



Press release

## GCA Altium MidCapMonitor: Strong Q4 2019 for German LBO market

**A strong second half of the year results in 99 LBO financings for 2019, thereby markedly outperforming the previous year, with market shares of banks and debt funds nearly equal**

**Munich, Frankfurt, Zurich, 07 February 2020.** After a very weak first half of 2019, the German LBO market has performed markedly better in the third and fourth quarters. The number of completed transactions in 2019 rose to 99 in total, compared to 89 in 2018 – a more than ten percent increase. Alternative lenders were able to further expand their market share in comparison to banks – even though only slightly. The latest MidCapMonitor prepared by investment bank GCA Altium, which regularly tracks leveraged-buyout financings with a credit volume of between €20 and €500 million, confirms that in 2019 debt funds were able to acquire a market share of more than 50 percent in the German LBO market. Compared to 2018 (48 percent) this figure increased moderately again and is now at 52 percent. Of the 99 transactions in 2019, debt funds successfully completed 51. The market share of traditional banks was at 48 percent with 48 closed transactions in 2019 – slightly below the level of 2018 (52 percent).

Of particular interest in this context is the fact that certain debt funds were able to cover a pricing comparable to banks during several transactions in 2019, taking traditional banks out of the picture entirely for these transactions. “At this point, only a few alternative lenders are able to match the pricing of banks while maintaining a more conservative level of leverage by using their ‘Senior Funds’. However, over the last months, many debt funds have started to raise funds for so-called ‘Stretched Senior Funds’. With these products, they continue to approach the level of banks when it comes to pricing coverage”, says Norbert Schmitz, Managing Director of the Frankfurt office of GCA Altium, about this development. “With this move, debt funds continue to aggressively acquire the banks’ market shares and remove one of the last arguments in favour of financing by banks”, says Johannes Schmittat, also a Managing Director of GCA Altium.

Of note as well is the fact that despite increased competition by alternative lenders, traditional banks – while not managing to defend their turf entirely – were able to keep market share losses at a minimum. This can be attributed to the fact that in 2019 the number of re-caps/re-financings and add-on financings once again increased by 6 percentage points to 44 percent, compared to 2018 with only 38 percent. These types of transactions usually have less aggressive timelines than auction processes, which means that one of the major competitive advantages of debt funds does not apply. The number of new financings (primary and secondary), where debt funds have the advantage over banks due to being able to move faster and having higher hold ticket values, fell to 55 percent in 2019, a loss of 7 percentage points compared to 2018. “Even though banks managed to slow down their advance in 2019, we expect that in general debt funds will continue to assert themselves in the market – especially considering the number of newly raised Stretched Senior Funds”, comments Norbert Schmitz.

However, the final quarter of 2019 also showed that not every transaction can be financed aggressively. “After a successful second half of 2019, we noticed that some debt funds acted quite conservatively towards the end of the year”, adds Johannes Schmittat. Businesses from cyclical sectors in particular were turned down for financings more often.

In 2019, the most active private equity firm was Waterland with nine transactions, followed by DBAG with seven and Ufenau with five. As for the banks, SEB has once again completed the most transactions this year (14), clearly outperforming Oldenburgische Landesbank (11) and Unicredit (9).

The European market for unitranche financings of debt funds has been extraordinarily active in 2019 as well – 246 transactions compared to 221 transactions in 2018 equals an increase of 11 percentage points. In addition to Germany with 47 transactions in 2019 (an increase of 9 percentage points compared to 2018), unitranches have also been intensively used in the UK (85 transactions, a 23 percent increase) and France (53 transactions, an 8 percent increase).

### **About GCA Altium**

GCA Altium is the European business of GCA, a global investment bank providing independent corporate finance advice including strategic M&A, capital markets and debt advisory services. With more than 400 professionals and 23 offices in the key M&A markets across America, Europe and Asia, GCA serves a variety of clients ranging from the world's largest conglomerates and corporates to the top financial sponsors and growth companies.

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