

European Private Equity Outlook 2018



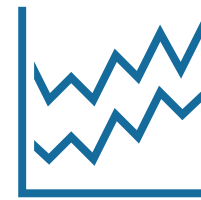
Our 9th 'European Private Equity Outlook' reveals how experts view the market and its development in 2018



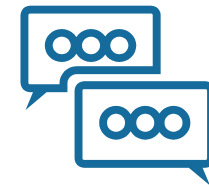
The 'European Private Equity Outlook 2018' is the **9th consecutive publication in a series** launched by Roland Berger in 2010



More than 2,500 experts from private equity investment companies across Europe were contacted for the Private Equity (PE) Outlook



The results mirror **what market experts anticipate** for different countries and what they consider to be relevant factors for the PE business throughout 2018



We hope you enjoy reading this study. **We would be happy to receive your feedback** and look forward to discussing the results with you in more depth

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A. Focus of study and methodology



This study is based on an exclusive survey of private equity professionals from leading PE firms across Europe

Focus and methodology of the study

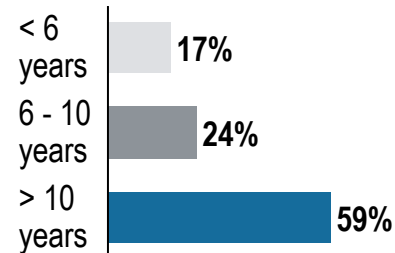
Overview of European private equity survey

- 1 Development of the European private equity market
- 2 Key challenges for private equity
- 3 Competitive dynamics and private equity business model

Key topics in 2018



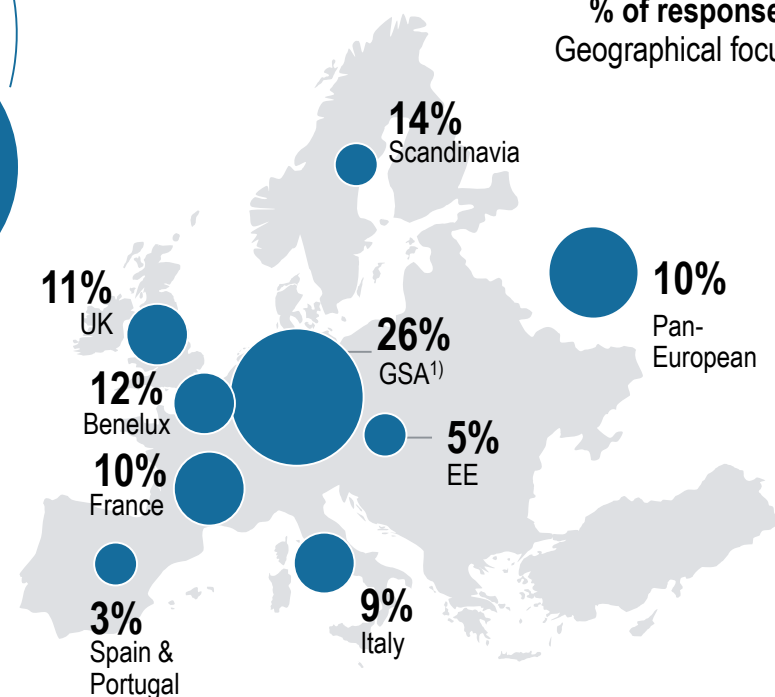
PE experience [% of responses]



Overview of participants

Private equity survey 2018

% of responses
Geographical focus



1) German-speaking area (Germany, Switzerland, Austria)

B. Executive summary



PE professionals have a positive growth outlook for European PE – Pharma, Business Services and TMT considered most promising

- 1** A little more than half of the PE professionals (51%) surveyed expect a **growing number of M&A transactions with PE involvement** in 2018 – This is similar to the previous year
- 2** **Among the most influential factors for M&A in 2018**, PE professionals view the overall economic situation rather favorably, whereas they expect a deterioration in political stability. Uncertainty over Brexit negotiations and some secession movements may have contributed to this view
- 3** **Geographically**, growth in PE-driven M&A is expected across all regions, except for the UK. **The most favorable outlook exists for France, followed by Spain & Portugal** – Germany has a positive outlook, but slightly below prior-year level
- 4** **Pharma & Healthcare, Business Services & Logistics and Technology, Media & Telecommunications (TMT)** are the top three industries expected to see PE-driven M&A deals in 2018
- 5** The **mid/small-cap segment** is considered the most promising in 2018 with regard to M&A with PE involvement – Views on the large-cap segment are less clear, although the overall outlook is more positive for this segment compared to last year
- 6** **Divesting existing investments** is the focus of PE activity for 2018, followed by **making new investments**, which was the top focus in 2017 and 2016

The vast majority (93%) of PE professionals consider multiples to be (slightly) overvalued

- 7 In terms of **exit channels**, sale to strategic investors and sale to PE are expected to see the most favorable development in 2018, followed by IPO
- 8 **Majority shareholdings in family-owned companies** and **secondary buyouts** are continuously viewed as the most important sources of targets
- 9 The majority of PE professionals (51%) believe that **activist investors** make "taking private" transactions more difficult to achieve
- 10 Current **multiples** paid are considered **overvalued or slightly overvalued** by the vast majority (93%) of PE professionals – Nevertheless, c.30% of surveyed professionals expect valuation multiples to further increase in 2018
- 11 The vast majority (62%) of PE professionals expect **no change in the competitive environment for fundraising in 2018**
- 12 The **involvement of external consultants** is highest during acquisition and pre-exit phases in the lifecycle of PE portfolio companies

Add-ons and digitalization/Industry 4.0 are seen as key value creation measures – Active portfolio management to gain importance

- 13 **Competition for deals from Chinese investors** is expected to be stable to slightly increasing according to PE professionals – Respondents expect Chinese investors to have the greatest interest in **Capital Goods & Engineering**, followed by **TMT**
- 14 **Access to the Chinese home market** and **favorable financing conditions** are regarded as the main sources of competitive advantage for Chinese investors in transactions
- 15 **Growth financing and financing for leveraged buyouts** are expected to be more easily available in 2018 – The financing situation with regard to refinancing and recapitalization is not expected to change materially
- 16 **Uncertainty in the transaction process** is considered a relevant challenge in 2018, although less pronounced than in the previous year (39% in 2018 vs. 62% in 2017 agree that there is going to be a high degree of process uncertainty)
- 17 With regard to the private equity business model, **more active portfolio management** is expected to gain in importance, followed by club deals with other funds and minority investments
- 18 **Add-on acquisitions and digitalization/Industry 4.0** are expected to be the most important portfolio improvement/value creation measures in 2018

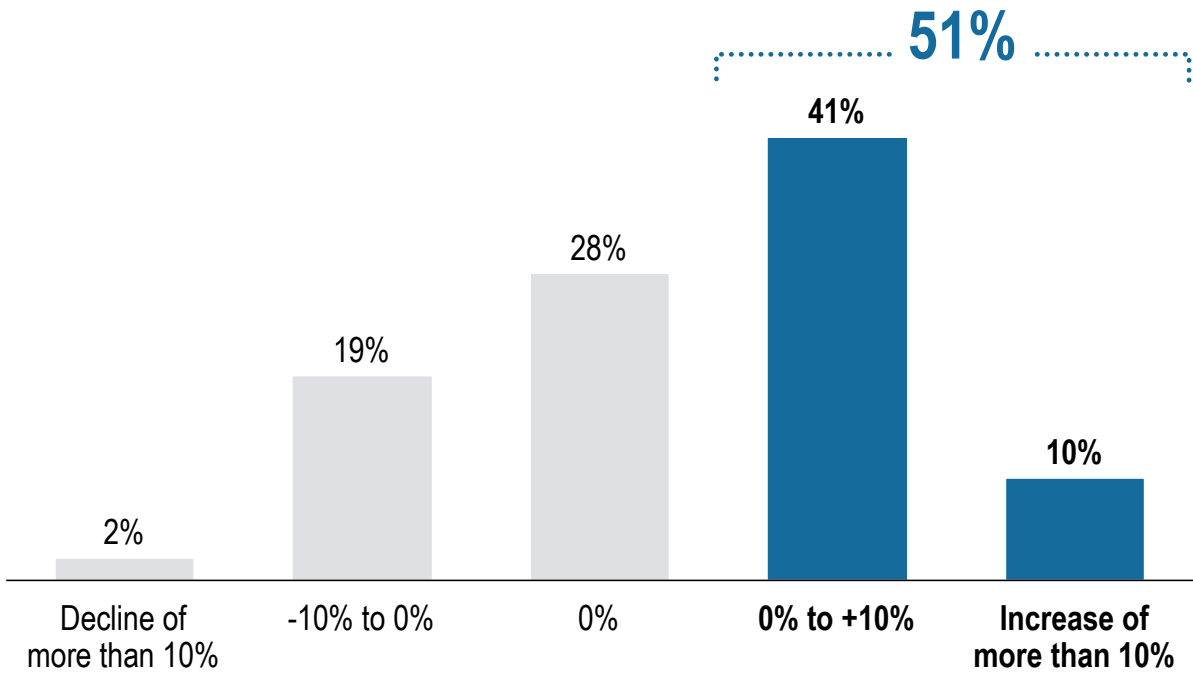
C. Results of the PE Outlook for 2018



A little more than half (51%) of PE professionals surveyed expect a growing number of M&A transactions with PE involvement in 2018

M&A transactions with PE involvement – 2018 vs. 2017 [%]

"What change do you expect to see in 2018 regarding the number of completed M&A transactions with PE involvement?"



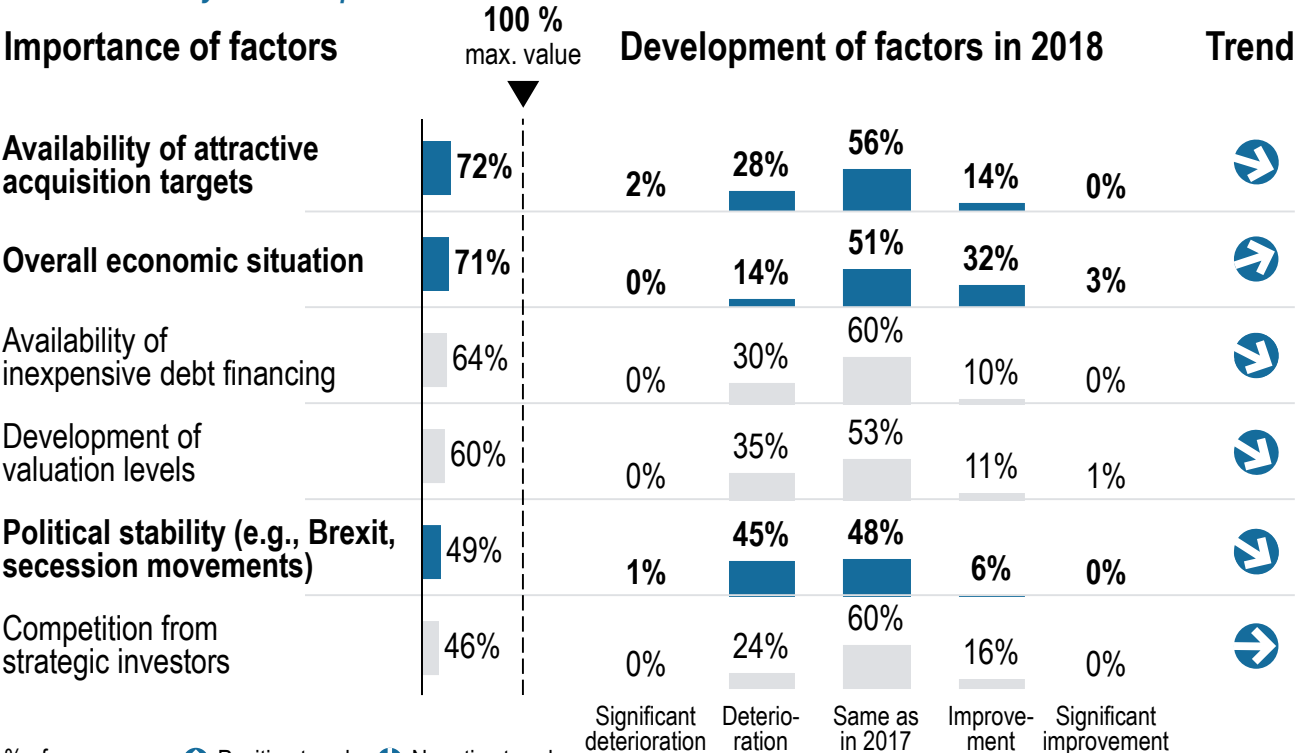
- > More than half (51%) of the respondents expect the number of M&A transactions with PE involvement to increase in 2018
- > 21% of the respondents anticipate a decrease in the number of M&A transactions with PE background in 2018
- > More than a quarter of participants do not expect any change at all
- > Last year, a similar picture was recorded (52% of respondents had growth expectations; 22% indicating a decline)

% of responses [only one response per category possible]

The economic situation is viewed rather favorably, whereas PE professionals expect a deterioration in political stability

Overview of relevant factors for M&A business in Europe – 2018 vs. 2017 [%]

"What will be the most influential factors affecting the number of European M&A transactions with PE involvement in 2018? How will they develop?"



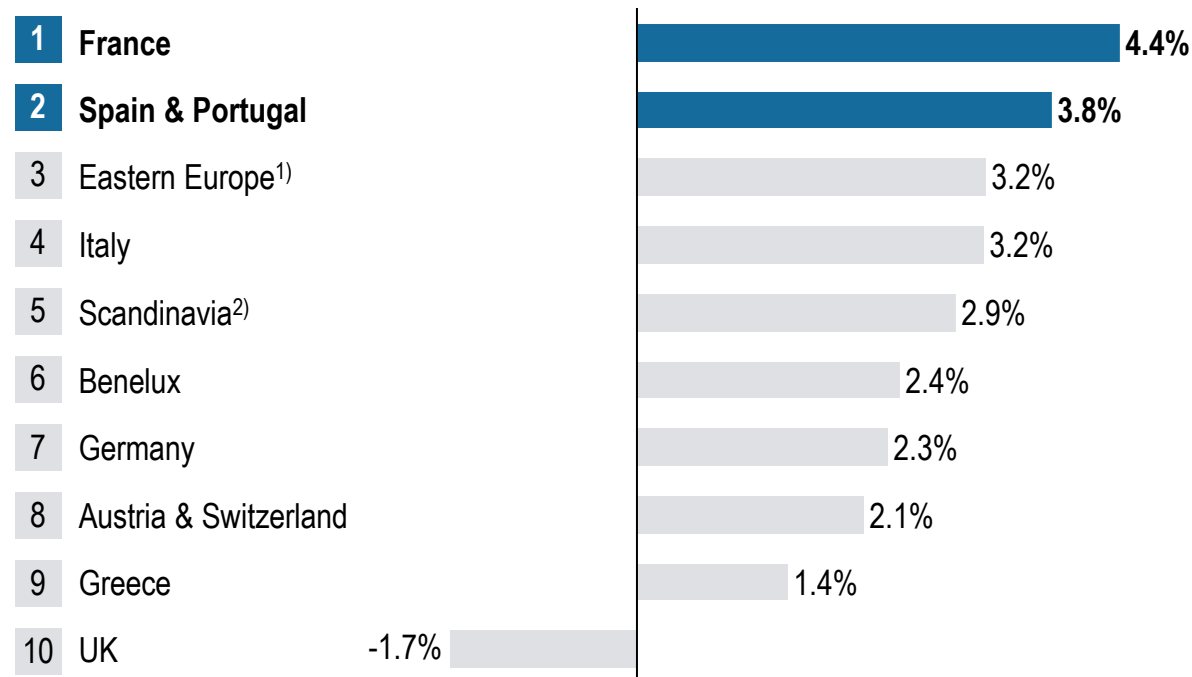
% of responses ↗ Positive trend ↘ Negative trend

- > The most important factor is the availability of attractive acquisition targets, which is expected to show a slight deterioration in 2018 compared to 2017
- > Slightly positive to stable outlook for the overall economic situation is anticipated
- > Valuation levels are expected to further deteriorate (i.e., valuation level increases)
- > Political stability is expected to further deteriorate in 2018 – this comes against the backdrop of uncertainty associated with ongoing Brexit negotiations and some secession movements (e.g., Catalonia)

Geographically, respondents expect growth in PE M&A activities across all regions in 2018, except for the UK

Change in PE M&A activity in major countries – 2018 vs. 2017 [%]

"How much growth in PE M&A activities do you expect to see in the following countries in 2018 vs. 2017?"



- > In 2018, respondents are more optimistic and expect higher growth rates across almost all regions
- > The PE markets in France and Spain & Portugal are expected to see the strongest growth – 4.4% and 3.8%, respectively
 - Positive sentiment in France following the election of Macron and an economic reform-oriented political agenda
 - Spain & Portugal with potential catch-up effect from low base of PE activity
- > Strong growth is expected for Eastern Europe (3.2% each)
- > UK expected to see a decline in M&A activities in the context of ongoing Brexit negotiations

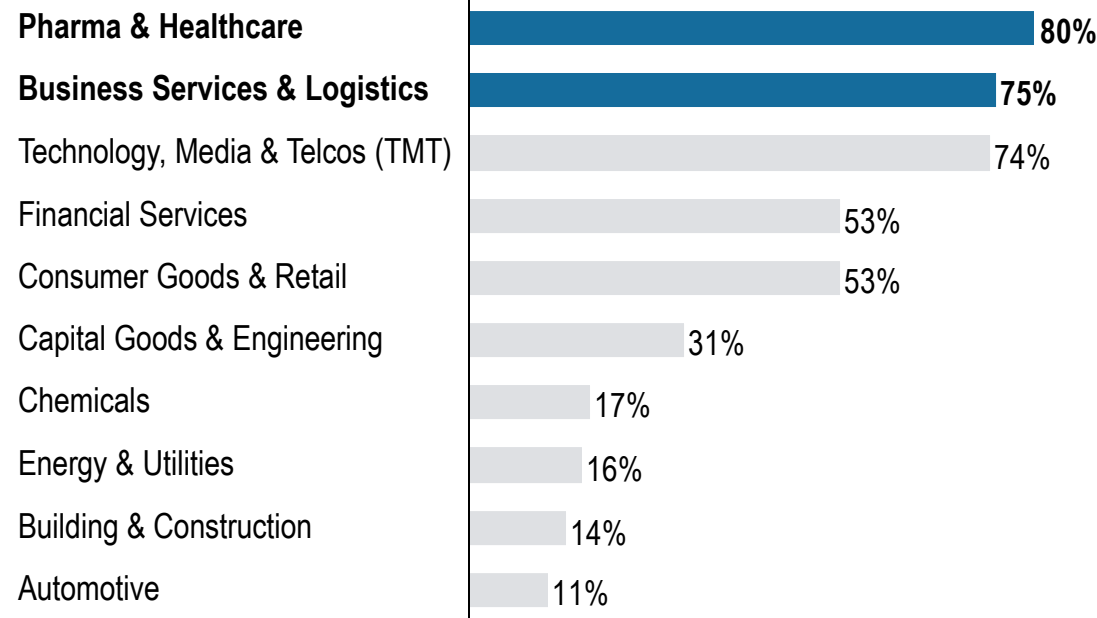
% of growth in PE M&A activity in 2018 compared to 2017; average across all respondents [only one response per country possible]

1) Central and Eastern Europe includes Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia 2) Includes Denmark, Norway, Sweden

Pharma & Healthcare, Business Services & Logistics and TMT are expected to see the most M&A deals with PE involvement in 2018

Likelihood of a high number of M&A transactions by industry – 2018 [%]

"In what industries do you expect to see the most M&A transactions with PE involvement in 2018?"



▲
100%
max. value

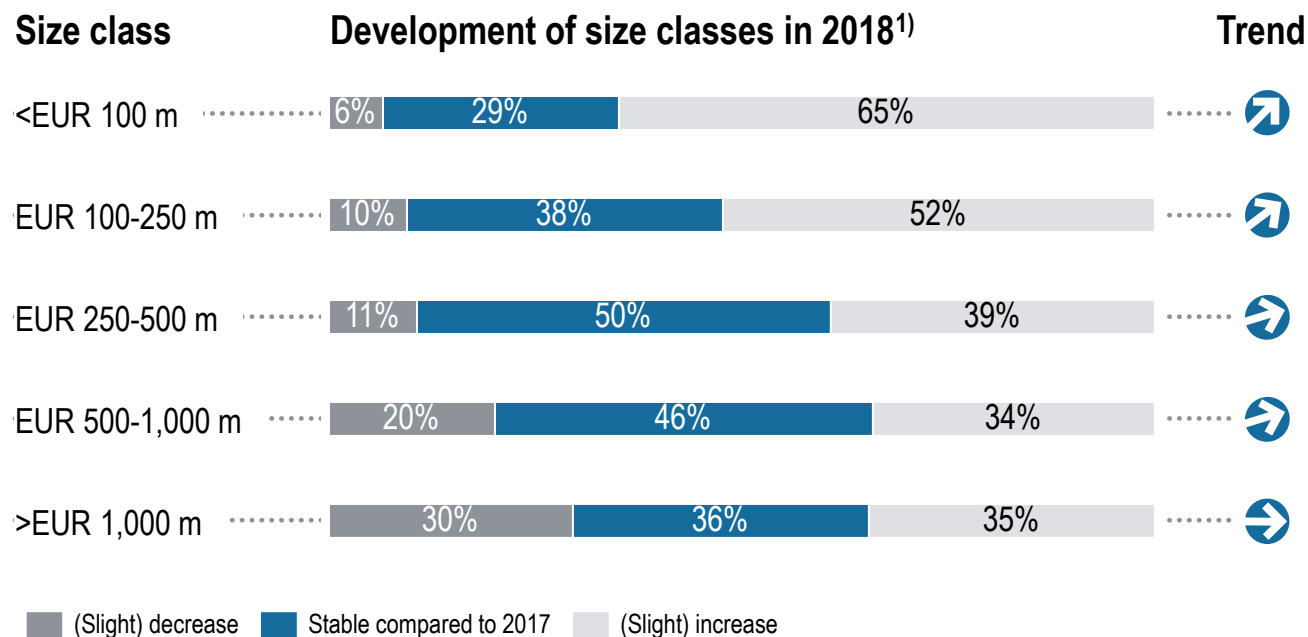
- > The Pharma & Healthcare, Business Services & Logistics as well as TMT industries are expected to be the most active in regard to the number of M&A transactions with PE involvement
- > The majority of respondents expect the Financial Services and Consumer Goods & Retail industries to generate a large number of M&A transactions in 2018
- > As in previous years, a fairly low number of PE transactions is expected in the Automotive sector (although this number varies by country)

% of participants that expect a high number of transactions

The mid/small-cap PE segment is expected to further drive growth – Less growth expected for the large-cap segment, but up from 2017

Development of PE transaction size classes – 2018 vs. 2017 [%]

"Please estimate the development of the European M&A market with PE involvement by size classes."



- > The small-cap segment with deals of up to EUR 100 m, followed by the mid-cap size classes of EUR 100-500 m are considered the most promising in 2018, similar to previous years
- > For the large-cap segment with enterprise values above EUR 500 m, the direction going forward is less clear – however, a smaller number of participants expects a (slight) decrease (50% in 2018 vs. 71% in 2017), indicating a positive change for this segment in 2018

↗ Positive trend ↘ Negative trend

1) Simplified; excluding significant decrease and significant increase

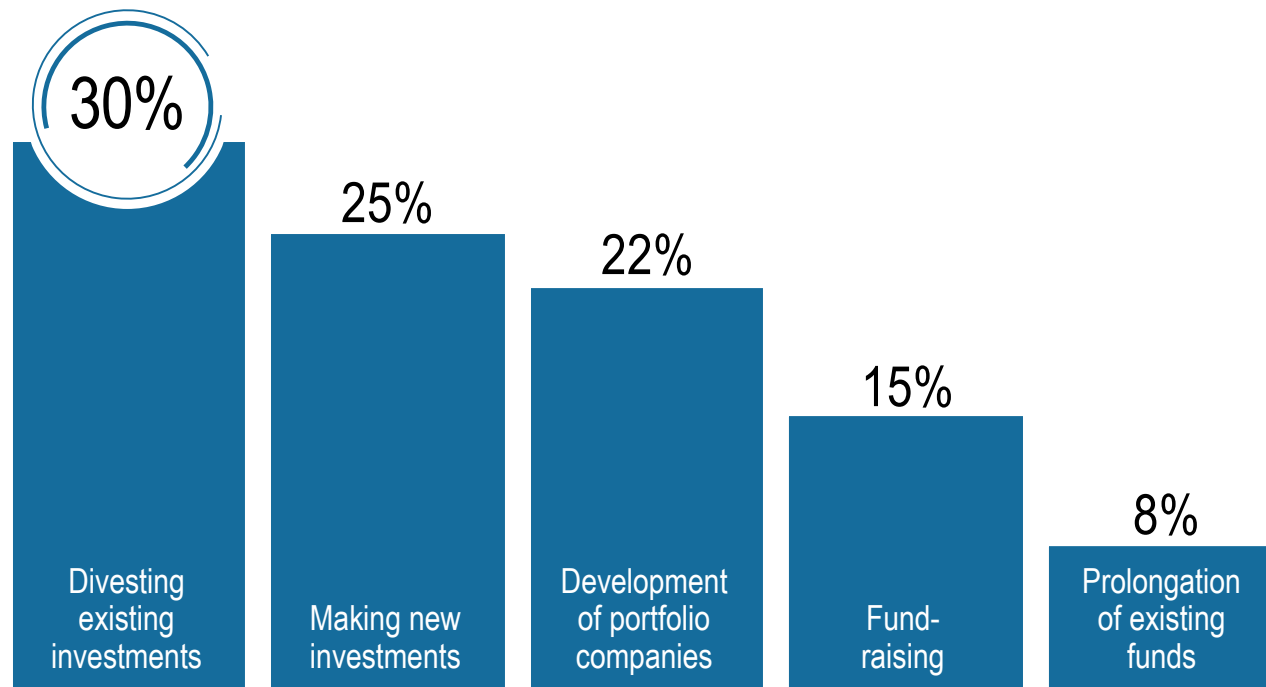
Divesting existing investments is the focus of PE activity for 2018, followed by making new investments (#1 focus in 2017 and 2016)

Focus of PE investors on lifecycle stages – 2018 [%]

"On which phase of the PE value chain will you focus most in 2018?"



- > Divesting existing investments is the new top priority for financial investors in 2018 – up 7 ppt. from 2017
- > Key reason for the priority of divestments may be the elevated valuation level for assets
- > In 2017 and 2016, making new investments was the top priority
- > Developing portfolio companies became slightly less important at c.22% in 2018 (down from c.28% in 2017)

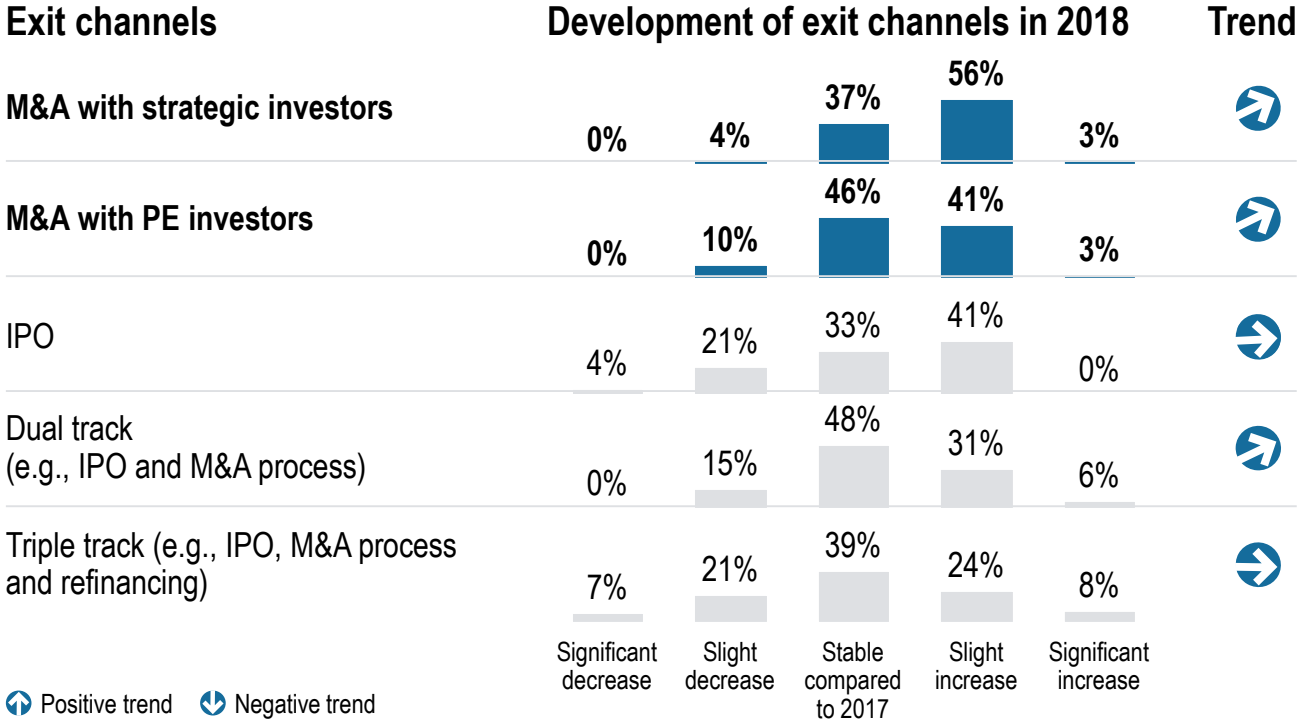


% of participants that will place most of their focus on this phase of the PE value chain

The exit channels 'sale to strategic' and 'sale to PE investors' are anticipated to develop most favorably in 2018

Change in exit channels – 2018 vs. 2017 [%]

"How do you expect the individual exit channels to change in 2018?"



➔ Positive trend ⬇️ Negative trend

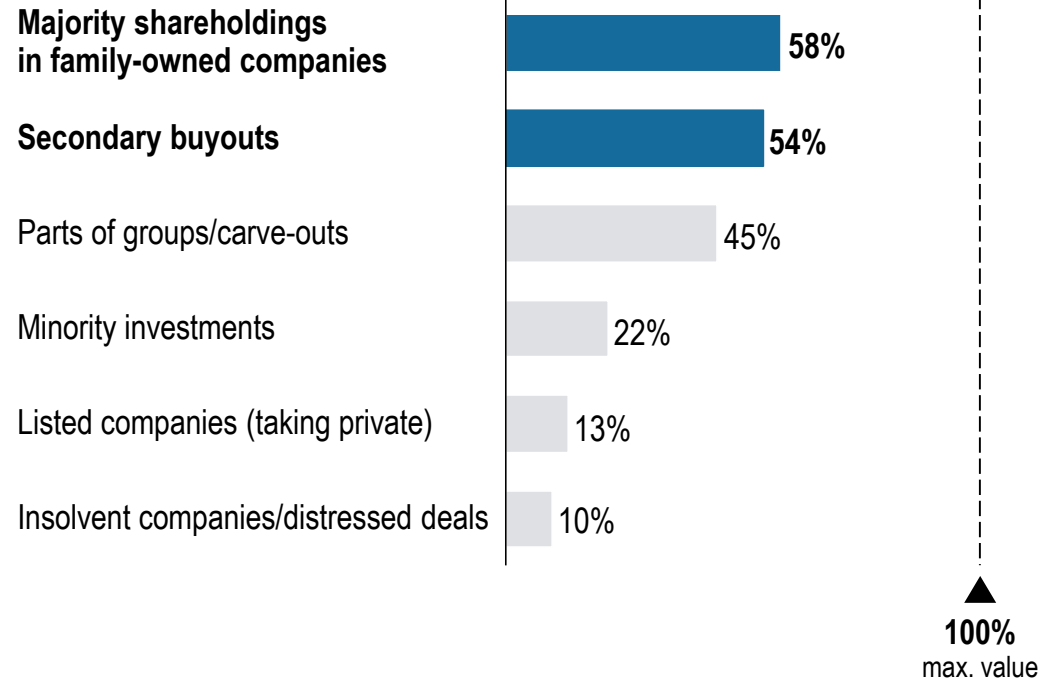
% of responses [only one answer possible for each exit channel]

- > Sale to strategic investors is considered even more promising compared to 2017 (+8 ppt.)
- > Sale to PE investors is also viewed slightly more positively (+3 ppt.)
- > PE professionals expect IPO exits, dual tracks (e.g., IPO and M&A process) and triple tracks (e.g., IPO, M&A process and refinancing) to increase over 2017

Majority shareholdings in family-owned companies and secondaries are continuously viewed as the most important sources of targets

Sources of most attractive targets – 2018 vs. 2017 [%]

"What will be the source of the most attractive targets in 2018?"



Rank change (2018 vs. 2017)

0

0

0

n/a

-1

-1

- > 58% of PE professionals rate majority shareholdings in family-owned companies as the most important source of attractive targets in 2018 – the 2018 figure is significantly below 2017's 72% but roughly on the 2016 level (64%)
- > Secondary buyouts and parts of groups/carve-outs are considered equally as important as in 2017
- > Minority investments have been included in the survey for the first time and are considered important by one fifth of the respondents
- > Listed companies (taking private) and insolvent companies/distressed deals decreased in attractiveness compared to 2017 by 4 ppt. and 5 ppt., respectively

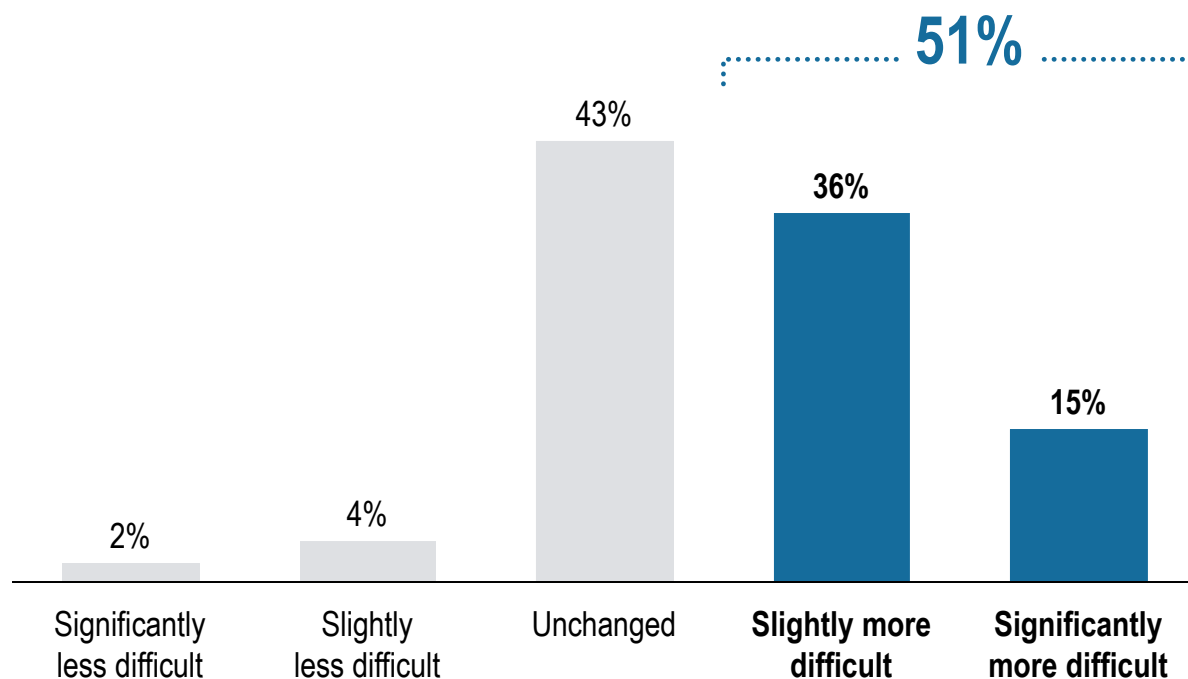
% of participants that expect this source of targets to be important or very important [multiple answers possible]
Source: Roland Berger

Activist investors are considered by the majority of respondents (51%) to make 'taking private' transactions more difficult to achieve

Influence of activist investors on 'taking private' transactions [%]

New question 2018

"To what extent have activist investors made 'taking private' transactions more difficult to achieve?"



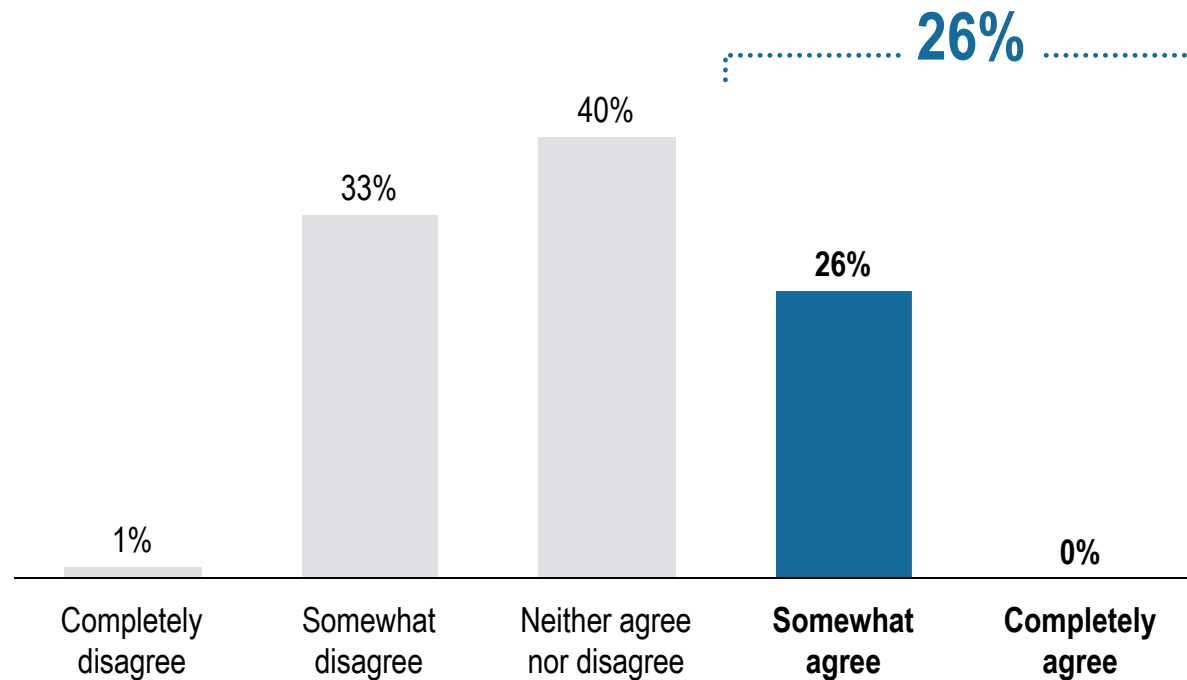
- > A growing influence of activist investors on 'taking private' transactions in a private equity context can increasingly be observed in Europe, e.g., Stada takeover and attempted SLM Solutions deal
 - 51% of the PE professionals consider activist investors to make 'taking private' transactions more difficult
 - 43% see an unchanged impact

% of responses [only one answer possible]

Respondents expect available targets to be similarly attractive in 2018 compared to the prior year

Expected development of investment opportunities – 2018 vs. 2017 [%]

"Overall, do you agree that targets available on the market in 2018 will be more attractive than in 2017?"



- > 26% of surveyed PE professionals expect targets for investments to be more attractive in 2018 than in 2017 – this is a slight increase from 2017, when 24% of respondents expected more attractive market opportunities
- > The percentage of experts who disagree with opportunities being more attractive slightly increased by 3 ppt. – the majority of the share originates from the neither agree nor disagree bracket
- > Participants completely disagreeing with the statement decreased from 4% in 2017 to 1% in 2018

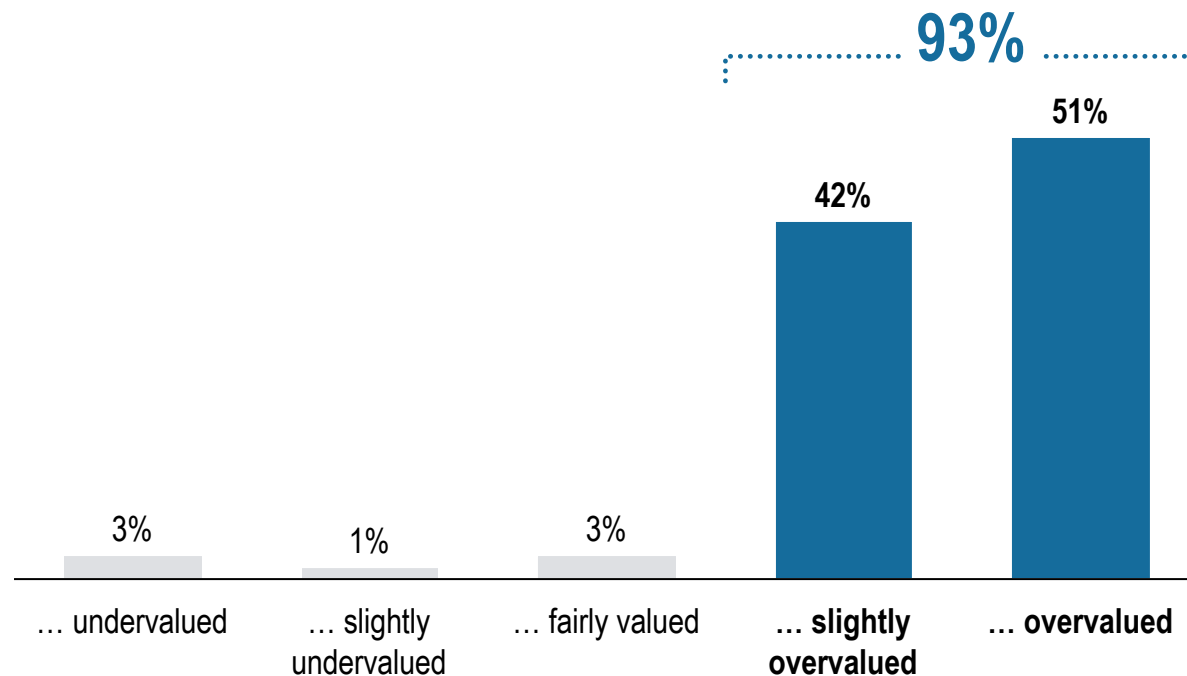
% of responses [only one answer possible]

Current multiples paid are considered slightly overvalued to overvalued by the vast majority of PE professionals (93%)

Current status of valuation multiples [%]

New question 2018

"What describes best the current status of valuation multiples paid during M&A transactions with PE involvement. Assets are ..."



- > Multiples paid during M&A transactions with PE involvement are described as (slightly) overvalued by 93% of the respondents
 - Due to a low interest rate environment, favorable credit markets and lending policies as well as limited good investment opportunities, multiples have increased in recent years
 - A surprisingly low share of 3% believe that assets are fairly valued

% of responses [only one answer possible]

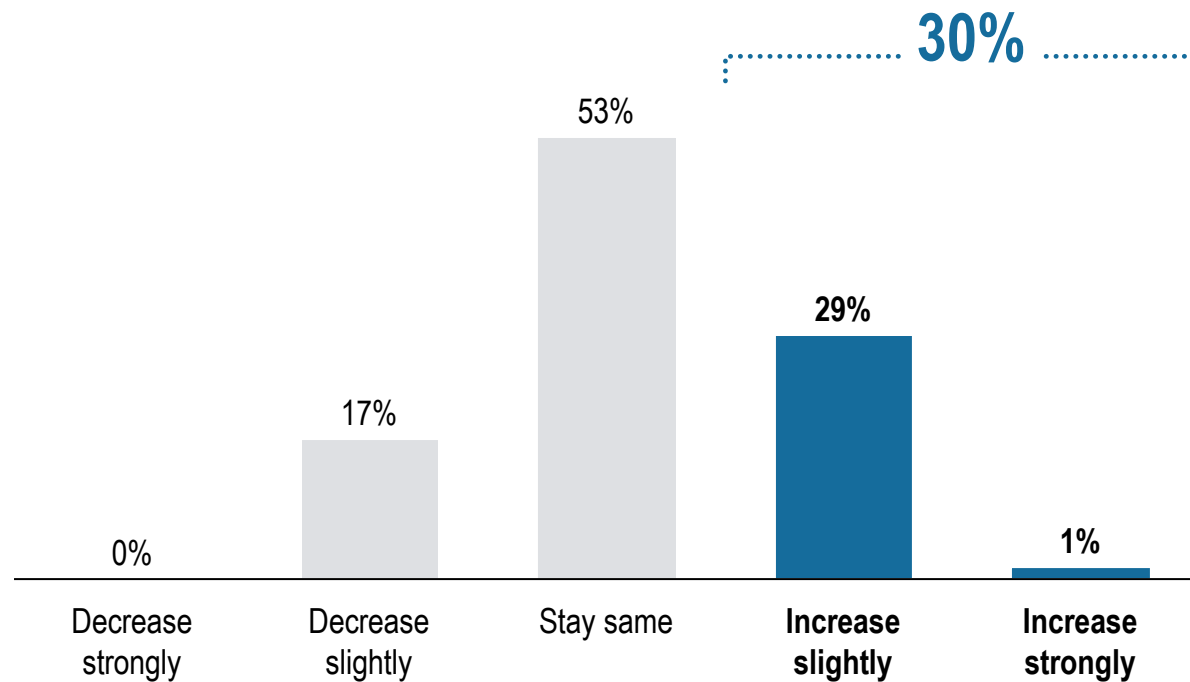
Nevertheless, c.30% of surveyed PE professionals expect valuation multiples paid to further increase in 2018

Expected development of valuation multiples – 2018 [%]

"How do you expect valuation multiples paid during M&A transactions with PE involvement to develop in 2018?"



New question 2018



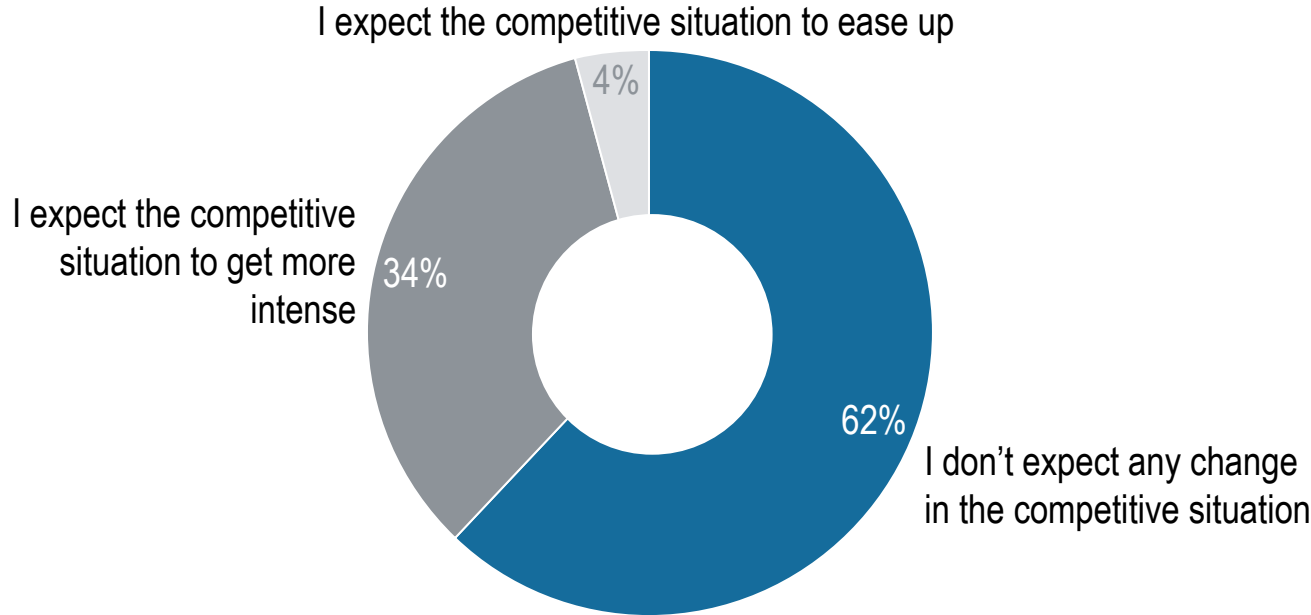
- > 30% of surveyed PE professionals expect valuation multiples paid during M&A transactions with PE involvement to increase throughout 2018
- > The majority expects the level of valuation multiples to stay the same
- > 17% of participants expect a decrease in valuation multiples paid

% of responses [only one answer possible]

The vast majority of PE professionals (62%) expect no change in the competitive environment for fundraising in 2018

Expected level of competition for fundraising – 2018 vs. 2017 [%]

"What degree of competitiveness do you expect in fundraising in 2018?"



- > 62% of the interviewees anticipate no change in the competition for funds in 2018 compared to the current status quo – this constitutes an increase of 14 ppt. compared to the previous year and indicates that the competition level might stagnate
- > Fewer PE professionals expect a more intense competitive situation (down from 41% in 2017 to 34% in 2018)
- > An easing of the competitive situation is anticipated by 4% of respondents only – down from 11% last year

% of responses [only one answer possible]

The involvement of external consultants is highest during acquisition and pre-exit phases of the lifecycle of PE portfolio companies

Involvement of external consultants

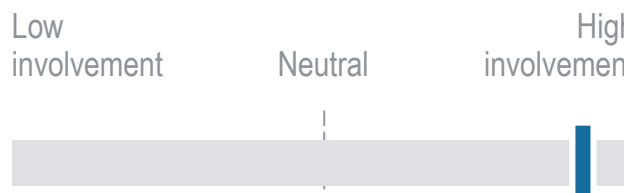
"To what extent do you involve external consultants during the lifecycle of PE portfolio companies?"



New question 2018

During acquisition

e.g., CDD



Early post-acquisition

e.g., 100 day plan, detailing value creation plan



Portfolio holding period

e.g., optimization operations, buy & build



Pre-exit

e.g., equity story, VCDD



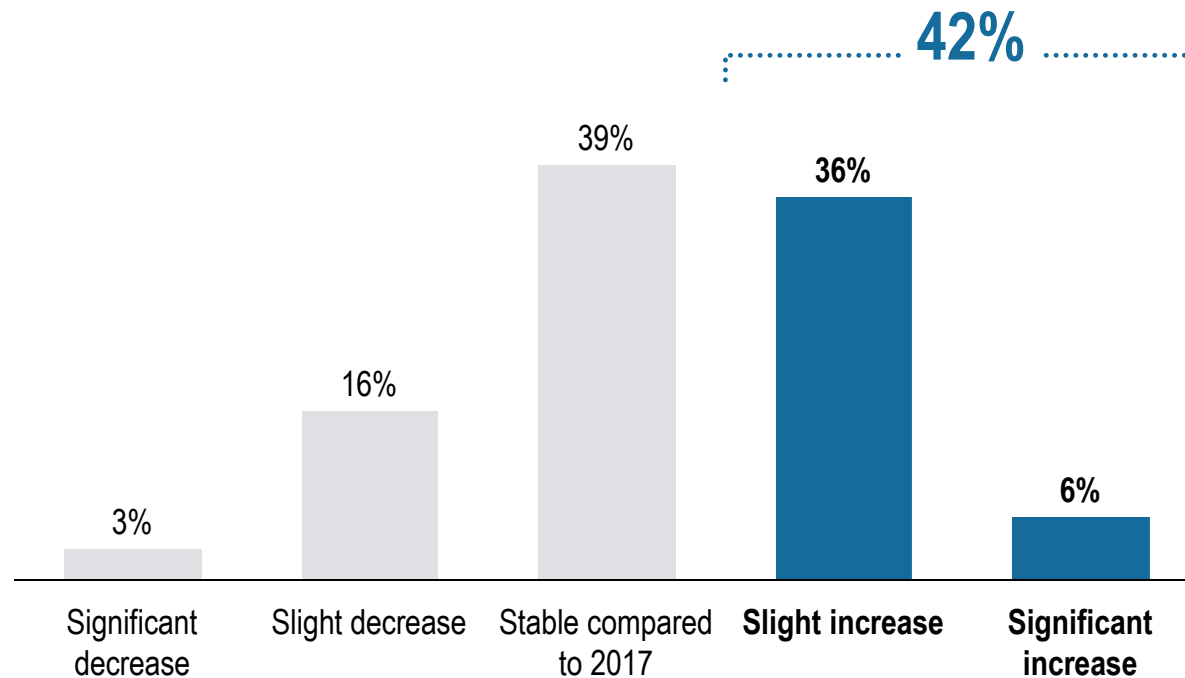
- > During the acquisition, pre-exit and early post-acquisition period external consultants tend to become most involved
- > For the portfolio holding period, a lower involvement of external consultants is recorded based on survey results

[only one answer possible]

Competition for deals from Chinese financial and strategic investors is expected to be stable to slightly increasing in 2018

Increasing competition from Chinese investors – 2018 vs. 2017 [%]

"Do you expect increasing competition for deals from Chinese strategic and financial investors in 2018?"



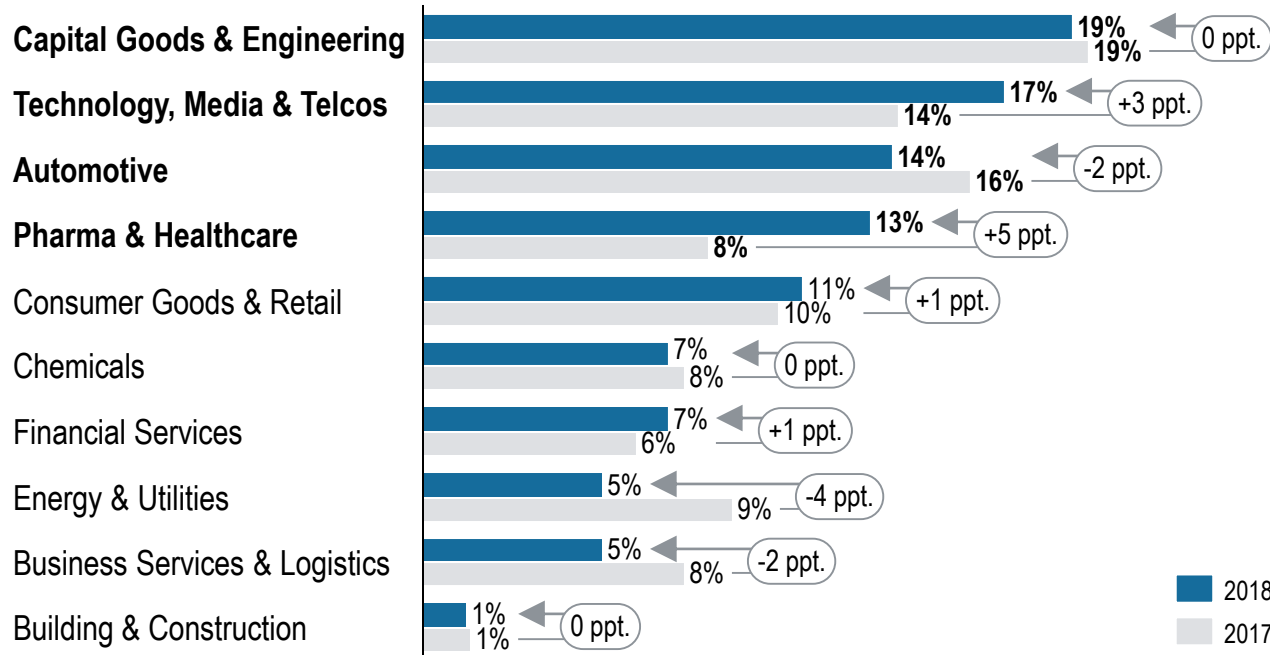
- > Several macro factors, such as a favorable financing environment and orientation towards long-term growth, continue to drive Chinese competition
 - 42% of respondents expect an increase in competition for deals from Chinese investors this year
 - 19% of PE professionals anticipate a decrease in competition for deals from Chinese investors in 2018 – this constitutes a significant increase from 2017 levels (9%), indicating some early doubts that the current level of competition is sustainable

% of responses [only one answer possible]

Capital Goods & Engineering, followed by TMT and Automotive are expected to be the most attractive industries for Chinese investors

Interest of Chinese investors by industry – 2018 vs. 2017 [%; ppt.]

"In which industries have you observed the most interest from Chinese investors in 2017, and what do you expect for 2018?"



> Compared to the general PE industry preference, only Automotive sticks out as an industry for which PE appears to have less preference, but where Chinese investors have been very active recently

- e.g., acquisition of many carbon-related automotive assets by Chinese investors

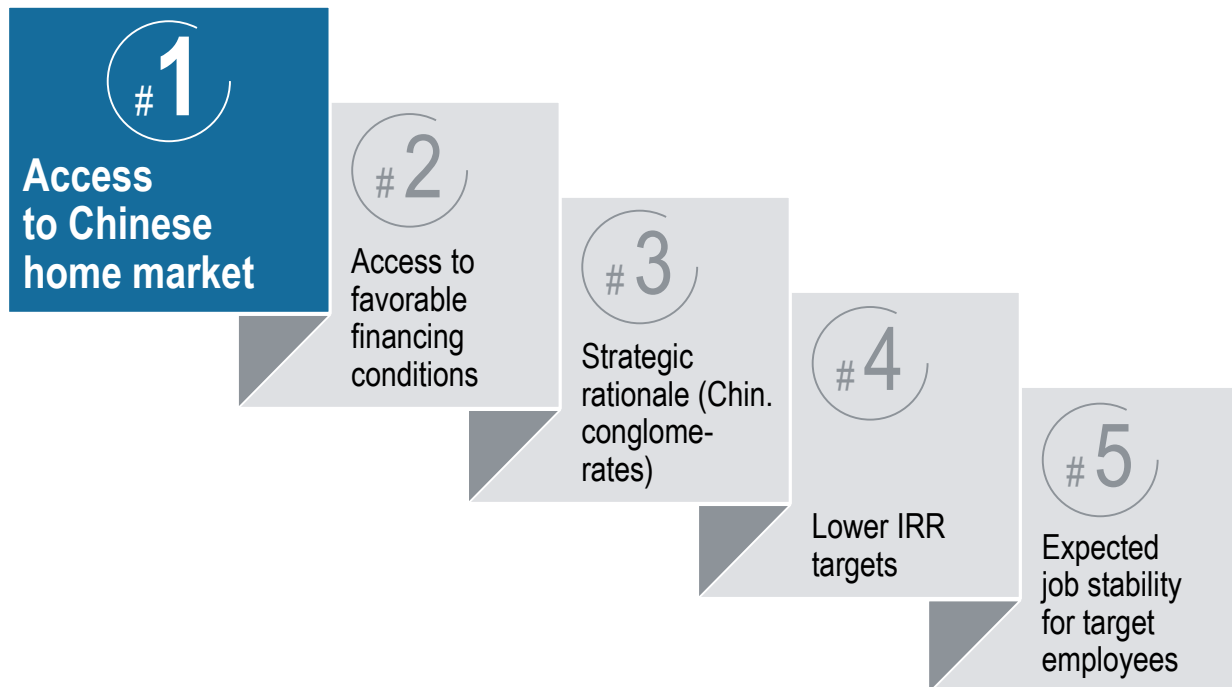
% of responses [maximum of three responses per year possible]

Access to the home market and favorable financing are regarded as the main sources of competitive advantage for Chinese investors

Source of Chinese investors' competitiveness

New question 2018

"What is the source of Chinese investors' competitiveness in transactions?"



- > PE professionals view Chinese investors' access to their home market as the main source of competitiveness in PE transactions
- > Access to favorable financing conditions is the second-biggest perceived source of competitiveness
- > Lower IRR targets were mentioned as other reasons for Chinese investors' competitiveness in transactions

External growth financing and financing for leveraged buyouts are expected to be slightly more easily available in 2018

Availability of external financing – 2018 vs. 2017

"Compared to 2017, how easily available will external financing be in 2018?"



Growth financing

i.e., working capital, lines for add-on acquisitions or capex



Leveraged buyouts

i.e., new transactions



Refinancing

i.e., improvement of terms



Recapitalization

i.e., debt substituting equity, dividend to sponsor



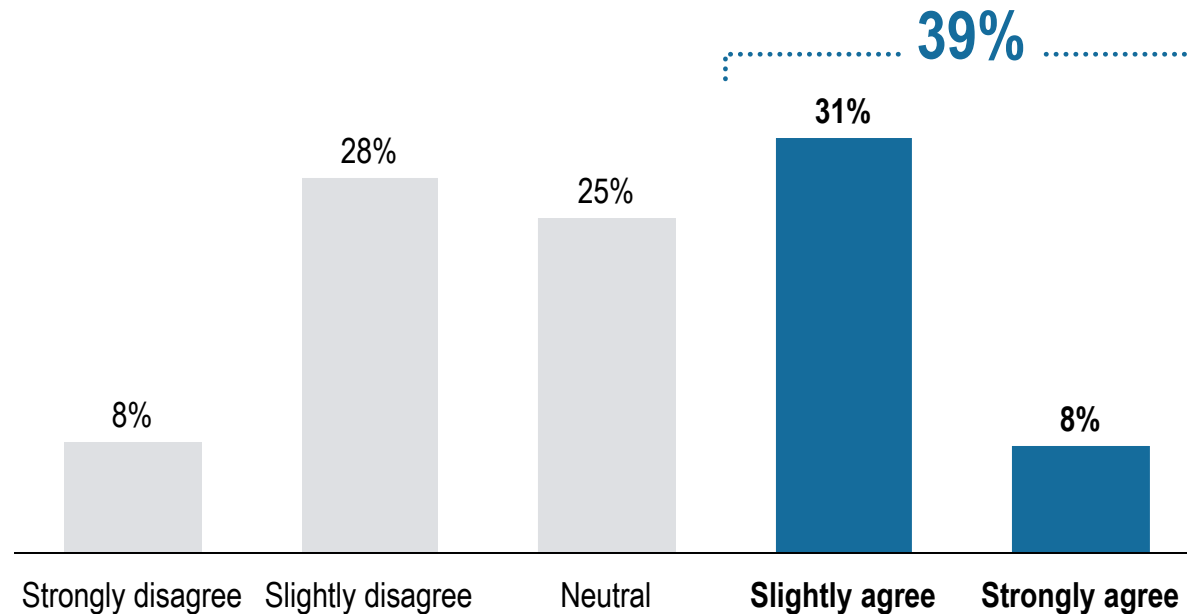
- > A positive dynamic is anticipated for growth financing and leveraged buyouts – for growth financing this indication is continuous (vs. 2017)
- > Overall, the financing situation with regard to refinancing and recapitalization is not expected to change significantly in 2018 (vs. 2017)

[only one response possible for each type of financing]

Process uncertainty is expected to remain a challenge in 2018, although less pronounced compared to the prior year

Importance of process uncertainty [%]

"The M&A environment for private equity companies has been characterized by a high degree of process uncertainty in 2017, which will continue in 2018. Do you agree?"



- > Process uncertainty refers to transaction process delays, canceled processes or enlarged groups of bidders
- > Overall, **39% (down from 62% in 2017)** of respondents expect process uncertainty in the M&A environment to persist for PE companies in 2018
- > However, more than one third of PE professionals do not think that process uncertainty is a key challenge in 2018 (up 20 ppt. from 16% in 2017)

% of responses [only one answer possible]

More active portfolio management, minority investments and club deals with other PE funds are expected

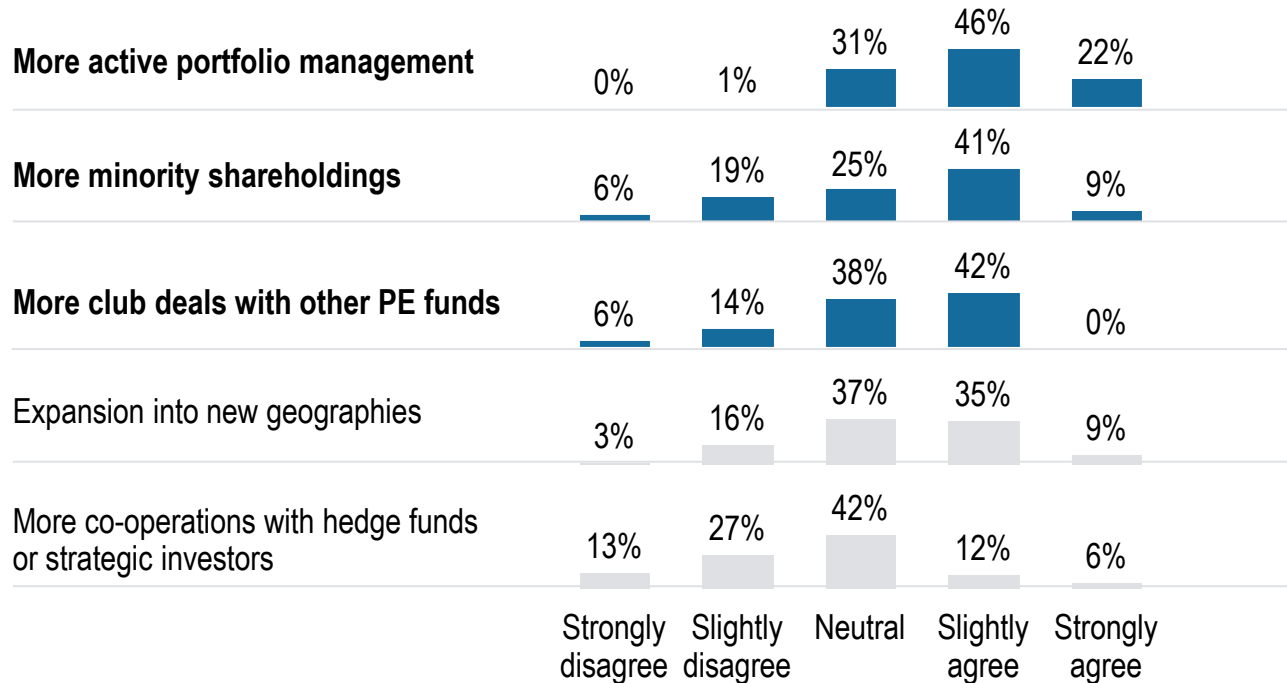
Changes in the private equity business model – 2018

New question 2018

"What changes in the private equity business model do you expect to occur in 2018?"



Areas of change Development of PE business model in 2018



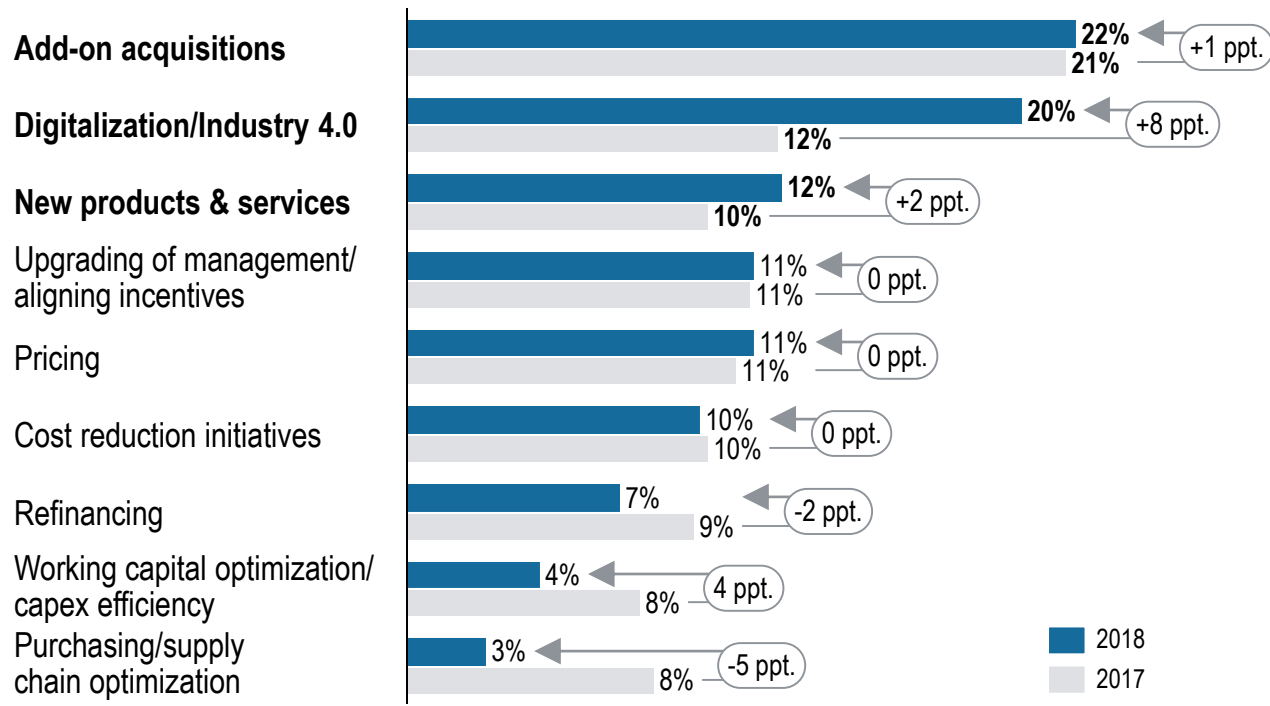
- > The majority of PE professionals agree that there will be a shift towards more active portfolio management in 2018
- > 42% consider club deals with other PE funds more likely
- > Half of the PE experts agree that the PEs might move towards more minority shareholdings in 2018
- > Co-operations with hedge funds or strategic investors are viewed neutrally (42%) or not expected (40%) by the respondents

% of responses [only one answer possible]

Add-on acquisitions and digitalization/Industry 4.0 are likely to be the most important value creation measures in 2018

Importance of value creation measures – 2018 vs. 2017 [%]

"Which of the following portfolio improvement/value creation measures do you consider most important in 2018; which measures have been most important in 2017?"



- > Respondents consider add-on acquisitions to be the most important value creation measures in 2018
- > Digitalization/Industry 4.0 was newly added to the survey in 2018 and proves to be one of the most important value creation measures – its relevance is expected to increase significantly this year
- > Purchasing/supply chain optimization and working capital optimization are perceived to be less important in 2018 vs. 2017 (-5 ppt. and -3 ppt., respectively)

% of responses [maximum of four responses possible] Rounding differences may occur

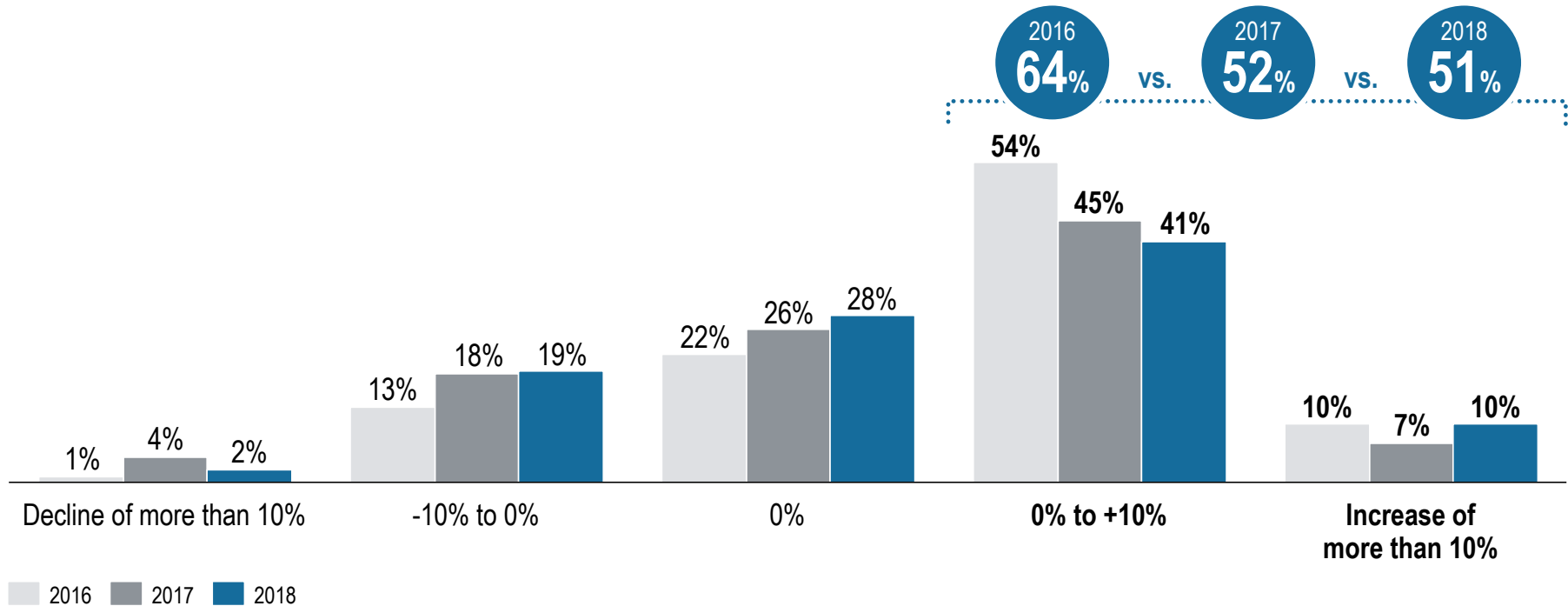
D. Comparing PE Outlook 2018 to previous years



Participants express a similar confidence for 2018 as for 2017 regarding the further growth of PE-backed transactions

M&A transactions with PE involvement in 2016-2018 [%]¹⁾

"What change do you expect to see in 2018 regarding the number of completed M&A transactions with PE involvement?"²⁾

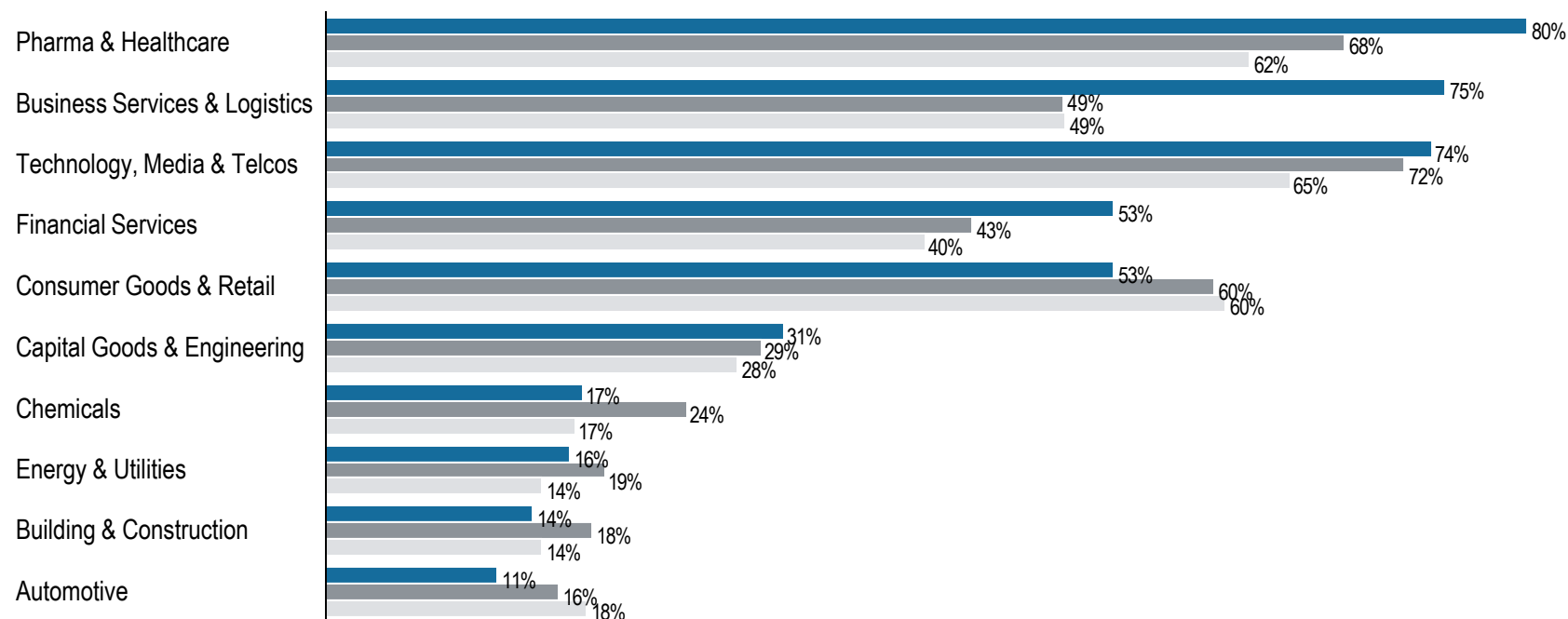


1) % of responses in total number of responses 2) Only one response possible

The Pharma & Healthcare and Business Services & Logistics sectors are expected to see significantly higher PE involvement

Ranking of industries by number of M&A transactions in 2016-2018 [%]

"In what industries do you expect to see the most M&A transactions with PE investor involvement in 2018 (2017/2016)?"

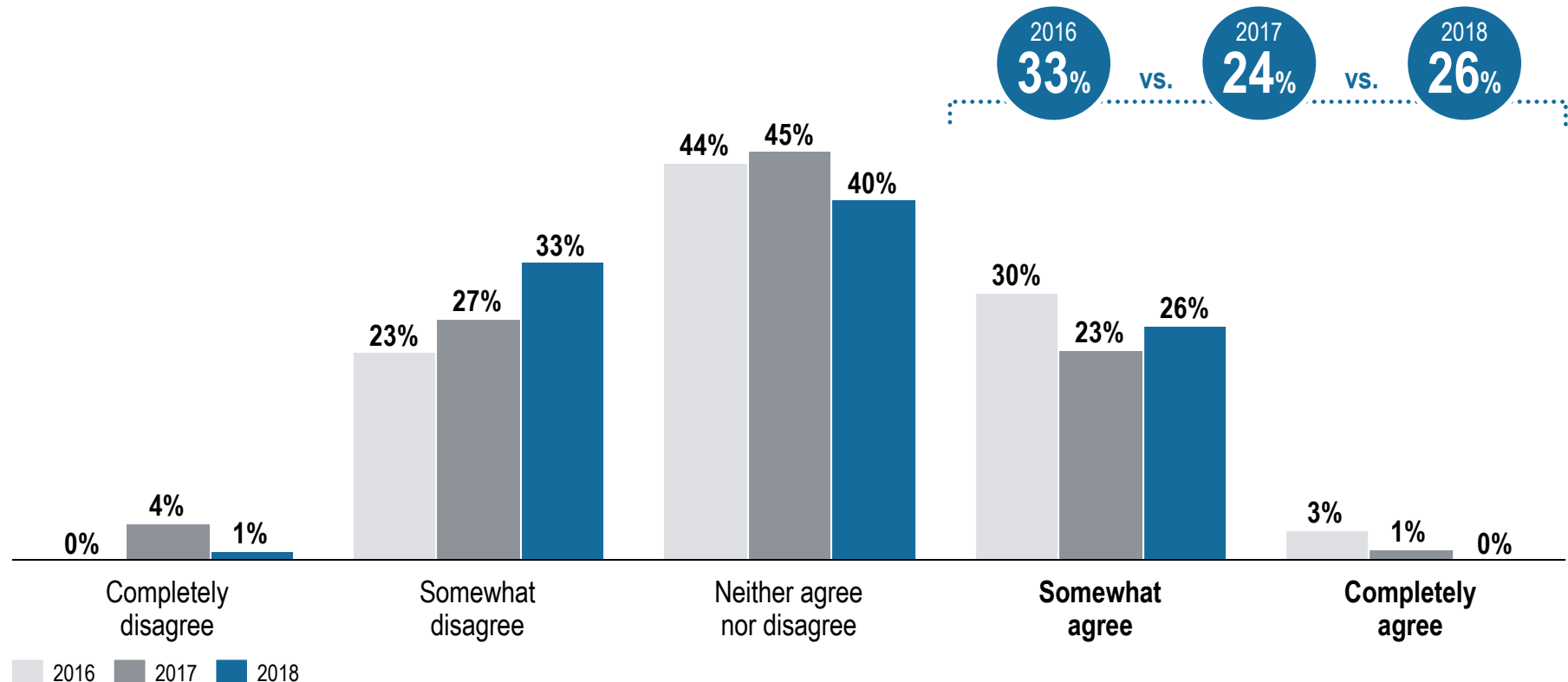


■ 2018 ■ 2017 ■ 2016

Expectations for 2018 regarding the availability of attractive targets are slightly up vs. 2017, but still below 2016

Expected development of investment opportunities in 2018/2017/2016 [%]

"Will the targets available on the market in 2018 (2017) be more attractive than in 2017 (2016)/ 2016 (2015)?"

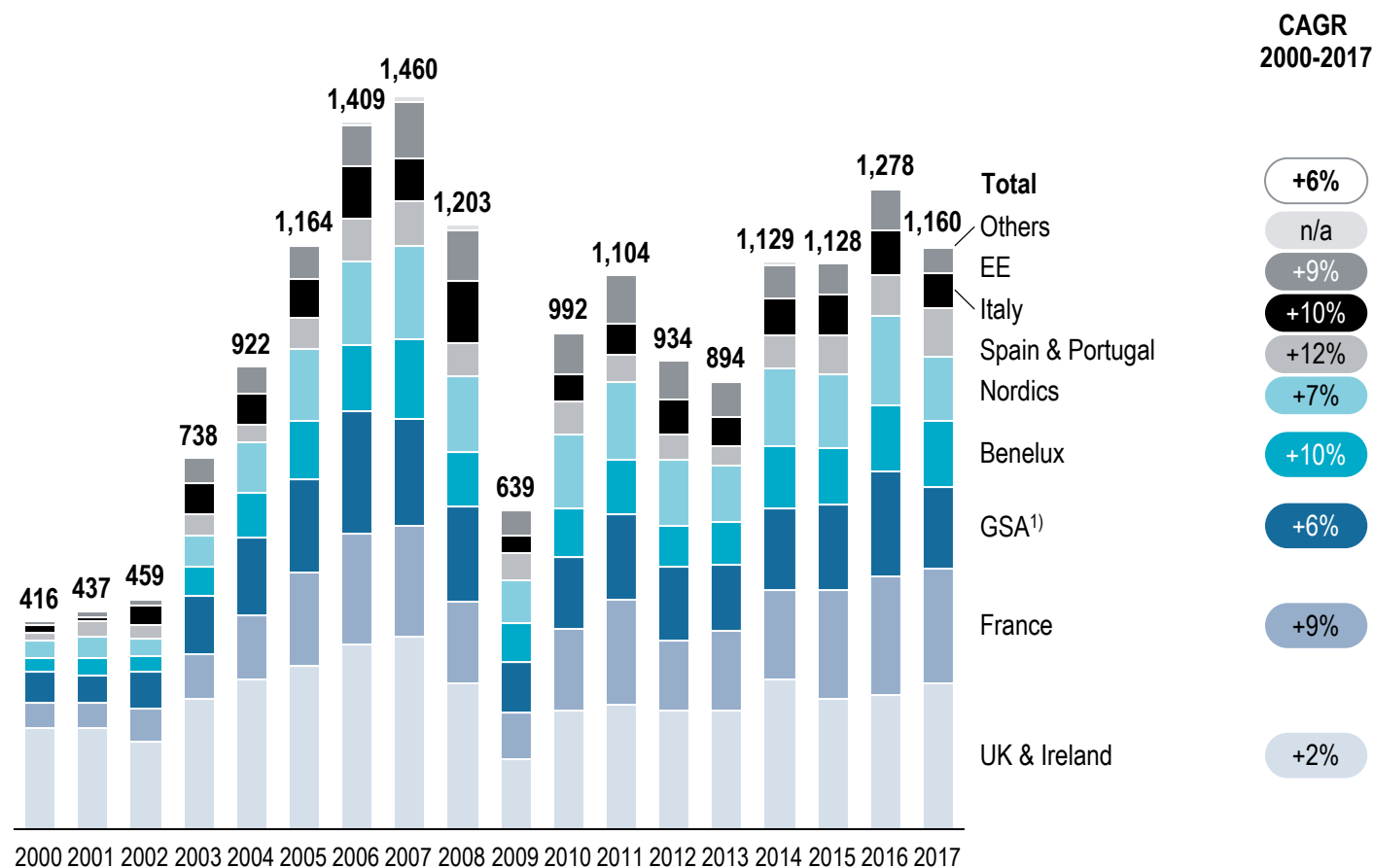


E. Buyout transaction statistics



European buyout transaction volume increased by c.6% p.a. during 2000-2017 to 1,160 deals

European buyout transaction volume by geography, 2000-2017 [# of deals]



1) German-speaking area (Germany, Switzerland, Austria)

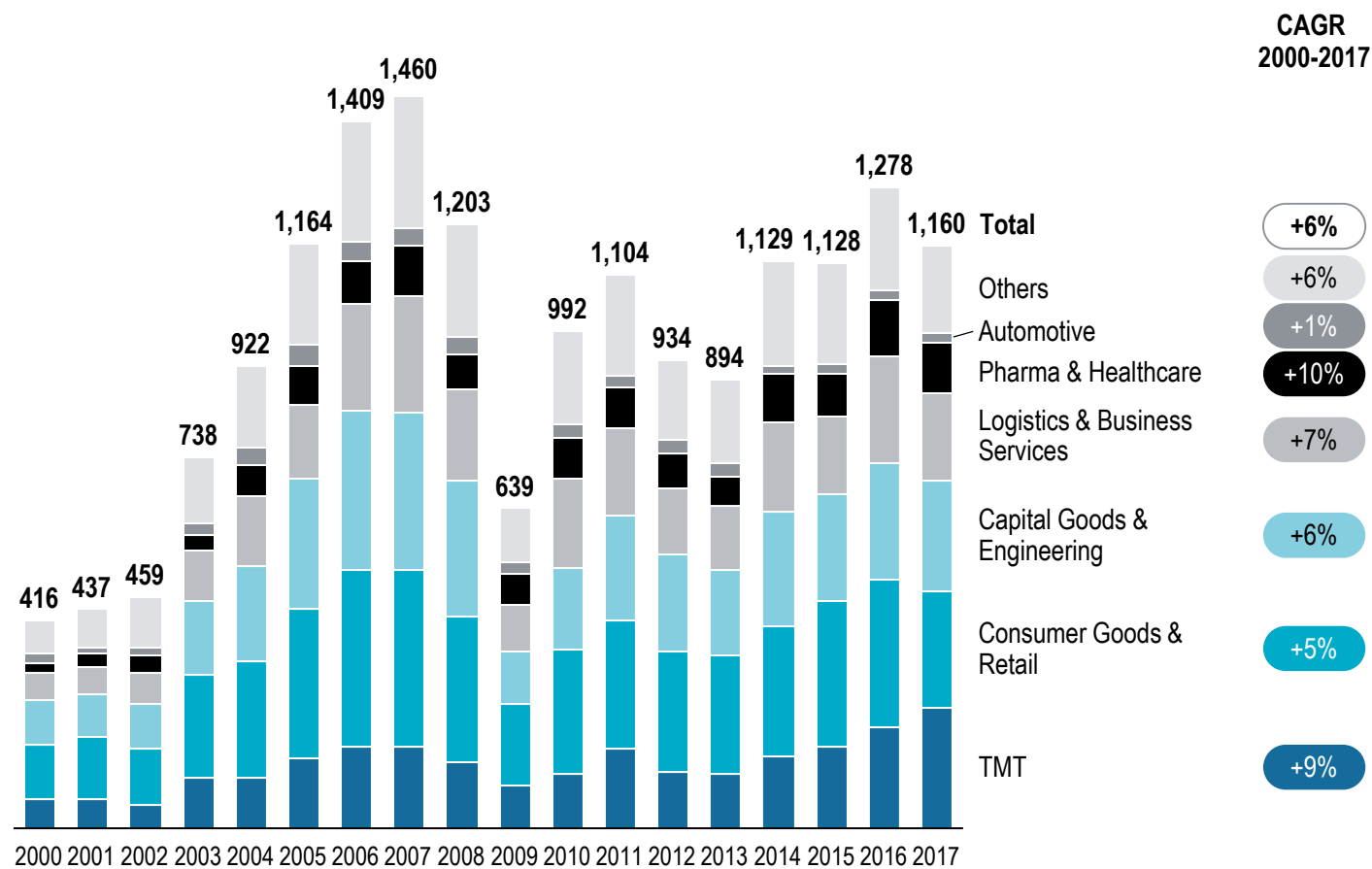
**CAGR
2000-2017**

- +6%** Total
- n/a Others
- +9% EE
- +10%** Italy
- +12% Spain & Portugal
- +7% Nordics
- +10% Benelux
- +6% GSA¹⁾
- +9% France
- +2% UK & Ireland

- > Overall, c.18,000 buyout transactions were recorded in Europe between 2000 and 2017
- > Increase of annual buyout transaction volumes by 6% p.a. from 2000-2017 – strong decline especially in 2009 due to financial crisis
- > Geographies with the most buyout transactions in 2017 were the UK & Ireland followed by France and GSA¹⁾

TMT, Consumer Goods & Retail and Capital Goods & Engineering had a major contribution to the overall transaction volume

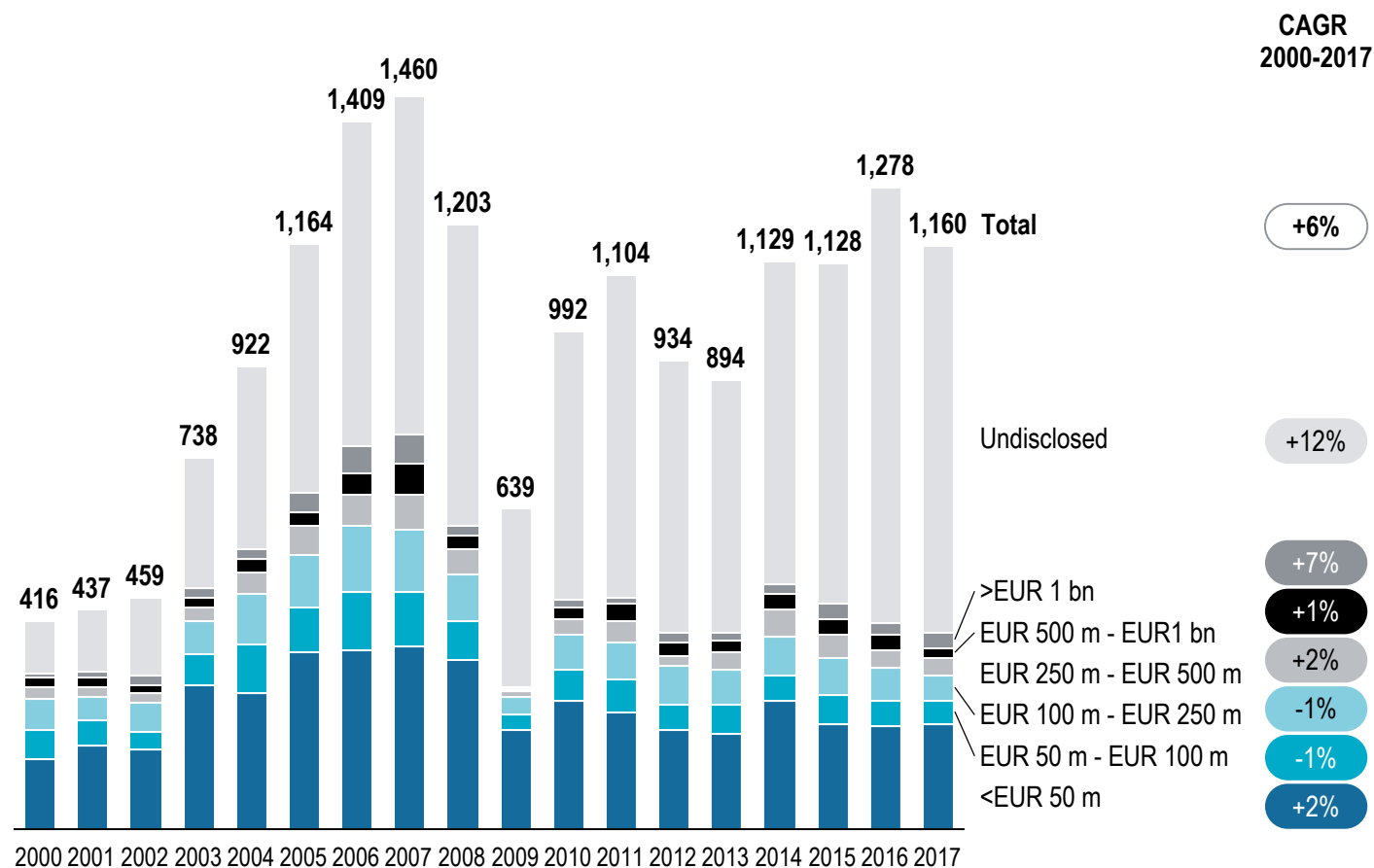
Buyout transaction volume by industry, 2000-2017 [# of deals]



- > In 2017, the majority of buyout transactions were in the industries TMT (c.240 deals), Consumer Goods & Retail (c.230 deals) and Capital Goods & Engineering (c.220 deals)
- > Highest CAGR in 2000-2017 of c.10% in the Pharma & Healthcare industry, followed by TMT with c.9%

More than half of all deal values in 2017 not disclosed – Largest share of disclosed deals fell into value category of below EUR 50 m

Buyout transaction volume by value category, 2000-2017 [# of deals]



- > Today, the majority of buyout transaction values in Europe are undisclosed compared to less than 25% of undisclosed deal values in 2000
- > Highest number of (disclosed) buyout transactions had a value of <EUR 50 m
- > Highest CAGR of 7% for (disclosed) buyout transactions with a value of >EUR 1 bn

F. Your contacts at Roland Berger



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