

EUROPEAN PRIVATE EQUITY AND M&A MARKETS PERFORMING STRONGLY

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The European Union (EU), as a single market, is the largest economic block in the world, representing 26% of global GDP. The EU's member states represent five of the 10 largest economies in the world resulting in a fundamentally prosperous region characterized by open and innovative market-based economies. Following the 2008 global financial crisis, the European sovereign debt crisis and corresponding fiscal consolidation and structural reform programs implemented across Europe, the continent's economic recovery is now in its third year and continues at a moderate pace.

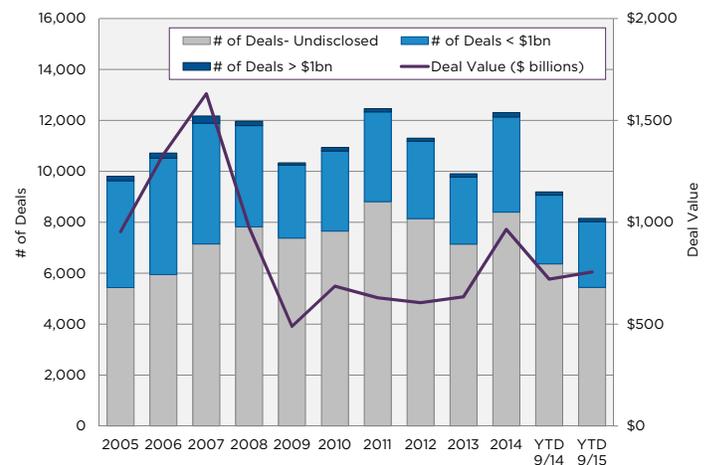
Subsequent to the sharp decline in energy prices during the second half of 2014 and the European Central Bank's (the "ECB") aggressive quantitative easing program since the beginning of 2015, economic growth has raised private equity activity above pre-crisis levels in more member countries. During the second quarter of 2015, real GDP growth in the EU increased for the ninth consecutive quarter. The European Commission currently projects that it will grow by 1.8% for full year 2015, which would represent the first time euro area growth has exceeded 1% since the global financial crisis downturn.

Beginning in the second half of 2014 and continuing through 2015, the region's economic recovery has been facilitated by low oil prices. The low prices are similar to a tax cut for consumers and businesses, positively impacting purchasing power without the negative implications of increasing deficits or debt levels. Additionally, the Euro has continued its depreciation relative to the U.S. dollar and other currencies. This is a consequence of quantitative easing and the ECB's broadly accommodative monetary policy, which is expected to strengthen the price competitiveness of European. However, these tailwinds are expected to have less of a direct and positive impact on growth going forward given the slowdown in China and emerging market countries, which account for approximately one fourth of euro-zone exports, increased global economic uncertainty, and the evolving refugee crisis.

Fundraising approaching record levels

While economic conditions across Europe continue to exhibit consistent, albeit, moderate improvement across most countries, the European private equity and M&A markets have rebounded strongly in the years subsequent to the global financial crisis. After reaching a post-global financial crisis high of \$965 billion as measured by total deal value across 12,303 transactions in 2014, the European M&A market has remained quite active through the first three quarters of 2015 reaching a total deal value of \$756 billion across 8,150 transactions. While still far below the 2007 record level of \$1.6 trillion in total deal value across 12,169 transactions, 2015 year-to-date activity is on pace to exceed 2014 on a total value basis across fewer transactions reflecting a higher concentration of capital across larger-sized deals. A combination of factors, including widely available debt at increasingly favorable terms to borrowers; diminished organic growth prospects in domestic markets; record private equity uncalled commitments or "dry powder" of approximately €280 billion; and, strategic purchases between corporations, given healthy balance sheets and generally supportive equity markets, continue to underpin the significant deal activity across the European region today. (see Exhibit 1)

EXHIBIT 1 : Europe M&A Activity



Source: Robert W. Baird Global M&A Monthly (October 2015).

Despite acute competition from corporate strategic buyers, private equity firms maintain substantial resources and are serious competitors in today's market environment given the many successful portfolio company sales over the past two years, a strong fundraising environment characterized by increasing investor allocations to private equity, and accommodative debt markets to finance transactions. On a global basis, private equity buyers have continued to be active participants in the current market as they represented approximately 18% of total M&A activity during 1H 2015, which represents the highest percentage since the 19.5% level reached in 2007.¹ Not surprisingly, European buyout transaction multiples have remained at elevated levels in this environment reaching 9.0x on an Enterprise Value to EBITDA basis as of Q3 2015 in the wake of establishing a record high of 10.0x in 2014. Consistent with the overall European M&A market environment, a key distinguishing characteristic of today's European buyout market relative to the 2007-2008 period is the fact that the volume of transactions, which reached 1,452 through Q3 2015, has declined on a year-over-year basis leading to a 14% increase in average transaction value compared to the prior-year period.²

Exit activity remains strong

Private equity firms continue to take advantage of the favorable market environment to opportunistically sell portfolio investments. As of Q3 2015, private equity and venture capital realizations reached approximately €141 billion and are well within reach of equaling or exceeding the significant level of €168 billion achieved in 2014.³ Relative to other segments of the industry, exits were generally slower to recover in the post-financial crisis period as private equity firms waited for a more favorable market environment to sell their existing portfolio companies. Consequently, exit activity has remained strong since 2013 as valuations have steadily improved leading to new record levels for transaction multiples in both Europe and the U.S. amid strong corporate

strategic and financial buyer activity. (see Exhibit 2)

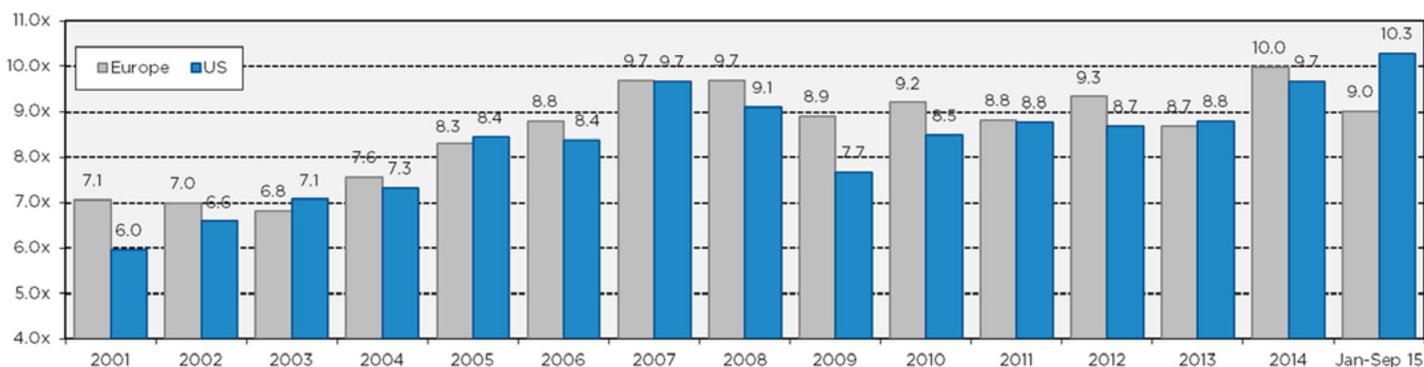
Europe: a mature market

The maturity of the European private equity market is illustrated by a broad base of over 300 managers that have operated across the region for multiple economic and business cycles. Similar to the U.S. private capital landscape, the European market is comprised of managers employing Buyout, Growth, and Venture Capital strategies. However, a key differentiator for the European market is the substantial majority of transaction volume and fundraising activity that historically has been centered on Buyout funds, which is expected to remain the case into the future. A still-evolving dimension of the market includes an increasing number of fund managers focused on deploying private credit strategies as a consequence of the ongoing disintermediation of the traditional commercial lending sector in the wake of post-financial crisis regulatory reforms and the corresponding opportunity for non-bank financial entities to fill the void.

The European private equity landscape is comprised of four primary approaches:

- (i) Pan-European funds that typically deploy local investment partners on the ground in key markets across Europe in order to source deals and keep abreast of individual markets;
- (ii) Country/ Regional-specific funds focused on a single or a limited number of markets that typically maintain a strong connection to privately owned local businesses;
- (iii) Sector-specific funds focused on particular industries; and
- (iv) Turnaround / Special Situations funds focused on financially and operationally stressed and distressed companies, Private Credit funds, and Secondaries funds.

EXHIBIT 2: Average Buyout Purchase Price Multiple of Pro Forma Trailing EBITDA



Source: S&P Capital IQ

1 - Thomson Reuters Mergers & Acquisitions Review - First Half 2015.

2 - Pitchbook European PE Breakdown - 4Q 2015.

3 - Pitchbook European PE Breakdown - 4Q 2015.

Another increasingly important dynamic of the European market is the continued growth and influence of global funds that maintain the flexibility to invest opportunistically across multiple geographies. U.S.-based managers including Blackstone, TPG, Apollo and Warburg Pincus employ this approach and, recently, all have raised new funds exceeding \$10 billion in commitments.

In 2014, total European private equity fundraising reached approximately €45 billion, representing the second highest level for European managers in the past five years behind the €67 billion raised during 2013. Given healthy investor appetite for private equity, robust recent exit activity and distributions to limited partners, many European private equity managers have taken advantage of the favorable environment to raise fresh pools of capital in 2015. As of Q3 2015, €47 billion has been raised, which already exceeds the total for 2014 and may approach 2013 levels, depending on the activity pace of the fourth quarter. (see Exhibit 3)

The European M&A and private equity markets may have reached, or may be nearing, a cyclical peak based on the increase in transaction multiples to near record levels, higher transaction leverage ratios on increasingly borrower-friendly terms, as well as strong private equity fundraising activity.

Conclusion

We believe the primary drivers that will continue to influence future returns materially and dictate the success of individual managers include:

- (i) strong focus on internationalization as domestic demand for products and services has contracted since the global recession and European sovereign debt crisis;

- (ii) continued expansion of local debt markets and the proliferation of non-bank lenders as a consequence of tighter regulation on the traditional banking sector; and

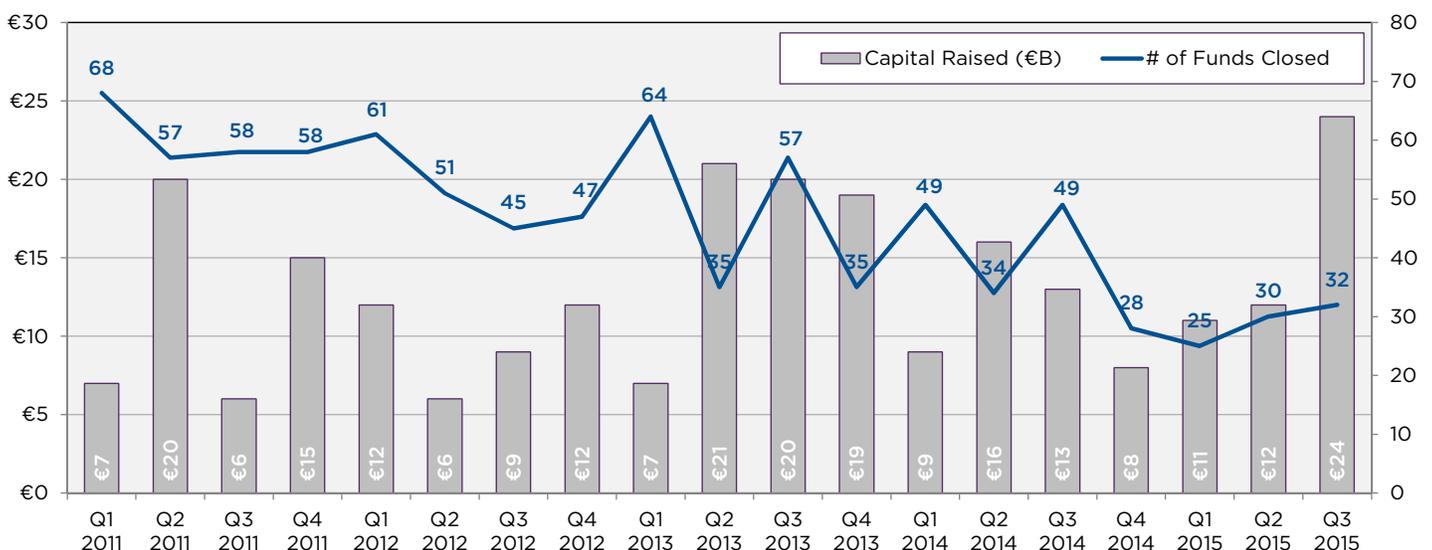
- (iii) continued consolidation across geographies and sectors as the European market remains very fragmented with over 23 million medium-sized businesses across 28 countries.

Across these three themes and, based on our experience, we prefer private equity managers with proven strategies and experienced local teams. Those we think will be successful in the current environment include managers with demonstrated capabilities to globalize operations of domestic-oriented businesses and implement fundamental operational improvement initiatives. Also, private credit managers targeting opportunistic and special situations strategies with the capability to directly source transactions from local banks are well-positioned to benefit from a potential cyclical downturn in the credit cycle and any associated increase in corporate default rates.

Finally, we favor managers who employ buy-and-build strategies to execute roll-ups in fragmented industries. Buy-and-builds can typically be completed at more favorable valuations than conventional buyouts but require skilled managers that possess the operational expertise necessary to combine and integrate businesses so the transactions are ultimately accretive to overall returns.

Table 1 on the next page details some of the leading European-focused managers across various investment strategies that are currently, or expected to be, in the market with new funds in 2016.

EXHIBIT 3: Europe PE & VC Fundraising by Quarter



Source: Pitchbook

TABLE 1: Leading European-focused managers with new funds in 2016

Fund Name	Strategy	Description	Currency	Target Size (millions)
Advent Global Private Equity VIII, L.P.	Buyout	Large buyout investments globally	USD	12,000
Apax IX, L.P.	Buyout	Large buyout investments globally	Euro/ USD	7,500
Ardian Secondary Fund VII, L.P.	Secondaries	Secondary purchases of buyout and growth equity fund limited partnership interests	USD	6,500
Avenue Europe Special Situations Fund III, L.P.	Private Credit	Distressed debt investments in Western and Northern Europe	USD	2,000
BC European Capital, X, L.P.	Buyout	Large buyout investments globally	Euro	6,500
CVC Credit Partners Global Special Situations Fund, L.P.	Private Credit	Distressed debt investments throughout Europe	Euro	600
EQT Credit III, L.P.	Private Credit	Distressed debt investments throughout Europe with a focus on the Nordic region	Euro	1,000
EQT Mid Market II, L.P.	Buyout	Mid Market buyout investments in Northern Europe, with a focus on the Nordic and DACH regions, and Asia	Euro	1,600
Gilde Buyout Fund V, L.P.	Buyout	Mid Market buyout investments throughout Europe with a focus on the Netherlands, Belgium and DACH regions	Euro	900
HgCapital 8, L.P.	Buyout	Mid Market buyout investments in Northern Europe	Sterling	1,750
IK Investment Partners VIII, L.P.	Buyout	Mid Market buyout investments in Northern Europe	Euro	1,400
Sixth Cinven Fund, L.P.	Buyout	Large buyout investments throughout Europe	Euro	5,500

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