2010 EVCA Buyout Report

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EUROPEAN
PRIVATE EQUITY &
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Table of Contents

Editorial 4

Executive Summary 5

1. Introduction 7

2. Impact of the Economic Environment on Deal Making 8

2.1. Overview 8
2.2. Debt market 9
2.2.1. Leveraged loan market activity 9
2.2.2. Leveraged loan pricing 11
2.2.3. Maturity schedule of outstanding leveraged loans 12
2.3. Debt-to-EBIT ratios 12
2.4. Deal structures 13
2.5. Deal pricing 15

3. Evolution of Buyout Activity 2007 - H1 2010 16

3.1. Fundraising market 16
3.1.1. Overview 16
3.1.2. Fundraising by type of investor 18
3.1.3. Geographic sources of fundraising 19
3.1.4. Final fund closings 19
3.2. Investments 23
3.2.1. Overview 23
3.2.2. Cross-border investments 27
3.2.3. Most active players 29
3.2.4. Stages of financing 29
3.2.5. Buyouts by deal size 32
3.2.6. Sources of buyouts 34
3.2.7. Sector overview 36
3.2.8. Initial versus follow-on investments 39
3.2.9. Investment syndication 41
3.2.10. Investments by number of employees 43
3.3. Divestments 44
3.3.1. Overview 44
3.3.2. Divestments by exit method 45
3.3.3. Divestments by sector (excluding write-offs) 46
3.3.4. Write-offs by sector 48

Table of Contents

4. Buyout Performance 49

4.1. Overview 49
4.2 Top-quarter and top-half net IRRs 50
4.3. Performance by vintage year groups 51
4.4. Short-, medium-, and long-term returns reflected by net horizon IRRs 52
4.5. Performance by sector 54

5. Appendix 55

5.1. Fundraising 55
5.2. Investments 57
5.3. Divestments 59

6. Methodology and Definitions 60

6.1. Economic environment section 60
6.1.1. Standard & Poor's LCD data 60
6.1.2. CMBOR data 60
6.2. Activity section 60
6.2.1. Coverage 60
6.2.2. Fundraising 61
6.2.3. Investments 61
6.2.4. Divestments 62
6.2.5. Number of companies 62
6.2.6. Data updates 63
6.2.7. Definitions 63
6.3. Performance section 66

Figures and Tables

Figure 1: EU GDP growth and index of buyout investment activity by amount 8
Figure 2: Senior loan volume - LBO transactions 9
Figure 3: European pro-rata versus institutional LBO activity 10
Figure 4: Rolling three-month weighted average spreads of all European new-issue LBOs 11
Figure 5: Maturity schedule by par outstanding as of 30 June, 2010 12
Figure 6: Debt-to-EBIT ratios for buyouts 13
Figure 7: Average deal structures for European private equity-backed buyouts 14
Figure 8: Regional fundraising - % of European total 17
Figure 9: Funds raised by type of investor 18
Figure 10: Final fund closings by region 21
Figure 11: Final closings by fund size range 21
Figure 12: Investments by European private equity firms - evolution 23
Figure 13: Investments into European portfolio companies - evolution 24
Figure 14: Investments by region 25

Figure 15: Average investment size per company by region 26
Figure 16: Regional cross-border flows for H1 2010 28
Figure 17: Investments by region and stage 31
Figure 18: Average investment size by stage of financing 32
Figure 19: Equity versus transaction value by buyout deal size 33
Figure 20: Sources of buyouts 35
Figure 21: Average investment size per company by sector 37
Figure 22: Initial versus follow-on investments 40
Figure 23: Initial versus follow-on average investment per company by region - H1 2010 40
Figure 24: Syndication by stage 41
Figure 25: Average amount invested per company - syndicated versus non-syndicated deals by region - H1 2010 42
Figure 26: Investments by number of employees 43
Figure 27: Divestments at cost - evolution 44
Figure 28: Divestments by location of the portfolio company - H1 2010 45
Figure 29: Divestments by exit method 46
Figure 30: Divestments by sector (excluding write-offs) 47
Figure 31: Write-offs by sector 48
Figure 32: Net pooled IRR since inception per performance quarter 51
Figure 33: Five-and 10-year rolling net IRRs 53

Table 1: Average P/E ratios for European private equity-backed buyouts 15
Table 2: Funds raised by fund stage focus 17
Table 3: Ranking of top limited partners by location per European fundraising year 19
Table 4: Funds closed by stage focus 20
Table 5: Funds closed by sector focus 22
Table 6: Investments by geographic origin 27
Table 7: Most active players in Europe - 2007-2009 ranking 29
Table 8: Investments by financing stage 30
Table 9: Buyouts by deal size ranges 34
Table 10: Net pooled IRR from inception to 31 December 2009 50
Table 11: Top-quarter and top-half net pooled IRR 50
Table 12: Net pooled IRR by vintage years as of 31 December 2009 52
Table 13: Net horizon IRRs to 31 December 2009 52
Table 14: Net pooled IRRs by fund sector focus 54

Editorial

“A perfect storm”

In addition to the impact of the crisis on private equity portfolios, a number of contradictory forces are currently at play in the market. The ultimate outcomes are hard to assess, but it is certain that profound change is taking place across the European landscape.

The regulatory environment is starting to affect various constituents of the industry under multiple angles. The AIFM directive, Solvency II, Basel III and the Dodd-Frank financial reform bill are significant walls of regulation coming down on private equity as a whole. The magnitude of their combined effects is difficult to evaluate but will have important effects on fundraising and operating costs, not to mention stock market volumes. The EVCA has taken a strong stance to defend common sense for what is proving to be a very moving target in political hands.

On the fundraising front, the market still continued to contract, with Q2 2010 being the worst quarter on record since 2003 with only USD 41bn in final closings across all private equity fund types globally. While there are large numbers of fund managers seeking capital, and many more about to launch their fundraising, investors will be reducing their overall number of private equity relationships. Re-ups will therefore be under heavy scrutiny and the requirements for adding new GP relationships high. Conversely, shrinking discounts to net asset value make secondary opportunities less of a competitor to primary fundraising.

There is some light at the end of the tunnel, however. The current environment is showing signs of progress, such as GDP growth resuming, deal activity picking up and a revival in debt markets. But most importantly, private equity performance is improving and distributions increasing.

Most of us involved in private equity, whether as general partners, limited partners, bankers, service providers or employees of private-equity-backed companies, will agree that 2008-2010 have been very challenging years for the European buyout industry. But, as with all challenging times, herein lie opportunities. The private equity industry is evolving to a new level of maturity and the rewards will be many for those who survive the storm.

The publication of the 2010 EVCA Buyout Report is therefore again particularly relevant. It enables us to keep the pulse of the market by identifying, quantifying and drawing conclusions on investment activity, divestments, performance and fundraising in these turbulent times.

Giacomo Biondi Morra di Belforte
Partner

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Executive Summary

Impact of the economic environment on deal making

- EU GDP growth back into positive territory
- Debt market showed signs of revival
- Leveraged loan prices did not come down
- Purchase multiples for deal sizes more than €25m increased
- Leverage multiples of deals less than and more than €100m converged

Fundraising activity 2007-H1 2010

- European buyout, mezzanine and growth funds jointly raised €8bn in the first half of 2010, 73% of the €11bn raised in the full-year 2009
- In the first half of 2010, the share of buyout funds in the total funds raised decreased to 70% – from an average of more than 90% during 2007 to 2009 – in favour of growth capital and mezzanine funds (18% and 12% of the total respectively)
- The UK & Ireland accounted for the largest share of the total funds raised in Europe (58%) in the first half of 2010, followed by the Benelux, which had 14%
- Banks remained the primary source of capital in the first half of 2010 (20% of the total) followed by capital markets (19%)
- Most investors responsible for the 2010 fundraising were located in the UK, France and Australasia (they committed 60% of the capital). The US lost its position as one of the top two lead capital providers for the first time
- 21 funds reached final closings in the first half of 2010, raising €11.7bn. Buyout funds represented 70% of the total number of funds that reached final closings, and half of the amount raised was concentrated in three €1bn-plus funds
- Most funds (6) that reached final closings in the two quarters of 2010 belonged to the €500m to €999m size range

Investment activity 2007-H1 2010

- Throughout 2007-H1 2010, €146bn was invested in more than 6,000 European companies, with the largest amounts invested in 2007 and 2008
- Investment in European companies recovered slightly in the first half of 2010, with €15bn invested in 807 companies – this compared to 80% of the €19bn invested in 1,603 companies in the full-year 2009
- UK & Ireland, the DACH region, the Nordic region and France together represented 80% of the deal volumes
- In the first half of 2010, most of the investment amount (€11.6bn or 77% of the total) originated from domestic private equity firms, indicating that proximity to investment targets was significant. Interestingly, it seemed to have increased in importance during the crisis period
- During the period 2007-H1 2010, most of this amount went to buyouts (81%), followed by growth capital deals (13%)
- In the first half of 2010, mid-market deals attracted the largest part of the capital invested in buyouts (48%), while by number of companies, the vast majority (79%) were small buyouts attracting 19% of the total buyout investment value
- In the first half of 2010, other private equity firms were the largest source of buyout deals by amount, representing 49% of the total (at buyers' cost). Family & private owners came first by number of companies (36%)
- Over the period 2007-H1 2010, the most invested sectors were business & industrial products and consumer goods & retail, each attracting €22bn of capital or 15% of the total investment. However, in the first half of 2010, consumer goods & retail was the clear winner, attracting nearly a quarter (€3.6bn) of the total amount invested and 16% of the companies financed (130)

Executive Summary

- The proportion of new investments by private equity firms increased to 57% of the total in the first half of 2010, up from 49% in 2009. This shows the recovery of the investment market since 2009, a year that saw greatly reduced private equity activity. Private equity firms' main activity in this period was supporting their portfolio companies by providing them with add-on financing
- In the first half of 2010, syndicated deals decreased further, with 21% of financings (attracting 27% of the amount invested) being syndicated – down from 27% (32% of the amount) in 2009 and 29% (42% of the amount) in 2008
- The majority of the companies receiving private equity backing were SMEs

Divestment activity 2007-H1 2010

- The 2010 divestment market showed signs of improvement with €7bn divested from 418 European companies in the first half of the year
- The amount divested at cost (i.e. at sellers' cost) via sales to other private equity firms doubled in 2010 to €1.5bn yet only 12% of the total number of exited companies were divested in this way
- Life sciences recorded the largest amount divested at cost (€790m) while consumer goods & retail saw the highest number of exits (93)
- Most companies divested from in the first half of 2010 were domiciled in the DACH region
- On an annualised basis, companies written off in the first half of 2010 represented 1.1% of the aggregate number of companies invested in over the previous five years

Performance reported in 2010 (as of 31 December 2009)

- As of the end of 2009, the long-term performance of the buyout industry remained steady with an overall net pooled IRR since inception of 11.9%
- Large buyout funds achieved the highest net return – 18.7% – while mega funds registered the lowest return (8.4%)
- Top-quarter returns remained robust with an overall net pooled return since inception of 30.6%
- Recalibration of valuations impacted the interim short-term performance, with one-year buyout returns moving back into positive territory at 7.2%. This performance was in line with the five- and 10-year returns of around 8%
- The best-performing funds in the short term were the small buyout funds (17.0%)
- Three-year returns moved into negative territory (-3.9%), which showed the impact of the crisis
- Funds with early-1990s and early-2000s vintages achieved the highest returns, suggesting that buyout investments that occur during downturns generate superior performance results
- The performance ranking for sector-specific buyout funds revealed industrial/energy funds at the top of the list (22.3% since inception IRR), followed at a distance by consumer-related funds (15.0%), ICT funds (10.2%) and life sciences funds (8.3%)

1. Introduction

The economic crisis of 2008/09 had an unprecedented impact on private equity activity in Europe, but after two years of hardship, there are growing signs that the outlook for investors is improving. While it may be a number of years before market volumes come close to their 2007 highs, across Europe private equity firms have witnessed a return to some form of stability.

Fundraising, which suffered a peak-to-trough fall during last year, is now experiencing a modest return to growth. Volumes for 2010 across growth capital, buyout and mezzanine funds look set to outstrip the levels achieved in 2009.

The picture for new investments was similar, with €15bn invested during the first six months of the year – nearer 2005 levels than 2007 levels, but nonetheless an improvement on 2009. The number of companies backed by the industry was, however, broadly in line with last year, signifying a marked jump in average deal size.

On the divestment front, the rebound that started in the last quarter of 2009 continued into 2010, with private equity houses completing 418 exits in the first half of the year, representing €7bn divested at cost. Media criticism that 2010 has witnessed a rise in "pass the parcel" secondary buyouts also proved to be unfounded, with just over one in ten portfolio companies sold on to other private equity buyers – broadly in line with 2009 figures and close to half the level seen in 2008.

Overall, long-term industry performance remained strong, with an overall net pooled IRR since inception of 11.9% – slightly down on the level seen at the end of 2008.

Looking forward, the outlook for the asset class remains positive. In the European Union as a whole, GDP growth returned in Q3 2009 and has since been sustained across the board, buoying business sentiment. While concerns remain over the strength of the economic recovery – especially in the light of widespread government cuts – and the threat of punitive legislation continues to cast a shadow, investors can look forward to a better future.

2. Impact of the Economic Environment on Deal Making

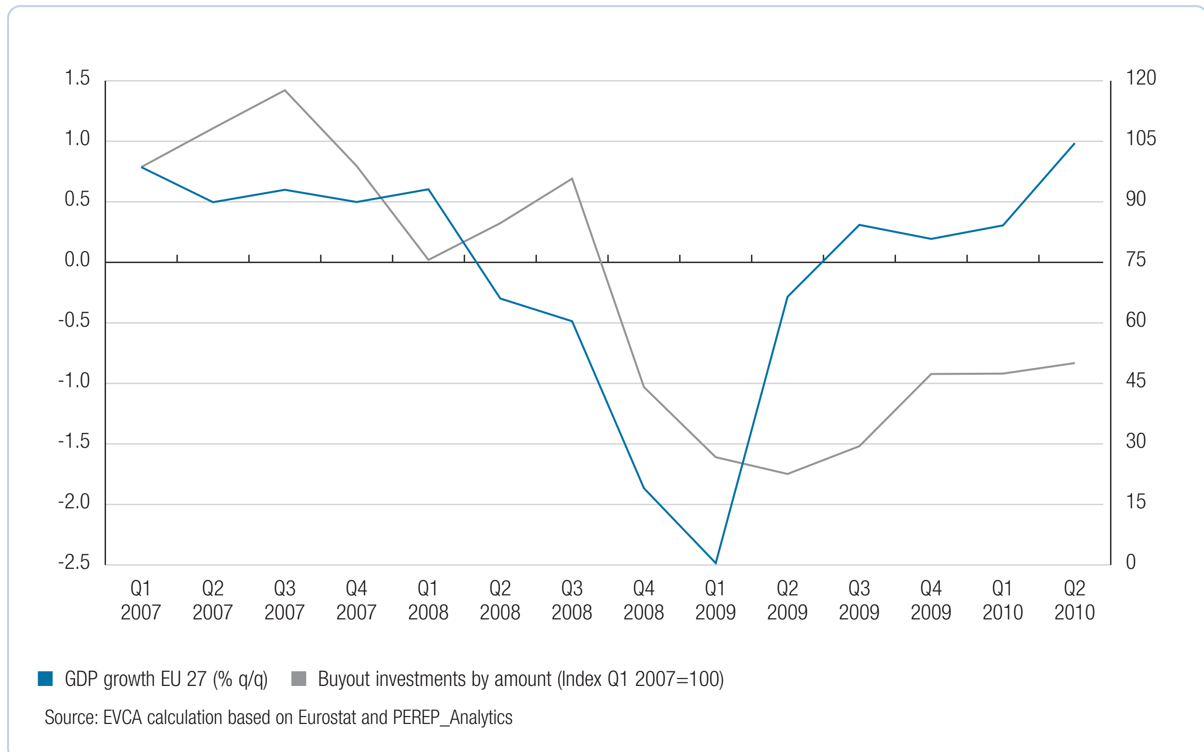
2.1. Overview

After two years of extreme economic turbulence – which had a negative impact on the investment, financial and corporate worlds – the overall economic environment showed signs of improvement in 2010, which brightened the outlook for private equity investors.

After five consecutive quarters of reduced economic activity in the European Union (EU), GDP growth finally came back into positive territory in the third quarter of 2009 (up 0.3% on a quarterly basis). This marked the end of the recession in Europe and the beginning of a slow recovery, which materialised mainly in the second quarter of 2010 with a 1% increase in GDP on the previous quarter. This increase was mainly driven by investments and private consumption, which both contributed 0.3 percentage points to GDP growth.

The upward trend in the real economy – together with a re-opening of the debt market – has had a clear positive impact on European buyout activity since the second half of 2009 [1]. Similar to other investors, buyout firms' investment decisions remained cautious despite them increasing their investment levels. In the second quarter of 2010, buyout investment value went up by 7% on the previous quarter, reaching its highest level since the end of 2008.

Figure 1: EU GDP growth and index of buyout investment activity by amount



Source: EVCA calculation based on Eurostat and PEREP_Analytics

Even though only moderate GDP growth is expected in the second half of the year, the buyout investment market could stabilise further and reach much higher activity levels than in 2009. However, a return to the high investment levels of 2007 and 2008 will probably require a much more robust economic recovery in the medium term.

[1] The buyout segment includes: buyout, growth, rescue/turnaround and replacement capital.

2.2. Debt market

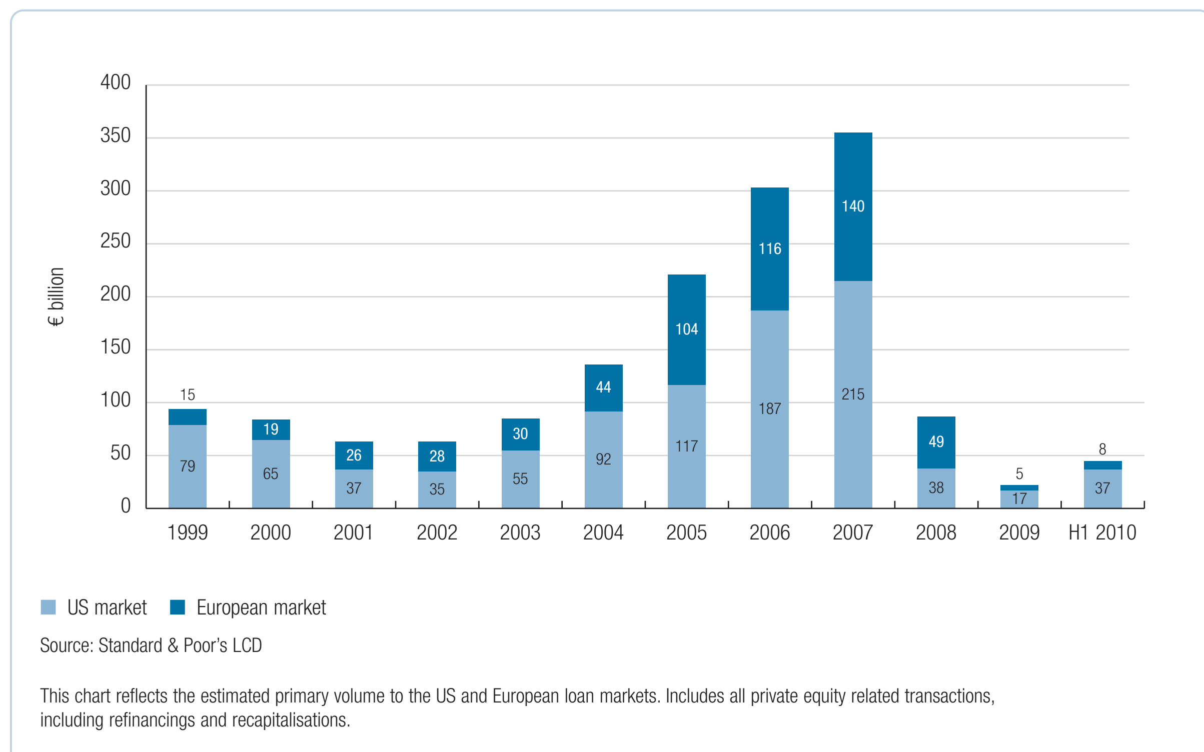
While debt market conditions are still far removed from the environment that characterised the few years leading up to the credit crunch, clear signs of revival began to show towards the end of 2009 and continued into 2010.

2.2.1. Leveraged loan market activity

After several years of uninterrupted growth – fuelled by a combination of factors, including a favourable economic environment, low real interest rates due to monetary policies, increased investment activity and strong competition among financial intermediaries – loan issuance came to a sudden halt in the wake of the credit crisis due to worsening market conditions and the drying up of liquidity. After reaching record levels in the US (€215bn) and Europe (€140bn) in 2007, senior loan volumes for LBO transactions plummeted in 2008 by a staggering 82% in the US (to €38bn) and 65% in Europe (to €49bn). The following year – 2009 – saw another 56% decrease in US loan issuance and a 90% drop in European values. As a result, LBO loan issuance in 2009 – at barely more than €20bn combined for the US and Europe – was significantly lower than the previous trough in 2001.

Despite the pretty low LBO loan activity throughout 2009, signs of recovery in the leveraged loan market started to show towards the end of the year. In Europe, the fourth quarter accounted for half of the total volume of leveraged loans issued in the whole of 2009 (€4.7bn). The rebound continued into the first quarter of 2010 (€4.8bn), setting expectations for a reasonable boost in new issuance levels for the year. However, the still-fragile loan market experienced a more challenging period during the second quarter as it became afflicted by uncertainties over the pace of economic growth and sovereign debt concerns.

Figure 2: Senior loan volume - LBO transactions



Source: Standard & Poor's LCD

This chart reflects the estimated primary volume to the US and European loan markets. Includes all private equity related transactions, including refinancings and recapitalisations.

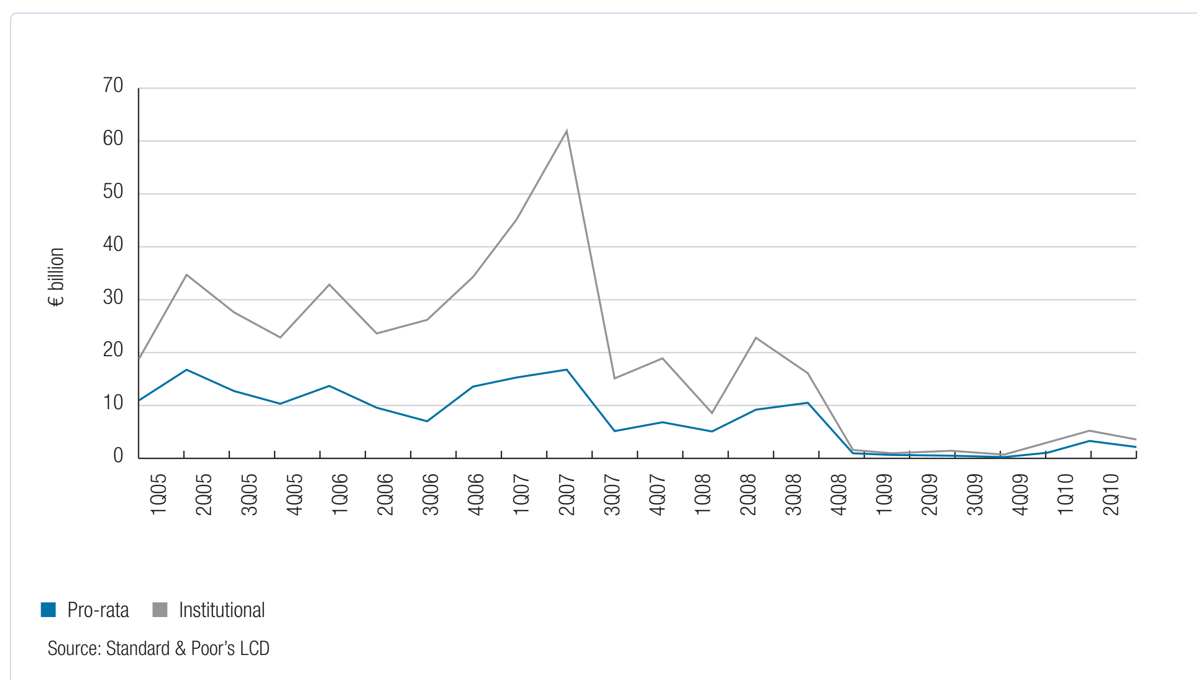
As a result, Q2 2010 European LBO loan volume was down by more than a third on Q1 2010 levels – to €3.1bn – admittedly an increase of 70% on 2009 to almost €8bn. The US market was less affected, however. In the first half of 2010, the total amount of leveraged loans issued in the US was more than twice (€37bn) the full-year 2009.

Despite the generally more positive market tone this year – for example, the combined US and European leveraged loan issuance in the first half of 2010 is about two times the €22 billion issued during the full-year 2009 – it still remains at only half the value it had in 2008 (€87bn) and down almost 90% from the record €355 billion issued in 2007.

As figure 3 shows, the surge in the European leveraged loan market during the period 2005 to 2007 was mainly driven by the segment of loans sold to institutional investors, such as hedge funds, collateralised loan obligations vehicles (CLOs), mutual funds, insurance companies, and pension funds. While in the first quarter of 2005 the share of pro-rata ([2]) loans out of the total loan volume was 56%, this gradually decreased to 45% in Q4 2005, and further down to 27% in Q2 2007. During the first half of 2007 – when a record amount (€107bn) of LBO loans was issued in Europe – institutional investors financed €76bn of these loans, funding more than 70% of the debt, while banks or pro-rata lenders provided the rest.

The onset of the credit crisis, however, reversed this trend, and as of the third quarter of 2007, the share of the pro-rata loans in the total volumes started to rise. With the general decrease in the appetite for risk and the large disappearance of the CLOs, the funding from non-bank lenders – or institutional investors – not only contracted in terms of absolute amounts but their share of the pie also became increasingly smaller. In the first half of 2010, institutional loans reached €3bn or 37% of the total amount, down from an average of 62% during the period Q1 2005 to Q2 2007.

Figure 3: European pro-rata versus institutional LBO activity



Source: Standard & Poor's LCD

([2]) Pro-rata loans are loans made up of revolving credit facility and an amortising term loan. Pro-rata loans are syndicated to banks as opposed to institutional loans, which are term-loan facilities with a portion carved out for non-bank (institutional) investors.

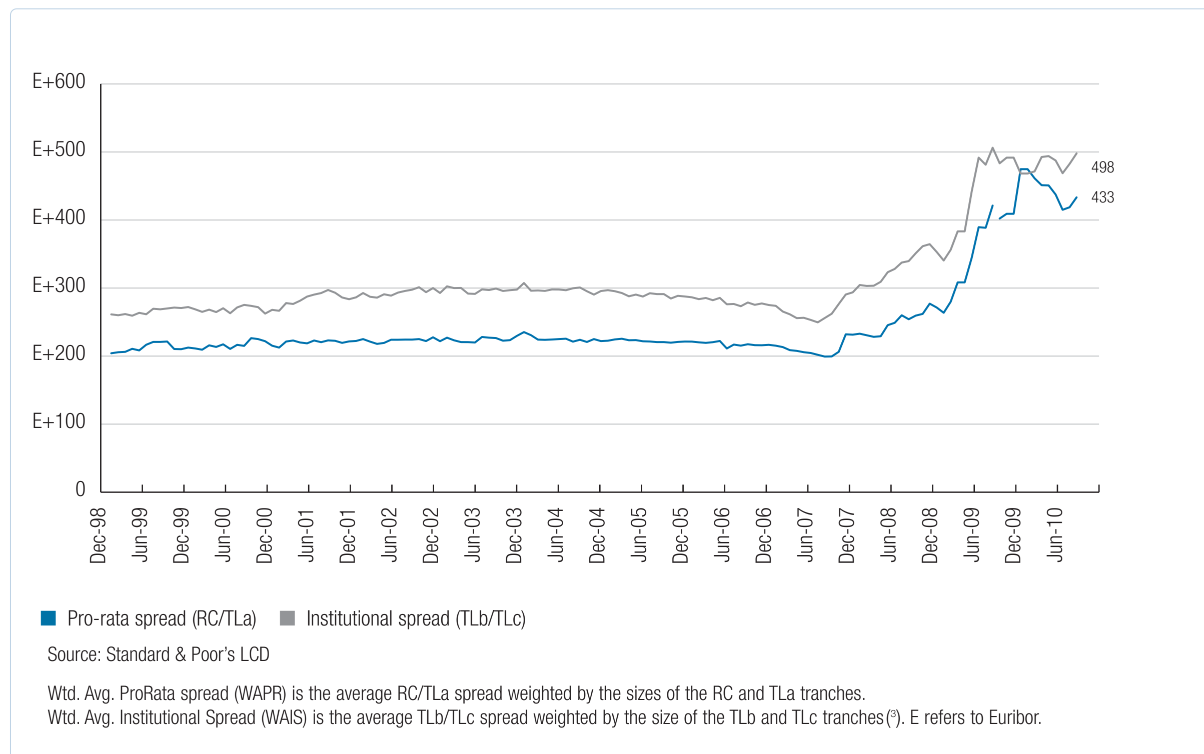
2.2.2. Leveraged loan pricing

During the period 2004 to 2007, robust demand and ample liquidity pushed leveraged loan prices down. The spreads over Euribor decreased from 235 basis points for pro-rata loans and 307 basis points for institutional loans at the end of 2003 to 199 and 256 basis points respectively in July 2007.

However, the financial crisis resulted in a large widening of the average pricing spreads on new leveraged buyout loans. Due to the drying up of general liquidity, the tightening of lending standards and the decreased risk appetite, in August 2007 leveraged loan prices set off on an upward trend. Between July and December 2007, borrowing costs for European pro-rata and institutional loans increased by 17% and 19% respectively to reach 233 and 305 basis points over Euribor. The spreads over Euribor raised again over the course of 2008 (by 13% and 12% year-on-year) and jumped steeply with the worsening of the financial crisis in Europe in the first half of 2009, reaching 421 basis points for pro-rata spreads and topping 500 basis points for institutional spreads in July that year. From then until December 2009, borrowing costs for institutional loans eased slightly but continued to climb for pro-rata loans, bringing the year-on-year percentage change in spreads to the impressive +80% for pro-rata and +38% for institutional loans.

Since the beginning of 2010, pro-rata spreads have decreased a little (by 9%), while institutional spreads have grown by 6%, reaching 433 and 498 basis points respectively in July 2010. This is higher, with a factor of 2.2 and 1.9, than the spread values in July 2007. The general expectations about spreads tightening have therefore not yet materialised, perhaps due to the spill-over effects from the sovereign debt concerns in Europe and the resulting tightening in financial conditions.

Figure 4: Rolling three-month weighted average spreads of all European new-issue LBOs



Source: Standard & Poor's LCD

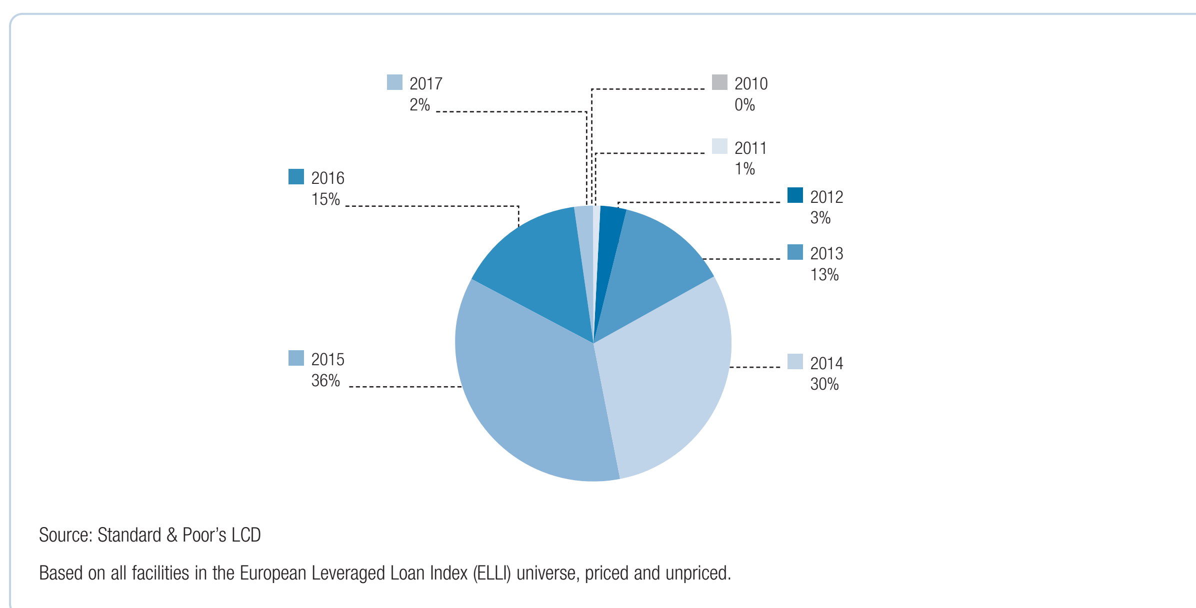
Wtd. Avg. ProRata spread (WAPR) is the average RC/TLa spread weighted by the sizes of the RC and TLa tranches.
Wtd. Avg. Institutional Spread (WAIS) is the average TLb/TLc spread weighted by the size of the TLb and TLc tranches [3]. E refers to Euribor.

[3] An amortising term loan (TLa or A-term loan) is a term loan with a progressive repayment schedule. These loans are normally syndicated to banks along with revolving credits as part of a larger syndication. An institutional term loan (B-term, C-term or D-term loans) is a term loan facility with a portion carved out for non-bank (institutional) investors. These loans are priced higher than amortising term loans because they have longer maturities and bullet repayment schedules.

2.2.3. Maturity schedule of outstanding leveraged loans

About 80% of the European leveraged loans outstanding as of 30 June 2010 were set to mature in the period 2013 to 2015. Of these, 30% will mature in 2014 and 36% will mature in 2015. Another 17% of the outstanding amount is set to mature in 2016 and 2017. The portion of debt due before 2013 is very small (4%), which should allow portfolio companies to wait for the market to settle down before needing to refinance a deal, if necessary.

Figure 5: Maturity schedule by par outstanding as of 30 June 2010



Source: Standard & Poor's LCD

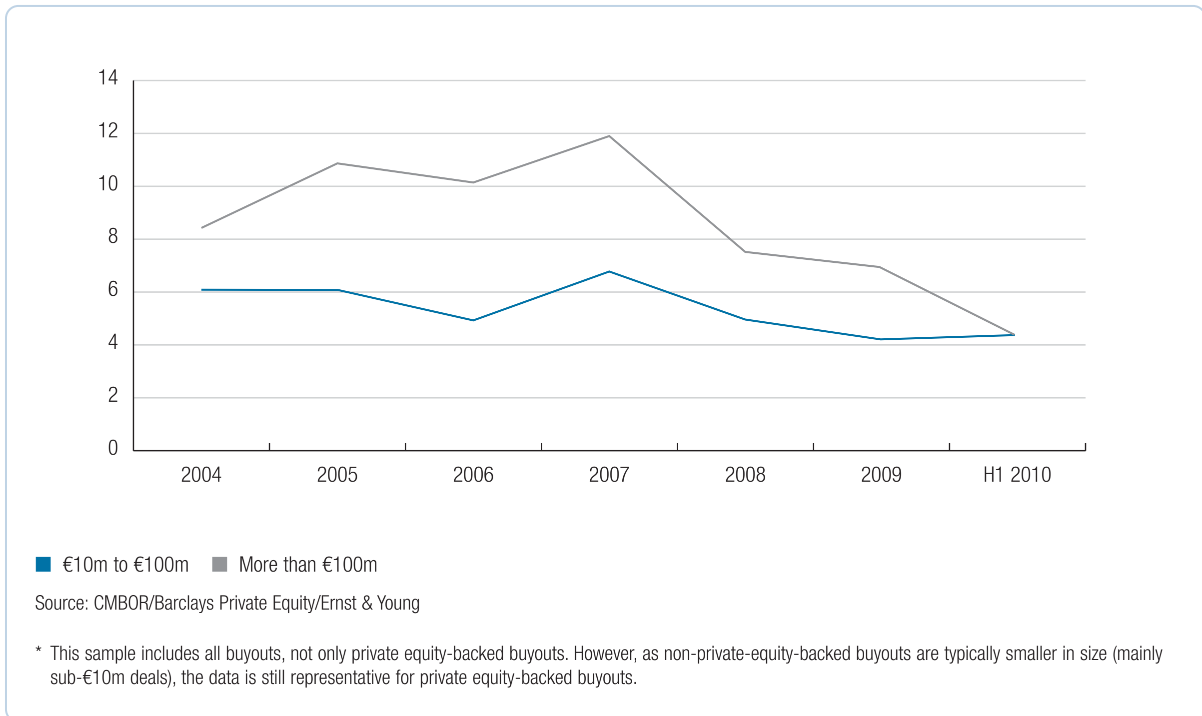
Based on all facilities in the European Leveraged Loan Index (ELLI) universe, priced and unpriced.

2.3. Debt-to-EBIT ratios

In the years preceding the credit crunch, ample liquidity, low interest rates and a healthy business environment drove up debt-to-EBIT ratios, particularly for transactions more than €100m. The average amount of debt as a multiple of EBIT peaked in 2007 – at 11.9 for buyouts more than €100m and 6.7 for deals in the €10m to €100m transaction value range. With the onset of the financial crisis, in 2008 debt-to-EBIT multiples dropped sharply, particularly for deals more than €100m, which saw debt-to-EBIT ratios contract by more than one third. Meanwhile, the respective multiples for deals in the €10m to €100m size bracket decreased by about a quarter. Over the course of 2009, debt-to-EBIT multiples dropped further, but this time it was the €10m to €100m deals that experienced the steepest decline (-18%), while larger transactions fell by only 8%.

During the first half of 2010, debt-to-EBIT multiples for €100m-plus transactions continued to decrease, while sub-€100m deal ratios increased slightly, and converged to 4.4. This trend implies that despite the debt market being more open in 2010 – especially at the higher end where the number of leveraged transactions is set to exceed the 2009 level – lenders still prefer to remain careful, favouring modest leverage ratios.

Figure 6: Debt-to-EBIT ratios for buyouts*



Source: CMBOR/Barclays Private Equity/Ernst & Young

* This sample includes all buyouts, not only private equity-backed buyouts. However, as non-private-equity-backed buyouts are typically smaller in size (mainly sub-€10m deals), the data is still representative for private equity-backed buyouts.

2.4. Deal structures

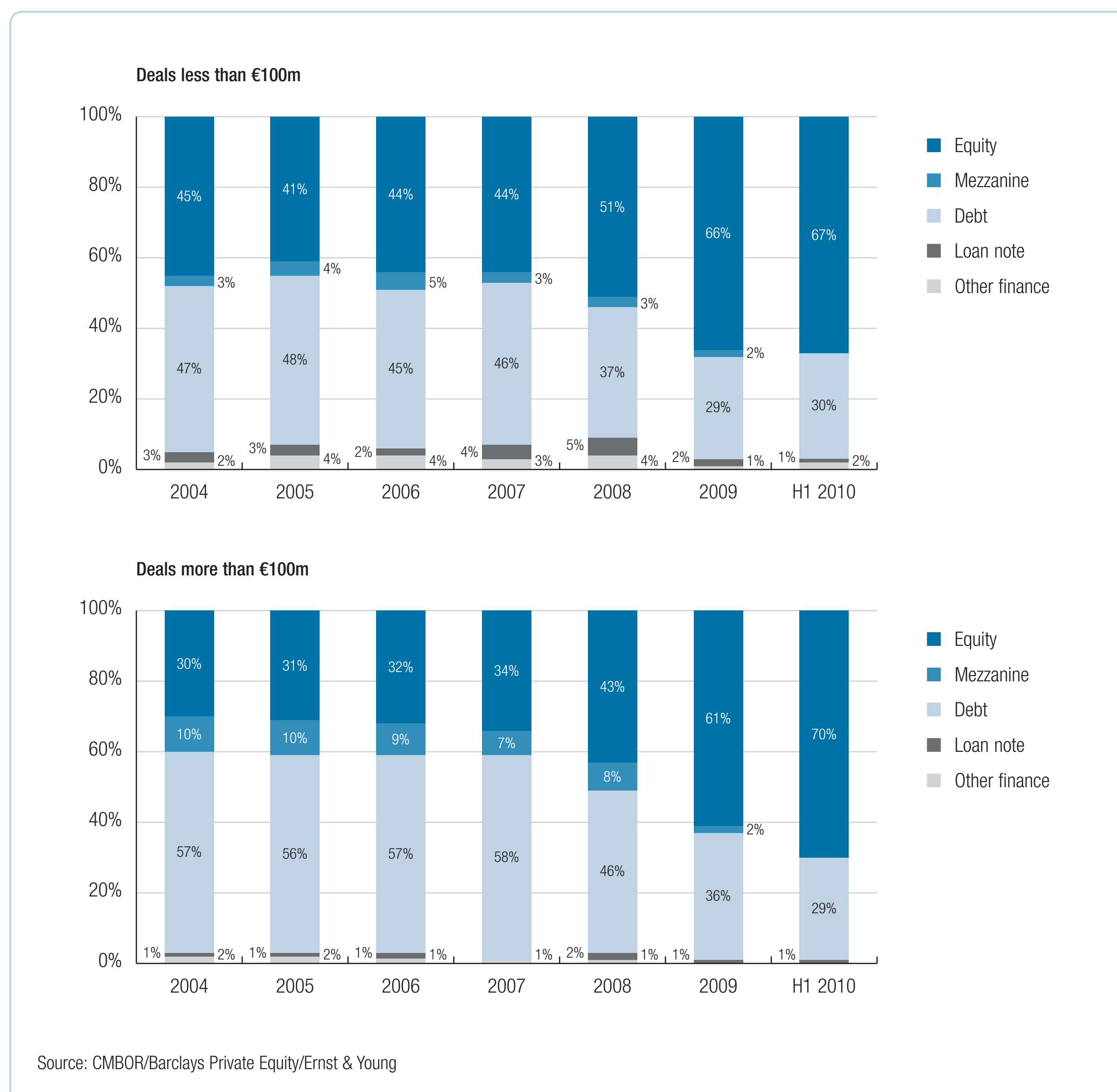
The credit crisis and reduced tolerance for highly leveraged deals brought a change in the structuring of buyout transactions. As of 2008, new buyouts saw a much lower percentage of debt being used to finance the deals; instead, a much higher share of equity was used, while mezzanine financing reduced. As figure 7 shows, the equity element within transactions started to grow in 2008, climbed very steeply in 2009, and increased even further during the first half of 2010.

In the years 2004 to 2007, the average debt level in European private equity-backed buyouts was 57% for transactions more than €100m, and 47% for deals less than €100m. However, with less debt available, in 2008 average debt levels decreased to 46% for deals more than €100m, and 37% for transactions in the sub-€100m range. In 2009, the share of debt in the average deal structure went down further – to 36% for the larger end of the market and 29% for the lower end. At the same time – perhaps surprisingly – 2009 also saw a substantial decline in the use of mezzanine, especially in deals more than €100m, where it was more widely used before. From an average of close to 9% in €100m-plus deals and 3.3% in sub-€100m transactions over the period 2004 to 2008, the average share of mezzanine financing in the deal structures went down to less than 2% in 2009 and almost completely disappeared in the first half of this year. The first two quarters of 2010 also saw the share of debt for €100m-plus deals slide further – to only 29% – therefore falling below the average share of debt in sub-€100m deals, which stood at 30%.

In response, private equity firms adapted to this reduction in debt, mezzanine and loan notes by putting more equity in deal structures and opting for smaller deals, especially at the higher end of the market. For transactions more than €100m, the share of equity jumped from an average of 32% from 2004 to 2007 to almost 70% in the first half of this year. The equity share in sub-€100m deals also increased, although less sharply, from an average of 44% from 2004 to 2007 to 67% in the first two quarters of 2010.

All this indicates that the difference in equity shares between deal sizes (less than and more than €100m) not only decreased in 2008 and 2009 but even reversed direction in 2010. While the equity contribution in deals less than €100m between 2004 and 2007 was on average 12 percentage points higher than in transactions more than €100m, larger deals from the first half of 2010 had an average equity share three percentage points higher than the equity contribution of sub-€100m deals.

Figure 7: Average deal structures for European private equity-backed buyouts



Source: CMBOR/Barclays Private Equity/Ernst & Young

2.5. Deal pricing

In the first half of 2010, perhaps due to increased competition, acquisition multiples in almost all transaction size brackets went up – and even managed to recover most of the value lost during the previous two years. The average price-to-earnings (P/E) ratio for transactions more than €250m almost doubled (17.6) compared to 2009 (8.9), and stood at 95% of its level in 2007 (18.5). The average P/E ratio of deals in the €100m to €250m size range went up by nearly 40% on 2009 to 16.5, the same value as in 2007. Surprisingly, deals in the €50m to €100m range experienced an increase in P/E ratio throughout the crisis, reaching 17.6 in the first half of 2010, up from an average of 12.4 in 2007. P/E ratio for deals in the €25m to €50m size range rose 37% compared to the previous year (to 12.2), and also stood higher compared to 2007 (11.4).

The only transaction size brackets to see deal prices decrease on 2009 were the ones below €25m. P/E ratios for the €10m to €25m size range came to 7.4 in the first half of 2010, down 23% from the average 2007 value (9.6). Transactions in the sub-€10m range recorded an average of 3.9 P/E ratio, just 42% of its level in 2007.

Table 1: Average P/E* ratios for European private equity-backed buyouts

Deal size range	2004	2005	2006	2007	2008	2009	H1 2010
€0m to €10m	6.6	8.0	7.0	9.3	6.2	7.0	3.9
€10m to €25m	9.1	10.3	9.7	9.6	9.6	8.1	7.4
€25m to €50m	11.9	10.5	11.2	11.4	12.0	8.9	12.2
€50m to €100m	12.8	15.3	9.8	12.4	14.8	16.2	17.6
€100m to €250m	14.3	14.5	14.9	16.4	15.7	12.0	16.5
More than €250m	13.4	18.4	18.6	18.5	16.8	8.9	17.6

Source: CMBOR/Barclays Private Equity/Ernst & Young
* P/E ratios here are defined as deal price divided by EBIT

3. Evolution of Buyout Activity 2007 - H1 2010

3.1. Fundraising market [4]

Fundraising has undergone a modest recovery in the first half of 2010 – €8bn has been raised – compared to 2009 when only €11bn was raised throughout the full-year. The share of buyout funds in the total funds raised decreased to 70%, from an average of more than 90% during the period 2007 to 2009 in favour of growth capital and mezzanine funds. At a regional level, the UK & Ireland accounted for the lion's share (58%) of the European fundraising market. Banks continued to be the main source of capital (20%), followed closely by capital markets. Most investors in European funds were located in the UK, followed by France and Australasia (these regions altogether represented 60% of the European fundraising). The US lost its position in the top two regions providing capital to European private equity for the first time, achieving just 10% of the 2010 European commitments.

In the first half of 2010, 21 funds reached final closings, totalling €11.7bn. The average fund size was €558m. Half of the total amount was concentrated in three €1bn-plus funds. By number of funds, the leader was the €500m to €999m size group, with six funds. Most of the funds that closed in 2010 had no sector focus, and three funds specialised in energy & environment, consumer goods and ICT.

3.1.1. Overview

Fundraising in the first half of 2010 – totalling €8bn – already represents 80% of the amount raised in the whole of 2009, setting expectations for an upward trend for the full-year activity. Compared to the first half of 2009, fundraising almost doubled in size yet still remains far below the peak levels reached in each of 2007 and 2008 (88%).

The financial crisis hit the buyout industry hard in 2009. The extremely challenging fundraising environment during that year was reflected in the fact that just €11bn was raised in Europe – a dramatic decrease compared to the previous two years, where around €70bn was raised each year. From the beginning of 2009 until the end of the first half of 2010, only five funds more than €1bn were raised, compared to 15 such funds raised in 2008 and 12 in 2007. Two of the five funds reached final closings in 2009, two funds had intermediary closings in 2009 and reached final closings in the first half of 2010, while the fifth fund was entirely raised in 2010.

The boost in the 2010 fundraising resulted in an increase in growth and mezzanine fundraising, which was up 62% (to €1.5bn) and 75% (to €1.0bn) respectively on full-year 2009 levels. While buyout funds kept the lead in the 2010 fundraising with a share of 70%, they were less dominant than during the previous three years when on average they represented more than 90% of the total. Both growth and mezzanine funds, therefore, increased as a proportion of the total fundraising, to 18% and 12% respectively.

[4] Throughout this report, "total fundraising" refers to funds raised by buyout, growth and mezzanine funds.

Table 2: Funds raised by fund stage focus

Amounts in €m	2007		2008		2009		H1 2010	
Fund stage focus	Amount	%	Amount	%	Amount	%	Amount	%
Growth capital	1,716	2.5	2,912	4.1	916	8.6	1,485	17.7
Buyout	62,543	90.4	66,661	94.5	9,107	86.0	5,890	70.3
Mezzanine	4,895	7.1	979	1.4	571	5.4	999	11.9
Total funds raised	**69,154**	**100.0**	**70,552**	**100.0**	**10,594**	**100.0**	**8,375**	**100.0**

Source: EVCA/PEREP_Analytics

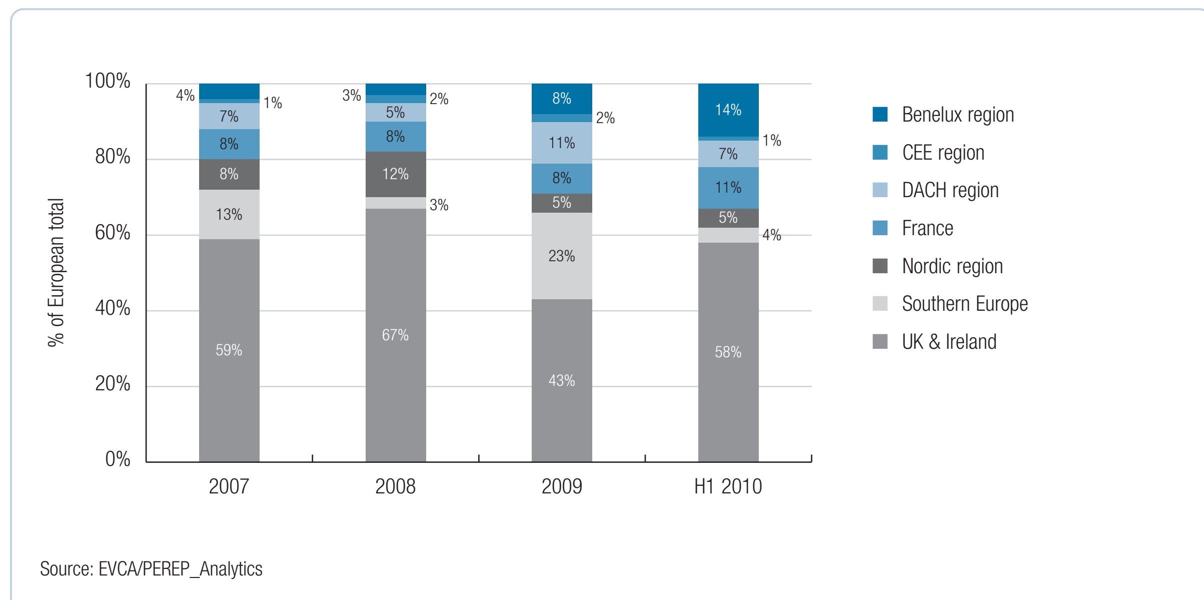
As in previous years, the UK & Ireland accounted for the largest share of the total funds raised in Europe (58%) in the first half of 2010, with 68% of the capital committed going to buyout funds and 26% to growth capital funds.

The Benelux region came second in the first two quarters of 2010, with 14% of the European total, predominantly raising capital for buyout funds. This region had only played a marginal role in the fundraising arena in the previous three years.

The third most active region in terms of European fundraising was France with 11% of the total. Of the amount raised by French private equity houses, 66% was geared for buyout funds, 22% was raised for growth capital, and the rest for mezzanine funds.

Given that fundraising is a cyclical event, it is rare for regions with few large players to come at the top of the rankings. However, this was the case for Benelux in the first half of 2010 (14% of the total), Southern Europe in 2009 (23%) and the Nordic region in 2008 (12%).

Figure 8: Regional fundraising - % of European total (By location of advisory team)



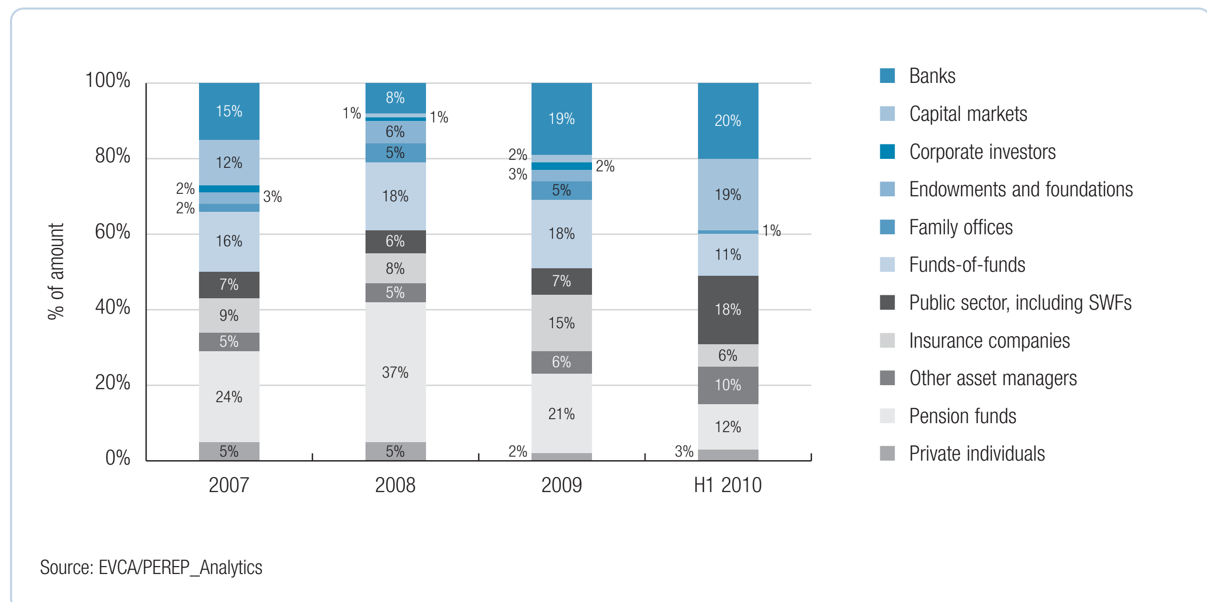
Source: EVCA/PEREP_Analytics

3.1.2. Fundraising by type of investor (5)

Banks continued to be the main source of capital in the first half of 2010 – accounting for 20% of the funds raised, a similar percentage to 2009. Pension funds had previously been the main source of capital for European funds. Capital markets, hardly present as a viable source of capital during the crisis period, came back to rank second in the first half of 2010, supplying 19% of the total amount raised. The public sector, which was at a stable contribution of around 7% in the previous three years, grew to 18% of the 2010 fundraising, driven by commitments of SWFs.

Pension funds ranked fourth in the first half of 2010 – with only 12% – while insurance companies committed just 6% to the total 2010 fundraising. The decline in private equity allocations by traditional investors, such as pension funds, can perhaps be explained by the impact of the 'denominator effect' and the subsequent need to rebalance the asset allocation.

Figure 9: Funds raised by type of investor



Source: EVCA/PEREP_Analytics

At a regional level, data for the first half of 2010 showed that the capital market was the main source of funds for the UK & Ireland. Despite it being the only region to raise capital from this source, it still boosted the overall presence of capital markets in European fundraising to 19%. Funds-of-funds, meanwhile, lost ground, shifting one place from second place in 2009 to third place in the 2010 investor base ranking.

For Benelux – the second most important region in 2010 – the main contributors to the total fundraising were other asset managers, followed by pension funds. With regards to French funds, most of the investors were banks, followed at a distance by funds-of-funds and the public sector. Banks were also the DACH region's primary source of capital.

(5) Percentages are calculated on the funds raised for which the source was known.

3.1.3. Geographic sources of fundraising [6]

Historically, four regions have proved to be the main suppliers of capital for European fundraising – two from outside Europe (the US and Australasia) and two from within Europe (the UK and France). In the first half of 2010, most investors in European funds were located in the UK, followed by France and Australasia. These three regions accounted for nearly 60% of fundraising in the first half of the year.

Two trends in particular emerged from the fundraising picture in H1 2010: for the first time the US lost its position in the top two regions providing capital to European private equity, achieving just 10% of the total fundraising (in 2007, it ranked first, providing 21%); and Belgium appeared in the top five ranking by limited partners' location. The latter was due to the region's higher fundraising, which came predominantly from local sources – mainly other asset managers. However, Belgium is not a typical lead provider of capital. Altogether, preliminary figures for the first half of 2010 showed that, like in 2009, the contribution of international investors to European fundraising (28%) was much lower compared to 2007 (34%) and 2008 (52%).

Table 3: Ranking of top limited partners by location per European fundraising year

Ranking	2007	2008	2009	H1 2010
1	USA	USA	United Kingdom	United Kingdom
2	United Kingdom	United Kingdom	USA	France
3	Greece	Australasia	France	Australasia
4	Australasia	Canada	Italy	USA
5	Germany	France	Germany	Belgium

Source: EVCA/PEREP_Analytics

3.1.4. Final fund closings

A total of 227 funds reached final closings from 2007 to the end of the first half of 2010, raising a total of €148bn. Buyout funds represented almost 80% of the total number of funds (176) that reached final closings, while the average fund size was €765m. The 28 growth funds and 23 mezzanine funds that reached final closings during this period raised a total of about €13bn.

In the first half of 2010, 21 funds reached final closings, raising a total of €11.7bn. The total capital raised represented €1.5bn more than the amount raised during the whole of 2009. By number, however, it lagged behind by five funds on the full-year 2009 level. Mezzanine and growth funds registered an increase in the average fund size in 2010, while the average size of buyout funds remained the same as in 2009. The overall average fund size in 2010 (€558m) was not far behind the 2007 level of €626m, yet the number of final closings represented just 20% of the full-year 2007 figure.

[6] Percentages are calculated on the funds raised for which the source was known.

3. Evolution of Buyout Activity 2007 - H1 2010

Table 4: Funds closed by stage focus (Cumulative amount raised at final closings)

Amounts in €m	2007			2008			2009			H1 2010		
Fund stage focus	Amount	Number of funds	Average fund size	Amount	Number of funds	Average fund size	Amount	Number of funds	Average fund size	Amount	Number of funds	Average fund size
Growth	1,296	9	144	2,452	10	245	648	7	93	1,248	2	624
Buyout	57,191	80	715	59,551	66	902	9,001	15	600	8,917	15	594
Mezzanine	4,702	12	392	508	3	169	540	4	135	1,546	4	387
Independent funds raised	**63,188**	**101**	**626**	**62,511**	**79**	**791**	**10,190**	**26**	**392**	**11,711**	**21**	**558**

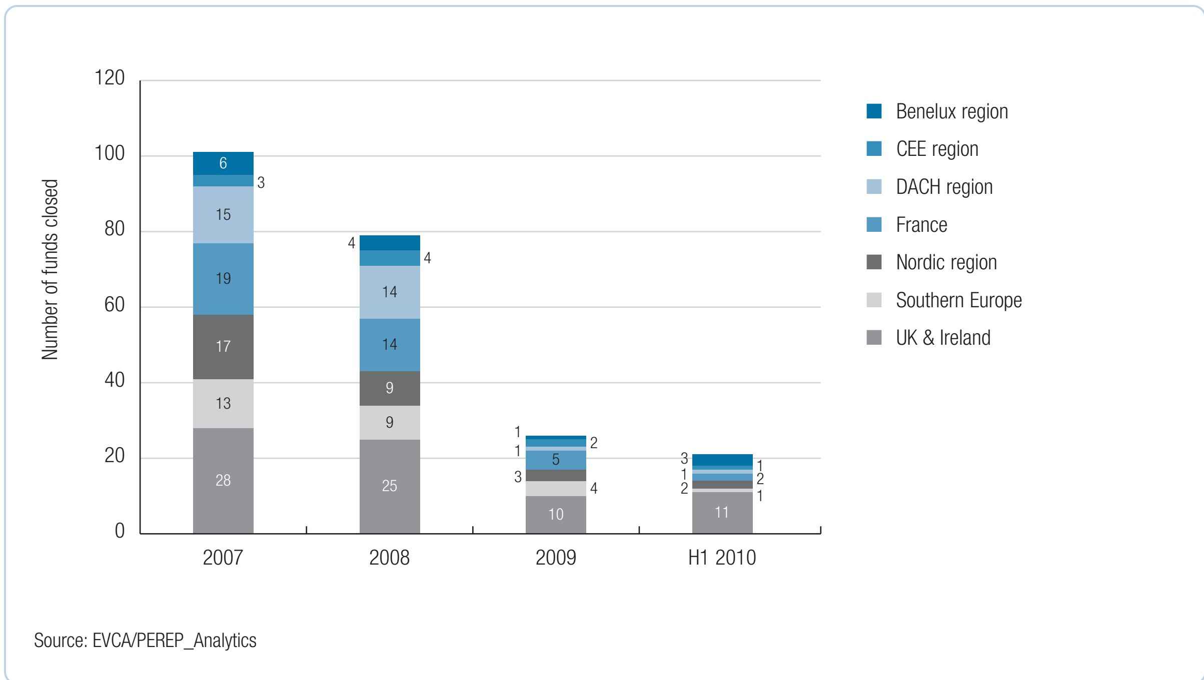
Source: EVCA/PEREP_Analytics

Half the funds that reached final closings in the first half of 2010 were managed from the UK & Ireland; they accounted for close to 70% of the total amount raised in Europe. The Benelux came next with three funds and 14% of the total amount raised at final closing, followed by France and the Nordic region with two funds each, a modest number compared to the achievements of these regions in 2007 and 2008. For a second year in a row, the DACH region recorded only one final closing. Except for the Benelux and the UK & Ireland regions – which both registered an increase on 2009 in the number of final fund closings – all other regions recorded a decreasing number of final closings since 2007.

Most funds that reached final closings in the first half of 2010 (6 funds) fell into the €500m to €999m size range, with an average size of €641m. The second place was taken by the €50m to €149m size range, with 5 funds. Only three mega funds achieved a final closing in H1 2010, yet these still represented half the amount raised during the period. All three funds were based in the UK, two of which were buyout funds and one was a growth capital fund.

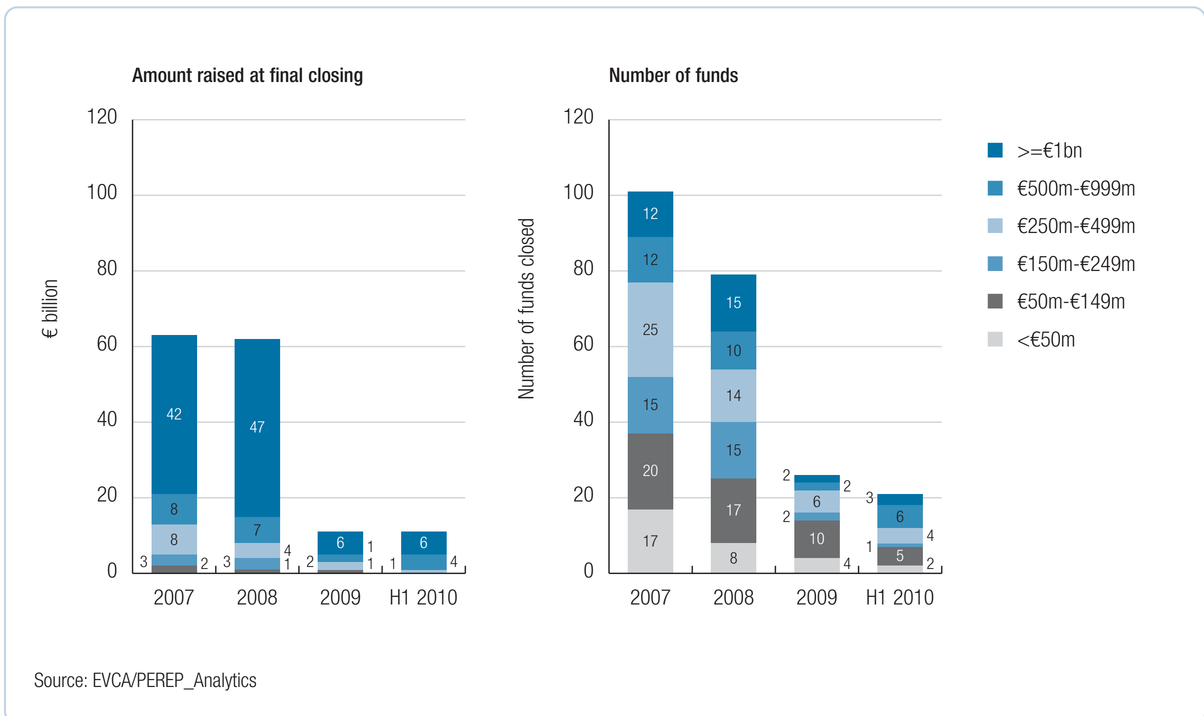
The profile of funds that reached final closings in 2009 and H1 2010 was very similar, with a slightly lower concentration in the first half of 2010 of funds in the €50m to €149m space, and a shift away from €250m to €499m funds into those of the €500m to €999m range.

Figure 10: Final fund closings by region



Source: EVCA/PEREP_Analytics

Figure 11: Final closings by fund size range



Source: EVCA/PEREP_Analytics

**Table 5: Funds closed by sector focus
(Cumulative amount raised at final closings)**

Amounts in €m	2007			2008			2009			H1 2010		
Fund sector focus	Amount	Number of funds	Average fund size	Amount	Number of funds	Average fund size	Amount	Number of funds	Average fund size	Amount	Number of funds	Average fund size
Agriculture, chemicals and materials	104	2	52	0	0	0	0	0	0	0	0	0
Business and industrial products and services	1,737	5	347	116	2	58	0	0	0	0	0	0
Consumer products, services and retail	2,528	4	632	50	1	50	98	1	98	101	1	101
Energy and environment	200	1	200	546	1	546	0	0	0	315	1	315
Financial services	0	0	0	116	1	116	575	1	575	0	0	0
ICT	648	2	324	114	2	57	100	1	100	56	1	56
Life sciences	0	0	0	1,000	1	1,000	0	0	0	0	0	0
Generalist	57,972	87	666	60,570	71	853	9,416	23	409	11,239	18	624
Independent funds raised	**63,188**	**101**	**626**	**62,511**	**79**	**791**	**10,190**	**26**	**392**	**11,711**	**21**	**558**

Source: EVCA/PEREP_Analytics

Of the 227 funds that reached final closings throughout 2007-H1 2010, most funds (199) had no specific sector focus.

Of the three funds with a sector focus in H1 2010, two were buyout funds (one focused on energy & environment and one on consumer goods), while the third was a growth capital fund that focused on ICT.

The average fund size was generally higher for generalist funds than for sector-specific funds.

3.2. Investments

3.2.1. Overview

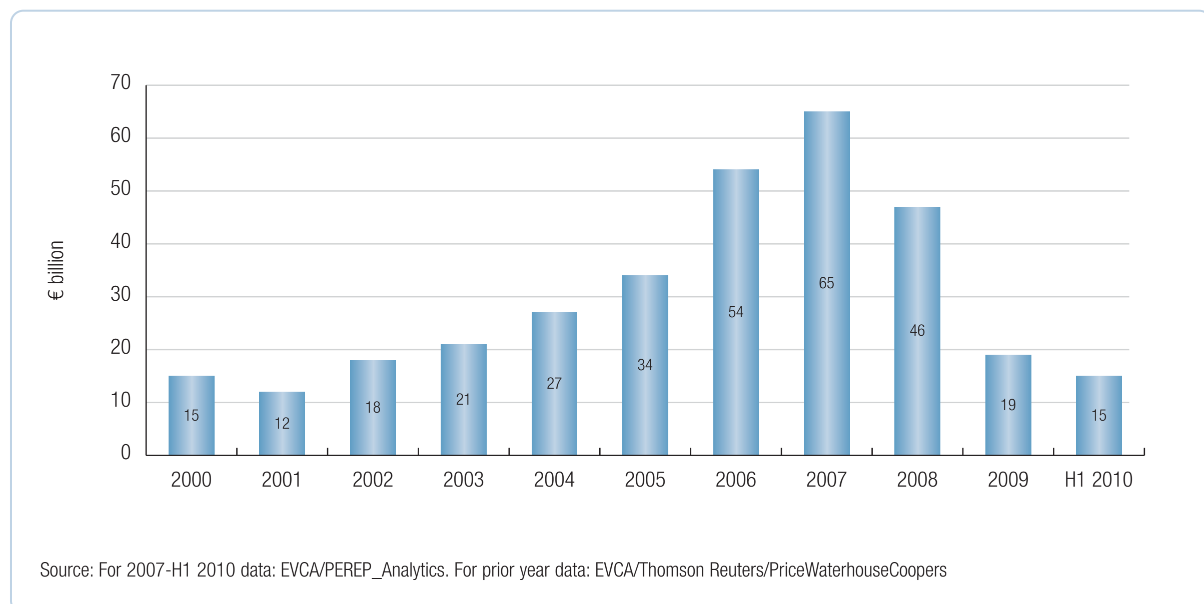
Industry statistics – by location of private equity firm

European private equity investment registered a modest growth in the first half of 2010 – €15bn was invested – following the lows of the recession in 2009 (when a total of €19bn was invested, a mere 30% of the 2007 buyout peak). Overall, European private equity firms invested €148bn over the period 2007-H1 2010 in 6,140 companies[7] regardless of their location. Over the full period, the average equity investment per company was €24m.

With €15bn already invested in the first half of 2010 – and a slightly more positive macroeconomic outlook – the 2010 buyout activity has the chance to come close to 2005 values, therefore returning to pre-boom levels.

The financial crisis and worsening economic environment clearly took their toll in terms of reduced investment levels in the buyout market in 2008 and 2009. The slowdown of investment was most severe in 2009, as the total investments came to €19bn – about 30% of the buyout peak in 2007.

Figure 12: Investments by European private equity firms - evolution



Source: For 2007-H1 2010 data: EVCA/PEREP_Analytics. For prior year data: EVCA/Thomson Reuters/PriceWaterhouseCoopers

The average equity investment per company decreased from €37m in 2007 to €12m in 2009 yet it managed to recuperate half of its lost value in the first half of 2010 (€19m). The investment activity in terms of number of companies financed resisted the economic conditions better. The number of companies financed in 2009 (1,627) was just short of the 2007 figure (1,784). Using the first half of the year as a proxy, 2010 stands the chance to equal the 2009 number of companies but at higher deal sizes.

[7] Unless noted otherwise, throughout this paper “total amount invested” refers to investments (leverage excluded) in buyout, growth, rescue/turnaround and replacement capital.

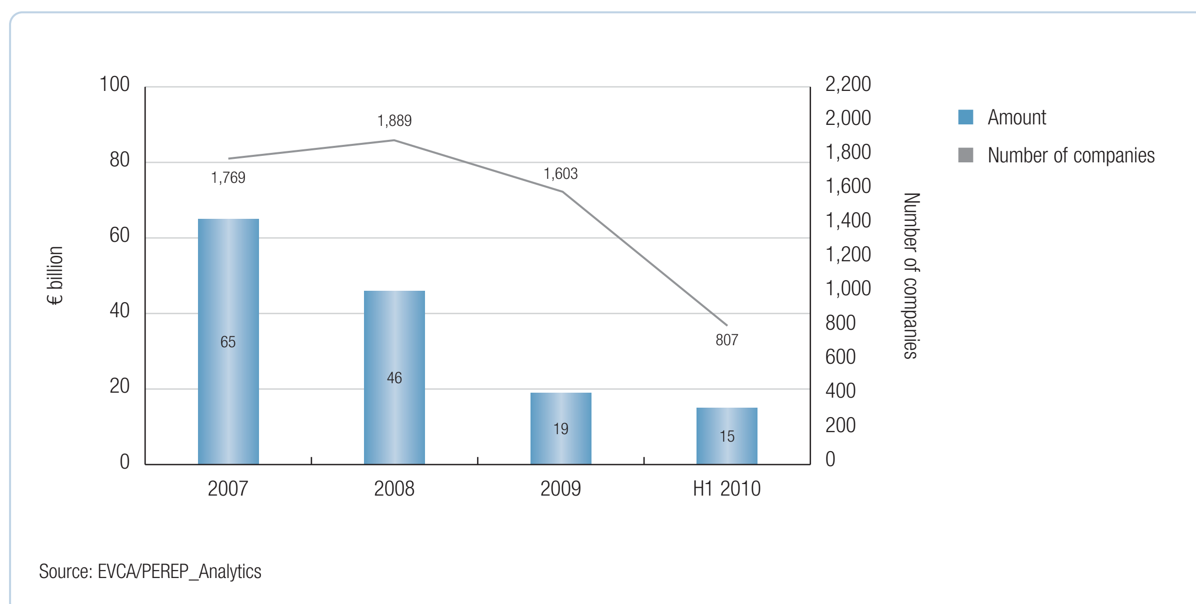
3. Evolution of Buyout Activity 2007 - H1 2010

Market statistics – by location of portfolio company

In line with the trend already noted in the industry statistics, investment in European companies recovered slightly in the first half of 2010, with €15bn invested in 807 companies (compared to the €19bn invested in 1,603 companies in the full-year of 2009). Throughout 2007-H1 2010, a total of €146bn was invested in more than 6,000 European companies. In the first half of 2010, as in 2009, most of the companies received growth capital while buyouts were the dominant deal type during 2007 and 2008. In the buyout market, the activity at the smaller end was more sustained in 2010 compared to 2007 (79% of the companies in 2010 versus 62% in 2007). At the opposite end of the market, there were only three mega deals in the first half of 2010, compared to 53 in 2007. In H1 2010, secondary buyouts were the largest source of buyout deals by amount (49%) while family & private owners ranked first by number of companies. Consumer goods & retail was the most active sector in 2010.

The first half of 2010 saw €15bn invested in 807 European companies, with an average amount invested per company of €19m. Compared to the same period in 2009, the total amount invested doubled – driven entirely by an increase in the average deal size. The number of companies financed remained relatively constant with the first half of 2009. If the second half of 2010 progresses at the same pace, it would surpass the trough of 2009 by almost 60% by amount with the same level of number of companies financed. The levelling off of the number of companies financed will not be a surprise, however, given that it has been altogether a more resilient variable to the recession as deal sizes took the biggest hit.

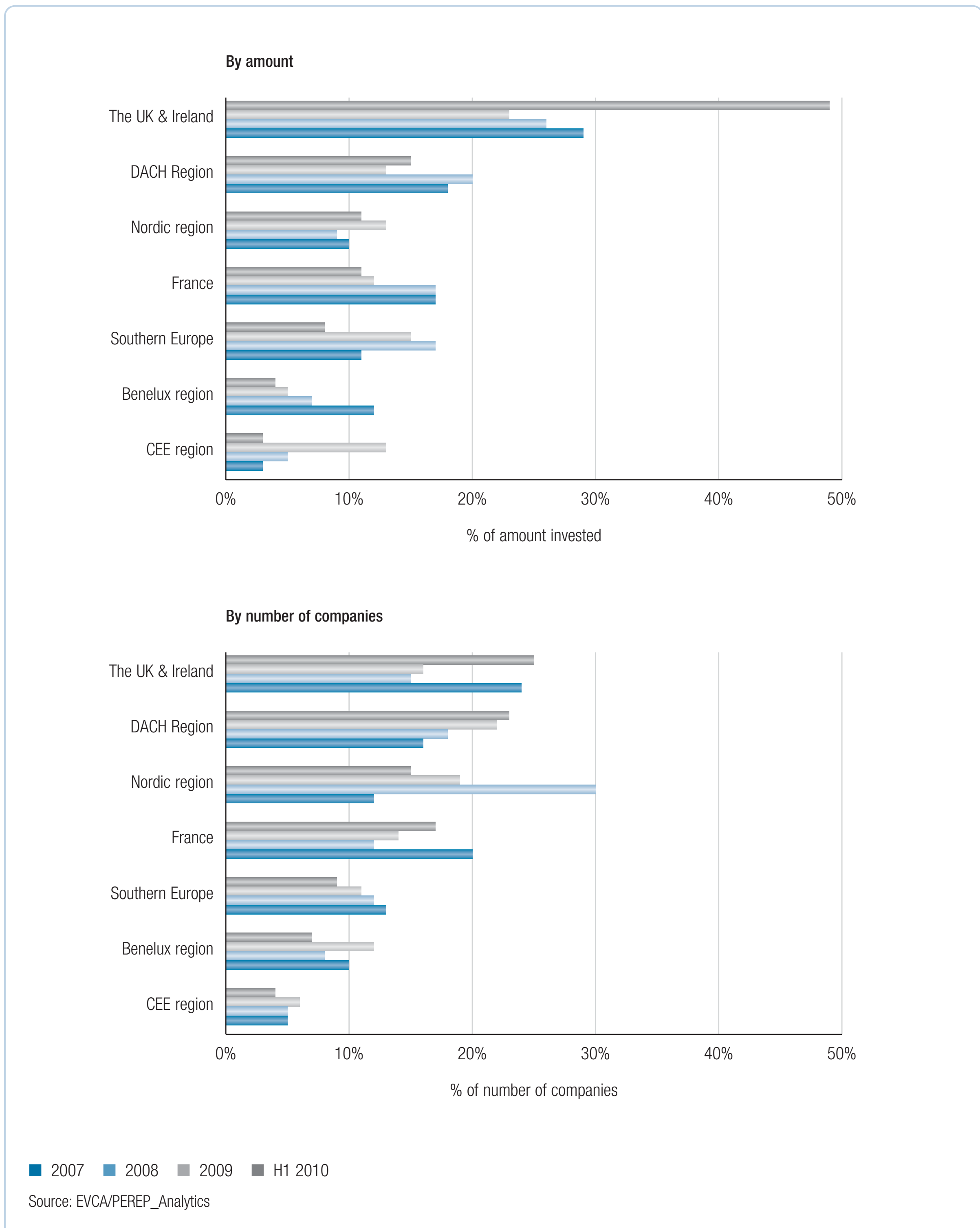
Figure 13: Investments into European portfolio companies - evolution



When assessing the distribution of investments across regions, one feature stands out: while the activity in terms of companies financed is more evenly distributed across the main four markets – the UK & Ireland, the DACH region, France and the Nordic region, altogether representing 80% of the deal volume – the UK & Ireland dominated the European activity by amount invested. In the first half of 2010, the UK & Ireland hosted €7bn (or 49%) of the total investment, a staggering percentage increase, compared to the 27% average in the European activity in the last three years.

The three remainder regions – Southern Europe, Benelux, and the CEE region – kept almost the same positions across the years, with CEE activity back to 3% by amount after the spike of 13% in 2009.

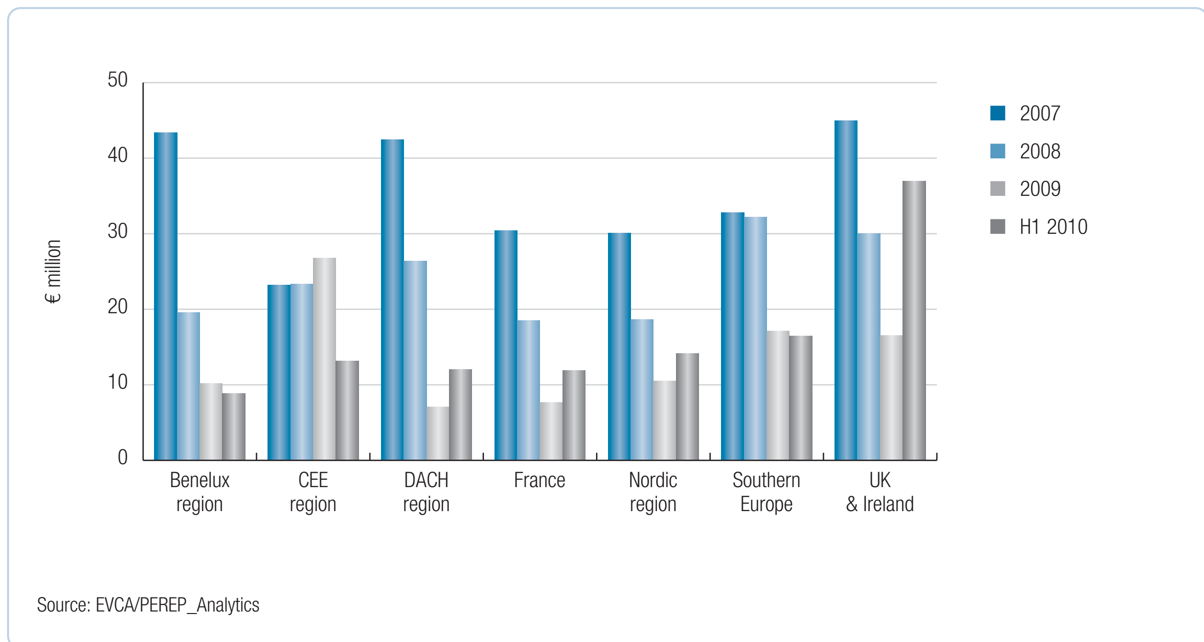
Figure 14: Investments by region



Source: EVCA/PEREP_Analytics

When looking at the evolution of the average investment per company, trends differ between the UK & Ireland and the rest of the regions. The UK & Ireland – statistically the most active investment region – seemed more resilient in terms of deal sizes, and recovered from the 2009 dip to reach €37m in the first half of 2010, close to the 2007 average deal size. With the exception of the CEE region, most of the remaining European regions registered modest recoveries in 2010, while the Benelux and Southern Europe had almost constant deal sizes compared to 2009.

Figure 15: Average investment size per company by region



Source: EVCA/PEREP_Analytics

3.2.2. Cross-border investments

In the first half of 2010, €11.6bn (77% of the total) originated from domestic private equity firms, which indicates that proximity to targets matters. This factor even seemed to increase in importance during the crisis, as investors stayed closer to home – the weight of domiciled investments was higher by 10 percentage points in the first half of 2010 compared to 2007. This higher concentration of local investments occurred mainly to the detriment of capital flows from other European countries (€2.9bn or 20% of the total in 2010), which lost eight percentage points of its 2009 weight. The capital coming from outside Europe was 3% in H1 2010, compared to a range of 2% to 5% during 2007 and 2009.

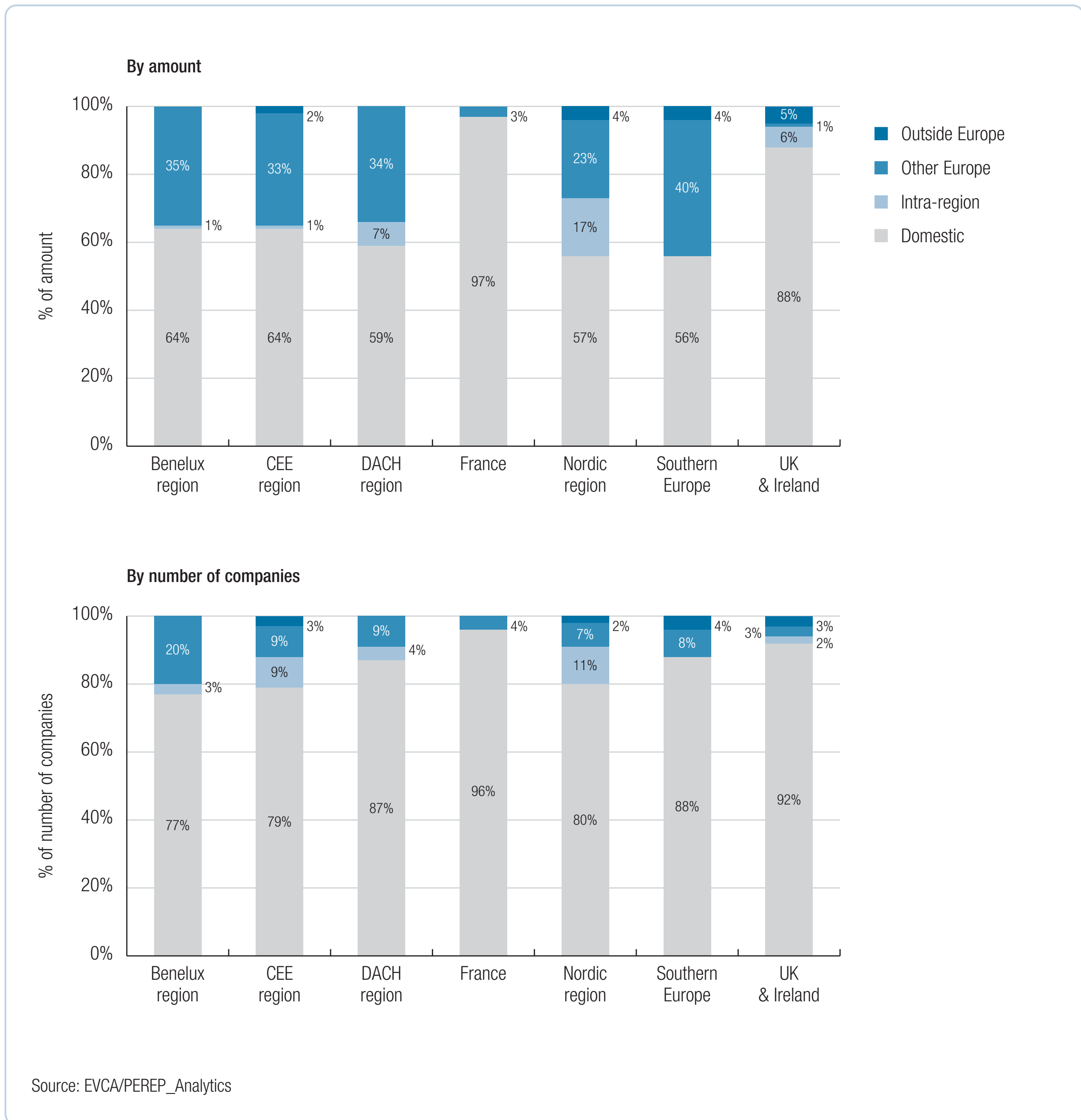
In the first half of 2010, France was the most domestic market. Local private equity firms' investments in the country accounted for 97% of the investment value and 96% of the companies invested. It was followed closely by the UK & Ireland, where local private equity firms represented about 90% of the investment value and companies invested. Southern Europe and the Nordic and DACH regions, meanwhile, were the most open markets in value, with more than 40% of investment in the regions coming from non-domestic investors. The Nordic region recorded the highest level of intra-regional investment, with 17% of the total. By number of companies invested, however, the Benelux was the most open market with nearly 25% of total investments made by non-local investors.

Table 6: Investments by geographic origin

Amounts in €m	2007		2008		2009		H1 2010	
Geographic origin	Amount	Number of companies	Amount	Number of companies	Amount	Number of companies	Amount	Number of companies
Domestic	42,885	1,509	33,840	1,598	13,148	1,380	11,647	719
Intra-European	19,112	281	10,965	310	5,286	238	2,940	85
Outside Europe	3,403	42	1,385	33	434	18	475	11
Total investment	**65,400**	**1,769**	**46,191**	**1,889**	**18,869**	**1,603**	**15,062**	**807**

Source: EVCA/PEREP_Analytics

Figure 16: Regional cross-border flows for H1 2010



Source: EVCA/PEREP_Analytics

3.2.3. Most active players

Table 7 shows the most active private equity players in the mid-market and large buyout segments, ranked by number of companies financed during the period 2007-2009. The top players in the mid-market space were 3i Group, Barclays Private Equity, Intermediate Capital Group, European Capital Financial Services and Lloyds TSB Development Capital, each with at least 20 companies financed. In the higher-end space, the most active firms were CVC Capital Partners, Apax Partners Worldwide and Cinven, each with more than 10 companies financed during the three-year period.

It is worth mentioning that two players made it into the top 10 ranking in both segments of the market: Apax Partners Worldwide and EQT Partners. Additionally, Permira Advisers, Advent International and Candover Investments, which all appeared in the top-ten ranking for the higher-end space, were quite active in the mid-market space as well, appearing in the list of 20 most active players in the segment.

Table 7: Most active players in Europe - 2007-2009 ranking [8]

Mid-market space (€15m to €150m)		Higher-end space (>€150m)	
Private equity firm		Private equity firm	
1	3i Group	1	CVC Capital Partners
2	Barclays Private Equity	2	Apax Partners Worldwide
3	Intermediate Capital Group	3	Cinven
4	European Capital Financial Services	4	Permira Advisers
5	Lloyds TSB Development Capital	5	Charterhouse Capital Partners
6	AXA Private Equity	6	Bridgepoint
7	Apax Partners Worldwide	7	Kohlberg Kravis Roberts & Co.
8	EQT Partners	8	EQT Partners
9	IK Investment Partners	9	Candover Investments
10	HgCapital	10	Advent International

Source: EVCA/PEREP_Analytics

3.2.4. Stages of financing

During the period 2007-H1 2010, overall investment activity totalled €146bn in 6,068 companies. Most of this amount was due to buyouts (81%), followed by growth capital deals (13%). Replacement capital and rescue/turnaround together represented 6% of the amount invested. Growth capital, replacement capital and turnaround accounted for a higher share of the total investment by number of companies financed than by amount. The number of businesses attracting growth capital was 2,094 (34%), compared to 3,256 (52%) buyouts. Companies subject to replacement capital and rescue/turnaround transactions came to 866, 14% of the total.

[8] For private equity firms on the same ranking based on number of companies financed, the second criteria used to differentiate them was the total amount they invested in those companies during 2007-2009. Both initial and follow-on investments into a company in this period are taken into account.

3. Evolution of Buyout Activity 2007 - H1 2010

When looking at the weights of the various investment stages during the first half of 2010, buyout activity seemed to erode in the face of the growth capital advantage. The total amount invested in buyouts (€10.9bn) in H1 2010 represented 72% of the total amount invested, compared to 89% in 2007. Growth capital (€2.5bn), meanwhile, represented 17% of the total in 2010 compared to just 8% in 2007. However, 2010 data has already shown that some momentum has been regained by buyouts after the 2009 nadir (when buyouts reached a low 63% of total investment value). When looking at the number of companies financed in the first half of 2010, the number of companies benefiting from growth capital (413) already superseded the full-year 2007 levels (352) by 17%, while the number of businesses subject to buyout (289) was 23% of the 2007 number (1,260). This number of companies moving away from buyouts and toward growth capital was steady across the years, including 2009.

Replacement capital stayed almost constant in the yearly activity by number of companies financed, but gained some momentum in 2010 to represent 9% (€1.4bn) of the invested amount. This was entirely driven by an increase in the average amount invested from €13m in 2007 to €23m in the first half of 2010.

Table 8: Investments by financing stage

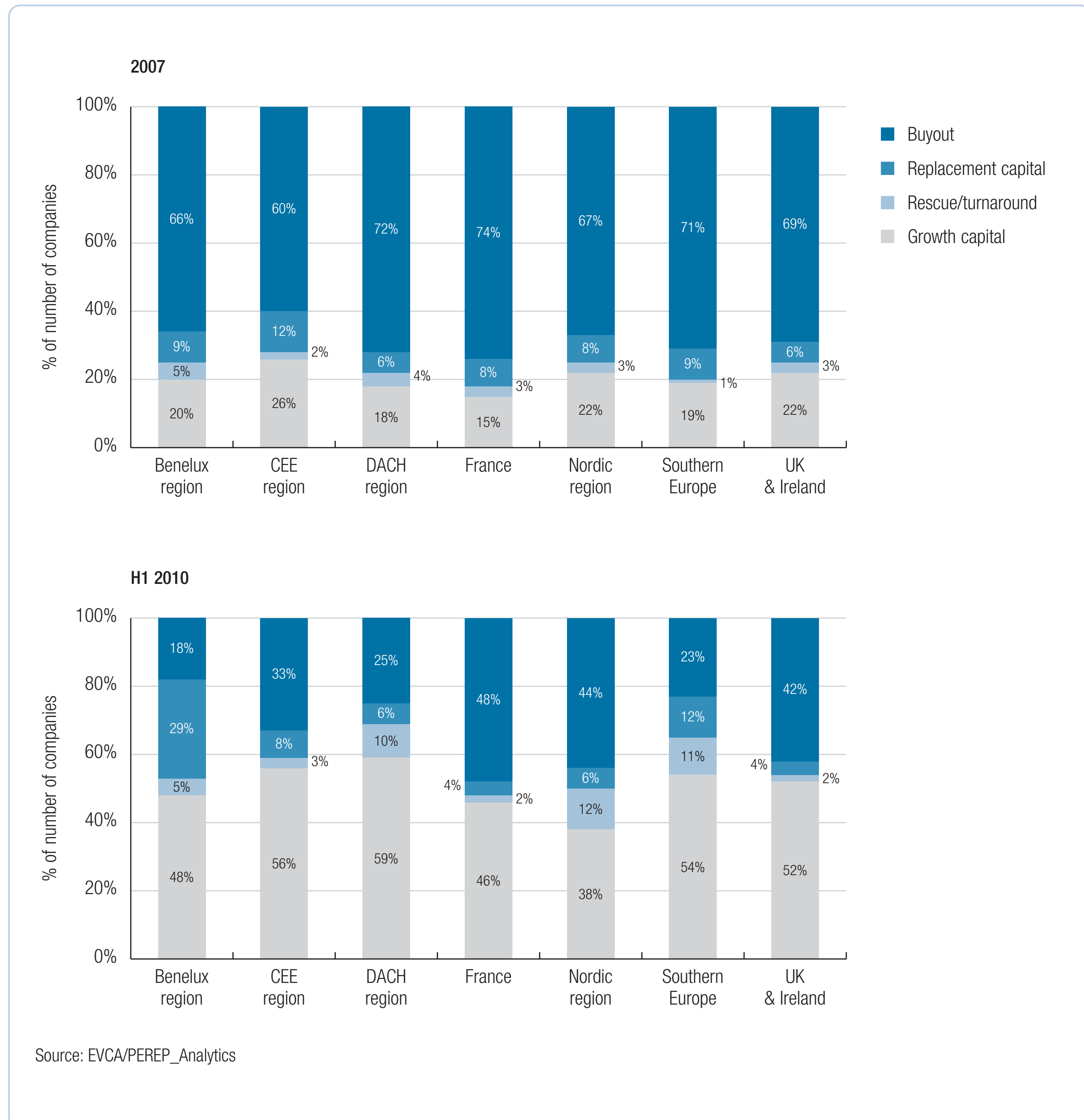
Amounts in €m	2007		2008		2009		H1 2010	
Investment stage	Amount	Number of companies	Amount	Number of companies	Amount	Number of companies	Amount	Number of companies
Growth	5,082	352	7,397	578	4,494	751	2,483	413
Rescue/turnaround	452	54	329	71	683	146	293	52
Replacement capital	1,739	139	1,521	175	1,775	167	1,406	62
Buyout	58,128	1,260	36,944	1,118	11,917	589	10,881	289
Total investment	**65,400**	**1,769**	**46,191**	**1,889**	**18,869**	**1,603**	**15,062**	**807**

Source: EVCA/PEREP_Analytics

In most regions, the lion's share of the investment volume in the first half of 2010 went to growth capital, which accounted for 51% of the total number of companies financed at European level. The DACH region had the highest concentration of growth deals (59%). France was the only country to see buyouts take almost 50% of the deal making tally, while at the opposite end of the spectrum buyouts had the weakest presence in the Benelux, where they stood at only 18% compared to a European average of 35%.

This is a totally different story from 2007, when all markets were dominated by buyouts (growth capital had its highest presence in the CEE region at only 26%). Incidentally, France, which had the highest buyout deal share in the first half of 2010, also recorded the highest share of buyouts in 2007 (74%).

Figure 17: Investments by region and stage

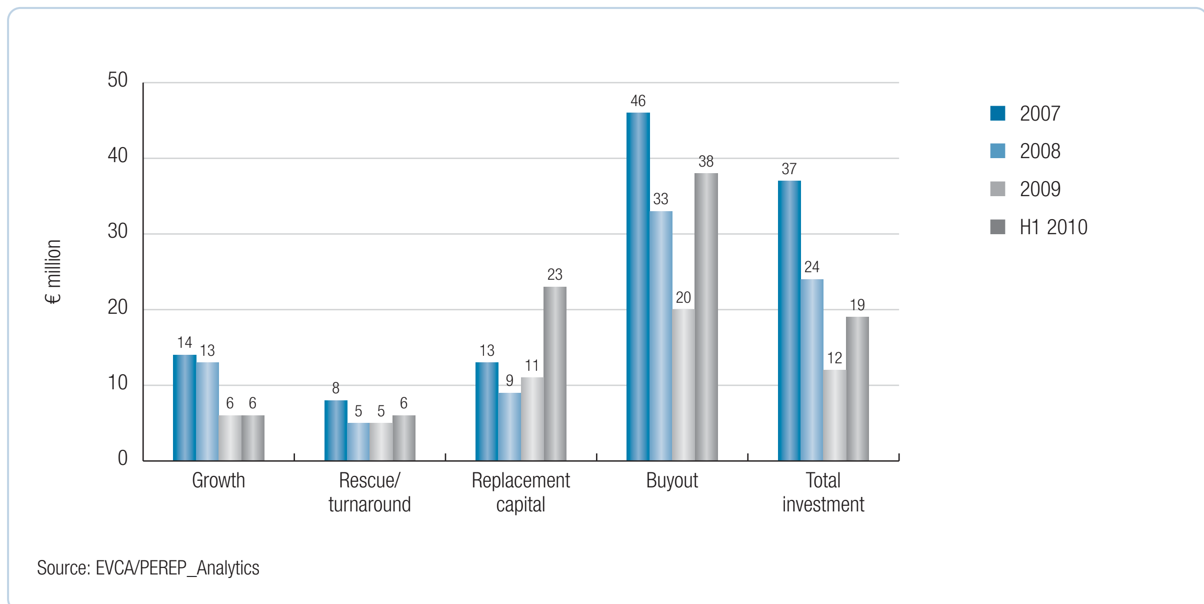


Source: EVCA/PEREP_Analytics

The first half of 2010 saw bigger deal sizes for buyout (€38m) and replacement capital transactions (€23m) than 2008 and 2009. Growth and rescue turnaround deals levelled off on the 2009 levels at around €6m. It seems, therefore, that 2009 was a record low year in terms of deal sizes across almost all stages, and 2010 is proving to be an improvement. However, the overall 2010 average deal (€19m) was still half the size of the average 2007 deal (€37m).

Only replacement capital registered an increase (81%) in terms of average investment per company in 2010 compared to 2007, reflecting the fact that more refinancing deals were completed – and at a higher value. Buyout transactions recovered substantially in terms of size, being only 18% below the 2007 average buyout deal size.

Figure 18: Average investment size by stage of financing



Source: EVCA/PEREP_Analytics

3.2.5. Buyouts by deal size [9]

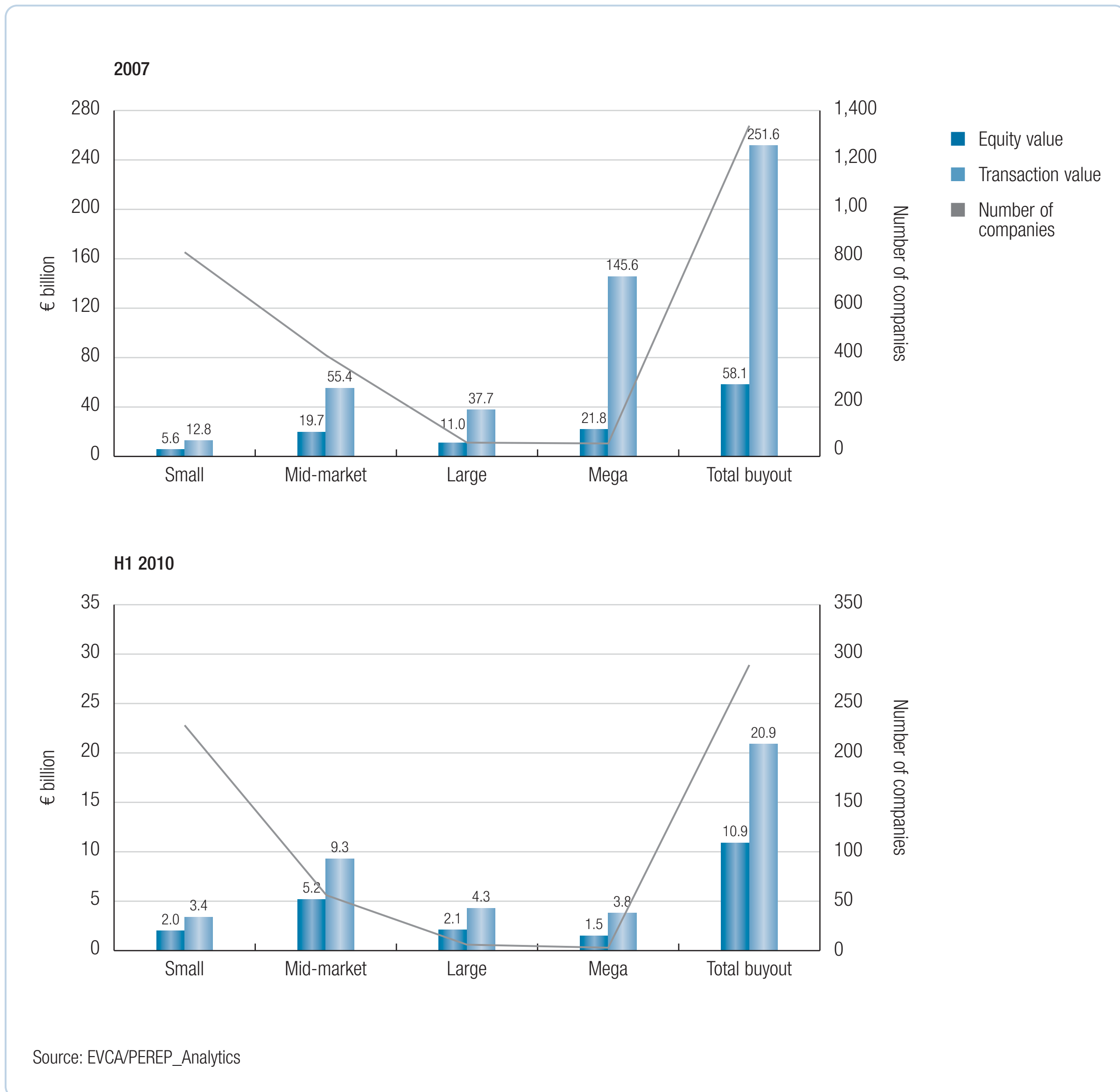
In the period 2007-H1 2010, the total transaction value [10] for European buyouts was €393bn, while the total amount of equity was €118bn, resulting in an average equity-to-transaction-value ratio of 30%. Mega deals accounted for almost half of the total transaction value (€184bn), followed by mid-market deals (€118bn or 30% of the total). In terms of equity value, mid-market deals represented the largest share (€48bn or 41% of the total). However, by number of companies financed, small buyouts were the most common (2,316 companies or 71% of the total), while mega and large buyouts accounted for less than 3% each.

In the first half of 2010, mid-market deals represented the largest part of the capital invested in buyouts (48% by equity value and 45% by transaction value). However, the vast majority of companies (79%) were small buyouts (those with a transaction value of less than €50m), which constituted 19% of the total buyout investment value. The activity at the smaller end of the market was more sustained in 2010 when compared to 2007, where 62% of the companies were small buyouts (representing 10% of the total buyout amount invested).

At the opposite end of the market, there were only three mega deals in the first half of 2010, compared to 53 in 2007. However, this still represented an improvement on 2009, when there were just three mega deals for the full year.

(9) The deal sizes section concerns buyout-only deals, so growth, rescue/turnaround and replacement capital are excluded from this breakdown.
(10) Transaction value includes the contributions of all co-investors in a deal and the leverage. Therefore, the difference between private equity funds' contribution ("equity value") and transaction value consists of two parts: the contributions of syndication partners other than private equity firms (such as LP co-investors, corporate co-investors, financial institutions) and leverage.

Figure 19: Equity versus transaction value by buyout deal size[11]



Source: EVCA/PEREP_Analytics

[11] The scale of the two graphs is different, so the actual 2010 activity is more modest than visually reflected by the second graph.

Table 9: Buyouts by deal size ranges

Amounts in €m	2007			2008			2009			H1 2010		
Buyouts by investment size	Amount (equity value)	Trans-action value	Number of companies	Amount (equity value)	Trans-action value	Number of companies	Amount (equity value)	Trans-action value	Number of companies	Amount (equity value)	Trans-action value	Number of companies
Small	5,630	12,788	786	5,603	11,445	794	3,254	5,232	508	2,017	3,442	228
Mid-market	19,654	55,424	387	17,269	43,271	303	6,154	10,238	80	5,187	9,322	53
Large	11,034	37,747	51	4,762	12,527	19	971	2,991	4	2,141	4,303	6
Mega	21,810	145,618	53	9,310	29,738	17	1,538	5,205	3	1,536	3,832	3
Total buyout	**58,128**	**251,577**	**1,260**	**36,944**	**96,981**	**1,118**	**11,917**	**23,666**	**589**	**10,881**	**20,900**	**289**

Source: EVCA/PEREP_Analytics

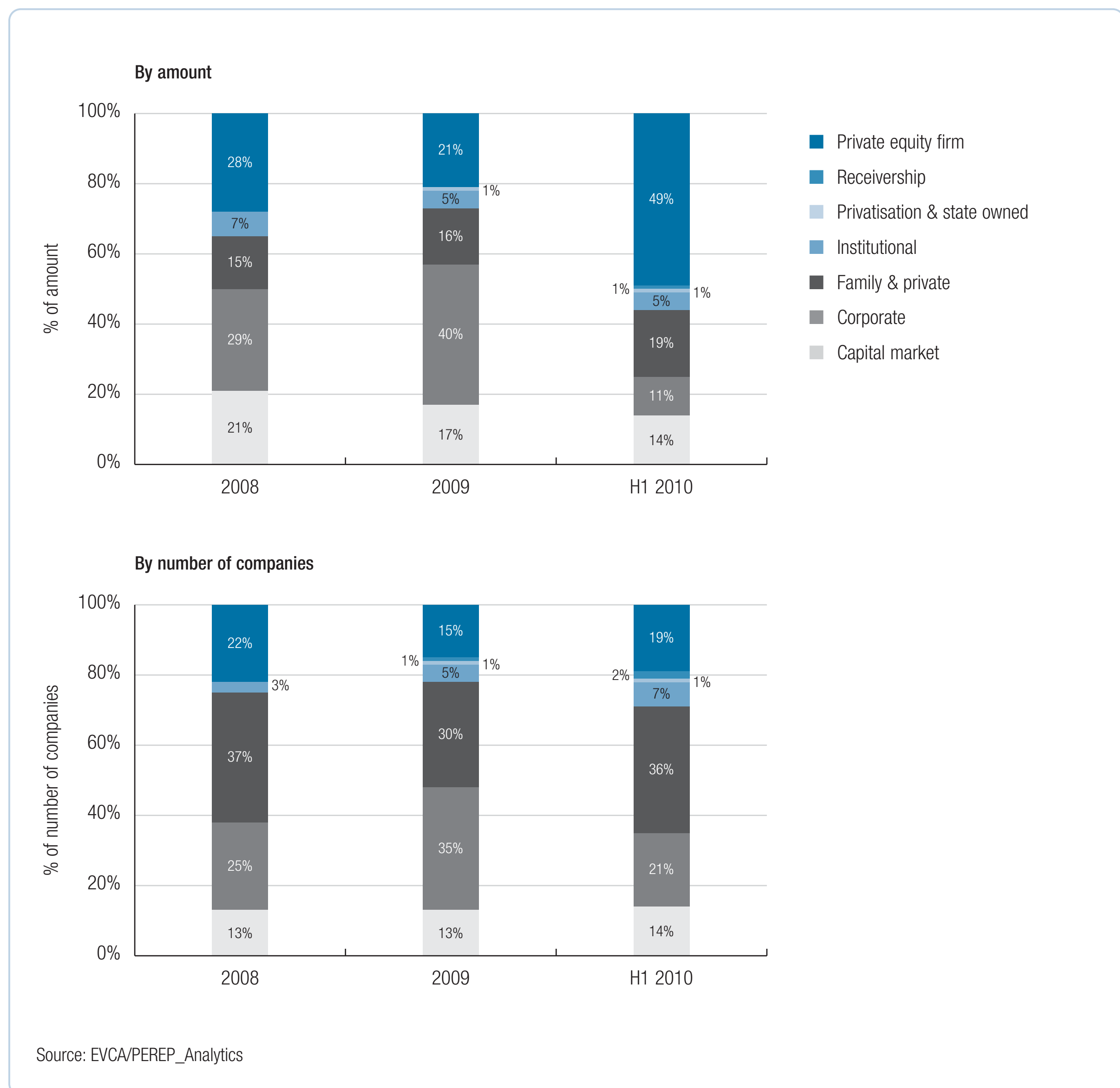
The share of equity (private equity funds' contribution) in the total transaction value increased from 23% in 2007 to 52% in the first half of 2010, reflecting – assuming other factors, such as syndication with non-private equity players, remained constant – the lower availability of debt in the market, especially for mega deals where the ratio decreased to 40% in H1 2010.

3.2.6. Sources of buyouts

When looking at the type of actors on the sale side of private equity-backed buyouts, the top three sources of buyouts for the period 2008-H1 2010 included corporations, family & private owners, and private equity firms, both by amount and number of companies. By number of companies, family & private owners were the number one deal source for buyout transactions.

In the first half of 2010, other private equity firms were the largest source of buyout deals by amount (at buyers' cost), representing 49% of the total amount invested. By number of companies financed, however, they ranked only third, with 19% of the total, indicating that the deal size in secondary buyouts was higher than the average deal size across all transactions. Family & private owners became the second-placed type of provider to buyouts by amount in 2010 (19%), and regained their first position by number of companies financed (36%), having lost it in 2009 in favour of corporations. Corporations reduced their supply of deals in 2010 (11% by amount and 21% by number of companies) compared to 2009 (40% by amount and 35% by number of companies), and provided altogether smaller buyout deals.

Figure 20: Sources of buyouts [12]



Source: EVCA/PEREP_Analytics

[12] This sections concerns buyout-only deals, so growth, rescue/turnaround and replacement capital are excluded from this breakdown. Data for this classification was collected as of 2008, therefore no such splits are available for 2007; percentages are presented for the buyout deals where the source was known.

3.2.7. Sector overview

Over the period 2007-H1 2010, the most invested sectors were business & industrial products and consumer goods & retail, each attracting €22bn of capital or 15% of the total investment. Communications and business & industrial services came next with €18bn and €17bn of investment respectively, each representing about 12% of the total. In terms of number of companies, business & industrial products again took the first place, with 1,138 companies – close to one fifth of all companies financed – followed by consumer goods & retail (909 companies) and business & industrial services (733 companies).

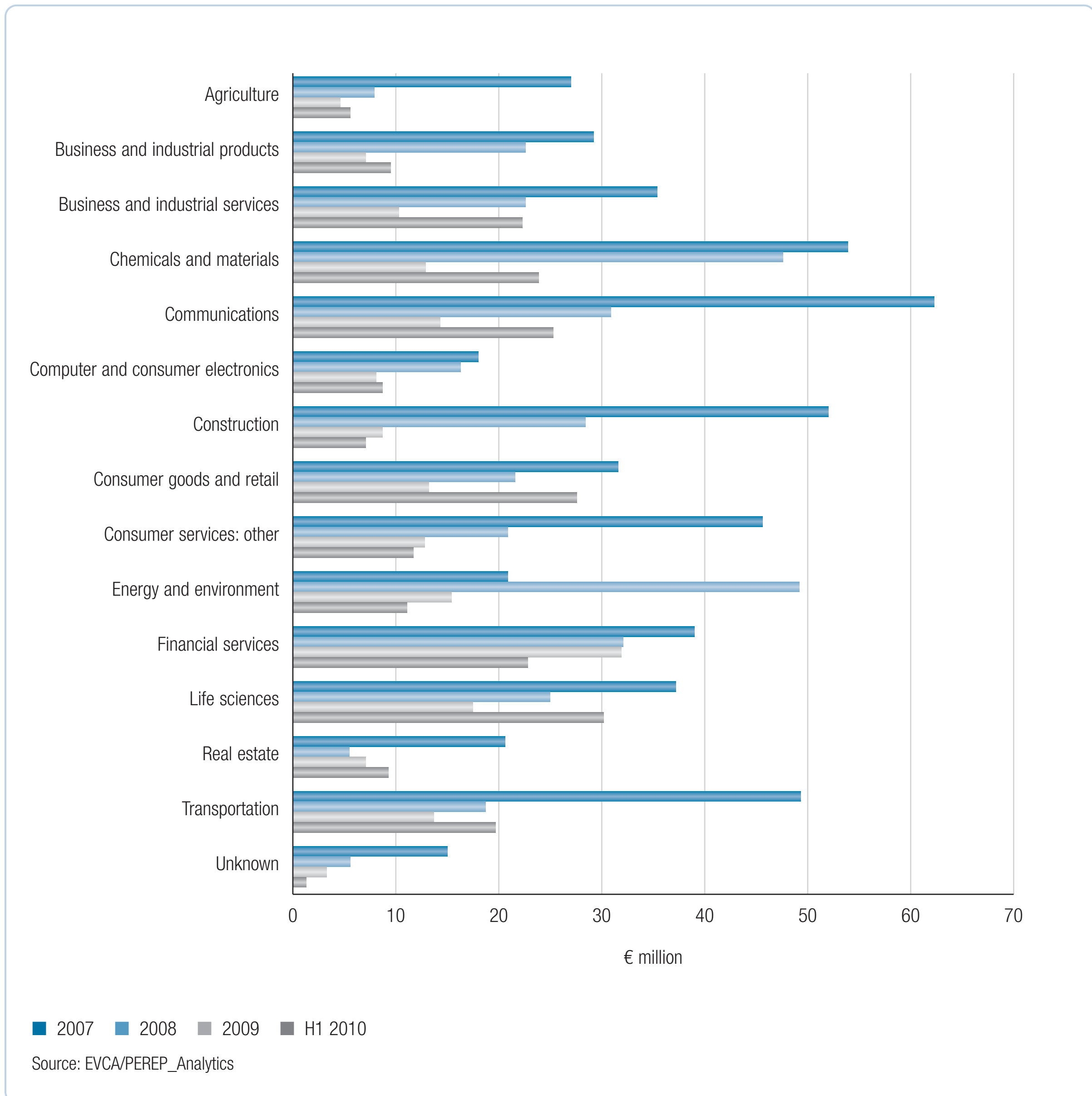
In the first half of 2010, consumer goods & retail was the clear winner after attracting nearly one quarter (€3.6bn) of the total amount invested and 16% of the companies financed (130). Consumer goods & retail was also the most invested sector by amount in 2009, and among the top three invested sectors during 2007 and 2008. This was also the sector that recorded one of the highest average investments per company (€28m) in the first half of 2010. More than half of the amount dedicated to consumer goods & retail went to the UK & Ireland (€2bn).

Business & industrial products – the sector most favoured by buyouts in 2007 and 2008 – attracted less than 8% of the amount invested in H1 2010 (€1bn) yet close to 15% of the companies financed. A company in this sector attracted €10m on average in 2010. At a regional level, 45% of the amount invested in business & industrial products went to the DACH region and more than one third of the companies were located there.

Life sciences was the second most invested sector by amount in the first half of 2010, with €2.5bn (17%); however, it attracted only 10% of the companies financed (83). It also had the highest average investment per company (€30m). Close to one third of the life sciences companies that received buyout investment in the first half of 2010 were located in the UK & Ireland, attracting 41% of the amount. The Nordic region came second, accounting for one third of the amount and nearly 30% of the number of companies.

After a two-year free fall in the average investment size across the board, the average amounts invested in the first two quarters of 2010 managed to recover some of the losses, yet they were still far from the 2007 levels. The sectors with the lowest decline in the average investment size per company from 2007 to 2010 were consumer goods & retail (-15%) and life sciences (-19%). The decrease in the average investment size per company was largest in construction (-86%), agriculture (-79%), consumer services (-74%), and business & industrial products (-67%).

Figure 21: Average investment size per company by sector



Source: EVCA/PEREP_Analytics

3. Evolution of Buyout Activity 2007 - H1 2010

1. Business & industrial products – close up

During 2007 and 2008, the vast majority of investment into business & industrial products – both by amount and number of companies – was buyouts (on average 90% of the amount and 75% of the companies). As of 2009, growth capital took a much larger share of the investment pie – 25% in 2009 and 30% in H1 2010 by amount and 40% and 47% respectively by number of companies. In 2009, replacement capital represented almost one fifth of the total value but its share decreased to 7% in the first half of 2010.

In the first half of 2010, the amount invested in this sector represented half (€1.1bn) of the full-year 2009 level and 40% (118) of the companies invested. After being the leading sector in 2007 and 2008 – both in amount and companies – its position in the sectoral ranking by value decreased to third place in 2009 and fifth place in the first half of 2010. This was partly due to the increasing share of growth investment in the sector, which has a lower average investment size than buyout transactions (in H1 2010, the average size of growth transactions in this sector was €6m compared to €16m for buyout deals).

2. Consumer goods & retail – close up

In the first half of 2010, the consumer goods & retail sector was already 30% up on the full-year 2009 amount (it had risen to €3.6bn), registering the highest growth rate across sectors. In terms of companies, however, it represented only 63% (130 companies) of the 2009 figure. About 80% of the amount (€2.9bn) and 37% of the companies (48) was due to buyout transactions. Replacement capital represented 12% by amount and 10% by companies financed, while growth capital accounted for only 6% of the amount yet almost half of the companies. The average investment size for buyout transactions was €61m, for replacement capital it was €34m and less than €4m for growth capital transactions. About 75% of the amount and more than 50% of the number of companies went to consumer retailing, while consumer manufacturing attracted close to one quarter of the amount and one third of the financed companies.

3. Communications – close up

Between 2007 and 2009, on average 84% of the amount invested went into buyout deals, but this decreased to 60% in the first half of 2010. Instead, replacement capital took a much larger share of the investment pie (€289m or 17%). Growth capital investment accounted for 19% of the amount and 44% of the number of companies. Close to half of the amount and one third of the number of companies were invested in broadcasting, publications and content providers.

4. Life sciences – close up

In terms of investment stage, life sciences had a fairly consistent profile over the years, being mainly driven by buyouts (80% of the amount on average), although the share of companies receiving growth capital grew significantly (from one third in 2007 to more than half in H1 2010).

The total amount invested in this sector in the first half of 2010 was up 7%, compared to the whole of 2009, to €2.5bn. However, the number of companies financed in life sciences was about 40% down (83) on the full-year 2009 number. This resulted in the highest average investment size across the sectors: €30m compared to an overall average of €19m. Close to two thirds of the amount invested in the first two quarters of 2010 went to healthcare and about one fifth to medical devices, supplies & equipment.

5. Consumer services – close up

In the first half of 2010, growth financing was the dominant transaction type in the consumer services sector, accounting for 45% of the amount (€335m) and 60% of the number of companies (38). Buyouts represented 37% of the amount and 32% of the number of companies. Turnaround investments increased to €123m, from an average of €22m during the previous three years, but this was driven by a few large deals. Compared to 2009, consumer services investment in the first half of 2010 represented half of the full-year 2009 investment level, both by amount and number of companies.

6. Energy & environment – close up

Investment in the energy & environment sector peaked in 2008 – at €4.1bn invested in 84 companies. This was about three times the amount invested in each of 2007 and 2009. Investment in 2008 was driven by buyouts, which constituted 88% of the total amount. The average size of a buyout that year was €76m, driven by several large buyouts in the oil & gas segment, compared to €14m in 2007, €35m in 2009 and €19m in the first half of 2010.

The total amount invested during the first two quarters of 2010 came to €413m in 37 companies. Buyouts represented close to 65% of the amount and 40% of the number of companies, and almost all the rest was growth investments with an average size of €7m per company. More than 40% (€169m) of the overall investment went to the gas & oil segment but was spread over only five companies (14% of the total). Close to one quarter of the amount went into alternative energy and more than one fifth into energy-related services. In terms of the number of companies, one third (12) belonged to the alternative energy segment and one quarter to energy-related services.

3.2.8. Initial versus follow-on investments[13]

This section considers initial investments using two approaches: initial investment for the company, meaning the first time a company is financed by a private equity house; and initial investment for the private equity firm, where the portfolio company is a new investment target for the private equity firm. Follow-on investments reflect portfolio companies that get add-on rounds of financing from a private equity firm, regardless of whether or not that firm has already invested in the company.

In the period 2007-H1 2010, most companies (53%) experienced their first ever private equity backing, although follow-on investments took over in 2009 (57%) and continued to dominate in the first two quarters of 2010, albeit by a smaller percentage (53%).

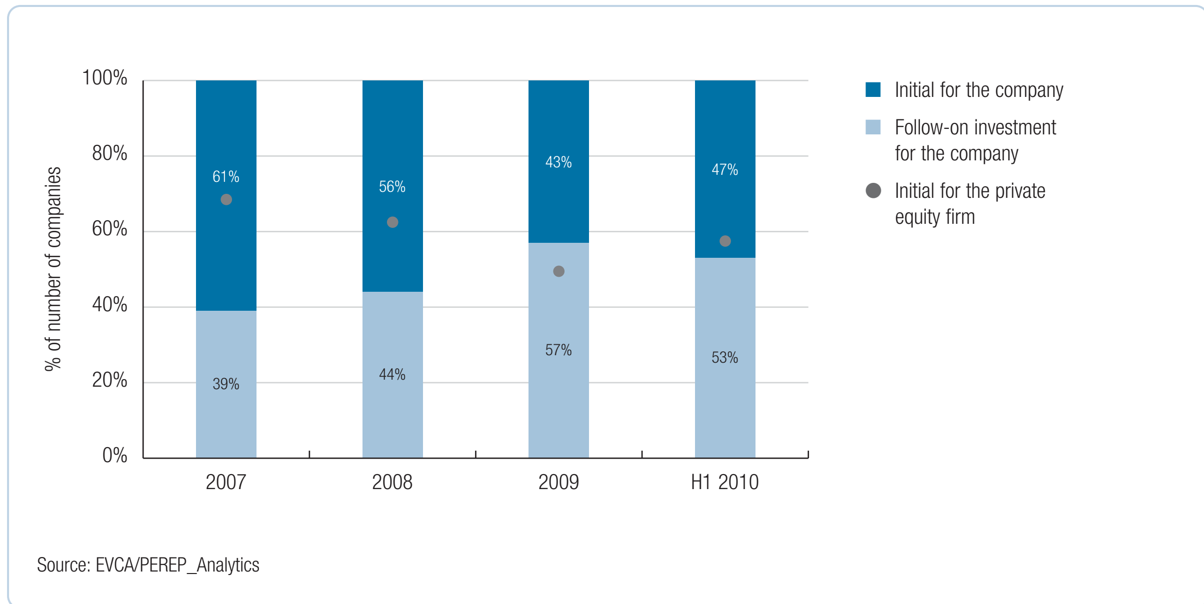
During the first half of 2010, follow-on investments also surpassed initial investments in terms of amount (52% of the total). The average amount invested in follow-on deals was €18m, close to the average amount invested in initial deals (€19m).

In 2009, total follow-on investments came to €9bn invested in 858 companies, resulting in an average investment of €10m. In 2008, a total of €18bn was allocated to follow-on investments in 769 companies, meaning the average investment per company was considerably higher (€23m).

The proportion of new investments by private equity firms increased to 57% of the total in the first half of 2010, up from 49% in 2009 (compared to 67% in 2007 and 62% in 2008). This shows the recovery of the investment market following 2009, which saw private equity firms mainly active in supporting their current portfolio companies.

[13] Percentages are calculated on the amounts for which the breakdown was known.

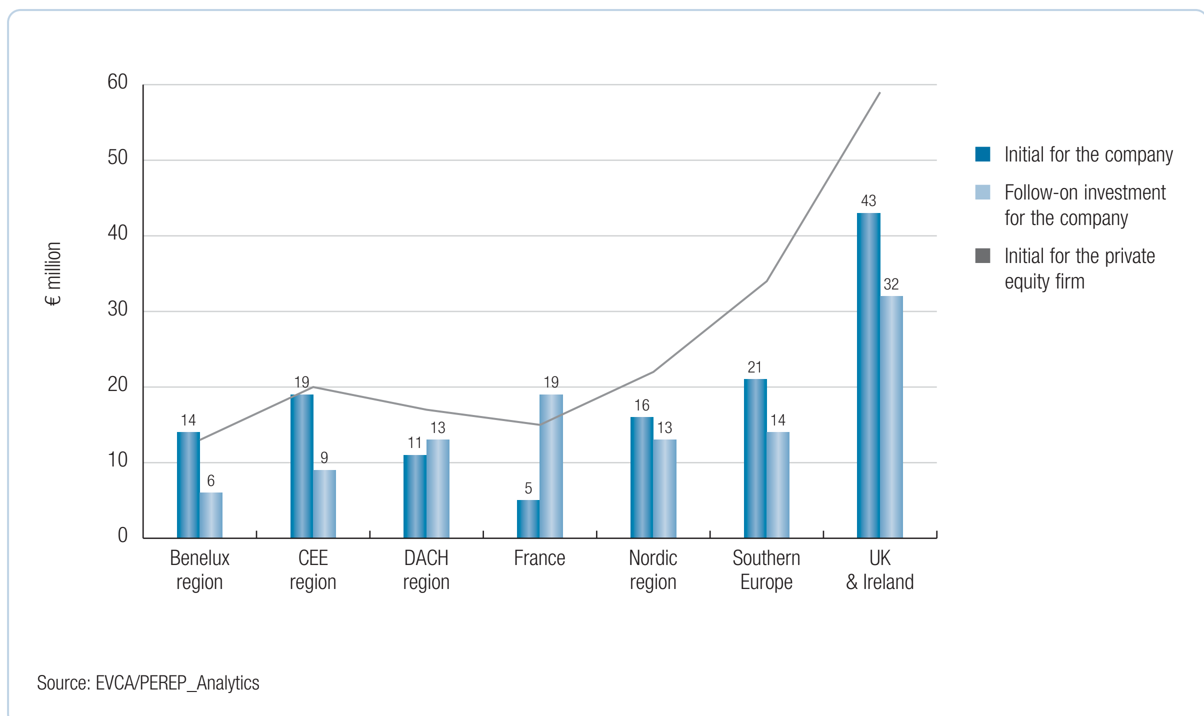
Figure 22: Initial versus follow-on investments



Source: EVCA/PEREP_Analytics

In the first half of 2010, the UK & Ireland saw on average the highest initial investment (€43m); the lowest was in France (€5m). For follow-on investment, the UK & Ireland again came first, with an average follow-on investment size of €32m; Benelux recorded the lowest average follow-on investment size (€6m). For all regions the follow-on deal size was smaller than the initial investment size, except for France where the average follow-on investment (€19m) was four times bigger than the average initial investment (€5m) and the DACH region where they were almost at par.

Figure 23: Initial versus follow-on average investment per company by region - H1 2010



Source: EVCA/PEREP_Analytics

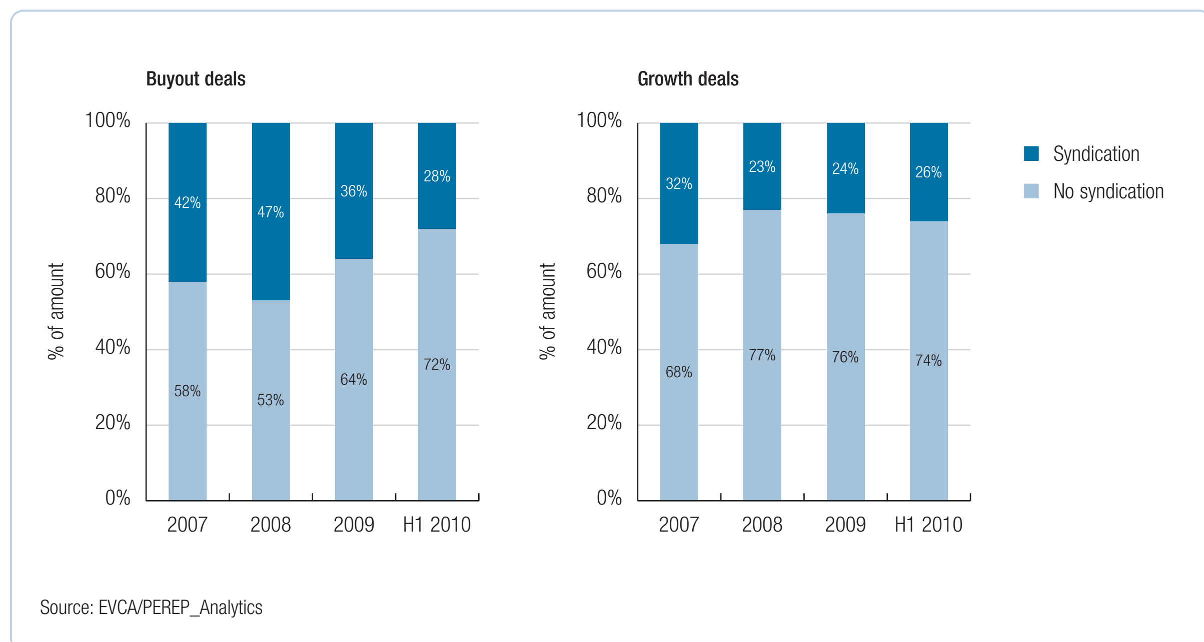
3.2.9. Investment syndication

Most of the deals done in the period 2007-H1 2010 (62% of the amount invested and 73% of the number of deals) were not syndicated. The size of syndicated deals was on average higher (€33m per company) than for non-syndicated deals (€20m).

In the first half of 2010, syndicated deals decreased, with 21% of financings (attracting 27% of the amount invested) being syndicated, down from 27% (32% of the amount) in 2009 and 29% (42% of the amount) in 2008. In 2010, the average investment per syndicated deal was €24m, 42% more than for non-syndicated deals (€17m), and up from €13m invested on average in syndicated deals in 2009. Almost half of the syndicated deals had just one co-investor (49%), while 44% had between two and four co-investors, and only a minority involved more than five co-investors (7%).

In the period 2007-H1 2010, 42% of the amount invested in buyouts was syndicated, yet this was the case for just 26% of the amount invested in growth deals. Since 2008, the syndication of buyouts decreased significantly in terms of percentage, from 47% to 28% in the first half of 2010. Growth deals on the other hand remained relatively stable in terms of amount – between 23% and 26% for the period 2008-H1 2010 (after they registered a decrease in syndication from 32% in 2007).

Figure 24: Syndication by stage

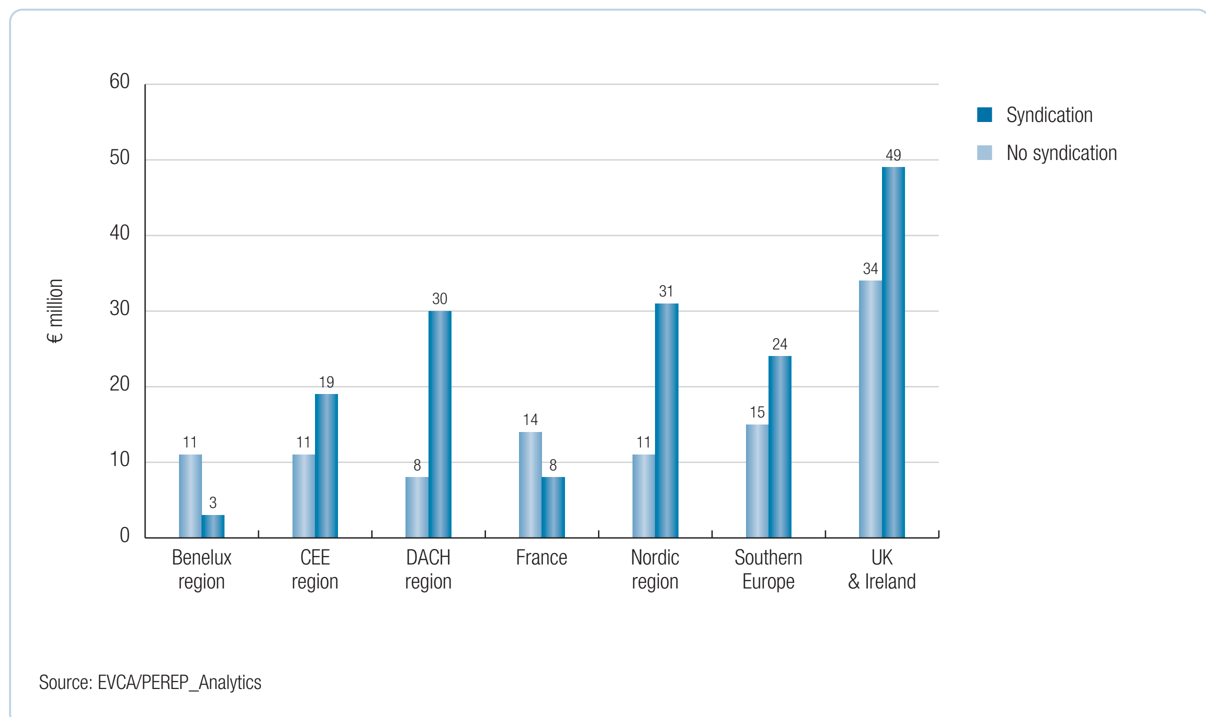


Source: EVCA/PEREP_Analytics

At a regional level for the first half of 2010, syndication was most common in the DACH region, where 44% of the total amount invested was affected. The highest amount invested per company for syndicated deals was in the UK & Ireland (€49m on average per company). For non-syndicated deals, the UK & Ireland topped the statistics once again (€34m on average per company).

In France and the Benelux, the average non-syndicated investment was higher than its syndicated counterpart. This was mainly due to just few buyout deals that were not syndicated. In the DACH region, the average size of syndicated deals was four times that of non-syndicated deals – the largest gap across all regions.

Figure 25: Average amount invested per company - syndicated versus non-syndicated deals by region - H1 2010



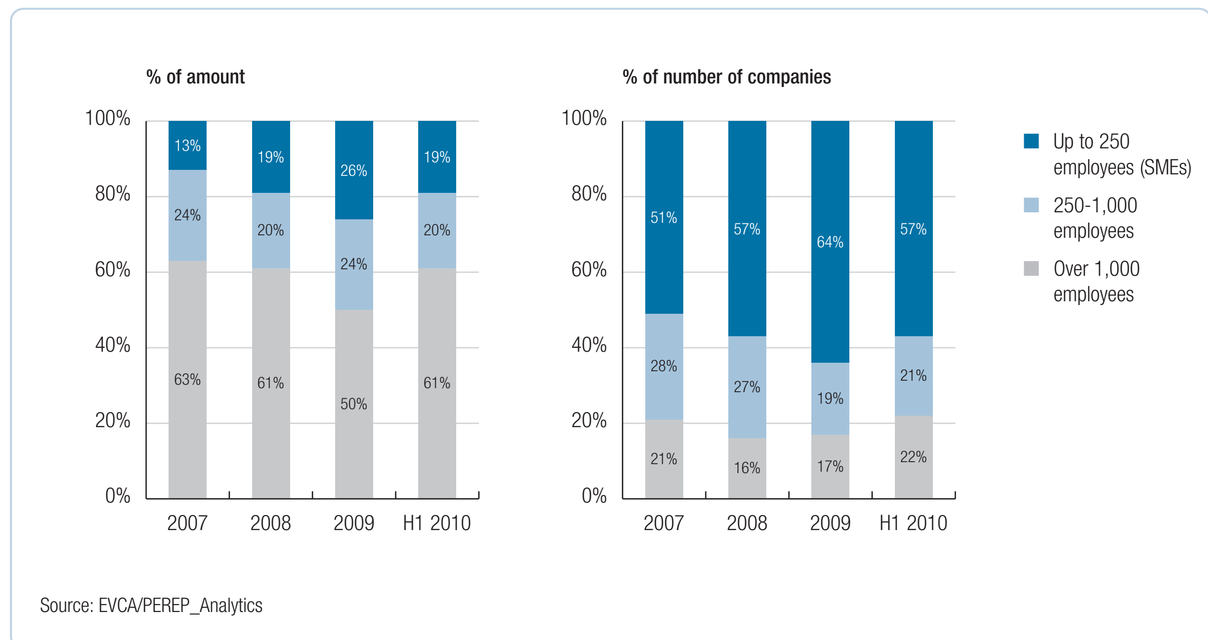
Source: EVCA/PEREP_Analytics

3.2.10. Investments by number of employees

In the period 2007-H1 2010, 57% of the European companies financed were SMEs (companies with less than 250 employees), although around 60% of the amount invested went to companies employing more than 1,000 people. The average investment in SMEs over this period was €7m.

In the first six months of 2010, SMEs accounted for 57% of the deals – a smaller share than in 2009 (64%) but exactly the same as in 2008. In line with the overall market trends, the average amount invested per SME rose in the first half of 2010, up to €6m from €5m in 2009. The average amount invested per SME in 2007 and 2008 was €9m and €8m respectively.

Figure 26: Investments by number of employees



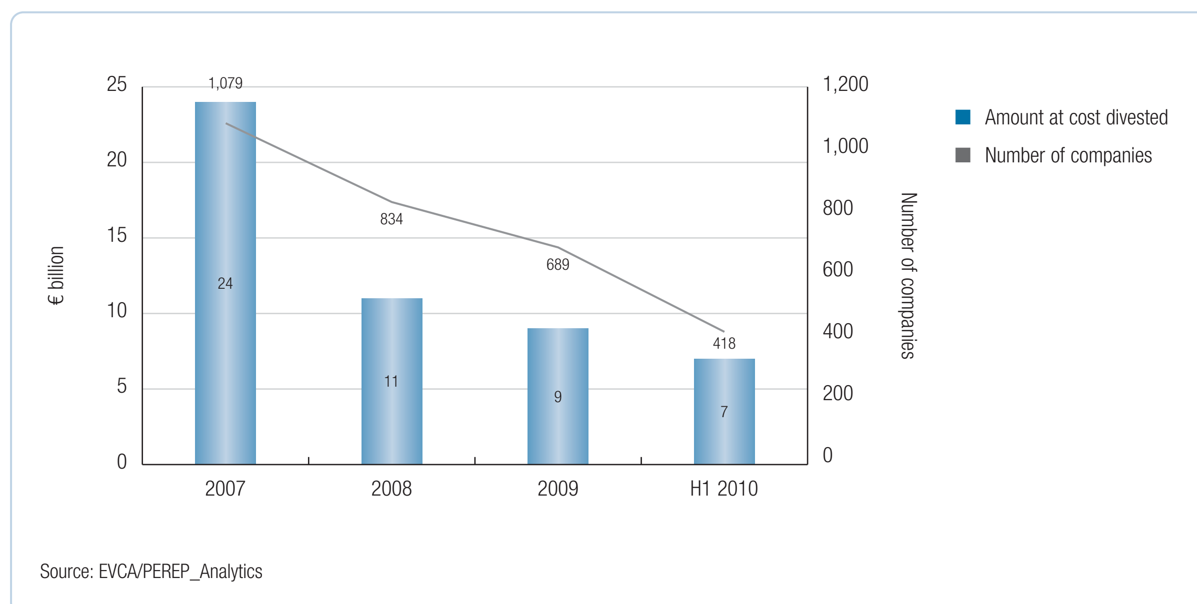
3.3. Divestments

3.3.1. Overview

After 1,079 exited companies and €24bn divested at cost in 2007, private equity divestment activity in Europe slowed down significantly over the following two years, due to the overall asset repricing triggered by the financial and economic crisis. In 2008, the total value divested – €11bn – represented less than half the 2007 level; however, the number of companies exited declined by less than a quarter, to 834. Divestments at cost decreased further in 2009 – to €9bn realised from 689 companies. The first half of 2010 showed signs of improvement in the exit market with €7bn divested at cost (nearly 80% of the full-year 2009 level) from 418 companies (60% of the 2009 number).

After an extremely difficult divestment environment in 2008 and 2009 – characterised by a virtually closed IPO market and almost complete absence of trade buyers – some signals of a gradual revival in the exit market appeared towards the end of last year. This revival continued into 2010, albeit at a slower rate than expected. The total amount divested at cost in the first half of 2010 – €7bn – represented almost 80% of the full-year 2009 level, while the number of companies exited – 418 – was 40% below the previous year's number. The average divestment at cost (excluding write-offs) over the first two quarters of 2010 was €11.7m, 31% above the €9.3m average divestment size registered in 2009. This compares to an average size of divestments at cost of €13.6m in 2008, a figure 40% below the 2007 level of €22.3m.

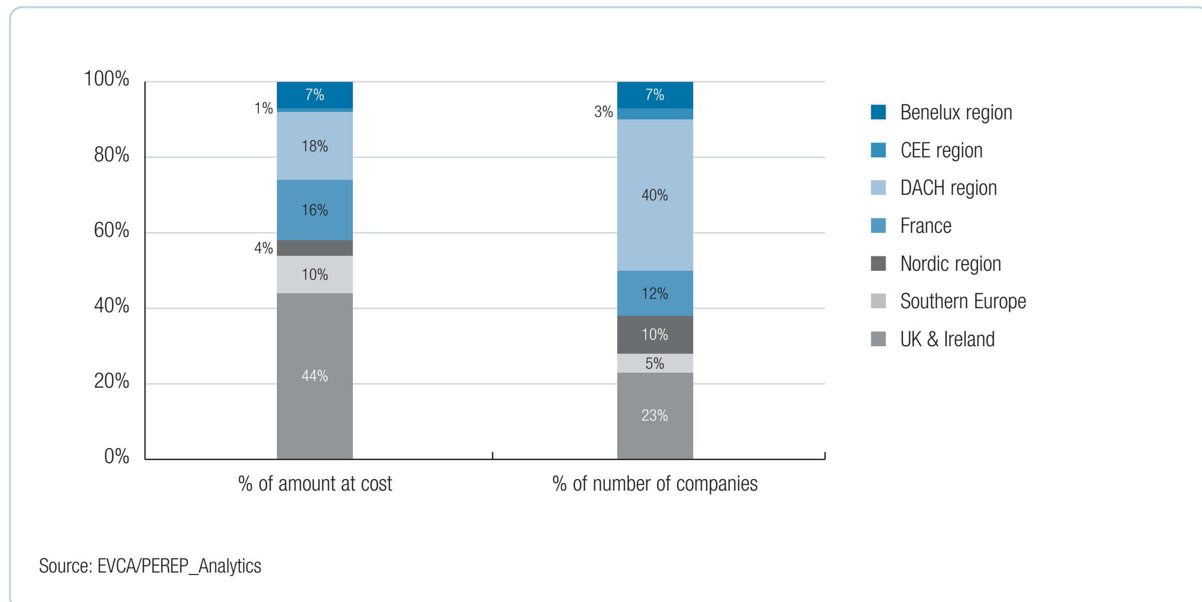
Figure 27: Divestments at cost - evolution



Source: EVCA/PEREP_Analytics

In the first half of 2010, most European companies were divested from the DACH region (40%). In terms of the amount, the largest value at cost was exited from the UK & Ireland (44%), followed by the DACH region (18%) and France (16%).

Figure 28: Divestments by location of the portfolio company - H1 2010



Source: EVCA/PEREP_Analytics

3.3.2. Divestments by exit method

Just as it was with other parts of the economy, one of the effects of the economic crisis on the buyout market was an increase in write-offs. The number of companies written-off during the first half of this year represented 1.1% (on an annualised basis) of the aggregate number of companies invested in over the previous five years[14] – a decrease of 0.25 percentage points on 2009. Most of the write-offs occurred in companies that were initially backed through a buyout (57%), while 39% of the companies were initially financed with growth capital.

Write-offs aside, sales to other private equity houses was the method that achieved the highest amount divested at cost in the first half of 2010. The value divested in this way during the first two quarters of this year – €1.5bn – represented 21% of the H1 2010 total, and was more than twice the amount divested at cost during the whole of 2009. In terms of the number of companies (49), however, it was 35% down on the full-year 2009 number and represented only 12% of the total number of exits (in line with 2009, when it accounted for close to 11% of the total number of exited businesses). The average cost of divestment for this type of exit therefore increased from €9.5m to €30.0m from 2009 to 2010.

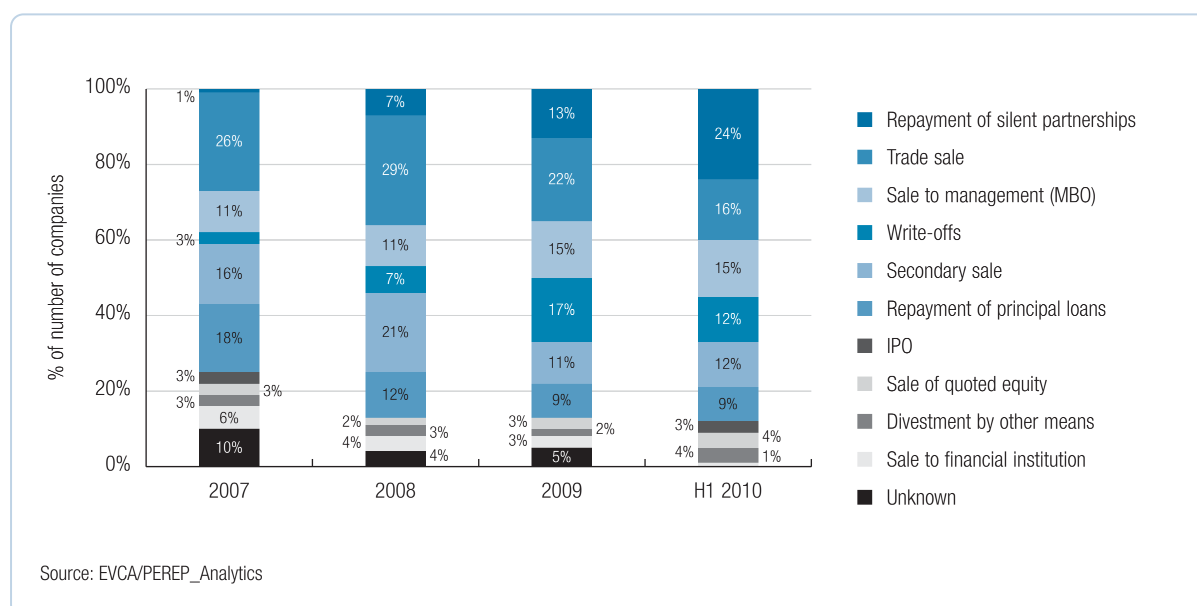
[14] This is the approach used to estimate the number of portfolio companies held by buyout firms.

Trade sales – despite being the second most lucrative exit method in H1 2010 – did not manage to live up to expectations and pick up during the first half of this year. A total of €1bn at cost was exited in this way – 64% below the full-year 2009 level. Trade sales represented a mere 14% of total divestment value at cost in H1 2010 compared to an average of more than 30% during the previous three years. A total of 69 companies were divested via this route, a drop of 56% compared to full-year 2009.

The amount divested via IPOs in H1 2010 reached €763m (from 11 companies), a level similar to 2007 when 31 companies were exited through this method at a total cost of €771m. However, the planned listing on the stock exchange of a number of private equity-backed companies did not materialise.

In terms of the number of companies, the most commonly used exit method was repayment of silent partnerships (101 companies, 24% of the total), followed by trade sales (69 companies) and sale to management (64 companies).

Figure 29: Divestments by exit method



Source: EVCA/PEREP_Analytics

3.3.3. Divestments by sector (excluding write-offs)

In the period 2007-H1 2010, €43.5bn was divested at cost from 2,772 European companies. During that time, the most divested sectors were business & industrial products and consumer goods & retail. Together, these two sectors represented 35% of the amount divested at cost and 40% of the number of companies exited.

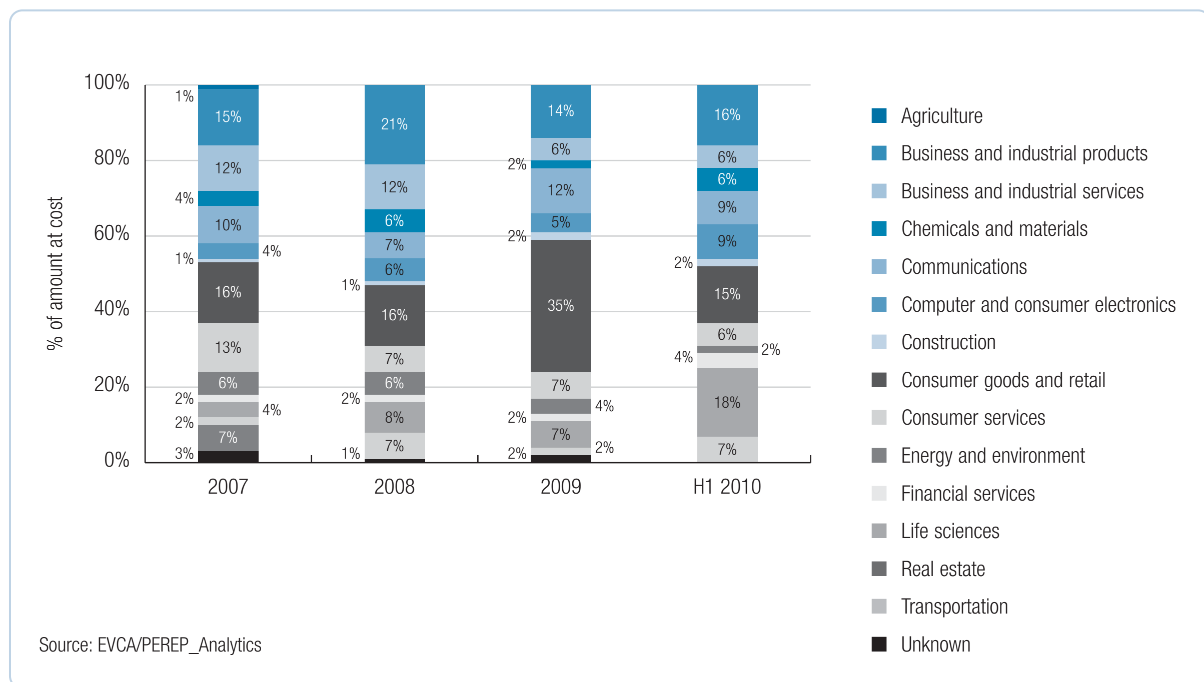
During the first half of 2010, the largest amount divested came from life sciences, which reached €790m (18% of the total) and registered an impressive 130% increase on full-year 2009 – just 10% below the 2008 and 2007 levels. The second most lucrative sector was business & industrial products (€684m, representing 16% of the total), which was followed by consumer goods & retails (€662m). Consumer goods & retails was also the sector that saw the highest number of exits (93 companies, a quarter of the total). Business & industrial products came next with 69 companies (19%). Life sciences ranked fifth here, with 30 companies (8%).

On a regional basis, 47% (€369m) of the amount divested at cost from life sciences came from seven companies located in the UK & Ireland. Another 40% of the value at cost was realised from nine French businesses. Sales to other private equity firms accounted for 60% of the amount at cost divested from this sector and for 12 of the companies. Another 15 companies were exited via trade sales.

Nearly half of the companies divested from business & industrial products came from the DACH countries, while the UK & Ireland and the Benelux both accounted for 35% of the amount. Trade sales was the most lucrative exit method with 44% (€304m) of the total by amount.

The largest amount divested from consumer goods & retails came from companies located in France (€257m). Trade sales and sales to other private equity firms accounted for 29% and 26% respectively of the divested value at cost.

Figure 30: Divestments by sector (excluding write-offs)



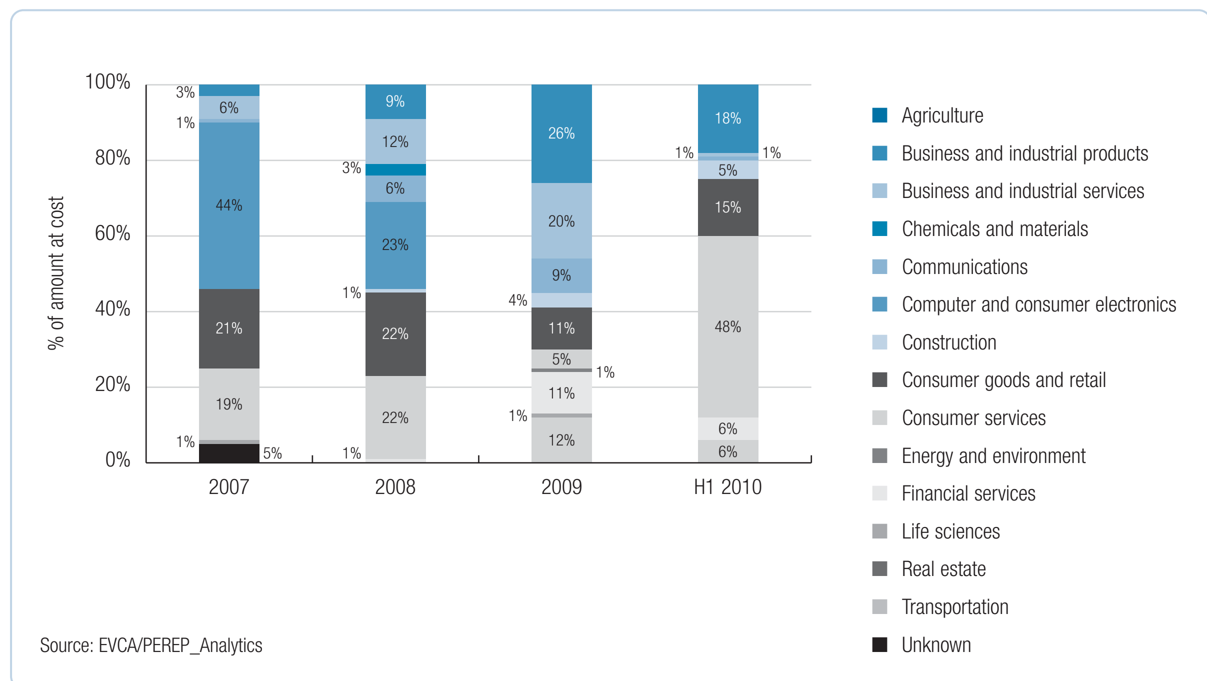
3.3.4. Write-offs by sector

In the first half of 2010, business & industrial products saw the highest number of write-offs (29% of the total); this was the most invested sector during the period 2006-2008. The second and third places in this ranking were taken by consumer goods & retails (13%) and business & industrial services (10%), again traditionally among the most targeted sectors during boom times.

In terms of amount, however, consumer services accounted for nearly half of the value of those companies written off. Business & industrial products was second by amount with 18% of the total, followed by consumer goods & retail (15%).

In 2009, business & industrial products accounted for one quarter of the written-off amount, while business & industrial services made up one fifth of the total. Similarly to 2010, most companies written off came from business & industrial products (29%) and consumer goods & retail (19%).

Figure 31: Write-offs by sector



Source: EVCA/PEREP_Analytics

4. Buyout Performance

As of the end of 2009 ([15]), the long-term performance of the buyout industry remained robust with an overall net pooled IRR since inception of 11.9%. Large buyout funds generated the highest return of 18.7%, followed by mid-sized funds with a 15.4% return. Mega funds achieved only 8.4% net return, the lowest among all fund sizes. All returns were slightly below the 2008 levels.

Top-quarter funds produced a net pooled IRR of 30.6%, with best performers being the large buyout funds (48.0%). Mega funds once again performed the least well (23.6%). The top-half buyout funds (in terms of ranked performance) produced a 19.7% return, with the best-performing category being the mid-market funds, at 25.2% net IRR.

The short-term performance showed an improvement on the negative 2008 returns, moving to a positive 7.2% for all buyout funds – quite in line with the five- and 10-year IRRs of around 8%. The best-performing funds in the short term were the small buyout funds (17.0%). Three-year returns have moved into negative territory (-3.9%), showing the impact of the global economic crisis.

In terms of sector focus, industrial/energy buyout funds achieved the highest net-from-inception returns as of 2009 (22.3%), with consumer-related funds ranking second (15.0%). There were no big shifts in sectoral returns from 2008.

4.1. Overview

As of 31 December 2009, buyout funds registered an overall net pooled IRR-from-inception of 11.9%, down 4.3 percentage points on the IRR registered at the end of 2008.

The best-performing funds were the large buyout funds (ranging from $500m to $1bn)([16]). They registered an IRR of 18.7%, a drop of about 4.1 percentage points from the 2008 return.

The mid-market funds (ranging from $250m to $500m) were second with a 15.4% IRR, despite registering the steepest decline on 2008 of 4.9 percentage points.

Small buyout funds (sub-$250m) – which represented 63% of all funds in the sample – generated a 12.5% IRR as of the end of 2009, just slightly below the December 2008 level of 12.8%.

At the opposite end of the buyout segment, funds of more than $1bn achieved an 8.4% IRR. This figure also comes below the 2008 return of 8.7%.

In terms of multiples, the TVPI in 2009 remained almost at the same level as in 2008 at 1.32. In addition, with 0.83 being the distributed part (DPI) of the multiple and 0.49 the unrealised part (RVPI), these figures are also similar to the 2008 return split.

Cash-on-cash returns for small and large funds (both more than 70% of TVPI) were higher than for the remaining two categories of fund sizes. TVPI registered less variation across fund sizes – amounting to 1.54 for all funds except for the mega buyouts – where TVPI was only 1.21, in line with the lower IRR of 8.4%.

([15]) Performance data was not available for H1 2010 by the time of publication of this report.
([16]) While fund size ranges are defined in USD, the net IRRs are computed in EUR.

Table 10: Net pooled IRR since inception to 31 December 2009 (Funds formed 1980-2009)

			Multiples			Multiples (as % of TVPI)	
Fund size	Sample size	Net pooled IRR	DPI	RVPI	TVPI	DPI	RVPI
Small	289	12.5	1.14	0.40	1.54	74%	26%
Mid-market	66	15.4	1.06	0.48	1.54	69%	31%
Large	51	18.7	1.16	0.38	1.54	75%	25%
Mega	52	8.4	0.69	0.52	1.21	57%	43%
All buyout	**458**	**11.9**	**0.83**	**0.49**	**1.32**	**63%**	**37%**

Source: EVCA/Thomson Reuters

4.2. Top-quarter and top-half net IRR

As of the end of 2009, the net pooled IRR for the 113 buyout funds in the top quarter was 30.6%. Large buyout funds achieved the highest top-quarter returns at 48.0%, followed by mid-market funds with 35.3%. Small funds ranked third with top returns at 28.7%, while mega funds came last with 23.6%.

Overall, funds had to produce a return of at least 17.0% to qualify for the top quarter. The thresholds for small and mega buyout funds were lower, at 16.1% and 16.9% respectively. Mid-market funds had to achieve returns of more than 22.1% to make it in the top quarter.

The 228 top-half funds achieved a net pooled IRR of 19.7% as of the end of 2009, down from 21.0% as of December 2008.

The threshold for all top-half funds was a minimum return of 6.2%. For the mega funds the median return (8.7%) was higher than the overall median return.

Mid-market funds led in terms of net pooled IRR in the top half with a 25.2% return, followed by large funds. Therefore, the ranking was reversed compared to top-quarter buyout fund categories. Mega funds ranked last once again.

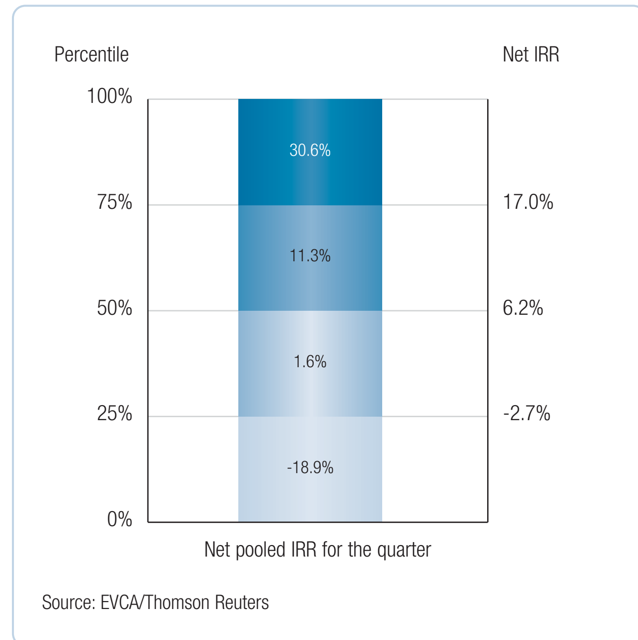
Table 11: Top-quarter and top-half net pooled IRR (Funds formed 1980-2009)

	Top-quarter net pooled IRR			Top-half net pooled IRR		
Fund size	Sample size	Top-quarter pooled IRR	Overall upper quartile IRR*	Sample size	Top-half pooled IRR	Overall median IRR**
Small	72	28.7	16.1	144	20.8	6.2
Mid-market	15	35.3	22.1	33	25.2	7.3
Large	13	48.0	18.4	25	24.0	4.6
Mega	12	23.6	16.9	26	16.4	8.7
All buyout	**113**	**30.6**	**17.0**	**228**	**19.7**	**6.2**

* Entry point that funds have to meet or exceed as return in order to become part of top-quarter funds.
** Entry point that funds have to meet or exceed as return in order to become part of top-half funds.
Source: EVCA/Thomson Reuters

When ranking the net-from-inception returns of all funds as of the end of 2009, the following quartile returns were obtained: upper quartile return of 17.0%; median return of 6.2%; and lower quartile return of -2.7%. The returns registered in the respective quarters were: 30.6% in the top quarter; 11.3% in the second quarter; 1.6% in the third quarter; and -18.9% in the lowest quarter. All returns were slightly lower than in 2008 except for the bottom quarter, which makes the spread of returns across the four performance quarters smaller in 2009.

Figure 32: Net pooled IRR since inception per performance quarter



Source: EVCA/Thomson Reuters

4.3. Performance by vintage year groups

Overall, the highest returns were produced by funds that had experienced vintage years in the periods from 1990 to 1994 and 2000 to 2004. Large parts of these periods were characterised by depressed economic activity, which suggests that buyout investments during downturns generate superior performance results.

The normal life cycle of private equity funds requires at least six years to deliver significant returns. The returns in the early years of a typical fund are generally negative due to the fact that companies often require funding and because exits are only expected after a number of years. This explains the low DPI ratios for the funds within the 2005 to 2009 vintage group. In addition, the impact of the current economic downturn and the drop in valuations is reflected in the low IRRs of this vintage group – especially in the negative returns registered by the $1bn-plus funds (-10.4%).

Nevertheless, in the 2000 to 2004 vintage group, funds of more than $1bn achieved the highest returns (20.6% IRR and 1.28 DPI).

Small buyout funds with a vintage year between 1990 and 1994 were more successful than other vintages, with an 18.4% return. In that same vintage group, they were surpassed by large buyout funds, who experienced a 25.9% IRR and a record 2.68 cash-on-cash return. The highest return (31.7%) across all vintages and fund sizes was achieved by mid-market funds that had their vintage between 1995 and 1999.

4. Buyout Performance

Table 12: Net pooled IRR by vintage years as of 31 December 2009

(Funds formed 1980-1984, 1985-1989, 1990-1994, 1995-1999, 2000-2004, 2005-2009)

	1980-1984		1985-1989		1990-1994		1995-1999		2000-2004		2005-2009	
Fund size	IRR	DPI	IRR	DPI	IRR	DPI	IRR	DPI	IRR	DPI	IRR	DPI
Small	9.2	1.88	10.5	1.60	18.4	1.95	8.1	1.09	13.5	1.05	1.6	0.17
Mid-market			17.8	1.69	8.8	1.27	31.7	1.62	17.5	1.16	-3.7	0.16
Large					25.9	2.68	16.9	1.56	12.4	0.96	-3.9	0.16
Mega							10.8	1.34	20.6	1.28	-10.4	0.11
All buyout	**9.2**	**1.88**	**13.6**	**1.65**	**18.6**	**2.04**	**12.3**	**1.35**	**18.1**	**1.20**	**-9.0**	**0.11**

Source: EVCA/Thomson Reuters

4.4. Short-, medium-, and long-term returns reflected by net horizon IRRs

As of the end of 2009, buyout performances recovered from their 2008 dip in one-year IRRs to reach a +7.2% short-term return, almost in line with the five- and 10-year horizon IRRs of around +8%. However, large and mid-market buyout funds registered negative one-year returns, with the large funds as low as -9.1%. The mega buyout funds – which had the most adverse evolution in short-term returns in 2008 at -34.5% – had positive returns of 8.6% for 2009.

The three-year IRRs were strongly impacted by the economic crisis, with buyouts overall registering a net performance of -3.9%, with all buyout fund categories in negative territory except for small funds at 4.1%.

Table 13: Net horizon IRRs to 31 December 2009

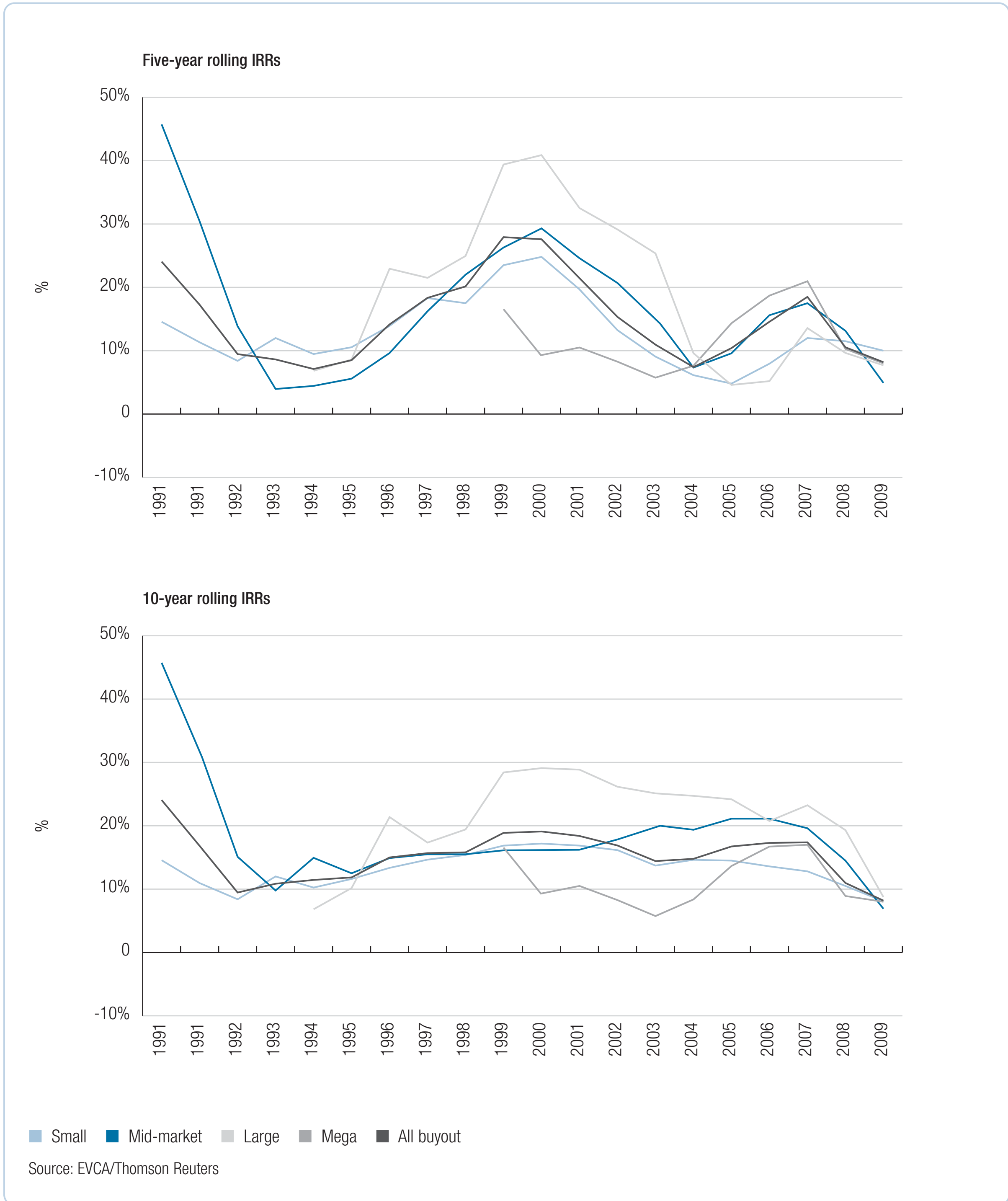
(Funds formed 1980-2009)

Fund size	1-year IRR	3-year IRR	5-year IRR	10-year IRR
Small	17.0	4.1	10.1	8.0
Mid-market	-1.9	-2.7	5.5	6.5
Large	-9.1	-0.2	7.8	8.8
Mega	8.6	-5.7	8.5	8.1
All buyout	**7.2**	**-3.9**	**8.3**	**8.0**

Source: EVCA/Thomson Reuters

The returns of small funds seem most resilient to the crisis, with one-, three- and five-year horizon IRRs being the highest for these funds. However, in the long term, large funds had the best results – an 8.8% 10-year horizon IRR – although they were not far ahead from the mega or small buyout fund categories.

Figure 33: Five-and 10-year rolling net IRRs
(Funds formed 1980-2009)



Source: EVCA/Thomson Reuters

4.5. Performance by sector

Of the 458 funds in the sample, 173 funds (38%) had a specific sector focus. Industrial/energy funds achieved the highest net-from-inception returns as of the end of 2009 (22.3%), with consumer-related funds ranking second (15.0% IRR).

There were no big shifts in sectoral returns compared to the end of 2008, with life sciences buyout funds proving to be the only category that registered an increase in net IRR in 2009, while consumer-related buyout funds witnessed the biggest loss in returns of -10 percentage points.

Table 14: Net pooled IRR by buyout fund sector focus (Funds formed 1980-2009)

Sector focus	Sample size	Net IRR to Dec 2009	Net IRR to Dec 2008	Net IRR to Dec 2007	Net IRR to Dec 2006	Net IRR to Dec 2005
Consumer-related	37	15.0	16.7	22.1	22.7	22.7
ICT	31	10.2	10.7	11.5	12.2	12.6
Industrial/energy	25	22.3	22.9	23.5	23.4	23.7
Life sciences	21	8.3	7.9	11.0	11.0	7.3
Other	59	14.1	15.0	18.3	18.4	13.7

Source: EVCA/Thomson Reuters

5.1. Fundraising

Funds raised - industry statistics - INCREMENTAL CLOSINGS DURING YEAR

Amounts in €m	2007		2008		2009		H1 2010	
Fund ownership type	Amount	%	Amount	%	Amount	%	Amount	%
Independent funds raised	67,462	97.6	70,010	99.2	9,776	92.3	8,220	98.2
Amount raised by captives	1,049	1.5	372	0.5	584	5.5	152	1.8
New funds raised	**68,511**	**99.1**	**70,382**	**99.8**	**10,359**	**97.8**	**8,372**	**100.0**
Realised capital gains	642	0.9	171	0.2	235	2.2	2	0.0
Total funds raised	**69,154**	**100.0**	**70,552**	**100.0**	**10,594**	**100.0**	**8,375**	**100.0**
Fund stage focus								
Growth capital	1,716	2.5	2,912	4.1	916	8.6	1,485	17.7
Buyout	62,543	90.4	66,661	94.5	9,107	86.0	5,890	70.3
Mezzanine	4,895	7.1	979	1.4	571	5.4	999	11.9
Total funds raised	**69,154**	**100.0**	**70,552**	**100.0**	**10,594**	**100.0**	**8,375**	**100.0**
Geographic sources of funds								
Within Europe	45,224	66.0	33,763	48.0	8,055	77.8	6,043	72.2
Outside Europe	23,287	34.0	36,618	52.0	2,305	22.2	2,329	27.8
New funds raised	**68,511**	**100.0**	**70,382**	**100.0**	**10,359**	**100.0**	**8,372**	**100.0**

Source: EVCA/PEREP_Analytics

Funds raised - industry statistics - FINAL CLOSINGS IN THE YEAR BY INDEPENDENT FUNDS - CUMULATIVE AMOUNT RAISED SINCE INCEPTION

Amounts in €m	2007			2008			2009			H1 2010		
Fund stage focus	Amount	Number of funds	Average fund size	Amount	Number of funds	Average fund size	Amount	Number of funds	Average fund size	Amount	Number of funds	Average fund size
Growth	1,296	9	144	2,452	10	245	648	7	93	1,248	2	624
Buyout	57,191	80	715	59,551	66	902	9,001	15	600	8,917	15	594
Mezzanine	4,702	12	392	508	3	169	540	4	135	1,546	4	387
Total funds raised	**63,188**	**101**	**626**	**62,511**	**79**	**791**	**10,190**	**26**	**392**	**11,711**	**21**	**558**
Fund sectoral focus												
Agriculture, chemicals and materials	104	2	52	0	0	0	0	0	0	0	0	0
Business and industrial products and services	1,737	5	347	116	2	58	0	0	0	0	0	0
Consumer products, services and retail	2,528	4	632	50	1	50	98	1	98	101	1	101
Energy and environment	200	1	200	546	1	546	0	0	0	315	1	315
Financial services	0	0	0	116	1	116	575	1	575	0	0	0
ICT	648	2	324	114	2	57	100	1	100	56	1	56
Life sciences	0	0	0	1,000	1	1,000	0	0	0	0	0	0
Generalist	57,972	87	666	60,570	71	853	9,416	23	409	11,239	18	624
Total funds raised	**63,188**	**101**	**626**	**62,511**	**79**	**791**	**10,190**	**26**	**392**	**11,711**	**21**	**558**
Fund size ranges												
<50	360	17	21	188	8	24	110	4	28	57	2	28
50-149	1,918	20	96	1,452	17	85	1,004	10	100	428	5	86
150-249	2,568	15	171	2,714	15	181	367	2	184	200	1	200
250-499	8,316	25	333	4,456	14	318	1,958	6	326	1,436	4	359
500-999	7,731	12	644	6,510	10	651	1,238	2	619	3,845	6	641
>=1000	42,295	12	3,525	47,191	15	3,146	5,513	2	2,757	5,746	3	1,915
Total funds raised	**63,188**	**101**	**626**	**62,511**	**79**	**791**	**10,190**	**26**	**392**	**11,711**	**21**	**558**

Source: EVCA/PEREP_Analytics

5.2. Investments

Investments - market statistics (by country of portfolio company)

Amounts in €m	2007		2008		2009		H1 2010	
Stage focus	Amount	Number of companies	Amount	Number of companies	Amount	Number of companies	Amount	Number of companies
Growth	5,082	352	7,397	578	4,494	751	2,483	413
Rescue/Turnaround	452	54	329	71	683	146	293	52
Replacement capital	1,739	139	1,521	175	1,775	167	1,406	62
Buyout	58,128	1,260	36,944	1,118	11,917	589	10,881	289
Total investment	**65,400**	**1,769**	**46,191**	**1,889**	**18,869**	**1,603**	**15,062**	**807**
Sectoral focus								
Agriculture	385	14	127	16	74	16	45	8
Business & industrial products	10,004	342	8,591	380	2,143	298	1,122	118
Business & industrial services	8,443	238	4,746	210	1,899	183	2,279	102
Chemicals & materials	3,021	56	2,428	51	558	43	359	15
Communications	9,235	148	4,579	148	2,127	148	1,675	66
Computer & consumer electronics	2,161	120	2,325	142	1,163	143	619	71
Construction	3,073	59	1,935	68	359	41	271	38
Consumer goods & retail	8,858	271	6,501	300	2,759	208	3,592	130
Consumer services: other	6,991	153	3,183	152	1,664	130	741	63
Energy & environment	1,359	65	4,133	84	1,146	74	413	37
Financial services	3,049	78	2,574	80	1,693	53	707	31
Life sciences	5,062	136	3,586	143	2,346	134	2,508	83
Real estate	186	9	44	8	64	9	28	3
Transportation	3,408	69	1,197	64	606	44	693	35
Unknown	165	11	241	43	267	79	9	7
Total investment	**65,400**	**1,769**	**46,191**	**1,889**	**18,869**	**1,603**	**15,062**	**807**
Syndication								
No syndication	38,890	1,301	26,829	1,391	12,849	1,192	11,040	647
Syndication	26,510	509	19,362	565	6,020	447	4,022	166
Total investment	**65,400**	**1,769**	**46,191**	**1,889**	**18,869**	**1,603**	**15,062**	**807**
Initial vs. follow-on								
Initial for the company	39,445	1,073	25,745	962	9,406	649	7,216	376
Follow-on investment for the company	21,976	675	17,592	769	8,994	858	7,833	431
Unknown	3,979	94	2,853	242	468	130	13	10
Total investment	**65,400**	**1,769**	**46,191**	**1,889**	**18,869**	**1,603**	**15,062**	**807**
Initial for the private equity firm	**46,964**	**1,181**	**34,090**	**1,162**	**12,279**	**784**	**13,158**	**462**
Geographic source								
Domestic	42,885	1,509	33,840	1,598	13,148	1,380	11,647	719
Intra-European	19,112	281	10,965	310	5,286	238	2,940	85
Outside Europe	3,403	42	1,385	33	434	18	476	11
Total investment	**65,400**	**1,769**	**46,191**	**1,889**	**18,869**	**1,603**	**15,062**	**807**

Source: EVCA/PEREP_Analytics

Investments - market statistics (by country of portfolio company) - buyout-only deals

Amounts in €m	2007					
Buyout investment size	Amount (equity value)	%	Number of companies	%	Transaction value	%
Small	5,630	9.7	786	61.6	12,788	5.1
Mid-market	19,654	33.8	387	30.3	55,424	22.0
Large	11,034	19.0	51	4.0	37,747	15.0
Mega	21,810	37.5	53	4.2	145,618	57.9
Total buyout	**58,128**	**100.0**	**1,260**	**100.0**	**251,577**	**100.0**

Amounts in €m	2008					
Buyout investment size	Amount (equity value)	%	Number of companies	%	Transaction value	%
Small	5,603	15.2	794	70.1	11,445	11.8
Mid-market	17,269	46.7	303	26.7	43,271	44.6
Large	4,762	12.9	19	1.7	12,527	12.9
Mega	9,310	25.2	17	1.5	29,738	30.7
Total buyout	**36,944**	**100.0**	**1,118**	**100.0**	**96,981**	**100.0**

Amounts in €m	2009					
Buyout investment size	Amount (equity value)	%	Number of companies	%	Transaction value	%
Small	3,254	27.3	508	85.4	5,232	22.1
Mid-market	6,154	51.6	80	13.4	10,238	43.3
Large	971	8.2	4	0.7	2,991	12.6
Mega	1,538	12.9	3	0.5	5,205	22.0
Total buyout	**11,917**	**100.0**	**589**	**100.0**	**23,666**	**100.0**

Amounts in €m	H1 2010					
Buyout investment size	Amount (equity value)	%	Number of companies	%	Transaction value	%
Small	2,017	18.5	228	78.6	3,442	16.5
Mid-market	5,187	47.7	53	18.3	9,322	44.6
Large	2,141	19.7	6	2.1	4,303	20.6
Mega	1,536	14.1	3	1.0	3,832	18.3
Total buyout	**10,881**	**100.0**	**289**	**100.0**	**20,900**	**100.0**

Source: EVCA/PEREP_Analytics

5.3. Divestments

Divestments at cost - by country of portfolio company

Amounts in €m	2007		2008		2009		H1 2010	
Exit route	Amount at cost	Number of companies	Amount at cost	Number of companies	Amount at cost	Number of companies	Amount at cost	Number of companies
Divestment by trade sale	6,284	322	4,084	241	2,762	156	1,003	69
Divestment by public offering	1,775	66	542	17	366	25	842	29
Divestment on flotation (IPO)	*771*	*31*	*37*	*3*	*17*	*2*	*763*	*11*
Sale of quoted equity	*1,004*	*35*	*506*	*14*	*350*	*23*	*78*	*18*
Divestment by write-off	451	36	566	56	3,474	121	2,631	50
Repayment of silent partnerships	82	11	62	54	41	93	106	101
Repayment of principal loans	3,560	219	629	101	327	68	117	36
Sale to another private equity house	8,690	200	3,692	175	710	75	1,468	49
Sale to financial institution	1,167	69	606	35	485	21	176	4
Sale to management (MBO)	551	130	433	93	489	104	323	64
Divestment by other means	498	36	398	29	48	12	309	18
Unknown	700	136	95	33	75	38	0	0
Total divestment	**23,757**	**1,079**	**11,108**	**834**	**8,778**	**689**	**6,974**	**418**
Sectoral focus								
Agriculture	270	11	16	6	0	3	3	3
Business & industrial products	3,475	232	2,269	191	1,652	177	1,163	83
Business & industrial services	2,884	139	1,342	97	1,002	69	308	42
Chemicals & materials	925	43	634	34	109	18	263	13
Communications	2,380	77	811	48	967	49	433	17
Computer & consumer electronics	1,172	78	715	84	275	54	395	38
Construction	220	42	115	30	243	26	189	16
Consumer goods & retail	3,796	188	1,865	143	2,223	108	1,045	99
Consumer services	3,020	100	855	66	548	42	1,512	28
Energy & environment	1,475	32	622	22	267	26	107	6
Financial services	460	23	209	19	499	14	160	13
Life sciences	886	56	852	45	392	43	943	32
Real estate	542	3	5	5	6	4	3	2
Transportation	1,483	38	773	31	504	24	448	18
Unknown	769	17	26	13	92	32	2	8
Total divestment	**23,757**	**1,079**	**11,108**	**834**	**8,778**	**689**	**6,974**	**418**

Source: EVCA/PEREP_Analytics

6. Methodology and Definitions

6.1. Economic environment section

6.1.1. Standard & Poor's LCD data

- Pro-rata loans are loans made up of revolving credit facility and an amortising term loan. Amortising term loan (TLa or A-term loan) is a term loan with a progressive repayment schedule. These loans are normally syndicated to banks along with revolving credits as part of a larger syndication.
- Institutional term loan (B-term, C-term or D-term loans) is a term-loan facility with a portion carved out for non-bank, institutional investors. These loans are priced higher than amortising term loans because they have longer maturities and bullet repayment schedules.

6.1.2. CMBOR data

Transactions by real estate funds and infrastructure funds are excluded from CMBOR's data. Deals in which a private equity firm buys property as an investment are not included. All quoted values derive from the total transaction value of the buyout (enterprise value) and include both equity and debt.

Deal pricing

CMBOR computes the average P/E ratios for different deal value ranges by dividing the deal price by EBIT (earnings before interest and tax).

DEBT/EBIT Ratios

CMBOR computes DEBT/EBIT Ratios as the Senior Debt divided by EBIT (earnings before interest and tax).

6.2. Activity section

6.2.1. Coverage

The overall statistics for Europe include:

- Austria
- Belgium
- Baltics
- Bulgaria
- Czech Republic
- Denmark
- Ex-Yugoslavia
- Finland
- France
- Germany
- Hungary
- Ireland
- Italy
- Luxembourg
- The Netherlands
- Norway
- Poland
- Portugal
- Romania
- Spain
- Slovakia
- Sweden
- Switzerland
- Ukraine
- United Kingdom

Regions were aggregated as follows:

- Benelux (Belgium, Luxembourg, the Netherlands)
- CEE (Bulgaria, the Baltic countries, Czech Republic, ex-Yugoslavia, Hungary, Poland, Romania, Slovakia, Ukraine)
- DACH (Austria, Germany, Switzerland)
- France
- Nordic (Denmark, Finland, Norway, Sweden)
- Southern Europe (Greece, Italy, Portugal, Spain)
- UK & Ireland

The universe monitored includes all active GPs (both EVCA members and non-members) focused on direct private equity investments, as long as investments are in the following stages: growth, rescue/turnaround, replacement capital, or buyout. A precise response rate for the activity figures covered in this report cannot be computed since some buyout activity is done by generalist funds. However, the coverage rate is representative for the European activity, both by number of private equity players and by the capital they manage. Most of the data is collected via surveys and complemented with reliable public sources of information.

6.2.2. Fundraising

The funds included in the statistics are:

- buyout funds making direct private equity investments
- growth funds
- mezzanine private equity funds
- co-investment funds for buyout, growth or mezzanine deals
- rescue/turnaround funds

The following funds are excluded from the statistics:

- venture funds
- infrastructure funds
- real estate funds
- distress debt funds
- primary funds-of-funds
- secondary funds-of-funds

Fundraising is captured by two methods:

- by incremental amount raised in an year – if a fund has an intermediary closing of €200m in 2010 and the cumulative amount raised for this fund stands at €500m, €200m only is captured in the 2010 fundraising
- by final closings – captures the total cumulative amount raised at final closing.

6.2.3. Investments

Unless stated otherwise (section 3.2.1. Industry statistics – by location of private equity firm), the approach taken in this report is market approach (i.e. investments and divestments are aggregated by location of the portfolio company).

At European level, this means investments in European companies or divestments from European companies, regardless of the location of the private equity firm.

6. Methodology and Definitions

Buyout split

Buyout investments are split into four classes: small, mid-market, large, and mega. In this report, the classification is based on the transaction value of the buyout deals. If two syndication partners invest equity values of €100m and €200m respectively for a total transaction value of €600m, the deal will be classified under large deals with equity value of €300m and transaction value €600m.

Buyout breakdown by deal size	Equity value (€m)	Transaction value (€m)
Small	< 15	< 50
Mid-market	15 ≤ X < 150	50 ≤ X < 500
Large	150 ≤ X < 300	500 ≤ X < 1,000
Mega	≥ 300	≥ 1,000

6.2.4. Divestments

Divestments are measured by cost of investment, not proceeds. This is done in order to be able to compare divestments with investments on an equivalent basis.

6.2.5. Number of companies

The number of companies represents a distinct list of entities receiving investments throughout the reporting year. For example, if Company A receives two investments in a year, the number of companies will equal one, while the number of investments will equal two.

In some cases, subtotals and totals may not appear to add up to the same number of companies as individual items in the tables. This can be explained by understanding the issue of counting distinct entities. For example, if a company received multiple distinct rounds of financing in a year – a growth investment of €30m by one investor in January, followed by a €50m buyout in November with two investors – the tables would indicate the following:

Stage	Amount (€m)	Number of investments	Number of companies
Growth	30	1	1
Buyout	50	2	1
Total investment	**80**	**3**	**1**

The total number of companies corresponds to the number recorded under “Total investment”. Any one company can be recorded under several subcategories. The sum of all subcategories can exceed the number stated under “Total investment”. Therefore, it would appear to have incorrect totals in the number of companies (for both investments and divestments) as the table appears to add up to 2, but the total only shows 1. This will only affect counts of companies, not amounts. However it will make any average more accurate.

6.2.6. Data updates

PEREP_Analytics offers to the players the potential to submit surveys and validate previously populated data captured from public information sources at a later stage. Moreover, if a player submits a divestment at a later stage, and the corresponding investment has never been reported or captured, the PEREP_Analyst will create the investment so that no portfolio company is reflected with negative capital flow in the database. Moreover, some information is disclosed on the website of the private equity players at a later stage, after the cut-off for producing our activity reports, and thus is processed in the database at a later moment. For all the above reasons, figures may be updated year on year to reflect the latest available statistics for previously released years starting with 2007.

6.2.7. Definitions

Type of investors (fundraising figure):

- Corporate investor: Corporations that produce products (manufacturing companies) or deliver non-financial services (it excludes banks, funds-of-funds, insurance companies, pension funds, and other asset managers).
- Endowment: An institution that is bestowed money (and possibly other assets) via a donation with the stipulation to invest it and use the gains for specific objectives so that the principal remains intact (for perpetuity, for a defined period of time or until sufficient assets have been accumulated to achieve a designated purpose).
- Family office: An office that provides services to one or several families, which include investment management and other services (accounting, tax and financial advice etc).
- Foundation: A non-profit organisation through which private wealth is contributed and distributed for public purpose (most often charitable purposes). It can either donate funds and support other organisations, or provide the sole source of funding for their own charitable activities.
- Fund-of-funds: A private equity fund that primarily takes equity positions in other funds.
- Other asset manager: Financial institutions (other than bank, endowment, family office, foundation, insurance company or pension fund) managing a pool of capital by investing it across asset classes with the purpose to generate financial returns. It may include direct private equity funds that occasionally do indirect investments, but excludes funds-of-funds that are a stand-alone option.
- Public sector: Country, regional, governmental and European agencies or institutions (including structures such as EBRD or EIF). SWFs are also included in this category.

Fund stage focus (fundraising table):

- Growth fund: Funds whose strategy is to invest in or acquire relatively mature companies that are looking for capital to expand or restructure operations. They usually represent the first private equity investment in the company.
- Buyout fund: Funds whose strategy is to acquire other businesses.
- Mezzanine fund: Funds which provide (generally subordinated) debt to facilitate the financing of buyouts, frequently alongside a right to some of the equity upside.

6. Methodology and Definitions

Stage definitions (investment tables):

Several financing stages can be identified in relation to the stages of development of a private-equity-backed company. These are described as follows and were the stages included in the survey questionnaire:

- Growth: It is a type of private equity investment, most often a minority investment but not necessarily, in relatively mature companies that are looking for capital to expand or restructure operations, enter new markets or finance a significant acquisition without a change of control of the business. As a round of financing, growth capital tends to be the first private equity backing of the company. Additionally, most investments made by buyout funds into venture type of stages should be defined as growth capital.
- Rescue/turnaround: Financing made available to an existing business, which has experienced trading difficulties, with a view to re-establishing prosperity.
- Secondary purchase/replacement capital: Minority stake purchase of existing shares in a company from another private equity investment organisation or from another shareholder or shareholders.
- Refinancing bank debt: To reduce a company's level of gearing.
- Management buyout: Financing provided to enable current operating management and investors to acquire existing product line or business.
- Management buy-in: Financing provided to enable a manager or group of managers from outside the company to buy-in to the company with the support of private equity investors.
- Public to private: A transaction involving an offer for the entire share capital of a listed target company for the purpose of delisting the company. Management may be involved in the offering.
- Other PIPE: A private investment in public equity as a minority or majority stake without taking the company private.
- Other (leveraged) buyout: Financing provided to acquire a company (other than MBI, MBO, public to private or other PIPE). It may use a significant amount of borrowed money to meet the cost of acquisition.

Mapping the above stages into the main five stages presented in this document leads to the following classification:

- Growth: Growth
- Rescue/turnaround: Rescue/turnaround
- Replacement capital: Secondary purchase/replacement capital, refinancing bank debt
- Buyouts: Management buyout, management buy-in, public to private, other PIPE, other (leveraged) buyout

Amounts definition:

- Equity value: Stricto sensu, amount of capital invested to acquire shares in an enterprise, amount that originates from funds raised by private equity firms focused primarily on direct investments (including also co-investment funds) or incorporated direct private equity firms investing from the balance sheet (evergreen and also direct captive private equity programmes). The equity value includes equity, quasi-equity, mezzanine, unsecured debt and secured debt financing provided by the above mentioned structures.
- Transaction value: The sum of the "equity value" as described above, to which financing coming from the rest of the syndicate is added (LP co-investors, individuals, entrepreneurs, business angels, management, corporates, funds-of-funds, other asset managers and/or financial institutions), together with the leverage (debt provided by banks or other providers). In other words, stricto sensu transaction value is equal to enterprise value multiplied by percentage ownership by the acquiring syndicate in which at least one financial sponsor (private equity firm) is involved.

Sectoral definitions (investment tables):

For a complete picture of the sectoral classification and its mapping to the NACE standardised sectoral classification of Eurostat (NACE Rev. 2, 2007), please go to the link: www.evca.eu//uploadedFiles/sectoral_classification.pdf.

Sources of buyouts (investment tables):

Sources of buyouts are captured at buyers' cost.

- Capital market: The transaction involves an offer for the partial or entire share capital of a listed target company.
- Corporate: The seller of the company is an industrial corporation or the deal is the result of a corporate spin-off.
- Family & private: The seller of the company is a(n) (group of) individual(s) or family office(s).
- Institutional: The seller of the company is a financial institution (e.g. bank, pension fund, insurance company, endowment, foundation, other asset managers excluding private equity firms).
- Privatisation & state owned: The seller of the company is the state either undergoing privatisation or liberalisation of an industry.
- Receivership: The sale of the company is triggered by reorganisation procedures to avoid liquidation with the help of a court-appointed trustee.
- Private equity firm: The seller of the stake in the company is another private equity firm (secondary buyout).

Divestment methods (divestment table):

- Divestment on flotation (IPO): An IPO (initial public offering, which is the sale or distribution of a company's shares to the public for the first time by listing the company on the stock exchange) is one way in which a private equity firm can sell its shares and exit an investment.
- Repayment of preference shares/loans: If the private equity firm provided loans or bought preference shares in the company at the time of investment, then their repayment according to the amortisation schedule represents a decrease of the financial claim of the firm into the company, and hence a divestment.
- Repayment of silent partnership: A silent partnership belongs to the so-called mezzanine financing instruments. It is similar to a long-term bank loan, but in contrast to a loan, a silent partnership is subject to a subordination clause, so that, in the event of insolvency, all other creditors are paid preferentially to the silent partner. The company has to repay the partnership and has to pay interest and possibly a profit-related compensation. The subordination clause gives the capital the status of equity despite its loan character. This financing instrument is well known and often used in Germany.
- Sale of quoted equity post-flotation: It includes sale of quoted shares only if connected to a former private equity investment, such as sale of quoted shares after a lock-up period.
- Sale to another private equity house: see sale to financial institution.
- Sale to financial institution: The sale of company shares to banks, insurance companies, pension funds, endowments, foundations and other asset managers other than a private equity firm.
- Trade sale: The sale of company shares to industrial investors.
- Divestment by write-off: The write-down of a portfolio company's value to zero or a symbolic amount (sales for a nominal amount). The value of the investment is eliminated and the return to investors is zero or negative.

6. Methodology and Definitions

6.3. Performance section

The data is taken from Thomson Reuters' application Thomson ONE (www.thomsonone.com). Thomson Reuters' applications contain detailed statistical measurements including distribution and valuation ratios from data based on a sample of 458 buyout and mezzanine funds formed between 1980 and 2009. By the time of publication, data was not available for first half of 2010.

Fund sizes for performance data classifications

Buyout funds are split by sizes based on the following classification:

Buyout funds	Fund size ($m)
Small	<250
Mid-market	250 ≤ X <500
Large	500 ≤ X <1,000
Mega	≥1,000

While fund sizes are defined in USD, all IRRs presented in this report are denominated in EUR

IRR Internal Rate of Return

The IRR is the interim net return earned by investors (Limited Partners) from the fund from inception to a stated date. The IRR is calculated as an annualised effective compounded rate of return using monthly cash flows to and from investors, together with the Residual Value as a terminal cash flow to investors. The IRR is therefore net, i.e. after deduction of all fees and carried interest. In cases of captive or semi-captive investment vehicles without fees or carried interest, the IRR is adjusted to create a synthetic net return using assumed fees and carried interest.

Pooled IRR

The IRR obtained by taking cash flows since inception together with the Residual Value for all funds and aggregating them into a pool as if they were a single fund. This is superior to either the average, which can be skewed by large returns on relatively small investments, or the capital weighted IRR which weights each IRR by the capital committed. This latter measure would be accurate only if all investments were made at once at the beginning of the funds' life.

Horizon IRR

The horizon IRR allows for an indication of performance trends in the industry. It uses the fund's net asset value at the beginning of the period as an initial cash outflow and the Residual Value at the end of the period as the terminal cash flow. The IRR is calculated using those values plus any cash actually received into or paid by the fund from or to investors in the defined time period (i.e. horizon). A three-year horizon looks back from the end of 2009 over three years to the end of 2006 and so on.

Five-Year Rolling IRR

The five-year rolling IRR shows the development of the five-year Horizon IRR, measured at the end of each year. On the same token the one-, three- and ten-year rolling IRRs are produced.

Median IRR
The value appearing halfway in a table ranking funds by IRR in a descending order.

Quartile IRR
Statistically, the returns of each fund can be ranked and three quartiles obtained: the upper, the median and the lower that separate the four quarters of ranked IRRs. The IRR value lies a quarter from the bottom (lower quartile point) or top (upper quartile point) of a table ranking individual funds in a descending order.

Top Quarter
Comprises funds with an IRR equal to or above the upper quartile point. So while upper-quartile IRR is a discrete return for a single fund, the top-quarter IRR is a pooled return for all the funds ranking as individual performance in the top quarter.

Top Half
Comprises funds with an IRR equal to or above the median point.

DPI - Distribution to Paid-In
The DPI measures the cumulative distributions returned to investors (Limited Partners) as a proportion of the cumulative paid-in capital. DPI is net of fees and carried interest. This is also often called the “cash-on-cash return”. This is a relative measure of the fund’s “realised” return on investment.

RVPI - Residual Value to Paid-In
The RVPI measures the value of the investors (Limited Partners) interest held within the fund, relative to the cumulative paid-in capital. RVPI is net of fees and carried interest. This is a measure of the fund’s “unrealised” return on investment.

Residual Value
The estimated value of the assets of the fund, net of fees and carried interest.

TVPI - Total Value to Paid-In
TVPI is the sum of the DPI and the RVPI. TVPI is net of fees and carried interest.

Buyout Fund
Funds whose strategy is to acquire other businesses; this may also include mezzanine funds which provide (generally subordinated) debt to facilitate financing buyouts, frequently alongside a right to some of the equity upside.

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