PRIVATE EQUITY MARKET REPORT
AUGUST 2018

New deal and exit activity was solid in the first half of 2018. Fundraising during this period was robust, albeit below levels in the second half of 2017. Competition for deals and the price environment remains high which means that managers have to carefully work out value creation plans for new deals.

KEY TAKE-AWAY

- **Global buyout deal volume in H1 2018 reached USD 332bn (+14% vs. H2 2017)**
- **Exit volumes in H1 2018 were 7% up compared to H2 2017 to USD 360bn**
- **Global private equity fundraising volume in H1 2018 was USD 164bn (-19% vs. H2 2017)**

GLOBAL GROWTH

The MSCI World Net Total Return Index (USD) increased by 0.4% in H1 2018 (+10.6% in H2 2017). Real GDP in North America in 2018 is expected to grow by ~2.8%. In Europe and the Asia & Pacific region, the GDP is expected to grow by about 2.4% and 5.5% respectively.

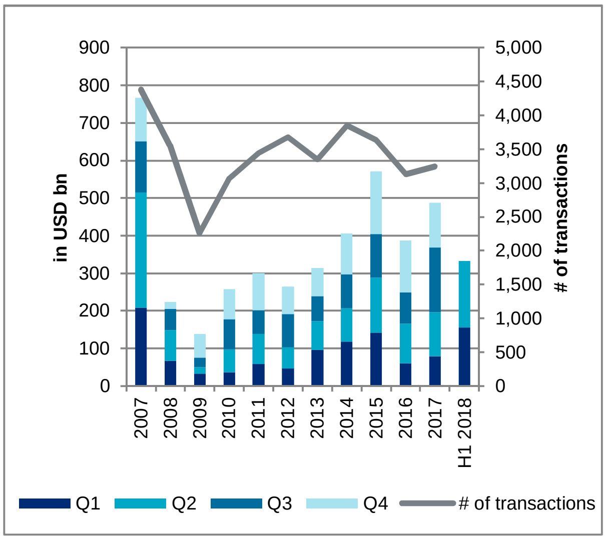
NEW DEAL VOLUME INCREASED

In H1 2018, global buyout activity was driven by fewer, but slightly large deals compared to H2 2017. While the number of announced transactions was slightly lower (-5%), volume increased by 14%. Chart [1] shows that the respective deal volume reached USD 332bn in H1 2018. Purchase prices of deals remained high and year-to-date average equity contributions were ~39% in the US and ~48% in Europe.

Buyout deal volume in North America over H1 2018 was 168bn (+37% vs. H2 2017). The number of deals was 2% lower compared to the second half of 2017 – indicating a larger average deal size in H1 2018. The largest deal in the first half of 2018 was the acquisition of Dr Pepper Snapple Group, an American soft drink company, for USD 27bn by Keurig Green Mountain – a company known for single-serve coffee brewers – owned by JAB, a globally active investment firm.

Transaction activity in H1 2018 measured by the number of deals in Europe remained solid, but was 6% lower than in H2 2017. Compared to H2 2017, the average deal size increased by 18% and overall deal volume stood at USD 104bn for the first half of 2018. The largest transaction in H1 2018 was the USD 13bn acquisition of Akzo Nobel’s specialty chemicals business by Carlyle Group and the Government of Singapore Investment Corporation.

[1] Announced global buyout deal volume by quarter



Source: Dealogic

Asian transaction volume reached USD 58bn in H1 2018, which is equal to 60% of the 2017 full year volume, but 13% lower than the H2 2017 volume. The decrease was only partially driven by slightly smaller transactions as the number of deals completed was down 11% versus the same period. A large consortium of domestic and international investors invested USD 14bn in Ant Small & Micro Financial Services Group, the Chinese fin-tech giant, in one of the largest financing rounds on record. It was the largest transaction in the region in H1 2018.

The announced buyout deal volume in the rest of the world reached USD 1.8bn in H1 2018.

EXIT ACTIVITY REMAINS SOLID

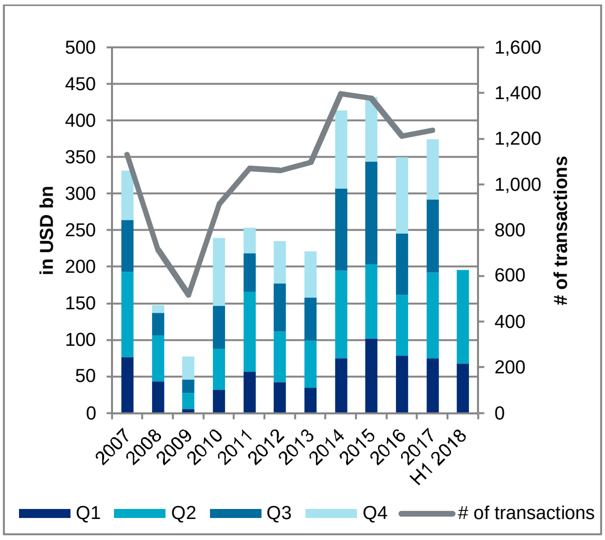
Global buyout exit volumes in H1 2018 were slightly up to USD 196bn (+7% vs. H2 2017) as shown in Chart [2]. On a global basis, the number of transactions was slightly lower in H1 2018 vs. H2 2017, while the average transaction size was larger. Announced exit volumes in H1 2018 compared to H2 2017 increased marginally in North America (+1%) and more strongly in Asia (+103%) and the rest of the world (+26%), but were down slightly in Europe (-5%).

The largest exit in North America was the USD 8.3bn sale of BMC Software, a technology company producing software and services that assist businesses in moving to digital operations, by the private equity firms Bain Capital and Golden Gate Capital to KKR.

The biggest exit in Europe in H1 2018 was the sale by Macquarie of Techem GmbH, a global market leader in the provision of heat and water sub-metering services, to Partners Group and a consortium of investors including Caisse de dépôt et placement du Québec, Ontario Teachers' Pension Plan and Techem GmbH's management for USD 5.4bn.

The largest disposal in Asia was the sale of Dalian Wanda Commercial Properties for USD 5.4bn, a leading Chinese mall operator, by a group of private individuals to an investor consortium led by Tencent Holding, a Chinese multinational investment holding conglomerate.

[2] Announced global buyout exit volume by quarter



Source: Dealogic

FUNDRAISING

According to Preqin, the amount of private equity capital raised globally in H1 2018 was USD 164bn (80% of the H2 2017 volume). Volumes were lower in North America and Asia / RoW, while higher in Europe. In North America, a total of USD 81bn was raised in H1 2018 (67% of the H2 2017 volume). The lower volume in North America was the result of fewer and smaller funds in the market. In Asia / RoW, the number of funds raising capital was much lower than in H2 2017 and – although the average fund size was slightly larger – resulted in USD 23bn raised in H1 2018 (54% of the H2 2017 volume). USD 61bn was raised in Europe in H1 2018, which is nearly 1.5 times the capital raised H2 2017. The average size of the funds in the market was materially larger. Across all regions, the fundraising environment continues to be strong with high amounts of dry powder available for new deals.

CREDIT MARKETS

S&P LCD figures show that US sponsored loan volumes for new buyout transactions and re-financings in H1 2018 reached USD 196bn (66% of the full year 2017 volume), while high yield bond volumes for sponsored transactions stood at USD 37bn (65% of the full year 2017). In Europe, sponsored leveraged loan volumes in H1 2018 totalled EUR 47bn (59% of the full year 2017). The European sponsored high yield bond transactions volume reached EUR 13bn (52% of the full year 2017).

In H1 2018, in the US as well as in Europe, buyout and refinancing activities were driving the volumes in credit markets. The continuation of accommodative monetary policy and an improving macro environment have lifted high yield bond transactions to higher volumes.

OUTLOOK

In the absence of a significant market disruption, we expect new deal activity to remain solid and that credit markets will continue to provide the required liquidity for new deals. Higher volatility in stock markets could have a negative impact on deal activity as well as increase pressure on valuations. For the time being however valuations are expected to remain high for quality businesses in the current competitive environment. Fund managers need to have a good grasp of operational improvements and strategic M&A to position portfolio companies for the future. In this high valuation environment, we expect fund managers to continue to sell mature businesses, resulting in substantial distributions for investors.

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MPM was established in early 2015 to integrate Mercer Investments' resources dedicated to private market investing, in particular related to the sub-asset classes of private equity, private debt, infrastructure and real estate. The operating history of MPM dates back, however, around 20 years. The groups combined in MPM provide asset class specific advisory and fiduciary services to more than 60 mandates around the world, including some of the world's largest investors in private markets.

MPM today oversees programs that represent around USD 20 billion. The MPM team has advised a number of clients for more than a decade – a testimony of our strong track record and a consistently high service level that we bring to each client assignment.

Over 50 investment professionals operate out of 10 offices in Europe, North America and Asia-Pacific. Our clients can rely on a leading, integrated global platform supported by superior systems and extensive market knowledge and research.

The interaction of our clients with MPM varies from investing in MPM funds-of-funds, full service implementation of segregated accounts or advisory services relating to a client-specific investment program.