EMEA Private Equity Market Snapshot

- UK Targets Take the Lead with Real Estate Investments
- Changing the Way We Think about CEE PE Markets
- Does a Volatile Media & Telecommunication PE Landscape Equal Higher Multiples?
- Loan Market Still Sponsors' Favourite, But Bond Market Beckons

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Market Intelligence

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Editor's Note

Welcome to the 17th issue of the EMEA Private Equity Market Snapshot, a quarterly publication focusing on the private equity (PE) market in Europe, the Middle East and Africa (EMEA) from S&P Global Market Intelligence.

This issue leads with a review of the EMEA region for the first quarter of 2018. The region struggled to kickstart the year as investments from global general partners (GPs) waned compared to the same period in 2017, with capital deployment plummeting by 56% from €36.3bn to just €15.6bn.

Next we journey to Central and Eastern Europe (CEE) and take a deeper dive into what appears to be an attractive investment market. As a relatively stable region with economic growth of 4.4%, its large domestic consumer base, low-cost and skilled labour force, and proximity to western European markets makes the region considerably appealing to investors.

Our sector focus explores the Media & Telecommunication landscape, one which has had capricious interest from global GPs over the last 10 years. The sector has failed to attract constant levels of capital and as recently as 2017, capital deployed declined by 38%, dropping to €18.6bn. On a regional basis, however, Asia-Pacific overshadowed both North America and EMEA with China being the most attractive destination for global buyers over the last few years.

In our feature article we look to the leveraged loan and bond markets. The former has been historically favoured by sponsors, with data confirming the bias. European sponsors obtained 82.8% of their financing needs in the loan market in 2016, the highest percentage since the financial crisis in 2008. However, in the wake of the crisis, is the bond market now on the rise?

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

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

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UK Targets Take the Lead with Real Estate Investments

Europe, Middle East and Africa, as a destination for new global private equity (PE) investments, struggled to kick start 2018 with a healthy inflow of capital from global GPs.

Between 1 January–15 March 2018, our study period, capital deployed by foreign investors into the region fell by 56% from €36.3bn in the same period in 2017, to just €15.9bn. At the same time, the number of new deals dropped by a smaller 15%[1], indicating that the size of investments declined.

The Nordics were leading the pack with €6bn of new capital deployed during the study period; however, a single mega deal made up 95% of it[2]. Removal of the Nordic outlier hands the UK the top spot, with €2.3bn of new capital deployed. The UK also netted the most number of new deals in the study period, 172.

Focusing on the UK, investments into Real Estate targets took the lion's share of new money, standing at €796.8m. The largest deal was also recorded in this sector, where Blackstone Real Estate Advisors acquired Taliesin Property Fund Limited (AIM:TPF), another investment firm, for €400.7m. It is too early to suggest a more general market consolidation trend based on data from one study period, but one to watch nonetheless.

Overall on a sector basis, Information Technology (IT) regained its lead within the study period, having previously been overtaken by the Financials sector in the latter half of 2017 (Issue 15, Issue 16). IT targets netted €8.1bn of new capital, attracting 51% of the total money deployed by global GPs.

It is worth noting that investments into the IT sector continued to be highly concentrated in Berlin and London. In the 2018 study period, both cities took a combined total of €812m, far more than any other city in the period. The majority of these deals were Venture Capital (VC) type, which illustrates continued confidence in both capital cities as established VC tech hubs.

Capital realized in 2018 from global GPs' exit activity in EMEA targets fell by 16%, dropping to €29.4bn from 224 deals, compared to €34.9bn from 304 deals in the same period in 2017. The largest exit deal was registered in France where Safran SA (ENXTPA:SAF) acquired Zodiac Aerospace (ENXTPA:ZC) from Edmond de Rothschild Asset Management and others for €8.7bn[3].

EMEA GPs Spy Investment Opportunities Across the Pond

Within EMEA-based GP activity total capital deployed fell 48%, to €19.4bn from €37bn, while investments into cross-border targets doubled in size in 2018.

During the study period, foreign targets took €6.4bn of new capital deployed by EMEA GPs across 179 new deals vs. €3.2bn in 2017. Unsurprisingly, North America took the bulk of the newly invested

[1] The number of new deals from 1 January – 15 March 2017 vs 1 January – 15 March 2018 had fallen from 909 deals to 774 deals respectively.

[2] The acquisition of Nets A/S (CPSE:NETS) by Fisher Lynch Capital, StepStone Group LP and others: https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=538611111&companyId=382498184

[3] S&P Capital IQ Platform: https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=417269866&companyId=876804

money, attracting 73% of the total, with California accounting for 62% of total capital deployed into the region.

The two largest cross-border deals were also recorded in the Golden State, particularly concentrated in the San Francisco Bay Area, totaling €1.1bn[4]. This was a significant uptake in deal sizes compared to the 2017 study period, where the largest deal in North America was only €174m.

On the exits front, capital recovered from global target sales fell by 28%, from €61.2bn to €44bn in 2018. Interestingly, the average exit deal size remained stable at €687.7m in 2018 which indicates that transaction size was still high regardless of deal count drop. 2018 recorded more mega deals (7) compared to 2017, where only 4 deals over €1bn were completed.

On a sector basis, the IT sector had the highest amount of capital deployed totalling €8.9bn in 2018, a 45.7% rise from the same period in 2017. It is also the sector with the most number of new deals, with a staggering 361 of investments. The Consumer Discretionary sector placed a distant second, with 3.7x fewer deals and only €2bn of new capital deployed by EMEA GPs.

In the world of VC, the total capital allocated by EMEA VC firms grew by 98% in the 2018 vs. 2017 study periods. Similar to PE investments, the majority of EMEA VC money went into North America and Asia, €2.3bn and €1bn, respectively, in the 2018 study period.

[4] S&P Capital IQ Platform: https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=554558468&companyId=243735719 and https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=547824534&companyId=285776231

Changing the Way We Think about CEE PE Markets

As a relatively stable region with economic growth of 4.4%[5], outperforming major Western economies, the Central and Eastern European (CEE) region appears to be an attractive investment market. Its large domestic consumer base, low-cost and skilled labour force, and proximity to prosperous western European markets make the region considerably attractive to investors looking to explore opportunities[6].

Fund Raising on the Ascent

Private equity fundraising in Central and Eastern Europe (CEE)[7] saw a significant growth in 2017. According to S&P Global Market Intelligence's data, buyout funds of local GPs focused on regional investments raised €1.37bn in capital commitments[8]. This is almost 4x times larger than total capital raised in 2015 and 2016 combined (€340m). In September 2017, Enterprise Investors and Abris Capital Partners announced the final close of their latest funds raising a total of €1bn. Enterprise Investors' Polish Enterprise Fund VIII closed above its €450m target after just three months of fundraising.

Arx Equity also closed its fourth fund launched in 2016 at €95m. Other

[5] Eurostat data

[6] https://www.ft.com/content/4248a712-07da-11e7-ac5a-903b21361b43

[7] For the purpose of this article, Central and Eastern Europe as per OECD definition covers Albania, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Slovenia and the three Baltic States: Estonia, Latvia and Lithuania: https://stats.oecd.org/glossary/detail.asp?ID=303#

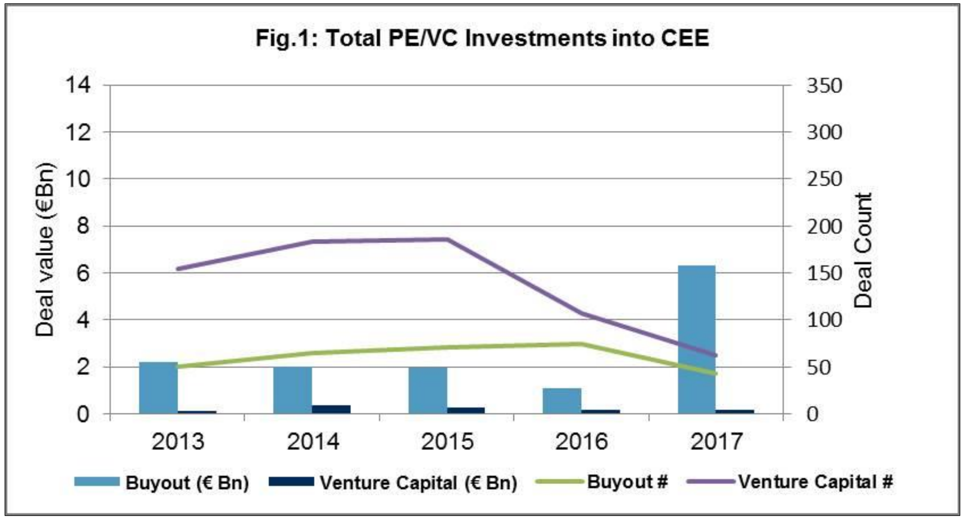
[8] This includes amount raised in subsequent closing events in particular year (first, second & final close)

local PE players, among them new market entrant Espira Investments, also reported successful first or secondary closes of their recent funds – indicating a willingness from LPs to invest with more than just established practitioners. So far in 2018 Value4Capital already announced the second close of its fund “V4C Poland Plus” at €80.37m and Innova Capital has confirmed the first close of its Innova/6 fund at €194m. A strong start for this region which can in parts still be considered as ‘developing’. In terms of target sectors consumer goods, consumer staples, manufacturing, industrials and business services appear to be the most prominent funds’ strategies.

Notably, funding in the region is often still driven or supported by government institutions at local or European level. Most funds in the region will typically count at least the European Bank for Reconstruction and Development (EBRD) or the European Investment Fund (EIF) amongst its LPs. Aside from enabling growth in the region, involvement of the two Supranationals help to attract outside investors, with growing numbers of European as well US-based institutional investors supporting local fund managers.

Table 1: CEE Fund Raising

Fund Manager	Fund	Value (EUR mm)	Close
Innova Capital	Innova/6	194	First
V4C Poland Plus	Value4 Capital	80.37	Secondary
REEEP II	Resource Partners	100+	Final
Abris CEE Mid-Market Fund III	Abris Capital Partners	502	Final
Polish Enterprise Fund VIII	Enterprise Investors	498	Final
ARX CEE IV	ARX Equity Partners	94	Final



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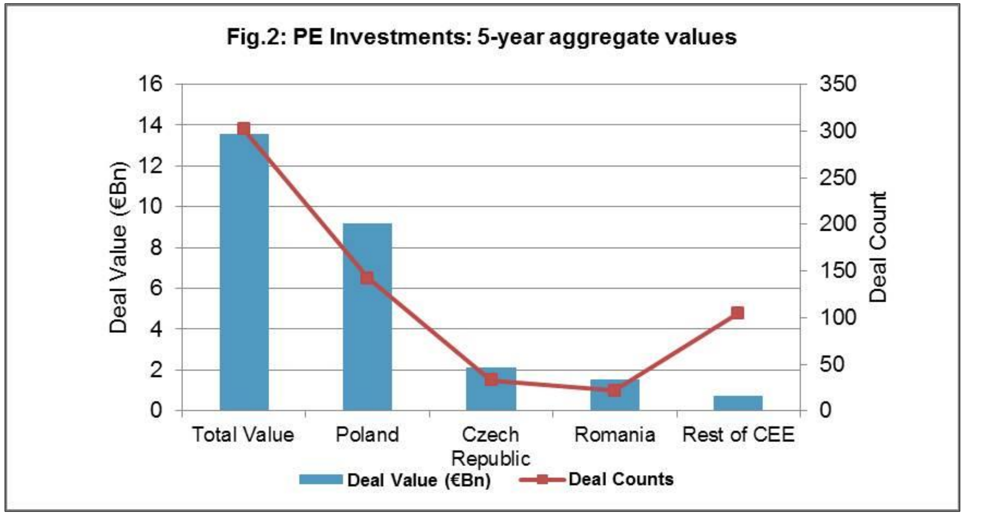
Revival of Private Equity Activity in CEE

Private equity investment activity data over the last five years shows that the CEE market’s performance has remained steady from 2013 to 2015 with aggregate investment values oscillating around €2bn before falling back to €1.1bn in 2016. Although sizable for the market in terms of deal volume, this drop does not reflect in a record of 74 deals closed in 2016, slightly above its 5 year average of 60 deals. In this context 2017 appears to be an exceptional year with private equity investments in the region hitting a 10-year high of €6.3bn across 42 closed deals. The last time new capital deployed surpassed a €6bn level was in 2007, before the financial crises, when the region experienced a significant boom registering a record number of 116 closed investments.

Last year’s significant uptick in capital invested in the region is largely down to two mega deals: the Allegro and Bank Polska Kasa Opieki S.A. acquisitions which total €5.3bn in a region normally driven by smaller mid-market transactions. This might suggest a growing confidence of PE players in the CEE region's ability to deliver expected returns and their willingness to contribute vast amounts of capital when the right opportunity arises. Looking at the number of closed transactions in Q1 2018, the positive development of private equity activity in the region seems to continue.

Poland attracted the majority of new capital from global PE players at €5.4bn, representing 86% of total capital invested into the region. It also contributed to 50% of all PE transactions in the region (21 deals out of 43). The acquisition of Allegro, an online market place and shopping destination for €3bn by Mid Europe, Cinven, and Permira accounted for 50% of aggregate deal values in the whole CEE region.

The second favourite target country was Romania, with a much smaller €710.5m of new capital deployed in 2017 and driven by the €533m secondary buyout of Profi, a supermarket chain by Mid Europe. Considering five-year aggregate deal values, Poland has led the way with €9.17bn (143 deals), followed by the Czech Republic receiving €2.14bn of new capital (33 deals), and then Romania with €1.52bn across 22 deals.



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Focusing further on the breakdown of private equity investments into the region on a sector basis, we find that there is no single top investment market. Consumer discretionary and consumer staples accounted for the largest share – 26% (81 deals) of completed investments and 23% of invested capital between 2013 and 2017[9]. On its own, the consumer staples sector registered just 23 deals over the same study period and 10% of invested capital, aggregate deal vales increased 3x moving from €122.5m in 2013 to €533m in 2017 on a relatively flat number of deals. This suggests an increase in PE appetite for consumer and service-oriented sectors in the CEE market – due to growing disposable income and a continued growth of private consumption in the region.[10] This is a move away from Real Estate

[9] This is after correcting for two mega deals in the Information Technology and Financials sectors that took place in 2017

[10] https://www.ft.com/content/7b5ffbcc-c94a-11e7-ab18-7a9fb7d6163e

which, over the past five years, was the most targeted sector in terms of capital deployed, attracting €2bn and accounting for 23% of the total capital (29 deals).

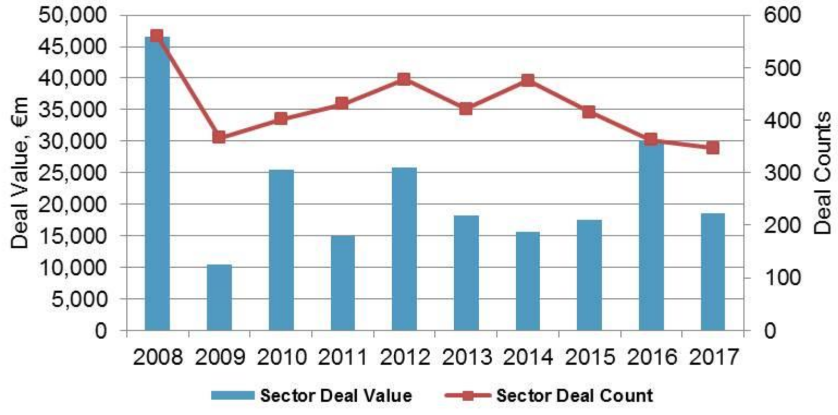
The next prominent sectors in terms of deal count – Industrials and IT – registered a 16% and 17% share of total deal count respectively, yet when combined attracted only 5% of invested capital.

Overall, despite previous lacklustre growth of private equity investments in the CEE, the future for the region looks bright – supported by strong economic growth and robust fundraising activity backed by development finance institutions. It is generally expected that a growing number of investment opportunities will become available as a result of succession requirements for the first batch of post-communism enterprises established in the early 1990s. Regional activity is driven largely by Poland and the Czech Republic but gradually the economic benefits of European Union membership and targeted government support are spreading further afield.

Does a Volatile Media & Telecommunication PE Landscape Equal Higher Multiples?

The Media and Telecommunication sector has seen its share of ups and downs over the last 10 years[11] when it comes to GPs' interest. The sector has failed to attract constant levels of capital, showcasing a very volatile trend over the study period. In 2008, it netted €46.5bn of new money from global PE firms, most of which landed within the Broadcasting sub-sector. In the subsequent years, global GPs lost interest in Media and Telecommunication targets where in 6 out of the past 10 years, total capital allocated into the sector fluctuated in the €10bn to €19bn range. The number of deals, at the same time, was on a steady decline (Fig. 3).

Fig.3: Media & Telecommunications Private Equity Activity



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Yet, over the last few years the interest in the sector had somewhat recovered, with 2016 recording €30.2bn across 362 deals, a level of activity which was last seen in 2008. The majority of new capital went into the Cable and Satellite sub-sector this time, mostly due to BC Partners and Altice N.V. acquiring a majority stake in Cablevision Systems Corporation (NYSE:CVC) for €17.2bn[12]. However, this was the exception to the overall trend over the study period, and in 2017 the capital deployed declined by 38%, dropping to €18.6bn.

Despite the volatile capital inflows into the sector, average purchase

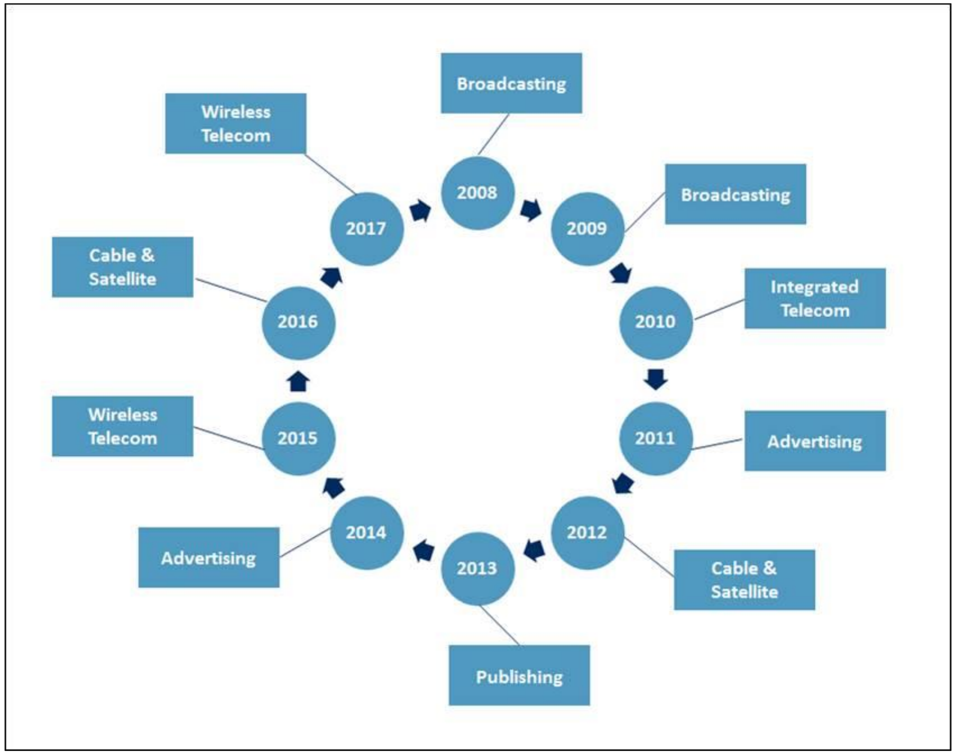
[11] The study period is from 2008 – 2017, and in 2018 it is from 1 January 2018 – 15 March 2018.

[12] S&P Capital IQ Platform: https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=311617082&companyId=25933

multiples grew in 2017 to 12.7x EBITDA compared to 11.2x EBITDA in 2008. 2017 purchase multiples were higher than most years of the study period, where for the majority of years the average was as low as 6.7x to as high as 9.3x. This represents a positive note for the sector, showcasing buyers' willingness to validate higher valuation in the recent years.

2018 is off to a slow start thus far, with only €528m of capital committed to the sector. It represents a significant drop from the same period last year, when global GPs had already invested €3bn of new money from 1 January to 15 March 2017. In 2018, Cable and Satellite targets claimed the most new money out of all sub-sectors, continuing on a strong trend from previous years.

Fig. 4: Top sub-sectors per capital allocation in each year



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Regional Trends: China Is Going Viral

Looking at capital deployment on a regional basis within the Media and Telecommunication sector, the trend is also rather volatile. North American targets secured the largest share of capital in 2016, standing at €23.6bn, or 78%, of the global total. EMEA and Asia-Pacific (APAC) followed with a distant €3.5bn and €2.9bn, respectively.

However, in 2017 the tables turned, with APAC netting the most amount of capital within the sector, taking €9.9bn out of €18.6bn, overshadowing both North America and EMEA.

Within APAC, China has been the most attractive destination for global PE buyers over the last few years, not only from a capital inflow perspective but also in terms of the number of new deals. Since 2015, China has dominated APAC as the leading PE destination, netting €12.7bn from 2015-2017, and most recently €118m in the 2018 study period (across the total of 82 deals from 2015-2018YTD).

In case of smaller transactions, it is notable that Chinese targets were being acquired in cash, with single GPs claiming minority stake in Chinese Media & Telecommunication companies over the last few years. Also, in the majority of these transactions a Chinese GP either featured as a sole buyer or as part of a club with other APAC buyers.

However, in the case of mega deals, a Chinese buyer most often partnered with non-APAC, shifting acquisition stake percentage from minority to majority in those club deals.

One example of that was the acquisition of Focus Media Holding Ltd. by a consortium of GPs, including The Carlyle Group, CITIC Capital Partners, China Everbright Ltd. and others, for €2.9bn in 2013[13]. The deal is also one of the few deals which were paid for by a combination of equity and debt which is a rare deal consideration in China.

When it comes to Chinese buyers, the trend in the Media & Telecommunication space is echoing the one of the foreign buyers. Chinese GPs were mostly involved in minority stake deals when acquiring foreign targets outside of China, with deal sizes not crossing over €1bn during the study period ever.

Looking at the top 3 buyouts over the study period, the largest one was the acquisition of a UK media company for €896m[14], followed by €385m deal in France[15] and €102m investment in the US[16]. All three deals were paid for in cash only by Chinese investors, with them acquiring majority stakes in two out of the three deals – outlier trend over the period. It is worth noting that these two majority stake deals (€896m UK deal and €102m US deal) are the only majority acquisition buyouts over the 10 year study period. Given restrictions to cross-border capital allocation in China, the future pipeline may have to rely on less cash-centric, debt-loaded funding.

EMEA Targets Attract Higher Exit EBITDA Multiples

While private equity entry deal making activity in the Media & Telecommunication sector has shown rather volatile trends, the exits present a more stable picture. In 2016 capital realized from global targets' sales reached a record high €109.2bn since 2008. North America took the largest chunk of it at €92.9bn, leaving EMEA and APAC far behind with only €9.2bn and €4.4bn of realized capital, respectively.

More recently in 2017 exit activity in the sector slowed down to €37.6bn but EMEA, out of all regions, saw an increase in aggregate exits deal value compared to 2016 – the year ended for global GPs with 60% more capital realized from EMEA-based targets' exits to various buyers.

[13] S&P Capital IQ Platform: https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=215573439&companyId=12680082

[14] S&P Capital IQ Platform: https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=342326183&companyId=173273786

[15] S&P Capital IQ Platform: https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=210857990&companyId=23827425

[16] S&P Capital IQ Platform: https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=364568377&companyId=364568062

It is worth noting that EMEA targets' value also went up in 2017. Global GPs were selling off EMEA-based targets for higher EBITDA multiples compared to 2016. Average Enterprise Value/EBITDA exit multiple grew to 13.3x last year compared to 10.7x in 2016. At the same time, buyers' willingness to pay more for North American targets decreased in 2017 with average exit EBITDA multiples dropping to 7.7x vs. 13.9x in 2016.

2018: the Year of the Exits?

Looking at how exit activity is performing in 2018, interestingly, it already represents 34% of capital realized from global targets compared to the whole of 2017. Such a recent uptake in Media & Telecommunication exits might be explained, to a degree, by strong exit multiples and the industry's concerns over the sector due to various issues coming to light as a result of the bidding war on Sky Plc[17].

In addition to this, Media & Telecommunication sponsor-backed targets are being sold off to, mostly, corporate buyers instead of financial sponsors. This might explain the higher exit multiples, with corporate buyers willing to pay more for valuable targets with readily available cash, thus, getting GPs more motivated to exit in this momentum.

In 2017 corporates were engaged in 104 out of the total 144 exits, while financials buyers were only in 22 and the rest were club deals. This trend is already strong in 2018, with corporates buying off 18 targets from global GPs out of the total 21 closed deals in the study period.

Looking ahead, from January 2017 until 15 March 2018, 54 new exits were announced and are yet to close. If these deals are successful, that would add €33.7bn to already registered €12.6bn, bringing the total capital realizations to a potential €46.3bn. Given the slow execution speed driven by typically more extensive scrutiny of corporate M&A in the space, achieving this record level may be questionable.

It is interesting to note that the average expected purchase EBITDA for these announced deals is slightly lower than what was paid in 2017, currently standing at 10.5x EBITDA. It is worth noting that 38 out 54 potential exits have a corporate as a buyer of Media & Telecommunication targets.

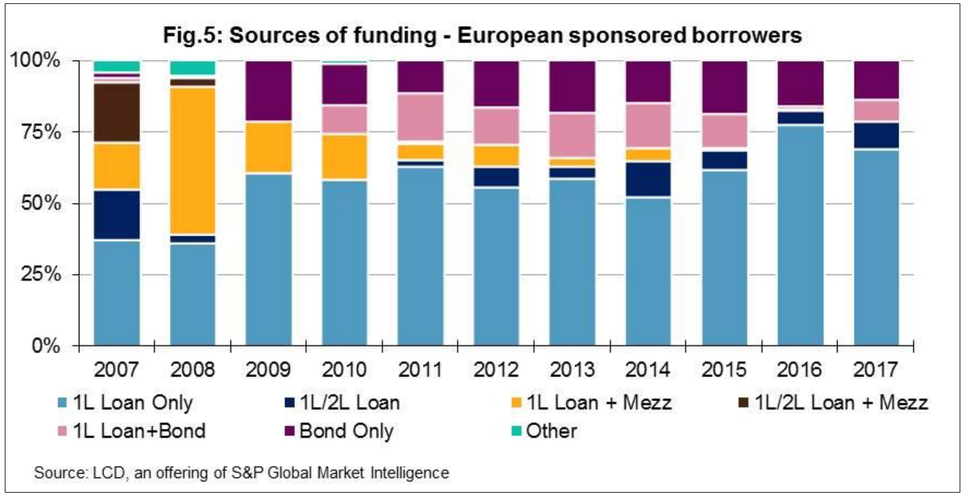
Loan Market Still Sponsors' Favourite, But Bond Market Beckons

Sponsors historically have tended to favour the leveraged loan market over the bond market. It features less onerous to no call protection for lenders, less public disclosure or the need for a public rating, and cheaper rates as liquidity has flooded into the loan market over the past few years. All in all, loan products have been the darlings of private equity sponsors in Europe in recent times.

Data from LCD, an offering of S&P Global Market Intelligence, to the end of February confirms this bias. European sponsors obtained 82.8% of their financing needs in the loan market in 2016, the highest percentage since the financial crisis in 2008. In 2017, private equity

[17] Suggested reading: "Report: Fox pushes for regulatory probes into Comcast's Sky bid", S&P Global Market Intelligence News https://www.capitaliq.com/CIQDotNet/News/Article.aspx?companyId=380435&nab=True&newsItemId=232946987&stateKey=88a7aae22e6e47f1b09082f51e917571; "Analysis: Comcast's historical M&A record hints at potential Sky strategy", S&P Global Market Intelligence News, https://www.capitaliq.com/CIQDotNet/News/Article.aspx?companyId=380435&nab=True&newsItemId=232833068&stateKey=88a7aae22e6e47f1b09082f51e917571

turned to the loan market to fund 78.7% of deals, the second-highest percentage since the 2008 crisis.



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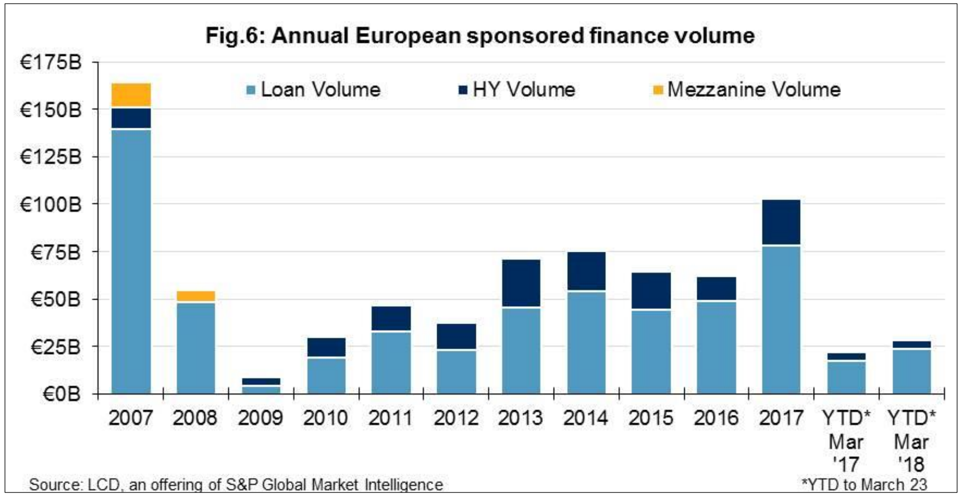
However, there was a time after the financial crisis when the bond market stepped into the breach when loan liquidity dried up. In 2009, 21% of sponsor-backed deals were financed solely through bonds – the highest percentage since 2007. From 2012-2014, sponsors refinanced much of their existing senior secured debt from before the crisis with senior secured bonds – either partially or completely as the CLO market, which typically provides the bulk of loan liquidity, only began to re-emerge in its current 2.0 format in 2013, really taking off in 2014. Indeed, LCD data shows that loan-only transactions fell to a low of 66% in 2013, while loan plus bonds or bond-only deals rose to a high of 34% that same year.

Recently, sponsors have been more consistently tapping the European high-yield bond market as part of their financing strategy. It is giving them more flexibility when it comes to some of the more storied or niche credits. As large buyout activity heats up in Europe, sponsors are also turning to the bond market to provide subordinated debt on large buyouts where more debt capacity is necessary. Also, with further potential sale dates, call protection is less of an inhibitor for sponsors.

In 2018 up to March 23, sponsor-backed bond volume of €5bn is up on the €4.2bn seen in the same period last year. At €24.8bn, 2017 saw the second-highest annual total (after 2013) for sponsor-driven bond issuance since LCD began tracking this data in 2006.



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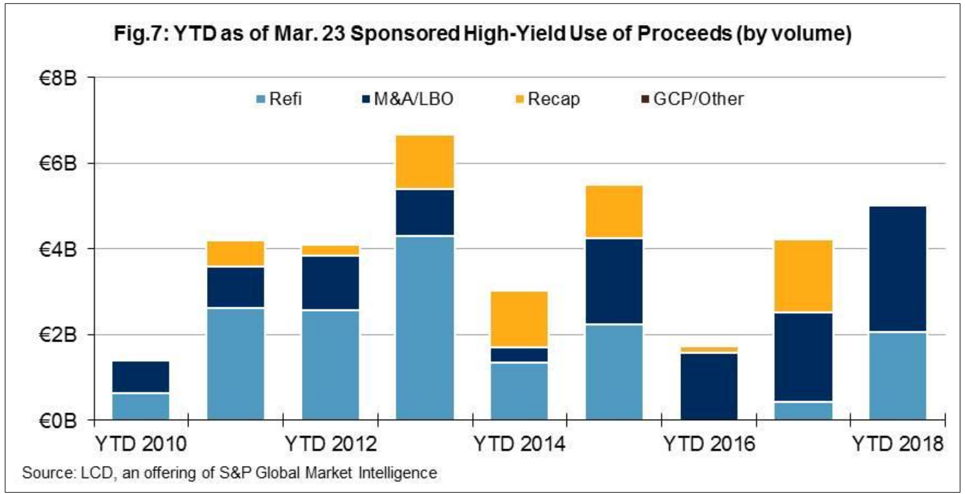
In the year-to-date to March 23, 59% of sponsored high-yield issuance has been to fund M&A-related activity, while 41% has been used for refinancing. The use of the bond market to finance acquisitions or buyouts has grown in recent years – this €3bn YTD is the highest in the same time frame recorded since LCD began tracking this data in 2006.



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Telling the Story

Some recent examples of sponsors tapping the high-yield market for more storied credits include KKR using the bond market to effectively finance the merger of Selecta and Argenta, and refinance all of its debt. Selecta also completed an acquisition of Pelican Rouge in September 2017. There were concerns from fund managers who spoke to LCD news, given that in the past Selecta has seen declining margins and falling revenues and both Argenta and Selecta needed capital injections, with Selecta also needing covenant resets. Furthermore, Pelican Rouge loans traded in the 60s before the business was bought by Selecta, and the previous outstanding Selecta euro fixed notes fell as low as 82 in mid-2016. In addition, there were also general concerns about the borrowers' industry, as people turn more to coffee shops, and some investors added that leverage on the financing was too high for their tastes.

However, investors also conceded that that the tie up of these three unattended-self-service coffee and convenience food providers made strategic sense, and that there had been a solid turnaround for Selecta in the past few quarters including a return to top-line growth. After a number of changes were made to the company's covenant package, the deal priced at the tight end of guidance and traded up in the secondary market afterwards.

Other storied credits which tapped the bond market recently included TDR's refinancing of Algeco Scotsman's debt, which went through a tricky syndication. The borrower had to shift all of its unsecured debt into dollars, and extended the roadshow. Permira-owned Lowell also used the market, in its case to purchase assets from Intrum. The borrower had to downsize the deal and some accounts were vocal during marketing that the company was, in their view, providing too little equity for the purchase, though some investors said the company would draw down on its revolving credit facility (RCF) for the difference. Still, accounts said they do like the company — adding that the purchase expands its geographical presence, firms up its top-three market position in key geographies, and better-balances its mix of debt purchasing and third-party collections.

There have also been some sponsored companies that decided to tap the bond market due to their sector. For example, gym chains have a tricky history in the loan market, which therefore makes the bond market more appealing for borrowers from this sector. Leonard Green financed its buyout of Pure Gym in January, through a £360m, debut seven-year offering of secured notes. The bonds refinanced a bridge loan put in place in November, when Leonard Green bought the UK-based value gym chain for an enterprise value of £640m.

Going Direct

Of course, sponsors also have the direct lending route as an option these days, as that market is competing with both larger syndicated bond and loan markets. For example, Soho House – the private members club with “houses” around the world in locations such as London, New York, Los Angeles, Miami, Chicago, Toronto, Berlin, and Istanbul – last year issued a redemption notice for its £152.5m of 9.125% senior secured notes due 2018, and borrowed a £275m senior secured loan (and a further £100m in undrawn credit) directly from Permira Debt Managers.

Soho House tapped the high yield bond market for the first time back in September 2013, for a bond of £115m. With EBITDA then of just £19.5m, the firm was the smallest ever to issue European public high-yield debt. The company was able to upsize the bond from its original £105m size and priced the deal at par with a yield of 9.1%.

When Soho House returned to the market to refinance its deal in September 2015, it had to pull the £200m, five-year (non-call two) bond offering due to market conditions. Investor feedback at the time was consistent. Numerous accounts said the firm was well-run, with a strong brand, diversified revenue stream, impressive membership numbers, and a large waiting list, as well as an attractive property portfolio. However, there were concerns around the firm's growth ambitions, high leverage, and the small size of the business and the deal — all of which meant accounts demanded more yield, as reported by LCD at the time.

Soho House was not the only issuer last year to opt for a direct-lending deal over the bond market. Bridgepoint’s acquisition of Zenith, a UK-based fleet leasing and management business, had been expected to tap the high-yield market to finance the buyout. Instead, it tapped Goldman Sachs’ private investment unit for the largest sterling unitranche on record — at £475m including a £50m undrawn piece on the same terms as the funded facility, as reported.

Buoyant European Direct Lending

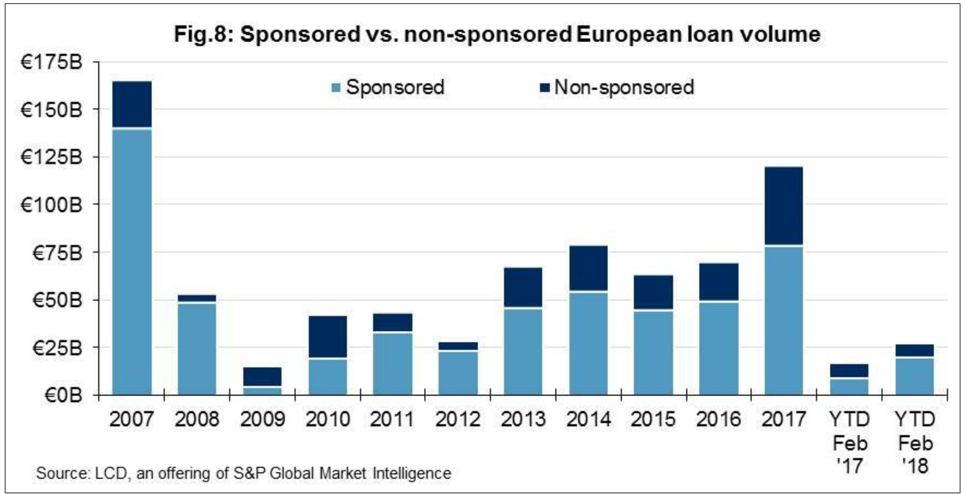
The European direct lending market has developed rapidly since 2014, with dozens of new managers setting up, including a number of private equity firms that have set up their own lending operations. The market is top-heavy, with the largest five or so managers executing many more direct transactions than the plethora of smaller players. Growth has been fuelled by institutional investors switching portions of their fixed income allocations into more illiquid but higher-yielding private debt strategies. Managers take a variety of different approaches to the strategy with specializations ranging from the lower middle market to more ‘storied’ credits. The largest of Europe’s direct lenders have raised multi-billion euro pools of capital for the strategy. Most large and mid-sized direct lenders concentrate on unitranche financings or bullet loans with an extra half to one turn of leverage paying anything from 6.5% to 11%. They are called unitranche because they are provided by a single lender, but are often sliced up behind the scenes.

Direct lending deal sizes are getting bigger with more capacity to compete with other asset classes, like broadly syndicated leveraged loans and bonds. In 2017, direct lenders in Europe have executed 33 deals totalling €100m or more, according to LCD. That total includes both unitranche and stretch senior facilities and two amended and increased transactions.

What's more, the number of large-ticket direct-lending deals in Europe has accelerated rapidly over the last few years. In 2016, the number of €100m-plus unitranche deals more than doubled year-on-year to reach a total of 15. Even without the traditionally deal-heavy final quarter, 2017 has not only outstripped 2016’s total, but also widely diversified direct lenders' sources of large-ticket lending.

Status Quo?

Of course, the loan market still remains the financing route of choice for sponsors. On a year-to-date basis to February, sponsored loan volume in Europe is more than double its total from the same period of 2017, as €20bn has been issued so far in 2018, versus €9.1bn last year. M&A-related sponsor volume accounts for 63% of this year's total.



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Year-to-date to the end of February sponsored loan volume has made up an impressive 73% of total loan volume at €20bn – the highest percentage of issuance since 2011. Private equity volume this year has been well supported by the long-awaited launch of the jumbo loan financing for KKR's €6.8bn buyout of Flora Food Group.

Looking ahead, the pipeline of private equity buyouts remains healthy, and although much of this will flow into the loan market, the size of transactions means that there is plenty of debt to go around, and high-yield should continue to have a seat at the table.

Flora Food Group is expected to launch the €900m of bonds supporting KKR's LBO early in the second quarter, according to sources. The €5.5bn take-private of TDC is backed by €2.8bn in bridge term loans, with a €200m revolver and once the acquisition is complete, the loans are expected to be taken out through high-yield issuance and a new super-senior revolver.

The financing backing Blackstone's acquisition of Thomson Reuters' financial and risk business (F&R) is also expected to hit the market in the second quarter. The $13.5bn debt package is set to be split roughly 60% from the loan market and 40% from high-yield bonds. Around $9.5bn of the debt will be denominated in dollars, according to sources, while roughly $4bn will come in euros.

Other sizeable debt raises which should generate high-yield bond issuance include the LBO of Fedrigoni, Spectrum Brands' battery and lighting unit, and Refresco, so it seems there is plenty more to come.

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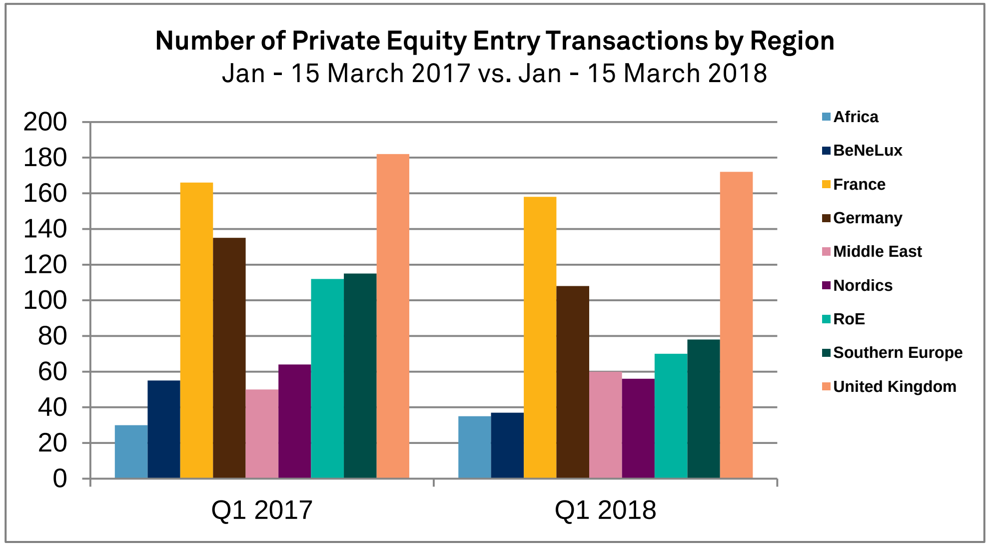
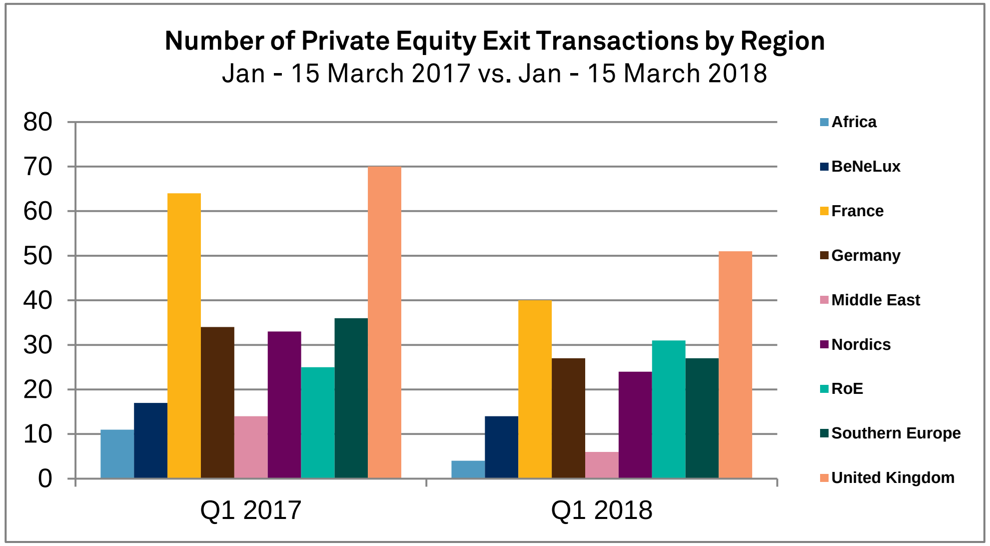
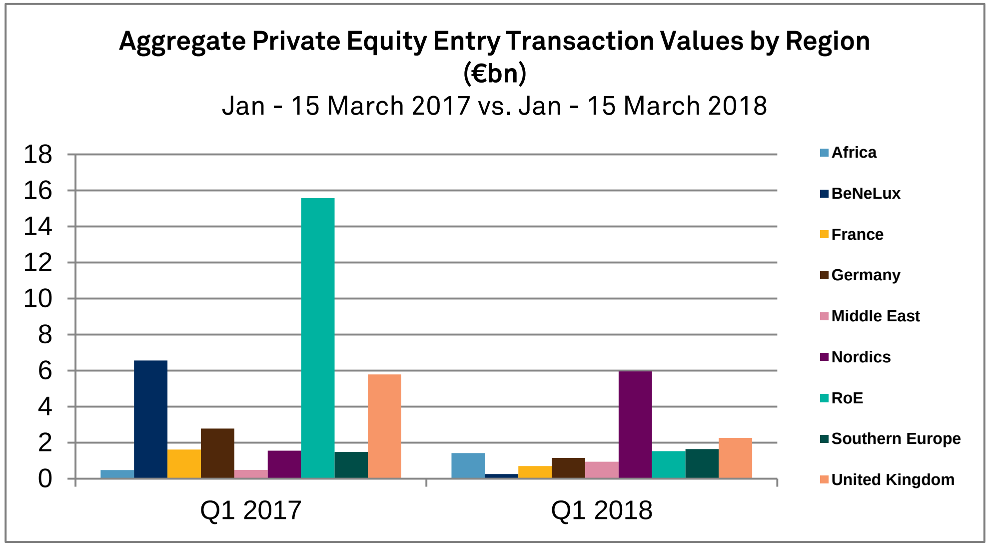
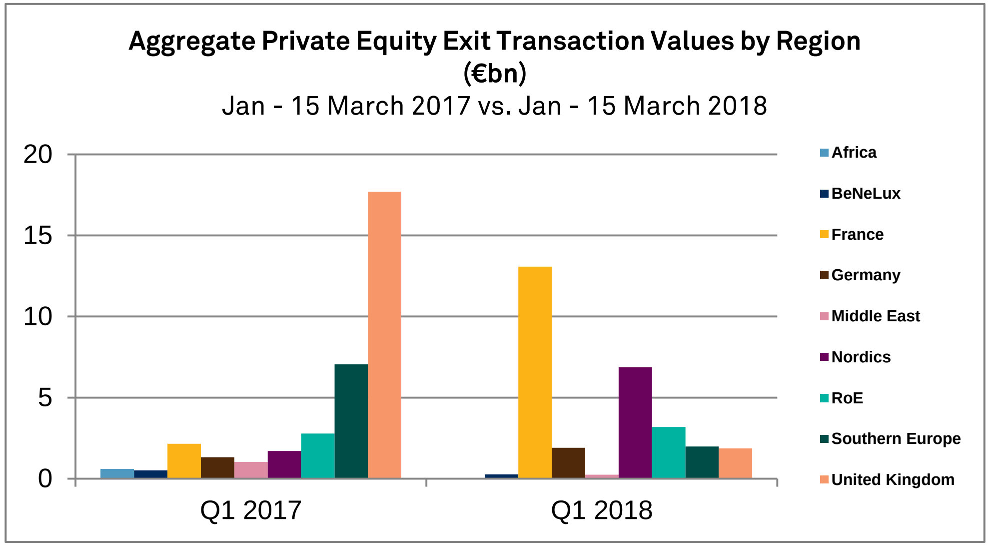
EMEA – Based Targets









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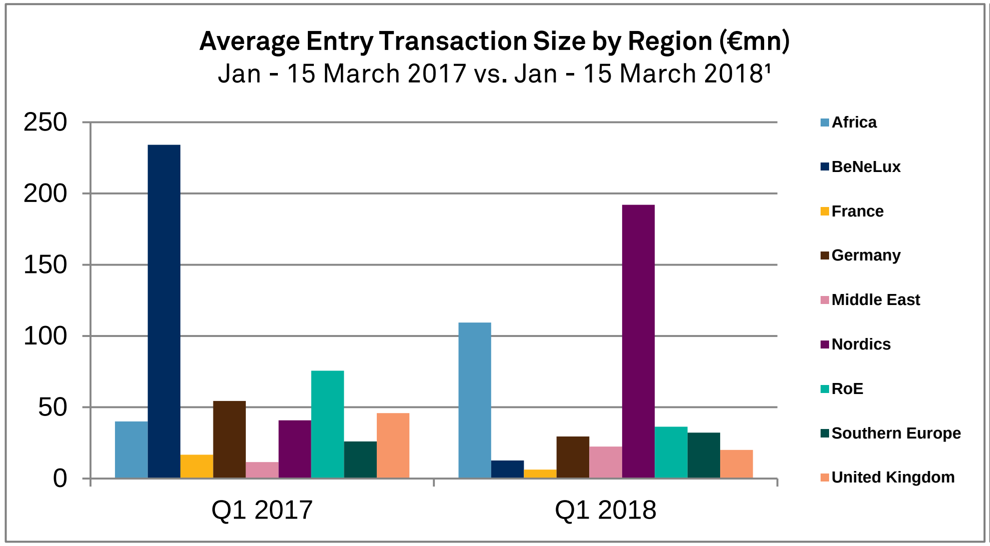
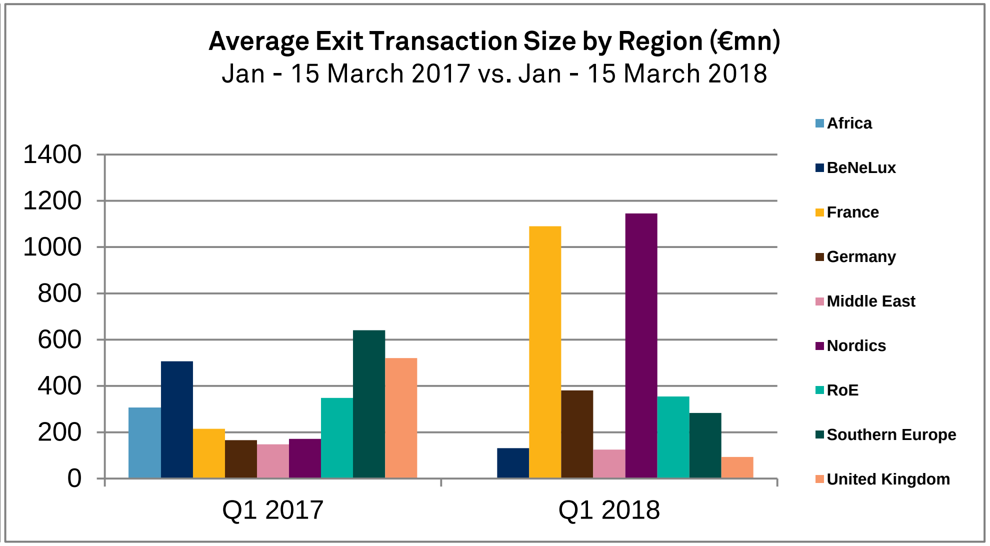
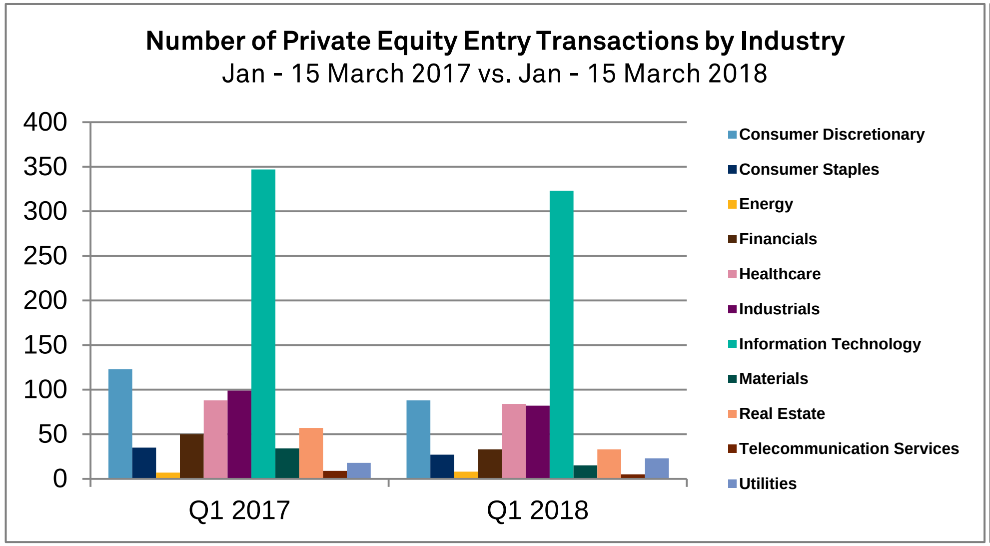
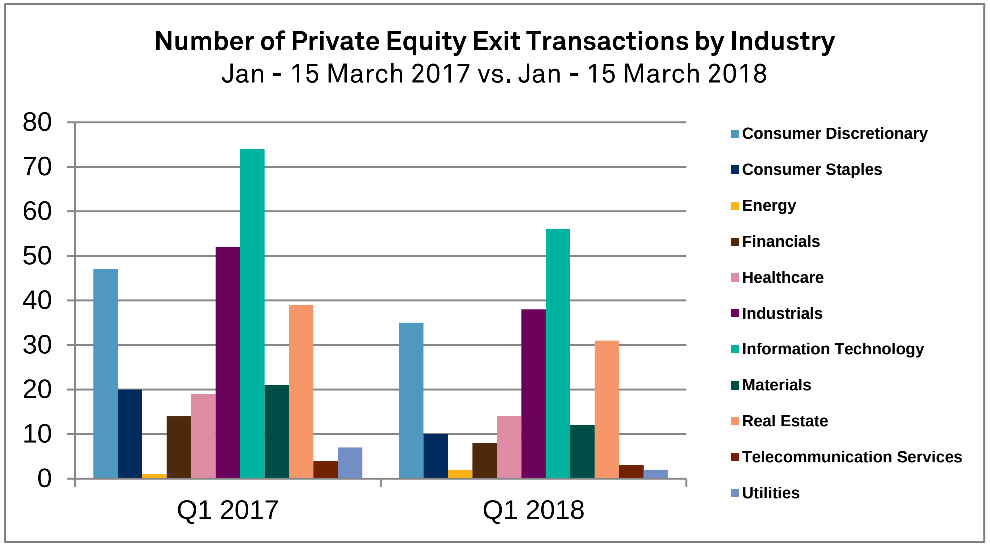
EMEA – Based Targets (continued)









1. The entry transaction averages have been calculated after removing the following deals to avoid overestimating the trend on the back of a single deal: Glencore Plc (LSE:GLEN) along with Qatari sovereign wealth fund of Qatar Investment Authority agreed to acquire 19.5% stake in Public Joint Stock Company Rosneft Oil Company (LSE:ROSN) from OJSC Rosneftegaz for €10.5 billion.

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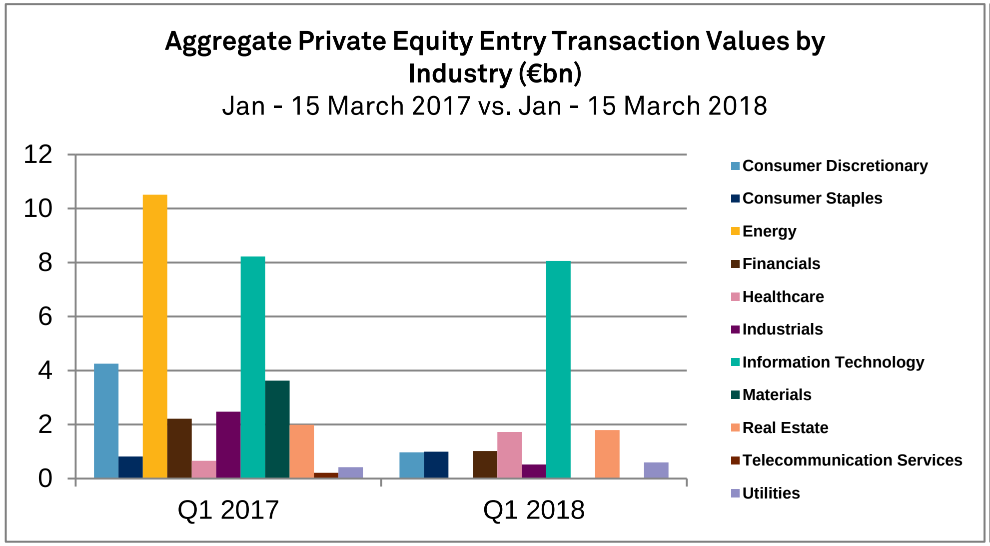
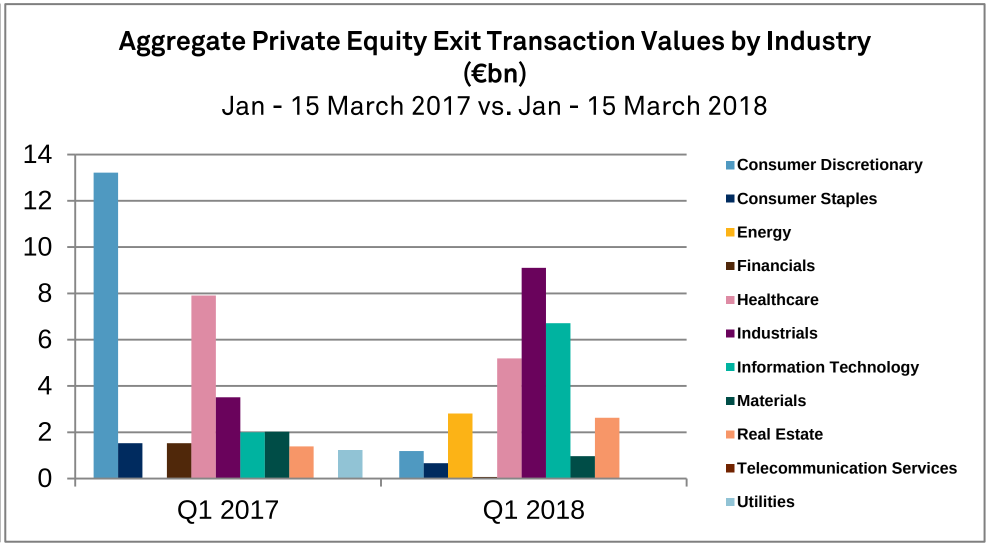
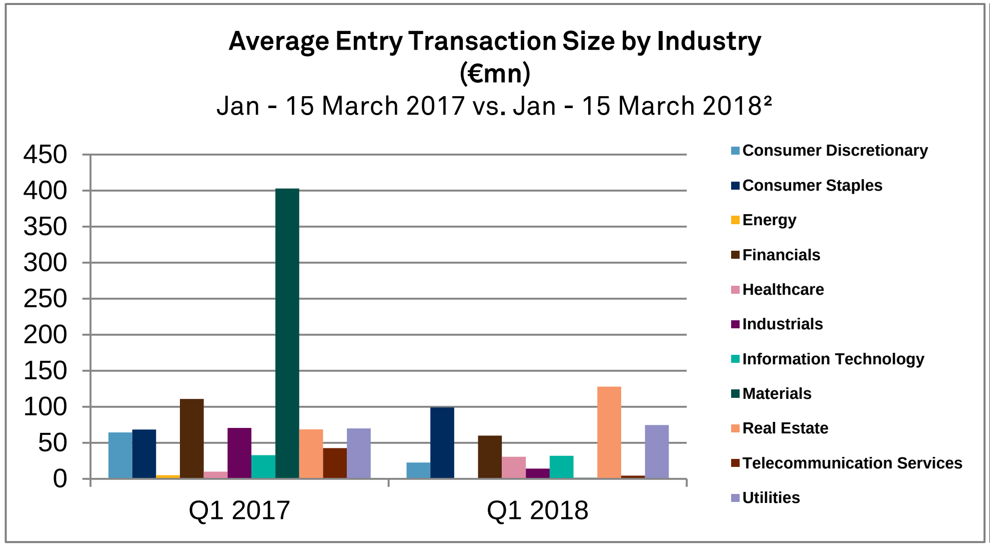
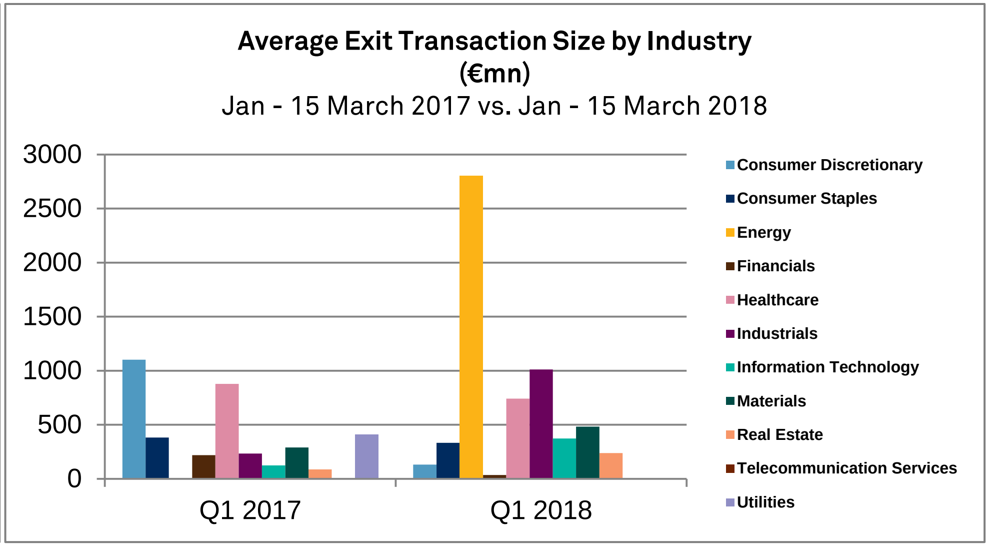
EMEA – Based Targets (continued)









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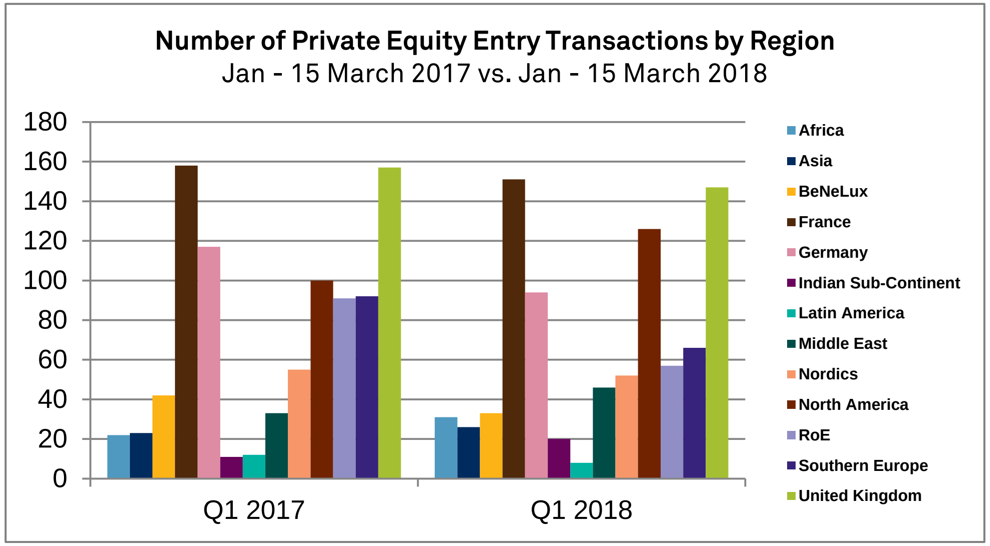
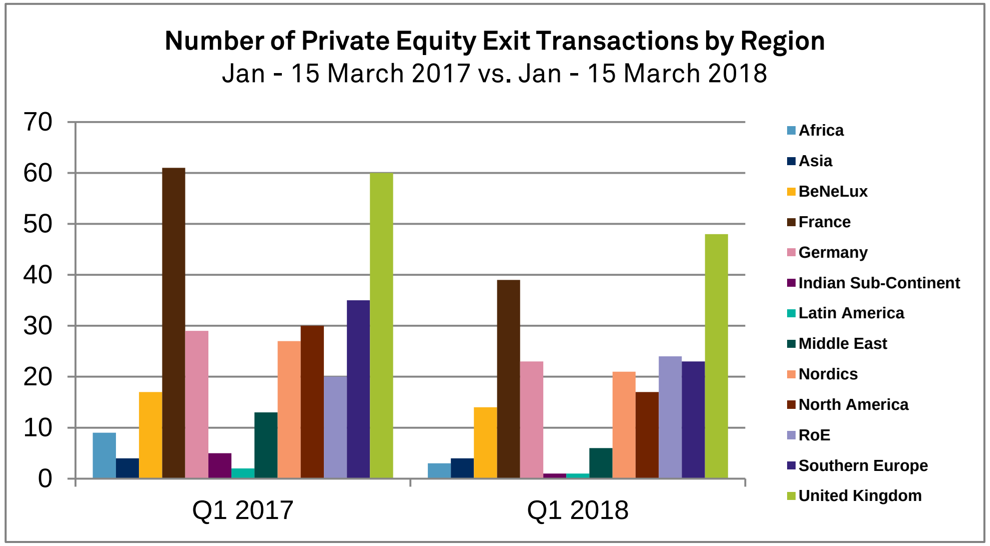
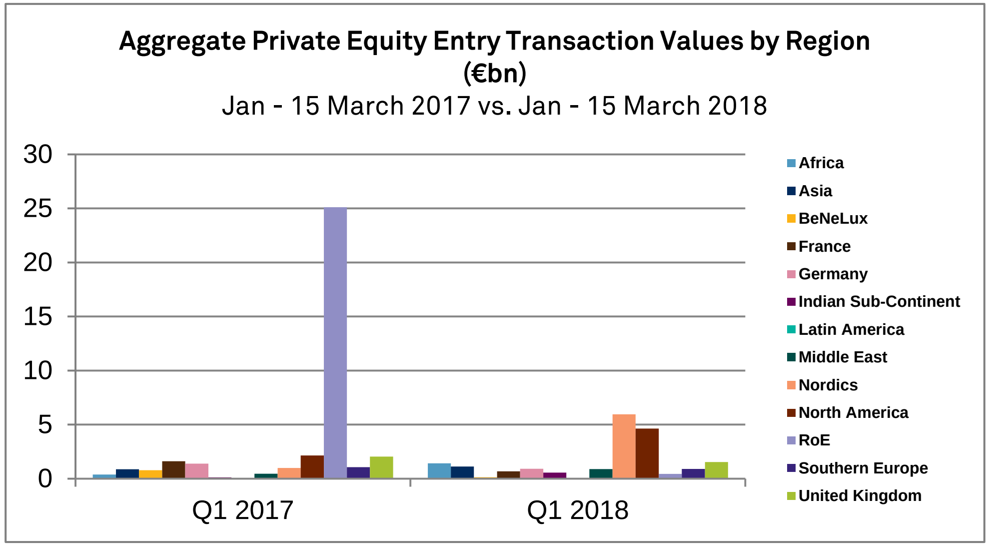
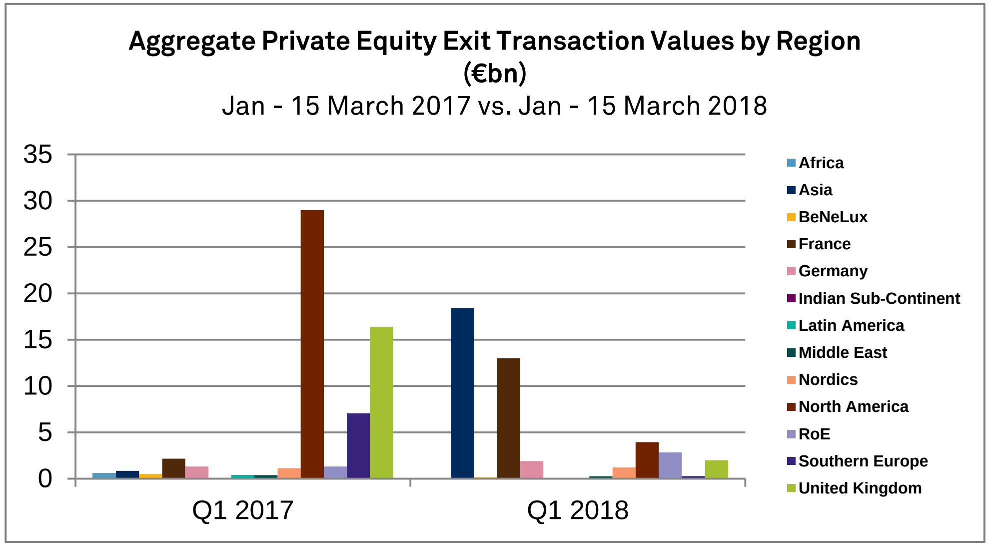
EMEA – Based GPs









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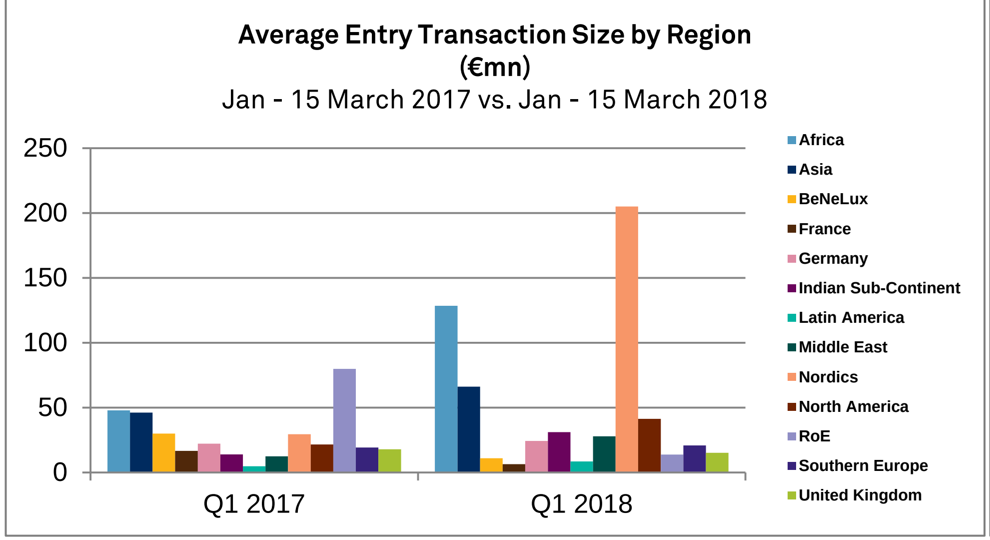
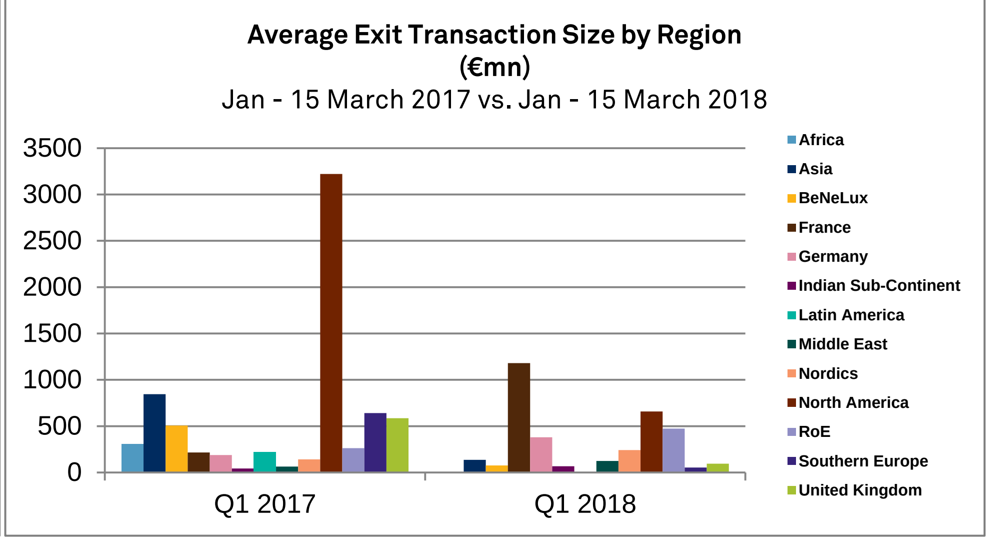
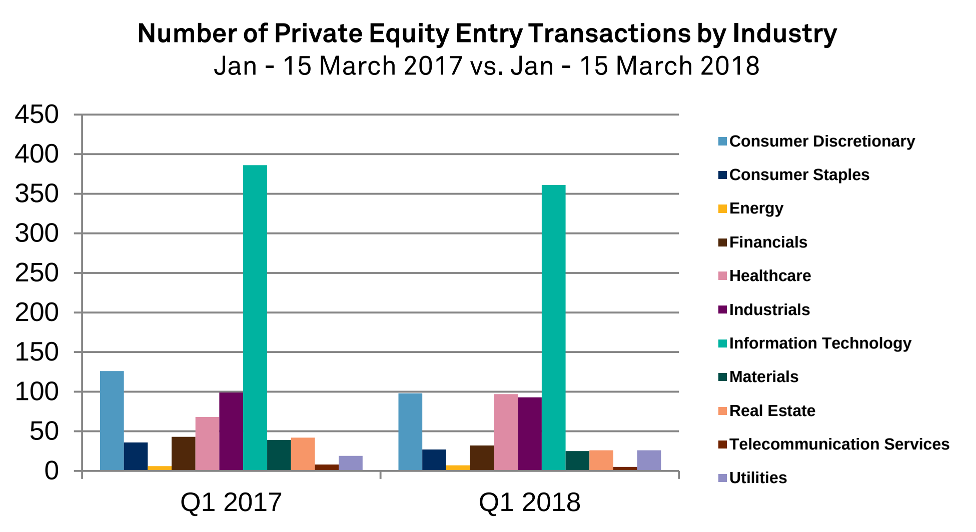
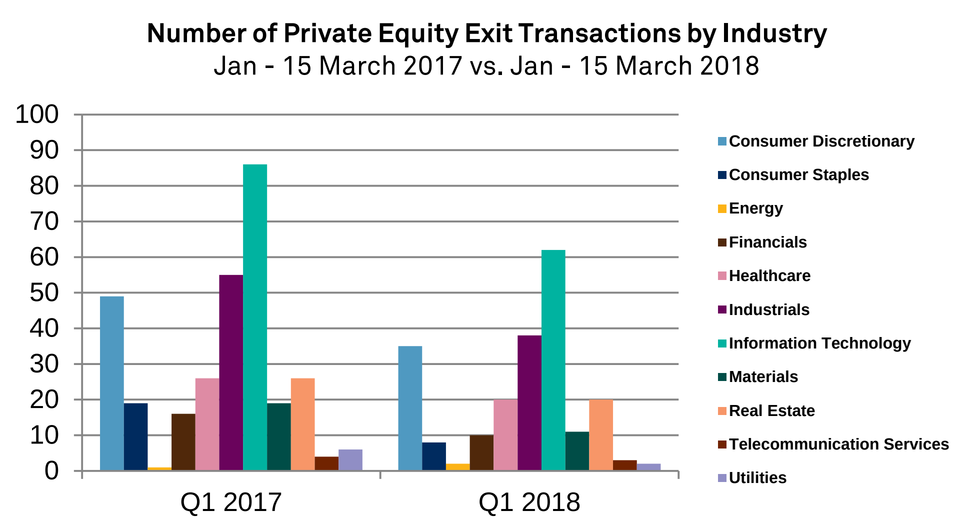
EMEA – Based GPs (continued)









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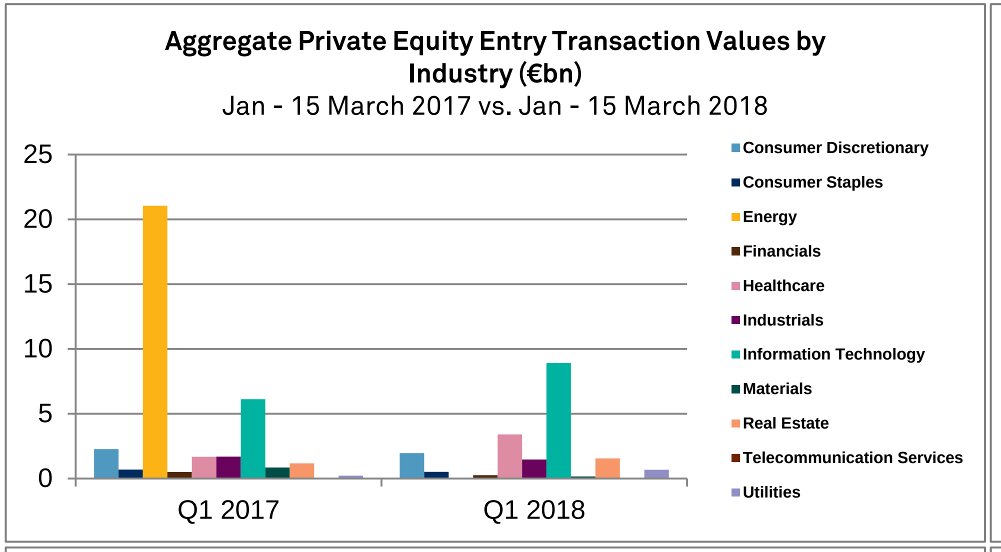
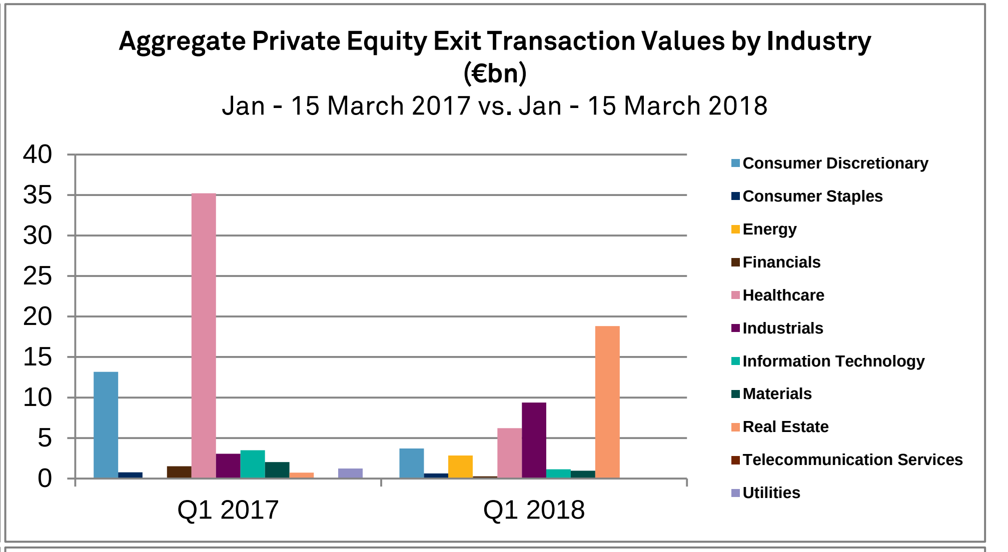
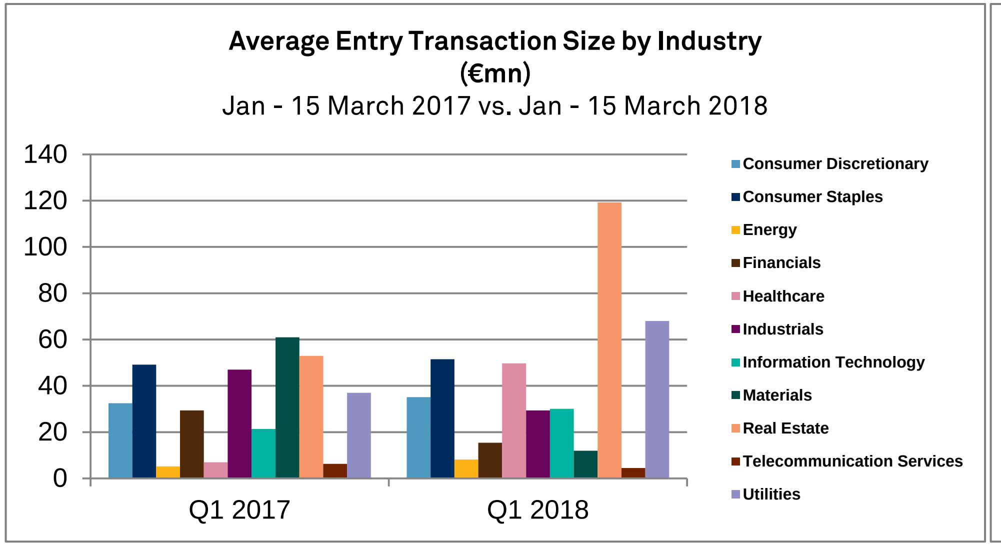
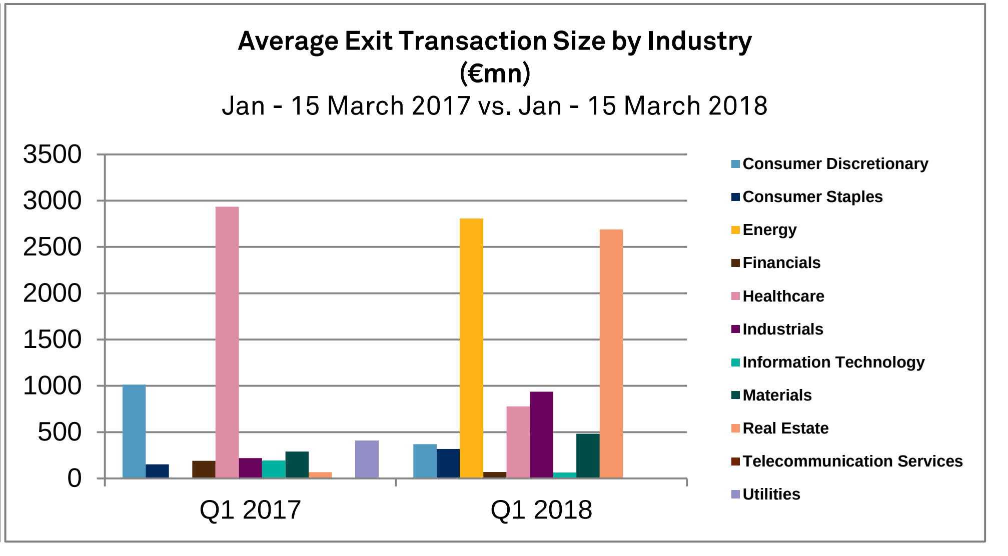
EMEA – Based GPs (continued)









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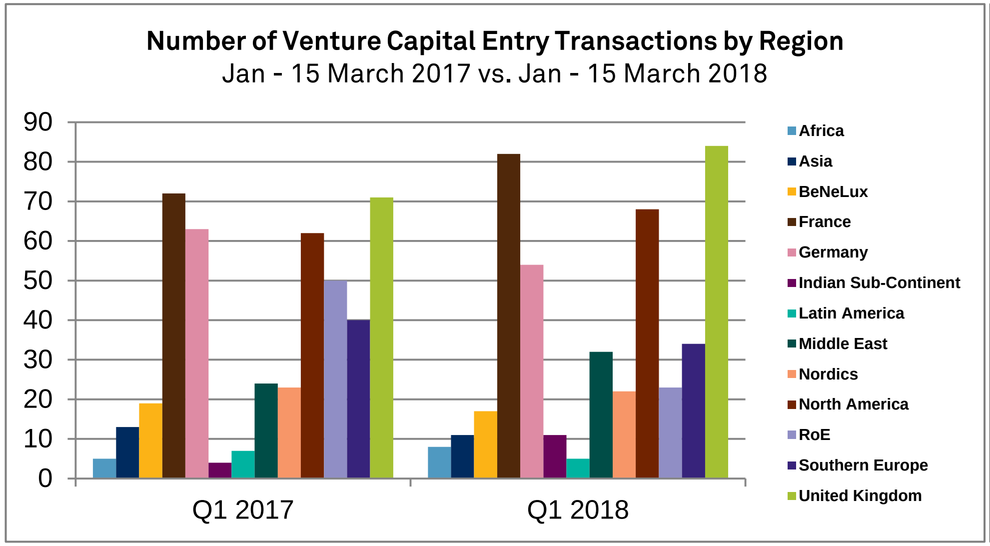
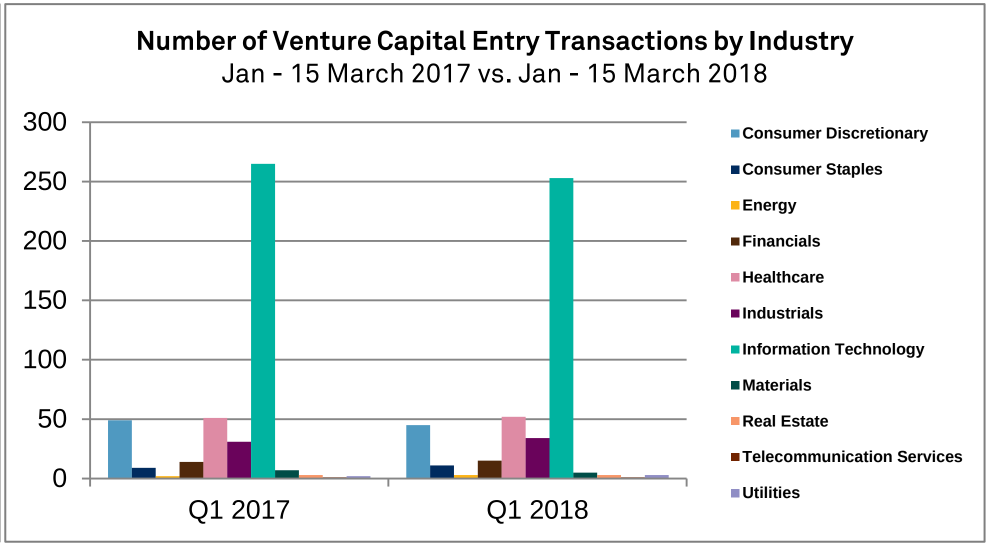
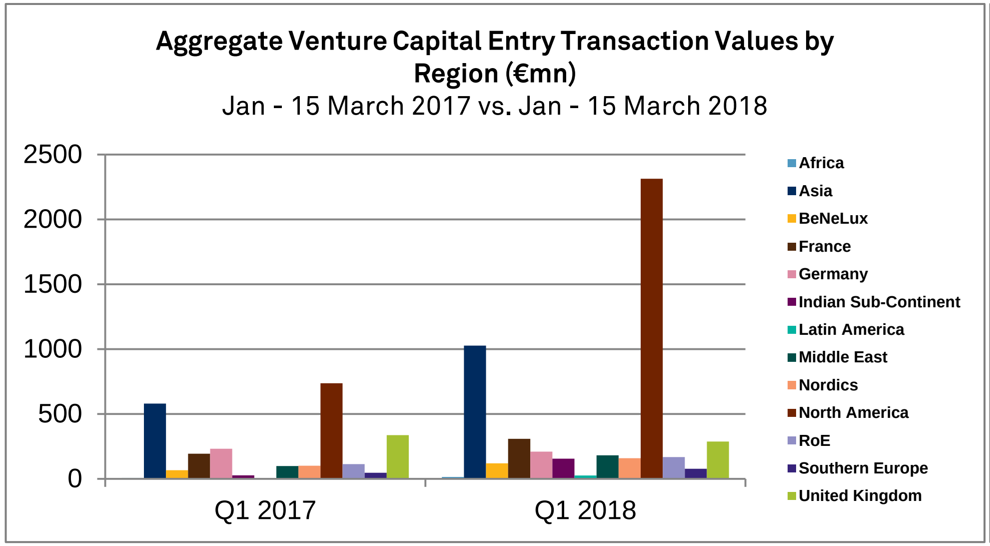
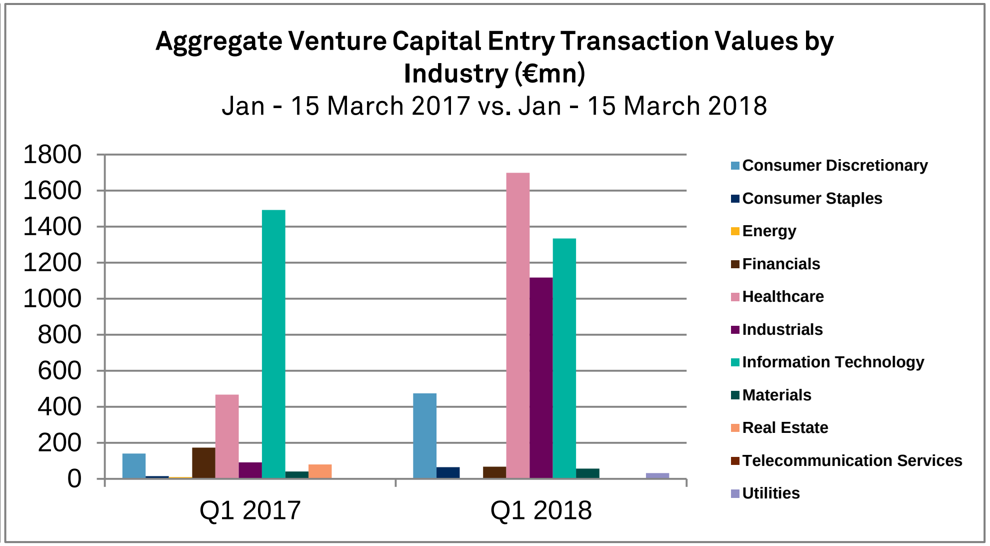
VC EMEA – Based GPs









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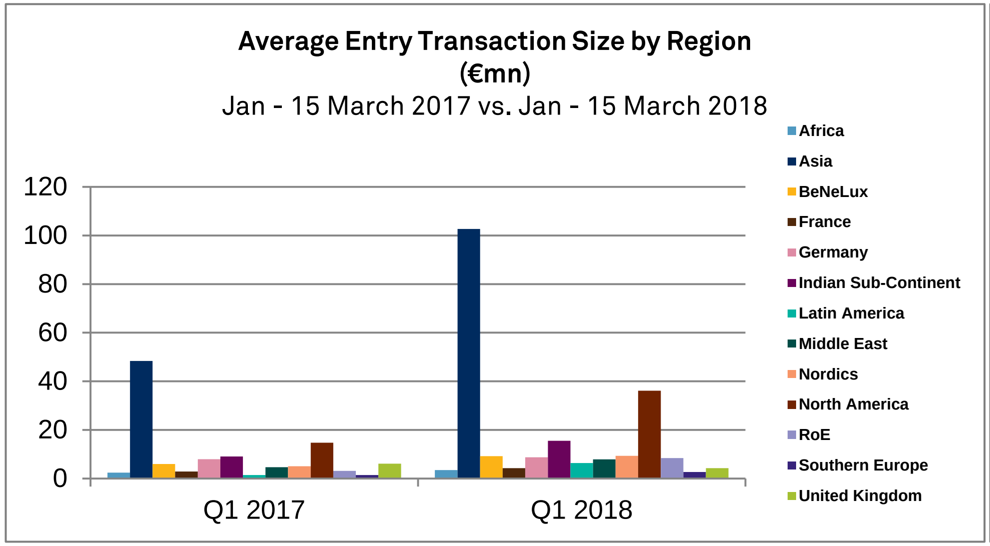
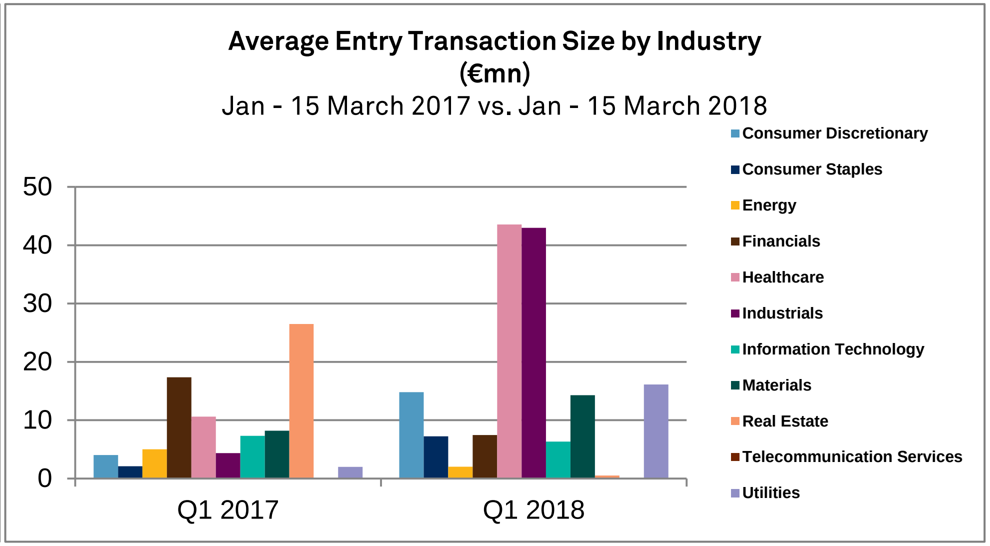
VC EMEA – Based GPs (continued)





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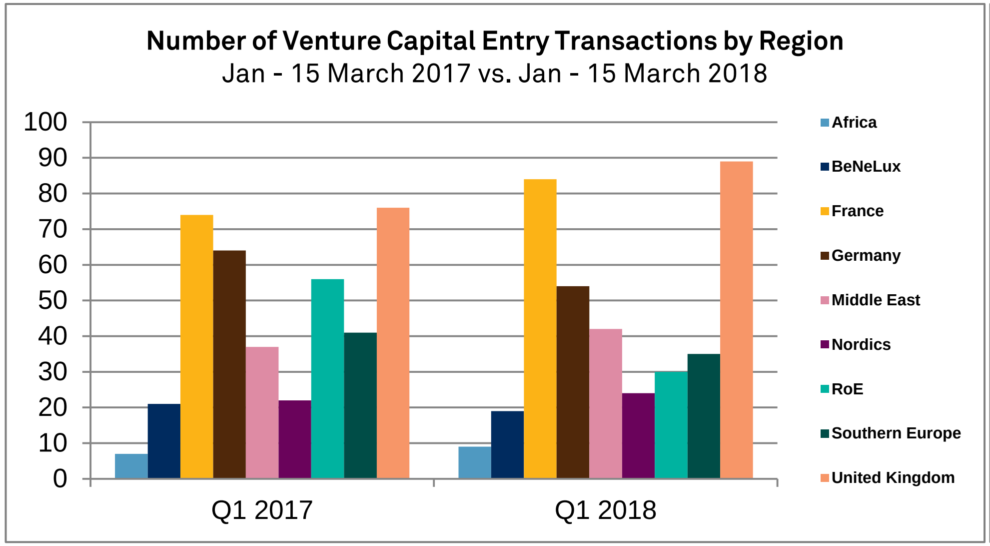
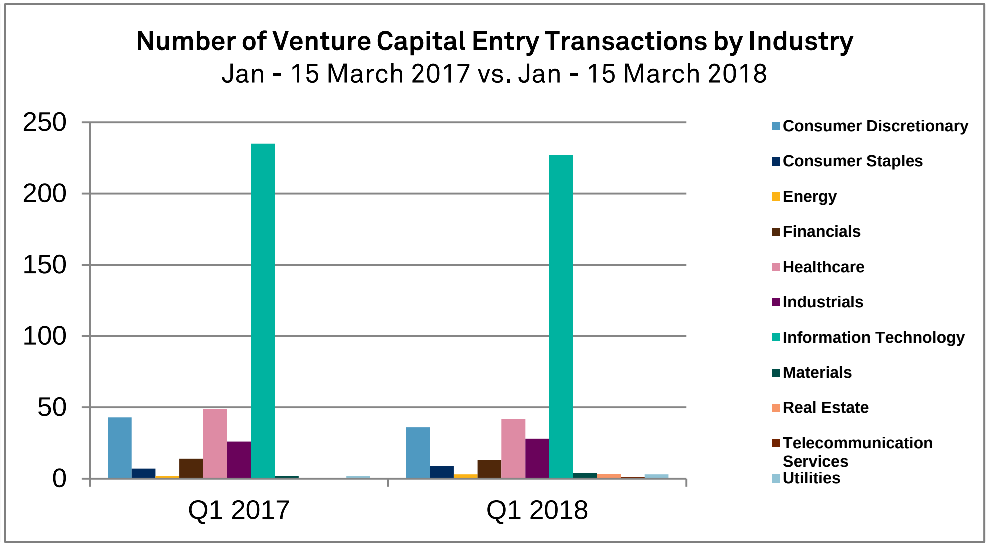
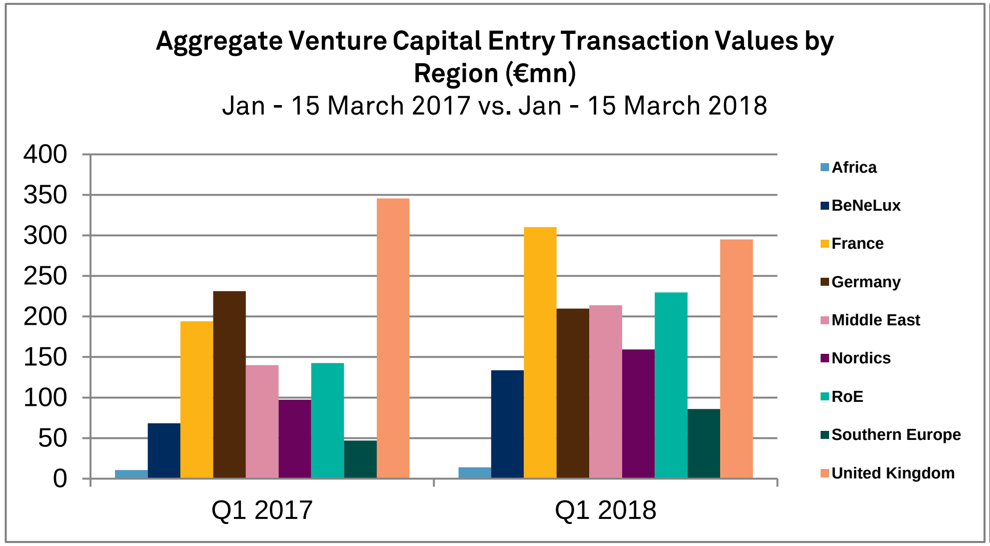
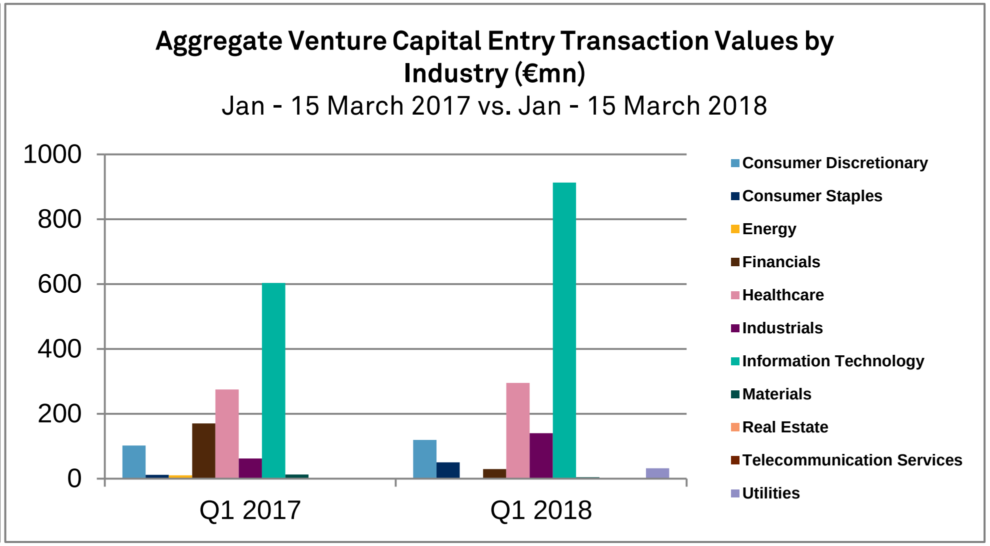
VC EMEA – Based Targets









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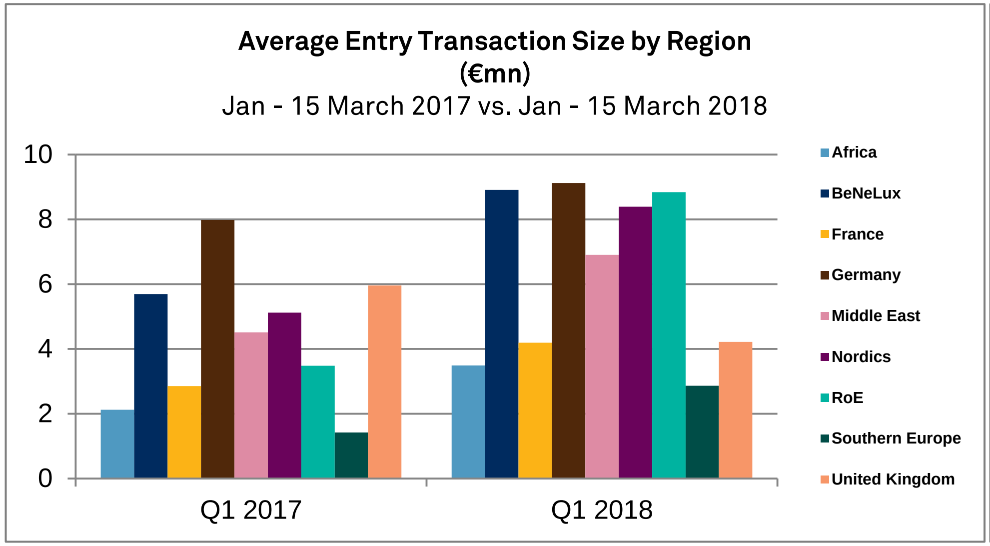
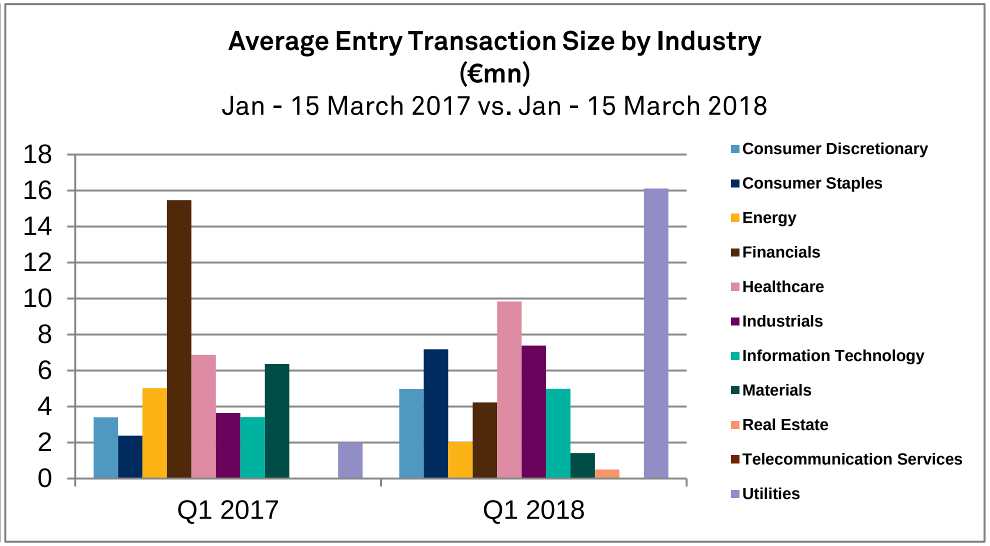
VC EMEA – Based Targets (continued)





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Multiples Table

Implied Enterprise Value/EBITDA	EMEA Private Equity Exits, 01/01/17 -15/03/18	M&A, 01/01/17 -15/03/18
Consumer Discretionary	11.7	10.2
Consumer Staples	9.5	9.7
Energy	9.5	6.5
Financials	***20.2***	***12.3***
Healthcare	15.2	13.7
Industrials	11.9	10.2
Information Technology	12.5	12.1
Materials	9.5	8.4
Telecommunication Services	10.9	8.9
Utilities	11.9	11.9
Real Estate	27.8	22.0

Implied Equity Value/LTM Net Income	EMEA Private Equity Exits, 01/01/17 -15/03/18	M&A, 01/01/17 -15/03/18
Consumer Discretionary	14.5	16.1
Consumer Staples	17.7	13.4
Energy	***21.3***	11.3
Financials	14.7	13.9
Healthcare	32.5	26.7
Industrials	18.0	15.4
Information Technology	18.4	20.7
Materials	17.2	15.0
Telecommunication Services	***23.0***	24.4
Utilities	16.8	19.1
Real Estate	14.2	15.2

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

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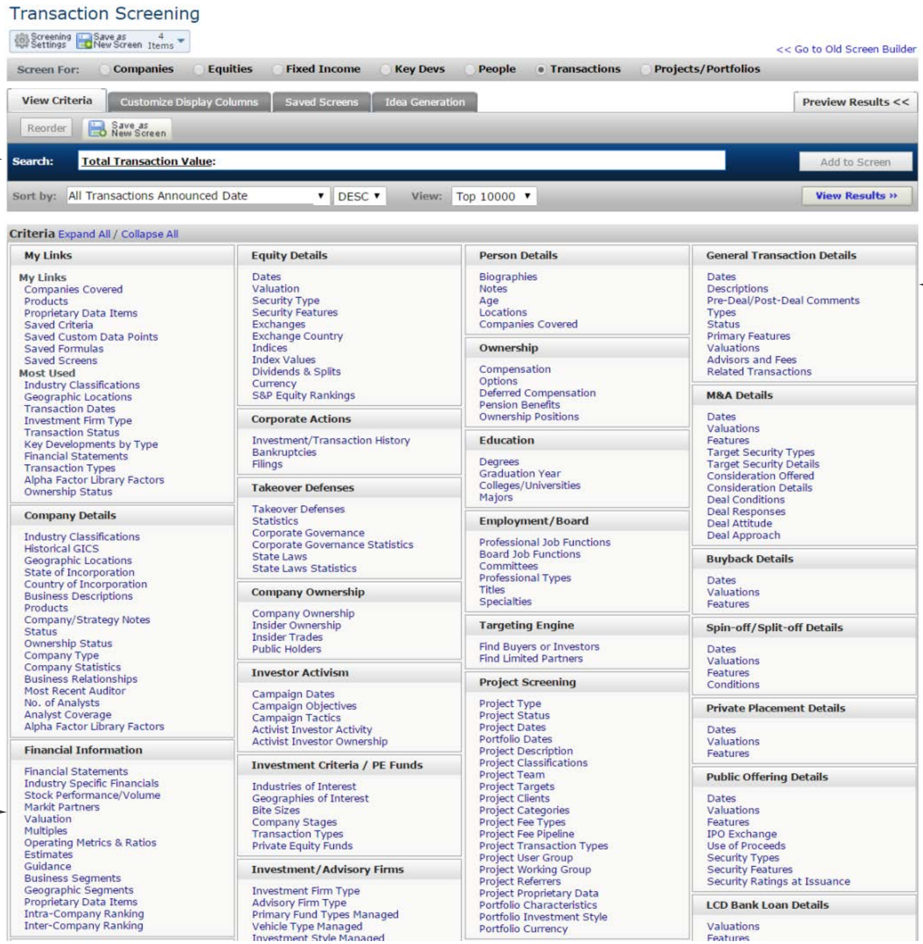

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- EMEA Becomes Increasingly Attractive to Global GPs
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- Is Investment into EMEA Running Out of Steam?
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- EMEA Emerging Markets Flourish Despite Brexit Jitters
- Specialist Mid-Market GPs Face Stiff Competition
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- UK Large Caps, UK Mid-Caps: Spot Any Difference?

Issue 12, February 2017
- EMEA Fails to Attract Global Private Equity Capital in 2016
- Russia, Czech Republic and Poland lead the way for CEE
- Real Estate and Private Equity: An Affair to Remember
- Asia-Pacific Investors favour North America over Europe

Issue 13, April 2017
- 2017: EMEA Blossoms in the Spring
- France Affected by Counterfactual Thinking?
- Global GPs Cautiously Optimistic Towards the Energy Sector
- Borrowers Hold the Upper Hand in Flooded Leveraged Loan Market

Issue 14, July 2017
- All Eyes on UK PE Targets
- Sector Selection Critical to Success in Germany and Switzerland
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- Private Equity Firms: Throwing Gas (and Oil) On A Potential Fire?

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- Lack of Brexit Clarity Fails to Stump UK Deals
- Secondary Directs – A New Rite of Passage for PE Holdings?
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