



ACCESS CAPITAL PARTNERS PRIVATE ASSETS IN EUROPE

MARKET TRENDS IN THE EUROPEAN
SMALL AND MID-MARKET BUY-OUT

THIRD QUARTER 2016



1. European buy-out activity overview

Four months after the Brexit referendum, risks are now materializing: the “leave” vote triggered a steep depreciation in the GBP (about 10% at end of Q3 vs June 24) and the ongoing decrease of the currency since then has negatively impacted the UK market with inflation on imported goods, not to mention foreign trade, which counts for approximately 60% of the UK’s GDP.

Recent portfolio sales proceeds as well as valuations of Access’ GBP denominated portfolios have therefore been impacted by the recent fall of the GBP, albeit mitigated by good operational performance and strong market comparables. Current calls from GBP denominated funds at a lower GBP rate to the Euro benefit acquisition prices which are mechanically being reduced.

Despite its currency fall, the UK market has shown resilience with a sustained pace of both investments and divestments. However, uncertainty surrounding the GBP remains prevalent and according to some economists, the currency may continue to fall

2. Deal making activity

While experiencing a slight slowdown in 2016, the UK continues to lead activity both in value and volume accounting for c.35% of transactions in H1 2016 vs 45% in H1 2015. The high-valuation landscape is the main challenge for fund managers looking for investment opportunities. Small buy-outs (Enterprise Value < €100m) representing about 86% of market volumes, continue to drive investment volumes and benefit from lower prices. The average EV/Ebitda ratio for the lower end of the market remains stable for this segment, standing at 8.5x (versus 8.4x recorded in 2015), while the entry valuations in the overall market is rising, reaching 10.1x in H1 2016 vs 9.7x recorded last year.

Regarding Access’ deal making, the level of activity picked up over the previous quarter. In aggregate, Access’ GPs completed 32 deals in Q3 2016, slightly above Q2 2016 (24 deals) but far below Q3 2015 when 56 deals were finalized. This amounted to 0.8 deal per active fund and a doubling from the 0.4 deal per active fund recorded over the first quarter 2016. Access’ GPs demonstrated their focus on operational value creation strategies and their conservative approach to leverage. According to 2016 budgets communicated by the fund managers, portfolio companies are expected to witness growth in sales and Ebitda of 12% and 17% respectively in 2016

versus 2015, thus outperforming the growth of European economy.

3. Exit activity

Exit activity in Q3 2016 has increased vs Q2 2016. Access’ portfolios benefited from the strong performances of the 38 exits recorded in Q3 2016 which generated an average gross cost multiple of 3.8x, comparing favourably to the 17 Q2 exits displaying an average gross cost multiple of 2.5x. The renewed appetite of corporate buyers drove up the proportion of trade sales which represented the most prominent exit route. In terms of exit types, Access recorded c.50% of trade sale exits while secondary buy-out exits accounted for 30%. In terms of geography, the UK, the DACH region and France represent c. 75% of the exits finalized over the period, the Benelux and Southern countries account for the remaining c.25%.

4. Fundraising activity

The environment is currently favourable for quality fund managers looking to raise a new fund. Sustained by private equity returns and low interest rates, investors are seeing the blooming merits of private asset classes and 2016 registers thus far a record number of investors increasing allocation. The aggregate capital raised has reached 40.2bn in Q3 2016 when full year 2015 was closed at 40.1bn.

5. Secondary activity

On the secondary market, the third quarter was characterised by a slowdown in transaction volumes. The spread between the bid and ask prices has further reduced with fund stakes generally acquired at par to NAV. Less exposed to macro volatility, “tail-end” transactions represented a strong proportion of transactions (over 30% of first half volume, compared to 20% of volume in 2015) and are expected to grow by year end. Secondary pricing for these transactions remained strong and this trend is likely to continue in the near future. In addition, the fundraising environment for secondary players is flourishing and large amounts have recently been raised.

In this context, Access’ actively sourced and analyzed 11 transactions during Q3 2016, leading to the completion of two transactions at an average of 6% discount to NAV.

About Access Capital Partners

Access Capital Partners is an independent European fund manager, active in European private equity, private debt and infrastructure, with offices in five European countries and assets under management of €7.5 billion from a diversified base of international institutional investors. The firm's products and services encompass primary fund investments and secondary transactions as well as direct co-investments.



ACCESS CAPITAL PARTNERS

www.access-capital-partners.com

Telephone: +33.1.56.43.61.00