EUROPEAN PRIVATE EQUITY AND VENTURE CAPITAL ASSOCIATION

EUROPEAN MID-MARKET PRIVATE EQUITY

DELIVERING THE GOODS

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To find out more about the **European Private Equity and Venture Capital Association** please visit:

www.evca.eu

WHY CHOOSE THE **MID-MARKET**?

Dörte Höppner
Secretary-General, EVCA

Europe's diverse and innovative mid-market has consistently delivered outstanding results for institutional investors over many years. The European Private Equity & Venture Capital Association welcomes investors to this report, which confirms European mid-market private equity's continued strength as an investment destination.

PRIVATE EQUITY:
THE CASE FOR EUROPE

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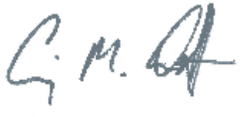
ALL MARKET PRIVATE EQUITY RETURNS		MID-MARKET PRIVATE EQUITY RETURNS
9.1%	V	17.2%

Figure 1. Pooled average Internal Rate of Return of European private equity funds (net of fees) since inception 1990-2011 vintage funds
Source: Thomson Reuters 2012

FOREWORD BY CRAIG DONALDSON



Craig Donaldson
EVCA Mid-Market Platform Chairman

Introduction

The arguments are sound and the evidence is compelling: European mid-market private equity delivers consistent, risk-adjusted returns, derived from sound fundamentals, skilled and experienced practitioners, and a surprisingly robust and persistent environment to generate growth and liquidity.

Long term performance

Returns data spanning more than 20 years (and three economic downturns) shows that European mid-market private equity funds comfortably outperformed other investment classes. And what is even more encouraging is how these returns were driven: return attribution data suggests that the top performing mid-market managers rely less on leverage and multiple expansion. Instead, performance comes from growth and operational improvement, and this has held up in the face of extremely testing market conditions.

Talent-driven growth

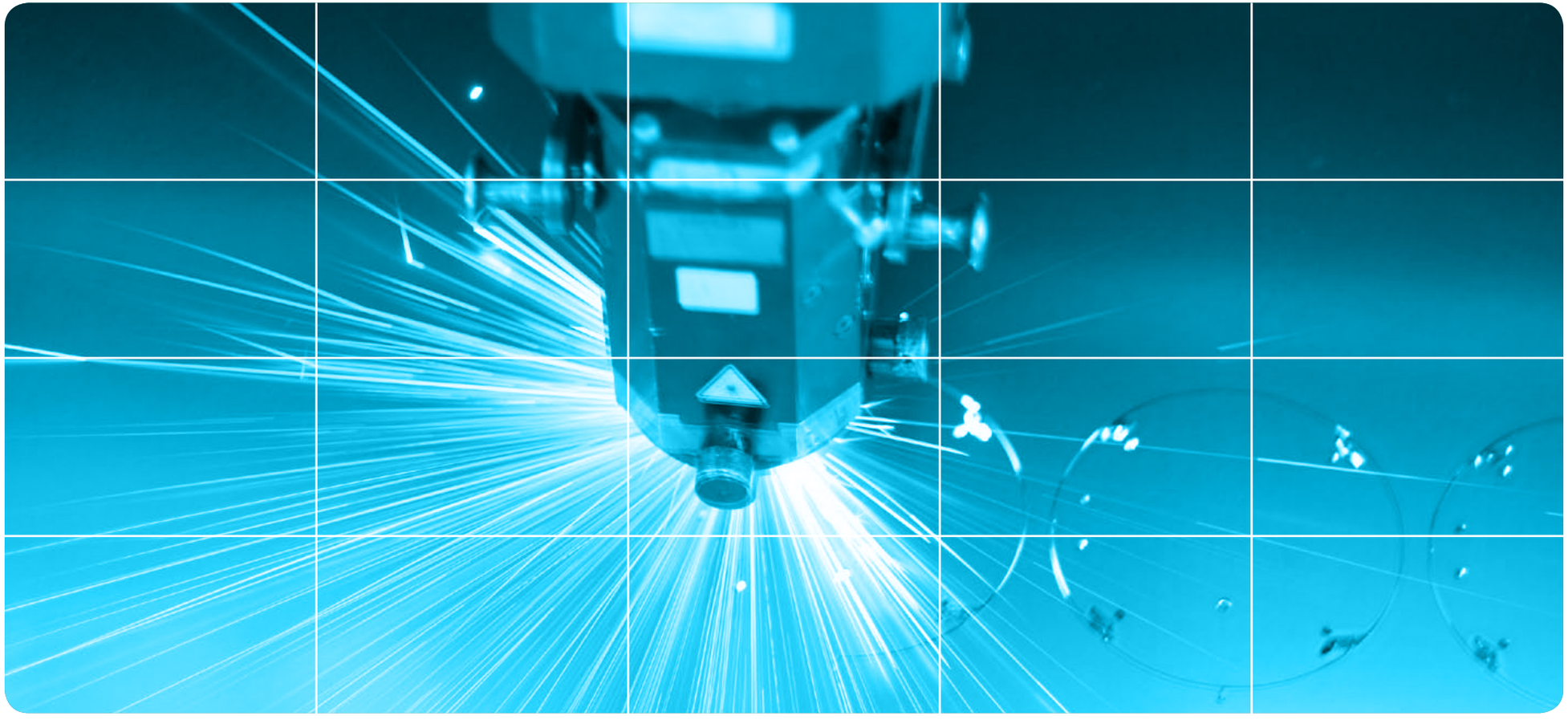
The reasons behind this outstanding performance are varied, but fundamentally, it has been driven by the experienced pool of private equity talent that has evolved in Europe. Many firms are run by principals with decades of experience and enjoy the learning curve benefits of investing in many companies across multiple market cycles.

Of course, investors need the raw materials to work with and the European mid-market has these in abundance. Despite the challenging economic conditions, Europe is still home to some of the strongest companies and most skilled employees in the world. European mid-market private equity investors have built the skills to unlock this talent. It is also important to remember that despite the current headwinds, Europe offers a particularly stable legal and regulatory environment, and European private equity is adept at spotting opportunities across the patchwork of states.

Positioned to deliver

This convergence of factors has been good news for the investee companies and the local economies that surround them, as it has for the institutional investors and private investors who back the sector. Overall, mid-market private equity remains especially well placed to deliver the goods, as it has across previous market cycles.

SECTION 1:
THE MID-MARKET **IN CONTEXT**



SECTION 1: THE MID-MARKET IN CONTEXT

EUROPE'S **ENGINE ROOM**

In the current climate one can lose sight of the fact that Europe remains the world's largest economic bloc. Combined, its economies account for around 30% of global output. And the mid-market segment of Europe's industrial landscape is critical to its economic health.

Mid-market scale

Part of this is in its scale: if you take the four largest European economies (Germany, the UK, France and Italy), mid-market companies only account for some 1-2% of all businesses by number, yet they generate nearly a third of GDP. According to the World Bank, if you were to combine the mid-market firms of these four nations you would create an economic power that ranks among the largest 10 in the world – ahead of powerful economies like India and Russia.

Strong growth through tough times

More importantly, mid-market firms have demonstrated the strongest growth. Even during the harsh trading conditions over the last few years, many have continued to outperform the wider economy. European mid-market firms are large enough to build defensible market positions and attract and retain top quality management, but small and agile enough to adapt to rapidly changing trading conditions. They also benefit from an ability to derive returns through improvement: an emphasis on innovation and a strong desire to seek growth through internationalisation has enhanced this outperformance.

Creating new jobs

The mid-market has also had a positive impact on employment trends, even throughout the downturn: since 2007 there is strong evidence to suggest that the mid-market has created the greatest number of new jobs, while the large company sector has contributed heavily to net job losses.

> Looking at corporate spin-offs, what private equity investors really do is take **medium-sized business units** out of much larger companies and **give them freedom and focus, the room to breathe.** We give them the support to do things that they were not able, or were not encouraged to do, within the confines of a much larger organisation.
>
> **Guy Semmens** Argos Soditic

PERMASTEELISA GROUP

PERMASTEELISA GROUP:
GLOBAL INTEGRATED CONSTRUCTION
READ THE CASE STUDY HERE >

SECTION 1: THE MID-MARKET IN CONTEXT

CLASSIC **PRIVATE EQUITY TERRITORY**

The drivers of this macro-economic strength are also central to the appeal of the mid-market to the private equity community. The segment is classic private equity territory and has been for over three decades.

Significant deal volumes

On average almost 40% of the capital raised to fund European buyout deals flows into the mid-market. In volume terms the impact of the segment is also significant: almost a quarter of all buyout deals involve mid-market firms, here defined as those with an enterprise value of €50-500 million. If the mid-market definition were stretched to incorporate companies valued, say, €25-500 million, the segment's proportional importance would be significantly higher.

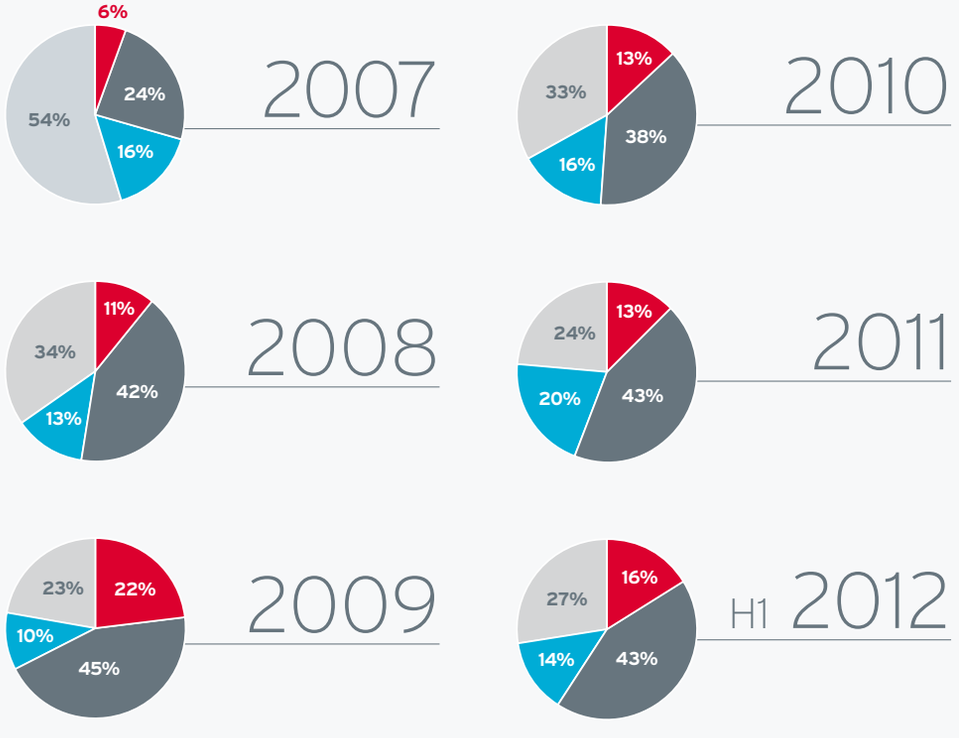
In part this is about the sheer wealth of opportunities available. Whether you are looking at specialist engineering firms in Germany, business service providers in the UK or luxury goods and fashions businesses in France or Italy, the European mid-market is home to many of the world's leading and most respected brands.

Playing to strengths

But the importance of the segment is mainly down to the fact that it offers highly experienced general partners (GPs) the opportunity to play to their core strengths – employing strategic and operational expertise to take established, high-potential businesses and make them better, bigger, stronger and more valuable.

THE LARGEST PART OF THE PRIVATE EQUITY DEAL MARKET

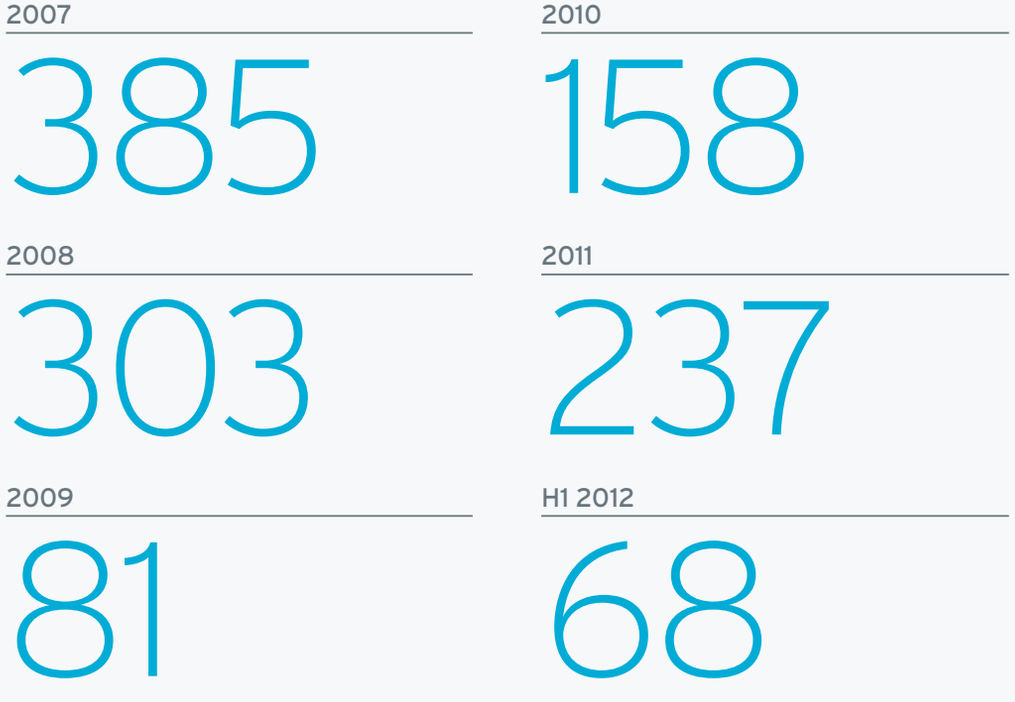
Figure 2. Value of Private Equity deals by market segment
Source: EVCA / PEREP_Analytics



SECTION 1: THE MID-MARKET IN CONTEXT

CLASSIC **PRIVATE EQUITY TERRITORY** continued...

Figure 3. Annual number of mid-market investments
Source: EVCA\PEREP_Analytics



A tool for succession and restructuring

There are multiple drivers behind the large number of mid-market private equity deals that take place each year and form an important part of the whole private equity landscape.

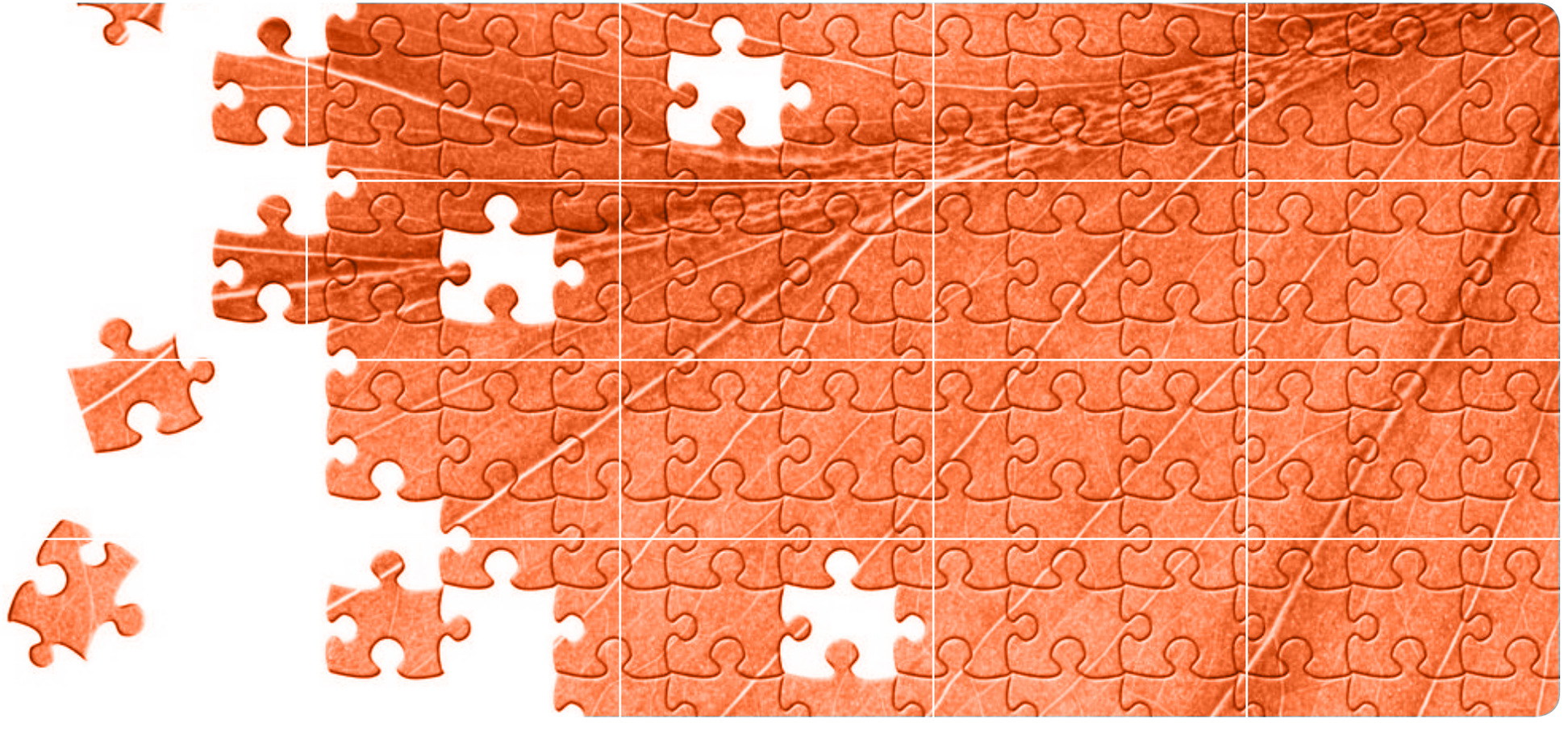
Two core drivers

The complexity of the European environment means that local market drivers can differ subtly and require bespoke approaches by GPs. But, fundamentally, the core impetus for the mid-market private equity environment comes from two main drivers. The first of these is a fundamental need among mid-market businesses to manage succession issues.

The second key area is in industrial restructuring. At one level this involves private equity GPs helping large corporations to spin off non-core businesses. It is also to do with consolidating highly fragmented industry sectors in Europe, in the process creating more powerful businesses that are better equipped to succeed in an increasingly global marketplace.

Of course, from the point of view of the European mid-market businesses themselves the need for capital and expertise to fuel growth in an increasingly competitive global market is also an important driver of annual deal volumes.

SECTION 2:
INVESTING IN **DIFFICULT TIMES**



SECTION 2: INVESTING IN DIFFICULT TIMES

RIGHT **PLACE,** RIGHT **TIME**

EUROPEAN COMPETITIVENESS
IN A GLOBAL CONTEXT

Figure 4. The Global Competitiveness Index 2012-2013 rankings
Source: World Economic Forum, 2012

	RANK		RANK
SWITZERLAND	1	AUSTRIA	16
FINLAND	3	BELGIUM	17
SWEDEN	4	FRANCE	21
THE NETHERLANDS	5	LUXEMBOURG	22
GERMANY	6	IRELAND	27
UNITED STATES	7	CHINA	29
UNITED KINGDOM	8	BRAZIL	48
DENMARK	12	INDIA	59
NORWAY	15		

One of the most compelling attributes of mid-market PE is its ability to perform across market cycles – and indeed the mid-market has delivered strong returns right through the most recent downturn. That said, it would be imprudent and incomplete to ignore the fact that the European mid-market private equity industry faced substantial headwinds following the crash in 2008.

Growing confidence

Although the sector recovered strongly from the bottom of the market in 2009, with transaction volume almost trebling by 2011, the Eurozone crisis has continued to affect transaction volumes throughout 2012.

However, the crisis has encouraged Europe to implement reforms, and these are already paying dividends in reducing public debt, improving governance and labour market flexibility. Together with other enduring qualities of the mid-market discussed in this report, the resulting environment is significantly better for private equity.

Furthermore, private equity's granular understanding of the distinct markets and industry sectors, and how they respond to the global economic conditions in different ways, creates opportunities to target the firms best equipped to win in and benefit from the evolving conditions.

Well positioned for upturn

Beyond the mid-market attributes discussed herein, private equity in general is a long-term business and investing in a mature region at a low point in the cycle should pay dividends when the local and global economy starts to accelerate once again. Given its significant linkages to the global economy, Europe will benefit as other markets re-ignite.

> Looking at the mid-market in a global context, the evidence suggests that **Europe is the region to target currently,** both because of the attractive valuations that are available and because of the potential for GPs to make **a significant difference to their investees' performance** by helping them to globalise.
>
> **Andrea Bonomi** InvestIndustrial

SECTION 2: INVESTING IN DIFFICULT TIMES

RELATIVE **STABILITY**

Where private equity is concerned, any discussion of Europe's relative attractiveness should also be framed in a global context.

Economic challenges in fast-growing markets

While markets such as China, India and Brazil might have shown stronger macro-economic growth figures from 2008 through 2011, they too face economic headwinds and governance challenges.

In this context, it is important to note that private equity in emerging markets is relatively untested compared to Europe with its long track record.

The emerging markets have not yet had the chance to produce consistent returns through multiple cycles and changing economic conditions. Indeed, research from London Business School suggests that private equity performance is more sensitive to economic downturns than it is in the most established markets.

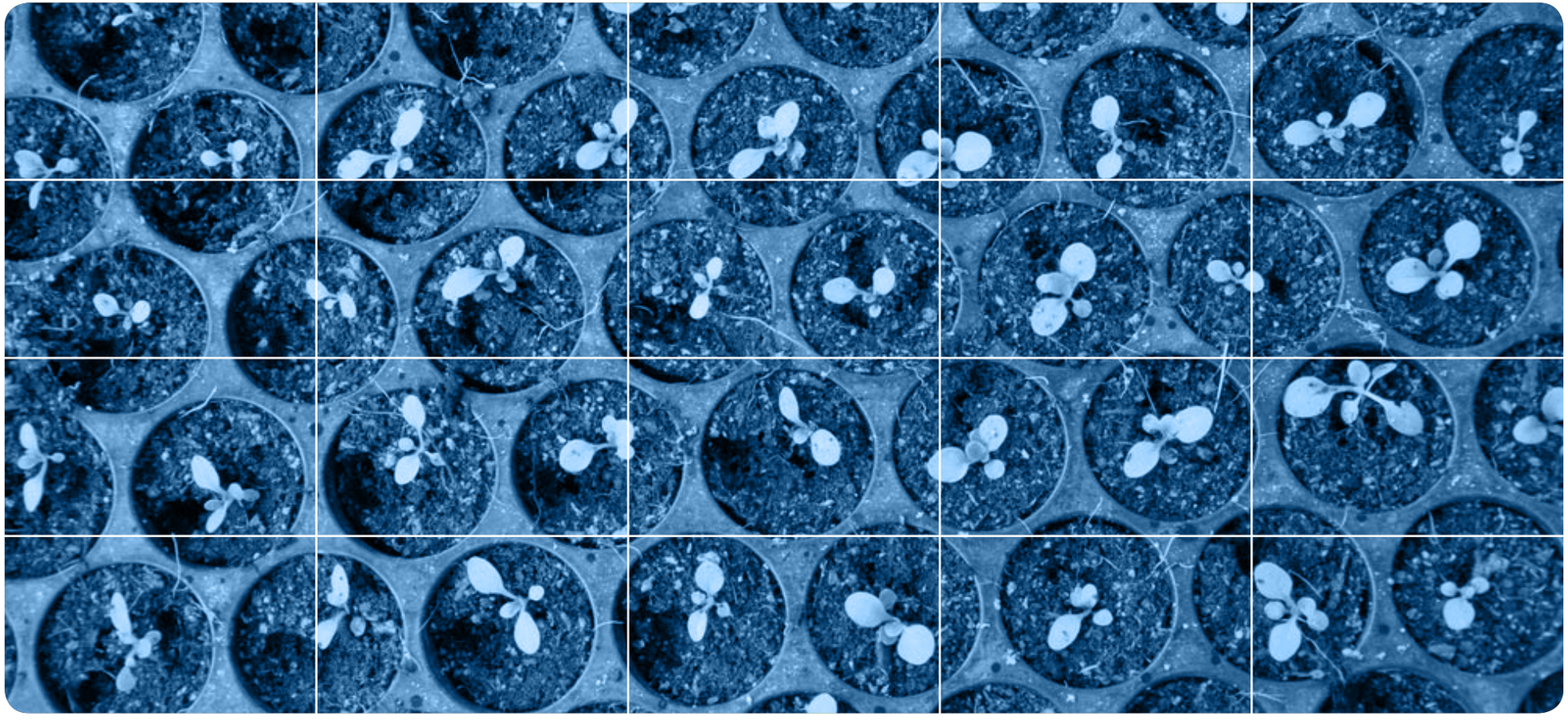
A mature commercial environment

Europe boasts a robust ecosystem; it offers mature and reactive political and regulatory environments, which make the region appealing in terms of risk versus reward. While Europe as a whole might be fighting strong headwinds for large parts of its economy, business continues and for many shrewd GPs returns have been excellent. After all the region has a strong track record of producing mid-market champions in many sectors – even in downturns. So overall, while the region may offer slower growth trends for the time being, it certainly benefits from better downside protection.

> To me there is absolutely no doubt that **Europe will come out** of this current downturn **stronger in the end.** And for that reason I believe that it makes real sense for institutional investors to continue to **put money into Europe when it is out of fashion.**

Karsten Langer The Riverside Company

SECTION 3:
STRATEGIES FOR **GROWTH**



SECTION 3: STRATEGIES FOR GROWTH

FOCUS ON **TALENT** AND **LOCATION**

EUROPEAN MID-MARKET DEALS:
VALUE AND VOLUME BY COUNTRY
VIEW THE DEALS MAP ON P14 >

> No matter what your regional or strategic beliefs, **there are European GPs that deliver superior returns** and have demonstrated so over a long period of time.
>
> **Bill Watson** Value4Capital

The European mid-market is a complex one, divided by national boundaries, languages and differing business cultures. Within it there are a multitude of compelling business stories and investment opportunities. Unlocking value in this diverse environment requires highly tailored and differentiated strategies. This means having the local knowledge, insight and networks to unravel, access and execute. To be successful, experience is required.

GP talent pool

Fortunately, European mid-market private equity is endowed with an impressive pool of highly experienced private equity professionals. Compared with many of the 'hotter' emerging markets, where many private equity houses are still in their first or second cycles, Europe's mid-market GP community is vastly more experienced. The average age of buyout and later stage GP firms among the EVCA's membership is approaching 20 years.

Geography

One of the most obvious differentiators among European mid-market GPs relates to their geographical coverage. Many firms prefer to focus their full attention on one country or a small group of neighbouring states, while others have a more geographically agnostic approach, investing where the most promising opportunities present themselves.

Of course, both broad strategies have their merits. On one hand, pan-regional strategies certainly mitigate an element of country-specific risk in volatile times. On the other, more geographically focused GPs can be more tightly woven into the fabric of a local business network. This deep insight will often give them better access to the most interesting 'off-market' opportunities.

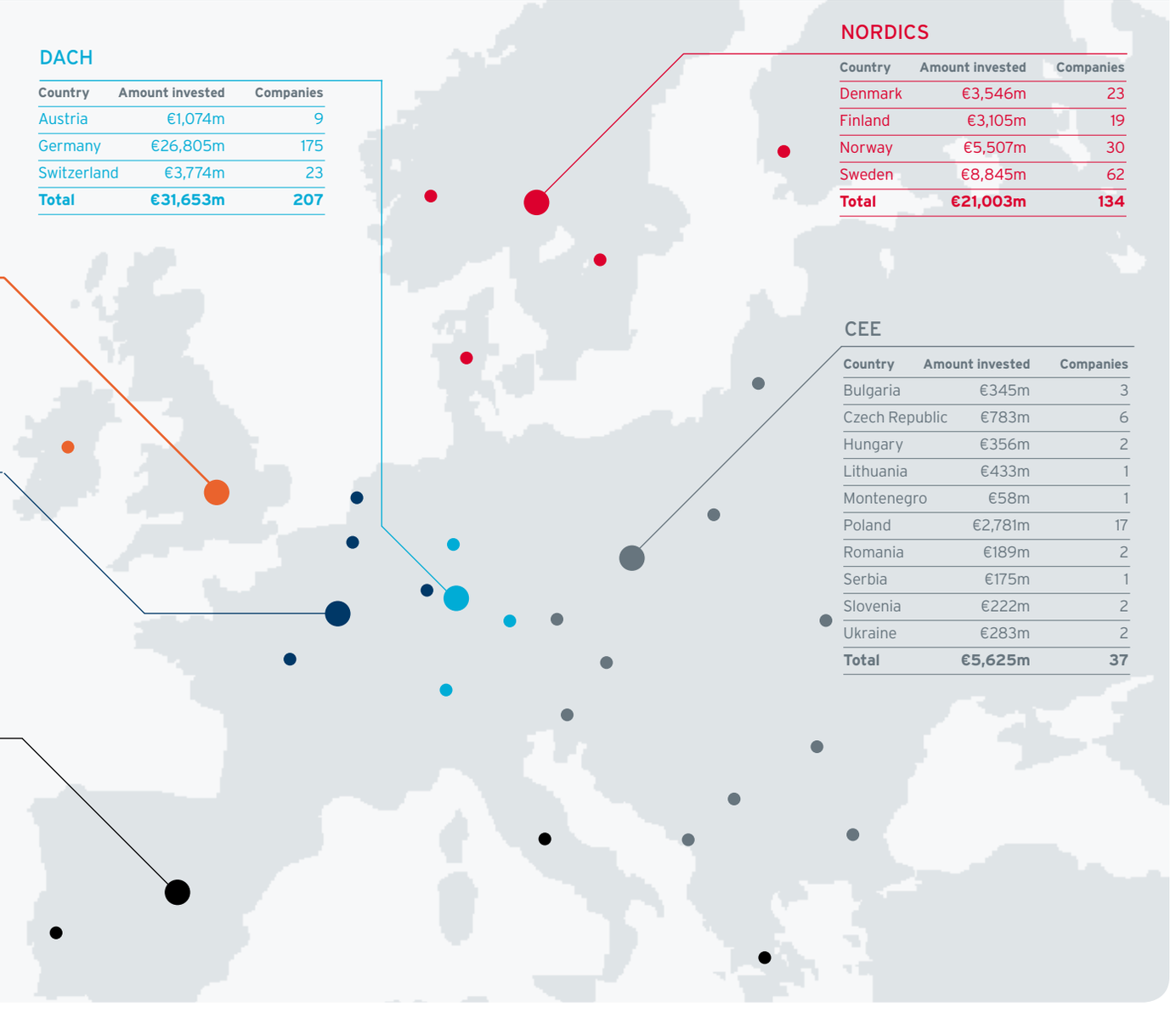
Admittedly, gaining a good understanding of this geographical dynamic can be a challenge for many limited partners (LPs), given the economic complexities of the region. Also, for most, Europe is just one slice of a larger pie. Ultimately the most sophisticated private equity programme would include a mix of both, and not just for reasons of diversification. It is important to remember that some European markets are not as well served by pan-European GPs as others, so looking at strong local players is a necessity in these areas.

Whether the LP prefers national or regional, sector or stage specialisation, the European mid-market offers a wide choice of strong and experienced players.

SECTION 3: STRATEGIES FOR GROWTH

FOCUS ON **TALENT** AND **LOCATION** continued...

Figure 5 & 6: Mid-market deals
(Transaction value EUR 50 million-EUR 500 million)
by Country and Region between 2007 and H1 2012
Source: EVCA\PEREP_Analytics



DACH

Country	Amount invested	Companies
Austria	€1,074m	9
Germany	€26,805m	175
Switzerland	€3,774m	23
Total	**€31,653m**	**207**

NORDICS

Country	Amount invested	Companies
Denmark	€3,546m	23
Finland	€3,105m	19
Norway	€5,507m	30
Sweden	€8,845m	62
Total	**€21,003m**	**134**

UK & IRELAND

Country	Amount invested	Companies
Ireland	€1,443m	8
UK	€48,513m	306
Total	**€49,956m**	**314**

CEE

Country	Amount invested	Companies
Bulgaria	€345m	3
Czech Republic	€783m	6
Hungary	€356m	2
Lithuania	€433m	1
Montenegro	€58m	1
Poland	€2,781m	17
Romania	€189m	2
Serbia	€175m	1
Slovenia	€222m	2
Ukraine	€283m	2
Total	**€5,625m**	**37**

FRANCE & BENELUX

Country	Amount invested	Companies
Belgium	€4,583m	29
France	€31,396m	223
Luxembourg	€991m	5
The Netherlands	€9,000m	71
Total	**€45,971m**	**328**

SOUTHERN EUROPE

Country	Amount invested	Companies
Greece	€826m	6
Italy	€11,299m	86
Portugal	€812m	7
Spain	€7,684m	46
Total	**€20,621m**	**145**

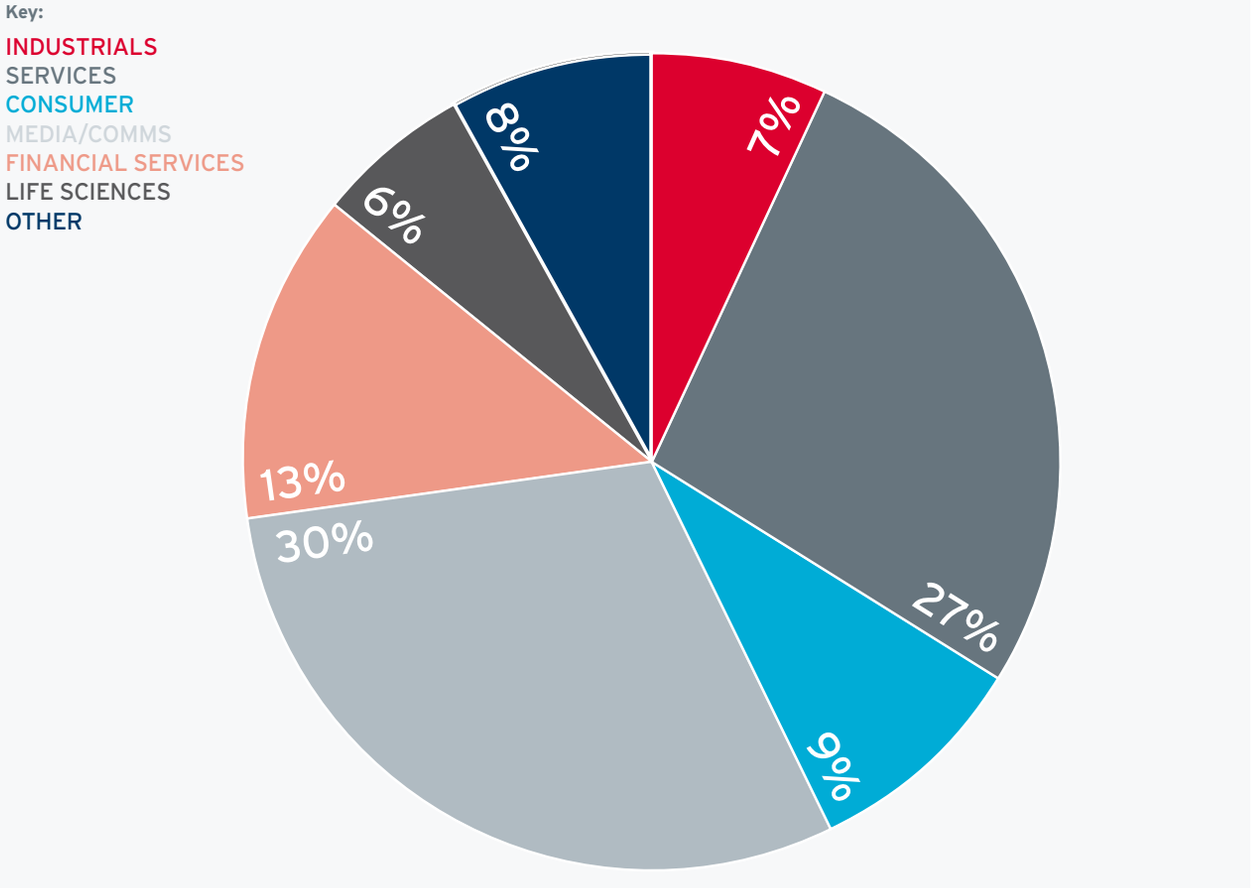
SECTION 3: STRATEGIES FOR GROWTH

SECTORAL FOCUS

You can get exceptional double-digit growth in Europe, despite the macro environment, if you pick **the right industry sectors and the right managers (GPs).** In our latest fund-of-funds, the European mid-market accounts for over 65% of commitments.

Helen Steers Pantheon Ventures

Figure 7. Value of MM deals by industry group in 2011
Source: EVCA\PEREP_Analytics



SECTION 3: STRATEGIES FOR GROWTH

OPERATIONAL **FOCUS**

European mid-market GPs have long recognised the importance of a 'back-to-basics' strategy. It is vital for them to exert operational influence on their underlying portfolio companies, in order to drive durable, long-term performance and help take the prevailing economic conditions out of the equation.

Operational experience

This is strongly reflected in the trend over recent years towards European GPs working to develop their operational skills bases, either directly or in partnership with highly experienced non-executive directors and other industry practitioners. In doing so they have become highly adept at fostering innovation and adding value.

Research on how those returns are generated supports the powerful and successful use of operating enhancements (see pages 20 and 21).

Growth strategies experience

Beyond simple geographical considerations, the most important differentiator between strategies in the European mid-market private equity segment is how GPs seek to generate growth in their portfolio firms. And there are a myriad of bespoke strategies aimed at doing just that. Although the boundaries between distinct strategies are often blurred, from a broad perspective two key approaches are **'value investing'** and **'growth investing'.**

In the former, GPs will typically focus on avoiding the most competitive, high-multiple industries to seek out opportunities that are either undervalued or require some 'heavy lifting' to generate value.

In the latter the focus is more on taking businesses in industry segments with strong secular growth drivers and developing operational strategies for growth – for instance the consolidation of fragmented industries through buy-and-build programmes.

European mid-market GPs are also particularly **adept at using their knowledge and contacts** to help portfolio companies **internationalise** and **build their presence** in new markets.

PETS AT HOME:
UK RETAIL CHAIN

READ THE CASE STUDY HERE >

SECTION 3: STRATEGIES FOR GROWTH

A TOOL FOR **TRANSFORMATION**

Irrespective of the precise strategic formulae followed, European mid-market GPs have built up a wide range of tools that can be deployed quickly – typically in the first year of ownership – to begin creating value. These have a direct impact on both productivity and employment. According to research published by Ernst & Young private equity backed businesses saw productivity increase by almost 7% on average, while employment grew by over 2%.

In some cases, these growth tools are operational levers designed to increase top- and bottom-line performance: bolt-on acquisition targets can be identified and engaged; procurement reviews can be launched to tap the collective bargaining power of a GP's entire portfolio; strong GP relationships with the banking community can improve lending terms; and lessons learned within other portfolio businesses can be shared.

Continued on p17...

Figure 8. Productivity and employment growth for PE-backed companies 2005-2011
Source: Ernst & Young data, DataStream

PRODUCTIVITY CAGR		EMPLOYEE CAGR
10.1%	UK, IRELAND	2.2%
10.5%	FRANCE	5.8%
8.1%	DACH	2.9%
6.0%	NORDICS	1.7%
3.5%	ITALY, SPAIN, GREECE	0.5%
6.6%	BENELUX*	5.6%
6.9%	**TOTAL**	2.2%

* Excludes outliers

SECTION 3: STRATEGIES FOR GROWTH

A TOOL FOR **TRANSFORMATION** continued...

The mid-market provides the best opportunities to combine top-down stock selection and bottom-up business improvement. **Deal flow has proven abundant** across market cycles, as has liquidity – and sector focus and portfolio management may be best put to use in this environment.

Craig Donaldson HgCapital

Continued from p16

But, importantly, other tools are aimed at creating more structural improvements, not just to boost operational performance but to effect a more significant, lasting transformation. Many mid-market investees have never previously received private equity backing. They are often comparatively small, entrepreneur-led businesses and some may have limited reach into global markets.

GPs play a critical part in transforming these businesses into sophisticated, internationally-minded entities. At one level, this process of professionalisation involves the GPs installing new reporting processes, new systems and more discipline. More importantly, private equity owners are able to attract high-calibre middle and upper management personnel into their investees. These new recruits bring with them the skills necessary to oversee the transformation into a more sophisticated business.

Taking the responsible line

The other key side to the idea of transformation involves the principles of Environmental and Social Governance (ESG).

Private equity firms in general have an enormous role to play in this area and its importance is growing. ESG compliance tends to improve dramatically when businesses are taken into private equity ownership. But it is also increasingly seen as a part of the GP's value creation armoury. Mid-market GPs may even specifically target businesses on the basis that there are ESG issues that need to be addressed. They will do so knowing that they have the skills to make the changes necessary and in doing so generate value for their investors.

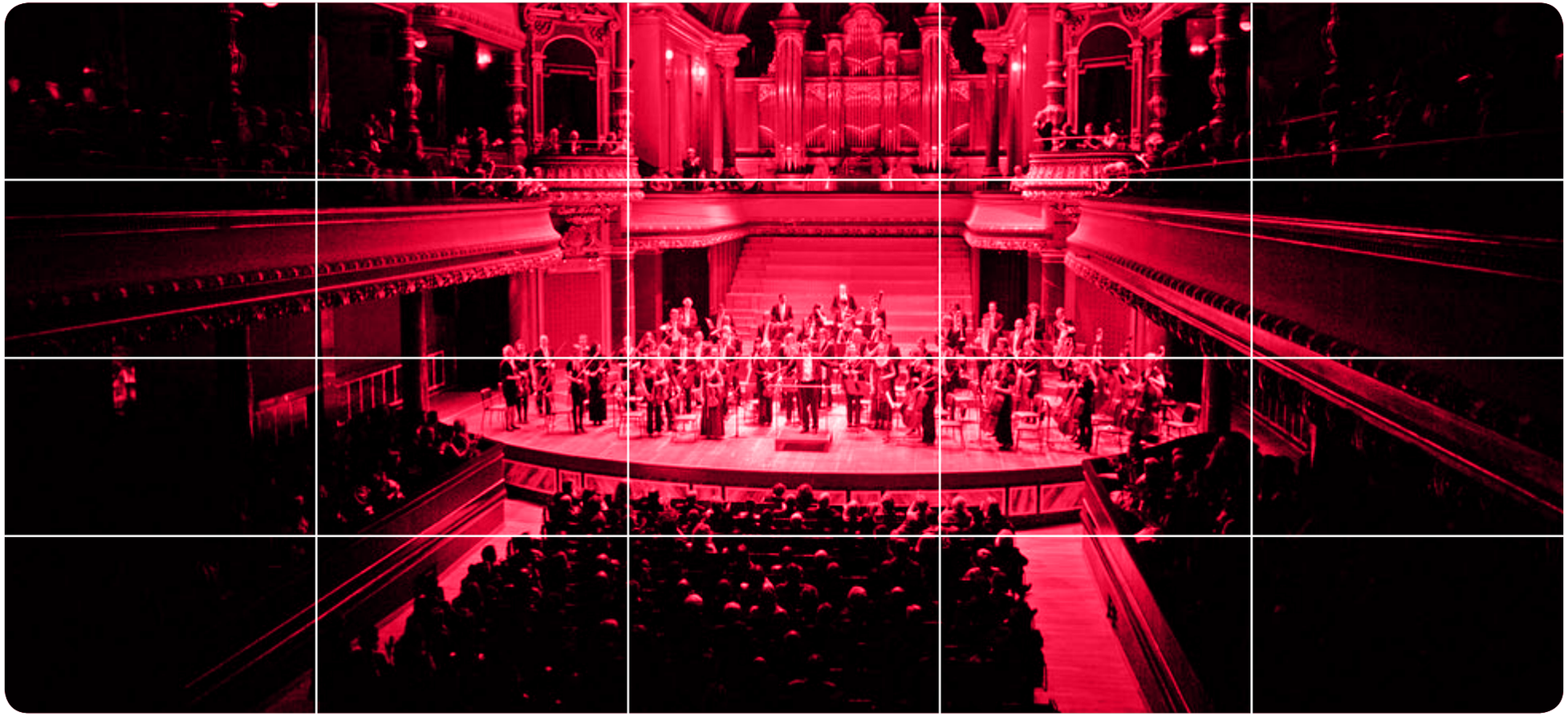
This is a part of business transformation: it is a core element in value creation.

CONVERTEAM:
ENERGY EFFICIENCY SOLUTIONS

READ THE CASE STUDY HERE >

CONVERTEAM
THE POWER CONVERSION COMPANY

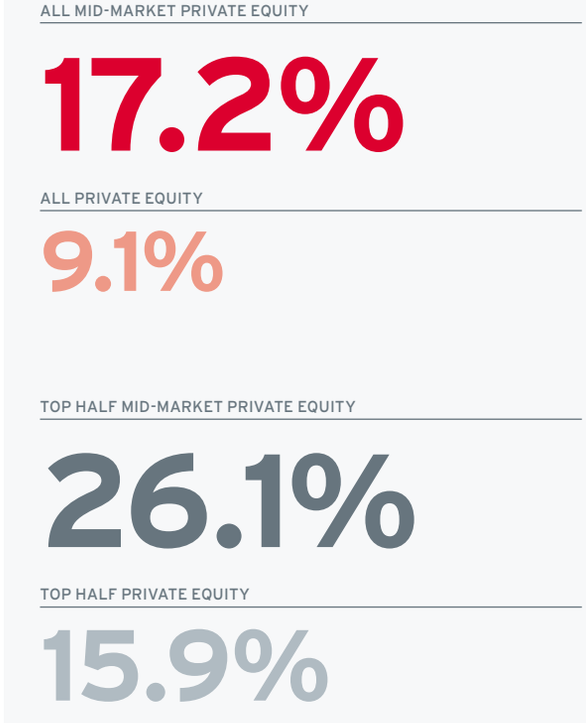
SECTION 4:
PERFORMANCE AND **VALUE** CREATION



SECTION 4: PERFORMANCE AND VALUE CREATION

THE CASE FOR MID-MARKET **VALUE GENERATION**

Figure 9. Pooled average Internal Rate of Return
Source: Thomson Reuters 2012



Superior top line returns

Ultimately, the case for investing in European mid-market private equity lies in its proven ability to deliver high returns for institutional investors over a meaningful time horizon.

Based on cumulative returns data for fund vintages stretching back to 1990, Thomson Reuters data shows that European mid-market GPs (here defined as those having raised between €250m and €1bn) generated an average IRR of well over 17% for their LPs. (This compares with an average IRR of 9.1% for all forms of private equity).

Even more impressive is the fact that top half performers in the mid-market have produced IRRs of averaging more than 25% over the timeframe, versus around 16% for the whole industry.

Supporting the case for mid-market value creation

The raw returns numbers only tell one side of the story. Another interesting angle came to light in late 2011 with the release of a new piece of academic research.

This supports the thesis that it is the operational, value-added strategies typically employed by GPs in the mid-market segment that play the greatest role in driving this segment's outperformance in the private equity field as a whole.

The research, released by Prof. Dr. Christoph Kaserer of the Center for Entrepreneurial and Financial Studies (CEFS), was constructed around in-depth financial information on 332 fully exited mid-market buyout deals completed by 15 different EVCA member firms between 1990 and 2011.

Continued on p21...

NORMA GROUP

NORMA GROUP:
ENGINEERED JOINING TECHNOLGY
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SECTION 4: PERFORMANCE AND VALUE CREATION

THE CASE FOR MID-MARKET **VALUE GENERATION** continued...

Continued from p20

Overall, the deal sample generated an average IRR of a little over 40%, while average money multiples stood at 2.93. Most importantly though, the research clearly shows that over three-quarters of the IRR can be directly attributed to operational and strategic activities aimed at boosting investees' top- and bottom-line earnings.

Meanwhile, the research also shows that multiple arbitrage is not an important feature of mid-market private equity investing, nor is it heavily dependent on leverage to drive returns.

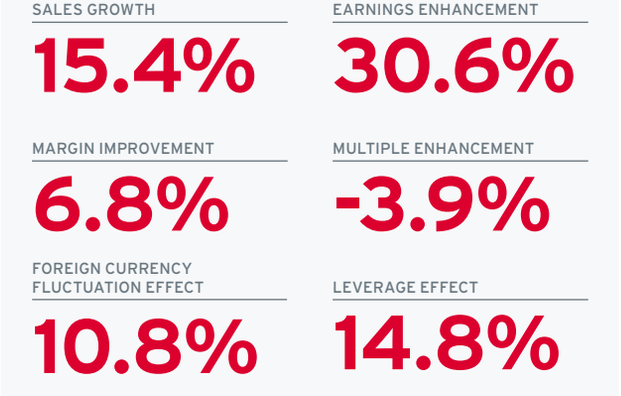
According to the research, if the sample is split according to debt-to-EBITDA multiples, the half with the highest debt-to-EBITA ratio generated a median money multiple of 2.5x, while the more conservatively geared businesses saw multiples of 2.3x. So overall, while leverage does play an important role, its effect has perhaps been overstated in the past.

The report also offers interesting data on the distribution of returns by region: contrary to what many might think, the returns for different regions show relatively small variation, especially in terms of money multiples.

Finally, among the other notable findings of the report was the fact that secondary transactions, so often the subject of poor press in the industry, actually come out as strong exits. At one level this reflects the fact that sale processes are likely to generate greater competition if they are opened up to financial as well as trade buyers.

But it also highlights another key issue: the fact that private equity buyers might be interested in buying an asset, even one that would generate a strong return for its vendor in the process, suggests a confidence that there remains significant value to be created. This in turn would suggest that there is a strong understanding among mid-market GPs that their role is to build companies over the longer term, not necessarily just in a three-to-five year time frame. For many GPs, this involves the recognition that their role may only be to take a business so far, before they pass it onto the next link up in the value-building chain.

Figure 10. Gross Internal Rate of Return attribution Average %
Source: C. Kaserer, 2011



SECTION 4: PERFORMANCE AND VALUE CREATION

THE CASE FOR MID-MARKET **VALUE GENERATION** continued...

Evidence based on 332 mid-market fully exited buyout deals between 1990 and 2011 shows the **average Internal Rate of Return (IRR) is** no less than **a solid 40.2%.**

Prof. Christoph Kaserer Based on his study:

'Return Attribution in Mid-Market Buyout Transactions – New Evidence from Europe'

OVERALL GROSS AVERAGE IRR FOR EUROPE Between 1990 - 2011

40.2%

Figure 11. Median deal returns by target location
Source: C. Kaserer, 2011

IRR %		MONEY MULTIPLE
49%	DACH	3.0
40%	BENELUX	2.4
36%	NORDICS	2.8
32%	FRANCE	2.3
30%	UK	2.6
28%	CEE	2.4
18%	ITALY, SPAIN	2.2
36%	OTHER	2.3

SECTION 5:
GLOSSARY AND APPENDIX

SECTION 5: GLOSSARY AND APPENDIX

DATA METHODOLOGY

Activity Data

(Sources referring to EVCA\PEREP_Analytics™)

The activity data used in this report – covering fundraising, investment, divestment – are produced by the EVCA and from the EVCA and **PEREP_Analytics™*.**

The activity data used in this report are aggregated according to market statistics. These refer to the country in which the investee company is based, regardless of the location of the private equity fund. At the European level, this relates to investments in European companies regardless of the location of the private equity firm.

Buyout split

Buyout investments are split into four categories: small, mid-market, large, and mega.

This classification is based on the value of the transaction, as indicated below.

Buyout segment transaction value (X)

Small	X < €50m
Mid-market	€50m ≤ X < €500m
Large	€500m ≤ X < €1,000m
Mega	X ≤ €1,000m

Mid-market segment transaction value (X)

Activity statistics on mid-market transactions presented in this report includes buyout investments made in portfolio companies located in Europe with a transaction value between €50m and €500m.

Mid-market transactions are split into three categories: lower, core and upper. This classification is based on the value of the transaction, as indicated below.

Lower	50m ≤ X < €100m
Core	€100m ≤ X < €250m
Upper	€250m ≤ X < €500m

*PEREP_Analytics™

PEREP_Analytics™ is a centralised, non-commercial pan-European private equity database. PEREP is a joint Pan-European statistics platform of the following private equity associations: APCRI (Portugal), AVCO (Austria), BVA (Belgium), BVK (Germany), CVCA (Croatia), CVCA (the Czech Republic), DVCA (Denmark), EstVCA (Estonia), EVCA (Europe), FVCA (Finland), HVCA (Hungary), IVCA (Ireland), LTVCA (Lithuania), NVCA (Norway), NVP (the Netherlands), PSIK (Poland), SECA (Switzerland), SEEPEA (South Eastern Europe), SLOVCA (Slovakia), SVCA (Sweden). PEREP has collects data directly from associations' members as well as private equity fund managers that are not organised in associations to represent all European activity.

Figures are updated on a continuous basis and are thus subject to change. H1 2012 figures are based on preliminary data.

Fund Returns Data

(Sources referring to Thomson Reuters)

In conjunction with Thomson Reuters, the EVCA supports the **Pan-European Private Equity Performance Benchmarks Report,** which covers the annual performance of private equity investment funds in Europe. This survey is open to all private equity fund managers in Europe.

Mid-market definition for fund returns

In the performance section, for data from Thomson Reuters, the mid-market is defined at a fund level.

The European mid-market segment covers a sample of European buyout funds with total commitment between €250m and €1bn and a vintage year stretching back to 1990.

For more information on EVCA data please contact: **research@evca.eu** or + 32 2 715 00 20, or visit **EVCA Research and Data**

SECTION 5: GLOSSARY AND APPENDIX

GLOSSARY

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. One-, three- and 10-year rolling IRRs are produced in the same way.

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 five-year horizon looks back from the end of 2010 over five years to the end of 2004 and so on.

HSBC Small Company Equity

The HSBC Smaller European Company Index Total Return index covers 1350 companies in developed markets in Europe. Specialist indices in the series include the HSBC Smaller European Leaders indices, which cover 135 of the most liquid companies, and the HSBC Smaller European Recovery indices, which cover 135 of the companies which have suffered the largest falls in share price.

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 daily or monthly cash flows to and from investors, together with the quarter end valuation of the fund's unliquidated holdings or residual value as a terminal cash flow to investors. The IRR is therefore net (i.e. after deduction of all fees and carried interest).

Pooled IRR

This is an 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.

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.

Secondary transaction

The seller of the stake in the company is another private equity firm.

Top half

This comprises funds with an IRR equal to or above the median point.

Top quartile

This comprises funds with an IRR equal to or above the upper-quartile point. So, while upper-quartile IRR refers to a discrete return for a single fund, top-quarter IRR is a pooled return for all the funds ranked in the top quarter.

Transaction value

The price paid to acquire a certain percentage of a company; it includes total round amount provided by the syndicate regardless of the type of co-investors and additional leverage provided by bank(s).

Disclaimer

The activity information contained in this report has been produced by the EVCA, based on PEREP_ Analytics data. Although the EVCA has taken suitable steps to ensure the reliability of the information presented, it cannot guarantee the accuracy of the information collected. Therefore, EVCA cannot accept responsibility for any decision made or action taken based upon this report or the information provided herein.

SHEPHERDING AN **INTERNATIONAL CONSTRUCTION ENGINEERING LEADER** THROUGH THE WORST OF THE RECESSION:

PERMASTEELISA

OVERVIEW

On the face of it, investing in a business heavily exposed to the international building and construction sector, just as global economies were tanking, was an exceedingly brave move – but this typifies private equity's **commercial innovation** and ability to swim against the tide.

Investindustrial supported the **€1 billion revenue** Italian engineering business **Permasteelisa** - which creates curtain walls for some of the world's biggest buildings - at a time when the company needed support for international expansion and operational improvement to head off the ravages of recession. The investment has been an unqualified success, **creating jobs, growing revenues** and driving a European champion to further its **international presence.**

PERMASTEELISA GROUP

HQ Italy

Sector Construction

permasteelisagroup.com

Investor Investindustrial

Investment period 2007-10

investindustrial.com

THE BUSINESS NEED

- Upgrade of management with focus on international expansion
- Focus on operational improvement

ACTIONS TAKEN

- Public-to-private transaction took the firm away from the volatility of public markets
- Modest level of debt (1.4x Ebitda) used to fund the acquisition, and paid off one year later, provided financial stability in uncertain times
- Built management team to bring international expertise & organisational streamlining
- Recovered profitability and captured growth in emerging markets
- Reorganised US operations, introduced new risk management tools and implemented a new project selection policy to minimise loss-making contracts
- Focussed R&D on environmentally energy-saving facades

> The co-operation with **Investindustrial** has allowed us to implement a successful long-term value creation strategy with a focus on larger and more profitable projects.
>
> **Nicola Greco** CEO, Permasteelisa

CREATING LASTING VALUE

More than doubled sales from the fast-growing regions of Asia & Middle East (39% of total sales)

Ebitda margin doubled from 4.1% in 2007 to 8.0% at the end of 2010

Total employees grew by 26% during ownership.

Grew employment in Italy by **220 jobs,** despite representing less than 5% of Permasteelisa's overall sales

3x return realised for investors

220 jobs created in Italy during investment

>2x increase in sales generated in Asia and Middle East

PRIVATE EQUITY SUPPORTS **AN ASTOUNDING RETAIL GROWTH** DURING THE DOWNTURN:

PETS AT HOME

OVERVIEW

When it was acquired by Bridgepoint in 2004, Pets at Home had around **100 stores** and employed **2,700 people.** By the time Bridgepoint sold the business to KKR in 2010, it had more than **250 stores** and more than **4,500 employees.**

In addition to delivering financially, the company was transformed, with staff turnover reduced from nearly 80% to under 20% a year, 1,500 jobs created, and more resources directed towards product development, a new multi-channel proposition and a rebranding. On top of this, the company promoted responsible pet ownership, and in 2009 alone, Pets at Home re-homed 40,000 animals and raised £750,000 for Support Adoption, its re-homing charity. In addition, revenues more than doubled during the investment, and EBITDA almost quadrupled.

HQ UK

Sector Retail

petsathome.com

Investor Bridgepoint

Investment period 2004-10

bridgepoint.eu

THE BUSINESS NEED

- Boost market share in fragmented sector
- Improvement of marketing and branding
- Reduce high staff turnover

ACTIONS TAKEN

- Own brand grew from almost zero to over 25% of sales
- Sourcing from Asia increased materially
- Staff turnover reduced from 78% a year in 2003/04 to 19% a year
- £90m of capital invested in business
- Rebranding completed
- Multi-channel proposition launched
- TV advertising campaign launched
- Companion Care veterinary business grew to 53 practices

> It's been a pleasure to work with **Bridgepoint** over the last six years and we are proud of all we have accomplished with their support.
>
> **Matt Davies** CEO, Pets at Home

CREATING LASTING VALUE

During the investment **revenues more than doubled** and **EBITDA almost quadrupled.**

Margins increased from 10% to 18%.

Market share grew from 9% in 2004 to 14% in 2008.

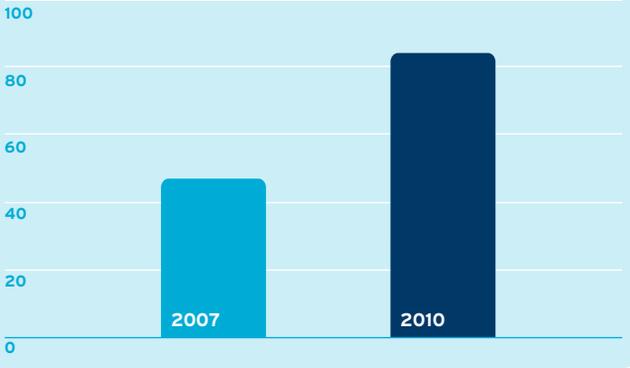
Highest net proceeds returned to investors in Bridgepoint's history at 8x.

1,500 jobs created

40k pets rehomed in 2009 alone

8x Return to pension funds and other investors

PETS AT HOME EBITDA GROWTH 2007 - 2010 (£M)



SUCCESSFUL MANAGEMENT OF ECONOMIC CRISIS **TO FUEL FUTURE SUCCESS** FOR ENERGY LEADER:

CONVERTEAM

OVERVIEW

Converteam is a **global leader specialising in electrical energy conversion solutions** for the marine, oil, energy and heavy industry. The group was spun-off from French multinational **Alstom** in 2005 through an initial buyout sponsored by Barclays Private Equity. In 2008, Barclays made a partial exit, with **LBO France** taking joint control of the business.

During the firm's investment Converteam took huge strides in entering **new markets** and **developing products** in what is a highly capital-intensive industry. Having solid financial support during this time, particularly as the global recession took hold, was of paramount importance to the success the company is now enjoying. LBO France exited in 2011, **delivering a 25% IRR** to its investors.

CONVERTEAM
THE POWER CONVERSION COMPANY

HQ France
Sector Energy
converteam.com

Investor LBO France, Equistone
Investment period 2008-11
lbofrance.com
equistone.com

THE BUSINESS NEED

- Raise company profile through increased marketing and PR drive
- Explore change in technology and growth of the underlying energy market with increased product offering (Development of electrical solutions: less polluting, less noise, better integration into global control systems and at lower cost in the long run)
- Introduce cost-saving initiatives and revamp financial strategy

ACTIONS TAKEN

- Developed commercial activity including entering new products and markets
- Focus on cost reduction through strict inventory management
- Implementation of deleveraging Converteam's balance sheet and refinancing the business
- Introduced new management structure

> Proven management team which with the help of the equity sponsors successfully repositioned the group on new and profitable markets.

CREATING LASTING VALUE

Economic crisis damage limited

Corporate image and **company profile** developed

Sale to General Electric in Sept 2011 at 15x EBITDA

Levels of **efficiency** increased

Multiple of invested capital of 1.9x and 25% IRR

15x
EBITDA multiple achieved on exit

25%
IRR achieved on investment

A MASTERCLASS IN **GROWING A EUROPEAN LEADER** ON THE WORLD STAGE:

NORMA GROUP

OVERVIEW

3i's build-up of **NORMA Group to create a global powerhouse in engineered joining technology** is a shining example of what can be achieved with hands-on, professional private equity investment in a non-transparent and fragmented market.

3i formed NORMA Group by investing in Rasmussen Group in 2006, a German supplier for joining technology, and subsequently merging it with its Swedish portfolio company ABA, which served the industrial and technical distribution sectors. Following this, the management team was strengthened and further acquisitions of Breeze, R.G.RAY and Craig Assembly in the US were made. This, alongside organic growth in Asia, Eastern Europe and Middle America enabled the company to expand its product range and global coverage.

It floated at a value of **€669m** in **2011.**

HQ Germany

Sector Manufacturing

normagroup.com

Investor 3i

Investment period 2006-11

3i.com

THE BUSINESS NEED

- Geographic diversification
- Industrial diversification
- International management
- Commercial focus

ACTIONS TAKEN

- Optimisation of global manufacturing footprint
- Expansion into fast-growing markets in Asia and Eastern Europe
- Push into diversified industries such as water, agriculture, construction and aviation
- Consolidation of fragmented market including acquisitions of ABA, Breeze, R.G.RAY and Craig Assembly
- Improvement of supply chain and production processes
- Strengthening of management team with the appointments of an internationallyexperienced CEO, CFO and COO

> During our ownership we helped the company to more than double its sales and quadruple its Ebita, making its profile very attractive to institutional investors.
>
> **Ulf Von Haacke** Partner, 3i

CREATING LASTING VALUE

Diversified business by geography and end markets

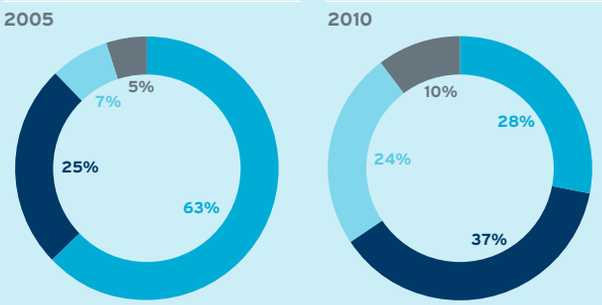
Above market growth and superior profitability

Successful €669m IPO on Frankfurt stock exchange

€40m improvement measures identified

€669m flotation on Frankfurt stock exchange

NORMA GROUP SALES BY GEOGRAPHY 2005 & 2010



Key: GERMANY EMEA (EXC GERMANY) AMERICAS ASIA PACIFIC

EUROPEAN PRIVATE EQUITY AND
VENTURE CAPITAL ASSOCIATION

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