News release

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PE houses holding on to their assets until European markets stabilizes

- Drop in European buy-out activity as only €9.1b of deals completed in Q2 2012, 34% lower than Q1, and less than half value of Q2 2011, and only 58% of Q2 2011 value
- 83 manufacturing deals make it the most active sector, but TMT remains strongest in terms of value with €5.3b
- Private sales proved more popular than secondary buyouts

LONDON, 9 July 2012: The overall value of European buyouts totaled €9.1b in Q2 2012, a 34% decrease from €13.9b in Q1 2012 and almost 60% below the value of Q2 2011, according to the latest data published by the Centre for Management Buyout Research (CMBOR), sponsored by Ernst & Young and Equistone Partners Europe.

Wider macroeconomic conditions in Europe continue to provide an uncertain backdrop for Private Equity (PE) deal activity, and the UK continues to lead with €3.3b in Q2 2012 in 38 deals, totaling €9.8b in 106 deals for the first half of this year.

Sachin Date, Europe, Middle East, India and Africa Private Equity Leader at Ernst & Young, comments, “Despite various initiatives such as the ECB’s injection of €500b in loans of three year money to the banks in December, sellers remain cautious and many are adopting a view ‘wait and see’ until the landscape across Europe show more signs of stabilizing for the long-term.”

Number of deals fell in Germany and France

There were only twelve deals, for both countries, compared to 27 for France and 15 for Germany in the previous quarter. However, with a total of €1.4b from €600m previously, France saw a 116% increase in deals value, ranking third behind the UK, representing an average deals size of €115m, well above the overall European average deal size of €82m.
Sachin comments, “After a remarkable showing in 2011, PE activity numbers of deals, France has been hit by the current macroeconomic and political situations. Pricing and access to finance continue to be a major challenge, especially for the secondary leverage buyout market.”

In a surprising turn, given its strong economic position, Germany saw its combined values fall from €0.7b to €0.2b, just over 10% of the €1.5b figure recorded at the same time last year, with an average deal size of just €12m. While Germany was the third largest market in 2011, it fell to the ninth position in H1 2012 well behind the UK, Belgium, Sweden, France, Switzerland, Spain and Norway.

“The drop off in activity in Germany is not due to a lack of appetite – in fact we know there is appetite for investing here – the issue is one of pricing and meeting price expectations, until sellers feel more confident these can be achieved they won’t sell,” explains Sachin.

The UK held on its top spot, both in numbers and value – 38 deals in the second quarter. Valued at €3.3b, the UK is well ahead of the rest of the European market; however, Sweden saw the largest buy-out of the quarter with the sale of Ahlsell, the construction products and machinery distributor to CVC for €1.8b. This is Europe’s largest private equity deal since last summer, and marked the exit of Cinven and Goldman Sachs from the company. The Nordic markets have held up relatively well with a combined value of €2.5b.

Christiian Marriott, Director at Equistone Partners Europe Limited comments: “Whereas the total value of private equity buyouts in France outstripped the UK last year, the UK has performed robustly so far in 2012 totaling €9.8bn, dominating the European buyout market and accounting for nearly half of the overall buyout value. Continental Europe continues to suffer from unresolved macroeconomic uncertainties, however with some important political elections behind us, this could improve towards the end of 2012 as the Eurozone crisis stabilizes.”

Manufacturing still leads by number of deals but technology and telecoms remain strongest in terms of value

While the number of manufacturing deals is holding up, the average value falls from €75m in 2011 to €43m so far this year. This is partly due to the lack of deals activity in Germany.

The leading industry by value was the telecommunications media and technology sector (TMT), with a combined value of €5.3b from 36 deals, in H1 2012. More specifically there is
significant interest in software and mobile communications which accounted for €3.7b of the total value.

Sachin explains, “We are seeing newly formed interest in technology software from PE and a continued interest in mobile telecoms, a trend which already started three years ago, with Sunrise and has continued with Orange Communications, Misys and Turaz/Kondor.”

**Private sales proved more popular than secondary buyouts (SBOs)**

Private sales (36 deals) accounted for nearly twice as many deals as SBOs this quarter, followed by local divestment (31 deals), while the value of public-to-private deals has been creeping up during the year, reflecting the depressed nature of the public markets. Although, SBOs have remained an important source of deal activity, with a combined deal value of €9.0b in the first six months of the year, they were at their lowest level since Q4 2009, with only 19 deals completed (value €3.4b) in Q2 2012.

Unsurprisingly we have seen some high profile distressed sales this year, so far this year there have been 19 ‘distressed’ sales, where companies have been bought out of insolvency, six of these were during Q2 2012.

“Typically in times of economic stress we see the retail sector hit with insolvency issues, and PE firms are taking the opportunity to pick up these assets at discounted prices, so we expect values to be driven down in this sector even if volume levels are holding up.” comments Sachin.

**Pipeline of activity**

Despite a bleak short-term outlook, there are a number of announced deals still pending across Europe, such as Bain Capital’s acquisition of Bravida in Norway and Lion Capital’s acquisition of Alain Affelou in France. If conversion rates prove successful, this could bring confidence back into the market.

Sachin concludes, “Looking ahead, strategic trade buyers will continue to play a significant role in the European buyout market. Cash rich US and Asian buyers continue to come into the European market and picking up strategic assets where they can see clear synergies, a recent example is US firm Walgreens’ recent acquisition of a 45% stake in Alliance Boots.”
“We anticipate that pent up demand from both buyers and sellers will result in a return of market activity. However, we still expect the market to remain quite difficult, for at least the next six months, for deals to return.”

– End –

Number & Value €m PE-backed

Source: cmbor / Ernst & Young / Equistone Partners Europe
Year 2012 to end Q2 only

Number & Value €m PE-backed - €50-250M

Source: cmbor / Ernst & Young / Equistone Partners Europe
Year 2012 to end Q2 only
Number & Value €m PE-backed - QUARTER

Source:.cmbor/ Ernst & Young / Equistone Partners Europe
Year 2012 to end Q2 only

Notes to editors

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Methodology

Multiple is a quarterly publication raise funds for new investments summarizing trends in buyouts* across Europe. Ernst & Young and Equistone Partners Europe are proud to sponsor CMBOR, the Centre for Management Buyout Research whose data is analyzed in Multiple. Countries covered: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Czech Republic, Hungary, Poland, Romania and Turkey and the UK.

*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 Buy-out 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 buy-out market. CMBOR data covers all buy-out activity and therefore includes transactions funded on a cash or debt-only basis as well as traditional private equity-funded buy-outs. CMBOR is independently sponsored by Equistone Partners Europe and Ernst & Young.
About Equistone Partners Europe

- Equistone Partners Europe is an independent investment firm owned and managed by the former executives of Barclays Private Equity.
- Equistone acquired the management company of Barclays Private Equity 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.
- The three country teams operate with a high degree of autonomy to source and manage investments, leveraging their European franchise but as local participants.
- For further information, please visit www.equistonepe.com.