

Press Release

GCA Altium MidCapMonitor: Massive slump in Q2 2020 for German LBO market; debt funds continue to show resilience, even during the corona crisis

Munich, Frankfurt am Main, Zurich. 12 August, 2020. As forecast, the Europe-wide lockdown stipulated to contain the spread of the coronavirus has had significant adverse effects on the German LBO market in the second quarter of the year. The number of successfully completed transactions fell to eleven, compared to 23 in the first quarter of 2020, which corresponds to a decrease of 52 percent.

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, in the difficult current circumstances alternative lenders showed resilience and were able to significantly expand their market share in comparison to traditional banks in the second quarter of the year. The analysis by GCA Altium shows that debt funds had acquired a share of more than two thirds of all transactions on the German LBO market in the second quarter of 2020. Compared to 2019 with 52 percent, this number has increased significantly once more and is now at 71 percent. Of the 34 transactions completed in the first half of 2020, debt funds have successfully realised 24. Banks' market share for the first half of 2020 was only at 29 percent with ten successfully completed transactions – a noticeable decrease compared to 48 percent at the end of 2019.

“As expected, Q2 activity has been impacted negatively by the Covid-19 pandemic in a significant way. Until at least the end of the current year, we forecast a strong focus on stable, non-cyclical sectors and existing private equity relationships when it comes to new transactions”, says Norbert Schmitz, Managing Director of the Frankfurt office of GCA Altium, “Lender sentiment has improved markedly over the past four weeks, but experience with ongoing mandates shows that both debt funds and – above all – banks are currently acting very selectively.”

“Although pricing – in particular that of debt funds – has in recent weeks once more oriented itself clearly downwards and leverage levels have in part reached pre-Covid-19 levels again, this only applies to the very top assets”, says Johannes Schmittat, also Managing Director at GCA Altium, “As has become clear in recent weeks, the Q2 figures have been catastrophic for many businesses. Therefore, we expect a further increase in covenant resets and restructurings for the rest of the year.”

It is also noteworthy that in the first half of the year, 59 percent of all transactions have been add-on financings and re-financings, compared to 44 percent in 2019. The driving factors behind this development were add-on financings in particular, which increased to 29 percent in the first half of 2020, compared to 16 percent in 2019. The share of new financings (both primary and secondary) fell from 56 percent at the end of 2019 to only 31 percent in the first half of 2020. “When in doubt, banks prefer to take part in an add-on financing for an already known portfolio company, rather than a new transaction”, comments Norbert Schmitz on this development.

After a slam on the brake in the second quarter of the year, the deal pipeline is already filling up again at a steady pace and M&A processes, which have been postponed until now are currently being prepared to be (re-)launched after the summer. “As of today, we expect a more active fourth quarter with a significant increase in new transactions. However, even in this instance, banks and debt funds will continue to pay close attention to the quality of assets while sectors such as automotive, retail and tourism will continue to be very

difficult or even impossible to finance”, adds Johannes Schmittat.

The consequences of the coronavirus as well as the stipulated lockdown have also had a noticeable impact on the European market for unitranche financings of debt funds. After the strongest start to the year since the MidCapMonitor was launched – 62 completed transactions in the first quarter of 2020 – the second quarter clearly fell short of this figure with only 43 transactions, which corresponds to a decrease of 30 percent. While Germany managed to avoid getting affected too badly with a total of nine transactions (a decrease of 25 percent), the markets in the UK (twelve transactions and a decrease of 54 percent) and France (eight transactions and a decrease of 33 percent) were impacted to an above-average extent.

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.

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