

European PE Breakdown

2017 Annual



Private Equity services all under one roof.

Support through every stage of the private equity lifecycle – from fundraising to exits – Merrill Corporation provides an end-to-end solution suite to meet your due diligence, operations and disclosure requirements.

- + Market-leading virtual data room, Merrill DataSite
- + End-to-end transaction & compliance and financial disclosure solution, Merrill Bridge
- + Ironclad security with ISO 27001 certification

We secure solutions at every phase of the business lifecycle, so you can secure ongoing impact and growth.

Talk to us today.

© Merrill Communications LLC. All rights reserved.

46,000+

VIRTUAL DATA ROOM
PROJECTS SECURED
SINCE 2003

40,000+

M&A TRANSACTIONS
SINCE 2003

22

TECHNOLOGY AWARDS
WON IN THE LAST DECADE

Contents

Key takeaways	3
Overview	4
European PE metrics trend larger	4
Bolt-on plateau continues	6
Spotlight: Cross-border deal flow	7
Deals by sector & size	8
Exits	9
Secondary buyouts buoy exit activity	9
Fundraising	11
Mid-market funds increasingly popular	11

Credits & Contact

PitchBook Data, Inc.

John Gabbert Founder, CEO
Adley Bowden Vice President,
 Market Development & Analysis

Content

Dylan E. Cox Analyst II
Masaun Nelson Data Analyst

Design

Caroline Suttie Production
 Assistant
Eric Maloney Graphic Designer

Contact PitchBook

pitchbook.com

Research

reports@pitchbook.com

[Click here](#) for PitchBook's report methodologies

Key takeaways from the analyst

- 2017 was another strong year for European PE. Deal flow totaled €363.0 billion across 3,015 transactions—the second-highest year on record in terms of value.
- PE investors headquartered outside of Europe were involved in 718 deals totaling €150.2 billion in value—another tally that resulted in the second-highest year on record in terms of value.
- European PE firms raised €67.3 billion across 109 vehicles in 2017, a 7% decrease from the prior year in terms of value, but still the second-highest capital total since the financial crisis. After growing every year from 2012 to 2016, the median fund size dipped slightly in 2017 to €310.0 million—still comfortably above pre-crisis levels.
- Secondary buyouts accounted for one half of all exit activity. PE firms invested €88.1 billion in transactions in which another PE firm was the seller in 2017—higher than any other year on record. Meanwhile, strategic acquisitions accounted for just 44% of exit activity, the lowest proportion in the last decade.

€363.0B

deal value across
3,015 transactions

€150.2B

deal value with non-European PE investors involved

€67.3B

raised across 109 vehicles
 7% YoY



Dylan Cox, Analyst II

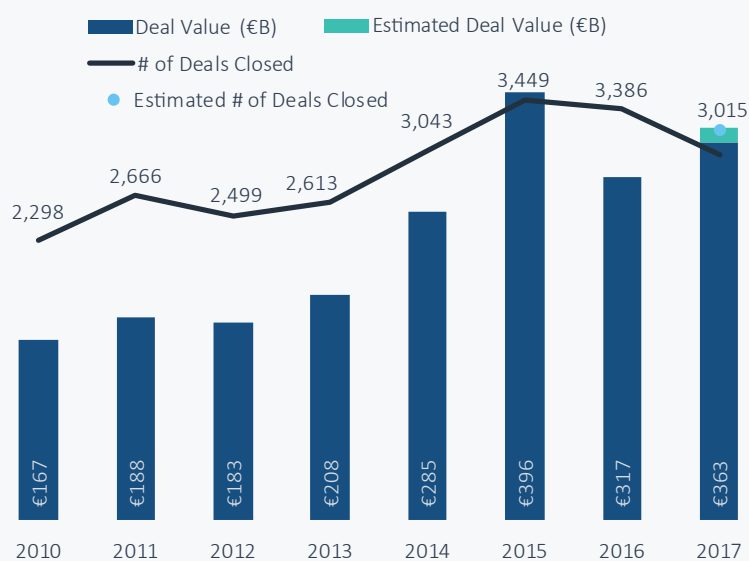
Overview

European PE metrics trend larger

2017 was another strong year for European PE. Deal flow on the continent totaled €363.0 billion across 3,015 transactions—a 14% increase and 11% decrease, respectively, from the prior year. Activity mirrored trends across private markets, with investors completing fewer but larger deals in 2017. The median deal size for European PE transactions increased by 67% in 2017, to €38.5 million—the highest since 2006. Larger deal sizes are driven by a confluence of factors, one being the need to write larger equity checks to effectively allocate the larger funds raised in recent years, as evidenced by the €125 billion in dry powder in European funds (as of June 30, 2017). An improving economy has also provided tailwinds to PE dealmaking. In 2017, European GDP is expected to have grown at 2.25%, its fastest rate in a decade.

Aggregate deal value & volume diverge

European PE activity

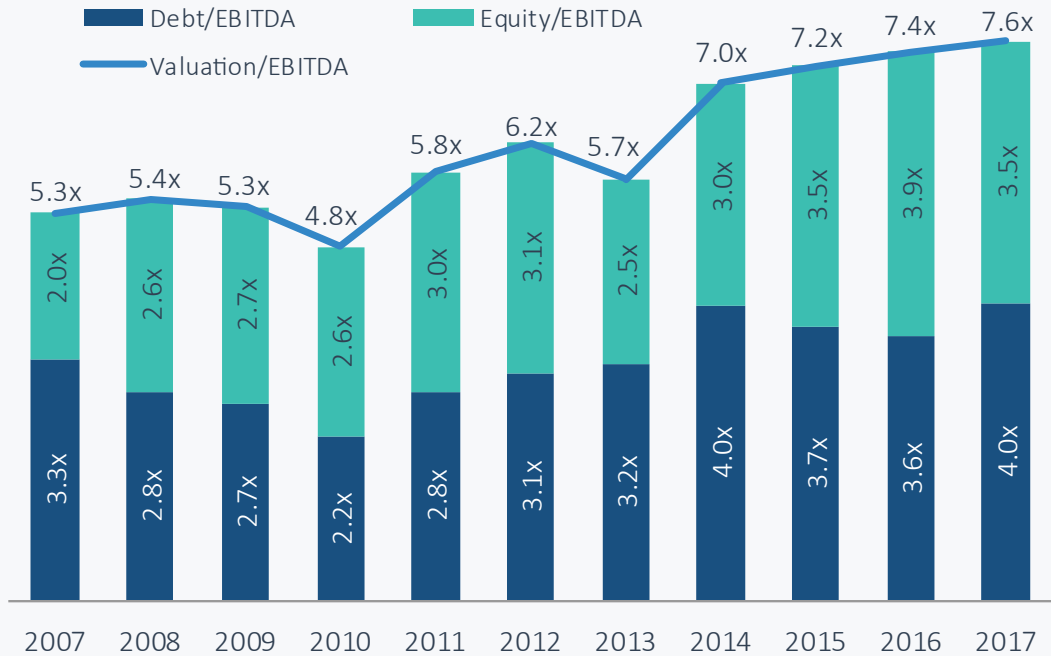


Source: PitchBook

OVERVIEW

Multiples see continued expansion

European M&A (including buyouts) multiples by year



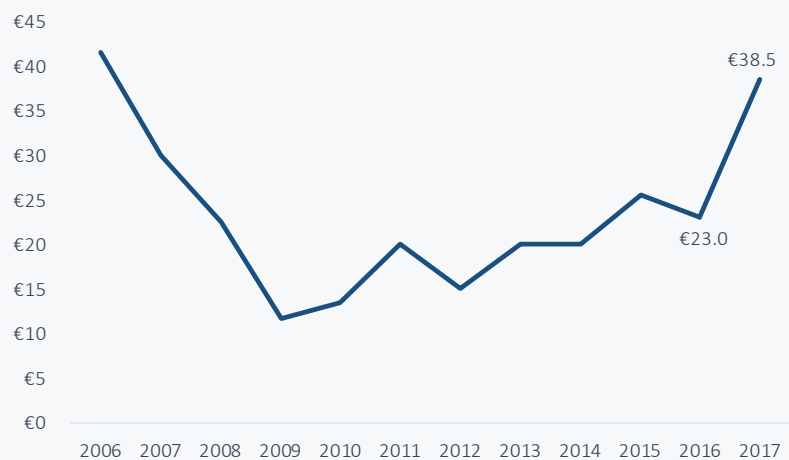
Source: PitchBook

Increasing debt boosts multiples

European M&A multiples continued to creep higher in 2017. The median valuation (including buyouts and strategic acquisitions) reached 7.6x EBITDA by year-end, nearly three turns higher than the recent low of 4.8x recorded in 2010. Prices continue to receive upward pressure from an increase in debt usage, which reached a median of 4.0x EBITDA in 2017—the highest in three years. Historically, European dealmakers have relied heavily on banks for buyout financing, but that trend has begun to change. [Private debt funds](#) now provide an alternative source of capital for buyout transactions. However, these funds should not be mistaken as the primary driver of the recent uptick in private debt usage. Debt/EBITDA levels reached these levels prior to the advent of these funds.

Median deal size spikes upward

European PE median deal size (€M) by year



Source: PitchBook

OVERVIEW

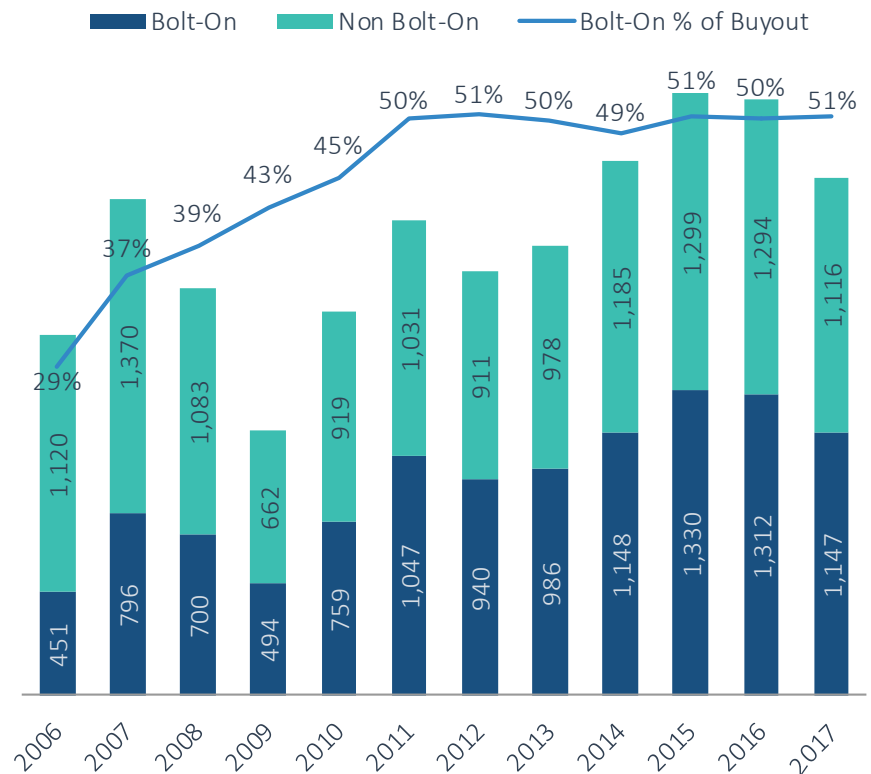
Bolt-on plateau continues

After growing from 29% of all buyouts in 2006 to 50% of activity in 2011, the proportion of bolt-on transactions has plateaued in recent years. As buyout firms expanded their portfolios over the last decade, they increasingly engaged in buy-and-build strategies to enhance the operations of their portfolio companies, blurring the traditional demarcation between strategic acquirer and financial sponsor. However, buy-and-build strategies hit a high-water mark in Europe far before they did in the US.

Bolt-ons still account for one of every two buyouts in Europe, compared to two of every three in the US. The reasons for the difference are clear, with perhaps the primary factor being the relative ease of doing business across state borders rather than national ones. Despite the single market of the European Union, cross-border bolt-on transactions within the continent still carry more tax and legal implications, as well as cultural barriers, relative to deals across US states.

One-half of European buyouts are bolt-on transactions

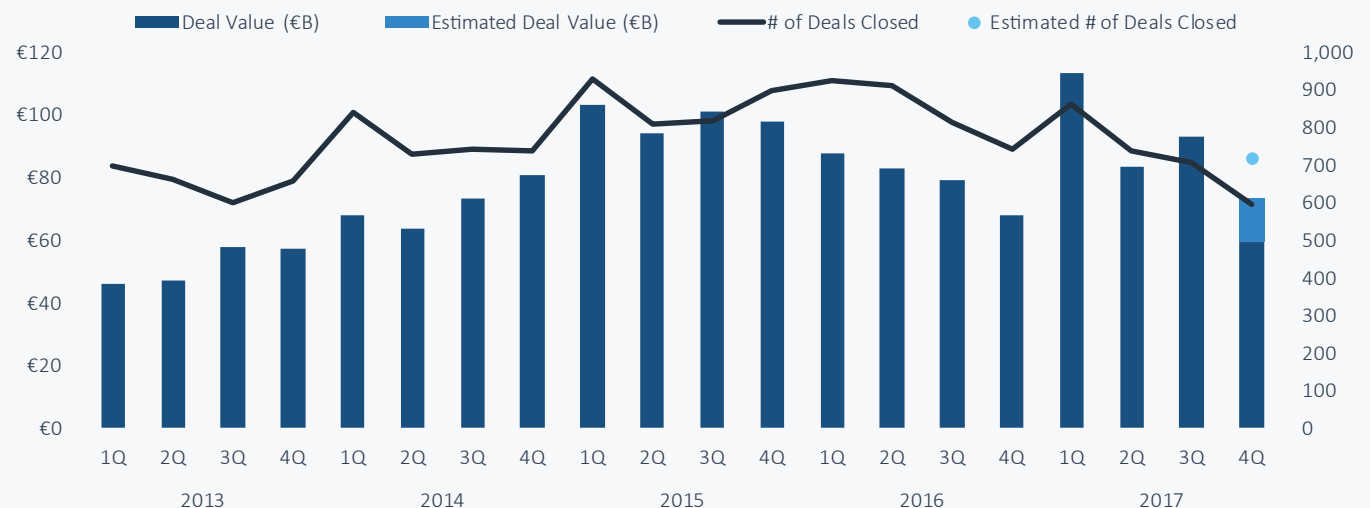
European bolt-on activity by year



Source: PitchBook

Quarterly figures indicate tapering in deal count

European PE activity



Source: PitchBook

Spotlight: Cross-border deal flow

Sponsored by

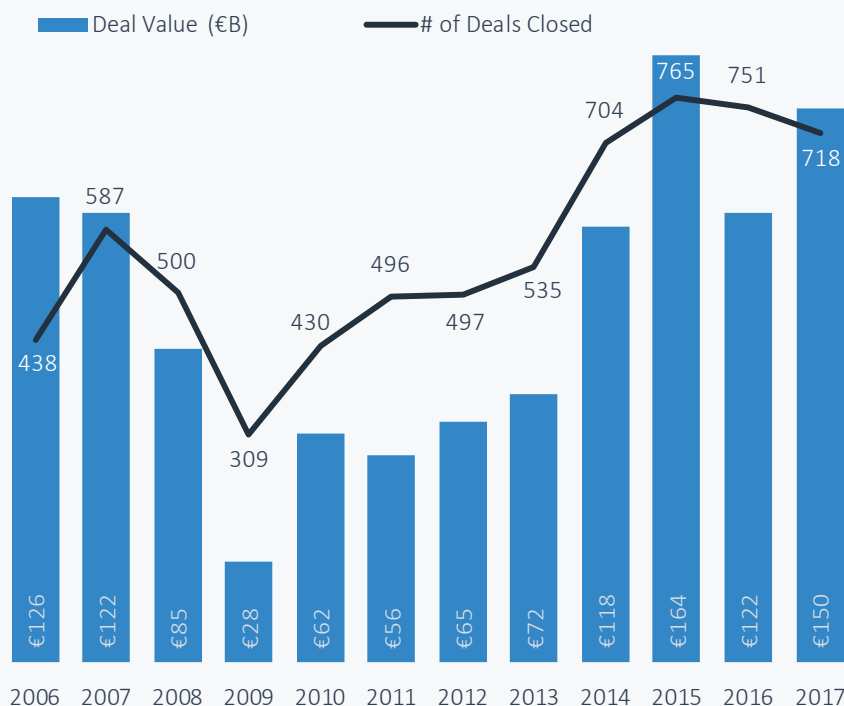


European companies continue to garner interest from overseas investors. PE investors headquartered outside of Europe were involved in 718 deals totaling just over €150 billion in value—the second-highest year on record in terms of value. A steadily improving macroeconomic backdrop has been attracting investors to the continent. As a result, deals with at least one non-European investor accounted for 25% of all transactions in 2017, compared to just 22% in the prior year.

There are a multitude of possibilities for the increased interest from outside PE firms. First, acquisitions are an efficient way for companies, including PE-backed ones, to expand their global footprint. Second, large US PE firms, which long ago established operations in Europe, are now deploying larger funds on the continent. For example, Carlyle, Bain, KKR and The Riverside Company are actively investing out of funds that are their fourth or fifth European buyout iterations. This trend is indicative of the growing heft of these firms, which have not only expanded geographic scope and AUM, but also launched new strategy offerings in recent years.

Outside capital still flocking to the continent

European PE deal flow with non-European investors

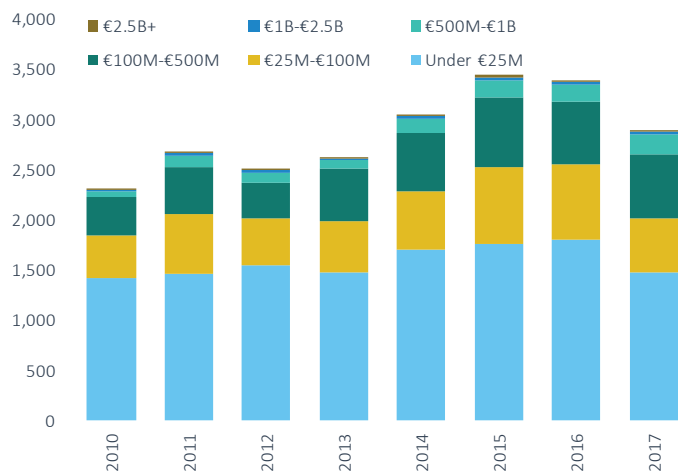


Source: PitchBook

Deals by sector & size

Fewer deals completed under €25M

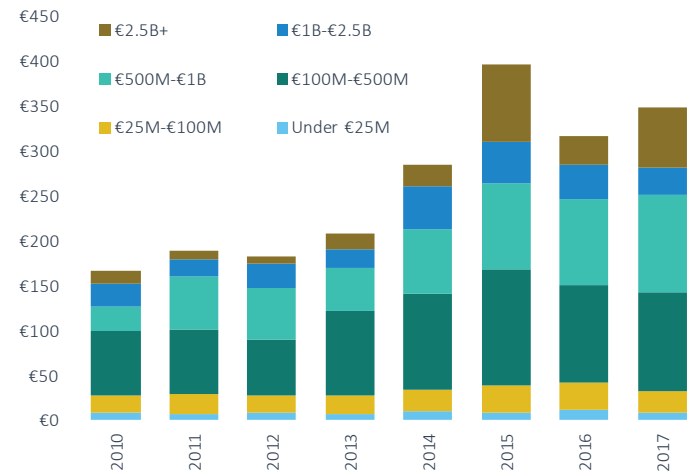
European PE deals (#) by size



Source: PitchBook

Larger deals surge by proportion of value

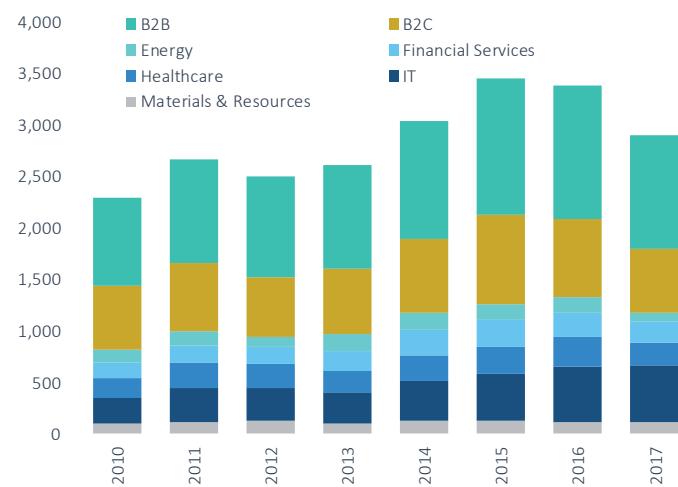
European PE deals (€B) by size



Source: PitchBook

IT dealmaking remains most resilient

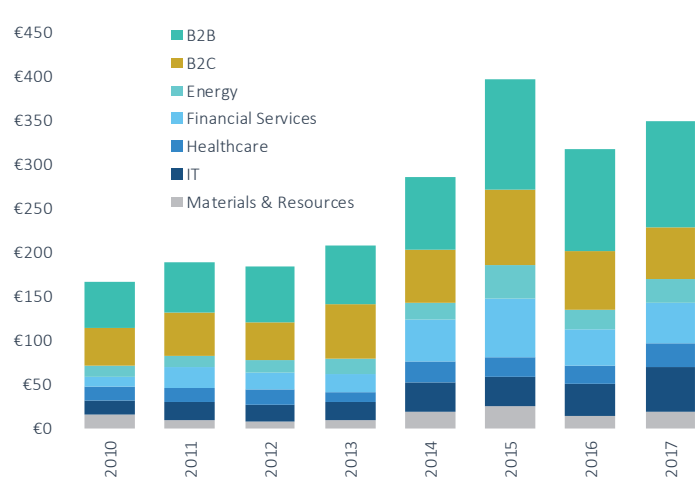
European PE deals (#) by sector



Source: PitchBook

Technology multiples lead to growth in deal value

European PE deals (€B) by sector



Source: PitchBook

Exits

Secondary buyouts buoy exit activity

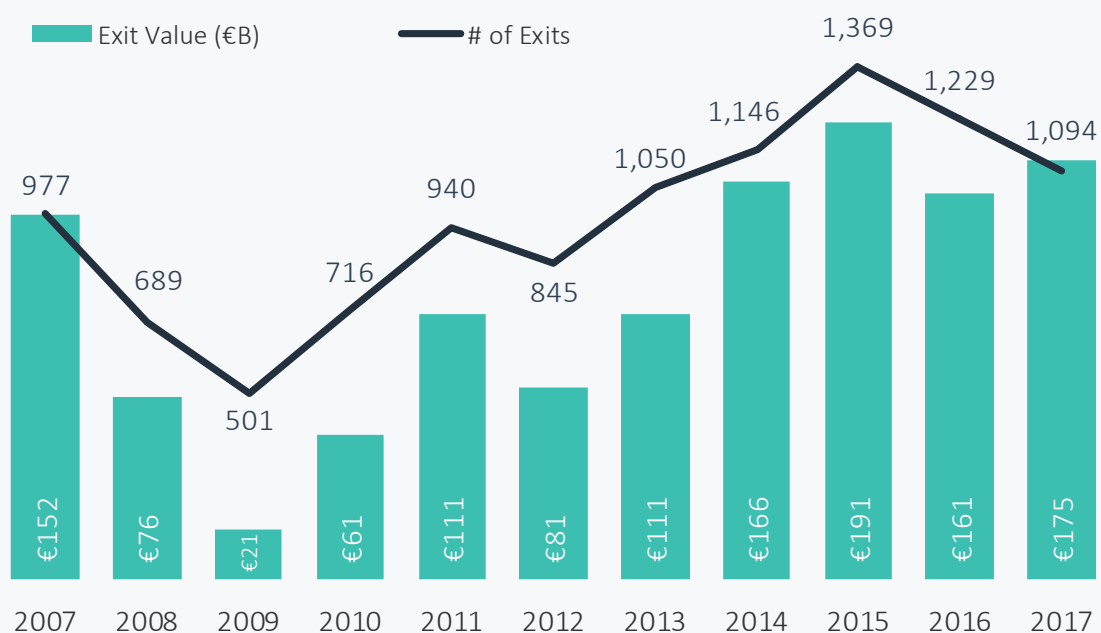
In 2017, PE firms enjoyed another strong year of exit activity. PE-backed exit activity totaled €175.0 billion in value across 1,094 portfolio companies—the fourth consecutive year of at least €160 billion. Strong liquidity was aided by the buying power of other PE firms eager to deploy the sums of dry powder raised in recent years. Secondary buyouts (SBOs) accounted for one half of all exit activity in 2017, both in terms

of number and value of transaction. PE firms invested €88.1 billion on transactions in which another PE firm was the seller—higher than any other year on record. Meanwhile, strategic acquisitions accounted for just 44% of exit activity, the lowest in the last decade. Corporate acquirers slowed their pace of acquisition last year, as they worked to incorporate recent purchases into existing operations.

Though the broader European IPO market bounced back in 2017, PE-backed IPOs were essentially on par with the prior year. PE-backed companies raised €14.5 billion across 63 listings in 2017, a 7% decrease and 5% increase, respectively, from 2016. New listings were still well below 2014 and 2015, which saw record levels of PE-backed IPOs.

PE firms enjoy fourth consecutive year of strong exit value

European PE exits by year

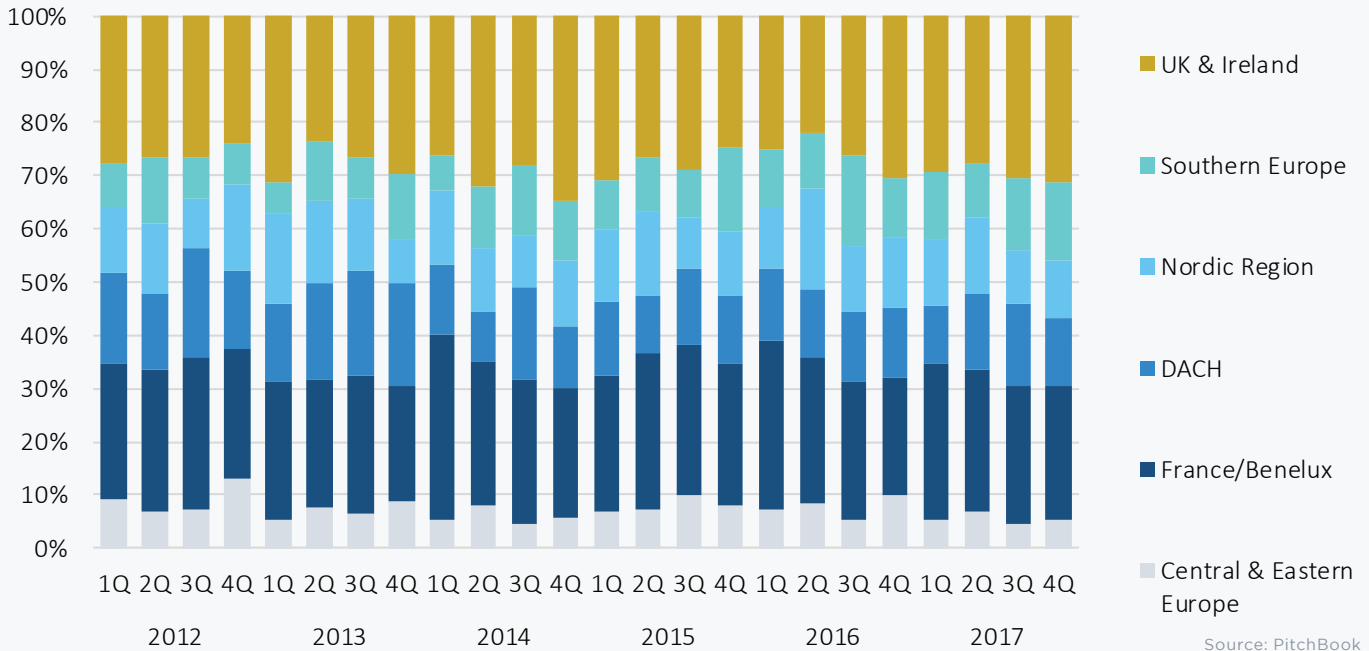


Source: PitchBook

EXITS

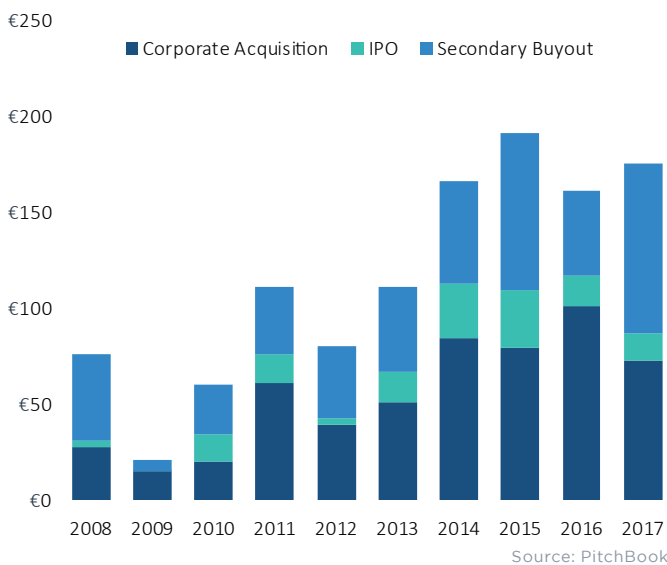
UK & Ireland account for plurality of exit activity in 2017

European PE exits (#) by region by year



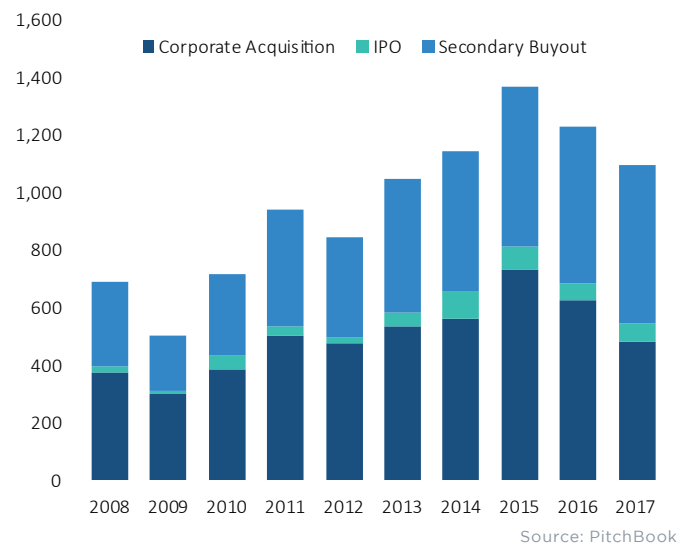
SBOs account for one half of exit value

European PE exits (€B) by type by year



Corporate acquisitions account for fewer PE exits than in any year since 2012

European PE exits (#) by type by year



Fundraising

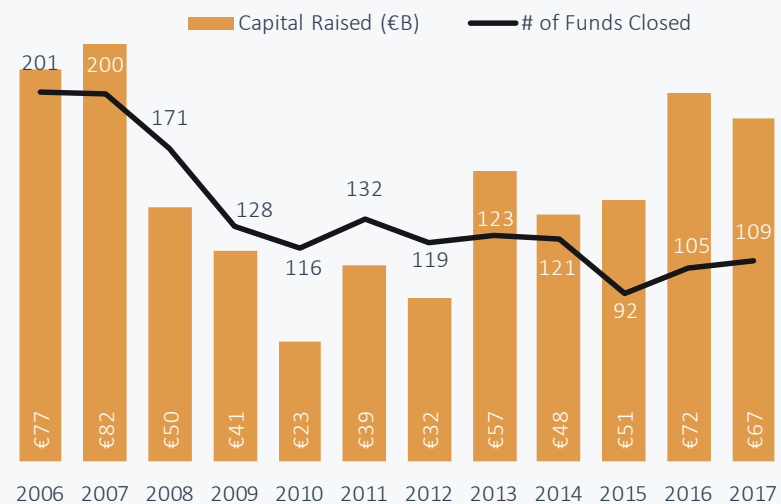
Mid-market funds increasingly popular

European PE firms raised €67.3 billion across 109 vehicles in 2017, a 7% decrease from the prior year in terms of value, but still the second-highest capital total since the financial crisis. Institutional investors who are starved for yield in more traditional asset classes continue to propel allocations to alternatives, including PE and private debt. €5.3 billion was committed to energy funds in 2017, the highest of any year on record. Growth funds, too, saw €4.9 billion in capital commitments, higher than any year since 2013.

After growing every year from 2012 to 2016, the median fund size dipped slightly in 2017 to €310.0 million—below the €326.4 million recorded in 2016, but still comfortably above pre-crisis levels. The decrease in fund sizes is indicative of a growing interest in middle-market-focused funds (those with between €100 million and €1 billion in commitments), which accounted for 77% of total closes on the year—the highest in at least a decade. Interest in the middle market, however, has not stopped the largest firms from raising mega-funds. In June, CVC Capital Partners raised the largest European buyout fund in history, totaling €16 billion for its seventh flagship fund.

Capital commitments total second highest since financial crisis

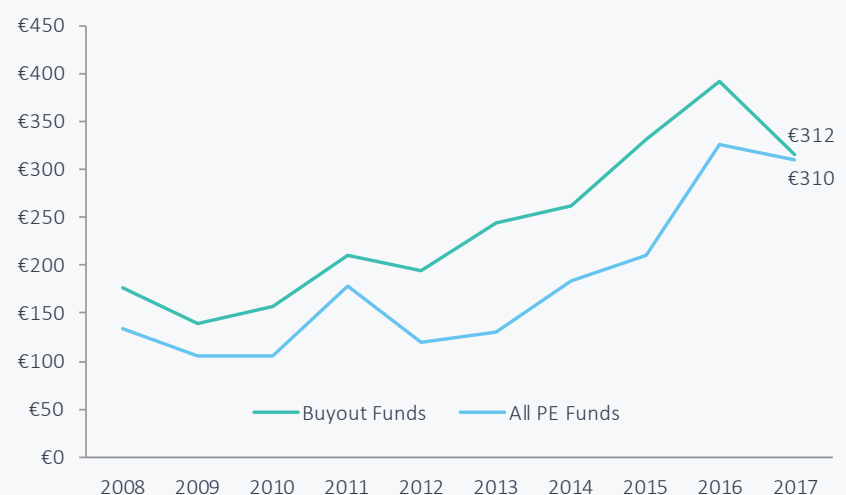
European PE fundraising by year



Source: PitchBook

Fund sizes dip amid increasing interest in mid-market funds

Median European PE fund size (€M) by year



Source: PitchBook

COPYRIGHT © 2018 by PitchBook Data, Inc. All rights reserved. No part of this publication may be reproduced in any form or by any means—graphic, electronic, or mechanical, including photocopying, recording, taping, and information storage and retrieval systems—without the express written permission of PitchBook Data, Inc. Contents are based on information from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. Nothing herein should be construed as any past, current or future recommendation to buy or sell any security or an offer to sell, or a solicitation of an offer to buy any security. This material does not purport to contain all of the information that a prospective investor may wish to consider and is not to be relied upon as such or used in substitution for the exercise of independent judgment.