Summary of Results
• The German PE market in LTM June 2018HY1 grew to a ten-year high, accompanied by a strong increase in deal value driven by three large transactions valued at more than one billion Euro.

• This led to an overall transaction deal value of EUR 10.7bn in the first half-year 2018.

• With regard to the number of deals, the volume decreased slightly from 97 in 2017HY1 to 96 in 2018HY1, which is the second-highest number for a first half-year.

• The value of PE exits in Germany increased in 2018HY1 to the highest value for a first half-year since 2013.

• In terms of individual deals, the sale of the energy service provider Techem for 4.6bn Euro was the largest deal of the first half-year 2018.

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**Major Trends and Outlook**

• For 2018HY2, increasing deal volume and value is expected. In this year, the deal volume could reach a record high with regard to the number of deals that are still in the pipeline.

• Backed by favourable economic conditions in Germany, the level of deal activity in 2018 could exceed 2017 if no shock occurs in the market - e.g. due to geopolitical events, such an escalation of the trade conflict between the US and the rest of the world, or through a failed Brexit consensus.

• Furthermore, high levels of dry powder combined with low interest rates and scarcity of solid assets are likely to lead to a further increase of transaction multiples.
Volume and Value of Transactions
PE Investments by Value and Volume

LTM June 2018 PE deal value increased significantly in comparison to previous periods. A total of 226 deals were signed in LTM June 2018, valued at more than EUR 24.7bn.

- The graph pictures the historical development of PE investments by value and volume on an LTM basis.

- The value of PE investments increased from EUR 21.1bn in LTM June 2017 to EUR 24.7bn in LTM June 2018. Also the volume of PE investments increased slightly from 222 in LTM June 2017 to 226 in LTM June 2018.

- Financial investors are continuing to search for attractive investment targets due to the persisting low-interest phase and high levels of dry-powder. However the number of potential targets is limited. Especially for profitable investment candidates that promise future growth, financial investors need to pay high multiples.
Disclosed PE investments increased significantly in terms of value to EUR 10.7bn, resulting in highest value for a first half-year since 2008.

The number of transactions remained stable in comparison to last year’s reference period with 96 transactions in 2018HY1 compared to 97 in 2017HY1. This development underlines the stable high of the market.

With regard to the deal value of disclosed PE transactions, this half-year’s value was significantly above the value from 2017HY1. In fact, the value of EUR 10.7bn marks the highest deal value of disclosed PE transactions for a first half-year since 2008HY1, primarily driven by large secondary transactions.

The market activity in 2018HY1 has been characterized by multiple large transactions, as well as a multitude of medium-sized transactions. There have been three PE deals valued at EUR 1bn or above in the past six months. The largest of these deals was the acquisition of Techem by a consortium lead by the Swiss Partners Group Holding for EUR 4.6bn. In addition to Techem, the sale of the shipping company Scandlines for EUR 1.7bn and the acquisition of HSH Nordbank for EUR 1.0bn by Cerberus Capital Management and J.C. Flowers & Co. LLC drove the total deal value.
The value of primary PE transactions dropped from EUR 3.4bn in 2017HY1 to EUR 2.1bn in 2018HY1. At the same time, the value of PE secondary investments increased strongly from EUR 1.9bn to EUR 8.6bn, resulting in an all-time high.

The volume of PE transactions recorded an increase of 30% for primary investments and a decrease of 9% for secondary investments in 2018HY1 compared to 2017HY1.

Following the long-term trend, average prices for secondary investments continued to grow.
Geographical origin of PE investors & Sector Analysis
Sector Analysis

The highest transaction value in 2018HY1 was achieved in the “Other Services” sector, followed by “Transportation & Logistics”.

- The highest transaction values* (EUR 5.2bn) came from the “Other Services” sector, followed by “Transportation & Logistics” sector (EUR 1.7bn).
- Especially the sale of Techem drove the high transaction value in the “Other Services” sector, while the value in “Transportation & Logistics” includes the sale of Scandlines.
- The largest number of transactions in 2018HY1 were recorded in the “Consumer” sector.

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

Activity by US-based and German PE investors declined in terms of value and volume, whereas the numbers for investors of other origins increased

Development of PE investments according to the origin country of investors

- The following graph shows the volume and value development of PE transactions by the investors’ country of origin
- US-based deal value decreased (-EUR 5.4bn) in LTM June 2018, while the volume decreased by 32%. This development goes in line with the behavior of investors from Germany, which were also more reserved in LTM June 2018 resulting in a deal value decrease from EUR 0.9bn in 2017HY1 to EUR 0.3bn in 2018HY1
• With regard to UK-based investors and multinational syndicates, the opposite development can be observed. Investments of UK-based investors increased by EUR 1.5bn resulting in a total value of EUR 4.2bn in LTM June 2018 with transaction volumes increasing by 82%. Multinational syndicate investors’ investment activity demonstrated the biggest increase in terms of transaction values by growing from EUR 0.3bn in LTM June 2017 to EUR 8.8bn in this year’s comparative period.

• The largest disclosed transaction in 2018HY1, which was signed by a foreign investor, was the acquisition of Techem for a deal value of EUR 4.6bn by a consortium of investors, lead by the Partners Group.
M&A activity/
Strategic vs. PE
Transactions
The number of acquisitions through strategic investors decreased significantly in 2018HY1 amounting to 218 transactions, compared to 261 in 2017HY1.

The number of Private Equity deals remained stable with 96 in the first half-year of 2018 compared to 97 in the same period in 2017.

Financial investors are increasingly acting as competitors for strategic investors. Due to the fact that the number of targets in the market is limited, financial investors are becoming increasingly creative and professionalize their structures noticeably. Through this they build up their sector know-how. This increasing competition forces strategic investors to increasingly pay higher prices to win the bid for their preferred acquisition targets. This leads to a tendency towards rising prices.

### Number of PE vs. Strategic (M&A) Transactions

<table>
<thead>
<tr>
<th>Year</th>
<th>Private Equity</th>
<th>M&amp;A (Strategic Investors)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. HJ 2013</td>
<td>51</td>
<td>236</td>
</tr>
<tr>
<td>2. HJ 2013</td>
<td>53</td>
<td>261</td>
</tr>
<tr>
<td>1. HJ 2014</td>
<td>60</td>
<td>263</td>
</tr>
<tr>
<td>2. HJ 2014</td>
<td>74</td>
<td>249</td>
</tr>
<tr>
<td>1. HJ 2015</td>
<td>77</td>
<td>270</td>
</tr>
<tr>
<td>2. HJ 2015</td>
<td>70</td>
<td>265</td>
</tr>
<tr>
<td>1. HJ 2016</td>
<td>65</td>
<td>279</td>
</tr>
<tr>
<td>2. HJ 2016</td>
<td>125</td>
<td>248</td>
</tr>
<tr>
<td>1. HJ 2017</td>
<td>97</td>
<td>261</td>
</tr>
<tr>
<td>2. HJ 2017</td>
<td>130</td>
<td>267</td>
</tr>
<tr>
<td>1. HJ 2018</td>
<td>96</td>
<td>218</td>
</tr>
</tbody>
</table>
M&A activity of strategic investors in value terms decreased significantly in 2018HY1 compared to 2017HY1. A total of three M&A deals in the German market were 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 second half of 2017, the value and volume of strategic takeovers decreased significantly from EUR 23.1bn to EUR 13.3bn.

The value of Private Equity transactions in the first half of 2018 was significantly above the value of the 2017HY1 with a rise from EUR 5.3bn to EUR 10.7bn.

The acquisition of the consumer health business of Merck by Procter & Gamble for EUR 3.4bn has been the largest M&A deal in 2018HY1.
### Largest PE and Strategic (M&A) Transactions

#### Largest M&A transactions in 2018HY1

<table>
<thead>
<tr>
<th>Target</th>
<th>Transaction value</th>
<th>Buyer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merck (Consumer Health Business)</td>
<td>EUR 3.4 bn</td>
<td>Procter &amp; Gamble</td>
</tr>
<tr>
<td>Bayer (Crop science)</td>
<td>EUR 1.7 bn</td>
<td>BASF</td>
</tr>
<tr>
<td>Grammer</td>
<td>EUR 1.1 bn</td>
<td>Ningbo Jifeng</td>
</tr>
</tbody>
</table>

#### Largest PE-Transactions in 2018HY1

<table>
<thead>
<tr>
<th>Target</th>
<th>Transaction value</th>
<th>Buyer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Techem</td>
<td>EUR 4.6 bn</td>
<td>Caisse de Depot et Placement du Quebec</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ontario Teachers' Pension Plan</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Partners Group</td>
</tr>
<tr>
<td>Scandlines</td>
<td>EUR 1.7 bn</td>
<td>First State Investments</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hermes Investment Management</td>
</tr>
<tr>
<td>HSH Nordbank</td>
<td>EUR 1.0 bn</td>
<td>Cerberus Capital Management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>J.C. Flowers &amp; Co.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>BAWAG Group</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Golden Tree Asset Management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Centaurus Capital</td>
</tr>
</tbody>
</table>
PE exits in 2018HY1 remained on a high level driven by investment-favorable economic conditions. After three half-years without any PE-backed IPOs, two of such exits were recorded.

After a significant growth in 2017HY2, the overall exit market remained on a high level with an overall exit value of EUR 11.3bn, which is below the previous period (EUR 12.8bn).

While the value of trade exits decreased from EUR 7.2bn in 2017HY2 to EUR 2.7bn in 2018HY1, there was a strong increase in secondary investments amounting to a transaction value of EUR 8.6bn in 2018HY1.

This high value of secondary buyouts was mainly driven by the sale of Techem for EUR 4.6bn.

With regard to the volume of the exit market, the volume of PE exits (secondaries) decreased from 33 in 2017HY2 to 26 in 2018HY1, while the number of trade exits fell from 31 in 2017HY2 to 22 in 2018HY1.
The total number of exits in 2018HY1 was slightly above the value for 2017HY1, with 50 compared to 49 exits.

Aside from the strategic exits and secondary buyouts, there have been 2 PE-backed IPOs in 2018HY1. This was the first time this exit route has been observed within the past 18 months.
Development of average Holding Periods

Average PE portfolio holding period rebounded in 2018HY1 after the decline in the previous period

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 decreased to 64 months in the first half-year of 2018 in comparison to a total of 73 months in 2017HY1.
- The number of PE exits (50) showed a slight increase in comparison to the comparative period in 2017 (49).
Major Trends and Outlook

Looking at the future, there are several risks that the German Private Equity market and its investors are facing.

One of the biggest risks causing disquiet within the financial markets is the threat of an imminent international trade war, caused by the protectionist behavior of the United States in the recent past and the European and Asian reactions to it.

A similar risk is caused by the unclear development when it comes to the Brexit. These potential geopolitical risks cause an insecurity among investors that force them to increase focus on contingency planning and could create some hesitancy in the deal-making pace.

Despite these risks, we are currently experiencing the longest and most stable upswing phase in the history of the German private equity market and if none of the risks mentioned actually occur, deal values are likely to reach an even higher record level this year.

The trend of digitalization is still in the focus of investors, especially in sectors such as the automotive industry and will change business models further. This will lead to an increasing trend of companies divesting parts of their business, supporting the trend towards a high movement in the market. This is supported by our 2018 Global Divestment Study, wherein 87% of global companies have stated they are considering a divestiture, up from 43% in the 2017 study.
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BKR 1808-095
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