

Q1 2015: The new kids on the block: Alternative lenders in Germany

Welcome to the first issue of the Debt Advisory Deal Reader, a newsletter offering insights on trends, news and Debt Advisory transactions of interest to investment professionals, management and business owners. We are pleased to provide commentary regarding relevant topics and keep you informed about developments at our firm and in the market.

Market update

- Similar to previous years, Germany continues to be one of the top-3 most active countries in LBO financings in Europe
- Market liquidity remains high which leads to high leverage levels and further reduction of fees and margins
- However, current deal pipeline considered as too small by market sources resulting in heavily auctioned transactions

Recent trends

- Alternative lenders made a successful entry into the German market and become more and more a threat to established LBO banks
- Rapidly growing presence of private debt funds in Germany
- Transactions financed by direct lenders doubled over the past 12 months in Germany

Key takeaways

- 29 mid-cap transactions were financed by private debt funds in 2014 in Germany
- Lincoln estimates private debt funds to take ca. 30% of the German LBO mid-market in 2015
- Traditional LBO banks responding to the new competition by offering higher underwriting levels and greater flexibility on structure and terms



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Unitranche, private debt or alternative lending are currently the catchwords in the financing market. Hardly a day goes by without articles, conferences or interviews with regard to the benefits of this alternative financing source. With speed, flexibility and assertiveness in competitive processes, alternative lenders have successfully positioned themselves as a new financing source in the German LBO market over the past 18 months.

While private equity investors have originally been relatively sceptical about these new financing providers, an increasing number of financial sponsors are now actively considering to finance their transactions with private debt. Current examples include the acquisition of PARSHIP by Oakley Capital financed by Permira Debt Managers, the acquisition of Polytech-Domilens by Stirling Square supported by Ares or the recapitalization of intergenia Holding through a club deal comprising Goldman Sachs, Haymarket Financial and Highbridge.

Current status

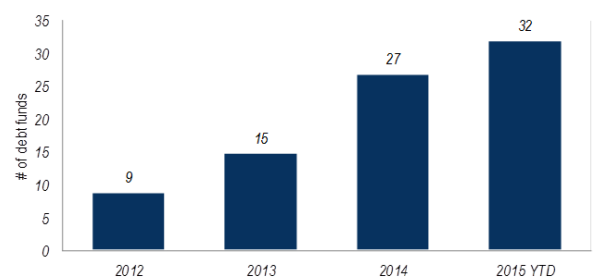
Since 2012, the number of private debt funds with focus on the German region has more than tripled. According to our database, more than 30

- an increase of more than 100% compared to 2013 (13). Lincoln International has already recorded 5 LBO transactions funded by direct lenders in 2015.

Traditional lenders responding

Is the classic LBO-bank financing therefore coming to

Number of active direct lenders in Germany

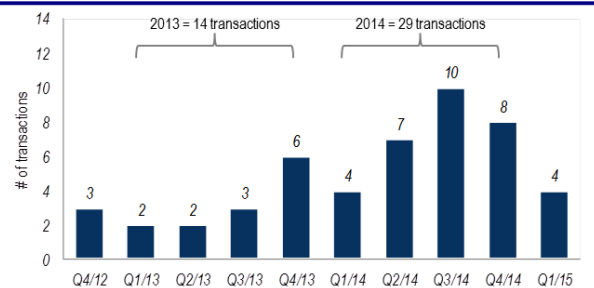


Source: Lincoln International

alternative lenders are now active in the German market and we expect this number to

an end? The benefits seem obvious with their fast loan approvals and full underwrit-

Transactions financed by private debt funds in Germany



Source: Lincoln International, Debtwire, Deloitte

Note: Mid-cap market only (up to Euro 350 mio. debt)

increase further. In Germany, private debt funds completed a total of 29 transactions in 2014

ings which can offer a key advantage to a bidder in an auction process.

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This advantage usually comes with a price tag resulting in higher margins compared to a traditional LBO financing (approx. spread of 300bps+). But particular for larger transactions, where usually a bank club deal is still required, single source financing represents a significant advantage for the potential investor.

Nevertheless, there are still transactions where a "classic" LBO financing can offer its merits. Transactions involving targets with a stable and predictable EBITDA plus high cash conversion levels will remain a domain of traditional LBO banks in Germany. In these more straight forward LBO-cases, banks are willing to offer more flexible terms including back-ended senior term structures (up to 70% of the financing structure) and greater flexibility on terms and covenants. In such a scenario, unitranche structures simply become too expensive for the incremental

additional leverage offered. In fact, we see debt funds actively avoiding these type of deals.

Outlook

In their search for yield, institutional investors will continue to invest in private debt as long as the low interest environment remains. At the same time, the increasing competition among debt funds will lead to a further improvement of financing terms and conditions for the borrowers. Banks have also now overcome their initial concerns regarding alternative lenders and are actively offering "super-senior" RCF structures or bonding lines in combination with a unitranche financing, making alternative debt financings even more competitive.

This competitive environment will in our view most likely lead to a consolidation amongst the private debt lenders over the mid-term.

First examples include the announced sale of GE Capital or the (abandoned) sale of Hayfin by Towerbrook. Some of the alternative lenders will also increasingly target the corporate loan segment to widen their product spectrum and to escape the fierce competition in the LBO-market.

Conclusion

Undoubtedly, private debt has brought a breath of fresh air to the German lending market and has become a serious new financing source. Traditional lenders in return have taken up the challenge and are defending their grounds. We believe, that the German market offers room for both types of lending to the benefit of the borrower. However, the most important test for alternative lenders is still to come: how will they act if things go downhill? This will be exciting to observe.

Selected debt funds transactions in the German mid-cap market, LTM April 2015

Date	Sponsor	Seller	Target company	Debt fund	Financing volume	Debt/ EBITDA
Apr 15	Oakley Capital	Holtzbrinck	PARSHIP	Permira	n/a	n/a
Feb 15	One Equity Partners	Adcuram	Duran	Avenue Capital , Bluebay	n/a	n/a
Feb 15	Halder	Private	Prae-Turbo	IDInvest	Euro 30.0 mio.	n/a
Feb 15	Equistone	Paragon/Tempus	Polo Motorrad & Sportswear	Ares	Euro 40.0 mio.	3.3x
Jan 15	Stirling Capital	Odewald KMU	Polytech Domilens	Ares	Euro 75.0 mio.	c. 4.3x
Dec 14	Triginta	Refinancing	arwe Service	Alcentra	n/a	n/a
Dec 14	OpCapita	Refinancing	NKD	Grovepoint, Hayfin	Euro 25 mio.	n/a
Oct 14	Cross Equity/Pinova	NordHolding	Rademacher	Avenue Capital	n/a	n/a
Oct 14	Chequers Capital	Refinancing/add-on	Deutsche Fachpflege	Ares	Euro 105 mio.	c. 5.3x
Sep 14	Oakley Capital	Refinancing	Intergenica	Goldman, Hayfin, Highbrigde	Euro 82.5 mio.	c. 4.0x
Sep 14	Brockhaus	Finatem	J&S Automotive	Idinvest	n/a	n/a
Sep 14	Ergon	EQT, Management	Sausalitos	European Capital, Kartesia	Euro 27.5 mio.	n/a
Jul 14	Five Arrows	Palamon	Prospitalia	BlueBay, ICG	Euro 80.0 mio.	n/a
May 14	Water Street	Management	Orgentec Diagnostika	Ares	Euro 40-50 mio.	c. 4.5x
May 14	Equistone	Management	PIA	Ares	Euro 45 mio.	c. 3.0x

Source: Debtwire, (bold indicates Arranger)

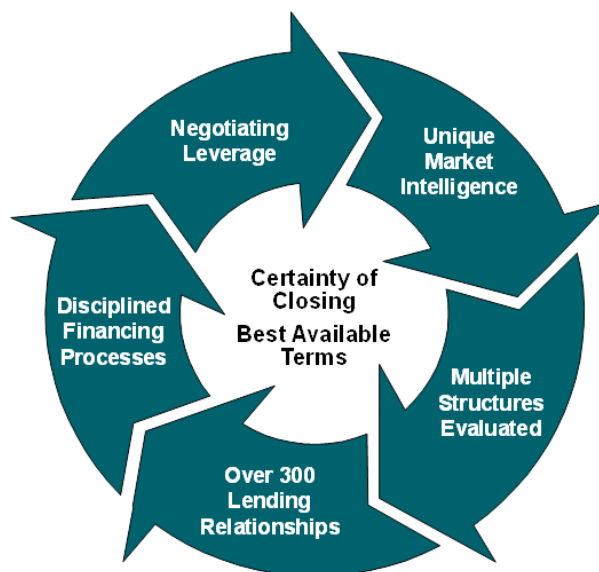
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Recent Debt Advisory transactions completed by Lincoln International

 Acquisition Financing Advisor to Oakley Capital on the acquisition financing of PARSHIP April 2015 	<p><i>Confidential</i></p> Acquisition Financing Advisor to the shareholders December 2014 	 Recapitalisation Advisor to Quadriga Capital on the recapitalisation of punker October 2014 	 Sale Debt Advisor to VR Equitypartner, SüdBG and individuals on the sale of Clean Car to Holler Foundation October 2014 	 Acquisition Financing Advisor to ProXES, a portfolio company of DBAG, on the acquisition of FrymaKoruma Group October 2014
 Sale Debt Advisor to NORD Holding on the sale of Rademacher to Cross Equity Partners and Pinova September 2014 	 Refinancing Advisor to Oakley Capital on the refinancing of intergenia Holding September 2014 	 Cosmetics International Acquisition Financing Advisor to Ardian on the acquisition financing of ADA Cosmetics July 2014 	 Amendment Advisor to 360T on the amendment of its existing Senior Loan Agreement May 2014 	 Sale Debt Advisor to Riverside on the sale of arena to Capvis January 2014

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