2010: year of consolidation

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Throughout 2009, we have seen that banks have again become keener on lending. This means that the individual tickets have grown, although they are not up to the levels seen prior to the market turmoil. For 2010, we feel this return to "normality" will continue without returning to pre-crisis phenomena, such as full underwriting, advantage in excess of four times EBITDA, PIK-notes and covenant-light structures.

The main challenges for banks will be coping with the new regulatory environment that will be imposed upon them (in particular the capital adequacy ratios) and continued reimbursement of high-quality loans through refinancing the bond markets. Both phenomena might be compensating each other.

Lending terms are becoming somewhat less onerous in the Benelux region. Margins and fees have slightly decreased since lending terms for the banks in the wholesale market have become less expensive. Banks are also expected to write larger individual lending tickets. This process is still ongoing.

Initial public offerings are typically subject to soft underwriting and hence the announced wave of IPOs will not be required for bank capital. The financial markets are currently very liquid, thanks to the support of central banks, and this confers an attractive environment for equity interested investors.

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Sentiment among private equity investors in Q4 2009 has improved considerably from the depths the market experienced in the first half of 2009, to a positive-to-neutral outlook today.

However, despite the uptick in the public markets over the last four months of 2009, there is still some hesitancy amongst the private equity investor community. Many LPs have had to rebalance their private equity asset exposure in line with their predefined allocations, and/or they have had to rescue other asset classes that have fared far worse post-Lehman, before turning to new private equity commitments.

Nevertheless, there are LPs who are now actively mapping out their GP targets for 2010. We would therefore expect to see the consistent performers with stable teams and clear, relevant, operationally-driven strategies to attract real attention, potentially even being oversubscribed next year in a flight to quality by investors. But these funds will be the outliers in a year where a considerable number of GPs will try to, or have to, come back to market with complicated and unattractive stories.

The GPs that will succeed will be those that are able to avoid any unexpected surprises – be that valuation, returns, team, strategy or fundraising-related. This demands an open and completely transparent relationship with existing LPs – and this is no different in the Benelux region. No fund is perfect and LPs understand that, but even well-known brand name GPs can fall into the trap of sticking their heads in the sand in the vain hope that the market will not discover their imperfections. We have found the level of transparency and consistency amongst the leading GPs in Benelux to be of a very high quality that is appreciated by LPs and has led to successful fundraisings, and continues to do so even in today's market.

Dialogue, however, is a two-way street, and LPs need to exhibit the same levels of transparency and consistency that they demand. One of the dilemmas of 2009 has been to ascertain which LPs are genuinely able to commit fresh capital and what their respective timelines are.

A healthy, open dialogue between GP and LP enables GPs to accurately assess the parameters of their future fundraising. This can only enhance the level of certainty and general sentiment in the marketplace as far as funding is concerned, and that has positive implications for many other facets of our capital markets today.