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CENTRE FOR MANAGEMENT BUY-OUT RESEARCH
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Looking ahead to a stronger year

2017 could be one of the most active investment years in a decade.

At the half-year point, 2017 has already reached €38.9bn of total buyout value – nearly two-thirds of 2016's total deal value of €60.4bn. Looking further back, European buyouts have only seen stronger first half year starts in two years. These were 2008, when €42.4bn of buyouts were recorded, and 2015, when deals worth €40.9bn were announced.

Typically, the second half of each year records stronger buyout activity. Since records began in 1995, H1 has only recorded bigger buyout values than H2 in major shock years; 2001 (dot com crash), 2007 & 2008 (financial crisis) and 2016 (Brexit). In the absence of a shock in H2 2017, this suggests 2017 will be strong year for European buyouts. Just doubling H1's value would give a full year value in excess of €77bn, meaning 2017 will be the second strongest year for European buyout investment in the past decade.

MEGA DEALS RETURN

H1 2017 saw 12 mega buyouts, with a combined value of €18.7bn. This accounts for 48% of total European buyout activity in H1 2017.

If H2 2017 sees a jump in buyouts, particularly mega buyouts, full year figures for 2017 could exceed 2015's total buyouts value of €89.9bn. 2015 was the most active year for European buyout investment in the past decade. The weight of mega buyouts in boosting value figures is evident when they are examined as a percentage of overall European buyout values. Mega buyouts accounted for the following percentage of buyouts in recent years: 2013, 25% of €59.9bn; 2014, 29% of €72.8bn; 2015, 43% of €89.9bn; 2016, 21% of €60.4bn; and H1 2017, 48% of €38.9bn.

Although H1 2017 buyouts value increased, deal numbers are around

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Looking ahead to a stronger year

half (326) of the total number of buyouts in 2016 (665), further illustrating the importance of mega buyouts.

COUNTRY VARIANCES

Buyout activity levels in H1 2017 were strong across Europe's three largest economies: France, Germany and the UK. Elsewhere, Finland, Italy and Sweden saw falls in activity while Denmark remained flat.

Germany recorded 45 buyouts in H1 2017 with a combined value of €9.4bn. This is a jump from 2016's full year figures of €6.4bn invested across 95 buyouts. The strong start to 2017 looks likely to bring Germany closer to achieving total investment values previously seen in 2013 (€12.9bn), 2014 (€12.8bn), and 2015 (€12.5bn).

Four mega buyouts with a combined value of €5.7bn boosted German buyout value in H1 2017. These deals represent 60% of the value of German buyouts in H1 2017. They were: Xella, the building materials maker, bought by Lone Star for €2bn; Gfk, the market research firm best known for consumer confidence surveys, bought by KKR for €1.59bn; Hensoldt, the Airbus Defence & Border Security spin off, bought by KKR for €1.1bn; and Solvay Acetow, the cigarette filter business, bought by Blackstone Group for €1bn.

France also started the year well with 49 buyouts valued at €8.4bn in H1 2017. This compares to full year figures for 2016 of €11.7bn invested across 91 buyouts. French buyouts were recorded at similar levels in 2015 (105 buyouts worth €11.5bn), 2014 (102 buyouts worth €12.8bn) and 2013 (103 buyouts worth €12.9bn).

French buyout values were boosted by three mega buyouts with a combined value of €5.2bn in H1 2017. These deals represent 62% of the value of French buyouts in H1 2017.They were: OT-Morpho, the identity and security firm, bought by Advent International for €2.4bn; Cerba Healthcare, the medical laboratory services operator, bought by Partners Group and PSP Investments for €1.8bn; and Prosol, fresh food retailer, bought by Ardian for €1bn.

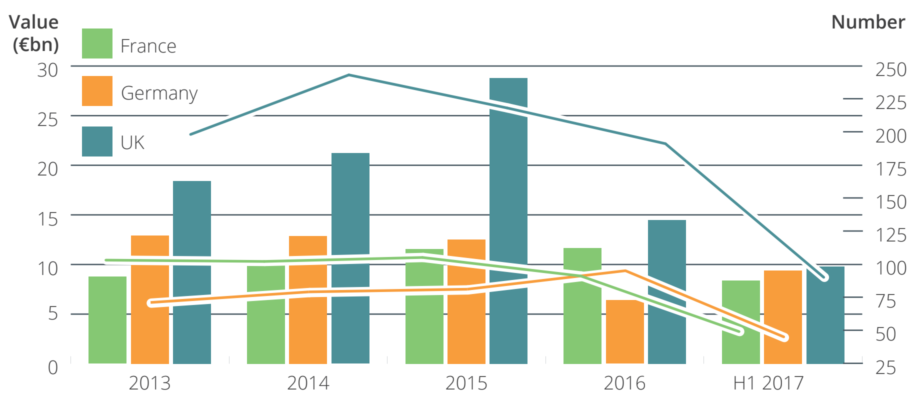
The UK buyout market saw a return to pre-Brexit form in H1 2017, recording 90 buyouts worth a combined €9.8bn. Mega buyouts were less dominant. At €3.9bn they accounted for 40% of all UK buyout value in H1 2017. That €3.9bn comprised: Onex's €1.6bn of NewDay, the consumer finance company specialising in UK credit card market; and KKR's €1.2bn buyout of Calvin Capital, the smart meter company.

SECTOR PREFERENCE

TMT buyouts fell overall, whereas financial services, healthcare and manufacturing investments were either close to or up on the previous year's figures. Financial services saw 22 buyouts worth €2.8bn in H1 2017, compared to 28 buyouts worth €1.4bn in 2016 but behind 2015's record of 51 buyouts worth €7.97bn, albeit that 2015 is the highest year of financial services investment in the past decade.

Healthcare recorded 21 buyouts worth €3.99bn in H1 2017 compared to 44 buyouts worth €4.6bn in 2016 and 46 buyouts worth €6.1bn in 2015. There were 86 manufacturing buyouts worth €11.9bn in H1 2017 compared to 197 buyouts worth €12.1bn in 2016. 2015 saw 194 buyouts worth €22.7bn. 2015 is the best investment year for manufacturing buyouts in the past decade, but if manufacturing buyouts continue apace in H2 2017, 2017 could be another exciting year for the sector.

2013-H1 2017 // FRANCE, GERMANY AND UK BUYOUT VALUES



Source: CMBOR / Equistone Partners Europe / Investec Specialist Bank

What lies ahead?

Europe's buyout market will operate against a backdrop of Brexit negotiations for the remainder of 2017 and throughout 2018. While a steady stream of alarmist press coverage seems inevitable, the business community's hope for a staged, "soft" Brexit, which should hopefully prevail, would give greater comfort to investors.

German elections will happen in Q3 but even if Merkel (Christian Democratic Party) were to lose ground to Schulz (Social Democratic Union), both want a stronger Europe.

Aside from a relatively benign economic outlook, two further factors indicate 2017 could be a strong year for investment. First, European buyout firms are currently operating against a backdrop of a receptive and liquid leveraged loan market. Second, they have a lot of equity to invest. In 2016, European private equity firms raised €74.5bn of new funds for investment. This is the best fundraising year in more than a decade and a significant jump on 2015s fundraising figure of €33.6bn, according to Invest Europe data.

Capital markets are also proving more buoyant and, as 2017 progresses, this should lead to more IPO exit activity. In H1 2017 just three IPO buyout exits launched on their domestic exchanges – Madrid Bolsa (Neinor Homes) and Oslo Bors (Evry), and Swedish company Munsters floated on US exchange NASDAQ.

H1 2017 saw 220 exits worth €59.2bn, almost 60% of 2016's €100.4bn exit value. If this trend continues, 2017 could be a strong year for buyout exits.

2017 looks set for a bumper crop

There were 16 buyout exits in excess of €1bn+ with a combined value of €33.1bn in H1 2017. This equates to 56% of total exit value. Of this figure, €13.2bn was generated by five UK exits. This equates to 57% of all UK exit activity in H1 2017, which was worth €23.1bn.

The largest UK exit was the €7.5bn Formula One purchase by US media giant Liberty Media. This gave CVC Capital a final return on its 2006 buyout investment. The other four UK mega exits were Host Europe, Parkdean Holidays, NewDay and Beacon Rail Leasing.

Host Europe Group was bought by US web hosting services company GoDaddy for €1.98bn. Cinven had sponsored the buyout of Host Europe in August 2013.

Caravan park operator Parkdean Holidays was bought by Onex for €1.6bn providing an exit for Epiris, which bought Park Resorts' debt in 2012. Alchemy and Epiris instigated the merger between Park Resorts and Parkdean Holidays in Q3 2015. Private equity involvement dates back to when Parkdean was acquired by 3i in 1999. It was subsequently floated and then taken private again by Alchemy in 2006. Post merger, Epiris owned around 45% of Parkdean's equity and Alchemy around 30%.

Consumer credit company NewDay was sold to CVC Capital Partners and Cinven for €1.2bn giving an exit to Varde Partners, which did a buyout of NewDay in 2011. Beacon Rail Leasing provided an exit for Pamplona Capital on its 2014 buyout when Beacon was acquired by JP Morgan Asset Management for €1bn.

Germany had three mega exits with a combined value of €6.9bn. This is 62% of the total value of all German buyout exits, which stood at €11.2bn in H1 2017. German mega exits include BSN Medical, Mauser and Xella.

BSN Medical is a wound care, compression therapy and orthopaedics products business, which was sold to trade buyer Svenska Cellulosa for €2.7bn. EQT bought BSN Medical with Montagu in 2012. Montagu bought BSN from Beiersdorf AG and Smith & Nephew plc in 2006.

Mauser, manufacturer of packaging equipment for transporting medical waste and other hazardous chemicals, was sold to US industrial holdings investment firm Stone Canyon by Clayton Dubilier & Rice (CD&R) for €2.2bn. CD&R bought Mauser from Dubai International Capital in 2014 by way of a tertiary buyout. Dubai International Capital had bought the business in 2007 from JP Morgan's One Equity Partners subsidiary. One Equity Partners made the original buyout investment in Mauser in 2003.

Finally, Xella, building materials maker, was unable to IPO in 2016 due to market uncertainty, leaving PAI Partners and Goldman Sachs Capital Partners (GSCP) to sell Xella to Lone Star for €2bn. PAI and GSCP first invested in Xella in August 2008.

France recorded just one mega exit in H1 2017. This was the €1.8bn sale of Cerba European Lab, a company providing routine testing for laboratories and hospitals, by PAI Partners to Partners Group. Partners Group's investment represents a fourth round secondary buyout. Cerba European Labs was first acquired in a buyout transaction by Astorg Partners in 2002. In 2006 Astorg Partners was joined by IK Investment, which acquired 50% of Astorg Partners' equity share. The total for French exit activity in H1 2017 was €5.4bn across 28 exits. French exit activity in 2016 stood at 68 transactions worth a combined €15.9bn. With just three mega exits posting a combined value of €4.3bn in 2016, France has been less dependent upon mega exits to boost its overall exit values. Although French exit values are down at the half year point, 2015 (on €15.9bn across 68 exits) and 2014 (on €21.3 across 65 exits) are the most active years across the last decade.

Sweden, Belgium, Norway, the Netherlands and Spain also each recorded just one mega exit in H1 2017.

Swedish air treatment company Munters was floated on NASDAQ by Nordic Capital with a market valuation of €1.03bn. Nordic Capital bought Munters in 2014 from Altor, which bought out Munters in 2004 and was joined by AB Investor as joint co-investor in 2008.

Belgian aluminium profile manufacturer Corialis was sold by Advent International to CVC Capital Partners for €1bn. Advent International invested in Corialis in 2014 when it bought the company from Sagard and Ergon, which first acquired the business in 2007.

Norwegian debt collection agency Lindorff was sold to trade buyer Intrum Justitia by Nordic Capital for €4bn.

Dutch logistics automation company Vanderlande Industries was sold to trade buyer Toyota Industries by NPM Capital for €1.5bn. NPM Capital first invested in Vanderlande in 1988.

Spanish house builder, Neinor Homes acquired by Lone Star in 2014, was floated on the Bolsa Madrid with a valuation of €1.3bn.

2008-H1 2017 // EURO BUYOUTS, EXITS AND FUNDRAISING (€BN)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	H1 2017
Buyout value	72.3	21.2	59.7	65.3	56.1	59.9	71.0	89.7	60.4	38.9
Exit value	47.7	12.8	67.2	85.5	57.5	80.7	115.3	160.7	100.4	59.2
Fundraising*	64.8	10.8	13.4	26.9	16.7	45.4	36.3	33.6	74.5	**–

Source: CMBOR / Equistone Partners Europe / Investec Specialist Bank
* Fundraising data sourced from Invest Europe
** Fundraising data released at year-end

Debt levels stabilise at just over half of total value

In H1 2017 debt across all European buyouts rose to 53.4%, up from its dip to 45% in 2016 and having been at 49.2% in 2015.

This was less pronounced in the €100m+ buyout financing segment. Here debt was 55.9% in H1 2017 compared with an average of 53.2% in 2016 and 57.4% in 2015.

As the readiness of leveraged finance lenders to support buyout investments has increased, there has been a corresponding drop in equity contribution. In H1 2017 equity participation across all European buyouts fell to 46.3% compared to 54% equity participation in 2016. The equity component of European buyout fundraising had been steadily reducing since its high of 51.8% in 2013 (see chart below). The 2016 spike in equity contribution is possibly as a result of sponsors using equity underwriting to be deliverable on deals in more uncertain H2. Prior to this, the post financial crisis period of 2009-2012 saw the equity component across all buyouts range between 62.3% and 67.4%.

2013-H1 2017 // FINANCING STRUCTURES ON EURO BUYOUTS (%)

	2013	2014	2015	2016	H1 2017
Equity – all	51.2	51.8	46.8	54.0	46.3
Equity – €100m+ buyouts	41.4	41.7	41.1	46.6	43.6
Mezzanine – all	4.4	0.7	1.5	0.3	0.3
Mezzanine – €100m+	4.0	0.9	1.2	0.2	0.4
Debt – all	41.7	46.4	49.2	45.0	53.4
Debt – €100m+	52.9	56.5	57.4	53.2	55.9
Loan note – all	1.9	1.1	0.7	0.3	–
Loan note – €100m+	0.7	1.0	0.3	–	–
Other finance – all	0.8	–	1.8	0.3	–
Other finance – €100m+	1	–	–	–	–
Total financing – all (€m)	**36,039**	**36,202**	**48,915**	**32,031**	**24,023**
Total financing – €100m+ (€m)	**34,552**	**35,347**	**48,201**	**30,618**	**23,590**
Vendor contribution – all	0.5	0.3	0.1	1.2	–
Vendor contribution – €100m+	–	0.1	–	–	–
Management contribution – €100m+	0.2	–	0.6	–	–
Management contribution – all	0.6	0.5	0.5	0.5	–
Management share of equity – €100m+	21.1	19.4	21.3	20.6	32.5
Management share of equity – all	26.9	32.2	31.0	28.7	28.0

Source: CMBOR / Equistone Partners Europe / Investec Specialist Bank

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