ACCESS CAPITAL PARTNERS
PRIVATE ASSETS IN EUROPE

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

SECOND QUARTER 2016

The referendum on the UK's membership of the EU saw a majority vote in favour of leaving the Union, with the result leading to volatility and uncertainty both politically and in the markets. Nevertheless, momentum in the European private equity space has not stopped and deals already lined up have gone through, in some cases with a significant renegotiation on acquisition price. Further, new European funds have been successfully closed since the Brexit vote.

The outlook for the UK itself has since become more of a concern amid a slowdown in deal making and exit activities as increased uncertainty in the capital markets has impacted buyer appetite. In particular, US buyers have postponed some of their UK acquisitions factoring in the uncertain trading climate for companies with a strong exposure to international markets. Meanwhile, assets not exposed to the UK market could benefit from a valuation premium. The threat of an economic downturn in the UK — and sustained political turmoil — has also caused some lending banks to become even more prudent in providing acquisition debt.

On the secondary market, Access believes that the ongoing volatility in equity and currency markets could result in increased secondary market activity over the medium term. Investors could potentially become sellers for reasons including over-allocation issues in the event of a fall in public equity markets, and anticipation of a slowdown in private equity exits.

1. Deal making activity

In aggregate, Access' GPs completed 24 deals in Q2 2016, slightly below compared to Q2 2015 when 28 deals were finalised. This small change of deal making activity can be explained by the continued high valuation of targets driven by a strong demand for high quality portfolios to try to mitigate the effect of market volatility.

Access' GPs continue to demonstrate their ability to maintain their conservative approach to leverage, structuring deals with significant equity cushions, while the general trend of the market exhibits a high propensity to increase debt levels. Additionally, Access' GPs have been able to source deals at a lower multiple (6.5x - 7x EBITDA) vs. the market average (7.8x EBITDA / Standard & Poor's).

Buy-out activity in the UK has been stable in the second quarter of 2016 vs. the second quarter in 2015.

2. Exit activity

After a buoyant year in terms of activity in 2015, the volumes on the exit market are expected to gradually normalise back to their historic levels. This dynamic begun over the second quarter of 2016, as 22 companies were sold across Access' primary and secondary portfolios vs. 32 companies over the second quarter of 2015.

The volume of exits and the performance on the transactions remained strong in Access portfolio's, as they delivered an average gross cost multiple of 2.5x, slightly above the average multiple recorded in 2015 (2.3x). In terms of geography, France contributes for 50% of the exits in the second quarter followed by the UK and the Nordics which represent 30% combined. Sector wise, the exits have been well diversified: transportation, business services, healthcare, agro-industry, consumer, financial services and construction.

3. Secondary activity

On the secondary market, deal flow remained dynamic with a continued supply of "GP-led" transactions (restructurings, liquidity options and secondary directs) as a growing segment of the market, as well as funds sold by investors looking to rebalance exposure and focus on their "core" managers. Secondary pricing remained strong at an estimated 90% to 95% of the latest reported NAV across all private equity strategies (source Lazard/Cogent), with many high-quality portfolios traded at a premium to NAV. Since the beginning of the year Access closed five secondary transactions at an average discount to NAV of 4%.

About Access Capital Partners

Access Capital Partners is an independent European fund manager, active in European private equity, private debt and infrastructure, with offices in five European countries and assets under management of €6.6 billion from a diversified base of international institutional investors. The firm's products and services encompass primary fund investments and secondary transactions as well as direct co-investments.

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