2 October 2014

European exit market looks set to return to heights of 2007

The European capital markets have remained open for private equity firms in Q3 2014. A further six private equity-backed flotations completed over the summer, taking the total volume of IPOs in 2014 to 38 – almost double the number of IPOs completed in the whole of 2013 (20), according to the latest data published by the Centre for Management Buyout Research (CMBOR), sponsored by Equistone Partners Europe Limited.

The European buyout market has remained considerably lower in value than the exit market, totalling €47.2bn and €80.6bn respectively at the end of Q3 2014. That said, with $400bn* of dry powder ready for investment into European markets and a strong pipeline of deals for Q4 2014, full year buyout numbers are set to be in line with those of the last three years.

Highlights

• The total value of private equity backed IPOs in Europe has fuelled a very strong exit market, accounting for nearly half (€39.8bn) of the total 2014 exit value so far (€80.6bn) this year. Almost half of these (22) were UK deals including the IPO of Spire Healthcare in July (total 2014 European IPO number so far: 38). By comparison, secondary exits have accounted for just 26% of Europe’s total exit value (€21.1bn) in the year to date.

• The UK continues to lead the European private equity market, accounting for over a quarter (29%) of overall buyout value and more than a third (36%) of the total exit value so far in 2014. However, despite valuations in the UK market remaining higher than in Continental Europe, only one of the largest 10 buyouts completed in the first three quarters of 2014 was a UK deal, while three were German.

• The refinancing of European assets has continued apace in Q3 2014 with 38 transactions, taking the total number of refinancings for the year so far to 128 (value: €36.6bn). Should European refinancings continue at this level through Q4, we can expect to pass 2013 levels, when there were 146 refinancings totalling €46.3bn.

• The significant pick up in corporate M&A activity in 2014 has provided a welcome source for private equity investment activity in Europe – deals such as Deutsche Telekom’s sale of Scout24 Holding to Hellman & Friedman and Blackstone and Guardian Media Group’s sale of Trader Media to Apax Partners in March 2014, are examples of corporate M&A driven divestment.

*Data for the Nordic region excludes Iceland
**Bain & Co.
Christiian Marriott, Investor Relations Partner at Equistone Partners Europe Limited, commented:

“The European private equity market has continued to perform well in Q3 2014 despite the ongoing political uncertainty in the East of the region. The exit market has returned to pre-crisis levels, led by a buoyant IPO market in the UK in particular, as well as some significant secondary transactions such as the sale of Pizza Express to Chinese buyout house Hony Capital.

"In many ways, Europe remains a sellers’ market with high valuations driving a relatively small number of deal processes. That said, there is a strong pipeline of deals in the UK and German mid-market in particular and there is still appetite to pay high multiples for the right assets.

“A high proportion of some of the largest exits completed in Europe so far this year were of 2011 and 2012 vintage showing Private Equity's ability to continue to grow and exit businesses within three to five years, as well as deliver good returns to investors.”

Europe remains a sellers’ market; strong UK exit market

- Despite the continuously high valuations, the European exit market has continued to perform well in the first three quarters of this year, as private equity firms and corporates remain open to paying for the right assets. By value, €80.6bn of exits were completed in the first three quarters of the year compared to €79.4bn in 2013. With Aldermore and Jimmy Choo in the pipeline for Q4, 2014 could be set to reach the highest exit valuation levels since 2007.

- A significant proportion of European exits recorded in 2014 so far were of 2011 and 2012 vintage, representing shorter hold periods than in recent years. 64% of European exits valued at over €1bn have been IPOs (18 out of 28), many of which may have been unable to come to market in 2011.

- The UK exit market has had an extremely strong year so far, with 141 deals completed totalling €29.1bn. By comparison, the total value of buyouts completed in the UK in the first three quarters of 2014 was less than half of the total exit value (€13.5bn).

- Creditor exits in Europe are currently at their lowest level for over 20 years as banks become increasingly willing to lend to businesses in danger of breaching their covenants. There have been 23 creditor exits in 2014 so far – nearly half of the total number of creditor exits in full year 2013 (42).

Larger buyout activity slows in UK as IPO activity dominates; Nordic region supports European buyout numbers

- There was a slowdown in the number of larger deals (€1bn+) completed in the UK in the first three quarters of 2014 – only one mega deal had taken place UK (the sale of Pizza Express), compared to five during the same period in 2012 and two in the first three quarters of 2013. This slowdown can be accounted for by the buoyant IPO market, with over half of European private equity exits via IPO being UK deals. These included the IPO of Pets at Home in March and B&M Retail in June.

- However, by comparison, the UK mid-market (€50m to €1bn) has held up well in 2014 with 50 deals completed in the first three quarters of 2014 compared to 56 and 53 during 2013 and 2012 respectively. The vast majority of the UK’s transaction pipeline for Q4 2014 and early 2015 is also accounted for by potential mid-market deal flow.

*Data for the Nordic region excludes Iceland
**Bain & Co.
The German buyout market picked up considerably in Q3 2014, with 19 deals totalling €5.3bn in value (Q2 2014: €1.5bn; Q1 2014 €2.8bn). This is largely due to the completion of a number of larger deals: three of the ten largest buyouts this year so far were German deals. These included Clayton, Dubilier & Rice’s acquisition of Mauser from Dubai International Capital for €2bn, and Hellman & Friedman’s acquisition of Scout24 Holding from Deutsche Telekom. By comparison, an on-going period of lower activity in France saw deal volume at the end of Q3 total 57, barely half the total number of deals (99) of 2013 representing a continued lack of confidence in the French market.

Deals completed in the Nordic region* in the first three quarters of the year accounted for 15% of overall European buyout value (€7.1bn) compared to 11% in 2013 despite the continuing stagnation of Swedish buyouts (20 deals totalling €761m this year compared to the 2011 high which saw 36 deals at €7.0bn). This was driven by a strong Q3 in both Denmark and Norway which saw buyout values reach €2.3bn (Q2: €50m / Q1: €299m) and €2.7bn (Q2: €60mm / Q1: €659m) respectively.

The Spanish market continued to grow in Q3 2014 pushing the full year number of deals to 22 with a total value of €2.1bn; this is already in line with full year 2013 value (€2.1bn). This high value was driven by two corporate divestments completed in August and January of this year: Cinven’s acquisition of Ufinet/Gas Natural Fenosa Telecom from Gas Natural SDG for €510m, and Banco Santander’s sale of Altamira Asset Management to Apollo for €664m.

**TMT and Financial Services sectors drive European deal flow**

- The TMT sector has had a strong first three quarters, with a total buyout value of €11.4bn so far, compared to €7.1bn in 2013 and €8.2bn in 2012. The sector, which accounted for nearly a quarter (57: 13%) of all European deals (450) at the end of Q3, was responsible for a number of the largest buyouts so far this year, notably the €2.5bn IPO of Visma, Norway’s leading supplier of business software, in August 2014 and Charterhouse’s €1.7bn acquisition of SkillSoft from Berkshire Partners, Advent International and Bain Capital. The sector has also been a significant driver of deal activity in the mid-market; such deals included Oak Hill Capital Partners’ acquisition of Pulsant, the IT infrastructure services provider, from Bridgepoint Development Capital in July 2014.

- The Financial Services sector has remained strong this year with €5.3bn worth of deals so far in 2014 – already more than double the total 2013 sector value (€2.5bn). The acquisition of Nets Holding by Advent International, Bain Capital and ATP in Q3 (July) for €2.3bn was the largest deal in the sector.

Ends

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*Data for the Nordic region excludes Iceland
**Bain & Co.
Notes to editors

Methodology

The data compiled by CMBOR summarises trends in buyouts*** across Europe (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the UK).

The data in this press release is for deals completed by or on 26 September 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 Equistone Partners Europe

Equistone Partners Europe Limited is an independent investment firm owned and managed by the former executives of Barclays Private Equity.

Equistone is currently investing its fourth fund, Equistone Partners Europe Fund IV, which it successfully closed in January 2013, 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 34 investment professionals operating across the UK, France, Germany and Switzerland, investing as a strategic partner alongside management teams.

Equistone Partners Europe Limited is authorised and regulated by the Financial Conduct Authority. For further information, please visit www.equistonepe.com

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.

*Data for the Nordic region excludes Iceland

**Bain & Co.