# EVCA
# QUARTERLY ACTIVITY INDICATOR

European Private Equity & Venture Capital Association

## Third Quarter 2002

(1 July-30 September 2002)

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### High value buyout deals continued to dominate investment, IPOs reduced to a trickle.

**The latest quarterly activity indicator, released today by the European Private Equity and Venture Capital Association shows that large buyout deals continued to drive private equity investment activity in Europe during the third quarter of 2002. €6.3bn was invested in 1,055 companies during the third quarter. While fundraising demonstrated more positive figures than Q2 at €3.5bn, a small number of IPOs reflected the tough public market exit conditions during this summer period.**

The **EVCA Quarterly Activity Indicator** is designed to provide all stakeholders with an early and timely indication of the fundraising climate and investment and divestment activity. In this endeavour, EVCA combines forces with **PricewaterhouseCoopers**, specialists in conducting private equity surveys in Europe, and **Thomson Venture Economics**, which has developed a strong expertise with quarterly exercises in the US. These skills and a proven methodology are the best guarantee of comparable and reliable data.

**Fundraising**

In the third quarter of 2002, a total of €3.5bn new funds were raised[1], representing a 72% increase on the €2.1bn raised in Q2. This increase was primarily due to a large rise in funds raised from independent vehicles. The total amount raised in Q3 was still lower than the €5.4bn raised in Q1. €3bn was sourced from independent vehicles in Q3,

[1] Quarterly activity indicator total funds raised do not include global funds raised by management companies located outside Europe, but investing a share of their global fund in Europe.

almost three-times the amount raised from this source in Q2. Conversely, the amount raised by captive funds in Q3 (€348m) was 40% lower than in Q2 (€574m).

**Investment – Average investment impacted by large buyouts**

A total of €6.3bn private equity was invested in 1,055 companies in Q3 2002, representing a 24% increase in amount invested on the previous quarter (€5.1bn in Q2). Reflecting difficulties in deal completion, the number of investments in Q3 was 23% lower than Q2 at 1,211 investments (1,576 in Q2). Likewise, 1,055 companies received private equity investment in Q3 2002, down by 17% on Q2, when 1,274 companies received funding. Not surprisingly, the average amount invested per company increased by 50% from €3.98m in Q2 to €5.95m in Q3.

€4.3bn was invested in buyout stage companies in Q3, again representing the lions share of investment at 69% of the total and showing a 22% increase on Q2, due to some high value deals. There were 182 buyout investments in Europe in Q3, 23% fewer than the 235 in Q2. Similarly, the number of companies attracting buyout investment was lower at 114, 16% fewer than in Q2. As a consequence, the average amount invested per company in the buyout stage rose from €26.1m in Q2 to €37.8m in Q3. More specifically, 5 investments accounted for €1.2bn, nearly 30% of total buyout investment in Q3.

Expansion investment amounted to €1.3bn in Q3, representing 21.3% of total and an increase of 26% on Q2. Both the number of investments and number of companies at expansion stage were lower in Q3 than in Q2.

Amount invested in early stage (seed+start-up) grew by 21% to reach €417m and 10.2% of total amount in Q3, yet the number of companies benefiting from early stage investment actually fell to 359 from 394 the previous quarter. Start-up financing was the reason for the growth in amount invested in early stage, growing from €308m to €390m in Q2. However, seed stage companies continued to attract less investment during this period, falling 27% to €27m in Q3. While 48 seed stage companies benefited from venture capital investment in Q2, only 36 attracted venture-backing in Q3.

**Initial Vs Follow-on Investment**

Initial investment accounted for nearly 80% of the total amount at €5.0bn, but only 26% (310) of the total number of investments in Q3, reflecting a pattern observed in the previous two quarters. This was primarily due to the prevalence of large buyout deals. Although relatively fewer in number, these were initial investments and represented a larger proportion of the amount invested. While there was a slight decrease in the number of follow-on investments (from 1,104 in Q2 to 901 in Q3), a high proportion of the total number (74.4% of total number of investments) indicated that existing portfolios continued to be supported through further rounds of investment.

**Divestment**

Excluding write–offs, the highest amount divested at cost this year was in quarter three. A total of €1.5bn was divested at cost in Q3, up from €1.3bn in Q2 and just over €1bn in Q1. A total of 502 companies were divested in Q3, down from the 774 divested in Q2. Trade sales remained the most significant route to exit and accounted for 28.8% of total divestment at cost (€434m), a 5% decrease in amount on the previous quarter. At €342m, write-offs remained significant in Q3, but fell by 18% on the previous quarter. IPOs as an exit were still a rare option, but the slow trickle of activity (2 companies divested through IPO in Q3) showed that some practitioners still managed to use the IPO, even in the prevailing difficult climate. Between Q1 and Q3 of 2002, a total of €3.9bn was divested at cost.

*"The current climate remained harsh for private equity practitioners in Q3 this year,"* said Max Burger-Calderon, EVCA Chairman and Executive Director at Apax Partners. *"There were some positive signs: in the higher fundraising, investment opportunity in large buyouts and the best divestment quarter so far this year. However, early-stage financing continues to be anathema and the biggest challenge remains the exit."*

Gillian Middleton European Private Equity Research Manager, Thomson Venture Economics, adds "*The third quarter has seen some very large buyout investments, which in the present financial climate has caused something of a polarisation in the stage distribution. However this was not unexpected and this distribution looks likely to remain while exits remain difficult."*

Keith Arundale, European Venture Capital Leader for the Global Technology Industry Group in PricewaterhouseCoopers, comments, "*While the amount invested in start-up and expansion investments increased in Q3 on Q2, times remain tough and entrepreneurs, more than ever must have convincing business proposals and strong management teams in order to secure investment."*

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## Notes

**For Q1, Q2 and Q3 data, please see attached excel file.**
**Important:** *Data is updated from one quarter to the other and is therefore subject to change.*

The **EVCA Quarterly Activity Indicator** is complemented by the well-established *Annual Survey of Pan-European Private Equity and Venture Capital Activity*, conducted for EVCA by *PricewaterhouseCoopers.* The Annual Survey covers the European universe of private equity management companies (not only EVCA Members) and presents detailed, comprehensive fund raising, investment and divestment data for the whole year.
The EVCA Quarterly Activity Indicator provides an indication of the evolution of activity within a year. The results are compiled by surveying a sample, which is representative of the European industry in size of fund, geographical breakdown and stage distribution of investments coverage. Data collection is compiled through completed questionnaires. No estimations are made.

**The European Private Equity and Venture Capital Association (EVCA)** was established in 1983 to represent, promote and facilitate the development of the European private equity and venture capital industry. As the industry's pan-European representative body with over 980 members, EVCA supports a wide range of initiatives designed to encourage an entrepreneurial environment in Europe, promote the industry to institutional investors worldwide, encourage the development of equity markets appropriate to the needs of private equity investors and investees and establish high standards of business conduct and professional competence. The association stimulates promotion, research and analysis of private equity and facilitates contacts with policy-makers, investors, research institutions, universities, trade associations and other relevant organisations.

### Terminology

*Venture Capital* refers to Early-Stage (=seed and start-up) and Expansion finance.
*Private Equity* provides equity capital to enterprises not quoted on a stock market and refers to all stages of industry, i.e. Venture Capital and Buyouts.