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EMEA Private Equity Market Snapshot

Essential tools for strategic decisions

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- Capital Invested Into UK and Southern Europe Goes Downhill
- Latin America (LatAm) Struggles to Attract the EU General Partners (GPs)
- Private Equity (PE) Investments into Retail – 10 years Post Financial Crisis
- Outlook for 2019 from a PE Point of View

Welcome to the 20th issue of the **EMEA Private Equity Market Snapshot (EMEA PEMS)**, a quarterly publication focusing on the PE market in Europe, the Middle East and Africa (EMEA) from S&P Global Market Intelligence.

This issue begins by looking at the decline in the number of completed deals in EMEA from Q4 2017 to Q4 2018, accompanied by a double-digit decline in capital deployed. Challenges were evident in the UK and Southern Europe, in particular, although the UK had the highest number of closed deals in the region, underscoring the small size of investments.

LatAm is then featured, which has struggled to attract significant levels of PE capital from European (EU) GPs, especially when compared to North America, the UK, and the rest of Europe. EU GPs have also consistently deployed capital into LatAm's lower mid-market (€0mn - €50mn), with all but one deal falling here in 2018. A country shift is anticipated for 2019 as well, with increased upside potential in Brazil and growing downside risks in Mexico.

We then look at the Retail sector 10 years after the financial crisis. GP investments in both EMEA and North American targets have slowed, with a slight shift in focus towards the APAC region. A turbulent past three years in EU Retail has impacted traditional brick-and-mortar targets, as well as Internet Retail. The current political and macroeconomic environment in Europe, particularly in the UK, is forcing GPs to cautiously select and time both their investments and exits.

Once again we have conducted a survey of PE professionals to gauge industry expectations for the upcoming 12 months, and the findings are discussed in the final section of this report. In contrast to 2017, sentiment has reached an inflection point, and professionals are prepared for a more challenging investment climate in 2019. The risks are unique to each region, but a cloudy backdrop is a concern for investors. The need to pivot strategies and address risks is apparent in how respondents are expected to conduct themselves in 2019.

We look forward to receiving feedback and suggestions on regions or sectors of interest for future analysis. To subscribe or comment on the complimentary EMEA PEMS, email **market.intelligence@spglobal.com**.

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Capital Invested Into UK and Southern Europe Goes Downhill

Global PE investments into EMEA throughout 2018 were characterized by a fewer number of completed deals, accompanied by a double-digit decline in capital deployed. Notable mega deals in the last quarter of 2018[1] significantly contributed to the build-up of aggregate capital deployed, as previously noted in Issue 18 of EMEA PEMS.[2]

Total capital deployed by global PE firms into the region dropped by 30% to €29.8bn in Q4 2018 versus €42.3bn in Q4 2017. However, the number of new deals only fell by a small margin (6%) to 1,248 in Q4 2018 from 1,329 in Q4 2017, indicating that the size of investments declined. The average entry deal size dipped from €55.2mn to €40.2mn over the same period, further reaffirming prevalence of smaller-sized deals in 2018.

€29.8bn
PE capital deployed in EMEA
▲▼30%

In terms of capital allocation, Benelux initially led the pack, attracting the biggest share[3] of new capital deployed, with 70 new deals totalling €11.8bn. However, 86% of its aggregate transaction value was attributable to a single deal and the largest of the quarter: The Carlyle Group L.P. acquisition of Nouryon from Azko Nobel N.V. for €10.1bn.[4] After removing the Benelux outlier, France replaced UK in the top spot,[5] attracting €5.2bn in new deployments across 211 deals. Four deals involving French-based targets[6] placed in the top ten largest deals of the period.

The overall slowdown in global PE activity within the EMEA region was primarily felt by the UK and Southern Europe, as these regions experienced the largest decline in aggregate capital deployed. Despite having the highest number of closed deals,[7] the UK only attracted €4.4bn new investments in Q4 2018, a 53% decline compared to the same period the previous year. Southern Europe-based targets registered a sharp drop of 95%, attracting only €0.4bn in Q4 2018 from a record high of €6.4bn in Q4 2017, where the majority of new money invested was attributable to three large deals.[8]

€40.2mn
Average entry deal size in EMEA
▲▼27%

[1] Entry investments into EMEA-based targets in the €1bn+ plus bracket: Nouryon, Zentiva Group, a.s., WFS Global SAS, Bharti Airtel Africa B.V., IMERYS TC, and HSH Nordbank AG.

[2] PEMS Issue 18 (2018, July). S&P Global Market Intelligence. Retrieved from https://www.spglobal.com/marketintelligence/en/news-insights/research/emea-private-equity-market-snapshot-issue-18

[3] Benelux represented 40% of the €29.8bn total capital invested in EMEA.

[4] The acquisition of Nouryon N.V. by The Carlyle Group. (As of 2018, December 31). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=557341846&companyId=557341498

[5] PEMS Issue 17 (2018, April). S&P Global Market Intelligence. Retrieved from https://www.spglobal.com/marketintelligence/en/news-insights/research/emea-private-equity-market-snapshot-issue-17; Issue 18 (2018, July). S&P Global Market Intelligence. Retrieved from https://www.spglobal.com/marketintelligence/en/news-insights/research/emea-private-equity-market-snapshot-issue-18; Issue 19 (2018, October). S&P Global Market Intelligence. Retrieved from https://www.spglobal.com/marketintelligence/en/news-insights/research/emea-private-equity-market-snapshot-issue-19

[6] French-based targets: WFS Global SAS, IMERYS TC, Dunkerque LNG SAS and Albingia SA.

[7] The number of new deals in UK reached 279 in Q4 2018 versus 303 in Q4 2017, a 7% decline, S&P Global Market Intelligence.

[8] High-value transactions in Q4 2017 involving Southern Europe targets: Allfunds Bank S.A. for €1.8bn, Novo Banco, S.A. for €1bn, and Telxius Telecom S.A. for €0.8bn, S&P Global Market Intelligence.

On a sector basis, after removing the Nouryon acquisition for €10.1bn within Materials, Information Technology (IT) again emerged as the biggest winner. The IT sector amassed €3.4bn of new capital from global GPs across 424 deals, the highest deal volume among the sectors,[9] closely followed by Industrials with €3.0bn across 160 deals. The IT sector continued to be predominantly funded through private placements as opposed to pure buyouts, which was previously highlighted in Issue 19 of PEMS.[10]

€29.8bn
total exit capital in EMEA
▲▼47%

Global PE divesture activity also showed a decline, with total capital realised from EMEA-based targets falling to €29.8bn[11] in Q4 2018, a 47% drop from €54.5bn in the same period last year. At the same time, the number of exit deals fell by 40% to 262 deals in Q4 2018 from 434 in Q4 2017.

EMEA GPs' Eyeing North America

EMEA GPs' global capital deployment experienced a more moderate fall compared to their foreign counterparts, as capital allocated slid by 5% from €30.3bn in Q4 2017 to €28.8bn in Q4 2018. The number of new deals also saw a 4% reduction, from 1,390 in Q4 2017 to 1,346 in Q4 2018.

From a capital allocation perspective, cross-border targets[12] won the majority (61%) of EMEA GP investments in Q4 2018. Of the €28.8bn in new capital deployed, €17.5bn went to cross-border targets across 257 deals. Despite leading in the number of new deals completed at 1,089, EMEA-based targets received only €11.3bn of new capital, a 22% drop compared to the same period in 2017.

€28.8bn
total capital deployed from EMEA-based GPs
▲▼5%

EMEA GPs invested heavily in North America, which amassed 44% of global capital deployed and secured 72% of new money deployed to cross-border targets. North American-based targets attracted €12.5bn in Q4 2018, a significant 81% jump compared to €6.9bn in the same period last year. At the same time, the number of new deals rose by 11%, ending the year with 198 new deals. It is worth noting that North America registered three of the top 10 largest deals[13] of the quarter.

€12.5bn
total capital deployed in North America from EMEA-based GP
▲▼81%

On a sector basis, EMEA GPs displayed a strong preference

[9] The number of new deals in the IT sector reached 424 in Q4 2018 versus 401 in Q4 2017, up by 6%, S&P Global Market Intelligence.

[10] PEMS 19 (2018, October). S&P Global Market Intelligence. Retrieved from https://www.spglobal.com/marketintelligence/en/news-insights/research/emea-private-equity-market-snapshot-issue-19

[11] After removing the outlier deal of €42.3bn to avoid overestimating a trend: Praxair, Inc. (nka:Linde plc) completed the acquisition of Linde Aktiengesellschaft from a group of shareholders in a merger of equals transaction in October 2018. S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=411562263&companyId=874425

[12] Cross-border targets include Asia, Indian Sub-continent, Latin America, and North America.

[13] North America-based targets: Acrisure, LLC (Financials sector), Mitel Networks Corporation (Information Technology), and Limetree Bay Terminals, LLC (Industrials sector).

within the IT sector, similar to their foreign peers. IT once again captured the largest amount of new capital at €8.4bn in Q4 2018. However, capital deployed in this sector registered a 27% drop. The average entry deal size for IT targets dipped from €37.0mn in Q4 2017 to €23.7mn in Q4 2018, despite a 7% increase in the number of new deals.

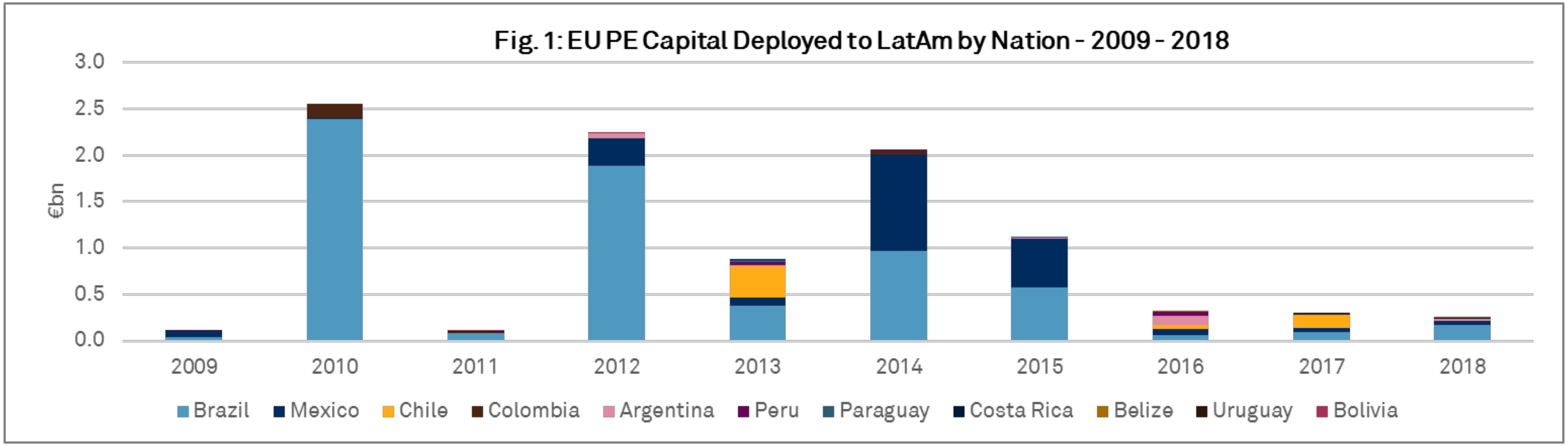
Divesture activity of EMEA GPs, on the other hand, significantly weakened, with total capital realised falling by 33% from €40.9bn in Q4 2017 to €27.5bn in Q4 2018. In addition, the number of deals plummeted by 40%, from 417 deals in Q4 2017 to only 250 deals in Q4 2018.

Looking closely into the venture capital (VC) world, investments exhibited a positive trend unlike the broader industry. Capital deployed by EMEA-based VCs rose by 13%, a total of €6.2bn in new capital across 723 deals. In addition, EMEA-based VC firms' contribution to overall capital deployment jumped to 22%, although global VC investments in EMEA targets only accounted for 10% of the region's aggregate transaction value. EMEA-based VC targets attracted slightly higher new investments from global buyers, standing at €3.0bn in Q4 2018 compared to €2.9bn in the same period the previous year.

LatAm Struggles to Attract the EU GPs

As a targeted region, LatAm has struggled to attract significant levels of PE capital from EU GPs, with a total of €9.9bn across 368 deals from January 1, 2009 to December 31, 2018. Put into context, this amounts to only a 1% share of aggregate capital deployed by EU GPs from January 1, 2009 to December 31, 2018. This marks a significant difference when compared to the most favoured regions of North America, the UK, and the rest of Europe, which captured 20%, 16%, and 11%, respectively. From a deal size, EU GPs have maintained a consistent bias towards deploying their capital into the LatAm lower mid-market deal size range (€0mn - €50mn), with all but one deal falling here in 2018.

From January 1, 2009 to December 31, 2018 EU GP's increased capital deployed into LatAm by a compound annual growth rate of 8%, declines have been observed year-over-year since 2014, falling to €250.9mn in 2018. Globally, however, this downward trend has been bucked, as this period exhibited volatility – polarized by 2017 marking a 149% year-over-year increase. 2018, however, was consistent in capital deployed contracting globally as well as from EU GPs, falling 30% and 14%, respectively. This synchronised contraction was likely caused by 2018 being a year of heightened political and economic uncertainty across the heavyweight LatAm economies of Brazil, Mexico, and Colombia, all three of which faced presidential elections and political uncertainty. With a combined GDP of $3,405.2bn, these three nations represent 65% of LatAm's total GDP. The dynamic is only amplified when looking at EU capital deployed into these nations that, in total, attracted 91% of total EU GP capital deployed from January 1, 2009 to December 31, 2018.



For illustrative purposes only. S&P Global Market Intelligence as of 31/12/2018

Shifts in LatAm's Balance of Risks

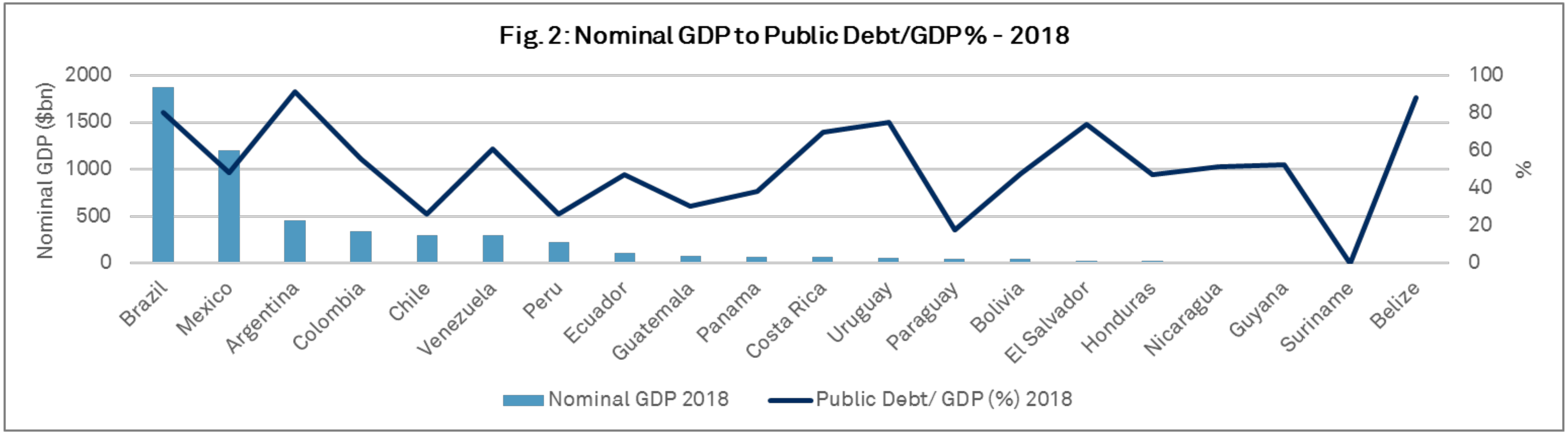
It will be interesting to observe if 2019 produces the same Brazil versus Mexico capital deployed proportions among EU GPs, as the "balance of risks" is expected to shift, with increased upside potential in Brazil and downside risks growing in Mexico.[14] Specifically, for Brazil this relates to the election of new right wing president Jair Boslonaro and his ability to push through comprehensive pension reform. This has the potential to attract additional EU PE capital at a time when EU "dry powder" is sitting at $0.48 trillion.[15] Although failure by Jair Boslonaro to halt the recent aggressive growth of Brazil's debt-to-GDP, which posted a CARG of 7.7% from 2013 to 2018, may temper this increased appetite.

In the case of Mexico, the newly elected president Andres Manuel Lopex Obrador's policy direction is much more uncertain, with a perceived higher risk of a shift in policy in the Energy sector - the most targeted sector by EU GPs that attracted 60% (€1.3bn) of new money deployed into the country in 2018.[16]

[14] Latin American Economies Will Face Another Challenging Year In 2019. (2018, November 30). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/CreditResearch/SPResearch.aspx?DocumentId=40319255&From=SNP_CRS

[15] Preqin: Dry powder in private capital coffers hits $2.1 trillion. (2019, January 17). Market Intelligence Platform. Retrieved from https://platform.marketintelligence.spglobal.com/web/client?target=company%2Falumni%3FID%3D4275267#news/article?id=49403087&KeyProductLinkType=21

[16] Economists Report On How Latin America Is Grappling With U.S. Monetary Policy. (2018, September 24). Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/CreditResearch/SPResearch.aspx?DocumentId=39823468&From=SNP_CRS



For illustrative purposes only. S&P Global Market Intelligence as of 31/12/2018

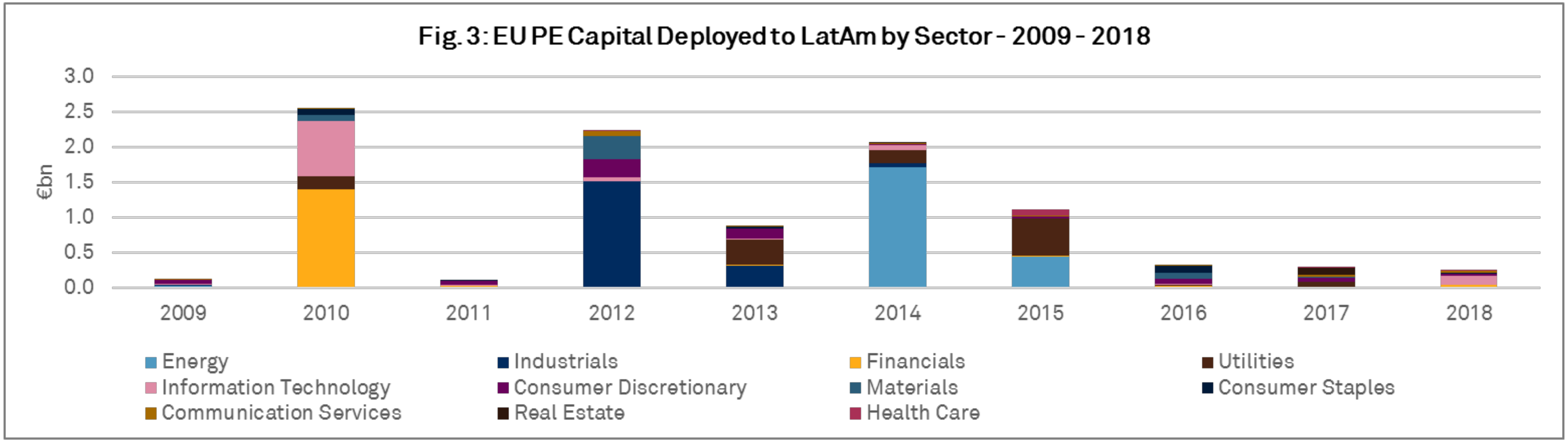
From a sectorial standpoint across LatAm, Energy and Industrials have been on a fairly equal footing, capturing 22% (€2.2bn) and 20% (€1.9bn), respectively, over the study period.[17] Interestingly, however, neither attracted any new money in 2018 where the big winner was IT, attracting a 53% (€131.8mn) share, up 1,100% year-over-year. The largest deal was the Loggi Tecnologia LTDA venture deal, valued at €90.1mn, which was also the largest LatAm entry deal by EU GPs in 2018.[18] The remainder of new money deployed in 2018 was dispersed across Financials, Consumer Discretionary, and Communication Services.

Exploring the nationality breakdown of EU GPs investing in LatAm reveals, as expected, that club buyers[19] have been most prominent, accounting for 40% (181 deals) of deal flow over the study period. On a single nation basis, Spain led with 69 deals (17%), with Communication Services the biggest winner with 30 deals. The sector had not seen any activity from Spanish GPs since 2015, however, nor significant activity since 2013 when Wayra Investigación y Desarrollo, S.L.U. went on an investment drive with 14 deals and a significant push into Interactive Media and Services, accounting for 10 deals.

[17] Industry Top Trends 2019: Latin America Utilities. (2018, November 13). Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/CreditResearch/SPResearch.aspx?DocumentId=40220462&From=SNP_CRS

[18] Loggi Tecnologia LTDA (As of 2018, December 31). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=587050236&companyid=250330598

[19] Club deals are defined as transactions where PE/VC or Asset Managers acted in concert.



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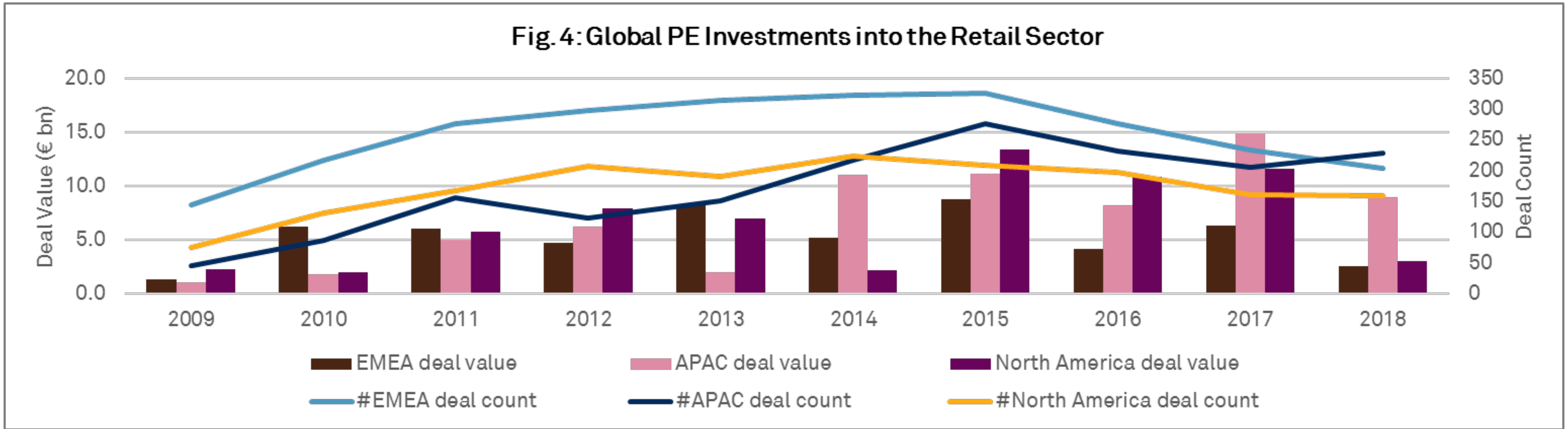
From an exits perspective, EU GPs have realized €10.2bn in capital from LatAm exits from January 1, 2009 to December 31, 2018 – although no exit activity was registered in 2018. As expected given the entry deal size dominance of the lower mid-market, M&A trade sales have been the main exit strategy, accounting for 90% and €9.1bn in capital realised, with public offerings accounting for the balance. Although this has been the trend overall, and public market exit routes are uncommon, in 2013 and 2017 when public offerings were an exit route, total capital realized surpassed that of trade sales. This was driven by the impact of large Initial Public Offerings (IPOs), namely the 2013 CPFL Energias Renováveis S.A. €308.8mn exit IPO by a club,[20] and 2017's Banco Santander (Brasil) S.A. €606.6mn public offering by Qatar Holding LLC.[21]

LatAm GP's Show Regional Bias

On the reverse side, exploring the most favoured destinations for capital deployment from LatAm GPs reveals a strong domestic bias, with 89% (€26.6bn) of deployed capital remaining in the region. While there has been a high degree of fragmentation in PE capital reinvested in the region, with the number of LatAm GPs into the high hundreds, the most active GPs were 500 Mexico City, NXTP Labs S.R.L, and Bossa Nova Investimentos e Administração S.A., with 73, 65, and 25 entry deals, respectively. The EU attracted a mere 6% (€1.8bn) of new money, with Spain leading the deal count, with 33 deals. Spain's ability to attract PE capital from LatAm GPs has no doubt been aided by reduced cultural and language barriers, but also the economy's growth

[20] CPFL Energias Renováveis S.A. (As of 2018, December 31). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=240820032&companyId=33406956

[21] Banco Santander (Brasil) S.A. (As of 2018, December 31). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=424838519&companyId=34120227



For illustrative purposes only. S&P Global Market Intelligence as of 31/12/2018

trajectory. Since 2013, following the aftermath of the banking crisis, Spanish GDP rose by 14% to €1,168bn in 2018.

PE Investments into Retail – 10 years Post Financial Crisis

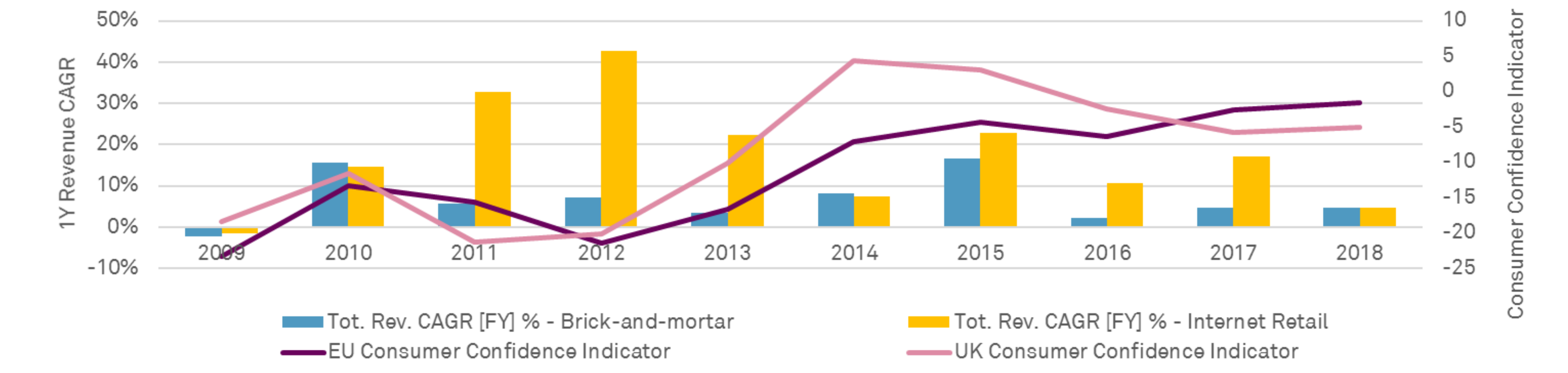
In the aftermath of the global financial crises, PE investments into Retail[22] enjoyed a stable growth, with total deal value and deal count peaking in 2015 at €33.4bn across 829 deals – a record level of new capital deployed to the sector across the study period.

Following its 2015 peak, aggregate global deal count has witnessed a steady decline accompanied by volatile deal value. In 2018 total deal value tumbled 54 % to just €14.7bn (603 deals) compared to € 33bn (613 deals) the year before (Figure 4).

Particularly, investments in EMEA and North American Retail targets dropped significantly in 2018, while APAC Retail targets enjoyed a robust interest from global GPs. For the first time in 10 years, APAC's deal count outpaced EMEA's, which historically has been the most targeted region, and attracted more capital (€8.9bn) than both the North American and EMEA regions combined (€5.6bn).

[22] GICS classification: "Retailing" is a sub-sector of Consumer Discretionary and consists of companies with primary industry classification; Distributors, Internet and Direct Marketing Retail, Multiline Retail and Specialty Retail. Retrieved from https://www.msci.com/gics

**Fig. 5: Annualised Consumer Confidence Indicator
Public European Retail Total Revenue CAGR**



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While the Retail sector has gained traction in APAC, the sub-sector mainly contributing to its growth has been Internet and Direct Marketing Retail (Internet Retail). Over the past three years, APAC's Internet Retailers attracted €26.6bn from global GPs, representing 65% of total capital deployed into the Retail sector globally. Foreign GPs have set their sights on APACs Internet Retailers, with deal participation increasing from every fourth deal in 2016 to every third deal in 2018. It appears that a geographic shift is likely to intensify the game in the Retail industry, and the EMEA targets are getting a raw deal.

EU Retail Sector Under the Microscope

PEMS Issue 6 (Q2 2015)[23] outlined that increasing levels of the EU Consumer Confidence Indicator (CCI) suggest an uptick in overall consumer consumption and increased revenues for Consumer companies in the region. Furthermore, PEMS Issue 7 (Q3 2015)[24] highlighted that the above trend ultimately trickled down to the Retail sub-sector, with EMEA-based public Retail companies reporting

[23] PEMS Issue 6 (2015, July), S&P Global Market Intelligence. Retrieved from https://www.spglobal.com/marketintelligence/en/news-insights/research/emea-private-equity-market-snapshot-issue-6

[24] PEMS Issue 7 (2015 October), S&P Global Market Intelligence. Retrieved from https://www.spglobal.com/marketintelligence/en/news-insights/research/emea-private-equity-market-snapshot-issue-7

single-digit growth, while Internet Retailers continuously enjoyed double-digit growth.[25]

Fast forward to January 2018, the CCI EU[26] briefly touched 0.4 index points, its highest level since 2000, and greatly above its record lows of 2009 (Figure 5).

This stable upward trend of EU consumer optimism, in combination with all-time-high consumer spending in Q3 2018,[27] would imply a flourishing domestic Retail sector across traditional brick-and-mortar [28] and Internet Retail, potentially attracting attention and investments from the PE industry.

However, in the middle of this confidence spurt, the EU Retail sector has experienced a major setback, first affecting high street shops and, more recently, Internet Retailers.[29] This turning point appears to be 2016, the Brexit referendum year where EU public Retailers' total revenue growth dropped significantly to just 3.1% from 17% the year before.

The UK particularly felt the impact, with public Retailers reporting a total revenue decline of 1.7% in 2016 compared to a 22% growth the previous year. The divergence becomes evident by examining the UK-specific CCI, which fell sharply after 2015. In the following years, rising inflation and devaluation of the British Pound, coupled with growing overhead costs, increasing debt, and shifting consumer preferences into Internet Retail put a lot of pressure on the UK Retail industry.[30] The number of physical store closures in the UK jumped from 629 in 2017 to 1,826 in 2018.[31] PE backed Maplin Electronics Limited,[32] HMV UK,[33] and Poundworld Retail Limited[34] are just a few prominent names that fell victim to the challenging market-conditions.[35]

Alongside the UK, the entire EU Retail sector struggled to pick up steam, with the latest 2018 public companies' total revenue growth standing at 4.77%.[36] As outlined above, not only are the traditional brick-and-mortar retailers feeling the squeeze, but even the usually attractive Internet Retail sector has experienced a noticeable slow-down, recording only 4.8% growth in 2018. The industry's fragile aggregate net profit margins of 0.5% (2016) and -1.9% (2017)

[25] PEMS Issue 6 and 7 analysis was based on old GICS classification. In 2018, e-commerce companies have been re-classified from Information Technology to Consumer Discretionary as per https://www.msci.com/gics

[26] EU Consumer Confidence Indicator (As of 2018, January 17). European Commission. Retrieved from https://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases/business-and-consumer-surveys/download-business-and-consumer-survey-data/time-series_en#consumers

[27] European Union Consumer Spending (As of 2018, January 17). Trading Economics. Retrieved from https://tradingeconomics.com/european-union/consumer-spending

[28] As part of this analysis, "Brick-and-mortar" sub-sector was defined as a combination of GICS industries: Distributors, Multiline Retailers and Specialty Retailers. To represent the e-commerce sector, the GICS industry sub-sector Internet and Direct Marketing Retail was used.

[29] "Europe's Online Retailers Suffer Nightmare Before Christmas", (2018, December 17). Fortune. Retrieved from http://fortune.com/2018/12/17/europe-online-retailers-christmas-nightmare/ and "What recent trading updates reveal about UK retailers' health" (2019, January 15). Financial Times. Retrieved from https://www.ft.com/content/5a862ba4-180b-11e9-b93e-f4351a53f1c3

[30] "Six reasons behind the High Street crisis" (2018, March 1). BBC News. Retrieved from https://www.bbc.co.uk/news/business-43240996

[31] Centre for Retail Research. Retrieved from http://www.retailresearch.org/2018yearofcrisis.php

[32] Maplin Electronics Limited (As of 2018, December 31). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/company.aspx?companyId=924899

[33] HMV UK Retail Business (As of 2018, December 31). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/company/tearsheet.aspx?companyId=307548655

[34] Poundworld Retail Limited (As of 2018, December 31). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/company.aspx?companyId=45735778

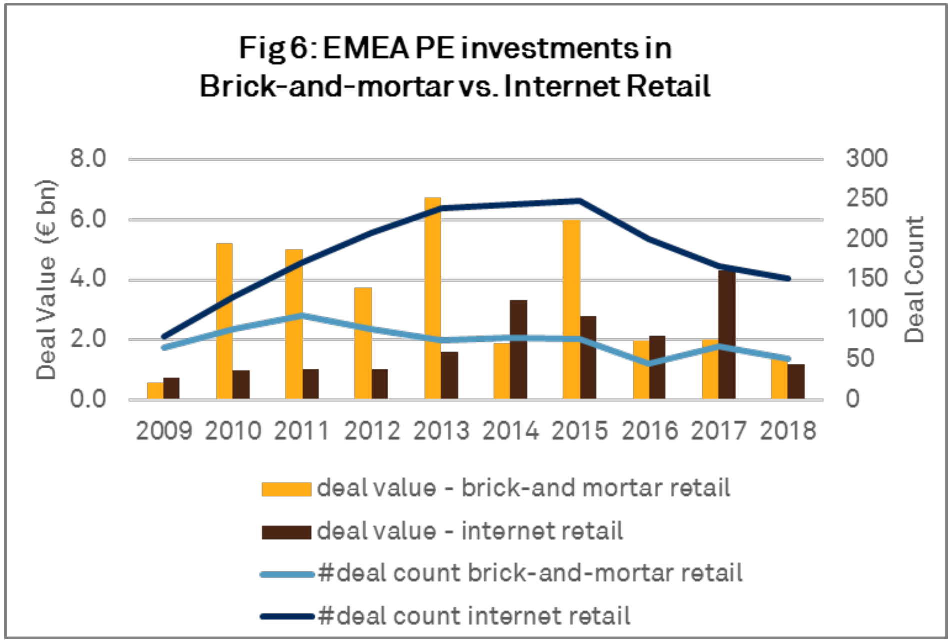
[35] Private Equity News "U.K. Consumer Gloom Delivers Blow to TPG" (2018, April 30). Retrieved from https://www.penews.com/articles/u-k-consumer-gloom-delivers-blow-to-tpg-20180430

[36] Total Revenue CAGR FY 2018 was obtained for 76 out of 273 observed Public European retail companies. The remaining companies are yet to report Q4 FY 2018 figures. (As of 2019, January 11). S&P Capital IQ Platform. Retrieve from https://www.capitaliq.com/CIQDotNet/Lists/Constituents.aspx?listObjectId=601447418

compared to the Retail sector's margins overall of 4.59% (2016) and 4% (2017), in combination with rising Internet Retailers aggregate Debt/EBITDA ratio from 2.83x (2016) to 3.39x (2017), will put even more pressure on these firms.

EMEA PE: is the New "E-Retail Paradigm" Over?

In PEMS Issue 7 (Q3 2015), we uncovered a change in focus of PE firms moving away from investing in traditional brick-and-mortar towards the high growth, high margins, and low overheads of Internet Retailers. The latest disappointing sector performance has had a large effect on PE entries into the EMEA Retail sector as a whole. While the e-retail paradigm is not completely over, with three out of four entry deals still being made into Internet Retail companies, total deal count was not able to exceed the record level of 2015. To illustrate this, 2018 PE entry deal count into Internet Retail declined by 9% compared to 2017 and 24% compared to 2016. With the exception of one mega-deal in 2017, where a PE-led consortium acquired Polish-based Allegro Group Sp. z o.o. in a deal worth €3.25bn,[37] total entry deal value in EMEA's Internet sector experienced a steady decline over the past four years (Figure 6).



For illustrative purposes only. S&P Global Market Intelligence as of 31/12/2018

In 2018, GPs seemed to have lost their appetite for the Retail sector altogether, with PE total deal value crumbling to just €2.6bn, its lowest figure since 2009. Formidably, 50% of all entry deals in 2018 were in the smaller <€20mn bracket, specifically targeting companies in their development stage (Series A and earlier). In addition, M&A count and deal value declined from 72 deals (€5.5bn) in 2017 to 49 deals (€1.2bn) in 2018 (Table 1).

[37] Allegro Group Sp. z o.o. (As of 2018, December 31). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=404800605&companyId=19685

Table 1: PE entries in EMEA Retail by deal type (2017 vs 2018)

Deal Type	2017 Deal Count	2017 Deal Value in € mn	2018 Deal Count	2018 Deal Value in € mn	Deal Value YoY %
Accelerator	9	0.4	4	0.14	-65%
Angel	2	10.5	3	21.35	**103%**
Pre-Series A	-	-	1	1.13	-
Seed	9	9.2	12	13.05	**41%**
Venture*	55	307.9	54	408.93	**33%**
Series A	29	110.4	24	93.93	-15%
Series B	13	95.8	14	202.80	**112%**
Series C	4	35.0	5	83.79	**139%**
Series D	2	64.3	3	39.30	-39%
Series E	-	-	1	45.00	-
PIPE	1	0.9	-	-	-
Growth**	38	165.7	34	381.32	**130%**
M&A	72	5514.3	49	1282.57	-77%
Grand Total	**234**	**6314.4**	**204**	**2573.30**	**-59%**

For illustrative purposes only. S&P Global Market Intelligence as of 31/12/2018
*Venture: Generic unspecified round of early stage financing
**Growth: Generic unspecified round of mid / Late stage financing

Internet Retail Dominates PE Exits in EMEA

In 2017, PE firms reported 71 exit deals (€5.7bn in total deal value) in EMEA-based Retail targets, including four M&A's and one IPO valued above €500mn. The most notable transactions were the IPO of German-based Delivery Hero SE (DB:DHER)[38] (Internet Retail), as well as the Lazada Group S.A.[39] (Internet Retail) acquisition by Alibaba Group. Internet retailers represented 47% (33 deals) of all exits. In 2018, the exit deal count dropped to 56 deals (€2.1bn), with Internet Retailers leading the race yet again, with 33 deals and €1.8bn in total deal value. Among significant exits were the IPO of Farfetch Limited[40] (Internet Retail), as well as the acquisition of a 13% stake in Delivery Hero SE (DB:DHER) by Nasper Limited (JSE:NPN) from Rocket Internet SE (XTRA:RKET) in a deal worth €660mn.[41]

In summary, the EU Retail sector has experienced a turbulent past three years, which not only impacted traditional brick-and-mortar targets, but also touched the robust Internet Retail industry. GP investments in both EMEA and North American targets have noticeably slowed down, and a slight shift in focus towards the APAC region has been observed. It appears that the current political and macroeconomic environment in Europe, particularly in the UK, is

[38] Deliver Hero SE (DB:DHER) (As of 2018, December 31). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=404800605&companyId=19685

[39] Lazada Group S.A. (As of 2018, December 31). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=528668103&companyId=434549285

[40] Farfetch Limited (NYSE:FTCH) (As of 2018, December 31). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=578135872&companyId=578134665

[41] Deliver Hero SE (DB:DHER) (As of 2018, December 31). S&P Capital IQ Platform. Retrieved from

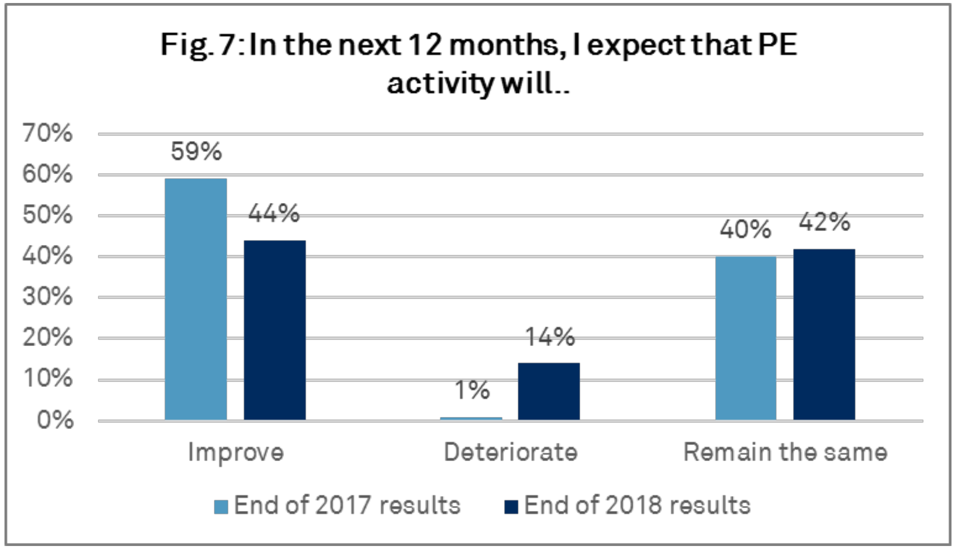
forcing GPs to cautiously select and time their investments, as well as exits.

Outlook for 2019 from a PE Point of View

For the second consecutive year, S&P Global Market Intelligence conducted a survey among PE professionals [42] to gauge industry expectations for the upcoming 12 months. Questions were aimed at understanding the sentiment of junior and senior professionals across sectors, strategies, exits, and risks in the industry. Collectively, analysis of the results helps us frame the global level of optimism and what we can expect from PE firms in 2019. The past year has been eventful, and many of the predictions indicated by surveyed professionals in 2017 did not come to fruition. As we step into a new year, some expected predictions were validated, while new developments may steer the industry in a different direction, notably around sentiment and strategies employed by investors. Transaction data from S&P Global Market Intelligence adds further support to many of the trends observed across the global group of professionals surveyed for 2019 outlook.

High Correlation Between PE Sentiment and Public Markets

By 2018, investors enjoyed the longest bull market in history, as widely expected by 2017 surveyed professionals. Fast-forward to a Q4 2018 correction, and we quickly see eroding confidence with only 44% of respondents indicating an expectation of improving PE activity in 2019. Compared to a bullish 59% in 2017, sentiment has certainly plateaued. More surprisingly, 14% of respondents expect a deterioration in activity, a mindset only 1% of 2017's survey participants indicated (Figure 7).



For illustrative purposes only. S&P Global Market Intelligence - 2018 Private Equity Survey

While industry issues, such as dry powder and a lack of buying opportunities, have been widely publicized, factors tied to local economies heavily influence the sentiment from respondents. According to Paul F. Gruenwald, Global Chief Economist at S&P Global, the outlook for the global economy in 2019 is straightforward: GDP growth will slow in aggregate and in most major countries, with the U.S. likely to see the rate of expansion fall to around 2%. At the same time, Chinese growth will be moderate and Europe's growth will remain relatively low and stable.[43] In light of this, EU PE professionals are the

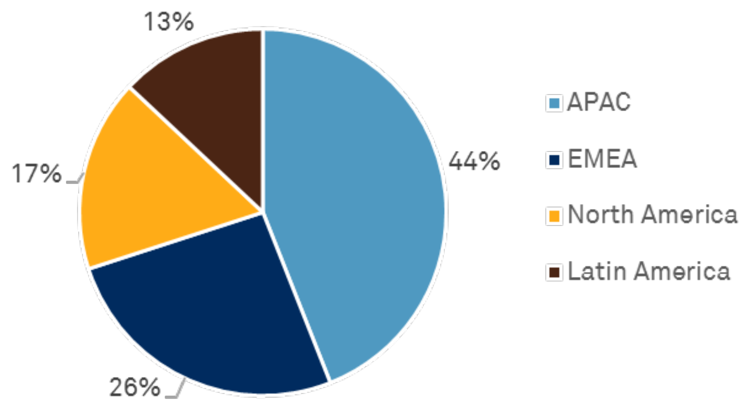
https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=538993097&companyId=61311468

[42] In November and December 2018, we reached out to over 1,000 global PE professionals in an anonymous survey asking their opinion on the general outlook for PE in 2019, deal activity, portfolio management, and exit strategy. The majority of respondents (53%) were senior level professionals. Geographically, 48.5% of respondents were from EMEA region, 17.2 % from APAC, 19.3% from LatAm, and 15% from North America.

[43] Paul F. Gruenwald, S&P Global, Economic Research: "Global Economic Outlook 2019: Autumn Is Coming" (As of 2018, December 12). Retrieved from

most optimistic of the bunch, with a comforting 93% expecting conditions to stay the same or improve. In contrast, from the aggregate perspective, respondents in APAC, North America, and LatAm expect deterioration of 44%, 17%, and 13%, respectively, for investing conditions (Figure 8). Brazil was a notable exception, with all Brazilian respondents forecasting a better year for the PE industry in 2019. Interestingly, the senior professionals surveyed indicated a higher level of pessimism for 2019 investing, a trend that could have a profound impact on deal value and volume for the year.

Fig. 8: Expected deterioration in PE Activity



For illustrative purposes only. S&P Global Market Intelligence - 2018 Private Equity Survey

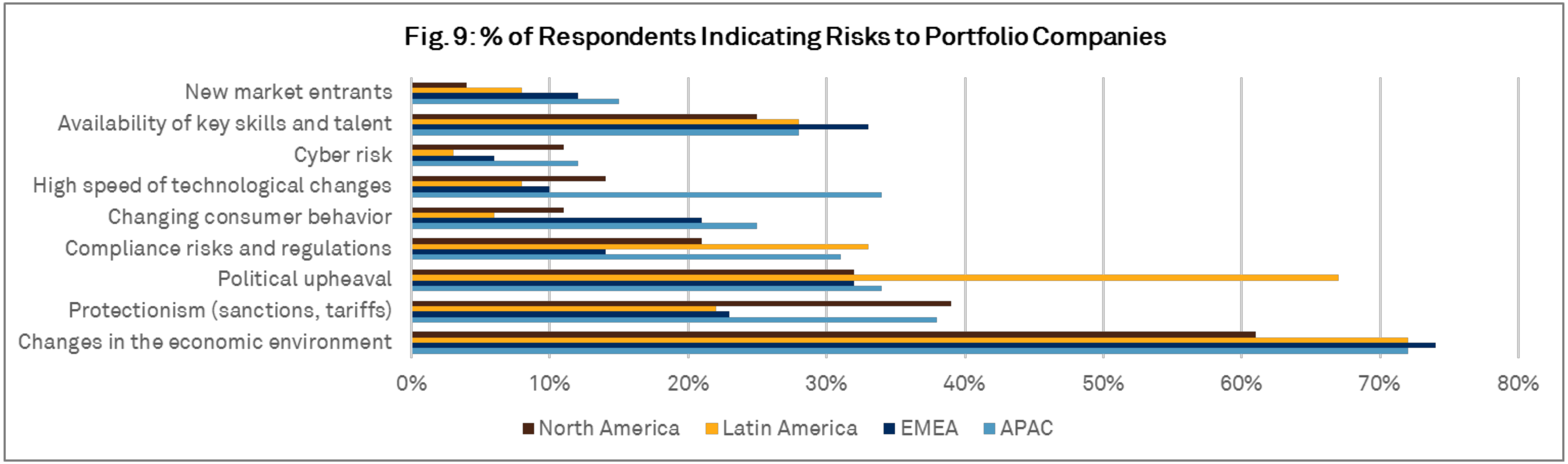
When it comes to identifying risks, unsurprisingly, issues related to sanctions, tariffs, and protectionism rose substantially: up to 28% of respondents in contrast to 16% the previous year. More broadly, 71.5% of global respondents indicated the economic environment as the largest risk for the second year in a row. Political upheaval fell a third from last year to 39% of respondents, and technological change, evidently overshadowed by larger macroeconomic risks, was indicated by only 3% of respondents, a steep decline relative to the 26% indicated a year prior. Not surprisingly, protectionism concerns are largely isolated to professionals directly exposed to the global trade spat by being located in either China or the U.S. Outside of these countries, this risk is not seen as a major disruptor, and investors feel they are unaffected for the time being (Figure 9). Looking at risks from the aggregate global view, Figure 10 provides the summary of survey respondents' concerns for 2019.

Despite the Risk, the Show Must Go On

The strong, double-digit growth of equity markets in recent years has privileged sponsors to monetize growing valuations, shortening investment horizons substantially. Shifting markets have normalized PE's approach, with 26% focused on harvesting investments and a smaller 7% pledging to be exit-oriented. Fundraising, sourcing new investments, and deploying capital remain the primary drivers and are consistent year-over-year as primary sponsor activities. As for the ability to deploy capital, S&P Market Intelligence data saw a slower 2016 and 2017, where 13,714 and 13,995 transactions were reported. The year of 2018 proved fruitful from a deployment perspective, as total transaction volume surged to 14,765 announced deals (Figure 11). With an appetite for further investing and a record amount of dry powder, we expect GP investors to accelerate deal activity in 2019.

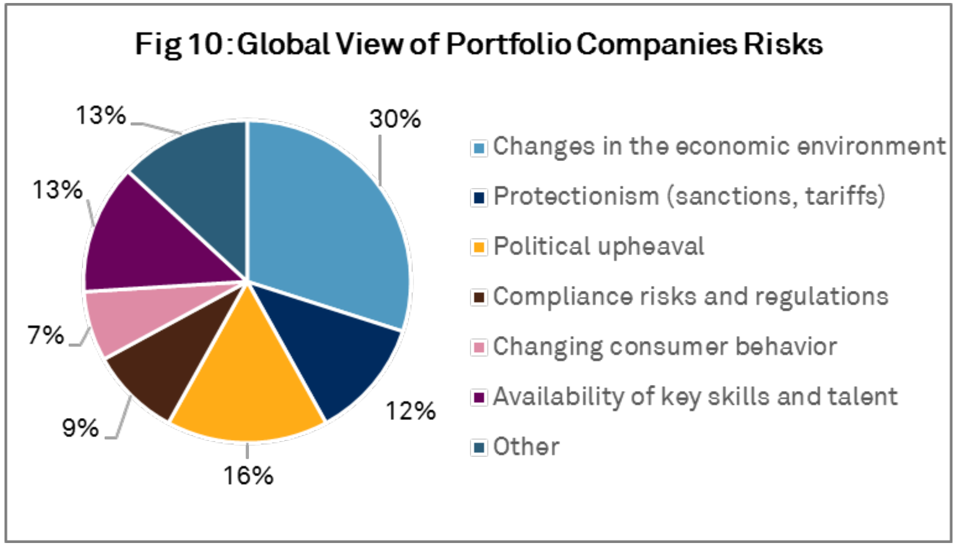
Having a closer look at the investing activities, respondents identified growth equity, buy and build, and add-on investments as the top execution items for 2019. Add-ons, not previously indicated as a core

https://www.capitaliq.com/CIQDotNet/CreditResearch/SPResearch.aspx?DocumentId=40388079&From=SNP_RES_CM&articleId=2142743&SctArtId=464583



For illustrative purposes only. S&P Global Market Intelligence - 2018 Private Equity Survey.

focus, highlights PE's intent to shift towards platform investing and inorganic growth strategies. Geographically, 25% of EU and 26% of U.S.-based respondents are looking to execute add-ons in 2019. The larger appetite for add-ons is partially due to the changing industry focus, as Healthcare attracts significant interest and has historically been a sector prone to active growth strategies. Industrials, the second most active sector for buy and build strategies, had an overwhelming concentration within Europe, notably investors located in Italy, the Netherlands, and Spain. From a leverage perspective, the positive equity market conditions translate well to favorable debt markets, with strong demand persisting for high yield debt. However, only 4% of respondents globally are planning to refinance portfolio companies extensively. China is a rare exception, where 78% of respondents expect to recapitalize. This is in contrast to North America, where over 50% of respondents are not prioritizing recapitalizations in 2019.



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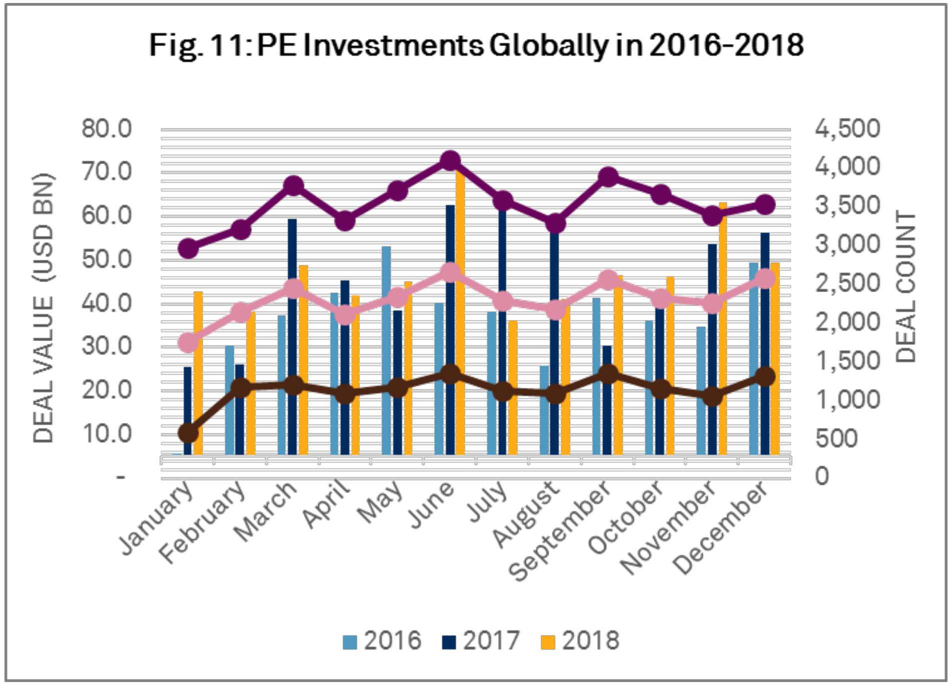
Place Your Bets, PE

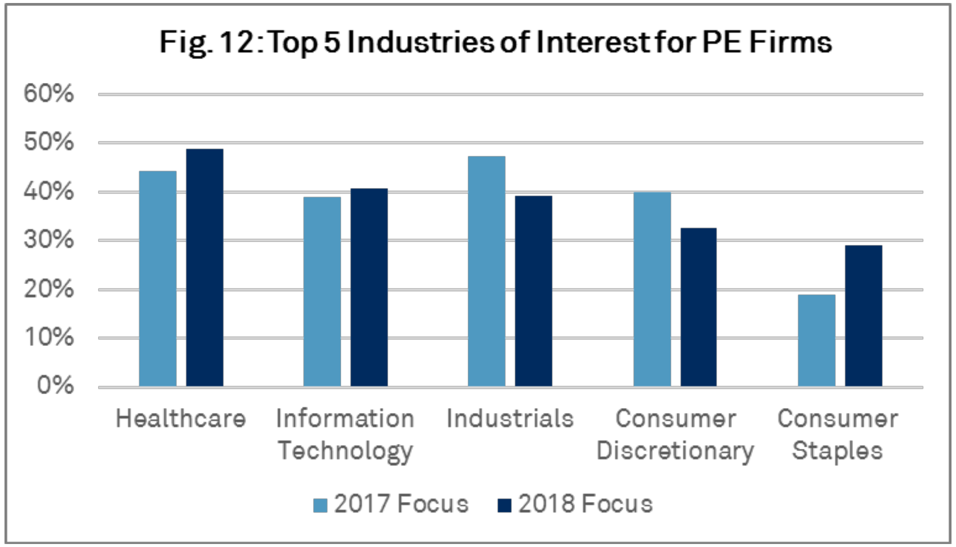
With an evolving landscape for 2019 investors, a shifting mindset exists between where investors are currently managing investments and the industries in which they indicated having an interest. Healthcare, as previously highlighted, has risen to the forefront as the top sector with 49% of respondents holding portfolio companies in the sector. Respondents in 2017 indicated Industrials as the top sector for seeking investments, an activity that did not come to realization. There



For illustrative purposes only. S&P Global Market Intelligence as of 31/12/2018

is strong support for firms to remain heavily invested in Healthcare, as an equal number of survey participants, 49%, indicated they would be seeking opportunities in the industry, as well. IT, Industrials, and Consumer Discretionary round out the top four sectors of interest with 41%, 39%, and 33%, of respondents indicating so, respectively (Figure 12). Energy and Real Estate continue to fall out of favor, with firms instead divesting and reducing exposure to these industries.

As an emerging trend, Consumer Staples has grown in interest for PE investors relative to 2018. According to S&P Global Market Intelligence data, transaction volume in the sector stood at 588, 655, and 669 deals in 2016, 2017, and 2018, respectively. Alongside Healthcare, there is an apparent interest from PE investors into defensive industries. Whether this is driven by market sentiment or other factors, the attention to secular industries is an apparent trend to be observed in the coming year.



For illustrative purposes only. S&P Global Market Intelligence - 2018 Private Equity Survey

Total exits recorded by S&P Global Market Intelligence in 2018 stood at 3,387 transactions, a decrease of 22% from the year prior. Predicted exit strategies for 2017 relied heavily on traditional M&A, despite favorable equity markets (Table 2). The benefits of an immediate exit

Table 2: Top 10 Largest Sponsor M&A Exits in 2018

Announced Date	Completed Date	Transaction Value ($USD bn)	Target Name	Target Location	Target Sector	Buyer	Sponsor-Backed Sellers
18/10/2017	14/05/2018	36.8	Abertis Infraestructuras, S.A.	Spain	Industrials	ACS, Actividades de Construcción y Servicios, S.A.; HOCHTIEF Aktiengesellschaft; Atlantia S.p.A.	AlpInvest Partners B.V.; HarbourVest Partners, LLC; Capital Research and Management Company; BlackRock, Inc.
14/07/2017	10/01/2018	20.9	Global Logistic Properties Limited (nka:GLP Pte. Ltd.)	Singapore	Real Estate	Bank Of China Group Investment Limited; Vanke Real Estate Company; Hillhouse Capital Management; HOPU Jinghua Investment	Ardian; Lone Pine Capital LLC; DBS Bank Ltd.; GIC Real Estate Pte Ltd.
20/08/2017	09/03/2018	18.8	Energy Future Holdings Corp.	USA	Utilities	Sempra Energy	KKR & Co. L.P. (nka:KKR & Co. Inc.); Texas Energy Future Holdings
08/05/2018	18/08/2018	16.0	Flipkart Private Limited	Singapore	Consumer Discretionary	Walmart Inc.	Accel Partners; Sofina Société Anonyme; Strategic Advisers, Inc; Helion Venture Partners, LLC; DST Global; SoftBank Vision Fund
29/10/2017	09/04/2018	11.1	Dynegy Inc.	USA	Utilities	Vistra Energy Corp.	Apollo Global Management, LLC; Oaktree Capital Management, L.P.; Massachusetts Financial Services Company; Carlson Capital, L.P.; Millennium Management LLC; Franklin Advisers, Inc.; Energy Capital Partners
31/01/2018	04/05/2018	10.5	TDC A/S	Denmark	Communication Services	PFA Pension, forsikringsaktieselskab; Pensionskassernes Administration A/S; ATP Pension-Service A/S; Macquarie Infrastructure and Real Assets (Europe) Limited; DK Telekommunikation ApS	AlpInvest Partners B.V.;Stockwell Capital LLC
08/09/2017	02/05/2018	10.2	China National Materials Company Limited	China	Materials	China National Building Material Company Limited	Dimensional Fund Advisors L.P.; National Social Security Fund; China National Building Material Group; Shenzhen Rongchuang Investment Co., Ltd.
29/10/2017	12/02/2018	10.0	CalAtlantic Group, Inc.	USA	Consumer Discretionary	Lennar Corporation	MatlinPatterson Global Advisers LLC
06/04/2018	14/05/2018	8.7	AveXis, Inc.	USA	Health Care	Novartis AG	VR Adviser, LLC; Janus Capital Management LLC; Tavistock Life Sciences; Deerfield Management Company, L.P.; Adage Capital Management, L.P.; Roche Venture Fund; QVT Financial LP; T. Rowe Price Associates, Inc.; RA Capital Management, LLC; Foresite Capital Management, LLC; Boxer Capital LLC; Rock Springs Capital
22/02/2018	24/04/2018	8.3	Blue Buffalo Pet Products, Inc.	USA	Consumer Staples	General Mills, Inc.	The Invus Group, LLC

For illustrative purposes only. S&P Global Market Intelligence as of 31/12/2018 via M&A, alongside other factors, deterred many investors from pursuing IPOs in 2018. Despite the lack of IPOs, respondents indicated a forward-looking preference for this exit route. Brazil and the UK led the group in favoring IPOs for 2019. With uncertainty around the global economy, it is difficult to predict how long capital markets will permit favorable selling conditions as an appealing alternative to an outright sale.

Beyond PE, many firms began to diversify away from core practices in 2018 as interest in other alternative asset classes, most notably private debt, began to arise. The focus has again shifted, this time towards secondaries,[44] as liquidation strategies have evolved for PE investments. Although historically more common in the U.S., APAC, and EMEA regions have shown interest in exploring secondaries, as well. It is no secret that the PE industry continues to evolve, and those firms focused exclusively on their core investing approach fell 7% to 43% of all firms surveyed. At the same time, APAC is the region maintaining its focus on core PE activities, in addition to investing internationally, notably within South East Asia and, not surprisingly, excluding the U.S. Infrastructure is rightfully a focus for developing countries, with 50% of respondents from Brazil looking to make an infrastructure investment in 2019, a trend seen throughout all of LatAm. As highlighted in our Latin American Deal Trends publication, Brazil is the largest and most active country in the region for both local and foreign investment, with local investors focused on infrastructure projects.[45]

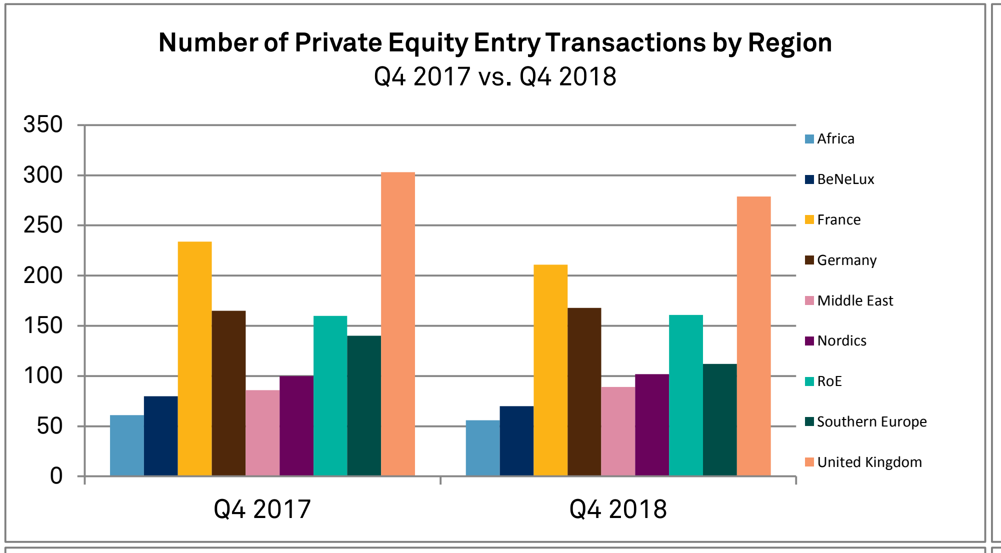
Conclusion

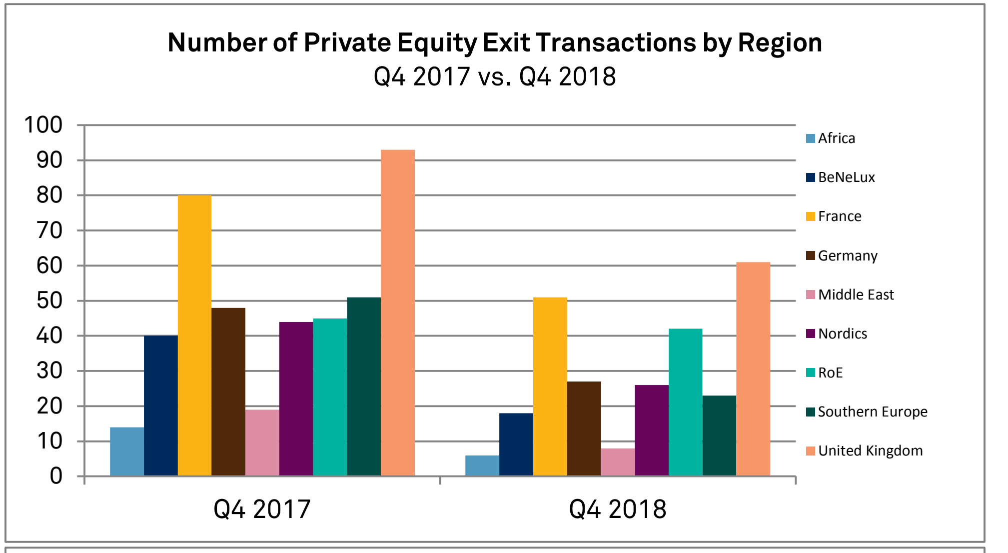
In contrast to 2017, sentiment has reached an inflection point, where both senior and junior professionals are prepared for a more challenging investment climate in 2019. The risks to overcome are unique to each region, but all tied closely to the impact localized issues have on the global economy. A slowdown may not be worrisome for all investors since valuations are expected to decline, allowing capital to be deployed in a more efficient manner. This includes a drift towards non-secular industries, such as Healthcare and Consumer Staples, and a tilt towards inorganic growth strategies. Overall, a cloudy backdrop has instilled concern for investors. In lieu of this, the need to pivot strategies and address risks is apparent in how respondents are expected to conduct themselves in 2019. With capital ready to be deployed, we are excited to see how the year evolves and monitor investors' continued resilience to earn returns above potentially lower yielding asset classes.

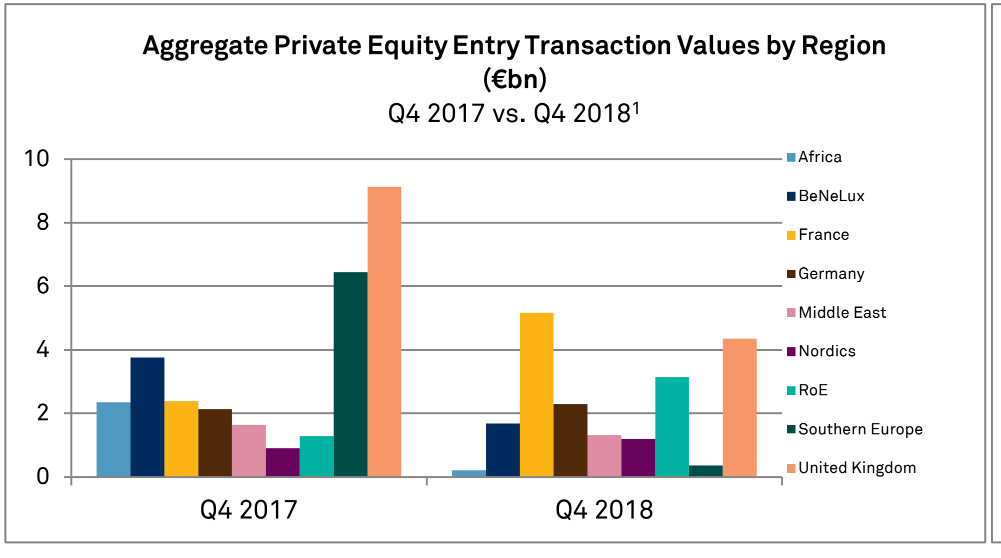
[44] PE Secondaries are pre-existing investor commitments to PE funds that are purchased by outside investors, providing liquidity to the pre-existing investors. This provides an alternative exit to holdings being liquidated at the end of the fund term.

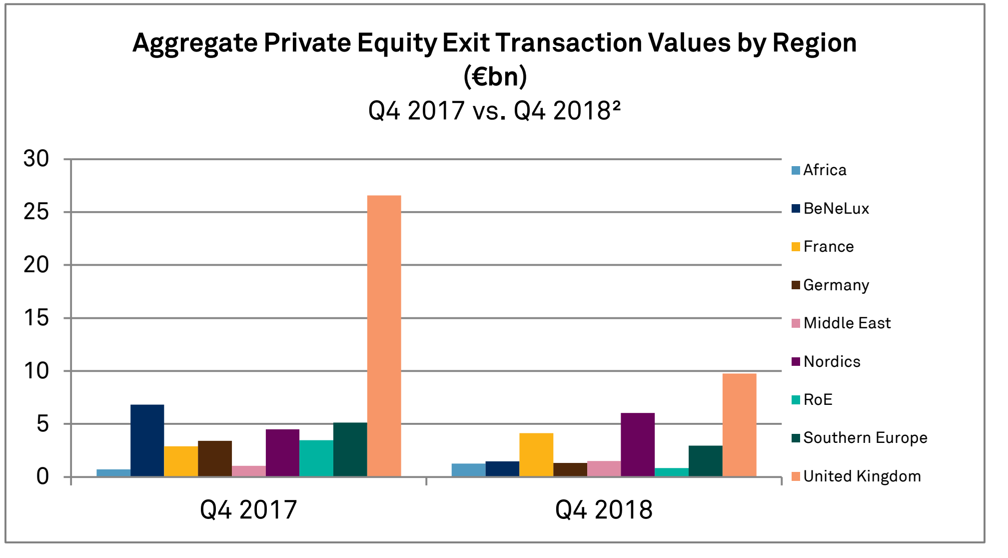
[45] Deal Trends in Latin America Issue 8 (2018, October). S&P Global Market Intelligence. Retrieved from https://www.spglobal.com/marketintelligence/en/documents/LATAM-Deal-Trends-October-2018.pdf

EMEA – Based Targets









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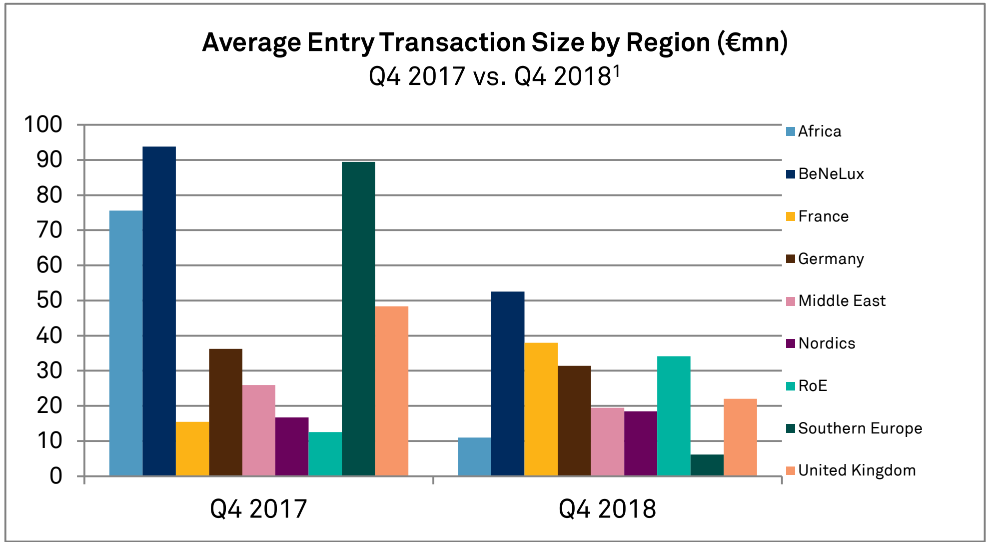
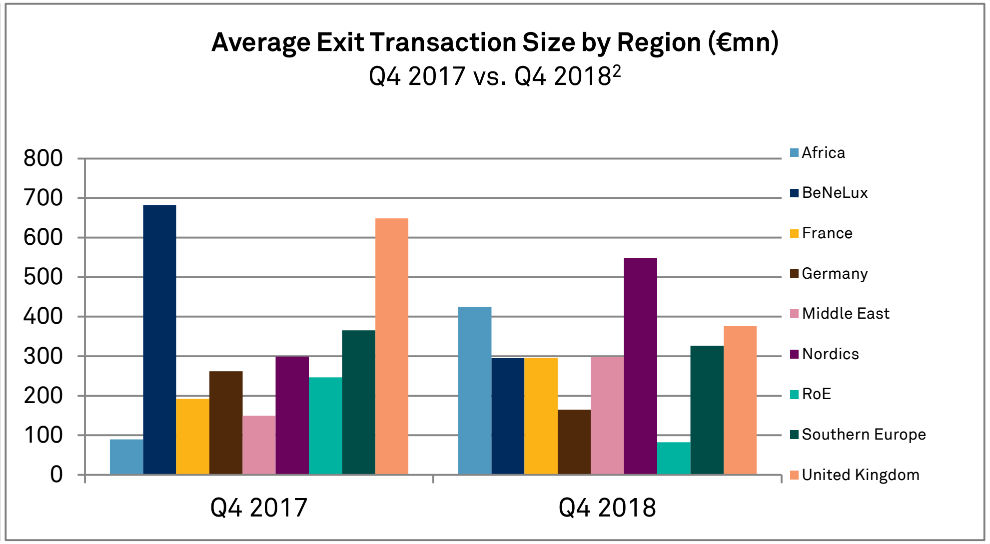
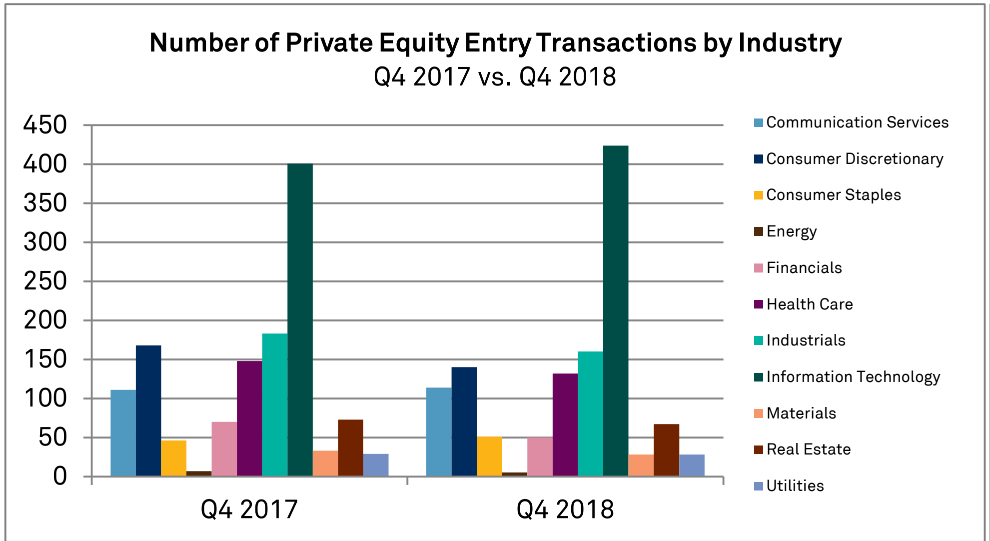
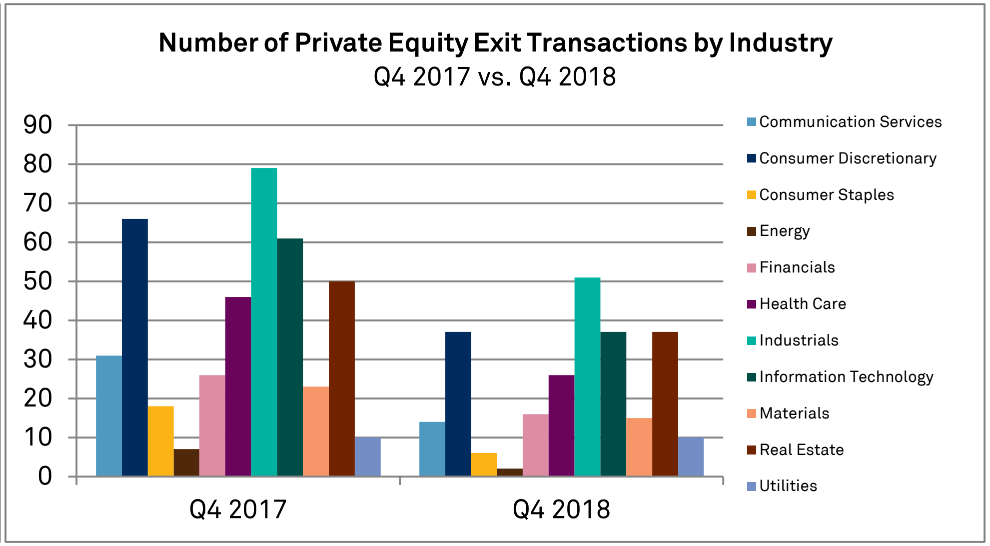
EMEA – Based Targets (continued)









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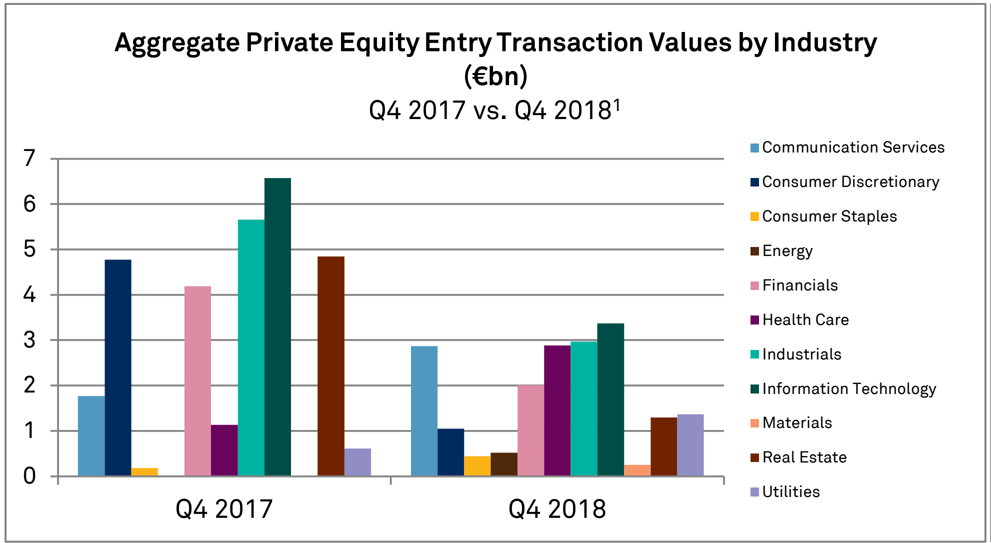
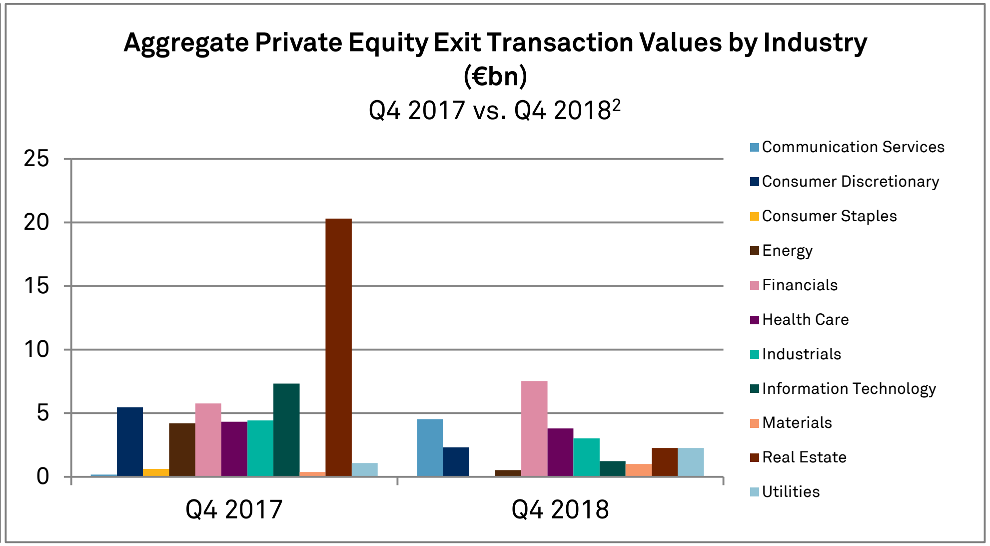
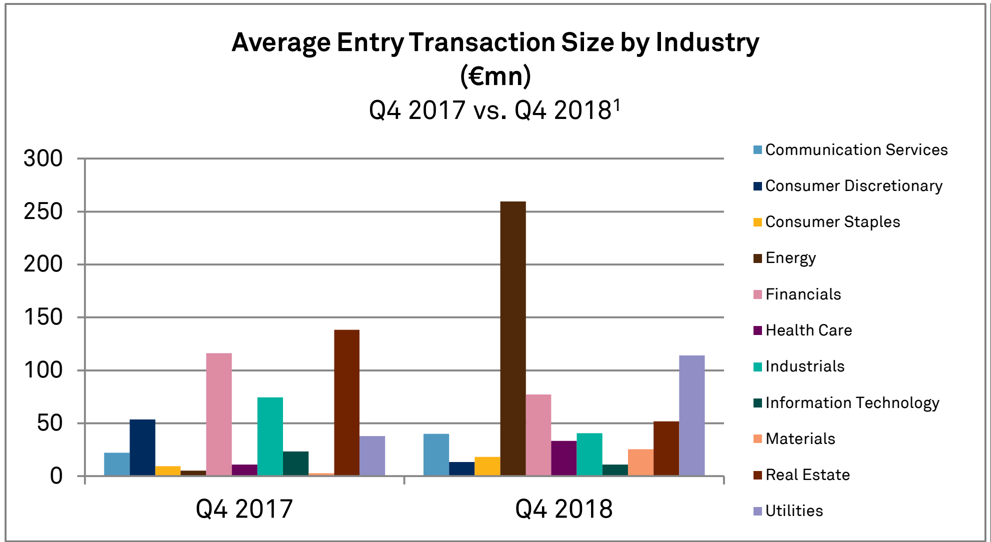
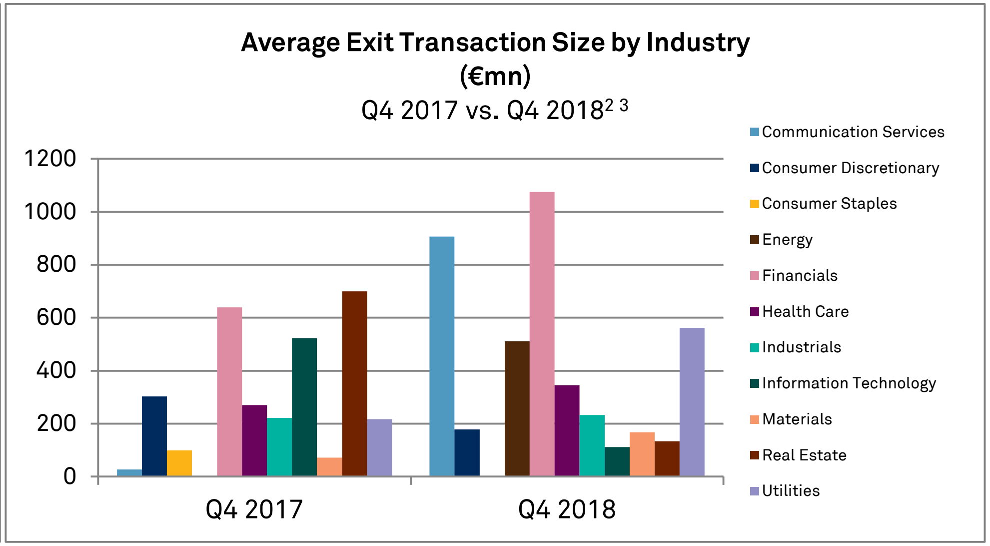
EMEA – Based Targets (continued)









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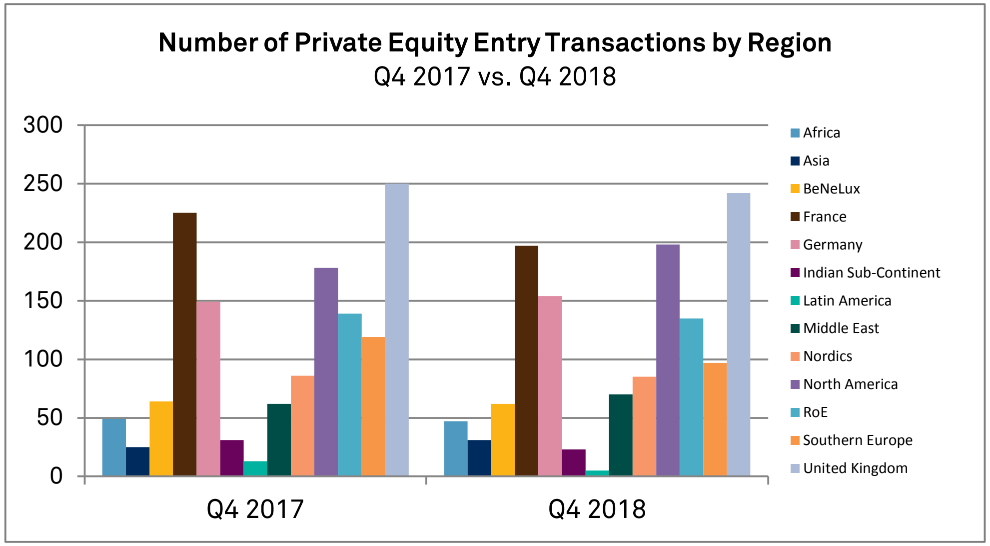
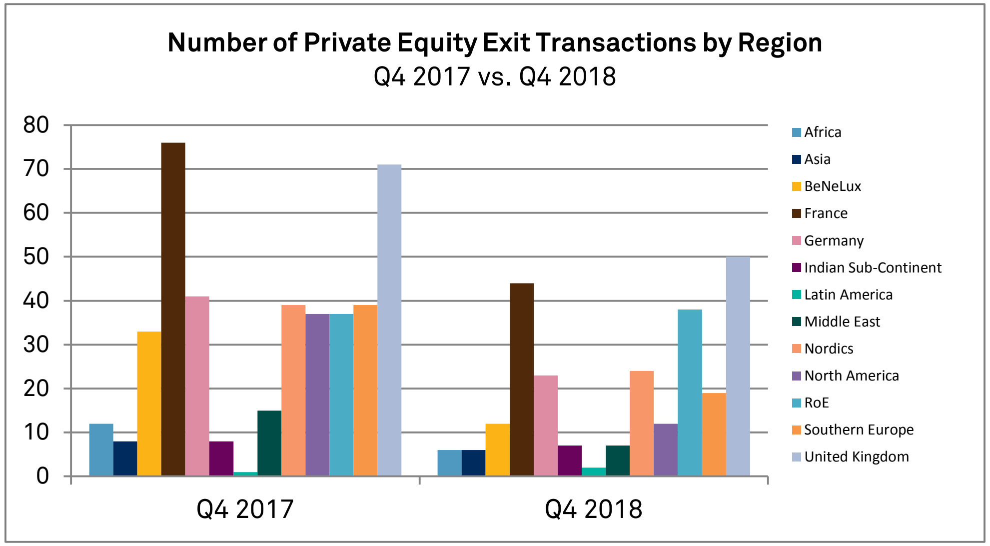
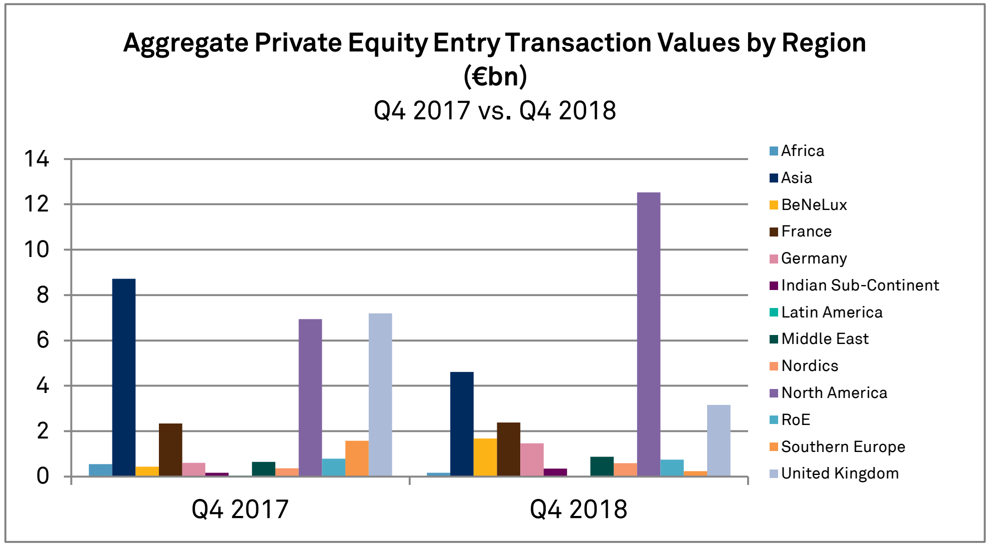
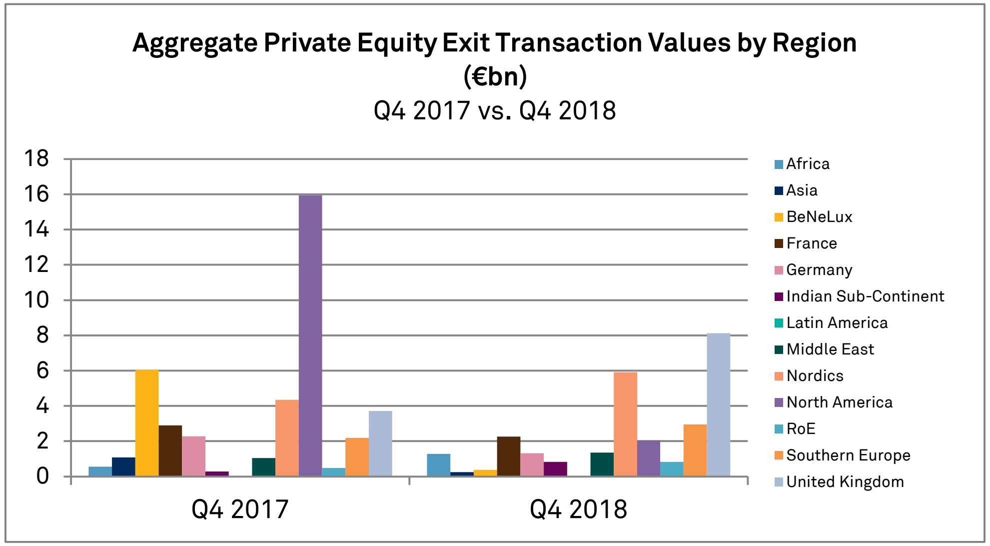
EMEA – Based GPs









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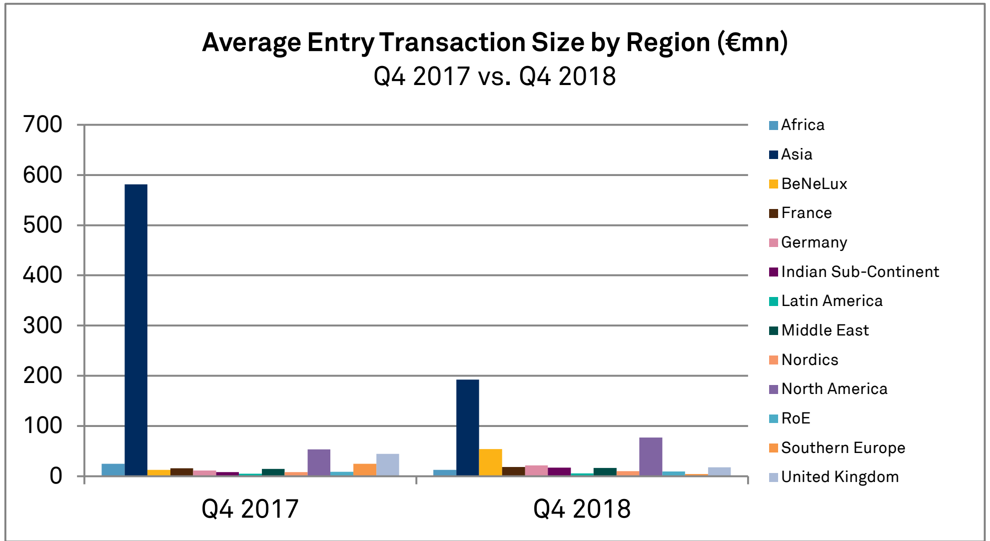
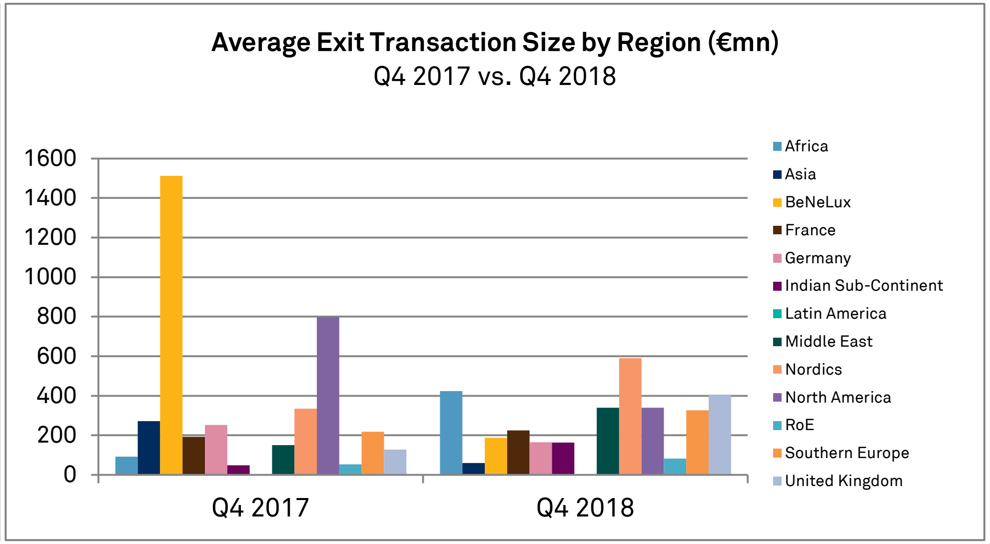
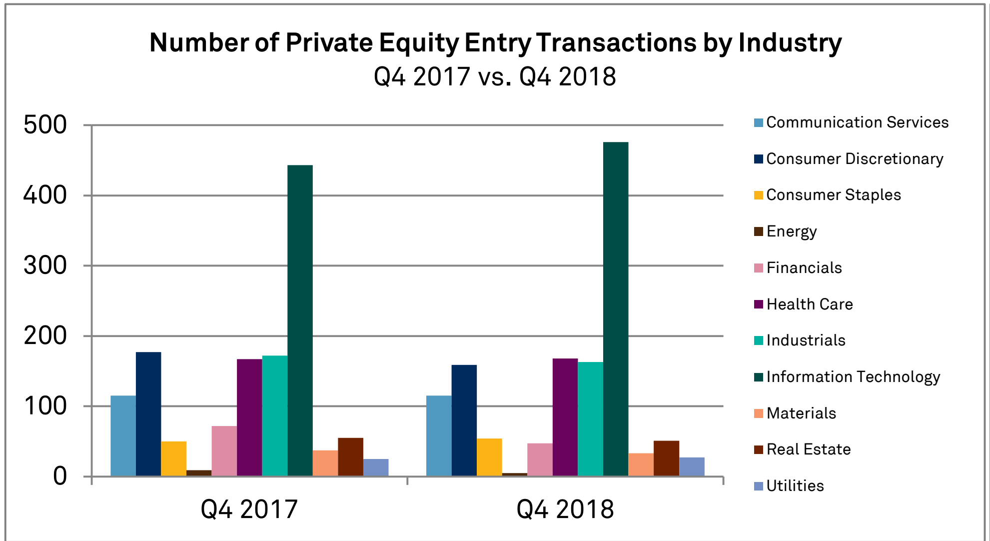
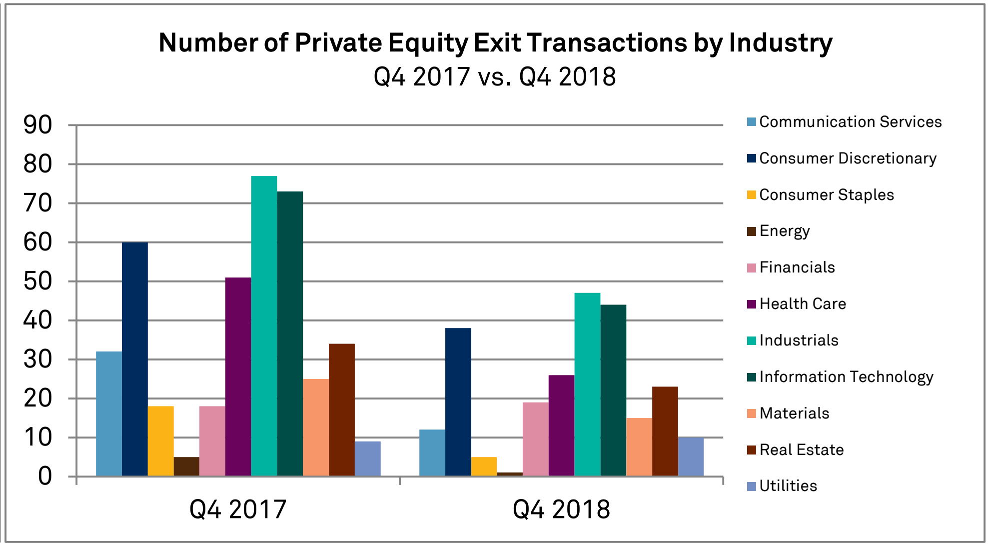
EMEA – Based GPs (continued)









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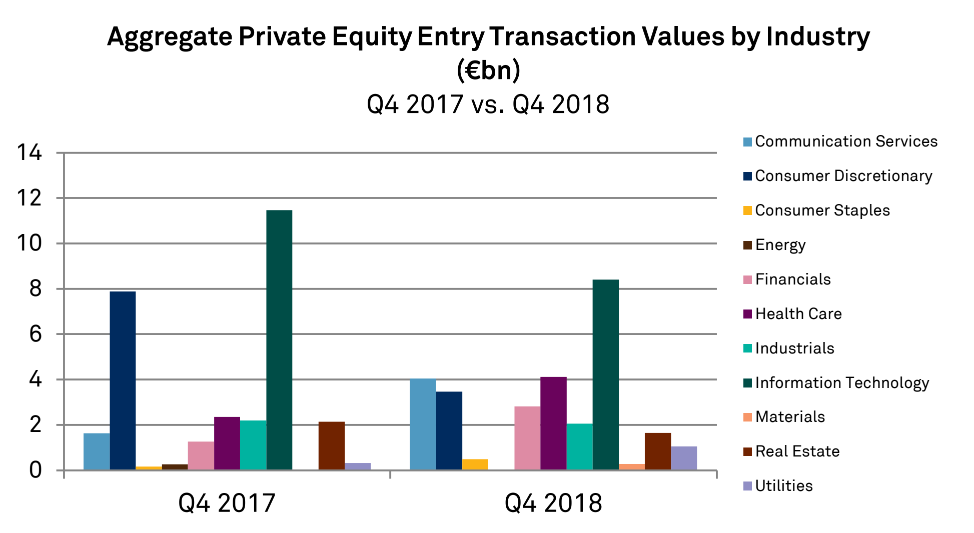
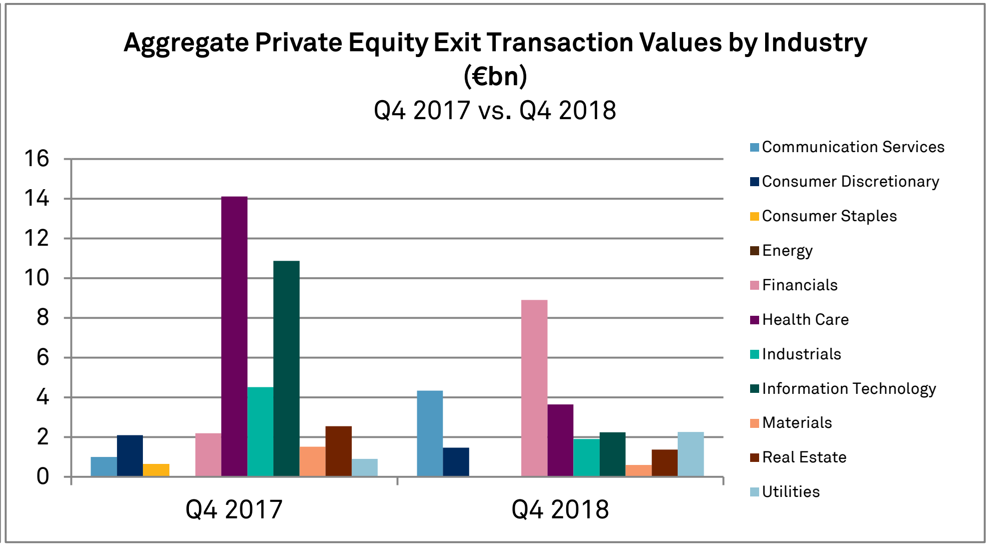
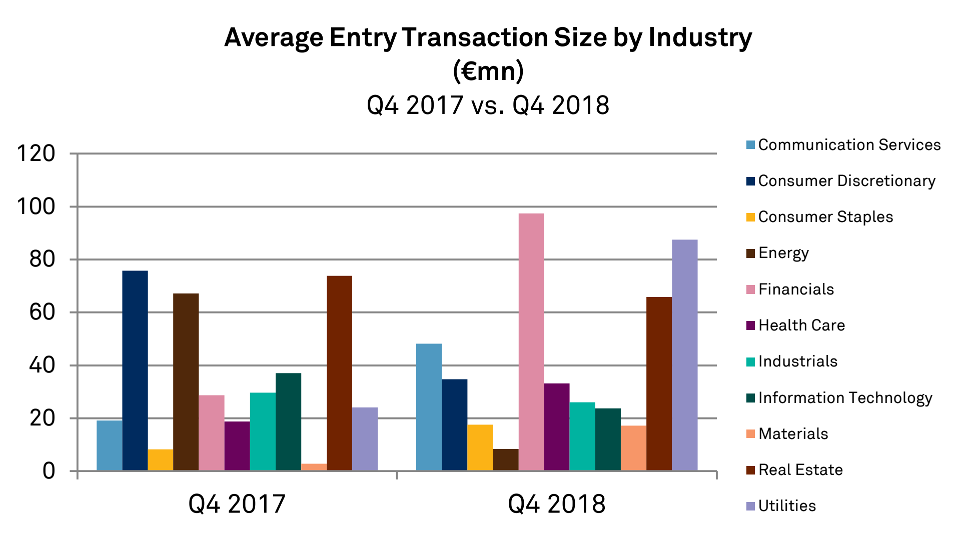
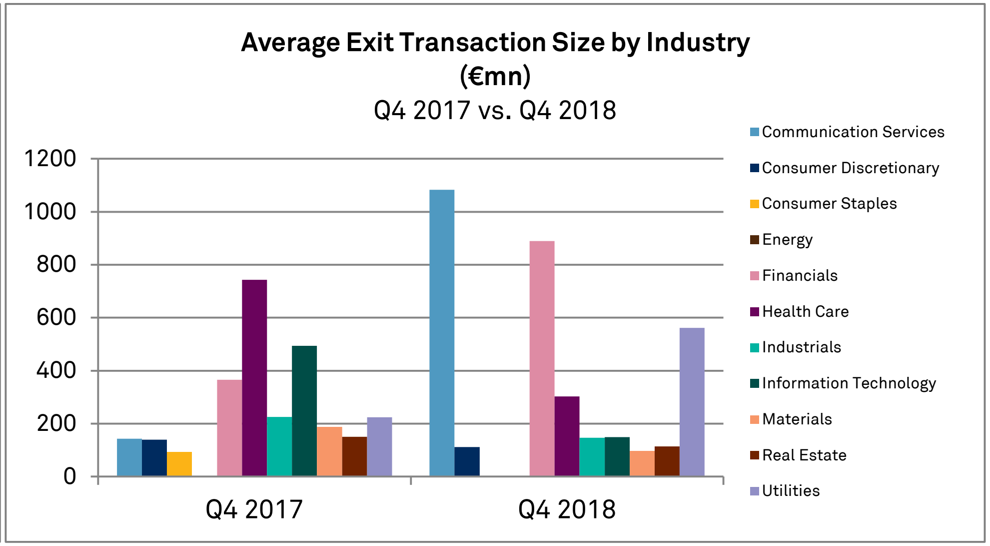
EMEA – Based GPs (continued)









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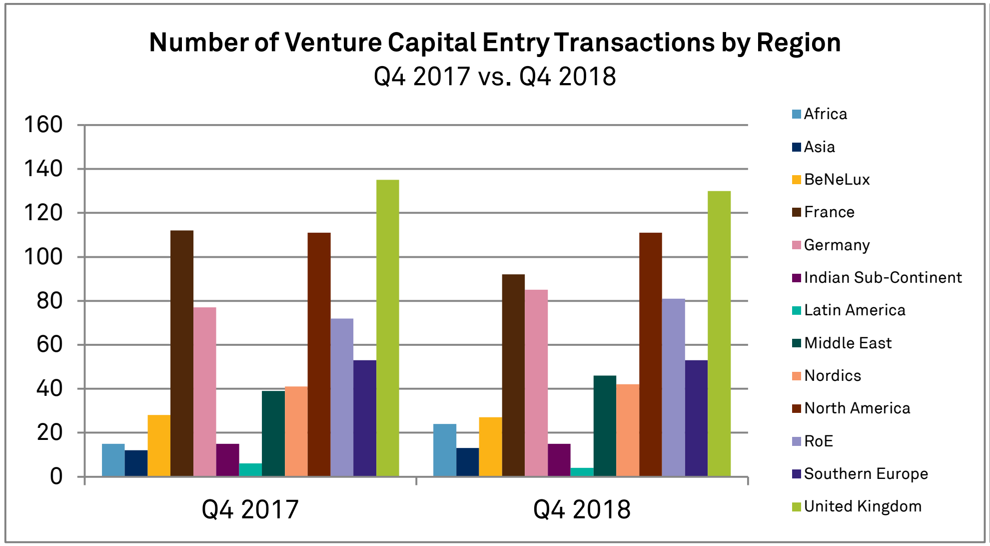
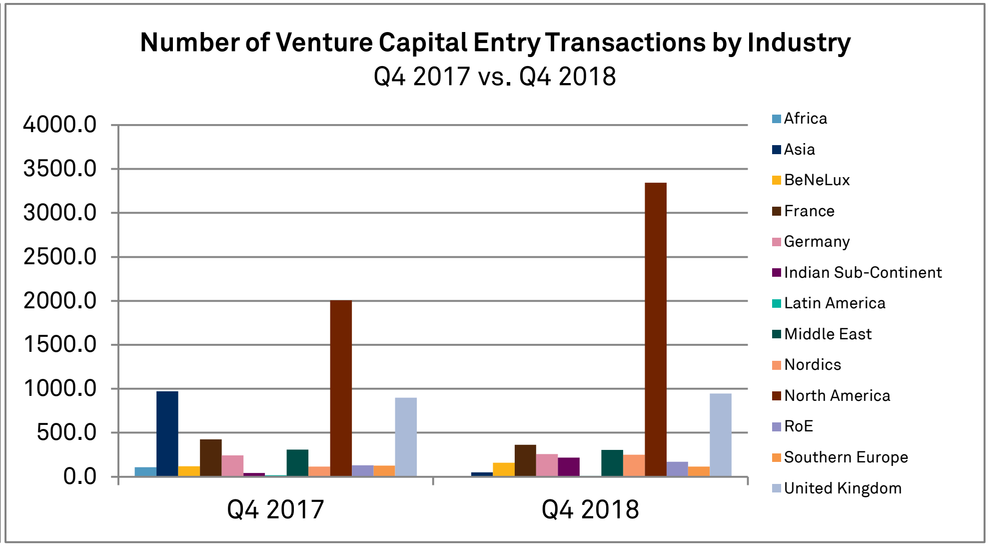
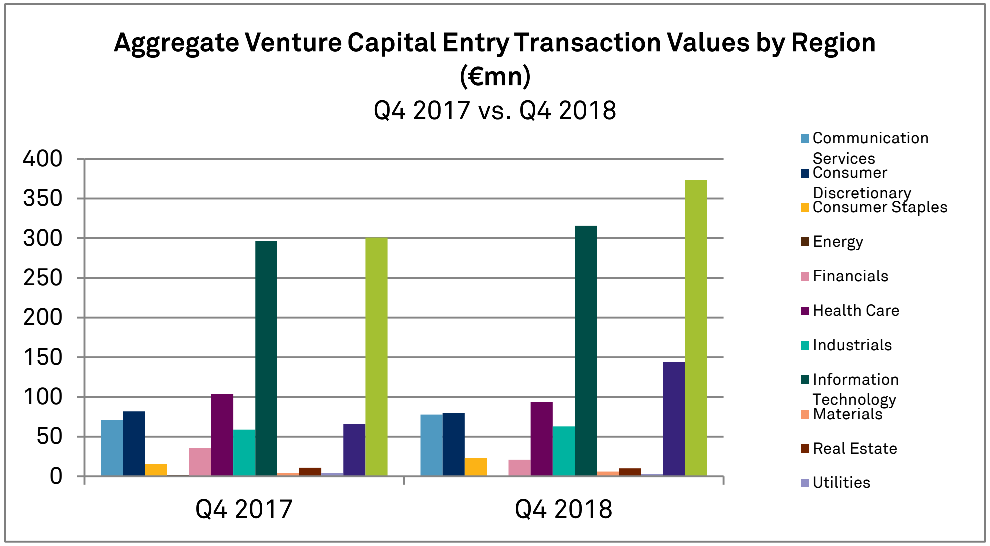
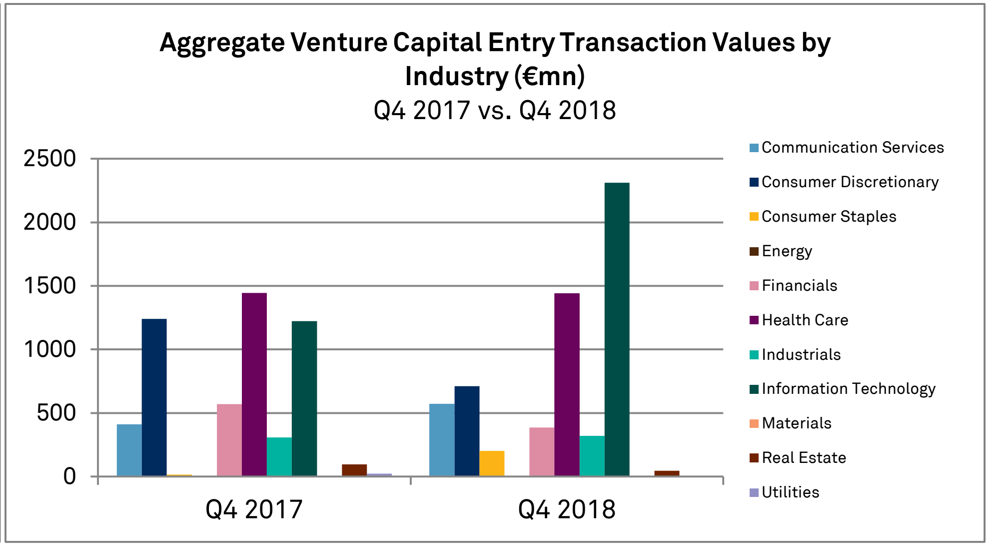
VC EMEA – Based GPs









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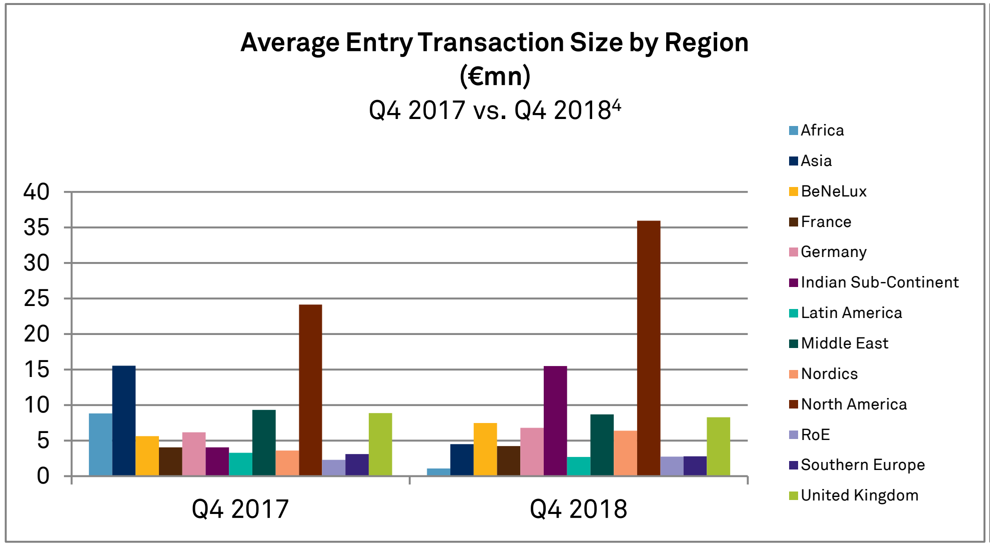
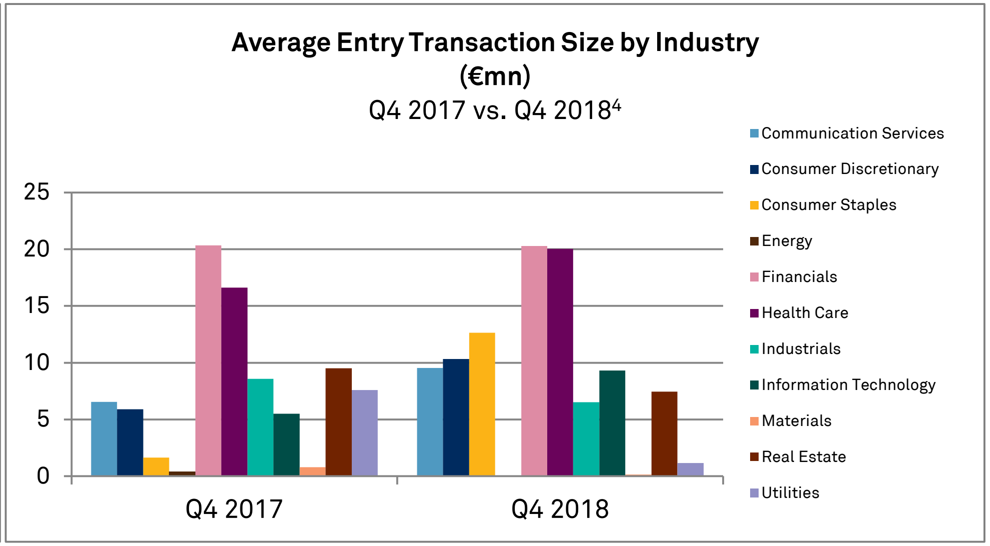
VC EMEA – Based GPs (continued)





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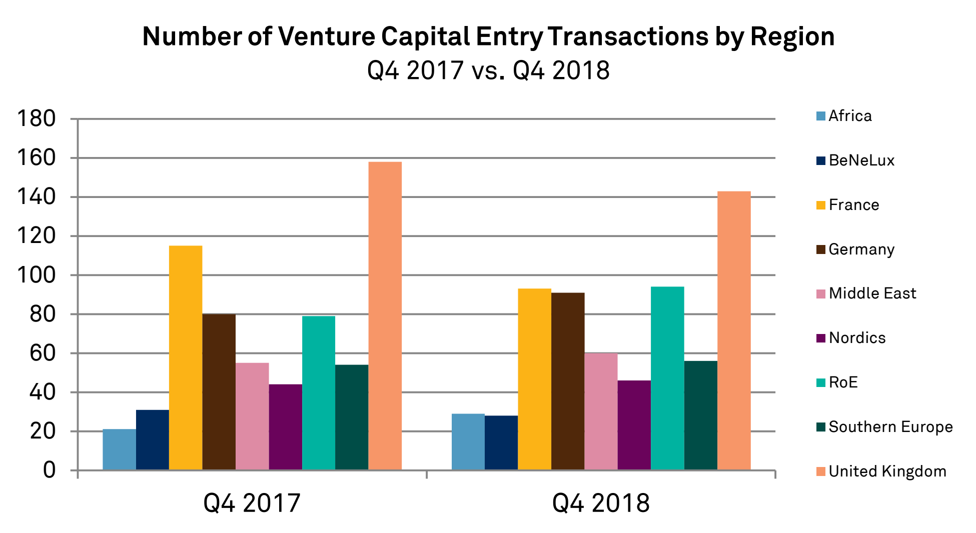
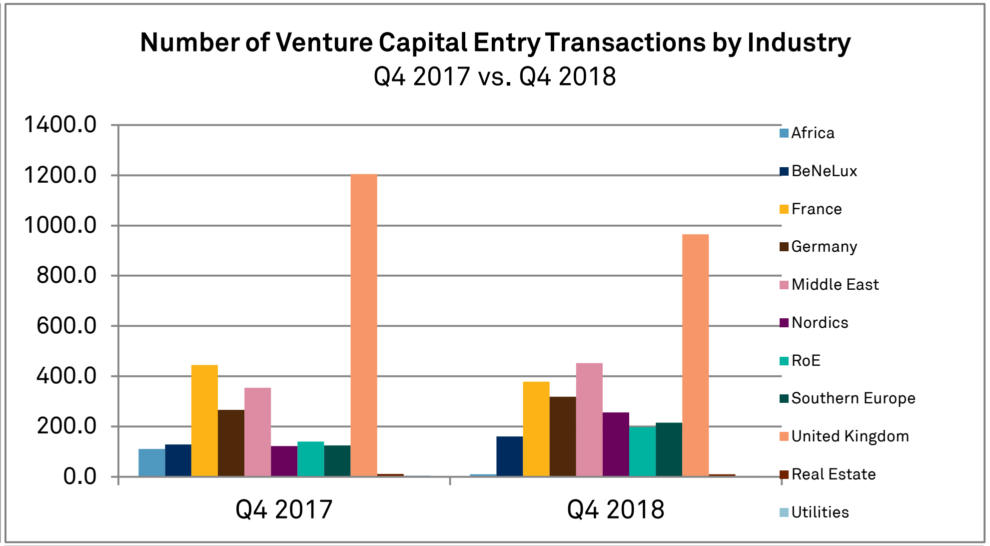
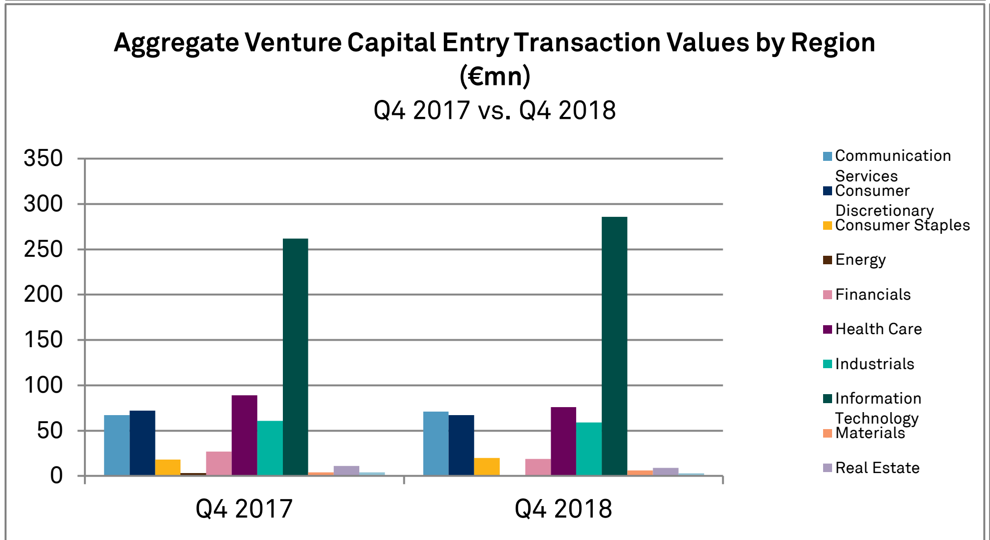
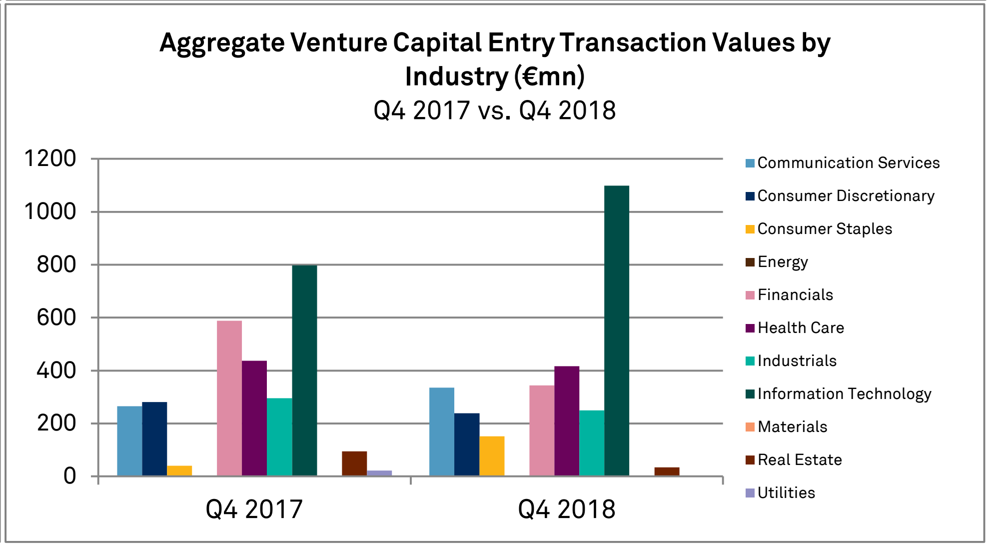
VC EMEA – Based Targets









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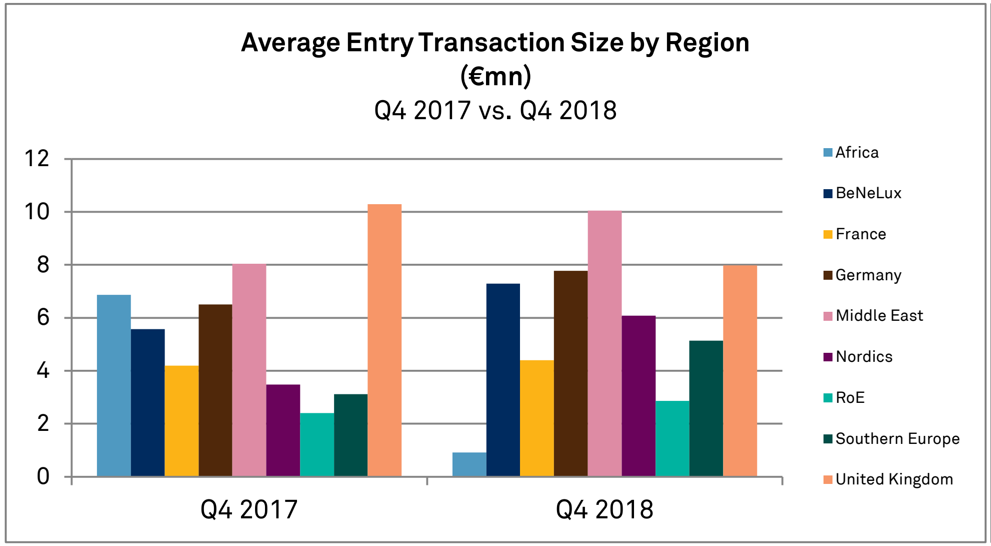
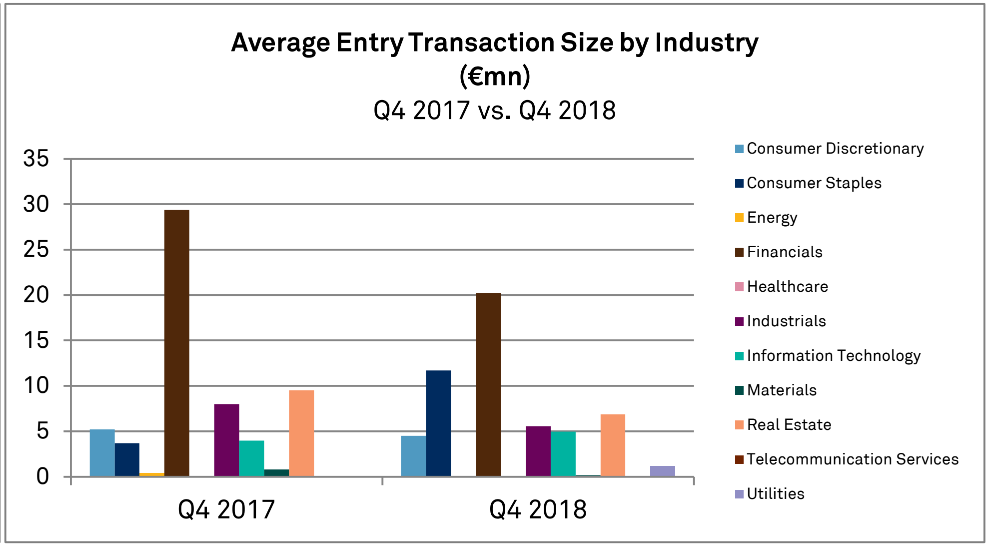
VC EMEA – Based Targets (continued)





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Footnotes

1. The entry transaction aggregates and averages have been calculated after removing the following deals to avoid overestimating the trend: The Carlyle Europe Partners IV, L.P. and Carlyle Partners VII, backed by The Carlyle Group L.P. (NasdaqGS:CG), GIC Pte. Ltd and other investors agreed to acquire Nouryon from Akzo Nobel N.V. for 10.1bn EUR in October 2018. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=557341846&companyId=557341498; China Investment Corporation acquired Logicor Europe Ltd from Blackstone Real Estate Partners Europe IV L.P. for 12.3bn EUR in November 2017. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=433091511&companyId=22793268
2. The exit transaction aggregates and averages have been calculated after removing the following deal to avoid overestimating the trend: Praxair, Inc. (nka:Linde plc) completed the acquisition of Linde Aktiengesellschaft from a group of shareholders in a merger of equals transactions amounting to 42.3bn EUR in October 2018. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=411562263&companyId=874425
3. The exit transaction averages have been calculated after removing following deal to avoid overestimating the trend: John Wood Group plc (LSE:WG) acquired AmecFoster Wheeler plc (LSE:AMFW) from Artisan Partners Limited Partnership for 4.2bn EUR in March 2017. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=423222527&companyId=874988
4. The entry transaction averages have been calculated after removing following deal to avoid overestimating the trend: NIO Inc. received 863.1mn EUR of capital in a round of funding led by Tencent Holdings Ltd., Invetsment Arm in November 2017. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=543021693&companyId=311626862

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Multiples Table

Implied Enterprise Value/EBITDA	EMEA Private Equity Exits, 01/10/2017 - 31/12/2018	M&A, 01/10/2017 - 31/12/2018
Communication Services	10.7	10.9
Consumer Discretionary	10.5	10.9
Consumer Staples	12.1	11.6
Energy	11.1	9.1
Financials	***13.0***	7.8
Health Care	16.3	11.6
Industrials	11.5	10.3
Information Technology	11.9	12.2
Materials	8.6	8.8
Real Estate	26.4	21.7
Utilities	11.1	11.3

Implied Equity Value/LTM Net Income	EMEA Private Equity Exits, 01/10/2017 - 31/12/2018	M&A, 01/10/2017 - 31/12/2018
Communication Services	29.5	24.5
Consumer Discretionary	18.0	18.1
Consumer Staples	19.0	16.7
Energy	***23.0***	21.8
Financials	15.1	14.6
Health Care	25.5	17.9
Industrials	15.9	14.7
Information Technology	15.6	17.9
Materials	14.2	15.1
Real Estate	11.5	14.6
Utilities	30.5	18.4

* Multiples highlighted in bold & italics represent the sector average over a 2 year time horizon in order to provide a more comprehensive sector average

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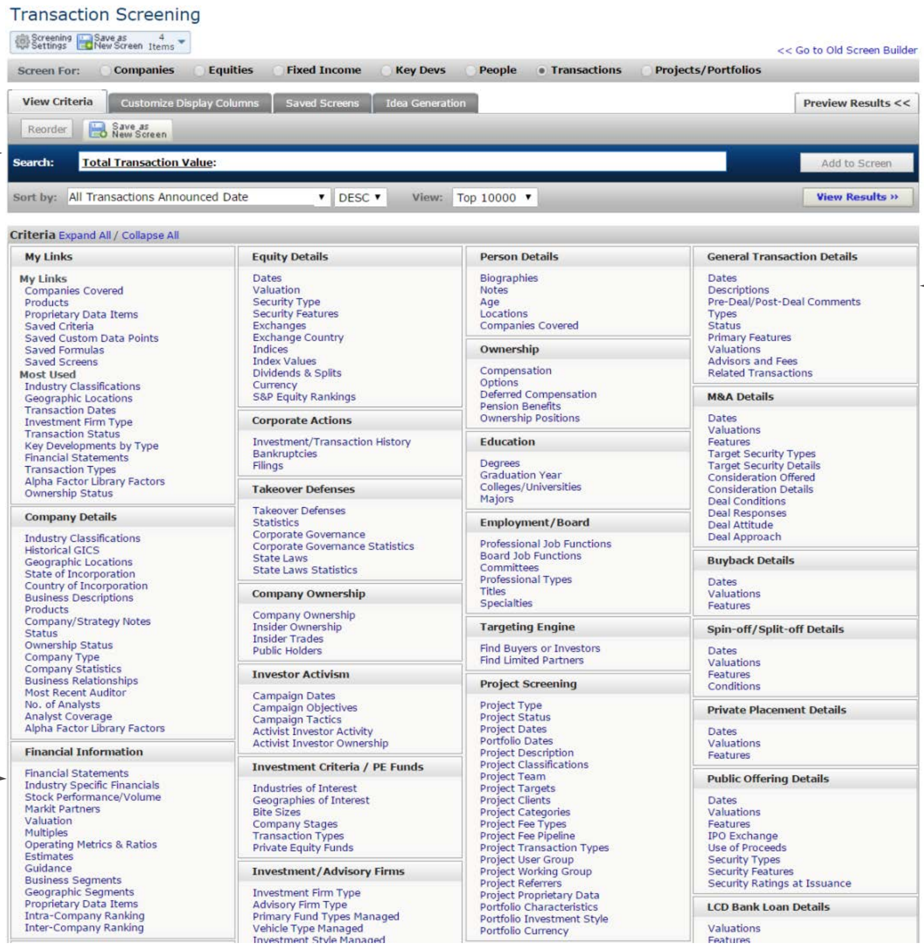

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