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Private Equity Trend Report 2014

An industry rediscovering optimism

8th annual survey on current developments in German and international private equity investment.

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By Steve Roberts

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This publication is intended to be a resource for our clients, and the information therein was correct to the best of the authors' knowledge at the time of publication. Before making any decision or taking any action, you should consult the sources or contacts listed here. The opinions reflected are those of the authors.

Preface

Dear colleague,

2013 was a good year for the private equity industry. The majority of funds we interviewed for the Private Equity Trend Report 2014 were content with their performance in 2013: Many reported an increase in new investments, however, the number of deals over €50 million in size continues to remain stable. The overall stability in the global markets has also led to an improvement in financing with a reduction in covenant breaches and financial restructuring, and many reported high levels of satisfaction with the performance of their portfolio companies.

Looking at 2014, the majority of funds who participated in our survey share a more optimistic view than in prior years. Stability and moderate growth best describe the current state of the industry. I expect this trend to continue throughout the next few years. Concern, however, remains over a sufficient number of quality assets coming to market to make use of the available levels of capital and debt.

There is also good news for the German market: The country still remains a core focus for European private equity investment. Nevertheless, international funds are increasingly seeking opportunities in new markets to put their fresh capital to work given the current stability in deal flow in Germany.

What will the private equity market look like in 2014 and beyond? Even though the larger exits from private equity funds have been dominated by secondary or tertiary transactions, I believe that overall strategic buyers will continue to dominate the buyer landscape. As for future sources of deals, the majority of our interview partners expect an increase in deals being from private owners and corporate spin offs. This finding reinforces the fact that deal origination is now even more important than before, with less of an appetite for secondary transactions. In any case, we are excited to see how the industry will develop.

As always our thanks go to all those who participated in this year's survey and shared their opinions. We look forward to working with you again in 2014.

Steve Roberts
Private Equity Leader

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88% place more focus on portfolio management

77% expect none or < 10% of portfolios to breach covenants

76% of the funds were satisfied with portfolio development in 2013

67% expect an increase in investments

61% less use of leverage

60% expect a better European deal market in 2014

59% feel change in the business model

55% find the European market attractive

37% of the funds reported an increase in new investments

2013 in review: A good year for the private equity industry

- 37% of the funds we surveyed reported an increase in new investments. This positive trend is apparent across both German and international funds. Funds headquartered in Germany were marginally more successful in making new investments.
- The number of exits remained broadly static. Approximately 70% of German and 50% of international funds reported that the number of exits stayed the same compared to 2012.
- 2013 saw an improvement in financing conditions, especially for German funds. 26% of them found financing conditions to be better than anticipated (compared to 16% of international funds).
- The level of satisfaction with the performance of portfolio companies remained at a constant high level: An overwhelming 76% of funds reported that they were satisfied with their development in 2013.

Debt structure remains conservative relative to pre-crisis period

- Over half of the new investments made in 2013 were leveraged at less than 40%, a ratio that appears to be the new norm.
- Almost one in three participants (28%) had experienced no covenant breach at all in their portfolio. This represents an increase compared to previous years.
- German funds were more likely to experience covenant breaches in their portfolio companies than their international counterparts.

Looking at 2014: optimism prevails

- The majority of funds share an optimistic outlook: 60% of respondents expect the European deal market for private equity to get better in 2014.
- New investments are predicted to go up: 68% of international funds and 58% of German funds anticipate the number of new investments to increase in 2014.
- The majority of funds expect financing conditions to either improve or stay broadly the same.
- One third of all funds surveyed are hopeful that none of their portfolio companies will break any bank covenants in 2014.

On the strategic agenda: Operational improvements and "Buy and Build"

- Operational improvements and 'Buy and Build' were on top of the strategic agenda in 2013 and, according to the majority of funds, will continue to be the strategic focus in 2014.
- The main source of new deal opportunities in 2014 will be acquisitions of majority or minority shareholdings from private owners, and less so secondary or tertiary transactions, reinforcing the increasing importance of origination within the private equity community.
- Spin-offs or carve-outs from corporates are considered less likely compared to the previous year.

Industrial production remains in focus, growing interest in the consumer industry

- Industrial production continues to be the most sought-after sector for future investments, especially among German funds.
- There is a rising interest in business services and the consumer industry with 29% of respondents expressing plans to make investments in either of those industries over the next five years.

Crisis left traces in business model, fundraising and market structure

- Six in ten respondents feel that their business model has changed at least to some extent since the global financial crisis. Among German funds, slightly over 40% of participants noticed changes in their business model.
- The most prominent changes to have occurred are an increased focus on active portfolio management, more cooperation with strategic investors as well as less use of leverage or financial engineering.
- The majority of respondents feel that the number of Private Equity houses has decreased since the crisis, but anticipate that this number will either increase again or remain stable in the coming years.
- Six in ten funds have either raised or been in the process of raising a fund since the financial crisis. Majority opinion is that the fundraising process is now more difficult.
- In line with previous years, sustainability issues stayed on top of the agenda, with the majority rating them above five (on a scale of one to ten) in terms of importance.

German and international investment trends

- Western Europe remains the most attractive region for both German and international funds. For German funds, Asia is equally interesting as an investment region.
- One in five funds is planning to open new offices in the next few years. The vast majority of those will be located in Europe. German funds are much less likely to open a new office in the near future.
- Germany appears to have lost some of its appeal as a location for private equity investment with only one in two (48%) respondents rating it as either quite or very good. This is a significant drop compared to 2012 when 61% of international funds described Germany as an attractive place for investments.

About the Private Equity Trend Report

232 private equity funds took part in our eighth annual survey of investment trends. Of these funds, 13% were based in Germany, 16% in the UK and 71% in the rest of Europe. 63% of funds interviewed had assets under management of more than €50 million.

Private equity houses
232

German GPs
13%

UK GPs
16%

AUM > €50m
63%

"I expect the trend of moderate but stable and healthy growth within the private equity industry to continue."

Interview with Steve Roberts, Private Equity Leader at PwC Germany

How would you sum up the year 2013 for the private equity industry?
In 2013, we saw a stable level of post-crisis deal activity with financing being largely available and a good number of deals getting done. Stability might have been a negative description of the industry in 2006 – before the financial crisis hit. Today, it is a good thing. Stable growth might sound little exciting to an industry that was used to exorbitant growth rates only a few years ago. In my view, it is a healthy development.

In which way has the business model of the private equity industry changed since the global financial crisis?
The changes are most noticeable in financing: In 2013, only a small number of funds wanted to utilize, or were able to obtain, debt financing over 50% of enterprise value, whereas in 2006 the ratio of equity to debt might have well reached much higher levels of 60% and more. The average equity to debt ratio is much more conservative today with 40%, appearing to be the new norm. Other prominent changes to have occurred are more focus on active portfolio management, and an increase in cooperation with strategic investors. From what I see there is also tendency for private equity houses to be a bit smaller. A private equity fund that had ten employees before the crisis might only work with a team of six or so today.

Germany appears to have lost some of its appeal for international funds with only one in two respondents rating it as quite/very good. Do you have an explanation for those results and do you agree with this viewpoint?
I was completely surprised by those results: These findings are not consistent with my experience and the feedback I get from investors. One explanation might be that international funds are looking further afield from their established markets as they seek new opportunities to put their fresh capital to work given the current stability in deal flow in Germany. There is no doubt, however, that Germany remains the economic powerhouse and safe haven for the euro zone. In my opinion, the fundamental dynamics of the German economy are intact and the growth perspectives for 2014 are quite promising. Germany is and will continue to be a highly attractive territory for private equity investments thanks to its economic stability and growth.

What are the most sought-after industries for future investments?
Unsurprisingly, the landscape has not changed much since 2012. Funds continue to see their highest potential in the traditional mainstay of German small and medium-sized enterprises, the core of which is engineering and industrial innovation. We also found a rising interest in targets in business services and the consumer industry.

The majority of funds expressed a high level of optimism regarding the future of the industry. In your opinion, is this optimism justified?
I definitely share the optimism that the majority of respondents in our survey demonstrated. Most funds expect an increase in activity levels. So the sentiment is much more optimistic than in 2013 – for good reasons: there is a sound economic development with stable growth rates, and financing has largely improved. So the environment is right for the trend of moderate but stable and healthy growth within the private equity industry to continue.

Looking further into the future: What is your forecast for 2014 and beyond?
Last year we saw about 100 transactions, including a few large ones, but the total the number of deals above €50 million was broadly stable. I predict that we will see a similar trend in 2014. Undoubtedly, we will witness a few large transactions – the year 2014 is actually off to a good start – yet the deal volume will probably stay roughly the same. It is crucial to manage expectations: I don't think we will experience a boom like before 2007 again anytime soon. And that is a good thing.

How will the crucial issue of financing develop?
The majority of funds anticipate financing conditions to either improve or stay broadly the same in 2014. I expect the upcoming "wall of debt" to increase the number of financial restructurings and/or covenant breaches, but not at the exceptionally high levels we saw in 2009 or 2010.

What are the key factors for deal making in 2014?
Deal-making in 2014 will require flexibility, creativity, and the willingness to assume non-control positions. I believe that secondary or tertiary opportunities will be more abundant than primary situations. Corporate balance sheets have large cash balances enabling them to continue to play a major role in the M&A market. A few open questions remain: Will the buy-side market for private equity assets continue to be dominated by corporate acquirers? To what extent can private equity funds agree upon price expectations for secondary or tertiary buyouts? In any case: Private equity funds will need to create a new equity story.

B Detailed findings

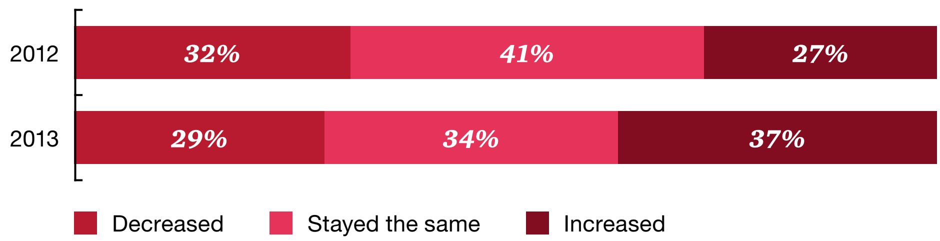
1 Looking back at 2013

New investments on the rise

2013 appears to have been a successful year for the private equity industry: 37% of the funds we surveyed reported an increase in new investments. This is a significant rise compared to the previous year when only 27% of respondents had been able to increase the number of new investments.

This positive trend is apparent across both German and international funds – 35% state to have an increase in investment activity. Funds headquartered in Germany were marginally more successful in making new investments: Over one quarter (26%) reported that the number of their investments increased significantly compared to 15% of their international counterparts.

Fig. 1 Development in number of new investments compared to previous year

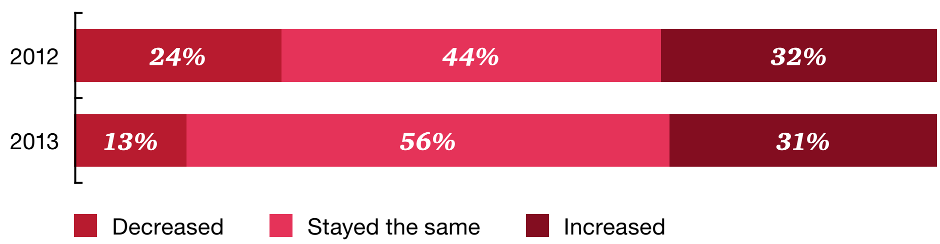


Number of exits broadly static

Looking at the number of exits achieved by the funds interviewed, we can observe a trend towards stability: The majority of funds (55%) reported that the number of exits made by their organization in 2013 stayed the same compared to the previous year. One in three (31%) was able to increase the number of exits.

Especially the German private equity market was remarkably stable regarding the number of exits compared to 2012: approximately 70% of German and 50% of international funds reported that the number of exits stayed the same. Also in line with last year's results, non-German funds saw higher rates of increase in the number of exits: 32% of all funds were able to either significantly or slightly increase the number of exits compared to 13% of German funds, though this is likely to be a timing issue rather than indicative of any underlying trend.

Fig. 2 Development in number of exits compared to previous year

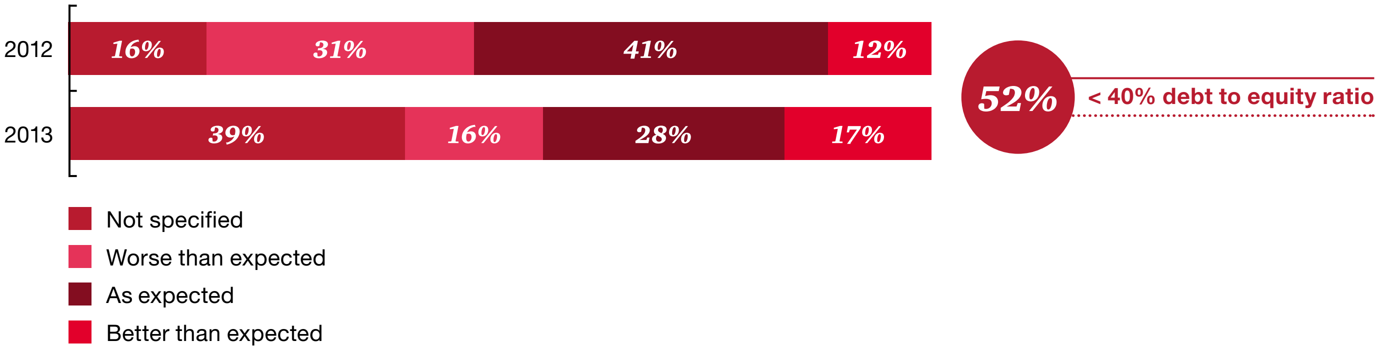


Financing conditions improving – especially in Germany

Almost one in five funds (17%) found the availability of credit for leveraged buyouts better than they had expected. This is a 5%-increase compared to the previous year. In 2012, almost one third of respondents (31%) had been confronted with a worse than expected availability of credits. This number was down to 16% for 2013.

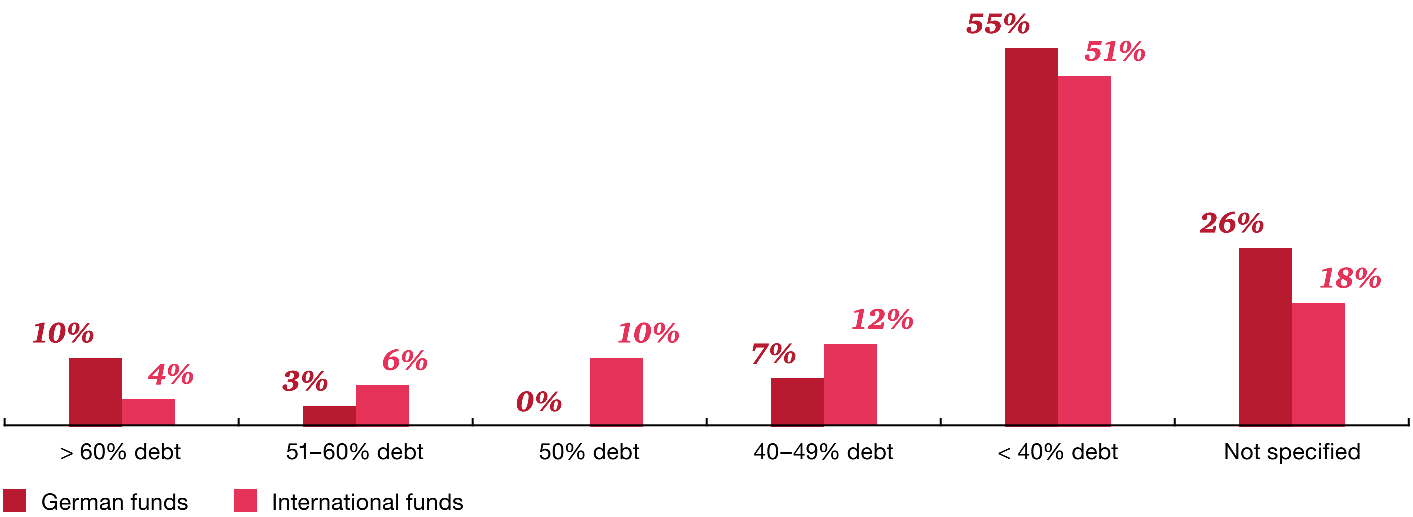
The percentage of funds stating that the availability of debt was better than expected was significantly higher among German funds: 26% of them described financing conditions in 2013 as a positive surprise (compared to 16% of international funds). We believe that this demonstrates the continued attractiveness of German assets within Europe, reflecting the solidity of the underlying economic dynamics.

Fig. 3 Availability of debt compared to expectations compared to previous year



The average debt to equity ratio remains predominantly in the less than 40% debt segment: Consistent with the results from last year's survey, over half of the new investments made in 2013 were leveraged at less than 40%. Debt to equity ratios of 60% or more remain the exception. This is a healthy development, says PwC expert Steve Roberts. He does not expect to see pre-crisis debt to equity ratios of over 50% anytime soon, meaning that value creation within the portfolio companies is the key driver of future equity stories.

Fig. 4 Average debt to equity ratios for new investments in 2013

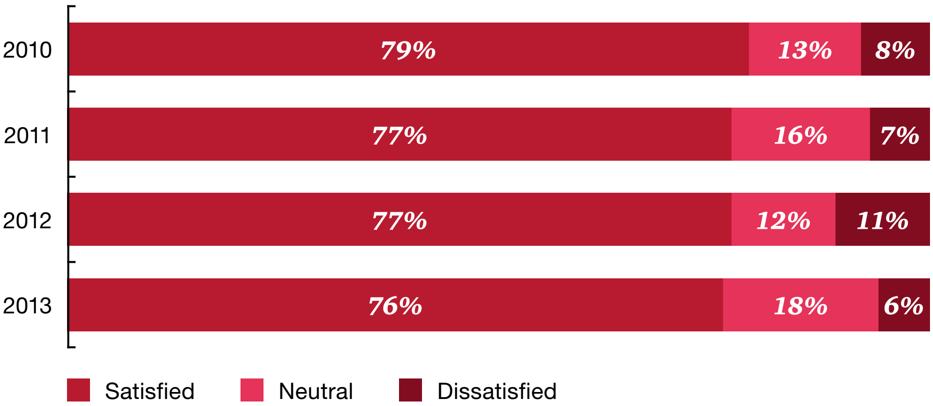


Level of satisfaction with performance at a constant high level

Satisfaction with the performance of portfolio companies was high again: An overwhelming 76% of funds reported that they were satisfied with their development in 2013. This number is consistent with previous years. 23% of funds even claimed to be very satisfied with their performance. In 2012, only 11% were that enthusiastic about their performance. Only 6% of respondents were dissatisfied with the development of their portfolio companies. This number is down 5% compared to 2012 when 11% or respondents stated their portfolio companies did not perform well.

76% satisfied with portfolio performance

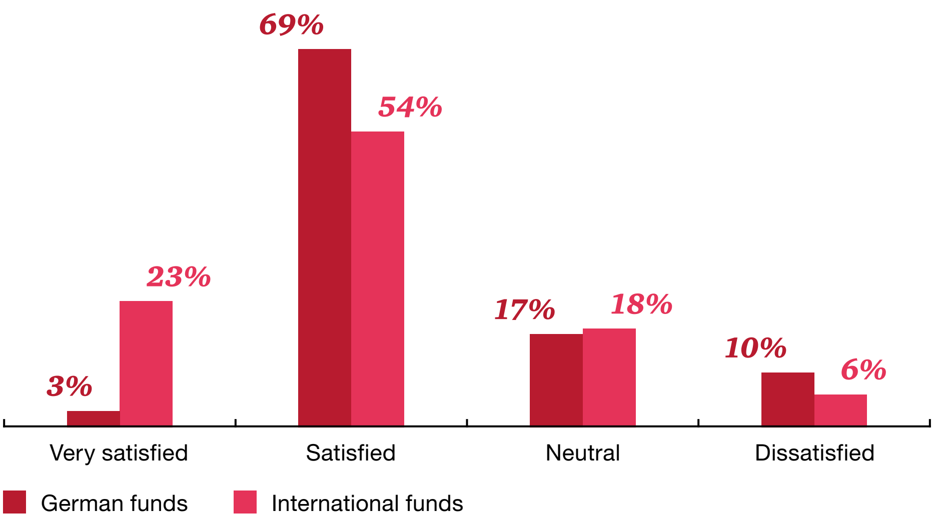
Fig. 5 Level of satisfaction with the overall development of portfolio companies



Among German funds, the level of satisfaction with their performance was slightly lower; both compared to all funds and in comparison with 2012: 72% were either very satisfied or satisfied with the development in 2013. 10% of German funds described their performance in 2013 as dissatisfying (compared to 6% among international funds).

70% satisfaction of German funds with portfolio performance

Fig. 6 Level of satisfaction with the overall development of portfolio companies in 2013

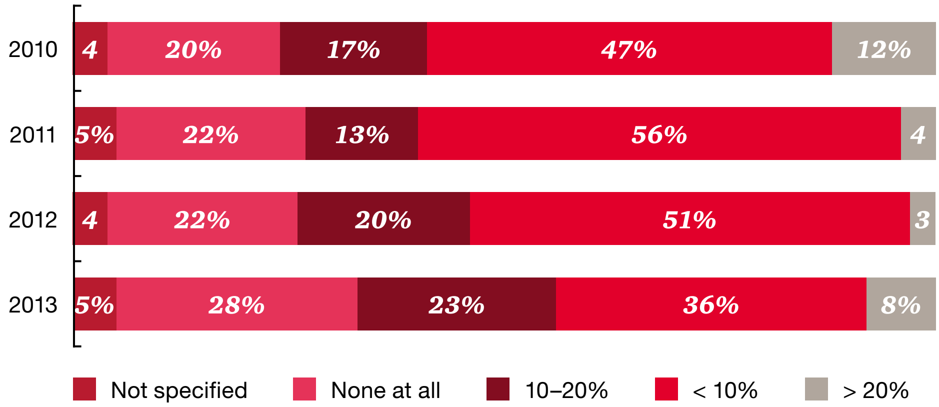


Fewer portfolio companies break bank covenants

28% of respondents stated that they had experienced no covenant breach at all in their portfolio. This number is higher than in previous years. Over one third of respondents (36%) experienced covenant breaches in 10% or fewer of their portfolio companies. This is also a significant fall compared to the previous year when over half of participants (51%) saw at least one covenant breach in 10% or fewer of their portfolio companies.

At the same time, the number of respondents who reported that between 10 and 20% of their portfolio companies broke one or more banking covenants in 2013 increased slightly from 20% in 2012 to 23% in 2013. 8% of respondents saw covenant breaches in 20% or more of their portfolio companies. This percentage is up 5 points compared to 2012. This is overall a positive development demonstrating that the worst days of the post-crisis era are hopefully behind us.

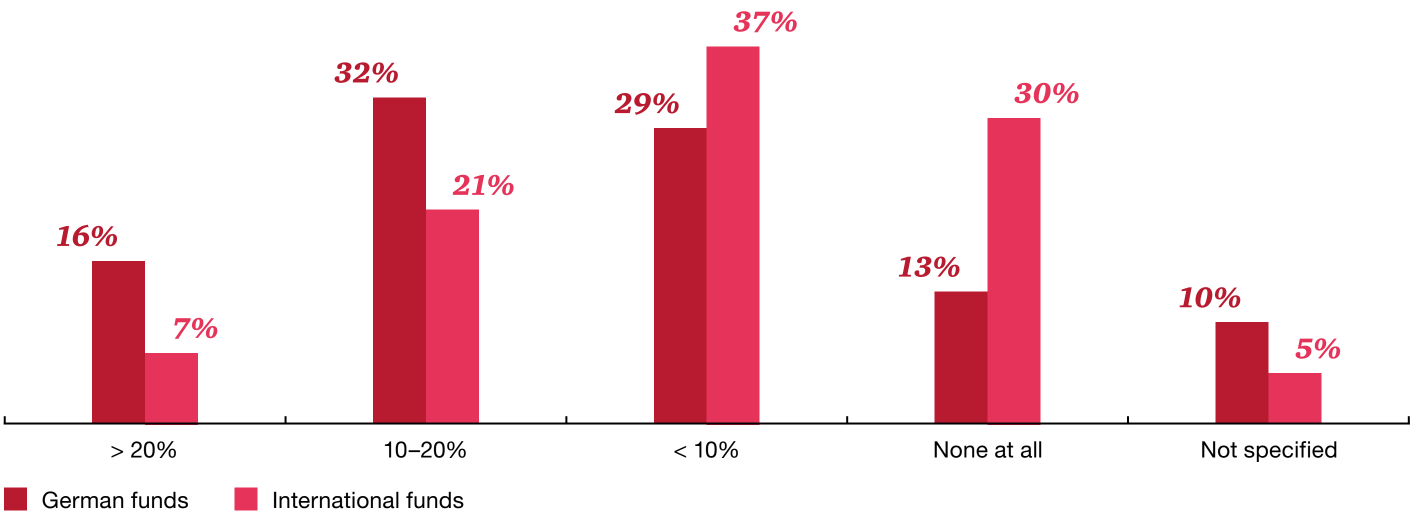
Fig. 7 Percentage of portfolio companies which experienced covenant breaches



German funds were more likely to experience covenant breaches in their portfolio companies: Only 13% reported there had been no breaches at all (compared to 30% of international funds and compared to 28% of German funds in 2012). 29% of German funds stated that 10% or fewer of their portfolio companies broke one or more bank covenants (compared to 37% or international funds). Almost one third (32%) of German funds reported on breaches in between 10 and 20% of their portfolio (21% of international funds). 16% of German funds experienced covenant breaches in 20% or more of their portfolio (7% among international funds).

We do not believe that this disparity between the German and international funds is symptomatic of any underlying geographic trends, but rather just the result of looking at one year in isolation. The overall performance of German portfolio companies remains strong.

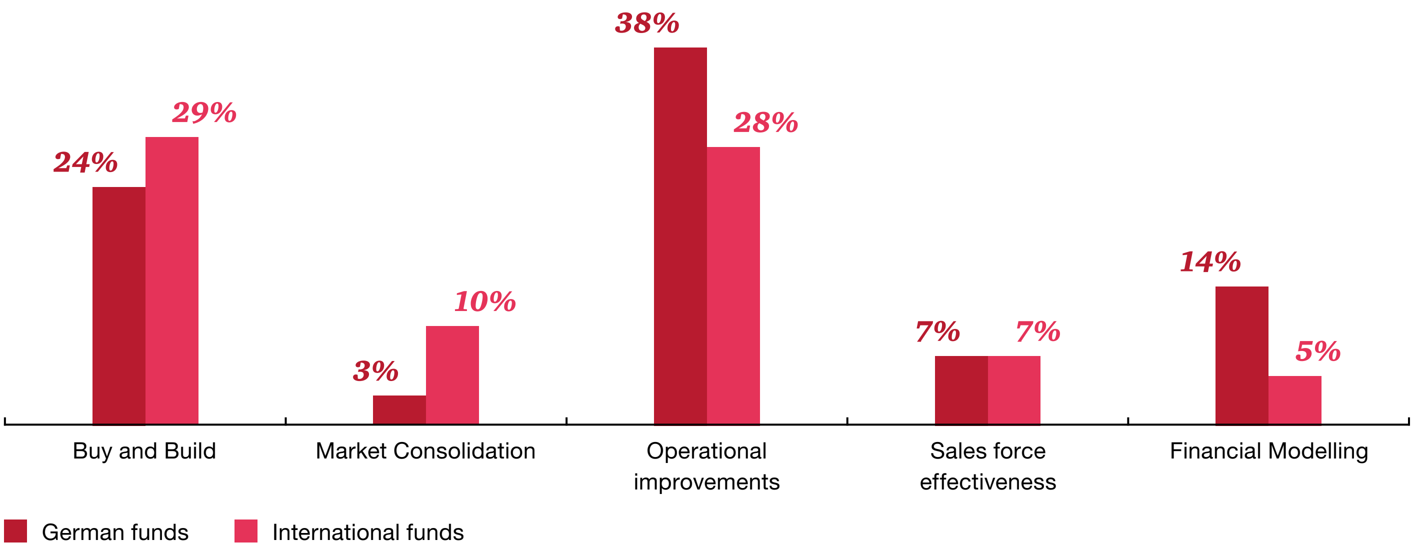
Fig. 8 Percentage of portfolio companies which experienced covenant breaches in 2013



On top of the strategic agenda: Operational improvements and "Buy and Build"

"Operational improvements" and "Buy and Build" were cited as the two main factors that influenced equity stories on acquisitions in 2013. German funds were most likely to focus on operational improvements (38%); international funds were mainly influenced in their investment rationale by "Buy and Build" (30%).

Fig. 9 Main factors influenced investment rationale 2013



2 Outlook and opportunities

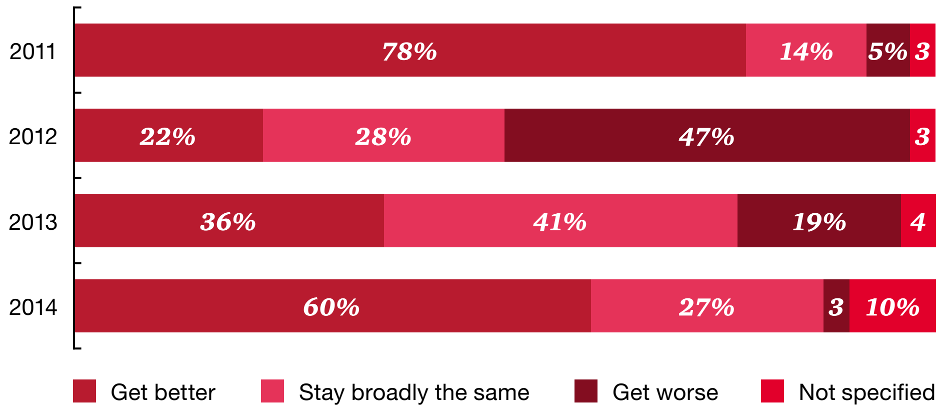
High rates of optimism regarding the European deal market

The private equity industry is quite optimistic about the future: 60% of respondents expect the European deal market for private equity to get better in 2014. This is a remarkable increase compared to last year's survey when only 36% expressed such optimism for the future. Only 3% of funds share the concern that the industry will get worse in 2014. In last year's survey, 19% of funds expressed pessimism about the future prospects.

Both German and non-German funds show similar levels of optimism for 2014. However, German funds are a little more cautious with 58% of them expecting the market to get slightly better (43% of international funds) and only 3% of German funds expecting the European deal market to get significantly better (17% of international funds).

PwC Private Equity Leader Steve Roberts finds that this high level of optimism is justified: "Private Equity has survived the post-crisis years well and succeeded in redefining itself and adjusting to the new reality. With the significant fresh capital to be invested and debt remaining readily available, the prospects for 2014 are positive."

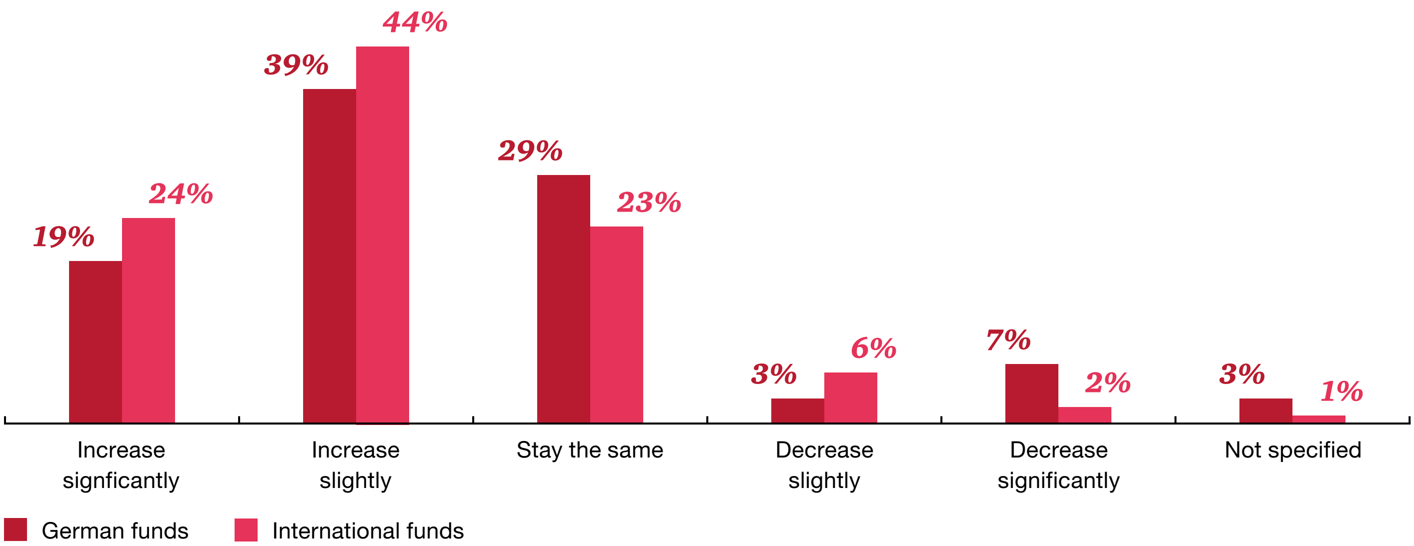
Fig. 10 Expected European deal market development



New investments expected to go up in 2014

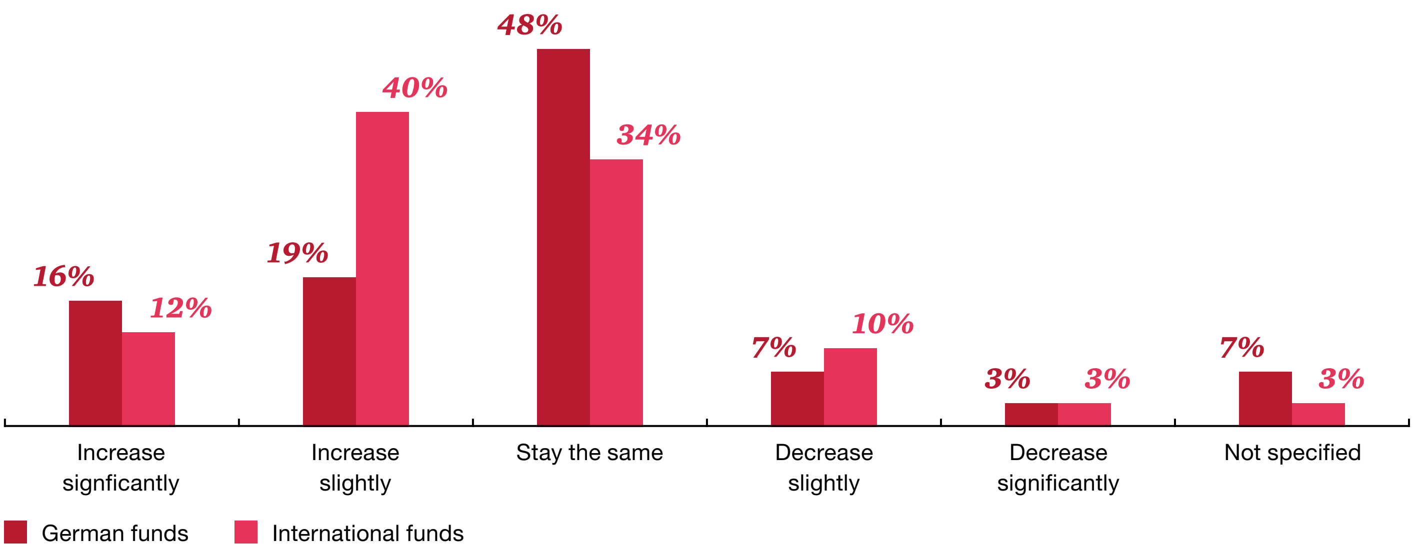
The level of optimism regarding new investments for 2014 has also significantly improved: 44% of international funds and 39% of German funds expect the number of new investments in 2014 to slightly increase compared to 2013. 24% of international funds and 19% of German funds expect a significant increase in new investments. Once again, German funds tend to be a little more cautious in their forecasting, reflecting in our experience more of a conservative national trait than being indicative of any underlying trend.

Fig. 11 Expected number of new investments in 2014 compared to 2013



Regarding the number of exits, German funds are less likely to expect significant changes compared to last year: Almost half of them (48%) assume the number of exits will stay the same in 2014 (compared to 34% of international funds). 52% of international funds expect the number of exits to increase either slightly or significantly. Among German funds, only 35% foresee an increase in exits in 2014. These results are in line with last year's findings.

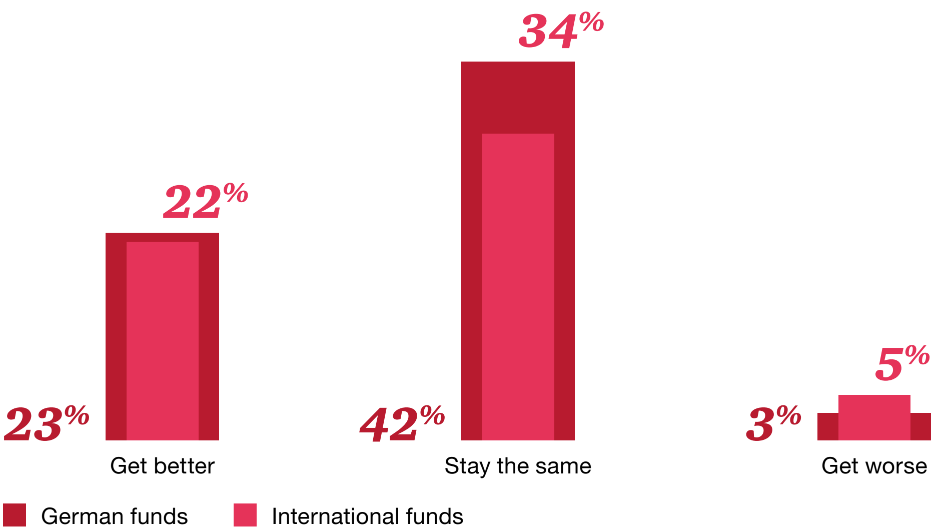
Fig. 12 Expected number of exits in 2014 compared to 2013



Financing conditions to improve in 2014

The private equity industry is also optimistic about the financing conditions for new deals in 2014: 22% of international and 23% of German funds expect the availability of credit to improve in 2014. 34% of international funds and 42% of German funds believe that the availability of credit will stay the same. Only a small minority (3% of German and 5% of international funds) fear that financing will deteriorate in 2014. In our previous survey, the respondents' expectations regarding financing were far more pessimistic with almost 22% of German funds expecting the availability to drop.

Fig. 13 Expectations for availability of credit in 2014 compared to 2013

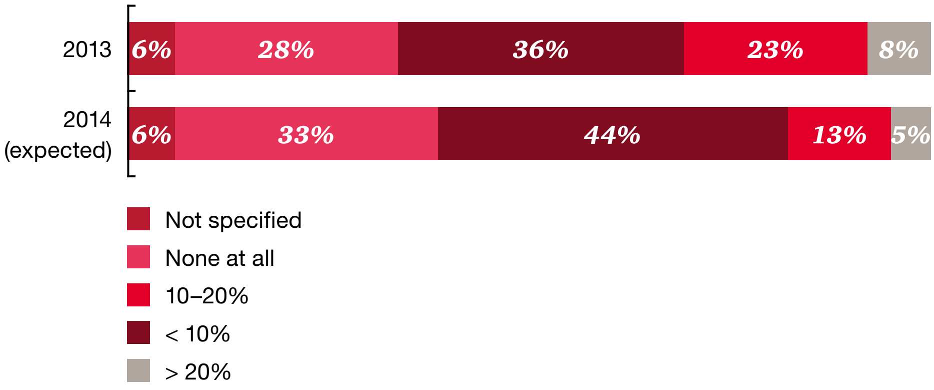


Breaches of bank covenants less likely in 2014

Expectations for covenant breaches slightly dropped once again compared to 2013: 33% of respondents stated that they expected none of their portfolio companies to break covenants in 2014. 44% expect breaches to occur in 10% or fewer of their portfolio companies. 18% expect more than 10% of their companies to break one or more bank covenants.

German funds have somewhat less optimistic expectations regarding the performance of their portfolio companies: Only 16% of them are hopeful that none of their companies will break bank covenants (compared to 35% of international funds). Again this reflects the less bullish nature of German funds compared to their international counterparts.

Fig. 14 Percentage of portfolio companies expected to break one or more bank covenants



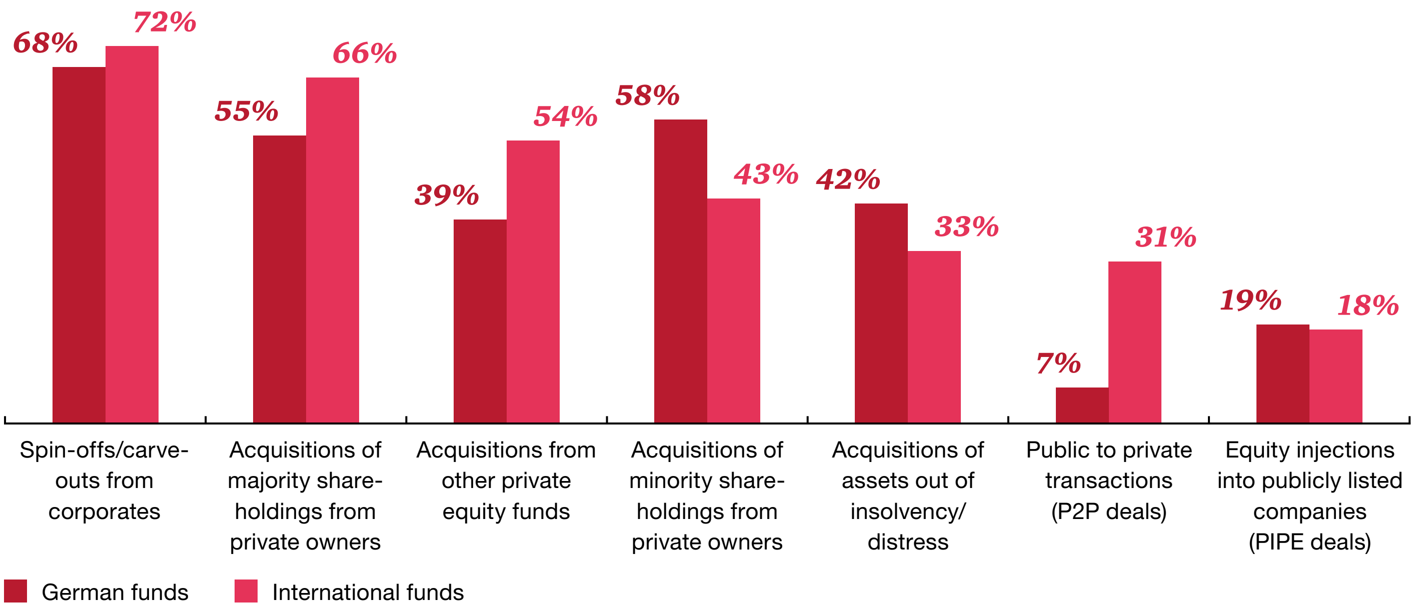
New deals will focus on spin-offs and acquisitions

German funds expect spin-offs and carve-outs from corporates to be the top source of new deal opportunities in 2014 (68%), followed by acquisitions of minority (58%) or majority (55%) shareholdings from private owners.

International funds follow the same strategy with 72% naming spin-offs and carve-outs as the most likely source, followed by acquisitions of majority shareholdings from private owners (66%). Buying from other private equity funds ranks third (54% of international funds).

It is unsurprising that secondary or tertiary buyouts rank below primary transactions as the equity story is usually clearer and the potential for value creation greater. This underscores the increasing focus on origination that we see amongst the private equity houses, with certain of them using dedicated origination teams.

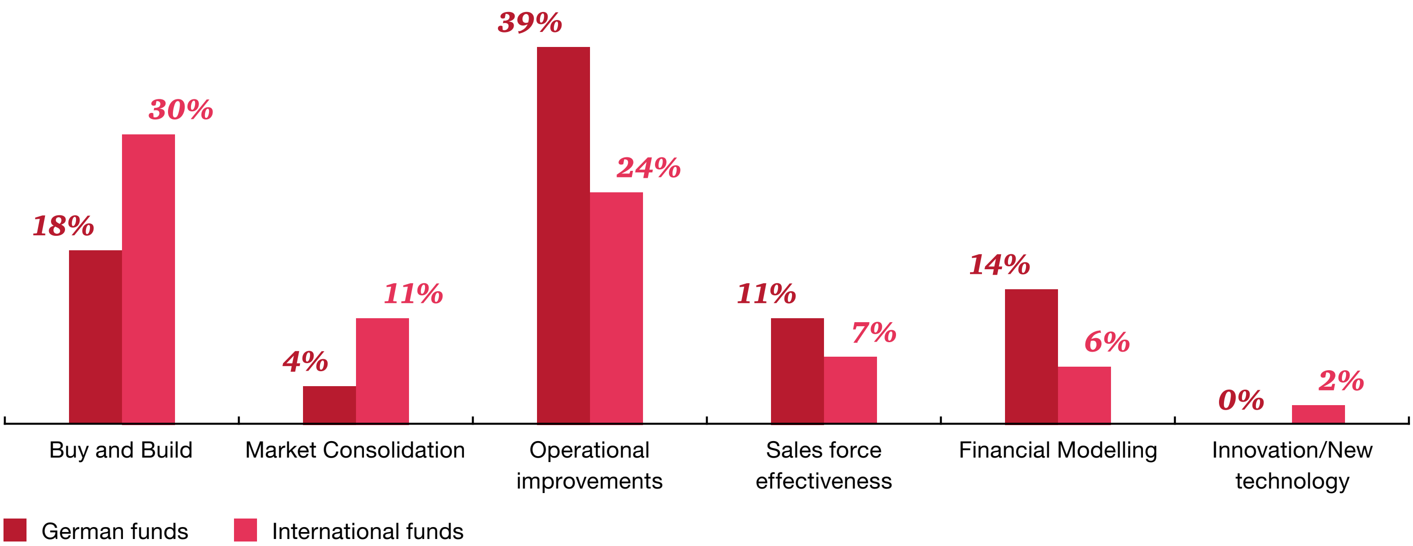
Fig. 15 Expected sources of new deal opportunities in 2014



Operational improvements and "Buy and Build" stay on top of the strategic agenda

Looking ahead to 2014, "Operational improvements" and "Buy and Build" were cited as the two main factors that will influence equity stories on acquisitions: 39% of German funds rated "Operational improvements" as the main factor in their investment strategy. Among international funds, "Buy and Build" will continue to be the strategic focus in 2014 (30%).

Fig. 16 Main factors to influence investment rationale 2014



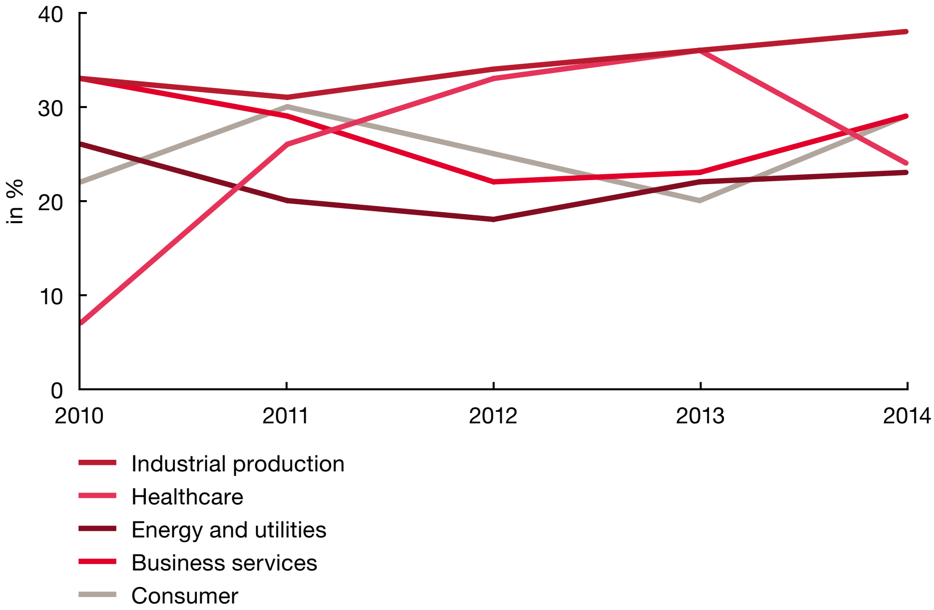
Target industries: Focus on industrial production and technology

Industrial production remains the most sought-after sector for future investments, followed by business services and the consumer industry. 38% of respondents stated that their organisation was most likely to invest in the industrial production and manufacturing industry over the next two to three years.

Funds showed a rising interest in business services and the consumer industry: 29% of respondents expressed plans to invest in each one of those industries. The healthcare sector, on the other hand, has dropped in popularity: Only 24% stated they were most likely to invest in healthcare targets over the next few years (compared to 36% in 2013).

German funds remained heavily in favour of investing in industrial production/manufacturing (45%) and the technology sector (42%). The consumer industry and the automotive sector rank third and fourth: with 19% of German funds stating they were most likely to invest in targets from the consumer or automotive industry.

Fig. 17 Expected target industries for future investments



German funds less likely to change their business model

35% of funds reported that their business model has not changed at all since the financial crisis. Four in ten respondents feel that their business model has changed to some extent since the global financial crisis with fewer than two in ten saying it changed to a great extent.

German funds appeared to have noticed fewer changes in their business models compared to international funds: Almost 60% of German funds claimed that their business model has not undergone any changes, compared to 34% of international funds. Two thirds of international funds, on the other hand, have experienced changes to some extent or to great extent. The reason for this differential may lie in the fact that German assets have proven to be more robust during the recent cycle compared to many other territories, again reflecting the relative underlying economic stability.

Fig. 18 Extent of business model change since the financial crisis (year on year comparison)

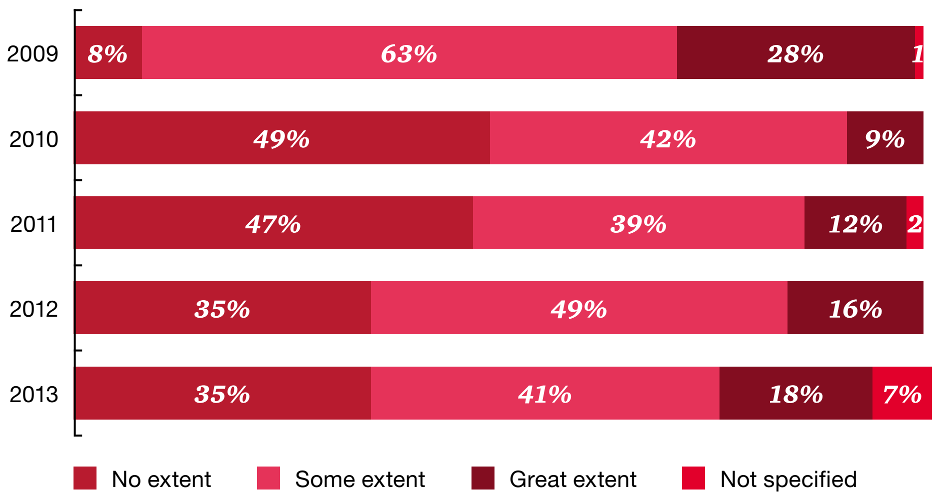
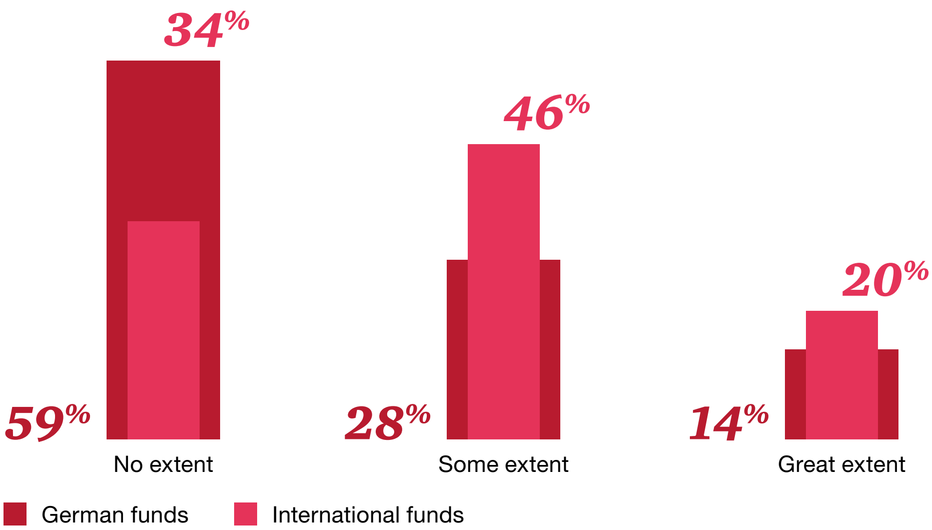


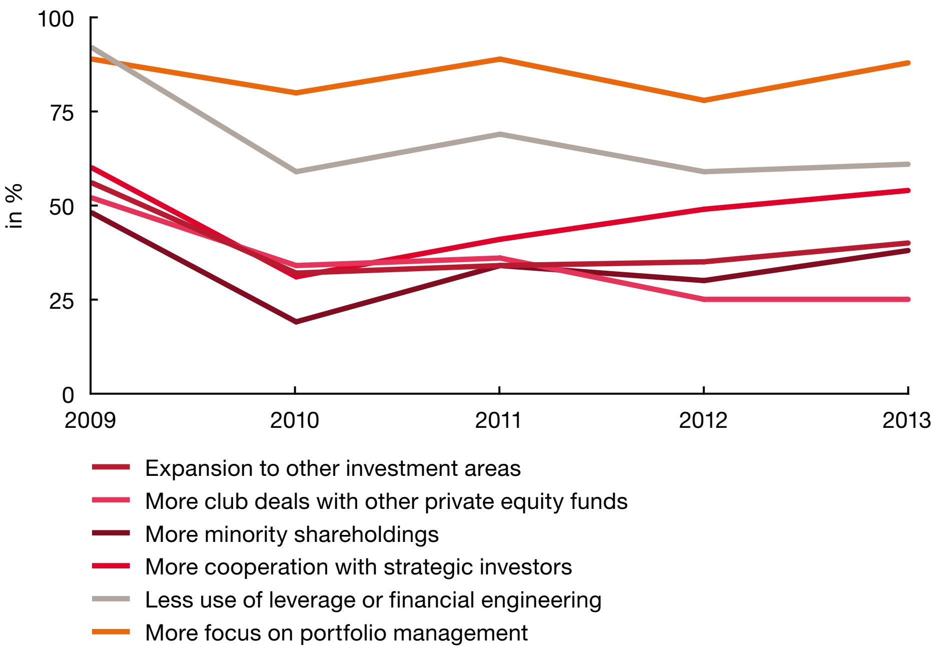
Fig. 19 Extent of business model change since the financial crisis



For those funds that have experienced changes in their business model since the financial crisis, the three most prominent answers were, as in previous years: greater focus on active portfolio management, less use of leverage or financial engineering, and more cooperation with strategic investors.

The Top 3 changes to the business model were identical among German and international funds with German funds focussing even more on active portfolio management and cooperation with strategic investors as well as trying to avoid leverage or financial engineering.

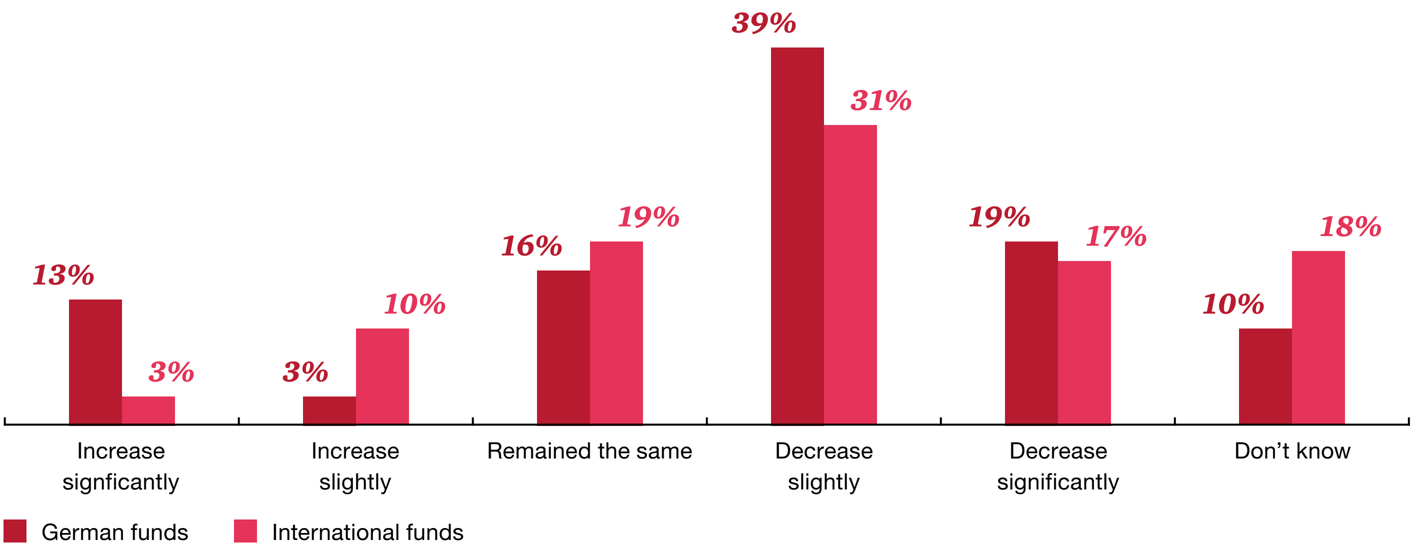
Fig. 20 Most common changes to the business model since the financial crisis



Number of Private Equity houses presumably decreased, but expected to remain stable

The majority of respondents (50%) feel that the number of Private Equity houses has either slightly or significantly decreased compared to before the financial crisis. About 19% have the impression that the number of houses remained the same. PwC expert Steve Roberts agrees that the number of houses might have slightly decreased. In his perspective, a lot of houses are now smaller and have fewer employees as a result of the crisis, as they have rightsized themselves to the new deals levels.

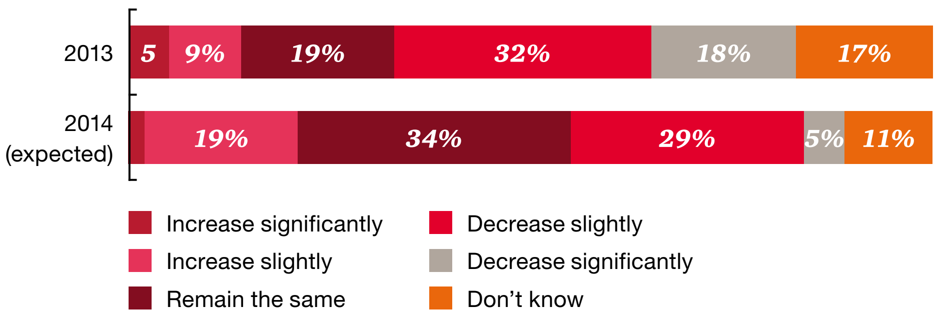
Fig. 21 Perception of change in number of PE houses in 2013



Looking ahead to 2014, opinion is divided: about one third of respondents (34%) expect the number of houses to remain the same. The same proportion thinks the number will decrease. About 20% of the funds surveyed believe the number of Private Equity house will increase again in 2014.

This reflects the general optimism driven by available capital and debt, offset in part by the concern over sufficient quality assets coming to market. Until sustainable growth in deal flow is evidenced, the current situation will remain stable.

Fig. 22 Perception of change in number of PE houses

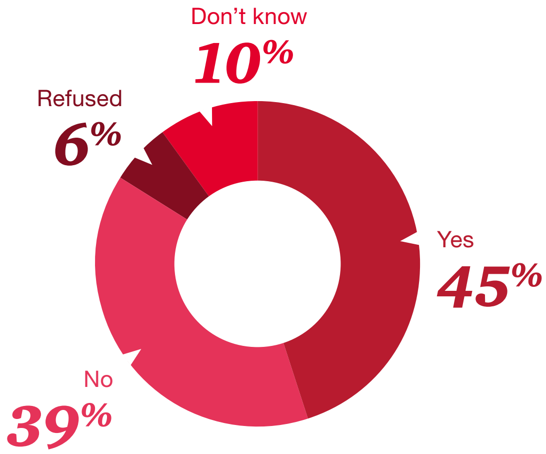


Trends in fundraising since the financial crisis

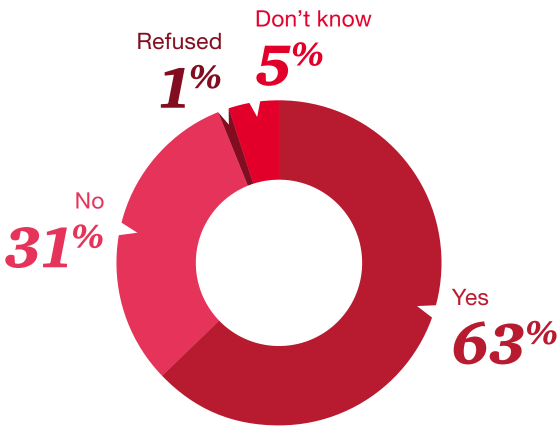
About 60% of respondents have either raised or been in the process of raising a fund since the financial crisis in 2008. Among the German funds surveyed, only 45% have been able to raise a fund since 2008. International funds were more active in fundraising since the crisis with 63% stating they have either raised or been in the process of raising a fund since then.

Fig. 23 Fundraising since the financial crisis in 2008

German funds

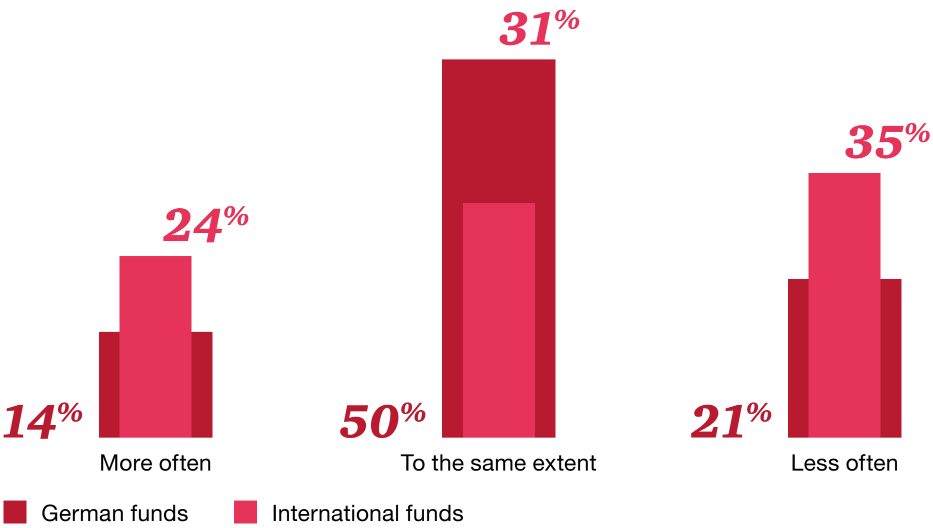


International funds



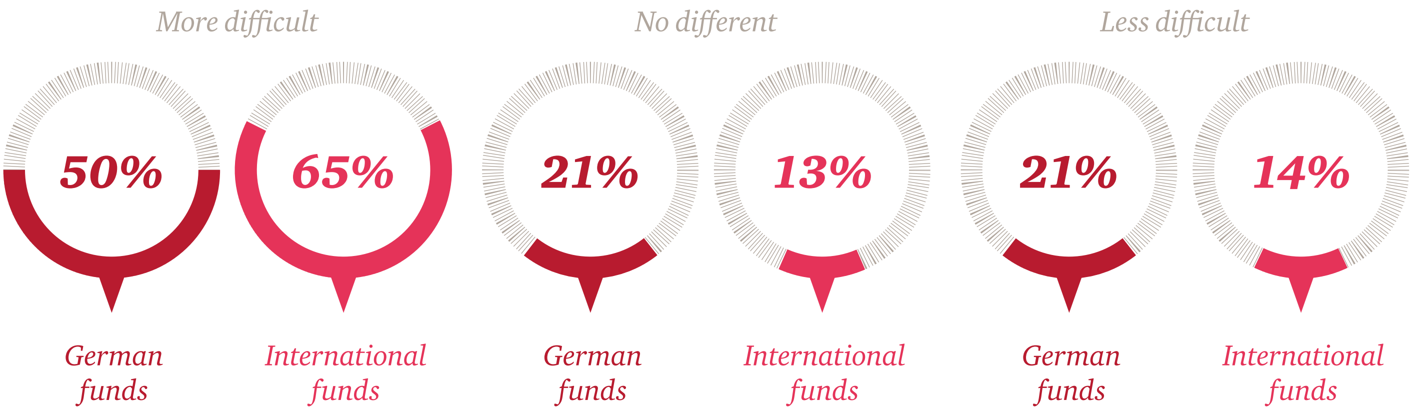
One third of the funds we interviewed stated that their organisation raises funds to the same extent and one third doing so less often than before the financial crisis. Only 23% of funds claimed to raise funds more often today than before the crisis.

Fig. 24 Fundraising activity since the financial crisis in 2008



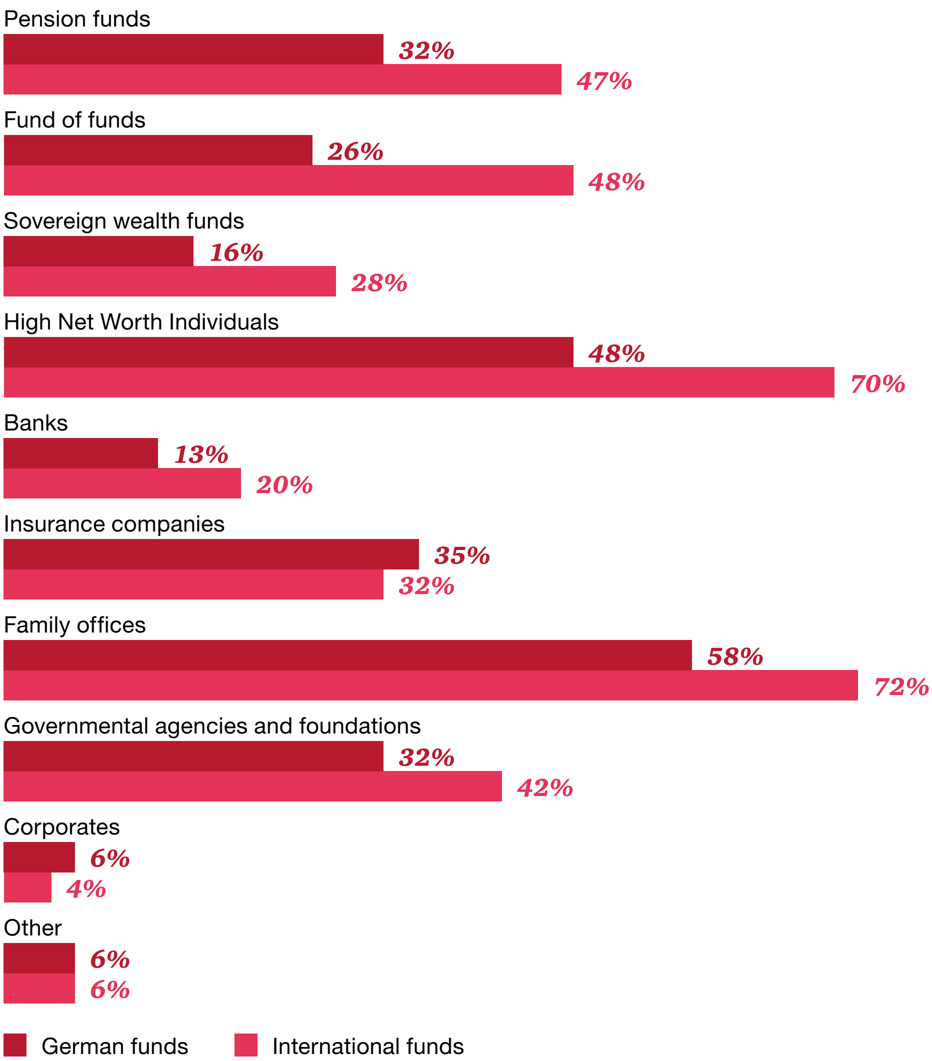
Consensus prevails that fundraising appears to be more difficult than before the financial crisis: 65% of respondents feel that the current fundraising process is more difficult compared to fundraising before the financial crisis. Among German funds, only 50% described the current fundraising process as more difficult with 21% finding it less difficult and the same percentage claiming it is no different compared to before 2008.

Fig. 25 Fundraising environment since the financial crisis 2008



With regard to the next fund to be raised, Family offices are considered to be the most likely investment partner to contribute to the Limited Partner structure, with nearly 7 in 10 respondents citing this. High Net Worth Individuals, Pension funds and Fund of funds also feature prominently.

Fig. 26 Expected investment partner contributors to future funds

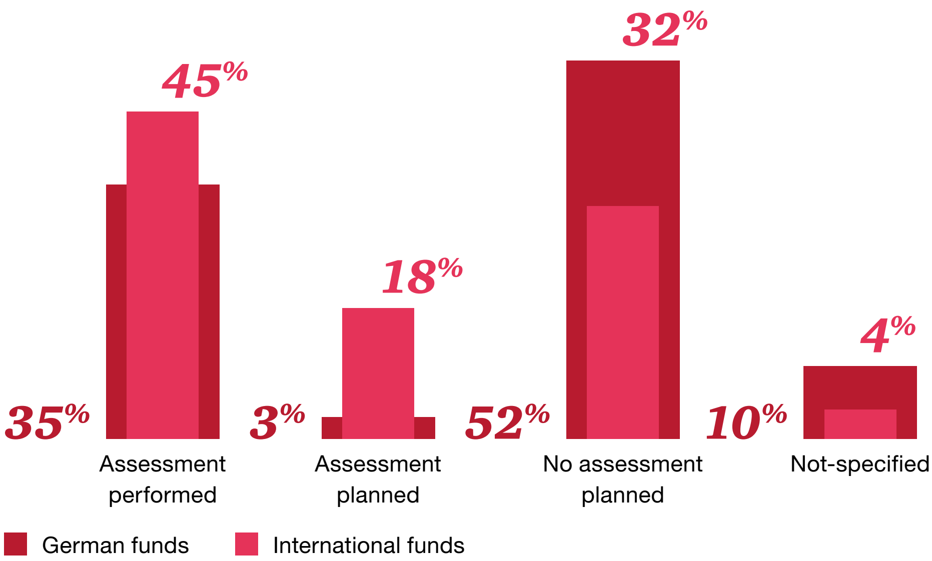


Sustainability issues remain on top of the agenda

The level of importance attributed to sustainability issues remained consistent with previous years with over 60% of respondents rating it above five (on a scale of one to ten) in terms of importance. Almost one in five funds rated the importance of environmental, social, and governance issues as very important (9 or 10). German funds placed slightly less importance on these issues than international funds: The mean score for German funds was 5.77 out of 10; international funds gave an average score of 6.24.

Almost half of respondents (44%) have already undertaken an assessment of sustainability or environmental, social and governance (ESG) risks within their existing portfolio companies. Among German funds, 36% stated that they had performed such an assessment. About 16% of all the funds interviewed are planning to perform this assessment.

Fig. 27 Assessments of sustainability/ESG issues within portfolio



3 International investment trends

Western Europe remains the most attractive region for private equity investments

We asked participating funds to state what they considered to be the key regions for private equity investments in the future. Similar to the findings in 2012, Western Europe remains the most attractive region for both German and international funds. Within the region, Germany was considered the most attractive economy for private equity investments by – not surprisingly – German funds (23%).

Germany, however, seems to have lost some of its appeal in the eyes of international funds: 22% of the participating funds headquartered outside of Germany expect the UK to become more attractive for investments in the future. Sweden and Spain were mentioned by 15% of international funds as up-coming regions for investment with Germany ranking only fourth within the Western Europe region (14%).

Asia as well as Central and Eastern Europe to become more attractive for investments

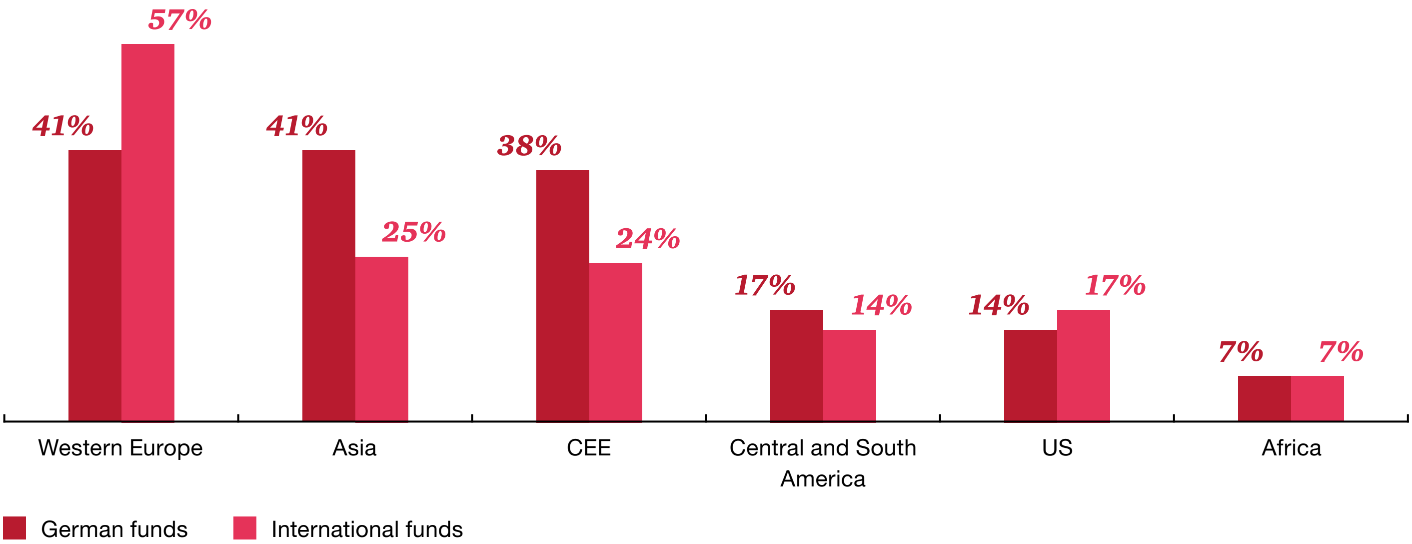
For German funds, Asia is equally interesting as an investment region: 41% of German funds expect Western Europe to become more attractive for private equity investments over the next five years; but the same percentage believes that Asia will gain attractiveness for funds in the medium term.

The Central and Eastern Europe regions rank third among both German and international funds. Central and South America appears to be less attractive for private equity funds: In last year's survey, almost one third of respondents expected Central and South America to become more attractive for investments; in this year's interviews, only 17% of German and 14% of international funds named Central and South America as an attractive territory for investments in the near and medium term.

Among BRIC economies, consistent with previous years, China was considered the most attractive economy, with 20% of respondents stating it will become more attractive for private equity investments over the next five years. India and Brazil ranked second and third (15% and 13% respectively).

Africa was still not seen as a key focus by neither German nor international funds.

Fig. 28 Expected attractiveness of regions for private equity funds over the next five years

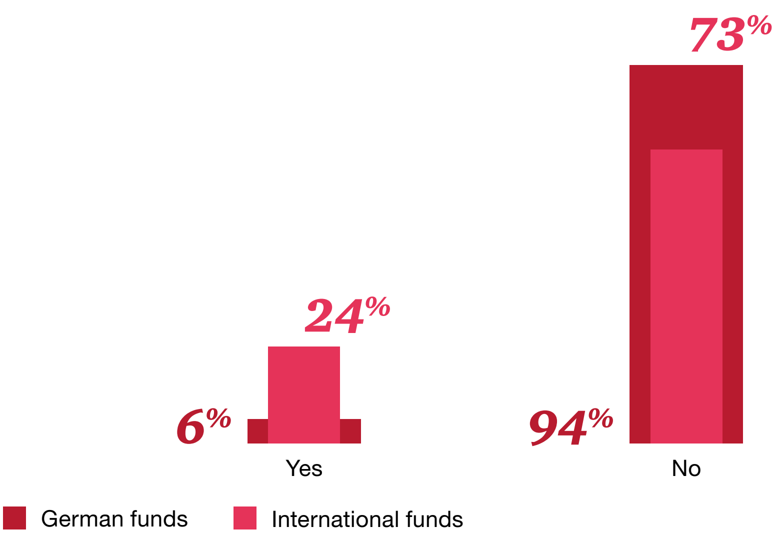


One in five funds planning to open new offices

24% of the international funds we surveyed plan to open new offices in the next five years. The vast majority of those will be located in Europe.

German funds are much less likely to open new offices in the near future: Only 6% of the German funds mentioned plans to open new offices over the next five years. Those German funds that do plan new offices favour Asia as well as Central and Eastern Europe as locations.

Fig. 29 Proportion of private equity funds that plan to open new offices in the next five years



4 Germany

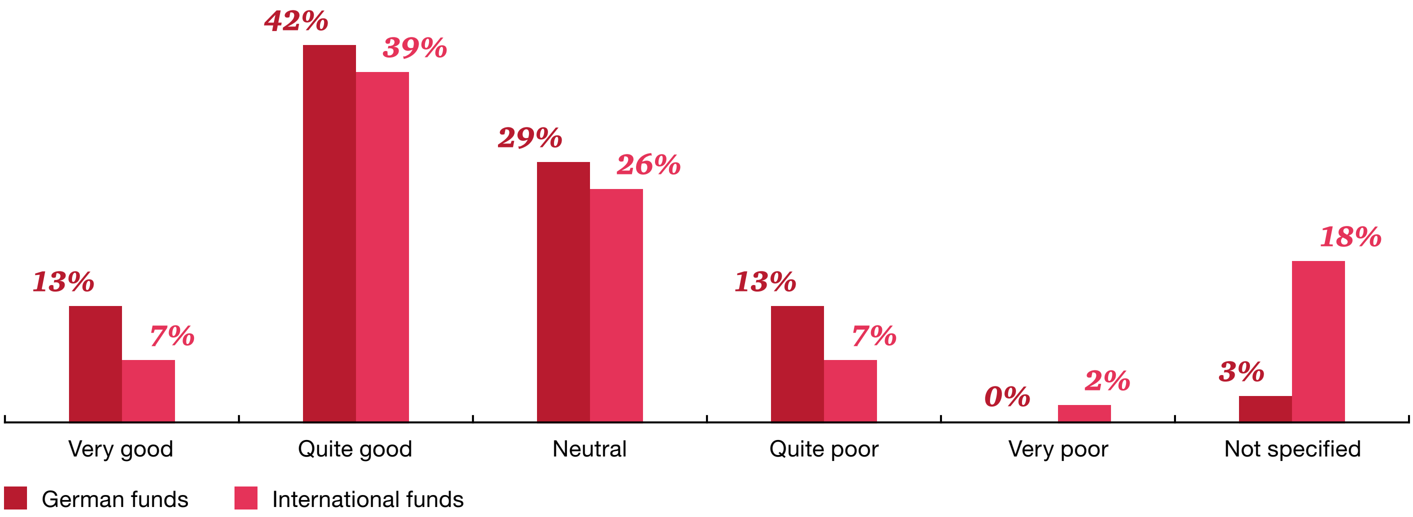
Germany loses some of its appeal for international funds

As part of our annual barometer for private equity trends in Germany, we asked the international funds participating in the survey to assess Germany as an investment destination for private equity and to name their preferred countries for private equity investments in the future.

Germany appeared to be a less attractive location for private equity investment in 2013 with only one in two (48%) respondents rating it as either quite or very good. This is a significant shift in opinion compared to 2012 when 61% of international funds described Germany as an attractive place for investments.

Though somewhat surprising, the results may reflect funds looking further afield from their established markets as they seek new opportunities to put their fresh capital to work given the current stability in deal flow in Germany. This does not reflect in our view a reduced focus on Germany, which still remains a core focus for all funds investing in Europe.

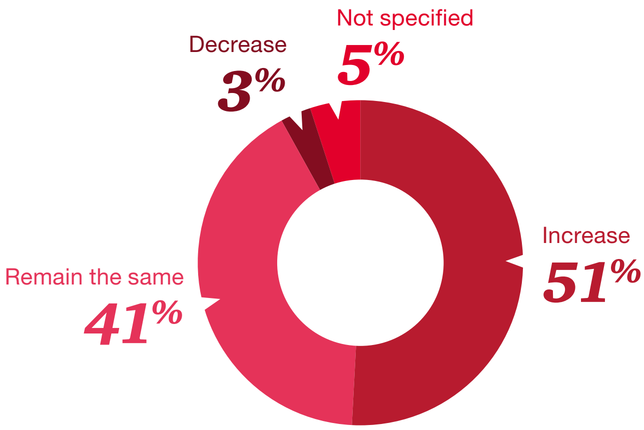
Fig. 30 Relative attractiveness of Germany for private equity funds in next five years



The large majority of international funds with German portfolio companies (85%) plan to continue making investments in Germany over the next five years. Over half of the funds with investments in Germany expect the amount of assets allocated to German investments to increase.

About one quarter (26%) of international funds without current investments in Germany plan to invest in Germany over the next five years. In 2012, 31% of international funds without current investments in Germany said they were planning to make future investments there.

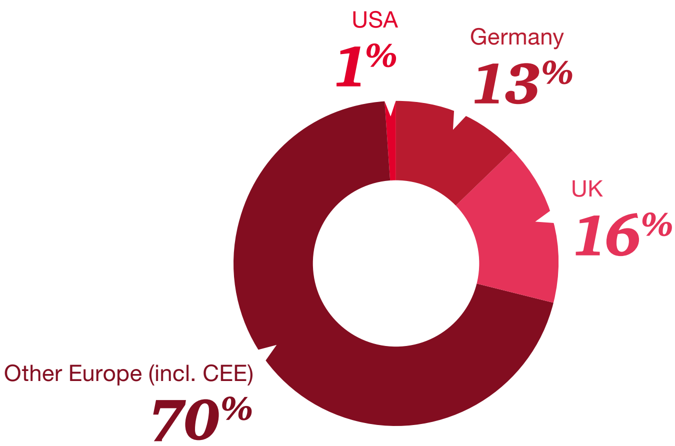
Fig. 31 Expected development of international funds' assets allocated to German investments



5 Background information and methodology

PwC's International Survey Unit interviewed 232 top management representatives of international private equity funds. 13% of these funds are based in Germany, 16% in the UK and 71% in the rest of Europe. In this survey, the term "international fund" refers to all funds surveyed whose headquarters are not located in Germany.

Fig. 32 Respondents by headquarters



Appendix

Fig. 33 Development in number of new investments in 2013

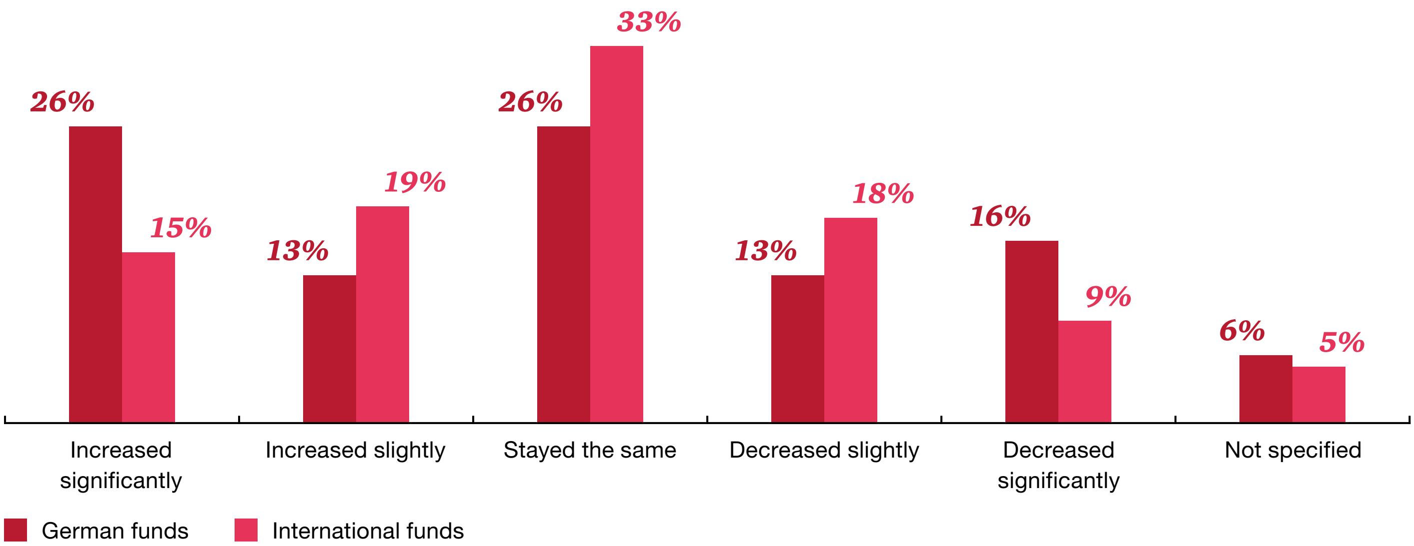


Fig. 34 Development in number of exits in 2013

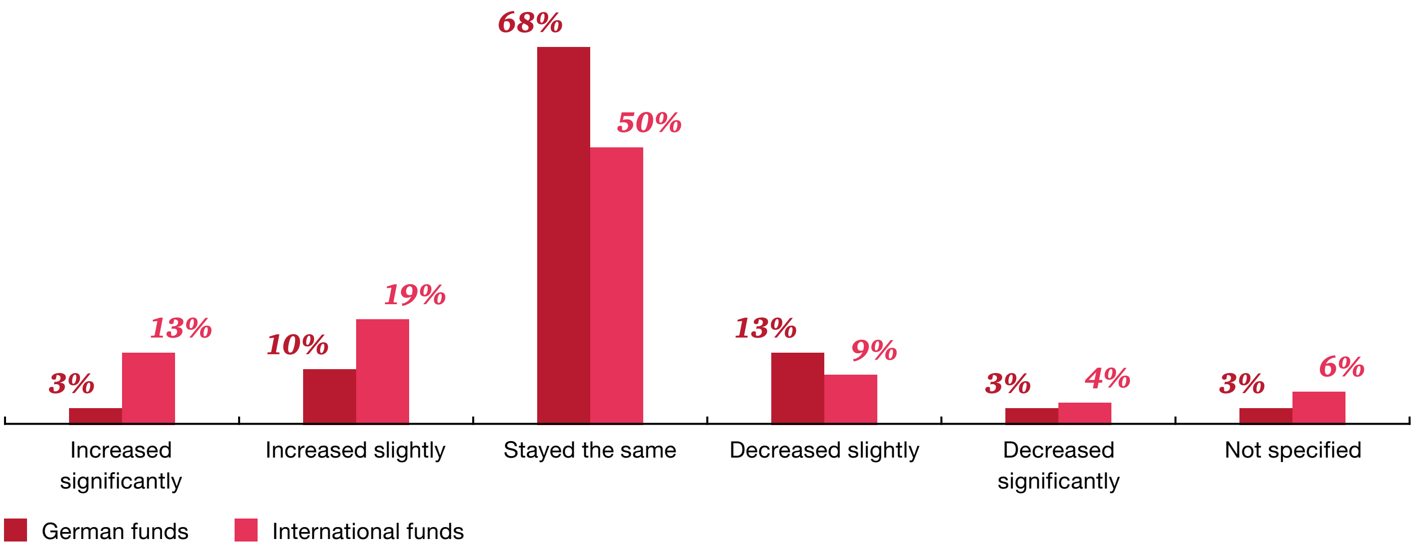


Fig. 35 Availability of debt compared to expectations in 2013

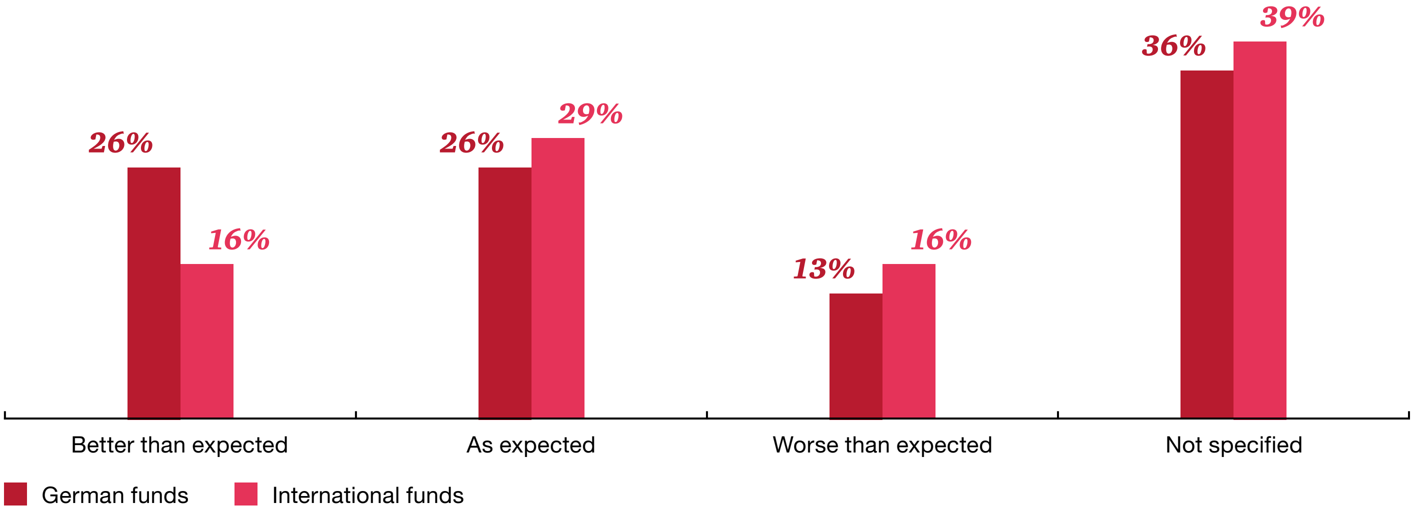


Fig. 36 Expected European deal market development in 2014

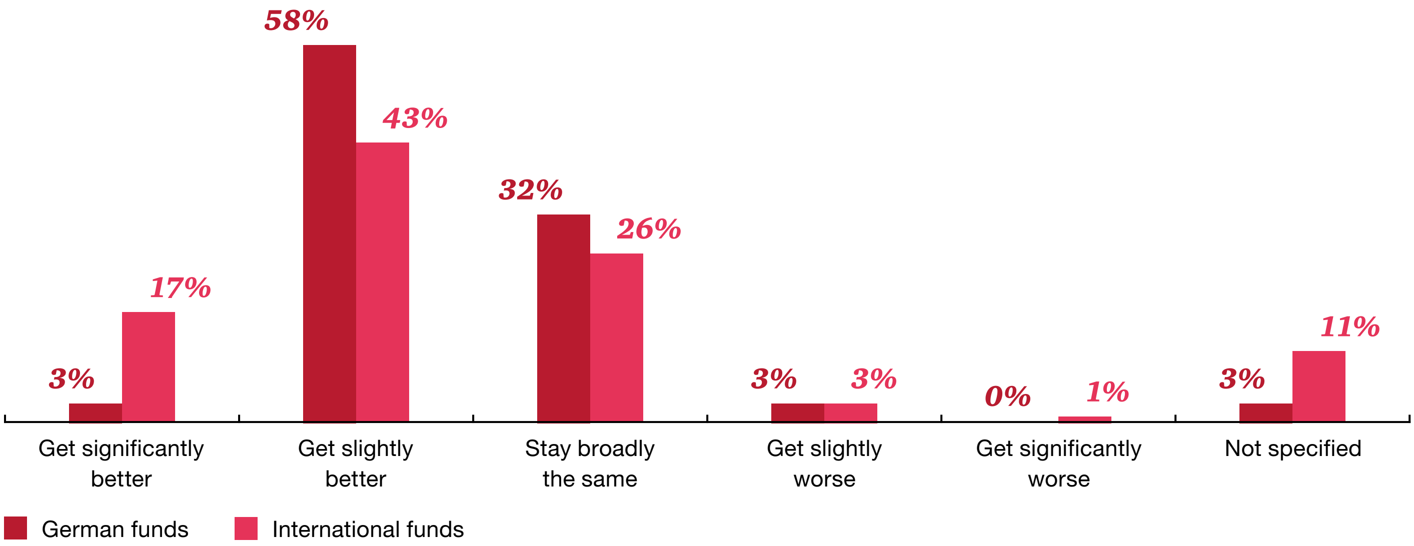


Fig. 37 Percentage of portfolio companies expected to break one or more bank covenants in 2014

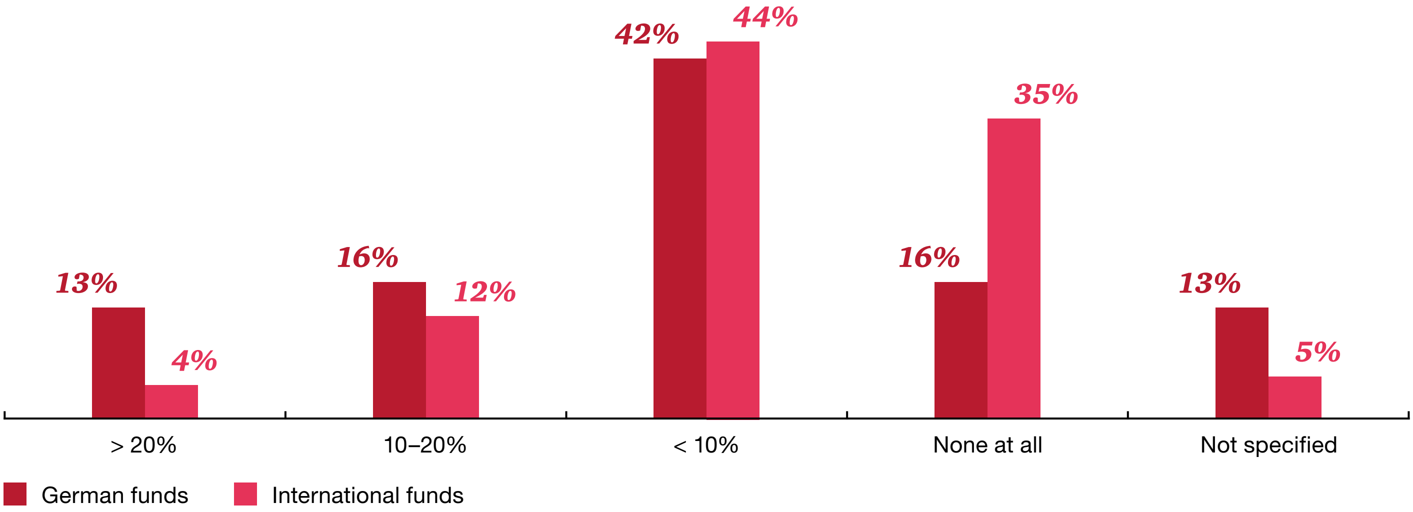


Fig. 38 Expected target industries for future investments

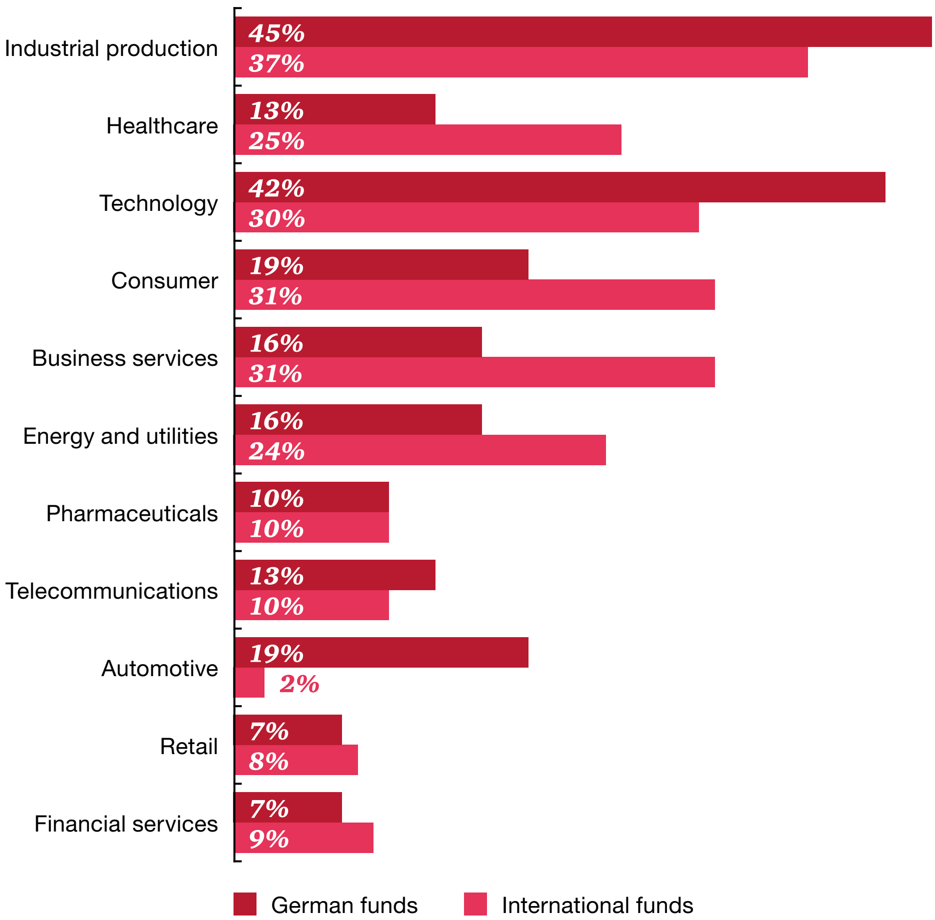


Fig. 39 Most common changes to the business model since the financial crisis

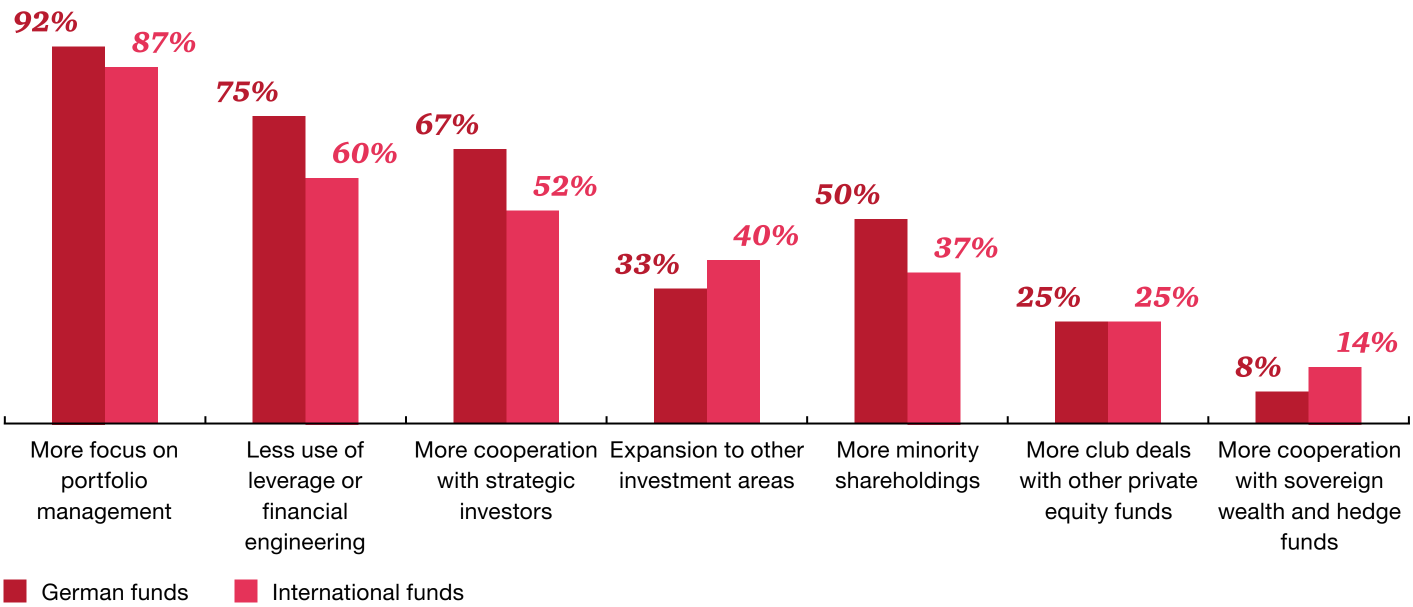


Fig. 40 Perception of change in number of PE houses in 2014

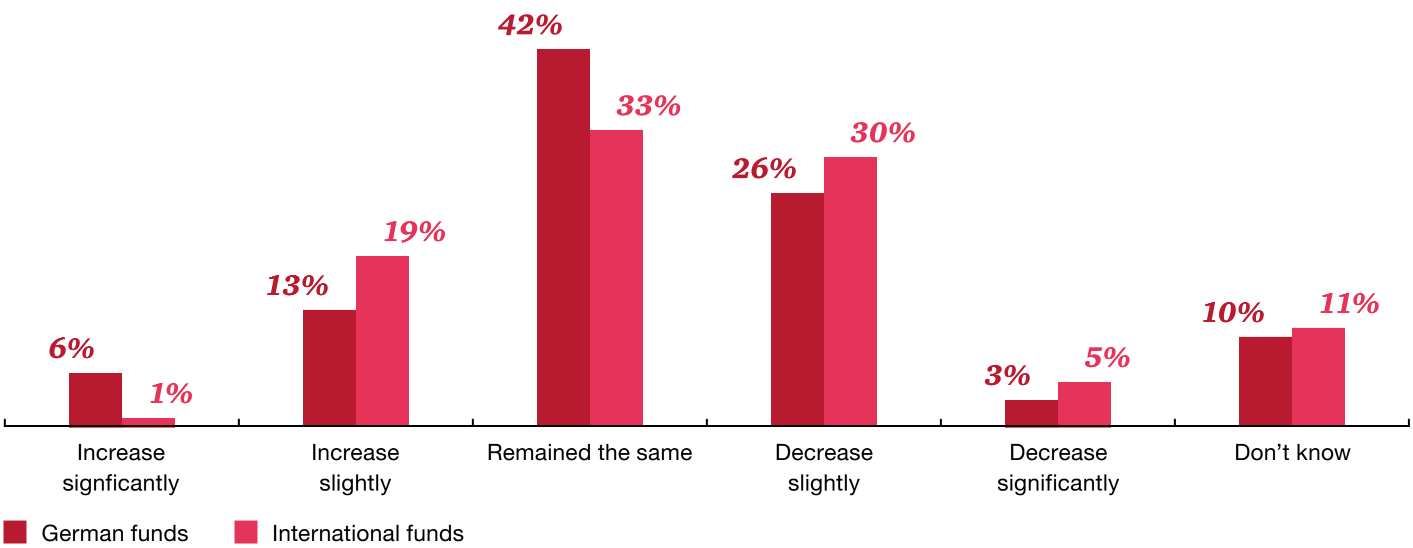


Fig. 41 Fundraising since the financial crisis in 2008

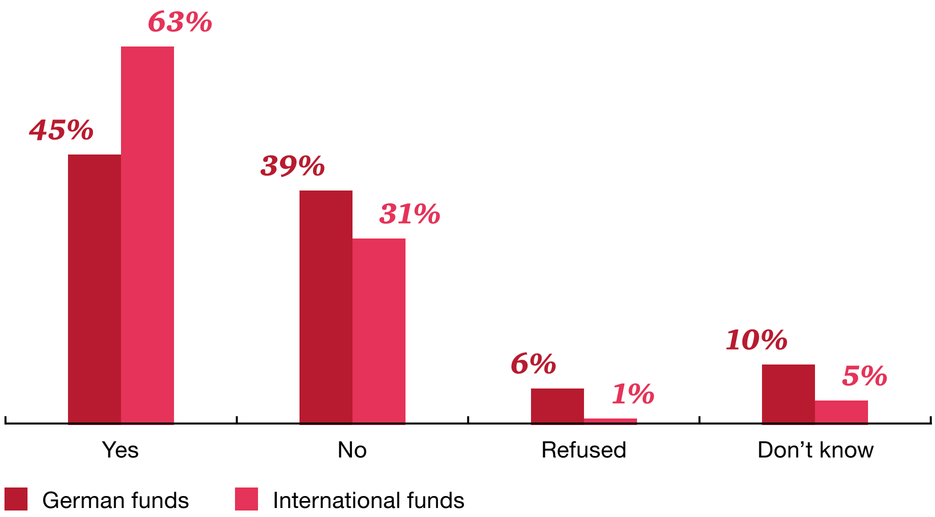


Fig. 42 Importance placed by private equity funds on sustainability issues (including environmental and social governance)

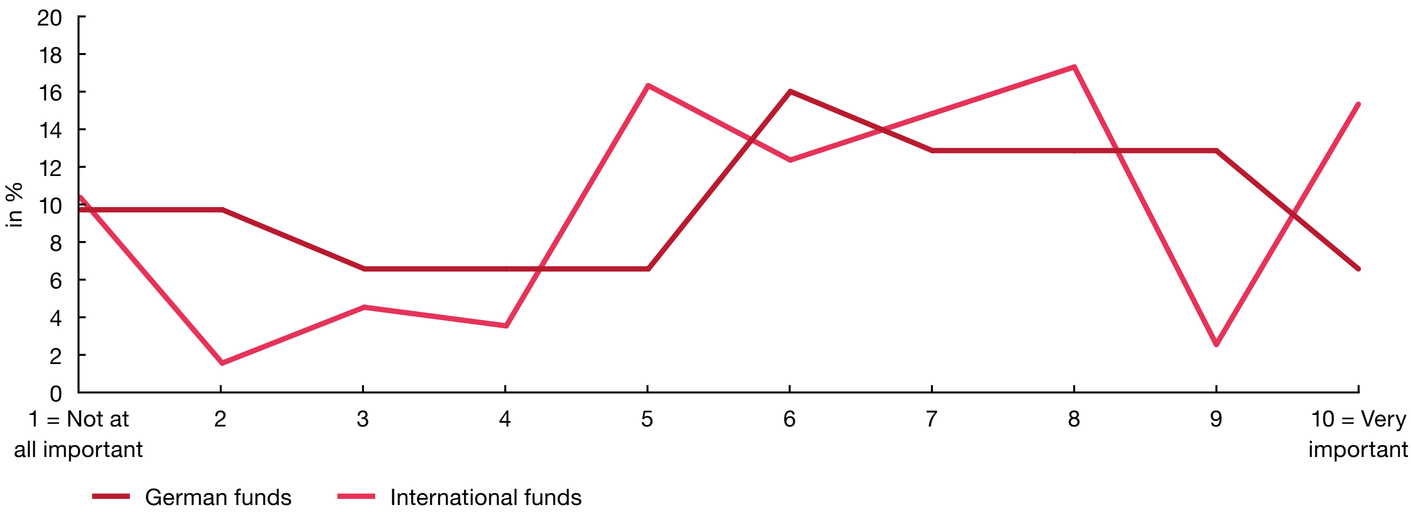


Fig. 43 **Expected attractiveness of regions for private equity funds over the next five years**

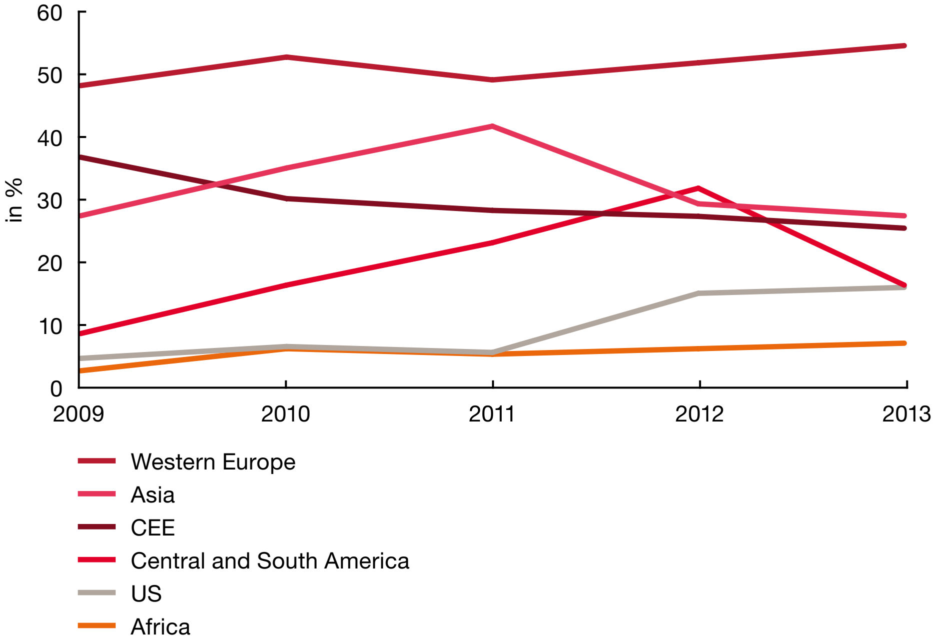


Fig. 44 **Expected attractiveness of Western European countries for private equity funds over the next five years**

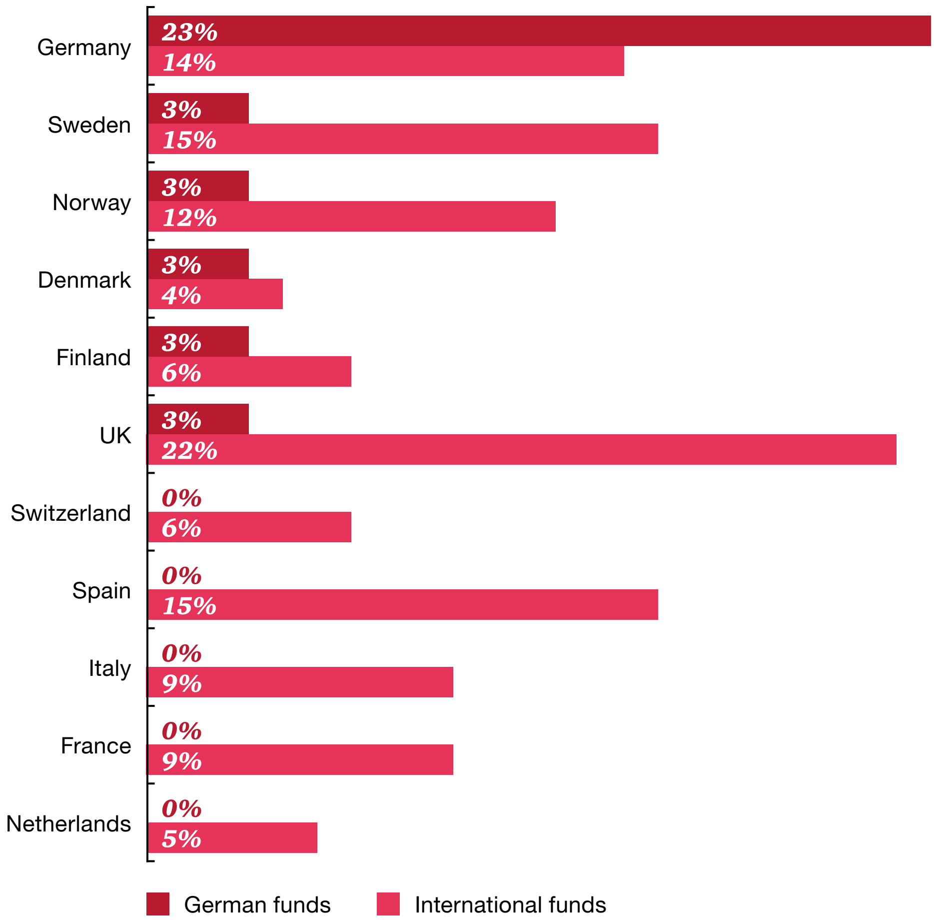


Fig. 45 Expected attractiveness of BRIC economies for private equity funds over the next five years

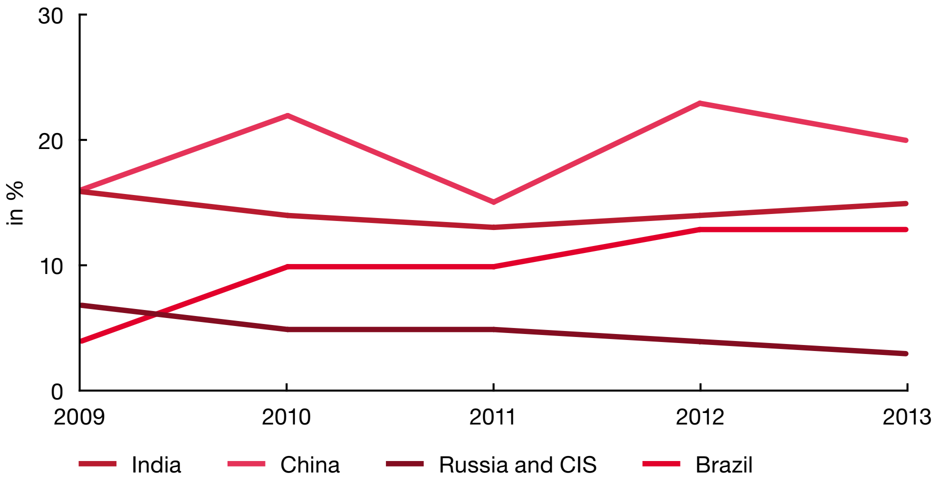


Fig. 46 Favoured regions for private equity funds who plan to open new offices (no.)

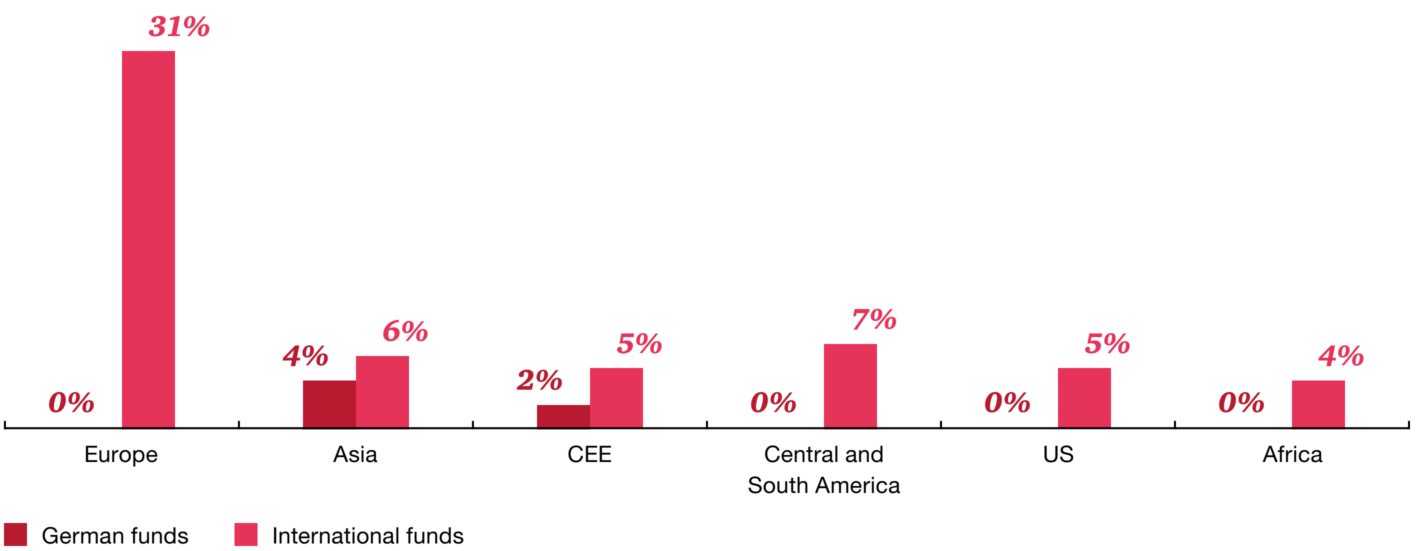


Fig. 47 Relative attractiveness of Germany for private equity funds in next five years

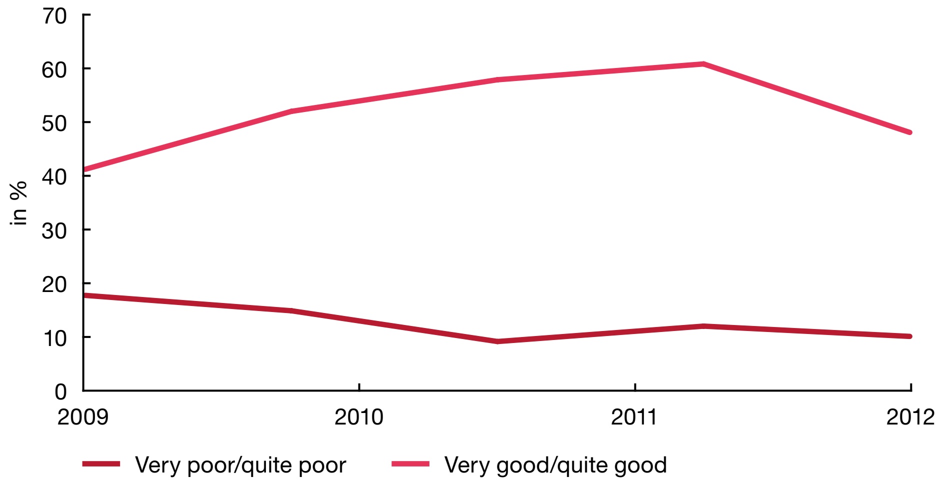


Fig. 48 Proportion of international funds with German portfolio companies that plan to continue making investments in Germany

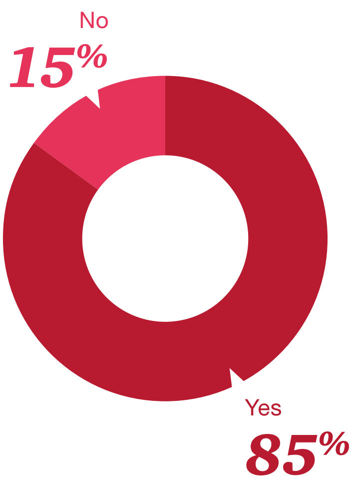
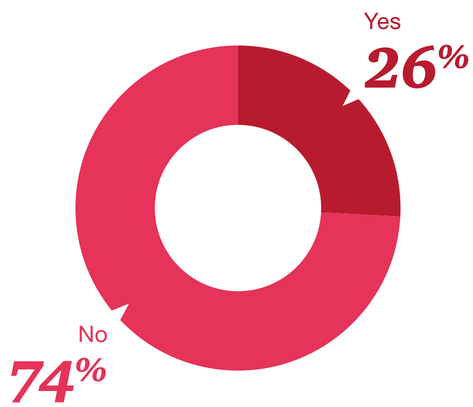


Fig. 49 Proportion of international funds without current investments in Germany that plan to make future investments there



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