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- Traditional Insurers Gaining Momentum
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Welcome to the 21st issue of the **EMEA Private Equity Market Snapshot (EMEA PEMS)**, a quarterly publication focusing on the Private Equity (PE) market in Europe, the Middle East and Africa (EMEA) from S&P Global Market Intelligence.

This issue opens with an analysis of the healthy inflow of new capital deployed by global General Partners into the EMEA region for the first quarter of 2019. Notably — and despite concerns over Brexit — UK targets remain attractive investments.

Next we travel to the Benelux region, which has enjoyed increased attention from financial institutions amid uncertainties around Brexit. As we note, PE capital deployed into the region has enjoyed growth since 2015, with the Information Technology sector in the Netherlands leading the way on an entry deal basis.

We then look at the global Insurance and Insurtech sector to break down the exceptional performance of EMEA-based traditional Insurers versus the relative difficulty EMEA Insurtech firms have experienced in attracting big money, especially as compared to their U.S. peers.

Finally, we examine the leveraged loan and bond market in a feature article by the Leveraged Commentary & Data (LCD). With concerns about the market's general health casting increasingly long shadows on sentiment — and in light of the aging bull market in credit — it appears that the caution expressed in 2018 will be a driving theme into the first quarter of 2019 as well.

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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UK Targets Retain Investment Momentum Despite Brexit Concerns

The Europe, Middle East and Africa (EMEA) region kickstarted 2019 with a heathy inflow of capital from global General Partners (GPs), characterized mainly by large-sized deals. From January 1 to March 15, 2019, aggregate capital deployed by global GPs into the region rose by 14% to €21.0bn. This compared to €18.4bn over the same period in 2018, in spite of the slight decline (2%) in the number of new deals to 944. In the same way, average entry deal size grew by 12% to €37.4m versus €33.0m in 2018. The number of large deals — those valued at €1.0bn or more — grew to four deals with a total value of €8.2bn,[1] compared to one large deal with a total value of €5.6bn[2] in 2018.

€21.0bn
Total capital deployed in EMEA
▲▼14%

Despite concerns over Brexit, UK targets remain attractive investments to global GPs, capturing €5.8bn of new capital deployed across 229 new deals, a near two-fold jump compared to €2.8bn across 203 deals in 2018. Largely responsible for the rise in aggregate deal value were two UK targets qualifying in the €1.0bn-plus range.[3]

Overall on a sector basis, Information Technology (IT) retained its top spot, capturing €5.4bn of new capital deployed by global GPs across 329 deals. However, aggregate deal value fell by 28%, from €7.6bn in 2018, despite an 8% increase in the number of deals, indicating that the size of investments declined. Average entry deal size within the IT sector fell by 30%, from €33.2m in the same period in 2018 to €23.1m.

€37.4m
Average entry deal size
▲▼12%

On the exits front, aggregate capital initially totalled €76.0bn across 186 deals; however, 87% of capital realised was attributable to the largest deal of the quarter, which saw Takeda Pharmaceutical Company Limited acquire Shire Plc for €66.3bn.[4] After removing the outlier, total capital realised from global GPs' exit activity in EMEA targets fell significantly (72%), dropping to €9.7bn compared to €35.1bn in the same period in 2018. The number of exit deals fell as well, to 185 deals — a drop of 40%. As a result, average exit deal size declined from €433.5m in the comparable period in 2018 to €187.4m.

EMEA GPs Pursue Cross-Border Targets

Our study period (January 1 to March 15, 2019) revealed large-sized investments among EMEA-based GPs, as total capital deployed

[1] 2019 global entry investments into EMEA-based targets in the €1bn+ plus bracket: Ahlsell AB (publ), Battersea Power Station Building, Commercial Estate Portfolio in the UK, and SUSE International Holdings GmbH/SUSE GmbH/SUSE LLC.

[2] 2018 global entry investments into EMEA-based targets in the €1bn+ plus bracket: Nets A/S.

[3] UK targets, both in the Real Estate sector, qualifying in the €1bn+ plus bracket: Battersea Power Station Building acquisition for €1.8bn and Commercial Estate Portfolio in the UK acquisition for €1.6bn.

[4] The acquisition of Shire Plc's equity stake by Takeda Pharmaceutical Company Limited for €66.3bn (As of 15/03/19). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=559732837&companyId=385727.

globally rose 76%, from €17.8bn to €31.3bn, whereas the number of deals remained roughly steady at 1,053.

€31.3bn
Total capital deployed from EMEA-based GPs
▲▼76%

Interest in cross-border targets continued to manifest during the study period. Amassing €18.3 of new capital deployed by EMEA-based GPs across 216 deals, cross-border targets registered a two-fold jump in aggregate deal value (from €8.8bn across 201 deals in the same period in 2018). Local targets, on the other hand, received €13.0bn of new capital deployed across 837 deals, a 45% increase compared to the same period in 2018.

The number of large deals involving EMEA-based GPs produced within the study period rose to six deals, with a total deal value of €16.3bn,[5] versus one deal valued at €1.2bn in 2018.[6] It is worth noting that four of six large deals involved cross-border targets, largely comprising North American targets. Unsurprisingly, North American targets received the highest capital allocation among cross-border targets, as aggregate deal value tripled to €15.0bn across 151 deals from €5.0bn across 141 deals in the comparable period in 2018.

€15.0bn
Total capital deployed in North America from EMEA-based GPs
▲▼300%

On a sector basis, Industrials won over IT, garnering €9.2bn across 120 deals; however, this increase was largely driven by a single, large deal involving the acquisition of The Dun & Bradstreet Corporation for €5.9bn in February 2019.[7] Not far off is the IT sector, which captured €8.7bn of new capital deployed, and registered the most number of new deals, with a staggering 385 new investments from EMEA-based GPs. Additionally, two of six large deals noted involved IT sector targets, namely ConvergeOne Holdings, Inc. and Guazi.com, Inc.

€6.1bn
Total capital realised by EMEA-based GPs
▲▼85%

Within our study period, divestment activity of EMEA-based GPs initially appeared to exhibit growth, as aggregate capital realised reached €72.4bn; however, 91% of the capital realised is made up of the acquisition of Shire Plc's equity stake for €66.3bn. Removal of the outlier transaction brings down total capital realised by EMEA-based GPs to only €6.1bn from €39.5bn in the same period last year — an 85% drop. At the same time, the number of exit deals fell by 46%, from 301 to 162 deals.

Delving deeper into the world of venture capital (VC) investments, EMEA-based VC investors spent 7% more capital on global targets

[5] 2019 EMEA-based GPs' entry investments into global targets in the €1bn+ plus bracket: Ahlsell AB (publ), Assets in the Americas of Linde Aktiengesellschaft, ConvergeOne Holdings, Inc., Guazi.com, Inc., SUSE International Holdings GmbH/SUSE GmbH/SUSE LLC, and The Dun & Bradstreet Corporation.

[6] 2018 EMEA-based GPs' entry investments into global targets in the €1bn+ plus bracket: PT Go-Jek Indonesia.

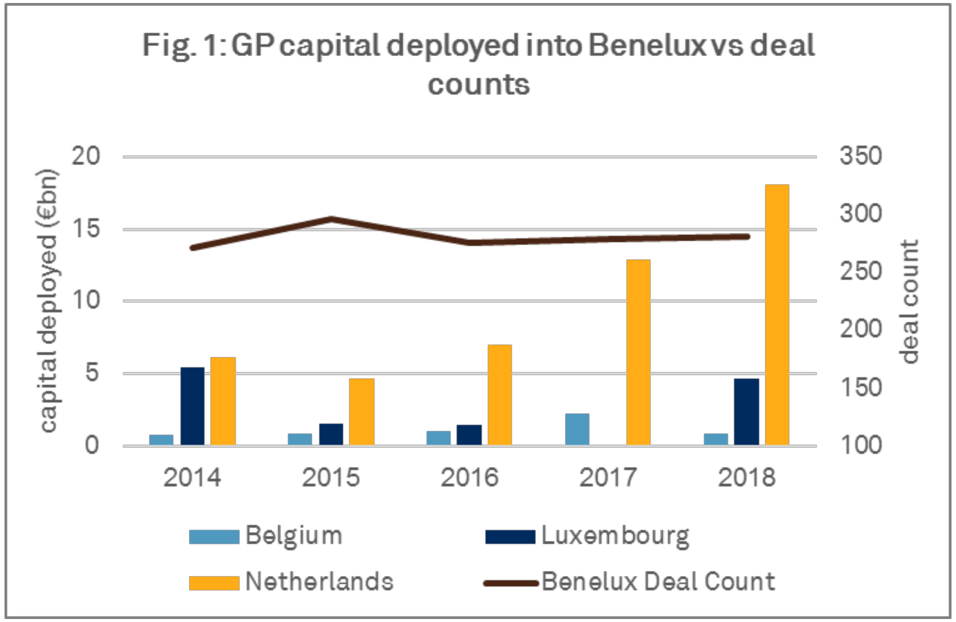
[7] The acquisition of The Dun & Bradstreet Corporation by a group of investors for €5.9 (As of 15/03/19). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=576807422&companyId=27755.

during the study period, a total of €5.3bn across 523 deals. Preference in cross-border targets became apparent, with North American targets receiving 54% of new capital deployed, amounting to €2.9bn. Global VC investments within the EMEA region, on the other hand, were characterized by large-sized deals; new capital deployed rose by 39%, from €1.7bn in 2018 to €2.4bn, despite a 5% decline in the number of entry deals. Surprisingly, Middle East targets took the lion's share of new money, standing at €640.9m.

The Benelux Maintains Its 'Steady State'

During our study period of January 1, 2014 to December 31, 2018, total private equity (PE) capital deployed into the Benelux region totalled €67.8bn across 1,404 deals. Put into context, this amounts to a 10% share of aggregate PE capital deployed into the EMEA region.

Overall, PE capital deployed into Benelux has grown steadily each year since 2015 by a Compound Annual Growth Rate (CAGR) of 35%, and increased 50% from 2017 to 2018 to total €23.6bn. While total capital deployed increased during the study period, entry deal activity levels were very stable, with an overall CAGR of just 1% from 2017 to 2018, to total 281 for the year.



Data as of 15/03/19. Source: S&P Global Market Intelligence. For illustrative purposes only.

The stability in entry deal counts makes for an interesting contrast to the current trend of financial companies, spurred by Brexit concerns around future access to European markets, seeking to relocate to Benelux.[8] In total, 36 financial companies, including 3i Group and Blackstone, have announced they are looking to relocate to the Benelux region as a result of Brexit, with Luxembourg emerging as the most popular European destination. Luxembourg's appeal spans several areas: its thriving investment fund industry, proximity to major European markets, and lower risk profile versus other contending destinations.[9] Further down the pecking order, The Netherlands was

[8] Germany, Ireland, Luxembourg top choices for post-Brexit EU financial business (As of 15/03/19). S&P Global Market Intelligence. Retrieved from https://platform.marketintelligence.spglobal.com/web/client?auth=inherit&ignoreIDMContext=1#news/article?id=49053512&KeyProductLinkType=16.

[9] DBRS: Luxembourg financial sector to benefit from Brexit (As of 15/03/19). S&P Global Market Intelligence. Retrieved from https://platform.marketintelligence.spglobal.com/web/client?auth=inherit&ignoreIDMContext=1#news/article?id=42098717&KeyProductLinkType=2.

the fourth most popular destination, with 12 financial companies looking to relocate, and Belgium fifth, with five.[10]

Exploring the geographic PE capital allocations reveals that, of the three nations, The Netherlands is consistently targeted the most, capturing 72% (€48.8bn) of PE capital allocations during the study period, followed by Luxembourg, with 20% (€13bn), and Belgium, with 9% (€5.8bn). It will be interesting to observe if The Netherlands maintains the same proportions in 2019 given the recent downgrade of the Dutch economy's growth forecast from 2.4% to 1.5% in 2019 — its lowest since 2014. The downgrade is a reflection of the Dutch economy's high exposure to global trade and geopolitics. Uncertainties around U.S. trade policy, Brexit (the UK is the Netherlands third largest trading partner), and the state of the Chinese economy are all key factors affecting 2019 Dutch economic prospects.[11]

Exploring the allocations on an entry deal count basis again places The Netherlands in the lead, capturing 70% of overall activity (980 deals). Second and third positions, however, are reversed, with Belgium capturing 25% (350 deals) and Luxembourg, 5% (74 deals).

The reversal for Luxembourg as the second-most targeted nation on a capital deployed basis, but third on an entry deal count basis, highlights Luxembourg's larger average entry deal size. Among the three nations, the average entry deal size in Luxembourg stands at €179m, compared to €49.8m for The Netherlands and €16.6m for Belgium.

The Netherland's IT Sector Continues to Attract GPs

From a sectorial perspective, PE capital deployed has been fairly fragmented across the Benelux region, with Materials, Industrials, and IT leading the pack with €18bn (27%), €11.5bn (17%), and €9.1bn (13%), respectively. Driven by the €10.1bn Nouryon buyout in 2018 — the largest deal during the study period — Materials led all others for only the second time during the study period, with €10.3bn in deployed capital.

However, on an entry deal count basis, IT has consistently led all others, with 409 deals during the study period equating to 29% of total deal entry activity. The Netherlands was the driving force, with 69% of IT deal entry activity. Indeed, 2018 was a record year both for The Netherlands and the Benelux region as a whole, with 61 and 92 deals respectively during the study period. GPs that are committing their capital to The Netherlands' IT sector will certainly be hoping to generate future Dutch 'unicorn'[12] club members to rival the success story of Dutch payment processor Adyen N.V., In 2014, Adinvest AG, Felicis Ventures and Partners in Equity invested in Adyen N.V. for €212m; the company went on to an initial public offering (IPO) for €849m last year and is now trading 40.7% up on its market debut price.[13]

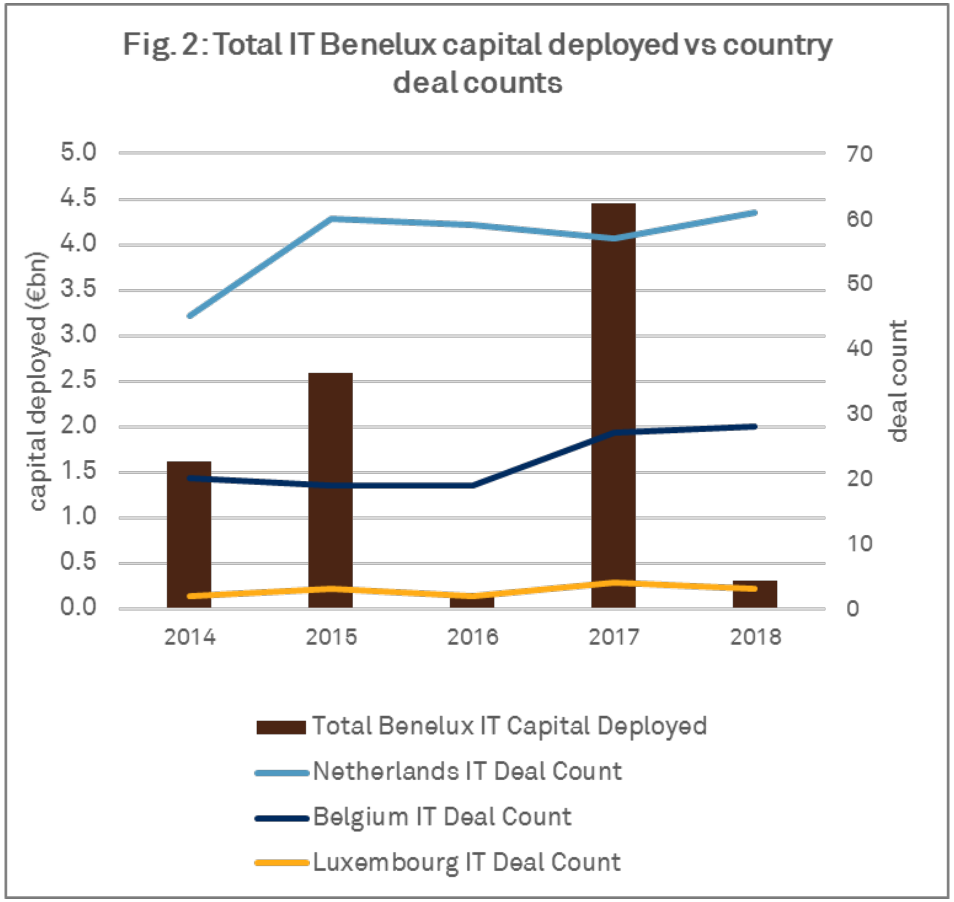
[10] Countdown To Brexit: Rating Implications Of A No-Deal Brexit (As of 15/03/19). S&P Capital IQ platform. Retrieved from https://www.capitaliq.com/CIQDotNet/CreditResearch/SPResearch.aspx?articleId=&ArtObjectId=10862702&ArtRevId=1&sid=&sind=A&.

[11] Export reliance hits German, Dutch economies as Brexit, global trade take toll (As of 15/03/19). S&P Global Market Intelligence. Retrieved from https://platform.marketintelligence.spglobal.com/web/client?auth=inherit&ignoreIDMContext=1#security/login?target=news/article?id=50478135&KeyProductLinkType=24.

[12] European fintech: Rise of the 'unicorns.' (As of 15/03/19). S&P Global Market Intelligence Retrieved from https://platform.marketintelligence.spglobal.com/web/client?auth=inherit&ignoreIDMContext=1#news/article?id=50538258.

[13] Adyen N.V. (As of 29/03/2019,). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=569794888&companyId=128534719.

The Benelux region has always been characterized by the lower mid-market deal size bracket, with 93% of deals landing here, followed by middle mid-market and lower mid-market. Conversely, on a capital deployed basis, lower mid-market attracted the lowest level, with only 6% of the total capital deployed. Instead, mega deals have dominated, capturing 63% of total capital deployed, due to 15 deals across The Netherlands and Luxembourg ranging in size from €1.2bn to €10.1bn.



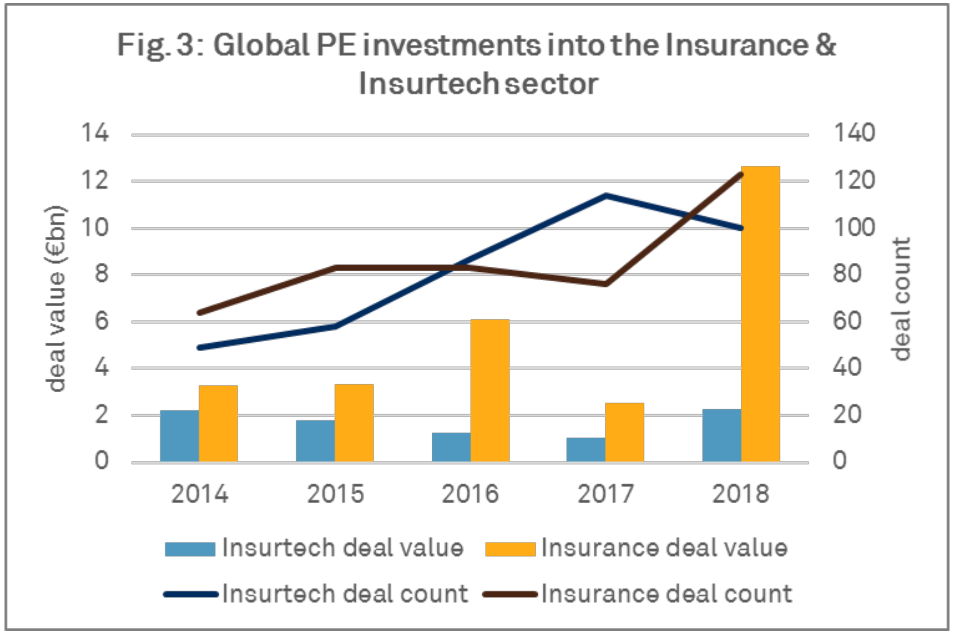
Data as of 15/03/19. Source: S&P Global Market Intelligence. For illustrative purposes only.

In keeping with the general trend of increasing valuations, the Benelux region is also following suit, with the average implied enterprise value/Earnings Before Tax, Depreciation and Amortization (EBITA) multiple increasing by 4% from 2017 to 2018 to 12x — 12% above the study period average of 10.6x.

On the exits front, €128bn in capital has been realised in Benelux across 564 deals. Capital realised in 2018 was down 53% on 2017's total, with total activity on a deal count basis down 23% to 100, indicative of the trend towards longer holding periods. In terms of exit routes, trade sales have dominated, capturing 78% (€99bn) over the study period, followed by secondaries with 15% (€4.4bn), and PE offerings with 7% (€4.7bn).

Traditional Insurers Gaining Momentum

Far from being the prominent sub-sector within the broader financial sector, the Insurance industry has constituted, on an aggregate level, only 16% of all PE investments into Financials over the study period (January 1, 2014 to - December 31, 2018). Albeit relatively small, the Insurance industry has seen a robust interest from global PE players, however, propelling the markets to record highs in the last year. Supported by strong growth in the number of closed deals (61%), deal value soared to €12.6bn in 2018, a 229% increase over the average from 2014 to 2017.



Data as of 15/03/19. Source: S&P Global Market Intelligence. For illustrative purposes only.

Insurer brokers have long appeared to be stalwart targets within the Insurance sector, accounting for 55% of overall deal activity over the study period. From a regional perspective, North America has been the most targeted region, receiving almost four times more capital than EMEA's traditional Insurers (€19.2bn versus €5.3bn), in spite of EMEA overtaking North America every single year in terms of the number of deals.

PE investments into EMEA-based Insurers played a part in the sector's exceptional performance in 2018. Total deal value deployed to the region skyrocketed to €2.9bn, compared to just €511m in 2017, and deal count grew by 64%. The UK has unquestionably been the most popular destination within the region, representing 40% of aggregate deal value across the years. Notably, the headline grabbing public-to-private €1.3bn transaction of UK-based esure Group plc[14] by a group of investors led by Bain Capital amounted to 50% of total deal value (€2.9bn) deployed to the whole EMEA region in 2018.

While traditional Insurers attracted an increased level of capital, global GPs do not seem to share the same appetite for Insurance Technology (Insurtech) companies. Despite the ever-evolving Insurtech universe and growing number of potential opportunities, the overall picture for deal value was flat over the study period. That said, 2018 brought some signs of revival to the industry, with new money to the sector netting €2.29bn, a 120% increase over 2017. Yet this spike was mainly attributable to the top three deals totalling €1bn.[15]

Are EMEA Insurtech Targets Not Attractive Enough …

Global PE investment activity into Insurtech is heavily concentrated in U.S. firms. Between 2014 and 2018, €5.3bn, or 62%, of new money deployed targeted U.S.-based firms. According to S&P Global Market Intelligence research on U.S. Fintech investments,[16] more than $2.2bn

[14] esure Group plc (As of 29/3/2019). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=577329590&companyId=231725669.

[15] Cambridge Mobile Telematics Inc. (As of 29/3/2019). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=595600570&companyId=271560580.

ETechAces Marketing and Consulting Private Limited (As of 29/3/2019). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=571871315&companyId=49165047.

Oscar Insurance Corporation (As of 29/3/2019). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=577539039&companyId=243365371

[16] Big US Fintech investments end 2018 on a high note (As of 15/03/19). S&P Global Market Intelligence. Retrieved from https://www.spglobal.com/marketintelligence/en/news-insights/trending/e2CDRD2bOxXqTfyrAZhQ7w2.

was channelled into U.S. Insurtech companies in 2018 alone, making Insurtech the most invested segment in the U.S. Fintech sector.

Despite presenting a huge potential customer base and similar technological advantages, the EMEA headquartered Insurtech firms attracted only 18.4% (€1.5bn) of total GPs capital in this sector over the entire study period. In 2018, EMEA's Insurtech firms received 13x less capital than their U.S. counterparts.

In examining EMEA's sponsor backed Private Placement deals, two major Insurtech hubs stand out. UK-based start-ups attracted the majority of new capital across the observed period (€157m, 29% of total capital invested), closely followed by France (€108m, 20%) and, with some distance, Sweden (€68m) and Germany (€64m). Expectedly, start-ups representing the above countries are among EMEA's top six Insurtech firms by total capital raised (see Table 1).

Table 1: Private EMEA-based Insurtech companies that have raised the most capital

Company	Location	Year Founded	Total Amount raised (€m)	Aggr. Holding Period (yrs)*
Gryphon Group Holdings Limited	UK	2016	202.86	1.78
Shift Technology SAS	France	2013	87.9	4.32
Milvik AB	Sweden	2010	74.21	6.1
simplesurance GmbH	Germany	2012	41.31	6.56
PremFina Limited	UK	2010	31.76	1.48
FinanceApp AG	Switzerland	2014	29.53	3.21

Ranking based on private placements that have closed and where the company disclosed the amount raised. Data as of 15/03/19. Source: S&P Global Market Intelligence. For illustrative purposes only.
* S&P Capital IQ Aggregate Holding Period is calculated in years from the date of first instance of a transaction between a financial buyer and the target company.

...Or Perhaps Just Not Mature Enough?

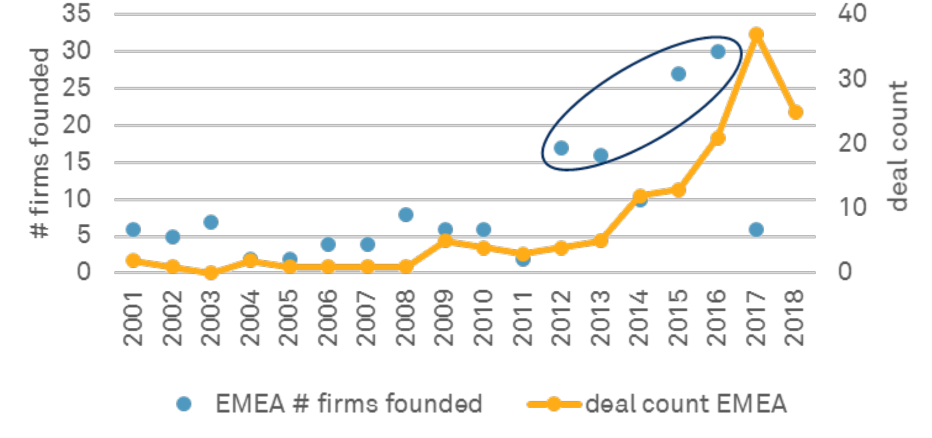
U.S.-based Oscar Insurance Corp., Clover Health Inc., and Metromile Inc. managed to raise a healthy €1.5bn among them, equaling the total amount raised by all EMEA's Insurtech start-ups across the study period. Compared to the cross-Atlantic peers, EMEA targets are looking relatively immature. As cited in the S&P Global Market Intelligence document, "2018 U.S. Insurtech Market Report,"[17] the above stated heavyweights belong to the first batch of companies founded in the early 2010s during the first big surge of start-ups entering this emerging sector. Similar to their U.S. peers, EMEA-based start-ups began to emerge in 2012, with a second strong spike in 2015 and 2016 (Figure 4). A changing European regulatory environment may be the primary explanation for the second surge of emerging firms. Insurance Mediation Directive (IMD2), Packaged Retail and Insurance-based Insurance Products (PRIIPs), Solvency II, and the Markets in Financial Instruments Directive (MiFID2) created "'an advice gap' at the low end of the market" and a need for "standardized products supported by online 'self-advice' engines and remote sales support."[18]

According to S&P Global Market Intelligence data, on average, EMEA-based Insurtech companies received their first major sponsor-backed round of funding three years after their founding year. In 2019, roughly one third of EMEA's Insurtech universe will be reaching their third- or fourth-year anniversary and, therefore, a potential uptick in deal count and value can be expected this year and in 2020.

[17] 2018 US Insurtech Report (as of 12/19).S&P Global Market Intelligence. Rerieved from https://www.spglobal.com/marketintelligence/en/news-insights/blog/2018-us-insurtech-report.

[18] EU Insurers Must Adapt as New Sales Regulations Loom (As of 06/19). Boston Consulting Group. Retrieved from https://www.bcg.com/publications/2014/insurance-financial-institutions-change-before-you-have-to-eu-insurers-adapt-new-sales-regulations.aspx.

Fig. 4: Number of EMEA Insurtech startups founded vs EMEA Insurtech deal count



Data as of 15/03/19. Source: S&P Global Market Intelligence. For illustrative purposes only.

2019 is off to a good start for both Insurtechs and traditional Insurers. In Q1 2019,[19] PE investments into Insurtech targets reached €365m across 25 deals globally, or 82% compared to the same quarter last year. Traditional Insurers raised €2.5bn across 19 deals (56% compared to Q1 2018). EMEA's Insurtechs attracted €59m across four deals, or 45% of total deal value for the entire year of 2018.

Despite the promising start to 2019, the Insurance industry is still facing uncertainties around Brexit. In February 2019, UK insurers and Insurance Intermediaries were warned by the Financial Conduct Authority [20] that they should already have made plans for their

[19] Q1/2019 closed transactions considered between January 1, 2019 and March 15, 2019.

[20] Brexit: information for general insurers and intermediaries in the UK (As of 02/19). Financial Conduct Authority. Retrieved from https://www.fca.org.uk/firms/preparing-for-brexit/uk-general-insurers-intermediaries.

European Economic Area customers in a no-deal scenario. According to a survey conducted by the UK Managing General Agents Association in August, 2018,[21] only 53% of respondents were working on, or already had, a Brexit strategy in place. On March 29, 2019, the "no deal" scenario was still on the table and, if put into effect, will have a significant impact on the deal activity across the UK and the rest of Europe.

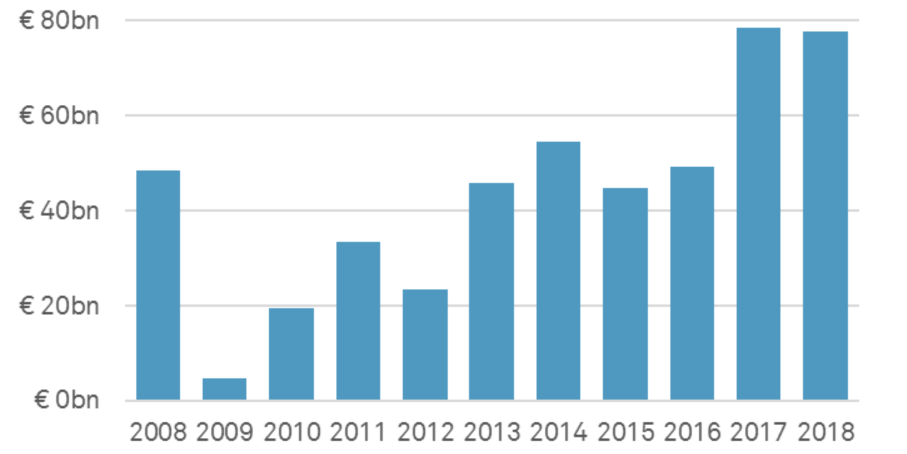
Feature Article
Leveraged Commentary & Data (LCD)

All Good Things Must Come to an End

As the bull market in credit steadily ages, concerns about the market's general health have cast increasingly long shadows on sentiment. These underlying currents of anxiety surfaced in the fourth quarter of 2018, as the markets generally shut down over the last few months of the year and secondary pricing tumbled across the board. Behaviour in the first quarter of 2019 indicates that, even though the end is not here yet, caution remains a driving theme.

Generally, 2018 was a positive year for the credit markets, and sponsor-driven activity was a key driver of the bull market performance. Although total loan volume was down 20% from 2017's post-credit crisis peak of €120bn, sponsored transactions dominated. In total, they represented 80% of total volume in 2018, one of the highest shares in the past decade, and well ahead of the 65% share in 2017. Total sponsored loan volume for the year was €78bn, well in line with 2017's €79bn, despite the decline in total volume.

Fig. 5: European sponsored loans – total annual volume



Data as of 15/03/19. Source: LCD, an offering of S&P Global Market Intelligence. For illustrative purposes only.

Of course, sponsor-driven transactions are dominated by buyouts and acquisitions. In 2018, 74% of European-sponsored transactions supported mergers and acquisitions, well above 2017's 54%. More importantly, the long-awaited jumbo buyouts reappeared in 2018. These sponsored buyouts included KKR's of Flora Food Group (€5.8bn),[22] Macquarie's of TDC A/S (€5.8bn),[23] Blackstone's of Refinitiv

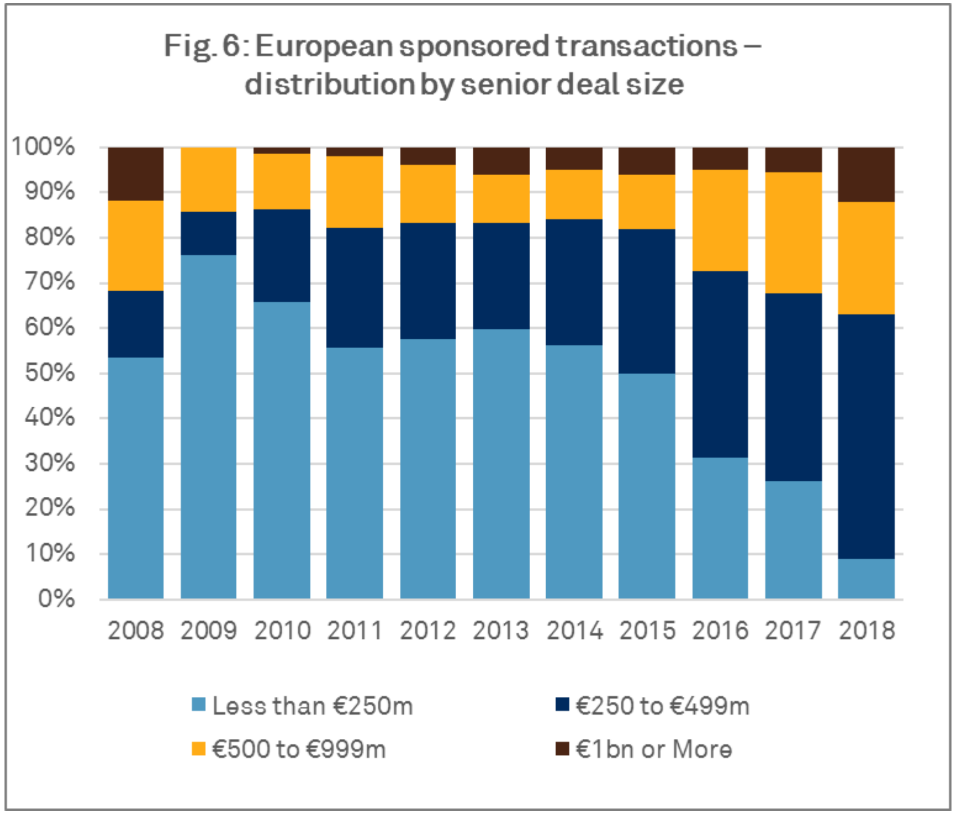
[21] UK MGAs warm to Insurtech, raise Brexit concerns: MGAA survey (As of 08/19). Reinsurance News. Retrieved from https://www.reinsurancene.ws/uk-mgas-warm-to-insurtech-raise-brexit-concerns-mgaa-survey/.

[22] Upfield Foods (As of 29/3/2019). LCD data. Please contact us for more details.

[23] TDS A/S (As of 29/3/2019). LCD data. Please contact us for more details.

(€12.2bn),[24] Partners and Ontario Teachers' of Techem (€3.1bn),[25] and Carlyle and GIC's of Akzo Nobel Chemicals (€7.2bn).[26]

When all was said and done, 12% of 2018's sponsored transactions in Europe featured €1bn or more in senior loans — that's double the 6% in 2017 and marks the highest share since 2007. An additional 25% of sponsored transactions were €500m to €999m in size, on par with 2017's record setting 27%. The average senior deal size in 2018, at €625m, was the highest in the past 15 years and 40% higher than 2017's average of €452m.



Data as of 15/03/19. Source: LCD, an offering of S&P Global Market Intelligence. For illustrative purposes only.

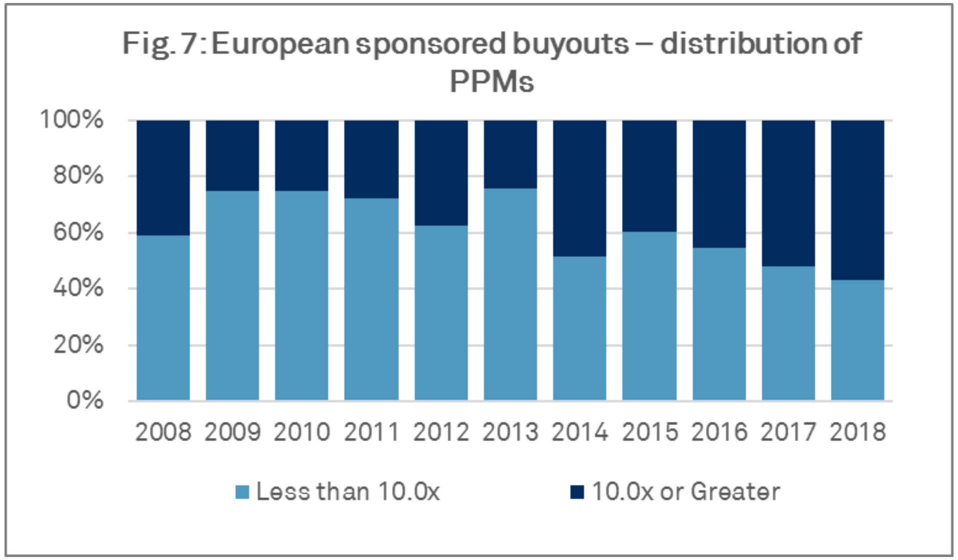
Of course, while the swell of sponsored buyouts brought much needed supply to credit market investors, it also raised the risk metrics that concern those same investors. Purchase price multiples (PPMs) continued to push from 10x to 11x, and leveraged multiples rose in turn.

[24] Refinitiv (As of 29/3/2019). LCD data. Please contact us for more details.

[25] Techem GmbH (As of 29/3/2019). LCD data. Please contact us for more details.

[26] Nouryon (As of 29/3/2019). LCD data. Please contact us for more details.

In 2018, the average PPM for sponsored European buyouts rose to 10.9x, more than half a turn higher than 2017's 10.3x. Of those transactions, 43% carried a PPM of 12x or higher — double the levels in the prior years. And 57% of those transactions had a PPM of 10x or higher, making 2018 and 2017 the first two years in which that share exceeded 50%.



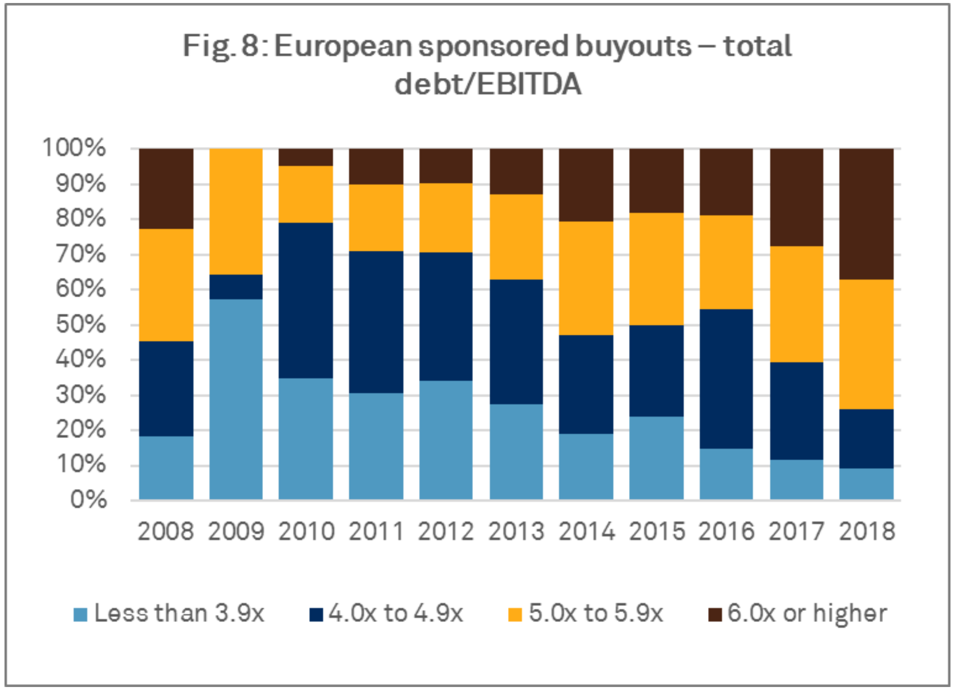
Data as of 15/03/19. Source: LCD, an offering of S&P Global Market Intelligence. For illustrative purposes only.

At the same time, leverage soared on sponsored transactions. The average debt/EBITDA leverage multiple on all sponsor-backed transactions was 5.7x in 2018 — up from 5.3x in 2017, and marking the highest such figure since 6.1x at the height of the pre-crisis market in 2007. Average leverage across the first-lien tranches rose to 5x, topping the previous record of 4.9x from 2017, to reach the highest level since LCD began tracking this data in 2001.

Meanwhile, the proportion of sponsor-backed transactions leveraged at more than 5x increased in 2018 to a whopping 74% of the market by deal count, matching the percentage of highly leveraged deals in 2007. Some 37% of sponsors' deals in 2018 were leveraged at 6x or more, and while this is far behind the 51% seen in 2007, it is still significantly higher than the 15% average recorded from 2008-2017.

At the other end of the leverage scale, the availability of conservatively leveraged transactions fell. Only 9% of sponsored deals in 2018 were leveraged at less than 4x, the lowest proportion seen since LCD started tracking this figure in 1997 (the average for the 21-year period since is 28%). The percentage share of such leveraged deals has been in near-steady decline since the peak of 57% recorded in 2009 while, even in 2007 at the peak of the pre-crisis boom, deals with multiples of less than 4x made up 13% of issuance.

The general rise in leverage is echoed in the increasing popularity of financing structures that include junior debt products, with the proportion of deals financed through senior and second-lien debt increasing to 18% in 2018. That is the highest proportion since 2007, and almost twice the share seen in the prior year.



Data as of 15/03/19. Source: LCD, an offering of S&P Global Market Intelligence. For illustrative purposes only.

Hazard Lights On

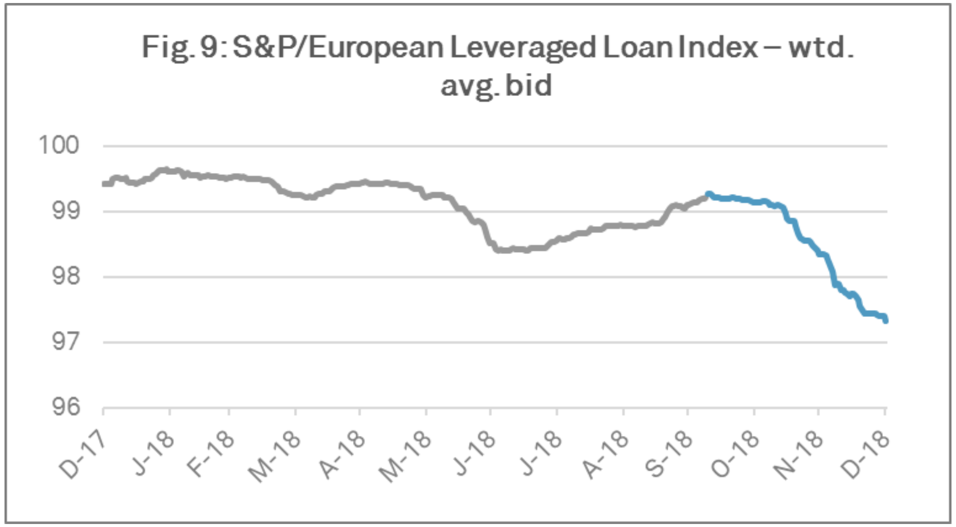
Despite the confidence implied by the return of jumbo buyouts, secondary market softness eventually dragged down primary market issuance during the fourth quarter. A selloff in wider financial markets that first hit the secondary before closing down much of the primary across high yield and loans made for a disappointing end to the quarter and year for leveraged finance in Europe.

Of the risk assets, loans were the slowest to react to the deteriorating conditions, starting strong in the fourth quarter of 2018 only to stutter as a falling secondary dragged volume lower and led pricing higher. Indeed, the picture at year-end was quite different to the backdrop at the start of the fourth quarter, when better-than-predicted results from a series of banner syndications boosted sentiment and brought a mini-wave of opportunistic recaps and re-financings.

In mid-October, the market began an initially slow selloff that gathered pace in November. "Loans are not immune to market volatility but they are not as impacted as high yield, and high yield is not as impacted as equities," said one fund manager.[27]

LCD sources explain the instability was initially imported from the U.S. and high yield, but was soon compounded by deepening economic and political gloom across Europe and beyond, as well as a general receding of risk appetite in the run up to the Christmas break. "Market conditions have changed and the macro uncertainties are much greater now," summed up another manager. Amid the selloff in Europe, the weighted average bid of the S&P European Leveraged Loan Index (ELLI) slipped from a post-summer high of 99.28 on October 9, 2018 to 97.33 by December 31, 2018.

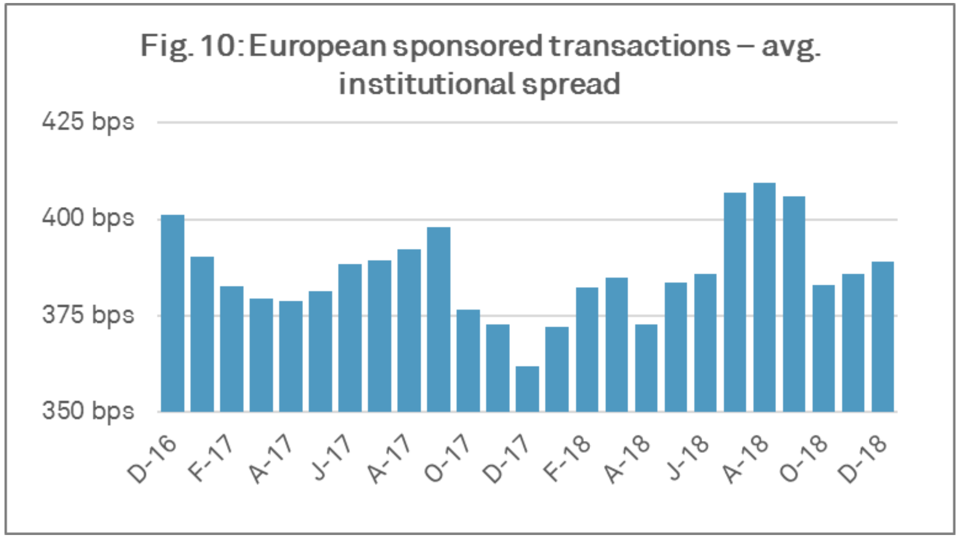
[27] Quotes here and following are from LCD sources who have asked to remain anonymous.



Data as of 15/03/19. Source: LCD, an offering of S&P Global Market Intelligence. For illustrative purposes only.

As a result, primary market issuance seized up and became progressively more difficult as the fourth quarter wore on. Echoing sentiments throughout the market, one fund manager stated, "We've not seen many deals we've liked at the type of levels at which we want to play."

To keep the market open, arrangers had to adjust the nature and terms of deals. During the fourth quarter, the share of opportunistic transactions all but vanished in the U.S. and Europe, equity contribution levels rose, and pricing widened out. As a result, the average Term Loan B spread for sponsor-backed deals rose to 383 basis points (bps) in December 2018, from 359 bps in December 2017. For the full year, the average institutional spread was 388 bps, up nine bps from 2017's 379.



Data as of 15/03/19. Source: LCD, an offering of S&P Global Market Intelligence. For illustrative purposes only.

During the fourth quarter, the rise in pricing was supported by a sharp increase in the number of upward price flexes in November compared with the previous month, and a corresponding decline in the proportion of reverse-flexes. Of all deals that flexed, October recorded the biggest proportion of reverse-flexes of any month in 2018, at 89% (this measure fell to 53% in November, and just 33% in December).

2019 Cautiously Steps Forward

On the back of the volatility that closed out 2018, 2019 opened cautiously. While the secondary market in the U.S. noticeably firmed in the first week of the new year, as the weighted average bid of the S&P/LSTA Leveraged Loan Index rose two points, the ELLI, in contrast, barely moved. In the primary market, no new launches were announced in the first week of 2019.

"There's no confidence in the market at the moment," said one leveraged loan banker. "We didn't end 2018 well, and while we will at least begin 2019 with a clean deck after all last year's deals were placed, we could have a shaky start."

While January remained weak with just €1.7bn of new issuance, volume picked up in the following months, to €8.2bn in February and €10.5bn in March, bringing the total for the first quarter of 2019 to €20.4bn. Sponsor-related activity has remained a primary source of new issuance, representing about 75% of primary volume in the first quarter. Nonetheless, total volume for the quarter is down about 40% from the same time last year.

Broadly speaking, new issue volume for the quarter was slow and sporadic at best. In volume terms at least, the market failed to deliver. "The pipeline has turned out to be less promising than initially guided," said one fund manager, who did not expect any significant change in conditions soon. As a result, the slow start to the year in both loan and bond primary put add-ons firmly in the market spotlight. These deals represent welcome additions to supply for lenders awaiting larger opportunities, but rating and secondary pressures may limit sponsors' ability to add debt for uses beyond acquisitions or simple re-financings.

Indeed, add-ons have been an important feature of the European marketplace over the past few years, accounting for €9.7bn of institutional volume last year. This is down slightly from the post-crisis record of €10.1bn in 2017, although add-ons provided a higher share of total volume in 2018 at 12.3% of the total market, up from 9.9% in 2017.

This higher proportion of add-ons last year came as sponsors sought to bulk-up their holdings through acquisitions. In part, this dynamic reflects how some sponsors focused their efforts on a buy-and-build strategy to their existing portfolios, rather than chasing new targets amid high public valuations. So, though the total amount raised from add-ons in 2018 didn't quite reach the 2017 volume, the amount raised for acquisitions was significantly higher.

For investors, add-ons that fund this type of expansion are largely welcome. "If new debt is acquisition-related then for us it's a lot easier to accept," said one fund manager. "Acquisitions add to earnings, so this does not have the stark effect on leverage as other uses, such as debt-funded dividends."

Magic 8 Ball is Non-committal

As the first quarter of 2019 closes out, it remains doubtful whether the record levels of buyout activity in 2018 will be matched in 2019. At the opening of 2018, participants already had visibility on jumbo buyouts, including KKR's acquisition of Flora Food Group, while news of Blackstone's takeover of Refinitiv emerged in January. The pipeline of upcoming deals is thinner this year.

However, sponsors note that the financing markets remain broadly supportive, giving them confidence to continue to look at jumbo acquisitions, with more potential carve-outs already being considered. Furthermore, with volatility in the equity markets likely to see sponsor firms seek secondary buyouts rather than IPOs for their assets, or even look to take advantage of waning valuations with public-to-private transactions, participants are hopeful that yet more leveraged buyouts will emerge later in the year.

"I think if you look at the fundamentals, the amount of dry powder that sponsors are sitting on is incredibly high," said another market participant. "I'm very hopeful that the large transactions will come, even though we have less visibility on the jumbo situations than we did at this time last year."

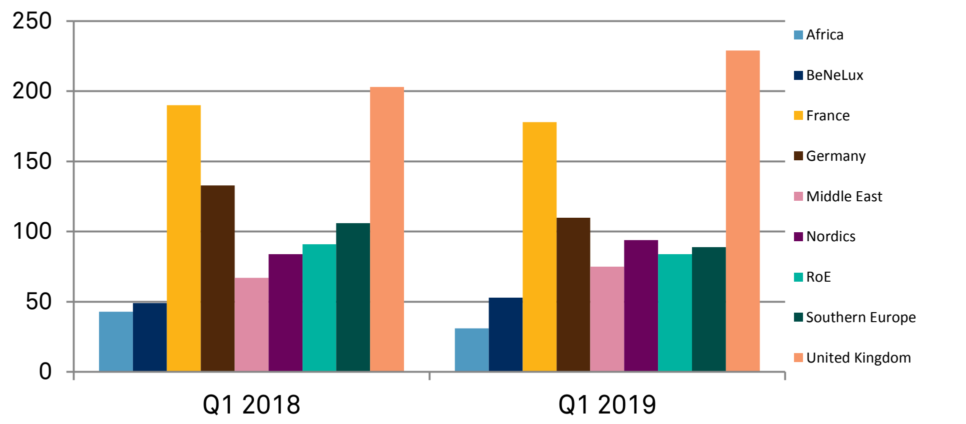
The volume of deals in the auction pipeline has dwindled heading towards the end of the first quarter, with potential jumbo buyouts of Nestlé’s skin-health business and financial information group Acuris dominating the line-up.

“There are cash piles building for private equity,” said one market participant. “There’s appetite from sponsors to buy assets, and there’s appetite from funds to provide financing, but the deals just aren’t there.”

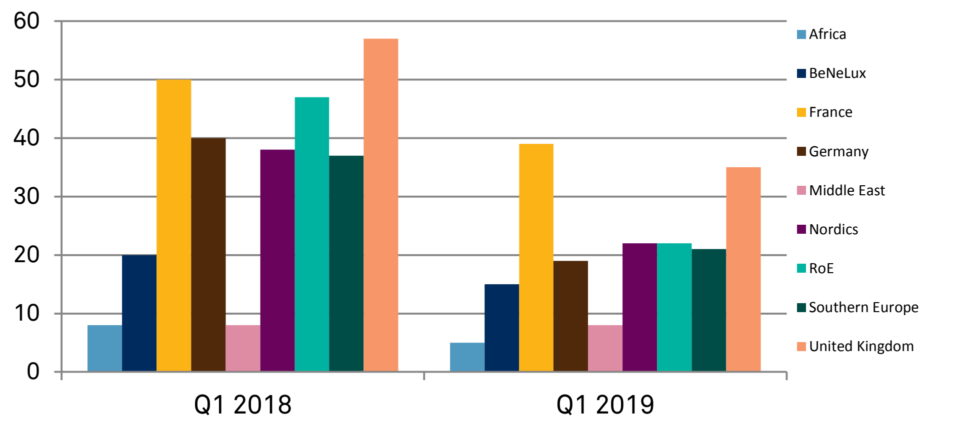
Of course, a number of critical risk factors remain, including the likely rise of default rates, issues surrounding the unrelenting Brexit drama, and the unresolved trade war tensions between the U.S. and China. But the dry powder that PE has to put to work remains at record highs, and, though Collateralised Loan Obligation formation has slowed and a number of warehouses have been shut down in the past few months, demand for leveraged debt (both loans and bonds) has remained strong enough to propel a recent uptick in dividend-related loans. Indeed, should generally stable conditions hold, sponsors may just fuel the credit markets to another active year.

EMEA – Based Targets

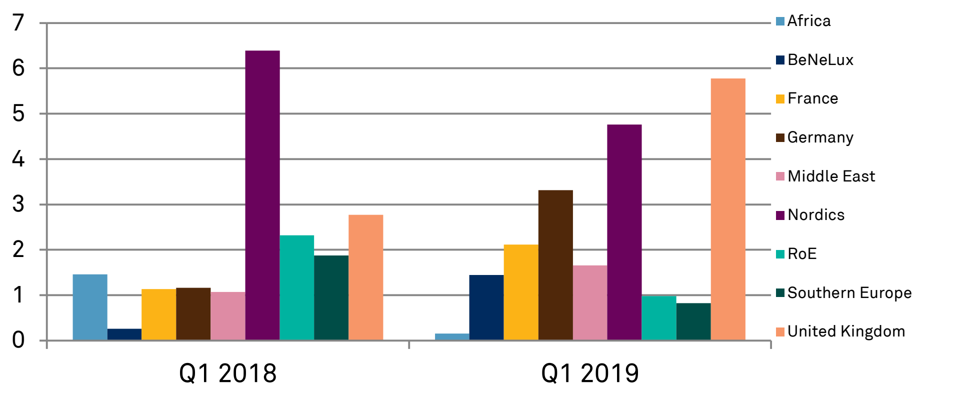
Number of Private Equity Entry Transactions by Region
Q1 2018 vs. Q1 2019



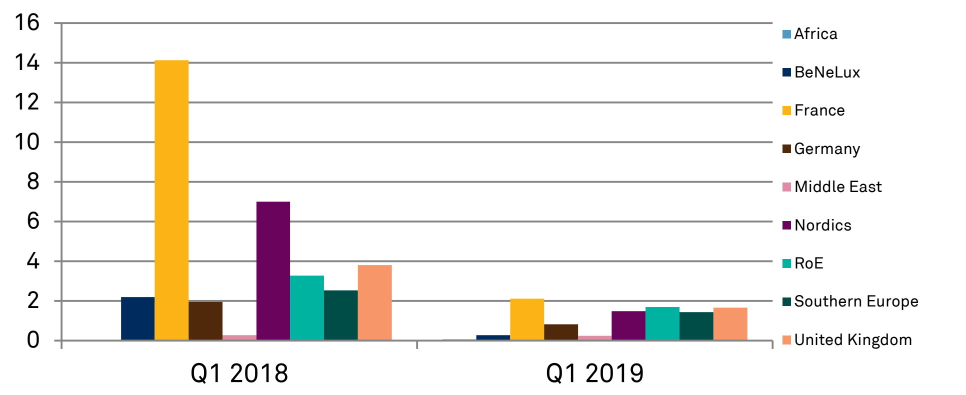
Number of Private Equity Exit Transactions by Region
Q1 2018 vs. Q1 2019



Aggregate Private Equity Entry Transaction Values by Region (€bn)
Q1 2018 vs. Q1 2019



Aggregate Private Equity Exit Transaction Values by Region (€bn)
Q1 2018 vs. Q1 2019[1]



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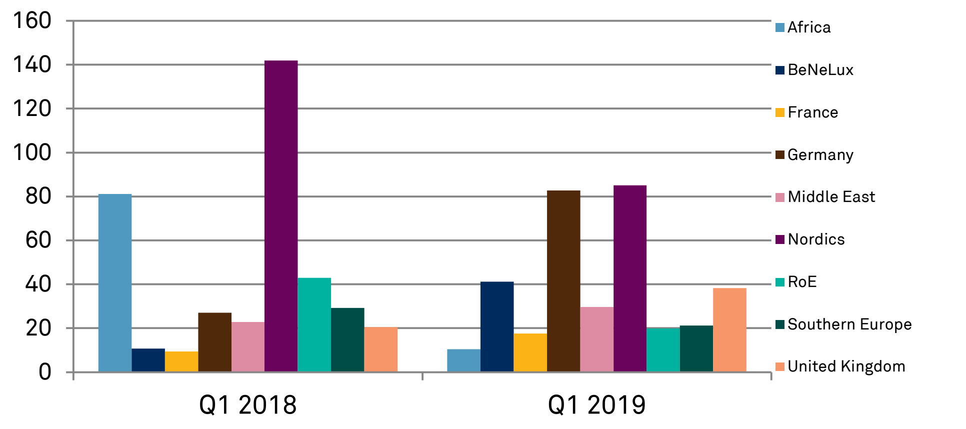
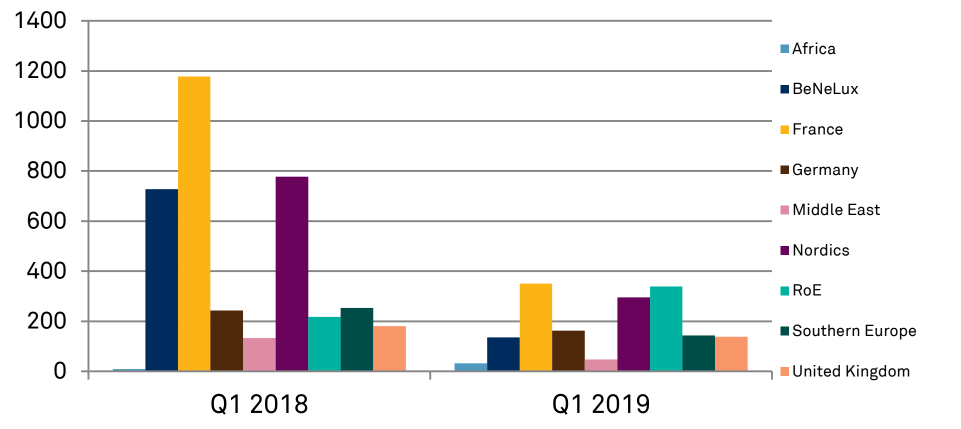
EMEA – Based Targets (continued)

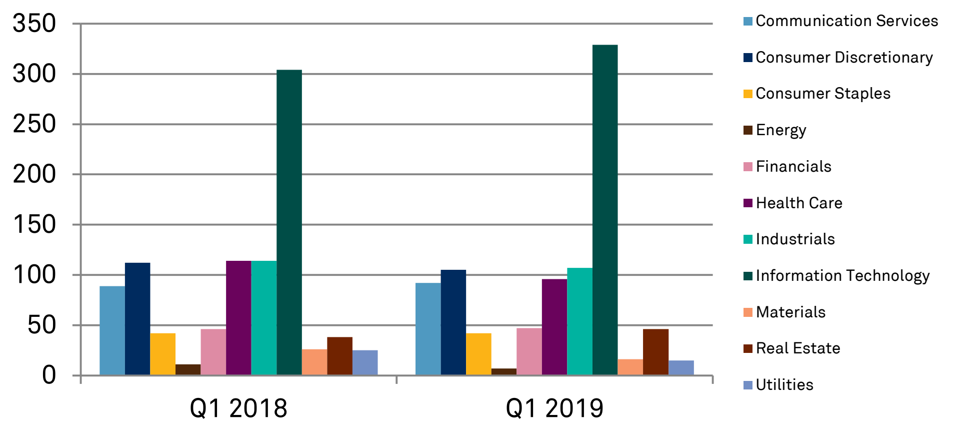
Average Entry Transaction Size by Region (€m)
Q1 2018 vs. Q1 2019



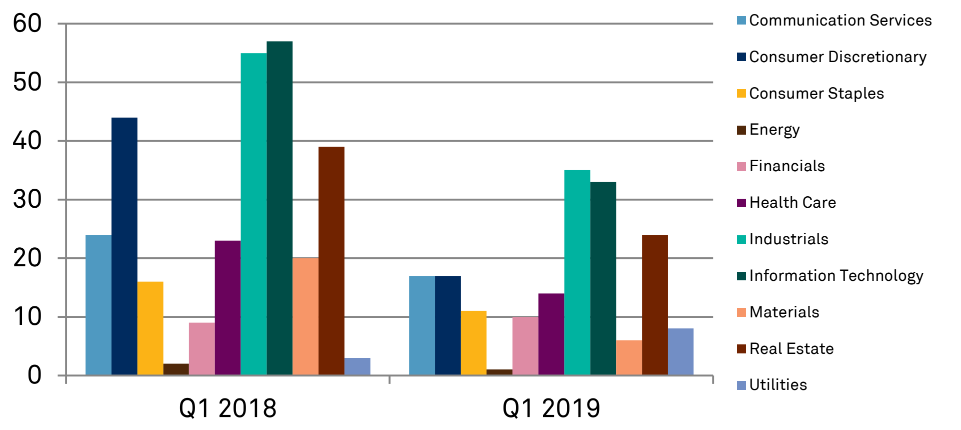
Average Exit Transaction Size by Region (€m)
Q1 2018 vs. Q1 2019[1]



Number of Private Equity Entry Transactions by Industry
Q1 2018 vs. Q1 2019



Number of Private Equity Exit Transactions by Industry
Q1 2018 vs. Q1 2019



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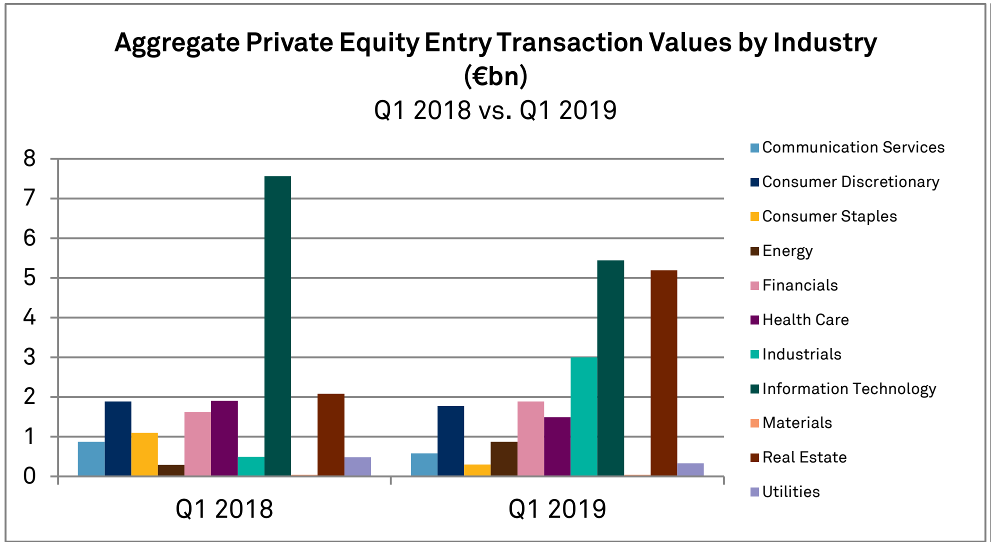
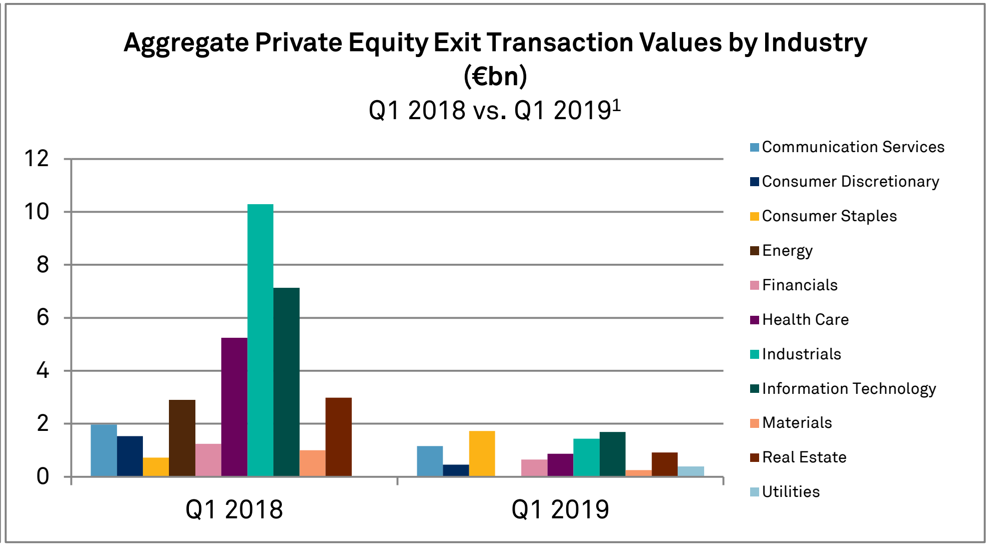
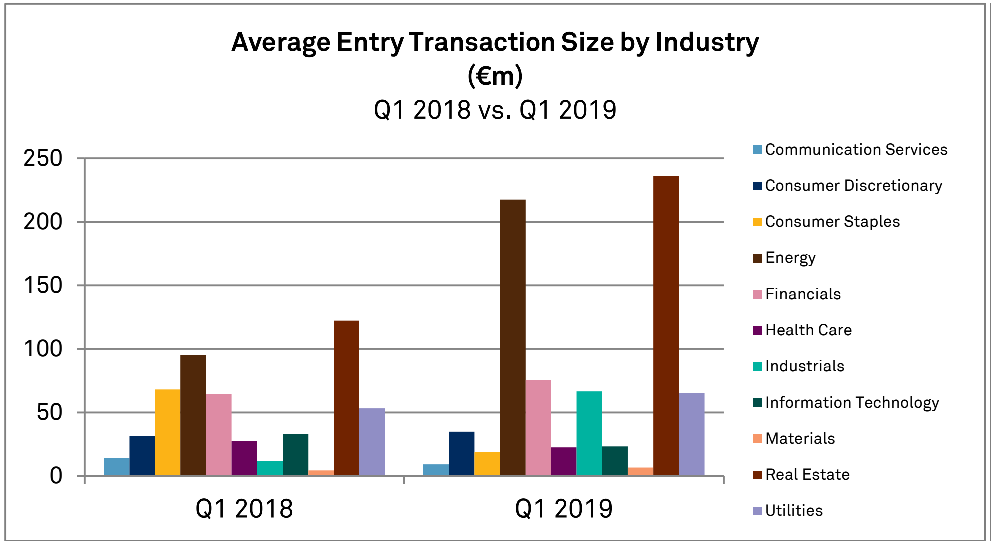
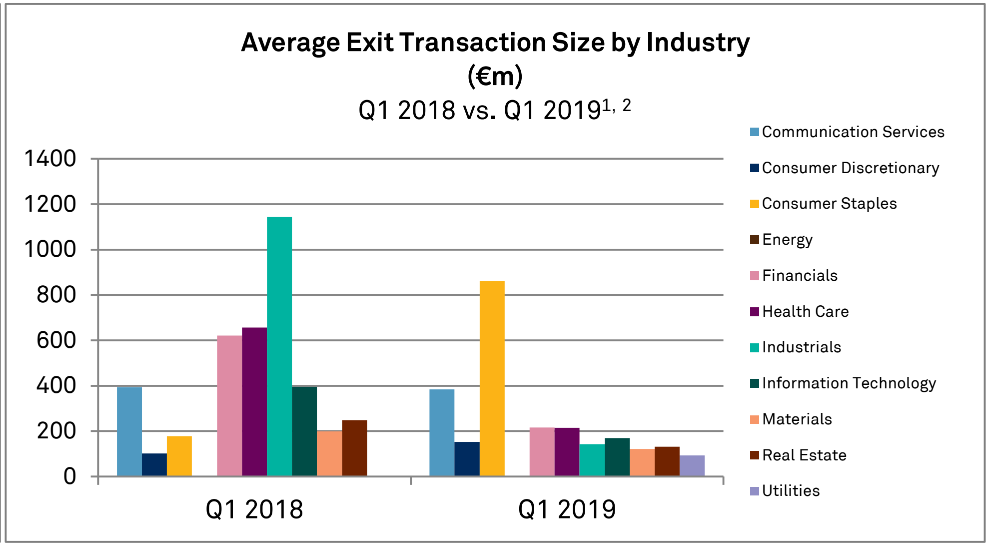
EMEA – Based Targets (continued)









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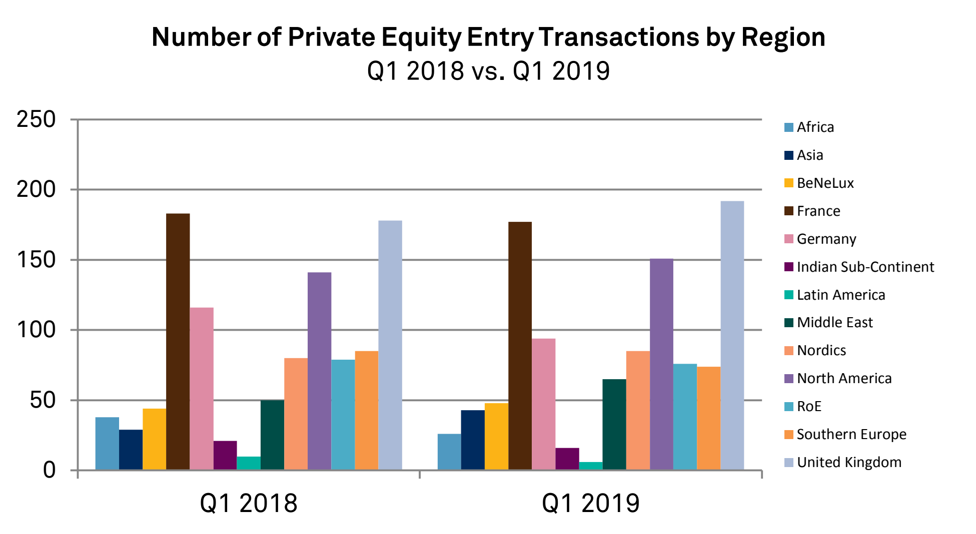
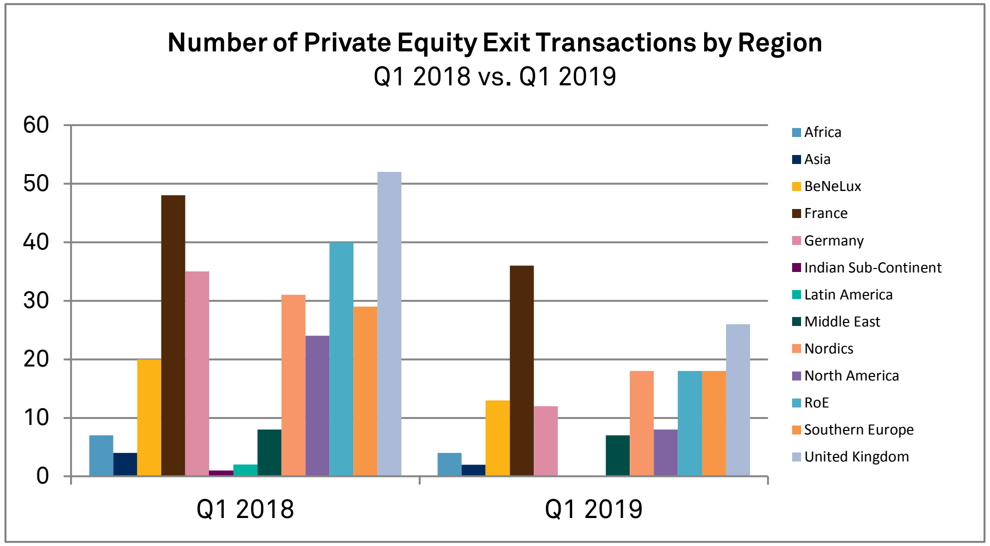
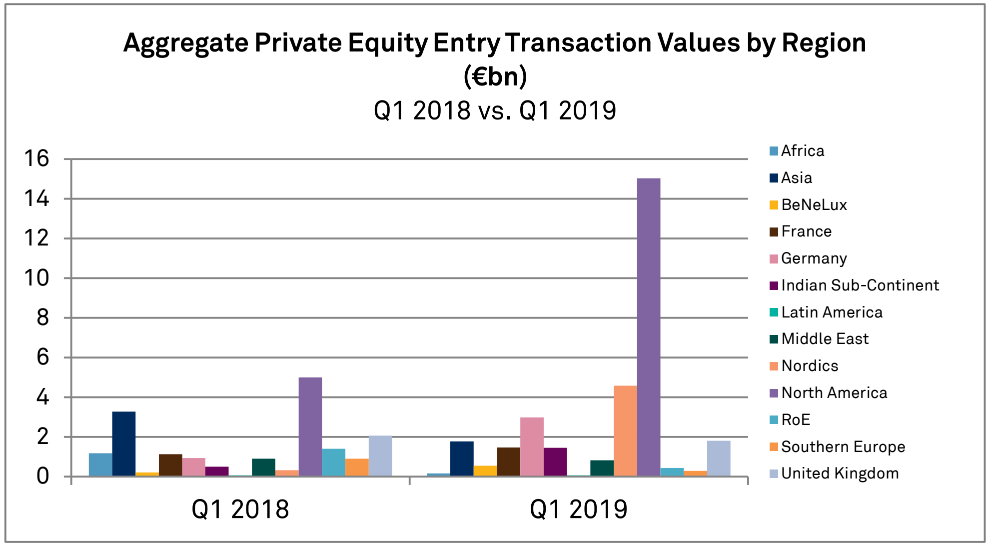
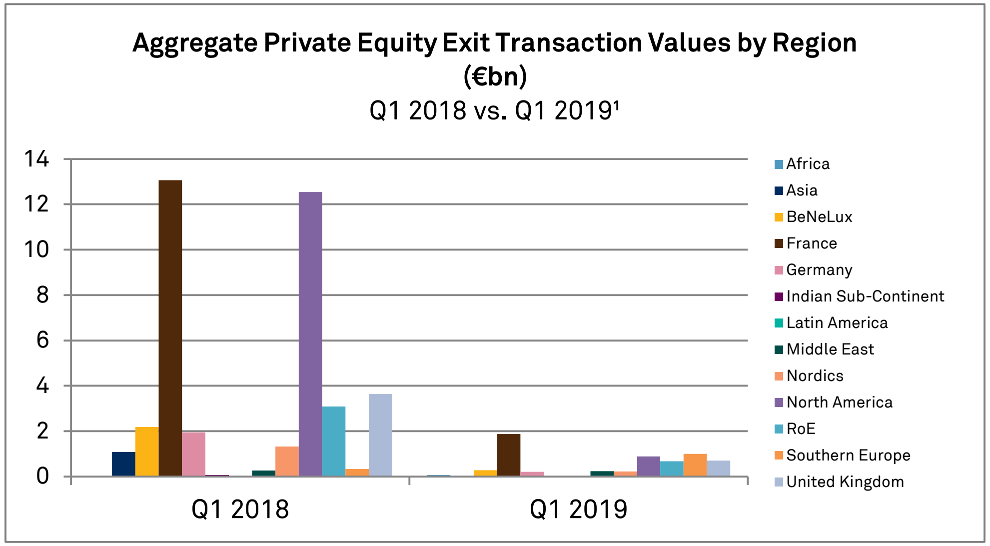
EMEA – Based GPs









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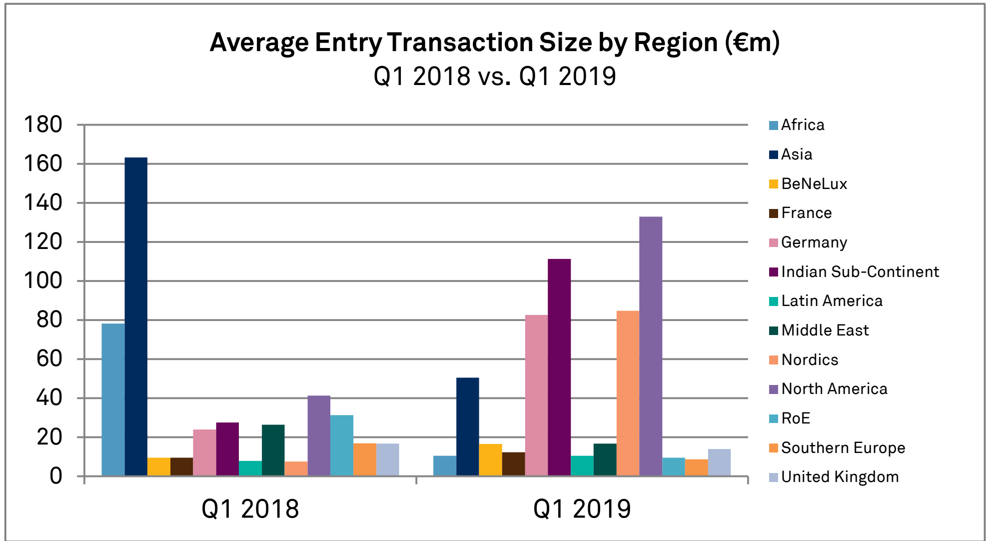
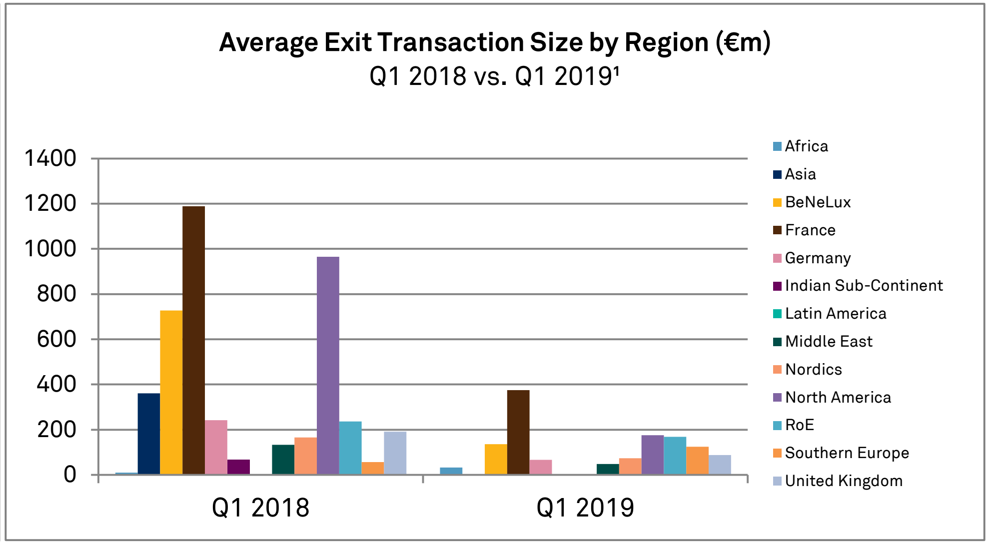
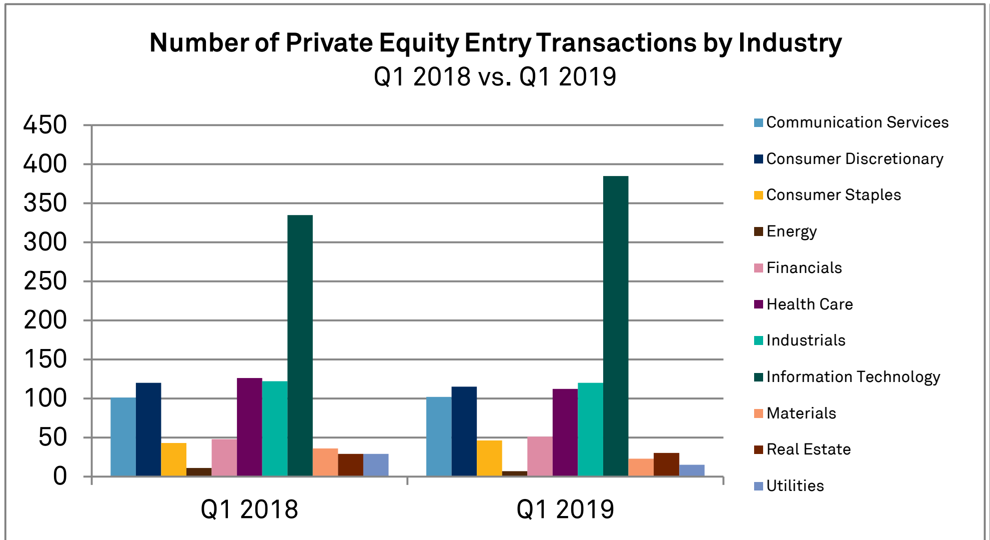
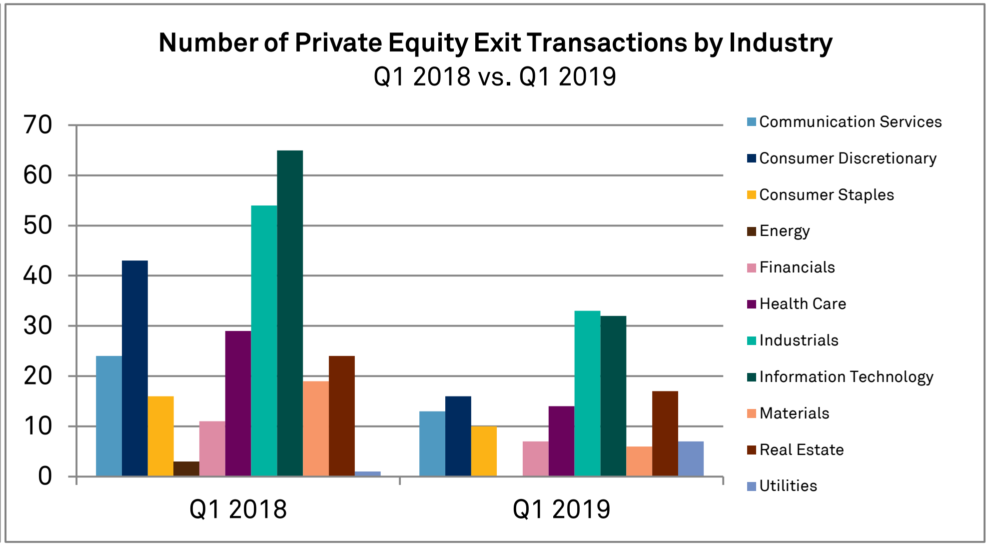
EMEA – Based GPs (continued)









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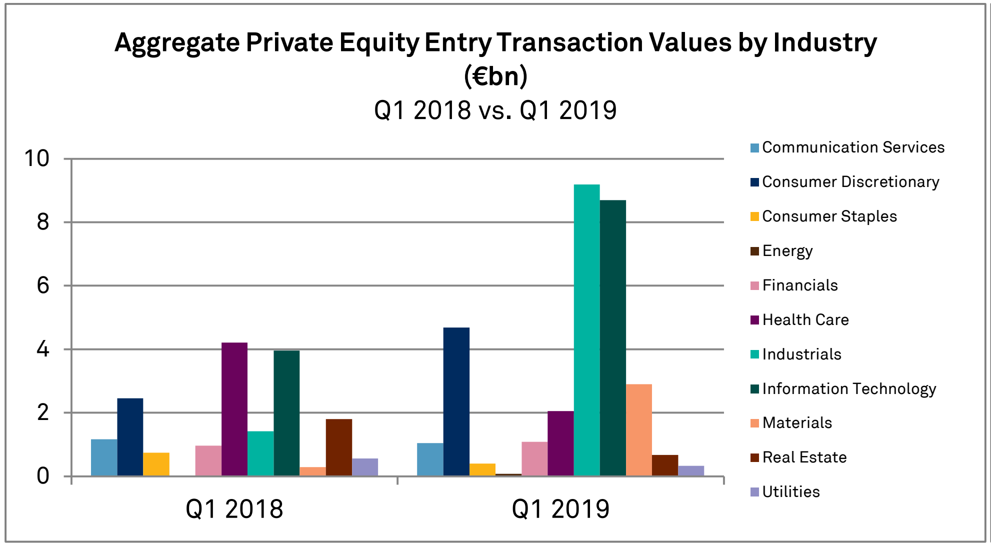
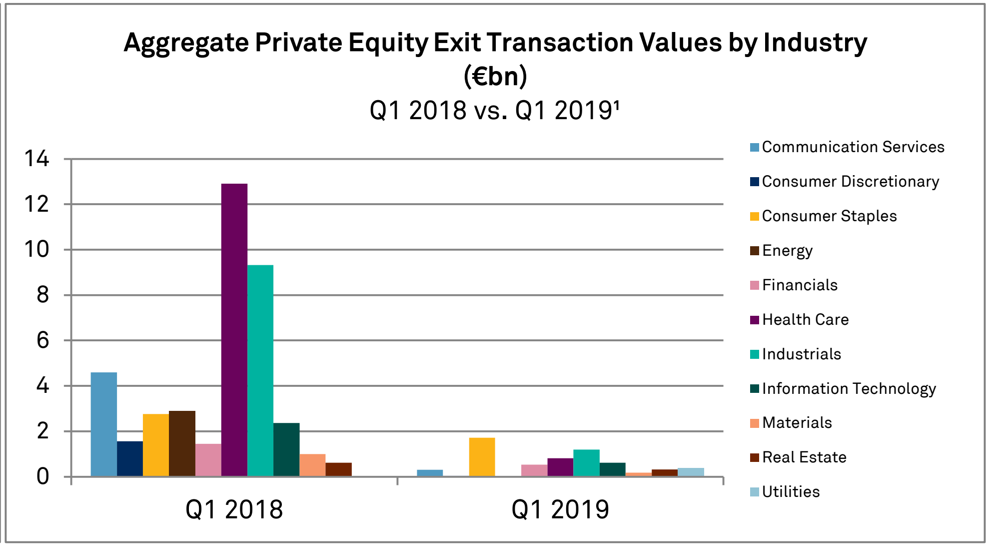
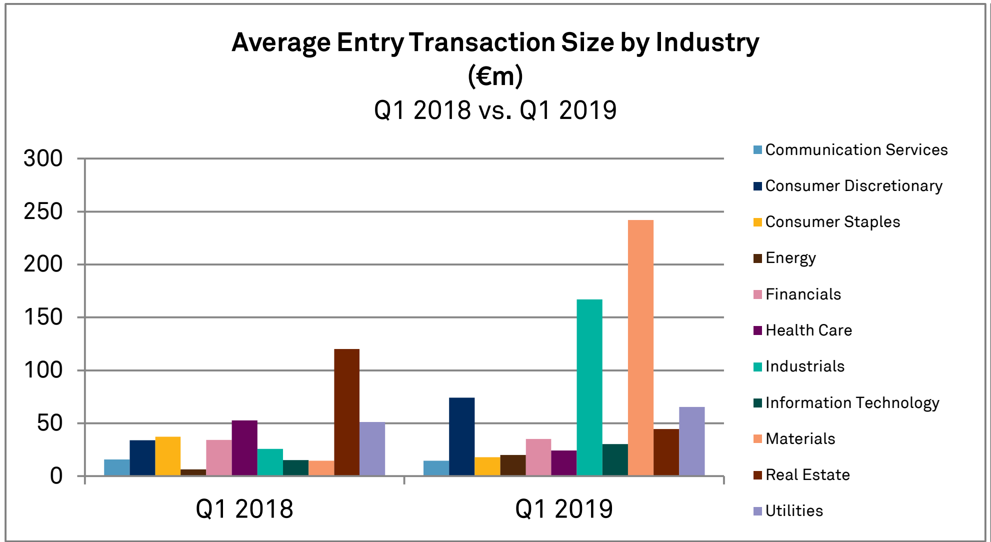
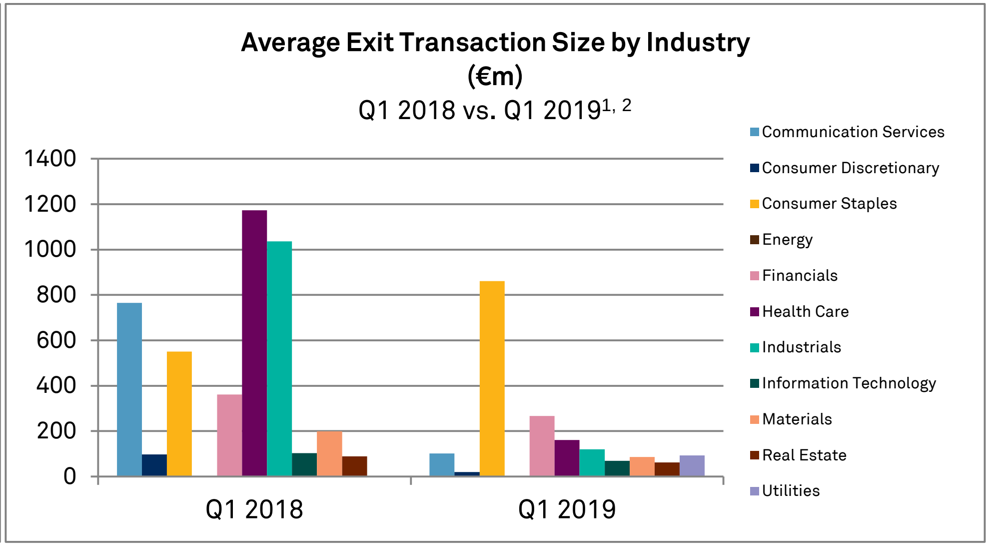
EMEA – Based GPs (continued)









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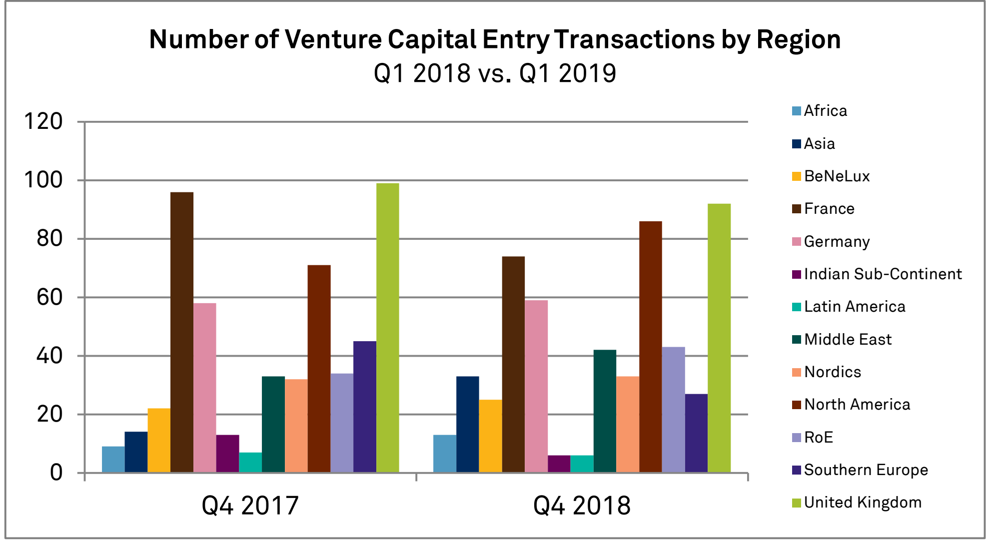
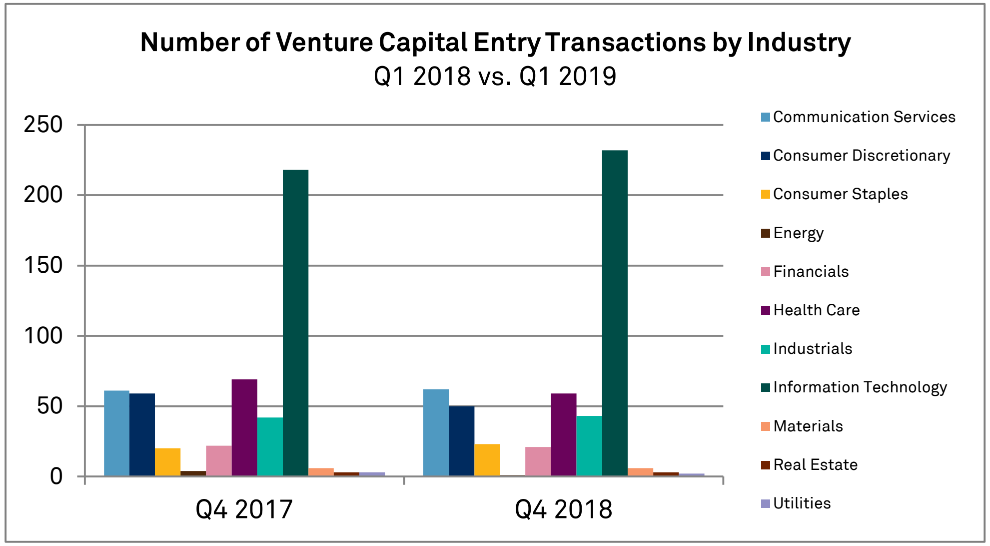
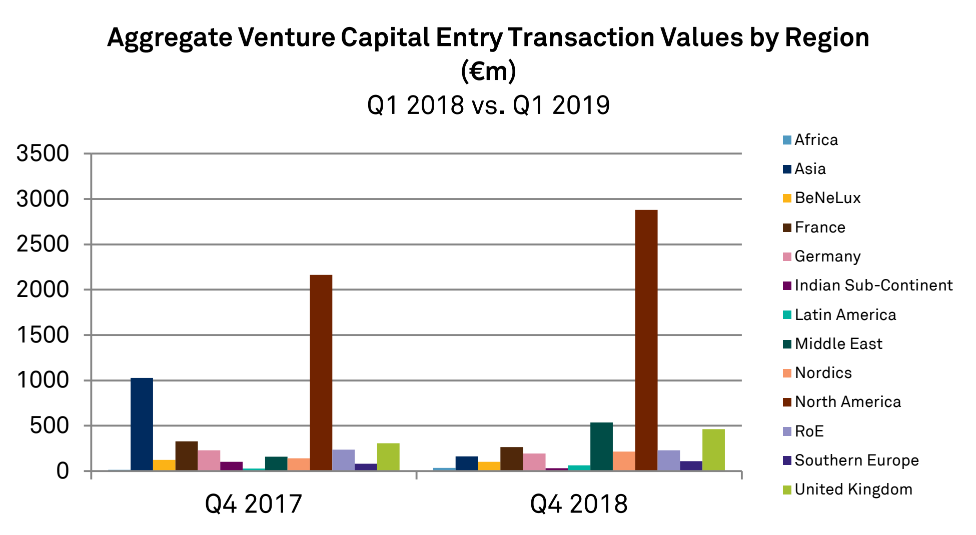
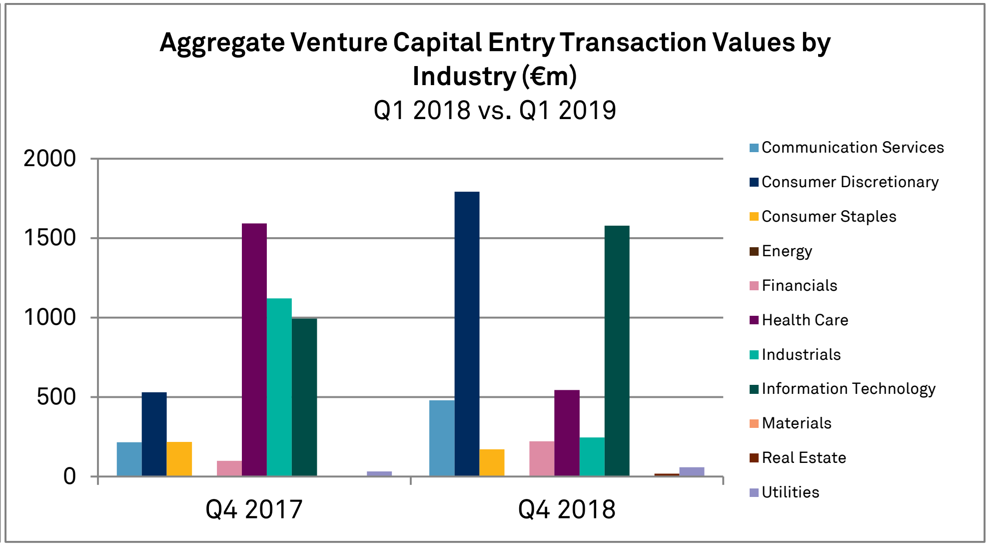
VC EMEA – Based GPs









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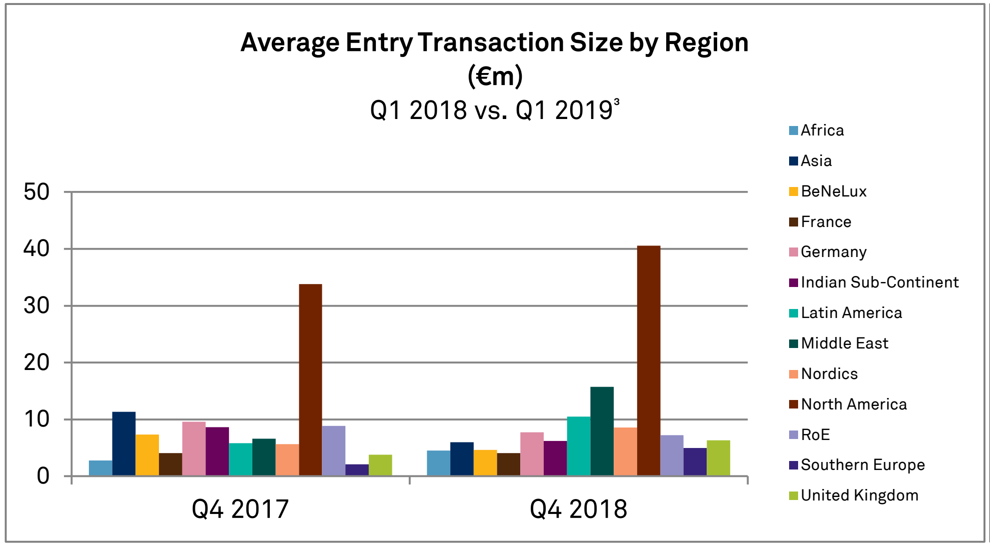
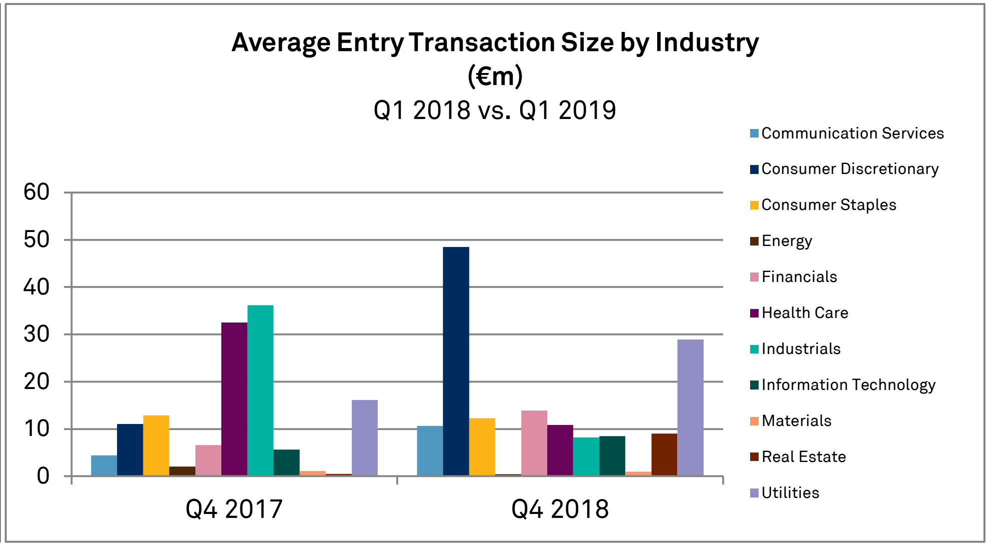
VC EMEA – Based GPs (continued)





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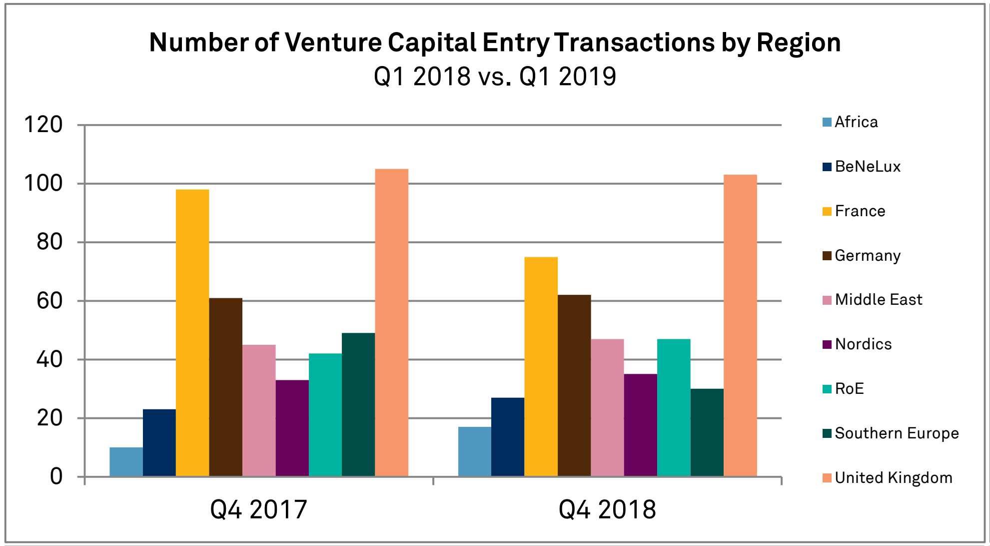
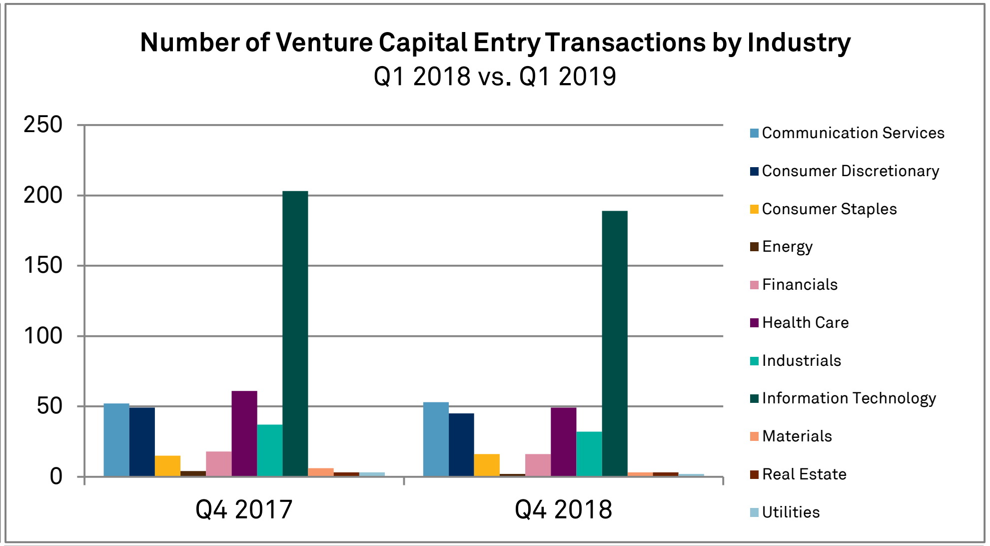
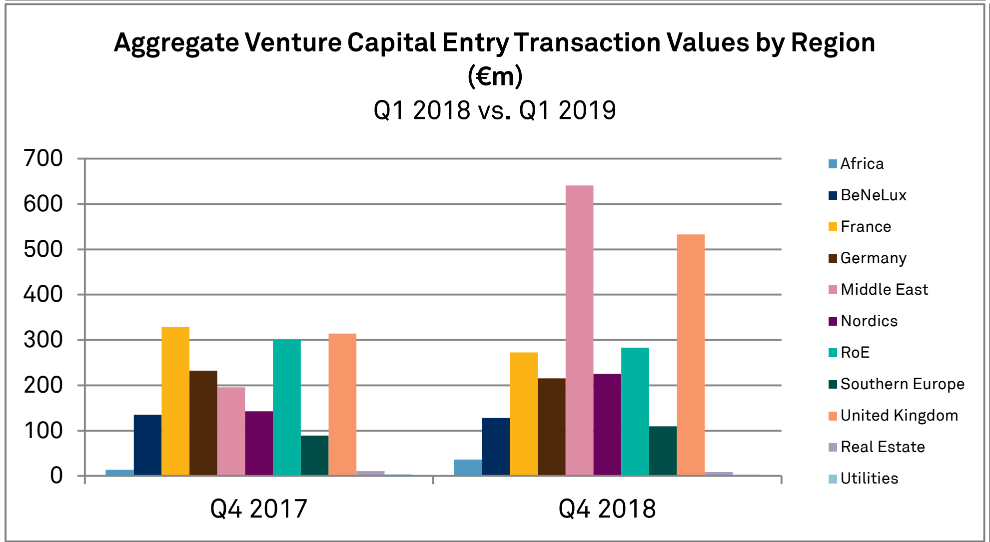
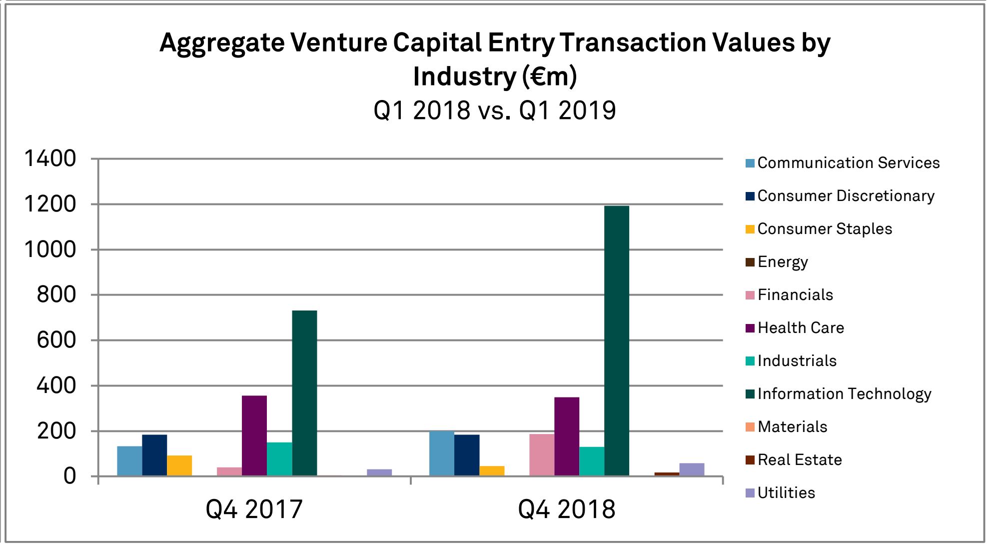
VC EMEA – Based Targets









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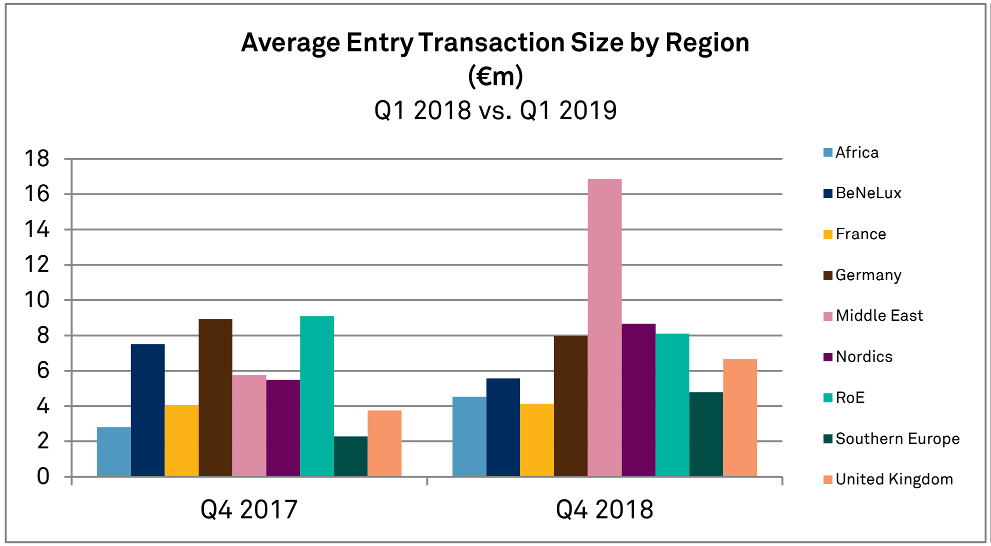
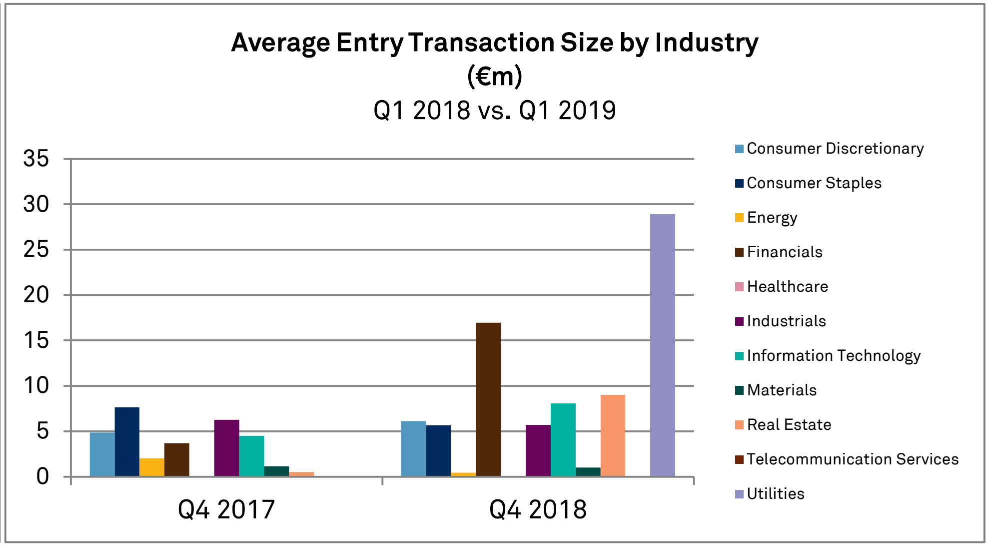
VC EMEA – Based Targets (continued)





Footnotes

1. The exit transaction aggregates and averages have been calculated after removing the following deals to avoid overestimating the trend: Takeda Pharmaceutical Company Limited (TSE: 4502) completed the acquisition of Shire Plc's equity stake amounting to 66.4bn EUR in January 2019. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=559732837&companyId=385727

2. The exit transaction averages have been calculated after removing following deals to avoid overestimating the trend: Transocean Ltd. (NYSE:RIG) acquired Songa Offshore SE (OB:SONG) from Perestroika As, Asia Research & Capital Management Ltd., York Capital Management and others for 2.9bn EUR in January 2018. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=534282695&companyId=22430595

3. The entry transaction averages have been calculated after removing following deal to avoid overestimating the trend: Ping An Medical and Healthcare Management Co., Ltd received 924.4m EUR of capital in series A round of pre-IPO funding on February 2018. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=551732220&companyId=428468679

For illustrative purposes only. Source: S&P Global Market Intelligence. As of Mar 15, 2019

Multiples Table

Implied Enterprise Value/EBITDA	EMEA Private Equity Exits, 01/01/2018 - 15/03/2019	M&A, 01/01/2018 - 15/03/2019
Communication Services	13.9	12.5
Consumer Discretionary	11.2	11.2
Consumer Staples	13.9	12.4
Energy	11.3	9.4
Financials	***13.0***	7.8
Health Care	14.0	11.7
Industrials	10.8	10.3
Information Technology	10.5	13.9
Materials	9.0	8.9
Real Estate	35.5	21.7
Utilities	11.7	11.2

Implied Equity Value/LTM Net Income	EMEA Private Equity Exits, 01/01/2018 - 15/03/2019	M&A, 01/01/2018 - 15/03/2019
Communication Services	32.5	26.1
Consumer Discretionary	24.2	20.5
Consumer Staples	22.1	17.7
Energy	***23.0***	23.9
Financials	15.7	13.4
Health Care	26.9	19.7
Industrials	15.2	14.6
Information Technology	17.9	20.3
Materials	16.9	15.1
Real Estate	10.0	12.6
Utilities	30.5	19.9

* 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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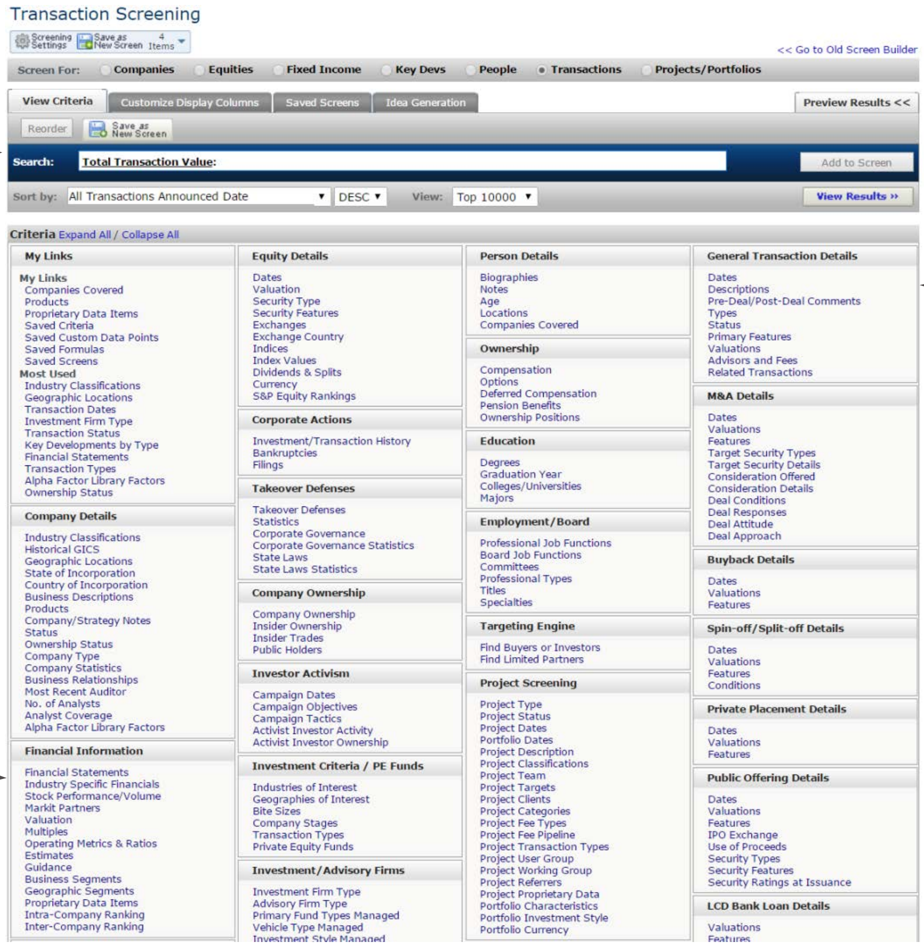
Quickly add data points from the search bar to your criteria



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For More Information

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