EQUISTONE

CMBOR

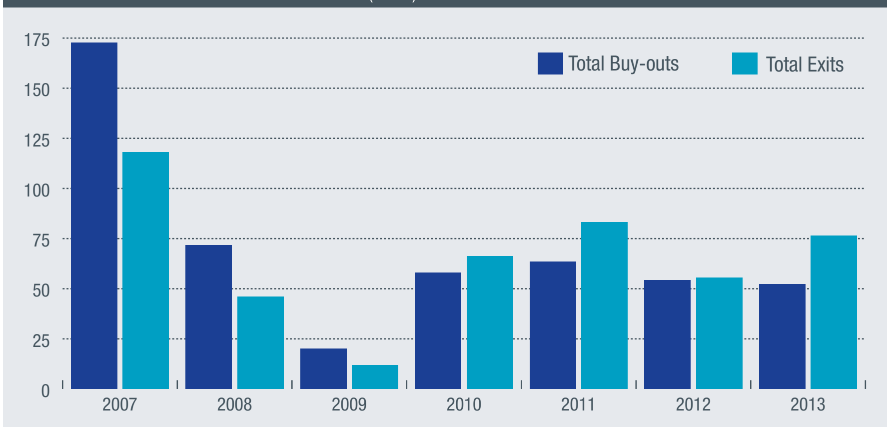
Issued by Equistone Partners Europe Limited, based on data provided by the Centre for Management Buy-out Research (CMBOR). CMBOR is supported by Equistone Partners Europe Limited and Ernst & Young, having been founded in March 1986, to monitor and analyse management buy-outs and buy-ins in the UK and continental Europe, in a comprehensive and objective way.

CENTRE FOR MANAGEMENT BUY-OUT RESEARCH NEWS AND UPDATES

WINTER 2013

Exits soar above new investments

EURO BUY-OUTS/EXITS 2007 – 2013 (€BN)



Source: CMBOR / Equistone Partners Europe / Ernst & Young

THANKS TO a wave of IPOs and a booming stock market, the gap between exit and new investment activity hit a new high in 2013, with total exits 46% above the value of new deals.

A growing buy-out market should normally generate a greater level of investment activity than exits, as new funds are raised from investors. But in a difficult fundraising market, as has been the case in the European buy-out market since the 2008 crash, cash for new investments has reduced. 2012 looked as though this trend was finally reversing with a healthy number of buy-out funds being raised. Combined with improving debt markets, many expected 2013 to see a resurgence of new deals. In the end, the total (€52.2bn) was comparable to 2012's figure (€56.2bn).

Q4 was the strongest quarter, by value, in more than a decade.

Nearly all of the difference between total investment value (which stands at €52.2bn) and total exit value (at €76.4bn) during 2013 can be attributed to 20 IPOs collectively valued at over €25bn.

Although 2013 was generally a strong year for IPO exits, Q4 was the strongest quarter, by value, in more than a decade. Ten out of the top 20 exits of European buy-outs in 2013 were IPOs and five of the ten took place in November. Three of these November deals were listed on the London Stock Exchange. The IPOs were: Merlin Entertainments, also the largest exit of the year at €3.8bn; Just Retirement valued at €1.3bn; and

/continues overleaf.

/continued from page 1.

Exits soar above new investments

Infinis, the waste recycling firm, valued at €932m. The other two November exits were: Altice, listed in Amsterdam and valued at €3bn; and ProSiebenSat1 Media listed in Frankfurt at €1.1bn.

The remaining five IPOs that made it into the top 20 European buy-out exits during 2013, were spread across the stock exchanges of London (2), Frankfurt (1), New York (1) and Copenhagen (1).

In 2013, trade sales fell to €20.9bn from 2012's €24.5bn value. Strong exit figures since 2010 (2009 being the post crash low point of just €11.8bn exits) might be explained by European buy-out firms concentrating on generating value ahead of, by then, much needed fundraisings.

Sectors of note, for exits, during 2013 include business and support services at €10.7bn. Financial services recorded 15 deals at €6.4bn; the best value in more than a decade. Leisure exits finally returned to 2007 levels, bringing in 18 deals at €6bn, while retail totalled €6.2bn, almost double 2012's value.

Secondary buy-outs increase share of market

For all the concerns voiced about their increasing dominance, secondary buy-outs are a firmly entrenched part of the buy-out market.

SECONDARY BUY-OUTS have been the single most dominant source of buy-outs in Europe, by value, since 2006. Last year, they accounted for €31.1bn (represented in 151 deals) out of a total buy-out value of €52.3bn. For the last three years, secondaries have accounted for around half of total deal value. Last year their dominance showed new private equity investment increased markedly, now accounting for nearly 60% of total deal value.

Secondary buy-outs can attract criticism, often because an institutional investor can end up being on both sides of a deal if they are invested with both the buyer and seller.

Academics and industry analysts have been looking closely at the issues. While acknowledging the double set of fees that arise in secondary buy-out situations, the industry is now much better at understanding and articulating the various different contexts that can drive multiple rounds of private equity finance. Many secondary buy-outs are driven by a company moving through a life cycle of growth and internationalisation that is simply longer than the investment period of a single PE fund.

Of the ten largest buy-out deals in 2013, six were secondary buy-outs. Two were German companies: publishing house Springer Science & Business Media sold by EQT Partners to BC Partners for €3.3bn (and the largest buy-out in Germany for seven years); and Ista, the metering firm, sold by Charterhouse Capital to CVC Capital Partners for €3.1bn. The remaining secondary buy-outs came from Norway (Aibel, the oil services company sold by Ferd Private Equity), Italy (Cerved Business Information, sold by Bain Capital), France (Allflex, the animal identification company sold by Electra Partners) and the UK (Vue Entertainment, the cinema group sold by Doughty Hanson).

EURO BUY-OUTS DEAL SOURCE 2007 – 2013

	2007		2008		2009		2010		2011		2012		2013	
	No.	€m	No.	€m	No.	€m	No.	€m	No.	€m	No.	€m	No.	€m
Secondary Buy-out	243	69,647	146	22,611	51	3,824	141	27,796	173	30,726	136	26,209	151	31,152
Local Divestment	215	32,241	133	12,861	102	5,029	116	8,211	104	11,665	97	7,314	110	7,883
Private	383	18,507	370	13,914	174	3,428	244	9,763	240	8,803	246	6,638	191	6,839
Foreign Divestment	57	13,888	54	5,043	35	2,743	45	4,230	49	6,247	53	7,261	50	3,372
Public to Private	36	34,492	29	14,333	17	2,929	21	7,566	13	5,098	19	4,286	5	2,405
Insolvency	10	411	17	216	27	1,205	32	348	24	476	36	2,476	25	333
Privatisation	4	2,354	2	240	4	593	2	79	–	–	–	–	1	232
Unknown	51	1,019	21	773	14	171	7	25	13	72	1	4	6	69
Public Buy-in	2	58	3	1,831	4	181	1	20	4	293	2	35	–	–
Total	**1,001**	**172,617**	**775**	**71,820**	**428**	**20,104**	**609**	**58,038**	**620**	**63,380**	**590**	**54,223**	**539**	**52,285**

Source: CMBOR / Equistone Partners Europe / Ernst & Young

Q3 investment levels not sustained in Q4

As Q2 drew to a close, it looked as if 2013 was on track to record one of the lowest values of buy-out investments in 15 years.

THEN SIX of the top 10 deals, by value, closed in Q3. Combined, they account for over €11bn of Q3's €20.6bn total. But Q4 couldn't sustain the momentum; just €9.9bn in new investments bought the annual total to €52.2bn.

UK pick-up dents numbers

The UK remained the most active buy-out market in the eurozone. But within this market, activity in the smaller buy-outs space was sluggish, possibly explained by the difficulty in valuing smaller companies and sourcing bank finance for buy-outs. Sellers may now be looking for pricing that reflects an improved economic picture, whereas buyers may still be exercising caution. All of which may result in buyer/seller price mismatch.

Germany grabs headlines

Germany's buy-out market surged forward with 67 buy-outs worth €12bn in 2013. This is Germany's highest value since 2008, when it recorded 117 deals worth €12.4bn. (Although 2006 and 2007 recorded values around double this.) All of the top 4 buy-outs in 2013 were of German companies. They are: Springer Science & Business Media, bought for €3.3bn; Ista, the metering firm, bought for €3.1bn; retailer Douglas Holding, bought for €1.49bn; and CeramTec, the industrial ceramics firm, also bought for €1.49bn.

Broadly, Germany has been on a slow but steady positive trend since its lowest number (55) and value (€3.1bn) of buy-outs was recorded in 2009. This upward trend largely reflects the growth and economic prospects of the German economy over this period. Given its highly skilled workforce and strong export economy, Germany, the eurozone's biggest economy, continues to punch below its weight in buy-out terms. Slow fundraising in the German market and a lack of management teams willing and able to meet the needs of private equity investors are factors often cited.

France lacklustre again

In 2011, France, the eurozone's second biggest economy, transacted more buy-outs than the UK for the first time ever, but it has failed to build on this. Since recording €15.1bn in buy-outs for 2011, and in so doing beating the UK buy-out market, France has notched up just €6.3bn in 2012 and €6.6bn in 2013. In 2012, François Hollande won France's presidential election and promptly announced a series of tax rises. They included raising personal taxation for high earners, raising capital gains tax and a limit on the amount of debt interest a company is allowed to deduct from its taxable income.

The usual French establishment figures spoke out against these proposals but it was *Les Pigeons*, a group of young French entrepreneurs, who organised a campaign against steep rises in capital gains tax, which opened up a proper debate. In so doing, they have effected real change. But two years have been 'lost' in the process as it was not until December 2013 that the French finance bill was finally passed.

Thanks to this bill, capital gains rates have come down and are reduced according to the holding period, which must be between two and eight years to qualify for exemptions of up to 85%. The top rate of personal income tax of 75% remains in place for two years.

Many a French PE house had hoped for a more active 2013, but the market remained quiet overall. They will be hoping that now some clarity has been introduced to the fiscal regime, the French economy and the domestic buy-out market can return to healthier times.

A more certain Euro future

The eurozone remains a mixed bag, with Germany as its economic and export-driven powerhouse, France struggling to grasp at elusive growth, and Spain and Portugal emerging from their own crises. What has changed, however, in the past 18 months is the fear that the eurozone could disintegrate. After pulling together two temporary funds in late 2012, the European Central Bank created the European Stability Mechanism (ESM), a permanent fund. The existence of ESM means that relatively small economies facing problems no longer have the potential to derail the whole eurozone project. This should continue to provide some degree of economic stability to underpin the buy-out market in southern Europe.

EURO BUY-OUTS & BUY-INS BY QUARTER 2010 – 2013

	2010				2011				2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Buy-out No.	46	47	47	45	43	51	26	33	54	45	38	33	31	25	30	29
Buy-out Value (€m)	2,087	1,754	2,411	962	1,247	1,979	2,234	883	5,085	2,416	1,710	1,274	1,271	734	583	535
Buy-in No.	88	99	104	133	111	112	131	113	113	93	107	107	105	114	113	92
Buy-in Value (€m)	9,985	9,958	10,242	20,640	13,386	13,729	15,846	14,078	9,064	8,931	13,056	12,686	11,654	8,131	19,991	9,385
Total No.	**134**	**146**	**151**	**178**	**154**	**163**	**157**	**146**	**167**	**138**	**145**	**140**	**136**	**139**	**143**	**121**
Total Value (€m)	**12,072**	**11,712**	**12,652**	**21,602**	**14,632**	**15,708**	**18,080**	**14,961**	**14,149**	**11,348**	**14,766**	**13,960**	**12,926**	**8,866**	**20,574**	**9,920**

Source: CMBOR / Equistone Partners Europe / Ernst & Young

EQUISTONE

Debt market exuberance

2013 was a good year for European buy-out funds seeking debt finance.

MANY BUY-OUT fund managers were able to access competitive financing whether for refinancing existing debt packages or supporting new deals.

Such was the depth and breadth of the financing market last year that commentators have been asking if debt has again reached dangerous 2007-style levels. 2013 saw heavy oversubscriptions with institutions having their allocations cut back hard, greater covenant flexibility and regular reverse flexing, whereby the price (margin) of the loan has been reduced in response to the high demand from institutions willing to supply debt.

As well as the price of debt falling, the sheer volume available inevitably reduced the equity requirement within deals. In 2013, equity accounted for 53.3% of the total funding in European buy-out financing structures. This is the lowest level in five years and an almost 20% decrease on the percentage required in 2012, which was 65.6%.

For European mid-market buy-outs seeking financing structures in excess of €100m the change was even greater. In 2013, equity accounted for just 42% of the aggregate financing structure. This is a decline of almost 30% on the previous year's equity proportion (which stood at 59.1%) and is a six-year low for buy-outs in the €100m+ financing space. A reduction in the number of 'bought deals' including 100% equity at completion will also have been a factor.

However, while the share of debt is increasing, the fact that deal volumes remain low means that overall European buy-out debt is still at modest levels. In fact, 2013 saw the lowest level of senior debt insurance for a decade (2009 apart). Leveraged finance markets are more liquid and receptive to funding while a pickup in CLO issuance and the arrival of unitranche lenders have all helped bolster the buy-out financing market. But while the leveraged finance market has expanded and gained greater depth, it is some distance from the highs of the mid-2000s.

FINANCING STRUCTURES ON EURO BUY-OUTS 2007 - 2013

	2007	2008	2009	2010	2011	2012	2013
Equity (%)	40.0	49.1	66.8	66.2	62.9	65.6	53.3
Mezzanine (%)	4.8	4.8	1.4	1.3	2.6	3.3	4.9
Debt (%)	51.9	40.9	29.3	29.4	32.1	28.6	39.9
Loan Note (%)	1.7	3.4	1.2	0.9	1.8	1.9	0.9
Other Finance (%)	1.5	1.8	1.4	2.1	0.5	0.6	1.0
Total Financing (€m)	**110,270**	**43,160**	**7,815**	**34,969**	**42,680**	**31,483**	**26,027**
Vendor Contribution (%)	1.5	2.3	1.6	0.9	0.7	1.0	0.2
Management Contribution (%)	2.7	2.9	1.7	1.4	0.9	1.4	0.5
Management Share Of Equity (%)	**34.8**	**30.8**	**33.3**	**31.2**	**33.1**	**30.2**	**28.3**

Source: CMBOR / Equistone Partners Europe / Ernst & Young

Equistone Partners Europe Limited

Birmingham
Bank House
8 Cherry Street
Birmingham B2 5AL, UK
t +44 (0)121 631 4220
f +44 (0)121 631 1071

London
Condor House
St Paul's Churchyard
London EC4M 8AL, UK
t +44 (0)20 7653 5300
f +44 (0)20 7653 5301

Manchester
55 King Street
Manchester M2 4LQ, UK
t +44 (0)161 214 0800
f +44 (0)161 214 0805

Munich
Platzl 4
80331 München, Germany
t +49 89 24 20 640
f +49 89 24 20 6433

Paris
Centre d'affaires Paris-Trocadéro
112 avenue Kléber
75116 Paris, France
t +33 (0)1 5669 4343
f +33 (0)1 5669 4344

Zurich
General-Guisan-Quai 34
8002 Zürich, Switzerland
t +41 (0)44 289 8090
f +41 (0)44 289 8091

www.equistonepe.com

THE CENTRE FOR MANAGEMENT BUY-OUT RESEARCH

The Centre for Management Buy-Out Research
Imperial College Business School
Tanaka Building
South Kensington Campus
London SW7 2AZ
t +44 (0)115 951 5493
f +44 (0)115 951 5204