



Private Equity_____

BAROMETER

Q1 2016

Figures based on preliminary quarterly data from
Europe's specialist private equity information provider.

Key Findings

Overall European private equity

- The number of European private-equity-backed deals declined by 11.7% in the first quarter of 2016 from the 394 transactions seen in the previous three months to 348 transactions.
- Combined deal value also declined, slipping by 54.2%.
- The average deal value in the first quarter (€46.9m) was 48.1% lower than that of the fourth quarter (€90.4m).
- Overall, the year to Q1 2016 witnessed a shift towards larger deals; total deal value increased by 28.2%, while total volume slipped by 15.9%. As a result, average deal value increased by 52.4%.

Buyouts

- The aggregate value of buyouts in the year to Q1 2016 (€119.6bn), was up 26.7% on the previous 12 months, while the number of deals (544) represents an 8.3% decline.
- Deal numbers declined to 127 in the first quarter, a decrease of nine from the 136 deals completed in the fourth quarter, and registered the lowest total seen over the last eight quarters.
- Aggregated value decreased markedly, dropping by 54.5% from the previous quarter's total of €30.1bn, to €13.7bn.
- A shortage of dealflow in the €100m+ ranges was responsible for the decrease in the total number of buyouts in the first quarter. The core mid-market value (€100m–1bn) and large-cap (€1bn+) segments were down from 45 to 40 deals and from six to one deal respectively.
- The small-cap (sub-€100m) range barely improved relative to the fourth quarter, increasing from 85 to 86 transactions.
- Although all segments registered a quarterly drop in value terms, large-caps saw the largest decline – decreasing by 89.4%, from €10.4bn to €1.1bn.
- The quarterly value of deals in the small-cap and core mid-market categories decreased by 1.7% and 43%, respectively.
- France was the only region to record a rise in deal numbers in Q1 – up 30% from 30 deals in Q4 to 39. Total deal value declined everywhere except the DACH region, where the value of buyouts in Austria and Germany jumped €1.5bn, ensuring that the region's total value rose by 2.6%.
- KKR's buyout of Defence Electronics (Germany) from French aerospace giant Airbus for €1.1bn was the largest buyout in the region during the first quarter and the only buyout to cross the €1bn mark.
- The 'rest of Europe' category and the Nordic region witnessed the largest decreases in volume and value terms respectively. The former dropped by 32% from 25 to 17 deals, while the latter decreased by 77.9% from €7.3bn to €1.6bn. None of the countries in the rest of Europe category saw an increase in deal volume and, similarly, none of the countries in the Nordics recorded an increase in deal value.

- In terms of the source of buyouts, receiverships saw the most significant uptick in quarterly volume, rising from none to four deals. On the other hand, deals involving family or private vendors reported the most significant decline in quarterly volume, down from 63 to 55 transactions.

Growth Capital

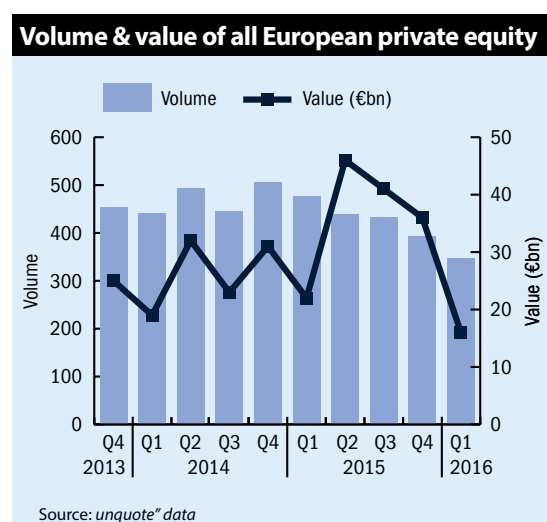
- In volume terms, the growth capital sector registered a sizable drop of 13.5% – from 163 transactions in the fourth quarter, to 141 in the first quarter.
- The total quarterly value of deals witnessed a decline as well, decreasing by 61.1% from €5.2bn to €2bn.
- The total value of deals during the year to Q1 2016 exceeded the previous 12-month figure by 40.7%, up from €11.9bn to €16.7bn. Aggregate deal volume (719 transactions) fell short by 21.3%.
- Regionally, the rest of Europe category and the Nordics noted the largest decrease in quarterly volume (down eight transactions each), while the UK noted the largest decrease in quarterly value (down €2.9bn).
- On the other hand, Benelux was home to the largest increases in quarterly volume and value. The region improved by five transactions and €79.9m.
- Looking at the data by country, France and Spain recorded the largest decreases in total deal volume, declining by seven deals each.
- The UK was the predominant market in terms of the volume and value of expansion deals during the first quarter, accounting for 47 completed transactions – a third of the total. These deals were valued at €938.5m, 75.7% below the previous quarter's total.
- The UK was also home to the largest deal of the quarter, when local travel search engine Skyscanner secured approximately €173.8m in funding from Vitruvian Partners, Artemis and others.

Early-stage

- The three months to March saw the early-stage market decline, with the total number of deals sliding from 95 to 80 deals.
- All regions except the UK and the DACH market saw declines in volume terms. The UK was up five deals, while DACH was up two transactions.
- On the other hand, value was up 84.6% from €326.7m to €603.1m.
- The UK was largely responsible for the rise in market value, producing a total of 29 deals worth €313.3m or 52% of the aggregate value of deals in Europe.
- The only other markets on a regional basis that witnessed an increase in total value were the rest of Europe category and the Nordics.
- The UK was home to the largest deal of the quarter – Soffinova Partners-backed British biotechnology business Mission Therapeutics raised €78.9m in a funding round led by Woodford Patient Capital Trust.

European dealflow sees further declines in Q1 2016

Overall European private equity



	Volume	Value €bn
Q4 2013	455	25.19
Q1 2014	441	19.30
Q2 2014	493	31.81
Q3 2014	445	23.14
Q4 2014	506	30.53
Q1 2015	476	22.24
Q2 2015	440	45.63
Q3 2015	433	40.56
Q4 2015	394	35.60
Q1 2016	348	16.31
2014	1,885	104.79
2015	1,743	144.03
2016	348	16.31

In recent years, the private equity market has witnessed sleepy first quarters, only to rebound in the second three months. Although it remains to be seen how deal activity will pan out in Q2, activity levels during the first three months of 2016 indicate how tough it was to deploy capital in the European private equity market. A total of 348 deals were completed in Q1, the lowest number seen in the last ten quarters and over 30% below the sample's peak of 506 witnessed in Q4 2014. These transactions were valued at €16.3bn, some 54.2% short of the €35.6bn transacted over the preceding three months.

This marks the continuation of a trend that began in the first quarter of 2015 when the slide in quarterly volume began. Since then, deal volume has slipped in each successive quarter. What is more, the slowdown in dealflow has not been restricted to any one area of the market, with deal types affected. Until Q1 2015, the rise in European deal numbers was primarily driven by a relative return to form for the growth capital segment. Now, this segment has been the main factor behind the downturn, accounting for 83.6% of the volume decline since the first quarter of 2015. Mirroring the trends noted in the wider dataset, Q1 2016 witnessed the growth capital segment lead the overall decrease in volume, with these transactions declining by 22 deals or 13.5% quarter-on-quarter.

In the buyout space, the decline was driven by deals in the €100m+ brackets. Here the volume of deals fell to its lowest level since Q1 2014 and deal value dropped to a 10-quarter nadir. As a result, buyouts declined by nine deals or 6.6%. Activity in the venture market – largely eclipsed in the broader data – remains very subdued in comparative terms: at an aggregate of 80 deals in Q1 2016, this segment saw its lowest total for 10 quarters.

Interestingly, buyout activity has slowed down despite apparently healthy fundamentals, such as the abundance of credit, benign economic conditions (albeit with nervous forecasts) and relatively strong LP appetite for the asset class. However, competition for assets is high and the availability of attractive investments is relatively thin as rising dry powder levels and competition from cash-rich corporates cause price levels and target valuations to surge. Furthermore, the availability of inexpensive credit has opened up the possibility of investing in target companies with lower cash flows, thereby increasing the imperative for GPs to find new ways of creating value. And this may further add to the air of caution in the market.

Quarterly Focus

Weak Q1 dealflow: temporary blip or market step-change?

Looking over the buyout data for recent years, dealflow in the first quarter is almost always lower than the rest: in fact, in the current 12-quarter sample, the three Q1s covered occupy the bottom three places in the volume rankings for the period. But, within this timeframe, volumes have always jumped in the second quarter of the year – by over 23% in 2014 and around 17% in 2015. However, it is arguable that the market is weaker now than at any time in the last few years: since rising in Q2 last year, the number of buyouts has fallen in three successive quarters. So how likely is it that the market will be able to post anything like as robust a recovery in the second quarter of this year?

Certainly, the early signs are that buyout deal volumes in April will outstrip each of the previous three months, albeit not by a significant margin. And there are anecdotal reports that transaction activity is picking up and this may translate into a better flow of completions into May and June.

But it is also true that the market is being affected by other factors that may continue to act as a brake on deal activity in the short- to medium-term. Although global stock markets have rallied somewhat in recent weeks, there remains an air of nervousness, which has clearly had a knock-on effect on potential vendors (especially of privately owned businesses, the stats suggest), banks, institutional investors and the bond markets. Doubts over Chinese economic output, the US presidential elections and global oil prices have all played their part.

Perhaps more importantly, at a European level, the very real possibility of Britain's exit from the European Union despite a broad support for the Remain Campaign from the majority of British business, is also a significant factor in the overall picture. The UK buyout market stats for Q1 this year speak volumes: the total of 25 buyouts is by quite some margin the lowest seen since unquote" records began in the early 1990s.

However, there are positives. At the time of writing, the running total for UK buyouts in April is not far off double each of the previous three months. Elsewhere, economic news coming out of the Eurozone is better than anticipated, with Spain and France in particular exceeding expectations (note also France's comparatively strong showing in the Q1 figures). And in the US, the Federal Reserve's concerns about global economic and financial risks have eased and the US economy continues to post strong figures.

Overall, it looks as though the buyout market will indeed reverse the three-quarter trend of decline, though it remains to be seen whether it does so modestly or more positively. At least in the UK, the wait for a return to significantly stronger dealflow will have to wait until after the EU Referendum in late June.

Buyouts

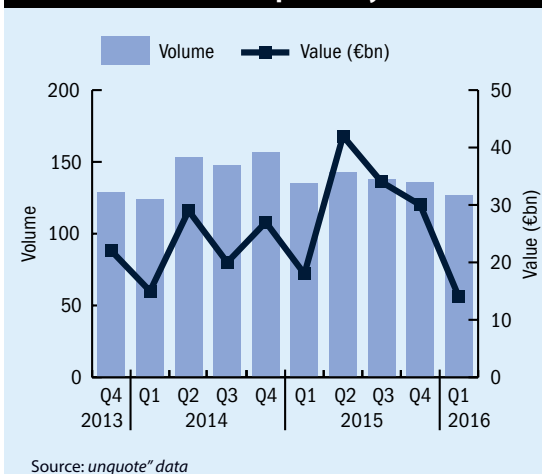
In volume terms, the buyout segment witnessed a slow Q1, with the number of deals recorded declining for the third consecutive period to 127 transactions, the lowest total since Q1 2014. This slow but steady slide mirrors the trend across the market. Indeed, the first quarter total remains 19.1% below the ten quarter peak of 157 buyouts in Q4 2014. As a result, the 544 buyouts completed over the year to Q1 2016 as a whole marks a decline of 8.3% over the previous 12 months.

In a similar vein, the value trend also showed a slowdown during the first three months of 2016, with the Q1 total of €13.7bn down 54.5% on the €30.1bn recorded in the preceding period. Value totals have steadily fallen from the impressive ten-quarter high of €41.8bn reported in Q2 2015, with this year's first quarter figure 67.3% below that peak. Still, total value for the year to Q1 2016 was up 26.7% at €119.6bn.

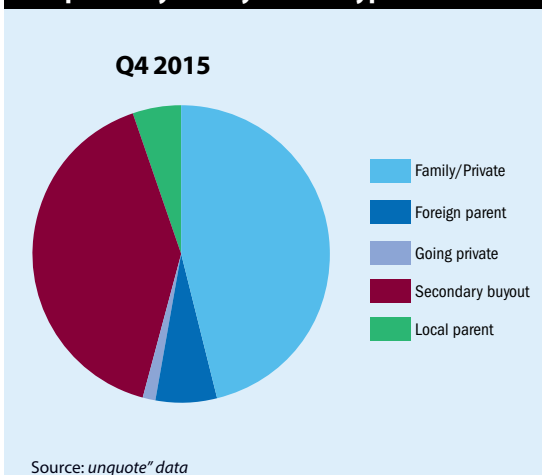
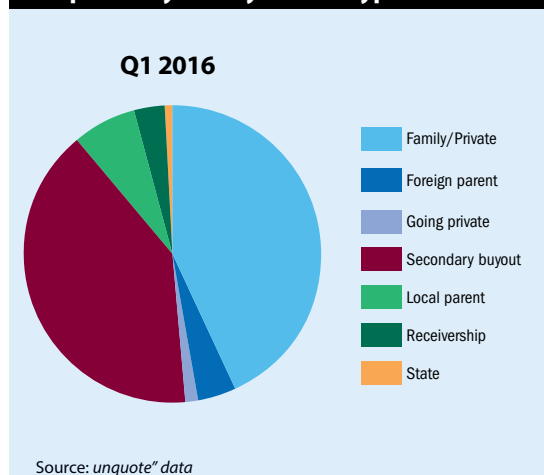
Repeated fluctuation in overall value figures during the past twelve months is predominately the result of inconsistent dealflow at the top end of the market. The large-cap segment recorded just one deal in the first quarter and accounted for €1.1bn of the overall total, just 16.7% of the volume and 10.6% of the value registered during the previous quarter. Mid-market buyouts also recorded a decline of 11.1% in volume terms and 43% in value terms. At the other end of the scale, the small-cap range registered 86 deals (worth €3.2bn), one more than the previous quarter and the highest quarterly figure during the year to Q1 2016. The buyouts transacted in the large-cap, mid-market and small-cap ranges accounted for 41.1%, 47.4% and 11.1% (respectively) of the overall total during the 12 months to the end of Q1 2016.

Regionally, France and the DACH market were the lone bright spots during the first quarter of 2016. France completed 39 buyouts worth €5bn and became the largest market by volume and value after edging out the UK and the DACH region in volume and value terms respectively. Besides France, no region registered growth in volume terms in Q1. The DACH region remained stable at 16 transactions and improved marginally in value terms (+2.6%).

Although family and private vendors continued to dominate deal sources, as they traditionally do, they witnessed a drop in dealflow from 63 to 55 buyouts (-12.7%) in Q1. Secondary buyouts also saw a slowdown, with 51 transactions (-7.3%) representing 40.2% of the deal activity in the period. On the other hand, a rise in receiverships saw this segment record four transactions – a ten-quarter high for the category.

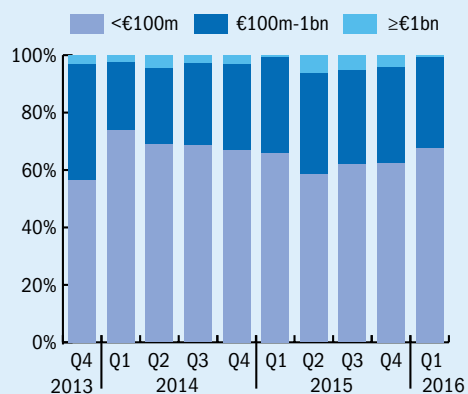
Volume & value of European buyouts

	Volume	Value €bn
Q4 2013	129	22.09
Q1 2014	124	15.44
Q2 2014	153	28.59
Q3 2014	148	20.40
Q4 2014	157	27.21
Q1 2015	135	18.26
Q2 2015	143	41.82
Q3 2015	138	34.10
Q4 2015	136	30.05
Q1 2016	127	13.67
2014	582	91.64
2015	552	124.23
2016	127	13.67

European buyouts by vendor type**European buyouts by vendor type**

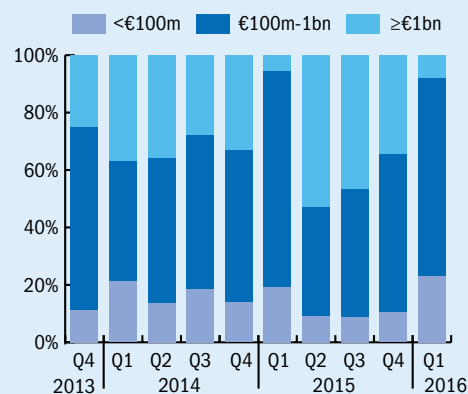
	Q4 2015	Q1 2016
Family/Private	63	55
Foreign parent	9	5
Going Private	2	2
Institutional Investor	55	51
Local Parent	7	9
Receivership	0	4
State	0	1

Volume of European buyouts by size range



Source: unquote® data

Value of European buyouts by size range

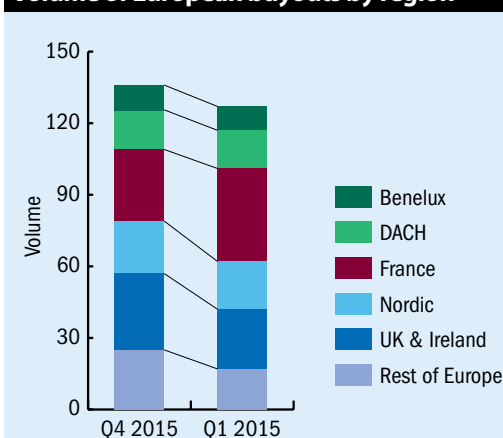


Source: unquote® data

	<€100m Volume	%	€100m-1bn Volume	%	≥€1bn Volume	%	Quarterly total
Q4 2013	73	57%	52	40%	4	3%	129
Q1 2014	92	74%	29	23%	3	2%	124
Q2 2014	106	69%	40	26%	7	5%	153
Q3 2014	102	69%	42	28%	4	3%	148
Q4 2014	105	67%	47	30%	5	3%	157
Q1 2015	89	66%	45	33%	1	1%	135
Q2 2015	84	59%	50	35%	9	6%	143
Q3 2015	86	62%	45	33%	7	5%	138
Q4 2015	85	63%	45	33%	6	4%	136
Q1 2016	86	68%	40	31%	1	1%	127

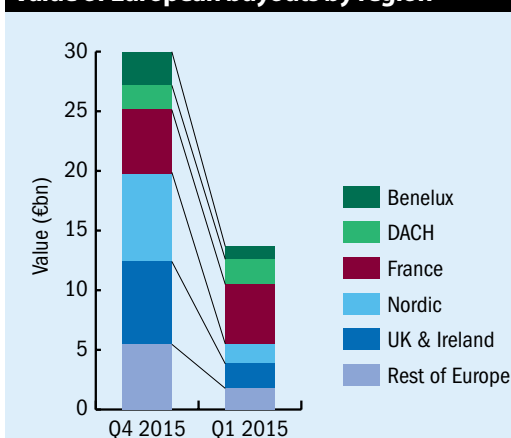
	<€100m Value (€bn)	%	€100m-1bn Value (€bn)	%	≥€1bn Value (€bn)	%	Quarterly total Value (€bn)
Q4 2013	2.48	11%	14.03	64%	5.58	25%	22.09
Q1 2014	3.32	21%	6.43	42%	5.69	37%	15.44
Q2 2014	3.89	14%	14.43	50%	10.27	36%	28.59
Q3 2014	3.78	19%	10.90	53%	5.72	28%	20.40
Q4 2014	3.85	14%	14.33	53%	9.03	33%	27.21
Q1 2015	3.54	19%	13.72	75%	1.00	5%	18.26
Q2 2015	3.86	9%	15.76	38%	22.20	53%	41.82
Q3 2015	3.03	9%	15.15	44%	15.92	47%	34.10
Q4 2015	3.24	11%	16.45	55%	10.36	34%	30.05
Q1 2016	3.19	23%	9.38	69%	1.10	8%	13.67

Volume of European buyouts by region



Source: unquote® data

Value of European buyouts by region



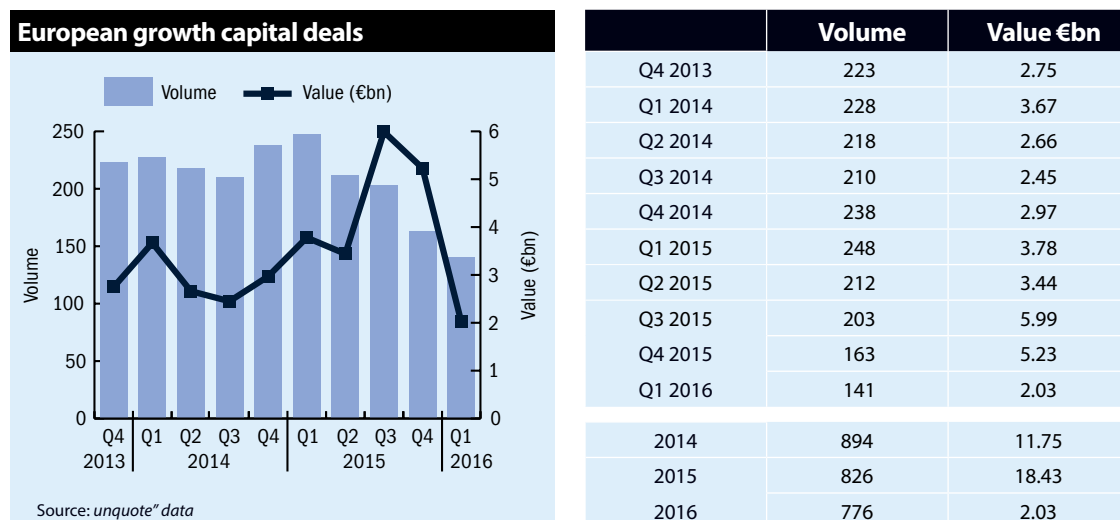
Source: unquote® data

	Volume		Value (€m)	
	Q4 2015	Q1 2016	Q4 2015	Q1 2016
Benelux	11	10	2,873	1,077
DACH	16	16	2,054	2,108
France	30	39	5,378	4,990
Nordic	22	20	7,337	1,621
Rest Of Europe	25	17	5,467	1,771
UK	32	25	6,939	2,103
	136	127	30,049	13,670

Ten largest European private-equity-backed buyouts, Q1 2016

Deal name	Country	Value (€m)	Equity provider
Defence Electronics	Germany	1,100	Kohlberg Kravis Roberts
Novacap	France	700 (est)	Merieux Developpement, Eurazeo, Ardian
InfoPro Communications	France	700 (est)	Towerbrook Capital
Doc Generici	Italy	660 (est)	CVC
Grainger Retirement Solutions	United Kingdom	441	Patron Capital, Electra Partners
Financière Cofidim	France	400 (est)	ALPHA Associes Conseil
Royal Reesink	Netherlands	279	Gilde Buyout Partners, Navitas Capital
d&b audiotechnik AG	Germany	275 (est)	Ardian
Citation	United Kingdom	243 (est)	HgCapital
CitySprint	United Kingdom	234	LDC, Dunedin Capital Partners

Growth capital



Often seen as a bellwether for confidence in underlying economic strength, the expansion segment faced a weak start to 2016, having already dropped to a ten-quarter low in the previous quarter (Q4 2015). A decline of 13.5% in volume from the modest total of 163 deals recorded in the fourth quarter meant that Q1's 141-deal total became the lowest for several years. This decline also marks the fourth consecutive quarterly decline, representing a slide of 43.1% from the peak of 248 transactions recorded in Q1 2015.

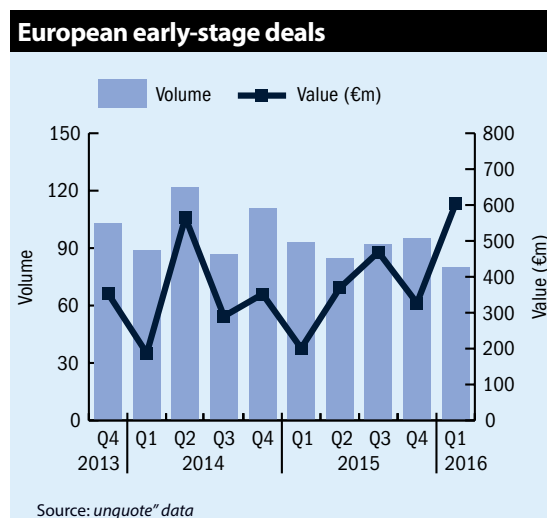
The story was similar in value terms, with Q1 2016 registering a decline of 61.1% from €5.2bn to €2bn – also the lowest of the ten-quarter period and the second consecutive quarterly decline. The year to Q1 2016 finished some 21.3% down in volume terms after registering 719 transactions worth €16.7bn. In other words, the 12-month period witnessed a rise of 40.7% in value terms.

The UK remains by far the largest expansion market in Europe, having amassed 47 deals for the three months to March, 46.9% greater than its nearest rival (DACH region, 32 deals). It was substantially ahead in value, too, with the total of €938.5m comfortably beating DACH's €331.5m. Behind the UK and DACH, France was third in volume terms, with 25 deals worth €202.5m. The largest transaction of the quarter was completed in the UK: travel search engine Skyscanner secured approximately €173.8m in funding from Vitruvian Partners, Artemis, Baillie Gifford, the Malaysian government's strategic investment fund (Khazanah Nasional Berhad), and Yahoo! Japan.

Ten largest European private equity-backed growth capital deals, Q1 2016

Deal name	Country	Value (€m)	Equity provider
Skyscanner	United Kingdom	174	Vitruvian Partners, Artemis, <i>et al.</i>
Future Finance	Ireland	151	Fenway Partners, QED Investors, Invus
AquaFil	Italy	60	Three Hills Capital Partners
Blippar	United Kingdom	50	Qualcomm Ventures Europe
HighQ	United Kingdom	46	Goldman Sachs Capital Partners, Morgan Stanley Private Equity
eGym	Germany	41	HPE Growth Capital, Highland Capital Partners, Bayern Kapital <i>et al.</i>
QuBit	United Kingdom	37	Goldman Sachs Capital Partners, Sapphire Ventures, Accel Partners <i>et al.</i>
Citymapper	United Kingdom	37	Benchmark Capital, Index Ventures
M-Files Corporation	Finland	33	Finnish Industry Investment, DFJ Esprit, Partech
Spotcap	Germany	32	Holtzbrinck Ventures

Early-stage



	Volume	Value €m
Q4 2013	103	353
Q1 2014	89	187
Q2 2014	122	565
Q3 2014	87	290
Q4 2014	111	352
Q1 2015	93	201
Q2 2015	85	369
Q3 2015	92	469
Q4 2015	95	327
Q1 2016	80	603
2014	409	1,394
2015	365	1,366
2016	80	603

The European venture capital segment added to the sombreness of the wider private equity market. Early-stage activity recorded a fall from the 95 deals seen in Q4 2015 to 80 in Q1 2016, marking the lowest quarterly total over the last ten quarters. As a result, the 352 deals during the year to Q1 2016 was 14.8% down on the 413 deals for the preceding 12 months.

However, contrary to what was seen in the buyout and growth capital spaces, value was significantly up on the fourth quarter and the segment posted an 84.6% increase in collective investment to €603.1m in the three months to March. From a 12-monthly perspective, the early-stage segment mirrored trends in the buyout and expansion segments by recording a decrease in volume terms and an increase in value terms. The 352 deals worth €1.8bn represent a 14.8% decline in volume and a 25.6% rise in value when compared to the previous year to Q1 2015.

Much like the picture seen in the growth capital segment, the UK topped the table in terms of dealflow on a regional basis, having been home to 29 deals worth €313.3m in Q1 2016. The DACH region came in second with 24 deals worth €103.4m. The largest transaction of the quarter was completed in the UK: Soffinova Partners-backed British biotechnology business Mission Therapeutics raised €78.9m in a funding round led by Woodford Patient Capital Trust.

Ten largest European private equity-backed early-stage deals, Q1 2016

Deal name	Country	Value (€m)	Equity provider
Mission Therapeutics	United Kingdom	79	Soffinova, SR One, Imperial Innovations <i>et al.</i>
Maru Group	United Kingdom	59	Primary Capital
Apra	Sweden	47	HealthCap, 5am Ventures, Versant Ventures <i>et al.</i>
Iterum Therapeutics	Ireland	37	Sofinnova Partners, Canaan Partners, Frazier Healthcare Partners <i>et al.</i>
Babylon Health	United Kingdom	23	Hoxton Ventures, Investment AB Kinnevik
Gecko Biomedical	France	23	Omnes Capital, BPI France, Sofinnova Partners <i>et al.</i>
Atlantic Pharmaceuticals	United Kingdom	22	Investors, Angel Co-Fund, LDC
Enyo Pharma	France	22	Sofinnova, Morningside, BPI France
Property Partner	United Kingdom	20	Index Ventures, Dawn Capital, Octopus Ventures
vasopharm	Germany	20	Entrepreneurs Fund, HeidelbergCapital, Bayern Kapital <i>et al.</i>

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