European private equity buyout market slows in 2012
Overall values bolstered by resilient UK market and more ‘mega’ deals

The value of private equity buyouts in Europe has totalled only €37.1bn so far this year, down 22% on the same period in 2011 (€47.7bn for the first three quarters), according to the latest data published by the Centre for Management Buyout Research (CMBOR), sponsored by Equistone Partners Europe Limited and Ernst & Young.

Despite fewer deals overall this year, the value of buyouts in Q3 has surpassed that of the previous quarter, with a total of €12.4bn in Q3 compared to €10.6bn in Q2. Nevertheless, with 415 buyouts recorded so far in 2012, coupled with a narrow deal pipeline, the data suggests that the rest of 2012 is unlikely to meet 2011 totals (609 buyouts).

Highlights

- **Balance shifts towards larger deals** with 10 buyouts each totalling €1bn or more in value so far this year. This is on course to match or outstrip the 12 deals recorded for 2011 and 11 in 2010. The total value of deals in this size bracket (€14.3bn) accounts for 38% of the overall market – the highest proportion since 2007. In contrast, the lower and upper-mid-market have seen the number of buyouts progressively slow down during 2012.

- **UK deals dominate** the quarter by value, accounting for more than a third of all European buyouts in Q3 with a combined value of €4.2bn. This is in contrast to 2011, when the UK accounted for only 23% of the market and, for the first time, France was the dominant nation boasting 24% of deals by value.

- **France substantially underperforms the market** in the first three quarters of this year following a strong year in 2011. French deals have totalled just €4.3bn in value so far this year – just 29% of the value reached in the whole of 2011 (€14.9bn). As a proportion of European deal flow in 2012 so far, French deals represent only 12% of the overall value (€4.3bn of €37.1bn) and 20% of the overall volume (81 of 415).

- **Retail and TMT sectors outperform subdued market**, seeing their share of the buyout market by value increase to 13% and 17% respectively (from 11% and 10%) while the Manufacturing sector and Business and Support Services, which excelled in 2011, have seen market share diminish to 13% and 16% respectively (from 22% and 18%).

- **Exit market picked up in the third quarter** with a combined value of €19.2bn compared to only €9.2bn in Q2. This follows a particularly strong exit market in 2011 when a total value of €78.9bn was recorded (2012: €41.2bn to date).

Christiian Marriott, Director at Equistone Partners Europe Limited commented:

"On-going tension in the Eurozone continues to reveal itself in 2012 with a marked slowdown in private equity buyout activity in these countries compared to somewhat healthier performance from the UK market. Q3 has seen continued uncertainty, with senior debt markets on the continent and uncertainty..."
around French fiscal policy adding to the already difficult conditions. Nevertheless, the number of large buyouts completing in Q3 demonstrates that in the case of strong investment prospects, deals can still be done.

"Two bright spots are the retail and healthcare sectors which have come out of a difficult cycle well, but the current deal pipeline suggests a potentially quiet year end for buyouts across Europe. With continuing macro-economic uncertainty buyout funds will want to be highly selective in choosing which potential investments to target – a challenge in view of the limited supply of deal opportunities."

Sachin Date, EMEIA Private Equity Leader at Ernst & Young commented:

"There is a big portfolio overhang in Europe and for that to be cleared we need to see both a return of the IPO market and corporate buyers. A general lack of confidence is likely to continue to affect the IPO market placing an even greater importance on the corporate buyer.

"Although we've seen some recent activity from trade buyers, they have come mainly from the US or Far East. What we need to see is the European corporate buyer to return to the market but they continue to be more cautious about where they transact. Because these buyers are looking for strategic rather than opportunistic acquisitions private equity houses will need to work harder to encourage them back into the market.

"Private equity houses must adapt how they run their sale processes. They need to prepare for their exit by spending more time thinking of the wider buyer population and identify all the potential players in the market and where their assets can provide strong strategic synergies."

Prominence of the ‘mega’ deal

- Q3 saw four buyouts with a value of €1bn or greater, with the largest deal of the quarter, the €1.8bn buyout of BSN Medical also the largest buyout of 2012.
- Both the lower and upper-mid-market have seen the number of buyouts slow down as 2012 has progressed. The number of buyouts in the lower-mid-market range (€10-€100m) has decreased throughout the year, from 68 deals in Q1 2012 to 62 in Q2, and 43 in Q3. The upper-mid-market has seen 18 buyouts of a value between €100-€500m in Q1 2012 decrease to 15 in Q2 and 12 in Q3.
- The number of large buyouts (€500m or above) is the only size category to have increased since Q1 2012, with eight buyouts in Q3 2012 compared to just five in Q2 2012 and seven in Q1 2012.

UK increases market share while Eurozone nations falter

- UK deals dominate the third quarter by value, accounting for more than a third of all buyouts in Q3 with a combined value of €4.2bn compared to €3.2bn in Germany and just €1.8bn in France. The UK has also increased its share of the total number of buyouts in Europe from 30% in 2011 to 35.7% for the first three quarters of 2012.
- Both Germany and the UK found their total deal values improved by ‘mega’ deals in Q3 2012. Germany achieved the largest buyout of the quarter with the €1.8bn buyout of medical firm BSN Medical, while the UK’s dominance was bolstered by the €1.4bn buyout of Wood Mackenzie and the €1bn buyout of Four Seasons Health Care.

TMT, Retail and Healthcare sectors outperform diminished market

- The sectors performing strongly in 2012 are very different from those which excelled in 2011. TMT deals recorded a total value of €6.2bn so far this year, set to outstrip the €6.4bn recorded
for the whole of last year. TMT deals represent 17% of the overall buyout value this year compared to 10% in 2011.

- The Retail sector has continued to be active with 31 deals completed in 2012 so far, totalling €4.7bn. This is a similar rate to the 42 Retail sector transactions recorded in 2011, which totalled €6.8bn in value.

- The Healthcare sector has had its best year since 2007, with €6bn of deals recorded so far in 2012, easily surpassing the €4.6bn total for 2011. Two ‘mega’ deals in the sector have helped to produce this result, with the €1bn buyout of Four Seasons Health Care and the €1.8bn buyout of medical firm BSN Medical accounting for almost half of the value of Healthcare deals this year. Healthcare accounts for 16% of buyouts by value for 2012 so far, compared to 7% for 2011 and 9% for 2010.

- The Manufacturing sector has seen market share by value drop from 22% in FY 2011 to just 13% in the first three quarters of 2012.

**Buyouts out of insolvency grind to a halt, while the value of secondary buyouts continues to rise**

- The overall value of European buyouts sourced out of insolvency fell to the lowest amount since Q3 2009 at just €13m in Q3 2012, which compares to almost €2bn in the first quarter of the year. However, Q1 2012’s high value is accounted for by the €1.7bn buyout of Iceland Foods in March.

- By volume, Q3 2012 saw just four buyouts sourced out of insolvency – the lowest number of any quarter since Q4 2009.

- The value of secondary buyouts in Q3 surpassed that of the last three quarters, with a combined total of €8.5bn (Q2 2012: €4bn, Q1 2012: €5.6bn, Q4 2011: €4.6bn). Together, the two largest secondaries of the quarter, BSN Medical and Wood Mackenzie, accounted for almost 40% of all secondary transactions in Q3 2012 by value (38%).

**Exit market picks up in third quarter; increase in divestments to trade buyers**

- The European exit market has improved after a slow second quarter, with 87 exits in Q1 2012 decreasing to 67 in Q2 but recovering to 73 in Q3. However, despite the relatively low number of exits, the second lowest since Q3 2010, Q3 2012 has seen the largest combined value of exits all year with €19.2bn, compared to €12.9bn in Q1 2012 and €9.2bn in Q2 2012.

- Of the 73 exits in Q3 2012, almost half (34) were trade sales. Additionally, Q3 saw the highest combined value of trade sales all year, with €10.8bn including the largest exit of the year, that of NDS Group for €4bn sold to Cisco Systems.

- The UK dominated the exit market in the first three quarters of 2012, with the 106 exits accounting for 47% of all European exits by volume. In comparison, France and Germany accounted for just 12% and 10% of the number of exits respectively. The value of UK exits in the first three quarters of 2012 was also high at €14.4bn, bolstered by the €4bn trade sale of NDS Group.

- The proportion of secondary exits by volume has increased from 36% of all exits in Q2 2012 to 44% in Q3 2012.

- Ends -

For more information:
Number & Value €m PE-backed

![Graph showing the number and value of PE-backed deals from 1986 to 2012.](image)

Source: CMBOR/Equistone Partners Europe/Ernst & Young  
Year 2012 to end Q3 only

Average Value €m

![Graph showing the average value of deals from 1991 to 2012.](image)

Source: CMBOR/Equistone Partners Europe/Ernst & Young  
Year 2012 to end Q3 only
Deal source value %

Source: cmbor/Equistone Partners Europe/Ernst & Young Year 2012 to end Q3 only

Exit Value €m

Source: cmbor/Equistone Partners Europe/Ernst & Young Year 2012 to end Q3 only
Notes to editors

About CMBOR

- The Centre for Management Buy-out Research (CMBOR) was founded at Nottingham University Business School in 1986 and has been sponsored by Equistone since its establishment. It is now based at Imperial College London and celebrated its 25th anniversary in 2011.
- CMBOR is world-renowned as the long-standing leader in providing robust analysis of the buy-out 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 only uses completed deals to calculate its data. Any pending deals at the end of each quarter are carried over to the following quarter.
- The European data provided by CMBOR in this release refers to the buyout activity in 15 countries including Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the UK.

About Equistone Partners Europe

- Equistone Partners Europe Limited is an independent investment firm owned and managed by the former executives of Barclays Private Equity.
- The management company that was formerly Barclays Private Equity was acquired by its former executives from Barclays Capital, the investment banking division of Barclays Bank PLC, in November 2011.
- 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 authorised and regulated by the Financial Services Authority.
- For further information, please visit www.equistonepe.com