www.pwc.de/de/privateequity

Private Equity Trend Report 2012
Learning to live with the new reality

6th annual survey on current developments in German and international private equity investment

pwc

Private Equity Trend Report 2012
Learning to live with the new reality

6th annual survey on current developments in German and international private equity investment

Private Equity Trend Report 2012

Published by PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft

By Richard Burton

March 2012, 46 pages, 47 figures, softcover

All rights reserved. Reproduction, microfilming, storing or processing in electronic media is not allowed without the permission of the publishers.

The results of this survey and the contributions from our experts are meant to serve as a general reference for our clients. For advice on individual cases, please refer to the sources cited in this study or consult one of the PwC contacts listed at the end of the publication.
Publications express the opinions of the authors.

© March 2012 PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.
All rights reserved.
In this document, "PwC" refers to PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

Preface

The year 2011 was definitely a year of two halves for financial markets in general and private equity in particular.

Fuelled by a heady mix of favourable economic data and returning debt capacity, many private equity funds were able to complete new acquisitions and realise some profitable exits in the months leading up to the summer holidays. Then, from September onwards, the positive mood fell away again as the sovereign debt crisis in Europe became all-consuming.

Our survey was chiefly conducted during the dark days of December 2011, so perhaps it's not surprising that the results show a more negative view of the private equity world than in our previous two surveys. But it's also possible that the results are evidence of a "new reality" for private equity – where economic cycles are shorter, financing and exit windows can open and shut even faster, and regulatory and political influence become ever more intense.

But it's not all doom and gloom: Europe is expected to remain central to most funds' investment strategies and Germany is viewed as the most attractive investment destination in Europe. The majority of funds that contributed to our survey intend to increase their investment and exit activity in 2012 – if permitted by available deal flow and debt financing.

We wish to thank all the participants in this year's trends survey. We look forward to working with you this year as the private equity market learns to live with the new reality.

Richard Burton
Private Equity Leader

Table of contents

Preface ... 5

Table of figures ... 7

A Executive report ... 10

B Detailed findings ... 17
1 2011 in retrospect ... 18
2 Outlook and opportunities ... 23
3 International investment trends ... 31
4 Germany ... 34
5 Emerging issues: regulation and sustainability ... 37
6 Background information and methodology ... 41

Contacts ... 43

Table of figures

Fig. 1 Development in number of new investments compared to previous year 18

Fig. 2 Development in number of new investments 2011 18

Fig. 3 Development in number of exits compared to previous year 19

Fig. 4 Development in number of exits 2011 19

Fig. 5 Availability of debt compared to expectations 20

Fig. 6 Availability of debt compared to expectations 2011 20

Fig. 7 Average debt to equity ratios for new investments 2011 21

Fig. 8 Level of satisfaction with the overall development of portfolio companies 21

Fig. 9 Level of satisfaction with the overall development of portfolio companies 2011 22

Fig. 10 Percentage of portfolio companies which experienced bank convenant breaches 22

Fig. 11 Percentage of portfolio companies which experienced bank convenant breaches 2011 23

Fig. 12 Expected European deal market development 23

Fig. 13 Expected European deal market development 2012 24

Fig. 14 Expected number of new investments in 2012 compared to 2011 24

Fig. 15 Expected number of exits in 2012 compared to 2011 25

Fig. 16 Expectations for availability of credit in 2012 compared to 2011 25

Fig. 17 Percentage of portfolio companies expected to break one or more bank covenants 26

Fig. 18 Percentage of portfolio companies expected to break one or more bank convenants 26

Fig. 19 Top five expected sources of new deal opportunities 27

Fig. 20 Expected sources of new deal opportunities 2012 27

Fig. 21 Expected target industries for future investments 28

Fig. 22 Expected target industries for future investments 28

Fig. 23 Extent of business model change since the financial crisis 29

Fig. 24 Extent of business model change since the financial crisis 2011 29

Fig. 25 Most common changes to the business model since the financial crisis 30

Fig. 26 Most common changes to the business model since the financial crisis 30

Fig. 27 Expected attractiveness of regions for private equity funds over the next five years 31

Fig. 28 Expected attractiveness of regions for private equity funds over the next five years 32

Fig. 29 Expected attractiveness of BRIC economies for private equity funds over the next five years 32

Fig. 30 Expected attractiveness of Western European countries for private equity funds over the next five years 33

Fig. 31 Proportion of private equity funds that plan to open new offices in the next five years 33

Fig. 32 Favoured regions for private equity funds who plan to open new offices (no.) 34

Fig. 33 Relative attractiveness of Germany for private equity funds in next five years 35

Fig. 34 Relative attractiveness of Germany for private equity funds in next five years 35

Fig. 35 Proportion of international funds that currently have German portfolio companies.. 36

Fig. 36 Proportion of international funds with German portfolio companies that plan to continue making investments in Germany....... 36

Fig. 37 Expected development of international funds' assets allocated to German investments... 36

Fig. 38 Proportion of international funds without current investments in Germany that plan to make future investments there 37

Fig. 39 Expected impact on funds of AIFM Directive/Dodd-Frank Act............. 38

Fig. 40 Expected impact on funds of AIFM Directive/ Dodd-Frank Act 2012... 38

Fig. 41 Main expected impacts of AIFM Directive/Dodd-Frank Act 39

Fig. 42 Importance placed on sustainability by private equity funds (GPs) 39

Fig. 43 Importance placed on sustainability by fund investors (LPs) 2011 40

Fig. 44 Assessments of sustainability/ESG issues within portfolio 40

Fig. 45 Implementation of UN PRI guidelines 41

Fig. 46 Respondents by headquarters 41

Fig. 47 Respondents by total global fund volume (capital under management) 42

A Executive report

Over 170 private equity funds took part in our sixth annual survey of investment trends. Of these funds, 17% were based in Germany and 83% were headquartered outside of Germany. 60% of participants manage funds of up to €500 million, 12% between €500 million and €1 billion, and 27% over €1 billion. 1% did not disclose the volume of funds managed.

The good news: private equity deal activity increased again in 2011.

- 42% of funds reported an increase in new investments.
- 44% of funds increased the number of exits achieved.
- German funds recorded higher rates of increase compared with international funds.
- 28% of funds experienced a decrease in new investments and only 17% reported a decline in exits.

PwC's view

Hindsight is a wonderful thing. We didn't know it at the time, but the private equity market benefited from a new but short-lived "boom" for 9 to 12 months up to August 2011: improved economic conditions, the return of bank debt and high yield financing, bullish valuations, favourable exit routes.

The bad news: availability of debt for private equity deals collapsed in the second half of the year as the sovereign debt crisis took hold and economic indicators weakened.

- 39% of funds described the availability of debt financing in 2011 as "worse than expected" (compared to only 12% who believed it was "better than expected" – mainly the German funds).
- There was no clear improvement in debt to equity ratios achieved, compared to 2010.
- Only 28% of funds were able to obtain debt financing of 50% or more of enterprise value in 2011.
- 42% reported that their average debt financing remained below 40% of enterprise value.

PwC's view

The collapse in confidence of the financial markets from August 2011 onwards provided a rude awakening. Most market participants simply didn't see this coming again so quickly after the last crisis. Higher volatility and shorter cycles show how reliant private equity funds are becoming on the timing of financing and IPO "windows". But our survey results also show that debt structures have remained relatively conservative since the financial crisis.

Portfolio companies generally performed well – covenant breaches at portfolio companies decreased once more in 2011, but are likely to show an uptick in 2012.

- As in our previous study, the vast majority of respondents claimed to be satisfied (55%) or very satisfied (22%) with the performance of their portfolio companies during 2011.
- Only 6% admitted to any feeling of dissatisfaction with portfolio performance (none of these were German funds).
- The number of covenant breaches continued to decrease in 2011 – 78% of funds either had no material issues or these were limited to less than 10% of their portfolio companies.
- Only 17% reported covenant breaches in more than 10% of their portfolio companies – a decrease from 29% in the previous year and 43% at the height of the 2009 crisis.
- While the international funds anticipate a similar trend in 2012, the German funds expect a small uptick in covenant problems – only 10% of participants expect no breaches within their portfolios.

PwC's view

The results are consistent with published statistics on leveraged debt defaults, which declined to a post-Lehman low in the summer of 2011. A lot of funds succeeded in exiting or refinancing their investments while the sun shone. In particular, the final quarter of 2011 saw an increase in private-equity-backed companies facing the prospect of covenant breaches (or even insolvency, as in the case of manroland). We expect this trend to become more pronounced in 2012, but not at the high levels seen in 2009/10.

Private equity executives believe the outlook for the European deals market in 2012 is the worst since 2009 but still expect to increase the number of new investments and portfolio company exits this year.

- 47% of respondents expect the deals market to deteriorate compared to 2011, whereas only 22% expect an improvement.
- 51% expect the availability of debt finance to worsen in 2012, with only 6% anticipating an improvement.
- Despite this, 46% expect to increase the number of new investments made and 37% expect to make more exits, compared to 2011.
- Only 15% expect to see a decrease in new investment activity, with 18% anticipating fewer exits in 2012.

PwC's view

These results appear contradictory and could well represent a triumph of hope over cold reality. What they also do is illustrate the pressure faced by many funds to put their investors' money to work before investment periods expire and to demonstrate portfolio realisations ahead of the next, more challenging fund raising.

Sourcing high quality deals will be challenging in 2012 – in particular German private equity funds are likely to be more open to minority positions than in the past.

- As in previous years, the most popular sources of new deals are expected to be acquisitions of majority shareholdings from private owners (73%) and spin-offs/carve-outs from corporations (67%).
- Secondary buy-outs will continue to present opportunities (51% in total) – particularly for German funds (66%).
- German funds are also more likely to make acquisitions of minority shareholdings (66%) compared to international funds (47%).

PwC's view

Flexibility and creativity will be key to deal-making in 2012, rather than relying on traditional sources of deals. This will include a greater openness by many funds towards non-control positions. Creating a new equity story for secondary buy-outs will also be key, as these deals are once again likely to be more abundant than the primary opportunities that private equity investors prefer.

Targets in the healthcare industry are particularly sought after by international funds, while industrial production continues to dominate in Germany.

- Healthcare was named by 38% of international funds as an attractive target industry – over 10 percentage points more than any other sector; technology and industrial production (both 27%) were also popular.
- While only 10% of German funds were keen on healthcare, an overwhelming 66% of them said they wanted to invest in industrial production, with 48% aiming for the consumer sector and 41% for automotive sector.
- In contrast to the German funds, only 4% of international funds show interest in the automotive sector.

PwC's view

Healthcare and related services are viewed by private equity funds as offering growth potential due to shifting demographics in Western Europe and their relative protection from economic crises. But the political and reputational dimensions need to be carefully considered, as shown by the Southern Cross fallout in the UK. Unsurprisingly, German funds continue to see most potential in the traditional Mittelstand heartlands of engineering and industrial innovation.

Despite less favourable market conditions, the majority of funds continue to retain their traditional business model combined with a greater focus on active portfolio management.

- Only 12% of funds say that they have changed their business model "to a great extent" since the 2008/09 financial crisis.
- 47% thought no changes had been made at all, though a further 39% admitted to some change.
- These results differ dramatically from the answers given in 2009, when only 8% expected to make no changes to their business model.
- The most common changes made were once again more active portfolio management (89%) and less use of leverage or financial engineering (69%), while 41% of funds – mainly international – pointed to more co-operations with strategic investors.

PwC's view

The return of private equity deal-making in 2010/11 has persuaded many funds that their traditional models still hold true. Though less leverage is available than during the 2005–2007 boom, this has encouraged the use of more conservative and sustainable financing structures. The main change has been the focus on operational improvement – once the preserve of the turnaround houses, this has firmly established itself as a core skill for the wider industry – supported either by in-house teams or industrial partners.

Private equity funds are increasingly looking to invest in growth markets outside their home geographies.

- Only half of the funds interviewed, which are predominantly headquartered in Western Europe, continue to see their home market as the most attractive region for future investment.
- Specifically, Germany and the four Nordic countries are seen as the destinations most likely to attract private equity investment in Western Europe.
- 39% of international funds now view Asia as an attractive region. International funds consider investments in Latin America and Central and Eastern Europe (CEE) as equally attractive (25% each).
- Within CEE, Turkey and Poland are considered the most popular investment locations, with Brazil cited as the main country of interest in Latin America.
- A much higher proportion of German funds view CEE as attractive (45%). Asia (55%) also scores highly, though only 17% of German funds are also considering Latin America.
- Despite this, none of the German funds plan to open new offices outside Europe, whereas 25% of international funds intend to open new offices in the next five years – mainly in Asia and CEE.
- The USA is no longer viewed as an attractive option by most European-based funds (5% overall) and Africa is not yet seen as a plausible option by the vast majority (also 5%).

PwC's view

The results confirm the significant growth in interest shown by our clients in the growth regions of the world, in particular Asia and Latin America. Even the more locally-focused funds are seeking to expand beyond their traditional bases – for example, German funds are already well placed to cover CEE but are starting to express interest in other regions too, mainly via their portfolio companies. Africa is not yet on the radar, but could increase its visibility as South Africa seeks to establish itself as the fifth member of the BRICS growth countries.

Despite the trend away from mature economies, the attractiveness of Germany as an investment location increased for the fourth year running.

- 58% of respondents view Germany as an attractive location for private equity investment in the next five years – this compares to 52% last year and only 22% back in 2007.
- Less than 10% of funds now have a negative view of Germany, compared to 36% five years ago.
- 80 of the 142 international funds (56%) already have investments in Germany – of these, 75 (94%) intend to continue to invest there and 39 (54%) plan to increase their allocation of funds to the country. Only 3 (4%) anticipate a decrease in their German engagement.
- Of the remaining 62 funds not currently investing in Germany, 23 (37%) want to invest there within the next five years.

PwC's view

Germany has emerged from the global economic crisis with its reputation not only intact but enhanced. Derided by some as the "sick man of Europe" only ten years ago, the country has successfully restored its reputation as an economic powerhouse. While some challenges remain – not least the financial and political burden of leading the way out of the Euro crisis – it's clear from our survey that Germany still holds much promise for private equity investors. Whether this promise can be realised in the short term will depend largely on availability of deal flow and the valuation expectations of potential sellers.

The main impact of new regulation will be increased costs – but half of the funds also fear restrictions on fund raising activities.

- Only 12% of funds expected to be impacted "to a great extent" by new regulation such as the EU's AIFM Directive or the US Dodd-Frank Act, though a further 52% believed there would be some impact – this represents a slight decrease since our last study.
- 30% believe there will be no noticeable impact at all (an increase from 26% last year).
- The main impact is identified as increased costs – such as expenses incurred by the management company (82%), recruitment of staff to handle compliance (52%) and increased costs in portfolio companies (45%).
- However, 50% admitted that they also feared restrictions in their fund raising activities.

PwC's view

It's now become clear that the new regulations aimed at the wider asset management industry will also affect private equity. But the impacts from the final legislation now look more manageable than the earlier drafts. Funds will need to beef up the back office in order to ensure compliance, but – even though suspicions remain – a more fundamental and damaging restriction of global investment flows into private equity appears to have been averted.

Awareness of sustainability and responsible investment principles continues to increase, with larger international funds leading the way – but this is not yet a priority for over 50% of funds.

- 40% of funds placed a relatively high level of importance on sustainability, an increase from 33% last year.
- Only 13% said they place a low importance on sustainability, down from 25% a year ago.
- 20% of international funds believe that the importance put on sustainability by their investors (LPs) increased significantly in 2011, while a further 27% noticed a slight increase in emphasis. Only 2% thought the focus had decreased.
- 42% of international funds have already performed an assessment of environmental, social and governance (ESG) risks within their portfolio; a further 11% plan to do so. In contrast, only 17% of German funds have performed such an assessment so far – indeed, the majority (66%) do not currently plan to carry out an ESG assessment.
- 24% of international funds state that they have already implemented the United Nations' Principles for Responsible Investment (UN PRI), with a further 16% planning to do so. Only 14% of German funds have either implemented or plan to implement the principles.
- 28% of both the German and international funds admitted that they were not aware of the UN PRI. A further 59% of German funds and 26% of international funds have no current plans to implement the principles.

PwC's view

Managing sustainability is currently one of the top priorities for the larger global funds. Some are positioning themselves as leaders in responsible investment, others are focusing on the cost-saving benefits of eco-efficiency. In practice, most funds' sustainability agendas are being driven by increasing attention by the LPs. Though the overall industry's response is evolving quickly, it is clear that a large number of funds do not yet view sustainability as a high priority issue for them in terms of fundraising or the management of portfolio companies. We believe this perception will change rapidly in the next few years.

B Detailed findings

1 2011 in retrospect

New investments and exits

- 42% of funds reported an increase in new investments.
- 44% of funds increased the number of exits achieved.
- German funds recorded higher rates of increase compared with international funds.
- 28% of funds experienced a decrease in new investments and only 17% reported a decline in exits.

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

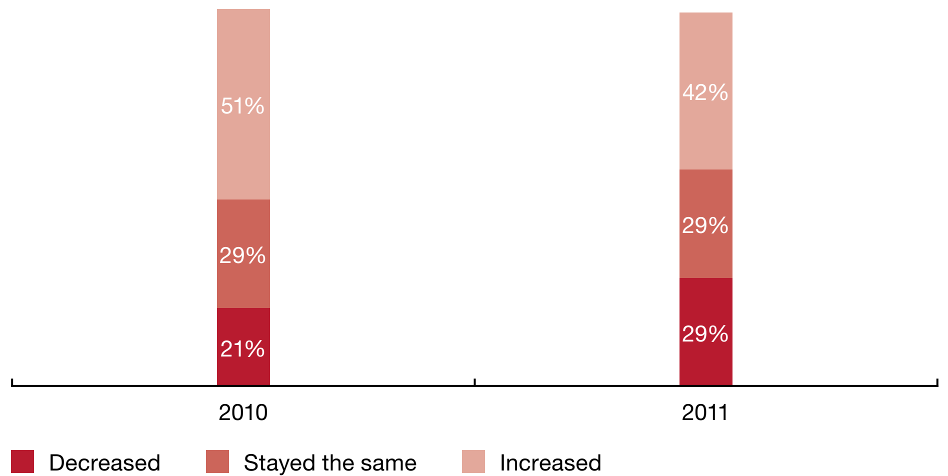


Fig. 2 Development in number of new investments 2011

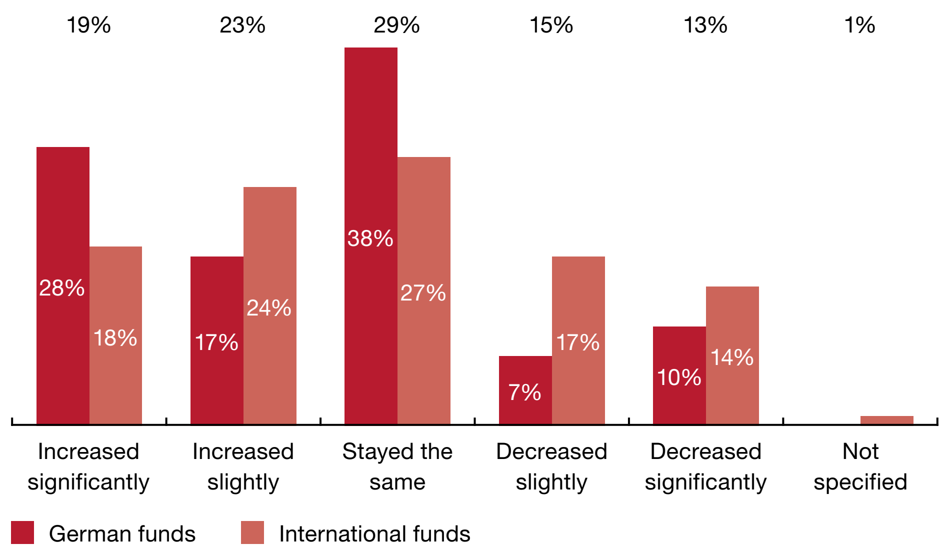


Fig. 3 Development in number of exits compared to previous year

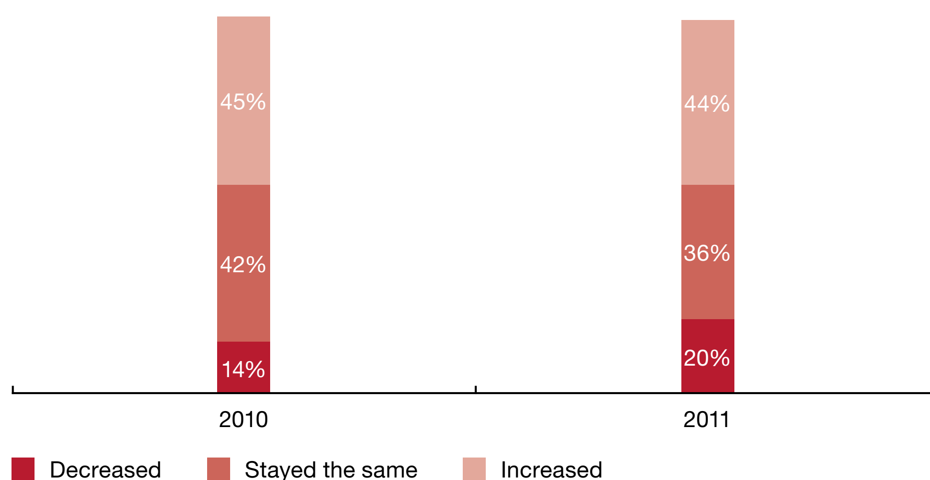
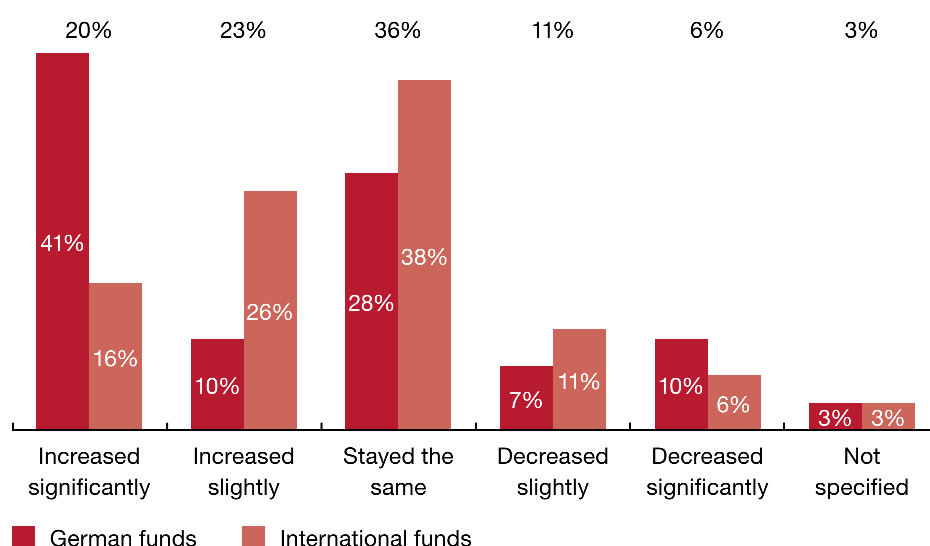


Fig. 4 Development in number of exits 2011



Financing conditions

- 39% of funds described the availability of debt financing in 2011 as "worse than expected" (compared to only 12% who believed it was "better than expected" – mainly the German funds).
- There was no clear improvement in debt to equity ratios achieved compared to 2010.
- Only 28% of funds were able to obtain debt financing of 50% or more of enterprise value in 2011.
- 42% reported that their average debt financing remained below 40% of enterprise value.

Fig. 5 Availability of debt compared to expectations

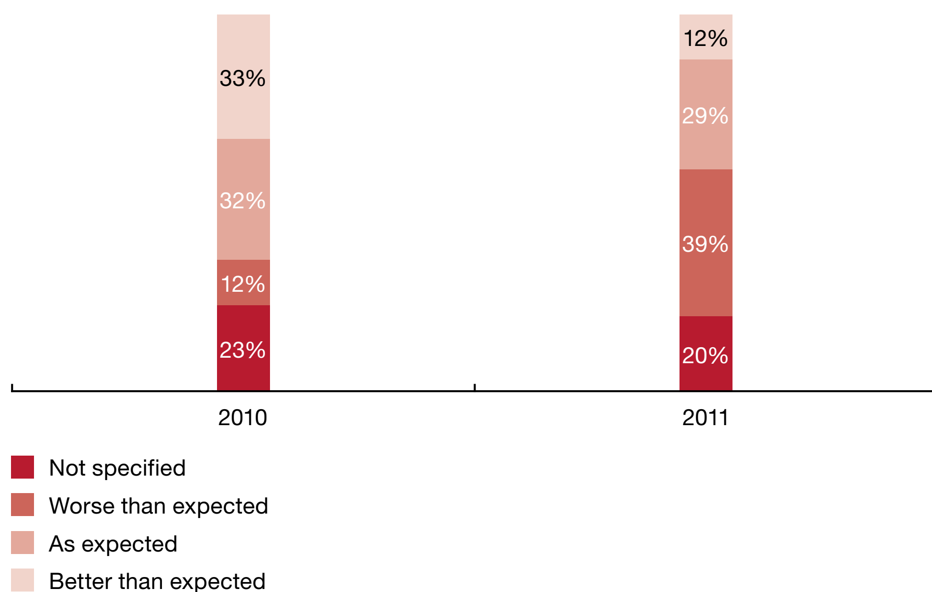


Fig. 6 Availability of debt compared to expectations 2011

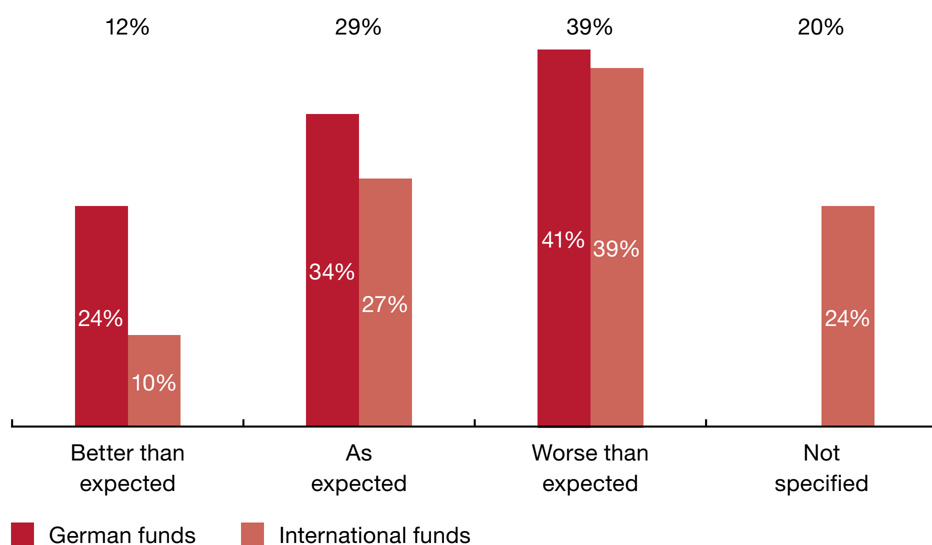
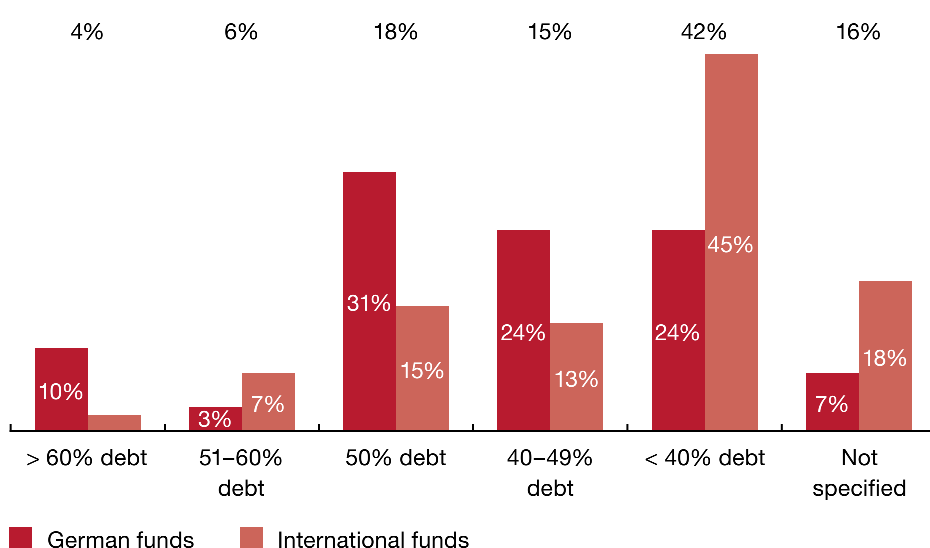


Fig. 7 Average debt to equity ratios for new investments 2011



Performance of portfolio companies

- As in our previous study, the vast majority of respondents claimed to be satisfied (55%) or very satisfied (22%) with the performance of their portfolio companies during 2011.
- Only 6% admitted to any feeling of dissatisfaction with portfolio performance (none of these were German funds).
- The number of covenant breaches continued to decrease in 2011 – 78% of funds either had no material issues or these were limited to less than 10% of their portfolio companies.
- Only 17% reported covenant breaches in more than 10% of their portfolio companies – a decrease from 29% in the previous year and 43% at the height of the 2009 crisis.

Fig. 8 Level of satisfaction with the overall development of portfolio companies

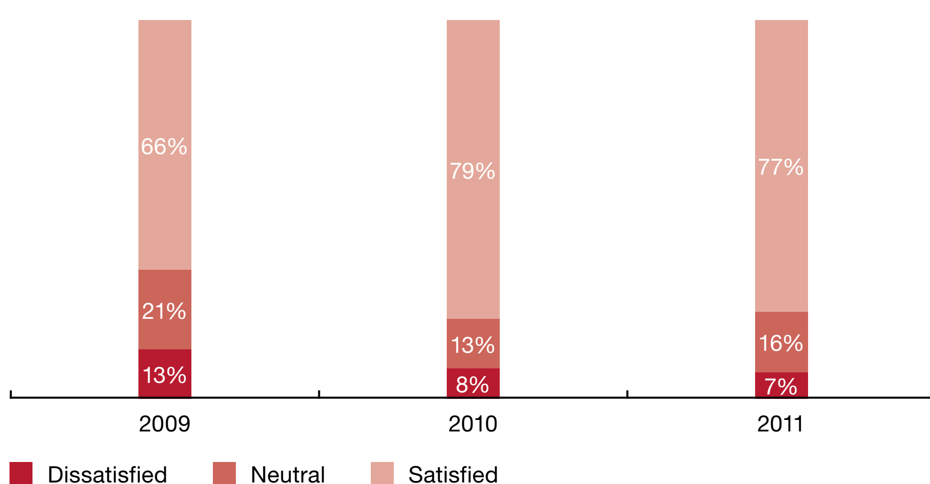


Fig. 9 Level of satisfaction with the overall development of portfolio companies 2011

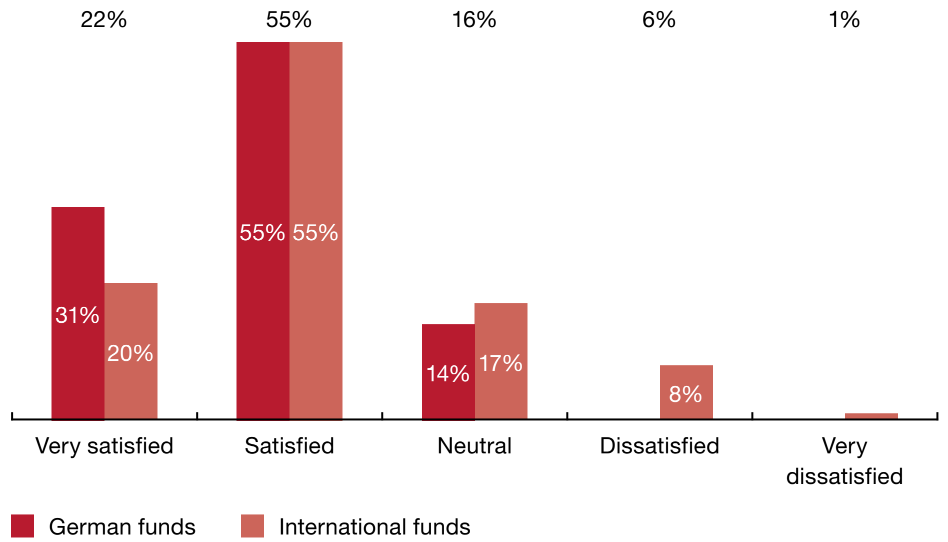


Fig. 10 Percentage of portfolio companies which experienced bank convenant breaches

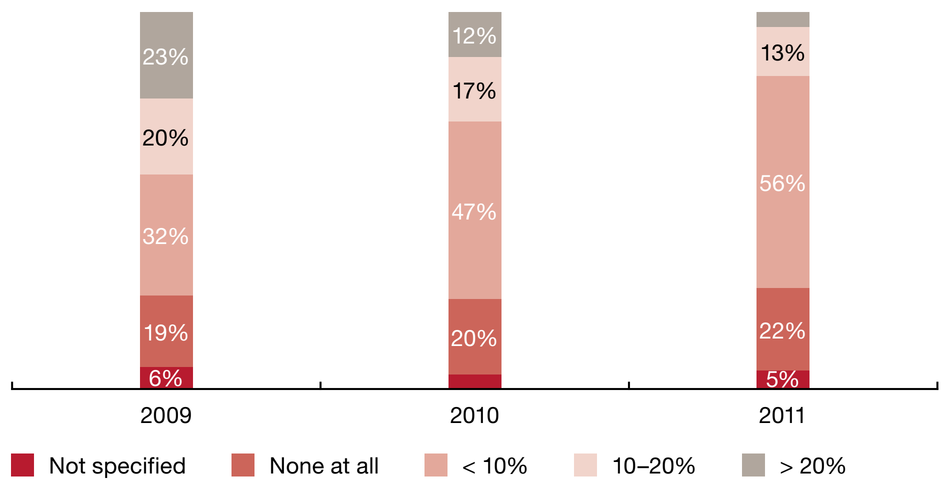
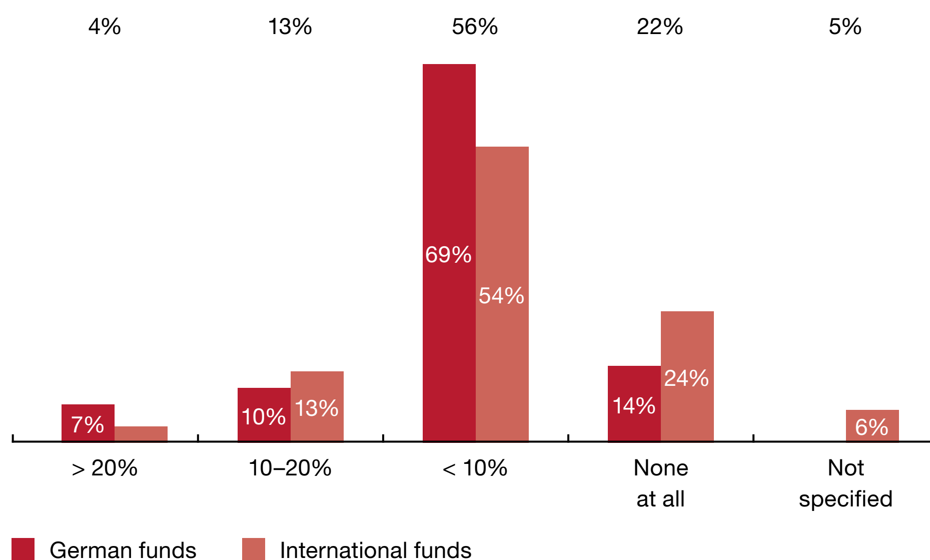


Fig. 11 Percentage of portfolio companies which experienced bank convenant breaches 2011



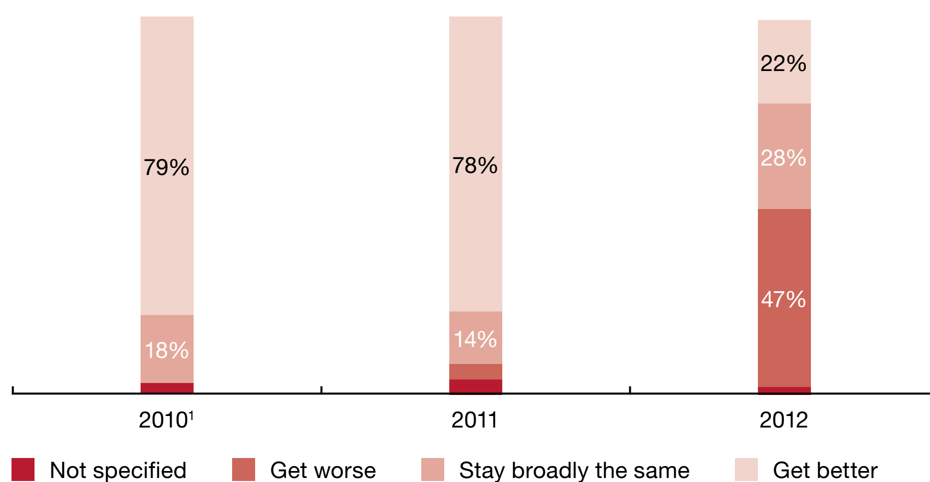
2 Outlook and opportunities

Though it is always difficult to make accurate predictions, we asked respondents about their expectations for the future.

European deal market for private equity

- 47% of respondents expect the deals market to deteriorate compared to 2011, whereas only 22% expect an improvement.

Fig. 12 Expected European deal market development



[1] German market only.

Fig. 13 Expected European deal market development 2012

New investment and exit activity in 2012

- Despite a more pessimistic market outlook, 46% of respondents expect to increase the number of new investments and 37% expect to make more exits compared to 2011.
- Only 15% expect to see a decrease in new investment activity, with 18% anticipating fewer exits in 2012.

Fig. 14 Expected number of new investments in 2012 compared to 2011

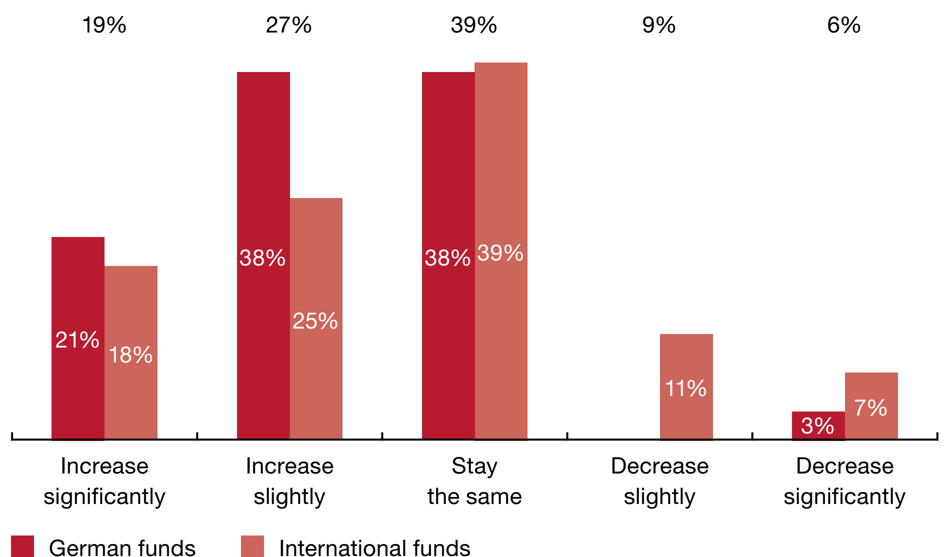
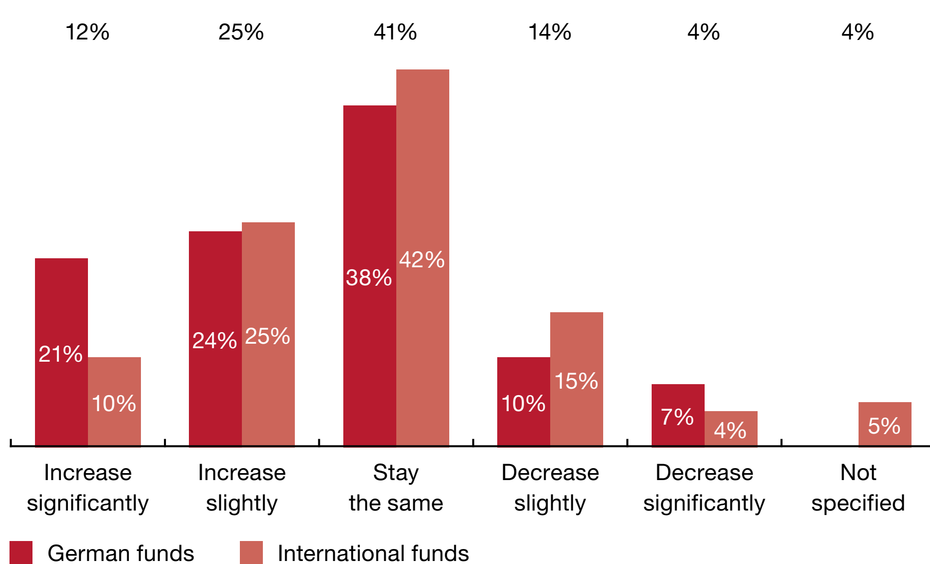


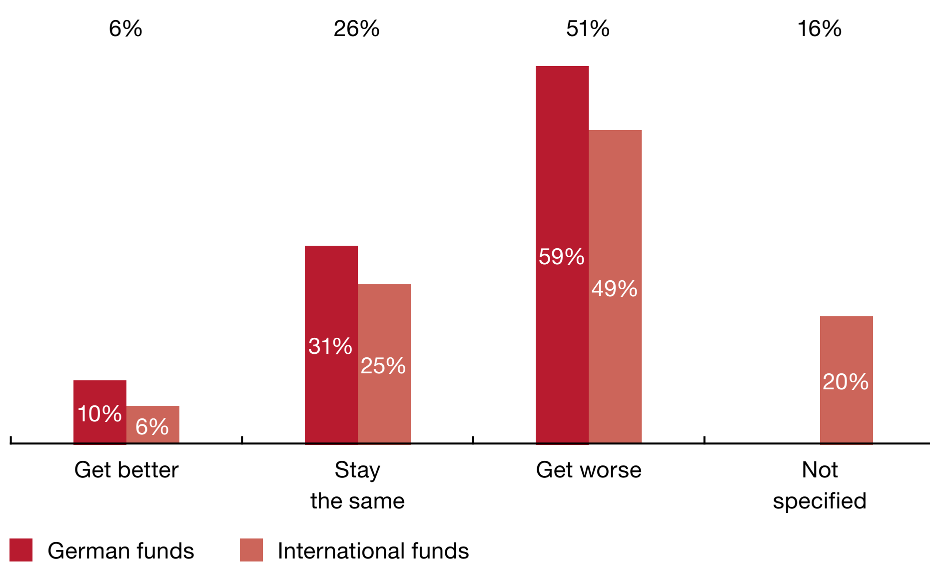
Fig. 15 Expected number of exits in 2012 compared to 2011



Expected financing conditions in 2012

- 51% expect the availability of debt finance to worsen in 2012, with only 6% anticipating an improvement.

Fig. 16 Expectations for availability of credit in 2012 compared to 2011



Expected performance of portfolio companies in 2012

- While international funds anticipate a trend similar to that of 2011, German funds expect a small uptick in covenant problems – only 10% of participants expect no breaches within their portfolios.

Fig. 17 Percentage of portfolio companies expected to break one or more bank covenants

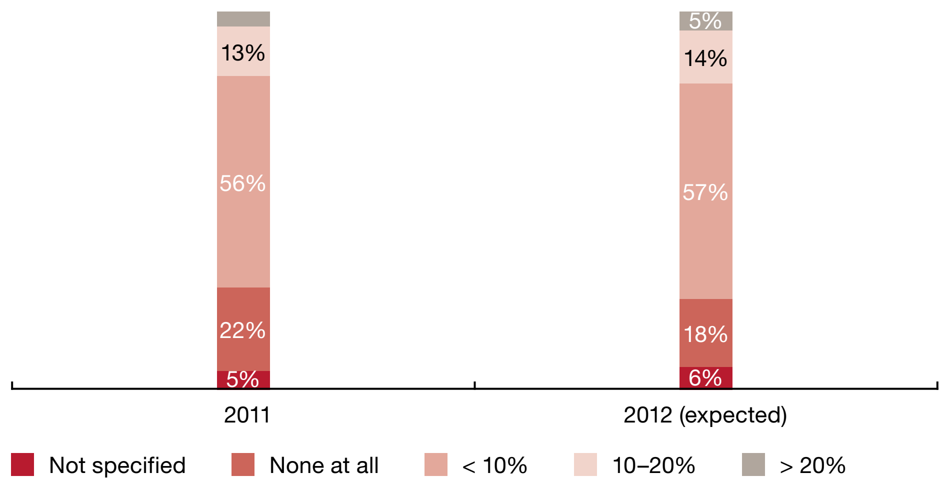
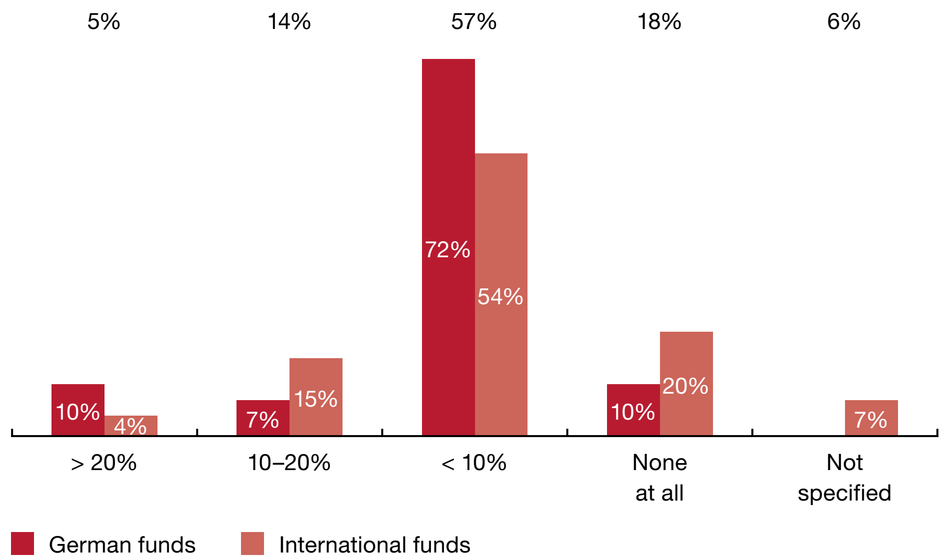


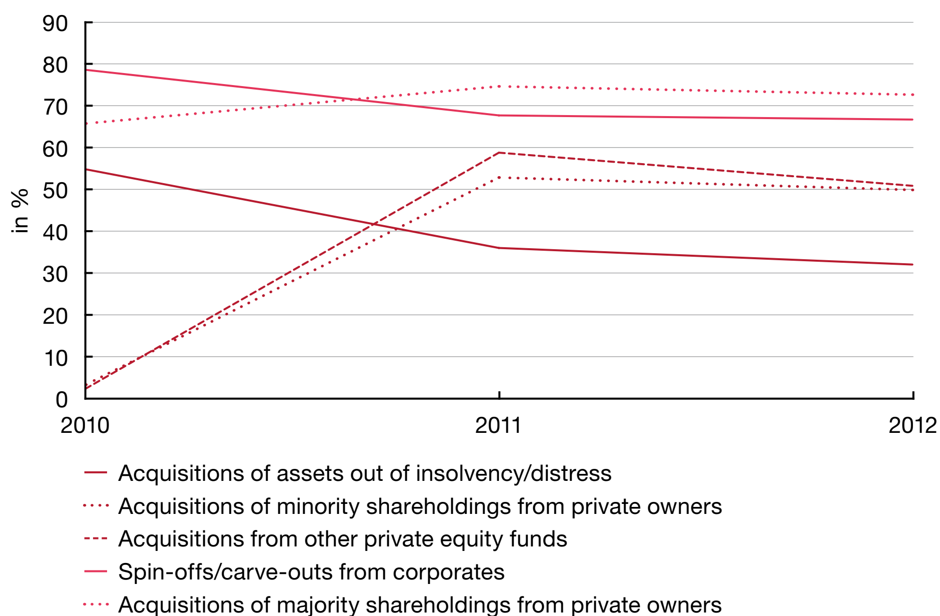
Fig. 18 Percentage of portfolio companies expected to break one or more bank convenants



Deal origination

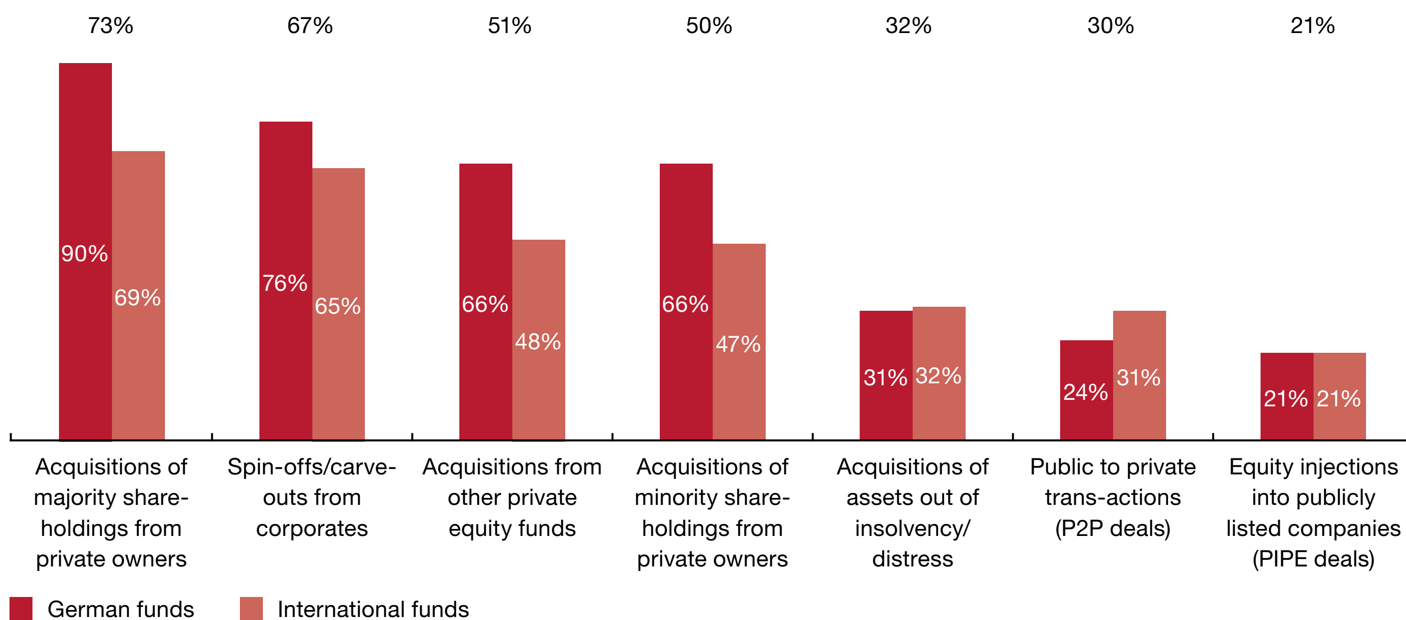
- As in previous years, the most popular sources of new deals are expected to be acquisitions of majority shareholdings from private owners (73%) and spin-offs/carve-outs from corporations (67%).
- Secondary buyouts will continue to present opportunities (51% in total) – particularly for German funds (66%).
- German funds are also more likely to make acquisitions of minority shareholdings (66%) compared to international funds (47%).

Fig. 19 Top five expected sources of new deal opportunities



Multiple answers were permitted.

Fig. 20 Expected sources of new deal opportunities 2012

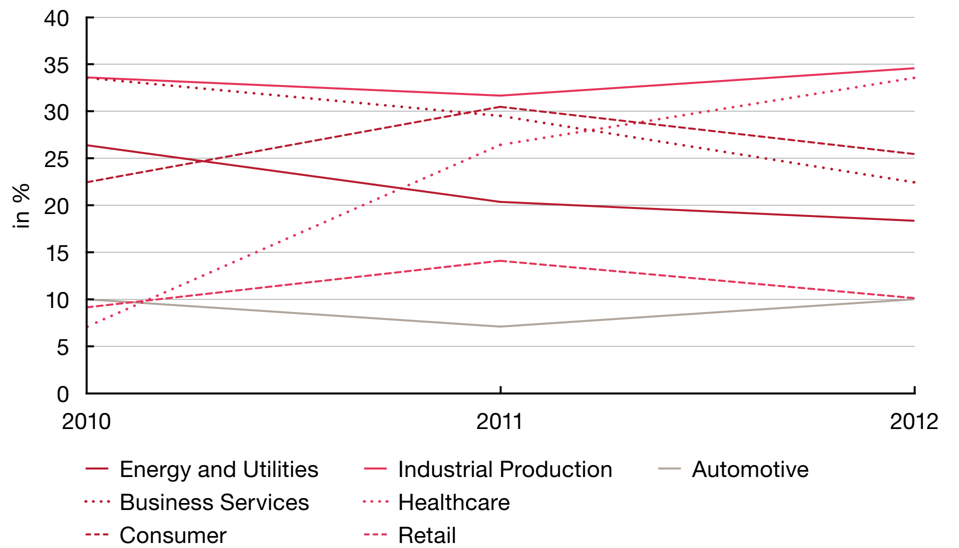


Multiple answers were permitted.

Target industries

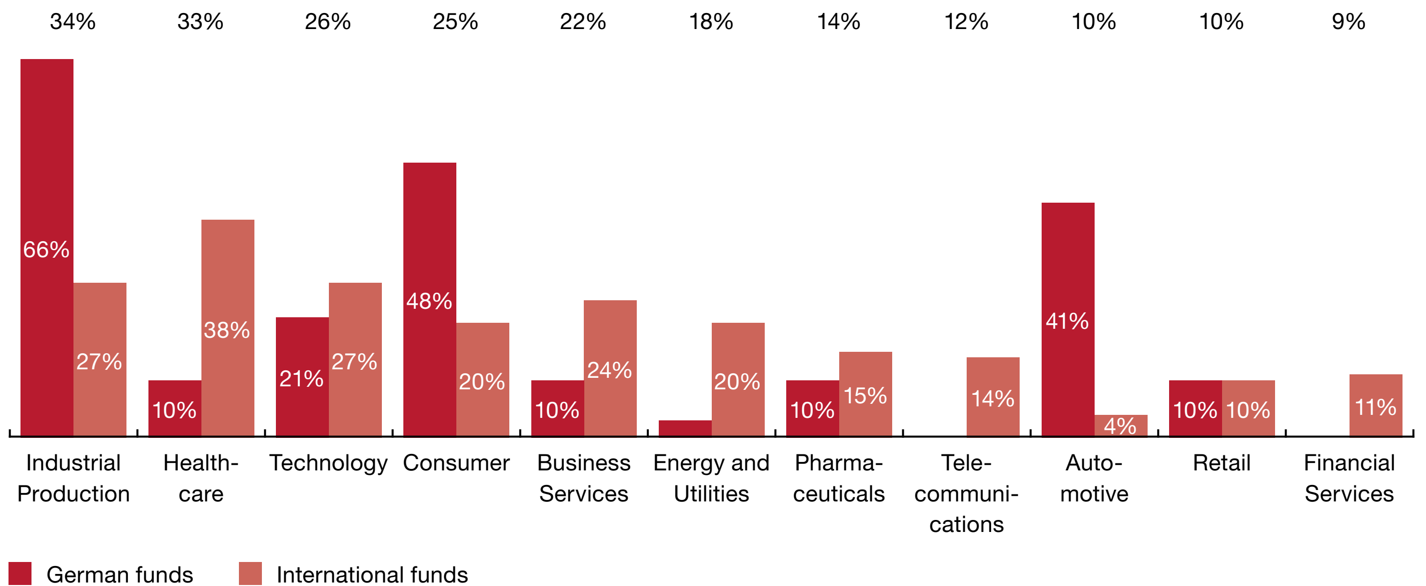
- Healthcare was named by 38% of international funds as an attractive target industry – over 10 percentage points more than any other sector; technology and industrial production (both 27%) were also popular.
- While only 10% of German funds were keen on healthcare, an overwhelming 66% of them said they wanted to invest in industrial production, with 48% aiming for the consumer sector and 41% for automotive sector.
- In contrast to the German funds, only 4% of international funds show interest in the automotive sector.

Fig. 21 Expected target industries for future investments



Multiple answers were permitted.

Fig. 22 Expected target industries for future investments

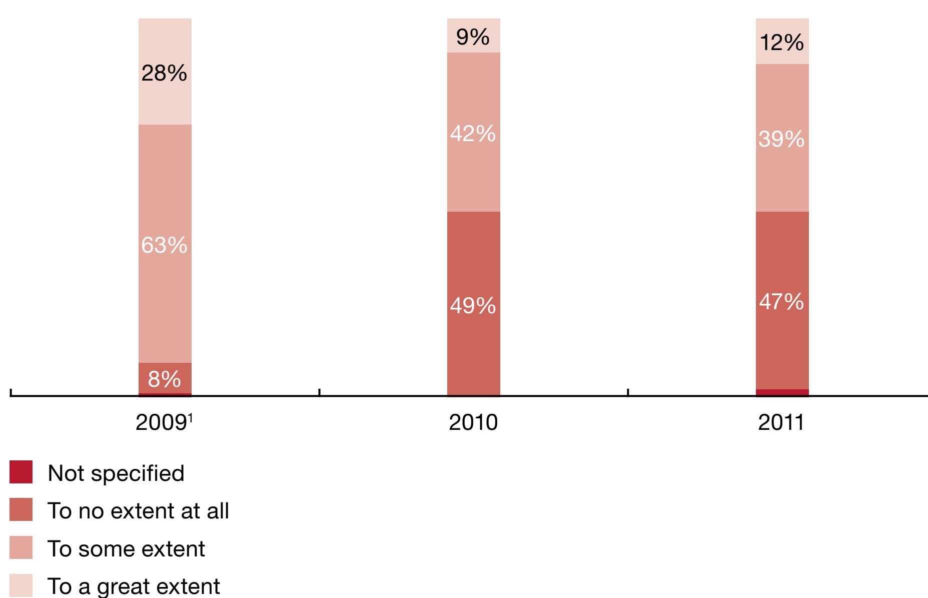


Multiple answers were permitted.

Business model

- Only 12% of funds say that they have changed their business model "to a great extent" since the 2008/09 financial crisis.
- 47% thought no changes had been made at all, though another 39% admitted to some change.
- These results differ dramatically from the answers given in 2009, when only 8% expected to make no changes to their business model.
- The most common changes made were once again more active portfolio management (89%) and less use of leverage or financial engineering (69%), while 41% of funds – mainly international – pointed to more co-operations with strategic investors.

Fig. 23 Extent of business model change since the financial crisis



[1] 2009 values represent expected changes, 2010 and 2011 actual changes.

Fig. 24 Extent of business model change since the financial crisis 2011

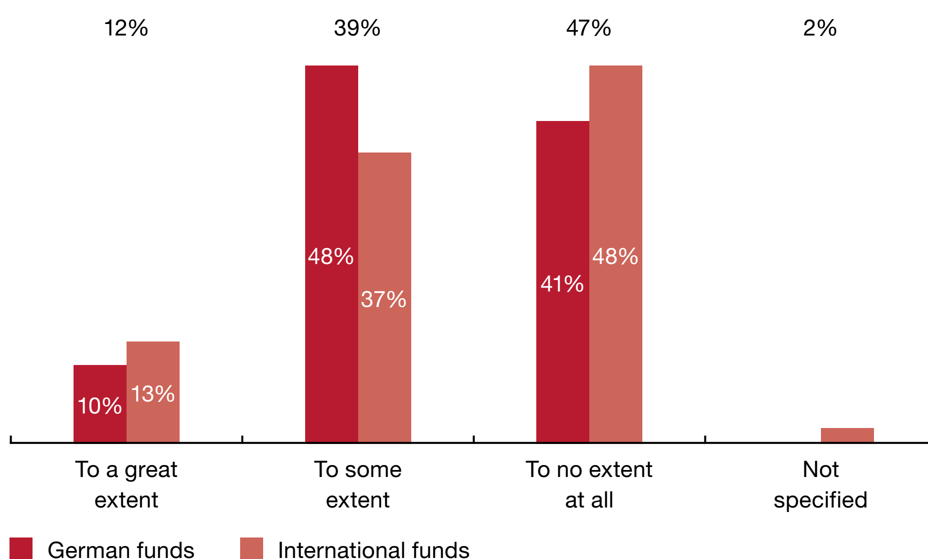
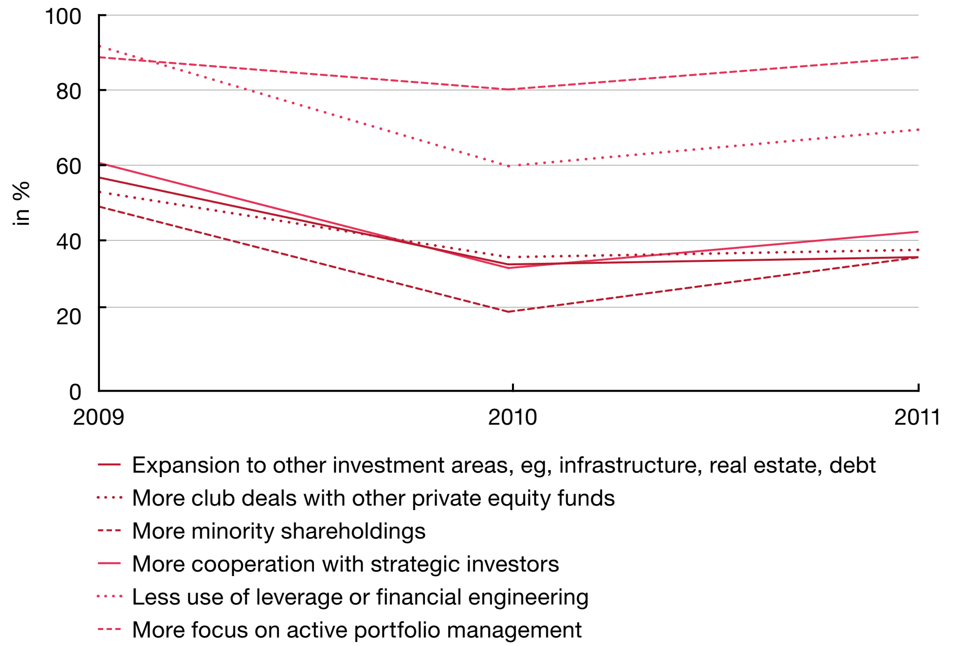
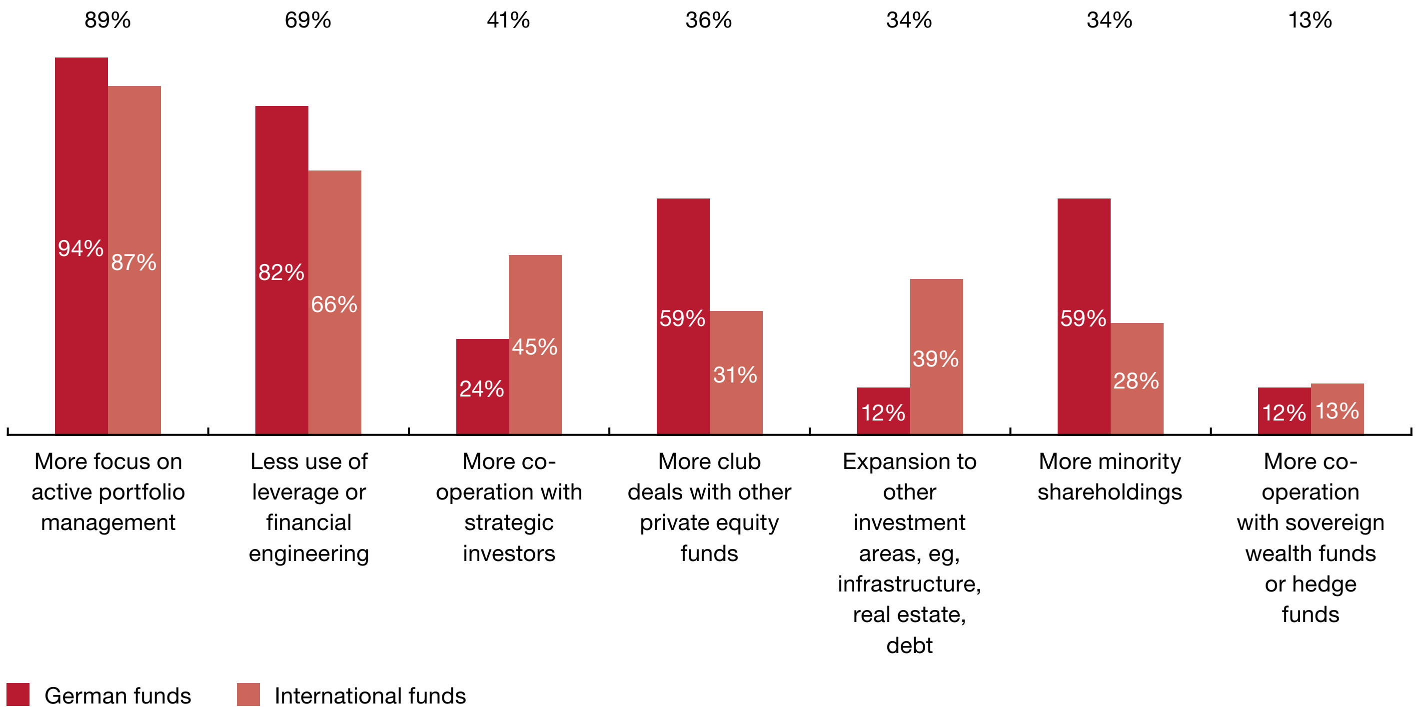


Fig. 25 Most common changes to the business model since the financial crisis



Multiple answers were permitted.

Fig. 26 Most common changes to the business model since the financial crisis



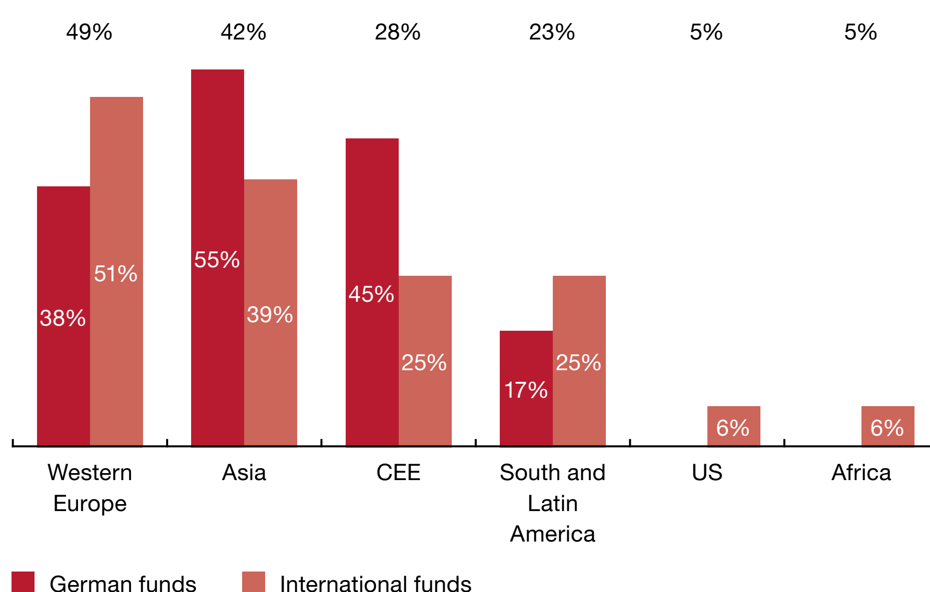
Multiple answers were permitted.

3 International investment trends

As part of our annual barometer of private equity trends, we asked participating funds to name what they consider the top regions and countries for private equity investments in the future.

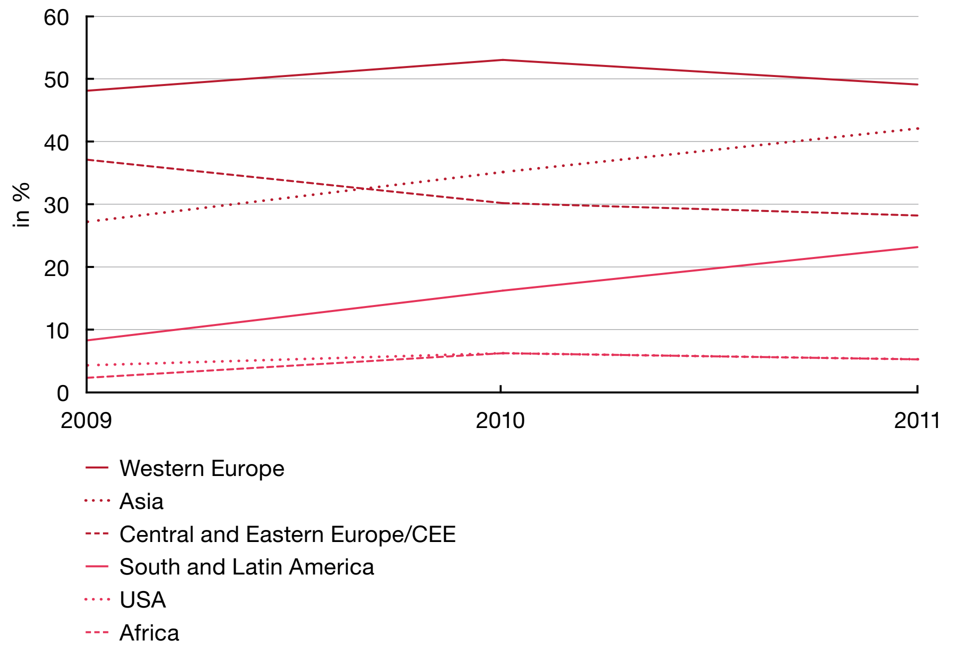
- Only half of the funds, which are predominantly headquartered in Western Europe, continue to see their home market as the most attractive region for future investment.
- Specifically, Germany and the four Nordic countries are seen as the destinations most likely to attract private equity investment in Western Europe.
- 39% of international funds now view Asia as an attractive region. International funds consider investments in Latin America and Central & Eastern Europe (CEE) as equally attractive (25% each).
- Within CEE, Turkey and Poland are considered the most popular investment locations, with Brazil cited as the main country of interest in Latin America.
- A much higher proportion of German funds view CEE as attractive (45%). Asia (55%) also scores highly, though only 17% of German funds are also considering Latin America.
- Despite this, none of the German funds plan to open new offices outside Europe, whereas 25% of international funds intend to open new offices in the next five years – mainly in Asia and CEE.
- The US is no longer viewed as an attractive option by most European-based funds (5% overall) and Africa is not yet seen as a plausible option by the vast majority (also 5%).

Fig. 27 Expected attractiveness of regions for private equity funds over the next five years



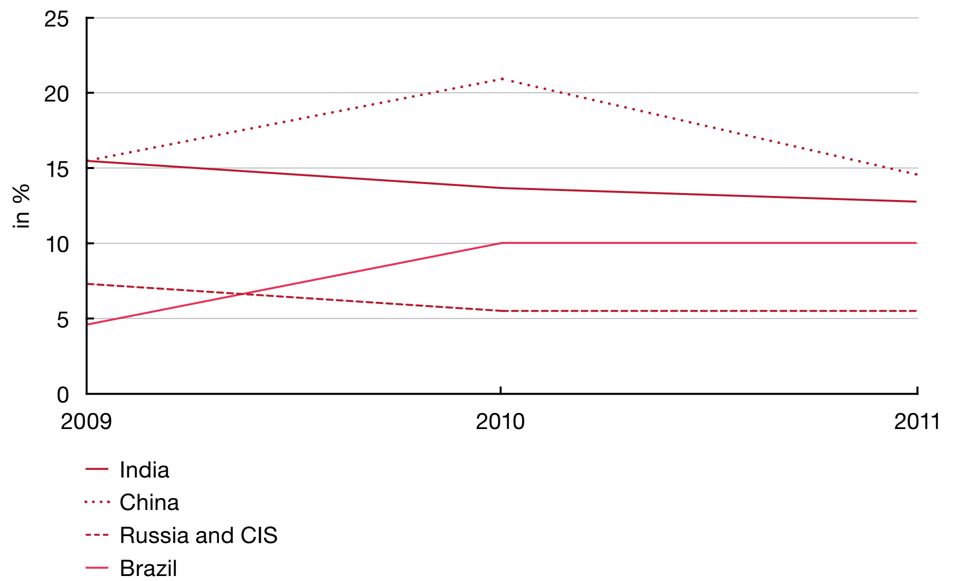
Multiple answers were permitted.

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



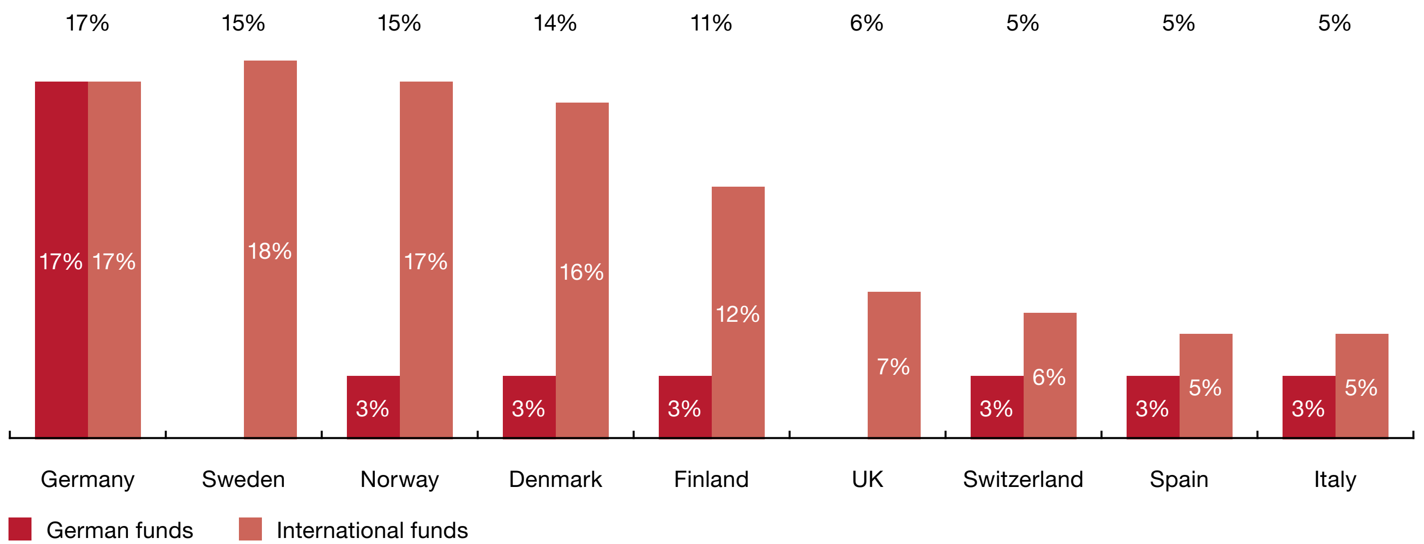
Multiple answers were permitted.

Fig. 29 Expected attractiveness of BRIC economies for private equity funds over the next five years



Multiple answers were permitted.

Fig. 30 Expected attractiveness of Western European countries for private equity funds over the next five years



Multiple answers were permitted.

Fig. 31 Proportion of private equity funds that plan to open new offices in the next five years

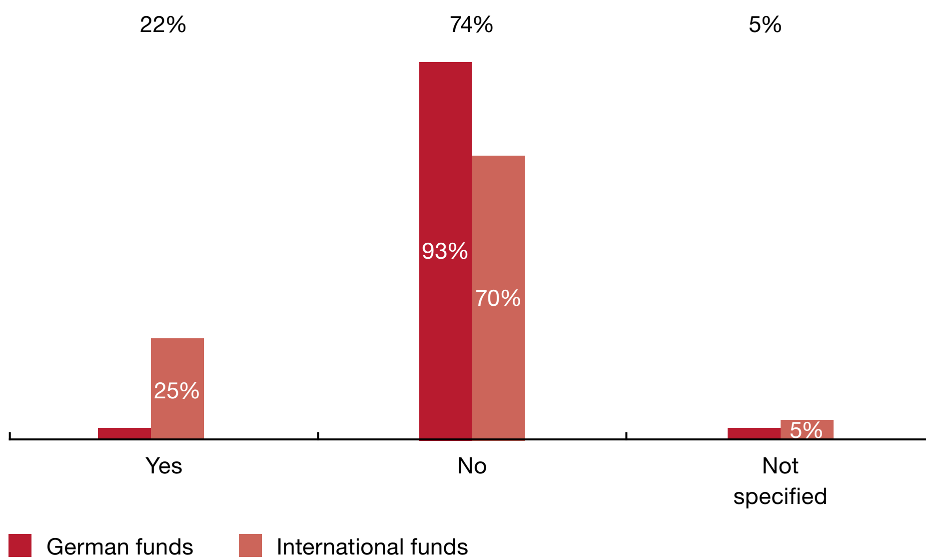
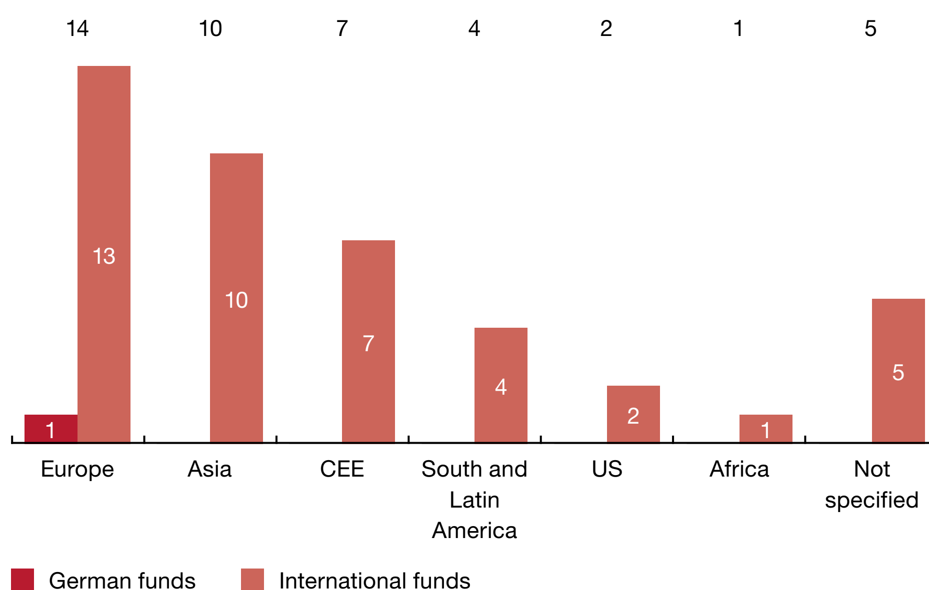


Fig. 32 Favoured regions for private equity funds who plan to open new offices (no.)



Multiple answers were permitted.

The most popular countries cited by respondents were: Turkey and Singapore (four each), followed by Switzerland (three).

4 Germany

We also asked the survey participants to assess Germany's attractiveness as an investment destination for private equity in comparison to other locations.

- 58% of respondents view Germany as an attractive location for private equity investment in the next five years – this compares to 52% last year and only 22% back in 2007.
- Less than 10% of funds now have a negative view of Germany, compared to 36% five years ago.
- 80 of the 142 international funds (56%) already have investments in Germany – of these, 75 (94%) intend to continue investing there and 39 (54%) plan to increase their allocation of funds to the country. Only 3 (4%) anticipate a decrease in their German engagement.
- Of the remaining 62 funds not currently investing in Germany, 23 (37%) want to invest there within the next five years.

Fig. 33 Relative attractiveness of Germany for private equity funds in next five years

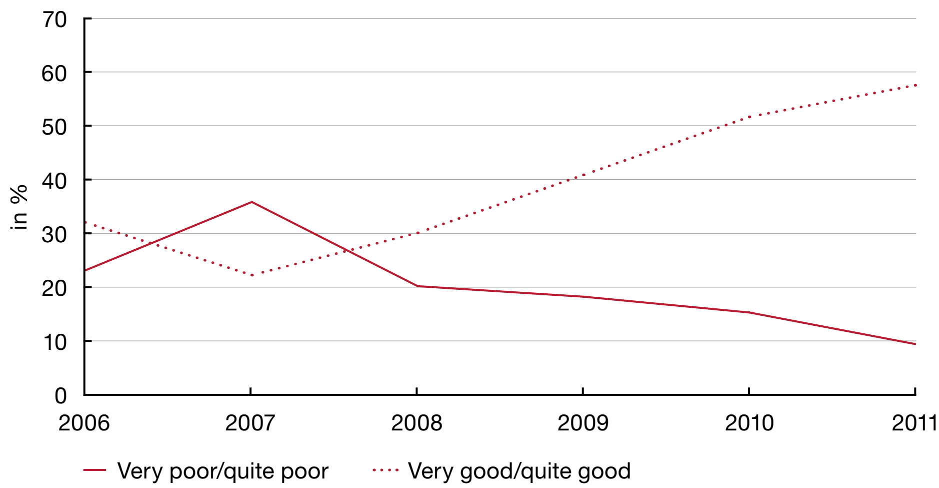


Fig. 34 Relative attractiveness of Germany for private equity funds in next five years

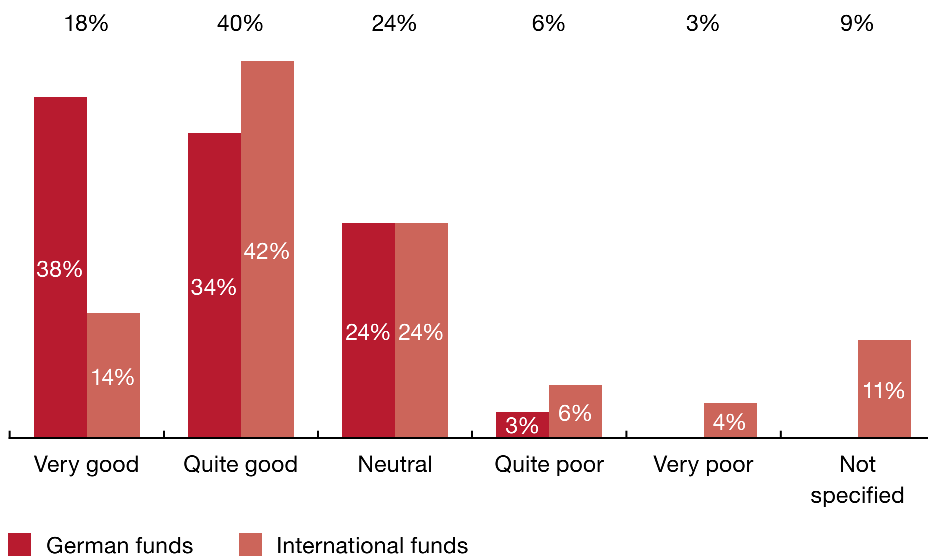


Fig. 35 Proportion of international funds that currently have German portfolio companies

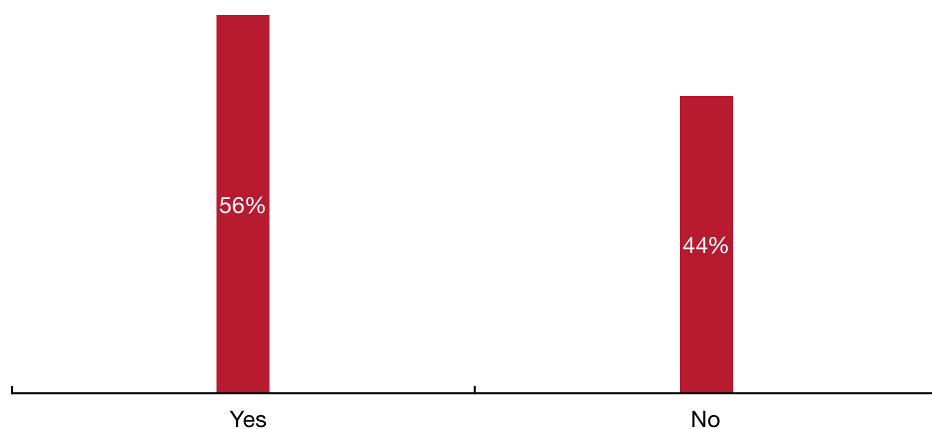


Fig. 36 Proportion of international funds with German portfolio companies that plan to continue making investments in Germany

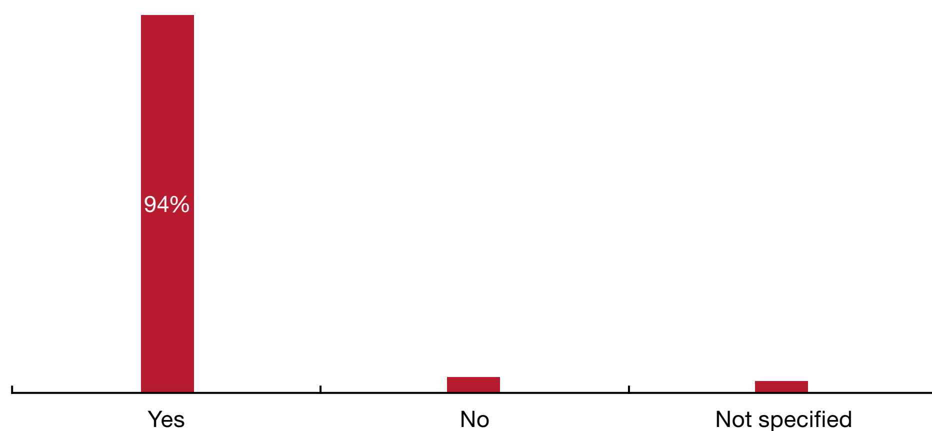


Fig. 37 Expected development of international funds' assets allocated to German investments

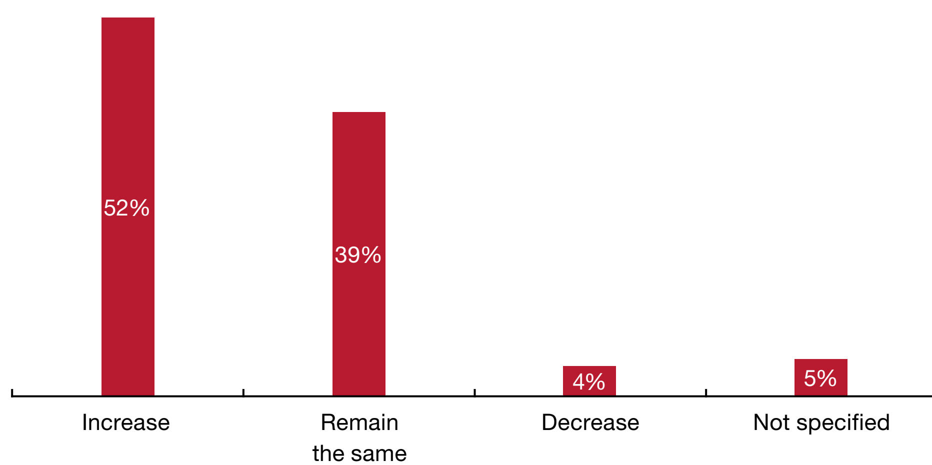
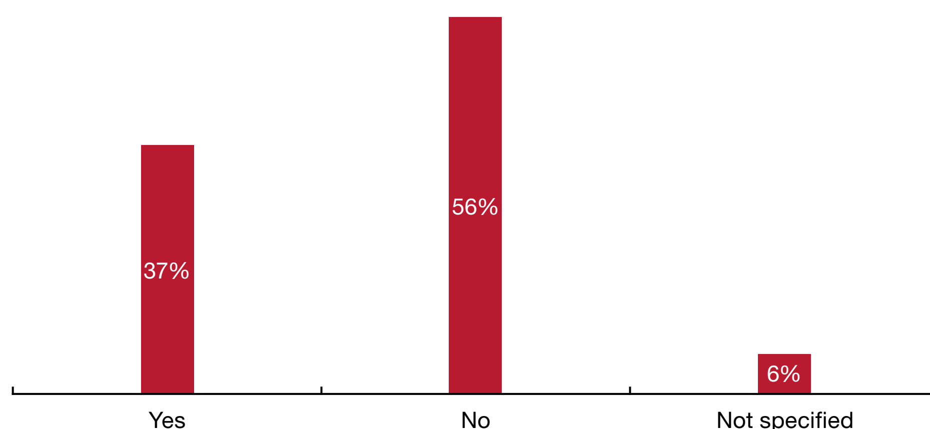


Fig. 38 Proportion of international funds without current investments in Germany that plan to make future investments there



5 Emerging issues: regulation and sustainability

In our survey, we asked interviewees to assess the impact of the following emerging issues on their organisations:

1. the Alternative Investment Fund Managers (AIFM) Directive and the Dodd-Frank Act;
2. sustainability (i.e. environmental, social and governance) issues; and
3. implementation of the United Nations Principles for Responsible Investment (UN PRI).

AIFM Directive and Dodd-Frank Act

- Only 12% of funds expected to be impacted "to a great extent" by new regulation such as the EU's AIFM Directive or the US Dodd-Frank Act, though a further 52% believed there would be some impact – this represents a slight decrease since our last study.
- 30% believe there will be no noticeable impact at all (an increase from 26% last year).
- The main impact is identified as increased costs – such as expenses incurred by the management company (82%), recruitment of staff to handle compliance (52%) and increased costs in portfolio companies (45%).
- However, 50% admitted that they also feared restrictions in their fundraising activities.

Fig. 39 Expected impact on funds of AIFM Directive/Dodd-Frank Act

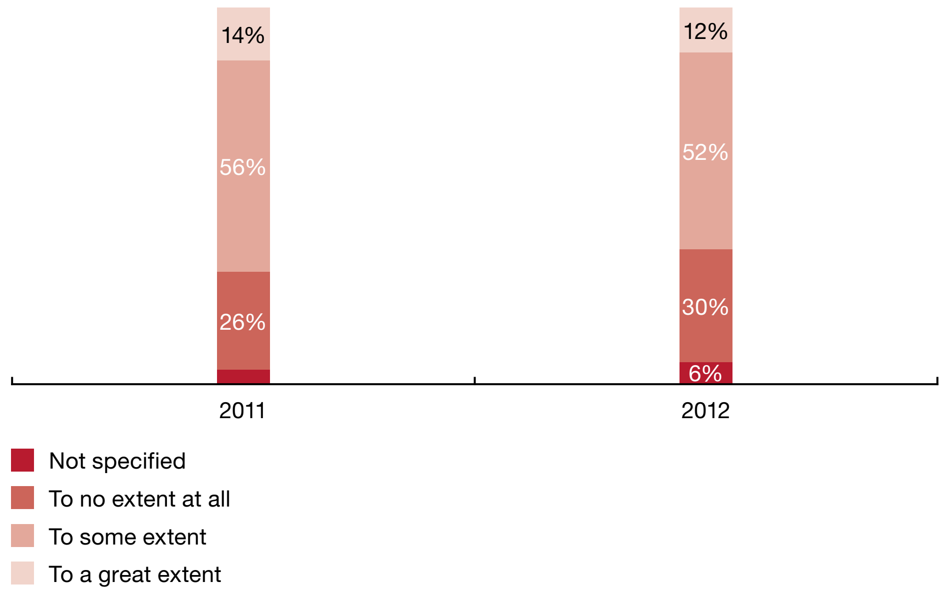


Fig. 40 Expected impact on funds of AIFM Directive/Dodd-Frank Act 2012

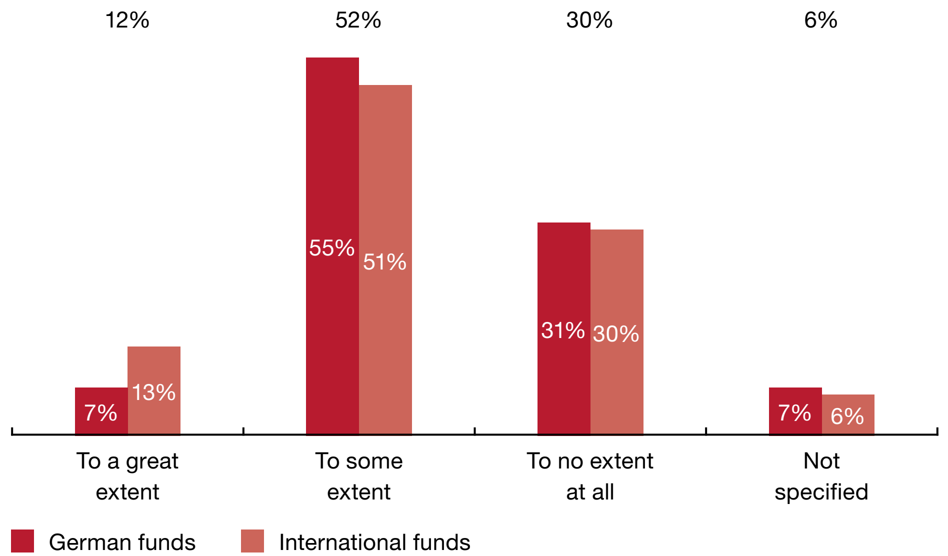
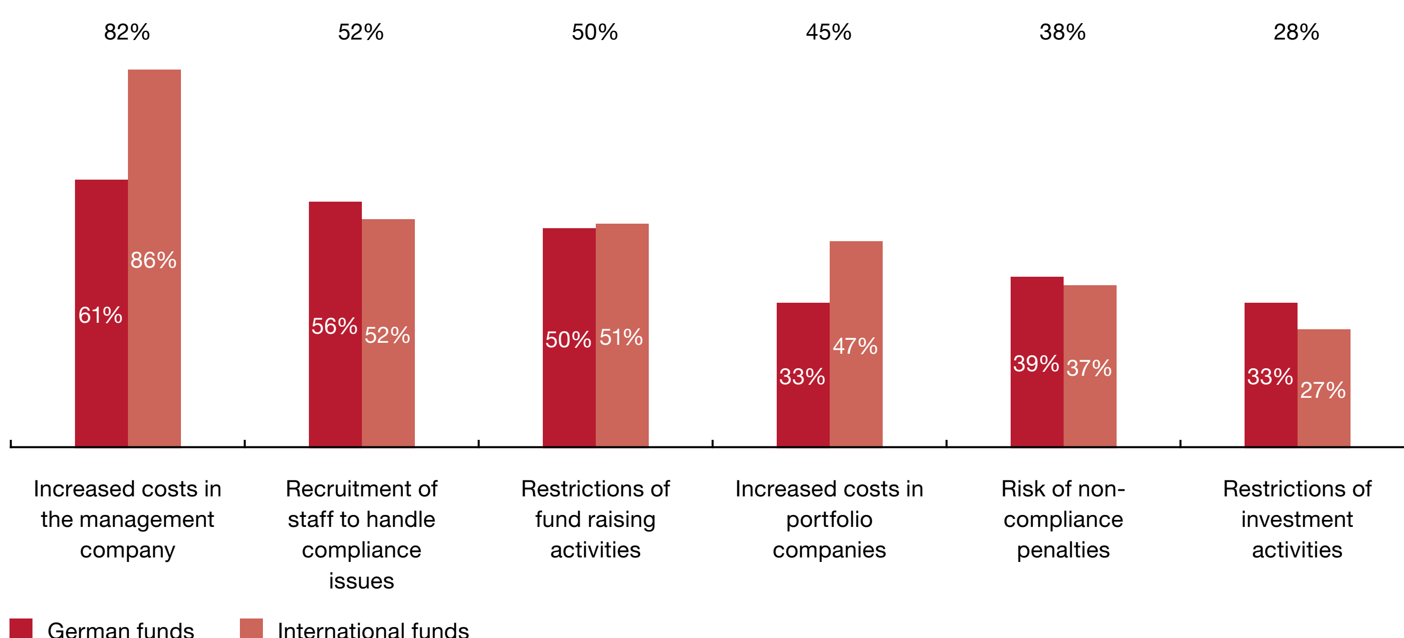


Fig. 41 Main expected impacts of AIFM Directive/Dodd-Frank Act



Multiple answers were permitted.

Sustainability/environmental, social and governance (ESG) issues

- 40% of funds placed a relatively high level of importance on sustainability, an increase from 33% last year.
- Only 13% said they place a low importance on sustainability, down from 25% a year ago.
- 20% of international funds believe that the importance put on sustainability by their investors (LPs) increased significantly in 2011, while a further 27% noticed a slight increase in emphasis. Only 2% thought the focus had decreased.
- 42% of international funds have already performed an assessment of ESG risks in their portfolio; a further 11% plan to do so. In contrast, only 17% of German funds have performed such an assessment so far – indeed, the majority (66%) do not currently plan to carry out an ESG assessment.

Fig. 42 Importance placed on sustainability by private equity funds (GPs)

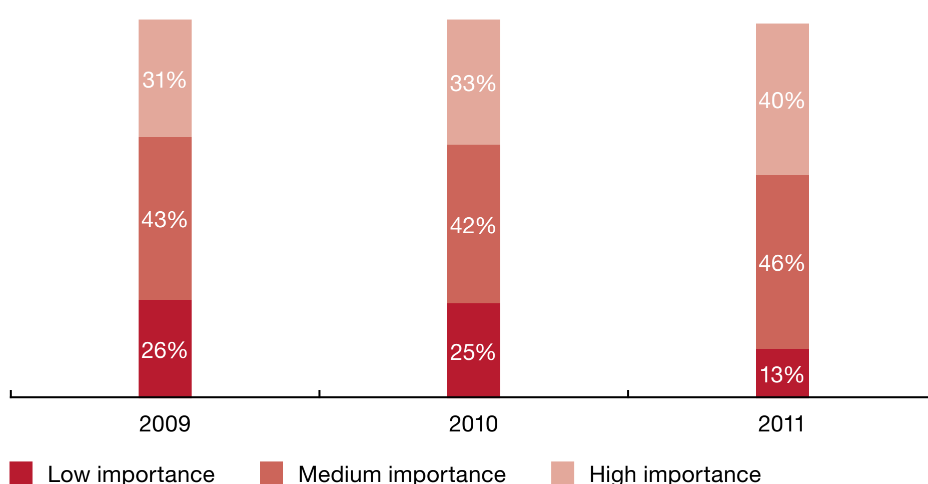


Fig. 43 Importance placed on sustainability by fund investors (LPs) 2011

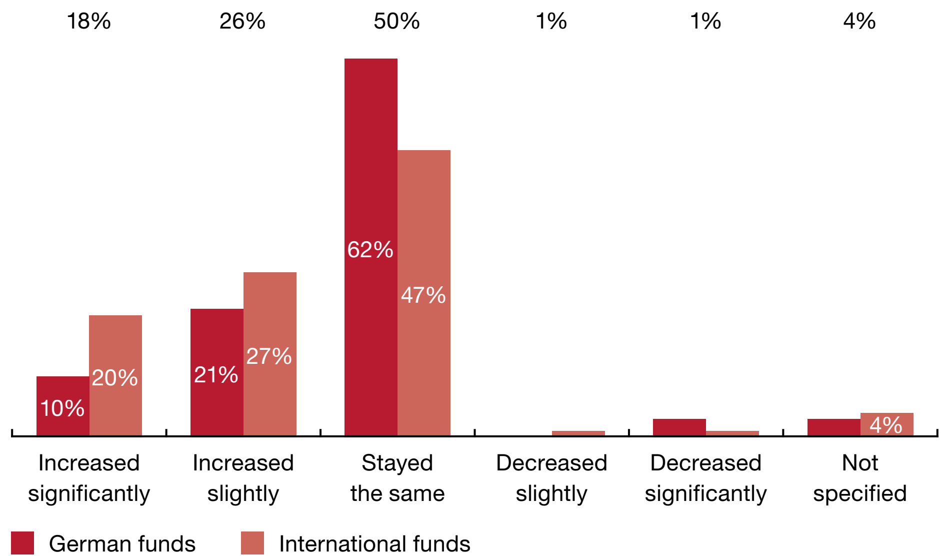
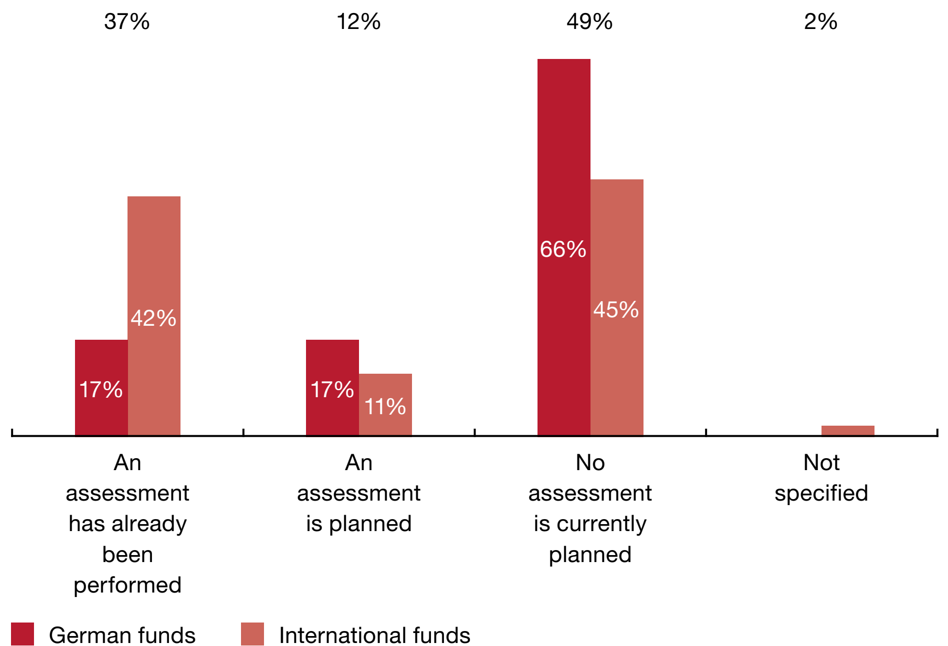


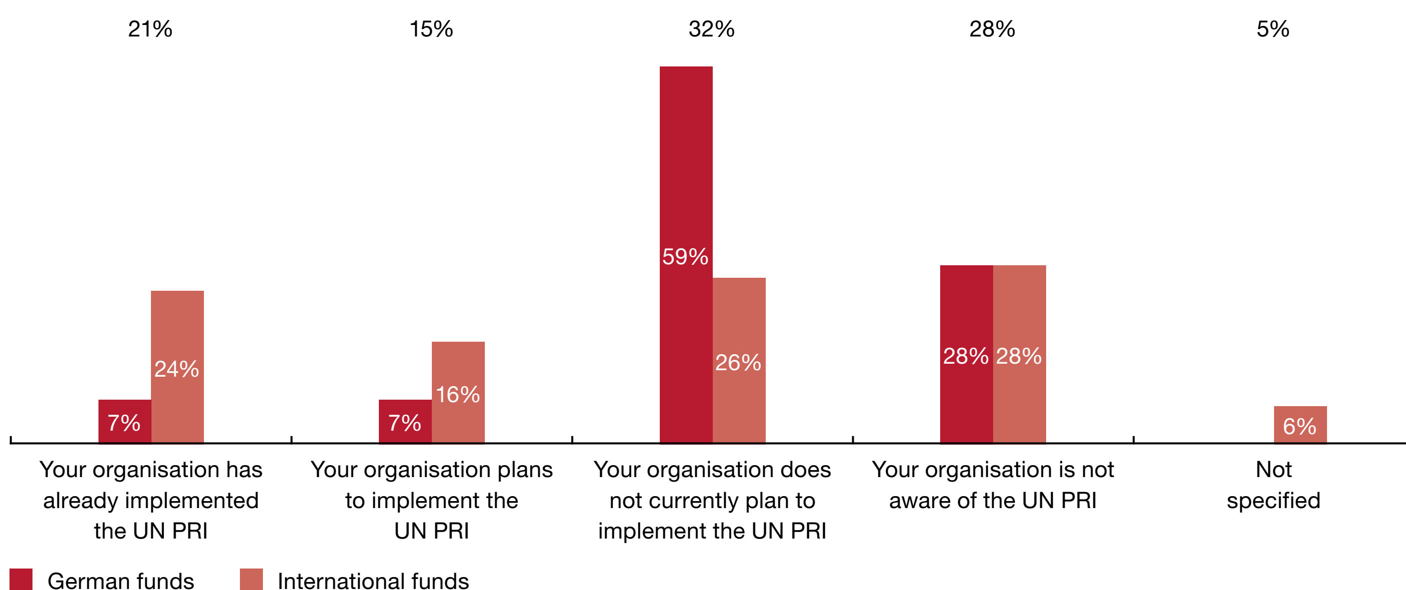
Fig. 44 Assessments of sustainability/ESG issues within portfolio



United Nations Principles of Responsible Investment

- 24% of international funds state that they have already implemented the United Nations' Principles for Responsible Investment (UN PRI), with a further 16% planning to do so. Only 14% of German funds have either implemented or plan to implement the principles.
- 28% of both the German and international funds admitted that they were not aware of the UN PRI. A further 59% of German funds and 26% of international funds have no current plans to implement the principles.

Fig. 45 Implementation of UN PRI guidelines



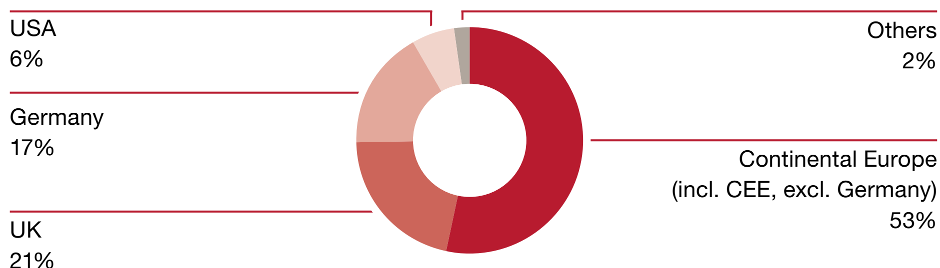
Note: The percentages in the tables and graphs throughout this report may not add up to 100% due to rounding.

6 Background information and methodology

For this year's survey, we interviewed 171 top management representatives of international private equity funds. 53% of them were headquartered in Continental Europe (excluding Germany but including CEE), 21% had their headquarters in the UK, 17% were based in Germany and 6% in the US. In this survey, "international funds" refers to all funds whose headquarters are located outside of Germany.

Fig. 46 Respondents by headquarters

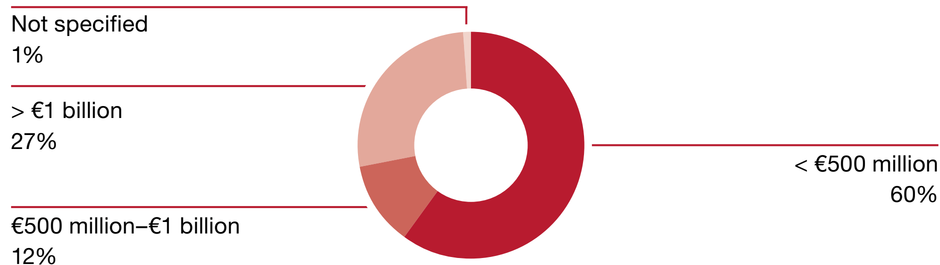
n = 171



The fund volume of surveyed private equity houses was consistent with the previous years. At the time of the survey, the majority of the survey participants (60%) had up to €500 million capital under management, 12% of them manage funds of between €500 million and €1 billion, and a further 27% of them had over €1 billion capital under management.

Fig. 47 Respondents by total global fund volume (capital under management)

n = 171



Contacts

Dr Peter Bartels
Middel Market Leader
Tel: +49 40 6378-2170
peter.bartels@de.pwc.com

Richard Burton
Private Equity Leader
Tel: +49 69 9585-1251
richard.burton@de.pwc.com

Dr Derik Evertz
Business Recovery Services Leader
Tel: +49 69 9585-5548
derik.evertz@de.pwc.com

Andreas Mackenstedt
Global Valuations Leader
Tel: +49 69 9585-5704
andreas.mackenstedt@de.pwc.com

Hans-Martin Eckstein
Global M&A Tax Leader
Tel: +49 69 9585-6382
hm.eckstein@de.pwc.com

Martin Scholich
Advisory Leader
Tel: +49 69 9585-5600
martin.scholich@de.pwc.com

Dr Ulrich Störk
Private Equity Audit Leader
Tel: +49 69 9585-1271
ulrich.stoerk@de.pwc.com

Volker Strack
Transactions Leader
Tel: +49 69 9585-1297
volker.strack@de.pwc.com

Werner Suhl
M&A/Corporate Finance Leader
Tel: +49 69 9585-5650
werner.suhl@de.pwc.com

About us
Our clients face diverse challenges, strive to put new ideas into practice and seek expert advice. They turn to us for comprehensive support and practical solutions that deliver maximum value. Whether for a global player, a family business or a public institution, we leverage all of our assets: experience, industry knowledge, high standards of quality, commitment to innovation and the resources of our expert network in over 158 countries. Building a trusting and cooperative relationship with our clients is particularly important to us – the better we know and understand our clients' needs, the more effectively we can support them.

PwC. 8,900 dedicated people at 28 locations. €1.45 billion in turnover. The leading auditing and consulting firm in Germany.

www.pwc.de