

BAI Study

Corporate Loan Financing by Non-Banks in Germany

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Corporate Loan Financing by Non-Banks in Germany - Perspective of the Three Market Players



Corporate Loan Financing by Non-Banks in Germany - Perspective of the Three Market Players (Summary)



Agenda

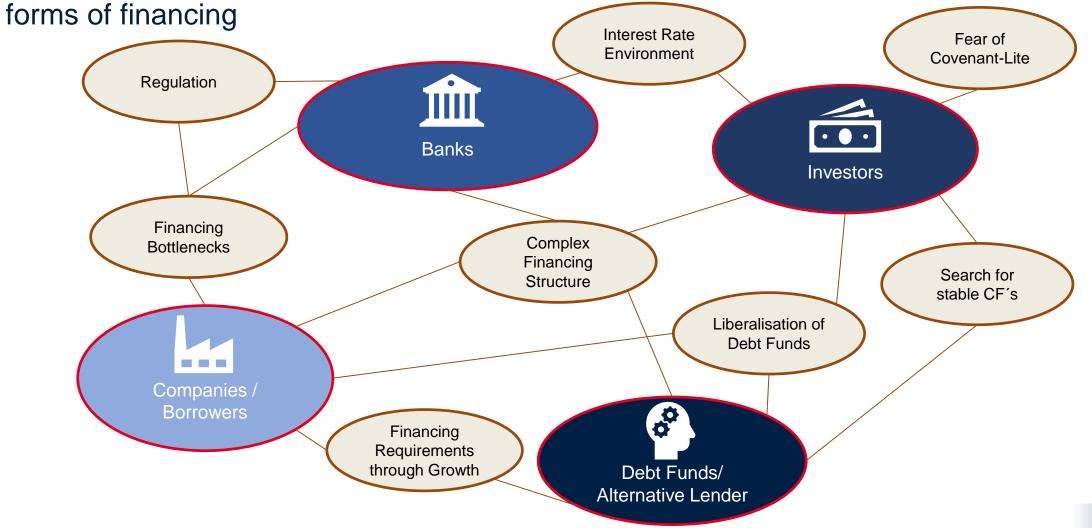
. Introduction

- II. Market Overview
- III. Survey Results
 - German Companies
 - Debt Funds/ Alternative Lenders
 - German Investors
- IV. Conclusion and Outlook

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I. INTRODUCTION

Determinants of influence on the actors permit derivations with regard to different



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Objective:

• Overview of the Corporate Private Debt Market in Germany:

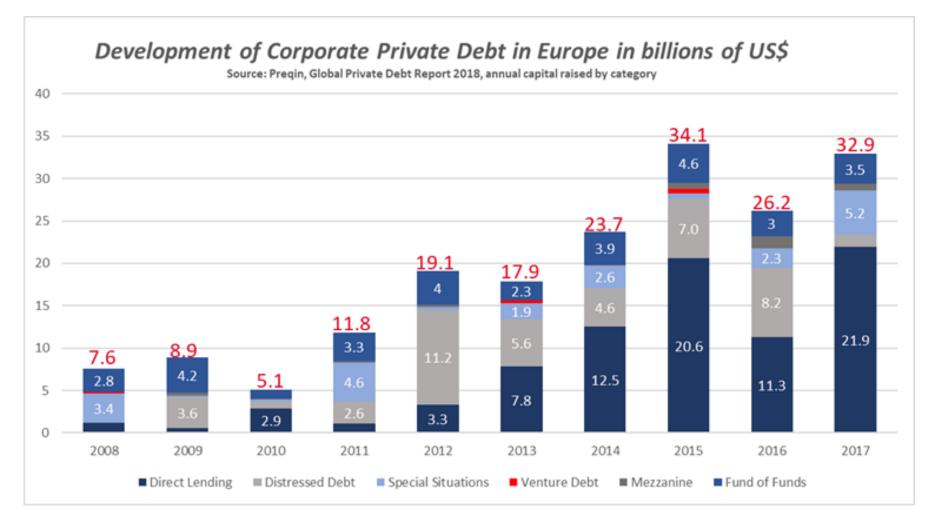
- Definition of Corporate Private Debt and Regulatory System
- Market Overview and Identification of Key Market Drivers
- Corporate Private Debt from the Perspective of the Individual Market Players
- German Market Findings and Outlook

Structure of the Study:

- Definitions and Legal Basis
- Current market Overview
- Survey in summer/autumn 2018 among the three market players: borrowers, lenders, lenders
- Verification of survey results based on external sources
- Summary of the results of the three surveys

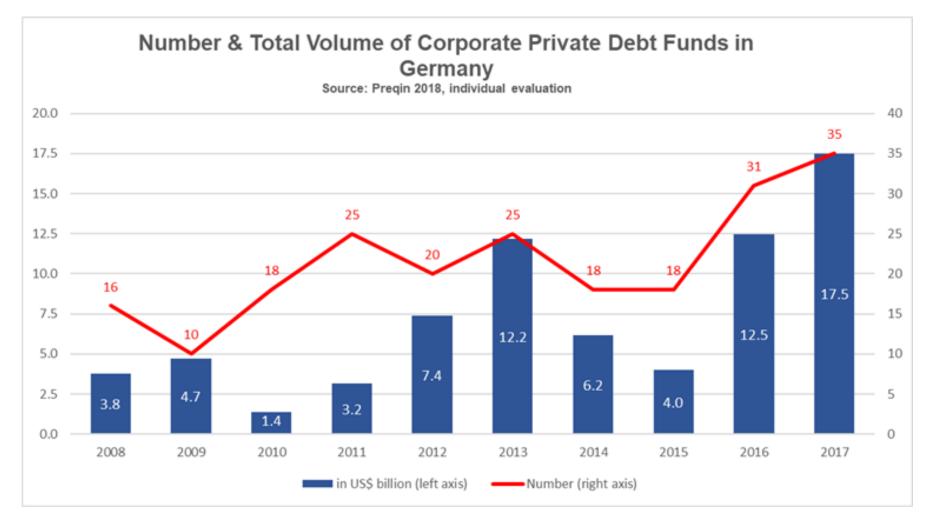


The Developement of Corporate Private Debt in Europe



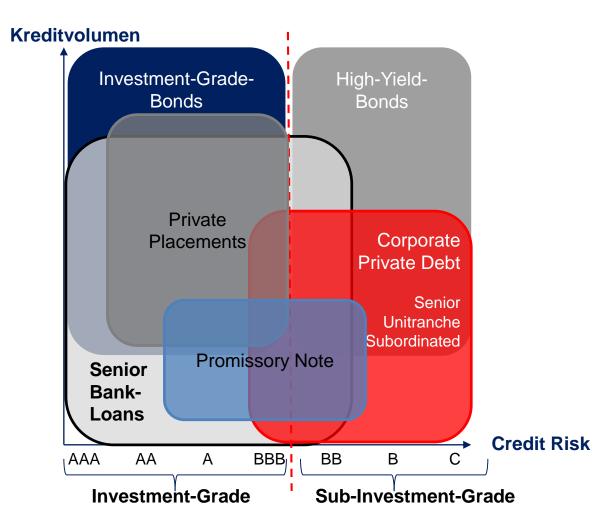


II. MARKET OVERVIEW Developement of Debt Funds in Germany



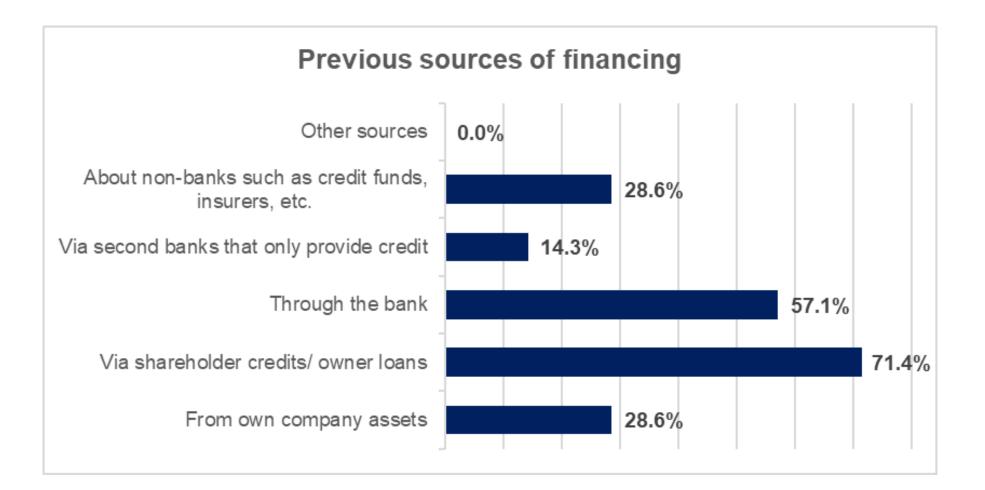


II. MARKET OVERVIEW Overview of Loan Financing Opportunities for Companies



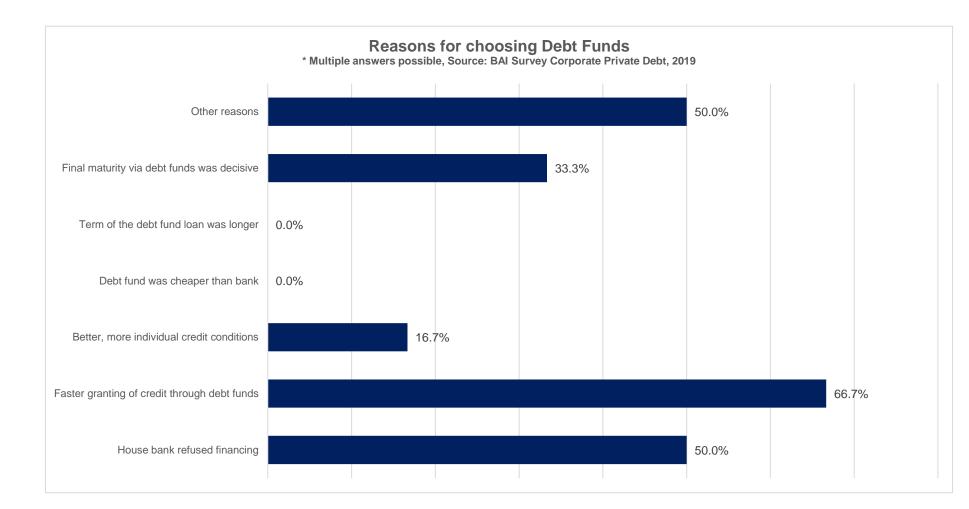
III. SURVEY RESULTS – GERMAN COMPANIES Previous Financing Dominated by Shareholder and Bank Loans

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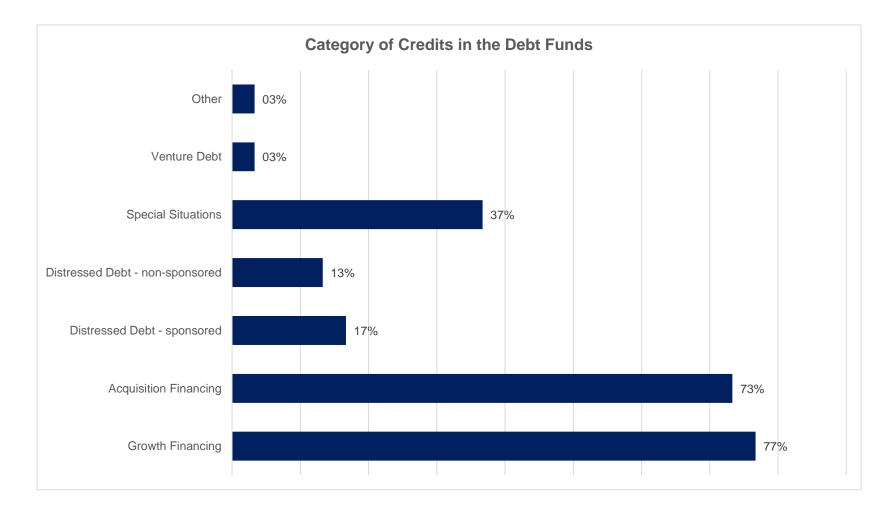


III. SURVEY RESULTS – GERMAN COMPANIES Quick Granting of Credit is Important, but not the only Reason....

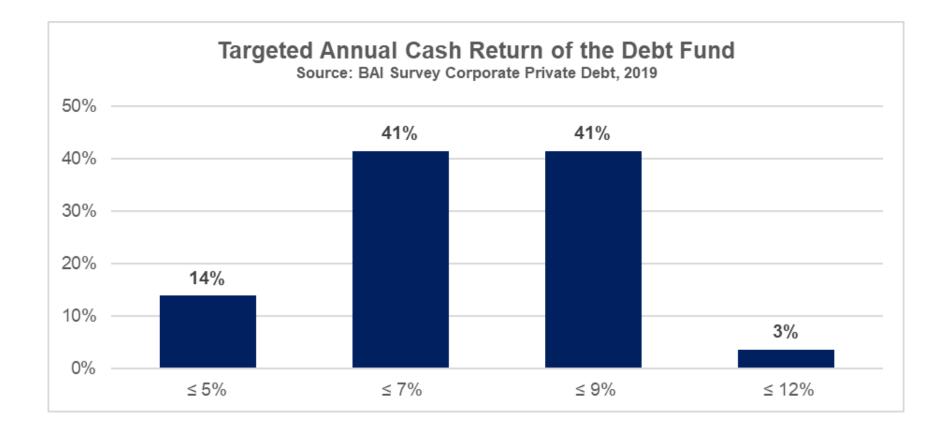
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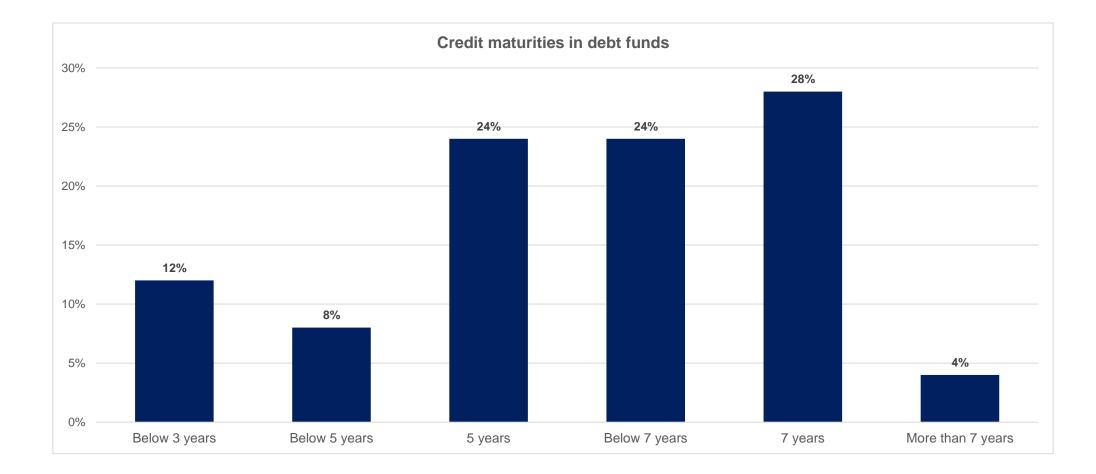


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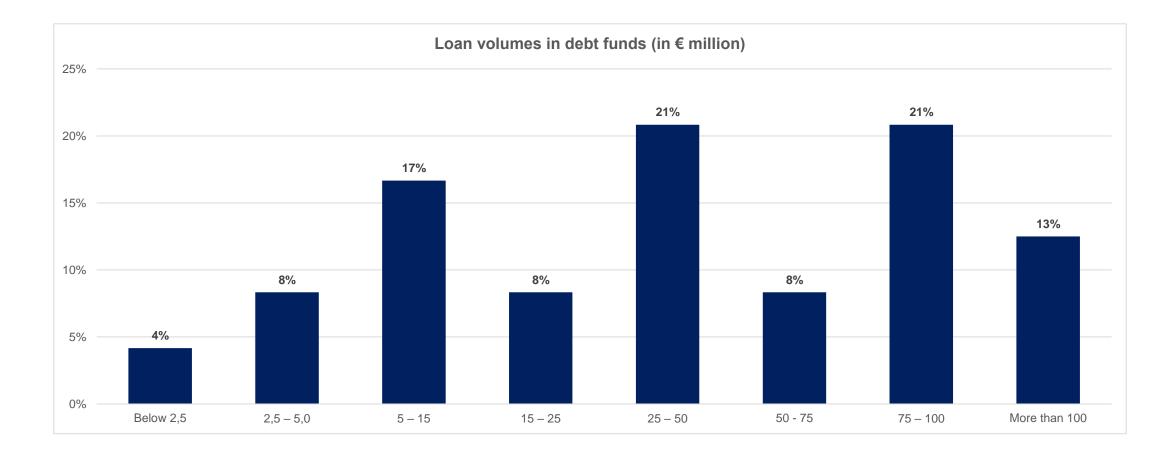


III. SURVEY RESULTS - DEBT FUNDS / ALTERNATIVE LENDERS Maturities mostly between Five and Seven Years



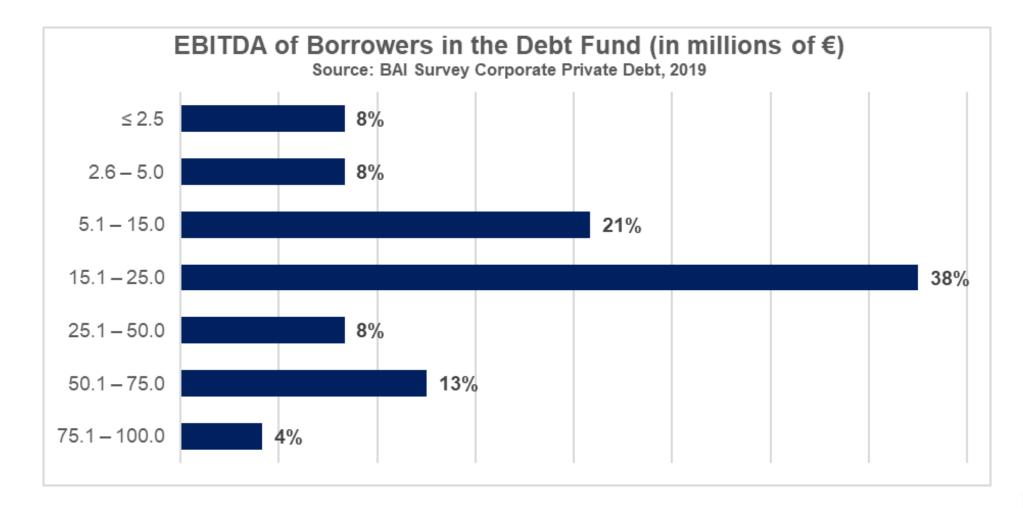


III. SURVEY RESULTS - DEBT FUNDS / ALTERNATIVE LENDERS Broad Distribution of Credit Sizes



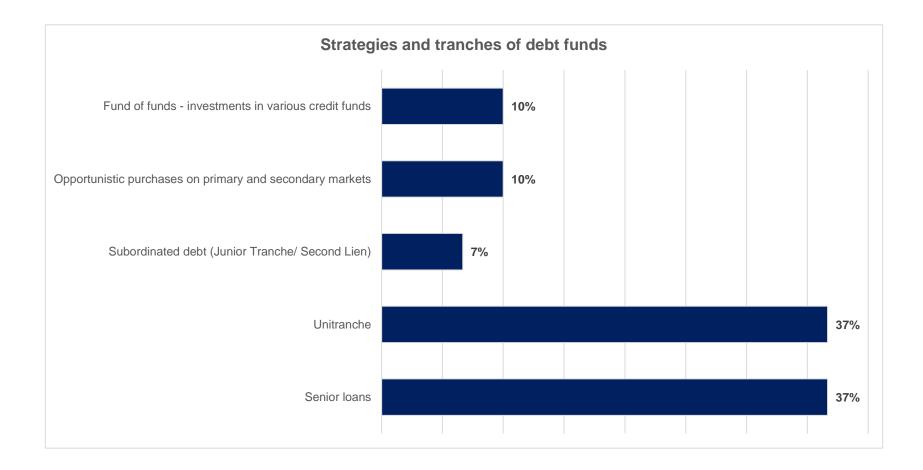


III. SURVEY RESULTS - DEBT FUNDS / ALTERNATIVE LENDERS Borrowers are the typical Middle Class





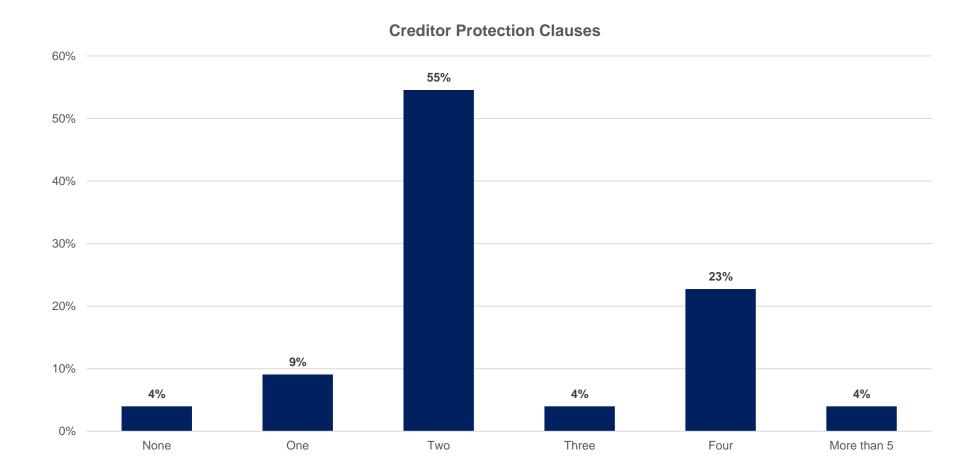
III. SURVEY RESULTS - DEBT FUNDS / ALTERNATIVE LENDERS Senior and Unitranche Loans dominate





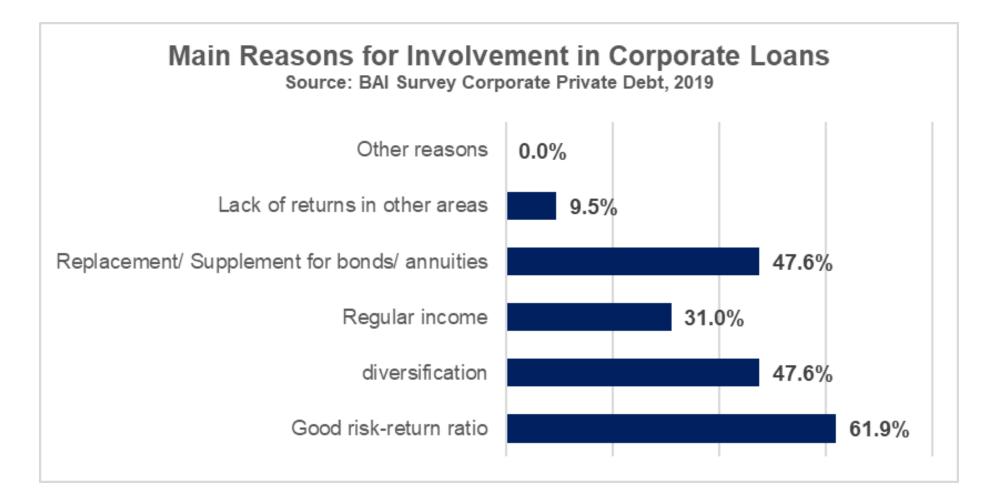
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III. SURVEY RESULTS – GERMAN INVESTORS Pension Replacement with attractive Yield and Diversification Potential

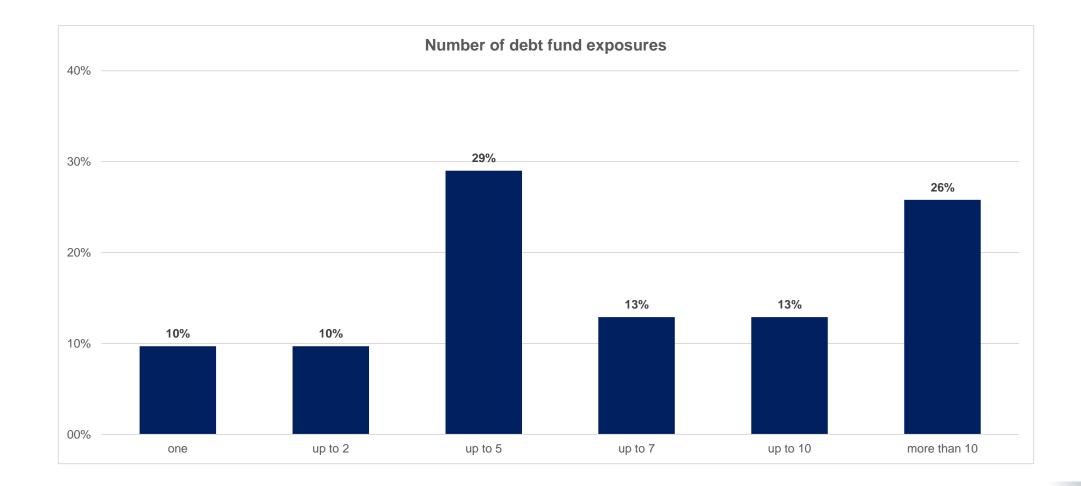
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III. SURVEY RESULTS – GERMAN INVESTORS Distribution across a Number of Debt Funds is generally sought after

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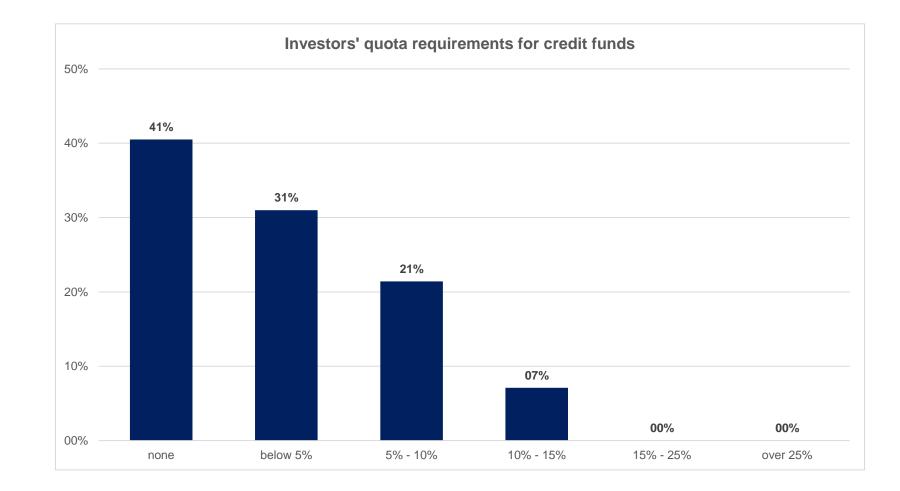
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III. SURVEY RESULTS – GERMAN INVESTORS Majority still without Fixed Quota => Potential for Further Allocations

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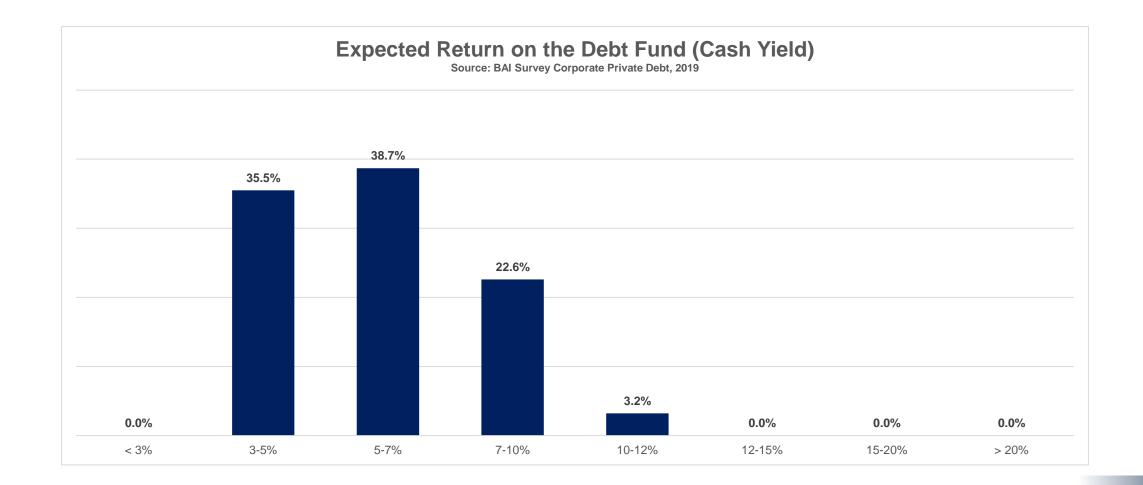
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III. SURVEY RESULTS – GERMAN INVESTORS Relatively Conservative Return Expectations of Investors

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IV. CONCLUSION AND OUTLOOK Core Statements of the German Debt Fund Market

 Continuously distributing pension replacement with attractive yield and Still relatively few debt funds (around 35) dedicated among others to the German market 	 Typical German medium sized businesses with established companies from all sectors,
 diversification potential as main reasons for investment in debt funds Diversification potential of credit risk across several debt funds and number of borrowers Expected cash yield mostly between 3 and 7% (p.a.) and thus more on the conservative side Investors' points of criticism mainly concern regulation (look-through principle under Sol II and attribution to quotas subject to AnIV) Credit characteristics comparable with other Credit characteristics Credit characteristics Credit size, yields (mostly 5-7%), collateralisation (mostly 2 covenants), debtor leverage, maturities (mostly 5-7 years) and capital structure (senior and unitranche) despite aboveaverage funding of the banking sector Fund domicile predominantly in Luxembourg; only smaller debt funds with German domicile 	 mostly in the sub-investment grade sector In an European comparison, an above-average number of smaller companies as borrowers (EBITDA between EUR 5 and 25 million) in line with the German SME structure Financing via debt funds is mainly used in growth, acquisition and particularly complex situations There is great potential for growth, as the majority of loans are still granted by the house banks and by the owners.

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IV. CONCLUSION AND OUTLOOK Outlook for the German Debt Fund Market

- The corporate private debt market in Germany will gain in breadth and depth in the future.
- Growth will not be continuous, but will continue to be volatile and will extend beyond the existing focus
 areas of acquisition and growth finance.
- Loans from debt funds not only replace bank loans, but in some cases also shareholder loans.
- Debt funds can play out their advantages particularly in the case of longer maturities, challenging business developments, and in the sub-investment grade area of German SMEs.
- On the other hand, a cooperation bank/debt fund can be very useful, especially in complex financing structures.
- In conclusion: debt funds are an important enrichment for the financial centre and expand the financing opportunities of German SMEs to complement banks and other market-based forms of financing that are currently developing.
- Efficient and varied financing is therefore not only in the interest of SMEs themselves, but also in the interest of the entire German economy.