EMEA PRIVATE EQUITY

Market Snapshot

- **European Leveraged Lending**: How are PE Firms Taking Advantage of Conditions in the European Leveraged Finance Market?
- **Consumer Confidence Conundrum** – EMEA PE skeptical about Consumer Confidence Outlook?
- **Middle East Sovereign Wealth Funds** – Perfect Partners for Mega-Deals

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Welcome to the sixth issue of EMEA Private Equity Market Snapshot, a quarterly publication focusing on the private equity (PE) market in Europe, the Middle East, and Africa (EMEA).

In this edition, we welcome a contribution by Ruth McGavin from Leveraged Commentary & Data (LCD), a division of S&P Capital IQ, which explores trends in debt financing for private equity-owned companies. LCD’s feature piece considers the current state of the European leveraged finance market, and how PE firms are taking advantage of these conditions.

This report also considers the recent headlines surrounding consumer confidence levels. On 30th June 2015, the FT reported ‘UK consumer confidence at highest in 15 years’, yet conversely S&P Capital IQ data suggests that the EMEA PE Market deal activity is lagging compared to the levels achieved in similar pre-crisis consumer confidence highs.

And finally, this edition examines the trends behind private equity investment in the Middle East, highlighting the Sovereign Wealth Funds which appear to be joining efforts with global and local PE firms to buy foreign assets.

As always, in the appendix of this issue is a data pack which provides a top-down view of the market compared to its position at the same point in time last year. Included in the data pack are charts showing transaction numbers and volumes among EMEA-based PE and venture capital (VC) targets, transaction volumes and deal counts undertaken by EMEA-based PE firms and VCs, and sector-level multiples for private equity and the region’s broader merger and acquisition market.

At the heart of our analysis is the S&P Capital IQ platform which 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 emea-marketing@spcapitaliq.com.

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Exit Capital Buoyed by Large Cap Sales Amid Investment Slowdown in EMEA targets

The EMEA private equity (PE) market has seen both positive and negative elements in Q2 2015, with less capital being deployed to deals, and capital realisations showing none of the slowdown that seems to be occurring at the entry stage.

Although the amount of overall capital invested in the EMEA region by global private equity firms in Q2 2015 decreased compared to Q2 2014, as did the number of deals, the size of the deals themselves were larger. Between April and June, global private equity put €26.3bn of capital to work in EMEA-located targets across 965 new deals. These figures represent a significant decrease from the €31bn invested across 1,345 new deals in Q2 2014.

In terms of divestiture deal counts, the EMEA private equity industry saw a retrenchment with only 316 portfolio companies exited in the second quarter of 2015 compared to 388 in Q2 2014 - a 19% decline in exits realised. However, exit capital showed a significant 42% uptick in Q2 2015, totalling €41.3bn of realised capital compared to €29bn in Q2 2014.

This significant uptick in exit capital appears to be driven by a few large exits, in particular the €8.7bn exit of Friends Life Group Limited by Aberdeen Asset Management PLC; Old Mutual plc; PPM America, Inc; State Street Global Advisors, Inc.; Threadneedle Asset Management Holdings Ltd.; Invesco Fund Managers Limited; and Legal & General Investment Management Limited. In addition, the €5.9bn exit from Iglo Foods Holding Limited by Permira Advisers Ltd also buoyed numbers for the quarter.

The majority of Q2 2015 deals were secondary sales or trade sales, however, it is interesting to note that there were only 11 IPOs during the quarter, compared to 15 in Q2 2014, which suggests there is a slowdown for public market exits.

In the venture capital (VC) world, EMEA start-ups attracted 456 new deals amounting to €2.5bn of venture capital. This represented a 56% increase in capital invested and a 33% reduction in deal count from 680 new deals last year. The EMEA venture capital world continues to concentrate higher levels of capital on fewer and fewer investments as the most promising companies attract the majority of capital; a trend also replicated in the universe of EMEA-located venture capital firms.

Potential Greek Exit Overshadows EMEA GPs Confidence in the Eurozone

Resurgent uncertainty in the Eurozone area, as a potential Greek exit has loomed large throughout the quarter, may have contributed to a similar drop off in Q2 2015 investment activity by EMEA-located private equity firms. Exits mirrored the trends in the EMEA-located target universe, with realisations up by 77% across 5% fewer deals.

The biggest trend to emerge within the EMEA GP universe has been towards larger deal sizes across fewer deals, something mirrored across the EMEA PE/VC markets. €25.7bn were invested by EMEA-located GPs across only 1004 new deals, compared to the €25.6bn across 1,378 deals in Q2 2014. This represents a marginal 0.4% decrease in capital deployed but a 27% decrease in new deals. Average deal size, therefore, increased by 37% from €28.6mn in Q2 2014 to €39.1mn in Q2 2015.

Exits by EMEA private equity firms replicated the drop-off in investment by global private equity firms into EMEA. In Q2 2015 the EMEA-based private equity industry collectively completed 368 exits, a 5% decline compared to the 388 made in Q2 2014. Again, exit capital increased significantly to €48.2bn compared to €27.2bn in Q2 2014. Notable exits included the €3.6bn sale of broadcasting company TDF S.A.S. by
EMEA PRIVATE EQUITY MARKET SNAPSHOT

Charterhouse Capital Partners LLP; Intermediate Capital Group plc; TPG Capital, L.P.; Ardian; Caisse des dépôts et consignations; Stockwell Capital LLC; and Bpifrance Participations SA.

On a sector basis, Q2 2015 saw big shifts in terms of the most popular sectors for investment, with consumer staples investment standing at €6.6bn compared to €0.5bn in Q2 2014. Financial sector assets also saw an increase in aggregate capital divested, with €12.5bn realized compared to €4.4bn in Q2 2015. These shifts were in part driven by the two large exits from Iglo Foods Holding Limited and Friends Life Group Limited, however, despite these shifts, the sectors still realised gains relative to their position last year.

On the start-up front, EMEA-located venture capital firms distributed €4.4bn of capital across 508 new investments globally in the first quarter of 2015. The data continues to show a trend of increasingly concentrated venture capital investment with twice as much capital invested by EMEA located VC firms across 29% fewer deals (528 in Q2 2014).

**EMEA PE Firms Skeptical on Consumer Confidence Numbers**

A growing resurgence in consumer confidence suggests that the future for consumer spending within the European Union looks brighter than any point before 2008 and the financial crisis. Effectively, in Q2 2015, the EU consumer confidence indicator (CCI) touched its highest level since Q3 2007, whilst in Q1 2015 the Nielsen UK Consumer Confidence Index hit its highest level since Q1 2006. Despite this boost in confidence, global private equity deal flow appears to be lagging within the consumer discretionary and consumer staples sectors compared to similar heights in the CCI’s history. Indeed, according to S&P Capital IQ data, the underlying trends in the EMEA private equity market suggest that the private equity industry may not share such an optimistic outlook for the sector.

S&P Capital IQ’s transaction data shows that global private equity investment into EMEA-located consumer sector targets reached a peak in investment in 2007, with 1038 deals deploying €69.9bn. However, in the post-crisis years, activity has been largely flat with deal count hovering around the 800 – 900 mark in most years post-2007. This stale level of activity is mirrored largely in EMEA-focused private equity fundraising, with the number of funds that include consumer discretionary and

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consumer staple investments in their investment criteria reaching a final close ranging quite stably between 20 and 30 per year since 2010. €127bn were raised by funds reaching a close in 2014 that include EMEA consumer discretionary and consumer staples sectors within their investment remit, a mere 4% more than in 2013 (€122bn) and hardly part of a major trend.

**Discretionary Winning over Staples**

Investment by global private equity firms into EMEA has historically focused on the consumer discretionary sector, which has attracted €100.2bn of the €129.4bn of capital invested on aggregate into consumer targets since 2010. The sharpest growth in the 2000’s, spanned 2002 – 2007; a period which saw significant levels of consumer confidence according to the European Union’s CCI. At the same time, consumer staples has accounted for the remaining €29.2bn of aggregate capital investment. Within consumer staples, the subsector of choice has been packaged foods and meats with 49% of the deal count.

Whilst investment levels in the consumer discretionary sector have fluctuated in line with consumer confidence, those made in the consumer staples sector have remained significantly steadier since 2000, which is unsurprising given the essential, and hence stable, nature of the sector.

The data would seem to indicate that the consumer sector overall, especially staple goods, represents something of a stalwart for the industry, however, it is failing to show levels of activity in line with the increased levels of consumer confidence. This is noticeable in the drop off in funds launched in 2015 which include the sector in their investment criteria. In H1 2015, 55 funds have launched which will consider investing in the sector, seeking €32.7bn in investor capital. These 55 funds represent a 49% decrease from the 96 funds launched in H1 2014 and a 56% decrease on the €74.6bn sought.

This drop off is at odds with the new heights that the European Union’s Consumer Confidence Indicator has reached in Q2 2015 and could suggest that the private equity industry may be waiting on the sidelines with respect to consumer sector investments.

Particularly stark is the deviation between consumer confidence (as indicated by the EU’s CCI) and private equity deal making in the industry, which has historically shown a degree of correlation between 2002 and 2011. As also shown in Figure 2, despite the relative uptick in consumer confidence over the past few quarters, deal making activity has not

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3 The most popular subsector within the space has been online retail which has captured 17% of the deal count over the period.

4 This number includes funds which seek to invest in multiple sectors including consumer sectors and is therefore not directly indicative of the dry powder dedicated to the sector.
necessarily moved up in lock step and has largely remained steady since 2010.

Looking at the wider M&A market for EMEA-located consumer sector targets, activity has been similarly restrained, with 3399 transactions closed worth €128.1bn in 2014 compared to 3606 transactions worth €173.2bn in 2013. It would seem that the wider PE market is skeptical about the increased levels of consumer confidence and is not yet willing to put money into opportunities within the sector.

As pointed out by empirical studies, confidence indicators do not always have inherently strong predictive powers and, at times, survey data can fail to predict actual outcomes in the economy. However, looking at the fundamental data for the consumer sector in the S&P Capital IQ database, the future seems bright. Average public sector company revenues grew by 14.2% between 2013 and 2014 - from €1.3bn to €1.5bn. Consumer discretionary companies have seen even better revenue growth from an average of €1.2bn in 2013 to €1.4bn in 2014. In the private company universe, revenues grew 30% from an average of €21mn in consumer discretionary firms in 2013 to €28mn in 2014.

This positive historic performance looks set to be continued into the future, with S&P Capital IQ consensus broker earnings estimates for public consumer sector companies showing a 9% increase in revenues for the fiscal year 2015. But in sum, despite strong consumer confidence indications and robust fundamental performance, consumer related deals are not yet making it to the table in force.

Middle-Eastern Investors, the Partner of Choice for PE Mega-Deals?

With the economy and the tax revenue of the majority of the Middle Eastern countries benefiting heavily from the revenues of the oil & gas industry, the natural resource curse phenomenon would suggest that the governments in the region may have little motivation in diversifying the local economy away from the natural resource revenues. However, with the recent downward pressure on crude oil prices, governments in the region have repeatedly tapped into their reserves to maintain public sector spending, exposing the reliance on oil & gas in the region. Over recent decades, the governments and financiers of the oil-rich nations have built up formidable cash piles in their sovereign wealth funds (SWF) and in domestic private equity firms to help cushion the blow of declining oil revenues.

S&P Capital IQ data suggests that, although a relatively large private capital sector exists in the region, the funds based there are largely targeting outside the region, with sovereign wealth funds leading the charge for trophy assets around the globe.

Private Equity Investment in the Middle East

With 483 operating firms located in the region, the Middle Eastern private equity and venture capital market is slightly larger than its Iberian equivalent (405 firms), a similar sized market in EMEA. However, the market dynamics appear to be very different to those in the West.

Looking at deals backed by Middle Eastern PE firms that are reinvested within the region between January 2005 and June 2015, it is interesting to note that only 20% of the total deal value stays in the area.

representing just €16.1 billion over the period. This is a noticeably smaller reinvestment rate within a local economy in comparison to Western standards where a large majority of the private equity firms invest significantly within their home country or region. In fact, the total reinvestment amount is smaller than the deals directed to the United States and United Kingdom (€22.7 and €22.5 billion respectively).

Looking further at the regional reinvestment, the most attractive sectors in terms of total deal count were consumer discretionary with 20%, information technology at 20%, and financials at 17%. In terms of deal value, financials attracted the largest amount of investment (€5.6 billion), putting it significantly ahead of that in industrials (€3.5 billion) and consumer staples (€2.7 billion).

Year-on-year our sample shows a significant drop in local M&A activity backed by Middle Eastern PE buyers between the 2008 peak (44 deals) and 2009 nadir (19 deals). Our Q2 2015 data shows only eight total transactions. The drop in investment amount over the years is significant, going from a peak of €2.6 billion in 2008 to €740 million in 2014. However, the volatility may be a consequence of the comparatively low level of deal-making in the region.

On the private placement front, activity in terms of deal count has comfortably overtaken the pre-crisis peak with 43 transactions in 2014 compared to 31 in 2008. Total deal value remains muted with an average annual deal value at €77.3 million between 2011-2014, compared to a 2005-2007 average of €900 million. This is mainly due to a drop-off in large private placements in the financial sector before the crisis, with the focus now on small investments in information technology.

Finally, it is worth noting that when comparing the Middle East PE market to a similar sized market in EMEA such as Iberia - where an average of roughly 150 ‘local’ private placements deals were closed annually over the period - the Middle East looks, at best, in the early stages of start-up development.

**SWFs: Buying up the World One Trophy Asset at a Time?**

Focussing on the private direct investment (M&A deals and private placements) activity of Middle Eastern sovereign wealth funds, S&P Capital IQ data shows that they are banking on a foreign investment portfolio to generate long term revenues for citizens back home. Looking at our data from January 2005 to June 2015, 218 of 278 transactions (78.5%) were made outside the Middle East, representing €128.7 billion.
out of €137.8 billion total investment value. This means that only 6.5% of the sovereign money in our sample was reinvested locally. However, this may be a natural reaction to the low number of assets available in a region dominated by government and family-run businesses, which our private equity findings already seemed to indicate.

The major sectors for regional reinvestment by SWFs are financials and industrials with 29 (€7.5 billion) and 18 deals (€1.4 billion) respectively over the same January 2005 to June 2015 period, in line with our findings for private equity sponsors.

Unsurprisingly, the well-known preference of Middle Eastern buyers for real estate investments is reflected significantly in our data. Over the same period, a total of €28 billion (72 deals) were directed into real estate assets, including hotels. Also unsurprising is that, across the spectrum, the majority of the transactions were investments in Europe (€55.5 billion), and the United States (€39 billion), with the predominance of interest in Europe likely to be a result of the geographic proximity and favourable relations between the Middle East and Europe. Additionally, it is interesting to note that the SWFs in our sample displayed some willingness to invest alongside other investors in major transactions, including global banks and private equity firms.

The SWFs also appear to have taken advantage of the reduction in asset prices during the early days of the financial crisis, deploying significantly larger numbers of funds in 2008 (€32 billion) and 2009 (€20.7 billion) than in 2007 (€9.6 billion), potentially acquiring some assets more cheaply. In terms of the most active private direct investors, Abu Dhabi, Qatar and Kuwait’s sovereign funds were the uncontested leaders over the January 2005 to June 2015 period, accounting for €63, €41 and €31 billion of the funds invested in our sample.

Although the investment strategies and activities of SWFs are largely shrouded in secrecy, it is interesting to note that overall a third of the investments in our sample correspond to trophy assets across all sectors. These investments range from Harrods department store, the former U.S. embassy in London, and the London Olympic Village to Uber Technologies.

Overall, our research tends to demonstrate that although a relatively large direct investment industry exists in the Middle East, the sector is dominated heavily by the firepower of the SWFs who often co-invest with global and local PE firms to buy foreign assets. The S&P Capital IQ data suggests that the grassroots of a local direct investment activity exist, but more work will be required in order to diversify the oil-based economy and provide targets for SWFs.

How are PE Firms Taking Advantage of Issuer-Friendly Conditions in the European Leveraged Finance Market?

The financial community at large, including the private equity industry, is enjoying another era of cheap and plentiful debt financing to support buyouts of new businesses and financial engineering for existing credits. In a development that goes beyond what was seen during the 2006-2007 boom era, the leveraged debt markets’ private equity players now have a greater range of financing options when it comes to cutting a path through the capital markets.

However, it is not the case that the European leveraged debt markets are as heated as they were in those earlier years in terms of leverage multiples. In fact, leverage on loan financings across Europe is far more temperate in today’s market – due in part to constraints imposed by U.S. regulators.

Instead, rather than pushing leverage as far as it will go, many private equity firms appear to have focused this year on other ways to make the most of the issuer-friendly conditions in the debt markets, such as
obtaining the cheapest possible cost of funds or the most favourable documentation.

**Taking the Bond Route**

During the years leading up to the mid-2007 credit crisis, private equity firms relied heavily on the leveraged loan market to provide debt financing. Loans were one of the most widely used financing tools supporting buyouts, and to refinance and recapitalise existing portfolio companies to pay dividends.

LCD data shows how private equity backed borrowers used a combination of first- and second-lien loans, and mezzanine debt, to layer up the capital structure and achieve maximum leverage. In 2007, at the peak of the leveraged market boom, 92% of all private equity backed companies that tapped the leveraged loan or high-yield bond markets used the loan format, and just over half of all this issuance came as a combination of senior and junior loans. That year, PE-backed companies raised a total of €140 billion of senior loan financing in Europe, from 274 deals.

Following the 2007 credit crisis, the loan market became far more difficult for private equity players to access, as banks and institutional investors dramatically tightened their lending criteria or withdrew altogether from the sector. In need of new ways to refinance ageing debt packages, private equity firms turned increasingly to the high-yield bond market. This was a market that many had previously spurned because of bonds’ long non-call periods as well as the requirement for public ratings and greater disclosure compared with the loan market.

Moving forward to 2014 and 2015, the private equity industry appears to have become far more comfortable with issuing high-yield bonds, and many regularly use this route as well as – or instead of – tapping the loan market.

Through the end of June 2015, the private equity industry had raised €13.78 billion from the European bond market, putting it potentially on track to beat the annual record of €25.7 billion of 2013. Moreover, one quarter of all the private equity backed companies that tapped the European leveraged capital markets this year raised bonds only. This is higher than all full-year periods since LCD began tracking the high-yield market in 2006.

Having become regular users of the high-yield option, financing alternatives have significantly widened. Private equity firms can now choose fixed or floating-rate issuance; can opt to diversify the investor base for their debt; can benefit from relative value plays by selecting between the two asset classes; and have more choice around what length non-call period and covenants they will accept.

For larger deals that have the option of tapping the U.S. market as well as the European market, private equity firms may also be able to take advantage of relative value versus U.S. loans and bonds, and to access a deeper investor base. Back in 2007, cross-border syndications were also a
feature of the market, and today the number of investors that play in both bonds and loans, and in both Europe and the U.S., has grown meaningfully.

As Figure 5 demonstrates, clearing yields on loans and bonds in both markets have fallen this year. In Europe this has been aided by the advent of quantitative easing in January 2015, which saw a wave of investors hunting for yield. Although they were mainly focused on paper rated double-B, inflows into high-yield funds hit record highs during the first quarter and helped push down the cost of funds for private equity backed issuers – which tend to be single-B rated.

Across in the loan market, there appears to be strong demand for leveraged paper from yield-hungry institutional investors including CLO managers, which has generated a strong technical bid and an issuer-friendly market. This technical bid has been enhanced by a somewhat slow pace of buyout activity in Europe this year, relative to the demand for leveraged debt.

“The private equity community has tended to prefer the loan product unless there is a specific reason to go to the bond market. Those specific reasons often oscillate between size, type of sector (because certain sectors have been understood better in the high yield market), or because we hit a moment when the bond product becomes just much more flexible. Broadly sponsors do look at both markets quite actively and are becoming more open to the bond market. In terms of the second half of this year, looking at the first half of this year, there has been good issuance in both markets but the cov-lite product has tended to take product away from the bond market. The bond market has also been showing more pockets of volatility than the loan market, especially over the last month. That being said, the Floating Rate Product has also become more available. I don’t think it’s a clear one or the other, and it may depend on what happens with Greece which is a big factor, but I do expect sponsors to slightly prefer the loan market for now.” – Senior Practitioner, Tier 1 Private Equity Firm
**Leverage Slides Sideways**

However, despite debt financing conditions that are highly favourable for private equity firms, average leverage multiples [i.e. total debt to EBITDA] have held remarkably steady in Europe so far this year, moving sideways rather than decisively downwards or upwards.

In the 2006-2007 era, leverage multiples spiralled upwards in a clear reflection of overheating conditions, before plummeting again when the crisis hit. During 2011 to 2013, LCD tracked leverage rising gradually again as confidence and liquidity re-emerged in the European market.

Then in 2014, leverage multiples for private equity-backed borrowers reached a plateau, rising and falling a little month by month, but never moving too far away from an average reading of about 5x.

In 2015, through end-June, the average reading was in fact a little down on 2014, at 4.9x versus 5.1x.

This “sideways” trend comes at a time when regulatory bodies in the U.S. have taken a strong stance against overly aggressive leveraged loan structures, issuing guidance to delineate what is and is not deemed acceptable in their eyes. Banks that are under the regulatory auspices of the Federal Reserve or OCC risk being criticised, or even penalised, if they arrange loans in any market that breach these guidelines, including if they sell down their own holding to zero. This guidance applies to any deal done by a Fed/OCC-regulated bank, in any market, not just in the US market.

Average leverage in the U.S loan market has fallen markedly in the last 12 months or so, in response to these constraints.

Participants across in the European leveraged loan market hold differing views about the impact of this guidance on European deals. U.S. arranging banks operating in Europe, and some European banks too, do fall within the Fed/OCC’s remit, so there certainly is some impact on the European...
market, especially on deals that are syndicated on a cross-border basis - these deals typically being large and influential in setting market trends.

In addition, it is well known that U.K. and European regulatory bodies are watching developments in leveraged lending very closely for signs of overheating and heedless risk-taking, making banks wary of stacking up excessive leverage.

However, based on our regular surveying of the market, most market players do not seem to take the view that the U.S. guidance is restricting leverage multiples in Europe so far as to severely hamper private equity firms’ ability to win auctions for new assets. Firstly, not all banks are subject to the U.S. guidance. In addition, some sources argue that GPs are generally wary at present of paying sky-high multiples for a European business in a competitive auction situation, unless there is a strong growth story that would in turn allow a clear path to deleveraging.

“We have seen only limited impact on our ability to raise financing for European investments. We do see a bit more caution from banks on cross-border financings. Having said that, there is still plenty of underwriting appetite for properly structured deals. As a buyer, half a turn of incremental leverage is rarely the determining factor in being able to prevail in a sale process. We are more focused on having a sensible debt structure that fits our strategy to drive growth in the business we’re investing in.” – Matthew Sabben-Clare, Partner & Head of Financing at Cinven.

Pricing and Documentation in Play

Two trends that have been much in evidence this year show private equity firms intent on improving aspects other than leverage multiples so as to eke out the best possible terms on their debt, namely pricing and documentation.

Investor demand has allowed most private equity players to reprice a huge volume of existing loans this year, mostly during the second-quarter, taking advantage of the flexibility of the loan product. Interestingly, through end-June, €9.6 billion of paper (PE and non-PE backed) had been re-priced, compared with €10.8 billion in the whole of 2014.

Opportunistic repricing of loans is certainly not a new phenomenon in the European loan market. It is likely to occur any time the flow of new buyouts is light and investor demand for is high: under these conditions, investors are less likely to object if borrowers ask them to accept cheaper pricing on a portfolio asset.

This year, across all re-pricings, the average reduction on the yield to maturity was 70 bps. This is a smaller average reduction than seen in previous years, but the resulting yield is also tighter, at 4.2% through end-May versus 4.56% for 2014 as a whole.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of deals (No. of X-border)</th>
<th>Inst. volume repriced (€B)</th>
<th>Ave. spread cut (bps)</th>
<th>Ave. new spread (E+)</th>
<th>Ave. YTM cut (bps)</th>
<th>Ave. new YTM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-May 15</td>
<td>16 (13)</td>
<td>7.06</td>
<td>56</td>
<td>340</td>
<td>70</td>
<td>4.20%</td>
</tr>
<tr>
<td>2014</td>
<td>34 (14)</td>
<td>10.9</td>
<td>64</td>
<td>382</td>
<td>98</td>
<td>4.56%</td>
</tr>
<tr>
<td>2013</td>
<td>40 (18)</td>
<td>13.2</td>
<td>84</td>
<td>403</td>
<td>137</td>
<td>4.81%</td>
</tr>
<tr>
<td>2012</td>
<td>8 (7)</td>
<td>2.4</td>
<td>80</td>
<td>406</td>
<td>159</td>
<td>5.19%</td>
</tr>
</tbody>
</table>

Source: S&P Capital IQ LCD. As at 31st May 2015. For Illustrative Purposes Only

Re-pricings tend to take place during a short spell of opportunism between bursts of new issuance. Additionally, a longer term trend to the private equity industry’s advantage is the acceptance among European
investors of covenant-lite documentation on loans.

Covenant-lite loans combine the features of both loans and bonds that appeal to private equity firms, in that they have little or no call protection, and are also free from the restraints of maintenance covenants. Investors argue that this type of issuance is not suitable for small transactions nor for the riskiest credits, as they will require more protection on less liquid deals. However, covenant-lite has been imported into the European market from the U.S. and has taken hold.

Through end-May, €6 billion of covenant-lite paper has been syndicated in Europe. This is slightly behind the year-on-year reading of €7.9 billion because M&A and buyout issuance has been comparatively light in recent months. Cov-lite loans make up 33% of the S&P European Leveraged Loan Index at end-May, compared with 15% 12 months previously. Over in the U.S., 62% of the S&P/LSTA Leveraged Loan Index is now cov-lite, up from 55% in May 2014.

Setting aside covenants per se, investors have found this year that loan documentation often carries terms that are similar to bond documentation, in relation to the ability to make acquisitions and pay dividends. Loan market participants note that this is not the case on every deal, but say it is a trend that certainly favours private equity firms by making loans more flexible and less restrictive.

“In some deals, debt market capacity in absolute terms for a particular currency or geography can point you to loans or bonds (or both). Covenants are a factor too, although the increasing acceptance of cov-lite terms loans has levelled the playing field. The prepayability of loans is still attractive in most situations, but bonds offer a good solution for businesses that require capital investment for growth; and bonds can be efficient for roll-out stories.” – Matthew Sabben-Clare, Partner & Head of Financing at Cinven.

Volatility related to the Greek debt crisis softened the tone in the loan and high-yield bond markets in late June, driving bonds wider and giving loan investors an opportunity to push back on repricing requests. However, even if clearing yields do widen in the third quarter, in the longer term the private equity industry is now well positioned in Europe to keep up the pressure on cost of funds and on terms, by playing the bond and loan markets off against each other, thereby taking advantage of the optionality they have gained in recent years.
**PE-EMEA Based Targets**

Number of Private Equity Entry Transactions by Region
Q2 2014 vs. Q2 2015

Aggregate Private Equity Entry Transaction Values by Region (€bn) Q2 2014 vs. Q2 2015

Number of Private Equity Exit Transactions by Region
Q2 2014 vs. Q2 2015

Aggregate Private Equity Exit Transaction Values by Region (€bn) Q2 2014 vs. Q2 2015

For Illustrative purposes only. Source: S&P Capital IQ. As at 30th June 2015
Average Entry Transaction Size by Region (€mn)  
Q2 2014 vs. Q2 2015

Average Exit Transaction Size by Region (€mn)  
Q2 2014 vs. Q2 2015

Number of Private Equity Entry Transactions by Industry  
Q2 2014 vs. Q2 2015

Number of Private Equity Exit Transactions by Industry  
Q2 2014 vs. Q2 2015

For Illustrative purposes only. Source: S&P Capital IQ. As at 30th June 2015
**PE – EMEA GP’s**

### Number of Private Equity Entry Transactions by Region

**Q2 2014 vs. Q2 2015**

- **Asia/Pacific Developed Markets**
- **BeNeLux**
- **Caribbean**
- **Central America**
- **Central Asia**
- **Eastern Europe**
- **Far East**
- **Indian Sub-Continent**
- **Middle East**
- **Nordics**
- **North Africa**
- **North America**
- **Northern Europe**
- **South America**
- **South-East Asia**
- **Southern Europe**
- **Sub-Saharan Africa**
- **Western Europe**

### Aggregate Private Equity Entry Transaction Values by Region (€bn) Q2 2014 vs. Q2 2015

- **Asia/Pacific Developed Markets**
- **BeNeLux**
- **Caribbean**
- **Central America**
- **Central Asia**
- **Eastern Europe**
- **Far East**
- **Indian Sub-Continent**
- **Middle East**
- **Nordics**
- **North Africa**
- **North America**
- **Northern Europe**
- **South America**
- **South-East Asia**
- **Southern Europe**
- **Sub-Saharan Africa**
- **Western Europe**

### Number of Private Equity Exit Transactions by Region

**Q2 2014 vs. Q2 2015**

- **Asia/Pacific Developed Markets**
- **BeNeLux**
- **Caribbean**
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- **Central Asia**
- **Eastern Europe**
- **Far East**
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Average Entry Transaction Size by Region (€mn)
Q2 2014 vs. Q2 2015

Average Exit Transaction Size by Region (€mn)
Q2 2014 vs. Q2 2015

Number of Private Equity Entry Transactions by Industry
Q2 2014 vs. Q2 2015

Number of Private Equity Exit Transactions by Industry
Q2 2014 vs. Q2 2015
DATA PACK

Aggregate Private Equity Entry Transaction Values by Industry (€bn) Q2 2014 vs. Q2 2015

Average Entry Transaction Size by Industry (€mn) Q2 2014 vs. Q2 2015

Aggregate Private Equity Exit Transaction Values by Industry (€bn) Q2 2014 vs. Q2 2015

Average Exit Transaction Size by Industry (€mn) Q2 2014 vs. Q2 2015

For Illustrative purposes only. Source: S&P Capital IQ. As at 30th June 2015
VC – EMEA Based Targets

Number of Private Equity Entry Transactions by Region Q2 2014 vs. Q2 2015

Number of Private Equity Entry Transactions by Industry Q2 2014 vs. Q2 2015

Aggregate Private Equity Entry Transaction Values by Region (€mn) Q2 2014 vs. Q2 2015

Aggregate Private Equity Entry Transaction Values by Industry (€mn) Q2 2014 vs. Q2 2015

For Illustrative purposes only. Source: S&P Capital IQ. As at 30th June 2015
VC – EMEA GP’s

For Illustrative purposes only. Source: S&P Capital IQ. As at 30th June 2015
## Multiples Table

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

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