2015 GENERAL PARTNERS MEETING SUMMARY

MARKET VIEWS EXPRESSED BY GENERAL PARTNERS

On 11th December 2015, Access Capital Partners (Access) held its 15th Annual General Partners Meeting and gathered 65 of its small to mid-market buy-out and special situations General Partners (GPs) and 12 of its private debt fund managers to exchange views on the current state of the market.

Discussions covered the state of the investment and exit markets, financing conditions, as well as strategies implemented to outperform across economic cycles.

KEY TAKEAWAYS

- General Partners have enjoyed a great exit run in 2015 and expect strong liquidity in 2016 on the back of solid 2015 trading of their portfolio companies.

- New investment activity remains challenging given the macro-uncertainties and pricing pressures, but fund managers focusing on smaller buy-outs seem to avoid the mid to large market excesses.

- Abundant liquidity from banks and alternative debt providers (private debt funds, asset-based lenders, corporate bonds) should continue to flow towards private equity transactions at favourable terms. Yet GPs should remain cautious not to over-leverage.

- Digitalisation of companies has become a major trend and creates an opportunity for value creation in traditional business sectors.

- Integration of Environmental, Social and Governance (ESG) criteria continues to make progress with GPs.

- Creating value in a low growth environment remains a consistent leitmotiv amongst portfolio managers.

- As one GP summarised: *"Smaller buy-outs, especially primary deals and family owned businesses offer the most attractive opportunities but require craftsmanship and time."*

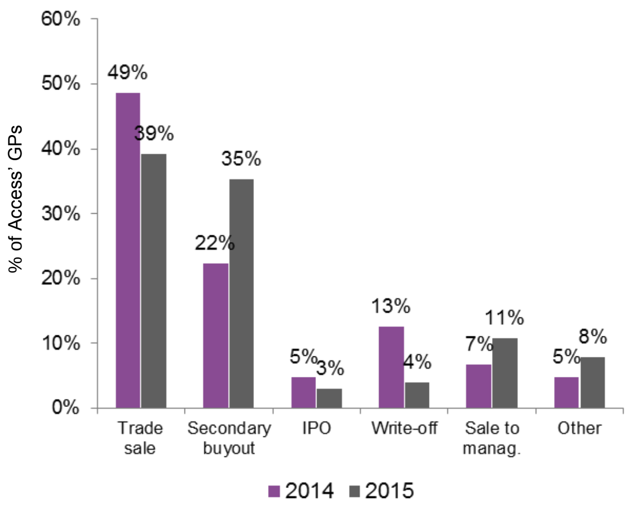
1. Exit window remains open and allows GPs to improve the liquidity profile of their portfolios

Among the factors driving the exit market, many participants emphasised the role played by expansionist monetary policies as low interest rates and Quantitative Easing bolster valuations and facilitate portfolio divestments. Consequently, the level of exit activity across Access' primary fund portfolio was particularly dynamic again this year. This statement is supported by the facts: companies being disposed by fund managers were sold at an average gross cost multiple of 3.4x (versus 2.1x in 2014) while holding periods decreased from 5.0 years on average in 2014 to 4.3 years in 2015.[1] Discussions focused on the best strategies to take advantage of the exit window and maximise upside.

- Which route for a successful exit?

GPs reported that trade buyers remained the most common type of exit route in 2015, representing 39% of 2015 divestments while exits in the form of secondary buy-outs to larger funds under pressure to deploy capital represented 35% of 2015 portfolio realisations, marking an upward swing compared to the 22% reported a year ago.

Ultimate buyer of exited companies



Source: Access Capital Partners

[1] Primary buy-out portfolios of ACFI MMBO, ACF II MMBO, ACF III MMBO, ACF IV GBO, ACF V GBO and ACF VI GBO, excluding secondary sales, as of Dec. 2015.

Beyond these quantitative trends, some participants drew attention to the different approaches in terms of timing, as well as strategies pursued by trade buyers and financial institutions.

"On the one hand, trade buyers take longer to complete deals as they look at specific assets and tend to have a macro- sectorial approach. The evaluation of synergies is a key parameter and the main rationale triggering buying decisions. On the other hand, financial buyers tend to focus on growth at company level. Understanding this fundamental difference is crucial to manage a successful exit and to target the right buyer for the right asset."

Contributing further to this argument, GPs highlighted the fact that a sale to a trade buyer tends to be the most natural route for Capex intensive companies, as financial actors typically favour asset light businesses. It is important to note that the cost of capital between different players should also be taken into account as it explains some of the current trends observed on the exit market.

In terms of geographic diversification of acquirers, some Access' GPs reported increased interests from non-European players. As such, Asian corporations have notably been involved in several sale processes over the past year. However, finalising these exits can take longer:

"Concluding a trade sale with an Asian corporation is becoming increasingly attractive. However, building on our experience, this process requires time: it is essential to travel to Asia and educate the potential buyer both on the company's progress and on its market."

The influx of non-European buyers into the private equity landscape is expected to continue in 2016, as cash-rich companies are looking to generate acquisitive growth in Europe.

IPOs, which had almost disappeared from the mid-market environment since the outbreak of the financial crisis, are gradually coming back. A GP who managed to successfully exit a company through an IPO commented:

"An IPO can be beneficial provided that the company has reached the minimum critical size to go public. But market timing remains paramount and finding the right opportunity and

window to organise an IPO is the most challenging element."

- A good timing to dispose of old vintages?

The general sentiment that prevailed during this year's GP meeting was to take advantage of the exit window while it remains open. Deals completed during the years 2006-2008, in particular, were negatively impacted by the aftermath of the global financial crisis and suffered from extended holding periods, as well as delayed exit processes. Access' GPs revealed being particularly active in disposing these vintages. Pre-Lehman funds have subsequently generated significant proceeds over the period 2013-2015, as evidenced by companies acquired prior to 2008 representing 13% of the exits completed in 2015. One GP outlined the rationale behind the arbitrage between selling these vintages in the current environment and extending further the holding period:

"For these deals, the strategy must be asset specific. If we assess that we can add significant value to the company, then these deals should be kept in portfolio. However, if this is not the case, then now is the time to benefit from the exit window. The overall objective is to maximise multiples and capital appreciation as the IRRs have been adversely impacted by holding periods."

In addition, funds invested in the period spanning between 2008 and 2010 are currently presenting the strongest performances, as they were able to invest at a low point in the cycle and benefit from the current momentum on the exit market for their divestments.

Demonstrating ability to both crystallise upside at exit and implement value enhancing strategies, the deals exited by Access' GPs in 2015 were sold at a compelling mark-up compared to their unrealised book value. The fact that these valuations have already been on an upward trend for the past year bodes well for the future.

2. **Investment activity remains challenging, but fund managers focusing on smaller buy-outs are well positioned to seize opportunities**

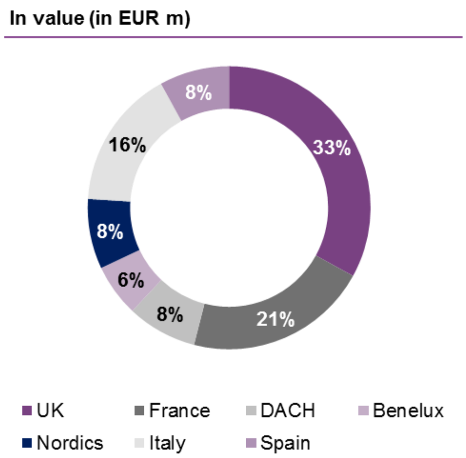
Against the backdrop of an economic environment characterised by a high level of macro risks leaving GDP growth vulnerable, Access' GPs strive to source opportunities presenting sustainable growth profiles and offering relatively enhanced downside protection.

In terms of deal making activity, the UK has continued to dominate the small and mid-market segment over 2015. Concurrently, investment activity has picked up in France and Southern Europe during this period.

Confirming market statistics, GPs active in the DACH region reported a moderate slump in the pace of deal making. Explanation of this trend arises from the discussion of issues surrounding the delayed succession processes by some families. As one fund manager pointed out:

"Many families have succession issues but have delayed sale processes due to the high level of uncertainty and volatility in financial markets. Typically, reinvesting the proceeds is a challenge for them."

Geographical diversification of European small and mid-market buyout deals in 2015

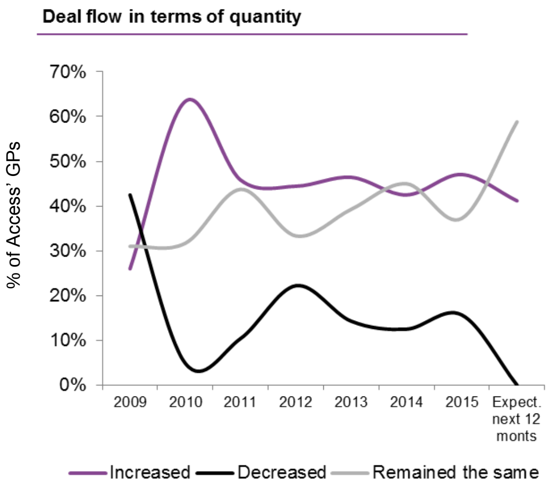


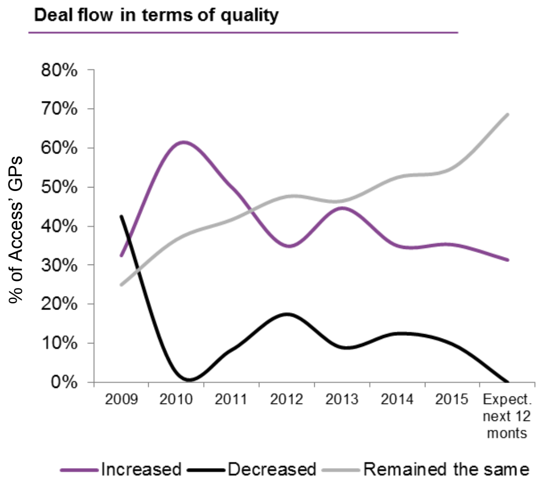
Source: MergerMarket

- Deal flow and sourcing

Access' GPs reported a stable deal flow compared to last year in terms of volumes but indicated an increase in the quality of the opportunities analysed. Looking back at the situation that prevailed in 2014, this evolution is positive for fund managers deploying capital at the smaller end of the market. As such, the market sentiment last year was characterised by a majority of GPs lamenting over the heterogeneous quality of the deal flow that hindered the pace of their investments.

Historical and expected deal flow quantity & quality





Source: Access Capital Partners

Given the recent rise in valuations, GPs reinstated the importance of selectivity and strict pricing discipline. Sourcing is becoming undoubtedly more complex but remains a discriminating factor between successful GPs and underperformers, now more than ever.

Further, the extent to which exogenous factors impact the operational performances of companies has materially increased. The nature of these factors spans the level of interest rates, emerging countries' growth rate and geopolitical risks, which are increasingly difficult to predict.

Capitalising on the inherent benefits of their positioning, smaller buy-out fund managers are well geared to target companies active on niche market segments. These businesses have often proven to be relatively uncorrelated to macro-evolutions and, therefore, tend to offer enhanced downside protection amid a volatile environment. In addition, these deals are often "below the radar" of larger players and benefit from lower competition levels.

- Fighting price inflation

If the accommodating monetary policy contributes to the momentum of the exit market, the low interest rates and quantitative easing fuel price inflation on the buy-side.

Once more, this year's situation of the smaller buy-out universe was contrasted by the paradigm faced by fund managers on the upper mid-market segment. The latter have attracted large amounts of capital from institutional investors in the recent years which, coupled with a subdued investment pace, has built up substantial levels of dry powder. In the current market, upper mid-market fund managers demonstrate a bullish appetite to deploy capital, contributing to further entry price increases.

Conversely, Access maintained its historic focus on smaller buy-outs, as deals valued below €100m continue to present lower entry prices. The fund managers backed by Access completed deals at an average EV/Ebitda multiple of 6.8x, whereas the average for the mid-market buy-outs stands at 8.3x[2].

"Smaller buy-outs, especially primary deals and family owned businesses offer the most attractive opportunities but require craftsmanship and time."

The ability of fund managers to combine flexibility and creativity reinforces further the attractiveness of this segment:

"To find attractive valuations, it has become necessary to turn to more complex situations, notably by increasing the use of earn-outs"

Some participants pointed out a key mitigating factor for primary smaller deals: convincing the sellers to reinvest in the business as it tends to

[2] Epsilon Research, 2015.

limit price inflation at entry. Others have drawn attention to another advantage of primary deals:

"Families and entrepreneurs are sensitive to the level of debt use to structure the transaction, which de facto limits the prices for these transactions."

3. Value creation strategies in an uncertain environment

In order to foster growth within portfolio companies and outperform the sluggish European economic environment, GPs concurred on the necessity to unlock new revenue streams through traditional, as well as alternative strategies. The scope of these strategies encompasses process optimisation, digitalisation, internationalisation and buy-and-build models.

- Digitalisation of portfolio companies

The rise of the digital economy and the evolution of consumer behaviour, notably the generalised use of social media for commercial and communication purposes, have led portfolio managers to encourage companies to seize the opportunities arising from such transformations. Digitalisation's role as a fully-fledged component of a value creation strategy was commonly agreed among GPs. However, this consensus does not preclude one caveat, as stated by a participant:

"Allocating resources to the implementation of a digital transformation can be detrimental to the company without a clear underlying strategy."

Some GPs also highlighted the evidence of a clear first mover advantage in the implementation of such strategies within a specific industry. It is therefore a prerequisite for the management to demonstrate some degree of knowledge in digital tools, risks and benefits. Relevant experts who have the ability to deliver a congruent and cohesive digital strategy can then be brought on board. As a matter of fact, some participants voiced their ambition to hire digital specialists as operating partners.

- Internationalisation

Fund managers continue to encourage internationalisation as participants generally agreed that non-European economies are the most exogenous organic growth drivers for portfolio companies. However, the recent slowdown of emerging economies calls for an ever increasing level of sophistication when tackling internationalisation. In doing so, some GPs have put in place innovative structures allowing optimised international exposure of portfolio companies.

"We created an international platform/alliance gathering five European GPs and five American GPs. The objective is to leverage on each member of this alliance's experience in internationalising the activity of their portfolio, and relies on shared expertise of local market and sectors. Members of the alliance are not competing against each other but merely sharing best practices in a synergetic manner."

Such initiatives demonstrate the ability of Access' GPs to harness the relevant expertise in the completion of add-on acquisitions outside of Europe and capture profitable growth beyond local markets.

- The value added of operating partners

Operating partners are becoming a key resource to work with management teams on financial planning, KPIs and reporting. It was generally agreed that CFOs benefit from this training and process optimisation and usually engage positively with the changes proposed by the operating partners.

"Timing is becoming a real constraint. Given the overall level of uncertainty and volatility on the market, we must be able to exit a company within 2 to 3 years. This implies being able to implement value creation strategies swiftly post-closing. Bringing operating partners on board allows us to anticipate issues and be pro-active in making the necessary changes."

- Integration of Environmental, Social and Governance (ESG) criteria

GPs are becoming increasingly aware of the importance of integrating Environmental, Social and Governance criteria throughout the investment chain. Participants concurred that the evolution in the way ESG has been approached by the industry is highly beneficial on various levels, from reinforced alignment of interests, risk mitigation to value creation.

Indeed, the operational integration of ESG criteria for a company implies a thorough analysis that considers risks, value creation potential and opportunities as a whole. The outreach of ESG issues is gradually becoming intricately linked to financial performance.

"We consider ESG from the very beginning of our due diligence process where we make sure the potential risks are identified, relevant action plans defined and that the investment is consistent overall with our Responsible Investment policy. From our experience, there have been a few cases where we were able to correlate improvements in efficiency and costs reduction with ESG implementation."

4. Debt financing conditions

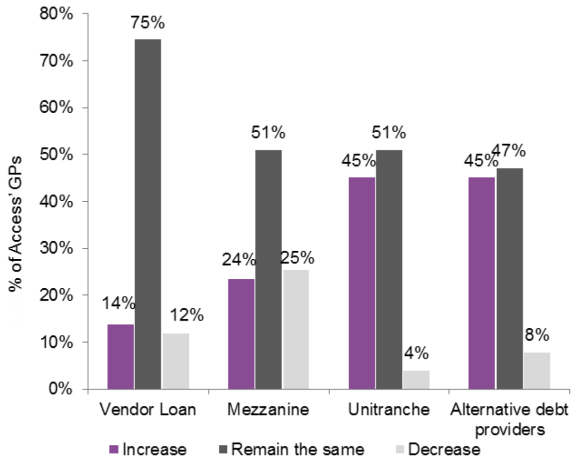
The market was characterised in 2015 by abundant liquidity arising from credit providers, in the wake of year-end 2014 predictions. In this context, unitranche and alternative debt providers (private debt funds, asset-based lenders, corporate bonds) are bound to continue increasing their volumes in the coming months.

Regardless of the availability of debt financing, participants have demonstrated a high level of prudence and discipline in deal structuring during 2015. The deals completed in 2015 by Access' GPs present a Net debt/Ebitda multiple of 2.7x, significantly below the market average of 5.0x and the portfolio's historic average of 3.0x. Scalded by the dire aftermath of the crisis, GPs agreed on the paramount importance of maintaining sufficient equity cushions at entry. As one participant emphasised, the general tendency leans towards re-leveraging the company during the holding period on the back of satisfying operational developments.

"The right level of leverage is the amount that can be repaid by the cash flows generated by the company within the horizon of the business plan. Due to the lack of global visibility, we have to be conservative. It is preferable to leverage a company at entry below 3.0x EBITDA and refinance either through recaps or as part of add-on acquisitions where appropriate."

In terms of preferred debt instruments, Access' GPs anticipate increasing the use of unitranche and alternative debt providers in 2016.

Expectations of the evolution of the use of financing in the medium term



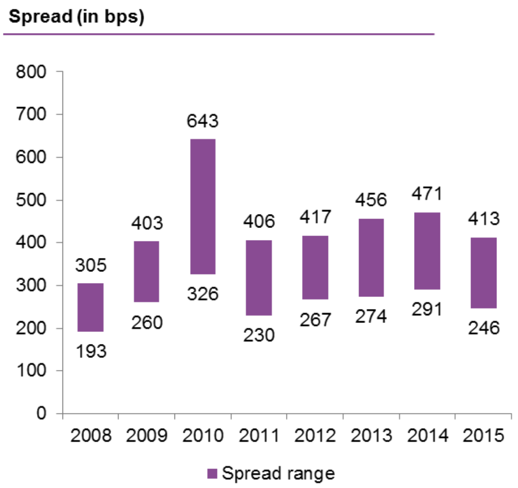
Source: Access Capital Partners

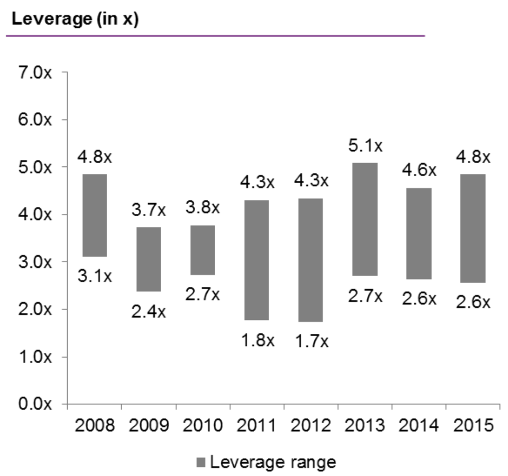
"Unitranche providers have the ability to meet the cash needs and match the profile of businesses. Further, Private Debt funds tend to understand the flexibility that is required to implement value creation strategies within our portfolios."

If the market for mezzanine has become increasingly complex over the past year, debt providers reported deploying capital mostly through unitranche, sponsorless or corporate bonds strategies, capitalising on the increased appetite of buy-out funds for these alternative types of credit instruments.

Regarding debt pricing, GPs reported a slight upward trend in the spread range between 2011 and 2014. This evolution can be correlated with the increased use of unitranche which is relatively more expensive than traditional sources of financing. Private debt managers commented on the decrease in spread range observed in 2015 by outlining the current rebalancing observed between the PIK and Cash components of repayment structures.

Range of spread and leverage in Access' GPs portfolios





Source: Access Capital Partners

The significant levels of liquidity on the market raise concerns on a rising propensity for exuberance. However, GPs active on the buy-out and private debt sides were unanimous in highlighting critical differences with a pre-Lehman paradigm. First of all, the nature of risks is structurally different. Secondly, the current level of awareness and downside protections included in deal structuring were emphasised. This enhanced level of discipline aside, companies that survived the crisis exhibit higher levels of resilience while equity cushions have increased at the expense of leverage.

"The situation might appear superficially similar, but the structural risks are significantly different."

5. Conclusion – *Are we back to the pre-Lehman market exuberance?*

Some observers have voiced concerns regarding a situation that can superficially appear to be a similar to the market exuberance experienced pre-2008. However, the discussions of this year's annual GP meeting emphasised significant differences in the dynamics currently at work.

The European smaller deals' playground is undoubtedly becoming more complex. However, GPs are well equipped to address the challenges ahead. Proprietary sourcing and targeting niche segments offer suitable protection against exogenous macro-economic factors and tend to curb entry price inflation. The nature of structural risks has changed since the global financial crisis and Access' GPs have developed an acute understanding of these risks. Leverage is contained with significant equity cushions in Access' portfolio, while the offer of debt and financing options is diverse at attractive conditions.

Further, small cap businesses have continued to outperform the economy and their larger peers, while digitalisation, international expansion and buy-and-build strategies continue to foster growth within private equity portfolios. Everyone hopes that the exit window will remain open in 2016, and so far, GPs indicated that a large number of companies were being prepared for, or on track for an exit process. The resilience potential of portfolio companies is much higher than in 2008, while leverage remains at conservative levels.

In conclusion, high selectivity and discipline continue to be the order of the day going forward. Access is confident in the ability of its fund managers to demonstrate their value added and their ability to identify quality assets to generate growth. Overall, players at the smaller end of the buy-out market make a convincing case for the relevance of their model and to continue to deliver sustainable returns based on genuine growth and value creation.