

## Private Equity Survey

Austria · Germany · Switzerland

### Takeover of a DAX listed company

Now that the politically motivated debate about the role of Private Equity companies in Germany ("locust" debate) has lost part of its explosiveness the Private Equity industry comes back and hits the headlines. These days the catching topic is the takeover of a company listed in the German DAX. After hitting a fundraising high of EUR 240bn in the last year the dimension of transactions and the size of takeover targets continues to increase. Therefore, the majority of industry experts in this branch expect a takeover of a DAX listed company in 2007.

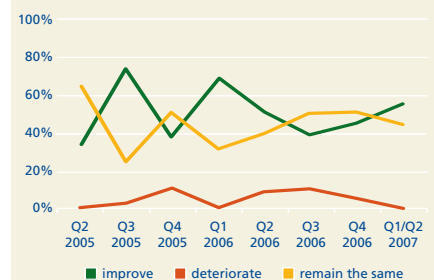
#### Private Equity Confidence Index

The positive development of the index in the last quarter of 2006 set the trend for this year. The index levels off at a value of 126 points (Chart 1). Albeit the all-time high of 130 points (in the first quarter of 2006) could not be hit the current level indicates an overall positive estimate for the remainder of 2007. This forecast is predominantly based on the outstanding expectations concerning the macroeconomic climate and the positive financial performance expectancy. Furthermore, the indicator is pushed by easier access to debt capital.

#### Analysis

The trend is driven by the positive forecast regarding the macroeconomic climate. Obviously, the long lasting uncertainty has diminished and turned into an increasingly stable optimism: 56% of the managers questioned expect further improvement for the next quarter, 44% anticipate a stable economy (chart 2). However, none of the respondents forecasted a deterioration.

Chart 2 – I expect the overall economic climate to...



84% of those interviewed expect further improvement with respect to the financial performance of their investee companies (chart 3). That marks a new all-time high. Again, no one predicts a deterioration.

Chart 3 – I expect the financial performance of our portfolio companies to...

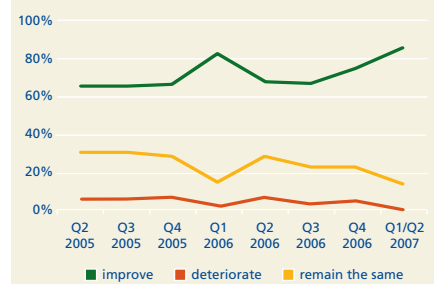
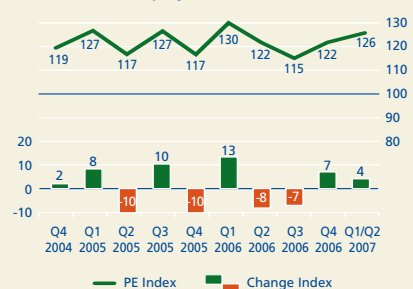
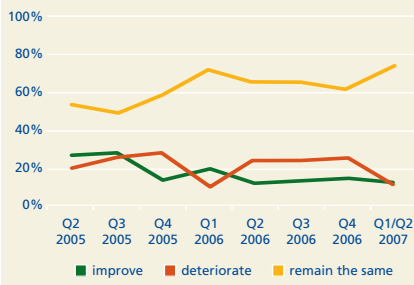


Chart 1 – Private Equity Confidence Index



Despite the projection of continuously increasing interest rates 88 per cent of the managers are convinced that the accessibility of debt capital is not going to deteriorate in the next term (chart 4).

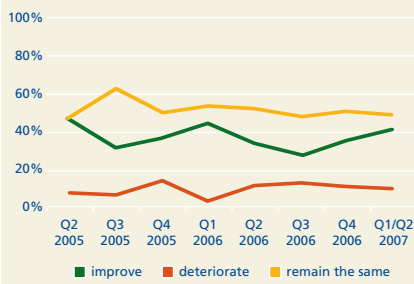
**Chart 4 – I expect the access to debt financing to...**



## Deal activities

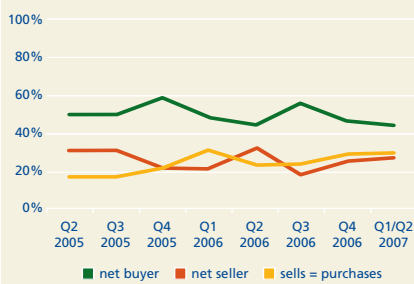
In comparison to the last quarter in 2006 we observe an increase of 5% in the number of those managers who forecast higher deal activities with respect to quality and quantity. This corresponds to the increasing Private Equity indicator (chart 5). Ever since this survey was introduced, generally the majority of interviewees intended to invest rather than disinvest. This trend seems to reverse (chart 6): The will-

**Chart 5 – I expect deal activities (with respect to number of deals, targets, volume, etc.) to...**



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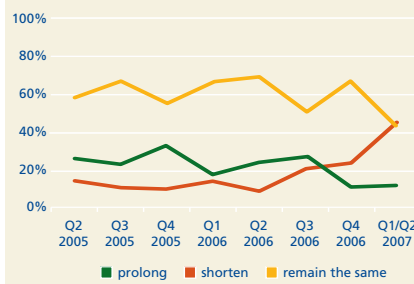
**Chart 6 – I expect to be a net buyer or a net seller of businesses:**



ingness to sell increased over the past year. At the same time managers plan to invest less. Therefore, it seems that for the upcoming quarters a further adjustment can be expected.

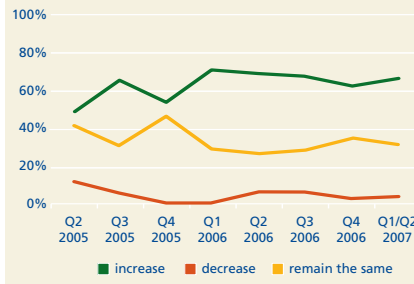
Chart 7 shows a clear change in trend indicating the average time period between deal initiation and deal closing: Since 2003 the percentage of managers who expected a constant time period between initiation and closing oscillated at around 60 per cent but has now obviously decreased. What we can see in the picture below is a shift in the respondents' opinion. A sharp increase of managers forecasting a shorter average time period between deal initiation and deal closing can be seen.

**Chart 7 – I expect the average time period between deal initiation and deal closing to...**



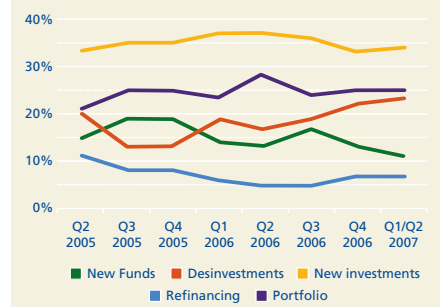
Bigger transactions and the high liquidity in the market are fundamental for the importance of the fund-of-funds industry (chart 8). The number of experts who expect an increase of such investments rose from 62% to 65% within the first six months in 2007. This fact is based on the assumption that the conditions for the set up of new funds are not going to deteriorate in the upcoming months.

**Chart 8 – I expect the activities of the Fund-of-Funds-Industry to...**



Since the second quarter of 2005 a clear hierarchy regarding the importance of field activities can be seen (chart 9). According to those questioned, this trend will continue.

**Chart 9 – I expect our company to spend most of its time focusing on...**



## Focus: The takeover of a German DAX listed conglomerate

The Private Equity industry, doubtlessly, is an established player in Germany when it comes to questions of financing. This statement is underlined not only by the increasing number of deal activities but also by the quality of transactions: The Private Equity industry has reached a point where transactions at a scale of tens of billions of Dollars are not an illusion any more. Therefore, it is logical that speculations about potential takeovers in Germany play an increasingly important role in the public debate. Up to now those large scale deals could only be seen outside Germany. But the discussion about the first successful takeover of a DAX listed company is going on. That is why this Deloitte Private Equity Survey focuses mainly on the expectations and potentials of such a deal.

Experts of the Private Equity industry know that takeovers no longer fail because of matters of financing. The market is highly liquid and banks offer credits at a scale of billions of Euros to get their share in the booming investment sector. However, 63% per cent of the respondents expect more and more risky financing instruments through specialised credit funds (CLO's) instead of banks. According to the current CMBOR study the relation between

Private Equity and debt capital remained constant between 34,6% and 39,4% in the last five years. Subject to this study were deals at a scale of less than EUR 100m. However, looking at deals at a scale of more than EUR 100m the percentage of Private Equity financing shrinks to 30,3%.

78% of the Private Equity managers questioned expect an increasing number of collaborations amongst Private Equity companies when it comes to large-scale takeovers. A percentage of 68% of the respondents think that partnerships between the target company and its Private Equity company are sensible. An example for such a partnership is given by Bertelsmann, Citigroup PE and Morgan Stanley. Nevertheless, the minority of the respondents think that such syndicates are bad for the industry.

The question as to when a DAX listed company is going to be taken over by a Private Equity investor remains controversial. 54% of the Private Equity managers consider a takeover in 2007 to be likely or very likely. None of the respondents rule out the possibility of a takeover this year.

Also controversial is the potential of such a big deal. The reputation a Private Equity company is supposed to gain by taking over a DAX listed company does not guarantee a high return on investment. However, 67% of the respondents see the biggest potential to add value in the improvement of the company's strategy, for instance through reorganization. 51% of the respondents are of the opinion that added value can be created by revealing hidden reserves, synergies and operative improvements (cost management).

When investors are looking for a high return on investment they very often focus on underrated companies. Therefore, the fear of being underrated and thus become a target company is high and results in the fact that managers are even more

willing to try everything to improve their performance and to get a better rating. Consequently, in the opinion of 41% of the respondents this is another reason why a takeover has not yet taken place.

So what is the reason that no company listed in the German DAX has been taken over yet? 67% of those questioned name the resistance of the executive board of directors and the supervisory board (chart 10). The existence of detailed defence strategies and the literal emergency phone to call a white knight are no fairy tales when it comes to defence mechanisms.

A further obstacle can be seen in the distribution of shares and in political or legal conditions. This relates mainly to the so called Squeeze-Out-Rule which states that an investor has to buy at least 95% of the stock before he has the legal right to purchase the remaining share from the minority shareholders. The investor still will have to pay an additional premium though.

However, in the past it has always been a combination of these reasons which prevented DAX listed companies from a takeover through a Private Equity company. Especially effective is the short-term measure taken by executive board members to let stock prices soar in order to deter Private Equity investors.

### Conclusion

Optimistic business expectations and advantageous economic conditions diminish

uncertainties and drive euphoria in the Private Equity industry.

The positive trends in the past quarters levelled off at high values. This fact can be explained with still very liquid debt capital markets and the strong deal flow amongst medium-sized businesses which has been examined in our last Private Equity Survey. However, specialists expect an overhang of capital for the upcoming quarters, also due to the presence of international investors.

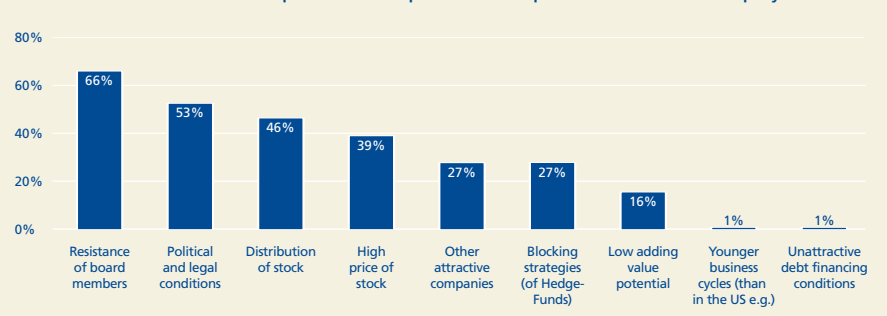
In the eyes of many investors Germany as a business location seems to have great room for improvement regarding tax, wages and bureaucracy. The effects of the new Private Equity Law which is supposed to pass parliament in 2008 remain to be seen.

For the future many Private Equity Managers expect investment opportunities in the health- and pharmaceutical industry. Besides that, sectors as engineering and plant construction as well as the consumer goods- and service-industry offer popular investment objects.

The new branch "cleantech" gains more and more publicity. However, the managers questioned are still reluctant when it comes to investments in this sector: For the majority the "cleantech"-industry is of minor importance.

Regarding the takeover of a DAX-listed company the public tensely expects news

Chart 10 – What is the reason that up to now PE companies have not purchased a DAX listed company?



from the world of finance, last but not least because of the sheer transaction size; enough equity and low-priced debt capital is available. Apart from matters of financing and size other variables for such a deal are of major importance, for instance the obstacle mentioned above.

The expectations of the initiators of the "locust campaign" do not seem to have come true. In the eyes of the questioned Private Equity managers the enduring debate about the role of Private Equity companies has even proven to be positive for the image of the branch.

We conclude that the Private Equity industry is on the rise. Besides outstanding conditions in the capital markets resentments amongst business managers have been replaced by a broad acceptance. The takeover of a DAX listed conglomerate seems to be a question of time only.

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The survey's results are based on questionnaires sent to 1,200 private equity investors in Germany, Austria and Switzerland during March 2007. Their answers provide a snapshot of the private equity industry's expectations for the next six months. The Private Equity Confidence Index includes questions regarding the overall economic climate, availability of debt finance, raising of new funds, transaction values and valuations of investments.

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