ACQUISITION FINANCE SURVEY AUGUST 2013

MAZARS

FOREWORD

Mazars Corporate Finance is a leading global mid-cap M&A advisor and has been closely associated with several significant M&A transactions during the recent years both nationally and internationally.

Actively supporting investors with their "buy-side" considerations we often face a recurring question - "What do you think the financing terms would be?". As the circumstances would broadly differ from one case and one bank to another we would usually advise the clients to approach several banks for offers. However, in order to assist our clients in their financing simulations we have performed a survey on acquisition financing in order to find out if there are some commonly accepted financing terms depending on the deal size and other deal characteristics. We hope that this presentation gives guidance in how different characteristics can affect debt financing and in a structural way be of assistance in the simulations.

The survey was performed during the period March and May 2013 and covers transactions closed during 2012. We have explicitly investigated domestic transactions, that is Swedish targets acquired by Swedish private equity firms.

CONTENT

SUMMARY

The primary purpose of this survey is to give clients and business partners guidance in their acquisition financing simulations and assist them in understanding how different debt characteristics can affect financing terms. Our research indicates that only 52 private equity deals were made during 2012, excluding real estate and cross border. The survey was performed between March and May 2013 and distributed to 21 respondents who made 30 acquisitions during 2012 and provided data on 20 of these acquisitions.

During 2012 there has been a lower than normal amount of domestic transactions made by private equity firms in Sweden and the Swedish economy has struggled in the recession. The majority of the respondents believed that the current year would not show a recovery when it comes to debt funding.

The majority of the deals in this survey were in less capital intensive sectors, such as IT and services, with an enterprise value below SEK 100 million. The survey also showed that a leverage rate between 30 and 60% was most common and that bullet repayment was frequently used with a loan duration of 4 or 5 years.

THE SURVEY ALSO SHOWED THAT:

- the average spread to STIBOR 3M was 2.57% and has been fairly sustained during the year. As the reference rate has decreased the cost of debt to investors decreased without notable lag and with the same pace

- the higher leverage ratio in relation to enterprise value, the lower interest rate (spread to STIBOR 3M)

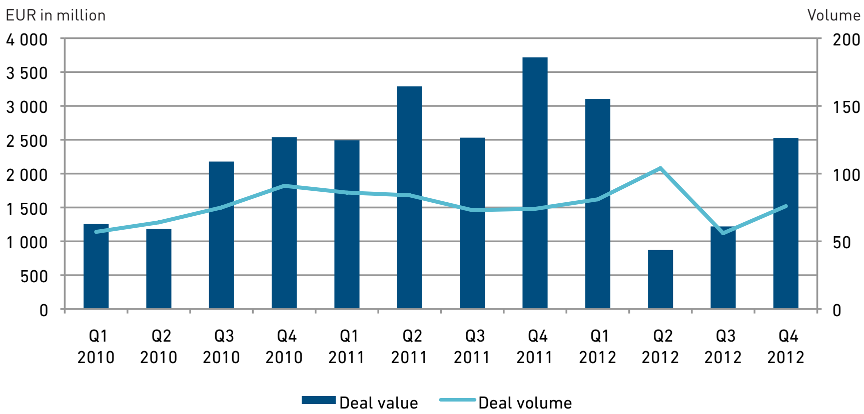
- that a straight repayment structure leads to a lower interest rate than with a bullet repayment. A larger part with bullet repayment seems to lead to a higher spread (and cost of debt)

SWEDISH M&A MARKET IN 2012

The Swedish M&A community received mixed signals from the market in 2012. On the one hand the will towards deal-making had improved, on the other hand the tendency towards smaller deals prevailed. While the number of transactions increased slightly (by 6%) the aggregate value of the M&A market has decreased by almost 40%.

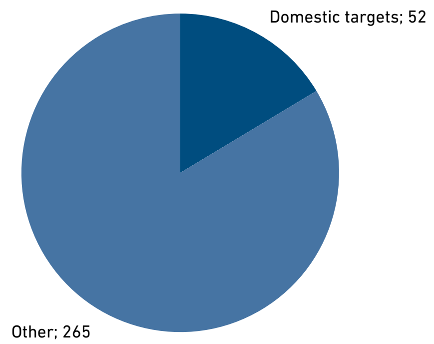
Swedish private equity firms participated in 317 domestic and cross-border transactions during 2012 either as a buyer or as a vendor. Of these we have identified 52 transactions where Swedish private equity firms invested in Swedish domestic targets. The remaining transactions (265) include Swedish private equity firms acting as sellers or buyers in real estate segment or in deals outside Sweden.

FIGURE 1:
QUARTERLY M&A VOLUME AND VALUE BY SWEDISH PRIVATE EQUITY FIRMS



Source: Mergermarket, Mazars analysis

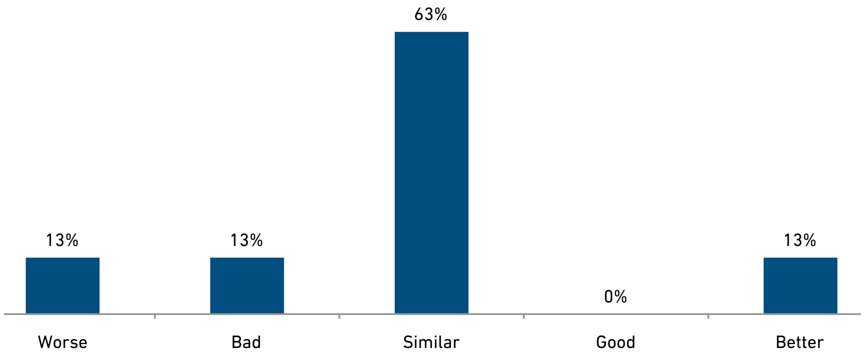
FIGURE 2:
DOMESTIC DEAL VOLUME BY SWEDISH PRIVATE EQUITY FIRMS



Source: Mergermarket, Zephyr database, Mazars analysis

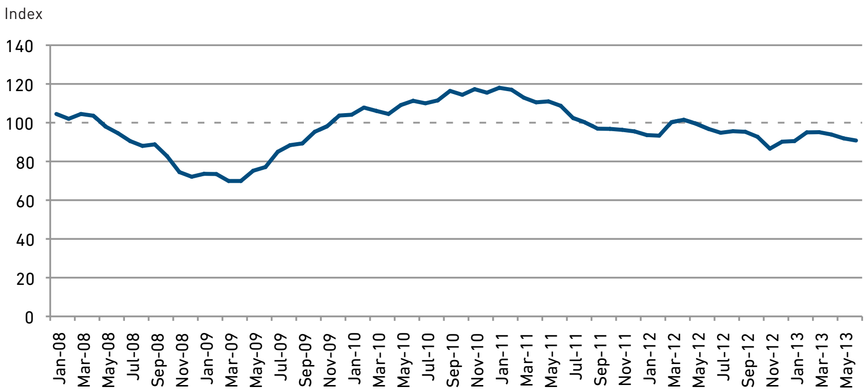
The majority of the respondents showed little optimism about the development of the acquisition funding climate in Sweden in 2013 compared to 2012. Almost two thirds (63%) believed that the funding conditions would remain similar to those in 2012 throughout the current year. However, 26% expected the funding climate to develop adversely. Only 13% expected a positive change during 2013. This observation is in line with the Economic Tendency Indicator provided by the National Institute of Economic Research (Sw: Konjunkturinstitutet) that shows a decline (index line below 100) in the Swedish economy during spring 2013.

FIGURE 3:
DISTRIBUTION OF THE RESPONDENTS PREDICTION ON THE CLIMATE FOR DEBT FUNDING DURING 2013 COMPARED TO 2012



Source: Mazars Survey

FIGURE 4:
THE SWEDISH ECONOMIC TENDENCY INDICATOR

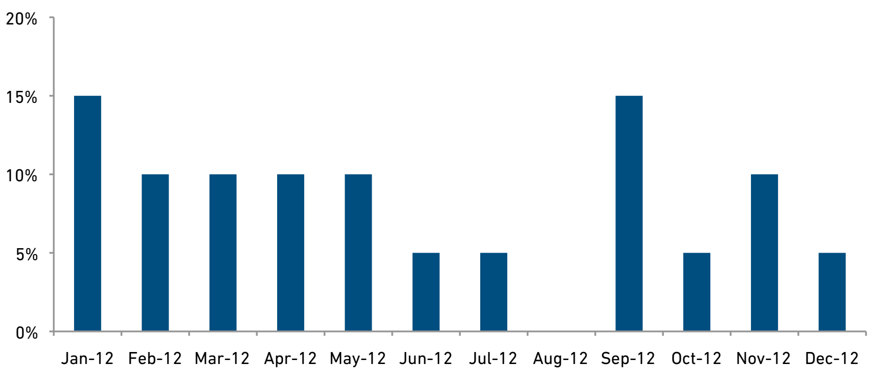


Source: www.konj.se

OVERVIEW OF SURVEY

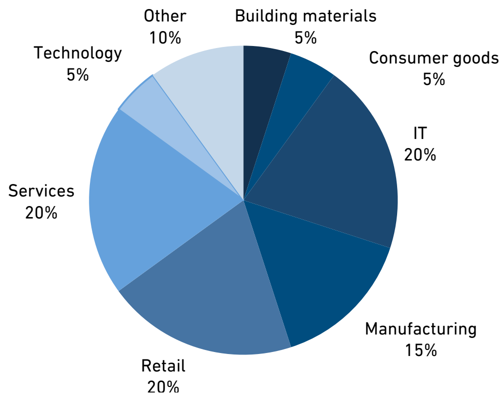
Traditionally the M&A market is rather seasonal in Sweden, with a significant slow-down in the M&A volumes during the summer months. The survey shows no deviation from the traditional pattern where many transactions were completed in January and September, explained by the delay of M&A process during Christmas and summer holidays. The majority of the deals in the survey has been made in the retail, services and IT sectors. An explanation to this could be that they usually are not very capital expenditures intensive and appeal to private equity that way.

FIGURE 5:
DISTRIBUTION OF DEALS THROUGHOUT THE CALENDAR YEAR



Source: Mazars Survey

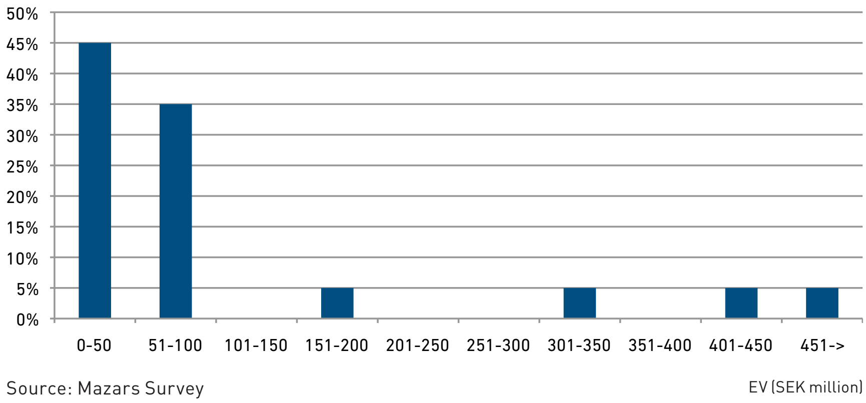
FIGURE 6:
SECTOR DISTRIBUTION OF DEALS



Source: Mazars Survey

80% of the transactions made by the respondents had an enterprise value below SEK 100 million during 2012. Larger transactions above SEK 400 million represented only 10% of the total transaction volume. Thus the respondents seem to have followed the general market development in 2012.

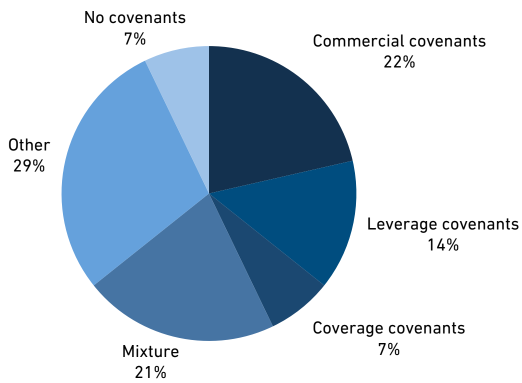
FIGURE 7:
DISTRIBUTION OF DEALS BY SIZE



Source: Mazars Survey

As can be expected, covenants are highly common in debt financing. The most common covenants are commercial, leverage/coverage and a mixture of these. While the dataset is too limited for making a statistical reference in this respect, it appears that there is a limited correlation between covenants and other financing terms. The survey also investigated whether the debt issuing entity (central or local level) may affect the lending terms. However, the observations gave no guidance if there was a difference in the overall financing terms.

FIGURE 8:
DISTRIBUTION OF COVENANTS FOR THE DEAL FINANCING

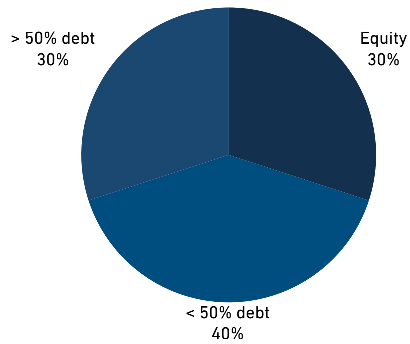


Source: Mazars Survey

DEBT FINANCING

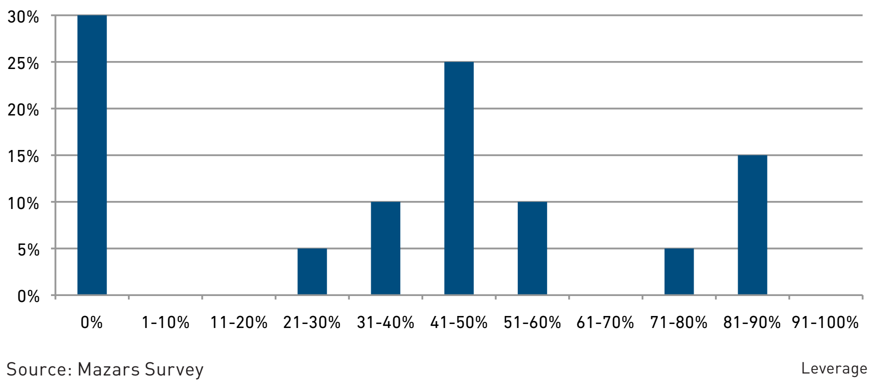
The survey shows that the majority of acquisitions made by the respondents (70%) were leveraged, whereas 30% of the acquisitions in the dataset were financed with equity only. The majority of leveraged transactions was financed with less than 50% of debt and only 20% of transactions were financed with 70-90% of debt. Most private equity transactions in the survey has a leverage of 30-60% of the enterprise value.

FIGURE 9:
DISTRIBUTION OF FINANCING ARRANGEMENTS



Source: Mazars Survey

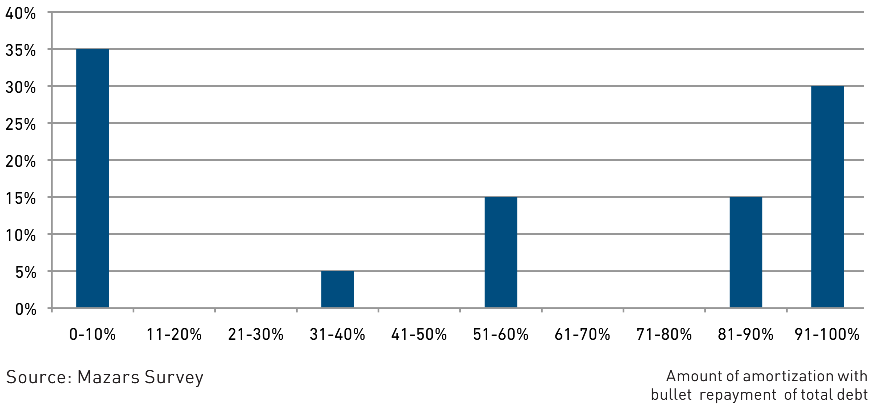
FIGURE 10:
DISTRIBUTION OF AMOUNT OF LEVERAGE IN RELATION TO ENTERPRISE VALUE



Source: Mazars Survey

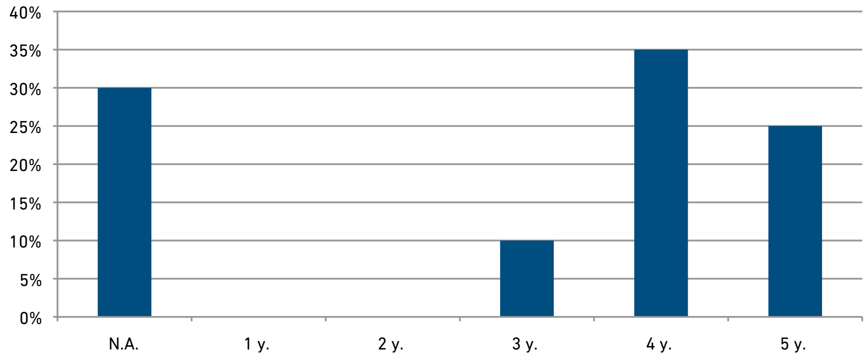
The survey renders little information about investors' preference for bullet or straight amortisable loans, but rather speaks in support of personal preferences for certain borrowing structures. The majority, 60% of the deals used bullet repayment for more than 50% of the debt instead of a straight amortization plan. Also, those respondents that had completed more than one acquisition in 2012 tend to use similar debt structures, i.e. same debt maturity, same proportion of straight amortisable verses bullet loan etcetera. Debt with duration from four to five years were most common.

FIGURE 11:
DISTRIBUTION OF SHARE OF DEBT WITH BULLET REPAYMENT PLAN



Source: Mazars Survey

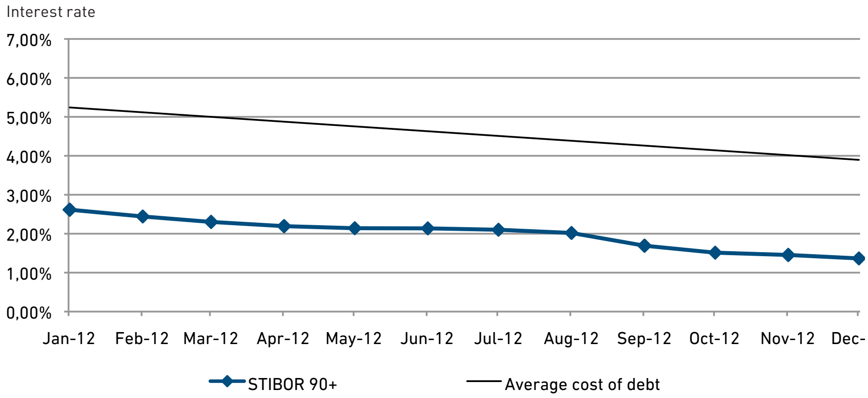
FIGURE 12:
DISTRIBUTION OF DEBT DURATION



Source: Mazars Survey

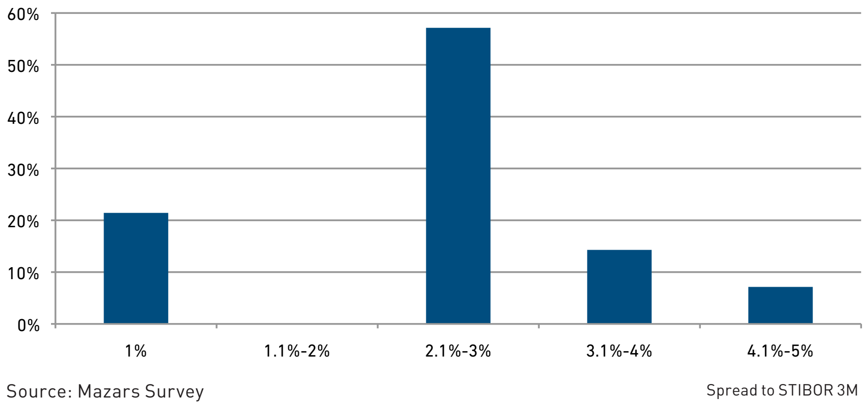
The generally accepted reference rate for borrowed funds in Sweden is STIBOR (Stockholm Interbank Offered Rate) and all debt covered by this survey was priced with STIBOR 3 months rate as reference. The majority (over 50%) were able to ensure debt financing at a cost of 2%-3% over STIBOR 3M reference rate. Over the year the average* spread margin over STIBOR 3M have been fairly sustained and with the decreasing reference rate the cost of debt to investors decreased without notable lag and with the same pace. The average* spread to STIBOR 3M has been 2,57% during 2012.

FIGURE 13:
AVERAGE* COST OF DEBT VERSUS STIBOR 3M



Source: Mazars Survey

FIGURE 14:
DISTRIBUTION OF SPREAD TO STIBOR 3M

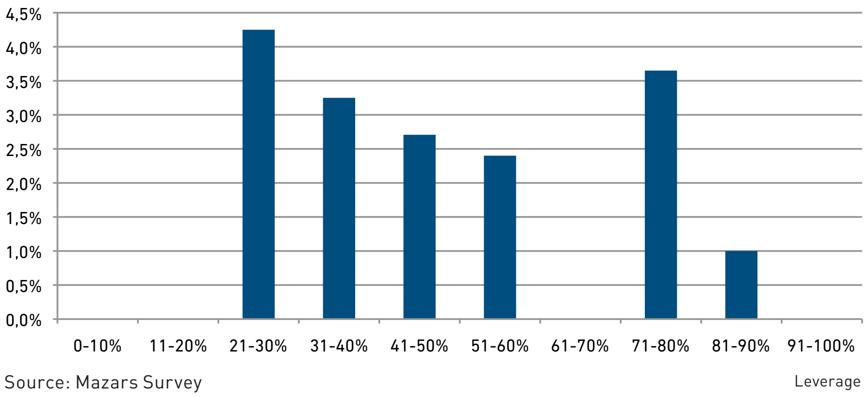


Source: Mazars Survey

* Estimated by the Least Squares Principle

The survey shows a correlation between the level of leverage in relation to the enterprise value and the interest rate. The higher leverage ratio in relation to enterprise value, the lower interest rate (spread to STIBOR 3M). The only deviation from this correlation relates to the interval of 71-80% in leverage, where a loan seems to have no covenants agreed for, which would explain the higher spread to compensate for the higher risk. Figure 15 illustrates the average spread to STIBOR 3M on debt for different leverage intervals.

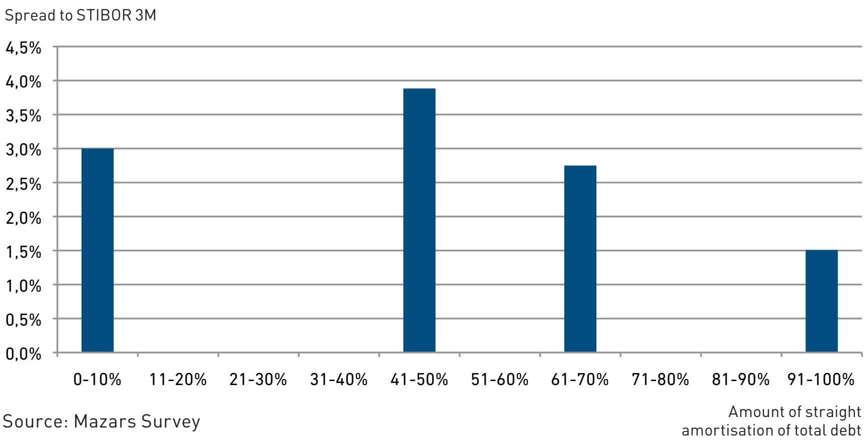
FIGURE 15:
LEVEL OF LEVERAGE VERSUS AVERAGE SPREAD TO STIBOR 3M



Source: Mazars Survey

It seems that a straight repayment structure leads to a lower interest rate than with a bullet repayment. Correlation has been observed between a straight amortization plan and the interest rate (spread to STIBOR 3M). For instance, the deals where straight repayment was used for 91-100% of the acquisition loan the average spread to STIBOR 3M was 1.5% as illustrated in figure 16. A larger part with bullet repayment seems to lead to a higher spread (and cost of debt).

FIGURE 16:
AVERAGE SPREAD TO STIBOR 3M WITH STRAIGHT REPAYMENT



Source: Mazars Survey

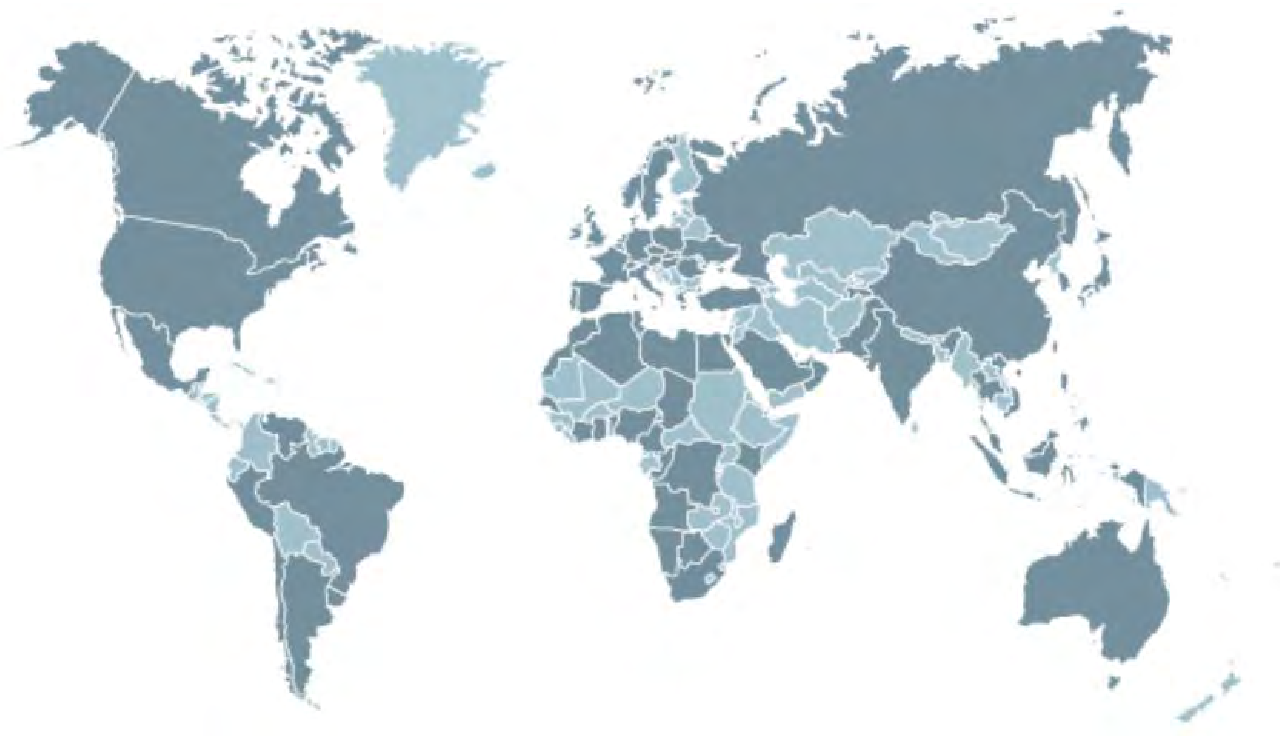
METHODOLOGY AND SAMPLE

Our research was carried out through a survey distributed amongst Swedish private equity firms and included 57 transactions during 2012 made by 40 respondents, of which 30 transactions were made in Sweden. 19 out of the 40 private equity firms did not make any transactions at all. The survey was focused on the domestic deals.

Together the respondents provided data on 20 acquisitions (out of the 30) completed in Sweden during 2012. The survey was performed between March and May 2013.

ABOUT MAZARS

Mazars is an international, integrated and independent organisation, specialising in audit, advisory services, accountancy and tax. Mazars has offices in 71 countries, across five continents, with over 13,500 professionals. Mazars also has correspondents and joint ventures in 14 additional countries. Based on its international dimension, Mazars has established itself as a credible alternative, with the ability to offer seamless and custom-made solutions to large corporations, regardless of their country of origin. Thanks to its complete, flexible and adaptable range of services, Mazars is also a partner of choice for high-growth SMEs and high net-worth individuals.



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