

A man in a grey suit and blue striped tie is looking through black binoculars. The image is split vertically: the left side is a faded, semi-transparent version of the same image, while the right side is the full, sharp image. The background is a bright, clear blue sky.

European Private Equity Outlook 2014

Roland Berger
Strategy Consultants

Frankfurt am Main, February 2014

Our fifth European Private Equity ("PE") Outlook reveals how experts see the market and its development in 2014

European Private Equity Outlook 2014

The European Private Equity ("PE") Outlook 2014 is the fifth in a series launched by Roland Berger in 2009

Prior to 2012, the Outlook consisted of analyses and assessments by selected private equity managers and Roland Berger industry experts plus experience from Roland Berger project work

Since 2012, the Outlook now includes a survey of up to 900 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 2014

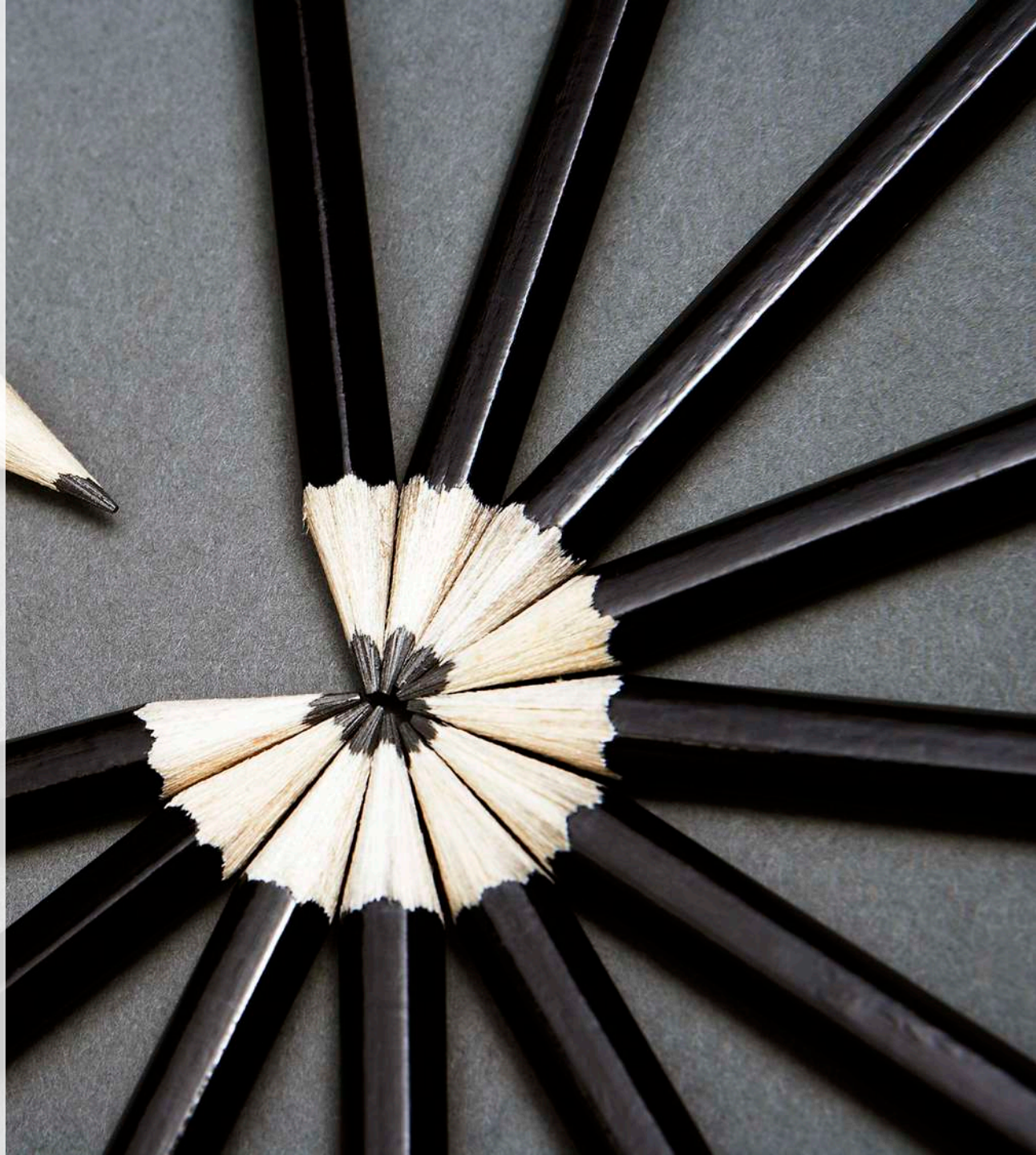
We hope that you enjoy reading this study. We would be happy to hear your feedback or discuss the results with you in more detail

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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

Key topics in 2014

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

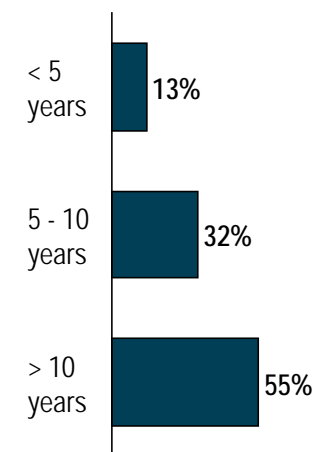
Private equity survey 2014

Overview of participants

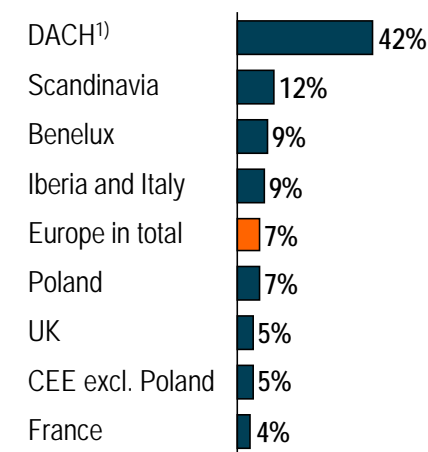
No. of experts contacted



PE experience [% of responses]



Geographical focus [% of responses]



1) Germany, Austria, Switzerland



B. Executive summary

The mood in the PE-driven M&A market is optimistic once again – Investors will focus on acquiring new targets again in 2014

-
- 1** Private equity professionals are quite **bullish** again about the development of M&A transactions with PE involvement in **2014** – **82%** of the respondents **expect more transactions** than in **2013**

 - 2** PE activity is expected to **intensify in all countries** – **Germany** and **UK** are expected to **double** their **growth rates** compared to 2013 while **Iberia/Italy**, **France** and **Greece** are projected to **recover**

 - 3** Similar to 2013, **consumer goods & retail** and **pharma & healthcare** are expected to be the **most active industries in 2014** – on the flip side, **energy** is regarded as the **biggest loser** vs. last year

 - 4** Acquisitions of **mid-sized companies** are expected to **dominate** once more – **88%** of PE transactions in 2014 are anticipated in the range of **up to EUR 250 million**

 - 5** In 2014, the focus is on **acquiring new investments** again after **developing portfolio companies** in 2013 – **availability of targets** thought to be the **most influential factor** behind PE-driven M&A

Active portfolio management and strategic/operational actions are key to private equity professionals in 2014

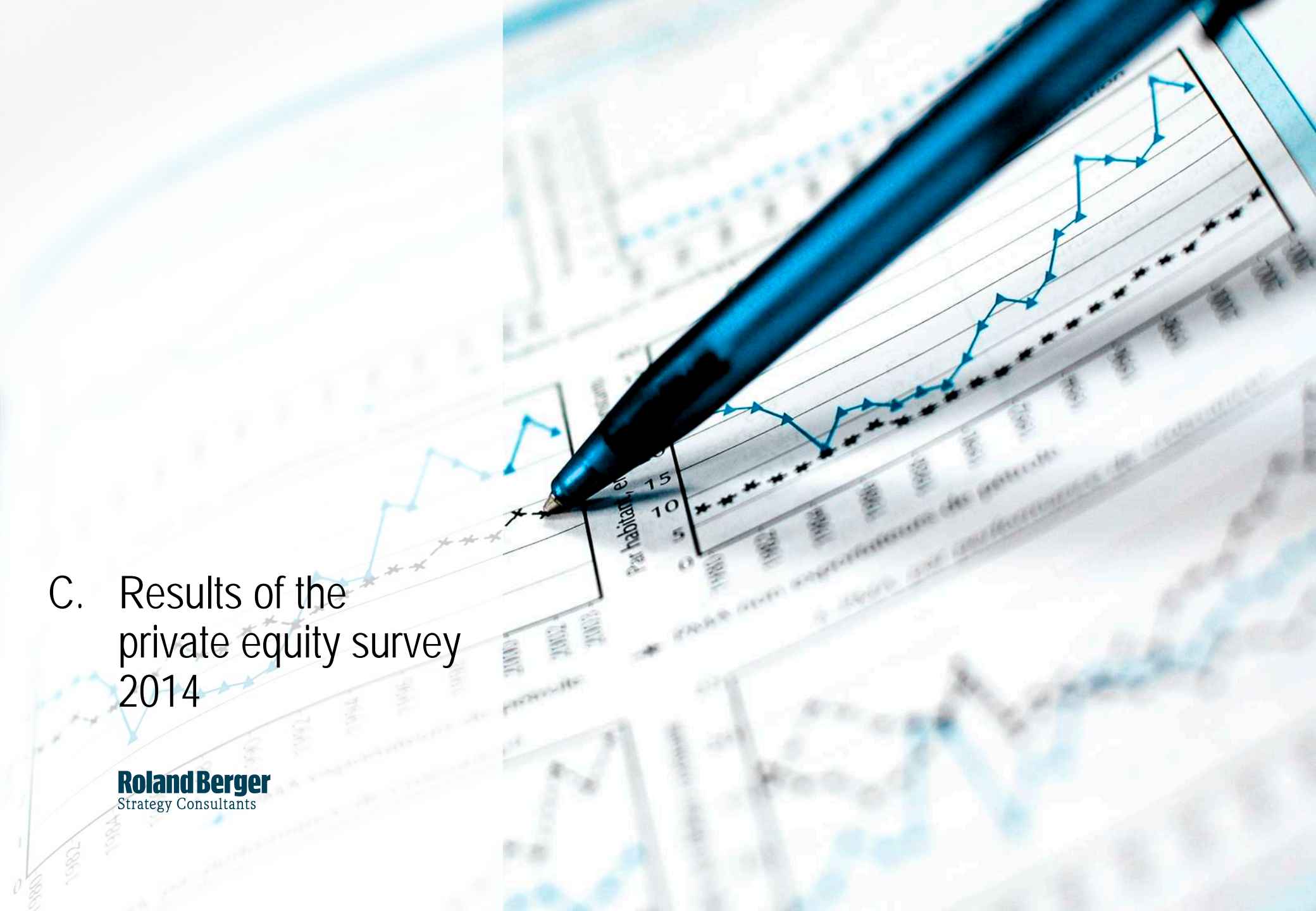
-
- 6** Most PE managers expect **no significant changes** in the **competition for funds** or the **availability of external financing** in 2014 – slight easing of tension evident compared to 2013 though

 - 7** 57% of the participants **expect** that **available targets** will be **more attractive** in 2014 than in 2013 – **majority shareholdings in family-owned companies** expected to be the **most important source**

 - 8** Experts have **different opinions** about the **PE business model** as such – 55% of the respondents believe it must be **adapted**, while 35% still **believe** it's **valid** as is

 - 9** **Active portfolio management** and **strategic/operational actions** are expected to be the **strongest performance levers** in 2014 – 98% think **passive approaches do not work**

 - 10** Exits via **M&A with strategic or PE investors** are expected to see the **highest increase in 2014** – other exit channels such as **IPO or dual/triple track** **trail behind considerably**

A blue pen is positioned diagonally across the frame, pointing towards the bottom left. It rests on a document featuring several line graphs. The graphs show various data trends over time, with some lines marked by stars and others by dots. The background is a light blue and white pattern, possibly a grid or a stylized representation of data. The overall image has a professional, analytical feel.

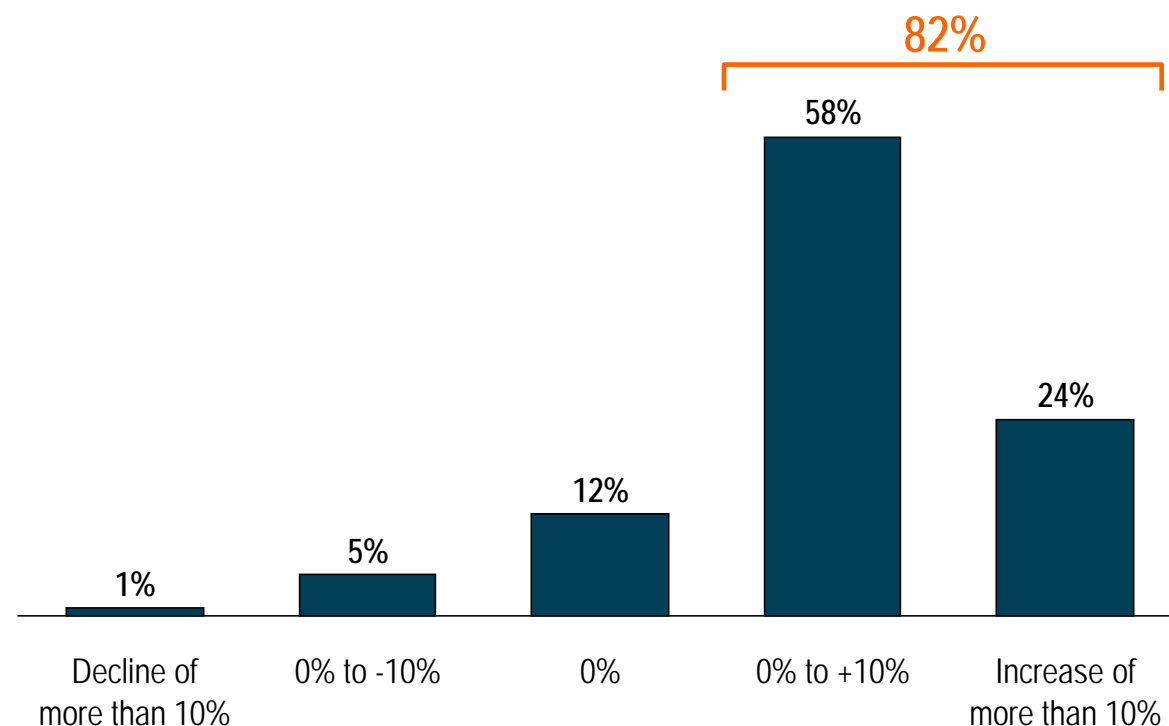
C. Results of the private equity survey 2014

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Strategy Consultants

Private equity professionals are optimistic about the development of PE-driven M&A in 2014 – 82% expect positive growth rates

M&A transactions with PE involvement in 2014 compared to 2013 [%]

"What change do you expect to see in 2014 regarding the number of M&A transactions with PE involvement?"



Comments

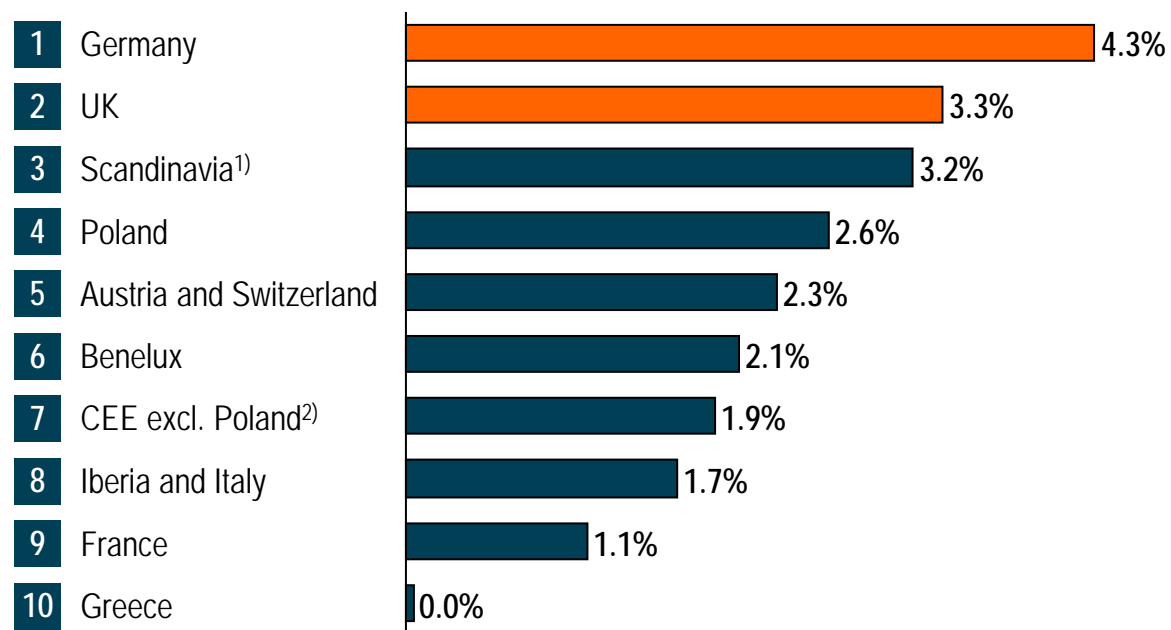
- > More than 80% of the respondents expect the number of M&A transactions with PE involvement to increase in 2014
- > Only a small minority (6% of all survey participants) anticipate a decrease in the number of M&A transactions with PE background
- > Overall, participants are quite bullish with regards to their expectations for this year after a tough 2013

% of responses [only one answer possible]

In most countries, PE activity is expected to grow again – Germany and the UK have the highest anticipated growth rates vs. 2013

Change in PE M&A activity in major countries – 2014 vs. 2013 [%]

"What change in PE M&A activities do you expect to see in the following countries in 2014?"



Comments

- > Major PE markets such as Germany and the UK are expected to see the strongest growth in PE M&A activities – 4.3% and 3.3% on the previous year, respectively
- > Last year's study showed an anticipated decline in M&A activity in Iberia, Italy and France for 2013 – these countries are now expected to gain momentum again in 2014
- > Only the PE M&A activity in Greece is anticipated to stagnate, presumably due to the country's ongoing economic situation

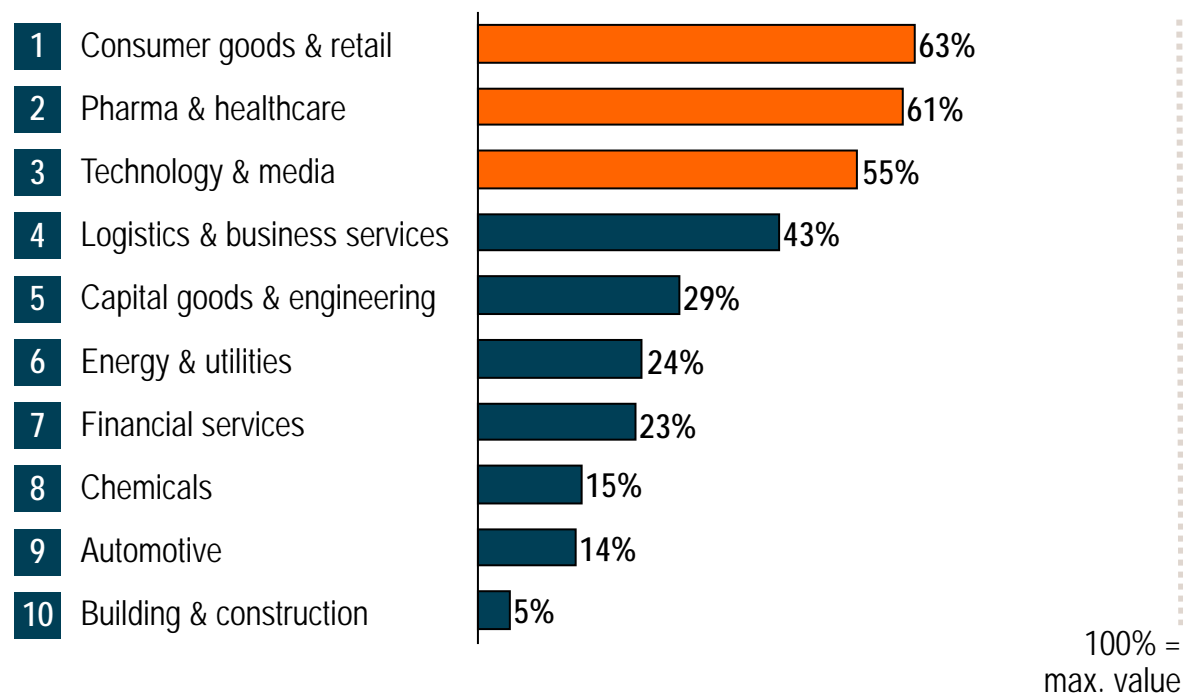
Expected change in PE M&A activity in 2014 compared to previous year in % [multiple answers possible]

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

CG&R, pharma/healthcare and TMT are expected to yield the most M&A transactions with PE involvement in 2014

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 2014?"



Comments

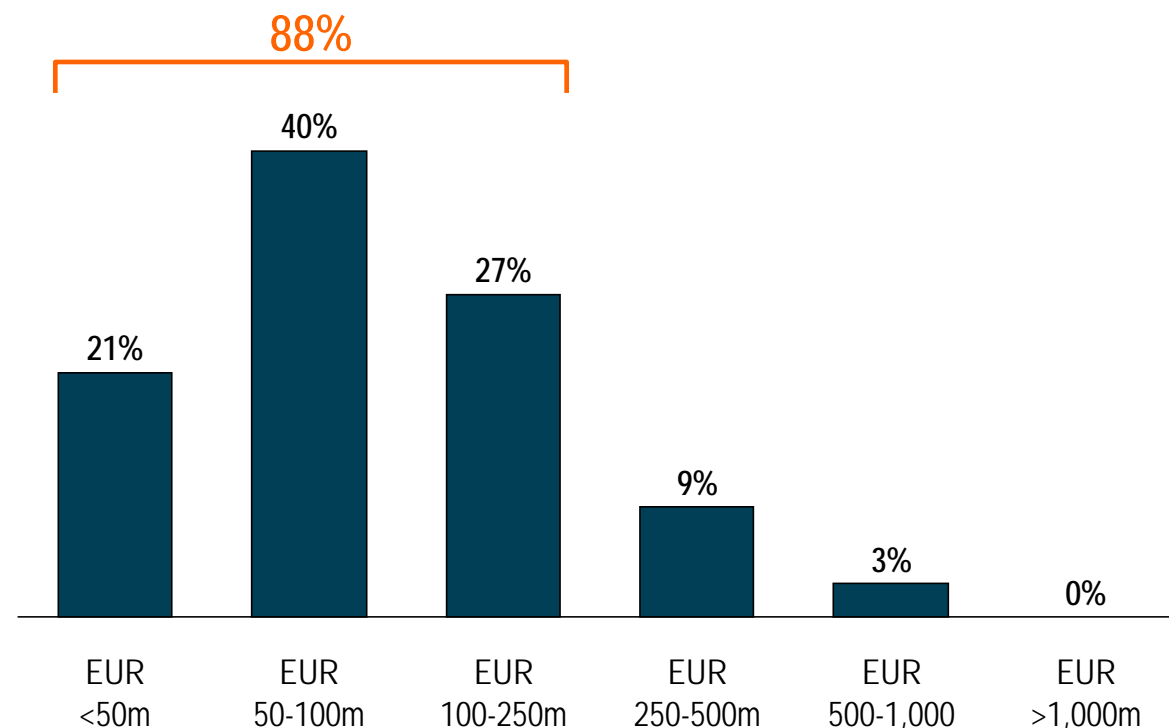
- > More than half of all study participants expect consumer goods & retail, pharma & healthcare and technology & media to be the most active sectors/industries in terms of the number of M&A transactions with private equity involvement
- > Rather low number of PE transactions expected for building & construction

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

The mid-cap segment is expected to dominate again – 88% of PE transactions in 2014 anticipated in the range of up to EUR 250 m

Expected range of PE transaction value in 2014 [%]

"Most PE transactions on the European M&A market in 2014 will be in the range of..."



Comments

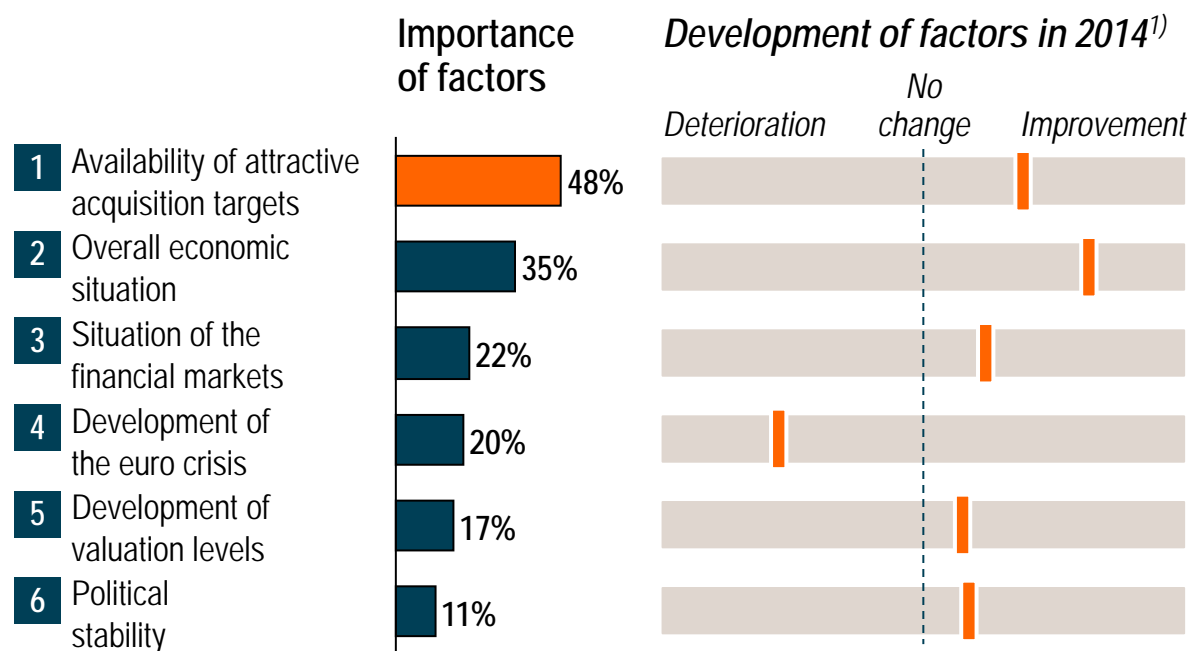
- > Expectations about distribution of deals by size remain on levels of previous years – large-cap deals with enterprise values above EUR 500 m are still likely to be rare
- > 88% of all PE transactions in 2014 are expected to be below EUR 250 m – compared to 91% in 2013
- > 61% of respondents expect that the enterprise value of most PE transactions will even be below EUR 100 m in 2014 (59% in 2013)

% of responses [only one answer possible]

Availability of attractive targets will be the most influential factor behind PE-driven M&A in 2014 – Economic development 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 2014? How will they develop?"



Comments

- > Private equity investments in 2014 are expected to be driven mainly by the availability of attractive acquisition targets – the pipeline is anticipated to improve slightly
- > Results of last year's study showed equal importance of both target availability and economic situation
- > Surveyed participants anticipate an improvement in the overall economic situation for 2014
- > The development of the euro crisis has gained importance compared to last year – the situation is expected to deteriorate further in 2014

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

1) Truncated; excl. substantial deterioration and substantial improvement

In 2014, PE investors will dedicate most of their time to acquiring new investments – Portfolio development is secondary

Focus of PE investors on lifecycle stages in 2014 [%]

"On which phase of the PE value chain will you focus on most in 2014?"



Comments

- > Making new investments is top priority for PE funds in 2014 – in 2013, portfolio development was ranked highest
- > Value creation within the holding period is still in focus for PE funds in 2014 – yet further development of their existing portfolios is only secondary for private equity professionals
- > The minority of PE investment professionals will focus on fundraising and extending existing funds

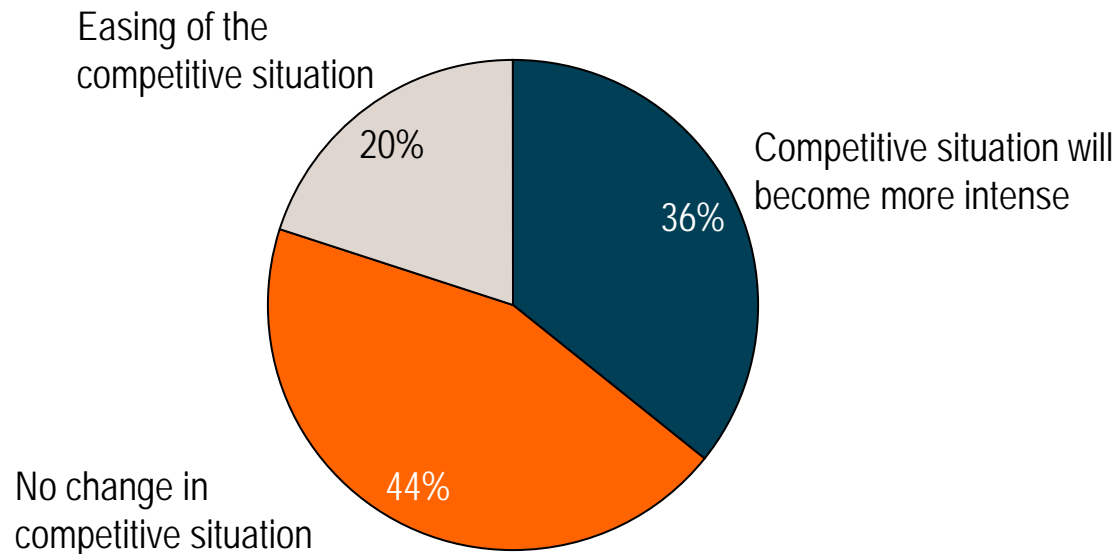


% of participants that will place most of their focus on this phase of the PE value chain [multiple answers possible]

The majority of PE professionals expect no change in the competition for funds, yet some easing of tension is evident

Expected degree of competitiveness in fundraising in 2014 [%]

"What degree of competitiveness do you expect in fundraising in 2014?"



Comments

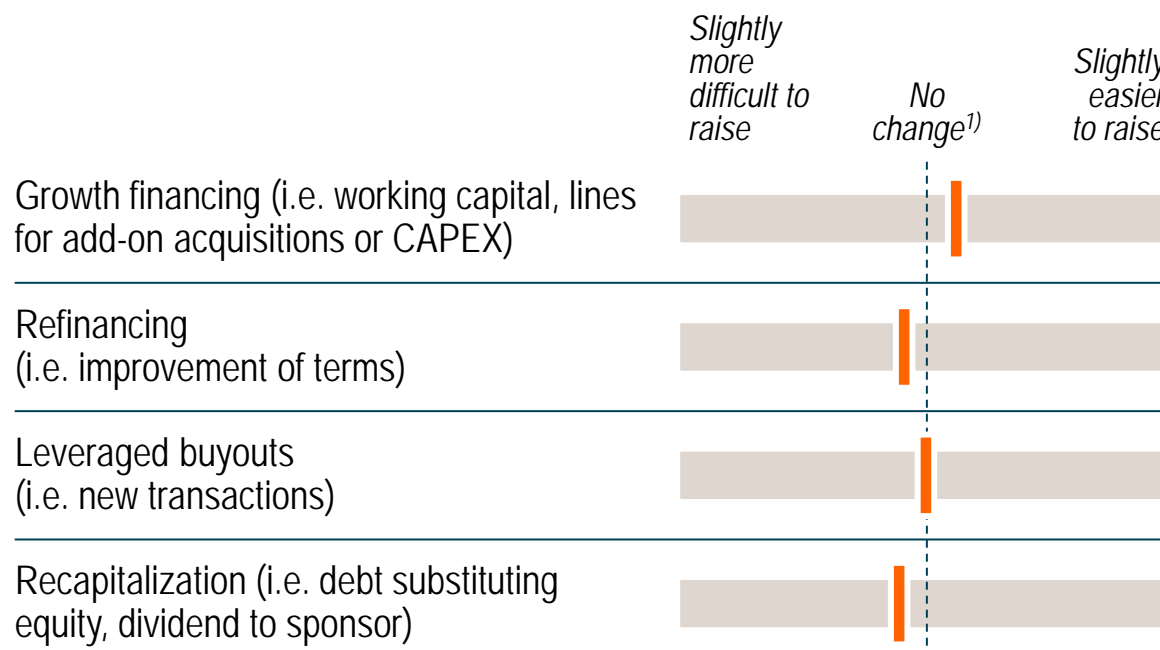
- > 44% anticipate no changes in the competition for funds in 2014 compared to the status quo in 2013
- > However, about one third (36%) of the respondents expect fiercer competition for fundraising than in 2013 – only 20% expect a significant improvement in the fundraising situation
- > In the long run, overall sentiment eased up a bit compared to the previous year, when 57% 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 remain stable in 2014 vs. 2013

Availability of external financing in 2014 [%]

"Compared to 2013, how easily available will external financing be in 2014?"



Comments

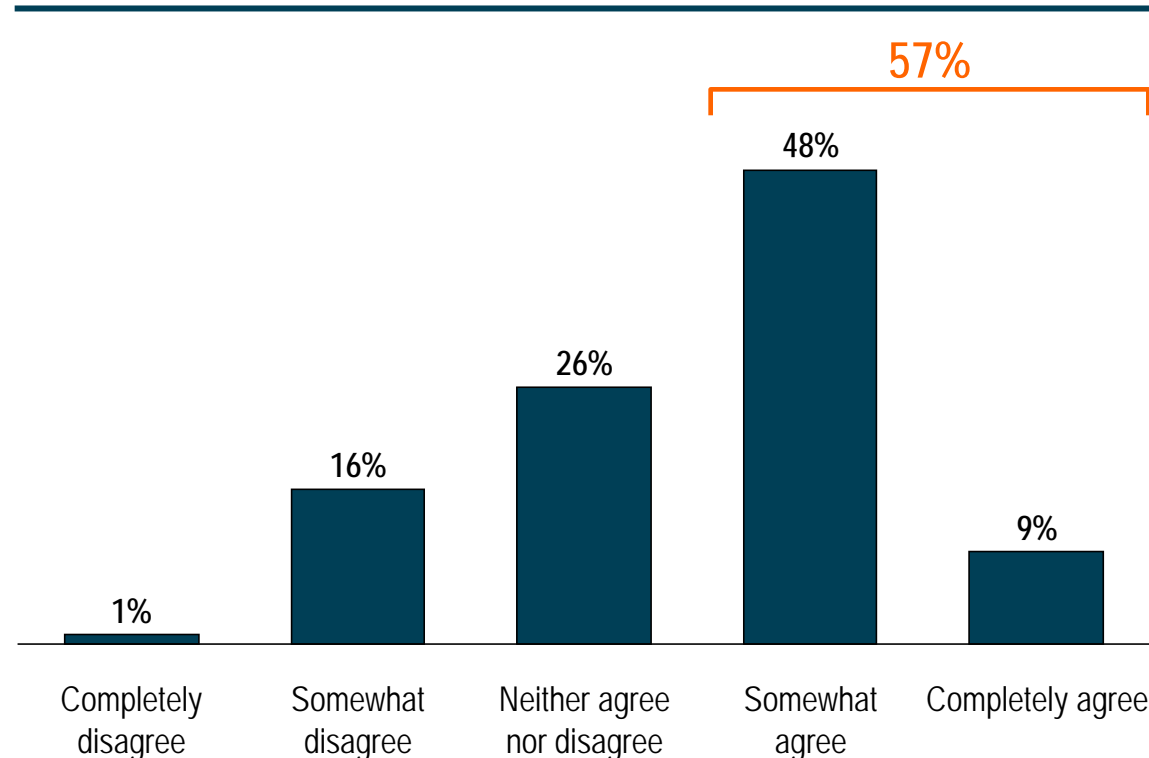
- > Asset-based growth financing (CAPEX, working capital) is anticipated to be under slightly less pressure in 2014
- > No significant change expected for the other financing instruments (refinancing, LBO and recapitalization) compared to the situation in 2013

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

The majority of survey participants expect targets in 2014 to be more attractive than in 2013

Expected development of investment opportunities in 2014 [%]

"Will the targets available on the market in 2014 be more attractive than in 2013?"



Comments

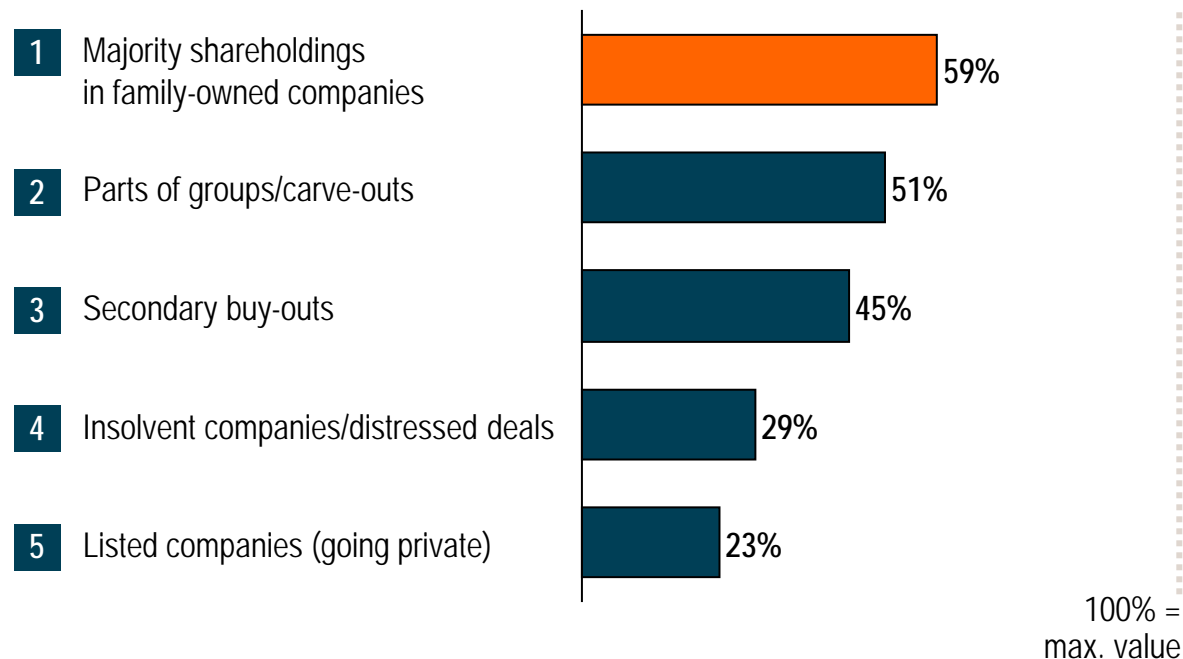
- > 57% of all private equity professionals expect that targets for investments will be more attractive in 2014 compared to 2013
- > 2013 results showed much more indecisiveness, with the majority of respondents (45%) being uncertain about target availability

% of responses [only one answer possible]

Majority shareholdings in family-owned companies are perceived as the most important source of attractive targets in 2014

Sources of most attractive targets in 2014 [%]

"What will be the source of the most attractive targets in 2014?"



Comments

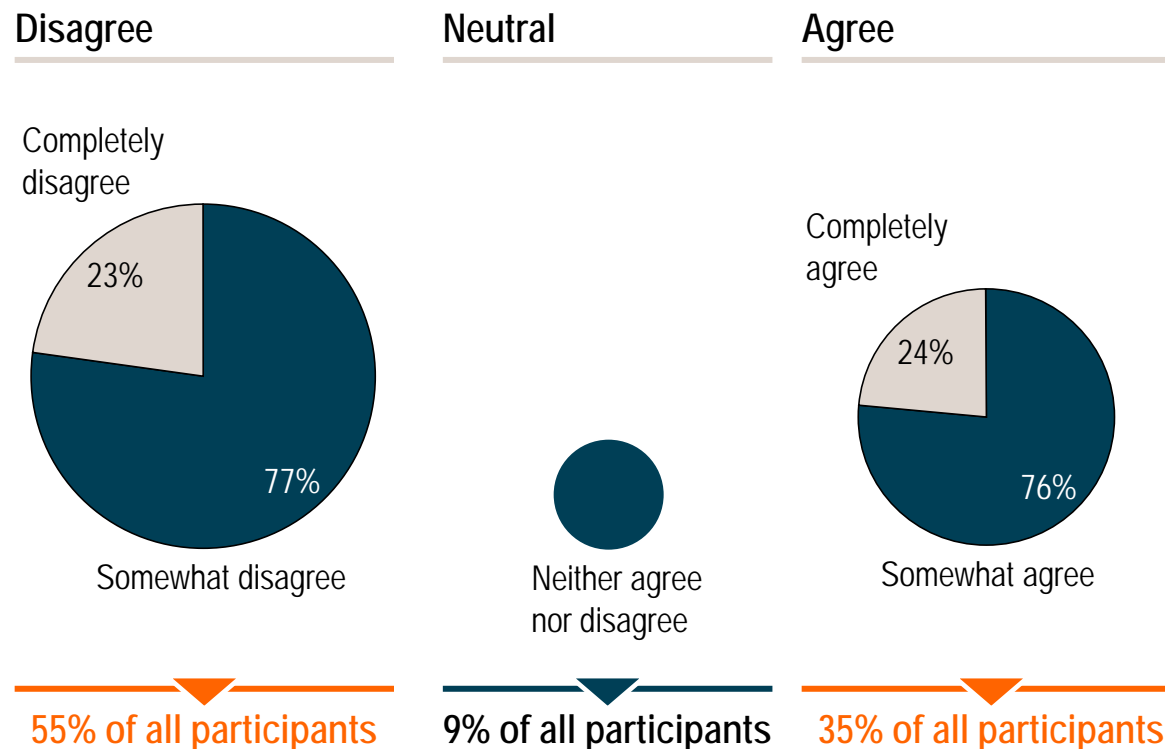
- > Almost 60% of PE professionals rate majority shareholdings in family-owned companies as the most important source of attractive targets in 2014
- > Distressed deals and going-private transactions are considered least important – probably affected by the currently restricted availability of targets with profitable exit prospects

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

The majority of respondents (55%) see a need to adapt the PE business model – But 35% still believe in its validity

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?"



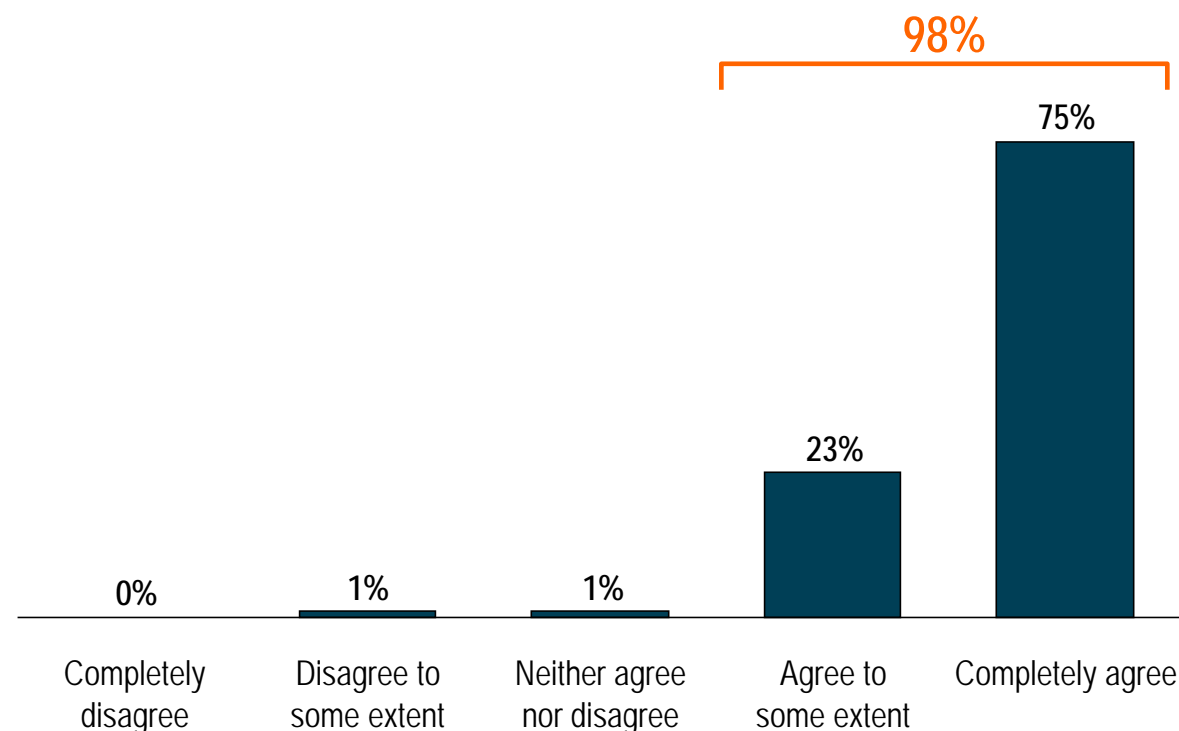
Comments

- > Investors have different opinions about the PE business model – i.e. 1) creating a fund and under-writing; 2) investing the fund; 3) managing the investment; 4) redistribution
- > The majority (55%) believe it's necessary to change the PE model – however, the other, albeit smaller, group of professionals believes in its validity (35%)
- > In some case the results are most likely impacted by (own) experiences of funds having been forced to close down in 2013 due to continued failure – on the other hand, some funds performed quite well

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

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?"



Comments

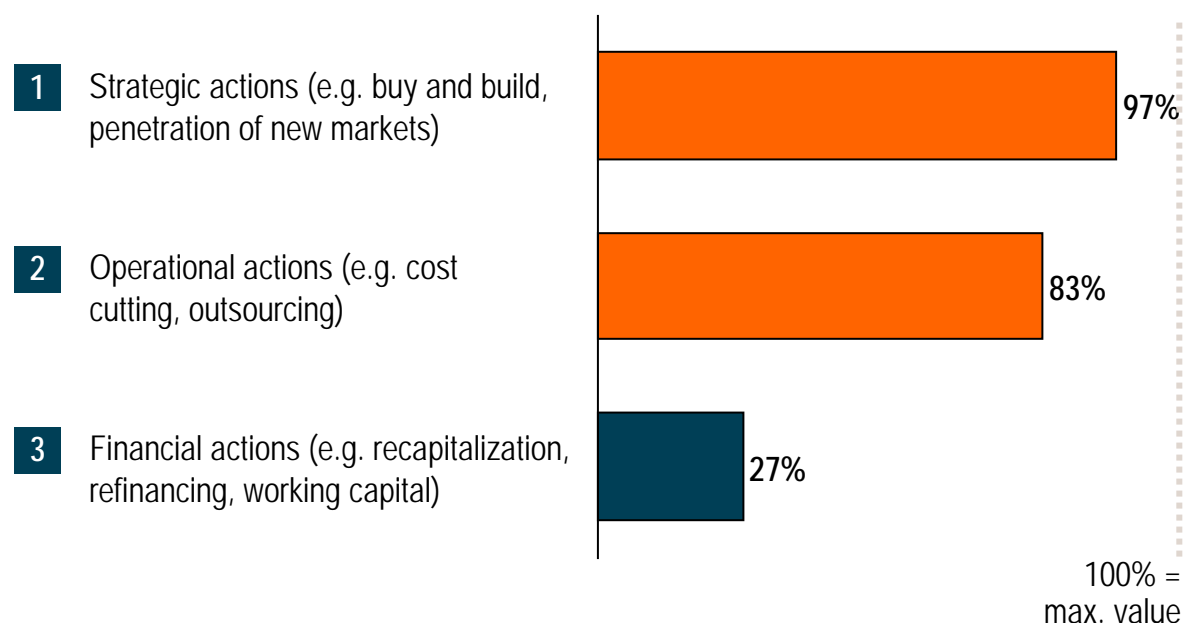
- > Responses generally reflect the investment approach of the participating funds – active involvement in (major) business decisions of the portfolio companies is key
- > Simply holding investments using a passive strategy and financial engineering does not work

% of responses [only one answer possible]

Only strategic and operational actions are expected to have promising chances of improving performance in 2014

Chances of success of value-enhancement actions [%]

"Which of these value-enhancement measures for PE portfolio companies do you find offer the best chances for success in 2014?"



Comments

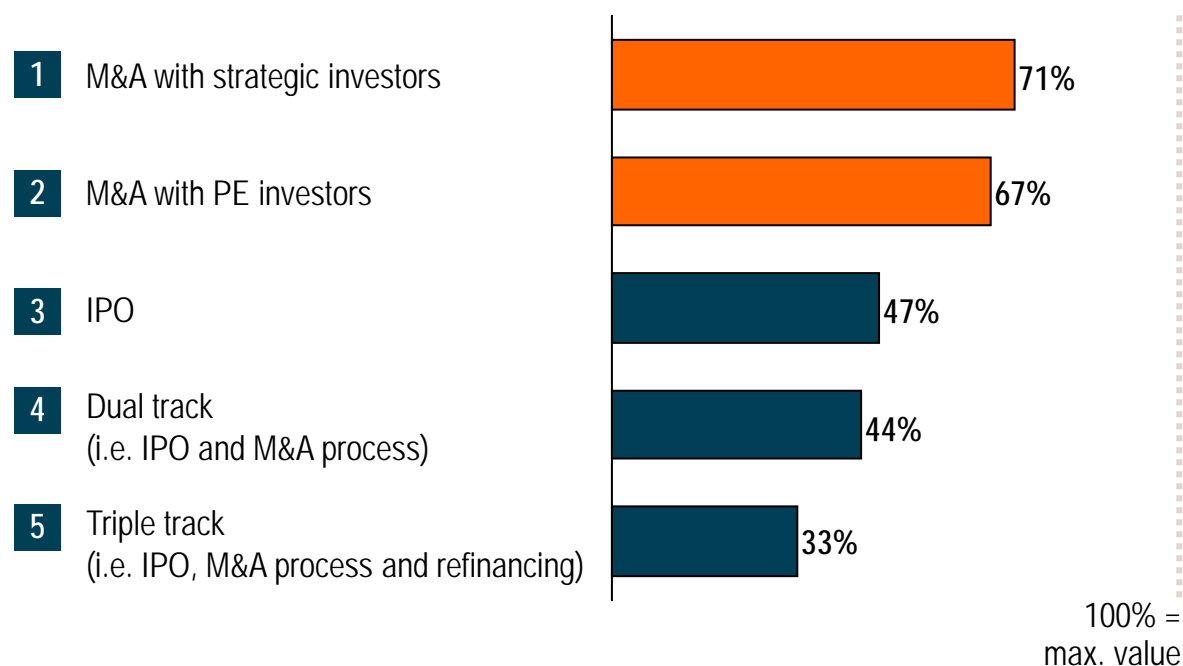
- > Implementing strategic actions is believed to have the best chance of success in 2014
- > Continuous operational actions such as cost cutting and outsourcing can tap additional potential to improve profitability, but are insufficient if used in isolation
- > The effect of mere financial actions on 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 expert opinions, M&A transactions using either strategic or PE investors as exit channels will dominate in 2014

Change in exit channels in 2014 compared to 2013 [%]

"What will be the dominant exit channel for PE investments in 2014 compared to 2013?"



Comments

- > More than 2/3 of all participants expect M&A transactions with PE investors or strategic investors to be the dominant exit channel in 2014
- > There are other exit channels, but these trail behind considerably

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

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

Roland Berger
Strategy Consultants

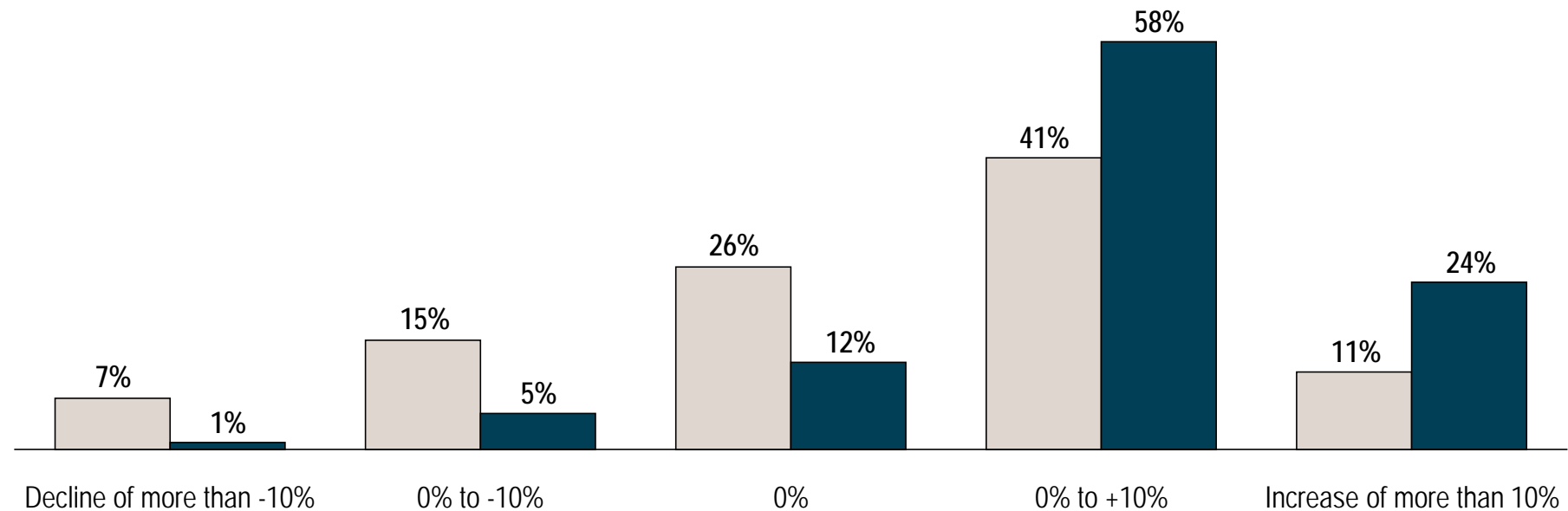


In 2014, participants are much more optimistic about PE market development than in 2013 – 82% expect even more transactions

M&A transactions with PE involvement in 2014/2013 [%]

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

82% (2014) vs. 52% (2013)



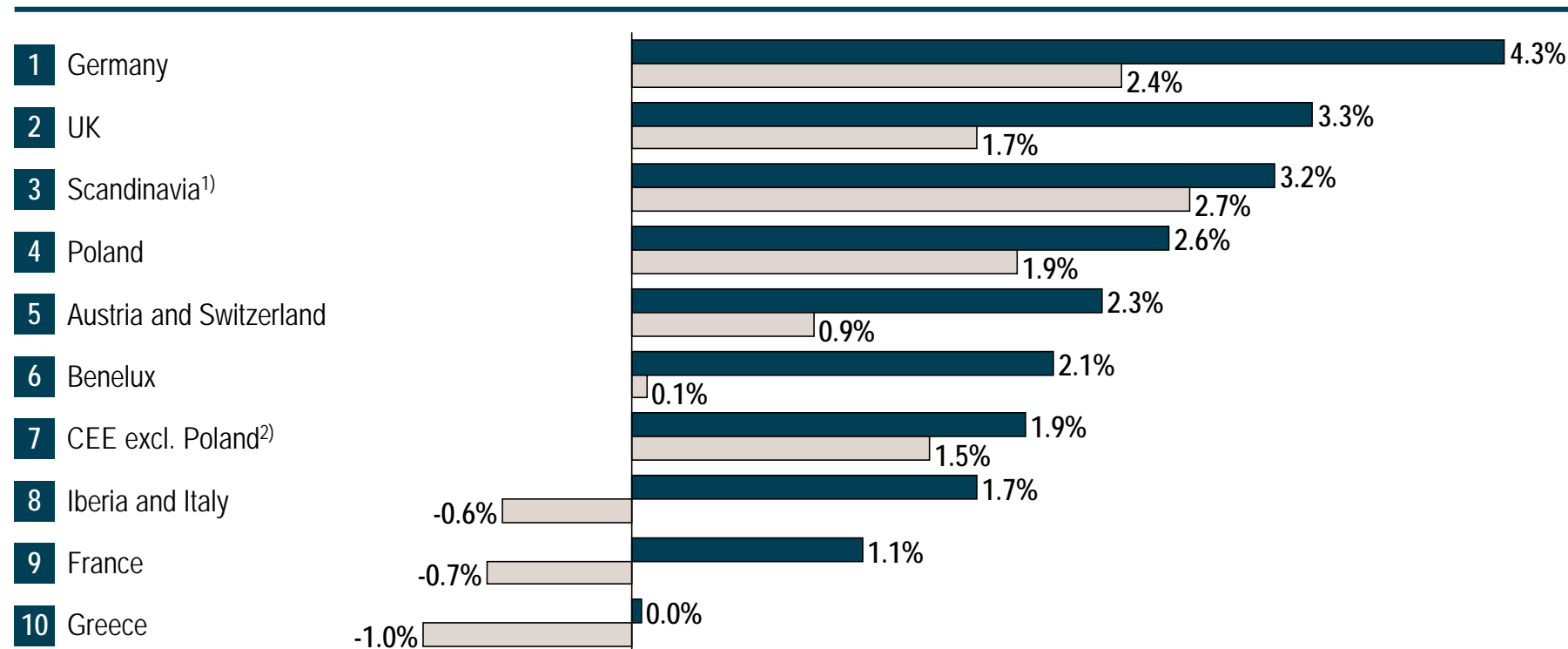
■ % of responses in 2014 [only one answer possible]

■ % of responses in 2013 [only one answer possible]

Market outlook for PE M&A activity has improved significantly in 2014 for Germany, the UK and esp. Iberia/Italy, France and Greece

Change in PE M&A activity in major countries in 2014/2013 [ranked by 2014; %]

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



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]

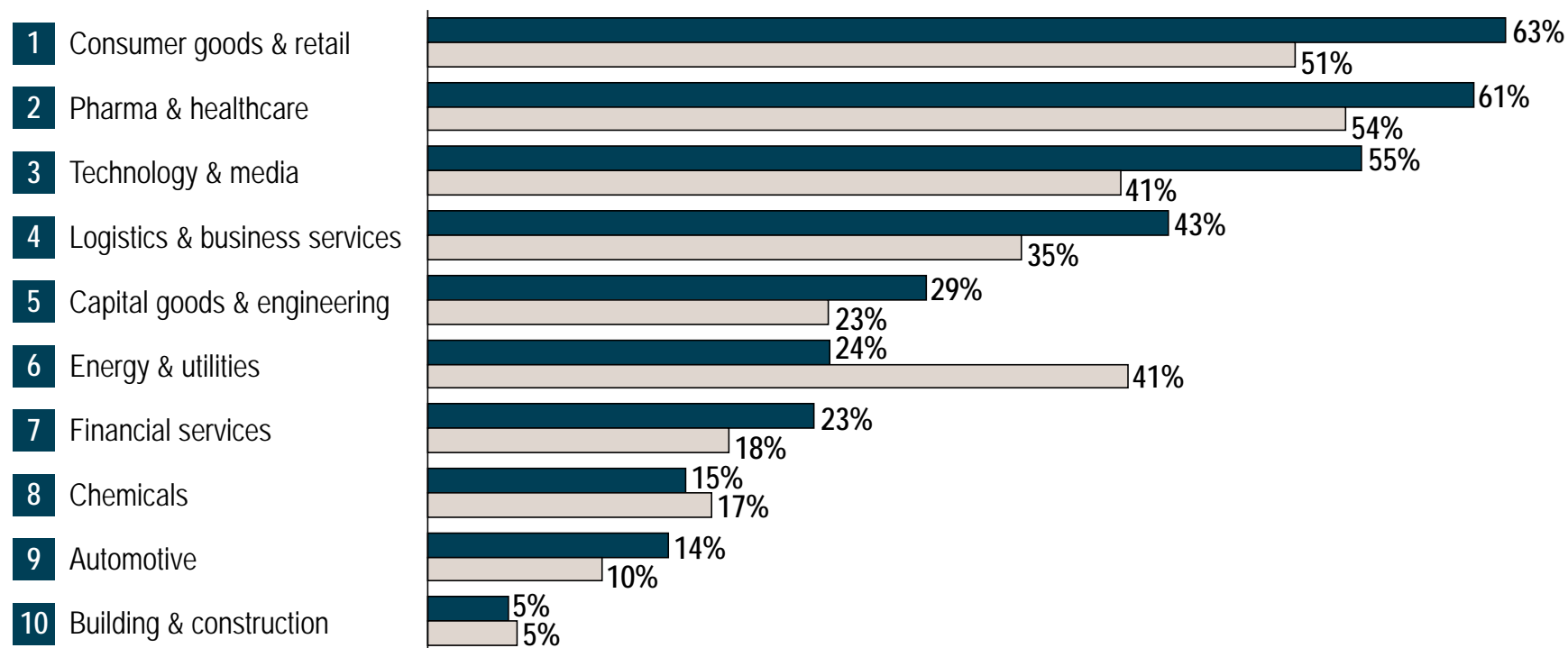
1) Includes Denmark, Norway, Sweden

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

Consumer goods/retail and pharma/healthcare still expected to be most active industry sectors for M&A in 2014 – Energy biggest loser

Ranking of industries by number of M&A transactions in 2014/2013 [ranked by 2014; %]

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



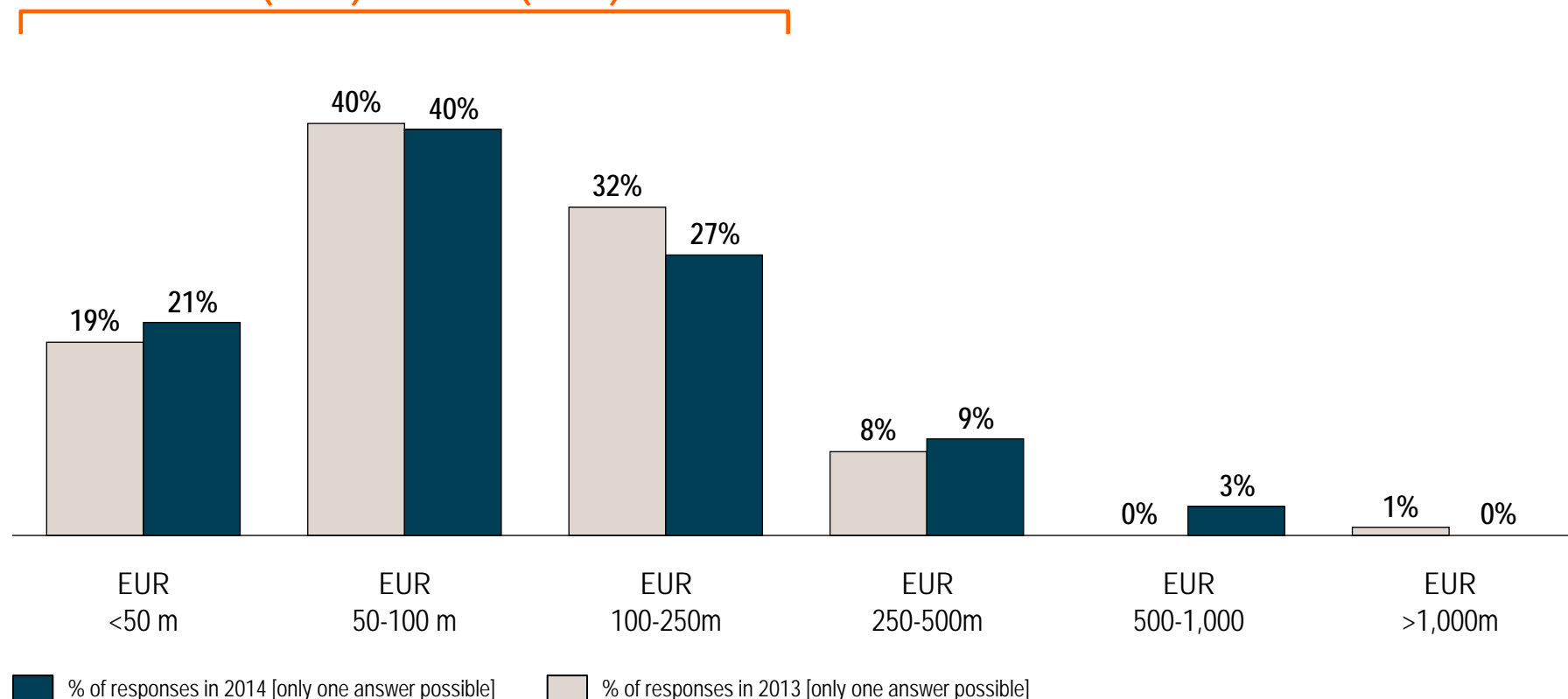
■ % of participants expecting high no. of transactions in 2014 [mult. answers possible] ■ % of participants expecting high no. of transactions in 2013 [mult. answers possible]

No significant change in expectations about transaction value – The vast majority still believes in a range of up to EUR 250 m

Expected range of PE transaction value in 2014/2013 [%]

"Most PE transactions on the European M&A market in 2014 will be in the range of..."

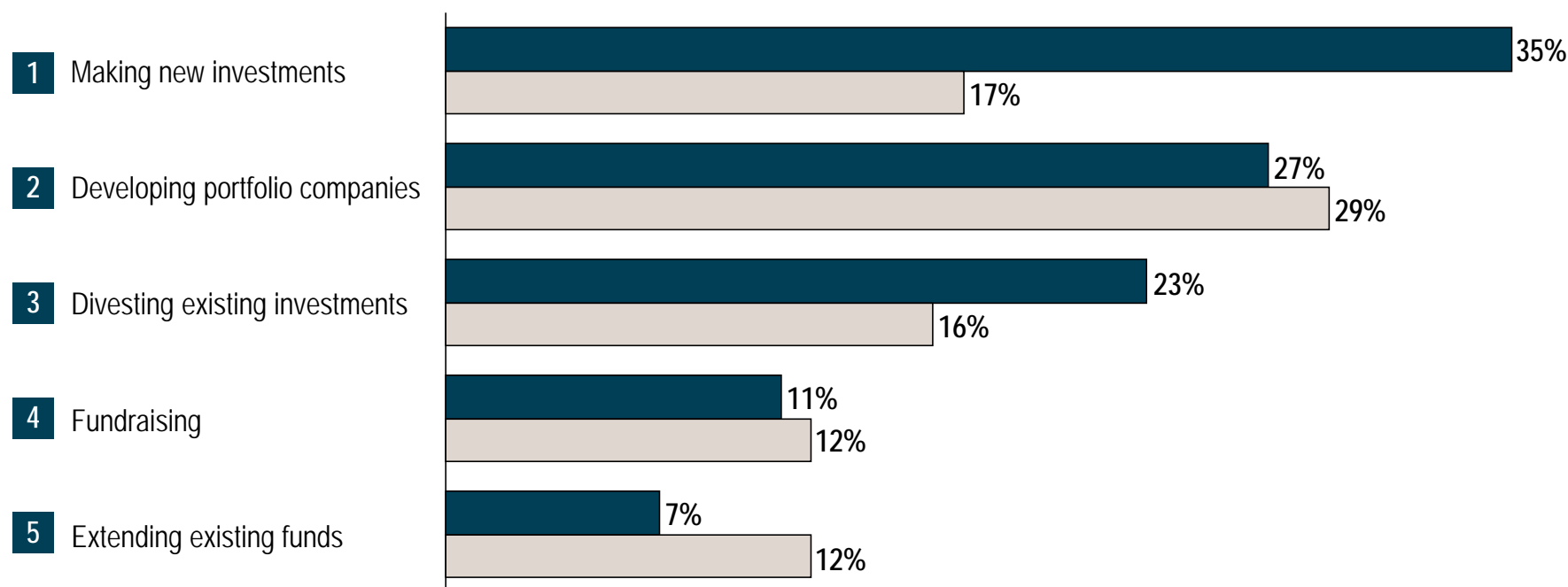
88% (2014) vs. 91% (2013)



In 2014, PE investors will shift their focus to acquiring new investments – Portfolio development was key in 2013, but now 2nd priority

Focus of PE investors on lifecycle stages in 2014/2013 [ranked by 2014; %]

"Which phase of the PE value chain will you focus on most in 2014 (2013)?"



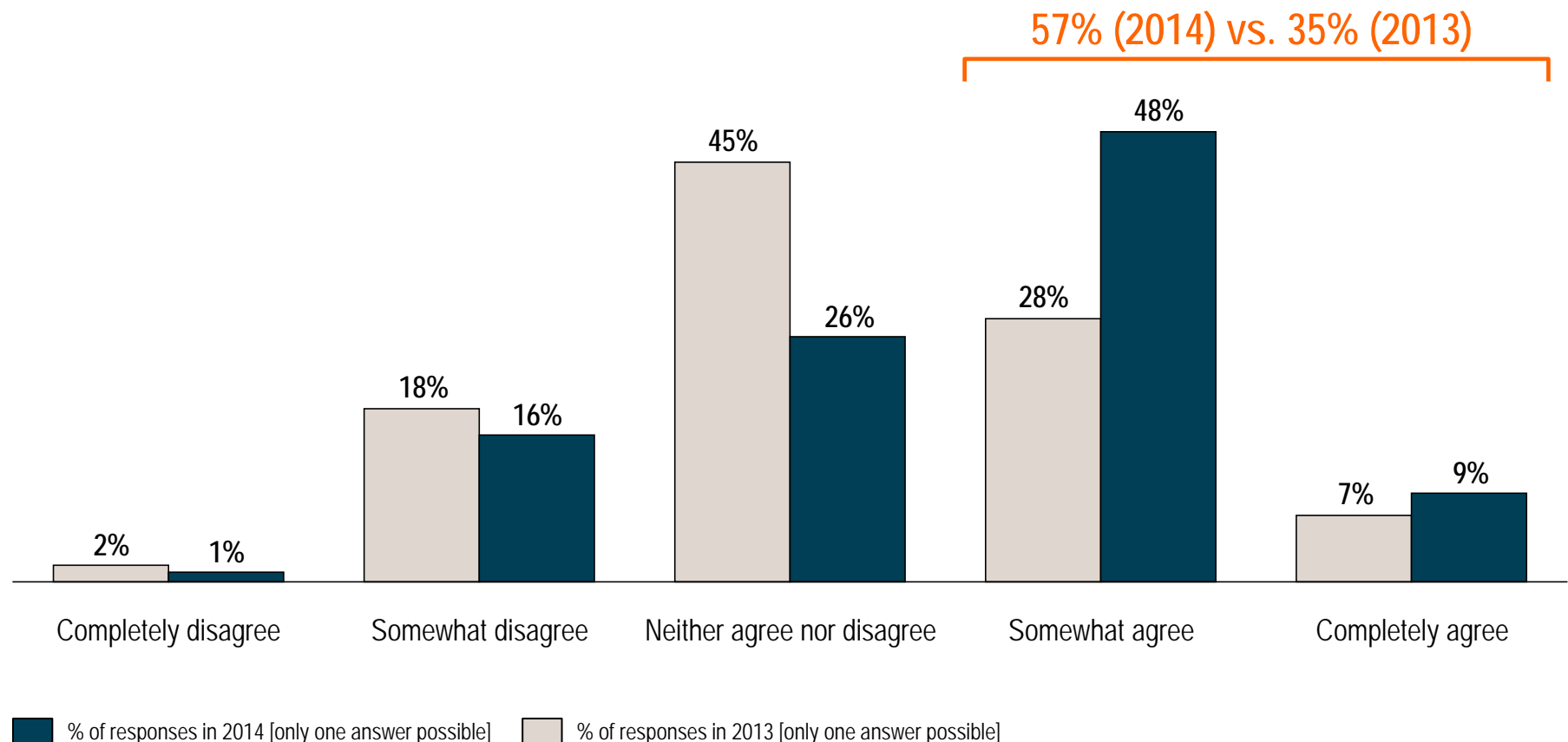
■ % of participants that will place most of their focus on this PE value chain phase in 2014 [multiple answers possible]

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

According to the PE managers surveyed, targets in 2014 will be more attractive on average than in 2013

Expected development of investment opportunities in 2014/2013 [%]

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





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It's character that
creates impact !

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