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Capital Dynamics Market Environment

Summary Q2 2010

Environment – US

Despite a second quarter plagued by concerns about European sovereign debt contagion and a "double-dip" recession, the US economy staged a significant comeback in the first half of the year. Real GDP expanded at an annualized rate of 2.7% in the first six months, compared with the 4% annualized rate of contraction recorded in the first six months of 2009.

The US economy expanded in the first half, yet growth is tenuous

After the strong start to 2010, however, the pace of the recovery decelerated in the second quarter, from a 3.7% annualized growth rate to a 1.7% annualized growth rate. Slower growth primarily reflected a jump in imports during the period, though some analysts continue to question the recovery's sustainability once stimulus from monetary and fiscal policies is withdrawn, which could negatively impact recent generally supportive financial conditions. Factory utilization remains low and businesses have generally been slow to re-hire workers or make new investments, despite profits rebounding to pre-crisis levels. As a result, business liquidity is at record levels. Recently, however, the Federal Reserve, in response to weakness in consumer confidence, has reiterated that it stands ready to support the expansion, if necessary.

Because firms have been slow to start re-hiring, employment levels during the first six months of the year have remained below pre-recession levels. However, hiring typically lags the upturn in the economy. While household spending has inched up, it remains hampered by continued high unemployment. Consumer savings rates are also higher, in recognition of still-high debt levels, apprehension about employment stability, limited wealth among homeowners and modest real income growth.

In public and private equity, the first and second quarters were dramatically different, with prices rising sharply in the first quarter but declining (for public markets) or, on average, moving stable to lower (for private equity investments) in the second quarter. However, IPO activity, which had shown signs of resurgence toward the end of the first quarter, continued to be significant in the second quarter, although many companies lowered their pricing range in response to public market volatility. The US continues to have a large IPO pipeline. Some unease lingers, though, over post-listing prospects because of the choppy market and uneven post-listing performance seen recently. M&A activity was stable in the first half, getting a boost from the convergence of buyer and seller price expectations, improved credit availability for larger transactions, and trading between financial sponsors. Issuance of both leveraged loans and high-yield bonds was up over the previous quarter and compared to the year-ago first half. Further, default rates on both institutional leveraged loans and high-yield bonds decreased over the past year. Bank credit remains limited for smaller transactions however, with conservative loan standards.

The tables below detail US macroeconomic and financial data.

	2008	2009	H109	H110	Dy/y	Dh1/h1
GDP in % [1]	-	(2.6)	(4.0)	2.7	(2.6)	6.7
CPI in % [1]	3.9	(0.4)	0.7	1.7	(4.2)	1.0
Interest rate in % [2]	0.25	0.25	0.25	0.25	-	-
Unemployment rate in % [2]	7.4	10.0	9.5	9.5	2.6	-
Consumer confidence [2]	60.1	72.5	70.8	76.0	12.4	5.2
S&P 500 index price [3]	(38%)	23%	2%	(8%)	62%	(9%)
NASDAQ Composite index price [3]	(41%)	44%	16%	(7%)	84%	(23%)
IPO number	56	80	24	83	43%	246%
IPO in USD bn	28.6	20.2	3.4	12.9	(29%)	279%
M&A in USD bn	898.5	638.9	344.4	364.9	(29%)	6%
Leveraged loan in USD bn[4]	323.6	239.3	104.5	169.2	(26%)	62%
High yield bond in USD bn[4]	47.5	132.8	55.5	88.1	180%	59%

	Q209	Q309	Q409	Q110	Q210	Dq/q
GDP in % [1]	(0.7)	1.6	5.0	3.7	1.7	(2.0)
CPI in % [1]	(1.1)	(1.6)	1.4	2.3	1.8	(0.6)
Interest rate in % [2]	0.25	0.25	0.25	0.25	0.25	-
Unemployment rate in % [2]	9.5	9.8	10.0	9.7	9.5	(0.2)
Consumer confidence [2]	70.8	73.5	72.5	73.6	76.0	2.4
S&P 500 index price [3]	15%	15%	5%	5%	(12%)	(17%)
NASDAQ Composite index price [3]	20%	16%	7%	6%	(12%)	(18%)
IPO number	19	21	35	34	49	44%
IPO in USD bn	2.3	6.9	9.8	5.4	7.5	41%
M&A in USD bn	173.0	88.2	206.3	188.0	176.9	(6%)
Leveraged loan in USD bn[4]	71.7	50.2	84.6	74.7	94.5	27%
High yield bond in USD bn[4]	43.9	39.2	38.1	54.6	33.5	(39%)

1) GDP figures are real and annualized, and are for the whole period.
2) Period-end figures
3) Change for the relevant period
4) New issue values
Notes: Dh1/h1 is the comparison of H1 2010 vs. H1 2009; Dq/q is the comparison of Q2 2010 vs. Q1 2010.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are canceled.
Geography of M&A deals is based on the location of the target.
Source: Bloomberg, September 2, 2010; Credit Suisse Leveraged Finance Market Update, August 2010

GDP:

Real GDP growth, while up on the year, decelerated in the second quarter

The US economy grew at an annualized rate of 2.7% in the first half of the year, swinging to growth after contraction in the first half of 2009. Companies are reporting profits near all-time highs, and corporate cash balances are at record levels. However, they have been generally slow to re-hire or make new investments. In the second quarter, real GDP growth decelerated to an annualized rate of 1.7%, weighed down primarily by a surge in imports. According to the US Department of Commerce, growth reflected positive contributions from consumers – whose expenditures contribute the greatest share of GDP – non-residential fixed investment, exports, private inventory investment, federal government spending and residential fixed investment. Based on the Bloomberg composite estimate, the US economy is expected to grow 3% in 2010.

With subdued inflation expectations, the target interest rate remains low

Inflation: The consumer price index advanced 1% over the prior year to 1.7% during the first six months. Yet in the second quarter, inflation contracted 0.6% from the previous quarter, aided by receding energy and commodity prices. According to its September 21 statement, the Federal Open Market Committee (FOMC) expects inflation to remain subdued for an extended period, as resource slack should continue to restrain cost pressures and longer-term inflation expectations are stable. The Bloomberg composite forecast suggests a low 1.6% rate of inflation for the full year, 2010.

Interest rates: The Federal Reserve made no change to its target interest rate of 0.25% – stationary since the dramatic cut from 2.00% in the third quarter of 2008. In its September statement, the FOMC cited low rates of resource utilization, subdued inflation trends and stable inflation expectations as economic conditions warranting exceptionally low levels of the federal fund rate for an extended period.

Unemployment decreased slightly, but is expected to remain at similar levels all year

Unemployment: In both the first half of 2009 and 2010, the unemployment rate held firm at 9.5%. Though the rate climbed in the intervening quarters, it ultimately dipped slightly, to 9.5% in the second quarter of 2010, from 9.7% in the first. Despite a modest rise in payrolls, employment levels remained well under pre-recession levels. Bureau of Labor Statistics non-farm payroll data show a sizeable number of jobs were added in manufacturing in April and May, though the trend did not continue into June and the construction industry, after adding jobs in April, returned to job losses in the final two months of the quarter. In his late-August economic outlook speech, Federal Reserve Chairman Ben Bernanke said it is reasonable to expect a pickup in employment levels in 2011.

Public equities: First-half public equity performance in the US was dented by uncertainties over the sovereign debt situation in Europe. Investor concerns sparked renewed volatility in US public equity markets, similar to markets in many European and Asian countries. Both the S&P 500 and NASDAQ Composite indices lost 12% during the second quarter, erasing gains posted during the prior two quarters.

IPO activity accelerated, despite increased market volatility

IPOs: IPO activity emerged in the first half after a period that one private equity firm labeled “Antarctica” in the first half of 2009, both in number of companies pricing (or offering) their shares – 83 versus 24 – and in dollar volume – USD 12.9 billion raised versus USD 3.4 billion. Regardless of the public equity market volatility that characterized the second quarter, the number of companies going public increased by 44% from the first quarter. The largest listing was Oasis Petroleum in

June. Moreover, the number of companies planning to list in the second half promises to be high.

M&A volumes were little changed; transactions spiked

M&A: M&A volumes in the first half of 2010 were generated by a more normal flow of M&A activity than during the first quarter of 2009 when a number of financial mergers (some forced by regulators) closed. First-half volume rose 6% on the year and 3,630 deals were conducted, compared to 2,571 in the first half of 2009. The largest deal of the semester was the announced acquisition of Qwest Communications International Inc. by CenturyLink Inc. for an enterprise value of USD 22.16 billion. By contrast, both M&A volume and deal count dipped from the first quarter to the second quarter, signaling a further decline in deal size. Nonetheless, buyer and seller price expectations continue to converge, and credit is becoming more obtainable for larger and solid deals. Moreover, buyer competition for good deals is intensifying, pushing valuations higher.

Credit markets rebounded, yet remained susceptible to global debt market concerns

Credit markets: Issuance of leveraged loans and high-yield bonds was strong for the first six months of the year. On a consecutive quarterly basis, leveraged loan issuance continued to rebound, while high-yield bond issuance dropped 39% on sensitivity to European sovereign debt issues and the fragility of the US recovery.

Private equity markets

PE deal activity strengthened amid improved credit and exit environments

The private equity climate of the first half was mixed; fundraising remained subdued, yet investment activity gained significant momentum. Investors have remained cautious about new commitments. Managers have responded by raising smaller funds – although they also raised more of them. New LBO investments nearly tripled over the prior year, lifted by the improvement of the credit environment. Lending multiples available for mid-sized and larger LBOs rose, reaching levels last seen in 2008. Leveraged loan and high-yield bond defaults declined, reflecting both improved corporate health and success in extending maturities and using equity cures for covenant defaults. VC fundraising fared similarly to that of LBO fundraising during the first six months. Despite the decline in funds raised, VC managers closed 50 new funds in the second quarter of the year; the highest number of funds raised since the first quarter of 2009. VC investments, while up slightly on the year, nearly doubled from the first quarter to the second, reflecting positive trends in credit markets and an alignment of expectations between buyers and sellers. The private equity-backed exit situation improved dramatically in 2010. The first six months of the year witnessed 396 private equity-backed M&A exits, totaling USD 34 billion in value, compared with 258 and USD 20 billion in the prior-year period. Likewise, there were 35 PE-backed IPOs, totaling USD 5.11 billion in value during the first half of the year, compared to six IPOs carrying USD 0.8 billion in value in 2009. Valuations are generally improving as companies strengthen and public equity indices recover from second-quarter volatility, boding well for strong exits in the remainder of the year.

The tables below detail US private equity data.

all values in USD billion		2008	2009	H109	H110	Dy/y	Dh1/h1
LBO	Funds raised [1]	247.0	75.3	46.3	34.3	(69%)	(26%)
	Number of funds [2]	246	165	107	127	(33%)	19%
	Investments	137.1	34.7	8.0	22.0	(75%)	175%
	Drawdowns [3]	54.0	24.6	10.5	n/a	(55%)	n/a
	Distributions	13.1	11.1	2.7	n/a	(16%)	n/a
	Appreciation as % of NAV	(14.7%)	7.6%	(0.2%)	n/a	22%	n/a
	5 year rolling IRR [4]	8%	6%	6%	n/a	(2%)	n/a
VC	Funds raised [1]	28.5	16.5	10.1	6.6	(42%)	(34%)
	Number of funds [2]	224	149	97	92	(33%)	(5%)
	Investments	31.0	23.3	10.4	12.4	(25%)	19%
	Drawdowns [3]	7.0	4.5	2.0	n/a	(35%)	n/a
	Distributions	5.8	3.7	1.0	n/a	(36%)	n/a
	Appreciation as % of NAV	(8.4%)	1.9%	(4%)	n/a	10%	n/a
	5 year rolling IRR [4]	6%	5%	5%	n/a	(1%)	n/a

all values in USD billion		Q209	Q309	Q409	Q110	Q210	Dq/q
LBO	Funds raised [1]	20.1	14.8	14.2	17.3	16.9	(2%)
	Number of funds [2]	35	44	55	67	60	(10%)
	Investments	3.0	3.2	23.6	12.0	10.0	(17%)
	Drawdowns [3]	6.0	4.1	9.9	5.3	n/a	n/a
	Distributions	1.4	2.6	5.7	4.3	n/a	n/a
	Appreciation as % of NAV	3.6%	4.4%	3.3%	0.0	n/a	n/a
	5 year rolling IRR [4]	6%	6%	5%	0.1	n/a	n/a
VC	Funds raised [1]	4.7	2.3	4.1	3.9	2.7	(31%)
	Number of funds [2]	38	31	46	42	50	19%
	Investments	6.1	5.9	7.0	4.7	7.7	66%
	Drawdowns [3]	1.0	1.3	1.4	1.1	n/a	n/a
	Distributions	0.5	0.8	2.0	1.4	n/a	n/a
	Appreciation as % of NAV	(2%)	1%	1%	0.0	n/a	n/a
	5 year rolling IRR [4]	5%	5%	4%	0.0	n/a	n/a

1) Fundraising represents amounts closed during the period, net of downsized funds. Figures exclude commitments to Fund of Funds to avoid double counting.
2) Number of funds for the year can differ from the sum of the quarters if a fund held several closings during the year.
3) Drawdowns and Investments data are not comparable as Investments include debt. In addition, the figures are based on different sample databases.
4) IRR is calculated on pooled, rolling five-year cash flows and the end-period NAV.

Notes: Prior-period figures may be revised due to ongoing database updates conducted by the source.
n/a Data was not yet published by Thomson One
Source: Thomson One, Buyouts for LBO investments; Dow Jones VentureSource for VC investments

LBO

LBO fundraising slowed, though more new funds were raised

LBO fundraising was subdued in the first half of 2010 compared to the year-ago period. Commitment values dipped 26% to USD 34.3 billion from USD 46.3 billion, with buyouts claiming the largest proportion of funds raised, and followed closely by distressed debt. Conversely, 20 more funds were raised in the same period, suggesting a shift to a smaller fund size. The increase in number of funds raised also suggests quality managers have been successful in meeting investment thresholds for current funds, thus allowing them to launch successor funds. Nevertheless, a record number of managers are still in extended fundraising mode or continue to delay fundraising, while endowments and pensions are still facing liquidity obstacles, thus constraining commitments.

By contrast, investments were up dramatically in the first half, thanks to the improved credit environment. In the first six months of the year, lending multiples available for mid-sized and larger LBO loans increased steadily, with the average at 4.3 times EBITDA, last seen in 2008. Investment activity in the first six months of the year was characterized by add-ons and middle-market companies with high equity components.

In addition, we are seeing an increase in secondary transactions. There have been a number of large-cap secondary transactions in particular. We are watching pricing and strategy, and are monitoring overall developments closely.

Additional transactions are expected within the small/mid-cap LBO space during the remainder of the year, prompted by the rise in multiples. Further investment opportunities are seen in turnaround situations requiring strategic management resources. Investment plans could, however, get hampered by limited availability of senior debt or banks becoming increasingly selective with their financing.

On the other hand, debt issuance for select, attractive large/mega-cap deals picked up in the second quarter. Large GPs, well capitalized and able to structure deals with higher equity components, should help quicken the pace of investments during the second half.

In looking at the second quarter compared to the first, commitment values, number of funds raised and investments all declined, signaling a contraction of investment opportunities following a tightening of credit, especially for smaller deals, during the height of the sovereign debt scare in Europe.

Nevertheless, the first half posted “healthy gains in the leveraged finance markets”, thanks to “continued EBITDA growth, strengthening corporate balance sheets, extremely low foreseeable default rates and a robust refinancing cycle”, according to Credit Suisse’s 2010 Mid-Year Leveraged Finance Outlook.

Default rates dropped in the second quarter, from the first quarter of 2010. Leveraged loan default rates fell to 4.7%, from 6.9% in the first quarter; high-yield bond default rates fell to 2.2%, from 5.6%. Credit Suisse has lowered its projected annual default rate for the full year to a 0%-1.5% default rate for US high-yield bonds (from 2%-4%) and to a 1%-3% default rate for US leveraged loans (from 2%-4%).

In August, *Buyouts* journal reported the number of LBO-backed companies in danger of defaulting had been declining since February, according to the latest monthly list of "Weakest Links" published by Standard & Poor's. In February, 48 companies were placed on the default-danger list; in May the number dropped to 41 and in August the number dropped to 36. However, what we have seen recently may not necessarily be indicative of what is still to come. There has been only limited transparency on the extent of the credit lines maturing in 2011, 2012 and 2013 – and associated renegotiations – and the maturing credit could put pressure on default rates.

Thirteen US buyout-backed companies were floated during the first half, raising USD 1.88 billion in initial proceeds, while a year ago, only one buyout-backed company was floated, raising USD 0.11 billion in initial proceeds.

The pace of M&A and IPO exits rose in the second quarter, according to Thomson Reuters *Buyouts* journal. Furthermore, the valuation of private, or M&A, exits improved significantly over the prior quarter, with four exits boasting values of USD 1 billion or more compared to just one in the first quarter. The largest M&A transaction in the last three months to June 30 was the merger of Stone Point Capital's Harbor Point with Max Capital Group for an enterprise value of USD 1.4 billion. The largest buyout-backed IPO was Oasis Petroleum, with a post-offer value of USD 1.29 billion. The journal also reported investment bankers and other industry participants are preparing masses of companies for sale by year-end.

VC

VC fundraising was characterized by smaller funds

Similar to buyouts, US venture capital fundraising got off to a slow start in the first six months of 2010. While the number of funds raised trailed just behind the number raised in the year-ago period, 92 compared to 97, commitment values were down considerably. In the first six months, venture firms raised USD 6.6 billion, a 34% drop from the USD 10.1 billion raised in the first six months of 2009. Balanced-stage funds claimed 58% of all funds raised, followed by early-stage funds. The decrease in fund size was most prominent at the large end of the spectrum, with not a single fund raised over USD 1 billion and the largest fund raised landing at USD 750 million.

In tracking quarterly activity, the Thomson One database revealed a slightly different picture. Commitment values in the second quarter were down 31% from the previous quarter; however, the number of funds launched increased to 50 from 42. Encouragingly, the second quarter boasted the highest number of funds raised since the first quarter of 2009. Investments were also up on a sequential quarterly basis, the USD 7.7 billion put to work the highest amount since the third quarter of 2008, during which USD 7.9 billion was raised. On the year, VC investments also posted gains as investors put USD 12.4 billion to work in the first half of 2010 compared with USD 10.4 billion in the first half of 2009.

The biotech sector continues to be full of investment opportunity, particularly now that big pharma is facing the combined pressures of upcoming patent expirations on namebrand blockbuster drugs and anemic new-drug pipelines. Biotech companies with promising pipelines are therefore becoming highly attractive investments. The social media sector also holds ample investment potential as entrepreneurs eager to get in on the game have created a whole new category of start-ups needing funding.

Venture-backed M&A activity in the second quarter was down on the quarter in both number deals (79 from 103) and amounts raised (USD 4.3 billion from USD 6 billion). Nevertheless, public companies with large cash reserves are displaying signs of increased activity in the M&A markets. For example, the largest venture-backed M&A transaction in the quarter was Google's acquisition of AdMob Inc., a mobile advertising provider, for USD 750 million.

The number of venture-backed IPOs nearly doubled from the first quarter to the second, with 14 listings – the highest number of IPO-backed companies to list their shares since the fourth quarter of 2007. Information technology and business and financial services claimed the largest share of second-quarter venture-backed IPO exits. Likewise, the USD 1.05 billion raised during the second quarter had not been approached since the fourth quarter of 2007. Furthermore, the quarterly amount raised rivaled total venture-backed IPO funds raised in all of 2009. The heftiest venture-backed IPO of the second quarter was the NASDAQ listing of electric vehicle maker Tesla Motors Inc. for USD 202 million.

According to Dow Jones' VentureSource database, VC investors preferred the health-care sector the most, pushing medical investments over IT investments during both the first half and second quarter.

Environment – EU

During the first half of 2010, the European economy continued to grow, driven by strong global demand for eurozone exports and aided by the continued weakness of the euro. Asia – primarily China and India – Latin America and Australia were the most popular export destinations, thanks in part to increased consumer call from an expanding global middle class. Despite a softening in demand from Russia and the US, the European Commission reports the economic recovery is balancing out across demand components and sector. Especially noteworthy was the unexpected upswing of domestic demand. Germany's economic growth and strengthening home market were particularly encouraging. In the second quarter, Germany's 2.2% GDP expansion lifted the overall eurozone GDP by a full 1%, according to the *Financial Times*.

The positive results prompted the European Commission, in its September Interim Forecast, to lift its eurozone real GDP forecast for 2010 to 1.7%, about 0.9% higher than its spring forecast, and proclaim a "double-dip" recession unlikely. Also this September, the European Central Bank (ECB) predicted full-year GDP growth to land between 1.4% and 1.8%.

Despite lifting its GDP outlook and dispelling concerns about a possible double-dip recession, the European Commission also expects the pace of the economic recovery to moderate in the second half, in line with a softening of the global economy during the same period. ECB President, Jean-Claude Trichet, warned uncertainty would prevail, going so far as to say risks to the recovery are “slightly tilted to the downside”. Risks include softer-than-expected foreign demand for exports and financial market tensions.

Economic growth did not dispel the eurozone’s first-half unemployment record, though Germany’s economy does inspire expectations for improvement. Further, the European Commission said “… the rebound of domestic demand bodes well for the job market”. As yet, there is a marked disparity of unemployment rates between member states, and the coming months may have an effect on unemployment as economic stimuli are removed.

The inflation forecast for Europe is stable due to slack in the economy and muted wage growth. The European Commission projects HICP inflation at 1.4%, factoring in an upward trend of global commodity price increases – especially food and energy, and is in line with the desired rate of just under 2% anticipated by the ECB.

Financial markets are recovering, though they still face significant challenges. “The still weak annual growth rate of bank loans to the non-financial private sector continues to conceal positive growth in loans to households and diminishing negative annual growth in loans to non-financial corporations,” said the ECB’s Trichet. In September, the ECB extended the supply of emergency liquidity for banks until the beginning of 2011.

The tables below detail European macroeconomic and financial data.

	2008	2009	H109	H110	Dy/y	Dh1/h1
GDP in % [1]	1.6	1.4	(5.1)	1.4	(0.2)	6.4
CPI in % [1]	0.4	(4.1)	0.3	1.4	(4.5)	1.2
Interest rate in % [2]	2.50	1.00	1.00	1.0	(1.50)	-
Unemployment rate in % [2]	8.2	9.8	9.5	10.0	1.6	0.5
Consumer confidence [2]	(30.8)	(16.0)	(25.1)	(17.0)	14.8	8.1
FTSE 100 index price [3]	(31%)	22%	(4%)	(9%)	53%	(5%)
CAC 40 index price [3]	(43%)	22%	(2%)	(17%)	65%	(14%)
DAX index price [3]	(40%)	24%	(0%)	(3%)	64%	(3%)
IPO number	277	71	21	116	(74%)	452%
IPO in EUR bn	15.3	5.5	0.5	14.3	(64%)	2760%
M&A in EUR bn	552.7	360.2	196.9	126.6	(35%)	(36%)
Leveraged loan in EUR bn[4]	77.5	47.5	22.4	27.1	(39%)	21%
High yield bond in EUR bn[4]	1.2	29.3	4.2	21.7	2342%	417%

	Q209	Q309	Q409	Q110	Q210	Dq/q
GDP in % [1]	(0.1)	0.4	0.2	0.3	1.0	0.7
CPI in % [1]	0.2	(0.4)	0.4	1.1	1.5	0.4
Interest rate in % [2]	1.00	1.00	1.00	1.00	1.00	-
Unemployment rate in % [2]	9.5	9.8	9.8	10.0	10.0	-
Consumer confidence [2]	(25.1)	(19.0)	(16.0)	(17.0)	(17.0)	-
FTSE 100 index price [3]	8%	21%	5%	5%	(13%)	(18%)
CAC 40 index price [3]	12%	21%	4%	1%	(13%)	(14%)
DAX index price [3]	21%	18%	5%	3%	(3%)	(6%)
IPO number	15	14	35	47	69	47%
IPO in EUR bn	0.5	0.4	4.6	4.6	9.7	111%
M&A in EUR bn	68.1	72.3	91.0	51.6	75.0	45%
Leveraged loan in EUR bn[4]	15.4	10.4	14.7	10.5	16.6	58%
High yield bond in EUR bn[4]	3.4	8.2	16.9	13.5	8.2	(39%)

1) Figures are for the whole period
2) Period-end figures
3) Change for the relevant period
4) New issue values
Notes: Dh1/h1 is the comparison of H1 2010 vs. H1 2009; Dq/q is the comparison of Q2 2010 vs. Q1 2010.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are canceled.
Geography of M&A deals is defined by the location of the target.
Period of IPO relates to the pricing date. Prior-period IPO figures have been revised to include all Western and Eastern European countries, as newly introduced by Bloomberg.
Source: Bloomberg, as of September 2, 2010; Credit Suisse Leveraged Finance Market Update, August 2010

Export-driven growth boosted by revived domestic demand

GDP: Global demand for European exports, and industrial exports in particular, led to significant growth in the first half of the year, compared to the first half of 2009. Much of the expansion occurred in the second quarter, due to the recovering global economy and supported by revived domestic demand for goods and services. The economy grew 1.0% in the second quarter, the strongest growth seen since the second quarter of 2006. Manufacturing orders were well ahead of those in the first half of 2009, although the leading EU manufacturing PMI indicator dipped from its first-half high in April of 58 points to 56 in May and June. Nevertheless, the strength of the expansion, also bolstered by accommodative monetary policy and measures to restore the financial system, prompted the European Commission to lift its full-year real GDP forecast to 1.7%, in line with the ECB's forecast.

Moderate inflation remains well within ECB expectations, warranting no change to rates

Inflation: Inflation edged up over the first half, especially compared to prior-year lows, yet remained at a moderate 1.4%. The ECB expects inflationary pressures to stay contained and is committed to keeping inflation rates at just under 2% in the medium term – despite increasing energy (oil and gas) and food prices, which are up partially on adverse global weather conditions.

Interest rates: Interest rates have remained unchanged at 1.0% since May 2009. The ECB Governing Council continues to view the current rates as appropriate given its expectation that price developments will remain moderate over the medium-term and recovery will continue at a modest pace.

Unemployment rates held steady over the previous quarter

Employment: Labor market conditions, though weakening since the first half of 2009, held at a 10% unemployment rate over the first and second quarters of 2010. In the second quarter, agriculture, manufacturing and construction recorded the most job losses, while the financial services and business activities sectors recorded gains, according to Eurostat. Austerity programs many European governments implemented recently to tackle deficits may still have an adverse effect on unemployment figures in upcoming quarters.

Public equities: Like their global public equity index counterparts, European equity indices lost significant ground over the prior year's first half on concerns sovereign debt contagion from Greece, Spain and Portugal could deliver a blow to the still-fragile global financial system. Losses were most dramatic in the second quarter, when both the FTSE and CAC retreated 13%; the DAX, however, avoided much of the damage, and posted only a 3% loss.

IPO activity continues to accelerate, and a well-stocked pipeline promises a full second half

IPOs: IPO activity exploded in the first half of 2010 with 116 companies listing their shares; a stark contrast to the 21 that listed in the same period of 2009. Momentum peaked in the second quarter, with the number of IPOs reaching 69. Volumes spiked as well, evidenced by the EUR 14.3 billion and EUR 0.5 billion raised in the first six months of 2010 and 2009, respectively. The largest floatation came in the second quarter, and was Powszechny Zaklad Ubezpieczen's listing on the Warsaw Stock Exchange for EUR 1.99 billion. Rising prices and a steady stream of companies planning to list their shares portent an equally active second half. An Ernst & Young report on global IPO activity issued after the close of the second quarter forecast "the IPO market will grow over the next two quarters. Many issuers are awaiting the window of IPO opportunity to secure more favorable pricing."

M&A: M&A values dropped 36% from the year-ago period, and there were 32 fewer transactions conducted. In the second quarter, however, M&A values reversed their declining trend, rising 45% over the first quarter. The number of transactions dipped slightly to 1,211 from 1,293, signaling the return of larger deals. The largest announced deal of the quarter was the EUR 9 billion acquisition of mining company Polyus Gold OJSC by KazakhGold Group Ltd.

Credit markets improved, yet high-yield bonds remain vulnerable

Credit markets: Leveraged loan volumes in Europe rose, and high-yield bond volumes spiked during the first semester of 2010 compared to the same period of 2009. Nevertheless, high-yield bond volumes suffered from tensions over sovereign debt that gripped much of Europe during the second quarter, declining nearly 40% from the prior quarter. Leveraged loan issuance continued, however, rising nearly 60%.

Private equity markets

PE deal-making and exit prospects brightened during the first six months

The effects of the European Union's EUR 720 billion stabilization package for European sovereign borrowers, agreed in early May, began to materialize in the wider economy at the close of the second half. As fears about debt contagion sweeping Europe failed to materialize, European private equity got back to business. Despite the continued slow pace of fundraising, deal activity surged in the first half. LBO investments nearly quadrupled by value, to EUR 20.8 billion, from the prior-year period; VC investments, though not as dramatic, were up 17% on the year. Furthermore, momentum continued from the first quarter into the second. In the three months to June 2010, the number of completed deals passed the 300 mark – a first since the third quarter of 2008, according to *unquote"*/Private Equity Insight.

Buyer and seller expectations continued to align on pricing and debt became more freely available for large deals, especially in continental Europe. Leveraged loan issuance was up compared to the first half of 2009 while the number of defaults inched lower. Defaults on high-yield bonds declined dramatically, illustrating the overall improvement in corporate financial stability. Cost-cutting and efficiency measures companies implemented in 2009 started to bear fruit, bringing improved profitability and brighter exit prospects. Company valuations benefitted as competition between buyout managers boosted valuations and the exit market became more inviting on both the private and public front. Nevertheless, valuations were still subject to the volatility that gripped the public equity markets in May and June – although volatility dissipated in July and valuations have started to stabilize. Private equity-backed IPOs, non-existent in Europe in the first six months of 2009, experienced a rebirth, with 18 companies listing on European exchanges during the first six months of 2010. Increased exit activity resulted in higher distributions, helping to quench some investor thirst for liquidity.

Nevertheless, the state of the European economy is largely dependent on the health of the overall global economy. With a slowdown of growth expected in the second half, European companies are ultimately vulnerable to dramatic shifts in demand and to a lesser extent, foreign exchange factors if the euro begins to gain strength. A return to difficult economic conditions, financial instability and shrinking liquidity availability could impede the strength of investor confidence and sustained economic growth.

The tables below detail European private equity data.

all values in EUR billion		2008	2009	H109	H110	Dy/y	Dh1/h1
LBO	Funds raised [1]	57.3	10.0	10.6	2.8	(83%)	(74%)
	Number of funds [2]	88	50	28	11	(43%)	(61%)
	Investments	76.8	26.9	5.6	20.8	(65%)	270%
	Drawdowns [3]	16.9	4.2	2.2	n/a	(75%)	n/a
	Distributions	8.4	1.3	0.4	n/a	(84%)	n/a
	Appreciation as % of NAV	(28.4%)	2.4%	(2.7%)	n/a	31%	n/a
	5 year rolling IRR [4]	11.1%	7.9%	7.3%	n/a	(3%)	n/a
VC	Funds raised [1]	9.3	4.4	3.5	1.8	(53%)	(48%)
	Number of funds [2]	134	98	75	28	(27%)	(63%)
	Investments	4.8	3.5	1.6	1.9	(27%)	17%
	Drawdowns [3]	2.5	0.6	0.4	n/a	(75%)	n/a
	Distributions	1.1	0.1	0.0	n/a	(91%)	n/a
	Appreciation as % of NAV	(10.1%)	(0.5%)	0.1%	n/a	10%	n/a
	5 year rolling IRR [4]	1.1%	0.7%	1.1%	n/a	(0%)	n/a

all values in EUR billion		Q209	Q309	Q409	Q110	Q210	Dq/q
LBO	Funds raised [1]	5.3	1.2	(1.8)	0.4	2.4	562%
	Number of funds [2]	13	11	15	3	8	167%
	Investments	3.5	9.7	11.7	9.6	11.2	16%
	Drawdowns [3]	0.6	1.0	1.0	n/a	n/a	n/a
	Distributions	0.0	0.5	0.4	n/a	n/a	n/a
	Appreciation as % of NAV	1.3%	2.3%	2.8%	n/a	n/a	n/a
	5 year rolling IRR [4]	7.3%	8.8%	7.9%	n/a	n/a	n/a
VC	Funds raised [1]	2.3	0.3	0.5	1.3	0.5	(61%)
	Number of funds [2]	56	9	17	20	8	(60%)
	Investments	0.7	0.9	1.0	0.9	1.1	26%
	Drawdowns [3]	0.1	0.1	0.1	n/a	n/a	n/a
	Distributions	0.0	0.0	0.1	n/a	n/a	n/a
	Appreciation as % of NAV	(1.0%)	(1.1%)	0.5%	n/a	n/a	n/a
	5 year rolling IRR [4]	1.1%	0.9%	0.7%	n/a	n/a	n/a

1) Fundraising represents amounts closed during the period, net of downsized funds. Figures exclude commitments to Fund of Funds to avoid double counting.
2) Number of funds for the year can differ from the sum of the quarters if a fund held several closings during the year.
3) Drawdowns and Investments data are not comparable as Investments include debt. In addition, the figures are based on different sample databases.
4) IRR is calculated on pooled, rolling five-year cash flows and the end-period NAV.
Notes: Dh1/h1 is the comparison of H1 2010 vs. H1 2009; Dq/q is the comparison of Q2 2010 vs. Q1 2010.
LBO fundraising figures are negative for Q409 due to the downsizing of the PAI V fund.
Prior-period figures may be revised due to ongoing database updates conducted by the source.
Source: LBO investments – Private Equity Insight database from Incisive Media; VC investments – Dow Jones Venture Source, Fundraising, Cash flow and Performance data – Thomson One, formerly known as Venture Economics, as of August, 2010

LBO

Buyout and mezzanine funds were most popular with investors

Buyout fundraising got off to a slow start in 2010. Overall, only 11 funds were raised in the first half, nearly a third fewer than the 28 funds raised in the same period of 2009. Volumes suffered even more, down 74% over 2009 volume, with a scant EUR 2.8 billion raised in the first six months of the year. Buyout and mezzanine funds attracted the most commitments; the most popular fund sizes ranged between EUR 500 million and EUR 1 billion. The largest fund raised was for EUR 938 million. In general, investors and buyout managers put investment and fundraising activities on hold in the early months of the year, respectively restrained by a lack of liquidity and a glut of uninvested capital that prevented new fundraising.

The situation reversed itself in the second quarter. From three funds raised in the first quarter, the number of funds raised in the second quarter jumped to eight. Buyout managers raised nearly all first-half volume in the second quarter alone – EUR 2.4 billion of the total EUR 2.8 billion. According to data from the *unquote"* Private Equity Barometer, the mid-market EUR 100 million to EUR 1 billion bracket produced the majority of the gains during the quarter. Helped by returning economic stability and boosted by rising distributions in relation to capital calls, the fundraising situation nonetheless remains fragile and susceptible to downward trends in the global economy.

European buyout managers were prolific investors in the first half of 2010. Investment activity nearly quadrupled that of the year-ago period, with EUR 20.8 billion in investments. The upward trend continued into the second quarter, with investments increasing 16% over those made in the first quarter. Of the 95 deals conducted, the vast majority occurred in the buyout space. Nevertheless, investment values still lag 2006 and 2007 levels because of the absence of deals worth EUR 1 billion and over, according to *unquote".* Not one single private equity-backed buyout reached the billion-euro mark during the first six months of the year – the highest deal was the EUR 850 million acquisition of healthcare services company Ambea AB to the UK's Triton Advisers.

Leveraged loan issue volumes increased on the year; volume was up 21% to EUR 27.1 billion versus EUR 22.4 billion in the year-ago period. More loans were issued in the second quarter than in the first. Leverage levels crept up in 2010 to a debt/EBITDA multiple of 4.1x from the 4.0x low seen in the latter half of 2009, though still far from 6.0x last seen in 2007. High-yield bond issuance shot up to EUR 21.7 billion from EUR 4.2 billion in the year-ago first half, though issuance dipped again in the second quarter, down 39% from the prior quarter.

There were fewer defaults on high-yield bonds in the second quarter of the year compared with the first, displayed by the drastic drop to 0.68% from 4.35% in default rates. The leveraged loan default rate crept up, rising to 5.16% from 5.13%. Nevertheless, the improvement of the overall default environment prompted Credit Suisse to lower its default forecast for the full year. The bank notched its high-yield default rate projection to 0%-1% (from 1%-3%) and its leveraged loan default rate projection to 2%-5% (from 3%-6%), according to the 2010 Leveraged Finance Mid-Year Outlook and Review.

Exit prospects improved for European private equity-backed firms in the first half of 2010. In the six months to June 30, 242 private equity-backed M&A transactions were conducted, versus 186 in the same period of 2009. Likewise, volumes more than doubled to EUR 9 billion in transactions. Preliminary figures indicate that the slip in transactions and transaction volume seen in the second quarter, from the first, had already reversed itself in the third quarter.

Not one single buyout-backed company went public in the first six months of 2009. Thanks to improving valuations and generally upward momentum across global stock markets, 11 private equity-backed companies floated their shares on European exchanges during the first six months of this year, producing a combined EUR 6.01 billion.

VC

Information technology and healthcare dominated VC investments

VC fundraising contracted in the first half of the year compared to the same period in 2009, although the contraction was less pronounced than it was with buyout. Investors committed just over half of the funds they did in the prior year (EUR 1.8 billion); managers raised just over one-third the number of funds they did in the prior year (28). Funds ranging between EUR 250 million and EUR 500 million claimed most of the total EUR 1.8 billion in capital raised. The rest was split between smaller-sized funds. The largest fund raised in the first half was for EUR 357 million and the most popular investment stage focus was balanced stage, followed by early stage.

VC fundraising continued to falter in the second quarter of the year, as investors committed just EUR 0.5 billion compared to EUR 1.3 billion in the first quarter. Managers launched less than half of the new funds they launched in the prior quarter; eight compared to 20. The *unquote"* Private Equity Barometer suggests the declines could indicate continuing issues within the overall economy that are challenging young businesses.

Investment activity, though subdued, was higher in the start of 2010 than during the first six months of 2009, and it also ticked up from the first quarter to the second. Dealmakers put EUR 1.9 billion to work in 535 deals in the first half of 2010 versus EUR 1.6 billion in 494 deals, with EUR 1.1 billion of it occurring in the second quarter. Most of the 2010 deal-making activity took place within the information technology and healthcare sectors. From a regional perspective, the UK, France and Germany rated the top deal-making locations in Europe.

Venture-backed M&A activity rebounded in the first semester with 81 deals valued at EUR 1.49 billion, compared to 62 deals valued at EUR 1.05 billion during the first semester of 2009, according to Dow Jones VentureSource. Topping the charts was the EUR 135 million acquisition of France's Exalead SA, an Internet search engine software company, by Dassault Systemes.

As was the case with buyout-backed IPOs, not one single VC-backed IPO occurred during the first six months of 2009. By the first six months of 2010, the situation had vastly improved: seven venture-backed companies went public. Public equity market volatility continues to affect private equity activity, though the improved exit market bodes well for future opportunities and higher valuations. Though they have largely abated, concerns about European debt still linger, lending to potential for higher volatility and uneven valuations. The growth and strength of the European economy, however, are proving potent foils.

Environment – Asia

Resilient recovery continues, but uncertainties could arise later this year

The near-term outlook for Asia (excluding Japan) appears reasonably bright and the underlying momentum of the Asian region's output rebound remains resilient. During the second quarter, China's economy overtook Japan's in terms of annual output for the first time ever. In China, though fixed asset investment was moderate in the first half of 2010 as compared to 2009, the economy was well supported by robust private consumption and rebounding exports. In India, industrial production picked up in the second quarter of 2010, but consumers' inflation expectations are likely to remain relatively elevated throughout 2010. This is partly because food prices are still high. In Japan, amid uncertainty about the economic outlook, Japanese firms have continued searching for ways to improve their balance sheets and boost growth; however, a stronger yen is becoming the major obstacle to the country's recovery. In Taiwan and South Korea, two export-driven economies, exports have performed above expectations this year, and the recovery has been surprising so far in its strength. Australia's recovery has been well supported by stimulus spending, which is expected to be phased out later this year.

The tables below detail Asian macroeconomic and financial data.

		2008	2009	H109	H110	Dy/y	Dh1/h1
Japan	GDP in % [1]	(1.2)	(5.2)	(7.3)	3.6	(4.0)	10.9
	CPI in % [1]	1.4	(1.4)	(0.6)	(1.1)	(2.7)	(0.5)
	Interest rate in % [2]	0.10	0.10	0.10	0.10	-	-
	Unemployment rate in % [2]	4.4	5.2	5.3	5.3	0.8	-
	Consumer confidence [2]	26.7	37.9	38.1	43.6	11.2	5.5
	Nikkei 225 index price [3]	(42%)	19%	12%	(11%)	61%	(23%)
China	GDP in % [1]	9.6	9.1	7.05	11.1	(0.5)	4.1
	CPI in % [1]	5.9	-0.68	-1.065	2.6	(6.6)	3.6
	Interest rate in % [2]	5.31	5.31	5.31	5.31	-	-
	Shanghai Composite price [3]	(65%)	80%	63%	(27%)	145%	(89%)
India	GDP in % [1]	7.48	6.73	5.9	8.7	(0.8)	2.8
	CPI in % [1]	8.3	10.8	9.1	14.5	2.5	5.4
	Interest rate in % [2]	5	3.25	3.25	3.75	(1.8)	0.5
	Bombay index price [3]	(52%)	81%	50%	1%	133%	(49%)
Korea	GDP in % [1]	2.3	0.2	(3.3)	7.1	(2.1)	10.3
	CPI in % [1]	4.1	2.8	3.3	2.6	(1.3)	(0.7)
	Interest rate in % [2]	3	2	2	2	(1.0)	-
	Unemployment rate in % [2]	3.3	3.5	3.9	3.5	0.2	(0.4)
	Kospi index price [3]	(41%)	50%	24%	1%	90%	(23%)
Australia	GDP in % [1]	2.2	1.2	0.8	3.0	(1.0)	2.2
	CPI in % [1]	4.4	1.9	2.0	3	(2.5)	1.0
	Interest rate in % [2]	4.25	3.75	3.00	4.50	(0.5)	1.5
	Unemployment rate in % [2]	4.6	5.5	5.8	5.1	0.9	(0.7)
	ASX 200 index price [3]	(41%)	31%	6%	(12%)	72%	(18%)
Total Asia	IPO number	456	496	127	374	9%	194%
	IPO in USD bn	36.6	77.1	3.7	61.1	111%	1551%
	M&A in USD bn	481.9	422.2	168.1	205.0	(12%)	22%

		Q209	Q309	Q409	Q110	Q210	Dq/q
Japan	GDP in % 1	2.3	(0.1)	0.9	1.2	0.4	(0.8)
	CPI in % 1	(1.8)	(2.2)	(1.7)	(1.1)	(0.7)	0.4
	Interest rate in % 2	0.10	0.10	0.10	0.10	0.10	-
	Unemployment rate in % 2	5.3	5.3	5.2	5	5.3	0.3
	Consumer confidence 2	38.1	40.7	37.9	41	43.6	2.6
	Nikkei 225 index price 3	23%	2%	4%	5%	(15%)	(21%)
China	GDP in % 1	7.90	9.1	10.7	11.9	10.3	(1.6)
	CPI in % 1	(1.5)	(1.3)	0.67	2.2	2.93	0.7
	Interest rate in % 2	5.31	5.31	5.31	5.31	5.31	-
	Shanghai Composite price 3	25%	(6%)	15%	(5%)	(23%)	(17%)
India	GDP in % 1	6	8.6	6.5	8.6	8.8	0.2
	CPI in % 1	8.9	11.8	13.3	15.3	13.7	(1.7)
	Interest rate in % 2	3.25	3.25	3.25	3.5	3.75	0.3
	Bombay index price 3	49%	18%	2%	0%	1%	1%
Korea	GDP in % 1	2.4	3.2	0.2	2.1	1.4	(0.7)
	CPI in % 1	2.0	2.2	2.8	2.3	2.6	0.3
	Interest rate in % 2	2	2	2	2	2	-
	Unemployment rate in % 2	3.9	3.4	3.5	4.1	3.5	(0.6)
	Kospi index price 3	15%	20%	1%	1%	0%	(0%)
Australia	GDP in % 1	0.5	0.3	1	0.7	1.2	0.5
	CPI in % 1	1.5	1.3	2.1	2.9	3.1	0.2
	Interest rate in % 2	3.00	3.00	3.75	4.00	4.50	0.5
	Unemployment rate in % 2	5.8	5.7	5.5	5.4	5.1	(0.3)
	ASX 200 index price 3	10%	20%	3%	0%	(12%)	(12%)
Total Asia	IPO number	65	136	231	183	191	4%
	IPO in USD bn	3.2	29.6	43.8	36.1	24.9	(31%)
	M&A in USD bn	97.5	110.7	143.4	117.1	87.9	(25%)

1) Figures are for the whole period
2) Period-end figures
3) Change for the relevant period
Notes: Dh1/h1 is the comparison of H1 2010 vs. H1 2009; Dq/q is the comparison of Q2 2010 vs. Q1 2010.
Period of M&A deals relates to the announcement dates. Data for previous periods may change if pending deals are canceled.
Geography of M&A deals is defined by the location of the target.
Period of IPO relates to the pricing date. Prior-period IPO figures have been revised to include all countries in the Asia Pacific region, as newly introduced by Bloomberg.
Source: Bloomberg, as of September 2, 2010

GDP:

Growth was resilient in most of Asia

Each Asian economy expanded in the first half of 2010 compared to the same period of 2009. Furthermore, all Asian economies (except Japan) continued their resilient growth pattern into the second quarter, though China and Korea were at decelerated rates. During the quarter, China eclipsed Japan as the world's second largest economy. In Japan, weak growth in the second quarter – 0.4% – has raised questions about the strength of its economic recovery in relation to other parts of Asia.

Inflation advanced in India and some smaller countries

Inflation: Inflation was up in most Asian countries, except Japan and Korea, in the six months to June 30, 2010, versus the comparable period a year ago. Inflationary pressures in India and some of the region's smaller countries like Vietnam, Thailand and the Philippines continued into the second quarter. Inflation rates in China, Australia and South Korea remained at manageable levels in the second quarter.

Interest rates: Interest rates have remained unchanged in Japan, China and Korea since the second quarter of 2009. The recent strength of Australia's economy prompted the country's central bank to lift its rate 0.5%, to 4.50%, in the second quarter. India's central bank followed suit and raised its interest rate by 0.25% in the same quarter.

Unemployment in Japan increased unexpectedly

Employment: Year to year, unemployment rates were unchanged in Japan, while they edged lower in both Korea and Australia in the first six months of 2010 versus the first six months of 2009. On a quarterly basis, unemployment rates declined further outside of Japan. Conversely, Japan's unemployment rate increased 0.3% during the second quarter, largely driven by an unexpected contraction in second-quarter GDP growth.

Public equities suffered from investor uncertainties

Public equities: All Asian public equity indices suffered in the first part of 2010 compared to the comparable period a year ago. Uncertainties surrounding the second half of the year's economic growth continued to impact investor appetite for Asian public equities in the second quarter as well. Factors such as unwinding stimulus spending, rising interest rates and a series of regulatory measures launched by the Chinese government aimed at cooling off property markets have raised some investor concern about sustainability of the equity markets.

Both IPO and M&A activities strengthened from 2009

IPOs: The number of IPOs surged in the first half of the year, with 374 companies listing their shares versus 127 in the first half of 2009. Second-half volume, at USD 61.1 billion, was 16 times higher than in the first half. The number of IPOs also rose from the first quarter to the second, with 191 companies going public in the second quarter, up from 183 in the first; partly boosted by the recent opening of new exchanges in China. In 2010, Asia continues to be the main driver of global IPO activity. The second quarter highlight was the Agricultural Bank of China's (ABC) USD 22.1 billion public offering, the world's biggest IPO. This underscored the strength of investor faith in the long-term growth of the Chinese economy. However, there were fears that ABC's share price could fall after the debut IPO in Hong Kong and Shanghai as bad loans in the coming years may potentially become a major concern following an unprecedented lending spree in 2009 and 2010.

M&A: M&A activity was also up in the first half year of 2010, with deals totaling USD 205 billion resulting in a 22% increase from the first half year of 2009. Nevertheless, M&A activity fell 25% in the second quarter. Activity has decreased since the fourth quarter of 2009, which was the strongest quarter in the past 18 months. Natural resource producers (miners, oil and natural gas producers, fertilizer makers, etc.) are expected to contribute the largest share of M&A transaction value by year end. For example, the offer of roughly USD 8.5 billion by Vedanta, the Indian mining group, for a majority stake in Cairn Energy's Indian subsidiary, Cairn India, would be carried out later this year.

Private equity markets

Strong fundraising momentum, driven by the "China factor"

Asian private equity fundraising was stronger in 2010 compared to the first six months of 2009; it also gained momentum from the first quarter to the second. Overall commitments to private equity funds increased 60% from the first quarter of 2010 to USD 8 billion during the second quarter of 2010, up 100% from the same quarter of 2009. China's institutions strengthened their position within the Asian private equity industry by garnering 66% of all private equity funds raised during the second quarter of 2010. Government-related organizations committed over one quarter of the funds, reflecting strong government influence in Asian funds. Growth capital funds dominated the fund pool. Commitments to growth capital and buyout funds increased 415% on a quarterly basis, while commitments to VC funds decreased 29%. Greater China-focused funds led in the Asian fund pool, accounting for 79% of the fresh capital that came into the market in the first half of 2010. India attracted less than 5% of the fresh capital fund pool.

Buyout investments revived; growth and VC deals continued to pick up

Asian investment activity slowed in the first half of the year, with 469 deals valued at USD 19.1 billion, versus the 486 deals valued at USD 23 billion conducted in the first half of 2009. Nevertheless, investment activity picked up during the second quarter, with the number of deals increasing 14% to 250 and values jumping 57% to USD 11.6 billion from the first quarter of 2010. The increase was primarily driven by the continued expansion of growth capital investments. Large buyout deal activity revived, though there was still a decline from the same quarter of 2009. The USD 835 million commitment to Indonesia-based PT Matahari Department Store Tbk by CVC Capital Partners was the largest transaction executed by a general partner during the second quarter 2010. While China and India continue to dominate Asian private equity transactions, Southeast Asia has also been gaining investor attention; the region was home to two of the five largest deals during the first half of 2010. The consumer goods, infrastructure, energy and natural resources sectors pulled about half of the commitments during the first six months of 2010.

Private equity exit deal values soared in the first half of 2010, to USD 23.8 billion from USD 9.3 billion in the first half of 2009. On a sequential, quarterly basis, however, exit

Exits were stronger than in the year ago period

deal values decreased 14% during the second quarter from the first quarter of 2010. USD 11 billion was realized during the second quarter of 2010 compared with USD 8.3 billion during the same quarter of 2009. With equity prices continuing to level off during the second quarter, both the number and value of IPO exits declined from the first quarter of 2010. However, IPO activity was still stronger than a year ago, with USD 6.7 billion realized compared with a mere USD 1.9 billion realized during the same quarter of 2009. In looking at the first half of 2010 compared to the same period of 2009, the number of IPOs more than doubled, and values were seven times higher. M&A exit activity presented a different picture. The number of M&A exits declined on the year – 121 in the first half of 2010 versus 138 in the same period of 2009 – but exit values gained 11%, indicating increased deal sizes. In the second quarter, M&A exits decreased from the previous quarter, with the number of deals sliding 27%.

The tables below detail Asian private equity data.

all values in USD billion		2008	2009	H109	H110	Dy/y	Dh1/h1
LBO	Funds raised [1]	26.4	6.6	2.6	6.2	(75%)	136%
	Number of funds [2]	96	37	19	15	(61%)	(21%)
	Investments	24.8	22.3	10.5	3.9	(10%)	(63%)
	Number of deals	183	116	55	64	(37%)	16%
VC	Funds raised	41.4	12.7	4.7	6.8	(69%)	44%
	Number of funds	275	152	76	46	(45%)	(39%)
	Investments	32.9	24.6	12.5	15.2	(25%)	22%
	Number of deals	1508	871	431	405	(42%)	(6%)
PE	M&A exit values	31.5	16.2	7.1	7.8	(48%)	11%
	Number of exits	205	243	138	121	19%	(12%)
	IPO exit values	15.6	30.5	2.3	16.0	96%	607%
	Number of IPO exits	167	174	47	114	4%	143%
	Total exit values	47.1	46.7	9.3	23.8	(1%)	155%

all values in USD billion		Q209	Q309	Q409	Q110	Q210	Dq/q
LBO	Funds raised [1]	0.9	3.8	1.9	1.0	5.2	415%
	Number of funds [2]	10	10	14	7	8	14%
	Investments	2.5	5.4	6.4	1.4	2.5	80%
	Number of deals	27	27	34	23	41	78%
VC	Funds raised	3.1	5.3	2.6	4.0	2.8	(29%)
	Number of funds	36.0	33.0	43.0	27.0	19.0	(30%)
	Investments	9.3	4.2	7.9	6.0	9.1	52%
	Number of deals	207	206	234	196	209	7%
PE	M&A exit values	6.3	5.5	3.7	3.5	4.3	24%
	Number of exits	85	59	46	70	51	(27%)
	IPO exit values	1.9	4.1	24.1	9.3	6.7	(28%)
	Number of IPO exits	22	31	96	66	48	(27%)
	Total exit values	8.3	9.5	27.8	12.8	11.0	(14%)

1) Fundraising represents closed amounts during the period, net of downsized funds. Figures exclude commitments to Fund of Funds to avoid double counting.
2) Number of funds for the year can differ from the sum of the quarters if a fund held several closings during the year.

Note: Prior-period figures may be revised due to ongoing database updates conducted by the source.
Source: Asian Venture Capital Journal database, as of September 23, 2010

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