Close Brothers

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Germany's false dawn

At first glance, the German market has gone from strength to strength. Following nearly a year of non-activity, the country went out with a bang, with EQT's EUR 2.3bn acquisition of Springer Europe's largest of the year. BC Partners' EUR 500m acquisition of FUTURELAB and Synlab reinforced Germany as a place for big-ticket private equity, with two other mega-deals on the cards: the Kabel Deutschland secondary buyout looks set to hit EUR 5bn and ratiopharm is likely to break the EUR 1bn mark.

In fact the figures show Germany punching above its weight: In the fourth quarter of 2009, the DACH region saw a staggering 89% in total value increase to EUR 3.7bn.

But do these figures paint too rosy a picture? "The pure numbers certainly obscure a much deeper underlying issue," warns Sascha Pfeiffer of Close Brothers. "Looking at the market, we only see small buyouts of less than EUR 25m, or large deals of EUR 300m and up. But the mid-market has been very quite now for more than a year."

Looking closer at the financing structure of those deals, the small buyouts are either financed completely with equity in the hopes of refinancing later, or financed by a syndicate of local savings banks. The large deals, on the other hand, are financed by banks such JPMorgan, Deutsche Bank and BNP Paribas, indicating that the large syndication markets have partially thawed. In some cases, these deals are financed by the lending banks at more favourable terms and conditions, and vendor loans abound. This puts larger companies at a comparative advantage.

"But the real backbone of Germany, the Mittelstand, doesn't have this kind of access to the capital markets, and if they do, there is very little appetite for small- and mid-caps," Pfeiffer adds. "The whole Mittelstand is hampered by the fact that the lending landscape has irrevocably changed. Traditional lenders in the space have gone bust, such as several Landesbanken, which have closed down their leveraged finance teams, a number of Dutch or UK banks have vacated the market and the French banks have moved upmarket, which leaves a highly polarised deal landscape – the very small and the very large, with a gaping hole in the middle."

With the banking landscape irrevocably changed, is there any hope that the mid-market will be coming back anytime soon?

"There were a few transactions closed in the mid-sized range, such as AXA Private Equity's acquisition of HSE24 or Triton's acquisition of Dunkermotoren, which were financed with all-equity structures," states Pfeifer. "If these succeed in being refinanced, that might send an important signal to the whole market, but at the moment, I'm not very optimistic."