

European Private Equity Outlook 2017



Our eighth 'European Private Equity Outlook' reveals how experts view the market and its development in 2017



The 'European Private Equity Outlook 2017' is the **eighth consecutive publication in a series** launched by Roland Berger in 2010



More than 2,400 experts from private equity investment companies across Europe were contacted for the PE outlook



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 throughout 2017



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

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A. Focus of study and methodology



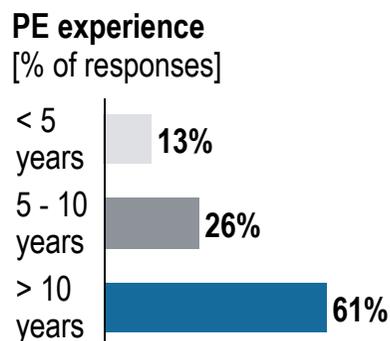
This study is based once again on an exclusive survey of private equity professionals from leading PE firms across Europe

Focus and methodology of the study

Overview of European private equity survey

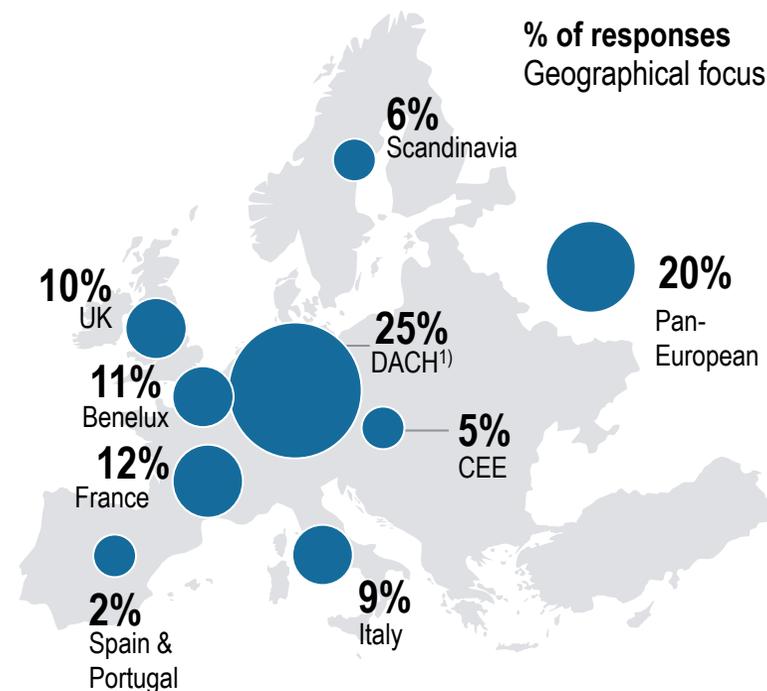
- > Development of the European private equity market
- > Key challenges for private equity
- > Competitive dynamics and private equity business model

Key topics in 2017



Overview of participants

Private equity survey 2017



1) Germany, Austria, Switzerland

B. Executive summary



PE professionals are slightly less optimistic with regard to the 2017 outlook for Europe as a result of increasing political uncertainty

- 1** Half of the PE professionals (52%) surveyed expect a **growing number of M&A transactions with PE involvement** in 2017 – This constitutes a decrease of 12 ppts. from 2016, indicating a slightly less positive outlook
- 2** Among the **most influential factors** for PE-driven M&A in 2017, PE professionals expect a major deterioration in **political stability** – This comes against the background of a range of political events such as Brexit negotiations, the transition of power in Washington and important elections in France and Germany
- 3** **Geographically, growth in PE activity is expected to be highest in Spain & Portugal**, closely followed by **Germany** – The least favorable outlook is expected for the UK, trailing even Greece in terms of growth expectations
- 4** **Technology & media, pharma & healthcare** and **consumer goods & retail** are expected to yield **most M&A deals** with PE involvement in 2017 – More than 60% of the participants view these again as leading industries for PE
- 5** The **mid/small-cap segment** is expected to gain in importance with regard to M&A with PE involvement – for the large-cap segment, PE professionals' expectations tend to be more mixed
- 6** **New investments** will again be the focus of PE activity for 2017, followed by **developing portfolio companies** – Divesting existing investments will be slightly less relevant, after strong divesting activity in previous years

PE professionals expect increasing competition from Chinese investors – M&A process uncertainty to continue also in 2017

- 7** Sales to **strategic investors** and sales to **other PE investors** are expected to **be the most promising exit channels** for PE investments in 2017 – IPO, dual track and triple track likely to decrease in 2017

- 8** **The majority** (57%) of PE professionals expect **an increase in competition for deals from Chinese investors** in 2017 – Participants anticipate Chinese investors to have the **highest interest in capital goods & engineering**, followed by automotive

- 9** Half of the PE professionals (48%) expect **no change in the level of competition for fundraising** – This represents hardly any change to last year

- 10** **Growth financing** is expected to be more **easily available in 2017**, while PE professionals expect **recapitalization** to be slightly **more difficult** – Stability is expected for the financing of leveraged buyouts

- 11** The current **process uncertainty** in the M&A environment for PE companies is widely expected to **continue** into 2017 (62% of respondents) – Only 16% of respondents have a more positive view

- 12** **Active portfolio management** is a **key success factor** for all PE managers – **Add-on acquisitions and new products & services** are once more considered to be the most important value creation measures

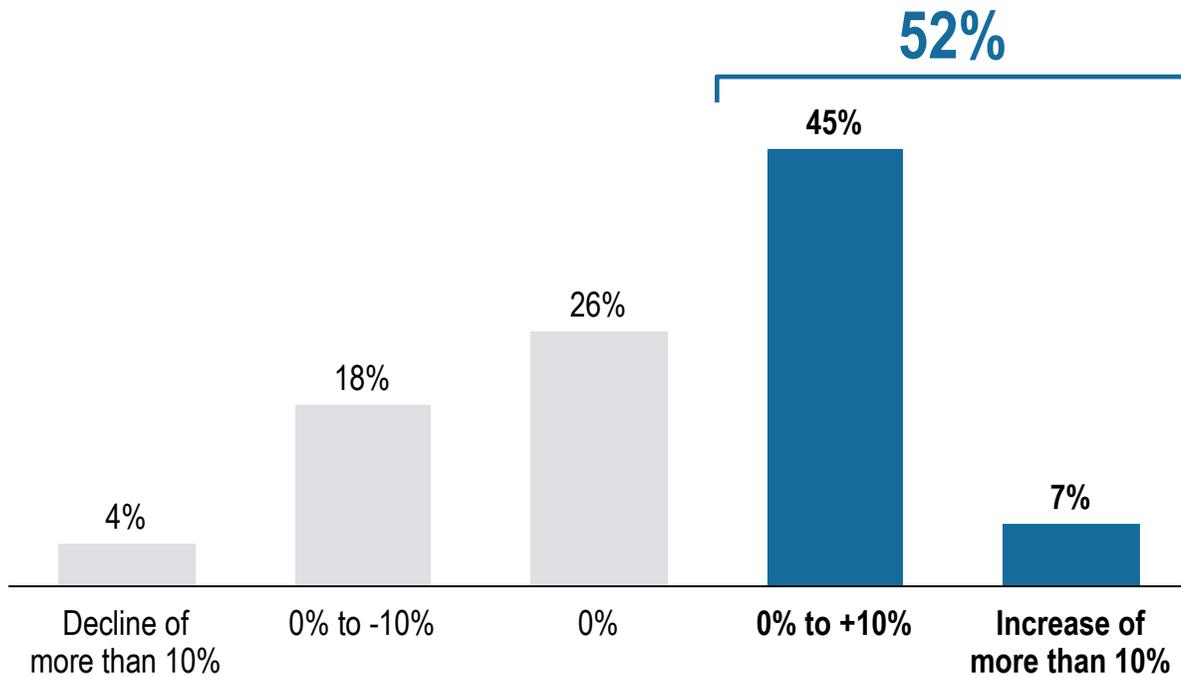
C. Results of the PE Outlook for 2017



About half of PE professionals – but fewer than last year – expect a growing number of M&A transactions with PE involvement in 2017

M&A transactions with PE involvement – 2017 vs. 2016 [%]

"What change do you expect to see in 2017 regarding the number of completed M&A transactions with PE involvement?"



- > About half (52%) of the respondents expect the number of M&A transactions with PE involvement to increase in 2017
- > 22% of the respondents anticipate a decrease in the number of M&A transactions with PE background in 2017
- > Nearly one quarter of the participants does not expect any change at all
- > Compared to the expectations of last year, the PE professionals are slightly more cautious for the year 2017 – 52% of the participants expect positive growth in 2017 compared to 64% in 2016

% of responses [only one response per category possible]

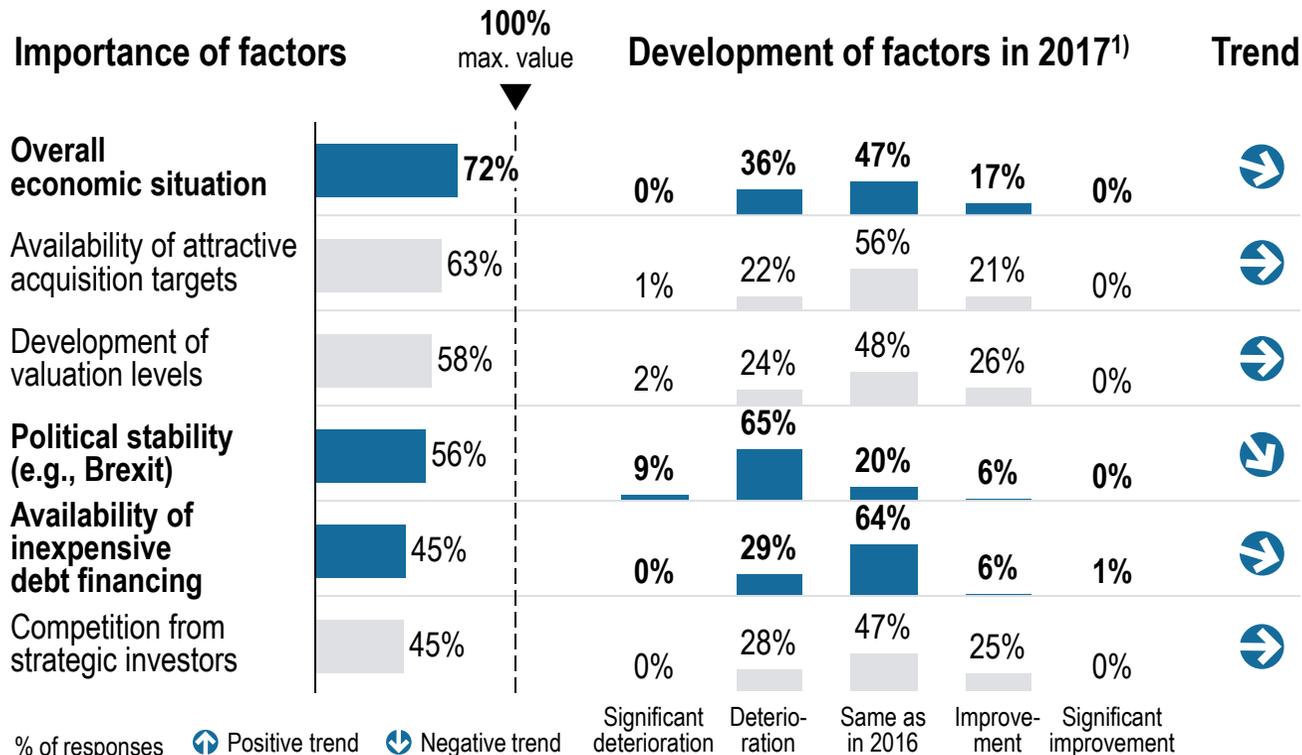
Political stability is expected to decrease in 2017 – Slightly negative outlook on economic situation and availability of debt financing

Overview of relevant factors for M&A business in Europe – 2017 vs. 2016 [%]

"What will be the most influential factors affecting the number of European M&A transactions with PE involvement in 2017? How will they develop?"



- > The most important factor is the overall economic situation which is expected to show a slight deterioration in 2017 compared to 2016
- > Political stability is the factor that is expected to show the largest deterioration in 2017 relative to 2016 – This reflects the uncertainty associated with the Brexit negotiations, the new US administration and important elections in France and Germany this year



% of responses ➔ Positive trend ⬇️ Negative trend Significant deterioration Deterioration Same as in 2016 Improvement Significant improvement

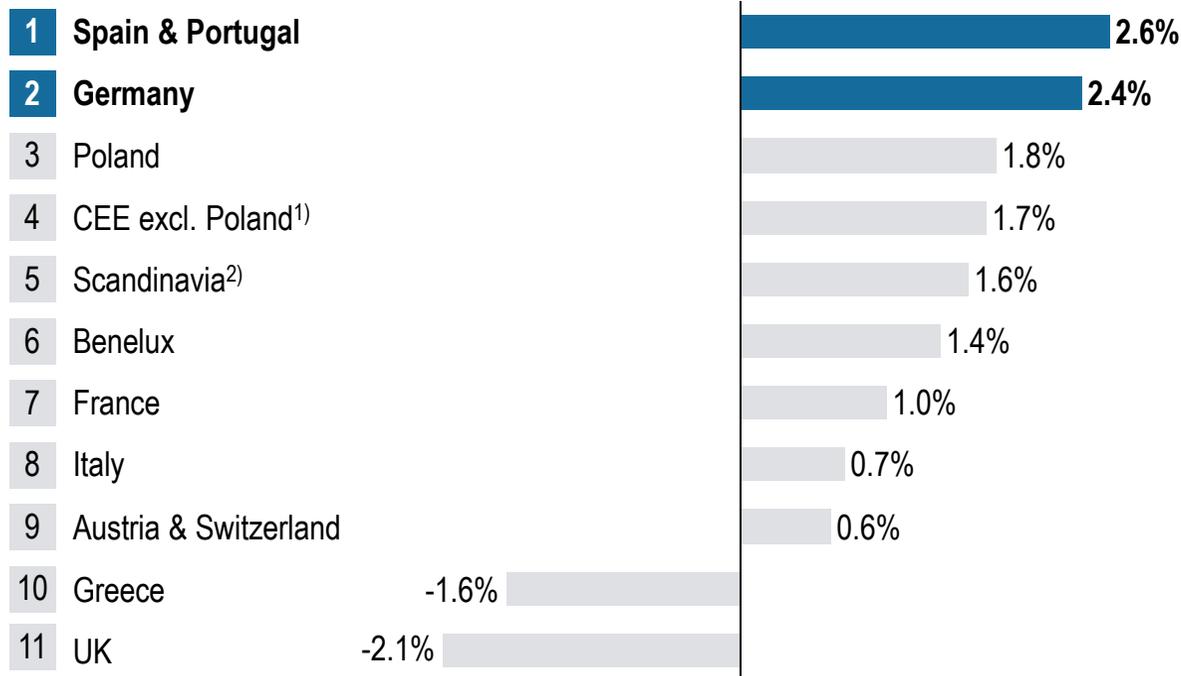
1) Truncated; excluding significant deterioration and significant improvement

Source: Roland Berger

Geographically, Spain, Portugal and Germany are perceived to have the most favorable growth outlook – UK with least favorable outlook

Change in PE M&A activity in major countries – 2017 vs. 2016 [%]

"What change in PE M&A activities do you expect to see in the following countries in 2017?"



- > The PE markets Spain & Portugal and Germany are expected to see the strongest growth – 2.6% and 1.4% growth over previous year
 - Germany with cont'd robust macroeconomic growth
 - Spain & Portugal with potential catch-up effect
- > Strong growth is expected for Poland (1.8%), CEE excl. Poland (1.7%) and Scandinavia (1.6%)
- > UK with an expected decline in M&A activities in the wake of Brexit implementation discussions
- > Compared with last year's study, respondents are slightly less optimistic as they expect lower growth rates across almost all regions

% of expected change in PE M&A activity in 2017 compared to previous year [only one response per country possible]

1) Central and Eastern Europe includes Bulgaria, Croatia, Czech Republic, Hungary, Romania, Slovakia and Slovenia

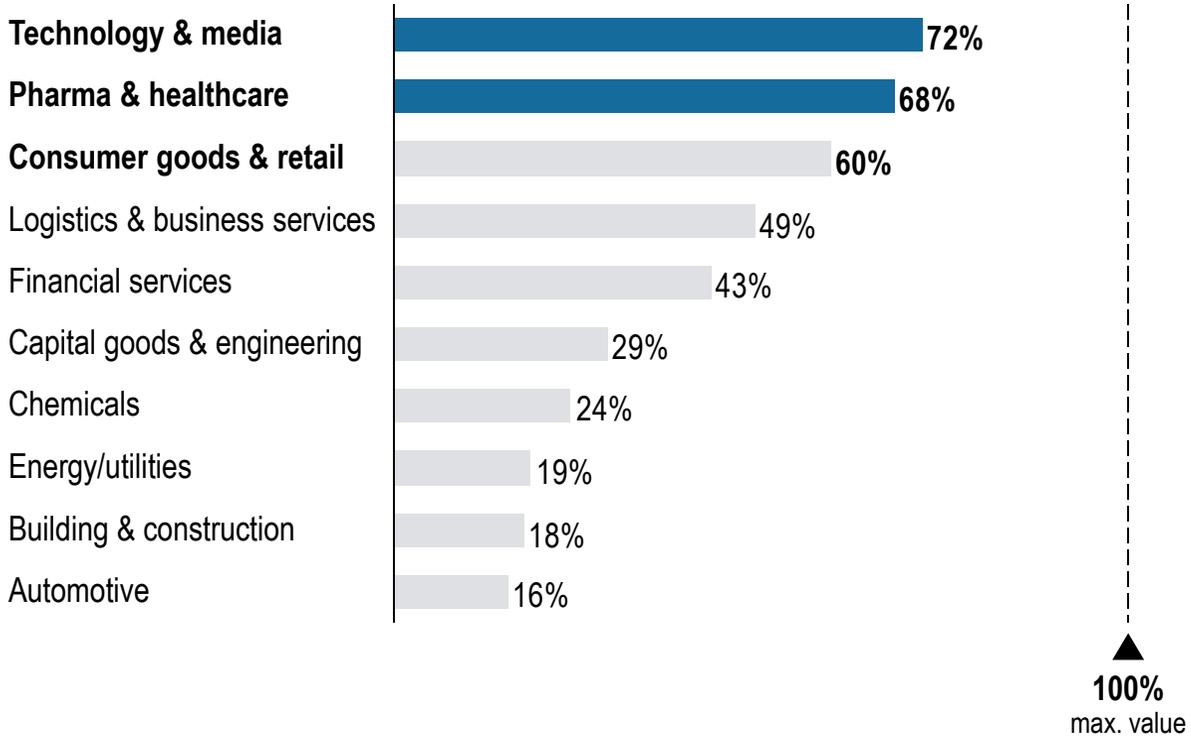
Source: Roland Berger

2) Includes Denmark, Norway, Sweden

TMT, pharma & healthcare as well as consumer goods & retail are expected to yield the most M&A deals with PE involvement in 2017

Likelihood of a high number of M&A transactions by industry – 2017 vs. 2016 [%]

"In what industries do you expect to see the most M&A transactions with PE involvement in 2017?"



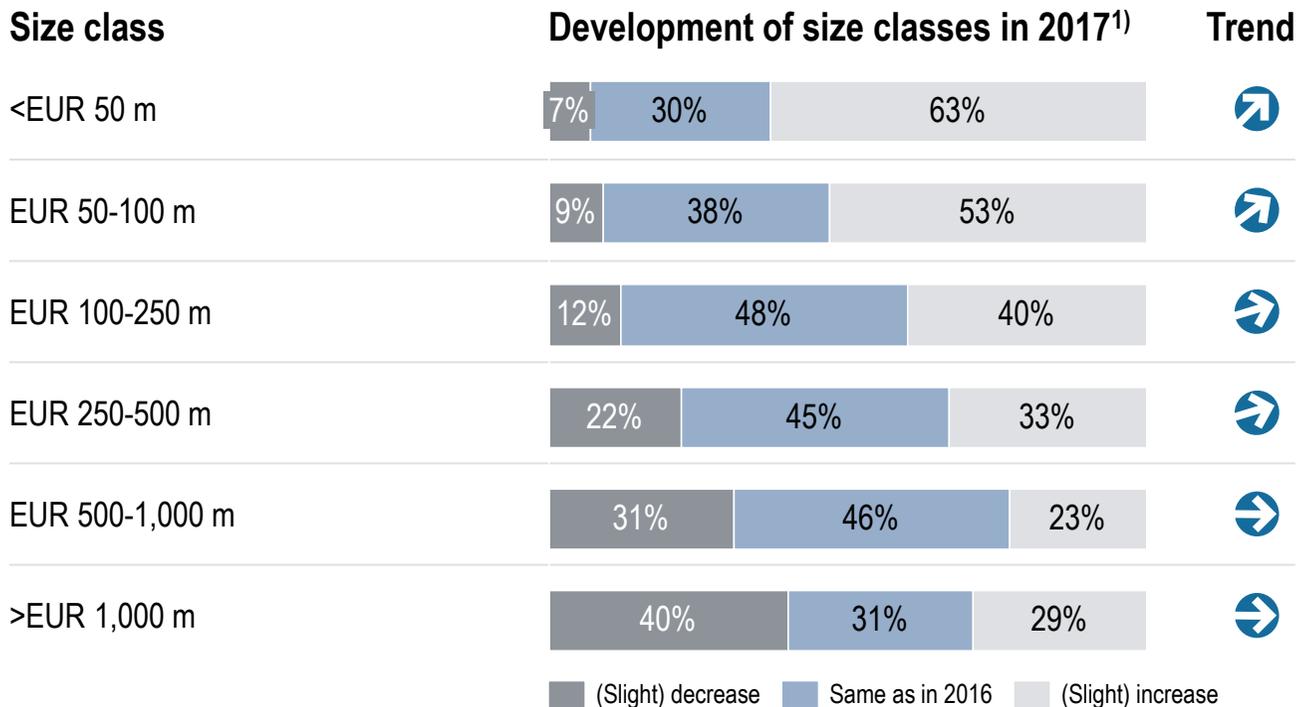
% of participants that expect a high number of transactions

- > More than two-thirds of respondents expect technology & media and pharma & healthcare to be the most active sectors/industries regarding the number of M&A transactions with private equity involvement – This view has not changed compared to 2016
- > Nearly 60% of study participants believe that consumer goods & retail will see a large number of M&A transactions in 2017
- > A fairly low number of PE transactions is expected in the automotive sector/industry – This constitutes a decrease from 2016 of 2 pts. (although this picture varies strongly by country)

The mid/small-cap segment is expected to gain importance in 2017 – For the large-cap segment, expectations tend to be more mixed

Development of PE transaction size classes – 2017 vs. 2016

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



- > The mid/small-cap segments with deals up to EUR 50 m, followed by the size classes EUR 50-100 m and EUR 100-250 m, are considered as most promising in 2017
- > Views on the large-cap segment with enterprise values above EUR 500 m are overall more mixed and (directionally) less clear

1) Truncated; excluding significant decrease and significant increase
 Source: Roland Berger

Positive trend
 Negative trend

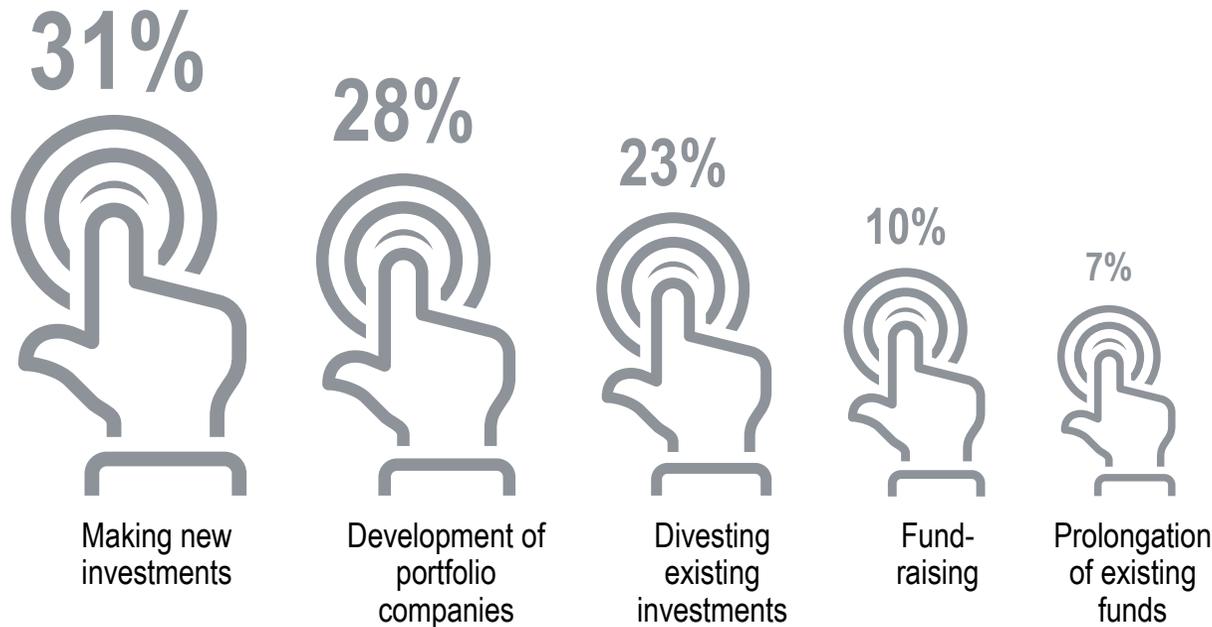
New investments will again be the focus of PE activity for 2017, followed by developing portfolio companies

Focus of PE investors on lifecycle stages – 2017 vs. 2016 [%]

"On which phase of the PE value chain will you focus most in 2017?"



- > Making new investments is again the top priority for PE investors in 2017 – In prior years, this has been the same picture
- > Developing portfolio companies is becoming more important with 28% in 2017 up from 23% in 2016
- > Divesting existing investments will be slightly less relevant (23% in 2017 vs. 26% in 2016), after strong divesting activity in previous years



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

Sale to strategic investors or to PE investors are anticipated to be the most promising exit channels for 2017

Change in exit channels – 2017 vs. 2016 [%]

"How do you expect the individual exit channels to change in 2017?"



> PE professionals expect IPO, dual track (e.g., IPO and M&A process) and triple track (e.g., IPO, M&A process and refinancing) to decrease in 2017

Exit channels	Development of exit channels in 2017 ¹⁾					Trend
	Significant deterioration	Deterioration	Same as in 2016	Improvement	Significant improvement	
M&A with strategic investors	0%	4%	45%	44%	7%	↗
M&A with PE investors	0%	3%	50%	42%	5%	↗
IPO	2%	40%	39%	19%	0%	↘
Dual track (e.g., IPO and M&A process)	1%	33%	43%	22%	1%	↘
Triple track (e.g., IPO, M&A process and refinancing)	3%	32%	46%	18%	1%	↘

↗ Positive trend ↘ Negative trend

[only one answer possible for each exit channel]

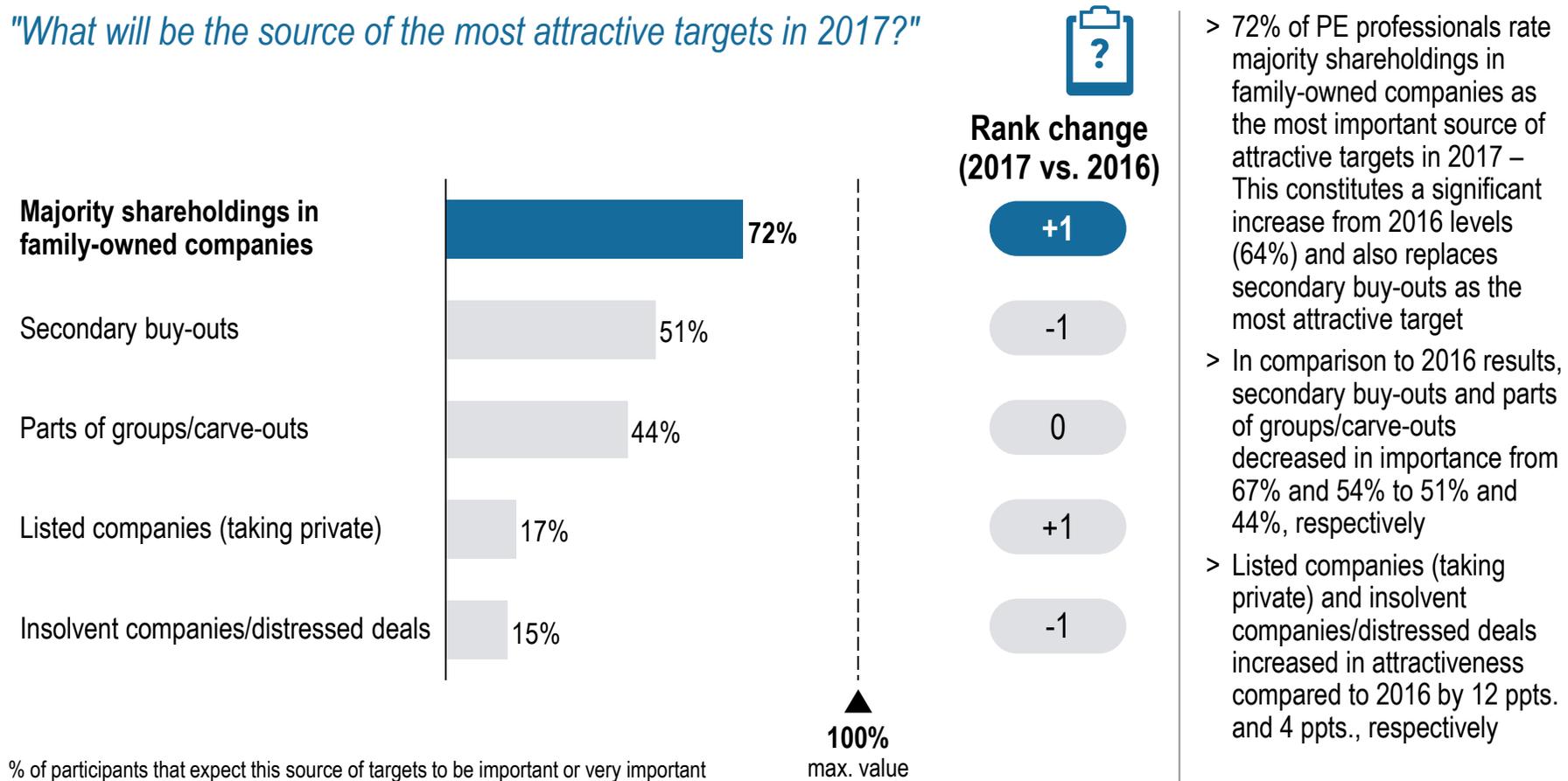
1) Truncated; excl. significant deterioration and significant improvement

Source: Roland Berger

Majority shareholdings in family-owned companies, followed by secondaries, are viewed as most important source of targets in 2017

Sources of most attractive targets – 2017 vs. 2016 [%]

"What will be the source of the most attractive targets in 2017?"

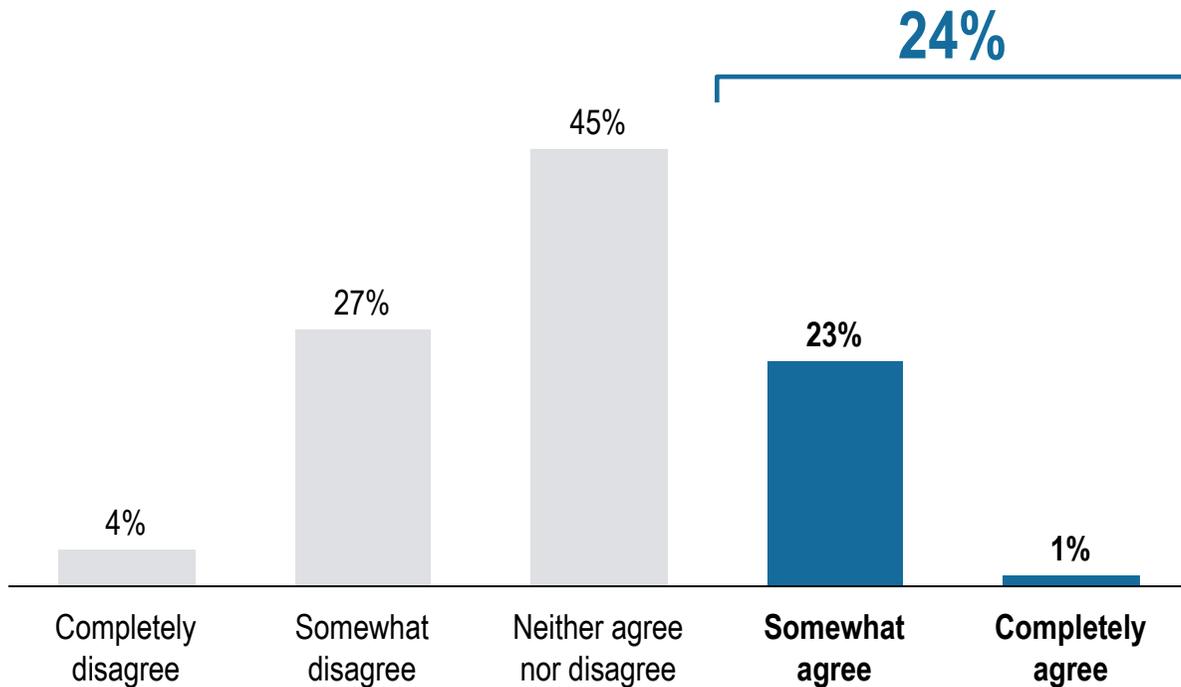


% of participants that expect this source of targets to be important or very important [multiple answers possible]

In this context 24% of respondents expect the available targets to be more attractive than last year

Expected development of investment opportunities – 2017 vs. 2016 [%]

"Overall, targets available on the market in 2017 will be more attractive than in 2016?"



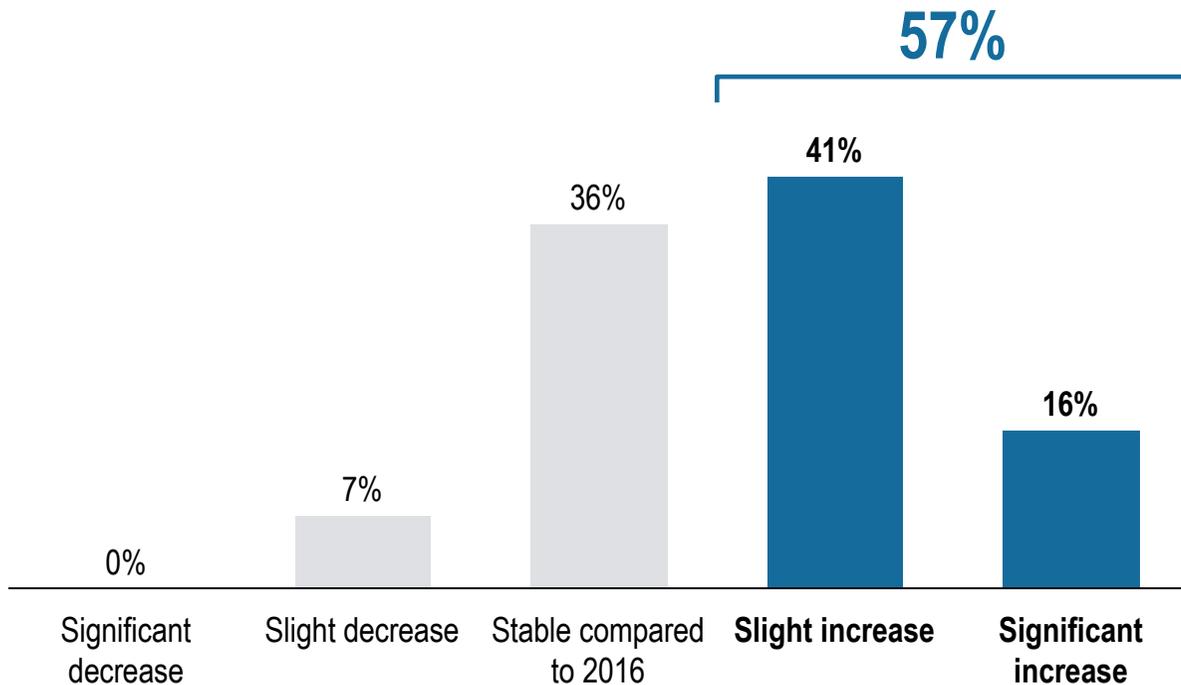
- > 24% of surveyed PE professionals expect targets for investments to be more attractive in 2017 than in 2016 – This is a decrease from 2016 and 2015, when 33% and 44% of respondents, respectively, expected more attractive market opportunities
- > Participants disagreeing with the statement increased from 23% in 2016 to 31% in 2017

% of responses [only one answer possible]

The majority of PE professionals expect an increase in competition for deals from Chinese strategic and financial investors in 2017

Increasing competition from Chinese investors – 2017 vs. 2016 [%]

"Do you expect increasing competition for deals from Chinese strategic and financial investors in 2017?"



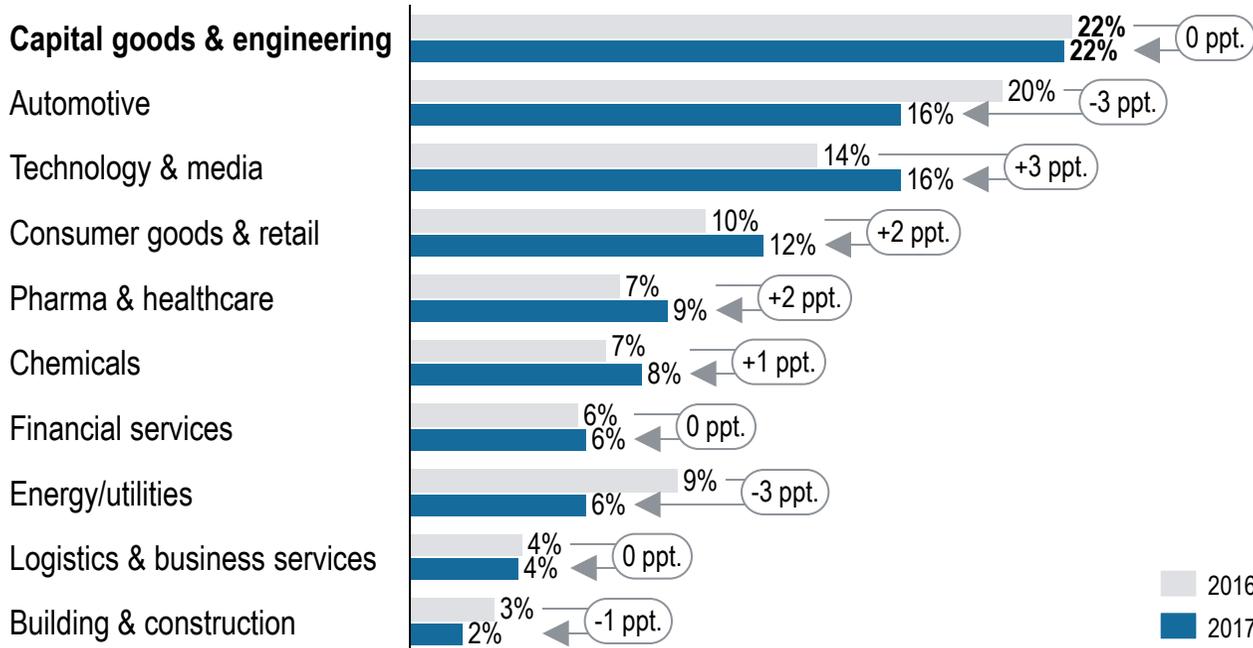
- > An increase in competition for deals from Chinese investors is expected by 57% of respondents
- > Only 7% of PE professionals anticipate a decrease in competition for deals from Chinese investors in 2017
- > The increasing competition from Chinese investors is driven by a range of macro factors, including favorable regulatory and financing environment and pursuit of long-term and sustainable growth in a number of relevant markets

% of responses [only one answer possible]

PE professionals expect Chinese investors to show the most interest in capital goods & engineering, followed by automotive

Interest of Chinese investors by industry – 2017 vs. 2016 [%; ppt.]

"In which industries have you observed the most interest from Chinese investors in 2016, what do you expect for 2017?"



- > PE professionals expect the most interest from Chinese investors for capital goods & engineering, followed by automotive
- > Logistics & business services and building & construction are seen to be the least attractive industries for Chinese investors

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

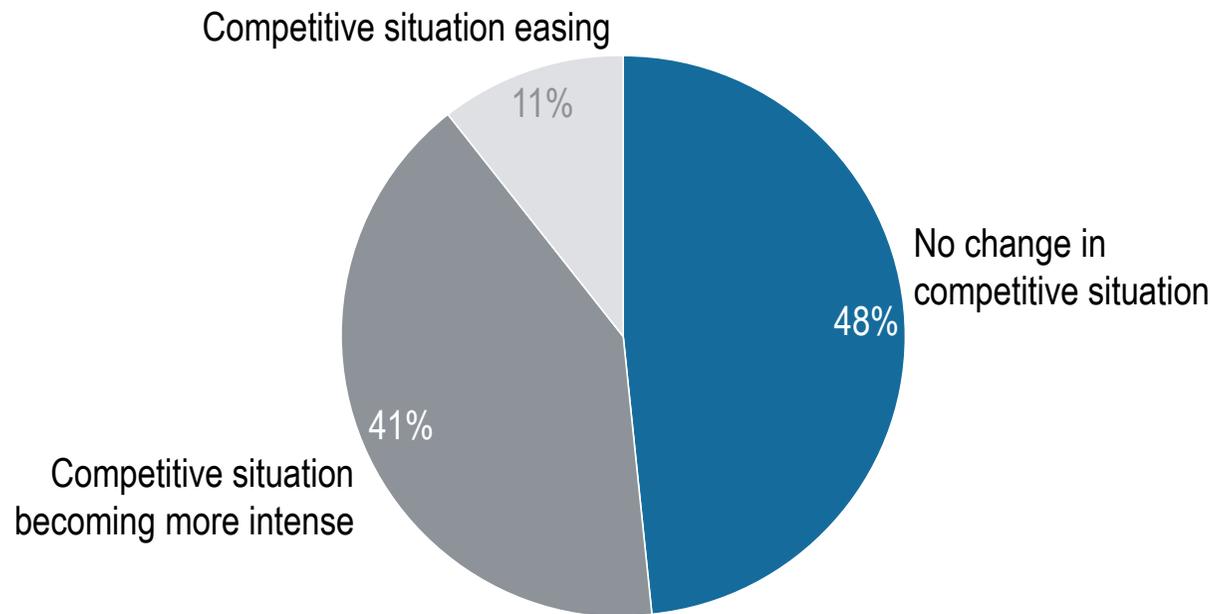
Half of the PE professionals expect no change in the level of competition for fundraising – This represents hardly any change

Expected level of competition for in fundraising – 2017 vs. 2016 [%]

"What degree of competitiveness do you expect in fundraising in 2017?"



- > 48% of the interviewees anticipate no change in the competition for funds in 2017 compared to the current status quo – Hardly any change compared to the previous year
- > PE professionals expecting a more intense competitive situation increased from 37% in 2016 to 41% in 2017
- > An easing in the competitive situation is anticipated by 11% of the respondents – up from 5% last year



% of responses [only one answer possible]

External growth financing is expected to be more easily available in 2017 – Recapitalization slightly more difficult

Availability of external financing – 2017 vs. 2016

"Compared to 2016, how easily available will external financing be in 2017?"



Growth financing

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

Leveraged buyouts

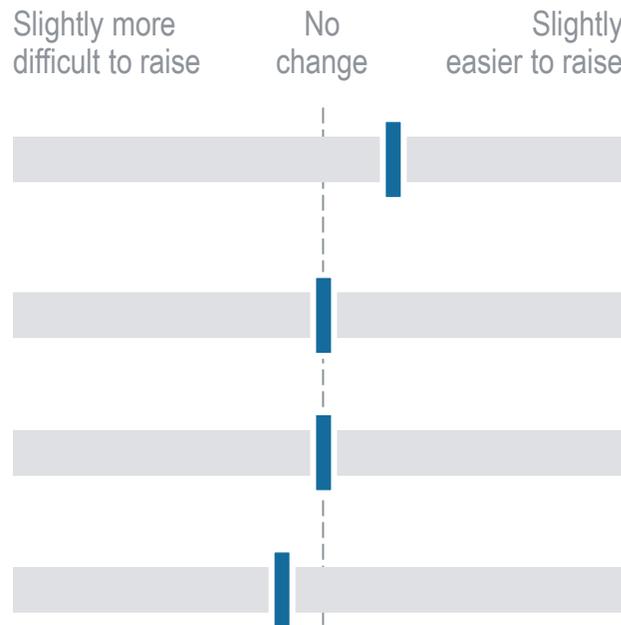
i.e., new transactions

Refinancing

i.e., improvement of terms

Recapitalization

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



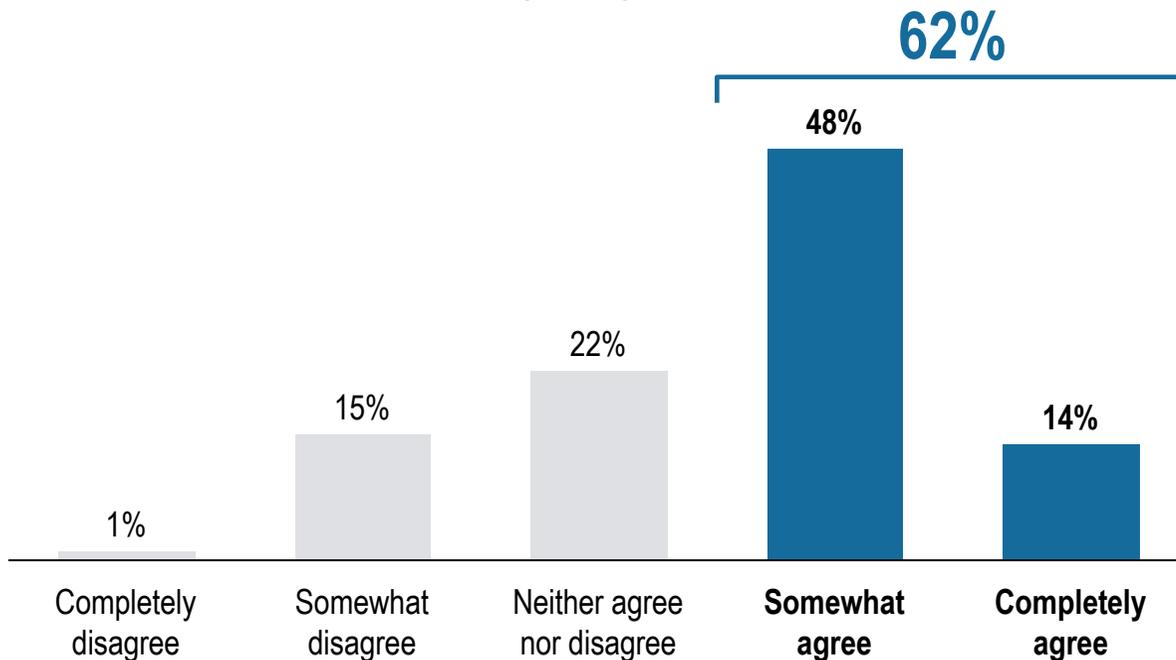
- > Overall, the financing situation with regard to leveraged buyouts and refinancing is not expected to materially change in 2017 (vs. 2016)
- > For growth financing, similar to previous years, a positive dynamic is anticipated
- > Recapitalization is rated as an external financing instrument for which it is slightly more difficult to obtain financing in 2017

[only one response possible for each type of financing]

The current high degree of process uncertainty in the M&A environment for PE firms is widely expected to continue into 2017

Importance of process uncertainty [%]

"The M&A environment for private equity companies has been characterized by a high degree of process uncertainty in 2016, which will continue in 2017. Do you agree?"



- > Overall, the wide majority (62%) of respondents expect a continued process uncertainty in the M&A environment for PE companies in 2017
- > Process uncertainty can lead to delays in processes, pulled processes or enlarged groups of bidders

% of responses [only one answer possible]

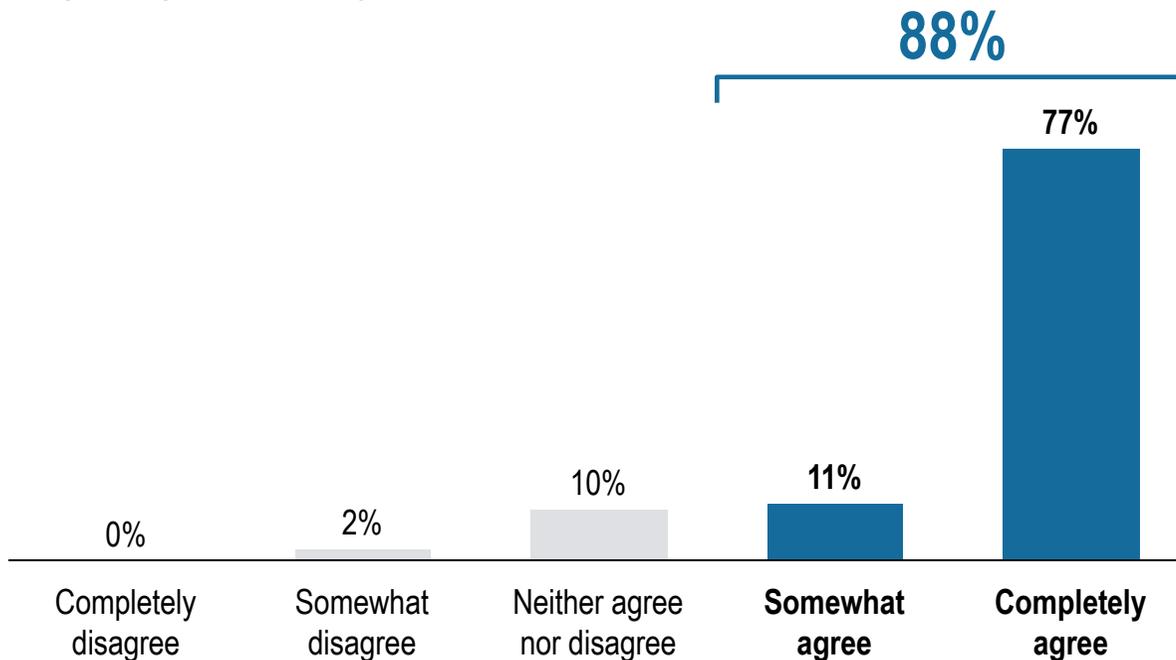
Active portfolio management is key to success for all PE managers – Passive approaches are not expected to work any longer

Importance of active portfolio management – 2017 vs. 2016 [%]

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



- > Responses generally reflect the investment approach of the participating funds – active involvement in (major) business decisions of the portfolio companies is key
- > Passively holding investments combined with financial engineering is not viewed as sustainable any longer

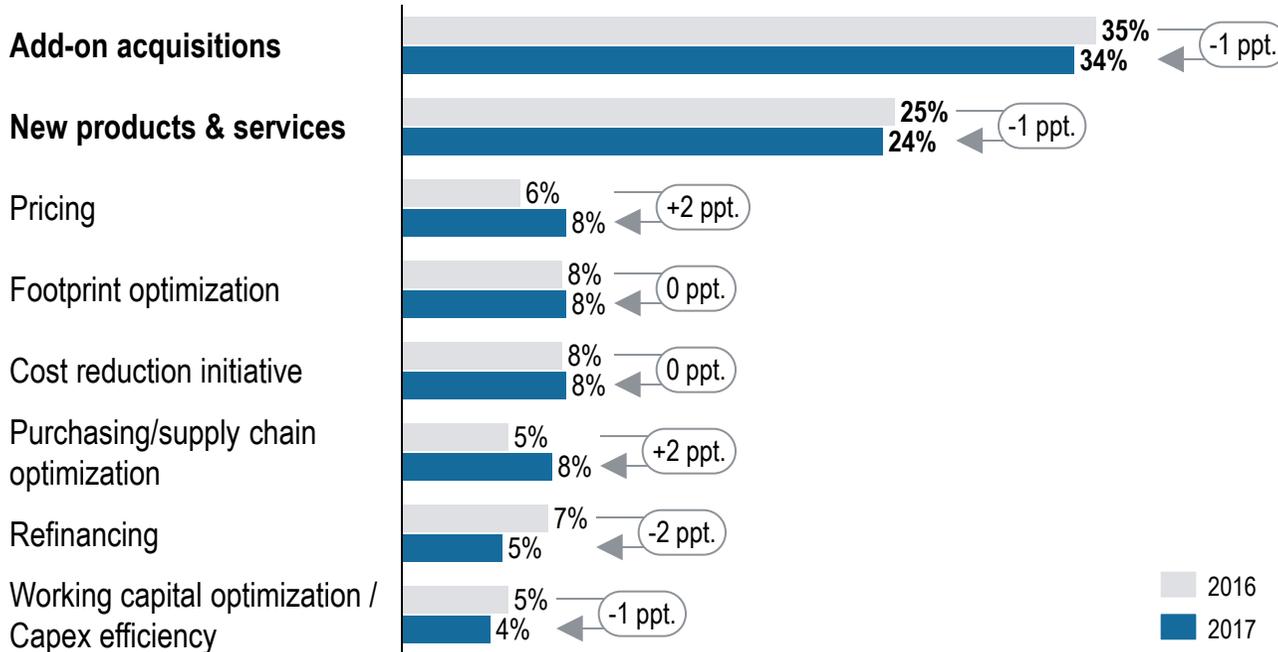


% of responses [only one answer possible]

Add-on acquisitions and new products & services are expected to be the most important value creation measures in 2017

Importance of value creation measures – 2017 vs. 2016 [%]

"Which of the following portfolio improvement/value creation measures do you consider most important in 2017; which measures have been most important in 2016?"



- > Respondents consider add-on acquisitions as well as new products & services to be the most important value creation measures in 2017
- > Pricing and purchasing/supply chain optimization are valued more important by interviewees in 2017 than in 2016 by 2 ppts.

% of responses [maximum of four responses possible]

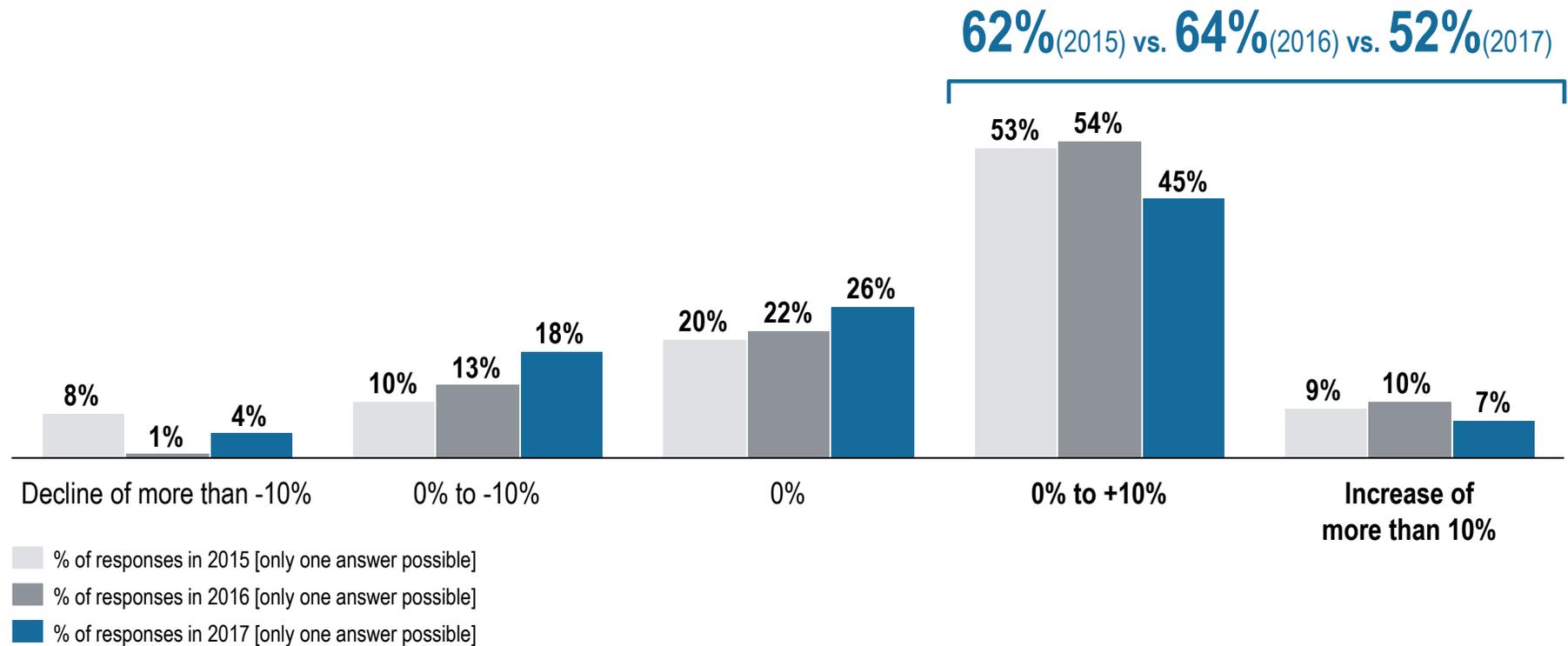
D. Comparing PE Outlook 2017 to previous years



Participants are slightly less confident on the number of M&A transactions with PE involvement compared to the last two years

M&A transactions with PE involvement in 2017/16 vs. 2016/15 and 2015/14 [%]

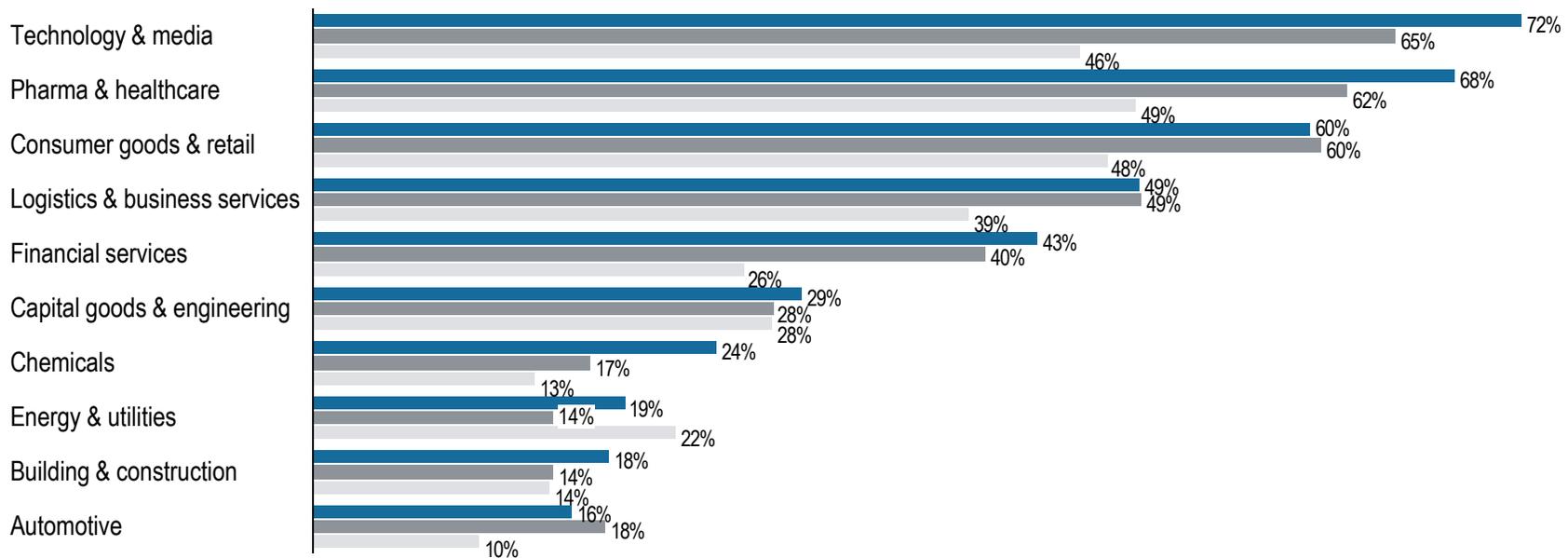
"What change do you expect to see in 2017 (2016/2015) regarding the number of completed M&A transactions with PE involvement?"



All industries are expected to see equal or higher PE investor involvement in 2017, except for energy & utilities and automotive

Ranking of industries by number of M&A transactions in 2017/16/15 [ranked by 2017; %]

"In what industries do you expect to see the most M&A transactions with PE investor involvement in 2017 (2016/2015)?"



- Expected change in PE M&A activity in 2017 vs. 2016 in % [mult. answers possible]
- Expected change in PE M&A activity in 2016 vs. 2015 in %
- Expected change in PE M&A activity in 2015 vs. 2014 in %

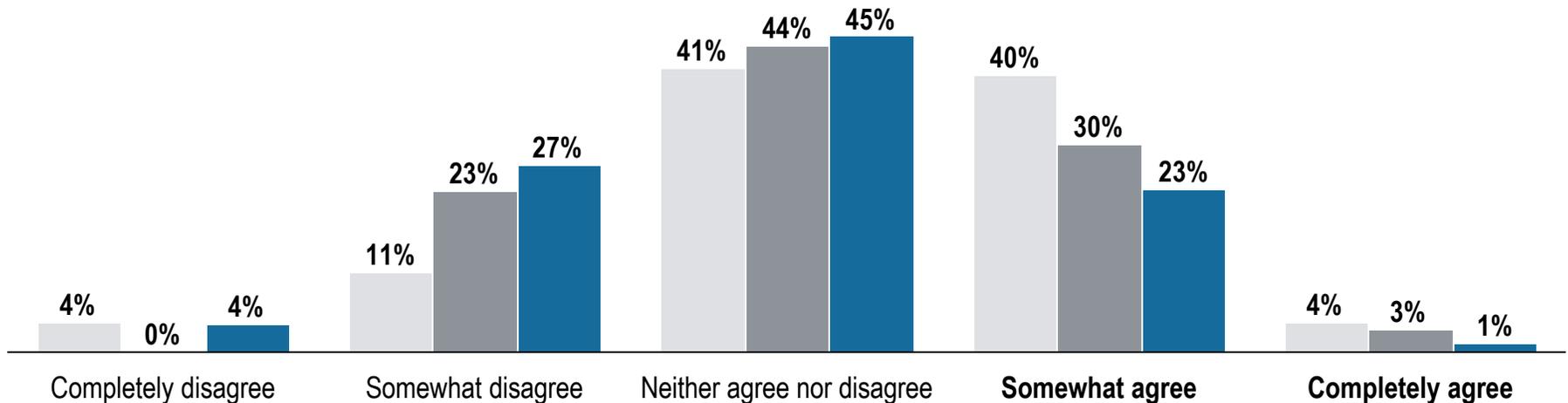
There is much less expectation of more attractive targets this year compared to previous years

Expected development of investment opportunities in 2017/16/15 [%]

"Will the targets available on the market in 2017 (2016) be more attractive than in 2016 (2015)/ 2015 (2014)?"



44%₍₂₀₁₅₎ vs. **33%**₍₂₀₁₆₎ vs. **24%**₍₂₀₁₇₎



- % of responses in 2015 [only one answer possible]
- % of responses in 2016 [only one answer possible]
- % of responses in 2017 [only one answer possible]

E. Your contacts at Roland Berger



Your contacts at Roland Berger



**Christof
Huth**

Senior Partner
Investor Support

Roland Berger GmbH
Sederanger 1
80538 Munich

christof.huth@
rolandberger.com

+49 160 744 8291



**Dr. Gerd
Sievers**

Senior Partner
Investor Support

Roland Berger GmbH
Sederanger 1
80538 Munich

gerd.sievers@
rolandberger.com

+49 160 744 2308



**Sven
Kleindienst**

Partner
Investor Support

Roland Berger GmbH
Sederanger 1
80538 Munich

sven.kleindienst@
rolandberger.com

+49 160 744 8539



**Dr. Thorsten
Groth**

Senior Project
Manager
Investor Support

Roland Berger GmbH
Sederanger 1
80538 Munich

thorsten.groth@
rolandberger.com

+49 160 744 8325



**Dr. Sascha
Haghani**

Deputy CEO Germany
Head of Restructuring
& Corporate Finance

Roland Berger GmbH
Operturm, Bockenheimer
Landstraße 2-8
60306 Frankfurt

sascha.haghani@
rolandberger.com

+49 160 744 3594

Roland
Berger

