THE END OF THE BEGINNING

May 2020

Overview

The first quarter of 2020 will forever be defined by the emergence of the COVID-19 pandemic. However, since the various lockdowns across the globe were not put in place until mid-March, private equity market statistics do not yet show the full impact of the crisis. Global investment activity showed a modest decline compared to the first quarter of 2019. Nevertheless, the APAC region, where the impact of the virus was felt much earlier in the quarter, posted a significant 40% decline in deal activity. Meanwhile, the decline in exit activity was more pronounced, continuing a downward trajectory from 2019.

Paul Newsome

Head of Investment Solutions, Private Equity

Key Points

1. Private equity market statistics do not yet show the full impact of the COVID-19 crisis, but we expect that investment and exit activity will fall significantly in 2020.
2. We expect a number of investment opportunities to emerge from the current crisis, particularly among small and mid-market companies and secondaries.
3. In Q1 2020, Unigestion contributed EUR 248 million to investments and received distributions on investments of EUR 152 million and completed a large secondary sale.

Mega Buyouts Prop Up the Market

The global aggregate value of private equity deals closed during Q1 2020 was EUR 141bn, 6% down on the same quarter last year[1]. This decline was driven by a slump in deal activity in APAC, while activity was flat in Europe and actually rose by 3% in North America.

However, when one dips below the surface, the story becomes more nuanced. Due to a small number of mega buyouts, the volume of deals greater than EUR 2.5bn increased by 200% in Q1 versus the same quarter last year. The largest deal closed was the acquisition of German-based Thyssenkrupp Elevator AG, a manufacturer of lifts and escalators, by Advent International, Cinven and the RAG Foundation for EUR 17.2bn. In the US, Searchlight and ForgeLight acquired a majority stake in Univision Communications, the leading Hispanic media company in the US, in a deal that values it at USD 9.7bn.

Meanwhile, the fall in global exit activity was more acute (see Figure 1). The global aggregate value of exits in Q1 2020 was EUR 51bn, more than 50% down on the same quarter last year. No region was immune from this with North America (-58%), Europe (-44%) and APAC (-62%) all showing significant declines.

Despite the extreme volatility in the stock markets, private equity fundraising continued to show resilience. In total, USD 133bn was raised in Q1 2020[2]. This was a 13% increase versus the same quarter last year despite the number of funds closed being almost 30% down. This suggests that, yet again, the large end of the market has been propping up volumes.

It seems clear that, in the coming months, the private equity market will be significantly impacted by the COVID-19 crisis. Firstly, private equity companies operating in certain sectors, such as non-food retail, transportation, leisure and hospitality, will see material valuation write-downs. Secondly, we expect investment, and especially exit activity, to temporarily collapse. Finally, while many investors will view this as a good time to commit to private equity funds,

[1] Pitchbook, April 2020.

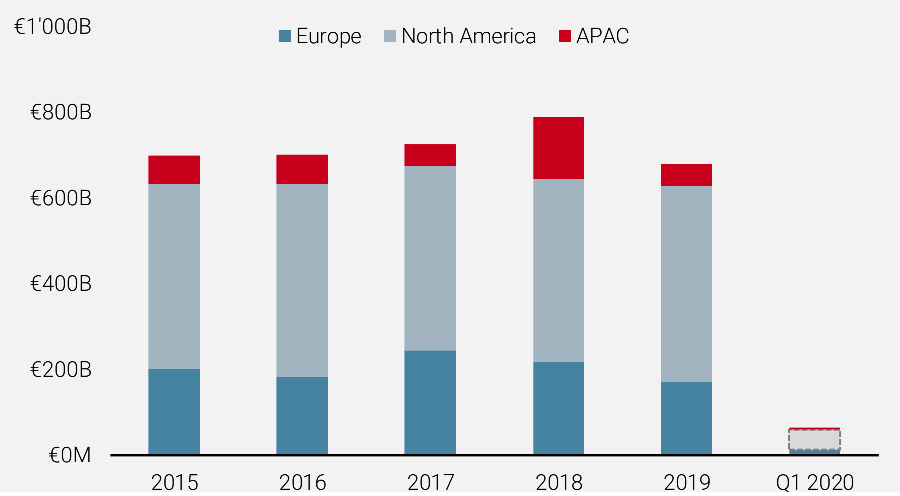
[2] Preqin, April 2020.

Read more of our latest investment thinking online: www.unigestion.com/insights fundraising in general will soften this year as certain investors grapple with liquidity constraints.

Nevertheless, once the dust has settled, we expect that certain strategies, such as secondaries and small and mid-market investments, will benefit from attractive opportunities driven by lower valuations, limited debt availability and an increase in motivated sellers.

"We expect that certain strategies, such as secondaries and small and mid-market investments, will benefit from attractive opportunities."

Figure 1: Exit activity (EUR bn)



Source: Preqin, April 2020.

Resilience in a Crisis

In early April, we reported to clients our first assessment of the likely impact of the COVID-19 crisis on our funds and mandates by assessing the situation of the portfolio companies representing 80% of the NAV of each programme. For each company, we considered both the impact on value and the financial headroom. On one hand, we found that most companies will likely see, to a varying degree, a negative effect on valuation. On the other hand, most companies so far have sufficient financial liquidity to survive even a prolonged crisis. The full presentation of this assessment is available on our investor portal.

There are also companies in our portfolios that are actually seeing a positive effect from the current crisis. Agro Merchants is a cold storage operator serving the food industry, with 66 facilities in 12 countries. As the market leader in providing cold-chain solutions for food commodities (e.g., beef, chicken, pork, seafood, fruit and vegetables), Agro has state-of-the-art automated handling and processing capabilities. With increased demand from the end consumer and pressure from food companies to provide continuous supply in an uncertain global environment, all of Agro's facilities are currently operating at full capacity. Furthermore, the company will be able to continue its buy-and-build strategy in a market where valuations are expected to fall, as smaller family-owned businesses may run into liquidity issues.

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Companies which benefit from clear consumer trends and have the right distribution channels are well positioned in the current situation. Voff is Europe's leading provider of natural premium pet food. It develops and sells fresh pet products with high quality, natural ingredients and minimal processing. Pets are seen today as part of the family and therefore the demand for premium pet food products is constantly increasing. In addition, Voff has developed a sophisticated e-commerce platform which now accounts for roughly two-thirds of sales. As a result, the company has been successfully growing its share of the pet food market across the Nordic and the German-speaking regions.

This crisis is not only testing the resilience of companies, it is also uncovering the true ESG leaders. Kindred, a leading chain of nurseries in the UK, takes seriously the relationship with its employees, customers and communities. As a result of the

COVID-19 crisis, nurseries were ordered to close. Following this, Kindred decided to waive fees to parents, even though the company was not contractually obliged to do so. In addition, it has launched an "Inspiration Corner" on its website that provides parents with tips and videos with potential activities for young children. This effort to continue to engage with children and parents who are now at home has been very well received. Finally, while the staff is unable to work, the company has furloughed them which allows them to continue to receive 80% of their salary (paid for by the government). Given that the company has no debt, it should be able to withstand over ten months of zero revenue.

We believe that these examples highlight the attraction of small- and mid-market companies. Such companies are resilient in their own right thanks to strong market positions, management and financials, and are able to implement their growth plans irrespective of market conditions. In addition, high ESG standards are critical for small- and mid-market companies whose success depends on trust and loyalty from its employees and customers.

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Unigestion Private Equity Investment Activity

In the first quarter of 2020, Unigestion contributed EUR 248 million to investments. We closed commitments to two new primary funds, two new secondary transactions and two new direct deals. In the same period, Unigestion received distributions on investments of EUR 152 million and completed a large secondary sale.

Figure 2: Investment Activity in Q1 2020

Investment Type	Contributions	Distributions
Primaries	EUR 157m	EUR 103m
Secondaries	EUR 68m	EUR 14m
Directs	EUR 23m	EUR 35m

Source: Unigestion, April 2020.

In January, we completed the sale of 28 funds on behalf of four different investment programmes to two different buyers in a process that began earlier in 2019. The funds concerned were of older vintages and had limited upside left. Given the size of the transaction and the quality of the underlying portfolios, we were able to generate significant interest from multiple secondary buyers. Ultimately, we achieved an attractive price of 97.4% of net asset value.

In the same month, we committed to Avallon III, managed by one of Poland's pioneers in management buy-outs. Avallon has participated in over 100 such transactions since 2001. The fund manager seeks to invest in niche leaders across Poland's most exciting industries, including consumer goods, business-to-business services, e-commerce and manufacturing.

We also finalised the exit of our investment in WCG, the world's leading provider of solutions that measurably improve the quality and efficiency of clinical research. In August 2016, we participated in a recapitalisation of WCG which valued the company at USD 970m. During our investment, the company grew both organically and through multiple acquisitions, increasing revenues by over 150%. An investor group led by Leonard Green & Partners acquired the company for USD 3.2bn, delivering a 3.5x multiple on our original investment.

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HealthTech BioActives

In February, we completed the first investment in our new direct programme. HealthTech BioActives (HTBA), is a Spanish manufacturer of flavourings, sweeteners and active pharmaceutical ingredients such as flavonoids derived from citrus fruits and other plants, as well as B12 vitamin derivatives and other substances. HTBA is well known for the quality of its products and is a well-established innovation leader with patented products and processes. In addition, HTBA's technological know-how acts as a barrier to entry, protecting it against competition. The aim is to further grow the company through an expansion of the product portfolio and customer base, as well as through enhancements to production processes. The ultimate demand for HTBA's products is being driven by an ageing population and rising health awareness, which allows the company to grow even in the current environment.

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