

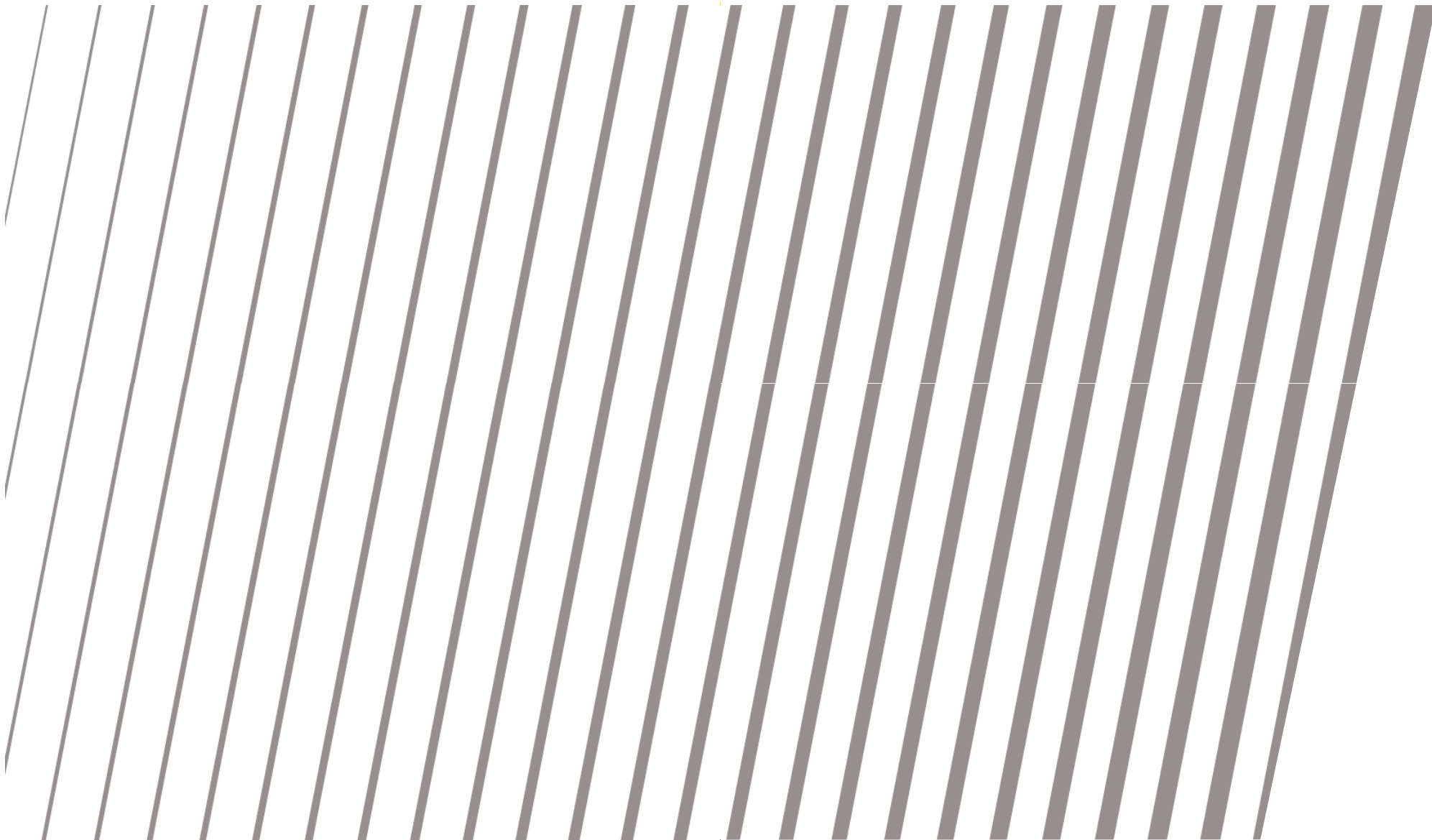


Private Equity 2010

Activities in Germany at a glance

30 June 2010

Summary of significant results

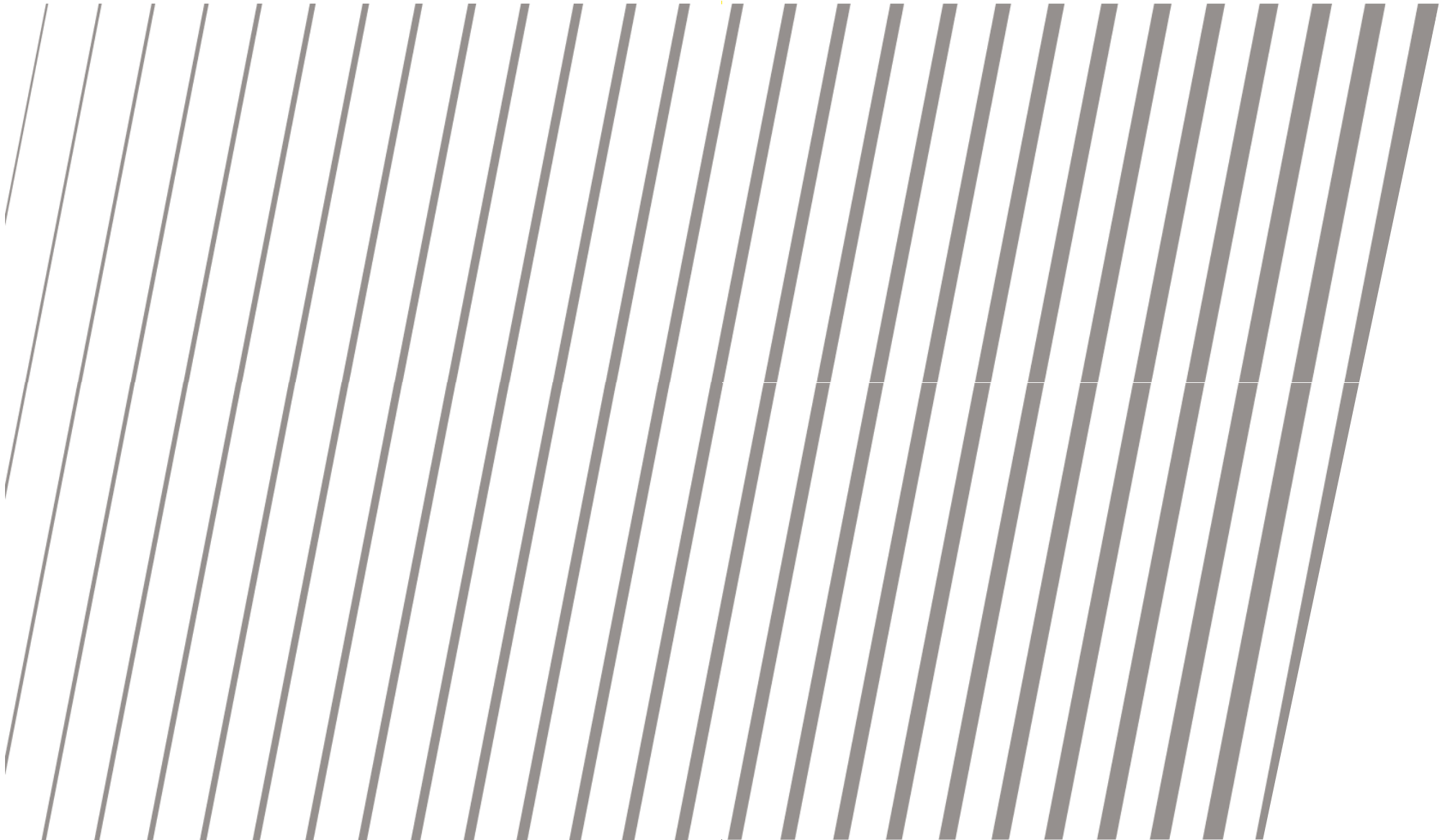


In the last six months, the German Private Equity market remained on a very low level

Summary of significant results

Number of transactions	▶	Only 11 PE investments have been disclosed in 2010HY1 compared to 22 in 2009HY2.
Value of transactions	▶	The total value of disclosed PE investments in 2010HY1 decreased significantly compared to the prior year period with a total value of EUR 0.9 billion, the lowest total disclosed value for 8 years.
LTM analysis	▶	Compared to the period between July 2008 and June 2009, PE investments declined by 20 to 114 between July 2009 and June 2010.
M&A activity	▶	In 2010HY1, again, the value of strategic takeovers significantly exceeded the value of PE investments. This development was mainly driven by the acquisition of Ratiopharm by Teva Pharmaceutical, a 3.17% stake in Daimler AG by Renault-Nissan and the purchase of Cognis GmbH from GS Capital Partners, Permira and SV Life Sciences by the German entity BASF SE (EUR 3.1 billion enterprise value).
Sector analysis	▶	Industrial and Software are the largest sectors by transaction value in 2010HY1. All other sectors show only a weak deal flow over the past year.
Origin country of PE investors	▶	No large PE investments are financed by US, UK or multinational investors in the last six months. As especially activities related to these investors declined, volumes were shifted to smaller transactions, predominantly originated by German investors.
Major trends and outlook	▶	<p>The deal environment remained fairly stable in terms of transaction volume but declined in terms of transaction value. Thus, average transaction values decreased being the result of the absence of large transaction of multinational PE investors.</p> <p>Although the availability of debt financing improved again during the previous six months (in particular for small and medium sized assets with stable cash flows), the prevailing difficult PE environment is generally characterized by a lack of attractive investment opportunities. This, together with the current gap seen between the sellers' and the PE investors' price expectations, prevents higher activity in the transaction market.</p> <p>After unprecedented fundraising in the last years, many PE houses still have large pools of uninvested cash to be deployed. This could potentially increase the pressure on the PE investors to make acquisitions in the short-term.</p> <p>Considering that most PE investors have stabilized the operating performance of their existing portfolio companies and turn back to the acquisition mode, this might overall turn into a slight recovery of the PE market starting in the 4th quarter of 2010 or 1st quarter of 2011 .</p>

Basis of data

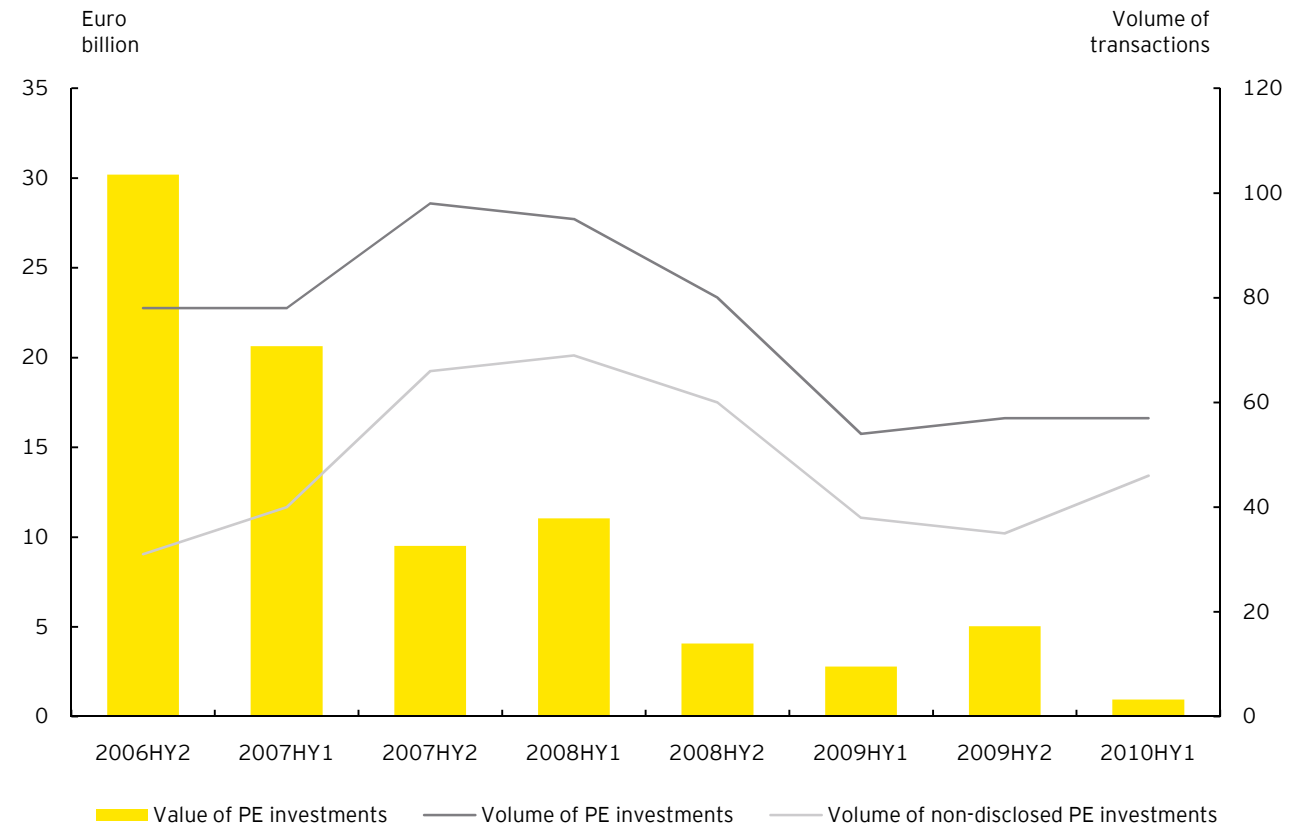


Only small-sized transactions remained on a comparable level, all other transactions exhibit a decreasing trend

Key Statements

- ▶ The volume of transactions where the transaction value is not disclosed is shown in comparison to the total number of transactions and the value of disclosed deals.
- ▶ The German PE market is still affected by the credit crunch. In 2010HY1, the volume of transactions remained stable, whereas the value of total PE-backed transactions decreased significantly.
- ▶ In 2010HY1, no deal exceeding EUR1bn was settled, however, the number of small-sized transactions increased in 2010HY1 compared to 2009HY2 and 2009HY1.
- ▶ Please note that the non-disclosed transactions primarily are lower value transactions.

Volume of disclosed and non-disclosed PE investments

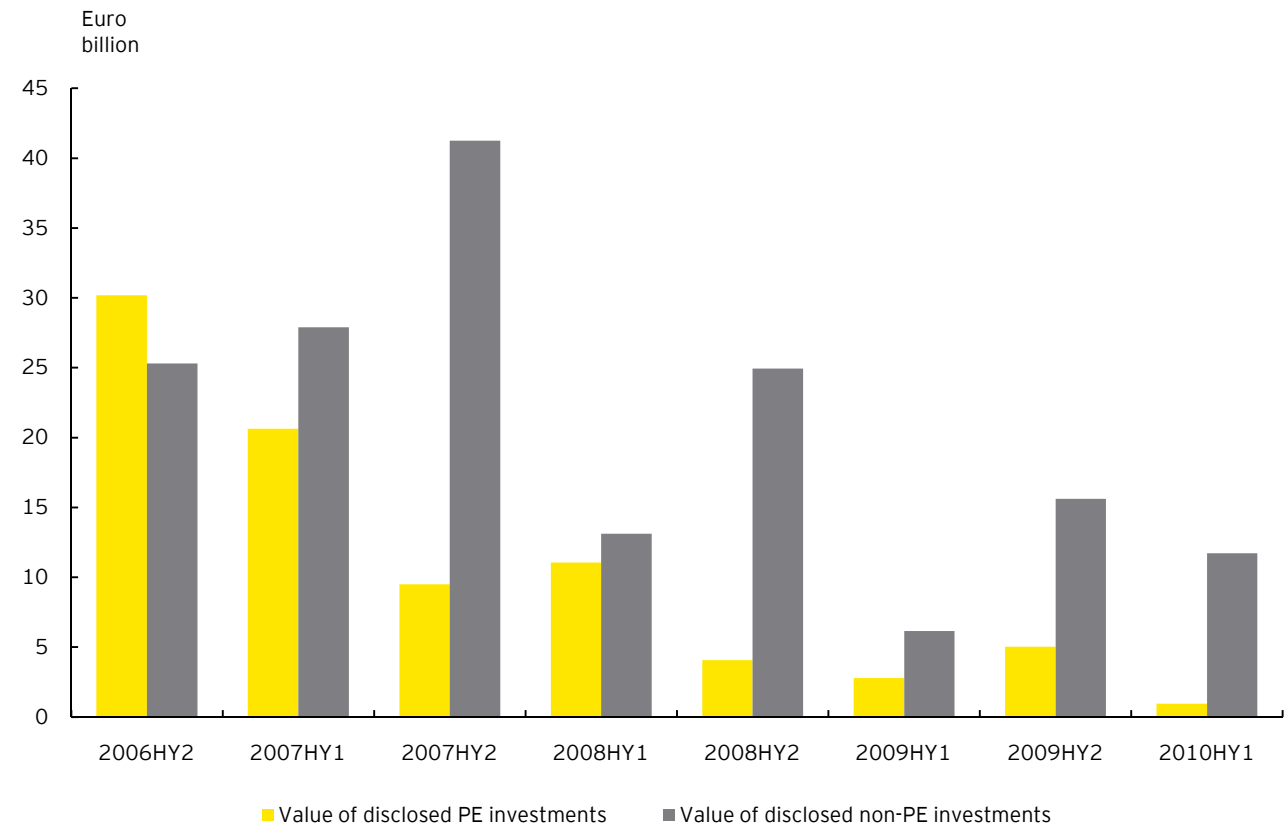


In contrast to the still restricted PE market, the M&A market benefited from a few bigger transactions

Key Statements

- ▶ The graph shows the development of the German M&A market (i.e., non-PE investments) compared to PE investments.
- ▶ In 2010HY1, PE investment value decreased by EUR 1.9bn compared to 2009HY1.
- ▶ In 2010HY1, the M&A-market benefited from strategic takeovers and investments, exceeding 2009HY2 transaction value by EUR 3.9bn.
- ▶ Despite improved access to debt financing, PE activities remained on a considerably lower level in 2010HY1.
- ▶ Whereas transactions completed in 2009HY2 indicated that banks are softening their debt restrictiveness thus making investment volumes exceeding EUR 1bn possible, no single PE investment exceeded EUR 0.3bn in value in 2010HY1.

Development of M&A transactions

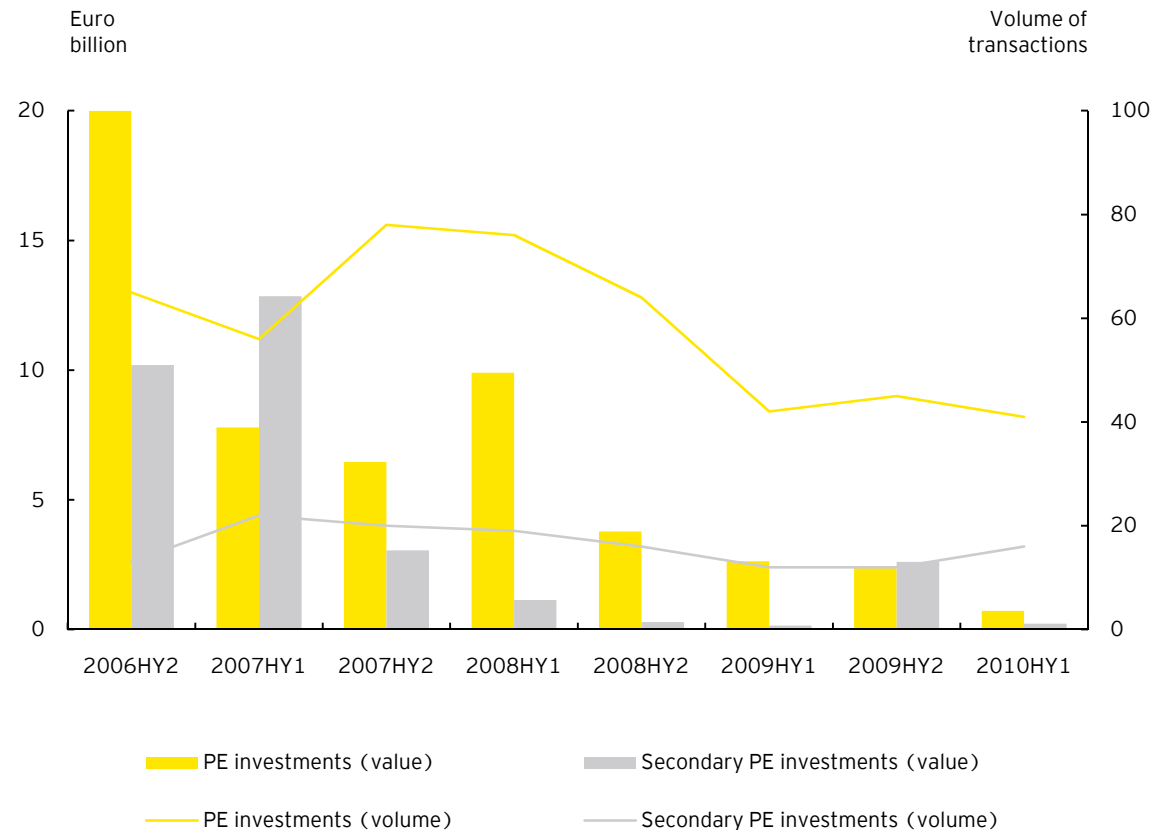


PE houses still were reluctant to sell at steep discounts offered by buyers resulting in low secondary PE investment activities

Key Statements

- ▶ The graph shows the development of primary and secondary PE transactions.
- ▶ Whereas the value of secondaries decreased significantly, the increase in volume is due to an increased number of very small investments.
- ▶ Unattractive capital market conditions resulting in low expected growth rates negatively affect exit values in secondary buyouts, leaving investment values at low levels since exits would only be possible at significant discounts to fair value.
- ▶ This results in an increasing holding period of PE investments with an increasing focus on operational improvements and even add-on acquisitions rather than shifting the focus towards exit.
- ▶ Concurrently, this trend suggests an increasing number of potential exits throughout 2011, as market conditions improve and value bargains converge.

Development of PE investments and secondary investments

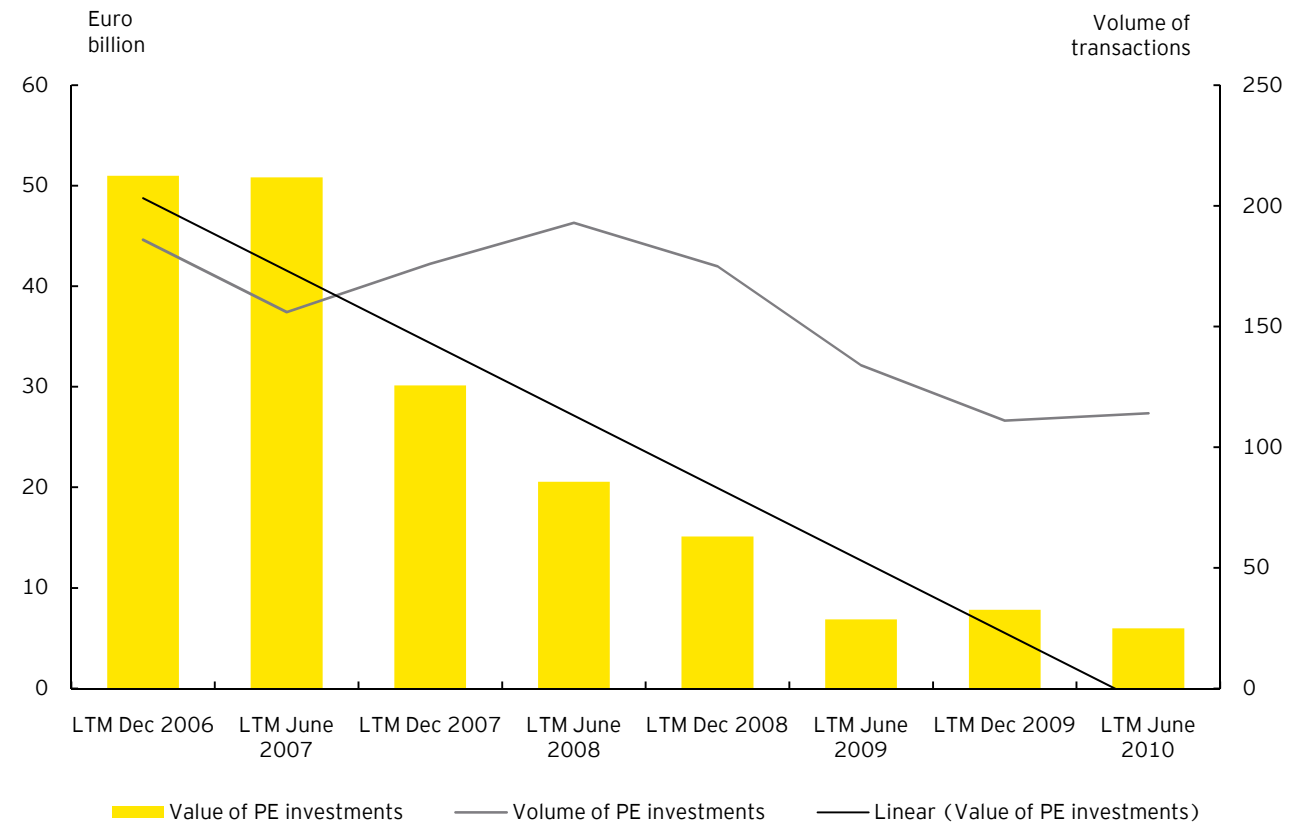


The investment level is still low due to continuing uncertainty in the market, though the volume of small transactions is increasing

Key Statements

- ▶ The graph sets out the development of PE investments by value and volume on an LTM basis over the past three years.
- ▶ The volume of transactions on LTM basis increased, showing however increasing activity only in the segment of very small transactions.
- ▶ In line with the increased number of small transactions in the last six months, LTM June 2010 value is primarily driven by major transactions settled in 2009HY2.
- ▶ We assume that sellers' pricing expectations will be adjusted downwards, and buyers' bids will increase slightly and, thus, we expect increasing investment activities beginning in the fourth quarter of 2010 or early 2011.

PE investments by value and volume

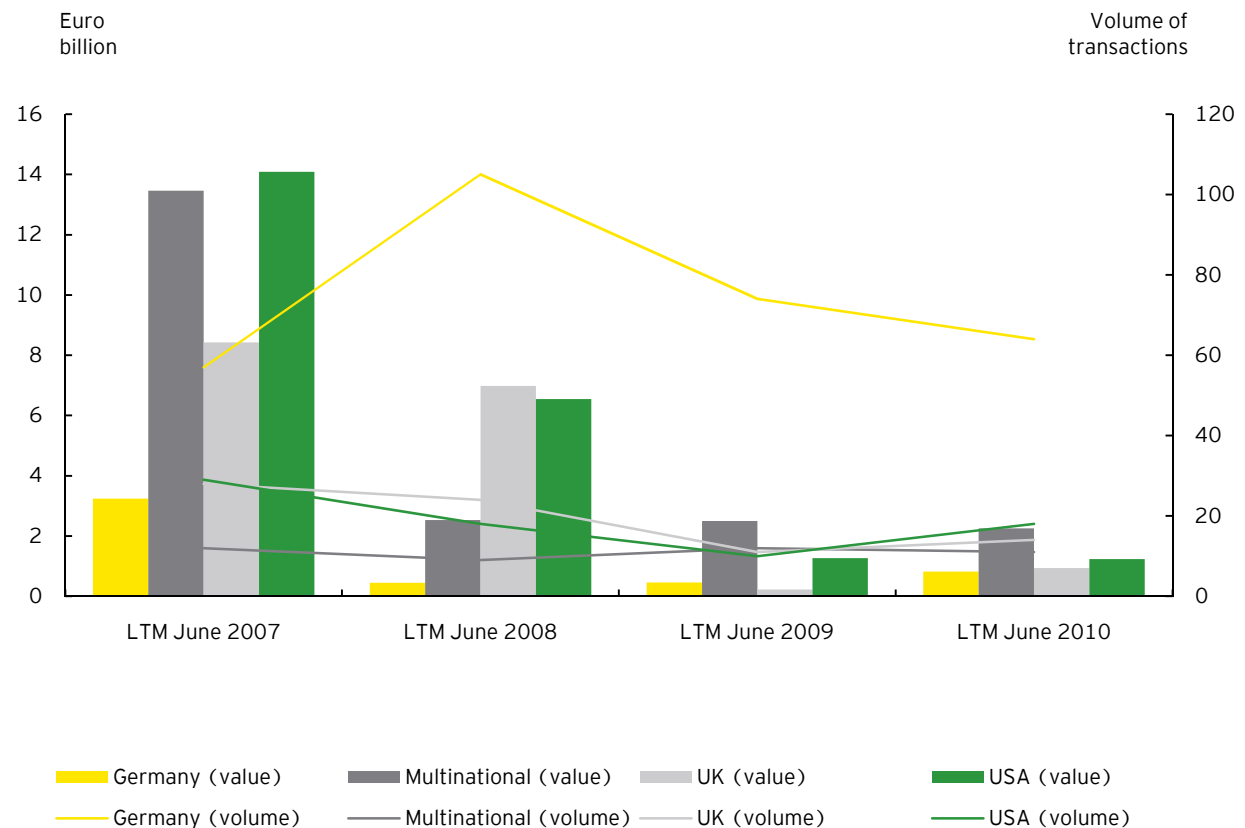


Investments of US and UK investors remain on low level whereas German activities increased in the last twelve months

Key Statements

- ▶ The chart shows the development of the number and the value of PE transactions according to the origin country of investors.
- ▶ The peak years for PE in Germany were predominantly driven by Multinational syndicates and US-based funds.
- ▶ On a LTM June 2010 basis transaction value of German investors increased for the first time since 2007.
- ▶ In prior years major investments in Germany were settled by US- and UK-based funds. As especially activities related to these investors declined in the last year, volumes were shifted to smaller transactions, predominantly originated by German investors.

Development of PE investments according to the origin country of investors

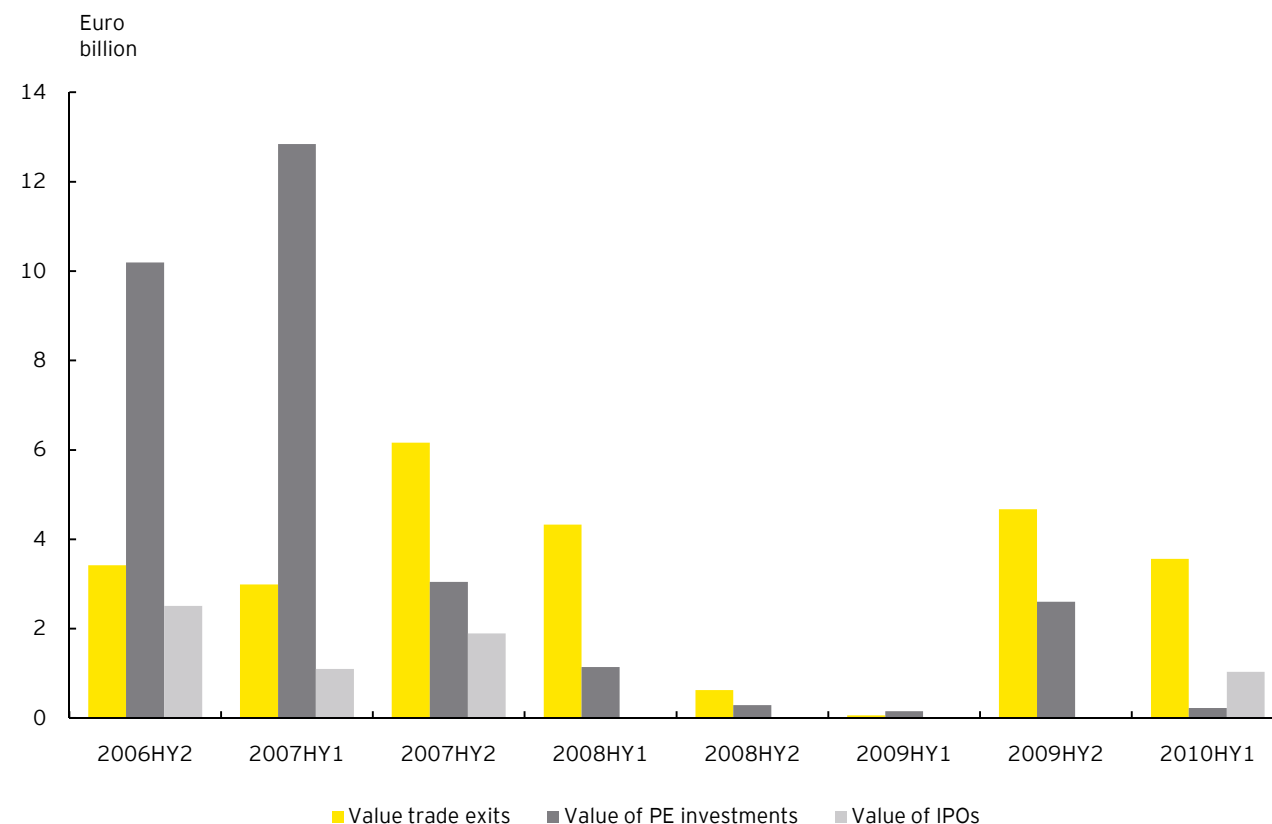


Despite prevailing uncertainty and years of turmoil in the capital markets, IPOs revived in the last six months

Key Statements

- ▶ The graph shows the development of PE exits since 2006HY2.
- ▶ After the almost complete disappearance of PE exits in 2008 and 2009, as many PE houses were focusing on guiding their portfolio companies through the downturn, especially IPOs have returned in the last six months.
- ▶ The increase in IPOs is mainly due to the public offering of Kabel Deutschland and Brenntag Holding in 2010HY1.
- ▶ Another, albeit smaller IPO, relates to Tom Tailor, with an IPO value to Alpha Group of approx. EUR 0.2bn.
- ▶ Trade exits declined in 2010HY1. The exit value in 2010HY1 is primarily driven by the sale of Cognis GmbH (EUR 3.1bn).

Development of PE exits



Information



Contacts & Sources

The involvement of Ernst & Young in PE investments

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Our success is based on working together in industry aligned teams. Our experienced global Transaction Advisory team is actively involved throughout the world in transactions among Private Equity houses and corporates. These transactions include acquisitions, divestitures and financings. Managing this process is a complex exercise that requires an acute awareness of the confidential nature of these types of transactions: leveraging a global network of Private Equity advisers and industry specialists with a deep understanding of the motivation, pricing and market dynamics of their respective industry sectors.

Ernst & Young employs a broad range of transaction professionals who advise on financial and tax due diligence, tax structuring, transaction integration as well as IT, pensions and operational due diligence.

Sources

- ▶ Mergermarket
- ▶ Thomson One Banker
- ▶ PE insight
- ▶ Deutsche Börse



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