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April 2012

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#### **UK & IRELAND**

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# Budget makes modest move to promote investment

HIS YEAR'S Budget, delivered on 21 March by chancellor George Osborne, had few surprises, with even Osborne describing it as "fiscally neutral".

While a small cut in the top rate of income tax and the much-touted "mansion tax" hit the headlines, there were also a number of modest moves aimed at helping businesses.

Promoting the 2012 Budget as a "Budget for Business", aiming to promote jobs and investment in Britain, the chancellor confirmed corporation tax would fall, as promised, to 24% and will reach 22% by 2013. Osborne is keen to point out this will make it among the lowest rates of corporation tax in Europe and will help secure British jobs and growth prospects.

The chancellor is also keen to promote British creative industries, introducing tax breaks for companies making video games, animation and high-end television production. He says the creative industries and digital media should be at the heart of a modern digital economy. However, it remains to be seen whether such a move will translate into real investment in these industries (see page 20).

The government also wants to widen its "enterprise zones" scheme. Three enterprise zones across Scotland will benefit from improved capital allowances. The new zones, which are intended to create spaces for innovative businesses to grow in a way that emulates the success of Silicon Valley, will be in Dundee, Irving and Nigg. Osborne also announced the creation of an enterprise zone in Wales at Deeside.

Lastly, entrepreneurs are to receive further encouragement, with the government currently considering an enterprise loan scheme to help young people start their own business. The move could provide the financial base for the start-ups of the future if it is implemented.

April will also see one other significant development for individual investors, with

new rules for VCTs announced in last year's Budget coming into force. The £1m limit for investment into a single company by VCTs will be lifted, and the criteria for businesses they can invest in will be broadened.

All of this will, no doubt, be welcome news for those investing in British businesses. However, there were few particularly ground-breaking developments and for many it will be business as usual. The fairly positive Budget, which features improved forecasts for key metrics such as GDP, unemployment and the deficit, will, however, be overshadowed by the ongoing crisis in the eurozone, continued

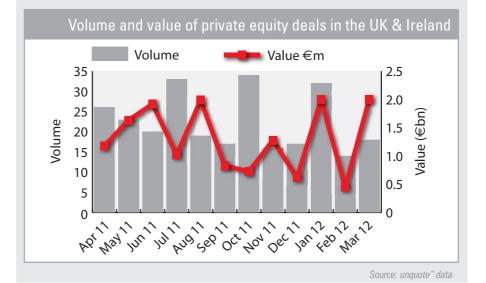


problems in the banking sector and the widespread indebtedness of companies and individuals.

While investors may feel the government is making the right noises about promoting British enterprise, many of the factors stifling growth may be out of Osborne and Cameron's control.

#### Figures flattened by NDS deal

JUST AS last year, activity in the UK has been buoyant in March. For one, Vista Equity Partners has agreed a £1.3bn bid for British banking software provider Misys, the largest deal in a long time. Also, the volume of deals (18) marks progress from last month. Lastly, the average value of deals – outside Misys – was around £50m and the variety of sectors invested (business support services, software & computer services, and travel & tourism) highlights dealflow remains rich at the lower end.





"The UK's support services sector is the most popular for buyout investors, with 34 deals in the 12 months to end February 2012"

#### **OVERVIEW**

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## Vista bags Misys in 2012's first mega-deal

VISTA EQUITY Partners saw off competition from CVC to bag a £1.27bn deal for software firm Misys in March.

The deal marks the first mega-buyout for the UK and only the second across Europe in 2012; the other being CVC's £1.5bn acquisition of Swedish construction company Ahlsell in February.

#### Recommended sale

The bidding war had been going for some time and CVC seemed to be in a strong position, having partnered with ValueAct Capital Partners, Misys' largest shareholder. However, Vista sealed the deal by offering 350p per share, a 6% premium on the firm's closing share price on 16 March. Misys' management has recommended the deal to shareholders.

The bid was made through Vista's Magic Bidco Group holding company and the investor has stated it plans to merge the company with existing portfolio company Turaz (formerly Kondor), which it acquired

from Thomson Reuters in September 2011 in a deal thought to be worth more than \$500m. The Misys buyout is only the second in Europe for the US-based investor.

#### Falling revenues

Misys was founded in 1979 by Kevin Lomax to supply computer systems to insurance brokers. Today it sells software for banking and investment companies and other financial services businesses. Its revenues are around £750m, but have fallen 12% in the past year; the firm's share price peaked at 420p in July last year.

The business it plans to merge with, Turaz, operates in a similar field, producing risk-management and trade software and is best known by the name of its flagship product *Kondor*. Presumably Vista hopes there will be significant opportunities to create synergies between the two businesses to boost efficiency.

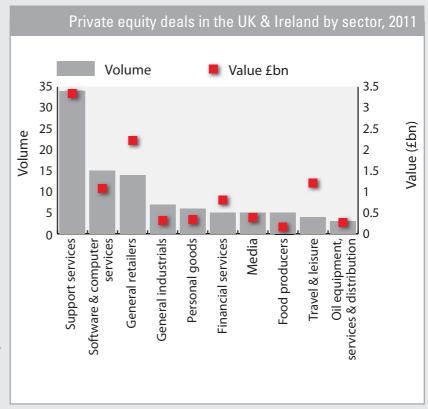
## Support services & retail dominate UK activity

THE UK'S support services sector is the most popular for buyout investors, with 34 deals in the 12 months to end February 2012 – roughly three per month. Support services also attracted the most money, worth £3.3bn over the past year, a sizeable chunk of all UK buyout investment.

Given the broad range of UK companies offering services to businesses both in Britain and around the world, this is no surprise. *unquote*" *data* has noted that software as a service (SaaS) businesses have been particularly popular for private equity buyers in recent months.

Interestingly, the general retail sector was the second-largest by value, at £1.1bn, and third-largest by volume, with 14 transactions. This comes despite the current carnage being seen on UK high streets, as retailers struggle to attract cost-conscious consumers and compete against low-overhead internet-based businesses.

However, the difficult state of the UK's retail market has presented opportunities for private equity houses looking to turn around the fortunes of failing businesses, with Peacocks and Game Group potentially offering the chance to put turnaround expertise to the test.



Source: unquote" data

# Regional investors vital for economic recovery

Some private equity firms see regional devolution as a means of boosting dealflow, but *unquote*" *data* shows deals done by regional players have fallen since 2005. But couldn't a regional focus be a means of rebuilding the economy from the bottom up? Amy King and Anneken Tappe report

Wales, a local presence is central to the strategy of regionally-focused private equity firm Finance Wales. In times of financial turmoil, the mid-market investment firm cites market proximity as a major benefit, since it facilitates quick reactions to any nascent trend.

"Being close to the market helps to better understand market dynamics and gives us early indications of what is happening," says Chris Griffiths, deputy fund manager at Finance Wales. "This allows us to address any issues as they arise on a region-byregion or even office-by-office basis," he adds.

Similarly, LDC has long been a believer in the devolved approach, with regional offices in 11 major cities in the UK. Once again, the private equity firm has dominated the volume tables for mid-market deals completed in 2011, completing 11 deals last year; double that of closest competitors Carlyle and ECI. Although the success of the firm is more likely attributable to boasting the backing of the UK's largest banking group than its regional approach, the latter appears a positive asset.

LDC investment director Jonathan Caswell told *unquote*" in an earlier interview, "The regional network is a key strength for LDC, and it is critical to the way we do business. In terms of deal origination, it enables us to identify strong companies in local markets, get close to those businesses, meet the individuals and understand what is important to them – often before the actual processes start."

#### Tough times

In spite of the merits of the regional approach, *unquote*" *data* shows that investments by GPs with a regional focus have declined in the last five years. The number of investments made in Europe by these GPs has reflected the general market curve since 2006. This falling volume reflects the falling number of investments made in total.

Investments backed by regional players have consistently represented an important part of the industry since 2005, but suffered the same downturn. However, deal numbers continued falling in 2011, a year which was overall slightly stronger than 2010 in terms of total buyouts.

Nevertheless, the regional focus is



**Chris Griffiths**, Finance Wales

"Being close
to the market
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understand
market
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perhaps more important now than ever. A focus on local companies and a long-term investment strategy, including follow-on rounds could help keep regions that might otherwise be ignored by larger pan-European private equity firms afloat in times of financial turmoil. Investment in these very companies could promote real, sustainable growth that allows local economies to ride out the recession.

#### Nurture your investment

"The model that we apply is very much a cradle-to-grave one," says Griffiths. "It's not just about the capital; it's about the expertise. In the last financial year, more than 50% of our investments were follow-on rounds in our portfolio companies. That to me is an indicator that growth plans are long-term and often need more than one round."

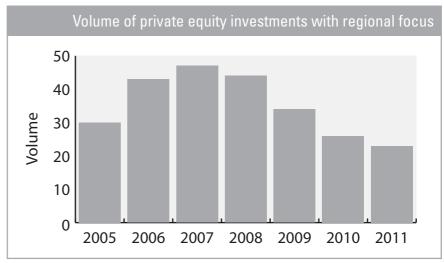
What's more, working close to the ground allows private equity players to leverage their portfolio companies. "We have an extensive portfolio of SME clients now, there are some great opportunities to leverage those relationships to the benefit of both portfolio companies; they can start developing relationships and opportunities. I do not think you would

ANALYSIS unquote.com/uk

necessarily get that if you had a more dispersed portfolio," Griffiths suggests.

#### Supporting entrepreneurism

Leveraging expertise and opportunity is one way of ensuring dynamism in a local market. For those without the veteran experience of large, well-established companies, the financial crisis can see relatively inexperienced entrepreneurs enter unchartered waters. The close contact with portfolio companies afforded by a regional presence is perhaps a means of facilitating knowledge-transmission and providing expertise. In times of austerity, maybe such regionally-anchored private equity firms represent a means of bulwarking local economies and riding out the recession.



Source: unquote" data

# Chancellor reneges on VCT investment cap; Brussels 'interfering'

The budget has mixed fortunes for venture capital trusts. Amy King reports

THE BUDGET brought about good news and bad for venture capital trusts (VCTs). First the good: The £1m limit on investment by a VCT in a single company will be removed, and the maximum size of a qualifying company will rise from 50 to 250 employees and gross assets to £15m before and £16m after the investment.

The bad news: A new disqualifying purpose test for VCTs has been introduced to exclude companies set up for the purpose of gaining financial relief, effectively removing decision-making on qualification from the public eye. In order for the above changes to fit with the EU (since this legislation falls within EIS State Aid Provisions), the annual investment limit for a qualifying company will be £5m, not the £10m proposed by the chancellor a year ago.

Moreover, HMRC states that this limit applies to funds raised by VCTs prior to 5 April 2007, which had previously been exempt from any annual investment limit; retrospective legislation that will mean VCT operators are forced to rethink their investment strategy on what had previously been considered "protected" VCTs.

The concession will have serious repercussions on the investment strategies laid out by funds that had banked on the £10m cap. "They will now have to invest in smaller fundraisings, limited to £5m.

Moreover, the previously drafted legislation was not going to affect those VCTs which were going to remain unlimited. This therefore is effectively retrospective, and nobody saw this coming," says Chilton Taylor, head of capital markets at Baker Tilly.

"What has gone wrong here is that the Treasury have no doubt agreed this, not realising that it takes several months to organise a fundraising. And there are fundraisings already in progress that will be effected as they wont have raised their funds prior to 6 April," says Taylor.

"We are seeing Brussels interfering with the growth of UK companies, the very companies that need this stimulus. This restriction in the annual limit negates the chancellor's previous optimism in last year's budget when the limit was to be £10m. We are currently involved in a number of fundraisings which will now not qualify or be restricted due to what is effectively retrospective legislation," he adds.

"Arguably the greater growth sources to generate employment and growth in the economy comes from those larger companies that are looking for these sorts of amounts, which is why the limit was supposed to be raised from £5m to £10m," says Taylor.

#### **MID CAP**

#### **Blackstone refinances Center Parcs**

BLACKSTONE HAS refinanced holiday provider Center Parcs, injecting a further £100m of equity.

The £1bn refinancing of Center Parcs replaced the previous debt structure and was secured against the company's current parks.

Blackstone has committed a further £100m of new equity to

NAME Center Parcs DFAL Expansion VALUE £100m **DEBT RATIO** 60% LOCATION Newark Travel & tourism **SECTOR FOUNDED** £291m **TURNOVER EBITDA** £131m **STAFF** 6,000 www.unquote.com/2157033

finance the £250m construction of a fifth park.

RBS, Barclays, HSBC, and Lloyds Banking Group have supplied additional debt finance amounting to £150m.

Center Parcs, established in 1987, operates four holiday parks in the UK. Based in Newark, the company employs 6,000 staff. It recorded EBITDA of £131m from a £291m turnover in 2010/11.

# Phoenix acquires Gall Thomson Environmental

PHOENIX EQUITY Partners has acquired liquid product transfer equipment manufacturer Gall Thomson Environmental from trade player Lupus Capital.

NAME	Gall Thomson Environmental	
DEAL	MBO	
VALUE	£75m	
SECTOR	Pipelines	
FOUNDED	1978	
<u>www.unquote.com/2159005</u>		

The company was valued at £75m. Equity was invested from Phoenix Equity Parnters 2010, which closed at £450m. Debt was provided by HSBC, Santander, and RBS.

Gall Thomson Environmental, founded in 1978, produces a range of products for pollution-free transfer of liquid and gas products in offshore marine environments. The company is based in Great Yarmouth, UK.

# Chamonix and Electra acquire Peverel from administrators

#### CHAMONIX PRIVATE

Equity and Electra Partners have announced the £62m acquisition of property management services company Peverel Group from administrators Zolfo Cooper. The deal will reduce the company's

NAME	Peverel Group
DEAL	Turnaround
VALUE	£62m
DEBT RATIO	40%
LOCATION	New Milton
SECTOR	Business support services
FOUNDED	1980s
STAFF	4,200
www.u	nguote.com/2157294

debt from £125m to £25m. Peverel has been in administration since March 2011 after it was unable to arrange repayment with previous debt provider Bank of America Merrill Lynch.

Chamonix and Electra have taken a substantial majority stake, with the current management retaining a minority stake. The investors have also brought in Janet Entwistle, previous managing director of BT Fleet, for the vacant position of chief executive. A £25m senior debt package was arranged by an undisclosed provider.

#### **OEP buys Linpac Allibert**

ONE EQUITY Partners (OEP) has wholly acquired Linpac Allibert, the returnable transport packaging business of Linpac Group.

The private equity arm of JP

Morgan acquired Linpac Allibert

NAME	Linpac Allibert			
DEAL	Buyout			
LOCATION	Quinton			
SECTOR	Containers & packaging			
TURNOVER	€181m (2010)			
STAFF	1,150			
www.unguote.com/2157059				

with a view to complement its existing investment in plastic packaging business Schoeller Arca Systems. OEP will operate both companies as independent sister companies for the time being, but stated it would consider further integration at a later date.

Linpac Allibert is part of the Linpac Group, which was owned by Montagu between 2003 and 2009 – when the buyout house lost control of the business in a debt-for-equity swap. Montagu had nevertheless recouped around 80% of its investment in 2007 through a recapitalisation.

#### **SMALL CAP**

# FF&P sells Clipper Teas to Dutch trade player

FF&P'S PORTFOLIO company Clipper Teas has been acquired by Dutch organic food company Royal Wessanen.

Fleming Family & Partners (FF&P) acquired Clipper Teas in December 2007 for £25-30m.

The new owner, Royal

NAME	Clipper Teas		
DEAL	Trade sale		
VALUE	<£50m est.		
LOCATION	Beaminster		
SECTOR	Food products		
FOUNDED	1984		
TURNOVER	£16m		
STAFF	90		
VENDOR	FF&P		
www.unquote.com/2156717			

Wassanen, is a Dutch organic food company with revenues of €706m in 2011 and almost 2,000 employees. The company operates in France, Belgium, the Netherlands, Luxembourg, the UK, Germany and Italy.

Dorset-based Clipper Teas is an organic and Fairtrade tea business. Its factory is located in Beaminster. The company was founded in



1984 and employs 90 people. In 2011, the company recorded £16m in revenues.

#### **NBGI backs MBO of ATR Group**

NBGI HAS backed the management buyout of rental services business to the oil & gas industry ATR Group from Maven Capital Partners.

The equity and debt package totalling more than £20m includes a significant capital allocation to fund the organic

NAME **ATR** DFAL SBO LOCATION Aberdeen SECTOR Industrial machinery TURNOVER £17m STAFF 100 **VENDOR** Maven Capital Partners **RETURNS** 1.7x www.unquote.com/2156422

and acquisitive growth of the business. Clydesdale Bank provided senior debt and capital expenditure funding.

ATR's existing management team, led by Keith Moorhouse (who reinvested), will remain at the helm alongside newly appointed chief financial officer Euan Leask.

In 2007, Maven backed the BIMBO of ATR, providing £3.9m of equity. It reaped a 1.7x multiple following the sale.

#### **ADVISERS**

**Equity** – Campbell Dallas, Tom Faichnie (Corporate finance); Dundas & Williamsons, Doug Crawford, Helen Machin, Dawn Reoch (Legal); PricewaterhouseCoopers (Financial due diligence); CIL (Commercial due diligence); Highwire Consulting (Management due diligence); Deloitte (Tax). **Vendor** – Johnston Carmichael, Andy Walker, Mark Raper (Corporate finance); Paull & Williamsons, Ken Gordon, Colin McKenzie (Legal).

Management - Paull & Williamsons, Helen Dickson (Legal).

#### **Apposite reaps 45% IRR from SureCalm**

NAME

DEAL

LOCATION

SECTOR

**FOUNDED** 

**RETURNS** 

STAFF

SureCalm Healthcare

Healthcare providers

www.unquote.com/2157022

Trade sale

Surrey

2010

45% IRR

65

#### SPECIALIST HEALTHCARE

investor Apposite Capital has sold homecare services provider SureCalm Healthcare to medical technologies developer Amcare Ltd, reaping a 45% IRR.

Amcare Ltd is a whollyowned subsidiary of ConvaTec

UK Holdings Ltd, developer and marketer of medical technologies for community and hospital care.

In January 2010, Apposite Capital created SureCalm Healthcare as part of the management buy-in of three private dispensing appliance contractors focusing on stoma, urology and continence

care. The all-equity deal value was estimated to be in excess of £25m.

#### **ADVISERS**

**Vendor** – Berwin Leighton Paisner LLP (Legal); Hazelwood (Corporate finance). **Acquirer** – Wragges & Co (Legal); Ernst & Young (Financial due diligence).

#### FF&P backs MBO of CreditCall

FF&P AND Bestport Ventures have taken a majority stake in British payment technology business CreditCall.

Following the transaction, management hopes to branch out

 NAME
 CreditCall

 DEAL
 MBO

 VALUE
 ≪£10m

 LOCATION
 Bristol

 SECTOR
 Consumer finance

 www.unguote.com/2157279

into emerging markets and strengthen the revenue flow of the company, by developing its product range.

Bristol-based CreditCall provides payment processing services and payment technology across Europe, Canada and the US. CreditCall makes it possible to make credit or debit payments at unattended machines or via the internet.

#### **ADVISERS**

**Equity** – Speechly Bircham (Legal); RSM Tenon Corporate Finance (Corporate finance).

#### YFM backs £2m MBI of Selima

YFM EQUITY Partners has backed the management buy-in of Sheffield-based company Selima Limited in a £2m allequity deal.

New managing director Wayne Blakemore, financial director Jane Mercer and others are acquiring 
 NAME
 Selima Limited

 DEAL
 MBI

 VALUE
 £2m

 LOCATION
 Sheffield

 SECTOR
 Business support services

 TURNOVER
 £3.2m

 STAFF
 44

 www.unquote.com/2159743

a majority stake in the business from previous managing director Mark Kinnell, who will retain a minority stake. YFM has backed Mercer and Chairman Richard Beaton twice before – in Deep Secure and Tekton.

The investment was made through YFM's British Smaller Companies VCTs. It will be used to expand the business and its product range.

#### **ADVISERS**

**Equity** – Irwin Mitchell, James Bullock (Legal); DTE, Matt Beckley (Financial due diligence).

Company - Gateley, Rebecca Grisewood, Kate Richards (Legal).

# RCapital backs TMKG and subsidiary Matrix Knowledge

RCAPITAL HAS invested in TMKG Ltd and its subsidiaries, including information management service provider Matrix Knowledge. NAME Matrix Knowledge
DEAL Buyout
LOCATION London
SECTOR Business support
services

www.unquote.com/2158997

The new capital will be

used to grow the advisory, research and technology units of Matrix Knowledge across Europe and in the US.

Matrix Knowledge is a European Public Policy consultancy focusing on research and analytics for government policy and management. It has offices in London, Brussels and Rockville, Maryland.

#### **ADVISERS**

Equity - Salans LLP, Jonathan Polin, Sonia Jordan (Legal).

# ISIS Equity Partners exits TVC to the Economist Group

ISIS EQUITY Partners has sold communications agency TVC to the Economist Group.

The Economist Group was introduced to ISIS as a potential buyer by corporate finance advisory firm Livingstone Partners.

NAME TVC
DEAL Trade sale
LOCATION London
SECTOR Media Agencies
FOUNDED 1998
VENDOR ISIS Equity Partners

www.unquote.com/2159704

ISIS invested £5m in a £10m buyout of TVC in 2008. Equity was invested from Baronsmead VCT, and the deal was supported by a £3m debt package from Lloyds TSB Capital Markets.

#### **ADVISERS**

Vendor - Livingstone Partners (Corporate finance).

#### **ACQUISITION FINANCE**

# Arle Capital portfolio company acquires Nightfreight

DX GROUP, a portfolio company of Arle Capital Partners, has acquired British mail, courier and logistics NAME Nightfreight
DEAL Acquisition finance
LOCATION Willenhall
SECTOR Business support services

www.unquote.com/2159669

network provider Nightfreight. The acquisition will yield portfolio

synergies for DX Group. The business, a mail and courier service company, was acquired by Arle Capital Partners and European Capital in 2006, in a deal valued at £348.7m. The company was restructured by Arle Capital in 2010.

Nightfreight is a service provider in the field of mail, courier and logistics networks. The company is particularly active in the niche IDW sector, covering parcels of irregular shape and size.

#### **EARLY-STAGE & EXPANSION**

# Business Growth Fund backs STATS Group with £7.8m

THE BUSINESS Growth Fund (BGF) has invested £7.8m in Aberdeen-based oilfield service sector firm STATS Group in

exchange for a minority stake.

The investment will help build the company's fleet of proprietary isolation devices and support international expansion.

NAME STATS Group DEAL Expansion VALUE £7.8m LOCATION Kintore **SECTOR** Oil equipment, services & distribution **FOUNDED** 1998 **TURNOVER** f14m 130 www.unquote.com/2159344

The capital injection is the BGF's fourth since the start of 2012 and its first in Scotland.

Lloyds Bank Wholesale Banking and Markets increased its working capital funding to STATS as part of the transaction.

Founded in 1998, STATS Group is an engineering-led business providing isolation services for onshore and offshore oil & gas pipelines. It is based in Kintore, near Aberdeen, and employs 130 members of staff across sites in Canada, the Middle East and the Far East. In 2011 STATS reported a turnover of £14m.

# Business Growth Fund invests £4.8m in Wow! Stuff

NAME

DEAL

VALUE

LOCATION

SECTOR

**FOUNDED** 

**TURNOVER** 

THE BUSINESS Growth Fund has made its fifth investment with the purchase of a £4.8m minority stake in British toy company

Wow! Stuff.

The investment will help
the company drive growth an

the company drive growth and expand in the US market. Future acquisitions of an engineering and innovation team are planned as part of the deal.

Wow! Stuff is a British toy company based in Wolverhampton. Its revenues amounted to £20m in 2011. More than half of its sales are



Wow! Stuff

Wolverhampton

Expansion

£4.8m

Toys

2006

£20m

outside the UK, in the US and continental Europe. Wow! Stuff has a compound annual growth rate of 42%.

#### **ADVISERS**

**Equity** – Springboard Corporate Finance (Corporate finance); Ernst & Young (Financial due diligence); CiL (Commercial due diligence); Catalysis (Management due diligence).

Management - The Wilkes Partnership (Legal).

Company - Pinsent Masons (Legal).

# Atlas Venture leads \$4m round for The Currency Cloud

ATLAS VENTURE has joined existing investor Anthemis Group in a \$4m series-A funding round for The Currency Cloud.

The deal follows an initial \$2m round by venture capital

 NAME
 The Currency Cloud

 DEAL
 Expansion

 VALUE
 \$4M

 LOCATION
 London

 SECTOR
 Software

 FOUNDED
 2009

 STAFF
 17

 www.unquote.com/2159398

firm Anthemis and others. The latest investment will allow the company to ramp up commercial activity and develop its product.

London-based The Currency Cloud specialises in online multicurrency payments for small and large businesses and offers a software as a service product. It was established in 2009 and launched to the market in 2012. Since founded, it has attracted more than 100 corporate customers and 20 platform partners. It currently employs 17 staff.

# I2BF leads £1.8m Seren Photonics funding round

I2BF GLOBAL Ventures, Fusion IP and IP Group have invested £1.8m in LED tech company Seren Photonics.

I2BF Global Ventures invested £1.1m, IP Group invested £400,000 and existing NAME Seren Photonics
DEAL Early-stage
VALUE £1.8m
LOCATION Sheffield
SECTOR Electrical components & equipment
STAFF 5

www.unquote.com/2161534

investor Fusion IP contributed £300,000. Following the deal, Fusion IP will hold 40.2% of undiluted shares in the company.

Seren Photonics is a technology spin-out from the University of Sheffield, specialised in developing more efficient LEDs – the company has developed LEDs that either run for a longer period of time or shine brighter. Seren Photonics' product has applications for laptops and TVs, domestic appliances and street lighting.

#### **YFM Equity Partners backs Castlerock**

YFM EQUITY Partners has completed a development capital injection into UK-based healthcare recruitment company Castlerock Recruitment Group.

The investment was made through the £45m North West Fund for Development Capital, managed by YFM.

NAME	Castlerock Recruitment
	Group Limited
DEAL	Expansion
VALUE	<£2m
LOCATION	St. Helens
SECTOR	Business training &
	employment agencies
TURNOVER	£15m
STAFF	57
www.un	quote.com/2155577

YFM makes investments from £100,000 – £2m in businesses across all stages of development through this vehicle.

The capital injection will underpin the organic growth of the business and fund new hires.

Castlerock Recruitment Group Limited is a healthcare recruitment business that provides permanent and temporary staff to clients including the Ministry of Defence, NHS, HM Prisons and the private sector.

The company is headquartered in St Helens and reports a £15m annual turnover. It has 10 UK offices and employs 57 staff, including 31 recruitment specialists.

#### ADVISERS

**Equity** – PKF (Financial due diligence); Gunnercooke (Legal). **Company** – RSM Tenon (Corporate finance); JMW (Legal).

# YFM and EV reinvest in Peckforton Pharmaceuticals

YFM EQUITY Partners and Enterprise Ventures have joined the management in investing over £1m in portfolio company Peckforton Pharmaceuticals.

EV invested through the RisingStars Fund and Coalfields

NAME	Peckforton		
	Pharmaceuticals		
DEAL	Expansion		
VALUE	>£1m		
LOCATION	Crewe		
SECTOR	Pharmaceuticals		
FOUNDED	1998		
www.unquote.com/2156732			

Enterprise Fund. YFM made the investment through the North West Business Investment Scheme, a private equity and venture capital regional development scheme targeted towards small businesses in the north-west, managed by YFM.

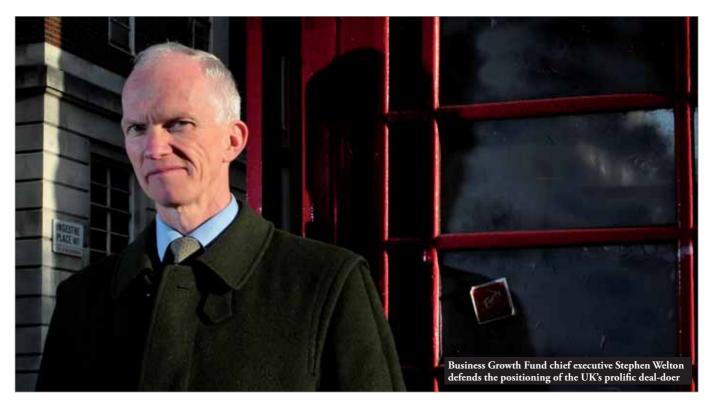
The latest funding round will back the growth of the company, including product development and European expansion.

Royal Bank of Scotland provided senior debt to support the deal. EV first invested £250,000 in 2004. YFM invested £200,000 in 2007.

#### **ADVISERS**

Equity (Enterprise Ventures) - Laytons (Legal).

# **Business Growth Fund:**



The newest kid on the block – made up of lots of the old boys in the industry – is struggling to make friends. People say the Business Growth Fund is too big and too threatening. But is the BGF's reputation warranted? Kimberly Romaine investigates

OT MANY people like the Business Growth Fund (BGF). Spawned by the Rowlands Report and a key recommendation of the British Bankers' Association's Business Finance Taskforce, BGF is a £2.5bn equity investment fund backed by five of the UK's largest banks. Business folk are quick to denounce the vehicle, which makes for enticing journalist fodder, and so there is no shortage of negative publicity for it.

On the face of it, it is easy to see why. Most deal-doers – be they GPs or advisers – feel BGF has taken the banks' money and run to a safer haven than was spelled out in the Rowlands Report, its *raison d'être*. One of the banks even ditched the idea: *unquote*" initially reported that Santander

was a backer (alongside Barclays, HSBC, Lloyds, RBS, and Standard Chartered), but the institution mysteriously disappeared off the list at BGF's launch last May. A bit of investigating revealed the bank was among the sceptics, and instead used its money to set up a £200m mezz fund (Breakthrough) to plug its own definition of an equity gap (much lower than Rowland's area, incidentally).

BGF's haven is precariously close to private equity GPs' turf – and the humongous balance sheet it can invest from is generating fears of upward pressure on pricing. Thus, much of the ill-will is sour grapes, but others with less of a vested interest share the sentiment. Says one industry body head: "BGF used very selective reading of the Rowlands



# Myth versus reality

"The BGF is a subset of the [VCT]

market where we are less active.

We rarely come up against them and so

we're glad they have started to do deals.

There really is a market for them"

Peter Hodson, NVM Private Equity

Report, which indicated the equity gap needed mezzanine. BGF is not doing what it was meant to and I am very sad about that. But, to be fair, I would have moved the goal posts, too."

Nearly every interviewee indicated the Fund had strayed from the Report's target business size, but chief executive Stephen Welton was shocked when asked about this. In fact, reviewing the Rowlands Report reveals that BGF is investing precisely in the space prescribed: £2-10m in

businesses with revenues of £10-100m per annum. The major deviation is that it is equity provision rather than mezzanine. "The report suggested mezzanine to address a demand-side aversion to pure equity. But in fact we've found businesses find equity attractive; there is not an unworkable aversion to equity," Welton explains,

adding a statistic from the Breedon Report, which reveals that just 1% of firms took on mezzanine last year.

#### Plugging the gap

If anything, BGF has actually expanded its remit to include businesses with revenues as low as £5m – and one deal even fell short of this. This puts it more firmly in the venture capital trust (VCT) hunting ground, though Welton is adamant that it will, for the most part, look at different businesses. "VCTs are sold to retail investors with low risk appetites. The VCTs are therefore naturally not taking excessive risk. They play a very important role, but it is not enough. The time frame and sums they put to work are insufficient to plug the gap. The market can work better and we are trying to help it do so."

But in fact BGF did compete with at least one VCT in its first deal, Benefex. Peter Hodson is a director at NVM Private Equity, which operates VCTs, and was among the losing bidders. He says: "They were competitive in that process and we didn't win it. But if we look across a year, I'd say BGF is a subset of our market where we are less active. We rarely come up against them and so we're glad they have

started to do deals. There really is a market for them."

VCTs are not the only group to come round. The angel community, initially disenchanted with BGF's remit, is now working with the fund. "There was a very large gap between where we angels invest and where the BGF will go," explains Jenny Tooth, a director at Angel Capital Group (ACG).

To help bridge this divide, the BGF has supported the British Business Angels Association (BBAA), of which ACG

is a member, to the tune of £30,000. BGF can refer businesses too small for its own criteria to the angels and then monitor the businesses' progress for a few years; these collectively form part of BGF's "shadow portfolio".

"The idea is BGF can then take those companies on to the next stage of their development," says

Tooth. "BGF can, in theory, even back businesses with less than £5m revenues since they will have been monitoring them under our stewardship. We are effectively helping to 'de-risk' these firms for BGF. So it is a two-way street." Welton agrees: "BBAA takes the start-up risk; we take the growth risk."

#### Time is money

Six months in, BGF got stick for taking six months to do its Benefex deal. The market was basking in schadenfreude about the fund's apparent failure to launch, citing a need to do hundreds of deals a year to get through the behemoth £2.5bn warchest. Even Labour MP Toby Perkins, shadow minister for small business, berated Welton in a panel your editor hosted, suggesting such a delay was unacceptable (www.unquote.com/2157398).

But in fact, despite widespread belief to the contrary, BGF does not have to spend all its money. And there is no clock ticking, unlike in limited partnership funds or VCTs.

"Our business started from a piece of paper. It was a genuine start-up. I was the first employee. We inherited no office or infrastructure. The first 10 months saw us grow

#### Perception and reality

Rumour is rife - but often misguided

- The BGF moved its goalposts. Many say this, and it's true BGF abandoned the idea of mezz provision for equity. But the size of businesses it looks at started at the £10-100m turnover Rowlands identified and now BGF looks at businesses from £5m turnover.
- It is a comfortable rest stop for the old boys to kick back during the downturn. Maybe –
- people who have interviewed for BGF reveal it is paying "well". But the frenetic deal pace of late suggests it is for hungry deal-doers, not those wishing to play golf. Comically, one critic of BGF, quoted in a broadsheet around the time of its launch, subsequently went on to apply to work there (he did not get the job).
- It competes with, rather than complement, private equity. Sometimes. But of the six deals done at the time of going to press,

"The final three offers were literally

carbon copies. It came down to people.

BGF took the time to get to know our

business, more so than the others"

Matt Waller, Benefex

- only two competed directly with private equity. Two others were bank referrals and two proprietary. One business had received numerous unsolicited approaches, but had never entertained the thought of pure PE. In a few years' time, BGF could complement PE as it exits its businesses, "institutionalised", to players further up the value spectrum.
- It has to complete an impossible number of deals to burn through its £2.5bn within its time frame. This one assumes a typical

from zero to 55 members of staff across six UK offices," Welton says.

When put like that, it is clear the team were not sitting on theirs hands. And it is also clear the team, now functional and fighting fit, is upping its pace: It completed two deals the week Welton spoke with *unquote*". "We are

currently finding that it takes around three months to go from an initial conversation to a completed deal. This is why it is so important to build a firm that reflects this. And the national infrastructure, scale and quality of the investment team we are building will

enable BGF to be conducting dozens of these conversations and negotiations at any one time."

Due diligence is a time-consuming process, and one BGF is aiming to streamline for SMEs. For example, its £4.8m investment in Wow! Stuff in March saw three months lapse between the time legal adviser Pinsent Masons was brought on board and the deal completing. "BGF is probably at the teething stage as regards the legal process. I can see it developing its approach to its investment documents and its legal due diligence to be more in line with its positioning as a long-term growth capital investor," says Paul Harkin, partner at Pinsent Masons. He indicates the knowledge is there, with a

handful of BGF's senior professionals coming from a growth capital background, including head of investments Richard Bishop. "I would not be surprised to find they come up with more streamlined processes to reduce the time required to do a deal."

"Because of the size of BGF's investments and the speed

it is aiming for, it is crucial to focus just on key areas," Harkin explains, adding that for Wow! this meant IP as well as arrangements with manufacturers and distributors.

#### Crunching numbers

The team at BGF is expected to grow to 100

by year end, and the fund aims to do 20-25 deals this year and around 30-40 per annum thereafter. Ambitious. But is there sufficient demand from SMEs? The Rowlands Report estimated some 25,000-32,000 growing or restructuring UK businesses might need an injection of growth capital. Of these, 5,000 firms a year were likely to experience significant problems in accessing capital as the economy emerged from recession.

"In the first eight months since launch, we have worked hard to build up a strong pipeline of potential investment opportunities, holding detailed discussions with approximately 300 companies across the UK. We are talking with 5-10 new companies every week. These are



five-year investment period. But in fact BGF is under no time restraints. And it is under no pressure to deploy its entire war chest.

It will do buyouts, eventually. This criticism is newer than the others, but cannot yet be disproved, though Welton adamantly denies it. It is easy to see the fear: 3i, with its similar heritage, went down that route, abandoning its venture focus and now firmly established outside the UK (in fact some would say its only future is outside its home country). And eight of BGF's 35 investment professionals have cut their teeth at 3i.

Across BGF's 55 staff (35 of whom are on the deal-doing frontline), more than two dozen private equity houses are represented, the lion's share from buyout houses – so it is not unreasonable to assume these professionals may feel lured back to their roots. But that fear could be turned on its head: In fact, many current buyout houses started as venture/growth players (3i, Apax) and only later migrated towards buyouts. This move

has spawned a nostalgic urge to take a step back for some – take for instance the team at Darwin Private Equity. The team at BGF may be in a similar mind-set. Lots of them, too: Most GPs nowadays do zero to two deals per year. Not too exciting if you thrive on the adrenalin of a completion (yes, many admit to this).

Another reason the buyout route looks unlikely for BGF is that they might struggle to get leverage. Its five bank backers may find themselves overly exposed to businesses if they take on leverage.

relationships we are cultivating for the long term."

Additionally, research suggests that there are more than 7,000 businesses in the UK with a turnover of between £2.5-100m – and growing at more than 10% per annum – and yet fewer than 40 first-round growth capital investments of £2-10m were made in this sized company last year.

"Every entrepreneur I have met feels banks are their first source of capital; it is cheap. But businesses have been more geared than they should have been and we are seeing the consequences of that now," Welton says.

shortlisted it to the final three, the offers were literally carbon copies from a money point of view. It came down to people. BGF took the time and energy upfront to get to know our business, more so than the others. The runner-up in the deal hadn't quite grasped our strategy and had their own ideas for how to grow the business."

That BGF's first deal

"I knew I didn't want to partner with vulture capitalists. BGF's values and objectives fitted with mine" Wayne Martin, GCI Telecom

BGF not existed, Waller replied: "We would have gone with another private equity firm."

saw it beat five other

traditional private equity

that it doesn't compete

firms punctures the theory

with private equity. When asked what the business

would have done had the

#### A matter of taste

Indeed, BGF has won deals that other private equity firms have looked at. NVM was one such firm to lose out on Benefex, and BGF's co-investment in Unruly Media beat competition from Advent Venture Partners. But sources close to the deal indicate price was not the determining factor – putting a spanner in cynics' argument of cheap money.

BGF's first deal, the £4.2m injection into Benefex, was not about the money. "It was a very close race," says Benefex chief executive Matt Waller. "The offers were similar in terms of equity stakes and money, with just one seeking a majority stake and offering cash out. By the time we

Frustrating if you were number two in that auction. But the flip side of the coin is the Benefex deal highlights that BGF is no Daddy Warbucks, splashing cash to win deals. In fact, chats with other investee companies paint BGF as Mary Poppins – doing the job with altruism and care.

"Learning about what BGF did brought the barriers down," explains Wayne Martin, chief executive of Lincoln-based telecoms and data service provider GCI Telecom. Recorded in February, BGF's first deal in the Midlands saw £10m pumped into GCI. The business turned over around £45m last year and employs 220 staff in nine locations. Not exactly a high-risk start-up: The revenues, and the size of BGF's cheque, point to a business that could have attracted

Investing within – and below – Rowlands parameters					
Target	Date	Deal size	Financials	Source	
Benefex	October 2011	£4.2m	Turnover approaching £10m in 2012 (>£5m when backed)	Auction (five other private equity houses bid)	
Statesman	October 2011	£4.2m	Gross sales of £45m in 2011	Referral of backing bank	
Unruly Media	January 2012	\$25m (BGF co-invested with Capital Partners and Van den Ende & Deitmers)	Revenues of £16m in 2011	Auction (Advent Venture lost out; co-invest with Amadeus)	
GCI Telecom	February 2012	£10m	Turnover of £45m in 2011	Proprietary	
Wow! Stuff	March 2012	£4.8m	Revenues of c£20m in 2012	Intermediated but no auction	
STATS Group	March 2012	£7.8m	Revenues of £14m in 2011	Proprietary	

Source: unquote" data

a traditional private equity house. But it was within Rowland's parameters. The issue was a matter of control.

"I have had a phone call nearly every week in the last year from a private equity firm interested in my business, but I'd heard too many scary stories of them taking control of businesses. I knew I didn't want to partner with vulture capitalists," quips Martin. "BGF's values and objectives fitted with mine."

The GCI deal – the largest cheque BGF has written to date – was proprietary. "An old connection of mine from BDO moved to the BGF and he and Richard Bishop took me to lunch to explain what it was up to. It sounded very different to the private equity I knew of."

With 35 of BGF's 55 staff on the deal frontline and 25 private equity houses represented between them, there could be a lot of deals sourced from personal networks. This can only be a good thing, since the industry's reputation among business owners has been deteriorating as broadsheets report countless tales of private equity taking control and over-leveraging.

The owner of V.Ships, a tertiary buyout recorded last year, was said to be relieved to be partnered with OMERS Private Equity following 18 years with various traditional private equity funds. The \$520m deal saw the Canadian pension fund beat Permira and Charterhouse to win the business. The time horizon is what lured V.Ships to OMERS (<a href="https://www.unquote.com/2119554">www.unquote.com/2119554</a>) – just as it did Benefex's Waller to BGF. The fund says it is "comfortable investing (and re-investing) for seven to 10 years".

"We were drawn to the longer time horizon that the BGF seemed to indicate," Waller explains. And so far, so good: "Six months since the investment, they have truly delivered on every promise they had made."

#### Here to stay

Perhaps the realisation that BGF won't go away has generated a more sanguine attitude. The apprehensive brouhaha that surrounded BGF's launch 10 months ago seems to be giving way to quiet acquiescence.

"If they do their job right, the mid-market should benefit from BGF. Good executives are supporting it and therefore the businesses they back should benefit. At some juncture they are likely to evolve as businesses and require further funding via a buyout process, and that is where institutional firms can step in," says LDC's Rob Pendleton.

"They are too big to be folded up now; they're here to stay and so they will move the market," the industry body head concedes.

When asked what BGF's biggest competitor was, private equity was not Welton's answer. "The option to do nothing, or to 'wait until it is a better time to invest'. Our goal is to still be around in 10 years' time."

The most obvious comparison, with 3i, Britain's largest backer of SMEs, is one Welton agrees with. "We do have much in common with ICFC," he says, but with caveats: namely BGF's better relationship with banks. But the 3i comparison begets worries: Cynics point out 3i's move towards buyouts in the upper mid-market and, more recently, its increasing focus outside the UK. True, it opened in Brazil last year (and has outposts in Europe, the US and India). But it was roughly 40 years before 3i turned its sights to buyouts and began to look beyond Britain's shores. In those decades (and since), it helped countless businesses realise their potential, and boost Britain's economy in the meantime. It is thus worth giving BGF a chance to do some good before writing it off as an ill-fated initiative.





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Cinven- and Warburg Pincus-backed Ziggo was Europe's largest flotation in nine months. Kimberly Romaine talks to Warburg's Joseph Schull about the successful flotation

# Ziggo float restores faith in PE-backed IPOs



**Joseph Schull**, head of Europe, Warburg Pincus

"Investors should have the sense that a company is going public because it can and wants to, not because of a capital structure imperative"

#### Kimberly Romaine: Why did you choose an IPO for Ziggo?

**Joseph Schull:** Ziggo was a natural candidate for a public listing.

From an investor perspective, there has been growing interest in the European cable sector as an alternative to the incumbent telecommunications operators because of the superior medium-term growth and cashgeneration prospects for cable operators, yet there remains relatively limited supply of cable equity for investors to choose from.

We felt that the company deserved to be public and, against a market backdrop of limited supply of cable equity, that an IPO of Ziggo would be well received.

More broadly, as a firm we have floated 132 of our companies on 13 exchanges worldwide, so this is a well-trodden path for Warburg Pincus. We typically don't use IPOs as a direct means of exiting our investments and, as with Ziggo, we often sell a relatively modest share of the company's equity at IPO. The main goal is to crystallise value, create a market in the company's shares as it transitions from private to public ownership, and establish a path to an eventual exit while continuing to participate in future upside.

#### KR: How is the IPO route different now for private equity?

JS: Over the last couple of years, the equity markets in Europe have been very fragile and most IPO investors have lost money. At the same time there is a high degree of scepticism towards PE-backed IPOs, which is only reinforced by the high number of them that have not made money for investors, at least so far.

Since the beginning of 2012, equity capital market sentiment has improved, largely due to the liquidity operations of the European Central Bank. So, where the IPO market was shut altogether in the latter part of 2011, it is now open again, with some provisos. It is critical to have a strong and clear equity story together with a management team that is able to articulate it well. Investors should have the sense that a company is going public because it can and wants to, not because of a capital structure imperative.

The offering size can be managed to create enough liquidity for a stock to trade well without selling so much that an IPO becomes a straightforward exit. And it is obviously helpful to be realistic about the valuation range and allow investors to make money together with you.

# KR: What advice do you have for preparing a business for exit and IPO right now?

JS: I think the key is to prepare well and be ready to move quickly. Ziggo had issued public bonds in 2010 and began public reporting from that time, so the company and management had experience of explaining their story and reporting on performance to public debt investors. We then worked on articulating a clear long-term growth strategy and equity story, together with putting an appropriate capital structure and shareholder returns policy in place that would be compelling for public equity investors.

We also spent time educating investors in advance of the IPO, so people had time to meet management, sometimes on multiple occasions, hear the story, and then see it delivered for a couple of quarters before Ziggo actually came to the market.

In retrospect, it may have been a blessing to see the market shut on us for a while in late 2011, because it meant that we had a very long runway to prepare the company and investors, and we could move on an accelerated basis when the window opened.

This is part of a video interview which can be seen in full at www.unquote.com

# Creative industries perceived as risky business



Risk aversion amid economic volatility could be behind the fall in investment activity in the creative industries – a sector commonly perceived as risky business. This perception may not be justified. Amy King and Anneken Tappe report

E WANT to see more engagement between creative industries, and finance and government," said Ed Vaizey, minister for culture, communication and creative industries, at a recent event exploring investment in entertainment and media. The Department of Culture, Media and Sports defines the sector as "industries that have their origin in individual creativity, skill and talent, and which have a potential for wealth and job creation through the generation and exploitation of intellectual property". The minister drew attention to a misplaced "cultural nervousness in terms of the financial industry investing in creative industries".

But is this nervousness really misplaced? When it comes to consumer demand, the sector is reliable as it offers an

attractive and affordable form of escapism, particularly important in the global downturn. While public frugality has seen reduced spending on big-ticket entertainment options, such as sporting events, an increase in small-spend options, such as video games, has occurred. Entertainment budget allocation has shifted according to the times and some smaller segments are reaping the benefits.

#### Cash creation

What's more, in the UK, creative industries contribute 6% to GDP, twice the European average, according to a report published by think tank Demos. The global value of the sector is estimated to reach \$1.4tn dollars by 2015, according to Global Research Analysts. On the supply side then, creative industries play a significant role in the



national and global economies.

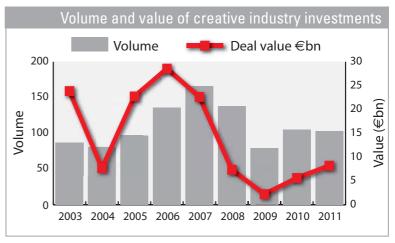
Moreover, the lines demarcating different segments within the sector seem permeable; a character originating in a book is often adapted to screen, merchandise and video games, for example. Creative industries therefore represent a stable and resilient sector for investment, with strong possibilities for scalability.

As revealed by *unquote*" *data*, the number of deals in the entertainment sector reflected the general performance of the markets, suggesting a strong correlation. In terms of average deal value though, the trend points upwards since the doldrums of 2009. Deals completed in the sector were worth €2.2bn in 2009, rising steadily to €8.2bn in 2011 – more than both 2004 and 2008 levels. With the number of deals not enjoying such a sustained recovery, average deal value has risen by more than €25m each year since 2009 to €79.6m.

#### Rising ticket prices

Investors backing the sector with more capital per deal may be symptomatic of a more considered approach to alleviate risk. Moreover, the healthy increase in market value may be seen as an indicator for a recovering venture capital culture.

Why though has the volume of deals not seen a comparable recovery? In a word, risk. The creative industries are often associated with individuals more concerned with their art than the commercialisation of their idea. In addition the sector often attracts individuals from non-business backgrounds who have very little



Source: unquote" data

experience, often due to their young age. With an elevated overall level of risk in the economy, some investors have been repelled by the uncertainty of the sector, returning to safer areas, such as technology or pharmaceuticals.

However, since banks can be unwilling to lend to the creative industries, private funding is an important option. While banks are preoccupied with loan risk, investors focus more on the risk-to-reward ratio and scalability. The potential for reward is high in the sector; perhaps, then, venture capital and the creative industries are a well-suited pair.

#### Highs and lows of creative industry investments

#### EMI plc

The 2007 take-private of beleaguered music company EMI plc by Terra Firma, worth £3.2bn, can account for the steep fall in value but slight fall in volume in 2008.

Terra Firma invested £1.5bn of equity alongside a debt package provided by Citigroup that made up to £2.5bn available to the company. Meeting debt obligations over the next couple of years seemed tricky and in May 2010, the private equity firm injected around £105m into EMI as the company struggled to fight against breaching bank covenants.

Later that year, Terra Firma chief executive Guy Hands lost a court battle with Citigroup. Hands alleged that a senior banker at Citi claimed that rival Cerberus was to outbid Terra Firma for EMI, leading to Hands upping his bid.

In February 2011, Citigroup seized control of EMI. The deal saw EMI's debt reduced by 65% to £1.2bn. Terra Firma lost approximately £1.7bn, one-third of its €5.4bn Terra Firma Capital Partners III vehicle.

#### Ziggo

An IPO is arguably the most prestigious exit from a portfolio company, particularly when it

is as successful as Cinven and Warburg Pincus's divestment of Dutch cable operator Ziggo last month. The IPO raised €922m for the company when Ziggo listed on the NYSE Euronext.

As a cable provider, Ziggo, created through the merger of different operators in 2008, belongs to the entertainment sector. Investment in cable TV appears to be a safe bet; although discretionary, TV access is standard in Europe, making the market an interesting field in terms of competition. Ziggo's rapid expansion was not tainted by risky set-backs, but rather showed the strategic build-up of a company that depends on the demand for entertainment.

Antitrust allegations can lead to serious legal and financial struggles for GPs. Yet, antitrust compliance is still not a hot issue in private equity, according to Baker & McKenzie. Anneken Tappe reports

# Disregard for antitrust compliance challenges PE



**Keith Jones**, partner, Baker & McKenzie

RIVATE EQUITY has been on the radar of regulators for a while now, but the new rigour in financial regulation poses many issues for the alternative investments industry. In the US, the Republican party's presidential primaries are pushing the industry back into the political debate, due to candidate Mitt Romney being a co-founder of Bain Capital.

It is the nature of the sector – the buying and selling of businesses – which pushes private equity into the bull's-eye of antitrust regulators. Multiple acquisitions redistribute the liability for a portfolio company

continuously, turning the legal structure into a muddled grey zone.

"If you look at other industries, you can see the development of awareness of regulation. This awareness dramatically increased over time," says Keith Jones, partner at Baker & McKenzie and specialist in EU, competition and trade law. Yet, the attention paid to antitrust compliance does not seem to be high in private equity. Jones argues there may be funds that are very cautious about antitrust claims, but also others that just outright ignore their existence and impact on a deal.

#### Taken on (anti)trust

Firms in the know can even use antitrust compliance to gain a competitive advantage: "There were some who bought companies, cleaned them up, blew the whistle on them and got them ready for sale again," says Jones.

Following an acquisition, legal responsibility is transferred to the new owner. At the same time, divesting a portfolio company does not free the investor from legal responsibility. Any claims made against the business concerning the holding period can still be attributed to the GP.

And penalties are high. EU law prescribes a fee increase

of up to 100% in cases of recidivism, and according to Jones that is no rarity across Europe. At the same time, the EU also provides whistle-blowing leniency.

LPs on the other hand have a preferable position in this legal structure. In

case of antitrust violations in portfolio firms, they have the option to press charges against the fund manager in some jurisdictions.

#### Out of tune

"There are pros and cons to every

jurisdiction. Many come to the UK

because of the flexible disclosure rules"

Keith Jones, Baker & McKenzie

However, despite the EU's effort towards harmonising antitrust regulation, national frameworks remain varied. "It depends on what they would harmonise it to. There are pros and cons to every jurisdiction. Many come to the UK because of the flexible disclosure rules. Germany and the Netherlands are also pretty popular," says Jones.

It remains unclear why antitrust is not a bigger issue in the industry, especially as it should be part of the pre-acquisition due diligence audit. Its financial and reputational impact should be a priority for investors, particularly at a time when there us an increasing demand for transparency.



# Swiss tax treaties may lead to further crackdowns

Sweden is the latest European country to sign a Rubik tax treaty with Switzerland. Sonnie Ehrendal reports

N THE midst of the eurozone crisis, shrewd Swiss diplomats are racing to complete a patchwork of tax treaties to keep the European Union away from its banking system. The negotiations for renewed double taxation treaties, known as Rubik agreements, have arrived alongside recent European crackdowns on undesirable tax avoidance and evasion.

The Rubik treaties allow Switzerland to preserve its banking secrecy, whilst taxing foreign nationals on behalf of their native country. They contain clauses, however, for surrendering limited information when prompted by a valid foreign investigation into tax evasion.

In the case of Sweden, the Rubik treaty replaces an earlier double taxation agreement dating back to 1965. It enables Switzerland to tax various types of income and capital gains on behalf of Sweden, allowing for a discount on the proportion of tax to be paid in Switzerland. It also allows Swedish authorities to request certain information as part of an ongoing investigation into evasion of the aforementioned taxes. It does, however, explicitly forbid unsubstantiated requests, described as "fishing expeditions".

The changes are currently pending parliamentary ratification and are

proposed to be written into Swedish law. Notably, the Swedish Ministry of Finance has announced that some aspects of the treaty will be applied retrospectively.

The UK signed a similar tax treaty in October 2011, to be included in the Finance Bill 2012. Additionally, while Germany reached a double taxation agreement last autumn, this is still being discussed at parliamentary level and risks being blocked by the opposition.

#### Too little, too late?

Owing to its shielded banking system, Switzerland remains a popular tax haven, and is believed to hold billions of euros in hidden assets waiting to be reconciled with their native coffers. Despite Swiss efforts to alleviate increasing criticism and pressure from the EU, the secrecy of its banking system remains a controversial topic.

This is particularly the case in France, where an impending presidential election, with full public scrutiny of candidates, has led to an outright rejection of the Swiss tax courtship. The Rubik treaty has been criticised as recognising tax evaders, and concerns have been raised whether Swiss bankers can really be trusted to reveal their clients' tax secrets.

With public opinion fuelled by the post-Lehman crisis, no politician wants to be seen cutting a sweet deal with the Swiss.

Nonetheless, the Swiss understand that diplomacy is all about timing. With European eyes fixed on the debt crisis, and three strategically important countries more or less on board, Switzerland might just be able to keep the pressure off its banking system.

#### **Rubik timeline**

- 2009 Reports emerge about Rubik double taxation treaties.
- Oct 2010 Germany and Switzerland enter negotiations for a new double taxation treaty.
- Aug 2011 France rejects treaty.
- Sep 2011 Germany signs treaty.
- Oct 2011 UK signs tax treaty. Proposed inclusion in Finance Bill 2012.
- Feb 2012 Sweden signs Rubik treaty, proposed to be written into Swedish law.
- Mar 2012 Germany wants changes to treaty, which is pending ratification.

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# BUYOUT RECOVERY STALLS AT 1/3 PEAK LEVELS

Market recovery stalled at just a third of the level seen at its peak, according to data from the *unquote*" European Buyout Review 2012, writes Olivier Marty

ND-OF-YEAR FIGURES show European buyouts totalled just €67.6bn, down from a peak of €193bn in 2007 and barely higher than the €67.1bn seen in 2010. Market volume tells a similar story, falling by half from 893 in 2007 to just 454 buyouts last year, though it is up a modest 6.3% compared with the previous year. As a result, average deal values barely stabilised after their 2009 low of €84m, to €157m in 2010 and €149m in 2011.

#### Mid-market the driver, industrials rebound

The mid-market was the driver across Europe, as weary bank lending continues to put a dampener on larger, highly leveraged deals. Indeed, the mid-market actually increased from 31% of value in 2007 to 51% in 2009, whereas larger buyouts (>€500m) fell from two thirds of aggregate value in 2007 to about half in 2011. Smaller buyouts (<€25m) remained stable, while industrials took pole position overtaking consumer.

The UK accounted for 28% of market volume in 2011, but is now closely followed by France which accounted for 20% of all deals. However, the French were just ahead of the pack in value terms, making up a huge 23% of aggregate value.

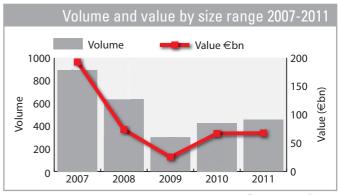
Despite their fall from their 2008 peaks, buyouts from founding families and management are the most important source of deals (42%). ■

#### **European Buyout Review 2012**

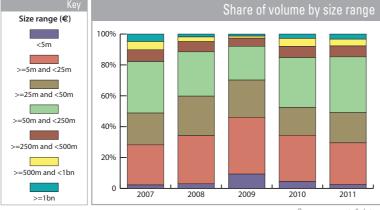
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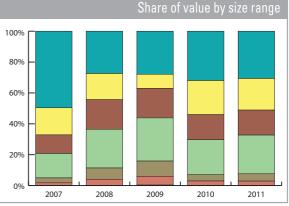
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# PUBLIC INVOLVEMENT IN PE KEY TO ACTIVITY

Innovative, timely and dedicated public support is key to enhancing and legitimising private equity activity, writes Olivier Marty



Marc Schublin, director, EIF

"[Public
involvement in
private equity]
is indispensable
in normal times
but has become
a strong trend
in the current
economic climate"

UBLIC INTERVENTION in private equity has been around for a long time. However, the market is not entirely convinced of its merits. Though intended to limit investors' risks as well as to channel investments into certain areas, regulation is often deemed disruptive to GPs' day-to-day management. Public investment, whether direct or indirect, is mostly perceived as unfair and counter-productive competition. Changes to tax breaks applicable to investment vehicles or debt packages are usually greeted with suspicion.

Yet with the economic downturn still well underway and the asset class increasingly under public scrutiny, enhanced cooperation of public authorities and private investment houses is essential to boost activity levels and respond to new market opportunities.

#### Tax schemes to be changed carefully

Taxes on personal income and capital gains are likely to increase in the most heavily indebted European countries. Cooperation between on- and off-shore fiscal administrations will become more necessary too: the pressure to pull out vehicles located in tax havens and the need to tax investment incomes in the country of origin are both in line with a rare feature of financial regulation coming out of the G20.

But tax schemes perceived as key for economic activity and job creation were (or should be) left unchanged in recent budgets. Such was still broadly the case with the French FIP and FCPI funds in the last *loi de finances*. Likewise, even though buyouts may be excluded from the UK's venture capital trust (VCT) scheme, the recently announced budget expanded their investment remit. Also, debt interest deductibility on leverage should only be reformed carefully, since further contrition would block already difficult access to necessary debt in the mid-market.

#### More public investment as a contra-cyclical tool

Public equity investments, loans, grants and guarantees have been on the rise throughout Europe at the national and European levels. The logic of such involvement, such as that of the European Investment Fund (EIF), which increased the pace of its private equity investments and guarantees lately, is "clearly contra-cyclical", according to Marc Schublin, director of mandate management, product development & incubation at the EIF.

Such efforts are reflected in the EIB Group's total support to SMEs, as the EU's bank provided an exceptional €13bn of finance for them in 2011. In France, the government-backed Fonds Stratégique d'Investissement (FSI) has helped pump a total of €7.1bn into 1,800 businesses in just three years via both direct and indirect investments.

#### Renewed public-private initiatives

New forms of cooperation between public and private players are also underway. In France, "the FSI helps structure specific industries with help of sectorial funds open to industry players," says Jean-Yves Gilet, FSI director-general.

In Germany, the public High-Tech Grűnderfonds seed fund launched Grűnderfonds II last October, adding €288m to its war chest. Investors included the German Ministry of Economics and Technology, KfW (Germany's Promotional bank), private corporates and funds.

The United Kingdom's £2.5bn Business Growth Fund (BGF), created last year, is backed by the UK's five major banks (two of which are now partially governmentowned) and being run by former private equity professionals. Recently. it has increased the pace of its investments (see page 12).



In Italy, the newly created public-private Fondo Italiano d'Investimento (FII) has already made 18 direct and nine indirect investments in its first 12 months of operation for a total of €417m, corresponding to an impressive 38% of the capital managed by the fund.

#### Regionalisation of public investment

Another European development should be that of the further regionalisation of public investment in private equity. The French FSI created FSI Regions last year - a regional investment scheme corresponding to the decentralisation, in French regions, of the fund's investments worth less than €4m. Following a contribution from the FSI of €350m, the investment capacity of FSI Regions now stands at €800m. It will invest either directly into local businesses or invite them to contact one of the 80 regional funds to which the FSI commits between 10-35% of the total. Also, five new offices have been opened and housed in the regional branches of OSEO, a public bank providing complementary (and increasing) loans and guarantees to local SMEs. Gilet says: "Regional finance, either direct or indirect, is an absolute priority for the FSI."

Other initiatives should be noted in European regions with the further development of regional funds and their opening to private financial institutions. At the European level, EU structural funds [though their disbursement calendars and attribution logics are not always fully in line with private equity investors' constraints] "should increasingly be used in private equity investments", according to Schublin.

Such has been the case of the evergreen Partnerinvest in Sweden, benefits from substantial capital 50% from some of these development funds.

Regional public investment is unlikely to stop any time soon, as it is a result of European integration as well as the recent combination of central government financial constraints and moves towards devolution.

#### Product innovation for lower deal and investment stages

Product innovation was also a feature of EU initiatives in 2011. The European Commission has recently issued

a proposal for the granting of a European Venture Capital Fund marketing label, dedicated to small-size venture capitalists that are not impacted by the AIFM Directive. The label, currently being discussed at the European Parliament, would be granted only after a set of European requirements are met, including no use of leverage.

This initiative is likely to affect the already large venture capital activities of the EIF. But the latter is "preparing an appropriate response with its partners in member states," notes Schublin. Such innovation would come hot on the heels of the European Angels Fund, created by the EIF in January. Set up more than a year ago, the vehicle aims to provide equity to business angels and other non-institutional investors for the financing of innovative companies in the form of co-investments. The scheme "might shake up existing business models, but it is necessary to be in line with the market's orientation and economies' needs," says Schublin.

New government-backed funds in the early-stage space have also been well received in France. In June 2011, the €400m FSN PME was created to back digital companies with up to €10m of investment. The Fonds National d'Amorçage (FNA), a seed fund-of-funds created in August 2011, received an additional €200m just six months later, reflecting robust dealflow.

#### Keep the public power involved

Recent scandals over capital gains taxes, as well as fears of important changes to existing fiscal legislation, have masked how public involvement in private equity can be useful for the market. "It is indispensable in normal times but has become a strong trend in the current economic climate," Schublin says, unless the market reaches its precrash levels any time soon.

It is not just about public investment volumes: Public efforts must rely on experienced professionals to deliver swift and innovative results and be balanced with investors' concerns. It may have to be managed independently from the state, too, as is the case with the BGF. Finally, joint commitments and co-investments of public and private investors should be encouraged throughout Europe to help sustain activity, share competencies, and identify new, attractive and sustainable growth opportunities.



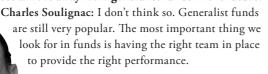
Jean-Yves Gilet, director-general, FSI

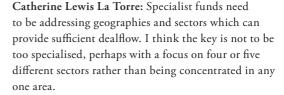
"Regional
finance, either
direct or indirect,
is an absolute
priority for
the FSI"

# LPs say it's time for funds to evolve

Fondinvest Capital partners Charles Soulignac and Catherine Lewis La Torre talk to John Bakie about the demands of LPs in the post-crisis environment and the rapid growth of secondary fund investments

> John Bakie: There's been a lot of talk of GPs needing to specialise to really attract LPs. Are we likely to see a move away from generalist funds in the future? Charles Soulignac: I don't think so. Generalist funds





#### JB: A number of LPs have been highly critical of the 2% and 20% fees model for private equity funds. Do you think it's time for things to change?

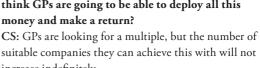
CS: It's true that the industry needs to look at its fee model. This 2% and 20% model has been around for as long as private equity and it needs to change to adapt to modern demands.

#### JB: Do you think recent moves to offer so called "early-bird" discounts to management fees are a move to adapt to changing pricing demands?

CLT: No, I think that reflects another phenomenon which is that some funds are finding it difficult to attract investors and want to create momentum to get LPs on board. I'm not sure how successful this is though, as some LPs may then not consider investing after a first close if they're not receiving the reduced management fee.

#### JB: We've seen some major fund raisings in the last few months and more are in the works. Do you think GPs are going to be able to deploy all this money and make a return?

suitable companies they can achieve this with will not increase indefinitely.





Charles Soulignac, partner, Fondinvest Capital

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"GPs are looking for a multiple, but the number of suitable companies they can achieve this with will not increase indefinitely. We could see funds running for up to 14 years to make their return"

Charles Soulignac, Fondinvest Capital

We could see funds running for longer periods to make the return, so going from 10 years to 12 or 14 years to achieve that multiple.

CLT: This will have a knock-on impact on IRRs. In many cases the recession and crisis have pushed back business plans by a few years, and this could threaten IRRs.

JB: We've recently seen a big increase in the number of secondaries sales in the market. Do you think this is a function of the economic cycle or are secondaries here to stay?

CS: Today there are a lot of LPs looking to sell their interests in funds. In particular, we've seen banks off-loading a lot of their assets in recent years.

However, going forward the banks will not have a lot more assets left to sell, though I think we may see more insurance companies starting to sell their interests, but in a more strategic way, in order to create liquidity for new investments. CLT: There are a number of different drivers in the secondary market. Obviously regulation is an issue for a number of LPs, but a lot of the activity is being driven by more strategic concerns. The secondary market today allows LPs to actively manage their portfolio in a way they couldn't in the past.

There aren't many really distressed sellers out there. LPs may be looking to rationalise the number of GP relationships in their portfolios, as well as to deal with changes in regulation, but they are doing it in an intelligent way. There are very few LPs that are selling because they have to.

Paris-based Fondinvest Capital has been operating primary and secondary fund-of-funds since the mid 1990s.



#### **Fondinvest Capital**

Paris-based Fondinvest Capital has been operating primary and secondary fund-of-funds since the mid-1990s. Charles Soulignac founded the firm in 1994 after spending five years managing investments in private equity funds and direct equity for Caisse des Dépôts-Participations.

Catherine Lewis La Torre joined Fondinvest Capital as a consultant in 2009, and was appointed the firm's deputy chief executive in October. Previously she was a co-founder of fund-of-funds Proventure.

#### **Today, Fondinvest Capital has:**

- More than €2bn of funds under management
- Raised four primary fund-of-funds
- Raised four secondary funds
- Executed over 100 secondary transactions in 12 years
- Assessed 1,500 private equity funds
- Invested in 250 funds since founding
- Offices in Paris, Tokyo and San Francisco

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### Deutsche Bank's chief executive Ackermann to advise EQT

THE CHIEF executive of Deutsche Bank, Josef Ackermann, will join the board of Swedish investment company Investor AB and take on an advisory role in the EQT network. Ackermann will step down as chief executive of Deutsche Bank in May. He currently serves on the boards of Deutsche Bank, Institute of International Finance, Zurich Financial Services, Siemens and Royal Dutch Shell.



**Josef Ackermann**, adviser, EQT

Educated to doctoral level in economics at the University of St Gilles, Ackermann launched his professional career at SchweizerischeKreditanstalt (later, Credit Suisse) in 1977.

After holding various positions in Switzerland, London and New York, he joined the management board of Deutsche Bank in 1996, with responsibility for the investment banking division.

# Stehlin & Associés appoints partners

FRENCH LAW firm Stehlin & Associés has promoted Svetlana Tokoucheva and Cyrille Boillot as partners in its corporate/M&A department.

Tokoucheva joined in 1998, shortly before graduating from the Sorbonne. Before joining Stehlin in 2007, Boillot worked at Hoche Société d'Avocats and Vivien & Associés.

# KPMG's Garfitt moves to the BGF

BUSINESS GROWTH Fund (BGF) has appointed Alex Garfitt as investment manager of its south west and south Wales team.

Prior to joining BGF, Garfitt worked for KPMG Corporate Finance where he spent four years advising shareholders on



**Alex Garfitt**, investment manager, BGF

acquisitions, disposals and strategic options. This issue's cover story looks at the BGF in depth (see page 12).

#### Donaldson to run Palatine's portfolio

UK PRIVATE equity group Palatine Private Equity has appointed Steve Donaldson to head its portfolio. He will manage the firm's growth plans for its portfolio companies.

Donaldson has worked with Palatine's Gary Tipper and Ed Fazakerley while he was finance director at Card Warehouse Group. It was backed by Murray Johnstone and delivered a 2.5x return for the firm in 2003.

# Duke Street names operating partner

DUKE STREET has appointed Paul Lester as operating partner in its London office.

Lester is currently chairman of Greenergy, Survitec, John Laing Infrastructure Fund and Norland; chairman and director at Marine Current Turbines Ltd; executive director of VT Group; and non-executive director of Civica, Chloride Group, Thornycroft Holdings and Invensys. From 2002 until 2010 he was chief executive of VT Group.

Lester joins nine other operating partners and will be added to the board of legal management services provider Parabis Group.

Duke Street acquired a stake in Parabis Group in February 2012, in a deal valued at £160-200m.

# AlixPartners hires MD for EMEA

ADVISORY FIRM AlixPartners has named Caio Gilberti as managing director for EMEA for the firm's financial services practice.

Prior to his appointment, Gilberti was partner in the financial industry advisory unit at Alvarez & Marsal. He led the team unwinding Lehman Brothers' assets after the firm's bankruptcy.

Previously, Gilberti was chief banking officer at GE Capital and vice-president and head of investments at American Express Venture Capital and Private Equity Group.

Gilberti holds bachelor degrees in engineering and economics and an MBA from Harvard Business School.

#### Accel Partners adds John Earner to team

JOHN EARNER has joined Accel Partners as an entrepreneur-in-residence in the firm's London office. Prior to joining Accel, Earner was vice-president of product management and general manager of the London Studio. He also spent four years at Playfish seeing the release and management of internet-based social games.

#### unquote.com/people

#### Greenpark opens Hong Kong office

GREENPARK CAPITAL has opened a new office in Hong Kong, to be headed by Chin Chin Teoh.

Teoh will take the new role of head of Asia. She ioins from Bank of America Merrill



Chin Chin Teoh, head of Asia, Greenpark Capital

Lynch, where she was managing director and co-head of the Asia private equity group.

The office's opening comes as interest in private equity secondaries increases in Asia, according to Greenpark.

#### DC Advisory takes Ronga as third MD

SERGIO RONGA will be DC Advisory Partners' third managing director of its debt advisory group. He joined the firm's London office in March and is responsible for advising social service and infrastructure transactions.

Ronga's 14-year career in finance includes five years with Macquarie where he was a managing director in its debt advisory team.

#### MML Capital hires NAB director

RICHARD MAYERS has been appointed investment director in MML Capital Partners' London team.

Mayers joins MML from being director in the strategic business services team at National Australia Bank (NAB). He previously worked within NAB's leverage finance team supporting European buyouts.

#### Warburg Pincus hires Francesco Granata

WARBURG PINCUS has appointed Francesco Granata as an executive-in-residence focusing on the healthcare sector.

Granata has more than 35 years of experience in the pharmaceutical and biotechnology industries, including most recently as executive vice-president at biotechnology company Biogen Idec.

At Warburg he will support the firm in the identification and evaluation of new investments in the biopharmaceutical sector, particularly in Europe.

He will also provide strategic counsel across the firm's global healthcare portfolio.



Francesco Granata executive-in-residence, Warburg Pincus

#### SVG board shake-up | Sir George Buckley sees two more retire

NICHOLAS FERGUSON will retire as chairman of SVG Capital at the end of this year, after 28 years with the firm.

In addition, Edgar Koning has announced his intention to retire from the board. Koning and Ferguson have served as directors of SVG since its founding in 1996. Ferguson became chairman in 2005, having been chief executive from 2001 to 2005.

The news follows SVG's announcement late last year of plans to change its investment strategy and diversify its private equity commitments (unquote.com/2133916).

Stephen Duckett subsequently joined the board. Most recently he was managing director of Hellman & Friedman.

Denis Raeburn and Francis Finlay also retired from SVG Capital's board in March.

#### **Bridges Ventures** announces chairs

BRIDGES VENTURES has appointed Peter Englander as chairman. Englander comes from Apax Partners, where he was a member of the investment committee.

Bridges has also announced founding chair Ronald Cohen will become its board's chair.

# to join Arle Capital

ARLE CAPITAL Partners has appointed Sir George Buckley as chairman, with effect from 1 June.

Sir Buckley has more than 40 years of experience. He has been chairman, president and chief executive of 3M since 2005. Prior to that, he was chairman and chief executive of



Sir George Buckley, chairman, Arle Capital Partners

Brunswick Corporation in the US.

#### LDC names director for north-west team

LDC HAS hired Ged Gould as director in its north-west England team.

Gould joins from being finance director at American Golf, which LDC sold to Sun European Partners in December. He will be based in Manchester.

Gould started as an accountant with KPMG. He has also worked at Bridgepoint Capital, and as finance director of 3i-backed James Briggs and glassmaker Pilkington.

www.unquote.com Issue 3 - April 2012

European fund closes totalling nearly €14bn have been announced in a fortnight. Deal data suggests it may be a bit much, and that not all are equipped to manage it. Kimberly Romaine reports

# How should Europe spend £14 billion?

or on the heels of Cinven announcing a first close of €3bn, Apax has announced it has secured a first close on €4.3bn after 10 months on the road – the firm expects a final close on €9bn (€9.5bn hard cap). Both announcements followed BC's final close on €6.5bn. BC spent 18 months in total, the last six of which were spent securing the final €500m to reach its hard-cap – fuelling speculation that fees may have been a driver.

But how will they spend this money? Unquote" data suggests last year buyout levels stood at €67.6bn, putting them on a par with 2000. To put the latest fundraising frenzy in perspective, in 1999 Apax raised €2.1bn, then the largest sum raised in Europe. Three years later, it closed its fifth European fund on €4bn. These sums – alongside others raised by European GPs - made headlines. These managers were deemed alchemists and returns from the early noughties made European buyouts a top-destination for global LPs -Apax's Fund V for example, investing in the dotcom aftermath, returned an impressive 2.3x money.

But then too many LPs piled into European buyouts, fund sizes swelled

and it all came crashing down. This is evident by returns, which are woeful for that last generation of funds (not just mega-buyouts). While they are said to outperform their mid-market counterparts over the long-term, their short-term performance is lacklustre.

Which begets the question of who should spend it.

#### The risk of overflowing wallets

The rise – and some would say apparent fall – of Apax illustrates this. Apax's last €11.2bn fund has an annual net return of 4% according to recent LP data. While that is reasonable for the vintage (data from private equity platform CEPRES suggests European buyouts vintage 2007 generate a mean return of 10% and 2% pooled), Apax's own figures reveal declining performance: when the GP launched the fund last summer, the figure stood at 11% gross.

Public news reports provide insight as to why. The fund, with 26 investments and capacity for a couple more (it is 85% invested) has already notched up two write-offs: Incisive Media and Panrico. Now at least two other deals are in trouble: Takko, a \$1.7bn secondary buyout from Advent at the end of 2010, required an

"Mega-funds
will still
raise capital
since you do
not get fired
for putting
money into big
brands"
Former SWF
investor

additional €50m in December, just a
year after the deal was done, to prevent
a covenant breach. Then in February
Apax had to inject a similar amount
into Marken.

Media reports indicated Apax was virtuous on account of its sizeable €470m partner contribution. At roughly twice the normal percentage, it is indeed commendable – however sources indicate much of this was ringfenced from the sale of a stake in Apax a few years ago. So the move is clever, but does not warrant congratulations for the additional alignment.

One of the LPs unquote" spoke with for this piece is not re-upping in Apax (by choice; it is not constrained by any regulation). As one former SWF investor told unquote" last month: "Mega-funds will still raise capital since you do not get fired for putting money into big brands."

It is refreshing to see LP signing LPAs again after a long hiatus; these fund announcements, as well as sentiment at last month's EVCA Investors' Forum, attest to this. It is now for the industry to channel this money effectively so as to resurrect Europe's image as a superior destination for institutional money.

Apax declined to comment.



#### unquote.com/funds

#### Arcano secondaries fund in \$700m close

MADRID-BASED ARCANO Capital has closed its third fund on \$700m.

The vehicle, Arcano Secondary Fund I, will target secondary stakes in private equity funds and attracted commitments solely from foreign investors, with no Spanish investors contributing to the vehicle.

Arcano Capital, a division of Arcano Group, is a private equity fund-of-funds manager

established in 2003 that specialises in global private equity management. It also provides advisory services to European institutions and high-net-worth family offices.

Arcano's previous fund, Arcano Global Opportunity II, closed in 2009 on €150m, 60% of which came from foreign investors.

The vehicle will target secondary stakes in private equity funds. The firm expects

Arcano Secondary Fund			
Announc	ed	March 2012	
Closed on		\$700m	
Focus	Second	ary stakes in PE funds	
Fund manager		Arcano Capital	

an increase in opportunities as banks and institutional investors seek to increase capital reserves to meet regulatory requirements.

Ignacio Sarria is chief executive of Arcano Capital.

#### L Capital closes vehicle on €400m

FRENCH MID-CAP investor L Capital Management has closed its L Capital 3 FCPR fund on €400m, above the initial €350m target.

Established in 2001, L Capital is sponsored by the LVMH Group and its private holding company Groupe Arnault. Capstone Partners acted as placement agent

for the fund, while SJ Berwin was mandated as legal adviser.

The fund's predecessor, L Capital 2, closed on €325m in 2006.

In addition to the LVMH group, L Capital marketed its fund to LPs in North America, Europe, Asia and the Middle East.

L Capital focuses on lifestyle brands and

#### L Capital 3 FCPR

Closed on	€400m
Focus Eu	ropean mid-cap buyouts
Fund Manager	L Capital Management

selective retail investments. The fund will back 10-15 transactions of mid-market European businesses valued at up to €400m.

L Capital's team of 15 professionals is headed by chairman Daniel Piette.

#### CHF 55m first close for CGS III

CGS MANAGEMENT giesinger gloor lanz & co has held the first closing of its third fund CGS III with total commitments of CHF 55m (£38.1m).

The first closing has been held as a result of the imminent signing of its first transaction.

Additional subscriptions totalling CHF 33m are available for the fund's next closing, bringing total commitments so far to CHF 88m. The fund has a target of CHF 180m.

The fund's predecessor, CGS Private

Equity Partnership II, held a final close in August 2007 on CHF 125m and has pursued a buy-and-build strategy for small and midsized industrial companies.

Contributors to this first close include investors to the previous fund alongside new backers. Institutional and private investors both contributed to the fund.

The vehicle will focus on buyouts of European, technology-based small and midsized industrial companies.

Platform investments will primarily come

CGS III		
Announced	February 2012	
Fund target	CHF 180m	
Closed on	CHF 55m (first close)	
Focus	Industrial	
Fund Manager	CGS Management	

from the in the German-speaking region.

Ashley Le Feuvre is director of Volaw Trust & Corporate Services Limited, the fiduciary service administering the fund. Peter Gloor, Rolf Lanz, Peter Giesinger and Christoph Haller are managing partners at CGS Management.

# pan-European deals index

SECTOR	COMPANY	TYPE	EQUITY LEAD	COUNTRY	VALUE
CONSUMER	bol.com	Trade sale	NPM Capital, Cyrte Investments	Netherlands	€350m
	Center Parcs	Expansion	Blackstone	UK	£100m
	PSG	Exit	Colony Capital	France	€100m est.
	Buffet Crampon	SBO	Fondations Capital	France	€50-75m
	ClipperTeas	Trade sale	FF&P	UK	<£50m
	CMP	Expansion	EdRIP, BNP Paribas PE	France	€8m
	Wow! Stuff	Expansion	BGF	UK	£4.8m
	windeln.de	Expansion	DN Capital et al	Germany	€5-10m
	Laboratoire Carole Franck	MBI	Xange PE et al	France	<€5m
	MonShowroom.com	Trade sale	CAPE, Alven Capital	France	4x est.
	Europris	SBO	Nordic Capital	Norway	n/d
	Groupalia	Partial exit	Nauta Capital et al	Spain	n/d
	Trevisalanat	Buyout	Alto Partners	Italy	n/d
FINANCIALS	CreditCall	MBO	FF&P	UK	<£10m
	PL Gutscheinsysteme	Early-stage	HTGF	Germany	n/d
HEALTHCARE	Bellco	SBO	Montezemolo & Partners	Italy	€100m est.
	Cytos	PIPE	ven Bio et al	Switzerland	CHF 37m
	Oldelft Ultrasound	Replacement capital	Gimv	Netherlands	€10m est.
	nLife	Early-stage	La Caixa, Invercaria	Spain	<b>€</b> 5m
	TCD Pharma	Expansion	Ade Gestion	Spain	€1.5m
	Peckforton Pharmaceuticals	Expansion	YFM Equity Partners, Enterprise Ventures	UK	>£Im
	SureCalm	Trade sale	Apposite Capital	UK	45% IRR
	Polysem	Acquisition finance	Pragma Capital	France	n/d
	DC Groep	Expansion	Rabo Private Equity	Netherlands	n/d
INDUSTRIALS	Ahlsell	SBO	CVC Capital Partners	Sweden	€1.8bn
	Fotowatio Renewable Ventures (FRV)	Expansion	Denham Capital et al	Spain	\$190m
	3W Power	Acquisition finance	Nordic Capital	Luxembourg	€140m
	Geka	SBO	3i	Germany	€120m est.
	Gall Thomson Environmental	MBO	Phoenix Equity Partners	UK	£75m
	Hidrodata	Expansion	HgCapital	Spain	€I4m
	Kap Verre	MBI	Nord Capital et al	France	<€10m
	STATS Group	Expansion	BGF	UK	£7.8m



# pan-European deals index

SECTOR	COMPANY	TYPE	EQUITY LEAD	COUNTRY	VALUE
INDUSTRIALS	GreenWatt	Expansion	Gimv et al	Belgium	€6m
	Torqeedo	Expansion	Bosch Venture, WHEB	Germany	€5.6m
	N2S	Expansion	Gamesa Venture Capital	Spain	€3-5m
	Seren Photonics	Early-stage	12BF Global Ventures et al	UK	£1.8m
	Alignment Systems	SBO	Polaris	Sweden	n/d
	ATR Group	SBO	NBGI	UK	n/d
	Linpac Allibert	Buyout	One Equity Partners	UK	n/d
	AKAtech Produktions	Buyout	Zurmont Madison	Austria	n/d
	Clarus Films	MBO	Pinova Capital	Germany	n/d
	Con-Form	Buyout	Reiten & Co	Norway	n/d
	Rauscher & Stoecklin	Buyout	CGS	Switzerland	n/d
MEDIA	Axel Springer Digital	Project finance	General Atlantic	Germany	€237m
	Simple IT	Expansion	Alven Capital	France	€1.2m
	Media For Future	Expansion	SEGCR	Spain	€436,000
	TVC	Trade sale	ISIS Equity Partners	UK	n/d
SERVICES	Peverel	Turnaround	Chamonix PE, Electra Partners	UK	£62m
	Adea	MBO	Atlas Capital	Spain	€15m
	Selima	MBI	YFM Equity Partners	UK	£2m
	Castlerock	Expansion	YFM Equity Partners	UK	<£2m
	Competentia	MBO	Reiten & Co	Norway	n/d
	Matrix Knowledge	Buyout	RCapital	UK	n/d
	Nightfreight	Acquisition finance	Arle Capital Partners	UK	n/d
TECHNOLOGY	Ziggo	IPO	Cinven, Warburg Pincus	Netherlands	€4.2bn
	icomasoft	Expansion	gamma capital partners	Austria	<€25m
	ForgeRock	Expansion	Accel Partners	Norway	\$7m
	KDPOF	Expansion	La Caixa, Bullnet Capital	Spain	<€6m
	Leetchi.com	Expansion	Idinvest Partners et al	France	\$5.5m
	Commerce Guys	Expansion	Alven Capital, Open Ocean Capital	France	\$5m
	The Currency Cloud	Expansion	AtlasVenture	UK	\$4m
	Boost Communications	Expansion	Investinor	Norway	€3.3m
	FTAPI Software	Expansion	HTGF et al	Germany	<€lm
	Tedopres	Trade sale	Main Capital	Netherlands	n/d

Α	Austria	D	Germany	ES	Spain	1	Italy
BE	Belgium	DEN	Denmark	F	France	LX	Luxembourg
CH	Switzerland	EI	Ireland	FIN	Finland	NL	Netherlands

Group	Fund name	Base	Target (m)	Close
Active Venture Partners	Active Venture II	ES	n/d	lst
ADM Capital	CEECAT Recovery Fund	UK	€300	lst
AFINUM Management GmbH	AF Eigenkapitalfonds für deutschen Mittelstand GmbH & Co KG	D	€500	lst
Alchemy Partners	Special Opportunities Fund II	UK	£500	lst
Alpha	Alpha Private Equity Fund 6 (APEF 6)	F	€750	lst
Altamar Private Equity	Altamar V Private Equity Program	ES	€250-300	lst
Altitude Partners	Altitude Partners	UK	£15	lst
Alto Partners	Alto Capital III	1	€120-130	lst
Argos Soditic	Argos Expansion	F	€120	lst
Aster Capital	Aster II	F	€120-150	FA
Atlantic Bridge	Atlantic Bridge	UK	€130	lst
Augmentum Capital	Augmentum I	UK	€50	FA
Axcel	Axcel IV	DEN	€3,200	lst
Banexi Ventures Partners	BV5	F	€50-80	lst
Boehringer Ingelheim GmbH	Boehringer Ingelheim Venture Fund (BIVF)	D	€100	FA
Bridges Ventures	Bridges Ventures Fund III	UK	n/d	lst
Cabiedes & Partners	Cabiedes & Partners Fund	ES	n/d	lst
Capman	CapMan Mezzanine V	SWE	€150	lst
Capricorn Venture Partners	Capricorn Health-tech Fund	BE	n/d	lst
Carlyle Group	Carlyle Global Financial Services Partners	US	n/d	lst
CDC Entreprises	FCPR FSN PME	F	€400	FA
Centre for the Development of Industrial Technology (CDTI)	Innvierte	ES	€500	FA
CGS Management	CGS III	CH	CHF 180	lst
Covesco German Seed Fund GmbH & Co KG	German Seed Fund	D	€50	FA
Creathor Venture	Creathor Venture Fund III	D	€80	lst
Credit Agricole Private Equity	Capenergie II Renewable Energy Fund	F	€200	n/d
Credo Ventures	Credo Stage I	CZ	€20	lst
Cross Road Biotech	CRB Bio II	ES	€60	FA
Danske Private Equity Partners	Danske PEPV	D	€600	lst
Diana Capital	Diana Capital II	ES	€175	FA
Earth Capital	ECP Renewable Energy Fund One	UK	€750	lst
E-Capital	E-Capital III	BE	€80	2nd
EMBL Ventures	EMBL Technology Fund II (ETF II)	D	>€50	lst
Eurolight Ventures	Eurolight Ventures Fund	ES	€80-90	FA
European Bank for Reconstruction and Development (EBRD)	European Bank for Reconstruction and Development (EBRD) Programme	UK	€100	lst
F&C	F&C Climate Opportunity Partners	UK	n/d	lst
FF&P Private Equity	FF&P Investor 3 LP	UK	n/d	lst
Foresight Group	Foresight Environmental Fund	UK	£200	FA



NOR	Norway	RO	Romania	UK	United Kingdom	FC	Final close
Р	Portugal	SWE	Sweden	US	United States	l st	First close
PL	Poland	TR	Turkey	FA	Fund announced	2nd	Second close

Amount (m)	Date	Stage	Region	Contact	Tel No
€25	Jan-II	Early-stage, expansion — technology	ES, D, Scandinavia	Christopher Pommerening	+34 93 487 6666
€100	Apr-10	Buyout, distressed companies	CEE, Central Asia, TR	n/d	+44 207 529 5008
€200	Aug-10	Expansion, small- and mid-cap	D	n/d	+49 89 255 433 01
£280	Aug-10	Buyout, distressed companies	Europe	lan Cash, Frits Prakke	+44 207 240 9596
€500	Jul-11	Buyout, mid-market	F, I, BE, NL, CH, D, A	Patricia Desquesnes	+33   56 60 20 20
€120	Sep-11	Fund-of-funds	Europe, US, Asia	Claudio Aguirre	+34 91 310 72 30
£7	Apr-11	Buyout	UK	Simon White, Jonathan Simm	+44 23 8030 2006
€80	Oct-11	Buyout, expansion, Italian SMEs	1	Raffaele De Courten	+39 02 7209504
€45	Jul-10	Mezzanine	Europe	Olivier Bossan	+33 153672050
n/d	Feb-11	Early-stage – technology	Europe, US, Asia	Jean-Marc Bally	+33   45 6  34 58
€85	Nov-10	Buyout, expansion – technology	Europe	n/d	+353   603 4450
n/d	Aug-10	Expansion, small- and mid-cap — technology	UK, HK	Richard Matthews	+44 20 7514 1983
n/d	Mar-10	Buyout	Nordics	Christian Frigast	+45 333 66 999
€50	Oct-11	Early-stage, expansion — technology	F, CH	Jacqueline Renard	+33   73 02 89 66
n/d	Apr-10	Early-stage – healthcare	Europe	Michel Pairet	+49 32 77 8740
n/d	Dec-11	Early-stage, expansion	UK	Philip Newborough	+44 20 7262 5566
€25	Mar-11	Early-stage — technology	ES	José Cabiedes	+34 670 278 750
€60	Sep-10	Mezzanine, mid-market	Nordics	Niklas Östborn	+46 8 545 854 70
€42	Dec-10	Early-stage, expansion — healthcare	Europe	n/d	+32 16 28 41 00
\$1,100	Apr-10	Buyout, expansion	Global	James Burr	+1 202 729 5626
n/d	Jun-11	Expansion	F	Daniel Balmes	+33   58 50 73 07
€250	Oct-10	Early-stage — technology	ES	n/d	+34 91 581 55 00
CHF 55	Feb-12	Buyout, small- and mid-size — industrial	DACH	Ashley Le Feuvre	+44 1534 500400
n/d	Apr-10	Early-stage – technology	DACH	n/d	+49 8683 33698 16
€51	Sep-11	Early-stage	D, F, A, CH	Gert Köhler	+49 6172 13 97 20
€120	Dec-11	Expansion – renewable energy, infrastructure	Europe	n/d	+33   43 23 2  2
€Ⅱ	Nov-10	Early-stage	Europe	n/d	+420 222 317 377
€12	Nov-10	Early-stage – biotech	ES	n/d	+34 91 446 78 97
€534	Feb-12	Fund-of-funds	Western Europe, US	John Danielsen	+45 3344 6329
€100	Jan-II	Buyout, expansion	ES	Javier Fernández Las Heras	+34 914 262 329
n/d	Jan-10	Expansion – renewable energy, infrastructure	EMEA	Ben Cotton	+44 20 7811 4500
€95	Feb-12	Buyout	Benelux	Jérôme Lamfalussy	+32 2 642 20 00
€40	Dec-11	Early-stage	DACH	Stefan Herr	+49 6221 389 330
n/d	Feb-11	Early-stage – photonic SMEs	Europe	Victor Sunyer	n/d
n/d	Dec-11	Early-stage, expansion – technology	Europe (south and eastern Mediterranean)	n/d	+44 20 7338 6000
€30	Oct-11	Fund-of-funds – climate change	Europe	Hamish Mair	+44 20 7628 8000
£47	Jun-11	Buyout, expansion	UK	Henry Sallitt, David Barbour	+44 20 7036 5722
£70	Mar-11	Early-stage – recycling and renewable energy	London	Matt Taylor	+44 1732 471 804
n/d	May-11	Early-stage, expansion — renewable tech	Global	David Mesonero	+34 944 03 73 52

Group	Fund name	Base	Target (m)	Close
General Motors	General Motors Ventures	US	\$100	FA
Grupo Inveready	Inveready First Capital I	ES	€5	FA
I2BF and VTB	Nanotech fund	UK/ RU	\$100	FA
IDeA Capital Funds	IDeA Energy Efficiency and Sustainable Development	I	€100	FA
Inter-Risco	Fundo Inter-Risco II	Р	€150	lst
Intesa Sanpaolo	Atlante Private Equity	I	€250	lst
Kernel Capital	Bank of Ireland MedTech Accelerator Fund	UK	€10	FA
Legal & General Ventures	LGV 7	UK	n/d	lst
Life Sciences Partners	LSP Life Sciences Fund N.V.	NL	€250	FA
Longbow Capital	Longbow Approved EIS Fund	UK	€10	FA
Maven Capital Partners	Scottish Loan Fund	UK	£150	lst
Mediterra Capital Management	Mediterra Capital Management Fund	TR	\$360	lst
Meidlinger Partners	Meidlinger Water Investments	US	\$100	lst
Midven	Exceed – Midlands Advantage Fund	UK	€18	FA
MMC Ventures	The MMC Growth Generation Fund	UK	n/d	FA
Mountain Cleantech	Mountain Cleantech Fund II	CH	€100	lst
MTI	Orion Fund	UK	£150	FA
Nazca Private Equity	Fondo Nazca III	ES	€150	lst
Nextstage	FCPI Nexstage Cap 2016	F	€25	FA
NIBC	NIBC Growth Capital Fund II	NL	€200	lst
Northzone Ventures	Northzone VI	NOR	€150	lst
Panoramic Growth Equity	Panoramic Enterprise Capital Fund I (PECF I)	UK	£38	lst
Partech Ventures	Partech International VI	F	€120-140	lst
Perceva Capital	Perceva Capital	F	n/d	n/d
Pontis Capital	PGC II	А	€60	lst
Riva y Garcia and Official Medical College of Barcelona (COMB)	Healthequity	ES	€15-20	FA
SAM Private Equity and Robeco	Robeco SAM Clean Tech Private Equity III Fund	CH	\$500	lst
SEED Capital Denmark	SEED Capital Denmark II Fund	DEN	DKK 750	lst
Sepides	Enisa Fespyme Sepides	ES	€15	FA
Sherpa Capital	Sherpa Capital	ES	€30	FA
SODENA	Nabio	ES	€600	FA
Steadfast Capital	Steadfast Capital Fund III	D	€250	lst
Suanfarma	Suan Biotech II	ES	€30	FA
Sunstone Capital	Sunstone Technology Ventures Fund III	DEN	€100	lst
Synergo SGR	Sinergia II	I	£350	FA
The Steve Leach Partnership	The Steve Leach Partnership	UK	£20	FA
Troika Ventures	Troika Technology Ventures	RU	\$500	FA
VNT Management	Power Fund III	FIN	n/d	lst
WestBridge	WestBridge SME Fund	UK	€50	lst
Wise	Wisequity III	I	€170-200	2nd



Amount (m)	Date	Stage	Region	Contact	Tel No
n/d	Jun-10	Early-stage	US, Europe	Jon Lauckner	+1 313-667-1669
€3	Oct-10	Early-stage – technology	ES	Ignacio Fonts	+34 93 447 30 63
\$50	Oct-10	Early-stage — technology	Russia, Kazakhstan	Ilya Golubovich	+44 20 3405 1974
n/d	Nov-10	Buyout, expansion – cleantech sector	I, DACH, Israel	n/d	+39 02 2906 631
€75	Nov-10	Buyout, expansion	Р	Miguel de Oliveira Tavares	+351 220 126 700
€150	Jan-II	Buyout – Italian SMEs	1	Walter Comelli	+39 0516566023
n/d	Feb-11	Early-stage – medical technology	El	Orla Rimmington	+353 21 4928974
£170	Dec-10	Buyout	UK	Nick Marsh	+44 20 3124 2911
n/d	Apr-11	Expansion, small and mid cap – biotechnology	Europe, US	Mark Wegter, Joep Muijrers, Geraldine O'Keeffe	+31 20 664 55 00
n/d	Feb-10	Early-stage — healthcare	UK	Edward Rudd	+44 20 7332 0320
£94	Mar-11	Mezzanine	Scotland	Andrew Craig	+44  4  206 0 04
\$144	May-11	Buyout – mid-market	TR	Ahmet Faralyali	+90 212 340 76 34
\$15	Dec-09	Early-stage – cleantech, water, energy	Global	Kevin Brophy	+1 215 701 32 99
n/d	Jul-10	Buyout, small- and mid-cap	UK	n/d	+44  2  7 0  990
n/d	Mar-12	Early-stage, expansion — technology, healthcare, media, growth capital	UK	Rory Stirling	+44 2073610213
€23	Oct-11	Early-stage, expansion — cleantech	DACH, Nordicss	Jürgen Habichler	+41 44 783 80 41
n/d	Feb-12	Early-stage	UK	Richard Henderson	+44 1727 8849398
€190	Sep-10	Buyout, expansion	ES	n/d	+34 91 7000 501
n/d	Oct-10	Early-stage	F	Marie-Agnès Gastineau	+33   53 93 49 40
€100	Sep-11	Buyout – mid-market	D, Benelux	n/d	+31 70 342 5425
€90	Feb-10	Early-stage, expansion	Nordics, Europe	TellefThorliefsson	+47 221250 10
£34	Jun-10	Buyout, Early-stage	UK	David Wilson	+44  4  33  5 00
€100	Dec-11	Early-stage, expansion — technology	Europe, Silicon Valley	Jean-Marc Patouillaud	+33   53 65 65 53
€150	Jan-II	Buyout, special situations	F	n/d	+33   4297   1990
€30	Jul-11	Expansion, small and mid-cap — technology	DACH	Gerhard Fiala	+43   533 32 33   0
€4	Mar-11	Early-stage — medical services and biotech	ES	Borja García Nieto	+34 93 2701212
\$200	Jun-10	Fund-of-funds	US, Western Europe	Francois Vetri	+41 44 653 10 02
DKK 435	Feb-10	Early-stage	Nordics	n/d	+45 88184100
€15	Oct-10	Early-stage	ES	n/d	+34 91 396 14 94
n/d	Oct-10	Buyout, distressed situations	Europe, Latin America	Eduardo Navarro	+34 902 702526
€350	Nov-10	Early-stage — healthcare	ES	n/d	+34 848 421942
€104	Jun-11	Buyout, expansion	DACH, Benelux	Nick Money-Kyrle, Fynamore Advisers	+44 7887 428 639
n/d	Nov-10	Early-stage — biotech	ES	n/d	+34 91 344 68 90
€85	Dec-11	Early-stage, expansion – tech and life sciences	Nordics and CEE	Jimmy Fussing Nielsen	+45 2012 6000
n/d	Mar-10	Buyout	I	Gianfillipo Cuneo	+39 02 859 111
n/d	Dec-10	Early-stage, expansion	UK	Steve Leach	n/d
\$100	Feb-12	Early-stage, expansion — technology	Russia, Europe	Artyom Yukhin	+7 495 258 0534
€42	Nov-11	Early-stage, expansion — cleantech	FIN, Europe	Jarmo Saaranen	+358 (0)6 3120 260
€10	Jul-10	Buyout	Europe	Guy Davies	+44 2920 546250
€140	Dec-11	Buyout, expansion	1	Michele Semenzato	+39 02 854569 204

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