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The news and analysis powering European private equity

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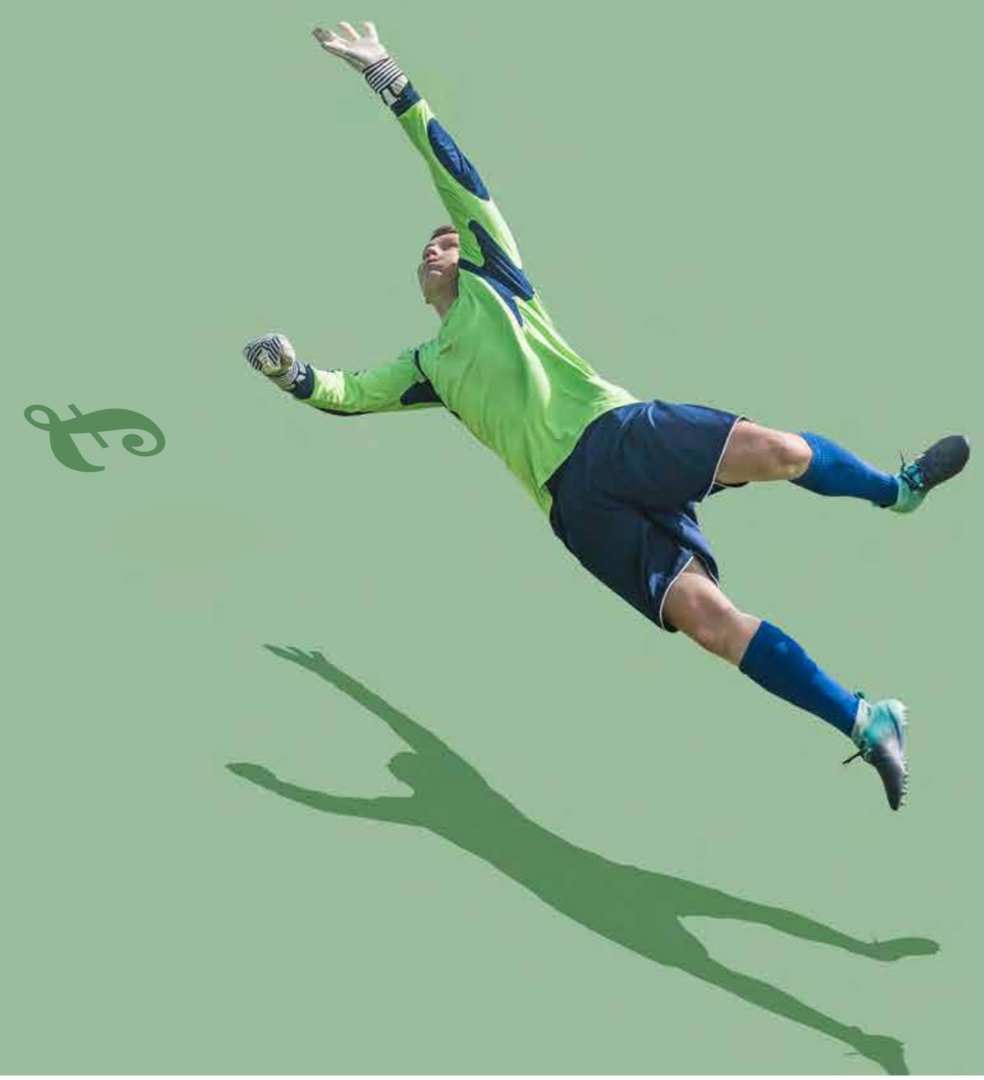
PRIVATE EQUITY NEWS

Private equity likes sports, but do sports like private equity?



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European PE deal activity soars in the first quarter

Elisângela Mendonça

Private equity dealmaking in Europe came roaring back in the first quarter as the region emerges from the Covid-19 crisis. The industry posted €158.8bn in total deal value in the first quarter of 2021, a 28.5% surge year-on-year, according to data provider PitchBook.

Hungry GPs rushing to put record levels of dry powder to work, the revival in the leveraged lending markets and sellers taking advantage of heightened valuations are now converging to set the stage for a lively year, said Dominick Mondesir, PitchBook's Emea private capital analyst.

The sector accounting for the greatest value of deals was IT with 24.7% of the total – up from the 20.5% it recorded in the first quarter of last year.

"A year on from when lockdowns began in Europe, the ubiquitous stay-at-home orders are still largely in place, continuing to drive e-commerce, collaboration platforms and SaaS adoption," Mondesir added in the latest edition of the quarterly *European PE Breakdown* report.

"Many of the pandemic-induced changes in consumer and business behaviour will likely be permanent, not temporary shifts, pushing sponsors to position portfolios to take advantage of the digitisation megatrend," he said.

Meanwhile, bolt-ons as a proportion of buyout volumes increased. In the first quarter of 2021, 70.9% of buyouts were bolt-on acquisitions, indicating buy-and-build strategies are central to sponsors' investment theses, as opposed to financial engineering. This compares with 60% for the whole of last year.

With low European economic growth and inflation rates, organic growth measures can take a little longer to affect the bottom line than M&A. With extremely liquid credit markets and record PE dry powder levels, managers see bolt-ons as the predominant path to growth, PitchBook said.

A recent example is Carlyle-backed ION Group's acquisition of Italy-headquartered Cedacri, a provider of IT outsourcing services to the banking sector, for €1.5bn, in January.

On the exits side, the industry reported a total €115.5bn in aggregated value in Q1, surpassing the €100bn mark for the first time ever in a given quarter.

A flurry of these transactions came in the form of initial public offerings, wrapping up the highest IPO exit value in almost a decade. In total, there were 31 private equity-backed European companies that listed in the first quarter, worth €30.1bn, as sponsors cashed-in amid public equity investors' readiness to pay premium prices for growth assets.

€158bn
Value of private equity deals in Europe in Q1 2021

Seven of them were from companies that went public at greater than €1bn pre-money valuations in the quarter, PitchBook noted. This included the high profile listing of Dr. Martens in London, raising €1.7bn at a pre-money valuation of €4.2bn.

The "bazooka fiscal-monetary package" from central banks and European governments, which has bridged the recovery and relatively low public market volatility and ballooning public market valuations have encouraged more sponsors to exit via public markets, the report said.

"Not only does this mark Europe's highest quarterly IPO exit value since Q2 2011, but this figure is comfortably pacing to hit a new annual IPO exit value peak by some distance," Mondesir added.

Aurelius raises €500m for its first institutional fund

Elisângela Mendonça

Carve-outs specialist Aurelius has taken only four months to wrap up a €500m fund, as investors eye opportunities to capitalise on pandemic-related disruptions this year. The vehicle, which comprises €350m in LP commitments and a €150m co-investment pool, is the Munich-listed firm's first institutional fund.

"We wanted to be focused on deployment in the next years and not too much on where the capital is coming from," Tristan Nagler, the firm's London-based managing director, told *Private Equity News* via Zoom. The fund, Aurelius European Opportunities IV, will focus on deals in the European middle market with a ticket size of up to €100m.

The swift fundraising reflects the steady momentum building up for corporate units' divestments, following a period of economic struggle for many businesses around the world as a result of the Covid-19 crisis.

In the past 12 months, however, governments' financial support has held back the number of restructurings – something Nagler expects will soon change.

"There is a lot going on in the post-pandemic world and carve-outs are definitely a very strong theme. We've seen it ourselves: just in the first quarter we announced seven deals," he said.

The new fund's most targeted sectors are those Aurelius has been investing in since its foundation in 2006, such as industrials and services. Earlier this month, for example, Aurelius acquired the contracting businesses of SSE, the UK-based energy group, in a deal with an enterprise value of £27.5m.

Despite the improving investment environment, companies' valuations still need to be carefully assessed, he said.

"We have a quite hot market now and, usually, high valuations relate to the fact that there are strong growth prospects," he added. "But the irony is that there is an uncertain backdrop, as we could have another lockdown next week, or next month or next year. And yet, none of that is being priced."

PRIVATE EQUITY NEWS

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Deals of the week

FirstGroup to sell US business to EQT for £3.3bn

FirstGroup has entered into an agreement for the sale of its US bus operations to EQT Infrastructure for about £3.3bn. The FTSE 250 train-and-bus operator said it will use £1.35bn to reduce indebtedness, including a £300m Covid Corporate Financing Facility repayment to the UK government, and to derisk other liabilities. The company said the transaction was subject to shareholder approval, and that completion is expected in the second half of 2021.

PE-backed Hear.com files for IPO on the Nasdaq

EQT-backed audiology company Hear.com has filed for an initial public offering with the US Securities and Exchange Commission and said its expects its shares to trade on the Nasdaq Global Market. The company didn't give an expected size of its IPO, nor did it provide an expected price range.

Toshiba rebuffs CVC takeover offer

Toshiba has rebuffed a takeover proposal from private equity firm CVC Capital Partners, saying the proposal didn't have enough detail to be considered and Toshiba preferred to remain a public company. The private equity firm has said it preferred to make a deal under non-hostile conditions and valued partnership. Toshiba said it would consider offers to take the company private, but any suitor would need to offer a detailed proposal.

Nvidia's Arm deal with Softbank gets security review

The UK government is starting a national security review of Nvidia's $40bn deal to buy British chip designer Arm from SoftBank Group, raising a new hurdle for an industry-reshaping proposal facing significant regulatory scrutiny around the world. The national security review comes on top of the agency's previously announced plans to investigate the deal on antitrust grounds.

ALAMY

Blackstone-backed Oatly files for IPO

Oatly Group formally filed paperwork on 19 April for an initial public offering in the US, nine months after private equity giant Blackstone Group and a handful of high profile celebrities took a stake in the oat milk producer. The Sweden-based company plans to raise $100m from a sale of its American depositary shares, a placeholder figure companies often use to calculate filing fees and is often changed. Oatly plans to use the proceeds from the offering for working capital and to invest in its growth and other general corporate purposes. The Malmö, Sweden-based company entered the US market in 2017 with its alternative dairy products that have grown in popularity among consumers seeking healthier options with less impact on the environment.

PE-backed Synlab plans IPO as Covid-19 testing booms

Synlab has set the price range for its planned initial public offering in Frankfurt at €18 to €23 a share, giving Europe's largest laboratory services provider a market capitalisation of up to €5bn. Munich-based Synlab said that it aims to raise €400m in the IPO. Existing shareholders, which include private equity group Cinven, Danish investor Novo Holdings, and Canadian pension fund Ontario Teachers' Pension Plan Board, will also sell down their stakes. Cinven bought Synlab for €1.7bn from rival buyout group BC Partners in 2015.

Keensight Capital acquires Dutch technology company

Europe-focused private equity firm Keensight Capital has acquired a majority stake in cloud-based services provider RAM Infotechnology. The Netherlands-based company focuses on technology management in the Dutch healthcare sector and is expected to have revenues of €45m in 2021.

UK watchdog flags issues with deal for Asda

The UK Competition and Markets Authority has said that Bellis Acquisition 3's completed £6.8bn acquisition of UK grocer Asda Group could lead to higher petrol prices in some parts of the country. It said that the buyers now have to offer a solution that will satisfy the regulator's concerns, otherwise the deal will move to an in-depth Phase 2 investigation. A spokesperson for the Issa Brothers and TDR Capital said that they will work with the regulator to agree a satisfactory resolution.

Munich's EMH Partners takes majority stake in Cleverbridge

Munich-based EMH Partners is to acquire 65% of digital subscription management company Cleverbridge's shares, investing alongside the company's founders and managers. Cleverbridge was founded in 2005 and is a global provider of subscription billing and management services. With headquarters in Cologne, Germany and Chicago, Cleverbridge serves clients in more than 190 countries and has headquarters in Cologne, Germany and Chicago.

Private equity firms regain taste for giant buyouts

Miriam Gottfried and Ben Dummett

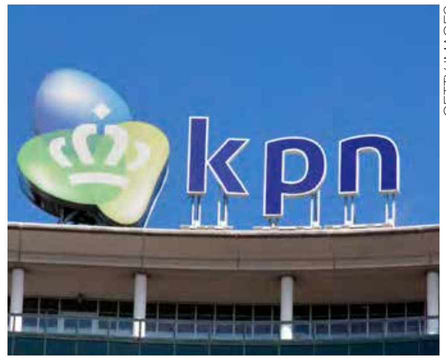
The mega LBO is back. Maybe.

Leveraged buyout bids measuring in the double-digit billions, a relative rarity since the financial crisis, have been showing signs of a comeback lately.

Meanwhile, Stonepeak Infrastructure Partners and Sweden's EQT have teamed up for a bid on Royal KPN that could value the Dutch telecommunications company at more than $15bn, *The Wall Street Journal* reported. Medical-supply giant Medline Industries has hired Goldman Sachs Group to help it explore a sale, likely to one or more private equity firms, the Journal reported. Such a deal could value the family-owned company at as much as $30bn.

It is far from guaranteed that any of these transactions will be completed. Earlier this month, private equity firm CVC Capital Partners submitted a proposal worth more than $20bn for Japan's Toshiba Corp, which was rebuffed last week. But the fact that they are even under consideration is noteworthy. Between 2005 and 2007, private equity firms inked 18 deals worth $10bn or more, according to Dealogic. Since then, they have struck only 10, mindful that many of the pre-crisis deals didn't work out as planned.

Now the urge to go big appears to be back, with private equity firms sitting on a record $1.6tn in unspent cash, according to Preqin, and looking for ways to deploy it in a pricey market. Firms with the biggest funds also see larger buyouts as a way to separate themselves from the competition, deal advisers say.



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Stonepeak Infrastructure Partners and EQT have teamed up for a bid on Royal KPN that could value the Dutch telecoms company at more than $15bn

Another factor is at play: buyout firms are increasingly wooing investors by giving them the opportunity to invest directly in target companies and avoid fund fees. The potential for these co-investments means the dry powder private equity firms are sitting on is even greater than appreciated, said Jonathan Karen, a partner in the funds group at law firm Simpson Thacher & Bartlett.

"There's this shadow capital," he said. "If you have a $10bn fund, you might have $5bn – or even another $10bn – waiting in the wings."

Many of the deals struck before the financial crisis produced middling returns, and companies such as TXU Corp, later renamed Energy Future Holdings, filed for bankruptcy protection when their debt proved too big a burden after the recession hit. And no one is saying big LBOs are less risky now.

The amount of leverage employed in US buyouts is at an elevated level, with the two-year trailing average debt multiple reaching seven times earnings before interest, taxes, depreciation and amortisation in 2020, data from consulting firm McKinsey show. That compares with 6.4 times in 2007. Regulators have discouraged banks that make buyout loans from financing deals in which debt is above six times Ebitda.

Meanwhile, the two-year trailing average purchase-price multiple reached a record 12.8 times Ebitda in 2020, compared with 9.4 times in 2007.

Still, bankers and other deal advisers say there are important differences between now and then, not least of which is rock-bottom interest rates, which make it much cheaper for buyout targets to borrow. Increased use of "covenant-lite" loans, which come with few lender protections, means borrowers also have more room to breathe in the event of an economic downturn.

Before the financial crisis, firms also relied on financial engineering a company's balance sheet rather than its operations, to juice returns. Now, they are more likely to have a view on how to improve a company's operations.

From The Wall Street Journal

Company news

EQT closes on this year's largest European fundraising

Swedan's EQT has hit the final close of its ninth buyout fund at its hard cap of €15.6bn, the largest private equity strategy wrapped up in Europe so far this year. EQT IX, which is also the firm's largest so far, has surpassed its predecessor, closed in 2018 at €10.75bn. The fund is 40%-45% invested at the moment.

€15.6bn
Amount EQT raised for its ninth buyout fund

IK closes on €1.2bn for its third small cap strategy

London-based private equity firm IK Investment Partners has closed its third small cap fund at its hard cap of €1.2bn. The sum, collected within three months entirely on a virtual basis, is more than double the size of IK's predecessor vehicle, closed at €550m in 2018. The fund, IK Small Cap III, will target growing companies with enterprise values of between €50m and €150m in business services, healthcare, consumer and industrials.

VC Forbion wraps up €360m first growth vehicle

European venture capital firm Forbion has held a final close for its first growth opportunities fund at €360m hard cap. The new fund, Forbion Growth Opportunities I, was launched in July last year with an original target of €250m. The vehicle targets late-stage life sciences companies, the firm said.

Whitehorse closes fourth secondary fund at $4bn

Secondary investor Whitehorse Liquidity Partners has collected $4bn for its fourth fund, exceeding its target of $3bn. Whitehorse Liquidity Partners IV is double the size of its predecessor. Of the new fund's 112 investors, 66 are new to Whitehorse, according to Yann Robard, the firm's founder and managing partner.

Vista Investors and Reed Capital to form EIM Capital

European private equity firm Vista Investors and private investor Reed Capital are combining to form EIM Capital to focus on middle-market investing on the continent. The combined firm will be based in Paris and is being funded initially by Reed founder Renaud Delaage and Vista founder Luigi Chiaraviglio.

Eurazeo seeks €300m for green maritime vehicle

Paris-based Eurazeo has launched a sustainable maritime infrastructure fund with a €300m target. The fund will mainly finance: ships equipped with technologies that negate or curtail environmental harm, innovative harbour equipment, and assets for the development of offshore renewable energy. The vehicle will be managed by Eurazeo's subsidiary Idinvest Partners.

Blackstone notches record $1.75bn profit in Q1, 2021

Blackstone Group has swung to a record quarterly profit. The investment giant posted net income of $1.75bn for the first quarter. That compares with a loss of $1.07bn, or $1.58 a share, in the first quarter of 2020. The value of Blackstone's private equity portfolio climbed by 15.3% in the latest period.

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PE doesn't always please the fans

Private equity has been piling into sports teams, leagues, broadcasting rights and competitions since the pandemic struck last year, but the new cash is not always welcome, writes *Mark Latham*

The last week in European football was straight out of a soap opera.

There was drama, humiliation and apologies as the promoters of the proposed European Super League launched and, within days, promptly withdrew their plans for an annual tournament of elite soccer clubs.

The organisers were forced to rescind their proposals after the biggest clubs, who had committed to the super league, quit following a backlash from fans and even governments around the world.

The quick collapse showed that when big money moves into sports, investors need to consider not only the voting intentions of company boards and shareholders but also the feelings of fans, teams, local communities and sports governing bodies.

Attractive deals

Private investors have been stepping up their interest in football, baseball, basketball, rugby as well as other sports over the past year. But why, in the middle of a pandemic, should sports be so attractive to investors?

According to data prepared for *Private Equity News* by PitchBook, the total value of private equity investment into the sports industry since 2010 in the US and Europe amounts to €61.8bn, of which €46.7bn in the US and €15.1bn in Europe.

Between the beginning of 2020 and end February this year, €7.8bn was invested by private equity in sports in these two regions – up from €5.2bn in the whole of 2019.

The Covid pandemic and the absence of fans from live events has forced many sports clubs, such as those in the Bundesliga, Germany's top football league, to seek alternative sources of revenue – like tapping new audiences through the sale of broadcasting rights.

In December the *Financial Times* reported that more than 20 private equity firms were in the running to invest €300m in the Bundesliga's plan to roll out an international online subscription service.

Franziska Kayser, managing director for Emea at KKR – one of the investors in the Ultimate Fighting Championship as well as fantasy sports gambling platform FanDuel – says that the increased investment that has gone into sports amid the pandemic is not just about providing capital for the sports industry.

€7.8bn

Value of PE investments in sports in US and Europe through 2020 to end of Feb 2021

"It's also the result of leagues, sports teams and athletes looking for new ways to grow and reach a wider audience," she says.

Pandemic-related disruption to the sporting calendar over the past 12 months has only accelerated this trend. "Clubs and leagues are looking for investors who can support their growth through strategies like international expansion, broadcast rights partnerships, new streaming distribution opportunities, betting and digital.

"There's a big commercial imperative for sports organisations to get this right, from the highest-profile global organisations to smaller, more niche sports, and even athletes," she says.

Last month more than half a dozen of New Zealand's top rugby union players, including All Blacks players, threatened to block a proposed $324m investment from US private equity firm Silver Lake into New Zealand Rugby, the governing body which runs the country's men's rugby union teams.

The players said they would not grant approval for the deal as they fear the investment from Silver Lake (which holds a $500m stake in English Premier League football club Manchester City and is an investor in the Ultimate Fighting Championship) would alienate fans.

The chief executive of New Zealand Rugby, Mark Robinson, told *Stuff*, a New Zealand news website, that Silver Lake's investment would be a "transformational" opportunity to pump investment into the game.

Nakisa Bidarian was chief financial officer for the Ultimate Fighting Championship when the Fertitta family sold the mixed martial arts league in 2016 for a record $4bn to a consortium of private equity investors including Silver Lake and KKR. At the time of completion, it was the largest sports transaction in history.

Bidarian, who now works at the investment advisory Bavafa Sports, says that the highly-leveraged sale of the UFC was successful as it was a relatively simple deal to finalise as it involved a single owner entity.

He contrasts this with investments into team sports, such as soccer or rugby, where deals are complicated by the need to negotiate with a wide variety of stakeholders including governing bodies, multiple team owners and players unions.

"Sports are a great asset class as it's fairly simple to underwrite and the cash flows are pretty consistent and verifiable," he says.

Last November, Bidarian was executive producer for the Mike Tyson – Roy Jones Junior boxing fight, which, with revenues of more than $100m, was the seventh highest grossing pay-per-view event ever, with viewers tuning in from around the world. "That single event spurred a massive amount of interest from smaller private equity firms looking to get into the fight space," he says.

"Sports are a great asset class as it's fairly simple to underwrite and the cash flows are pretty consistent and verifiable"

Nakisa Bidarian, Bavafa Sports

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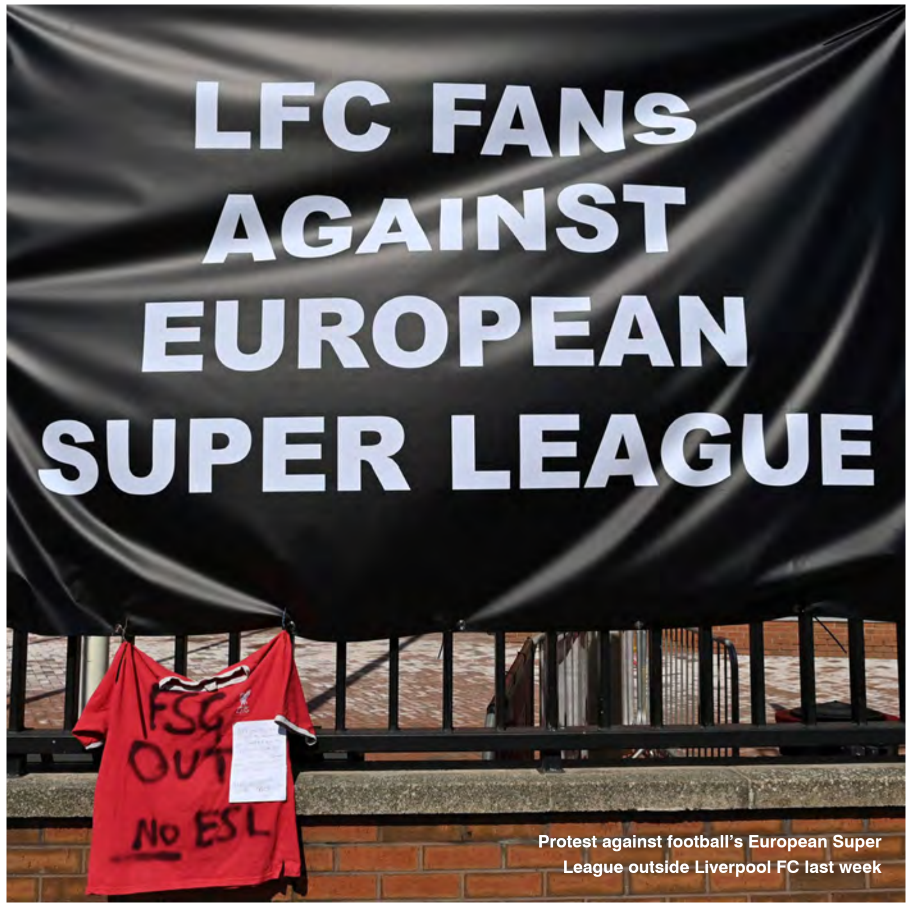

Protest against football's European Super League outside Liverpool FC last week

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Entertainment show

Bidarian puts the commercial success of the exhibition fight down to the novel inclusion of music entertainment as part of the event. "We produced it like a combined music and sporting show rather than being a sporting event that had a musical performance in the middle of it," he says.

"The attractiveness of sports as an asset class is that in most instances you're getting a significant amount of revenue from a long-term media contract.

"On top of that you might also get a percentage of a national or local deal, which in the US can run as long as 15 to 25 years."

While the buying up by the super-rich of sports clubs as trophy assets is long-established (for example, Roman Abramovich's £140m purchase of Chelsea football club in 2003), more recent investments have seen private equity investors acquire not just standalone sports teams, but stakes in the governing bodies that run the competitions.

In Europe, the largest private equity investor over the past decade has been Luxembourg-based CVC Capital Partners which sold Formula One in 2016 for $8bn.

But CVC's decade-long tenure of Formula One was not without controversy with fans and Formula One's former boss Bernie Ecclestone complaining that the investment had led to predictable racing results and a poorer spectacle.

Last month CVC bought a £365m stake in Six Nations Rugby, which runs the annual European Six Nations Rugby Championships and Autumn Internationals, in return for a one seventh share in the organising body.

However, plans for CVC and Advent International to invest €1.6bn into Serie A, Italy's top football league, collapsed into disarray last week with the football clubs calling for the resignation of Paolo Dal Pino, the league's boss who had been pushing for the sale of broadcasting rights.

The Italian teams say they fear losing control of the league in an episode that highlights the risks of a political and popular backlash against private equity attempting to profit from a much-loved game.

CVC declined to be interviewed for this article.

Love for sport

Sunaina Sinha, managing partner of the London-based placement agent and secondaries adviser Cebile Capital, says that two key factors are driving private equity's love-in with sports.

At a macro level, she says, a worldwide trend towards greater interest in wellness, improved health and maintaining an active lifestyle is fuelling more interest in sports – whether watching events live, on TV or actually participating.

The second major factor, she says, is around the valuation of sports-related assets. "Private equity loves cash-generative, predictable and recurring revenue businesses, which sports franchises are, whether it's the All Blacks, AC Milan or mixed martial arts," she says.

"The attraction for investors is that they get media rights and potentially multiple sponsorships and global partnerships within predictable, recurring revenue streams that can be forecast with a high degree of confidence."

Sinha cites video gaming and pay-per-view mixed martial arts events as examples of "innovations that are increasing the breadth and depth of the access that consumers have to sport and monetising that access".

The conundrum for private capital investment in sports is that buyout groups mostly prefer to take majority stakes and therefore control of the firms they invest in.

As the tortuous negotiations over investment into the Bundesliga, Serie A and New Zealand Rugby have shown over the past six months, the leagues and their fans are often reluctant to give up control of a team that represents their community to financiers on the other side of the globe.

But, with Covid cases on the rise around the world again and a slow rollout of vaccinations, the pressure for more private equity investment into sports looks set to continue into 2021.

Pitchbook European PE analyst, Dominick Mondesir, told *PEN* that sports teams and leagues with plummeting revenues because of lockdowns are now "more receptive" to PE investment.

"Sellers need cash to ride out the pandemic-induced volatility, while managers see an extremely sticky customer base, unique content creation and the ability to institutionalise entities as the investment thesis.

"With the likes of Inter Milan, Germany's Bundesliga and New Zealand's rugby governing body in discussions with private groups, we only expect heightened activity in the sector moving forward."

"The attraction for investors is that they get media rights and potentially multiple sponsorships and global partnerships within predictable, recurring revenue streams that can be forecast with a high degree of confidence"

Sunaina Sinha, Cebile Capital

COMPANY PHOTOGRAPH

Nimble rivals seek out assets from energy giants

Smaller firms including buyout houses are snapping up oil and gas projects offloaded by the likes of BP and Royal Dutch Shell – often against the tide of environmental scrutiny, writes *David Hodari*

For all the talk of a transition away from fossil fuels, players in the energy sector are still willing to bet there is more money to be made in oil and coal.

Major oil companies such as BP and Royal Dutch Shell are selling billions of dollars of assets to bolster their finances and reduce carbon emissions, while mining companies including Anglo American and Rio Tinto have exited coal projects.

Unloved assets

Snapping up those unloved assets is a band of smaller competitors that wager that fossil fuels will remain the world's main energy source for years to come, particularly in developing countries, and that under-investment by larger rivals will further boost commodity prices.

For the big companies, these sales generate cash typically used to pay down debt and help them make the case that they are unloading polluting projects as they face growing investor pressure to map out their future in a lower-carbon economy. But, these projects – and their emissions – aren't going away. Instead, they are being managed by smaller players that often face less environmental scrutiny.

"While I agree that the direction of traffic is one way, toward renewables, I think it's going to take longer than people think," said Blair Thomas, chair of Harbour Energy.

Harbour, which has bought UK assets from Shell and ConocoPhillips, recently went public in London through a merger with Premier Oil HBR of the UK, adding fossil-fuel projects in Asia and Latin America.

Thomas said the tie-up would make it easier to tap funds to fuel further growth, and that he expects a pullback in investment by major oil companies will support higher crude prices.

"Capital that is not being spent now, is production that the industry won't have two or three years from now," he said. "The question is, will renewable penetration happen fast enough so that as demand comes back you don't create a pinch? I tend to think it won't."

> **"While I agree that the direction of traffic is one way, toward renewables, I think it's going to take longer than people think"**
> Blair Thomas, Harbour Energy

The world's thirst for fossil fuels remains high. In 2019, before the coronavirus pandemic hammered global transportation and industry, oil, natural gas and coal accounted for 81% of global energy consumption, according to the International Energy Agency. That figure is forecast to drop to 76% by 2030, though rising overall demand means using even more carbon-intensive energy.

The expectation of rising demand plus a recovery in commodities prices this year – supply cuts and an improving global economy have boosted Brent crude more than 70% since late October – have meant there is no shortage in buyers of oil, gas and coal assets.

Europe's North Sea has been an area of particular interest. After a lull in mid-2020, deal making in the region has resumed, with small, mostly private players buying up assets being sold by global giants. The deals have come despite the location having some of the world's highest production costs, and even though the area's production peaked in the late 1990s.

Energy deals centred on the North Sea have resumed after a lull last year

GETTY IMAGES

There is "a wave of private money that's been coming in sensing an opportunity to extract value out of these assets that larger companies weren't investing in", said Wood Mackenzie analyst Scott Walker.

Against the tide

UK-based NEO Energy bought Exxon Mobil's North Sea assets for more than $1bn in February, and bolstered its presence in the region with an additional $450m acquisition in March. Last year it bought some of Total SE's North Sea assets.

NEO, owned by Norwegian private equity group HitecVision, says it can improve the profitability of assets it buys by increasing production and cutting costs.

Buyers of fossil-fuel assets are swimming against the tide of governments enacting policies to speed the energy transition. President Biden held a climate summit last week at which the US set a new goal for reducing its emissions.

Many of the oil fields recently in play are "mature assets with high operating expenditure that typically have high emissions and that reinforces big companies' desire to sell," said Tore Guldbrandsøy, an analyst at consulting firm Rystad Energy. He added that buyers also face the risk of future carbon taxes.

While the world's wealthiest countries might have already hit peak oil demand, the Organization of the Petroleum Exporting Countries, or Opec, forecasts that countries such as China and India will drive oil consumption up 43% by 2045 from 2019 levels.

BP's $2.6bn sale in February of a stake in an Omani gas block to Thailand's national oil company, PTT, is evidence of growing emerging-market demand, according to Bernstein Research analyst Oswald Clint. While several Asian countries "have been talking about net-zero [emissions], all of them are still indicating strong appetite" for fossil fuels, he added.

Transition luxury

Developing economies don't have the luxury of accelerating their transition away from fossil fuels, said Mike Teke, chief executive of Seriti Resources, a coal-mining company.

Seriti, based in South Africa, has previously bought assets from Anglo American and is in the process of acquiring projects from South32.

"It's well and good for the developed world to tell us that we must shut down all coal-fired power stations and to say to us climate change is a big problem," Teke said. "We cannot do that unless we want to cause civil strife and civil war." As bigger competitors exit coal, Teke said he sees an opportunity to make money from a commodity that will be in demand in Africa for decades to come.

Coal prices are rallying as the global economy recovers from the pandemic, while the energy transition is fledgling, giving mining companies "a short beautiful summer," he said. He also wants to expand into other commodities across the region.

Poorer countries' hunger for cheap energy could revitalise parts of the US's bankruptcy-laden coal sector, according to Azvalor Asset Management. The Spanish investment firm already owns a 15% stake in Pennsylvania's Consol Energy and said it recently took new positions in Alliance Resource Partners and Arch Resources.

"The market appears to believe that the energy transition away from fossil fuels will be achieved in a matter of years," said Fernando Bernad, Azvalor's co-chief investment officer. "The reality is likely to be a matter of decades."

Sarah McFarlane contributed to this article.

From The Wall Street Journal

Private equity firms favour growth equity for clean energy investing

Luis Garcia

Some private equity firms looking to capitalise on the expanding clean energy sector are seeing better prospects in backing growth-stage businesses rather than startups, project developers or more mature operations.

"What's great about investing in growth-stage companies is that you can look at existing customers and products," said Philip Deutch, a partner at NGP Energy Capital Management who leads the firm's clean energy-growth strategy.

"It gives you a much better ability to do due diligence."

NGP is one of several energy-focused firms that are raising capital to make growth investments in providers of products and services to the clean-energy sector. Growth-stage companies typically have begun selling their wares and have turned to focusing mainly on expansion and profits rather than product development.

Dallas-based NGP is seeking $1bn for a new growth-equity fund. Deutch declined to comment on NGP's fundraising activities.

Another growth investor, Connecticutt-based Lime Rock Management, as of early February had raised more than $100m toward a $600m target for its first clean-energy fund. The fund is managed under the firm's Lime Rock New Energy strategy, which focuses on businesses catering to renewable energy, energy efficiency and electric vehicles.

For years, private capital investments in clean energy have targeted mostly renewable power generators and related technology startups. Some private equity firms now are seeing higher potential returns from backing manufacturers, software makers and service providers engaged in helping industries such as power, transportation, agriculture and real estate reduce carbon emissions.

Big infrastructure

"We've been in the wind and solar business quite successfully for 15 years, but that business today – while it's a good business – is largely dominated by the big infrastructure players because it's a single-digit or high single-digit return business," said David Leuschen, a co-founder and senior managing director of Riverstone Holdings, during a presentation last year to the Alaska Permanent Fund Corp, an institutional investor.

Since September, Riverstone has sponsored four special-purpose acquisition companies targeting private clean-energy businesses to take public. The first, Decarbonization Plus Acquisition Corp, in February agreed to combine with Hyzon Motors in a deal valuing the hydrogen fuel-cell truck maker at about $2.1bn.

NGP has launched its own clean energy-focused Spacs, including Switchback Energy Acquisition Corp, which in February combined with ChargePoint, an operator of a vast network of electric vehicle charging stations, in a deal that valued the company at about $3bn.

When it comes to its private equity funds, NGP seeks to invest $15m to $100m in clean-energy deals, far less than the hundreds of millions of dollars Spacs typically deploy. The firm believes there is less competition in backing growth-stage companies compared with startups and larger deals for renewable-energy infrastructure, Deutch said.

Capital shortage

Lime Rock, which typically invests $30m to $90m per deal, also has said there is a relative shortage of private capital available for growth-stage companies in clean energy.

NGP, Lime Rock and other growth-equity investors in the sector focus on businesses whose products can support various players in a given market.

The strategy eliminates the need to spot which participant will be a market winner, Deutch said.

For example, NGP last year backed Voltus, a provider of systems that help power companies balance supply and demand. Also last year, Lime Rock invested in Qmerit, which installs and maintains electric vehicle-charging stations.

"You're selling picks and shovels to miners and you don't have to worry about which particular mine works," Deutch said.

From WSJ Pro Private Equity

People moves

Searchlight Capital appoints head of global value creation

New York-based turnaround investor Searchlight Capital Partners has appointed Amanda Good as global head of value creation and also made her a partner. In her role, Good will work alongside Searchlight's investment and portfolio management teams. She will relocate from London to New York. Good has spent 20 years in the private equity industry and was most recently a partner at Hg.

Fortunis Capital hires director

UK impact investor Fortunis Capital has appointed Saket Narula as a director. Narula joins Fortunis from Amadeus Capital Partners where he headed investor relations and was responsible for fundraising for its venture capital funds. Prior to Amadeus, he was a director with the Anchor Group working with its institutional clients.

Tosca Debt Capital adds new partner to team

Manchester-based debt fund Tosca Debt Capital has appointed Mat Deering as a partner. He will be working alongside founding partners Gary Davison and Richard Williams to strengthen the firm's presence with UK SMEs and lower mid-market businesses. Before joining TDC, Deering was a partner at UK private equity firm Endless, where he led the Manchester office. More recently, he has acted as executive chair of TDC portfolio company, EDAM Group as well as undertaking other advisory roles via his consultancy Remedy.

Verdane bolsters sustainability capabilities

Verdane, the Northern European specialist growth equity investor, has hired Erik Osmundsen as partner, based in Oslo. He has wide experience in sustainability issues and will strengthen Verdane's capabilities in this area. He joins the firm after nine years as group chief executive officer of Norsk Gjenvinning, a Scandinavian supplier of waste management and recycling services.

FCA appoints ESG director

The Financial Conduct Authority has appointed Sacha Sadan to the newly created role of director of environment, social and governance. Sadan joins the City watchdog from Legal and General Investment Management where he was director of stewardship. Sadan will be tasked with developing the FCA's approach to sustainable finance domestically and internationally, the regulator said.

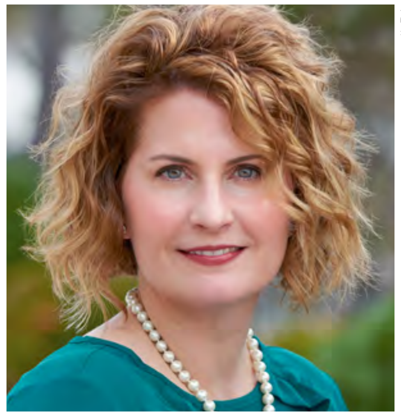
Keith Sellick, Bérengère Sim

ILPA diversity initiative continues to gain traction

Preeti Singh

More general partners and investors are committing to advance diversity, equity and inclusion in their investment activities and across their organisations, at least on paper.

The Institutional Limited Partners Association, a non-profit trade organisation serving investors in private investment funds, added more than 80 organisations to a diversity initiative it launched late last year. The initiative aims to help the private equity industry develop best practices for building more diverse organisations, particularly across race and gender, as well as better track and measure diversity at those organisations. The additions bring its total signatories to date to 133, of which 88 are general partners, ILPA said in a new report on the initiative's progress.


ILPA

Jennifer Choi: there has been an acceleration in implementation of diversity, equity and inclusion initiatives in the past 12-18 months

"In the last 12 to 18 months, we've really seen an acceleration in implementation of [diversity, equity and inclusion] as an integral part of LP and GP strategies, and want to really inspire folks to use this as a map to formalise their own intentions, to set accountability, to consider different models that they can incorporate that are appropriate for their size, their strategy, their maturity," said ILPA managing director Jennifer Choi.

Due diligence

This summer, ILPA plans to recommend specific questions related to diversity, equity and inclusion, or DEI, practices for inclusion in its model due diligence questionnaire, Choi said. A number of the trade organisation's more than 550 members use the questionnaire as a model for conducting due diligence on investment managers.

More than 100 of the diversity initiative's signatories indicated they had assigned accountability for DEI to senior executives in their organisations and over 80 of them said they promote diversity across boards of portfolio companies, according to the report. More than 80 of the signatories said they provide unconscious bias training to their employees.

Investcorp Holdings BSC became a signatory as a means of affirming its commitment to its D&I goals and to exchange best practices with its peers, according to a spokesperson for the firm. Last year, the firm tapped its head of human resources in the Gulf and Asia, Jordana Semaan, to assume the new role of diversity and inclusion champion. In this role, she reports directly to the organisation's executive chair.

The role aims to promote equality and diversity across the firm. Investcorp also formed a strategic partnership with multistrategy investment firm Xponance to seed investments in or acquire stakes in the management companies of North American investment firms launched by women and people of colour. Starting this year at least half of the candidates shortlisted for open positions at the firm must come from diverse gender and racial backgrounds.

"We have not just been talking the talk, but also walking the walk on the real, tangible benefits of diversity in terms of delivering value to our investors and shareholders," said Rishi Kapoor, co-chief executive officer.

Tracking practices

More limited partners are tracking their own internal hiring and promotion practices, in addition to questioning general partners about their DEI actions, Choi said.

More than half of some 100 investors that attended an April town hall meeting for ILPA members said they requested data on gender diversity and used a diversity and inclusion template ILPA has developed to request metrics on team diversity from their general partners, according to the report.

Another signatory to the ILPA initiative, State of Connecticut Retirement Plans and Trust Funds, factors racial and gender diversity into its investment decision making, along with investment performance and firm culture, according to Connecticut State Treasurer Shawn Wooden, who holds sole discretion over the investments for the $30bn state pension system.

"Diversity is a real consideration but the idea is not to look for some version of the perfect model of diversity. We are all works in progress," Wooden said.

From WSJ Pro Private Equity

Boards of PE-owned businesses fall 'significantly' short on diversity

Elisângela Mendonça

Private equity-backed and family-owned businesses are "significantly behind" listed companies in gender diversity at board level, a study by London-based New Street Consulting Group has confirmed. Women make up just 13% and 10% of the leadership, respectively at these businesses, against a 34% gender balance at FTSE 350 companies today.

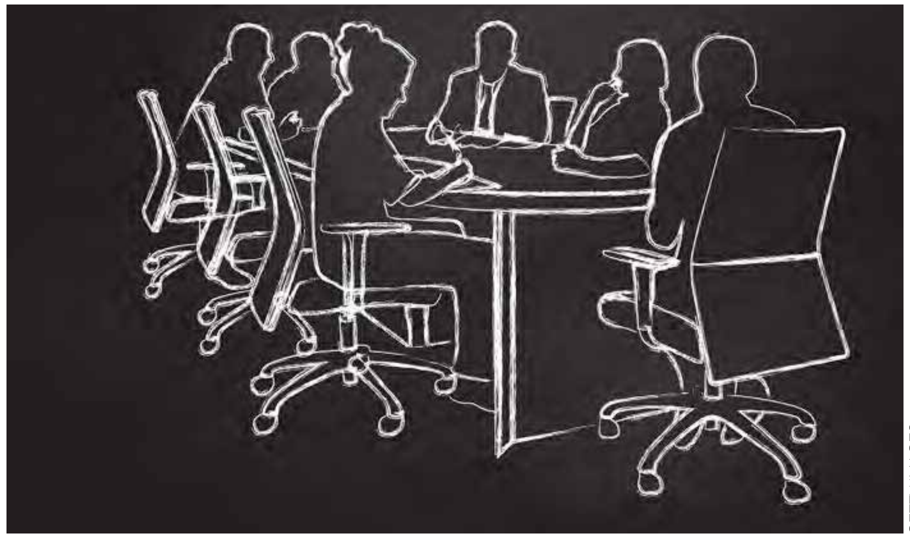
Large listed companies have been under pressure to improve gender diversity for years, while privately-held businesses have received less scrutiny. In 2016, for example, the UK government-backed Hampton-Alexander Review was set up to ensure FTSE 350 companies reached 33% female board-level representation. This target was reached in December 2020.

New Street's research covered over 1,000 family-owned and private equity-backed businesses. According to the final report, they are "increasingly aware" of the benefits listed businesses have received by improving gender diversity and are seeking more diverse slates of candidates when recruiting at board level.

Recently, research from McKinsey found companies in the top quartile for gender diversity on executive teams were 21% more likely to outperform on profitability.

Evidence on the increased effectiveness of diverse boards led Nasdaq, in December, to announce a proposed rule requiring listed companies to have one woman and one other diverse board member – or explain why they were not complying. This proposed rule follows Goldman Sachs' decision to underwrite only initial public offerings in the US and Europe of private companies that have at least one diverse board member – which will increase to two in 2021.

"Many businesses are now more conscious that they are behind on female representation at the top level and are no longer comfortable with that position (…). There is an understanding that a more diverse board is a necessity and not a nice-to-have," said Doug Baird, chief executive at New Street Consulting Group.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Slow progress

And although private equity has an opportunity to transform the global business community with its over $4tn in assets under management and improve returns, progress has been slow. Just a few initiatives, mostly led by large PE houses, have surfaced to improve diversity in portfolio companies recently, though.

In 2016, Carlyle committed to ensuring that all of the companies it owns have diverse boards within two years of the firm taking over. At the time Carlyle introduced the measure, just over a third of its boards met the goal. That figure has risen to over three quarters since.

In the past three years, the average earnings growth of Carlyle portfolio companies with two or more diverse board members has been nearly 12% per year greater than the average of companies that lack diversity, according to its Impact Investing report. In July last year, Carlyle committed to ensuring that 30% of all directors on the boards of Carlyle-backed companies are ethnically diverse too.

Similarly, last year, KKR added at least two diverse directors to the board of every company it controls in the US, as part of a bigger push to expand its focus on underrepresented groups. About 30% of directors on the boards of KKR-owned American companies are now women or ethnic minorities, according to a report by Bloomberg.

"If private companies follow the trend set by listed businesses, we can expect to see steady progress in improving gender diversity at private businesses over the coming years as gender diversity becomes the status quo," New Street's Baird added.

According to recent data by research provider Preqin, women account for only 11.8% of senior private equity roles globally, up only slightly from 11.5% a year previously.

Amanda Staveley challenges High Court decision on Barclays

Bérengère Sim

Financier Amanda Staveley has filed an appeal over the High Court's decision which denied her an award for damages in her case against Barclays.

Staveley's firm PCP Capital – which made a £3.25bn investment on behalf of Abu Dhabi's Sheikh Mansour bin Zayed Al-Nahyan during Barclay's emergency cash call at the height of the financial crisis in 2008 – sued the bank for £660m. Staveley claimed that she got a worse deal than the Qatari investors, who invested £2bn, during the fundraising because they received more in fees.

The appeal was filed on 16 April, according to a person familiar with the matter.

The trial, which stretched over five months in 2020, consistently made headlines as behind-the-scene details emerged of the deals that were made between major banks at the height of the global financial crisis in 2008 and 2009.

The High Court's Justice David Waksman heard evidence from 17 witnesses over 30 days and from four expert witnesses over six days.

In the 26 February judgement, the court held that the blue-chip bank is "guilty of serious deceit" towards PCP and that "dishonest" representations were made by a Barclays senior executive during the negotiations between the two parties in 2008.

However, the judge did not award damages because the private equity firm "has failed on causation and loss with the result that the overall claim files".

The UK bank did not face criminal charges in the Serious Fraud Office's case against it in 2018 and former senior executives were cleared in 2020.

PCP Capital declined to comment. Barclays was contacted for comment.

The *Sunday Times* first reported the news of the appeal.

How GPs should handle a third track for Spacs

Vinay Ghai and Chris McMahon

With Spacs emerging as a powerful force in the IPO and M&A markets, private equity firms need to think about another variable when evaluating potential liquidity events for portfolio companies. If handled correctly, integrating special purpose acquisition companies (Spacs) or blank-cheque companies into multi-track processes can enhance the value sponsors realise from their holdings.

This issue has gained relevance for European GPs because US-listed blank-cheque companies, which account for 99% of global Spac capital, are increasingly pursuing European targets.

Before including Spacs in the process mix, PE firms must assess whether their portfolio assets meet the investment criteria of Spac buyers. Businesses should demonstrate public company readiness while featuring sufficient scale and projected valuation, as enterprise value exceeded $1bn for three-quarters of the targets of 2020-2021 vintage Spacs. Blank-cheque companies also seek targets with a compelling growth story, sustainable competitive advantages, and a listed peer group trading at valuations meaningfully above its sector's private M&A multiples.

For PE-owned assets with a suitable profile, combining with a Spac is growing in popularity. During Q1 2021, Spac acquirers accounted for 27% of $1bn-plus M&A transactions globally, up from 14% in Q4 2020. While most of this surge occurred in the US, Spacs are poised to increase their share of M&As in Europe, as nearly 80% of the 500-plus Spacs that have come public in 2020-2021 are still searching for an M&A target, with many now reviewing Europe's attractive opportunities.

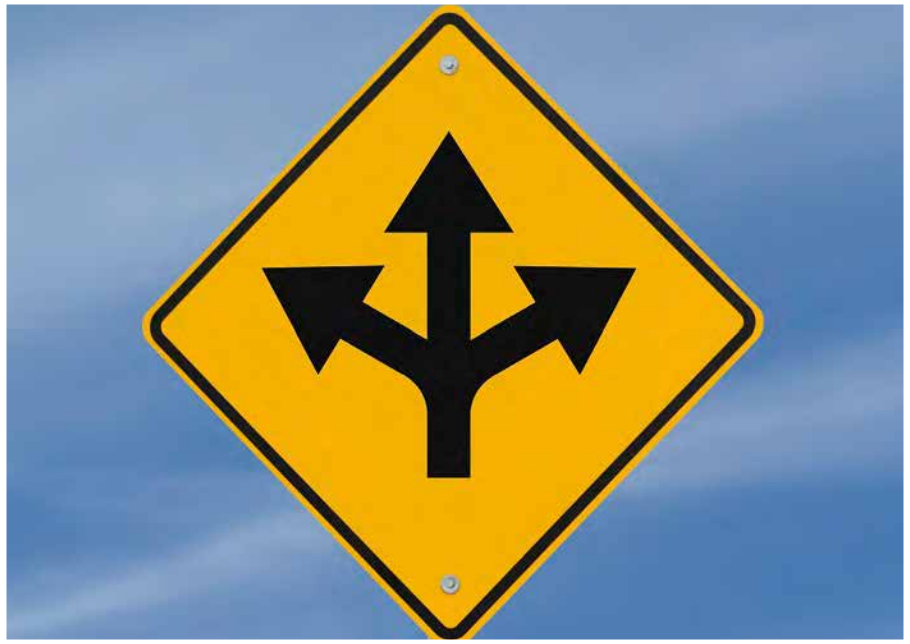
Choice of process

PE firms can make the most of their increased options by choosing a primary process – M&A, IPO, or Spac sale – while exploring secondary alternatives both tactically and as viable backstops. A truly parallel triple-track process may not raise the likelihood of a favourable deal given challenges around execution bandwidth and key milestone coordination, as juggling three simultaneous processes can become difficult.

GPs should examine how each possible exit path fits with their objectives. M&A ranks highest when liquidity is the top priority and the buyer universe is robust. PE firms may favour an IPO exit where a clear peer group of listed companies justifies a valuation superior to the M&A option. Since Spac operators typically engage with potential targets over short timeframes, the blank-cheque company route facilitates earlier agreement on preliminary deal terms, thereby expediting value discovery.

Spacs can define value through analysis that looks beyond traditional multiples-based metrics for more complex stories, such as technology businesses investing heavily for potentially massive long-term payoffs and needing growth capital and operational expertise offered by Spacs.

PE firms must also weigh execution complexity for each transaction type. This dimension often favours an M&A sale, particularly when supportive credit market conditions clear the way. Navigating the extensive IPO process is manageable for holdings that are well-prepared for the public markets. Although a preliminary deal agreement with a Spac can come together quickly, substantial hurdles include regulatory filings as well as capital structure and governance issues such as shareholder redemptions and Pipe (private investment in public equity) funding.



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The sponsor's choice of how to proceed dictates when to incorporate alternative processes in order to attain the best outcome. Given the challenges of keeping Spacs engaged throughout a lengthy transaction cycle, Spac buyers should be brought into the picture near major decision points.

Sponsors intent on pursuing M&A should involve Spac buyers as bidding opens. At the initial bid stage, Spacs provide an expeditious and transparent market check that assists with price discovery. Including Spacs in buyer outreach efforts also encourages competitive tension among prospective buyers. This flexible approach allows focus to shift toward any Spac proposals that meaningfully exceed trade and PE bids early in a sale process.

Including Spacs later in the M&A process may result in an alignment of the respective M&A sale and Spac combination timelines. Spac proposals often require mutual exclusivity, limiting the seller's ability to divert from the Spac path.

Therefore, later bid rounds represent the appropriate point to canvass the market by bringing in pre-qualified Spacs to compete against trade and PE buyers. This technique also allows sellers to weigh the certainty of a fully diligenced M&A proposal versus a Spac offer within the compressed timing preferred by Spacs.

Sale option

PE firms starting on the IPO route retain the option of pursuing a sale, with the ability to conduct a parallel M&A process through to final bids. The comprehensive company information in IPO filings can stimulate interest from trade, PE and Spac buyers. For GPs seeking to take a portfolio company public, the advantages of a Spac often win out, particularly amid periods of volatility for the IPO window. Secondary buyouts and sales to corporate acquirers represent feasible backup plans to a public company path.

Given the recent preference of accessing the public markets via Spacs, a triple-track process is rare. More commonly, PE owners are exploring the Spac option, instead of the IPO alternative, along with M&A in an updated dual-track approach. However, an IPO retains important advantages over a Spac, including a cleaner equity ownership structure along with avoidance of granting a board seat and promote shares (often 20% of Spac IPO shares) to the Spac sponsor.

PE firms should set off on the right foot to take advantage of the Spac universe's building demand for high-quality, Europe-based assets. While including Spacs complicates the decision tree for portfolio company exits, properly implementing Spac processes should improve the ROI of any transaction.

Vinay Ghai and Chris McMahon are both managing directors at Baird Investment Banking.

Convertible loans and private equity: the growth opportunities in Germany

Nikolaus von Jacobs and Matthias Weingut

The classic convertible loan, a financing instrument popular in the venture capital sector, could also be an investment option for private equity investors in times where attractive equity investments in Germany are very competitive. In particular, in the context of growth investments, which are often similar to venture capital conditions, a convertible loan can be a better alternative when further capitalisation is sought in addition to a (private equity) lead investor.

From a venture capital perspective, the convertible loan is a very flexible financing instrument that is often available at short notice and can usually be concluded without much effort. Convertible loans can be characterised by a loan component and a conversion component and are usually found in the early stages of a company's existence, when it is still difficult for the parties to evaluate the start-up.

However, convertible loans are increasingly used for private equity investors to develop growth investment opportunities. The terms and conditions of a convertible loan should then be adjusted. This provides different scenarios for investors to consider, such as a private equity lead investor looking for additional investors. In this case, the lead investor will have concrete ideas about their investment that allow them to let another, more cautious private equity investor make an investment that is senior to them, allowing for a predictable, attractive profit based on a fixed interest rate, coupled with the option of a later equity investment. This is more so if such a private equity investor replaces debt financing of the company, which often is the alternative route to obtain further funding.

Another example might be a situation in which a private equity investor wants to postpone the decision of an equity investment while also being willing to invest into a more senior instrument with the subsequent option to convert into equity at an attractive conversion rate (by means of a pre-determined internal rate of return).

German banking supervisory regulations, for the permission of credit transactions, must be observed for each convertible loan, irrespective of whether the loans are granted by a venture capital or private equity investor. Although a convertible bond would not require any such permission, the parties often consider this alternative as too costly and inflexible.

> **"The interest in the growth sector in Germany is ever-increasing and will continue rise. Convertible instruments are a good means to invest in this area characterised by higher risk in structurally reducing exposure"**
> Nikolaus von Jacobs (left), Matthias Weingut
> McDermott Will & Emery

COMPANY PHOTOGRAPHS

Those regulatory permission requirements can be avoided if the investor has control over the company from a corporate perspective. Such control can be based, for example, on a voting agreement or on a security transfer of shares. In the course of the latter, the shares in the borrower would form collateral for the lender and would suffice to comply with the regulatory control requirement, as opposed to a sole share pledge, which would only provide for collateral but no control.

Security transfer

Certainly, such control is not often desired by the parties, but there might be situations where the shareholders believe in their growth business and therefore are willing to accept such security transfer to enable the next growth step of the company.

With respect to the adaptations of the convertible loan, a private equity investor will want to retain as much freedom as possible. In addition, the investor will expect to be able to convert at any time, to exclude termination by the company and, even in the event of an exit by a lead investor, to be paid out or still be allowed to convert. Unlike in the venture capital case, a conversion or company valuation is not based on a later financing round (including a potential discount or valuation cap) but on a previously agreed internal rate of return of the lead investor's equity investment or, alternatively, a pre-agreed internal rate of return of the convertible instrument in the event of conversion.

Moreover, the private equity investor will request certain veto rights that can be backed by a small equity participation, which enables corresponding minority protection rights in the shareholder meeting for the investor. Finally, especially in the case of foreign private equity investors, a "tax gross-up" common in financing may be included in the documentation.

The interest in the growth sector in Germany is ever-increasing and will continue rise. Private equity investors are increasingly investing in the growth sector partly because of high competition for mature companies and appealing business models. Convertible instruments are a good means to invest in this area characterised by higher risk in structurally reducing exposure.

Foot in the door

Throughout 2021, we expect private equity investors to use such convertible loan situations as an additional option to get a foot in the door of an attractive target company even if the current situation/valuation does not (yet) allow a direct equity investment.

From a company perspective, we feel this set-up could also be a good option to avoid a debt financing by a bank at an early stage, which usually provides for a stricter regime in terms of covenants.

Dr. Nikolaus von Jacobs is a partner and Matthias Weingut is an associate focusing on private equity and mergers and acquisitions at law firm McDermott Will & Emery in Munich.

AI and facial recognition face EU curbs

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Sam Schechner and Parmy Olson

European officials want to limit police use of facial recognition and ban the use of certain kinds of AI systems, in one of the broadest efforts yet to regulate high-stakes applications of artificial intelligence.

The European Union Commission proposed a bill last week that would also create a list of high-risk uses of AI that would be subject to new supervision and standards for their development and use, such as critical infrastructure, college admissions and loan applications. Regulators could fine a company up to 6% of its annual world-wide revenue for the most severe violations, though in practice EU officials rarely mete out their maximum fines.

The bill is one of the broadest of its kind to be proposed by a Western government, and part of the EU's expansion of its role as a global tech enforcer. In recent years, the EU has sought to take a global lead in drafting and enforcing regulations aimed at taming the alleged excesses of big tech companies and curbing potential dangers of new technologies. The bloc's new privacy law, the General Data Protection Regulation, helped set a template for broadly applied rules backed by stiff fines that has been followed by other countries.

AI risks

"Our regulation addresses the human and societal risks associated with specific uses of AI," said Margrethe Vestager, executive vice president at the European Commission. "We think that this is urgent. We are the first on this planet to suggest this legal framework."

The proposal faces a long road – and potential changes – before it becomes law. It has to be approved by both the European Council, representing the bloc's 27 national governments, and the directly elected European Parliament, which can take years.

Some digital-rights activists, while applauding parts of the proposed legislation, said other elements appear too vague and offer too many loopholes. Some others aligned with industry, argued that the EU's proposed rules would give an advantage to companies in China, which wouldn't face them.

"It's going to make it prohibitively expensive or even technologically infeasible to build AI in Europe," said Benjamin Mueller, a senior policy analyst at the Center for Data Innovation, part of a tech-aligned think tank. "The US and China are going to look on with amusement as the EU kneecaps its own startups."

Approach applauded

Some tech-industry lobbyists, however, said they were relieved the draft wasn't more draconian, and applauded the approach of imposing strict oversight on only some types of so-called high-risk uses of AI, such as software for critical infrastructure and algorithms that police use to predict crimes.

"It's positive that the commission has taken this risk-based approach," said Christian Borggreen, vice president and head of the Brussels office at the Computer & Communications Industry Association, which represents a number of large technology companies including Amazon, Facebook and Google.

Large banks have pioneered the work of unpicking their artificial intelligence algorithms to regulators, as part of government efforts to prevent another global credit crisis. That makes them a test case for how a broader range of companies will eventually have to do the same, according to Andre Franca, a former director at Goldman Sachs' model risk management team, and current data science director at AI startup causaLens.

> **"Our phones are doing things everyday that would have been considered 'AI' 20 years ago. There's a risk that could cause the regulation to be either lost in definition or obsolete quickly"**
>
> Julien Cornebise, UCL

In the past decade, banks have had to hire teams of people to help present regulators with the mathematical code underlying their AI models, in some cases comprising more than 100 pages per model, Franca said.

Providers of AI systems used for purposes deemed high risk would need to provide detailed documentation about how their system works to ensure it complies with the rules. Such systems would also need to show a "proper level of human oversight" both in how the system is designed and put to use, and follow quality requirements for data used to train AI software, Vestager said.

The EU could also send teams of regulators to companies to scrutinise algorithms in person if they fall into the high-risk categories laid out in the regulations, Franca said.

Face swapping

The EU says most uses of AI, including video-games or spam filters, would have no new rules under the bill. But some lower-risk AI systems, such as chatbots, would need to inform users they are not real people. "The aim is to make it crystal clear that as users we are interacting with a machine," Vestager said.

Software that puts a person's face on top of another's body in a video, will require similar labels. Ukraine-based NeoCortext, which makes a popular app for face-swapping called Reface, said it was already working on labelling but would try to follow the EU's guidelines.

The new regulations might not necessarily have the same impact as GDPR, simply because AI is so broadly defined, according to Julien Cornebise, an honorary associate professor in computer science at University College London and a former research scientist at Google. "AI is a moving goal post," he said. "Our phones are doing things everyday that would have been considered 'AI' 20 years ago. There's a risk that could cause the regulation to be either lost in definition or obsolete quickly."

From The Wall Street Journal

The deal insight below is provided by data provider Mergermarket for the week to 19 April, 2021. It features the pipeline of European private equity deals and the most recent deals to have emerged in the asset class.

Deal pipeline

Deal value, €m	Target company	Target sector	Target country	Financial adviser	Status	Possible bidder	Comments
17,000	ThyssenKrupp's elevator business	Industrial products and services	Germany	Clifford Chance	Asset sale (corporate disposal)	CVC Capital Partners, Cinven Partners, Carlyle Group, Blackstone Group, Advent International, Kone Oyj-B, Temasek, Brookfield Asset Management, RAG	Finnish elevator company Kone could still be interested in elevator business of Germany's ThyssenKrupp, *Kauppalehti* reported. Kone, together with CVC Capital Partners, previously attempted to acquire ThyssenKrupp's elevators in January last year. Kone also owns 19.9% of Toshiba's elevators business.
10,000	Eni gas e luce	Energy	Italy	–	Company for sale	–	Eni could sell a minority stake in Eni gas e luce (Eni Gas & Power), its wholly owned light and gas supplying unit, to a private equity fund, *Carlo Festa* blog reported. The sale is being looked at as an alternative to listing the unit, which had been planned for 2022. Once Eni gas e luce's operations are combined, the unit could be worth €10bn, with a sale to a fund-raising €3bn for Eni.
10,000	Autostrade per l'Italia	Construction	Italy	JP Morgan, Mediobanca, Merill Lynch	Asset sale (corporate disposal)	CdP, Blackstone Group International Partners and Macquarie Infrastructure and Real Assets	A consortium made up of the Toto construction group and Apollo Global Management is ready to return to the table and make a bid for an 88% stake in Autostrade per l'Italia (ASPI) that has been put up for sale by Italian infrastructure group Atlantia, *Il Sole 24 Ore* reported. This consortium will also consider teaming up with another consortium headed by Cassa Depositi which includes Blackstone Infrastructure Advisors and Macquarie Infrastructure and Real Assets.
7,000	Stockholm Exergi	Utilities (other)	Sweden	Citi, Danske Bank	Company for sale	Antin, CKI, CPPIB, First State, IFM, MIRA, OTPP, Swiss Life Asset Management, AMF Pensionforsakring, Vattenfall, APG Asset Management, EQT, Swiss Life Asset Management, PensionDanmark, Macquarie Infrastructure and Real Assets, Infranode, Polhem Infra	Fortum, the Finnish energy company, has asked for non-binding offers for its 50% stake in Stockholm Exergi by 6 May, *Mergermarket* reported. Consortiums are continuing to form, with infrastructure funds and strategic players circling the asset. EQT has been in discussions with potential investors in its vehicle. Investor AB is considering contributing to the EQT vehicle. Stockholm Exergi, in which the City of Stockholm owns the other 50%, operates a district heating network covering 800,000 people across the Swedish capital and surrounding region.
2000	Saeta Yield's Spanish solar power portfolio	Energy	Spain	Banco Santander, Bank of America	Takeover situation	Macquarie, Cubico, Plenium Partners, ContourGlobal, Brookfield Asset Management-backed, CDPQ	Macquarie, Cubico, Plenium Partners and ContourGlobal have rekindled their interest in acquiring the Spanish concentrated-solar power (portfolio of Brookfield Asset Management-backed Saeta Yield after a proposed sale of the assets to Q-Energy in partnership with CDPQ collapsed, *Cinco Dias* reported.
1,500	Rolls-Royce ITP Aero	Manufacturing (other)	United Kingdom	Goldman Sachs, Lazard	Takeover situation	Aciturri Aeronautica, KKR, Towerbrook, Carlyle, Bain Capital	ITP Aero suitor Onex has dropped out of a TowerBrook-led consortium, which is preparing a bid for the Spanish aerospace company, *Mergermarket* reported. Carlyle and CVC have also reportedly dropped out of the auction. Despite the narrowing interest, Rolls-Royce's auction of its Spanish affiliate is likely to conclude with a PE teaming up with a local strategic player for a consortium bid. Due diligence is likely to go ahead in the months ahead.
1,000	Nova KBM	Financial services	Hungary	–	Takeover situation	OTP	Hungary-based commercial bank OTP is negotiating the acquisition of Slovenia-based bank Nova KBM from Apollo Global for about €1bn, *Reuters* reported. Nova KBM reported 2020 net profit of €210m. Apollo holds 80% in Nova KBM and the other 20% is held by the European Bank for Reconstruction and Development.

Based on dominant geography of target being European. Due to the pre-announcement nature of these deals, it is impossible to confirm the accuracy of the adviser details to the same level as on an officially announced deal. Some adviser details are based on unconfirmed speculative press reports. Source: Mergermarket