NautaDutilh Q3 2015 Private Equity & Venture Capital Barometer Belgium

This is NautaDutilh Belgium's fourth Private Equity & Venture Capital Barometer. After our spring 2014 Interim Report, we submitted, for the first time, a questionnaire to a select group of private equity and venture capital players, asking about trends in their practice in the last two quarters of 2014 and the first two quarters of 2015. We repeated this exercise in October 2015. The present publication shares highlighted results from the third quarter of this year.

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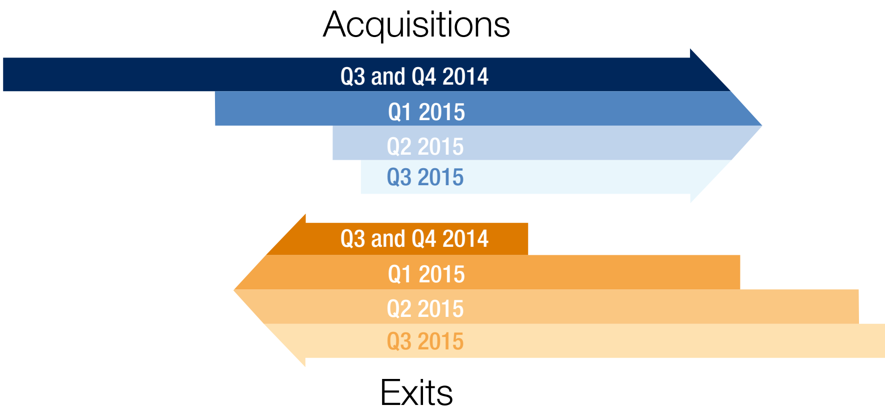
Note (in small letters): The 2013 Report refers to «NautaDutilh's 2013 Belgian Private Equity and Venture Capital Market - An Outlook», *available at* http://www.nautadutilh.com/PageFiles/10051/Private_Equity-Report_Belgium_2013%20UK.pdf.
The 2014 Interim Report is «NautaDutilh's 2014 Outlook on the Benelux Private Equity, Venture Capital & Leveraged Finance Market - An Interim Report», *available at* http://www.nautadutilh.com/Documents/Images%20and%20publications%20for%20news/Private_Equity_report_Benelux_2014_US-format.pdf.
The Q3-Q4 2014 Barometer refers to NautaDutilh Belgium's first Private Equity & Venture Capital Barometer, *available at* http://www.nautadutilh.com/PageFiles/30802/PE%20and%20VC%20Barometer%20Q3%20Q4%202014%20Belgium.pdf.
The Q1 2015 Barometer refers to NautaDutilh Belgium's second Private Equity & Venture Capital Barometer, *available at* http://www.nautadutilh.com/Documents/Images%20and%20publications%20for%20news/BarometerBelgiumQ1_2015.pdf.
The Q2 2015 Barometer refers to NautaDutilh Belgium's second Private Equity & Venture Capital Barometer, *available at* http://www.nautadutilh.com/PageFiles/32766/Q2%202015%20Barometer%20Private%20Equity.pdf



The number of acquisitions continues to drop, but deal size is increasing

For the second consecutive quarter since we launched our survey, the reported number of exits exceeded the number of acquisitions. The Q3 2015 results confirm predictions expressed in the Q2 2015 Barometer (exits increased from 50% in Q1 to 59% in Q2 and 62% in Q3). According to Merrill Datasite,[1] Europe continues to struggle to attract private capital investment (the main reasons being problems affecting the European financial markets and political uncertainty), which of course impacts the private equity and venture capital sectors. However, valuation and asset class purchase price multiples are higher than ever. While the number of transactions in Europe hit a historic low, the average deal size is higher than ever. This is true for both private equity and venture capital assets.

With respect to exits, private equity players were not the only ones who cashed out on earlier investments. Family shareholders and private individuals also sold substantial stakes.

With respect to acquisitions, the trend that started in Q2 2015, i.e. more acquisition activity reported by corporates, was confirmed by both the Q3 2015 Barometer and information on closed transactions (see below, «Who are the buyers?»). However, the press also noted acquisition activity by private equity and venture capital funds: SmartFin (a venture capital fund established by Jurgen Ingels to finance growth companies) attracted additional investment by Jan De Clerck (from Beaulieu); in March 2015, Mark Coucke invested in Volta Ventures (a venture capital fund providing seed and early-stage capital for internet and software companies in the Benelux) while last September he invested EUR 2 million in Amsterdam-based Startup LookLive; finally, private equity players Bain Capital and Cinven made an expected but ultimately abandoned bid for Fagron (previously Arseus), a global market leader in pharmaceutical compounding and speciality pharma.

The number of weeks needed to sign/close a deal (from receipt of the information memorandum) rose slightly from 18 to 19.

Sectors with the most PE/VC activity[2]

Before discussing the Q3 Barometer's findings, we would like to comment on two trends in the retail & wholesale and healthcare sectors.

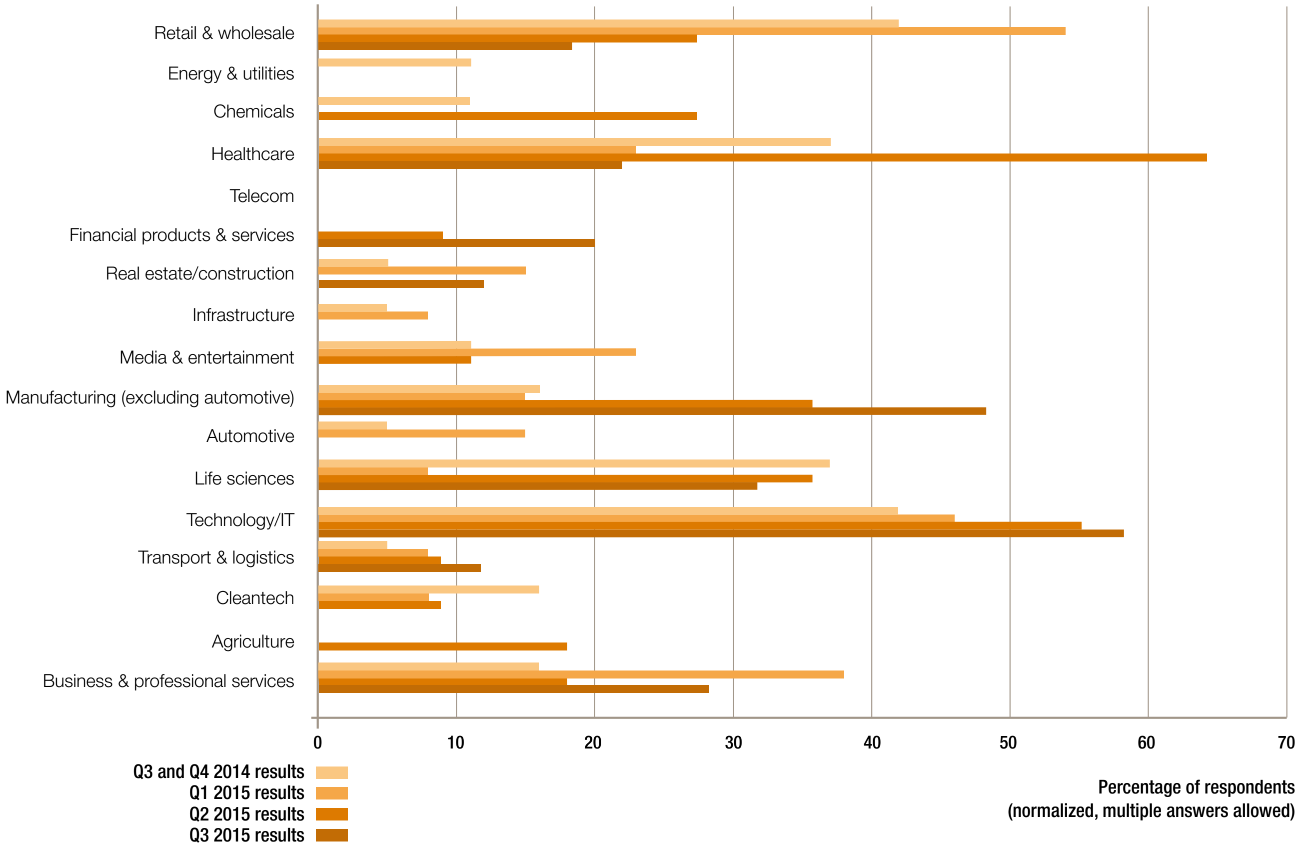
In our Q1 2015 report, we pointed out shrinking profit margins and the fact that many Belgian retail and wholesale companies were for sale. This trend was confirmed by our Restructuring and Insolvency Team and by the first-place ranking of retail & wholesale transactions in Q1 2015. However, by Q2 and Q3 2015, this trend seems to have petered out. Two noteworthy non-distressed asset deals were the

[1] Merrill Datasite European Private Equity Breakdown Report Q3, p. 2, *available at* http://www.datasitedeal.com/UK-278?LeadSource=Email_Vendor&CampaignID=701C0000001LUwg.
[2] This information is based on press coverage or obtained from www. mergermarket.com.

acquisition of Quick Restaurants by Burger King and of Ateliers Humanoid, a Netherlands-based high-end women's clothing retailer, by Vendis Capital.

While first place in the Q2 2015 Barometer was held by the healthcare sector (20% of all deals mentioned by respondents), no respondents to our latest survey reported a healthcare deal in Q3 2015. This is confirmed by MergerMarket, which did not report private equity or venture capital deals in the healthcare sector for the reference period. However, over the past two quarters, we've noticed increased interest on the part

In first place, we have the technology & IT sector. Some of the most noteworthy transactions in this sector were Quantres Asset Management's bid for Xpenditure (a Belgian mobile and web-based expense management solution provider), Vitruvian Partners' bid for Voxbone (a Belgian provider of worldwide toll-free iNum telephone numbers and inbound communications), the bid by Sofina (backed by inter alia the Chinese company Tencent Holdings) for Practo Technologies (an Indian operator of portals allowing online booking with doctors), Bencis Capital Partners' bid for Wellinq (a Dutch company active in semiconductor



of foreign private equity and venture capital funds for Belgian life sciences companies.

In the Q3 2015 Barometer, two new sectors entered the top four: manufacturing and business & professional services (in second place and fourth place, respectively). First and third places are held by the technology & IT and life sciences sectors.

processing), the NRB Group's bid for Trasys (a Belgian ICT service provider), and HGGC's bid for Selligent (a Belgian provider of software for conversion marketing and interactive CRM solutions).

In second place is the manufacturing (excluding automotive) sector. In this regard, noteworthy transactions included Argos Soditic's bid for Gantrex (a Belgian company active in the development, manufacture and supply of elastic rail fastening solutions), Nissha Printing Company's bid for AR Metallizing (a Belgian producer and seller of vacuum-metallized paper for packaging purposes), PMV's bid for LUXeXceL (a Dutch developer and manufacturer of optical solutions for LED lighting), and Sofina's bid (backed by the Chinese fund Hillhouse Capital Management) for Hector Beverages (an Indian beverage company).

As in Q2 2015, third place is held by the life sciences sector. Noteworthy transactions which received press coverage included TA Associates Management LP's bid for PhysIOL (a Belgian provider of intraocular lenses), the bid by MDxHealth (an R&D company active in clinical diagnostic testing services for cancer treatment) for NovioGendix (a Dutch company also engaged in the development of molecular diagnostic testing services), GIMV's acquisition of a stake in Biom'Up (a French company specialising in surgical materials), and Mentha Capital's bid for PharmaVize (a Belgian provider of early-phase clinical supplies). Our Life Sciences Team often assists players on this market (in Q2 2015, we advised VIB on the establishment of Oncurious NV as well as Confo Therapeutics), and foreign investment funds are increasingly interested in Belgian assets (for instance, we assisted TA Associates with their 2014 acquisition of CMOSIS, a leading pure-play supplier of high performance standard and custom CMOS image sensors).

Finally, in fourth (but obviously not last) place in the Q3 2015 Barometer is the business & professional services sector. Two deals that received press coverage in Belgium were the acquisition by Actief Interim of Tence (a Belgian temp agency and contract recruiter) and the acquisition by Down2Earth Capital of the shares of Vio Interim (another Belgian temp agency). Over the last two years, temp agencies have considerably increased their turnover, although the sector is increasingly consolidated.

Fintech

One noteworthy trend is increasing interest in fintechs, or financial technology companies, which have attracted substantial attention on the capital markets over the past few years. Global investment in fintech companies tripled to USD 12.21 billion in 2014 and is expected to double again in 2015. In Belgium, one private equity player in particular has positioned itself at the forefront of the fintech movement. Indeed, over the past year, SmartFin Capital has invested in several fintechs (Guardsquare, The Glue, Ancoa, NG Data, Projective and Unified Post). The supply of interesting targets is expected to grow even further with the launch of ING's FinTech Valley, which will serve as an accelerator for fintech start-ups, and Eggsplore, the ecosystem where FinTech Valley will be located. Our Financial Institutions Group is currently advising a number of fintech players on, for instance, issues involving crowdfunding, payment and e-money institutions, and online trading platforms.

Distressed company deals

The Q3-Q4 2014 Barometer showed that investors have little interest in distressed assets. The Q1 2015 Barometer confirmed this trend, with nearly no respondents mentioning distressed company deals. The Q2 2015 figures, however, demonstrated a 50% increase in the number of deals relating to distressed assets, a trend which had been predicted by **Sophie Jacmain** of NautaDutilh's Restructuring and Insolvency Team, when commenting on the Q1 2015 results. This trend is further confirmed by the Q3 2015 figures.

In the third quarter of this year, our Restructuring and Insolvency Team was kept extremely busy assisting clients with the acquisition of distressed assets in sectors such as food processing, real estate (particularly office space in northeast Brussels), and renewable energy sources. Moreover, start-ups which have already burned their cash reserves and are heavily in debt, with shareholders no longer willing or able to inject additional cash, have proved interesting targets for new investors (e.g. EUR 1 share deals). Last but not least, we have also noticed an increase in post-acquisition litigation and/or litigation relating to directors' liability for bankruptcy.

Investment partners

Another trend first identified in our Q3-Q4 2014 Barometer and confirmed by subsequent barometers is the fact that most respondents invest either with a co-investor or current management. The Q3 2015 Barometer confirms that management's stake tends to be around 20% (most respondents reported a figure of up to 20%, in line with the findings of our 2013 Report, our expectations for 2014 and the Q3-Q4 2014 Barometer, even though a management stake of up to 50% was reported in specific deals sponsored by venture capitalists or business angels in the first three quarters of 2015).

Will privatisation trigger future private equity deals?

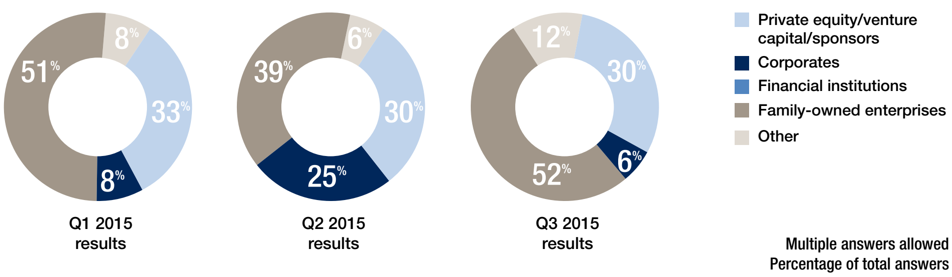
In early September 2015, **Elke Janssens** of NautaDutilh's Private Equity Team, was interviewed by unquote", leading European private equity specialists who have been researching the markets for over 20 years. unquote" asked for input about privations as a trigger for future private equity deals and red flags for potential investors. Elke stated that, despite potential complications, privatised companies represent a priceless opportunity for a GP willing to cope with the longer timeframe. The complexity of a state-owned company requires specific skills, and not every private equity house will be a good fit. It's important to manage expectations, as gradual changes are required in order to avoid social unrest and political pressure. Provided the long-term goals of the company are met, private equity's unique experience and skills can be key for a state company's journey into the private market. Potential candidates in Belgium include Bpost, Proximus, public broadcasters VRT and RTBF, and public transportation operators such as NMBS, De Lijn, TEC and STIB.

neoScores

The Antwerp start-up neoScores, a web app to purchase and manage sheet music and share annotations with fellow musicians, is also worth mentioning. The start-up was financed by both established players (such as Theodorus) and crowdfunding. Financing by established players lends the project an aura of quality which in turn will encourage more crowdfunding investment.

Who are the sellers?

In most cases (respondents were allowed to give multiple answers), respondents mentioned a transaction in which a PE player or family was on the selling side (few corporates and no financial institutions were mentioned). This was in line with the findings of our 2013 Report and 2014 Interim Report, both of which identified family owners and PE players as the most likely sellers over the next twelve months.

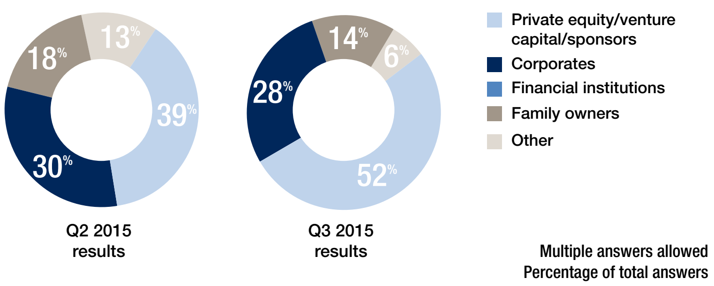


The Q3 2015 Barometer revealed two interesting trends: the first relates to the share of family shareholders in the total number of sellers, which increased from 39% (Q2) to 52% (Q3), while the second relates to the share of managers, which increased from 6% (Q2) to 12% (Q3). While Belgian and, in general, Benelux-based private equity funds and venture capital players are less receptive to management acquiring a stake in the company, US-UK funds tend to grant it a larger share.

We were somewhat surprised by the fact that the Q3-Q4 2014 Barometer revealed that PE/VC players were the most active sellers (which could be explained by the fact that closed-end funds are obliged to exit and deal activity on the sell side was lower than in previous years). The Q1 and Q2 2015 results confirmed our earlier findings that the shareholders of family-owned enterprises lead the sellers' pack.

Who are the buyers?

As mentioned above, for the first time since the start of our survey, the reported number of exits exceeded the number of acquisitions in Q2 2015. This trend continued in Q3 2015. However, in most reported transactions, PE/VC players are still on the buying side (their share increased from 39% in Q2 to 52% in Q3). One noticeable trend over the past few quarters (confirmed by our barometers) is that PE/VC players are increasingly teaming up with strong companies also interested in a takeover.



Post-closing issues and heightened risk

Last but not least, a more worrying trend (which appears for the first time in our Q3 2015 Barometer) is that 29% of respondents reported post-closing issues, while in previous quarters they stated that in principle they do not face claims under the representations and warranties.

At the same time, we saw a 35% increase in the number of respondents stating that Belgian tax ruling practice is a factor when considering potential deals. The reason for this may be increased awareness of inter alia the BEPS (i.e. Base Erosion and Profit Shifting) rules, which will most likely (further) modify the tax climate in which companies operate.

Our daily practice confirms little post-closing litigation. Therefore, it's interesting to note that respondents to the 2013 Report and the 2014 Interim Report indicated that representations and warranties are the most important factor when negotiating acquisition documents. In most cases, however, disputes can be settled amicably.