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CENTRE FOR MANAGEMENT BUY-OUT RESEARCH NEWS AND UPDATES

Issued by Equistone Partners Europe Limited, based on data provided by the Centre for Management Buy-out Research (CMBOR). CMBOR is supported by Equistone Partners Europe Limited, having been founded in March 1986, to monitor and analyse management buy-outs and buy-ins in the UK and continental Europe, in a comprehensive and objective way.

WINTER 2015

New deals take centre stage

€86.5bn was invested in European buy-outs in 2015 – an increase of over 24% in value on 2014 figures and the busiest year since 2007.

ALTHOUGH TOTAL value increased in 2015, the number of deals fell from 675 in 2014 to 644. This value increase during 2015, despite fewer deals, is explained by the size of buy-outs recorded. In 2014 there were 13 buy-outs with an enterprise value of €1bn+, compared to 20 in 2015.

Average deal size across the market also grew in 2015, most notably in the 'foreign divestment' and 'private' deal source categories. These two sources had proved relatively stable during 2011-2014. However, 2015 saw a big jump in values, although not in their numbers. Foreign divestments rose to €10.4bn in 2015, up from €8bn in 2014, and private deal sources increased to €15.1bn in 2015, up from €9.3bn in 2014.

With four of the top 10 European buy-outs completing in Q4, 2015 finished with a flourish. EQT paid an estimated €3bn for Danish aircraft lessor, Nordic Aviation Capital. Apollo Management paid €2.9bn for the glass bottle unit, Verallia, of French multinational Saint-Gobain. Hellman & Friedman bought Swedish home alarm systems company Securitas Direct Verisure Group from Bain Capital for an estimated €2.5bn and Cinven bought German laboratory services company Synlab Services for an estimated €1.8bn from BC Partners.

A decline in activity levels at the smaller end of the value range impacted overall deal numbers. Falls are notable in the €10-25m and €100-250m segments. In the €10-25m segment the numbers dropped by more than half; 74 in 2015 compared to 155 in 2014, although the values remained around €2.5bn in both years. Similarly, the €100-250m segment almost halved from 84 deals in 2014 to 52 in 2015 as did the value, which fell from €13.2bn in 2014 to €8.2bn in 2015.

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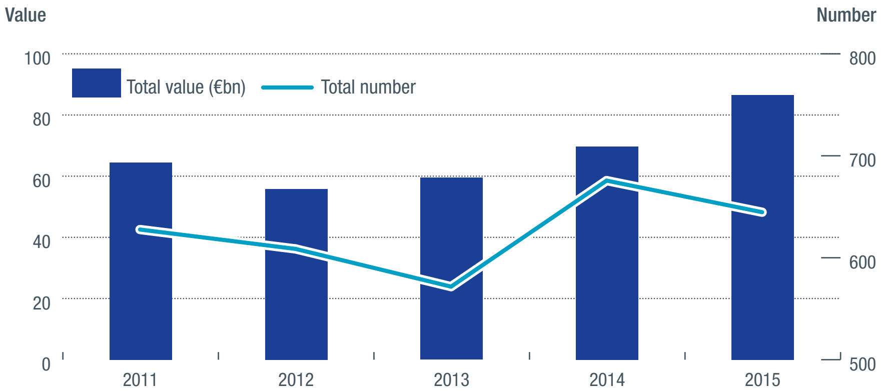
New deals take centre stage

French buy-out values rebounded in 2015. Although the number of French buy-outs has proved relatively consistent over the past four years, total value was finally on a par with Germany in 2015. A total of 93 French buy-outs in 2015 were worth a combined value of €11bn, up over 11.5% on 2014's value. Germany, however, maintained deal levels in 2015. There were 76 German buy-outs worth €12.5bn in 2015, compared with 76 buy-outs worth €12.8bn in 2014.

French buy-out figures were boosted by three €1bn+ deals. These include: French multinational Saint-Gobain's sale of its glass bottle unit, Verallia, for €2.95bn to Apollo Management; the sale of smart technology company Linxens to CVC Capital Partners, by Astorg Partners, for an estimated €1.5bn; and Cinven's buy-out of diagnostics provider Labco for €1.2bn from 3i.

German buy-outs were boosted by four €1bn+ deals. They include: Advent International's sale of cosmetics retailer, Douglas Holding, to CVC Capital Partners for an estimated €2.8bn; Siemens' sale of hearing aid manufacturer Sivantos/Siemens Audiology Solutions to EQT for €2.2bn; BC Partners' sale of laboratory services company Synlab Services to Cinven for an estimated €1.8bn; and the sale of the German subsidiary of India's Suzion Energy, the wind turbine manufacturer, to Centerbridge Partners for an estimated €1.1bn.

EURO BUY-OUT VALUES 2011-2015



Source: CMBOR / Equistone Partners Europe

Exits growth remains robust

Buy-out exits reached their highest recorded value in 2015: 467 deals realised a combined value of €156.6bn.

THERE WERE 42 exits with valuations of €1bn+ in 2015. Of these, 17 were trade sales, 10 secondary buy-outs and 15 IPOs. These IPOs had a considerable impact on the final value of exits for 2015. Including the 15 IPOs that breached the €1bn+ mark, there were a total of 40 IPOs in 2015 worth a combined €48.7bn. This is the largest combined IPO value ever recorded and breaks the previous record in 2014 when 44 IPOs realised €44bn.

The size of private equity-backed IPO stock markets are willing to support has jumped. The last run of strong private equity-backed IPO activity was in the period 2004-2007 when between 35 to 38 deals went to IPO per year. The value ranges for this 2004-2007 period were €9-23bn. CMBOR IPO exits reflect the full enterprise valuation at IPO. This means CMBOR exit data can be larger than other exit source data. However, this approach reflects the relinquishing of control at the point of IPO and, pragmatically, allows CMBOR's annual data to reflect each exit as a singular event. Even allowing for a possible IPO related uplift in the valuation number, the fact remains that average exit values have significantly increased.

Trade sales were consistent throughout 2015 and by year-end presented a combined value of €64.3bn; the highest ever recorded.

Secondary buy-outs reached €43.5bn during 2015. This is still some way off the highs reached in 2006 (€52.9bn) and 2007 (€64.6bn). Secondary buy-outs are firmly established throughout Europe. Of the secondary buy-outs worth €300m+, 11 were from the UK. Germany followed with five, France and Belgium with three apiece and Austria with two. Sweden, Finland, Italy and Denmark each also recorded one secondary buy-out of €300m+.

Also illustrating the rising value of buy-out exits is the fact that no secondary buy-outs made it into the top 10 exits during 2015 (the top 10 consisted of six trade sales and four IPOs). In quieter years, secondary buy-outs have dominated the upper end of the new buy-out market.

Country highlights

Although exit values are on an upward trend, at individual country level values were driven by mega deals. Austria, for example, recorded its highest ever exit value at €4.1bn across four deals. Most of this came from One Equity Partners' sale of Constantia Packaging to Wendel for €2.3bn and BC Partners' sale of Synlab to Cinven for €1.8bn.

The UK buy-out market remains ahead of both France and Germany, as it has done throughout the past decade, with the exception of 2011, when French buy-out values exceeded those of the UK. This was thanks to a handful of mega-sized French buy-outs that included the €2.1bn buyout of Spie and the €1bn buy-out of Foncia.

EURO BUY-OUTS BY COUNTRY 2012-2015

	2012		2013		2014		2015	
	No.	€m	No.	€m	No.	€m	No.	€m
Austria	6	342	7	907	5	165	9	2,699
Belgium	13	2,600	14	2,758	18	1,016	29	3,272
Denmark	21	1,662	21	1,508	21	2,793	27	4,877
Finland	13	395	15	948	24	776	15	1,040
France	101	6,333	99	8,656	94	9,840	93	11,158
Germany	73	8,571	71	12,911	76	12,781	76	12,480
Ireland	5	249	7	69	6	2,164	11	1,698
Italy	41	1,575	30	3,944	36	2,556	39	4,517
Netherlands	34	1,450	34	1,923	50	4,437	47	5,296
Norway	19	1,461	21	3,098	26	6,457	9	1,002
Portugal	2	22	3	83	3	48	3	59
Spain	27	3,553	22	2,396	34	2,984	45	2,867
Sweden	30	3,755	23	812	32	1,298	28	3,929
Switzerland	13	2,928	9	1,217	14	1,320	10	4,515
UK	210	20,952	195	18,262	236	21,014	203	27,133
Total	**608**	**55,849**	**571**	**59,491**	**675**	**69,647**	**644**	**86,540**

Source: CMBOR / Equistone Partners Europe

In 2015 UK buy-outs, at €27.1bn, were up 29% on the €21bn invested in 2014. A total of seven UK buy-outs were valued in excess of €1bn. They include: home alarm systems company Securitas Direct Verisure sold to Hellman & Friedman by Bain Capital, for an estimated €2.5bn; high-end gym chain Virgin Active sold to South African private equity firm Brait, by CVC Capital Partners, for €1.8bn; environmental consultancy ERM sold to Canadian pension fund OMERS, by Charterhouse, for €1.6bn; and holiday operator Parkdean Holidays, merged with an Electra portfolio company, at an EV of €1.4bn.

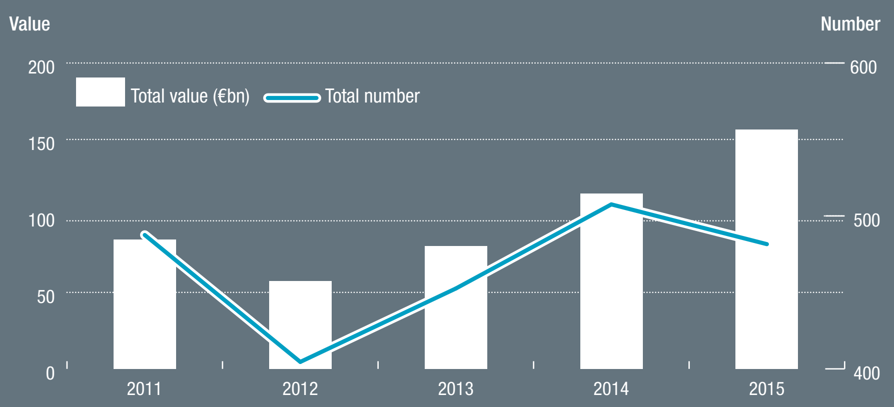
Deal sources

During the period 2011-2015 deal sources have remained relatively stable, with the exception of 'insolvency' as a source. Insolvency numbers peaked at 38 in 2012 and were down to 16 in 2015. The value of insolvency peaked in 2012 at €2.5bn and registered a 10-year low in 2015 when €143m of buy-outs came out of insolvency.

Sweden and Switzerland also recorded their highest ever value of exits. Sweden recorded 24 exits worth €9.9bn. Sweden's value was pushed ahead by Dometic's IPO (€1.5bn) and Bain Capital's estimated €2bn sale of Securitas Direct Verisure to Hellman & Friedman. Switzerland recorded eight exits worth €7.9bn. Switzerland's exit value was boosted by the IPOs of Sunrise Communications (€2.9bn) and Intertrust Group (€1.3bn), the secondary buy-out of Orange Communications (€2.3bn) and the trade sale of Infront Sports & Media (€1.1bn).

France, Germany and the UK all saw big increases in exit activity during 2015. Germany, with 47 exits valued at €22.6bn, surpassed its previous 2007 high of €21.72bn. German exits included BC Partners' sale of Springer Science & Business Media for €5bn, Terra Firma and Deutsche Asset & Wealth Management's sale of motorway service company Autobahn Tank & Rast for €3.5bn, the IPO of online classified business Scout24 Holding by Hellman & Friedman and Blackstone at €3.2bn and Advent International's sale of Douglas Holding to CVC Capital Partners for €2.8bn.

EURO BUY-OUT EXIT VALUES 2011-2015



Source: CMBOR / Equistone Partners Europe

France saw 56 exits worth €21.2bn; its best year since the €30.1bn achieved in 2007. French exit values were boosted by the IPOs of Grandvision (€5bn) by HAL Holding and Spie (€2.5bn) by Clayton Dubilier & Rice and Ardian and the €3.6bn trade sale of TDF by TPG and AXA Private Equity.

UK exits (199) reached an all time high of €65bn in 2015. This value was 44.5% up on 2014s €44.8bn figure. Some of this uplift is attributable to the IPOs of Worldpay/Global Merchant Services backed by Advent International and Bain Capital (€6.5bn) and Auto Trader backed by Apax Partners (€3.3bn), UK software firm Sophos backed by Apax Partners (€1.4bn), brick maker Ibstock Group backed by Bain Capital (€1.1bn) and SME lender Shawbrook Bank backed by RBS Equity Finance (€1bn). At over €13bn combined, these five IPOs represent the majority of the €19.9bn uplift on 2014s total exit value. In addition to those IPOs, there were 10 trade sales and four secondary buy-outs with values of €1bn+ each.

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Structures & multiples: cause for concern?

European leveraged finance markets have seen improving liquidity during the period 2013-2015. UK and European quantitative easing programmes as well as improving European (and global) economic growth rates have boosted liquidity.

ANOTHER IMPORTANT development is the globalisation of the European leveraged finance market. This has seen innovations, such as the introduction of standardised loan documentation, designed to give an increased level of comfort to North American investors looking to invest in Europe.

Buy-out investors have taken advantage of this liquidity. Refinancing in the period 2011-2015 reached €180.7bn. The biggest year was 2014 when €54.8bn of debt was refinanced. This appears to mark the high point: refinancing fell to €33.6bn in 2015.

As demand for refinancing has slowed, new buy-out financings have stepped into the gap. This appears to have manifested itself in the highest debt levels seen in buy-outs in over a decade. During 2015, debt accounted for 52.1% across all buy-outs less than €100m. This climbed to 58.7% in financing structures valued at €100m+. As debt has risen, equity participation has fallen to 43.8% across all structures and to 39.6% in structures of €100m+. These are the lowest figures since 2007 when the equity component across all structures averaged 40.4% and 34.5% in structures of €100m+.

The ratio of debt to equity underwent a big step change in 2013 when across all buy-outs the equity component fell from 65.6% in 2012 to 50.8%. With quantitative easing in play, debt across all buy-outs rose from 28.6% in 2012 to 41.9% in 2013. 2015 has proved to be another step change, with an increase of around 10% in debt and a 10% decrease in equity across all buy-outs. Some of the increase in debt will be driven by rising asset prices during 2015.

With buy-out fundraising buoyant, firms have money to spend, and with supportive debt markets it looks likely these more favourable financing terms will continue into 2016 and beyond.

FINANCING STRUCTURES ON EURO BUY-OUTS 2012 – 2015

	2012		2013		2014		2015	
	<€100m	€100m+	<€100m	€100m+	<€100m	€100m+	<€100m	€100m+
Equity (%)	65.6	59.1	50.8	41.4	52.6	42.1	43.8	39.6
Mezzanine (%)	3.3	2.1	4.5	4	0.8	0.9	1.8	1.3
Debt (%)	28.6	38.4	41.9	52.9	45.4	56	52.1	58.7
Loan Note (%)	1.9	0.2	1.9	0.7	1.2	1.1	0.8	0.3
Other Finance (%)	0.6	0.1	0.9	1.0	–	–	1.5	–
Total Financing (€m)	**31,484**	**29,734**	**35,964**	**34,552**	**32,041**	**31,309**	**45,832**	**45,311**

Source: CMBOR / Equistone Partners Europe

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