Grant Thornton

An instinct for growth™

GLOBAL PRIVATE EQUITY REPORT 2012

The search for growth

Contents

Between July and September 2012, 143 interviews were conducted with top executives from private equity firms. Respondents included industry general partners from five principal regions/categories:

- Western Europe
- North America (USA and Canada)
- BRICS (Brazil and LATAM, Russia, India, China and South Africa
- Asia Pacific (Australia and South East Asia)
- MENA (Middle East, North Africa including Turkey).

The full methodology can be found on page 32.

Glossary

BRICS	Brazil, Russia, India, China and South Africa
CEO	Chief Executive Officer
ESG	Environmental, social and governance
GP	General partner
IPO	Initial public offering
IR	Investor relations
IRR	Internal Rates of Return
LATAM	Latin America
LP	Limited partner
M&A	Mergers and acquisitions
MENA	Middle East and North Africa (including Turkey)
N/A	Not applicable
PE	Private equity
TMT	Telecommunications, media and technology

Foreword

MARTIN GODDARD
GLOBAL SERVICE LINE LEADER – TRANSACTIONS
GRANT THORNTON INTERNATIONAL

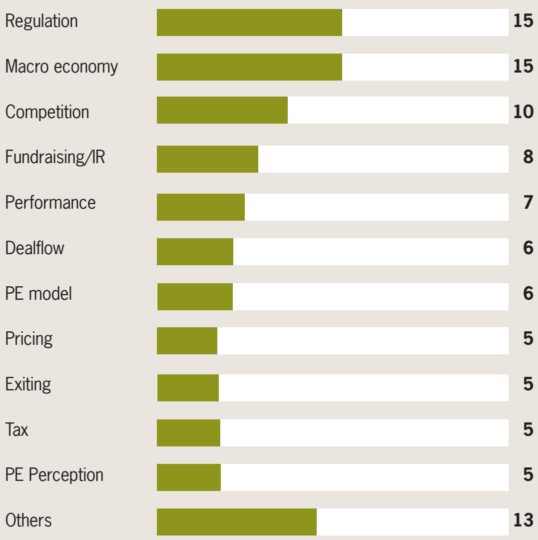
Challenging times

At the time of producing our second global report into trends and attitudes within the global private equity (PE) industry, we find it confronting numerous challenges. There is a need to capture a share of the burgeoning funds available from an increasingly vigilant and discerning Limited Partner (LP) community and to deliver best in class. All of this in an economic environment where growth rates are declining and, in some economies, have disappeared completely. Furthermore, the industry is also being repeatedly challenged by the increasingly negative perception of private equity in the public arena. Nowhere is this increased awareness and negative sentiment greater than in North America.

With the public more conscious of private equity and the industry high on the media's agenda for a number of reasons, it is fascinating to see how private equity is responding and adapting to this new found recognition in its core markets and in locations where the private equity story is still in its infancy. Not only is private equity more aware of its public image and its increased regulatory demands, but the industry has become far more mindful of how it approaches fundraising and achieves the growth demanded by its investors.

For many, fundraising will be the defining challenge of the next 12 months. In what is already a highly competitive market, many private equity firms in the process of preparing for fundraising are compelled to give serious thought to what will attract LPs. LP churn is expected in the next generation of funds as the power shifts further into the LP's favour. This is compounded by the fact that LPs are increasingly unconstrained geographically. They have many more options available and this enables them to wield greater power and influence.

FIGURE 1: KEY CHALLENGES FACING THE PRIVATE EQUITY INDUSTRY
PERCENTAGE TOTAL RESPONSES



63% OF NORTH AMERICAN RESPONDENTS SEE THE IMAGE OF PRIVATE EQUITY DETERIORATING, WHILST 53% OF MENA RESPONDENTS SEE AN IMPROVEMENT

In last year's inaugural report, we reflected on the key regional themes and issues for private equity. We noted that different markets each have their idiosyncrasies, challenges and drivers, but that there was evidence highlighting global convergence in terms of private equity practice. There remain some fascinating regional trends from this year's results, which indicate that practitioners in North America have an increased confidence about their ability to invest, raise debt and generate returns, whilst MENA stands out as a region where optimism is at its highest and where we expect to see a marked increase in PE activity in the short to medium term. In contrast, Western European General Partners (GPs) anticipate continuing challenges in a local market, which is flat at best.

The search for growth

This year, the report focuses on how private equity firms are attempting to secure growth for their funds and their portfolio companies in a world where many economies are experiencing limited growth, if any at all. There is no doubt that globalisation is no longer the preserve of the largest multinationals. Companies of all shapes and sizes now need to be adept at looking beyond boundaries in the relentless pursuit of growth. Accessing international markets, businesses, investors, consumers and potential acquirers are now all fundamental strategies for PEs and their portfolios in order to exceed their returns objectives.

The on going financial turmoil in the West and creeping uncertainty in the sustainability of the economic growth seen in 'emerging markets', means that where some see challenges, others will see opportunities.

Many Western European and North American firms are restricted geographically by the terms of investment imposed upon them, albeit that there is growing evidence of PE support for the international development plans and growth of portfolio companies. Perhaps in the case of North American funds, renewed confidence in their own economies' prospects is also a contributory factor to a less adventurous international strategy.

The recent news of the launch of a network between four leading European mid-market firms illustrates how firms are seeking innovative risk averse ways to access global markets without committing significant resource and capital.

This year's report indicates that the majority of respondents from both MENA and BRICS are now seeking to access markets outside of their home countries in the search for growth through investment or by opening offices. With many exciting growth economies within their regions, in many cases there will be "proximity investment" into neighbouring high growth markets.

New frontiers

Given that a central role of the private equity community is to seek new growth opportunities and then to act as a catalyst for that growth, many of today's investors are finding themselves at the centre of the evolution of a true global economy and the continuing search for new corporate frontiers.

While there are perhaps few 'true' frontier markets left, the shifting of the geopolitical and economic picture constantly impacts on where the next opportunity may lie.

This time last year, for example, it would have been hard to imagine Myanmar being highlighted as frequently as it has been this year as a market with considerable potential for private equity investment.

Likewise, the strengthening of the Japanese Yen has prompted a wave of interest from Japanese companies in acquiring foreign businesses. This type of activity has not been seen since the 1980s, with exit-hungry private equity firms keen to take advantage as potential vendors.

As a continent, it is perhaps Africa that has the image of the last frontier for private equity, but even this region is already attracting considerable attention as investors from established markets like South Africa and MENA.

Summary

Growth remains the key and is driving the globalisation of the PE industry at all levels. Whichever route to growth is taken and whichever stage of the PE life cycle you are focussed on, you cannot escape geographical influences, particularly at this time when economic and political conditions differ so significantly from region to region.

At the same time, private equity is also acting as a driver of globalisation. When globalisation is a component of the growth strategy, it can be tempting to focus too much attention on emerging markets, however, the international opportunity will vary considerably. For one PE the next frontier may be investing or accessing funds in a neighbouring country. For another it could be about assisting a portfolio company to access a new market, or to outsource manufacturing to a low cost environment.

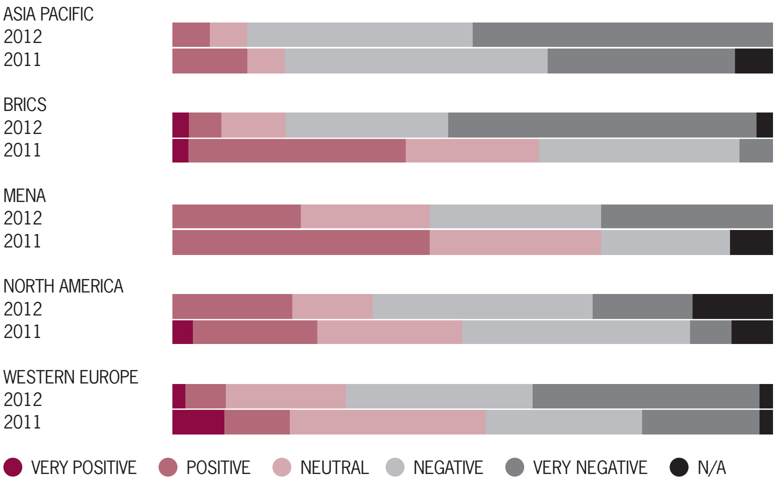
The search for profitable growth remains fundamentally about strategy rather than pure geographical expansion.

With fundraising high on the agenda, growth not only remains vital to the success and longevity of individual firms, but also for the subsequent success of the private equity industry as a whole, as regulators, media and politicians seek to observe and judge, supposedly in the public interest.

Behaviours are changing in all aspects of the private equity industry, not least, as this report shows, how and where firms search for growth.

The Private Equity life cycle: Fundraising

FIGURE 2: HOW DO YOU VIEW THE CURRENT FUNDRAISING ENVIRONMENT
PERCENTAGE OF RESPONDENTS



51%

OF BRICS RESPONDENTS SEE THE FUNDRAISING ENVIRONMENT AS VERY NEGATIVE

The fundraising environment

As is being widely reported, the fundraising environment is still characterised as very tough, and indeed many GPs feel it is getting tougher with all regions recording more negative sentiment this year compared to last.

This is especially evident in Asia Pacific and BRICS regions where over 50% of respondents see the fundraising environment as very negative, and another 30% see it as negative. Indeed the BRICS show the steepest decline in this measure since 2011 and it is the Indian PE firms in particular that have the most negative outlook on the ability to raise new funds. This is a significant shift from only a few years ago where fundraising in these once high growth territories led to significant funds being raised.

North America and MENA are the regions where there is some positivity about raising new funds, but even here, only around 20% of respondents feel positive about prospects. Many GPs point to a divided market in which a select group of top-performing managers are raising funds with relative ease, while the rest are finding it very difficult.

The fundraising environment is evolving and there remains a considerable amount of apprehension in the PE industry as to what the final outcome will be for their firm. For now, if firms feel confident or upbeat about raising new money, they remain in a small minority and perhaps have a huge competitive advantage that will bear fruit in the coming years.

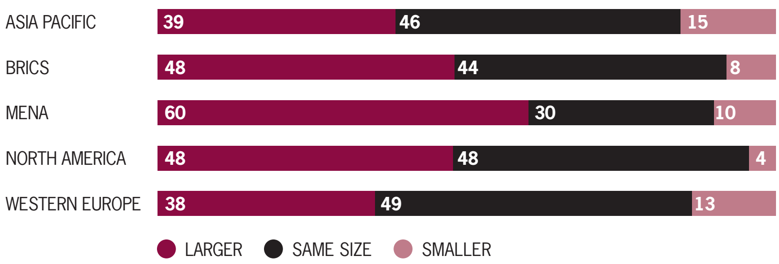
“Fundraising is hard. The two or three firms that are seen as the top performers have found it easy and been quick to raise. With the superannuation funds there is still money there, but there is a real flight to quality and consistency.”

Australian survey respondent

“The next fund is likely to be slightly bigger to account for the low leverage environment.”

German survey respondent

FIGURE 3: FUTURE FUND SIZE VERSUS PREDECESSOR
PERCENTAGE OF RESPONDENTS



Fund size

Despite the challenging environment, almost half (45%) expect their next fund to be larger than its predecessor. However, sentiment is slightly less bullish than in 2011, when 56% expected the fund to be larger and there is now a higher proportion of respondents expecting no growth in their fund size this time round.

It is the MENA region where PEs are most confident about raising larger funds. This is the first sign in the research of the apparent confidence inherent within this market when compared to the other regions. Whether this is due to a PE market that has yet to mature or due to the genuine growth prospects of a region yet to be established, either way this is the region where optimism is at its greatest.

“The market is dividing. Some will find it comparatively easy, some will find it almost impossible and will need to restructure. The fundraising experience can be very positive for certain types of strategy and neutral for others. If you have an attractive investment thesis with proven performance then your offering will be attractive to LPs.”

DAN GALANTE
GRANT THORNTON US

“Amongst those raising India-specific funds there is a real split – a few good funds that are OK and a lot that are struggling to raise second generation vehicles.”

Indian survey respondent

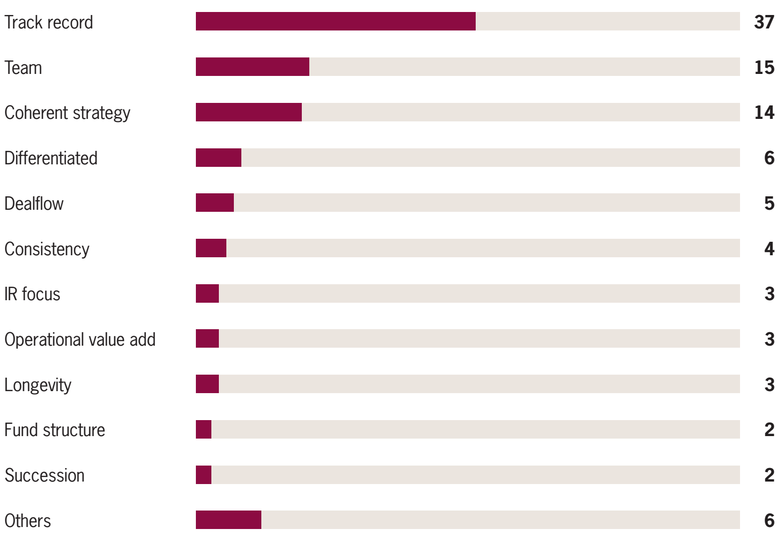
"European GPs need a very sharp answer to the question 'why invest in Europe right now?' – basically you need to be able to show a strategy that can generate growth in the current environment."

THIERRY DARTUS
GRANT THORNTON FRANCE

"No matter what anyone says – there is only one thing you need to demonstrate and that's how you have performed in the last four years. Sure, team stability and long-term track record through the cycles are all well and good, but it's what you have done in the last few years that really matters."

Spanish survey respondent

FIGURE 4: FACTORS CONSIDERED IMPORTANT IN ATTRACTING LPS
PERCENTAGE OF TOTAL RESPONSES



Attracting LPs

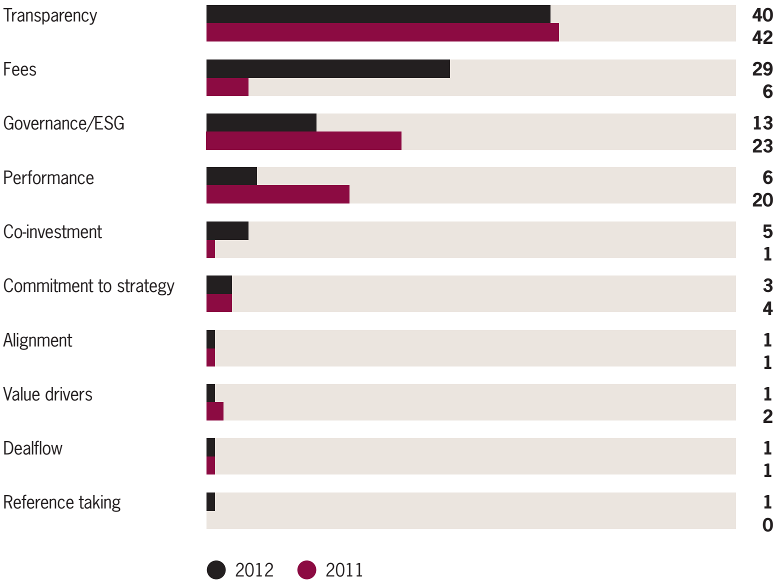
Unsurprisingly, a demonstrable track record is the key attribute that GPs feel they need to exhibit in order to successfully attract LP commitments in today's market. 100% of respondents in Asia Pacific note that track record is an important factor, as LPs increase their own due diligence on PEs and their ability to discriminate in generating returns. Two other key areas in which GPs feel they need to impress are:

i) in the presentation of a coherent, and often differentiated, investment strategy and
ii) a team that inspires confidence, attracts and selects good return investments and delivers this strategy.

"Demands are increasing in terms of information and due diligence during the fundraising stage, and then information and reporting in the investment phase. There's also more attention on terms – in particular, LPs want to know what they will get in return for committing early."

UK survey respondent

FIGURE 5: AREAS OF INCREASING LP DEMANDS
PERCENTAGE OF TOTAL RESPONSES



LP pressure

The shift of power in the fundraising process continues to move towards the LPs at a rapid rate. Many LPs are using this power to apply an increasingly structured and focused investment process, not dissimilar to that used by private equity firms themselves. The shoe certainly appears to be on the other foot.

The results of the research show that there is no let-up in the pressure PEs are feeling from LPs. Indeed two thirds of GPs see LP demands increasing further in the future.

Transparency and improved communication are, not surprisingly, still the key areas in which LPs are exerting more pressure, especially in relation to on-going portfolio performance issues and the way in which the GP's stated strategy is being executed. However, with an increasing number of GPs in the market seeking to raise new capital, the past year has seen a renewed focus on issues surrounding fund terms and conditions and, in particular, the topic of fees.

There is a fourfold increase in reported pressure on fees from LPs and this will continue to have substantial implications on PE firms and the fundraising process.

It appears as though this is creating an interesting paradox whereby LPs need more information and transparency yet the PE firms may have more slender resources from which to fund increases to back office functions. This appears to reaffirm the view expressed last year, that the gulf between the winners and losers is widening and that once the dust settles, there will be casualties as the weak and underperforming firms who cannot meet the demands of LPs fall by the wayside.

"LPs want to negotiate on management fees and to co-invest with the GPs on favourable terms to them."

South African survey respondent

"Yes, there has been some demand for segregated accounts from some of the bigger LPs and there has been deal-by-deal fundraising for Renminbi investments."

Chinese survey respondent

"Demands are not increasing in terms of returns, but they are in terms of the agreements, such as the management fees, governance and the sharing of returns."

UK survey respondent

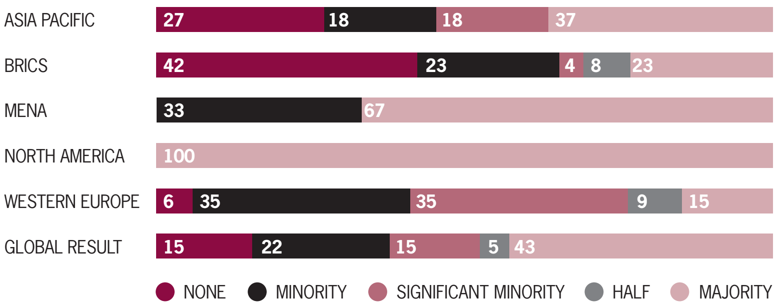
2012:

40% OF NEXT FUNDS TO BE MAJORITY FUNDED BY FIRST TIME INVESTORS

2011:

24% OF NEXT FUNDS TO BE MAJORITY FUNDED BY FIRST TIME INVESTORS

FIGURE 6: PROPORTION OF DOMESTIC LP INVESTORS IN FUND
PERCENTAGE OF RESPONDENTS



> "I think the number of family offices will increase – they are looking more and more at overseas markets."
>
> **IAN COOKSON**
> GRANT THORNTON US

Changing LP bases

Looking at the composition of LP bases across the globe, there is once more an element of negativity in the responses, with an increasing number of PEs expecting to see some LP churn in their next fund.

Re-up levels

Re-up levels are expected to fall: a major issue for PEs in an environment that we have already established as being challenging and more intense. North American GPs tend to be most positive regarding re-up rates, which supports the finding that they are generally less concerned about current fundraising conditions.

Family offices

With continuing uncertainty in the core institutional investor market, a large proportion of GPs expect to see family offices better represented in their next funds. This is expected particularly in Western markets and Asia Pacific, but less so in MENA, reflecting the fact that domestic families are already big investors in the region.

Domestic vs. international

In terms of geographic sources of LP capital, the picture is very similar to 2011, with around half of GPs explaining that their investor bases are at least 50% accounted for by domestic LPs.

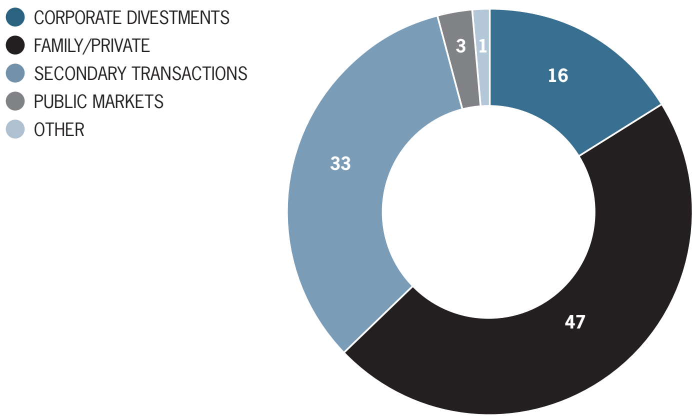
However, there are huge regional differences in this respect. 100% of North American respondents state that domestic LPs are likely to make up the majority of their LP bases, highlighting that the North American market appears to remain self-sufficient for funding.

Conversely, in the BRICS and Western Europe only around 20% expect domestic investors to be in the majority. The reasons for this are very different with European investors shying away from local investments and looking elsewhere, whilst the BRICS trend indicates that the majority of investment in those countries is still expected to come from overseas and Western markets.

> **"In the next fund, first-time investors with us will account for a higher proportion than currently. We expect to lose LPs through no fault of ours or theirs."**
>
> **French survey respondent**

The Private Equity life cycle: Investment activity

FIGURE 7: EXPECTED SOURCES OF DEALFLOW
PERCENTAGE OF RESPONDENTS



Sources of deals

There is continuing speculation in Europe and North America, where debt for equity swaps took place within the global financial crisis, regarding the potential deal flow originating from banks selling assets that they took control of during the downturn. Although thus far, this has largely failed to materialise.

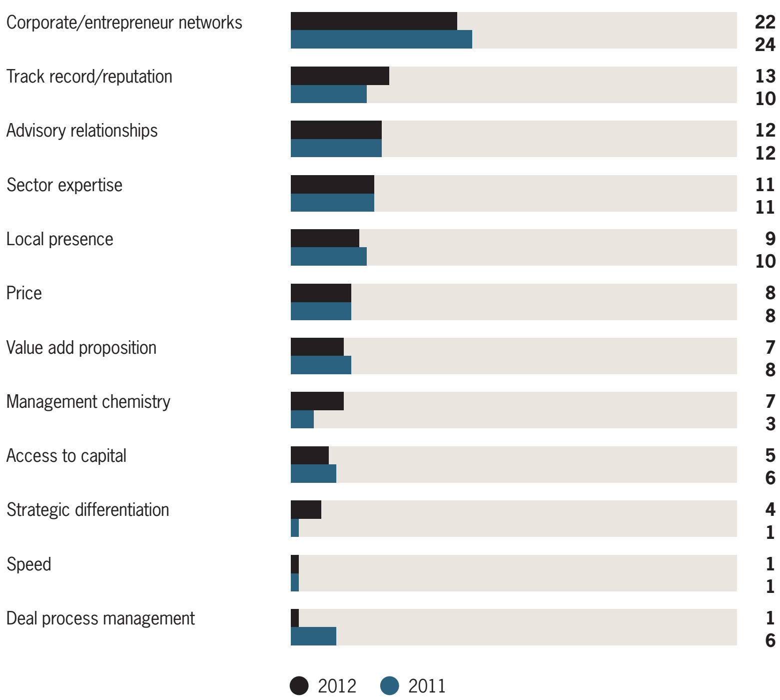
As far as corporate divestments are concerned, it is interesting to note that their expected importance is on the rise in Western Europe and North America. Boards are looking to realise cash to shore up balance sheets or to use the downturn to tidy up their corporate structure and create shareholder value by selling off non-core assets.

> "Banks remain very supportive of many underperforming assets, perhaps conscious of creating further negative goodwill with the public and media."
>
> **MARTIN GODDARD**
> GRANT THORNTON INTERNATIONAL

"Secondary transactions will be the most significant source of deals over the next 12 months owing to the number of funds that committed capital four or five years ago. This will provide a key investment stream."

Russian survey respondent

FIGURE 8: KEY FACTORS IN IDENTIFYING AND WINNING DEALS
PERCENTAGE OF TOTAL RESPONSES



Deal origination

With plenty of capital chasing relatively few quality opportunities, the emphasis in originating deals remains focused on relationships. Whilst corporate and entrepreneur networks are still seen as the most important factor, though less so than last year, it is still very much the case that GPs realise that they can't just rely on this to originate and win deals, reflecting the increasingly competitive environment.

Emphasis is needed on more factors now, including showing a track record and some strategic differentiation. Most interestingly, and the one factor that has notably increased year on year, is the need to build rapport and a good relationship with the management team. This result shows how PEs are further relinquishing power, this time to potential investee companies. Private equity, it appears, has in part evolved from a provider of growth finance to being seen as an investor who now need to articulate their own growth strategy to convince management teams to partner with them. Both parties in a transaction need to evidence and illustrate how each of them will deliver value and growth to ensure the investment succeeds.

In highly competitive markets, such as the US, it is notable that price has risen in importance as a deal-winning factor which reflects the circa. $1 trillion of uninvested PE funds that are chasing transactions.

"Local presence and a big enough team to source proprietary deals are both key in Brazil. That said, the investment banking network is very developed and it is possible, when you have good relationships with them, to convince them to sell assets outside of competitive processes."

Brazilian survey respondent

"Many of the deals are intermediated so you need to have strong links with advisors, but increasingly you need to have a good reputation and strong reference points in the owner networks. Being able to pay the top price also helps."

Indian survey respondent

> "I expect private equity investment activity to increase over the coming year. There is a bunch of money still on the sidelines that people are looking to put to work; funds that were raised in 2007 and 2008 now have commitment periods that are close to expiry."
>
> **STEVE LUKENS**
> GRANT THORNTON US

FIGURE 9A: EXPECTED INVESTMENT ACTIVITY BY REGION
PERCENTAGE OF RESPONDENTS

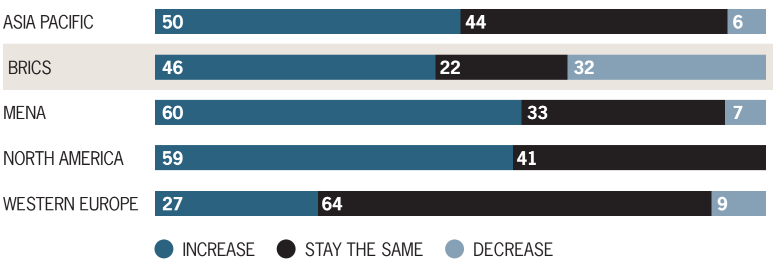
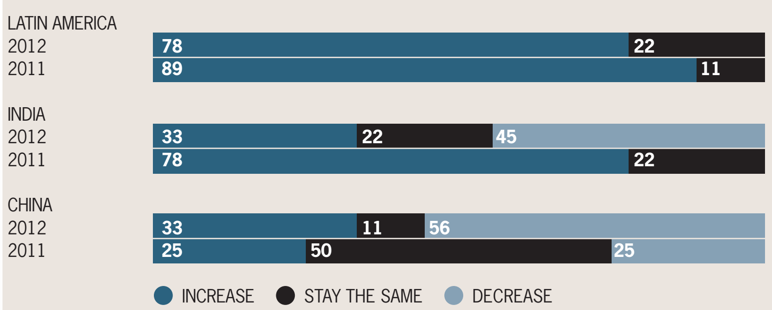


FIGURE 9B: INVESTMENT ACTIVITY – KEY BRICS MARKETS
PERCENTAGE OF RESPONDENTS



New deal activity

Globally, private equity investment activity is expected to stay the same or rise over the coming year, although expectations are more cautious than they were in 2011.

Unsurprisingly, Europe's confidence regarding deal activity has taken a significant hit with only 27% expecting an increase in activity this year compared to 50% last year.

As is becoming apparent throughout the report, the North Americans are again appearing to enjoy a buoyant market, with no respondent expecting a decrease in activity and just under 60% expecting an increase in activity. This sentiment is also shared by those in MENA further illustrating that this may well be the up and coming region for PE activity.

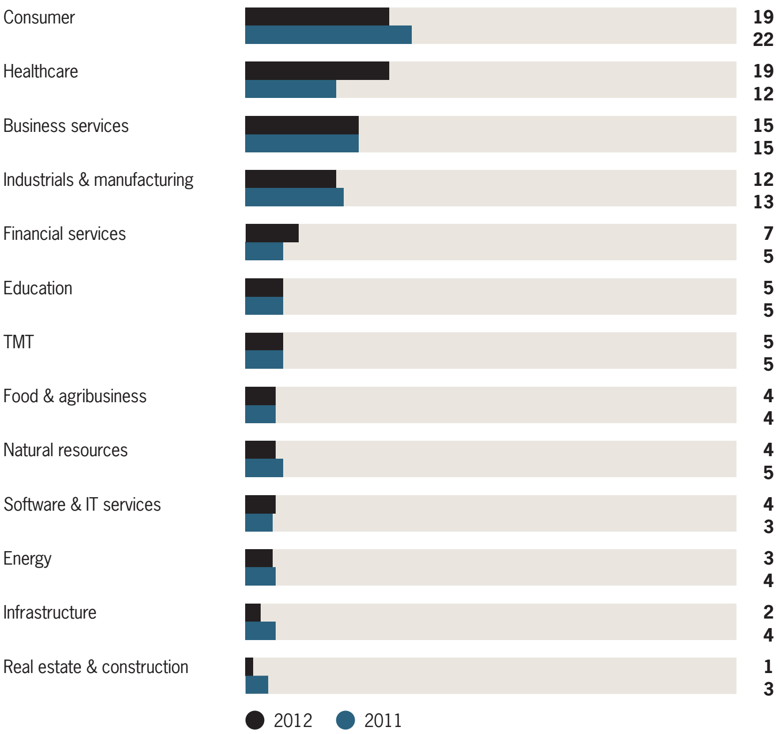
However, it is within the BRICS where the most significant and perhaps most surprising results are. While growth has slowed to a degree in South America, there is still a good level of underlying confidence. Expectations for deal activity remain high as many private and investee companies that have benefitted from a decade of growth look to some form of M&A activity in the next year.

It is in the Chinese and Indian markets where there is a substantial downturn in confidence regarding deal activity.

The Chinese slowdown has been predicted by many and is starting to occur, albeit growth remains above 7% and no doubt this is impacting on transaction activity confidence. India is under more than just economic pressure, with political burdens and policies having an adverse effect on corporate growth. It is here where the PE industry may see the greatest change over the next year, despite being regarded by many as a PE hot spot.

> "Healthcare and education remain key sectors for Australian GPs given the ageing population and skill shortages being experienced. There are lots of high quality, profitable healthcare companies in Australia that can compete on the international stage. This area, and education, are generally less volatile too and continue to be supported by government policy."
>
> **PAUL GOOLEY**
> GRANT THORNTON AUSTRALIA

FIGURE 10: FORECAST MOST ACTIVE SECTORS – OVERALL
PERCENTAGE OF TOTAL RESPONSES



Sectors

Overall, the top four sectors for private equity in 2012 are the same as those in 2011: consumer, healthcare, business services, and industrials & manufacturing, though notably the interest in consumer markets is significantly down on 2011, underlining the cautious view PEs have of the global economy and the spending power of the world's population.

On the contrary, healthcare has shown the greatest increase in interest, and is the only sector to rank in the top four across all regions. These results further underline the willingness to capitalise on the ongoing demographic shifts of an ageing population and continued demand for high quality healthcare provision in higher growth countries.

Around the world, different sectors are expected to take on greater significance in different regions. The BRICS countries expect to see a material uptick in activity in financial services. The more mature Western markets are likely to see more business services related activity and, interestingly in Europe, certain types of manufacturing are in demand, where the quality of skilled manufacturing businesses and intellectual property remain of great interest to PEs. These businesses have little competition from the high growth economies due to their inherent skill base and expertise which is in high demand across the world.

"Growth in business services should outpace other sectors as companies are outsourcing more and relying on third parties more."

United States survey respondent

"The main sectors are still all the consumption-driven ones – from consumer products to financial services and even infrastructure."

Indian survey respondent

"Entry multiples in India are falling and I expect they'll continue to do so, although not as fast as those in the public markets are falling."

Indian survey respondent

FIGURE 11: EXPECTED SOURCES OF COMPETITION
PERCENTAGE OF RESPONDENTS

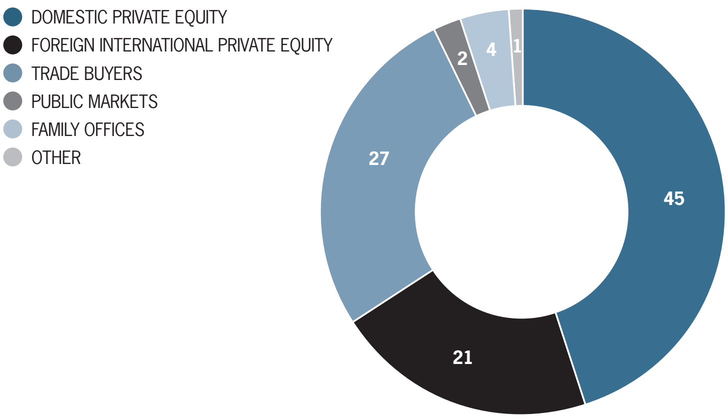


FIGURE 12A: EXPECTED ENTRY MULTIPLES BY REGION
PERCENTAGE OF RESPONDENTS

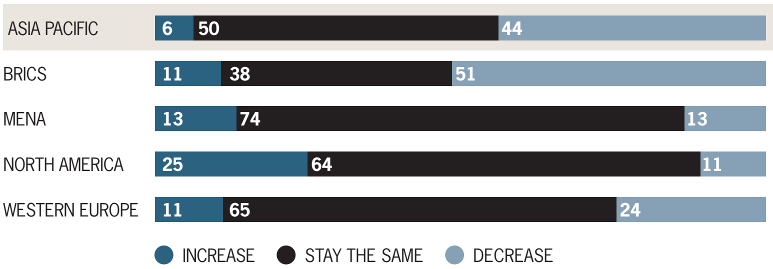
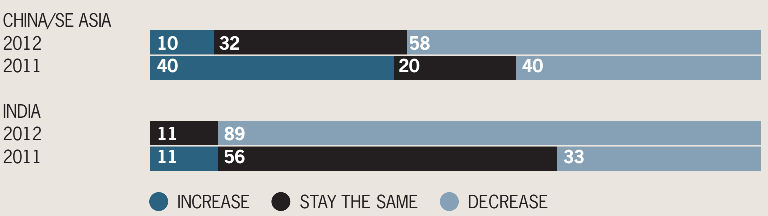


FIGURE 12B: ENTRY MULTIPLES – KEY ASIA PACIFIC MARKETS
PERCENTAGE OF RESPONDENTS



Competition

Private equity remains its own largest competitor for new deals, but trade buyers continue to pose a significant threat where their strategic angle, sector knowledge and strong balance sheets can enable them to move quickly and sometimes pay a premium.

This is particularly evident in the developed markets, but also, interestingly, in Asia Pacific as strategics look to tap into the favourable growth environment.

Pricing

Globally, entry multiples are expected to stay the same or start to decline, with this picture being similar across all regions.

In Western markets, it appears that GPs expect prices to remain similar to last year. However, this masks the continuing polarisation in those M&A markets where the quantity of private equity and trade capital chasing opportunities are enhancing multiples for top quality assets, whereas lower quality opportunities struggle to obtain interest and consequently attractive price.

Expectations for a fall in multiples are notably strong in the BRICS and Asia Pacific. Once more, this trend is most striking in India, where the cooling off of overheated public markets in recent times is expected to finally translate into falling private sector multiples. Lower deal activity and lower multiples provide a forecast for the next 12 months that may lead to a stagnant PE industry, at least until some of the political and fiscal issues alleviate.

With the quantity of uninvested funds and the high prices being one of the key differentiators for GPs in the North American market, it is no surprise that this region has the highest expectation of price increases globally, although even here only around a quarter of GPs expect to see this.

"Trade buyers have been more active than PE funds recently. However, we don't always see them as competition as such, as they can potentially be co-investors and we like the strategy of partnering up with a strategic."

Vietnamese survey respondent

"Strategics have emerged in the last six months as very aggressive buyers. These are mainly US-based strategics. In our size range – north of $30m EBITDA – we are also starting to see some international buyers from Europe, South America and Asia."

United States survey respondent

> "The buoyant European bond market and the different mainstream leverage market is creating an interesting shift of where PEs are and may go to raise debt."
>
> **MICHAEL NEARY**
> GRANT THORNTON IRELAND

FIGURE 13: EASE IN SECURING DEBT FINANCE
PERCENTAGE OF RESPONDENTS

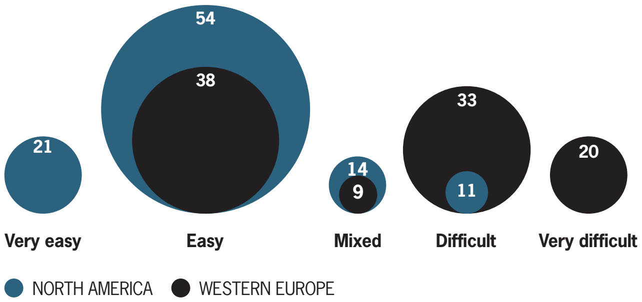
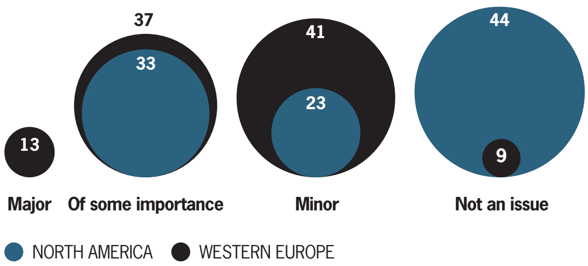


FIGURE 14: EXTENT TO WHICH APPROACHING WALL OF DEBT MATURITIES IS EXPECTED TO BE AN ISSUE
PERCENTAGE OF RESPONDENTS



Debt finance

Access to debt remains problematic for new deals; despite this, over three quarters of respondents state that sources of leveraged finance have not changed significantly, but there is a strong focus on protecting existing bank relationships.

Debt funding is less of a consideration and an issue in markets where growth capital is of more significance (eg MENA, Asia Pacific), but is widely perceived to be difficult to obtain if it is required, due to less developed debt market infrastructure and/or legislative constraints on debt funding.

In particular it is worth noting the different views of GPs based in North America and Western Europe; while access to debt is considered relatively easy (if expensive) by the former, Europeans still see it as a significant challenge, particularly for larger deals. However, the two markets remain closely linked, and some respondents believe the US will start to suffer if the eurozone challenges are not resolved soon.

In these Western markets, traditional lenders are willing to lend to quality opportunities. That said, alternative sources of debt are beginning to emerge in the form of specialised debt funds and increased use of vendor finance in some cases.

The issue of 'problem loans' is generally not felt to be as significant as many may have feared, although concerns appear to be more apparent in Western Europe than in North America. European respondents see the debt maturities as a major issue, providing another piece of evidence to suggest that the North American market has a buoyant outlook.

"Debt funding is fine in the US, although financial uncertainty in Europe may well impact this."

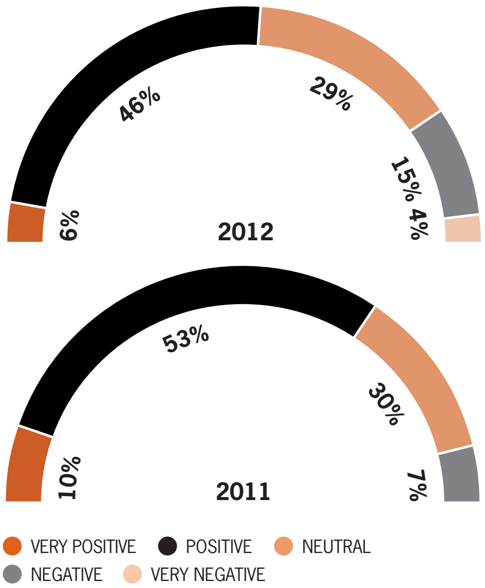
United States survey respondent

"The market is split and it really depends on the asset: if it is one with a good credit history and well known to the banks then raising debt is easy. If not, it can be very difficult. The banks are so risk averse."

German survey respondent

The Private Equity life cycle: Portfolio

FIGURE 15: ECONOMIC OUTLOOK FOR PORTFOLIO BUSINESSES
PERCENTAGE OF RESPONDENTS



Economic outlook

A trend to a more cautious economic outlook is particularly evident in North America, where generally positive economic conditions are offset by concerns regarding Europe and the US Presidential election.

Overall sentiment in Western Europe has held up better than might have been expected given the scale of current economic travails. This perhaps reflects the fact that many GPs have dealt with problems in their portfolios and focused their new investment activity on more defensive sectors.

Even in some of the markets which have expanded rapidly over recent years, the speed of growth has slowed noticeably and practitioners are increasingly realising that these economies are not immune to the impacts of the global downturn.

In keeping with this, across the BRICS sentiment is slightly more negative this time; while the outlook in Brazil remains broadly positive, sentiment is more split in India and China, with some investors in the former having become notably bearish.

"There are too many external forces causing people to be cautious; the financial crisis in Europe, the slowdown of the Chinese economy and the high unemployment in North America."

Canadian survey respondent

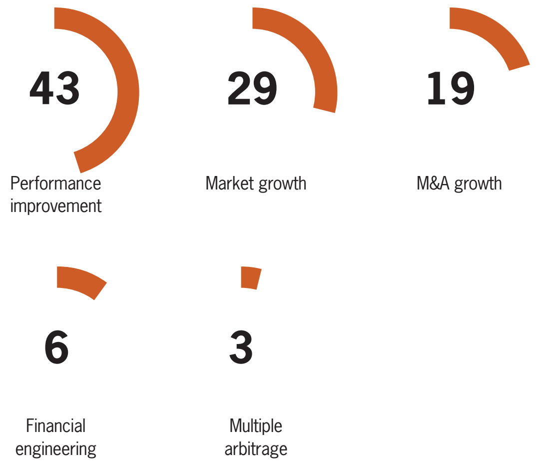
"Growth is slowing down in Brazil, but it is still strong compared with most developed markets and relatively isolated from macro problems elsewhere."

Brazilian survey respondent

"Some of the portfolio companies are seeing shakiness because of the current conditions – others less so because they are in less cyclical areas. However, if the worst happens, they'll all be in trouble."

German survey respondent

FIGURE 16: WHAT IS CONSIDERED THE MOST IMPORTANT DRIVER OF GROWTH WITHIN YOUR PORTFOLIO
PERCENTAGE OF TOTAL RESPONSES



Creating value

The drivers of value growth amongst portfolio businesses globally are seen to be very similar to those reported in 2011.

Performance improvement at the companies themselves remains the top ranking factor, with its significance showing consistency over the last 12 months.

Where there has been a change, it is often as a result of market growth increasing in importance – this is particularly the case in MENA, driven especially by GPs in the UAE and Turkey.

The importance of performance improvement is echoed by the fact that virtually all private equity firms now position themselves as having hands-on involvement in their portfolio companies, with around half characterising their engagement as ‘very hands-on’.

The proportion of people expecting their level of engagement to increase has also risen since last year, especially in Western Europe, where growth is increasingly difficult to come by, but also in India and Brazil, where more control deals are likely to take place as the markets mature.

It is still relatively uncommon for firms to have a dedicated portfolio team (it is only the case for around 30% of respondents). Most firms prefer for the deal executives who negotiated the deal to follow an investment through its life (possibly supported by operating partners and external resource), as it is felt that this helps with the continual cementing of the management relationship.

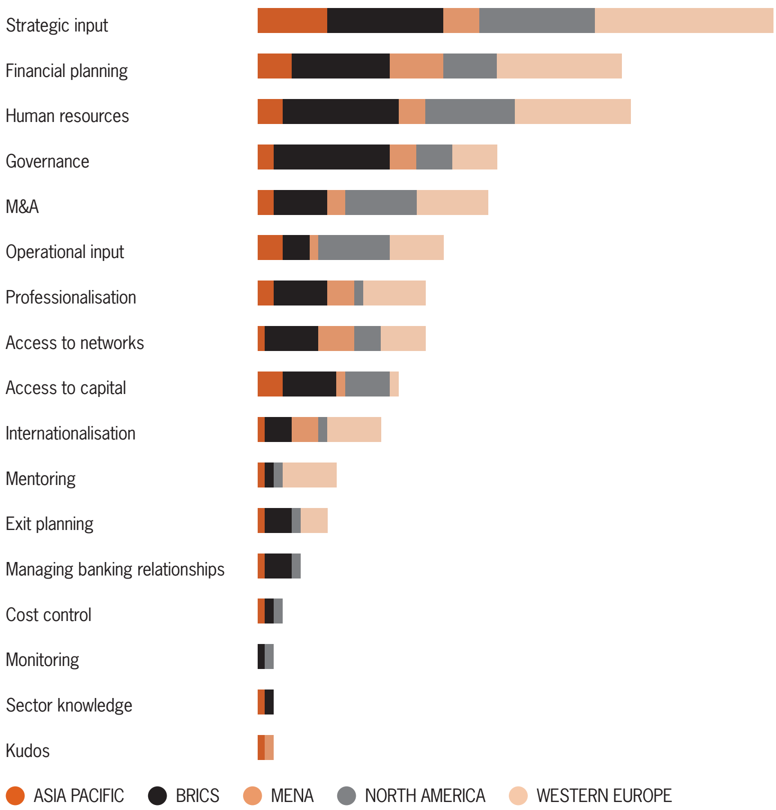
“We seek to create global niche leaders, so it can be about making multiple acquisitions all over the globe (we did 11 or 12 acquisitions with one firm) or it can be about shifting manufacturing bases to China or Poland or Mexico. Or it might even be about outsourcing manufacturing completely to third parties.”

Norway survey respondent

“You are generally banking on market growth, but, to be safe, you also have to drive value via organic means and cost cutting etc.”

UAE survey respondent

FIGURE 17: AREAS OF HANDS-ON INVOLVEMENT
PERCENTAGE OF RESPONDENTS



Operational engagement

In terms of the private equity firms' view on the ways in which they contribute most to the development of their portfolio companies, the three top factors remain unchanged and were shown to be increasingly important, these being: strategic input, financial planning and human resources.

The importance of top-quality management is accentuated in difficult trading conditions, with this reflected by the increasing importance of GP intervention in senior recruitment.

Also it is worth noting that if improving governance and overall professionalisation of portfolio companies are combined this would become a top three ranked factor, reflecting its increasing importance. This was most prominent in countries including Brazil, India and Russia, as private equity managers become more directly involved in their portfolio businesses.

In Western Europe, it is notable that the significance of helping companies to internationalise, as well as the role of management mentoring, are rated particularly highly compared with other regions, reflecting the relatively low growth prospects in domestic markets. Supporting this, assistance with M&A is another key area in which private equity firms will be able to support their companies going forward.

"We're very hands-on. We're one of the few private equity firms in China that does buyout deals and by necessity we have a lot of money invested in each company, so we like to be hands-on."

Chinese survey respondent

"We see control deals becoming more common and these will require much more operational input."

Indian survey respondent

"Our hands-on involvement will increase, partly because the market dictates that, but also because to avoid the highest entry multiples we are increasingly looking at the assets that need more attention, and we're doing more buy-and-builds."

UK survey respondent

FIGURE 18: DRIVERS OF ESG ADOPTION
PERCENTAGE OF RESPONDENTS

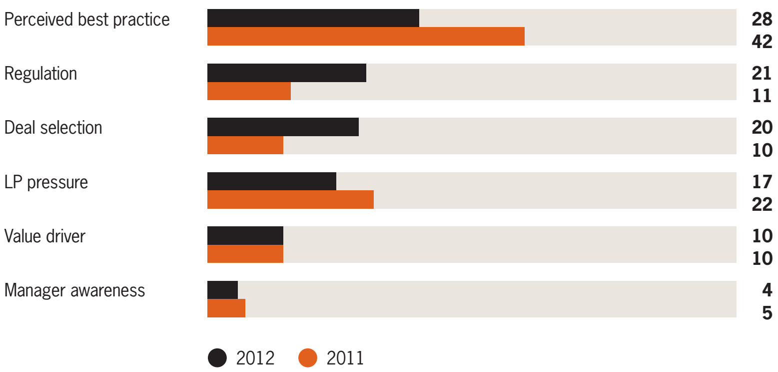
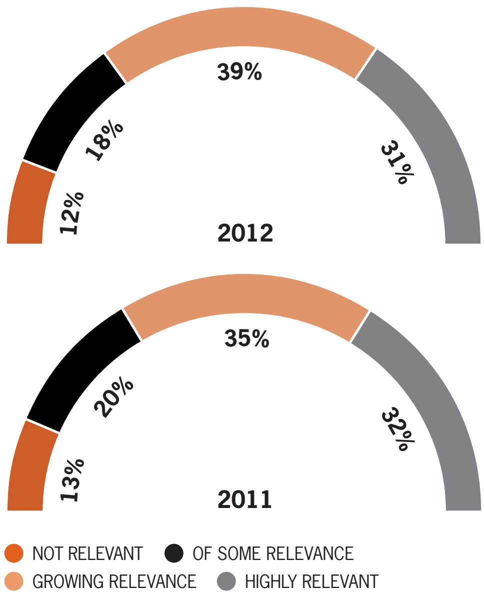


FIGURE 19: RELEVANCE OF ESG
PERCENTAGE OF RESPONDENTS



Environmental Social Governance (ESG)

ESG is a subject that is of at least some relevance to GP respondents globally, and for many it is growing in significance. Only really in North America is there notable evidence of private equity firms attaching little relevance to the subject, although views in China are also rather mixed.

The trend towards growing awareness of ESG reflects the fact that private equity practitioners are moving on from simply seeing adherence to ESG principles as 'best practice' and a necessity to meet the demands of regulators and LPs.

Despite increasingly widespread recognition of the importance and necessity of engagement with ESG, some GPs do highlight the additional administrative burden that compliance brings.

"Since last year's Grant Thornton survey, we have designed and implemented a complete ESG programme at company level and we are now rolling this out across the portfolio. It has gained us an award from a top global fund-of-funds. It is an increasingly important issue."

Vietnamese survey respondent

"It's a constant focus. We implement an ESG review at the time of acquisition or just after to identify areas to improve and then work to implement. It's changing because on top of the environmental and social impact there is also an economic impact."

Indian survey respondent

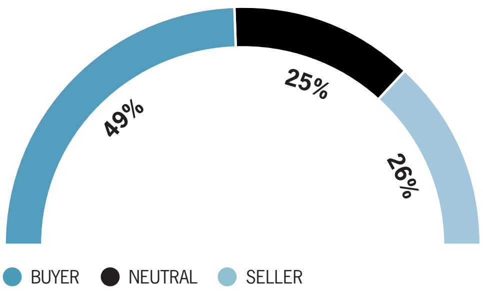
"We are getting pressure from LPs on this so it is an increasing trend. We are trying to make it a more formal process and one that has business and economic rationale too, not just an administrative exercise."

Swedish survey respondent

The Private Equity life cycle: Exits

15% DECREASE IN EXPECTED EXIT ACTIVITY FROM 2011 TO 2012

FIGURE 20: EXPECTATION FOR BALANCE OF BUYING AND SELLING ACTIVITY
PERCENTAGE OF RESPONDENTS



The exit environment

Compared with last year, fewer GPs expect to see increasing levels of exit activity over the coming 12 months.

This masks two contrasting trends. On the one hand, the pressure on PEs to show exits ahead of fundraising shows no sign of abating. On the other, buyers continue to be highly selective and, as a result, many selling GPs report that their pricing expectations and requirements are often still not being met.

However, almost half of respondents do expect to see increasing levels of exits, with many feeling that they have to rise from current low levels.

On average, activity is expected to be fairly well balanced in terms of buying and selling amongst participating private equity firms, particularly in the more developed markets of North America and Western Europe, but also in Asia Pacific.

A number of respondents indicate that they intend to buy and sell in equal amounts in any given year, while others highlight the stage they are at in the PE cycle as the key determinant of the balance. In the MENA countries, in particular, the focus in the post Arab Spring environment is much more likely to be on future growth and investment opportunities than exits.

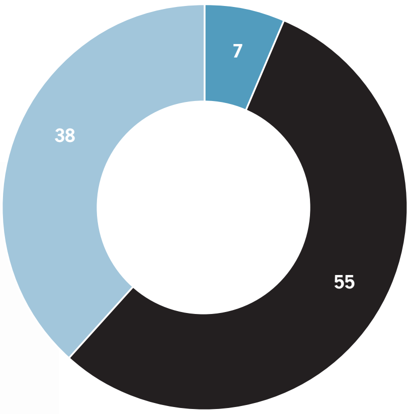
"Exit levels should stay broadly at the same levels as PE houses need to realise their investments and return capital to their investors. Economic conditions and valuations will influence this to some extent, but what will make more of a difference will be the health of corporate balance sheets and the state of the debt markets."

MO MERALI
GRANT THORNTON UK

> "Exit activity is likely to pick up as a result of fund cycles. Funds have a lot of money they are going to have to spend, which will drive demand and entice people to sell. At the same time, people have been holding off divesting, but there comes a time when they need to sell."
>
> **TROY MACDONALD**
> GRANT THORNTON CANADA

FIGURE 21: EXPECTED EXIT ROUTES
PERCENTAGE OF RESPONDENTS

- IPOs
- TRADE SALES
- SECONDARY BUYOUTS



Exit routes

With corporates continuing to enjoy healthy balance sheets, trade sales are consolidating their position as the exit route of choice for PE-backed companies.

Several respondents comment on the relatively high prices trade buyers are able to pay in order to secure high quality assets that they believe will bring strategic synergies. These synergies are increasingly tied to globalisation, with the majority of GPs expecting overseas corporates to feature more and more as potential acquirers of portfolio assets.

Opinions of secondary buyouts vary from the Western markets, where they are often seen as a necessity to generate liquidity, to the more emerging markets where they are increasingly seen as a sign of industry maturity.

Initial Public Offerings (IPOs) are becoming even less relevant as an option for liquidity and this is evidenced by specific regional trends.

There are some noteworthy differences in BRICS and MENA this year, where IPOs are expected by several respondents to be replaced by secondary deals in terms of significance. This is of note, because last year these regions were seen as the largest drivers of IPO exit activity around the globe and nowhere is this trend more stark than in Brazil.

"Trade sales have to be what you plan for – preferably to international buyers."

UAE survey respondent

"Strategics are viewed as the holy grail because they are willing to pay out for synergies with the company. We've been increasingly adopting a dual-track strategy where we prepare a firm for IPO and then sell to a strategic or financial sponsor."

United States survey respondent

> "IPO markets were very important to the industry, but have been totally closed for over a year. When that happens trade sales have to take up the slack."
>
> **WANDER PINTO**
> GRANT THORNTON BRAZIL

Exit returns

Globally, this year's findings suggest that the relative negative sentiment indicated last year remains, as the majority of respondents expect returns to stay the same, while a third expect returns to get worse.

The countries with the most optimistic outlook are the UAE and, interestingly, India where returns have perceived to have been very low to date, and is a positive news story from a country that appears to have many factors impacting negatively on the PE market. Those at the other end of the spectrum include respondents in Western Europe, Asia Pacific, Brazil, Russia and Canada.

Pressure on returns reflects a variety of industry-specific and macroeconomic factors, including: high prices on the buy-side linked to levels of competition for quality assets; generally poor exit conditions, particularly the weak capital markets; the overall lower growth environment; and increasing costs as a result of regulation.

In addition, it is also noted that the higher equity contribution to deals now may apply further downward pressure to returns in the medium term.

A number of respondents make the point that with PE firms tending to hold on to assets where possible in the hope that conditions will improve, IRRs may fall while multiples are forecast to suffer less.

FIGURE 22: EXPECTED AVERAGE RETURNS 2011 VS. 2012
PERCENTAGE OF RESPONDENTS

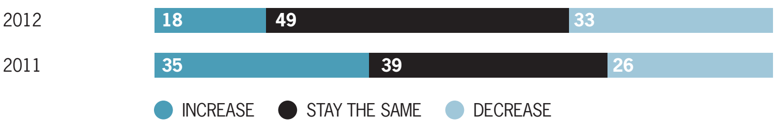
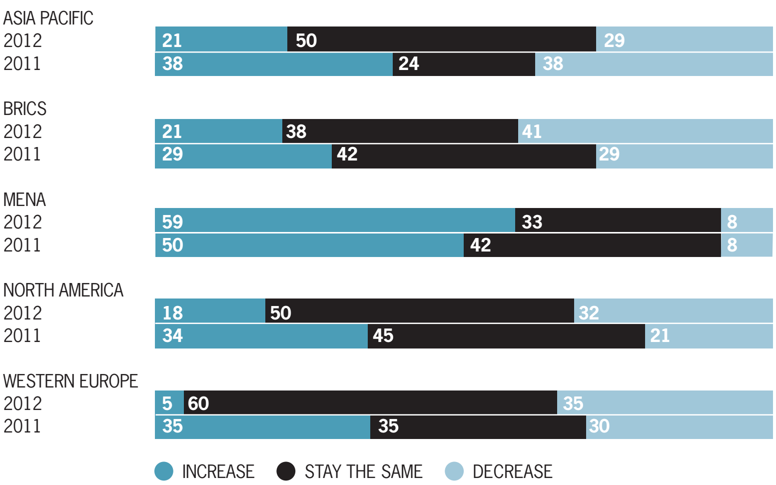


FIGURE 23: EXPECTED AVERAGE RETURNS BY RESPONDENT REGION
PERCENTAGE OF RESPONDENTS



"It might be a little more competitive than the last 12 months, but what will certainly happen is that the gap between the best and the worst returns will widen."

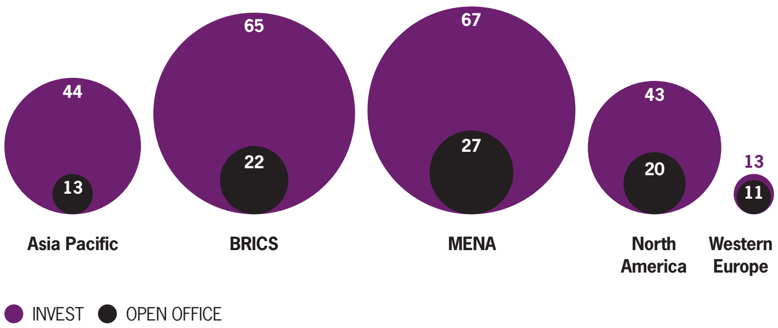
German survey respondent

"Certainly the LPs are not so keen on them, but secondaries will become a useful tool to provide some liquidity."

Hong Kong survey respondent

Special report:
The search for growth

FIGURE 24: DO YOU INTEND YOUR FIRM TO MAKE INVESTMENTS OR OPEN OFFICES IN NEW HIGH GROWTH MARKETS OVER THE NEXT 2-3 YEARS?
PERCENTAGE OF RESPONDENTS WHO HAVE EXPRESSED AN INTENTION, BY REGION



High growth opportunities

The research of the private equity life cycle paints a relatively negative picture of the industry in terms of confidence and future activity and returns. In this special report on the search for growth, we investigate where GPs from around the world are seeking to expand or invest to ensure they maximise their returns and take advantage of economies where growth is most likely in the medium term.

High growth markets offer local PEs opportunities to drive expansion in neighbouring countries, creating pan-regional franchises.

The term ‘emerging markets’ has become misleading, encompassing an extremely broad range of countries and scenarios. While the growth in these countries outstrips that seen in Western markets, the search for growth leads local private equity firms to keep a watchful eye on where tomorrow’s dealflow will originate, particularly as some of their home markets show signs of over-heating.

Whereas a move to new unknown territories may be a risk too far for many western funds, investors based in high growth regions typically have good visibility of the next frontier markets within their region. They often see them as an opportunity to access attractive economic growth based on favourable demographics and improving socio-political circumstances, as well as mitigating risks in any one market.

“Yes absolutely – we are looking at opportunities in North Africa already. We may well need an office there too.”

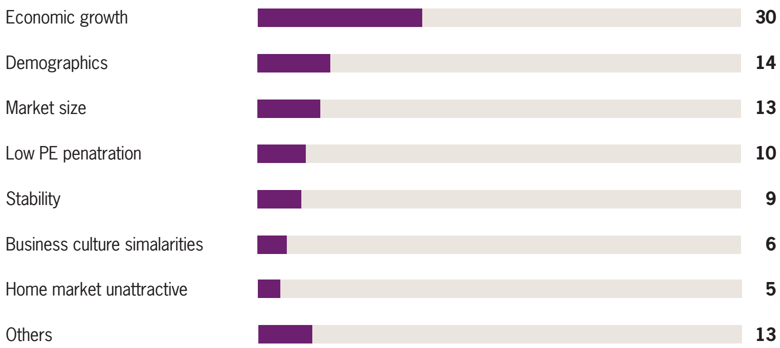
UAE survey respondent

“Where private equity can add significant value is by helping companies to globalise, expand through acquisition and set up direct operations in overseas markets.”

ISAC STENBORG
GRANT THORNTON SWEDEN

> "For the true 'emerging' markets the attraction is that they are largely uncharted and have relatively low private equity penetration."
>
> **KEN ATKINSON**
> GRANT THORNTON VIETNAM

FIGURE 25: ATTRACTIONS OF NEW MARKETS
PERCENTAGE OF TOTAL RESPONSES



Attractions of new markets

As well as the high growth characteristics of many of these frontier markets, another particular attraction for GPs is the current low penetration of private equity. While this almost always comes with a large slice of risk, PEs are attracted by the under-served nature of these countries and the opportunities this can bring to those willing to play a pioneering role.

The risks associated with entering these markets are somewhat mitigated for GPs operating from regional hubs by factors including similar time zones and potentially similar business cultures.

In practical terms, accessing dealflow in these frontier markets can involve investments made out of the regional hub or the opening of a local office. The former is the preference of many, although in MENA in particular, more GPs do plan to extend their network on a regional basis over the coming year.

"Compared to previously, we're no longer making investments outside the US. As a fund we are back to the US and moving down-market and doing smaller deals. Smaller deals require more time with management and it's much easier for us to do a two-hour plane journey within the US than travel out to India to help a smaller company."

United States survey respondent

"Brazil is overheating, so I would say Colombia, Mexico and perhaps certain parts of Central America are of interest."

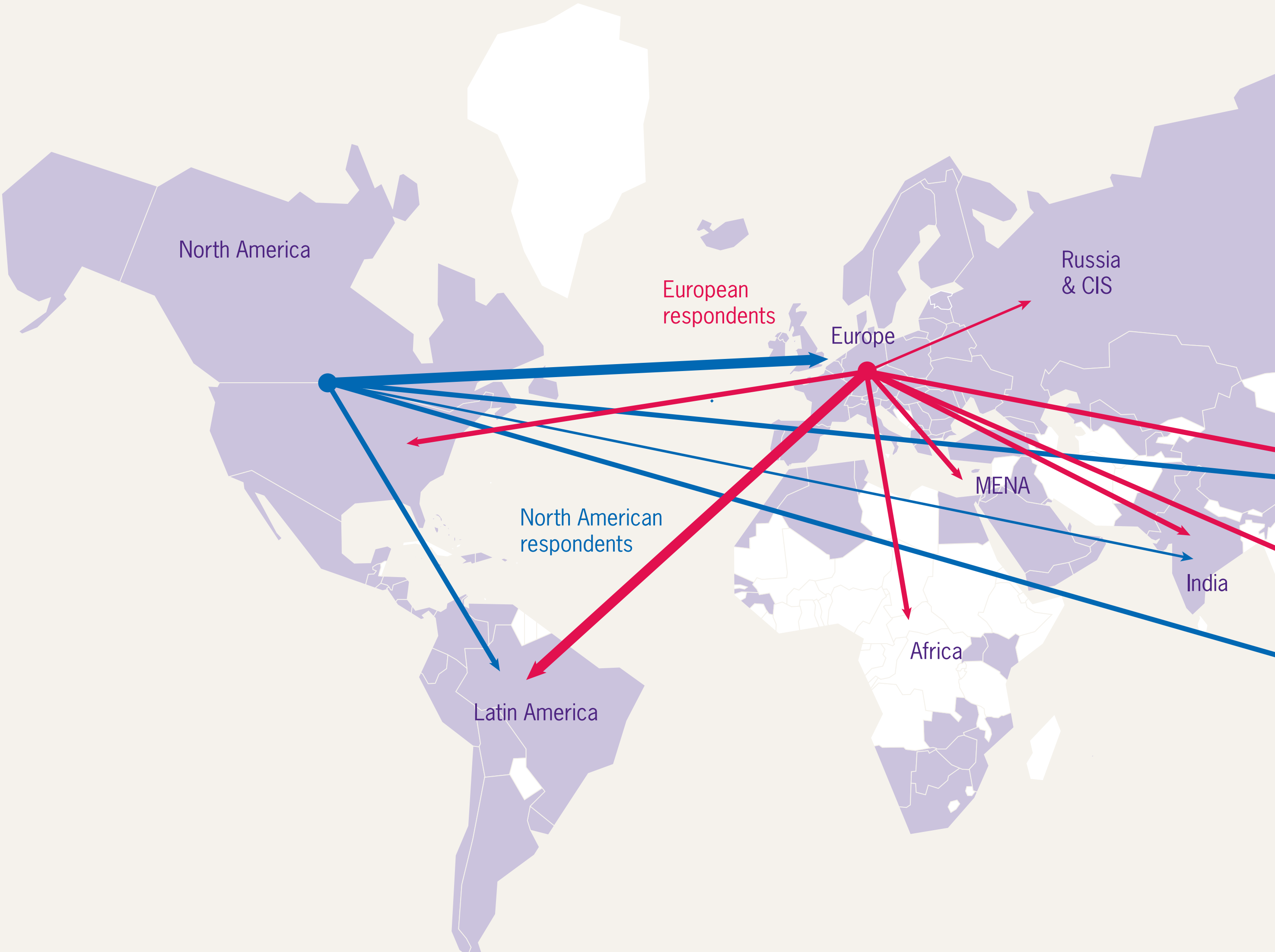
Peruvian survey respondent

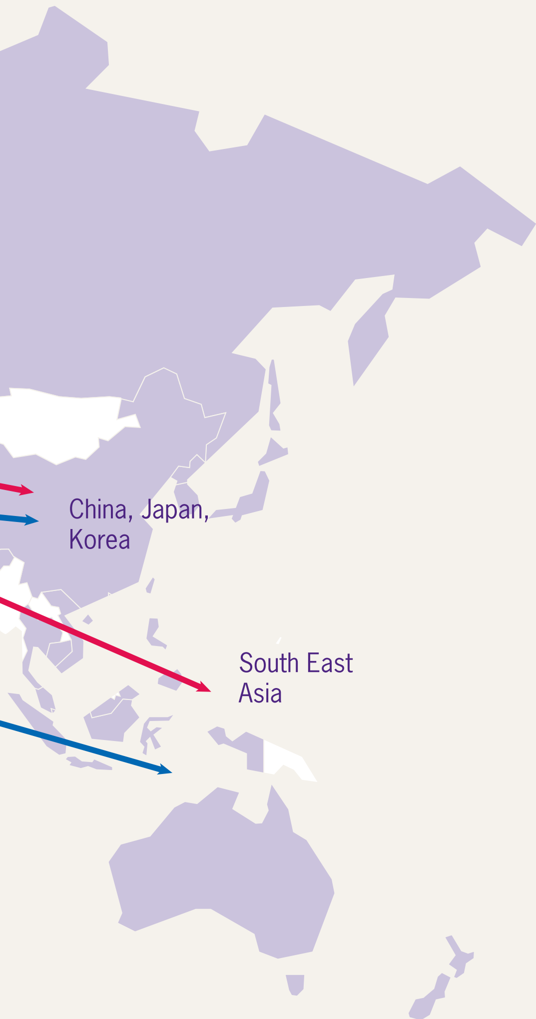
> "PEs are actively seeking ways to access the new and high growth economies. Teams and contacts are being set up and this access is starting to be seen as an important differentiator for many Western PEs."
>
> **KAI BARTELS**
> GRANT THORNTON GERMANY

> "Private equity in emerging markets is challenging because of the governance risks and the absence of deep capital and M&A markets to enable exits. An understanding of the local situation is key to success in these markets."
>
> **HARISH HV**
> GRANT THORNTON INDIA

FIGURE 26: FUTURE GLOBAL INVESTMENT OPPORTUNITIES FOR NORTH AMERICAN AND WESTERN EUROPEAN PRIVATE EQUITY FIRMS

THIS CHART HIGHLIGHTS THE REGIONS IDENTIFIED BY RESPONDENTS IN EUROPE AND NORTH AMERICA WHICH ARE LIKELY TO BE OF INTEREST FOR INVESTMENT IN THE FUTURE





The next move of Western PEs

In the relatively low growth Western markets, PEs are acutely aware of the new geographical opportunities, but often do not plan to explore them in great depth for new deal opportunities.

Perhaps not surprisingly given the cultural similarities, a mutual attraction is evident between North America and Western Europe, although while Europeans are enticed by the improving status of the US economy, American GPs expect to see more distressed opportunities originating from Europe.

When describing areas of perceived opportunity, GPs in the lower growth markets of Western Europe and North America list a range of countries throughout the world. While some of these are markets in close proximity to the GP, many are more distant; the 'gateway' emerging markets of Brazil, India, and China are often mentioned. The 'virgin' frontiers, whilst on the radars of Western based GPs appear to be of less interest for direct investment, especially from those in North America.

Despite this awareness of new geographical opportunities, many Western GPs do not plan to seek new deal opportunities in these higher growth regions. For reasons of remit, resource, expertise, and scepticism of opportunities versus risk, many prefer the relative safety of driving performance in businesses in their lower growth domestic markets.

Supporting this, LPs more than ever need to be convinced that a GPs stated strategy can be delivered, and therefore any hint of investing in unfamiliar territories is likely to make them nervous.

However, this does not mean that the international door is closed in terms of the growth opportunities that it can offer. Western PEs are increasingly assisting their portfolio companies to grow internationally, either to access new markets, benefit operationally or enable them to become more attractive to international buyers.

"Turkey is the name that's mentioned a lot. I think the bigger players are looking at the Far East. But a lot of them now are retrenching and saying, well actually, perhaps the markets that we know are better than the markets that we don't know and perhaps there is a cyclical play, an economic cyclical play in UK, Europe, North America. North America is bouncing already. So what I hear from LPs is interest in what's happening in the Far East, and America and other exotic places, but the reality is that perhaps it is safer closer to home."

UK survey respondent

"We have a strong China bias and we think it will continue to be the pillar, but there is some promise from Indonesia, Singapore, Malaysia and less so Myanmar."

Chinese survey respondent

"South East Asia generally is attractive – Indonesia, Malaysia, etc. These countries have stable economic growth, but it's probably mostly because competition in Greater China is so much keener than it was."

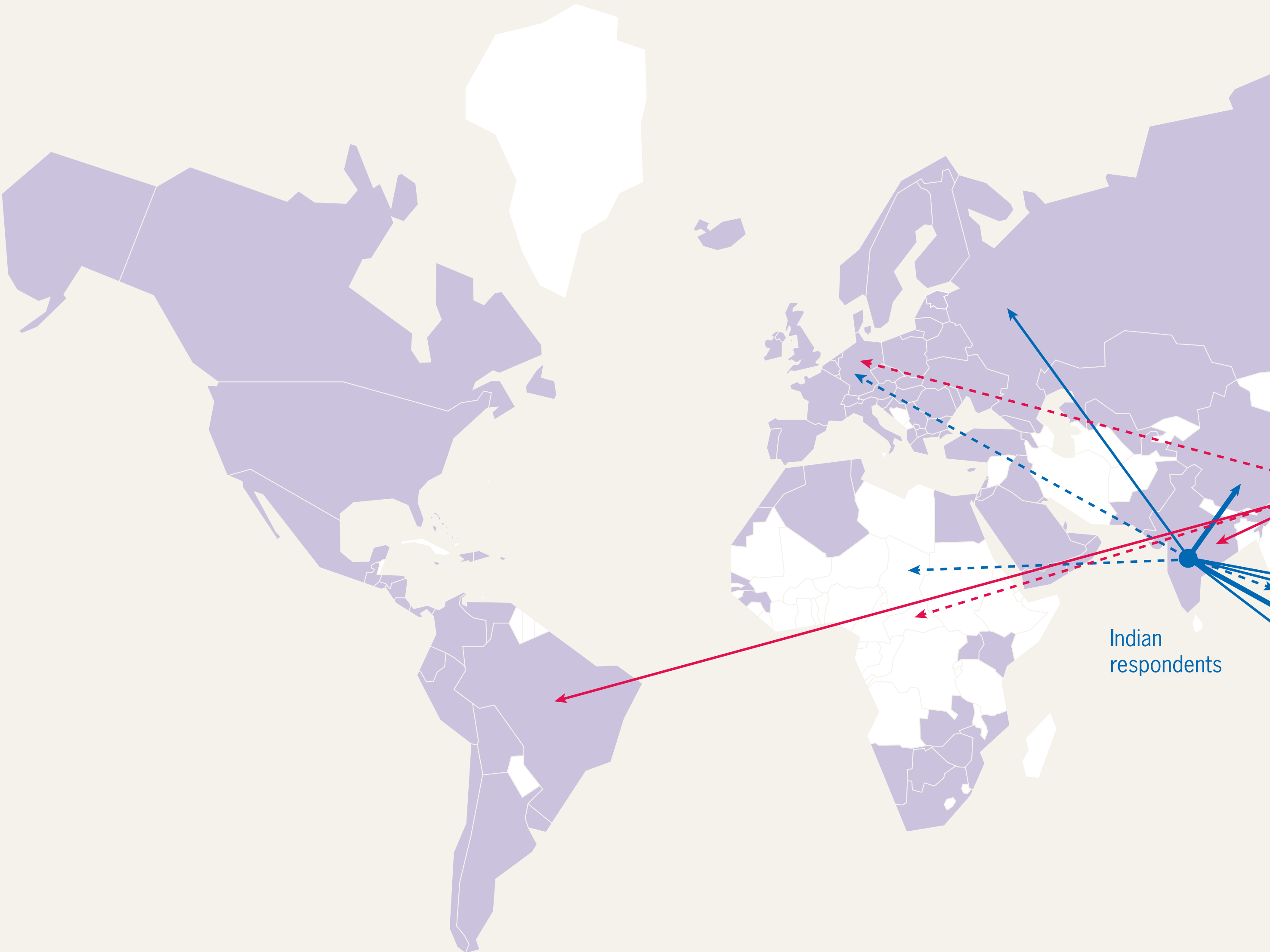
Hong Kong survey respondent

"We very much believe the best opportunities to make money will remain in India and China in the longer term. The interest we see in South East Asian economies is a flavour of the month thing."

Indian survey respondent

FIGURE 27: GLOBAL INVESTMENT OPPORTUNITIES FOR PRIVATE EQUITY IN KEY HIGH GROWTH MARKETS – CHINA & INDIA

THIS CHART HIGHLIGHTS THE COUNTRIES AND REGIONS IDENTIFIED BY RESPONDENTS IN CHINA AND INDIA WHICH ARE MOST LIKELY TO BE OF INTEREST FOR PRIVATE EQUITY INVESTMENT IN THE FUTURE



KEY:

COUNTRY MENTIONS

REGIONAL MENTIONS

The next move for Chinese and Indian PEs

China and India are two of the largest global economies and they continue to experience growth above and beyond that of the Western economies. As such, internal demand is still a big driver and focus of domestic GP attention.

Given the significance and success of these countries it may be surprising to note that even GPs based in these countries consider international opportunities.

However, and maybe unsurprisingly, the focus of their attention is South East Asia, underlining the point that regional investment remains more attractive and less risky than investing further afield for PEs.

China-based GPs, if they are not entirely focused on their domestic market, have a particular eye on South East Asia. Indonesia tends to be the key focus of Chinese GP attention in the region. However, some Chinese GPs also highlight markets as diverse as India, Africa, South America and Europe as potentially being of interest from a private equity stand point.

The trend is similar for Indian GPs. While South East Asia is also regarded as a key area of private equity opportunity, Indian GPs are likely to identify a geographically diverse set of opportunities, including some Western markets, Russia and Australia.

> "Both local and international funds are becoming more active in South East Asia. There is increasing awareness about countries such as Indonesia, Vietnam, Thailand and Malaysia. A number of deals are happening in each place involving local and international players. They have strong economies. Australia also has a vibrant private equity community. Indonesia is probably the most attractive country, thanks to its growing middle class."
>
> **CAROL CHENG**
> GRANT THORNTON CHINA

"Outside of Brazil, the two more promising new markets are Peru and Colombia. They have strong growth, stable politics and the companies need cash to expand. In terms of sector, it will be pretty much the same as in Brazil – consumer-oriented, business services etc."

Brazilian survey respondent

"Our view is that post-conflict countries offer the best opportunities for private equity – Iraq, Ethiopia and Algeria being good examples."

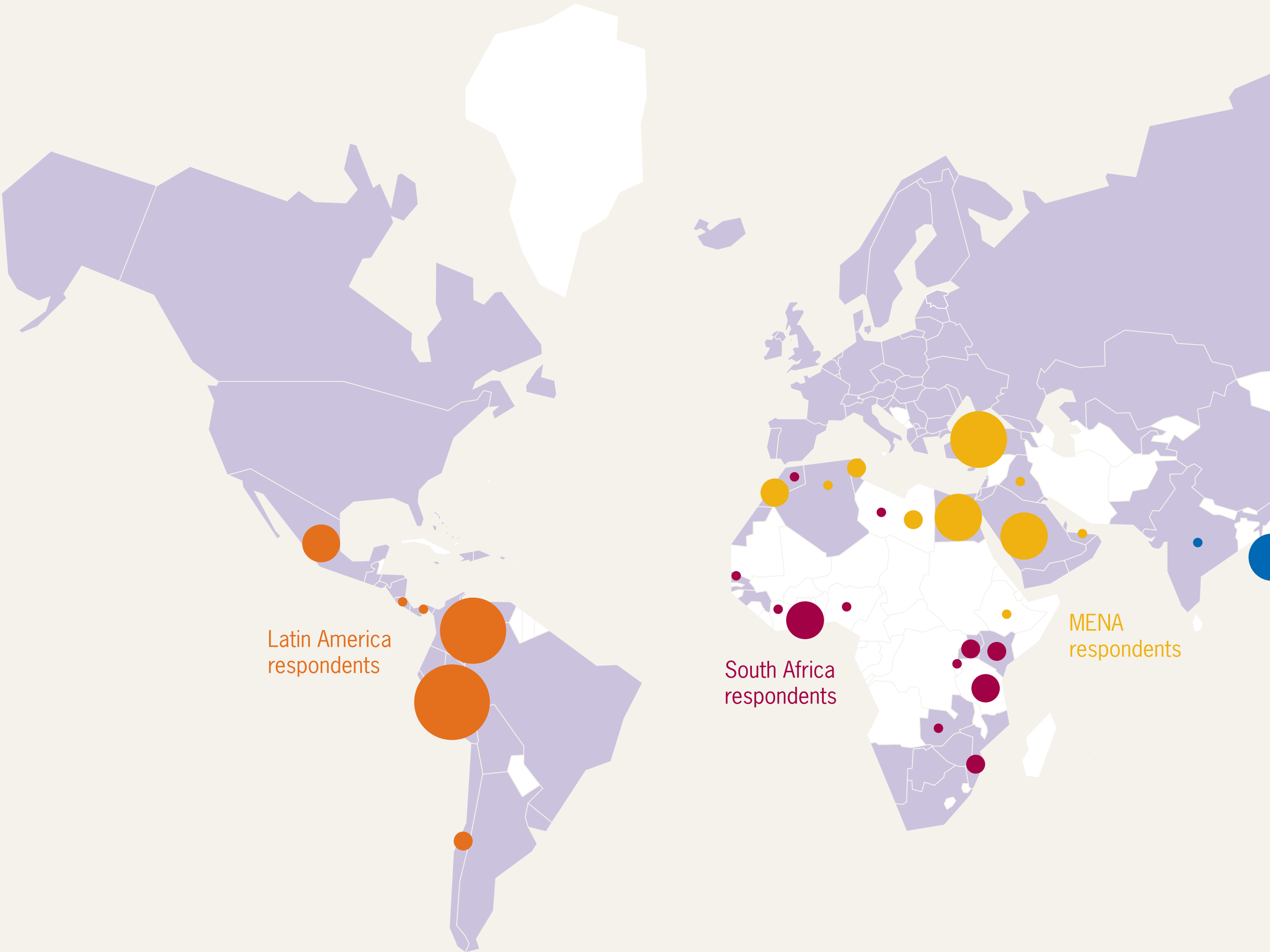
Egyptian survey respondent

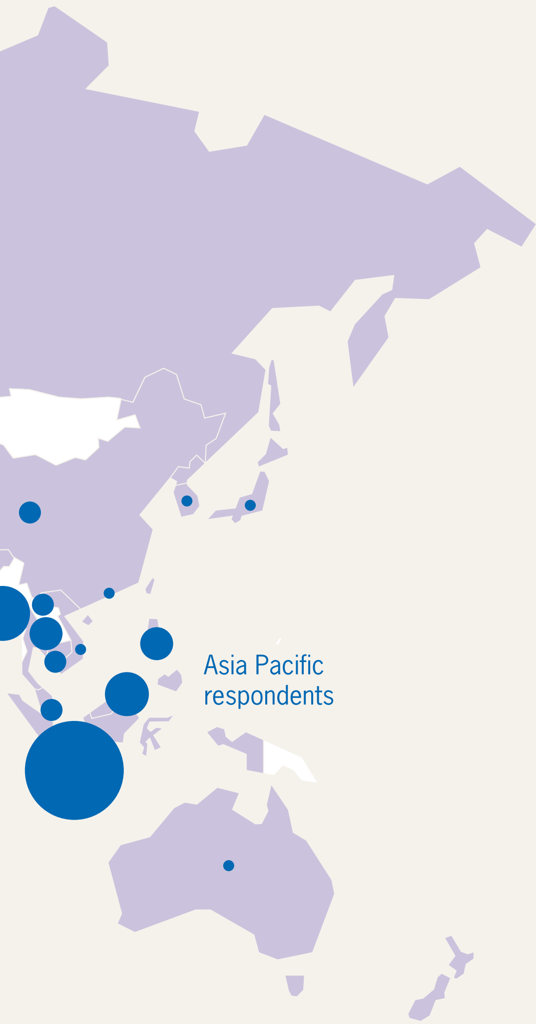
"We help with acquisitions more than anything else when it comes to international growth. Geographically it really depends – our Singaporean investees typically want to get into Greater China, while our Chinese investees want to get into Singapore because they see it as a springboard to the West."

Singaporean survey respondent

FIGURE 28: FUTURE GLOBAL INVESTMENT OPPORTUNITIES FOR PRIVATE EQUITY IN KEY HIGH GROWTH MARKETS

THIS CHART HIGHLIGHTS THE COUNTRIES IDENTIFIED BY RESPONDENTS IN KEY HIGH GROWTH MARKETS WHICH ARE LIKELY TO BE OF MOST INTEREST FOR PRIVATE EQUITY INVESTMENT IN THE FUTURE





The next regional moves by PEs in high growth regions

While South East Asia is viewed by private equity investors across the globe as an attractive source of future private equity opportunities, it is rare for investors based outside the region to have a detailed understanding of the prospects at a country level. GPs based in the region itself highlight a broad range of 'frontier markets' outside of the more established hubs, with the most promising perceived to be **Indonesia, Malaysia and Myanmar**.

The presence of Myanmar on this list illustrates how the opportunities on GPs' radar may be very embryonic, but reflect an awareness of geo-political developments and the structural opportunities at the country level that these can bring. A similar pattern is in evidence within the MENA region, where the post Arab Spring environment is expected to yield a landscape conducive to private equity activity.

Africa is sometimes described as the final continental frontier for private equity, and the views of South African GPs provide an interesting insight into specific African countries showing most promise. **Ghana** and **Tanzania** are notable markets in this respect.

LATAM-based GPs point to the attractions of several up-and-coming markets on the continent, building out from Brazil as the pre-eminent market in the region. **Peru** and **Colombia**, in particular, are drawing attention due to their relatively strong growth and the volume of growing businesses that require injections of capital to fulfil their expansion plans.

Another market attracting much attention at present is **Turkey**, both from MENA based firms and Western Europeans, who recognise its western style consumer dynamics, favourable demographics, and a mid-market with 'Mittelstand' characteristics.

> "There is interest in the rest of Africa from private equity players who are looking for investee companies that have the ability to expand into other African countries. Such businesses are more attractive to buyers (especially international trade buyers). We see opportunities in West Africa, countries like Ghana, and in Central Africa, countries like Zambia, whilst in East Africa, countries like Tanzania."
>
> **JEANETTE HERN**
> GRANT THORNTON SOUTH AFRICA

> "Strategic buyers are certainly originating from developed Western markets like the US and Europe, but we have also been seeing a lot of Japanese buyers that are very interested in the technology and telecoms areas in particular. Their currency is very strong – it's like a return to the mid-late 1980s."
>
> **DAVID ASCOTT**
> GRANT THORNTON UK

FIGURE 29: EXPECTED ORIGIN OF TRADE BUYERS
PERCENTAGE OF RESPONDENTS

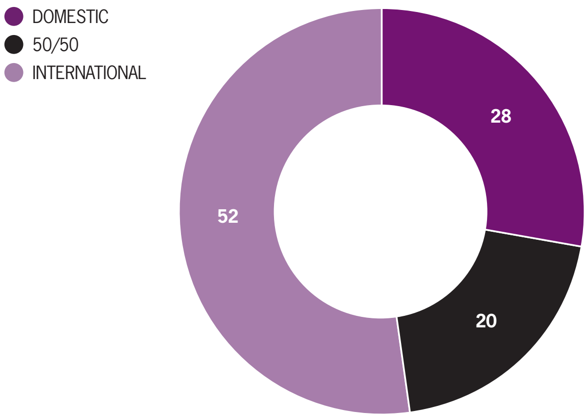
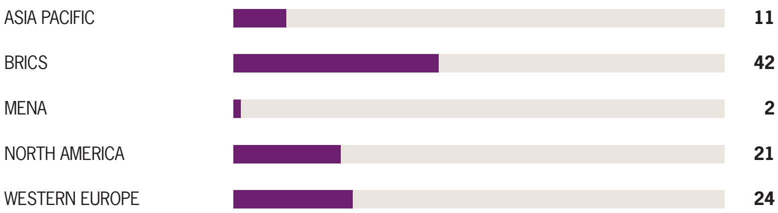


FIGURE 30: REGIONS EXPECTED TO BE SOURCE OF NON-DOMESTIC ACQUIRERS
PERCENTAGE OF RESPONDENTS



31% OF BUYERS THOUGHT TO COME FROM CHINA, JAPAN OR KOREA

Global buyers

Strategic acquirers are expected to continue to provide the dominant exit route for PEs in the near term. Moreover, the trend is for trade purchasers to be foreign, with approaching three quarters of respondents expecting at least half of trade sales to be international.

Globally, China and Japan, Europe and North America are the regions from which most GPs expect non-domestic strategic buyers to originate.

Of particular interest is the expected significance of **Japan**, reflecting the fact that the strong Yen coupled with sluggish domestic demand is encouraging international expansion. PEs globally expect to see Japanese buyers, and this is particularly the case in Europe, India and Asia Pacific.

Cash rich Indian corporates are also expected to be active, but typically only in Europe and to a lesser extent parts of Africa and the Middle East.

Interestingly, few Chinese GPs expect Asia Pacific corporates to be active in their market, with most international bidders for their portfolios expected to originate from Europe, North America and to a lesser extent Japan.

Balancing this trend, European GPs expect to see considerable interest from Chinese strategics going forward, as well as from those based in the US. In turn, US portfolios are expected to be of interest to European trade buyers, underlining the continuing strength of the relationship between the two continents.

"I expect potential buyers to be more international – most likely from the USA, but also from Europe, China and Japan. However, this is also coupled with cash-rich Turkish conglomerates bidding for companies."

Turkish survey respondent

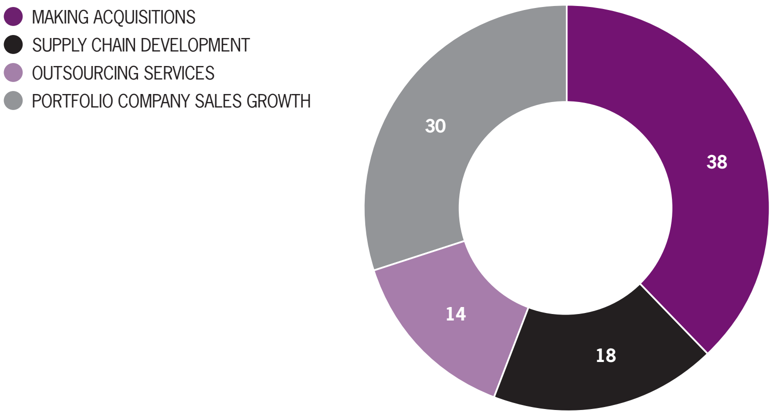
"Our recent exits to strategics have been to European and US firms. We have had interest from and conversations with Chinese buyers but getting the deal done has been a different matter. They have not yet proved that they have what it takes to do this."

Australia survey respondent

"Local and regional PEs have to present a global capability now. It is becoming a necessity. We see networks of PEs increasing in popularity and it is no surprise to see a Pan-European one already set up. This will be one of many."

DAVID FISHER
GRANT THORNTON MIDDLE EAST ADVISORY

FIGURE 31: AREAS IN WHICH PORTFOLIO COMPANIES ARE SEEKING GP SUPPORT OUTSIDE THEIR DOMESTIC MARKET
PERCENTAGE OF RESPONDENTS



"I think it's about certainly making acquisitions of complementary businesses outward of the UK. In terms of which geographies, I think it's quite difficult to generalise because it comes down to the specifics of where any particular investee company is operating; there are some in America, South America and some actually out in the Far East, so we're going to more far-flung areas than just Continental Europe."

UK survey respondent

Supporting portfolio internationalisation

Private equity firms are playing an increasing role as a catalyst for the internationalisation of mid-market companies.

Across the world, a large majority of GPs report that their portfolio companies are seeking their support to develop their businesses internationally. For the GPs themselves this can also provide a channel for accessing high growth markets indirectly without having to make new investments beyond existing remits.

Almost all respondents expect the levels of cross-border M&A activity for their portfolio to increase or at least remain at current levels. Indeed, GPs see this as an important way in which they can add value to companies, drawing on their M&A expertise and often international contact networks.

GPs also feel that they can add value in helping their portfolio businesses to build international sales, and this is particularly the case with Western European and MENA based investee companies. To a slightly lesser extent, but also significant, is the assistance that GPs feel they can offer investees in terms of international supply chain development and the use of overseas outsourcing services.

In a sense, this internationalisation angle can be viewed as a symbiotic relationship between GPs and their portfolio companies, both assisting each other with moves into geographies that otherwise may be less accessible without their relationship.

Final comments

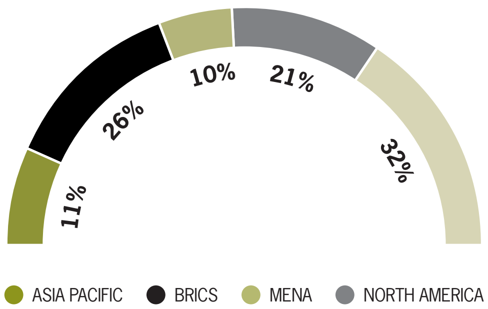
With growth and returns limited to a minority of investments in the West, PEs in those territories are now having to access the high growth regions to attract investment and investment opportunities.

How they do this is yet to be decided, but already a number of firms have set up teams or operational centres to illustrate to LPs and management teams that they can support growth opportunities globally.

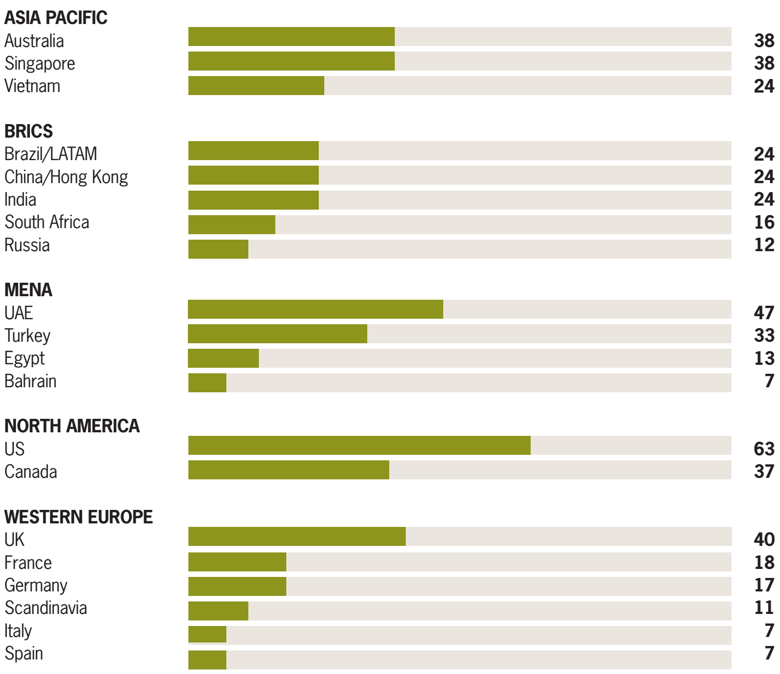
PEs are under increasing pressure to demonstrate access to these growth territories to LPs and management teams looking to expand. Those that don't look to invest in some way in these areas may be left behind to fight for funding and opportunities in their domestic markets, where times are tough and competition high.

Appendix
Sample and methodology

APPENDIX 1
FIGURE 32: RESPONDENTS BY REGION
PERCENTAGE OF RESPONDENTS



APPENDIX 2
FIGURE 33: RESPONDENTS BY REGION – COUNTRY BREAKDOWN
PERCENTAGE OF RESPONDENTS



This report provides a global snapshot of the opportunities and challenges within the private equity industry as seen from a practitioner's perspective. The differences in what it means to be an active player in specific global markets are examined, as are the key themes that resonate around the world.

Between July and September 2012, 143 interviews were conducted with top executives from private equity firms. Respondents included general partners in five principal regions/categories:

- Western Europe
- North America (USA and Canada)
- BRICS (Brazil (and broader LATAM), Russia, India, China, South Africa)
- Asia Pacific (Australia and South East Asia)
- MENA (including Turkey).

Participants were identified from a number of sources including industry associations, market directories and contact networks.

The interviews were conducted on an unattributed basis and were structured around the various stages of the private equity life cycle, incorporating new investment activity, portfolio management, exiting and fundraising. This approach enabled detailed exploration of likely trends throughout the cycle and identification of key pressure points within the chain. In addition, particular questions were posed this year on GPs' experiences of the role of internationalisation on their business and that of their portfolio companies.

Interviews included a mixture of quantitative and qualitative questions. This report includes graphs and charts derived from both the quantitative data and, where appropriate, the coding of responses to qualitative questions to provide statistics highlighting key trends.

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