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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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TRENDS OF BUY-OUTS/BUY-INS 2003-2012

Source: CMBOR / Equistone Partners Europe / Ernst & Young

Uncertainty hits Euro buy-outs

2012 ended 21% down on 2011, in terms of the value of European private equity backed buy-outs undertaken.

IN TOTAL there were 544 private equity-backed buy-outs in 2012 worth €53.3bn, down from €63bn in 2011. Activity levels in the individual European countries appear to be directly linked to their current and future economic growth, as well as the size of their ongoing debt obligations.

While the buy-out market has not performed as well as hoped in 2012, it was the third year running in which funds returned to private equity investors via exits have outstripped the value of new buy-out investments. A total of €51.3bn worth of exits was recorded for 2012, and although this is down on 2011's €79.5bn total, the 2012 figures are against a backdrop of falling insolvency rates and IPO markets largely closed to private equity-backed flotations.

In 2012, 78 deals with enterprise values of between €100m and €1bn were closed compared to 112 such deals during 2011. This 30% reduction in mid-market deals may, in part, be explained by tight leveraged finance markets for all but the best assets.

Few common threads

Europe's primary buy-out markets differed markedly during 2012.

GERMANY, EUROPE'S economic powerhouse, continues to yield fewer buy-out opportunities than many would expect. Having kept pace with the values seen in the French buy-out market in the early 2000s, even exceeding it briefly in 2008, German buy-out activity has since slumped. However, the overall figure for 2012 is significantly better than it might have been, since three of the top 10 buy-outs recorded in Q4 2012 were of German companies; kitchen and tableware manufacturer WMF Wurttembergische at €590m, engineering manufacturer Kraussmaffei Technologies at €568m and pharmaceutical company Aenova Holding at €500m. Two of these deals were secondary buy-outs and the other a tertiary buy-out.

Explanations as to why Germany has yielded relatively few buy-outs recently include; a tight leveraged finance market, (which has failed to loosen despite Germany's strong domestic economy); the presence of robust corporates (including those from outside the eurozone) with which they are competing, which are pushing up asset prices for buy-out investors; and sellers' price expectations remaining high, perhaps influenced by the relative strength of Germany's economy.

The French buy-out market, which for the first time ever, surged ahead of the UK market in 2011, failed to build on this promise in 2012. Left wing François Hollande won the French Presidential election in Q2 and by the time Q4 closed, uncertainty surrounding proposed changes to the French tax regime, aimed at increasing tax receipts to reduce the country's debt burden, had cast a long shadow over both buy-out firms and their deals. Proposed increases in capital gains tax and income tax, the latter up to 75% on annual income in excess of €1m, created a sense of uncertainty for entrepreneurs and buy-out firms. Carried interest earned by buy-out firms was, at one stage, going to be treated as income rather than capital gains, creating further anxiety. In addition, a proposal to limit the amount of debt interest a company is allowed to deduct from its taxable income could have had implications on the returns.

UK buy-outs appear to have shared in the country's feelgood year, characterised by a successful Olympics and its Golden Jubilee celebrations. In 2012 the UK accounted for 39% of the European buy-out market; considerably up on its 23% share in 2011. "Feelgood" factors aside, the UK posted negative GDP growth in three out of four quarters in 2012, continues to debate a push away from further European integration and looks like it may lose its triple A rating within the next couple of years if economic growth does not return.

TOP 10 BUY-OUTS FOR Q4 2012

Company name	Country	Vendor	Value (€m)
Premium Credit	UK	MBNA/Bank of America	1,080
Acteon	UK	First Reserve Corporation	*1,058
Atento Inversiones y Teleservices	Spain	Telefonica	1,040
KMD	Denmark	EQT Partners	*938
Fives-Lille/Fives Group	France	Charterhouse	*850
WMF Wurttembergische	Germany	Capvis	590
Kraussmaffei Technologies	Germany	Madison Capital Partners	568
Aenova Holding	Germany	Bridgepoint Capital	500
Amdipharm	UK	Private	457
Rexam's Cosmetics, Toiletries and Household Care Products business/CTH	UK	Rexam	364

Source: CMBOR / Equistone Partners Europe / Ernst & Young

** Estimated value.*

Exits up third year running

EUROPEAN BUY-OUT exits, by value, were ahead of buy-out investments for the third year running, with €53.3bn of buy-outs exited during 2012. Q4 was the slowest quarter, with just €8.9bn of exits completed.

European buy-out exits were dominated by the UK market, which posted its largest exits value since 2007, at €19.4bn. Secondary buy-outs dominated the UK exit market in Q4 2012 as they did in Q1, whereas trade sales recorded higher figures in Q2 and Q3. There was just one private equity-backed European IPO in 2012 of Ziggo, the Dutch cable company, which listed on Euronext in Q1. At €3.7bn this was the second largest exit, by value, in 2012. The first was the €4bn sale of NDS Group, a leading provider of video software and content security solutions, which was sold to Cisco Systems in Q3.

EXIT NUMBERS 2003-2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 Q1	2012 Q2	2012 Q3	2012 Q4
Trade sale	115	170	233	252	271	180	93	123	162	38	38	41	29
Secondary buy-out	99	144	176	226	241	142	50	118	172	36	25	39	36
Creditor exit	70	56	46	45	56	65	93	48	55	15	6	12	6
Floatation	9	37	39	35	33	1	2	14	5	1	0	0	0
Total	**293**	**407**	**494**	**558**	**601**	**388**	**238**	**303**	**394**	**90**	**69**	**92**	**71**

Source: CMBOR / Equistone Partners Europe / Ernst & Young

Economic fortunes dent deal flow

IN 2012 the UK returned to the top of the European buy-outs table, with a 39% market share by value. In Q4 2012 four of the top 10 buy-outs, by value, occurred in the UK and included two corporate spin-offs (Premium Credit sold by MBNA for €1.08bn and the underperforming cosmetics and personal care business of Rexam, sold for €364m), one sale of a private company (Amdipharm sold by its owners to Cinven) and one secondary buy-out (Aenova Holdings sold by Bridgepoint Capital).

French buy-outs, both by number and value, took a tumble in Q4 2012. Uncertainty over tax reform and the country's macro economic prospects were undoubtedly the primary factors here. In the face of continued negative signals from the French economy, buy-out activity may remain constrained. Q4 2012 saw just 12 French buy-outs close with a combined value of €1.28bn.

German buy-outs remain stable since activity levels resumed in 2010, typically recording around 20 deals each quarter. But, given its strong engineering and manufacturing bases, Germany continues to punch below its weight in terms of buy-out activity. Q4 2012 was at the higher end of this range with 22 deals with a combined value of €7.06bn. A substantial part of this figure related to one tertiary and two secondary buy-outs, with combined values of €1.66bn, in the manufacturing and pharmaceuticals sectors.

European buy-outs remain at less than a third by value, and around a half by number, of the market size reached in the pre-crisis years of 2006 and 2007.

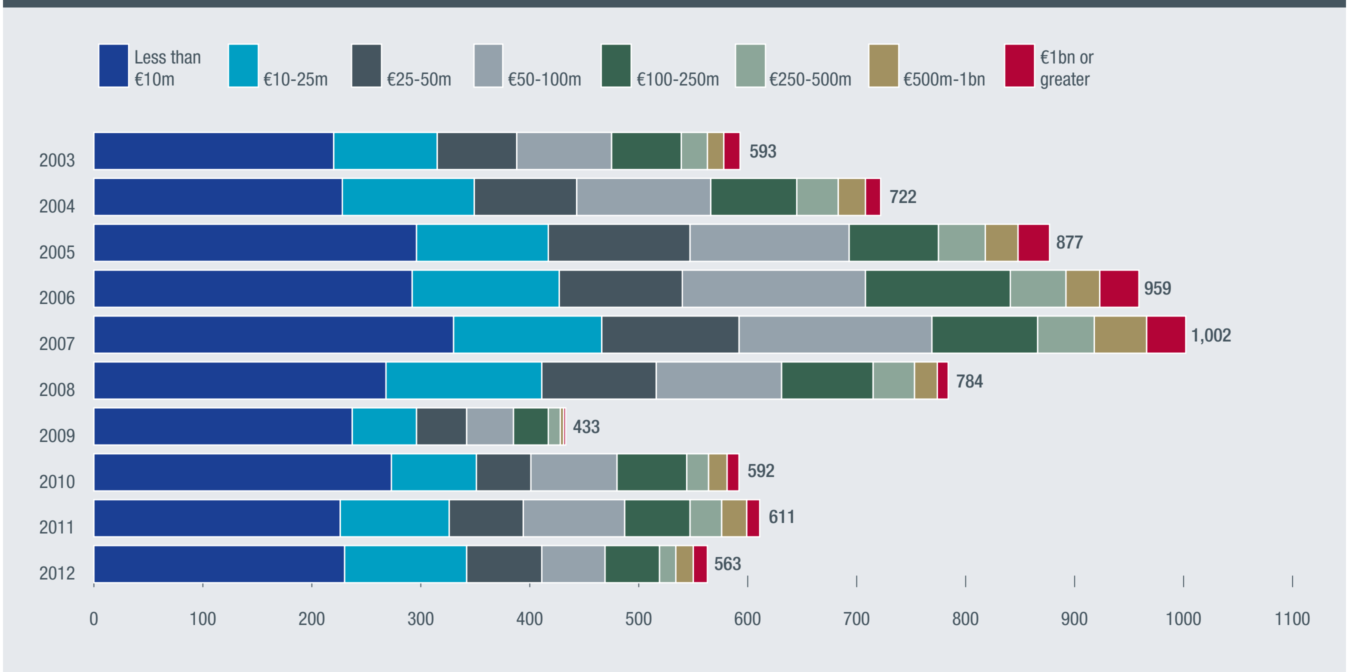
In Spain the buy-out market all but disappeared in 2012. Lack of deal flow in the Spanish market saw consolidation, or downsizing, among the country's dedicated funds in an attempt to weather the economic downturn. That said, in early 2013 the European Investment Fund announced its support for Oquendo Capital's €100m fund launch aimed at backing SMEs across Iberia. Italy, beset by similar austerity constraints as its Spanish neighbour, credit rating downgrades and a debt burden, recorded its lowest buy-outs, by value, for more than a decade in 2012.

Manufacturing, business and support services and the TMT sectors (in that order) yielded the greatest deal flow by value in 2012. In fourth place was healthcare, which recorded its highest deal value since 2007, although little of that figure (€7.5bn) came in Q4 2012, which saw just €1.2bn of buy-outs by value.

> "The wider economic and banking issues in the Eurozone continue to suppress buy-out activity across the region. However, it has been a robust year for UK buy-outs, in part due to the increasing willingness of banks to offer financing for some promising assets."
> Christiian Marriott, Equistone

Manufacturing had its best quarter in Q4 2012 since Q4 2010, with a total value of €3.98bn. Although TMT deals for 2012 came in at a combined value of €8.3bn, Q4 was slow with just €1.25bn of buy-outs closing. Business and support services have now posted two strong quarters in a row, with €2.95bn of buy-outs closed in Q3 2012 and €2.72bn closed in Q4.

VALUE RANGE OF BUY-OUTS/BUY-INS 2003-2012



Source: CMBOR / Equistone Partners Europe / Ernst & Young

What lies ahead for 2013?

Three factors look likely to characterise the European buy-out market in 2013.

THE ONGOING issue of economic growth across Europe will clearly determine which buy-outs get done. Without growth these economies look set to be stuck with austerity for longer and prolonging the hardship this causes risks populist moves with serious political implications. Even if the worst case scenarios do not materialise, zero or low growth rates across Europe will continue to dampen buy-out investors' appetites for companies that are dependent on domestic economic growth. However, companies growing in niche categories or with strong exports will sustain some level of buy-out activity.

The second factor is how the constrained leveraged finance markets across Europe will address the anticipated £100bn wall of buy-out-related debt due to be renegotiated in the next 18 months. While most of it will not fall due in 2013, this will be the year firms start working with lenders on new terms. How those conversations pan out will inevitably impact both existing buy-out assets as well as liquidity for new deals coming to market.

Finally, 2013 will further show how the industry collectively responds to regulatory (AIFMD) and social responsibility issues. Some of this is being addressed through Responsible Investment strategies, most notably environment, social and governance (ESG) policies being adopted, while firms are already preparing for AIFMD. Reputationally, the industry has the tricky task of addressing what the public, in these times of austerity, may see as excessive pay and corporate tax avoidance; but are seen in the industry as rewards for risk. The buy-out industry has much to think about in 2013.

SECTOR TRENDS 2003-2012

Sector	2008	2009	2010	2011	2012 Q1	2012 Q2	2012 Q3	2012 Q4
Manufacturing	282	108	173	180	53	34	33	32
Bus. & Support Services	108	59	86	100	22	29	23	25
TMT	90	63	70	73	20	18	27	15
Other	60	38	59	47	18	13	10	14
Healthcare	47	34	48	37	10	9	12	7
Retail	44	38	45	42	13	11	9	5
Leisure	28	20	20	34	7	6	6	8
Food and Drink	39	23	31	31	4	8	7	6
Financial Services	25	23	29	28	8	2	5	3
Paper, Print & Publishing	13	10	5	8	2	2	2	5
Property & Construction	22	10	14	22	5	–	4	1
Transport & Comms	26	7	12	9	3	–	4	3
Total	**784**	**433**	**592**	**611**	**165**	**132**	**142**	**124**

Source: CMBOR / Equistone Partners Europe / Ernst & Young

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