

European Private Equity Outlook 2016



Munich, February 2016

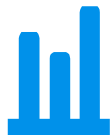
Our seventh 'European Private Equity Outlook' reveals how experts view the market and its development in 2016



The 'European Private Equity Outlook 2016' is the **seventh in a series** launched by Roland Berger in 2010



For the PE Outlook **more than 2,600 experts** from private equity investment companies across Europe were contacted



The results reflect **what experts in the market expect** for different countries and regions and what they consider to be relevant factors for the private equity business in 2016



We hope you enjoy reading this study. **We would be happy to receive your feedback** and/or have the opportunity to discuss the results with you in more detail

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A. Focus of study and methodology



The study is based on an exclusive survey with professionals from leading private equity firms across Europe, similar to last year

Focus and methodology of the study

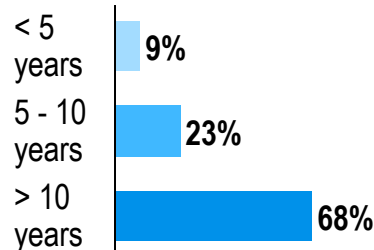
Overview of European private equity

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

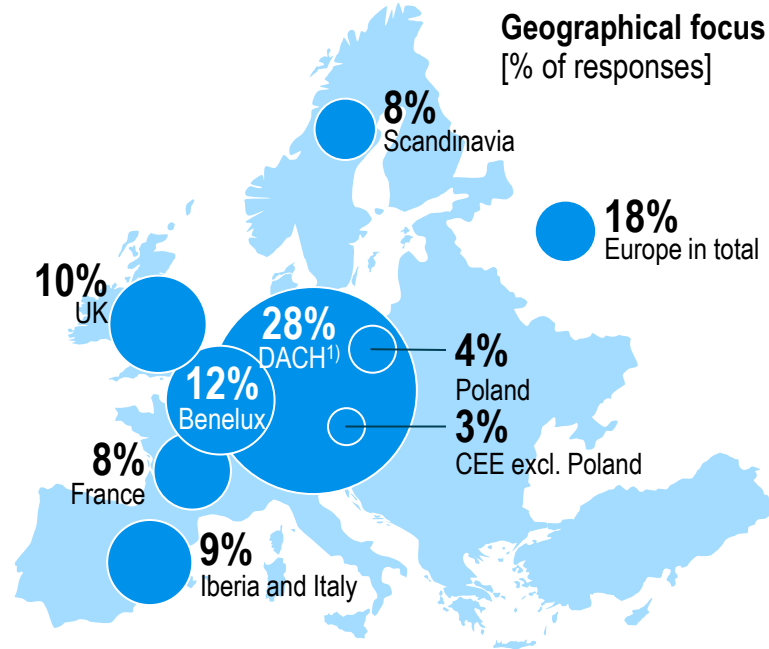
Key topics in 2016



PE experience [% of responses]



Private equity survey 2016



Overview of participants

1) Germany, Austria, Switzerland

B. Executive summary



The majority of PE professionals expect a growing number of M&A transactions with PE involvement in 2016

- 1 Nearly two thirds of PE professionals (64%) expect a **growing number of M&A transactions with PE involvement** in 2016 – This constitutes a further increase from 2015

- 2 For the first time, **political stability** is expected to be the **most influential factor** for PE-driven M&A in 2016, followed by the availability of targets – The overall economic situation is expected to improve in 2016

- 3 **Growth in PE activity is expected to be highest in Germany**, closely followed by **Iberia/Italy** at 3.2% and 3.1%, respectively – Overall, growth expectations for 2016 increased compared to 2015, but still remain at cautious levels

- 4 **Technology & media, pharma/healthcare** and **consumer goods & retail** are expected to yield **most M&A deals** with PE involvement **in 2016** – More than 60% of the participants see these as leading industries for PE

- 5 The **mid-cap segment** is expected to see most deals in 2016: **83% of transactions** in 2016 are expected to be in the range of up to EUR 250 m – But there is clear anecdotal evidence also pointing to a rise in large-cap deals

- 6 **New investments** will again be the most **important activity** in the PE value chain for 2016 – For the first time, **divesting existing investments** is expected to be more **important** than **developing portfolio** companies

PE professionals are still divided on whether the PE business model is sufficiently robust and sustainable in the long term

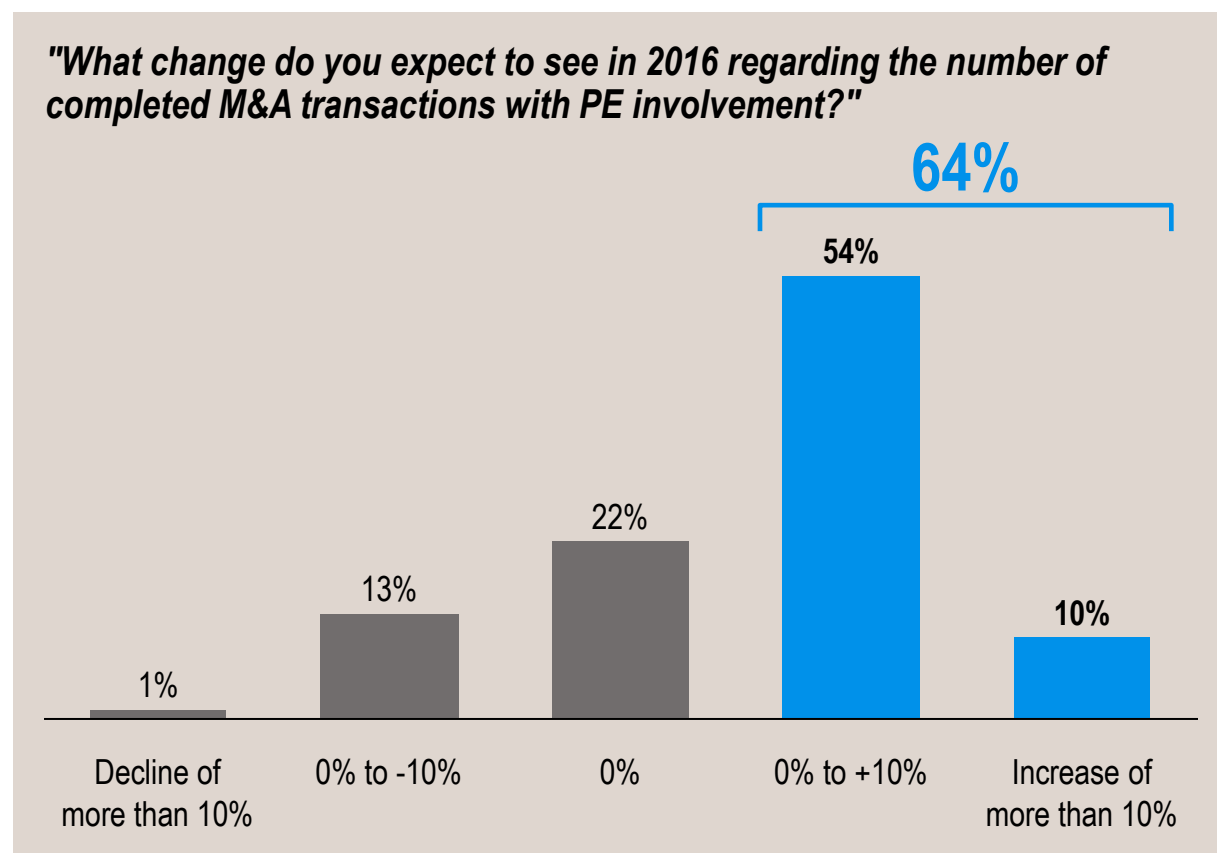
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- 7** More than half of PE professionals expect **no change in the competitiveness of fundraising in 2016** and only 37% expect the fundraising situation to become more competitive – This is slightly more favorable than in 2015
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- 8** The **financing situation** across major instruments is **expected to improve** in 2016 vs. 2015 – **Growth financing** is expected to be **significantly easier**; however, PE professionals expect **recapitalization** to be **more difficult**
-
- 9** Respondents still appear **divided on whether the PE business model is sufficiently robust** (45%) or needs to be adapted (40%) – The perceived need for change decreased vs. last year and optimism re. M&A deals increased
-
- 10** **Active portfolio management** is a **key factor** for success according to all PE managers – **Add-on acquisitions and new products & services** are considered the most important value creation measures in 2016
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- 11** Sale to **strategic investors** and sale to **other PE investors** are expected to be the **most promising exit channels** for PE investments – More than 60% of PE professionals consider these two exit channels to be dominant
-
- 12** **Weak change management capabilities**, followed by **unfavorable industry development** are considered the most important **roadblocks** with regard to value creation for PE portfolio companies in 2016

C. Results of the PE Outlook for 2016



Nearly two thirds of PE professionals expect a growing number of M&A transactions with PE involvement in 2016 – Increase over 2015

M&A transactions with PE involvement in 2016 compared to 2015 [%]



- > 64% of the respondents expect the number of M&A transactions with PE involvement to increase in 2016
- > 14% of all participants anticipate a decrease in the number of M&A transactions with PE background
- > Compared with last year's expectations, participants are a bit more positive with regard to 2016 – 64% of respondents expect positive growth in 2016 vs. 62% in 2015

% of responses [only one answer possible]

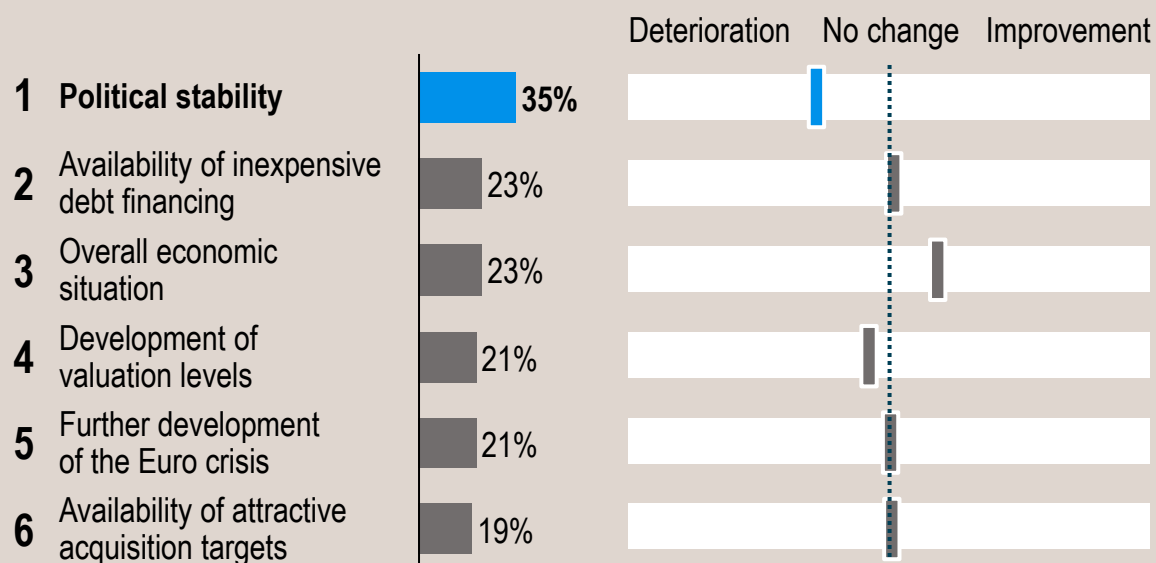
Respondents see political stability as the most influential factor for PE-driven M&A in 2016 – Economic situation expected to improve

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

"What will be the most influential factors affecting the number of European M&A transactions with PE involvement in 2016? How will they develop?"

Importance of factors

Development of factors in 2016¹⁾



> The most important factor, political stability, is expected to deteriorate in 2016 compared to 2015 – Mainly reflecting the refugee crisis for the first time since the launch of the PE Outlook

> Especially the overall economic situation is expected to improve significantly in 2016 in comparison to the previous year

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

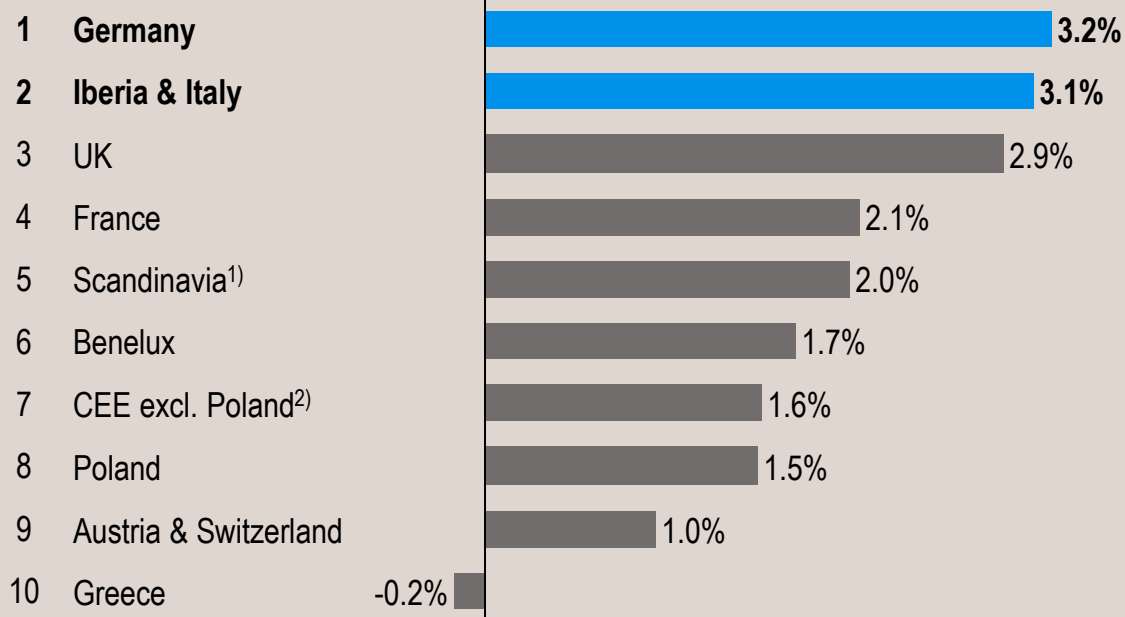
1) Truncated; excl. substantial deterioration and substantial improvement

Source: Roland Berger

PE activity across most nations expected to grow at low to moderate levels – Germany and Iberia/Italy with highest expected growth rates

Change in PE M&A activity in major countries – 2016 vs. 2015 [%]

"What change in PE M&A activities do you expect to see in the following countries in 2016?"



- > The PE markets of Germany and Iberia/Italy are expected to see the strongest growth in PE M&A activities – up 3.2% on the previous year
- > They are followed by the UK (2.9%), France (2.1%) and Scandinavia with a 2.0% growth rate
- > Compared with last year's study, respondents are more positive, expecting faster growth rates across almost all regions

Expected change in PE M&A activity in 2016 compared to previous year in %

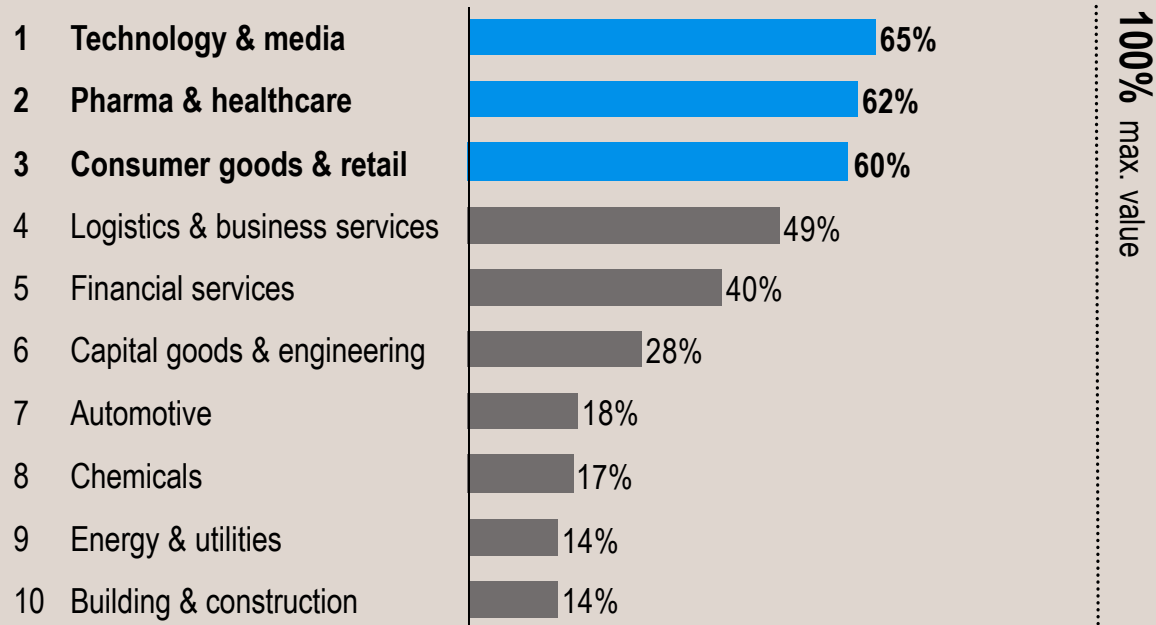
1) Includes Denmark, Norway, Sweden 2) Central and Eastern Europe includes Bulgaria, Croatia, Czech Republic, Hungary, Romania, Slovakia and Slovenia

Source: Roland Berger

TMT, pharma/healthcare as well as consumer goods and retail are expected to yield the most M&A deals with PE involvement in 2016

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

"In what European industries do you expect to see the most M&A transactions with PE investor involvement in 2016?"

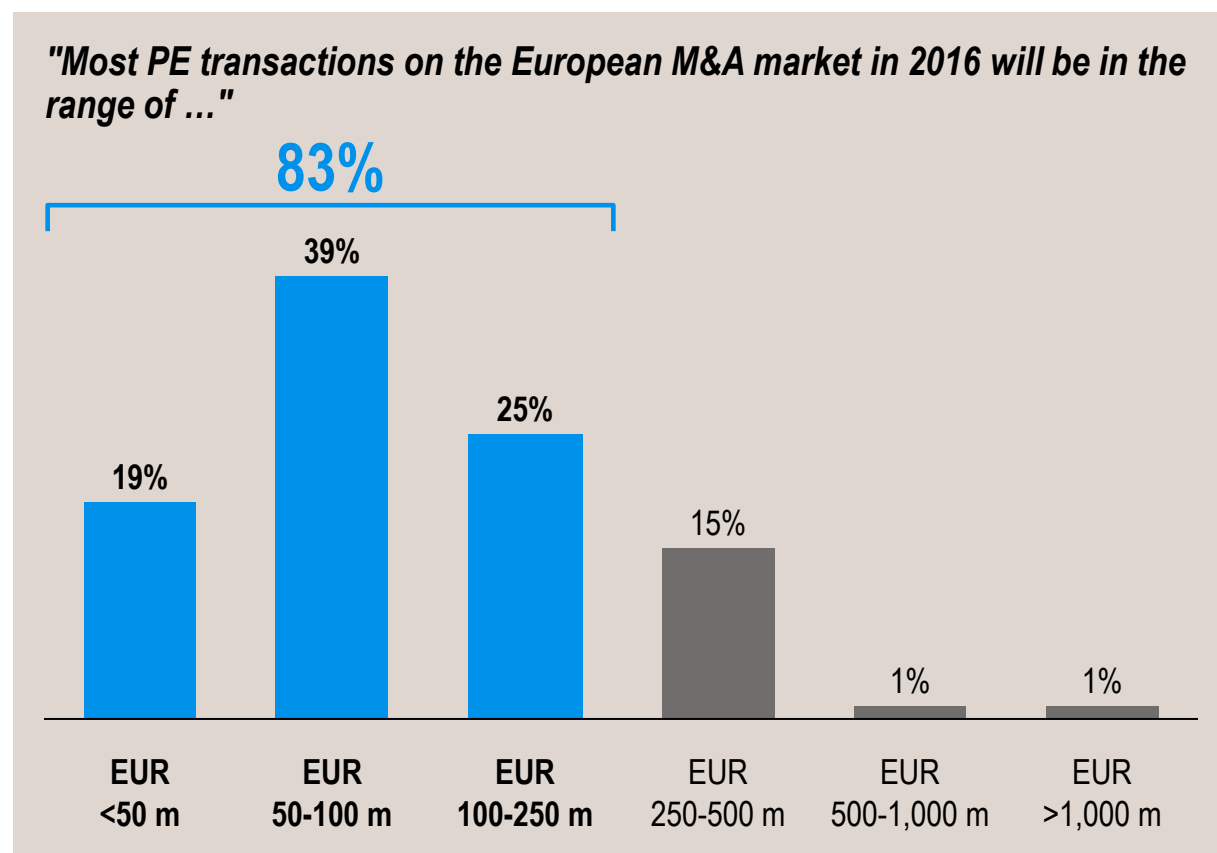


- > Two thirds of all study participants expect technology & media to be the most active sectors/industries in terms of the number of M&A transactions with private equity involvement
- > More than 60% of the study participants also believe pharma & healthcare and consumer goods & retail will see a large number of M&A transactions in 2016
- > A fairly low number of PE transactions is expected for building & construction

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

The mid-cap segment is likely to dominate again – 83% of transactions in 2016 expected to be in the range of up to EUR 250 m

Expected range of PE transaction value in 2016 [%]

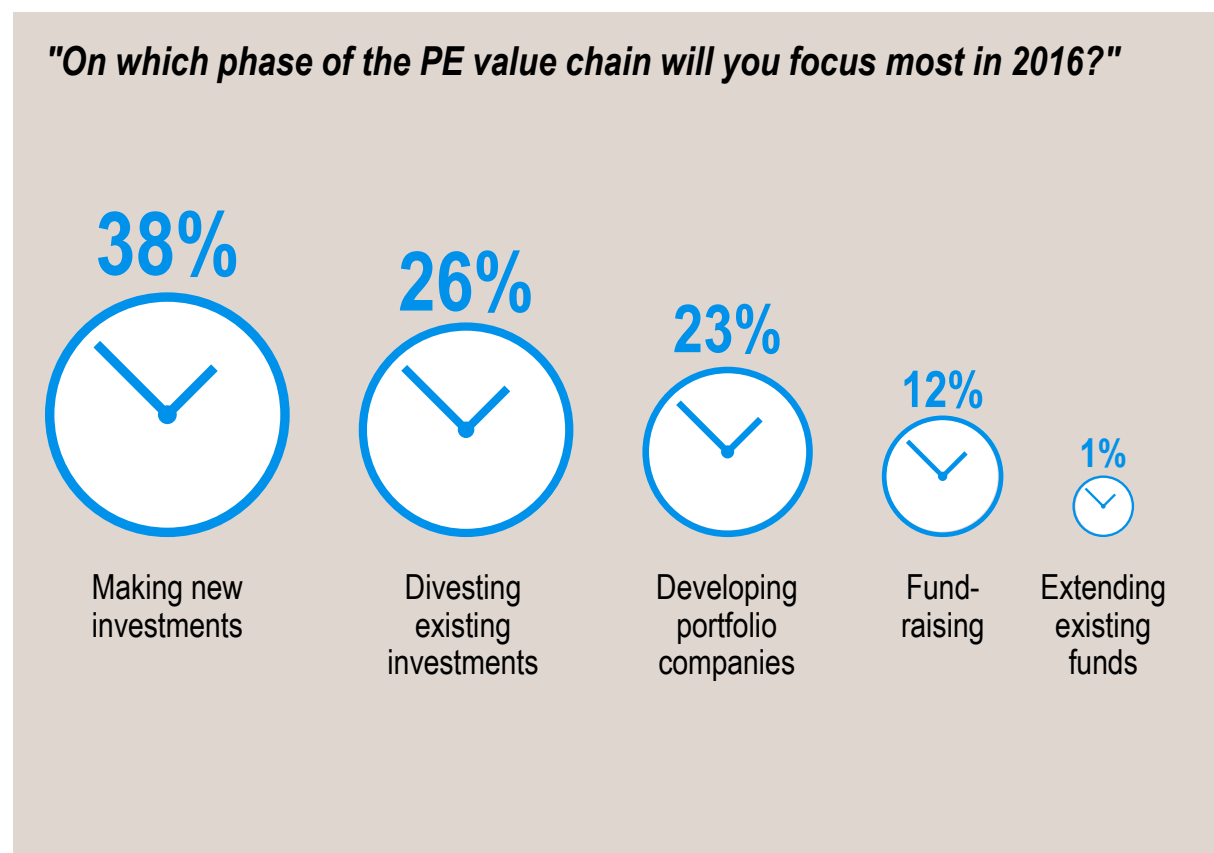


- > Large-cap deals with enterprise values above EUR 500 m are still likely to be infrequent. But there is clear anecdotal evidence pointing to a rise in these
- > 83% of all PE transactions in 2016 are expected to be below EUR 250 m – In line with 2015 (86%) and 2014 (88%)
- > 58% of respondents expect the enterprise value of most PE transactions to be below EUR 100 m in 2016 (61% in 2015)

% of responses [only one answer possible]

Just as in 2015 and 2014, making new investments will also be the most important activity in the value chain of PE investors for 2016

Focus of PE investors on lifecycle stages in 2016 [%]



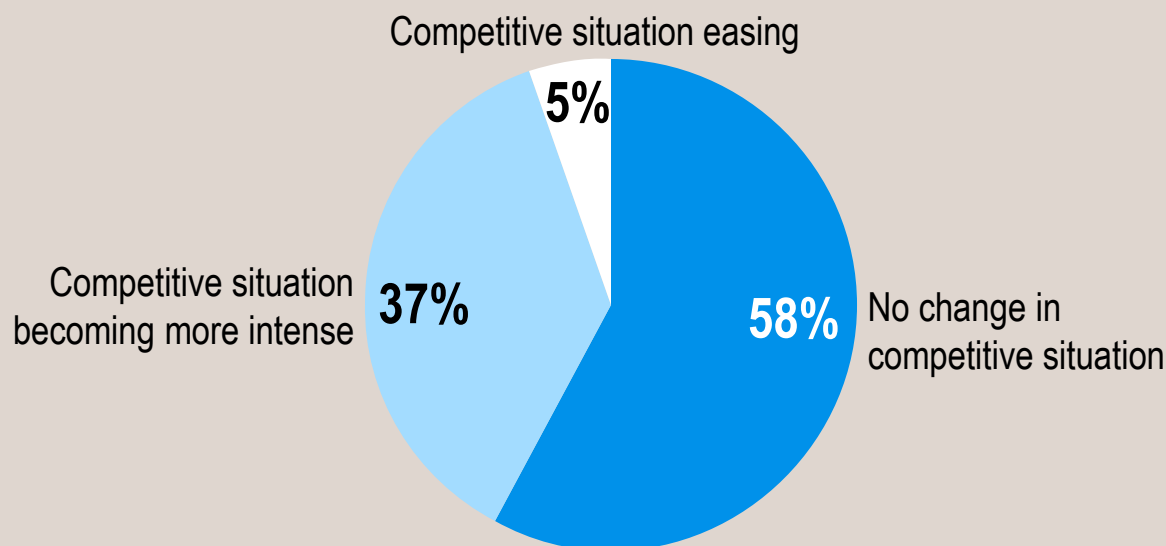
- > Making new investments is again top priority for PE funds in 2016 – In prior years this has been very similar
- > The importance of divesting existing investments slightly increased for 2016 from 25% in 2015 to 26% in 2016 making this the second most important factor – This is due to the current attractiveness of selling portfolio companies
- > Developing portfolio companies is not as much in the focus anymore, with only 23% stating that they will place most of their focus on this in 2016 compared to 31% in 2015

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

More than half (58%) of PE professionals expect no change in the competitiveness of fundraising – Slightly more positive than last year

Expected degree of competitiveness in fundraising in 2016 [%]

"What degree of competitiveness do you expect in fundraising in 2016?"



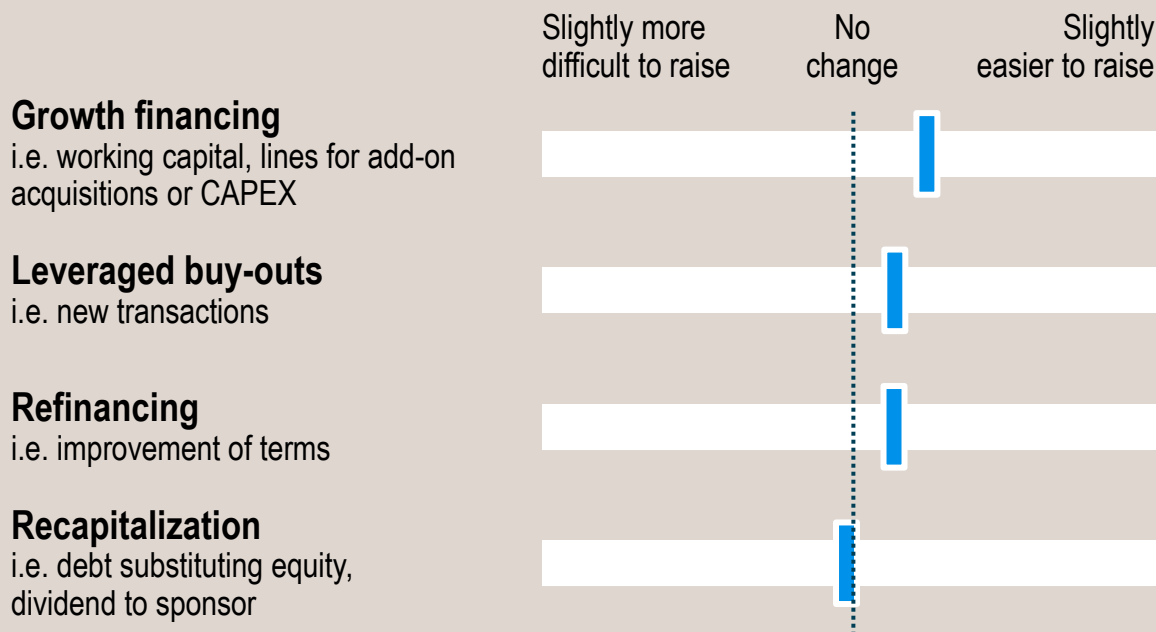
- > 58% of interviewees anticipate no change in the competition for funds in 2016 compared to the status quo in 2015. Last year's figure was 46%
- > The number of PE professionals who expect a more intense competitive situation decreased from 46% for 2015 to 37% for 2016, yielding a more favorable view – Only 5% expect a significant improvement in the fundraising situation

% of responses [only one answer possible]

The financing situation across major instruments is expected to improve in 2016 vs. 2015 – Recapitalization slightly more difficult

Availability of external financing in 2016 [%]

"Compared to 2015, how easily available will external financing be in 2016?"

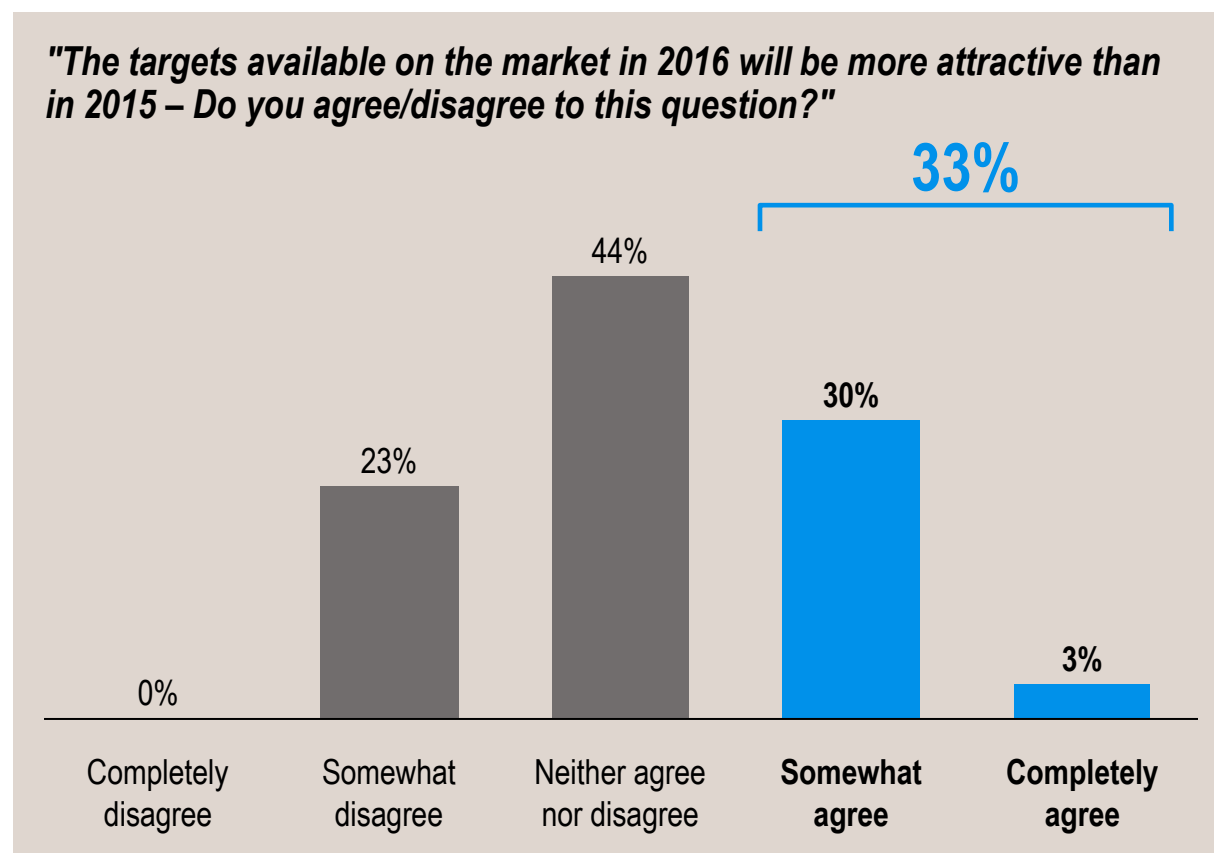


- > Overall, growth financing i.e. CAPEX, working capital, is anticipated to be slightly easier to raise in 2016
- > A positive dynamic is also expected for leveraged buy-outs and refinancing, whereas recapitalization is expected to be slightly more difficult in 2016 compared to the previous year

[only one answer possible]

33% of survey respondents expect target availability to be more attractive in 2016, which is less than in previous years

Expected development of investment opportunities in 2016 [%]

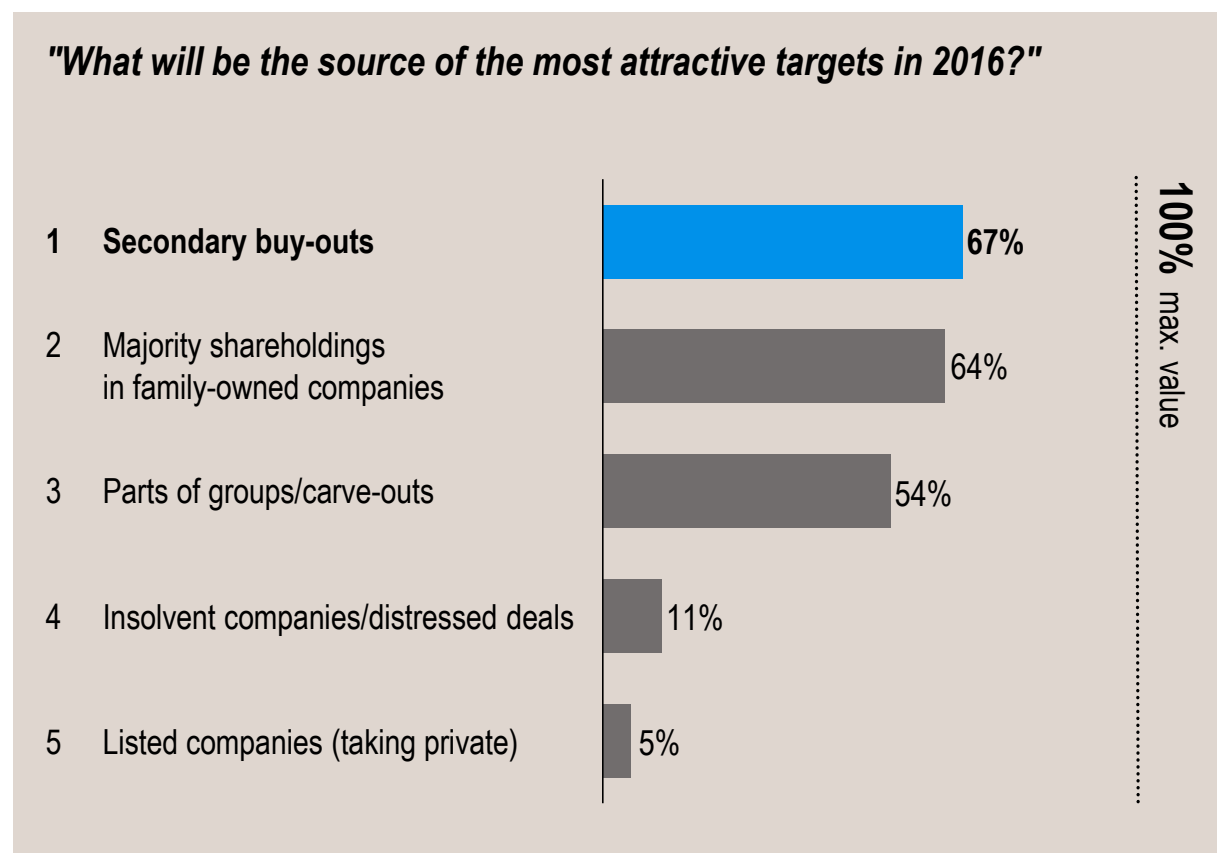


- > 33% of all private equity professionals expect targets for investments to be more attractive in 2016 than in 2015 – This is a decrease from 2015, when 44% expected more attractive investment opportunities to become available
- > The number of study participants who "somewhat agree" experienced a sharp decrease from 40% in 2015 to 30% in 2016

% of responses [only one answer possible]

Secondary buy-outs are perceived as the most important source of attractive targets in 2016, followed by family-owned firms

Sources of most attractive targets in 2016 [%]

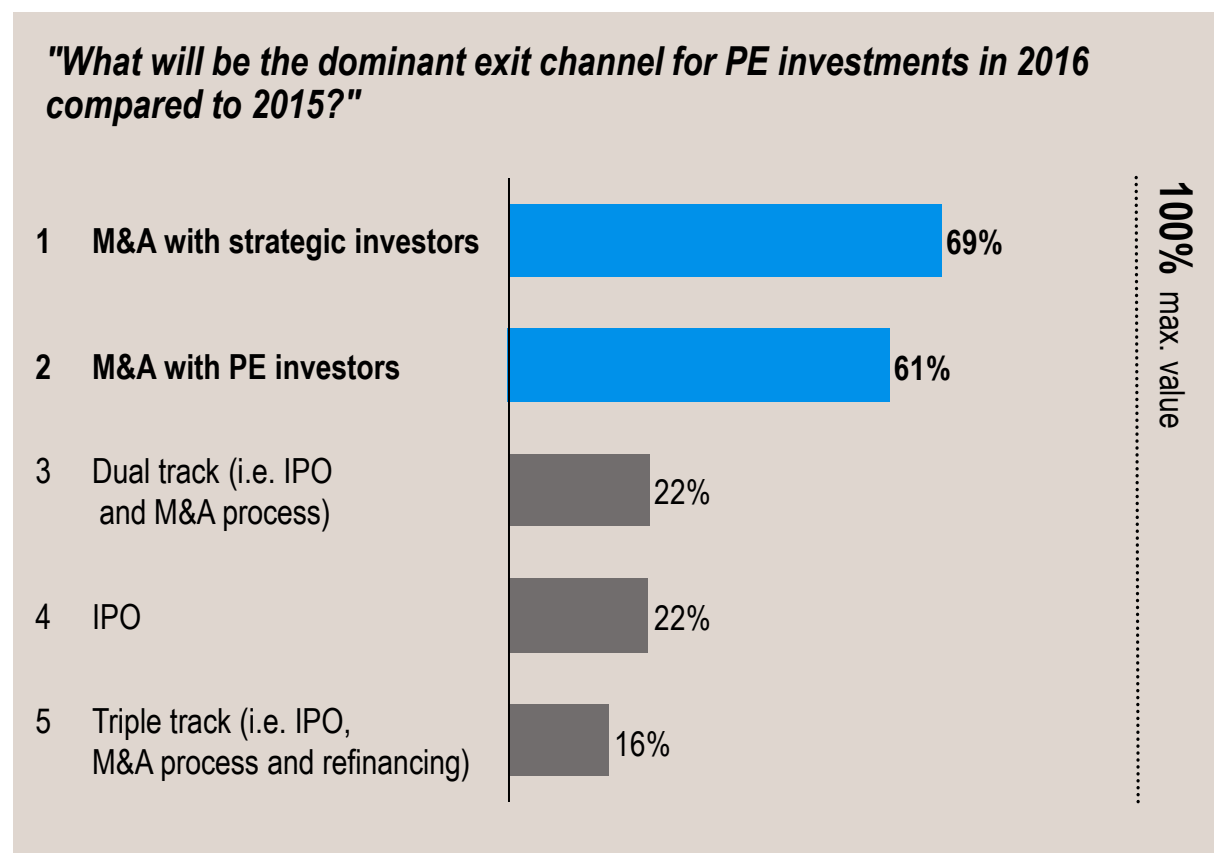


- > 67% of PE professionals rate secondary buy-outs as the most important source of attractive targets in 2016 – A strong increase from 2015 levels
- > In comparison with 2015 results, parts of groups/carve-outs decreased markedly from 69% in 2015 to 54% in 2016
- > Going private transactions are once again considered least important

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

M&A with strategic investors or other PE investors are expected to be the most promising exit channels for PE investments

Change in exit channels in 2016 compared to 2015 [%]



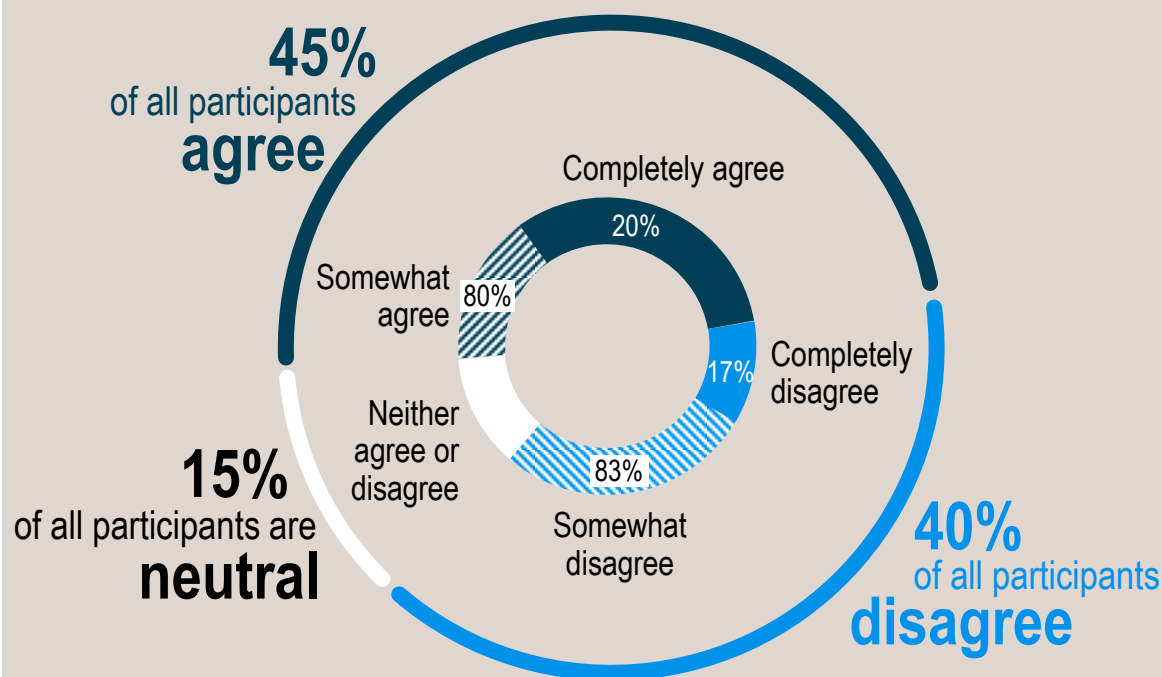
- > The dominant exit channels in 2016 are sale to strategic investors and sale to PE investors – This is the same picture as last year
- > Overall, confidence in M&A transactions increased, compared to 2015 – Last year, only 61% of PE professionals expected M&A with strategic investors to be the most dominant exit channel
- > All other exit channels clearly lost ground compared with 2015 results (dual track: -4 ppt, IPO: -3 ppt, triple track: -6 ppt)

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

Respondents still appear divided on whether the PE business model is sufficiently robust (45%) or needs to be adapted (40%)

Necessity of adjusting Private Equity business model [%]

"The Private Equity business model is just as robust now as it was before the crisis. No adjustment is necessary. Agree or disagree?"



- > Last year, the majority (62%) still believed it is necessary to change the PE model – However, this year 45% of all participants think that no adjustment is necessary
- > This reflects the increase in confidence of the professionals regarding the next year and the greater optimism regarding PE-driven M&A deals development and an improved fundraising situation

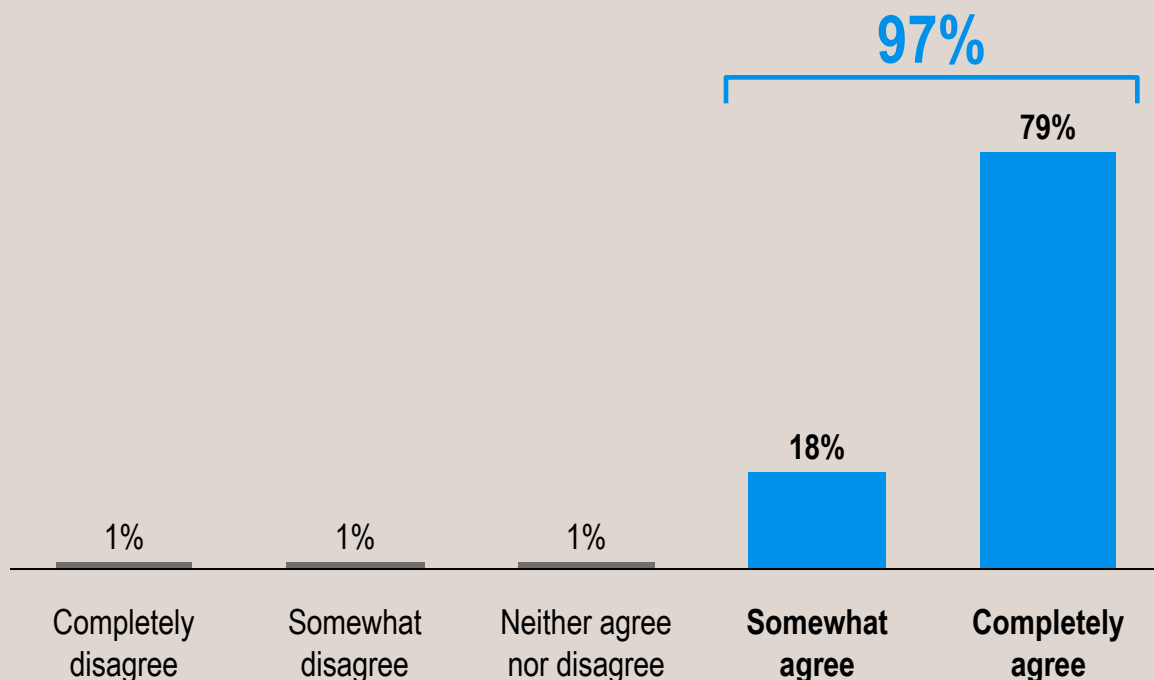
% of responses [only one answer possible]

Active portfolio management is key for success to all PE managers

– Passive approaches are not expected to work any longer

Importance of active portfolio management [%]

"Managing portfolio companies actively will become more important in the future – Passive management is no longer suitable. Agree or disagree?"



- > Just as last year, 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 is not expected to work any longer

% of responses [only one answer possible]

Add-on acquisitions as well as new products & services are expected to be the most important value creation measures in 2016

Importance of value creation measures – 2016 vs. 2015 [%]

"Which of the following portfolio improvement /value creation measures do you consider most important in 2016; which measures have been most important in 2015?"

Add-on acquisitions

New products & services

Cost reduction initiative

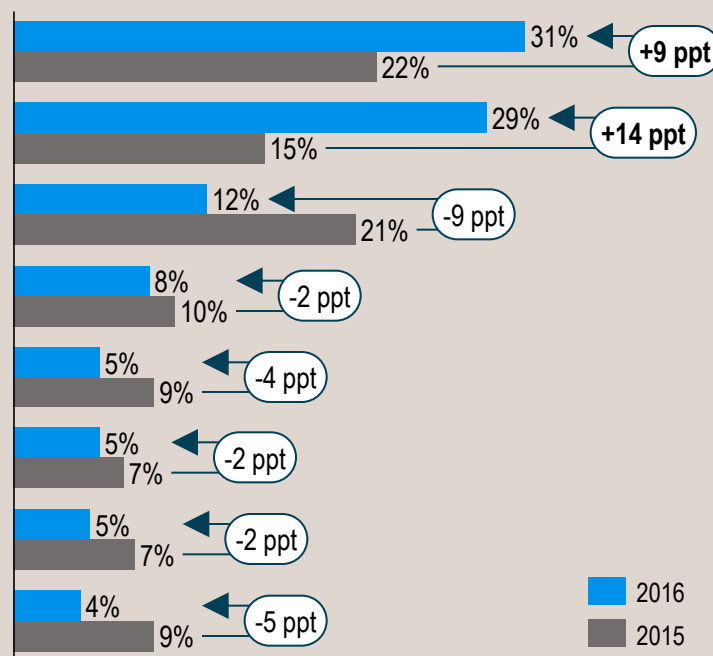
Footprint optimization

Purchasing/
supply chain optimization

Working capital optimization/
Capex efficiency

Pricing

Refinancing

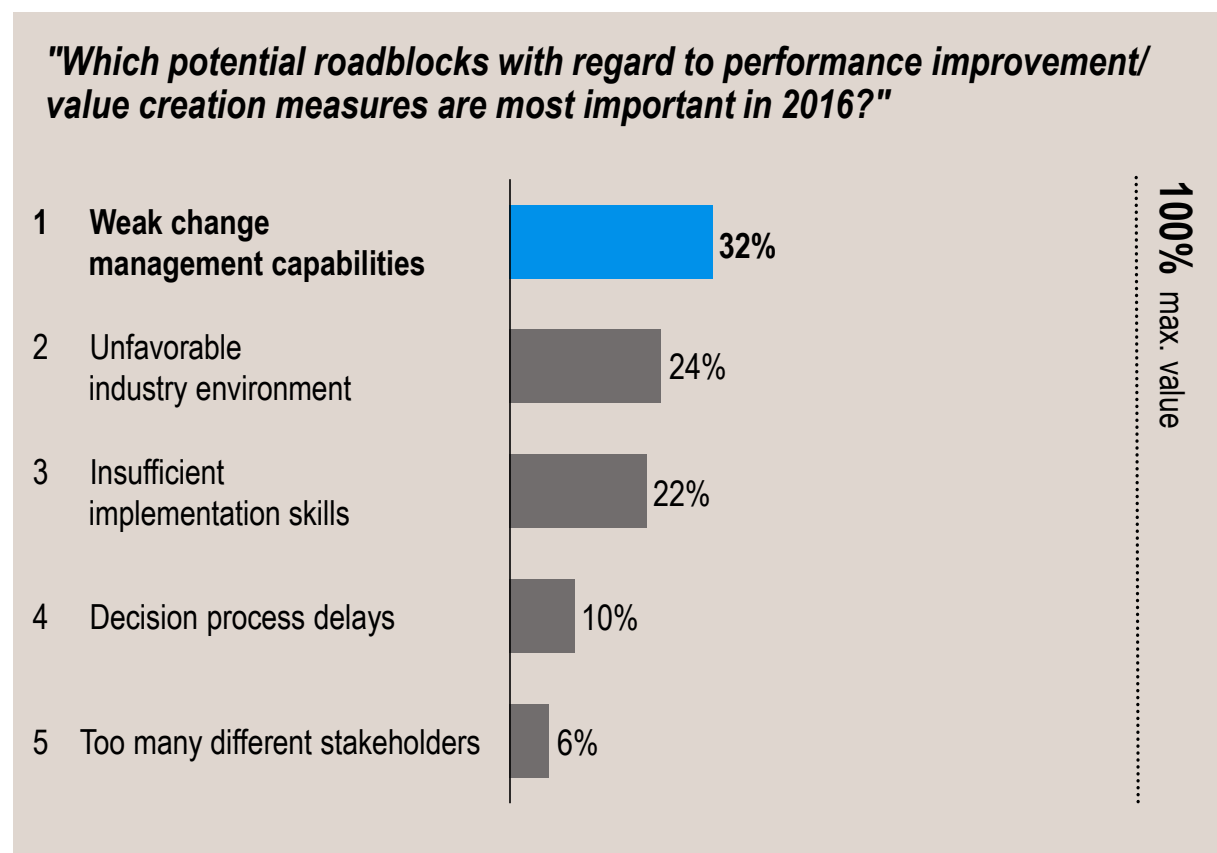


- > Respondents consider add-on acquisitions as well as new products & services to be the most important value creation measures in 2016 – Both measures are considered more important than in prior years
- > Cost reduction initiatives and refinancing are considered less important in 2016 compared to the previous year – Likewise footprint optimization, purchasing and working capital optimization as well as pricing measures are considered less important

% of responses [maximum of four responses possible]

Weak change management capabilities are considered the most important roadblock with regard to value creation measures in 2016

Most important roadblocks for PE value creation in 2016 [%]



- > Approximately one third of all participants name weak change management capabilities as main roadblock with regard to performance improvement/value creation at PE portfolio companies
- > 24% state that an unfavorable industry environment as a main roadblock for 2016 – This is the only external factor, as all other factors are seen within the portfolio company or within the relationship between PE investor and the portfolio company

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

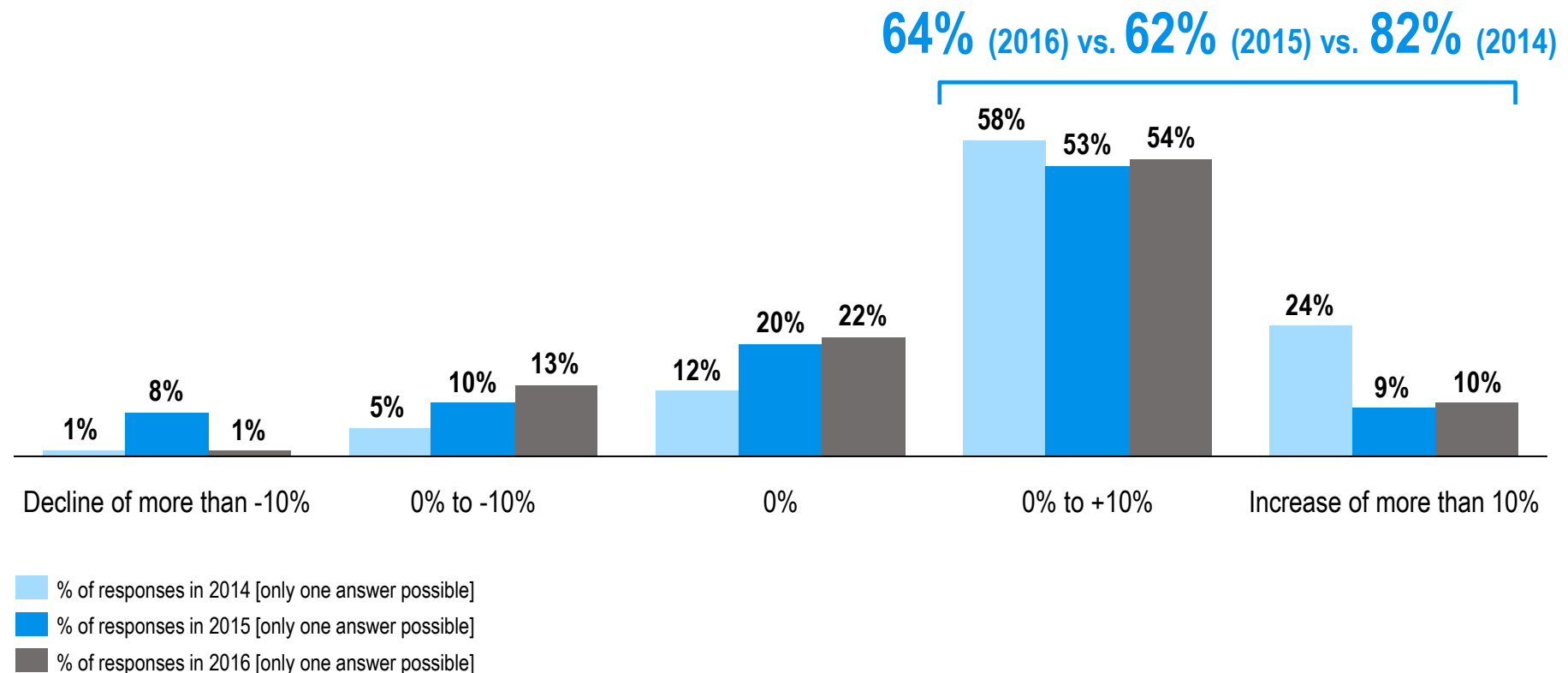
D. Comparing PE Outlook 2016 to previous years – Selection



Participants are slightly more confident on the number of M&A transactions with PE involvement than last year

M&A transactions with PE involvement in 2016/15 vs. 2015/14 and 2014/13 [%]

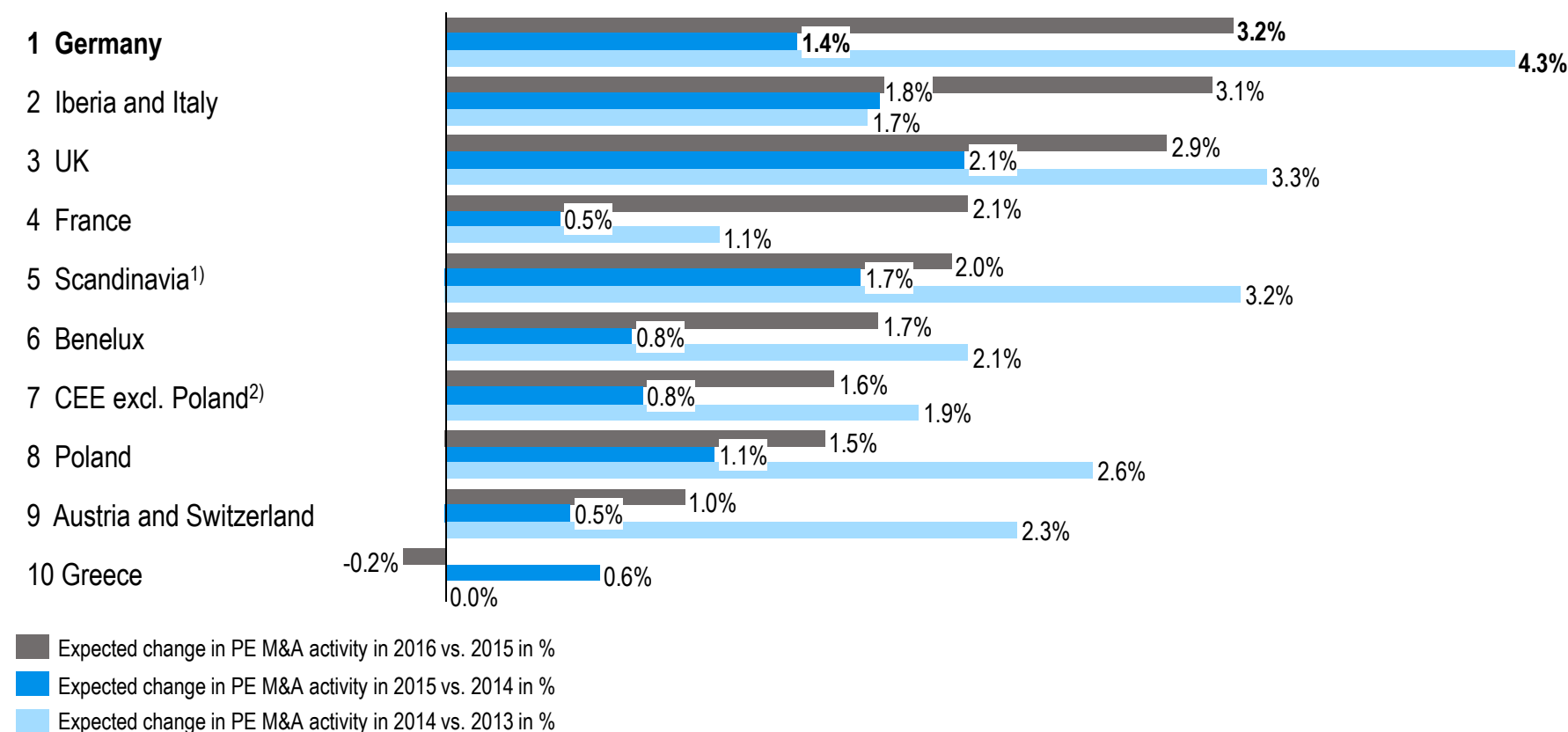
*"What change do you expect to see in 2015 (2014/2013)
regarding the number of completed M&A transactions with PE involvement?"*



Germany is expected to be the country with highest M&A transaction growth (3.2%) in 2016 – Overall, more positive picture than 2015

Change in PE M&A activity in major countries in 2016/15/14 [ranked by 2016; %]

"What change in PE M&A activities do you expect to see in the following countries in 2016 (2015/2014)?"



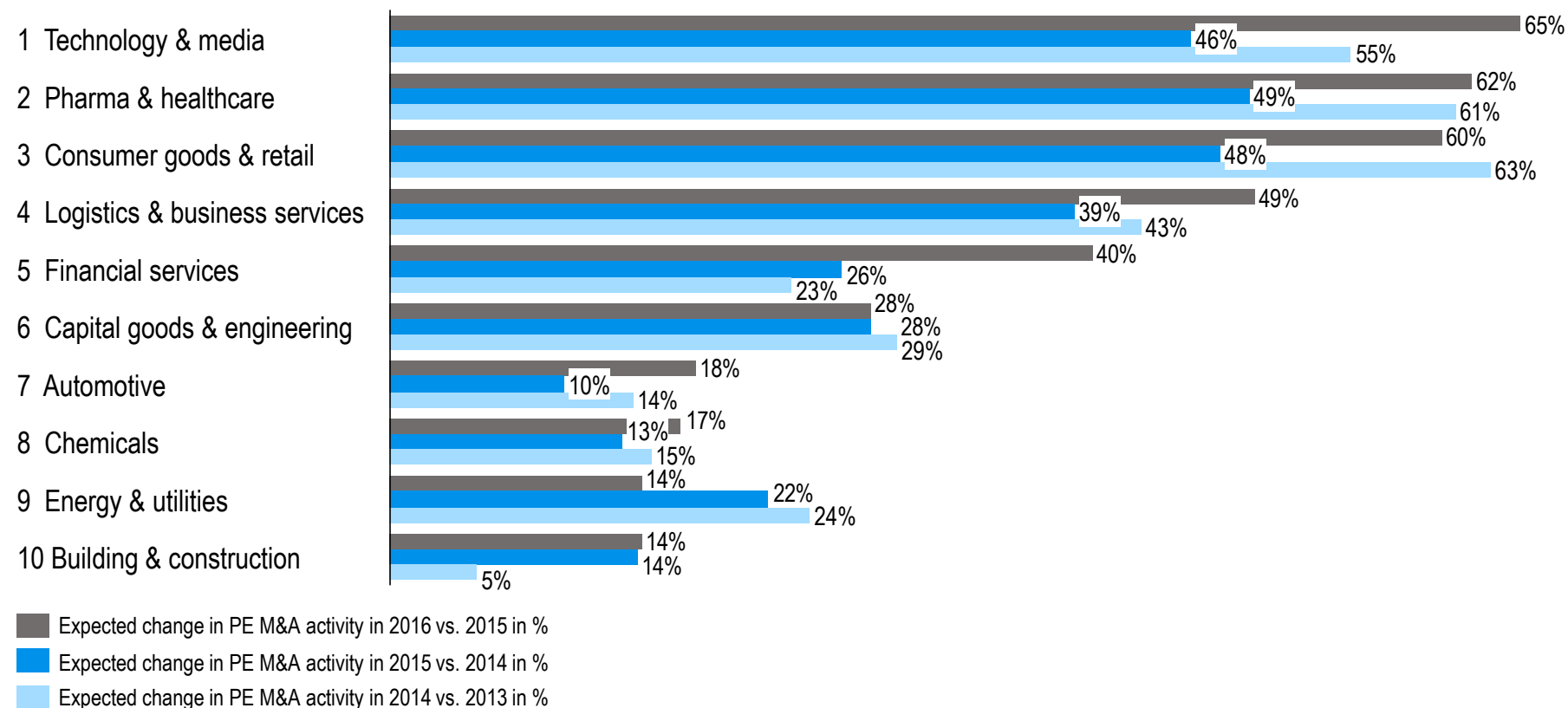
1) Includes Denmark, Norway, Sweden

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

All industries are expected to see equal or higher involvement in 2016, except for energy & utilities and building & construction

Ranking of industries by number of M&A transactions in 2016/15/14 [ranked by 2015; %]

"In what industries do you expect to see the most M&A transactions with PE investor involvement in 2016 (2015/2014)?"

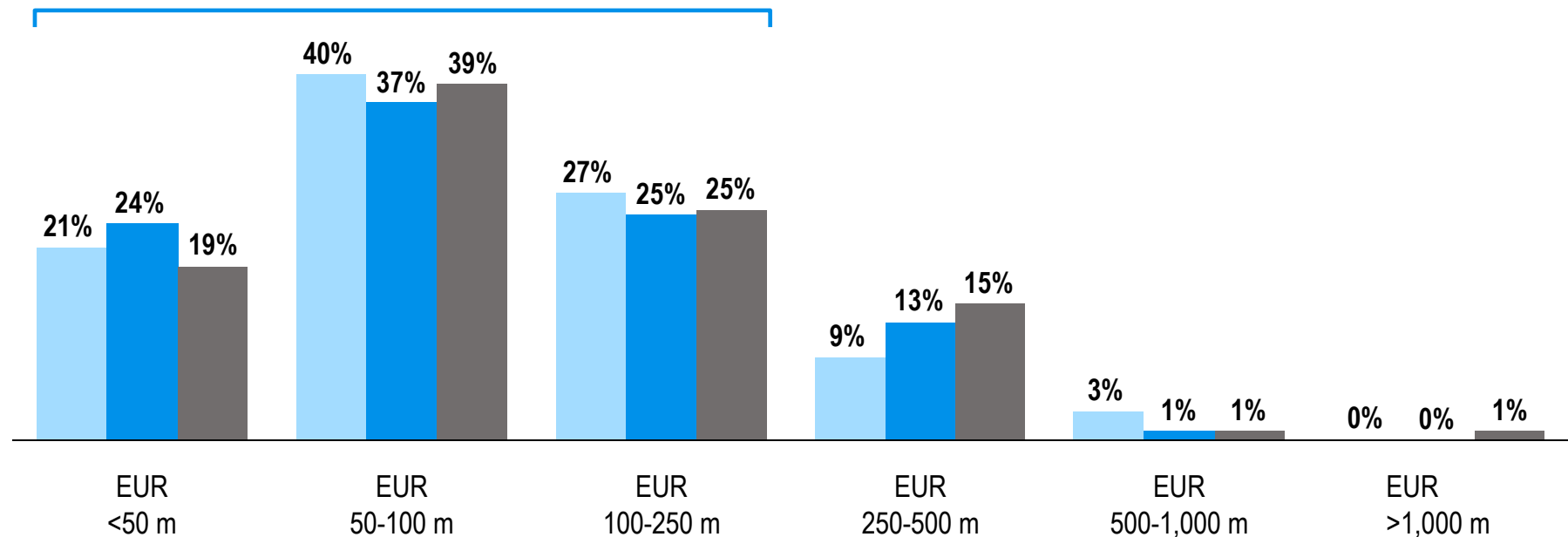


83% of PE professionals still anticipate transactions in 2016 to be below EUR 250 m – Very small transactions expected to decrease

Expected range of PE transaction value in 2016/15/14 [%]

"Most PE transactions on the European M&A market in 2016 (2015/2014) will be in the range of ..."

83% (2016) vs. 86% (2015) vs. 88% (2014)

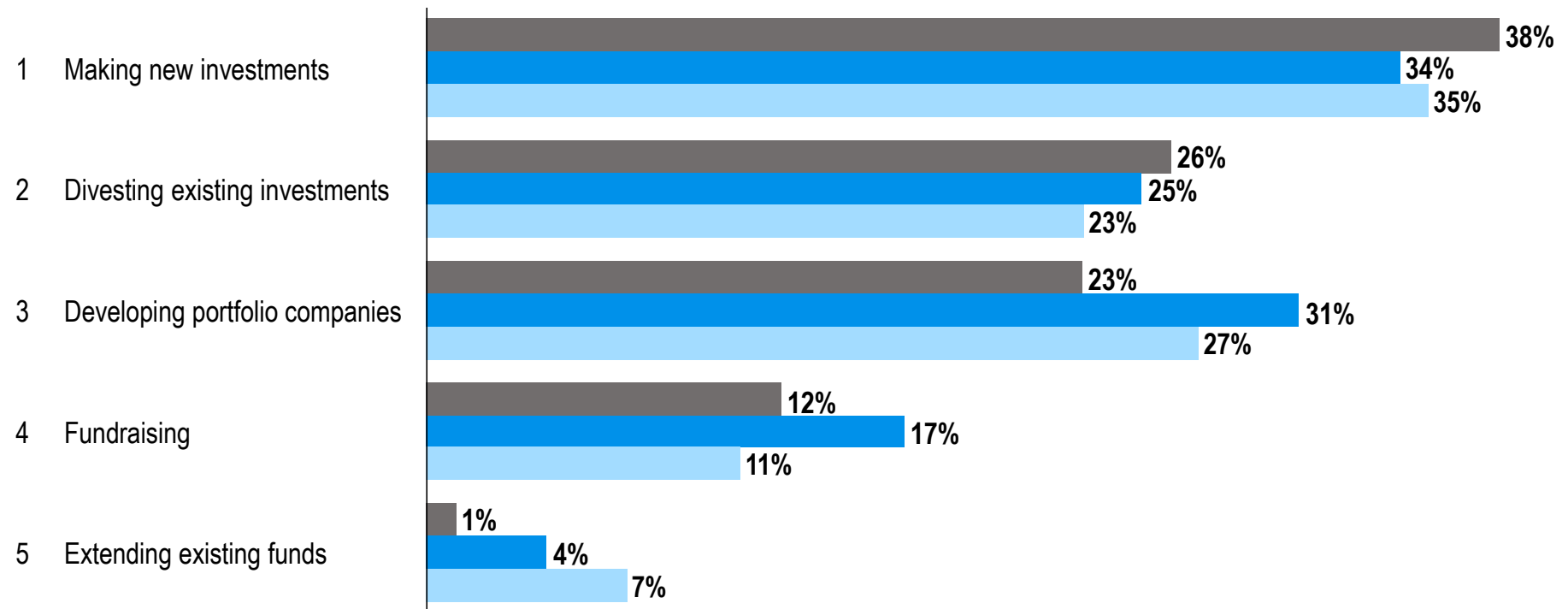





■ % of responses 2014 [only one answer possible]
■ % of responses 2015 [only one answer possible]
■ % of responses 2016 [only one answer possible]

Making new investments is expected to become even more important this year

Focus of PE investors on lifecycle stages in 2016/15/14 [ranked by 2016; %]

"On which phase of the PE value chain will you focus most in 2016 (2015/2014)?"



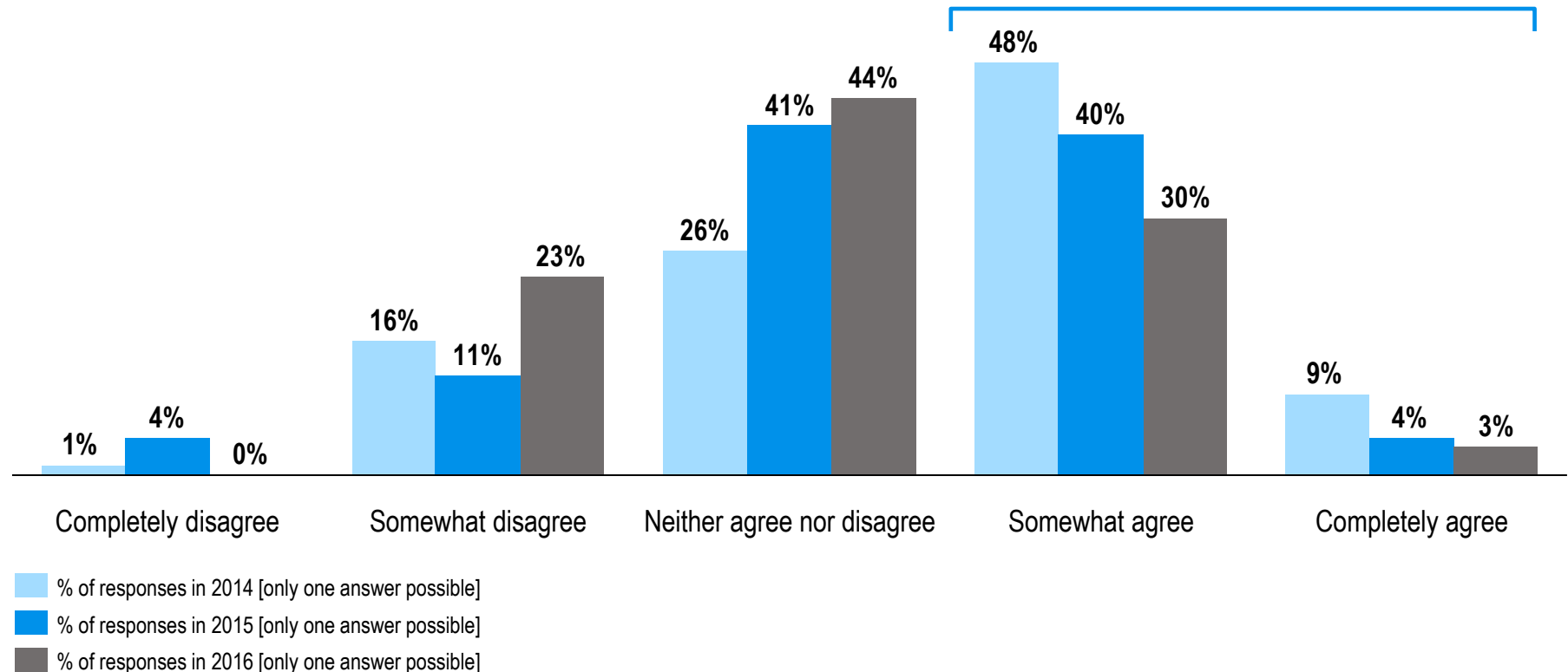
 Expected change in PE M&A activity in 2016 vs. 2015 in %
 Expected change in PE M&A activity in 2015 vs. 2014 in %
 Expected change in PE M&A activity in 2014 vs. 2013 in %

A less significant increase in attractiveness of PE targets is expected for 2016 compared to previous years

Expected development of investment opportunities in 2016/15/14 [%]

"Will the targets available on the market in 2016 (2015) be more attractive than in 2015 (2014)/2014(2013)?"

33% (2016) vs. **44%** (2015) vs. **57%** (2014)





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