



## Press Release

### **GCA Altium MidCapMonitor: Strong start of the year in Q1 for German LBO market, corona-related reluctance expected for Q2 and Q3**

**Munich, Frankfurt am Main, Zurich, 07 May 2020.** Despite the first quarter of the year traditionally performing weaker, the German LBO market has this year started off strongly, with 22 transactions continuing the positive trends of the previous quarters. Adverse effects from the coronavirus and the Europe-wide lockdown stipulated to contain the spread of the virus will only be visible from the second quarter onwards.

According to 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, alternative lenders were able to significantly expand their market share further in comparison to banks. For Q1 2020, the analysis by GCA Altium shows that debt funds had acquired a share of more than 60 percent in the German LBO market – compared to 2019 (52 percent) this figure increased significantly once more and is now at 64 percent. Of the 22 transactions recorded for Q1, debt funds successfully completed 14. With 8 completed transactions in the same period, the market share of traditional banks was at 36 percent and therefore noticeably lower than towards the end of 2019 (48 percent).

“Even though the Q1 activity is not yet impacted negatively by the COVID-19 pandemic, for Q2 and likely even until the end of the year, we expect significant impairments in regard to financing availability”, says Norbert Schmitz, Managing Director of the Frankfurt office of GCA Altium, “Our latest survey from late April clearly shows that lender sentiment has improved in the last four weeks, but of course it is by far not yet back at pre-pandemic levels. This is also true for current mandates, where we see both banks and debt funds acting very selectively and generally speaking more cautious.”

“What is also worthy of note is that debt fund pricing in particular has significantly increased in recent weeks, usually in combination with markedly reduced leverages”, says Johannes Schmittat, also a Managing Director at GCA Altium, “We expect a noticeable increase of covenant resets and restructurings as soon as companies’ Q2 figures are reported. For many businesses Q1 was still a good quarter, but in Q2 the effects of the coronavirus will be clearly visible.”

The monitor also shows that 72 percent of all transactions in the first quarter have been re-caps/re-financings and add-on financings, compared to 44 percent in 2019. The number of new financings (primary and secondary) fell from 56 percent in late 2019 to only 28 percent in the first quarter of 2020. “Many M&A processes for Q2 have been put on hold or rescheduled and for the next two quarters we expect the trend of a larger number of re-financings and add-on financings to continue”, comments Norbert Schmitz. However, M&A transactions are still being completed despite the corona crisis. “Some private equity funds are now buying high-quality companies. In cases where the financing can not be covered at the moment, some funds are taking a risk by going all-equity while planning to re-finance the transaction at a later point in time”, adds Johannes Schmittat. However, this is likely to only be the case for businesses which are comparatively unaffected by the pandemic.

The European market for unitranche financings of debt funds has also been extraordinarily active in Q1 2020 as well: With 61 transactions this has been the strongest start of the year recorded by the MidCapMonitor so far. Next to Germany with twelve transactions in the first quarter, unitranches were also heavily used in

both the UK (25 transactions) and France (12 transactions). In countries which had already been affected by the coronavirus in February such as Italy and Spain, there were no unitranche financings.

### **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 25 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. For more information: [www.gcaaltium.com](http://www.gcaaltium.com)

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