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Value of European buyouts declines by a fifth in 2012

Only two out of 10 largest deals sourced within the Eurozone

There were 544 private equity backed buyouts in Europe with a total value of just €49.5bn in 2012*, a decrease of 21% on the full year value recorded in 2011 (€63bn) and the lowest value since 2009 (€19bn), according to the latest data published by the Centre for Management Buyout Research (CMBOR), sponsored by Equistone Partners Europe Limited and Ernst & Young.

On-going uncertainty in the Eurozone continues to discourage investors and delay transaction processes, with weak European deal flow in Q2 and Q4 falling to €10.8bn and €10.5bn in value respectively, dragging down the region’s overall performance for 2012. Q4 represents the lowest quarterly value since the fourth quarter of 2009 (€6.1bn), compared to the more robust values achieved in Q1 2012 (€14.1bn) and Q3 2012 (€14.1bn).

Highlights

- **UK leads European buyout market in 2012**, with an overall deal value of €19.4bn – 39% of the overall value of transactions in Europe (€49.5bn) – and 35% of the total number of buyouts (UK: 189; Europe: 544) accounted for by UK transactions. This compares to 2011 when UK buyouts totalled €14.6bn and accounted for 23% of the overall value of deals in Europe (€63bn).

- **Buyout activity in France and Germany slows in 2012** with just 95 and 63 buyouts respectively compared to the UK’s 189 buyouts. After France’s market-leading performance in 2011 where it outperformed the UK by total deal value, the country has seen the total deal value more than halve from €15bn to just €6.2bn in 2012, against a backdrop of uncertainty around the country’s fiscal policy in the run up to and following the French Presidential elections.

- **Mid-market deal flow declines** with just 78 deals valued between €100m and €1bn compared to 112 in 2011, a reduction of 30%. By comparison, the level of “Mega deals” was slightly above that of recent years, with 13 deals valued at more than €1bn completing in the past 12 months. The largest deal in 2012 was the €1.8bn buyout of BSN Medical by EQT Partners in August 2012.

- **Exit market outstrips the buyout market by value, despite a weak IPO market**, for the third year running, with €51.3bn of exits recorded in the whole of 2012 compared to €49.5bn of buyouts. This followed a strong year for the exit market in 2011 in which €79.5bn total value was recorded. The overall value of exits was boosted by the €4bn trade sale of NDS Group to Cisco Systems in July 2012; however, the listing of Ziggo on NYSE Euronext (Amsterdam) in March was the sole buyout-backed IPO of the year.

* Data for the full year 2012 is up to and including 17 December 2012
The number of exits into insolvency in Europe has decreased by a third since 2009 from 92 such exits to 37 in 2012. By comparison, there were 55 creditor exits in 2011 and 48 in 2010. Notably, 2012 has seen the lowest number of exits into insolvency since 1996, when there were 33 such exits.

The number of European divestments by foreign owners to private equity backers reached a three year high, having risen steadily in number since 2009, to 53 deals with a total value of €7.2bn in 2012, compared to 47 deals totalling €5.9bn in 2011, and 45 deals totalling €4.1bn in 2010.

Banks and lenders in Europe remain cautious in 2012, causing the average proportion of debt used in European deals over €100m in value to fall to 38%, compared to 44% in 2011.

Christiian Marriott, Investor Relations Partner at Equistone Partners Europe Limited commented:

“The wider economic and banking issues in the Eurozone continue to supress buyout activity across the region. Only two out of the 10 largest buyouts occurred inside the Eurozone. However, the overall performance across Europe has been supported by a robust year for UK buyouts, which has been more resilient to the wider economic turmoil in the Eurozone, in part due to the increasing willingness of banks to offer financing for some promising assets.

“France has had a particularly disappointing 2012, with political uncertainty following the French elections creating a cautious market with diminished deal flow. However, we should begin to see renewed confidence in the French buyout market in 2013.

“The Nordic countries, with huge levels of equity funding available from large private equity funds, have also had a slow year. The level of deal flow in the region probably falls short of investors’ expectations, with the number of buyouts in Sweden and Finland in particular falling back to 2010 levels.

“Nevertheless, there are still some excellent investment prospects in Europe and buyout houses will continue to ‘cherry-pick’ the best assets.”

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

“For the third year running exit activity was greater than new buyouts. This is good news, but PE houses still have a large number of assets on their books that are past their traditional holding period so we need to see a substantial increase in such activity for the portfolio overhang to be cleared. With a fall in exits through insolvency, the situation is under control, but with an IPO market at close to zero, exits to corporates and other private equity players seem the only route out for the foreseeable future.”

UK leads European buyout market; France falls behind European neighbours

The total value of buyouts in the UK in 2012 increased to €19.4bn (2011: €14.6bn), accounting for 39% of the European buyout market by value and overtaking its neighbour France by €13.2bn (France: €6.2bn). This compares to 2011 when France led the buyout market in Europe by value, recording a total deal value of €15bn compared to €14.6bn in the UK.
• Deal flow in Italy was affected badly by the economic downturn, with the overall value recorded in Italy falling to the lowest amount since 2001 (€1.3bn). This represents a 60% decline on the total value of buyouts recorded in Italy in 2011 (€3.3bn). However, the number of deals in Italy in 2012 increased to 35 from 31 in 2011.

• Buyout activity in Germany, the Netherlands and Sweden was disproportionate to their overall economic positioning in Europe. These countries accounted for 13% (€6.5bn), 3% (€1.3bn) and 7% (€3.6bn) of the overall value of deals in Europe (€49.5bn) respectively.

TMT and Manufacturing continue to be the dominant sectors

• Manufacturing continues to be the most active sector in 2012, with 149 deals completing this year compared to 180 in 2011 and 173 in 2010. By value, Manufacturing was also the strongest sector with €8.6bn deals in 2012.

• The TMT sector has been resilient in 2012, recording 76 deals totalling €7.3bn in value. Similarly, the Healthcare sector also recorded a strong value in 2012 – €7.5bn compared to €4.7bn in 2011, €5.6bn in 2010 and €1.9bn in 2009. The sector was bolstered by a number of “Mega deals”, including the €1bn buyout of Four Seasons Health Care by Terra Firma in July 2012 and the €1.8bn buyout of BSN Medical by EQT Partners in August 2012.

Exit market more robust than buyouts; trade sales overtake secondary exits

• For the third year running, the exit market has outstripped the buyout market in Europe, with €51.3bn of exits completed in 2012 compared to €49.5bn of buyouts. In 2011 and 2010 the total values of exits recorded were €79.5bn and €63.5bn respectively compared to €63bn (2011) and €56.8bn (2010) of buyouts.

• The total value of exits in the Netherlands was more than 5 times that of buyouts in 2012, with €7.4bn exits compared to €1.3bn of buyouts. The largest exit out of the Netherlands was the only IPO of 2012, the €3.7bn listing of Ziggo on NYSE Euronext (Amsterdam) in March. This compares to 2011 when the European market had five listings and 2010 when there were 14 listings.

• The number of sales to trade buyers completed in 2012 (140) was higher than the number of secondary exits (128) in the same period for the first time since 2010. Value was boosted by two large exits to US buyers: the €4bn sale of NDS Group to Cisco Systems in July 2012 and the €1.7bn sale of Dako to Agilent Technologies in June 2012, demonstrating continued interest in large ticket deals in Europe by buyers from the United States.

- Ends -
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 26 countries including Austria, Belgium, Croatia, Czech Republic, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Lithuania, Netherlands, Norway, Poland, Portugal, Romania, Russia, Spain, Serbia, Slovenia, Sweden, Switzerland, Turkey, the UK, and the Ukraine.

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 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