

## Press Release

# GCA Altium MidCapMonitor: Strong comeback in Q3 2020 for German LBO market; banks recover from initial coronavirus shock

**Munich, Frankfurt am Main, Zurich. 06 November, 2020.** After the Europe-wide lockdown in April and May and despite the generally slower summer months, the German LBO market has recovered significantly in the third quarter of 2020. The number of successfully completed transactions rose to 22, compared to eleven in the second quarter of the year, which corresponds to an increase of 100 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, traditional banks were able to win back market share in comparison to alternative lenders in the third quarter of 2020. Of the 22 transactions completed in the third quarter of the year, eleven (50 percent) were financed by banks and another eleven by debt funds. The analysis by GCA Altium also shows that in the first nine months of the year debt funds nonetheless financed more than 60 percent of all transactions on the German LBO market. Compared to the first half of 2020, this market share decreased from 69 percent to 61 percent. The market share of banks for the first nine months of the year (counting 22 successfully completed transactions) increased to 39 percent, compared to 31 percent for the first half of 2020.

“After a very challenging second quarter, market activity during the third quarter has been much more positive than we anticipated. Even though lender sentiment has been noticeably improving since early July, the fact that traditional banks have managed to finance 50 percent of all transactions in the third quarter of the year is remarkable”, says Norbert Schmitz, Managing Director of the Frankfurt office of GCA Altium, “We were also able to confirm our assumption that both banks and debt funds strongly focused on stable, non-cyclical sectors and only acted very selectively in the third quarter. We expect this trend to continue for the next six to twelve months.”

“When it comes to top assets, the leverage levels offered by both banks and debt funds in some cases already exceed pre-Covid-19 levels again. The same goes for pricing, which is also mostly at pre-Covid-19 levels once more”, says Johannes Schmittat, also Managing Director at GCA Altium, “The economic situation in Germany is still quite challenging for many businesses and the recently initiated ‘lockdown light’ is causing additional uncertainty, which is why we also expect a continuously high number of covenant resets and restructurings for the rest of this year and at least the first half of 2021.”

It is also noteworthy that the share of new financings (primary and secondary) has increased from 41 percent in the first half of 2020 to 53 percent for the first nine months of the year. The main driver of this development were primary financings with a 10 percent increase, which was at the expense of re-financings and re-caps, which decreased by eleven percent in the third quarter. After the first nine months of the year, the share of add-on financings, re-financings and re-caps were at 48 percent, compared to 58 percent in the first half of 2020. “Debt funds, and banks in particular, have managed to overcome their initial coronavirus shock and are once more open towards new transactions. However, dividend re-caps were and are still challenging to realise in the current market climate”, comments Johannes Schmittat on this development.

After an already strong comeback in the third quarter, the pipeline for the rest of the year is still quite full. “We are currently working on a number of live transactions and expect a very active fourth quarter. The

question will be whether the once again increased number of Covid-19 cases and the recently initiated ‘lockdown light’ will affect transaction numbers”, adds Norbert Schmitz.

The market recovery of the third quarter is also quite noticeable on the European market for unitranche financings of debt funds. After a massive decrease of 30 percent (with 42 transactions in total) in the second quarter, this figure once more rose to 53 successfully completed transactions in the third quarter of 2020 – an increase of 23 percent. The main drivers of this development were the UK (20 transactions in total for an increase of 66 percent) and Germany (eleven transactions in total for an increase of 22 percent).

### **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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