October 2014

The Global Corporate Advisor

The Corporate Finance newsletter of Crowe Horwath International

Welcome to the October issue of The Global Corporate Advisor. This newsletter has a special focus on the private equity sector in the UK, US, Mexico, India, Canada and Australia.

While private equity (PE) in Australia is a small part of the investment community, activity is increasing due to the recent returns track record.

The characteristics of the Canadian environment suggest that PE investing will increase in the near term. Those interested in the Indian market are hopeful that the new government will spur both domestic and foreign PE investments. In Mexico, the government has already been a catalyst for PE investing through development of a pool of available funds.

In both the UK and the US, PE firms are exiting investments as strategic buyers are looking for growth and valuations are high.

In our next issue, we will examine the M&A landscape in key European countries as well as Australia and South Asia.

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The GCA team is here to respond to your needs relating to M&A transaction support, valuations and advisory services. If there is a topic you would like us to cover in future issues of the GCA newsletter, don't hesitate to contact Peter Varley, Chairman of GCA, at *peter.varley@crowecw.co.uk.* Alternatively, please contact your local GCA team member to discuss your ideas.

Private Equity

Australia

By Rob Dando and Andrew Fressl, Sydney

Mergers and acquisitions in Australia are on the increase but private equity continues to remain a small part of the investment market by global standards, according to research from the Australian Venture Capital Association (AVCAL).

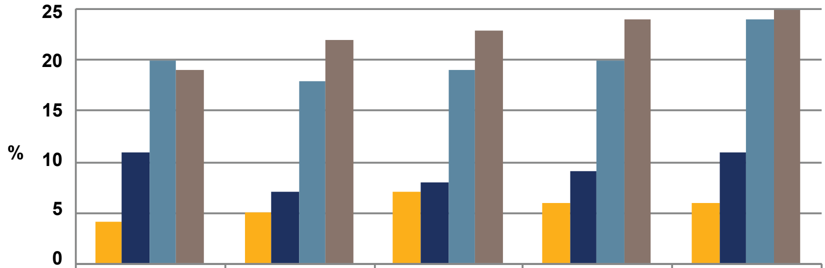
In the financial year to June 30, 2014, deal activity declined slightly compared to the previous financial year, with 2,027 deals executed at a value of US$52.4 billion, down 1.5% in volume and 4% in value terms.

However, during this period the pipeline of deals rose sharply, with US$113bn worth of mergers, acquisitions and private placements announced over the course of the financial year, up 70% compared to the prior year.

According to IESE Business School, Australia is the eighth most attractive country worldwide for private equity (PE) and venture capital (VC) investors. It ranked sixth in 2013.

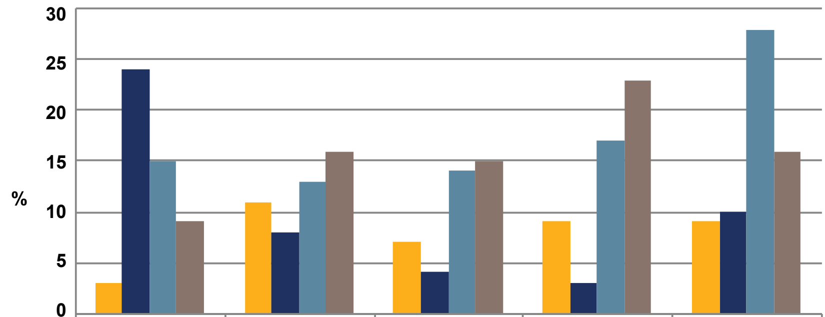
Australian PE and VC outperformed the listed market by over 10% in the 12 months to March 2014, according to data released by the AVCAL and Cambridge Associates (the CA Australia Index). Australian PE is a proven high performer. According to Cambridge Associates, it returned 12.4% on an annualized basis over 10 years up to March 2014 (net of fees and carried interest). This figure is very high compared to 6.6% return during the same period by the S&P/ASX 300, with PE generating effectively more than twice the return of the sector as a whole. More impressively, the top two quartiles (i.e. the top 50%) of PE funds outperformed the listed market by 6.8% over the last ten years, despite the resources boom fuelling S&P/ASX 300 net returns during the same period.

Figure 1. Number of PE transactions as a % of total transactions



	FY10	FY11	FY12	FY13	FY14
Australia	4	5	7	6	6
New Zealand	11	7	8	9	11
UK	20	18	19	20	24
US	19	22	23	24	25

Figure 2. Value of PE transactions as a % of total transactions



	FY10	FY11	FY12	FY13	FY14
Australia	3	11	7	9	9
New Zealand	24	8	4	3	10
UK	15	13	14	17	28
US	9	16	15	23	16

Source: AVCAL Market Observations – August 2014 Issue

Figure 3.

	Venture Capital		Private Equity		Total	
Year	Amount (A$m)	No. of Funds Raising Capital	Amount (A$m)	No. of Funds Raising Capital	Amount (A$m)	No. of Funds Raising Capital
FY04	96.09	5	1,631.11	5	1,727.20	10
FY05	349.87	6	1,496.35	19	1,846.21	25
FY06	120.60	4	4,092.69	15	4,213.29	19
FY07	356.92	4	8,690.04	20	9,046.96	24
FY08	313.40	5	1,817.74	16	2,131.14	21
FY09	174.90	9	1,259.57	15	1,434.47	24
FY10	158.00	13	1,190.00	9	1,348.00	22
FY11	100.00	3	2,014.79	10	2,114.79	13
FY12	240.02	4	3,031.26	15	3,271.28	19
FY13	155.28	3	711.44	10	866.72	13

Source: AVCAL

The CA Australia Index posted a gain of 23%, compared to the S&P/ASX 300 Index, which returned just under 13% over the same one-year period. The index, which is the leading independent performance benchmark for the PE and VC asset class, showed continuing outperformance by gaining 3.3% in the first quarter of 2014, after a very positive final quarter in 2013. The three-year, 10-year and 15-year time horizons also showed greater returns from PE and VC, compared with listed equities.

These results demonstrate that the asset class is a long-term driver of returns, which is especially important for pension funds and other investors with long-term investment horizons.

Domestic companies were the primary drivers in the results of the last 10 years. The impact of investing in Asian companies has only started to show in the last three to five years.

PE deals in Australia constituted 6% of all deals in FY14, and contributed 9% of total deal value for the year. This pattern has remained largely unchanged from FY13, and is slightly higher than the five-year average of 5% for deal volume and 8% for deal value. New Zealand saw a slightly higher PE contribution of 10% to overall deal value in FY14.

PE tends to contribute a greater share of deals in New Zealand, the US and the UK compared to Australia. In FY14, nearly a quarter of transactions in the US and UK involved PE buyers. This suggests that there is still considerable headroom for PE to invest in the Australian market.

Significant Australian PE deals in FY14 included the acquisition of Telstra's Sensis business by Platinum Equity and Insight Venture Partners' US$250m investment into Campaign Monitor. PE also contributed to some of the larger deals announced in FY14, such as KKR's bid for Treasury Wine Estates and Pacific Equity Partners' bid for SAI Global.

Fundraising and available investable funds

Growth PE funds in Australia have traditionally raised capital primarily from domestic investors. However, more recently there has been an increasing inflow of international capital. According to AVCAL, PE firms raised A$711m of funds in FY13, a sharp decrease from the A$3,031m raised in the previous year. However the number of funds raising money (10) was on a par with FY10 and FY11 levels. Anchorage Capital Partners Fund II, Advent 6 and Anacacia Fund II were among the largest domestic funds raised in FY13, accounting for 80% of all commitments to PE.

Figure 4.

Industry	Transaction Volume (#)						Transaction Volume (A$)					
	FY10	FY11	FY12	FY13	FY14	FY15	FY10	FY11	FY12	FY13	FY14	FY15
Consumer Discretionary	14	14	12	14	10	4	404	620	574	413	1,172	1
Consumer Staples	4	6	2	2	6	-	7	231	468	-	2	-
Energy	7	2	8	8	2	-	234	24	225	1,740	156	-
Financials	5	5	11	9	9	1	387	103	1,828	489	458	-
Healthcare	22	10	14	18	19	3	312	330	267	681	388	0
Industrials	15	22	13	16	7	2	2,748	6,414	2,838	6,521	236	1
Information Technology	14	20	37	30	37	14	46	131	242	144	518	45
Materials	11	28	16	8	11	4	64	597	244	31	133	28
Other	-	2	4	1	11	1	-	3,095	730	-	332	2
Telecommunication Services	1	-	-	1	-	-	-	-	-	3	-	-
Utilities	2	1	1	4	-	-	1,629	49	-	233	-	-
Total	**95**	**110**	**118**	**111**	**112**	**29**	**5,831**	**11,594**	**7,417**	**10,254**	**3,395**	**77**

Industry	Average Transaction Value (A$m)						Average Implied Enterprise Value / EBITDA (x)					
	FY10	FY11	FY12	FY13	FY14	FY15	FY10	FY11	FY12	FY13	FY14	FY15
Consumer Discretionary	58	103	72	52	195	0	n/a	6	9	4	16	n/a
Consumer Staples	3	116	468	n/a	1	n/a	16	16	n/a	n/a	n/a	n/a
Energy	33	12	38	218	78	n/a	n/a	n/a	n/a	10	10	n/a
Financials	97	21	229	61	65	n/a	n/a	n/a	n/a	4	n/a	n/a
Healthcare	18	37	22	49	24	0	n/a	n/a	n/a	n/a	n/a	n/a
Industrials	393	535	473	932	47	1	10	16	24	7	n/a	n/a
Information Technology	5	8	8	6	16	3	n/a	2	n/a	n/a	6	n/a
Materials	6	25	17	4	13	7	n/a	n/a	n/a	n/a	8	n/a
Other	n/a	1,547	243	n/a	41	2	n/a	n/a	n/a	n/a	n/a	n/a
Telecommunication Services	n/a	n/a	n/a	3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Utilities	815	49	n/a	78	n/a	n/a	7	n/a	n/a	n/a	n/a	n/a
Total	**159**	**245**	**174**	**156**	**54**	**2**	**11.3**	**10.3**	**16.3**	**6.0**	**10.1**	**n/a**

Competition for new commitments has remained intense during the last three years, which saw two of the three largest ever Australian PE funds being raised (the A$1.5 bn Archer Capital Fund 5 in FY12 and the A$1.48 bn CHAMP III fund in FY11), as well as several large regional funds raising money over the same period.

What are the funds investing in?

The majority of the transaction volumes by value in FY14 were between the consumer discretionary and information technology (IT) sectors, according to data sourced from Capital IQ. Notable transactions in this space include the acquisition of American Express Global Business Travel by a global consortium including the Macquarie Group, and two acquisitions by Quadrant Private Equity of City Farmers Retail and APN Outdoor.

The IT sector continues to drive a significant portion of the PE deal market with 37 transactions in FY14. Average reported deal sizes in FY14 were A$16m. Ironbridge Capital has been active in IT deals, which include the acquisition of Bravura Solutions for A$60m in October 2013.

In FY14, the industrials sector has not performed as well as it did in previous periods, due to the non-existence of large scale infrastructure deals, which included Port Botany being acquired in a club deal for A$5,070m in FY13. Average EV/EBITDA multiples for reported transactions in FY14 was 10.1 times, higher than the figure of 6.0 reported in FY13 and back to the levels of FY10 and FY11. However, this data may be skewed due to the smaller scale deals taking place with less reported multiples during the period.

PE exits in Australia

Australian PE exits from FY09 to FY13 had an average IRR of 31% and an average times money multiple of 2.7 times. Expansion/growth capital and buyout deals posted an average exit IRR of 34% and 29%, respectively, over this period. The average exit multiple for buyouts was 2.9 times, while for expansion/growth deals it was 2.6 times. These numbers demonstrate the strong performance metrics that Australian PE can achieve.

PE provides access to a different part of the Australian economy than the ASX

PE offers institutional investors a wider range of options for sector diversification given that the ASX 300 is dominated by the resources and financial sectors. PE provides exposure to a diverse range of industry sectors, which are relatively less well represented on the ASX, particularly consumer goods and services, industrials, IT, energy and healthcare.

Additionally, three of the four best-performing 2013 IPOs until February 2014 were the PE-backed Veda, OzForex and Virtus Health. These results indicate that PE ownership has a positive effect on company value even post-listing.

Outlook

A change of federal government in early FY14 has helped boost overall business confidence through the easing of ongoing political and policy uncertainty from prior years, but that did not translate immediately into any significant increase in completed deals. The majority of transactions continued to occur at the smaller end of the market (i.e. deals valued under A$50m), mostly involving domestic buyers.

The buoyant listed capital market, together with low interest rates, stronger balance sheets and improved business confidence in some sectors, has also seen more businesses beginning to shift their main focus from cost control to future growth opportunities.

Consequently, the surge in deal announcements in the last quarter of FY14 suggests that after several years of muted activity there are signs of recovering appetite for corporate deal-making, from strategic acquisitions to buyouts.

Activity across Australia's PE space is heating up, with many firms on the acquisition trail as they move to buildup positions in key industry sectors and then offload those assets through an IPO or trade sale.

PE groups are poised to do more consolidation work within their current portfolios and make investments to generate returns.

Five sectors have been identified with growth potential for investors in Australia. These include wealth management, international education, agribusiness, tourism and gas. But some of these sectors, such as agribusiness, are highly fragmented in Australia and need to consolidate significantly.

Aged care is a sector where PE firms can generate value through their consolidation activities. Estia Health, owned by PE firm Quadrant, will use its proactive record in the sector's consolidation as a selling point to investors as it prepares to float the business, valued over A$1 billion, later this year.

Opportunities also can be found in Australia's wealth management industry, with potential for mom and pop stores of self-managed pension funds to be consolidated.

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Private Equity

Canada

By Moses Bendayan, Montréal

After four years of subdued activity, 2013 marked the beginning of strong recovery. Tough economic conditions and persistent low interest rates, combined with accommodating debt markets, have certainly helped fuel this growth. We believe that general returns in the PE segment, combined with strong public markets, have guided investors to increase their overall dollar allocation to this asset class. This phenomenon has been the consistent in both Canada and the US. Today, both countries find themselves with unprecedented levels of available capital, known as dry power. As good investment opportunities become scarce compared to the money supply, valuations have risen – good news for entrepreneurs looking to cash out, but a less favourable environment for strategic acquirers.

In general, the Canadian private equity (PE) market is rather small compared to its US counterpart. That said, regional proximity, favorable treaties and perception of reasonable valuations in Canada have encouraged our US neighbors to cross our borders. Canadian companies have welcomed this trend, but Canadian PE firms are facing fiercer competition for assets than they are accustomed to. Among other things, 2013 represented a year of adapting as their mindset and value perspectives had to change. Though this has happened, they have not adapted fast enough as three out of the five largest deals in Canada in the first half of 2014 were acquisitions by US PE firms.

Overall, deal-making activity in Canada's buyout and PE market went up by 5% in dollar terms in 2013. Disclosed values of transactions totaled C$12.3 billion in the year versus $11.8 billion in 2012. The activity was led by the retail and consumer products sector, which accounted for 25% of total dollars invested in 2013. Healthcare transactions represented the second largest share of all dollar flows, or 15%, followed by oil and gas transactions, which took 14%.

Disbursement levels last year were not only the highest since the renewal of the Canadian market in 2010 but the highest since 2008.

Deal size vs. deal volume

Lower to mid-market deals continue to grow year-on-year in terms of volume, and represent the large majority of total announced and closed deals. On the other hand, the number of large deals is on a steady decline since 2011, representing only 5% of total announced and closed deals in 2013. The dollar value of the five largest deals represents 62% of the total deal value in 2013.

First half of 2014

Investment activity in Canada's buyout and PE segments experienced a sharp increase in the second quarter of the year, both in terms of deal value and volume.

In Canada, 192 deals were completed in the first half of 2014, nearly three times more than what was recorded for the first half of 2013.

During the first half of the year there were two take-private transactions in the health/pharma sector, which accounted for over half the total deal value. In both instances foreign private equity launched the take-private initiative; the two targets were Atrium Innovations Inc. and Patheon Inc.

Though the market tends to focus on the billion dollar deals, Canada remains predominantly a lower to mid-market environment, as evidenced by the $26 million adjusted average deal size. Smaller deals tend to capture the attention of local private equity firms. As a result, 76% of the 192 deals concluded in the first half of 2014 were acquired by Canadian investment firms.

Figure 1. Notable deals (disclosed) – First half of 2014 (in $CAD)

Company	Prov.	Value	Investors
Jupiter Resources Inc. - Encana Corp' Bighorn Assets	AB	$2,000	Apollo Global Management
Patheon Inc-DPx Holdings BV	ON	$1,460	JLL Partners, Royal DSM
Atrium Innovations Inc.	QC	$1,100	Permira Funds, Fonds de solidarité FTQ, Caisse de dépôt et placement du Québec
Osisko Mining Corp-Yamana - Gold Inc.	QC	$930	CPPIB, Caisse de dépôt et placement du Québec
CSV Midstream Solutions Corp	AB	$543	Apollo Global Management
Bruce Power LP	ON	$450	Borealis Infrastructure

Larger transactions tend to attract foreign private equity firms, as was the case in the two large transactions acquired in the first half of 2014. US private equity firms focused on enterprise values of $30 million plus, and are starting to make their presence and desires known to local M&A advisors. As foreign private equity funds enter the Canadian market, Canadian investment firms are increasingly looking abroad. In first half of 2014, Canadian private equity firms spent $3.5 billion outside of the country on 31 deals, up 11% from the same period last year. Of these, 67% of the capital and 81% of the deals were focused on the acquisition of US based companies.

The oil and gas industry is an important contributor to Canada's overall economy. This sector is capital intensive, requiring large capital injections. This sector is also the most prevalent in the province of Alberta. It is not surprising to see that most of the transaction value occurred in Alberta in the first half of 2014, followed by the provinces of Quebec and Ontario. In terms of number of deals concluded, Quebec was the most active, representing 45% of total transactions in the first half of 2014. Again, not a surprising occurrence given the number of government sponsored funds in that province. Ontario was a far second at 23%.

Out of the $9.7bn invested in the first half of 2014, oil and gas companies took $4bn of that investment pool but represented only 17% of the total number of deals concluded during the period. Healthcare and life science, with only two transactions, accounted for $2.5bn.

As a percentage of capital investment, deals under $100 million only represent 16% of the total committed capital but represented close to 90% of the total number of transactions.

Improved fundraising climate

The fundraising activity of Canadian buyout, mezzanine and other PE firms in 2013 broke all prior annual records. New capital committed to partnerships and other fund offerings totaled $16.1bn at the end of December 2013, which is more than triple the $4.9 bn committed to funds in 2012. Indeed, fundraising activity last year was the highest since 2006, the last record-breaking year in the domestic market. New commitments went to 35 Canadian funds, many of which saw significant increases in size relative to predecessor funds, a trend that helped drive the much larger funds.

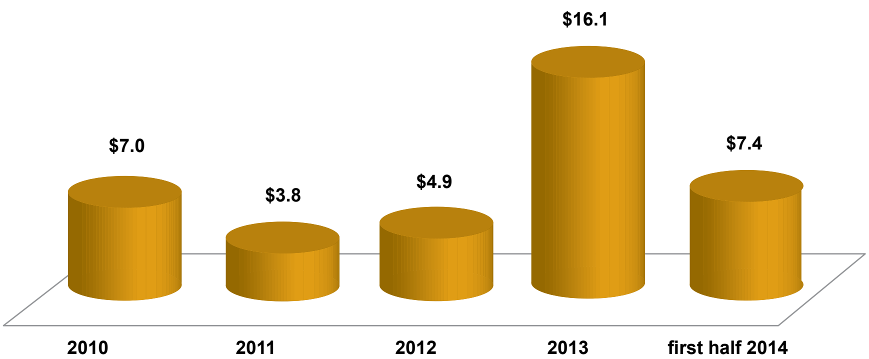
As of June 30th, new commitments to 15 buyout-PE partnerships and other funds totaled $7.4 billion, which is double the $3.7 billion reported going to 19 funds at the same time in 2013. Indeed, new commitments in the first six months of the year already surpass totals reached in most full years in the recent past, 2013 excepted.

Given this abundance of dry powder, we expect Canadian private equity funds to actively seek opportunities locally and aboard.

Outlook

Canada is an opportunistic market for private equity funds with large pools of unspent capital. With an increase in fundraising activity during 2013, there is plenty of private equity capital available to be deployed. Low interest rates, an aging entrepreneurial population base looking to exit, and very favorable credit markets, all point to continued recovery in private equity transactional activity.

Figure 2. Canadian PE Fundraising (in C$ billion)



**All figures are in C$*

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Private Equity

India

By Sanjay Bansal, New Delhi

India has witnessed a hectic seven months of private equity (PE) activity in the 2014. The number of deals has gone up significantly. However, the average deal sizes have shrunk, keeping the overall deal value comparable to that of the corresponding period in 2013.

The months of June and July have contributed 50% to the overall transaction value with some big ticket investments, including Flipkart's fundraising worth US$1 billion. In July 2014, the information technology and information technology enabled services (IT & ITES) sector was the most active, with 23 transactions worth $1.2 billion.

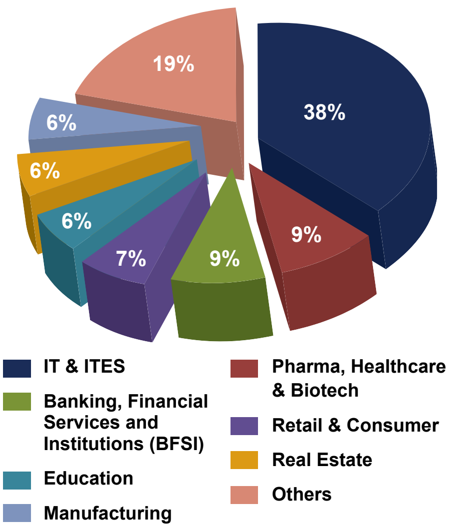
Even before July, the IT & ITES sector was an investor favorite, attracting 38% of the total deal volume of H1 2014 (Figure 2). Growing interest in e-commerce is a prime driver of PE investments in the IT sector, with firms such as Flipkart and Snapdeal raising fresh funding. Other key themes in the IT sector include e-commerce logistics (with companies such as Dehlivery and Ecom Express), online services (BookMyShow) and online travel (Yatra).

Figure 1.

Period	Deal value (USD bn)	Deal volume	Average deal size (USD mn)
H1 2013	6.5	250	25.9
H1 2014	7.2	341	21.0

Source: Public databases

Figure 2. PE deal volume H1 2014 (Total: 287)



Retail, media, energy and manufacturing are among the other sectors, which are on investors' radars, following renewed optimism after the last general elections in May 2014. With a stable political regime in place, the policymaking of the new government is expected to provide a firm push, enabled by the freedom from the complexities of coalition politics. Real GDP growth is expected to accelerate to 6.5% by FY16. Deal activity is expected to go up further as international players bet on Indian assets.

The year 2014 has been good in terms of PE exits as well, especially through the capital markets route. The S&P BSE Sensex rallied nearly 9% in the first 100 days of the new government. In the January to August 2014 period, PE funds have offloaded $1.2 billion investments through public market transactions, which represents three fourths of the total PE exits during that period. Notable exits include Carlyle Group's exit from Repco Home Finance, General Atlantic's sale of IndusInd Bank and Bain's part exit from Hero Motor Corp.

Going forward, more PE exits are expected, driven by greater liquidity and attractive valuations available in public markets. The rally in the capital markets has also meant that some companies (such as Balaji Wafers), are opting out of PE funding and contemplating fundraising through IPOs. In the long run, a market with appropriate liquidity and deleveraged companies will benefit the corporations and PE funds alike.

Figure 3. Select Private Equity transactions (2014)

Investor	Investee	Sector	Value (USD mn)
Tiger Global Management and Naspers, GIC, Accel Partners etc.	Flipkart	IT & ITES	1,000
Canada Pension Plan Investment Board	Kotak Mahindra Bank	BFSI	367
Brookfield Property Partners	6 IT Parks in India	Infrastructure	347
Capital Square Partners, CX Partners, etc	Aditya Birla Minacs Worldwide	IT & ITES	260
Naspers Ltd; Tiger Global Management; DST Global; ICONIQ Capital	Flipkart	IT & ITES	210
Temasek, IDFC Alternatives	GMR Infrastructure	Infrastructure	183
Canada Pension Plan Investment Board	L&T Infrastructure Development Projects	Infrastructure	161
Warburg Pincus	Laurus Labs	Pharma, Healthcare & Biotech	150
Goldman Sachs, ADB & Global Environment Fund	ReNew Power	Energy	140
Temasek Holdings	Intas Pharmaceuticals	Pharma, Healthcare & Biotech	140

Source: Public databases

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Private Equity

Mexico

By Miguel Moreno Tripp and Alejandra Muñoz, Monterrey

According to the Latin American Private Equity & Venture Capital Association (LAVCA), private equity and venture capital (PE/VC) fundraising in Latin America has reached an amount of US$3.5 billion in the first half of 2014, and is expected to touch $8 billion by the end of 2014. Compared to $5.5 billion for 2013, this shows an impressive growth of 45% but also represents a decrease in comparison to $10.3 billion in 2011.

In Mexico, there is ample growth opportunity for the PE/VC industry. The capital commitment of PE/VC is close to 2% of the GDP. Even though this number compares favorably to Brazil, where the capital commitment is 1.5% of the GDP, it is still very low.

The size of the PE/VC industry in Mexico was $21.5 billion in December 2013. From 2000 to 2013, there were 154 transactions for PE and 107 for VC. The real estate sector commanded the largest amount, with $10.4 billion.

According to research[1], in Mexico "five industry sectors [account] for 60% of all investments: real estate, technology, telecom & media, financial services and wholesale & retail trade" and "there are 48,000 companies in the size range sought by private equity and venture funds."

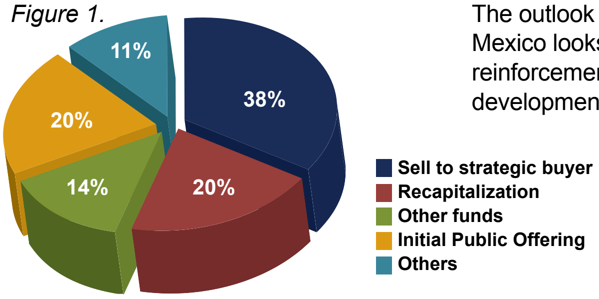
If we focus on the medium to large company size, research says, "…of the roughly 7,000 medium- to large-sized growth companies, PE funds have invested in only 50."

As for the exit strategy, roughly 20% of the PE investments had exited through an IPO. From 2004 to 2013, 11 IPOs were initiated by a PE/VC (one of each three IPOs in that period). Figure 1 depicts the exit strategy that the PE/VC industry has followed.

According to AMEXCAP (Mexican Association of Private Equity), the PE/VC market in Mexico will keep on growing due to industrial growth in the country, a positive economic environment and government support. On top of that, an effective regulatory framework, along with reforms in telecommunications, energy and other sectors, will certainly help. Moreover, the Mexican government has been active in the past few years, providing a pool of funds available for PE/VC, in the form of:

- Fund of funds (2006): a venture capital arrangement that manages $0.5 billion
- Venture Capital fund (2010): manages $80 million through a Mexican development bank
- Seed Capital fund (2012): with $20 million for startups
- The National Entrepreneur Institute (2014): with $720 million assigned for 2014

Figure 1.



Exit Strategy Source: AMEXCAP, BMV; December 2013

Apart from government support, as of December 2013, Mexican pension funds (MPF) have invested $5.3 billion with a potential of another $25 billion available capital. This compares to their total assets under management (AUM) of $154 billion. MPFs invest mainly through a type of listed security denominated Capital Development Certificates (CKD): "Trust or securities intended to finance one or more projects through the acquisition of one or more promoted companies."

These funds invest through a type of registered mutual fund companies, which are known as Venture Capital Securities Mutual Funds (SINCAS in Spanish). Their purpose is to extend the idea of the traditional capital mutual fund that invests in listed stock by investing in companies at an early stage. In Mexico as of March 2014 there were 85 SINCAS, managing $22 billion of committed capital. The distribution is as follows: real estate funds accounts for 48%, followed by pure capital funds 33%, infrastructure funds 10%, leaving 4% for venture capital funds (107 transactions from 2000 to 2013). Altogether, there have been almost 500 transactions during the last 12 years.

The outlook for the PE/VC industry in Mexico looks positive and will serve as a reinforcement of the country's economic development.

[1] *PRIVATE EQUITY IN MEXICO. Primed for significant growth. Martinez Leal Antonio, Del Sesto Pino, 2013*

**All figures are in US$*

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United Kingdom

By Matteo Timpani, London

There is no doubt that market confidence is returning in the UK as corporates look to grow through transactions, rather than the risk-averse mentality, cost-cutting and organic expansion that has been favored in the wake of the financial crisis. Private equity groups looking to sell assets stand to gain as corporations seek to satisfy their shareholders' high growth expectations. Improved market sentiment has driven growth in private equity exits in H1 2014, as demonstrated below.

Corporates vs Private Equity

In the UK, it is the corporate acquirer leading the resurgence in the deals market. As a volatile market becomes accepted as normal, and leverage availability shows signs of improvement (for the right deal), companies now feel able to commit to transactions that have long been in the pipeline, deploying cash resources or utilizing debt capacity built up over the last few years during the financial recession in the UK.

Among both strategic buyers and private equity houses there is fierce competition for businesses of quality and there is no shortage of dry powder available to deploy. The challenge remains, however, in identifying businesses which meet the quality criteria sought by the private equity market and those that do are in high demand. As a result, private equity houses are struggling to deploy their overhang of funds and are lagging behind the pick-up in the corporate market. Out of the five largest private equity deals in the UK, exits represent a value of US$7.3bn, whereas Institutional Buy Ins (IBIs) equaled only $2.3bn in H1 2014.

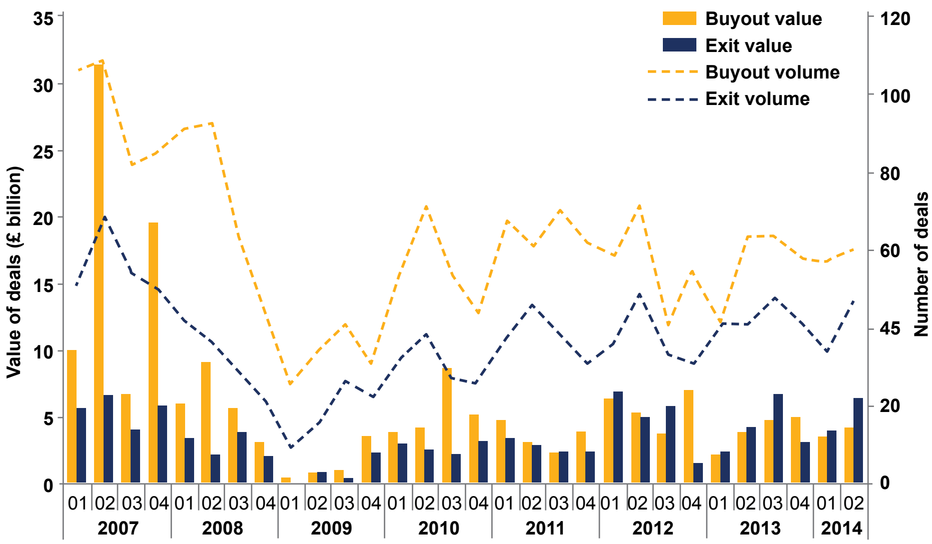
In the private equity market, IPOs have represented an increasingly popular exit route in recent months. According to UK research, approximately 18% of divestments of UK-based private equity-backed portfolio companies in Q1 2014 were through IPOs or secondary stock offerings, the highest proportion since 2006.

Private equity groups still have a large number of assets in their portfolios that they have been forced to hold on to for longer than initially anticipated as they waited for the market to improve. Research suggests that buyout houses looking to cash in on their investments accounted for approximately 55% of the volume of IPOs in H1 2014.

Capital markets in London have experienced their strongest H1 since 2007, producing 61 IPOs. However, since flotation, some of the higher-profile companies have underperformed. The share prices of Saga (down 8.4%), Just Eat (down 6.6%) and Pets at Home (down 14%) have all fallen since listing in the UK, dampening the "IPO fever" and creating cautiousness among investors. Other mooted IPOs have stalled, as appetite for IPOs has cooled. For example, Bridgepoint-backed clothing retailer Fat Face cited "current equity market conditions" as the reason it pulled out of an IPO in May 2014. Saga, the over-50s focused insurance and lifestyle business, was forced to list at the bottom of its price range and still fell in the aftermarket reflecting investor nervousness and the cautiousness in the general market at the time.

Although capital market sentiment has waned somewhat in recent months, pointing to a potential future resurgence in trade sales as an exit mechanism for private equity, the first half of 2014 saw flotations from the private equity industry in Europe worth around $33.4bn. With more potential listings of high profile companies: Aldermore, owned by AnaCap, Scout24 of Hellman & Friedman and Carlyle's RAC, this autumn, the capital markets boom looks set to continue for some time yet and expect UK private equity to benefit.

Figure 1.



Industry sector

The volume and value of M&A deals have increased in every major industry in 2014, compared to 2013.

On a worldwide basis, the financial services industry is relatively stagnant, with complex regulatory and technological changes creating investor uncertainty. However, in the UK, financial services has been the third most active market in H1 2014, with 63 deals worth $7.2bn, including the IPO of TSB Banking Group Plc. UK retail banks are beginning to return to profitability through a combination of deleveraging initiatives to strengthen the balance sheet by reducing risk-weighted assets and support from the Bank of England, therefore attracting sophisticated investors, particularly private equity.

Business services, specifically where related to property, has been the most targeted industry for private equity investors with 22 buyouts in H1 2014.

The energy, mining & utilities industry has witnessed $2.6bn deals from only 9 transactions.

Market by deal type

With IPOs being a popular exit route for private equity in 2014, the buyout market in the UK has shrunk with just $11.7bn of exits in H1, down by 25% on H1 2013. Notwithstanding that the UK remains Europe's largest buyout market.

In terms of funding, all-equity buyouts have been in the minority. In the UK there were only a handful of occasions in H1 2014, none above $1bn in value.

Conclusion

Confidence in the market is positive but has yet to fully deliver on promise in terms of size and deal volumes. All of the ingredients are present but the market is showing a cautious maturity, perhaps not demonstrated before the financial crisis, where quality is proving more important than quantity.

**All figures in US$ unless otherwise indicated.*

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Private Equity

United States

By Marc Shaffer, Chicago

US private equity (PE) deal counts and overall capital invested were down in the third quarter (Q3) of 2014. The following is a synopsis of the research from Pitchbook 4Q 2014 US Private Equity Breakdown Report. While 2013 saw steadily increasing deal activity and capital invested, Q1 through Q3, 2014 shows a decline. A total of 2,097 deals have been completed in 2014 totaling $393.2 billion. During Q3 2014, there were 588 transactions completed, down 27% from the Q3 2013. Similarly, the $110.1 billion invested in Q3 was down 23% versus the $143.8 billion invested in Q1 2014.

High valuations for platform companies have caused a decline in buyouts and an increase in add-on deal activity. Throughout this calendar year, there have been 931 add-ons in the US, which may lead 2014 to be a record year for add-ons. Few mega-deals have been completed to date and the most significant driver for deal flow is PE's focus on building current portfolio companies, especially those that operate in fragmented industries.

Purchase price multiples & debt levels

The median purchase price multiple for 2014 buyouts was 9.7x, slightly down from prior year. The median equity-to-EBITDA multiple was at 2.7x and the debt percentage was over 71% through Q3, the highest percentage since before, at least, 2005 (see Figure 4).

Due to high valuations, PE investors in the US have focused on the middle and upper middle market deals likely due to the cheap credit market. Transactions in the $100 million to $1 billion range represent 84% of all PE capital invested through Q3 2014. The number of lower middle market deals has decreased this year with 824 deals closed under the $25 million mark through 3Q, versus 1,258 in all of 2013.

Figure 1. US PE deal flow by quarter

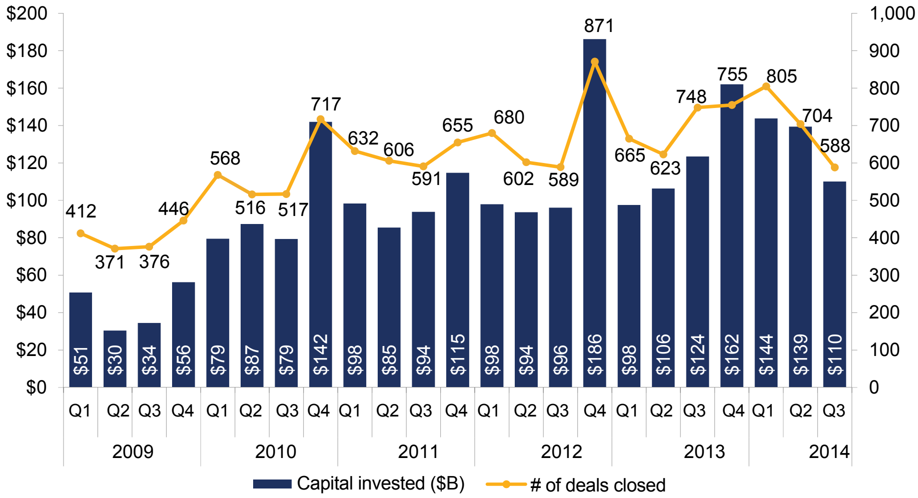


Figure 2. Buyouts: add-ons vs. non add-ons

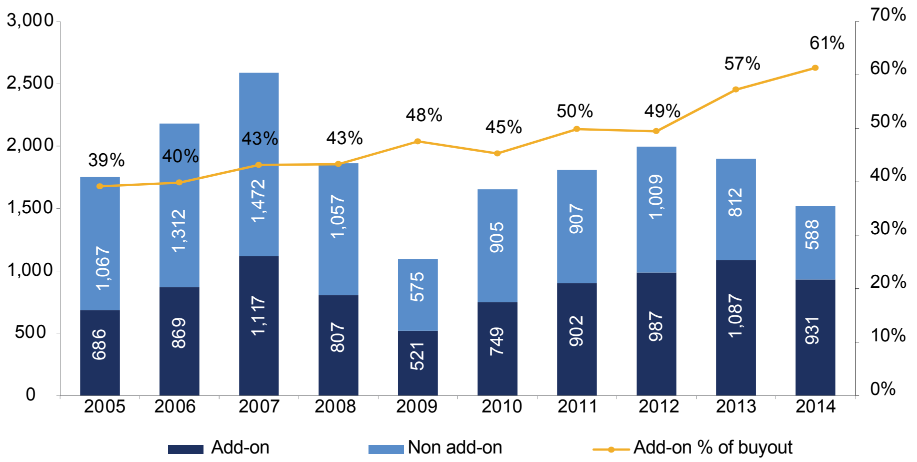
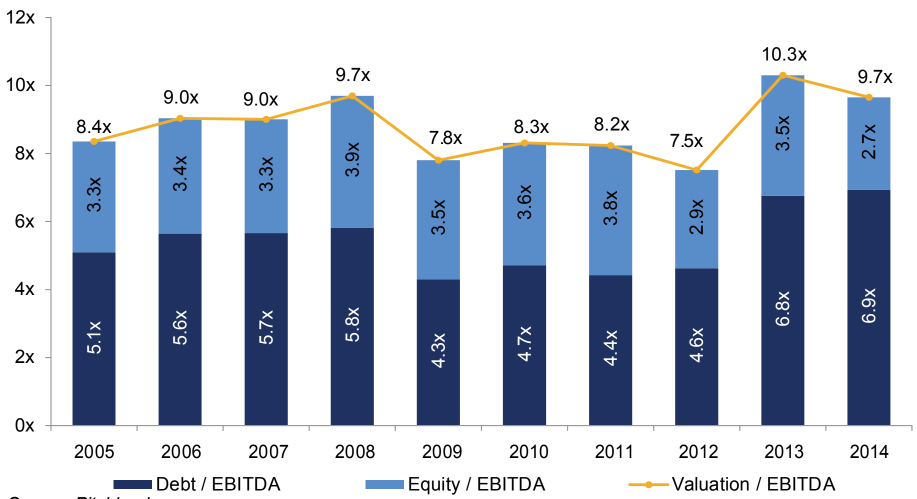


Figure 3. Median EBITDA multiples



Source: Pitchbook

Deals by industry sector

The largest percentage of capital invested through Q3 2014 has been in the business-to-business (B2B) sector, boosted by several multibil-lion-dollar commercial products deals, like Blackstone's $5.4 billion purchase of Gates Global. Information technology decreased from 20% of capital invested to 12% in 2014. The healthcare sector has declined slightly in activity compared to 2013, and is currently on pace to complete around 330 deals in 2014. The remaining sectors are trending similar to the past years.

Deals by region

The Great Lakes represents 16% of all PE activity to date in 2014, up from 14% in the prior year. The Mountain region is at a record 9% of deal flow thus far in 2014. New England and the South are still in decline; the former is set to record its lowest completed deals percentage total since 2010. The West Coast, on the other hand, has increased a percentage point to 17% of overall activity in 2014 to date.

PE exits in the US

High valuations have affected deal flow, but have generated an increase in exit activity over several quarters. 2014 has seen more capital exited through the first three quarters ($159.2 billion) than in all of 2013 ($155.3 billion), and may even pass the post-crisis record of $200.7 billion in 2012.

Figure 4. Median debt percentages

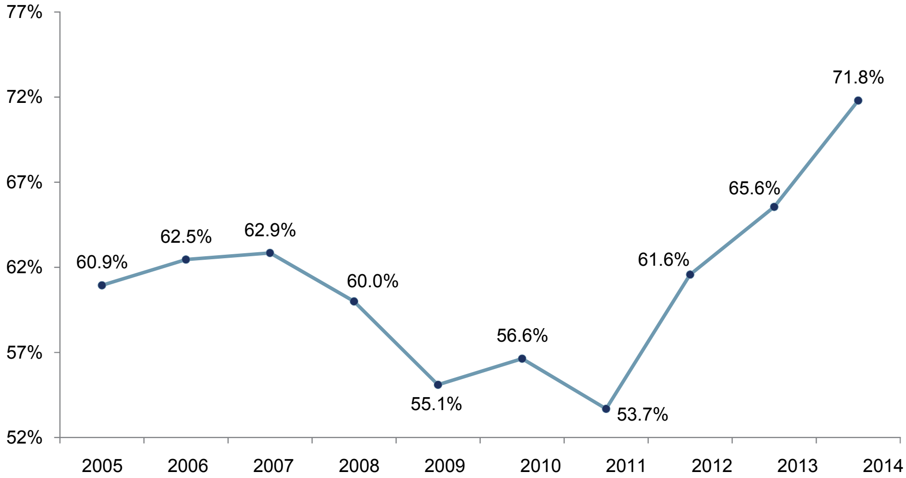


Figure 5. Deals by industry sector

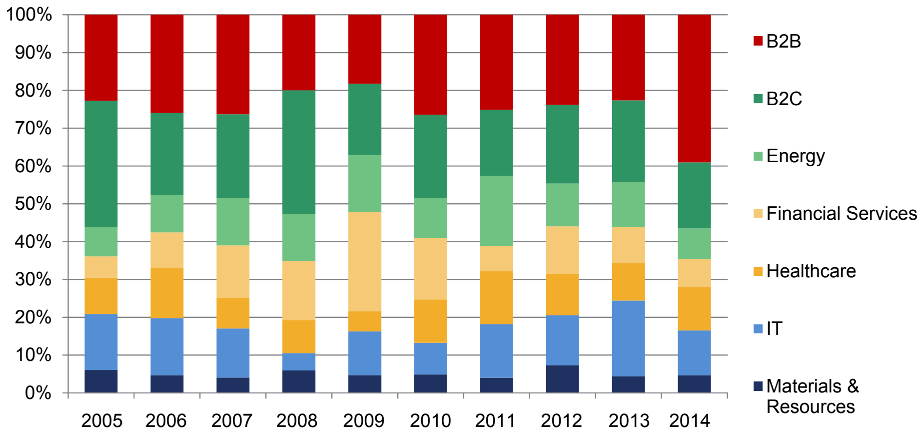
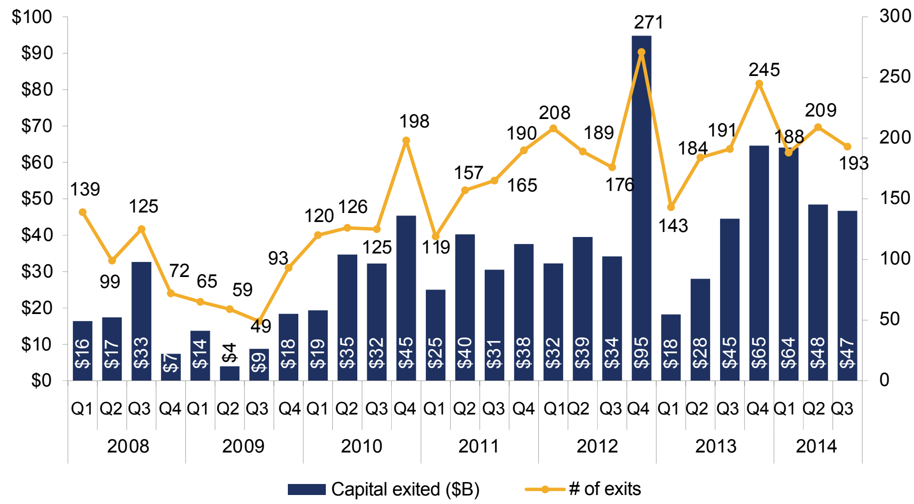


Figure 6. US exit flow by quarter



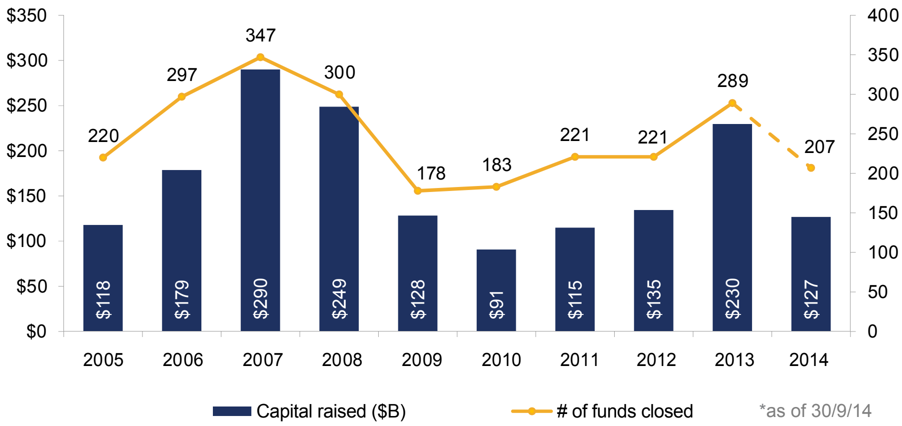
Source: Pitchbook

Fundraising outlook

PE fundraising in the US has declined for three consecutive quarters by fund count. The 50 funds closed in Q3 is a 33% drop from the 75 that closed in Q2, and represents a 42% decline from the 86 closed in Q4 2013. About $34.5 billion was raised in the third quarter. In all, 207 new PE funds have closed in 2014 with $126.7 billion in commitments compared to 289 programs and $229.7 billion in all of 2013.

While fundraising totals will likely be down versus last year, the fundraising trail is arguably stronger this year. One of the more useful data points in assessing PE fundraising is the percentage of funds hitting their targets. Through Q3, 88% of US-focused PE funds did so, up from 80% in 2013 and 70% in 2012. This high percentage is due to PE firms making concerted efforts to downsize their subsequent fund sizes, especially as deal-making has become more difficult. Combined with record distributions back to LPs, investors are finding that more modest fundraising goals and capital-rich LPs are creating a smoother fundraising environment.

Figure 7. US fundraising by year



Source: Pitchbook

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