

# Initiative Europe Barometer

*Figures based on preliminary quarterly data from Europe's specialist private equity information provider*

## Q2 2002 Figures Indicate Continued Lack of Growth in Private Equity Deal-Flow

The figures published in the **Initiative Europe Q2 2002 Barometer** indicate persistent difficulties in the European private equity and venture capital markets. According to the statistics, the buyout market saw a continued decline in both the total volume and value of deals in Q2 2002, with buyout numbers dropping from Q1 2002's figure of 64 to the current figure of 57 transactions. Sustained uncertainty is clearly restricting the flow of new deals, while the fact that buyouts are generally taking longer to complete has meant that any pick up in deal-flow in the new year has yet to be represented in the figures for completions. The value of the buyout market almost halved from the € 9.6bn figure seen in Q1 2002 to € 5.2bn in Q2 2002, continuing a negative trend beginning in the last quarter of 2001. The diminished size of the market can in part be accounted for by the comparative lack of € 1bn+ mega-deals; the only such deal reported in Q2 2001 was the € 1.2bn buyout of Vivendi Universal Publishing by investors including Cinven, Apax Partners & Cie and the Carlyle Group. The relatively small flow of such deals in this period is marked when contrasted to values for Q2 2001, a period in which € 22.9bn worth of buyouts were registered. At that time, four € 1bn+ deals were completed, including the € 3bn+ buyouts of Meridien Hotels and Yell Group.

The early-stage market has presented a striking set of volume and value figures over the last year. Deal volumes roughly halved between Q2 and Q3 2001, and again between Q4 2001 and Q1 2002 as confidence has been knocked in what remains a very uncertain market. Between Q1 and Q2 2002 market volumes have remained stable, but it is yet to be seen whether this indicates the end of a negative trend or a moment's respite before another sharp decline in deal numbers. The decline in value figures over the last year has also been striking, with Q1 2002 recording a total market value worth a tenth of the figure for Q2 2001. While the value of the market may have picked up in Q2 2002 – from € 100m in Q1 2002 to € 600m – almost all of this growth can be attributed to a single deal in the form of the creation of UK insurance group Wellington Re by a syndicate of traditionally buyout-focused groups, including Candover Investments.

According to the **Initiative Europe Barometer**, the growth capital market has demonstrated a continuing decline in deal volumes and values over the last year, hitting a figure of 161 deals worth € 1.9bn in Q2 2002. In the current economic climate it is clear that companies are less focused on expansion and more interested in weathering current economic conditions. Furthermore, the lack of confidence in the technology markets will have had its effect, with technology companies finding it increasingly challenging to attract rounds of expansion finance. This said, the market has been less hard hit than the early-stage market, possibly helped by technology investors shifting their focus towards expansion finance as more successful former start-ups look to grow.

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A seesawing motion has been apparent in figures portraying sums of capital raised for European private equity investment. Sums raised increased from close to € 4bn to over € 14bn between Q3 and Q4 2001, before dropping to € 3bn in Q1 2002. The figure for capital raised then soared again in Q2 2002 to hit € 12.9bn. These sporadic peaks at particular points of the year can largely be attributed to the closings of a few particularly sizeable vehicles. In Q2 2002 a number of such funds reached closings. April saw the final close of the \$5.3bn Warburg Pincus Private Equity VIII fund and the € 4.4bn final close of the Third Cinven Fund. In May, Bridgepoint Capital's European Private Equity Fund II reached a € 2bn+ final close, Paribas Affaires Industrielles reached a € 1.6bn first close on its PAI LBO III fund and Barclays Private Equity European Fund achieved a € 1.1bn first close. In June, the Candover 2001 Fund reached a final € 2.7bn close. It is perhaps surprising that such large funds are being raised in what is regarded as a somewhat difficult climate. Nonetheless, many of these groups will have begun raising their funds when economic conditions were more benign. Furthermore, the well-established track records of these groups may well have attracted the attention of increasingly cautious institutional investors. For less-experienced groups the market is likely to be more difficult, particularly at a time when institutions will have found themselves increasingly over-allocated to private equity as the value of their public equity portfolios has continued to decline.

#### Preliminary Q2 2002 numbers:

##### DEALS: Volume

	Buyout	Early Stage	Growth Capital
Q2 2001	96	140	252
Q3 2001	89	77	229
Q4 2001	95	82	214
Q1 2002	64	39	185
Q2 2002	57	40	161

##### DEALS: Value € bn

	Buyout	Early Stage	Growth Capital
Q2 2001	22.9	1	4
Q3 2001	8.9	0.3	2.8
Q4 2001	13.8	0.3	2.7
Q1 2002	9.6	0.1	2.3
Q2 2002	5.2	0.6	1.9

#### FUNDS: New private equity and venture capital funds raised for Europe

	Value € bn
Q2 2001	15.5
Q3 2001	3.9
Q4 2001	14.3
Q1 2002	3
Q2 2002	12.8

Source: Initiative Europe (Q2 2002 Initiative Europe Barometer)

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**Notes:**

1. The Initiative Europe Barometer is based on preliminary findings of Europe's leading private equity information specialist. The data is **unaudited** and likely to change following the completion of full audits over the coming weeks.
2. The data is pan-European and based on deals backed by at least one formalised venture capitalist; most deals are verified directly with the lead investor.
3. The data relating to value of deals includes estimated values; the value of buyouts includes debt and mezzanine.
4. Audited data is available via Initiative Europe publications and data & research. Please call +44 (0)1737 784200 for further information.

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