Capital Dynamics

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# Capital Dynamics Private Equity Review & Outlook

Summary Q3 2014



# Highlights:

- Global private equity fundraising continued to increase, driven by growth in investor commitments to US, Asia-Pacific and Emerging Markets private equity funds
- In particular, private equity energy fundraising is set for its strongest year ever
- Private equity investment pace gained traction in the US and Asia-Pacific, while a steady recovery continued in Europe
- In highly competitive M&A and low interest environments, buyout acquisition prices and debt funding for new buyout deals reached historic highs
- Private equity exits were robust fuelled by buoyant corporate acquisition activity. PE-backed IPOs and dividend recaps remained solid despite market volatility

# US buyout

## In brief

- Private equity exit activity remained robust in the US, supported by continued strength in corporate M&A activity. IPO and dividend recap volume are on track to exceed the prior year's level despite a slowdown in the third quarter due to market volatility. Investment pace improved after a cautious level in the first half 2014. However, as expected, investment volume continued to lag exit volume in spite of increased business valuations. Fundraising is on pace to the strongest level since 2008.

**Table: US buyout market data**

| USD billion | YTD13 | YTD14 | Q313 | Q214 | Q314 | Dy/y | Dq/q |
|---|---|---|---|---|---|---|---|
| Fundraising | 144.3 | **159.0** | 53.1 | 55.9 | **59.4** | 12% | 6% |
| Investments | 97.1 | **111.0** | 28.3 | 35.5 | **47.4** | 68% | 33% |
| Exits | 113.0 | **170.5** | 38.4 | 77.4 | **43.7** | 14% | (44%) |

Notes: Dq/q is the comparison of Q3 2014 vs. Q2 2014. Dy/y is the comparison of Q3 2014 vs. Q3 2013. IPO exit values include initial proceeds only.
Source: Thomson ONE, S&P Capital IQ, as of November 19, 2014.

## Fundraising

- Energy funds drove growth in fundraising

Fundraising accelerated in the third quarter with investors committing USD 59.4 billion, or 12% more capital than over the same period of last year. Quarterly volumes got a boost from the USD 10.9 billion closing of Hellman & Friedman Capital Partners VIII, the largest fund raised so far this year. Over three quarters, private equity fundraising increased 10% to USD 159 billion. However, buyout fundraising was steady compared with the prior year. Growth was driven by crowded activity and investor support of private equity energy funds. Capital committed to energy funds doubled to USD 25 billion during the last nine months compared to a year ago. With two large closings in the final quarter of 2014, energy fundraising is set for its strongest year ever.

## Investments

- Buyout add-on investments gained pace

Despite the headwinds of increasing business valuations, buyout firms stepped up their investment pace during the third quarter with the number of transactions increasing 5% quarter-on-quarter to 481 deals. In a highly competitive M&A and low interest environments, pricing and debt financing of new buyout deals reached historic highs during the third quarter, with S&P reporting an average acquisition and debt multiples of 10.8x and 6.2x EBITDA, respectively. In such environments, some GPs continue to pursue buy and build strategies by making add-on acquisitions of smaller targets to mitigate higher pricing. The number of add-on deals exceeded the number of new platform transactions in the third quarter, according to Thomson One data. Deal volume increased 33% to USD 47.4 billion, including the USD 5.1 billion take-private of TIBCO Software by Vista Equity Partners, the largest buyout of the third quarter. However, take-private deals were rare given the high valuations of quoted targets and active corporate acquirers using stock for acquisitions.

## Exits

- Robust trade exits continued

The exit environment remained favorable for private equity. While 2013 was a year of IPOs and dividend recaps, trade exits have gained a significant share this year driven by buoyant corporate M&A activity. There were 96 exits, or 32% more y-o-y, generating exit deal values of USD 21 billion, 45% higher than a year ago. IPOs remained at a steady level although fewer new issues took place than in the previous quarter due to market volatility. Total deal values of USD 44 billion compare well y-o-y but a lack of large exits resulted in a decline in dollar volume q-o-q. Despite some softness in demand for leveraged finance, dividend proceeds totaled USD 13 billion during the third quarter and USD 42 billion year-to-date, exceeding the record-breaking pace of 2013.

## Outlook

- Market conditions support PE growth

Our outlook remains positive for US private equity as the economic and deal environment continues to support exits, generally enhanced by the strong operating performance of portfolio companies. We continue to see attractive investment opportunities and favor GPs with strong pricing discipline and proprietary niche strategies.

## US venture capital

### In brief

- Strategic acquirers continued to drive a surge in VC exit activity. Venture capital investments are at their highest levels since the dot-com era, with particular increases in investments in B2B companies. Fundraising in 2014 has been at its highest level since 2007, driven by large exits and strong realized performance for many recent venture funds.

**Table: US venture capital market data**

| USD billion | YTD13 | YTD14 | Q313 | Q214 | Q314 | Dy/y | Dq/q |
|---|---|---|---|---|---|---|---|
| Fundraising | 12.1 | **24.0** | 4.4 | 7.9 | **6.1** | 39% | (23%) |
| Investments | 25.8 | **37.3** | 9.5 | 14.4 | **11.0** | 16% | (24%) |
| Exits | 33.5 | **59.5** | 14.9 | 15.8 | **22.2** | 49% | 40% |

Notes: Dq/q is the comparison of Q3 2014 vs. Q2 2014. Dy/y is the comparison of Q3 2014 vs. Q3 2013. IPO exit values include initial proceeds only.
Source: Dow Jones VentureSource, as of November 19, 2014.

### Fundraising

- Fundraising remained at its strongest level since 2007

Venture capital fundraising continued at high levels. Despite a quarter-on-quarter decline, venture funds attracted 39% more capital during the third quarter of 2014 than a year earlier and over the first three quarters of the year raised approximately double the total amount raised during the first three quarters of 2013. Over three quarters, 189 venture funds raised USD 24.0 billion, exceeding the full-year fundraising totals for any year since 2007. Renewed optimism towards the asset class is supporting first-time funds as well, with 71 first-time funds so far this year, the strongest pace since 2000. However, experienced managers still received 90% of all capital raised, with JPMorgan Digital Growth Fund II raising USD 1.0 billion, the largest close during the third quarter.

### Investments

- VC investments in B2B companies reached an historic high

Venture investments remained robust. In the third quarter, VC-backed companies received USD 11.0 billion, or 16% more capital than a year ago. YTD invested capital increased 45% to USD 37.3 billion, the highest level of venture activity since 2000. B2B companies have led the surge in investments, receiving 27% of all capital raised, eclipsing the traditionally dominant IT and healthcare sectors. The three largest venture investments during the third quarter were USD 150 million financings for rapidly growing companies Lookout, Square and Qualtricks. Late-stage valuations often exceed USD 1 billion as public market investors, hedge funds, and strategic investors continue to invest in rapidly-growing companies ahead of IPOs. Late-stage financings at high valuations have led to significant unrealized gains for many early-stage VC investors.

### Exits

- Buoyant M&A activity powered VC exits

Corporate buyers' acquisitions of VC-backed companies proceeded at a brisk pace. There were 139 exits during the quarter, up 9%, while exit values increased by 65% from the third quarter of 2013 to USD 21 billion. Through September, M&A exit values surpassed the 2013 full-year level and were on track to achieve their highest level since 2000. The third quarter saw two billion-dollar exits including the USD 2.5 billion acquisition of Beats Electronics by Apple. Exits through public markets remained frequent. There were 22 issues which raised USD 1.2 billion, a smaller amount than in the previous two quarters as activity was dominated by small-sized biotech and healthcare offerings.

### Outlook

- VC returns are expected to remain strong

Despite some slowdown in IPOs and concerns about late-stage valuations, we remain optimistic about continued strong performance by venture funds as significant numbers of venture-backed companies are developing transformational technologies and products in rapidly growing markets. Top VC firms have been successful in identifying the best entrepreneurial talent in a variety of rapidly growing areas including mobile and social for consumers, big data for enterprises and innovative biotech solutions for healthcare.



## European buyout

### In brief

- Despite market volatility associated with political tensions and deflation fears in the Eurozone, deal flow was steady in the third quarter. More deals were completed so far this year than a year ago, indicating a resilient recovery. Investments were divergent across fragmented European markets with activity accelerating in the UK and Southern Europe while deal making slowed down in France and Germany.

**Table: European buyout market data**

| EUR billion | YTD13 | YTD14 | Q313 | Q214 | Q314 | Dy/y | Dq/q |
|---|---|---|---|---|---|---|---|
| Fundraising | 45.1 | **39.5** | 16.3 | 14.6 | **14.0** | (14%) | (4%) |
| Investments | 54.4 | **54.1** | 16.0 | 21.7 | **17.6** | 10% | (19%) |
| Exits | 59.7 | **88.0** | 15.6 | 33.6 | **27.8** | 78% | (17%) |

Notes: Dq/q is the comparison of Q3 2014 vs. Q2 2014. Dy/y is the comparison of Q3 2014 vs. Q3 2013.
Source: Thomson ONE, unquote data, as of November 19, 2014.

### Fundraising

- Lack of large buyout funds weighs on volume

The fundraising picture was mixed during the third quarter. Activity in the small and mid-market improved during two consecutive quarters after a slow start in 2014. There were 45 fund closes during the third quarter, 45% and 41% more funds than a year ago and in the previous quarter, respectively. However, quarterly fundraising volume declined 14% y-o-y to EUR 14 billion due to muted large-cap buyout fundraising. There were only two billion-euro fund closings during the quarter. Bain Capital Europe IV raised an additional EUR 2.2 billion, contributing to a final fund size of EUR 3.5 billion, the largest fund of the quarter.

### Investments

- Buyout investments remained steady

The European buyout market experienced steady deal flow in the third quarter, invested capital having increased 10% year-on-year to EUR 17.6 billion across 120 transactions. Year-to-date, deal flow increased 12% to 379 deals, powered by small and mid-cap deals. Mid-cap deal making has shown greater resilience to market volatility in the third quarter. Large-cap deals were rare, weighing on overall invested capital. Investment activity was divergent across countries. The UK, the largest buyout market, saw a 12% increase in the number of deals in the period under review. France and Germany, the next largest markets, recorded fewer deals than a year ago. Buyouts picked up in the Nordic region, powered by deals in Denmark and Norway, home of the largest deal of the third quarter - the EUR 2.3 billion acquisition of Lindorff by Nordic Capital. Southern Europe demonstrated remarkable growth. Private equity firms have completed 23 deals in Italy so far this year, 64% more than a year ago with invested capital nearly doubling to EUR 2.3 billion. In Spain, 17 deals were closed, 11 more than last year, while invested capital increased 80% to EUR 3.2 billion; this reflects the more general shift towards positive views of Spain's situation.

### Exits

- Large M&A exits lifted exit activity

Buyout exit activity remained robust in the third quarter, driven by the elevated level of acquisition activity by trade buyers and private equity firms. IPO activity slowed down (after registering 27 debuts in the first half of the year), with four private equity-backed companies seeking listings on stock exchanges in a traditionally quieter third quarter. Quarterly exit values increased 78% to EUR 27.8 billion year-on-year. The third quarter saw the largest exit of the year thus far as KKR and other private equity investors agreed to sell remaining stakes in Alliance Boots to Walgreen Co. for EUR 11 billion. Year-to-date figures have already surpassed those of 2013 as a whole and are on track for the best exit year since 2007.

### Outlook

- PE can benefit from economic recovery

We maintain a cautiously positive outlook for the European buyout market. While short-term volatility may return in the future, private equity activity could continue to improve as a steady and more balanced recovery unfolds. The UK and Nordic markets may get a boost from solid economic growth while ECB monetary policy could support credit availability and export-orientated businesses in the Eurozone.

# European venture capital

## In brief

- European venture-backed companies had a quarter of strong exits, taking advantage of a robust M&A environment. VC funding of European start-ups continued to increase at a steady rate, while a quarterly spike in invested capital was due to corporate investments. Despite a slow down in the third quarter, IPOs have had their best year since 2006 boosted by two mega offerings in the last quarter of the year.

**Table: European venture capital market data**

| EUR billion | YTD13 | YTD14 | Q313 | Q214 | Q314 | Dy/y | Dq/q |
|---|---|---|---|---|---|---|---|
| Fundraising | 2.02 | **2.23** | 0.69 | 1.01 | **0.55** | (21%) | (46%) |
| Investments | 3.94 | **6.06** | 1.26 | 2.24 | **2.30** | 83% | 3% |
| Exits | 7.28 | **8.79** | 2.95 | 1.88 | **4.31** | 46% | 129% |

Notes: Dq/q is the comparison of Q3 2014 vs. Q2 2014. Dy/y is the comparison of Q3 2014 vs. Q3 2013. IPO exit values include initial proceeds only.
Source: Dow Jones VentureSource, as of November 19, 2014.

## Fundraising

- Fundraising was subdued

Fundraising remained choppy with capital raised fluctuating from quarter to quarter due to the activity of a few large funds. During the third quarter, commitments to venture funds halved to EUR 548 million from the previous quarter and trailed prior year's pace. Despite underwhelming volume, small VC funds continued to raise money, while a few funds were oversubscribed indicating demand for attractive opportunities. Advent Venture Partners raised an additional EUR 101 million during the quarter and closed its Life Science Fund II at EUR 183 million, EUR 40 million above its target.

## Investments

- VC investments increased at a steady rate, with Germany attracting large investments

Investments in European start-ups continued to increase in the third quarter. The total invested capital leapt 83% year-on-year to EUR 2.3 billion. The surge in invested capital was driven, however, by a single deal involving corporate round investments, while venture capital round investments increased at a healthy level year-on-year to EUR 1.6 billion. In the third quarter, corporates made EUR 666 million of pre-IPO investments in German start-up incubator Rocket Internet, which went public in October. Germany was also the home of the largest venture investment of the third quarter as Insight Venture Partners and other investors invested EUR 291 million in online food-delivery company Delivery Hero. This deal exemplifies recent trends in Europe as it experiences larger investments in late-stage deals and an expansion of activity by US-based VC managers seeking opportunities at attractive entry valuations.

## Exits

- European VC-backed companies saw increased liquidity from corporate acquirers

Venture liquidity remained robust as corporations continued to be active acquirers. The third quarter saw 44 M&A exits, amounting to 144 deals over the last three quarters, 22% more than a year ago. M&A exit deal values increased 32% to EUR 3.9 billion from the same quarter a year ago. The healthcare sector was a bright spot featuring a few large trade exits. Roche acquired the VC-backed Danish biopharmaceutical firm Santaris Pharma for EUR 333 million in the largest M&A exit in Western Europe. Fewer VC-backed companies ventured to go public in the third quarter and smaller issues dominated the activity. Large offerings returned, however, in the final quarter of 2014 as two European VC-backed companies, Zalando and Rocket Internet, achieved a combined market valuation of EUR 12 billion.

## Outlook

- Existing VC portfolios can benefit from a company-friendly financing environment

We expect European venture to continue seizing opportunities to gain liquidity as long as the IPO and M&A environment remains stable. Existing VC portfolios are expected to benefit from a company-friendly financing environment and the rise of corporate venture funding exemplified by the recent launch of the EUR 500 million fund by Deutsche Telekom.



## Asia-Pacific private equity

### In brief

- Asia-Pacific private equity had a stellar quarter with fundraising, investments and exit activity continuing to improve. The region saw the world's largest-ever IPO during the third quarter while domestic private equity-backed IPOs continued to gain traction since China lifted the moratorium on listings.

**Table: Asia-Pacific private equity market data**

| USD billion | YTD13 | YTD14 | Q313 | Q214 | Q314 | Dy/y | Dq/q |
|---|---|---|---|---|---|---|---|
| Buyout fundraising | 10.2 | **14.4** | 6.4 | 7.8 | **4.0** | (38%) | (49%) |
| Growth fundraising | 28.3 | **28.9** | 6.1 | 7.3 | **13.9** | 127% | 91% |
| Buyout investments | 22.9 | **20.0** | 7.6 | 8.1 | **4.0** | (48%) | (51%) |
| Growth investments | 25.1 | **42.3** | 7.5 | 11.0 | **17.1** | 127% | 56% |
| M&A exit values | 31.4 | **37.1** | 8.8 | 13.8 | **11.1** | 27% | (19%) |
| IPO exit values | 8.2 | **48.9** | 3.5 | 8.3 | **30.9** | 796% | 271% |

Notes: Investment & exit values are enterprise values. IPO exit values are total proceeds raised by all shareholders including non-PE investors.
Source: Asian Venture Capital Journal database, as of November 19, 2014. Dq/q is the comparison of Q3 2014 vs. Q2 2014. Dy/y is the comparison of Q3 2014 vs. Q2 2013.

### Fundraising

- Experienced managers closed large funds

Fundraising continued to demonstrate strong investor interest in Asia-Pacific as experienced managers raised multi-billion dollar buyout funds. Carlyle closed its Asia IV Fund at USD 3.9 billion during the third quarter; the fifth billion-dollar buyout fund raised so far this year. Year-to-date, buyout funds collected USD 14.4 billion; 42% more than a year ago, despite a slower third quarter. Growth capital fundraising by established teams improved as well. Notable growth funds included the USD 1.7 billion close by Morgan Stanley and the USD 970 million close by Orchid Asia. However, quarterly figures were skewed by a yuan-denominated vehicle launched by China Minsheng Investment Corporation. The fund raised USD 8.1 billion exclusively from local large-sized private companies.

### Investments

- PE firms invested in large energy deals

Asia-Pacific buyout deal flow remains stable while growth capital investments have gained momentum over the course of 2014. Energy sector companies claimed top spot with both the largest buyout and growth capital deals found in this sector. Crude oil demand in Southeast Asia is set to increase by over 50% according to the International Energy Agency which bodes well for Blackstone's USD 800 million investment in Malaysia-based oil & gas exploration and production start-up, Tamarind Energy. Sinopec Marketing, a subsidiary of China Petroleum & Chemical Corp., attracted a USD 5 billion investment from a consortium of investors including RRJ Management. This deal pushed year-to-date growth investment volume to USD 42.3 billion, the highest level since 2011.

### Exits

- IPOs and M&A exits strengthened

The third quarter saw a milestone in Asia-Pacific private equity as the region witnessed the world's largest-ever IPO. The debut of the Chinese online trading platform Alibaba, backed by a consortium of private equity investors, raised USD 21.8 billion and commanded a market capitalization of almost USD 170 billion on the day of the IPO. Overall, Asia-Pacific IPOs continued to climb after China lifted the moratorium on listings. There were 48 offerings; six more than in the previous quarter and more than twice as many as in the same quarter last year. Trade exits remained strong, too. Exit deal values increased 27% year-on-year to USD 11.1 billion. MBK Partners sold TV operator China Networks System for USD 2.4 billion in the largest M&A exit deal of the third quarter.

### Outlook

- Deal activity continues to improve

Asia-Pacific private equity made good progress in 2014 despite the challenging macroeconomic environment. We expect expansion of growth capital deals to continue into 2015 as economies recover supported by governments' measures to lift consumer demand and investments. Strong buyout fundraising in 2014 provides an adequate war chest for making deals in growing markets within the divergent Asia-Pacific region. Healthy M&A and IPO markets should continue supporting exits.



## Emerging Markets (Ex. Emerging Asia)

### In brief

- Private equity fundraising has bounced back in Emerging Markets, boosted by greater investor interest in Sub-Saharan Africa, Central Eastern Europe and Latin America.
- Larger deals in Brazil and Latin America lifted third quarter investment volume. However, investments continued to trail the previous year's pace.
- Despite lingering concerns, both a recent private equity investor survey and fundraising indicate improved overall investor confidence in Emerging Markets, although outlook varies across sub-regions.

**Table: Emerging Markets (ex. Emerging Asia) private equity market data**

| USD million | | YTD13 | YTD14 | Q313 | Q214 | Q314 | Dy/y | Dq/q |
|---|---|---|---|---|---|---|---|---|
| MENA | Fundraising | 414 | **270** | 195 | 100 | **124** | (35%) | 24% |
| | Investments | 170 | **316** | 4 | 244 | **65** | 87% | (73%) |
| | Number of deals | 36 | **27** | 12 | 11 | **11** | (25%) | 0% |
| SSA | Fundraising | 779 | **3,043** | 679 | 1,629 | **892** | 291% | (45%) |
| | Investments | 1,253 | **1,186** | 276 | 276 | **148** | (5%) | (46%) |
| | Number of deals | 63 | **48** | 19 | 11 | **13** | (24%) | 18% |
| CEE & CIS | Fundraising | 986 | **1,785** | 433 | 24 | **305** | 81% | 1171% |
| | Investments | 667 | **555** | 209 | 141 | **128** | (17%) | (9%) |
| | Number of deals | 81 | **109** | 27 | 40 | **24** | 35% | (40%) |
| Russia | Fundraising | 401 | **263** | 275 | - | **13** | (34%) | n/m |
| | Investments | 132 | **53** | 67 | 15 | **18** | (60%) | 17% |
| | Number of deals | 18 | **22** | 4 | 4 | **8** | 22% | 100% |
| Latin America & Caribbean | Fundraising | 2,748 | **3,850** | 257 | 606 | **2,829** | 40% | 367% |
| | Investments | 3,269 | **2,936** | 1,982 | 725 | **1,525** | (10%) | 110% |
| | Number of deals | 92 | **75** | 30 | 24 | **30** | (18%) | 25% |
| Brazil | Fundraising | 837 | **2,604** | 79 | 274 | **2,124** | 211% | 674% |
| | Investments | 2,611 | **2,366** | 1,922 | 724 | **1,507** | (9%) | 108% |
| | Number of deals | 60 | **37** | 30 | 12 | **18** | (38%) | 50% |
| **Emerging Markets (Ex. Em. Asia)** | **Fundraising** | 4,927 | **8,948** | 1,564 | 2,359 | **4,150** | 82% | 76% |
| | **Investments** | 5,359 | **4,993** | 1,993 | 1,386 | **1,866** | (7%) | 35% |
| | **Number of deals** | 272 | **259** | 88 | 86 | **78** | (5%) | (9%) |

Notes: Data for Russia and Brazil is also included in CEE & CIS and Latin America & Caribbean, respectively.
Source: Emerging Markets Private Equity Association, as of November 30, 2014. Dq/q is the comparison of Q3 2014 vs. Q2 2014. Dy/y is the comparison of YTD 2014 vs. YTD 2013.

### Latin America

- Fundraising is on track to have its best year since 2011 due to large closings announced in the second half of 2014

Private equity fundraising showed signs of recovery in Latin America and in Brazil despite numerous macroeconomic challenges and political uncertainty. Third quarter fundraising volume was lifted by the USD 1.8 billion buyout fund raised by Pátria Investments. With the announcement of a USD 2.1 billion fund with an investment focus on Brazil, Colombia and Mexico by Advent International in the last quarter of the year, Brazil and Latin America has attracted its highest level of private equity capital since 2011.

Investment activity continued to trail the prior year's pace due to subdued activity in Brazil during the first half of 2014. However, a higher number of large buyout deals in the third quarter may indicate a return of deal-making confidence in the country. Global private equity firms Blackstone and KKR boosted total capital invested in the third quarter by acquiring the insurer Grupo Notre Dame de Intermedica for USD 861 million and the data center specialist Aceco TI for USD 572 million, respectively.

However, Mexico and Colombia demonstrated the largest year-on-year gains in capital invested in the region. Riverstone Holdings and EnCap Investments' USD 450 million investment in Mexico-based Sierra Oil & Gas and Darby Private Equity's USD 385 million investment in Colombia-based Ocensa were the largest investments completed in each market during the first three quarters of 2014.

**Middle East North Africa (MENA)**

- Private equity fundraising is expected to pick up after muted activity during the first three quarters. Investments show positive signs of investor confidence

Private equity fundraising and investment activities in MENA have yet to recover since the global financial crisis. That said, there were a few remarkable fundraising succeses subsequent to the third quarter. NBK closed on USD 310 million for its second fund to invest in MENA. Meanwhile, Abu-Dhabi-based Gulf Capital raised USD 750 million for its third fund, GC Equity Partners Fund III, to invest in countries such as Bahrain, Kuwait, Oman and others. With these closings, total amount of capital raised in MENA this year to date is nearly as much as the USD 1.2 billion raised throughout the entire MENA region in 2012 and 2013.

Investment volume increased 87% year-on-year during the first three quarters to USD 316 million. However, nearly half of that amount was attributable to two large investments: a USD 100 million deal in the oil & gas industry in Iraq by Kerogen Capital and a USD 60 million investment in the hospitals & clinics sector in United Arab Emirates by Olympus Capital Asia and India Value Fund Advisors.

Bouyant public equity markets also enabled private equity managers to exit deas through IPOs on regional stock exchanges. In the Gulf region, MSCI reclassified its Qatar and United Arab Emirates indices into the MSCI Emerging Markets Index. This move can potentially improve liquidity in the region and have a positive impact on the IPO activity of private equity-backed companies going forward.

**Sub-Saharan Africa (SSA)**

- SSA became a fast growing market with robust fundraising and investment activities

SSA fundraising figures demonstrate a remarkable growth in investor interest. Private equity fundraising had another strong quarter pushing year-to-date figures to USD 3.0 billion, the highest amount since EMPEA started to track the data in 2006. The biggest contribution in fundraising was the USD 698 million final close of The Carlyle Group's maiden private equity fund targeting SSA, which was approximately USD 200 million above its initial target.

Strong fundraising resulted in diverse investment activity. The Carlyle Group has already made two investments. It backed Tanzanian agriculture trading company, Export Trading Group, and soon after invested in a logistics company in Mozambique. Warburg Pincus completed the largest deal in the region with a USD 600 million investment in Delonex Energy, an Africa-focused oil & gas explorer. The region has become an investment hotspot after gas discoveries in Tanzania and Mozambique and other resource finds in Uganda and Kenya.

**Turkey and Russia/CEE/CIS**

- CEE and Turkey demonstrate growth in fundraising, while investors became cautious in Russia and CIS due to political risks

Fundraising and investment activities were divergent across sub-regions. While fundraising remained robust in Turkey and CEE, the ongoing unrest in Ukraine has had a strong impact on markets directly linked to the conflict, particularly Russia.

The largest amount of capital raised year-to-date was Mid Europa Fund IV, a CEE-focused fund, which closed at EUR 800 million (approximately USD 1 billion). Before the conflict in Ukraine unfolded, Elbrus Capital closed the second largest fund in the region, collecting USD 550 million for its Fund II targeting investments in Russia. Fundraising plans are being made in Turkey as well, despite its small market size and less interest from global investors. The Abraaj Group, a buyout firm focusing on emerging markets, is raising a USD 500 million fund to invest in Turkey.

EMPEA's 2014 Global Limited Partners Survey indicates that investors view political risks as the main deterrent to investing in Russia/CIS. Furthermore, dependence of the sub-region on the oil market and severe currency depreciation may have a significant bearing on future private equity activities.

## Private equity secondary

**In brief**

- The secondary market is on track toward another record-breaking year. We expect further growth in deal flow in 2015 and continue to see attractive opportunities in the lower end of the market.

After a record year for private equity secondaries volume in 2013, 2014 is heading towards another record year for deal flow that is expected to be in excess of USD 30 billion, according to the Cogent Partners' Secondary Market Trends & Outlook July 2014 report. While traditional sales of portfolio interests accounted for the majority of the volume, there was a significant increase in demand for non-traditional deals, including GP fund restructurings and spinouts. Seller diversity continues to increase, with investors of all types looking to reduce their non-core holdings. To date, 2014 has also seen indications of a return of mega-deals, including the largest ever private equity secondary – a USD 1.3 billion purchase of GE Capital's private equity portfolio by Ardian.

Pricing continued to remain near historic highs in Q3 of 2014, driven by record fundraising, increased distribution activity and strong public markets performance. Based on the secondary market trends report issued by Cogent in July, secondary pricing on all strategies increased to 93% of 2Q NAV, with buyout pricing at 100% and venture capital at 92%. In our view, pricing held firm at those levels in the 3rd quarter and is expected to remain elevated for the next few quarters. During the quarter, the S&P 500 increased 2.5% while the Nasdaq gained 5.9%. GP valuation increases were significant and exits continue to be strong in both the buyout and venture spaces, due to a record IPO market and an abundance of primary capital raised over the last few years.

Looking forward, we expect to see increased deal flow in the final quarter of 2014 going into 2015 at all ends of the market. We anticipate financial institutions will resume portfolio sales, due to clarity surrounding the finalization of the Volker Rule, with a deadline set for July 2015 ("the Final Rule"). Further non-traditional sales will make up a greater share of the overall market and mega deals will resume. While competition from large secondary funds is expected to cause upward pressure on prices in the larger end of the market, we see continued opportunities in the lower end.

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