

# Germany's Mittelstand at a turning point: the pivotal role of private debt



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**Germany's mid-market is in transition, and private debt is playing a pivotal role. Digitalisation, energy, sovereignty, succession: these shifts are reshaping priorities and creating new financing needs. In that context, private debt offers an alternative to traditional bank lending that is particularly well-suited to the needs of mid-market companies. French players such as LBP AM are well-positioned to bring financing solutions and agility.**

**New market dynamics are creating new financing needs.** Investment in digitalisation, electrification, automation and the reinforcement of industrial supply chains are becoming key challenges for German companies. The energy context has also changed, creating needs for new, renewable infrastructure faster than expected. The German Mittelstand is facing major transitions and deep structural changes. With 99% of its 3.4 million companies being family-owned, large parts are preparing for ownership transfers. A study from the Institut für Mittelstandsforschung points that around 186,000 businesses in Germany will be up for transfer between 2026 and 2030. At the same time, the German banking landscape is changing consolidation has brought the number of credit institutions from 3,500 in 1997 to under 1,400 today, while access to credit is tightening with c. 38% of SMEs reporting restrictive lending conditions as of Q4 2025 – the highest level ever recorded. Adding to the pressure, Covid-era KfW loans are now maturing, triggering a refinancing wave through 2027.

And then we also have is the public Special Fund for Infrastructure and Climate Neutrality who will invest 500 billion euros in the economy, driving CapEx and creating additional funding needs. To meet those, German mid-market – family led – companies are opening up to global investors, who bring a multi-cycle track record built across multiple European markets and structural advantages that banks, constrained by Basel III/IV regulation, cannot easily replicate: agility and the ability to deliver flexible structures tailored to the business cycle.

This matters particularly for German mid-caps, which are highly export oriented. France is one of Germany's largest business partners, and companies operating across both economies benefit from private debt investors with cross-border expertise. With a deeper and more mature private debt market and more advanced ESG frameworks, French managers such as LBP AM are well-positioned to bring financing solutions to German mid-market companies to solve for transition and ESG reporting standards and best practices that these companies are increasingly required to meet.

## What private debt offers the Mittelstand

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supply chains are becoming key challenges for German companies. The energy context has also changed, creating needs for new, renewable infrastructure faster than expected.

In this environment, companies are not only looking for capital. They increasingly are also factoring in agility and execution certainty. This is where private debt fills the gap, by offering financing with longer maturities, repayment at maturity, and a bespoke approach not shying away from complexity. This includes the ability to operate independently from financial sponsors—a growing need as family-owned companies navigate succession without necessarily involving private equity.

LBP AM brings nearly 14 years of corporate private debt expertise and a proven track record - 170 transactions, 127 invested companies spanning family-owned and PE-sponsored businesses - alongside a long-standing presence in Germany through its infrastructure debt investments. France has developed significant maturity and depth in ESG financing, with more advanced reporting frameworks and a higher share of ESG-linked transactions. This experience translates into practical support for companies navigating increasing ESG disclosure requirements stemming from the CSRD waves regulation. This expertise comes with a disciplined approach to credit analysis - one that treats sustainability metrics as a guarantor of financial solidity. Integrating ESG considerations into the research and selection of portfolio companies aims first and foremost at ensuring their long-term resilience: a stronger sustainability profile translates into better access to financing and more favorable financing costs.

ESG is increasingly integrated in financing solutions, and reporting is becoming more demanding. Many mid-market companies need support to navigate these requirements in a practical way, without losing focus on their core business. In financing, this can translate into more standardised ESG approaches. One example is to agree on specific ESG KPIs linked to a margin ratchet mechanism that rewards progress. ESG is no longer a separate conversation: it is now a part of the financing structure itself.

Beyond disclosure support, LBP AM's expertise positions it as a genuine partner for the economic and environmental transition of the German Mittelstand. Drawing on its track record in both corporate and infrastructure debt in France, where ESG metrics are embedded into loan structuring through margin ratchets tied to decarbonisation and sustainability KPIs, LBP AM is equipped to support German mid-market companies in financing their transition, not just reporting on it. A philosophy that resonates with the financial culture of the German Mittelstand.

## Agility and reliability

Diversification of funding sources contributes to market resilience. In a rapidly evolving landscape such as the German mid-market, long-standing expertise combining flexibility and reliability is a valuable asset. In the private debt space, paired with mature ESG integration, it can make the difference.



<sup>1</sup>Number of banks in Germany from 1957 to 2024, Statista, November 2025

<sup>2</sup>The Special Fund for Infrastructure and Climate Neutrality, Federal Ministry of Finance

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