Strongest quarter for European private equity buyouts since 2010

- Second highest quarter ever recorded in Germany with €9b
- Germany is the first market to really threaten the UK’s longstanding leading position
- Mega-deals driving value up with five buy-outs over €1b in Q3
- Only two €1b plus deals in the UK so far this year

LONDON, 3 OCTOBER 2013. The European private equity (PE) buyout market has seen a surge in deal values in the last three months with 119 deals completed and €19.7b in value in Q3 2013, the highest value since Q4 2010 and up 129% by value compared with the €8.6b recorded the previous quarter. Although deal volume was down by 8%, with 119 deals compared with 130 deals in Q2 2013, mega-deals took center stage and the top five deals in the quarter, with a combined value of €10b, accounted for over half the total deal value.

This quarter also marks a significant return for the German PE buyout market, with deal value reaching €9b, the highest German quarter recorded since Q1 2007 and over 80% higher than the UK’s €5.1b deal value. Germany is the first market to really threaten the UK’s longstanding leading position, according to the latest data published by the Center for Management Buyout Research (CMBOR), sponsored by EY and Equistone Partners Europe Limited.

Sachin Date, Private Equity Leader for Europe, Middle East, India and Africa (EMEIA) at EY comments: “Germany is being viewed as a safe haven for investment and is ticking all the necessary quality boxes for investors. Its economy is sound and the recent elections passed without any real cause for concern.”

Christian Marriott, Investor Relations Director at Equistone Partners Europe Limited, says, “We have seen a strong quarter for private equity across Europe, with deal values nearly equalling those of the first half of the year. A number of indicators are suggesting confidence is high in the buyout market, with a combination of availability of debt and recently raised funds benefiting overall market activity.”
Q3 sees five buy-outs over €1b, while mid-market deals continues to slow down

Q3 2013 saw a real slow down in lower mid-market deals (€25m to €100m). Only 26 deals equating to €1.4b completed, compared with 24 deals and €2.4b recorded the previous quarter.

Sachin continues: “Transactions in the €1b plus deal range held up well across Europe, but there was a slowdown in lower mid-market deals. This increase in mega-deals points to the fact that strategic, large, global and pan-European transactions will complete if the asset meets the buyers’ investment criteria.”

The three largest deals this quarter originated from Germany and they accounted for a 40% share of the largest top 10 deals. The Springer Science & Business Media (€3.3b) was the largest buyout of Q3 2013 and is likely to be the biggest buyout of the year, followed by Ista (€3.1b) and CerameTec (€1.5b).

Christian comments: “Funds which completed successful fundraises in the last year have returned to the market to deploy freshly raised capital. Advent, BC Partners, Cinven and CVC have dominated the top 10 €1b plus deals in Europe so far this year, completing six large secondary buyouts between them.”

PE houses return capital to investors

The combined value of exits and refinancings so far this year continues to outstrip the value of new deals in Europe. There have been 276 exits, with a combined value of more than €51b recorded so far in 2013 and over €31b worth of refinancing. PE houses are divesting their portfolio companies and are able to return capital to their investors and banks ahead of making new investments and raising new funds. As Sachin explains, “It has been clear for some time that the backlog of exits necessary to free up investment resources was weighing on the European buyout market. We are starting to see this overhang clear and continuing exit activity will help the buyout market return to growth.”

There was a big increase in the debt to equity ratio in both UK and the rest of Europe. In €100 million plus deals, the contribution of debt is the highest since 2007; many larger deals are being done with 60% debt, bolstered by new, non-conventional players entering the market. Overall the market activity benefited from a combination of a freer debt market and more equity funding available.
UK market losing ground in deal values

Despite a 64% increase in value with €5.1b invested in 47 deals, recorded in Q3 2013 compared to €3.1b (45 deals) in the previous quarter, the UK’s PE buyout market remained relatively slow. While deals in €500-1b range increased, it was surprising to see only two €1b plus deal so far this year (Vue Entertainment and B&M Retail).

Says Sachin: “This low level of mega-deal activity in the UK is somewhat of a conundrum – the capital and debt markets are healthy and the UK has access to some of the best leveraged finance in Europe, which should result in more deal activity at this level. With strong competition for assets from corporate buyers, PE houses may be finding themselves unable to compete for these high-value assets. The recent Lucozade Ribena deal is a clear example where a strategic corporate buyer was successful despite strong interest from PE.”

Comments Christiian: “A final mark of confidence in private equity’s ability to deliver good returns to its investors can be taken from the top ten deals in the UK buyout market. Six out of the top ten UK exits were from post-2009 deals, evidencing the private equity model of buying at good prices, growing the business and exiting in a 3-5 year period. These included Vue Cinemas and Host Europe (Webfusion), which both completed in Q3. A more settled macro-economic backdrop, increased funding and debt availability, points to a healthy outlook, and we expect to see further successful exits of good assets by the year end.”

Unbalanced picture across Europe

Although activity in the UK and Germany in particular has picked up this quarter, the same is not true across other countries with the French buyout market, for example, being particularly weak when compared to the healthy levels of activity seen in 2011. Activity in France was driven by two main deals: SMCP/Sandro/Maje/Claudie (€650m) and Maisons du Monde (€650m). Similarly, Sweden experienced low level of activity which is likely to be down to the cyclical nature of PE. From 2010 to 2012, there was lots of deal activity and the PE firms now need to invest and grow their portfolio companies, in order to exit these assets in 2014 to 2016, resulting in lower activity in the meantime.

Sectors buoyed by mega-deal activity

There has been little change across all sectors in terms of deal volumes but some stand-out deals have driven a significant pick-up in value – namely in the Telecommunications, Media
and Technology (TMT) sector; Business & Support Services; and Manufacturing. Deal value in the TMT sector had picked up in the second quarter and rocketed in Q3 with €5.0b from 23 deals. Business & Support Services also saw a sharp increase from €1.2b (Q2 13) to €4.7b and 16 deals this quarter. Deal value in Manufacturing doubled from €2.0b to €4.0b.

**Outlook**

Sachin concludes: “So far in 2013 European market conditions have meant that deal processes are both longer and more difficult and the low levels of deal completions have not always reflected market activity. As several key deals successfully completed this quarter, it feels like a more accurate reflection of what we are seeing in the market, for some time.

“It is also encouraging to see the deal pipeline still growing and a number of deals should complete this year, particularly in Germany. However, whether this upsurge in activity means the European PE industry is back in full recovery mode remains to be seen but the signs are certainly positive.”

-ends-

**Notes to Editors**

**Methodology**
The data compiled by CMBOR summarizes trends in buyouts* across Europe (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Czech Republic, Hungary, Poland, Romania and Turkey and the UK).

Data cutoff date: the data in this press release is for deals completed by 27 September 2013

*Buyouts: CMBOR defines buyouts as over 50% of shares changing ownership with management or private equity, or both having a controlling stake upon deal completion. Equity funding must primarily be from private equity funds and the bought-out company must have its own financing structure, e.g., MBO/MBI.

**About CMBOR**
The Centre for Management Buyout Research (CMBOR) was founded in 1986 and moved to Imperial College Business School in 2011. CMBOR is world-renowned as the long-standing leader in providing robust analysis of the buyout market. CMBOR data covers all buyout activity and therefore includes transactions funded on a cash or debt-only basis as well as traditional private equity-funded buyouts. CMBOR is independently sponsored by Equistone Partners Europe and Ernst & Young.

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Equistone Partners Europe Limited is an independent investment firm owned and managed by the former executives of Barclays Private Equity.
In January 2013, Equistone successfully completed the final closing of Equistone Partners Europe Fund IV with total capital commitments of €1.5bn. The Company is one of Europe’s leading investors in mid-market buyouts with a successful track record spanning over 30 years, with more than 350 transactions completed in this period. Equistone has a strong focus on change of ownership deals and aims to invest between €25m and €125m of equity in businesses with enterprise values of between €50m and €300m. The Company has a team of 33 investment professionals operating across France, Germany, Switzerland and the UK, investing as a strategic partner alongside management teams. Equistone Partners Europe Limited is authorized and regulated by the Financial Services Authority. For further information, please visit www.equistonepe.com