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EMEA Private Equity Market Snapshot

Essential tools for strategic decisions

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Editor's Note

Welcome to the 22nd issue of the **EMEA Private Equity Market Snapshot** (PEMS), a quarterly publication focusing on the Private Equity (PE) market in Europe, the Middle East and Africa (EMEA) from S&P Global Market Intelligence.

We open with a summary of global General Partners (GPs) investment activity in Europe, noting the dominance of PE mega-deals in the United Kingdom (UK). Next we compare cross-border and local targets for EMEA-based GPs investments.

From there we move to Italy, examining the economics behind Italy's mid-market and sector-specific PE activity. The success story of Beyond Meat forms the locus of our next section, as we analyse the rise of Venture Capital (VC) investments in the Food & Beverage (F&B) sector. Finally, we close with a feature article outlining the implications of steady 'B-' Segment growth.

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

Authors

Ilja Hauerhof

Senior Manager, Product & Market Development EMEA S&P Global Market Intelligence

Rubie Pearl Corales

Associate, Product & Market Development S&P Global Market Intelligence

Ewa Skornas

Associate, Investments Data S&P Global Market Intelligence

Diana Vazza

Managing Director, S&P Global Ratings

Nick Kraemer

Senior Director, S&P Global Ratings

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UK Powered by Mega Deals

In Q2 2019, global General Partners' (GPs') investment activity within the Europe, Middle East and Africa (EMEA) region decelerated, with the number of entry deals dropping by 18%, to 1,093 — a difference of 299 deals compared to the same quarter last year. At the same time, the number of large deals produced during the quarter – those valued at €1.0bn or more – decreased to only four deals with a total value of €11.8bn,[1] compared to seven large deals with a total value of €15.5bn in the previous period.[2] This, in turn, resulted in a 14% decline of aggregate capital deployed, from €28.6bn in 2018 to €24.5bn. On the whole, however, deal size proved robust, with the average entry deal size growing by 7% to €35.5m versus €33.3m last year.

€24.5bn
PE capital deployed in EMEA
▲▼14%

Across EMEA targets, the UK claimed the lion's share of global GPs' capital, largely boosted by two deals qualifying in the €1.0bn-plus range. These large deals involved acquisitions of equity stake in Travelport Worldwide Limited, for €3.8bn,[3] and Quadgas Midco Limited, for €2.3bn, respectively.[4] With this, investments received by UK targets soared by 70% to €9.1bn, from €5.3bn in the same period in 2018, despite a 22% decline in the number of deals. Emerging closely behind the UK, the Middle East saw €5.2bn of aggregated capital deployed; however, 67% of this value was a large deal–acquisition of 40% equity stake in ADNOC Oil Pipelines - Sole Proprietorship LLC for €3.5bn.[5] Surprisingly, only Middle East targets noted a spike in investment activity, ending the quarter with 85 deals — an 11% increase.

€9.1bn
PE capital deployed in the UK
▼▲70%

On a sector basis, Information Technology (IT) led global GPs' investment activity, comprising 40% of overall deal count within EMEA. Continuing the momentum observed in previous issues of PEMS (see Issues 20 and 21),[6] IT has cemented its place in the top spot, capturing once again a healthy chunk of global GPs' money. During the

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[1] 2019 global entry investments into EMEA-based targets in the €1.0bn+ plus bracket: Travelport Worldwide Limited, ADNOC Oil Pipelines - Sole Proprietorship LLC, Quadgas Midco Limited, and IFCO Systems B.V.

[2] 2018 global entry investments into EMEA-based targets in the €1.0bn+ plus bracket: Naturgy Energy Group, S.A., eir Limited, Refresco Group N.V., TMF Orange Holding B.V., Scandlines GmbH, Laird PLC, and IMAGINA MEDIA AUDIOVISUAL, S.L.

[3] Evergreen Coast Capital Corp., Siris Capital Group, LLC along with Elliott Funds completed the acquisition of Travelport Worldwide Limited (NYSE:TVPT) on May 30, 2019 (As of 30/06/19). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=594448897&companyId=40489588

[4] International Public Partnerships Limited (LSE:INPP) completed the acquisition of 39% stake in Quadgas Midco Limited from National Grid plc (LSE:NG.) on June 28, 2019 (As of 30/06/19). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=591763321&companyId=422811400

[5] KKR and BlackRock's infrastructure funds and financed by a syndicate of bank funded the acquisition of 40% stake in ADNOC Oil Pipelines - Sole Proprietorship LLC from ADNOC Infrastructure LLC on June 27, 2019 (As of 30/06/19). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=604183190&companyId=604171259

[6] PEMS Issue 20 (2019). S&P Global Market Intelligence. Retrieved from https://www.spglobal.com/marketintelligence/en/news-insights/research/emea-private-equity-market-snapshot-issue-20 and PEMS Issue 21 (2019). S&P Global Market Intelligence. Retrieved from https://www.spglobal.com/marketintelligence/en/news-insights/research/emea-private-equity-market-snapshot-issue-21

second quarter, aggregate capital in IT stood at €7.1bn, a 70% jump from €4.2bn in the same period in 2018. Notwithstanding the impact of the largest closed deal of the quarter, the €3.8bn acquisition of Travelport Worldwide Limited, IT still emerged as the sector capturing the biggest investment allocation.

Aggregate capital realized of global GPs' on EMEA-based targets plummeted to €19.5bn, a 70% drop compared to €62.7bn in the same period last year. Even removing the single and largest transaction of 2018, which involved the sale of Abertis Infraestructuras, S.A for €30.1bn,[7] global GPs' exit activity would still wind up with a 40% decline in aggregate capital realized, to €31.9bn. Deal count activity also crumbled with just 172 deals, a 46% drop from the previous period, or 145 fewer deals. It is worth noting that French-based targets, namely Antelliq Corporation, ParexGroup SA, and eFront S.A., dominated the notable large deals of the period.

Value Apparent in Cross-border Targets

EMEA-based GPs' global investment deals felt a 10% dip in new capital deployed, from €45.0bn in Q2 2018 to €40.6bn in Q2 2019. The number of entry deals also declined to 1,352 deals, a difference of 106 deals, representing a 7% drop from the previous period.

A closer look at the composition of EMEA-based GPs' transactions shows local targets dominating over cross-border targets, constituting more than 75% of overall deal count. However, a comparison of average entry deal size indicates that cross-border targets received an average of €85.9m, twice more than the €24.0m allocated to local targets.

Perceived value of cross-border targets to EMEA-based GPs resulted in a rise of aggregate capital deployed in these regions by 14% (from €21.9bn to €24.9bn), and a 17% growth in number of deals (from 288 in the same period in 2018 to 337). In addition, the largest deals in both periods involved cross-border targets, Ant Financial Services Group in Asia,[8] and The Ultimate Software Group, Inc. in North America.[9] Local targets, on the other hand, ended the quarter with a 32% drop in aggregate capital, from €23.1bn in 2018 to only €15.7bn, and a 13% decline in number of deals, to 1,015.

Continuing the momentum observed over the past two quarters, North American targets won the largest share in EMEA-based GPs'

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[7] HOCHTIEF Aktiengesellschaft (DB:HOT), ACS (BME:ACS) and Atlantia S.p.A. (BIT:ATL) completed the acquisition of 85.6% stake in Abertis Infraestructuras, S.A. (BME:ABE) from a group of shareholders on May 14, 2018 (As of 30/06/19). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=540980082&companyId=876861

[8] Ant Financial Services Group raised 11.4bn EUR in its series C round of funding on June 8, 2018 (As of 30/06/19). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=570221990&companyId=204862759

[9] Hellman & Friedman LLC, JMI Management, Inc., The Blackstone Group L.P. (NYSE:BX), GIC Pte. Ltd., Canada Pension Plan Investment Board, Qatar Investment Authority and other investors completed the acquisition of The Ultimate Software Group, Inc. for 9.6bn EUR on May 3, 2019 (As of 30/06/19). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=600919837&companyId=35931

investments, capturing €20.8bn across 237 deals compared to only €6.7bn across 216 deals in the same period last year. A huge component of this value was the acquisition of The Ultimate Software Group for €9.6bn.

▼ ▲ 14%

Up 14% total capital deployed in cross-border targets by EMEA-based GPs

From a sector view, EMEA-based GPs closely resembled global GPs' investment preference in the IT sector. Aggregate new money won by IT totalled €16.1bn versus €17.5bn in previous period across the same number of deals. Trailing behind was the Industrials sector, which secured €6.7bn new money across 146 deals, versus €5.6bn across 159 deals in Q2 2018.

Divestment activity of EMEA-based GPs dwindled significantly as deal count dipped by 47%, from 334 to only 176 deals in the quarter. Aggregate capital realized stood at €79.5bn; however, making up 39% of this value is a single exit deal that saw Abertis Infraestructuras, S.A. acquired for €30.7bn. After removing the outlier transaction, however, aggregate capital realized would have still plummeted more than two-fold to only €23.1bn versus €48.8bn in 2018.

A detailed look at the investment activity of EMEA-based VCs reveals a 67% surge in aggregate capital deployed globally, from only €4.6bn in Q2 2018 to €7.7bn, despite a 10% decrease in the number of deals to 734. Here also North American targets dominated, amassing more than half of the new money for a total allocation of €3.9bn across 123 deals. VCs also increased their investments in EMEA-based targets by 10% to €3.7bn compared to €3.2bn in 2018. However, the number of deals declined 21% to 589, a difference of 154 deals versus the previous period. Surprisingly, global VCs invested heavily in Nordic targets, with aggregate capital deployed in this region soaring by 58% to €1.1bn, compared to €299.7m in 2018. A €883.5m[10] deal involving Northvold AB's equity round of funding was a significant factor in this increase.

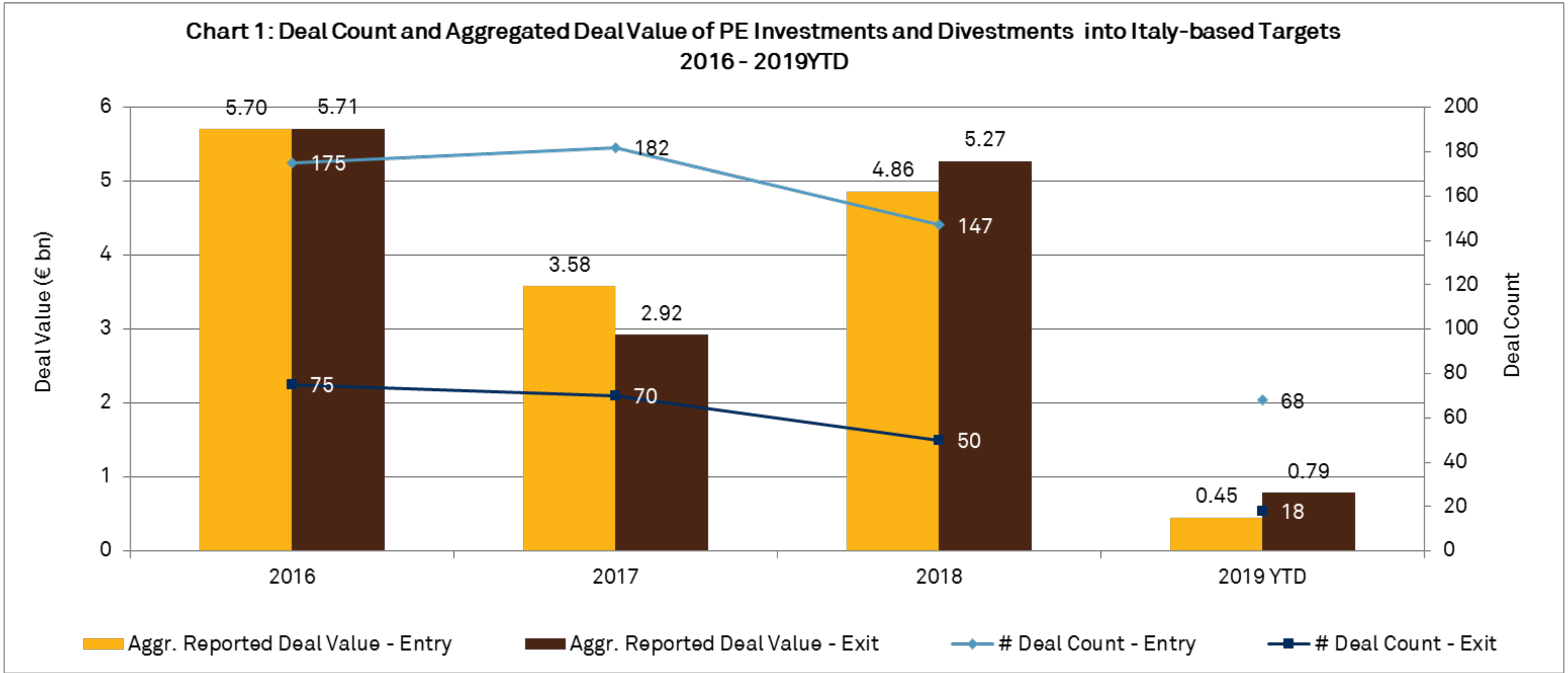
Lower Mid-market Deals Dominate Italy's PE Activity

In March 2019, Cassa depositi e prestiti S.p.A (CDP Group),[11] Italy's state-owned development finance institution, announced plans to deploy €83bn of capital to the Corporate sector in the next three years. In 2018, the institution supported enterprises through loans, investments and guarantees worth €30.2 billion and, through its activity, attracted €27 billion of additional resources from private investors and other institutions.[12]

[10] Northvolt AB announced that it has received $1,000 million in an equity round of funding co-led by Volkswagen AG (XTRA:VOW3) and Goldman Sachs Group, Merchant Banking Division on June 12, 2019 (As of 30/06/19). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=620791645&companyId=538140824

[11] Cassa depositi e prestiti S.p.A. (As of 02/07/2019) S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/company/tearsheet.aspx?companyId=20459667

[12] Cassa depositi e prestiti S.p.A Draft Financial Statement. Retrieved from https://www.cdp.it/sitointernet/page/en/cdp_net_income_2018_up_to_25_billion_cdp_group_36_billion_euro_of_new_lending_and_63_billion_euro_of_activated_investments_to_support_enterprises_infrastructures_and_local_areas?contentId=CSA21024



Data as of 30/06/19. Source: S&P Global Market Intelligence. For illustrative purposes only.

The announcement provides some reassurance to the private sector at a time when economists are predicting the country will fall into a "perma-recession" in the short- to medium-term. [13]

The country's real Gross Domestic Product (GDP) grew by only 0.73% in 2018 and fell by 0.1% in Q1 2019. On the other hand, public debt/GDP increased by 0.97% to 132.18% in 2018, to make it the second highest in the Eurozone after Greece. [14] In such uncertain times, sustaining a healthy inflow of new money from local and foreign investors to the

[13] "Italy's 'perma-recession' could trigger a €2 trillion financial crisis that threatens the eurozone itself." Business Insider (As of 02/07/2019) Retrieved from https://www.businessinsider.com/italy-perma-recession-systemic-crisis-threatens-eurozone-2019-4

[14] Macroeconomics data (As of 02/07/2019) S&P Global Market Intelligence. Retrieved from https://platform.marketintelligence.spglobal.com/web/client?auth=inherit#country/economicDemographic?keycountry=IT; Eurostat (As of 2/7/2019). Retrieved from https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=teina225&plugin=1

private sector could prove pivotal for the fourth largest economy in the Eurozone.

Over the study period (January 1, 2016 - June 30, 2019), Italian companies collectively attracted €14.6bn of global GPs' capital across 572 entry deals.[15] This puts Italy in fifth place in Europe, just behind Spain, who attracted approximately €17.5bn across 694 deals over the same period.

Characteristically, the majority of PE deals in Italy during our study period fell into the lower mid-market range of <€50m (220 out of 572 total deals). Notably, the average deal size in this range increased from €4.86m in 2017 to €7.23m in 2018.

Overall, there were only three reported mega deals north of €1bn across the study period, one in each year. In 2016, InvestIndustrial acquired Artsan S.p.A for a reported €1.2bn.[16] In 2017, Allianz Capital Partners, DIF and Silk Road Fund acquired Autostrade per l'Italia SpA for a reported €1.5bn[17] and, in 2018, a consortium led by CVC Capital Partners acquired Fimei - Finanziaria Industriale Mobiliare ed Immobiliare S.P.A., a pharmaceutical holding company, in a deal worth €3bn.[18] Removing the mega-deals from the equation, however, puts a different light on the PE entry activity into Italy's market. The data reveals a steadily declining aggregate deal value over the observed period and a sharp fall in average reported deal sizes across all deals, from €20.2m in 2016 to just €12.4m in 2018.

Table 1: Entry Deal Count and Value by Size

	2016	2017	2018	2019 YTD	Grand Total
Lower Mid-Market	Entry deal with values between €0 to €50m				
Deal Count	83	82	55	23	**243**
Aggr. Deal Value	€ 412.7	€ 398.4	€ 397.9	€ 157.0	**€ 1,366.0**
Middle Mid-Market	Values between €50 - €500m				
Deal Count	11	8	10	2	**31**
Aggr. Deal Value	€ 2,033.6	€ 1,161.6	€ 1,430.7	€ 296.4	**€ 4,922.3**
Upper Mid-Market	Entry deal with values between €500m - €1bn				
Deal Count	3	1	-	-	**4**
Aggr. Deal Value	€ 2,056.6	€ 520.0	-	-	**€ 2,576.6**
Mega Deal	Entry deal with values greater than €1bn				
Deal Count	1	1	1	-	**3**
Aggr. Deal Value	€ 1,200.0	€ 1,500.0	€ 3,030.0	-	**€ 5,730.0**
Not Disclosed	Deal value not reported				
Deal Count	77	90	81	43	**291**
Aggr. Deal Value	n/a	n/a	n/a	n/a	**n/a**
Total Count	175	182	147	68	**572**
Total Deal Value	**€ 5,702.9**	**€ 3,580.0**	**€ 4,858.6**	**€ 453.4**	**€ 14,594.8**

Data as of 30/06/19. Source: S&P Global Market Intelligence. For illustrative purposes only.

[15]Real Estate and Infrastructure asset deals were excluded from the screening.
[16]Artsan S.p.A (As of 02/07/2019) S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=330870037&companyId=8141861
[17]Autostrade per l'Italia SpA (As of 02/07/2019) S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=429050934&companyId=10405454
[18]Fimei - Finanziaria Industriale Mobiliare ed Immobiliare S.P.A. (As of 02/07/2019) S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=572482617&companyId=12917162

Based on recent figures, 2019 is off to a slower start on entry deal activity compared to the same period last year. In the first two quarters of the year, 68 closed entry deals with €453.3m of total GP capital deployed stand against 78 closed deals and €1.3bn the year before. However, the pipeline of announced PE- backed deals would add another €1.37bn to the balance sheet, and actually surpass the deal activity for the first three quarters of last year. Much depends on the regulatory approval of the acquisition of Forgital Italy S.p.A. (Diversified Metals and Mining) by The Carlyle Group L.P. (NasdaqGS:CG) from the Spezzapria family and Fondo Italiano d'Investimento for approximately €1bn.[19] If approved, this would mark the largest reported deal for Carlyle in Italy since the acquisition of Avio SpA in 2003 for €1.5bn (sold three years later for €2.4bn) and would represent a good return for the earlier mentioned CDP Group, who is a Limited Partner of Fondo Italiano d'Investimento. It appears that the U.S. PE giant is betting big on Italy, with the additional acquisition of Golden Goose Srl,[20] Irca S.p.A. and the creation of an interior design group in partnership with Investindustria, all of which took place in the past two and a half years. The timing could just be right as the country's family-owned businesses look to cash in on today's high valuations — and on the back of the struggling national economy.[21]

Industrials Sector Dominates Italy's PE Selling Activity

Across the study period, the Industrials sector leads the way in terms of exit value and number of deals accrued, followed by Consumer Discretionary and Materials. Every third PE exit deal in 2018 and every second deal in the first two quarters of 2019 can be pinned to the Industrials sector. In particular, the Industrial Machinery sub-sector has been dominated constant in both deal count and value over the past six quarters, with 12 exit deals worth €1.09bn out of a total 24 deals ($4.2bn) within the Industrials sector as a whole.[22]

Table 2: Italy's Industrial Machinery PE Backed and Independent Private Companies

	Count of Total Revenue 2017 (€m)						
	Undisclosed	**< €50m**	**€50-150m**	**€150-300m**	**€300-500m**	**> €500m**	**Grand Total**
Independent Corporation	1109	1563	74	11	2	2	**2761**
Sponsor Backed	57	57	20	1	2		**137**
Grand Total	**1166**	**1620**	**94**	**12**	**4**	**2**	**2898**

Data as of 30/06/19. Source: S&P Global Market Intelligence. For illustrative purposes only.

[19] Forgital Italy S.p.A. (As of 02/07/2019) S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=616267921&companyId=5722303

[20] Golden Goose Srl (As of 02/07/2019) S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=418984831&companyId=268829476

[21] "Carlyle Foresees Record Year for Deals in Italy." (As of 02/07/2019) Business Insider. Retrieved from https://www.businessinsider.com/italy-perma-recession-systemic-crisis-threatens-eurozone-2019-4

[22] Not considering Nuovo Trasporto Viaggiatori S.p.A. mega-deal in the Railroad sub-sector. Global Infrastructure Partners acquired the company for a reported €2.65bn. (As of 02/07/2019) S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=551897601&companyId=46894753

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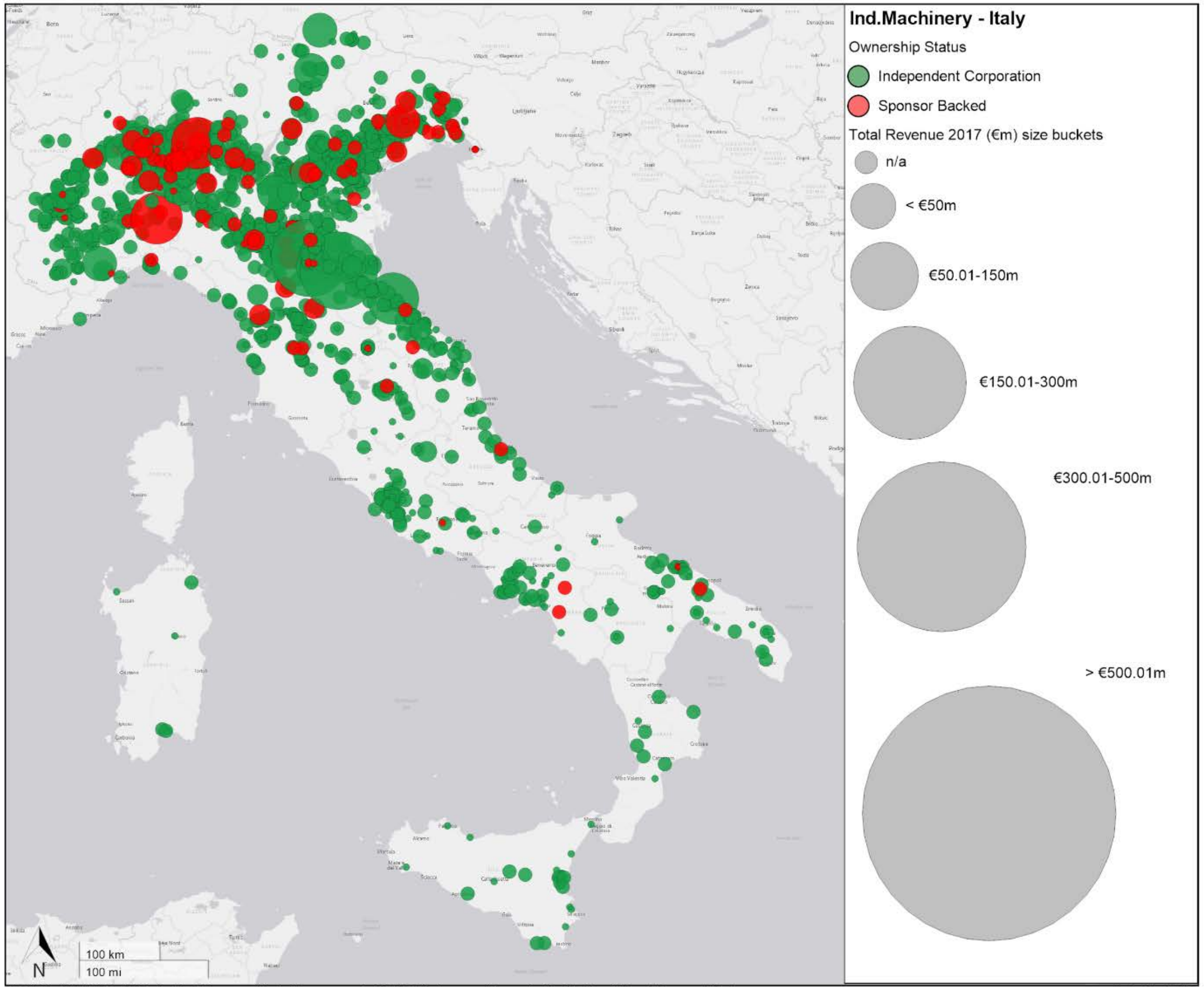
Figure 1: Italy's Industrial Machinery Landscape



 July 05, 2019

A geospatial analysis (Figure 1) of Italy's Industrial Machinery sub-sector reveals that there are 137 sponsor-backed (red bubble) and 2761 independent corporations (green bubble) active in the market at the present time. Breaking it down further by revenue buckets for FY 2017, the majority of PE-backed firms (57) reported a revenue below €50m, while only two PE-backed firms operate in the €300-500m bucket, and none above that. One of the larger PE-backed firms is Valvitalia,[23] where CDP Equity (previously Fondo Strategico Italiano), the investment arm of CDP Group, owns a 49.5% stake in the firm. The other firm of note is Evoca S.p.A, acquired in early 2016 by the U.S.-based Lone Star Funds from Equistone Partners Europe and Investcorp Bank B.S.C. (BAX:INVCORP).[24]

The geospatial view also reveals a heavy concentration of PE investment activity in Industrial Machinery in northern and northeastern Italy (Milan and Pordenone, respectively), as well as numerous larger independent corporations north and south of Bologna and the Naples region.

In summary, Italy's PE market has proven to be very active despite the uncertainties around the country's economic outlook. Major global and regional PE and governmental institutions are keeping their eyes on the ball when it comes to spotting selective investment opportunities and

[23] Valvitalia SpA (As of 02/07/2019) S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/company.aspx?leftlink=true&companyId=13449255

[24] Evoca S.p.A. (As of 02/07/2019) S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=326305047&companyId=3609112

supporting local private corporations with fresh capital. Based on the pipeline of announced deals, 2019 is on track to match the results of the previous year but it remains to be seen whether it can excel beyond that or will remain in a steady state.

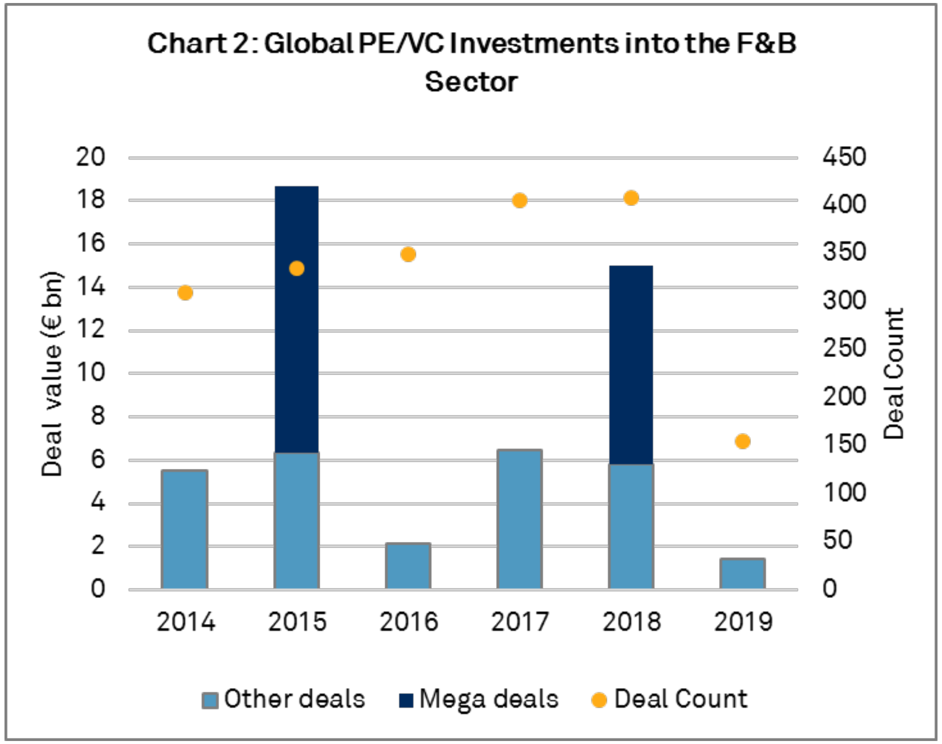
Can the Success Story of Beyond Meat Spark New Investments into the F&B Sector?

Beyond Meat (NASDAQ:BYND)[25] made headlines on the day of its debut on the stock exchange after the company more than doubled its initial price offering set at $25 per share. Following its striking listing-day performance, the company's shares continued to soar, making the California-based company the best performing stock among companies that floated earlier this year.[26]

Before the plant-meat producer went public, it had received several rounds of funding from VC investors, including Kleiner Perkins, Bill Gates, Cleveland Avenue and Tyson Ventures, to name a few.

According to S&P Global Market Intelligence data, from January 2014 to May 31, 2019, total capital deployed to the F&B industry by global GPs totalled €49bn across 1,961 deals.

2015 and 2017 saw capital investments hit €18.6bn and €15bn respectively, way above the 2014-2018 average. The elevated PE activity was largely attributable to two mega deals[27] constituting almost 64% of total capital allocation in both years. Excluding those mega deals, capital invested into the F&B industry presents a relatively stable trend, with aggregate investment values at around €6bn. An exception to that trend was the year 2016, where deal value hit a ten-year low, slumping below the €3bn mark. At the same time, deal count grew steadily year-on-year, from 309 deals in 2014 to 408 in 2018.



Data as of 30/06/19. Source: S&P Global Market Intelligence. For illustrative purposes only.

In the first five months of this year, €1.4bn was deployed into the sector across 155 deals, slightly below the previous four-year average observed in the same period. The largest funding this year was a

[25] Beyond Meat (NASDAQ:BYND) (As of 31/05/2019). S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/company.aspx?companyId=222996066

[26] "Beyond Meat racks up a whopper of a return among 2019 floats" (As of 02/07/2019). Financial Times. Retrieved from https://www.ft.com/content/f1b10b2a-8de5-11e9-a1c1-51bf8f989972

[27] Mega deal is considered to be €1 billion or more in value

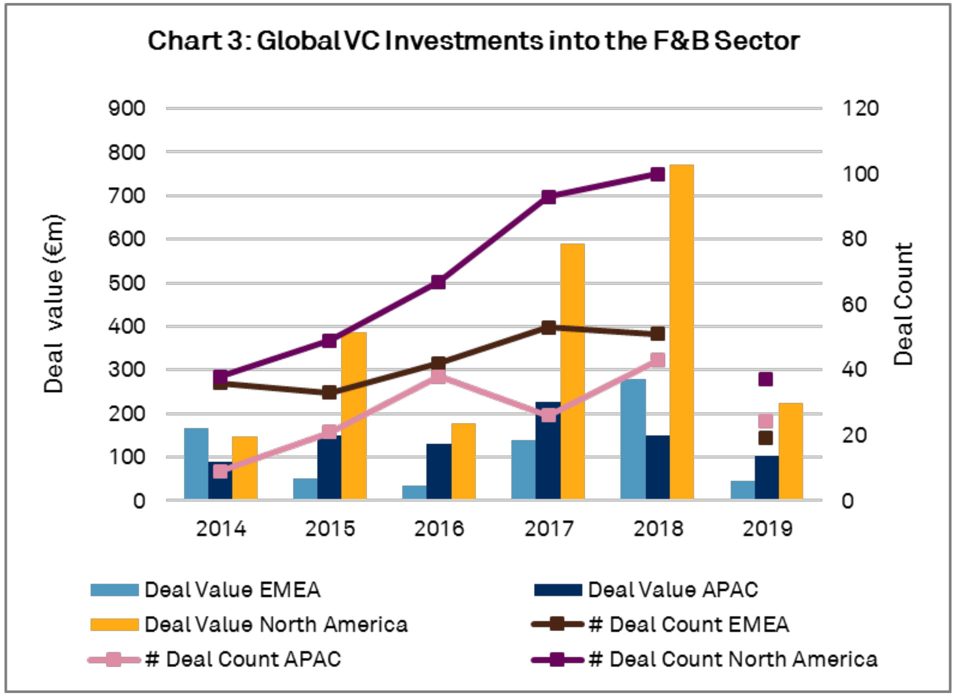
£267m Series E investment into the U.S.-based company Impossible Foods, Inc.[28]

On a regional basis, EMEA was the most targeted region, with a total deal value netting €22.3bn, followed by North America and Asia Pacific (APAC) with €16.1bn and €9.3bn, respectively. 2018 was a particularly exceptional year for EMEA-based targets; they amassed over €10.7bn and accounted for 71% of aggregate deal value, leaving other regions far behind. Two mega-deals worth a combined €9bn helped boost deal value in EMEA by almost 282% on the previous four-year average. The deals included a €6.8bn carve-out of Upfield Foods[29] and a €2.4bn acquisition of Refresco Group N.V., [30] bought by a consortium comprising PAI Partners SAS and British Columbia Investment Management Corporation. On a deal count allocation basis, North America overtook slightly EMEA, capturing 41% of overall investment activity (815 deals), while EMEA targets accounted for 37% (738 deals) and APAC for 19% (375 deals) of all PE transactions globally.

Looking closer at the breakdown of PE investments into EMEA alone, our data shows that the Netherlands took the largest share: 42% of total deal value (€9.5bn). The UK and France round out the top three of the most attractive destinations, making up 22% (€5bn) and 8% (€2bn), respectively.

VC Investments into F&B Sector Accelerate

The overall steady increase in the number of PE investments into the F&B industry appears to be driven by start-ups and early venture investments. With the shift in consumer preferences toward healthy and sustainable food and beverage options, investors have increasingly turned their attention to emerging brands.



Data as of 30/06/19. Source: S&P Global Market Intelligence. For illustrative purposes only.

Between 2014 and 2018, VC deal count grew 2.3x, while capital invested increased by an annual compound growth rate (CAGR) of 31%,

[28]Impossible Foods, Inc. (As of 31/5/2019), S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/transactionDetail.aspx?transactionId=613260487&companyId=274591496

[29] Upfield Foods. (As of 31/5/2019), S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=546954145&companyId=546954102

[30] Refresco Group N.V. (As of 31/5/2019), S&P Capital IQ Platform. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=539399388&companyId=531693

reaching a record high in 2018 of €1.2bn. U.S.-based companies dominated the VC landscape and captured 60% share of total deal value and 40% of total deal count. To put this disproportion into context, in 2018 almost 2x more capital was deployed to U.S. targets than to EMEA and APAC combined.

Surprisingly, VC Investments into EMEA's F&B sector lag behind, representing roughly 18% of aggregate deal value across the study period, which places the region behind APAC (21%) in spite of higher count of closed transactions (234 versus 161). It is worth noting that in 2018 EMEA targets received €279.5m, up 100% from the 2017 total (€138.5m).

In the first five months of this year, VC investment activity into the F&B sector amounted to €398m across 81 deals — an increase of 14% over the same period in 2018 in terms of both deal value and deal count, and likely indicating a bumper year for VC investments.

Exit Activity Slows Down in 2018

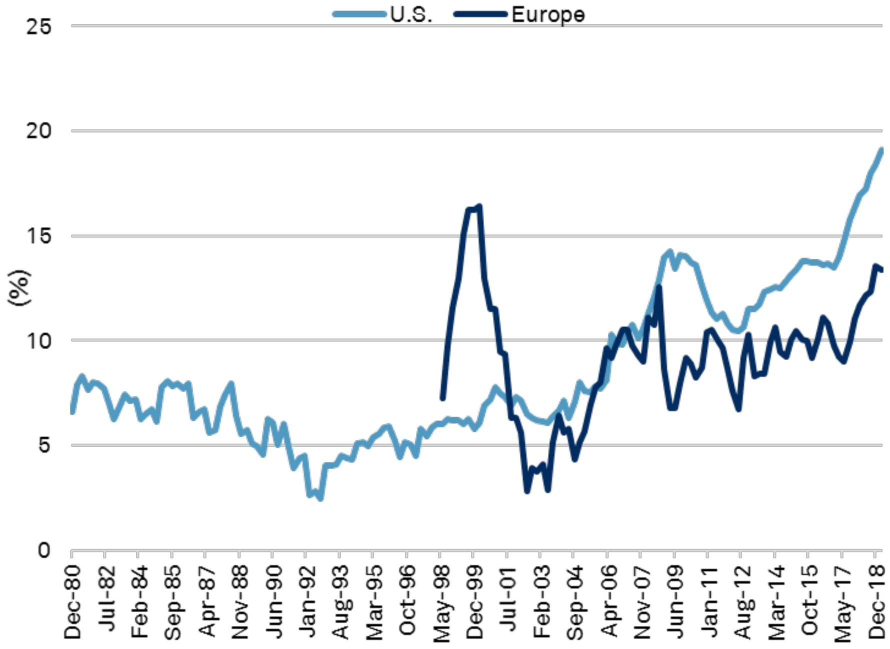
While PE entry deal-making activity in the F&B sector displays an upward trend, exits have been on a gradual decline since 2015. Seventy-eight exits were recorded in 2018, down 40% from the previous year, bringing the total capital realized from €21bn to €12.3bn, the lowest value during the five-year study. North America took the largest chunk of it at €10.bn, with APAC and EMEA reporting €1.2bn and €1bn, respectively.

Initial Public Offering (IPO) as an exit method for targets within the F&B industry also declined. Three sponsor-backed IPOs were recorded in 2018, compared to 18 in 2015 — the peak during the study period. This gradual downward shift may, however, be reversing. The period from January 1 to May 31, 2019, saw four sponsor-backed IPOs, including Beyond Meat, which itself appears to be the first sponsor-backed IPO of a company operating in the F&B industry in the U.S. since 2016. Given investors' interest, it is possible that the company may have paved the way for a surge of IPOs in the alternative food industry in the near future.

FEATURE ARTICLE

Tread Carefully: Growth of 'B-' Segment Feeds Building Vulnerabilities

Chart 4: Share Of 'B-' Issuers Has Taken Off In Recent Years



'B-' as a share of total speculative-grade. Source: S&P Global Fixed Income Research; S&P Global Market Intelligence's CreditPro®

Key Takeaways

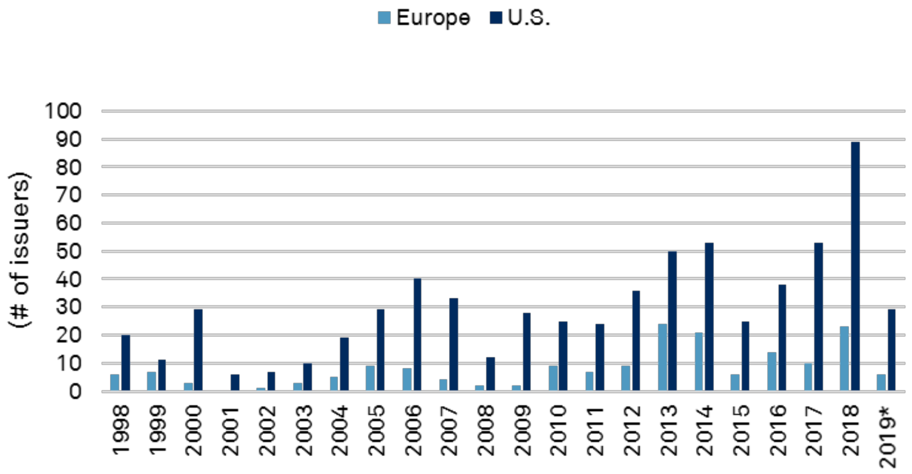
- The proportion of speculative-grade issuers rated 'B-' in both the U.S. and Europe has risen markedly since the start of 2017, reaching an all-time high of 19% in the U.S. at the end of the first quarter of 2019.
- The current populations of 'B-' issuers in the two regions are heavily represented by a handful of sectors, with High Tech leading in the U.S., and Consumer Products in Europe.
- For Collateralized Loan Obligations (CLOs), 'B-' credits are a potential cause of concern in the event of a wave of downgrades or defaults. Even in relatively benign environments, 'B-' issuers see comparably high credit deterioration relative to the overall speculative-grade market.
- Though our default outlook is now historically benign, some stressors exist and past cycles of 'B-' credit deterioration have been particularly severe over a 12-month time frame, reaching between 40% and 50% in both regions during the financial crisis.

'B-' Segment Sees Stellar Growth in Recent Years

The current size of the 'B-' population in developed markets has reached recent levels in part due to downgrades. Across the globe, low interest rates after the financial crisis have allowed already leveraged companies to take on more debt relatively cheaply. But the growth of new issuers with an initial 'B-' rating has also been remarkable in recent years (see Chart 5). This was especially the case in the U.S. during 2018, when 81 issuers received their first ratings (along with another eight which re-emerged from prior defaults). Nearly half of these first-time issuers were from the High Tech and Healthcare sectors, with the largest subsectors being Software and Services Providers in High Tech, as well as Healthcare Services Companies (as opposed to Pharmaceutical and Equipment Companies) within the Healthcare sector.

And there is no sign of this stopping. Though not on track to reach 2018's levels, the number of new issuers with a 'B-' rating in 2019 is on pace to reach nearly 70 by year end.

Chart 5: New 'B-' Issuers Took Off After Oil Shock Lull

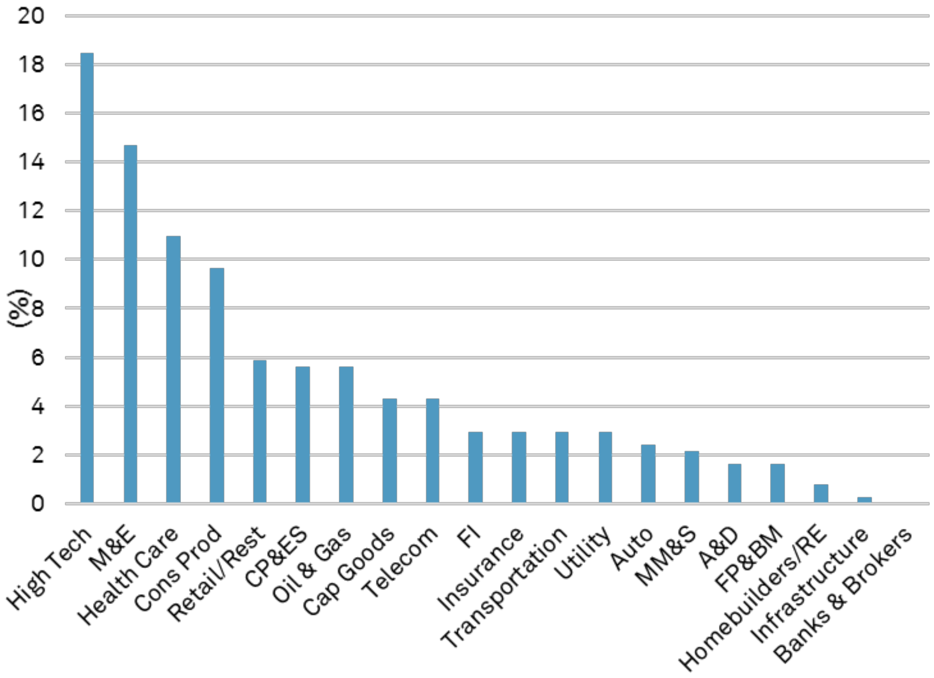


*Through May 31. Source: S&P Global Fixed Income Research; S&P Global Market Intelligence's CreditPro®

Within both the U.S. and Europe, the majority of the current 'B-' populations are represented by a handful of industries. In the U.S., the High Tech, Media and Entertainment, Healthcare, and Consumer Products sectors together account for over 50% of all U.S.-based 'B-' issuers. If we include the somewhat beleaguered Retail/Restaurants and Oil and Gas sectors, this figure jumps to nearly two-thirds of the total (see Chart 6).

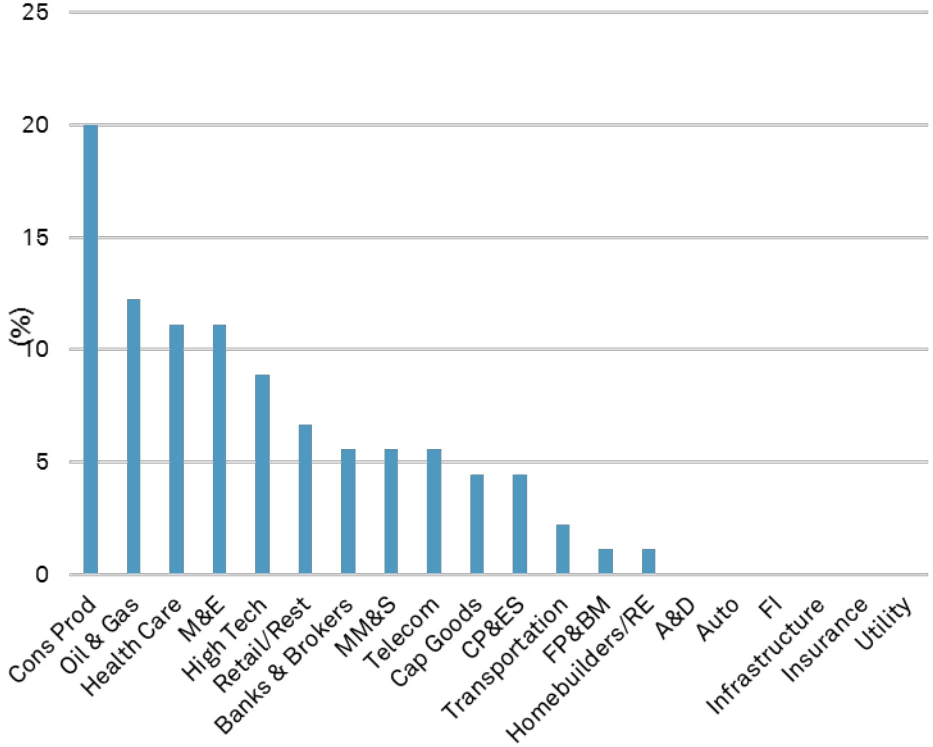
Meanwhile, in Europe, Consumer Products alone accounts for 20% of the 'B-' population. That sector, when combined with Oil and Gas, Healthcare, and Media and Entertainment, accounts for over 54% of the region's 'B-' issuers (see Chart 7).

Chart 6: Four Sectors Account For Over 50% Of U.S. 'B-' Population



Auto = Automotive; Cap Goods = Capital Goods; CP&ES = Chemicals, Packaging & Environmental Services; Cons Prod = Consumer Products; FI = Financial Institutions; FP&BM = Forest Products & Building Materials; High Tech = High Technology; Homebuilders/RE = Homebuilders/Real Estate; M&E = Media & Entertainment; MM&S = Metals, Mining, & Steel; Retail/Rest = Retail/Restaurants; Telecom = Telecommunications. Source: S&P Global Fixed Income Research; S&P Global Market Intelligence's CreditPro®

Chart 7: Six Sectors In Europe Have No Issuers Rated 'B-'



Auto = Automotive; Cap Goods = Capital Goods; CP&ES = Chemicals, Packaging & Environmental Services; Cons Prod = Consumer Products; FI = Financial Institutions; FP&BM = Forest Products & Building Materials; High Tech = High Technology; Homebuilders/RE = Homebuilders/Real Estate; M&E = Media & Entertainment; MM&S = Metals, Mining, & Steel; Retail/Rest = Retail/Restaurants; Telecom = Telecommunications. Source: S&P Global Fixed Income Research; S&P Global Market Intelligence's CreditPro®

In both regions, Consumer Products, Healthcare, Media and Entertainment, and High Tech feature at the top of the list of sectors dominating the 'B-' population. Consumer Products (and Retail/Restaurants), as well as Media and Entertainment are sectors that have typically had a median rating within the 'B' category, so are neither new entrants in this rating level, nor unfamiliar with periods of high default rates.

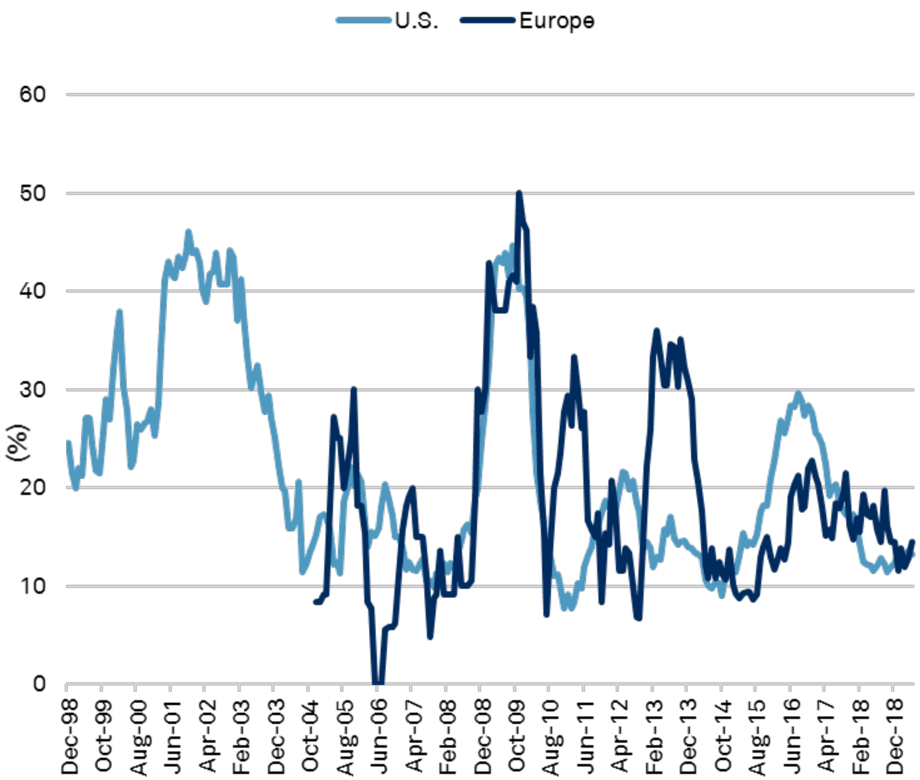
Healthcare and High Tech did see a prior cycle of boom and bust in the late 1990s through the peak default rate in 2000-2001, but have seen relatively few defaults after the dot-com bubble. That said, their recent growth of speculative-grade new issuers has been quick, with many starting out in the 'B' category.

Past Experience Portends a Harsh Future If Stress Grows

An analysis of S&P Global Rating's long-term transition rates shows that as ratings decline, rating stability declines as well. Downgrade and default rates tend to increase with lower ratings, and the gap between subsequent ratings increases noticeably once into the 'B' rating category. This becomes especially evident within the 'B' category as well. Because there is a growing concern (particularly among CLO investors and managers) over not only increased default potential with a rising proportion of 'B-' issuers, but also over increased downgrades, we examined the overall track record of 'B-' credit deterioration (see Chart 8).

With both the U.S. and Europe, the 'B-' segment displays consistently high rates of downgrades and defaults. Even in more benign periods, this combined default and downgrade rate still stays at about a 10% minimum in the U.S. and Europe. In comparison to the overall speculative-grade segments in both regions, 'B-' issuers in the U.S. have an average overall credit deterioration rate that is 4.4% higher since 1998, while those in Europe are typically 3.1% higher since 2004.

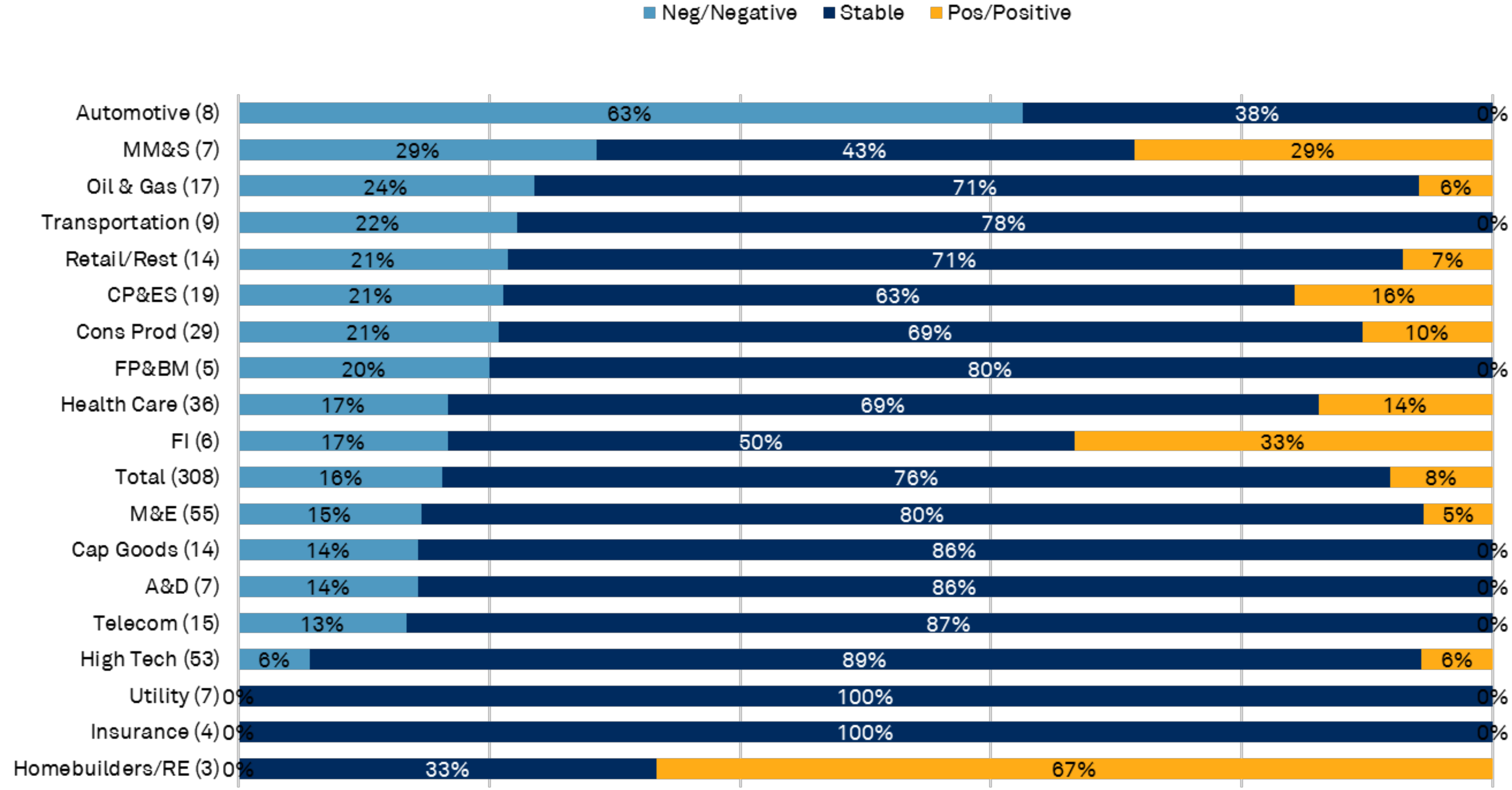
Chart 8: 'B-' Is Particularly Likely To See Amplified Credit Deterioration



Downgrades + defaults, as a percentage of the issuer base, on a trailing 12-month basis. Source: S&P Global Fixed Income Research; S&P Global Market Intelligence's CreditPro®

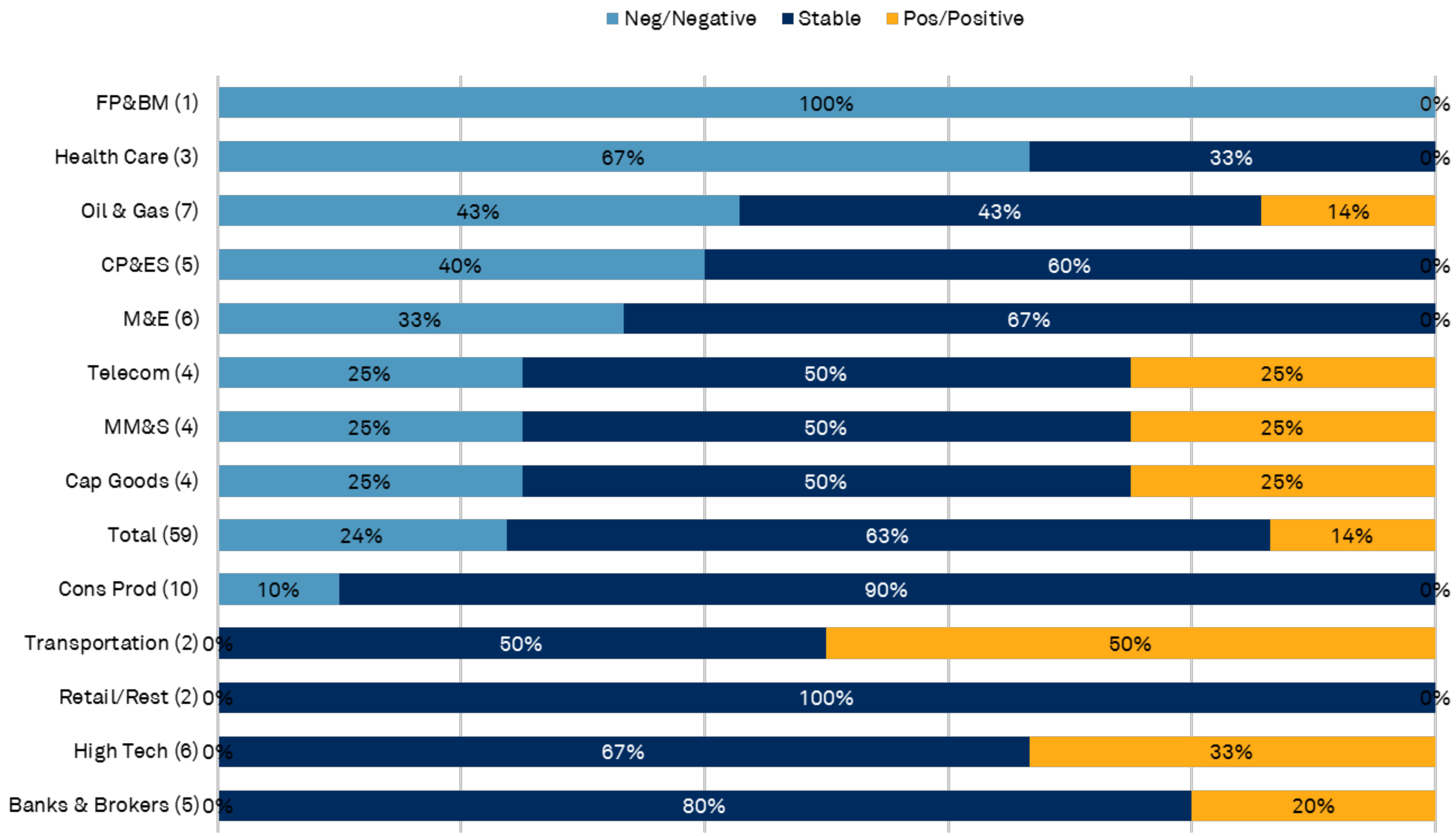
Currently, the credit outlook is relatively favorable, at least in the U.S. The current negative bias, which we define as the percentage of issuers with a negative Outlook or CreditWatch, is 16% for the U.S.

Chart 9: Rising Trade Tensions Weigh On U.S. Automotive Sector



Numbers in parentheses indicate issuer count, parents only. Auto = Automotive; Cap Goods = Capital Goods; CP&ES = Chemicals, Packaging & Environmental Services; Cons Prod = Consumer Products; FI = Financial Institutions; FP&BM = Forest Products & Building Materials; High Tech = High Technology; Homebuilders/RE = Homebuilders/Real Estate; M&E = Media & Entertainment; MM&S = Metals, Mining, & Steel; Retail/Rest = Retail/Restaurants; Telecom = Telecommunications. Source: S&P Global Fixed Income Research.

Chart 9: Negative Bias In Europe Is Higher Than In The U.S. Despite Low Borrowing Costs



Numbers in parentheses indicate issuer count, parents only. Auto = Automotive; Cap Goods = Capital Goods; CP&ES = Chemicals, Packaging & Environmental Services; Cons Prod = Consumer Products; FI = Financial Institutions; FP&BM = Forest Products & Building Materials; High Tech = High Technology; Homebuilders/RE = Homebuilders/Real Estate; M&E = Media & Entertainment; MM&S = Metals, Mining, & Steel; Retail/Rest = Retail/Restaurants; Telecom = Telecommunications. Source: S&P Global Fixed Income Research.

‘B-’ population (see Chart 9). In Europe it is a bit higher, at 24% (see Chart 10), as investors have been more selective in their search for yield recently, despite many sovereign yields now in negative territory. Rising trade tensions have started to weigh on certain sectors as well, like Automotive.

For the most part, sectors with a negative bias higher than the overall ‘B-’ population appear to be smaller ones, or sectors that also have a positive bias higher than the overall level. In both the U.S. and Europe, the Oil and Gas sector has a higher likelihood of increased downgrades, largely the result of persistently low oil prices, which are squeezing many smaller companies’ operating margins.

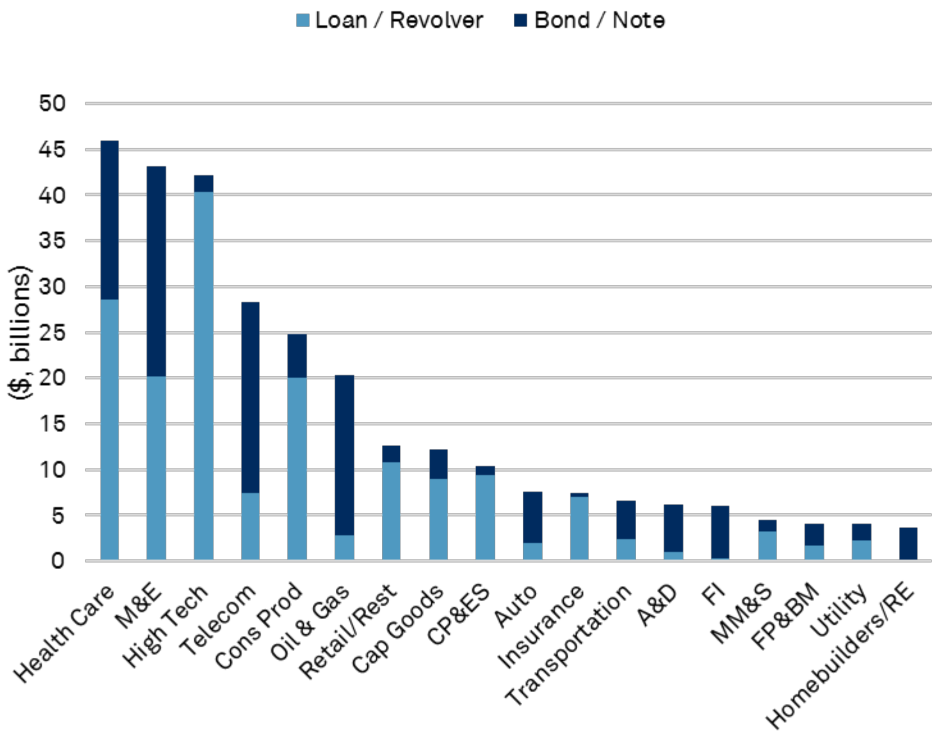
Consumer Products and Retailers in the U.S. are still dealing with a changing operating landscape characterized by a shift to online shopping by consumers, as well as increased price discovery, forcing lower profit margins. While we currently forecast the U.S. default rate to reach only 2.7% by March 31, 2020 in our base case, we do expect the Oil and Gas, Consumer Products, and Retail/Restaurants sectors to see a higher percentage of defaults relative to other sectors over the next 12 months, given their sector-specific stressors.

High Tech and Healthcare Lead Among Lower-Rated Loans

Overall default risks may be low, but the relative sensitivity of the ‘B-’ rating to credit deterioration over the long run is currently a cause for concern for many CLO investors. As percentage of ‘B-’ leveraged ‘CCC’ loans rises above the pre-set threshold, their par value will take a haircut as part of the calculation of the coverage test ratio. In such cases, often the result is to halt payments to the equity tranche holders if a coverage test is breached.

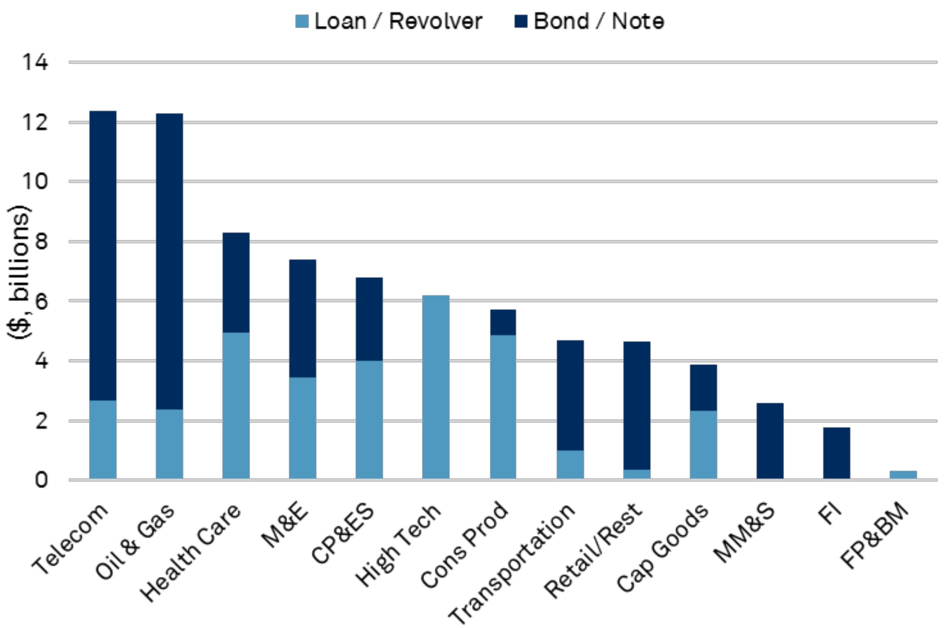
With this in mind, it is important to note the very different funding structures across sectors (see Chart 11 and 12). While a large amount of ‘B-’ debt is coming due for the Oil and Gas sector in both the U.S. and Europe, the majority of it is in bonds. Meanwhile, High Tech and Consumer Products are much more heavily reliant on loans.

Chart 10: Upcoming U.S. 'B-' Debt Profiles



*Debt outstanding due through 2025. Data as of Jan. 1, 2019. Auto = Automotive; Cap Goods = Capital Goods; CP&ES = Chemicals, Packaging & Environmental Services; Cons Prod = Consumer Products; FI = Financial Institutions; FP&BM = Forest Products & Building Materials; High Tech = High Technology; Homebuilders/RE = Homebuilders/Real Estate; M&E = Media & Entertainment; MM&S = Metals, Mining, & Steel; Retail/Rest = Retail/Restaurants; Telecom = Telecommunications. Source: S&P Global Fixed Income Research.

Chart 11: Upcoming European 'B-' Debt Profiles

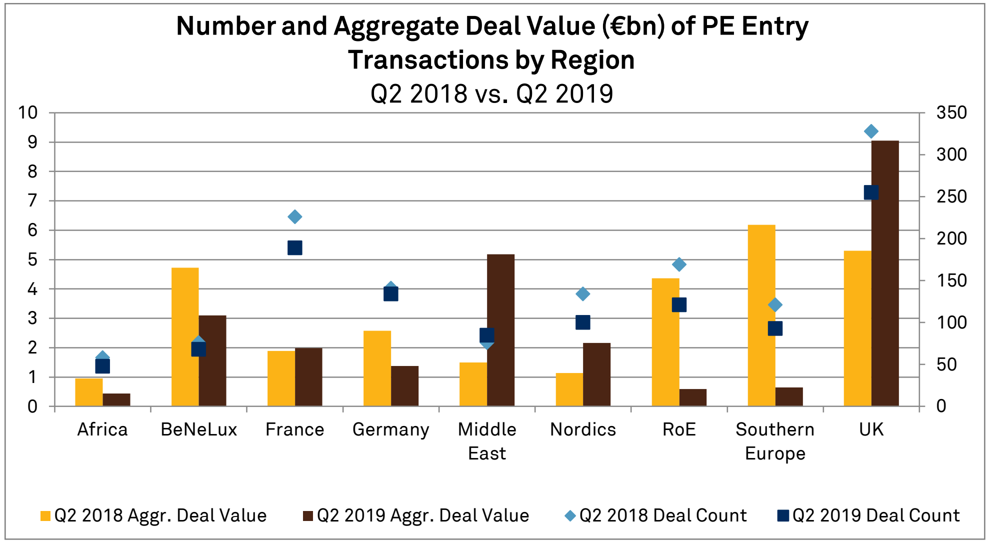


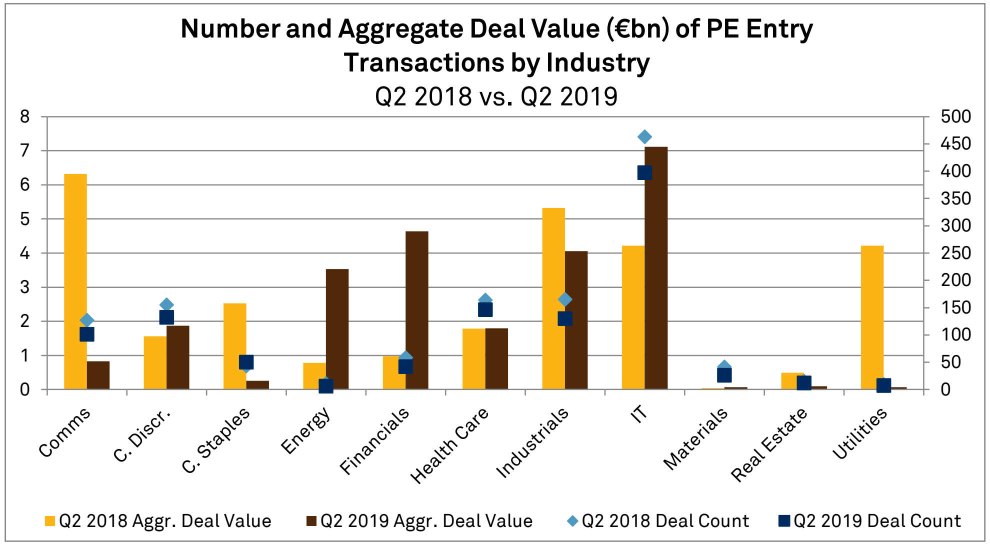
*Debt outstanding due through 2025. Data as of Jan. 1, 2019. Auto = Automotive; Cap Goods = Capital Goods; CP&ES = Chemicals, Packaging & Environmental Services; Cons Prod = Consumer Products; FI = Financial Institutions; FP&BM = Forest Products & Building Materials; High Tech = High Technology; Homebuilders/RE = Homebuilders/Real Estate; M&E = Media & Entertainment; MM&S = Metals, Mining, & Steel; Retail/Rest = Retail/Restaurants; Telecom = Telecommunications. Source: S&P Global Fixed Income Research.

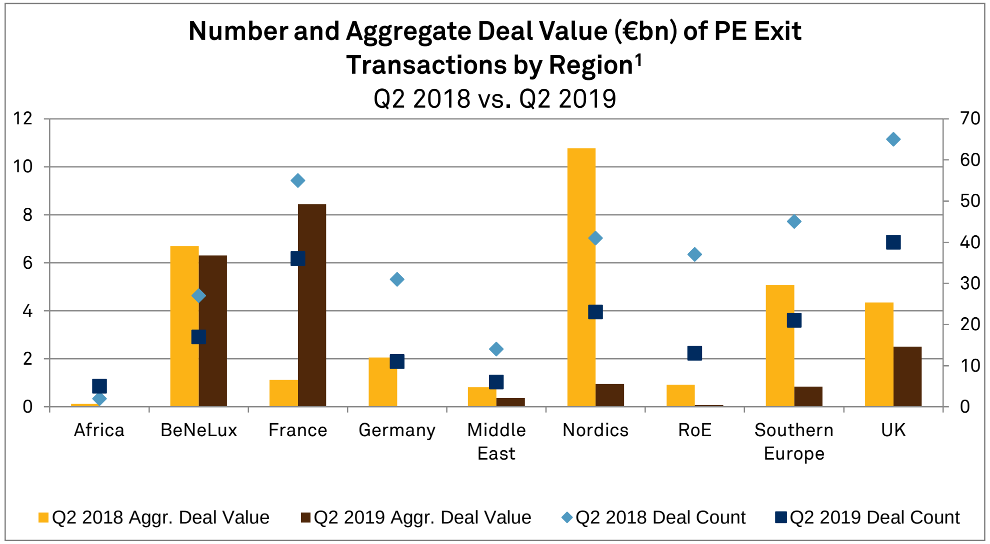
Given the sharp rise in ‘B-’ issuers among High Tech in recent years, as well as the structural headwinds facing Consumer Products and Retailers, this debt can be a source of concern in the event of financial market volatility or an economic downturn. Currently, our economists are still expecting GDP growth to remain positive in the U.S. and Europe this year and next, albeit at a declining rate. Lending conditions have recently received a positive boost from both the Federal Reserve System and the European Central Bank, with their recent comments on the near-term expectations for interest rates, continuing asset purchases, and – in Europe at least – negative yielding loans to financial institutions. This backdrop should help markets avoid any sudden bouts of volatility or illiquidity in the near-term. However, history has shown that even in calm times, the ‘B-’ segment has much higher ratings volatility and a higher likelihood of both downgrades and default. [31]

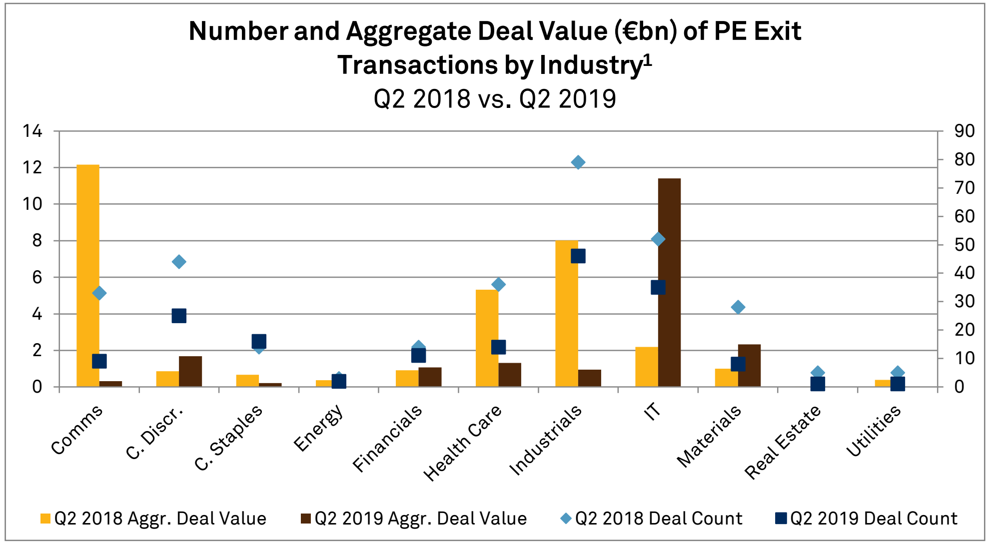
[31] To read more please see: “With Some Lingering Risks, The U.S. Speculative-Grade Corporate Default Rate Is Set To Rise To 2.7% By March 2020”, Jun. 3, 2019; “2018 Annual Global Corporate Default Study And Rating Transitions”, April 9, 2019; “For The U.S. Expansion, Are Trade Troubles “Just A Flesh Wound”?”, Jun. 25, 2019; “The Eurozone’s Open Economy Makes It More Vulnerable To Escalating Trade Conflicts”, Jun. 26, 2019; S&P Global Ratings, Retrieved from https://www.spratings.com/en_US/fixed-income-research

EMEA-Based Targets



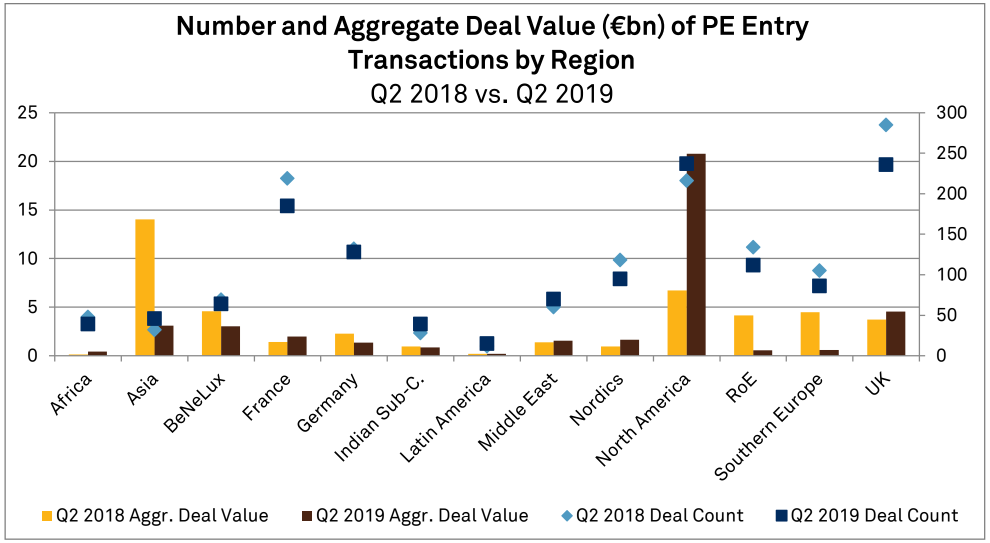


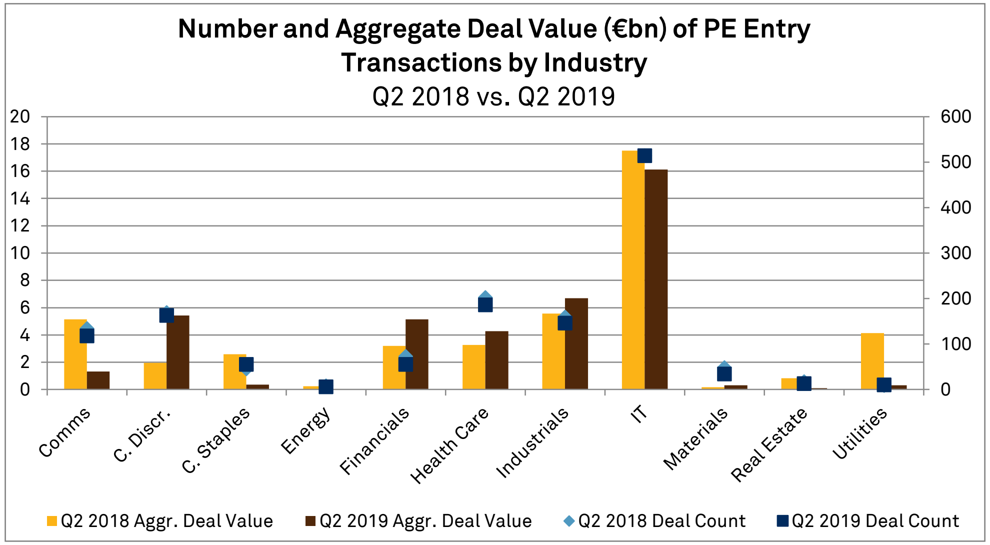


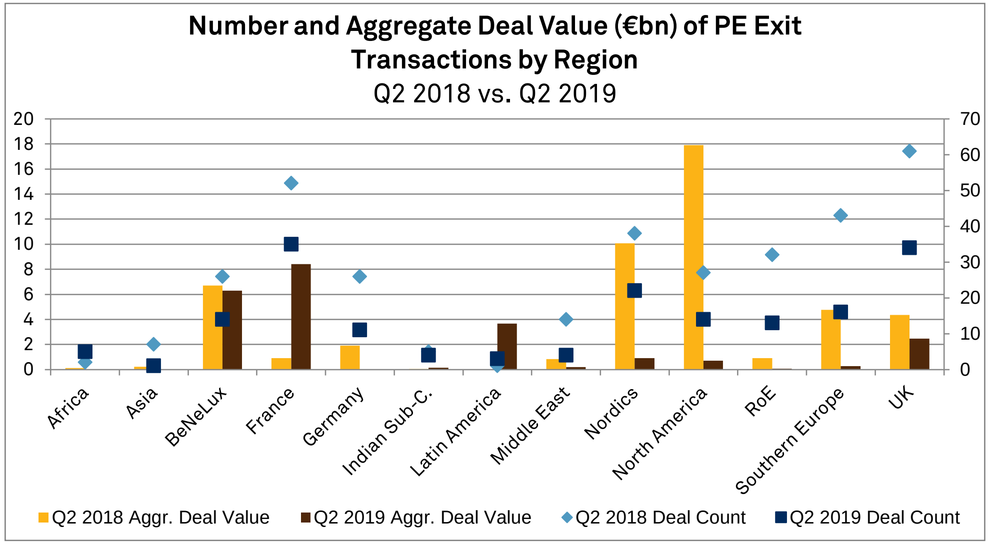


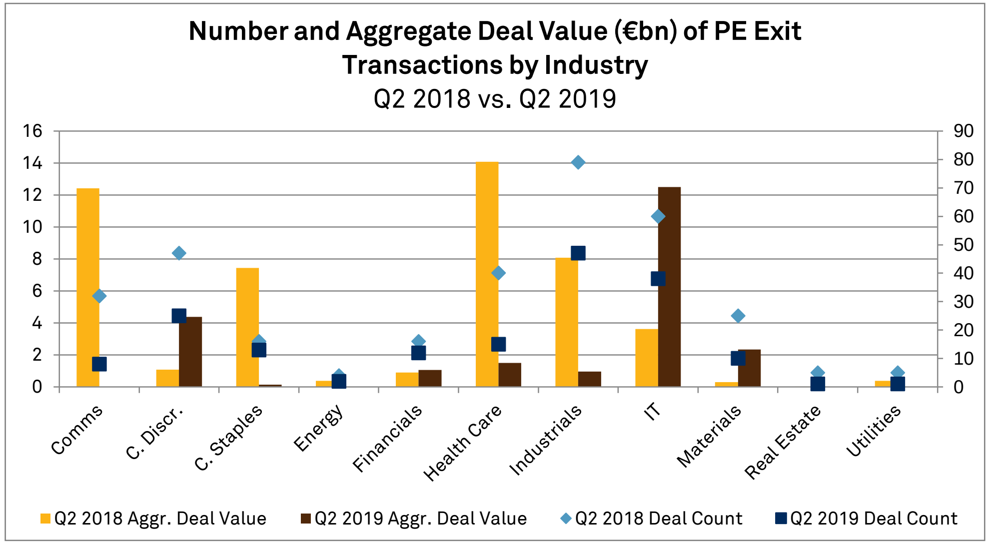
For illustrative purposes only. Source: S&P Global Market Intelligence. As of June 31, 2019

EMEA-Based GPs



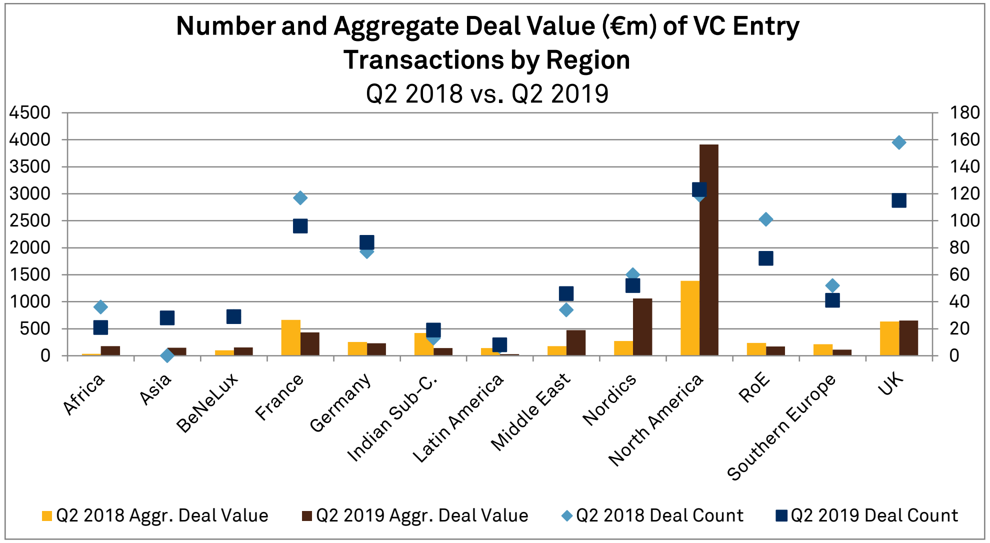


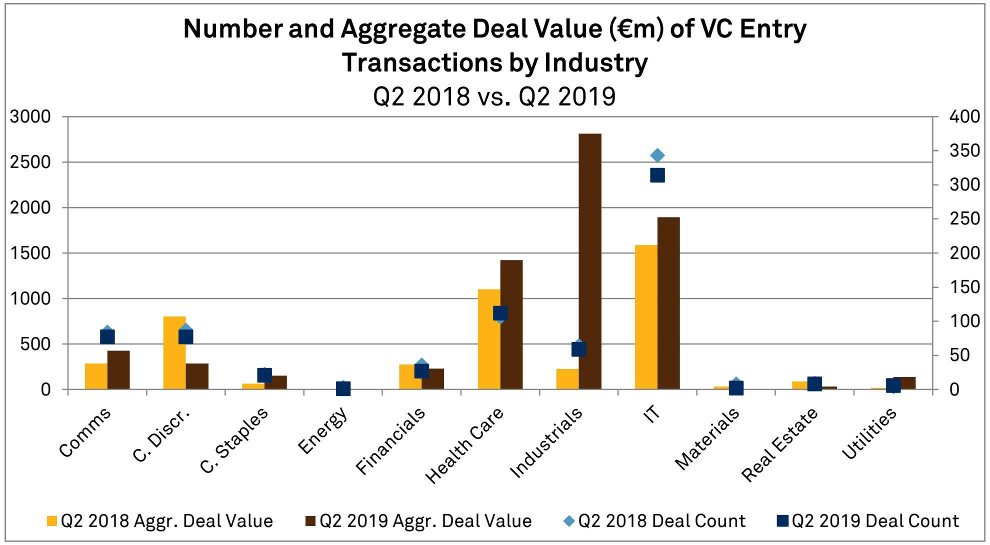




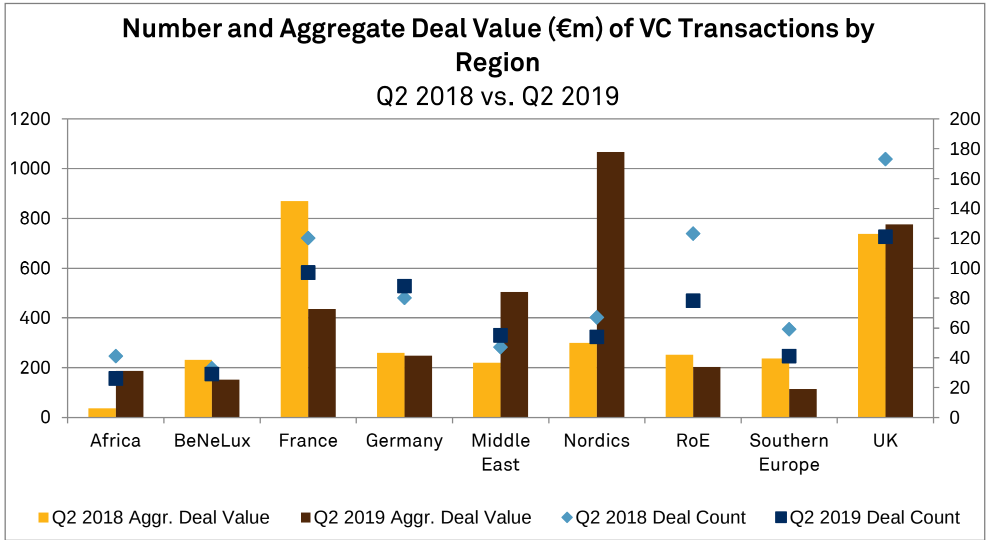
For illustrative purposes only. Source: S&P Global Market Intelligence. As of June 31, 2019

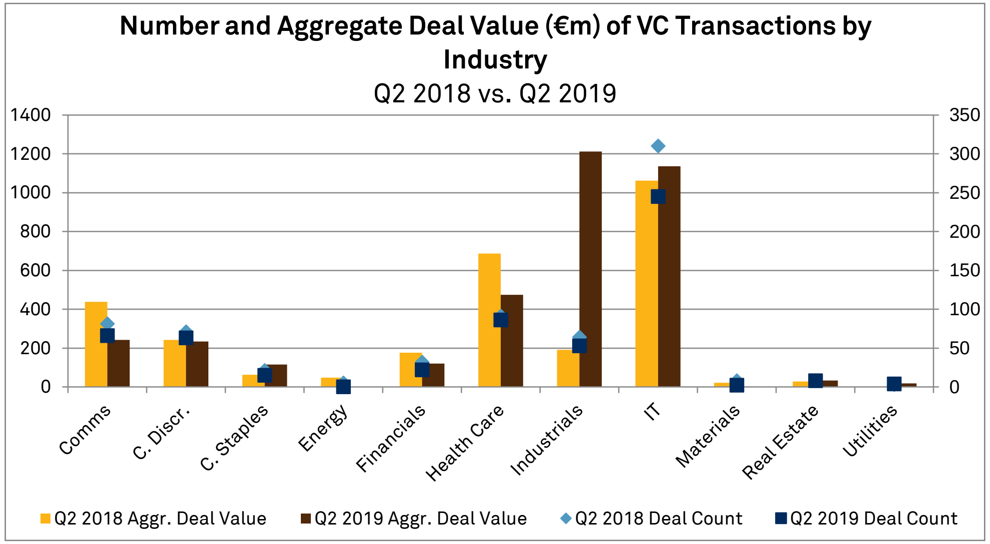
VC EMEA-Based GPs





VC EMEA-Based Targets





For illustrative purposes only. Source: S&P Global Market Intelligence. As of June 31, 2019

Footnotes

1. The exit transaction aggregates has been calculated after removing a large deal to avoid overestimating the trend: KKR and BlackRock's infrastructure funds and financed by a syndicate of bank funded the acquisition of 40% stake in ADNOC Oil Pipelines - Sole Proprietorship LLC from ADNOC Infrastructure LLC for 30.1bn EUR on June 27, 2019. Retrieved from https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=604183190&companyId=60417125

Multiples Table EMEA

Implied Enterprise Value/EBITDA	PE Exits, 01/04/2018 - 30/06/2019	M&A, 01/04/2018 - 30/06/2019
Communication Services	14.2	12.1
Consumer Discretionary	11.7	11.6
Consumer Staples	17.8	13.2
Energy	10.3	8.0
Financials	***17.8***	9.0
Health Care	11.2	11.6
Industrials	9.6	9.4
Information Technology	11.1	12.9
Materials	7.7	8.3
Real Estate	29.2	22.6
Utilities	12.3	9.9

Implied Equity Value/LTM Net Income	PE Exits, 01/04/2018 - 30/06/2019	M&A, 01/04/2018 - 30/06/2019
Communication Services	32.5	27.9
Consumer Discretionary	23.5	19.8
Consumer Staples	20.4	18.0
Energy	***23.0***	24.1
Financials	21.1	14.6
Health Care	26.7	19.0
Industrials	12.3	14.0
Information Technology	***18.3***	19.0
Materials	13.0	16.2
Real Estate	11.1	13.2
Utilities	36.9	21.1

- Multiples highlighted in bold & italics represent the sector average over a 2 year time horizon in order to provide a more comprehensive sector average
- Colour legend can be defined as "RED" representing the lowest multiple and "GREEN" representing the highest multiple observed across industry sectors, deal structures and multiple types during the period mentioned.

For illustrative purposes only. Source: S&P Global Market Intelligence. As of June 31, 2019

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The Americas
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P. +1 888 806 5541

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P. +852 2533 3588

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E. market.intelligence@spglobal.com
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