



European Private Equity Outlook 2015

Roland Berger
Strategy Consultants

Frankfurt am Main, February 2015

Our sixth European Private Equity ("PE") Outlook reveals how experts view the market and its development in 2015



The European Private Equity ("PE") Outlook 2015 is the sixth in a series launched by Roland Berger in 2009



The Outlook includes a survey of over 800 experts from private equity companies across Europe

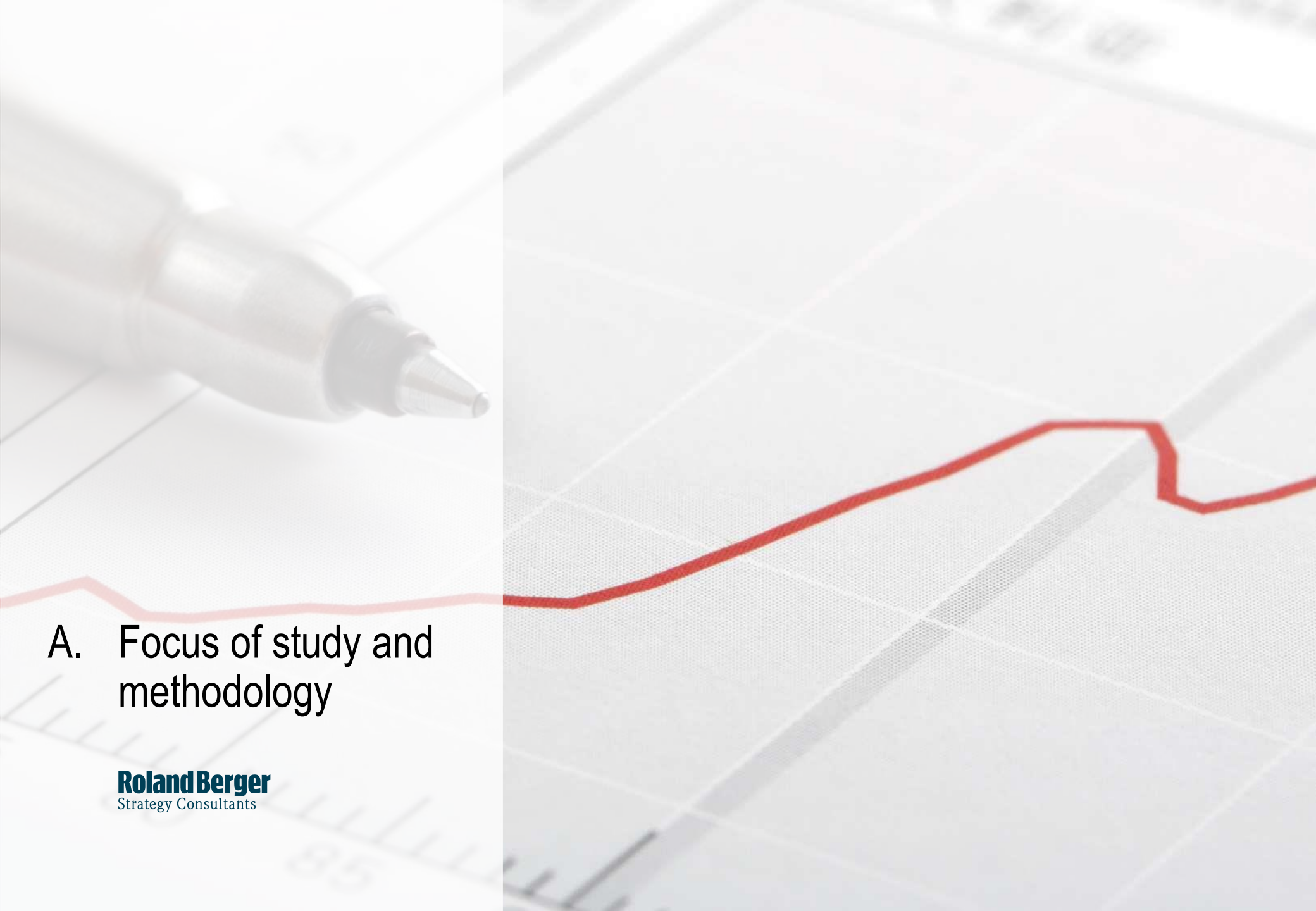


The results accurately reflect what experts in the market expect for different countries and regions and what they consider relevant factors for the private equity business in 2015



We hope you enjoy reading this study. We would be happy to hear your feedback or discuss the results with you in more detail

Contents	Page
A. Focus of study and methodology	4
B. Executive summary	6
C. Results of the private equity survey 2015	9
D. Comparing PE Outlook 2015 to PE Outlook 2014 and 2013 – Selection	26

A white pen is positioned in the upper left quadrant, pointing towards a line graph. The graph features a red line that starts at a low point, rises to a peak, dips slightly, and then continues to rise with some minor fluctuations. The background is a light gray grid with faint numbers and lines.

A. Focus of study and methodology

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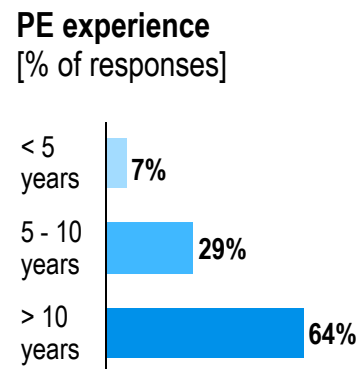
Similar to previous years, the study is based on exclusive surveys with professionals from leading private equity firms across Europe

Focus and methodology of the study

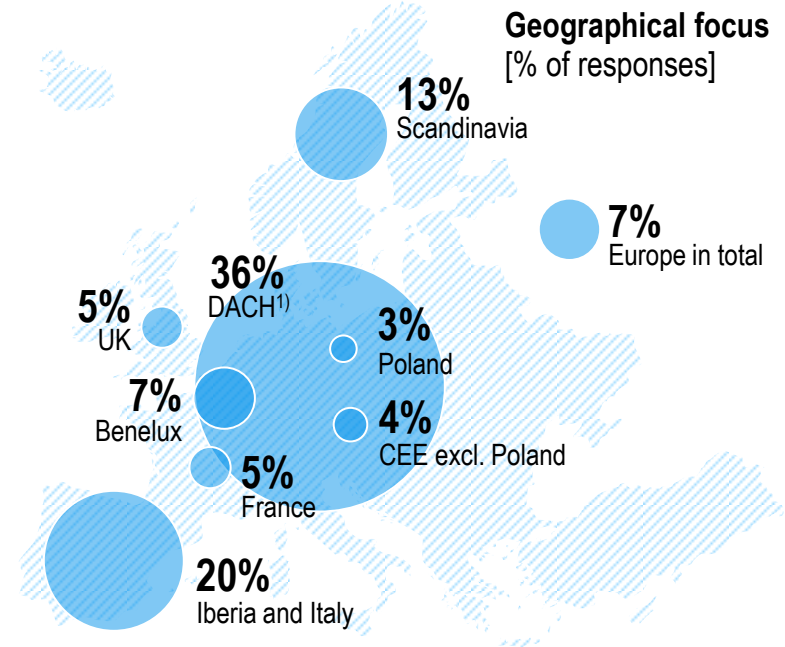
Overview of European private equity

- Development of PE M&A market
- Key challenges for private equity
- Private equity business model

Key topics in 2015



Private equity survey 2015



Overview of participants

1) Germany, Austria, Switzerland

A large stack of papers, possibly a report or document, is held together by a silver binder clip. The papers are slightly aged and have some faint markings. A pen is visible at the bottom edge of the stack. The background is a soft, out-of-focus white.

B. Executive summary

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The mood in the PE-driven M&A market is back to more conservative levels – PE activity is expected to grow at lower levels than in 2014

- 1 Half of the PE professionals saw their **expectations met** regarding **M&A activities in 2014** – One third experienced a worse than anticipated development
- 2 The majority of respondents perceive the **availability of targets** as the **main reason for the 2014 development**, followed by macroeconomic situation and pricing of targets
- 3 After an **optimistic outlook in 2014**, **private equity professionals** are again quite **conservative** about the number of M&A transactions with PE involvement in **2015** – Only **62%** of the respondents **expect more transactions** than in **2014** versus 82% in last year's survey and 52% in the 2013 outlook
- 4 Compared to 2014 results, **PE activity** is expected to **grow at lower levels in all countries** except in Greece – **UK, Iberia/Italy and Scandinavia** show the **highest expected growth rates for 2015** at around 2%; overall, anticipated growth levels in 2015 are again closer to the conservative 2013 results than the more bullish expectations for 2014
- 5 Similar to previous years, **pharma & healthcare** and **consumer goods & retail** are expected to be the **most active industries in 2015** – Energy is down significantly in 2015 as against 2013
- 6 **Acquisitions of mid-sized companies** are thought likely to **dominate** once more – **86%** of PE **transactions** in 2015 are expected to be in the range of **up to EUR 250 million** (vs. 88% in 2014 and 91% in 2013)

Only 44% expect more attractive targets in 2015 – The majority of respondents see a need to adapt the PE business model

- 7** In **2015**, PE investors **focus** on the **same phases of the PE value chain** as in 2014; though still not the main focus, the importance of **fundraising** will **significantly increase in 2015** compared to the previous year, with **availability of financing improving slightly**
- 8** One half of PE managers expect **no significant change** in the **competition for funds**, while the **other half** anticipate an **increase in competition** – Slight **tightening of tension** evident compared to 2014
- 9** Only **44%** of the participants **expect available targets** to be **more attractive** in 2015 than in 2014, **41%** are **uncertain** – **High confidence levels of 2014 (57%)** remain an **exception** as 2015 results are close to 2013 expectations again; **parts of groups/carve-outs** are expected to be the **most important source** closely followed by **family-owned firms**
- 10** The **majority** of respondents (**62%**) see a **need to adapt the PE business model** – For the first time, **three quarters** of PE professionals **no longer believe in the robustness** of the current model
- 11** **Active portfolio management** and **strategic/operational actions** will be the **strongest performance levers** in 2015 – **95%** think **passive approaches do not work**
- 12** **Exits** via **M&A with strategic or PE investors** are once again likely to **dominate in 2015** – **Other exit channels** such as IPO or dual/triple track **trail behind considerably**

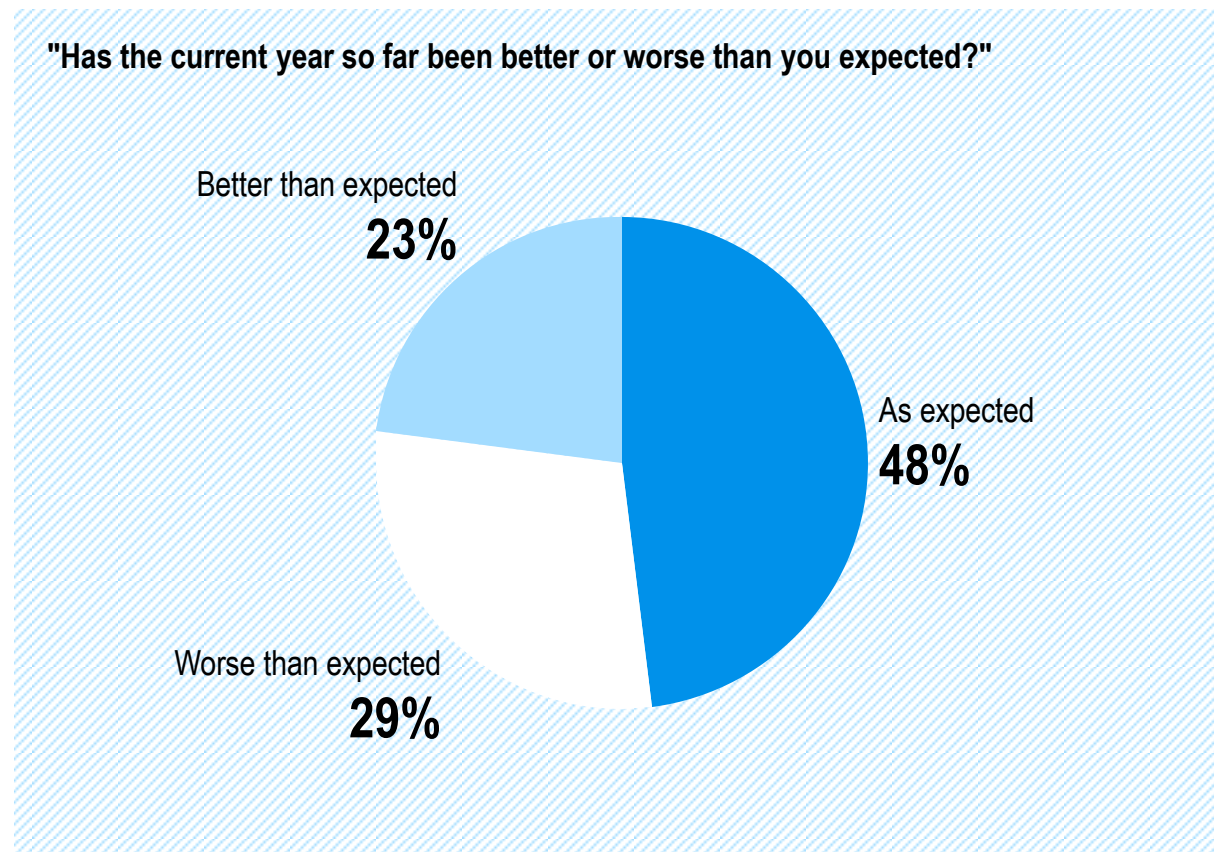
C. Results of the private equity survey 2015

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For half of the study participants, the year 2014 developed as expected – Only 23% experienced a better year than anticipated

Perceived development of PE M&A activity in 2014 [%]



Half of the PE professionals see their expectations met regarding M&A activities in 2014

One third of the participants experienced the development as worse than expected

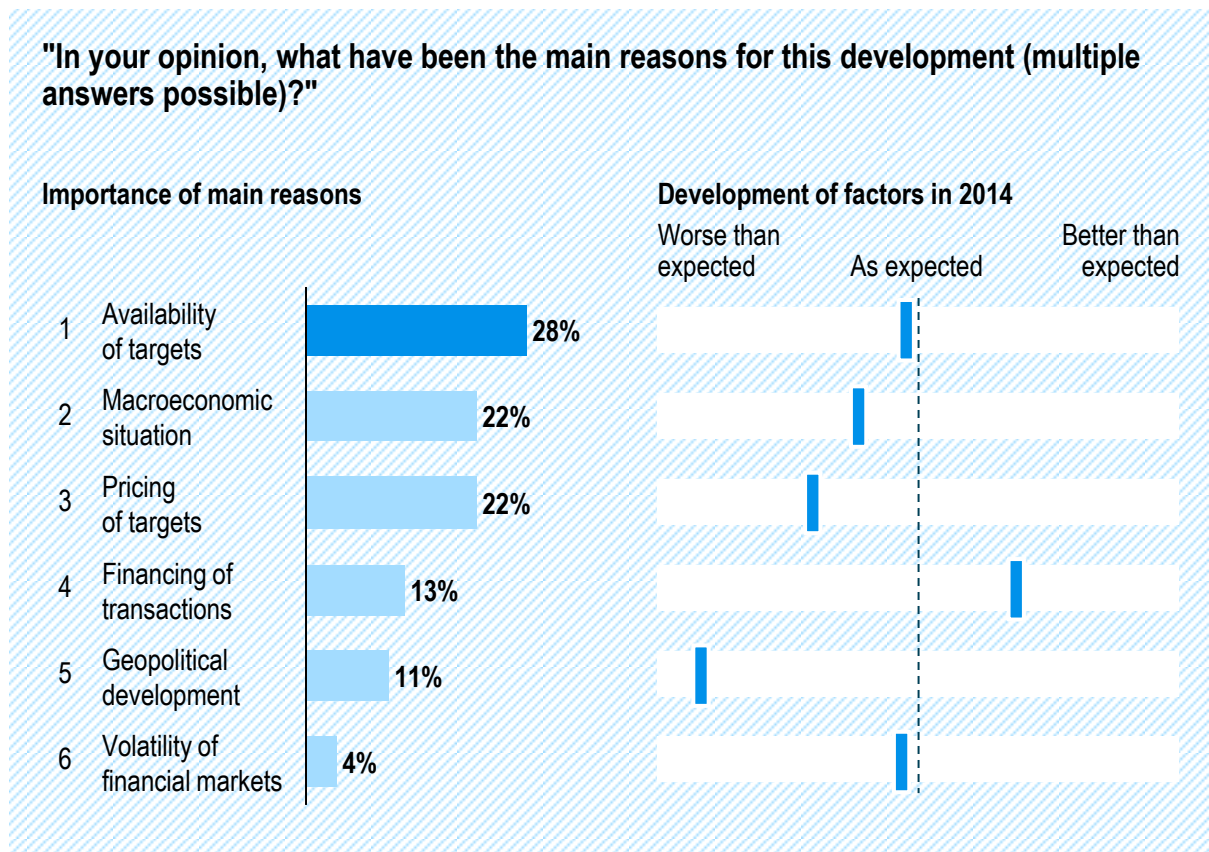
Only 23% of respondents see their expectations exceeded in 2014

This reflects the fact that 2014 was one of the least predictable years for the PE industry

% of responses [only one answer possible]

As expected in last year's survey, availability of targets had the biggest influence on the number of PE-driven M&A transactions

Main reasons for development of PE M&A activity in 2014 [%]



The majority of respondents see the availability of targets as the main reason for the development in 2014, followed by the macroeconomic situation and the pricing of targets

Overall, respondents experienced the availability of targets as well as the volatility of financial markets as had been anticipated over 2014

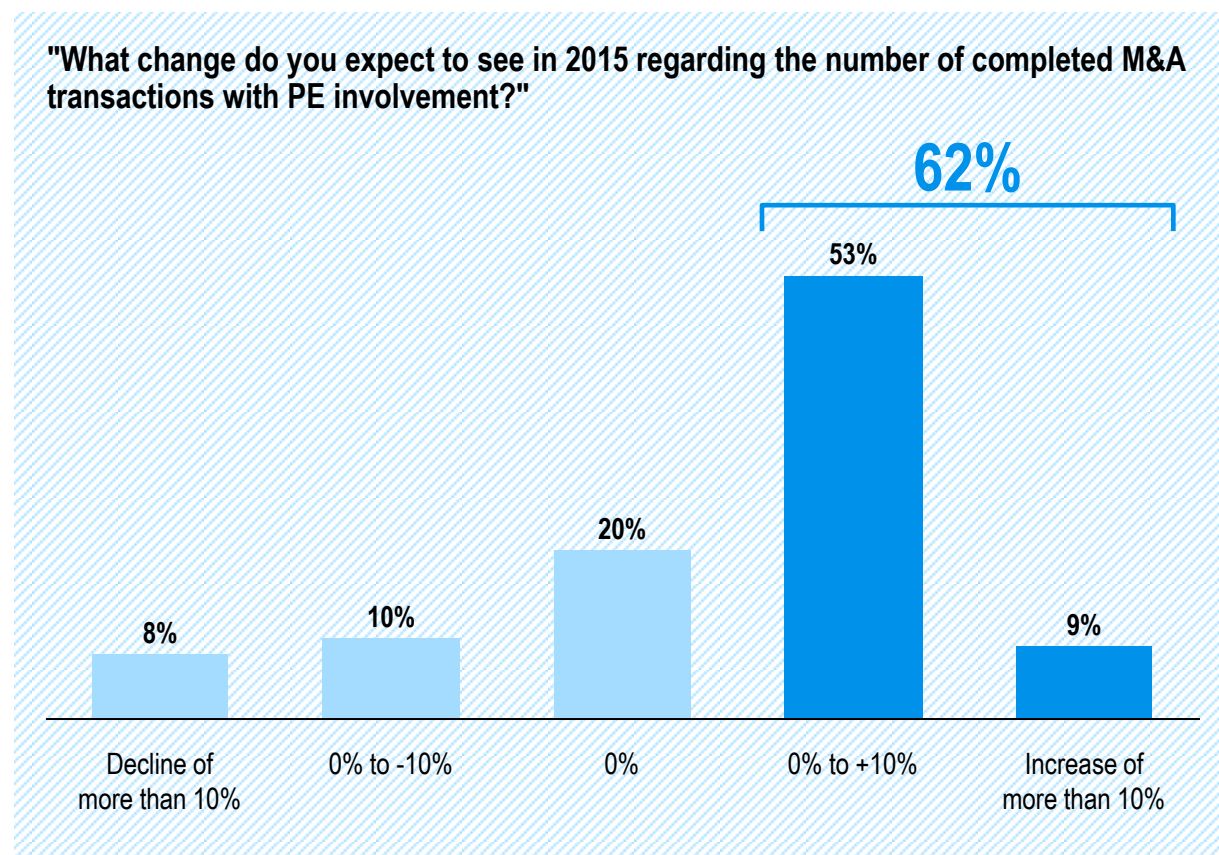
The macroeconomic situation, the pricing of targets and particularly the geopolitical development were perceived as worse than expected by the PE professionals

Financing of transactions was the only factor perceived to be better than had been anticipated

% of participants that expect this factor to have a major influence [multiple answers possible]

PE professionals are quite conservative about the development of PE-driven M&A in 2015 – Only two thirds expect positive growth rates

M&A transactions with PE involvement in 2015 compared to 2014 [%]



Only 62% of the respondents expect the number of M&A transactions with PE involvement to increase in 2015

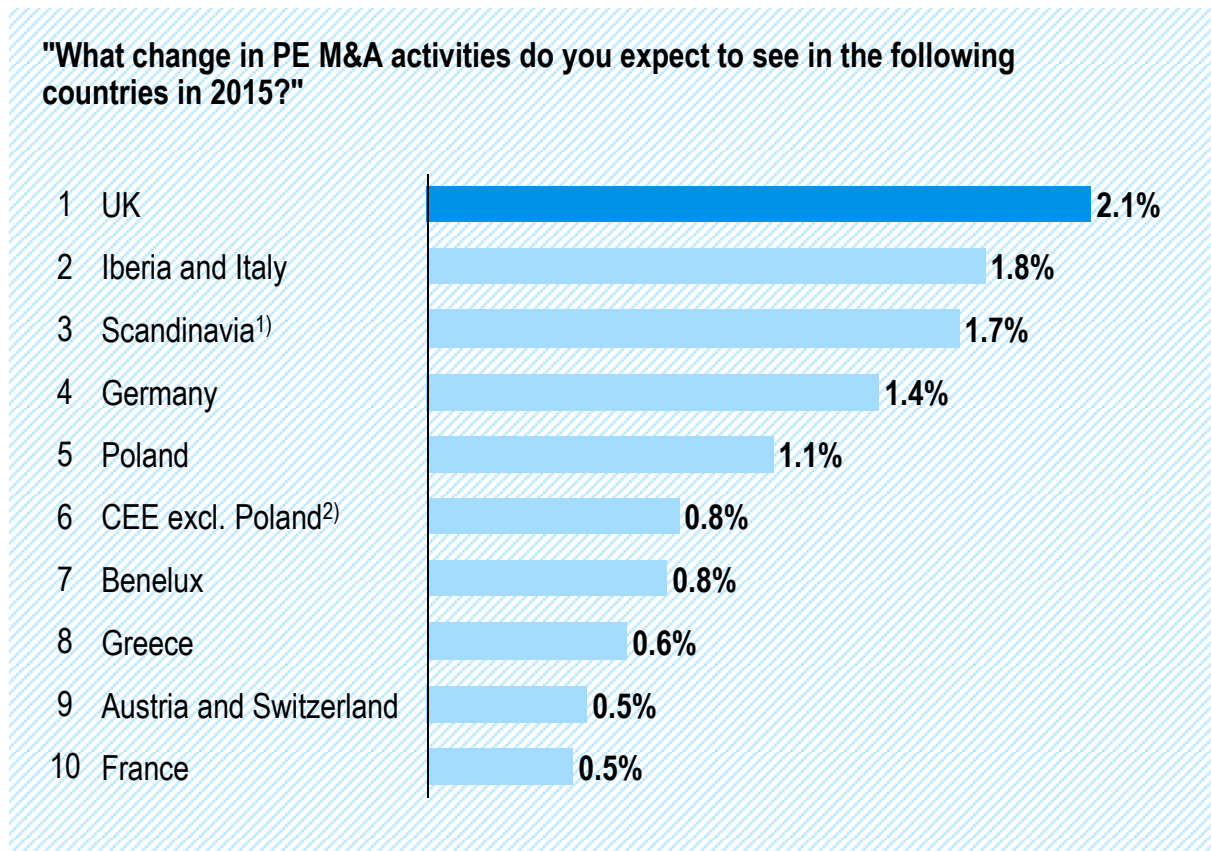
18% of all participants anticipate a decrease in the number of M&A transactions with PE background

Compared with last year's expectations, participants are quite conservative with regard to their expectations for 2015 after a challenging 2014

% of responses [only one answer possible]

In most countries, PE activity is expected to grow at low levels – UK, Iberia/Italy and Scandinavia show the highest expected growth rates

Change in PE M&A activity in major countries – 2015 vs. 2014 [%]



The major PE market of the UK is expected to see the strongest growth in PE M&A activities – up 2.1% on the previous year

Germany, with an expected rate of 1.4%, comes in behind Iberia/Italy (1.8%) and Scandinavia (1.7%)

Compared with last year's study, respondents are more conservative, expecting slower growth rates across almost all regions

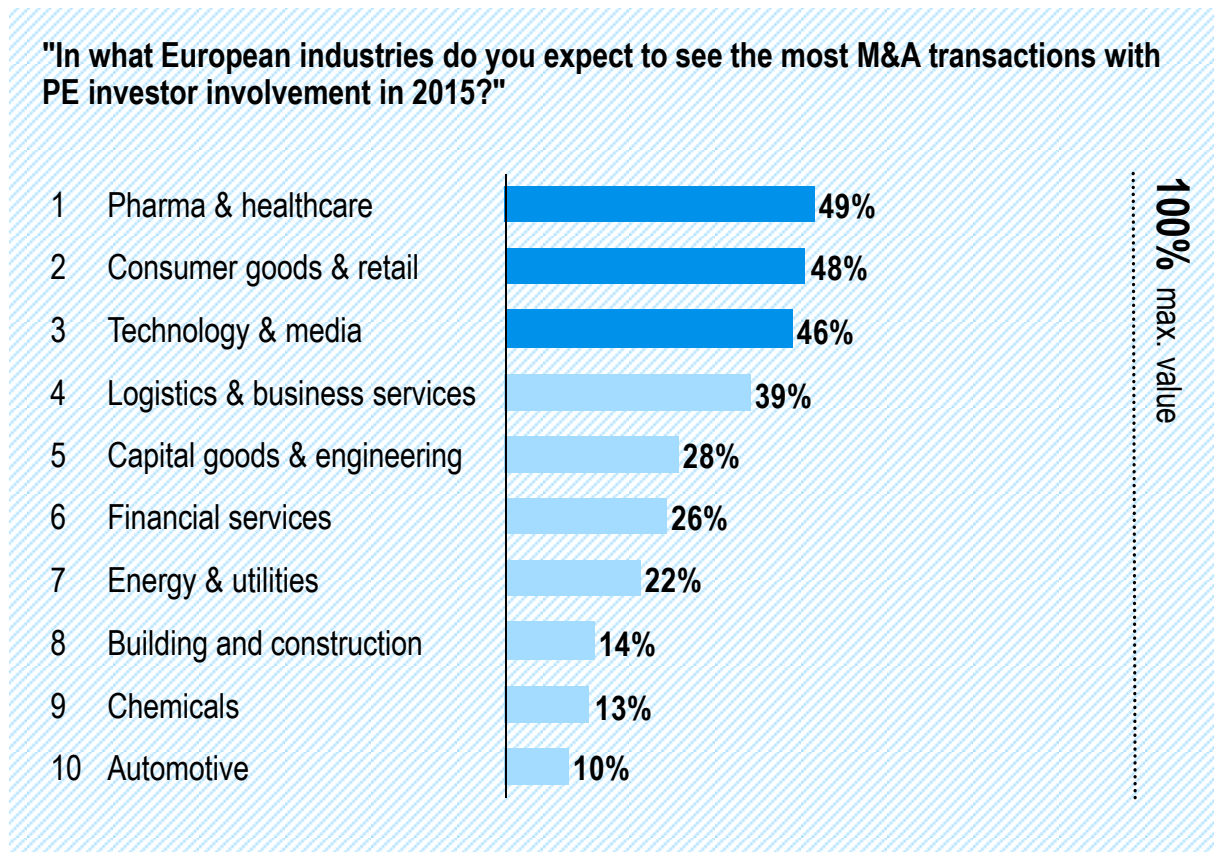
PE M&A activity in Greece is anticipated to grow at a higher rate than expected last year (0.6% vs. 0.0%), presumably due to the country's improving economic situation

Expected change in PE M&A activity in 2015 compared to previous year in % [multiple answers possible]

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

Pharma/healthcare, CG&R as well as TMT are expected to yield the most M&A transactions with PE involvement in 2015

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



Roughly half of all study participants expect pharma & healthcare, consumer goods & retail and technology & media to be the most active sectors/ industries in terms of the number of M&A transactions with private equity involvement

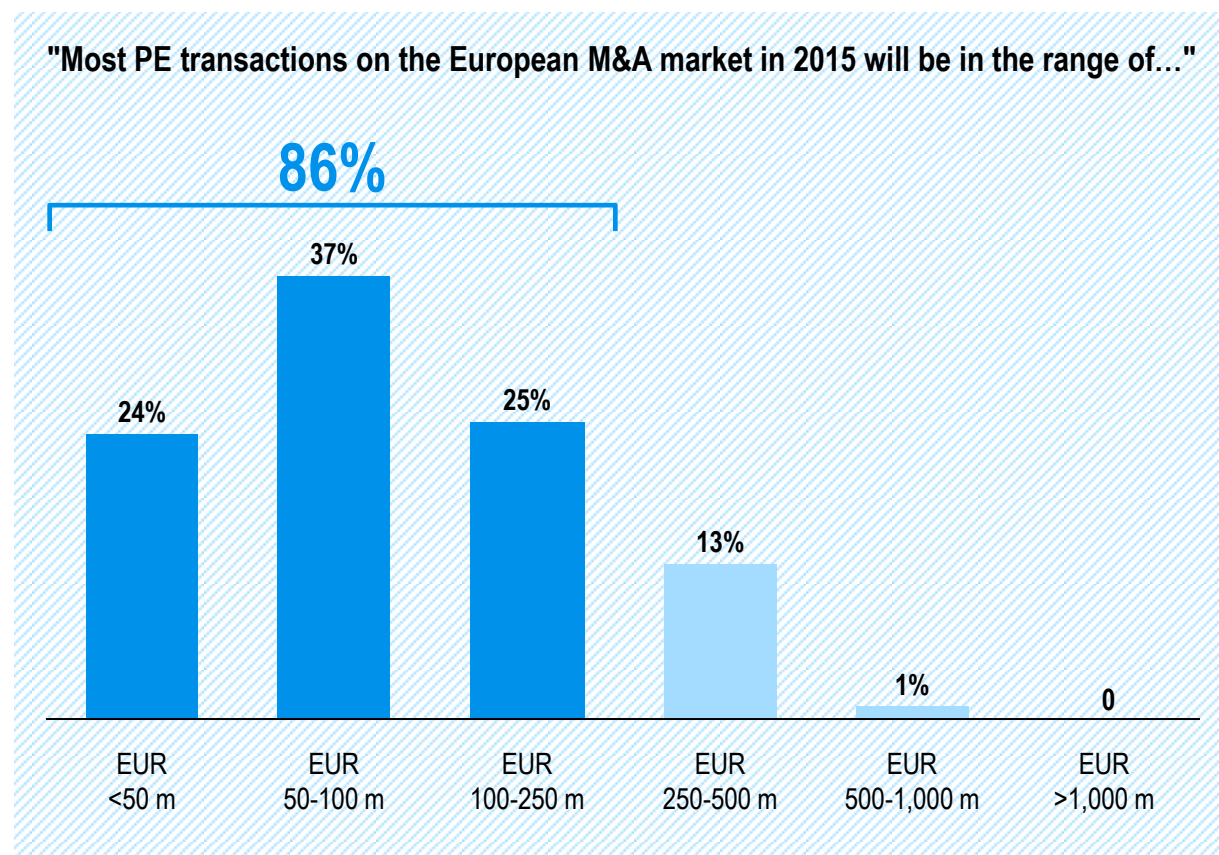
A fairly low number of PE transactions are expected for automotive

In comparison with last year, there is surprisingly no single industry seen as the main source of PE-driven M&A transactions by a majority of respondents (>50%)

% of participants that expect a high number of transactions [multiple answers possible]

The mid-cap segment is thought likely to dominate again – 86% of transactions in 2015 expected to be in the range of up to EUR 250 m

Expected range of PE transaction value in 2015 [%]



Despite market volatility and geopolitical uncertainties, expectations about distribution of deals by size remain largely on the levels of previous years

Large-cap deals with enterprise values above EUR 500 m are still likely to be rare

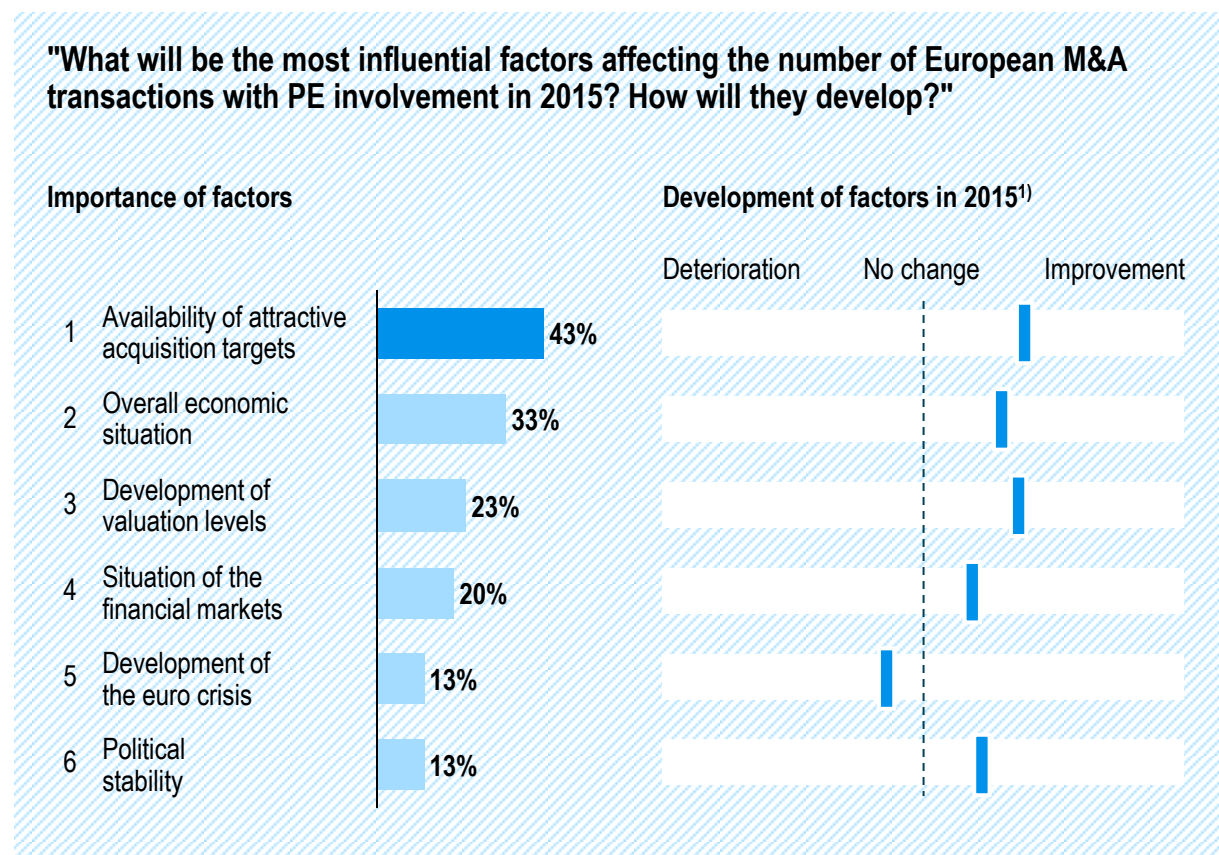
86% of all PE transactions in 2015 are expected to be below EUR 250 m – Compared to 88% in 2014 and 91% in 2013

61% of respondents expect that the enterprise value of most PE transactions will even be below EUR 100 m in 2014 (61% in 2014)

% of responses [only one answer possible]

Availability of attractive targets will be the most influential factor for PE-driven M&A in 2015 – Euro crisis expected to worsen further

Overview of relevant factors for M&A business in Europe [%]



In contrast to the rather conservative general opinion regarding the number of completed M&A transactions in 2015, almost all factors affecting this number are anticipated to improve in 2015

PE investments in 2015 are expected to be driven mainly by the availability of attractive acquisition targets

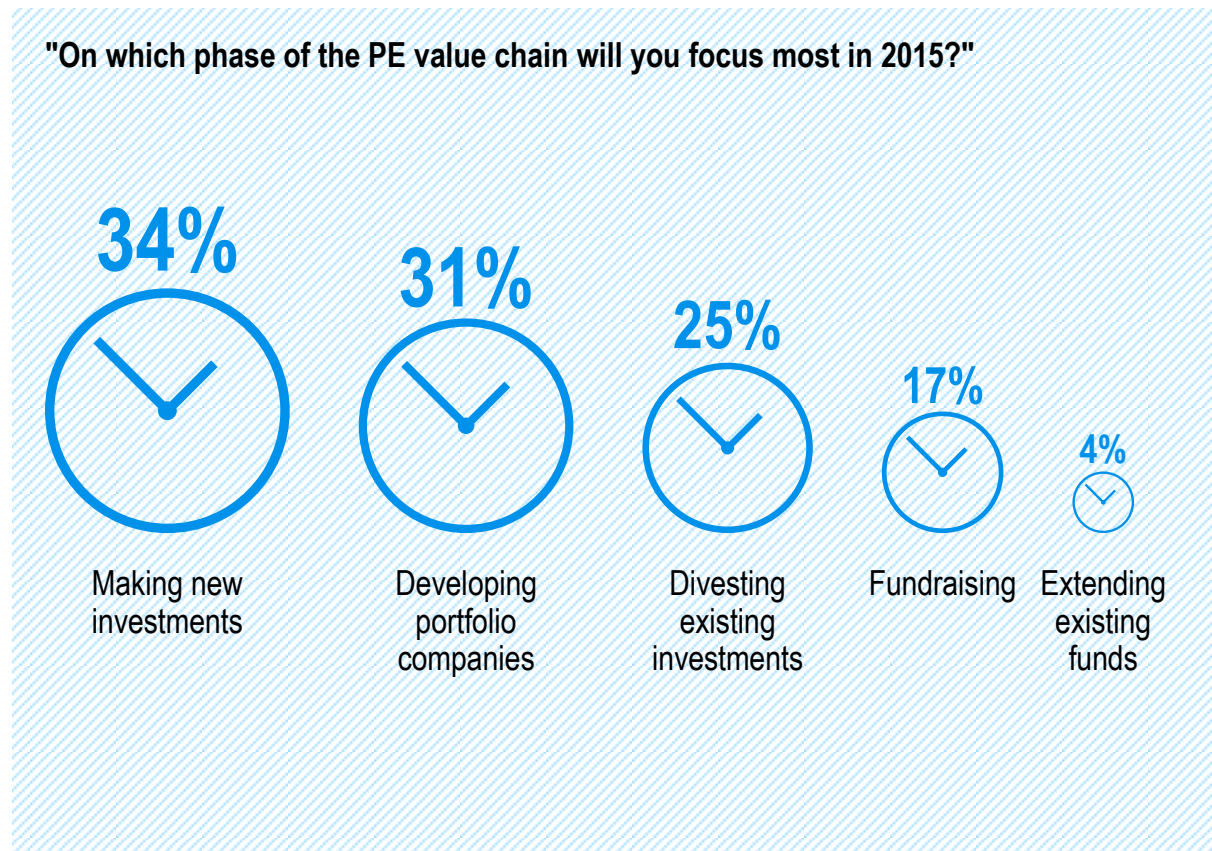
The development of the euro crisis has for the first time lost importance compared to last year – However, the situation is expected to worsen further in 2015

% of participants that expect this factor to have a major influence [multiple answers possible]

1) Truncated; excl. substantial deterioration and substantial improvement

In 2015, PE investors will focus on the same phases of the PE value chain as in 2014 – However, fundraising will become more important

Focus of PE investors on lifecycle stages in 2015 [%]



Making new investments is top priority for PE funds in 2015 – In 2014 this was similar, while in 2013 portfolio development was ranked highest

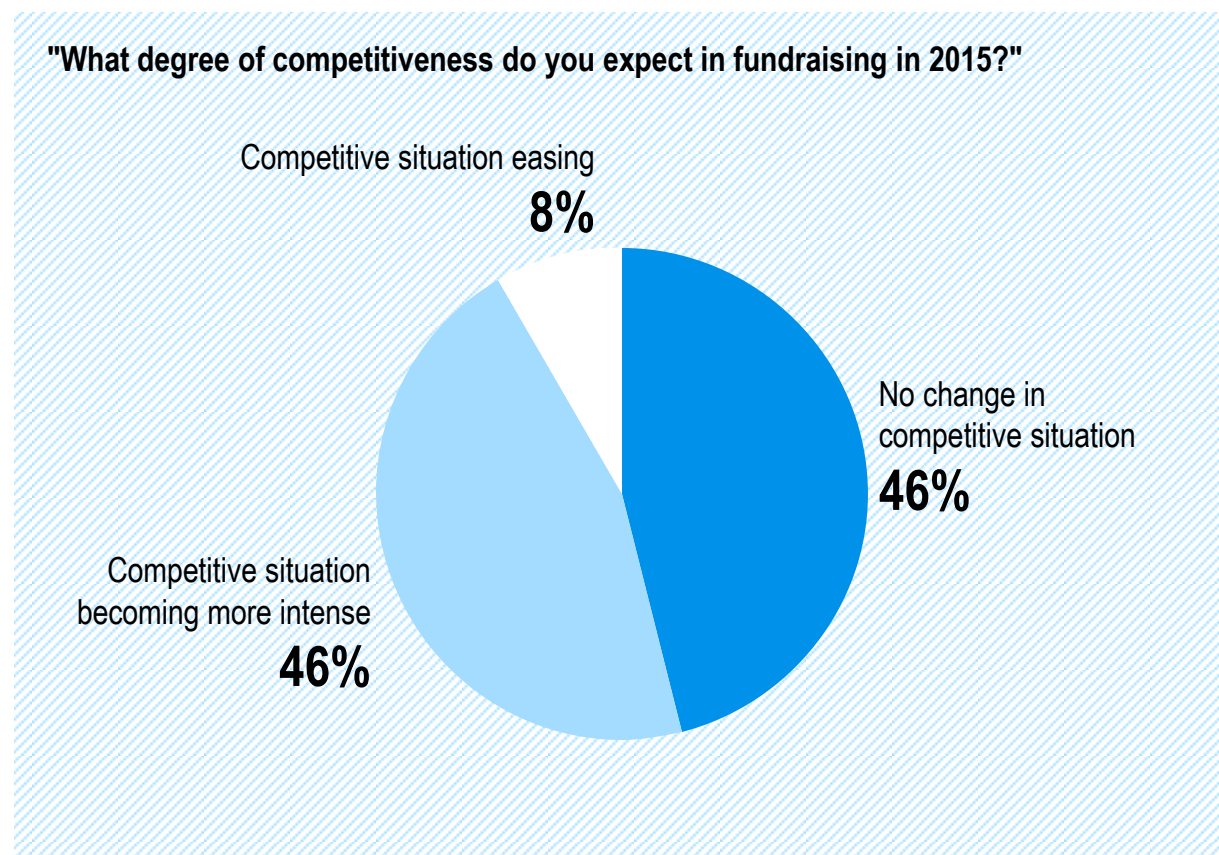
Value creation within the holding period is still a focus for PE funds in 2015 – Yet further development of their existing portfolios is only secondary for private equity professionals

A minority of PE investment professionals will focus on fundraising and extending existing funds – However, the importance of fundraising increased compared to last year (+6%)

% of participants that will place most of their focus on this phase of the PE value chain [multiple answers possible]

One half of PE professionals expect no change, while the other half expect an increase in the competition for funds

Expected degree of competitiveness in fundraising in 2015 [%]



46% anticipate no change in the competition for funds in 2015 compared to the status quo in 2014

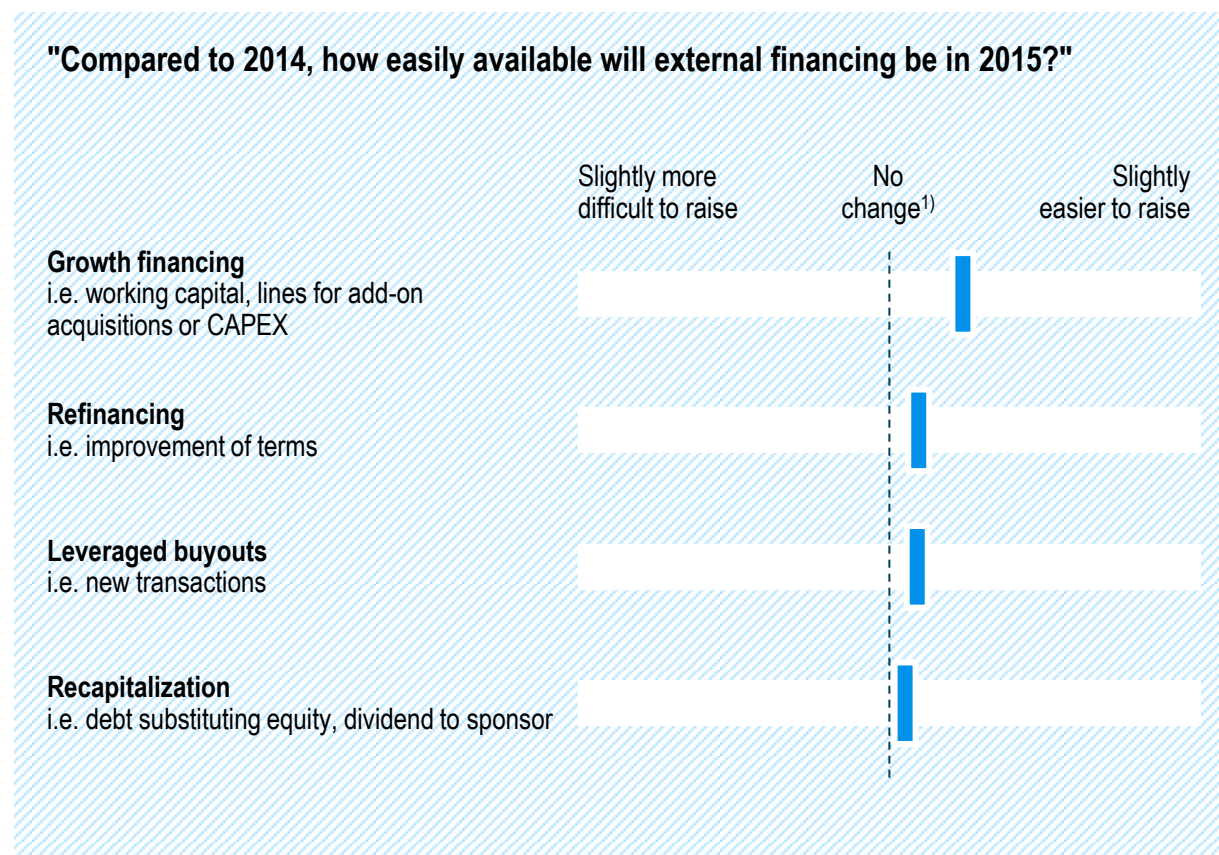
However, almost half again (46%) of the respondents expect fiercer competition for fundraising than in 2014 – Only 8% see a significant improvement in the fundraising situation

In the long run, overall sentiment further tightened compared to the previous year, when only 36% expected fundraising to become tougher and more intense

% of responses [only one answer possible]

Overall, the financing situation across all major instruments is expected to improve slightly in 2015 vs. 2014

Availability of external financing in 2015 [%]



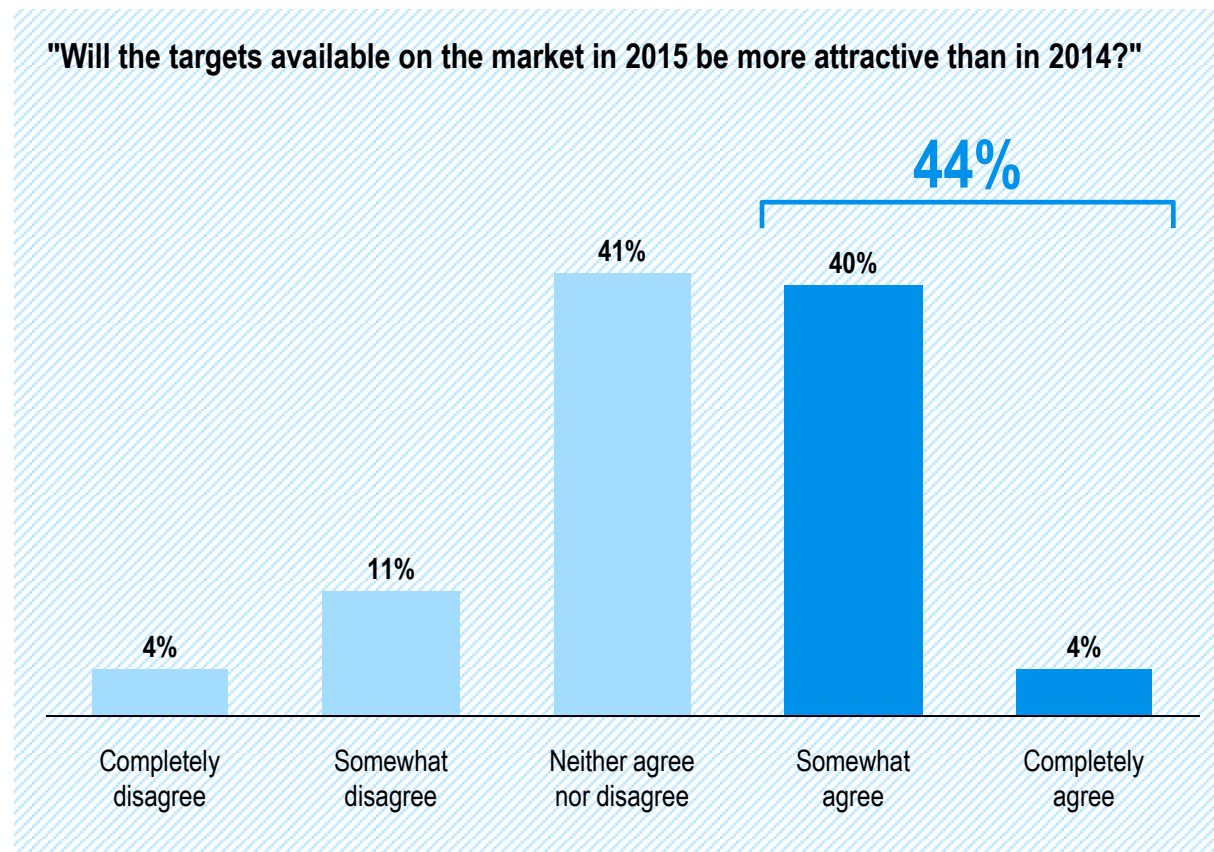
Asset-based growth financing (CAPEX, working capital) is anticipated to be under less pressure in 2015

Slight positive change expected for the other financing instruments (refinancing, LBO and recapitalization) compared to the situation in 2014, too

1) Truncated; excl. substantially more difficult and substantially easier

Survey participants are divided over the attractiveness of targets in 2015 – 44% expect more attractive targets, while 41% are uncertain

Expected development of investment opportunities in 2015 [%]



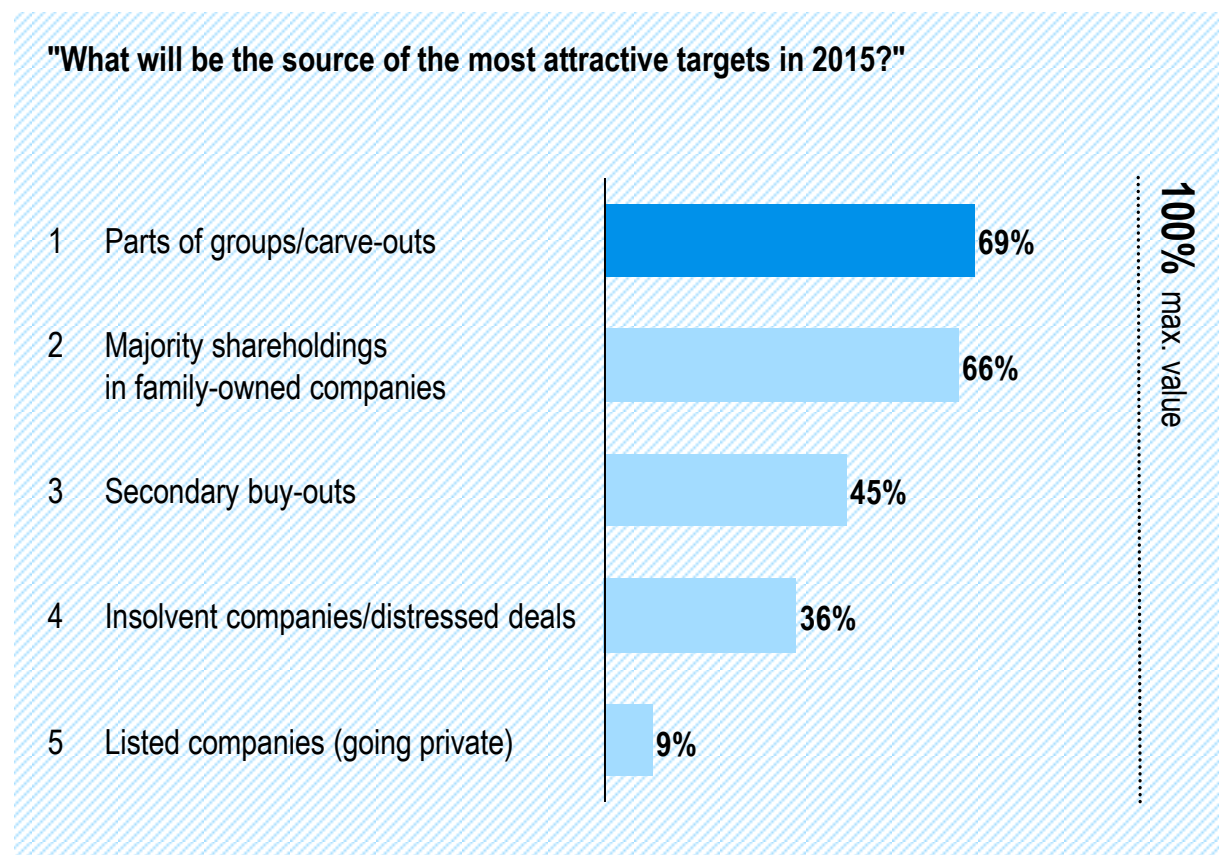
44% of all private equity professionals expect targets for investments to be more attractive in 2015 than in 2014

2015 results are similar to results for 2013, when the majority of respondents (45%) were uncertain about target availability – In 2014, only a quarter (26%) of the PE professionals were uncertain

% of responses [only one answer possible]

Parts of groups/carve-outs are perceived as the most important source of attractive targets in 2015, closely followed by family-owned firms

Sources of most attractive targets in 2015 [%]



Almost 70% of PE professionals rate parts of groups/carve-outs as the most important source of attractive targets in 2015

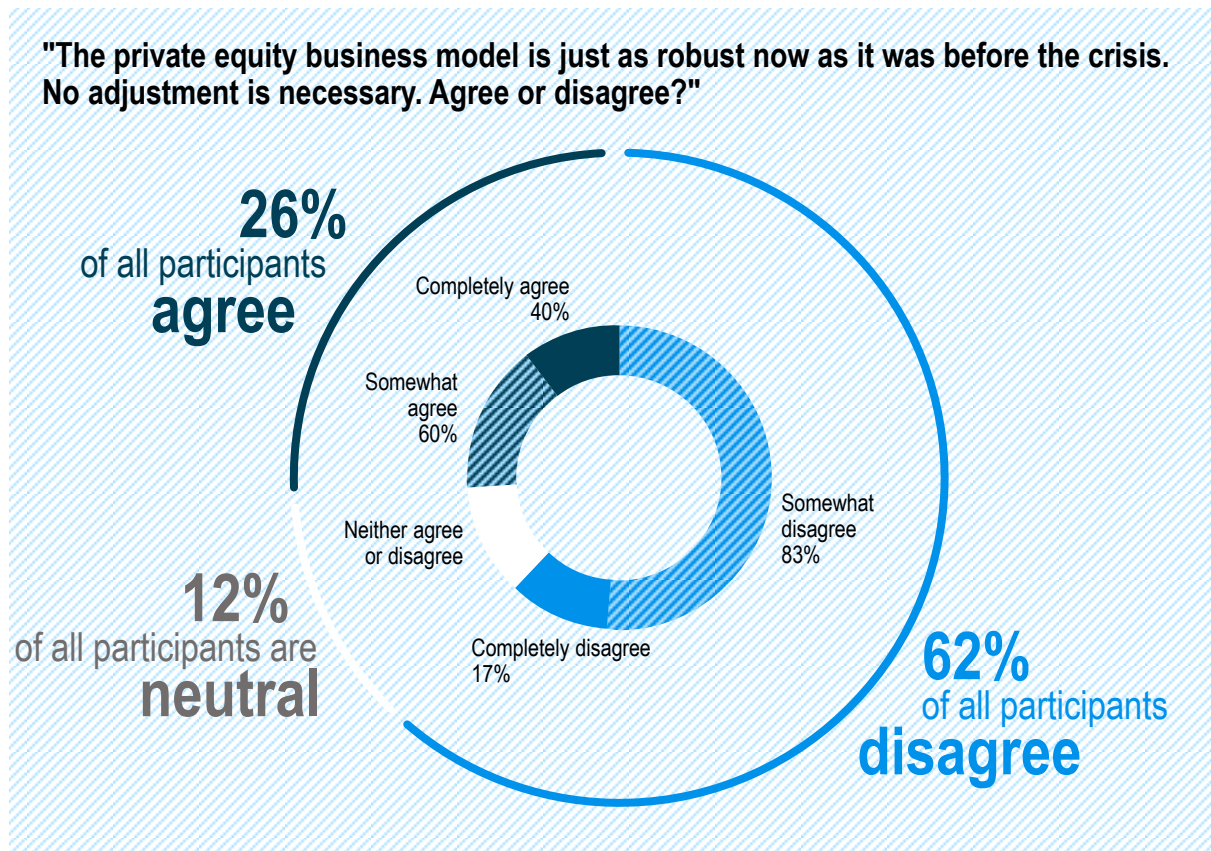
In comparison with 2014 results, majority shareholdings in family-owned companies and distressed deals gained in importance in this year's survey

Going-private transactions are considered least important

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

The majority of respondents (62%) see a need to adapt the PE business model – Only 26% still believe in its validity

Necessity of adjusting private equity business model [%]



The majority (62%) believe it is necessary to change the PE model – However, the other, albeit clearly smaller group of professionals, believes in its validity (26%)

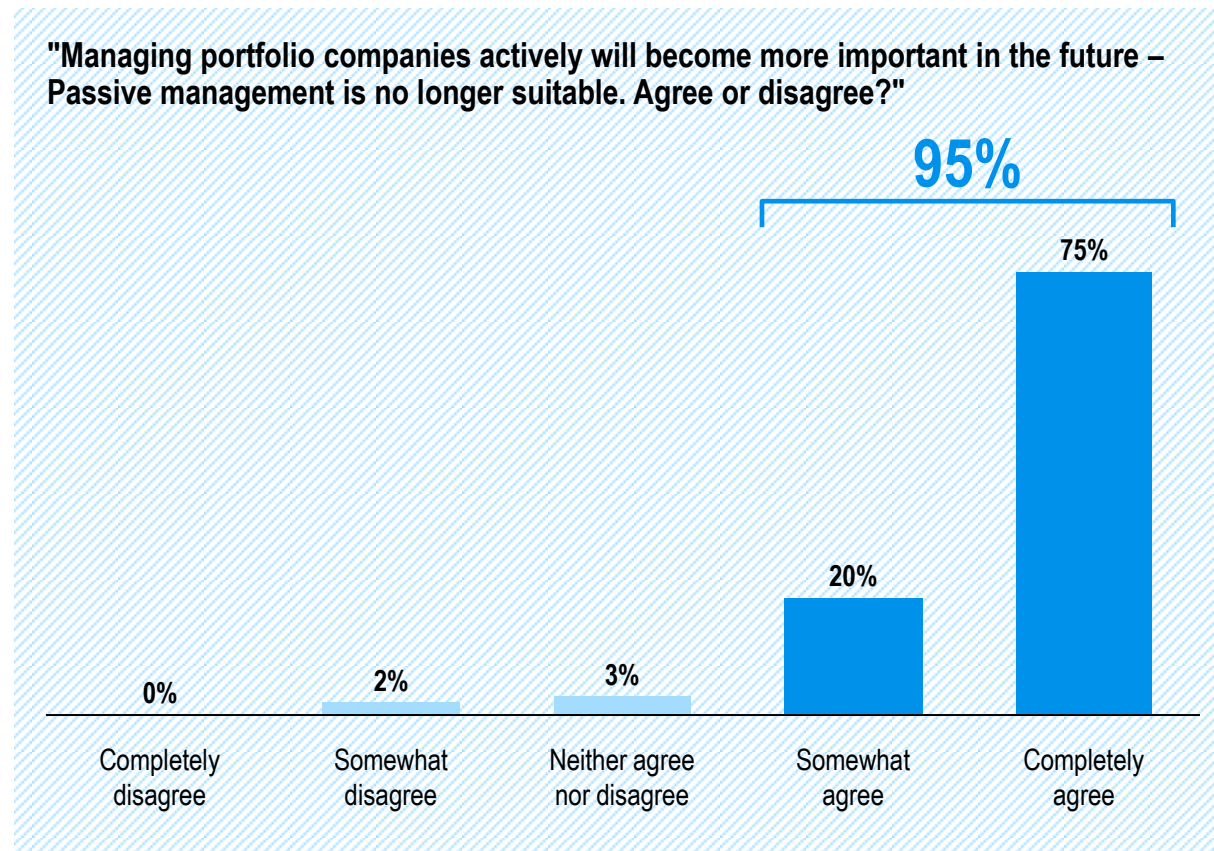
This reflects the conservative opinions of the professionals regarding the next year showing subsequently less optimism regarding PE-driven M&A deals development

For the first time, three quarters of PE professionals no longer believe in the robustness of the current business model or are at least neutral toward it (2014: 64%)

% of responses [only one answer possible]

Active portfolio management is key to all PE managers – Passive approaches do not work

Importance of active portfolio management [%]



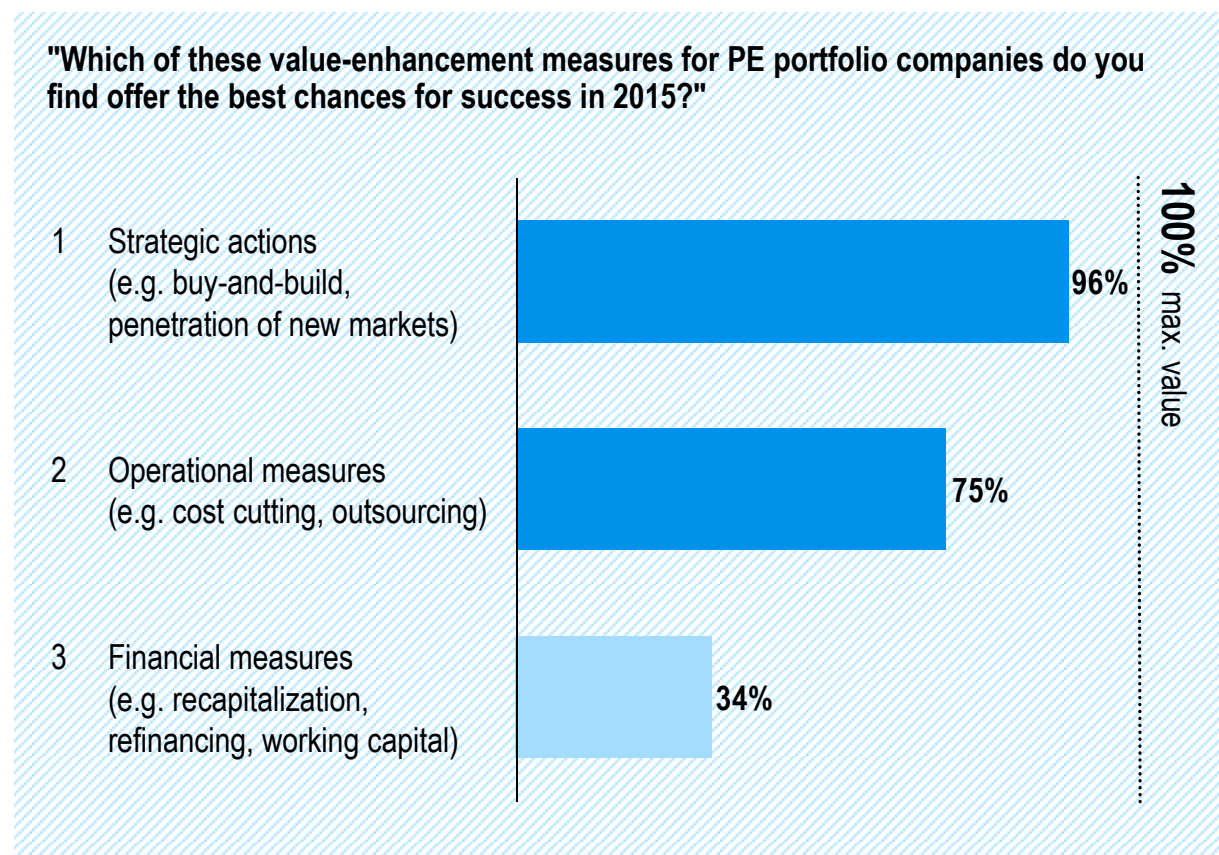
Responses generally reflect the investment approach of the participating funds – Active involvement in (major) business decisions of the portfolio companies is key

Simply holding investments using a passive strategy and financial engineering does not work

% of responses [only one answer possible]

Strategic and to some extent also operational actions are expected to have promising chances of improving performance in 2015

Chances of success of value-enhancement actions [%]



Implementing strategic actions is believed to have the best chance of success in 2015 – Similar to 2014 result

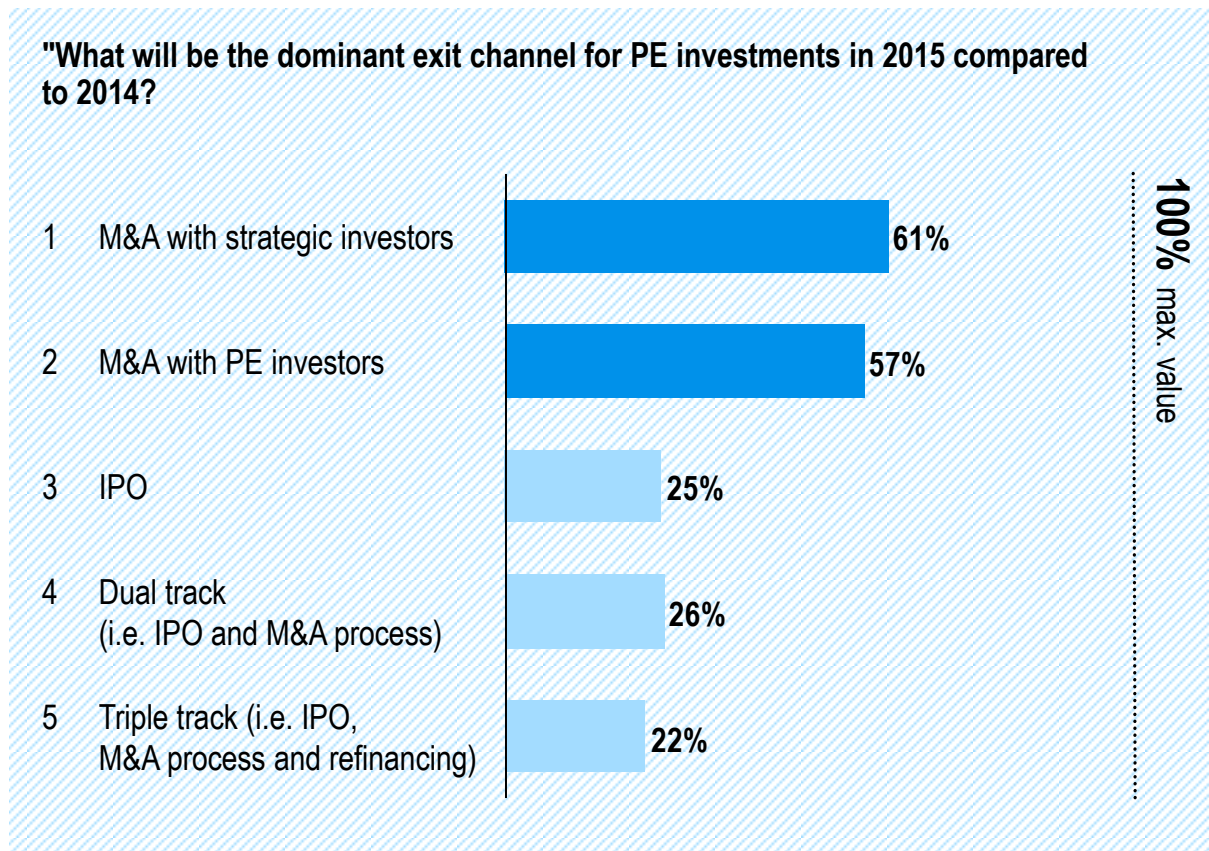
Continuous operational actions such as cost cutting and outsourcing can tap additional potential to improve profitability, but are insufficient if used in isolation

The effect of mere financial actions on value enhancement is expected to be very limited if not neutral

% of participants that expect the value-enhancement action in question to have a very promising or promising chance of success [multiple answers possible]

According to the experts, M&A transactions using either strategic or PE investors as exit channels will continue to dominate in 2015

Change in exit channels in 2015 compared to 2014 [%]



In 2015, the dominant exit channels are again M&A transactions with strategic or PE investors

Compared with last year's results, respondents are less confident about the dominant exit channels in 2015

Other exit channels trail behind considerably – Particularly IPO and dual track lost significant share compared with 2014 results (-22% and -18% respectively)

% of participants that expect a slight or significant increase in this exit channel [multiple answers possible]

D. Comparing PE
Outlook 2015 to PE
Outlook 2014 and
2013 – Selection

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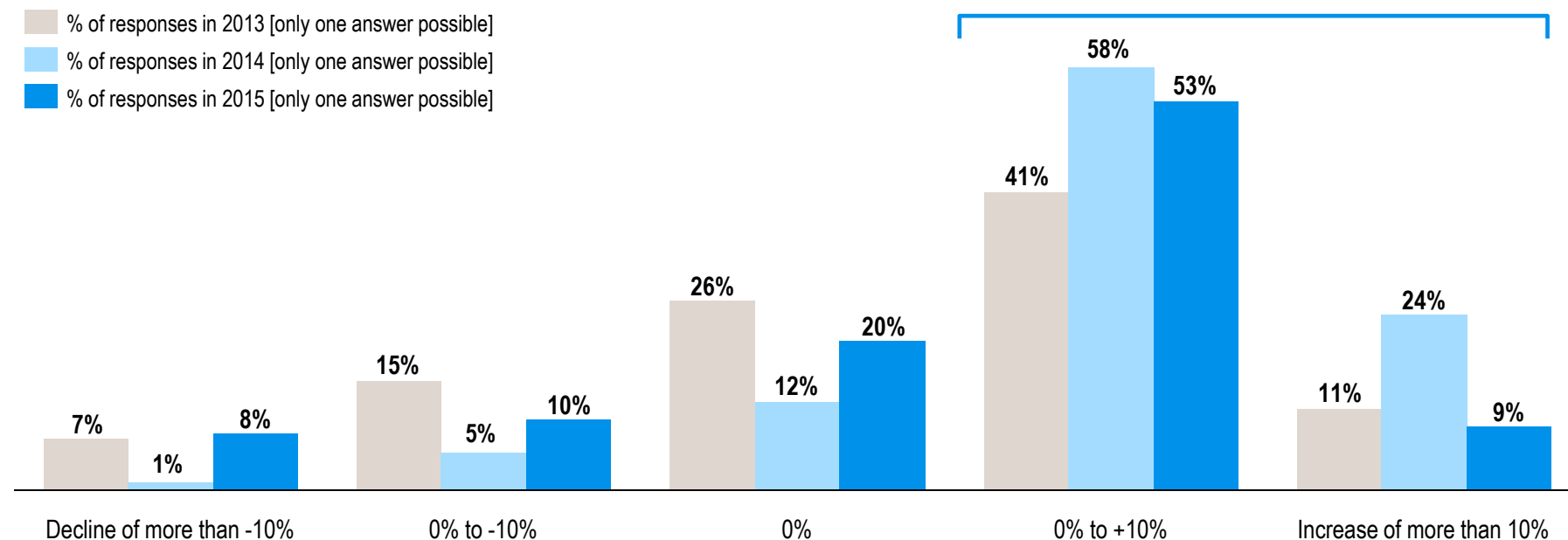


After an optimistic outlook in 2014, participants in 2015 are again conservative about PE market development – Similar to 2013

M&A transactions with PE involvement in 2015/14 vs. 2014/13 and 2013/12 [%]

"What change do you expect to see in 2015 (2014/2013) regarding the number of completed M&A transactions with PE involvement?"

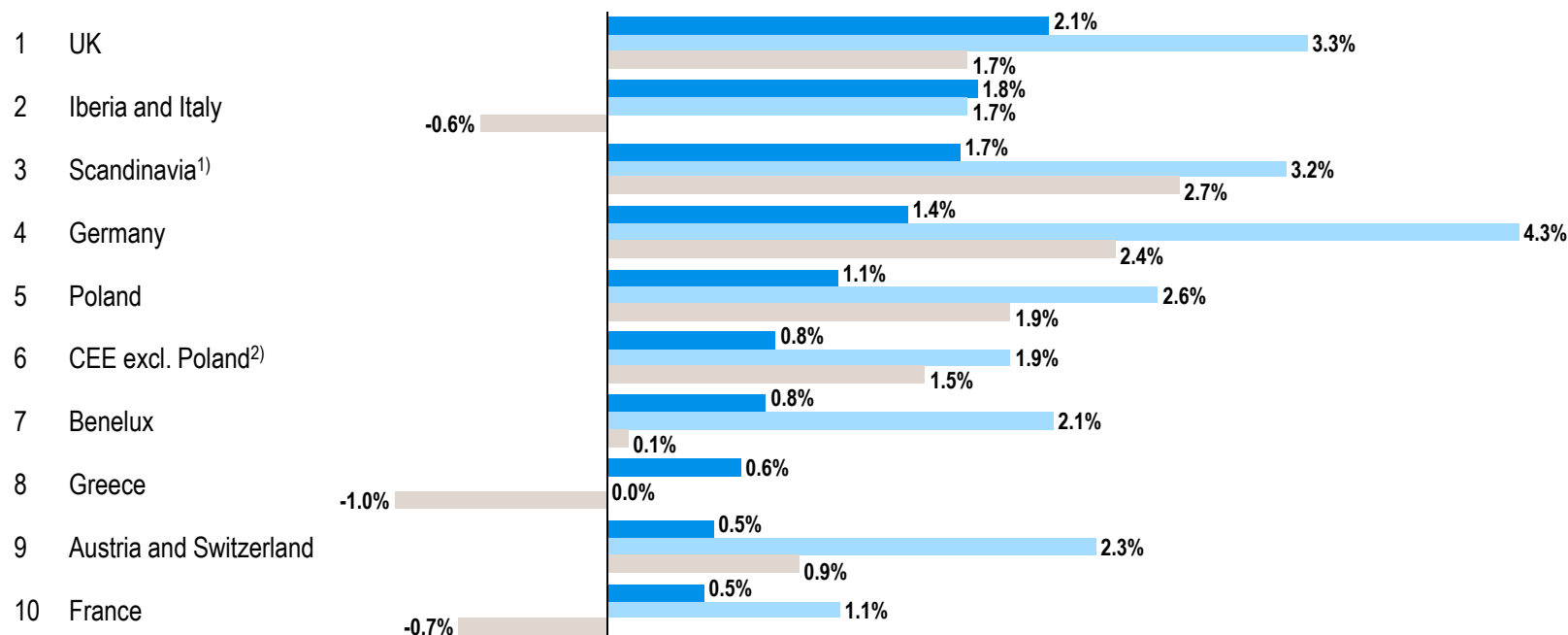
62% (2015) vs. **82%** (2014) vs. **52%** (2013)



After a very positive 2014 outlook, anticipated M&A activity for most countries has declined in 2015, being closer to 2013 levels again

Change in PE M&A activity in major countries in 2015/14/13 [ranked by 2015; %]

"What change in PE M&A activities do you expect to see in the following countries in 2015 (2014/2013)?"



■ Expected change in PE M&A activity in 2015 vs. 2014 in % [mult. answers possible]

■ Expected change in PE M&A activity in 2014 vs. 2013 in % [mult. answers possible]

■ Expected change in PE M&A activity in 2013 vs. 2012 in % [mult. answers possible]

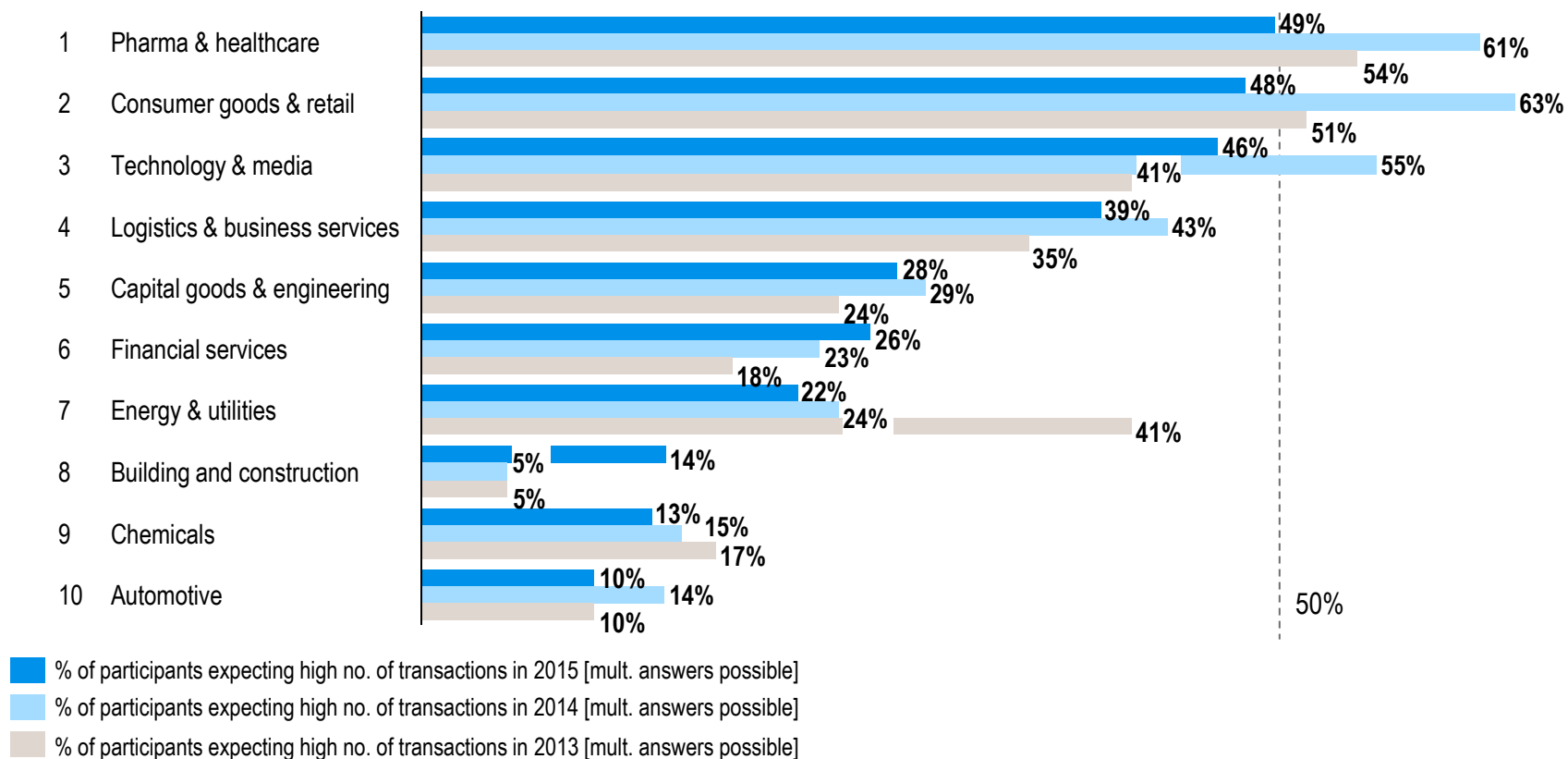
1) Includes Denmark, Norway, Sweden

2) Central and Eastern Europe includes Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovak Republic and Slovenia

No change over the last three years regarding the top three most active industries for M&A activities – Energy is down significantly against 2013

Ranking of industries by number of M&A transactions in 2015/14/13 [ranked by 2015; %]

"In what industries do you expect to see the most M&A transactions with PE investor involvement in 2015 (2014/2013)?"

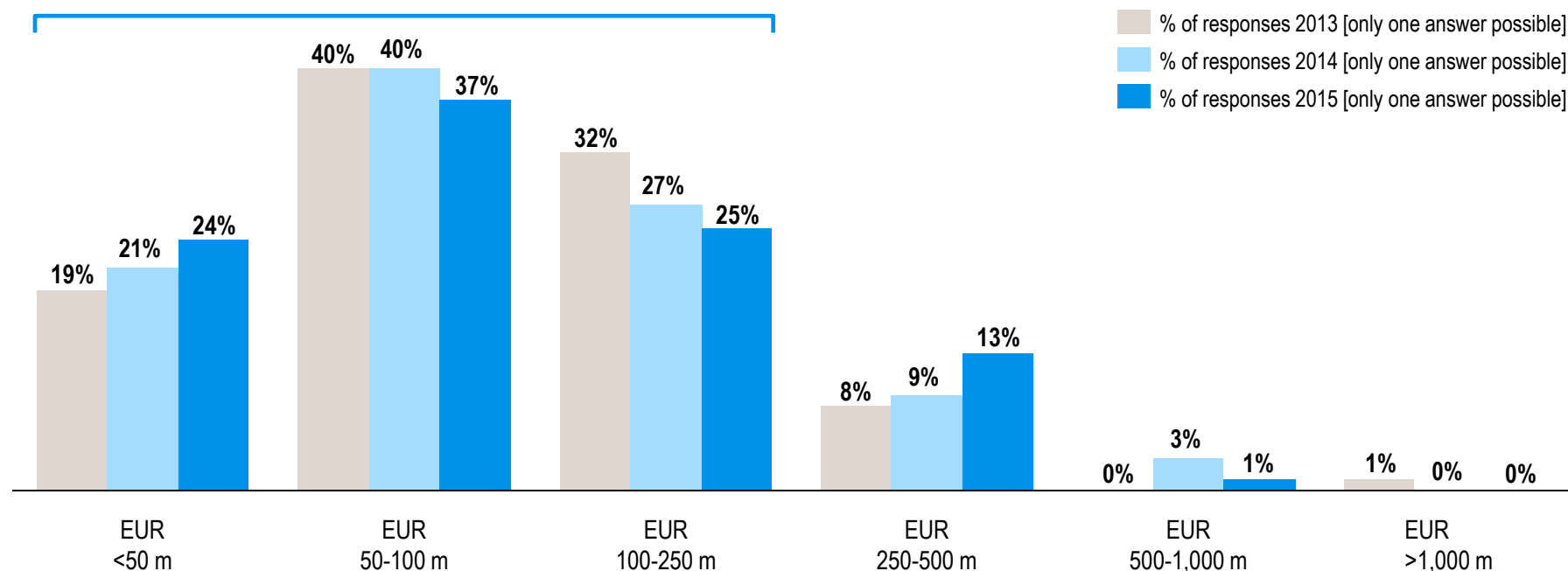


Expectations regarding transaction value are quite stable over the years – The vast majority still anticipate a range of up to EUR 250 m

Expected range of PE transaction value in 2015/14/13 [%]

"Most PE transactions on the European M&A market in 2015 (2014/2013) will be in the range of..."

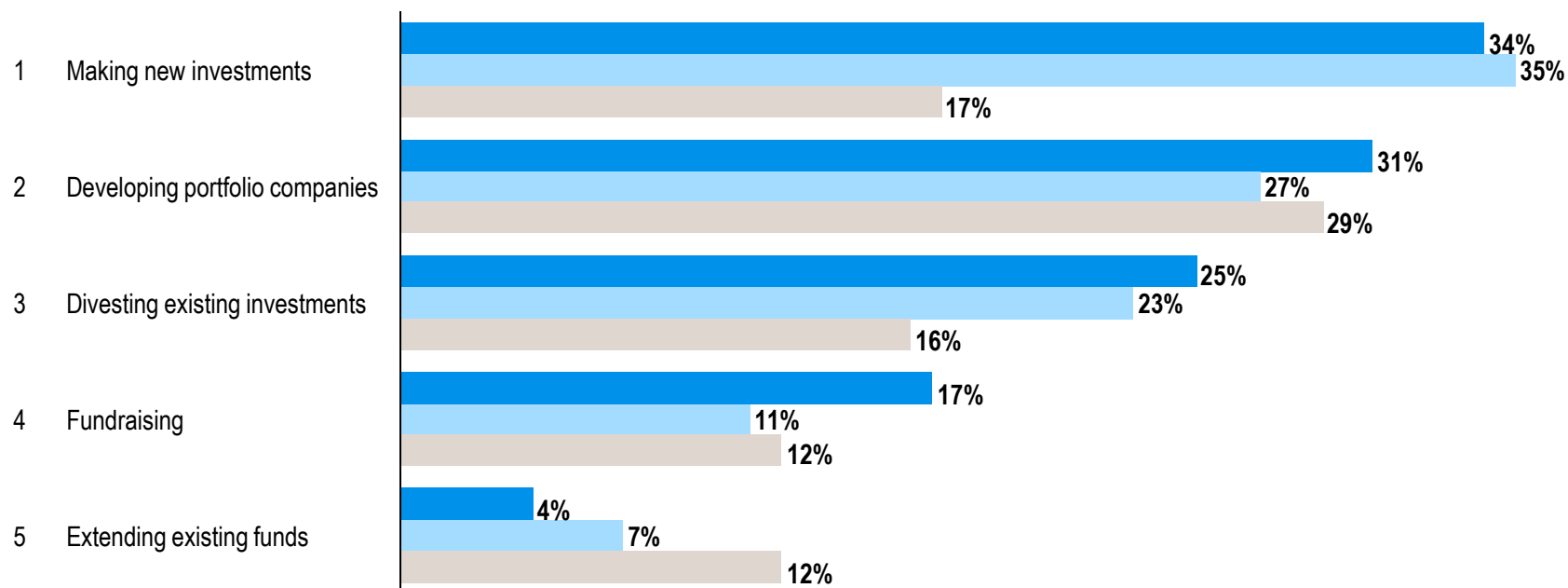
86% (2015) vs. **88%** (2014) vs. **91%** (2013)



No major shifts in the focus of PE investors were observed in recent years, but new investments significantly gained importance since 2013

Focus of PE investors on lifecycle stages in 2015/14/13 [ranked by 2015; %]

"On which phase of the PE value chain will you focus most in 2015 (2014/2013)?"



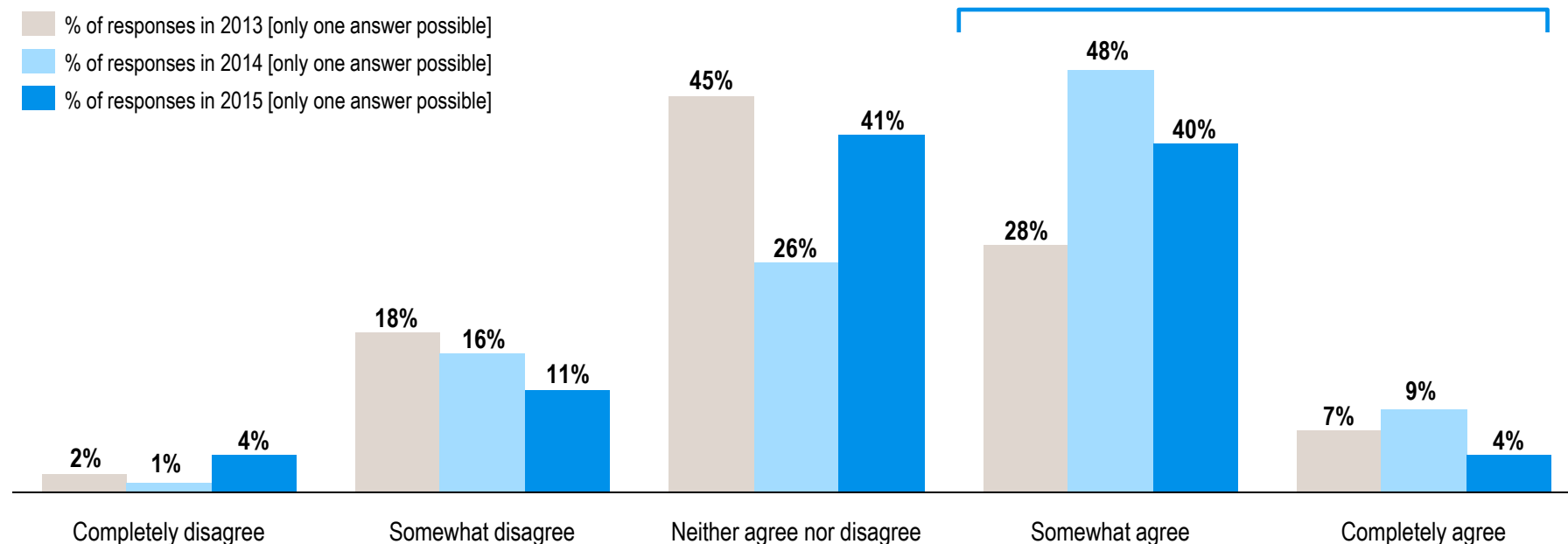
- % of participants that will place most of their focus on this PE value chain phase in 2015 [multiple answers possible]
- % of participants that will place most of their focus on this PE value chain phase in 2014 [multiple answers possible]
- % of participants that will place most of their focus on this PE value chain phase in 2013 [multiple answers possible]

Uncertainty regarding the attractiveness of targets available is rising again in 2015 – High confidence levels of 2014 remain an exception

Expected development of investment opportunities in 2015/14/13 [%]

"Will the targets available on the market in 2015 (2014) be more attractive than in 2014 (2013)/2013(2012)?"

44% (2015) vs. **57%** (2014) vs. **35%** (2013)





Let's think:
act!

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