

Covid-19 impact on Private Equity portfolios

Private Equity Advisory

30th March 2020



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WEALTH MANAGEMENT

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Portfolio Impact (1/2)

Initial impact (January-February 2020)

- Beginning in January 2020 and driven mainly by Asian disruption
- Two main impacts:
 - Certain sectors severely impacted: Travel, leisure, retail, oil & gas
 - Supply-chain challenges linked to disruption of Chinese production
- Material impact to approx. 10-20% of portfolios:

Negative



Positive

- Travel, leisure & entertainment: material impact
- Retail/consumer: material impact depending on sub-sector
- Manufacturing: material impact on production/supply chain
- Healthcare: variable impact
- Business services: limited ST impact, fall in sales pipeline
- Software: negligible ST impact
- Telecoms: low to positive impact

Portfolio Impact (2/2)

■ Second phase (Mid-march 2020 onwards)

- Driven by spread of Covid-19 and implementation of global confinement measures
- Broad and material impact to virtually all sectors and regions
 - Material fall in revenues
 - Significant negative impact on cash-flows and liquidity
- Extent of impact is still unknown and will depend on the following:
 - Severity of pandemic
 - Length of confinement measures
 - Strength of government and monetary support

Short-term impact

- Immediate focus on liquidity & survival
- Suspension of exit processes → Reduction in distributions
- Short-term fall in investment activity
- Fund-raising will be impacted by is expected to continue with limited impact for best managers

Medium-term impact

- Negative impact to valuations expected at 31st March & 30th June

What are private equity managers doing? (1/2)

■ Implementing business continuity plans

- Remote working for fund managers and portfolio companies, where possible

■ Supporting company management

- Mobilising operating partners
- Sharing tools/information/best practices across portfolio companies

■ Protecting liquidity

- Drawing on short-term banking facilities
- Stopping non-essential costs
- Reviewing interest payment/debt amortization schedules
- Injections of share-holder loans where necessary

What are private equity managers doing? (2/2)

Portfolio analysis

- Company reviews using scenario analysis and stress testing
- Building plans to protect portfolios under different scenarios

Identifying opportunities

- Revisiting plans for add-on acquisitions
- Close review of public market opportunities
- Identification of stressed opportunities

Initial impact on client portfolios

What is the Private Equity team doing?

- ❖ We have contacted all portfolio managers:
- Identified near-term capital calls
- Initial assessment of immediate Covid-19 impact
- Calls held/planned with all managers
- Implementation of specific portfolio management tools
- Close continued monitoring of portfolio

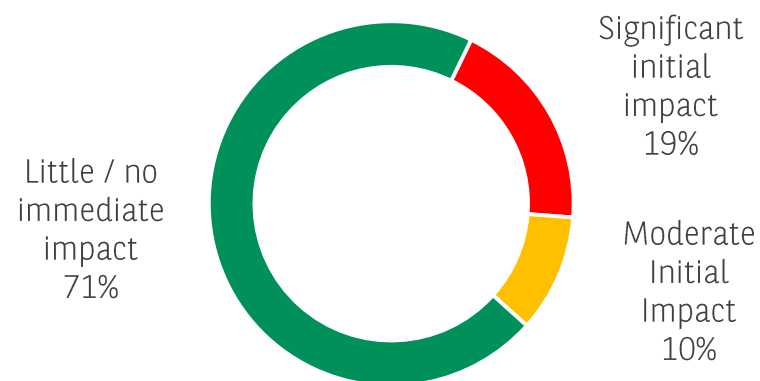
Initial impact assessment

(Conducted by third-party managers during March 2020)

Apax X
BC Partners X
BlackRock ELTIF
Carlyle Cross-Continents
CDH V-VI
Coller VI

CVC Asia V
EQT VII – IX
Keensight V
KKR Impact
PAI VI-VII

Impact on portfolio as % of most recent NAV



Near-term capital calls

Expected H1 Capital Calls

Capital calls for Feeder Funds as forecast by third-party managers (as at 26/03/2020)

Feeder	Master	Ccy	Expected Next Drawdown in % of Commitment	Expected Next Drawdown date
Europe LBO VII	PAI Europe VII	EUR	8.0%	June 2020
Cross-Continents I	Carlyle CPE Buyout Feeder (Aggregator)	USD	4.5%	End of March - Beginning of April
Northern Europe VII	EQT VII	EUR	5.0%	April 2020
Northern Europe VII	EQT VIII	EUR	12.0%	April 2020
Euro Tech V	Keensight V	EUR	22.5%	30 March (feeder) - 2 April (master)
Global Impact I	KKR Global Impact Fund	USD	7.0%	May 2020
-	BlackRock ELTIF	EUR	1.4%	25 March 2020

Expected impact on Private Equity valuations (1/2)

How are private equity portfolios valued?

- Determined by International Private Equity Valuation Guidelines
- Key inputs include:
 - Historic/expected earnings
 - Peer group valuation comparables
- Valuation techniques include:
 - Public market comps
 - Transaction comps
 - Discounted cash-flows
 - Net Asset

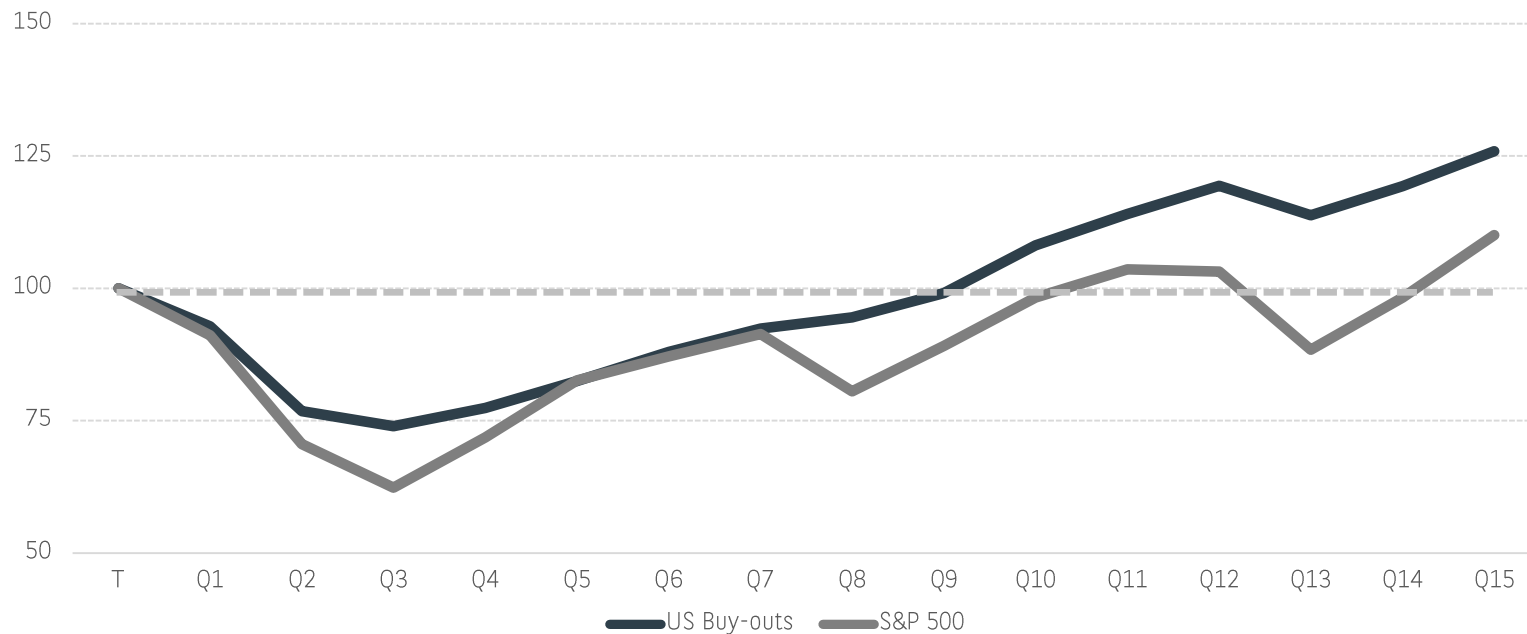
How will Private Equity valuations will be impacted?

31st March: Valuations will include change in public market comparables & will include limited write-downs for critically impacted investments

30th June: Valuations will include changes to public market comparables, write-downs for critically impacted investments & preliminary estimates of changes to financial performance

Expected impact on Private Equity valuations (2/2)

Private Equity vs Public Markets (Q2 2008-Q3 2013)



Source: Cambridge Associates US Buy-outs Benchmarks Q2.2019

Peak-to-trough	Private Equity:	-26.1%
	Public Markets:	-37.7%

Should clients continue to commit to Private Equity?

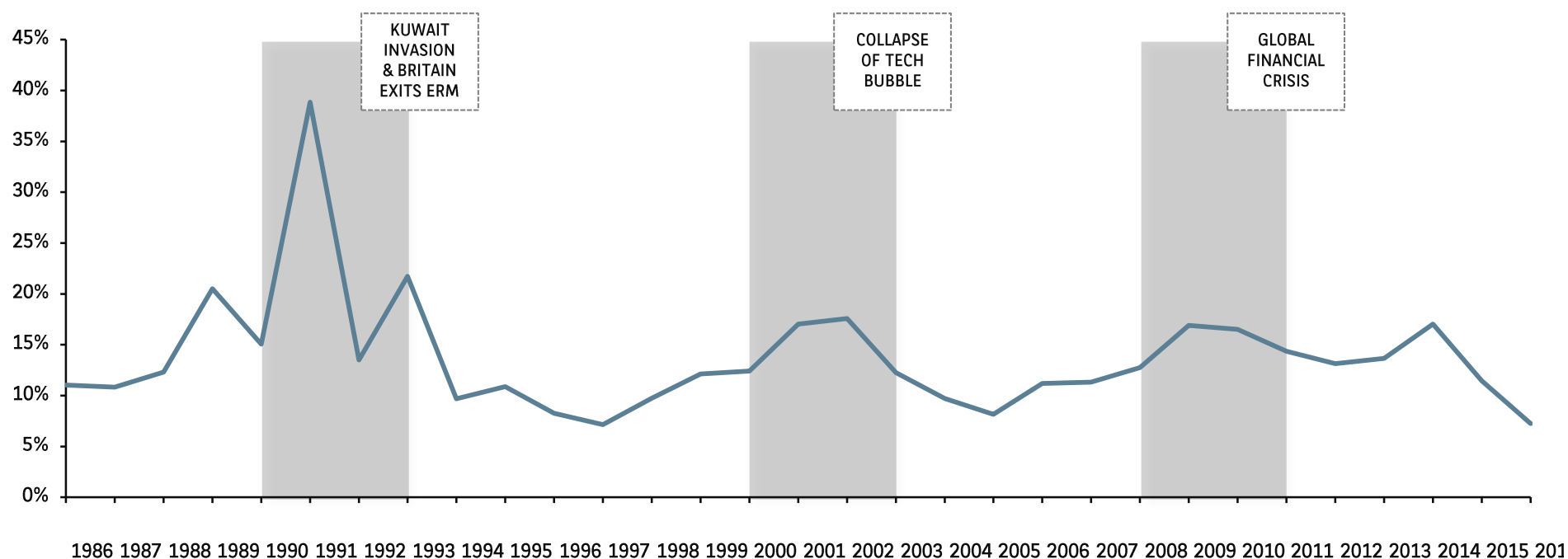
■ BNPP Wealth Management continues to recommend a portfolio approach

- Select funds from best-of-breed managers
- Diversify portfolio
- Build portfolio over time
- Recycle cash-flows to create a self-funding portfolio

Crisis vintages have typically performed strongly

- Private equity is cyclical and therefore spreading commitments across the cycle is key
- Typically, the best performing vintages are at the peak of the market or immediately after a stock-market crash

Private Equity Returns by Year of fund inception

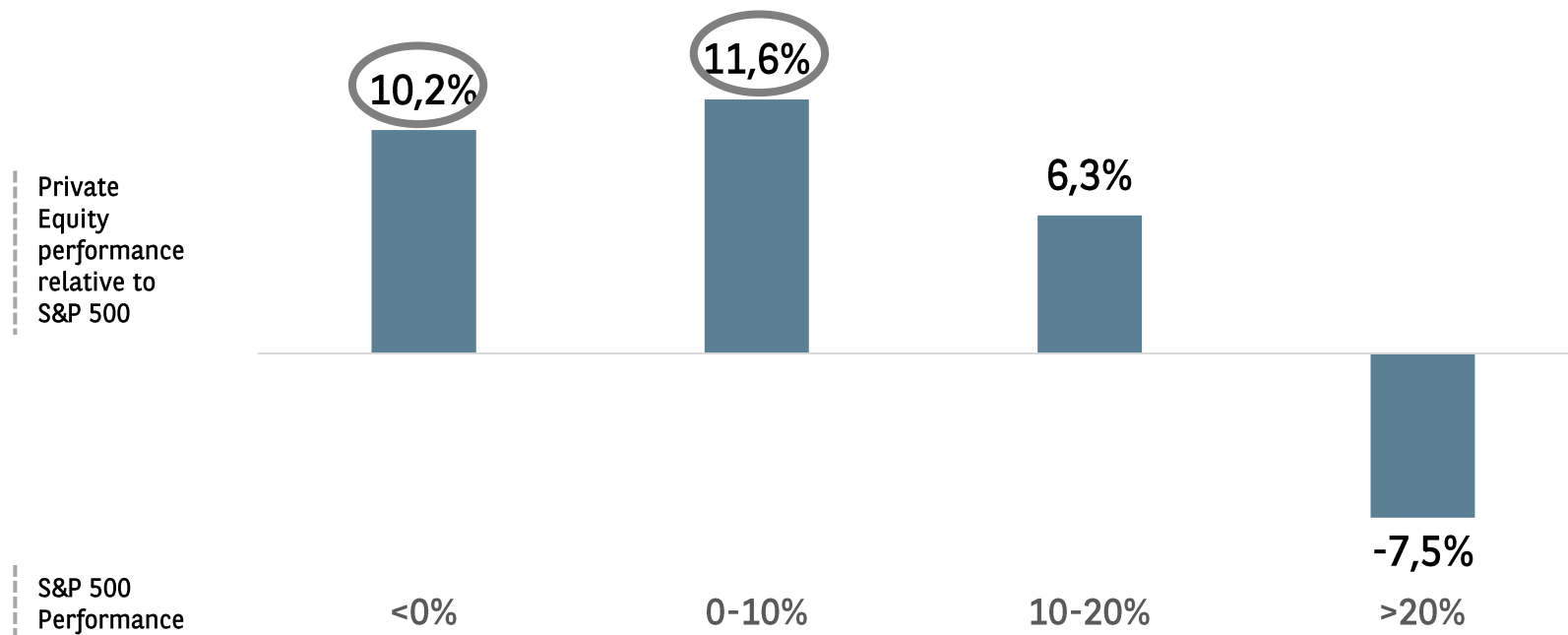


Source: Cambridge Associates US Private Equity Benchmark Reports Q3 2018, Industry Median IRR

Private Equity out-performs in challenging markets

- Private Equity typically outperforms over the cycle relative to public equities.
- However, this outperformance is more likely to be achieved when capital markets conditions are not so ebullient.

**U.S. Private Equity returns relative to S&P 500
in various market environments
(1989-2016)**



Source: Cambridge Associates, Bloomberg, KKR Global Macro & Asset Allocation analysis. Private Equity returns as per Cambridge Associates. Data based on annual returns from 1989-2016.