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Private Equity Trend Report 2016

Unlocking value in turbulent times

10th annual survey on current developments in German and European private equity investment.

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Private Equity Trend Report 2016

Published by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

By Steve Roberts and Elena Naydenova

February 2016, 74 pages, 54 figures, softcover

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Preface

Dear colleague,

We have highlighted in our reports over the last years a prevailing optimism in the private equity sector. I am happy to confirm that this description of the state of the industry proved to be spot-on and continued in 2015. After private equity activity experienced a long-awaited revival in 2014, we saw the number of deals maintain this level, increasing by 3 percent all over Europe and by a 6 percent in Germany, Austria and Switzerland. The majority of private equity funds we interviewed for the Private Equity Trend Report 2016 were able to make new investments and benefit from favourable financing conditions.

This has, however, not been an easy ride and has been achieved against a backdrop of macroeconomic and geopolitical uncertainty with events such as stock turmoil in China and significant drops in commodity prices, to name just two, making the investing environment more challenging. Despite this, record levels of fresh capital and an abundance of cheap debt have led to premium price expectations from sellers which in many cases were not supported by the underlying asset for sale. Here, the PE industry has clearly demonstrated that it has learned from the financial crisis and shown that they are not buyers "at any price", and we have seen a healthy level of scepticism and cautiousness been reinforced in the sponsor and debt markets. If deals are not well prepared or the equity story is not convincing, then deals have either failed or been significantly drawn out until the price expectations have been tempered.

For 2016, the industry continues to be faced with the challenge that supply of cash actually exceeds supply of assets, a situation that makes it even more important for private equity funds to develop convincing and sustainable equity stories in order to put the cash to work. The industry has already substantially adapted itself to the longer-term holding periods and a stronger focus on operational improvement to realise value creation. The composition of the investment professionals at many houses has included operational specialists for several years now and they are integral in both developing the equity story on entry as well as realising it during the course of the investment.

As noted in the PwC Annual Global CEO Survey and the sentiment communicated at the recent Davos summit, with continued economic volatility and uncertainty expected in 2016 there are definitely challenges ahead. The underlying fundamentals for successful PE investments are, however, still intact and with a strong deal flow expected, we anticipate this to be another good year for the industry, albeit nobody is expecting a boom any time soon.

In conclusion, our report holds good news for the German market: Germany continues to gain attractiveness as an investment destination. The country's ability to remain stable in the face of nearby market turmoil and the strength of its middle market are assets that continue to draw firms looking for high-performing portfolio companies and dependable returns.

As always our thanks go to all those who participated in this year's survey and shared their opinions. We look forward to working with you again in 2016.

Steve Roberts

Steve Roberts
Private Equity Leader

Table of contents

Table of figures 7

A Market Overview 13
1 European Private Equity 14
Deep dive: DACH 22
Deep dive: Benelux 26

B Key findings 30

C Detailed Findings 33
1 2015 – The year in review 34
2 2016 – The year ahead 45
Deep dive: Operational improvements 57
3 Investment in Germany 61
Deep dive: Zooming in on Germany 63
4 International investments 65

D Methodology 67

Appendix 68

List of abbreviations 69

Contacts 70

Table of figures

Fig. 1 European Private Equity Trends, 2010–2015 ... 14

Fig. 2 European Buyout Trends, 2010–2015 ... 14

Fig. 3 European Buyouts, split by Deal Size, 2010–2015 ... 16

Fig. 4 Buyout volume, split by region ... 17

Fig. 5 Buyout value, split by region ... 18

Fig. 6 Buyout value, split by industry ... 19

Fig. 7 European Buyouts, split by deal size 2010–2015 ... 20

Fig. 8 DACH Buyout Trends, 2010–2015 ... 22

Fig. 9 DACH Exit Trends, 2010–2015 ... 23

Fig. 10 DACH Buyout volume, split by industry ... 24

Fig. 11 DACH Buyout value, split by industry ... 25

Fig. 12 Benelux Buyout Trends, 2010–2015 ... 26

Fig. 13 Benelux Exit Trends, 2010–2015 ... 27

Fig. 14 Benelux Buyout volume, split by industry ... 28

Fig. 15 Benelux Buyout value, split by industry ... 29

Fig. 16 Development in number of new investments compared to previous year ... 34

Fig. 17 Development in the number of exits compared to previous year ... 35

Fig. 18 Number of potential transactions reviewed in 2015 compared to previous year ... 36

Fig. 19 Competition among PE firms for new investments in 2015 compared to previous year ... 37

Fig. 20 Perception of debt availability compared to the previous year ... 38

Fig. 21 Average debt to equity ratio for new investments in 2015 ... 39

Fig. 22 Level of satisfaction with the overall development of portfolio companies ... 40

Fig. 23 Levels of satisfaction with the overall development of portfolio companies ... 41

Fig. 24 Percentage of portfolio companies that experienced covenant breaches ... 41

Fig. 25 Percentage of portolfio companies that experienced covenant breaches in 20151 ... 42

Fig. 26 Factors influencing investment rationale in 2015 ... 43

Fig. 27 Perception of change in number of PE houses in 2015 ... 44

Fig. 28 Expected Eurpopean private equity deal market developments ... 45

Fig. 29 Expectations for availability for credit in 2016 compared to 2015 ... 46

Fig. 30 Percentage of companies expected to break one or more bank covenants ... 46

Fig. 31 Expected sources of new deal opportunities in 2016 ... 47

Fig. 32 Main factors to influence rationale in 2016 ... 48

Fig. 33 Expected target industries for future investment ... 49

Fig. 34 Extent of business model change since the financial crisis ... 50

Fig. 35 Common changes to the business model since the financial crisis ... 51

Fig. 36 Fundraising activity since the financial crisis in 2008 ... 52

Fig. 37 Fundraising environment since the crisis ... 53

Fig. 38 Expected investment partner contributions to future funds ... 54

Fig. 39 Assessments of sustainability/ESG issues within portfolio ... 55

Fig. 40 Top three key challenges facing the private equity industry in Europe over the next five years ... 56

Fig. 41 Influence on return on investment ... 57

Fig. 42 Impact on return on investment of operational improvements, multiple arbitrage and financial leverage since the financial crisis 58

Fig. 43 Impact of operational improvements, multiple arbitrage and financial leverage on return on investment in the future 59

Fig. 44 Most important lever to value creation within the investment story 60

Fig. 45 Expected attractiveness of countries in Western Europe for private equity funds over the next five years 62

Fig. 46 Relative attractiveness of Germany for private equity funds in the next five years 63

Fig. 47 Firms with current investments in Germany 64

Fig. 48 PE houses planning on making investments in Germany over the next five years 64

Fig. 49 Expected attractiveness of regions for private equity funds over the next five years – international 65

Fig. 50 Proportion of private equity firms planning to open new offices in the next five years 66

Fig. 51 Respondents' fund headquarters by country 67

Fig. 52 Please could you tell me which of the following best describes your firm's current total global fund volume (i.e. capital under management)? 67

Fig. 53 Extent of business model change since the financial crisis 68

Fig. 54 Fundraising since the crisis 68

Fig. 55 European Private Equity Trends, 2010–2015... 68

Fig. 56 European Buyout Trends, 2010–2015.. 69

Fig. 57 DACH Buyout Trends, 2010–2015 69

Fig. 58 DACH Exit Trends, 2010–2015 69

Fig. 59 Benelux Buyout Trends, 2010–2015 70

Fig. 60 Benelux Exit Trends, 2010–2015 70

In conversation with Steve Roberts, Private Equity Group Leader at PwC in Germany

Following strong growth in deal volume in Europe experienced in 2014, the sector maintained this level in 2015. Uncertainties like the economic downturn in the Eurozone, the stock turmoil in China, geopolitical uncertainty, volatile currency rates, decreasing oil prices, ongoing fierce competition for attractive investment opportunities and premium value expectations for potential transactions made investors and financing banks far more cautious, especially during the latter half of the year.

Healthier scepticism is now more prevalent across the sector, as PwC´s "Private Equity Trend Report 2016" shows. Private equity companies continue to place more emphasis on critically analysing potential transactions in particular when developing the equity stories supporting their investment decision. Once a deal is done, the focus is increasingly on operational improvements in order to create value. Holding periods have nearly doubled over the last ten years. Read more on the results of the report in an interview with Steve Roberts, Private Equity Group Leader at PwC in Germany.

There is a lot of dry powder and fierce competition in the European private equity market. How did this play out in 2015?

In 2015, the financing conditions remained favourable for the sector. Credit was in plentiful supply and more fresh capital than ever was ensuing from investors. Given this, one would expect a perfect seller's market commanding premium prices. However, one must look beneath the surface to understand the developments in 2015, and in particular the impact of the various macroeconomic uncertainties that companies in Europe had to contend with. Investors have clearly shown that they learned from the financial crisis, and have proven that they are not buyers "at any price". Deals have to be well prepared, otherwise they founder and fail. 2015 was quite a good year for the sector, but by no means grandiose. The number of transactions showed only moderate growth.

“Private equity tackled market turbulence well, proving again its resilience and ability to adapt and compete”

Do you expect a boom in transactions in 2016? Will prices continue to rise?

Private equity companies remain optimistic about 2016 as the underlying fundamentals are still there, but nobody expects a boom in transactions, rather a stable if not slightly increasing volume. Investors will remain cautious, as further evidenced by the results of the PwC Annual Global CEO Survey and the sentiment communicated at the recent Davos summit. There is considerable uncertainty regarding global growth rates and further market volatility that is yet to be reflected in purchase price expectations in sales processes. We expect this to correct itself during the year.

The need for capital is still there, but there are significant differences in the quality of target companies. In such cases, the prices expected by the seller are not justified, with premium prices paid only when investors are confident and convinced by the value creation potential. Many investors are now prone to be more sceptical when reviewing a deal and should an investment not carry conviction, then the deal will either be delayed or not be concluded.

So, in uncertain times like these, how can private equity firms create value?

Private equity companies have toensure a strong return, so they put more emphasis on portfolio management and operational improvements such as cost reduction, strategic sourcing and procurement or working capital management. The equity story has for some time not been based on multiple arbitrage, but now increasingly on a longer sustainable partnership to create value, which involves more active ownership. The industry has also been investing a higher proportion of equity on acquisition than was certainly the case before the financial crisis, which not only reinforces their conviction in the portfolio companies, but also allows a certain buffer and flexibility for unexpected market turbulence. It´s a new world now and this trend is certain to continue during 2016.

So how will this new world impact the industry in 2016?

The industry has already substantially adapted itself to the longer-term holding periods and stronger focus on operational improvement to realise value creation. The composition of the investment professionals at many houses has included operational specialists for several years now and they are integral in both developing the equity story on entry as well as realizing it during the course of the investment. Our survey noted that there is an expectation of increased cooperation with strategic investors which is also a clear sign of the focus on leveraging synergy and searching further for means of generating required returns.

Satisfaction with portfolio companies has been broadly stable, as has the sentiment regarding covenant breaches which in part reflects the more cautious approach to debt levels evident since 2009, as well as the more hands-on management of portfolio companies that has resulted from the increased investment required to generate the required value. This will certainly continue in 2016 and beyond.

What opportunities do you see in Germany?

Within Europe, Germany is the most popular target market and a safe haven for private equity investments. It will become increasingly attractive over the next five years. Its well-established infrastructure and skilled workforce can be harnessed for growth and expansion. And the economic conditions are much better than in other European countries.

What is your personal prediction for the development of the private equity industry in 2016?

After a very strong 2014, the moderate growth shown in 2015 should be viewed as positive given the macroeconomic backdrop and competitive environment. 2016 will continue to be challenging but with the underlying fundamentals of high levels of capital and cheap debt, we expect deal flow to remain high, though the quality of assets will remain an issue and price expectations will have to be tempered by the global economic reality. Monitoring and management of portfolio companies will further intensify as the industry responds to the current challenges, showing again how the nimbleness afforded by the “private” status in the Private Equity world allows positive change to be effected and value to be realised, albeit now over a longer timeframe and on a much more operational level than before.

A Market Overview

1 European Private Equity

Building on buoyant levels of activity in 2014, the European PE market continued to grow in 2015. Total deal volume of 2,016 represents a 3% YoY increase. 2015 total deal value of €210.5bn is up 1.6% on 2014. These YoY increases are considerably smaller than the substantial jumps in value and volume seen between 2013 and 2014. 2014 was a particularly strong year for PE and 2015 has seen it surpassed. Deals with high valuations continue to be seen in high numbers. The total volume of megadeals (those over €1bn) in the European PE market increased from 45 such deals in 2014 to 47 in 2015.

Fig. 1 European Private Equity Trends, 2010–2015

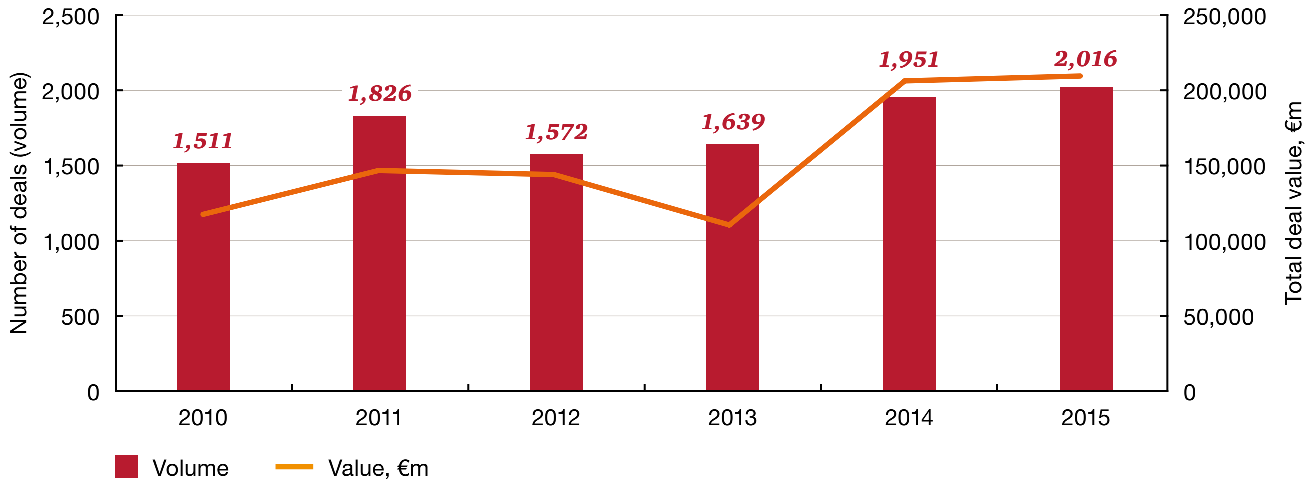
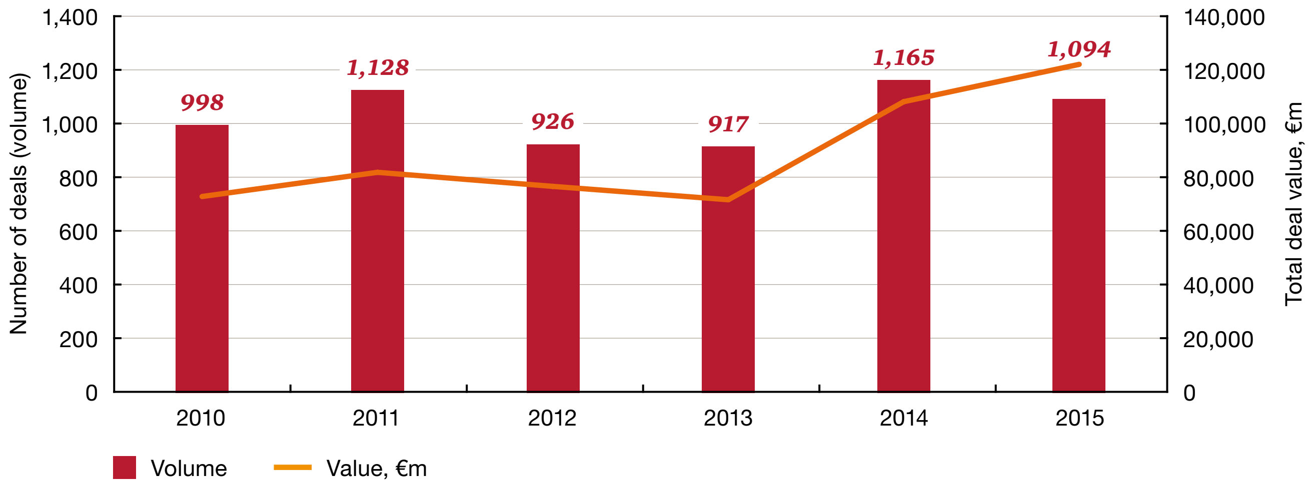


Fig. 2 European Buyout Trends, 2010–2015



Looking specifically at buyouts, volume was down 6% YoY to 1094 yet despite this, total buyout value rose by 13% to €122.4bn. However, compared to 2013, 2015 volume was up 16ppts. The number of megadeals increased from 23 such transactions in 2014 to 26 in 2015. This is the second year in a row in which such deals have increased and 2015's volume of buyout deals in the highest value bracket is larger than in any year up to and including 2010.

47 Mega deals in 2015 (+4%)

Meanwhile, the number of deals worth less than €100m dropped to 429 in 2015 compared with 511 in 2014, a YoY decrease of 19%. The total value for deals in this bracket was €15.2bn compared to €15.5bn in 2014, representing a 2% YoY decrease in value.

The top ten buyout deals in 2015 were worth €41.6bn and therefore account for 34% of the total year's buyout value. Notable examples include Hellman & Friedman's acquisition of Sweden-based security company Verisure from Bain Capital for €5.3bn and the acquisition of Russian construction project company Stroygazconsulting by Gazprombank and United Capital Partners Advisory for €6.6bn.

Secondly, funds continued to accumulate a large quantity of undeployed capital. Preqin, a market research firm, estimates that PE funds were collectively holding $US163bn in dry powder as 2015 drew to a close. Indeed, low interest rates combined with the PE sector's impressive prior performance make the sector an attractive option for investors. The ease with which PE funds have raised capital has not always been matched by finding suitable assets for its deployment and competition for assets and the accumulation of dry powder have significantly pushed prices up.

The accumulation of dry powder is particularly pronounced among the largest GPs who are, accordingly, willing to bid high prices for desirable assets. For PE activity with values over €100m, the median reported EBITDA year one multiple was 11.4 times earnings, compared to 10.9 times earnings in 2014. The concentration of capital among larger funds has resulted in mid-market funds experiencing a somewhat less buoyant year. High seller valuations in this sector of the market meant that deals were less likely to be agreed and there was consequentially a modest decrease in mid-market activity.

Exits

The market for exits was considerably up on the previous year. In 2015, total exit volume rose 14% on the previous year to 911 deals, while value rose 6% to €138.7bn. The top ten exits which were worth €38bn and accounted for 27% of the total buyout value for 2015.

14% increase of exit volume

An example is last year's largest exit by value in which Cinven Partners disposed of Irish aircraft leasing company Avolon Holdings to Chinese lease financing specialist Bohai Leasing for €6.5bn. Cinven had partially realised its shareholding as part of Avolon's IPO in 2014 and divested the remaining shares in this transaction.

Excluding secondary buyouts, volume rose 19% to 626 deals, however, value decreased 11% to €81.9bn from €91.8bn in 2014. Despite substantial exit sale activity to corporates, the value of exits overall in 2015 was very much underpinned by a robust secondary buyouts market.

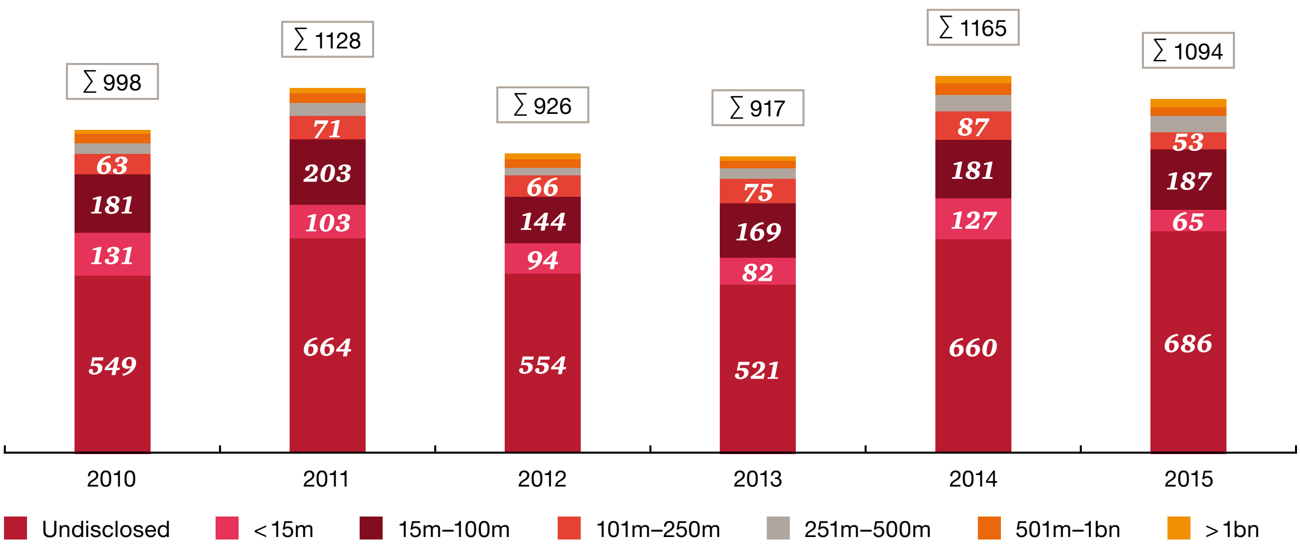
Secondary buyouts

5% increase in buyout volume

The maturity of the secondary buyout market in recent years is a much remarked on feature of the market. While historically such deals were often perceived as a last resort, the increase in value and volume of secondary buyouts over recent years makes this analysis increasingly untenable. In 2015, there were 285 secondary buyouts worth €56.7bn; a YoY increase of 5% in volume and 45% in value. Notable secondary buyouts included Bain Capital's sale of Sweden-based security company Verisure to Hellman & Friedman for €5.3bn and the €4.9bn sale of a 39% stake in UK rolling stock company Angel Trains to AMP Capital Investors and Public Sector Pension Board by Arcus European Infrastructure Fund I.

The increasing buoyancy of the secondary buyouts market is due to several factors. PE funds have undoubtedly been under pressure to seize available opportunities to deploy dry powder as and when these arise. This may take the form of increasing their existing stake in a business as in the case of AMP Capital Investor's Angel Trains transaction. Meanwhile, volatility in global equity markets makes IPOs a less attractive option. Finally, the nervousness seen in debt capital markets at the end of 2015 belies the fact that such markets were highly active for much of the year, increasing the viability of leveraged buyouts.

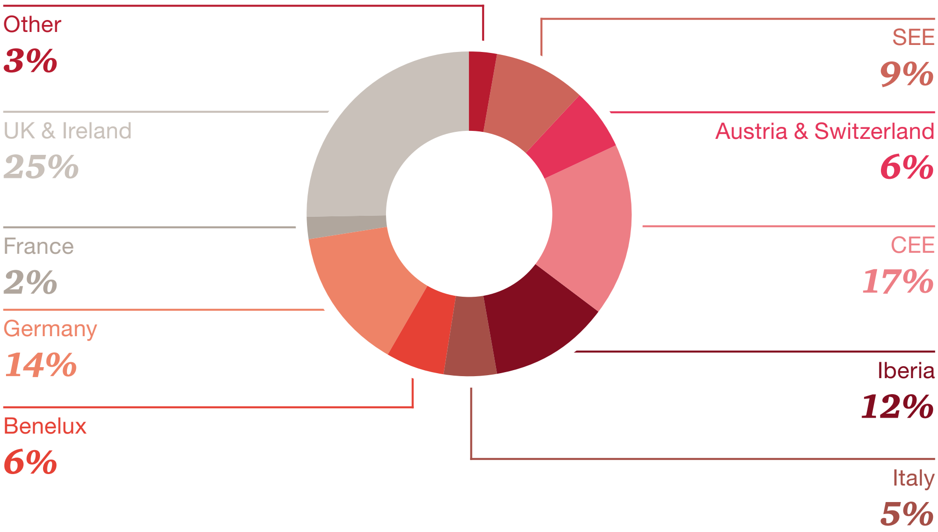
Fig. 3 European Buyouts, split by Deal Size, 2010–2015



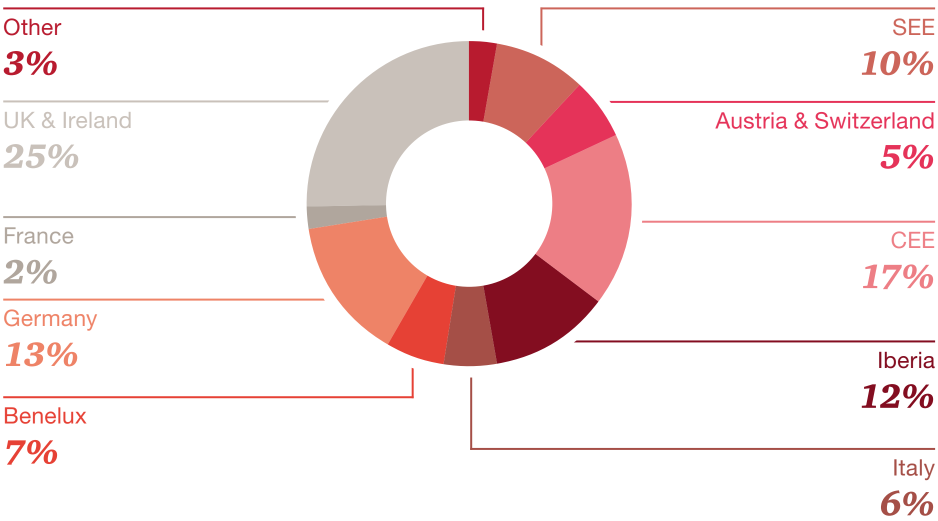
Geography

Fig. 4 Buyout volume, split by region

2010–2013



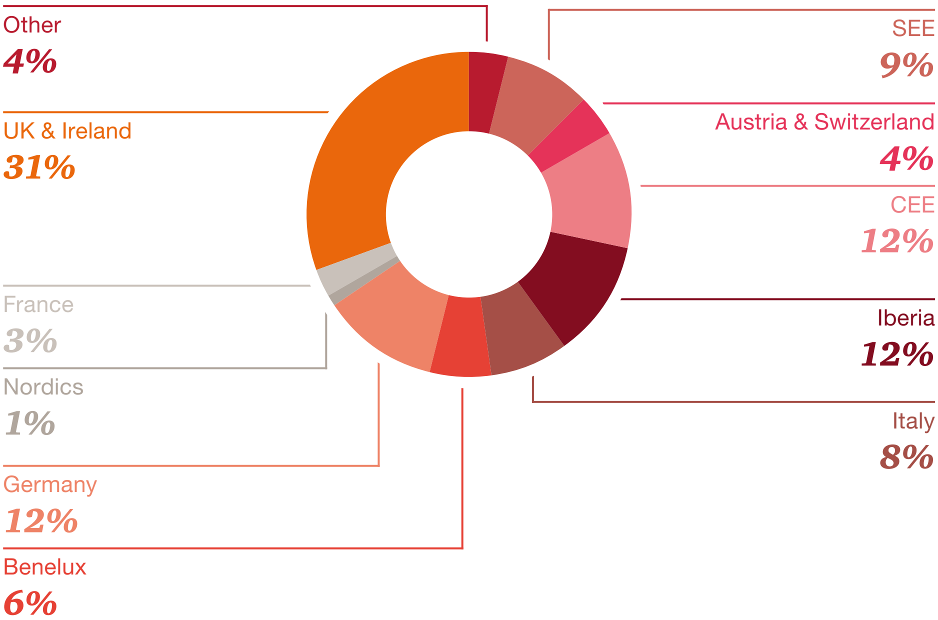
2014–2015



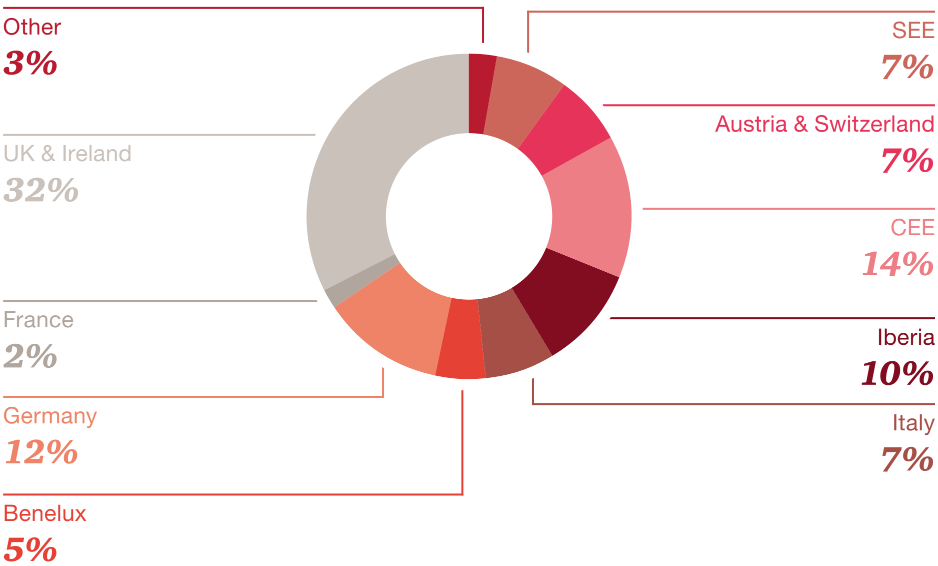
The geographical split of European buyout activity has remained fairly constant over the last two years. The UK and Ireland remains the clear number one target territory in terms of value and volume. 25% of European buyouts targeted the UK and Ireland, representing 32% of total value, up 1 percentage point in value in 2014–2015 compared to 2010–2013. The most notable value changes include the Austrian and Swiss markets (up 3 percentage points in 2014–2015 compared to 2010–2013) and in the CEE (up 2 percentage points when the 2010–2013 period is compared to 2014–2015).

Fig. 5 Buyout value, split by region

2010–2013



2014–2015



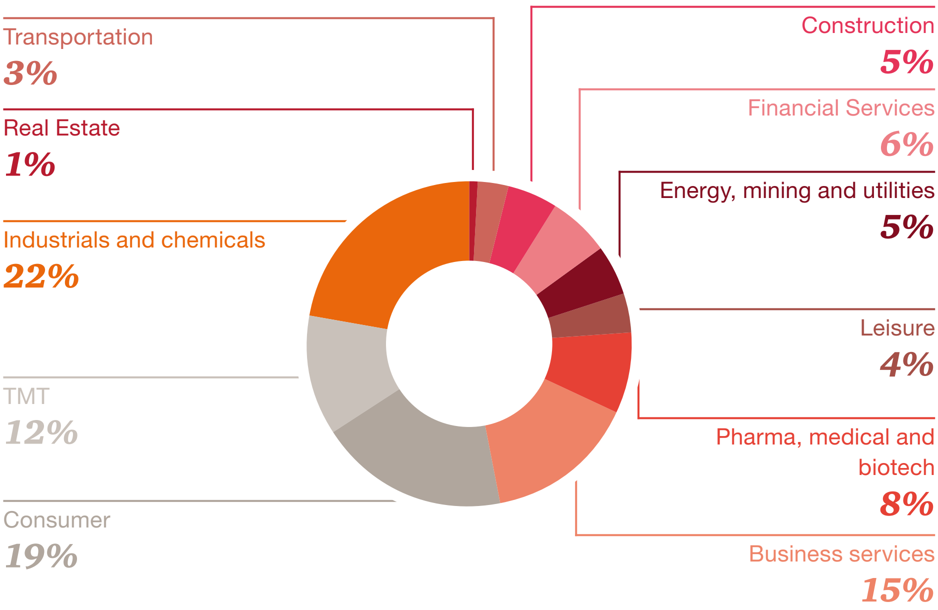
The UK and Ireland had 10 buyouts with values greater than €1bn, compared to 26 such transactions across the continent as a whole. 38% of total megadeals targeted companies from these countries. However, the territory also saw a high level of mid-market activity with 84% of the deals in UK and Ireland targeting companies worth less than €500m. Such mid-market deals represented 36% of the total transaction value in the region.

Industry focus

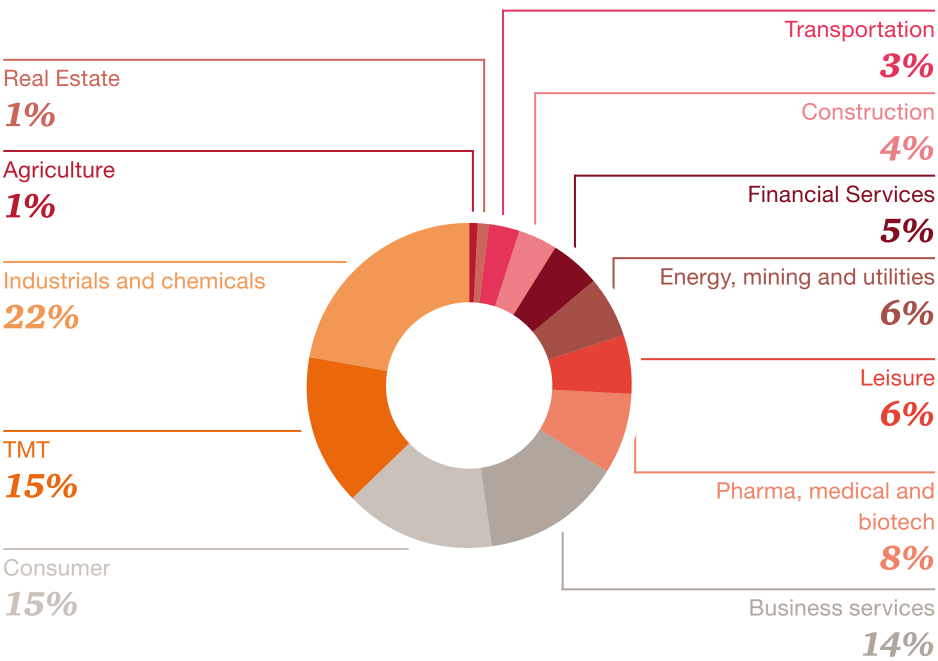
The industry splits of European companies targeted by PE firms remain remarkably constant over time. Industrials and chemicals is the clear frontrunner, accounting for 22% of deal volume in 2014–2015 and 18% of value over the same period. Large sector deals include the sale of Komi Oil to Gaetano Holdings for €4.7bn and Apollo Global Management's acquisition of French manufacturer of glass bottles and jars, Verallia for €2.9 billion.

Fig. 6 Buyout volume, split by industry

2010–2013



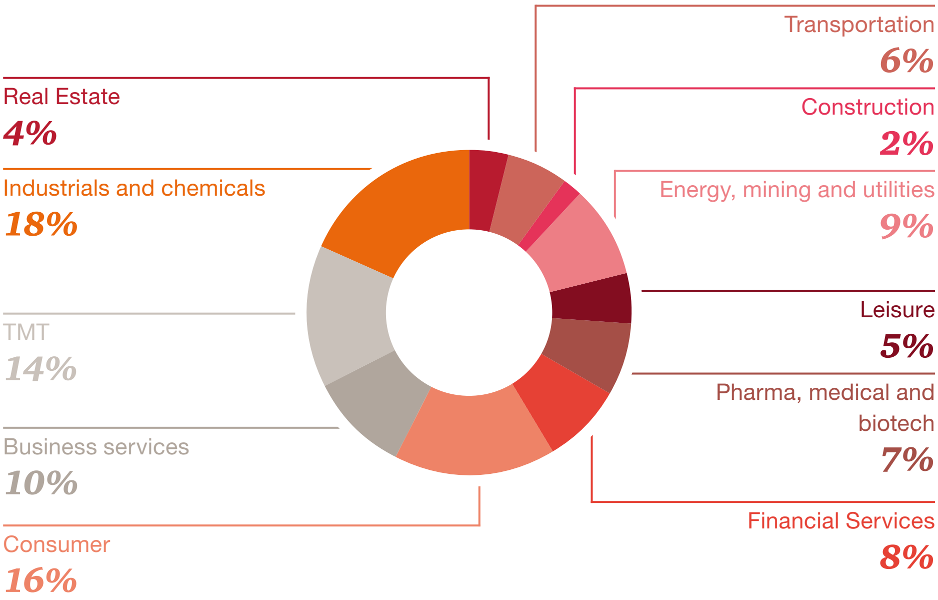
2014–2015



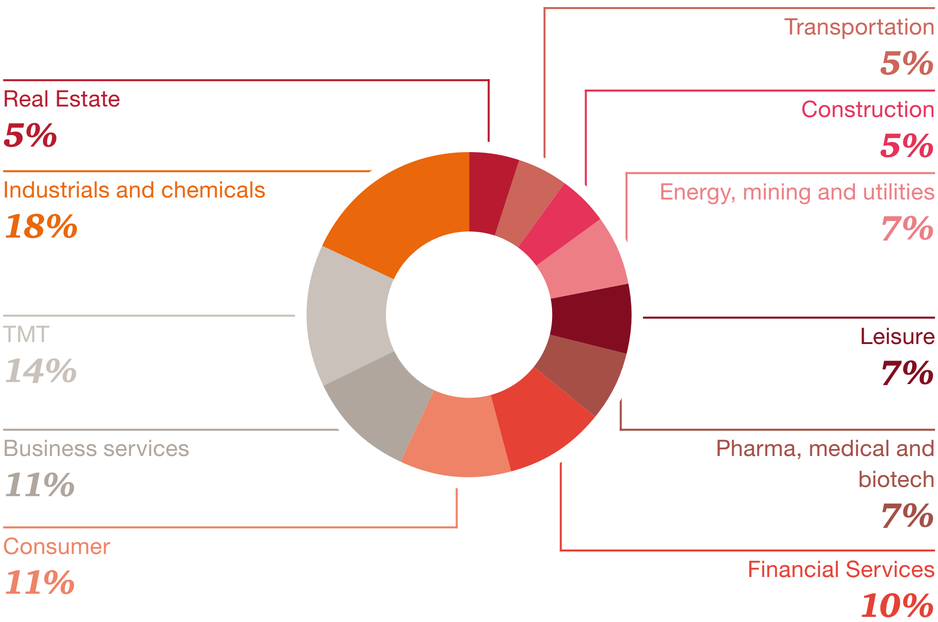
The value of deal activity in the financial services sector has increased from 8% in 2010–2013 to 10% over 2014–2015, despite volume dropping 1 percentage point over the same time period. The greatest drop in activity was in the consumer sector in which volume dropped by 4 percentage points and value by 5 percentage points between the two time periods.

Fig. 7 European Buyouts, split by deal size 2010–2015

2010–2013



2014–2015



The outlook

It was a strong year for European PE overall in 2015. However, buyouts and exit levels are procyclical and there are concerns about the outlook for the Eurozone economies as well as the wider global outlook in 2016. In July 2015, the European Central Bank revised its growth estimates for the Eurozone in 2016 down from 1.9% to 1.7%. It expects inflation levels to remain very low for years ahead. Further, there are concerns that the end of 2015 collapse in the price of commodities and accompanying volatility in global equity markets may yet herald a wider economic slowdown.

The overall upward trend seen in both volume and value in 2015 may provide the momentum for continued high levels of market activity in 2016, even against a more challenging economic backdrop. Firstly, PE funds are holding record levels of dry powder. Secondly, volatility in equity markets make sales to PE funds a more appealing prospect than stock market flotations. Finally, a downturn in some sectors of European economies may provide scope for special situations investments even as other sectors of the economy remain buoyant. Notwithstanding some negative macro-economic indicators, there are reasons for confidence among investors in 2016.

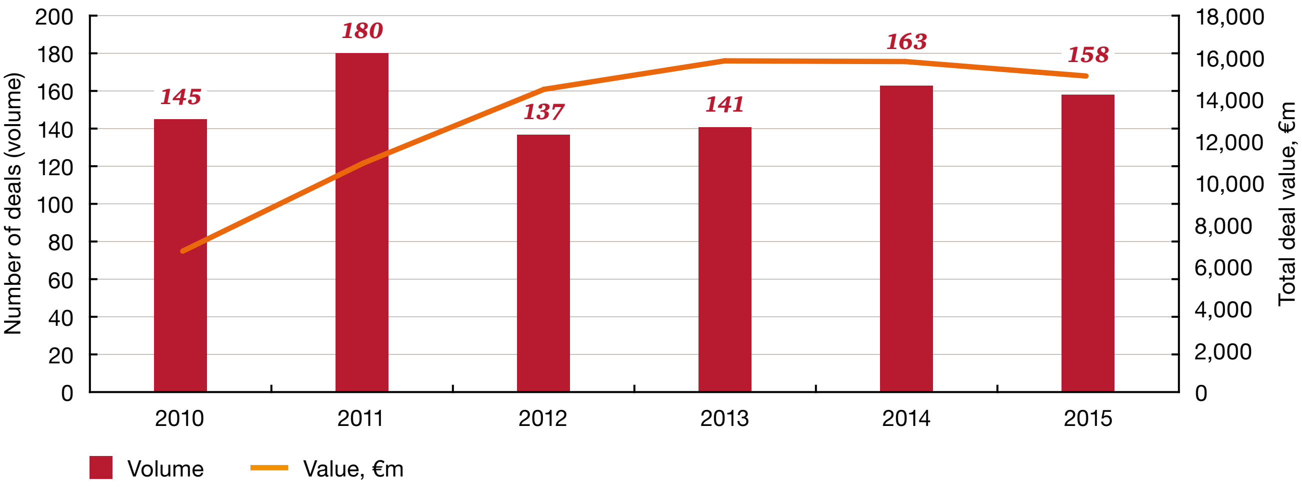
Deep dive: DACH Spotlight

DACH Spotlight

Overall PE deal volume in Germany, Austria and Switzerland (DACH) was up 6% to 288 transactions. However, there was a considerable decrease in value from €48.2bn in 2014 to €29.6bn in 2015.

Looking specifically at buyout activity, the DACH region accounted for 18% of the total European buyout deal volume in 2014–2015 and 19% of all value. This region is therefore a considerable contributor to overall deal activity in Europe. Nevertheless, DACH buyout volume in 2015 is down 3% YoY to 158 deals. Value is down 4% YoY to €15.2bn. Mid-market deal volume decreased somewhat from 2014, with the number of deals under €500m declining by 10 to 28. Meanwhile, the number of transactions worth more than €500m remained constant at 8. While the buyout market in this region experienced a small retrenchment over 2015, it still accounts for a large proportion of activity on the continent.

Fig. 8 DACH Buyout Trends, 2010–2015



Exit figures

DACH-based exits increased in 2015 by both value and volume. Volume was up 10ppts to 123 deals. The sale by Terra Firma Capital Partners Limited and RREEF Infrastructure of German consumer sector company Autobahn Tank & Rast for €3.5bn was the largest exit of the year. The buyer was a consortium led by Allianz Capital Partners. However, high profile deals also took place in the industrial and chemicals, TMT and PMB sectors.

In February, Swiss company Infront Sports & Media was sold by Bridgepoint Advisers to Chinese conglomerate Dalian Wanda for €1.05bn. The overall buoyancy of the exit market has been boosted by cash reserves held by both corporates and financial sponsor bidders and prices have accordingly been increased.

Fig. 9 DACH Exit Trends, 2010–2015

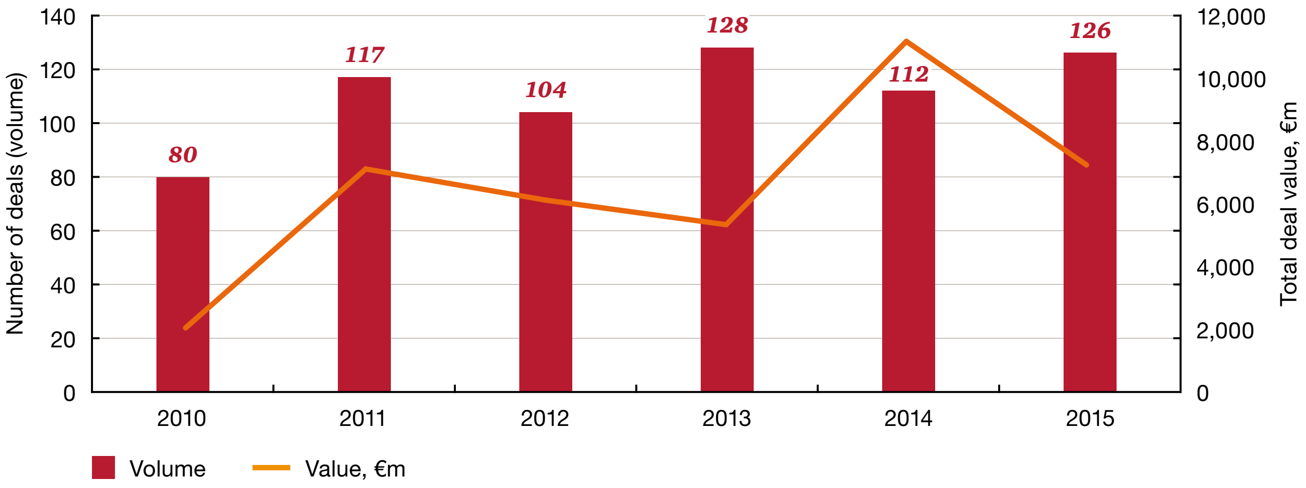
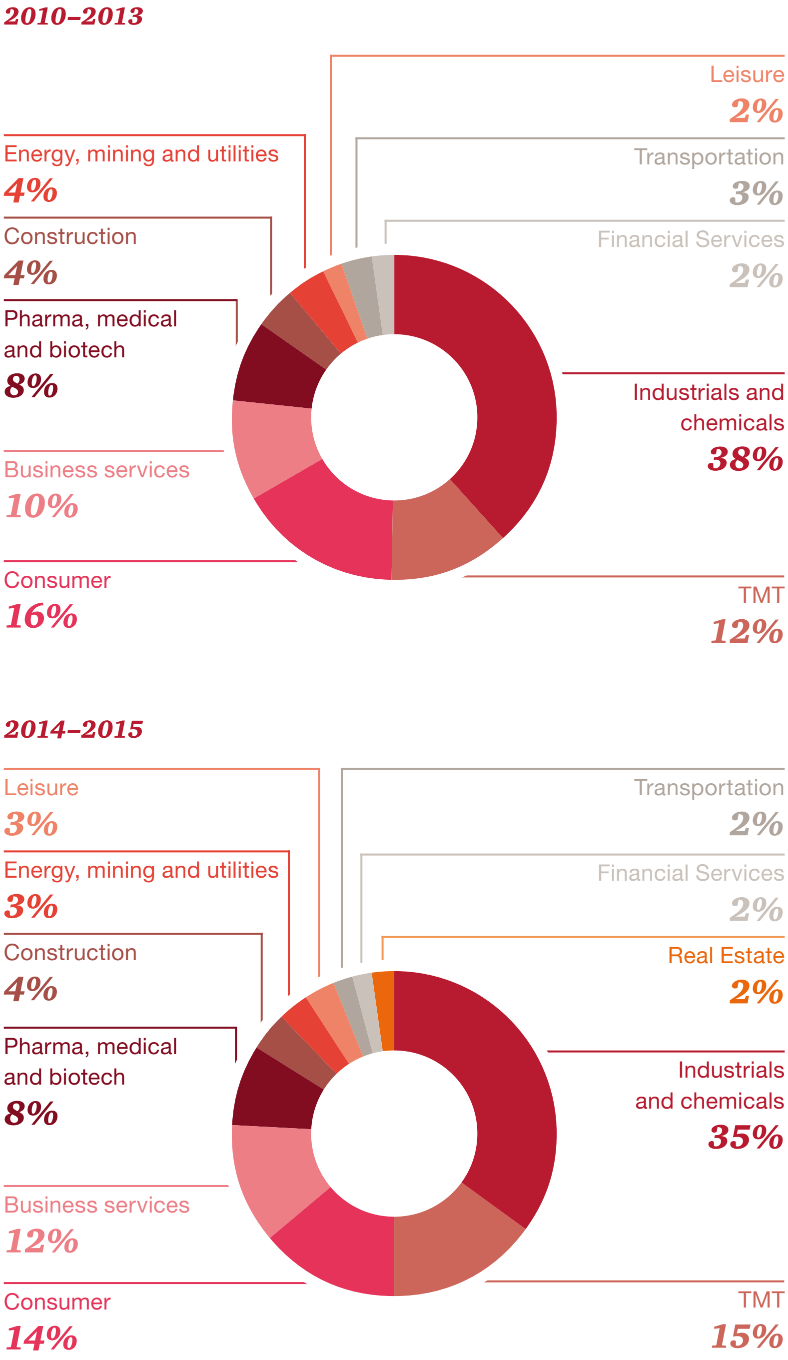


Fig. 10 DACH Buyout volume, split by industry



Sector focus

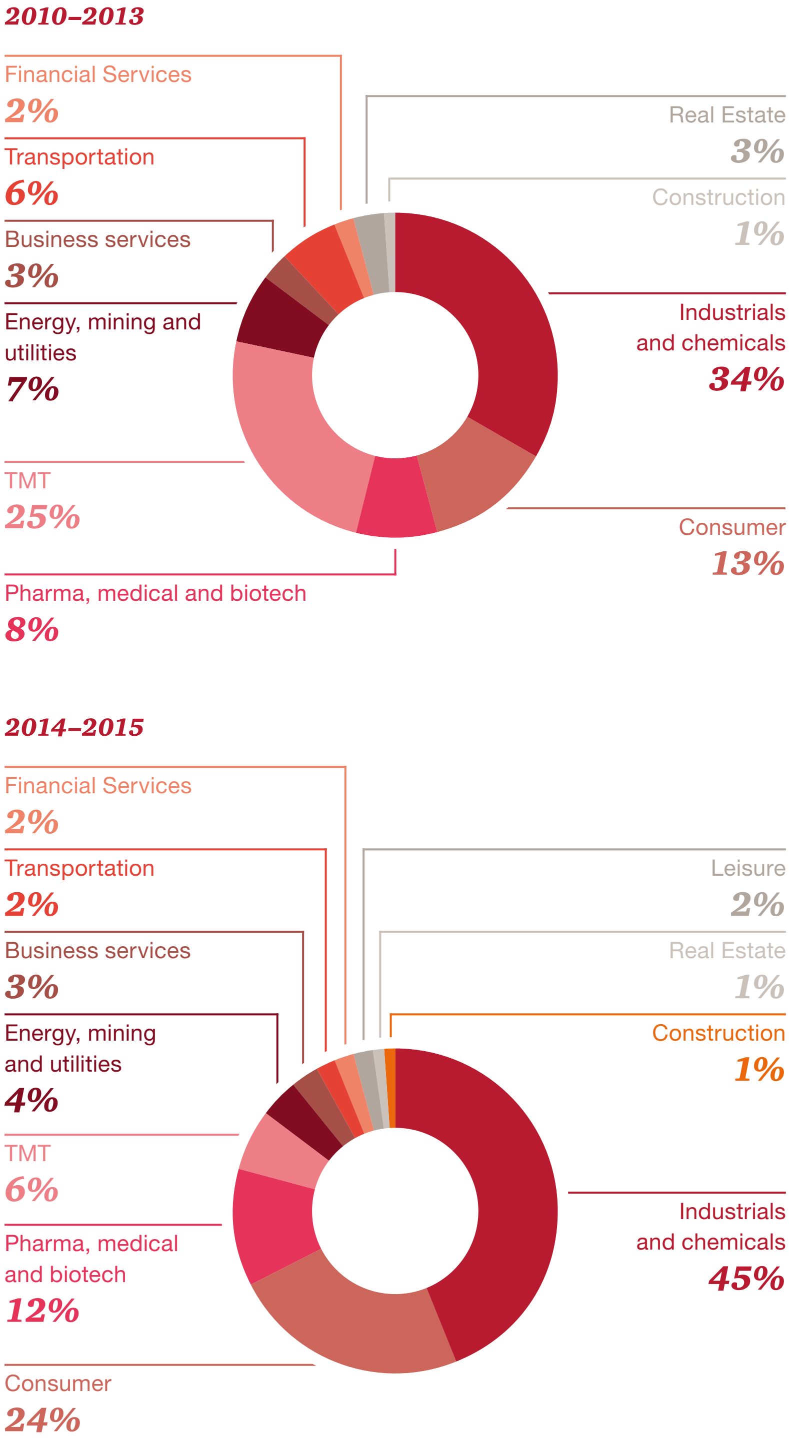
The largest rise in buyout sector deal value in the region was in the consumer sector in which value rose 505% YoY to €6.3bn due to two megadeals; the sale and purchase of Autobahn Tank & Rast mentioned above and the sale and purchase of German retailer Douglas Holding, purchased by CVC Capital for €2.8bn.

Industrials and chemicals top the sector list for the region in 2015 with 95 PE deals overall worth €5.6bn, a 65% decrease in value on 2014 on a slightly increased deal volume. However, mid-market activity (less than €500m) rose 25% to 20 deals and value also increased YoY by 12% to €2.5bn. Overall, a robust and healthy mid-market can therefore be discerned in 2015 in this key sector, reversing the trend for megadeals seen in previous years.

Industrials and chemicals maintains its prominent position in the German economy and as in previous years, many private equity funds felt confident buying into this sector. Examples of high profile mid-market transactions include Lindsay Goldberg's announcement in April of the acquisition of alloys producer VDM Metals for €500m and Deutsche Beteiligungs's €70m acquisition of steel and iron foundary company Silbitz Guss.

In the TMT sector there were 28 buyout deals announced in 2015 (an increase of 40% compared to 2014) but deal value decreased 79% to €296m. Looking at the mid-market, at 23 deals there were 2 fewer in 2015 than in the previous year but value increased by 22% to €23.6bn. A robust mid-market is therefore in evidence in this sector too. While broader economic trends enter a period of uncertainty we are confident that the DACH region will continue to be an attractive location for deal activity as funds search for promising targets for their investments.

Fig. 11 DACH Buyout value, split by industry

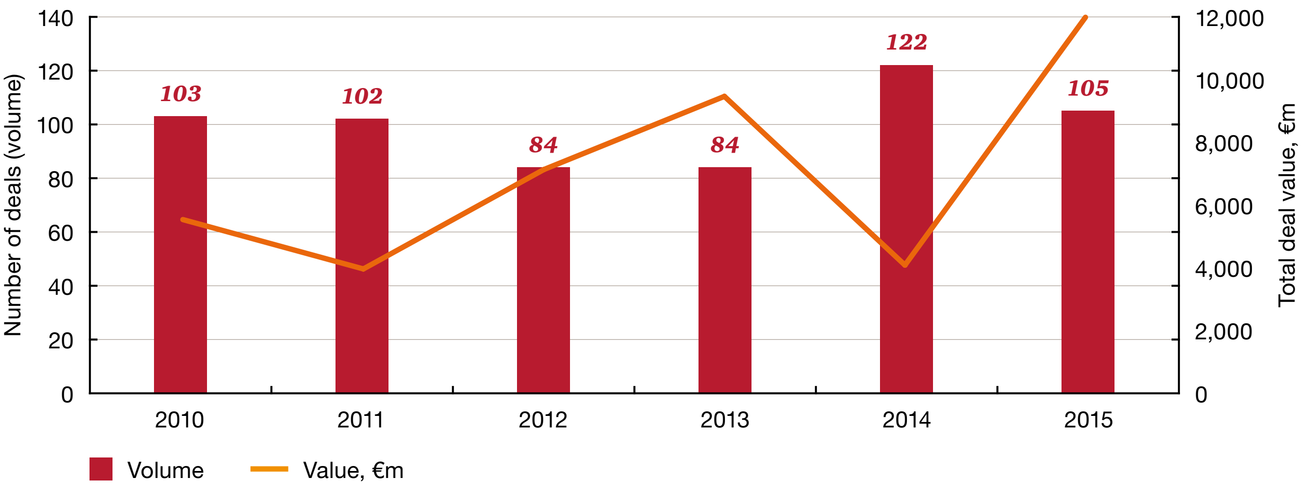


Deep dive: Benelux Spotlight

Benelux Spotlight

Belgium, the Netherlands and Luxembourg (Benelux) experienced fewer buyouts in 2015 but an uptick in value. The volume of deals was 105, a YoY decrease of 14%. Meanwhile, deal value increased 197% to €12bn. This increase in value was underpinned by several megadeals including the buyout of the Dutch vehicle leasing company LeasePlan by LP Group for €3.7bn, announced in July 2015. Looking at deals with reported values, 25 were below €500m (compared to 35 in 2014), while 5 were over €500m (compared to 2 in 2014).

Fig. 12 Benelux Buyout Trends, 2010–2015



Exit figures

Focusing on exits, the volume of deals was up 23% in 2015 to 106. Exit deal value also rose, by 33% to €10.7bn. Headline grabbing exits in the region included the purchase of Dutch biotech company Dezima Pharma by Amgen from Forbion Capital Partners and others for €1.4bn. This was the highest value exit in the region but 2015 also saw high profile transactions in the TMT, leisure, and industrials and chemicals sectors.

In September, Qualium Investissement announced the sale of Belgium-based fast service restaurant company Quick Restaurants for €800m. The purchaser was Burger King France. Corporates and sponsors are deploying capital in a buoyant exit market in the region.

Fig. 13 Benelux Exit Trends, 2010–2015

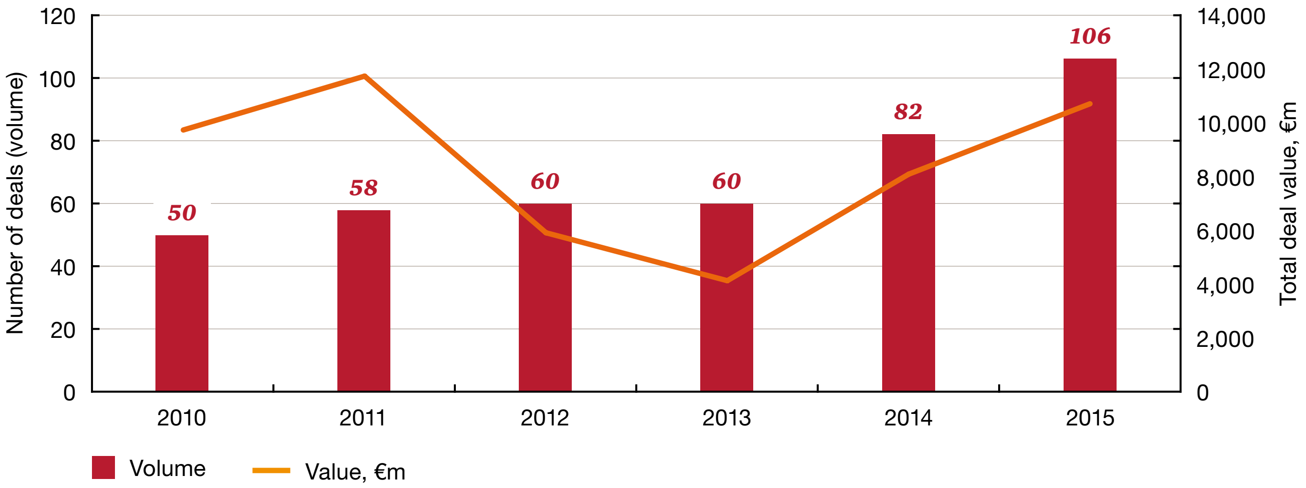
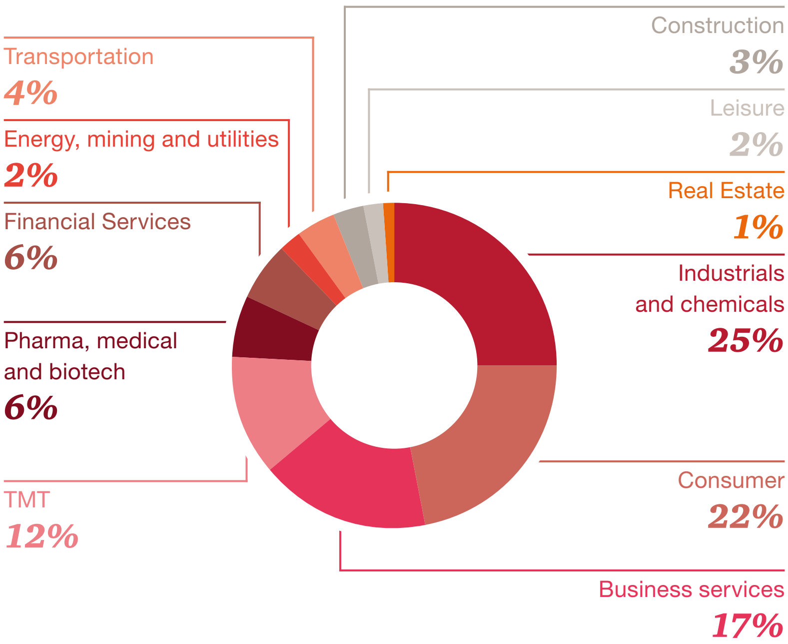
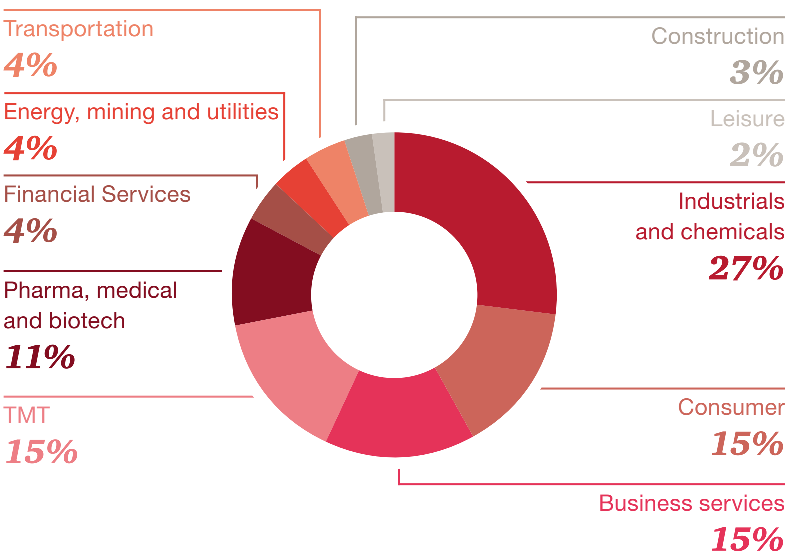


Fig. 14 Benelux Buyout volume, split by industry

2010–2013



2014–2015



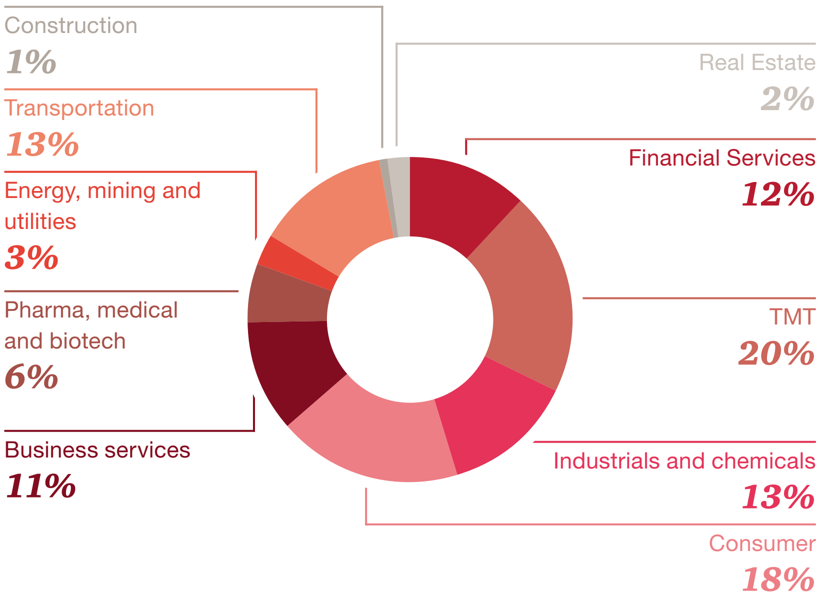
Sector focus

By volume of buyout transactions in the region, industrials and chemicals was the top sector for activity with 24 deals, up from 37 in 2014. This sector accounted for 27% of all regional activity in 2014–2015, compared to 25% in the period 2010–2013. Looking at deal values, the top sector in 2015 was financial services with €3.7bn of deals. Financial services accounted for 25% of total buyout value in 2014–2015, compared to 12% in 2010–2013. There were also high total deal values in the TMT, industrials and chemicals and consumer sectors in the region in 2015.

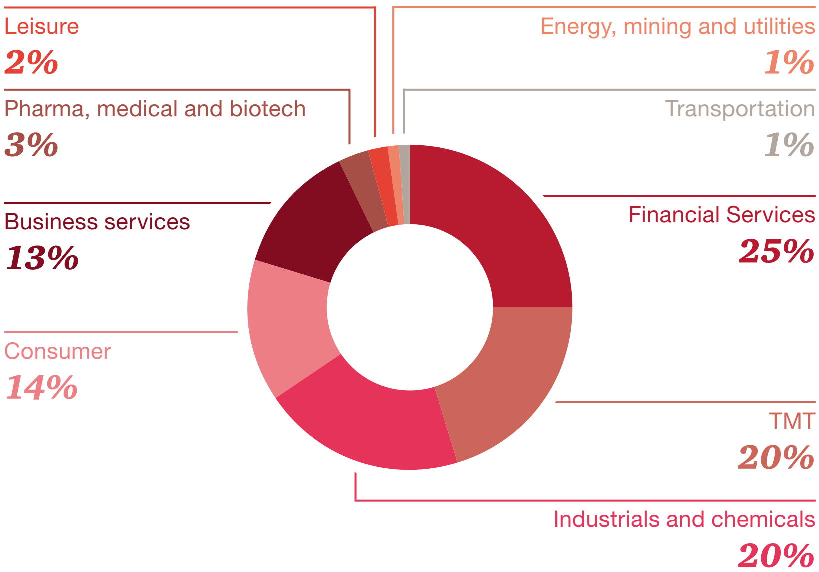
In May, Dutch semi-conductor company NXP Semiconductors was purchased by Chinese tech PE specialist firm JAC Capital Management for €1.6bn. Meanwhile, Belgian outdoor equipment and clothing retailer AS Adventure Group was acquired by PAI Partners for €400m. Overall, across a range of sectors, funds are successfully identifying attractive targets in the region.

Fig. 15 Benelux Buyout value, split by industry

2010–2013



2014–2015



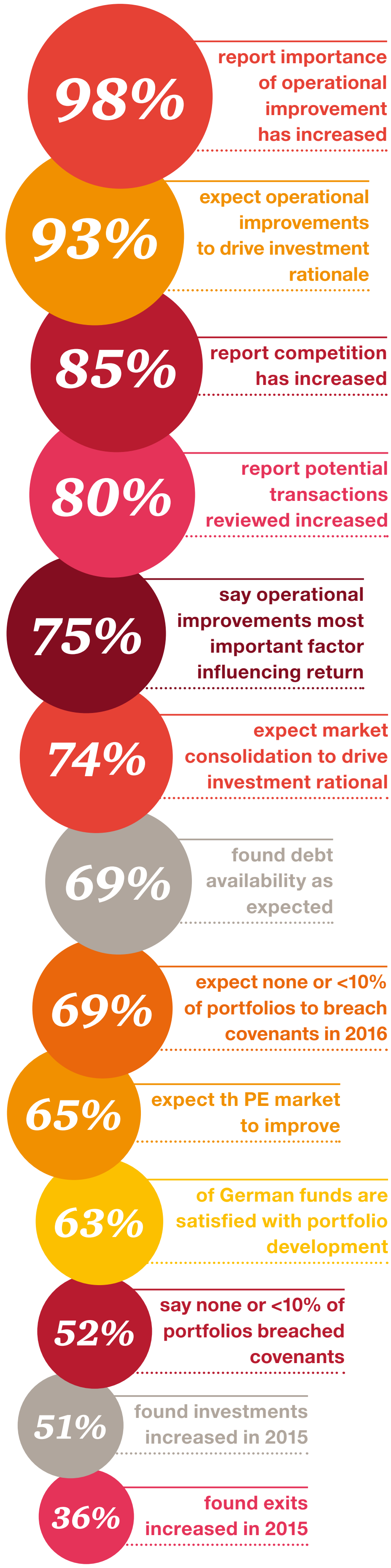
B Key findings

2015 – a modestly good year for the private equity market

- 51% of respondents increased investments in 2015. This compares with 81% of respondents to the previous year's survey who increased investments in 2014.
- Exits increased for 36% of respondents, up 15 percentage points from prior year. However, 30% of respondents felt that exits decreased in 2015, which also marks an increase of 6ppts.
- 85% of respondents say that competition among private equity firms for new investments increased in 2015 compared to the previous year.
- 90% of German respondents report that the number of potential transactions which they reviewed in 2015 increased compared to the previous year. 77% of non-German respondents said the same.
- 69% say debt availability was as expected, however there has been a sharp increase in respondents, which experienced worse than expected levels of debt availability. 24% experienced less favourable conditions than expected in 2015 compared to only 2% in 2014.
- Debt to equity ratios are still on a moderate level. 43% of this year's cohort say they support average debt to equity ratios between 40%–49%, which is in line with prior years finding of 45% of respondents. However, in 2015 only 29% of respondents used less than 40% debt versus 49% in 2014. The difference has shifted to the higher end, with 23% being comfortable with 50% debt-to-equity in 2015.
- 63% of German respondents report satisfaction with the overall development of portfolio companies. This compares to 57% of respondents overall.
- 23% of respondents reported that none of their portfolio companies experienced covenant breaches, up 16ppts to prior year. However, 35% responded that between 10% and 20% of their portfolios experienced breaches up 31ppts to prior year.
- Operational improvements (88%) and market consolidation (76%) were the major factors influencing investment rationale in 2015.

Majority of market participants are optimistic about the 2016 outlook

- 65% of respondents expect the private equity market to improve in 2016. 75% of German and 73% of Benelux-based respondents expect the market to improve in the coming year.
- 29% of interviewees expect no breaches of bank covenants by their portfolio companies in 2016. This compares to 23% who expected no breaches in 2015. 40% of respondents expect fewer than 10% of their portfolio companies to breach bank covenants in the coming year.
- 89% of respondents expect expansion or growth capital to be a source of new deal opportunities in 2016 remaining stable to prior year findings. This is followed by acquisitions from private owners (64%), up 9ppts from expectations in 2015.



Private equity houses
250

German GPs
16%

UK GPs
18%

AUM > €500m
70%

Operational improvements are key

- Operational improvement is the most important factor influencing return on investment for 75% of respondents.
- 98% of respondents say operational improvement has increased in importance since the financial crisis. The same number expect this factor to increase in importance in the future.
- Operational improvements (93%) and market consolidation (74%) further top on the list in influencing investment rationale in 2016.

Regulation, fees and investment opportunities are key challenges ahead

- 30% of respondents point out increasing regulation as the key challenge facing the industry in Europe. Another 25% find it as the second largest key challenge ahead.
- 25% name pressure for lower fees and 20% scarcity of investment opportunities as the biggest challenges for PE houses today.

Germany is the most attractive market in Western Europe

- A clear majority of respondents (62%) say Germany is the most attractive market in Western Europe for private equity investments. This is followed by the Netherlands (52%).
- Globally, the US retains its position as favoured territory with 64% of this year's cohort identifying it as increasingly attractive for investment over the next five years.

Industrial production and consumer are favoured target sectors

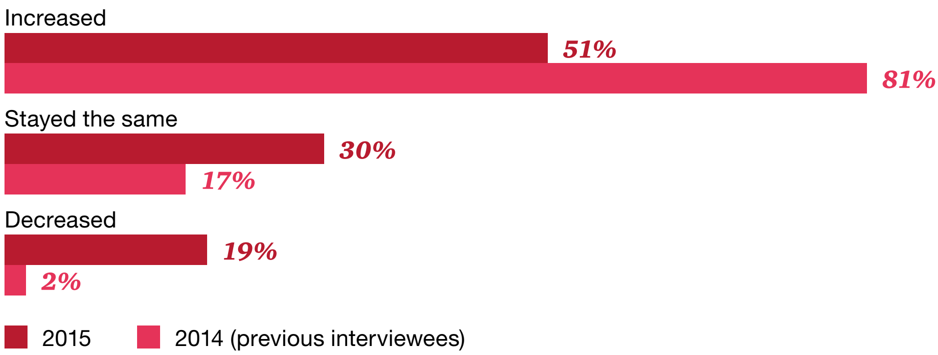
- The industrial production sector (47%) and consumer sector (36%) top the list of target sectors for the coming two to three years.
- Business services experienced a heightened interest up to 33% from 13% the previous year.

C Detailed Findings

1 2015 – The year in review

Buyouts increase for a majority in 2015 but decrease for some

Fig. 16 Development in number of new investments compared to previous year



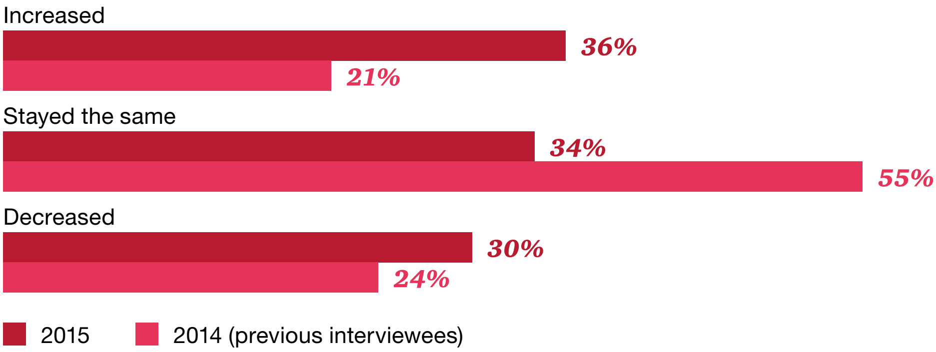
51% increased new investments compared to 2014

According to respondents, 2015 was a modestly positive year for buyouts. A majority (51%) say that their firms' investments increased. However, this represents a sharp drop from 2014's survey cohort, when 81% said that new investments had increased. Also, more respondents report that the number of investments has decreased in 2015: while only 2% reported a decrease in 2014, 19% say so in the current cohort. These findings reflect market developments. Buyout activity has decreased by 6% YoY in volume but increased 13% in value. "The narrow range of returns now due to the volatile conditions and lack of growth made it very challenging to distinguish which targets are truly good from which are weak, the task of separating the strong performers from the weak for purposes of deciding which companies to invest and to back with future capital commitments has become much harder", comments a Germany based director investment.

Over the past year, PE firms have had record amounts of dry powder committed, but have faced fierce competition from other PE players, institutional investors and corporates for a relatively select pool of healthy assets. Of deals being completed, valuations have been sky-high. Other respondents point to tepid Eurozone growth as the reason that they waited to undertake new deals: "Pockets of the EU were dragged down by several weak Eurozone economies and slogged through another year of low growth. Because the market was clouded in uncertainty we did not consider new transactions much in the past year," comments a UK-based principal. 2015's climate, while active, saw fewer deals were being done.

A mixed picture on exits in 2015

Fig. 17 Development in the number of exits compared to previous year



Exits similarly present a mixed picture when compared to 2014. Encouragingly, 36% of this year's cohort say the number of exits their firms completed in 2015 has increased. This compares to a slim 21% in 2014. Several respondents indicate that it was straightforward to find appropriate buyers willing to pay premiums. For instance, a France-based partner comments, "We were able to find suitable buyers with assertive objectives about transactions. Based on our analyses, many were found to be ideal matches, so we made several exits. We then gained capital to invest in larger transactions."

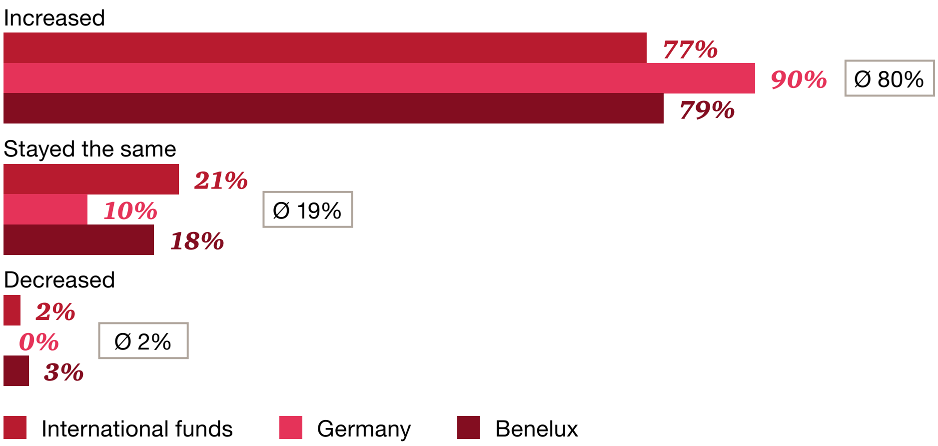
36% increased exits compare to 2014

However, this view was not shared by all respondents: 30% say the number of exits has decreased, marking a six percentage point rise from 2014. Somewhat surprisingly, several respondents in this year's cohort say this is because they could not find buyers willing to pay premiums for assets: "We made fewer exits this year because we were not able to find buyers that were willing to offer us the value we expected. We changed our decision to divest certain assets, and will wait until we can gain the right value," comments a Netherlands-based partner.

Overall, the exit market seems to be finding itself in a cautious equilibrium, where perfect fits are merited with very premium prices, however those assets missing unique selling propositions have been struggling to be passed on at sellers' expectations. The lessons learned from the crisis in 2008 have led to more in-depth and extended assessments and lower risk appetite especially in times of volatile market conditions.

Overwhelming majority reviewed more potential transactions in 2015 than in 2014

Fig. 18 Number of potential transactions reviewed in 2015 compared to previous year



80% reviewed more potential transactions

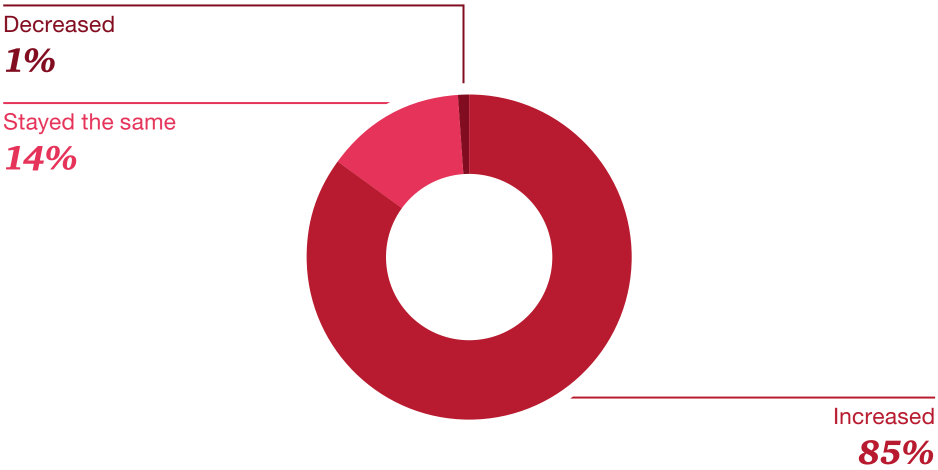
Although announced deals were relatively muted last year, respondents' firms were very active in reviewing deals. 77% of non-German respondents say the number of potential transactions they reviewed increased in 2015 compared to the previous year. Among German respondents, this share rises to 90%. Many respondents say that this is due to increasing competition from other buyers, and because of turbulent macroeconomic market conditions throughout the year such as demand fluctuations and currency volatility. For instance, a Germany-based director of investment comments, "We reviewed more deals this year because we had to. There is direct competition from institutional investors, the market is very turbulent, regulations have changed and have become very tough, and deal terms are now less favourable. So it is not easy to make a transaction now and before making a transaction we must review it closely."

Volatility has also created opportunities for some: "There has been a significant increase in the number of potential transactions as we have noticed stress and debt burden becoming an issue for businesses that have the viability to grow. We were able to get access to several investment opportunities, which resulted in heightened activity in assessment of potential transactions.", comments a Managing Partner from Norway.

On the other hand some have used the market conditions to focus on their existing portfolio companies and active portfolio management. "We have not considered additional transactions this year as we were retaining major portfolio companies and making fewer exits with the idea of transforming existing businesses to outperform their competitors." adds a France-based partner.

Perception of increased competition among private equity firms for new investments is widespread

Fig. 19 Competition among PE firms for new investments in 2015 compared to previous year

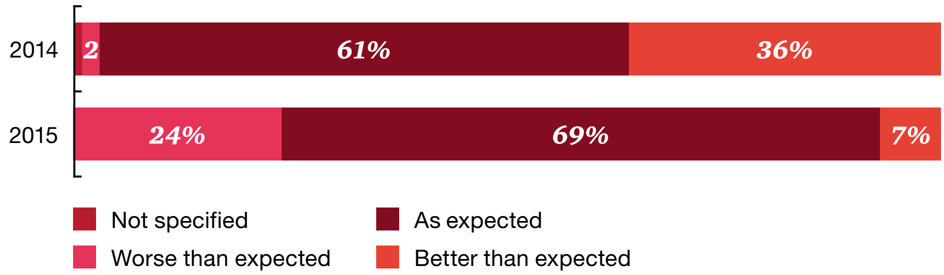


Further, mirroring broader market trends, there is a widespread perception of competition for new investments in 2015, with 85% of respondents saying competition has increased in 2015. Only 1% say it has decreased. A UK-based managing director describes pressure increasing from various sources: “The private equity market is getting crowded and whether it is fundraising or new investments the competition is only increasing. This year the competition further increased because the European crises caused potential targets’ values to decrease.”

“Low economic conditions had led many to get out in the open and seek capital to grow and maintain operational value by making additional investments as competitiveness in investments in every sector has reached a new level”, adds a Netherlands-based managing director. Many PE firms have also revised strategies and have looked into other territories, which they would have not considered some years ago. Furthermore, global macroeconomic conditions such as strengthening USD have increased interest for European targets out of the US and China – financial sponsor and strategic alike. The weaker Euro has brought in additional competition from abroad.

Financing conditions meet expectations

Fig. 20 Perception of debt availability compared to the previous year

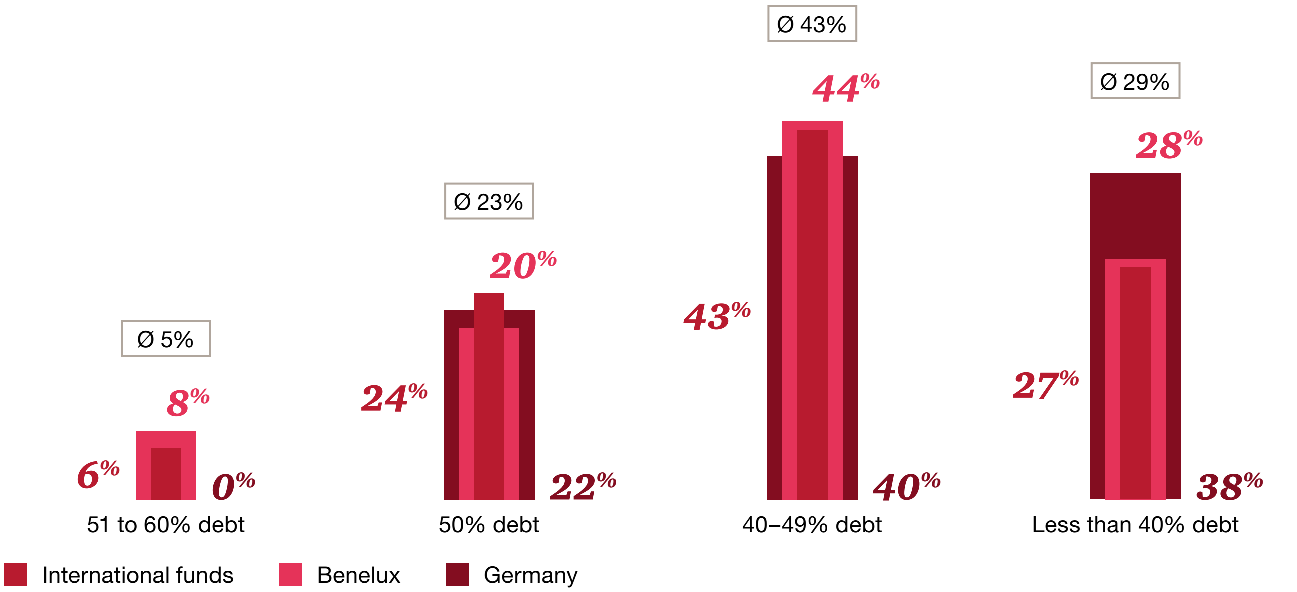


61% found debt availability as expected

Respondents present mixed views on the availability of debt in 2015. While 69% say that the availability of debt was as expected, a large minority (24%) say that it was worse than expected. This compares to only 2% who said the availability of debt was worse than expected in 2014. Further, the percentage saying the availability of debt was better than expected (7%) declined markedly from the previous study (36%). Several respondents explain why this was the case in a buoyant credit market with continued low interest rates: "Credit was available in 2015. However, there was not a lot of participation in leveraged buyouts this year mainly because LBO capital providers have taken a back seat and were using the first six months of the year to learn about the challenges of investing in the current market. With this completed, we have seen the availability of credit increase, and we expect this to be better over the next year. Debt is likely to be available at fair interest rates for investors," comments a Germany-based managing partner.

Average debt to equity ratio in 2015

Fig. 21 Average debt to equity ratio for new investments in 2015



In terms of the average debt-to-equity ratio for 2015-vintage investments, 43% of international respondents[1] in this year's survey say that it was 40–49%. This is broadly consistent across other regions: the percentage of German respondents who say it was 40–49% debt is 41% and the percentage of Benelux funds is 44%.

<49% of average used by 72% of respondents

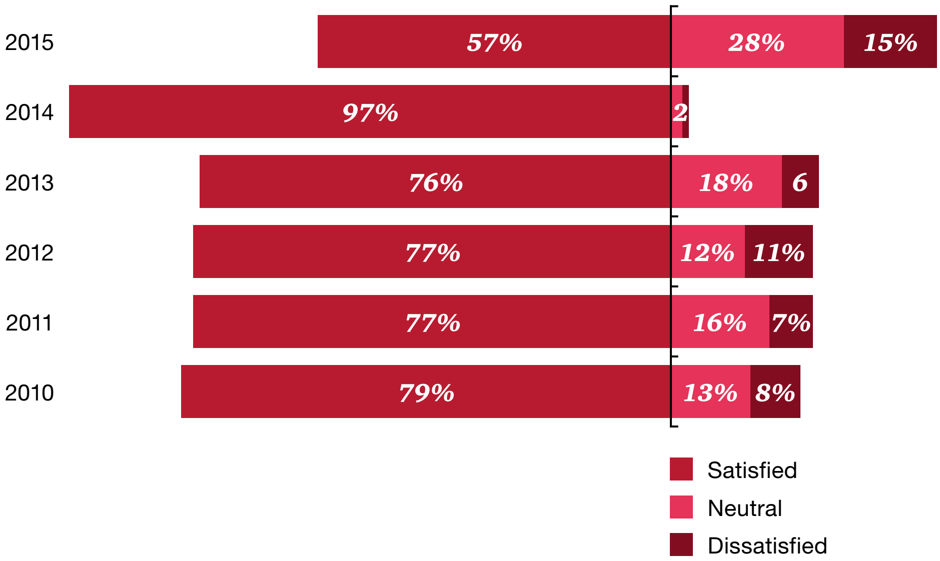
However, Germany-based respondents are much more likely to take on lower debt ratios: while 38% of these funds took on less than 40% debt, only 27% and 28% of international and Benelux funds did the same.

An UK-based principle says: "For the investments made in 2015 our debt to equity portion was lower as we had a strong investor base for our funds and also got a lot of interest from limited partners, which made us rely more on equity." With dry powder levels going up and cautious investment strategies, PE houses seem to be comfortable in investing more equity than has been historically the case. Among others appreciation for flexibility and reliability of debt equity structures has grown among investors.

[1] "International respondents" and "international firms" refers to non-Germany and non-Benelux-based respondents and funds, throughout this report.

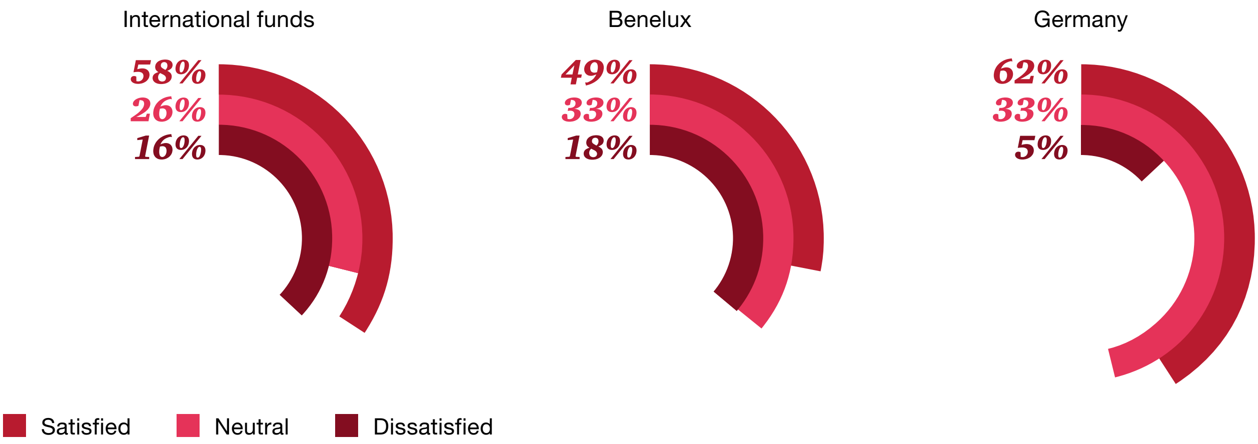
Majority are satisfied with portfolio companies

Fig. 22 Level of satisfaction with the overall development of portfolio companies



Among the current study cohort, a majority (57%) are satisfied with the overall development of their portfolio companies. While this finding on its own may seem positive, this represents a sharp drop-off from the 97% of respondents in last year's cohort who were happy with company performance, and is the lowest share over the last five years. Additionally, 15% say they are dissatisfied with performance. This is the highest proportion of respondents over the last five years. Still, comments regarding performance are overwhelmingly positive, perhaps reflecting an underlying optimism in the market: "We were very satisfied with the way our companies are developing. We are also satisfied with the changes and are monitoring the performance of our companies very closely. We have many teams looking into all our companies and follow them, we give them the management help they need on a regular basis.," notes a Netherlands-based investment director.

Fig. 23 Levels of satisfaction with the overall development of portfolio companies



Taking a look at responses based on geography, Germany-based interviewees (63%) report a higher level of satisfaction with the development of portfolio companies compared to international respondents (51%). There is also a lower level of dissatisfaction among German respondents, with 5% compared to 16% among international firms. A different picture emerges in the Benelux: 50% of Benelux-based respondents say they are satisfied with the overall development of portfolio companies. Further, 18% of Benelux-based respondents say they are dissatisfied with overall development.

Covenant breaches: A mixed picture

Fig. 24 Percentage of portfolio companies that experienced covenant breaches

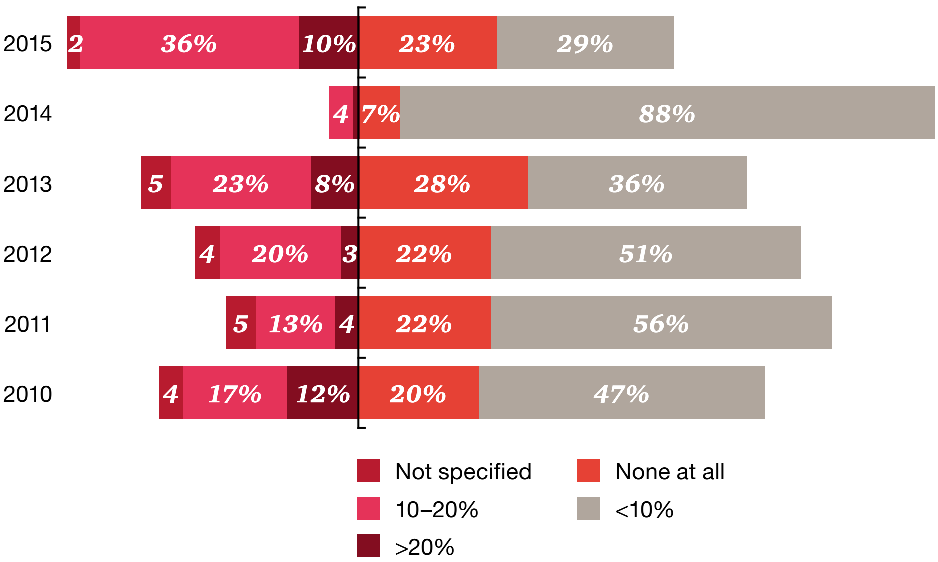
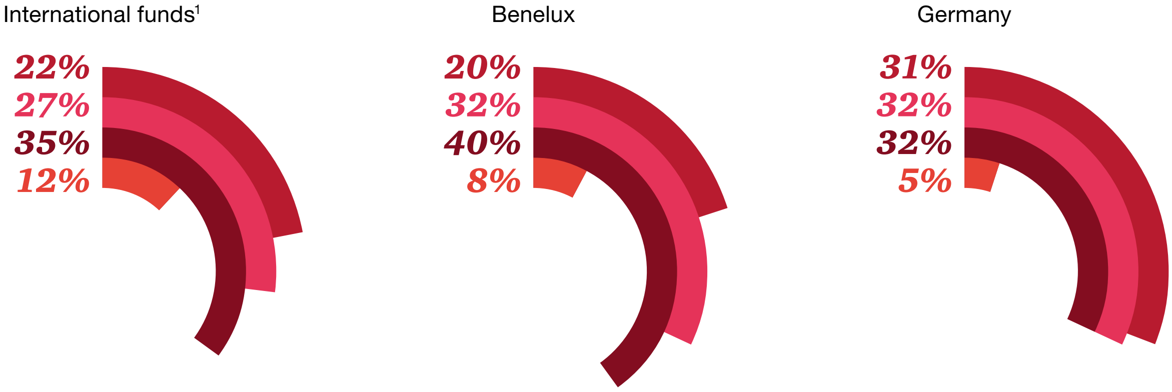
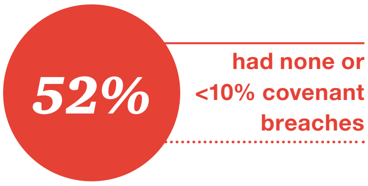


Fig. 25 Percentage of portolfio companies that experienced covenant breaches in 2015[1]



None at all · <10% · 10–20% · >20%

[1] Note: 4% of International funds did not specify



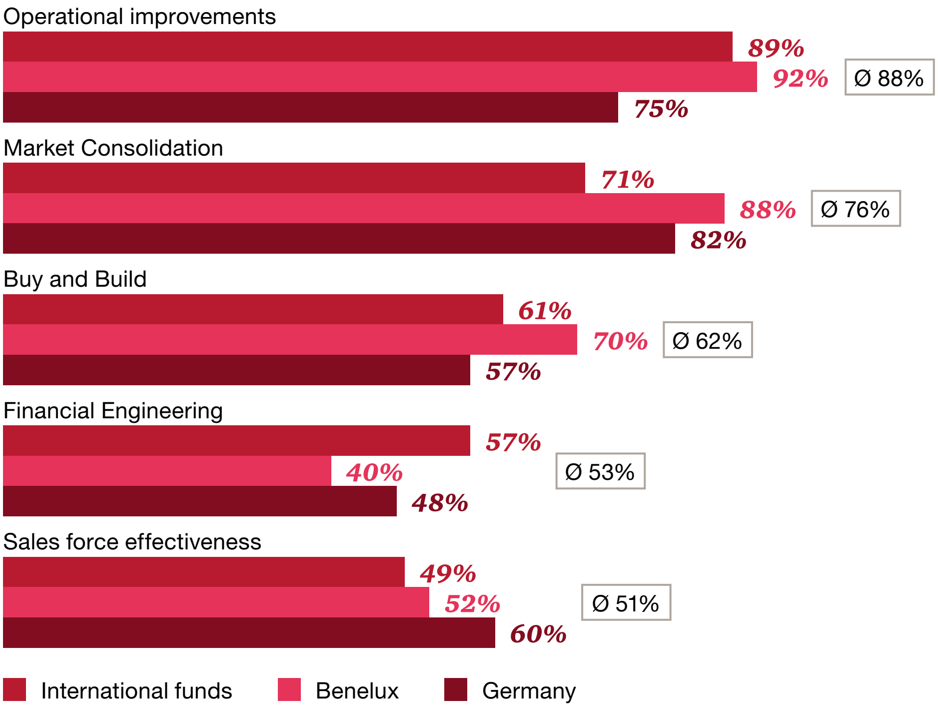
On the one hand, a greater share of respondents experienced fewer breached covenants in 2015: 23% of respondents say none of their portfolio companies breached bank covenants in 2015. This is significantly higher than the proportion of respondents who experienced no breaches in 2014 (7%) and represents a return to results similar to those seen in respect of 2010 through 2013. A France-based managing partner describes how proactive management helped his firm to eliminate covenant breaches: “Our portfolio companies already kept funds in reserve to manage difficulties and pay down debt during volatile times. As much as we could, we also identified needs and provided capital to make sure the credibility of our portfolio companies is not compromised.”

On the other hand, the percentage of respondents who say that more than 20% of their firm’s portfolio companies breached covenants in 2015 has risen to 10% in 2015, compared to last year’s 1%. A Germany-based managing director comments: “Unexpected changes in the market created unique challenges, which resulted in volatility in returns and debt maintenance. We are unhappy about this and are divesting a few companies that have not been able to align themselves well to our needs.”

Breaking this down by geography, 30% of German funds and 20% of Benelux funds say none of their portfolio companies experienced covenant breaches. This compares with 22% of international funds.

Operational improvements and market consolidation top list of investment drivers

Fig. 26 Factors influencing investment rationale in 2015



When considering the influences on investment rationales in 2015, operational improvements tops respondents' lists with 88% of respondents overall saying it is important. Several respondents explain that this helps their portfolio companies to gain value. For instance, a Netherlands-based partner comments, "With operational improvements, our portfolio companies gained cost efficiency and offered us better profits as equity values grew with their improved performances."

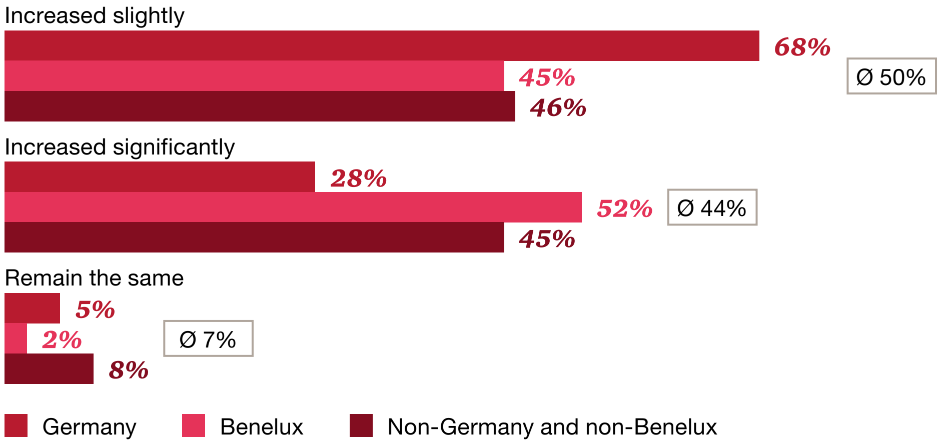
62% focused on buy and build strategies

The second most influential factor is market consolidation, which 76% of respondents overall consider important. A Swedish director of investment explains why this is a priority for his firm: "We want to grow and consolidate the companies in our portfolio. We want to be able to make our companies more attractive to potential buyers and for this, we will expand them well."

Looking at top drivers by region, 92% of Benelux firms and 75% of German firms say operational improvements is an important driver. Also, 82% of Germany-based respondents and 88% of Benelux-based respondents identified market consolidation as a key factor.

Perception of increase in number of PE houses

Fig. 27 Perception of change in number of PE houses in 2015[1]



[1] 1% of international funds found the number of PE houses decreased slightly.

93% found in increase in PE houses

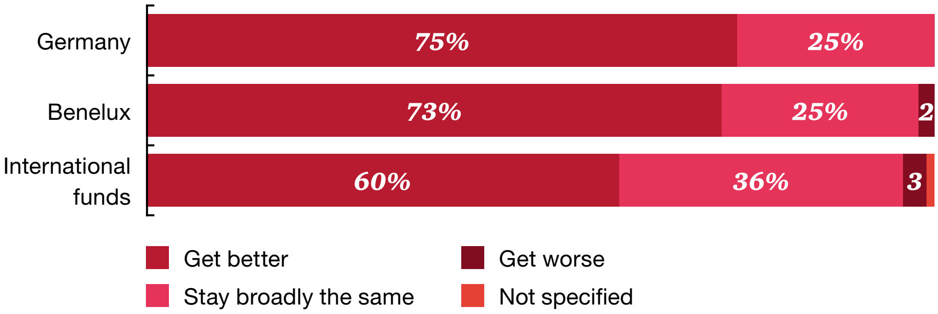
When considering the number of new PE houses in 2015, a clear majority of respondents say there has been an increase, with about half indicating a slight increase, and half indicating a significant increase. A Switzerland-based managing director explains: “The number of private equity companies has only been rising as the opportunities in the market have been growing. The number of start-ups has been increasing and many PE firms have shown a lot of interest in them. Just last year many investors left their companies and started their own PE investment companies. Technological changes have led to a sudden increase in business activities around the world and the scope and need for investment has led to an increase in the number of investors in the market.”

Still, there is some regional division in respondents’ assessments of the change in the number of PE houses. While 52% of Benelux-based respondents and 45% of international respondents indicate a significant increase, only 28% of Germany-based respondents see the same.

2 2016 – The year ahead

Majority expect deal market to improve

Fig. 28 Expected Europpean private equity deal market developments



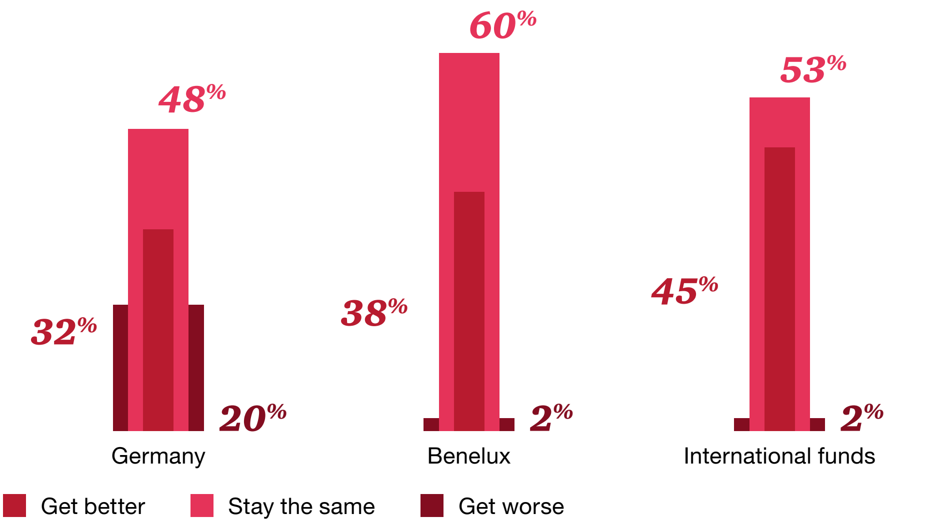
Looking to 2016, respondents are bullish about the year ahead. Overall, the majority of respondents expect the private equity climate to improve in 2016 (65%). Respondents point to an improving macro-economic climate, and a number of healthy, fast-growing businesses emerging. A Netherlands-based director of investment elaborates: "Europe's economy is growing and the conditions will get better, interest rates are low and there is a lot of innovation on the continent. There is a lot of scope for investments and demand in the economy is rising. These are positive indicators for the market broadly, and for investors like us."

65% expect the PE market to improve in 2016

Breaking this down by respondent geography, both Germany and Beneluxbased respondents are significantly more optimistic than other respondents. 74% of German respondents and 72% of Benelux respondents believe the market will get better compared to 60% of respondents based in other countries.

Majority say no change in credit availability

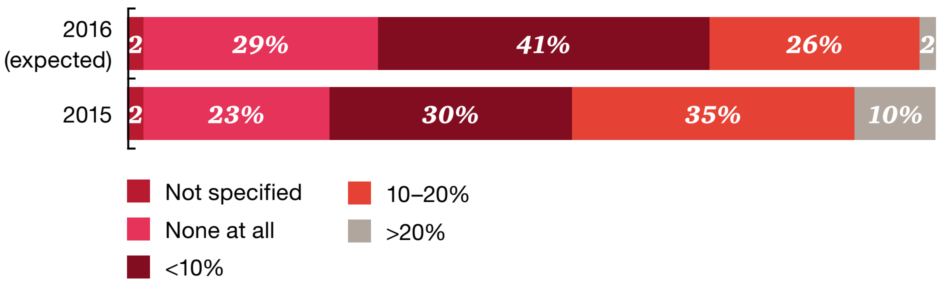
Fig. 29 Expectations for availability for credit in 2016 compared to 2015



However, German and Benelux-based respondents are less optimistic than international firms when asked about the outlook for the availability of credit: 32% of German respondents and 38% of Benelux-based respondents say they expect the availability of credit to improve. This compares to 45% of international firms. Further, 20% of German respondents say credit conditions will get worse over the next year compared to 2% of Benelux and international respondents alike. A Sweden-based investment director explains: “The amount of credit available for leveraged buyouts has been quite high, we have been able to get really good amounts and we had thought this would rise in the future, but with the stock market crashes and the problems Europe is facing we feel it will just remain around the same.”

Cautious optimism on covenant breaches

Fig. 30 Percentage of companies expected to break one or more bank covenants

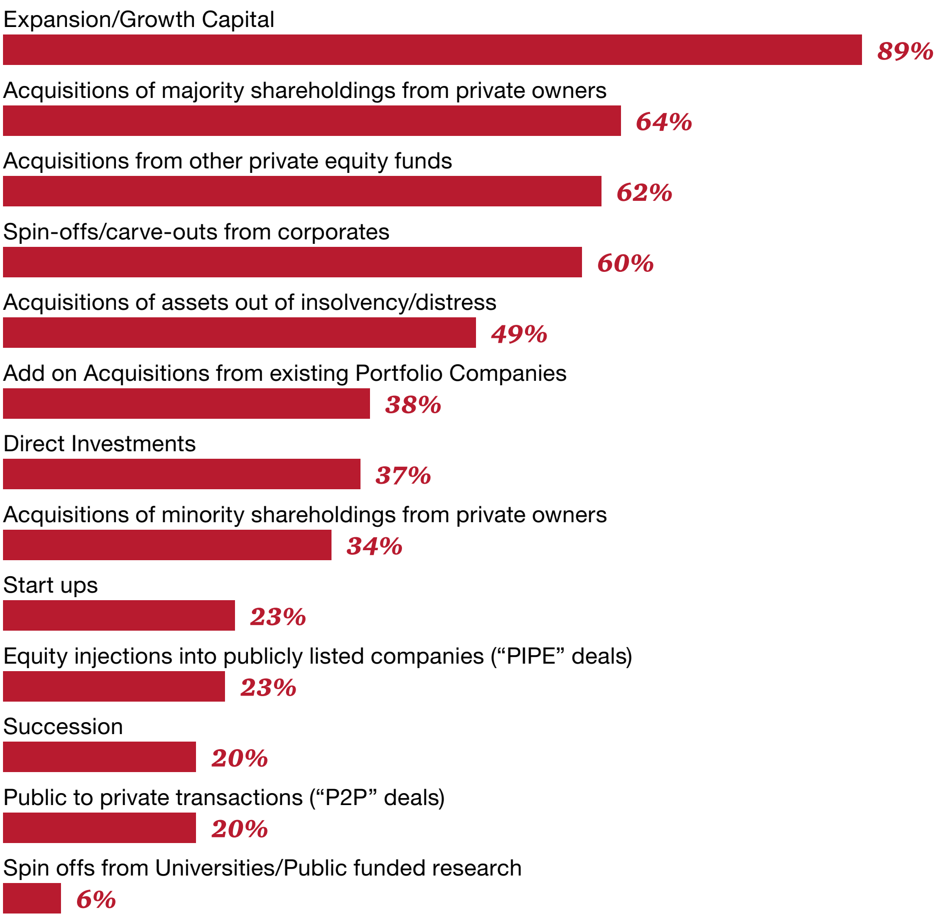


When considering possible changes in covenant breaches over the next year, respondents appear to be cautiously optimistic. Respondents expecting no covenant breaches at all among their firm’s portfolio companies in 2016 was 29% which is higher than the 23% in 2015. A UK-based managing partner explains how proactive strategies have instilled confidence: “Our portfolio companies will perform more effectively as we have looked at all the companies and have improved the balance sheets by freeing the cash-flows and have made provisions to fulfil their obligations.”

Meanwhile, 26% expect 10–20% of portfolio companies will breach bank covenants compared to 35% of respondents who said the same in 2015.

Expansion or growth capital tops list of new deal opportunities

Fig. 31 Expected sources of new deal opportunities in 2016

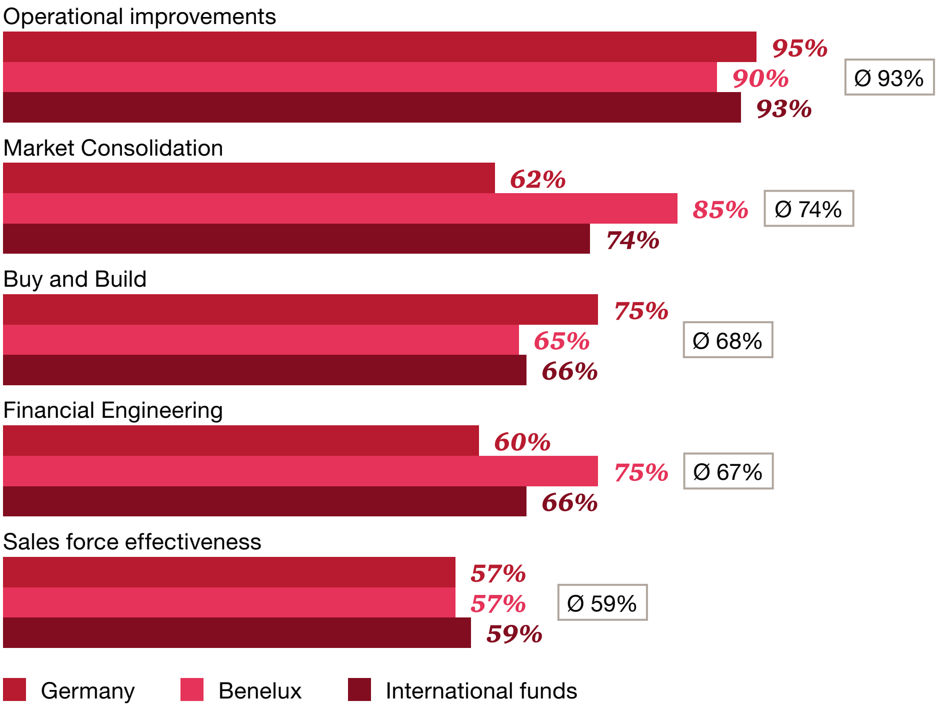


When considering sources of new deal opportunities, respondents point to a range of possibilities. The top source for respondents is expansion or growth capital (89%). A France-based partner explains why smaller corporates in need of growth capital make the most attractive targets for PE firms: "Start-ups and growth capital will be the sources of new deal opportunities for our organization in 2016; the market for the large corporates is definitely impacted by the economic crisis but the mid-market and emerging firms will have better prospects."

This factor is followed by acquisitions of majority shareholdings from private owners in second place (64%) and acquisitions from other private equity firms is the third most popular source (62%).

Operational improvements to be key factor influencing investment rationale

Fig. 32 Main factors to influence rationale in 2016



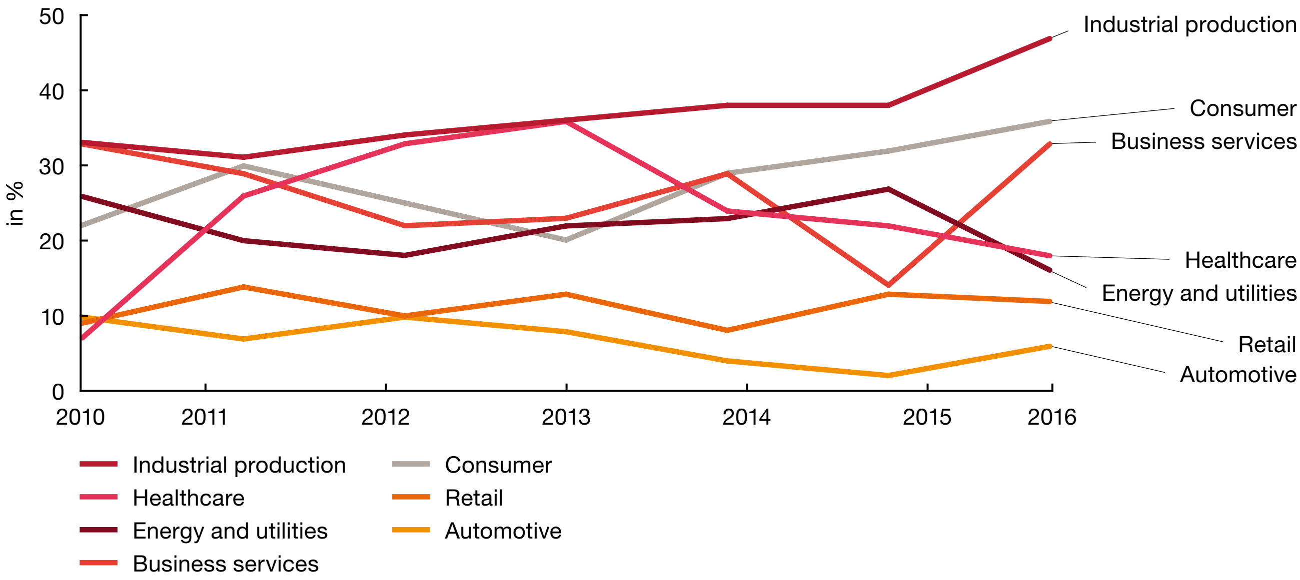
93% to focus on operational improvement in 2016

Considering the main factors influencing investment rationale in 2016, 93% of international respondents point to operational improvements. A Sweden-based investment director explains why this is a priority: “In 2016, making operations more efficient will drive the majority of our acquisitions. We want our portfolio companies to operate well and to be capable of making future portfolio companies operate well. This would increase their value and save costs for us.”

Although all regions agree that operational improvements will be the main driver of transactions in 2016, there are some regional differences among other influences. For instance, 75% of Germany-based respondents identify buy and build as one of the main influences on investment rationales, compared to 65% of Benelux funds and 66% of international funds. Further, fewer German respondents identified market consolidation (62%) compared to 74% of international funds and 85% of Benelux-based funds.

Industrial production and consumer will be key target sectors

Fig. 33 Expected target industries for future investment



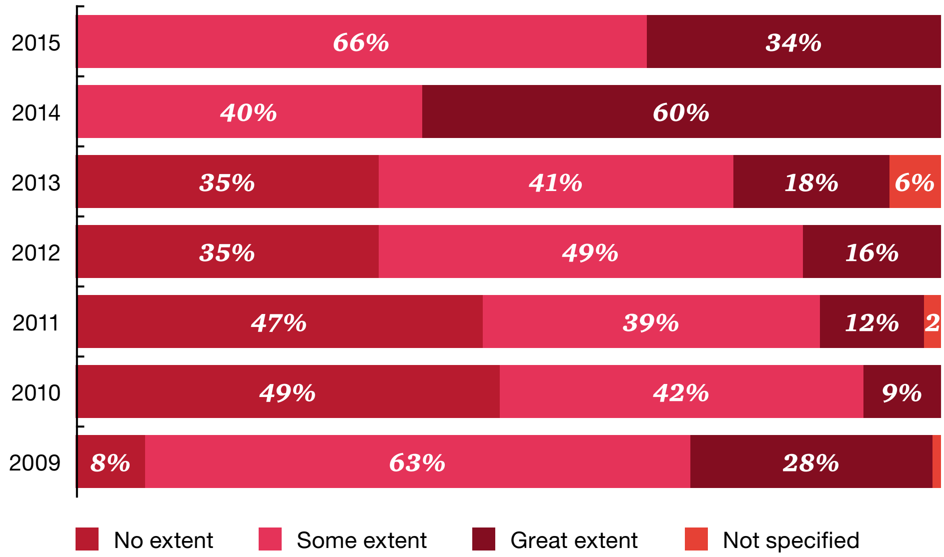
According to respondents, industrial production (47%) and consumer (36%) will be the hottest sectors for acquisitions in the next two to three years. Business services seem to be enjoying heightened interest after a sharp drop in popularity in 2015. Expectations for this industry seem to grow following megatrends such as digitisation. These findings chime with announced figures for 2015, in which industrial production accounted for 21% and 16% of buyouts by volume and value, respectively, and consumer accounted for 19% and 15%. Additionally, these were the two most popular sectors among last year's survey cohort. A Germany-based investment director explains these sector's appeal: "We mainly invest in retail and industrial sectors due to a growing market for retail, and rapid innovations and attractive valuation in industrials. Through these sectors we can very well achieve our investment objectives."

33% expect investments in business services targets

Business models have changed since the financial crisis

Fig. 34 Extent of business model change since the financial crisis

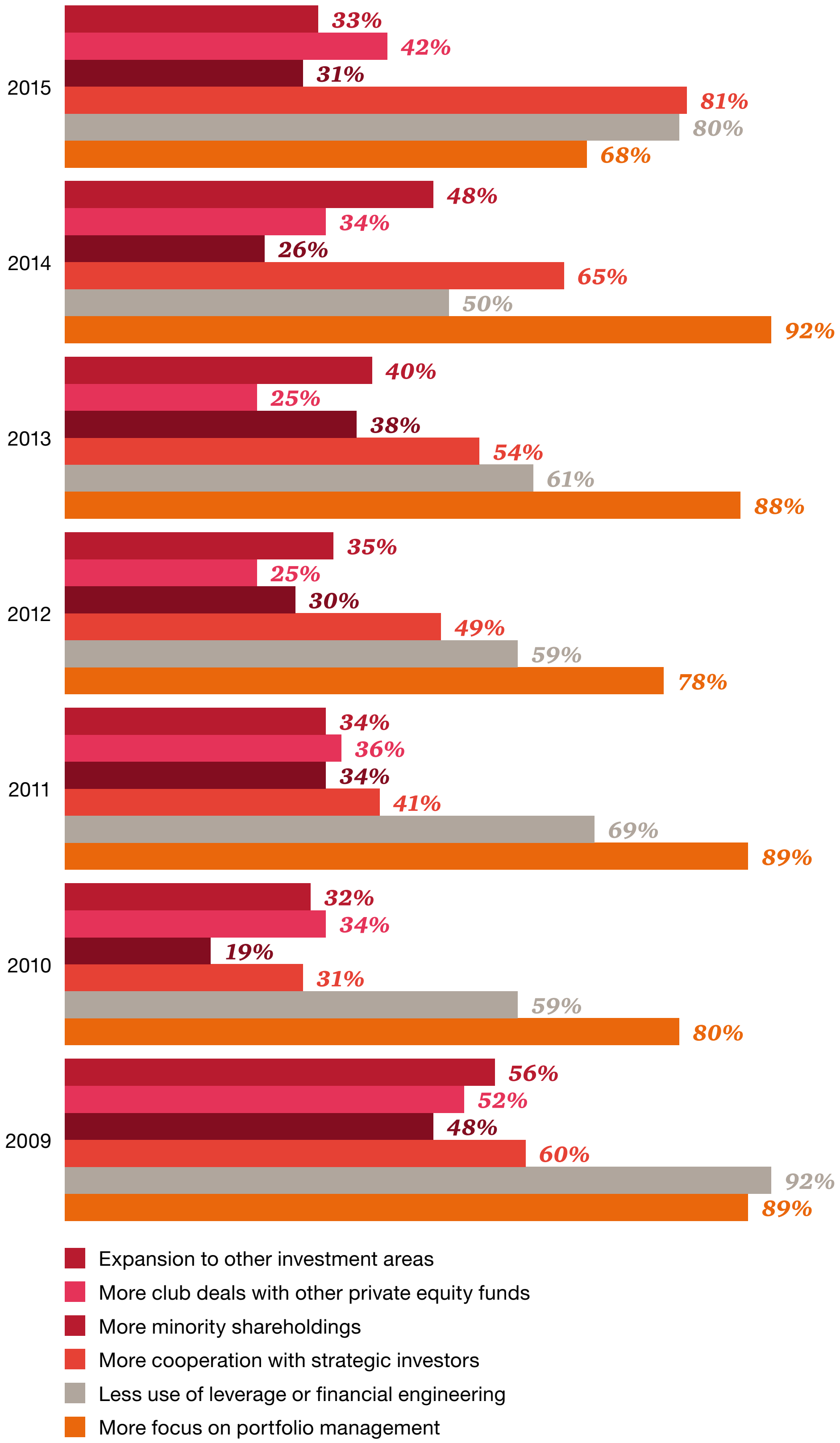
year on year comparison



All respondents in this year's cohort say that their business models have changed since the financial crisis. Of this group, 34% say that their business models have changed to a great extent, compared to 60% in last year's study. However, even respondents who indicate moderate changes to their business models describe relatively dramatic changes in open-ended comments: "We had to look into the model we were using. If it would have been efficient we would not have experienced the losses that we did. We changed our approach and revised our strategies. We even replaced some people in our management," comments a Netherlands-based principal.

Increased cooperation with strategic investors and less financial engineering since financial crisis

Fig. 35 Common changes to the business model since the financial crisis

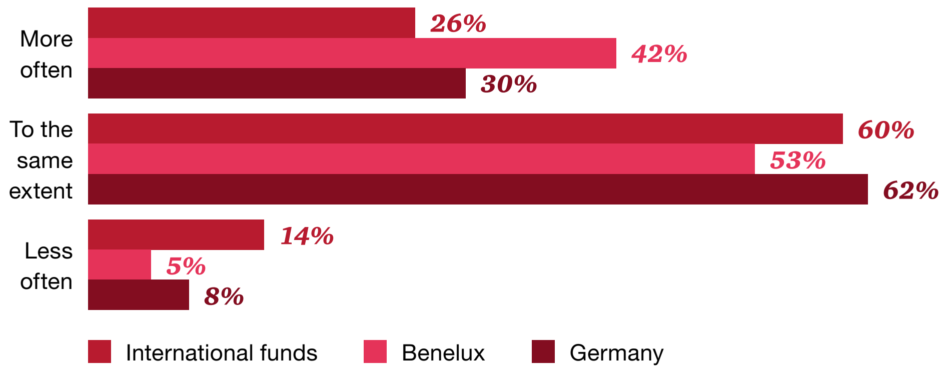


Taking a closer look at the types of changes respondents say they have implemented, the largest share of respondents (81%) say they have had more cooperation with strategic investors since the crisis. "We have changed our business model focusing more on better co-operations with strategic investors to leverage their expertise and capital strength and have been actively managing portfolios to extract maximum returns through efficient operations," elaborates an Italy-based partner.

This is closely followed by 80% saying that they use leverage or financial engineering less. A France-based investment director explains this more conservative approach: "The most important step that we took was to decrease the use of leverage and cut down our firm's overall liabilities to remain more flexible and focused on the actual management of our portfolio companies."

Fundraising frequency constant for many

Fig. 36 Fundraising activity since the financial crisis in 2008

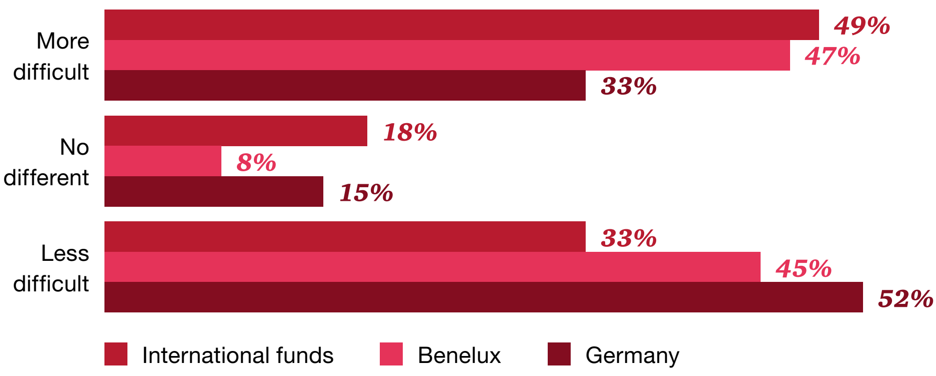


All those surveyed have raised a fund or are in the process of raising a fund since the financial crisis in 2008. The majority of respondents (59%) say they raise funds to the same extent as before the crisis, while a significant minority (26%) say that they do so more often. While some respondents say that they resorted to raising funds because of poor market conditions, others say that they have increased fundraising activities to grow. For instance, a Denmark-based managing partner comments, "we have increased our frequency in raising funds as the opportunities in growing markets were attractive enough and equity stories were convincing. This made us increase our risk appetite and investment activity."

However, this activity is not uniform among respondents: 42% of Benelux respondents say their firm has raised funds more often since the crisis compared to 30% of German and 26% of international respondents.

Perception of fundraising environment mixed

Fig. 37 Fundraising environment since the crisis

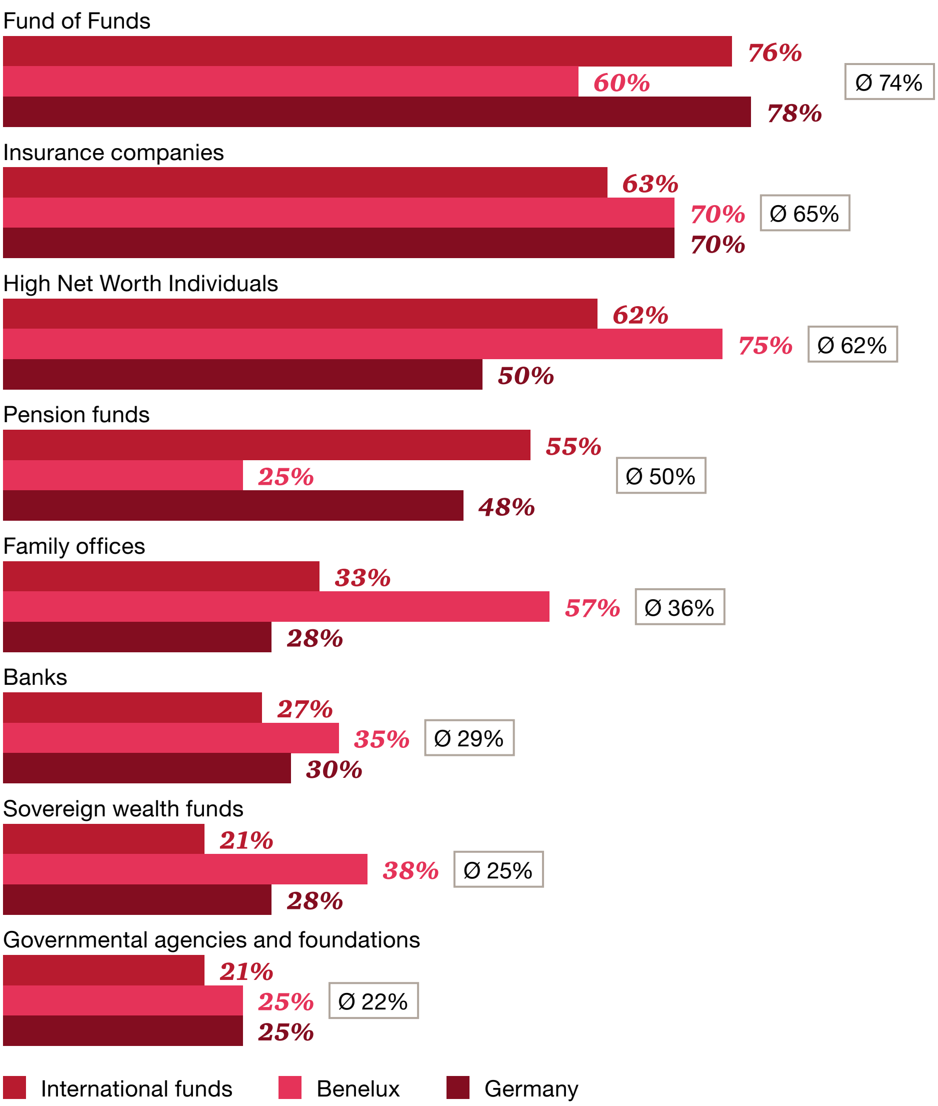


Respondents are divided as to how the fundraising climate has changed since the financial crisis: while 49% of international respondents say the fundraising process is more difficult, 38% say it is less difficult. Among this latter group, several say that the process is simpler than it was previously. "Our investors are ready to pay larger amounts and are willing to do it more often, as their returns have been growing and they are left with higher capital in hand," explains a Spain-based managing director.

Looking at the regional breakdown, it appears Germany-based respondents have had a more straightforward time fundraising: only 32% of German respondents say the fundraising process is more difficult since the crisis compared to 49% of international and 48% of Benelux-based respondents.

Fund of funds among key sources of future contributions

Fig. 38 Expected investment partner contributions to future funds



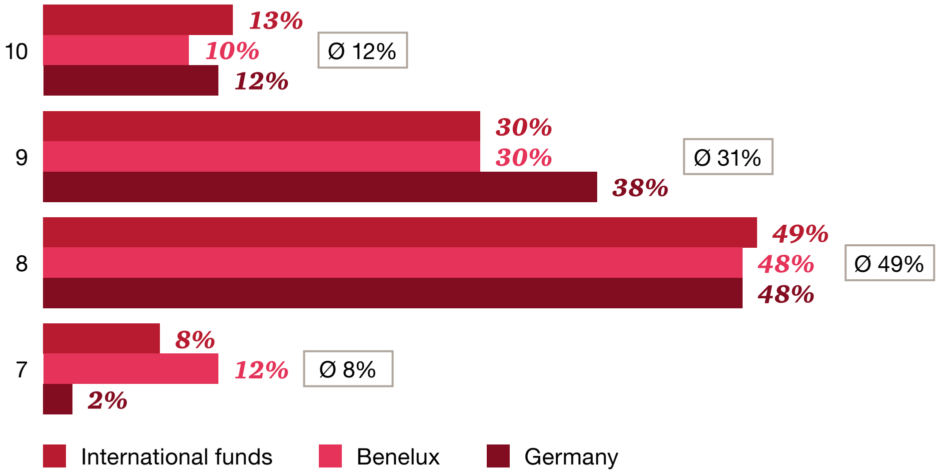
When considering the sources of future funds, the largest share of respondents' overall (74%) point to fund of funds. This is followed by insurance companies (65%) and high net worth individuals (62%).

Breaking this down by region, 60% of Benelux-based respondents say they expect fund of funds to contribute to future funds compared to 76% and 78% of international and Germany-based funds, respectively. When it comes to high net worth individuals, 75% of Benelux-based respondents say they expect these people to contribute compared with just 50% of German and 62% of international funds.

Sustainability is a priority

Fig. 39 Assessments of sustainability/ESG issues within portfolio

on a scale of 1 to 10, where 1=not important at all

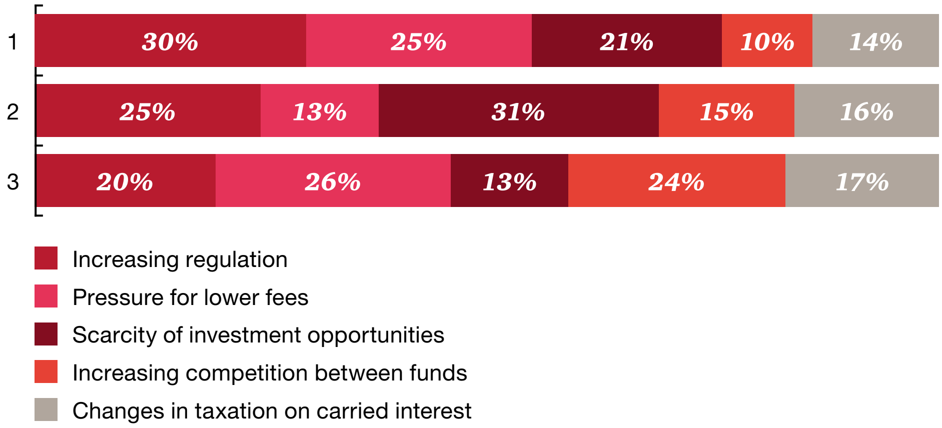


Respondents generally view sustainability as a priority. 49% of respondents overall rate it as 8 out of 10 in importance, 39% rate it at 9 and 12% at 10 on the same scale.

Several respondents indicated that environmental protection and sustainability matters are regarded as important in their own right as well for business reasons. An Italy-based partner comments, "We are particular to make sure our investments do not harm the environment and follow all environmental laws. This is an area for us which is of great concern and importance, as there are things which are more important than returns. We also do not want to create a bad name for ourselves or get stuck in any legal problems in the future if something were to go wrong."

Regulation, fees and investment opportunities are key challenges

Fig. 40 Top three key challenges facing the private equity industry in Europe over the next five years



52% find scarcity of investment opportunities as top threat

Looking ahead, 75% of respondents say increased regulation will be a key challenge facing the private equity industry over the next five years. Thirty percent say it is the number one issue. A France-based partner explains these pressures: "Increasing regulation will be a key issue as PE players will have to work within set financial boundaries, thereby restricting additional value."

64% of respondents identified pressure for lower fees as a challenge. A quarter say this is the number one challenge facing European funds over the coming five years.

Scarcity of new investment opportunities however, in a highly competitive market full of dry powder and favourable financing conditions, puts increasing pressure on all PE firms alike.

With this been said the explanation for high valuations on closed deals, is hard to find. PE houses are looking for the right opportunities and quality assets and when such come about, processes are very competitive, and yield premium valuations.

Deep dive: Operational improvements

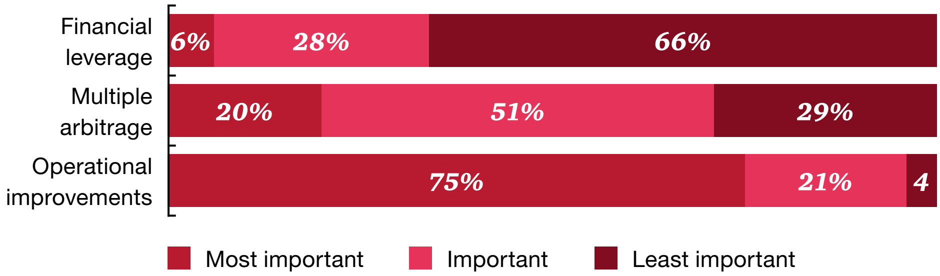
Operational improvement is key factor influencing return on investment

When considering factors that influence return on investment, a substantial 75% of respondents point to operational improvements as the most important. This is followed at a distance by multiple arbitrage (20%) and financial leverage (6%). A Netherlands-based investment director explains how operational improvements help accomplish present and future goals: “We invest in operational improvement as it reduces costs, and companies and acquirers are looking for companies that operate efficiently.”

“For our businesses, we greatly focus on operational improvements and keep this as a key strategy to influence the returns on investment and use viable opportunities to improve employee contribution and productivity from the various processes.”, adds a Spain-based principle.

Fig. 41 Influence on return on investment

on a scale of 1 to 3 where 1 is the most important and 3 is the least important

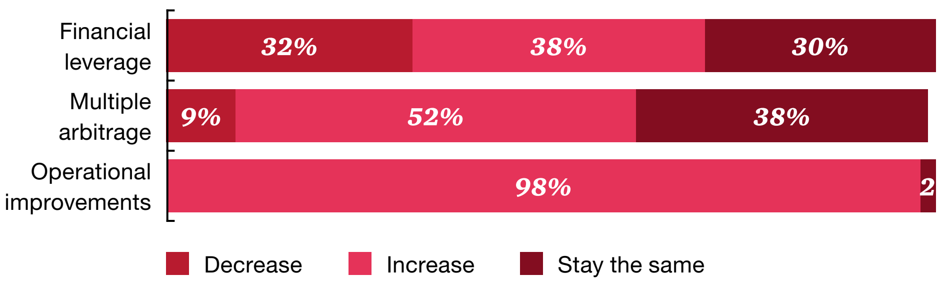


Impact of operational improvements has increased say overwhelming majority

When considering the impact of operational improvements, multiple arbitrage and financial leverage since the financial crisis, nearly all respondents (98%) say that their emphasis on operational improvements has increased. Several respondents note that the financial crisis and subsequent periods of lower growth resulted in their firms prioritising the fundamental health and efficiency of portfolio companies. A UK-based investment director explains: "Operational improvements have taken a significant position in our strategies, as the financial crisis deeply affected the structure of operations and it was necessary to find new alternatives to cut down redundant costs."

In terms of decreases, the largest share of respondents (32%) point to financial leverage. Respondents describe the precarious position that leverage had put them in in the aftermath of the crisis. "We reduced our financial leveraging as we had made losses in the market and were not in a position to return the debt we had built up," explains one Netherlands-based partner.

Fig. 42 Impact on return on investment of operational improvements, multiple arbitrage and financial leverage since the financial crisis

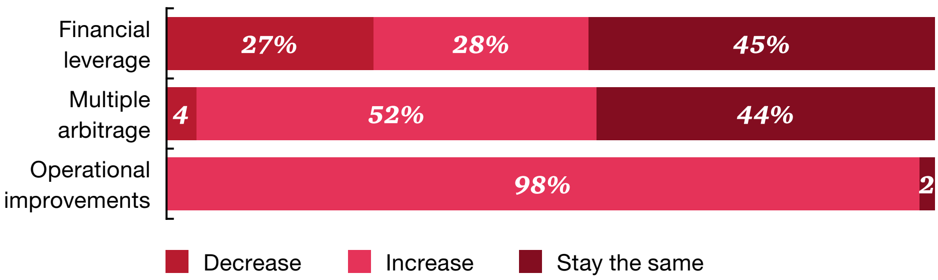


Impact of operational improvements to increase in the future

When considering value creation in the future, operational improvements (98%) are again considered to have an increasing impact. Still, a majority of respondents also point to multiple arbitrage (52%) as being increasingly important.

A Netherlands-based partner explains: "We concentrate on the operation of a company, a company needs to be able to perform well, their operations need to be well optimised, to get the best returns they can and it also makes the company run smoothly."

Fig. 43 Impact of operational improvements, multiple arbitrage and financial leverage on return on investment in the future



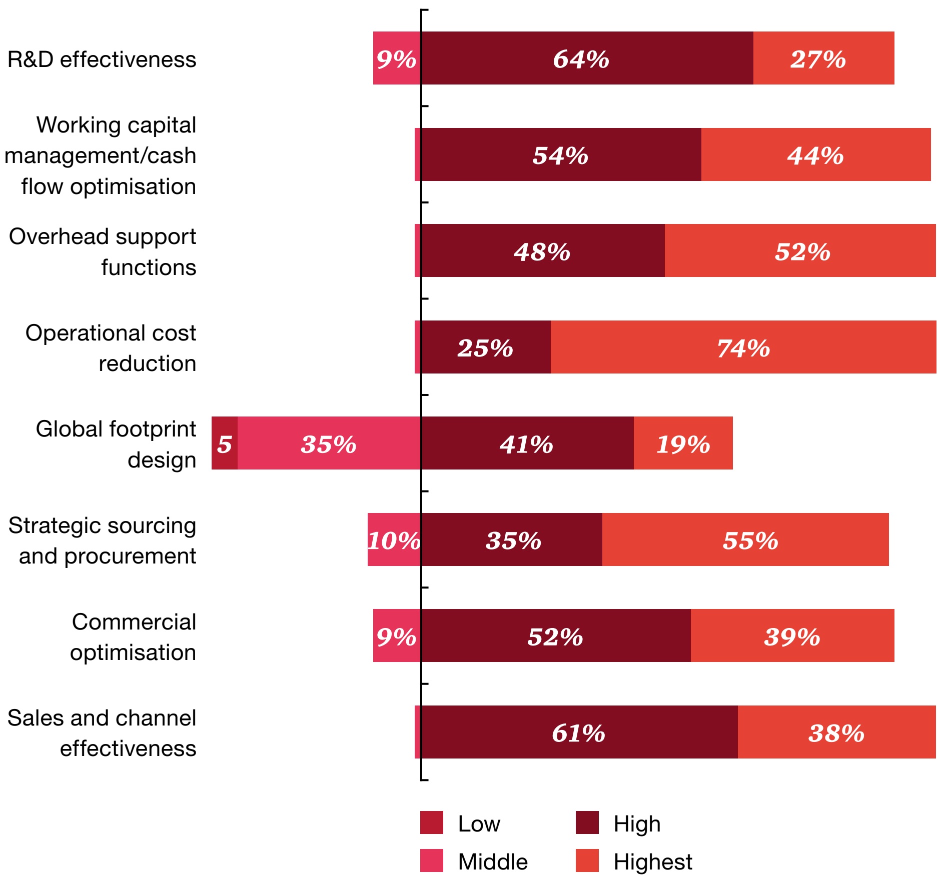
Operational cost reduction is most important lever to value creation

Echoing earlier findings, operational cost reduction is the most important lever to value creation according to respondents. It has a mean result of 9.03. This is followed by overhead support functions which garnered a mean result of 8.57, and strategic sourcing and procurement (8.47).

40% of respondents identify operational cost reduction as the most important factor in value creation. However, it is not all down to cost cutting and the priorities seem much broader. This is followed by strategic sourcing and placement (28%) and commercial optimisation (21%) as top choices. Working capital management, sales and channel effectiveness, working capital optimisation and commercial optimisation are also found to be some of the most important drivers in creating value through operational improvement. Only a handful of respondents point to R&D effectiveness (4%) and global footprint design (5%) as the most important factors for the creation of value.

Fig. 44 Most important lever to value creation within the investment story

on a scale from 1 to 10 in which 1 is least important and 10 is most important



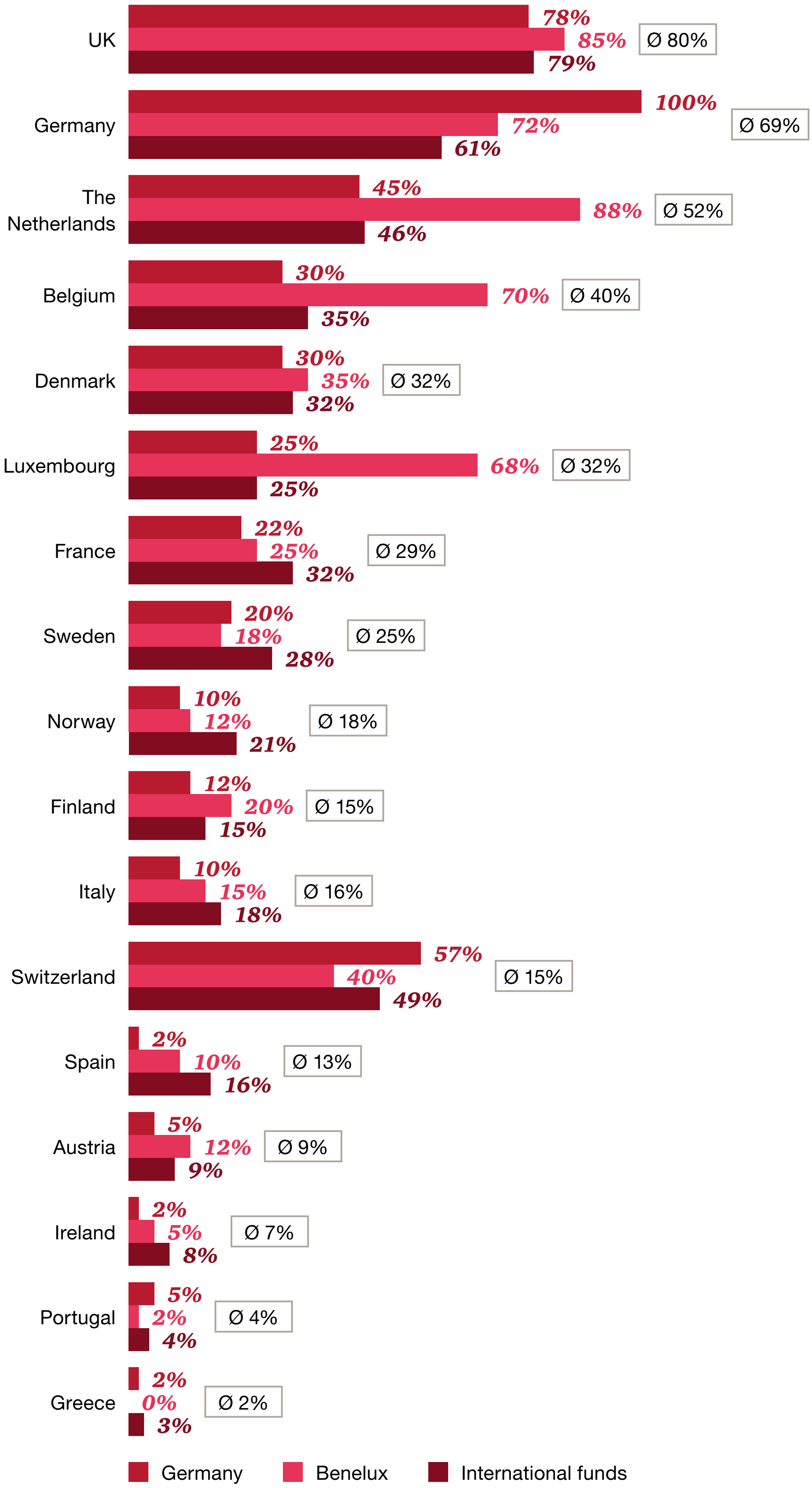
3 Investment in Germany

Germany is most popular destination within Western Europe

Within Europe, Germany is clearly the most popular target market, according to 69% of respondents. A UK-based principal describes the country's appeal: "My vote goes to Germany as it is a country that has quality companies and economic conditions are much better than elsewhere in Europe. There, the crucial sectors are consumer and financial services and it is a well-developed economy, making it attractive to PE." Meanwhile, 100% of Benelux respondents identified Germany as an increasingly attractive territory for private equity investments over the next five years.

The Netherlands is the second most popular target territory, with 52% of respondents naming it as an attractive target market.

Fig. 45 Expected attractiveness of countries in Western Europe for private equity funds over the next five years



Deep dive: Zooming in on Germany

Investing in Germany is highly attractive

A clear majority of respondents believe that Germany is attractive for PE investment over the next five years: 52% of international respondents say Germany is quite good for private equity investment compared to other countries. A further 20% say it is very good. A Netherlands-based investment director explains its appeal: "The German market has a huge resource in developed infrastructure, which can be explored by PE firms and used to create value. Germany also has a skilled workforce that can be further utilised for growth and expansion. Finally, economic conditions are much better than other European countries."

Fig. 46 Relative attractiveness of Germany for private equity funds in the next five years

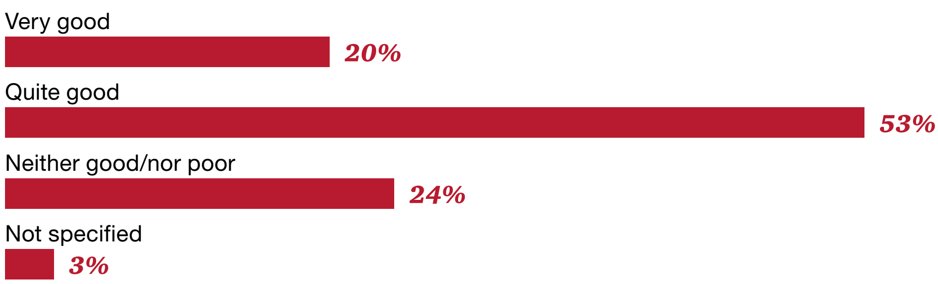


Fig. 47 Firms with current investments in Germany

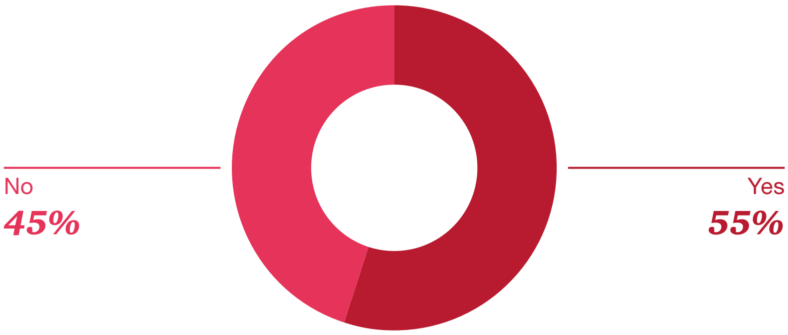
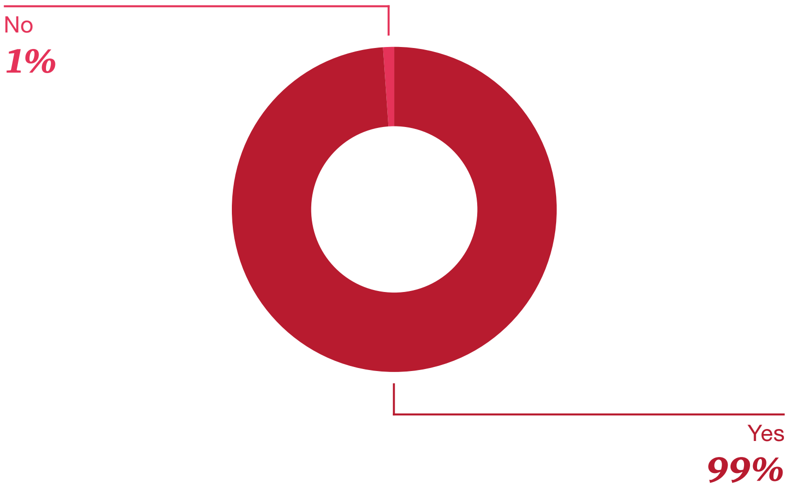


Fig. 48 PE houses planning on making investments in Germany over the next five years



99% of those with German investments plan to continue to invest in Germany

Germany is clearly a popular target market among those surveyed: 45% of non-German respondents currently have investments in Germany. Of these, 99% expect to continue to make investments in Germany over the next five years. Respondents discuss the historically strong performance of assets in the territory, and predictions of continued economic stability. For example, a UK-based partner says, "Performance of our German portfolio companies has been consistent, and we can use our current holdings in Germany to attract quality players in the country."

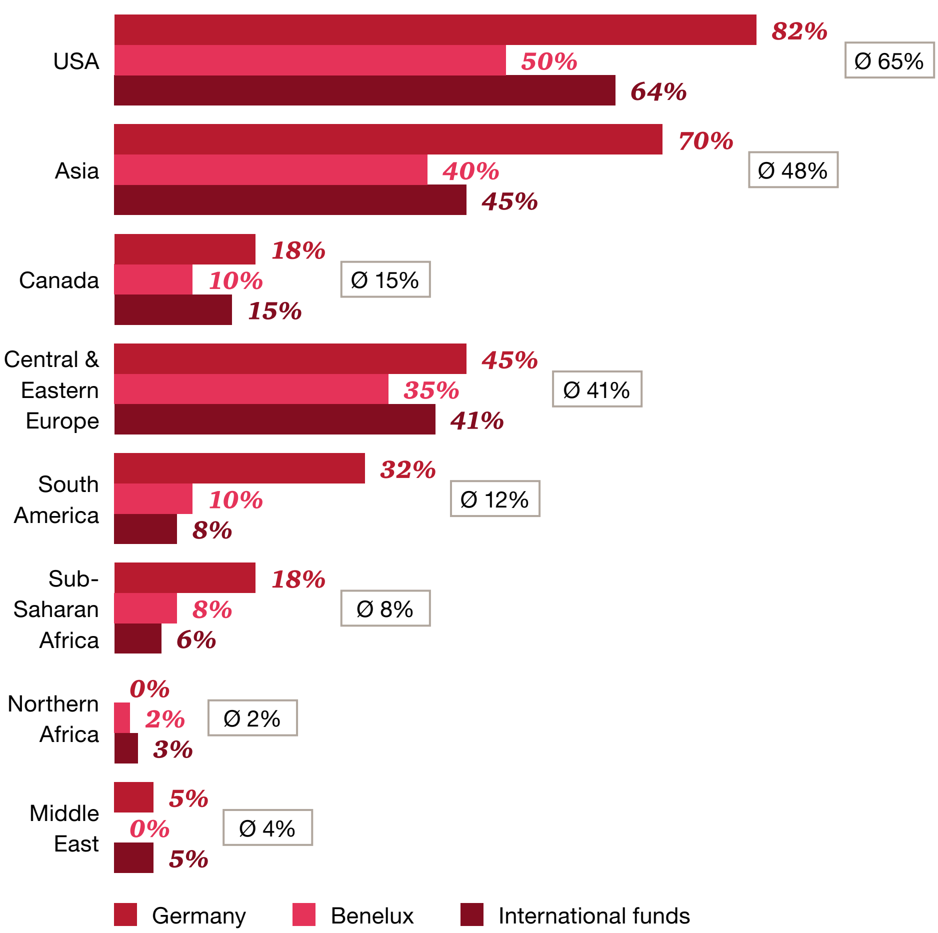
4 International investments

US retains position as most attractive destination outside Western Europe

As in previous years, the largest share of overall respondents (65%) consider the US the most attractive destination for investment outside Western Europe. Asia is the second most popular target region with 48% of respondents identifying it as becoming more attractive.

Breaking results down by region, 82% of Germany-based respondents say the US will be increasingly attractive – 18 percentage points higher than the overall result. Meanwhile, only 5% of Benelux respondents say the same. 70% of German respondents say Asia will become increasingly attractive as a target territory, or 25 percentage points more than the international respondent pool. Respondents point to a range of areas of Asia, including India and South East Asia. A UK-based partner comments that market shifts in China make it a hot target market: "The economic slowdown in China will make it the best region to be targeted as several businesses have been struck with the sudden changing market conditions. Businesses are willing to take a minority position as long as their financial needs are fulfilled and business levels rise for them to grow and manage in future once the PE firm parts ways."

Fig. 49 Expected attractiveness of regions for private equity funds over the next five years – international

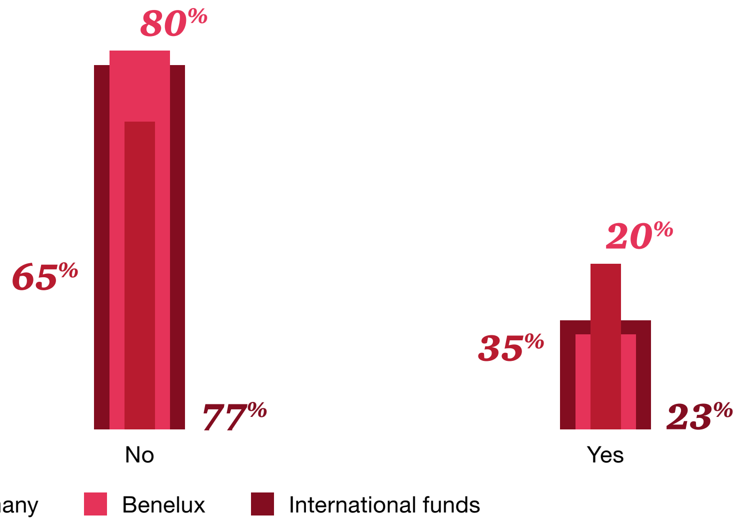


Almost a quarter of firms plan to open new offices in next five years

Nearly one-quarter (24%) of firms plan to open new offices in the next five years. Among German respondents, 35% anticipate opening new offices and 20% of Benelux-based respondents plan to open new offices. This compares to 23% of respondents from other European countries.

Fig. 50 Proportion of private equity firms planning to open new offices in the next five years

Does your organisation plan to open any new offices over the next five years?
(Please select one option only) by 1) Germany 2) Benelux 3) Non-Germany, Non-Benelux



D Methodology

In Q4 2015, Remark, the research and publications arm of Mergermarket, spoke to 250 senior private equity executives on behalf of PwC. Sample job titles include investment director, managing director, partner and principal. 15% of these respondents are based in Germany, 15% in Benelux countries, and the remaining 70% are based elsewhere in Europe. Responses were anonymised and aggregated. All private equity firms of respondents had a minimum of €250m of assets under management.

Fig. 51 Respondents' fund headquarters by country

Can you please tell me in which country your organisation's headquarters are based?

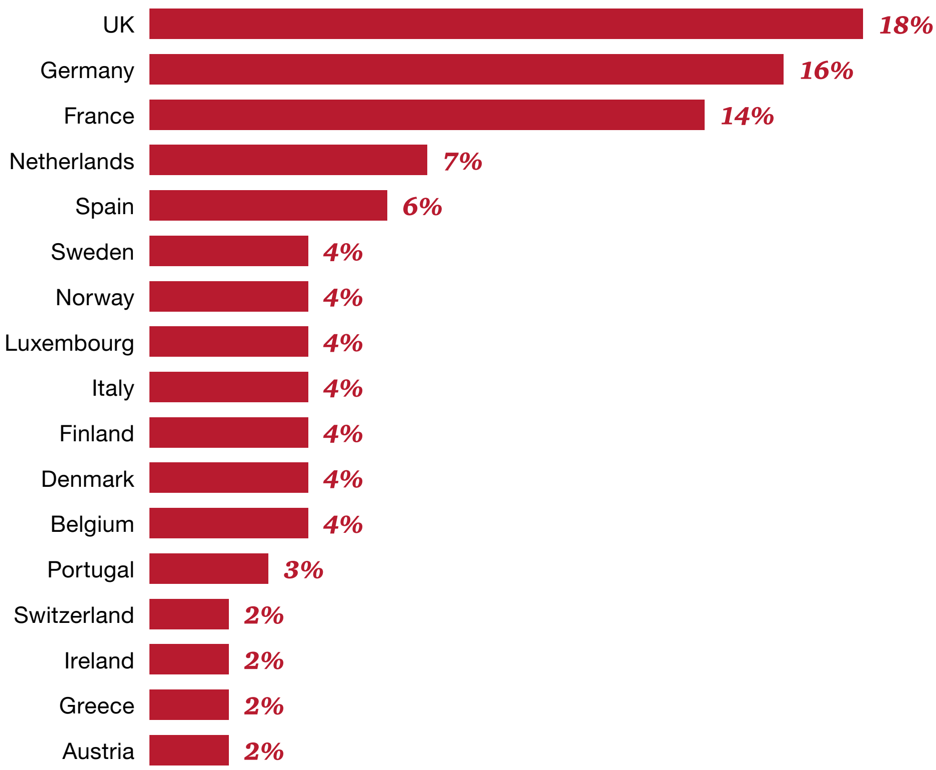
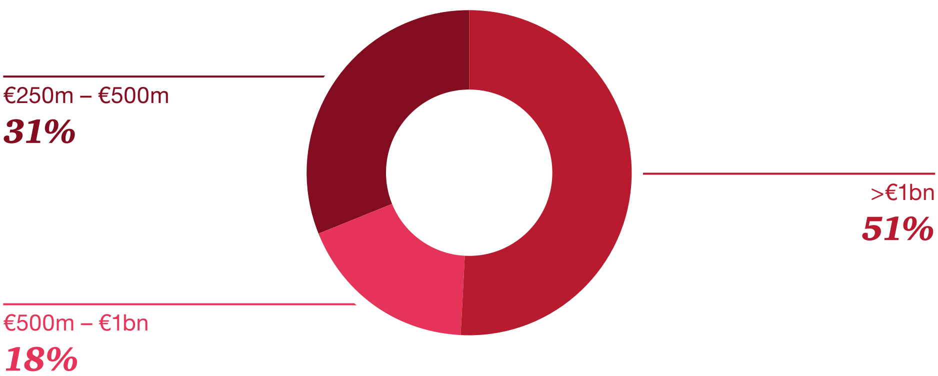


Fig. 52 Please could you tell me which of the following best describes your firm's current total global fund volume (i.e. capital under management)?



Appendix

Fig. 53 Extent of business model change since the financial crisis

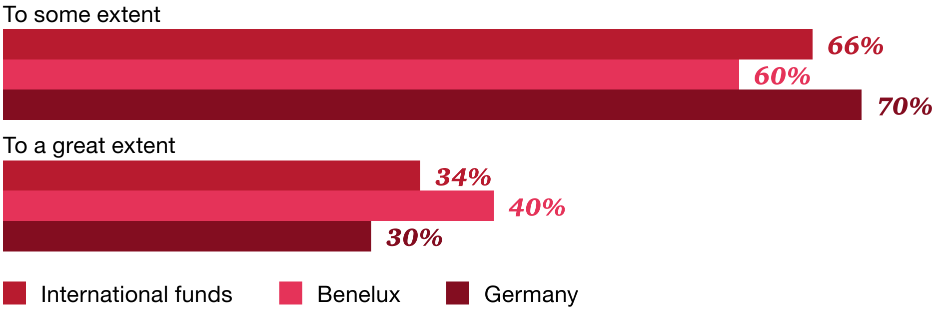


Fig. 54 Fundraising since the crisis

Fig. 55 European Private Equity Trends, 2010–2015

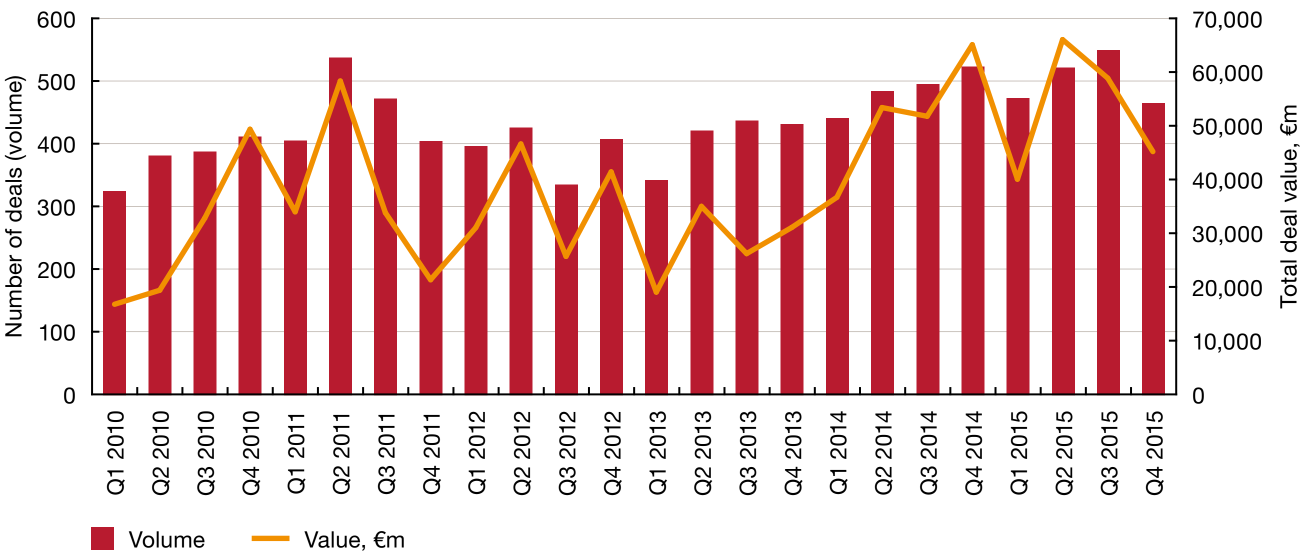


Fig. 56 European Buyout Trends, 2010–2015

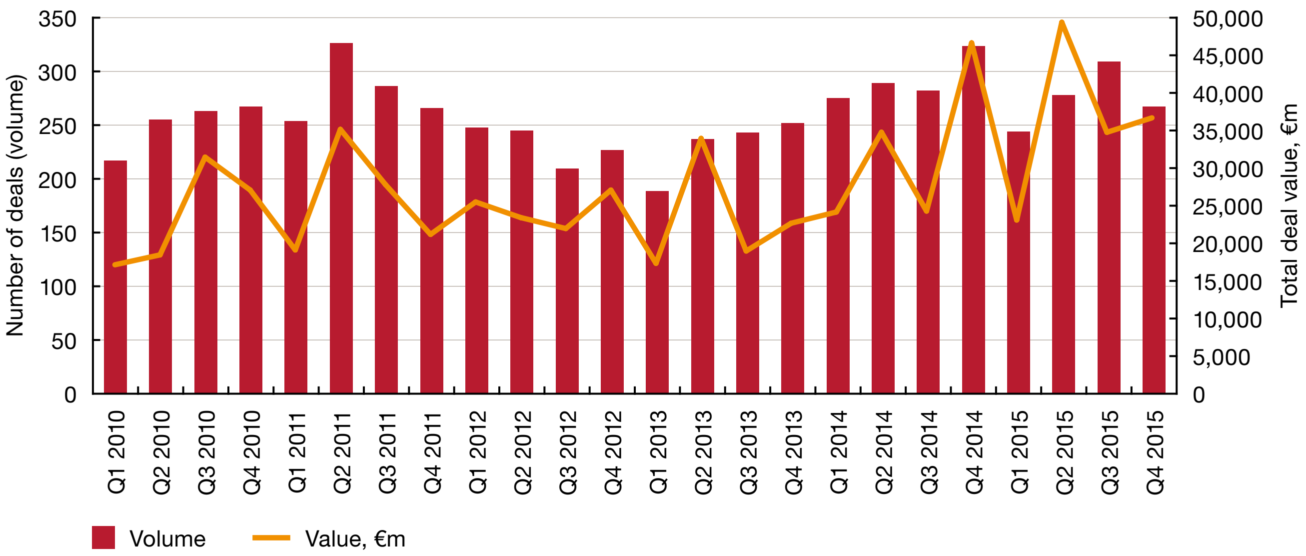


Fig. 57 DACH Buyout Trends, 2010–2015

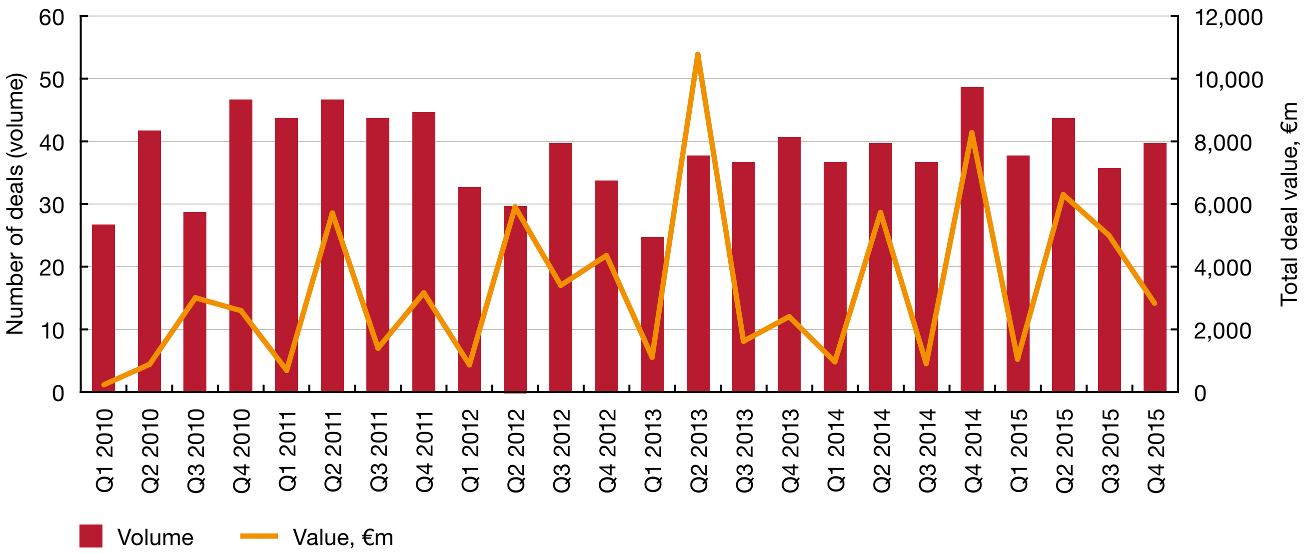


Fig. 58 DACH Exit Trends, 2010–2015

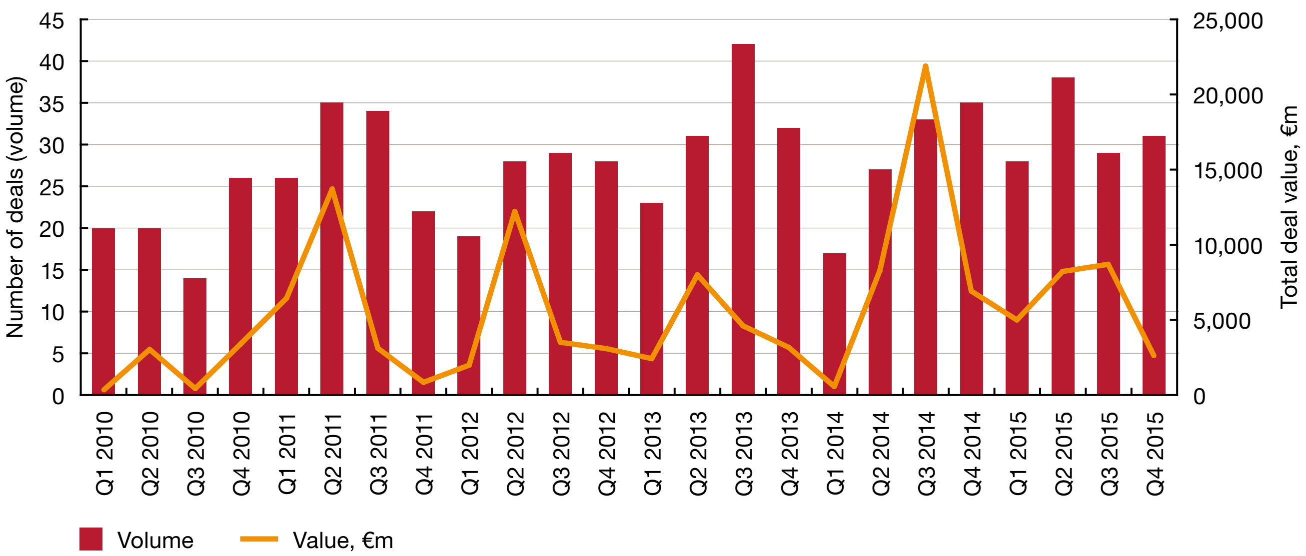


Fig. 59 Benelux Buyout Trends, 2010–2015

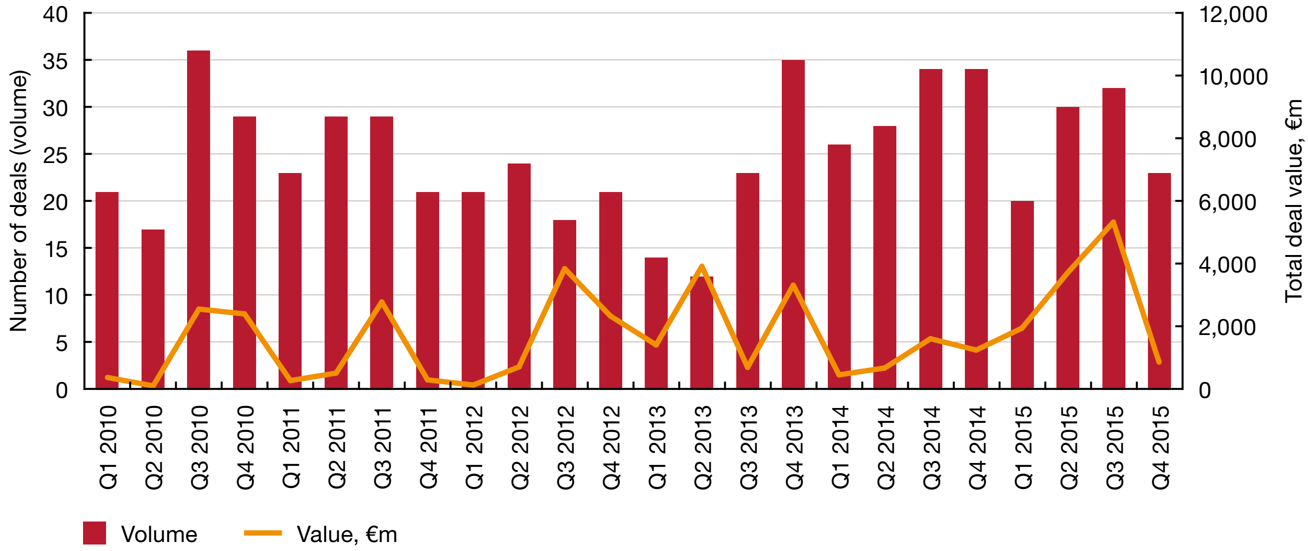
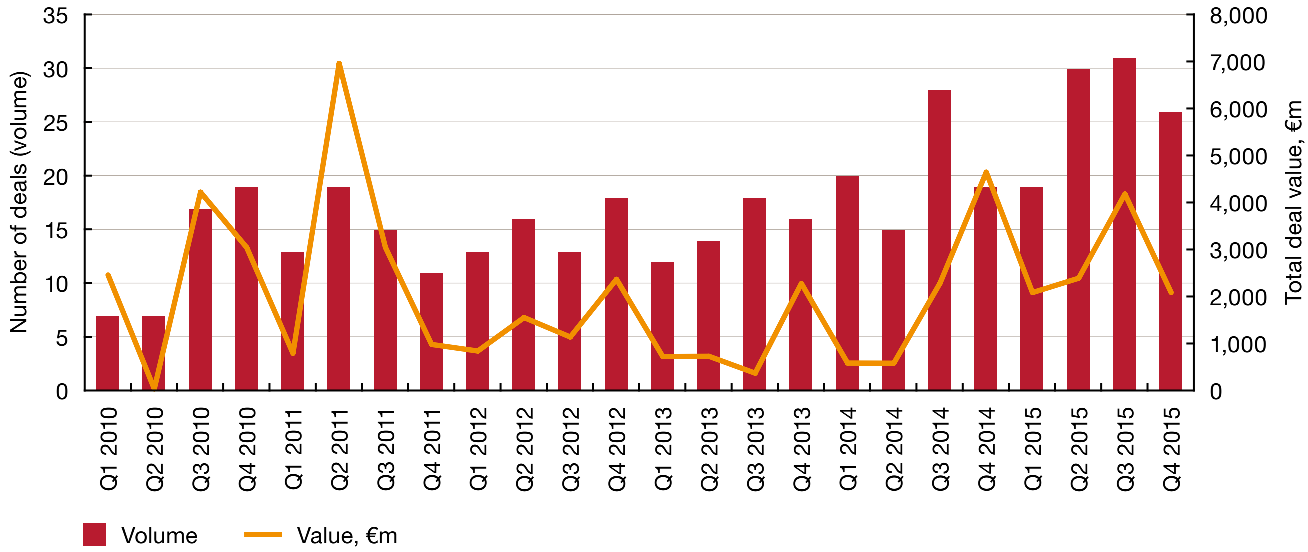


Fig. 60 Benelux Exit Trends, 2010–2015



List of abbreviations

ppts	percentage points
SEE	South Eastern Europe
CEE	Central & Eastern Europe
PE	private equity
YoY	year on year
bn	billion
m	million
PMB	Pharma, Medical, Biotech
TMT	Telecommunication, Media and Technology
CEO	Chief Executive Officer
DACH	Germany, Austria and Switzerland
Benelux	Belgium, Netherland and Luxembourg

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