Grant Thornton

Private Equity Barometer

April 2010

Welcome to the latest edition of Grant Thornton's *Private Equity Barometer* – the quarterly survey of over 100 leading Private Equity (PE) fund directors and managers, which canvasses the views of the UK PE community, examining the issues, trends and the hot investment sectors.

The quarterly snapshot

Encouragingly, a large proportion of respondents are confident of an uptick in activity in the coming 12 months as the market continues to stabilize, and as financing concerns begin to ease.

In 2010, we expect this improvement to continue in relative terms, but we will not see a significant recovery of PE before 2012, as the picture continues to be marred by the uncertain economic outlook.

- **80%** of respondents expected to see an increase in the volume of new investments
- **66%** expected not to be impacted by financing difficulties
- **41%** still expected a lack of debt to be a contributing factor in their ability to do deals
- **78%** stated that unrealistic vendor pricing will be a key challenge

"It will remain challenging but expect to see a slow but steady improvement over the course of the year."

Survey respondent

PE volume expected to increase further

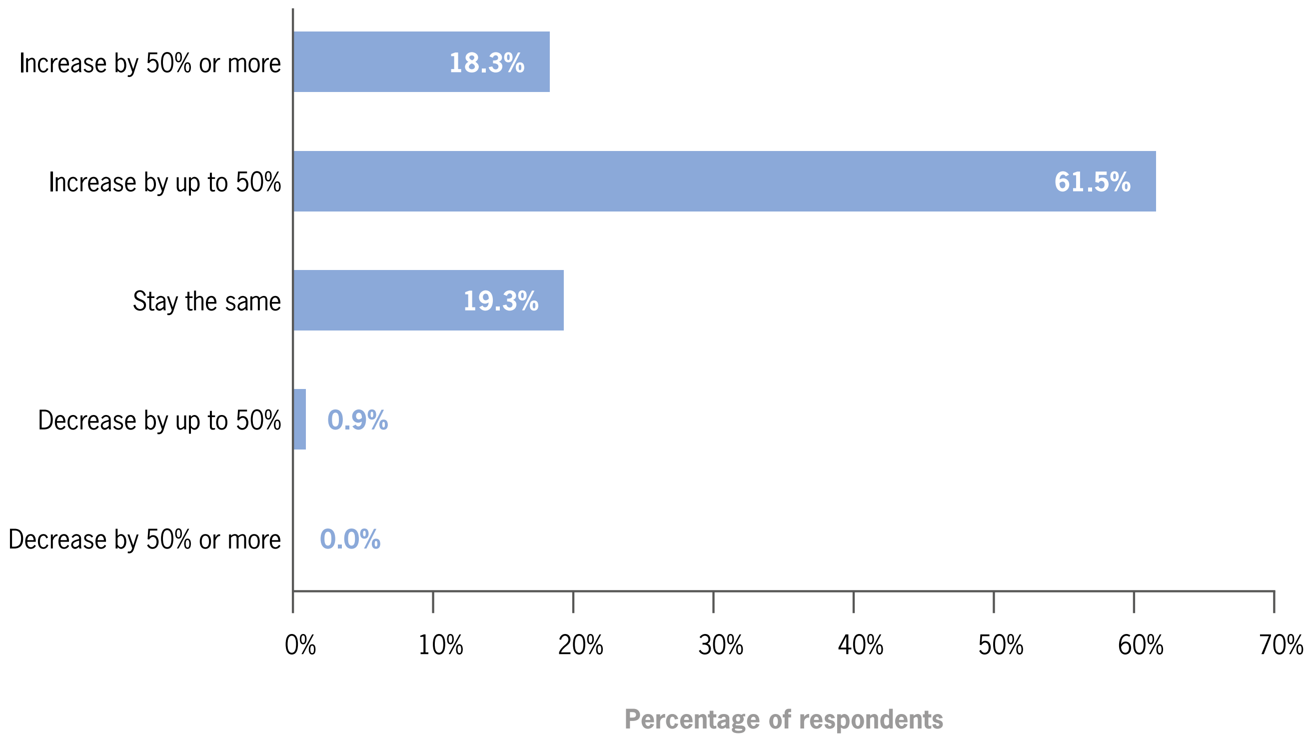
In our quarterly PE Barometer, 80% of respondents expected to see an increase in the volume of new investments over the coming 12 months. Compared to 71% in Q4 2009, this continuing optimism is a clear sign of confidence returning to the market.

Deal activity is also driven by the fact that half of the PE firms still need to invest more than 50% of their funds. As the market stabilizes, we continue to expect more companies coming to market. Key stakeholders like banks want them sold, and with many believing that valuations will not raise dramatically over the next 2-3 years, private company sale mandates are on the increase.

> "Private Equity firms are currently putting their money where their mouth is. In March alone, we have seen in excess of ten mid-market deals, six of which Grant Thornton has advised on."

Mo Merali, Head of Private Equity, Grant Thornton.

How do you expect the volume of new investments in the coming 12 months to compare to the previous 12 months?



Financing concerns continue to ease, but debt financing remains an issue

Despite continuing difficulties in raising new funds, the majority of respondents (66%) believe they have enough firepower to complete deals. A lack of debt however is seen by 41% of respondents to be a contributing factor in their ability to do deals in the next year. Encouragingly, these responses were slightly more optimistic than Q4 2009 results, when 45% expressed concern. This is a good sign that the debt market is continuing to thaw. Indeed, Grant Thornton is seeing the financing side improving, with banks showing a growing interest in supporting transactions.

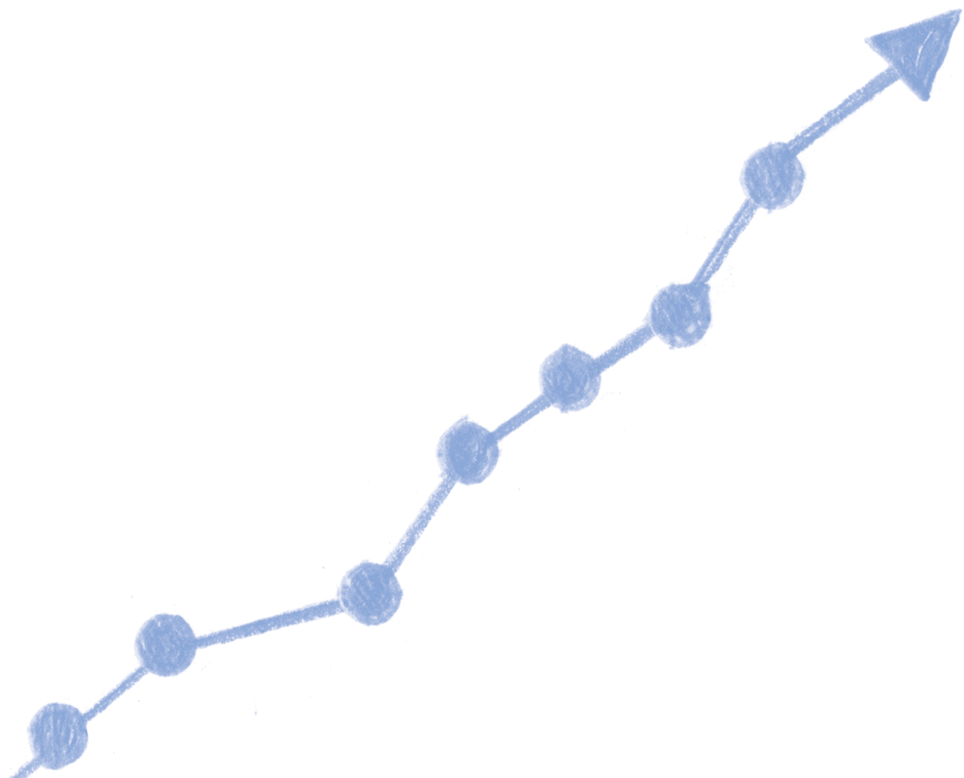
Unrealistic vendor pricing remains, but quality assets will sell at a premium

In Q1 2010, 78% of respondents identified that unrealistic vendor pricing would continue to be one of the main obstacles to closing deals. Despite this, PE investors also indicate that they are prepared to pay much higher prices for quality assets. This is perhaps reflected by the fact that the majority (52%) of respondents faced difficulties in sourcing quality businesses for investment.

On average, respondents to the survey are prepared to pay EBITDA multiples of up to 7.9 for healthcare, 6.4 for industrials, 6.2 for business support and 7.7 for high technology. Only three months earlier (in Q4, 2009), PE respondents expected EBITDA multiples to amount to 7.1 for healthcare, 4.7 for industrials, 5.8 for business support and 7.2 for high technology.

> "The swell of quality assets coming to market in recent weeks has increased private equity appetite. Listed companies and multinationals in particular are increasingly disposing of quality assets in the UK to focus on their core business. We just advised the management of Kerridge Commercial Systems on a buyout backed by NVM Private Equity. The UK-based developer of Enterprise Resource Planning software was sold by US-listed ADP Inc."

Mo Merali, Head of Private Equity, Grant Thornton.



Many expect to complete trade sales, despite a difficult exit environment

In Q1 2010, almost 80% of PE respondents expected to complete a trade sale in the coming twelve months. At the same time, less of a quarter of respondents rate the exit environment as good. This compares to 39% who expect to sell a portfolio company to another PE firm and 16% who plan to take a portfolio company public.

This is the first time in years that the number of PE firms planning to exit investments via trade sale is so much higher than those planning secondary buyouts or IPOs.

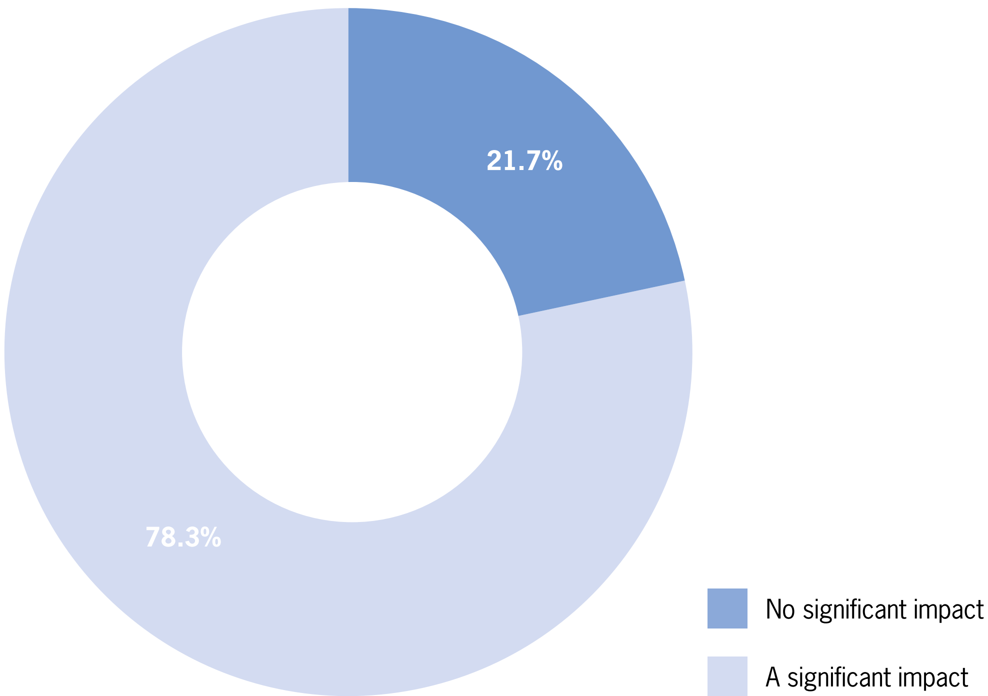
Healthcare, business support services and infrastructure to be popular in 2010

The survey revealed the majority (51%) of PE firms expect to change their sector focus in 2010 with healthcare, business support services and infrastructure continuing to be the most popular choices.

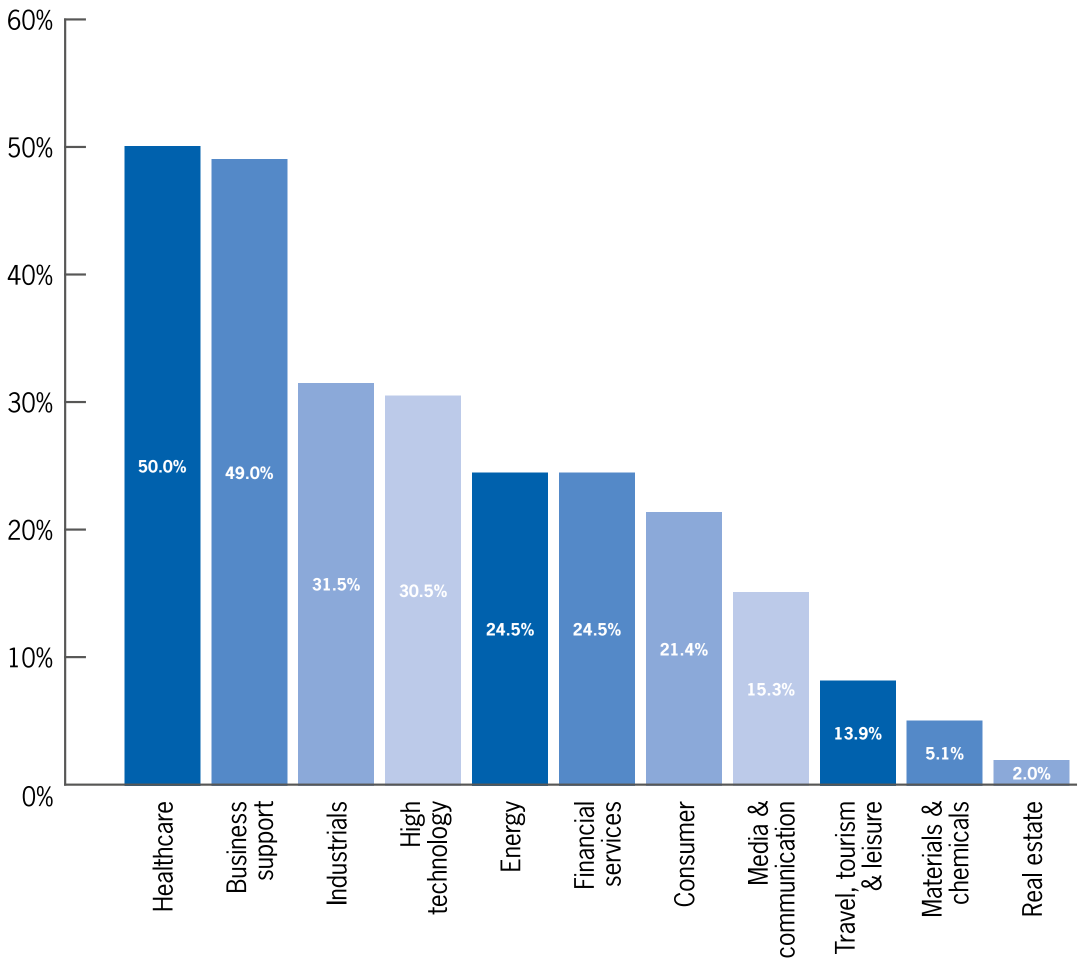
This is understandable as PE houses are increasingly choosing to invest in sectors that offer themselves for an exit via trade sale. Moreover, acquisitive PE firms need to get various banks to agree on club deals, which is why they favour sectors that offer steady cash flows. Healthcare, business support services and infrastructure are all fairly safe bets.

The survey also reveals both the high technology and the consumer sector have reduced further in popularity, with only 31% and 21% of PE respondents expecting to be most active in these sectors. In 2009, these sectors had been the second and third most active sectors.

Unrealistic vendor pricing



In which sectors do you expect to be most active in the next 12 months?



Our next PE Barometer Survey will be released in August 2010. The next few months will continue to be a testing time for the economy, with ongoing speculation on the sustainability of the recovery. It will be interesting to see how sentiment and attitudes amongst PE executives change, and whether the swing towards greater optimism will continue.

Contact us

For further information contact:

Mo Merali
Head of Private Equity
T 020 7728 2501
E mo.merali@gtuk.com

Belfast
Charlie Kerlin
T 028 9031 6510
E charlie.kerlin@gtuk.com

Birmingham and Leicester
Mustafa Abdulhusein
T 0121 232 5447
E mustafa.abdulhusein@gtuk.com

Martyn Pilley
T 0121 232 5414
E martyn.pilley@gtuk.com

Bristol and Cardiff
Mark Naughton
T 0117 926 8901
E mark.c.naughton@gtuk.com

Richard Wilson
T 0117 305 7756
E richard.wilson@gtuk.com

Cambridge
Geoff Davies
T 01223 225630
E geoff.davies@gtuk.com

Darren Bear
T 01223 225673
E darren.m.bear@gtuk.com

Edinburgh
Ian Calder
T 0131 659 8505
E ian.w.calder@gtuk.com

Robert Hannah
T 0131 659 8515
E robert.k.hannah@gtuk.com

Gatwick
Rupert Rawcliffe
T 01293 554022
E rupert.rawcliffe@gtuk.com

Glasgow
David Cockburn
T 0141 223 0603
E david.cockburn@gtuk.com

Leeds
Ian Marwood
T 0113 200 1513
E ian.marwood@gtuk.com

Will Oxley
T 0113 200 1582
E will.m.oxley@gtuk.com

Jonathan Steed
T 0113 200 2661
E jonathan.m.steed@gtuk.com

London
David Ascott
T 020 7728 2315
E david.p.ascott@gtuk.com

Stephen Baker
T 020 7728 3100
E stephen.baker@gtuk.com

Philip Bird
T 020 7865 2228
E philip.bird@gtuk.com

Dominic Bolton
T 020 7865 2306
E dominic.bolton@gtuk.com

Paul Cooper
T 020 7865 2622
E paul.a.cooper@gtuk.com

Peter Dawson
T 020 7728 3197
E peter.dawson@gtuk.com

Paul Flatley
T 020 7728 2779
E paul.flatley@gtuk.com

David Gardner
T 020 7865 2233
E david.j.gardner@gtuk.com

Trefor Griffith
T 020 7728 2537
E trefor.a.griffith@gtuk.com

Francis Mainoo
T 020 7865 2378
E francis.mainoo@gtuk.com

Michael Thornton
T 020 7728 2644
E michael.j.thornton@gtuk.com

London Thames Valley
Duncan Lamb
T 01753 781100
E duncan.lamb@gtuk.com

Manchester
Ali Sharifi
T 0161 953 6350
E ali.sharifi@gtuk.com

Ian Wilson
T 0161 953 6482
E ian.p.wilson@gtuk.com

Milton Keynes
Tim Blois
T 01908 359582
E tim.m.blois@gtuk.com

Mike Hughes
T 01908 359581
E mike.hughes@gtuk.com

Newcastle
Simon McIntosh
T 0191 203 7792
E simon.a.mcintosh@gtuk.com

Norwich
James Brown
T 01473 298815
E james.r.brown@gtuk.com

Tim Hansell
T 01223 225616
E tim.l.hansell@gtuk.com

Oxford
Wendy Hart
T 01865 799938
E wendy.e.hart@gtuk.com

Southampton and Reading
Simon Davies
T 023 8038 1138
E simon.davies@gtuk.com

Grant Thornton also has offices in the following locations:
Brighton
Bury St. Edmunds
Farnham
Ipswich
Kettering
Liverpool
Northampton

To receive a full detailed analysis of the survey please contact:

Lucy Canning
Marketing Manager, Private Equity
T 020 7728 2669
E lucy.canning@gtuk.com

For any other queries, please contact your local Grant Thornton office
www.grant-thornton.co.uk

Grant Thornton

www.grant-thornton.co.uk

B1577722