



Quarterly Market Review

Danske Private Equity 31. 12. 2009

Development within the private equity market

Signs of a stabilisation

The private equity market remains under pressure, although there are signs of the market stabilising. Buyout volume in the US reached USD 6.9bn in the third quarter of 2009, an increase of 21% compared to the second quarter of 2009. Following the third quarter, there have even been a couple of deals over USD 2bn, including a USD 2.6bn deal by Clayton Dubilier & Rice and a USD 2.3bn deal by Blackstone Group. Both deals had significant leverage, a further sign of confidence slowly returning to the market. It is still too early to tell, however, whether these deals are one-off events or the beginning of a period with higher activity. In any case, it is still challenging for buyout firms to obtain debt financing, and in the third quarter of 2009 leveraged loan volume in the US was just USD 400m, less than 4% of the USD 10.4bn in the third quarter of 2008. Furthermore, lenders still require sponsors to invest 40-50% equity into deals, which is significantly more than usual. Given the difficulties to obtain debt financing, most of the deal activity continues to be in the smaller end of the market.

The pace of bankruptcies have slowed down

Given the overall macroeconomic environment, private equity firms are still struggling to manage their portfolio companies. In the first nine months of 2009 there were 59 defaults of private equity backed companies, more than the 49 in all of 2008. It should be noted, however, that the pace of bankruptcies has slowed down from the first two quarters, and there were none at all in the month of September.

The public market rally impacts valuations positively

Valuations of private equity firms' portfolio companies climbed for a second consecutive quarter in the third quarter of 2009. However, this is mostly due to the public market rally, as most private equity firms use fair value accounting based on public comparables. Although some portfolio companies have also been able to increase earnings, this has only been sporadic and not a key driver of valuation uplifts.

Still no exit activity

Exit activity has been very limited so far in 2009, and significantly lower than any other year in the current decade. As markets are improving again, many private equity firms are currently preparing a significant number of portfolio companies for exits in 2010, both through IPOs and trade sales. It still remains to be seen whether these exits will come through, but it certainly seems that especially the IPO window is opening up again.



Fundraising remains difficult

Fundraising remains difficult and the only notable exceptions to the fundraising drought in 2009 are the USD 8.8bn closure of Hellman & Friedman Capital Partners VII and the USD 4bn closure of TA Associates XI. Furthermore, a number of small and middle market firms have also closed new funds, but they are relatively few and far between, and most firms are hesitant about even trying.

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Danske Private Equity A/S is a specialist private equity fund-of-funds manager investing in first-class buyout funds in North America and Western Europe. The company was founded in January 1999 and now has over EUR 2.3 billion under management. Danske Private Equity is a company in the Danske Bank Group