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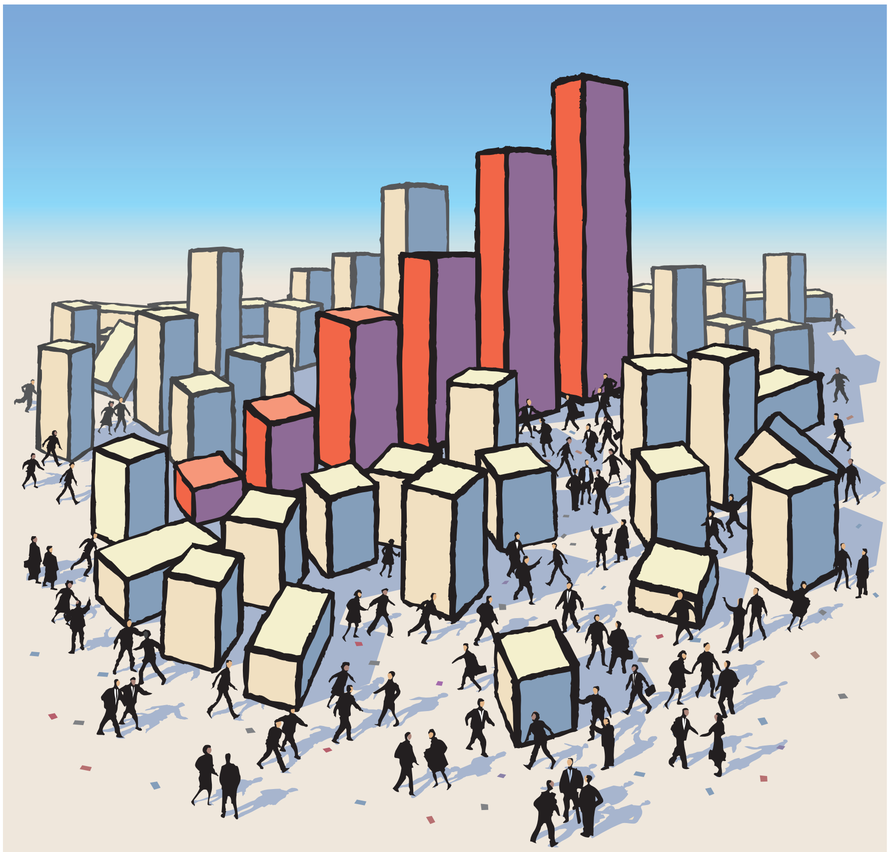
CENTRE FOR MANAGEMENT BUY-OUT RESEARCH NEWS AND UPDATES

Issued by Equistone Partners Europe Limited, based on data provided by the Centre for Management Buy-out Research (W 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.

SUMMER 2013

Stock market buoyancy boosts buy-out exits

Buy-out managers reap the benefits of strong market.



STOCK MARKETS around the globe have been buoyant in H1 2013, driven by low interest rates and fiscal stimulus programmes. Share ownership, compared to low-yielding fixed income, has started to look increasingly attractive to investors and private equity firms have not been slow to spot the opportunity this liquidity represents. As a result, this year has seen a significant increase in private equity-backed buy-outs exiting through an IPO.

Exits by IPO are back

So far, there have been eight private equity-backed IPOs in 2013. These came to market with a combined value of €8.1bn. In 2012 there was just one such IPO valued at €3.7bn and five in 2011 with a combined value of €1.1bn. Exits for the first six months of 2013 were split between the stock exchanges in London, New York, Milan and Copenhagen. Investments in owner-managed businesses resulted in the Copenhagen listing of Matas, which

/continues overleaf.

EURO BUY-OUTS DEAL SOURCE 2007 – H1 2013

	2007		2008		2009		2010		2011		2012		H1 2013	
	No.	€m	No.	€m	No.	€m	No.	€m	No.	€m	No.	€m	No.	€m
Secondary Buy-out	246	69,782	145	22,492	50	3,746	134	27,261	168	30,461	132	25,839	68	11,981
Private	384	18,505	378	13,765	175	3,428	243	9,761	239	8,776	244	6,835	91	3,525
Public to Private	36	34,492	28	14,051	17	2,933	21	7,566	13	5,098	18	4,236	3	2,353
Local Divestment	215	31,744	137	12,923	104	5,029	115	8,171	104	11,651	95	6,952	49	1,910
Foreign Divestment	63	13,952	53	5,481	35	2,791	44	4,137	49	6,817	53	7,261	20	630
Insolvency	9	406	16	212	30	1,215	32	351	24	477	36	2,476	13	291
Unknown	48	689	24	372	14	110	10	37	15	151	1	4	5	17
Privatisation	4	2,354	2	240	4	593	2	79	–	–	–	–	–	–
Public Buy-In	2	58	4	2,113	4	181	1	20	4	293	2	35	–	–
Total	**1,007**	**171,981**	**787**	**71,650**	**433**	**20,027**	**602**	**57,384**	**616**	**63,725**	**581**	**53,638**	**249**	**20,707**

Source: CMBOR / Equistone Partners Europe / Ernst & Young

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Stock market buoyancy boosts buy-out exits

valued the company at €630m, and in the Milan listing of Moleskine, which valued it at €490m. Matas, the personal care retail chain, was a 2007 buy-out and Moleskine, the notebooks and diaries firm, was bought out in 2006.

The London Stock Exchange saw three exits from investments that originated from trade sales: German cable manufacturer HellermannTyton, UK insurance firm esure and UK estate agency Countrywide. Not all of these investments were runaway success stories. Countrywide encountered trading difficulties as the UK housing market ground to a halt during the economic downturn. A refinancing designed to save the business had left the buy-out sponsor with a significantly reduced stake by the time of the IPO. The fourth company to IPO on the London Stock Exchange was UK Partnership Assurance. At €1.8bn Partnership, which was originally a secondary buy-out, was the largest European private equity buy-out to IPO so far in 2013.

Belgian Taminco and French Alcan Engineered both took their IPOs to the New York Stock Exchange.

While markets have been receptive to private equity-backed IPOs in the first half of 2013, some investors remain wary in principle. Many blame the "quick flip" of IPOs of certain mid 2000 vintage deals for this. Debenhams, the UK high street retailer, was the subject of a competitive public-to-private buy-out in late 2003. Two and a half years later, its private equity backers took it to IPO at a strong valuation. Debenhams went on to issue a series of profit warnings for several consecutive quarters thereafter. European private equity-backed IPOs have been subject to qualified enthusiasm since then.

Public markets provide deal flow

Buoyancy and greater liquidity in public stock markets may have dented interest in delistings. H1 2013 generated public-to-private transactions with a combined value of €2.35bn. This looks to be consistent with post crisis years. Q2 2013 recorded no public-to-private transactions. It is the first time this has happened in recent years; with investors perhaps deterred by rising share prices.

Of the three public-to-private deals in Q1, German Douglas Holding, at €1.49bn, and Dutch Mediq, at €819m, both fell within the top 10 buy-outs, by value, in H1 2013. Both companies were delisted by Advent International: Douglas from the Frankfurt Stock Exchange and Mediq from Euronext.

Overall, secondary buy-outs remain a strong source of private equity deal flow. Private transactions, however, are around one-third of their previous value and number in recent years.

EURO BUY-OUTS EXIT ROUTES 2007 - H1 2013

	2007		2008		2009		2010		2011		2012		H1 2013	
	No.	€m	No.	€m	No.	€m	No.	€m	No.	€m	No.	€m	No.	€m
Secondary Buy-out	243	63,291	143	20,206	52	2,780	128	24,625	180	29,768	143	26,986	73	11,340
Trade Sale	276	34,362	183	24,810	101	6,896	124	17,866	171	51,047	149	24,236	93	9,744
Floatation	33	19,772	1	27	2	1,681	14	21,772	5	1,087	1	3,700	8	8,014
Creditor Exit	58	–	69	–	99	–	51	–	59	–	42	–	24	–
Total	**610**	**117,425**	**396**	**45,043**	**254**	**11,357**	**317**	**64,263**	**415**	**81,902**	**335**	**54,922**	**198**	**29,098**

Source: CMBOR / Equistone Partners Europe / Ernst & Young

Debt to equity ratios set to rise

Greater liquidity in debts markets in H1 2013 has resulted in a significant step change for European buy-out financing structures.

FINANCING STRUCTURES ON EURO BUY-OUTS 2007 - H1 2013 (€M)

	2007	2008	2009	2010	2011	2012	2013
Equity	39.8	48.3	66.8	66.2	63	65.3	54.6
Mezzanine	4.9	4.8	1.4	1.2	2.7	3.2	0.5
Debt	51.9	40.9	29.3	29.5	32.1	28.9	43.5
Loan Note	1.8	3.5	1.2	0.9	1.9	2.0	1.4
Other Finance	1.6	2.5	1.4	2.1	0.5	0.6	–
Total Financing	**108,757**	**43,195**	**7,815**	**34,969**	**42,361**	**31,432**	**7,408**
Vendor Contribution	1.5	2.4	1.6	0.9	0.7	1.0	–
Management Contribution	2.8	3.1	1.7	1.4	0.9	1.5	0.1
Management Share Of Equity	**35.5**	**32.5**	**33.6**	**30.7**	**33.1**	**30.3**	**30.2**

Source: CMBOR / Equistone Partners Europe / Ernst & Young

IN 2012 buy-out financing generally required an equity input of 65.3% with debt of 28.9%. But in H1 2013, equity input dropped to 54.6% and the debt component rose to 43.5%. While some of this may be down to a gradual increase in leverage in classic buy-out structures, it is also notable that fewer all-equity deals are occurring, thereby reducing the aggregate equity contribution across the market.

For financing structures requiring in excess of €100m, the shift towards a

2013: a slow year?

The total number of European buy-outs and buy-ins in H1 2013 stands at 249 deals worth €20.7bn.

IF THIS rate and value of deals continues in H2, 2013 will present as a 15 year low, with the exception of 2009 when a total of 433 deals were recorded with a combined value of €20bn.

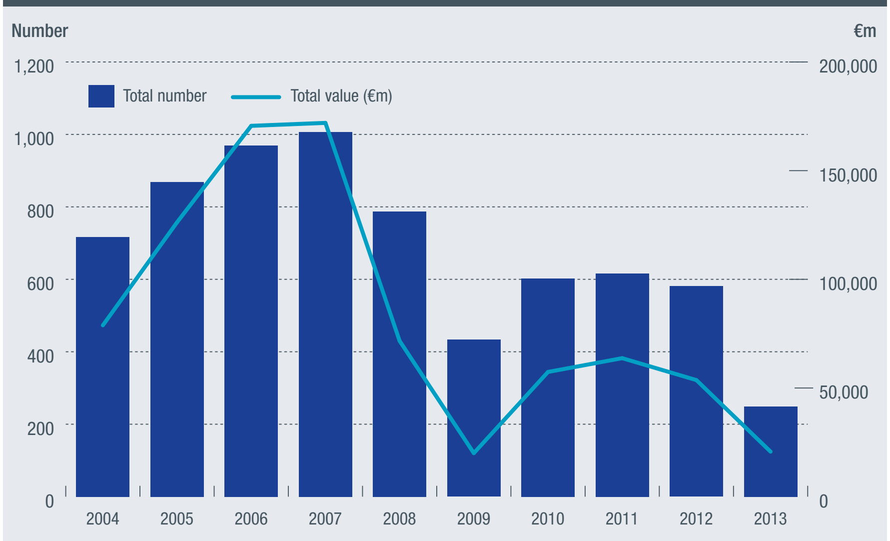
There are a number of factors that may be contributing to this fall off in activity levels. One is the availability of relatively cheap debt. This has resulted in a surge of buy-out and general corporate debt refinancings. At the peak of the market in 2007 and 2008 a huge number of buy-outs were financed, many of which, due to changed market and trading realities, are now unlikely to be able to repay the capital at the end of its (typical) seven year term. With 2014/2015 looming, private equity funds with investee companies in this position have jumped at the opportunity to refinance those debts now there is liquidity in the debt markets.

This view is supported by investment banking transaction fees generated in H1 2013. Globally, debt capital markets fees rose 9% and M&A fees fell by 16%.

The focus on shoring up existing portfolio companies may explain the fall off in new investments. Another contributory factor is that private equity overhang has been dramatically reduced over the past three years. The uncalled funds available for investment have been a constant feature of the market since the middle of the 2000s. The biggest factor contributing to this reduction in overhang is the difficulty of raising a private equity fund for many firms over the past three years. The sharp reduction is partly due to some funds being unable to raise new funds and, for those still able to fundraise, the dramatic increase in average fundraising time. Today this stands at around 18 months compared to three to six months during the boom period prior to 2008.

The overhang could increase fairly rapidly given that Q2 2013 global private equity fundraising figures have been recorded at their highest since Q4 2008.

EURO BUY-OUTS/BUY-INS 2004 – H1 2013



Source: CMBOR / Equistone Partners Europe / Ernst & Young

greater debt contribution has been more pronounced. In 2012 buy-outs in excess of €100m required on average 59.2% debt, compared to 43.2% debt in H1 2013.

The mezzanine layer appears squeezed under these improved liquidity conditions. Across all European buy-out financings in H1 2013 just 0.5% of mezzanine featured. This compares to 3.2% of mezzanine used in financing structures in 2012 as a whole.

Management's share of equity appears to be stabilising. It sits at 20.6% within financing structures in excess of €100m.

FINANCING STRUCTURES OVER €100M 2007 - H1 2013 (€M)

	2007	2008	2009	2010	2011	2012	2013
Equity	35.2	43.4	63.6	58.4	49.4	59.2	43.2
Mezzanine	6.3	8.1	1.0	1.5	4.2	2.1	1.0
Debt	57.6	46.5	35.1	38.3	46.3	38.4	53.1
Loan Note	0.2	1.5	0.3	0.7	0.1	0.2	2.7
Other Finance	0.6	0.4	–	1.1	–	0.1	–
Total Financing	**103,727**	**39,345**	**6,077**	**32,169**	**39,252**	**29,734**	**6,931**
Vendor Contribution	0.3	1.6	2.0	0.1	0.1	0.4	–
Management Contribution	1.4	1.5	0.3	0.3	0.6	1.0	–
Management Share Of Equity	**29.1**	**25**	**23.3**	**20.1**	**28.2**	**22.2**	**20.6**

Source: CMBOR / Equistone Partners Europe / Ernst & Young

In 2007, management's share of equity sat at 29.1% within financing structures in excess of €100m, having averaged at around 20% prior to the market peak. This might be attributable to the notion that in boom times there is plenty of upside, in the form of equity, to share around. But when the buy-out market constricted and driving returns became harder, as a general rule, buy-out firms returned to standard equity splits between management and buy-out firm.

Across all financing structures the 30.2% rate of management equity share recorded in H1 2013 is the lowest of the past 10 years. But overall management's equity share appears to have been less volatile, with its highest percentage at the market peak in 2007 being recorded at 35.5%.

Geographic & sector variations

ITALY AND SPAIN have shown depressed levels of buy-out activity in H1 2013. This is to be expected given the economic difficulties facing both these countries. With no clear or popular solution to these problems in sight, this inevitably continues to dampen investors' appetite.

Sectors such as leisure and manufacturing have continued to produce similar deal volumes. This is not true across the board. Business and support services saw a drop to 36 deals in H1 2013, having recorded 101 deals in 2012 and 100 in 2011. However, total deal value in this market segment looks to be on a similar trajectory to recent years.

Food and drink businesses recorded only seven buy-outs worth a combined total of €161m in H1 2013. 2011 and 2012 have recorded values of around €1.8bn for between 26 and 31 deals.

Healthcare buy-out deals have also fallen away in H1 2013 with 13 deals with a combined value of €1.45bn being completed. Deal numbers between 2008 and 2012 ranged between 34 and 48. Finally, there were 31 TMT deals in H1 2013 with a combined value of €1.13bn. Although the number of deals is close to previous recent years, the value is depressed; since 2008 the lowest combined value of TMT deals was €4.5bn in 2009.

The road ahead...

WHILE THE number of buy-outs up to the half year point in 2013 is low compared to previous post crisis years, 2013 as a whole could yet live up to its promise. Its promise is based on levels of consumer and investor confidence not present in 2012, and the good investment opportunities this has spawned.

With a buoyant debt market able and willing to support good investment opportunities; all the necessary ingredients for an active buy-out market are in place. So it is unsurprising that practitioners are reporting healthy deal pipelines. Deal timetables, however, appear to have elongated in the post crisis era; almost every segment of the deal chain requires greater depths of due diligence and analysis.

Another time drag on deal making resources is the ongoing need for buy-out firms to meet their refinancing needs. It is difficult to assess how long this will take the industry as a whole. This is the first time debt markets have been described as buoyant since the crisis in late 2008. Consequently, firms facing repayments (in 2014 and 2015) they may not be in a position to meet, must capitalise on this refinancing window. With this distraction set aside, deal making ought to return to centre stage.

EQUISTONE

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