

Multiple

European buyouts watch
Q4 2011

European buyout market defies Eurozone fears



Multiple is a quarterly publication summarizing trends in buyouts* across Europe.

Ernst & Young and Equistone Partners Europe are proud to sponsor CMBOR, the Centre for Management Buyout Research whose data is analyzed in *Multiple*. Countries covered:

Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the UK.

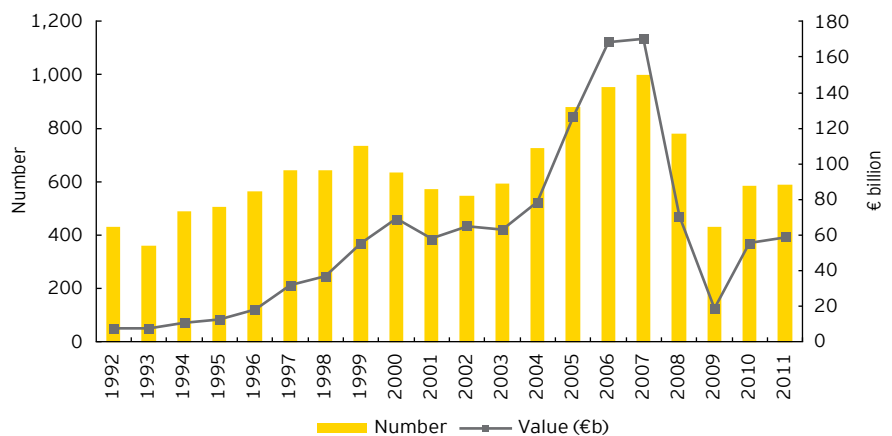
From 2012 we will add Czech Republic, Hungary, Poland, Romania and Turkey.

*Buyouts: CMBOR defines buyouts as over 50% of shares changing ownership with management or private equity, or both having a controlling stake upon deal completion. Equity funding must primarily be from private equity funds and the bought-out company must have its own financing structure, e.g., MBO/MBI.

Highlights

- ▶ The European buyout market was resilient in 2011 despite ongoing fears of a Eurozone meltdown.
- ▶ Value of completed deals in 2011 reached €58.9b (589 deals), higher than the €55.3b (586 deals) completed in 2010. The value of completed deals in Q4 dropped 34% from €17.3b in Q3 to €11.4b in Q4.
- ▶ France recorded the highest value in Q4 (€3.6b) and 2011 overall (€13.9b), Sweden was strong, while Germany was flat and the UK is down.
- ▶ Debt-to-equity ratio is moving closer to 1:1, particularly in the €100m-plus range, suggesting banks are coming back on board.
- ▶ 2012 challenges include the refinancing wall amid continuing fears of economic turmoil and possible recession.
- ▶ Total exit value outweighs entry values as investors look to clear the back-log and raise funds for new investments.

Trends of buyouts and buy-ins for Europe



Source: CMBOR; Ernst & Young; Equistone Partners Europe



Will the remarkable resilience continue into 2012?

The European buyout market in 2011 has demonstrated remarkable resilience in the face of economic turmoil. The total value of completed deals reached €58.9b, up from the total value completed in 2010 – €55.3b. The volume of deals has also held up well in 2011 with 589 deals completed, marginally higher than the previous year's total of 586.

But we cannot shy away from the fact that, as anticipated, the fourth quarter was significantly weaker than the previous three quarters. Between October and December, there were only 127 deals, valued at €11.4b, whereas the previous three quarters of 2011 averaged 153 deals and €15.6b per quarter. However, while the sovereign debt crisis that has swept across the Eurozone over the second half of the year may have slowed deal activity, it has by no means ground to a halt with a number of deals in the pipeline.

The caveat, however, is whether European governments and financial institutions are able to weather the storms and maintain currency stability. The December 2011 agreement by European leaders to tighten fiscal policy is a bold step toward preventing sovereign debt crises in the future. But its impact on dealing with the current crisis is unclear. As highlighted in *Ernst & Young's Winter 2011 Eurozone Forecast*¹, governments have yet to embrace "radical" solutions to the debt crisis fully. This inevitably leads to caution in the boardroom, with the forecast for growth in 2012 for Eurozone investment set at a "mild" 1.5% to 2%.

Largest European buyouts for 2011

Company Name	Country	Deal Month	Vendor	Value (€m)	Investor
Securitas Direct	Sweden	Aug	EQT Partners	2,300	Bain Capital, Hellman & Friedman
Spie	France	Aug	PAI Partners	2,100	Clayton Dubilier & Rice, Axa Private Equity, Caisse de Depot et Placement du Quebec
Com Hem	Sweden	Nov	Carlyle Group	1,851	BC Partners
Dometic	Sweden	May	Bank consortium	1,380	EQT Partners
Gruppo Coin/Giorgione Investimenti	Italy	Jun	PAI Partners	1,355	BC Partners
Takko	Germany	Feb	Advent International	1,250	Apax Partners
Oberthur Technologies (and Systems and Identity)	France	Dec	Oberthur Technologies SA	1,150	Advent International
RAC	UK	Sep	Aviva plc	1,145	Carlyle Group
Delachaux	France	Oct	Public to Private	1,080	CVC Capital Partners
Priory Group	UK	Mar	ABN AMRO Cap	1,073	Advent International
Brit Insurance (Achilles Netherlands)	UK	Mar	Public-Private	1,030	CVC Capital Partners, Apollo Global Management
Foncia	France	Jul	BPCE Bank	1,020	Bridgepoint Capital, Eurazeo

Source: CMBOR; Ernst & Young; Equistone Partners Europe

¹ Ernst & Young Eurozone Forecast, Autumn edition-Sept 2011

“Whilst the European buyout market in 2011 has demonstrated remarkable resilience, looking forward, a lot will depend on the unfolding European sovereign debt crisis. The key will lie in how innovative deal-makers can be in finding the finance to fund the deals.”

Sachin Date, Private Equity leader for Europe, Middle East, India and Africa (EMEIA)

European buyout value - by country (€m)

	2005	2006	2007	2008	2009	2010	2011
Austria	323.0	178.8	4,677.0	151.5	441.0	645.9	48.0
Belgium	4,250.0	577.7	2,896.8	566.1	2,103.1	1,285.2	952.5
Denmark	7,178.9	14,414.6	4,145.7	1,186.6	477.8	225.2	286.0
Finland	1,739.9	1,208.9	1,332.0	517.8	372.0	257.2	915.5
France	21,435.7	33,783.7	25,099.8	9,258.9	1,864.2	7,919.8	13,983.3
Germany	14,248.8	24,095.6	26,963.5	12,228.7	1,967.9	5,722.8	6,707.1
Ireland	11.0	585.9	402.7	235.9	275.5	2,600.6	109.4
Italy	17,463.8	9,172.8	8,219.6	8,002.5	1,906.0	2,626.9	2,822.5
Netherlands	10,316.1	26,465.3	11,706.8	6,604.9	1,188.2	1,742.0	5,482.2
Norway	461.4	2,421.5	1,934.5	862.9	383.5	2,156.1	963.4
Portugal	30.7	100.3	232.1	1,523.6	238.3	104.9	39.9
Spain	9,374.9	5,840.6	6,755.4	2,220.6	996.0	2,187.5	4,526.0
Sweden	5,369.5	11,702.7	9,582.6	3,263.7	627.7	3,362.3	6,833.6
Switzerland	1,147.2	1,378.0	2,392.8	692.5	438.0	2,623.0	1,387.6
UK	33,274.5	36,669.1	63,926.0	23,356.0	5,415.8	21,873.8	13,895.0
Total	126,625.5	168,595.4	170,267.3	70,672.1	18,694.9	55,333.3	58,952.0

Source: CMBOR; Ernst & Young; Equistone Partners Europe

France finishes on top and Sweden strengthens

A strong second half of 2011 has pushed France to the top position in the European buyout market. France completed €13.9b (129 deals) in 2011 compared to €13.8b (180 deals) for the UK. Despite the significant drop in deal value for France in the fourth quarter – down almost 50% from Q3's €6b – they have still outperformed the UK which saw €2.7b in Q4 with 25 completed deals.

The German buyout market was somewhat flat in 2011. In Q4, deal value was only a quarter of Q3 and total deal value in 2011 finished at €6.7b (75 completed deals). Compared to the size of its economy, this reflects an underperformance in their buyout market. Sweden, on the other hand, had three out of the four largest deals of the year: Bain Capital and Hellman & Friedman's acquisition of Securitas Direct, Com Hem's purchase by BC partners and Dometic's acquisition by EQT. Total deal value for Sweden was €6.8b with just 35 completed deals.

Finance structure shift

The trend toward finance structures based on equity rather than debt, as witnessed in previous years, has to a certain extent been reversed during 2011. Particularly at the €100m-plus end of the market, the ratio of debt to equity is now running at around the 50:50 mark, whereas this was closer to 30:70 in equity's favor during 2010. This would suggest that the banks are coming back into play, though issues still remain around the coordination of large syndicates. This is perhaps not surprising given the continuing cautious attitude of banks toward new debt.

This caution will also come to the fore during the forthcoming round of refinancing negotiations. This could present opportunities, as well as threats, to the private equity (PE) houses that have successfully raised new investment funds.

Exits outweigh entries and trade takes center stage

The value of exits outstripped entries in 2011, continuing the trend set in 2010. Over the year, €75.6b was realized through 374 exits across Europe. Secondary buyouts accounted for 165 of these exits, and for the first time outnumbered the volume of trade sales. However, trade sales would appear to be a more lucrative route as they returned €48.4b to investors, almost twice the €26b returned through secondary buyouts.

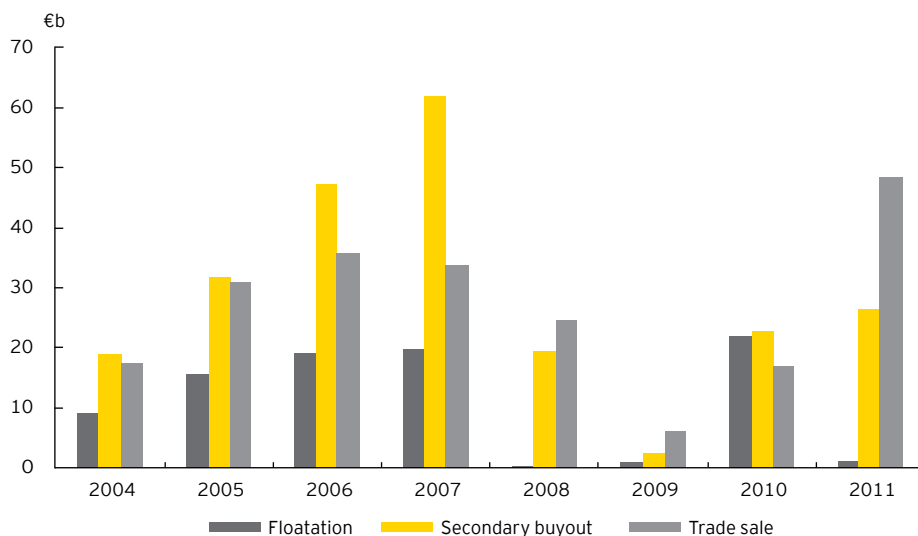
The rise in exits reflects the need to clear some of the backlog that was created before the financial crisis of 2008. It may also be an indication of vendors' price expectations shifting, together with the need for investors to realize their investments. The growth in trade exits is encouraging and shows that corporates, who have been sitting on cash piles, are more willing to pay for quality assets.

The number of exits through insolvency remained relatively low, with only 50 returning zero value to their investors, a figure similar to 2010 and half that seen during 2009. Flotations were few and far between – only five came to the market during 2011, and all of these were during the second quarter of the year. The markets were all but closed during 2008 and 2009, but the 14 flotations in 2010 had raised hopes that public markets were viable exit routes. Such hopes would appear to have been dashed for the time being.

The largest exit was the €9.6b trade acquisition of Denmark's Nycomed by Japanese company Takeda Pharmaceutical, followed by the €4.6b sale of Belgium's Skype to the US IT giant Microsoft.

A combination of stronger currencies and the availability of quality assets have also encouraged buyers from Japan, Russia and the US to seek deals in Europe, a trend that could well continue into 2012.

Exits by type



Source: CMBOR; Ernst & Young; Equistone Partners Europe

The year ahead

Will the market maintain its position of remarkable resilience? Will it be able to capitalize on opportunities or will growth be slow to re-emerge? Much will depend on macroeconomic sentiment; *Ernst & Young's Winter 2011 Eurozone Forecast* indicates the possibility of recession in the first half of 2012. If this hits corporate P&L, there may be cause for concern. However, one should remember that the strength of many underlying assets could provide opportunities for those willing to participate in the European buyout market. Good quality assets will attract buyers from further afield than Europe.

The key will lie in how innovative dealmakers can be in finding the finance to fund the deals. Successful innovation will help build the resilience and lead to a cautiously optimistic outlook for buyouts in Europe during the coming year.

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