Private Equity Trend Report 2020

Bull or bear?
Dear friends,

The past years have seen an unprecedented level of success for the PE industry far and wide and the statistics make eyewatering reading: global PE assets under management amounted to $4.1tn, 3,524 funds are in place in the market as of January 2020, collectively targeting $926bn; 5,102 of private equity backed buyout deals were completed in 2019, worth an aggregate $389bn; the median annualised net return in the three years to June 2019 was 17% and 86% of investors intending to commit as much or more capital to the asset class in 2020 as they did last year. With alternative assets having delivered in both bull and bear markets, it is hardly surprising that investors are continuing to put their faith in them and increasing participation in PE funds.

So where is this heading, and will the growth ever end?
Firstly a few more background statistics. The good news for all this available capital is that we are in a bull market, but maybe only just. According to Preqin – 62% of fund managers and 61% of investors believe that we are currently at the peak of the cycle. Deal activity has been increasing throughout the years, fundraising has reached new heights as have assets under management. Multiples have been increasing and so has leverage. Globally in the past 5 years more money has been raised, invested and distributed back to investors than in any other period in the industry’s history.

As we well know, the heightened competition for assets and the relative scarcity thereof has led to a constant increase in multiples during the past years. PE has profited from multiple expansion (at least the ones that have exited) and reaped returns of on average over 2x EBITDA from multiple arbitrage alone. This, however, clearly only works in a growing market. With many predicting a softening in the markets during 2020, we estimate that the pinch will come in 2021 when exits will start facing multiple contraction, meaning that PE will need new ways and even more effort in the breadth and depth of value creation to compensate the impact and maintain returns.

There are, however, further challenges and hurdles in the way. GPs cite changes in legislation and regulation as one of the most serious threats to the industry meaning that measures that aim to boost employee ownership will be a key feature in the dialogue between legislators, PE firms and industry associations. A lot of LPs themselves are becoming subject to ESG considerations and reporting requirements, from climate change disclosures through to the EU Shareholder Rights Directive, which is very focused on long-term and sustainable ownership. LPs continue to challenge the GPs beyond just reporting and transparency. There has been significant pressure on fees, as well as ever-increasing co-invest requirements – a recent trend we have seen is also partial exits to LPs, something we believe is likely to continue.

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1 Preqin Data as of June 2019.
So what does the future hold?

If the PE industry is going to continue to deliver exceptional returns to investors, it will need to continue to adapt and evolve, upskill and find new creative ways to invest in response to the market and all its players may bring. This is, and always has been, one of the greatest strengths of the industry – the ability and propensity to embrace the challenges and turn them into opportunities. A significant contributor to this is and will increasingly be harnessing the world of digital and all the potential this offers. For example, AI and deploying machine learning technologies is already helping PE houses source more and better deals, expedite holding periods, increase value in portfolios and thus expand multiples for industry leaders and disruptors. Tapping into areas such as healthtech, proptech and fintech is a logical consequence.

The vast fresh capital coming on stream is highlighting a strong move into the infrastructure, natural resources and renewable energy sectors, furthering the differentiation of funds and requiring new expertise and skillsets, as well as upskilling the existing GP investment professionals. The overall topic of retention and upskilling of these professionals, as well as hiring and expanding to meet the growth, remains one of the key challenges for the industry.

While the covenant-lite structures PE put in place in the past years will serve to act as a cushion for the industry against any downturn ahead, this will only last for a limited period. When we come off this long peak and move more into a bear market, it will be those houses that have gone deepest and broadest with their value creation that will continue to provide the returns that are being demanded. In this context, I expect 2020 to continue to be a robust year for private equity deal-making in Europe with a strong pipeline of transaction and mega deals, including large carve-outs and an increasing volume of public-to-private deals. However, when the cycle turns, and that is likely within the next 12–24 months, then it will not only be a good test for PE in general to see how far it has come, but also stress test many of the value creation driven equity stories that were conceived during the peak years that supported the high purchase prices paid.

Only time will tell, however, one thing is very clear from the last decade – the industry has undergone, and continues to undergo significant change, in particular regarding the targeted and consequent operational focus on portfolio company management and performance. This means that the assets are much better prepared for any softening or downturn ahead and I would therefore expect the industry to emerge even stronger, even more diversified and even more equipped for future challenges – the growth in PE will therefore continue.

As always, our thanks go to all those who participated in this year’s survey and shared their opinions. We look forward to working with you again in 2020 and beyond!

Steve Roberts
Private Equity Leader
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(Please select one option only.)

What was the average debt to equity ratio used by your organisation on new investments made in 2019?
(Please select one response only. If respondent says Don’t Know, prompt for best estimate)

Has your firm expanded into or is it considering expanding investments into any of the following new asset classes?
(Select all that apply)

How do you expect the world economic situation to develop in 2020?

Do you believe that the next financial crisis will occur in the short to mid-term period (i.e. 1–3 years) from now?

How do you expect the European deal market for private equity to develop in 2020? Do you think it will …?

How do you expect the European deal market for private equity to develop in 2020? Do you think it will …?

Compared to 2019, do you expect the number of new investments made by your organisation in 2020 to …?
(Please select one response only.)

Compared to 2019, do you expect the number of exits made by your organisation in 2020 to …?
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Compared to 2019, do you expect competition for investments among private equity firms in 2020 to …?
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Looking ahead to 2020, compared to 2019 do you expect the availability of credit for leveraged buyouts to …?
(Please select one option only.)

Looking forward to 2020 which of these factors, do you consider will influence equity stories on acquisitions for your organisation?
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The past years have been of unprecedented success for the PE industry far and wide. The European private equity market has continued its growth to reach new heights in 2019 – surpassing 2018 by number of deals by 16%. Especially buy-outs have increased in the past year – the YoY growth rate there being 26%. The outlook for PE for 2020 is also optimistic despite the clouds on the horizon for the world economy.

Mr. Roberts, 2,515 deals in Europe in 2019; in 2018 there were 2,168. Deal value has remained stable after reaching an all time high of €262bn in 2018; in 2019 it was €260bn. So speaking of a boom is no longer relevant, right?

Correct, private equity deals and this high activity level has become a norm in Europe with the level of PE transactions demonstrating a constant annual increase now for many years. In 2019, we exceeded the record year 2018 by 16%, in buyouts alone by 26%. That is absolutely fantastic!

What are the consequences for European financial investors?

In our survey, a majority of just under two-thirds reported noticeably tougher competition for attractive takeover targets. In addition, the amount of “dry powder”, i.e. uninvested capital, is still very large – and so is the pressure from investors. This is driving up prices even more – the multiples are still rising steadily.

Which other developments are to be expected?

Most financial sponsors expect that there will be significantly more PE houses in Europe in the next three years – 65% of the investors we surveyed consider an increase to be realistic. This is due to the increasing availability of capital and the growing willingness of investors to allocate more capital to private equity funds. Above all, however, this shows that private equity meets and even exceeds investors’ expectations. All research and studies show that private equity is consistently the best performing asset class – outperforming all public markets.

Do investors now have to expect even higher prices and declining returns?

Typically, this would be the logical consequence of increased competition, yes. But the increasingly fierce competition for takeover targets is accompanied by PE investors setting focused and deep value creation plans and targets for the acquired companies and consequently implementing them during the holding period. Operational improvements have become even more important – 66% of the investors surveyed say their influence on the companies’ equity stories has continued to increase over the last three years. Digitalisation of business models and business divisions also help here and are becoming increasingly more important. Attractive returns are therefore still possible and also necessary.
Exits in Europe in 2019 remained at the same low level as in 2018, with fewer than 1,000 exits in each year, with the main increase being in the number and volume of buyouts. Why is that?

The deep value creation strategies simply take longer to be implemented, and this results in longer holding periods and currently a relatively lower volume of exits. Furthermore, we are seeing more and more large and mega deals. There were 47 transactions worth more than €1bn and 34 between €500m and €1bn in enterprise value last year, again more than in the peak year of 2018. It is interesting to note that the number of take-private deals has increased – the private market is comparatively expensive, the public market is more often and stronger affected by turbulence of political or other nature and this volatility has the potential to undervalue assets, which is why it has become more of a focus for sponsors.

Taking a look at Brexit, which after years of battling is now finally a done deal. Does this make the European Union less attractive to financial investors?

No. The financial investors we surveyed consider this to be more of an issue for the United Kingdom. That is the opinion of six out of ten of the investors surveyed. For the other EU countries, they predominantly expect that Brexit will not have serious consequences. On the contrary.

Could you please elaborate on this?

Almost one third of European financial investors believe that Brexit will make the remaining EU countries even more attractive for PE investments. Germany in particular is at the top of the list for investors for 2020.

That’s surprising. After all, the German PE market is comparatively small overall...

That’s right, the private equity markets in Great Britain and France are much larger. However, in Germany there is a noticeable change in attitude towards private equity investments. This is particularly true of the very strong Mittelstand, where there are many companies with extremely high levels of industry expertise – with a global standing. While the markets in Great Britain and France are already very mature and saturated, Germany still has a lot of potential. For this reason, European investors believe that Germany, in particular, still offers many opportunities for long-term investments. Additionally, the abundance of large conglomerates, which have grown inorganically over the past 15 years are adapting their strategies and many are looking to go back to their roots and focus on their core business. Corporate orphans and undermanaged units are the result of this, and are the sweet spot for PE offering immense potential.
Are there any new trends and topics on GPs’ agendas? What keeps them awake at night? After all, sponsors have managed to keep returns high in turbulent times globally – but has that been an easy task or a bumpy journey?

The private equity industry has developed so much in the past 20 years. Since the crash in 2008 even more so. That goes especially for the European sponsors as they have developed and matured significantly since then. It is not about financial engineering anymore, but operational improvements and value creation, buy-and-build strategies, building platforms, finding niches; diversifying asset classes from classic LBOs to credit, direct lending, special situations, venture capital, infrastructure, energy, real estate and the list goes on. This has been a result of the constant pressure on PE to invest, as well as increased public and regulator scrutiny, LPs putting pressure on management fees, transparency, disclosure, diversity etc and pushing for more co-investment. Quality assets have been scarce and with the low interest environment, which keeps persisting, competition has been getting tougher by the day. All of this has led to higher valuations and multiples. But this has been the superpower of PE – to overcome these challenges and perform equally well in both bull and bear markets. Returns have been good – median of 17% IRR over the past three years. No other asset class has delivered such outstanding performance and results. GPs have been creative and bold and have transformed, adapted and evolved to become an agile and resilient industry. The way forward is continued diversification with a lot of focus on technology and using tools such as AI to source more and better deals but also to expedite holding periods, increase the value of portfolios and create industry leaders and disruptors. Tapping into areas such as healthtech, proptech and fintech – fund managers are supporting and accelerating the digital revolution.

The scare of a correction in the markets or a recession is in the air with many anticipating it beginning in 2020. What is the sentiment among the private equity investors?

Private equity has emerged as the most successful asset class and I am confident that even with the dark clouds of a correction to come they will sustain this standing and once again prove their resilience. In fact, I believe PE is much better prepared for the correction to come – it will use mismatches in public market valuations to seize opportunities – take private deals will continue to rise. The portfolios are much better prepared for economic downturns than they were in 2008. PE is transformed to continue its growth track and meet investor expectations.
A Introduction
Deal stats for 2019 make for an impressive close to the decade. With markets continuing their apparently incessant rise, 2019 closed with a 16% YoY increase in European deal activity representing an incredibly robust time for Europe’s private equity (PE) players. Even in the light of the preceding and record-breaking 12 months, 2019 was an historically prodigious year.

Exits remained stable in absolute terms, with value softening, reflecting the massive value of realised assets in recent years. Accommodating monetary policy has been a boon for risk assets. Frustrated with meagre interest rates, investors have pursued returns through the stock market and PE, as yield has been increasingly difficult to find. This has equipped GPs with unprecedented stores of dry powder. These factors have led to a rising tide on which funds have been able to exit companies en masse.

PE’s fundamental job is to acquire and sell companies simultaneously. These goals are not mutually exclusive. However, the emphasis appears to have shifted since 2016 to new buyouts at the expense of exit activity, as newly raised funds demand deployment. With European exit activity remaining flat, buyouts soared by 26% compared to prior year – representing the fourth year of double-digit buyout growth. In light of the dry powder reserves, we anticipate a similarly acquisitive 2020.

Global growth and stock markets are being closely watched; many investors believe the economy is living on borrowed time. Europe, already lagging, must still contend with Brexit. However, PE fund managers are largely unfazed by the impact of the UK’s exit from the EU based on their level of buyout activity. Although the impact to date has not been overly evident, they expect the British and Irish PE markets to take some form of hit from Brexit, however, most think the rest of Europe will be unaffected by or will benefit from any disruption in the continent’s largest PE market.

Germany stands out among the countries most likely to gain from any Brexit fallout. Fund managers cite Europe’s economic powerhouse, which also faced its share of economic challenges in 2019, as the country that will be the most attractive for PE investment over the next five years.
1 Private Equity in Europe

Europe's PE market grew further in 2019, overtaking 2018 by 16%, a year that broke post-crisis records. In this context, 2019 was therefore another successful year, with European PE volume up to 2,515 deals, at a combined value totalling €260bn, only 1% short of 2018.

The mean figures for the five years between 2014 and 2018 come to 1,945 deals valued at an annual average of €214bn. Moreover, 2019 outpaced 2014, 2015 and 2016 measured by deal numbers and invested euros.

Fig. 1  European Private Equity Trends 2014–2019

Buyout trends

European buyout activity soared last year, with total deal volume increasing by 26% to 1,973 deals. Value increased by 15% to €200.7bn in aggregate enterprise value.

The largest majority takeover of 2019 was the €9bn carve-out of Nestlé’s pharmaceuticals subsidiary, now called Galderma, by EQT Partners, Canadian pension fund manager PSP Investments and the Abu Dhabi Investment Authority.
The second-biggest buyout involved Merlin Entertainments, owner of the London Eye and Madame Tussauds. The company was delisted from the London Stock Exchange by returning investor Blackstone Group and Lego family office Kirkbi in a €5.1bn transaction.

Indeed, the 2019 buyout market was defined by funds setting their sights on Europe’s public bourses, away from the private deals for which the asset class is best known. Of the top five deals of the year, four involved listed targets.

The third-highest-cap deal of the year saw KKR transact on the Frankfurt stock exchange, backing Berlin-based media group Axel Springer in a ‘private investment in public equity’ (PIPE) deal worth €5bn and valuing the company at €8bn. Inmarsat, the UK satellite communications business, came in fourth: a consortium comprising Apax Partners, Warburg Pincus, the CPP Investment Board and Ontario Teachers’ Pension Plan pulled the company from the LSE for just under €4.9bn. The fifth spot was claimed by FTSE 250 UK defence company Cobham, delisted by Advent International in a €4.6bn transaction.

If 2018 was the year of the megadeal, 2019 was the year of the take-private megadeal. A high degree of opportunism was at work in some of these recent deals in the public sphere.

The pound is historically low in the light of Brexit uncertainty, making the UK especially attractive for non-sterling funds. Combined with a glut of PE dry powder, which has made private markets especially expensive, public markets have scarcely looked more attractive for buyout funds.

---

**Fig. 2  European Buyout Trends, 2014–2019**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Deal Value, €m</th>
<th>Number of deals (volume)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1,155</td>
<td>200</td>
</tr>
<tr>
<td>2015</td>
<td>1,134</td>
<td>250</td>
</tr>
<tr>
<td>2016</td>
<td>1,287</td>
<td>300</td>
</tr>
<tr>
<td>2017</td>
<td>1,417</td>
<td>350</td>
</tr>
<tr>
<td>2018</td>
<td>1,566</td>
<td>400</td>
</tr>
<tr>
<td>2019</td>
<td>1,973</td>
<td>450</td>
</tr>
</tbody>
</table>

CAGR 11.3%
Fig. 3  European Buyouts, Split by Deal Size, 2014–2019

- Undisclosed
- <€15m
- €15m–€100m
- €101m–€250m
- €251m–€500m
- €501m–€1bn
- >€1bn

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Undisclosed</th>
<th>€15m–€100m</th>
<th>€101m–€250m</th>
<th>€251m–€500m</th>
<th>€501m–€1bn</th>
<th>&gt;€1bn</th>
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</thead>
<tbody>
<tr>
<td>2014</td>
<td>1,155</td>
<td>187</td>
<td>133</td>
<td>641</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>1,134</td>
<td>205</td>
<td>119</td>
<td>695</td>
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<tr>
<td>2016</td>
<td>1,287</td>
<td>161</td>
<td>185</td>
<td>867</td>
<td></td>
<td></td>
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<tr>
<td>2017</td>
<td>1,417</td>
<td>185</td>
<td>119</td>
<td>936</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>1,566</td>
<td>181</td>
<td>181</td>
<td>1,086</td>
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<td></td>
<td></td>
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<tr>
<td>2019</td>
<td>1,973</td>
<td>109</td>
<td>226</td>
<td>1,414</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
European exit trends

In 2019 the number of European target exits remained in line with 2018 on a volume basis. The 945 divestments, exactly the same number as in 2018, was again weaker than the years 2015–2017. Aggregate value fell markedly, by 13.3% to €121bn, the lowest exit value in Europe since 2013.

This was followed by Brazil’s Natura Cosméticos buying Avon Products in a share swap with shareholder Cerberus Capital Management that valued the UK beauty and personal care multi-level marketing business at €4.4bn.

A sign of the times, Europe’s number three exit of the year, cybersecurity firm Sophos, took place on a public bourse. Part-owned by Apax Partners following its 2015 IPO, the company was delisted from the LSE by US PE firm Thoma Bravo in a €3.6bn deal.

Comparing the ten largest buyouts with the ten largest exits illustrates the value differential: the former were valued at €45.7bn, the latter at €31.1bn.
The balance seems likely to tip in favour of new investments over exits in the short to medium term. 2019 saw many PE luminaries – including Cinven, KKR, Permira and Carlyle – close their largest European fundraises to date. Players of their stature will of course continue to divest when opportunities arise, but they now hold more capital than ever to transact in Europe. This should keep buyout activity, at least on a value basis, at historically elevated levels, while exits are likely to remain subdued, with all focus going toward deploying that abundant capital, while quality assets remain scarce.

**Geography of European deals**

The UK and Ireland has long been Europe’s dominant PE market. This remains the case – but only just. The prospect of Brexit appears to have had an impact on investor confidence. Counterbalancing this is the weak pound, which makes the market a relatively attractive value proposition for euro- and dollar-denominated funds.

Looking back over recent years, however, we can observe that the net effect of Brexit, including the possible complications for the Irish border, has been to undermine deal activity. The UK and Ireland’s share of European buyout volume decreased slightly from 23% in 2014–2017 to 20% in 2018–2019, while other western European regions – the Nordics, Italy, Benelux and Iberia – enjoyed an increase in their proportion of European buyout deals by volume. This is still a solid showing from the UK and Ireland, though the downturn is more pronounced on a value basis. Buyouts by total deal value decreased by four percentage points from 30% in 2014–2017 to 26% in 2018–2019.

Some of this fall is undoubtedly attributable to a weakened pound. However, there is evidence that UK-based funds have shifted their focus. Naturally the largest funds, which raise in euro, have the option to invest where they see fit. Still, even traditionally UK-focused mid-market funds have been deploying a portion of their capital outside of the home market. In 2018–2019, notable mid-cap deals from UK firms include: Sovereign Capital Partners’ €47m managed buyout of US financial data software provider Asset Control; Livingbridge’s €63m acquisition of Habit Group, a New Zealand rehabilitation business; and Inflexion’ €21m stake in European LifeCare Group, a Danish vaccinations provider.

Over the same period, Iberia’s and Germany’s proportion of European buyout deals by value rose four and seven percentage points respectively. This step up places them second and fourth in the region, overtaking France, Benelux and the Nordics.
**Fig. 5  European buyout volume, split by region**

2014–2017

- **CEE**: 5%
- **Iberia**: 6%
- **Italy**: 7%
- **Benelux**: 11%
- **Germany**: 13%
- **UK and Ireland**: 23%
- **France**: 18%
- **Nordics**: 13%
- **CEE**: 4%
- **Italy**: 8%
- **Iberia**: 8%
- **Benelux**: 12%
- **Germany**: 13%
- **UK and Ireland**: 20%
- **France**: 17%
- **Nordics**: 14%
Fig. 6  European buyout value, split by region

2014–2017

- Italy: 6%
- CEE: 6%
- Iberia: 7%
- Benelux: 8%
- Germany: 11%
- Austria and Switzerland: 4%
- SEE: 1%
- UK and Ireland: 30%

- €487.9bn

2018–2019

- Austria and Switzerland: 5%
- CEE: 3%
- Italy: 8%
- Benelux: 7%
- Nordics: 10%
- France: 12%
- Germany: 18%
- Iberia: 11%
- UK and Ireland: 26%

- €375.7bn
Industry focus

Industrials and chemicals, technology, telecommunications and media (TMT) and business services are persistent top performers on a deal flow basis. This was unchanged in 2018–2019.

However, one can observe changes in the sectoral composition of recent capital investment. TMT has surged past industrials and chemicals to become the number one sector, claiming 19% of deals (€64bn in value). This comes against a backdrop of escalating earnings multiples in the technology sector, spurred by investors’ interest in tech-enabled assets.

Business services, the third-highest value sector between 2014–2017, has lost two percentage points of aggregate deal value, falling to 11%, and slipped into fourth place. It has been usurped by pharma, medical and biotech (PMB), which accounted for 12% of deal value.

PMB’s rise coincides with the falling out of favour of consumer. The latter has gone from representing 11% of European buyout value in 2014–2017 to 5% in 2018–2019.

This is a tell-tale sign that PE investors are wary of cyclicality as we proceed with the longest economic expansion on record. Funds make investments of around four to five years, so there is a higher probability that investments made today will have to endure some form of recession. Investors are exhibiting an aversion to consumer-facing companies in favour of PMB businesses that can offer more defensive, anti-cyclical features.
Deep dive: DACH Spotlight

The DACH region’s PE market showed a relatively strong divergence between the number of deals made and the aggregate value of euro invested. Even more conspicuous was the difference between invested and divested capital – the broader pivot from exits in favour of new deals was especially strong in Germanophone countries.

Measured by volume, PE deals (including exits) saw an annual decline of 8% to 381, slightly lower than the five-year trailing average of 389. The picture is distinctly more positive on an aggregate value basis. Total deal value hit €54.6bn, the highest figure since 2014 (€60.3bn) and a 43% gain on 2018’s total value.

This was driven entirely by an appetite for acquisitions not seen for more than a decade, amid a softening exit environment. Just as DACH’s total buyout tally slipped 6.5% YoY to 302, value surged by 62% to €50.1bn, the highest figure since 2007.

The DACH region claimed three of Europe’s ten largest deals of 2019, and no fewer than eight of the top 20, including the largest by some distance: the aforementioned €9bn carve-out of Galderma. This was followed by Europe’s third-largest deal of the year: Berlin media group Axel Springer, a €5bn PIPE deal. In third place in the DACH region, and ninth in Europe overall, was the €3.2bn carve-out of German conglomerate BASF’s construction chemicals business by Lone Star Funds.
Exits soften

The surge in buyout value came amid a clear softening of the exit market. The total volume of divestments in the DACH region sunk by 28% to 125, though aggregate value showed a sharper decline. Just €9.7bn of exits were recorded, a 43% shortfall on 2018 and the lowest figure since 2010.

Against the backdrop of a deflated PE exit environment across Europe, the largest DACH exit was valued at just €2bn, the sale of German payroll company P&I Personal & Informatik by Permira to HgCapital. This did not even make it into Europe’s annual top ten, and no other DACH exit made it into the top 20. Overall, there were just nine megadeal exits in the region in 2019, and no one exit was worth more than €2bn.

Fig. 7  DACH Private Equity Trends, 2014–2019

Fig. 8  DACH Buyout Trends, 2014–2019
Fig. 9  DACH Buyouts, Split by Deal Size, 2014–2019

Fig. 10  DACH Exit Trends, 2014–2019

CAGR -1.4%
Deep dive: Benelux Spotlight

The underrepresentation of exits compared with new deals evident in most of Europe was not apparent in the Benelux. However, it is worth noting that, as a smaller market, the Benelux can be more prone to swings in value as the result of individual deals, or the absence thereof.

The volume of PE deals (including exits) increased in 2018 by 7% to 244 transactions after the dip of 10%, which it experienced in 2018. Deal value was broadly in line with 2018 at €20.5bn, a 4% drop.

Benelux buyout volume was particularly strong in 2019, hitting 181 new deals, the highest level on record. This was spurred by an especially strong Q3 (58 buyouts), again the strongest quarter on record. Measuring the market by value, however, reveals an altogether different story. The €10.5bn worth of deals represents a 31% ebb, with just €364m recorded in Q4, the weakest quarterly showing on record. This annual total is respectable, however, it is in a market where value can jump and slump from one year to the next, limiting the utility of annual comparisons.

2019’s largest Benelux buyout was Luxembourg aircraft lending business PK AirFinance, sold to Apollo Global Management for a relatively modest €3.3bn. No other Benelux buyout made the European top 20. Again, these variations are a function of the market’s size, which in value terms is around half the size of Germany.

Benelux’s total exit volume increased slightly, by 3%, to 97 deals. This matches almost exactly the five-year trailing average of 98 divestments. Value, however, was a more mixed picture. The 53% YOY rise to €12.6bn is laudable, but 2018 was one of the weakest years on record. In that context, 2019 represents more of a return to normality.

One Benelux exit made it into the European top ten league table. This was the €2.2bn sale by Macquarie of a 36% stake in Brussels Airport to a consortium of QIC, Swiss Life and APG Asset Management.

![Fig. 11 Benelux Private Equity Trends, 2014–2019](image)
Fig. 12 Benelux Buyout Trends, 2014–2019

CAGR 6.5%

Fig. 13 Benelux Exit Trends, 2014–2019

CAGR 1.7%
Strong leap in European PE activity

Ample dry powder generates focus on capital deployment. Total PE activity (including exits) in Europe increased by 16% YoY in terms of volume. On total deal value, PE activity was €260bn, 1% below the 2018 figure.

Exits lead the fall in deal value

At 945, the number of European target exits remained stable to 2018, still under the values of the 2015–2018 period. The €121bn in exit value is the lowest figure since 2013.

UK being diluted

The UK and Ireland’s share of European buyout volume has decreased from 23% in 2014–2017 to 20% in 2018–2019, while other regions – France, Italy, Benelux and Iberia – saw a slight increase to their proportion of buyout deals by volume. The UK and Ireland’s share of buyouts by value decreased from 30% in 2014–2017 to 26% in 2018–2019.

The Brexit effect

Most respondents (60%) say Brexit makes the UK less attractive for PE investments, 39% say it has no impact and just 1% say it makes it more attractive. Meanwhile, 56% say Brexit has had no impact on the attractiveness of the remaining EU countries for PE investments in 2020, and 32% say it makes these other states more attractive.
Competition running high

66% of respondents say competition among PE firms increased in 2019. Furthermore, 68% expect competition for investments among PE firms to increase in 2020, including 20% who say they expect it to increase significantly.

What economic crisis?

While 51% of respondents expect the world economy to experience low growth, and none expect high growth, 74% do not believe the next financial crisis will occur in the short to medium term.

Data analytics prevails

84% of respondents say they will invest in digitalisation over the next year, and 81% of this group are planning to invest in data analytics. Most (95%) of these have used analytics in their own work to identify potential deal opportunities.

Germany prime market

The top country in the EU in which to make PE investments is Germany. Almost half (46%) of respondents singled out the country as the top choice for making buyouts.
Methodology
In Q4 2019, Acuris Studios, the research and publications arm of Acuris, spoke to 250 PE principals on PwC’s behalf. Job titles include partner and managing director. 14% of these funds are based in Germany and 14% in Benelux countries, with the remaining 72% based elsewhere in Europe. Responses were anonymised and aggregated. All PE firms of respondents had a minimum of €250m of assets under management.

**Fig. 14** In which country your organisation’s headquarters are based?

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>17%</td>
</tr>
<tr>
<td>Germany</td>
<td>14%</td>
</tr>
<tr>
<td>France</td>
<td>14%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>7%</td>
</tr>
<tr>
<td>Belgium</td>
<td>6%</td>
</tr>
<tr>
<td>Spain</td>
<td>6%</td>
</tr>
<tr>
<td>Italy</td>
<td>5%</td>
</tr>
<tr>
<td>USA</td>
<td>5%</td>
</tr>
<tr>
<td>Sweden</td>
<td>4%</td>
</tr>
<tr>
<td>Denmark</td>
<td>4%</td>
</tr>
<tr>
<td>Norway</td>
<td>3%</td>
</tr>
<tr>
<td>Finland</td>
<td>3%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>3%</td>
</tr>
<tr>
<td>Portugal</td>
<td>3%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>2%</td>
</tr>
<tr>
<td>Ireland</td>
<td>1%</td>
</tr>
<tr>
<td>Austria</td>
<td>2%</td>
</tr>
<tr>
<td>Greece</td>
<td>1%</td>
</tr>
</tbody>
</table>

**Fig. 15** Please could you tell me which of the following best describes your firm’s current total global fund volume (i.e. capital under management)?

- >€1bn: 48%
- €250–€500m: 31%
- €500m–€1bn: 21%
1 2019 in review

Coming off a record-breaking 2018, the European PE market gave a strong performance in 2019. €260bn was invested across 2,515 deals, which on a historical basis means the market remains at elevated levels. Our survey findings support this positive market overview. More than half (56%) of respondents say they increased their number of new investments in the past year, while 24% made the same number as the previous year, and 20% say the number decreased. 72% of respondents say the number of potential transactions they have reviewed increased in 2019 compared to the year before, including 36% who say the number has increased significantly. With ample dry powder and ever-growing mega funds – the number one priority of private equity investors is deploying capital. Given the rollercoaster ride of 2019, with US China trade wars, recession fears, Brexit uncertainty and low economic growth in the Eurozone, recession resilient industries attract more and more dry powder. The strong focus on deploying capital and acquiring as many companies as possible is explained by a PE director from Germany, when commenting the market outlook: “I expect it will get slightly better during the second half as emerging markets are providing additional options. Elaborate strategies are being sought to sustain the company returns and five-year exit strategies are being extended for long term revenue streams.”

Most PE respondents increased the number of their new investments

Fig. 16  Compared to 2018, has the number of new investments made by your organisation this year …? (Please select one response only.)

<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased significantly</td>
<td>8%</td>
</tr>
<tr>
<td>Decreased significantly</td>
<td>7%</td>
</tr>
<tr>
<td>Decreased slightly</td>
<td>13%</td>
</tr>
<tr>
<td>Stayed the same</td>
<td>24%</td>
</tr>
<tr>
<td>Increased slightly</td>
<td>48%</td>
</tr>
</tbody>
</table>
Increase in number of potential transactions that were reviewed

Fig. 17  Firstly, compared to 2018, has the number of potential transactions which you have reviewed in an average month this year …?
(Please select one response only.)

- Decreased significantly: 2%
- Decreased slightly: 4%
- Stayed the same: 22%
- Increased significantly: 36%
- Increased slightly: 36%

Competition is one of PE's biggest challenges

Competition for assets remains high, a consequence of the superabundance of capital-seeking investment. Preqin estimates there is around €2.3trn in dry powder dedicated to private capital strategies (including adjacent asset classes such as private credit). This has spurred intense competition in PE markets and helps explain the rise in take-private transactions in 2019.

Two-thirds (66%) of respondents say competition among PE firms increased in 2019. In principle, this should apply downward pressure on investor returns. The higher the price paid on entry, the more difficult it is to achieve attractive money multiples, all else being equal.

However, one managing director of a Norwegian firm explains that it has been possible to maintain returns because heightened competition among financial sponsors has coincided with more deal flow. “When you make comparisons between returns five years ago and projected values for this year, they will be the same,” he said. “There has been an increase in the number of target opportunities, but the competition for valuable assets has also increased simultaneously.”
Fig. 18  Compared to 2018, would you say that competition for investments among private equity firms has ...? (Please select one response only.)

- Decreased slightly: 2%
- Stayed the same: 32%
- Increased slightly: 42%
- Increased significantly: 24%

Portfolio satisfaction remains high in face of economic challenges

Despite all the talk of economic headwinds amid trade tensions and, in Europe, the effect that Brexit may have on growth and jobs, this does not seem to be spilling over into GPs’ sentiment about the health of their investee companies. Notwithstanding the cautious news headlines, 62% of respondents are satisfied with the development of their portfolio companies in 2019. There is a regional difference though; little more than half (53%) of international funds expressed such optimism, compared with 83% in Germany and 80% in Benelux.

This may confound expectations given Germany’s recent economic challenges. Europe’s largest economy slowed significantly in the year to just 0.6%, narrowly avoiding a technical recession. Much of this weakness lies in the economically critical manufacturing sector. However, PE firms do not invest in the economy but in individual companies that they have identified as promising value propositions.

Fig. 19  How satisfied or dissatisfied are you with the development of your portfolio companies in 2019? Would you say you are ...? (Please select one option only.)

- Dissatisfied: 5%
- Neither/nor: 19%
- Satisfied: 83%

Germany: 62%
Benelux: 53%
International funds: 80%
Total: 83%
A higher proportion of PE companies broke bank covenants in the past year

In contrast to the previous findings regarding portfolio satisfaction, bank covenant breaches appear to be rising. 71% of respondents have seen 10% or more of their portfolio companies break one or more bank covenants in the past year, compared with 51% who said the same a year prior. No respondents in this year’s survey say none of their portfolio companies broke one or more bank covenants.

This coincides with a global slowdown in economic growth, GDP expanding by 2.3% in 2019, and protracted trade disputes and a slowdown in domestic investment, culminating in the weakest year of the decade. Any fall in earnings at the portfolio company level amid falling demand is liable to result in an uptick in financing breaches. Persistently low interest rates and high investor demand for loans has led to the highest levels of corporate debt in history, much of it concentrated in leveraged companies.

The International Monetary Fund (IMF) recently warned that almost 40% (€17trn) of corporate debt in major economies – including the US and China, but also European countries like Germany, the UK, Italy and Spain – poses a default risk in the event of a global downturn.

“The escalation of tariffs and the negative effects of Brexit will continue as we step into 2020. We don’t think the global slowdown and pressure on revenues will abate, which has serious implications for the weakening structure and strain of mounting debt,” says the partner of an Austrian firm.

In our survey we find that almost three-quarters (71%) of international funds say more than 10% of their portfolio companies broke one or more bank covenants, falling to 68% for Benelux-based respondents and 63% in Germany. This differential is to be expected in Germany in particular, where longstanding tax deductibility caps on loans disincentivise excessive leverage, in principle lowering default risk in what is generally a more debt-averse country.
During 2019, what percentage of your portfolio companies broke one or more bank covenants, or otherwise needed to enter negotiations with their financing providers? Would you say ...? (Please select one option only.)

![Bar chart showing the percentage of portfolio companies needing to enter negotiations with their financing providers by region and type of fund.](chart)

**Debt to equity ratio**

Despite the growing debt supply, and on unprecedentedly favourable terms in this borrower-friendly market, GPs are being prudent in their use of leverage. 80% of respondents say their average debt-to-equity ratio was 50% or below. This is consistent with last year’s findings when 81% said the same. There is a negligible increase in the proportion of fund managers who say this ratio has climbed to more than 60%, from 4% of respondents in 2018 to 6% in 2019. This indicates that, even if debt is available on more than a 50:50 ratio, GPs are generally not willing to accept it as the clock continues to tick on the longest period of economic expansion in history.

What was the average debt to equity ratio used by your organisation on new investments made in 2019? (Please select one response only. If respondent says Don’t Know, prompt for best estimate)

![Bar chart showing the average debt to equity ratio used by organisations.](chart)
Private debt/credit is an alternative of choice

PE has been a real winner for investors, delivering high returns. This, inevitably, has led to capital pouring into private asset classes. This is raising competition to such heights that many funds see better value in the stock markets than in their traditional scope of private assets. This oversupply of capital means GPs have added strategies to their repertoires to absorb investment demand. As such 2019 has seen many take-privates, with PE watching the public markets close and tendering offers when they spot opportunities. With private quality assets on the market being scarce and the pressure to deploy, PE has been diversifying and going stronger into private debt as well as public markets.

Given the search for yield in the persistently low interest rate environment – especially in Europe, where the European Central Bank’s deposit rate has been maintained at a historic low of –0.5% – private debt strategies have proved to be an obvious route for expansion as investors clamour for product. Such funds issue loans to leveraged buyouts, which PE funds already have the expertise to risk-evaluate. Europe’s direct lending market has ballooned in recent years, from an estimated €17.6bn in 2016 to €22.6bn in the first half of 2019 alone.

Our survey shows that more than half (58%) of GPs say they have either already expanded into private credit or plan to do so. This is compared to 43% who say they have already added distressed debt to their resume.

Fig. 23 Has your firm expanded into or is it considering expanding investments into any of the following new asset classes? (Select all that apply)

- Private debt/Credit: 58%
- Distressed debt: 43%
- Real assets (other than real estate): 42%
- Infrastructure: 38%
- None: 26%
- Real estate: 24%
- Hedge fund: 22%
- Venture capital: 21%
2 The year ahead

Low global economic growth expected

From a political, economic and a business standpoint, 2019 was dominated by the ongoing US-China trade war. The introduction by the US of fresh rounds of tariffs, not only on Chinese goods but select EU exports, which responded with its own levies, saw trade tensions reach fever pitch.

These frictions have caused a drag on the global economy. The IMF estimates GDP increased by 2.9% in 2019, the lowest level since 2008–2009 and a downgrade from early-year projections. The spectre of Brexit exacerbated concerns over already anaemic European growth. What’s more, the yield curve on several countries’ treasury bonds inverted, a reliable herald of recessions. This raised expectations of a looming downturn.

However, the mood appears to have lifted. The IMF expects global GDP growth to stabilise and recover to 3.3% as the US and China try to find common ground via a ‘phase one’ trade deal.

Europe’s PE practitioners are as optimistic as one can be in such a scenario. Just over half (51%) anticipate low growth in 2020, and only one in five anticipate a slight contraction. Pessimists are in the absolute minority: only 1% of respondents expect an extensive global economic contraction.

Fig. 24 How do you expect the world economic situation to develop in 2020?

- Contract extensively: 1%
- Contract slightly: 20%
- Low growth: 51%
- No growth: 28%
The managing director of a Dutch PE firm who expects low growth says: “Trade policies are developing after the slowdown in 2019, which caused a good degree of panic in most markets. Investment patterns changed but many are now resuming higher volume deals after the scare.”

Consistent with this broadly optimistic view, 74% of respondents say they do not believe the next financial crisis will occur in the next one to three years. That said, a sizeable minority (21%) see such a crisis manifesting within six months to two years.

**Majority optimistic about the PE market**

GPAs are reservedly upbeat about deal prospects for 2020 in Europe’s PE market. Nearly two-fifths (38%) say they expect the market to improve slightly – albeit 40% expect no change to what is already an historically abundant market. German GPs are more optimistic than others, with 55% saying they are slightly positive about the PE market. In keeping with this finding, almost half of respondents (49%) expect to make slightly more investments in 2020 than they did in 2019.

The managing director of a Dutch PE firm suggests that dealmaking has equalised as the appetite to deploy ample stores of dry powder is being kept in check by trade- and Brexit-related uncertainty: “Europe’s deal market will stay the same despite the fact there were large fund offerings in the previous year. Considering the broader spectrum, global influences and geopolitical differences will continue to interfere with investment intentions.”

Contrary to 2019 data showing a decline in the number and value of exits, most fund managers expect to be active on the divestment front in 2020, with 57% saying they expect the number of exits made by their organisation to increase. If the stock market gains made in January sustain – and that is a big ‘if’ – this will support the PE seller’s market. The rising tide of public equities not only provides PEs with the option to IPO large assets, it also gives buyers confidence to transact at vendors’ asking prices as valuations climb. With how the global economy is now fully interlinked and interwoven, and having seen the potential for rollercoaster stock exchange fluctuations amidst rise of conflict, nationalism and separatism, as well as other global environmental or health calamities, the assumption that 2020 will be governed by smooth seas and placid waters.
Fig. 26  How do you expect the European deal market for private equity to develop in 2020? Do you think it will ...?

- Get significantly worse: 2%
- Get slightly worse: 20%
- Stay broadly the same: 40%
- Get slightly better: 38%
- Get significantly better: 3%

Fig. 27  How do you expect the European deal market for private equity to develop in 2020? Do you think it will ...?

- Get significantly worse:
  - Germany: 3%
  - Benelux: 0%
  - International funds: 3%
- Get slightly worse:
  - Germany: 8%
  - Benelux: 8%
  - International funds: 26%
- Stay broadly the same:
  - Germany: 35%
  - Benelux: 43%
  - International funds: 41%
- Get slightly better:
  - Germany: 29%
  - Benelux: 50%
  - International funds: 55%
- Get significantly better:
  - Germany: 0%
  - Benelux: 0%
  - International funds: 1%
Most expect competition for investments among PE firms to increase

Earlier in this report we observed that two-thirds of respondents say competition among PE firms increased in 2019 compared with 2018. This is expected given the superabundance of undeployed capital and continuing demand for PE as traditional safe haven assets deliver negligible, and in some cases negative, returns. The healthy state of private equity markets is drawing heightened interest from investors ranging from high-net-worth individuals and family offices to public markets, mega funds as a result of which fund size has grown substantially. While the number of funds raised globally has sunk from 2,426 in 2017 to only 1,405 in 2019, the aggregate capital raised has remained stable, with average fund size increasing from $150m to $439m within these three years.\(^2\)

Therefore, it is no surprise, that the competitive landscape is particularly fierce.

Almost exactly matching this, 68% of respondents say they expect competition among PE firms for investments to increase in 2020, including 20% who say they expect it to increase significantly.

\(^2\) Source Preqin.
Figure 30: Compared to 2019, do you expect competition for investments among private equity firms in 2020 to ...? (Please select one response only.)

- Decrease slightly: 1%
- Stay the same: 31%
- Increase slightly: 48%
- Increase significantly: 20%

Increase in European PE houses expected

Going hand in hand with forecasts of elevated competition for deals in the year ahead is the prediction that the number of firms in the European PE sphere will increase over the next three years. Broadly speaking, PE has met investors' expectations, which is why capital distributions are being recycled into the asset class. Having shown their mettle as part of established brands, dealmakers with proven track records have never been in a better position to go it alone. Our survey shows that 65% expect the number of PE houses in Europe to increase in the next three years.

News broke in January 2020 that Melior Equity Partners had launched following the spin-out of Carlyle’s Irish investment team. Melior will invest primarily in SME buyout and growth opportunities.

Even teams that have faced adversity are securing their futures thanks to the increasing sophistication of the PE secondaries market. Secondary buyers' ability to structure complex transactions is such that teams managing challenging portfolios are being backed with fresh capital, potentially ensuring their ability to continue investing if existing portfolios are managed out successfully. One recent example saw the UK bank Standard Chartered spin out its entire PE business, now known as Affirma Capital, in a transaction backed by Intermediate Capital Group.

Figure 31: Looking forward to the next three years do you expect the number of Private Equity (PE) houses in Europe to ...? (Please select one option only.)

- Decrease slightly: 2%
- Stay the same: 33%
- Increase slightly: 47%
- Increase significantly: 18%
Large minority expect availability of credit for leveraged buyouts to stay the same

Nearly equal proportions of PE firms expect the availability of credit for leveraged buyouts to improve (29%) and deteriorate (25%) in 2020. This leaves almost half (46%) who anticipate access to debt financing remaining the same as in 2019. This coincides with central bank rates, in Europe at least, staying at historic lows. The continent is lacking growth and dovish policy is aimed at stimulating spending and investment. In the US, the Federal Reserve reversed its rate increases with two successive cuts in 2019. This all points to more of what has already been observed through the current economic cycle – markets awash with liquidity.

Operational improvements are key to equity stories

European PE fund managers remain operationally minded. A leading minority (33%) say operational improvements will be the most influential factor for equity stories in 2020. This was the top choice in last year’s survey, although only 28% of respondents said this was key then, indicating the increased emphasis GPs are placing on this value creation lever that has come to define modern PE. Roughly equal portions of survey respondents identify financial engineering (18%), digitisation (17%) and buy and build (17%) as the primary factors influencing equity stories. Of course, for any given investment any combination of these, and to varying degrees, can shape the equity story.

“Equity stories on acquisition will be determined based on all of these factors, although market consolidation will feature as the main goal in 2020,” says a German PE managing director. “This will increase revenue and reduce costs by achieving operational synergies. Digitisation is another really important factor which cannot be ignored and we look forward to applying and integrating digital technologies into business functions.”
When it comes to investment returns, meanwhile, it is multiple arbitrage that came out on top. Among respondents, 32% cite it as the most important driver and 21% say this factor is the second most important influence on return on investment. Operational improvements are a close second, referenced as the most important driver by 28% and the second most important factor by 45% of respondents. While market-driven factors such as multiple growth and the ability to access debt for financial engineering play an important role in delivering investment returns, ultimately it is a PE house’s ability to transform a company’s operations that sets it apart from its peers. Says one Norwegian PE investor: “Operational improvements are being constantly identified and worked on to reduce costs and bring about the efficiency of time and resources.”

Fig. 33 Looking forward to 2020 which of these factors, do you consider will influence equity stories on acquisitions for your organisation? (Select main factor)

- Operational improvements: 33%
- Financial engineering: 18%
- Digitisation/Industry 4.0: 17%
- Buy and build: 17%
- Market consolidation: 13%
- Sales force effectiveness: 2%

Fig. 34 Please rank the following in terms of importance, regarding their influence on your return on investment

Please rank 1 to 4, where 1 is the most important and 4 is the least important

- Operational improvements (excluding digitisation)
  - Operational improvements: 48%
  - Multiple arbitrage: 30%
  - Digitisation: 25%
  - Financial leverage: 13%

- Operational improvements (including digitisation)
  - Operational improvements: 48%
  - Multiple arbitrage: 32%
  - Digitisation: 26%
  - Financial leverage: 14%
Partnering up

Strategic investment has become the rule rather than the exception in PE. Whether it is LPs seeking more direct exposure to assets by negotiating co-investment rights, a means of averaging down management fees and carried interest payments, or PE funds partnering with corporates on deals to make larger transactions and gain sector expertise, an overwhelming majority of GPs are using such strategies.

In our survey, 86% of respondents report undertaking more co-operation with strategic investors over the past three years. At the same time, 85% say they have more focus on active portfolio management, and 82% say they are using less leverage or financial engineering.

This has been the definitive long-term evolution in PE, both in Europe and worldwide. Funds can no longer rely on financial engineering alone to deliver returns; LPs are more discerning than ever in how GPs achieve their returns. The heightened appetite for genuine alpha-generating PE investment, combined with an aversion to fees, has shaped a market in which operational nous and an ability to deliver sufficient co-investment deal flow are paramount.

---

**Fig. 35** Which of the following changes, if any, have occurred to your organisation’s business model over the last three years? (Please select all that apply.)

- Greater internationalisation/expansion into new markets: 14%
- More minority shareholdings: 32%
- More club deals with other private equity funds: 42%
- Change in industry/sector focus: 45%
- More co-operations with sovereign wealth funds or hedge funds: 56%
- Expansion to other investment areas, e.g. infrastructure, real estate, distressed, credit: 47%
- More co-operations with strategic investors: 86%
- More focus on active portfolio management: 85%
- Less use of leverage or financial engineering: 82%
LP expectations

Anecdotally, LPs have become more demanding in this business cycle, although the balance of power depends on the fund manager in question. Those who have wowed investors with high and consistent returns have been able to raise funds on their own terms. Others have had to bow to pressure, and there are now many more hoops to jump through than in years past. The enhanced guidelines set by The Institutional Limited Partners Association, and its push for greater levels of disclosure and transparency, are indicative of this.

86% of PE executives say expectations from LPs have increased over the past three years, a notable surge from last year when 71% said the same. 46% say these expectations have increased significantly compared with 35% who said so last year.

These expectations come in many forms, but co-investments loom largest. Nearly all GPs (97%) point to the increased frequency of individual co-investments as a top three change, while increased disclosure requirements are cited by 83%.

Says one Austrian PE executive: “One of their major concerns is how the disclosures are handled. They want to be more active and expect income disclosures to be more frequent than they currently are. Moreover, they are deriving additional value from co-investments which is adding pressure on our resources.”

Turning to where fund managers anticipate capital commitments to their next fund coming from, 81% cite funds of funds, followed by 73% who say pension funds will re-up. The least cited source of capital is sovereign wealth funds (SWFs), at 26%. There are two probable reasons for this. First, there is typically no more than one or two SWFs per country, meaning they are fewer in number. Second, they each manage vast sums of capital, and are therefore only suitable investors for the largest mega funds, if they desire fund investment at all. Given their scale, many SWFs have taken their PE investment into their own hands by conducting direct deals and co-investments.

---

Fig. 36 Have expectations and requirements of your Limited Partners (LPs) changed during the prior three years?

<table>
<thead>
<tr>
<th>Status</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stayed the same</td>
<td>14%</td>
</tr>
<tr>
<td>Increased significantly</td>
<td>46%</td>
</tr>
<tr>
<td>Increased slightly</td>
<td>40%</td>
</tr>
</tbody>
</table>
Fig. 37  Which of the following best describe the changes in expectations and requirements from your Limited Partners ...?

Please rank top three, where 1 = biggest change

<table>
<thead>
<tr>
<th>Rank</th>
<th>Increased frequency of individual co-investment</th>
<th>Increased disclosure requirements</th>
<th>Increased value of individual co-investment</th>
<th>Increased expectations on ESG topics</th>
<th>Pressure on management fee levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>36%</td>
<td>23%</td>
<td>19%</td>
<td>12%</td>
<td>10%</td>
</tr>
<tr>
<td>2</td>
<td>25%</td>
<td>37%</td>
<td>10%</td>
<td>12%</td>
<td>16%</td>
</tr>
<tr>
<td>3</td>
<td>36%</td>
<td>23%</td>
<td>19%</td>
<td>12%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Fig. 38  Thinking about the next fund you will raise, which of the following investment partners, if any, will you expect to significantly contribute to your Limited Partner (LP) structure? (Select all that apply).

- Fund of funds: 81%
- Pension funds: 73%
- Insurance companies: 70%
- Family offices: 60%
- High net worth individuals: 50%
- Banks: 34%
- Governmental agencies and foundations: 28%
- Sovereign wealth funds: 26%
PE in Europe in the long term

PE is looking to invest in industrial production/manufacturing

Industrial production/manufacturing is a favourite among European GPs, nearly half (48%) of whom say it is likely to be a sector they invest in over the next two to three years. Like last year, this puts the industry in first place, closely followed by 46% who point to the consumer sector and 45% selecting technology.

In the context of recent global growth concerns and a Europe that has struggled to find momentum, manufacturing and consumer-exposed segments may not seem like an obvious choice. Germany's weak growth in 2019 was a direct consequence of a deceleration in manufacturing.

However, one Dutch managing director highlights the value proposition in these exposed and highly cyclical sectors. “Our organisation is more likely to invest in these industries given the valuations that can be attained,” they say. “Distressed asset sales are sought in industrial production and consumer goods industries. According to our plans, financial services targets in small and mid-cap markets will also be an area of focus.”

Many investment professionals, however, see the rising stars of information technology and believe in the future rising demand and growth of companies within this sector: “We are most likely to invest in the IT and Technology sectors over the next two or three years. Since they have the most scope for growth and the demand in these sectors have been increasing at a rapid pace, investing in these would be ideal at this point.”, comments a partner in a UK-based PE fund.

A Swedish PE partner stresses the importance of having a broader industry reach and opportunistic approach: “[We] will look for the risks and opportunities in each of the sectors, but for the most part, potential in IT and technology sector are higher. Dependence on these industries has vastly increased as newer applications are being identified. Pharma industry is also thriving in a few countries, due to higher research potential.”

Megatrends are also on GPs mind and influencing industry focus, as illustrated by a managing director director from Norway: “We will be keen on reviewing the targets in the renewable energy sector. Capital requirements have been increasing as large-scale assets are required for processing. Considering the climatic conditions and the depletion of natural resources, clean energy sources will gain more acceptance, not just for industries, but in day to day life as well.”

Looking ahead to the key issues the industry faces over the next five years, 83% highlight increasing regulation as a top three concern. Foreign investment rulings in particular were raised in conversation with several respondents.

“There are many challenges being faced on multiple levels that are interfering with sustainable growth. Political influences on policies and regulations have negatively affected the way foreign investments are decided,” says one German managing director.

Meanwhile, 59% of respondents point to each of the following issues as being in their top three: changes in taxation on carried interest, scarcity of investment opportunities, and pressure for lower fees.

“Pressure on management fees has become a common concern,” says a UK managing director. “We believe that the current 2-and-20 format is feasible since our own costs have been going up and productivity in many markets has been restricted.”
Fig. 39  In your opinion, which of the following industries is your organisation most likely to invest in over the next 2 to 3 years? (Please choose up to three.)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial production/manufacturing</td>
<td>48%</td>
</tr>
<tr>
<td>Consumer</td>
<td>46%</td>
</tr>
<tr>
<td>Technology</td>
<td>45%</td>
</tr>
<tr>
<td>Business services</td>
<td>31%</td>
</tr>
<tr>
<td>Financial services</td>
<td>23%</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>15%</td>
</tr>
<tr>
<td>Life sciences</td>
<td>13%</td>
</tr>
<tr>
<td>Information technology/Software</td>
<td>12%</td>
</tr>
<tr>
<td>Energy and utilities</td>
<td>11%</td>
</tr>
<tr>
<td>E-Commerce</td>
<td>8%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>8%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>6%</td>
</tr>
<tr>
<td>Food production</td>
<td>6%</td>
</tr>
<tr>
<td>Clean tech/renewable energy</td>
<td>6%</td>
</tr>
<tr>
<td>Real estate</td>
<td>5%</td>
</tr>
<tr>
<td>Retail</td>
<td>5%</td>
</tr>
<tr>
<td>Transport and logistics</td>
<td>3%</td>
</tr>
<tr>
<td>Media</td>
<td>3%</td>
</tr>
<tr>
<td>Automotive</td>
<td>2%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>2%</td>
</tr>
<tr>
<td>Other, please specify</td>
<td>1%</td>
</tr>
<tr>
<td>Education</td>
<td>1%</td>
</tr>
</tbody>
</table>

Fig. 40  Again looking ahead, what are the key issues which the private equity industry in Europe will face in the next 5 years?

Please rank top three, where 1 = most important issue

<table>
<thead>
<tr>
<th>Issue</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing regulation</td>
<td>35%</td>
</tr>
<tr>
<td>Changes in taxation on carried interest</td>
<td>21%</td>
</tr>
<tr>
<td>Scarcity of investment opportunities</td>
<td>21%</td>
</tr>
<tr>
<td>Pressure for lower fees</td>
<td>10%</td>
</tr>
<tr>
<td>Increasing competition between funds</td>
<td>13%</td>
</tr>
<tr>
<td>Scarcity of investment opportunities</td>
<td>14%</td>
</tr>
<tr>
<td>Pressure for lower fees</td>
<td>13%</td>
</tr>
</tbody>
</table>
3 Value creation

Operational cost reductions and operational improvements most important to value creation

PE’s calling card is its operational approach to investment. Unlike the passivity analogous with stock market investing, buyout funds have a far greater hand in how their investee companies operate. This furnishes them with sector expertise and propagates templates for success for future deals. Those that can make meaningful, lasting changes in their portfolio companies have the potential to create the greatest value, achieve the best price on exit and, ultimately, score the highest possible returns for their fund.

Two-thirds (66%) of respondents say the impact of operational improvements has increased over the past three years in respect of return on investment, followed by slightly more than half (52%) who say the same for digitisation. Going forward, further emphasis is expected to be placed on the latter, putting digitisation on an even footing with operational enhancements; 68% of respondents say operational improvements and digitisation are expected to increase in respect of return on investment.

‘Operational improvements’ is a broad term that can be hard to define. How two GPs think about and approach transforming a company can differ, and the essential value accretive changes that must be made are highly dependent on the business in question. This essentially is the special feature of PEs and one of the key factors that sets firms apart from one another. So, what do PE firms mean when referring to operational improvements?

The highest scoring approaches most important to creating value ranked by respondents are cost reductions (mean score of 8.58), tied with strategic sourcing and procurement. Not far behind are working capital management/cash flow optimisation (8.54) and global footprint design (8.52), though all approaches listed have a mean score of above 8, illustrating their importance in achieving value.

“At present, operational improvements will allow clarity in decision-making and setting achievable goals and timelines,” says the partner of a Belgian firm. “Ensuring sales force effectiveness through proper channels will improve these decisions over time. Although constant efforts are being taken, we still feel there is room for improvement and that cannot be ignored.”
Fig. 41 Which levers are most important to value creation within the equity/investment story?

Please rate each on a scale from 1 to 10: 1 being least important and 10 being most important Mean shown

- Operational cost reduction: 8.58
- Strategic sourcing and procurement: 8.58
- Working capital management/cash flow optimisation: 8.54
- Global footprint design: 8.52
- Digitisation: 8.45
- Overhead support functions: 8.44
- Commercial optimisation: 8.41
- R&D effectiveness: 8.34
- Sales and channel effectiveness: 8.19

Fig. 42 During the past three years has the impact of operational improvements (excluding digitisation), multiple arbitrage, financial leverage and digitisation on your return on investment increased, decreased or stayed the same?

Please rank 1 to 4, where 1 is the most important and 4 is the least important

- Operational improvements (excluding digitisation): 34% increased, 66% decreased
- Digitisation: 48% increased, 52% stayed the same
- Multiple arbitrage: 6% increased, 54% stayed the same
- Financial leverage: 32% increased, 40% stayed the same
Looking forward, do you expect the impact of operational improvements (excluding digitisation), multiple arbitrage, financial leverage and digitisation on your return on investment to increase, decrease or stay the same?

Digitisation has positive impact on equity stories and exits

Leveraging digitisation at the portfolio company level is a critical value-creation tool. It can deliver revenue and margin growth, as well as make companies more attractive to buyers. Further, it can expedite the operational development of companies such that it compresses holding periods. This is good news for PE and its investors. While capital gains are paramount, time plays a crucial role in returns. All else being equal, shortened holds result in higher internal rates of return, boosting fund performance.

84% of respondents confirm digitising portfolio companies will speed up the realisation of the equity story and thus decrease their holding periods. Moreover, 75% say the degree to which digital transformation is achieved improves exit prospects and the level of return achieved by the deal. It must be noted, however, that digitising a business and its functions is meanwhile indispensable and, in some industries, such as retail and consumer, a necessity for survival. In order to keep and increase the value of current portfolios, GPs need to act quick and seriously examine all possibilities to support businesses, which can in many cases reward them with more market share from competitors.

Digitisation, of course, can be applied to any business function. While all corporate departments scored highly in our survey in terms of the extent to which digital applications can have the greatest impact, it is the R&D and innovation function that reigned supreme with a mean score of 8.83. The second highest scoring function is marketing, sales and customer service (8.66), followed by purchasing and production (8.44) and supply chain and logistics (8.35).
Fig. 44  Do you believe that digitising portfolio companies will speed up the realisation of the equity story and thus decrease the holding period of the portfolio?

- No 14%
- Cannot assess 2%
- Yes, to a great extent 46%
- Yes, to some extent 38%

Fig. 45  Which part of the business do you think is impacted the most from digital transformation?

rate from 1 to 10, 1 impacted least, 10 impacted most

- R&D and innovation 8.83
- Marketing, sales and customer service 8.66
- Purchasing and production 8.44
- Supply chain and logistics 8.35

Fig. 46  To what extent do you believe that the level of digital transformation is important to the future exits from your current portfolio companies and the subsequent return to be achieved?

- Not Important 2%
- Cannot assess 2%
- Very important 20%
- Important 55%
- Neutral 21%
PE firms overwhelmingly invest in digital transformation

In the last year 82% of funds have made investments in digitally transforming either their own firm or portfolio business models, demonstrating how important digital tools and applications are to PE. However, it should be noted that 97% of last year’s survey respondents had made investments in digitally transforming their own firm or portfolio business models in the preceding 12 months.

It is hard to know whether this represents a long-term shift in attention away from digitisation, but it may be explained by the prevalence of troubling economic indicators that flashed amber in 2019. This may have drawn focus from digital initiatives in the short term as GPs paid attention to heading off potential risks within their portfolios.

Of the 82% of respondents who say they have made digital investments in the last year, 88% concentrated on data analytics. Improving analytics is arguably the low-hanging fruit of digital transformation as it is capex-light compared with 3D printing (13%), augmented reality (28%) and virtual reality (20%).

---

**Fig. 47 Have you made investments in digitally transforming your own firm or portfolio company business models in the past year?**

<table>
<thead>
<tr>
<th>Year</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>82%</td>
<td>18%</td>
</tr>
<tr>
<td>2018</td>
<td>97%</td>
<td>3%</td>
</tr>
</tbody>
</table>
### Fig. 48  If yes, in which of the following areas of digital transformation have you focused your investment in: (Multiple answers possible).

<table>
<thead>
<tr>
<th>Technology</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Analytics</td>
<td>88%</td>
</tr>
<tr>
<td>Internet of Things (IoT)</td>
<td>72%</td>
</tr>
<tr>
<td>Robotics</td>
<td>53%</td>
</tr>
<tr>
<td>Artificial Intelligence</td>
<td>48%</td>
</tr>
<tr>
<td>Blockchain</td>
<td>43%</td>
</tr>
<tr>
<td>Augmented Reality</td>
<td>28%</td>
</tr>
<tr>
<td>Virtual Reality</td>
<td>20%</td>
</tr>
<tr>
<td>Drones</td>
<td>16%</td>
</tr>
<tr>
<td>3D Printing</td>
<td>13%</td>
</tr>
</tbody>
</table>

### Focus on data analytics

**Data analytics is the answer to deal targeting and valuation**

Digitisation will be equally important going forward, with 84% of GPs saying they will be investing in such transformation over the next year. Of this majority, 81% plan to invest in data analytics.

Our results reveal that the most significant application of data analytics is in uncovering and shortlisting deals, with valuation techniques a close second. 95% of respondents have used data analytics for identifying potential target companies, 80% for valuation purposes and 59% in due diligence.

The picture is similar for the year ahead. Virtually all fund managers (99%) say they will use data analytics to identify potential target companies over the next 12 months and 90% say they will use it for valuation purposes.

### Fig. 49  Will you be investing in digitisation over the next year?

- **Yes**: 84%
- **No**: 16%
**Fig. 50** Which of the following areas will you be investing in? (Select all that apply)

- Data Analytics: 81%
- Internet of Things (IoT): 76%
- Artificial Intelligence: 64%
- Robotics: 57%
- Blockchain: 54%
- Augmented Reality: 31%
- Virtual Reality: 21%
- Drones: 21%
- 3D Printing: 16%

**Fig. 51** In which of the following areas of the investment cycle has your organisation used data analytics in 2019? (Please select all that apply and the most important)

- Identification of potential target companies: 95%
- Valuation: 80%
- Due diligence: 59%
- Aggregation of portfolio company KPIs: 51%
- Predicting portfolio company performance in the future: 40%

- All that apply
- Most important
Fig. 52 In which of the following areas of the investment cycle do you anticipate your organisation will use data analytics in 2019? (Please select the most important)

<table>
<thead>
<tr>
<th>Area</th>
<th>Most important</th>
<th>99%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification of potential target companies</td>
<td></td>
<td>19%</td>
</tr>
<tr>
<td>Valuation</td>
<td></td>
<td>90%</td>
</tr>
<tr>
<td>Due diligence</td>
<td></td>
<td>74%</td>
</tr>
<tr>
<td>Predicting portfolio company performance in the future</td>
<td></td>
<td>70%</td>
</tr>
<tr>
<td>Aggregation of portfolio company KPIs</td>
<td></td>
<td>59%</td>
</tr>
<tr>
<td>All that apply</td>
<td></td>
<td>10%</td>
</tr>
</tbody>
</table>

4 Global Hotspots

Optimistic about Germany, the Netherlands and Switzerland

Germany is the frontrunner when it comes to the attractiveness of European buyout markets over the next five years. 80% of GPs say the country will become more attractive for PE investments in the long run. The Netherlands (78%) and Switzerland (74%) trail close behind.

Germany has faced challenges in 2019. As a leading exporter, the impact of trade frictions has been especially felt in the country, which had one of the weakest economic expansions in years as manufacturing output waned. However, Germany’s long-term prospects remain positive.

“I think Germany will be most attractive country because of the increased number of deal opportunities. There have been changes in the political scenario recently, increasing the number of challenges, but strategic plans will pan out in the next three to four years,” says one PE exec.

In addition to global trade concerns, the ruling coalition in Germany faces pressure after the Social Democrats (SPD) elected new leaders in December 2019, potentially putting their relationship with Chancellor Angela Merkel’s conservative Christian Democratic Union (CDU) under strain. Regardless, Germany remains the euro area’s powerhouse. PE continues to be drawn to Germany’s compelling fundamentals, including its highly skilled workforce, high rates of labour productivity and world-leading manufacturing and engineering capabilities.
In your opinion, which countries or regions will become more attractive for private equity investments over the next five years? (Select all that apply and code CEE as a region, unless individual countries are provided by the respondent).

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>80%</td>
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<tr>
<td>Netherlands</td>
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<tr>
<td>Switzerland</td>
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<tr>
<td>Central and Eastern Europe</td>
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<tr>
<td>Sweden</td>
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<td>Belgium</td>
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<td>USA</td>
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<td>France</td>
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<td>Norway</td>
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<td>India</td>
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<td>China</td>
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<tr>
<td>Finland</td>
<td>23%</td>
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<tr>
<td>UK</td>
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<td>Austria</td>
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<tr>
<td>Northern Africa</td>
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<td>Singapore</td>
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<tr>
<td>Hong Kong</td>
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<tr>
<td>Poland</td>
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<td>South America</td>
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<td>Romania</td>
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<td>Ireland</td>
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<td>Czech Republic</td>
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<tr>
<td>Slovakia</td>
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<td>Bulgaria</td>
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<tr>
<td>Italy</td>
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<tr>
<td>Portugal</td>
<td>1%</td>
</tr>
<tr>
<td>Turkey</td>
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<tr>
<td>Hungary</td>
<td>1%</td>
</tr>
<tr>
<td>Croatia</td>
<td>1%</td>
</tr>
<tr>
<td>Greece</td>
<td>1%</td>
</tr>
</tbody>
</table>

1 Don’t know: 5%
The impact of Brexit

The initial 29 March 2019 deadline for Brexit came and went, only for the revised deadline of 21 October to be postponed. The UK’s departure from the EU began with a transition date of 31 January 2020, the transition phase ending in December. As part of the divorce, the UK must still negotiate its trade arrangements with the bloc.

Most respondents (60%) say Brexit makes the UK less attractive for PE investments in 2020, while 39% say it has no impact and just 1% say it is more attractive. Britain’s loss is Continental Europe’s gain, with 56% saying Brexit has had no impact on the attractiveness of the remaining EU states for PE investments in 2020. Nearly one-third (32%) say it makes these other countries more attractive.

A Norwegian PE managing director says that, in spite of this political disruption, it has largely been a case of business as usual for PE: “The attractiveness of EU member private equity markets has remained the same over the past year. The same trends are expected to be continued in 2020 as well. Private equity funds will remain cautious of the effects of Brexit, but should continue activities at the same pace.”

And the top country in the EU in which to make PE investments? Germany. Close to half (46%) of respondents singled out the country as the top choice for making buyouts.

Fig. 54 What is the impact of Brexit on the attractiveness of the UK for private equity investments in 2020?

- Somewhat more attractive: 1%
- Much less attractive: 36%
- Somewhat less attractive: 24%
- No impact: 39%
Fig. 55  What is the impact of Brexit on the attractiveness of the remaining member states of the EU for private equity investments in 2020?

- Much more attractive: 6%
- Somewhat more attractive: 26%
- No impact: 56%
- Somewhat less attractive: 11%
- Much less attractive: 1%

Fig. 56  Please specify which EU country you think is most attractive for private equity investments.

- Germany: 46%
- Sweden: 13%
- Netherlands: 9%
- Czech Republic: 9%
- Poland: 5%
- Luxembourg: 5%
- France: 5%
- Romania: 4%
- Denmark: 4%

Zooming in on Germany

Germany’s PE market as a share of GDP is low compared with the UK and France. The country has historically held third place behind these two despite having a larger economy. Some have expressed frustration at the inability to tap its throng of SMEs. GPs have talked for years about unlocking the Mittelstand (Germany’s almost 4 million small and medium-sized family owned businesses). Gradually, a shift in attitudes towards PE is leading to increased levels of deal flow.

When asked how Germany compares against other countries for making PE investments, 80% say it is good, including 38% who say it is very good. More than half (52%) of respondents have investments in Germany, and practically all of these (99%) intend to continue making investments in the country over the next five years. More than three-quarters (76%) say the assets they will allocate to the country will increase over that time.
These results indicate that Germany will be the prime beneficiary not only of Brexit, with investors attracted to its relative political stability, but the long-term opportunity to access companies with some of the best industrial expertise in Europe. DACH deal flow has never looked healthier and, as the region’s core market, Germany’s star is rising.

Fig. 57 In an international comparison with other countries, how would you assess the attractiveness of Germany as a location for private equity investment? (Please select one option only).

- Very good: 38%
- Neither good/nor poor: 20%
- Quite good: 42%

Fig. 58 Does your firm currently have any investments such as portfolio companies in Germany? (Please select one option only.)

- Yes: 52%
- No: 48%

Fig. 59 Do you plan to continue making investments in Germany over the next five years? (Please select one option only.)

- Yes: 99%
- No: 1%
Fig. 60  Do you think that the assets that you allocate to Germany over the next five years will … (Please select one option only.)

- Stay the same 24%
- Increase 76%

Fig. 61  Do you plan to make any investments in Germany over the next five years? (Please select one option only.)

- Yes 11%
- No 89%
Appendix

**Fig. 62** What was the average debt to equity ratio used by your organisation on new investments made in 2019?

- >60% debt: 6%
- 51–60% debt: 14%
- 50% debt: 23%
- 40–49% debt: 31%
- <40% debt: 26%

**Fig. 63** How do you expect the world economic situation to develop in 2020?

- Low growth: 51%
- No growth: 28%
- Contract slightly: 20%
- Contract extensively: 1%
Fig. 64  European Buyout volume, split by industry

2014–2017

<table>
<thead>
<tr>
<th>Industry</th>
<th>Sector Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy, mining and utilities</td>
<td>4%</td>
</tr>
<tr>
<td>Construction</td>
<td>4%</td>
</tr>
<tr>
<td>Financial services</td>
<td>4%</td>
</tr>
<tr>
<td>Leisure</td>
<td>5%</td>
</tr>
<tr>
<td>Pharma, medical and biotech</td>
<td>9%</td>
</tr>
<tr>
<td>Consumer</td>
<td>14%</td>
</tr>
<tr>
<td>Transportation</td>
<td>2%</td>
</tr>
<tr>
<td>Real estate</td>
<td>1%</td>
</tr>
<tr>
<td>Industrials and chemicals</td>
<td>23%</td>
</tr>
<tr>
<td>TMT</td>
<td>17%</td>
</tr>
<tr>
<td>Business services</td>
<td>16%</td>
</tr>
</tbody>
</table>

2018–2019

<table>
<thead>
<tr>
<th>Industry</th>
<th>Sector Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy, mining and utilities</td>
<td>3%</td>
</tr>
<tr>
<td>Construction</td>
<td>4%</td>
</tr>
<tr>
<td>Leisure</td>
<td>3%</td>
</tr>
<tr>
<td>Financial services</td>
<td>4%</td>
</tr>
<tr>
<td>Pharma, medical and biotech</td>
<td>9%</td>
</tr>
<tr>
<td>Consumer</td>
<td>14%</td>
</tr>
<tr>
<td>Transportation</td>
<td>3%</td>
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<tr>
<td>Real estate</td>
<td>1%</td>
</tr>
<tr>
<td>Agriculture</td>
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<tr>
<td>Industrials and chemicals</td>
<td>22%</td>
</tr>
<tr>
<td>TMT</td>
<td>20%</td>
</tr>
<tr>
<td>Business services</td>
<td>16%</td>
</tr>
</tbody>
</table>
Fig. 65  European Buyout value, split by industry

2014–2017

Transportation 4%
Construction 4%
Real estate 5%
Leisure 6%
Financial services 8%
Pharma, medical and biotech 8%
Consumer 11%

Industrials and chemicals 15%
Agriculture 1%
Defence 1%
Energy, mining and utilities 11%
Business services 13%
TMT 13%

€487.9bn

2018–2019

Transportation 4%
Real estate 5%
Consumer 5%
Financial services 6%
Leisure 8%
Energy, mining and utilities 8%
Business services 11%

Construction 3%
Defence 1%
TMT 19%
Industrials and chemicals 18%
Pharma, medical and biotech 12%

€375.7bn
Fig. 66  DACH Buyout volume, split by industry, 2014–2017

2014–2017

<table>
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<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Energy, mining and utilities</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Leisure</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Construction</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>Pharma, medical and biotech</td>
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<td>11%</td>
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<td>Business services</td>
<td>12%</td>
<td>12%</td>
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<tr>
<td>Consumer</td>
<td>12%</td>
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<tr>
<td>Financial services</td>
<td>2%</td>
<td>4%</td>
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<tr>
<td>Real estate</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Transportation</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>Industrials and chemicals</td>
<td>34%</td>
<td>33%</td>
</tr>
<tr>
<td>TMT</td>
<td>18%</td>
<td>23%</td>
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</table>

1,098 deals

625 deals
Fig. 67  DACH Buyout value, split by industry, 2014–2017

2014–2017

<table>
<thead>
<tr>
<th>Industry</th>
<th>Value Share</th>
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<tbody>
<tr>
<td>Financial services</td>
<td>2%</td>
</tr>
<tr>
<td>Construction</td>
<td>4%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>4%</td>
</tr>
<tr>
<td>Business services</td>
<td>4%</td>
</tr>
<tr>
<td>Energy, mining and utilities</td>
<td>5%</td>
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<tr>
<td>TMT</td>
<td>5%</td>
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<tr>
<td>Real estate</td>
<td>7%</td>
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<tr>
<td>Consumer</td>
<td>13%</td>
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<tr>
<td>Leisure</td>
<td>2%</td>
</tr>
<tr>
<td>Transportation</td>
<td>2%</td>
</tr>
<tr>
<td>Defence</td>
<td>1%</td>
</tr>
<tr>
<td>Industrials and chemicals</td>
<td>35%</td>
</tr>
<tr>
<td>Pharma, medical and biotech</td>
<td>17%</td>
</tr>
</tbody>
</table>
| €100.7bn

2018–2019

<table>
<thead>
<tr>
<th>Industry</th>
<th>Value Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial services</td>
<td>3%</td>
</tr>
<tr>
<td>Real estate</td>
<td>4%</td>
</tr>
<tr>
<td>Transportation</td>
<td>5%</td>
</tr>
<tr>
<td>Business services</td>
<td>5%</td>
</tr>
<tr>
<td>Pharma, medical and biotech</td>
<td>22%</td>
</tr>
<tr>
<td>Consumer</td>
<td>2%</td>
</tr>
<tr>
<td>Construction</td>
<td>1%</td>
</tr>
<tr>
<td>Energy, mining and utilities</td>
<td>1%</td>
</tr>
<tr>
<td>Industrials and chemicals</td>
<td>32%</td>
</tr>
<tr>
<td>TMT</td>
<td>25%</td>
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</tbody>
</table>
| €81.1bn
Fig. 68  Benelux Buyouts, Split by Deal Size, 2014–2019

Fig. 69  Benelux Buyouts, 2014–2019

Number of deals, volume

Total deal value, €m
Fig. 70  Benelux Buyout volume, split by industry

2014–2017

- Transportation: 3%
- Financial services: 3%
- Energy, mining and utilities: 3%
- Construction: 4%
- Pharma, medical and biotech: 11%
- Consumer: 15%
- Leisure: 2%
- Agriculture: 1%
- Industrials and chemicals: 23%
- Business services: 18%
- TMT: 17%

535 deals

2018–2019

- Transportation: 2%
- Financial services: 3%
- Leisure: 4%
- Construction: 5%
- Pharma, medical and biotech: 8%
- Consumer: 11%
- Energy, mining and utilities: 2%
- Agriculture: 2%
- Industrials and chemicals: 22%
- Business services: 21%
- TMT: 20%

347 deals
Appendix

Fig. 71  Benelux Buyout value, split by industry

2014–2017

- Transportation 1%
- Leisure 2%
- Pharma, medical and biotech 4%
- Construction 5%
- Consumer 13%
- Financial services 14%
- Industrials and chemicals 14%

Total: €36.5bn

2018–2019

- Transportation 4%
- Consumer 4%
- Leisure 4%
- TMT 5%
- Business services 6%
- Construction 7%
- Financial services 13%
- Pharma, medical and biotech 3%
- Energy, mining and utilities 2%
- Real estate 1%
- Industrials and chemicals 51%

Total: €21.6bn
Fig. 72  Do you plan to make any investments in Germany over the next five years? (Please select one option only)

- Yes 11%
- No 89%

Fig. 73  Firstly, compared to 2018, has the number of potential transactions which you have reviewed in an average month this year ...? (Please select one response only.)

- Decreased significantly 2%
- Decreased slightly 4%
- Stayed the same 22%
- Increased significantly 36%
- Increased slightly 36%

Fig. 74  Compared to 2018 has the number of exits made by your organisation this year ...? (Please select one response only.)

- Decreased significantly 9%
- Decreased slightly 10%
- Stayed the same 32%
- Increased significantly 9%
- Increased slightly 40%
Fig. 75  Looking forward to 2020 which of these factors, do you consider will influence equity stories on acquisitions for your organisation?
(Please select all that apply.)

<table>
<thead>
<tr>
<th>Factor</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational improvements</td>
<td>84%</td>
<td></td>
</tr>
<tr>
<td>Buy and build</td>
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<td>73%</td>
</tr>
<tr>
<td>Market consolidation</td>
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<td>66%</td>
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<tr>
<td>Financial engineering</td>
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<td>63%</td>
</tr>
<tr>
<td>Digitisation/Industry 4.0.</td>
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<td>53%</td>
</tr>
<tr>
<td>Sales force effectiveness</td>
<td></td>
<td>53%</td>
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</tbody>
</table>

Fig. 76  Looking forward to 2020 which of these factors, do you consider will influence equity stories on acquisitions for your organisation?
(Select main factor)

<table>
<thead>
<tr>
<th>Factor</th>
<th>2019</th>
<th>2018</th>
</tr>
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<tbody>
<tr>
<td>Operational improvements</td>
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<td>Financial engineering</td>
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<td>28%</td>
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<tr>
<td>Digitisation/Industry 4.0.</td>
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<td>18%</td>
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<tr>
<td>Buy and build</td>
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<td>17%</td>
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<tr>
<td>Market consolidation</td>
<td></td>
<td>17%</td>
</tr>
<tr>
<td>Sales force effectiveness</td>
<td></td>
<td>13%</td>
</tr>
</tbody>
</table>

2019  2018
Fig. 77  I am now going to read out a list of sources of new deal opportunities. In your opinion, which, if any, of these will be sources of new deal opportunities for your organisation in 2020? (Please select all that apply.)

- **Expansion/Growth capital**: 80%
- **Acquisitions from other private equity funds**: 63%
- **Spin-offs/Carve-outs from corporates**: 60%
- **Acquisitions of majority shareholdings from private owners**: 59%
- **Add on acquisitions for existing portfolio companies**: 52%
- **Direct investments**: 51%
- **Acquisitions of minority shareholdings from private owners**: 46%
- **Acquisitions of assets out of insolvency/distress**: 45%
- **Succession**: 34%
- **Start ups**: 30%
- **Equity injections into publicly listed companies (“PIPE” deals)**: 18%
- **Spin offs from universities/public funded research**: 17%
- **Public to private transactions (“P2P” deals)**: 14%

Fig. 78  Looking ahead to 2020, compared to 2019 do you expect the availability of credit for leveraged buyouts to ...? (Please select one option only.)

- **Get better**: 29%
- **Stay the same**: 46%
- **Get worse**: 25%

2019  2018
Fig. 79  How satisfied or dissatisfied are you with the development of your portfolio companies in 2019? Would you say you are ...?
(Please select one option only.)

Dissatisfied 19%
Neither/nor 19%
Satisfied 62%

Fig. 80  During 2019, what percentage of your portfolio companies broke one or more bank covenants, or otherwise needed to enter negotiations with their financing providers? Would you say ...?
(Please select one option only.)

<10% 28%
10–20% 53%
>20% 19%

Fig. 81  Looking forward to 2020, what percentage of your portfolio companies do you expect will break one or more bank covenants, or otherwise need to enter negotiations with their financing providers? Would you say ...?
(Please select one option only.)

>20% 18%
10–20% 27%
<10% 54%
None at all 1%
Fig. 82  Looking back on the returns on investments you made during the past five to seven years have they been/are they expected to be:

- Higher than expected: 14%
- As expected: 60%
- Lower than expected: 26%

Fig. 83  Looking forward towards the expected returns on investments made during the past year, how do these compare to the returns on investments made five to seven years ago. Do you expect these to be:

- Higher: 7%
- Lower: 49%
- Same: 44%

Fig. 84  Again looking ahead, what are the key issues which the private equity industry in Europe will face in the next 5 years?

Please rank top three, where 1 = most important issue

1. Increasing regulation: 35%
2. Changes in taxation on carried interest: 21%
3. Scarcity of investment opportunities: 21%
4. Pressure for lower fees: 10%
5. Increasing competition between funds: 13%

- Increasing regulation
- Changes in taxation on carried interest
- Scarcity of investment opportunities
- Pressure for lower fees
- Increasing competition between funds
Fig. 85 In which of the following areas of the investment cycle has your organisation used data analytics in 2019? (Please select all that apply)

- Identification of potential target companies: 95%
- Valuation: 80%
- Due diligence: 59%
- Aggregation of portfolio company KPIs: 51%
- Predicting portfolio company performance in the future: 40%

Fig. 86 In which of the following areas of the investment cycle has your organisation used data analytics in 2019? (Please select the most important)

- Identification of potential target companies: 33%
- Valuation: 24%
- Predicting portfolio company performance in the future: 17%
- Aggregation of portfolio company KPIs: 14%
- Due diligence: 12%

Fig. 87 In which of the following areas of the investment cycle do you anticipate your organisation will use data analytics in 2020? (Please select all that apply)

- Identification of potential target companies: 99%
- Valuation: 90%
- Due diligence: 74%
- Predicting portfolio company performance in the future: 70%
- Aggregation of portfolio company KPIs: 59%
In which of the following areas of the investment cycle do you anticipate your organisation will use data analytics in 2020? (Please select all that apply)

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<thead>
<tr>
<th>Area</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predicting portfolio company performance in the future</td>
<td>47%</td>
</tr>
<tr>
<td>Identification of potential target companies</td>
<td>19%</td>
</tr>
<tr>
<td>Valuation</td>
<td>14%</td>
</tr>
<tr>
<td>Aggregation of portfolio company KPIs</td>
<td>10%</td>
</tr>
<tr>
<td>Due diligence</td>
<td>10%</td>
</tr>
</tbody>
</table>
Thinking about the next fund you will raise, which of the following investment partners, if any, will you expect to significantly contribute to your Limited Partner (LP) structure? (Select all that apply).

<table>
<thead>
<tr>
<th>Investment Partner</th>
<th>Germany</th>
<th>Benelux</th>
<th>International funds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
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<td>Fund of funds</td>
<td>75%</td>
<td>73%</td>
<td>84%</td>
<td>81%</td>
</tr>
<tr>
<td>Pension funds</td>
<td>65%</td>
<td>74%</td>
<td>80%</td>
<td>73%</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>65%</td>
<td>72%</td>
<td>73%</td>
<td>72%</td>
</tr>
<tr>
<td>Family offices</td>
<td>60%</td>
<td>62%</td>
<td>60%</td>
<td>60%</td>
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<tr>
<td>High net worth individuals</td>
<td>43%</td>
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<td>54%</td>
<td>50%</td>
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<td>Banks</td>
<td>28%</td>
<td>34%</td>
<td>50%</td>
<td>43%</td>
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<tr>
<td>Governmental agencies and foundations</td>
<td>13%</td>
<td>29%</td>
<td>28%</td>
<td>30%</td>
</tr>
<tr>
<td>Sovereign wealth funds</td>
<td>28%</td>
<td>33%</td>
<td>25%</td>
<td>26%</td>
</tr>
</tbody>
</table>
Fig. 90  Has the importance of value creation levers changed the way you look at new investments and do you model it into your equity story already at entry/during the due diligence phase? Please comment.

<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not important</td>
<td>4%</td>
</tr>
<tr>
<td>Cannot assess</td>
<td>3%</td>
</tr>
<tr>
<td>Stayed the same</td>
<td>27%</td>
</tr>
<tr>
<td>Yes, to a great extent</td>
<td>22%</td>
</tr>
<tr>
<td>Yes, to some extent</td>
<td>44%</td>
</tr>
</tbody>
</table>

Fig. 91  How do you expect the importance of value creation to develop in the future?

<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease moderately</td>
<td>5%</td>
</tr>
<tr>
<td>Increase strongly</td>
<td>24%</td>
</tr>
<tr>
<td>Remain the same</td>
<td>26%</td>
</tr>
<tr>
<td>Increase moderately</td>
<td>45%</td>
</tr>
</tbody>
</table>

Fig. 92  Have you made investments in digitally transforming your own firm or portfolio company business models in the past year?

<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>18%</td>
</tr>
<tr>
<td>Yes</td>
<td>82%</td>
</tr>
</tbody>
</table>
Fig. 93  Which of the following areas will you be investing in? (Select the most important).

- Internet of Things (IoT): 25%
- Blockchain: 19%
- Data Analytics: 16%
- Artificial Intelligence: 15%
- Robotics: 11%
- Virtual Reality: 5%
- 3D Printing: 3%
- Drones: 3%
- Augmented Reality: 3%

Fig. 94  Does your organisation plan to open any new offices over the next five years? (Please select one option only.)

- Yes: 13%
- No: 87%
In which country/ies do you plan to open new offices?
(Select all that apply and code all CEE as “CEE” region, unless individual countries provided by the respondent)

- Central & Eastern Europe: 58%
- Sub-Saharan Africa: 12%
- South America: 12%
- Northern Africa: 9%
- India: 9%
- Canada: 6%
- USA: 6%
- Singapore: 6%
- Switzerland: 6%
- Netherlands: 6%
- Luxembourg: 6%
- France: 6%
- Belgium: 6%
- Austria: 6%
- Hong Kong: 3%
List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUM</td>
<td>Assets under Management</td>
</tr>
<tr>
<td>Benelux</td>
<td>Belgium, Netherland and Luxembourg</td>
</tr>
<tr>
<td>bn</td>
<td>billion</td>
</tr>
<tr>
<td>CAGR</td>
<td>Compound annual growth rate</td>
</tr>
<tr>
<td>CEE</td>
<td>Central and Eastern Europe</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>DACH</td>
<td>Germany, Austria and Switzerland</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Earnings before Interest, Depreciation and Amortisation</td>
</tr>
<tr>
<td>ESG</td>
<td>environmental, social and corporate governance</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>GDP</td>
<td>gross domestic product</td>
</tr>
<tr>
<td>GP</td>
<td>General Partner</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IPO</td>
<td>initial public offering</td>
</tr>
<tr>
<td>LBO</td>
<td>leveraged buy-out</td>
</tr>
<tr>
<td>LP</td>
<td>Limited Partner</td>
</tr>
<tr>
<td>m</td>
<td>million</td>
</tr>
<tr>
<td>M&amp;A</td>
<td>Mergers and Acquisitions</td>
</tr>
<tr>
<td>MD</td>
<td>managing director</td>
</tr>
<tr>
<td>PE</td>
<td>private equity</td>
</tr>
<tr>
<td>Q2</td>
<td>Second Quarter of the Year</td>
</tr>
<tr>
<td>Q3</td>
<td>Third Quarter of the Year</td>
</tr>
<tr>
<td>Q4</td>
<td>Fourth Quarter of the Year</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>SEE</td>
<td>South Eastern Europe</td>
</tr>
<tr>
<td>SME</td>
<td>small and medium-sized enterprises</td>
</tr>
<tr>
<td>TMT</td>
<td>Technology, Media and Telecommunications</td>
</tr>
<tr>
<td>tn</td>
<td>trillion</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom of Great Britain, Wales and Northern Ireland</td>
</tr>
<tr>
<td>US</td>
<td>United States of America</td>
</tr>
<tr>
<td>YoY</td>
<td>year on year</td>
</tr>
</tbody>
</table>
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