

A close-up photograph of the eyepieces of a pair of binoculars, set against a clear blue sky. The binoculars are made of a dark, metallic material, possibly aluminum or steel, and the eyepieces are prominent, circular features. The background is a solid, light blue color.

# European private equity outlook 2010

**Roland Berger**  
Strategy Consultants

Munich, Vienna, Frankfurt, December 2009

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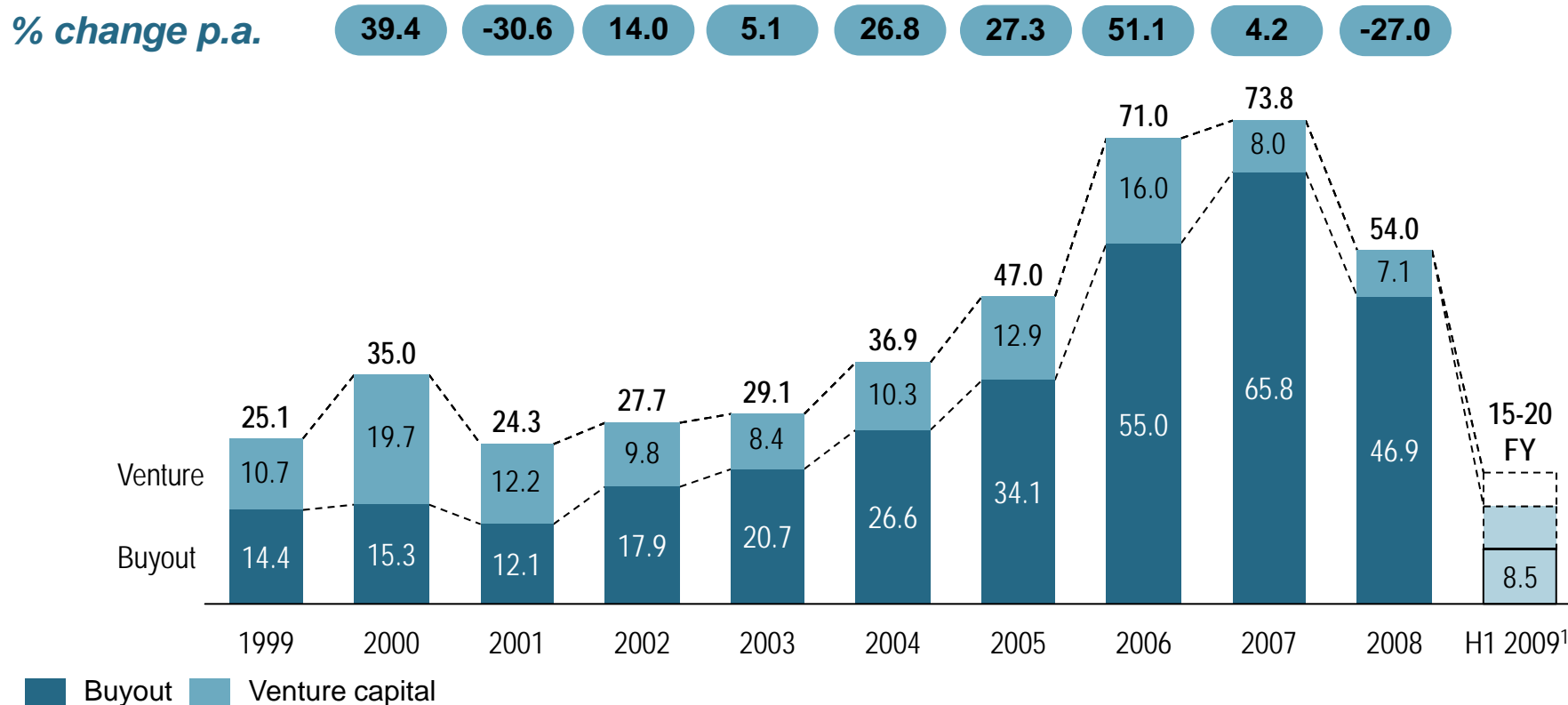
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# A. European private equity market overview What will come after the crisis?

**Roland Berger**  
Strategy Consultants

# The European private equity market volume declined by 27% to EUR 54 bn in 2008 – 2009 looks even worse

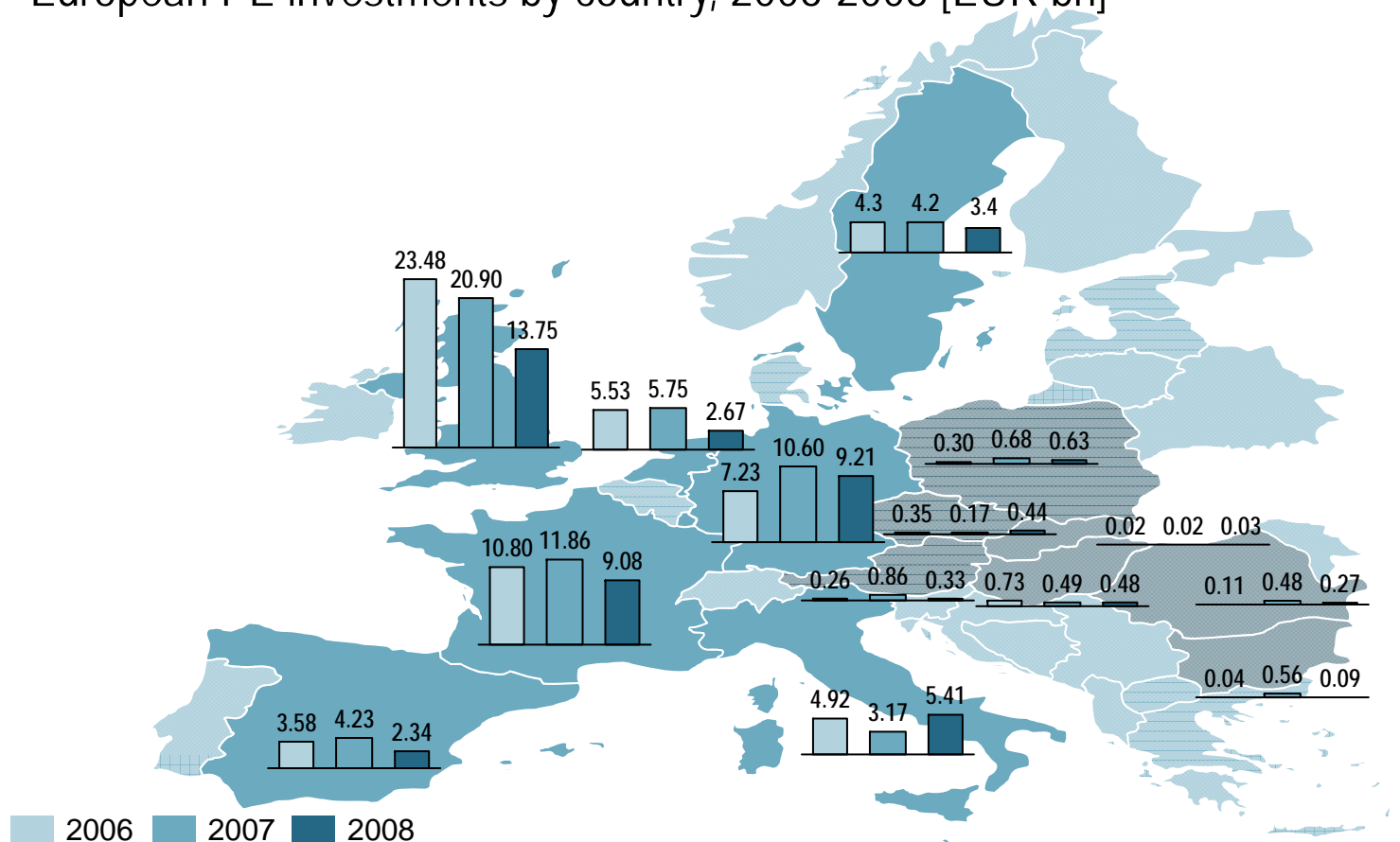
European private equity investments [EUR bn]



1) No split in buyout and venture capital available – Full Year (FY) = estimate

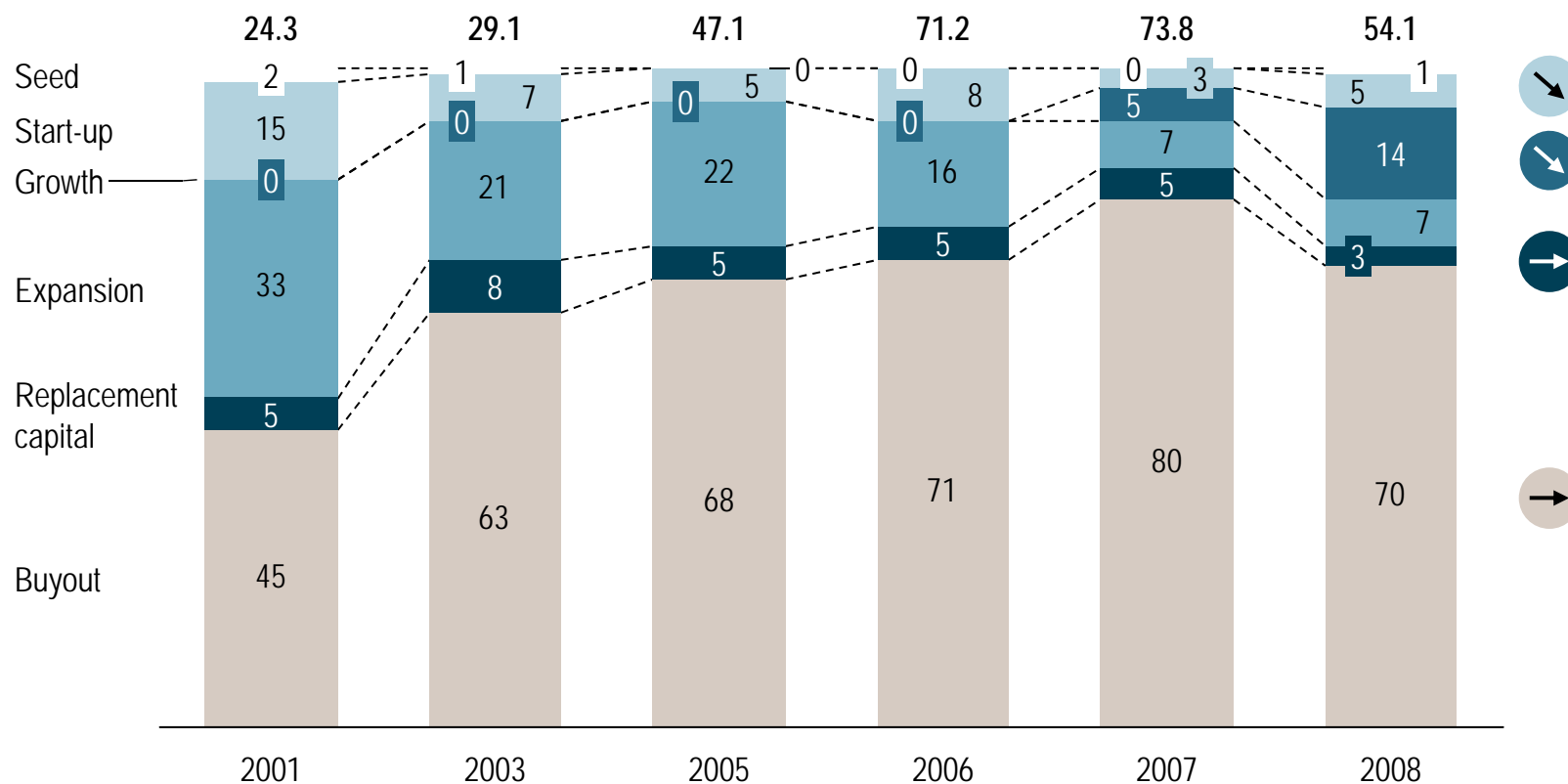
# Most national PE markets experienced significant setbacks in 2008 – market volumes in CEE still lag far behind WE

European PE investments by country, 2006-2008 [EUR bn]



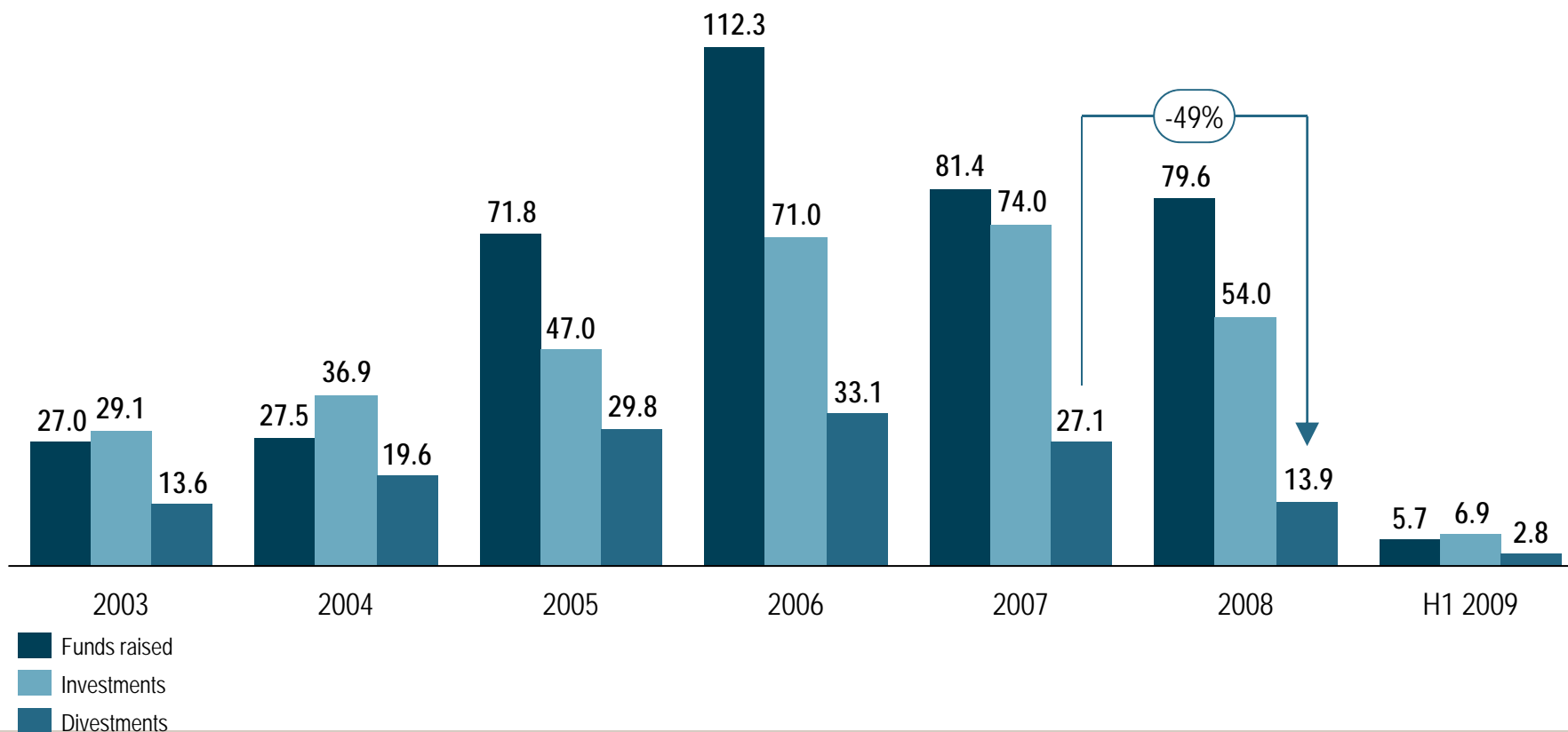
# Strong focus remains on late stage buyout financing – Now and in the future

European PE investments in terms of investment stage [EUR bn; %]



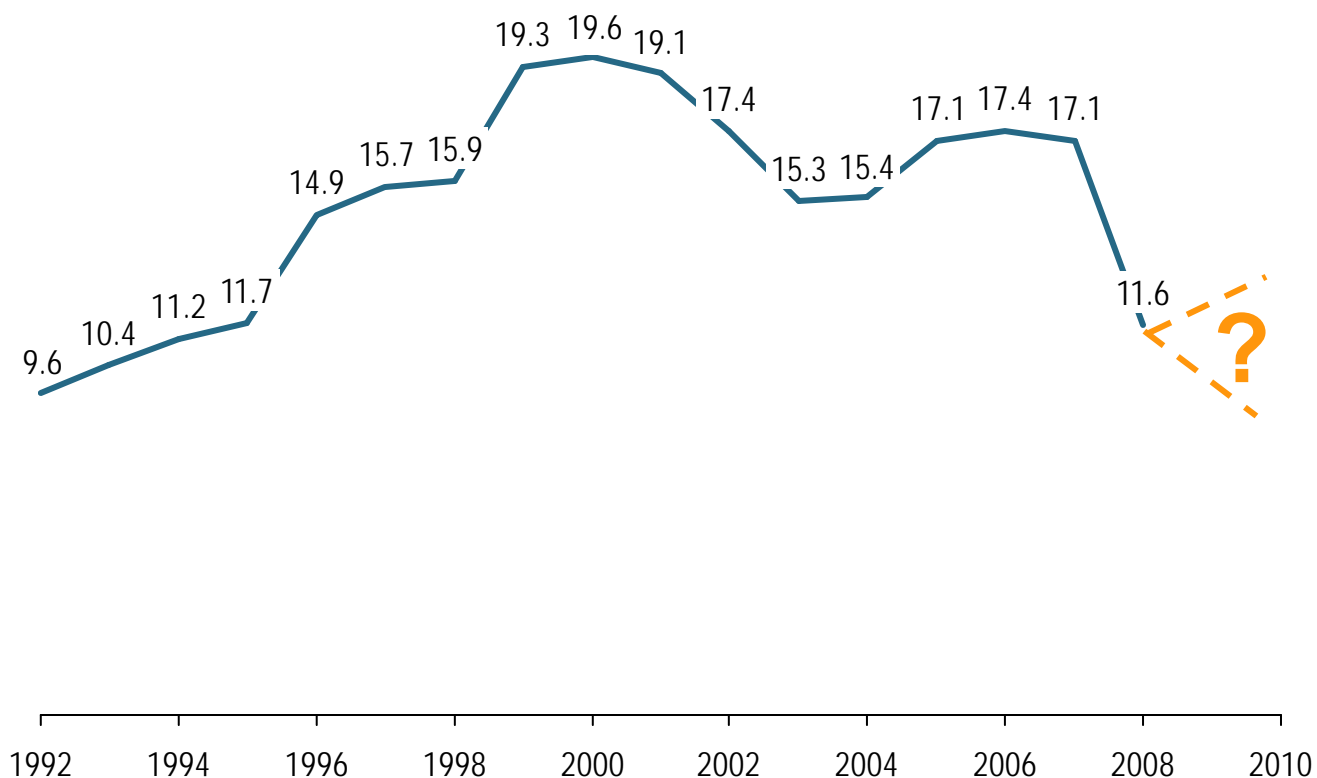
# Divestments will probably decline by 50% for the second year in a row in 2009 – funds raised and divestments almost seized??

European PE activity flows [EUR bn]



# The question is: Will profits recover – or will the downturn continue?

10-year rolling IRR (buyouts in Europe) [%]



## REMARKS

- > Only top funds can meet the high demands of investors – the spread between well performing funds and low performers has widened
- > Private equity funds need to take a close look at levers available for value creation


B. The PE environment is remaining difficult  
How are the macro indicators developing?

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Strategy Consultants

## Judging by macroeconomic indicators, the PE environment will remain difficult

### Current situation

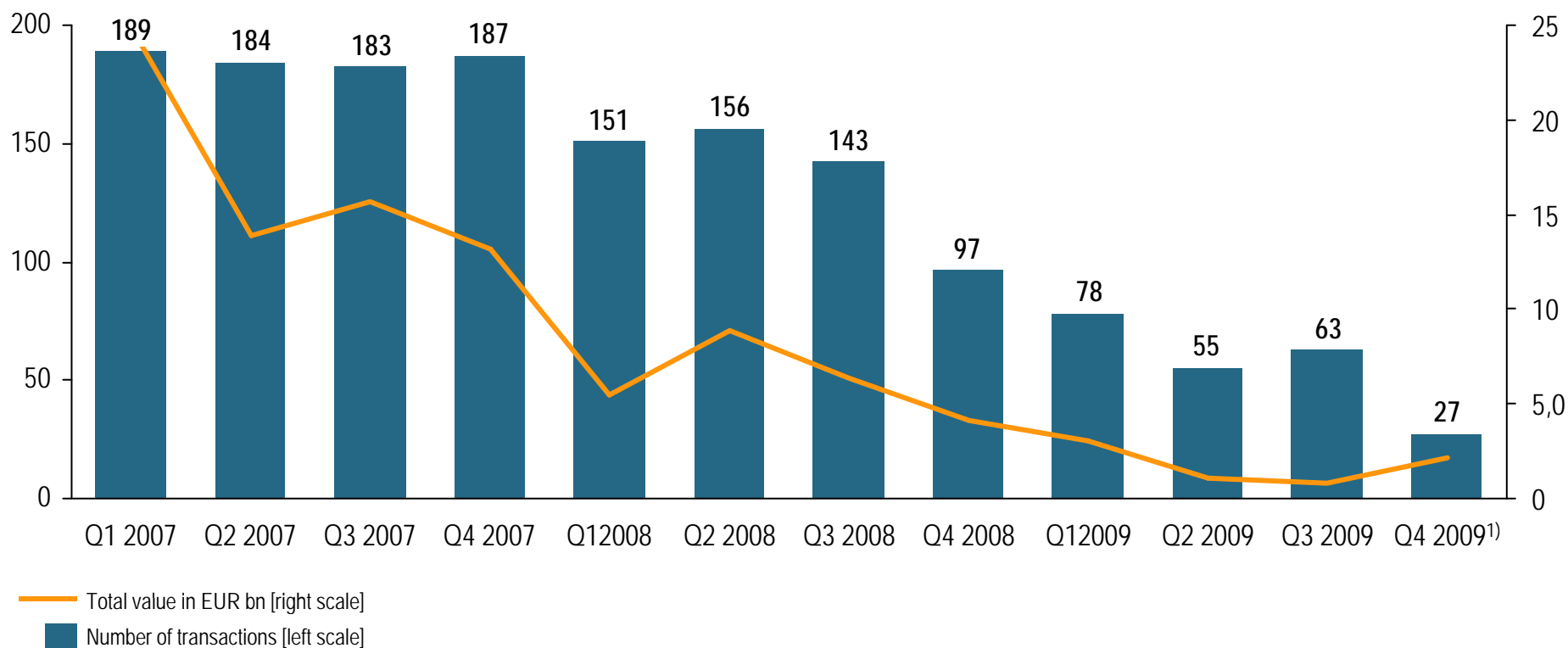
- > **The number and size of leveraged buyout deals has decreased further** due to limited availability of debt financing
- > **Leverage levels have decreased** from over 6 times EBITDA to multiples below 5, reducing the return on equity that PE firms are able to generate
- > **Many investments** by PE firms are **ready to go public, but stock exchanges are not**
- > **Profits remain under pressure** – only top funds achieve satisfactory returns



*Will these trends continue? – Outlook for 2010*

# Market snapshot: The takeover market should have hit bottom – Recovery expected in the next few months

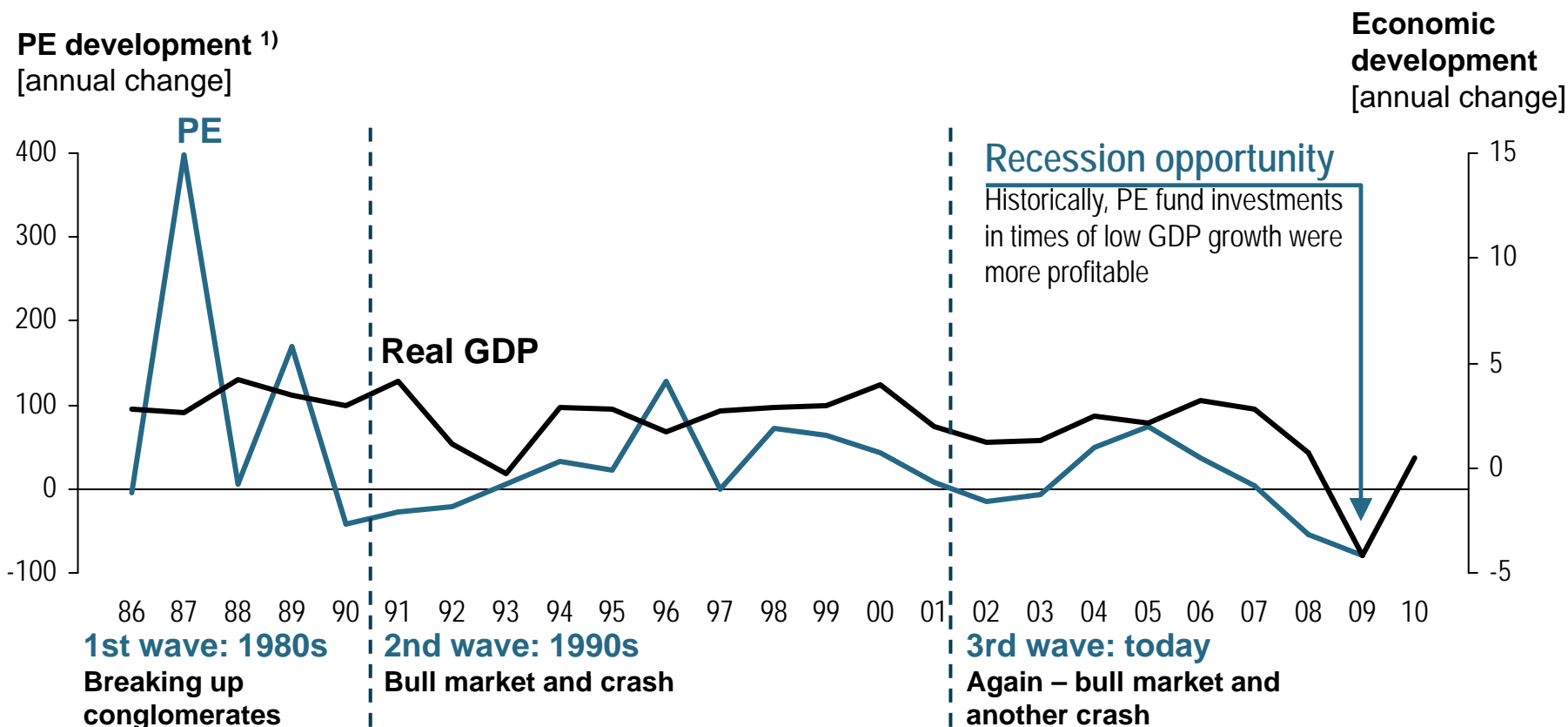
European takeovers by financial investors since 2007<sup>1)</sup>



1) Until November 23, 2009

# Where is the PE market headed? From a macroeconomic perspective, economic growth is needed

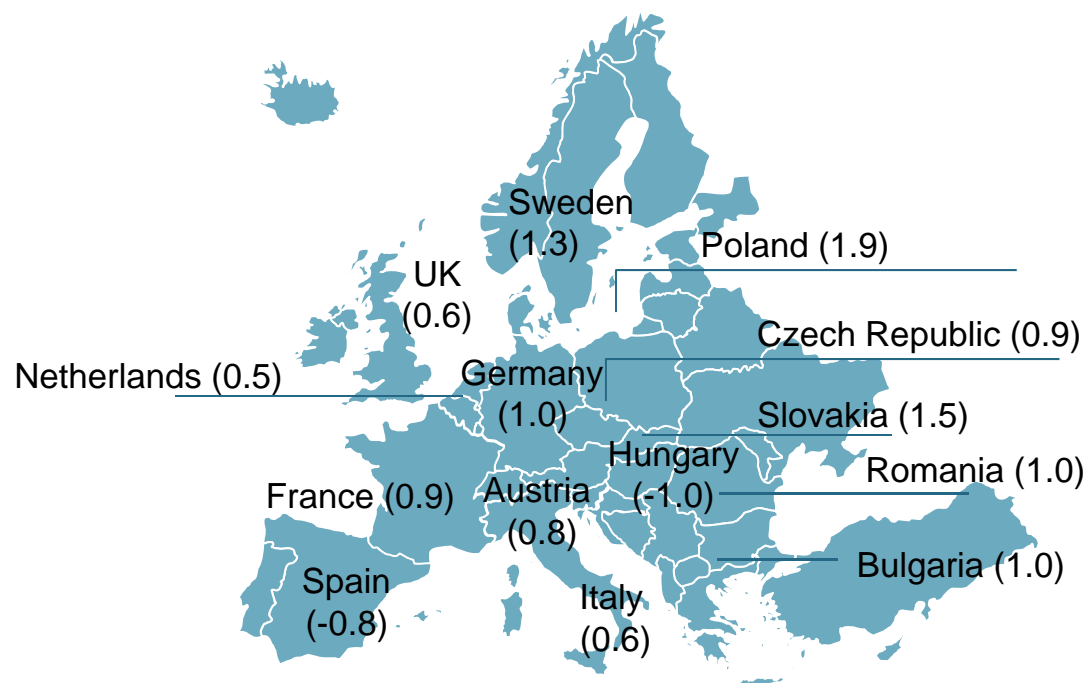
## Private equity activity vs. economic development



1) M&A with PE involvement

# Most European countries will achieve positive growth rates in 2010 – Will this be enough to fuel growth in the PE market?

Data forecast for 2010 – Year-on-year GDP change



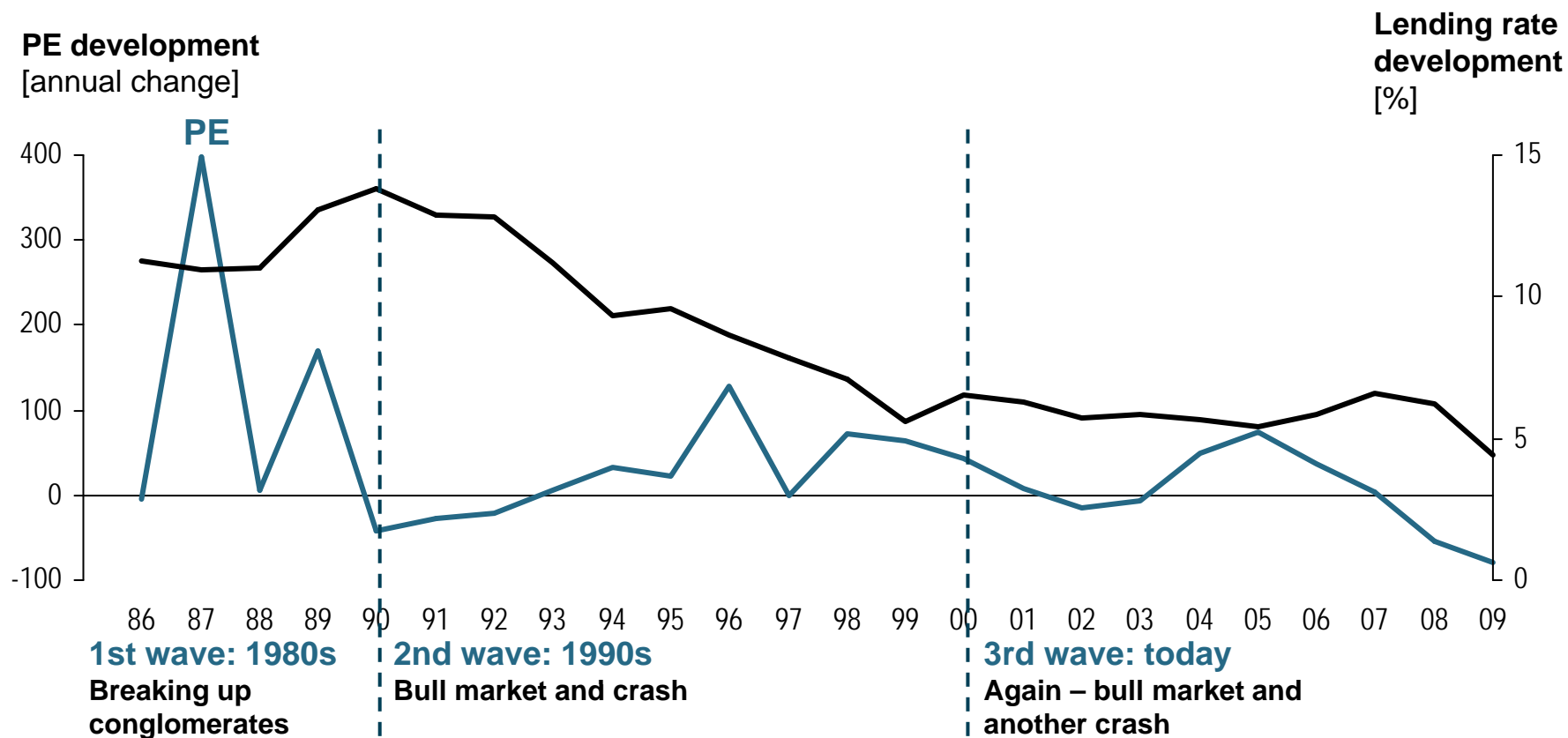
Trend:  Influence: 

## REMARKS

- > Not all European economies are back on track for recovery – e.g. Spain will continue to suffer in 2010
- > Economic stimulus packages in many countries will support recovery
- > The V shaped recovery seems to be most likely
- > Cost cutting and restructuring are key to securing returns especially in low-growth industries

# Low interest rates are becoming increasingly crucial for bearing the financing burden

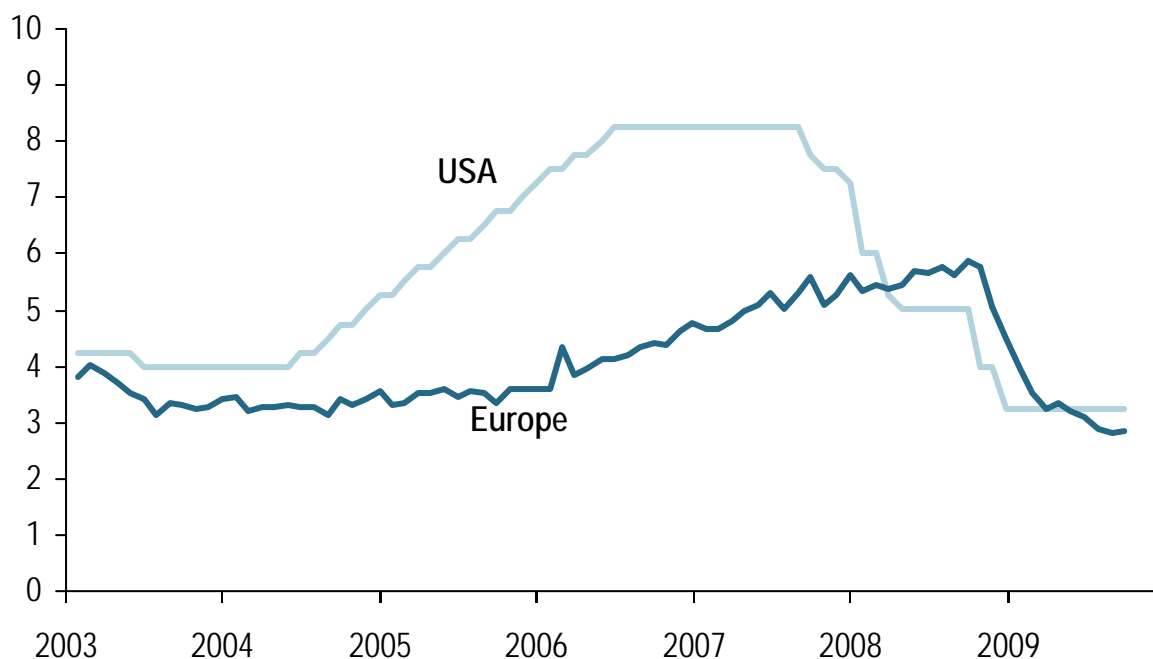
## Private equity activity vs. lending rates



# Interest rates came down strongly to stimulate liquidity in credit markets – However, restricted access to cheap debt for PEs

## Lending rates in Europe and USA

### Lending rates [%]



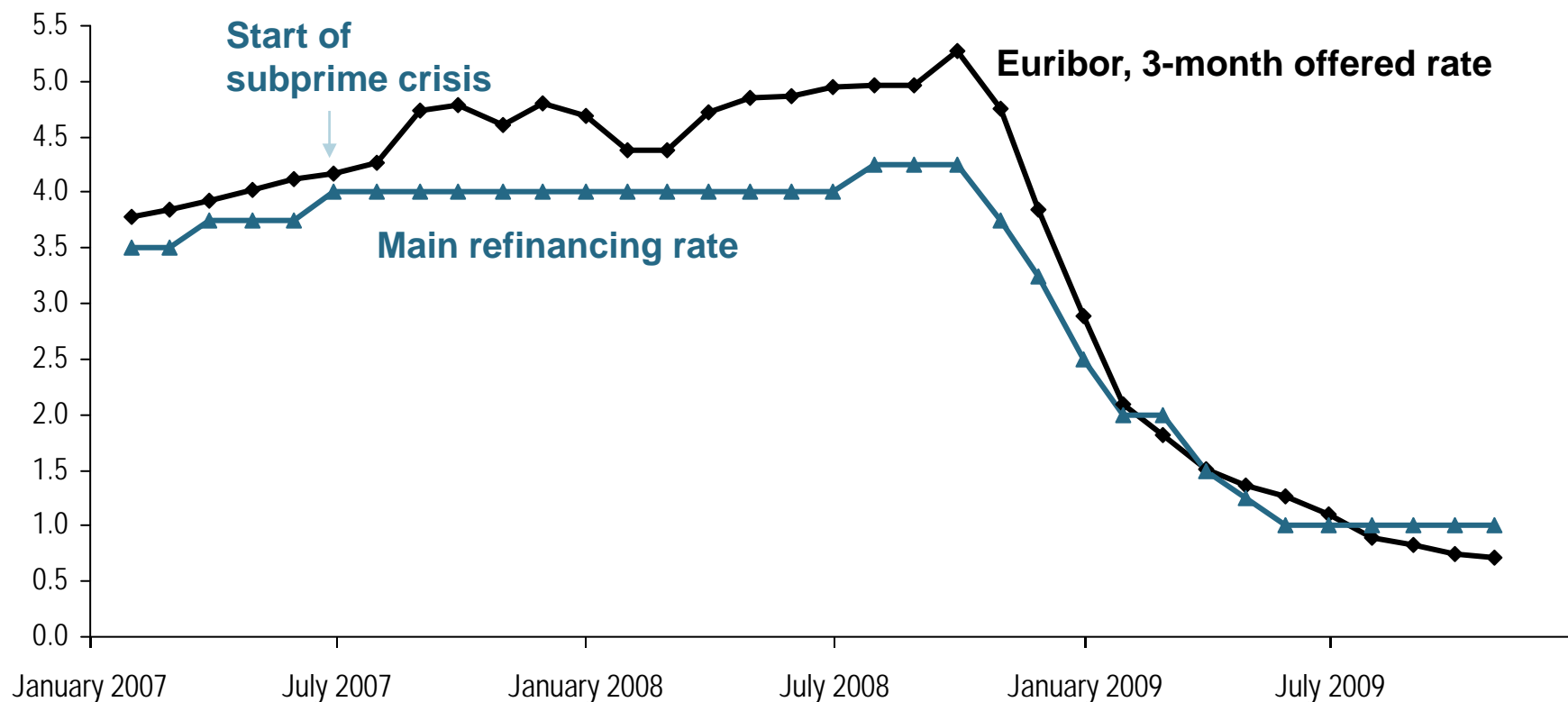
Trend: Influence:

### REMARKS

- > Interest rates will most likely start to recover, increasing the price of leverage for PE firms
- > Increasing interest rates could lead to over-leveraged companies and defaulting credits
- > Due to the financial crisis banks froze their lax credit policies (e.g. tightening financial covenants) and thus negatively impacted the access of PEs to cheap debt financing
- > Investments will have to earn higher returns to serve the credit lines; value creation – e.g. through restructuring – becomes more important

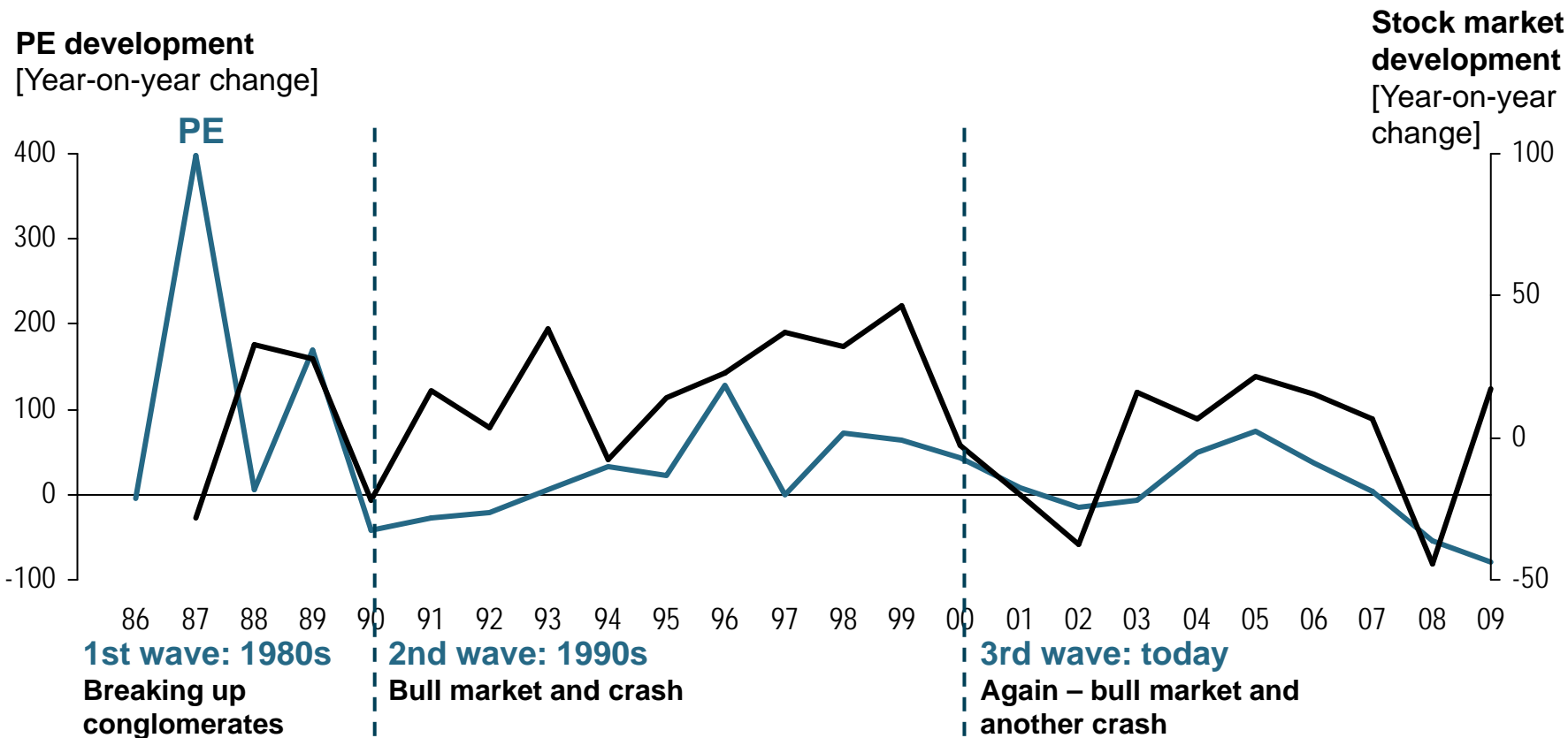
# A lack of confidence in European banks made money expensive in 2008 – Spreads back to normal in 2009

Development of interest spread [discount rate vs. 3-month Euribor]



# Healthy stock markets normally provide exit options for PE investments – In most cases with a time lag

Private equity activity vs. stock market development

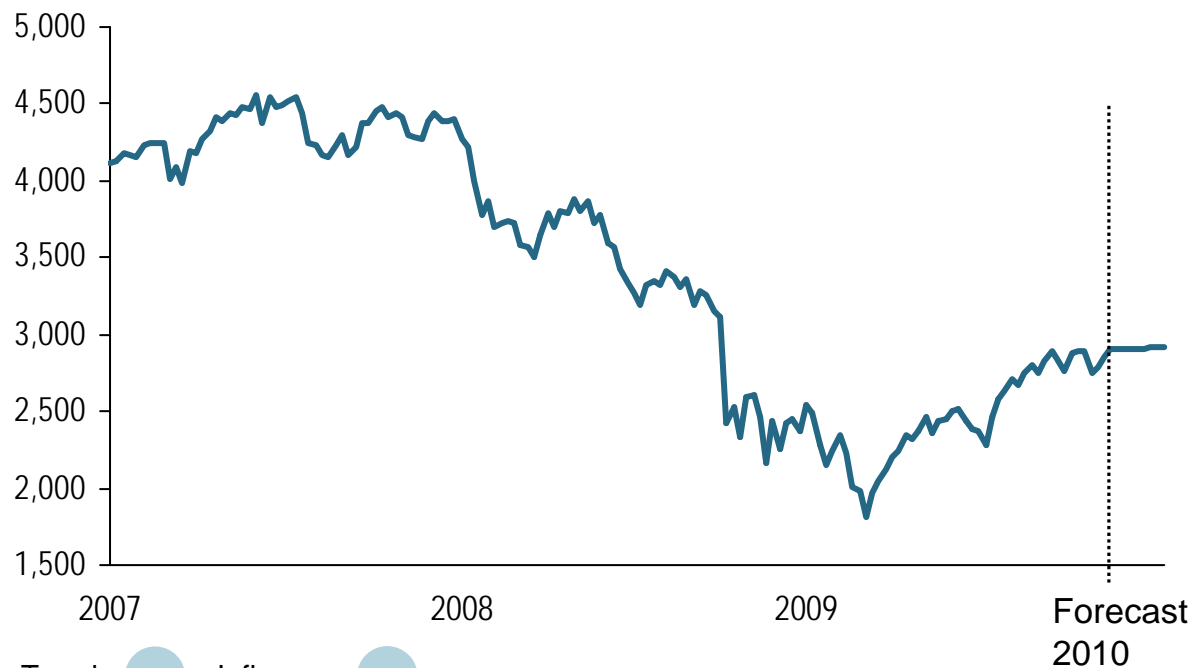


# European stock markets not likely to boom in 2010 – Only slight growth expected

Forecast data 2010 – Stock market

## Stock market development (example: Euro Stoxx)

Euro Stoxx, price development, since Jan 2007 [index]



## REMARKS

- > European stocks recovered after hitting rock bottom in March 2009
- > IPOs for PE investments remain difficult
- > Restructuring investments to ensure profitable exits on the secondary market is becoming increasingly important

## OUTLOOK: The PE environment remains difficult

### Outlook

- > GDP growth in Europe will recover starting in 2010 and thus positively affect private equity industry performance
- > However, as a result of the financial crisis, bank financing for new deals – but also re-financing for existing portfolio companies – will be smaller in terms of volume, covenants will be stricter and costs will be higher
- > Restricted bank lending might also hit highly leveraged companies, which will lead to increased risk of default
- > After the rebound in 2009, the outlook for European stock markets in 2010 remains cautious – very limited options for profitable IPO exits

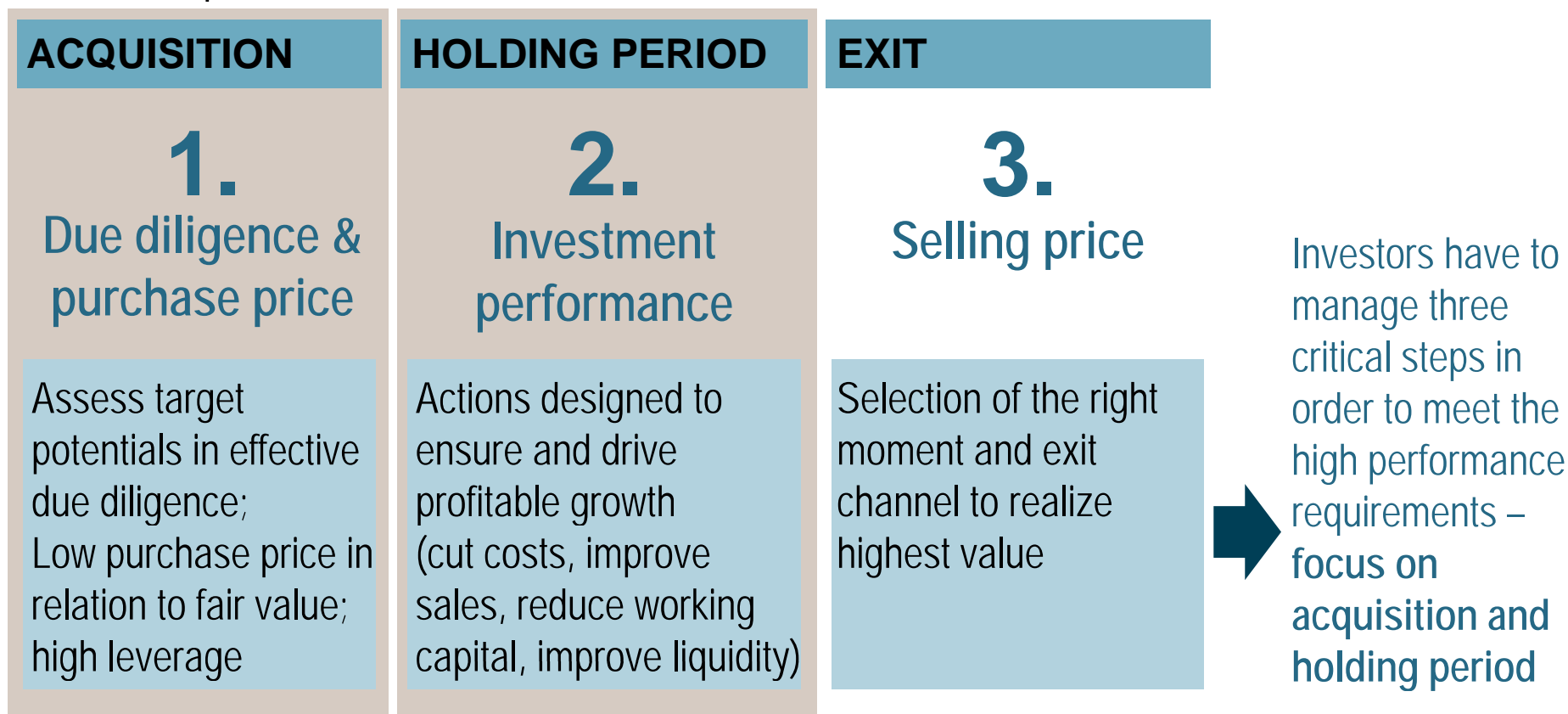
**Value creation through thorough due diligence, active portfolio management and restructuring will separate successful investments from the rest**

C. A call for active PE performance improvement –  
What kind of fund manager is needed?

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Strategy Consultants

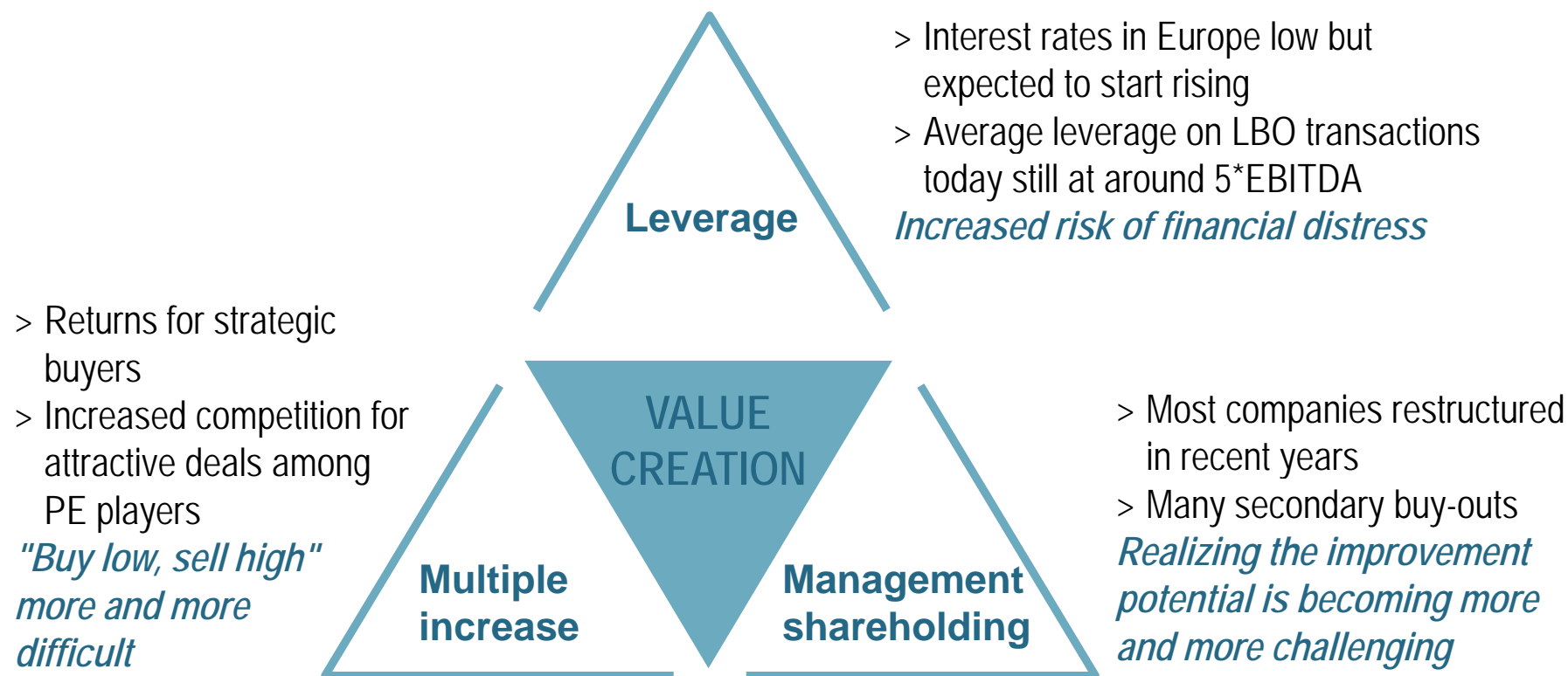
# Where does the profit come from when the business environment remains unfavorable?

Sources of profit



# Today, the financial value creation drivers in buy-outs cannot achieve satisfactory returns

## Financial drivers for value creation



To extract the full investment value, operational improvements are necessary – Due diligence to assess potential

Operational value creation drivers

Generating synergies by merging portfolio companies

Carefully selecting and analyzing target companies

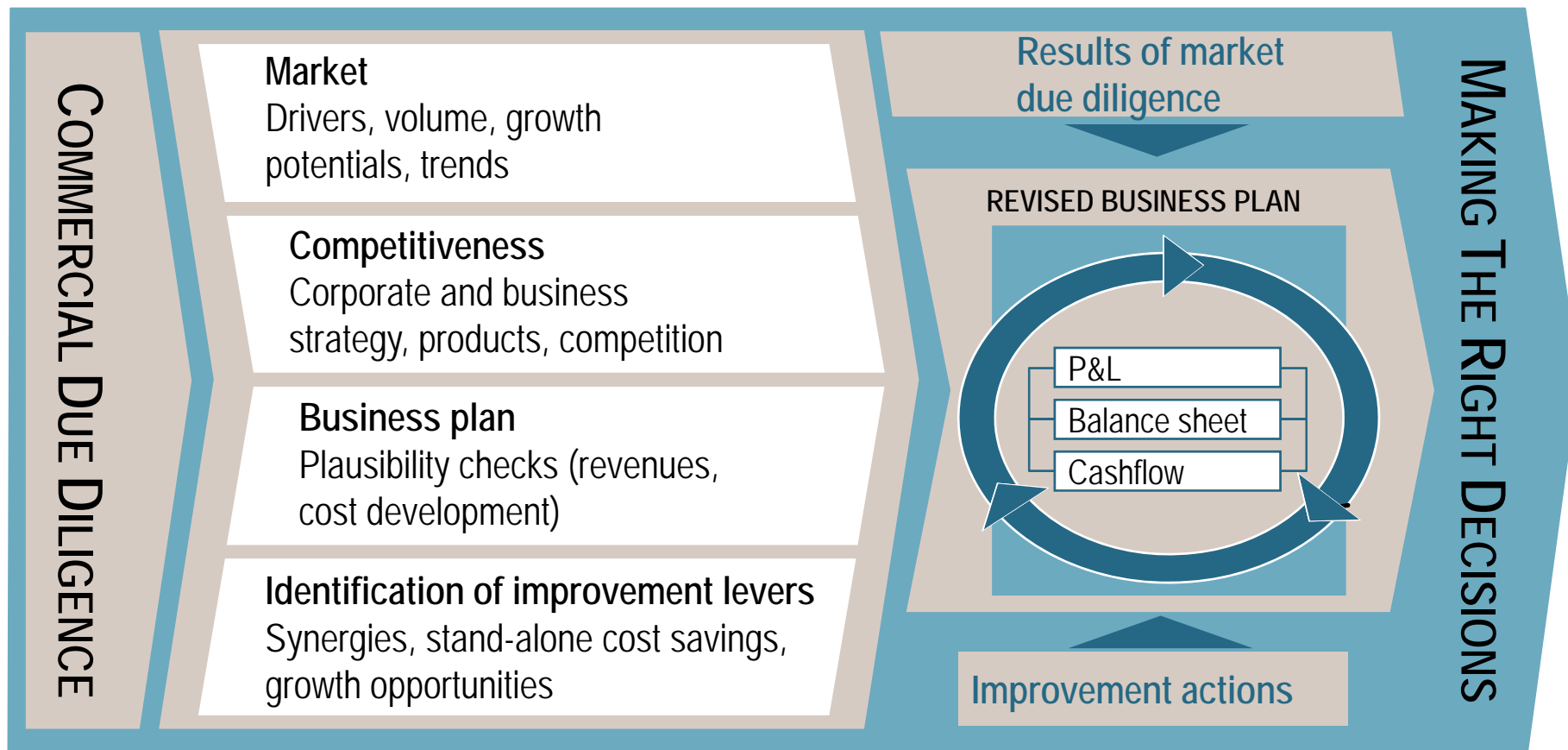
**REALIZING VALUE**

Growing through strategic realignment and sales-up actions

Realizing stand-alone improvements through cost savings

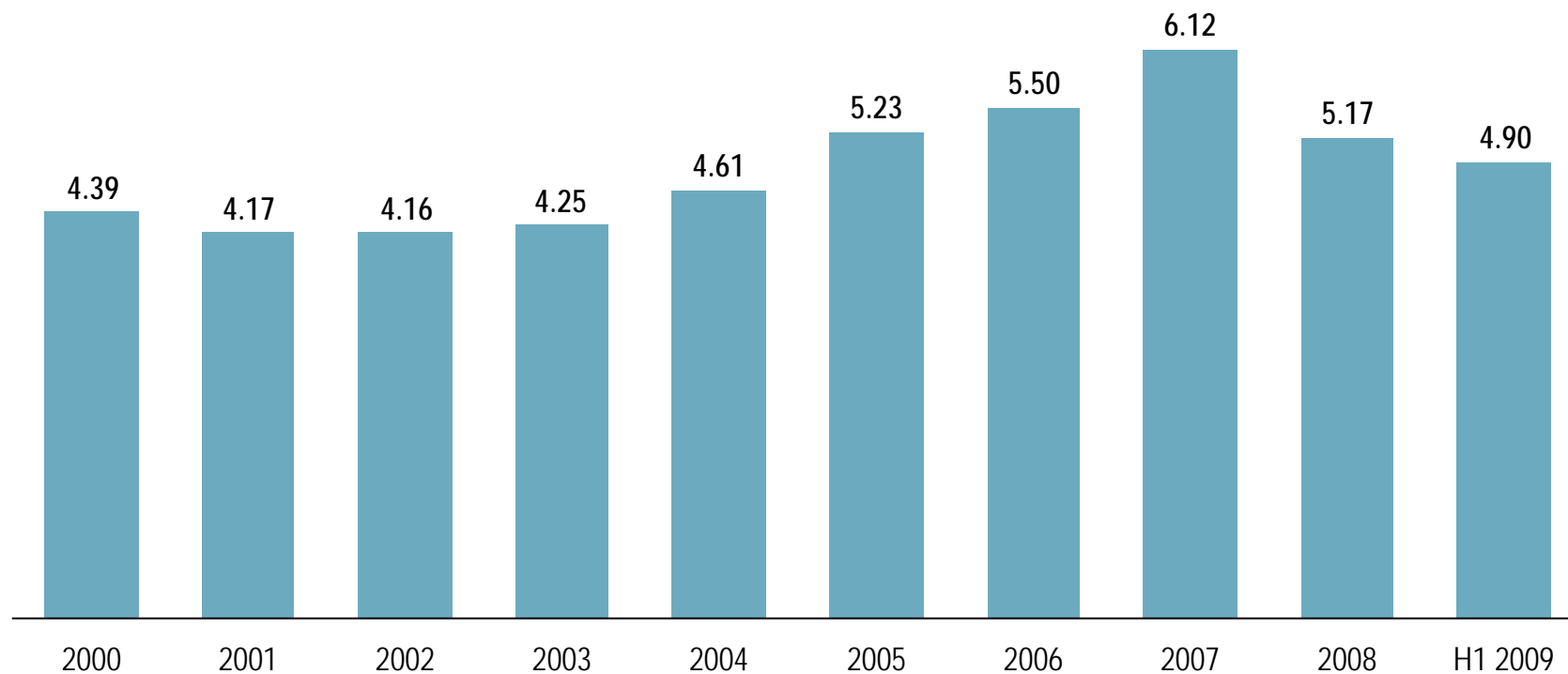
# Revised business plans are the basis for company valuation and decision making

Overview – commercial due diligence



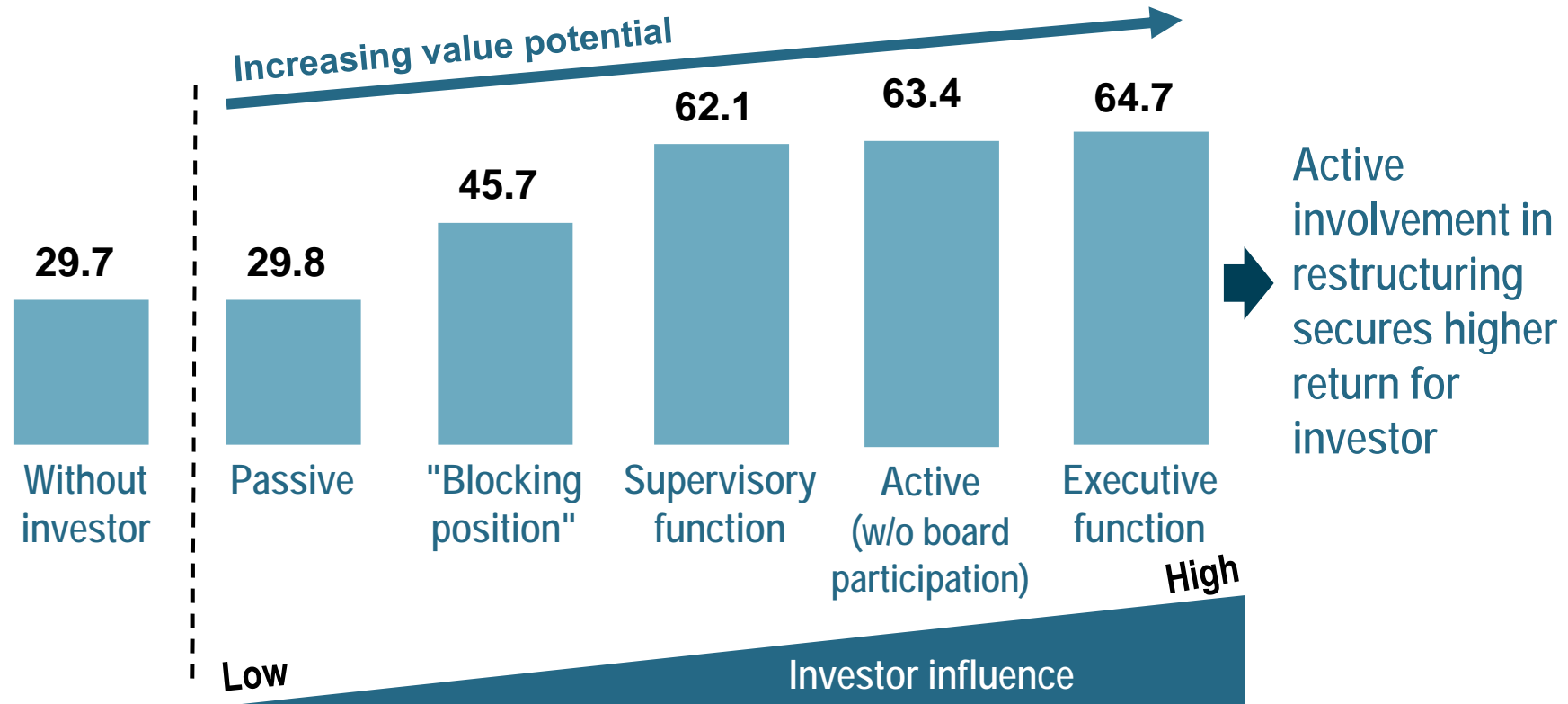
Leverage ratios are coming back down – In the first half of 2009, total debt to EBITDA was 4.9

Leverage ratios [total debt to EBITDA, European LBOs]



# The holding period offers the largest potential for value creation – This requires active PE investors

ROI improvement<sup>1)</sup> in 2 years, US restructuring cases [% points]

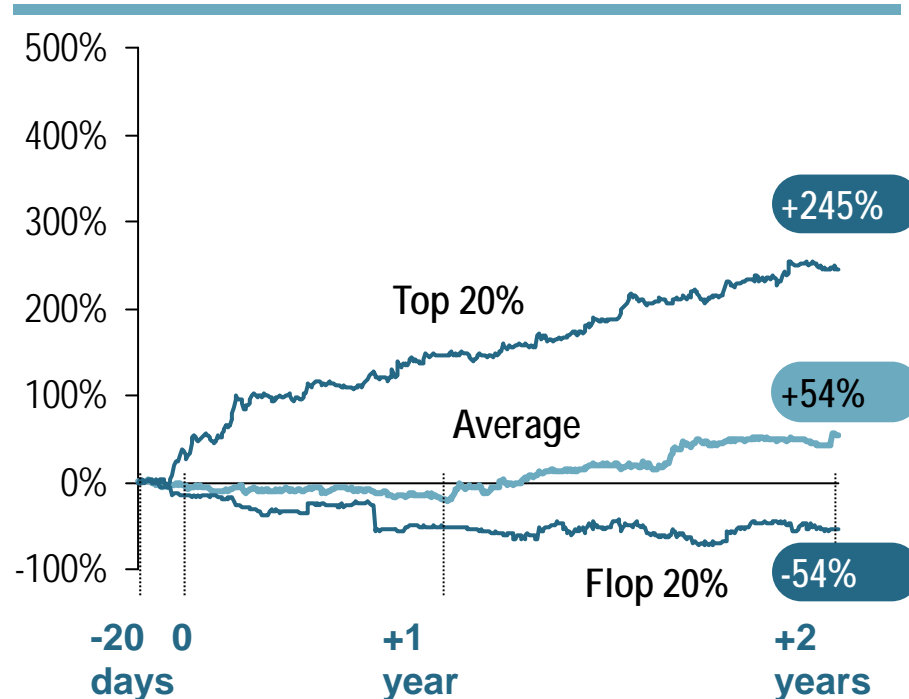


1) Operating profit to total assets

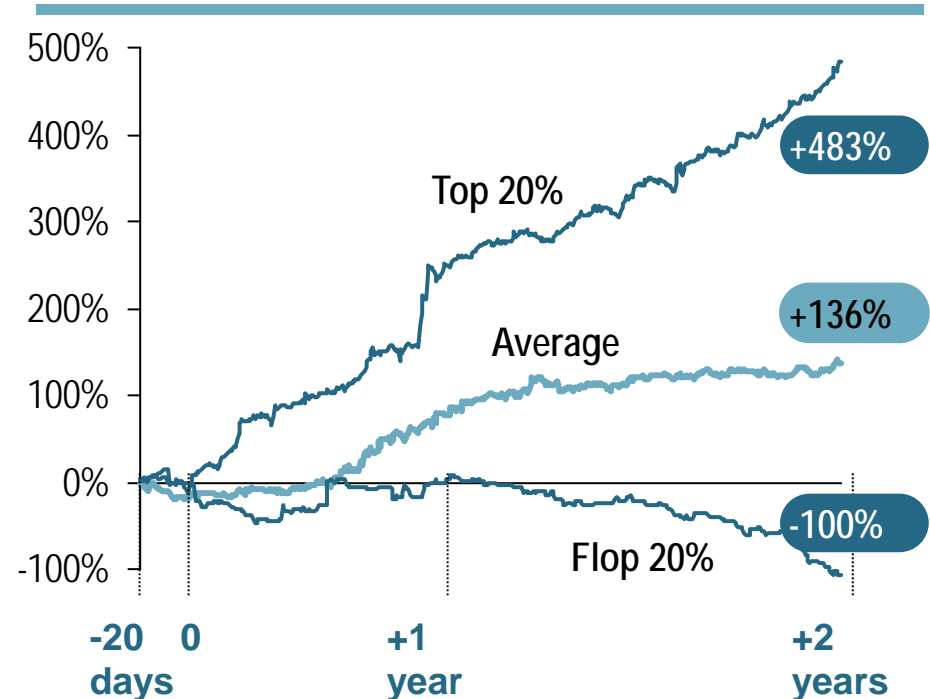
# Comprehensive restructuring definitely has a positive impact on value creation

Development of cumulative abnormal return in comparison to CDAX

**MINOR DOWNSIZING – FOCUS ON COSTS**

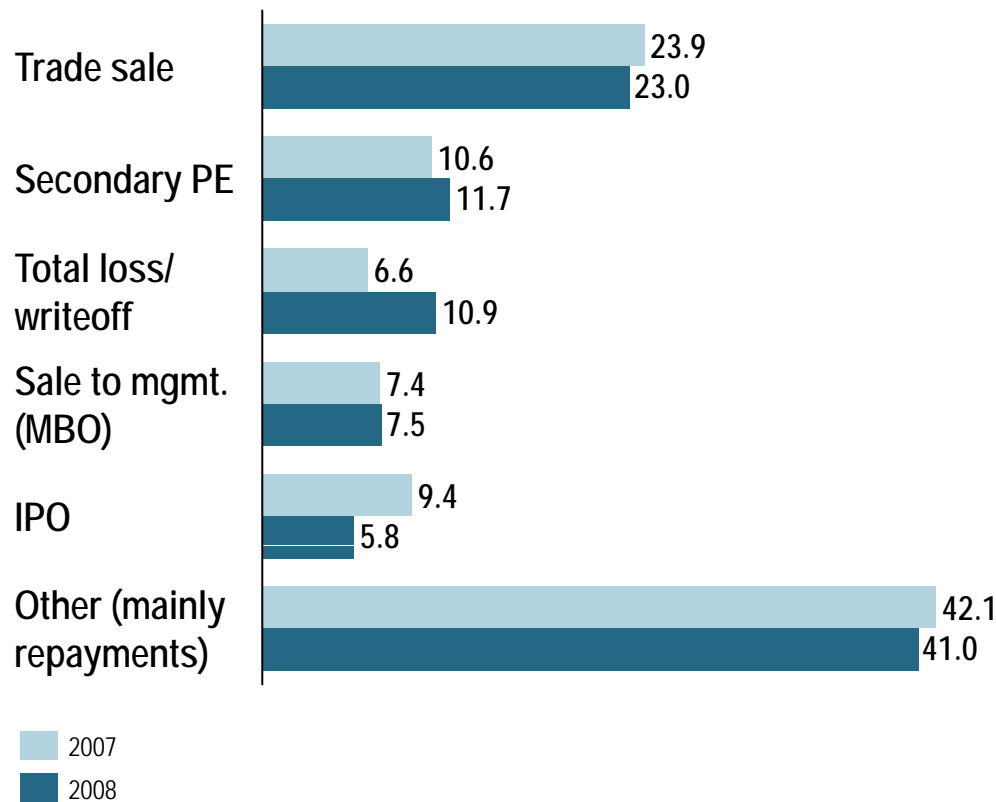


**SUBSTANTIAL DOWNSIZING – FOCUS ON COSTS AND GROWTH**



# Generating value through exit is rather limited within current channel options

Exit channels by number of divestment [%]



- > **Trade sale** to strategic investors remains the most important exit channel in 2008
- > Sale to **secondary** PE investors remains difficult given restricted availability of debt
- > **Writeoffs** increased to over 10% of total exits
- > **IPO** in current market conditions nearly impossible

## Conclusion: A successful fund manager must be a company dealer and a top manager rolled into one

### Conclusion

- > **Private equity funds are facing high return expectations** by their investors that only few in the industry can meet
- > Acquiring investments is becoming more and more difficult. Therefore, **creating value only by "dealing" in companies is very difficult**
- > To stand out from industry average, **all available value creation levers must be used, especially in the holding period**
- > Established management approaches are the main tools – **restructuring, portfolio management and value management**. In applying these tools, the private equity fund manager has to demonstrate that he is superior to "normal" conglomerate managers
- > **A successful private equity fund manager must be a company dealer and a top manager rolled into one** – he must at least must be able to manage both sides of the business