EMEA Private Equity Market Snapshot

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S&P Global
Market Intelligence

Editor's Note

Welcome to the eleventh issue of the EMEA Private Equity Market Snapshot, a quarterly publication focusing on the private equity [PE] market in Europe, the Middle East & Africa [EMEA] from S&P Global Market Intelligence.

This issue leads with a review of the third quarter of 2016, noting the attractiveness of EMEA-based targets continues to weaken in the eyes of foreign private equity buyers, with the UK faring the worst, while the Emerging Markets bucked this trend. We also take a look at the Brexit effect on the slowdown of activity of EMEA GPs and venture capital firms. We visit the UK Mid-Markets where unpredictability is the order of the day: subdued global investment while UK-based GPs remain optimistic, being left behind by its European neighbours and being the victim of intrusion from outsiders.

The Consumer Products sector – the long-term darling of the private equity industry is going through a tumultuous time in EMEA as well as losing ground to the US. Is this sector in danger of losing its appeal? Our final piece looks at the UK Billion Dollar Funds and finds it short of investments and not investors and touches upon the private equity industry moving away from financial engineering towards value creation strategies which require longer holding periods.

At the heart of our analysis is the S&P Capital IQ platform, an offering of S&P Global Market Intelligence. The platform incorporates a database capturing more than 3.1 million historical transactions, including deal values and transaction multiples, target company fundamental data, sector-level financials and comprehensive private equity manager and fund information.

We look forward to receiving feedback and suggestions on regions or sectors of interest for future analysis. To subscribe, comment or create your own EMEA Private Equity Market Snapshot, email emea-marketing@spcapitaliq.com

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Emerging Markets in EMEA Flourishing Amid a Gloomy Environment

During the course of 2016, the attractiveness of EMEA-based targets has weakened in the eyes of foreign private equity (PE) buyers[1]. This report studied the EMEA PE market for the period 1 July to 31 August 2016 and finds this sentiment remained unchanged.

Total allocation of capital by global PE buyers into EMEA experienced a significant 60% decline during the study period, plummeting to €8.9bn compared to €22.2bn for the same time period in 2015. In addition the number of new investments into EMEA also decreased, as did the number of new deals, albeit not as steep, dropping by 21% from 754 in 2015 to 594. Additionally, the average entry deal size also fell to an aggregated average of €26mn in 2016 from €52.6mn in 2015.

UK-based targets were hardest hit, with capital deployed by foreign PE firms plunging to €1.4bn in 2016 versus €8.4bn in 2015, an 84% decline. Across EMEA, the number of investments into the UK dropped by 24% [from 190 to 145], showcasing that the size of the deals was much smaller.

However, EMEA also recorded some notable exceptions to this trend, as activity in the 'Emerging sub-regions' of, Africa and the Middle East[2] showed an upward shift in the aggregate transaction values. These regions grew the most during the study period, with Africa realising a 493% increase in capital allocations [from €0.1bn to €0.6bn] and the Middle East experiencing a 35% uplift [from €0.6bn to €0.8bn]. Nigeria[3] emerged as the driving force behind Africa's growth, accounting for 84% of the region's total while Turkey featured as the leader within the Middle East with €0.6bn of new capital[4].

Turning our focus towards sectors, EMEA PE deal activity also experienced a sharp drop in aggregate transaction values across sectors, with the only exception being Telecommunication Services. New investments into this sector grew by an impressive 559%, from €0.1bn to €0.4bn. At the other end of the spectrum, the biggest losers were Energy and Healthcare, recording a 100% and 89% drop in total capital deployed, respectively. The Energy sector also experienced the largest decline in new investments, decreasing from 10 in 2015 to only 1 during the same period in 2016.

In terms of divestitures, the negative trend continued. Global PE firms realised 41% less capital from EMEA-based target exits' during the 2016 study period compared to 2015. Of all the sub-regions Southern Europe[5] emerged as the most successful, with exits growing by 112% in 2016 [from €1bn to €2.1bn]. The largest portion of this growth is attributed to the €738.8mn sale of Fomento de Construcciones y Contratas, S.A. by Cascade Investment, L.L.C. and others.[6]

[1] This topic has been discussed in Issue 9 and Issue 10 of EMEA Private Equity Market Snapshot

[2] For the purposes of this article, Middle East is defined as: Bahrain, Iraq, Iran, Israel, Jordan, Kuwait, Lebanon, Oman, Palestinian Authority, Qatar, Saudi Arabia, Turkey, United Arab Emirates and Yemen.

[3] Overall activity in the country concentrated in Consumer related sectors, suggesting further developments on the growth of the middle-class consumer [suggested reading: Issue 2 of EMEA Private Equity Market Snapshot] Largest deal was within Consumer Discretionary: acquisition of 49% stake in five companies from Oando PLC by Helios Investment Partners LLP and Vitol Holding B.V. for €414.13mn.

[4] Turkey attracted region's largest deal [in the Financials sector] – Odea Bank A.S. received €298.88mn of funding from International Finance Corporation and others.

[5] For the purposes of this article, Southern Europe is defined as: Greece, Italy, Portugal and Spain.

[6] https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=327536886&companyId=693671

EMEA GPs' Caution Linked to Brexit?

Activity by EMEA GPs has slowed down during the study period, both in terms of new investments made and capital realised from exits, arguably marked by the uncertainty around Brexit both prior to and after the vote. Capital deployments reached €10.4bn globally across 609 new deals, this represents a 51% decline to the same period in 2015 [€21.1bn over 790 deals].

Of the €10.4bn total investment 52% was aimed at cross-border targets, where Asia took the largest portion (€2.8bn), followed by North America (€1.7bn). In contrast, investments into European targets declined by 57%.

Within EMEA, BeNeLux and Southern Europe were the exceptions to this trend, with investments into these sub-regions totalling €0.6bn and €1.3bn of new capital respectively. This represented a significant 102% and 148% increase respectively. On the other side of the spectrum, French-based targets attracted the least interest from EMEA GPs, recording the largest decline in aggregate new capital, 88% [from €3.2bn to €0.4bn] for the given period.

This modest approach may well be granted, as the Brexit vote is expected to "…have important ramifications for the rest of Europe, and especially the Eurozone… with Eurozone's GDP taking an estimated 0.8% hit over 2017 and 2018. Brexit will also yield a drag to the UK's GDP - 1.2% in 2017 and 1% in 2018[7]".

On the exits front, capital realised by the EMEA GPs dropped by 46% during the study period, from €36.7bn to €19.6bn across fewer deals; 206 in 2016 versus 318 in 2015. Interestingly, unlike entry and exit transactions into Europe from global GPs, EMEA counterparts seem to continue to plough through exits, with the average exit transaction value only down by 4%, from €289mn to €276.6mn.

EMEA-located venture capital [VC] firms were also impacted. Investments totalled €1.9bn of capital globally across 272 new deals. This represented a 13% decrease from €2.2bn in 2015. The Information Technology sector attracted the most new capital from EMEA VCs, standing at €1.1bn in 2016 to €0.9bn in 2015.

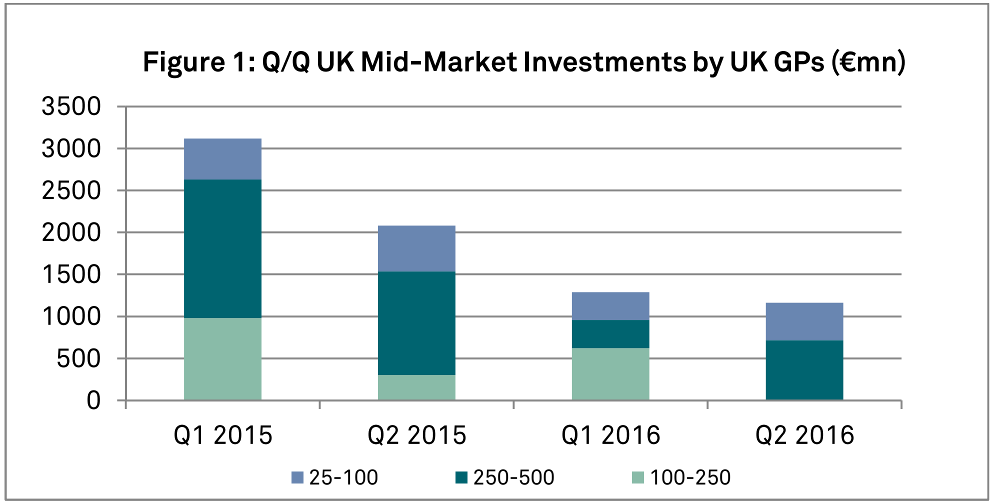
UK Mid-Market: as Unpredictable as the Referendum Results?

With the run-up to the Brexit Referendum and its outcome now firmly established in the collective memory, we review the aftermath of the 'bread-and-butter' segment of the UK private equity industry. The outcome of our analysis suggests that the direction of travel is as unpredictable as the referendum itself which initially caused it's slowdown in the first half of the year.

[7] Source: "Europe's Economic Outlook After the Brexit Vote" by Jean-Michel Six, S&P Global Ratings. Available at: https://www.capitaliq.com/CIQDotNet/CreditResearch/SPResearch.aspx?articleId=&ArtObjectId=9706178&ArtRevId=1&sid=&sind=A&

S&P Global Market Intelligence data reveals that global PE investments into UK mid-market targets[8] are significantly below the mid-year expectations with an aggregate deal value of €3.2bn over 2016 (as of August 31st), representing only 26% of the 2015 total at €11.9bn. In deal terms this represents 35 closed mid-market transactions this year compared to a total of 98 transactions for both 2015 and 2014.

Although investment activity in UK mid-market targets has been very subdued to date, we find that UK-based GPs were slightly more optimistic than their global counterparts with respect to investments in the UK market. [FIG.1].



For illustrative purposes only. Source: S&P Capital IQ. As at 08/09/16

For UK GPs investing domestically we note a Q/Q decrease in aggregate deal value of 58% for Q1 (€3.1bn and €1.3bn) and 44% for Q2 (€2.1bn and €1.2bn) between 2015 and 2016. Global GPs however reduced their investments in the UK more significantly with Q/Q decreases of 98% and 46.6% in Q1 and Q2 respectively. Overall only 12.5% of aggregate deal value into the UK for Q1 and Q2 2016 did not originate from deals backed by a UK GP (€315.3mn).

This is in stark contrast to the investments by UK sponsors into EMEA which grew over the same period; Q/Q we find an increase in investment value from €168mn to €945.5mn for Q1 (+462%) and €464.5mn to €1.6bn for Q2 (+168%), representing a doubling of the deals closed in both cases. Although the aggregate value into Europe remains below the domestic investments into the UK this represents a significant shift with UK investors increasing their bets in Europe at the expense of the UK market.

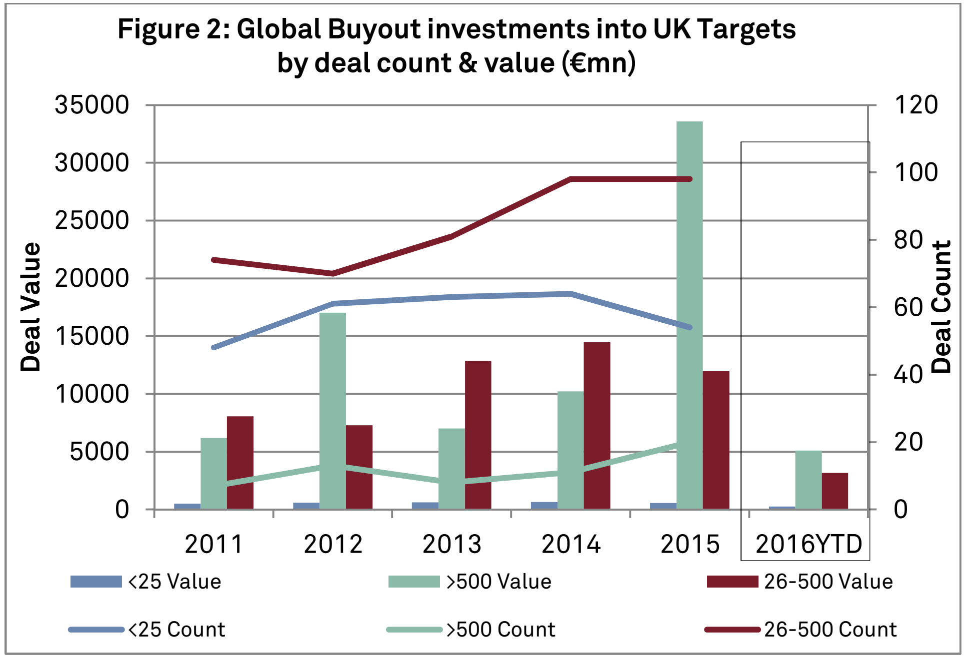
Although, it could be argued that these findings are most likely the consequence of domestic and global investors waiting in the wings for the results of the referendum rather than any significant concerns over the performance of the UK mid-market segment. In support of this, S&P Global Market Intelligence data shows that small and medium sized enterprises in the United Kingdom continued to perform strongly over the last decade with average P/E ratios for listed companies in the segment growing 31% from IPO to date[9].

[8] For this research mid-market transactions are defined as all GP-backed transactions with deals sizes between €25mn and €500mn, using historical conversion for any non-Euro transaction.

[9] The sample includes IPO launched over the last 12 months and average P/E ratio calculated omitting 0s.

With the S&P Global Market Intelligence *M&A Rumours* tracker highlighting 85 potential UK PE-related transactions over the last three months, it is probable that we will see a jump in investments for the remainder of the year as GPs return to more normal operations.

The UK mid-market is not alone in struggling for pace in 2016, as large-cap buyouts (defined here as deals above €500mn) - only totaled €5bn as of August 2016 compared to a full year total of €33.6bn in 2015. [FIG.2].



For illustrative purposes only. Source: S&P Capital IQ. As at 08/09/16

In contrast, the venture capital market seemingly avoided any negative impact in the lead up to the Brexit Referendum. Deals under €25mn in the UK totaled €268mn (to August 2016) compared to a full year total of €571mn total for 2015, putting 2016 only marginally behind the mid-year target and highlighting the significant differences in investment dynamics for this segment.

The EMEA Mid-Market - Leaving the UK in the Dust?

Although large-cap deals still lead the way in terms of total capital invested in the UK, it is the mid-market segment which is at the centre of the UK buyout industry and at the core of private equity in EMEA. Yet, we find that in 2016 the UK appears to be being left behind by European neighbours, significantly underachieving given its market-leader status. Notably, the first half of 2016 recorded only 12% decline in capital deployed into EMEA (excl. the UK) compared to the first half of 2015, while the UK experienced a 75% drop over the same timeframe.

With a combined deal value of €54.6bn and 421 closed deals for the period from 2011 to 2015 (compared to €74bn and 59 deals for UK large-cap buyouts), it is clear that the vast majority of London's deal makers are active in the mid-market segment. This is a significant difference to the remainder of the European market where mid-market deals are less prominent, accounting for €98.5bn (1153 deals) over the period compared to €231bn (222 deals) for large-cap buyouts. This puts the European large-cap market at 2.3x the size of the European mid-market, far above the 1.3x differential in the UK and highlights the importance of the mid-market segment to UK GPs.

Adding to this, the share of total EMEA mid-market investments received by the UK over the period (35% - €54.6bn) emphasises the importance of a healthy UK mid-market deal flow for the overall performance of the British PE industry.

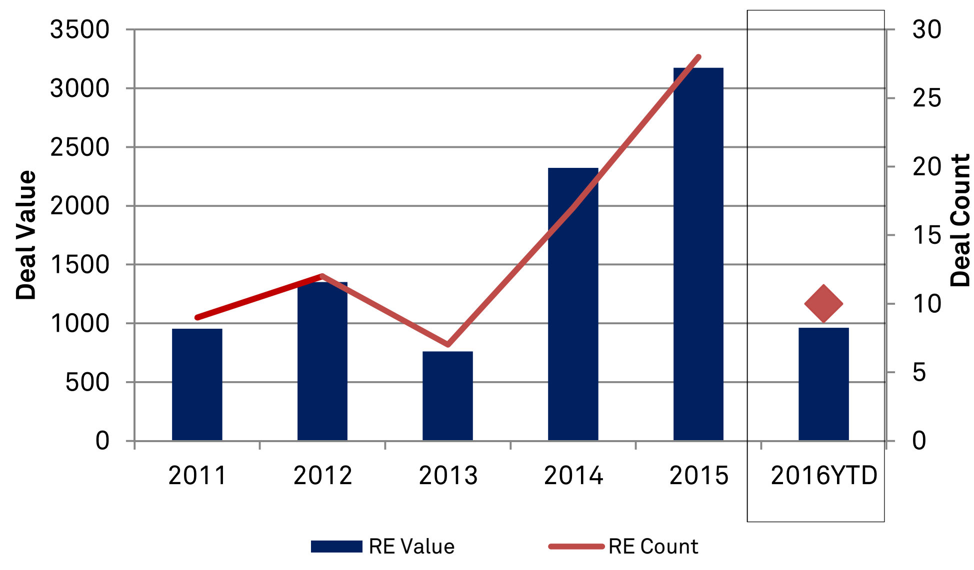
Importantly, our data does not register pre-Brexit jitters in the European buyout industry with aggregate deal values and closed deals on target at the half-year point across all deal sizes. Total invested capital in the mid-market space reached €11.5bn as of August 31st compared to €18.9bn for all of 2015. This highlights that although the UK is historically a major factor to the overall performance of the European mid-market space, Brexit appears to have had little impact on the attractiveness for continental targets.

UK Mid-Market Deep Dive

Our data shows that while UK mid-market investments are well spread across all industries, there are some marked differences in this segment compared to the PE industry as a whole.

Consumer Discretionary leads the way in terms of investments over the full sample period[10] with a combined deal value of €14.9bn, followed by Industrials at €10.8bn and Real Estate with €9.5bn. It is important to highlight the prominence of Real Estate found in this segment which is reflective of the growing number of private equity GPs branching out into this asset class. In fact we note that aggregate deal value for Real Estate is following an upwards trend YoY for the last five years, accelerating over the last two years and with a CAGR of 27% between 2011 and 2015.[FIG 3]

Figure 3: Global PE-backed middle-market investment into UK Real Estate targets - deals count and values (€mn)



For illustrative purposes only. Source: S&P Capital IQ. As at 08/09/16

Noticeable is the absence of Financials, Healthcare or Information Technology in our Top 3 which is potentially due to the larger and smaller deal sizes in these industries falling outside of the typical range of mid-market investments.

[10] Sample period from January 1st 2011 to August 31st 2016

Considering small (€25m-€100mn), medium (€101mn-€250mn) and large (€250mn-€500mn) mid-market deals separately we observed the same Top 3 target sectors in the UK indicating a marked uniformity within the mid-market space. A review of the comparable data for the European targets delivers similar results, with the exception of Materials outperforming Real Estate into third place for the larger deals (€5.1bn and €4.6bn).

Interestingly, the capital deployed year-on-year in the mid-market space shows a high degree of volatility across small, medium and large deals making it difficult to spot a definite trend. In general we note that the European mid-market peaked with €26.1bn in 2011 for all three size ranges, before dropping to the lowest value in our sample the following year (€16.8bn). In comparison, the UK had its lowest performance in 2011 and 2012 before reaching a high of €14.5bn in 2014.

Specialist Mid-Market GPs Face Stiff Competition

By its very nature the mid-market segment is open to competition from both smaller and larger deal makers occasionally stepping outside their core mandate. However, our data highlights that the intrusions are more routine than exceptional.

Focusing on UK-based GPs investing in mid-market targets we found that 39.4% of the aggregate deal value for UK targets over the full sample period was backed by sponsors who don't indicate mid-market activity as part of their investment strategy.

Unsurprisingly the €25mn - €100mn deal bracket and the €250mn - €500mn deal bracket see the highest level of activity by non-mid-market specialists, while the proportion of 'outsiders' investing in the €101mn - €250mn segment is of only 27%. Hence, while VC shops and growth investors are accessing the smaller end of the mid-market segments and large-cap investors are considering the top end of the segment our findings indicate that there is still a space for mid-market investors to thrive uninterrupted by outsiders.

Looking at all UK GPs we found that UK mid-market specialists are much more dominant in the UK-to-Europe mid-market space, where they account for a much larger proportion of deals than they do for the domestic mid-market investments. Large-cap and growth/VC investors tend not to stray into mid-market territory as much outside of the UK, indicating that where they are happy to make more opportunistic investments into this segment domestically this is not the case for investments abroad.

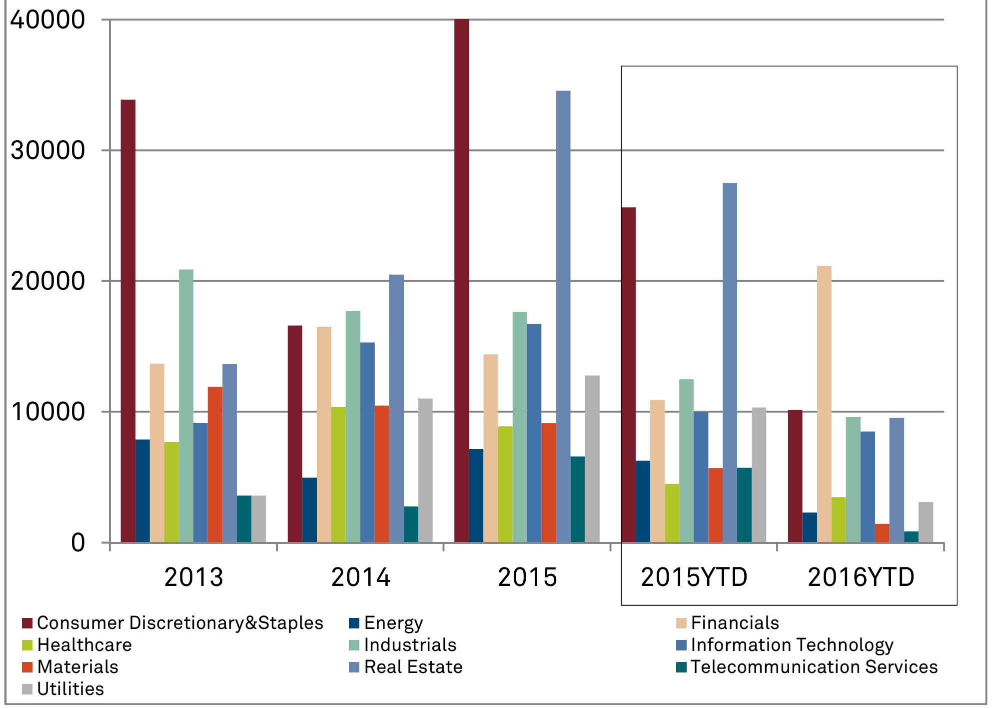
The domestic preference of GPs is further confirmed when reviewing the geographic spread of mid-market investments in EMEA. Here we note that UK GPs invested 56% (€33bn) of aggregate deal value and 67.3% of deal counts (308) into the domestic market. This is followed by a much smaller capital deployed into France (€4.3bn – 22 deals – 7%) and Italy (€3.5bn - 18 deals - 5.8%). This supports the view that to be a highly successful mid-market specialist, you must have an expert understanding of the country and a deep-rooted network to achieve outsize returns.

Consumer Sectors Stealing the Most Coveted Spot in 2016

The Consumer Products[11] industry has long been among the favourites of the PE industry. Based on S&P Global Market Intelligence's data over the last five years [2011-2015], EMEA Consumer sectors attracted the highest proportion of new capital from global PE buyers, amassing €141.6bn or 22% of the EMEA total.

As shown in FIG. 4, the Consumer sector peaked in 2015, attracting €43.9bn of capital – this is also the highest value since 2011, across all sectors. However, the positive trend of 2015 has been challenged more recently. Total activity observed in 2016 to date, showed PE deal activity significantly down across all sectors. While the Consumer Products industry continues as 'leader of the pack'[12] with €10.1bn new capital invested across 556 new deals, this amount represents a 60% decrease in capital deployed compared to 2015 YTD[13].

Figure 4: Global PE Investment into EMEA by sectors (€mn)



For illustrative purposes only. Source: S&P Capital IQ. As at 08/09/2016

EMEA Consumer Products Losing Ground to US Targets

Broadening the lens to global PE investments into Consumer Products, the last 15 years suggest that global PE buyers have shifted their preference between EMEA and North America. EMEA targets proved to be more attractive to global GP's nine out of the fifteen years [FIG 5]. In 2015 they accounted for 42% of total new capital invested by the global PE firms despite some turbulent times in

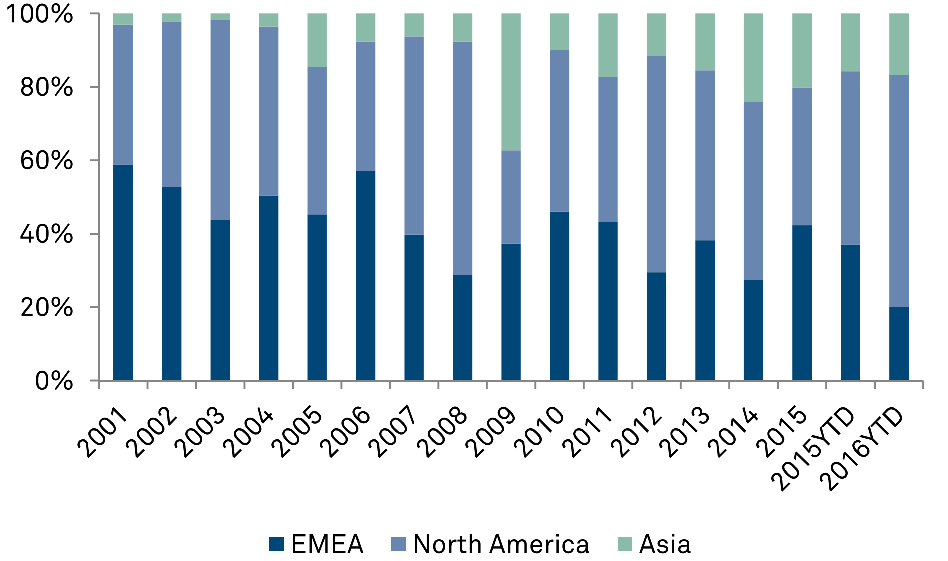
[11] For the purposes of this article consumer products is defined as Consumer Discretionary and Consumer Staples sectors.

[12] Financials stands at €21.2bn in 2016YTD due to an outlier deal of €18.4bn – PGGM, Goldman Sachs Group and others acquired Lease Plan Corporation N.V.; after taking out the outlier, the sector's total is €2.8bn, placing it behind the Consumer Sector.

[13] Year-To-Date [YTD] refers to January – September 8th 2015 and 2016.

EMEA[14]. However, 2016YTD the sector recorded a big shift in interest, with capital deployed to EMEA-based targets down by 60% from €25.6bn over the same period in 2015. This decline represents an EMEA all-time low for the Consumer Product sector.

Figure 5: PE allocation of capital per region

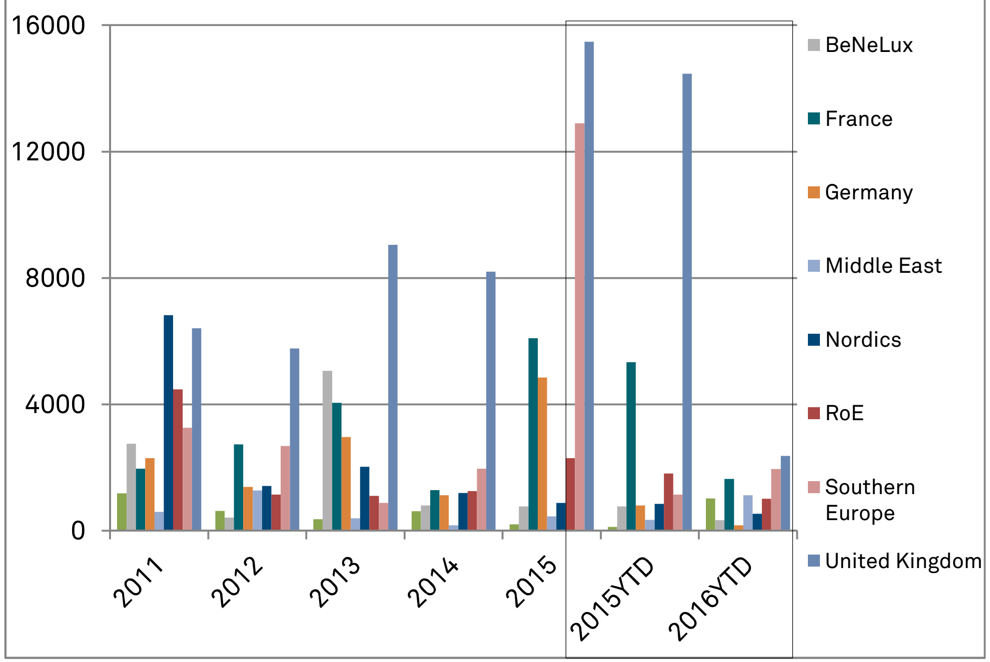


For illustrative purposes only. Source: S&P Capital IQ. As at 08/09/2016

In terms of sub-regions within EMEA, the UK, France and Germany dominated the PE scene for the majority of the study period. Noticeably, PE investments into the UK reached an all-time high in 2015, accounting for €15.5bn of new capital across 200 new deals.

With the exception of the above, since 2014, we have seen a shift in trends with Southern Europe becoming a more prominent PE capital destination, overtaking both France and Germany [FIG. 6[15]]. In 2016YTD Southern European-based targets attracted €2bn of new capital, a 71% increase compared to 2015YTD, falling behind only the UK at €2.4bn.

Figure 6: Global PE Investment into EMEA-Based Consumer Targets by Region



For illustrative purposes only. Source: S&P Capital IQ. As at 08/09/2016

[14] Suggested reading: Issue 7 of EMEA Private Equity Market Snapshot

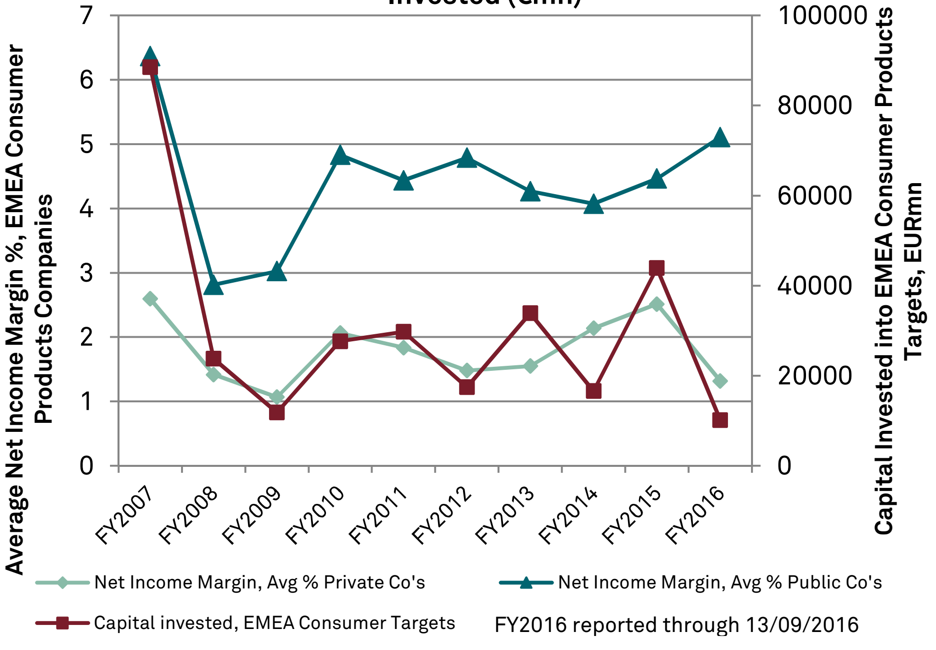
[15] BeNeLux deal outlier for 2013 was removed in order to avoid over-estimating a trend: JAB Holdings B.V. acquired D.E Master Blenders 1753 N.V. for €8bn

Consumer Companies: Going Once, Going Twice… Sold?

While attempting to attribute a single factor to the attractiveness of the Consumers' sectors, the activity of PE firms appears to be highly correlated to their financial performance. FIG. 7 suggests that the capital deployed by global GPs into EMEA responds more strongly to changes in private companies compared to average NI margins of public companies. Most recently in 2016YTD the total capital invested into the EMEA consumer targets fell by 77% while average NI margin of private companies decreased by 48%. This represents an interesting disparity with listed companies as their average NI margin increased by 14%[16].

Similarly, listed Consumer Products peers seem to perform below average in terms of projected EPS growth. According to S&P Global Market Intelligence Consensus Earnings Report as of September 12th 2016, S&P Euro 350 Consumer Discretionary and Consumer Staples sectors are expected to be at 9.2% and 10.3% respectively in 2017[17], this places them in 7th and 6th spot in the Top 10.

Figure 7: Average Net Income Margin (%) and Capital Invested (€mn)



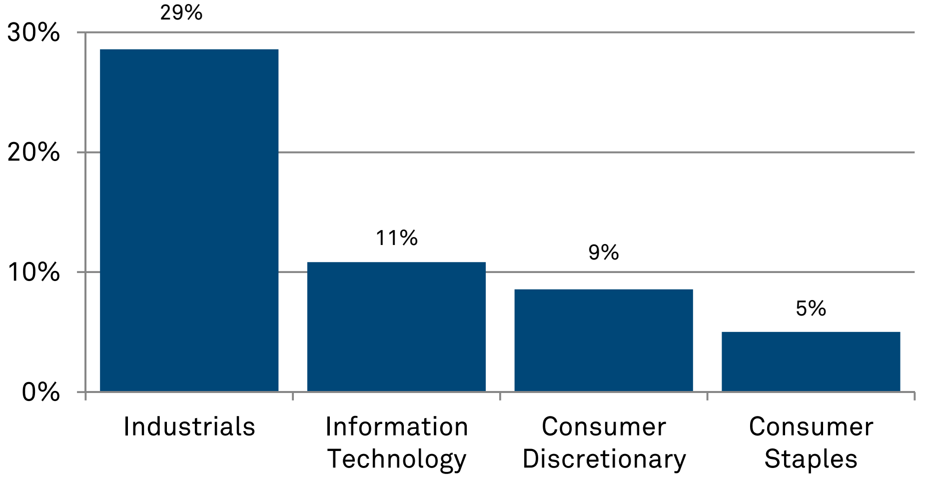
For illustrative purposes only. Source: S&P Capital IQ. As at 08/09/2016

On the exits front, EMEA-based consumer companies have performed well post sponsor-backed IPOs. As suggested by the average share price performance at the time of the IPO and after 100 days of trading, Consumer Discretionary and Consumer Staples registered a 9% and 5% increase in average share price, respectively [FIG. 8]. Netting the most number of IPOs in EMEA across all sectors [23], IPO exit strategy does seem to be the most successful route for global PE firms for the Consumer sector.

[16] For the purposes of this article, the consumer companies to calculate Net Income Margin (%) are public and private companies with revenues greater than €50mn; the average % is calculated omitting 0 values and values greater than 50% to avoid over-estimating averages. FY indicates Fiscal Year.

[17] Consensus Earnings Report, S&P Global Market Intelligence, available at: https://www.capitaliq.com/CIQDotNet/Research/DocumentViewer.aspx?documentViewerDocumentId=34796808

Figure 8: Difference Between Share Price at IPO vs. 100 Days, EMEA Top 5 Sectors (%)

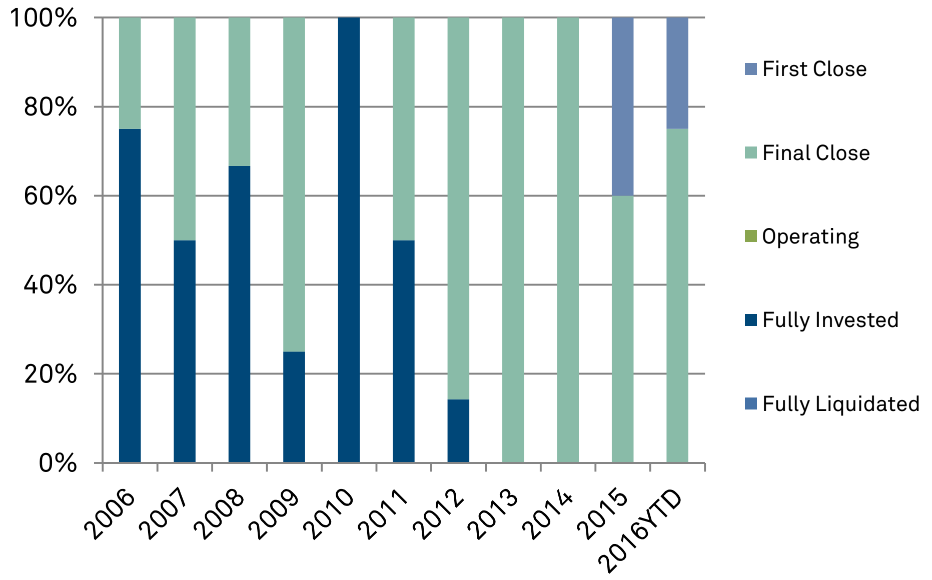


For illustrative purposes only. Source: S&P Capital IQ. As at 08/09/2016

UK Billion Dollar Funds - Short of Investments, Not Investors

Analysing data from S&P Global Market Intelligence related to large-cap buyout funds in EMEA and the UK (fund size above USD 1bn), indicates that LPs investing in UK-based large-cap funds may have to wait longer than expected to see their investments returned in full. The traditional 10-year fund life cycle has extended for the majority of funds following an increase in average holding periods (5.2 years in 2015 compared to the 4.5 years in 2010, and 4.3 and 4.4 years during the golden age of buyouts in 2006 and 2007 – as detailed in Issue 8 of our *EMEA Private Equity Market Snapshot*[18]). On this front, several industry practitioners also suggest that this trend is reflective of the onset of the wholesale shift of the PE industry away from financial engineering and towards value creation strategies requiring longer holding periods.

Figure 9: UK Fund Status by Vintage: 2006-2016



For illustrative purposes only. Source: S&P Capital IQ. As at 08/09/2016

In actual terms, data from the billion dollar funds launched between 2006 and 2016 in the UK suggests that not a single fund from the 2006 vintage has been fully liquidated yet. Adding to the problem, only

[18] Suggested reading – EMEA Private Equity Market Snapshot Issue 8

about 70% of funds in this vintage reached a fully invested status, which would indicate that the traditional 10-year private equity life cycle seems to be largely out of the window over the last decade. This provides further evidence that large proportions of vintage funds from 2007 onwards are yet to be fully invested; with 50% of 2007, 33% of 2008 and 75% of 2009 vintage funds still actively investing.

In contrast, EMEA billion dollar funds have performed slightly better in 2007 and 2008 with only 17% and 33% of funds still actively investing and one fund, Parcom Quoted Equity, in the 2008 vintage already fully liquidated.

UK Funds - A Domestic Affair

Looking at the cohort of investors into the UK-based funds, local institutional investors take the lion's share suggesting that established partnerships, consistent performance and repeat investments are the way forward in the fund raising space. Historically S&P Global Market Intelligence data shows that investments in UK billion dollar funds have a high concentration of LPs, where the most active LP invested in 20 funds in our sample[19]. Out of the Top 10 most active LPs half are UK-based institutional investors, with a further four being based in the US.[20]

Zooming into the Top 10 billion dollar funds by fund size, of the 80 large-cap funds that were launched in the UK over the last ten years, a small number of GPs dominate the UK space. These GPs appear to be successful in repeatedly raising the largest funds in the market. The largest 10 funds represented 35% of the total billion dollar funds raised. The most money was raised by CVC European Equity Partners VI LP in 2013 ($15bn representing 5.4% of the total money raised by the 10 largest funds over the period). Apax Partners and Cinven Limited manage 30% (3 funds) and 20% (2 funds) respectively of the Top 10 largest funds by volume in the observed period. Furthermore, Apax Partners manages 29.3% ($28.2bn) and Cinven manages 17.2% ($16.6bn) of the top largest UK funds by fund size. Our data suggests that the general market trends point to the consolidation of LP allocations towards a select number of GPs with whom they have an established relationship. This potentially highlights a number of underlying drivers including, negotiation of better management fees, portfolio management optimization or access to better co-investment opportunities. While this is highly beneficial for the largest GPs on the market it remains to be seen whether this consolidation of fund raising will benefit large-cap buyouts as a whole. The findings in previous sections of this publication (UK Mid-Market) do not seem to indicate that bigger large-cap funds are not going for large-cap buyouts.

UK Large-Caps, UK Mid-Caps: Spot Any Difference?

Investment activity by UK large-cap funds is still more than 36% below its 2007 peak, which is unlikely to be surpassed in the near future as our analysis showed a marked reduction in the share of mega-deals over the last ten years.

[19] The sample used consisted of 80 UK headquartered Billion $ Funds launched between 2006 and 2016 YTD.

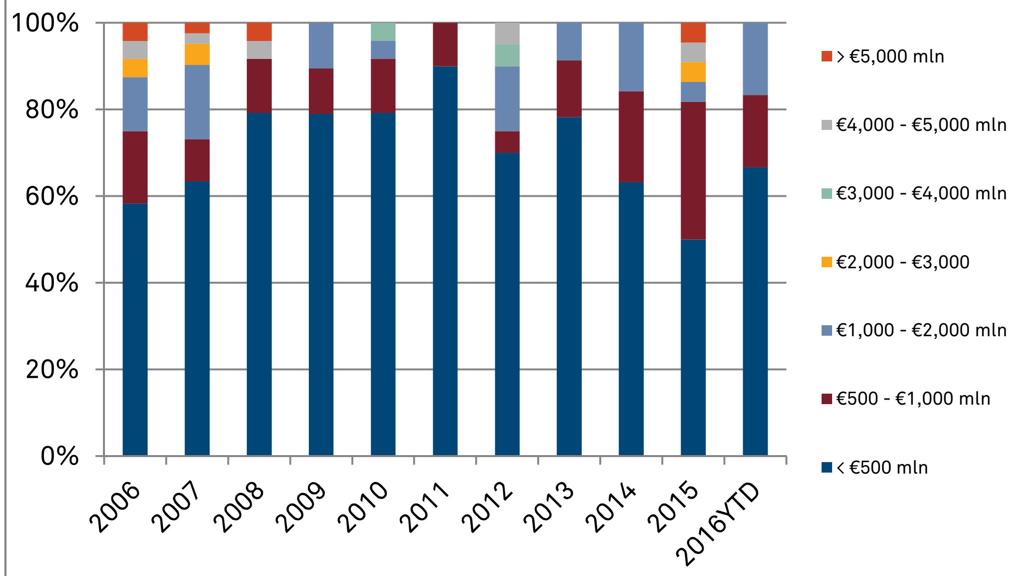
[20] In our sample the Top 10 LPs are SL Capital Partners LLP, ICG Enterprise Trust PLC, Standard Life European Private Equity Trust plc, Graphite Capital Management LLP, Canada Pension Plan Investment Board, Washington State Investment Board, Aberdeen SVG Private Equity, California Public Employees' Retirement System, HarbourVest Partners, LLC, and The California State Teachers Employees' Retirement System.

Deal activity between 2006 and 2016 included 402 deals announced by UK based large-cap funds with an aggregate value of €150.7bn[21]. In terms of deal types, the analysis of investments made by UK billion dollar funds shows that the number of sub €500mn deals accounted for more than 50% of all closed deals[22] for each of the last 10 years, suggesting that a surprisingly large amount of effort is spent on mid-market deal making by large-cap funds. Additionally the proportion of deals in the €500mn to €1bn category also saw a steady growth from 2012 to 2015, whereas deals above €2bn have been absent for most of the last five years.

As expected, in deal value terms the <€500mn segment represented only 18.6% (€ 28.4bn) of aggregate value over the last decade, significantly lower than the 66% (€100.7bn) of value assigned to deals exceeding the billion Euro. Looking at average deal sizes we note that the <€500mn segment is the only segment to have grown over the sample period whereas average deal size for the larger segments either display a downward trend or record no deal activity.

The <€500mn segment recorded a CAGR of 13.9% from 2010 to date for average deal value [from €116.3mn in 2010 to 223.3mn in 2016YTD], while the €500mn-€1bn segment deal sizes contracted with a CAGR of -5% [€689.5mn in 2010 vs. €532.4mn in 2016YTD] and by -4.5% for the €1-2bn deals [€1.5bn in 2010 vs. 1.2bn in 2016YTD]. Comparing the averages for 2016YTD with 2015 the delta is even more pronounced with a drop in the latter two segments of 17% (-€107mn and -€500mn average deal size) and 30% respectively. These findings seem to indicate that there is slow convergence towards a €500mn investment 'sweet spot' which contributes to blurring the lines between mid and large-cap funds.

Figure 10: Proportion of Investments by Deal Size: 2006-2016 (€mn)

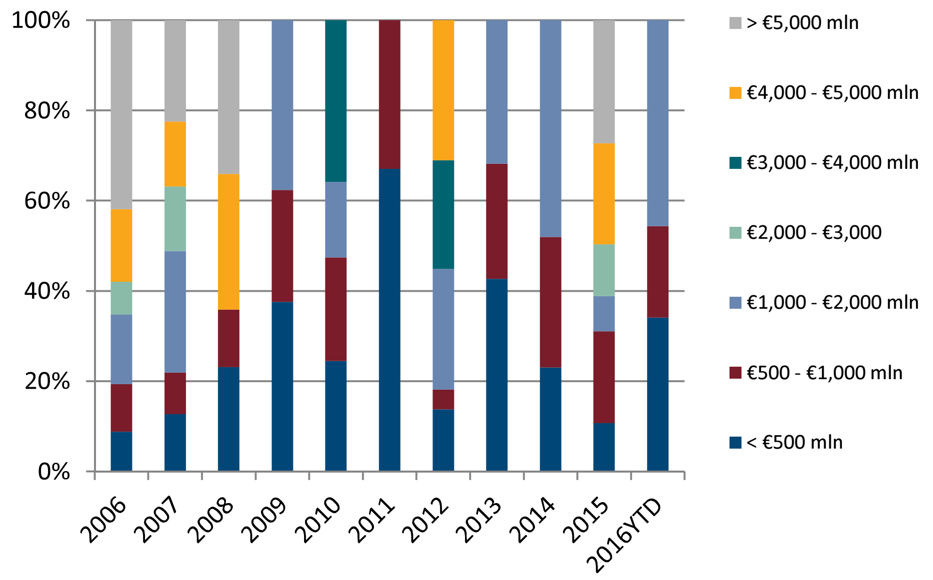


For illustrative purposes only. Source: S&P Capital IQ. As at 08/09/2016

[21] The aggregate deal value recorded it's the largest year-on-year increase at 174% between 2011 and 2012, representing €4.4bn and €11.9bn respectively. However, the post-crisis total annual deal value is significantly below of the €34.5bn that was recorded in 2007. The highest total deal value post-crisis was recorded in 2015 at €21.9bn

[22] Closed deals by UK-based billion dollar funds, excluding deals with non-disclosed terms

Figure 11: Proportion of Investments by Deal Value: 2006-2016 (€mn)



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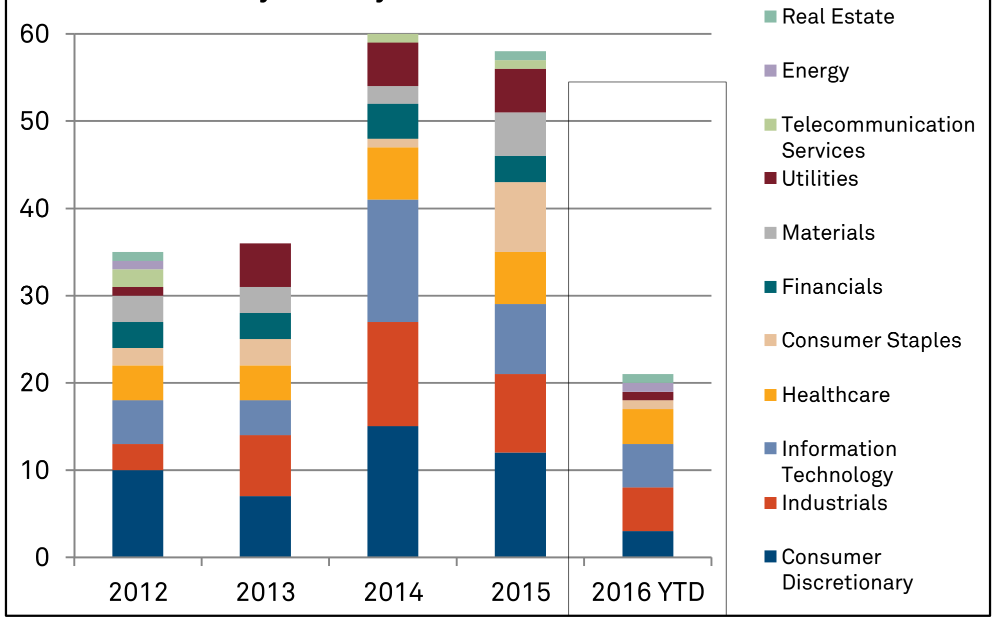
Industry Focus as Varied as an All-You-Can-Eat Buffet

Comparing target sectors across the UK and EMEA for the given period, 1 July - 31 August 2016 the analysis points to a wide range of leading industries with little overlap to be found between the two geographical areas.

Within the UK the Consumer Discretionary sector saw the largest deal count with 95 deals attracting €19bn from UK based funds. However, the most capital was invested in Industrials where 87 deals attracted a total of €41.9bn. The least amount of investment went to the Real Estate sector (€515.9mn in 4 deals) and Telecommunication Services (€2.9bn in 7 deals). This is in stark contrast to our findings in the previous section of this publication looking at the UK mid-market investments where real estate is the third most prominent investment sector. Additionally the largest transaction in our sample was targeted at a Utilities company with the €11.9bn buyout of Thames Water Limited by an investor club in 2006.

Figure 12: Investment Trends of UK Billion $ Funds by Industry Sector: 2006-2016



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In contrast, EMEA-based billion dollar funds announced 398 deals in the last decade with the most number of deals recorded in the Industrials sector with 105 deals, realising €14.3bn. The highest total amount invested was into the Healthcare industry which attracted a total of €17.8bn (48 deals) from EMEA-based funds, with Financials realising €756.5 million from 14 deals and Telecommunication Services falling last with €1.2bn from 8 deals. This is again in contrast to our European mid-market findings where the largest deal volumes realised were for Consumer Discretionary, Industrials and Real Estate. The largest EMEA transaction was the €2.7bn investments into ConvaTec Healthcare B S.a.r.l. by Avista Capital Holdings and Nordic Capital in 2008.

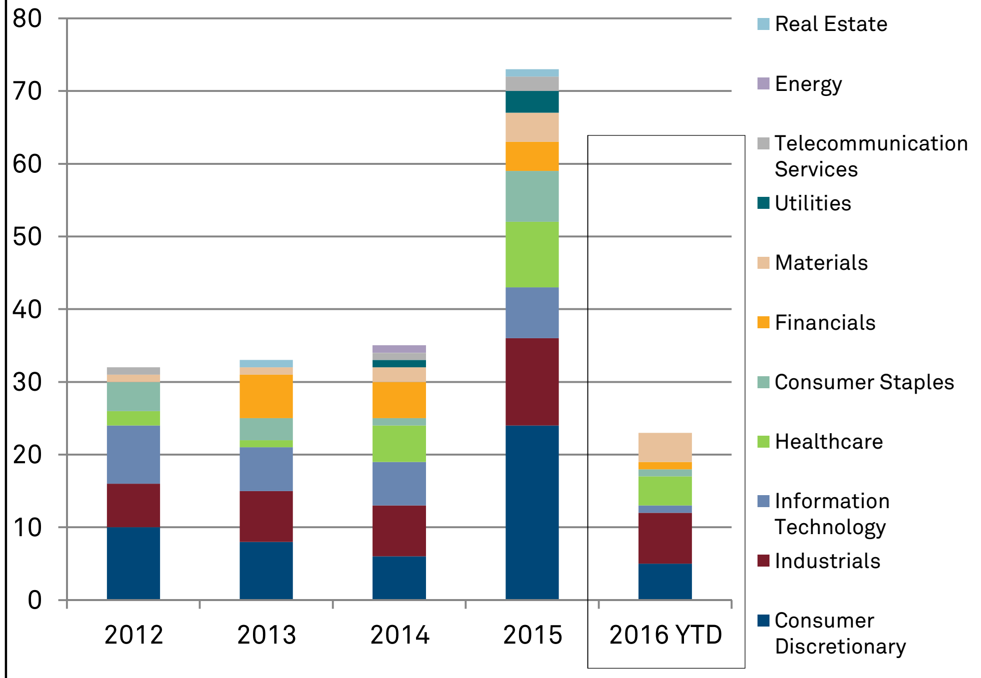
Trade Sales Lead the Way for Large-cap Fund Exits

With 299 exits transactions made by UK-based billion dollar funds between 2006 and 2016, the country is significantly ahead of the EMEA region where exits transactions were down 55% over the same period. The aggregate value of UK billion dollar fund exits was €187.2bn with the highest number of exits in the Consumer Discretionary sector at 88 recorded exits, followed by the Industrials and Information Technology sectors with 60 and 35 exits respectively.

In contrast, EMEA fell behind the UK with only 136 exits transactions made by EMEA-based billion dollar funds over the period across all industries. This marked difference in volume may be a consequence of the more prolonged slowdown in the Eurozone following the credit crunch presenting less favorable exits opportunities for EMEA funds[23].

In fact the total aggregate value of these transactions was only of €50.1bn, with the highest number of exits found in the Consumer Discretionary sector with 37 exits followed by the Industrials and Healthcare sectors with 27 and 14 exits respectively.

Figure 13: Exit Trends of UK Billion $ Funds by Industry Sector: 2006-2016



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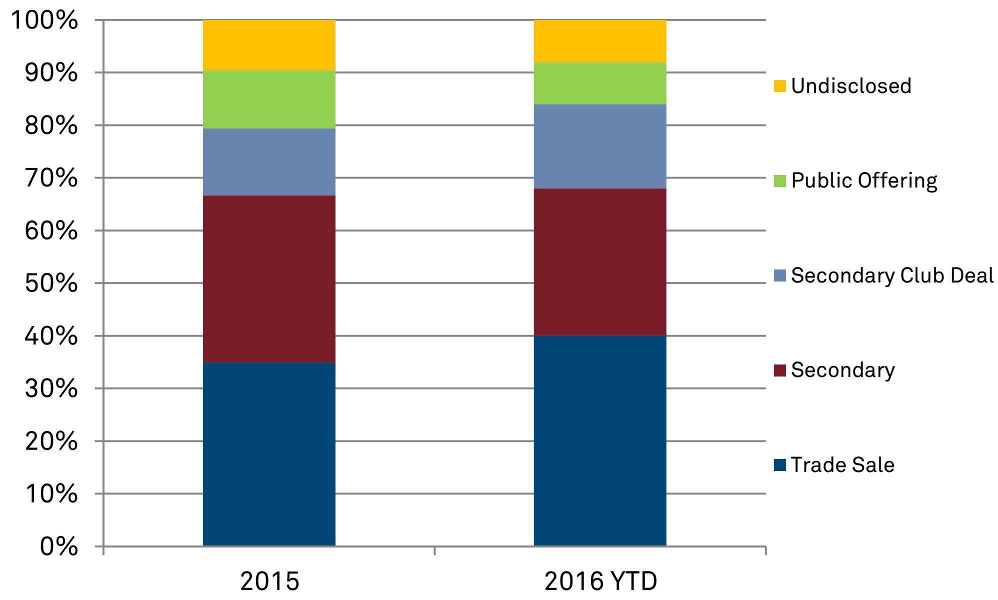
[23] As of Q2 2016 the UK's Real GDP grew by 11% compared to Q2 2011 while Eurozone's Real GDP experienced only a 4% increase showcasing a slower growth.

Focusing on the exit strategies used, our analysis of the most recent exits data (2015 and 2016YTD) indicated that trade sales were the most popular exit routes for UK billion dollar funds, representing 36 % of all exits by deal count and 48% by deal value (€21.1bn). This was followed by exits through single buyer secondary buyouts representing 30.7% of the total deal count but only 13.9% (€6.1bn) of aggregate value. Secondary 'club deals' were present at 13.6% of the deal count and 17.2% of deal value (€7.6bn). An interesting observation is that 16.7% of the secondary 'club deals' represent LPs participating as co-investors. Unsurprisingly exits through IPOs have not been popular over the last 18 months representing only 10.2% of completed exits (11.3% of deal value – €5bn) a direct consequence of the difficult IPO market and current equity market volatility.

Similar to UK funds the most popular exit route for EMEA based-funds were trade sales accounting for 44.9 % by deal count and 68.7% by deal value (€6.6bn) followed by secondary buyouts at (34.7 % of count and 21.9% of aggregate value (€2.1bn) between 2015 and 2016 YTD.

Figure 14: Exit Routes of UK Billion $ Funds: 2015 -2016



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UK Funds Global Players of Domestic Focus?

Our data suggests that although UK billion dollar funds are very active internationally (as would be expected from most large-cap funds), a third of their deals went into the domestic market targets (31.5% - €68.8bn) over the last decade, representing the largest single country allocation in our sample and indicating that the UK continued to present attractive investment propositions.

On the cross-border front, France and Italy were the joint second-most popular investment destinations at 8.3% of investment volume, ahead of the US at 8.1%. The rest of the Top 10 is completed by Germany (7.6 %), the Netherlands (3.9 %), Spain (3.9%), Sweden (3.4%), India (2.4%) and China (1.2%).

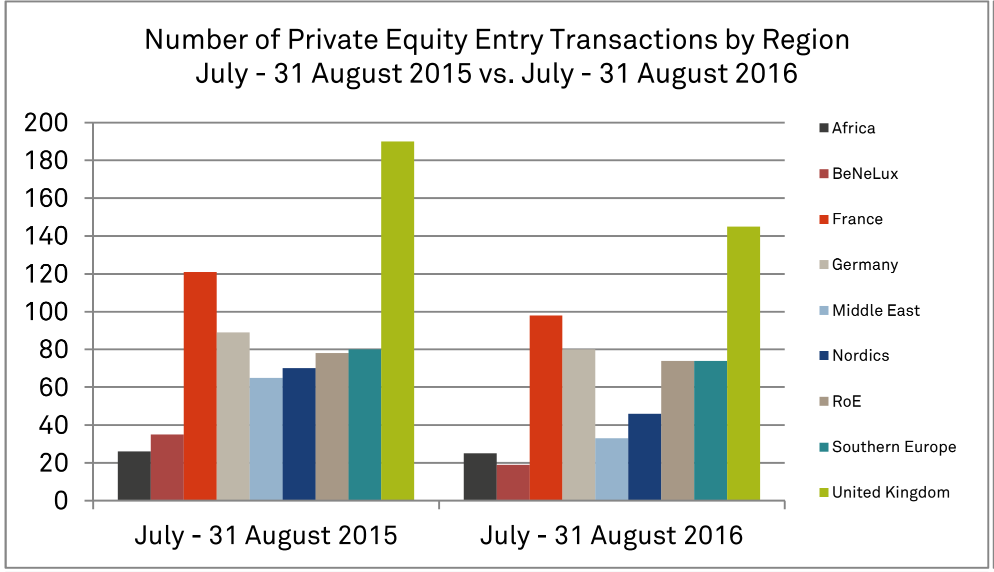
Related to this, we also observe that in terms of deal count UK funds were net sellers in a number of countries on an aggregate basis between 2006 and 2016YTD. In Luxembourg, Russia, Switzerland, Canada, Belgium, Germany and the Netherlands the exit transactions outpaced new investments by 133.3%, 100%, 100%, 50%, 16.7%, 6.4% and 6.2% respectively. Notably, Germany, a more volatile investment profile for the UK funds in our sample, moved from net-sellers pre-credit crunch to strong net buyers in the 2008-2011 period. However, finally returning to strong net sellers in the last two years.

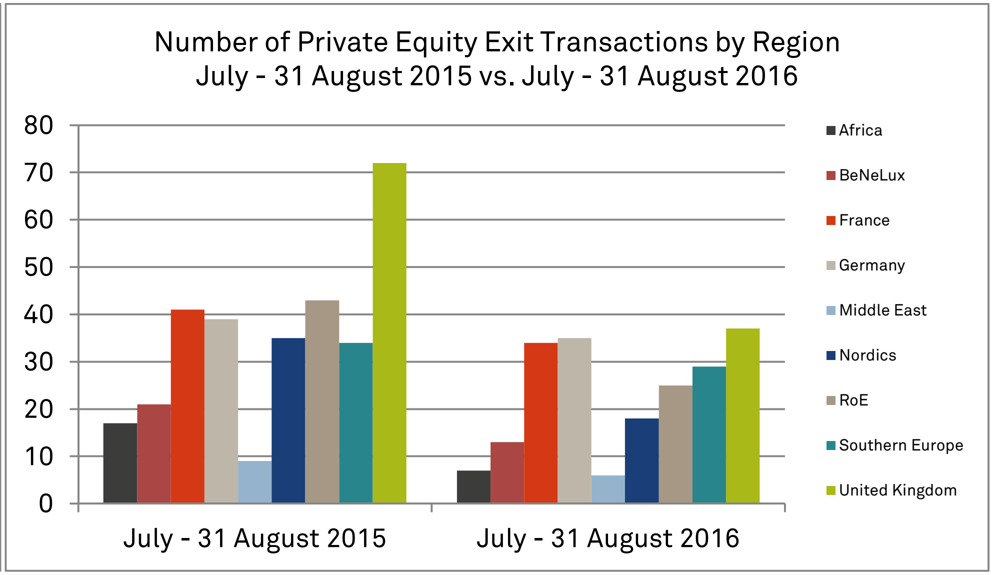
Interestingly, the funds in our sample are large net buyers in India with 10 times more investments than exit transaction made by UK-based billion dollar funds over the observed period; however we find that most investments were made in the early years (2006 and 2007) with little recent activity.

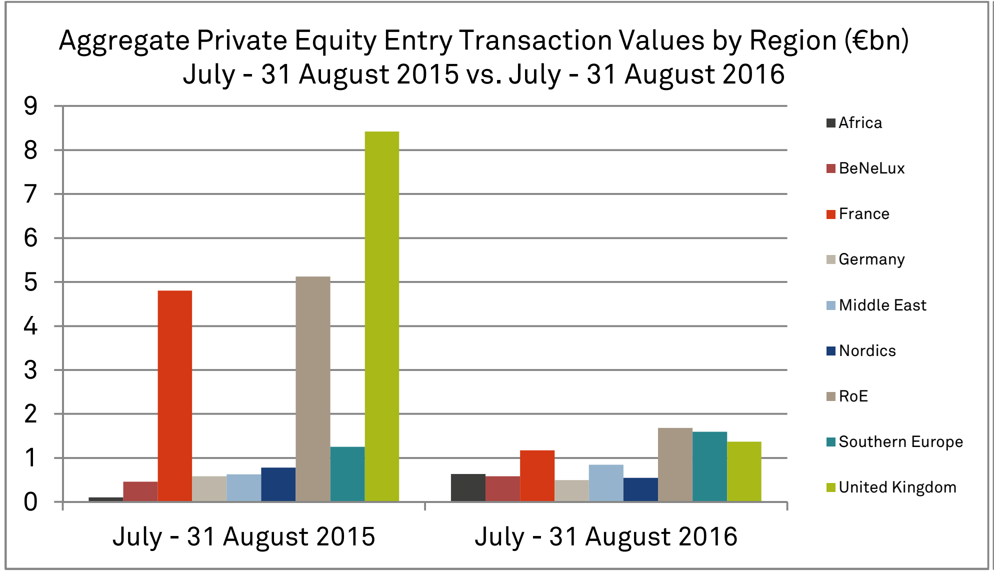
Large-cap Funds are Still Off Their Peak

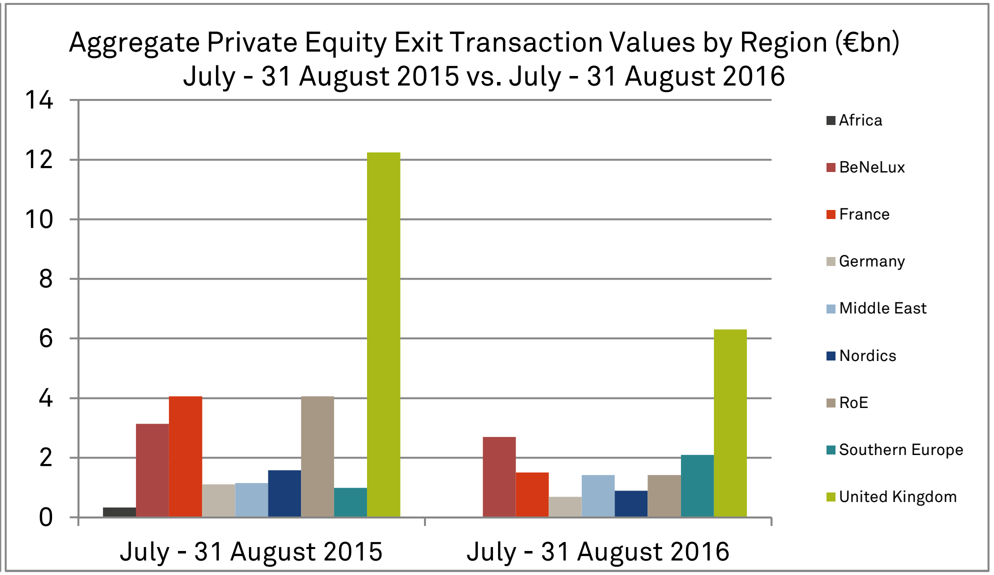
Overall in term of activity, the deal count from billion dollar funds has reached its pre-crisis levels after a significant drop during the credit crunch and the ensuing years. However total invested capital remains significantly below the all-time highs. Large-cap funds also represent a growing proportion of the global PE dry powder, and our data suggests that these mega-funds are struggling to deploy this capital effectively.

EMEA- Based Targets









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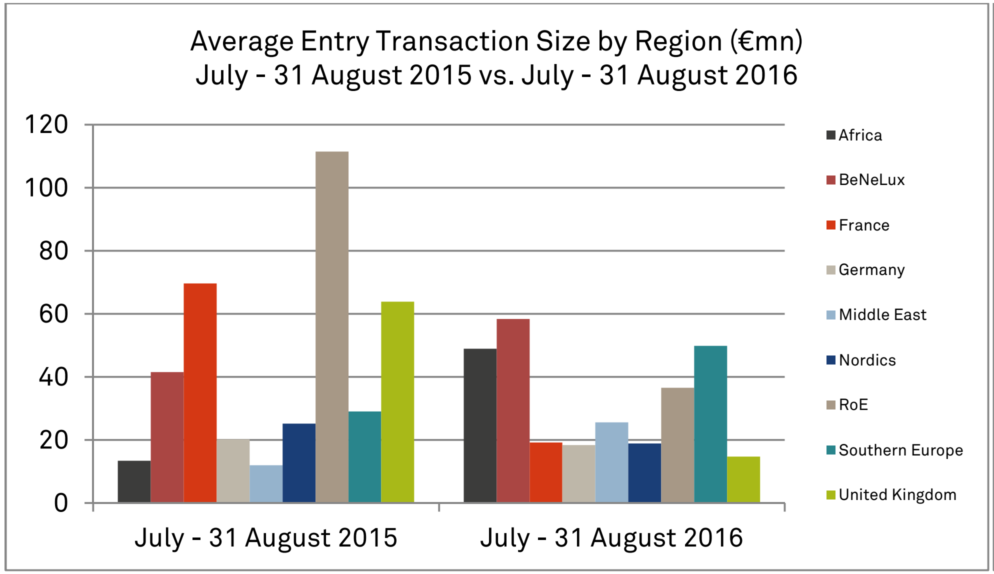

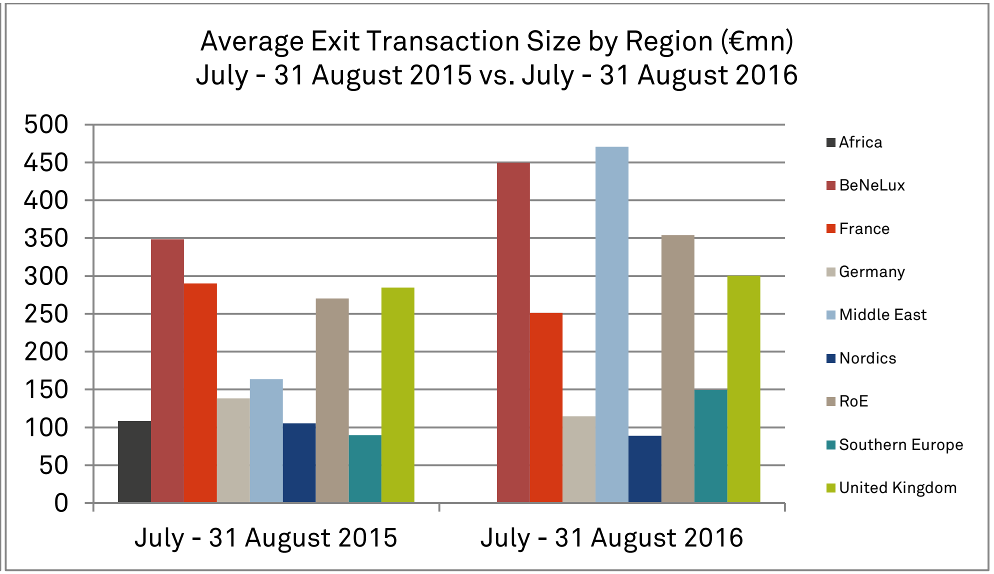

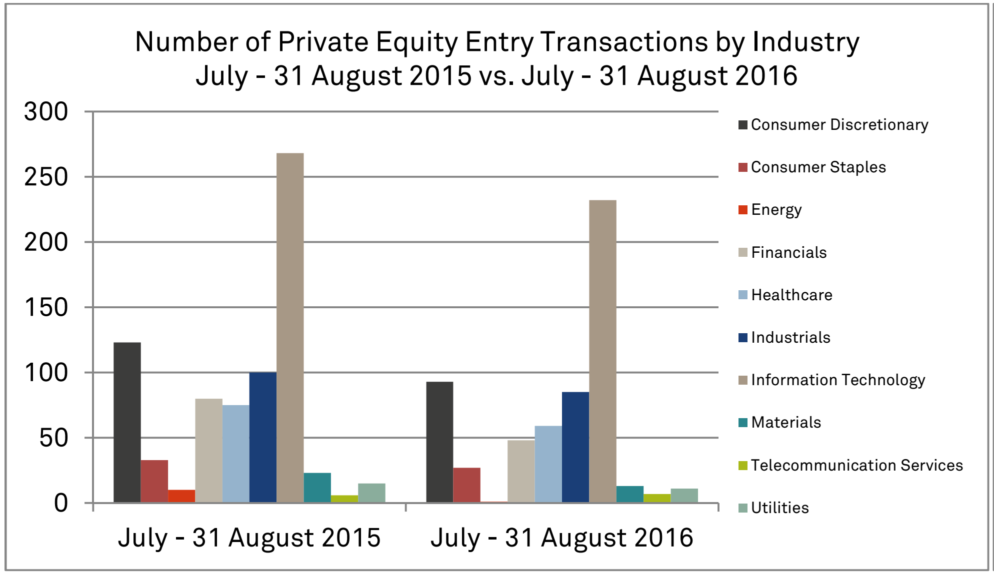

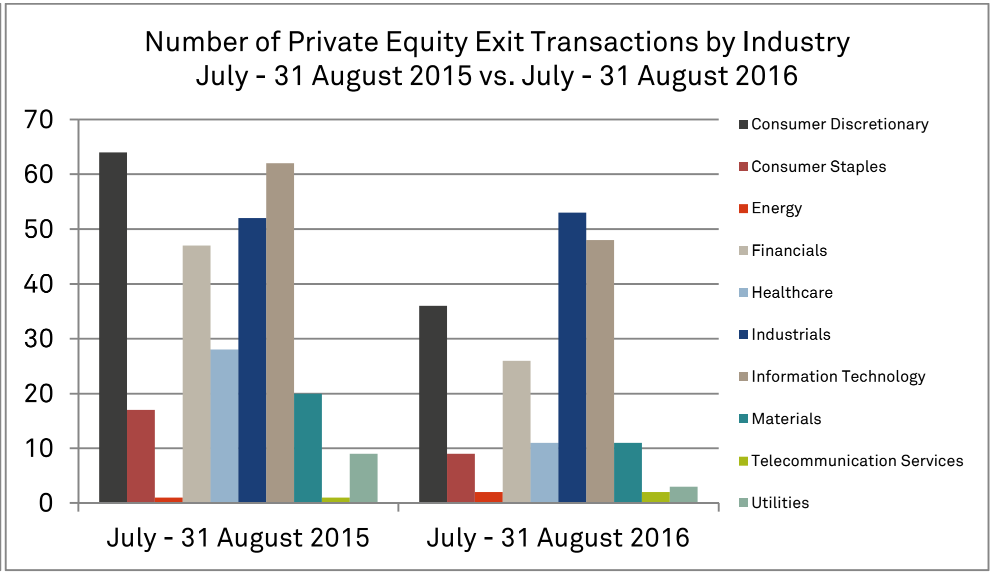

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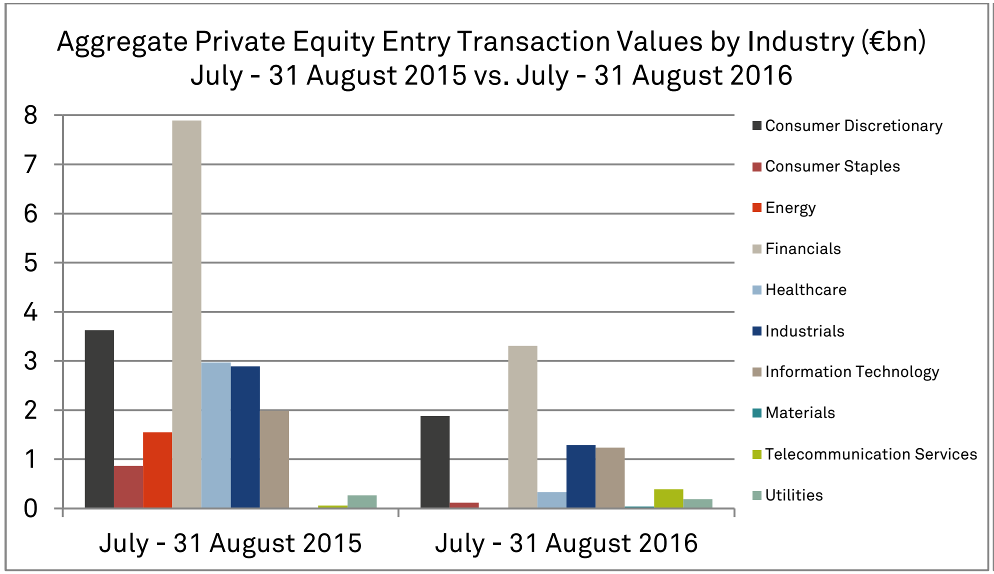

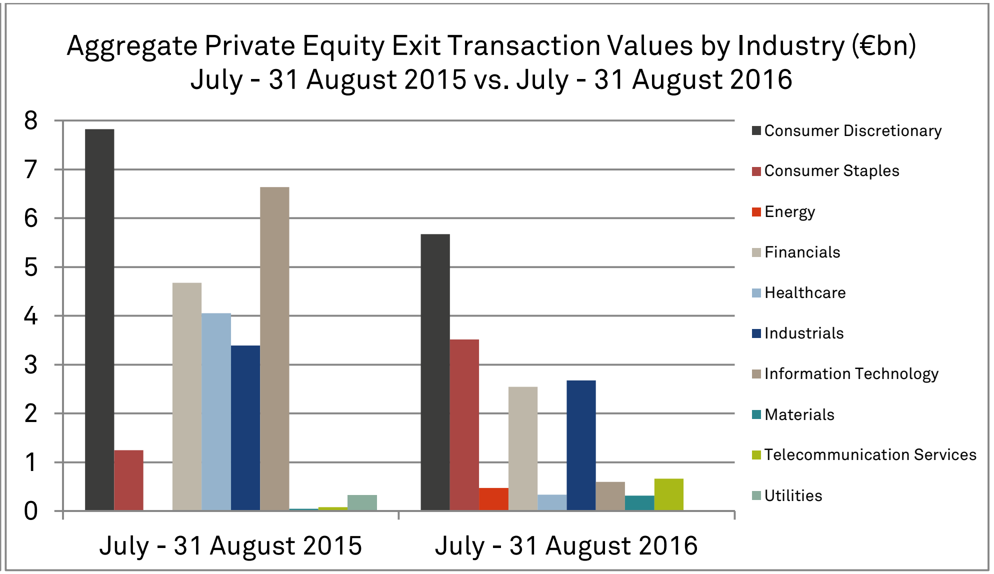

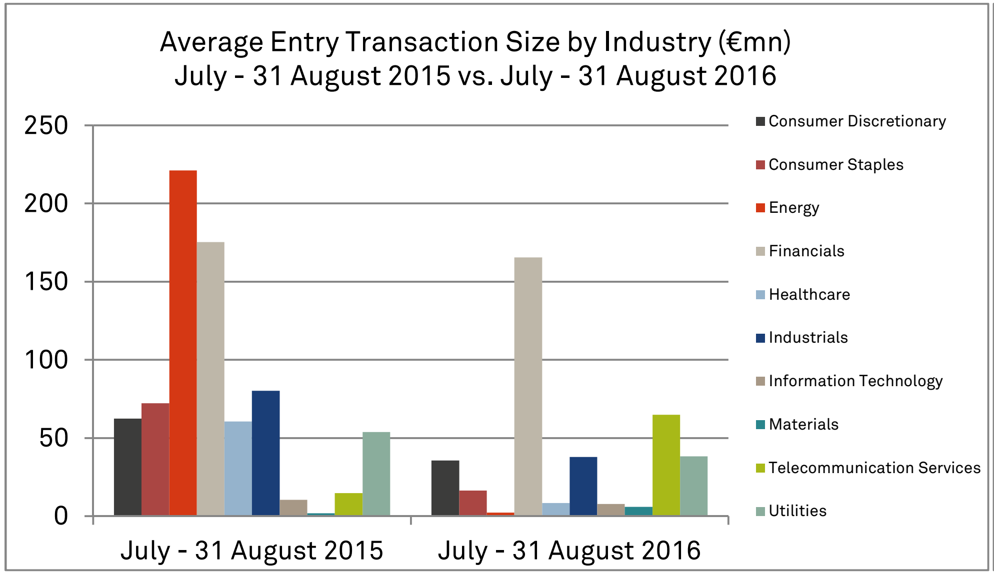

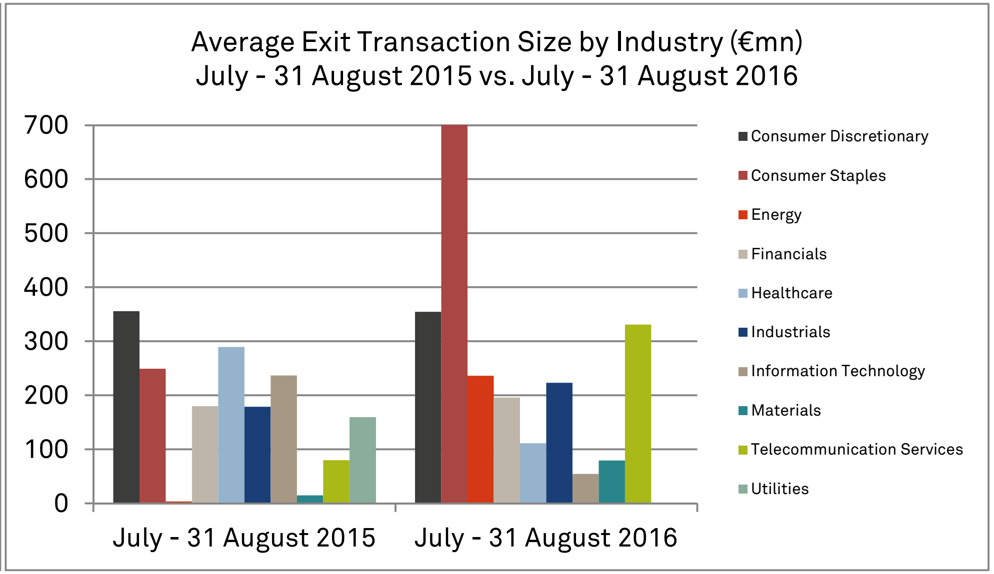

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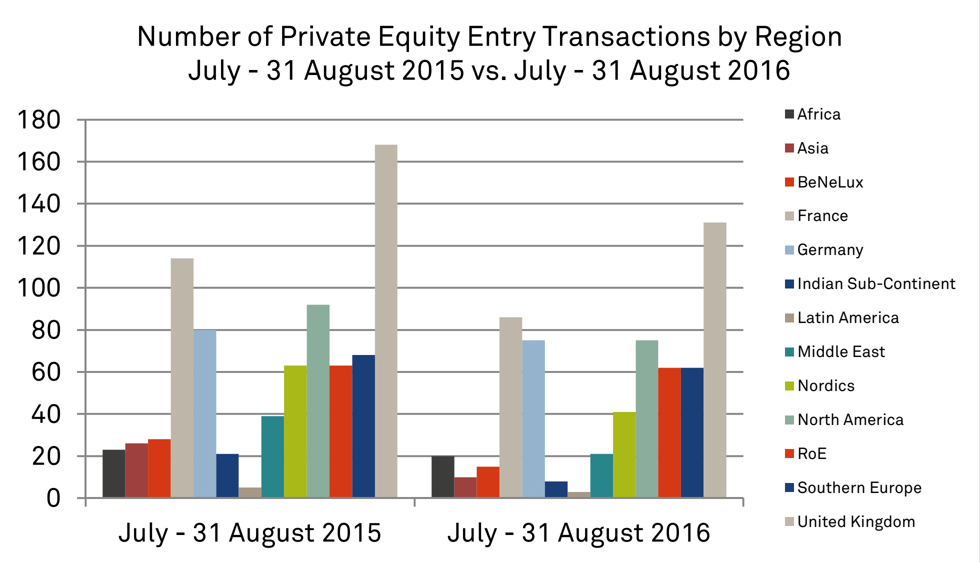
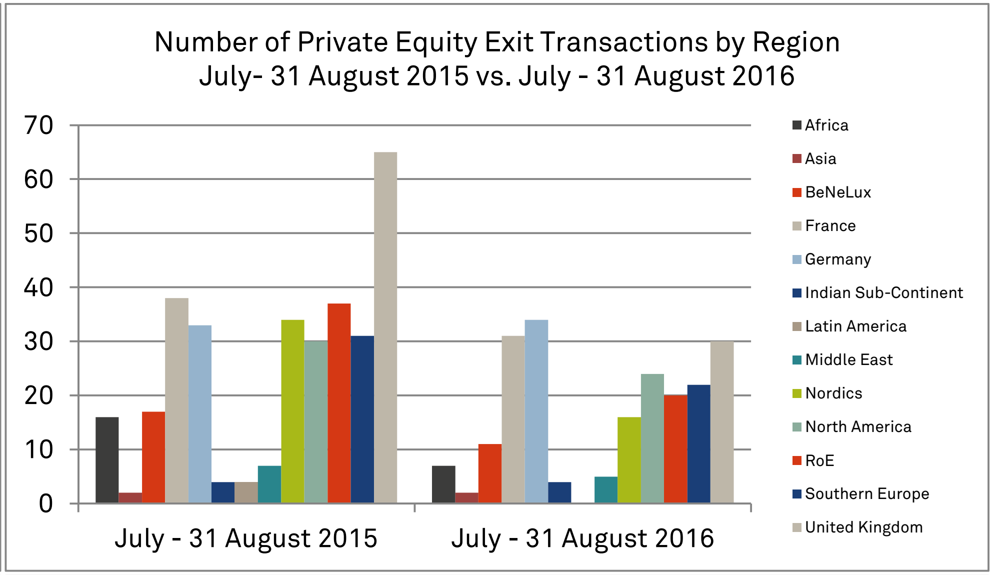
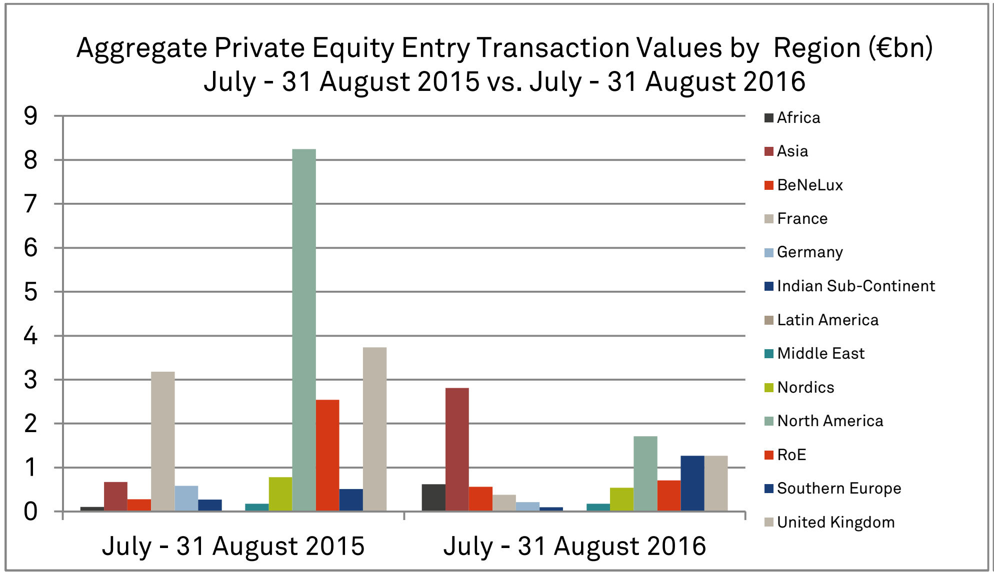
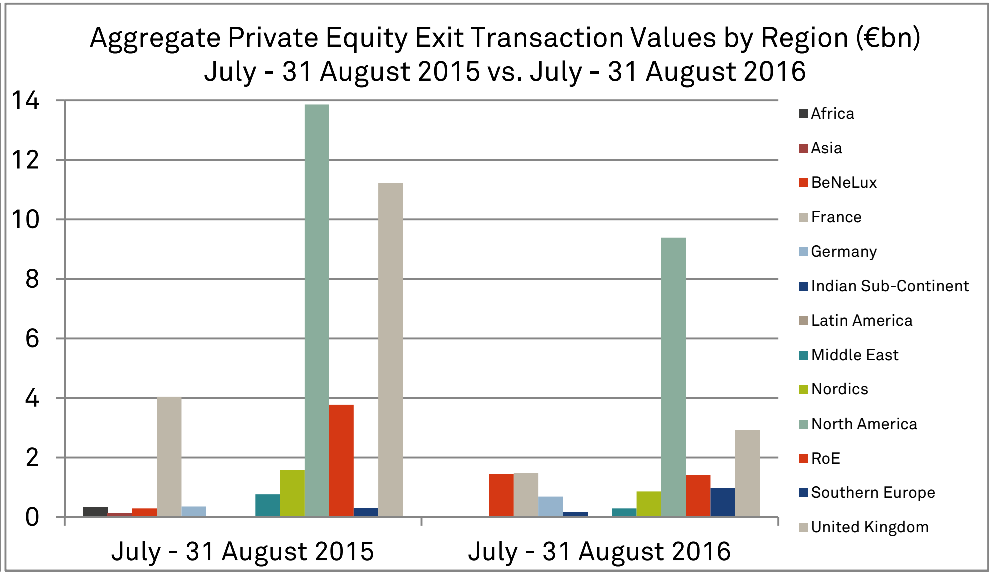
EMEA GPs









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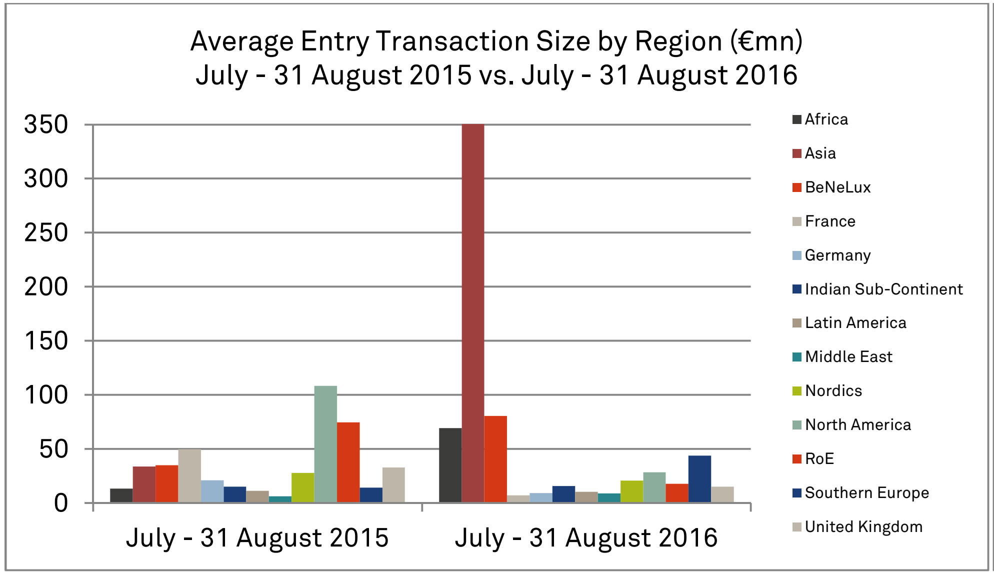

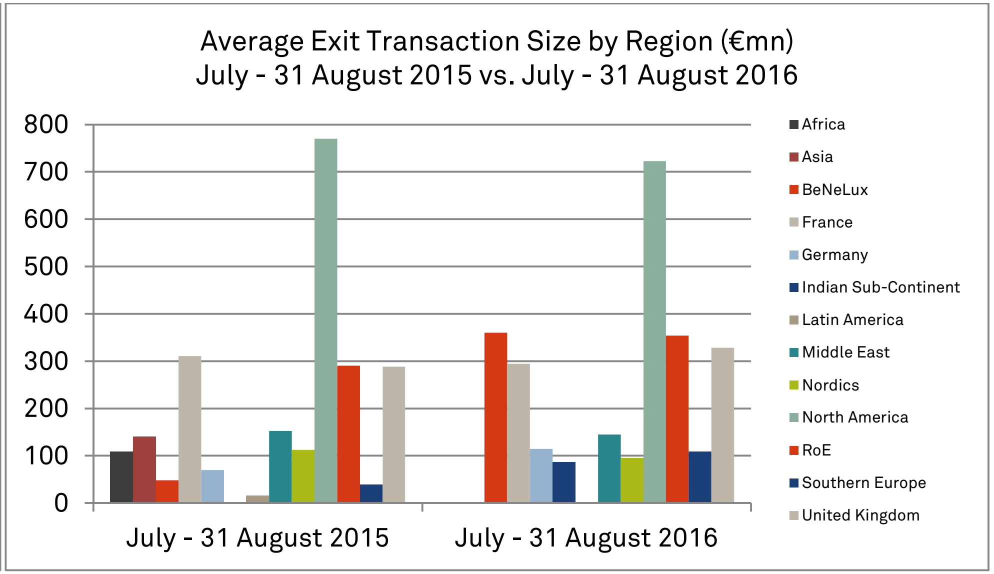

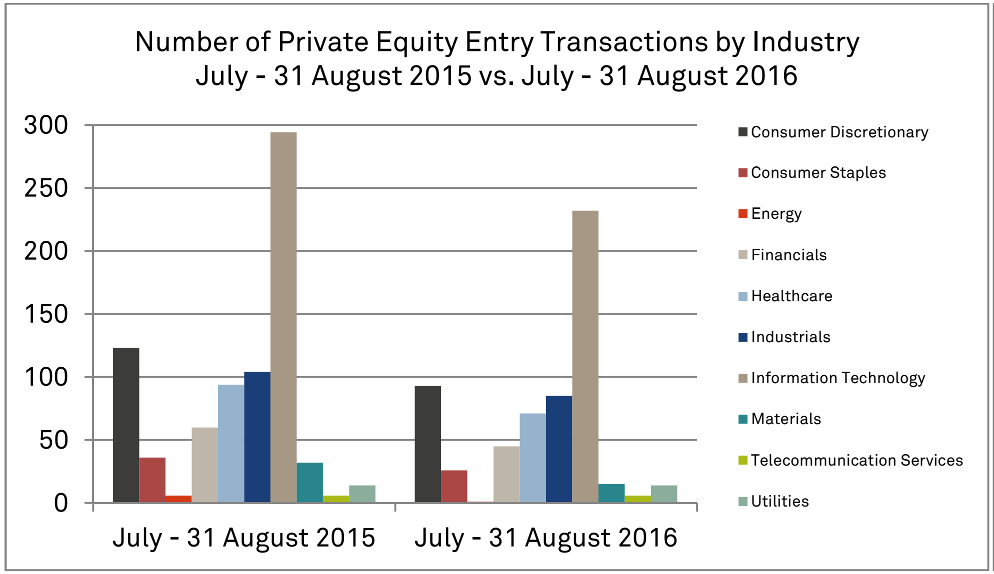

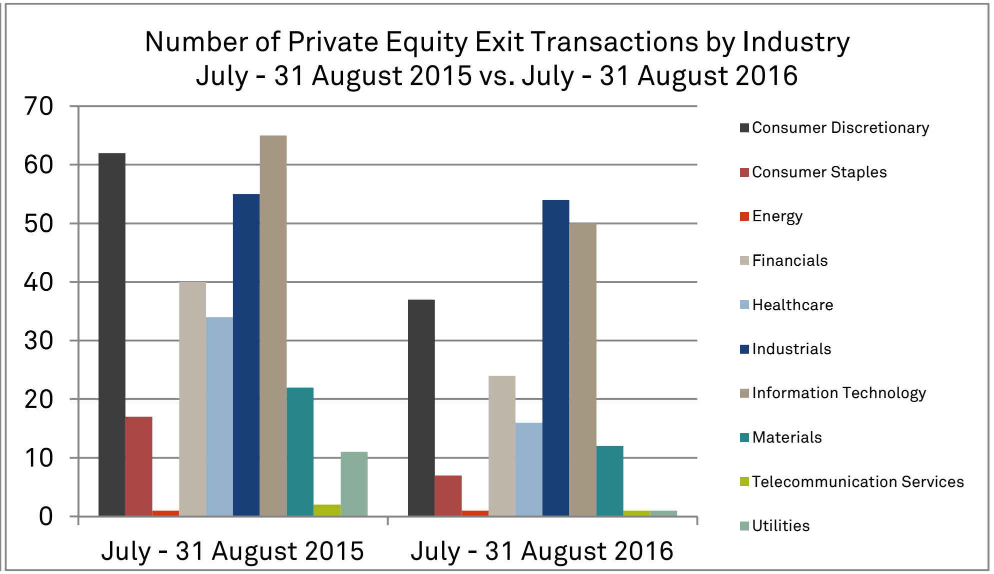

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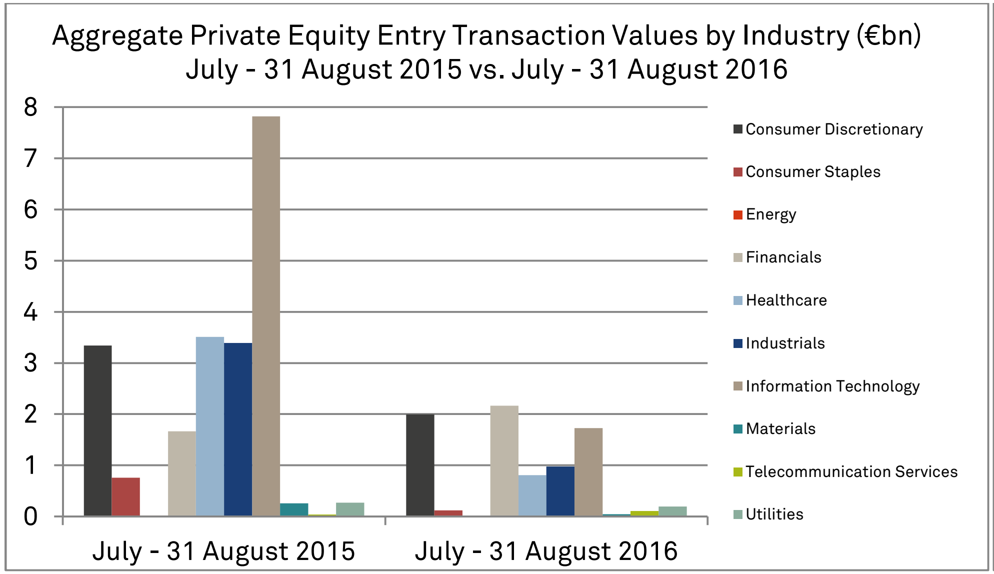

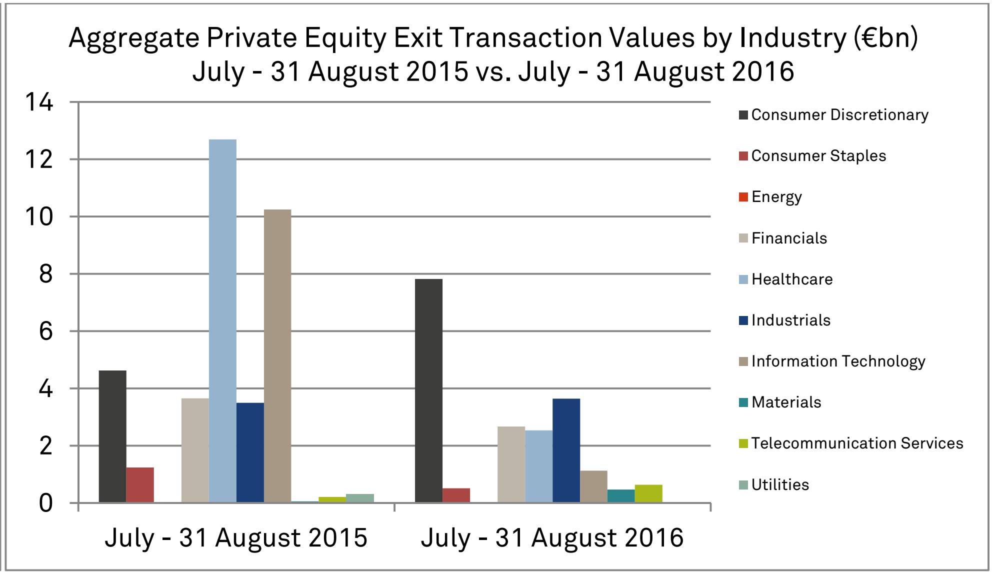

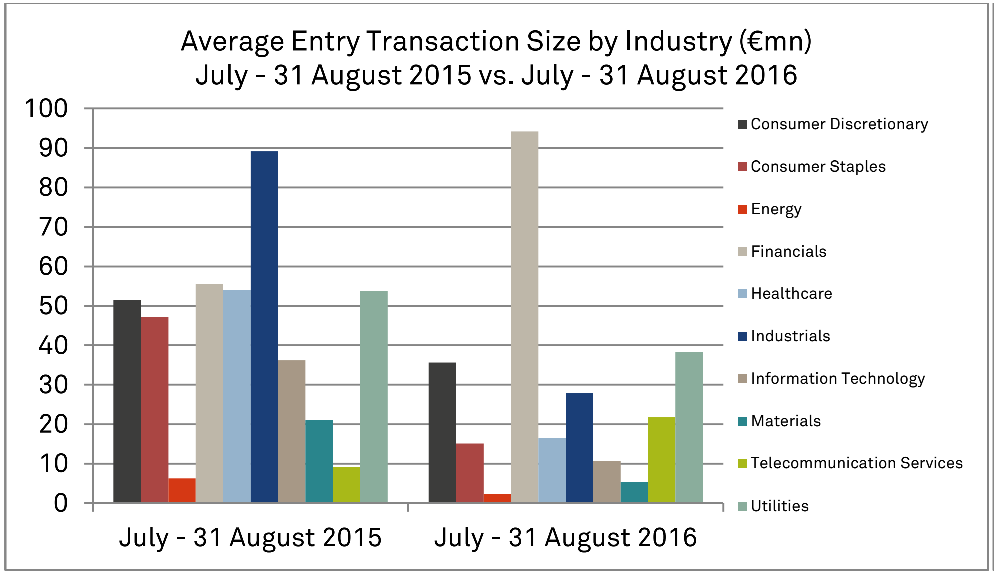

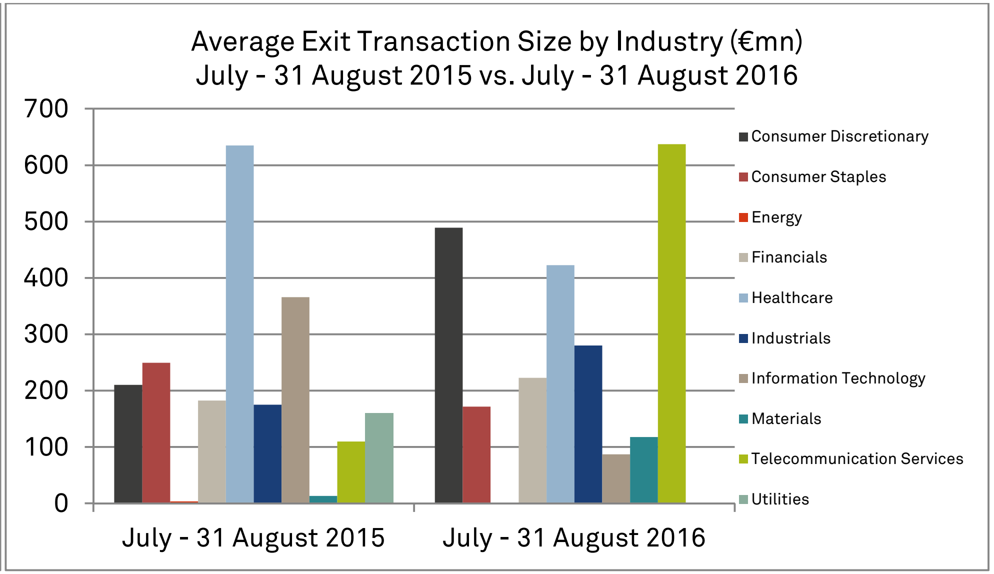

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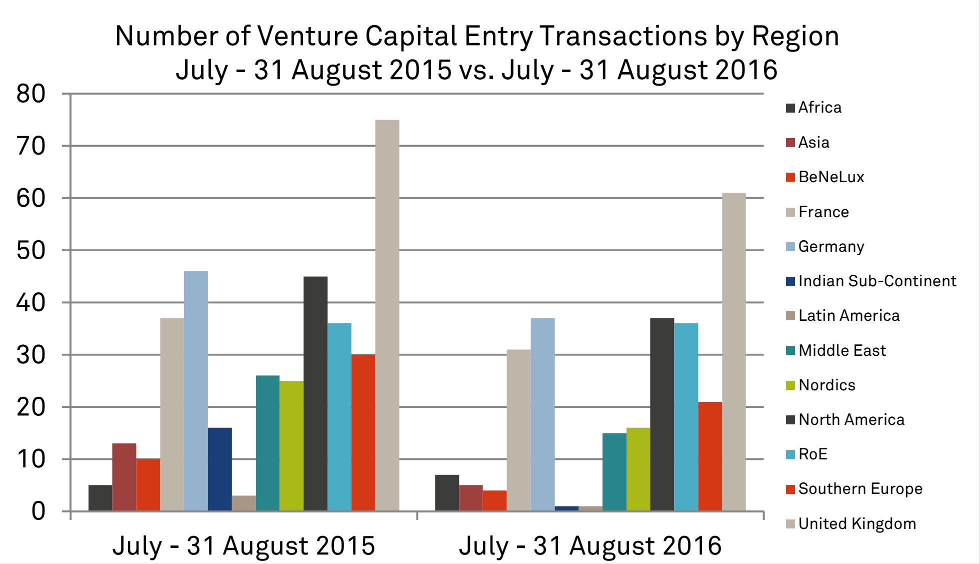
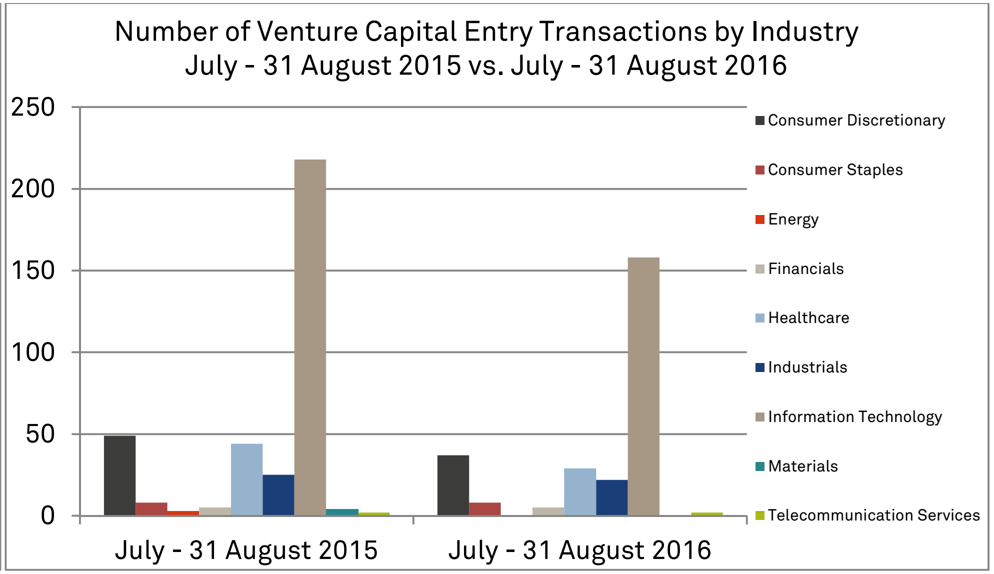
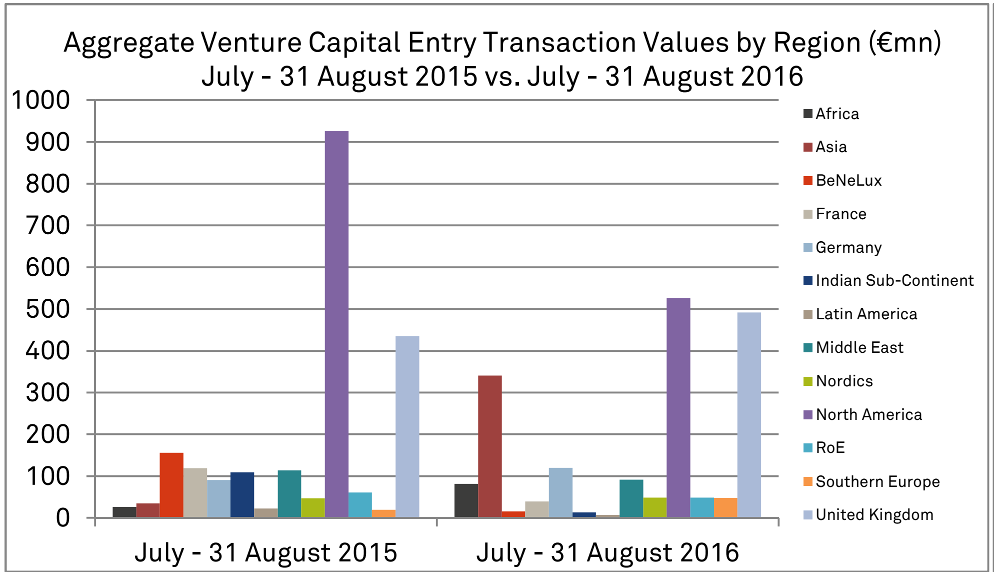
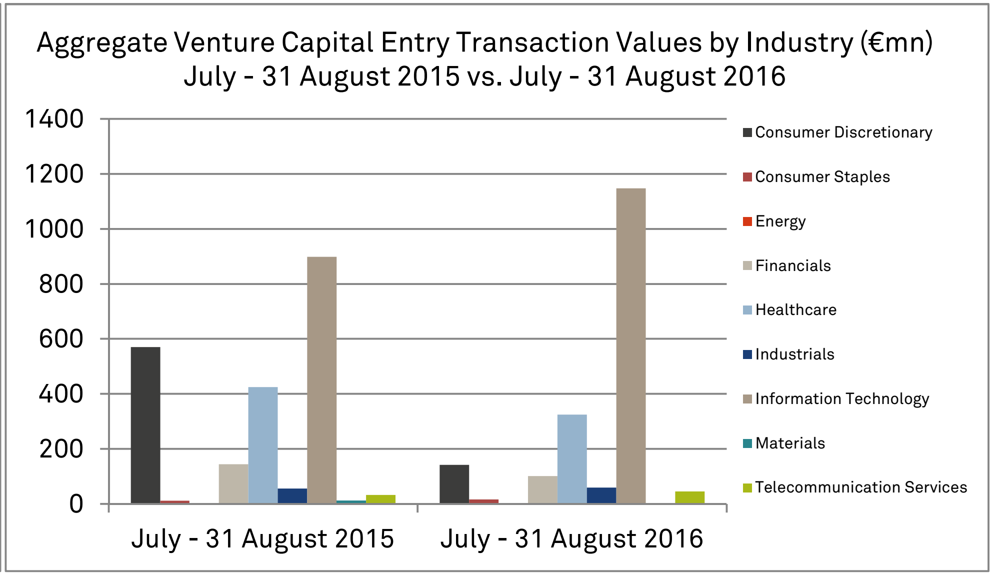
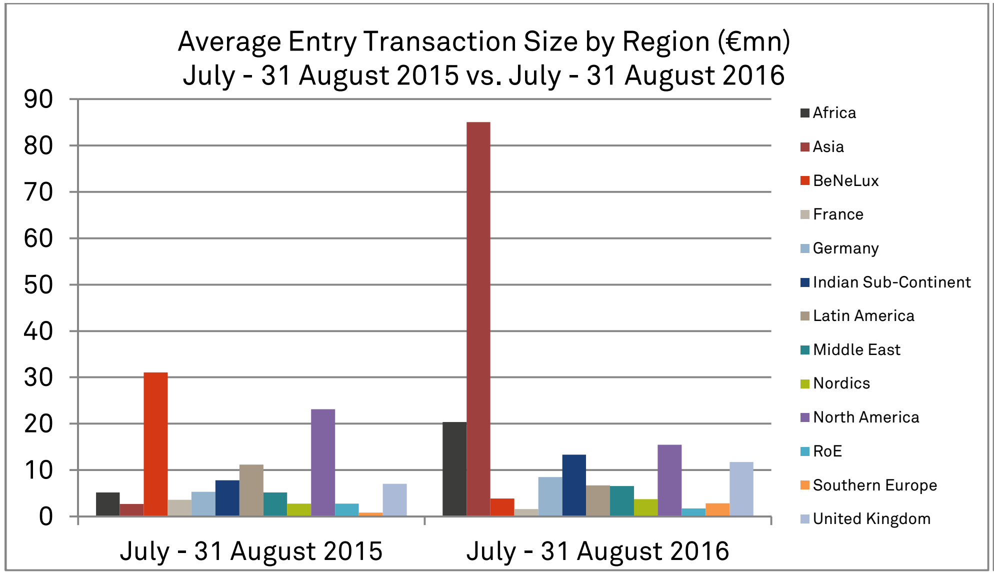
VC EMEA GPs

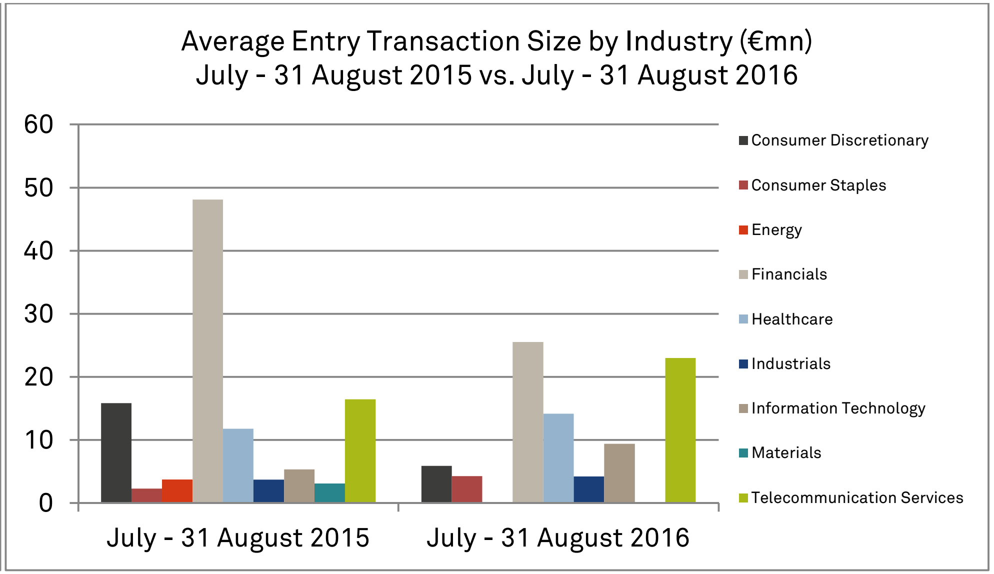




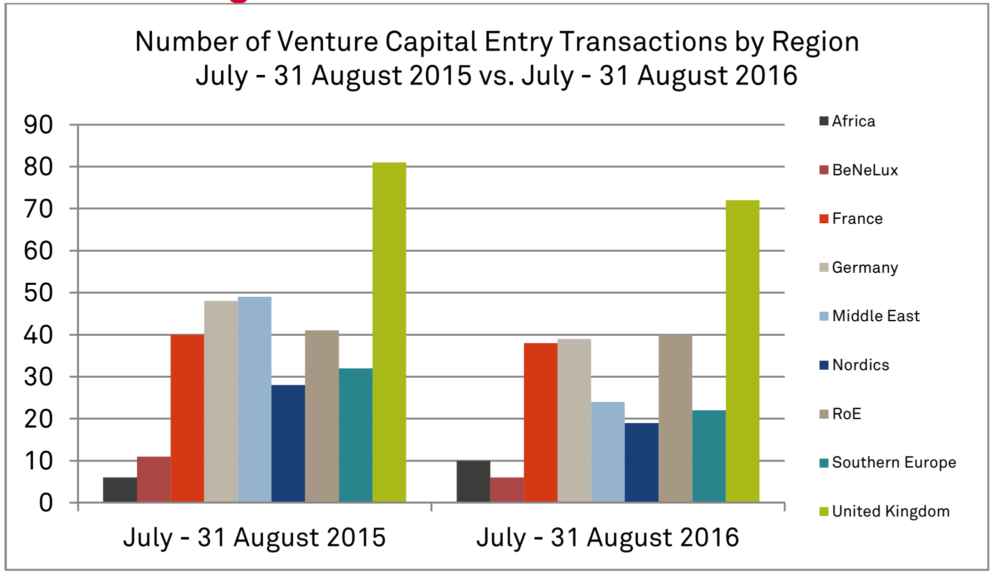


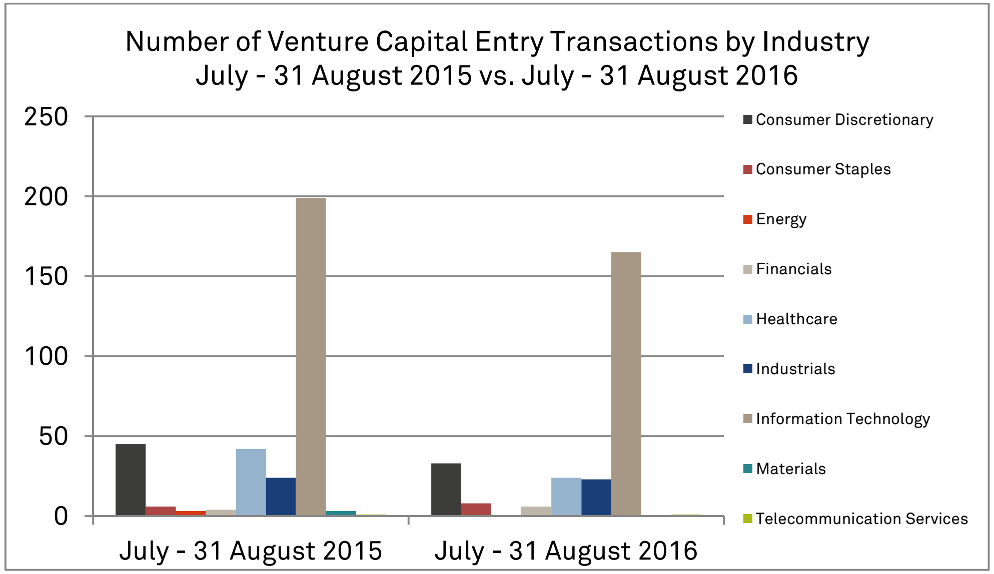






VC EMEA Targets





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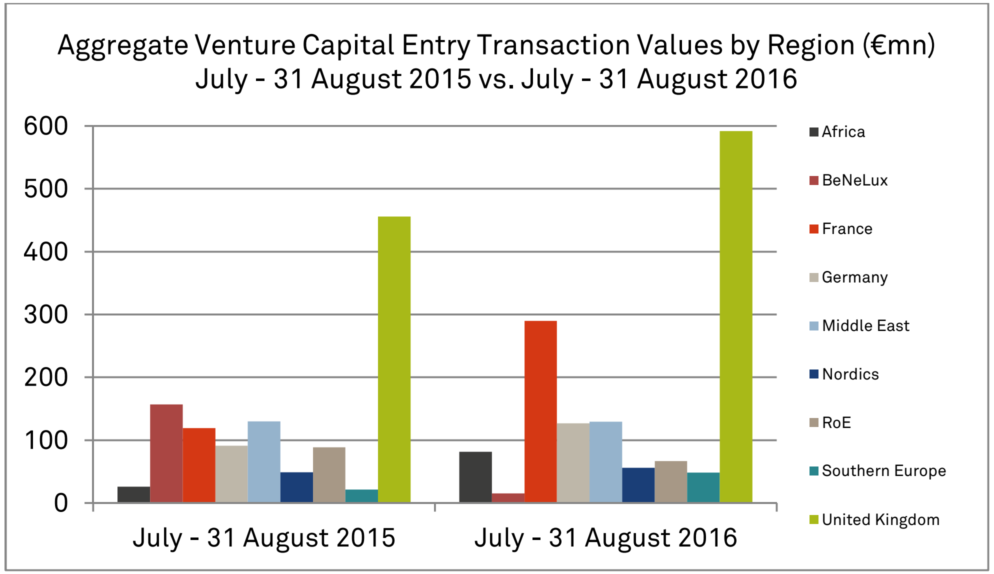

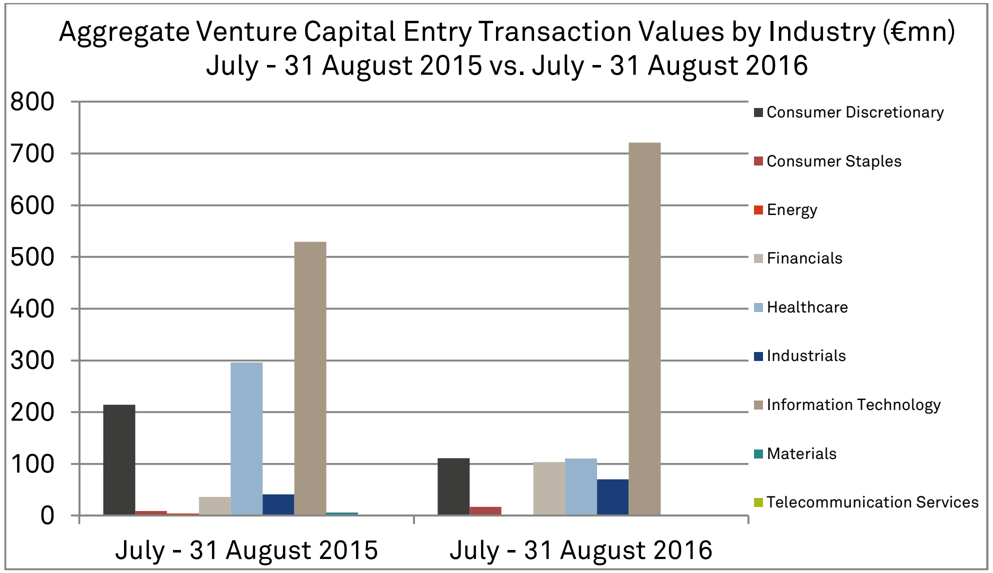

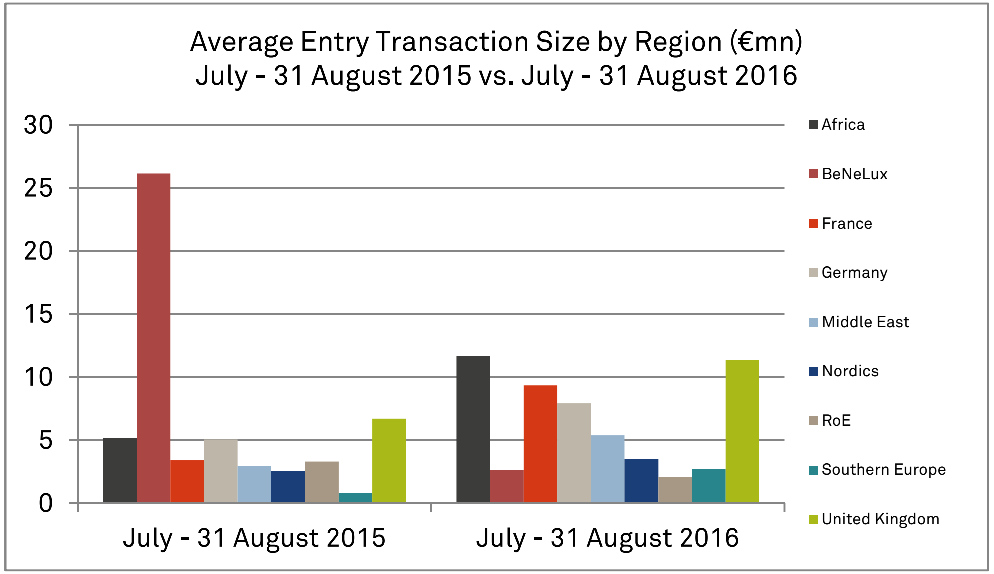

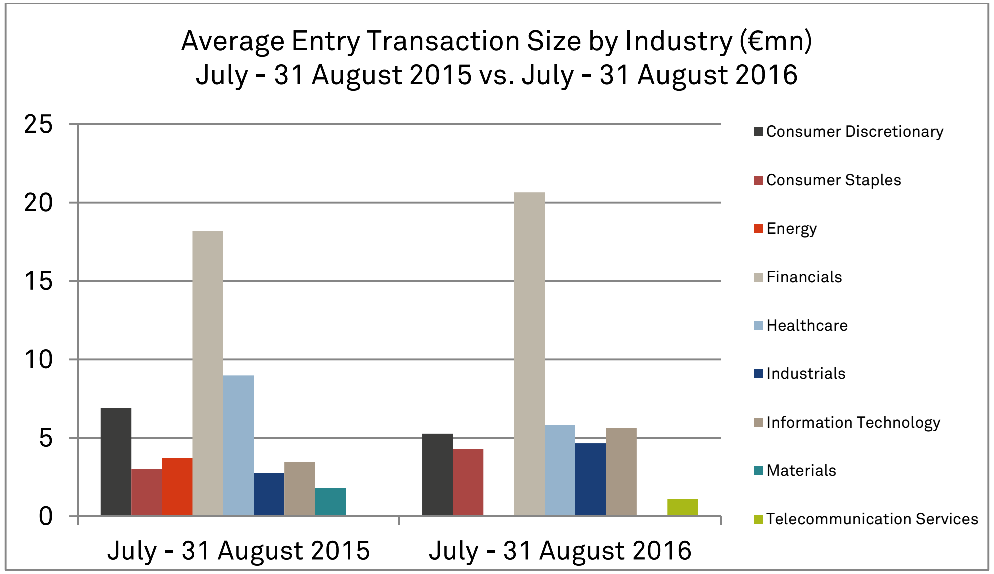

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Multiples Table

Implied Enterprise Value/EBITDA	EMEA Private Equity Exits: 1/09/2015 - 31/08/2016	M&A: 1/09/2015 - 31/08/2016
Consumer Discretionary	12.9	11.3
Consumer Staples	22.3	11.5
Energy	12.8	11.2
Financials	15.3	15.2
Healthcare	16.5	13.3
Industrials	11.4	10.3
Information Technology	14.0	12.1
Materials	10.9	7.1
Telecommunication Services	***8.4***	7.1
Utilities	12.7	10.0

Implied Equity Value/LTM Net Income	EMEA Private Equity Exits: 1/09/2015 - 31/08/2016	M&A: 1/09/2015 - 31/08/2016
Consumer Discretionary	16.8	17.4
Consumer Staples	***17.5***	19.9
Energy	21.3	10.2
Financials	17.3	14.4
Healthcare	32.7	25.0
Industrials	21.2	16.1
Information Technology	16.3	15.4
Materials	24.5	13.2
Telecommunication Services	***23.0***	10.1
Utilities	18.1	13.1

*Multiples highlighted in bold & italics represent the sector average over a two year time horizon in order to provide a more comprehensive sector average

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Previous Issues

Issue 1, March 2014

- EMEA-Based Private Equity Market Settles into a New Normal Post-Financial Crisis
- Information Technology Remains Attractive for PE and VC Firms

Issue 2, June 2014

- Healthy Start to 2014 for EMEA GPs, Despite April Hiccup
- Healthcare: Resilient or Overheating? We examine PE activity pre and post-financial crisis

Issue 3, September 2014

- Pressure from Strategic Buyers Slowing EMEA GPs' Pace of Investment in Q2
- Asia Capital Sun Rising over Europe: Asian PE investors show growing interest in EMEA-based targets

Issue 4, January 2015

- 2014: EMEA Still Attractive to Global Private Equity
- IT & Finance heat up - The IT sector attracted the most deals over the course of 2014, with 1701 investments worth €12bn of capital. €33.2bn was invested into the Financial sector in 2014, a 29% increase in deal volume compared to 2013
- Germany: Has the Mittelstand lost its quintessentially strong profile?

Issue 5, April 2015

- UK North-South Divide: Who is Benefitting from UK Private Equity Investments?
- Fall of Oil & Gas Prices: Potential PE Dealmaking Territory
- Private Equity: What's the Deal with Tax Havens?

Issue 6, July 2015

- European Leveraged Lending: How are PE Firms Taking Advantage of Conditions in the European Leveraged Finance Market?
- Consumer Confidence Conundrum – EMEA PE Skeptical about Consumer Confidence Outlook?
- Middle East Sovereign Wealth Funds – Perfect Partners for Mega-Deals

Issue 7, September 2015

- Investment into EMEA Wanes as Regional Issues Accumulate
- Private Equity Shifts Focus Towards Internet Retailers
- Private Equity Exits: Secondaries and IPOs – Buffers and Bull Markets

Issue 8, February 2016

- EMEA Becomes Increasingly Attractive to Global GPs
- EMEA Healthcare Checkup
- The Rise of Cyber Power in Germany
- Have Buyout Holding Periods Reached their Peak?

Issue 9, April 2016

- 2016: Slow Start for EMEA Entries but Exits Skyrocketing
- France: La Belle Vie for Private Equity
- Spanner in the Works for Industrials
- Will Private Equity Push through High-Yield Bond Market Volatility?

Issue 10, July 2016

- Is Investment into EMEA Running Out of Steam?
- Sweden: Still ahead in the Nordic Private Equity Market?
- IT in EMEA Losing Ground to the U.S. and Asia
- Private Equity Sponsors Tap Powerful Direct-Lenders in Bid to Raise Larger Unitranches

For More Information

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