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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 (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.

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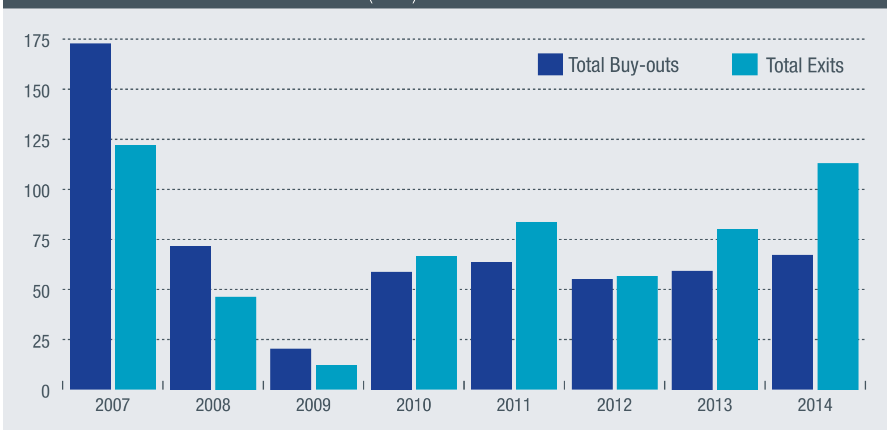
Exits remain buoyant on the waves of IPO market

EURO BUY-OUTS/EXITS 2007 – 2014 (€BN)



Source: CMBOR / Equistone Partners Europe / Ernst & Young

2014 WAS a year of outstanding capital returns for European buy-out investors. Exits totalled €113bn, which is an increase of 41% on 2013's total of €80bn. The €113bn of exit value achieved in 2014 is, with the exception of 2007, the largest annual sum ever returned to investors.

Following on from 2013, IPO markets remained receptive to private equity-backed floats, with a total of €44bn raised in 2014. This is the largest value ever raised by private equity-backed IPOs. At 43 floats, it was also the greatest number ever recorded, and matches the combined total of IPOs achieved for the entire period of 2009-13, illustrating just how receptive public markets were to private equity-backed companies during 2014.

IPO exits dominated the upper end of the value range.

IPO exits of buy-outs dominated the upper end of the value range. There were 35 exits with values of €1bn or more during 2014. Of these, 19 were IPOs. The UK has tended to dominate the European buy-outs' IPO scene in past years given the relative depth and breadth of the London Stock Exchange. However, the picture was more mixed in 2014 when 7 UK companies IPO'd. The remaining 12 IPOs were spread across Europe. Germany, Spain and Italy each had two companies that achieved an IPO, with France, Ireland and Northern Europe accounting for the rest.

The first half of 2014 saw the most IPO activity by number and value. Of the 43 IPOs in 2014, 32 fell into H1 and they represented a combined value of €34bn (of the €44bn total raised.) Activity during the second half of the year was less frenetic, prompting fears in some

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/continued from page 1.

Exits remain buoyant on the waves of IPO market

quarters that the IPO window could close. However, the pipeline of potential private equity-backed IPOs remains strong, and quantitative easing may well bolster European market confidence throughout 2015-16.

While headlines have focused on IPO markets boosting 2014 European exit values, that was only part of the story. Trade sales also dramatically increased during 2014. The combined value of trade sales at €40.5bn was virtually double 2013's €21bn tally. The increase was value rather than volume driven. The volume of trade sales increased only slightly from 188 in 2013 to 196 in 2014.

Five of the top 10 buy-out exits in 2014 were by trade sale. The largest exit of the year was of KKR's sale of its remaining holding in the UK's Alliance Boots, the pharmacy-led health and well-being company. Walgreens bought this for €7.7bn in December. The other UK trade sale to make the top 10 was Firth Rixson's sale to US firm Alcoa. US private equity firm Oak Hill Capital Partners invested in the buy-out of Firth Rixson, the aerospace jet engine components manufacturer, in 2007. Two German buy-out exits also made it into the top 10. They are Friedrich Grohe and Flint Group. Sanitary equipment manufacturer Friedrich Grohe, backed by US firm Texas Pacific Group and DLJ, was sold for €3bn to Japanese firm Lixil. Printer ink and packing firm Flint Group, backed by CVC, was sold for €2.2bn to Koch Industries.

This increase in trade sale values (€40.5bn) and IPO exit number and values (€44bn) pushed secondary buy-outs into third place with a combined value of €28.5bn. However, secondary buy-outs remained stable as an exit route; posting €28.5bn in 2014 compared with €33.7bn in 2013 and €27.9bn in 2012.

Because exits by IPOs and trade sales surged ahead, the relative value of secondary buy-outs sharply declined. During the period of 2002-14 (with the exception of 2008-09 and 2011), secondary buy-outs have generated more capital than either IPOs or trade sales.

During 2010-2014, European buy-out investors have returned in excess of €95bn more than they have invested.

Secondary buy-outs out of the spotlight

Secondary buy-outs did not dominate European market in 2014.

IN 2014 secondary buy-outs fell behind what was once considered traditional buy-out sources for the first time in five years. Local and foreign divestments and private company sales were worth a combined value of €35.8bn. This compares to a figure of €28.4bn in 2014.

Secondary buy-out volumes and values have been stable for the past five years. It is the increase in competing deal sources that has pushed secondary buy-outs out of the spotlight. That said, secondary buy-outs remain a key component of the European buy-out market. Of the 13 European buy-outs in 2014 with an enterprise value of €1bn+, ten were secondary buy-outs.

In terms of an exit route for investors, secondary buy-outs proved the least favoured route in 2014, behind both IPOs and trade sales. This holds true for overall value, but not for deal numbers.

In 2014, there were 182 secondary buy-out exits worth €28.6bn. Compared to the 167 secondary buy-outs worth €33.8bn in 2013.

This reflects the fact that public markets as an exit route for private equity-backed buy-outs are beginning to feel more permanent. Talk of 'the IPO window' that dominated 2013 is less prevalent as commentators begin to feel more confident about the medium term.

Typically attractive IPO candidates fall into the €500m+ enterprise range. IPO's can be more attractive for two reasons. First, there are a limited number of private equity firms operating at this end of the market and so sourcing co-investors and bank debt can be challenging. Second, when a business has reached this scale it may be better served by public shareholders' long term goals.

EURO BUY-OUTS DEAL SOURCE 2008 – 2014

	2008		2009		2010		2011		2012		2013		2014	
	No.	€m	No.	€m	No.	€m	No.	€m	No.	€m	No.	€m	No.	€m
Secondary Buy-out	145	22,188	52	3,886	144	28,414	175	30,787	139	26,980	156	34,622	157	28,364
Local Divestment	133	12,933	101	5,029	115	8,206	105	11,682	99	7,322	114	9,051	123	19,699
Private	374	14,060	178	3,728	245	9,800	246	8,840	248	6,646	202	6,431	266	8,998
Foreign Divestment	52	5,065	40	2,778	44	4,422	49	6,247	54	7,265	56	6,233	63	7,117
Public to Private	29	14,333	17	2,929	21	7,566	14	5,104	19	4,286	5	2,405	10	2,559
Insolvency	17	216	28	1,208	31	345	24	476	38	2,481	25	333	22	355
Privatisation	2	240	4	593	3	137	–	–	–	–	1	232	1	148
Public Buy-In	3	1,831	4	181	1	20	4	293	2	35	–	–	1	72
Unknown	21	768	11	154	8	55	12	68	1	4	4	61	0	–
Total	**776**	**71,633**	**435**	**20,487**	**612**	**58,966**	**629**	**63,498**	**600**	**55,020**	**563**	**59,368**	**643**	**67,312**

Source: CMBOR / Equistone Partners Europe / Ernst & Young

2014 awash with debt capital

Debt capital markets were strong during 2014. This was evidenced by the increase in the debt to equity ratio across European buy-outs.

THE AVERAGE equity component for all European buy-outs was 48.3% in 2014. This figure reduced to 42.9% for financing structures over €100m. Management's share of equity remained on a par with the previous two years at 27.9% across all buy-outs. But in those deals with €100m+ financing, management's share of the equity fell to 17.6%. This no doubt reflects significant jumps in the number of deals in the following enterprise ranges during 2014; €100-250m, €250-500m and €1bn plus. At the larger end of the market, absolute equity value rather than percentage often comes into play.

Debt levels for European buy-outs rose to 49.4%. This puts debt close to the 2007 figure of 51.6% at the height of the boom. Debt levels have slowly clawed their way back up to 49.4%, having dipped as low as 28.6% during the period 2008-2013. At the larger end of the deal spectrum (financing structures of €100m plus), debt has risen to an even higher 54.7%. This is not quite at its 2007 peak of 58.6%. But it is a similar rebound from the 35.1% low reached during the period 2008-2013.

Managers seeking to refinance also benefited from liquid capital markets in 2014. Refinancings of European buy-outs reached an all time high in 2014 with 156 refinancings raising €52.5bn.

EURO BUY-OUTS REFINANCING 2005 – 2014

Source: CMBOR / Equistone Partners Europe / Ernst & Young

Will liquidity remain in 2015?

At the start of 2015, the eurozone looked to be heading for another rocky patch as Greece prepared to elect an anti-bailout government. Shortly before the Greek elections, the European Central Bank announced its long anticipated move into quantitative easing. The European Central Bank will pump €1trn plus into the eurozone at a rate of €60bn a month for 19 months, starting in March 2015.

Quantitative easing is expected to support the euro and thus the region's exports and it is hoped that it will stimulate growth figures. Safeguards, at Germany's insistence, were put in place to prevent the programme being used to prop up governments breaking the rules. Greece looks set to be an early test as to their effectiveness.

The ECB action has given comfort to those concerned about the lack of progress in boosting Europe's dismal growth rates. The quantitative easing programme is good news for investors and capital markets as liquidity should remain good heading into 2015.

However, there remains concern that the combination of strong liquidity and too much money to spend could prove a future source of instability. There are fears that private equity investors will struggle to find enough good investment opportunities, especially across low growth Europe, during the coming 12-18 months. Buy-out exits have returned over €95bn more than the new money that has been invested over the past five years. On top of this, fundraising for European buy-outs has picked up significantly over the past couple of years. A total of 43 European buy-out funds raised an aggregate of \$39.8bn in 2014. The challenge for 2015 is for the private equity industry to spend this money wisely.

FINANCING STRUCTURES ON EURO BUY-OUTS 2009 – 2014

	2009		2010		2011		2012		2013		2014	
	<€100m	€100m+	<€100m	€100m+	<€100m	€100m+	<€100m	€100m+	<€100m	€100m+	<€100m	€100m+
Equity (%)	65.9	63.6	66.5	58.4	62.9	49.7	65.6	59.1	50.5	41.2	48.3	42.9
Mezzanine (%)	1.4	1.0	1.3	1.8	2.6	4.1	3.3	2.1	4.7	4.2	0.9	1.2
Debt (%)	30.2	35.1	29.2	38	32.1	46.1	28.6	38.4	42.0	53.0	49.4	54.7
Loan Note (%)	1.2	0.3	0.9	0.7	1.8	0.1	1.9	0.2	2.0	0.7	1.4	1.3
Other Finance (%)	1.4	–	2.1	1.1	0.5	–	0.6	0.1	0.8	0.9	–	–
Total Financing (€m)	**7,932**	**6,077**	**34,975**	**32,169**	**42,830**	**39,721**	**31,484**	**29,734**	**34,718**	**33,339**	**26,993**	**26,609**
Vendor Contribution (%)	1.6	2.0	0.9	0.1	0.7	0.1	1.0	0.4	0.5	–	–	–
Management Contribution (%)	1.7	0.3	1.4	0.3	0.9	0.6	1.4	1	0.6	0.2	–	–
Management Share Of Equity (%)	**32.6**	**23.5**	**31.2**	**21.2**	**32.5**	**28.2**	**29.7**	**22.2**	**27.1**	**21.7**	**27.9**	**17.6**

Source: CMBOR / Equistone Partners Europe / Ernst & Young

Some countries and sectors shine

Investment across sectors and countries in 2014.

Countries

Northern European countries of Denmark, Norway and the Netherlands saw the greatest combined buy-out value increases in 2014. Each country had at least one deal featuring in the top 10 buy-outs for the year. For Denmark it was Nets Holding, which sold in July for €2.3bn. For the Netherlands it was Unit4 NV, the March public-to-private worth €1.2bn.

Norway held the no 1 and no 2 spots in the top 10 buy-outs for 2014. These were Visma, which was sold in August by KKR to HgCapital and Cinven for €2.5bn, and Lindorff, which AB Investor sold to Nordic Capital in October for €2.3bn. 2014 was also a good year for Norwegian buy-out exits. The country had 14 exits with a combined value of €6.1bn, which is the highest value recorded to date.

Europe's biggest buy-out markets – UK, Germany and France – were stable during 2014. All saw similar numbers and combined values as in the three years prior. But Germany is notable for having produced five of the top 10 buy-outs in 2014. They were; Scout24 Holding at €2bn in March, GEA Heat Exchangers at €1.3bn in November, both Minimax Viking at €1.3bn and Mauser at €1.2bn in August, and Median Kliniken at €1bn in December.

France had two top 10 deals. They are Ceva Sante Animale, sold for €1.6bn by Nixen in June to Sagard and Euromezzanine, and Sebia sold for €1.4bn by Cinven in December to Montagu and Astorg. France saw a leap in both exit values and numbers. France recorded €12.4bn (against 64 exits) in 2014 up from €8.4bn (against 55 exits) in 2013.

The UK had only one deal in the top 10. This was the sale of Pizza Express to Hony Capital for €1.1bn in September. This was a partial secondary buy-out. Cinven began the process of breaking up The Gondola Group rather than seeking a buyer for the entire restaurant portfolio, which includes UK pizza chains Zizi and ASK Italian.

UK exits increased to 200 worth €44.2bn in 2014, compared to 186 exits at €27.5bn in 2013.

Sectors

Financial services, healthcare and TMT were the sectors showing the greatest deal values in 2014. Although combined deal values increased significantly on recent years, the actual number of deals has remained consistent. Consequently, it was the appearance of a handful of mega size deals that pushed these sectors to the forefront.

TMT boasted four deals over €1bn in value. These were Norway's Visma (€2.5bn), Germany's Scout24 Holding (€2bn), Ireland's Skillsoft (€1.7bn) and the Netherlands' Unit4 NV at €1.2bn. Financial services were boosted by the inclusion of Norway's Lindorff (€2.3bn) and Denmark's Nets Holdings also at €2.3bn. Healthcare included two French deals, Ceva Sante Animale and Sebia; worth €1.6bn and €1.4bn, respectively.

Retail declined significantly in value terms; down from €5.4bn in 2013 to €2bn in 2014. However, actual deal numbers remain similar to those recorded each year for the past five years.

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