PE-backed IPOs reach highest level in 16 years in Europe with mid-sized deals at the fore of buyout market

- Deal activity in 2014 is up with mid-sized deal activity at the highest since 2008
- Exit market performs well; exit value at the highest since 2007 at €101b
- Trade sales figures highest since 2011, refinancings at a record high

LONDON, 22 DECEMBER 2014. Private equity-backed initial public offerings (PE-backed IPOs) remain a popular exit route in 2014, according to the latest data published by the Centre for Management Buy-out Research (CMBOR), sponsored by EY and Equistone Partners Europe Limited. New deal activity by volume is higher than 2013, while value rises for the second successive year.

Mega and upper mid-market deals

While 2014 has not seen any deals above the €5b range, the €1b+ market has recovered with 11 deals closing this year – comfortably surpassing the 2013 figures.

The €100m to €250m segment is up sharply by value and volume to its highest level since 2008, with the €250m to €500m segment also reaching the highest value since 2008.

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

“2014 has been a particularly strong year for the mid-market, which has seen the highest level of deal activity since before the financial crisis. However, this activity has predominantly been led by the exit market; with a huge amount of dry powder ready for deployment across the mid-market buyout funds, the challenge for 2015 will be investing in the right assets at a fair valuation.”

So far in 2014, the average proportion of debt used to finance European deals over €100m is 53.7%, in line with the 53% recorded in 2013.
Total deal values reached €61.3b – above 2013’s €58.7b figure. Deal numbers also are higher: 613 so far this year versus 562 last year. UK accounts for €18.6b followed by Germany’s €11.2b and France’s €7.7b. The Nordic region is leading in terms of growth with the top three deals all from the region, and the two largest deals originating in Norway. The Netherlands is recovering with deal volumes at the highest since 2008, and value also is improving.

UK buyout value equalled £14.9b in 2014 compared to £15.1b in 2013. There were 214 deals completed in the UK this year versus last year’s 193 deals. And the value of buyouts to UK M&A remains at the 2013 level of 66% of all total UK domestic M&A activity. As for the exit activity, the total 2014 value is at a record £28.8b after 2013’s £23.4b. The IPO value is at the highest since records began – at £16.2b. Trade sale value so far this year is almost double of that in 2013 – £7.4b versus last year’s £4.7b.

Marriott adds: “Despite a relatively slow start and ongoing political uncertainty in the east of the region, the European private equity market has performed well in 2014. The German market has been particularly buoyant in the past 12 months, accounting for around 20% of the total value of European deal flow. This was largely due to 4 of the largest 10 buyouts completed during the period being German deals, including the €2b buyout of Scout24 Holding from Deutsche Telekom.

“However, with over a third of all European deals completed in the UK, the UK remains Europe’s largest market for private equity – a trend that looks set to continue into 2015.”

In terms of sectors, TMT (technology, media and telecommunications), financial services and health care have had a strong year in Europe, with increased deal value compared to 2013. Value, not volume, has been making headlines in 2014, with some of the largest buyouts of the year in TMT and financial services.

Local divestments value has more than doubled in 2014 to €19b – the highest since 2007 – as corporate’s activity on buy-side and sell-side picks up. In addition, corporates are spending more cash to acquire assets from private equity firms.

Exit market performs well; value of exits via IPO at highest recorded total
Sachin Date, EY’s Private Equity Leader for Europe, Middle East, India and Africa (EMEIA) says: “PE-backed IPOs are at a record high since 1998 with 43 PE-backed IPOs worth €44b closing in 2014, as financial sponsors continue to capitalize on strong valuations. This year also recorded 188 trade sales in exit value terms (€32.2b) – the highest since 2011 – and 170 secondary buyouts. 2014 has seen the highest value of refinancings ever recorded and has more than doubled since 2012 to the tune of €51.7b.

“Of the top 10 PE exits by value – five were IPOs, four were trade sales and only one was a secondary buyout. And if corporates were on the sidelines in previous quarters, this time around we are witnessing corporate activity picking up with values higher than before. The increased IPOs and trade sales values make up for the decrease in secondary buyout values.”

The exit value of above €101b is the highest since 2007 and is only the third time it crossed the €100b mark. Last year, the total figure came in at €79.4b. The average exit value of €242.7m in 2014 is the highest in 24 years – a testament to continued improvement in the exit environment.

The Swedish exit market continues to remain strong. French exits are up in volume and value terms. Italian exit volumes are higher while Norwegian and Spanish exit values are on the rise as well. Among sectors, business, health care, manufacturing and TMT exit values saw an increase.

**Outlook for buyout activity**

Going into 2015, the European private equity market is expected to steadily improve in line with progress made in the last two years. The pending deal pipeline is around €20b in the coming months of 2015 as private equity deal values are expected to increase in the next year.

Date says: “It is likely that we will see less of PE-backed IPOs in 2015. But we expect to see more corporates buying and selling assets. Whether a strong pipeline will translate into a fully recovered European private equity industry is yet to be seen, but the signs are clearly encouraging.”

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Notes to Editors
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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 18 December 2014.

*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 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 EY and Equistone Partners Europe.

About Equistone Partners Europe Limited
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 €1.5b. 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 31 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 Conduct Authority.