WHITE & CASE

Defying the odds: the rise of European private equity

The recovery and future prospects of the private equity market in Europe

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2014 could be a standout year for European private equity deals

After enduring a difficult period following the financial crisis, which brought new deal and exit activity to a near standstill, the European buyout industry is showing strong signs of recovery.

Recently the media has been awash with stories about exit activity, which, to date, has been particularly impressive. We have seen an enormous increase in deal flow, which is supported by the finding in our report that IPO exits are up 350 percent in the first quarter of 2014 compared to the same period last year.

This recovery is not only a UK phenomenon. Stabilising economies across Europe, rising stock markets and the easing of concerns around the sovereign debt crisis have all helped to kickstart private equity firms back into life. This has become evident in the deal pipeline coming from across our European offices. In recent months, we have advised clients in Norway, Poland, Germany, Holland, Ireland, Denmark, Serbia, Iceland, Sweden and Switzerland, as well as in the UK. We have also seen the number of US deals in Europe increasing.

In this report, using data from Mergermarket, we highlight the key factors and trends that are driving dealmaking across Europe. We focus on some of the key markets in terms of size and activity, including the Nordics and UK, as well as US firms coming into Europe. The report also provides insights into changing finance structures and recent financing trends.

We hope that you enjoy this report and welcome the opportunity to discuss these subjects with you in greater depth.

Ian Bagshaw
Partner, White & Case

Rob Irving
Partner, White & Case

Richard Youle
Partner, White & Case

Contents

Note: the source for all data contained in the report is Mergermarket unless otherwise indicated.

Back on its feet: the European private equity picture

HEADLINES

■ Exit volumes in 2013 more than double 2009 levels ■ String of 24 European IPO exits in 2013 fuels optimism ■ 30 percent of European private equity buyouts in 2013 took place in Southern Europe ■ UK accounts for more than a quarter of European buyout volume and value ■ Pension funds and family offices have stepped up their buyout involvement ■ Industrials and chemicals businesses account for 24 percent of buyout volumes and 18 percent of value in 2013

After a difficult four years, the European private equity market is recovering.

In 2009, as banks withdrew from the market and economic uncertainty dented confidence, only 672 buyouts worth €30.5 billion closed in Europe. Exit activity was also quite weak, with only 322 exits valued at €23.7 billion recorded that year.

Despite this, Europe's buyout industry is showing signs of recovery. European private equity firms secured 702 exits last year—more than double 2009's figure and the highest number on record since the market peak in 2007. An exit value of €65.3 billion for 2013 was almost triple the value in 2009. Elsewhere, buyout activity has bounced back, too, with 912 buyouts worth €73.5 billion secured in 2013.

A new hope

Concerns around the sovereign debt crisis have subsided, and key European deal markets, such as the UK, are showing encouraging signs of economic recovery. Low interest rates and the emergence of alternative sources of acquisition finance, such as asset-based lending, have also helped. And crucially, as businesses emerge from the recession, private equity investors have some visibility on future earnings for the first time. This is making it easier to set valuations and negotiate with vendors.

"The industry has split into winners and losers. The firms that have survived have raised new funds and are eager to do deals," said Richard Youle, co-head of White & Case's European private equity practice, based in London. "High-yield bond markets are open, the IPO market is back and corporates look like they will come into the market. There is confidence again."

Flotation devices

Private equity firms have also taken advantage of the strong IPO and refinancing markets. This is helpful in order to secure good prices for companies in their portfolios.

There were 24 private equity-backed IPOs on European stock exchanges in 2013, raising US$11.3 billion, according to figures compiled by EY. A year prior to this, there were only four buyout-backed businesses that floated, raising only US$1.46 billion.

Refinancings were also up. Standard & Poor's European buyout analysis showed that firms refinanced a record €23 billion of portfolio company debt in the first nine months of 2013.

With exits and dividend recaps back on the agenda, private equity firms have been able to return large sums of cash to investors. According to Hamilton Lane, an investor in private equity funds with more than US$150 billion under management, distributions have outstripped commitments for the last three years. Firms have moved quickly to redeploy this capital in new funds coming to market. With capital flowing back to firms, the asset class has substantial sums to invest in new deals. According to the European Venture Capital Association, €233 billion in investments have been made since 2007. This war chest suggests that a wave of new deal activity can be expected in the years ahead.

Mid-market matters

Mid-market firms, in particular, have started to see activity increase as buyout houses shift focus from portfolio management and exits to investing in new deals.

There were 422 European mid-market deals valued at between €15 million and €500 million in 2013—an 18 percent increase on 2012 and 61 percent higher than 2009. Total deal value in the €15 million to €500 million range came in at €49.5 billion in 2013, more than double the 2009 figure and up by more than a fifth on 2012. Total value for deals worth more than €500 million, meanwhile, fell from €96.4 billion in 2012 to €55.8 billion in 2013, and deal volumes in this range dropped from 75 to 52, further underscoring the strength of Europe's mid-market.

"Over the last 10 years, the mid-market has been the engine room of European private equity. This has never been truer than in this market right now," said Ian Bagshaw, co-head of White & Case's European private equity practice in London.

€73.5 billion
Total value of buyouts in Europe in 2013

702 exits in 2013
The highest number since peak of market in 2007

350% increase in IPO exits
in Q1 2014 compared to Q1 2013

In addition to a thriving mid-market, European buyout activity is also expected to benefit from a widening variety of investors pursuing buyouts in the region.

Partnering up

Large global pension funds, eager to exercise more control over their private equity programmes and reduce fee costs, have been actively seeking to expand their direct investment capabilities in Europe. Giant Canadian pension funds such as the Ontario Municipal Employees Retirement System (OMERS) and Alberta Investment Management Corp (AIMCo), for example, set up offices in London after the financial crisis with a view to doing more direct deals. Both institutions aim to eventually invest up to four-fifths of their private equity allocations through direct deals.

The appetite for co-investment opportunities, with institutions investing directly in deals alongside buyout firms, is also on the rise. Like direct investments, co-investment structures allow investors to reduce fee costs and pick specific deals that they like, rather than investing from a blind-pool fund. A survey of 140 private equity investors and 80 private equity fund managers by Preqin found that 52 percent of investors plan to grow their co-investment activity in 2014, while 31 percent of fund managers expect to provide more co-investment opportunities in the year ahead.

Bagshaw commented that: "Co-investment strategies are a cornerstone of almost all credible sovereign wealth and hedge funds, and the increasing sophistication of these investors is supporting deals rising out of both the top and mid market."

Family offices, which have traditionally flitted in and out of the buyout space, are establishing a more consistent presence in the market, too. Preqin data found that the number of family offices actively investing in private equity climbed by 29 percent in 2013.

"Individuals and entrepreneurs who have made substantial sums of money in the last few years want to put money to work in fund or fund-like structures. Family offices and captive funds are coming into the market in numbers," said Rob Irving, co-head of White & Case's European private equity practice, based in Budapest. "While many of these family offices and captive funds originated with entrepreneurs who initially made their money in Central and Eastern Europe (CEE), they are now setting up teams in London and CEE and investing on a pan-European, or even global, basis."

The presence of new entrants in the private equity market is likely to see competition for deals increase, especially with the US firms coming to Europe. This could also spark an increase in acquisition volumes. On top of this, the cash reserved by some buyout houses, as well as the relative lack of quality assets, has led to a fight for quality, resulting in increased valuations.

European hotspots

As Europe's private equity industry has gradually recovered and new players have entered the market, the UK has led the way. In 2012 and 2013, UK buyouts accounted for 26 percent of total European buyout deal volumes in each year, respectively. In terms of total deal value, the UK accounted for 39 percent of European deal value in 2012 and 26 percent in 2013.

Economic growth in the UK, which has outstripped all the other major European economies and is forecast to reach 2.8 percent in 2014, according to The Economist, has been the main driver behind rebounding deal activity.

Another hotspot for European deals has been Southern Europe (Spain, Italy and Greece), which accounted for 28 percent and 30 percent of European deal volume in 2012 and 2013, respectively, and 22 percent and 25 percent of total European deal value.

Unlike the UK, where growth has been the main driver of activity, in Southern Europe investors have looked at opportunities to execute turnaround strategies and buy assets cheaply. Deeply distressed Spanish savings banks, which accumulated vast portfolios of companies in the boom years, have been forced to restructure and raise cash from cut-price asset sales. Private equity firms have seized opportunities to acquire businesses at more attractive valuations.

White & Case's Irving anticipates that in 2014 and 2015 the markets in Central and Eastern Europe and the Nordics will be the ones to watch.

"The market in CEE has been quiet in 2012–13, but there has been a distinct rebound in Q4 2013 and Q1 2014. The region has its political and economic ups and downs, but a number of regional fund managers have recently raised new funds, and Western European and global funds, are increasingly active in the region. The pipeline for deals is very strong and points to a potentially record year," Irving said.

2.8%

UK economic growth forecast for 2014

Source: The Economist

US$11.3 billion

Value of private equity-backed IPO exits in Europe in 2013

Source: EY

US$265 billion

Amount that buyout firms targeting Europe have to invest

Source: Preqin

422

Number of European mid-market deals in 2013

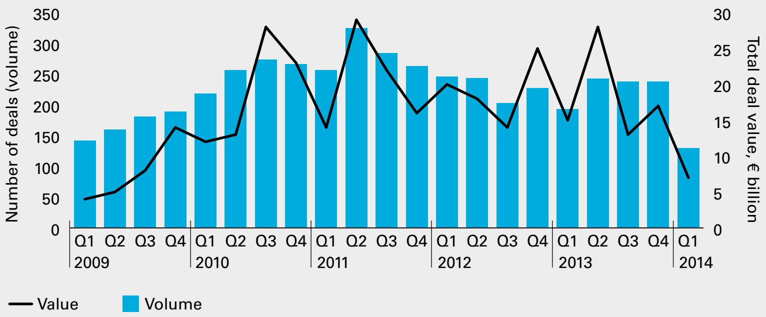
52%

Of investors expect to increase co-investments in 2014

Source: Preqin

Madrid, Spain.

Volume and value of European private equity buyouts (primary & secondary), Q1 2009 to Q1 2014



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Individuals and entrepreneurs who have made substantial sums of money in the last few years want to put money to work in fund or fund-like structures. Family offices and captive funds are coming into the market in numbers.

Rob Irving, co-head of European private equity practice, White & Case

An uneven recovery: country and sector focus

The recovery in the private equity market is not uniform across Europe, and some markets, such as France and Germany, are not seeing the same levels of activity as the UK and the Nordics. However, there are other European hotspots of activity, including Central and Eastern Europe (CEE). Similarly, activity levels vary across sectors with some performing more strongly than others.

Germany

The German market is more sluggish than a year ago, according to Andreas Stilcken, private equity partner at White & Case in Germany. The statistics tend to support his view. He said: "This is despite the fact that financing appears to be readily available. However, this could be because, from a buyer's perspective, there is a lack of attractive assets at reasonable prices."

On the deal front itself, Stilcken sees the prevalence of rep and warranty insurances increasing. "Sellers' liability is being replaced with sellers instead offering a pre-arranged insurance package for subscription by the buyers—a so-called 'stapled insurance'."

France

The French market has seen an increase in activities compared to last year, but buyout activity remains very low as compared to 2007 levels. The real trend is when the market is compared to levels of seven years ago. François Leloup, a private equity partner at White & Case in Paris, said: "Over the last seven years, we have seen a sharp decrease in the number and the size of private equity transactions in the French market." According to Afic (October 2013), the approximate €4 billion funds raised by French private equity firms falls far below the €11 billion estimated equity needs of French companies.

French companies are looking for innovative forms of recapitalisation or transaction structures, as well as new forms of financing. This is coming in the form of leverage debt funds and high yield notes, as well as through the US debt market. Leloup noted: "In the late 1990s, high-yield bonds were generated by a few players and heavily used to finance merger activities. Today, it is finally possible for companies to have direct access to high yield. We are seeing the corporate and private equity firms in France increasingly turning to the bond markets as their primary source of financing, particularly in light of challenging market conditions."

Central and Eastern Europe

The CEE market is much more active than a year ago, and as Irving noted previously, this is one to watch.

"People seem to believe that the combination of the 'wall of money' held by corporates and private equity firms, and banks being open to financing what they think are good deals, will provide a very positive exit environment," Irving explained. "No one can predict what will happen after the next 12 months, so they are rushing to get assets to market."

There has also been a gradual change in the market makeup. Alternative capital providers, sovereign wealth funds and infrastructure funds are starting to appear. "The last two big telecoms tower deals involved infrastructure funds, and OMERS did the largest pipeline deal in CEE in the last few years. We have also seen a Chinese development bank establish a €300 million dedicated CEE infrastructure fund," Irving added. However, the European and global funds have also become much more active.

Berlin, Germany

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In the late 1990s, high-yield bonds were generated by a few players and heavily used to finance merger activities. Today, it is finally possible for companies to have direct access to high yield.

François Leloup, private equity partner, White & Case

Sector watch

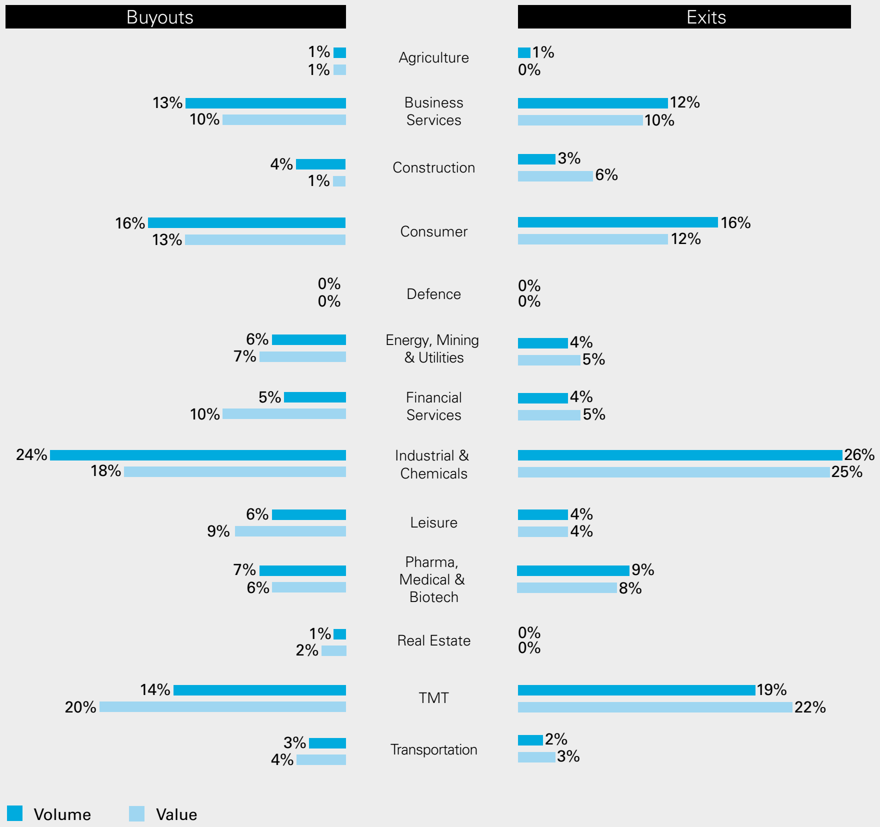
In terms of sectors, industrials and chemicals businesses (accounting for 24 percent of buyout volumes in 2013 and 18 percent of value) and consumer companies (16 percent of volumes and 13 percent of value) have proven to be the most popular with private equity firms.

Both sectors are cyclical, and businesses that have traded through the recession have proven their quality. Establishing valuations for companies in these sectors has also become easier as there is clearer visibility of earnings.

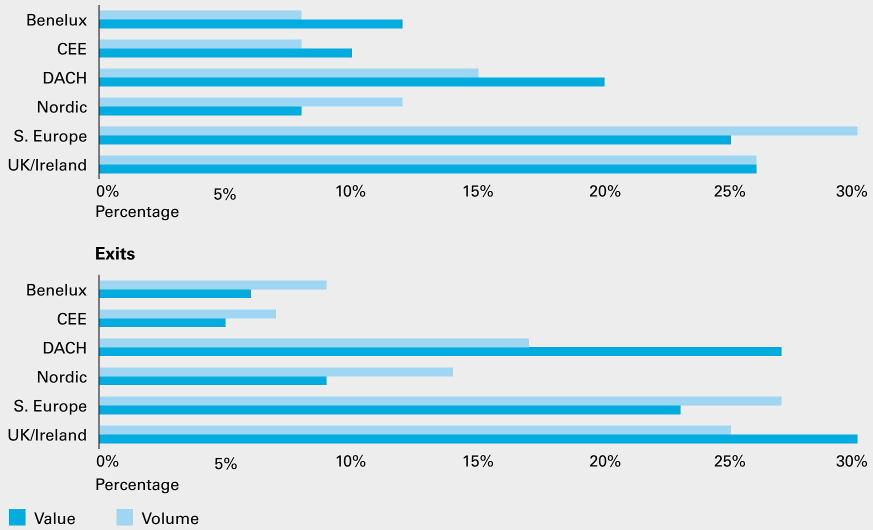
Industrials and consumer companies have also dominated exit activity, accounting for 26 percent and 16 percent of European exits in 2013 by volume, respectively. On the value side, industrials accounted for 25 percent of buyout exit value last year. Consumer companies accounted for 12 percent. Technology, media and telecommunications (TMT) also accounted for a large portion of total exit value in Europe (22 percent), with mega-deals such as BC Partners' acquisition of academic publisher Springer Science+Business Media from EQT for €3.3 billion, KKR's €1 billion buyout of South-Eastern Europe cable company United Group from Mid Europa and Advent International's €1.1 billion acquisition of UNIT4 NV in the Netherlands, ensuring that TMT's share of total buyout value was substantial.

There has also been a surge of interest in the telecoms sector in the CEE region. Over the last 12 months, Vodafone's sale of SFR in France, the Deutsche Telekom acquisition of GTS in CEE and the KKR acquisition of SBB Telemach have set off a mini boom of telecoms sales in CEE. "Finally, the commentators' prediction from five years ago about the convergence between mobile and triple-play cable is happening. All of a sudden, telecoms assets are attracting considerable attention," said Irving.

Sector breakdown of European private equity buyouts and exits, 2013



Regional share of European private equity buyouts by volume, 2012 – 2013



Keep your financing options open

As banks retrench following the financial crisis, alternative sources have emerged to fill the space. So what are the deal financing trends in Europe?

In recent years, European private equity firms have found that they have more financing options at their disposal than ever before.

Traditionally, the continent's buyout houses have relied almost exclusively on senior loans from commercial banks to fund their deals, but since the onset of the financial crisis the range of debt products available to the asset class has grown significantly.

Forced to rebuild their balance sheets following the credit crunch, banks had to shrink their leveraged finance businesses. New capital adequacy rules, such as Basel III and Solvency II, have further constrained the ability of banks to lay on debt for buyouts.

In the UK, Europe's largest private equity market, the four largest clearing banks (Barclays, RBS, Lloyds and HSBC) have made significant cuts to the risk-weighted assets on their balance sheets. According to data compiled by corporate finance adviser DC Advisory Partners, the banks reduced their exposure to these types of loans by £344.9 billion between 2008 and 2013.

Of course, investment banks have also served the private equity market for many years, and these institutions continue to be strong players.

In addition, new finance products have been brought to the marketplace. "Alternative credit providers are slowly but surely making inroads into the German market," said Stilcken. "There is a certain space available following the exit of some established players, such as the state-owned Landesbanken."

The contraction of leveraged loan supply from banks had a significant impact on deal activity in Europe, with only 672 buyouts worth €30.5 billion closing in 2009.

But since the credit crunch, a variety of alternative debt providers and products have emerged to fill the gap in the market left by the banks. Lee Cullinane, bank finance partner at White & Case in London, said: "Material demand for debt from private equity funds, for a range of purposes, coupled with an over-supply of liquidity in the market from certain providers in recent times and a reasonably strong supply during other periods, has facilitated a robust marketplace that is supported by an array of traditional and new debt products."

High-yield bonds and credit funds have become credible financing options for private equity buyouts. DC Advisory estimates that in mid-market buyouts, non-bank lenders now account for 46 percent of debt issuance. In 2007, the market share of non-bank lending was only 17 percent.

For mid-market private equity houses, a new generation of credit funds has become a serious alternative to traditional bank loans, a key example being the "unitranche" product, which offers a mix of subordinated and senior debt at a single blended price point, proving popular across the market.

For larger deals, Europe's high-yield bond market, which used to have a reputation for volatility and shutting unexpectedly, has matured and provided a less volatile source of finance. In 2013, Europe's high-yield bond market issued a record €70.9 billion of debt, a 59 percent rise on the previous market high, according to S&P Capital IQ LCD.

"High-yield is a booming product to finance LBOs, as bank loan rates have strongly increased," said François Leloup, private equity partner at White & Case in Paris. "In addition, over the last decade, diversity has grown among issuers that tap the high-yield market. In the late 1990s, high-yield bonds were generated by a few actors and heavily used to finance merger and takeover activities. Today, the market has broadened to include many dealers and issuers with diverse needs, notably in the private equity market."

"Debt is no longer all senior, and we are seeing structures include a very large bond piece," added Rob Mathews, White & Case partner in the high-yield team in London. "This is likely to continue. Investors used to be reluctant to come into bond structures because of the limited credit support and weak position in the capital structure guarantees, and because of the altered financing landscape in Europe, senior lenders are now willing to allow bonds into the capital structure on a pari passu basis."

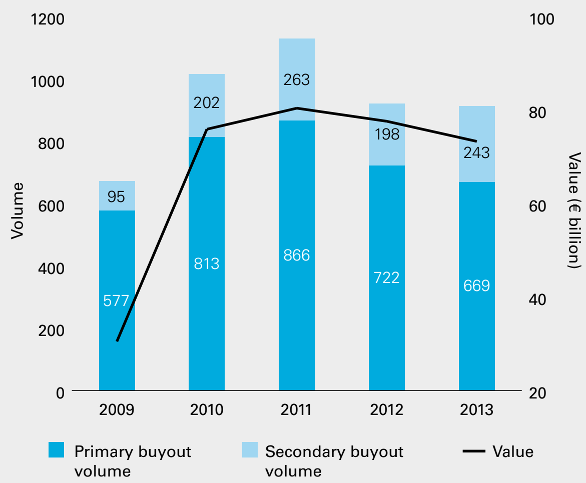
European private equity firms have also been able to tap buoyant debt markets in the US and denominate a portion of this financing in euros, to reduce currency exposure risks. As lending from the US and Europe converges, deciding whether to use US or continental legal frameworks can complicate the process, but with the right advice these obstacles can be overcome.

"Increasingly common is US financing in European deals. The global debt markets are converging and a hybrid US/European style is emerging. The ability to tap into this style of financing will be a key differentiator for sponsors going forward," said Cullinane.

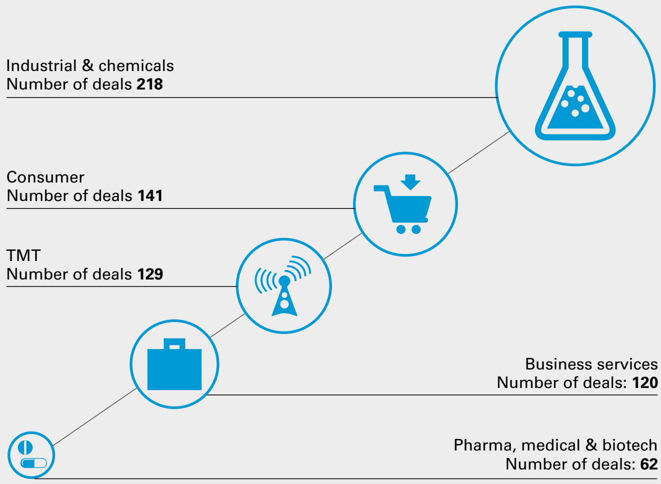
The wide range of choices available has complicated the debt raising process, and buyout firms will have to work harder to assess what debt products best suit their deals. After the complete shutdown of the debt markets in 2009, however, this is a problem that the private equity industry is more than happy to deal with.

The European private equity picture

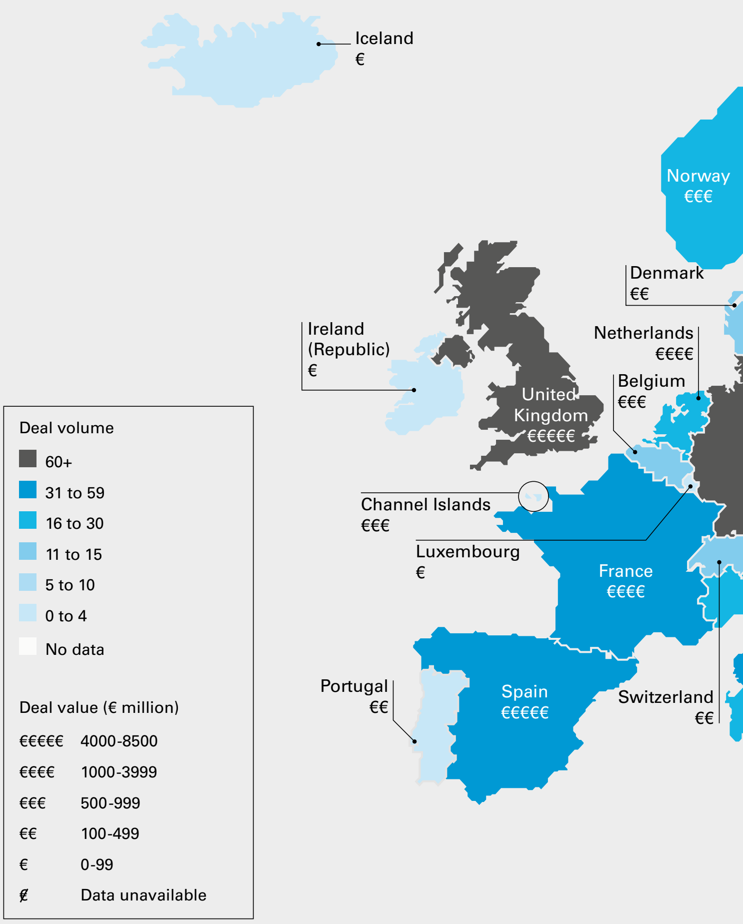
European buyouts, 2009 to 2013



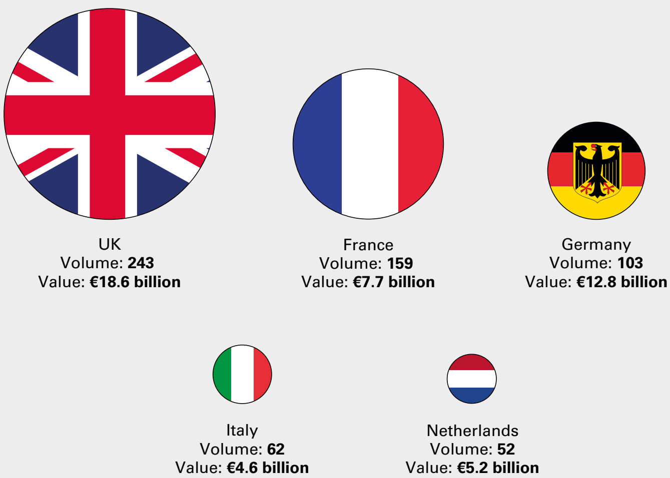
Top five buyout sectors, 2013



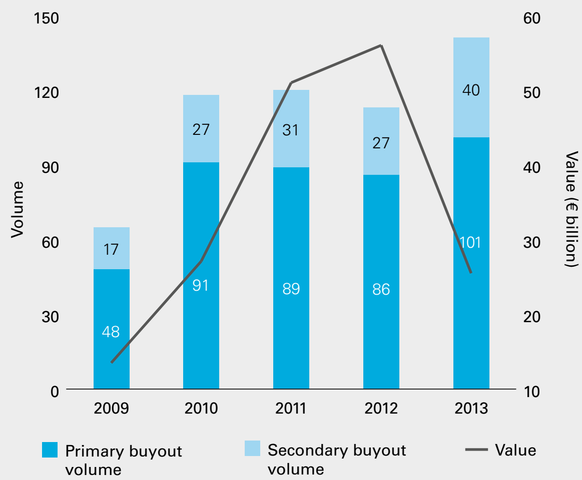
European exits by country, 2013



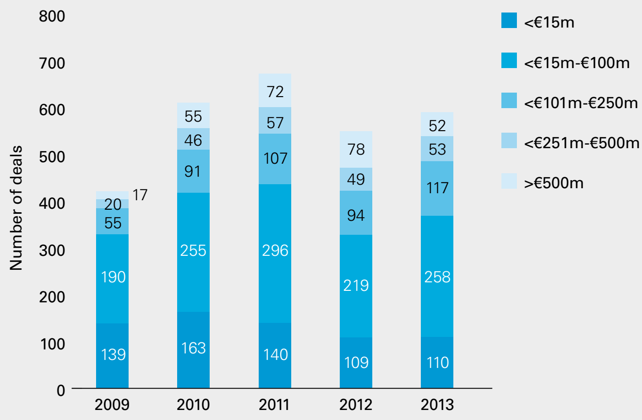
Top European buyout destinations, 2013



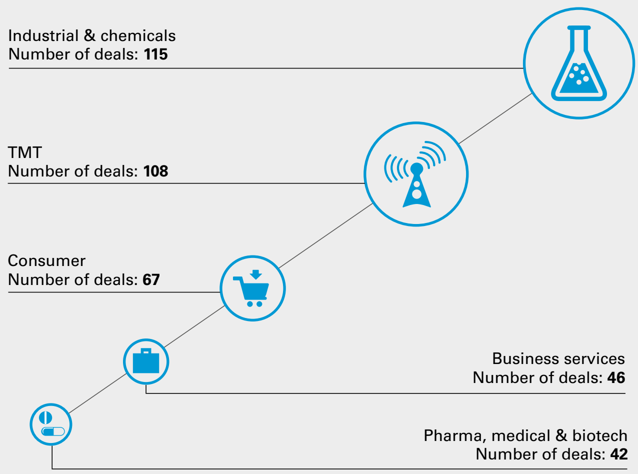
US-sponsored buyouts in Europe, 2009 to 2013



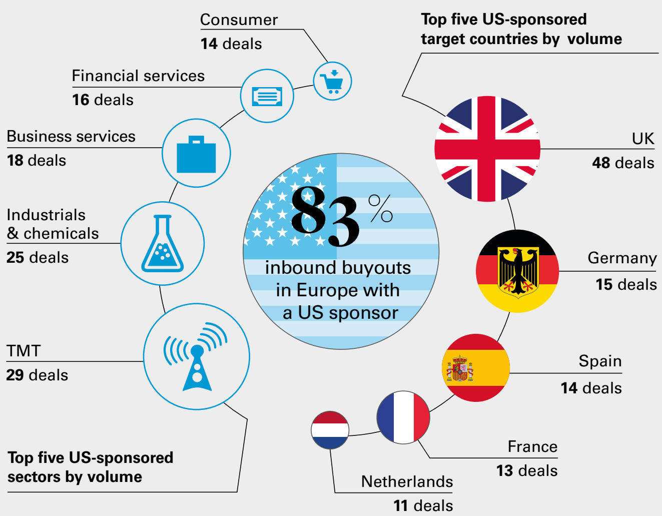
Deal size (exits and buyouts) split by volume, 2009 to 2013



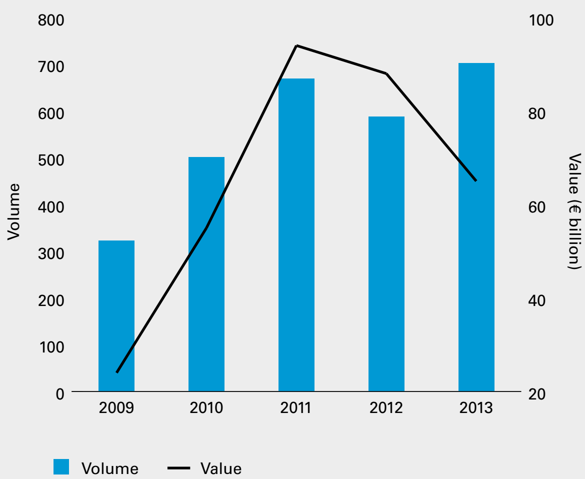
Top five exit sectors, 2013



Top five US-sponsored buyouts by target countries and target sectors in Europe, 2013



European exits, 2009 to 2013



The road to recovery: the UK private equity picture

HEADLINES

■ UK accounts for 26 percent of European buyout value in 2013, up three percent from 2011 ■ 10 private equity-backed IPOs on the London Stock Exchange in 2013 raised US$6.6 billion, compared to none in 2012 ■ Stable debt markets helped support new buyouts valued above £500 million ■ UK captured 37 percent of US-sponsored European buyout volume and 32 percent of value in 2013 ■ Strong deal flow is apparent across diverse range of sectors, though leisure sees notable rise, accounting for more than a fifth of UK buyout value in 2013

The UK, traditionally Europe's largest and most active private equity market, was one of the hardest hit by the financial crisis but has also been one of the fastest to recover.

In 2009, UK buyout firms recorded only 72 exits worth €4.4 billion and 131 new buyouts worth €6.9 billion. Last year, deal figures for private equity in the UK and Ireland came in materially above those numbers, with the industry securing 170 exits worth €18.8 billion and 243 buyouts valued at €18.6 billion.

"The credit crunch had a sharp impact on deal flow, lending and fundraising. Every firm was affected, but the industry is re-emerging from the financial crisis, on a 'lessons learnt' basis," said Youle.

The UK market has mirrored trends in Europe and the Nordics, where the market fell away in 2009 and then rebounded. But while buyout and exit figures in Europe and the Nordics have flatlined or dipped since peaking in the second quarter of 2011, the UK has continued to hold its ground and deliver steady growth in exit and buyout activity.

Growth spurts

This consistent performance has seen the UK increase its share of the European buyout market. The UK accounted for 26 percent of regional buyout value in 2013, up from 23 percent in 2011. On the exit side, the UK saw 30 percent of total European exit value in 2013, a significant increase from 15 percent in 2012.

Even though Southern Europe has seen high volumes of distressed deal activity and Germany has enjoyed a series of multibillion euro exits, the UK has retained its position as the continent's dominant buyout market.

"The London market is the 'hub' market for European private equity and this position will strengthen over the next decade," stated Bagshaw.

The return to growth of the UK's economy has provided a foundation for the recovery of the region's private equity market. An unemployment rate of 7.2 percent, some 4.8 percent lower than the rest of Europe, has also boosted confidence.

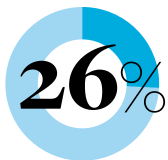
Exits open

The asset class in the UK has also enjoyed an especially strong run of asset sales, with stock markets, in particular, providing a lucrative exit route. There were 10 private equity-backed IPOs on the London Stock Exchange last year, according to EY, raising US$6.6 billion compared with none in 2012.

Large, notable exits via the stock exchange include Blackstone's IPO of theme park operator Merlin, which raised US$1.69 billion, Electra Partners' listing of insurer eSure, which raised US$1.05 billion, and BC Partners' listing of estate agency Foxtons, which raised US$690 million. Strong stock markets have also sparked the return of retail offers in IPOs. In previous years, retail offers have been scarce, with listing firms preferring to focus solely on institutional investors.

The question of whether or not to carry out a retail offer is an important factor that drives the structuring of the IPO. In general, companies should only consider a retail offer if they have a strong brand and can muster a meaningful level of demand. This is because retail offers add a layer of complexity and risk. "Two recent examples are the Poundland IPO, which was restricted to institutional investors, and Pets at Home, in which retail investors could participate. After the first day of trading, Pets at Home was flat, whereas Poundland was up 23 percent," said Inigo Esteve, capital markets partner at White & Case in London.

London's junior market AIM has been open to buyout-backed IPOs, too. ECI Partners was able to sell down its entire stake in off-license franchise Bargain Booze when it listed the business on AIM, and Arle Capital Partners achieved a valuation of £200 million for UK and Ireland logistics operator DX when the company floated on AIM.



UK share of European buyout market

243

Buyouts in the UK with a total value of **€18.6 billion** in 2013

Bloomberg via Getty Images

> **The IPO market has been very strong. For the first time in years we are seeing dual-track processes.**
>
> Richard Youle, co-head, European private equity practice, White & Case

“The IPO market has been very strong. For the first time in years we are seeing dual-track processes,” Youle said.

The UK’s diverse and liquid debt markets have also helped private equity firms return cash to their investors. Exponent Private Equity, for instance, secured a £140 million unitranche loan in order to refinance its online train ticketing issuer thetrainline.com from Bank of Ireland and debt funds Ares Capital Management, Babson Capital and Bluebay Asset Management. Elsewhere, BC Partners successfully placed £200 million of Phones4u bonds on the Irish Stock Exchange to fund a dividend recapitalisation.

Deals back on the table

Stable debt markets have also helped support new buyouts. Deals valued above £500 million, which would have been difficult to finance in 2009 and 2010 in tight credit markets, are now being done. CVC paid rival buyout firm Advent International £750 million for appliance warranties business Domestic & General and bought global payments provider Skrill from Investcorp for €600 million. TDR Capital bought fitness chain David Lloyd Leisure from Caird Capital and London & Regional for around £750 million.

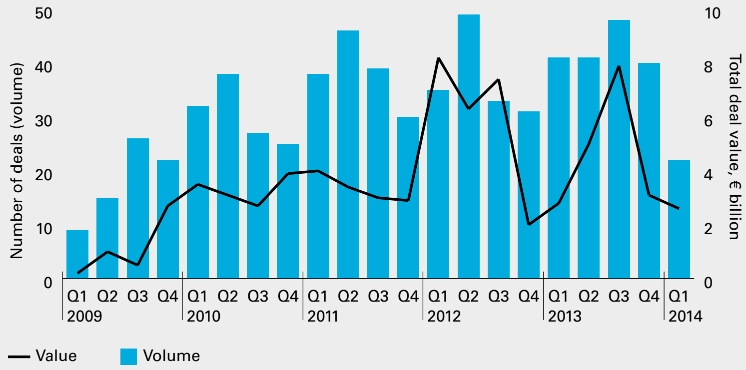
The strong performance of the UK buyout market and the return of larger deals have not only encouraged local dealmakers. International buyout firms, especially those from the US, have been investing in the UK with enthusiasm, too.

There were more US-backed buyouts of UK companies in 2013 than there were in 2007. In Europe last year, 37 percent of US-sponsored buyout volume and 32 percent of value flowed into the UK.

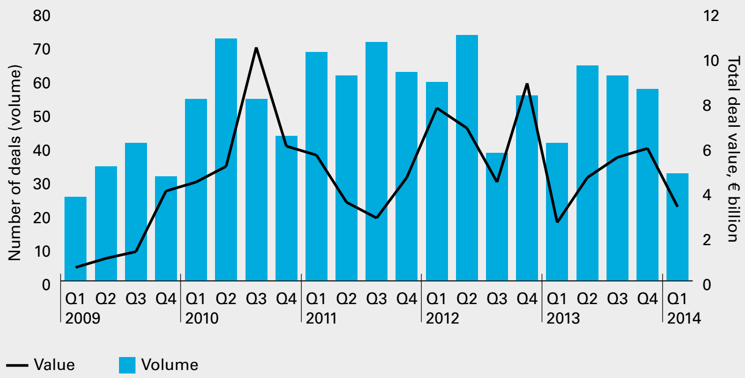
“Mega deals are not back yet,” said Bagshaw, “but deal size range is increasing quickly as sponsor confidence and firepower, especially US sponsors, is now rising than at any time since 2007.”

US-backed buyouts in the UK includes Providence Private Equity’s acquisition of theatre business Ambassador group from Exponent Private Equity and AnaCap Financial Partner’s £800 million sale of debt-management agency Cabot to JC Flowers. Other deals include Gresham Private Equity’s £150 million sale of Swift

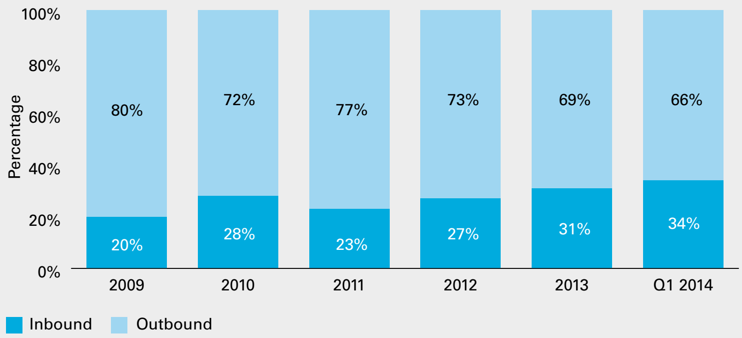
Volume and value of UK private equity exits (including secondary buyouts), Q1 2009 to Q1 2014



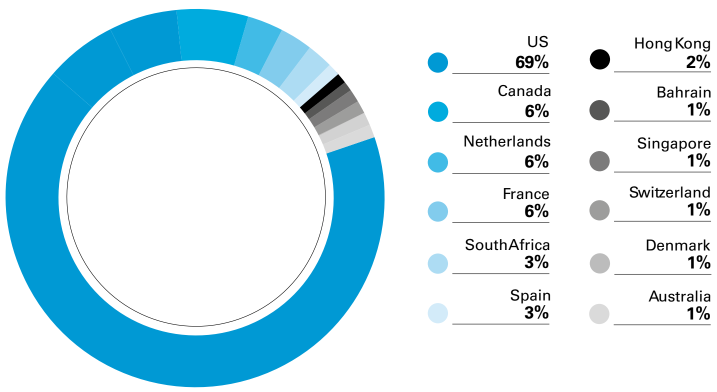
Volume and value of UK private equity buyouts (primary and secondary), Q1 2009 to Q1 2014



Proportion of cross-border UK buyouts



Top inbound buyout acquirers 2013



Technical Group to Wellspring Capital Management, as well as Graphite Capital's £260 million exit of Alexander Mann to New Mountain Capital. US trade buyers have also been combing UK private equity portfolios. Praxair acquired Dominion Gas from Graphite Capital, and Primary Capital sold Napier Turbochargers to Wabtec.

Pensions pursuing PE

The European direct deal teams of Canadian pension funds, such as the Ontario Teachers' Pension Plan (OTPP), OMERS and Alberta Investment Management Corp (AIMCo), have also been pushing for deals in the UK. This has helped to provide a further boost to a market that has already been buoyed by confident domestic players.

For example, in 2013, Teacher's Private Capital, the direct investment arm of OTPP, paid around £220 million for UK nursery chain Busy Bees and acquired Burton's Biscuits for an undisclosed sum. Also, OMERS and AIMCo teamed up to acquire the Vue Cinema chain from Doughty Hanson for £935 million.

The strong interest in UK private equity deals from North American buyout firms, trade buyers and pension funds underscores the value that investors see in the British buyout market.

Leisure and business services are attracting the most interest from foreign and local investors. Business services, a key part of the UK economy and a sector UK buyout firms are familiar with, has always accounted for a large share of deal activity. This was again the case in 2013, with business services accounting for a fifth of UK buyout volume and 21 percent of value.

Leisure suits

The leisure sector, however, is one that has moved back into favour with private equity firms, who tended to stay away from any business exposed to consumer spending following the liquidity freeze.

In 2012, the leisure sector accounted for only a tenth of UK private equity deal volume and only four percent of total private equity deal value. Last year, however, leisure deals made up 14 percent of volumes and 20 percent of total deal value, as transactions such as David Lloyd Leisure and Vue Cinemas secured large valuations.

As the UK economy has steadied, buyers and vendors have been far more willing to do deals involving businesses in discretionary sectors such as leisure. Buyers can look back at how these businesses have traded through the downturn and be reasonably confident that trading will remain positive in a more benign environment. Vendors who have guided these businesses through the recession know they have some of the best quality assets in their industries and can push for better valuations.

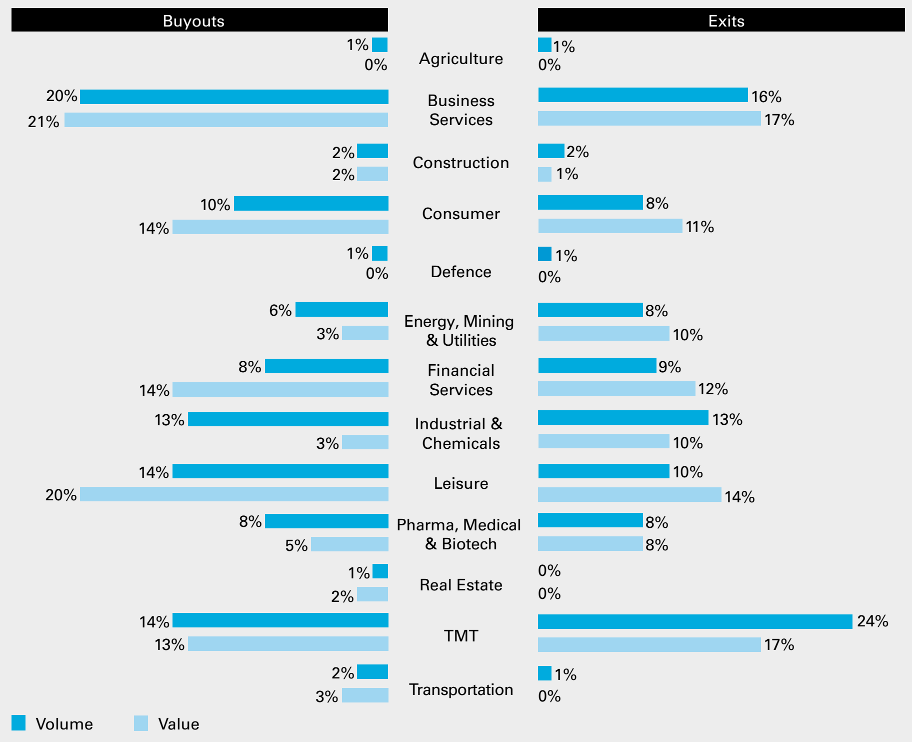
A bright future

But although leisure and business services have been the busiest sectors in the UK, the gap between these sectors and others has not been a large one. TMT, energy, mining and utilities, and industrials and chemicals have all accounted for a meaningful share of activity during the last two years, suggesting that there is something for everyone looking to invest in UK buyouts.

"Technology, B2B, financial services and retail are all sectors that private equity firms are talking about," said Youle. "Firms are interested in a range of sectors. The key things they are looking for are businesses with large customer bases, innovative technology and brands that customers are loyal to."

Deal flow is on the up again, exits have been consistent and impressive, debt markets are flexible and innovative, and there is a spread of sectors for deal makers to invest in. The UK, Europe's strongest private equity market, looks like it will hold onto pole position for some time yet.

Sector breakdown of UK private equity buyouts and exits, 2013



Business services made up **21%** of UK buyout value in 2013

Leisure made up **20%** of UK buyout value in 2013

Changing US perspectives

While the crisis saw transatlantic activity flatten out, North America is once more seeing the potential in Europe

Until recently, US sponsors have not shown much interest in pursuing European buyouts. Negative growth rates, high unemployment and the European sovereign debt crisis saw many steer well clear.

But as economies in Europe have stabilised and concerns around the Euro crisis subsided, US sponsor attitudes toward the continent have changed. Last year there were a total of 141 European buyouts with a US sponsor worth €18 billion. The change in comparison to 2009, when there were only 65 US-sponsored buyouts in Europe worth €8.2 billion, is significant.

"There is a group of US private equity firms that are truly global operators. They have teams on the ground in Europe that are ready to do deals," said Oliver Brahmst, a private equity partner at White & Case in New York. "Mid-market firms predominantly focused in the US will also invest in Europe opportunistically."

Leverage leads the way

In addition to a more settled macro-economic backdrop in Europe, the rise in activity from US investors has also been prompted by thriving debt markets at home.

According to large buyout house Cinven, total high-yield debt and leveraged loan issuance in the US was more than a third higher in 2013 than it was at the peak of the market in 2007, rising from €638 billion in 2007 to €871 billion last year.

"The availability of leverage and dry powder in the US means that firms have a lot of money to put to work," said Ian Bagshaw, co-head of White & Case's European private equity practice, based in London. "For European private equity firms, this is a great time to sell."

Bagshaw continued: "There have not been sufficient opportunities in US markets to put this vast pool of finance to use, so US sponsors have had to look for deals beyond their traditional markets. Europe has been an obvious port of call. Capital markets are sophisticated and well-established, and the regulatory framework is familiar."

Gateway to the south

European companies serve as valuable gateways into emerging markets. The UK has strong ties to Africa and Asia through the Commonwealth, Spanish businesses have interests in Latin America, and Germany's large corporates and "Mittelstand" businesses have an impressive track record as exporters of high value goods in niche sectors.

It is in the UK and Southern Europe, however, where US sponsors have been the most active, with these regions accounting for more than half of European buyouts with US sponsors in 2013 and 54 percent of European private equity deal value involving US sponsors.

"Shared language and a recovering economy have made the UK an attractive market for US sponsors. Meanwhile, in Southern Europe, US buyout houses have seen opportunities to buy under performing and distressed assets at bargain valuations," noted Brahmst.

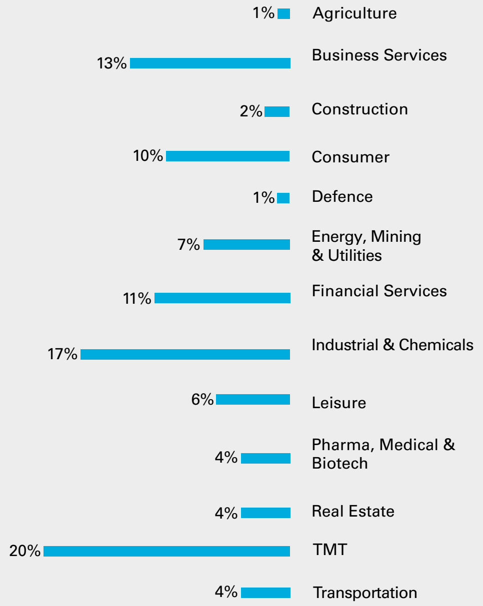
Sector watch

Financial services and TMT have been the sectors of most interest for US sponsors. TMT accounted for 20 percent of US sponsor deal volume in Europe and 27 percent of deal value. Financial services represented more than a tenth of volumes and a fifth of value. Out of the 10 largest US-sponsored European buyouts in 2013, three were in the TMT sector and three were for financial services businesses.

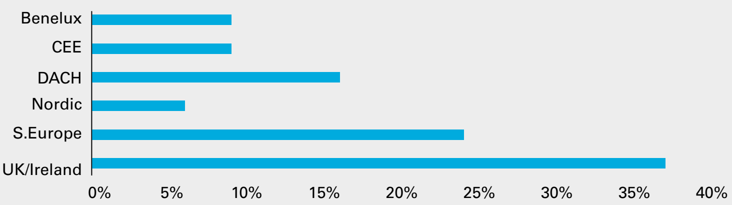
The focus on sectors such as TMT and financial services suggests that US sponsors are less keen on "bread and butter" assets in industrials and consumer companies, and more interested in complex assets where they have particular expertise and can add value.

Europe's economies are emerging from the financial crisis and returning to growth while the US debt markets are buoyant. Against this backdrop, a European buyout market that was so unpopular with US sponsors only a few years ago is very much back in fashion.

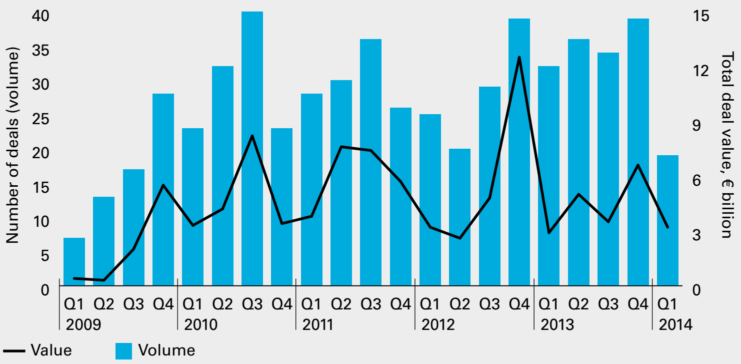
Sector breakdown of European private equity buyouts with US sponsor by volume, 2013



Regional share of European private equity buyouts with US sponsor by volume, 2013



Volume and value of European private equity buyouts (primary and secondary) with US sponsor, Q1 2009 to Q1 2014



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There is a group of US private equity firms that are truly global operators. They have teams on the ground in Europe that are ready to do deals.

Oliver Brahmst, private equity partner, White & Case

€871 billion

High-yield and leveraged loan issuance in 2013

Source: Cinven

141

European buyouts with a US sponsor valued at a total of €18 billion in 2013

UK and Southern Europe account for

54%

of European private equity deal value involving US sponsors

TMT accounts for

27%

of US sponsor deal value in 2013

Smooth sailing: the Nordic private equity picture

HEADLINES

■ Nordics is the best performing private equity region through the crisis ■ Positive trends in acquisition financing as local arrangers in the Nordics fund deals ■ IPO window wide open ■ Exit volumes in 2012 and 2013 more than double level recorded in 2009 ■ Pharma accounts for 35 percent of exit value, followed by TMT (27 percent); consumer and industrials account for 12 percent each ■ Nordic funds see strongest returns in Europe, with average five-year IRR of 13 percent ■ Foreign buyers account for three of the ten biggest deals and more than half of all Nordic buyouts in 2013 ■ Increasing interest in secured and unsecured high-yield bond financing

The Nordics have been one of the most stable and consistent markets for buyout firms throughout the economic downturn. Deal activity did dip in 2009, but the fall was not nearly as precipitous as it was in other regions. In 2009, Nordic private equity firms closed a total of 88 buyouts worth €1.9 billion. In 2013, deal volume figures of 112 transactions were higher, but not by a huge amount.

In the years between, buyout volumes have been consistent, never rising above 160 deals and never dipping below 110. Apart from a standout year in 2011, when total buyout value climbed to €13.9 billion, annual deal value has been reliably steady, too. "The Nordics offer a stable climate for private equity, and firms have been operating in the region for a long time. Deal activity is not at the level that it was in the heyday of 2006 and 2007 but it has stabilised at a lower level," said Lennart Pettersson, a private equity partner at White & Case in Stockholm.

Safe and sound

The financial stability of the Nordic countries, their good governance and transparency, diverse economies and sensible government policy helped shield local private equity houses from the volatility that hit the rest of Europe.

Nordic debt markets also proved remarkably resilient as lending in other parts of Europe effectively shut down. The region's banking sector remained intact, and banks continued providing the debt needed for deals. More recently, the credit funds and bond issues have also come to the fore.

"The debt providers now include not only traditional acquisition financing banks but also pension funds, insurance companies and some London-based hedge funds. Also, there seems to be increasing interest in secured and unsecured high-yield bond financing, even in mid-size transactions," said Timo Airisto, a private equity partner based at White & Case in Helsinki.

Buyout firms in the Nordics used to have to arrange bond finance in the US or Europe, but local bond arrangers, especially in Norway and Sweden, are now stepping up to finance domestic deals. The acquisition of salmon feed producer EWOS by Altor and Bain Capital, for example, was initially going to be financed with a €300 million tranche and a NOK1 billion portion. Strong demand from local institutions, however, saw the krone portion increased to NOK1.81 billion and the euro tranche reduced to €225 million.

Nordic buyout firms have a variety of financing options at their disposal and a large pool of businesses that have traded well through the recession to mull over. Dealmaking conditions have been very favourable.

> "**There seems to be increasing interest in secured and unsecured high-yield bond financing, even in mid-size transactions.**"
>
> Timo Airisto, private equity partner, White & Case

IPO window open

During the last two years, however, the region's private equity firms have been focused on exits and have moved to cash in on the solid deals they did through the credit crunch. Exit volumes in 2012 and 2013 were more than double the level recorded in 2009, and in 2011 and 2012 the Nordics posted stellar exit values of €12 billion and €17.5 billion, respectively. Even in the less spectacular 2010 and 2013 vintages, Nordic firms still secured total exits worth more than €5 billion a year.

"A lot of companies that matured in private equity portfolios did very well on exit. The IPO window and private M&A deals have allowed firms to exit many of their larger assets," said Pettersson.

The pharma, medical and biotech, TMT, industrials and consumer sectors have proven the most lucrative for Nordic buyout firms selling assets. In 2013, pharma accounted for 35 percent of total exit value, with TMT accounting for 27 percent and consumer and industrials accounting for 12 percent each. Between them, pharma, TMT and consumer accounted for seven of the ten largest deals in the Nordics in 2013 and 2014. The large market share attributed to TMT and pharma was influenced by large deals such as €1.1 billion sale of 51 percent of Supercell to Softbank Corporation and Gungho Online Entertainment, by its shareholders, including Accel Partners, and EQT's €650 million buyout of Terveystalo Healthcare from Bridgepoint. But exit volumes also show that these sectors are the busiest, with industrials, consumer and TMT each accounting for around a quarter of exit volumes.

Many happy returns

When Nordic firms have sold companies, they have generally generated good returns for investors. According to figures compiled by placement agent Berchwood Partners, pooled returns in the Nordics over a 15-year horizon have generated an IRR of more than 14 percent compared to less than 12 percent in the rest of Europe. Over a five-year horizon, Nordic funds show an IRR of around 13 percent, compared to less than five percent in the rest of Europe.

Investors have taken notice of this strong performance and have been eager to increase their allocations to Nordic buyout houses.

According to the European Private Equity and Venture Capital Association (EVCA), the Nordics accounted for only six percent of total European fundraising in 2005. By 2011, its share had soared to 21 percent. Private equity fundraising in the Nordics could receive a further boost if national pension and sovereign wealth funds in Norway and Sweden pursue proposals to loosen the rules restricting these funds from investing in private equity. Even a small increase in allocations from such funds will have a material impact on buyout fundraising in the Nordics.

With new capital pouring into the region, dealmakers in the Nordics have every reason to feel confident that there will be a wave of buyouts to look forward to in the next two to three years.

Sector watch

The pharma, industrials and consumer sectors that have served buyout firms so well on the exit front are likely to remain popular for new deals. These three sectors accounted for 4 percent, 27 percent and 17 percent of buyout volumes in the Nordics in 2013, respectively, and represented 26 percent, 12 percent and 14 percent of buyout value.

Investors are, however, seeing opportunities in other sectors, too. Business services accounted for a tenth of buyout volumes in 2013, with energy, utilities and mining accounting for 10 percent of value. Agriculture and construction have also generated a meaningful share of buyout value in the last two years. Buyout investors have plenty of sectors to choose from.

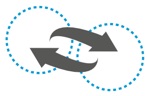
Home and away

Given the historic returns the Nordic private equity market has achieved and the wide variety of sector choices that it offers, it shouldn't come as a surprise that buyout firms from abroad have become eager to deploy capital in the region.

The market is still dominated by deals from domestic firms, but cross-border transactions are on the rise.

62%

Pharma and TMT share of total exit value in Nordics in 2013



34

Cross-border buyouts in Nordics in 2013

In 2009, there were only 17 cross-border buyouts in the Nordics, not even a third of the 60 domestic deals that closed. In 2013, cross-border deal volume doubled to 34 deals, more than half the number of the 54 domestic deals that closed. It is also telling that between 2009 and 2013, with the exception of 2012, there were more cross-border transactions in the Nordics than inter-Nordic deals.

Meanwhile, of the 10 largest deals in the Nordic region in 2013 and 2014, three involved foreign buyers. These were the sale of 51 percent of Supercell by its shareholders, including Accel Partners to Japanese investors Softbank Corporation and Gungho Online Entertainment for €1.1 billion; the acquisition of America's Campbell Soup Company by Kelsen Group for €268 million, from Danish firm Maj Invest; and the British-based pan-European private equity firm Permira's purchase of Pharmaq from Orkla and Kvera for €250 million.

Figures compiled by Argentum, a specialist investor in the Nordic private equity market, also point to increased activity from overseas investors in the future. The number of international funds in the Nordic region has doubled between 2008 and 2012, and their share of deal flow has trebled from four percent to 12 percent.

"We have seen a lot of interest from US investors in particular," said Airisto. "The US economy has picked up, and the Nordic region is very stable, so it offers an interesting value proposition."

Domestic firms look set to continue dominating deal volumes in the Nordic region, but it appears that foreign firms are gradually growing their market share.

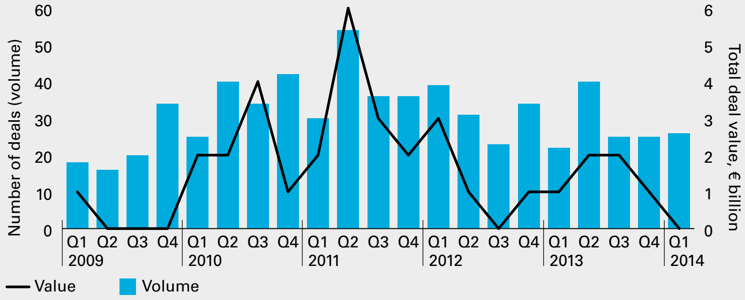
Many private equity groups in the Nordics are among the world's elite. With this in mind, our research highlights some significant trends:

- Even for very large buyouts, attractive financing terms may now be available within the Nordic region, and local arrangers should not be overlooked for funding deals.

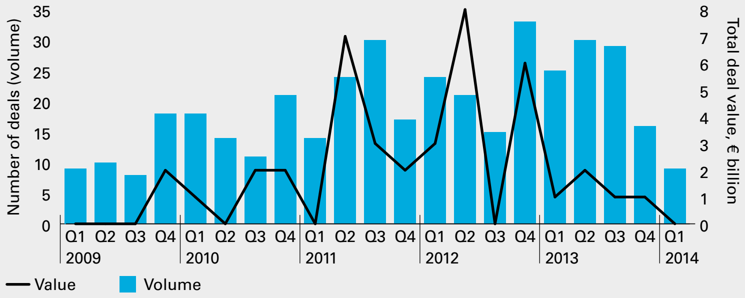
■ Buyout firms without local expertise still want a piece of the action, and where appropriate, private equity firms could expand their resource base by co-investing with foreign players.

■ Foreign investors, especially those in the US, are looking more and more at private equity in the Nordics.

Volume and value of Nordic private equity buyouts (primary & secondary), Q1 2009 to Q1 2014



Volume and value of Nordic private equity exits (including secondary buyouts), Q1 2009 to Q1 2014



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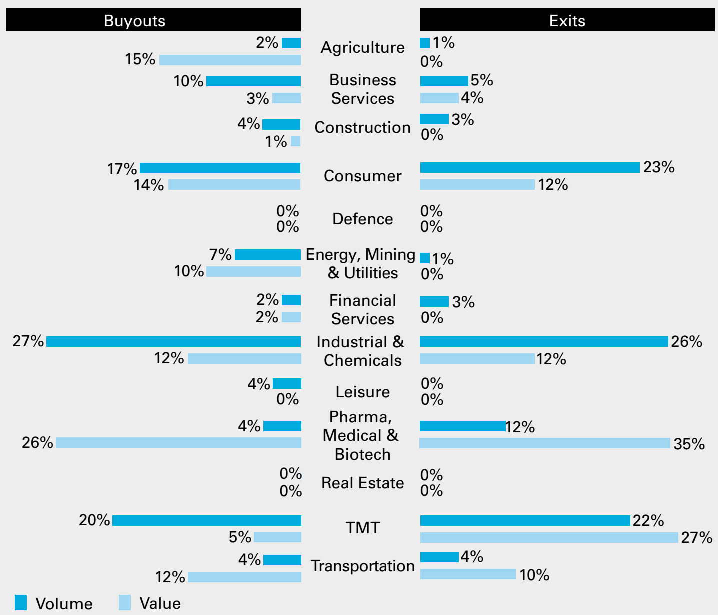
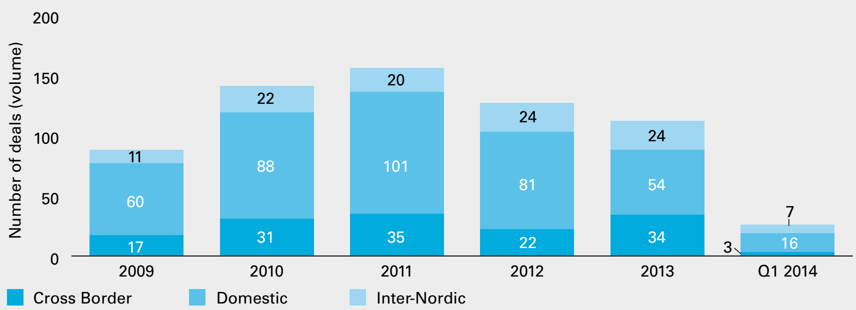
Timo Airisto, private equity partner, White & Case

Sector breakdown of Nordic private equity buyouts and exits, 2013



Volume of cross-border Nordic private equity buyouts, 2009 to Q1 2014



London, UK

Defying the odds

Europe's private equity industry has come a long way over the past five years.

In the year following the collapse of Lehman Brothers, deal activity plummeted and buyout firms were expected to take heavy losses on investments that were made at high prices using large sums of debt. Many experts forecast that large numbers of firms would end up going out of business.

European firms, on the whole, appear to have proven the sceptics wrong. Buyout houses have nursed their portfolios throughout the financial downturn skilfully, and during the last 12 to 24 months they have begun to reap the rewards of their stewardship.

Private equity firms throughout Europe have been on a hot run of exits, with IPOs and refinancings, in particular, helping firms to return large sums of cash to their investors. Returns have been good, and fund backers have been eager to redeploy these proceeds into the market.

This is good news for the industry, which has large sums of capital at its disposal for investment in the next cycle. Buyout volumes and values, already substantially higher than they were in 2009, are expected to climb even further in the coming years.

The UK, where the economy is growing, and Southern Europe, which offers great opportunities to invest at low valuations, have led the asset class' recovery. The best performing private equity region through the course of the financial crisis—the Nordics—is also attracting much attention.

It is not only established domestic firms that have a sense of optimism about future products. Foreign firms, mainly from the US, are more interested in investing in Europe than ever before, and global pension funds have put substantial resources into establishing direct deal teams in Europe. While optimism may abound, firms and investors cannot afford to sit back—there are three key actions they need to consider to help ensure continued success:

- Dealmaking may be reviving, but it is also becoming more complex. There are more cross-border deals, and debt markets have diversified. Firms need to have a firm grip on changes in the market to take full advantage.

- Freely available debt and large amounts of dry powder will see competition for new deals intensify. Firms need to be disciplined and careful about not overpaying for assets.

- Interest rates could rise, and the IPO window may shut. Conditions have been favourable for buyouts and exits, but firms should be ready to adapt if markets cool.

However, that said, "after years of caution, the private equity market in Europe finally has reason to be confident about future prospects again," said Bagshaw.

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Q1 deal highlights

White & Case private equity practice advised:

- HgCapital on its re-investment in Visma Group Holdings.
- Falcon Group, a consortium of investors 75 percent controlled by fund managed or advised by Mid Europa Partner, on the sale of its entire €828 million stake in T-Mobile Czech Republic to Deutsche Telekom.
- Avast Software, one of the world's major players in the antivirus market, and a selling shareholder consortium on the sale of a significant minority stake to CVC Capital Partners.
- Arle Capital on its high-yield bond financing and acquisition of Innovia Group.
- P4 Sp. Z.o.o., Polish mobile telecom operator, on its groundbreaking, inaugural €870 million and PLN 130 million, dual-tranche high yield bond issue and entry into a new super senior revolving credit facility.
- DX (Group) plc, portfolio company of Arle, on the successful pricing of its IPO and admission to the AIM market.
- Rhône Capital on its acquisition of ASK Chemicals GmbH.
- Sanitec and the selling shareholder EQT on the IPO and listing on NASDAQ OMX Stockholm of Finnish company Sanitec Corporation.

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