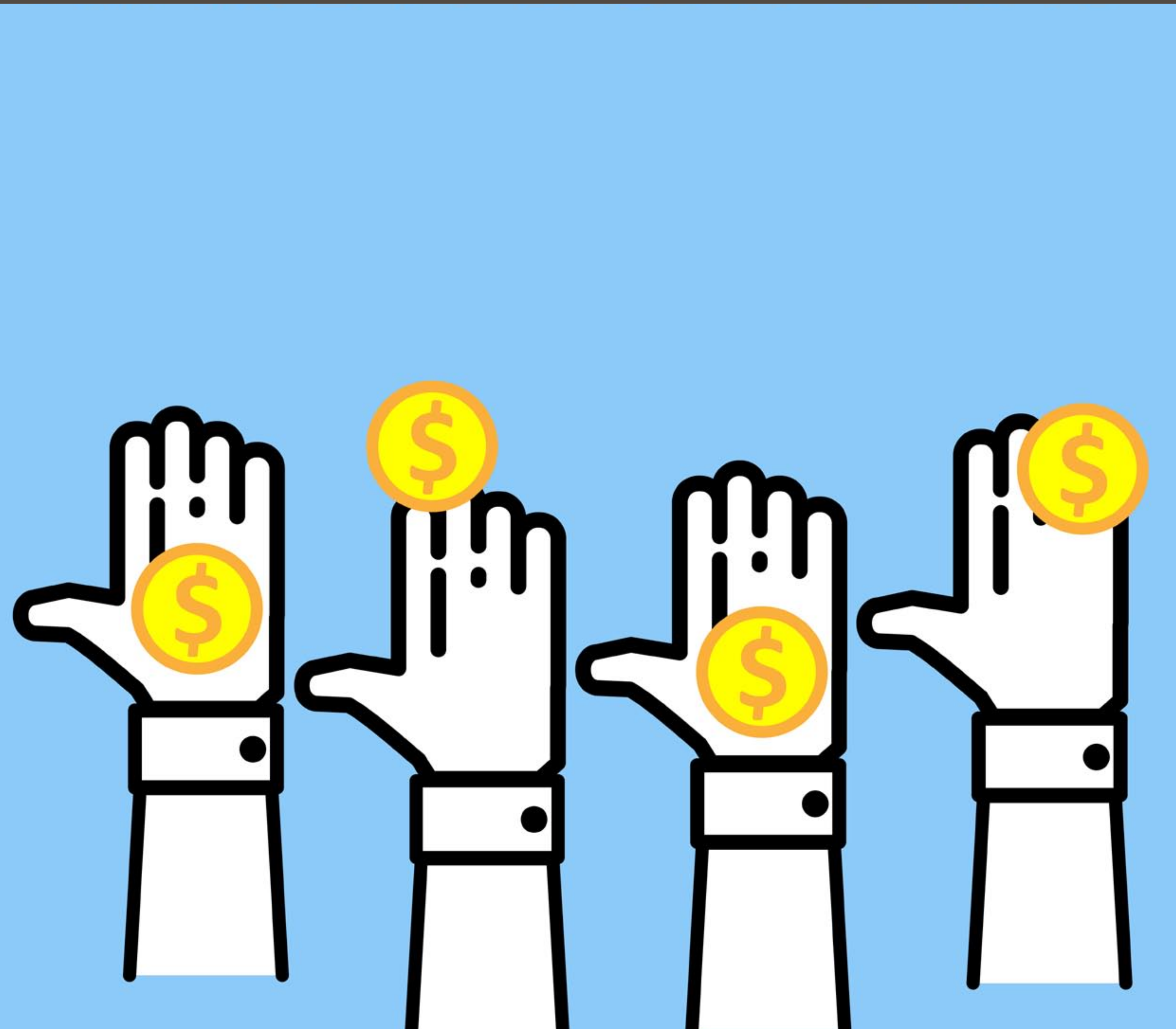
PRIVATE EQUITY & VENTURE CAPITAL

ANNUAL REVIEW **2017**



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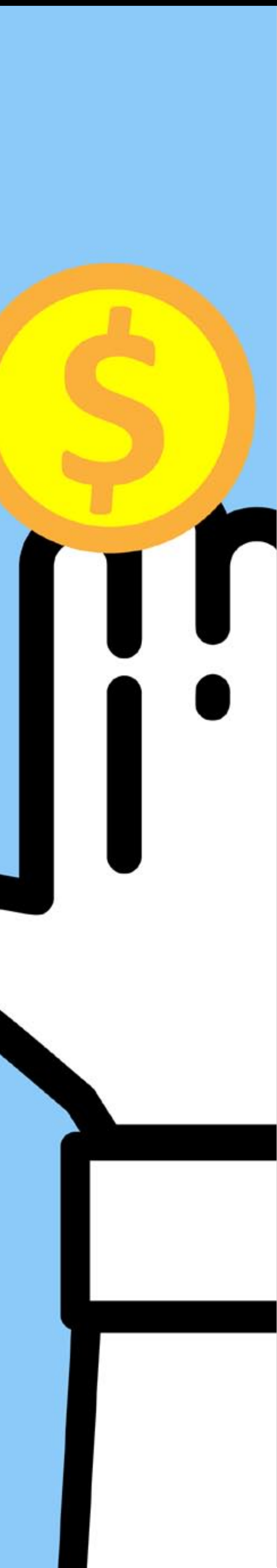

Financier Worldwide canvasses the opinions of leading professionals around the world on the latest trends in private equity & venture capital.

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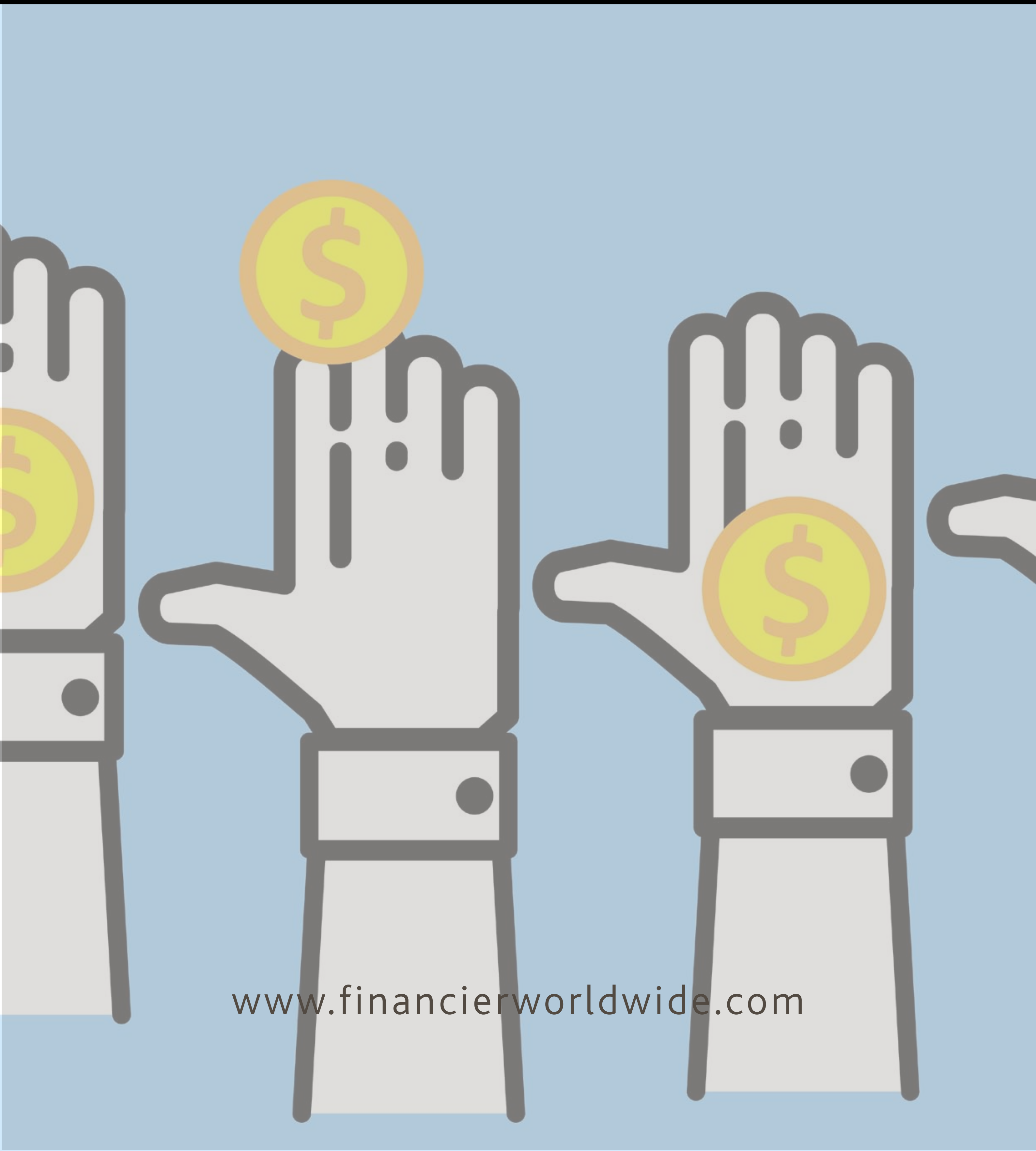

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INTRODUCTION

Though geopolitical challenges could have disrupted activity in the private equity and venture capital space, 2017 has been an impressive year for the asset class.

Dealmaking, particularly in key jurisdictions such as the US, Australia and across Europe, has remained strong in an increasingly sellers' market. With dry powder continuing to accumulate and new players entering the market, competition for assets is increasingly fraught. Financial sponsors, strategic bidders, sovereign wealth funds and other asset managers are all entering the fray, helping to drive up prices. As a result of this increased competition, many sellers are recording high EBITDA multiples, particularly in the consumer and technology sectors.

In Europe, the introduction of the ECB's Leveraged Lending Guidance, which came into force in November, is a significant development. In the US, the Volcker Rule's prohibitions on banks sponsoring PE funds have continued to impact the PE space.

In 2017, PE fundraising also remained strong in most major jurisdictions. With more funds operating in the market, competition for committed capital will be strong. LPs typically back established managers where there is an existing relationship or a proven track record. As a result, newer funds must try to differentiate themselves from the competition.

PORTUGAL

RICARDO ANDRADE AMARO
MORAIS LEITÃO, GALVÃO TELES, SOARES DA SILVA & ASSOCIADOS

Q HOW WOULD YOU CHARACTERISE PRIVATE EQUITY DEAL MAKING IN PORTUGAL OVER THE LAST 12-18 MONTHS? WHAT KINDS OF TRANSACTION VALUES ARE APPARENT AND IS THERE STRONG COMPETITION FOR DEALS?

AMARO: Private equity dealmaking in Portugal has seen a number of changes over the last year. Turnaround or distressed transactions involving private equity players are down for 2016, while management buyouts, a structure which has not been common for quite a few years, have significantly increased. Regarding investee companies, quite a few of the players are turning their attention to Portuguese small and medium-sized enterprises (SMEs) with leading positions in niche sectors. Nevertheless, investment in infrastructure by yield-seeking international funds remains strong. Another trend is the award of European structural funds to private equity fund managers for the capitalisation of SMEs. These funds are expected to start being deployed to final beneficiaries soon. Finally, it is interesting to witness the emergence of in-house venture capital units in large Portuguese corporates, which often act as incubators and make early stage investments in seed and start-up companies.

Q TO WHAT EXTENT ARE BANKS EAGER TO PROVIDE FINANCING FOR LEVERAGED BUYOUTS? ARE 'NON-TRADITIONAL' LENDERS ALSO VISIBLE IN THE MARKET?

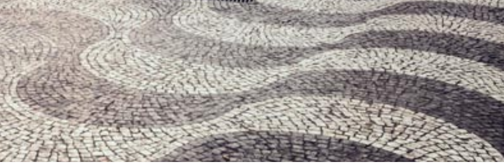
AMARO: Leveraged buyouts, a rare sight in the Portuguese private equity market, are performed mostly by foreign private equity funds in large acquisitions, the latter of which have experience in engineering 'financial assistance compliant' structures. Debt financing of private equity transactions by entities which are not banks is not common.

Q COULD YOU OUTLINE THE MOST SIGNIFICANT LEGAL AND REGULATORY DEVELOPMENTS FACING THE PRIVATE EQUITY INDUSTRY? IN YOUR OPINION, HOW WILL THEY SHAPE THE ASSET CLASS IN THE LONG TERM?

AMARO: Following the transposition of the Alternative Investment Fund Managers Directive (AIFMD) into the Portuguese jurisdiction, the impact of which is still being processed by private equity fund managers directly targeted by its rules, there have been no significant developments with regard specifically to the regulation of the industry. On the other hand, there have been other legislative developments at the European level which will have an impact on the activities of private equity managers and portfolio companies. These include the transposition of the directive preventing the use of the financial system for money laundering and terrorist financing activities. This has imposed on private equity managers further requirements for procedures to prevent money laundering and terrorist financing, and has created, but not definitively implemented as of yet, a central registry of ultimate beneficial owners. Also notable is the amendment to the directive which will impose, in particular, the adoption of procedures for approving related-party transactions.

Q HOW ARE PRIVATE EQUITY FIRMS ACTIVELY REDUCING RISK AND IMPROVING RETURNS ACROSS THEIR PORTFOLIO?

AMARO: Common methods used by private equity in Portugal to maximise returns for their funds often include placing fund manager board members or senior staff in portfolio companies' management bodies, optimising portfolio companies' capital structures, investing through quasi-equity or subordinated debt instruments, granting stock options or other incentives. This is usually based on the achievement of certain financial thresholds and having a carried interest remuneration structure for the private equity firm, in order to align the incentives of GPs and LPs alike. On the strategic and operational side, in some investments we are seeing a few bolt-on or add-on acquisitions for the purposes of acquiring scale and relevance in the respective product markets.



"Although no public data is available, there are a few tell-tale signs that private equity fundraising, after a lull in the past few years, will resume."

Q HOW ARE PRIVATE EQUITY EXITS PLAYING OUT IN PORTUGAL? IS THERE AN EMPHASIS TOWARD TRADE SALES, IPOS OR SECONDARY BUYOUTS, FOR EXAMPLE?

AMARO: Private equity exits are typically done via trade sales to national or foreign companies operating in the industry. Secondary sales are also common and investment write-offs sometimes occur. No IPO exit from a PE transaction has occurred in Portugal in 2017.

Q COULD YOU PROVIDE AN INSIGHT INTO THE MAJOR ISSUES SHAPING THE RELATIONSHIP BETWEEN GENERAL PARTNERS (GPS) AND LIMITED PARTNERS (LPS)?

AMARO: The growing sophistication of LPs and the demand for heightened governance standards – brought about by recent legislative developments – are the main trends shaping the relationship between GPs and LPs, as the latter demand more oversight and scrutiny of transactions, which has the potential to cause conflicts of interest. The emergence of state-owned entities as significant LPs of private equity funds, due to public tenders which are being launched to attribute European funds to capitalise Portuguese companies, will also shape the dynamic of the GP-LP relationship. These state-owned entities will, for the most part, be passive investors, but certainly will impose demanding standards on accountability, conflicts of interest and remuneration.

Q LOOKING AHEAD, WHAT ARE YOUR PREDICTIONS FOR PRIVATE EQUITY FUNDRAISING IN THE COMING MONTHS?

AMARO: Although no public data is available, there are a few tell-tale signs that private equity fundraising, after a lull in the past few years, will resume. Nevertheless, we do not expect volumes to be high since distressed transactions, which typically involved the highest values of transactions undertaken by Portuguese private equity outfits, are decreasing. The trend in the market now seems to be directed to some extent at non-regulated structures, that is, not via private equity companies and private equity funds. On the investor side, family offices are gaining relevance as providers of funds to private equity players. Finally, European structural funds are playing an important role in providing funds to private equity fund managers, either through competitive public tender procedures or specifically through the financing of a private equity fund in which the Portuguese development bank participates.

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Ricardo Andrade Amaro is a partner with extensive experience in corporate and commercial law, securities law, as well as in energy law. He acted as legal adviser in setting up the first private equity fund in Portugal exclusively dedicated to the recovery of companies (turnaround fund), which is currently the largest Portuguese private equity fund. In the area of corporate and commercial law, he has acted as legal adviser in several mergers, restructuring, acquisitions and sales of companies, on behalf of domestic and foreign clients.

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