NautaDutilh Belgium's Private Equity & Venture Capital Barometer Q2 2017

This is NautaDutilh Belgium's eleventh Private Equity & Venture Capital Barometer. After our spring 2014 Interim Report, we decided to survey, on a quarterly basis, a select group of private equity and venture capital players, asking about current and expected trends in their practice. This issue shares highlighted results from the second quarter of 2017 (Q2 2017).

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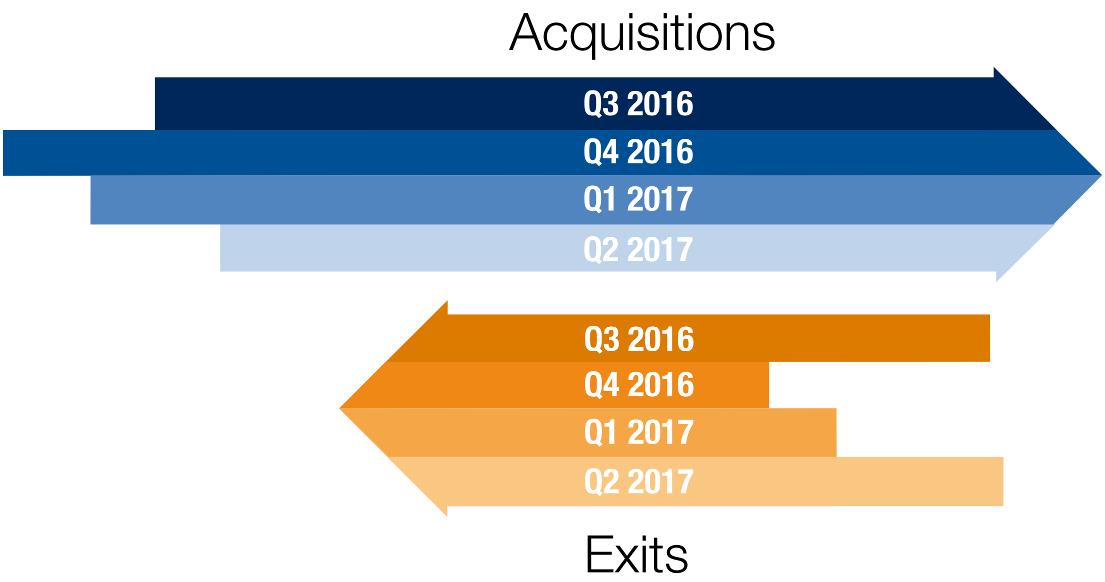
The Q1 2016 Barometer refers to NautaDutilh Belgium's sixth Private Equity & Venture Capital Barometer, available at
https://www.nautadutilh.com/siteassets/documents/nautadutilh-private-equity-barometer-belgium-q1-2016.pdf.
The Q2 2016 Barometer refers to NautaDutilh Belgium's seventh Private Equity & Venture Capital Barometer, available at
https://www.nautadutilh.com/siteassets/documents/barometerbelgiumq2_2016_a4.pdf
The Q3 2016 Barometer refers to NautaDutilh Belgium's eighth Private Equity & Venture Capital Barometer, available at
https://www.nautadutilh.com/siteassets/documents/brussels/barometerbelgiumq3_2016_a4.pdf
The Q4 2016 Barometer refers to NautaDutilh Belgium's ninth Private Equity & Venture Capital Barometer, available at
https://www.nautadutilh.com/globalassets/barometerbelgiumq4_2016_a4.pdf
The Q1 2017 Barometer refers to NautaDutilh Belgium's tenth Private Equity & Venture Capital Barometer, available at
https://www.nautadutilh.com/siteassets/documents/brussels/barometerbelgiumq1_2017_a4.pdf

Exits now account for 41% of reported transactions



PitchBook recently reported that private equity exits in North America and Europe are expected to drop by 24% this year.[1] However, according to a recent survey by E&Y, overall exit activity has risen 22% in value in 2017 compared to the same period last year, driven by more secondary buyouts and increased optimism on the IPO markets. According to E&Y, private equity firms announced 311 exits, valued at USD 102 billion, in the first four months of the year. In April, deals valued at USD 25 billion were announced, up 24% from last year.[2]

According to our barometers, the reported number of acquisitions has exceeded the number of exits since Q4 2015. Our Q2 2017 survey revealed, however, that acquisitions now account for 59% of reported transactions (down 9% compared to Q1 2017).

In our previous barometer, we mentioned Pitchbook's *2016 U.S. PE Breakdown*, according to which exit markets continue to shrink. Indeed, in 2016, the number of exits dropped by nearly 20% from 2,962 to 2,418, with North America accounting for 20% more exits than Europe (1,000 versus 1,200). This leads Pitchbook to believe that the quality of assets in many PE portfolios may not be able to justify a sale in the current high-multiple environment. Pitchbook recorded only 32 PE-backed IPOs in the US in 2016, the lowest number since 2009. According to our latest figures, however, it appears that exit activity is increasing again. It should be noted that in over 30% of cases, the buyout is a secondary buyout, meaning the target company is sold between private equity players. Key investors on the Belgian market (such as GIMV) have stated that 2016 was their strongest year, in terms of investments, since 2014: while GIMV realised nearly EUR 400 million in portfolio exits, it also invested over EUR 180 million. This trend has continued in 2017. In Q2 2017, a number of new venture capital and business angel funds were established:

- Profinpar groups together mainly Wallonia-based investors working with respected companies. The fund's main purpose is to provide capital to SMEs that require an investment in the range of EUR 2 to EUR 5 million.
- The Be Angels network (whose members include Sambrinvest and SRIB) launched a fund aimed at start-ups that have entered the scale-up phase. Thus far, EUR 2.5 million has been injected, with the aim of

[1] More information is available at http://pitchbook.com/news/reports/2017-pe-vc-exits.
[2] More information is available at http://www.ey.com/Publication/vwLUAssets/EY-pe-capital-briefing-may-2017/$FILE/EY-pe-capital-briefing-may-2017.pdf.

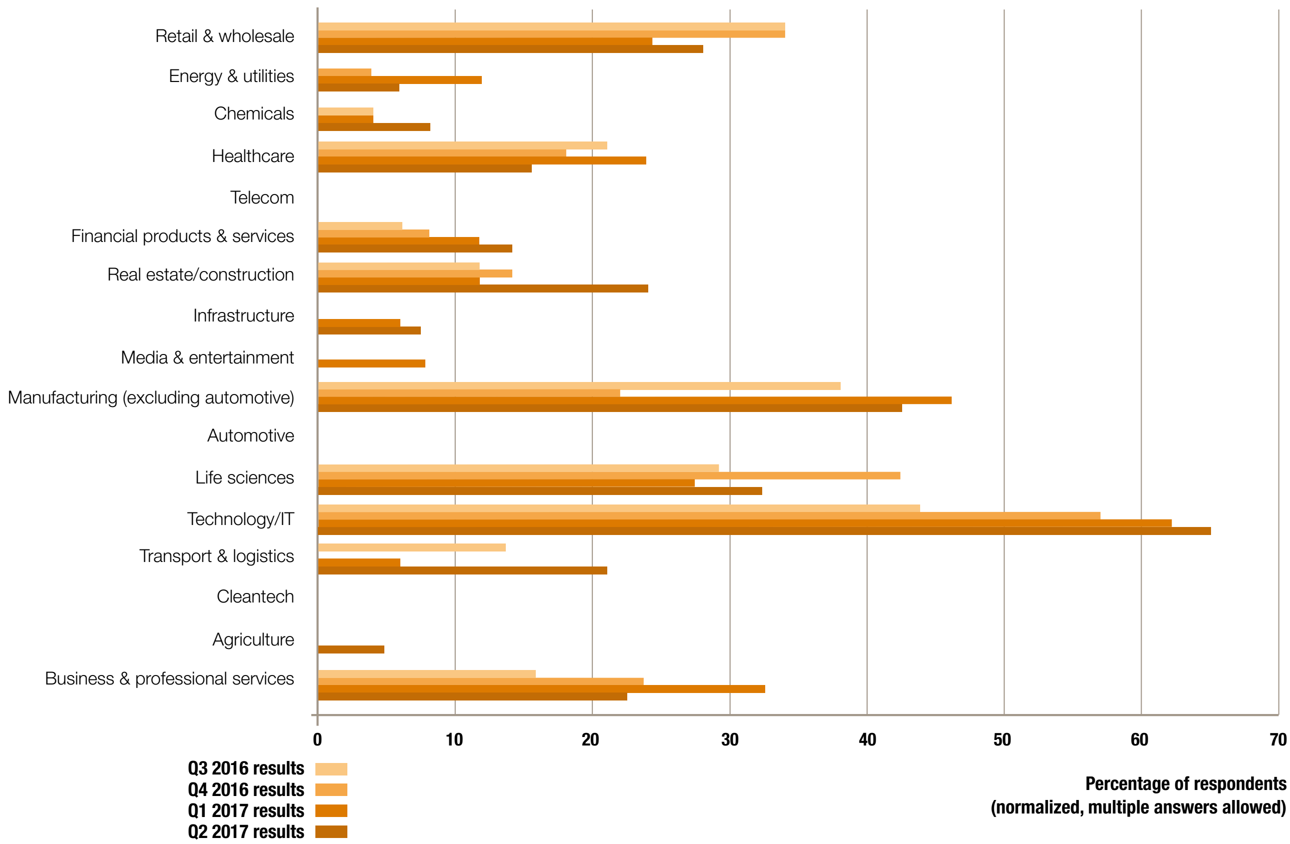
granting EUR 500,000 to EUR 1 million to small companies.

- Last but not least, Urbain Vandeurzen and more than 20 high-level investors (including Vic Swerts, Jan Toye and Noel Essers) injected EUR 250 million in Smile Invest, an investment fund for growth companies. Smile Invest mainly targets companies that need EUR 10 to EUR 40 million for growth or internationalisation.

Sectors with the most PE/VC activity[3]

While compared to Q4 2016, the four sectors with the most PE/VC activity changed more than expected in Q1 2017, Q2 2017 revealed fewer surprises and was mostly in line with the previous quarter. In Q2 2017, the sectors with the most PE/VC activity were: (i) technology and IT, (ii) manufacturing, (iii) life sciences, and (iv) retail. (In Q1 2017, the results were: (i) technology and IT, (ii) manufacturing, (iii) business and professional services, and (iv) life sciences.) The major difference compared to our 2016 barometers is the comeback of the manufacturing sector. In Q2 2017, the manufacturing sector consolidated its place in the top 4.

As in Q1 2017, respondents to our survey continue to report the most PE/VC activity in the ***technology and IT*** sector. Moreover, the number of respondents reporting transactions in this sector continues to rise (44% in Q3 2016, 62% in Q1 2017 and 65% in Q2 2017). Noteworthy transactions included the successful bid by French financial services company Natixis for over 50% of the shares of Dalenys (a Belgian company active in B2B business support operations and B2C digital content services), in which transaction NautaDutilh acted for the seller, Sofindev's sale of Syx Automations (a Belgian company providing ticketing and leisure management solutions for the arts and cultural sector, visitor attractions and leisure industry



[3] This information is based on press coverage or obtained from www.mergermarket.com

customers), Waterland Private Equity's Investment in Zitcom (a Danish hosting provider), EQT IV's sale of Bureau Van Dijck (a distributor of financial information and private company data sets relating to 220 million companies) for over USD 3.3 billion to Moody's and, last but not least, the finalisation of Cobepa's sale of Zetes to Panasonic for EUR 300 million.

Other deals included successful fundraisings by Chili Publish (an online software provider for the graphics sector), which raised EUR 2.5 million; Qover (a fintech company that offers consumers tailor-made insurance policies), which raised EUR 5 million; and FibriCheck (the developer of an easy-to-use smartphone heart-rate app), which raised EUR 1.5 million.

The ***manufacturing*** sector continues to hold second place. The most important deals covered by *MergerMarket* included Mentha Capital's bid for Express Printing Business, a Belgian manufacturer of shrink sleeves and self-adhesive labels, Down2Earth Capital's acquisition of VMT Ecopack, a Dutch supplier of reusable plastics, AAC Capital Partners' sale of James Dewhurst, a UK-based manufacturer of engineered technical textiles, French PE player Chequers Capital's acquisition of the Belgian company Sport & Leisure Group, a producer of synthetic turf, and Koramic Investment Group's acquisition of Amelux, a French provider of roofing products.

Noteworthy transactions mentioned in the press included the exits of CVC Capital Group from Continental Foods and Betafence (renamed Praesidiad) and the Texan fund Lone Star from Balta Group (a world leader in carpet manufacturing), as well as Robur Capital's acquisition of Dirickx (a French fencing manufacturer) and GIMV's acquisition of Uniteq (innovative solutions for fire extinguishers).

The ***life sciences*** sector is now in third place. For the past two years, this sector has been in the top four. Noteworthy deals included: Gilde Buy Out's acquisition of Oystershell Laboratories (a Belgian manufacturer of OTC drugs), Charterhouse Capital Partners' acquisition of SERB Laboratories (a Belgian pharmaceutical company specialising *inter alia* in toxicology and infectious diseases), France-based PE fund Groupe Siparex's acquisition of a stake in Minafin Group (a Belgian developer of fine chemicals for the life sciences industry), and the sale of Belgian clinical-stage drug discovery company Ogeda by a consortium of PE funds (including BNP Paribas Private Equity, Capricorn Venture Partners, SRIW and Vesalius Biocapital Partners).

Other deals covered in the press included the acquisition of Stada (a large independent producer and distributor of low-cost generic medication) by Bain Capital & Cimven and Ergon Capital's sale of Elitech, a Belgian manufacturer and distributor of tools for *in vitro* diagnoses.

The ***retail sector*** occupies fourth place. It should be noted that turnover and profit margins in the sector are under significant pressure from online competitors. Two transactions received extensive press coverage: 3i's acquisition of Hans Anders from Alpha and Alpinvest for EUR 200 million (3i is seeking to actively expand its customer retail portfolio and has also acquired Action, a leading non-food discount retailer, and BasicFit, the largest «value for money» fitness club operator in Europe with over 360 fitness centres in the Benelux) and Gilde Equity Management's acquisition of Leen Bakker (a home furnishings retailer) from retail group Blokker. Other reported deals included the acquisition by a group of PE investors (including Verlinvest) of Frichti, a French online meal delivery company, and the undisclosed capital increase in Fatboy (a company selling bean bags and home furnishings) by Vendis Capital II.

Despite the fact that this sector was not widely mentioned by respondents, a number of important deals took place in the transport & logistics sector: Cobepa's acquisition of Staci (a logistic services company for the marketing and promotions sector), the sale by private equity fund Creafund of 2XL (a Belgian leader in the transport & logistics sector, providing container services), and the acquisition by French PE fund Ardian of a stake in LBC Tank Terminals (a Belgian provider of bulk liquid chemical storage).

NautaDutilh named a Prime Foundation Partner of the Vlerick Centre for Mergers, Acquisitions and Buyouts

NautaDutilh is pleased to announce the signing in September of a cooperation agreement with Vlerick Business School to act as a Prime Foundation Partner of the Centre for Mergers, Acquisitions and Buyouts[4]. According to **Elke Janssens**, *«this joining of forces will allow us to strengthen our ties with M&A and buyout professionals. We are excited by the journey ahead and look forward to contributing to future events, as a member of the Centre's advisory board»*. We will be sure to keep you informed of activities of the Centre relevant for the private equity and venture capital sector.

Vlerick Business School recently released its 2017 M&A Monitor, based on a survey of 120 M&A experts in Belgium («the Vlerick Monitor»).[5] The Vlerick Monitor provides a comprehensive overview of current trends and challenges on the Belgian M&A market. According to the Vlerick Monitor, four trends can be identified.

First, while global M&A markets appear to have peaked in 2015,[6] the Belgian M&A market is expected to grow in the next 12 months. According to the Vlerick Monitor, the alternative asset industry's leading source of data and intelligence, while North American deal activity has slowed, this is not the case in Europe and Asia. While M&A deal activity has slowed in North America, private equity firms have completed significantly more buyouts in North America than in Europe in recent years.[7]

Both strategic and financial buyers continue to fuel the market. The competition between them is fiercest in deals valued between EUR 20 and EUR 100 million. This is confirmed by past barometers. However, starting in Q1 2017 (and confirmed in Q2 2017), we noticed a slight decrease in the number of acquisitions by both strategic and financial players, while only 10% of respondents to the Vlerick Monitor expect a drop in activity.

Also according to the Vlerick Monitor, more cross-border M&A in 2016 involved Belgian companies, especially as targets by international private equity funds. The reason for this is most likely the fact that SMEs play a very important role in the Belgian economy and are often «hidden gems». It appears (according to both the Vlerick Monitor and MergerMarket) that more foreign investors are discovering the Belgian market in 2017 and that there is fierce competition to acquire Belgian SMEs.

While the number of Belgian players acquiring companies held stable in 2016, more Belgian companies were sold to foreign entities during this same period. This finding is confirmed by MergerMarket.

Second, multiples are increasing each year (except in small deals valued at less than EUR 5 million). While the average Wet Financial Debt EV/EBITDA multiple across all industries and deal sizes used to be 5.0 (in 2013), it rose to 6.4 (in 2016) and continues to rise. Another interesting trend is that the final deal price is often lower than the initial bid. Various explanations have been proposed, but the most likely reason is that a bidder typically offers a higher initial price in order to ensure exclusivity in the second round.

Third, the Vlerick Monitor reports that bank loans are increasingly accessible and that less own capital needs to contributed. The net financial debt level (compared

[4] More information about the Centre for Mergers, Acquisitions and Buyouts is available at https://www.vlerick.com/en/research-and-faculty/research-for-business/accounting-finance/centre-for-mergers-acquisitions-and-buyouts.
[5] The 2017 M&A Monitor - Shedding Light on M&A in Belgium is available at https://www.vlerick.com/~/media/corporate-marketing/our-expertise/pdf/20170529MAMonitorpdf.pdf.
[6] PitchBook released figures showing that activity dropped for the sixth straight quarter: http://files.pitchbook.com/pdf/PitchBook_2017Annual_M_A_DATAGRAPHIC_2Q.pdf.
[7] The Preqin data is available at https://www.preqin.com/docs/press/Buyout-Q1-2017.pdf.

to EBITDA) is rising in all segments. The most striking finding is a 50% increase with respect to small deals (valued at less than EUR 5 million), from 2.1 to 3.3. The average equity to be contributed has dropped to 33%. As bank financing becomes increasingly important, there is a concomitant significant drop in vendor loans (to 14% of deal value) and the number of deals including earn-out clauses. It is interesting to note that this finding is confirmed by the most recent M&A Survey,[8] which clearly shows that in 2016 deals valued at over EUR 100 million rarely involved an earn-out clause or deferred payment. The M&A Survey indicates that the organisation of a competitive auction may help the seller to avoid (partial) deferred payment of the purchase price. Another interesting fact is that the average interest rate for vendor loans is now 5.45%.

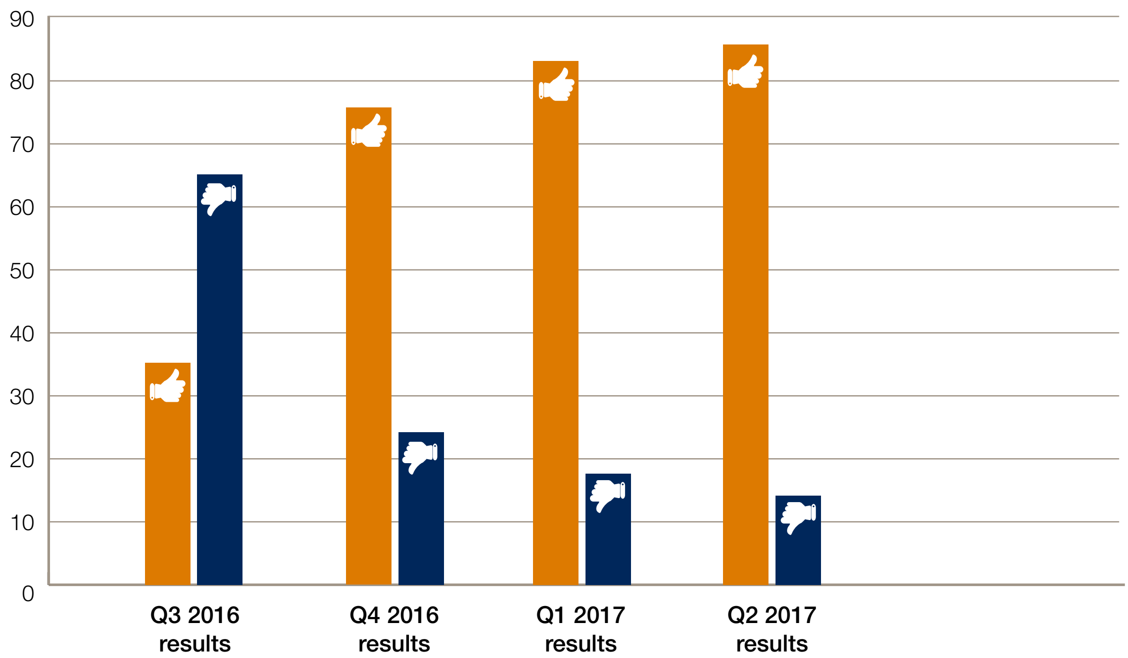
Finally, the Vlerick Monitor pointed out five types of challenges:

(i) due to high levels of dry powder and newly created (especially smaller family) funds and competition for «good» targets, there is pressure to pay a higher price, which obviously decreases the potential ROI;
(ii) even though many baby boomers are prepared to sell their companies, many others are hesitant to do so, due to the interest rate risk, as they don't see opportunities for reinvestment of the sales proceeds;
(iii) as the professionalization of the M&A sector increases, sector advisory teams must educate the seller on how to set price expectations and stress the importance of vendor due diligence;
(iv) foreign funds are increasingly buying Belgian targets, meaning there is a risk of headquarters being transferred abroad;
(v) political uncertainty both within and outside the Eurozone and uncertainty surrounding trade agreements have an adverse effect on the risk appetite of companies.

Post-closing issues

A more worrisome trend (noted for the first time in our Q3 2015 Barometer and confirmed by later data) is that an increasing number of respondents report post-closing issues, while previously they stated that,

Post-closing issues



[8] The M&A Survey (4th edition) is carried out by Contrast Lawyers in cooperation with several other law firms (including NautaDutilh). It gathers and analyses data from 300 M&A deals, collectively valued at more than EUR 14.7 billion.

in principle, they do not experience claims under the representations and warranties.

While in Q1 2016 only 14% of respondents reported such issues, this figure gradually rose to 76% in Q4 2016, 82% in Q1 2017 and 86% in Q2 2017. In our previous barometer (Q1 2017), we stated that while we do not have precise data on the underlying reasons for this trend, there are several possible explanations. First, parties are paying more attention to precisely formulated representations and warranties; second, more clients and private equity players are requesting red flag and in-depth due diligence; and last but not least, the markets in which certain companies operate (including the retail and wholesale, technology and IT sectors) are increasingly difficult.

The M&A Survey shows that in nearly 100% of deals some type of due diligence is performed (increasingly based on a seller-organised virtual data room, the use of which has doubled in four years). This confirms our finding that the proper drafting of representations and warranties is increasingly important. Indeed, all surveyed acquisition agreements contained such clauses.

Deal speed

After having declined sharply from 19 to 14 (Q4 2015), the number of weeks needed to sign/close a deal (from

receipt of the information memorandum) dropped further to 11 in Q1 21016 but rose to 17 in Q2 2016 and 21 in Q1 2017. Our latest barometer revealed an average deal time of 23 weeks.

In 2016, we noticed a trend towards faster closing most likely due to (i) the amended internal capital gains rules which entered into effect on 1 January 2017 and (ii) discussion within the government of the possibility of taxing capital gains. The new trend in 2017 of decreasing deal speed may be linked to the fierce battle for good quality assets, as negotiations with the sellers are becoming more thorough. It should be noted that this trend has not yet been confirmed in our daily practice. Indeed, in our experience, potential buyers and investors still wish to get the deal done as quickly as possible.

However, the results of our Q2 2017 Barometer appear to be confirmed by the Vlerick Monitor, which reported an average deal speed of six months for domestic transactions, compared to 7.5 months for cross-border deals.

Taxes are not a driving force but are increasingly important

Another interesting factor is the increased interest in tax rulings. When commenting on the Q3 2015 results, we predicted that tax issues would become more important. Indeed, starting in May 2015, we noticed greater interest from taxpayers in obtaining rulings. This shift was probably due to a heightened awareness of *inter alia* BEPS (Base Erosion and Profit Shifting) rules, which will most likely further modify the tax climate in which companies operate. According to our latest survey, 81% of respondents deem tax rulings to be important.

In this respect, the M&A Survey reported that in 2012-2016, a majority of transactions (70%) contained specific indemnities, compared to 62% in 2009-2012 and 49% in 2007-2009. In 70% of cases, these indemnities relate to tax matters. In our practice, we have also seen increased interest on the part of our clients in tax-related risks. This has been confirmed by a recent *Financial Times* survey of FTSE 100 companies, which identified tax risks as the most important (after compliance and Brexit).

Is Belgian ruling practice a factor when considering potential deals?