Tech and ESG gain traction in French private equity

Buoyed by a stable political and economic backdrop, the past year has been another robust one in French private equity. Deal volumes are healthy, fundraising has been strong and GPs are successfully finding ways to adapt in a more competitive environment.

Total deal volume has already overtaken last year's figure, climbing to 362 from 320. This has been accompanied by a shift to smaller investments such as expansion and early-stage deals and buyouts worth less than €50m, which has resulted in weaker aggregate deal value.

There have been 212 expansion and early-stage deals this year, up from the 149 completed in 2016, while the number of sub-€50m buyouts has grown for the fourth consecutive year. French venture is currently booming after a very robust spell of fundraising.

This contrasts with the top of the market. While there have been five mega-deals (>€1bn), up one from last year, the number of deals above €250m has slowed and average buyout value has fallen for the second consecutive year to €128m from €149m.

The biggest deal was Intermediate Capital Group's purchase of care home operator DomusVi from PAI for €2.4bn. A noticeable trend is that a bilateral approach to deal-making is becoming more popular among GPs. Thibault Basquin, Ardian Buyout's managing director in Paris says: "GPs prefer to concentrate on fewer deals, but invest a large amount of time in selecting and approaching companies."

Aside from competition between private equity houses, LPs are also creeping into the market, making direct investments mostly at the upper-end. One source pointed out the novelty of the process in French private equity, stressing that time will tell if these firms have the right DNA to produce high returns.

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Christophe Bavière, Idinvest

The main exit route taken in 2017 was secondary buyout, which accounted for 43% of exits, while trade sales were the second most popular at 24%. This is in stark contrast to five years ago, when trade sales were 38% of exits and secondary buyouts only 13%.

Fundraising continues apace

French funds holding final closes this year raised €10bn in total. While lower than 2016, this is mainly due to a €12bn fund raised by Ardian last year. The largest final close this year was Chequers Capital XVII on €1.1bn – it was joined by Committed Advisors Secondary Fund III and Apax France IX in closing above €1bn.

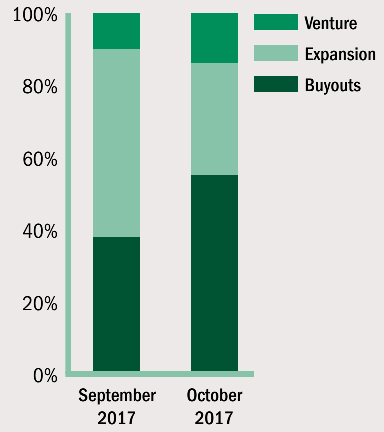
"The French market is too mature for a new wave of first-time fundraisers," says Idinvest CEO Christophe Bavière. As a result, there has been a greater focus on specialisation, especially in the lower-end of the market. "Rather than new investors fundraising for the first time, we're seeing established investors setting up new vehicles which are much more sector-specific," he says.

After several years of incredibly strong fundraising, French GPs have plenty of capital to deploy and are confident deploying it locally. GPs are happy with the lack of domestic shocks, political and economic, which has helped keep their top line assumptions intact.

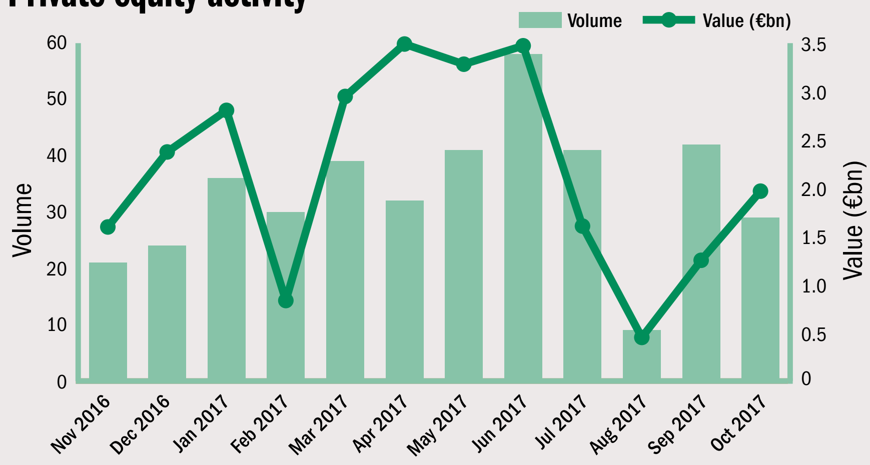
Tech and ESG on the horizon

Investment in technology is expected to be a major theme in France in 2018. "We're seeing a strong convergence between the digital space and the buyout space," says Frans Tieleman, head of Eurazeo Development. Bavière adds: "Large established players are much more interested in tech start-

Deals by type



Private equity activity



All sources: *unquote" data*

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Thibault Basquin, Ardian Buyout

ups. Seed investment in European tech start-ups is done by European investors, but US and China-based investors are starting to intervene in early-stage and expansion phases."

In addition to more investors piling into tech, GPs expect there to be an even greater consideration of environmental, social and governance (ESG) factors. Tieleman stresses the need to ensure staff are treated well to avoid a high turnover during a company's development. Ardian's Basquin says: "Investments that guarantee a positive environmental impact, encourage gender balance and the share of value creation among employees are gaining priority."

In November 2017, Basquin led the firm's £1bn investment in DRT, which develops rosin and turpentine extracted from pine resin, prioritising industrial processes following environment-friendly practices. ■

All sources: *unquote" data*