percent, with 46 transactions.

The success of the alternative financing lenders stems from several factors. On the one hand, the banks seem to be growing noticeably more risk averse on individual transactions – particularly those involving cyclical companies. The more flexible debt funds are filling the gap and thus making sure those transactions take place that banks would not have financed at all, or if so, then only much more conservatively. On the other hand, in the interim there has been a notable increase in the number of debt funds able to offer a volume of €150 million or more per individual transaction, thus making a complex consortium of banks superfluous. “The time advantage of large amounts of financing from a single lender now frequently plays a role in competitive auctions,” comments Johannes Schmittat, Managing Director at the Frankfurt Office of GCA Altium. It is also apparent that buy-and-build-strategies in particular are being financed by alternative lenders. “The final maturity bullet repayment of the credits and the greater flexibility of the conditions free up capital for growth through acquisitions,” says Norbert Schmitz, also Managing Director of GCA Altium.

A further point of interest is that the success of alternative financing parties is not limited to Germany. During the past year 219 LBO transactions were financed by debt funds in Europe. “Compared to 2017 that is a further increase of 22 percent,” says Norbert Schmitz. However, Q4 saw a significant fall for the first time, with 14 fewer transactions than the previous quarter (down 23 percent). In addition to Germany with 43 transactions, intensive use has also been made of alternative financings in the United Kingdom (67 transactions) and France (48 transactions).

Overall, GCA Altium does not expect banks to regain their lost market shares in the near future. Rather, a further increase in alternative financings is expected in 2019.

On the banking side, Commerzbank continued to build upon a successful first half of the year, leading in 2018 with 13 transactions in total. Unicredit (10) successfully defended second place, whereas the previous year’s market leader SEB (9) had to share third place with Bayern LB (9). What is remarkable is that the number of transactions financed by the banks decreased by 32 percent and, with 46 in 2018, fell well below the total for 2017 (68).



Although there was much resistance to the very low margins and very borrower-friendly conditions in 2018 on London's large-cap and high-yield-market, GCA Altium discerned no impact on the German LBO market. "Due to the ongoing extremely competitive environment between banks and debt funds, we expect stable conditions in the short term," says Norbert Schmitz.

About GCA Altium

GCA Altium is the European business of GCA, a global investment bank that provides strategic M&A and capital markets advisory services to growth companies and market leaders. The firm offers worldwide coverage with over 400 professionals in 15 offices across America, Asia and Europe. Built by the people that run the business, GCA is a firm of experts who focus on deals that require commitment, original perspective, skill and exceptional networks.

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