

Fundraising in Europe

Deloitte Point of View

31 March 2014



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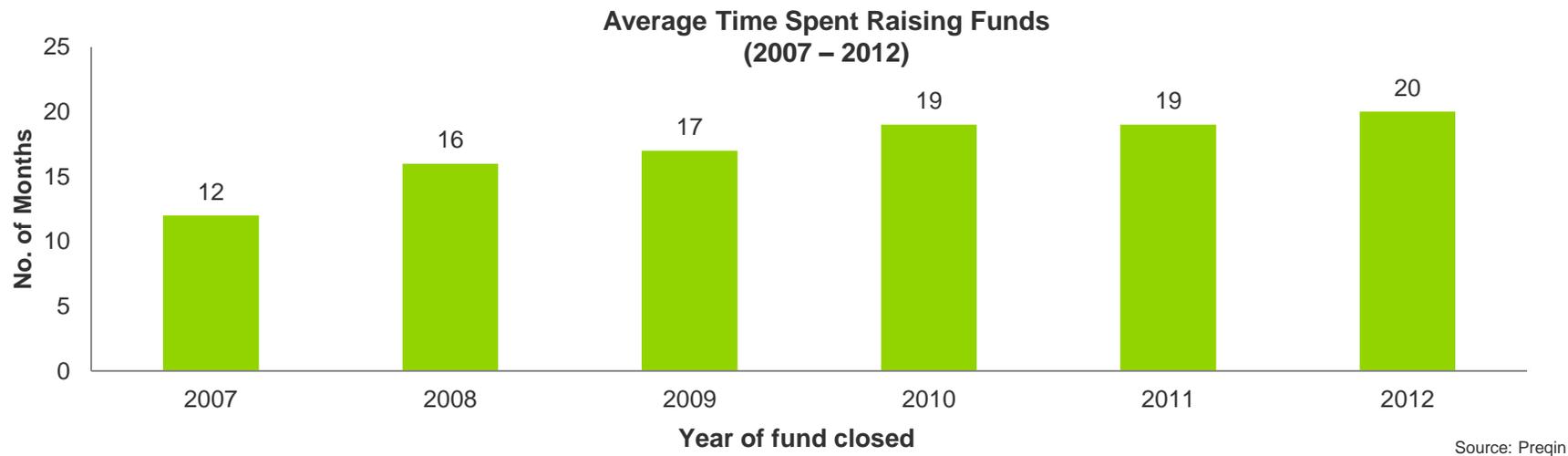
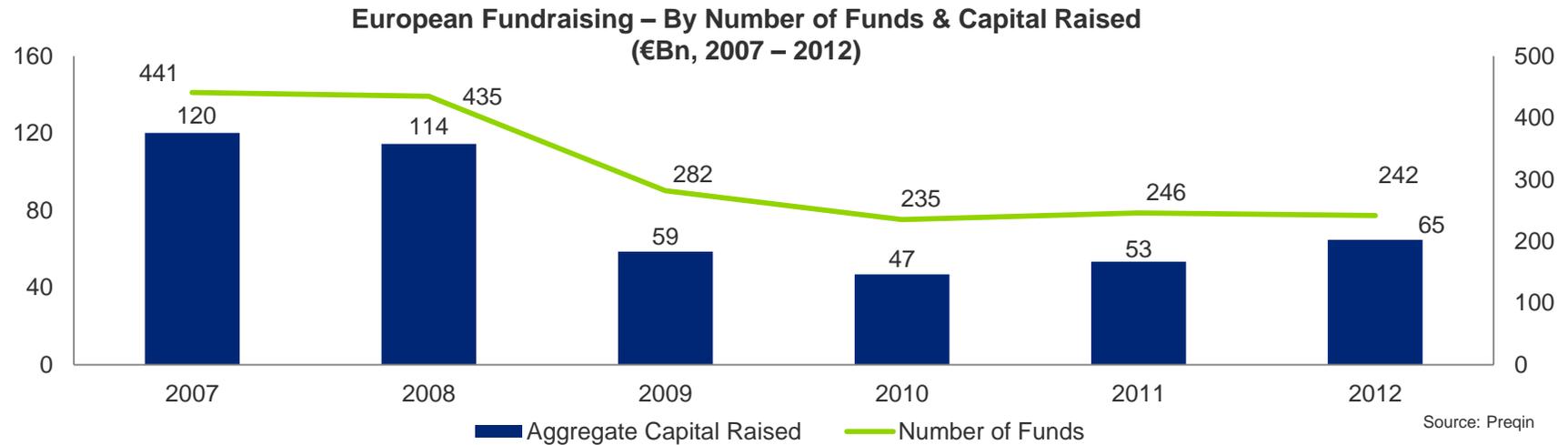
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European Fundraising – Pre and Post Eurozone Crisis

Private Equity (PE) Fundraising Overview: Pre and Post Crisis

PE fundraising in Europe is showing signs of improvement, however, large dry powder accumulated during crisis continued to impede the growth post-crisis

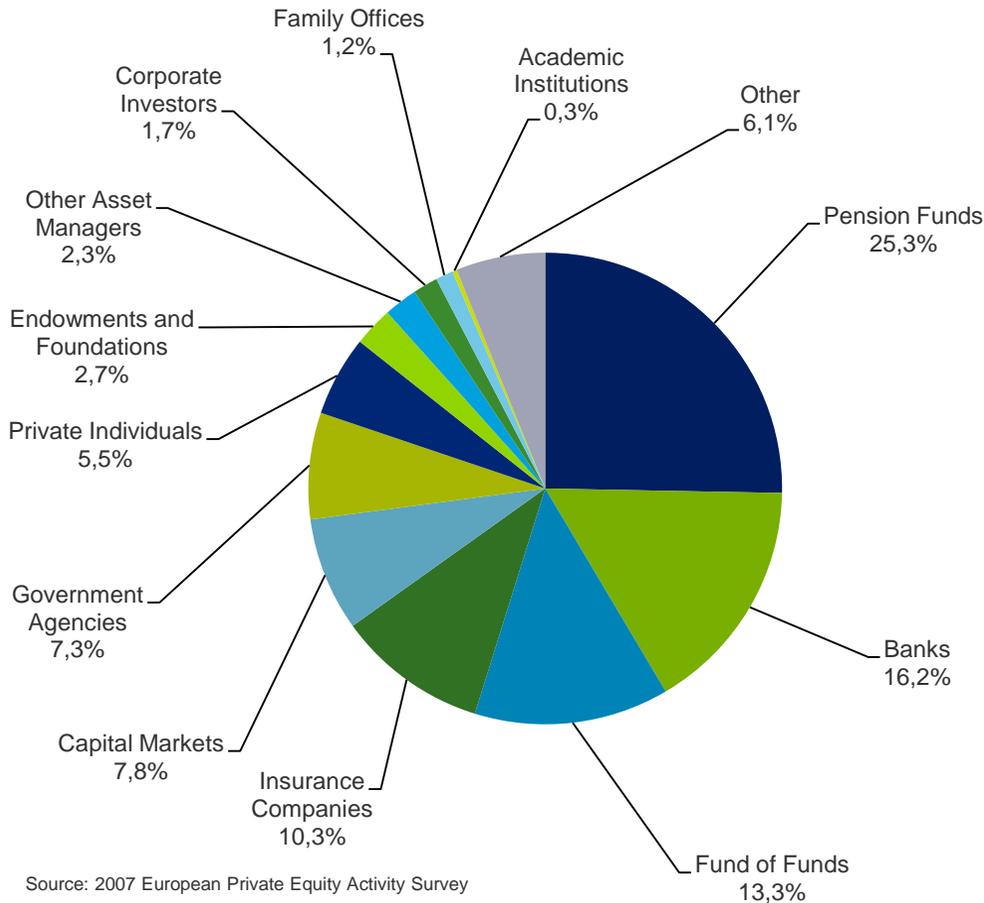


PE Fundraising Overview: By Investor Type

Sovereign wealth funds and government agencies have emerged as a major investor's class post-crisis, while banks have reduced their lending on account of global solvency regulations

Pre-crisis (2007)

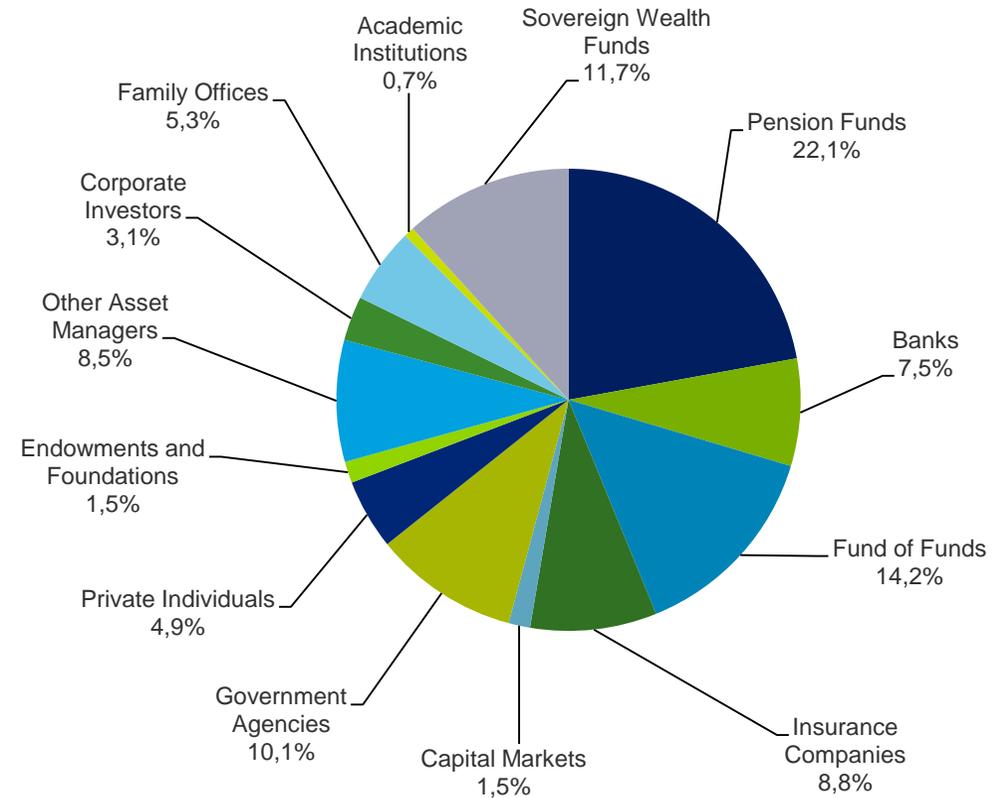
European Fundraising – By Investor Type
(%, 2007)



Source: 2007 European Private Equity Activity Survey

Post-crisis (2012)

European Fundraising – By Investor Type
(%, 2012)

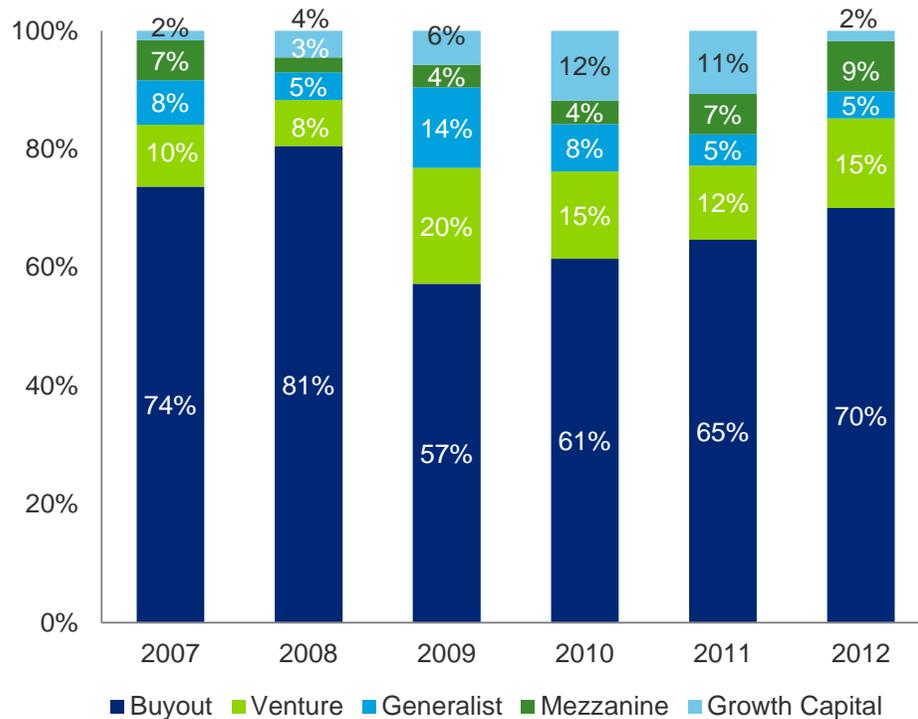


Source: EVCA Yearbook 2013

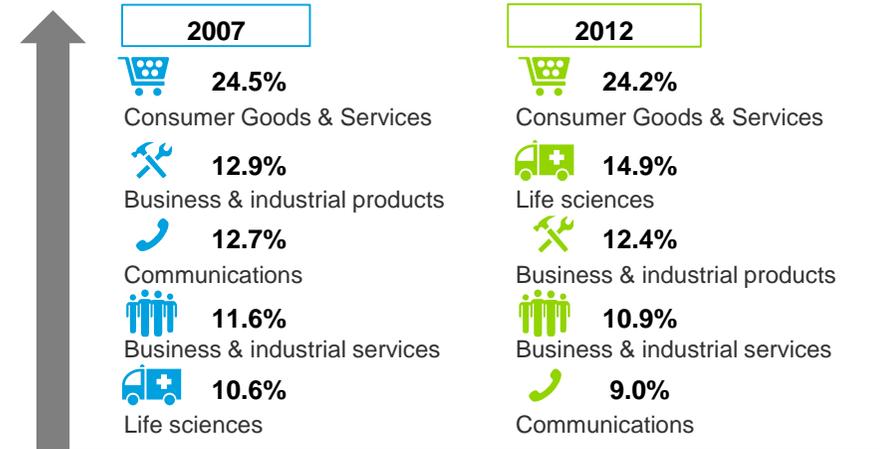
PE Fundraising: By Fund Type & Sector

Buyout as a fund type continued to dominate post-crisis with life sciences emerging as the second most preferred investment

European Fundraising – By Fund Type
(%, 2007 – 2012)



Top Five Sectors – By Amount
(%, 2007 & 2012)



Source: EVCA Yearbook 2013 & 2007 European Private Equity Activity Survey

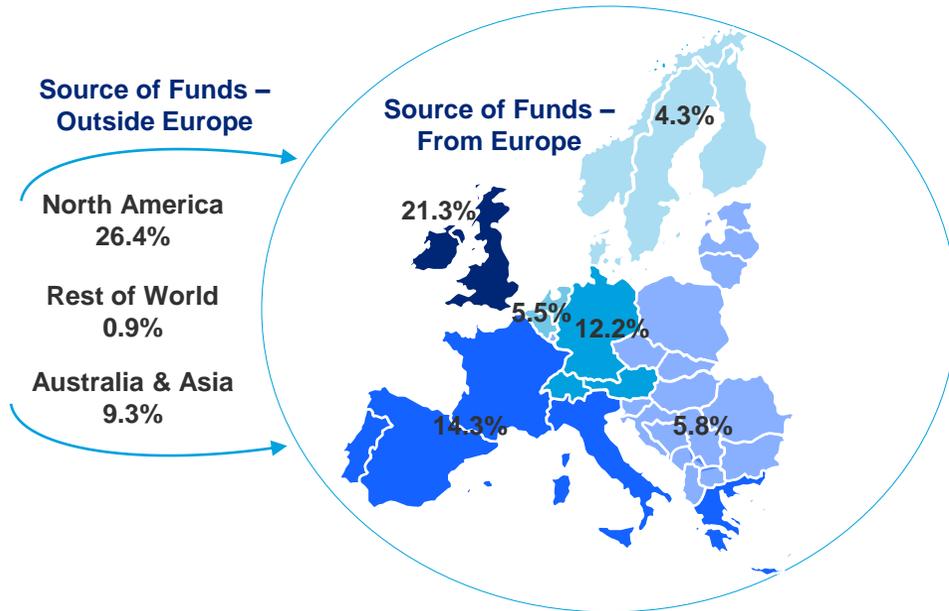
Source: EVCA Yearbook 2013

PE Fundraising: By Source of Funds

North America continued to be the top investor in Europe while within Europe—France, Netherlands, Belgium and Luxembourg became the major contributor post-crisis

Pre-crisis (2007)

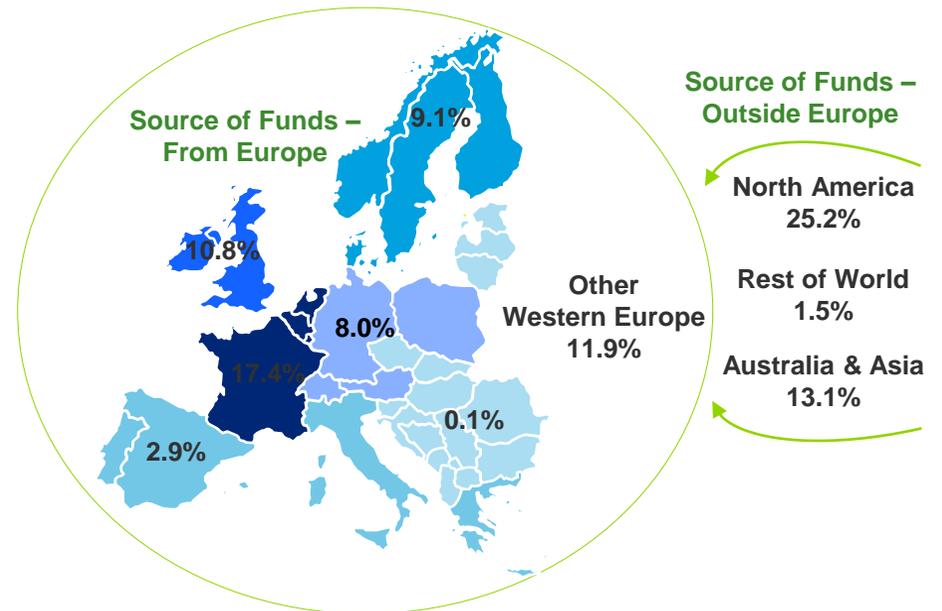
Source of Funds – By Geography
(%, 2007)



Source: 2007 European Private Equity Activity Survey

Post-crisis (2012)

Source of Funds – By Geography
(%, 2012)



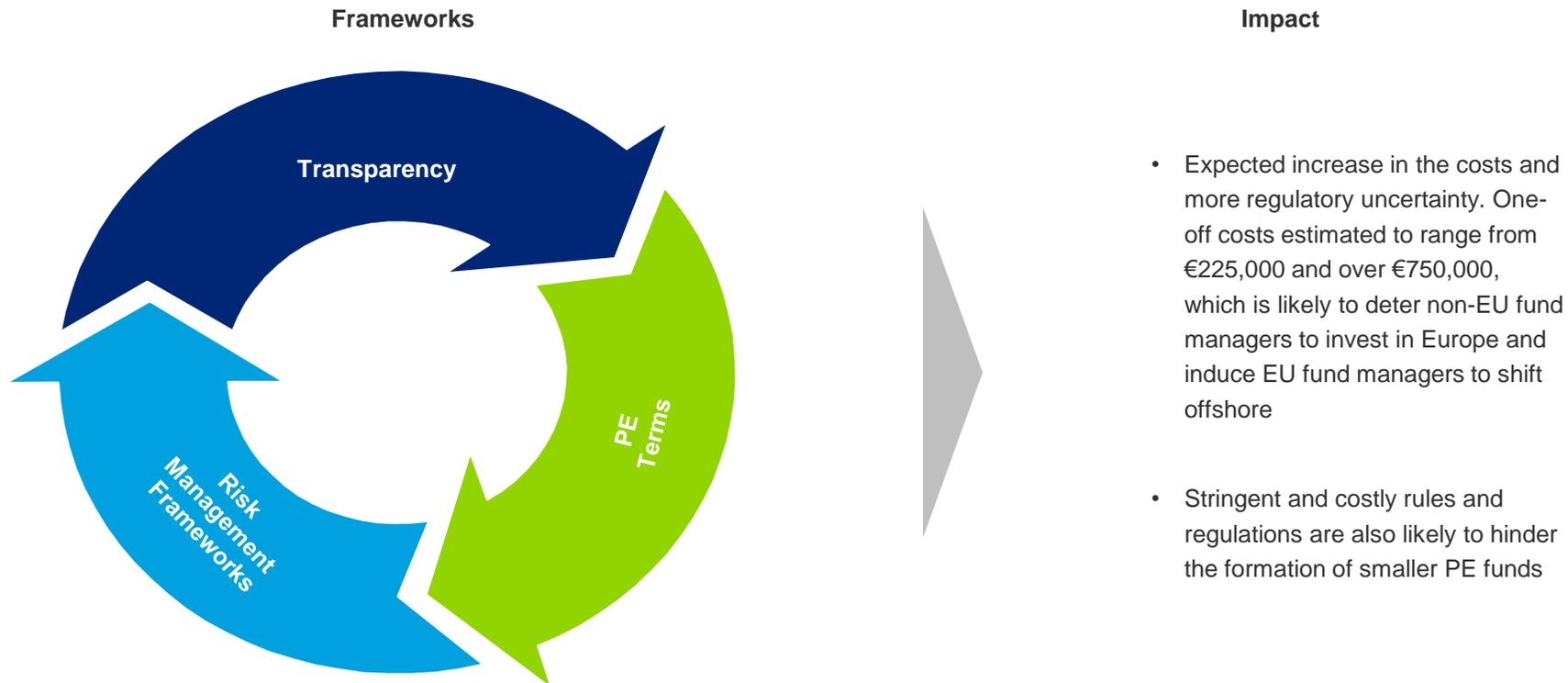
Source: EVCA Yearbook 2013

PE Fundraising: Regulations

European Union (EU) introduced AIFMD during the recession period subjecting fund managers to a registration requirement and provisions in a bid to reduce systemic risk posed by AIFs

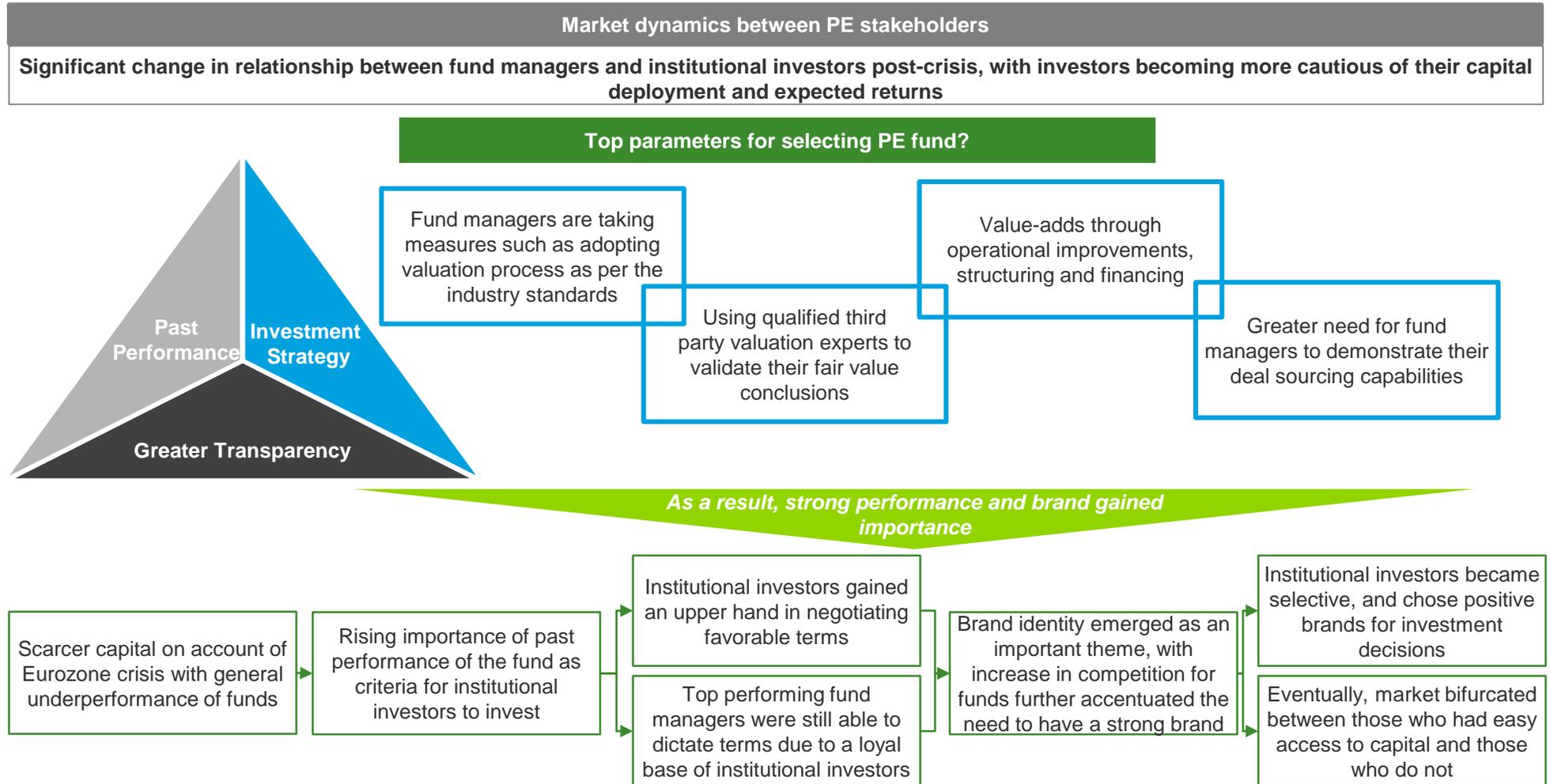
Alternative Investment Fund Managers Directive (AIFMD)

- A EU-wide harmonised framework to monitor and supervise risks posed by the Alternative Investment Fund Managers (AIFMs), and strengthen the internal market in alternative funds. It helps to reduce a number of risks posed by AIFMs including systemic risk



PE Fundraising: Market Dynamics

Investment Strategy has emerged as one of the top parameters for selecting PE fund, with strong past performance and brand identity gaining importance



Indicators

- According to the 2011 BackBay Communications survey, 52% of the PE players increased their investment in marketing materials, including their websites, in the last 12 months
- Approximately 26% increased their investment in public relations and 37% in their investor relations during the same period

PE Fundraising: Investment Approach

Co-investment between institutional investors-fund managers and secondary commitments are becoming increasingly prominent and appealing to investors

Investment Approach

Approaches becoming more prominent and appealing to Investors?

Co-investment

Last few years witnessed a rise in the number of co-investments between institutional investors and fund managers. Over 31% of the institutional investors globally that pursue co-investment strategy are based in Europe

Benefits

Helps Institutional investors consolidate their fund manager relationships, generate higher returns, lower fees and develop closer relationships with fund managers	Helps narrow the gap between committed and invested capital, corner differentiation opportunities, and allows fund managers to reduce their dependence on PE competitors for capital
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Impact

- Enforces greater transparency in PE fund operations
- Takes more time and resources and also creates difficulties for fund managers as institutional investors typically take long time in decision making

Secondaries

New Financial industry regulations in Europe, including Basel III and Solvency II, driving the supply in secondary marketplace with several financial institutions compelled to sell their holdings to ensure compliance with new regulations

Benefits

Institutional Investors acquire secondary commitments due to attractive pricing in the market driven by liquidity concerns and rigorous regulatory requirements	Offers diversification potential and might be favourable to certain investors looking to mitigate the J-curve effect and gain broader investment exposure ¹⁸
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Impact

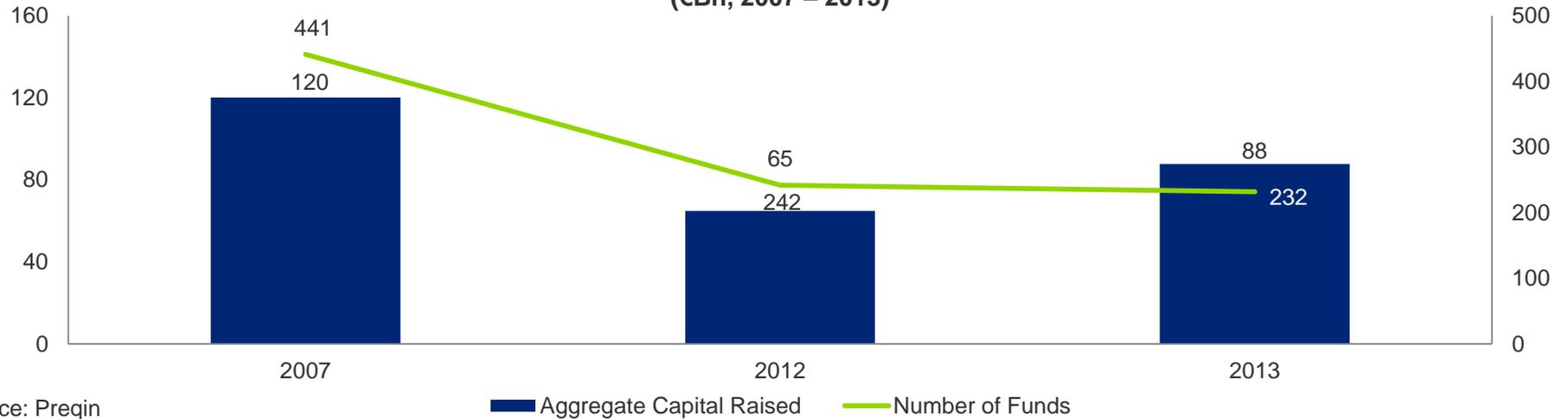
- Offers investor community a shorter term, more visible alternative access point into PE
- Results in reduction of amount of capital available for primaries

European Fundraising – Current Situation

PE Fundraising Overview: 2013

Fundraising in Europe registered 39% increase in 2013 driven by improving domestic as well as foreign investor confidence

European Fundraising – By Number of Funds & Capital Raised (€Bn, 2007 – 2013)



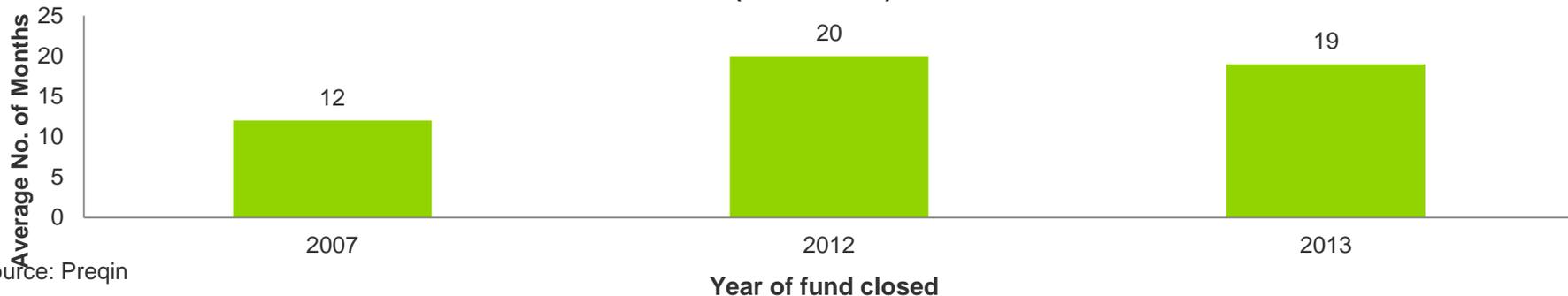
Source: Preqin

Buyout
2013 43bn€
2012 26,9bn€

Distributions to investors
2013 52,9bn€
+23%

IPO
2013 6 1,8bn€
2012 34 13,3bn€

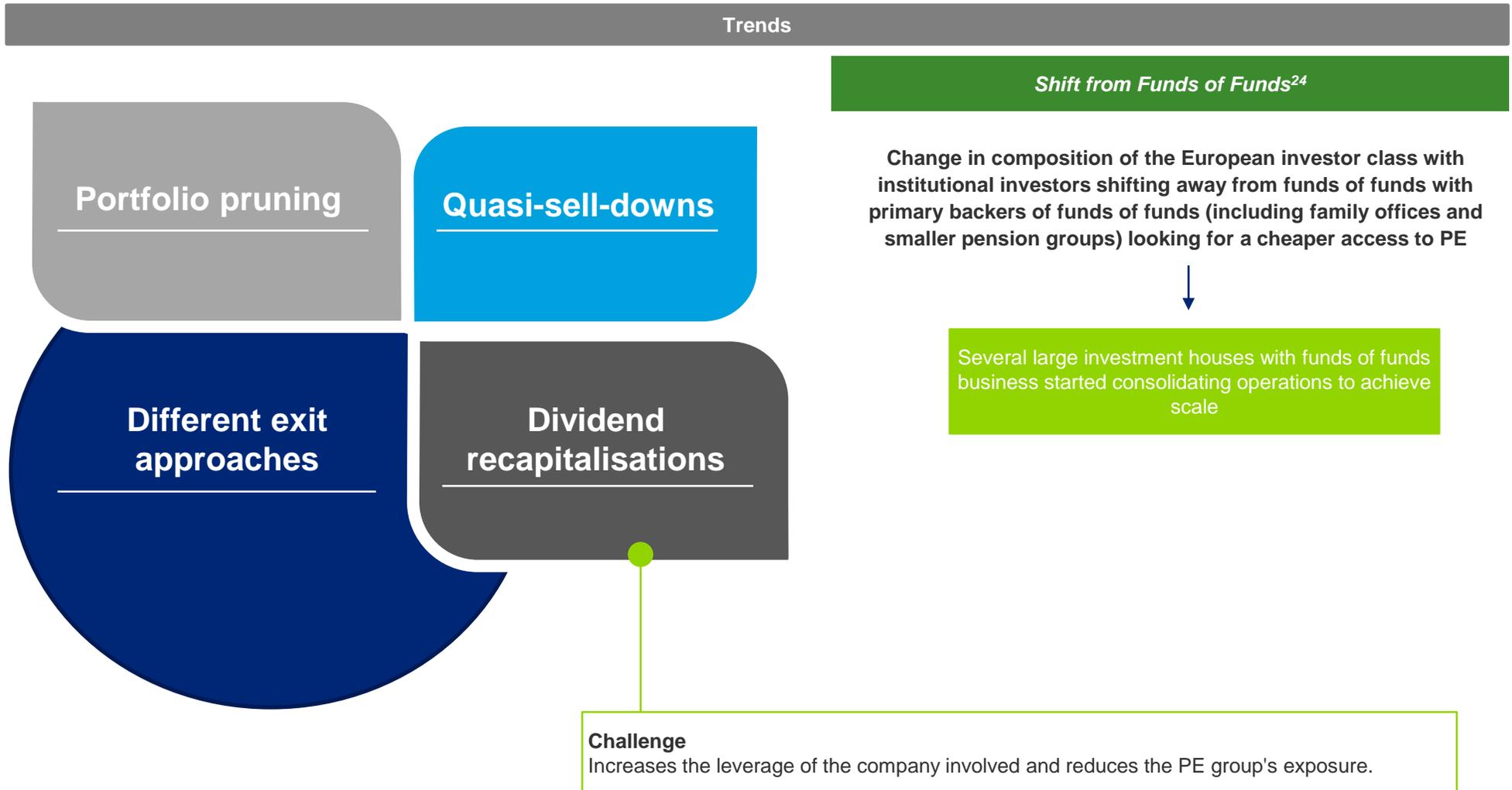
Average Time Spent Raising Funds (2007 – 2013)



Source: Preqin

PE Fundraising: Trends (1/2)

PE fundraising market witnessed emergence of new exit approaches, such as Quasi-sell-downs and dividend recapitalisations, to return capital to investors



PE Fundraising: Trends (2/2)

Improved credit environment has led to increased use of debt to finance assets, while high fees and disappointing returns has deviated several institutional investors towards direct investing

Trends

Investors moving to do-it-yourself / direct investing

Gaining popularity as investors realize the advantages, such as the expensive fees charged by PE firms. Further, improved economic environment has also renewed confidence in investors to set up such operations

Benefits

Less expensive than direct investing if the talent is rightly recruited. A 2% management fee a year and a 20% share of profits charged can at times run into millions of dollars

Gives institutional investors greater flexibility. Several Canadian and other international investors are hiring investment professionals and opening offices in Europe to manage their own deals in the region

Challenges

- Finding the right talent, with local expertise and knowledge, to lead the transactions and execute the deal
- Set-up phase for direct deals requires complex capabilities and resources
- Understanding of the risks and returns of the transaction

According to Dealogic, there has been a continuous rise in the number and value of direct and co-investment deals by institutional investors in Europe. In 2013, pension funds and sovereign wealth funds completed 10 PE-related deals worth €3.8Bn, compared with 8 in 2012 worth €2.4Bn

Increasing utilization of debt

Increase in use of debt by PE firms to finance acquisitions. Private debt funds, though deemed expensive than bank loans, emerge as a source of financing for mid-market deals as banks reduce their loan books due to capital adequacy regulation

Benefits

Easy to obtain credit as investors demand for bonds and loans backing the takeovers, with robust credit markets and low interest rates being the primary enablers

Private debt funds help PE firms obtain credit on deals and provides mid-market buyout firms with several debt sources and options for leveraged buyouts. Also offers flexible covenants and extra leverage

Challenges

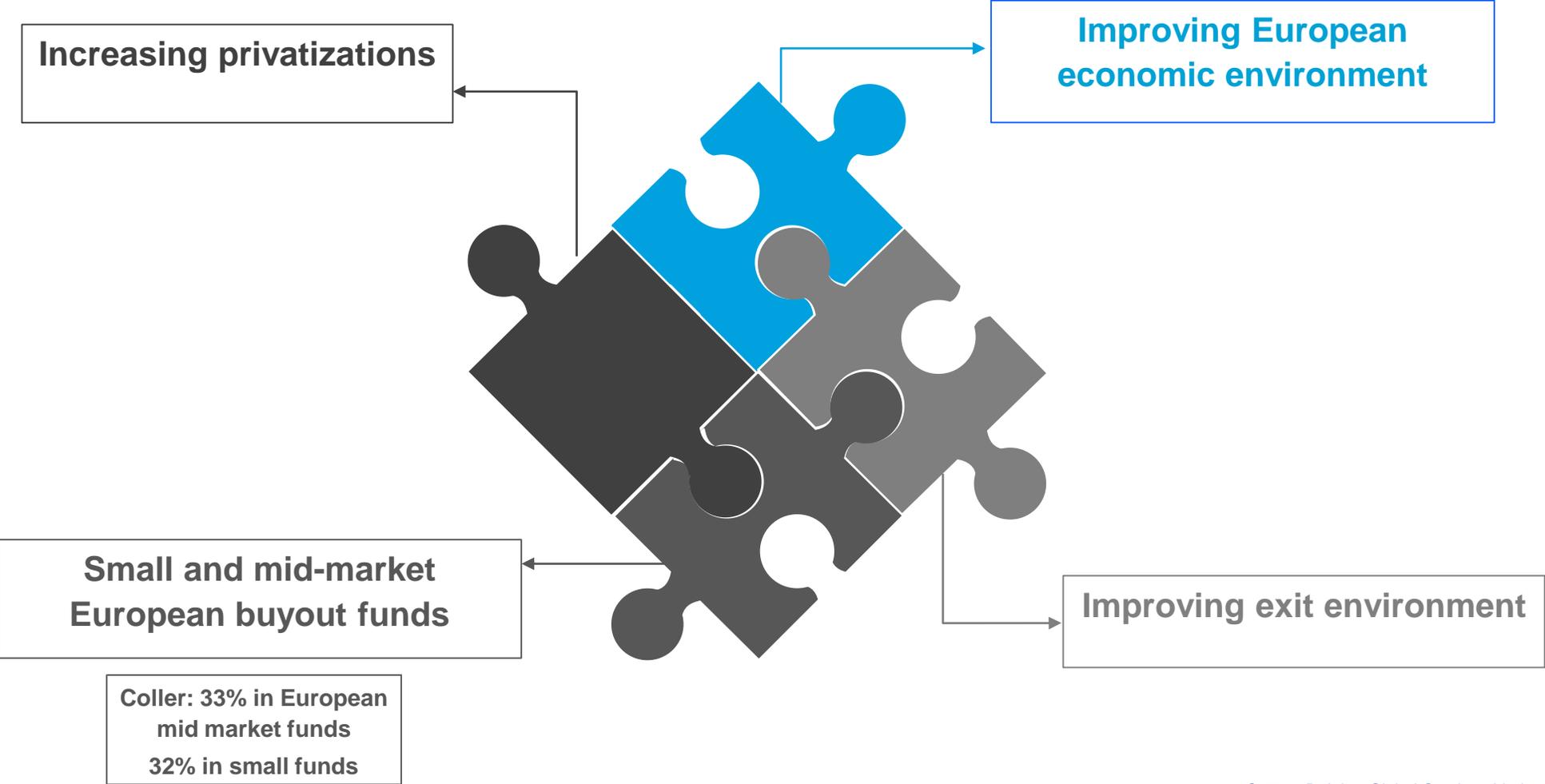
- High risk due to more leverage, given the current economic environment in Europe
- Private debt though increasingly becoming recognized as a product in Europe faces jurisdiction challenges due to separate rules and regulations in each country

According to a Alternative Lender Deal Tracker from Deloitte, which tracks 20 private lenders in the UK mid-market, there were over 55 deals involving private debt funds between Q4 2012 and Q3 2013, with Q3 2013 showing the highest number of transactions

PE Fundraising: Drivers

PE fundraising market in Europe has been driven by improving economic and exit environment, increasing privatisations, and small and mid-market European buyout funds

Drivers



European Fundraising – Outlook

PE Fundraising: Outlook

European Fundraising is expected to continue its growth trajectory in 2014, driven by positive investor confidence and lack of near-term threats relating to EU (45,8Bn€ in pipeline for 2014)

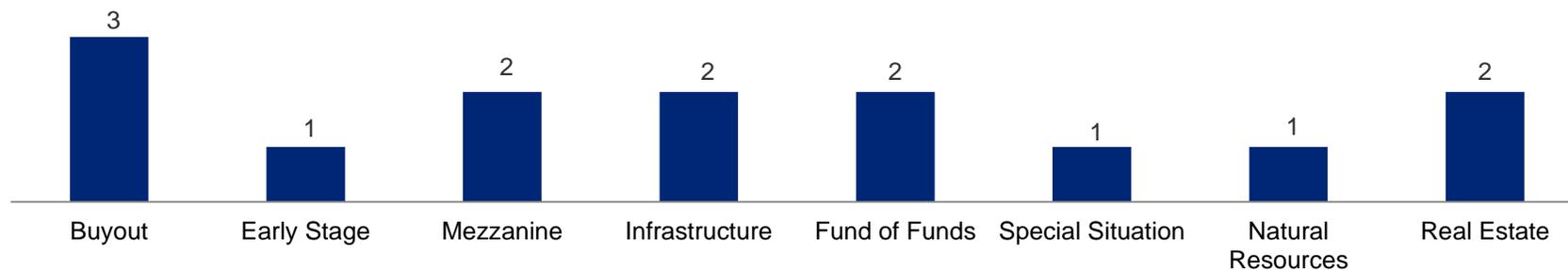
Outlook

European Funds to be raised – Experienced Managers
(€Mn, 2014)



Source: Preqin

European Funds to be raised – First-Time Funds
(Number of Funds, 2014)



Source: Preqin

PE Fundraising: Expected Developments

Southern Europe, particularly Spain and Italy, is expected to attract investment fuelled by attractive valuations, improving fundamentals and positive economic outlook

Expected Developments

Southern Europe likely to attract PE investment

- Southern Europe, particularly Spain and Italy, expected to attract investment from PE industry. The two countries once very popular with the PE firms lost luster during financial crisis
 - Attractive valuations (equity prices are cheaper than rest of Europe) and improving fundamentals provide an opportune time for investment to PE firms hoping to benefit from the region's economic recovery
- The U.S. funds are particularly interested in Southern Europe, particularly Spain as the country is deleveraging and the economy is improving. Abundance of medium-sized companies, particularly in the engineering, fashion and food industries, in need of capital and valued attractively further lures investors

Challenges

Southern Europe, though providing attractive investment opportunity, has still not recovered from the economic crisis. Political instability in Italy also poses a concern for several investors
Further, requirement of local presence for buyout firms to build relationship with entrepreneurs in Italy continues to impede investment in the country

According to Preqin and several industry experts, approximately 15 PE groups focused on Spain and Italy are seeking to raise funds valuing €4Bn.

Other

- Mid-market funds are expected to drive the market in 2014, with several foreign investors interested in the SMEs in the European region
 - The European Commission's scheme, the Competitiveness of Small and Medium-sized Enterprises, to strengthen region's SMEs and improve their competitiveness, and other initiatives, combined with increasing interest from VC firms, presents a healthy outlook
- PE investment in 2014 is expected to improve as sellers and buyers converge on the price expectations
 - Further, upcoming European Central Bank banking stress test is causing deleveraging by banks leading to unlocking of several assets, providing investment opportunities for PE firms
 - Continued hesitance by European banks to provide credit to businesses in the region is resulting in such businesses looking for alternatives, including PE
- Debt markets are expected to remain strong in 2014, with the European high-yield market expected to remain a substantial provider of funds particularly in the mid market segment
- Exit environment is expected to remain buoyant in 2014 with exits via M&A with strategic or PE investors anticipated to grow significantly, taking over IPOs and secondary markets, the major exit approaches in 2013



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