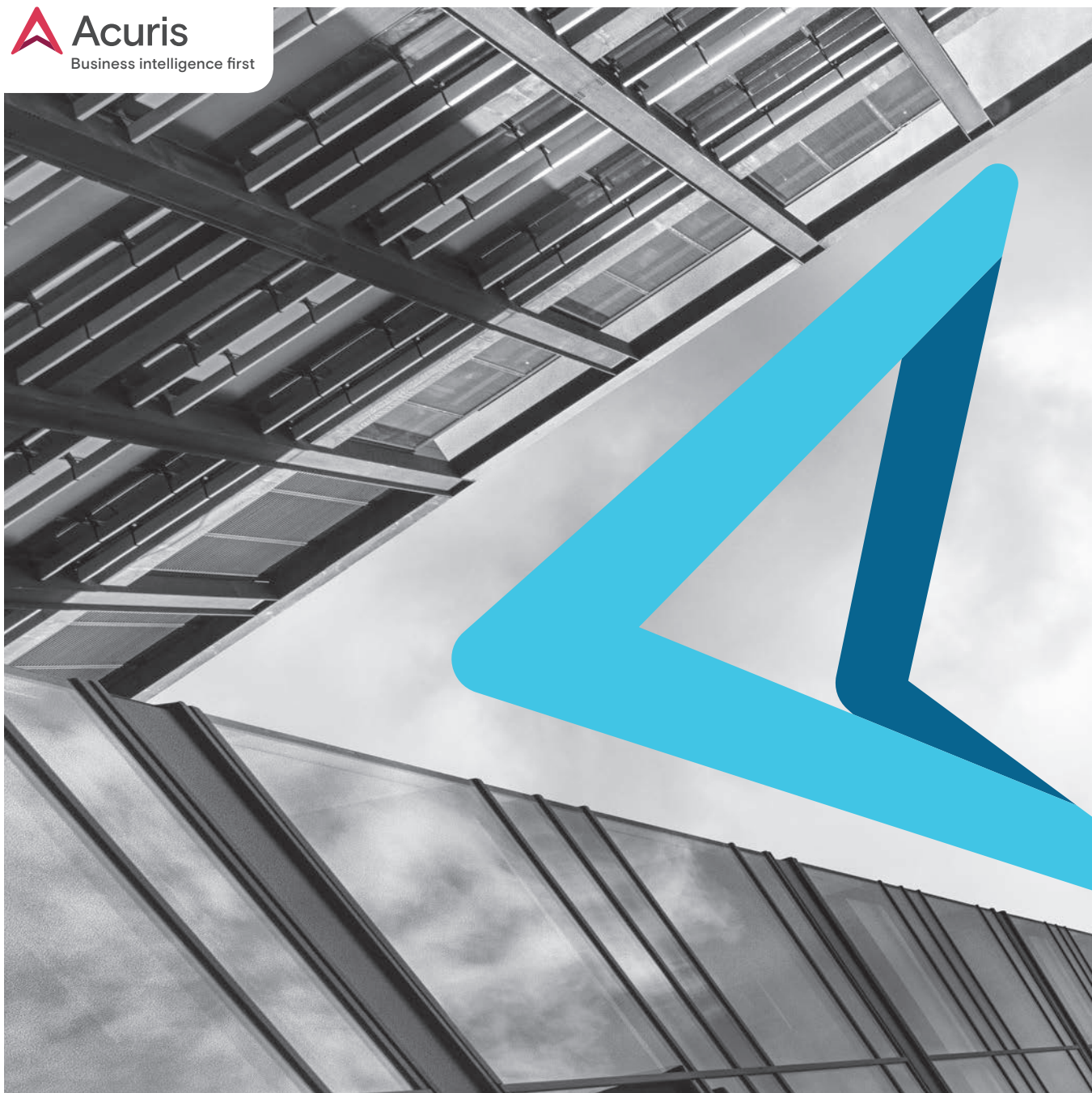


# Annual Buyout Review

## 2018 edition







# An unexpected angle

See where the next deal is coming from

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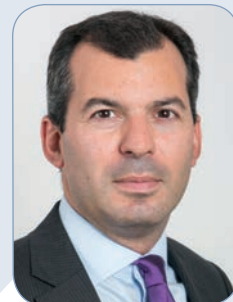
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*A wealth of further information is available through our website. This includes breaking news and analysis from each European market, features, commentary, blogs and video covering fund launches, changes in strategy and people moves, and in-depth analysis of every deal featured in this issue*



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## Reaching new peaks

When *Unquote* gathered a group of private equity professionals for its end-of-year roundtable last November, the terms “resilience” and “peak” were frequently used with regard to the industry’s evolution in Europe throughout 2017. Now that the *Unquote* research team has had the opportunity to collate the full numbers, it appears that the sentiment was wholly warranted.

With 919 transactions recorded for European assets in 2017, worth a collective EV of €142bn, 2017 comfortably set a new post-crisis high.

Record levels of dry powder, intense competition and very favourable leverage trends resulted in a new peak of capital deployed at the top end of the market: aggregate value in the mega-buyout segment reached €54.6bn. The upper-mid-market and large-cap segments (€250m–1bn) stagnated in both volume and value terms. In contrast, the small end of the market (<€50m) was particularly buoyant.

In a development that will surely please LPs, primary deals sourced from family and private vendors rose by 30% in volume last year. Still on the primary side, 2017 was also the year that mega-take-privates made a spectacular return – a whopping €13.8bn was deployed last year, triple the average seen over the previous four years.

In terms of geographies, the key takeaway is the UK’s return to prominence. The market was home

to 215 buyouts last year, worth an aggregate €39.8bn – both comfortably exceeding any figure seen over the past five years. This was also the second largest year-on-year increase in volume terms (26%) behind that seen in CEE, and the 91% volume hike compared with 2016 eclipses all other regional increases.

The flipside of this buoyant activity is heightened competition, and its resulting impact on entry multiple inflation – 15x is now a common entry point for high-profile assets, and this trend played no small part in the jump in aggregate value recorded last year.

So while 2017 gave buyout players across Europe reason to cheer, arguably their ability to continue deploying significant amounts of capital also hinged on a willingness to settle on new standards for pricing levels, with the inevitable question mark attached to future performance levels. With around €150bn in fresh capital replenishing European PE coffers in the past two years alone, these concerns aren’t likely to be assuaged for some time.

This overarching theme will be a key focus of discussions at our upcoming Allocate event in June 2018. Held over three days at the luxury Grove Hotel in Hertfordshire, the retreat will gather the most high-profile limited partners and fund managers to discuss the next cycle in private equity and network in a more informal setting. We look forward to seeing you at the event. ■





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[events.unquote.com/germany](https://events.unquote.com/germany)



## ALLOCATE 2018

**25-27 JUNE 2018**

The Grove, Hertfordshire, UK

[events.unquote.com/allocate](https://events.unquote.com/allocate)



## ITALIAN PRIVATE EQUITY FORUM

**5 JULY 2018**

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## NORDIC PRIVATE EQUITY FORUM

**SEPTEMBER, 2018**

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## CEE M&A AND PRIVATE EQUITY FORUM

**2018**

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# Executive summary

## Lower-mid-market momentum lifts dealflow

The market had a split performance in 2017. A surge of activity at the lower end boosted volumes, while large-caps were almost entirely responsible for a big climb in deal value

Europe's buyout activity reached new post-crisis highs in 2017 thanks to a widespread resurgence in the lower-mid-markets.

There were 919 buyouts over the course of the year with an aggregate enterprise value of €142.3bn, both up 19%. Transactions rose in each of the eight regions covered in this volume with some individual

countries performing especially strongly; the Netherlands, Spain, Poland and Denmark recorded all-time highs for annual buyout numbers.

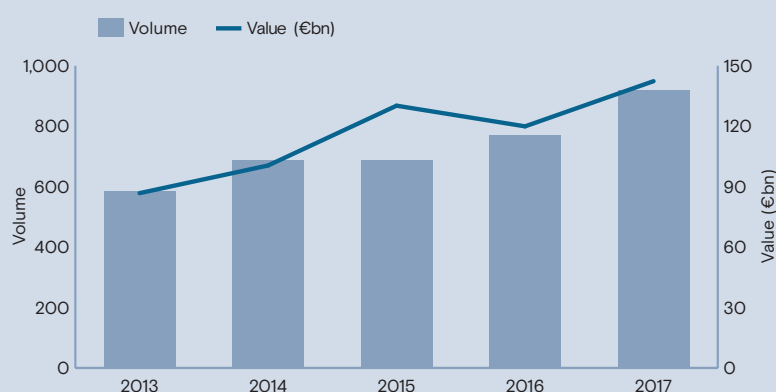
The sustained recovery in the European economy is having a noticeable impact on the outlook for smaller, more domestically focused businesses. By size range, it is clear that the most significant impact on the overall volume statistics came from the lower-mid-cap market segment (€5-50m), where dealflow jumped by almost 34%. Conversely, the value of the €1bn+ mega-deals jumped almost 50% from €36.9bn to €54.6bn.

The higher volumes in the lower-mid-cap segments naturally meant more deals sourced from family and private vendors – 517 against last year's 393 – but secondaries are also on the up at 294 compared with last year's 272.

As well as an improving economic environment, higher pricing against a background of political uncertainty could be fuelling vendor appetite to sell, especially in the UK & Ireland region, which saw a dramatic increase in sales to private equity from family and private vendors from 90 to 131. Sales from private vendors also climbed strongly in DACH and Benelux.

The UK & Ireland finished top of the pile in terms of both transaction volume and value. Looking ahead to 2018, "cautiously optimistic" is the message from GPs.

### Private-equity-backed buyouts in Europe



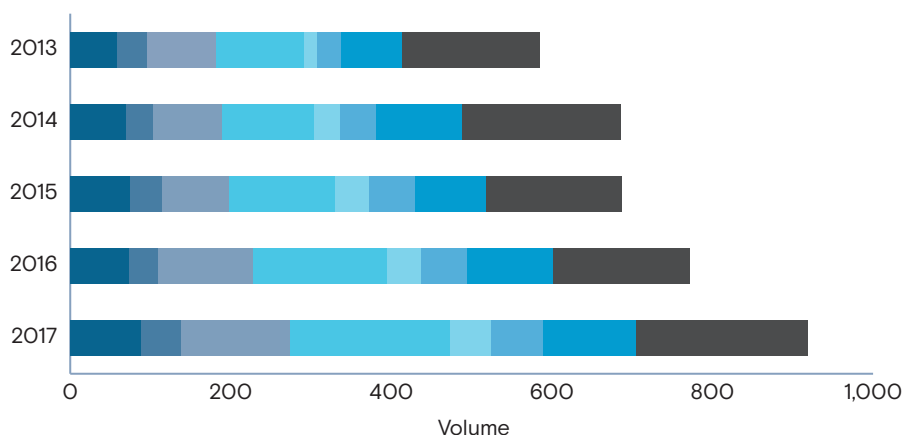
	2013	2014	2015	2016	2017
Volume	585	686	687	771	919
Value (€bn)	87	101	130	120	142
Average value (€m)	148	147	190	156	155

Source: Unquote Data



## Dealflow by region

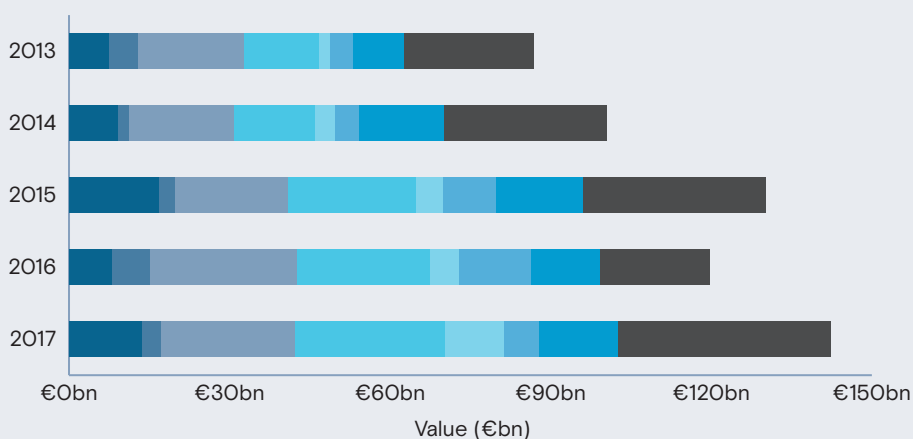
- Dealflow rose in all regions in 2017 compared with the year before.
- UK & Ireland topped the chart with 215 deals, up from 170. France was second with 199, up from 167.
- The UK and France combined accounted for 45% of European dealflow.
- The biggest year-on-year climb was CEE, where 49 buyouts were recorded compared with the previous year's 36. It was still the smallest region, accounting for 5.3% of dealflow, just behind Iberia at 5.4%.
- The Nordic region had the lowest increase at 8.4% with 116 deals.



	2013	2014	2015	2016	2017
Benelux	58	69	74	73	88
CEE	37	34	40	36	49
DACH	87	86	83	118	137
France	109	114	133	167	199
Iberia	16	33	42	43	50
Italy	30	44	57	57	65
Nordic	76	108	89	107	116
UK/Ireland	172	198	169	170	215

## Buyout value by region

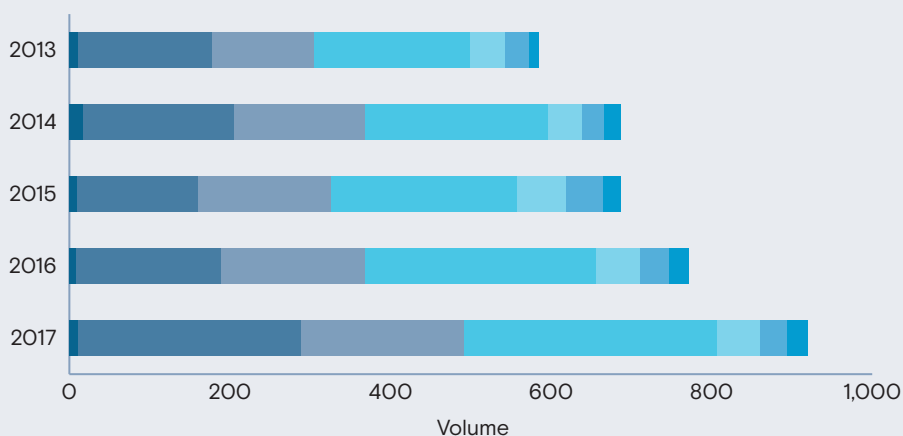
- UK & Ireland topped the pile with €39.8bn of deals completed, up 91% on 2016.
- The biggest increase was in Iberia; value rose 102% to €11.1bn.
- Unlike volume, value declined in DACH, CEE and Italy.
- The biggest fall was in Italy, where value dropped 51.9% due to absence of €1bn+ deals.
- In France, value has climbed for four consecutive years.



	2013	2014	2015	2016	2017
Benelux	7.4	9.1	16.8	7.9	13.5
CEE	5.5	2.0	3.0	7.2	3.6
DACH	19.8	19.8	21.1	27.5	25.1
France	13.9	15.0	23.8	24.7	27.9
Iberia	2.1	3.7	5.2	5.5	11.1
Italy	4.4	4.5	9.8	13.5	6.5
Nordic	9.4	15.9	16.3	12.8	14.8
UK/Ireland	24.4	30.5	34.1	20.7	39.8

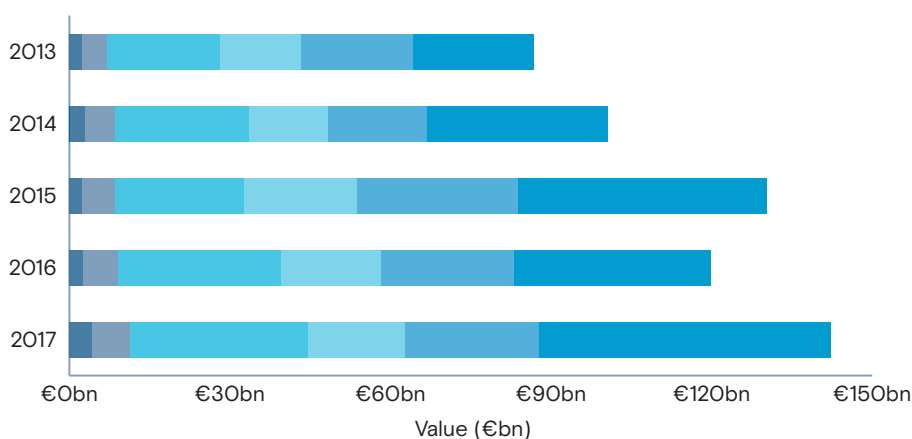
## Dealflow by size range

- Deal volume in the €5–25m enterprise value range jumped 55% to 279.
- It climbed 12.2% in the €25–50m range and 25% in the <€5m range.
- The biggest segment was €50–250m, which increased 10% to 316 transactions.
- There were 25 €1bn+ deals, up from 24 and the most since 2006.



## Buyout value by size range

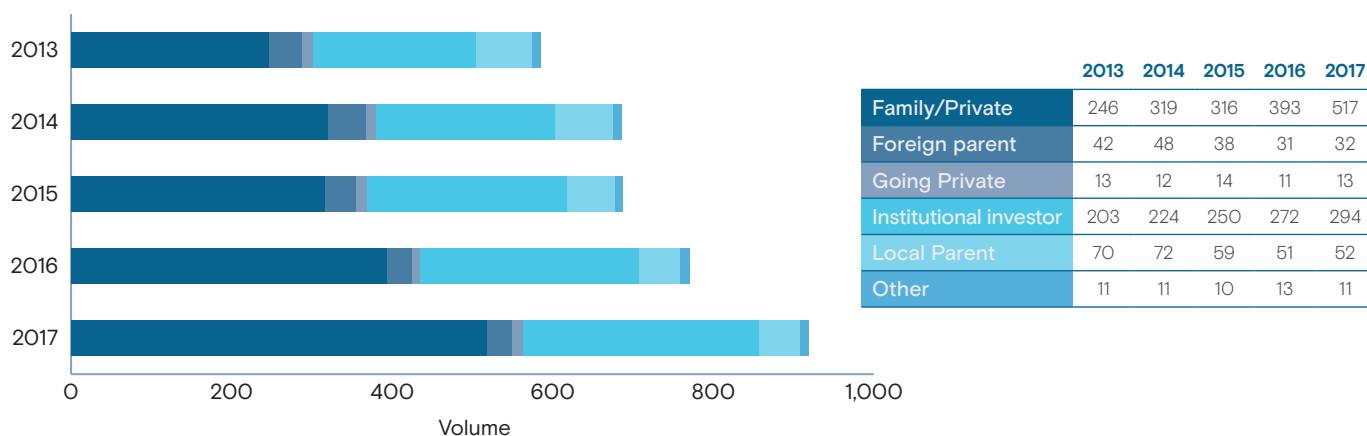
- Total value in the €5–25m range increased 60% to €4.2bn.
- The biggest contribution to overall deal value were the €1bn+ deals, which were up 48% to €54.6bn.
- €1bn+ deals accounted for 38% of total deal value, up from 31% in 2016.
- The only decline was in the €250–500m range, which edged down 2.8% to €18.2bn.





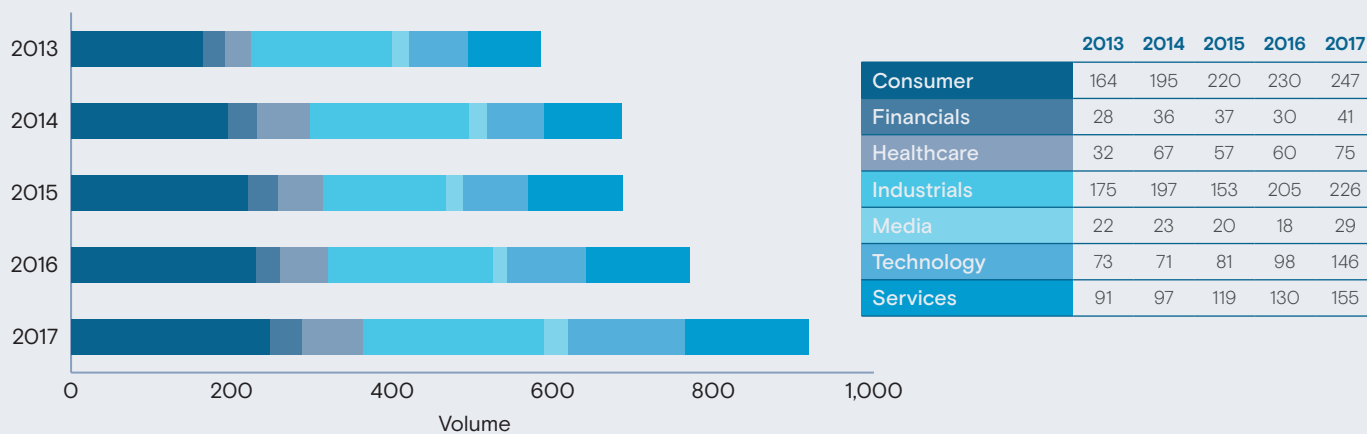
## Dealflow by vendor type

- There was a significant boost in buyouts from family and private vendors in 2017, with transactions rising 32% to 517.
- Secondary buyouts rose by 8.1% to 294, climbing for the fourth consecutive year.
- Outside the two main sources, dealflow was stable: carve-outs from foreign parents and local parents both went up by one, to 32 and 52, respectively, while there were two more take-privates.



## Dealflow by sector

- Higher deal volume was seen across all sectors.
- The biggest sector was consumer, with 247 transactions.
- Media investments rose by the most, by 61% to 29, while technology deals jumped 49% to 146.
- Business services and consumer investments have each posted four consecutive years of growth.







# Benelux



**Oscar Geen**  
Senior reporter

## Strong mid-market and fundraising boost Benelux

As dealflow picks up momentum, competition and successful fundraising is putting more pressure on GPs to specialise and branch out internationally. Oscar Geen reports

**D**utch politics has had a strained relationship with private equity at times, which is why there was some concern from the industry

in March when the PVV (Party for Freedom) were leading the polls heading into the election.

There were worries a majority for the PVV would mean an endorsement of “Nexit” and a closing of the region to international influence and investment. This is why PE market participants reacted with great relief when Mark Rutte’s liberal VVD party (People’s Party for Freedom and Democracy) came first with 33 seats and won the possibility to form a majority government without any participation from the PVV.

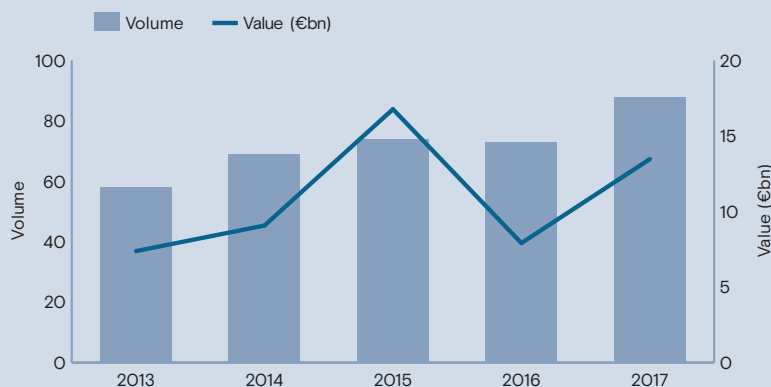
“The Netherlands voted against a Nexit by a landslide,” Nederlandse Vereniging van Participatiemaatschappijen (NVP) deputy director Marc van Voorst tot Voorst told *Unquote* at the time, adding: “They voted for continuity, stability, the EU, and an open and welcoming attitude to the world and the future.”

Had the result been different and the Netherlands ended up leaving the EU, it could have created many difficulties for private equity firms, among them the issue of fund domiciling, which has been an ongoing debate since the UK’s Brexit referendum.

### Buyout growth back on track

The Benelux market experienced solid growth in 2017, recording its highest dealflow and second highest aggregate deal value since 2007. This was mainly driven by an extremely active lower-mid-market, and

### Private-equity-backed buyouts



	2013	2014	2015	2016	2017
Volume	58	69	74	73	88
Value (€bn)	7.38	9.07	16.77	7.91	13.47
Average value (€m)	127	131	227	108	153
% of European volume	9.9%	10.1%	10.8%	9.5%	9.6%
% of European value	8.5%	9.0%	12.9%	6.6%	9.5%

Source: Unquote Data



**“If a client has the freedom to domicile their fund anywhere, one of the first things we’ll ask is ‘Where will your staff be located?’”**

*Winston Penhall, Reed Smith*

a small but relatively healthy portion of large-cap deals.

Luxembourg even managed to record two deals, which was two more than last year. As usual, the Netherlands led in terms of volume and value. However, Belgium also contributed to the spike, recording more deals than in 2016 and its highest aggregate value since the financial crisis.

GPs from Belgium and the Netherlands made fundraising records, holding final closes on nine vehicles for just less than €5bn. Considering its small size, the region is host to an extremely sophisticated and differentiated fundraising market, where sector and strategy specialisation have been important topics. This has partly been driven by high levels of competition and rich multiples, but has led to some very successful strategies in the healthcare, industrials and turnaround spaces.

This success has led to the internationalisation of fund strategies, with GPs using their larger pools of capital to spread out of their base countries and expand across Europe, while at the same time encouraging bigger funds to pay more attention to the region. At least three large pan-European players have ramped up their Benelux presence in 2017.

### **Luxembourg lies in wait**

As well as seeing more deals this year, Luxembourg stands to gain as a fund domicile as Britain leaves the EU. It has always been one of the most attractive domiciles for funds for a variety of reasons. Winston Penhall, a fund formation lawyer at Reed Smith, explains: “Aside from the

UK, the major EU fund formation jurisdictions have traditionally been Luxembourg and Ireland for tax, regulatory and service-provider-availability reasons. Fund and manager formations in these jurisdictions are not a novelty; however, Luxembourg is expected to be one of the front runners for managers wishing to establish or relocate AIFM businesses for EU passporting purposes.”

But this is not the only issue on managers minds when they decide where to register. Penhall says in many cases there are more practical concerns: “If a client has the freedom to domicile their fund anywhere, one of the first things we’ll ask is ‘Where will your staff be located?’ because, tax and regulatory considerations being equal, proximity is easier operationally.”

Despite this, Luxembourg has been cautiously positioning itself as the number one alternative in the event of a hard Brexit. Nevertheless, Penhall stresses that the company must be careful not to overplay its hand: “Different jurisdictions have different pressure points. It would not be in Luxembourg’s interest as a financial services centre to take a harsh stance on delegation under AIFMD given that most private equity funds will continue to be managed or advised by UK firms, which in many cases will be considering forming regulated AIFMs or using platform providers in Luxembourg.”

### **Dutch affair**

Despite the fact many vehicles are domiciled in Luxembourg, none of the nine which held a final close in 2017 were





managed from the Grand Duchy. In fact, eight were Dutch, although the second largest, Core Equity I, a €1bn buyout vehicle managed by a team of four ex-Bain Capital senior members, will operate from Brussels. Armando D'Amico of placement agent Acanthus sums up the market: "The Benelux mid-market is small and there are not many players, but there are some very good ones, for example Bencis, Gilde and Egeria to name just a few."

Egeria managed to raise €800m for its fifth buyout fund in just six weeks to hold a final close in December. It aims to back Dutch companies or companies with a link to the Netherlands and support their international expansion. It is an example of a successful and differentiated strategy that is sector agnostic, and which puts it in the minority of funds raised since 2016.

Sector specialisation has been an important theme for Benelux, as more than 75% of all PE and VC vehicles holding closes since the start of 2016 have been raised to target specific industries. Gilde is an example of this as it separates its funds on this basis. Hugo de Bruin of Gilde Healthcare says this has helped them with fundraising in recent years: "We definitely have seen increased LP interest in our activities because of sector specialisation. It is very difficult to win deals at reasonable prices if you don't have a specialisation of some kind."

## Finding the deals

Despite competition intensifying, GPs are managing to close plenty of deals. "Overall volumes are soaring and processes are getting more competitive, which leads to prices going higher. Great assets go for stellar multiples and, because the economy is doing well, even average assets tend to get decent returns," says de Bruin.

Most of the activity has been in the lower-mid-market, as 73 of the 88 total buyouts had an enterprise value between €5-250m. De Bruin says this is where the pricing is highest as well: "Especially above €100m EV, we are seeing many PE funds that have a lot of capital to deploy and are bidding against each other to drive up prices. Leverage on assets is also easier to get in this bracket because below €100m EV it's normally local banks doing the financing, which will tend towards a conservative structure."

Leverage has been creeping up, partly due to the large amount of capital that debt funds have to employ. The unitranche structure allowed debt funds to expand their market share significantly in the DACH region in 2017 and de Bruin says these structures are also prevalent in Benelux: "You see a lot more unitranche in both Benelux and DACH. Whenever you have a new instrument in the debt market, it tends to drive up prices and valuations as well."



**“It is very difficult to win deals at reasonable prices if you don’t have a specialisation of some kind”**

*Hugo de Bruin, Gilde Healthcare*

This kind of environment makes having an angle in an auction even more important; de Bruin highlights deals where Gilde’s industry knowledge helped the firm avoid bigger auction processes: “Having a specialisation allows us to do a lot more proprietary deals. The merger of Mercachem and Syncom, and the buyout of Performance were both examples of this. Having the industry expertise allows you to do a lot of sector mappings and keep a broad network to source 1-1 or 1-2 situations.”

### Internationalisation

Scaling up this kind of approach is a big challenge, but one that needs to be dealt with when GPs that have previously focused purely on one country or region raise significantly larger funds. Waterland is an example of a fund that has already been through this process and now covers the whole of northern Europe; the GP closed its seventh fund on €2bn in August. The GP first branched out into Germany.

“When I joined in 2006, [Waterland] was essentially a two-country operation. Now we cover all of north-western Europe and Poland,” managing partner Jörg Dreisow told *Unquote* for a profile piece on the firm.



**“International expansion is [the aim] for all our Dutch companies. Due to the physical & cultural proximity, this often includes Germany”**

*Vincent Braams, Vendis Capital*

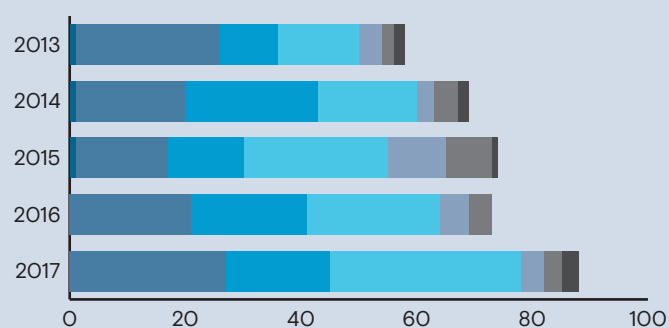
De Bruin says this is the natural route for Dutch GPs. “The Netherlands has historically been a private equity friendly and attractive market. Specialised Dutch funds tend to branch out internationally. Germany is then a likely location for a second office,” he says, adding: “Benelux is one name, but Germany is also very close in terms of culture. Belgium is a smaller market than the Netherlands and its divided by language. Germany is the largest healthcare market in the EU. Next to our presence in the Benelux, we therefore increased our presence in Germany by opening up a local office.”

Vendis is an exception to this as a Belgian-based GP expanding in the other direction, but Vincent Braams explains it is the firm’s diverse make-up that allows this. “The team at Vendis is multinational. We are headquartered in Belgium but also have a Dutch team and do a lot of Dutch investments,” he says, adding that it is the Dutch contingent that drives the international expansion to the east and north: “International expansion is in the strategy of all our Dutch portfolio companies. Due to the physical and cultural proximity, this often includes Germany.”

It is undeniable that the Benelux region is culturally and linguistically diverse. Argos Soditic co-founder Gilles Mougnot explained to *Unquote* at the start of January that the GP had recently stepped up its presence in the region and emphasised the importance of a multilingual approach: “We feel that the mix of French and Dutch native speakers that we have today is a strong asset to our investment team in Belgium. After our successful penetration of the Belgian market, we managed to close our first deal in the Netherlands in December 2017.”

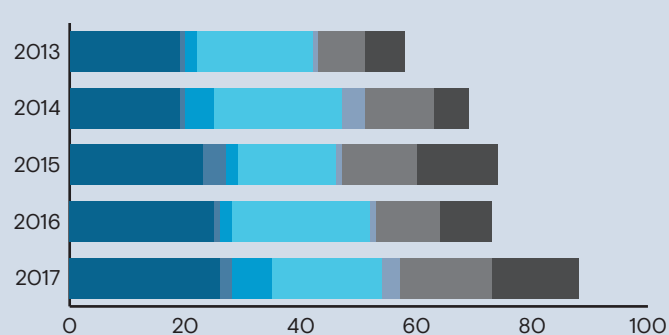
IK Investment Partners also entered the region by opening an Amsterdam office in 2017. French GP Apax Partners has followed this lead in early 2018, hiring Onno Sloterdijk from KPMG to head up its own new facility in the Dutch capital. It remains to be seen whether an increased presence from the larger funds will lead to more activity at the mid-to-high end of the market. ■

### Benelux buyouts by size range (volume)



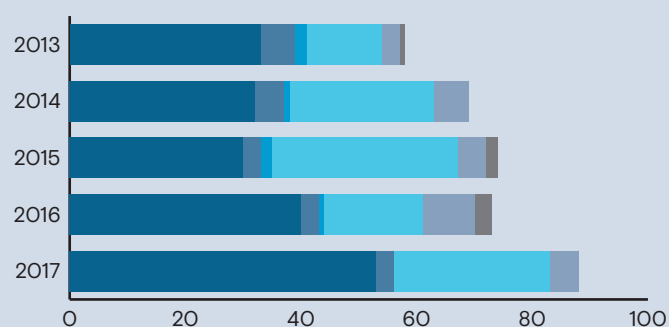
	2013	2014	2015	2016	2017
<€5m	1	1	1	0	0
€5-25m	25	19	16	21	27
€25-50m	10	23	13	20	18
€50-250m	14	17	25	23	33
€250-500m	4	3	10	5	4
€500-1bn	2	4	8	4	3
≥€1bn	2	2	1	0	3

### Benelux buyouts by super-sector (volume)



	2013	2014	2015	2016	2017
Consumer	19	19	23	25	26
Financials	1	1	4	1	2
Healthcare	2	5	2	2	7
Industrials	20	22	17	24	19
Media	1	4	1	1	3
Support services	8	12	13	11	16
Technology	7	6	14	9	15

### Benelux buyouts by vendor type (volume)



	2013	2014	2015	2016	2017
Family/Private	33	32	30	40	53
Foreign parent	6	5	3	3	3
Going private	2	1	2	1	0
Institutional investor	13	25	32	17	27
Local parent	3	6	5	9	5
Other	1	0	2	3	0

Source: Unquote Data



## Benelux exits 2017

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
Refresco	Other	3,300	3i Group
Bureau van Dijk Electronic Publishing	Trade sale	3,000	Sixth AP Fund, EQT Partners
TMF	Secondary buyout	1,750	DH Private Equity Partners
ADB Solutions	Secondary buyout	900 (est)	PAI Partners
Corialis	Secondary buyout	n/d	Advent International
Balta Industries	Flotation	476	Lone Star Funds
HG International	Secondary buyout	240 (est)	Gilde Investment Management
Getronics	Trade sale	220	Aurelius Equity Opportunities
Præsidiad, Betafence	Secondary buyout	n/d	CVC Capital Partners
Hans Anders	Secondary buyout	200	AlpInvest Partners, Alpha Associates Conseil

**88 buyouts**

*Volume up 21%  
year-on-year*

**Mid-market boost**

*Deals in €5-250m  
range up 22%*

**9 buyout funds**

*Volume of funds  
reaching final close*

## Benelux funds 2017

Fund name	Fund manager	Fund Target (€m)	Amount closed (€m)
Waterland Private Equity Fund VII	Waterland Private Equity Investments	2,000	2,000
Core Equity I	Core Equity Holdings	750	1,000
Avedon Growth Capital III	Avedon Capital Partners	250	300
LSP Health Economics Fund 2	Life Sciences Partners	150	280
Main Capital V	Main Capital Partners	200	237
Torqx Capital Partners Fund I	Torqx Capital Partners	150	150
Mentha Capital V	Mentha Capital	143	143
Active Capital Company Fund 3	Active Capital Company	45	45

## Benelux deals 2017

Deal name	Business description	Deal value (€m)	Sector
Q-Park	Provider of car parking services	2,950	Consumer
TMF	Provides outsourcing solutions for a wide range of company administration functions	1,750	Business services
Corialis	Producer of aluminium systems for manufacturers of windows and doors	1,000 (est)	Industrials
ADB Solutions	Manufacturer of airfield ground-lighting products	900 (est)	Industrials
Præsidia	Manufacturer of fencing and fencing systems for the residential and agricultural markets	720 (est)	Industrials
Afriflora	Grower and distributor of roses	n/d (500-1,000)	Consumer
Serb	Producer of speciality pharmaceutical products, focusing on niche branded medical prescriptions	260 (est)	Healthcare
Curaeos	Provider of dental care services	n/d (250-500)	Healthcare
Hans Anders	Retailer of optics, including frames, lenses and sunglasses	n/d (250-500)	Consumer
Ipcom	Distributor and manufacturer of thermal, passive fire protection and acoustic insulation	n/d (250-500)	Business services
HG International	Producer of speciality cleaning and maintenance products	240 (est)	Consumer
Eteck Energie Bedrijven	Supplier of sustainable thermal energy	115 (est)	Industrials
Optimum Group	Provider of web and digital printing services	100 (est)	Business services
Desotec	Provider of water- and air-purification systems based on activated carbon	n/d (50-250)	Industrials
Keesing International Publishers	Publisher of a range of corporate and consumer magazines	n/d (50-250)	Media
Unica	Provider of process optimisation and environmental impact reduction services	n/d (50-250)	Business services
Voogd & Voogd	Provider of insurance broking services for the automotive sector	n/d (50-250)	Financials
Duomed	Provider of sales and marketing advice for medical equipment groups	n/d (50-250)	Business services
Riedel/Beyond Brands	Producer of fruit juices	n/d (50-250)	Consumer
Gemaco	Provider of marketing services, including brand promotions, fulfilment programmes and promotional merchandising	n/d (50-250)	Media



CEE







**Chris Papadopoulos**  
Assistant research  
analyst

## Mid-market fuels robust CEE performance

A glut of local firms looking for external finance has raised dealflow and kept pricing from escalating out of control. Chris Papadopoulos reports

The economies of central and eastern Europe have been growing robustly in recent years, and 2017 was no different.

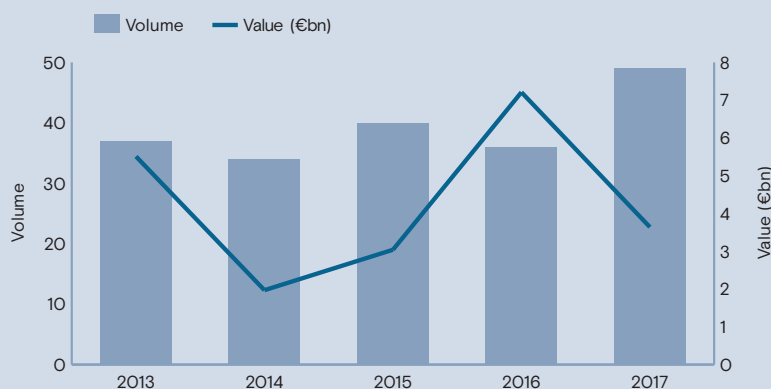
According to its latest forecasts, the European Commission (EC) expects Poland – the region's buyout stalwart – to have seen its GDP grow by 4.2% in 2017, an uptick compared with 2.9% in 2016. Growth will be supported by low unemployment and record high consumer confidence, it said, which will support consumer spending. More moderate growth of 3.8% is forecast for this year.

Romania's economy accelerated in 2017 with the EC estimating an expansion of 5.7%, while unemployment has fallen to its lowest for 20 years. The Czech Republic has the lowest unemployment rate in the EU, while Hungary is estimated by the EC to have expanded 3.7% in 2017. Central bank interest rates in the region remain near zero.

Meanwhile, Russia has put its recent recession behind it after the rouble and oil prices strengthened slightly and stabilised. The IMF estimates its economy grew 1.8% in 2017 and is expecting 1.7% this year.

At the same time, political developments have created some east-west tension in Europe. Judicial reforms passed in Poland by the governing Law and Justice Party led to formal warnings from the EU and could lead to sanctions, such as less EU funding, but these will require unanimous backing from other member states.

### Private-equity-backed buyouts



	2013	2014	2015	2016	2017
Volume	37	34	40	36	49
Value (€bn)	5.51	1.97	3.04	7.21	3.64
Average value (€m)	149	58	76	200	74
% of European volume	6.3%	5.0%	5.8%	4.7%	5.3%
% of European value	6.4%	2.0%	2.3%	6.0%	2.6%

Source: Unquote Data



**“The supply and quality of firms in the mid-market has increased quite markedly, but fundraising has remained constant”**

*George Swirski, Abris*

Additionally, Poland, Hungary and the Czech Republic are being sued by the EC for refusing to take refugees from Italy and Greece.

In the Czech Republic billionaire Andrej Babis was appointed prime minister in December. The country’s president has asked him to make a second attempt at forming a government after his first process was interrupted by accusations of fraud involving EU subsidies.

Elsewhere in 2018, Hungarian prime minister Viktor Orban faces parliamentary elections in April or May, while Russia has presidential elections in March this year.

### **Buoyant dealflow**

A busy year in the mid-market provided a significant boost to dealflow over the course of 2017. There were 49 buyout transactions, up from 36 the year before, and the most since the financial crisis. Dealflow was especially strong in the €5-250m enterprise value range – a segment dominated by GPs with local offices – with 44 investments posted. This compares with 28 the year before.

While the mid-market gained momentum, mega-deals were lacking. The secondary buyout of Polish supermarket group Zabka Polska, which saw it change hands from Mid Europa to CVC, was the only €500m+ deal of the year. In comparison, there were four such deals in 2016. This fall at the high-end of the market resulted in a halving of aggregate buyout value to €3.6bn from €7.2bn.

While overall deal value slumped, this masked some strong flows of capital into the core and lower end of the mid-market. In the €5-25m bracket, deal value doubled to €246m, while it

rose 55% to €436m in the €25-50m range.

Poland tends to dominate the region in terms of dealflow, and did so again this year with 20 transactions. But the Czech Republic also had a good year with eight buyouts. For both countries it was the most deals in a calendar year on *Unquote’s* records.

### **Supply glut weighs on pricing**

A stark contrast has emerged between the high end of the market and the mid-market. The top of the market is dominated by international and pan-European players. First attracted to the region by advantageous entry multiples, pricing is now more or less the same as for western European targets.

“In the mid-market space, the situation is somewhat reversed. It is dominated by local firms and largely proprietary driven,” says George Swirski, managing partner at local mid-market GP Abris. “The supply and quality of firms in the mid-market has increased quite markedly, but fundraising has remained constant, if not slightly lower. So the pricing dynamics of the mid-market are different to the top of the market.”

Several factors are ensuring a decent flow of mid-market firms looking for external financing. Many were founded in the mid-to-late 90s and the entrepreneurs that set them up are currently facing a succession problem, with their children preferring the pursuit of other careers, and are looking to cash out, at least partially.

Secondly, pension fund reforms in 2014 – which reduced the ability of local pension funds to invest in the stock market – have limited the options for many mid-market firms looking for capital.

“The Warsaw stock exchange was, indirectly, a big competitor in the mid-market. It allowed business owners to raise liquidity via small IPOs while keeping control,” says Andrzej Bartos, a senior



partner at Innova Capital – a GP investing in the medium-sized enterprise segment in CEE. “2016–2017 were the first two years where there were more de-listings than listings. We expect these trends to continue, so we’re quite upbeat on the coming years.”

A third reason for increased mid-market dealflow has been a new wave of founder successions and VCs, which, with some state-backing, have brought through smaller firms.

A fourth reason stated by GPs is the desire from firms to export into Europe or set up operations there, especially on the back of the European economy’s recent growth spurt.

These factors have helped create a glut of mid-market firms looking for investment from private equity. This was evident in the deal-sourcing data, with family and privately sourced investments jumping to 36, which is equal to the previous two years’ figures combined.

Fewer secondary buyouts were posted, but this tends to be a

“The Warsaw stock exchange was a big competitor... It allowed business owners to raise liquidity via small IPOs while keeping control”

*Andrzej Bartos, Innova Capital*



low and volatile figure in the CEE Region. SBOs are a smaller proportion of the market, but GPs expect them to account for a bigger share going forward as more GPs set up shop and target various areas of the market.

### Sector selector

Rapid economic development has had a major impact on the types of sectors GPs are targeting. Both the consumer and industrials sectors had a strong 2017, posting increases on the previous year’s figure. There were 19 consumer sector deals and 12 in industrials.

Industry continues to grow quickly in the CEE region, with outlook for exports growing as Europe’s growth improves. Rather than relying purely on established firms shifting manufacturing to the region to take advantage of cheaper labour, economic development has led to more homegrown manufacturers, which have become as operationally sophisticated as western European peers.

Innova’s Bartos says: “After Poland joined the EU, most of the exports were driven by shifting volumes. Now we’re focusing on a new wave of companies that have a product and a brand, and both





are recognisable internationally, and are a good platform for branded exports. That's a trend driving the top lines." Innova purchased a 37% stake in Profim, a manufacturer of office seating founded in 1991, with the view of boosting its presence in a number of European markets.

Exports aside, economic growth also presents plenty of opportunities for growth in CEE, with consolidation playing a key role in the development of domestically focused firms. This has been true of many consumer sector investments in the region.

Consumer companies attracted the most capital for any sector for the last three years; total enterprise value was €2bn in 2017.



**"It was a great time to gather funds by Polish private equity houses in 2017, and to incorporate new private equity houses"**

*Michal Karwacki, Squire Patton Boggs*

### Finding the exit

The exit environment improved in 2017 on the back of especially buoyant public markets and robust demand from corporate buyers.

There were 16 trade sales, down on the previous year but not significantly so, while there were five IPOs, the most since 2013.

Says Abris's Swirski: "There is a lot of global liquidity out there at the moment. Perhaps companies are looking to buy now because who knows what the borrowing environment might be like in 12-18 months' time if interest rates start to rise."

Despite local pension funds investing less in the stock market, exiting via a flotation became a more tempting prospect in 2017, especially for large portfolio companies able to attract international buyers. Price indices on public markets outperformed other European regions,

with Poland's WIG20 index rising 18% last year, while the WIG – a broader index – rose 17% and is hovering at record highs.

CEE-focused GP Enterprise Investors took advantage of this, divesting its 49% stake in supermarket chain Dino Polska in an IPO that it said was "substantially oversubscribed".

There was a steep drop in secondary buyouts to four from 13. The failure of secondary buyouts to gain traction shows the market still has some way to go, with plenty of room for more GPs.

The market is currently under-competed. One reason is the difficulty in raising capital locally. "Historically, the regulators have not been keen on local institutions investing in closed-ended funds, which stops local pools of cash going toward private equity," says Swirski. Instead, a new GP must seek capital from Europe and the US, which is difficult for an investor without a track record. There are signs that regulators may be starting to change their approach to investments in closed-ended funds, and have loosened rules to allow more investment, particularly in the VC space.

### Fundraising

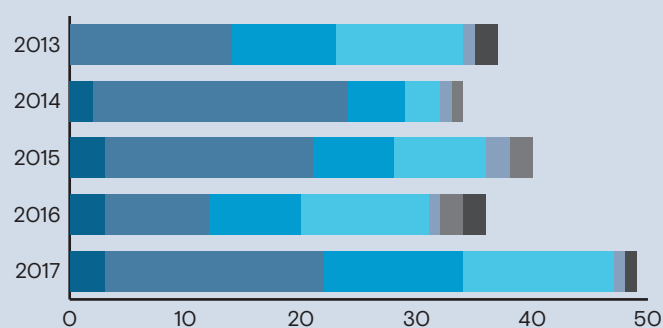
Some sizable funds were closed throughout the year. Abris Capital closed a €500m vehicle, while Enterprise Investors closed its latest fund on €498m.

Four buyout and generalist funds held final closes with combined commitments reaching €1.3bn. This made it the strongest fundraising year in the region since 2014.

"For fundraising, it's never been as good as this," Michal Karwacki, a partner at Squire Patton Boggs, told *Unquote* in December. "It was a great time to gather funds by Polish private equity houses in 2017, and to incorporate new private equity houses. Let's hope that trend continues into 2018."

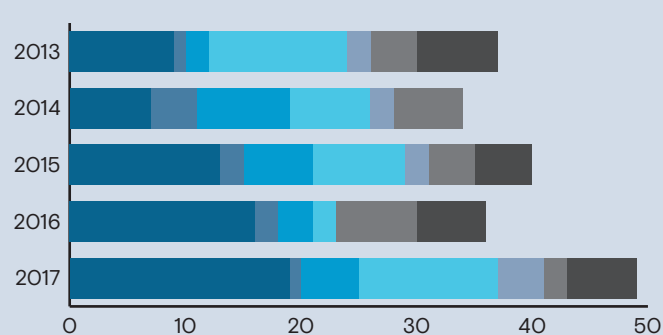
GPs believe there is more to come from international investors, with LP sentiment lagging general CEE market conditions. A recent flurry of successful exits and high returns are expected to lift LP appetite in the region over the coming year or two. ■

### CEE buyouts by size range (volume)



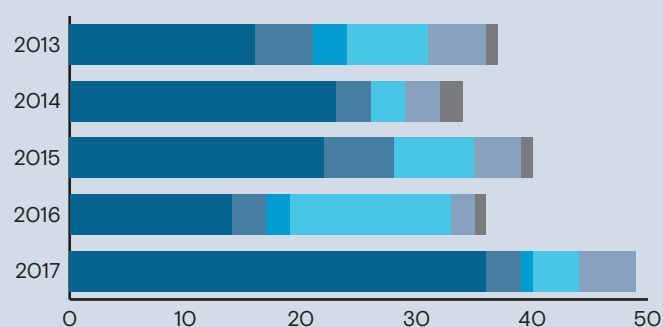
	2013	2014	2015	2016	2017
<€5m	0	2	3	3	3
€5-25m	14	22	18	9	19
€25-50m	9	5	7	8	12
€50-250m	11	3	8	11	13
€250-500m	1	1	2	1	1
€500-1bn	0	1	2	2	0
≥€1bn	2	0	0	2	1

### CEE buyouts by super-sector (volume)



	2013	2014	2015	2016	2017
Consumer	9	7	13	16	19
Financials	1	4	2	2	1
Healthcare	2	8	6	3	5
Industrials	12	7	8	2	12
Media	2	2	2	0	4
Support services	4	6	4	7	2
Technology	7	0	5	6	6

### CEE buyouts by vendor type (volume)



	2013	2014	2015	2016	2017
Family/Private	16	23	22	14	36
Foreign parent	5	3	6	3	3
Going private	3	0	0	2	1
Institutional investor	7	3	7	14	4
Local parent	5	3	4	2	5
Other	1	2	1	1	0

Source: Unquote Data

## CEE exits 2017

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
Mavi Jeans	Flotation	556	Turkven Private Equity
Waberer	Flotation	300	Mid Europa Partners
Invitel Holdings	Secondary buyout	202	ATP Private Equity Partners, Mid Europa Partners
Mykogen Polska	Trade sale	93	Abris Capital Partners
GetBack	Flotation	88	n/d
Inea	Other	n/d	Warburg Pincus
Netas	Trade sale	n/d	Rhea Venture Capital Investment Trust, One Equity Partners
Novaturas	Trade sale	n/d	Enterprise Investors
Macon	Trade sale	n/d	Enterprise Investors
Delic-Pol	Trade sale	58	Resource Partners, Ardian

### 49 buyouts

*Volume up by a  
quarter on 2016*

### Mid-market spike

*Deals in €5-250m  
range up 57%*

### 19 consumer deals

*Sector records  
decade-long high*

## CEE funds 2017

Fund name	Fund manager	Fund Target (€m)	Amount closed (€m)
Abris CEE Mid Market Fund III	Abris Capital Partners	500	500
Arx CEE IV	Arx Equity Partners	100	95
Polish Enterprise VIII	Enterprise Investors	450	498
Taxim Capital Partners I	Taxim Capital	200	200

## CEE deals 2017

Deal name	Business description	Deal value (€m)	Sector
Zabka Polska	Operator of grocery stores under the Zabka and Freshmarket brands	n/d (>1,000)	Consumer
Renaissance insurance/ Blagosostoyanie	Provider of insurance products and services	395	Financials
Invitel Holdings	Provider of fixed-line telecommunications and broadband internet services	202	Technology
Integer.pl	Producer and seller of parcel lockers, and parcel holding services	n/d (50-250)	Industrials
Hortex	Provider of branded fruit juices and frozen foods	n/d (50-250)	Consumer
Gratis	Operator of a drug store chain	n/d (50-250)	Consumer
Metropolitan Hospital Group	Operator of a chain of private hospitals	n/d (50-250)	Health Care
MNG Cargo	Provider of delivery services	n/d (50-250)	Industrials
KFC Turkey	Operator of fast food restaurants	n/d (50-250)	Consumer
Profim	Manufacture of office furniture	n/d (50-250)	Consumer
Rutaxi/Fasten	Operator of an online taxi aggregator platform	n/d (50-250)	Technology
Avia Prime	Provider of base and line MRO services	n/d (50-250)	Industrials
Fotona	Manufacturer of high-performance lasers for medical applications	n/d (50-250)	Health Care
Milarex	Processor of salmon	n/d (50-250)	Consumer
CBA Slovakia	Operator of convenience stores and supermarkets	n/d (50-250)	Consumer
IASO General	Operator of a hospital	48	Health Care
Sziget	Organiser of festivals and sports events	n/d (25-50)	Media
Jantorí	Producer of wines, ciders and other fruit-based alcoholic beverages	n/d (25-50)	Consumer
HP Tronic/Datart	Retailer of consumer electronics	n/d (25-50)	Consumer
Euromedia	Wholesaler and publisher of books	n/d (25-50)	Media





# DACH



**Oscar Geen**  
Senior reporter

## German family firms fuel mid-market growth

A new wave of first-generation family businesses is providing targets for local mid-market GPs. Investors believe there are more to come. Oscar Geen reports

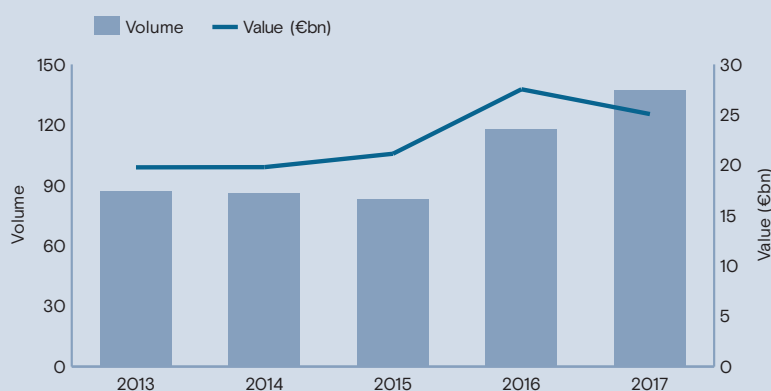
**D**ACH, and Germany in particular, mirrored a global theme in 2017: political uncertainty juxtaposed with robust economic strength.

At the time of writing, major media outlets were reporting that there had been some progress in the talks to form a German government. Should they be successful, the Christian Democratic Union (CDU) and the Social Democratic Party (SPD) will form another grand coalition government four months after the election result and four months after ruling out the possibility of another such configuration.

The private equity market in the German-speaking regions has paid little heed to the political stasis, electing instead to get to work deploying capital into more buyout transactions than in any previous year except for 2007. GPs have also unlocked more family businesses than ever before, which generated up to one third of transactions in the mid-market, according to research by Deutsche Beteiligungs AG (DBAG).

At the same time, GPs in the region have prepared for further growth by raising more funds with a higher aggregate value than in any other post-crisis year, holding final closes for nine vehicles on more than €6.2bn. Even discounting the leviathan that is Switzerland-headquartered Partners Group's global investment vehicle (Partners Group Direct Equity 2016, which hit €3bn in July), it would still be a record year.

### Private-equity-backed buyouts



	2013	2014	2015	2016	2017
Volume	87	86	83	118	137
Value (€bn)	19.78	19.80	21.13	27.53	25.07
Average value (€m)	227	230	255	233	183
% of European volume	14.9%	12.5%	12.1%	15.3%	14.9%
% of European value	22.8%	19.7%	16.2%	23.0%	17.6%

Source: Unquote Data





“In total volume there are not so many large-cap deals in the DACH region, so it’s a little bit random which calendar year they fall into”

*Tim Kaufhold, P+P Pöllath + Partners*

However, there were some causes for concern to market participants, especially those who worked through the crisis. Average entry multiples have continued to climb, which has naturally resulted in higher leverage. Good news in the short term if you’re a debt fund –

which have once again increased their market share – but perhaps contributing to a creeping increase in systemic risk.

### **Political stasis**

Ahead of the German election in September, all the market participants contacted by *Unquote* correctly predicted that the CDU would once again be the largest party. However, they all hoped for a coalition that included the more economically liberal Free Democratic Party (FDP). There was some hope that this might come to fruition when the results were announced, as the SPD stated it would not enter coalition with the CDU again.



However, Emanuel Strehle of law firm Hengeler Mueller was an early predictor of the current situation; he told *Unquote* on 25 September that: "It may take a long time to negotiate an agreement because the FDP and the Greens have quite opposing views in certain areas. The SPD's initial reaction to no longer be available for the government may not be the last word."

In general, the industry response at the time was fairly balanced. The shock of the far-right Alternative für Deutschland (AfD) gaining a larger vote share than expected was palpable. Hubertus Leonhardt of SHS Gesellschaft für Beteiligungsmanagement said: "In terms of who is representing Germany and taking the decisions, this result is fine. But it will take me personally a while to come to terms with the fact that so many people voted for the AfD. But on the other hand, 78% of people did not vote for AfD and the far-left Linke."

Hengeler Mueller's Strehle added: "For the country and for the industry, this is not such a bad result." And on this point it is hard to argue with him.

The buyout market actually accelerated in the second half of the year, seeing 81 deals worth €17.1bn closed (compared with 58 worth €7.8bn in the first half).

### Keeping it in the family

One in three management buyouts in the mid-market were succession agreements, according to research published by DBAG in January. This is consistent with *Unquote Data*, which shows that deals from family and private vendors increased more than any other deal source in 2017, from 59 transactions in 2016 (which was already a big increase from 40 in 2015 and 31 in 2014) to 77 in 2017.

DBAG's Torsten Grede is cautiously optimistic that more family owners are open to private equity investment, but thinks there are still some very old family-owned businesses that are off limits. "We have seen an increase in MBOs of family businesses, but we have to differentiate between companies that are 200 years old and those founded 30 years ago," he says. "The founder of

"The founder of a 30-year-old company has a different attitude to selling his business than the great-great-grand[child] of the founder"

*Torsten Grede, Deutsche Beteiligungs AG*



a 30-year-old company probably has a different attitude to selling his business than the great-great-granddaughter or grandson of the founder of a business which has been handed down through several generations."

Investcorp's Carsten Hagenbucher echoes this optimism, but thinks there is still potential to be unlocked: "Over the past few years from a volume perspective, Germany has been a bit disappointing, but we've seen a bit of an uptick, which I hope will continue. We are having more and more discussions with family-owned businesses."

Given this increase and the fact overall dealflow in the region increased 16%, it is somewhat unusual that the number of transactions generated by corporate spin-outs remained roughly the same.

Grede thinks this could be down to overall economic stability: "It was a surprise to us that the number of corporate spin-offs as a deal source decreased over the year. One explanation could be that in the big picture of a good macroeconomic environment there is less pressure on companies to divest assets."

### Fewer big deals

This goes part of the way to explaining why the number of deals in all the brackets over €250m (€250-500m, €500m-1bn and €1bn+) decreased, while the three brackets below that €5-25m, €25-50m and €50-250m all recorded more deals than in 2016.

Stada was the one clear exception to this rule. Bain Capital and Cinven jointly acquired the listed German pharmaceutical company for an enterprise value of €5.6bn after a protracted process, making it the largest



private equity deal in the country ever. The process was far from straightforward as the consortium fought off competition from Advent International and Permira to win the approval of the board, only to have its first offer rejected by Stada shareholders. Even the improved offer threatened to fall short of the acceptance rate with the deadline looming, forcing the bidders to offer a premium to hedge fund Elliott Management to support the bid.

The most dramatic decrease was in the largest deal bracket where, aside from Stada, only two other deals over €1bn closed in 2017. However, P+P Pöllath + Partners' Tim Kaufhold thinks there is an element of arbitrariness in these figures:



**"I expect debt funds will continue increasing their market share into 2018... PE funds will need the extra leverage"**

*Johannes Schmittat, GCA Altium*

"The activity is mostly in the mid-market. In total volume, there are not so many large-cap deals in the DACH region, so it's a little bit random which calendar year they fall into."

The other two large-cap deals were secondary buyouts: Nordic Capital's acquisition of mobile healthcare services Alloheim from Carlyle Group, and BC Partners' club deal for Cinven's ceramics producer Ceramtec. This highlights another trend, which is the increase in secondary buyouts as they surpass trade sales in the region as the most popular exit route for PE investments for the first time since 2006.

### **Piles of powder**

An increase in the market share of financial investors is being driven by a huge increase in resources in the form of record amounts of equity being raised and the ready availability of cheap debt from both banks and funds. Across

Europe, more than €70bn has been raised for buyout funds for two years running, and more than €8bn of this has been raised by funds based in the DACH region.

*Unquote* recently examined the trend of fund specialisation, which has been particularly prevalent in northern Europe. DBAG's Grede thinks this is a sign of a more developed market: "More specialisation is the indication of a maturing fundraising environment. The first stage of that was more demand for country specific funds, which we benefited from, and now we may see more demand for speciality funds."

Funding on the debt side is harder to measure, but P+P's Kaufhold sees its proliferation affecting the market on a day-to-day basis: "It's so easy to get acquisition financing. Debt funds are active, but more in the restructuring area, and it is very easy to get acquisition financing from banks."

However, debt funds have started to step up their presence across all types of transactions in the last year by partnering with traditional banks, Johannes Schmittat of GCA Altium explains the development: "Debt funds increased their market share to 32% in 2017 from just 16% in 2016. The main development that has allowed them to do this is widespread use of unitranche with first out, second out structure, where cheaper bank debt is used to lower the average margin."

The newcomers met some resistance at first but have won banks over to become a permanent market feature, Schmittat says: "At first, banks were resistant to working with debt funds to provide these structures. But they have now decided it's better to keep the relationship and be in the deal than not be in the deal. Berenberg was one of the first but now Commerzbank and others are doing it as well."

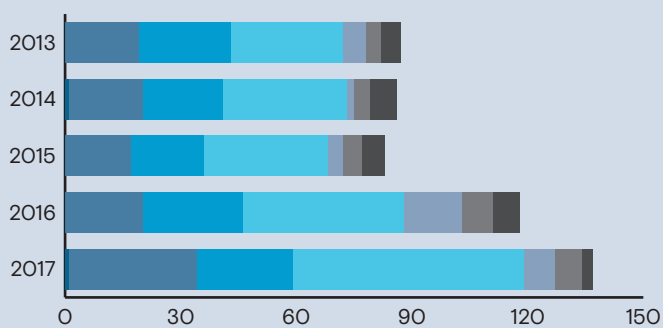
Schmittat predicts this to continue into the coming year and beyond. "I expect debt funds will continue increasing their market share into 2018," he says. "It's possible that there's a weak quarter where deals slip into the next one, but it's an interesting product they're offering and

PE funds will need the extra leverage to pay the high multiples that are now market standard.”

However, not everyone is convinced, and it is notable that the most active investors in the region generally use more conservative structures. DBAG's Grede says: “We are in constant dialogue with debt funds, but so far they don't have the market share. Additionally, our usage of debt funds is well below that of the overall market.”

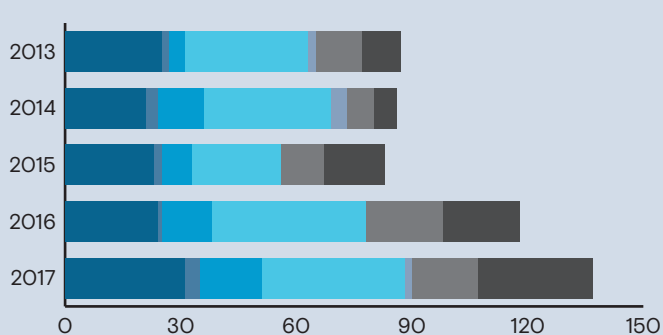
Discipline will be a key theme in a pricing environment that shows no signs of going down in the near future. DBAG has certainly shown that in the past six months, having made exits but no new investments from its mid-market funds in the second half of 2017. However, Grede does not think that discipline necessarily equates to a lack of activity, he says. “The fact that we did not complete a deal in the mid-market in the second half of 2017 is not a sign of an overall market development. It is also not an indication of a change in DBAG's strategy, as we are still the most active investor over the past two years.” ■

### DACH buyouts by size range (volume)



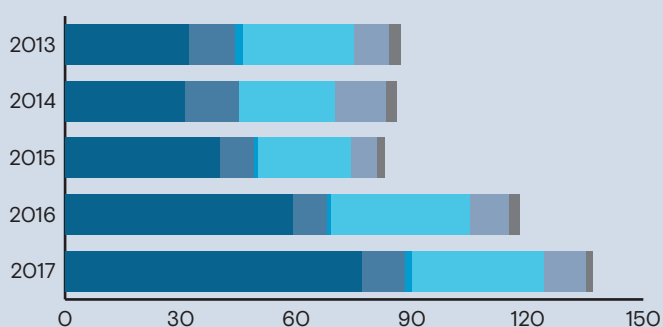
	2013	2014	2015	2016	2017
<€5m	0	1	0	0	1
€5-25m	19	19	17	20	33
€25-50m	24	21	19	26	25
€50-250m	29	32	32	42	60
€250-500m	6	2	4	15	8
€500-1bn	4	4	5	8	7
≥€1bn	5	7	6	7	3

### DACH buyouts by super-sector (volume)



	2013	2014	2015	2016	2017
Consumer	25	21	23	24	31
Financials	2	3	2	1	4
Healthcare	4	12	8	13	16
Industrials	32	33	23	40	37
Media	2	4	0	0	2
Support services	12	7	11	20	17
Technology	10	6	16	20	30

### DACH buyouts by vendor type (volume)



	2013	2014	2015	2016	2017
Family/Private	32	31	40	59	77
Foreign parent	12	14	9	9	11
Going private	2	0	1	1	2
Institutional investor	29	25	24	36	34
Local parent	9	13	7	10	11
Other	3	3	2	3	2

Source: Unquote Data

## DACH exits 2017

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
Ista International	Trade sale	4,500	CVC Capital Partners
Ceramtec	Secondary buyout	2,600	Cinven
Mausier	Trade sale	2,143	Clayton Dubilier & Rice
Alloheim Senioren-Residenzen	Secondary buyout	1,100 (est)	Carlyle Group
Schenck Process	Secondary buyout	850 (est)	IK Investment Partners
Symetis	Trade sale	408	Renaissance Capital, Wellington Partners, BioMedPartners
Qundis Group	Trade sale	400	n/d
Atesteo	Trade sale	307	3i Group
Douglas Holding	Recap / Refinancing	300	n/d
Evonik Industries (Carbon Black Division)	Other	n/d	Rhone Capital, Triton Partners
Jack Wolfskin	Recap / Refinancing	n/d	n/d

**€6.2bn raised**

*Aggregate total of  
final closes*

**137 buyouts**

*Highest volume  
for a decade*

**Tech up by 50%**

*Industrials remains  
biggest sector*

## DACH funds 2017

Fund name	Fund manager	Fund Target (€m)	Amount closed (€m)
Partners Group Direct Equity 2016	Partners Group	2,000	3,000
Asia-Germany Industrial Promotion Capital 1 (Agic Fund I)	Agic Capital	892	894
DPE Deutschland III	Deutsche Private Equity	575	575
Euroknights VII	Argos Soditic	550	520
Afinum Achte Beteiligungsgesellschaft	Afinum Management	400	410
European Special Situations Venture Partners IV	Orlando Management	320	320
Unigestion Direct Opportunities 2015	Unigestion Capital Partners	200	255
Pinova Capital Fund 2	Pinova Capital	150	180
Fidelium Special Situations Fund	Fidelium Partners	103	103



## DACH buyouts 2017

Deal name	Business description	Deal value (€m)	Sector
Stada Arzneimittel	Producer of off-patent active pharmaceutical ingredients for generic medicines	5,600	Healthcare
Ceramtec	Manufacturer of advanced ceramics for the medical, automotive, industrial and electronics markets	2,600	Industrials
Alloheim	Operator of care homes for the elderly and mobile healthcare service	1,100 (est)	Healthcare
Schenck Process	Supplier of high-tech applications in the fields of industrial weighing, feeding, screening and automation	850 (est)	Industrials
Breitling	Manufacturer of luxury watches	800 (est)	Consumer
Vitanas, Pflegen & Wohnen	Operator of nursing homes	500 (est)	Healthcare
WernerCo	Manufacturer and distributor of ladders, secure storage systems and light construction equipment	n/d (500-1,000)	Industrials
SGB Group	Supplier of network transformers, power transformers, oil-immersed distribution transformers and cast resin transformers	n/d (500-1,000)	Industrials
Concardis	Provider of cashless payment processes	n/d (500-1,000)	Financials
Bosch Mahle Turbo Systems	Developer and manufacturer of exhaust-gas turbochargers for gasoline and diesel engines	n/d (500-1,000)	Consumer
Formel D	Provider of quality assurance, retooling and post-processing services to the automobile industry	400 (est)	Business services
Plus Server	Operator of a web-hosting and cloud software company	397	Technology
Schülerhilfe	Provider of teaching and tutoring services	275 (est)	Consumer
Fertighaus Gruppe	Manufacturer of prefabricated houses	250 (est)	Consumer
SGL CFL/CE	Manufacturer and distributor of graphite products, including cathodes and furnace linings	250	Business services
Europart	Supplier of spare parts and accessories for commercial vehicles and buses	n/d (250-500)	Consumer
Schweighofer Fiber	Producer of pulp and bio-energy from renewable sources	n/d (250-500)	Industrials
proAlpha Software	Provider of enterprise resource planning for small and medium-sized companies	n/d (250-500)	Technology
Oase Wübker	Provider of products and systems for water gardens, fountain technology and lake management	215 (est)	Consumer
IKB Leasing Group	Provider of machinery and equipment leasing services	210 (est)	Business services
Epigenomics	Development of in-vitro diagnostic tests for cancer	171	Healthcare
Pumpenfabrik Wangen	Designer and manufacturer of screw pumps for highly viscous or abrasive substances	105 (est)	Business services
AVS Verkehrssicherung	Provider of traffic safety equipment and services	n/d (50-250)	Industrials

## DACH buyouts 2017

Deal name	Business description	Deal value (€m)	Sector
Infinigate	Provider of consulting services for the IT security industry, focusing on marketing, sales, training programmes and professional support	n/d (50-250)	Business services
Competence Call Center	Operator of call centres	n/d (50-250)	Business services
Proxes	Manufacturer of food processing machinery	n/d (50-250)	Industrials
Oberberg-Klinikgruppe	Provider of clinical services for psychological disorders	n/d (50-250)	Healthcare
Thermamax	Provider of high-temperature insulation systems for engines and exhausts	n/d (50-250)	Business services
Euro-Druckservice	Provider of sheet-fed and web-offset printing	n/d (50-250)	Business services
Emvia Living	Operator of nursing homes	n/d (50-250)	Healthcare
Lampenwelt	Producer and retailer of lighting systems	n/d (50-250)	Consumer
Career Partner Group	Provider of educational training and consulting services	n/d (50-250)	Consumer
Wer liefert Was?	Operator of online supplier search engine	n/d (50-250)	Technology
Radiologische Gemeinschaftspraxis Herne / Ranova Überörtliche Gemeinschaftspraxis	Provider of radiology services	n/d (50-250)	Healthcare
Heidelpay	Provider of online payment services	n/d (50-250)	Business services
SVT Group	Manufacturer of fire protection products and systems	n/d (50-250)	Industrials
Presswerk Krefeld Automotive	Producer of steel and aluminium components for the automotive industry	n/d (50-250)	Consumer
Felss Group	Manufacturer of metal processing machines and hollow components	n/d (50-250)	Consumer
AWK Group	Provider of IT consulting services	n/d (50-250)	Technology
Frostkrone Holding	Producer of frozen food products	n/d (50-250)	Consumer





FRANCE



# France



**Francesca Veronesi**  
Reporter

## French market consolidates investor confidence

Europe's second biggest private equity market fizzed with activity last year, with pricing and debt creeping upwards as investors closed a large number of mega-deals

**F**rance's economic activity accelerated in 2017. Driven by strong private investment growth, GDP grew by 1.9%, up from 1.1% in 2016, while

the unemployment rate fell to 9.7%, according to national statistics office Insee. French business and consumer confidence indicators finished the year at, or near, post-crisis highs. On top of a series of positive economic developments, Emmanuel Macron's election produced a spike in investor confidence following reforms targeting labour law and taxation, and the presidency's more general pro-business approach.

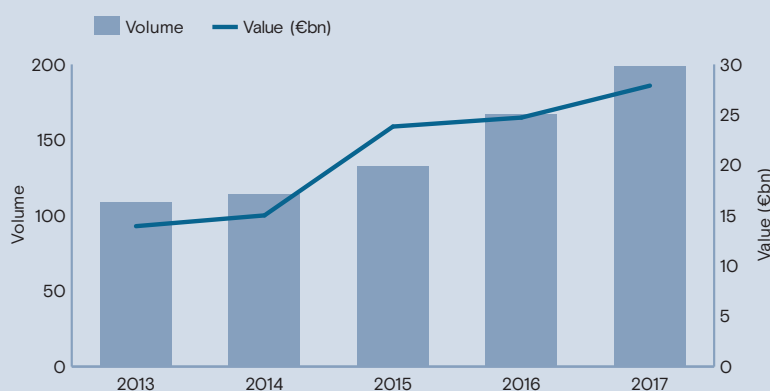
Coller Capital's latest Global Private Equity Barometer revealed that 43% of European LPs believe the French buyout market is becoming a more attractive proposition, versus just 5% that think otherwise. It had the highest balance of any European region.

"The French market is now seen as ground for business both in the short and long term," says Philippe Poletti, head of Ardian Buyout activity.

Frans Tieleman, head of Eurazeo Development, says: "We have seen an increase in investor confidence and renewed optimism – both in the French market itself and the EU."

Tieleman recalls that when Eurazeo was fundraising in the first half of the year for its €650m Eurazeo PME French small- to mid-cap buyout fund, the vehicle easily attracted LP interest, despite the uncertainties given by the polls. "To pan-European investors, the

### Private-equity-backed buyouts



	2013	2014	2015	2016	2017
Volume	109	114	133	167	199
Value (€bn)	13.94	15.01	23.83	24.72	27.89
Average value (€m)	128	132	179	148	140
% of European volume	18.6%	16.6%	19.4%	21.7%	21.7%
% of European value	16.1%	14.9%	18.3%	20.6%	19.6%

Source: Unquote Data





second biggest European PE market is simply unavoidable.” He also adds that deals that have taken place in 2017 had been put on the market prior to elections results. The new presidency, rather than producing a watershed moment, strengthens a well-established PE market.

### Big buyout activity

The French buyout market posted 199 transactions in 2017, continuing its impressive spell of expansion – there were 167 in 2016, 133 in 2015 and 114 the year before. Aggregate value has also been rising. It reached €27.9bn in 2017, up from €24.7bn in 2016 and €23.8bn in 2015.

The standout feature of 2017 is the number of deals surpassing the €1bn threshold. There were eight over the year, a sharp increase on the four deals seen both in 2016 and 2015. The year kicked-off with the acquisition of Cerba Healthcare by Partners Group and Canadian pension fund Public Sector Pensions

More large-cap deals followed in H2. Astorg and Montagu fully exited their investment in Sebia, a French medical diagnostics equipment manufacturer, to Caisse de dépôt et placement du Québec (CDPQ) in an SBO worth €2bn. Meanwhile, PAI Partners and Sagard sold Kiloutou, a rental service for construction equipment, to HLD Europe, valuing the company at €1.5bn, or 7.5x EBITDA. Finally, in November, Ardian backed Les Dérivés Résiniques et Terpéniques, a rosin and turpentine developer.

Looking lower down the market, far fewer transactions took place in the €500-1bn bracket, with only eight deals against the 15 in 2016. Volume figures for the €250-500m, €50-250m and €25-50m categories remained very much on par with the year before.

A definite increase was noticeable for the €5-25m range, with 75 deals completed in 2017 against 46 the previous year.

In terms of sourcing trends, a notable development was the continued rise in both secondary buyouts, jumping from 89 in 2016 to 94 last year. A reason behind the steady increase of SBOs in the past two or three years has been escalating competition.



**“To pan-European investors, the second biggest European private equity market is simply unavoidable”**

*Frans Tieleman, Eurazeo Development*

Investments (PSP). The deal was valued at €1.8-1.9bn, around 12x the company’s EBITDA. The Prosol Gestion group, which manages the Grand Frais hypermarkets, was bought by Ardian in March, while Ontario Teachers’ Pension Plan raised its stake in funeral services provider OGF Group in April. It was followed by OAdvent International’s backing of industrial supplies provider IPH Group in May.

June saw the year’s biggest deal with PAI selling the private nursing homes operator DomusVi for €2.3bn to Intermediate Capital Group and family holding Sagesse Retraite Santé.





“SBOs can be advantageous in a very competitive environment. Bilateral agreements in particular allow acquirers a clear advantage on competitors,” explains Gaëtan Gianasso, partner at Latham & Watkins. Trade sales, which had reached 49 in 2015 and then experienced a slowdown with 32 in 2016, jumped up to 47 last year.

All sectors slightly increased their deal volume apart from consumer. Industrials, the most popular sector in 2017, recorded 66 deals, up from 45. Consumer saw a decrease from 51 to 47, followed by support services with 36 buyouts completed, a jump from the previous year’s 28. Technology, healthcare, media and financials have only slightly bettered last year’s figures, hitting 23, 13, 7 and 6 deals respectively. However, value was particularly high

for healthcare and industrials, which attracted €7.5bn each, a sharp increase compared with the previous year’s €5.1bn for industrials and €2.6bn for healthcare.

“SBOs can be advantageous in a very competitive environment. Bilateral agreements in particular allow acquirers a clear advantage”

*Gaëtan Gianasso, Latham & Watkins*





## Higher prices and more debt

The exceptional level of liquidity experienced in the past few years continued in 2017 and is beginning to put upward pressure on pricing. Some of the aforementioned €1bn+ deals correspond to 13-15x EBITDA entry multiples, says Latham & Watkins' Gianasso.

Ardian's Poletti confirms that prices are indeed getting closer and closer to their pre-crisis level, with Ardian's French deals showing an average of 10x EBITDA entry multiples.

"Having fundraised successfully in the past years, GPs are very keen on deploying", explains François-Xavier Mauron, partner at Edmond de Rothschild Investment Partners (EdRip). He also

than promoting high levels of debt, is to truly transform the asset, creating value through the firm's internal and international growth".

## Attracting foreign investors

Investors across the board agree that France is perceived as open for business to foreign investors, and that the common conception of the market being heavily taxed and idiosyncratic is fading away. The recent interest on behalf of Canadian pension funds is notable. CDPQ, PSP Investments and Omers announced four large-cap deals in France in 2017. Ontario Teachers' Pension Plan increased its stake in a business backed in 2015.

While the Canadian pension funds may raise the competition for assets, they also bring a range of benefits to incumbents. "On one side, co-investments with the long-term investors can give more fire power. On the other, selling to institutional investors and corporates can allow excellent returns for PE investors," explains Ardian's Poletti. He mentions that GPs need to find innovative solutions to pension funds' inroad into the market. Ardian commits mostly to primary buyouts (67% in the last fund), while new players focus more on tertiary and quaternary buyouts.

Chinese investors, such as Citic Capital, Fosun and Sino-French Cathay Capital completed deals in the country, together with Chinese corporates, continuing their interest in the region, which kicked off a few years ago.

Investors working in the small-cap arena have identified a great change in the entrepreneurial ecosystem in the past five years, which foreign investors have started to pick on.

When asked what is one of the core strengths of the French market, Poletti says: "France's internationally growing SMEs are led by very high-quality management teams, often composed of professionals with excellent technical knowledge of their sector."



"Rather than simply avoiding the UK, some LPs have decided to go for the wait-and-see option, and in the meantime commit to France"

*François-Xavier Mauron, EdRip*

stresses the importance of the rise of trade buyers: "Corporates that are long-term buyers, which know the value of companies, are back and paying high prices, which really affects price standards in the market".

In terms of debt, Mauron says leverage is very much available, pointing out that "not only private debt/unitranche funds, but also the structured finance teams of banks are heavily lending to private equity".

For large-caps, the use of debt seems to be in line with that seen in the past two to three years. Investors generally agree that LBOs are showing an equity-debt ratio of around 50:50 and sometimes 40:60.

According to Poletti, debt multiples in Europe reached around 5.6x EBITDA, while the pre-crisis figure stood at around 6.1x. Ardian commits to an average of 5x, opting for moderate levels of debt. Says Poletti: "Our main focus, rather

## Fundraising flurry

France saw a flurry of buyout and generalist funds close last year. GPs held 17 final closes, the most since the financial crisis, although their aggregate closing value was down to €7.3bn from €9.3bn. The final amount raised was also spread fairly evenly, rather than being the result of one or two mega-funds, with many GPs surpassing their targets.

EdRip's Mauron says LPs invest confidently in France, mostly as the market is very promising, but also with a sense of caution in regards to Brexit: "Rather than simply avoiding the UK, some LPs have decided to go for the wait-and-see option, and in the meantime commit to France".

Chequers Capital raised the year's largest fund, closing Chequers Capital XVII on €1.1bn, just about exceeding its original target of €1bn. Apax France IX held the year's second biggest close, comfortably exceeding its €750m target, closing on €1bn. The upper-mid-market

"Rather than using high levels of debt, [we try to] truly transform the asset, creating value through internal and international growth"

*Philippe Poletti, Ardian*



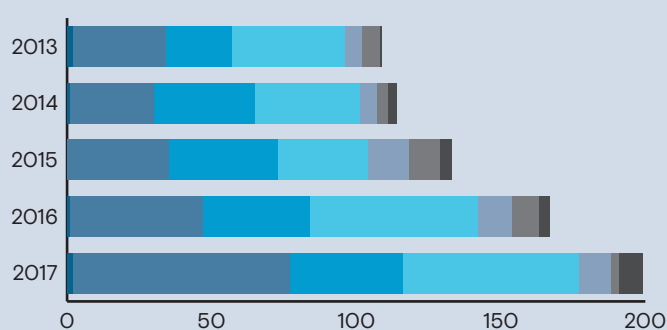
space saw Alpha Associes Conseil close Alpha Private Equity Fund VII on €903m, exceeding its €800m target. Sagard proceeded with the closing of Sagard III on €800m. Finally, Eurazeo held a close for its Eurazeo PME III fund on €658m, exceeding its €600m target.

Noteworthy fundraisings in the lower end of the mid-market space included Abénex Capital's €425m vehicle, Abénex V. Launched in 2014, the vehicle exceeded its €350m target. The fundraising effort of ArchiMed and Siparex Group followed straight after – both Med II and Siparex ETI 4 closed on €315m. ■

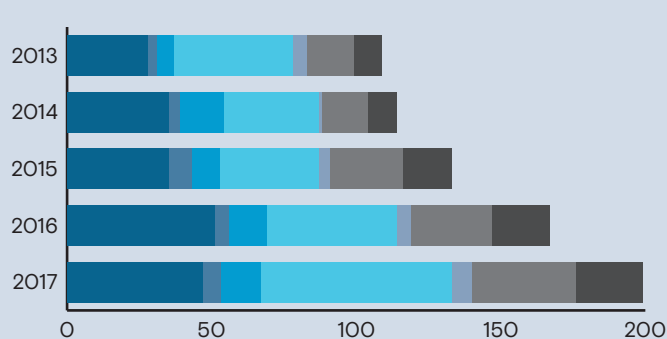




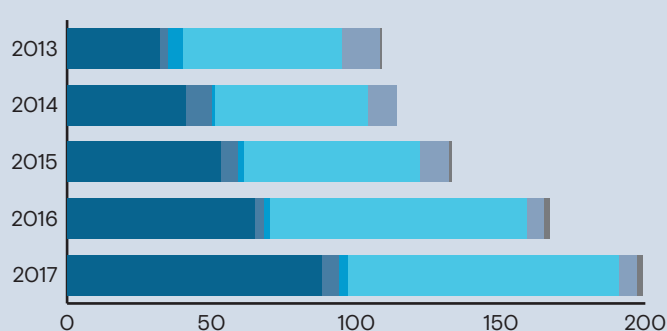
## France buyouts by size range (volume)



## France buyouts by super-sector (volume)



## France buyouts by vendor type (volume)



Source: Unquote Data

## France exits 2017

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
Sanef	Trade sale	9,000 (est)	BPI France
DomusVi	Secondary buyout	2,000 (est)	PAI Partners
Cerba Healthcare / Cerba European Lab	Secondary buyout	1,850 (est)	PAI Partners, Idinvest Partners
Alliance Automotive Group	Trade sale	1,683	Blackstone Group
IPH Group	Secondary buyout	1,250	PAI Partners, Euromezzanine Conseil
Les Dérivés Résiniques et Terpéniques	Secondary buyout	1,000 (est)	Tikehau Investment Management
Trescal	Secondary buyout	670 (est)	Ardian
St Hubert	Trade sale	600 (est)	Montagu Private Equity
Verallia	Recap / Refinancing	408	n/d
Buffalo Grill	Secondary buyout	400 (est)	Abénex Capital, Natixis Investissement Partners, Céréa Partenaire

**17 final closes**

*Most since financial crisis*

**199 buyouts**

*Fourth consecutive annual rise*

**8 mega-buyouts**

*Deals valued at more than €1bn*

## France funds 2017

Fund name	Fund manager	Fund Target (€m)	Amount closed (€m)
Chequers Capital XVII	Chequers Capital	1,000	1,100
Apax France IX	Apax France	750	1,000
Alpha Private Equity Fund VII	Alpha Associates Conseil	800	903
Sagard III	Sagard	800	800
Eurazeo PME III	Eurazeo	600	658
White Knight IX	LBO France	1,000	450
Abénex V	Abénex Capital	350	425
Med II	Archimed	315	315
Siparex ETI 4	Siparex Group	315	315
Parquest fund 2	Parquest	250	310
Cerea Capital II	Céréa Partenaire	200	225
Middle Market Fund V	Azulis Capital	200	215
Omnes Croissance 4	Omnes Capital	180	210
Hivest I	Hivest Capital Partners	100	120
Investissement Energie Environnement	BPI France	100	100

## France deals 2017

Deal name	Business description	Deal value (€m)	Sector
DomusVi	Operator of nursing homes for elderly / dependent people	2,364	Healthcare
Sebia	Developer of clinical protein electrophoresis equipment and reagents for use in in-vitro diagnostics testing	2,000 (est)	Healthcare
Cerba HealthCare	Pharmaceutical group focused on clinical pathology	1,850 (est)	Healthcare
Kiloutou	Provider of rental construction equipment	1,500 (est)	Industrials
Prosol Gestion	Retailer of fruits, vegetables, meat and milk products	1,300 (est)	Consumer
IPH Group	Distributor of industrial supplies	1,250	Business services
Les Dérivés Résiniques et Terpéniques	Producer of rosin and turpentine extracted from pine resin	1,000 (est)	Industrials
OGF Group	Provider of funeral services	n/d (1,000+)	Consumer
Alvest	Designer, manufacturer and distributor of technical products for the aviation industry	820 (est)	Industrials
Trescal	Provider of calibration, equipment management and IT services	670 (est)	Business services
Global Product Solutions	Provider of product engineering and post-development services	550 (est)	Business services
MCS & Associés	Provider of credit management services	420 (est)	Financials
Buffalo Grill	French steakhouse chain	400 (est)	Consumer
Hermès Métal	Manufacturer of equipment and furnishings for the food industry	300 (est)	Industrials
Winoa Group	Manufacturer of steel abrasives and stone cutting services	300 (est)	Industrials
Bruneau	Distributor of office furniture and equipment	250 (est)	Business services
Chryso	Developer of chemical additives and mixtures	n/d (250-500)	Industrials
Group Cypres	Provider of insurance brokerage services specialising in health, death and disability insurance products	n/d (250-500)	Financials
Elitech	Manufacturer of in-vitro diagnostic equipment, tests and reagents	n/d (250-500)	Healthcare
Almaviva Santé Group	Provider of orthopaedic and ophthalmologic care	n/d (250-500)	Healthcare
Bretèche Industrie	Designer and manufacturer of industrial equipment for the food sector	n/d (250-500)	Industrials
Moliflor Loisirs	Operator of a casino	n/d (250-500)	Consumer

## France deals 2017

Deal name	Business description	Deal value (€m)	Sector
A2Mac1	Provider of automotive benchmarking services	200	Business services
BVA	Provider of opinion poll services	200 (est)	Media
Crouzet	Manufacturer and supplier of automation components	195 (est)	Industrials
Atelier Mériquet-Carrère	Provider of home decoration and artistic renovation services	190 (est)	Consumer
Touax Solutions Modulaires	Leasing and sales of modular buildings	165	Industrials
CPK Group	Manufacturer of confectionery products	157	Consumer
Organic Alliance	Producer of organic fruit and vegetables	150 (est)	Consumer
RG Safety	Provider of personal protection equipment	145 (est)	Business services
Colisée Group	Operator of retirement homes	n/d (50-250)	Healthcare
Onduline	Manufacturer and seller of lightweight tar roof coverings	n/d (50-250)	Industrials
Findis	Distributor of household goods	n/d (50-250)	Consumer
Staci	Provider of retail logistics services	n/d (50-250)	Business services
Via Location	Provider of industrial and commercial vehicle rental services	n/d (50-250)	Industrials
Groupe CIR	Provider of real estate development, management and building renovation	n/d (50-250)	Financials
France Distribution Gestion (FDG)	Provider of category management services to mass retailers	n/d (50-250)	Business services
In'Tech Medical	Manufacturer of orthopaedic devices and implants	n/d (50-250)	Healthcare
LP Promotion	Developer of real estate	n/d (50-250)	Consumer
Babeau Seguin	Builder of residential homes	n/d (50-250)	Consumer





# Iberia



**Julian Longhurst**  
Head of data  
and research

## Buyouts surge despite political uncertainties

The political crisis in Catalonia has yet to dent the buyout markets in Iberia, while strong domestic and international demand kept up solid economic growth. Julian Longhurst reports

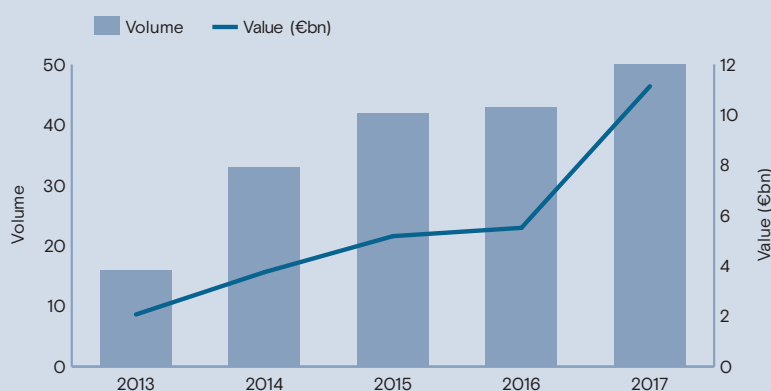
**T**he independence referendum called by Catalonia's premier Carles Puigdemont in June of 2017 dominated the Spanish

political landscape. The referendum, declared illegal by the central government, went ahead on 1 October despite efforts to prevent it; the result saw some 90% of voters backing independence, though turnout was low at well under 50%.

The ruling separatists in the Catalan parliament subsequently declared independence on 27 October, which led Madrid to impose direct rule over the autonomous region by invoking Article 155 of the constitution. Although Puigdemont fled to Belgium, along with four political associates, three pro-independence parties together won nearly 48% of the vote (with a strong, 75%+ turnout) in the regional elections called by Madrid for 21 December; this means that the independence parties retain a majority in the Catalan Parliament.

Despite dominating the news channels at home and abroad, the Catalan crisis appears not to have had the devastating economic impact that some had predicted, though there is likely to be some negative impact. To begin with, many Catalan businesses, including the larger banks (for example Caixabank and Banco Sabadell) and construction businesses, relocated their corporate bases out of Catalonia amid fears the region could end up outside of the EU. And Spanish economic growth – robust for some time – is predicted to drop back: according to predictions from the OECD, GDP grew

### Private-equity-backed buyouts



	2013	2014	2015	2016	2017
Volume	16	33	42	43	50
Value (€bn)	2.07	3.75	5.18	5.51	11.13
Average value (€m)	129	114	123	128	223
% of European volume	2.7%	4.8%	6.1%	5.6%	5.4%
% of European value	2.4%	3.7%	4.0%	4.6%	7.8%

Source: Unquote Data





by 3.1% in 2017 (versus 3.4% and 3.3% in 2015 and 2016 respectively) but is likely to slow to 2.3% in 2018. Solid domestic consumption and international investment remain the key drivers behind the local economy.

Spain's budget deficit is also falling; it is estimated to have fallen from 4.5% in 2016 to 3.2% in 2017 and is forecast to continue its downward trajectory in 2018 to end at 2.4%. Unemployment rates are improving too, albeit from critically high levels. Unemployment has fallen from 22.1% in 2015 to 17.2% in 2017 and is forecast to drop further to 15.4% in 2018. However, unemployment remains especially high among the youth and the long-term jobless.

Portugal's economic progress has not matched that of its Iberian neighbour, but remains relatively strong, driven by tourism and increases in exports. OECD figures estimate that the country's GDP grew by a healthy 2.6% in 2017 (up from 1.5% the year before) and will maintain 2%+ growth over the coming two years. The economy received

a boost in September 2017 when Standard & Poor's returned the rating of its sovereign debt to investment grade in Q3; Fitch followed suit in December and Moodys is expected to do the same in early Q2 2018. Finally, Portugal's unemployment rate dropped into single figures in 2017 (to 9.1%) and is forecast to drop further to 7.4% by 2019.

### **Dealflow: riding the wave**

In spite of the political turmoil, activity in the Spanish buyout market continued the strong growth it has demonstrated since the market hit its post-crisis bottom in 2013. That year, just 14 private-equity-backed buyouts, collectively worth less than €2bn, were recorded in Spain (barely 2% of the European market in both volume and value terms).

After rising strongly in 2014 and 2015, the market paused for breath before turning sharply upwards in this latest full year; the haul of 45 deals recorded in 2017 represents a high-water mark for



the country, surpassing the 44 deals recorded at the peak of the pre-crisis buyout boom in 2007. With Portugal chipping in with an additional five buyouts (down three from the previous year, but about par for the market), the Iberian total reached 50 – its second highest total on record.

But local practitioners refuse to get drawn into hyperbole over the market. As Clearwater International's Spain-based partner Miquel Martí says: "Yes the market is picking up, but you have to remember that it's coming from a very low base. Comparing 2017 with 2013 might look very impressive, but in 2013 we were at the bottom of a very deep chasm." Martí also points out that the volume of buyouts in Spain or Iberia as a whole is hardly overweight in comparison to the combined GDP expressed as a proportion of the European market; in that sense, at least, there is room to grow.

Looking ahead, however, it looks likely that deal volumes will remain robust, even given the continued concerns surrounding the Catalonia issue. "We are still seeing a number of good opportunities coming through and there are quite a few processes in play at the moment," says Madrid-based partner at law firm Cuatrecasas Francisco M Maroto.

And, commenting specifically on the impact of the uncertain political landscape, Martí points out that there appears to have been little actual effect on the private equity market: "We have not been engaged in processes with any international funds that have said that they would drop out because of the [Catalan] situation. Of course, there have been comments, questions and interest, but nothing material has happened".

### Foreign buyers go big on quality

Clearly, the spike in activity has been driven by the favourable macroeconomic tailwinds in the region, which in turn have been fuelled by the emergence from the post-crisis doldrums of a population of stronger, leaner and more internationally orientated businesses. Importantly, this has had a big impact on shaping the buyout market in 2017.

"Yes the market is picking up, but it's coming from a very low base... In 2013 we were at the bottom of a very deep chasm"

*Miquel Martí, Clearwater International*



The quality of assets in the marketplace has caught the attention of the big international buyout sponsors and, as a result, the overall value of buyouts in the region leapt from €5.5bn to a 12-year high of €11.1bn. No fewer than 13 deals with an EV of €250m or more were recorded during the year, versus an average of just four in the previous handful of years. And of these deals – all backed by international sponsors – seven were estimated to be worth €500m or above.

"The larger funds were the first ones to leave during the crisis and have been the last ones to come back," says Clearwater's Martí. "They have been more conservative, while the smaller and mid-cap funds have been very dynamic in the last two to three years. The mid-cap activity has drawn the larger sponsors in."

At the top of the pile were the acquisitions of Allfunds Bank (backed by Harbourvest, GIC and Hellman & Friedman) for €1.8bn; Cortefiel (PAI Partners, CVC Capital Partners) for an estimated €1bn; and Portugal's Novo Banco (Lone Star), also for €1bn. Other major €500m+ deals were completed by the likes of Towerbrook Capital, Warburg Pincus, BC Partners, Ardian, Cinven and Eurazeo.

"We are still seeing a number of good opportunities coming through and there are quite a few processes in play at the moment"

*Francisco M Maroto, Cuatrecasas*



## Buying from peers

The other market dynamic worthy of note in Spain – and one that is inextricably linked to the flight to quality – is the sudden increase in the number and value of secondary buyouts. At 38% of the market in volume terms, the number of Iberian SBOs in 2017 is not far out of line with the European average for the year (c32%), but it is significantly higher than the level seen in the previous four years (average of about 20%). More striking is the fact that these deals accounted for €7.3bn – or 66% – of the Iberian market value. In all, seven of the top ten deals were sourced from fellow sponsors – and all of these were led by non-domestic backers.

Unsurprisingly, a glance at these larger SBOs shows that many of them had been bought at or around the bottom of the market. Cortefiel and Berlys & Bellsolà were both sold to new owners

Chequers Capital, while Grupo Plénida had also been held for 10 years before it was bought and merged into a much larger group by one of the largest domestic GPs Portobello Capital.

## Multiples on the rise

Inevitably in a cyclical upturn, with plenty of equity and credit on tap, the multiples being paid are rising. This is accentuated by the higher number of larger deals in the region and by the increased competition in formal processes.

But, as one market practitioner points out, it is not such an issue when the companies changing hands are the cream of the crop in cyclically attractive sectors. The multiples paid on some acquisitions were steep, but at the same time the bidders were acquiring exceptional companies; one singled out was the Pronovias deal, describes as a “wonderful company”. It is also worth bearing

in mind that even with these examples of higher multiples appearing, the overall average for the region remains some way below the average seen in larger, more mature European markets.

## Deals by sector

As one would expect, the strong macro climate in both Spain and Portugal have also had an impact on the balance of

dealflow in a sectoral sense. Consumer deals maintained the strong run they have shown since 2014, driven by increased local consumption, with Cortefiel, Pronovias and Berlys & Bellsolà the most notable completions. Meanwhile dealflow in the healthcare sector also had a strong showing, rising from four to nine deals; while this area might often be considered counter-cyclical, the majority of the deals in 2017 involve private healthcare facilities, which undoubtedly will have benefited from growing consumer confidence and spending.

Finally, the strength in the industrial sectors is another testament to the efforts of many businesses to refocus on international markets, which will continue to produce a flow of niche global or international champions.

“Some [international sponsors] bought up debt and equity very cheaply in the larger size brackets four or five years ago and are now unloading them at huge profits”

*Patrick Gandarias, Corpfm Capital*

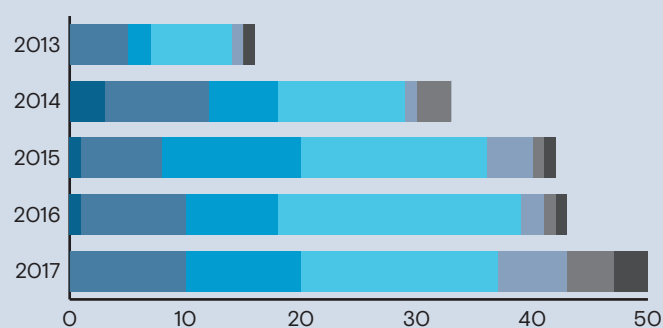
after seven-year holds, while Esmalglass-Itaca and Iberchem were 2012 and 2013 vintages respectively.

“It is true that they [international sponsors] have come back into the market and are buying up businesses from the local houses, but it’s also true that some of them bought up debt and equity very cheaply in the larger size brackets four or five years ago and are now unloading them at huge profits”, says Patrick Gandarias, managing partner at mid-cap specialist Corpfm Capital.

However, there are also examples of GPs holding onto assets through the crisis and waiting out the long downturn; for example, Accelya, bought for an estimated €650m by Warburg Pincus during the year, concluded a 10-year holding for French GP

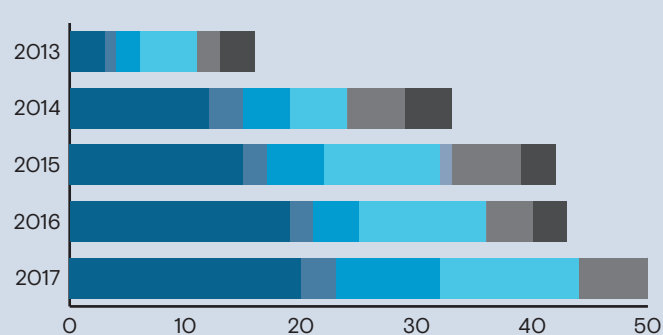


### Iberia buyouts by size range (volume)



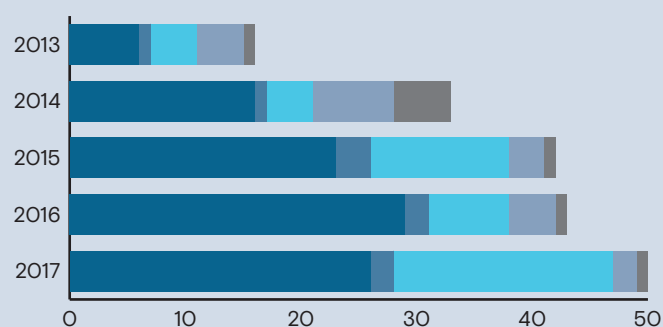
	2013	2014	2015	2016	2017
<€5m	0	3	1	1	0
€5-25m	5	9	7	9	10
€25-50m	2	6	12	8	10
€50-250m	7	11	16	21	17
€250-500m	1	1	4	2	6
€500-1bn	0	3	1	1	4
≥€1bn	1	0	1	1	3

### Iberia buyouts by super-sector (volume)



	2013	2014	2015	2016	2017
Consumer	3	12	15	19	20
Financials	1	3	2	2	3
Healthcare	2	4	5	4	9
Industrials	5	5	10	11	12
Media	0	0	1	0	0
Support services	2	5	6	4	6
Technology	3	4	3	3	0

### Iberia buyouts by vendor type (volume)



	2013	2014	2015	2016	2017
Family/Private	6	16	23	29	26
Foreign parent	1	1	3	2	2
Going private	0	0	0	0	0
Institutional investor	4	4	12	7	19
Local parent	4	7	3	4	2
Other	1	5	1	1	1

Source: Unquote Data



## Iberia exits 2017

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
Cortefiel	Secondary buyout	1,000 (est)	PAI Partners, CVC Capital Partners, Permira
ADP Clearing/Accelya	Secondary buyout	650 (est)	Chequers Capital
Esmalglass-Itaca	Secondary buyout	605	Investcorp
Goldcar	Trade sale	550	Investindustrial
Grupo Mémora	Other	500	3i Group
Iberchem SA	Secondary buyout	405	Magnum Capital Industrial Partners
Ursa Insulation Holding	Trade sale	n/d	Kohlberg Kravis Roberts
Panaderías Navarras (Panasa)	Secondary buyout	n/d	Arta Capital SGECR, Alantra
Nace Group	Secondary buyout	350 (est)	Magnum Capital Industrial Partners
Vitalia	Secondary buyout	300 (est)	n/d

**50 buyouts**

*Total marks  
10-year high*

**Value doubles**

*Aggregate deal value  
up 102%*

**19 SBOs**

*Secondary buyouts hit  
record high*

## Iberia funds 2017

Fund name	Fund manager	Fund Target (€m)	Amount closed (€m)
Alantra PEF III	Alantra	450	450
MCH Iberian Capital Fund IV	MCH Private Equity	300	350
BTC Fund II	Black Toro Capital	350	235
GPF Capital II	GPF Capital	0	150

## Iberia deals 2017

Deal name	Business description	Deal value (€m)	Sector
Allfunds Bank	Banking and specialised financial service	1,800	Financials
Cortefiel	Retailer of clothing	1,000 (est)	Consumer
Novo Banco	Provider of banking services	1,000	Financials
Aernnova Aerospace	Designer and manufacturer of aerostructures and components	900 (est)	Industrials
Accelya	Provider of financial and commercial analytics services to airline and travel businesses	650 (est)	Business services
Esmalglass-Itaca	Producer of ceramic glazes, colours and inkjet inks	605	Industrials
Pronovias	Manufacturer of bridal and cocktail dresses	550 (est)	Consumer
Berlys & Bellsolà	Manufacturer and distributor of frozen dough, bread, baked goods and pastries	475 (est)	Consumer
Planasa	Producer and supplier of berries	450	Consumer
Iberchem	Manufacturer of flavour and fragrance products	405	Industrials
Pacha Group	Manager of nightclubs, hotels, restaurants, magazines and clothing stores	350 (est)	Consumer
NACE Group	Owner and operator of international schools	350 (est)	Consumer
Vitalia Home	Operator of a network of healthcare clinics	300 (est)	Healthcare
Habitat Inmobiliaria	Provider of management and property development services	220	Financials
Olivos Naturales	Producer of extra virgin olive oil	130 (est)	Consumer
PronoKal Group	Developer of a protein-based dietary treatment targeting obese and overweight people	100 (est)	Healthcare
Grupo Ambuibérica/Emeru	Provider of medical transport	n/d (50-250)	Industrials
Supera	Operator of gyms and sports centres	n/d (50-250)	Consumer
Unidental, Laser 2000, Dr Senís, Avadent, Plénido Dental	Operator of five dental and aesthetic medicine clinics	n/d (50-250)	Healthcare
Flex Equipos de Descanso	Manufacturer of mattresses and sprung bed base products	n/d (50-250)	Consumer



ITALY



# Italy



**Chris Papadopoulos**  
Assistant research  
analyst

## Italian buyout market heats up

Strong performance among Italy's SMEs coupled with abundant liquidity is lifting dealflow and EBITDA multiples.

Chris Papadopoulos reports

Italy's economy continued to improve in 2017, despite the unstable political situation. The country has a general election on 4 March this

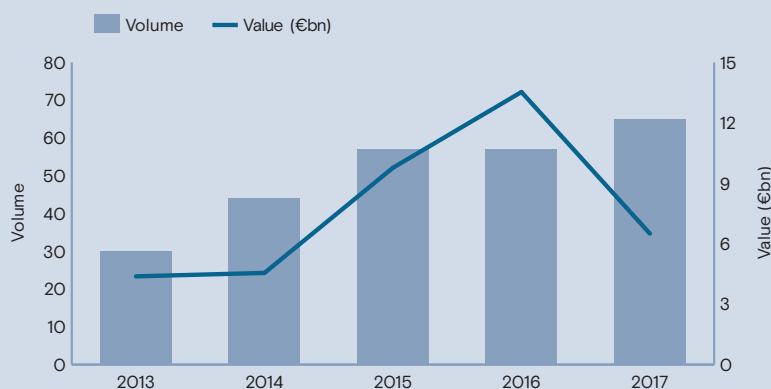
year, after its president dissolved parliament at the end of 2017, and none of the major parties have been polling close to an overall majority. The anti-establishment Five Star Movement is marginally ahead in polls at 27%, while the incumbent prime minister Paolo Gentiloni's Democratic Party is second at around 25%. Silvio Berlusconi's Forza Italia has made a slow comeback, too, and is now close to 16%, though Berlusconi is technically still banned from holding public office, so cannot officially be prime minister.

While Forza is third in the polls, a potential right-wing coalition in which it could be a part is polling higher than any left-wing alternative, but still only at minority government levels (37%). This increases the likelihood of a minority government or grand coalition.

Five Star's comedian founder Beppe Grillo has been distancing himself from the party, while leader Luigi di Maio has toned down the party's Euroscepticism, saying recently he wanted Italy to remain in the EU and eurozone, and ruling out any referenda.

In the meantime, economic growth has picked up. The European Commission estimates growth of 1.5% for 2017, up from 0.9% in 2016. However, it thinks growth will likely slow this year and the next, as monetary policy tightens and the euro

### Private-equity-backed buyouts



Source: Unquote Data

strengthens. The unemployment rate has edged down to 10.8% after steadily falling from a peak of 13% in 2014. Italy's borrowing costs are hovering around record lows with the 10-year government bond yield at 2%, while public sector debt is expected to start falling – it was 132.1% of GDP in 2017.

On the regulatory front, the government made some reforms to the way it taxes carried interest in the first half of 2017. Under certain conditions, it will tax carried interest as capital gains rather than income, which may attract more fund managers to the country. Local GPs have also said some of the legal clarifications give them more flexibility in managing remuneration and share options for the management of their portfolio companies.

### Dealflow rises

A more active mid-market helped deal volume reach a post-crisis high in 2017, shrugging off any uncertainty generated by the political background.

Indeed, stronger activity in several market segments helped to lift overall deal numbers. There were 65 transactions overall, restoring growth after the number of deals stalled at 57 last year. The €5–25m segment registered 11 deals, up from seven in 2017, and the €25–50m segment posted 21, rising from 16. The €250–500m range also did well with eight deals, the highest for a decade, worth an aggregate €2.7bn.

“We are used to doing our job despite what the government does,” says Michele Semenzato, founding partner at lower-mid-market GP Wise SGR. “We haven’t had very business-friendly governments for the last 20 years, so entrepreneurs and managers are used to doing well despite the



political and economic environment. But these are the things that can scare whoever deploys capital in Italy from abroad.”

Despite the underlying strength in mid-market deal volume, aggregate buyout value dropped considerably, more than halving to €6.5m from €13.5m. This was entirely due to the absence of €1bn+ deals, five of which were recorded in the previous year and which tend to oscillate on an annual basis.

Perhaps reflecting the growing confidence in the Italian economy, the most active sector was the consumer sector, with 24 deals worth €2.7bn. Of these, there was a flurry of large consumer deals, the largest of which was IRCA Group, sold to Carlyle Group by Ardian. Of the top 10 consumer deals, seven were SBOs.



“We haven’t had business-friendly governments for the last 20 years, so [we’re] used to doing well despite the political environment”

*Michele Semenzato, Wise SGR*



Dealflow rose in most of the remaining sectors, the greatest swing being in support services, with 11 deals, up from five; while industrials also increased, reaching 19 deals.

### Pricing creeps up

The pick-up in activity in the Italian market is leading to rising pricing. Says Ambienta's chief investment officer, Mauro Roversi: "Companies are performing well in almost all sectors, which is due to the general recovery in the economy. There's also an abundance of liquidity." However, Italian companies represent a better deal than other European markets, he says.

Roversi adds: "Pricing starts from 8–9x EBITDA in Italy, 10x in Germany and 12x in the Nordics. That would be the starting point in any sector." He says Ambienta has a strong pipeline of deals for this year and does not believe market pressures

will ease this year, with more people raising money on the stock exchange, and growing eagerness among strategic buyers providing competition to the private equity route.

Though the economic recovery in wider Europe does lift the prospects of Italian companies, Ambienta, which invests in companies focused on sustainability, is mainly looking at expanding eastward, where countries such as China are increasingly trying to cut pollution. And while pricing has climbed in the core and lower-mid-market, it is higher still in the larger deal value ranges, where auctions and international investors come into play. The year's three largest deals in Italy in 2017 were all at or above 10x EBITDA.

The strongest part of the Italian market in terms of deal numbers was the local market. The €25–50m range is almost entirely dominated by local players with local networks, with deals done on a proprietary basis. Aside from SMEs generally doing well, the recovery in this segment also reflects a recovery in domestic GPs and their fundraising. Many offices, of both local GPs and pan-European players, were closed during and after the financial crisis, which left areas of the market undercompeted. More international funds are making deals in Italy, but they are mostly opportunistic, rather than the result of active sourcing in the country.

In line with the last few years and buoyed by the low interest rate environment, debt conditions remain supportive of dealflow and pricing, with a variety of local and international banks and debt funds on hand to provide financing. "Banks are

"Pricing starts from 8–9x EBITDA in Italy, 10x in Germany and 12x in the Nordics. That would be the starting point in any sector"

*Mauro Roversi, Ambienta*





particularly open to lend money,” says Ambienta’s Roversi. “They tend to remain in the 4x EBITDA range. If you want to go beyond this you have to go for a unitranche or mezzanine deal from debt funds. Local debt funds will provide debt tickets of €5-20m. Going above this would normally require an international provider.”

### SBO surge

Greater interest from international buyers led to a climb in secondary buyouts over the year. SBOs even overtook trade sales as the most popular exit route, with 22 pass-the-parcel deals, up from 14, compared with 19 trade sales, which were down three on the year. It was the most SBOs in Italy in a year on *Unquote* records.

Global and pan-European GPs such as Carlyle, Chequers, Ardian, Cinven, BC Partners and Permira were all acquirers in secondary deals over

private-equity-backed IPOs; online betting firm Gamenet, which was backed by Trilantic, and Banca Farmafactoring, which was acquired by Centerbridge in 2015. The stock market did improve last year, with the headline FTSE MIB rising 15% over the year. And yet, while stock markets across the US and Europe are reaching record highs, the FTSE MIB is still a long way off its pre-crisis peak.

### Fundraising frustrations

It was a relatively healthy year for fundraising, but local players believe there is plenty of room for more investment from local and international pension funds. Total fundraising, while improving, still lags other European markets, especially when compared to the size of the Italian economy.

Despite being Europe’s fourth largest economy, Italian funds have accounted for just 1.2% of European fundraising over the last five years.

For buyout and generalist funds, there was only one final close last year. However, there were seven first closes, the biggest of which was for state-sponsored CPD Equity’s FSI Mid-Market Growth Equity Fund, which raised €1bn.

The only buyout fund to hold a final close was NB Renaissance Annex Fund, which raised a further €300m to bolster its €620m predecessor.

The traditional problems of the local Italian fundraising industry persist, with just 21% of commitments coming from outside the country, according to recent research from local trade body Aifi. Family offices and private individuals accounted for 48% of the capital raised, while pension funds totalled only 12%, funds-of-funds 8% and insurance companies 2%.

“In the first half of 2017, the amount raised grew, especially thanks to a new public GP,” Aifi CEO Anna Gervasoni told *Unquote* in December.

“If we exclude it, fundraising remains the most difficult part of private equity activity in Italy. For this reason, we are working together with institutions in order to boost fundraising and increase the contribution of pension funds and insurance companies.”



**“We are working with institutions in order to boost fundraising and increase the contribution of pension funds and insurance firms”**

*Anna Gervasoni, Aifi*

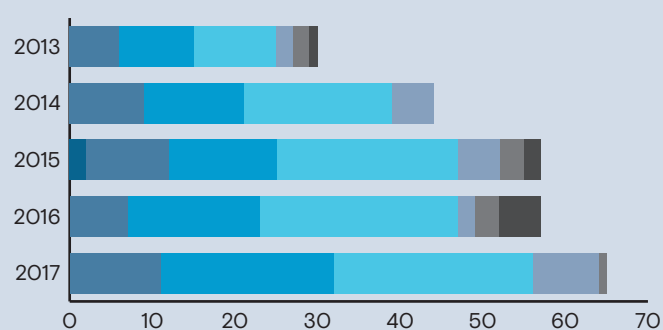
the course of the year, providing exit routes to local GPs or investors that had managed to close deals in the core and lower-mid-market.

Says Wise’s Semenzato: “A renewal in interest from the larger funds in the country is one of the reasons why secondary deals are becoming more common. In many cases, it’s an easier exit negotiation because you’re talking to people who think a little bit like you think.”

The largest SBOs were the sale of IRCA Group, the sale of shoe designer Golden Goose by Ergon Capital to Carlyle, and the sale of DentrPro by Summit Partners to BC Partners.

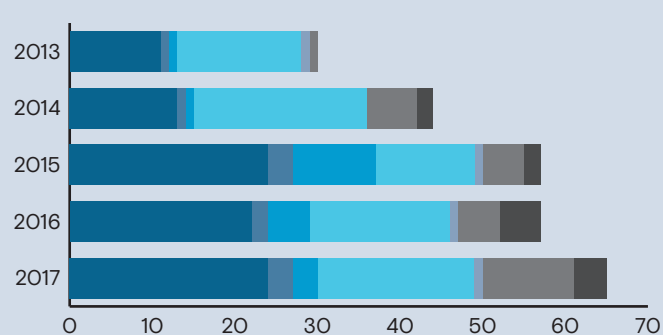
While the number of trade sales fell, activity was still robust, with GPs reporting healthy demand from corporates. There were also two

### Italy buyouts by size range (volume)



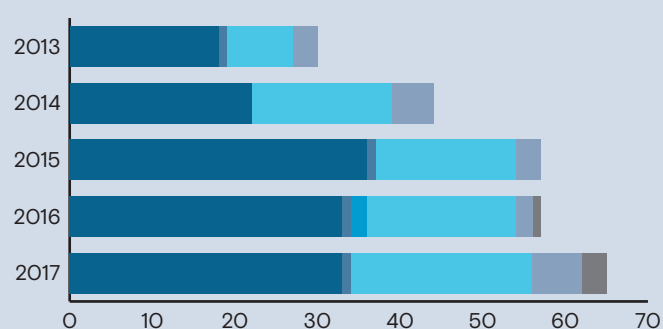
	2013	2014	2015	2016	2017
<€5m	0	0	2	0	0
€5-25m	6	9	10	7	11
€25-50m	9	12	13	16	21
€50-250m	10	18	22	24	24
€250-500m	2	5	5	2	8
€500-1bn	2	0	3	3	1
≥€1bn	1	0	2	5	0

### Italy buyouts by super-sector (volume)



	2013	2014	2015	2016	2017
Consumer	11	13	24	22	24
Financials	1	1	3	2	3
Healthcare	1	1	10	5	3
Industrials	15	21	12	17	19
Media	1	0	1	1	1
Support services	1	6	5	5	11
Technology	0	2	2	5	4

### Italy buyouts by vendor type (volume)



	2013	2014	2015	2016	2017
Family/Private	18	22	36	33	33
Foreign parent	1	0	1	1	1
Going private	0	0	0	2	0
Institutional investor	8	17	17	18	22
Local parent	3	5	3	2	6
Other	0	0	0	1	3

Source: Unquote Data

## Italy exits 2017

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
Gruppo Coin	Trade sale	n/d	n/d
IRCA Group	Secondary buyout	520	Ardian
Golden Goose	Secondary buyout	450 (est)	Ergon Capital Partners
IP Cleaning	Trade sale	330	Ambienta
Acetum	Trade sale	300 (est)	Clessidra Capital Partners
Fondo Italiano d'Investimento PE portfolio	Direct secondary	300 (est)	Fondo Italiano d'Investimento
Aeroporti di Roma (ADR)	Recap / Refinancing	205	n/d
Savio Macchine Tessili	Recap / Refinancing	85	n/d
Pavan Srl	Trade sale	n/d	San Paolo IMI, Alpha Associates Conseil
Manutencoop Facility Management	Other	n/d	21 Centrale Partners, Finint & Partners, NEM SGR

**65 buyouts**

*Total marks  
nine-year high*

**21 €25-50m deals**

*Up 31%  
year-on-year*

**22 SBOs**

*Secondary buyouts hit  
record high*

## Italy funds 2017

Fund name	Fund manager	Fund Target (€m)	Amount closed (€m)
NB Renaissance Partners Annex	NB Private Equity Partners	300	300



## Italy deals 2017

Deal name	Business description	Deal value (€m)	Sector
IRCA Group	Provider of ingredients such as chocolate, powder mixes, creams and jams	520	Consumer
Golden Goose	Producer of clothing, shoes and accessories	450 (est)	Consumer
DentalPro	Operator of dental clinics	375 (est)	Healthcare
Pasubio	Producer of leather components	285 (est)	Consumer
CEME Group	Manufacturer of pumps and valves	280	Business services
La Piadineria	Operator of chain of restaurants across shopping centers	250 (est)	Consumer
Fintyre	Distributor of tyres	n/d (250-500)	Consumer
Bormioli Rocco	Producer of pharmaceutical packaging and tableware	n/d (250-500)	Industrials
Sistemia	Provider of secured and unsecured credit management services	n/d (250-500)	Financials
Biolchim	Manufacturer and distributor of fertilisers	200 (est)	Industrials
Dynamic Technologies	Manufacturer of plumbing for automotive cooling systems	140 (est)	Consumer
Infracom	Provider of telecommunication networks and IT services	131.4 (est)	Technology
Gruppo Fabbri Vignola	Producer of machines and film products for food packaging	125 (est)	Industrials
Dada	Provider of web-related services, including hosting, domains, servers and cybersecurity for SMEs	95 (est)	Technology
Giovanni Bozzetto	Manufacturer of chemical products for industry	95 (est)	Industrials
Comelz	Manufacturer of industrial machinery for the leather goods and footwear industry	n/d (50-250)	Industrials
Fagioli	Manufacturer of specialised hauling, heavy lifting and hoisting equipment	n/d (50-250)	Industrials
Isoclima	Manufacturer of transparent armour and high-performance glass products	n/d (50-250)	Business services
Primat	Producer of protective treatments for mechanical parts including screws, bolts and fasteners	n/d (50-250)	Industrials
Dimar	Supplier of fish and frozen fish products across Italy	n/d (50-250)	Consumer



# Nordic



**Nicole Tovstiga**  
Reporter

## Small and mid-caps lead buoyant Nordic dealflow

The good times continued in 2017 with a strong rise in buyout activity, but some GPs expect a more challenging market environment in the year ahead

**T**he Nordic macroeconomic picture remained relatively untroubled in 2017, reflecting the overall recovery of the global economy.

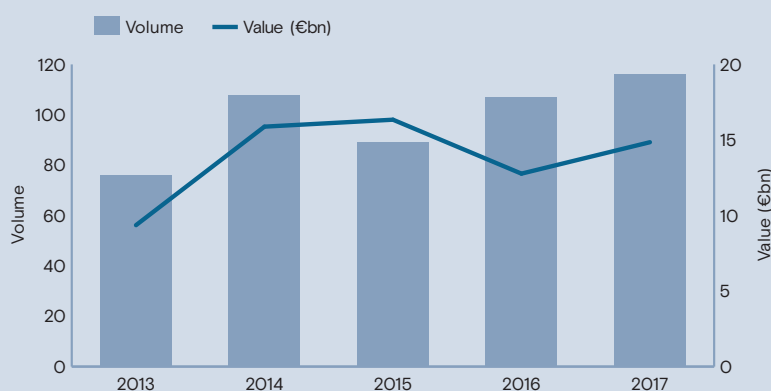
Leading the economy in the Nordics with the highest GDP growth was Sweden, where domestic demand continued to rise, supported by the country's fiscal policy. The European Commission (EC) projected year-on-year growth of 3.2% in 2017, slightly down from 3.3% in 2016. The slowdown was mainly due to the local housing market, which impacted the figure, according to Nordea. A drag in housing investments was, however, counterbalanced by rising international exports.

In Denmark, the economy saw a strong upswing in the first half of the year. The business environment profited from growing global activity, and consumer purchasing power increased due to a pick-up in employment and low interest rates. However, in the third quarter GDP contracted by 0.5% compared with the second quarter, the Danish national statistics agency reported.

The impact of the oil price crash in 2014 is slowly fading in the Norwegian economy but still painted a more subdued picture. Oil-related industries showed signs of growth, and plans for increased investment signalled growth will pick up, according to Nordea. After GDP growth rates of 2% in 2015 and 1.1% in 2016, the OECD is forecasting 2.1% for 2017.

After a period of patchy growth in Finland,

### Private-equity-backed buyouts



	2013	2014	2015	2016	2017
Volume	76	108	89	107	116
Value (€bn)	9.36	15.88	16.34	12.77	14.85
Average value (€m)	123	147	184	119	128
% of European volume	13.0%	15.7%	13.0%	13.9%	12.6%
% of European value	10.8%	15.8%	12.5%	10.6%	10.4%

Source: Unquote Data



the economy finally showed some recovery in 2017 after nearly 10 years of weak development. The price competitiveness of Finnish goods and services improved, leading Nordea to project that net trade will contribute positively to growth figures. The EC is expecting Finland's GDP to grow at a healthy pace of 3.3% in 2017, faster than the EU and eurozone on average, supported by a strong increase in investment, robust private consumption and net exports. This is up from a 1.9% year-on-year GDP growth rate in 2016. Factors boosting the economy were a robust global environment, and improving labour market and consumption, as well as investor confidence in favourable financial conditions, which support investment growth.

As in the previous year, the search for yield in the Nordic markets continued to be driven by the low-interest rate environment. The Nordic central banks maintained low and negative interest rates. Sweden's Riksbank sustained a negative interest rate of -0.5% while Denmark's Nationalbanken is maintaining a near-zero interest rate level.

### Dealflow 2017

Europe saw an overall increase of 19.2% in deal volume, with the Nordic area registering the smallest increase rate out of all the regions – 8.4% compared with the previous year.

Says Polaris managing partner Jan Johan Kühl: "There is the expectation of a levelling off in terms of dealflow for 2018, with a certain overhang taken care of. This means we are likely to see a slightly more normal volume of dealflow but still on a good level."

The Nordic countries ranked fourth overall, with 116 transactions in 2017, accounting for 13% of total European dealflow in terms of volume.

In terms of deal value, the Nordic region saw a 16.3% increase on the lower end of the value spectrum in European buyout activity. Across the Nordic region, GPs deployed an aggregate of €14.9bn in buyouts, representing 10% of buyout dealflow across European regions.

Deal volume in the Nordic region has gone up year-on-year since 2015, but this has not been reflected in average value, which in 2017 was below both 2014 (€15.8bn) and 2015 (€16.3bn), though a marked increase on 2016 (€12.7bn).

As in the previous five years, buyout activity across Sweden, Denmark, Norway and Finland was most vigorous in the small- and mid-cap sectors. Deal volume at the lowest end of the market in the €5-25m bracket climbed up, with 36 transactions representing a 16% increase from the 31 deals sealed in 2016, and an 80% increase from the 20 deals completed in 2015.

The region saw a substantial increase in activity in the €25-50m range, registering a 50% hike in deals done in 2017, with 33 completed.

Meanwhile in the upper-mid-cap bracket, activity was lacklustre. Deal volume stalled in the €50-150m range, with 37 deals sealed compared with 38 in 2016. However, this bracket still represented the highest number of



transactions, accounting for 31.8% of the total activity in the region.

Furthermore, the volume of transactions dropped in the €250–500m value range, with four deals completed compared with eight in 2016. Volumes continued to stall in the higher value brackets, too, with a drop to three transactions from six in the €500m–1bn bracket.

Meanwhile, two transactions were recorded in deals valued over €1bn, up from one in 2016. KKR agreed to sell its entire stake in Norwegian enterprise software business Visma in June 2017 to a consortium of investors led by HgCapital, in a deal valuing the business at NOK 45bn (€4.76bn). This was followed by private equity house Lone Star Funds acquiring Denmark-based building materials distribution business Stark Group for €1bn from listed UK-based business Ferguson, in November 2017.

### Swedish stalwart

Looking at individual countries, the Swedish buyout market saw the volume of transactions rise from an average of 30 deals over the previous four years to 40 deals in 2017, with a total amount of €3.7bn

**“The pricing environment remains competitive. GPs have to be prepared to pay for a full valuation, especially for larger, quality assets”**

*Thomas Klitbo, IK Investment Partners*



deployed, down from €5bn in 2016. The country is the traditional heavyweight among the Nordic countries and accounted for 4.4% of total buyout volume in Europe.

Danish private equity activity saw 36 deals inked in 2017, up from 34 in the previous year, but the aggregate value of €3.9bn in 2017 was down from €4.2bn in 2016. The steepest increase in activity was seen in the €25–50m bracket, where deal volume went up from seven deals sealed in 2016 to 11 in 2017. The consumer sector was the clear leader in deal volume, showing 13 transactions completed in 2017, compared with the four-year average of eight deals per year across 2013–2016. But industrials slipped to 11 deals in 2017, down from 14.

Norway also enjoyed an increase in buyout activity, registering 22 deals in 2017, up nearly 70% from 13 deals completed in 2016. The aggregate value jumped significantly to €6.6bn, an upward swing from €2.5bn in 2016. Deals were

most prominent at the smaller end of the market, with 10 deals recorded in the €5–25m bracket, up from five. Sector-wise, industrials continued to dominate the buyout market, accruing 36% of deal activity, or eight deals in 2017. But interestingly, the technology sector increased significantly year-on-year, with seven deals, compared with only two in 2016, reflecting Norway's efforts to diversify its investments



away from the traditionally dominating oil and gas sector.

Buyout volume in Finland was still one of the lowest, accounting for just 2% of total deals done in Europe. The country showed a slight increase year-on-year, with 18 deals completed in 2017 compared with 17 in the previous year. This is still well below its record-breaking 27 deals completed in 2014, and reflects a slowly improving economy. Value was down year-on-year, with €721m recorded in 2017, compared with €994m in 2016.

### Sector highlights

Besides heightened activity in the small- and mid-cap sector, the technology sector saw buoyant growth in the Nordic region. Tech has steadily gained traction over the past five years, barring a

macroeconomy, broadly following on from a persisting strong exit market in 2016.

Says IK's Thomas Klitbo: "The exit environment is generally healthy, with good quality companies attracting a lot of interest and high valuations."

While exit markets displayed near perfect conditions in 2016, a possible change in the tide is anticipated across the GP market in 2017. "If you ask around in the GP community, everyone is optimistic about exits. But they are less optimistic than a year ago when it comes to getting new deals in the books," says Polaris's Kühl.

The recent trend of SBOs and trade sales taking the lion's share of exit volume in the previous year was impacted by an increasingly resilient IPO market in the Nordic region, which has proved a favourable exit route for GPs. Additionally, a sizable amount of trade sales continued to contribute to making exits competitive for GPs. Public market listings were cropping up in Sweden and Norway, but also started making an appearance in Denmark with a handful of lower-value deals.

Overall, the strategic buyer dominated the exit scene in the GP community, according to Kühl. In Denmark particularly, corporate non-financials accounted for more than 70% of exits, excluding IPOs.

Furthermore, family offices are signalling their place in the private equity food chain, becoming a player increasingly to be reckoned with. "Family offices are becoming an increasingly active player in the Nordic M&A market," says IK's Klitbo. "They have a natural role to play, especially for more mature situations."

### Fundraising environment

With regard to fundraising activity, last year was a good vintage for Nordic-dedicated GPs. "The Nordic countries have seen an extremely good fundraising environment. Especially the last 12-18 months," notes Polaris's Kühl.

According to *Unquote Data*, private equity players raised an aggregate of €3.9bn during 2017, and fund managers completed eight closes.



**"We've been blessed with strong Nordic banks, and seen balance sheets shrink as people are busy repaying"**

*Jan Johan Kühl, Polaris*

blip in 2015 when volumes decreased to 13 deals. Deal makers clocked up 29 transactions in 2017, up 61% from 18 seen in 2016.

The traditional supporting foothold in the Nordic area, industrials, saw deals stalling with 27 transactions in 2017 compared with 31 in the previous year. This is slightly below the four-year average of 28.

Meanwhile, consumer deals strengthened in volume in 2017, with 28 deals, up from 23. And support services continued in its unremarkable role as the fourth most popular sector, showing 19 deals in 2017, down from 21 deals in 2016 and 20 in 2015.

### Exit environment

Exit conditions went hand-in-hand with buyout activity, and market sources agreed there was a healthy exit environment supported by a positive



EQT closed its €1.6bn EQT Mid Market Europe fund in May 2017, while Adelis closed its Equity Partners Fund II on €600m in June 2017.

Unlike previous years, Nordic LPs became increasingly selective in 2017, particularly those backing smaller and first-time funds. For more established players, LPs signalled they were progressively selective in terms of the exposure they want to gain through a specific GP.

“LPs are asking what are the strongholds of the GPs in terms of geography and sectors, as well as the quality of the assets and the pipeline,” says IK’s Klitbo. “They are seeking specialisations to build their strategic exposure.”

### Price is right

While deal size impacted valuations, there was a clear tendency of multiples creeping up across the board. According to *Unquote Data*, total deal value increased from 2016 to 2017 reflecting the corresponding rise of entry multiples across the market.

On the debt side there was plenty of financing availability, which boosted deal activity amid high prices. Senior debt levels are among the highest seen since the financial crisis. In addition to the debt financing, investors have also received financing from the bond market. These factors contribute to making 2017 even more competitive than 2016 in terms of pricing, leading to an all-time high level.

“We’ve been blessed with strong Nordic banks, and seen balance sheets shrink as people are busy repaying. Levels of debt multiples have gone up and supported the increase in buyout activity,” says Polaris’s Kühl.

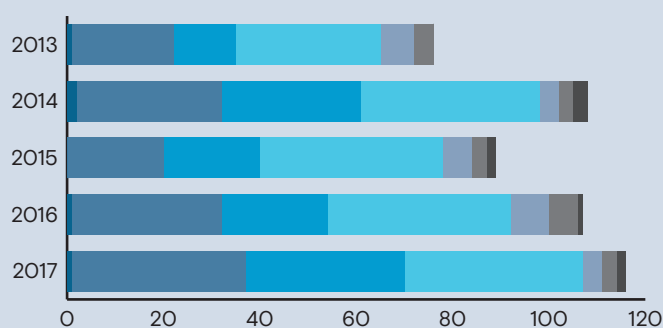
Polaris locks all announced private equity deals and monitors the completed auctions up to an average of 18 months. The GP has seen an all time high in the number of deals being closed since measuring deals in the broader market the past six years.

IK’s Klitbo sees the situation somewhat differently, in particular for the mid-market. Price expectations are high, and GPs are mindful of the

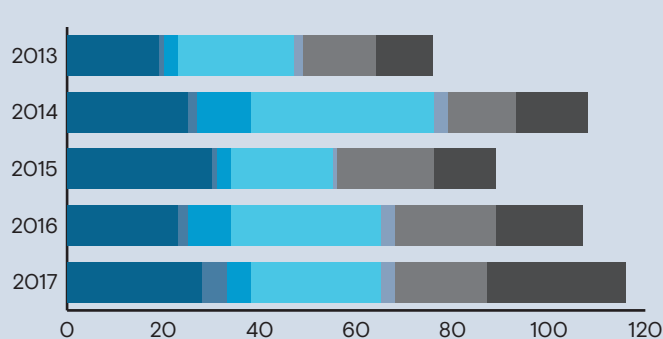
quality of the asset, especially in the mid-market. This has led to an increasingly polarised market and a number of transactions are not going through. “GPs are thinking more carefully about fund composition and what sector exposure they want in their fund,” he says. “The pricing environment remains competitive. GPs have to be prepared to pay for a full valuation, especially for larger, quality assets.” ■



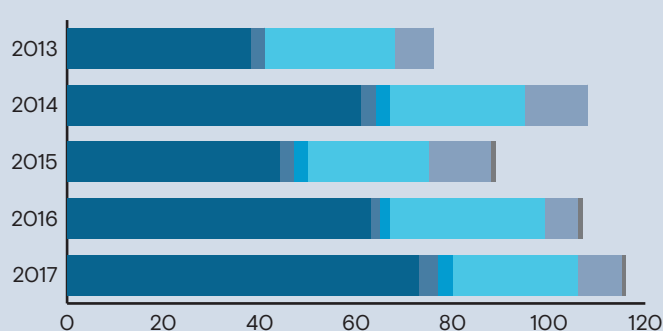
### Nordic buyouts by size range (volume)



### Nordic buyouts by super-sector (volume)



### Nordic buyouts by vendor type (volume)



Source: Unquote Data

## Nordic exits 2017

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
Alimak Hek (Intersect AB)	Trade sale	4,857	Triton Partners
Euroline/Bambora	Trade sale	1,500	Nordic Capital
Paroc Group	Trade sale	900	CVC Capital Partners
Nordic Cinema Group	Trade sale	865	Bonnier Group, Bridgepoint
Visma BPO	Secondary buyout	476	AlpInvest Partners, Lexington Partners
Veolia Miljø AS/Norsk Gjenvinning	Secondary buyout	427 (est)	Altor Equity Partners
Com Hem	Other	388	BC Partners
Scandic Hotels	Other	n/d	Accent Equity Partners, EQT Partners
Bravida	Trade sale	n/d	n/d
Tokmanni Group	Other	n/d	n/d

**116 buyouts**

*Up 8%  
year-on-year*

**69 €5–50m deals**

*Up 30%  
year-on-year*

**29 tech deals**

*Largest sector in  
Nordic region*

## Nordic funds 2017

Fund name	Fund manager	Fund Target (€m)	Amount closed (€m)
EQT Mid Market Europe	EQT Partners	1,600	1,600
Adelis Equity Partners Fund II	Adelis Equity Partners	570	600
Summa Equity Fund I	Summa Equity	472	485
Procuritas Capital Investors VI	Procuritas	300	318
Accent Equity 2017	Accent Equity Partners	312	312
Vaaka Partners Buyout Fund III	Vaaka Partners	n/d	225
Erhvervsinvest IV	Erhvervsinvest Management	n/d	196
Sentica Buyout V	Sentica Partners	185	185



## Nordic deals 2017

Deal name	Business description	Deal value (€m)	Sector
Visma	Provider of enterprise software and outsourced accounting services	4,762	Technology
Stark Group	Retailer and distributor of building materials	1,025	Industrials
Færch Plast	Provider of rigid plastic packaging for ready meals and protein food trays	941 (est)	Industrials
Nordnet	Operator of an online trading platform	688	Financials
Etraveli	Provider of travel-related services	508	Consumer
Norsk Gjenvinning	Provider of sustainable waste management and recycling solutions	427 (est)	Business services
Mime Petroleum	Provider of oil and gas exploration, development, and production services	275	Industrials
Glamox	Manufacturer of professional lighting solutions	n/d (250-500)	Industrials
Nissens	Manufacturer and supplier of cooling equipment for the automotive and wind power industries	n/d (250-500)	Consumer
Transcom Worldwide	Provider of customer care, sales, technical support and credit management services	240	Business services
DGC One	Provider of telecommunications and internet service	236	Technology
Broadcast Text International	Provider of subtitling and dubbing services to broadcasters and home entertainment companies	230 (est)	Media
Lagkagehuset	Operator of a chain of bakeries	148 (est)	Consumer
TDC Hosting	Provider of outsourced IT services, including hosting and IT infrastructure	134 (est)	Technology
MTG Baltics	Provider of free and paid TV services, digital entertainment and radio broadcasting	116	Media
Active Brands	Manufacturer of sportswear and sporting goods	110	Consumer
Mountain Top Industries	Manufacturer of pickup truck accessories	97 (est)	Consumer
Pandion Energy Group	Producer of oil & gas exploration	93	Industrials
KotiSun	Provider of renovation services for water, heating and drainage systems	88 (est)	Business services
Bogballe	Developer, producer and distributor of fertiliser spreaders	67 (est)	Industrials
TP Aerospace	Manufacturer of aircraft brakes and wheels	67 (est)	Industrials

## Nordic deals 2017

Deal name	Business description	Deal value (€m)	Sector
Docu Nordic	Provider of database and services to the Nordic construction industry	n/d (50-250)	Media
Ramudden	Provider of temporary traffic control solutions	n/d (50-250)	Industrials
Tresu	Manufacturer of flexographic inline printing machines	n/d (50-250)	Technology
Bluestep Bostadslan	Provider of mortgages and personal loans	n/d (50-250)	Financials
Puumerkki	Distributor of wooden building materials	n/d (50-250)	Industrials
Vestjysk Bank	Provider of financial services	n/d (50-250)	Financials
Evac Group	Manufacturer of waste and wastewater collection and treatment systems	n/d (50-250)	Business services
Silvan	Operator of a DIY retail chain	n/d (50-250)	Consumer
Abax	Provider of monitoring services for company vehicles	n/d (50-250)	Technology
Ryds Bilglas	Provider of windows and car glass repair services	n/d (50-250)	Business services
Anläggning & Kabel Entreprenad i Malmö	Supplier of excavation work and non-building construction services	n/d (50-250)	Business services
Happy Socks	Manufacturer of colorful socks for women, men and kids	n/d (50-250)	Consumer
EasyPark	Provider of pay-by-phone parking services	n/d (50-250)	Consumer
Dynasafe International	Supplier of explosion containment equipment	n/d (50-250)	Business services
Nordic Trustee	Provider of core bond trustee services, as well as ancillary information and administrative services	n/d (50-250)	Financials
Life Europe	Operator of chain of retail shops that offer health food, wellness and lifestyle products	n/d (50-250)	Healthcare
NetNordic	Provider of network, communications, security and cloud services	n/d (50-250)	Technology
Lideta Hälsovård	Provider of healthcare services	n/d (50-250)	Healthcare
Holmris Group	Provider of interior design and furniture	n/d (50-250)	Consumer





# UK & Ireland



**Chris Papadopoulos**  
Assistant research  
analyst

## Consumer boosts dealflow amid precarious backdrop

Small- and large-cap deals picked up momentum, masking stagnation in the core mid-market as GPs look ahead with cautious optimism. Chris Papadopoulos reports

**B**oth the UK Conservative government and Ireland's Fine Gael are governing from precarious minority positions, with

leadership contests and even new elections a possibility this year.

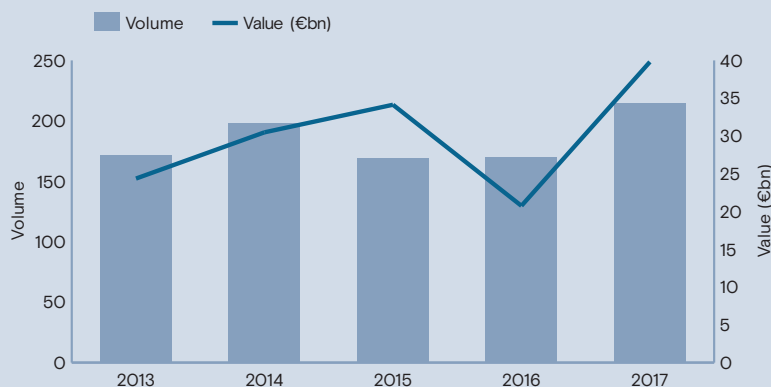
To force a leadership contest in the UK, 48 Conservative MPs (15% of the parliamentary party) would have to declare no confidence, while a general election would occur if no government was formed in the month following the end of a government.

The first stage of Brexit talks has been passed, with the UK agreeing to continue its normal contributions until 2020. Many critical issues including the transition arrangement, the Northern Irish border and the future trading arrangements with the EU remain unresolved.

To the surprise of many, the economy has held up. It grew 1.8% from 2016 to 2017, according to the first estimate from the Office for National Statistics, slightly down on the 1.9% from 2015 to 2016. Unemployment is very low but so is productivity growth. Sterling weakened against the euro over 2017, falling from €1.17 to €1.13, but it regained some ground against the dollar, rising from \$1.24 to \$1.33. Both the Bank of England and Office for Budget Responsibility expect growth to edge down this year.

The Republic of Ireland is struggling to produce reliable national statistics. The Central Statistics Office claims the economy grew 4.2% in the

### Private-equity-backed buyouts



	2013	2014	2015	2016	2017
Volume	172	198	169	170	215
Value (€bn)	24.3	30.4	34.1	20.7	39.5
Average value (€m)	142	154	202	122	185
% of European volume	29.4%	28.9%	24.6%	22.0%	23.4%
% of European value	28.1%	30.3%	26.2%	17.3%	28.0%

Source: Unquote Data

third quarter of 2017 – an annualised rate of 17.9%. Despite the big skews that have been put down to the behaviour of multinationals, economists agree that Ireland's economic fundamentals look very strong, and expect robust growth ahead.

### Defiant dealflow

Despite the tumultuous political backdrop, market activity reached post-crisis highs, although there was some stagnation evident in the core mid-market.

Aggregate deal volume and value were the highest in the region since 2007, with 215 buyouts completed worth a combined enterprise value of €39.8bn. These were both significant increases on 2016, with volume and value up 26% and 92% respectively.

Global economic and financial market conditions have been improving and were incredibly stable over 2017, helping to spur confidence.

“What we've seen in the last few years are rising available leverage, some quite strong prices from buyers, and – particularly in the last 12 months – there have been more trade buyers in the market,” says Simon Turner, managing partner at mid-market buyout house Inflexion Private Equity. “All of that was apparent in 2017.

“The surprising aspect is the level of confidence from buyers and lenders irrespective of geopolitical risk. That's not just a private equity challenge; it's an equity market, property market and bond market challenge. They are all, to some extent, pretty strongly discounting what happens across the world.



“We remain cautiously optimistic over the next 12 months. We think Brexit will have an impact in the medium term, but there are still interesting deals to do and value to be had.”

While overall activity was strong, there were some noticeable differences within the market. Dealflow was mainly boosted by a significant increase at the low end of the market and values by a small number of high-value deals at the top end, while the mid-market was mostly flat on the year.

There were 68 deals in the €5-25m range, up from 37 in the preceding year. This did contribute €517m more in aggregate value terms than the €539m for which it accounted in 2016. However, the primary driver behind the overall increase in aggregate value was deals above €500m. The



“We remain cautiously optimistic...  
We think Brexit will have an impact  
in the medium term, but there are  
still interesting deals to do”

*Simon Turner, Inflexion Private Equity*



value of these transactions, with 18 registered in 2017 compared with seven the year before, climbed to €26.3bn from €7.6bn. This contrasts with the stagnant mid-market (€25-500m), where there were two fewer deals on the year and value edged down by 1%.

### Changing consumers

The consumer sector was the biggest sector in terms of both volume and value. There were 52 transactions worth €15.2bn. The level of investment in the sector was a surprise to many. With real wages growing slowly or not at all, weakened by the sharp fall in sterling, the outlook for consumer spending was generally negative going into the year. The outlook for private equity more generally was also blurred

by the fact the typical investment horizon will coincide with Britain's exit negotiations and any transition period.

"Given the Brexit overhang, it is surprising there was as much deployed in the UK as there was," says Cheryl Potter, head of consumer at Permira. "If you think about the investment horizon of four to five years, the industry is clearly investing in a period of uncertainty."

While the economy has held up better than expected, consumer companies are more concerned with other structural shifts that are taking place, which is presenting opportunities for GPs.

Says Potter: "A lot of the Christmas trading numbers show the switch from shopping offline to online is only accelerating, the millennial demand for new and exciting brands is only accelerating, so a number of the trends we've been seeing over recent years seem to have reached a tipping point."

Potter explains this has led to a bifurcation in the consumer sector. There has been lots of activity at the smaller end, where there are many new firms with high growth potential, and activity at the larger end with cash generative firms such as Unilever Spreads, but fewer deals in the middle of the market. This is supported by *Unquote Data*, which recorded a sharp rise in consumer deals last year in the €5-25m range – up to 18 from eight in 2016 – and in the €500m+ range, where transactions increased to six from two. Meanwhile, there were 27 deals

"Given the Brexit overhang, it is surprising there was as much deployed in the UK as there was"

*Cheryl Potter, Permira*





valued between €25–500m, down from 40 the year before.

The year's largest deal, KKR's carve-out of Unilever Spreads, was representative of this trend as a large cash-generative business.

### Family affair

There was a substantial climb in the number of deals sourced from family and private vendors in 2017, with the figure rising to 131 from the previous year's 90.

The proportion of total deals from this vendor type rose sharply to 61% from 53%. While this partly reflects greater GP activity in the core and lower-mid-market, it could also be due to greater propensity to divest by business owners.

"Typical factors we've seen impacting vendor appetite are business owners wanting to take advantage of entrepreneurs' relief, and political

as the core mid-market, where entry multiples have been escalating. "There are a number of factors behind that. In particular, the VCT route is no longer available to many businesses at the smaller end of the market, so that means more opportunities for institutional fund managers. And that is not going to change as we head into 2018."

There was also a rebound in secondary buyouts from 59 to 68. Naturally, the value of secondary deals was higher at €16.8bn, compared with €8.6bn for family and private vendors.

Meanwhile, there were four take-privates, three of which were near or above the €1bn mark; Paysafe's was worth €3.3bn, Punch Taverns's €2.1bn and Shawbrook's €987m.

### Trade sale slump

There was a drop in trade sales in 2017 compared with the year before, from 81 to 74. While not a particularly significant fall, it was a surprise given the general level of corporate activity. The number of UK mergers and acquisitions hit a record high over the year, according to *Unquote* sister publication *Mergermarket* (1,543 in 2017, up 3% on the previous year).

Despite the drop in the stats, GPs generally reported a strong trade environment, with corporate buyers providing both an exit route and competition for assets in some areas. Indeed, the biggest exit was to trade – the sale of Irish aircraft leaser AWAS, which was sold to Dubai's DAE by Terra Firma and the Canadian Pension Plan Investment Board (CPPIB).

"We have seen a huge number of trade buyers around that we're competing with, as well as being able to sell to," says Permira's Potter.

Overall, there was a rebound in the total number of exits to 210 from 199 after several years of decline. European exits numbers had been high due to the recovery in asset prices, which encouraged the sale of assets acquired before the financial crisis. 2017's rebound suggests the market has found its floor and settled at an annual rate of around 200.

There were a larger number of secondary



"The VCT route is no longer available at the smaller end of the market, so that means more opportunities for institutional fund managers"

*David Hall, YFM Equity Partners*

uncertainty in the UK producing a feeling that maybe a bit of de-risking may not be a bad idea," says Inflexion's Turner. "People are also looking for help to navigate some of the international challenges around growth."

Other evidence that the boost in dealflow is due to abundant supply rather than strong demand is pricing. This supply increase is expected to continue as restrictions on what type of firms VCTs can invest in come into play. The chancellor changed the rules last year to try and steer VCTs focus toward earlier-stage, higher-risk companies.

YFM Equity Partners director David Hall told *Unquote* in December: "The lower end of the market hasn't seen as much asset price inflation

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buyouts, in line with a European trend that has reflected successful fundraising and greater specialisation among GPs. Meanwhile, IPOs rebounded, with 10 registered, though there were none above €1bn. In contrast, the largest flotation in 2016 was worth €5bn.

### Fundraising frenzy

In line with global trends, British and Irish GPs had another successful year of fundraising. Buyout and generalist funds that held final closes during 2017 raised a total of €52.9bn, emulating the strength of 2016 when €52.7bn was raised.

A feature of the year was the high number of first-time fundraisers; there were nine maiden institutionally backed funds closed in 2017, the highest over the last five years. Most of these

new vehicles are targeting investments in the UK's lower-mid-market.

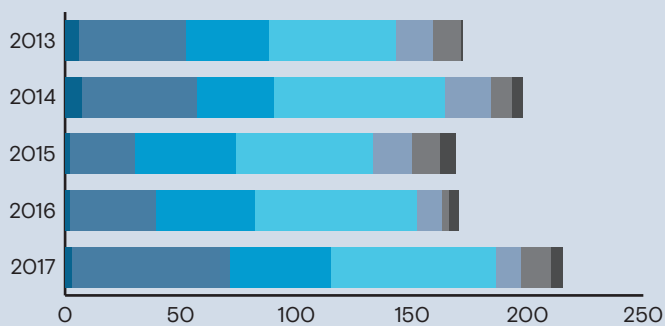
The incumbents also had a good year. CVC Capital Partners raised the largest ever UK fund at €15.5bn, while Permira and Bridgepoint held large final closings of €7.5bn and €5.5bn respectively.

GPs expect the positive fundraising environment to persist as the sector continues to provide better long-term returns than other asset classes.

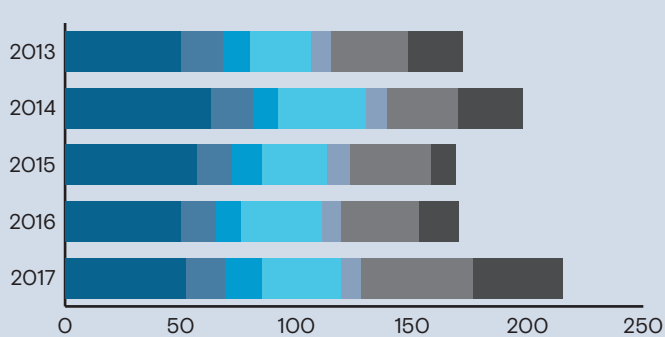
On the LP front, the rising trend of co-investments continued, with investors looking for better returns, as well as having more control over leverage and investment decisions. Larger pension funds' direct investments predominantly concentrated on large-cap deals. The Canadian Pension Plan Investment Board, was one such LP, having acquired 30% in BGL Group for £675m after the insurance distributor shelved plans for an IPO. ■



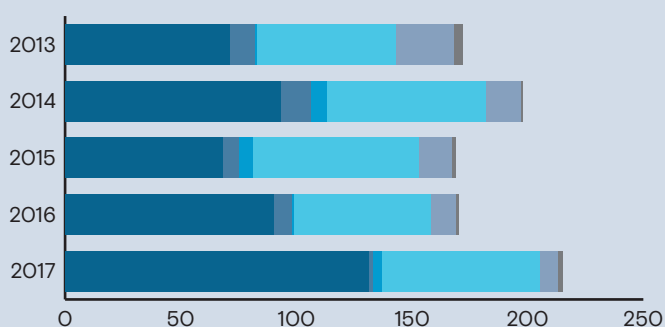
### UK & Ireland buyouts by size range (volume)



### UK & Ireland buyouts by super-sector (volume)



### UK & Ireland buyouts by vendor type (volume)



Source: Unquote Data



## UK & Ireland exits 2017

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
AWAS	Trade sale	n/d	Terra Firma Capital Partners
Annington Homes	Recap / Refinancing	4,563	n/d
CPA Global	Secondary buyout	2,682 (est)	Cinven
Weetabix	Trade sale	1,651	Baring Private Equity Asia
Civica Plc	Secondary buyout	1,204	Omers Private Equity
Zenith Vehicle Contracts	Secondary buyout	880	Hg
QA-IQ	Secondary buyout	802 (est)	EMK Capital
Exova	Trade sale	731	Clayton Dubilier & Rice
Pure Gym	Secondary buyout	682	CCMP Capital Advisors
Clarion Events	Secondary buyout	684 (est)	Providence Equity Partners

**215 buyouts**

*Most since  
financial crisis*

**68 €5-25m deals**

*Up 84%  
year-on-year*

**39 tech deals**

*More than double  
2016 total*

## UK & Ireland funds 2017

Fund name	Fund manager	Fund Target (€m)	Amount closed (€m)
CVC Capital Partners VII	CVC Capital Partners	12,500	15,500
Permira VI	Permira	6,500	7,500
Bridgepoint Europe VI	Bridgepoint	5,000	5,500
Francisco Partners V	Francisco Partners	2,792	3,350
Pamplona Capital Partners V	Pamplona Capital Management	3,000	3,000
Summit Partners GE IX	Summit Partners	2,828	2,958
HgCapital 8	Hg	2,347	2,941
Vitruvian Investment Partnership III	Vitruvian Partners	2,000	2,400
Blue Water Energy Fund II	Blue Water Energy	859	1,049
Apax Digital Fund	Apax Partners	673	951
Bregal Sagemount II	Bregal Sagemount	746	880
Oakley Capital Private Equity III	Oakley Capital	750	800
Star Strategic Assets III	Star Capital Partners	800	800
Summit Partners Europe Growth Equity Fund II	Summit Partners	700	700
EMK Capital Partners	EMK Capital	675	694

## UK & Ireland buyouts 2017

Deal name	Business description	Deal value (€m)	Sector
Unilever Spreads	Producer and distributor of food spreads	6,800	Consumer
PaySafe	Provider of card payments, digital wallets and online cash systems	3,308	Business services
CPA Global	Provider of legal and intellectual property support services	2,682 (est)	Business services
Punch Taverns	Operator of a chain of pubs	2,099	Consumer
Civica	Provider of software to the public sector	1,204	Technology
Shawbrook Bank	Provider of banking products and services	987	Financials
Zenith Vehicle Contracts	Provider of vehicle leasing services	880	Consumer
Matches Fashion	Retailer of luxury clothing and accessories	869 (est)	Consumer
QA-IQ	Provider of professional learning services	802	Business services
Canopus	Provider of insurance underwriting services	802	Financials
The Miller Group	Property developer and construction business	732	Industrials
Clarion Events	Organiser of business-to-business exhibitions, conferences and events	684 (est)	Business services
Pure Gym	Operator of gym chain	682	Consumer
The Office Group	Provider of flexible workspace for startups, as well as small and large businesses	573	Financials
Safetykleen Europe	Provider of parts and component-cleaning machines	n/d (500-1,000)	Industrials
Hibu Connect	Provider of digital marketing and advertising services	n/d (500-1,000)	Media
International Car Wash Group	Operator of car wash sites	n/d (500-1,000)	Consumer
NGA UK	Developer of human resources software	n/d (500-1,000)	Technology
Travelopia	Provider of specialist holidays	381	Consumer
CCM	Provider of marketing services across various platforms	376	Media
Porthaven	Developer of care homes for the elderly	341 (est)	Healthcare
CFC	Provider of insurance	270 (est)	Financials
DCC Environmental	Provider of recycling and waste management services to the industrial, commercial, construction and public sectors	258	Business services
Williams Lea	Marketing and public relations company	n/d (250-500)	Media
Pattonair	Provider of components for use in the aerospace and defence industries	n/d (250-500)	Industrials
Kee Safety	Supplier of tubular fittings and fall protection systems	n/d (250-500)	Industrials

## UK & Ireland buyouts 2017

Deal name	Business description	Deal value (€m)	Sector
Audiotonix	Developer of digital sound-mixing consoles	n/d (250-500)	Industrials
A-Gas International	Distributor of speciality gases and chemicals to the refrigeration and insulation foam industries	n/d (250-500)	Industrials
Offsite Archive Storage and Integrated Services	Provides services in hard-copy storage, media storage, imaging, digital archiving and destruction	n/d (250-500)	Business services
Key Retirement Solutions	Provider and distributor of equity release loans and annuities for senior citizens	245	Financials
MKM Building Supplies	Supplier of building materials	235 (est)	Industrials
Kisimul	Provider of education and care services to children	228 (est)	Consumer
Karro Food Group	Producer and processor of pork, lamb, beef, bacon and chicken	210 (est)	Consumer
OAG/Axio Group	Provider of data and analysis on flight schedules and statuses for airlines, airports and airport service providers	200	Business services
NextPharma	Provider of manufacturing, product development, clinical trials and logistics services to pharmaceutical and biotechnology companies	200 (est)	Healthcare
Blackrock Programme Management	Provider of construction services	180	Business services
Addo Food Group	Portfolio of four food-producing companies in the breads, cakes and flour-milling segments	n/d (50-250)	Consumer
Riviera Travel	Provider of overseas holidays and escorted river cruises	n/d (50-250)	Consumer
Brintons Carpets	Manufacturer of specialist woven carpets for residential and commercial premises	n/d (50-250)	Consumer
NSL Services Group	Provider of traffic enforcement and transport management services	n/d (50-250)	Business services







# Fundraising



**Gareth Morgan**  
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## Second record-breaking year for European GPs

With almost €84bn raised for PE investments in Europe, 2017 was the second most successful year for fundraisers since records began. Gareth Morgan investigates the catalysts behind the stellar year

**B**uyout houses across Europe continued to reap the rewards of buoyant fundraising conditions during 2017, with 88 Europe-based funds holding a final close securing €83.65bn, the strongest year on record. This marks a 16% increase on 2016's total of €71.97bn, which

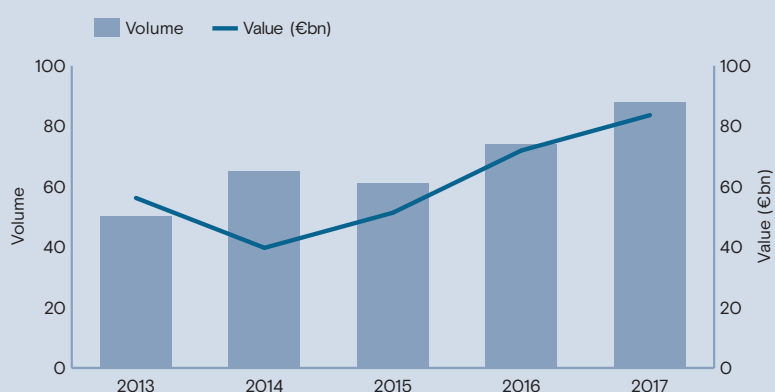
also broke the previous record for the aggregate value of funds raised.

Across fund sizes, the core mid-market was a key driver of growth with funds in the €500m-1bn range seeing 42% more funds raise 56% more capital than in 2016 (€12.3bn in 2017 vs €7.88bn in 2016). Double-digit growth in terms of value was also seen in sub-€100m funds, which were up 17%, and also €1-5bn funds, up 19% year-on-year. Interestingly, sub-€100m funds also saw significant growth in terms of volume, up 29% on the year.

Private equity operates in the context of broader economic conditions, and over the last decade accommodative monetary policy and sub-par economic growth across Europe have been extremely conducive to financial sponsors. The economic stagnation since the global financial crash offered the opportunity to pick up assets at low multiples. Looking at figures in *Unquote Data*, average EBITDA entry multiples for buyouts, with the top and bottom 10% removed to exclude outliers, dropped from 9.7x in 2007 to 6.7x in 2009. Years of abundant cheap capital has allowed corporates to expand M&A activity, bolstering returns for buyout firms selling assets by driving up demand.

As well as supporting buyout activity, the ramifications of macroeconomic conditions

### European fundraising activity



	2013	2014	2015	2016	2017
Volume	50	65	61	74	88
Value (€bn)	56.26	39.75	51.38	71.97	83.65

Source: Unquote Data

## 2016-17 year-on-year % increase by fund size

	<€100m	€100-500m	€500-1bn	€1-5bn	>€5bn
Volume	29%	15%	42%	8%	0%
Value	17%	6%	56%	19%	6%

Source: Unquote Data

have also created almost ideal conditions for fundraising. Bond yields have plunged due to falling inflation expectations, and quantitative easing has meant central banks have bought trillions of euros of government debt, inflating prices. Excess capital has been put to work buying other assets, driving prices ever higher, and in consequence has pushed return expectations lower.

### New line of thought

For institutional investors with a need to generate returns, the amount of capital flowing into established markets has made expanding investment options an increasingly pressing concern. "Investors, particularly those in Germany and Switzerland, have historically been fairly conservative, with a 75-80% allocation to fixed income," says Ralph Guenther, partner at Pantheon Ventures. "Interest rates falling has made generating returns difficult, and so expansion into private markets is necessary."

An additional global shift that has bolstered buyout firms' fundraising efforts over recent years is the shrinking opportunity set in public markets. Recent research published by Pantheon notes that between 1996 and 2016 the number of listed companies in the UK declined by 26%, and when

excluding the AIM market – which expanded significantly in the early 2000s – the total declined by 57%. As Pantheon's report points out, the remaining companies are slower to grow, and often concentrated in a limited number of sub-sectors. Listed firms are also concentrated in larger size brackets in terms of market cap, with 87% of UK public market value concentrated in firms with €2bn+ market cap, according to the study.

In parallel with public equity markets shrinking, regulatory pressures on traditional lenders have created opportunities in debt and credit that private firms have rushed to fill. Assets in private debt were estimated to be around €600bn in June 2017, and with new players continuing to come into the market, including buyout houses expanding their offerings to include debt and credit, the increasing supply is having a meaningful impact on how management teams approach raising capital.

### Options open

Companies contemplating going public have an increasingly large set of options beside raising capital from an IPO, and with competition in the lending space growing, the terms available to borrowers are becoming more and more attractive. The size of private debt assets available also means that it is rare that a flotation would provide the opportunity to raise meaningfully more capital than would be available privately. For management, the ability to raise capital on favourable terms and without the scrutiny and other issues of being publicly owned is an attractive proposition, and this is reflected in the decreasing number of IPOs carried out. In the UK, listings have fallen from 122 in 2000 to 25 in 2016, a drop of 80%.

"Of the alternative asset classes, private equity is the most established," Pantheon's Guenther says. "Managers have up to 40-year track records, returns have been stable, and the secondaries market increasingly provides liquidity. These factors combined have been key drivers for institutions coming into the asset class as first-time investors."



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Ralph Guenther, Pantheon Ventures





Additional demand bolstered by new investors coming into the market is augmented by current investors ramping up allocations, and also having had several years of strong distributions, which have been reinvested.

“Current investors want more private equity,” says Guenther. “They’ve seen very positive returns over a long period, even during the crisis, and the stability of these have led to investors maxing out allowed limits of allocation.”

The combination of these drivers paints a year-on-year fundraising picture for 2014-2017 that mirrors the exponential increase seen in the run-up to the peak of the last fundraising cycle in 2004-2006.

### Fair maiden

Another parallel with the 2004-2006 period is the ease with which established buyout houses have raised flagship vehicles: during 2017 CVC Capital Partners VII closed on its €15.5bn hard-cap in June, Permira VI raised €7.5bn, and Bridgepoint closed its sixth flagship fund on €5.5bn. Alongside these longstanding managers raising large-cap funds, the current fundraising climate has seen other beneficiaries, notably first-time fundraisers.

“In Germany particularly, venture funds led by newer groups, often entrepreneurs who have built and sold successful tech companies, are currently doing very well,” Guenther says. In the UK, first-time fundraisers have had a fruitful 2017, Tenzing Private Equity closed its first fund on its £200m hard-cap,

and Aliter Capital also hit hard-cap on its £92m debut offering.

Despite the mounting comparisons to the peaks of previous fundraising cycles, practitioners are relatively sanguine about any potential downturns in 2018.

“The indications are that 2018 will also be a very good year for fundraising,” Guenther says. Over the first two months of the year, EQT has held a final close on its eighth flagship fund on €10.75bn, and BC European Capital X secured €7bn, continuing the fundraising momentum generated in 2017.

“In contrast to 2006-2007, top performing managers who are raising oversubscribed funds are generally being disciplined in capping their fund sizes, and, again generally, aren’t raising unmanageably large funds,” Guenther says. Funds holding final closes above €5bn saw just a 6% increase in value from 2016 to 2017, underlining this point, and supporting the notion that the lessons of the crisis period have been learned by the industry.

For institutional investors looking to balance portfolios across company size and sector exposure, alternative investments – and private equity especially – are increasingly important tools. The shifting macroeconomic landscape that has necessitated this importance is reflected in fundraising numbers across Europe since 2010. Questions that arise on how these developments will impact returns from the asset class are justified, but in the short term, conditions for fundraisers look to remain positive into 2018. ■





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