

Corporate News

SME Bonds: Review of the year 2017 and outlook 2018 of IR.on AG

- German market for SME bonds shows stabilization in 2017
- 20 bond issues with a placed volume of EUR 791 million
- Real estate sector is predominant
- Number of defaulted bonds halved compared to previous year
- Prospect: Investment banks expect an average of 15 bond issues in 2018

Cologne, 15 December 2017 - The German market for SME bonds has stabilized significantly in 2017. A total of 20 bond issues with a volume of EUR 791 million (target volume: EUR 850 million; quota: 93%) were placed. In the previous year, 16 issues with a placed volume of EUR 909 million (target volume: EUR 1,058 million; quota: 86%) were executed, including a heavyweight with the Prokon bond (volume: approx. EUR 410 million). This is the result of an annual review of the German SME bond market conducted by the communications consultancy IR. on AG.

At EUR 40 million, the average issue volume per transaction in 2017 was thus significantly lower than in the previous year. Almost two thirds of the bonds were issued with a volume of less than EUR 30 million. Only three companies (Porr AG, DIC Asset AG, UBM Development AG) placed three-digit million amounts, with the UBM bond 2017/22 being the largest SME issue of the year with 150 million euros. The real estate sector was clearly predominant among SME bond issuers this year, not only in terms of the size of the issues, but also in terms of the amount (7 issues). The industrial sector ranked second with three issuers (15%), followed by technology companies and automotive suppliers (two issuers each; 10%).

A total of 60% of the issues were used to partially or completely refinance an existing bond. Among the eight new issues in 2017 were three issuers (SCP Eisenbahnstraße 11-16 GmbH & Co. KG, Insofinance Industrial Real Estate Holding, GK Software AG), who had not yet issued any bonds.

The average coupon of the 20 issues is 5.63% p. a. The maturity of the SME bonds varies between 15 months and 10 years, with more than half of them (55%) having a maturity of five years. A total of 14 of the 20 issues (70%) were fully placed in 2017. Almost two thirds of the issued bonds were listed on the Quotation Board of the Frankfurt Stock Exchange (FWB). Two bonds (Paragon, Homann) were issued in the new Scale segment of FWB.

The recovery of the SME bond market is also reflected in the number of defaults, which – with eight bonds – more than halved compared to the previous year (17 bonds). Of the eight defaults, three bonds each related to the insolvent ALNO and Air Berlin. 90% of the EUR 832 million drop-out volume is attributable to the heavyweights Air Berlin and Rickmers. Overall, the number of insolvencies fell from ten to four in comparison with the previous year.

The best bond price performance in the SME segment came from Peine (+57.50%), Herbawi (+37.00%) and More & More (+35.00%), three fashion companies, followed by the Essen-

based family business SANHA (+33.50%), which successfully extended its bond by five years, and the Neue ZWL Zahnradwerk Leipzig (+27.55%). The "Flops" 2017 are led by the bond of 3W Power S. A. II, which fell by 24.50%, followed by bonds of Smart Solutions (-20.50%), Minaya Capital (-12.85%) and Beate Uhse (-11.63%).

IR. on asked eight investment banks active in the SME segment about the outlook for 2018 and they expect an average of 15 emissions for the coming year.

Fabian Kirchmann, founder and member of the management board of IR.on AG: "Compared to the development in 2017, the restrained forecast of the issuing banks is primarily due to the still popular alternative of issuing 'promissory note loans'. At the same time, however, the banks surveyed also expect the SME bond market to stabilize and become more professional – not least as a result of the trend towards the issuers' voluntary commitment to greater transparency."

According to the banks, the top sector in the bond market will continue to be the real estate sector in 2018. Other sectors with potential for new issues are industry/capital goods, automotive (electric mobility) and financial services.

With regard to the transaction structure, investment banks primarily expect issues with public offerings. However, they also assume that private placements will continue to gain importance in the SME market. Overall, respondents consider the bond terms and conditions to be more important for the success of a transaction than the choice of the stock market segment, which rather serves reputation and marketing purposes.

Fabian Kirchmann: "Anyone who takes the market and its investors seriously voluntarily commits to greater transparency - for example in terms of the bond issue. This is a trend that speaks for the further stabilization and professionalization of the market segment."

A summary of the survey is available on the IR. on AG website at <https://iron.com/blickpunkt/kmu-anleihen-jahresrueckblick-2017-und-ausblick-2018-der-iron-ag/>.

About IR.on AG

IR. on AG is an independent consulting firm for investor relations, financial market and corporate communications. It assists companies of all sizes in the development of investor relations strategies, day-to-day IR business, corporate actions, mergers & acquisitions and special situations such as crises or restructuring, as well as press relations with the financial and business media.

The agency was founded as a limited company in 2000, is under owner management and has offices in Cologne and Frankfurt am Main. The consultants at IR. on AG combine experience from more than 300 communication projects, more than 180 annual and quarterly reports and around 100 capital market transactions.



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