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Annual Buyout Review
2019 edition

A different angle

Spot the opportunities in fixed income

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A new plateau

Unquote is pleased to introduce the latest edition of its *Annual Buyout Review*, which this year celebrates its 30th birthday. The following collection of articles is based on *Unquote*'s extensive data across deals, exits and fundraising, as well as on interviews with our broad network of industry contacts.

Our database has clocked up well over 40,000 private equity investments and more than 5,000 funds over the years thanks to the work of our editorial and research teams. Additions to our offshore research team over the past 12 months have improved the way we track activity across the entire PE cycle; we now have dry powder figures and performance benchmarks available for numerous funds (the full array of our fundraising data can be seen in our series of fundraising reports). Meanwhile, more financial data on targets is being gathered, allowing the more accurate analysis of indicative entry multiples across regions and sectors.

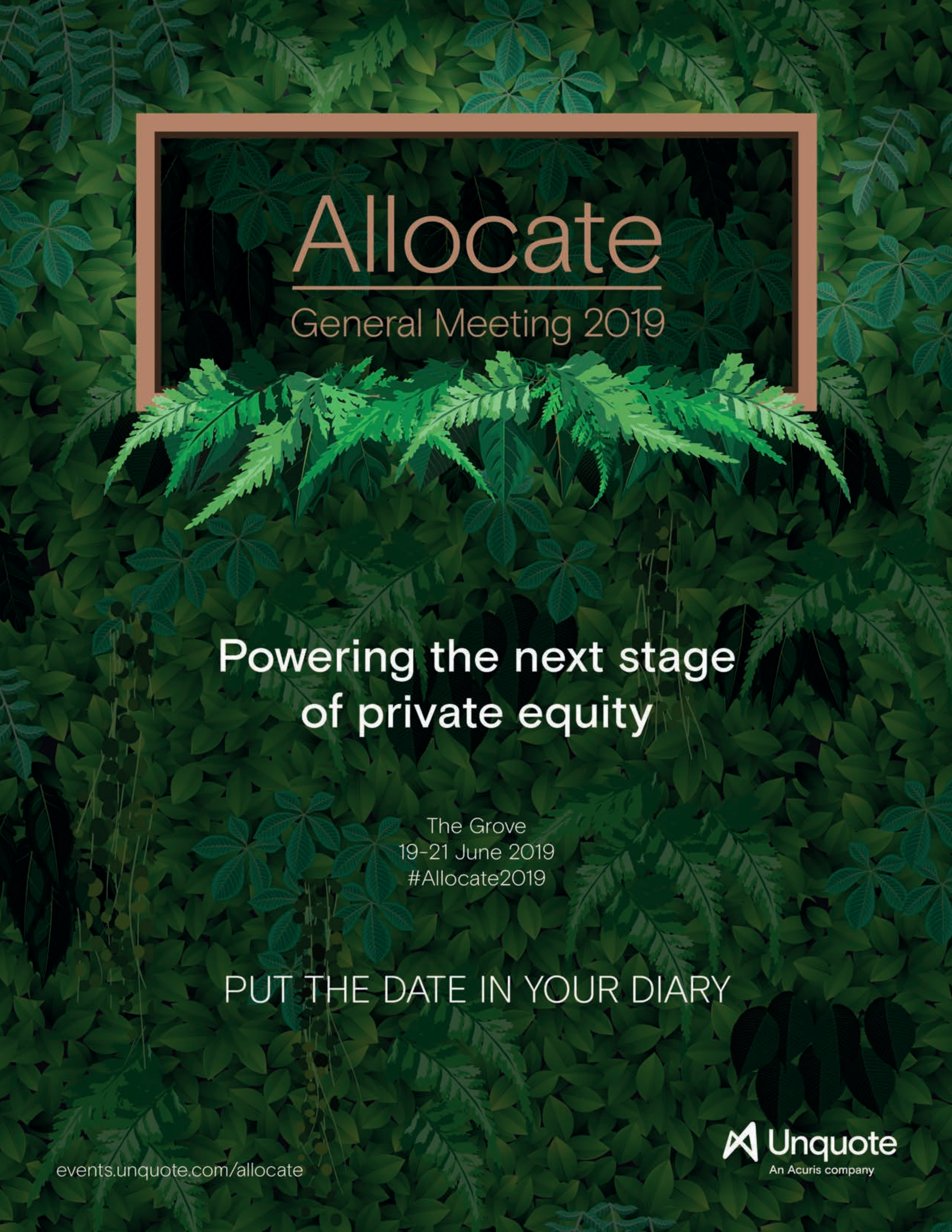
A few themes stand out in this year's edition. The post-crisis buyout wave finally moderated in 2018, ending a run of four years of rising deal numbers. And what a run it was – dealflow over each of the last two years has been almost double what it was in 2013. This year will tell whether 2018 marked the beginning of a new normal or was just a hiccup on an upward trend.

One reason for the loss of momentum appears to be a difference of opinion between buyers and vendors. GPs on the buy-side are becoming more cautious about the economic outlook, while vendors are holding out for boom-time valuations. Many vendors are happy to turn down offers and wait to gain more upside, while in previous years they were more keen to sell while the business environment was positive.

Fundraising came off the boil, but this was down to the largest fundraisers having successfully raised in recent years. Underlying momentum is strong and dry powder is plentiful everywhere, as is available leverage.

Certain sector trends are providing cause for optimism amid a more uncertain economic and political outlook. Southern Europe has a strong cohort of exporting businesses in the industrial and consumer sectors, while CEE is benefiting from a wave of graduates who can sell their talent at a discount to their western European peers, and who are also customers for high-end consumer businesses. Technology, especially advances in B2B software, is creating more opportunities for consolidation. And investments focused on, or enabled by, automation and AI are no longer speculative venture investments, but are becoming a common feature of the small-cap and mid-market segments.

That said, due to high pricing and macroeconomic pressures, many GPs are expecting further moderation in the year ahead. ■



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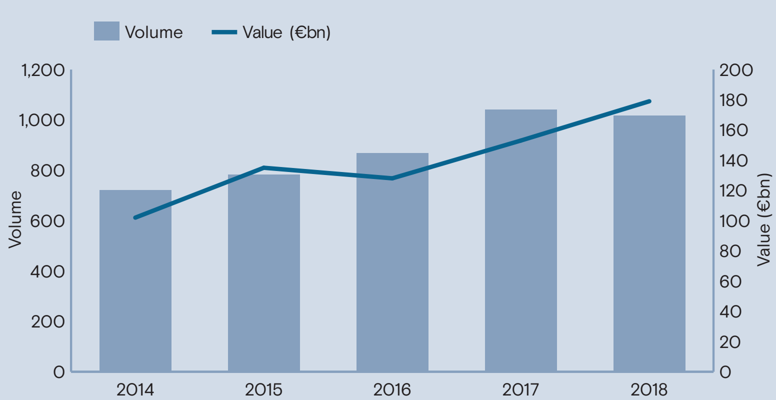
Executive summary

Value reaches post-crisis peak

A surge in large-cap activity lifted deal value in 2018, while a mismatch in pricing expectations between vendors and buyers impacted volume

European buyout value hit a new post-crisis high in 2018, despite a moderation in volume. Total enterprise value came to €182bn, a 19% climb on the previous year, as volume fell 2% to 1,018. While the dip in deal numbers ends a four-year run of rising dealflow, the year was still the second busiest in European private equity history.

Private-equity-backed buyouts in Europe



	2014	2015	2016	2017	2018
Volume	721	784	869	1,042	1,018
Value (€bn)	102	135	128	153	182
Average value (€m)	141	172	148	147	179

Source: Unquote Data

Deal value increased in every region except the UK & Ireland and Iberia. Value in the UK & Ireland fell 21% to €33.9bn, due almost entirely to weakness in the UK market, where there was a drop in the amount of capital invested in deals valued in excess of €500m. However, the mid-market posted a solid performance.

High levels of mid-market activity were observed across Europe. The total number of deals in each of the €5-25m, €25-50m and €50m-250m enterprise value ranges rose for at least the third consecutive year. The slowdown was in deals valued below €25m and in the €500m-1bn range.

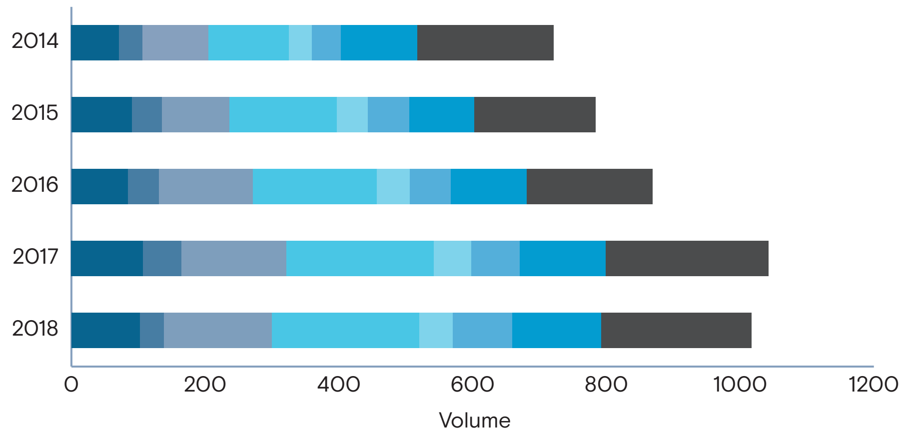
The price isn't right

A key factor weighing on dealflow in 2018 was the mismatch in pricing expectations between buy-side GPs and vendors. Renewed vigour in European macroeconomic conditions has boosted earnings in the past year or two, and business owners, aware that the market is competitive, are seeking high multiples based on their latest financials. However, GPs are becoming more cautious on the macroeconomic outlook, resulting in a pricing mismatch that has stalled a number of deals.

The outlook for 2019 is mixed, with the market wary of macro factors and politics, but optimistic on trends such as technology, especially automation.

Dealflow by region

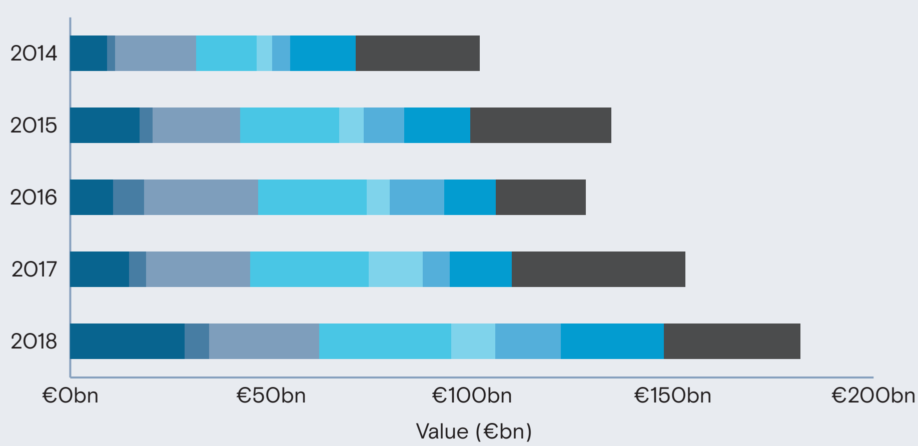
- DACH, Italy and the Nordic region set new records for annual buyout volume.
- Deal numbers dropped in the UK, Iberia, Benelux and CEE.
- Local players say the sharp drop in CEE dealflow is not reflective of the strong market environment and available opportunities.



	2014	2015	2016	2017	2018
Benelux	71	90	84	107	102
CEE	35	45	47	57	36
DACH	99	101	140	157	162
France	120	161	186	221	220
Iberia	34	46	49	56	50
Italy	44	62	61	72	89
Nordic	114	97	114	129	133
UK/Ireland	204	182	188	243	226

Aggregate buyout value by region

- Italy's aggregate buyout value reached a new record.
- Benelux, France and the Nordic region had their highest aggregate buyout value since the financial crisis.
- The UK & Ireland was the only region where value declined.



	2014	2015	2016	2017	2018
Benelux	9.1	17.3	10.7	14.6	28.5
CEE	2.0	3.2	7.6	4.3	6.0
DACH	20.2	21.7	28.4	25.9	27.5
France	15.1	24.7	27.1	29.5	32.8
Iberia	3.8	6.2	5.7	13.4	11.0
Italy	4.6	10.0	13.6	6.8	16.3
Nordic	16.2	16.5	12.8	15.4	25.7
UK/Ireland	30.9	35.0	22.4	43.2	33.9

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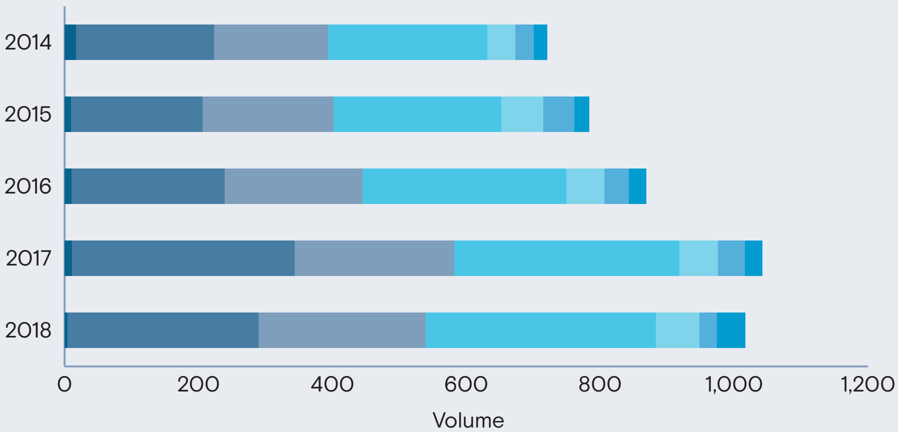
Dealflow by size range

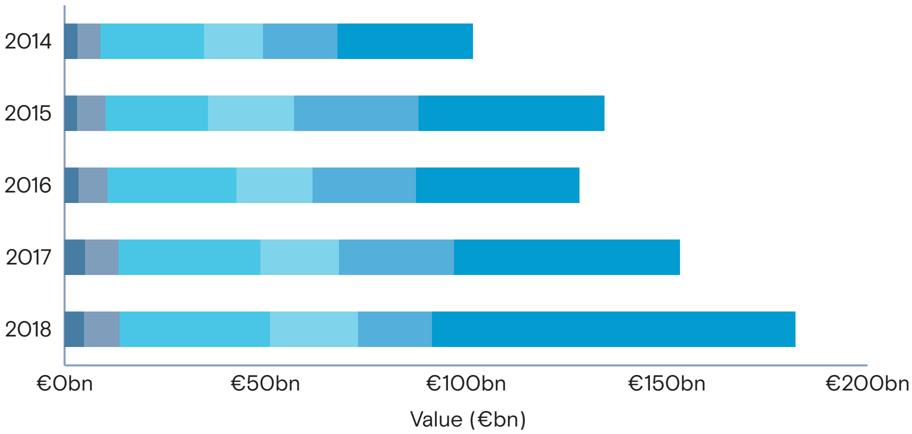
- Mid-market momentum continued, with deal numbers in the €25-50m and €50-250m ranges hitting all-time highs.
- The number of €1bn+ deals reached its highest since 2007.



	2014	2015	2016	2017	2018
<€5m	17	9	10	11	4
€5-25m	206	197	229	332	286
€25-50m	171	196	206	239	249
€50-250m	237	250	304	336	344
€250-500m	42	63	57	58	65
€500m-1bn	28	46	37	40	26
>€1bn	20	23	26	26	44

Aggregate buyout value by size range

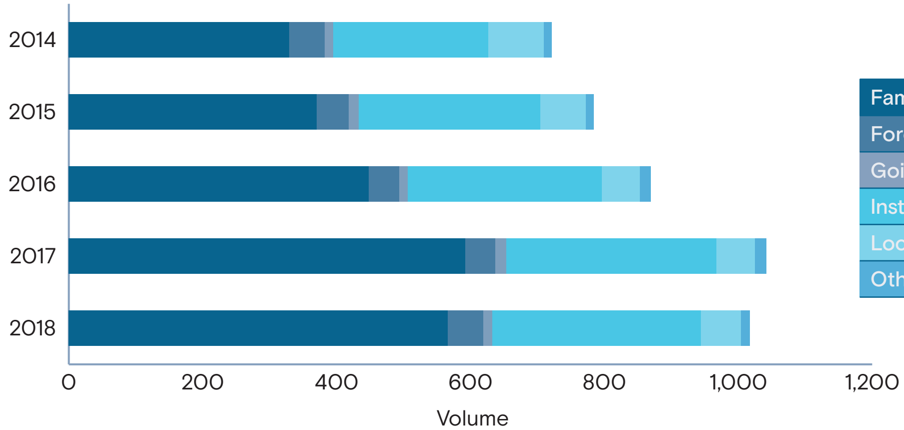
- Value in the mid-market was robust, with the €25-50m and €50-250m ranges setting new records.
- The value of €1bn+ deals climbed sharply and was the highest since 2007.



	2014	2015	2016	2017	2018
<€5m	0.1	0	0	0	0
€5-25m	3.0	3.0	3.4	5.0	4.8
€25-50m	5.8	7.1	7.3	8.4	8.8
€50-250m	25.8	25.6	32.1	35.4	37.5
€250-500m	14.7	21.4	18.9	19.5	22.0
€500m-1bn	18.6	31.0	25.8	28.7	18.4
>€1bn	33.7	46.4	40.7	56.2	90.5

Dealflow by vendor type

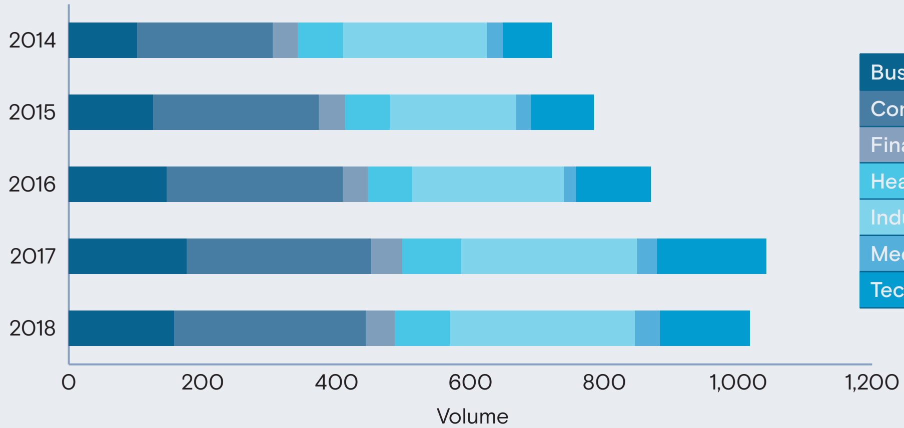
- Buyouts sourced from family and private vendors maintained their large share of the market, accounting for 56% of transactions.
- The main categories of vendor type have accounted for consistent shares of dealflow over the last few years.



	2014	2015	2016	2017	2018
Family/Private	329	370	448	592	566
Foreign parent	53	48	45	45	53
Going private	13	15	13	16	14
Institutional investor	231	271	290	314	312
Local 9arent	83	68	57	58	60
Other	12	12	16	17	13

Dealflow by sector

- Consumer sector deals maintained their upward momentum, rising for the fifth consecutive year.
- Industrial deals rose for the third consecutive year, while business services and healthcare transactions posted strong numbers despite dropping.



	2014	2015	2016	2017	2018
Business services	102	126	146	176	157
Consumer	202	247	263	275	286
Financials	38	40	37	47	44
Healthcare	68	66	67	88	82
Industrials	215	189	226	262	276
Media	23	23	18	30	38
Technology	73	93	112	164	135

Benelux

Francesca Veronesi
Reporter

Abundance of attractive assets lifts large-caps

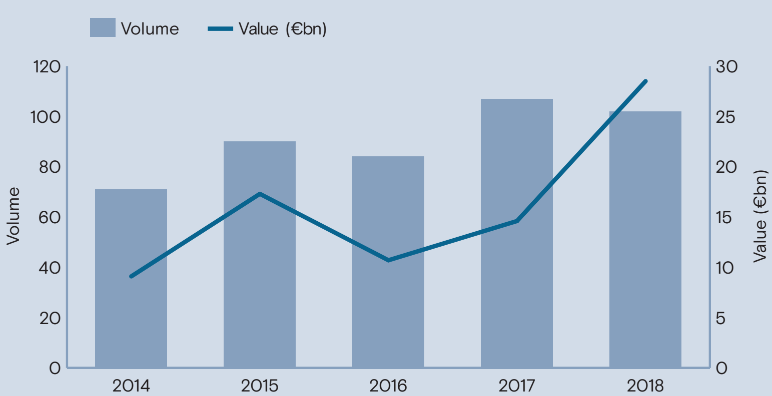
A flurry of large deals lifted total value to a post-crisis high in Benelux. Meanwhile, the market is adapting to more international interest, aggressive corporates and Brexit. Francesca Veronesi reports

The Netherlands and Belgium experienced a slight slowdown in their economies last year. GDP growth was 2.5% for the Netherlands, against the previous year's 2.9%, according to Statistics Netherlands. Meanwhile, Belgium's growth was 1.4%, against 2017's 1.7%, according to Eurostat. In contrast, Luxembourg regained momentum; after slowing to 1.5% in 2017, GDP growth is estimated by the European Commission to have reached 3% in 2018.

Belgium had a turbulent end to the year politically. The country's four-party coalition government fell in December due to the pulling out of its largest party, the New Flemish Alliance, over objections to a UN migration pact. Later that month, prime minister Charles Michel lost a vote of no confidence and resigned from his post, although he subsequently agreed to stay on until the 2019 federal elections in May.

The Netherlands and Luxembourg were more stable. Dutch prime minister Mark Rutte, the leader of the conservative liberal People's Party for Freedom, is completing his third cabinet, leading a coalition government formed in 2017. Rutte's party has largely stayed ahead in the polls across the year, followed by the second most popular candidate in the 2017 elections, the Party for Freedom, according to figures by Ipsos. This right-wing, Eurosceptic and anti-Islam party has 20 seats out of 150 in the House of Representatives and is not in coalition with the

Private-equity-backed buyouts



	2014	2015	2016	2017	2018
Volume	71	90	84	107	102
Value (€bn)	9.1	17.3	10.7	14.6	28.5
Average value (€m)	128	192	127	137	280
% of European volume	9.8%	11.5%	9.7%	10.3%	10.0%
% of European value	9.0%	12.9%	8.3%	9.6%	15.9%

Source: Unquote Data

> “Benelux hosts [many] large assets, and I expect more large-cap deals to take place in 2019”
> *Lennard Keijzer, De Brauw Blackstone Westbroek*

government. Finally, Luxembourgers voted for continuity in their general elections last year as the previous government was reconfirmed.

Big spender

Benelux punched above its weight last year in terms of capital deployed. Overall buyout value in the region reached its second highest level on record, with €28.6bn’s worth of deals completed, compared with 2007’s €35bn. Carlyle’s €10.1bn carve-out of the speciality chemicals division of AkzoNobel, Europe’s fourth largest private equity buyout ever, provided a significant boost.

But even if that enormous deal is excluded, aggregate deal value remains the highest figure seen in the Benelux market since pre-crisis years. This is mostly due to sustained large-cap activity; in addition to the AkzoNobel deal, there were seven large-cap (€500m+) buyouts with a combined enterprise value of €11.4bn.

“The region hosts a good number of large assets, and I would expect more large-cap deals to take place in 2019,” says Lennard Keijzer, partner at De Brauw Blackstone Westbroek. “No doubt, current volatility on the stock markets makes investors itchy, but the fundamentals are still good for large-cap deals.”

While large-cap value climbed significantly, volume did not differ greatly from recent years. In the 2015-2017 period, there were an average of seven large-cap deals compared with last year’s eight.

Combined value in the mid-market (€25-500m) reached €6.5bn – not as high as 2015’s €7.6bn, but higher than the figures recorded in 2016 and 2017, which each posted values of around €5bn. On the other hand, volume has remained relatively constant over the past four years at around 60 deals per year.

At the lower end of the value scale, the small-cap space (<€25m) saw deal value of €597m in 2018 across 34 transactions, similar to 2017. However, both years displayed a stark increase in activity compared with 2015-2016, which averaged €328m across 23 deals.

Buyout fundraising dipped in 2018, with only three final closes totalling €340m. However, sources say the Benelux fundraising environment is still proving favourable for GPs, and that a slowdown could have been expected following high levels of fundraising between 2015-2017. Indeed, 2017 proved to be the region’s busiest ever year for fundraising, with 14 buyout vehicles and three venture funds holding final closes totalling €6bn.

International interest

Valuations are still very high, and it seems GPs are being extra careful in the auctions they take part in. Waterland investment director William Ford says: “PE houses paid high multiples for assets that are non-cyclical or are related to sectors predicted to grow significantly in the future - IT services generally, such as big data, data analytics, business intelligence and cybersecurity. On the other hand, GPs that intend to not bid very high for these kinds of companies are looking for businesses less obviously set out for an exponential or long-lasting growth, but to which the GP can add significant

> “[Benelux] has attracted a good number of GPs from the UK, France, the US and elsewhere, which have started having dealflow”
> *Eric Wijs, Lincoln International*

value." Ford adds that the divide between the two strategies has deepened due to gradually escalating prices.

Vendors are also putting in more work. Lincoln International managing director Eric Wijs, advising on the sell-side, says: "Exiting GPs need to engage in pre-marketing strategies, encourage management teams of portfolio companies to meet potential buyers, help bidders generally prepare before the auctions start, and choose M&A advisers that are really specialised in the sector the business operates in. Once the auction kicks off, you will have more engaged bidders and the process will go faster."

Finally, competition is exacerbated by foreign GPs that have been penetrating the market in recent years. Lincoln's Wijs says: "The market has attracted a good number of GPs from the UK, France, the US and elsewhere, which have started having a dealflow in the region. They either create Benelux-focused teams or open an office here."

Alexandre Neiss heads up Benelux debt origination for the corporate and acquisition finance team at Investec. He says international players are becoming part of the local fabric and influencing the market to a certain extent (Investec has been investing in the region since

> “Direct lending, which in Europe is most extensively developed in the UK market, is increasingly common in Benelux”
>
> *Alexandre Neiss, Investec*

2014): “For example, direct lending, which in Europe is most extensively developed in the UK market, is increasingly common in Benelux, and we’ve seen a noticeable shift concerning its use in the last 12-18 months.”

Asked to comment on the equity-debt ratio in deals, Neiss says: “Despite an increase in leverage multiples to 5-6.5x through total leverage, high exit multiples mean that equity cheques are often greater than 50% of the capital structure.”

Cunning corporates

Industry players speaking to *Unquote* said the worry of a looming economic slowdown in Europe forced GPs to look more cautiously at deals, especially in H2. There were 49 trade sales last year, a 68% increase compared with 2017. In contrast, only 25 SBOs took place, a year-on-year decrease of 13%, and only one PE-backed business floated, according to *Unquote* figures.

The rise in trade sales was seen in several European regions; however, Benelux has experienced the highest volume growth year-on-year. PE’s caution partially explains why trade sales are on the rise. Additionally, corporates have reacted to competition in recent years by ramping up their M&A capabilities.

> “M&A teams of corporates have become more professional… and often are knowledgeable and focused”
>
> *William Ford, Waterland*

“M&A teams of corporates have become more professional,” says Waterland’s Ford. “They have started reaching out very early, and often are knowledgeable and focused. We interpret this regained confidence in trade sales as a sign that they have simply adapted to a very competitive market.”

Monitoring Brexit

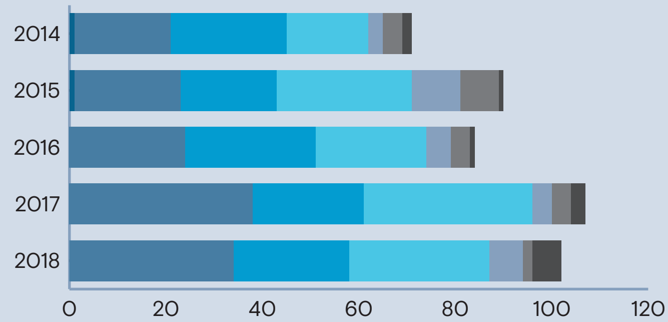
Playing a larger role in private equity decision making are the potential risks and opportunities regarding Brexit. “The negotiations are definitely being followed closely,” says Waterland’s Ford, “especially by our portfolio companies that have exposure via supply chains and B2B relations with companies based in the UK. However, we don’t perceive the management teams of our portfolio companies as very worried.”

“In terms of potential opportunities, in the short-term Benelux-based companies operating in the logistics sector, for example, might see an increase of business. Ultimately, we think the long-term consequences might be a decrease in bolt-ons of UK-based companies by Benelux-based companies.”

Some areas of the market are largely unfazed. Investec’s Neiss says: “In terms of debt providers, there is no need to have a licence to lend in the Netherlands, so, at least from that perspective, UK-based debt providers will be covered, even in the case of a no-deal Brexit.”

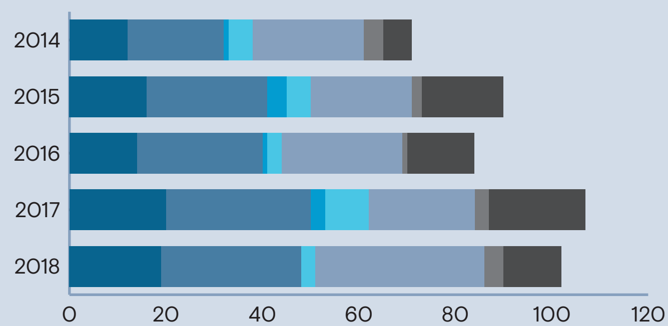
The region is still expected to be significantly affected by Brexit, not least because the UK is a crucial trade partner for Benelux countries. On a more positive note, the Benelux region might well find itself welcoming companies leaving the UK after its departure from the EU. This point was publicly discussed in October 2018 in the Netherlands, when Dutch foreign minister Stef Blok deemed Brexit a “lose-lose situation”, but openly conceded there might be some advantages for the Netherlands as a result. The coming year will determine how the industry responds to disruption and grasps the new opportunities Brexit might bring. ■

Benelux buyouts by size range (volume)



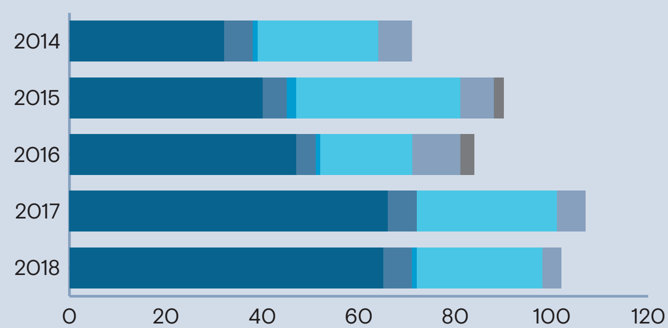
	2014	2015	2016	2017	2018
<€5m	1	1	0	0	0
€5-25m	20	22	24	38	34
€25-50m	24	20	27	23	24
€50-250m	17	28	23	35	29
€250-500m	3	10	5	4	7
€500-1bn	4	8	4	4	2
≥€1bn	2	1	1	3	6

Benelux buyouts by super-sector (volume)



	2014	2015	2016	2017	2018
Business services	12	16	14	20	19
Consumer	20	25	26	30	29
Financials	1	4	1	3	0
Healthcare	5	5	3	9	3
Industrials	23	21	25	22	35
Media	4	2	1	3	4
Technology	6	17	14	20	12

Benelux buyouts by vendor type (volume)



	2014	2015	2016	2017	2018
Family/Private	32	40	47	66	65
Foreign parent	6	5	4	6	6
Going private	1	2	1	0	1
Institutional investor	25	34	19	29	26
Local parent	7	7	10	6	4
Other	0	2	3	0	0

Source: Unquote Data

Benelux exits 2018

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
Action	Recap / Refinancing	2,410	3i Group
Ideal Standard	Recap / Refinancing	n/d	Bain Capital Europe
HemaPure	Other	n/d	Lion Capital
Stage Entertainment	Trade sale	1,000 (est)	CVC Capital Partners
TIP Trailer Services	Secondary buyout	n/d	Bravia Capital
Mendix	Trade sale	600	Battery Ventures, Prime Ventures, Henq
Ammeraal Beltech	Secondary buyout	n/d	Advent International
Mondo Minerals	Trade sale	514	Advent International
Parenco, Reparco/Reparenco	Trade sale	460	H2 Equity Partners
Iddink Groep	Trade sale	277	NPM Capital

€28.6bn of deals

Second-highest deal value on record

AkzoNobel

Fourth largest European deal ever

Trade sale boom

Trade sales rise 86%

Benelux funds 2018

Fund name	Fund manager	Fund Target (€m)	Amount closed (€m)
Bolster Investments	Bolster Investment Partners	n/d	160
Newport Buyout Fund I	Newport Capital	50	90
Victus	Victus Participations	75	90

Benelux deals 2018

Deal name	Business description	Deal value (€m)	Sector
AkzoNobel Specialty Chemicals	Producer of specialty chemicals	10,100	Industrials
Refresco	Bottler of soft drinks and fruit juices for retailers	3,300 (est)	Consumer
United Group	Provider of cable television and internet telecoms service	2,600 (est)	Technology
Azelis	Distributor of speciality chemicals	n/d (>1,000)	Industrials
TIP Trailer Services	Provider of trailer leasing, maintenance and repair services	n/d (>1,000)	Industrials
Ammeraal Beltech	Manufacturer of lightweight conveyor belts	1,000 (est)	Industrials
Attero	Provider of waste treatment and disposal services	n/d (500-1,000)	Business services
DSM Sinochem Pharmaceuticals	Developer of beta-lactam antibiotic drugs	600 (est)	Healthcare
IGM Resins	Producer of chemicals	n/d (250-500)	Industrials
Schoeller Allibert	Manufacturer of returnable plastic packaging crates and containers	415 (est)	Industrials
Combell	Provider of web hosting and cloud servers	n/d (250-500)	Technology
Sunweb Group	Operator of tours and travels	n/d (250-500)	Consumer
KidsFoundation	Operator of childcare centres	n/d (250-500)	Consumer
Inula Group	Provider of herbal health products	n/d (250-500)	Consumer
Royal Sanders	Manufacturer of personal care products	n/d (250-500)	Consumer
Infradata	Provider of cybersecurity and secure-networking services	n/d (50-250)	Technology
Expereo	Provider of internet network and cloud connectivity solutions	n/d (50-250)	Technology
Veco Precision	Manufacturer of high-precision metal components	n/d (50-250)	Industrials
Bugaboo	Manufacturer of children's trolley and strollers	n/d (50-250)	Consumer
Alltub	Producer of aluminum tubing and packaging products	n/d (50-250)	Industrials

Central & Eastern Europe

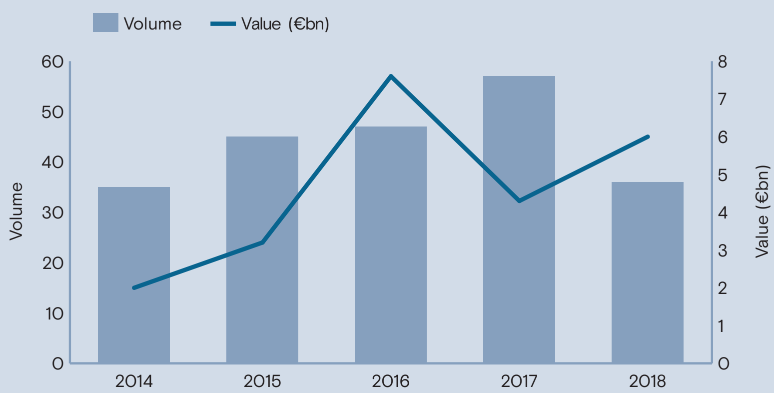
Chris Papadopoullos
Research editor

Pricing mismatch dents dealflow

A flourishing business environment is creating more potential targets, but simultaneously lifting vendors' price expectations beyond what GPs are prepared to pay. Chris Papadopoullos reports

The CEE region's positive economic momentum continued in 2018 despite ongoing political difficulties with Brussels.

Private-equity-backed buyouts



	2014	2015	2016	2017	2018
Volume	35	45	47	57	36
Value (€bn)	2.0	3.2	7.6	4.3	6.0
Average value (€m)	57	72	161	75	168
% of European volume	4.9%	5.7%	5.4%	5.5%	3.5%
% of European value	1.9%	2.4%	5.9%	2.8%	3.4%

Source: Unquote Data

Poland's Law and Justice Party is still in conflict with the EU after making heavy-handed reforms to the country's judiciary. It is difficult for the EU to impose sanctions, which would require unanimity among members, but it is proposing to link structural funding to factors based on how well members respect the rule of law.

The idea of forming a Eurosceptic Italo-Polish axis ahead of May's European elections was floated earlier this year by Italian deputy prime minister Matteo Salvini after meeting Jarosław Kaczyński, head of Poland's Law and Justice Party. Hungarian prime minister Viktor Orbán, also at odds with the EU over migration and the rule of law, is hoping an anti-immigration majority will prevail in the European parliament.

Economic growth in the region was very strong and unemployment low. Poland's economy was expected to grow by 4.8% in 2018 in the European Commission's Autumn forecast. It also forecast growth of 3.6% in Romania and fast growth in the Baltic countries, with 3.5% in Estonia, 3.4% in Lithuania and 4.1% in Latvia.

Turkey and Russia, once the main buyout sources of the region, are expected to struggle economically this year. Following its economic crisis, Turkey's inflation rate is now 20% and its central bank's policy rate is 24%. Meanwhile, a

"Romania has seen steady growth, and the number of companies prepared to [welcome] external investors is rising"
Martin Kõdar, Baltcap Management

slowdown in the global economy, especially the eurozone, poses a risk to growth in the wider CEE region.

Baltic boom

Activity picked up sharply in the Baltic countries in 2018. The Baltic states accounted for 19% of the region's buyout volume, their highest ever share. Value was high too, thanks to Blackstone acquiring a €1bn stake in Luminor, a major Baltic bank.

Baltcap Management focuses on the Baltic states and completed two deals and seven exits last year. Managing partner Martin Kõdar says: "It has been very active, and a lot of deals have been done. There are a lot more managers that have emerged and everybody is looking at the Baltic countries because the economy continues to be strong."

Kõdar explains that, although this international interest is creating good exit routes, it is not creating too much competition for local funds, which tend to target smaller deals. "The majority of companies that we target for our funds are below the radar of large international players," he says. "Most of these are not really prepared by advisers, so you have to source and develop these deals yourself."

There are other growing hotspots in the region grabbing the attention of local GPs. Matthew Strassberg, co-managing partner at Mid Europa Partners, says: "We have had a very nice run in Romania; it has been seeing steady progress in terms of growth, and the number of companies prepared to open their finances to external investors is rising.

"Historically, however, one of the issues in Romania has been aggressive tax planning – an elegant way of saying tax avoidance. But there has been a significant improvement in how companies manage themselves – in order to have access to external capital they recognise they need to be clean."

Price mismatch

While economic growth is generally a positive for deal-making, the market is

discovering there can be too much of a good thing. Local businesses, experiencing a bumper year, have adjusted their pricing expectations above what many GPs are prepared to offer. "In the Czech Republic, people are postponing exits to get more of the upside," says Strassberg. "We've been in discussions with asset owners in early-2018, and then as their performance improved, they tried to get higher multiples. Sometimes you get these abnormalities where there's a spike in macroeconomic performance, but then people refuse to transact unless you agree to crazy valuations."

"In the Czech Republic, people are postponing exits… they refuse to transact unless you agree to crazy valuations"

Matthew Strassberg, Mid Europa Partners

Małgorzata Bobrowska-Jarząbek, partner at Poland-based Resource Partners, says: "Entrepreneurs were reading about record-high multiples in western European buyouts. A lot of dialogue was impacted by that."

The price mismatch is one reason why local GPs feel the drop in buyout numbers is not reflective of the strength of the market. There were 36 buyouts last year, compared with 57 in 2017, but GPs say there are a growing number of opportunities.

Defensive sectors

Some of the key drivers in CEE private equity are well protected from a slowdown in the eurozone. Rising domestic incomes are creating consumer opportunities and its tech sector is benefiting from the fact it can hire graduates at a discount to what it costs western European competitors.

"The strongest consumer trends are healthy eating and convenience, which is under-developed in Poland compared with western European markets," says Bobrowska-Jarząbek. A recent investment by Resource Partners, Maczfit, covers both by delivering healthy meal plans.

Another example is Polish convenience store chain Zabka, which is on its third PE owner. For Zabka, improving convenience remains a large part of its development plan.

Meanwhile, a growing number of graduates are providing both the fuel for consumer opportunities and a cheap pool of potential employees for tech companies. "If you look at what drives growth in Poland and Romania at the moment, a lot of it is investment in technology platforms and non-industrial off-shoring - middle office functions for investment banks for example. The volume of jobs being created is quite sizeable," says Strassberg.

JP Morgan, Citi, UBS, Deutsche Bank and Credit Suisse have set up offices employing thousands of graduates across Poland and Romania in recent years, which helps sectors like private health care, premium grocery shopping and e-commerce. Mid Europa recently acquired Urgent Cargus, a Romanian courier building its business on the growth of local e-commerce.

"The strongest consumer trends are healthy eating and convenience, which is under-developed in Poland"

Małgorzata Bobrowska-Jarząbek, Resource Partners

Some firms are set to benefit from a small dip in western Europe. A slump tends to lead to more targeted advertising through the internet rather than TV, radio and billboards, which would benefit firms like RTB, a Polish internet marketing firm recently acquired by Cinven.

However, not all areas of the region are protected. Says Strassberg: "The countries most exposed to the potential industrial slowdown are the Czech Republic, Slovakia and Hungary. They are the go-to near-shoring markets for German industrial companies. They ride the wave of the German might, but if the Germans slow down, they get knocked by that as well."

SBO surge

Greater interest in the region from pan-European and global players has created an easier exit environment in CEE. There were 12 secondary buyouts in 2018, the second highest in the region's history.

"The large transactions in 2016-2017 raised awareness of the market, which definitely increased the interest of large-cap funds coming from London or more globally," says Resource Partners' Bobrowska-Jarząbek. "Large-cap funds are now more active in screening the portfolios of small and mid-sized funds.

"A second aspect is that people used to think that if a company was PE-owned, its potential was already utilised. It's now more apparent that each subsequent owner is also able to bring healthy results, and the fact that it comes from PE hands gives a lot of comfort in due diligence."

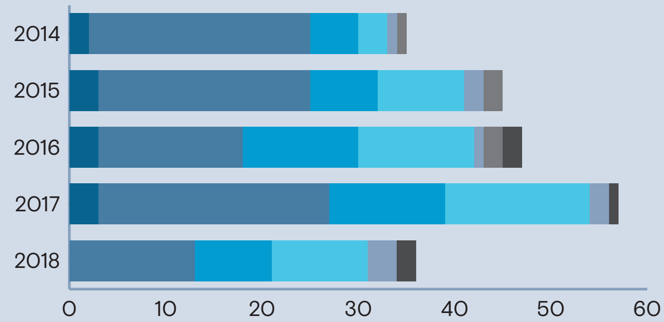
The secondary market has helped to make up for a lack of flotations, with public market liquidity impaired by Polish pension regulations introduced several years ago.

Meanwhile, fundraising in the region remains stable. CEE provides good returns but is too small for the largest LPs. Instead, it is supported by a core group of LPs, with local GPs seeing a significant re-up rate.

Leverage is also supportive, and the vast majority is being provided by local banks. This means lending is less risky, with very few cov-lite loans. "There are still requirements for amortisation, which disciplines the borrowers," says Mid Europa's Strassberg. "It's also hedged because it's in local currency, so you don't get a currency mismatch.

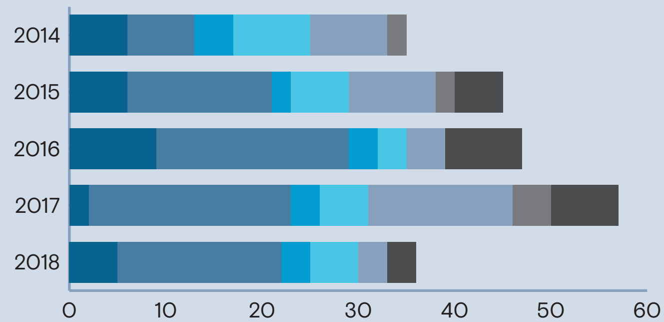
"There have been efforts by the private debt providers to get into the market, but because of the strong liquidity in local currencies on attractive economic terms, the majority of borrowers continue to choose bank debt." ■

CEE buyouts by size range (volume)



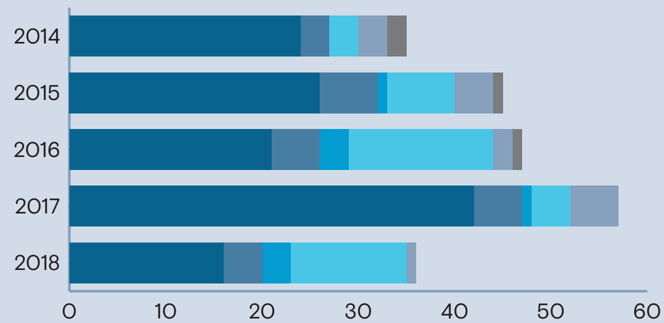
	2014	2015	2016	2017	2018
<€5m	2	3	3	3	0
€5-25m	23	22	15	24	13
€25-50m	5	7	12	12	8
€50-250m	3	9	12	15	10
€250-500m	1	2	1	2	3
€500-1bn	1	2	2	0	0
≥€1bn	0	0	2	1	2

CEE buyouts by super-sector (volume)



	2014	2015	2016	2017	2018
Business services	6	6	9	2	5
Consumer	7	15	20	21	17
Financials	4	2	3	3	3
Healthcare	8	6	3	5	5
Industrials	8	9	4	15	3
Media	2	2	0	4	0
Technology	0	5	8	7	3

CEE buyouts by vendor type (volume)



	2014	2015	2016	2017	2018
Family/Private	24	26	21	42	16
Foreign parent	3	6	5	5	4
Going private	0	1	3	1	3
Institutional investor	3	7	15	4	12
Local parent	3	4	2	5	1
Other	2	1	1	0	0

Source: Unquote Data

CEE exits 2018

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
Avast Software	Partial sale	2,705	Summit Partners, CVC Capital Partners
SBB / Telemach Group	Secondary buyout	2,600 (est)	EBRD, KKR
U.N Ro-Ro	Trade sale	950	Esas Holding AS, Actera
Medical Park Saglik Hizmetleri	Flotation	821	Turkven Private Equity
Partner in Pet Food	Secondary buyout	n/d	Pamplona Capital Management
HTL-Strefa	Secondary buyout	n/d	EQT Partners
Gram Games	Trade sale	208	Hummingbird Ventures
Velvet Care	Secondary buyout	n/d	Avallon MBO
Intive / BLStream / Intive	Secondary buyout	100	Enterprise Investors
Dotcard / Dotpay / eCard / Mobiltek	Trade sale	73	MCI Management

Record Baltic share

19% of CEE deals in Baltic states

36 Buyouts

Dealflow down 37% year-on-year

12 SBOs

Second-highest SBO number on record

CEE funds 2018

Fund name	Fund manager	Fund Target (€m)	Amount closed (€m)
Emerging Europe Growth Fund III	Horizon Capital (Ukraine)	135	180
Jet II Fund	Jet Investment	n/d	153
Zubr Capital Fund I	Zubr Capital	89	80
Oriens Central Europe Fund	Oriens Investment Management	70	70
Tar Heel Capital III	Tar Heel Capital	n/d	70

CEE deals 2018

Deal name	Business description	Deal value (€m)	Sector
Zentiva	Developer and marketer of modern generic pharmaceutical products	1,910	Healthcare
Luminor	Provider of banking and financial services	n/d (>1,000)	Financials
Partner in Pet Food	Producer of wet and dry pet food	n/d (250-500)	Consumer
Olympic Entertainment Group	Operator of casinos and provider of gaming services	288	Consumer
HTL-Strefa	Manufacturer of lancets for capillary blood sampling	n/d (250-500)	Healthcare
JS Hamilton	Provider of quality inspection and analytics services	n/d (50-250)	Business services
Urgent Cargus	Provider of parcel delivery services	n/d (50-250)	Industrials
Studenac	Operator of grocery stores	n/d (50-250)	Consumer
Velvet Care	Manufacturer of tissue-based personal hygiene products	n/d (50-250)	Consumer
MediGroup	Provider of a private healthcare platform	n/d (50-250)	Healthcare
Korres	Manufacturer of cosmetics	69	Consumer
IAI	Developer of e-commerce software solutions	n/d (50-250)	Technology
BIK Brokers	Provider of commercial wholesale insurance services	n/d (50-250)	Financials
Netrisk.hu	Provider of online insurance brokerage services	57	Financials
Groglass	Producer of anti-reflective coatings on glass	50 (est)	Business services
Elan	Manufacturer of winter sports clothing and equipment	n/d (25-50)	Consumer
Pan-Pek	Producer of frozen bakery products	n/d (25-50)	Consumer
Energie Polska/Energie Cesko	Provider of power generation, energy transport and power engineering solutions	n/d (25-50)	Industrials
WDX	Provider of warehouse and logistics services	n/d (25-50)	Consumer
ITP	Manufacturer and distributor of medical equipment	n/d (25-50)	Healthcare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DACH

Oscar Geen
News editor

Buyout numbers rise for fifth year running

Dealflow was strong in 2018, with the region registering its largest ever buyout volume, but pricing expectations are beginning to weigh on momentum. Oscar Geen reports

The economic outlook for the DACH region dampened towards the end of 2018, as the European Central Bank brought its asset purchases to an end and a global trade slowdown dented exports.

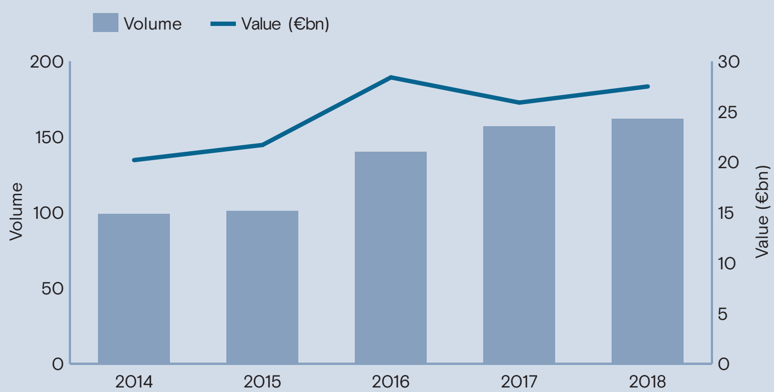
Germany's economy contracted by 0.2% in the third quarter and stagnated in the fourth. The European Commission expects growth in Europe's largest economy to remain subdued this year at 1.1%, according to its latest forecasts. However, the unemployment rate continues to fall and is now 3.3%, the lowest for around 40 years.

Chancellor Angela Merkel signed the Treaty of Aachen in January to renew the original Élysée Treaty of 1963, reaffirming Germany and France's commitment to European unity. Meanwhile, attention is drifting away from the AfD and turning to the recent rise of Germany's Greens, now running neck-and-neck with AfD in opinion polls.

To the south, Austria's economy grew by 2.7% in 2018 but is expected to slow to 1.6% this year, while Switzerland also took a knock from falling exports, its economy contracting by 0.2% in the third quarter after a robust first half.

In Austria, the political commentariat continue to debate whether the coalition formed between prime minister Sebastian Kurz's People's Party and the smaller Freedom Party – which was founded in the 1950s by former Nazis – will encourage support for the far-right or quell it.

Private-equity-backed buyouts



	2014	2015	2016	2017	2018
Volume	99	101	140	157	162
Value (€bn)	20.2	21.7	28.4	25.9	27.5
Average value (€m)	204	215	203	165	170
% of European volume	13.7%	12.9%	16.1%	15.1%	15.9%
% of European value	19.8%	16.1%	22.1%	16.9%	15.4%

Source: Unquote Data

"2017 was a record year when it came to fundraising, both for [local and pan-European] funds. A lot of that was deployed in 2018"

Marina Jovanovic, Rede Partners

Buyout run continues

The German-speaking buyout market recorded an increase in the number of private-equity-backed deals for the fifth year running in 2018. There were 162 buyouts completed, five more than in 2017.

Value also rose, climbing to €27.5bn from €25.9bn. Mega-deals were the chief reason for the spike in value; EQT was responsible for two deals worth more than €2bn, selling Swiss sports data business Sportradar to Canada Pension Plan Investment Board and US-based PE firm Technology Crossover Ventures, and buying German enterprise software business Suse.

The increase in volume was concentrated in the lower-mid-market (€25-50m) where 41 deals were inked, up from 34 last year. While buyout transactions edged up, high pricing means GPs are also putting more focus on deploying through bolt-ons.

"Over the last 12 months we have looked more at add-ons than platform investments," says Equistone partner Stefan Maser. "From the fund

perspective, it doesn't necessarily matter if you deploy more money into the same company or a new one. Obviously it's more money concentrated in the same risk, but the other side of it is that you know the company very well and you know exactly what you'll do with the money. So, at times when there are not sufficient targets or we feel pricing is too high, we prefer to deploy money this way."

Part of the reason for this has been a strong fundraising environment for DACH-focused vehicles over the past two years. Marina Jovanovic, head of DACH at placement agent Rede Partners, says: "Volumes have been up, as they have in many other regions. But in DACH specifically, 2017 was a record year when it came to fundraising, both for fully DACH funds and large- and mid-cap funds across Europe. A lot of that was deployed in 2018."

New entrants

The region's strong fundamentals have attracted new market entrants. In December, *Unquote* reported that more private equity firms had opened new offices in DACH than any other European region since the start of 2017, a total of 10 GPs. Since then, Nordic buyout firm Altor Equity Partners has joined their ranks, setting up an office in Zurich to invest in the region. Italian GP Ambienta has also bolstered the team at its German office.

Equistone's Maser says it is not just competitors from neighbouring regions moving in: "Competition for deals is high and we have seen several funds from the UK and also from the US being more active in the DACH region.

"Furthermore, within the region, family offices who haven't previously worked in PE have been getting involved in the asset class."

There is some dispute about the success rate of the new kids on the block, as Argos Wityu's Frank Hermann tells *Unquote*: "German PE is generally very difficult for newcomers, especially vanilla mid-market buyout funds." Argos opened up in Frankfurt in 2016 but did not complete a

"Competition for deals is high and we have seen several funds from the UK and also from the US being more active in the DACH region"

Stefan Maser, Equistone

deal until mid-2018, wrapping up two in quick succession.

Thomas Fetzer, head of DACH at investment bank Baird, has a different perspective. "We have a dialogue with most of the new entrants mentioned," he says, referring to the list of firms that have opened new offices. "Many of them have already invested in the region before establishing a local office, and have institutional credibility in the region. We find that the newcomers we are working with are not struggling to get into the local flow. In fact, for sellers and intermediaries, the newcomers are inherently interesting to speak to as they are viewed as particularly motivated to deploy capital in the region."

The success rate of newcomers depends on the kind of deals they focus on, and Afinum Management's Kai Roolf explains the difficulties newcomers face in sourcing primary deals: "There is a tendency of M&A advisers only to pitch to say a dozen funds, because in many cases (notably founder-led businesses) you can't manage a process with 80 potential buyers. In addition, with a lot of deals, you don't want it getting coverage all over the place."

First generation

Founder-led and family-owned deals have made up an increasingly large percentage of dealflow over the past few years, and 2018 was no different, with 57% of deals sourced from such vendors.

This has led to a different type of business being considered by PE. "When you look into the sectors, you realise there are business models that play a major role in the economy today that didn't 10 years ago," says Torsten Grede, board spokesperson at Deutsche Beteiligungs AG. "Growth in software and electronics also explains why a 25-year-old business is now at the stage where it can be considered for an LBO."

Afinum's Roolf agrees with this and has been looking at more technology and technology-enabled deals for his own portfolio. "The reason that I'm bullish on the supply of assets in Germany is that there's a new generation of founders that established their companies in the early to mid-90s who are starting to get to an age where they think about succession. This generation is more pragmatic about selling their business."

"When you look into the sectors, there are business models that play a major role in the economy today that didn't 10 years ago"

Torsten Grede, Deutsche Beteiligungs AG

Tech slowdown

It is somewhat surprising, then, that buyouts in DACH's technology sector declined in 2018, with 24 transactions, down from 31 in 2017. Gregor Klenk, a partner at Goodwin, tells *Unquote*: "I wouldn't call this a trend. I'd call it a dip."

One explanation for the decline could be a blurring of the lines between technology and other sectors. Afinum's Roolf says: "The borderline between tech and non-tech is increasingly fuzzy. For instance, we looked at a business services company with almost 50 software developers on the payroll."

Equistone's Maser says not all PE funds are focused specifically on tech or even tech-enabled companies: "Several funds have focused on industries with a strong tech background. At Equistone we look at business models and management teams, so the reason why we are investing in Rena, for example, was not because of the fact that it is an industrial tech company but because of its excellent business model and the strength of its management." Maser refers to the acquisition of tech-enabled machine builder Rena Technologies from Capvis Equity Partners. But this deal does not mean that Equistone will focus more on the sector in future. Maser explains that the GP keeps a sector-agnostic approach: "We see ourselves as the 'sparring partner' of management. Someone from the outside looks in with different experience and can bring new ideas. So we do not get involved in the day-to-day operations of a business, it's not our model."

Looking ahead

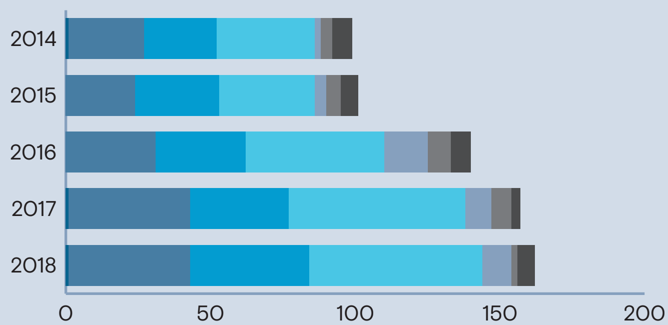
With pricing high and 2019 off to a tentative start, the consensus is that there will be a cooling period in 2019. "Currently there seems to be a little bit of a nervous mood in the market," says Maser. "There are still quite a few transactions, but everybody knows that the current situation is a bit unhealthy, prices are high and there are some macro pressures. So we're doing even more extensive downside scenario analysis than four to five years ago."

Baird's Thomas Fetzer has also observed an increasing number of transactions that have failed to complete, and highlights two possible explanations: "With an increasing number of asset owners opportunistically taking advantage of strong sell-side market conditions, the quality and exit readiness of businesses coming to market is decreasing. In addition, buyers are becoming much more selective at this point in the cycle, favouring defensive target profiles over cyclical target profiles."

These factors lead Fetzer to predict a cooling of dealflow in the DACH region. "We would not be surprised if buyout levels in the DACH region were to moderate somewhat from currently high levels next year," he says. "Excess capital will still ensure a base level of deal activity, but caution around geopolitical and macroeconomic risks is taking greater mindshare among M&A decision makers."

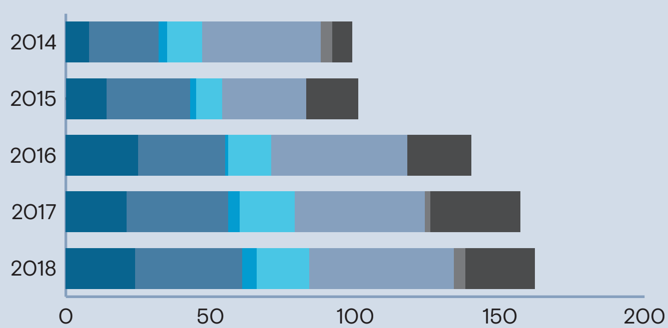
DACH

DACH buyouts by size range (volume)



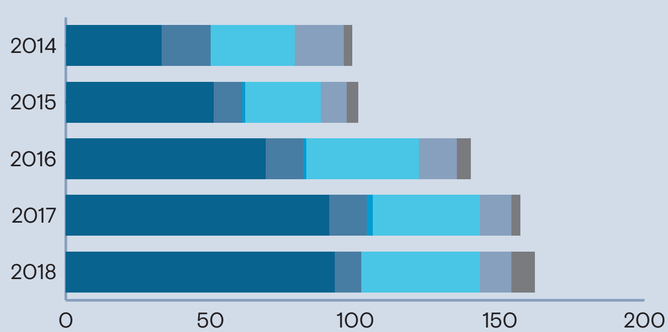
	2014	2015	2016	2017	2018
<€5m	1	0	0	1	1
€5-25m	26	24	31	42	42
€25-50m	25	29	31	34	41
€50-250m	34	33	48	61	60
€250-500m	2	4	15	9	10
€500-1bn	4	5	8	7	2
≥€1bn	7	6	7	3	6

DACH buyouts by super-sector (volume)



	2014	2015	2016	2017	2018
Business services	8	14	25	21	24
Consumer	24	29	30	35	37
Financials	3	2	1	4	5
Healthcare	12	9	15	19	18
Industrials	41	29	47	45	50
Media	4	0	0	2	4
Technology	7	18	22	31	24

DACH buyouts by vendor type (volume)



	2014	2015	2016	2017	2018
Family/Private	33	51	69	91	93
Foreign parent	17	10	13	13	9
Going private	0	1	1	2	0
Institutional investor	29	26	39	37	41
Local parent	17	9	13	11	11
Other	3	4	5	3	8

Source: Unquote Data

DACH

DACH exits 2018

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
Techem	Secondary buyout	4,600	Macquarie Group
The Binding Site	Direct secondary	4,400	Nordic Capital, NM Rothschild
Sportradar	Secondary buyout	2,100	EQT Partners
Scandlines	Partial sale	1,700	3i Group
Prexton Therapeutics	Trade sale	905 (est)	Seroba Kernel Life Sciences, Forbion Capital Partners, Sunstone Capital
CBR Holding	Secondary buyout	n/d	EQT Partners
KraussMaffei	Trade sale	n/d	Agic Capital
AHT Cooling Systems	Trade sale	881	Bridgepoint
Home24	Flotation	600	Investment AB Kinnevik, Holtzbrinck Ventures
VDM Group	Trade sale	596	Lindsay Goldberg Vogel

162 buyouts

Fifth consecutive annual rise

24 tech deals

Down on previous year's 31

Office boom

10 GPs set up shop

DACH funds 2018

Fund name	Fund manager	Fund Target (€m)	Amount closed (€m)
Capvis Equity V	Capvis Equity Partners	1,000	1,200
Triton Smaller Mid-Cap Fund	Triton Partners	300	448
German Equity Partners V	ECM Equity Capital Management	300	325
CGS IV	CGS Management	184	220
LEA Mittelstandspartner Fund	Lea Partners	100	200
DBAG ECF Second New Vintage Fund	Deutsche Beteiligungs AG	n/d	97
Quantum Opportunity Fund II	Quantum Capital Partners	n/d	78
Finexx Fund I	Finexx	n/d	35

DACH buyouts 2018

Deal name	Business description	Deal value (€m)	Sector
Techem	Provider of water and heating services	4,600	Business services
Suse	Developer of open-source enterprise software	2,170	Technology
Sportradar	Provider of digital content on live sports	2,100	Media
Viridium Group	Provider of retirement and life insurance products	1,900 (est)	Financials
Nucom	e-commerce business	1,800	Technology
HSH Nordbank	Commercial bank	1,000 (est)	Financials
CBR Fashion Group	Owner of ladies' fashion clothing brands	n/d (500-1,000)	Consumer
Coveris Global Rigid	Supplier of rigid packaging solutions	700	Industrials
Lifebrain	Owner and manager of diagnostic laboratory centres in Europe	n/d (250-500)	Healthcare
Prospitalia	Provider of healthcare procurement services	n/d (250-500)	Business services
ESIM Chemicals	Producer of chemical intermediate products for agriculture and other industries	375 (est)	Industrials
Mobility Concept	Operator of B2B fleet leasing platform	n/d (250-500)	Industrials
Ober Scharrer	Provider of ophthalmic treatment	n/d (250-500)	Healthcare
Nordsee	Operator of a chain of seafood restaurants	n/d (250-500)	Consumer
MediFox	Developer of medical practice software	n/d (250-500)	Technology
ADA Cosmetics	Manufacturer of personal care products	n/d (250-500)	Consumer
Amann Girrbach	Manufacturer of equipment and consumables for dental reconstruction	n/d (250-500)	Healthcare
Bosal ACPS	Manufacturer of tow bars	250 (est)	Consumer
Cordenka	Producer of industrial rayon used for tires, hoses and composites	240	Industrials
Prefere Resins	Manufacturer and distributor of phenolic resins	n/d (50-250)	Industrials

DACH

DACH buyouts 2018

Deal name	Business description	Deal value (€m)	Sector
Riri	Manufacturer of zippers and buttons	230 (est)	Business services
Deutsche Fachpflege	Provider of out-of-clinic intensive care services	n/d (50-250)	Healthcare
Caseking	Distributor and retailer of computer accessories	n/d (50-250)	Technology
Magix Software	Developer and distributor of music-mixing, photos and videos editing software	n/d (50-250)	Technology
Bavaria Yachtbau	Manufacturer of sailing yachts and motor boats	n/d (50-250)	Industrials
Dental Clinics, Adent, Zahnstation	Operator of dental clinics	n/d (50-250)	Healthcare
Variosystems	Manufacturer and distributor of electronic equipment	n/d (50-250)	Industrials
Ipan Group	Provider of annuity renewal services, verification and filing services related to intellectual property	n/d (50-250)	Business services
Teufel	Loudspeaker manufacturer	n/d (50-250)	Consumer
Linimed	Provider of outpatient intensive care services	175 (est)	Healthcare
E Winkemann	Supplier of auto parts	n/d (50-250)	Consumer
Karl Eugen Fischer	Manufacturer of cutting machines	n/d (50-250)	Consumer
Beinbauer Group	Supplier of machined metal parts to the automotive industry	n/d (50-250)	Consumer
Trendtour Touristik	Operator of travel agency	n/d (50-250)	Consumer
Gundlach Automotive Corporation	Distributor of tyres	n/d (50-250)	Consumer
Doctari	Provider of short-term staffing solutions	n/d (50-250)	Business services
Be-terna	Provider of enterprise resource planning systems	n/d (50-250)	Technology
BBS Automation	Manufacturer of automated production systems	n/d (50-250)	Industrials
Rameder	Online retailer of car accessories	115 (est)	Consumer
Klingel Medical Metal	Manufacturer of metal medical technology products	n/d (50-250)	Industrials

France

Francesca Veronesi
Reporter

Competition reaches fever pitch

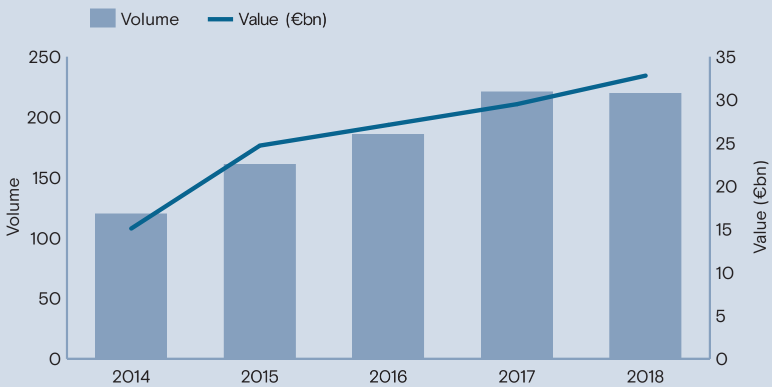
France's strong market momentum continued in 2018, with competition pushing up prices, disrupting auctions and encouraging smaller local GPs to look outside their home market. Francesca Veronesi reports

French politics proved to be more dramatic than its economy last year. At 1.5% compared with the previous year's 2.3%, GDP growth did slow down – although the unemployment rate fell to a 10-year low of 8.8% in Q4, according to national statistics office Insee.

President Emmanuel Macron received a blow in terms of popularity at home and had to handle some of the most violent protests the country had seen in decades, as *gilets jaunes* protestors took to the streets in early November against a planned rise in the tax on diesel and petrol. However, the autumn of 2018 also saw France's parliament starting the process of considering a bill that could become a catalyst for investment in the country, *Plan d'Action pour la Croissance et la Transformation des Entreprises* (Pacte). The project is intended to help French companies become more innovative and to foster job creation.

It seems the region's private equity market is still benefiting from the pro-business drive of the incumbent presidency and general optimism about the region's attractiveness for investment. With an aggregate value of €32.8bn invested in 220 buyouts, the French PE market certainly flexed its muscles. Last year decisively surpassed 2017's total value of €29.5bn and will almost certainly edge above its deal count of 221 as previously unpublicised deals are made known, which will make 2018's figures the highest since the pre-crisis years.

Private-equity-backed buyouts



	2014	2015	2016	2017	2018
Volume	120	161	186	221	220
Value (€bn)	15.1	24.7	27.1	29.5	32.8
Average value (€m)	126	153	146	134	149
% of European volume	16.6%	20.5%	21.4%	21.2%	21.6%
% of European value	14.8%	18.4%	21.2%	19.3%	18.3%

Source: Unquote Data

The increase in overall value was largely driven by large-cap transactions; there were 17 deals valued at more than €500m for a total value of €18.2bn, exceeding 2017's €15.5bn across 12 deals. Frédéric Stévenin, partner and CIO at PAI Partners, says: "France, like other regions in Europe, has seen an increase in activity in the large-cap space thanks to access to capital, both in terms of equity and debt, and the fact that volatility in the public markets makes IPOs less attractive."

By comparison, the mid-market saw 134 deals totalling €13.5bn, similar to the levels seen in 2017 when there were 133 deals in the €25-500m price range for an aggregate €12.6bn. There was a slight year-on-year dip in volume and value in the sub-€25m range (69 totalling €1.1bn compared with 86 totalling €1.3bn).

It was also another strong year for fundraising. There were 16 final closes of buyout funds with a total of €7.8bn in commitments, against the previous year's 17 funds raising €7bn. The total value of commitments was the second highest figure on record, falling 21% shy of the €9.9bn collected over 12 funds in 2016. The region's largest fundraising effort was led by PAI, which closed its €5bn Europe VII fund, France's largest primary market fundraise in the post-crisis era.

"GPs are putting much more effort into identifying an opportunity, investing more in sourcing and choosing their battles"

Karel Kroupa, Argos Wityu

Exacerbated competition

Bidders are competing more aggressively for the limited number of assets coming to market, with vendors eyeing very high multiples, especially for non-cyclical businesses.

Says Argos Wityu partner Karel Kroupa: "Last year we saw even more pre-emptive strikes and unsolicited offers than in 2017. GPs are putting much more effort into identifying an opportunity, investing more in sourcing and choosing their battles. As a result, it's more likely for a GP to abandon an auction earlier on, so sellers need to make sure to have a good group of bidders to start with, to ensure the reputation of the auction is protected. Finally, the level of due diligence has equally increased."

Commenting on the mid-market, Omnes Capital managing partner Benjamin Arm says: "Competition naturally remains very tough, so in some cases very high multiples are paid and generous management packages provided. With prices so high and a great availability of debt, it will be hard to not commit mistakes, and some players in the market will inevitably have issues whenever the next downturn takes place."

Jean-Marc Scéo, president of Ekkio Capital,

FRANCE

says: "In 2018, we've seen an inflation in prices to a level unprecedented in the small-cap space. A new trend involves France-based small-cap GPs – traditionally domestic players – slowly looking into investing in neighbouring countries. Ekkio, for example, is aiming in the long term to do deals in Germany."

Adapting to this competition, GPs are finding new ways of creating value for their portfolio companies. Kroupa stresses that "digitalisation (via automation or AI, for example) is really being used by PE to either accelerate

"With prices so high and a great availability of debt… some players will inevitably have issues whenever the next downturn takes place"

Benjamin Arm, Omnes Capital

"In 2018 we've seen an inflation in prices to a level unprecedented in the small-cap space"

Jean-Marc Scéo, Ekkio Capital

growth or a means to help businesses that need optimisation".

In terms of divestments, the two most popular exit routes were SBOs (40% of total amount) and trade sales (30%). SBOs experienced a 15% decrease in volume compared with 2017, while trade sales were up 15%. PAI's Stévenin says: "Some trade buyers have been quite competitive in the past two years, somehow coming back after a couple of quieter years, during which PE started outbidding corporates and setting out new strategies to win deals, such as pre-emptive strikes. Corporates, on top of having a natural advantage thanks to the synergies they can offer, currently have low levels of debt and healthy balance sheets. Moreover, in the past few years they easily raised a lot of capital, similarly to GPs."

Only one IPO took place last year, compared with three in 2017, five in 2016 and 10 in 2015. Says Kroupa: "A few IPOs have been interrupted this year, which is probably not very encouraging. Trade buyers are generally slower bidders compared to PE, but it seems to us like they have adapted to the market and accelerated their decision-making process."

"France has seen an increase in activity in the large-cap space thanks to access to capital, both in terms of equity and debt"

Frédéric Stévenin, PAI Partners

Brexit pros and cons

Asked whether political instability provoked by the *gilets jaunes* movement in France has had any tangible effect on the PE market, Omnes' Arm says: "It has not affected the French and European LPs' view on the market; rather it has negatively impacted some B2C portfolio businesses of GPs, for which Q4 last year was crucial in terms of revenues. The macroeconomic event which is being most discussed with LPs is actually Brexit. As the French PE market is the most developed on the continent, it is undoubtedly benefiting from a diversion of capital that would have been allocated to the UK, if it wasn't for Brexit."

Indeed, in terms of both deal value and volume, France last year outperformed the UK – typically Europe's most active PE market. While the difference in volume was nominal, aggregate value was €2.7bn higher, marking only the third time on *Unquote* records that France's total has exceeded the UK's, having previously done so in 2016 and 2006.

Argos Wityu's Kroupa warns about the long-term consequences of the UK's political instability for France: "Rather than the *gilets jaunes* movement, Brexit is much more of a looming problem. It's true that one can start thinking about certain benefits France could see, like the pool of talent becoming bigger for France and firms relocating to the continent. But it's never good to benefit from issues your neighbour is facing. Our economies are closely interlinked and economic difficulties in the UK are likely to have repercussions in the eurozone and France."

Sense of foreboding

Several industry players agree that 2019 could be a year of considerable change – not in the low interest rates or high competition, but in macroeconomic conditions in France and Europe more broadly.

While not explicitly predicting a downturn, Omnes' Arm stresses that it is not possible to know what the economic environment will look like within the next three to four years. "GPs generally should operate with prudence, investing in non-cyclical businesses and leveraging deals reasonably," he says. "Our impression is that H2 has seen a slight normalisation in terms of excesses that characterised 2017 and H1 2018."

Alantra's managing partner and CEO Franck Portais highlights that there is an understanding within the industry that the current environment of low interest rates and a strong economy cannot last forever: "We are seeing some more distressed deals than in previous years, especially in the consumer and construction sectors. Equally, advisory firms are hiring distressed M&A professionals."

Also referring to macroeconomic trends, PAI's Stévenin says: "In 2019 there might be a decrease in activity on the side of strategic buyers, as they could become more prudent because of a potential slowdown of the market. PE, I think, will be affected further down the line."

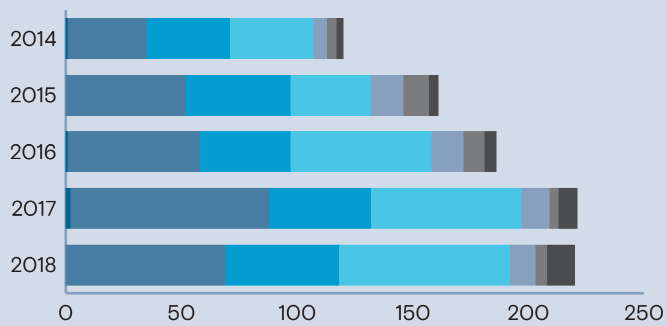
Different challenges lie ahead in 2019. Just to name a few, the year will reveal the ability of the political class to address the *gilets jaunes* movement; how well the European parliamentary elections will play out for Macron's party La République En Marche and its populist rival, the Rassemblement National, formerly Front National until June 2018; and whether the Pacte bill, central to Macron's manifesto pledge and welcomed by the business community, will make it through the French parliament. ■

"We are seeing some more distressed deals than in previous years, especially in the consumer and construction sectors"

Franck Portais, Alantra

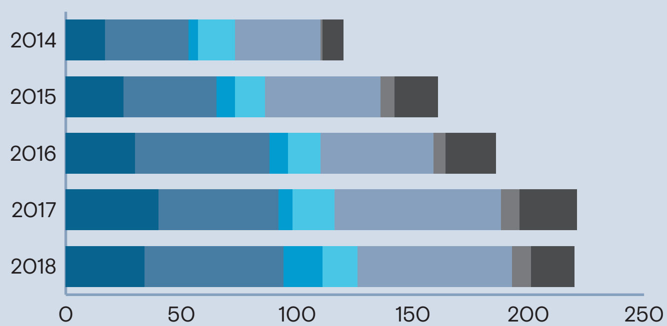
FRANCE

France buyouts by size range (volume)



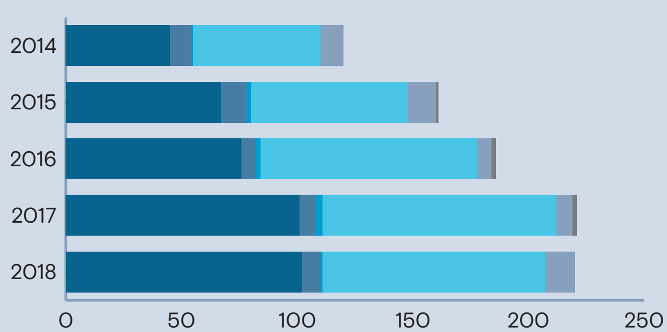
	2014	2015	2016	2017	2018
<€5m	1	0	1	2	0
€5-25m	34	52	57	86	69
€25-50m	36	45	39	44	49
€50-250m	36	35	61	65	74
€250-500m	6	14	14	12	11
€500-1bn	4	11	9	4	5
≥€1bn	3	4	5	8	12

France buyouts by super-sector (volume)



	2014	2015	2016	2017	2018
Business services	17	25	30	40	34
Consumer	36	40	58	52	60
Financials	4	8	8	6	17
Healthcare	16	13	14	18	15
Industrials	37	50	49	72	67
Media	1	6	5	8	8
Technology	9	19	22	25	19

France buyouts by vendor type (volume)



	2014	2015	2016	2017	2018
Family/Private	45	67	76	101	102
Foreign parent	9	11	6	7	8
Going private	1	2	2	3	1
Institutional iinvestor	55	68	94	101	96
Local parent	10	12	6	7	13
Other	0	1	2	2	0

Source: Unquote Data

France exits 2018

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
Antelliq / Allflex	Trade sale	3,250	Public Sector Pension Investment Board, BC Partners
Linxens	Trade sale	2,200	CVC Capital Partners
Evialis / Neovia / InVivo NSA	Trade sale	1,530	Qualium Investissement, Eurazeo, Unigrains, Idia Capital Investissement
Delachaux	Secondary Buyout	1,500 (est)	CVC Capital Partners
Fives Group	Secondary Buyout	1,500 (est)	Ardian
Albéa	Secondary buyout	1,293 (est)	Sun European Partners
Worldwide Flight Services	Secondary buyout	1,200 (est)	Platinum Equity
Circet	Secondary buyout	1,000 (est)	Omnes Capital
Nemera	Secondary buyout	1,000 (est)	Montagu Private Equity
La Toulousaine / Stella Group	Secondary buyout	600 (est)	ICG, Andera Partners

17 large-caps

Second highest number ever

€32.8bn in deals

Second highest on record

59 trade sales

Up 15% on the year

France funds 2018

Fund name	Fund manager	Fund Target (€m)	Amount closed (€m)
PAI Europe VII	PAI Partners	4,000	5,000
Winch Capital 4	Andera Partners	350	445
WCP#3	Weinberg Capital Partners	250	295
Amundi Mégatendances	Amundi Private Equity	250	250
21 Centrale Partners V	21 Invest	400	230
Ardian Growth II	Ardian	200	230
Fonds Build-up International	BPI France	200	200
Ciclad 6	Ciclad	150	180
Siparex Midcap 3	Siparex Group	150	170
Ekkio Capital IV	Ekkio Capital	150	161
Mirabaud Private Equity Fund	Mirabaud Asset Management	150	150
FnB Europe Fund	FnB Private Equity	120	135
Momentum Invest I	Momentum Invest	100	110
LTC III	LT Capital	100	105
Small Caps Opportunities	LBO France	n/d	104

France deals 2018

Deal name	Business description	Deal value (€m)	Sector
Groupe SFAM	Provider of mobile phone insurance brokerage services	1,700 (est)	Financials
Saur	Provider of water and waste management services	1,500 (est)	Industrials
Delachaux	Designer, manufacturer and marketer of industrial products	1,500 (est)	Industrials
Fives	Manufacturer of process equipment, production lines and turnkey plants	1,500 (est)	Industrials
Exclusive Group	Distributor of B2B IT security services	1,300 (est)	Technology
Albéa	Manufacturer of beauty and personal care packaging	1,294 (est)	Industrials
Asmodee Group	Publisher and distributor of games	1,200	Consumer
Worldwide Flight Services	Provider of cargo, ground and technical services at airports	1,200 (est)	Industrials
Nemera	Designer, developer and manufacturer of drug delivery solutions	1,000 (est)	Healthcare
Siaci Saint Honoré	Provider of insurance broking and consulting services	1,000 (est)	Financials
Imerys Toiture	Manufacturer of roof tiles	1,000	Industrials
Circet	Provider of telecommunications network services	1,000 (est)	Technology
European Camping Group	Operator of camping and mobile home sites	n/d (500-1,000)	Consumer
Averys	Manufacturer of warehouse racking and storage products	675 (est)	Industrials
Stella Group	Manufacturer of metallic gates, curtains and aluminium rolling shutters	600 (est)	Industrials
Albingia	Provider of professional insurance services to the construction, industrial and transport sectors	508	Financials
World Freight Company International	Provider of sales services for freighter cargo in the aviation industry	n/d (500-1,000)	Industrials
Funecap Groupe	Provider of funeral services	n/d (250-500)	Consumer
Echosens	Developer of medical devices for liver disease diagnosis	n/d (250-500)	Healthcare
Courir	Retailer of footwear	n/d (250-500)	Consumer
Sabena Technics	Provider of maintenance, repair and overhaul services	350 (est)	Business services

France deals 2018

Deal name	Business description	Deal value (€m)	Sector
HTL	Manufacturer and purifier of hyaluronic acid and other biological polymers	n/d (250-500)	Healthcare
Karavel-Promovacances	Operator of an online travel agency	n/d (250-500)	Consumer
Plastic Omnium Environment	Provider of waste management services	n/d (250-500)	Business services
Aries Alliance	Manufacturer of presses and parts for the aerospace industry	n/d (250-500)	Industrials
Groupe Etanco	Manufacturer of building fasteners and fixing systems	n/d (250-500)	Industrials
IDVerde	Provider of landscaping services	n/d (250-500)	Business services
Mademoiselle Desserts	Manufacturer and supplier of frozen bakery products	n/d (250-500)	Consumer
Besson Chaussures	Retailer of footwear products	n/d (50-250)	Consumer
Demathieu & Bard	Provider of construction services for engineering structures	n/d (50-250)	Industrials
Compagnie Stéphanoise de Santé	Operator of Polyclinics	n/d (50-250)	Healthcare
Serma Group	Provider of electronic technologies consultancy services	n/d (50-250)	Industrials
Scalian	Provider of project management, information management and quality management services	205 (est)	Business services
Technology & Strategy	Provider of data processing and project management services to businesses	n/d (50-250)	Business services
Acteon Group	Designer and supplier of dental equipment	n/d (50-250)	Healthcare
European Cargo Services	Provider of outsourced services for airfreight operations	n/d (50-250)	Industrials
Verescence	Manufacturer of glass packaging	n/d (50-250)	Industrials
Sogetrel	Provider of communication network installation and integration services	n/d (50-250)	Technology
NeoXam	Developer of fund accounting, valuation and compliance software	n/d (50-250)	Technology
LPG Systems	Manufacturer of non-surgical aesthetic and physiotherapy devices	n/d (50-250)	Healthcare

Iberia

Alessia Argentieri
Reporter

Buyout dip fails to cloud outlook

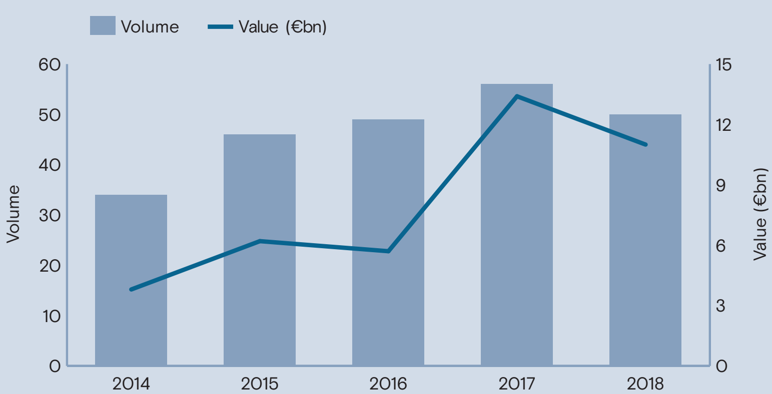
A slowdown in dealflow in 2018 is expected to be temporary in Iberia, as strong fundraising and lower prices compared with the rest of the continent fuel an upbeat outlook. Alessia Argentieri reports

Since the Catalonia independence referendum held at the end of 2017, Spanish politics has experienced a period of instability, struggling to find political balance and a constructive equilibrium.

While the turmoil that sprung from the referendum began to settle, the country's political elite got embroiled in a corruption scandal known as the Gürtel case. Spain's highest criminal court found several members of the ruling conservative People's Party, as well as the party itself, guilty of fraud, bribery, illegal kickbacks, tax evasion and money laundering. The scandal led to a censure motion against prime minister Mariano Rajoy promoted by Pedro Sánchez, head of the Spanish socialist party PSOE. The motion was approved and Sánchez succeeded Rajoy as prime minister despite controlling only 84 of the 350 seats in congress.

Governing with a small majority supported by an alliance of Basque and Catalan nationalists has proven unsustainable for the prime minister. Following the rejection of his draft budget in February, Sánchez called a snap election for 28 April this year. It will be the third general election in less than four years and is expected to produce another hung parliament. Five parties are expected to win between 10% and 30% of the vote, according to the latest opinion polls, and there is a daunting risk of a centre-right coalition backed by nationalist and anti-immigration party Vox.

Private-equity-backed buyouts



	2014	2015	2016	2017	2018
Volume	34	46	49	56	50
Value (€bn)	3.8	6.2	5.7	13.4	11.0
Average value (€m)	111	134	117	240	221
% of European volume	4.7%	5.9%	5.6%	5.4%	4.9%
% of European value	3.7%	4.6%	4.5%	8.8%	6.2%

Source: Unquote Data

Meanwhile, the macroeconomic outlook appears less favourable than a year ago. The European Commission estimates GDP growth in Spain of 2.5% for 2018, down from 3% in 2017, and expects further moderation to 2.1% this year. The unemployment rate has been falling since 2013, but remains high at 14.3%.

In neighbouring Portugal, a general election will be held in October. Prime minister António Costa's socialist party, PS, will face José Silvano's liberal conservative party, PSD, and the Left Bloc led by Catarina Martins. The European Commission recorded Portugal's GDP growth slowed from 2.8% in 2017 to 2.1% last year, and foresacsts a decrease to 1.7% in 2019 amid a contraction in exports. The unemployment rate decreased to 6.7% in December, just above the average rate of 6.6% registered in the entire EU.

Steady dealflow

Despite recording a decrease from the record peaks posted by the region in 2017, dealflow remained strong in 2018. There were 50 buyouts in Iberia last year, worth an aggregate value of €11.0bn. By comparison, 56 buyouts were recorded in the region in 2017 for a total of €13.4bn, while 49 deals worth €5.7bn were sealed in 2016 and 46 transactions for €6.2bn were posted in 2015.

"The Iberian market was very active last year, especially in the mid-cap segment, which represents the core of our economic fabric," says Alantra Private Equity partner David Santos. "The small decrease recorded compared with 2017 is attributable to a cyclical phenomenon, while buyout activity remains solid, and we expect it will continue to thrive in 2019."

As in the previous few years, buyout activity in Iberia was most vigorous in the small- and mid-cap segments. Deal volume at the lower end of the market remained stable, recording 10 transactions in the €5-25m bracket, a small decrease from the 12 deals inked in 2017. The €25-50m range showed a substantial increase in activity, with 16

buyouts worth an aggregate €587m, up from 11 deals worth €388m. The upper-mid-market also performed well, recording 18 buyouts in the €50-250m range, edging past last year's 17. Meanwhile, four mega-deals above €1bn were recorded last year for an aggregate value of €7.0bn, up from €5.3bn invested in the same number of mega-buyouts in 2017.

Blackstone Capital Partners, via its $18bn seventh fund, bought Spanish gaming operator Cirsa from its founder in a deal that was reportedly valued at around €1.5bn, while Orient Hontai Capital acquired a 53.5% stake in Imagina Media Audiovisual in a transaction that valued the company at around €1.9bn.

These two mega-deals were shortly followed by French GP Antin Infrastructure Partners acquiring Madrid-based cable operator Ufinet Spain from UK private equity firm Cinven in a deal that valued the entire group at €2bn. According

"Local funds prefer to sell to industrial buyers, which are willing to pay higher multiples if there is a strategic fit"

Jorge Viera, Rainforest Capital Partners

to the GP, its fifth fund will generate a capital gain of €1.1bn and an IRR of 61% from the sale.

"Even though valuations in the region have increased over the past couple of years," says Santos, "they still remain well below the rest of Europe, and this favourable pricing environment represents one of the main drivers for mega-deals. In the large-cap space, pricing is particularly important and more crucial than in the mid-market segment, because strong international players that are looking for mega-deals can shift their focus from one country to another and increase their presence to wherever is more convenient."

On the exit side, the region recorded a contraction to 48 from 56 deals worth €9.4bn posted in 2017. Only eight exits were SBOs, a sharp drop from 21 recorded in 2017. Meanwhile, there was an increase in trade sales from 22 in 2017 to 27 last year.

Says Jorge Viera, managing partner at Rainforest Capital Partners: "Local funds prefer to sell to industrial buyers, which are willing to pay higher multiples if there is a strategic fit, even in the absence of a competitive process. In addition, industrial players are getting more and more interested in Spanish companies, which after the crisis have become more efficient, increased their

"The Iberian market was very active last year, especially in the mid-cap segment, which represents the core of our economic fabric"

David Santos, Alantra Private Equity

"We have had two years of record activity in the country, which is great news not only for the industry but for the entire Spanish economy"

Miguel Zurita, Ascri

exports and become more attractive for industrial players due to better governance."

International appetite

The renewed stability of the region's economy and the high quality of assets in the marketplace have increased the interest of large international funds towards the Iberian market. According to Ascri, 77% of the amount invested in Spain in 2018 came from foreign funds.

"We have had two consecutive years of record activity in the country, which is great news not only for the industry but for the entire Spanish economy," says Ascri chair Miguel Zurita. "However, the dependency on international investors is still very high, and it is important to move forward in the development of a competitive legal and fiscal framework able to facilitate the access of national institutional investors to the asset class."

Furthermore, 65% of the capital raised in 2018 by domestic funds came from international LPs, Ascri figures show.

"The Iberian market's dependency on international investors is still very high," says GED managing partner Enrique Centelles. "The primary challenge moving forward would be to build a larger base of Spanish institutional investors, with broader private equity investment programmes and an increasing deployment of funds towards the asset class. To reach this goal, better legal measures, tax incentives and legislative reforms are essential, and would benefit the entire industry."

"The Iberian market's dependency on international investors is still very high. The challenge is to build a larger base of Spanish LPs"

Enrique Centelles, GED

Promising fundraising

Looking at the region's fundraising activity, buyout and generalist funds raised €1.4bn in 2018, a slight decrease compared with the €1.5bn raised in 2017. "The slowdown should not be considered a turning point in the Spanish PE market," says Zurita, "but a temporary trend purely related to the fundraising cycle of domestic players."

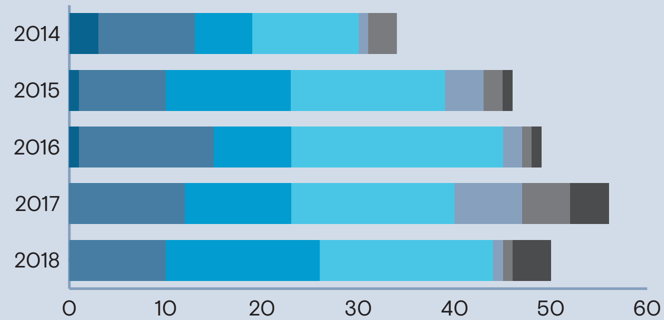
The first half of 2018 saw particularly intense fundraising activity. At the beginning of the year, Miura Private Equity's third fund hit its €330m hard-cap, and one month later Artá Capital held a final close for its second fund on its €400m hard-cap. Meanwhile in Portugal, local GP Crest Capital Partners closed its debut fund on its €100m target.

"LPs and investors are becoming more and more comfortable with Iberia in general and Spain in particular," says Santos. "Some years ago, there were many LPs that considered the region an emerging market, while today local funds are able to receive commitments from European, US, Asian and Middle Eastern investors, which consider the region attractive and are more comfortable investing in local GPs."

Looking ahead, 2019 looks very promising, given that several GPs have a busy pipeline and numerous funds are expected to close their fundraising processes in the coming months.

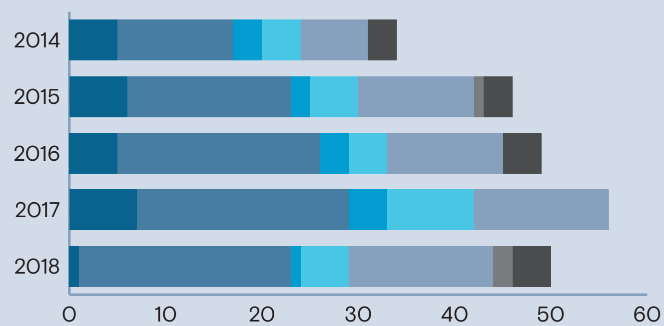
"The amount of funds raised in Spain represents only 0.22% of the county's GDP – a figure still far from the percentage recorded by other European countries such as France (0.68%) or the Netherlands (0.46%)," says Centelles. "Nevertheless, the interest in the Spanish private equity market shown by international investors, the abundant liquidity available and the support of the public sector through Fond-ICO Global will help increase the pace of fundraising in 2019."

Iberia buyouts by size range (volume)



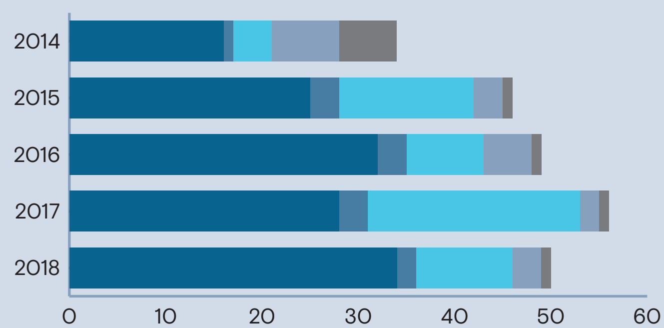
	2014	2015	2016	2017	2018
<€5m	3	1	1	0	0
€5-25m	10	9	14	12	10
€25-50m	6	13	8	11	16
€50-250m	11	16	22	17	18
€250-500m	1	4	2	7	1
€500-1bn	3	2	1	5	1
≥€1bn	0	1	1	4	4

Iberia buyouts by super-sector (volume)



	2014	2015	2016	2017	2018
Business services	5	6	5	7	1
Consumer	12	17	21	22	22
Financials	3	2	3	4	1
Healthcare	4	5	4	9	5
Industrials	7	12	12	14	15
Media	0	1	0	0	2
Technology	3	3	4	0	4

Iberia buyouts by vendor type (volume)



	2014	2015	2016	2017	2018
Family/Private	16	25	32	28	34
Foreign parent	1	3	3	3	2
Going Private	0	0	0	0	0
Institutional investor	4	14	8	22	10
Local Parent	7	3	5	2	3
Other	6	1	1	1	1

Source: Unquote Data

Iberia exits 2018

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
Imagina Media Audiovisual	Secondary buyout	1,900	Torreal
Maxam	Secondary buyout	1,500 (est)	Advent International
Eolia Renovables / Eolia Renovables de Inversiones	Other	n/d	Oaktree Capital Management
Grupo Vips	Partial sale	500	ProA Capital
Advance Medical	Trade sale	301	Summit Partners
Multiasistencia	Trade sale	300 (est)	Portobello Capital
Terratest	Secondary buyout	200 (est)	Platinum Equity
Elix Polymers	Trade sale	195	Sun European Partners
Roq	Secondary buyout	150 (est)	Explorer Investments
Befesa	Partial sale	124	Triton Partners

50 buyouts

Six fewer than 2017

Active mid-market

Sixteen €25-50m deals, up from 11

Crest Fund I

First Portugal fund close since 2014

Iberia funds 2018

Fund name	Fund manager	Fund Target (€m)	Amount closed (€m)
Artá Capital II	Arta Capital SGECR SA	400	400
Miura Fund III	Miura Private Equity	300	330
Corpfin Capital Fund V	Corpfin Capital	275	275
Realza Capital II	Realza Capital SGECR SA	200	160
Sherpa Capital III	Sherpa Capital	125	150

Iberia deals 2018

Deal name	Business description	Deal value (€m)	Sector
Ufinet Spain	Provider of fibre infrastructure and transmission services to telecoms operators	n/d (>1,000)	Technology
Imagina Media Audiovisual	Distributor of audiovisual content	1,900	Media
Cirsa	Gaming company that operates casinos, arcades, bingo halls and slot machines for restaurants and bars	n/d (>1,000)	Consumer
Maxam	Manufacturer of explosive materials	1,500 (est)	Industrials
UEM/UEV/UEC/UEP/IPAM	Operator of higher education institutions	770	Consumer
Codorníu Raventós Group	Producer of wine	390	Consumer
Alcaliber	Supplier of narcotic raw materials	225 (est)	Healthcare
Terratest	Provider of ground engineering services	200 (est)	Industrials
Moovecars	Provider of car hiring services	200	Industrials
Halcón Cerámicas	Producer of ceramic tiles	n/d (50-250)	Industrials
Goiko Grill	Operator of a casual dining restaurant chain	150 (est)	Consumer
Roq	Manufacturer of screen-printing devices for the textile and packaging industries	150 (est)	Industrials
Hiperbaric	Designer of high-pressure processing (HPP) equipment	135 (est)	Industrials
Hospes Hotel Group	Operator of hotels	125	Consumer
Neoelectra	Provider of a range of energy solutions	120 (est)	Industrials
Self Trade Bank	Offers online banking and brokerage services	n/d (50-250)	Financials
Equipe Cerámicas	Producer of small-sized ceramic tiles	80 (est)	Industrials
Union Martin	Producer and marketer of fish and other seafood products	80 (est)	Consumer
Grupo Malasa	Designer, manufacturer and installer of furniture	n/d (50-250)	Consumer
Dorsia/Eva Fertility/Origen	Operator of medical clinics	n/d (50-250)	Healthcare

Italy

Market shrugs off political drama

Successful fundraising, international interest and an abundance of exit options lifted dealflow to new highs in Italy, despite ongoing political dramas and an economic slowdown. Alessia Argentieri reports

Alessia Argentieri
Reporter

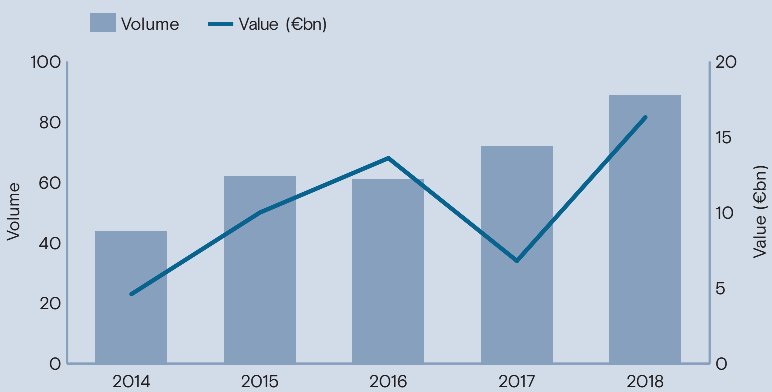
Despite uncertainty and conflicts dominating Italy's political landscape and a worsening macroeconomic outlook, 2018 was one of its most buoyant years for private equity activity. The country recorded a significant increase in both deal volume and value, in addition to a rise in the number of mega-buyouts.

A general election held in March led to the formation of a new government – a daunting alliance of populist party Five Star Movement and its right-wing counterpart League. A new political earthquake shook the country in the second half of the year after the European Commission rejected the Italian government's draft budget for 2019 and Italy subsequently defied for weeks the EU's request to present a revised draft. Following intensive negotiations with the EU, Italy eventually agreed in December to lower its deficit to 2.04% of GDP and thus avoided disciplinary measures.

The country's politics continued to be dominated by severe conflicts on economic reforms and migration policy, while a new wave of nationalistic sentiment has spread, fuelled primarily by League's zero-tolerance approach toward migrants.

The country's economy slowed in 2018. GDP growth decreased to 1.0% and the European Commission is forecasting slower growth of 0.2% this year – considerably less than anticipated in its previous forecast.

Private-equity-backed buyouts



	2014	2015	2016	2017	2018
Volume	44	62	61	72	89
Value (€bn)	4.6	10.0	13.6	6.8	16.3
Average value (€m)	104	161	223	94	183
% of European volume	6.1%	7.9%	7.0%	6.9%	8.8%
% of European value	4.5%	7.4%	10.6%	4.4%	9.1%

Source: Unquote Data

In the meantime, the unemployment rate edged down to 10.3% in December, and the youth unemployment rate stabilised at 31.9%. These still represent the third highest values in the EU, following Greece and Spain, despite marking a significant decrease from the peak of 13.1% and 43.3% recorded in 2014.

The country's 10-year government bond yield reached a high of 3.44% in May, shortly after the formation of the new populist government, and since then continued to show intense volatility, while the spread over German bonds almost tripled, surpassing 300 basis points. Government debt was 133% of GDP at the end of the third quarter of 2018, up from 131.8% at the end of 2017.

Buoyant dealflow

Nevertheless, political uncertainty and worrying macroeconomic indicators did not affect private equity activity in the country, which saw its highest levels on record in terms of aggregate volume and value of deals. Italy recorded 89 buyouts worth a total of €16.3bn in 2018, more than double the €6.8bn invested across 72 buyouts in 2017.

"The Italian private equity market experienced very intense activity last year, following a noticeable increase in the amount of capital raised in 2017," says Ciro Mongillo, founder and CEO of EOS Investment Management. "The dealflow was particularly abundant in the mid-market segment, where we saw very solid and profitable assets be sold at lower valuations than in the rest of Europe. Furthermore, the Italian private equity landscape seems to be in a very healthy condition and is proving particularly attractive for new and more traditional players, both domestic and international. This is a positive rising trend that we expect will continue this year and will pick up steam in the coming months".

Strong activity in the mid-market was the main driver of the increase in overall deal volume. The €5-50m buyout range registered 37 deals, the same figure recorded in 2017, while the €50-250m segment posted 40 buyouts, rising from 26.

The consumer sector had a very strong 2018, maintaining the positive run shown in the last few years and posting a noticeable increase on its 2017 figure. There were 42 buyouts inked in the sector last year, with a predominance of the

"Italian private equity is proving particularly attractive for new and more traditional players, both domestic and international"

Ciro Mongillo, EOS Investment Management

personal and household goods sector, as well as the food and beverage industries.

The sector saw, among others: the deal for Forno d'Asolo, an Italian producer of frozen bakery goods, bought by BC Partners from 21 Partners and several co-investors in a €275m SBO; Ambienta's acquisition of natural flavours manufacturer Aromata, valued at around €60m; and the buyout of frozen seafood specialist Panapesca, acquired by Xenon in a deal that gave the company an EV of €90m.

Large-cap aspiration

The country saw a sharp increase in larger deals in 2018, recording six buyouts with an enterprise value of more than €500m, four of which were above €1bn. By comparison, only one deal in excess of €500m was recorded in the whole of the previous year, worth around €520m.

One of the largest buyouts recorded in 2018 in Italy was the acquisition of a majority stake in pharmaceutical company Recordati by a consortium led by CVC Capital Partners. The GP and its partners bought Fimei, the Recordati family's holding company that owns a 51.8% stake in the business, for €3.03bn. The price implies a total equity value for the pharmaceutical company of €5.86bn – equivalent to €28 per share and 12.9x its 2017 EBITDA.

In that same month, Italy recorded two very large SBOs: the acquisition of solar energy platform RTR, sold by Terra Firma to Italian GP F2i for €1.3bn; and the deal for power transmission belts manufacturer Megadyne. The latter was acquired from Astorg and Neuberger Berman by Partners Group in a deal that valued the business at around €1bn or 17x its €59m EBITDA.

According to *Unquote Data*, 83% of the buyouts with a value above €500m were inked by international GPs. Despite this being a sign of increasing attractiveness of the local market to foreign funds, it also shows how many local GPs are still confined to the small-cap space due to their inability to reach a broader and more diversified audience of international LPs and kick their fundraising into a higher gear.

Some local GPs are eyeing the trend and trying to raise sizeable funds able to compete with their

> "Italian funds need to pursue a pan-European strategy, and diversify not only in terms of sectors, but also geography and size"
>
> *Eugenio De Blasio, Green Arrow Capital*

foreign counterparts in the large-cap segment. Eugenio De Blasio, CEO of Green Arrow Capital, says: “Despite the Italian economic fabric being made of small and medium-sized companies, the increase in larger deals is an upcoming trend able to open up a new window of opportunities. To benefit from this, Italian funds need to pursue a cross-border and pan-European strategy, and diversify not only in terms of sectors but also geography and size.”

Exit flurry

The year was also a very busy one for the country on the exit side, counting 65 disposals of PE-backed investments. There were 22 secondary buyouts in 2018, the same figure reported in 2017,

“The preference for a trade sale is related to the very strong M&A activity and consolidation that we have seen in recent years”

Michele Semenzato, Wise

while the most common exit route for private equity funds was the trade sale, which accounted for 26 deals.

The highest exit valuation was recorded in the sale of luxury fashion brand Versace, which saw Blackstone sell its minority stake to Michael Kors in a deal that valued the company at €1.83bn, equal to 41x its 2017 EBITDA of €44.6m.

Another successful trade sale was accomplished earlier in the year by Italian GPs Investindustrial, Palladio Partners and Orlando Italia, which sold their stakes in Milan-listed company Snaitech to UK-based gaming business Playtech for €846m.

According to Michele Semenzato, a partner at Wise: “The preference for a trade sale is related to the very strong M&A activity and consolidation that we have seen in recent years, which has resulted in increased competition from industrial players. In addition, while private equity funds are constantly looking for new investment opportunities, industrial players are more affected by the fluctuations of the economic cycle and tend to increase their presence in the investment arena when the trend is remarkably positive.”

Fundraising frenzy

Italy experienced record fundraising activity in 2018. Buyout and generalist funds raised €1.5bn, a noticeable increase compared with the €1.2bn raised in 2017.

Among the largest final closes recorded last year was Ambienta’s; the GP held a first and final close for its third fund, exceeding its original €500m target and hitting its €635m hard-cap. The vehicle, which is almost double the size of its predecessor, was considerably oversubscribed and closed after less than three months of fundraising.

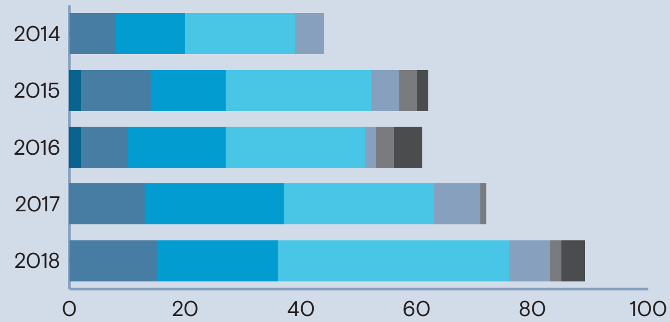
Meanwhile, Investindustrial closed its lower-mid-market fund, Investindustrial Growth, on its €375m hard-cap after three months on the road. The vehicle will focus on smaller-scale deals, complementing the GP’s array of larger funds.

Green Arrow Private Equity 3 closed on €230.6m, while Alto Partners held a final close for its fourth fund, hitting its €210m hard-cap. The latter vehicle targets assets in the lower-mid-market that generate revenues within the €20-80m bracket, and deploys equity tickets of between €15-25m.

In addition, 10 funds held a first or interim close in 2018 and several GPs are planning to wrap up their fundraising in the first half of 2019.

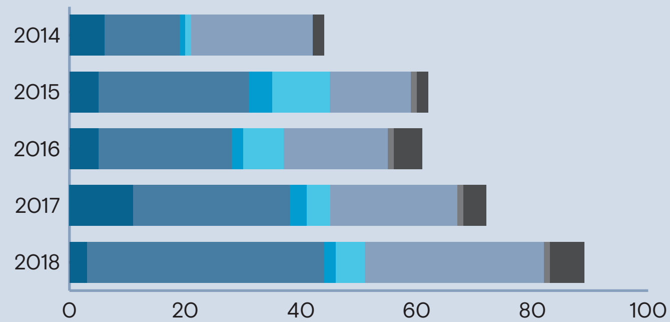
“We expect a noticeable increase in commitments from institutional investors in 2019,” says EOS Investment Management’s Mongillo. “Following the high volatility of the stock market, which is more susceptible to macroeconomic indicators and political turmoil than alternative assets, investors are finding private equity and real assets more attractive, and might start to identify them as a safe haven, especially with Brexit and increased geopolitical uncertainty on the horizon.” ■

Italy buyouts by size range (volume)



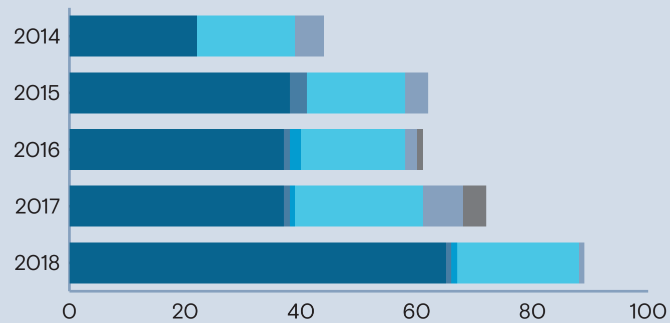
	2014	2015	2016	2017	2018
<€5m	0	2	2	0	0
€5-25m	8	12	8	13	15
€25-50m	12	13	17	24	21
€50-250m	19	25	24	26	40
€250-500m	5	5	2	8	7
€500-1bn	0	3	3	1	2
≥€1bn	0	2	5	0	4

Italy buyouts by super-sector (volume)



	2014	2015	2016	2017	2018
Business services	6	5	5	11	3
Consumer	13	26	23	27	41
Financials	1	4	2	3	2
Healthcare	1	10	7	4	5
Industrials	21	14	18	22	31
Media	0	1	1	1	1
Technology	2	2	5	4	6

Italy buyouts by vendor type (volume)



	2014	2015	2016	2017	2018
Family/Private	22	38	37	37	65
Foreign parent	0	3	1	1	1
Going private	0	0	2	1	1
Institutional investor	17	17	18	22	21
Local parent	5	4	2	7	1
Other	0	0	1	4	0

Source: Unquote Data

ITALY

Italy exits 2018

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
Versace Group	Trade sale	1,830	Blackstone
Rete Rinnovabile	Secondary buyout	1,300	Terra Firma Capital Partners
SNAI / Snaitech / Cogetech	Trade sale	846	Palladio Finanziaria, Investindustrial
Italmatch Chemicals	Secondary buyout	700 (est)	Ardian
Gruppo Coin	Trade sale	700 (est)	BC Partners
Guala Closures	Other	600	APriori Capital Partners, Neuberger Berman
Alpitour	Secondary buyout	470	J Hirsch & Co. Deutschland, Wise SGR
Faster	Trade sale	429 (est)	Capvis Equity Partners
Gimatic	Trade sale	370	Xenon Private Equity, Agic Capital

89 buyouts

Highest number on record

€16.3bn in deals

Largest value on record

Six €500m+ deals

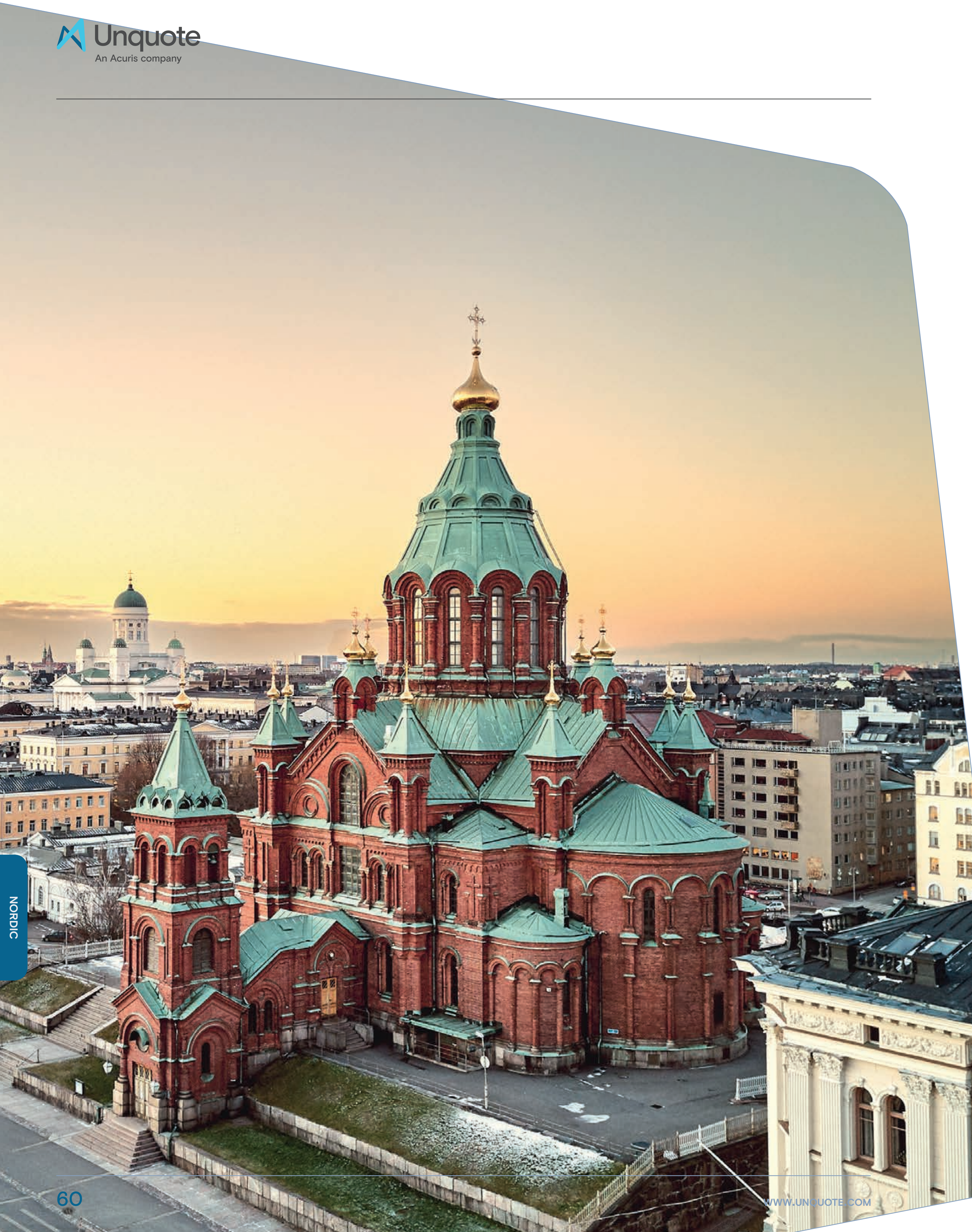
Up from one in 2017

Italy funds 2018

Fund name	Fund manager	Fund Target (€m)	Amount closed (€m)
Ambienta III	Ambienta	500	635
Investindustrial Growth Fund	Investindustrial	375	375
Green Arrow Private Equity Fund 3	Green Arrow Capital	300	231
Alto Capital IV	Alto Partners	150	210

Italy deals 2018

Deal name	Business description	Deal value (€m)	Sector
Recordati	Engaged in research, development, manufacturing and marketing of pharmaceuticals	3,030	Healthcare
Italo	Operator of high-speed trains	1,980	Industrials
RTR	Generator of alternative electric energy	1,300	Industrials
Gruppo Megadyne	Producer of polyurethane and rubber belts, pulleys and other complementary products	1,000 (est)	Industrials
Italmatch Chemicals	Manufacturer of speciality chemical additives	700 (est)	Industrials
Fedrigoni	Producer of speciality papers and self-adhesive labels	650	Industrials
B&B Italia, Flos, Louis Poulsen	An interior design group	n/d (250-500)	Consumer
Alpitour	Provider of travel and tourism services	470	Consumer
Neopharmed Gentili	Producer and distributor of drugs	n/d (250-500)	Healthcare
Esaote	Manufacturer of medical diagnostic systems	n/d (250-500)	Healthcare
Eolo	Provider of wireless broadband to businesses and individuals	n/d (250-500)	Technology
Forno d'Asolo	Producer of frozen bakery products	275 (est)	Consumer
AEB Group	Producer of biochemical additives for winemakers and beer brewers	n/d (250-500)	Consumer
Facile.it	Operator of an online price comparison platform	n/d (50-250)	Technology
OCS	Developer of financial software	210 (est)	Technology
Business Integration Partners	Provider of consulting services	200	Business services
Fiocchi Munizioni	Manufacturer of ammunition	n/d (50-250)	Industrials
Calligaris	Designer and manufacturer of furniture	n/d (50-250)	Consumer
RGI	Developer of software for insurance companies	n/d (50-250)	Technology
Uteco	Manufacturer of printing machines	n/d (50-250)	Industrials



NORDIC

Nordic

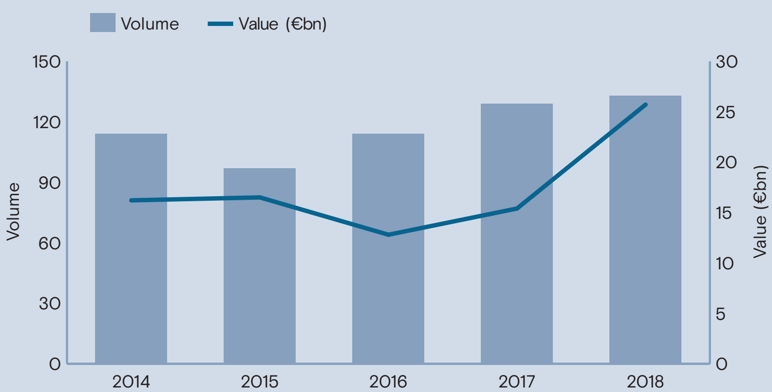
Oscar Geen
News editor

Nordic big-hitters increasingly hunting abroad

High pricing has lifted overall deal value in the Nordic region, especially among large-cap deals, and is thereby encouraging local GPs to look beyond their home market. Oscar Geen reports

The Nordic region recorded its third year of growth in a row for both the number and aggregate value of buyouts in 2018.

Private-equity-backed buyouts



	2014	2015	2016	2017	2018
Volume	114	97	114	129	133
Value (€bn)	16.2	16.5	12.8	15.4	25.7
Average value (€m)	142	171	112	119	193
% of European volume	15.8%	12.4%	13.1%	12.4%	13.1%
% of European value	15.9%	12.3%	10.0%	10.1%	14.3%

Source: Unquote Data

This growth came against a backdrop of steady economic performance for the Nordic nations. The largest of the Nordic countries, Sweden, grew by 2.3% compared with 2017. Denmark and Norway reported slightly slower growth at 1.2% and 1.4% respectively, whereas the Finnish economy was just behind Sweden at 2.2% for the full year.

Politics has been a bit more dramatic. Sweden spent the last three months of the year without a government following its September elections. After much wrangling, prime minister Stefan Löfven was reinstated in January, with his Social Democratic Party in a minority coalition with the country's Greens. Meanwhile, Finland's centre-right government recently resigned after failing to push through its health and social care reforms. A general election, already pencilled in before the resignation, will be held on April 14.

The steady economic picture was mirrored somewhat in the buyout market, as Sweden remained the most active country with 48 deals completed in the year, a slight increase on 2017. Both Denmark and Norway were slightly down on the year before. By comparison, Finland saw a 55% increase in buyout volume as 28 deals were signed, compared with 18 in 2017, 17 in 2016 and just 13 in 2015.

“Being a local player is still crucial in the Nordic region; the vast majority of primary deals are by local funds, even at the large-cap end”

Kristoffer Melinder, Nordic Capital

There was also a big jump in aggregate value across all the Nordic countries (except for Norway, which had its 2017 numbers skewed by the €4.7bn buyout of Visma by a consortium led by Hg). This increase was driven in part by more deals in the larger brackets, but increasingly high pricing was also a factor.

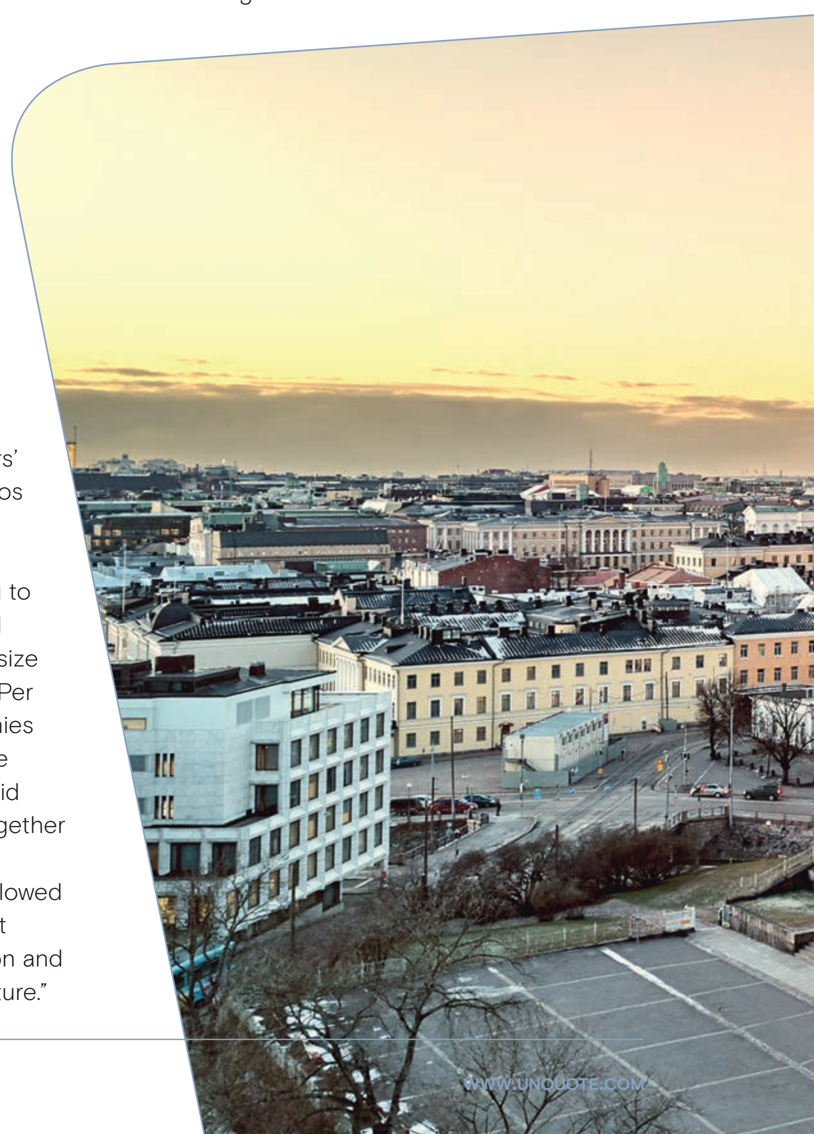
Big buyouts

The Nordic region has historically seen a high proportion of its dealflow in the larger brackets, but as the value of these larger deals has increased, they are making up an increasingly sizeable chunk of the aggregate value of deals completed. Deals with an enterprise value of more than €500m made up 64% of aggregate value in 2018, up from 51% in 2017 and 46% in 2016.

The largest deal in 2018 was EQT Partners' merger of hearing aid manufacturers Sivantos and Widex, the second largest PE-backed buyout in the Nordic region ever at an estimated €7bn enterprise value, according to *Unquote Data*. “The merger of Sivantos and Widex was a significant transaction in both size and ambition,” says EQT co-head of equity Per Franzén, “combining two innovative companies with a common vision of giving more people around the world access to [new] hearing aid technology. Bringing the two companies together not only made sense from a strategic and geographic synergies perspective, it also allowed the creation of a research and development powerhouse, which will accelerate innovation and create exciting new technologies for the future.”

The jump in aggregate value is perhaps not surprising considering that the region's two largest GPs wrapped up their flagship buyout fundraises during the year: EQT VIII hit its €10.75bn hard-cap in February and Nordic Capital IX closed on €4.3bn in May.

“We saw strong dealflow in the Nordic region in 2018, particularly compared with other parts of Europe, partly due to macroeconomic stability in the region,” says Nordic Capital's Kristoffer Melinder. “Being a local player is still crucial in the Nordic region and the vast majority of primary deals are being completed by local funds even at the large-cap end. It is important to have a strong team on the ground. At Nordic



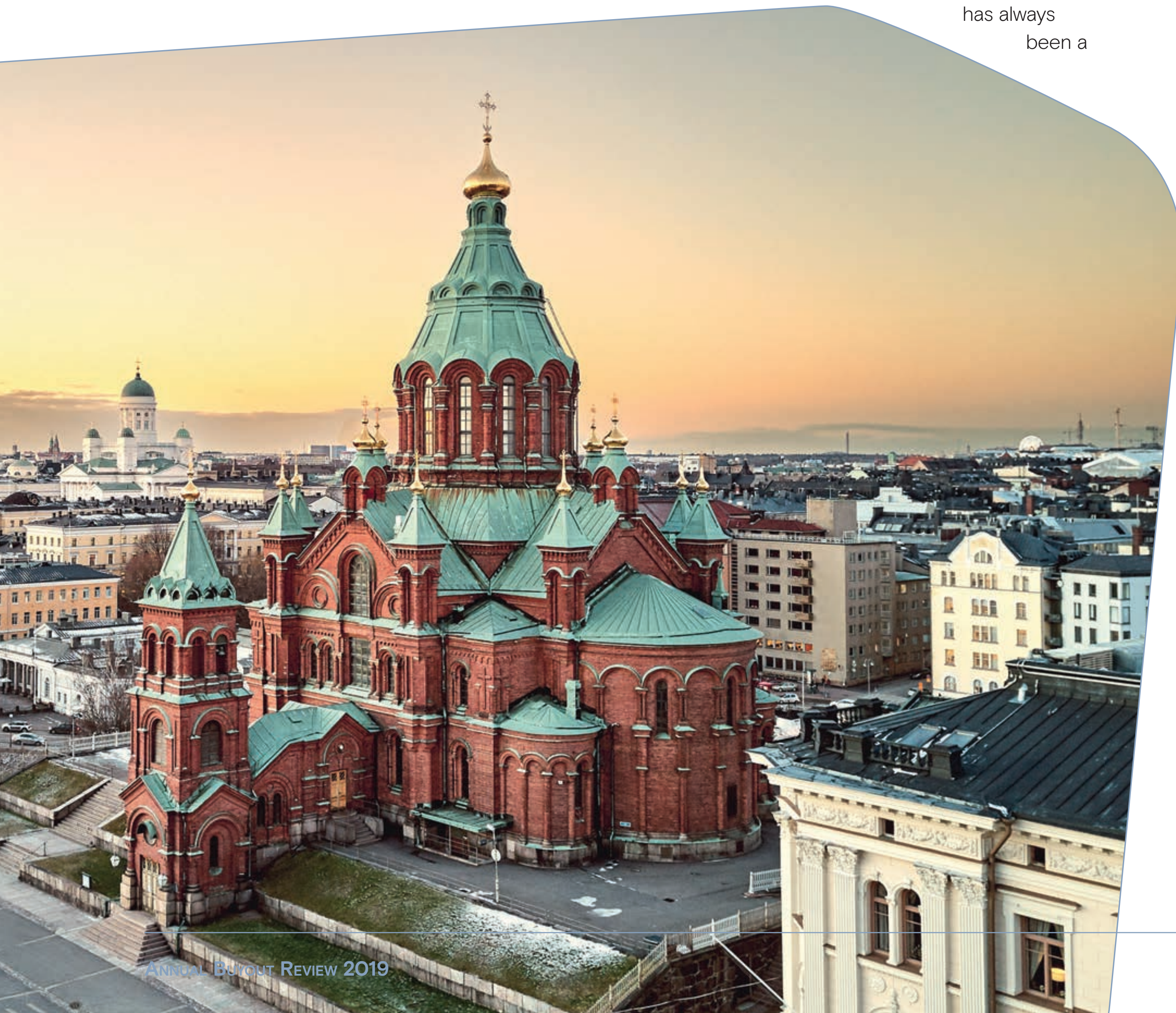
Capital, we completed a number of proprietary deals in 2018 as a direct result of local relationships that we have been cultivating for many years."

This assertion is supported by *Unquote* figures, which show that three out of the seven deals in excess of €500m in 2018 were completed by either Nordic Capital or EQT Partners, comprising more than 50% of overall value.

Nordic Capital and EQT are joined in 2019 by a third large-cap player with a strong historical presence in the region, after Triton V hit its €5bn hard-cap in the early weeks of the year.

"An investment is most determined by what was done during the ownership period to improve the company, not what entry multiple was paid"
Per Franzén, EQT

Thomas Hofvenstam, Triton's head of the Nordic region, explained the GP's approach differs from purely Nordic-focused GPs: "Since its establishment 20 years ago, Triton has always been a



NORDIC

"We are less worried about pricing and more worried about excessive debt gearing, which is effectively a disguised price increase"

Martin Calderbank, Agilitas

northern Europe-focused investment firm and therefore has a different strategy to a purely Nordic GP. That said, we see a lot of interesting opportunities in the Nordic countries and will continue to be highly active in the region."

Pricing peaks

With increasing competition both at home and abroad, it is inevitable that valuations have been creeping up in recent years, in line with, and often even ahead of, the rest of Europe. "Pricing for strong companies remains relatively high in a long-term context," says EQT's Franzén. "In this market environment, we at EQT remain focused on sourcing unique opportunities where EQT can help take high-quality companies in attractive sectors to the next level. In EQT's experience, the final outcome of an investment is most heavily determined by what was done during the ownership period to improve the company and its long-term prospects, not necessarily what entry multiple was paid."

Triton's Hofvenstam agrees that prices will remain high, but the firm's turnaround approach is less concerned about the multiples paid for high performing businesses. "It is not unlikely that valuations generally will remain at historically high levels, given continuing buyout activity. Triton's ability to seek out investment opportunities with challenges – be that high leverage, operational problems or complicated transactions that require specific expertise – allows us to distance ourselves from broader pricing trends."

Agilitas is a pan-European investor with a special focus on the Nordic region. Four of the seven platform investments it has completed since 2014 have been in Nordic companies. Managing partner Martin Calderbank has a different perspective on the pricing environment: "We are less worried about pricing and more worried about excessive debt gearing, which is effectively a disguised price increase for investors because it increases risk levels in a way that isn't compensated by higher returns.

"At a time when institutional investors' appetite for private equity is at record levels and many GPs are under pressure to deploy capital, we strive to be selective and patient, and have been able to make investments at a steadily increasing pace without compromising our disciplined approach to pricing or financial gearing."

Looking further afield

Agilitas and Triton both have strong roots in the Nordic region and have invested in its mid-market, but in general, firms that are based outside the region are less active in deal brackets below €500m. This is because of the strength of the fundraising market for Nordic mid-market firms as highlighted in *Unquote*'s Nordic fundraising report.

This increase in dry powder has led to more movement in the other direction, as Nordic firms increasingly look to deploy capital outside their home nations. The DACH region has been the most frequent recipient of investment in this trend, as mid-market firms Altor Equity Partners and FSN Capital opened offices there in 2018.

Klas Johansson, a partner at Altor's newly launched Zurich office, thinks that cultural and linguistic similarities are a key driver behind the ongoing trend. "A lot of other firms from outside the DACH region have opened up offices there with some success over the past few years," he

"The Nordic PE market is highly sophisticated; it comes as no surprise that several Nordic players are venturing abroad"

Thomas Hofvenstam, Triton

says. "As a Nordic fund, it is a region where we are relatively at home in terms of management style and business culture, and in the past we have successfully acquired in DACH for our portfolio companies."

EQT was the first mover in this category, opening a Munich office in 1999 and inking its first DACH deal in 2001 with the buyout of Leybold Optics. Since then, it has allocated around a third of its deployed capital to the region, completing 108 buyouts for an enterprise value of almost €27bn.

Nordic Capital has also increased its investment activity in the region in recent years. The firm has made a total of 11 DACH buyouts since 2000, five of which have been completed since December 2017. IK Investment Partners, no longer officially a Nordic firm, also has a long history of investing in the region, completing 22 deals since inception.

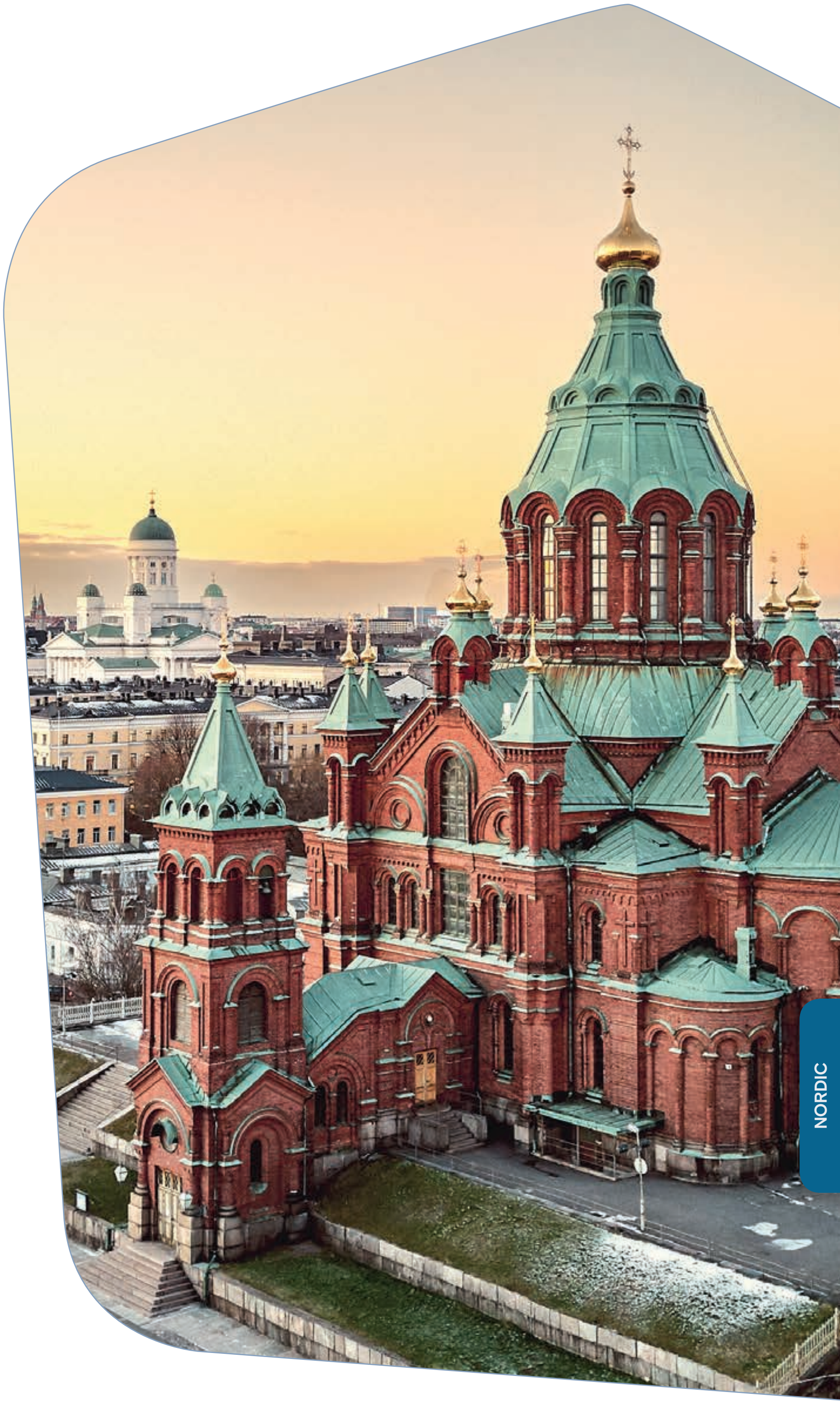
"The Nordic private equity market is well developed and highly sophisticated; as such, it comes as no surprise that several of the Nordic players are venturing abroad," says Triton's Hofvenstam.

Forging ahead

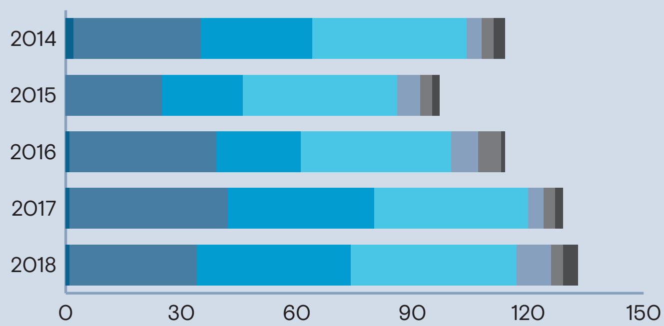
The Nordic buyout market is off to a strong start in 2019, putting up comparable figures to its record-breaking 2018. Over the first 10 weeks, 17 deals have been completed with a total enterprise value of €5bn, including two large-cap buyouts.

EQT's Franzén expects this to continue: "The Nordic countries remain an attractive market for private equity – it is a region where EQT continues to see a lot of opportunities. The Nordic region will always be a key part of EQT's heritage and culture but we are now a truly global investment firm."

Triton's Hofvenstam shares this optimism but adds a note of caution: "Though the Nordic market has not seen a steep decline so far, a downturn remains a possibility. Weakening market conditions would likely affect investment activity, especially in certain sectors that are more exposed to the cycle." ■

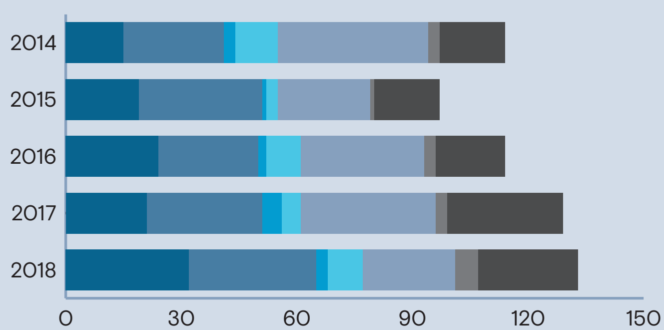


Nordic buyouts by size range (volume)



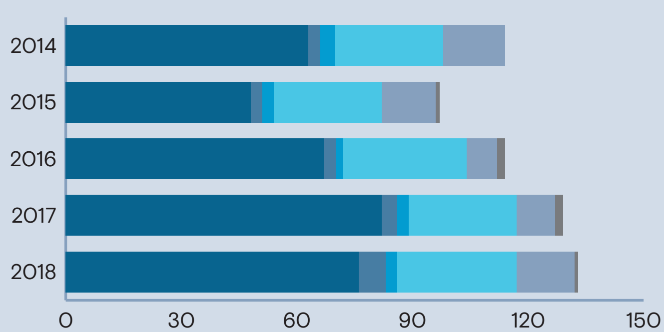
	2014	2015	2016	2017	2018
<€5m	2	0	1	1	1
€5-25m	33	25	38	41	33
€25-50m	29	21	22	38	40
€50-250m	40	40	39	40	43
€250-500m	4	6	7	4	9
€500-1bn	3	3	6	3	3
≥€1bn	3	2	1	2	4

Nordic buyouts by super-sector (volume)



	2014	2015	2016	2017	2018
Business services	15	19	24	21	32
Consumer	26	32	26	30	33
Financials	3	1	2	5	3
Healthcare	11	3	9	5	9
Industrials	39	24	32	35	24
Media	3	1	3	3	6
Technology	17	17	18	30	26

Nordic buyouts by vendor type (volume)



	2014	2015	2016	2017	2018
Family/Private	63	48	67	82	76
Foreign parent	3	3	3	4	7
Going private	4	3	2	3	3
Institutional investor	28	28	32	28	31
Local parent	16	14	8	10	15
Other	0	1	2	2	1

Source: Unquote Data

Nordic exits 2018

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
Handicare / Nordic Capital VII portfolio	Direct secondary	2,500	Nordic Capital
iZettle	Trade sale	1,829	MCI Management, Dawn Capital, Intel Capital, Zouk Capital, SEB Venture Capital, 83North, Index Ventures
Netcompany	Flotation	1,041	FSN Capital
EpiServer	Secondary buyout	997	Accel-KKR
Nordic Aviation Capital	Secondary purchase	n/d	EQT Partners
Wilson Therapeutics	Trade sale	692	Abingworth Management, MVM Life Science Partners, HealthCap Private Equity
Envirotainer	Secondary purchase	n/d	Cinven
PIAB	Trade sale	677	EQT Partners
Unifeeder	Trade sale	660	Nordic Capital
Helly Hansen	Trade sale	617	Teachers' Private Capital

Finland booms

Buyouts up to 28 from 18

Consumer lift

Record 33 deals in sector

Upper-mid boost

Record number of €250-500m deals

Nordic funds 2018

Fund name	Fund manager	Fund Target (€m)	Amount closed (€m)
EQT VIII	EQT Partners AB	8,000	10,750
Nordic Capital IX	Nordic Capital	3,500	4,300
Axcel V	Axcel	550	617
Litorina V	Litorina Kapital	307	307
Verdane Edda	Verdane Capital Partners	298	298
Pamica 2	Pamica	n/d	47

Nordic deals 2018

Deal name	Business description	Deal value (€m)	Sector
Sivantos and Widex	Developer and manufacturer of hearing aids	7,000 (est)	Healthcare
Nets	Provider of payment, information and digital identity solutions	4,448	Business services
Mehiläinen	Operator of healthcare service centres	1,800 (est)	Healthcare
Envirotainer	Producer of active temperature-controlled containers	n/d (>1,000)	Industrials
EpiServer	Provider of web content management platforms	997	Technology
Trustly	Provider of an online payment tool	700 (est)	Business services
Broadnet	Provider of fibre-based data communication services	n/d (500-1,000)	Technology
Tampnet	Provider of offshore communication infrastructure	440 (est)	Technology
Link Mobility	Provider of mobile communication services	410 (est)	Technology
Parmaco	Manufacturer of modular space systems	n/d (250-500)	Financials
Sølvtrans	Operator of specialist boats for the transport of live salmon and trout	n/d (250-500)	Industrials
SafeRoad	Supplier of road safety and road infrastructure solutions	303 (est)	Industrials
Saxo Payments Banking Circle	Provider of a banking platform for online cross-border payments	268 (est)	Business services
SKF Motion Technologies	Provider of electrical linear actuator components	264	Industrials
Danica Pension Sverige	Provider of pensions, capital pensions and life insurance	253 (est)	Financials
One.com	Provider of web hosting services	n/d (250-500)	Technology
Walki Group	Manufacturer of products for the construction, building, and industrial packaging markets	n/d (50-250)	Industrials
Louis Poulsen & Co	Manufacturer of lighting fixtures	202 (est)	Industrials
Gubi	Designer and seller of furniture, lamps and interior products	201 (est)	Consumer
Trioplast	Manufacturer of plastic films	n/d (50-250)	Industrials
Orion Diagnostica	Developer and manufacturer of diagnostics tests and test systems	163	Healthcare
Diamorph	Manufacturer of precision materials	140 (est)	Industrials
IT Relation	Provider of IT outsourcing services	134 (est)	Technology

Nordic deals 2018

Deal name	Business description	Deal value (€m)	Sector
Isadora	Producer and distributor of cosmetics	133 (est)	Consumer
Teracom Danmark	Operator of broadcasting tower infrastructure	n/d (50-250)	Technology
PwC Business Services	Provider of accounting, payroll and advisory services	n/d (50-250)	Business services
Macrobond	Provider of research systems and macroeconomic and financial time-series data	n/d (50-250)	Business services
Stamina Group	Provider of healthcare services	n/d (50-250)	Healthcare
Dantaxi 4x48	Provider of taxi services	n/d (50-250)	Industrials
KPMG Sweden	Provider of accounting, payroll and advisory services	n/d (50-250)	Business services
FH Gruppen	Manufacturer of holiday homes and cabins	104 (est)	Consumer
Gnist Barnehager	Operator of a preschool chain	n/d (50-250)	Consumer
Yanzi Networks	Provider of an IP Software IoT platform for facilities management	n/d (50-250)	Technology
HyTest	Producer of antibodies and antigens for the diagnostics industry	n/d (50-250)	Healthcare
The North Alliance	Provider of design, technology, and communication solutions for brands	n/d (50-250)	Media
Mørenot	Manufacturer of equipment and services for the fishery and aquaculture industries	93 (est)	Business services
Falck Safety Services	Provider of safety training services	n/d (50-250)	Business services
Carsoe	Designer and producer of process equipment for the food processing industry	n/d (50-250)	Consumer
Loopia, Active 24	Provider of web domains and shared web hosting services	n/d (50-250)	Technology
Compusoft	Developer of computer-aided design (CAD) software	n/d (50-250)	Technology

UK & Ireland

Kenny Wastell
Features editor

Political uncertainty dents dealflow

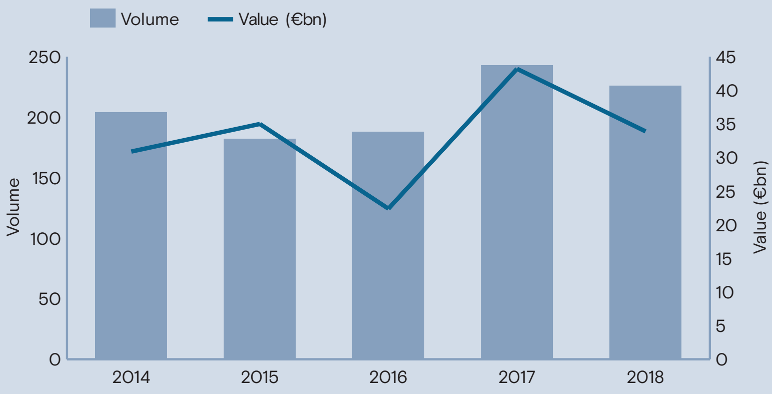
Large-cap activity and deals in the financial and consumer sectors bore the brunt of Brexit-related uncertainty in 2018, but mid-market dealflow and technology buyouts held firm. Kenny Wastell reports

The political and economic discourse in the UK and Ireland throughout 2018 was understandably dominated by the UK's impending exit from the European Union. A minority Conservative government has struggled to build consensus on the terms of the country's withdrawal from the bloc and on the future relationship. Despite the Labour Party recently declaring support for a so-called "people's vote", there remains no consensus in parliament in support of a second referendum, Theresa May's deal, a closer EFTA- or EEA-style relationship, or a no-deal outcsome, though shortly before going to press the latter was voted down.

The uncertainty weighed on UK GDP growth, dragging it down from 1.8% in 2016 and 2017 to 1.4% in 2018, according to preliminary data from the Office for National Statistics (ONS). In contrast, the Organisation for Economic Co-operation and Development estimates annual growth of 5.9% in Ireland, while in November 2018 the European Commission forecast annual growth of 2.1% for the EU as a whole.

UK consumer confidence dropped from -9 on the GfK Consumer Confidence Index in January to a five-year low of -14 in December. This was despite ONS figures showing unemployment falling to a 45-year low of 4% at the end of 2018.

Private-equity-backed buyouts



	2014	2015	2016	2017	2018
Volume	204	182	188	243	225
Value (€bn)	30.9	35.0	22.4	43.2	31.4
Average value (€m)	152	192	119	178	140
% of European volume	28.3%	23.2%	21.6%	23.3%	22.1%
% of European value	30.3%	26.0%	17.5%	28.2%	17.5%

Source: Unquote Data

Mid-market resilience

Total buyout value declined sharply in 2018, with the €33.9bn figure representing a 21.5% decrease on 2017. This was mostly due to a drop-off in the UK, where overall value fell 25% to €31.6bn. Buyout volume across the overall region fell by a more modest 7% to 226 deals.

"We had an extremely busy 2018, but no more than half of that work was on traditional LBOs," says Christian Iwasko, co-head of Sidley Austin's European corporate and private equity division. "Financial sponsors have raised a lot of money and would like to put it to work, but prices are still too high. Regardless of how well you manage an investment, if you buy in the wrong vintage year when valuations are inflated, it obviously becomes much more challenging to make a good return."

Deals valued over €500m saw the greatest annual decline in activity. There was a 38.3% drop in total deal value within the price range and a 19.1% fall in dealflow. This is perhaps unsurprising given the political and economic uncertainty faced by the UK: uncertainty related to cross-border trade is likely to have the greatest impact on large internationalised businesses.

Nevertheless, 2018's volume and aggregate value are the second and third highest in the last five years. The decrease at the large-cap end of the market masks a particularly active year for the mid-market. There were 87 transactions valued at €50-500m, worth a total of €13.5bn. While this is a 2.2% year-on-year drop in volume, in value terms it is a 14.5% increase and four-year peak.

"The level of resilience has come as a bit of a surprise," says Johnny Colville, managing director at investment bank Houlihan Lokey. "The reality is that Brexit has crept up on people. Previously,

there was a willingness to be somewhat blind to reality, but it has all become very real in the past three to four months and the effect of that on dealflow has only really been obvious in the last quarter of the year."

"Financial sponsors have raised a lot of money and would like to put it to work, but prices are still too high"

Christian Iwasko, Sidley Austin

Mixed fortunes

The consumer sector saw a sharp decline in buyouts in 2018, with 47 deals worth a combined €7.8bn, down from 58 worth €15.7bn in 2017. This was the lowest volume and second lowest value in the last five years. A drop in consumer confidence and continued suppression of sterling had a significant impact, with numerous PE-backed brands falling into trouble.

While these challenges are highly undesirable

UK & IRELAND

for existing owners, they present opportunities for special situations investors heading into 2019. "The number of potential distressed situations in our watchlist has tripled in the last year, and across a growing number of sectors," says Jifree Cader, a partner at Sidley Austin focused on restructurings and insolvencies. "We have also seen a resurgence of those private equity funds that have been less active in distressed markets in the past couple of years taking a renewed interest in distressed situations. With the general tightening of credit conditions and ever-increasing headwinds, we are expecting to see an uptick in opportunities for distressed investors in 2019."

Financial sector buyouts also dropped off in 2018; the fourth consecutive year in which it accounted for a reduced proportion of both dealflow and value in the region. The industry accounted for 5.8% of all buyouts compared with a four-year peak of 9.3% in 2015, and for 5% of overall value compared with 15% in 2015. However, one sub-sector that has remained relatively resolute is insurance, which saw seven buyouts. Though this is a decrease on the nine recorded in 2017, it remains the second highest figure since the financial crisis.

"There continues to be significant private equity interest in acquiring [insurance brokers]," says Duncan Buck, executive vice-chair at boutique M&A advisory firm Fenchurch Advisory. "They tend to be highly cash-generative so investors can get more leverage into them. Right now, debt is relatively cheap and covenant-lite terms are readily available. While organic growth may be lower than in certain other financial services sub-sectors, at the smaller end the broking sector remains highly fragmented."

The highest profile deals in the space both featured consolidation platforms that provide broking services: ECI's acquisition of The Clear Group; and Livingbridge's buyout of Coversure Insurance Services Group.

Meanwhile, the technology space gained momentum. Aggregate value soared from €4.4bn in 2017 to €10.4bn, accounting for 30.7% of UK and Irish buyout deal value, up from 10.2% in 2017 and almost twice the second highest annual proportion (17.6% in 2014) over the last five years. Dealflow also remained strong, with 41 buyouts,

"Brexit has crept up on people... There was a willingness to be blind to reality, but it has all become very real in the past months"

Johnny Colville, Houlihan Lokey

fewer than the 47 seen in 2017, but comfortably the second highest total across the last five years.

Says Paul Guély, managing partner of CMT-focused M&A advisory firm Arma Partners: "The continued strong performance of technology companies in attracting institutional capital reflects the assessment of many sophisticated, increasingly tech-savvy private equity investors: the long-term growth potential of these businesses is enough to offset short-term concerns about geopolitical risk. The rise in large-cap buyout activity also demonstrates that, while there is a mature and thriving ecosystem of UK technology companies seeking investment, the competition among sponsors for access to the finite pool of the most well-scaled, high-margin software companies is fierce and continuing to intensify."

"A [fundraising] slowdown in the UK has definitely happened. This is in contrast to Europe, where the numbers are relatively robust"

Angela Willetts, Capital Dynamics

Family ties

Family and private vendors remained the most common source for buyouts, but secondary buyouts gained some ground and are expected to grow further in significance. There were 115 deals sourced from family and private vendors last year, accounting for 51% of buyouts, down from 59.7% in 2017.

Secondary buyouts were the second most common source, with a total of 75 transactions and accounting for 33.2% of deals. A recent report by JP Morgan anticipates a rise in SBOs in future as GPs struggle to deploy the numerous and sizeable funds raised in recent years. "As pressure to invest rises, the impetus for secondary buyouts may rise," it says. "Secondary buyouts generally entail slightly higher purchase multiples and leverage. As per academic literature to date, performance on secondary buyouts is often lower than on traditional PE investments."

Trading up

Exit activity was somewhat subdued in 2018, with a total of 234 divestments, the second lowest figure across a seven-year period and a slight drop relative to the 241 seen in 2017.

Trade sales were the most popular exit route, as has been the case in each of the past seven years. There were 92 such divestments, accounting for 39% of exits. This was the highest overall figure in three years and the joint second highest proportional figure across the last seven years, falling slightly below the 41% seen in 2016.

International buyers featured in four of the five largest trade sales last year, with three hailing from North America. The highest profile sale was CVC Capital Partners' $4.7bn sale of gambling company Sky Betting & Gaming to Canadian buyer The Stars Group.

Secondary buyouts were the second most common divestment route, accounting for 27% of all exits. The transaction type has remained constant in representing 27-32% of private-equity-backed sales across the last three years, a figure that rose annually from 12% in 2012 to 24% in 2015.

The number of IPOs fell to eight, its lowest level in six years, largely as a result of global market volatility.

Fundraising funk

Fundraising dropped considerably in 2018, having reached an all-time peak the previous year. In total, 26 buyout and generalist funds closed with an aggregate €25.9bn in commitments, a four-year low in terms of both volume and total amount raised.

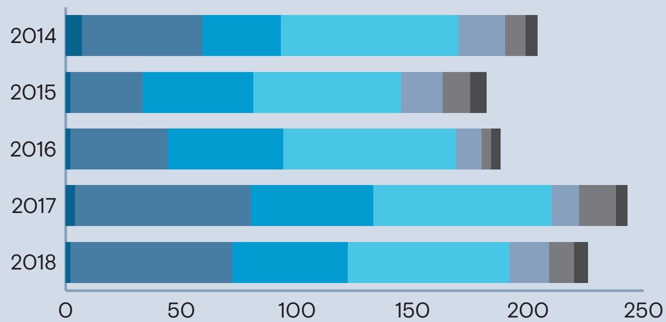
"A slowdown in the UK in 2018 has definitely happened," says Angela Willetts, a managing director at Capital Dynamics. "This is in contrast to Europe, where the numbers are expected to be relatively robust." There are two main underlying causes of this slowdown: Brexit, and concerns about asset pricing across western Europe.

The largest fund to hold a final close was BC European Capital X, which secured €7bn in January following the completion of a stapled secondary deal involving the GP's previous fund [*Editor's note: BC Partners is the majority shareholder of Acuris, the parent company of* Unquote]. Other notable fundraises included TowerBrook Capital Partners' fifth fund, which held a final close on $4.25bn in June, and Equistone Partners Europe Fund VI, which closed on its €2.8bn hard-cap.

"During our latest fundraise we heard concerns about how the excess supply of capital is pushing up asset prices," says Christiian Marriott, partner and head of investor relations at Equistone. "Getting our investors comfortable with how we structure transactions to incorporate downside protections, combined with our long-standing ability to allocate capital flexibly between different European geographies, were therefore important factors in reaching a successful final close within four months. But these significant considerations notwithstanding, LPs do remain heavily focused on private equity as being a strong performer in their own portfolios, so are continuing to allocate to the asset class in scale."

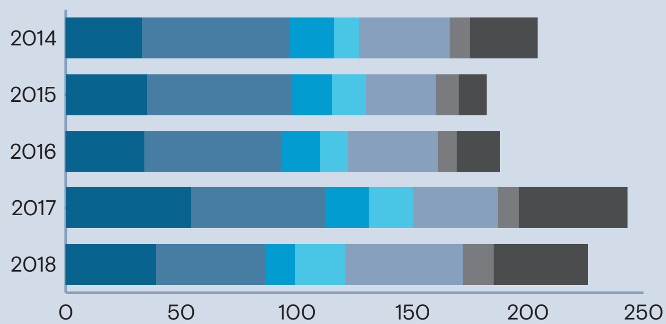
> "LPs remain heavily focused on PE as being a strong performer in their portfolios, so are continuing to allocate to the asset class"
>
> *Christiian Marriott, Equistone*

UK & Ireland buyouts by size range (volume)



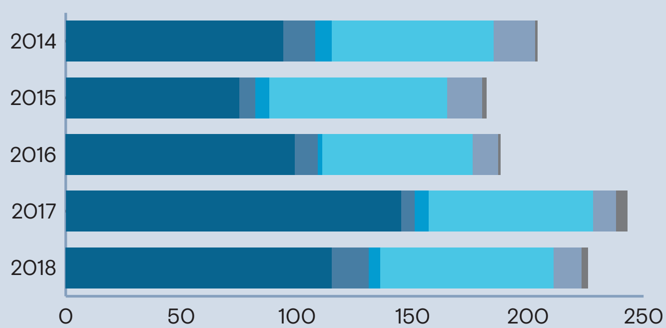
	2014	2015	2016	2017	2018
<€5m	7	2	2	4	2
€5-25m	52	31	42	76	70
€25-50m	34	48	50	53	50
€50-250m	77	64	75	77	70
€250-500m	20	18	11	12	17
€500-1bn	9	12	4	16	11
≥€1bn	5	7	4	5	5

UK & Ireland buyouts by super-sector (volume)



	2014	2015	2016	2017	2018
Business services	33	35	34	54	39
Consumer	64	63	59	58	47
Financials	19	17	17	19	13
Healthcare	11	15	12	19	22
Industrials	39	30	39	37	51
Media	9	10	8	9	13
Technology	29	12	19	47	40

UK & Ireland buyouts by vendor type (volume)



	2014	2015	2016	2017	2018
Family/Private	94	75	99	145	115
Foreign parent	14	7	10	6	16
Going private	7	6	2	6	4
Institutional investor	70	77	65	71	75
Local parent	18	15	11	10	12
Other	1	2	1	5	3

Source: Unquote Data

UK & Ireland exits 2018

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
Sky Bet / Sky Betting & Gaming	Trade sale	3,823 (est)	CVC Capital Partners
Cognita Schools	Other	2,231 (est)	KKR, EMK Capital
Interoute Communications	Trade sale	1,900	Aleph Venture Capital, Crestview Partners
FNZ	Secondary buyout	1,854	General Atlantic, HIG Capital
IRIS Software	Secondary buyout	1,478	HgCapital
MRH (GB)	Trade sale	1,368	Lone Star Funds
Callcredit Information Group	Trade sale	1,138	GTCR Golder Rauner
The Access Group / Access UK	Secondary purchase	1,138	TA Associates
Alexander Mann Solutions	Secondary buyout	932	New Mountain Capital
Tusk Therapeutics	Trade sale	658	Droia Oncology Ventures

Weak large-caps

19% drop in €500m+ deals

Consumer dip

Volume down 19% to 47

26 funds raised

Fund volume hits four-year low

UK & Ireland funds 2018

Fund name	Fund manager	Fund Target (€m)	Amount closed (€m)
CVC Capital Partners VII	CVC Capital Partners	7,000	7,000
Permira VI	Permira	3,339	3,548
Bridgepoint Europe VI	Bridgepoint	2,500	2,800
Francisco Partners V	Francisco Partners	1,140	1,711
Pamplona Capital Partners V	Pamplona Capital Management	1,426	1,426
Summit Partners GE IX	Summit Partners	798	1,140
HgCapital 8	Hg	n/d	1,006
Vitruvian Investment Partnership III	Vitruvian Partners	939	963
Blue Water Energy Fund II	Blue Water Energy	835	877
Apax Digital Fund	Apax Partners	739	796
Bregal Sagemount II	Bregal Sagemount	670	670
Oakley Capital Private Equity III	Oakley Capital	500	550
Star Strategic Assets III	Star Capital Partners	n/d	533
Summit Partners Europe Growth Equity Fund II	Summit Partners	445	509
EMK Capital Partners	EMK Capital	n/d	400
HG Capital Mercury 2	HgCapital	375	375

UK & Ireland buyouts 2018

Deal name	Business description	Deal value (€m)	Sector
Zoopla	Developer of an online property portal	2,488	Technology
FNZ	Developer of a wealth management platform	1,854	Technology
IRIS Software	Provider of software solutions to accountancy firms	1,478	Technology
Laird	Manufacturer of wireless communication equipment and technology	1,357 (est)	Industrials
The Access Group	Developer of financial management software	1,138	Technology
Wyndham Vacation Rentals	Operator of holiday home rental business	1,046	Consumer
Alexander Mann Solutions	Provider of recruitment outsourcing services to blue-chip companies	932	Business services
AXA Life Europe	Provider of life insurance	n/d (500-1,000)	Financials
National Exhibition Centre Group	Operator of exhibition centres	831 (est)	Consumer
Cisco (SPVSS) business	Provider of broadcast software	n/d (500-1,000)	Technology
VetPartners	Provider of veterinary care services	n/d (500-1,000)	Consumer
JLA Limited	Provider of commercial asset installation and maintenance services	686	Business services
Cala Group Ltd	Developer of residential properties	n/d (500-1,000)	Consumer
M Group Services	Provider of utilities and infrastructure services	525	Industrials
Tifco Hotel Group	Operator of an Irish hotel chain	n/d (500-1,000)	Consumer
HB Education	Operator of residential adventure and study trips	490 (est)	Consumer
TES Global	Operator of an online platform to share teaching resources and lesson plans	n/d (250-500)	Media
SACO	Provider of serviced apartments	457	Consumer
EnerMech	Provider of oilfield services	383	Industrials
Mater Private Healthcare	Operator of acute healthcare facilities	n/d (250-500)	Healthcare
UKFast	Provider of cloud and hosting platforms	322	Technology

UK & Ireland buyouts 2018

Deal name	Business description	Deal value (€m)	Sector
CloserStill	Organiser of exhibitions and events	n/d (250-500)	Media
Proserv	Manufacturer of production and drilling equipment for the oil and gas industry	n/d (250-500)	Industrials
CEB Talent Assessment	Provider of online tests to enable companies to assess, select and develop talent	312 (est)	Business services
Vita Group	Supplier of cellular foams and industrial polymers	n/d (250-500)	Industrials
Portman Dental Care	Operator of a dentistry chain	284 (est)	Healthcare
Waterstones	Book retailer	n/d (250-500)	Consumer
Huws Gray	Distributor of timber and building materials	n/d (250-500)	Business services
Travel Counsellors	Operator of a chain of travel agencies	266	Consumer
Corin Orthopaedics	Designer and manufacturer of orthopaedic implants	256	Healthcare
Stonehage Fleming	Provider of wealth management and investment services	n/d (250-500)	Financials
ParkingEye	Provider of car park management solutions	248	Business services
Servelec	Provider of enterprise software and hardware solutions	247	Technology
Allocate Software	Developer and provider of workforce optimisation and assurance software and services	n/d (50-250)	Technology
Admiral Taverns	Owner and operator of pubs	n/d (50-250)	Consumer
Bybox	Provider of locker based logistics solutions	n/d (50-250)	Industrials
Wireless Logic	Provider of machine-to-machine (M2M) management services	225 (est)	Technology
Homebase	Retailer of DIY products	223 (est)	Consumer
GCI Managed Services	Provider of information and communication technology (ICT) solutions	204 (est)	Technology
Care Management Group	Provider of specialist residential care services	n/d (50-250)	Healthcare

Fundraising

Gareth Morgan
Research manager

Annual drop masks underlying strength

LPs are simplifying their portfolios by committing larger sums to fewer GPs, creating a wide market disparity as well as volatility in headline fundraising figures. Gareth Morgan reports

Buyout fundraising in Europe slowed in 2018, ending a run of record years. There were 70 final closes of Europe-based buyout funds in 2018, raising a cumulative €55.7bn, down from the €80.5bn raised by 92 funds the previous year.

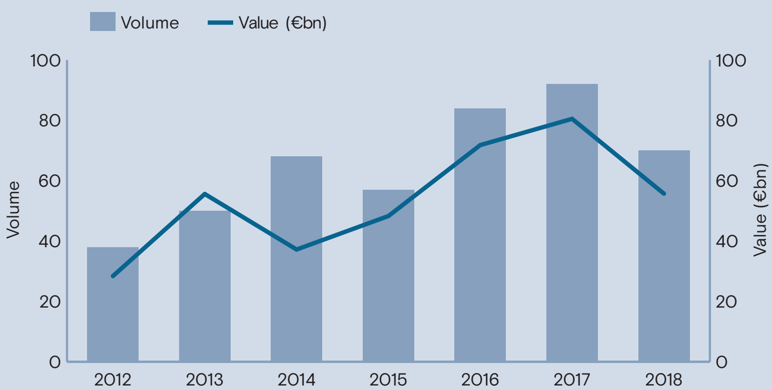
Breaking these down by size band, the slowdown has been universal in terms of value, with each bracket seeing a drop on 2017 numbers, and just mega-funds seeing an increase in volume, from three final closes to four. The average fund size across size bands saw very little movement year-on-year, with just mega-funds seeing a significant drop, strongly influenced by the €15.5bn final close of CVC Capital Partners VII in 2017 skewing the average for that year much higher. This consistency around average fund sizes is an indication that appetite is not abating for private equity funds.

"The numbers are a little surprising," says Warren Hibbert, managing partner at placement agent Asante Capital. "The market certainly doesn't feel like activity has dropped off much. LP sentiment towards private equity has remained strong and LPs are continuing to expand their allocations on the back of strong returns.

"I would, however, expect fundraising activity in the first half of 2019 to be marginally down, as we are seeing some of the LPs in the US and Europe feeling the impact of the denominator effect given recent public market softening – although there is a lag and hence it is likely to be felt towards the latter half of H1."

This view is reinforced by Asante's annual Market Survey, carried out at the end of 2018, in which more than 90% of the 188 LPs questioned said

European fundraising activity



	2014	2015	2016	2017	2018
Volume	68	57	84	92	65
Value (€bn)	37.2	48.3	71.8	80.5	53.6

Source: Unquote Data

2017-2018 year-on-year fundraising change by fund size

	<€100m	€100-500m	€500-1bn	€1-5bn	>€5bn
Volume	0%	-26%	-38%	-38%	33%
Value	4%	-33%	-38%	-39%	-20%
Average fund size	4.3%	-9.8%	-0.8%	-1.1%	-40.1%

Source: Unquote Data

they had increased their allocation to Europe (excluding CEE), and buyout funds were the most sought after in terms of strategy.

With sentiment having remained strong, the softening in fundraising numbers is somewhat surprising, and looks to be the consequence of a number of long-standing trends within the industry, particularly the behaviour of LPs.

Simplifying portfolios

For around a decade, a key theme among institutional investors has been the rationalisation of GP relationships within their private equity portfolios. Faced with the administrative burden of unwieldy pre-crisis portfolios, LPs have used a variety of means to concentrate relationships to make portfolios more manageable, most frequently by allocating larger ticket sizes to fewer managers. The result of this phenomenon is that top-tier managers are in ever-increasing demand and can hit hard-caps in a matter of weeks.

"Almost unlimited capital supply is flowing to a handful of the best managers (both large and small), across all strategies, causing increased bifurcation and competition for prized assets as funds are deployed at greater pace," says Hibbert.

"Almost unlimited capital supply is flowing to a handful of the best managers, causing increased bifurcation and competition"

Warren Hibbert, Asante Capital

For LPs, this places a significant onus on maintaining relationships with preferred managers, which, when it comes to allocation, means re-upping as soon as possible to avoid not being frozen out. "The absolute majority of investments are re-ups for LPs," says Hibbert.

Hamilton Lane, as part of its 2018/19 Market Overview, discussed looking at close to 1,000 private placement memoranda during 2018 – an unprecedented number. Many institutional investors will have been inundated with approaches. This means that backing existing managers has the additional benefit of simply maintaining relationships.

"LPs have limited bandwidth to carry out due diligence on new funds, and hence are very careful to filter out most funds and focus on a select few per year with re-ups being the obvious starting point, given the developed relationships with those managers and the fact they're not starting from a zero base," says Hibbert.

This leads to a disparity between the fortunes of established high-performing managers and the rest of the industry, with a concentration in demand for the former. This in turn amplifies the cyclicality of European fundraising around the activity of larger managers, at least in terms of headline figures.

The portfolio consolidation trend contrasts with a willingness of many LPs to back new managers, which has contributed to the success many new groups have had over recent years. The challenge for emerging managers is in getting the attention of LPs, given bandwidth limitations. Despite this, 11 first- or second-time

funds held a final close in 2018, demonstrating that the demand for emerging managers continues despite the challenges they face.

Nordic bright spot

The Nordic region was the stand-out performer in 2018, with the total value of buyout funds closed rising almost 340% on 2017. As one of Europe's most well-established markets, Scandinavia is home to a number of firms that have grown into large-scale pan-European asset managers, and regional fundraising closely reflects the activity of these managers. Both EQT and Nordic Capital closed flagship funds in 2018, alongside a strong showing from the mid-market, meaning that both volume and value records were broken. The fortunes of Europe's other long-standing private equity market, the UK, contrasted sharply with the Nordic countries, with buyout fundraising value down 56% on 2017 as the impact of Brexit uncertainty started to have a significant impact on LP attitudes.

Says Hibbert: "In late 2018, we observed some pullback from the UK from European LPs, which was replaced with demand from US institutions continuing to allocate with the GBP depreciation making UK funds in particular appear good value in dollar terms."

The story for other regions is mixed, with Benelux, CEE and DACH posting between 57-94% declines in year-on-year value, while France and southern Europe posted modest gains of 12% and 9% respectively.

Although the headline numbers for 2018 show a marked decline on 2017, the future for European private equity firms looking to raise money is unlikely to be particularly challenging. Private market investments form an increasingly important part of institutional investors' portfolios and, with strong returns from private equity, the vast majority of LPs are maintaining or increasing their allocations. The first two months of 2019 have seen 22 buyout funds close, raising €18.9bn – already a third of 2018's final figure, and including €4bn for Astorg VII and €5bn for The Triton Fund V. Early indications for the year indicate that the fundraising climate in 2019 will remain buoyant and 2018 will be looked back on as a brief lull rather than a turning of the tide. ■