Key takeaways
Summary of significant results

The German PE market showed a stable deal volume accompanied by a lower deal value driven by low levels of multi-billion EUR deals

Number of transactions

- There were 117 PE-backed transactions in 2018HY2 compared to 112 in 2018HY1 indicating a generally stable level of transaction activity. The number of non-PE backed transactions increased to 298 deals in 2018HY2 compared to 248 deals in 2018HY1.

Value of transactions

- The total value of disclosed PE investments decreased from EUR 11.0bn to EUR 6.9bn in 2018HY2. This decrease was mainly driven by the lack of multi-billion Euro transactions. The value of primary PE investments increased from EUR 2.4bn in 2018HY1 to EUR 5.5bn in 2018HY2. Further, the value of secondary investments decreased from EUR 8.6bn in 2018HY1 to EUR 1.4bn in 2018HY2.

M&A activity

- The largest PE transaction in 2018HY2 was the acquisition of SUSE Linux GmbH executed by EQT Partners for a total fee of EUR 2.18bn.
- With regard to the last twelve months (LTM), the deal value decreased from EUR 19.4bn in December 2017 to EUR 17.9bn in December 2018 due to high activity in 2018HY1.
- The value of strategic acquisitions in 2018HY2 decreased by 16% to EUR 11.2bn compared to 2018HY1, but still remained on a high level. The largest deal was the acquisition of Hymer by Thor Industries for EUR 1.9bn.
Major trends and outlook

- The development of the Private Equity market in Germany will largely depend on the outcome of the current political uncertainties (trade dispute with the US, Brexit, budget crisis in Italy).

- For 2019HY1 there are still some very large corporate carve-outs in the sales process that will be particularly interesting for financial investors.

- We expect strong activity on the transaction market from strategists (both buyers and sellers) due to the ongoing digitalization and transformation of existing business models.

PE sector analysis

- The largest sector with regard to transaction value was information technology, which accounted for 37% of all disclosed transactions, followed by the financial services sector (28%). The Information Technology sector was the most active in terms of volume (20%) followed by the Industrial sector (20%).

Exits

- In 2018HY2, the value of trade exits has dropped for the second consecutive half-year reaching EUR 1.7bn. In addition, the value of secondary exits has fallen from EUR 8.6bn in 2018HY1 to EUR 1.4bn in 2018HY2.

Geographical origin of PE investors

- The majority of investments with regard to value (LTM December 2018) were made by multinational-based PE investors (EUR 6.7bn). In LTM December 2018, activity levels of UK-based PE investors almost doubled (EUR 4.8bn) compared to the previous period (EUR 2.6bn). The majority of PE investors participating in German deals were locally based, increasing to a total of 110 transactions in LTM December 2018. The number of transactions backed by US-based PE investors decreased from 36 in LTM December 2017 to 18 in LTM December 2018.
Value and volume of transactions
The graph pictures the historical development of PE investments by value and volume on an LTM basis.

The value of PE investments decreased slightly from EUR 19.4bn in LTM December 2017 to EUR 17.9bn in LTM December 2018. In the same period, the volume of transactions experienced an upturn from 227 to 229.

The slight value decrease in LTM December 2018 was partly due to the absence of large corporate carve-outs, which usually raises the interest of PE investors. However there has been a large volume of small and medium-sized acquisitions. Further, 2017HY2 was an outstandingly strong half-year contributing to the overall results of LTM December 2018.

We expect the value to increase during 2019 as large deals are in the sale process and a high activity is driven by digitalization and transformation.
**Volume of disclosed and non-disclosed PE investments**

With a disclosed value of EUR 6.9bn, 2018HY2 represented almost two thirds of the previous half-year.

The adjacent table shows the volume of transactions in which the deal value was not disclosed, in comparison to the total volume and value of disclosed transactions in 2018HY2.

Compared to 2018HY1, the deal value of disclosed PE transactions decreased by EUR 4.1bn. The number of PE transactions remained stable, but there has been a lack of megadeals. This contributed to the fall of the overall deal value.

In 2018HY2 two PE deals valued at EUR 1bn or above were observed. In particular, the acquisition of SUSE Linux by EQT Partners for EUR 2.18bn and the acquisition of a 89% stake in Generali Lebensversicherung by Cinven Partners for EUR 1.67bn maintained the deal value level, although compared to 2018HY1 the total value has fallen by one third.

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*The grey shaded areas in the graph show the deal value impact from specific transactions from 2014HY2 until 2018HY2.*
Development of PE investments and secondary investments

While the value of primary investments has doubled, the drop in secondary buyouts from Private Equity companies has decreased the overall value in 2018HY2

- The value of primary PE transactions more than doubled to EUR 5.5bn in 2018HY2. This was accompanied by a strong decrease of PE secondary investments which declined from EUR 8.6bn to EUR 1.4bn.

- The volume of PE buyouts increased with a total of 96 deals compared to 84 in the previous half-year. Secondary investments decreased from 28 to 21 deals in 2018HY2.

- Following the long-term trend, prices for primary and secondary investments continued to grow.

- On an LTM basis, primary buyouts in December 2018 (EUR 7.9bn) are considerably below the value of December 2017 (EUR 11.9bn).
Geographical origin of PE investors and sector analysis
Sector analysis

The highest transaction value in 2018HY2 was achieved in the “Information technology” sector, followed by “Financial services”.

- With a total of EUR 2.6bn, the highest transaction values* came from the “Information technology” sector, followed by “Financial services” sector (EUR 1.9bn).

- Especially the sale of SUSE Linux drove the high transaction value in the “Information technology” sector, while the value in “Financial services” includes the sale of Generali Lebensversicherungen.

- The largest number of transactions in 2018HY2 was recorded in the “Information technology” sector.

Most important target sectors of financial investors in 2018HY2

*The transaction value refers to disclosed transactions whose value was published.
Geographical origin of investors

Activity from UK-based and multinational PE investors increased considerably in terms of value, whereas the volume of deals from US-based investors decreased.
The adjacent graph shows the volume and value development of PE transactions by the investors’ country of origin.

Increasing competition for small and midsized-deals was driven by multinational syndicates and UK-based investors.

US-based deals decreased in value by (-EUR 8.5bn) in LTM December 2018 as well as in volume by 50%.

The value of investments from UK investors showed a strong rebound from EUR 2.6bn in LTM December 2017 to EUR 4.8bn in LTM December 2018.

The largest disclosed transaction in 2018HY2, which was signed by a foreign investor, was the acquisition of SUSE Linux GmbH, which was acquired for a deal value of EUR 2.18bn by EQT Partners AB.

The level of Chinese deal activity decreased to EUR 0.33bn and the deal activity of US-based strategic investors decreased as well to EUR 3.61bn.
M&A activity/strategic vs. PE transactions
The number of acquisitions by strategic investors increased by 20% in 2018HY2, amounting to 298 transactions.

The number of Private Equity deals remained stable with 112 in the first half-year of 2018 compared to 117 in the second half.

Strategic investors are increasingly acting as competitors for financial investors. Due to the fact that the growth targets are mainly being achieved by acquisitions and as they are prepared to pay higher amounts.

This increasing competition forces financial investors to increasingly pay higher prices to win the bid for their preferred acquisition targets. This leads to a tendency towards rising prices.

In 2018HY2, the number of strategic transactions increased significantly, whereas PE transactions remained stable.

### Strategic vs. PE transactions, number of transactions

<table>
<thead>
<tr>
<th>Year</th>
<th>Strategic</th>
<th>PE</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014HY2</td>
<td>74</td>
<td>249</td>
<td></td>
</tr>
<tr>
<td>2015HY1</td>
<td>77</td>
<td>270</td>
<td></td>
</tr>
<tr>
<td>2015HY2</td>
<td>70</td>
<td>265</td>
<td></td>
</tr>
<tr>
<td>2016HY1</td>
<td>65</td>
<td>279</td>
<td></td>
</tr>
<tr>
<td>2016HY2</td>
<td>125</td>
<td>248</td>
<td></td>
</tr>
<tr>
<td>2017HY1</td>
<td>97</td>
<td>261</td>
<td></td>
</tr>
<tr>
<td>2017HY2</td>
<td>130</td>
<td>267</td>
<td></td>
</tr>
<tr>
<td>2018HY1</td>
<td>112</td>
<td>248</td>
<td></td>
</tr>
<tr>
<td>2018HY2</td>
<td>117</td>
<td>298</td>
<td></td>
</tr>
</tbody>
</table>

Volume of transactions

- **Disclosed Value of PE investments**
- **Disclosed Value of non-PE investments**
Value of PE vs. strategic transactions

The M&A activity in GSa decreased in terms of value in 2018HY2. One M&A deal in the German market was valued at EUR 1bn or above.

The graph shows the development of the German M&A market (i.e. non-PE investments) compared to PE investments.

Compared to the first-half of 2018, the value of strategic takeovers decreased by 14% to EUR 11.5bn. The volume decreased by 16% to EUR 11.3bn.

The acquisition of Erwin Hymer Group by Thor Industries Inc. for EUR 1.9bn was the largest M&A deal in 2018HY2.
Largest PE and strategic (M&A) transactions

In the second half of 2018, there was one M&A deal, which was valued at more then EUR 1bn in the German market

Largest M&A transactions in 2018HY2

<table>
<thead>
<tr>
<th>Target</th>
<th>Transaction value</th>
<th>Buyer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Erwin Hymer Group</td>
<td>EUR 1.9 bn</td>
<td>Thor Industries</td>
</tr>
</tbody>
</table>

Largest PE-Transactions in 2018HY2

<table>
<thead>
<tr>
<th>Target</th>
<th>Transaction value</th>
<th>Buyer</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUSE Linux</td>
<td>EUR 2.2 bn</td>
<td>▶ EQT Partners AB</td>
</tr>
<tr>
<td>Generali Lebensversicherung</td>
<td>EUR 1.7 bn</td>
<td>▶ Cinven Partners</td>
</tr>
<tr>
<td>(89.9% Stake)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
5 Exits
PE exits in 2018HY2 were lower than in the two previous half-years, which was mainly driven by a sharp decline in exits to other financial investors. Furthermore, no PE-backed IPO was recorded in Germany.

- The second half of 2018 shows a lower trend of PE exits.

- Trade exits are characterised by buyers with strategic advantages in the same industry as the target. Remarkably, the value of exits went down by 36%, although the volume experienced a substantial rise by 87%, achieving 43 deals with a value of EUR 1.7bn.

- Exits related to other PE corporations show a downturn of 84% in value, reaching EUR 1.4bn and a 25% lower volume.

- Exits in which PE firms acquire companies from other PE, account for one third of total exit activity by volume.
### Development of PE exits, number of transactions

The number of PE exits in 2018HY2 increased by 21% reaching a total of 64 transactions. This was caused by an increase in strategic exits.

<table>
<thead>
<tr>
<th>Year</th>
<th>Secondary Buyout</th>
<th>IPO</th>
<th>Strategic</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014HY2</td>
<td></td>
<td>13</td>
<td>28</td>
</tr>
<tr>
<td>2015HY1</td>
<td></td>
<td>16</td>
<td>33</td>
</tr>
<tr>
<td>2015HY2</td>
<td></td>
<td>10</td>
<td>32</td>
</tr>
<tr>
<td>2016HY1</td>
<td></td>
<td>13</td>
<td>36</td>
</tr>
<tr>
<td>2016HY2</td>
<td></td>
<td>25</td>
<td>38</td>
</tr>
<tr>
<td>2017HY1</td>
<td></td>
<td>20</td>
<td>29</td>
</tr>
<tr>
<td>2017HY2</td>
<td></td>
<td>33</td>
<td>31</td>
</tr>
<tr>
<td>2018HY1</td>
<td></td>
<td>28</td>
<td>23</td>
</tr>
<tr>
<td>2018HY2</td>
<td></td>
<td>21</td>
<td>43</td>
</tr>
</tbody>
</table>

The number of exits in the second half of 2018 is slightly above the level of the first half of 2018 (64 in comparison with 53) and on the same level as the second half of 2017 (64). Striking is the sharp decline of secondary exits, while exits through sales to strategic investors have gained importance.

In the second half of 2018 there was no PE-backed IPO transaction.
Development of average holding periods

The average PE portfolio holding period decreased slightly in 2018HY2

The graph shows the development of the average holding period for PE portfolio companies (exited) compared to the number of exits in the respective period.

The average holding period for portfolio companies declined to 56 months in 2018HY2.

The total number of exits rebounded from 51 in 2018HY1 to 64 exits in 2018HY2.
Outlook
Major trends in the PE market in 2019

Interview with Wolfgang Taudte, Partner Transaction Advisory Services

In the second half of 2018 we saw a slowdown in the German Private Equity market. Do you think this trend will persist?

One of the main reason for the slowdown in the second half-year of 2018 was the lack of large deals. This is likely to change in the upcoming year as we see various large deals (>100m EUR Ebitda) in the pipeline, such as Evonik’s Methacrylat business, Robert Bosch’s Packaging business or Median Clinics, which are currently owned by the Dutch PE house Waterland. There is enough dry powder in the market, so the increase of interesting targets to justifiable prices will lead to an increase in deal volume again.

How do you see the German Private Equity evolving overall in the next 12 months?

In 2018, valuations reached a new record-high, making it difficult for PE houses to find deals with an adequate return on investment. For 2019 we expect that valuation numbers to fall resulting in cheaper prices for assets and carve-outs. In the pasts months various sales processes were put on hold, such as the IPO of Springer Nature or the sales of LTS Lohmann, Lanxess Purification or the pharmaceutical company Riemser. Especially in cyclically sensitive industries prices have already started to fall. Interested buyers are now waiting for multiples to decline. This will heat up the Private Equity market again in 2019.

Can you name some sectors or industries that are likely to win or lose the most in 2019?

Especially in the areas of healthcare, services and infrastructure we saw high deal volumes in the past year that we expect to persist also in 2019. Also with regard to retail, industrial products and chemicals, we expect a lot of deals. But unlike the first industries, these businesses are more affected by cyclicity, leading to lower prices. The automotive sector on the other hand is likely to be less appealing to Private Equity investors in 2019 due to the change from combustion engine to electric card and the diesel car bans. Most investors are very apprehensive when it comes to these topics.

In your eyes, will political topics have a major influence on the development of the German Private Equity market in the upcoming year?

Of course political insecurities will have an influence on the economy and therefore also on financial and strategic investors - this was the case in the past year and it will continue also in the upcoming years if the issues are not resolved. The Brexit process, the budget crisis in Italy or the trade war between the USA and China will ultimately dampen the Private Equity market, especially with regard to cross-border transactions.
Environment, Social and Governance in the Private Equity sector
# Climate change and sustainability services

**We help minimize ESG (Environment, Social and Governance) risk and enhance value creation in Private Equity portfolios**

<table>
<thead>
<tr>
<th>Why ESG in Private Equity?</th>
<th>ESG Due Diligences help minimize risks and identify value creation potentials regarding</th>
<th>EY’s Global ESG transaction support team</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ With the impact of environmental and social changes on commercial enterprises accelerating, already 37% of investors today use a structured, methodical approach to analyzing nonfinancial information related to ESG risks as part of their investment decisions.</td>
<td>▶ Health, Safety, Employee matters and Human Rights (risks related to people issues including: Health &amp; Safety, Human rights, Employee engagement, Culture, Diversity, Modern slavery).</td>
<td>▶ Since 1992 EY offers advisory and audit services in the fields of sustainability and cleantech. For CCaSS, environment, social and governance (ESG) factors are one of the big strategy fields which experience a significant growth for years.</td>
</tr>
<tr>
<td>▶ Major asset owners in Germany, Switzerland and Austria are turning their attention to getting a clear view of the ESG risks and opportunities of the targets, especially in the sectors high-end retail, fish farming, industrial products, robotics and automotive.</td>
<td>▶ Social responsibility issues (risks related to environmental and social issues including compliance of environmental issues, climate risk and resilience, environmental products and services, product stewardship and product safety).</td>
<td>▶ We offer a global network of ESG professionals, with 850+ ESG professionals including 30+ ESG professionals in GSA that partner with our Advisory, Assurance and Transaction services resources.</td>
</tr>
<tr>
<td>▶ Research by Intertrust in 2017 showed that over three-quarters (78%) of Private Equity investors expect General Partners (GPs) to increase their focus on managing ESG considerations in their portfolios over the next two years.</td>
<td>▶ Governance and business practices (risks related to bribery &amp; corruption Fraud, whistleblowing or cultural tone from the top).</td>
<td>▶ We report all ESG topics within one ESG report to simplify end use by the Client/investment team. Our findings are then integrated into the other Due Diligence workstreams such as finance and legal due diligence to ensure ESG impacts and opportunities are accurately captured in the net debt, SPA and business plan.</td>
</tr>
</tbody>
</table>
Customized ESG Due Diligence

The scope of the ESG Due Diligence will be customized according to the requirements and needs of the client individually.

1. Environment
   Includes all risks related to environmental issues including:
   - Environmental issues
   - Climate risk and resilience
   - Environmental products and services
   - If required environmental-related product safety

2. Social
   Includes all risks related to people issues including:
   - Health
   - Safety
   - Employee engagement and matters
   - Human Rights
   - Culture
   - Diversity
   - Modern slavery

3. Governance
   Includes risks related to:
   - Bribery and corruption Fraud
   - Whistleblowing
   - Cultural tone from the top
   - Corruption
   - Fraud
   - Board oversight

Three pillars of ESG

First Phase:
preliminary identification of ESG risks and value creation topics, in-depth ESG assessment of target company based on review of available ESG related documentation in the Virtual Data Room (VDR) and expert call. Deliverable is a concise ESG Due Diligence report summarizing main risk and value creation areas for next phase.

Second Phase:
site visits to confirm understanding from first phase and identification of value creation opportunities post deal. Deliverable is a detailed ESG Due Diligence report summarizing main risk and value creation areas as well as ranking recommendations for improvement based on industry benchmark in a 100-day plan.
Our ESG approach and services for Private Equity in GSA throughout the investment lifecycle

By integrating the ESG Due Diligence information at every stage of the investment process, according risks for the investment/transaction can be identified and reduced from the beginning - a crucial aspect to get the right pricing, reduce the risks and flag the proper value creation items post-deal.

<table>
<thead>
<tr>
<th>Approach and services</th>
<th>Opportunities</th>
<th>Risks/liabilities</th>
<th>Impact on transaction/company value</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESG fund strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integrate ESG criteria at every stage of the investment/transaction cycle</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquire</td>
<td>Ownership phase</td>
<td>Exit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-investment:</td>
<td>Produce pre-investment screening and assessment tools</td>
<td>Perform ESG Due Diligence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post-close:</td>
<td>Review portfolios</td>
<td>Include ESG improvement potential in 100-day plans</td>
<td>Develop performance improvement programs</td>
<td>Communicate sustainable value creation (sustainability of the business model)</td>
</tr>
<tr>
<td>Exit:</td>
<td>Assess IPO- and exit-readiness</td>
<td>Perform vendor Due Diligence</td>
<td>Communicate sustainable value creation (sustainability of the business model)</td>
<td>Support reporting from portfolio companies</td>
</tr>
<tr>
<td>Quantify value of ESG initiatives (ROI) and establish indicators for monitoring (KPIs)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reporting from portfolio companies</td>
<td>Reporting to Investors /LP's</td>
<td>Reporting to other stakeholders</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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Sources
The involvement of EY in PE investments

EY’s Transaction Advisory Services has over 16,600 professionals in more than 95 countries and approximately 1,700 dedicated people working for our Transaction Advisory Services team in our sub area GSA (Germany, Switzerland, Austria).

Our success is based on working together in industry aligned teams. Our experienced global Transaction Advisory team is actively involved throughout the world in transactions among Private Equity houses and corporates. These transactions include acquisitions, divestitures and financings.

Managing this process is a complex exercise that requires an acute awareness of the confidential nature of these types of transactions: leveraging a global network of Private Equity advisers and industry specialists with a deep understanding of the motivation, pricing and market dynamics of their respective industry sectors.

EY employs a broad range of transaction professionals who advise on financial and tax Due Diligence, tax structuring, transaction integration as well as IT, pensions and operational Due Diligence.
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ED None

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