REGIONAL REPORT: BENELUX

No final result

In terms of private equity deal activity in the BeNeLux region, this year has been a case of 'all talk and no action'. Ahmed Arafa gauges the market sentiment

This summer the Netherlands watched its football team come close to getting its hands on the World Cup trophy for the first time ever. Unfortunately for the nation's orange-clad fans, it was a case of "close but no cigar" as their heroes went down 1-0 to deserved winners Spain. Private equity practitioners in the Netherlands and neighbouring Belgium, meanwhile, have been getting used to disappointment for some time.

"A lot of talk, no results," is how Bas Glas, partner at European private equity firm Gilde, describes the current state of private equity deal activity in the Netherlands. Dutch private equity firms are "simply not in a hurry to do deals".

Marc Staal, a managing partner at mid-market investor AAC Capital Partners, observes that while there is certainly more dealflow than in 2009, with "one or two large deals" closing, many in the region – himself included – had anticipated much higher numbers.

The sentiment is echoed by Jean-Pierre Buijtels, head of buyouts for Belgium and the Netherlands at listed Antwerp-based investor Gimv. "Deal flow is reasonable but we see very limited activity in terms of deals closing."

Figures from data provider Dealogic covering the entire BeNeLux region suggest that while the number of transactions completed in the first six months of 2010 is keeping pace with the previous year, the size of these transactions is way down. The total volume for this year's deals thus far amounts to only 6 percent of last year's total: €484 million compared to €8.1 billion. These figures would not, however, include Candover Partners' €1.2 billion sale of Belgian nappy-maker Ontex to GS Capital Partners and TPG, which was agreed in July.

The latest report from the Dutch Private Equity and Venture Capital Association (NVP) concludes that deals are not closing because the after-effects of the financial crisis have created uncertainty about the companies' futures. Poor profit visibility is causing major players in the Netherlands to wait for the economic conditions to improve before transacting.

It would still be a "bridge too far" to base an entry price on current valuations, says Gilde's Glas. "It's just too early. If I'm selling a business that did two million last year, and I say to you that it's going to do six million this year," says Glas. "It would be very hard to find a buyer who can give you a price based on this six million outlook."

"[It's] just like we saw in the boom market when prices were high because everybody was afraid to miss out on good deals"

UPSIDE-DOWN EXPECTATIONS

Glas goes on to observe that today's difficulty in judging prices – and the subsequent gap in expectation between buyer and vendor – is the inverse of the situation in 2009. "Last year the only way was down," he says. "Now the only way seems up. The question, of course, is 'how far up, and will it last?'"

Gimv's Buijtels highlights the fact that sellers are simply not as distressed as they were in 2009 or early 2010, a scenario which may have resulted in their selling at lower prices. As a result, only a limited number of "attractive investment opportunities" are available, leading to what Buijtels characterises as a seller-controlled market. "Now that [vendors] feel more relaxed," he says, "when they do not get the price they want for their asset, they simply keep it."

As in other private equity markets around the world, the dearth of quality investment opportunities is contrasted with a surplus of undeployed private equity capital. "Everyone has a lot of money and wants to invest," says Pieter de Jong, an Amsterdam-based partner from 3i Group, who adds that it is an "interesting" market to sell in.

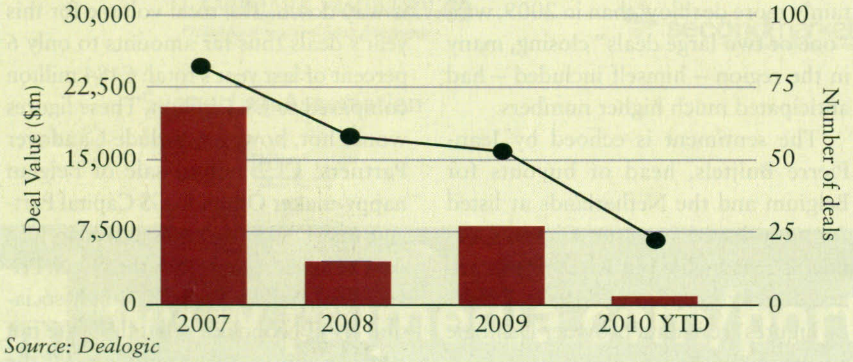
Gilde's Glas agrees: "Quality assets are scarce in this market and we see that there is still a lot of money around," he says. "Just like we saw in the boom market when prices were high because everybody was afraid to miss out on good deals and make quick flips".

With scarce opportunities and many GPs flush with "dry powder" to invest, the market has become ripe for competitive auction processes, a trend noted by a number of market participants. Alain Keppens, head of buyouts and growth for Gimv in Belgium, observes a significant pickup after the summer of 2009, a trend which has continued throughout the first half of 2010.

Floris Muijser, partner at Amsterdam-based Egeria, says that these auctions are generally being held by sellers in good shape selling high quality assets. His original expectations for the number of distressed sales during 2010 have been frustrated to some extent, but he is seeing a lot of companies with prospects for growth, "and that provides a window for a transaction".

SO FAR, SO SMALL

BeNeLux deals this year are keeping pace with 2009 in terms of numbers, but deal size is way down



Source: Dealogic

WIDER UNCERTAINTY

Continued uncertainty over the wider macroeconomic outlook is further stifling deal processes. Gilde's Glas raises the prospect of other European countries following Greece into sovereign debt default as one ongoing concern.

Meanwhile closer to home, an uncertain political situation in the Netherlands is giving GPs more reason for caution. There has been no Dutch government since February 2010, when the Dutch coalition fell apart. A general election was held in June but it failed to deliver a majority winner. Since then, talks between the various parties involved have been intermittent at best, with no clear consensus regarding the shape of the new government.

Daniel Mulder of the Dutch Private Equity and Venture Capital Association (NVP) says this uncertainty is proving to be "quite a problem", causing some deals to stall.

Glas concurs: "With recent events, people are getting somewhat reserved again," he says. "They start to think and then they freeze."

The unstable political situation is unsettling more than just the nerves of deal-makers. The NVP is currently working with the Dutch ministries of finance and economic affairs to advocate a stimulus package "similar in style and method" to the UK Innovation Investment Fund, a programme which seeds venture capital funds of funds with government money and seeks to attract other institutional investors into the asset class. ➔

Mulder believes the ministries' ability to follow through and take concrete measures to get the new fund started is currently hampered by "the absence of a strong basis for these measures in the current Dutch parliament". The NVP is therefore providing the ministries with as much data and information possible to provide a good case for the initiative, which can be addressed quickly once the new government is installed.

The wider issue of political uncertainty scuppering deal process is easy to overstate, says AAC's Staal, who says that private equity activity in the country is dictated more by forces in "the economic environment around us" than by the government.

"Everyone has a lot of money and wants to invest"

GETTING USED TO IT

While current market dynamics are putting the brakes on a lot of deals, market participants are optimistic that it is only a matter of time before expectations between buyers and sellers align and normal service is resumed. The NVP's Mulder anticipates increasing activity throughout 2011, with the "depths of 2009" not to be repeated any time soon.

Caroline Huyskes, fund director at Egeria, says just because economic growth will be weak – the Netherlands is forecast to grow just 1.5 percent in 2010 – "that doesn't mean that there won't be attractive companies up for sale, and given the fact that people have become used to the economic situation, they are willing to look at certain companies again".

While the tail of the financial crisis may still be staunching deal activity in the BeNeLux region, market participants are looking to 2011 with at least a touch of optimism. ■

GIANT FOR SALE

The market is rife with speculation about the fate of Europe's largest limited partner, the €46bn Dutch giant AlpInvest

The revelation in July that Europe's largest limited partner AlpInvest Partners was up for sale caused a stir in the private equity community.

Since the news broke in July that Credit Suisse was running an auction for the €46 billion manager, information has been scant. Multiple sources contacted by sister news site PEO confirmed the sale process had attracted "several" interested bidders. Several market sources said some large secondaries firms had expressed interest in AlpInvest, although this could not be confirmed.

Dutch news service Financieele Dagblad has reported that AlpInvest's management was considering a management buyout from its two Dutch pension fund owners: the €240 billion APG and €86 billion PGGM. AlpInvest, its two parents and Credit Suisse all declined to comment on the process or were unavailable.

Since as long ago as last year, reports had been surfacing in the Dutch financial press that PGGM planned to withdraw or reduce its backing for AlpInvest and would instead ramp up its own in-house private equity activities. Last year AlpInvest chief executive and managing partner Volkert Doeksen played down the reports, telling *PEI* that PGGM was "firmly expected to remain one of the most significant investors going forward".

AlpInvest has become one of this decade's most active European LPs, committing to firms such as Advent International, Bain Capital, Hellman & Friedman, Permira, Providence Equity Partners and Terra Firma (see inset table for the volume of its recent commitments).

Some sources with knowledge of the sales process questioned the viability of an AlpInvest sale given the scale of its operations. "They have so many people and offices," one source notes, highlighting the fact that the cost of maintaining a large staff ultimately impacts the bottom line. AlpInvest had 121 full-time employees at the time of its 2009 annual review. It had a wage bill of €33 million and revenues of €60.3 million.

According to the Financieele Dagblad report, sources at AlpInvest say the firm's owners would not welcome a management buyout, because of the huge bonuses senior executives have earned in the past. Specifically, union members on the supervisory boards were unhappy with the bonus structures, the paper said.

The industry will follow developments with interest. ■

ANATOMY OF ALPINVEST

A breakdown of the Dutch investor's commitments in the last two years by market segment

	2008 commitments (€m)	2009 commitments (€m)
Fund of funds	4,357	1,747
Co-investment	1,126	1,055
Direct investment	-	-
Mezzanine investments	665	670
Secondary investments	1,105	1,055
Total	7,252	4,527

Source: AlpInvest