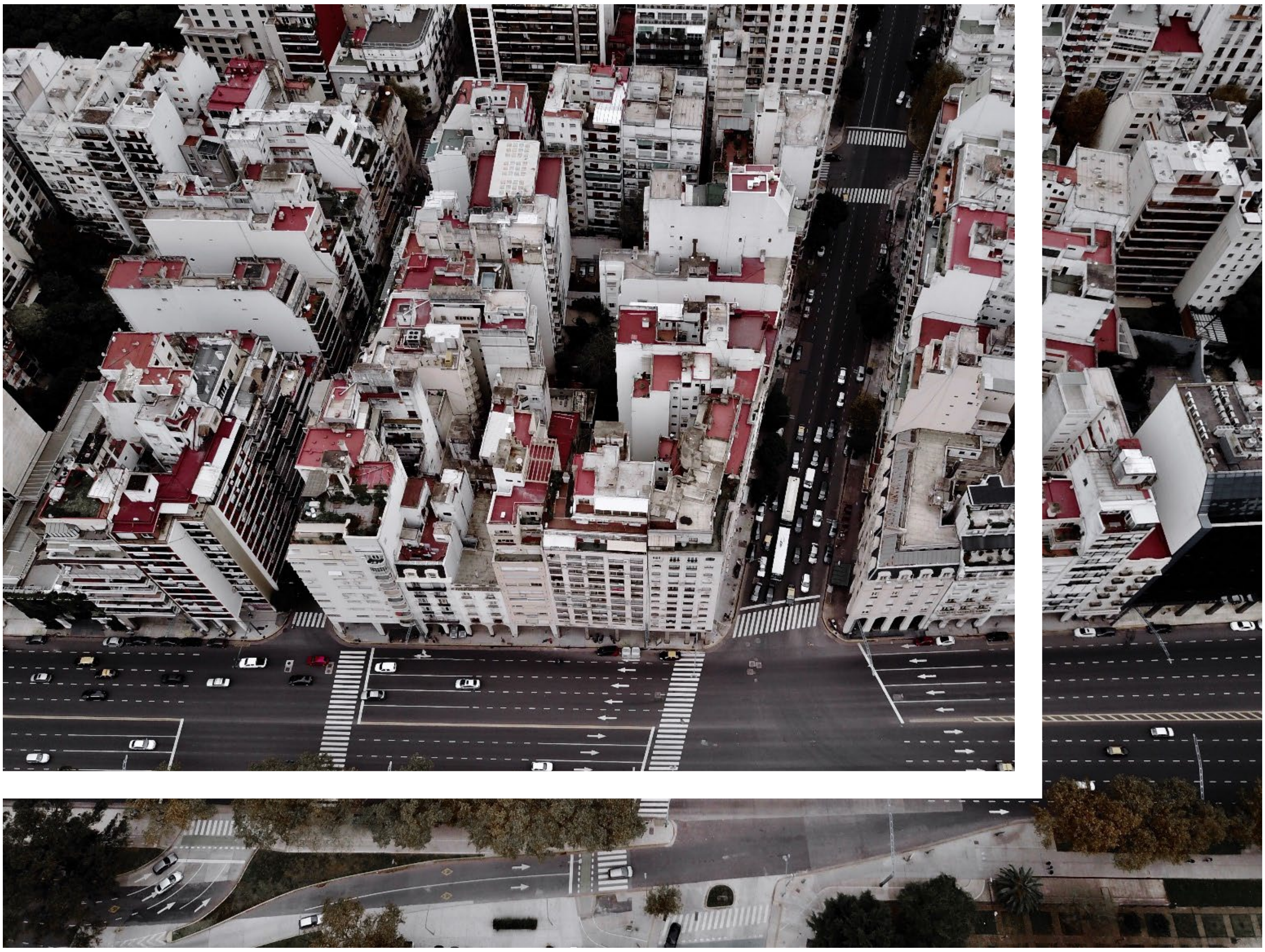
Private Equity Trend Report 2022



Preface

Dear friends,

Firstly, and most importantly, I trust that you are all well and healthy. After an unprecedented two years impacting all levels of both business and personal life through the COVID-19 pandemic, we were all eagerly awaiting the new normality, which has been darkened by the shadow of Russia's invasion of Ukraine. Now over two months into this war, it continues to bring a heavy toll, first and foremost to the population of Ukraine but also around the globe. We seem to have gone from one crisis (which has still has not come to an end) into another and to what feels like a constant state of volatility and uncertainty. This report naturally gauges sentiment over the historical period; however, the challenges ahead are what will define the future of the PE industry as it moves through the current decade. The uncertainty, already a fact of life for business leaders still charting a course out of the pandemic, has only intensified, and that will continue. The challenges of inflation, putting additional pressure on buyout returns, as well the ESG imperative, the intensified disruptions of supply chain challenges as well prices of energy and commodities all place an additional burden and cascade across the value chain, impacting returns and growth prospects, making it all so much more necessary for GPs to roll up their sleeves and focus on deep value creation.

And yet 2021 was yet again a record-breaking year with deal activity on the rise not only compared to 2020, but also to the records of 2019. Respondents in our survey stated that the COVID-19 pandemic was in certain instances and sectors an obstacle to deal making, however, in others it served as a catalyst for deal activity. So, as it seems PE has come to a new age, level of diversification and a maturity never seen before, demonstrating an agility and crisis-resistant set-up enabling it to capitalise on opportunities arising from any situation.

The value creation experience that the industry has developed, most notably since the financial crisis of 2008/2009, evidenced through the many successful partnerships with companies and successful acquisitions and exits, has positioned it well to credibly and genuinely be at the front of mind for driving the future chapters for many of these businesses. The lessons learned through the tough years following the last crisis played a major role in building that trust and changing its image from a financially driven to a value creation driven investor. This has been further evidenced by the significant fundraising that happened during 2021, with many houses raising record fund levels showing the faith that the LPs have in the industry being able to generate returns despite all the current uncertainty and turmoil in the wider economy. Global expansion has continued to drive impressive returns, but high multiples, localisation, rising interest rates as well as the dark shadow of inflation are all factors that will change the way PE has gone about deals.

Where could PE make a difference beyond the deal?

This current opportunity allows PE to go above and beyond the obvious economic benefits of company ownership. The whole topic of ESG has come even more into focus recently, and we have noticed a rapid shift in perception within the industry from a mainly compliance focused strategy, to one of looking at the topic through a value creation lens. This is gaining significant momentum with the realisation that there are major value levers available across a spectrum ranging from avoiding value erosion ("do nothing") through to actively driving an ESG strategy around topics such as decarbonisation, diversity and sustainability. We have seen recent trends of financing structures linked to performance against ESG metrics, the raising of climate and social impact focused funds, bold statements regarding carbon neutral timelines: the list goes on and only serves to reinforce that this is an area that will only increase in importance. While value creation is a major driver, the consequential societal benefits that come out of this are significant and benefit us all. PE can, and almost certainly will use its position, capital and influence to be a catalyst for this transformation and further enhance its standing within the wider society.

Preface 2022

What are we seeing right now?

For the last two quarters there has been a frankly enormous level of deal activity and the pandemic has not put a halt to that. Current activity as well as the upcoming pipeline relates to a multitude of new assets coming to market. With the vast amount of dry powder available, pricing continues to rise, multiples in many sectors seemingly not having been impacted by the events of the last years and even increasing further. Technology and Healthcare remain at the forefront of this, and the trend shows no signs of abating. As we highlighted last year, PE has historically profited from multiple expansion and reaped returns of on average over 2x EBITDA from multiple arbitrage alone. The current situation will no longer support this with inflation showing itself to be more than just short lived, and with the current war only exacerbating matters. This only reinforces the need to be able to compensate for it through deeper value creation and longer holding periods. ESG can play a major role in this, and inevitably will have to.

So, can PE save the world?

Well, we didn't start 2022 expecting any of the recent developments, but we firmly believe that the current situation offers significant opportunity on many levels. It will obviously not be an easy ride and there are many obstacles and challenges to come, however, the industry may well never have been so well positioned to benefit from these and continue to make a major contribution both economically and socially to the solutions required.

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 2022 and beyond!

Steve Roberts
Private Equity Leader

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Introduction

Introduction

Europe's private equity (PE) industry has seemingly packed up its pandemic concerns, investing at a blistering pace. Total invested capital and deal volume dwarfed previous records in 2021 as the clock has been ticking for sponsors to put their capital to work.

There is also plenty of ammunition left as well. A record €665.7 bn ($728.2 bn) in dry powder was sitting in reserve as of December 2021, according to Preqin, and much of this is held by global firms whose geographical remit encompasses Europe as a major deal market. There is every indication that fundraising inflows will continue through 2022. Exit value hit a new high of €204.0 bn in 2021 and investors will be recycling this back into the asset class in search of alpha.

This capital abundance can be too much of a good thing. There are a finite number of available deals, and the majority of GPs expect their pace of dealmaking to rise in the short term. Strong competition for assets, which GPs also report has increased over the past 12 months, means that deal multiples have never been higher.

GPs cannot escape this reality but can minimise their downside risk by focusing on quality, companies with predictable trading performance and by diving deeper in their due diligence and developing rock-solid investment theses before pulling the trigger on deals. And operational improvements and digitalisation will inevitably figure highly in PE's value creation efforts over the coming months. Virtually every PE firm (99%) that participated in this report expects to invest in enhancing the digital capabilities of their portfolio companies this year.

If that wasn't enough to think about, PE firms also face the rising pressure from regulators and their own investors to step up to the plate on everything ESG (environmental, social and governance). It may be hard for 2022 to scale the heights set last year, but there is little doubting that GPs will have their work cut out for them, navigating inflation and persistent supply chain issues, all the while deploying their investor capital shrewdly.

Market Overview

Europe Deals
PE & Strategic

Europe Deals Dashboard (1/2)

Deal activity in Europe witnessed heightened positive investor sentiment driven by a recovering economy and resumed operations across sectors

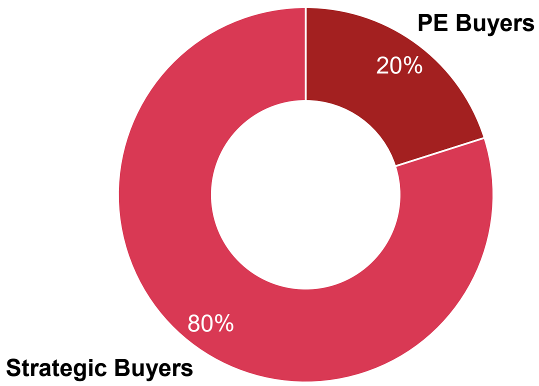
High deal activity in Europe1, in 2021 as compared to 2020, and the record year 2019, albeit pandemic-driven uncertainty Deal activity increased by 26.2% in 2021 (13,823 deals) as compared with 2020 (10,951 deals) and c. 14% higher than 2019 driven by positive investor sentiment due to economic recovery in 2021, high demand and the rollout of COVID-19 vaccine

Factors including increased governmental support and spending amid the COVID-19 pandemic, implementation of Brexit, surge in private equity buyouts and strategic consolidation investments, contributed to the increase in deal activity in the European region in 2021

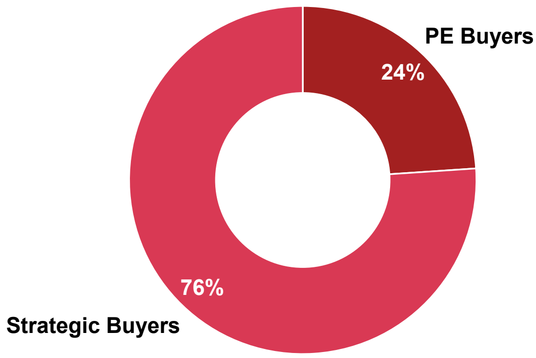
Overall Deal Activity in Europe (2016 – 2021)

Deal Activity by PE vs Strategic Investors in Europe, by Volume

Pre-pandemic



Post-pandemic



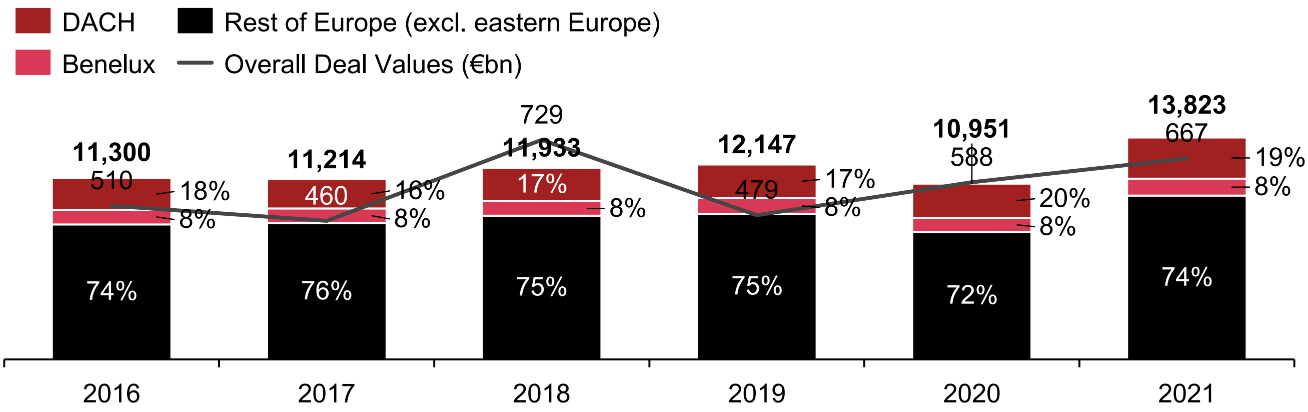
M&A activity is expected to further increase in the European region: The European region[1] is expected to witness even higher deal activity in the near future, as several countries have announced that they will be removing COVID-19 restrictions. This would boost economic development and operations of several sectors, primarily consumer-facing segments such as travel & tourism, retail, hotels, restaurants, gyms, cinemas, among others. Also, any potential ending of government support to businesses affected by the pandemic would fuel private funding as well as M&A activities in the region

Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis
Note: 1) Excludes eastern Europe

Europe Deals Dashboard (2/2)

Majority of deals in Europe were focused on the IM&A sector, followed by TMT and CM. The UK continues to remain the majority stakeholder in the total number of deals.

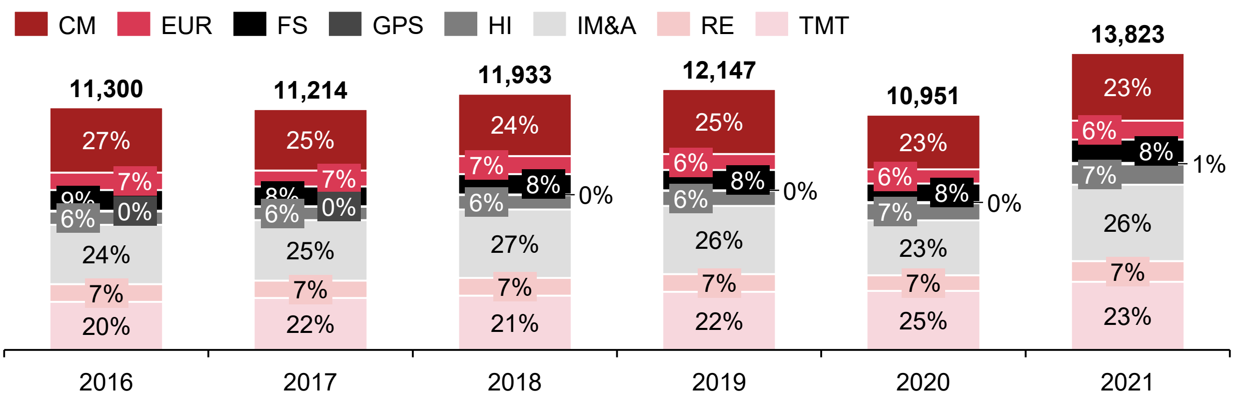
Geographic Overview



DACH and Benelux together accounted for 26.2% of overall European[1] deal activity in 2021: The total deal activity in DACH and Benelux was 3,619 in 2021, up by 20.0% from 2020 (3,015 deals) and 17.8% as compared to 2019 (3,071 deals)

In 2021, the UK-led deal activity in overall Europe[1], followed by Germany and France: The deal volume in the UK, in 2021, was registered at 4,057, contributing 29.3% of the total deals in overall Europe (exc. eastern Europe). It was then followed by Germany and France with 1,900 and 1,509 deals respectively. Post Brexit on 31 Jan 2020, deal volume in the UK has shown a significant increase of 42.5% in 2021 compared to 2020.

Sector Overview



IM&A was the top-performing sector in overall European deal activity in 2021: In 2021, IM&A was the top-performing sector in overall deal activity in Europe with 25.7% (3,557) deals, followed by TMT with 22.9% (3,170 deals) and Consumer Markets with 22.7% (3,145 deals). The high deal activity in these sectors are supported by surged restructuring strategies in the midst of the pandemic, an increased focus on ESG activities, a high rate of digitalisation adoption, and a rising trend in online & e-commerce sales.

Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis
Note: CM: Consumer Markets; EUR: Energy, Utilities and Resources; FS: Financial Services; GPS: Government and Public Services; HI: Health Industries; IM&A: Industrial Manufacturing and Automotive; RE: Real Estate; TMT: Technology, Media and Telecommunications
Note: 1) Excludes eastern Europe

SPAC Deals Overview – Europe

In Europe, the SPAC deal activity in 2021 was primarily driven by US-based SPAC buyers, with a major focus on UK and Germany

Top 10 SPAC Deals in Europe (2021)

	Target	Buyer	Sector	Deal size (€ bn)
1	Polestar Performance AB	Gores Guggenheim Inc	IM&A	17.1
2	Ardagh Metal Packaging SA	Gores Holdings V Inc	CM	7.7
3	Cazoo Ltd	AJAX I Acquisition Corp	IM&A	5.8
4	SGHC Ltd	Sports Entertainment Acquisition Corp	CM	3.9
5	Babylon Holdings Ltd	Alkuri Global Acquisition Corp	TMT	2.7
6	LumiraDx Ltd	CA Healthcare Acquisition Corp	HI	2.5
7	Lilium GmbH	Qell Acquisition Corp	IM&A	2.1
8	Allego BV	Spartan Acquisition Corp III	IM&A	2.1
9	SIGNA Sports United GmbH	Yucaipa Acquisition Corp	CM	2.0
10	Alvotech Holdings SA	Oaktree Acquisition Corp II	HI	1.9

In 2021, SPAC deal activity in Europe was led by US-based SPAC buyers: In 2021, Europe witnessed record SPAC IPO issuance, which supported buoyant levels of de-SPAC deal activity in the region. UK targets were the primary focus of SPAC buyers, followed by targets in Germany. All of the SPACs which invested in Europe in 2021 were US-based.

In the near future, there is expected growth of SPAC in the UK: In 2021, relaxation in the UK SPAC listings implemented are expected to drive volumes of SPACs in 2022 and beyond.

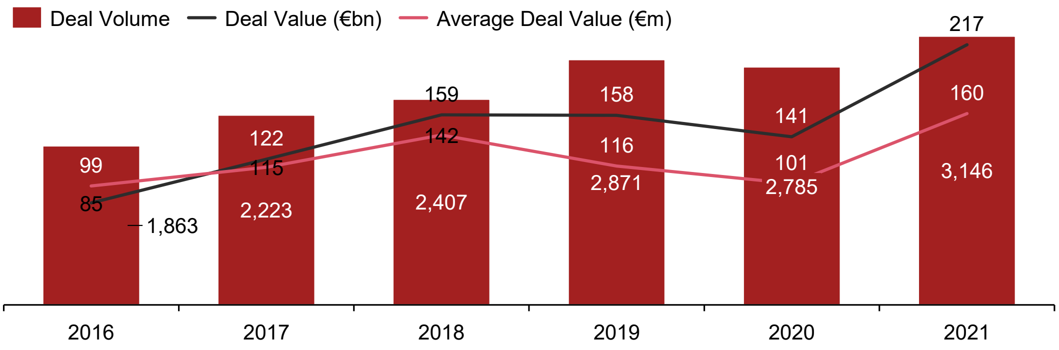
Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis
Note: CM: Consumer Markets; HI: Health Industries; IM&A: Industrial Manufacturing and Automotive; TMT: Technology, Media and Telecommunications

Private Equity Deals in Europe

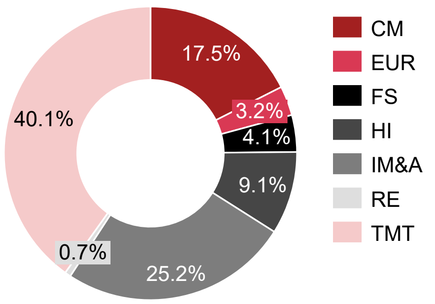
Europe PE Deals Summary

The European PE deal value witnessed a significant increase of 54.7% y-o-y in 2021, with the TMT sector receiving the maximum interest of investors

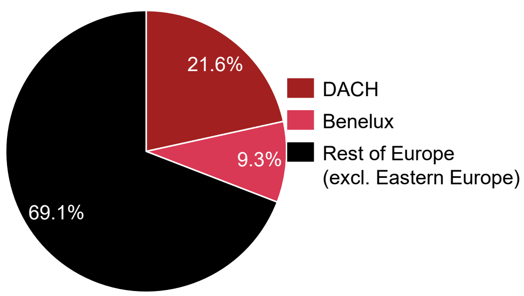
Deal Volume, Deal Value (€bn) and Average Deal Value



PE Deals by Sector in 2021



PE Deals by Countries in 2021



Deal activity in Europe[1] spiked to 3,146 deals, valued at €217.4 bn in 2021, from 2,785 deal valued at €140.6 bn in 2020 and 2,871 deals in 2019 valued at €158.4 bn. After a muted H1 of 2020 due to the initial shock and uncertainty following the news of COVID-19, many deals were postponed to 2021. This, coupled with the very high dry powder reserves, kept investor interest high, especially for future-proof assets (technology, healthcare etc.).

TMT remained the major focus for investors in 2021, similar to 2020, across all sectors, owing to accelerated adoption of digital transformation. PEs looked at targeted solutions that stood out from the crowd in terms of experience, focus and performance.

Europe Top 5 PE Investors in 2021

Key Investors	Headquarters	# Deals in 2021	AUM (€ bn)
BGF Ventures		37	3.0
Waterland Private Equity		20	9.0
LDC		17	2.3
CVC Capital Partners		15	110.4
Ardian		13	110.4

Source: Pitchbook, Refinitiv, Unquote, Press search, PwC Analysis
Note: CM: Consumer Markets; EUR: Energy, Utilities and Resources; FS: Financial Services; HI: Health Industries; IM&A: Industrial Manufacturing and Automotive; RE: Real Estate; TMT: Technology, Media and Telecommunications
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Top 10 PE deals in 2021 – Europe

Majority of the Top 10 PE deals in 2021 in Europe were buyouts. The largest PE deal took place in the IM&A sector, followed by TMT and HI.

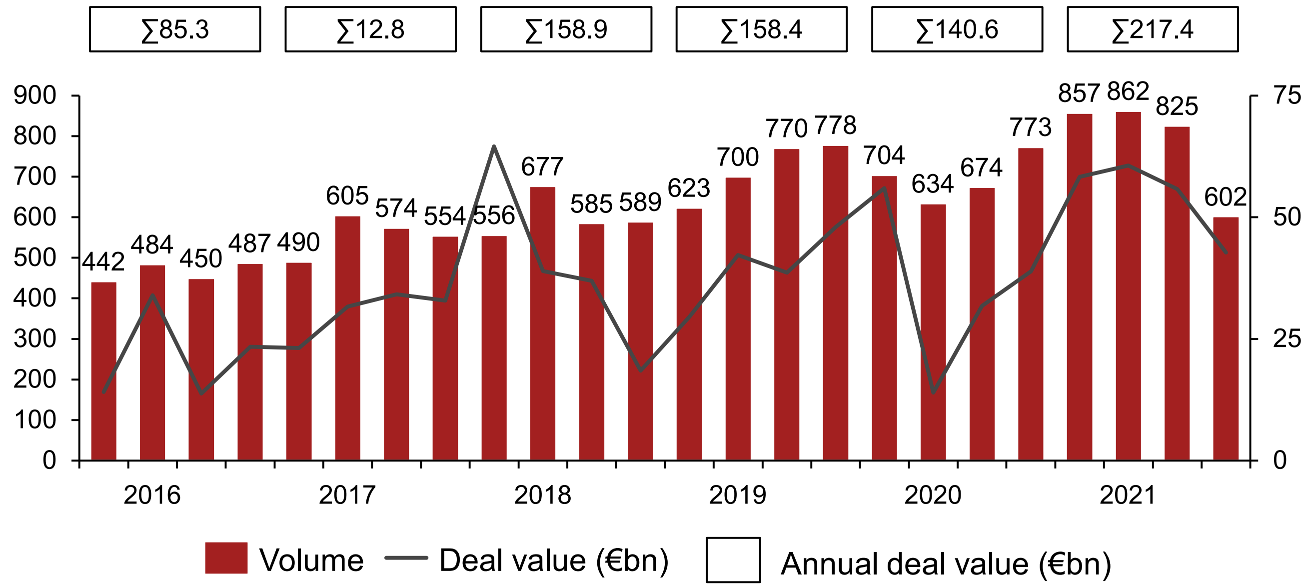
	Target	Buyer	Deal Type	Sector	Deal size (€ bn)
1	Hunter Douglas	3G Capital	Buyout	IM&A	6.3
2	T-Mobile Netherlands	Warburg Pincus, Apax	Buyout	TMT	5.1
3	Cerba HealthCare	EQT	Secondary buyout	HI	4.5
4	Ekaterra	CVC Capital Partners	Buyout	CM	4.5
5	DomusVi	UI Investment, BNP Paribas Agility Capital, MERIEUX EQUITY PARTNERS SAS, Intermediate Capital Group PLC	Buy-in	HI	4.3
6	Modulaire Group	Brookfield Asset Management	Secondary buyout	RE	4.1
7	Lonza Specialty Ingredients	Cinven, Bain Capital	Buyout	EUR	3.9
8	Ceramtec	Canada Pension Plan Investment Board (CPPIB), BC Partners	Secondary buyout	IM&A	3.8
9	IVC Evidensia	Unknown Institution(s), Silver Lake Partners	Secondary purchase	CM	3.5
10	Urbaser	Platinum Equity	Buyout	IM&A	3.5

Source: Refinitiv, Unquote, PwC Analysis
Note: CM: Consumer Markets; EUR: Energy, Utilities and Resources; FS: Financial Services; GPS: Government and Public Services; HI: Health Industries; IM&A: Industrial Manufacturing and Automotive; RE: Real Estate; TMT: Technology, Media and Telecommunications

Private Equity in Europe (1/2)

Increased PE deal activity in Europe, owing to the availability of attractive targets, a strong sellers' market and complemented by high dry powder levels: PE deals in 2021 reached to 3,146 deals worth €217.4 bn, a y-o-y increase of 13.0% and 54.6%, in deal volume and value, respectively. PE deal activity was driven by the availability of opportunistic targets at attractive, albeit high, valuations in the region, owing to increased and number of distressed businesses due to the pandemic, along with accumulated high dry powder levels with PE investors and pressure to put capital to work.

Europe PE M&A Trends 2016 – 2021



Restructuring, consolidation, disitalization and ESG primarily drove PE deal activity in 2021, and is expected to continue in 2022: M&A activity by PE firms is expected to remain high in 2022, owing to pandemic-led increased initiatives in restructuring, market consolidation, digitalisation and ESG; similar to the trend in 2020. Although the pandemic is expected to be tamed with increasing vaccine rollouts, the trend is expected to continue, as the region still has distressed assets, and digitalisation and ESG have become a priority for maintaining competence and building resilient business models

– Also, the temporary government support for businesses impacted by the pandemic-led downturn, has started to end. This is projected to bring another wave of distressed assets, as several businesses are still under pressure, which is expected to further boost deal activity in the region.

Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis

Private Equity in Europe (2/2)

In the short-term future, the deal activity is expected to increase further, supporting the growth in fundraising activities; even though valuations will also remain high.

Future Outlook

Deal activity overall in Europe, primarily for ESG and technology advancement, is expected to continue to grow in the near future. Also, valuations are projected to remain high and fundraising activities are expected to continue their advance in the coming years.

Surge expected in fundraising activity in the near future: The pace of fundraising activity is expected to increase in the near future, owing to higher valuation of targets and normalisation of high levels of dry powder available to GPs. In addition, as many countries in Europe are lifting travel restrictions, fundraising activity for less-established and first-time fund managers will improve in 2022.

- The UK and Ireland are also expected to witness increased fundraising activity in 2022, as the British government rejected the tax proposal on capital gains as well as loosening the 0.75% annual charge cap for pension funds, allowing them to invest in alternatives.

Deal activity in technology and sustainability expected to remain the primary focus of PE investors in the coming years: The tech sector as well as sustainability initiatives have been attracting PE investors throughout the pandemic, and this trend is projected to continue in the near future. The increased government interest in the sector is the primary reason:

- **Boosting digitalisation:** For instance, in June 2021, the EU launched the "Next Generation EU" fund, to provide support to all member states for digital & sustainable recovery from the pandemic, resulting in improved investor confidence in the sector.
- **Focus on sustainability**: As consumers, corporations and governments allocate more capital to products, services and infrastructure that are ESG compliant, PE firms are also shifting their interest towards gaining the benefits associated with ESG investments by screening targets which are aligned with ESG parameters. EU legislation in this field such as the EU Taxonomy are also putting substantial pressure on GPs and financing banks to become "greener".

High valuation level in 2021 is expected to grow even further in the near future: The valuation level in 2021 reached new heights and is expected to continue to grow in the near future, due to following reasons:

- Intense competition in the M&A market, availability of bulk dry powder, robust strategic acquisition plans by corporates and availability of high-quality targets
- In the near future, PE firms are expected to continue to be selective, choosing which companies they are willing to pay for, which is shifting focus from targets that are "COVID-19 pandemic-resilient / beneficiaries" to targets with "post-COVID secular growth themes".
- Also, as the supply of high-quality targets in the future is expected to decrease with ongoing accelerated acquisitions, the M&A valuation levels will kick on even further.

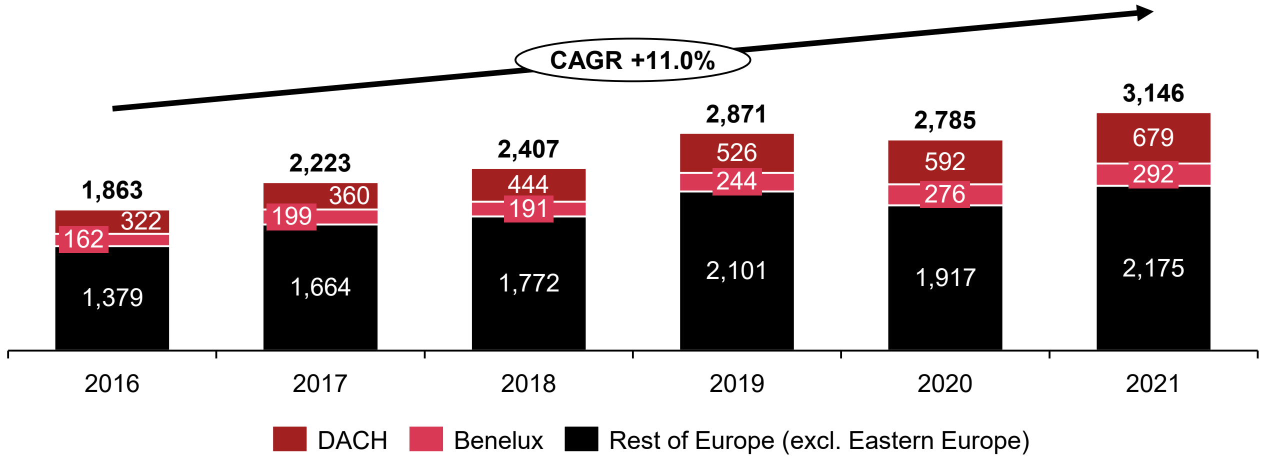
Apart from making new investments, PE firms are also seizing the opportunity to sell quality portfolio companies at the current high valuations, which will keep the supply of good targets adequate until the valuations are high

Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis

Europe PE Deals by Geography

In 2021, PE deal activity in the European region was boosted by the successful implementation of Brexit and an efficient roll-out of COVID-19 vaccinations.

PE Deals by Country (2016 – 2021)

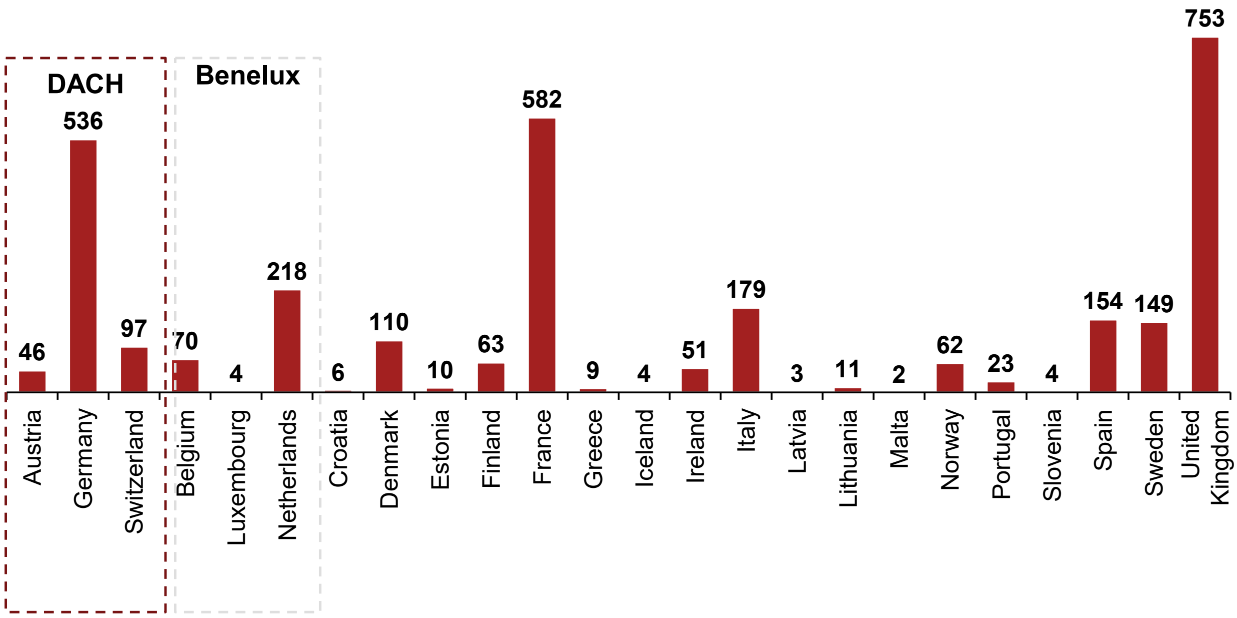


PE deal activity in the European region was led by the UK in 2021: Despite the macro economic changes caused by the ongoing pandemic and Brexit, the UK witnessed the maximum PE deal activity (23.9% of total deal activity by volume) in 2021 across the region.

The successful implementation of Brexit removed a substantial amount of uncertainty from the UK market, all across sectors. This led to a surge in M&A activity in the country, primarily for small-and mid-cap companies.

Also, the efficient rollout of the COVID-19 vaccinations in the UK, complemented by the gradual lifting of lockdown measures, encouraged deal activity in 2021.

PE Deals by Country (2021)

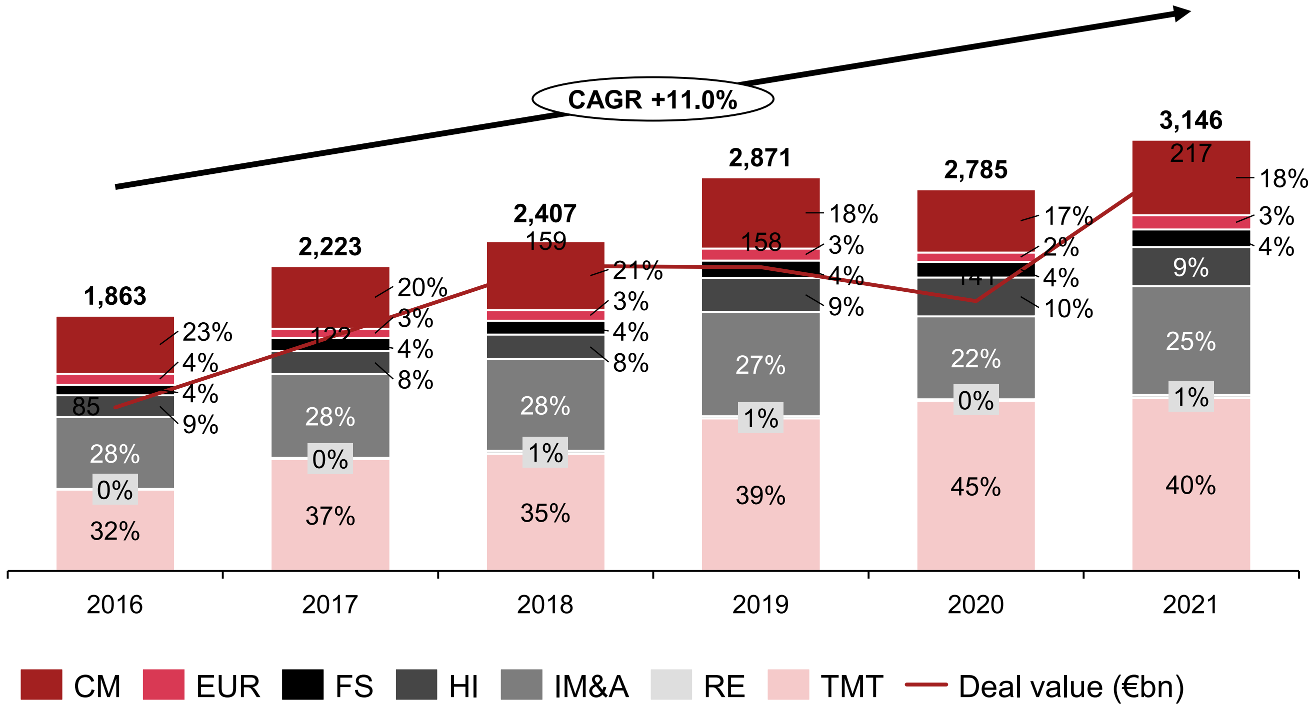


Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis

Europe PE Deals by Sector

The TMT and IM&A sectors witnessed maximum PE deal activity driven by surged interest of foreign investors and favourable Government initiatives.

Sector overview for PE deals



The TMT and IM&A sectors witnessed the highest deal activity across the European region in 2021: M&A activity across the region posted a recovery in 2021, driven by the TMT (40.1% of total deals) along with IM&A (25.2% of total deals) sectors

Increased deal activity in the TMT sector is fueled by the surged interest of investors in technology and digital assets, seen as assets with better future outlook and resilience: The sector has gained momentum since the outbreak of COVID-19, with companies in all sectors prioritising technology. The TMT sector attracted increased interest from foreign investors, as most industries relied on technology to continue operations in the midst of the pandemic, which was also supported by the government. For instance:

– In July 2021, the French President announced an initiative to build 10 companies worth around $117.0 bn (€100.0 bn) by 2030, across Europe, with an intent to enhance the competence of the EU in the technology sector, as compared with the US and China.

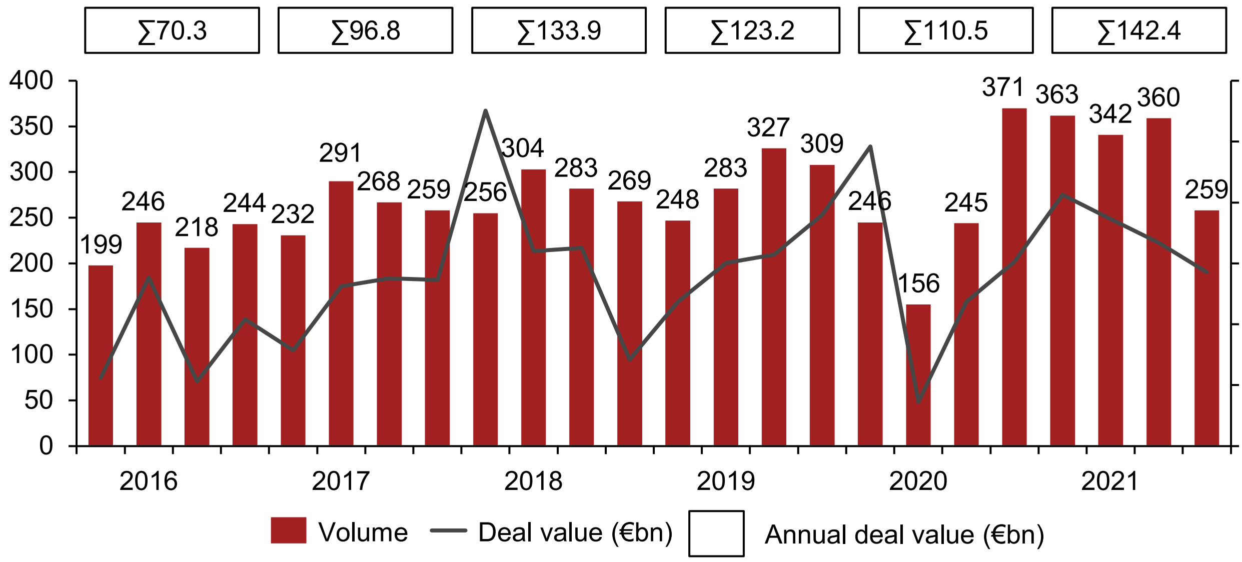
The IM&A sector's deal activity was accelerated with initiatives taken for the sector's recovery for the impact of COVID-19 pandemic: Deal activity in the IM&A sector improved in H1 2021, driven by corporate reorganisations and divestments of divisions, which were of particular and heightened financial sponsor interest as well as many secondary deals driven by the favourable conditions nurturing the sellers' market. Investment rational was mainly to establish platforms, buy- and build strategies to consolidate fragmented market segments as well as digitalise, improve sustainability and access new revenue streams.

Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis
Note: CM: Consumer Markets; EUR: Energy, Utilities and Resources; FS: Financial Services; GPS: Government and Public Services; HI: Health Industries; IM&A: Industrial Manufacturing and Automotive; RE: Real Estate; TMT: Technology, Media and Telecommunications

Europe Buyout Trends

The buyout activity in Europe reached a record high in 2021, with investors primarily focusing on the IM&A, Consumer Markets and TMT sectors

Buyout trends



Buyout activity in Europe reached a record high in 2021 with 1,324 deals, a 30.1% increase from 2020. Deal value grew by 28.9% from €110.5 bn in 2020 to €142.4 bn in 2021. Strong leveraged lending driven by institutional investors, monetary stimulus, sellers' willingness to take advantage of a frothy valuation environment and heightened dry powder with sponsors indicating firepower to aggressively acquire companies were the key factors driving deal activity in the region. Further, vaccine roll-outs kept the European economy and markets stable, which supported deal making.

The UK and Ireland drove deal volume and value in Europe in 2021; however, three of the top five buyouts took place in the Netherlands involving a €6.3 bn takeover of a majority stake in Dutch blinds and window shutters maker, Hunter Douglas NV by 3G Capital; a €5.1 bn buyout of T-Mobile Netherlands Holding BV by Apax Partners and Warburg Pincus, and a €4.5 bn buyout of Unilever's tea business, Ekaterra by CVC Capital Partners.

The IM&A, Consumer Markets and TMT sectors drove deal activity in 2021. In 2021, nontech sectors resumed their pre-COVID share of deals and witnessed a normalisation trend, with sectors like industrials and consumer products witnessing a large number of transactions. In the industrials sector in 2021, there was a strong PE appetite for consumer-facing sub sectors like packaging, building products, etc. Heavy industrial sub-sector activity is expected to return in 2022, as supply chain disruptions are expected to ease in mid-2022, providing a clearer financial outlook for targets. In the consumer sector, disruptive high growth business models are attracting attention with a direct-to-consumer, e-commerce approach.

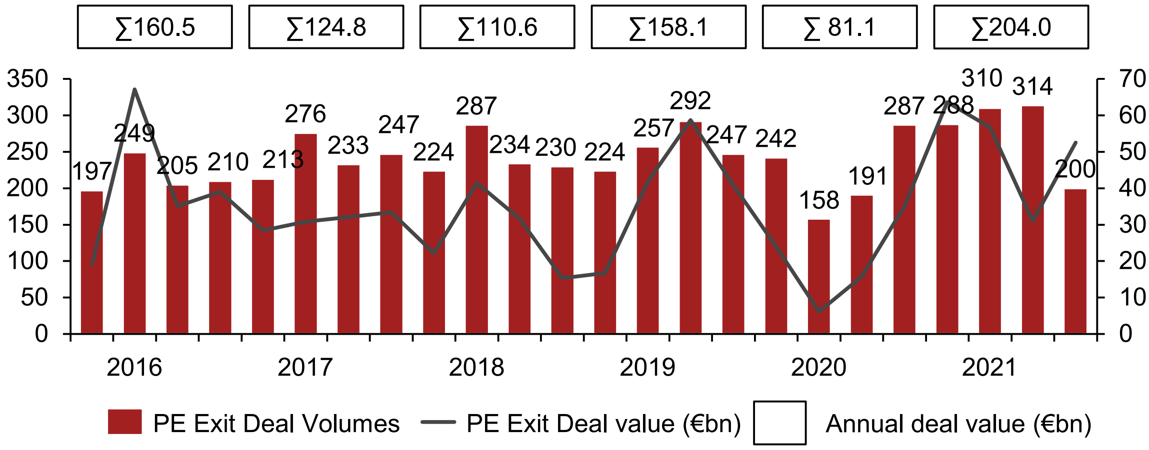
Financial buyers are typically invested in software companies with capital-light models which could churn out a steady stream of cash, providing superior returns. The trend is expected to continue in the near future.

Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis

Europe Exit Trends

The European exit activity increased 26.6% and 151.5% y-o-y by volume and value respectively, driven by high target valuations

Exit trends



European PE exit activity reached record heights in 2021, with 1,112 liquidity events, worth €204.0 bn, marking y-o-y increases of 26.6% and 151.5%, by volume and value, respectively. This overshadowed the exits of previous years (from 2016 to 2020), both in terms of volume and value. The high valuations of good targets is the primary reason for the surge in exit activities by PEs

In 2021, the trade sale (554 exits) and secondary buyouts (340 exits) were the most opted exit routes in Europe. Also, the middle market (exits sized <€500 million) were the main drivers of the heightened exit volume. There were around 19 deals of deal size over €2.5 bn each, which boosted the growth in overall exit deal value in the region. Nevertheless, the largest exits in terms of value were mostly listings on stock exchanges.

Top 5 Exit Deals (2021)

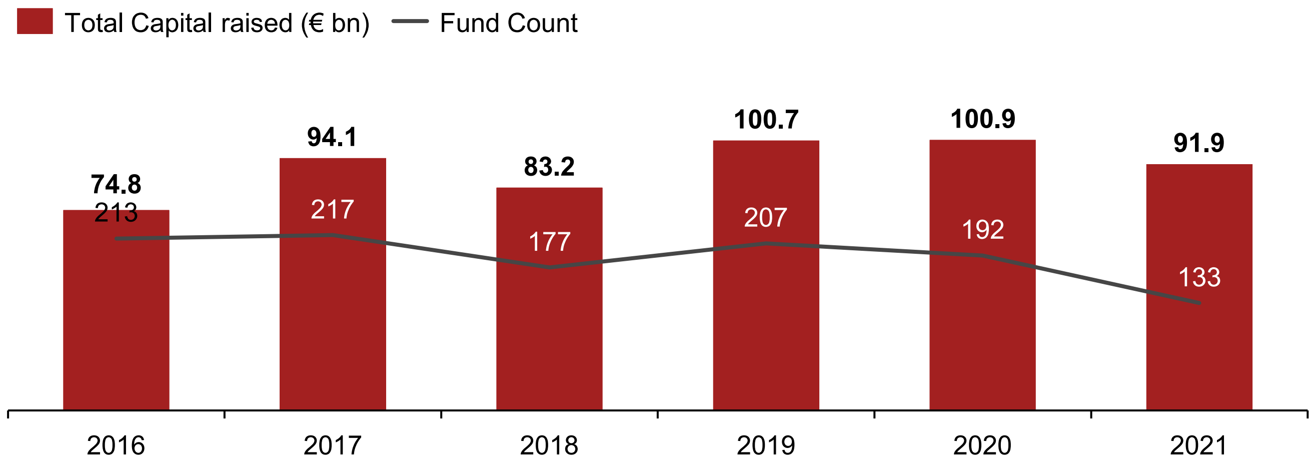
Target Name	Target Country	Buyer Name	Industry Classification	Exit Route	Deal Value (€ bn)
Oatly		Free Float[1]	CM	Floatation	8.3
Auto1		Free Float[2]	TMT	Floatation	7.9
Inmarsat		ViaSat Inc.	TMT	Trade sale	6.3
Synlab		Free Float[3]	HI	Floatation	5.9
Cazoo		Ajax I	TMT	Other (Buyout)	5.8

Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis
Note: Primary Stakeholders – 1) Nativus Company Limited; 2) SoftBank Group Corp.; 3) Cinven (Luxco 1) S.A.
CM: Consumer Markets; HI: Health Industries; TMT: Technology, Media and Telecommunications

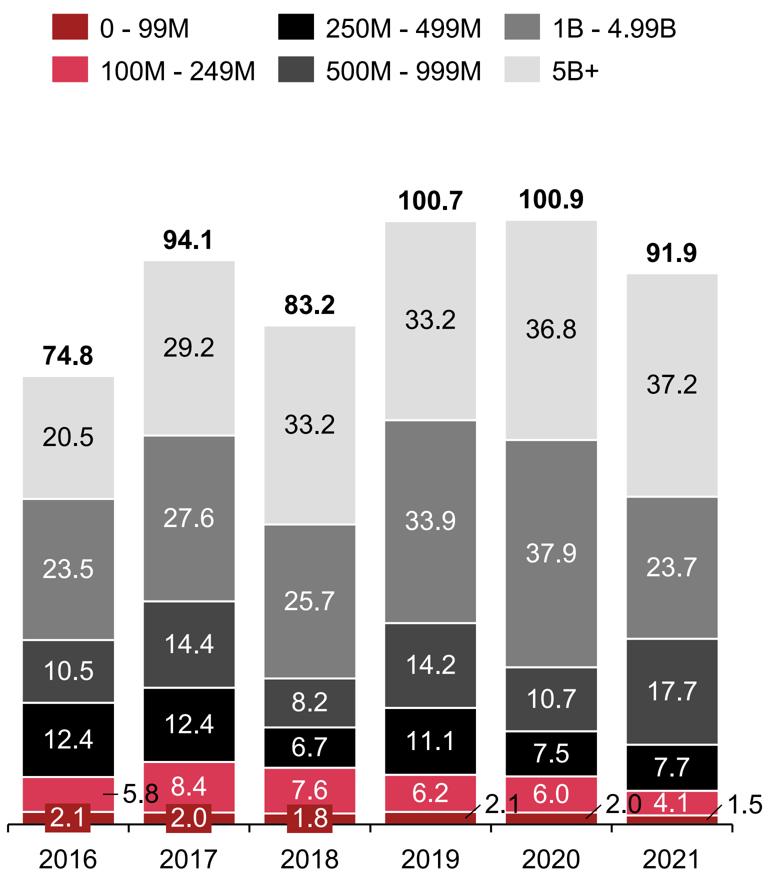
PE Fundraising activity in Europe

Fundraising activity slowed in 2021, both in terms of value and volume due to the abundance of dry powder amid the pandemic.

Fund Count in Europe



Share of PE capital raised by fund size bucket (in € bn)



The overall European PE fundraising slowed in 2021, both in terms of value and volume. Availability of accumulated dry powder amid the pandemic led to this decline.
However, capital raised remained strong, with more than €91.9 billion of funds raised. Fundraising activity in the region was driven by factors such as a low interest rate environment due to the European Central Bank's policies, strong public market valuations and the potential for significantly higher risk-adjusted returns from alternative investments, primarily private equity, which boosted LP confidence and risk appetite. Also, LPs are exploring opportunities to invest in specialist GPs with differentiated strategies in growth industries, including healthcare and technology. However, due to travel restrictions, capital mainly went to established funds, as LPs were not able to do their due diligence on new funds.

Source: Pitchbook, Press Search, PwC Analysis

PE Fundraising activity in Europe

Almost 70% of the top 10 funds by size were based out of the UK. The total fund size is around €85 bn.

Top 10 PE funds by fund size

	Fund	Fund Type	Fund Size (€ bn)	Investor	AUM (€ bn)	Fund Location
1	CVC Capital Partners Fund VIII	Buyout	21.3	CVC Capital Partners	110.4	
2	CVC Capital Partners VII	Buyout	16.0	CVC Capital Partners	110.4	
3	EQT IX	Buyout	15.6	EQT	70.6	
4	Permira VII	Buyout	11.0	Permira	58.3	
5	EQT VIII	Buyout	10.9	EQT	70.6	
6	Seventh Cinven Fund	Buyout	10.0	Cinven	23.9	
7	HPS Mezzanine Partners 2019	Mezzanine	9.3	HPS Investment Partners	70.6	
8	Apax X	Buyout	9.0	Apax Partners	53.0	
9	Apax IX	Buyout	8.5	Apax Partners	53.0	
10	Ardian LBO Fund VII	Buyout	7.5	Ardian	110.4	

Source: Pitchbook, PwC Analysis

DACH Deals

PE & Strategic

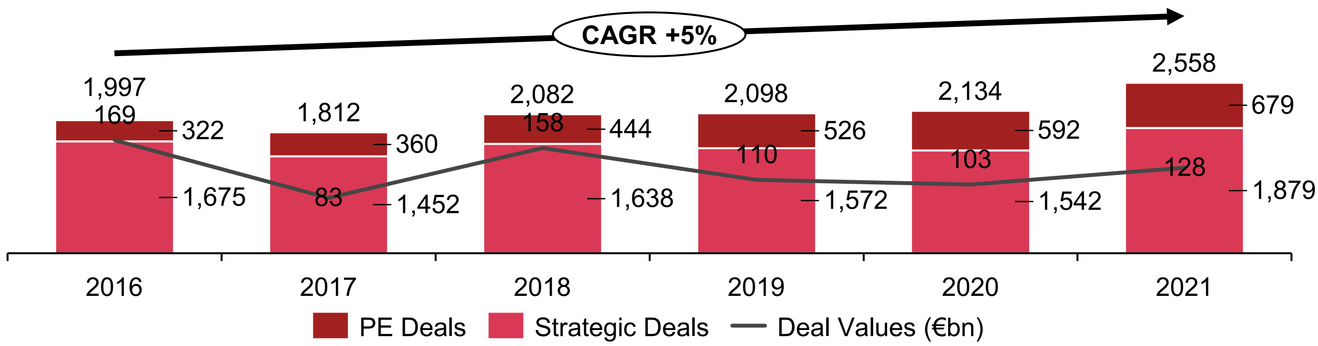
DACH Overall Deals Dashboard (1/2)

In 2021, deal volume in the DACH region overshadowed the deal counts of the previous years (2016 – 2021), both for PE and Strategic deals.

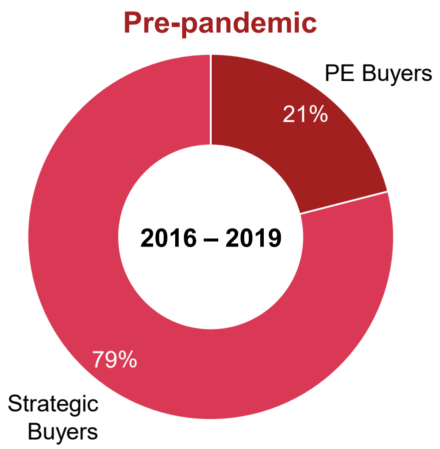
2021 deal activity in the DACH region surpassed that of the previous year as well as 2019, both in value and volume: Deal activity in the DACH region, in 2021, registered the highest volume (at 2,558 deals), worth around €128.1 bn. Activity barely suffered even during the initial pandemic lockdown period in 2020 and surpassed an already buoyant 2019, with PE investments increasing the most. 2021 went well past that mark to a new all time high. The past two years have been proof of the solid standing and safe-haven status, which the region gives to Private Equity and Corporate investors alike.

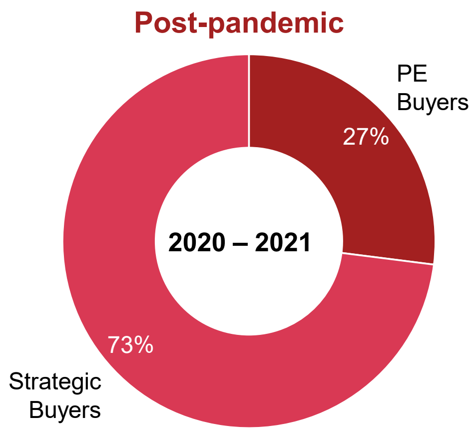
PE deals registered constant growth since 2016: In the DACH region, PE investors have been increasingly investing since 2016, with 679 deals in 2021, up from 322 deals in 2016, representing a CAGR of 16.1%.

Overall Deal Activity in DACH (2016 – 2021)



Deal Activity by PE vs Strategic Investors in DACH, by Volume





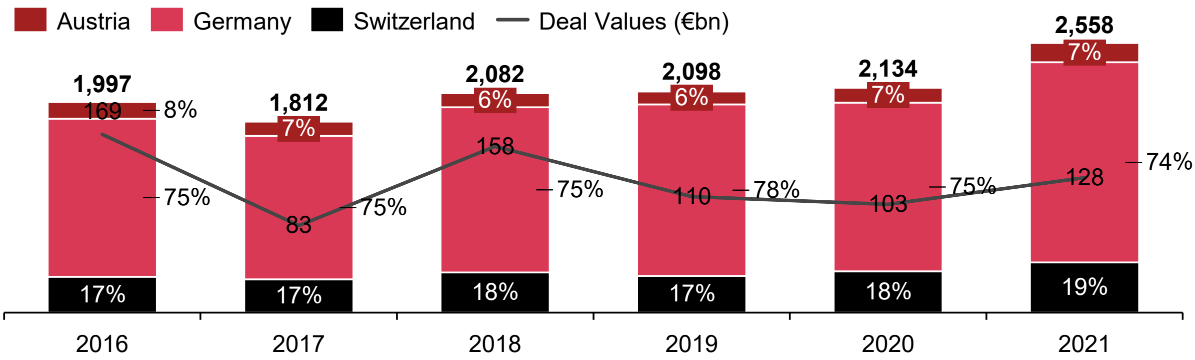
Overall deal making is expected to continue growing in 2022: With a strong focus on creating value through digitalisation and ESG, with deep pocketed sponsors in the region competing for high-quality assets along with funds specialising in certain niche areas, deal making in the DACH region is projected to further grow in 2022. With many corporates continuing to review strategies and operations, partly through investor activism, and shedding business units, equipped with record dry powder and not shy on partners, PE stands to benefit from this ongoing mass restructuring phase.

Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis

DACH Deals Dashboard (2/2)

In 2021, Germany accounted for 74% of total deals in DACH region, being the largest market and offering an abundance of large corporates and "Mittelstand" assets alike

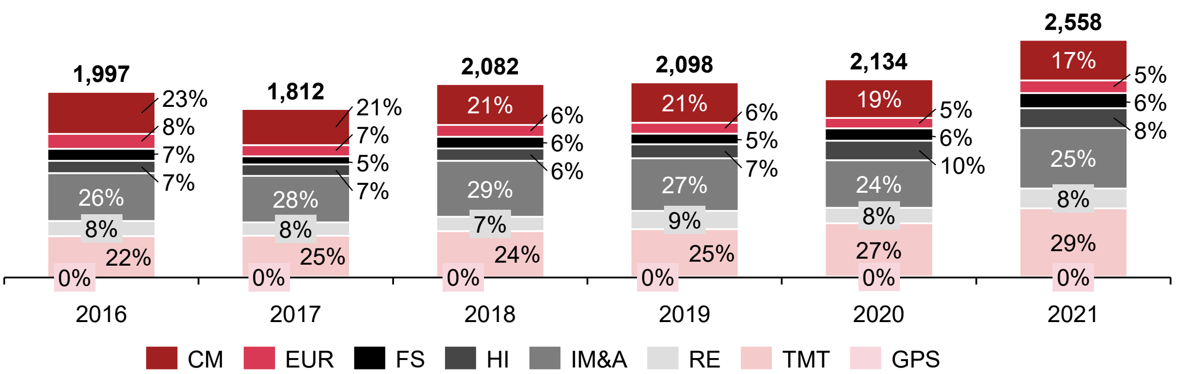
Geographic Overview



Germany led deal activity in the DACH region: Germany witnessed the maximum deal activity in the DACH region during 2016 to 2021, covering around 74% of total deals in 2021, with a large supply of new opportunities arising in the market, such as large corporate divestitures, an ample Mittelstand and having become a trustworthy partner for solving succession issues or taking minorities and helping take companies to the next level.

In the overall DACH region, similar to 2021, a large number of restructuring and divestment deals owing to non-core and distressed assets, is expected to drive deal volume in the future.

Sector Overview



In 2021, TMT led deal activity in the DACH region, accounting 28.8% of overall deals: From a sector perspective, TMT deals volume in the DACH region outpaced other sectors in 2021, increasing by c. 28%, from 2020, as investors continued to rush to acquire digitized business model as well as pandemic resilient assets, which could also sustain any future regional or global disruptions

TMT, IM&A, and CM witnessed strong investor confidence as a result of surged digitalization initiatives across sectors, resumed manufacturing activities with eased pandemic restrictions, growing restructuring & consolidation initiatives, and increased demand of consumer products (primarily via online and e-commerce sales). This trend is expected to continue in 2022. Also, improved focus on sustainability, driven by the pandemic, supported the growth of deal activity across sectors in 2021, and is expected to further grow in the near future.

Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis
Note: CM: Consumer Markets; EUR: Energy, Utilities and Resources; FS: Financial Services; GPS: Government and Public Services; HI: Health Industries; IM&A: Industrial Manufacturing and Automotive; RE: Real Estate; TMT: Technology, Media and Telecommunications

SPAC Deals Overview – DACH

In the DACH region, Germany was the primary preference for both local and international (majorly US-based) SPAC buyers in 2021.

SPAC Deals in DACH (2021)

	Target	Buyer	Sector	Deal size (€ bn)
1	Lilium GmbH	Qell Acquisition Corp	IM&A	2.1
2	SIGNA Sports United GmbH	Yucaipa Acquisition Corp	CM	2.0
3	HomeToGo GmbH	Lakestar SPAC I SE	TMT	0.9
4	Boxine GmbH	468 Spac Sponsors GmbH & Co. KG	CM	0.5
5	MoonLake Immunotherapeutics AG	Helix Acquisition Corp	HI	0.3
6	ads-tec Energy GmbH	European Sustainable Growth Acquisition Corp	IM&A	0.3
7	IEstate GmbH	Investunity AG	FS	n.a.
8	KlickOwn Immobilien AG	Investunity AG	FS	n.a.
	Sportradar Group AG	Horizon Acquisition Corp Ii	TMT	n.a.

Germany attracted the maximum number of SPAC buyers in the DACH region: In 2021, Germany witnessed a wave of IPOs of SPACs, with the successful launch of SPAC listings on the Frankfurt Stock Exchange (FSE), including Lakestar SPAC I SE, which is the first tech-focused SPAC in Europe to replicate all relevant features of the US SPAC structure. Also, as several German SPAC IPOs are still in the preparatory stages, the SPAC deals are expected to continue in 2022.

Technology sector is expected to be the focus for SPAC buyers in 2022 and onwards: The technology sector is expected to attract most SPAC buyers, as the fast-growing tech companies, which are developing new technologies, are most well suited for the SPAC deals, as they offer potentially higher rewards.

Uncertainty in Swiss SPAC scenario: The SPAC buyers have also been active in Switzerland in 2021, with the largest deal including MoonLake Immunotherapeutics AG's acquisition by Helix Acquisition Corp, valued at €309.8 m. However, in Mar 2021, the activity of Swiss SPACs were put on hold by the country's market regulator, the Swiss Financial Market Supervisory Authority (FINMA), which seeks new rules to govern the burgeoning business, addressing the market concerns like transparency, investor protection and integrity.

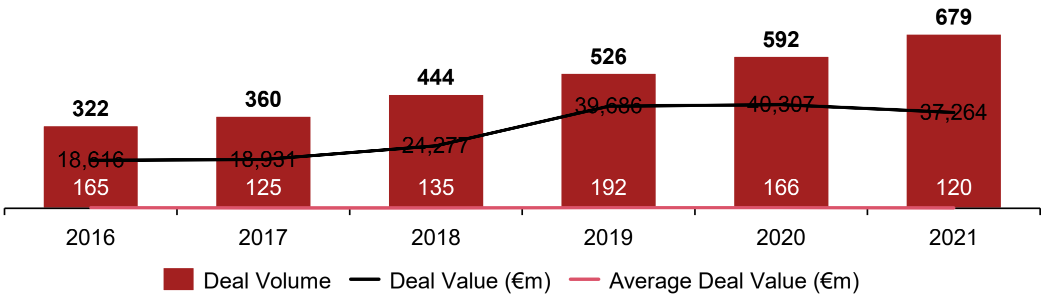
Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis
Note: CM: Consumer Markets; EUR: Energy, Utilities and Resources; FS: Financial Services; GPS: Government and Public Services; HI: Health Industries; IM&A: Industrial Manufacturing and Automotive; RE: Real Estate; TMT: Technology, Media and Telecommunications

Private Equity Deals in DACH

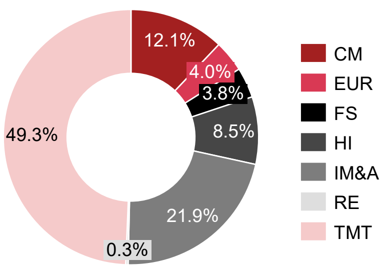
DACH PE Deals Summary

The DACH region witnessed an increase in PE deal volume by 14.7% y-o-y in 2021; however, deal value witnessed a decline by 7.6% y-o-y.

Deal Volume, Deal Value (€m) and Average Deal Value (€m)

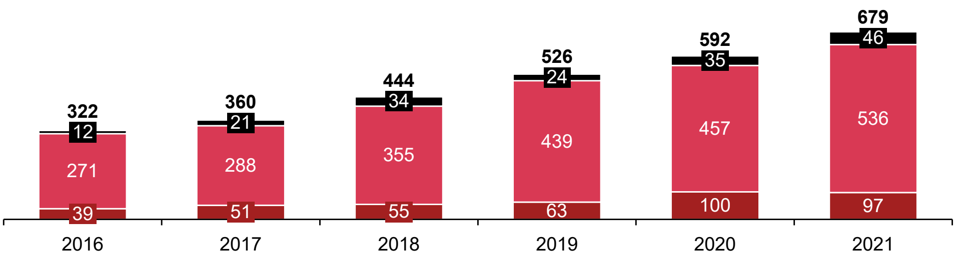


PE Deal Volume by Sector in 2021



The deal volume in DACH increased by 14.7% from 592 deals in 2020 to 679 deals in 2021, primarily led by TMT sector.
However, the deal value decreased by 7.5% during 2020 to 2021, due to higher share of small deals (of deal value <€100 m) in 2021.
Germany continues to register the majority share for deal volume in 2021, similar to prior years, and is expected to continue in future.

PE Deal Volume by Country (DE, AU, CH)



DACH Top 5 PE Investors in 2021

Key Investors	Headquarters	# Deals in 2021	AUM (€ bn)
BGF Ventures		34	3.0
LDC		17	2.3
Waterland Private Equity		17	9.0
CVC Capital Partners		13	110.3
CAPZA		11	5.0

Source: Pitchbook, Refinitiv, Unquote, PwC Analysis
Note: CM: Consumer Markets; EUR: Energy, Utilities and Resources; FS: Financial Services; HI: Health Industries; IM&A: Industrial Manufacturing and Automotive; RE: Real Estate; TMT: Technology, Media and Telecommunications

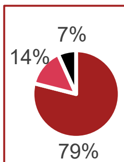
Top 10 PE deals in 2021 – DACH

The top 10 deals by size in the DACH region were buyouts, with majority being German targets

	Target	Target HQ	Buyer	Deal Type	Sector	Deal size (€ bn)
1	Lonza Specialty Ingredients		Cinven, Bain Capital	Buyout	EUR	3.9
2	Ceramtec		Canada Pension Plan Investment Board, BC Partners	Buyout	IM&A	3.8
3	European Tinplate business		KPS Capital Partners	Buyout	IM&A	2.3
4	Veonet		Ontario Teachers' Pension Plan, PAI Partners	Buyout	HI	2.0
5	VFS Global Group		Blackstone Group	Buyout	IM&A	1.9
6	AutoForm		Carlyle Group	Buyout	TMT	1.8
7	Rodenstock		Apax Partners	Buyout	CM	1.5
8	Norsk Hydro's Rolling business		KPS Capital Partners	Buyout	EUR	1.4
9	Boxine		468 Capital	Buyout	IM&A	0.9
10	Caseking		HAL Investments	Buyout	TMT	0.8

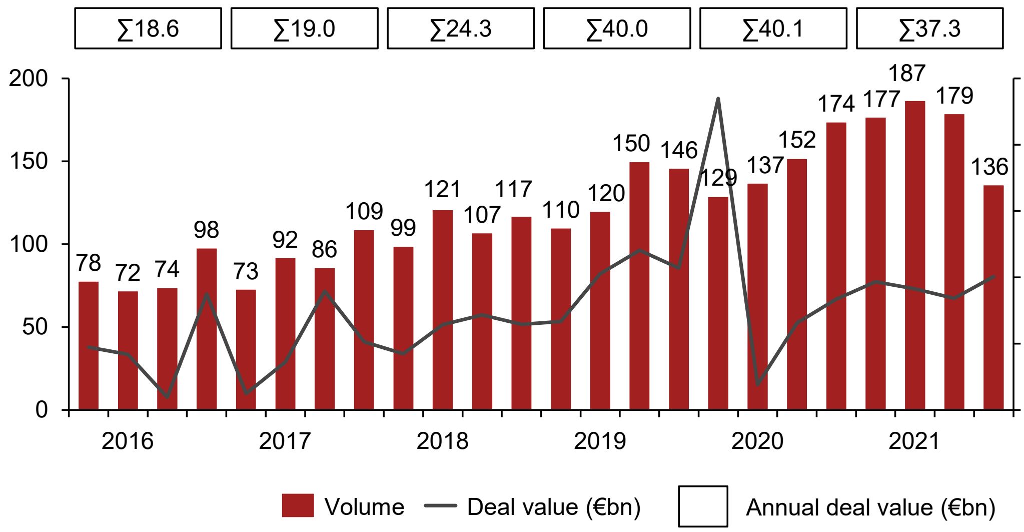
Source: Refinitiv, Unquote, PwC Analysis
Note: CM: Consumer Markets; EUR: Energy, Utilities and Resources; FS: Financial Services; GPS: Government and Public Services; HI: Health Industries; IM&A: Industrial Manufacturing and Automotive; RE: Real Estate; TMT: Technology, Media and Telecommunications

Private Equity in DACH (1/2)

Deal Volume (2021)	Growth Rate (2021 vs 2020)	Deal Value (2021)	Growth Rate (2021 vs 2020)	Deal Volume by Country (2021)
679	15%	€37.3 bn	-8%	

In 2021, PE deals registered highest count since 2016: PE market in the DACH region has been on an uprise since 2016 (2016-2021 CAGR: 16.1%) and reached new heights in 2021, with 679 deals closed, worth €37.3 bn in total, up ~15% from the 592 deals registered in 2020 and ~29% compared to the 526 deals in 2019. It also eclipsed all previous years' annual numbers in terms of deal volume. However, the deal value plummeted by around 8% during 2020-2021, as more smaller deals with a transaction value of less than €100 m took place in 2021 as well as PE more often than not disclosing deal value in transactions.

DACH M&A Trends (2016 – 2021)



Recovering economy from the impact of the COVID-19 pandemic triggered the surge in PE investments in 2021: Improving economic conditions, backlog of paused deals, availability of attractive targets, as well as increasing fund volumes and high levels of dry powder, spurred PE deal activity to new heights in the region in 2021.

Small-sized deals remained PE investors' preference in the region: The small deal market (deal sizes less than €100 m) propelled deal activity in DACH. The primary reason for the higher number of small deals are – uncertainty of the global economic situation, supply chain disruptions for international companies as well as cautiousness amongst large corporates putting their planned deals on hold gave space for smaller transactions with less exposure to take place and PE focused more on buy-and-build platforms and market consolidating buys. With improving economic conditions and the removal of COVID-19 pandemic restrictions in the region, deals with higher value are expected to increase in the coming years.

Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis

Private Equity in DACH (2/2)

Germany and Switzerland are expecting further growth in deal activity in the near future; however, Austria's projection is uncertain due to increased government scrutiny.

Future Outlook

In the coming years, the DACH region is expected to witness several headwinds, as well as tailwinds, making the PE investment market uncertain. Some of such instances are:

Germany will continue to lead deal activity in the DACH region: In Germany, the bulk of PE targets are SMEs, which will create additional opportunities for PE investors, especially for consolidation initiatives. Also, the expected new coalition government will aggressively pursue a shift to renewable energy, which will increase the opportunities for investments in the renewable energy sector. Along with these, the increased attention of foreign investors and SPAC in the German tech market will fuel the future PE deal activity in the region.

• **Deal activity projection in Austria is uncertain due to increased government scrutiny:** In Austria, there is uncertainty in the M&A environment due to increased government control. In September 2021, significant changes to Austria's competition law entered into force, and some of the merger control-related changes apply form January 2022. These regulatory changes will impact deal activity in the coming years. Although the recovering economy, along with digitalisation and consolidation strategies, may act as positive stimuli.

Limited count of local PEs makes Switzerland an attractive investment target: In Switzerland, transactions involving SMEs active in niche segments with a unique model and established international customer base would continue to provide interesting opportunities for investors. Also, the limited number of local PEs makes it attractive for mid-sized European PE funds looking to diversify their geographical focus. These factors might further boost deal activity. However, the SPAC buyers are struggling to enter the Swiss market due to stringent government regulations.

PE deal activity is projected to grow across sectors: All sectors are expected to witness growth in deal activities, owing to COVID-19 pandemic-led opportunities such as surged tech adoption and accelerated ESG initiatives, among others. High-value deals will continue to take place in non-cyclical and fast-growing sectors such as healthcare, medical technology, biotechnology, software, IT services, industrial technology, and e-commerce. In cyclical industrial sectors and in retail, distressed deals are expected to increasingly gain focus. The automotive sector is particularly expected to witness high growth in the number of deals owing to the innovation boom as well as increased competition in the EV market. Also, IM&A companies are strategising to recover from the global shortage of chips and supply chain hindrances, which will further fuel investments in the sector. The resumed operation of consumer-focused businesses will also boost investment activities.

Some amount of uncertainty in the DACH deal market due to ongoing COVID-19 pandemic waves: Apart from the positive factors for projected deal growth, there are some concerns about the continuing impact of COVID-19 pandemic, given the low rates of vaccination in the region. Though the early indications of the latest Omicron variant suggest it may be less serious, and might not have such a large impact, deal- makers may still be cautious in the deal-making process in the near future.

Source: Pitchbook, Press Search, PwC Analysis

DACH PE Deals by Geography (1/3)

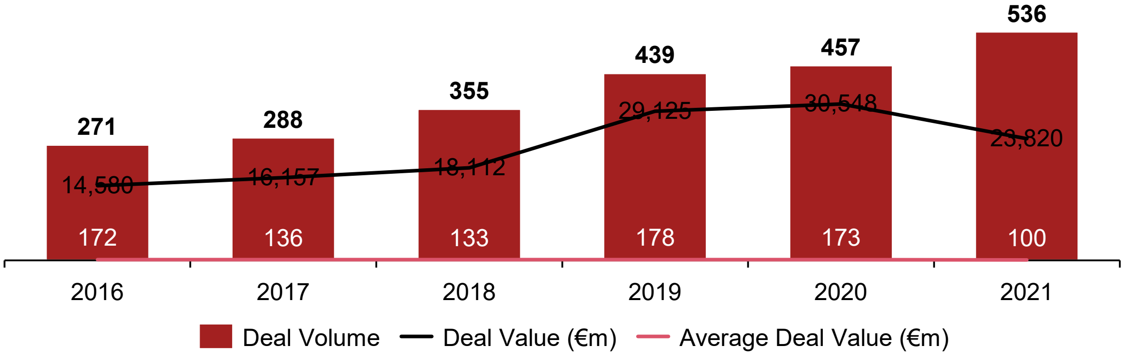
PE deal volume in Germany increased by a further ~17% in 2021, fueled by favourable environment, a rising number of startups, and its safe-haven status amid uncertainty.

Germany

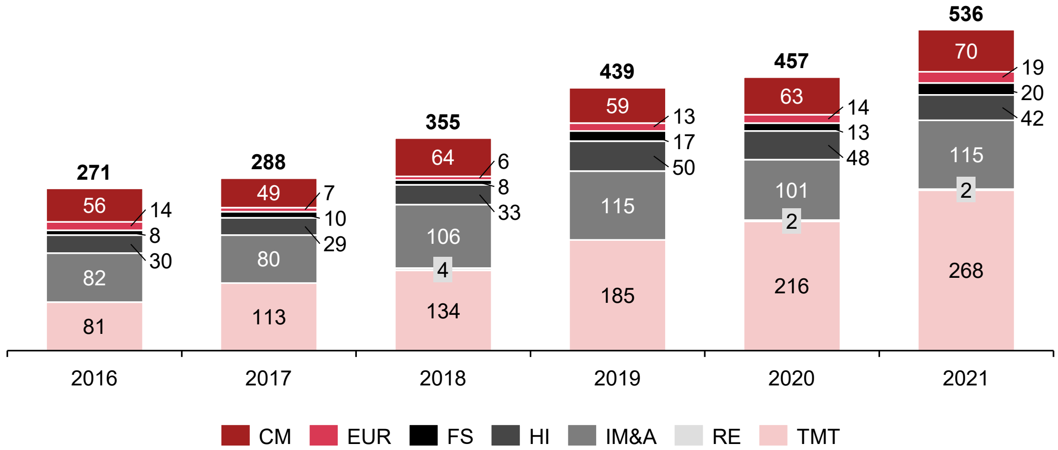
Germany, being the largest territory and economy in the DACH region, continued to register the lion's share in the DACH PE deals market in 2021, similar to the previous years: Germany accounted for the majority of PE deal activity in the DACH region, which increased by 17.2% in 2021 (536 deals) as compared with 2020 (457 deals). The bullish outlook for PE activity in the country has been fueled by high levels of dry powder available with PE investors, low interest rate environment, surged corporate divestitures and increased technology adoption across sectors. Germany's position as the third-largest trading nation globally, with stable performance even in turbulent times, also led to increased interest among investors.

Attention from foreign investors: Germany has also been attracting a major volume of foreign investors (primarily from the US), owing to its strong & diversified industry network, skilled & English-speaking workforce, reliable infrastructure, favourable social climate, stable legal framework, and strategic geographic presence. The fast-growing technology industry, owing to accelerated growth in startups, has also attracted the interest of investors.

PE Deal Volume PE Deal Value (€m) and PE Average Deal Value (€m)



PE Deal Volume by Sector



Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis
Note: CM: Consumer Markets; EUR: Energy, Utilities and Resources; FS: Financial Services; GPS: Government and Public Services; HI: Health Industries; IM&A: Industrial Manufacturing and Automotive; RE: Real Estate; TMT: Technology, Media and Telecommunications

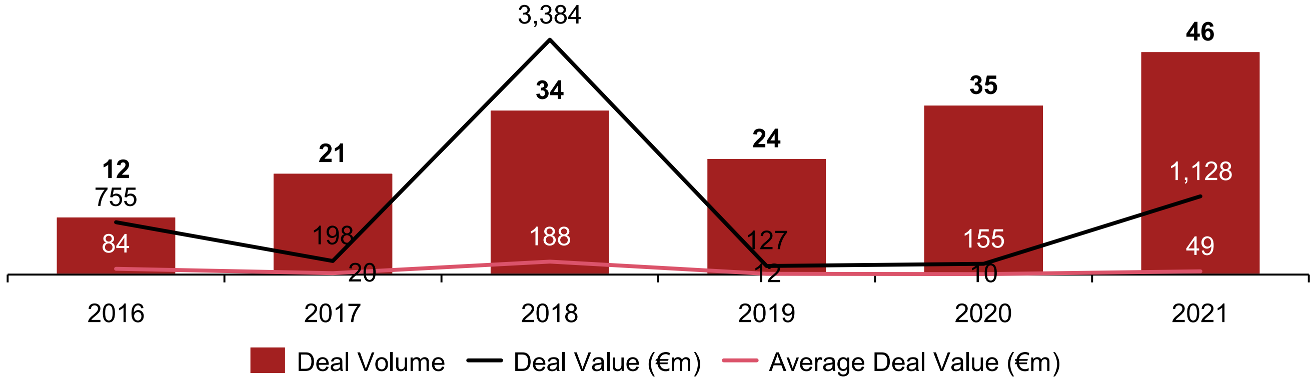
DACH PE Deals by Geography (2/3)

Austria

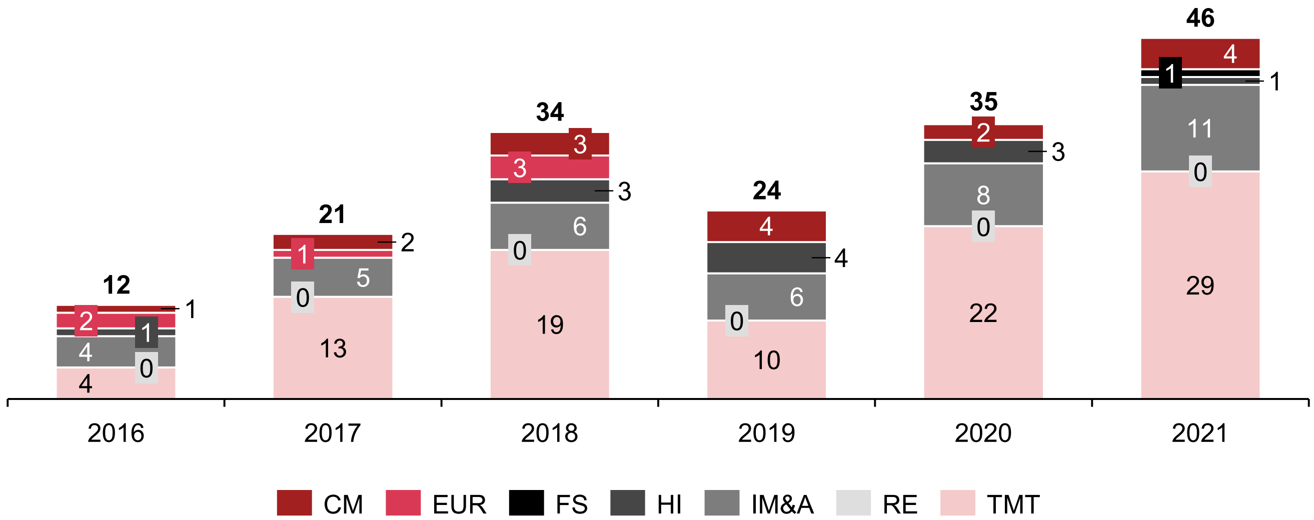
Improved deal activity witnessed in 2021 in Austria: Deal volume in Austria increased by 31.4% in 2021 (46 deals) as compared with 2020 (35 deals), as PEs with significant dry powder invested in distressed targets at favourable valuations. The COVID-19 pandemic resulted in several companies struggling with debts or insolvency issues. This created opportunities for PE firms to benefit from distressed assets, thereby boosting deal activity in 2021.

Improved investor confidence in the country due to government support: In 2019, the Austrian government declared in its government programme (which has political rather than legal relevance) its intention to strengthen the private equity sector as a part of its strategy to bolster the economic position of Austria. To further encourage private equity investments in the country, the government proposed to mobilise private risk capital by introducing and simplifying the possibility of offsetting losses on income from capital assets. This initiative resulted in improved confidence of PE investors in Austria, leading to growth in deal activities.

PE Deal Volume PE Deal Value (€m) and PE Average Deal Value (€m)



PE Deal Volume by Sector



Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis

DACH PE Deals by Geography (3/3)

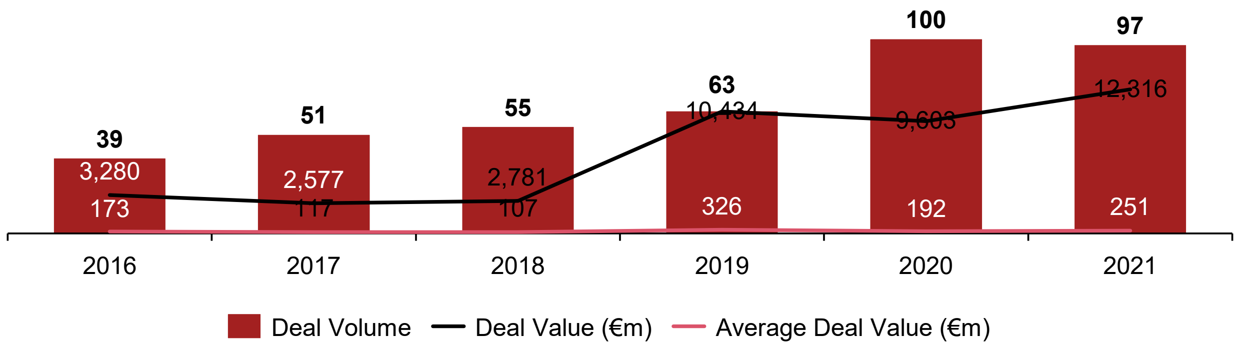
The Swiss PE deal value increased by 28.2% y-o-y in 2021, owing to large corporate divestments as well as several deals in small and mid-sized enterprises.

Switzerland

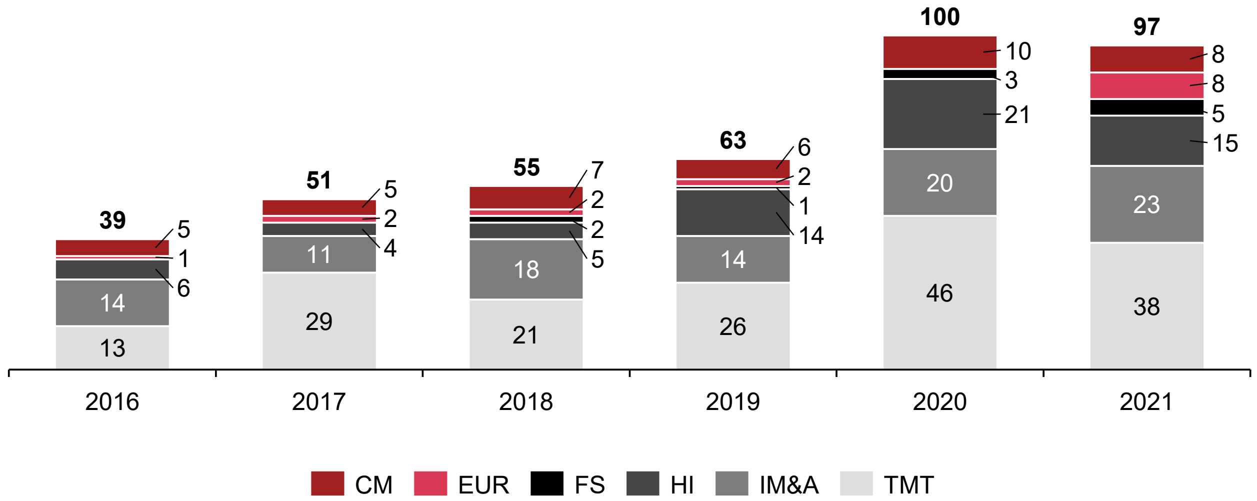
Swiss PE deal value reached its peak in 2021: The Swiss PE deals value increased by 28.2% in 2021 (€12.3 bn) as compared with 2020 (€9.6 bn), owing mainly to several large corporate divestments, mainly to PE investors as well as the optimistic economic outlook for 2021 and improved sentiments following the Switzerland's recovery from the pandemic. Also, M&A activity in 2021 was driven by large number of deals in small and medium-sized enterprises.

Switzerland's favourable investment environments boost investor confidence: Switzerland is an attractive target for foreign investors owing to its favourable regulatory and legal framework, including the absence of significant restrictions on foreign investments. With the company reform passed by Swiss Parliament in Jun 2020, allowing the board to issue shares in acquisition currency, there will be further impact on M&A volumes in 2022 and 2023, when the bill is enacted.

PE Deal Volume PE Deal Value (€m) and PE Average Deal Value (€m)



PE Deal Volume by Sector

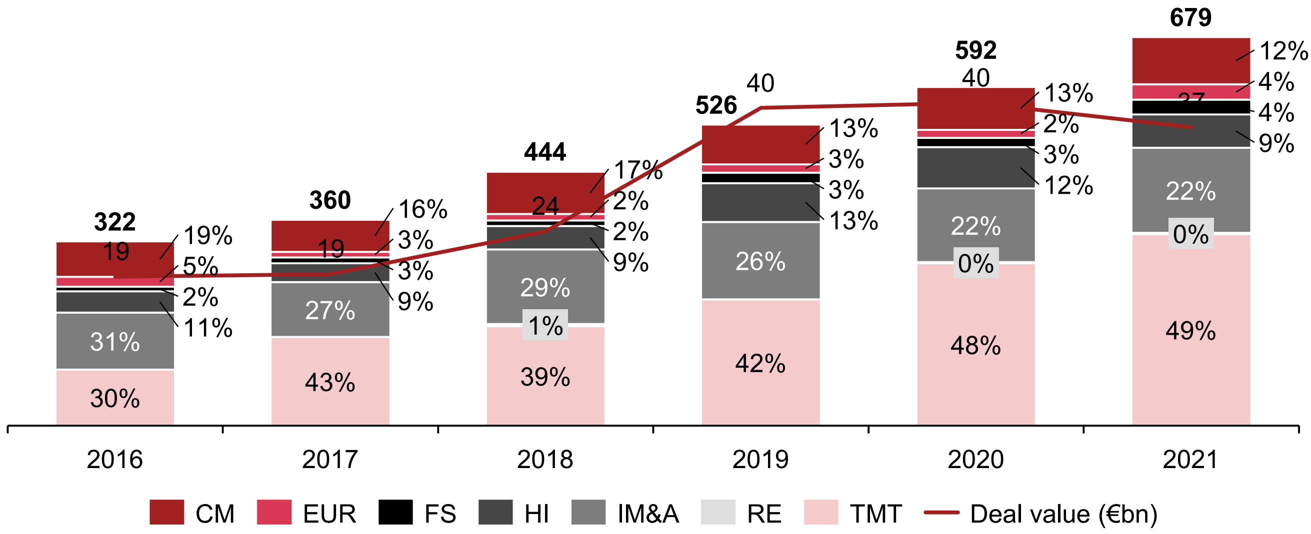


Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis
Note: CM: Consumer Markets; EUR: Energy, Utilities and Resources; FS: Financial Services; GPS: Government and Public Services; HI: Health Industries; IM&A: Industrial Manufacturing and Automotive; RE: Real Estate; TMT: Technology, Media and Telecommunications

DACH PE Deals by Sector

TMT and IM&A remained primary focus sectors for PEs in 2021, owing to rising digitisation initiatives and resumed manufacturing activities.

Sector overview for PE deals



TMT, IM&A and Consumer Markets remained primary focus of PEs in 2021: In the DACH region, TMT, IM&A and Consumer Markets sectors witnessed highest deal activity in 2021 as compared to 2020, registering deal volume of 335, 149 and 82 deals, respectively. This was primarily driven by consolidation, diversification and divestments of non-core operations in the sectors. The manufacturing sector made a strong recovery from the pandemic-led downturn, and explored PE investments to fund their expansion and grow their businesses. The increasing attention of foreign investors (majority from the US) in the DACH technology companies (primarily in Germany), has further fueled deal activity in the TMT sector

Financial Services continued its growth trajectory for PE deals: The Financial services sector also registered growth in PE deals in 2021, as industry players pursued transformative M&A to accelerate their digitisation initiatives. The pandemic changed the way how both businesses and individuals carry out financial transactions. The increasing demand for online payments and alternative investment platforms, combined with the scalability potential, created an opportunistic investment opportunity for PE investors in the region.

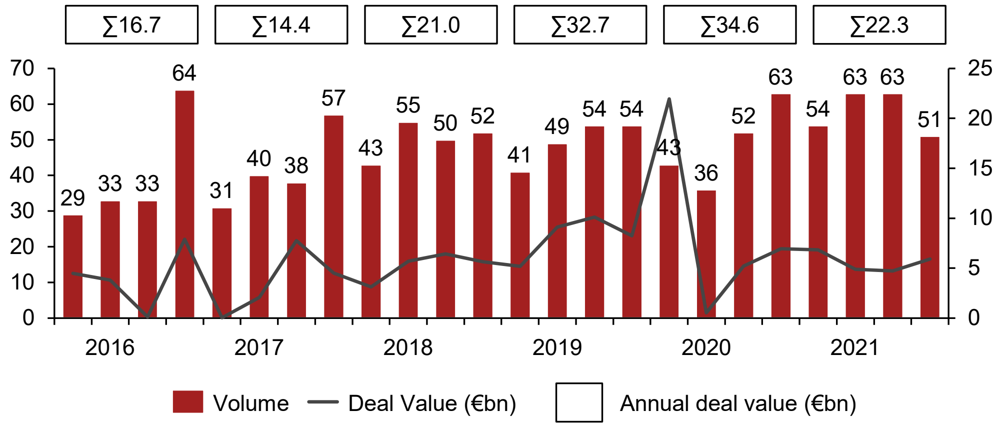
EUR started gaining attention from investors, due to government's interest in the sector's sustainability upgrade: Deal activity in EUR also witnessed a growth of around 93% to 27 deals in 2021, up from 14 deals in 2020. Acquisition of renewable energy developers with lucrative project pipelines boosted deal activity in the sector in 2021. PE investors were more willing to take development risk opportunities-see KGAL Investment Management GmbH & Co. KG's announcement to acquire 50% of German wind and solar developer GP Joule Projekt GmbH & Co. KG. in early Jan 2021. However, the sector's transactions face a challenge of accurately valuing a project pipeline, especially if the target companies are active across multiple countries and have assets at different stages of development.

Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis
Note: CM: Consumer Markets; EUR: Energy, Utilities and Resources; FS: Financial Services; GPS: Government and Public Services; HI: Health Industries; IM&A: Industrial Manufacturing and Automotive; RE: Real Estate; TMT: Technology, Media and Telecommunications

DACH Buyout Trends

PE buyouts in the DACH region reached new highs in 2021, driven by accumulated dry powder, complemented with availability of high quality targets.

Buyout trends



Private Equity buyouts in DACH reached new heights in 2021, with 231 buyout deals, by far the highest volume.

Investments by PE investors, primarily overseas PE investors, loaded with accumulated dry powder and interest in pursuing avenues to put the capital to work, propelled deal-making in the DACH region in 2021. In addition, divestments through reorganisations from large corporates satisfied PE's appetite for primary assets with a lot of value creation potential, whilst putting large sums of capital to work.
The largest majority takeover of 2021 was the €3.9 bn acquisition of Lonza Specialty Ingredients, a Switzerland-based specialty chemical firm, by Cinven and Bain Capital.

The second-biggest buyout in 2021 was the acquisition of Ceramtec, a Germany based industrial goods & services company, by Canada Pension Plan Investment Board (CPPIB) and BC Partners, for a transaction value of €3.8 bn.
The third-highest deal of 2021 was the acquisition of European Tinplate business, a Swiss industrial goods & services company, by KPS Capital Partners for €2.2 bn.

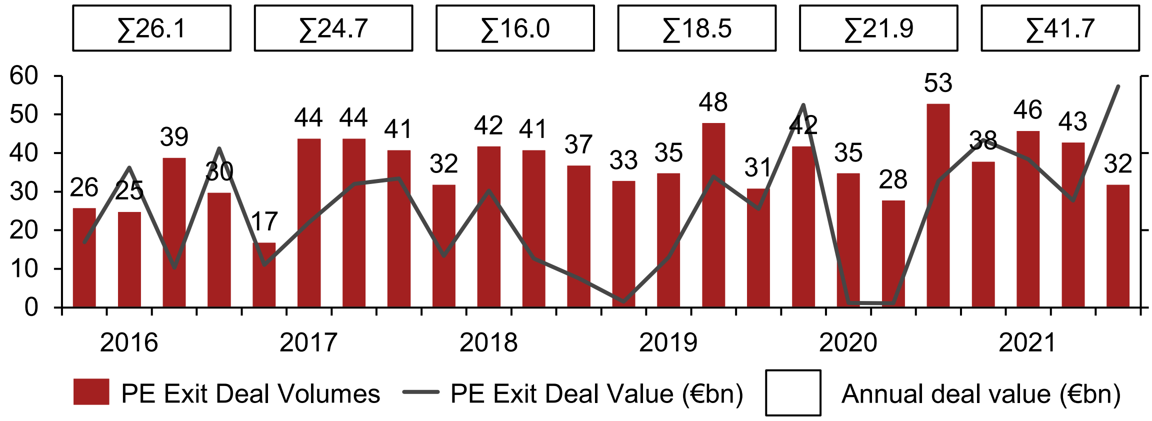
The IM&A and TMT sectors witnessed the highest number of buyout deals in 2021, with 85 and 71 deals respectively. In the coming years, the buyout trend in the TMT sector is projected to continue growing in the coming years, owing to the accelerated adoption of technologies, disruptive business models and the increased connectivity of market participants through all sectors.
Also, as the recovery strategy from the impact of the COVID-19 pandemic, and growth strategy for the post-pandemic period, companies are concentrating on their core businesses and evaluating M&A for divestures and potential acquisitions. This mass restructuring phase has opened opportunities for PE buyouts across sectors.

Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis

DACH Exit Trends

DACH PE exits grew significantly in 2021, owing to high valuations, a large number of interested buyers and increasing count of PE-backed IPOs.

Exit trends



DACH Private Equity exit deal value hit a new high in 2021, with €41.7 bn worth of exits.

taking advantage of the present favourable exit environment and are pushing exit processes forward including public listings. Also, due to market uncertainty at the beginning of the pandemic, several planned IPOs in 2020 were postponed to 2021, which further added to the increased volume of exits in 2021.

In 2021, the DACH region witnessed 10 exits (out of a total of 159 exits) with deal sizes above €1 bn, which contributed to over €35 bn of the total exit deal value, catering to around 84% of the region's total exit deal value for the year.

Top 5 Exit Deals

Target Name	Target Country	Buyer Name	Industry Classification	Exit Route	Deal Value (€ bn)
Auto1	Germany	Free Float[1]	TMT	Floatation	7.9
Synlab	Germany	Free Float[2]	HI	Floatation	5.9
BASF Construction Chemicals	Germany	Sika	EUR	Trade sale	5.2
Unilabs	Switzerland	AP Moller Holding	HI	Trade sale	5.0
Ceramtec	Germany	BC Partners Fund XI and Canada Pension Plan Investment Board	IM&A	Secondary buyout	3.8

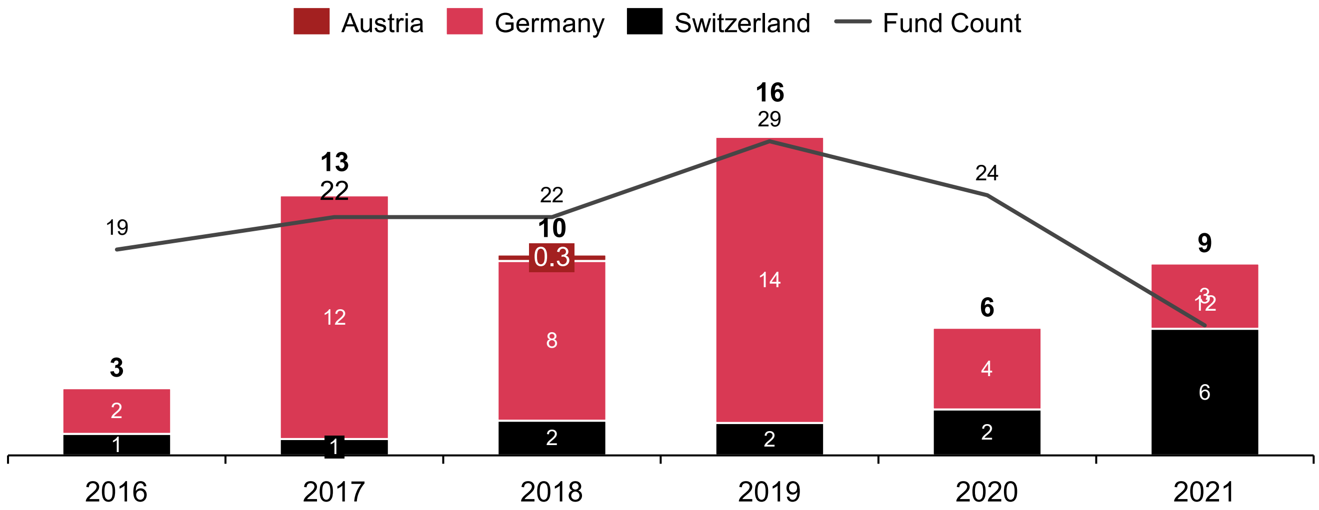
Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis
Note: Primary Stakeholders – 1) SoftBank Group Corp.; 2) Cinven (Luxco 1) S.A.

Fundraising activity in DACH (1/2)

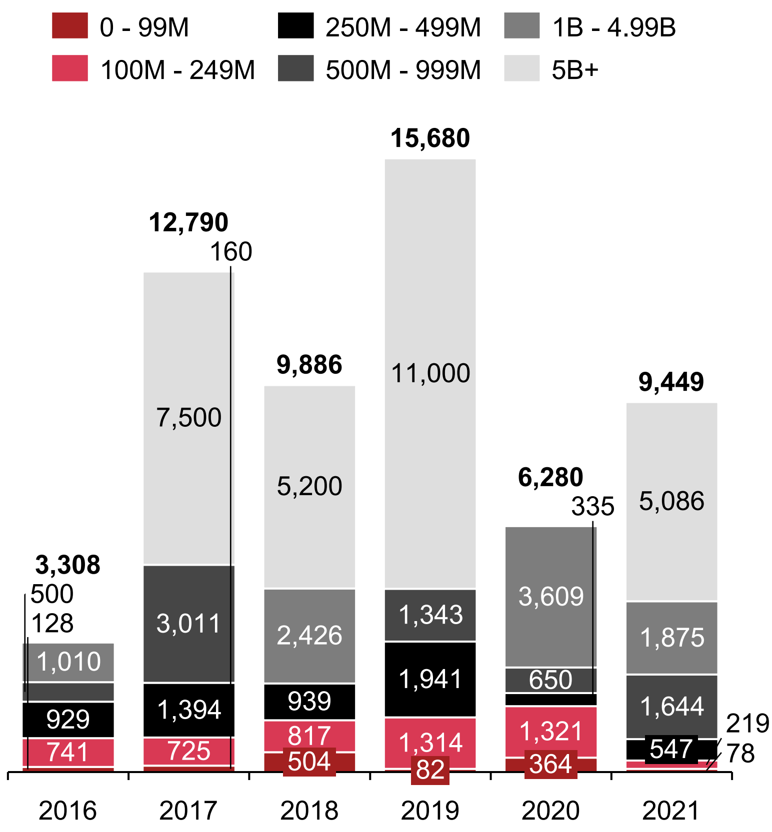
Capital raised increased by 52% y-o-y in 2021, while fund count showed a downward trend, indicating a challenging fundraising environment for less-established funds.

PE Fundraising in DACH (2016 – 2021)

Total Capital Raised (€ bn) and Fund Count, by DACH countries



Share of PE capital raised by fund size bucket



In 2021, €9.4 bn was raised in DACH PE funds, up from €6.2 bn in 2020, owing to increased trust of LPs for dedicating larger portions of their funds to PE, with expected superior returns. In addition, the increased competition for good targets, along with companies opting to divest distressed assets, created ample opportunities for sponsors.

Inclined interest of LPs towards dedicating larger funds in well-established GPs: The low fund count indicates a challenging fundraising environment for less-established fund managers. Pandemic-induced economic uncertainties since 2020 have resulted in LPs allocating funds to more well-established managers with which they have already previously worked. However, in the near future, with resumed travel activities, the LPs will be able to do their due diligence, which will boost the fund count.

Source: Pitchbook, Press Search, PwC Analysis

Fundraising activity in DACH (2/2)

In the DACH region, the top 10 PE funds raised by size were all buyout funds, with the majority being German funds.

Top 10 PE funds by fund size

	Fund	Fund Type	Fund Size (€ m)	Investor	AUM (€ bn)	Fund Location
1	Permira VII	Buyout	11,000.00	Permira	58.3	
2	Permira VI	Buyout	7,500.00	Permira	58.3	
3	Triton Fund V	Buyout	5,200.00	Triton	-	
4	Partners Group Direct Equity 2019	Buyout	5,086.05	Partners Group	112.1	
5	Bregal Unternehmerkapital Fund III	Buyout	1,875.00	Bregal Unternehmerkapital	4.0	
6	Bregal Unternehmerkapital Fund II	Buyout	1,250.00	Bregal Unternehmerkapital	4.0	
7	Edmond de Rothschild Private Equity Fund IV	Buyout	1,250.00	Edmond de Rothschild Group	160.7	
8	European Private Investment Club Fund II	Buyout	1,250.00	Castik Capital	1.3	
9	Capvis Equity V	Buyout	1,176.00	Capvis	1.8	
10	DBAG Fund VIII	Buyout	1,109.00	Deutsche Beteiligungs	2.5	

Source: Pitchbook, PwC Analysis

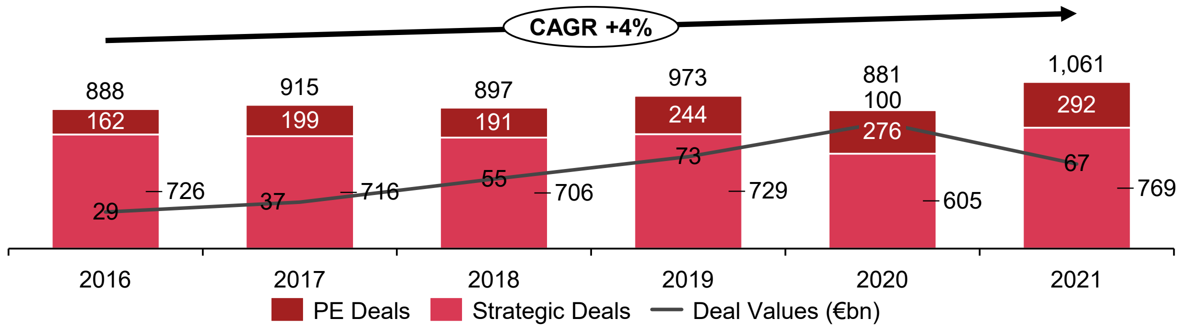
Benelux Deals
PE & Strategic

Benelux Deals Dashboard (1/2)

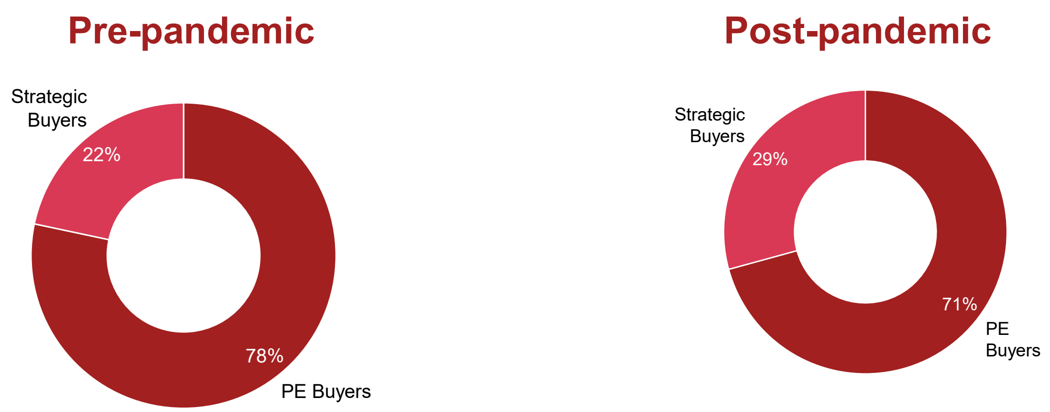
Benelux witnessed a rise in deal volume by 20.4% y-o-y in 2021; however, deal value fell by 32.7%, owing to low investor confidence, mainly among strategic investors.

In 2021, deal volume in Benelux witnessed growth in both PE and strategic deals: In Benelux, the overall deal volume increased by 20.4% from 2020 to 2021, due to the backlog of deals from 2020, which were resumed in 2021, as well as improved investor sentiment about activities returning to normal with the roll-out of the COVID vaccine. An additional ~79% of the deals (with disclosed deal values) were less than €100 m, as smaller businesses with less exposure on the international markets suffered less through supply chain disruptions and provided more certainty for investors, thereby driving deal volume. However, large corporates paused and waited for better conditions before selling. In 2022 as well, deal activity is expected to continue to be spurred on with high investor confidence due to the rebounding economy

Overall Deal Activity in Benelux (2016 – 2021)



Deal Activity by PE vs Strategic Investors in Benelux, by Volume



Brexit made the Netherlands an even more attractive location for investment: Post-Brexit, due to the close ties of UK and Netherlands, several companies from the UK that needed a location in the EU established their base in Netherlands

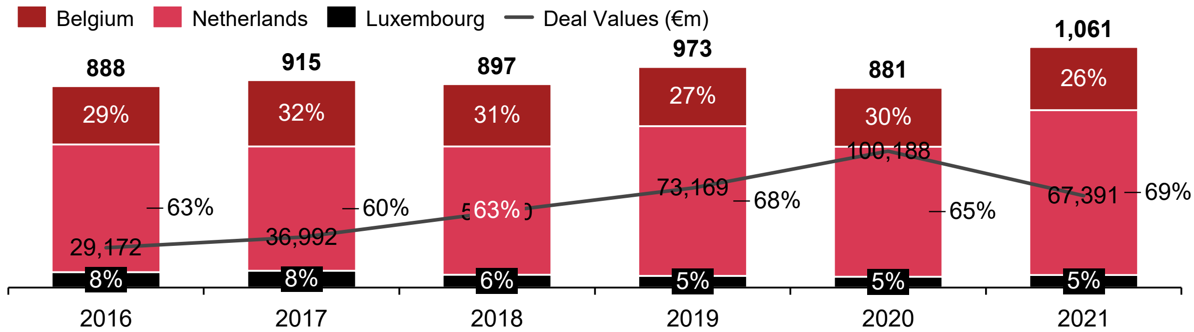
Strategically located, the Benelux serves as a gateway to other countries in the EU with a potential to reach over 500 m consumers, making it an appealing option for overseas entities seeking to gain a foothold in the EU. The process of setting up a legal entity is also very straightforward. For instance, in Netherlands, a BV (equivalent of a PLC in the UK or an LLC in the US) is a paper entity executed and authorized by a notary with limited costs and efforts.

Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis

Benelux Deals Dashboard (2/2)

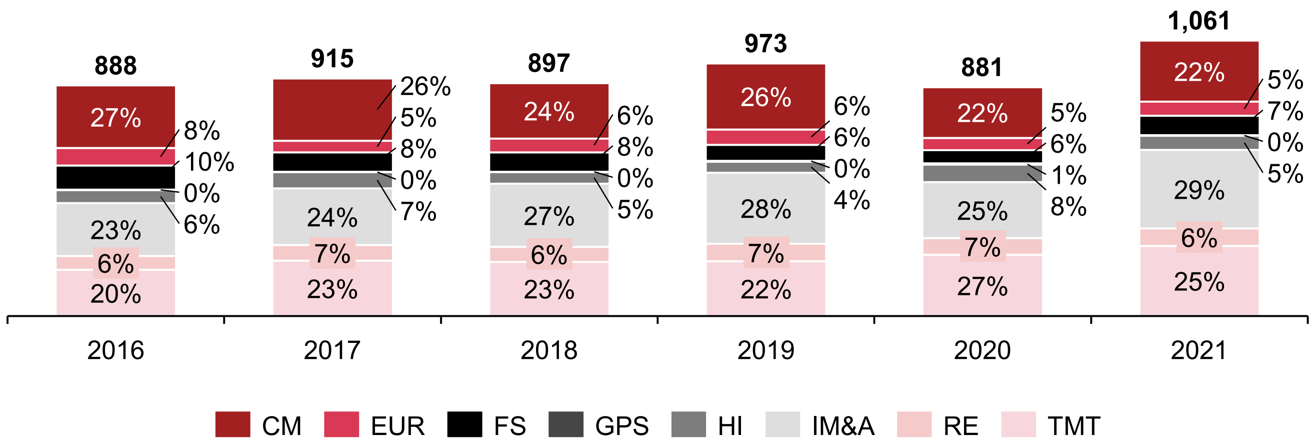
The Netherlands accounted for the largest share of 68.5% by deal volume as well as the highest growth (5.2%) over five years in the Benelux regions' PE deal activity.

Geographic Overview



The Netherlands held the lion's share in Benelux deal activity: The Netherlands accounted for the largest share with 68.5% by deal volume to the overall Benelux regions' PE deal activity in 2021, followed by Belgium (26.3% share by deal volume) and Luxembourg (5.2% share by deal volume). The Netherlands also witnessed the highest growth (CAGR: 5.2%) as compared to other Benelux regions over 2016-2021.

Sector Overview



The 2021 Benelux deal activity has been primarily focused on IM&A, TMT and Consumer Markets: In 2021, IM&A led the deals volume in Benelux, accounting for 28.6% in 2021, followed by TMT at 25.5% and Consumer Markets at 22.2%.

The TMT sector witnessed the highest CAGR of 8.7% over 2016 to 2021. GPs were optimistic about investing in the technology sector because of their disruptive potential and resilience throughout the economic crisis, which pushed the deal activity in TMT sector after the outbreak of the COVID-19 pandemic, particularly in 2020 and 2021.

The largest decline over 2016-2021 was observed in the Financial services sector, with a CARC of -4.5%.

Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis

SPAC Deals Overview – Benelux

Luxembourg is becoming an attractive destination for SPAC incorporation, owing to favourable regulatory changes.

SPAC Deals in Benelux (2021)

	Target	Buyer	Sector	Deal size (€ bn)
1	Ardagh Metal Packaging SA	Ardagh Metal Packaging SA	Consumer Markets	7.7
2	Allego BV	Allego BV	Industrial Manufacturing and Automotive	2.1
3	SK Invictus Intermediate SARL	SK Invictus Intermediate SARL	Energy, Utilities and Resources	1.7
4	Azerion Holding BV	Azerion Holding BV	Technology, Media and Telecommunications	1.3

With the regulatory changes implemented in 2021 in Benelux, the region has attracted the **attention of SPAC buyers in 2021, accounting for ~9% of total SPAC deals in Europe:** Most SPACs entering the Benelux region have been incorporated in the Netherlands; also, they started focusing on Luxembourg, where the first SPAC was implemented in Feb 2021.

As of Jul 2021, Luxembourg was home to an investment fund centre holding more than €650 bn in alternative fund assets. The region is now becoming an attractive and preferred SPAC incorporation jurisdiction for non-European SPAC entities due to the flexibility of Luxembourg corporate law, which allows a flexible share redemption framework, voting right adjustments, the ability to create different classes of shares, and the attribution of specific financial and decisional rights to sponsors and public investors.

In addition, Luxembourg is positioned internationally as a structuring jurisdiction for M&A, private equity and IPOs, and its expertise in the listing of LuxCos on the foreign stock exchange is well suited to attract SPACs. Lastly, the Commission de surveillance du secteur financier (CSSF), Luxembourg's authority for the approval of IPO prospectuses, has the reputation of being a proactive and pragmatic, yet investor-protective, regulator.

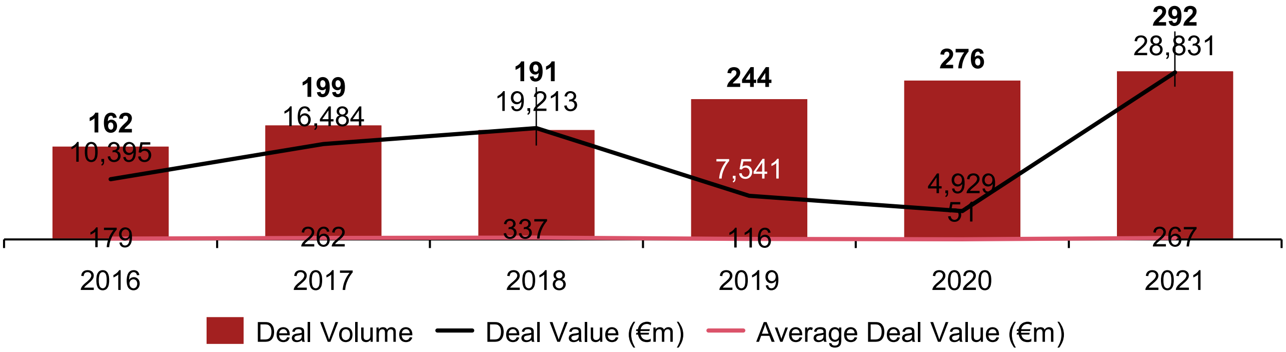
Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis

Private Equity Deals in Benelux

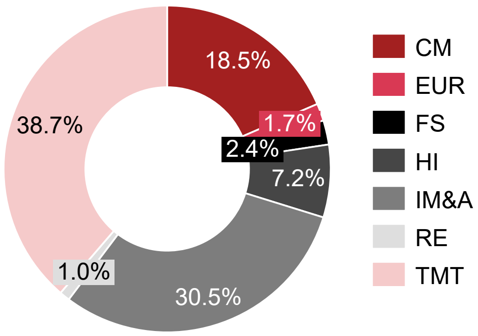
Benelux PE Deals Summary

Luxembourg is becoming an attractive destination for SPAC incorporation, owing to favourable regulatory changes.

PE Deal Volume PE Deal Value (€ m) and Average Deal Value

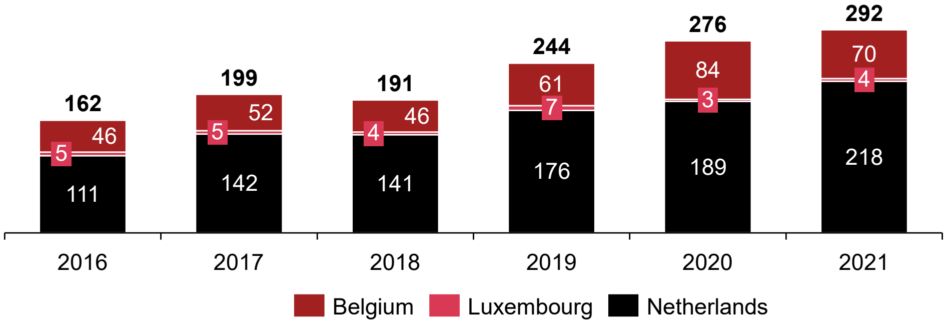


PE Deals by Sector in 2021



The deal volume in DACH increased almost six-fold from €4.9 bn in 2020 to €28.8 bn in 2021, primarily led by the TMT sector.
The successful implementation of Brexit, complemented by a favourable M&A environment for foreign investors (such as flexible company law and favourable tax regulations to non-EU members), made Benelux an attractive target for international deals.

PE Deals by Countries (BE, LU, NL)



Benelux Top 5 PE Investors in 2021

Key Investors	Headquarters	# Deals in 2021	AUM (€ bn)
Waterland Private Equity		13	9.0
Holland Capital		5	-
Mentha Capital		5	0.4
Standard Investment		5	4.2
Bolster Investment Partners		3	0.2

Source: Pitchbook, Refinitiv, Unquote, PwC Analysis
Note: CM: Consumer Markets; EUR: Energy, Utilities and Resources; FS: Financial Services; HI: Health Industries; IM&A: Industrial Manufacturing and Automotive; RE: Real Estate; TMT: Technology, Media and Telecommunications

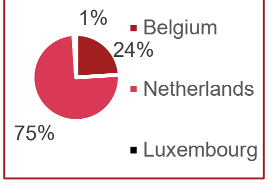
Top 10 PE deals in 2021 – Benelux

The top 10 private equity deals in the Benelux region were mainly buyouts, involving Dutch targets.

	Target	Buyer	Deal Type	Sector	Deal size (€ bn)
1	Hunter Douglas	3G Capital	Buyout	IM&A	6.3
2	T-Mobile Netherlands	Warburg Pincus, Apax	Buyout	TMT	5.1
3	Ekaterra	CVC Capital Partners	Buyout	CM	4.5
4	Allego	Apollo Global Management	Buyout	IM&A	2.1
5	Unit4	Partners Group, TA Associates	Secondary buyout	TMT	1.8
6	High Tech Campus Eindhoven	Oaktree Capital Management	Buyout	IM&A	1.1
7	CitizenM	KRC Capital, GIC SI	Expansion	CM	0.9
8	Desotec	The Blackstone Group	Buyout	IM&A	0.8
9	Expereo	Vitruvian Partners LLP	Buyout	TMT	0.8
10	Euroclear	Silver Lake Partners	Expansion	IM&A	0.7

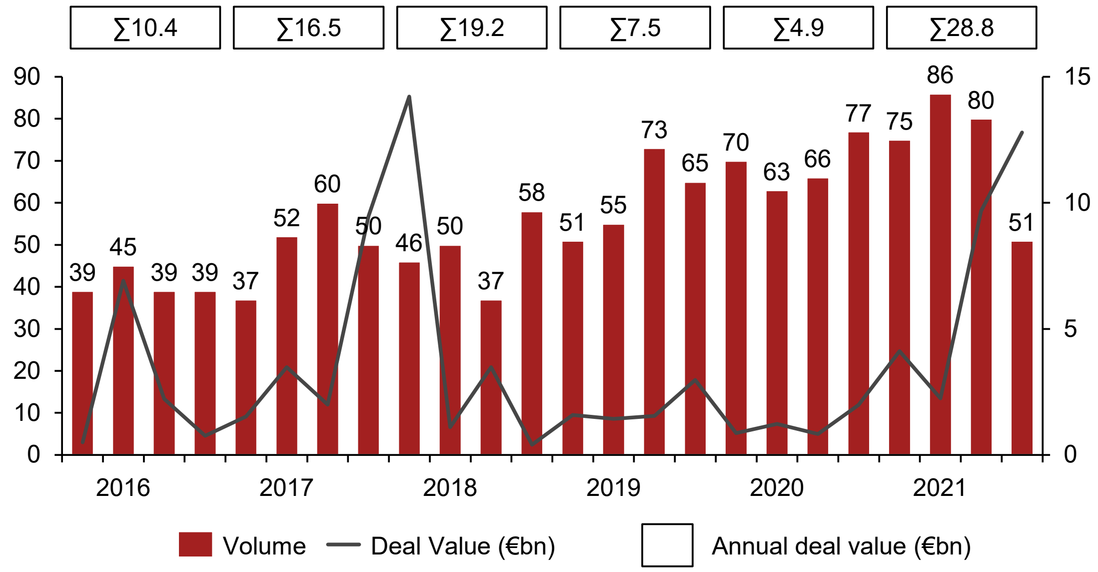
Source: Refinitiv, Unquote, PwC Analysis
Note: CM: Consumer Markets; EUR: Energy, Utilities and Resources; FS: Financial Services; GPS: Government and Public Services; HI: Health Industries; IM&A: Industrial Manufacturing and Automotive; RE: Real Estate; TMT: Technology, Media and Telecommunications

Private Equity in Benelux (1/2)

Deal Volume (2021)	Growth Rate (2021 vs 2020)	Deal Value (2021)	Growth Rate (2021 vs 2020)	Deals by Countries (2021)
292	5.8%	€28.8 bn	484.9%	

In 2021, PE deal activity showed substantial growth in Benelux, primarily in terms of value: The PE deal volume in Benelux was registered at 292 deals, up by 5.8% from 276 deals in 2020 and up by 19.7% as compared to 2019. Deal volume grew at a CAGR of 12.5% over 2016-2021. In terms of value, Benelux witnessed exponential growth, with total value of disclosed deals reaching new heights of €28.8 bn, increasing six-fold in 2021, compared to 2020. The major contributor to this high sum of total deal value in 2021 are 6 mega deals, which collectively contribute around €21 bn, with Q2 and Q3 being the record quarters in terms of deal volume.

Benelux M&A Trends (2016 – 2021)



The PE deal volume in Benelux continued to grow during 2020-2021: The Benelux PE deal volume grew constantly during the period from 2020 to 2021, with a significant number of cross-border transactions. The region provides vast opportunities for growth as it showed resilience even during the pandemic with a large majority of non-European targets targeting Benelux companies.

An abundance of available capital, heightened pressure for PEs to put their capital to work and confidence to go for larger buyouts resulted in an increase in successful closure of large deals. Additionally, PEs are eager to make up for the lost ground in 2020 and H1 2021 and realise returns on large amounts of capital.

Further, a higher number of Benelux companies are being targeted for M&A, due to favourable tax regulations and cross-border policies (through tax treaties) favoring inbound investments.

Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis

Private Equity in Benelux (2/2)

Belgium is expected to remain an attractive market for M&A opportunities. Deal activity in Luxembourg is expected to grow, driven by its favourable regulatory environment

Future Outlook

Technology and sustainability investments are expected to remain primary focus of PEs in Benelux:

- **Belgium is expected to remain an attractive market for M&A activities in the near future:** The current high valuations (primarily in the key sectors) of potential are expected to remain an attractive for M&A to opportunities. Deal activity in Luxembourg is expected to grow driven by its favourable regulatory environment is expected to remain strong with investments focusing on digital assets, resilient to disruptions as well as those with a strong ESG focus, following the EU's Taxonomy initiative. Belgian PE market is also characterised by the presence of several family offices, which are also very active albeit long-term investors.
- **In the Netherlands, ESG and technology will remain primary focus of investors in the coming years**: Digitalisation and ESG are going to be the major drivers of M&A activities. As the Netherlands is home to a large number of technology companies, they are likely to seek investments for their growth and can become targets for different sector players for their digital transformation. Along with that, expedited initiatives for reaching the sustainability goals are driving investments across sectors.
- **Luxembourg's deal activity is expected to grow in the coming years, driven by its favourable regulatory environment:** In Luxembourg, PE investors are expected to increase focus as its regulatory environment is favourable for deal activities. For example, the country's flexible company law offers company forms which can be organised in accordance with the specific needs of the involved parties (GPs, LPs, among others). The PE investors and managers have a strong preference for unregulated partnerships, including the limited partnership (SCS) and the specialised limited partnership (SCSp). The SCSp attracts UK and US investors as it is similar to the English Limited Partnership (ELP). In addition, these company types are also tax-transparent and can be interesting for tax-exempted investors.
- **High competition in the deal market leads to implementation of digital solutions by investors:** With heightened competition, investors will invest in digital tools to give them a timing advantage as well as get creative in deal sourcing possibilities. The PE firms will benefit from the value creation opportunities for their portfolios by bringing in digitalisation in the deal processes.
- **Projected increase in deal activity by SPAC and foreign investors in the Benelux region:** In 2021, Benelux witnessed growth in interest from SPAC buyers and foreign investors, owing to its favourable regulatory environment. The growing presence of SPAC (primarily from the US) and international investors in Benelux indicates the region's high growth potential and is a positive sign of rising deal activity in the future.

Source: Pitchbook, Press Search, PwC Analysis

Benelux PE Deals by Geography

Although deal volume witnessed a decline of 16.7% y-o-y in 2021 in Belgium, deal value increased by 167.1%, triggered by two major >€500m deals in 2021.

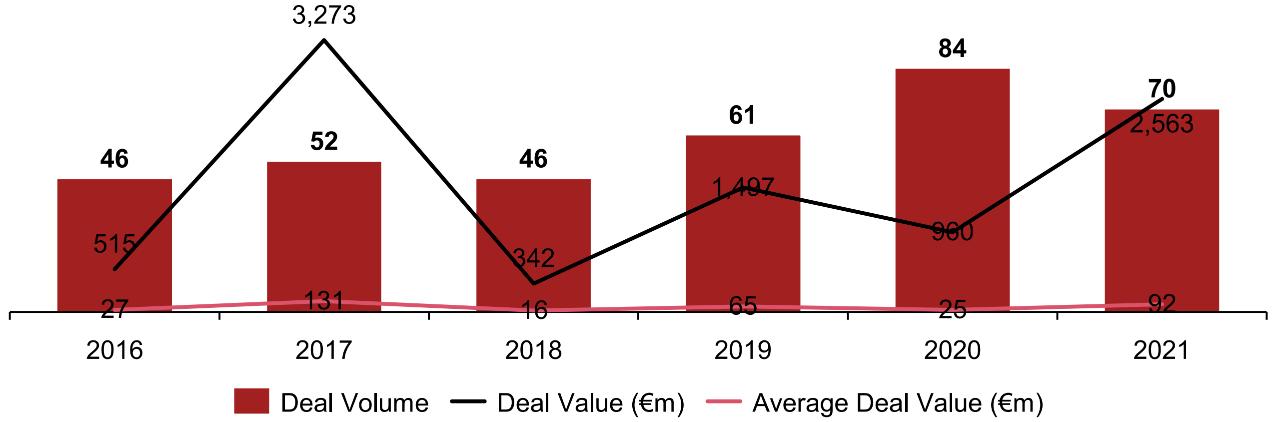
Belgium

In 2021, deal activity increased overall in terms of value. However, deal volume declined slightly: PE deals in Belgium witnessed a decline in terms of volume by 16.7%, from 84 deals in 2020 to 70 deals in 2021. However, in terms of value, deal activity grew by 167.1% during 2020 to 2021. The respective surge in deal value is primarily triggered by 2 major >€500m deals in 2021:

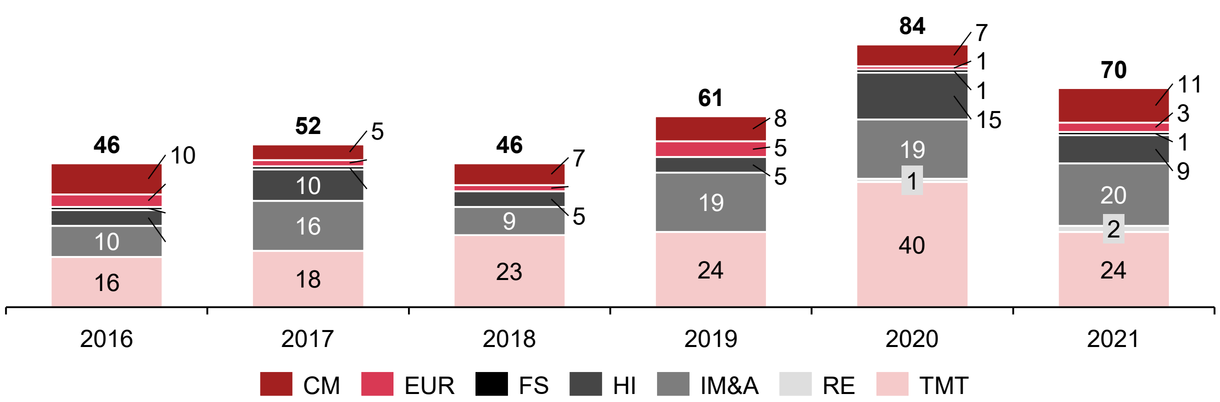
- €800.0 m buyout of Desotec, a Belgium-based industrial machinery provider, by Blackstone Group in Mar 2021
- €709.0 m acquisition of Euroclear, a Belgium based support services provider for the IM&A sector, by Silver Lake Partners in Oct 2021

High demand of targets for geographic expansion, capability expansion and expanding digitalisation: In 2021, financial buyers in Belgium were mainly acquiring targets to expand their geographic presence in light of buy and build strategy, expanding into digitalisation as well as for capability extensions.

Deal Volume and Deal Value (€m) and Average deal value (€m)



PE Deals by Sector



Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis
Note: CM: Consumer Markets; EUR: Energy, Utilities and Resources; FS: Financial Services; GPS: Government and Public Services; HI: Health Industries; IM&A: Industrial Manufacturing and Automotive; RE: Real Estate; TMT: Technology, Media and Telecommunications

Benelux PE Deals by Geography

Deal value in the Netherlands increased seven-fold in 2021 compared to 2020, owing to the announcement of six mega deals; deal value also witnessed an increase of 15% in 2021.

Netherlands

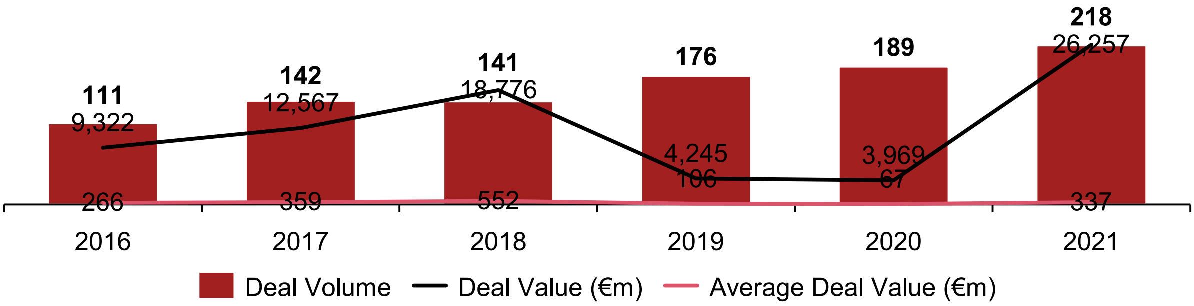
The Netherlands' deal activity in 2021 surpassed that of prior years, both in terms of value and volume: PE deals in the Netherlands witnessed an increase of 15.3%, from 189 deals in 2020 to 218 deals in 2021. Deal volume grew at a CAGR of 14.5% over 2016-2021 and witnessed growth of 23.9% in 2021 compared to 2019 (pre crisis).

The deal value increased seven-fold in 2021 compared to 2020, supported by 6 mega deals in 2021 with consolidated deal value of around €21 bn.

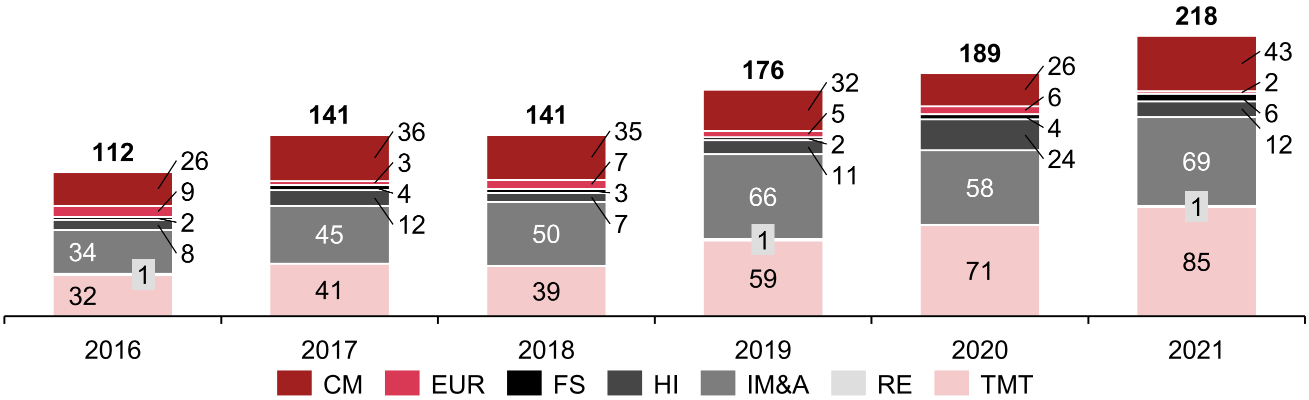
Since the 2016 Brexit vote, the Netherlands has been attracting sponsor deal activity. Factors driving sponsor interest in the region includes - Amsterdam overtaking London as Europe's largest share trading hub in 2021, with about 550 companies in discussion with the Netherlands Foreign Investment Agency (NFIA), to move some of their operations in the region. Several UK firms are also relocating their offices to the Netherlands due to close ties between the countries, a supportive infrastructure and being a transportation hub for British goods.

The Netherlands is expected to further spur on deal activity as sponsors have heightened confidence of a rebounding economy driven by rising inoculation rates with over 50% of the region's population getting fully vaccinated and the economy expected to hit pre-crisis GDP levels by the first half of 2022 from a decline of 3.7% in 2020.

Deal Volume, Deal Value (€m) and Average deal value (€m)



PE Deals by Sector



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Note: CM: Consumer Markets; EUR: Energy, Utilities and Resources; FS: Financial Services; GPS: Government and Public Services; HI: Health Industries; IM&A: Industrial Manufacturing and Automotive; RE: Real Estate; TMT: Technology, Media and Telecommunications

Benelux PE Deals by Geography

Deal activity in Luxembourg remained low, as compared to other Benelux countries. However, it is expected to eventually grow in coming years.

Luxembourg

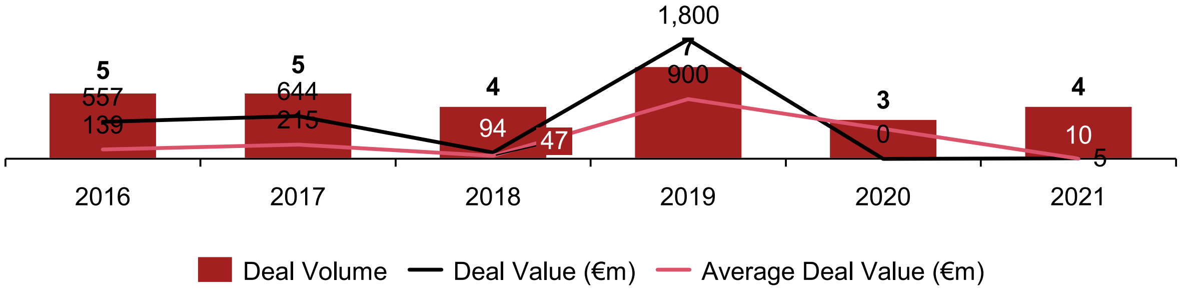
Luxembourg continued to witness subdued PE deal activity in 2021: Luxembourg as a destination for PE deals, historically, has shown low deal activity, mostly in single digits, with deal volume increasing from 3 deals in 2020, to only 4 deals in 2021.

However, in recent years, the country has increased its visibility and is expected to become more attractive for institutional investors, owing to the regulatory amendments, which allow Luxembourg to offer a wide range of flexible investment fund laws for PE investors. These include: Specialised Investment Fund (SIF), Investment Company in Risk Capital (SICAR), and Reserved Alternative Investment Fund (RAIF).

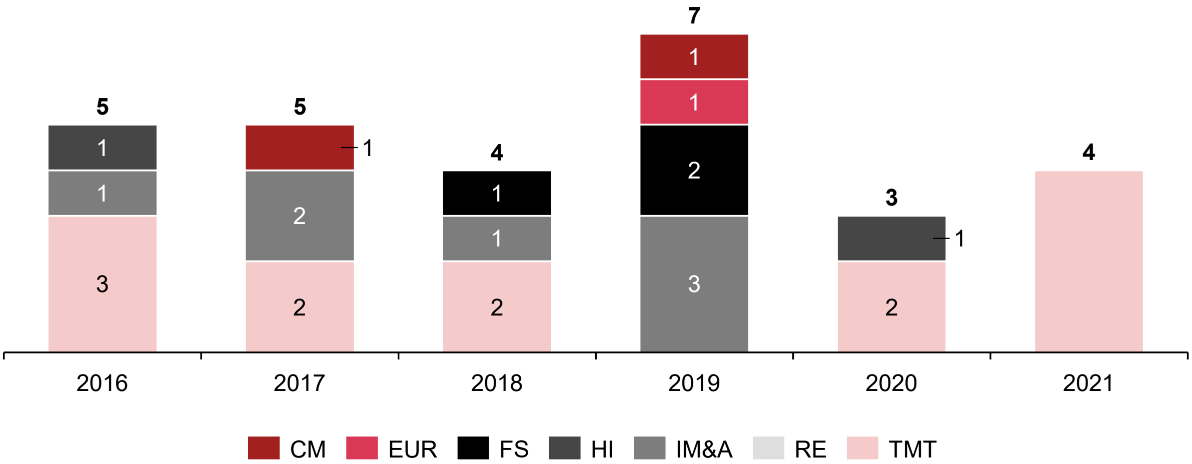
In 2019, Luxembourg adopted a new law, Register of Beneficial Owners (RBO Law), to create more transparency in identifying the ownership structures of Luxembourg entities, which in turn improved investor confidence in the country.

Also, the Luxembourg government has inclined focus on supporting digitalisation, creating a positive outlook for the TMT sector in the country. For instance, the Luxembourg House of Financial Technology (LHOFT) initiative helps start-ups grow.

Deal Volume and Deal Value (€m) and Average deal value



PE Deals by Sector

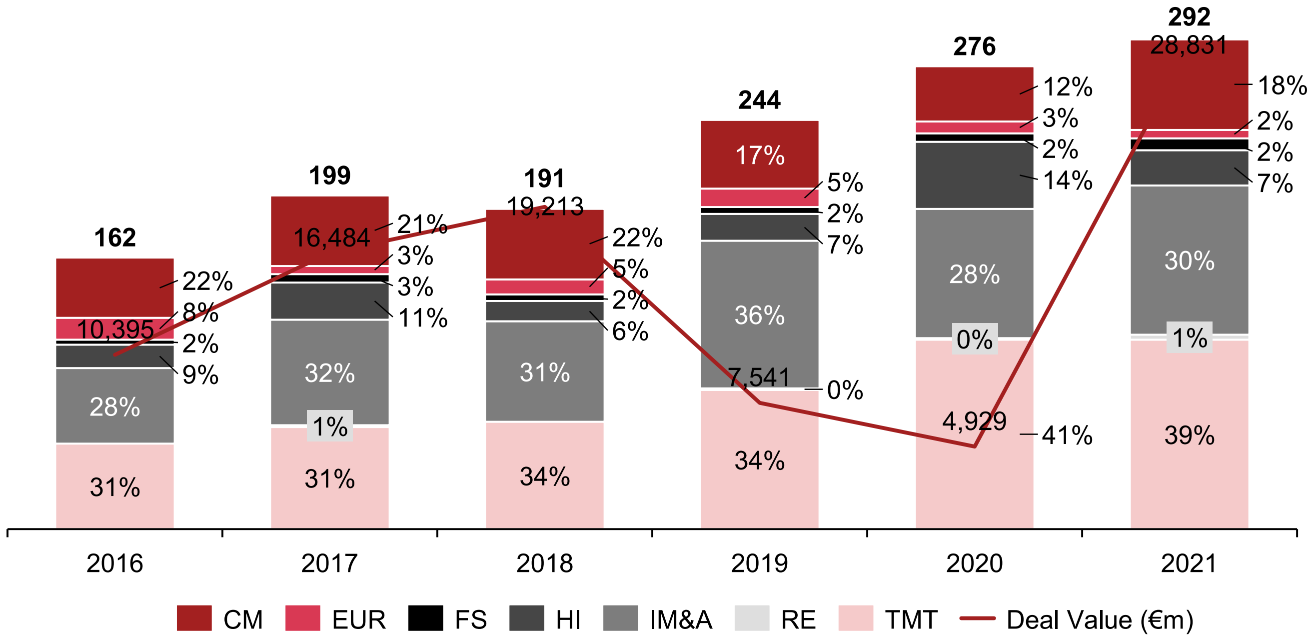


Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis
Note: CM: Consumer Markets; EUR: Energy, Utilities and Resources; FS: Financial Services; GPS: Government and Public Services; HI: Health Industries; IM&A: Industrial Manufacturing and Automotive; RE: Real Estate; TMT: Technology, Media and Telecommunications

Benelux PE Deals by Sector

In 2021, the TMT, IM&A and CM sectors remained the primary focus areas for PEs, as investors continued to seek out assets with resilient business models.

Sector overview for PE deals



TMT, IM&A and CM remained the primary focus of PEs in Benelux in 2021: In 2021, PE deal activity in Benelux followed an almost consistent trend across sectors compared to 2020. Deal volume was highest across the TMT (38.7%), IMA (30.5%) and Consumer Markets (18.5%) sectors, as investors have continued to seek out assets with COVID-resilient business models. Strong momentum was seen in the TMT sector as GPs sought to follow the digitalisation mega trend.

The lion's share of the deal value came from the IMA sector (39.6%), which also witnessed three of the top six mega deals valued at €9.4 bn, while the TMT sector witnessed two of the top six mega deals valued at €6.9 bn in 2021.

The accelerated digitalisation trend boosted deal activity in TMT sector, and is expected to continue in the coming years: The digitalisation trend, which was already barreling along at pre-pandemic levels, has gained momentum since the outbreak of the COVID-19 pandemic, which has gained attention from investors. Companies in most sectors have prioritised the technology or digitalisation as their primary focus. For instance, CM sector players are seeking to improve their e-commerce solutions, IM&A firms are implementing innovative solutions to optimise their operations, and most of the other sectors are also looking for appropriate software solutions to make their processes more efficient.

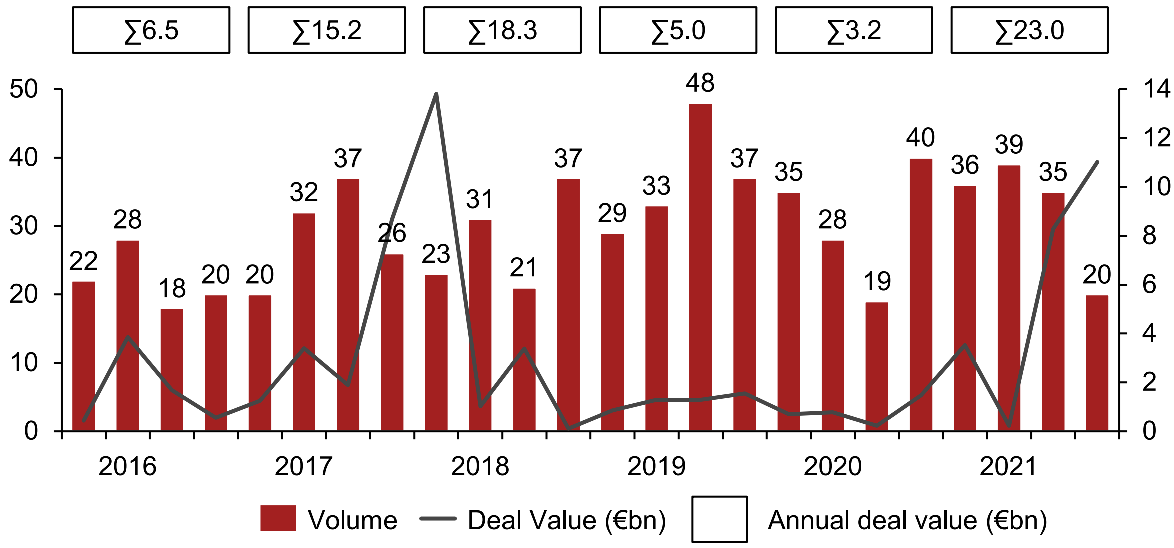
PE firms will focus more on acquisition of targets of pandemic-resilient industries: The sectors which have portrayed growth and resilience during the COVID-19 pandemic are the primary focus of investment by PE investors. Such acquisitions are expected to grow further in the near future and continue reaping even higher multiples.

Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis

Benelux Buyout Trends

The Benelux buyout deal value grew by over seven fold y-o-y in 2021, as a result of high valuations and the closing of six mega deals during the period.

Buyout trends



In 2021, the buyout deal activity increased drastically as compared to 2020 levels. 130 buyout deals were announced in 2021, worth €23 bn, indicating a y-o-y growth of 6.6% by volume and over seven-fold by value respectively. Higher valuations of target companies turned out in increased deal value in 2021, with the presence of six mega deals during the period. The average deal size showed a massive jump in H2 2021, rising to ~€2.8 bn both in Q3 and Q4.

The Netherlands attracted the maximum buyout deals (74.6%) in 2021, accounting for all six mega deals, primarily in H2 2021. The corporate divestures with large deal size have been the key reasons behind the surged deal value in the region. The top 3 deals, by value, amongst overall buyout deals in the country, include:

- €6.3 bn buyout of Hunter Douglas, Netherlands-based manufacturer of window coverings and architectural products by 3G Capital in Dec 2021
- €5.1 bn buyout of T-Mobile Netherlands, Dutch mobile operations of Deutsche Telekom by Warburg Pincus in Sep 2021
- €4.5 bn buyout of Unilever's teas business, Ekaterra by CVC Capital Partners in Nov 2021

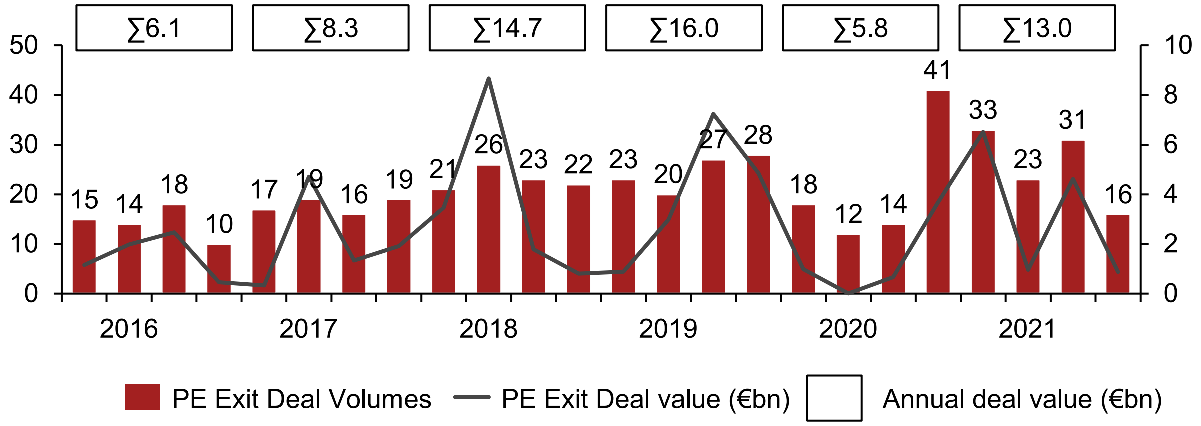
Although the IMA sector led deal activity and accounted for ~42% of deal volume and ~45% of deal value in 2021 in Benelux, the TMT sector was the second largest sector in terms of deal value in 2021, owing to the increased focus on targets with digital and disruptive business models.

Source:S Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis

Benelux Exit Trends

PE exit activities in Benelux registered growth, both in terms of value and volume, owing to favourable market scenario for exits with high valuations.

Exit trends



In 2021, both PE exit volume and value remained buoyant, mainly driven by robust trade sales and secondary buyout (SBO) activity. The exit value increased by 141.4% in 2021 from €5.4 bn in 2020 to €13.0 bn in 2021, and PE firms completed 103 exits in the region; an increase of 21.2% from 2020.

In 2021, there were only three exits with deal sizes above €1 bn, while a bulk of exit volume came from exit sizes less than €500 m. NPM Capital and Nordian Capital were the most active PEs with a combined total of 10 exits during 2021, while Advent International and Charterhouse Capital Partners LLP dominated exit value with a combined value of over €8 bn, accounting for ~63% of exit value during the period.

Top 5 Exit Deals

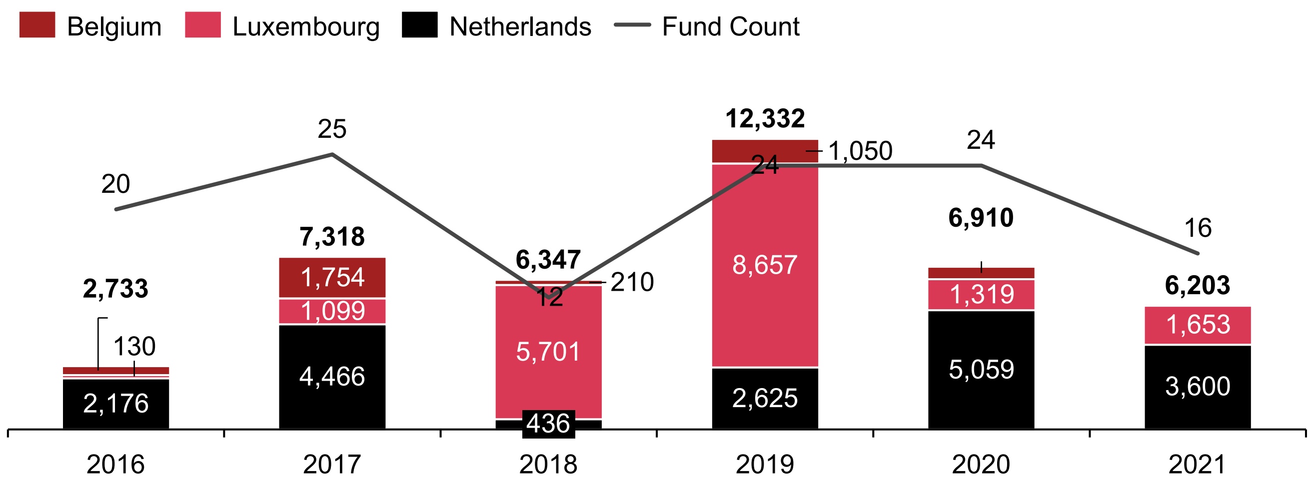
Target Name	Target Country	Buyer Name	Industry Classification	Exit Route	Deal Value (€ bn)
Cytec Coating Resins		PTT Global Chemical Pcl	EUR	Trade sale	4.0
Vemedia Pharma		CVC Capital Partners	HI	Secondary buyout	2.2
Unit4		TA Associates Management, LP/Partners Group Holding AG	TMT	Secondary buyout	2.0
Desotec		Blackstone Group L.P.	IM&A	Secondary buyout	0.8
Expereo		Vitruvian Partners LLP	TMT	Partial sale	0.8

Source: Pitchbook, Refinitiv, Unquote, Press Search, PwC Analysis
Note: CM: Consumer Markets; EUR: Energy, Utilities and Resources; FS: Financial Services; GPS: Government and Public Services; HI: Health Industries; IM&A: Industrial Manufacturing and Automotive; RE: Real Estate; TMT: Technology, Media and Telecommunications

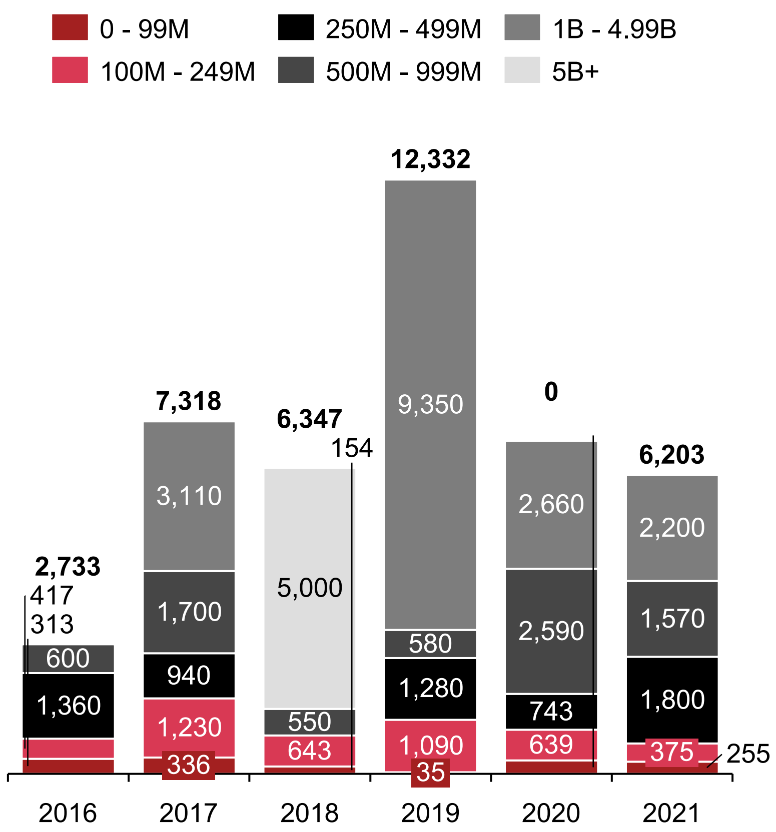
PE Fundraising activity in Benelux

The fundraising activity in the Benelux region witnessed a decline with fund count falling by 33.3% y-o-y in 2021 and capital raised declining by 10.3% y-o-y.

PE Fundraising in Benelux (2016 – 2021)



Share of PE capital raised by fund size bucket



The fundraising activity in Benelux declined in 2021. Fund count fell by 33.3% in 2021 over 2020 and capital raised declined by 10.3% in 2021 over 2020 from a value of €6.9 bn in 2020 to €6.2 bn in 2021.

The market did not exceed its 2019 capital raised peak; also on the fund count side, the region did not surpass its five-year fund volume average (21) as the pandemic-induced flight of capital to safety continues.

This phenomenon has pushed LPs towards existing relationships with their larger, brand-name, more established managers who have worked to push capital raised up while squeezing fund count.

In 2021, the median fund size was €250.0 m, lower than 2019 value of €300.0 m.

Source: Pitchbook, Press Search, PwC Analysis

PE Fundraising activity in Benelux

In the Benelux region, the top ten PE funds, by size, were primarily based in Netherlands or Luxembourg.

Top 10 PE funds by fund size

	Fund	Fund Type	Fund Size (bn)	Investor	AUM (€ bn)	Fund Location
1	JAB Consumer Fund - Global Consumer Brands II	Buyout	5.0	JAB Holding Company	44.2	
2	CVC Strategic Opportunities II	Buyout	4.6	CVC Capital Partners	110.4	
3	Waterland Private Equity Fund VIII	Buyout	2.7	Waterland Private Equity Investments	9.0	
4	Waterland Private Equity Fund VII	Buyout	2.1	Waterland Private Equity Investments	9.0	
5	The Pallinghurst-Traxys Battery Materials Fund	Buyout	1.8	The Pallinghurst Group, Traxys Europe	1.8 (Pallinghurst); 0.1 (Traxys)	
6	Gilde Buyout Fund VI	Buyout	1.5	Gilde Buy Out Partners	3.0	
7	CVC Growth Partners II	Growth/ Expansion	1.4	CVC Capital Partners	110.4	
8	IK Small Cap III Fund	Buyout	1.2	IK Investment Partners	7.3	
9	Core Equity Holdings Fund I	Buyout	1.1	Core Equity Holdings	1.1	
10	Main Capital VII	Buyout	1.0	Main Capital Partners	2.2	

Source: Pitchbook, PwC Analysis

Key Findings

Key Findings (1/2)

86% of GPs expect to increase the number of new investments they make in 2022

63% that competition for investments among PE firms increased in 2021

61% are satisfied with the development of their portfolio companies in 2021

60% expect their organisation to witness higher sales in 2022

Grand ambitions

Not content with scoring the biggest dealmaking year on record, as much as 86% of GPs in Europe's PE industry expect to increase the number of new investments they make in 2022 compared to 2021, as they take the prospect of monetary tightening and ongoing pandemic challenges in their stride.

Competitive tension

Deploying dry powder will not be without its challenges, though: 63% of respondents agree that competition for investments among PE firms increased in 2021 compared to 2020. It's a state of play that GPs are already accustomed to; however, that won't make investing sensibly on favourable pricing terms any less arduous.

Portfolio progress

PE firms are also broadly upbeat with how their existing companies have coped over the past 12 months, the recovery lifting the prospects of their portfolio holdings. We find that 61% of respondents are satisfied with the development of their portfolio companies in 2021. It seems that the hard work in 2020 spent triaging assets, reducing costs and investing for the future has paid off.

Sellers' market

GPs are not only gearing up for a busy year on the acquisition trail, exits are also due to tick upwards: 60% of respondents expect their organisation to increase the number of sales they make in 2022 compared to 2021, as capital is funnelled back to limited partners.

Source: Mergermarket

Key Findings (2/2)

56% don't expect their RoI made during 2021 to be as strong as from investments made 5-7 years ago

99% will be investing in digitization in 2022

77% of firms already having a responsible investing or ESG policy as well as the tools to implement that policy in practice

100% of those who invested in German companies in 2021, plan to continue in future

Returns out of reach

Perhaps because of rising competition and high entry prices, PE firms are not especially sanguine about the 2021 vintage. We find that 56% of respondents don't expect their returns on investments made during the past year to be as strong as ones they saw from investments made five to seven years ago.

Digital ambitions

Fund managers are unequivocal about all things digital. As much as 99% say they will be investing in digitisation over the next year, homing in on areas including data analytics (75%), the Internet of Things (IoT) (63%), artificial intelligence (AI) (53%), blockchain (52%) and robotics (51%).

Taking responsibility

The European PE industry has grasped the nettle on responsible investing, with 77% of firms already having a responsible investing or ESG policy as well as the tools to implement that policy in practice. With regard to the areas of responsible investing that are most important to fund managers, 42% point to investment decisions and pricing, and 39% cite engagement with their investors.

German PE market proves itself

Germany and France typically vie for position as Europe's second-largest PE market after the UK. It seems that those who have already been active in Germany are happy with their results and are committed to the market. Of the respondents in this survey who have already invested in German companies, 100% plan to continue to do so and 80% anticipate increasing the assets they allocate to Germany over the next five years.

Detailed Findings

1. 2021 in review

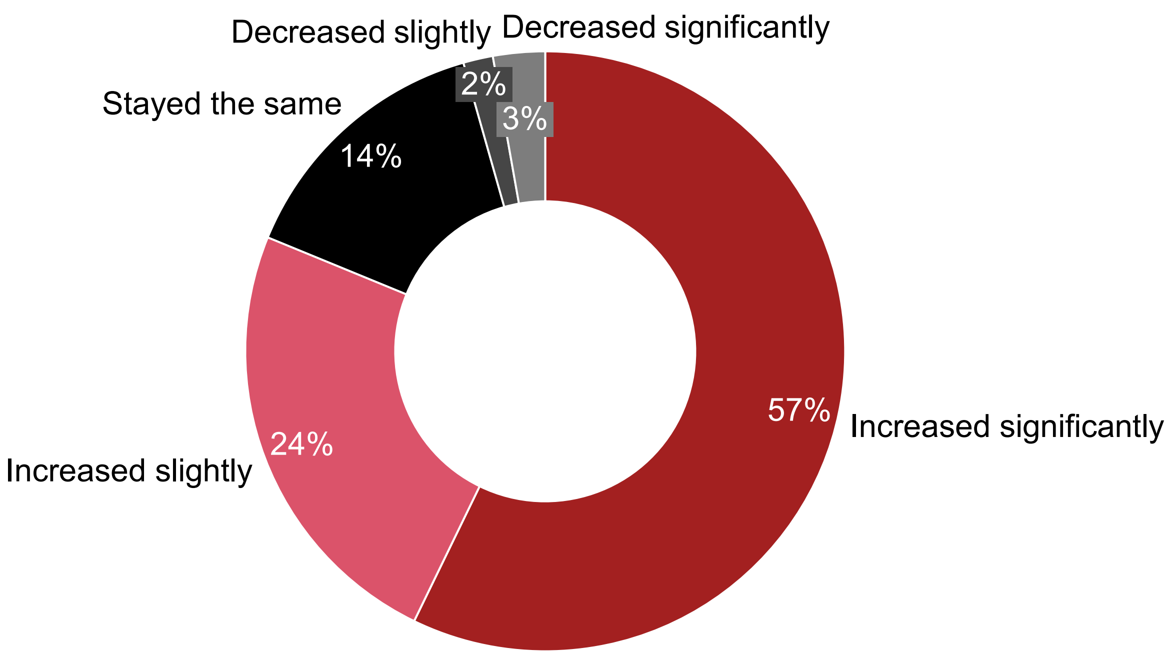
Deals shoot up

Last year saw PE dealmaking in Europe[1] record €217.4 bn, far above the €85.3 bn record set in 2016. Similarly, transaction volume stretched to 3,146 deals across the region, far exceeding the previous highest deal count of 1,863 deals in 2016. Fund managers have been under pressure to deploy and spread their vintage risk, as well as capitalise on the opportunity to invest amid industry disruption and a global economic rebound.

In order for historic sums of dry powder to be invested, GPs have been busier than ever screening deal opportunities. The vast majority (81%) report a significant increase in the number of potential transactions they reviewed in an average month in 2021, compared with 2020, including 57% who say there was a significant increase.

Added to this pressure has been the complication of accurately valuing assets in a timely manner. In 2020, the term EBITDAC (an additional C for COVID) was introduced, covering add-backs that a company would have earned had it not been for the pandemic. These earnings distortions come as PE firms are competing harder than ever to clinch the best assets, meaning they are having to manage the delicate balance of being proactive investors while exercising prudence. This is where leveraging data and sound information governance combined with repeatable processes can expedite deal analysis and make PE firms more agile in the midst of a competitive and challenging environment.

Compared to 2020, has the number of potential transactions which you have reviewed in an average month this year increased or decreased?



Source: Mergermarket

1. 2021 in review

A year ago, just over half of GPs (57%) made fewer investments during the first 12 months of the pandemic. This was not a huge surprise given the circumstances and despite deal activity snapping back in the second half of 2020. With the global economic restart of 2021 and the vast sums of capital at PE funds' disposal, it was also virtually guaranteed that most firms would see their deal activity make a comeback.

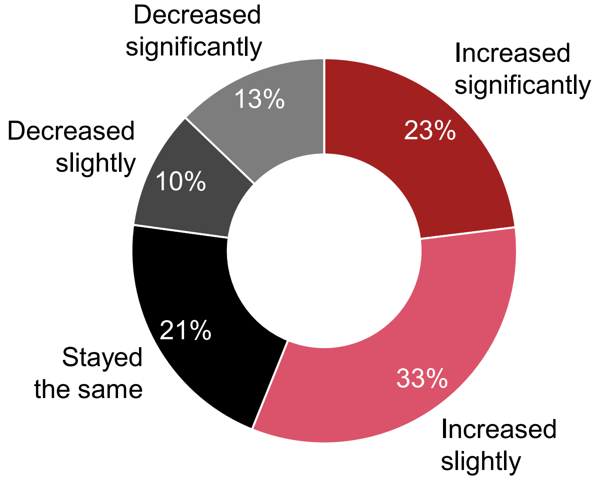
Just over half (56%) of GPs say that their dealmaking was up in 2021, including nearly a quarter (23%) who say it was up substantially. This leaves a 23% minority who report their deal count falling in 2021.

One trend that has emerged since the pandemic is an apparent bifurcation in the fundraising market, capital accumulating with managers with longer track records. LPs have been restricted in their ability to travel and conduct due diligence with newer firms. Hence, more established brands have been better capitalised and were able to make the most of the economic restart and companies' need for financing. These conditions have had a bearing on firms' ability to transact.

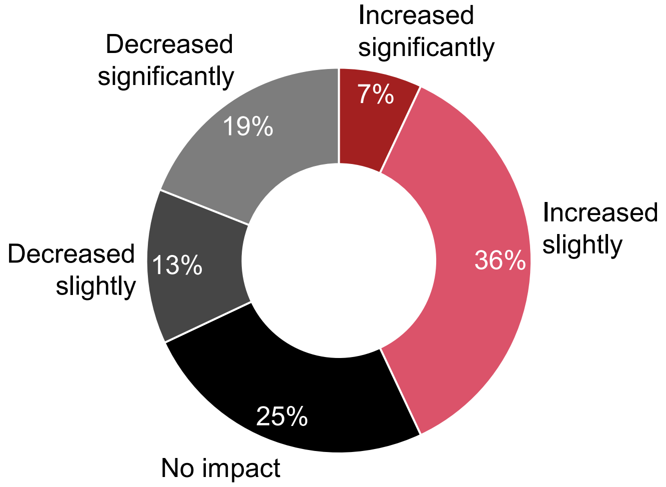
Recent circumstances have not only influenced the number of deals that PE firms are making, but the type too. GPs have had little choice but to reappraise their sector strategies and rethink which areas of the economy are likely to outperform over the next five years. “We increased our investments because there were good prospects available”, says the managing partner of a mid-market Nordic PE firm. “With our latest investments, we have diversified into new sectors for more stability. We anticipate good returns from these investments made in 2021.”

Asked specifically whether the global COVID-19 pandemic in particular has buoyed dealmaking activity, 43% of respondents say that it has indeed increased the number of deals they have made, although a sizeable 32% also report that their deal count fell and 25% say it had no effect either way. Again, this may have been shaped by the divergent fundraising market as well as GPs' different risk appetites in what remains an uncertain environment.

Compared to 2020, has the number of new investments made by your organisation this year…?



Has the global pandemic of COVID-19 in 2021 impacted the number of new investments of your organisation?



Source: Mergermarket

1. 2021 in review

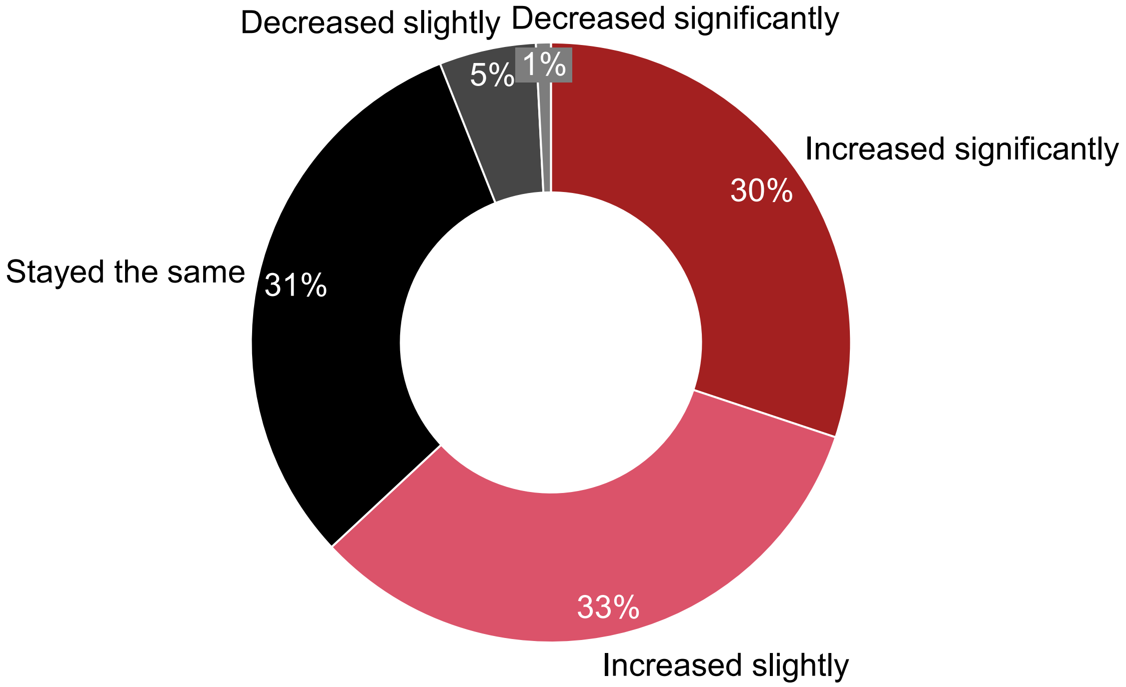
Competition gets fiercer

While fundraising has not been universally successful for all PE managers during the pandemic period, there is certainly no shortage of capital sloshing around the ecosystem, up and down the enterprise value spectrum. Funds are experiencing intense competition for deals as they gravitate towards companies with compelling industry growth outlooks - TMT and tech-related assets being a particular hotspot. Nearly two-thirds (63%) of respondents in this year's survey agree that competition for investments among PE firms increased in 2021 compared with 2020.

Inevitably, this is pushing up pricing multiples, making the job of PE firms much harder.

There is little sign of this easing either. PE's dry powder reserves have only been growing over the long term and there are new sources of capital in the mix. Special-purpose acquisitions companies (SPAC) already existed before the pandemic, but they have taken off like never before over the past two years, primarily in the US market. Given the competitive dynamics across the Atlantic, these SPACs have been scouring Europe for deals, with a prime focus on privately-owned tech-related assets. This is adding an extra layer of competition for PE firms.

Compared to 2020, would you say that competition for investments among private equity firm has…?



Source: Mergermarket

1. 2021 in review

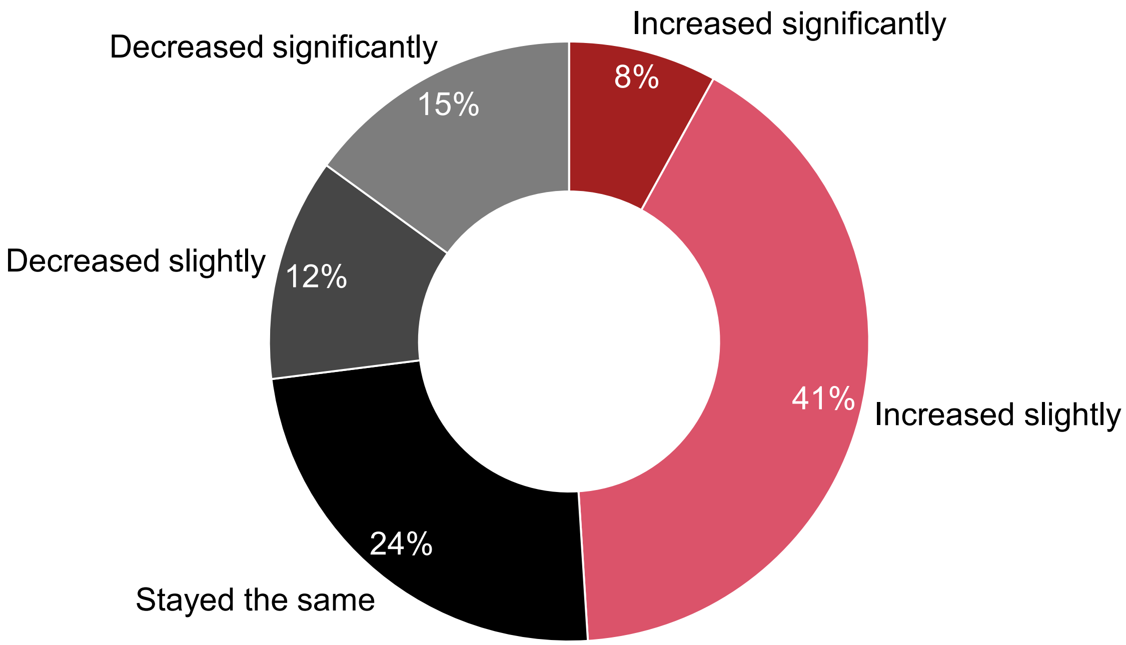
Exits increase

In the current scorching hot deal environment, there may be concerns about how well the 2021 and 2022 vintages will perform when today's deals are eventually harvested. However, it is clear that we are very much in a sellers' market across many industries, pandemic-stricken sectors being the exception.

For those fortunate enough to be holding portfolio companies in attractive areas of the economy, it has been a great time to exit and return profits to investors. Compared with 2020, almost half (49%) of respondents say that the number of sales made by their firm increased in 2021.

According to the partner of a Finnish mid-cap firm, while consumer investments often deliver consistent returns over the long term, the IT and software sectors have proved to be especially attractive as these are the types of assets that investors want for themselves right now. “Investments in information technology solutions can get more profits in the short term”, they say. “The exits can also be completed quickly because there is a demand for these targets.”

Compared to 2020, has the number of exits made by your organisation this year…?



Source: Mergermarket

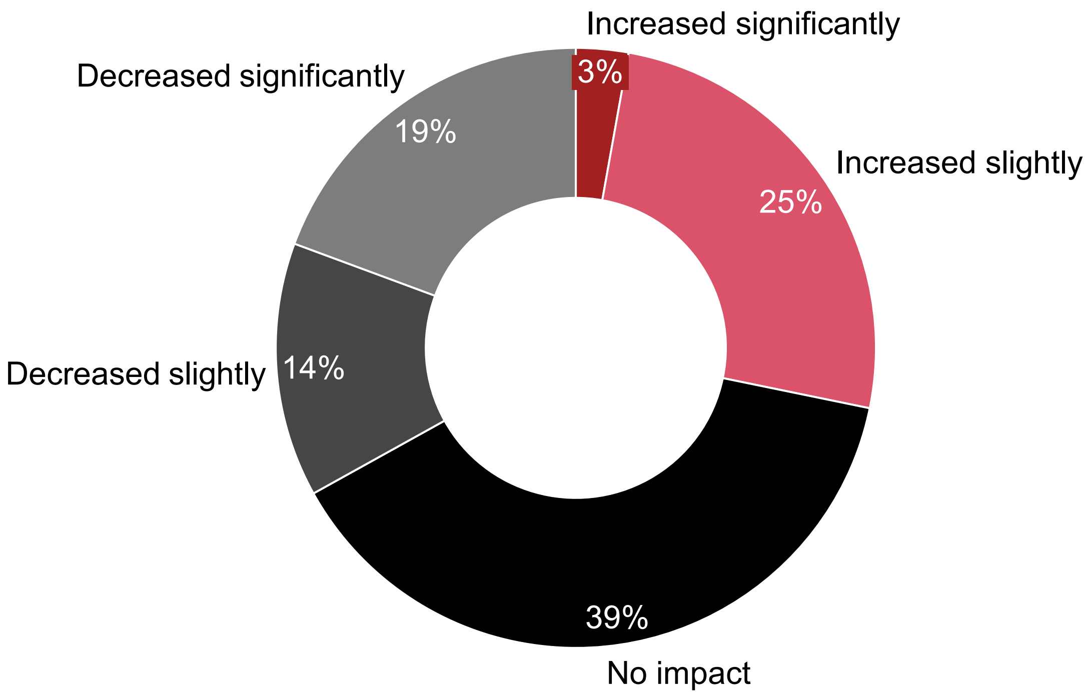
1. 2021 in review

COVID leaves exits unaffected

The jury is out on whether the pandemic has been a net benefit for company realisations. While nearly half say their exit numbers increased last year, 39% report that the COVID-19 situation had no influence at all on that activity. Of those that believe there was an impact, it is almost evenly balanced between 28% who say the pandemic boosted their exit activity and 23% who report it weighed on the number of divestments they secured.

In many ways, the pandemic has been both a blessing and a curse. In one respect, PE firms holding in-demand assets have seen one of the best sell opportunities ever in 2021. However, completing due diligence has been very challenging. For those PE firms unfortunate enough to be heavy on consumer-facing services such as restaurants, travel and leisure, the recent crisis period has not been conducive for exits at all.

How has the pandemic of COVID-19 in 2021 impacted the number of exits of your portfolio companies



Source: Mergermarket

1. 2021 in review

Policies and people have the greatest pandemic impact

The consequences of the pandemic have been wide ranging, to say the least, from government-mandated lockdowns and business disruptions to ongoing supply chain challenges, as demand has whipsawed from low to high.

In the eyes of PE investors, 46% cite national and local policies as being the outcomes that have had the greatest impact on their firms and portfolios. These managers not only had to adjust to remote working, but government policies in their jurisdictions have also had various degrees of impact on companies, with consumer services businesses being completely upended. A further 40% say that changing consumer behaviour has been the biggest impact they have seen, although some see this reverting in some respects. The partner of a French PE firm says: “As things are going back to normal slowly and people are adapting to post-COVID trends, buyer behaviour is improving in favour of the consumer industry.”

Some of those post-COVID trends will be here to stay though and 38% view the disruption of established business models as being the biggest impact of the pandemic, with a similar-sized proportion (39%) pointing to supply chain challenges, which are still ongoing and have been especially challenging for manufacturing, industrial and consumer goods companies.

Source: Mergermarket

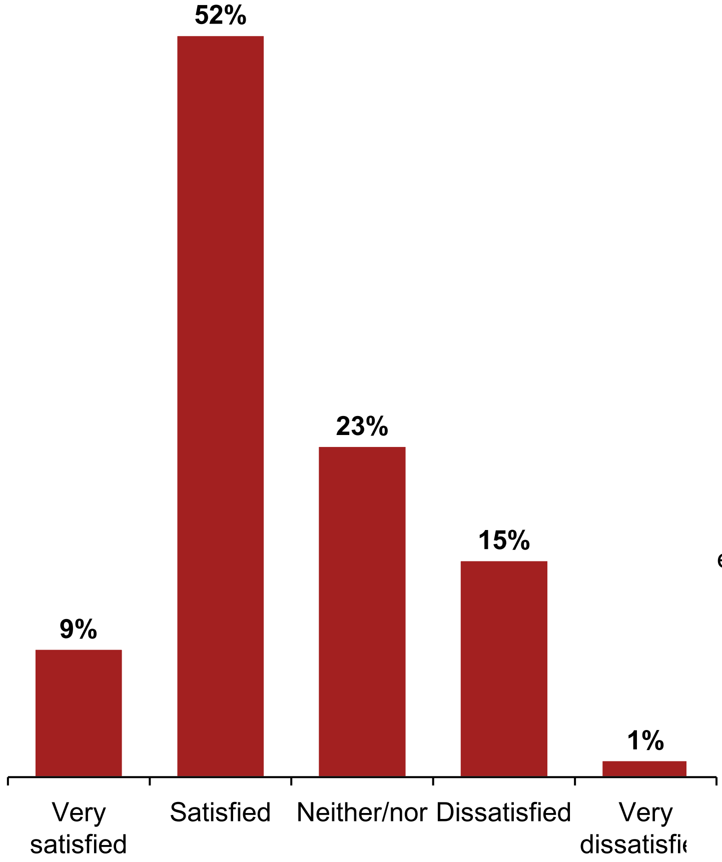
1. 2021 in review

Satisfaction from portfolio

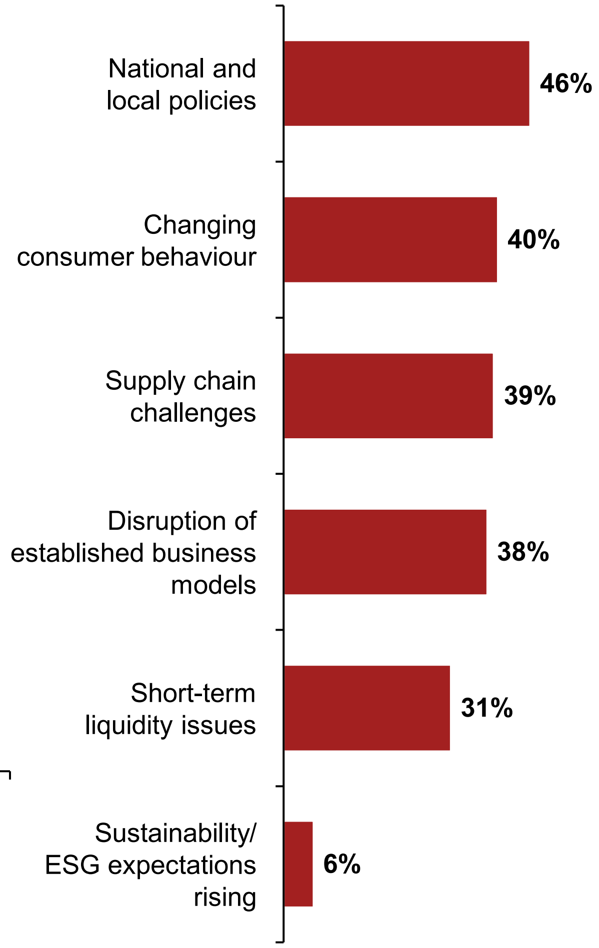
There has been a change in tune among fund managers over the past 12 months. A year ago, when asked whether they were satisfied with the development of their portfolio companies, 54% responded in the negative.

The economic restart in 2021 has brought business activity back, so much so that supply is unable to keep up with demand. In keeping with this reversal of fortunes, we now find that 61% of respondents are satisfied with the development of their portfolio companies in 2021, although only 9% go as far as saying they are very satisfied. There is clearly more room for improvement in trading performance, particularly within pandemic-sensitive sectors.

How satisfied or dissatisfied are you with the development of your portfolio companies in 2021? Would you say you are…?



Looking back at 2021 and the effects of the global COVID-19 pandemic, which of the following have had the strongest impact on your firm as well as your portfolio (select top two)



Source: Mergermarket

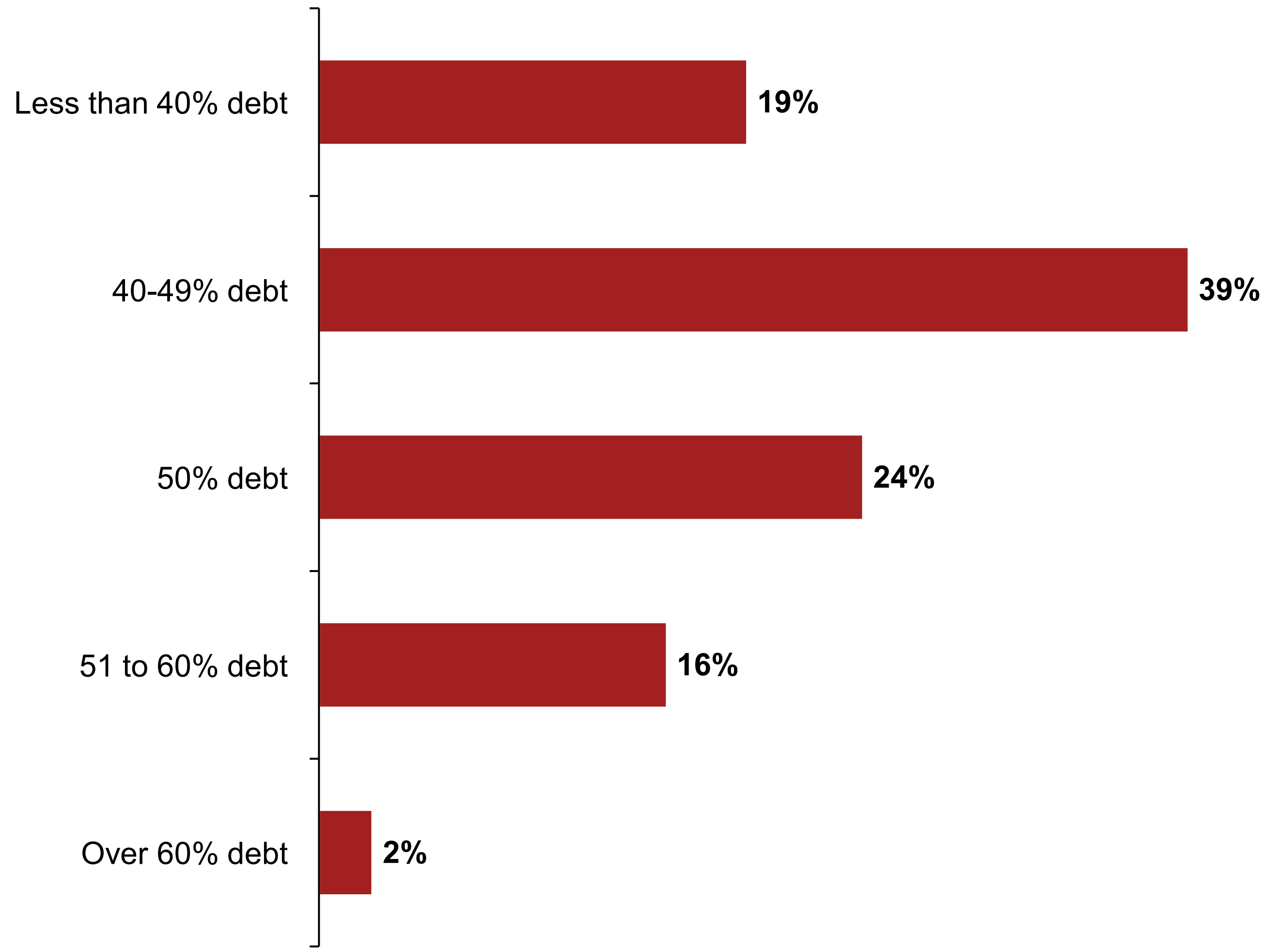
1. 2021 in review

Debt-to-equity ratio

The economic growth momentum seen in 2021 in theory should give sponsors the confidence to increase leverage in their deals, particularly in companies that are able to service higher debt loads. However, the recovery is still in its early stages and GPs have been exercising caution.

Only 2% of respondents report using an average debt-to-equity ratio of above 60% in their deals in 2021, opposed to 15% stating to have used that ratio in prior years. A significant 39% majority have settled on between 40% and 49%, meaning most of their deal financing is coming from their own equity funds. It is reasonable to assume that sponsors are behaving conservatively to avoid any missteps, but equally lenders are likely to be more prudent, carefully choosing which companies they think can safely service higher levels of debt based on their recent trading performance. The percentage of PE houses that have financed their acquisitions with 50% or more leverage has sunk from 56% in the prior year's findings to 42% in 2021.

What was the average debt to equity ratio used by your organisation on new investments made in 2021?



Source: Mergermarket

1. 2021 in review

LPs demand more

LPs want more from their GPs, a trend that has been ongoing for some time and is unlikely to change any time soon. Four in five respondents say their investors have increased their requirements over the past three years, including 44% who go as far as saying these expectations have increased significantly over this period. This is down on last year's findings when 63% saw significant demand increases. GPs have now come to terms with higher expectations and so are likely somewhat less sensitive to it.

Access to deal flow and transparency take precedence. Over three-quarters (77%) expect an increase in frequency of individual co-investment opportunities in a bid to boost their overall net returns, which makes GPs lives even more difficult in times of returns being put under pressure by sky-high multiples and fierce competition.

Source: Mergermarket

1. 2021 in review

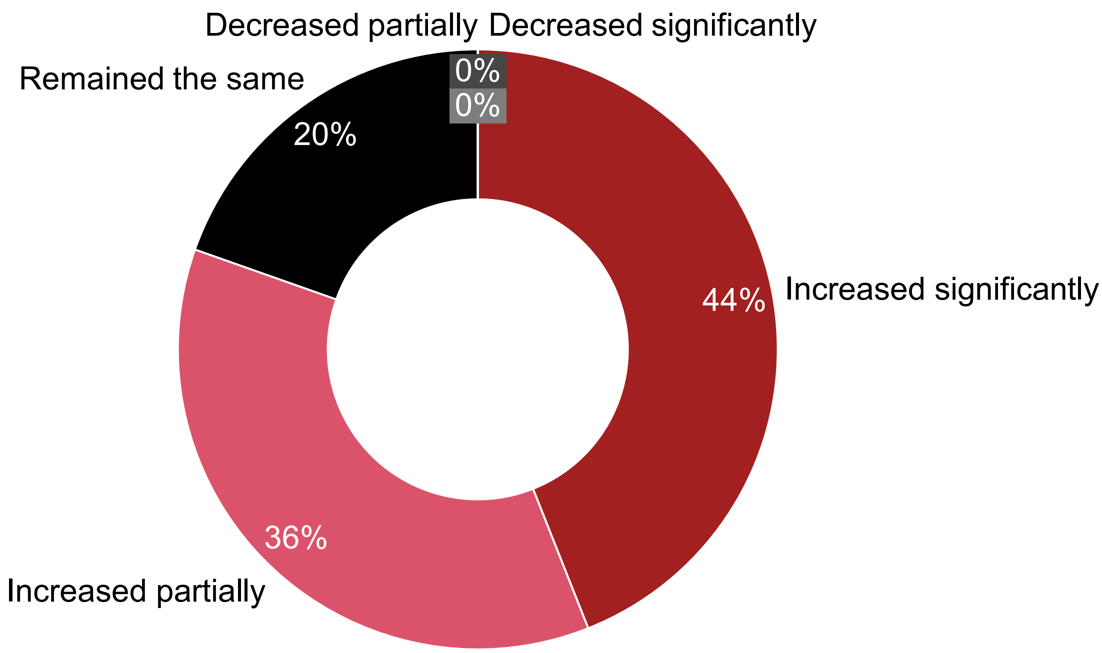
Full disclosure

Meanwhile, 74% say increased disclosures are among the main requirements being demanded by their LPs, including 35% who say this is the number one requirement, putting it above all others. PE has been regarded by some as opaque, particularly with regard to extraneous fees that are often charged to portfolio companies and may not always be clear to the fund investors. Trade associations such as Invest Europe and the Institutional Limited Partners Association (ILPA) have sought to address this perceived lack of transparency by introducing standardised reporting templates.

More recently, attention has shifted towards environmental, social and governance (ESG) reporting (see Chapter 4 on page 94), the diversity, equality and inclusion (DEI) segment gaining greater attention. In November 2021, ILPA introduced a Diversity Metrics Template to provide a framework for ongoing monitoring of GP team diversity and actions being taken to progress issues related to DEI. As part of updating its LP due diligence questionnaire, the trade association has also incorporated core questions to help investors understand GPs' ESG practices.

Despite the growing industry attention being paid to ESG topics, our research shows that only 25% of PE funds report these being among the top three areas in which LPs have had increasing expectations over the past three years. Further, a mere 7% say this is the number one demand coming from LPs, though that could change sharply over the coming three years, as ESG becomes increasingly mainstream across the asset class spectrum.

Have expectations and requirements of your Limited Partners (LPs) changed over the past three years?

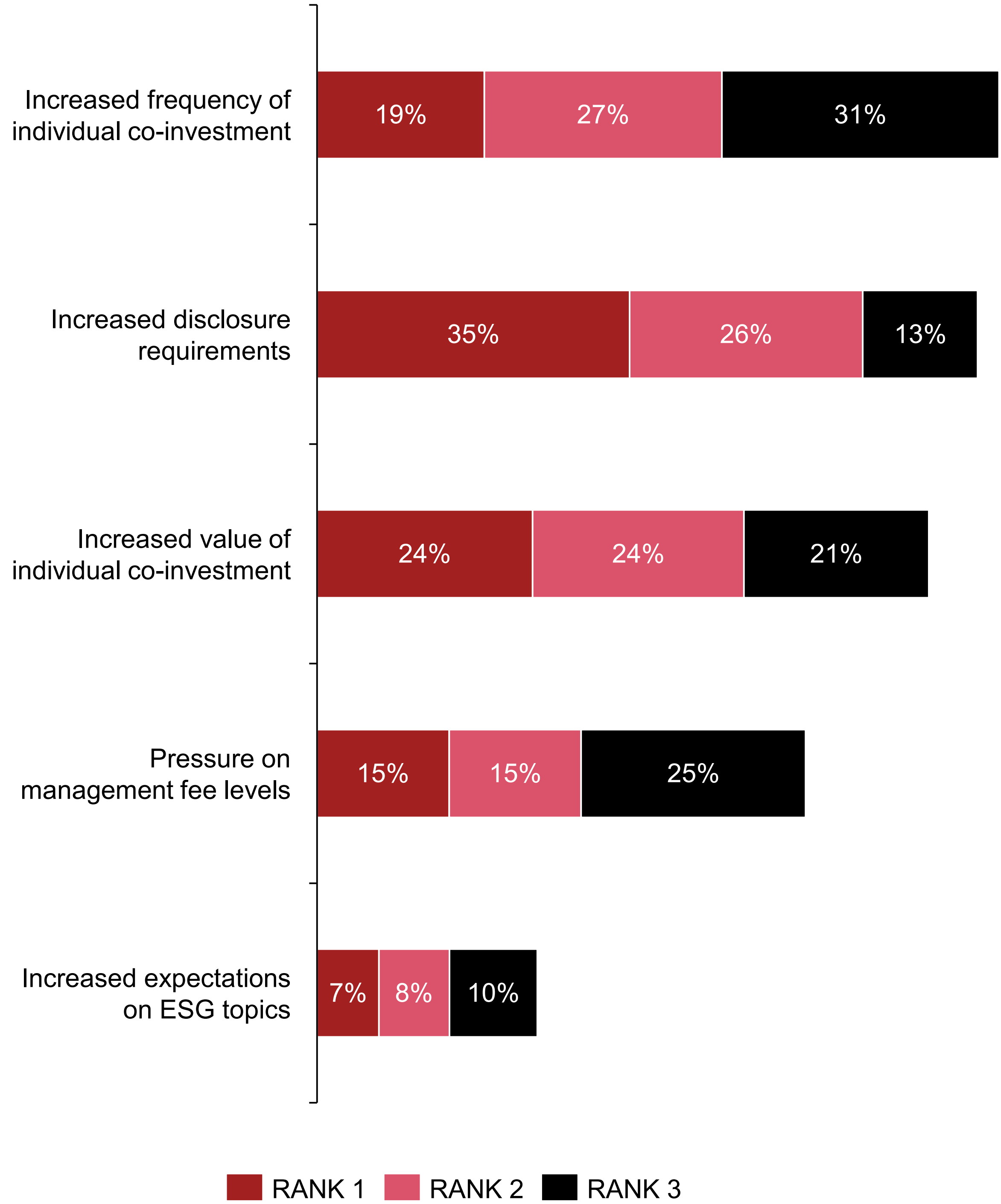


Source: Mergermarket

1. 2021 in review

Which of the following best describe the changes in expectations and requirements from your Limited Partners …?

(Please rank top three, where 1 = biggest change)



Source: Mergermarket

2. The year ahead

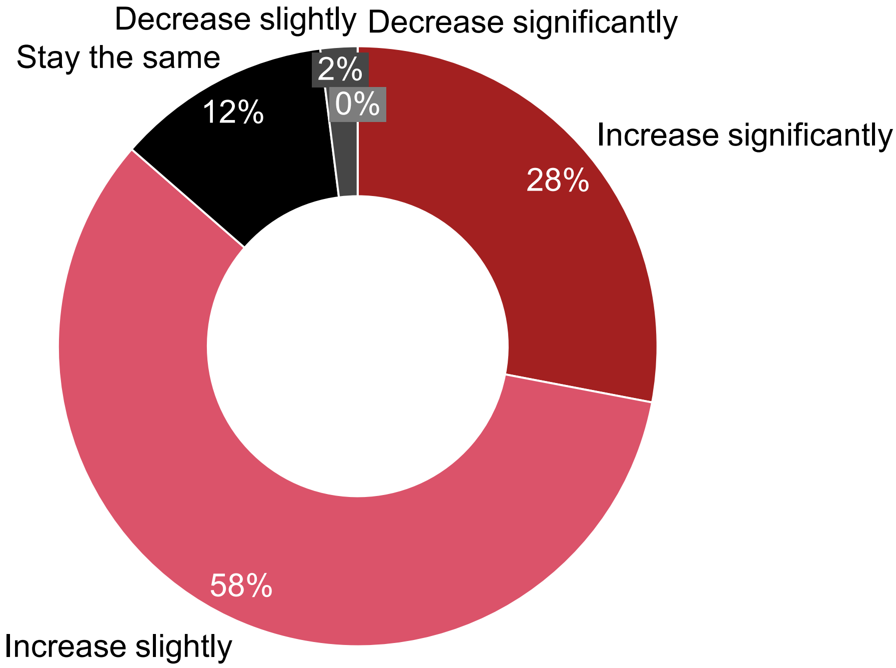
Investments to increase

Can 2022 top a record-setting 2021? Most in Europe's PE industry are optimistic, judging by their appetite for new deals. As much as 86% of respondents expect their organisation to increase the number of new investments they make this year.

One reason to expect this is the buoyant fundraising market. According to Pitchbook, €91.9 bn was amassed in 2021, which is in line with the median amount raised during the past five years. Coupled with this is the accommodative financing environment, even if there are expectations of rates rising over the next two years.

Another reason to expect more deals, according to a principal at a US-headquartered global PE firm, is Europe's impressive recovery over the past year. “The European markets have become more resilient now”, they say. “Considering how Europe was one of the worst-affected regions during COVID-19, the progress has been very good since the initial impact. Companies have recovered by employing creative strategies.” It seems that the region has put the worst of the pandemic behind it. World Health Organization regional director Dr Hans Kluge recently said that Europe is entering a “plausible endgame” of the pandemic as COVID deaths plateau despite the recent surge in infections.

Compared to 2021, do you expect the number of new investments made by your organisation in 2022 to…?



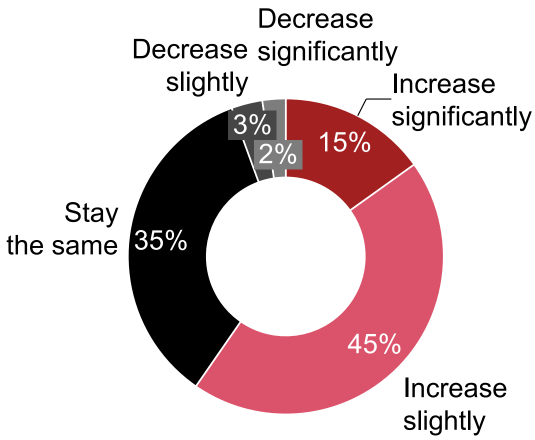
Source: Mergermarket

2. The year ahead

Exits to grow

There is currently intense competition to deploy capital. While this can make the life of a buyout manager challenging when selecting and valuing deals, it does help when looking to exit. Sellers' markets are great for realising existing portfolio companies and delivering profits to investors. On this front, GPs are likely to be busy over the next 12 months. Overall, 95% of respondents expect their exit activity to either remain the same or increase this year. Having spent the past two years supporting and transforming their portfolio companies for the post-pandemic world, now is the time to reap the fruits of that labour.

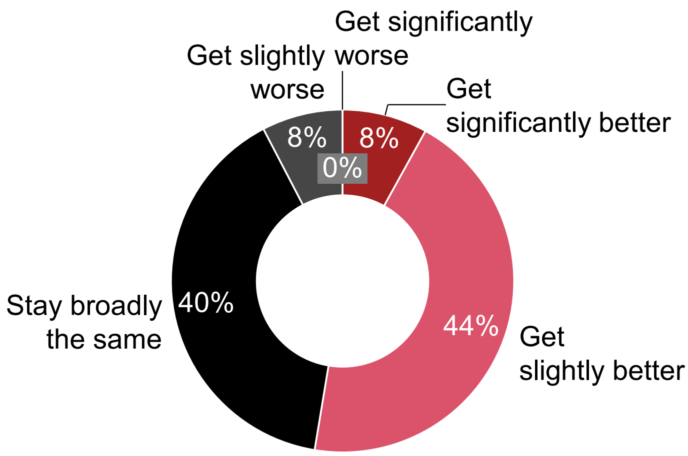
Compared to 2021, do you expect the number of exits made by your organisation in 2022 to…?



Optimism abounds

Optimism continues to run high. Last year, 58% expected the deal environment to improve in 2021 and looking ahead to the next 12 months, a similar percentage (52%) still hold this view. 40% of GPs see things staying the same, which, all things considered, is no bad thing given 2021's stellar performance.

How do you expect the European deal market for private equity to develop in 2022? Do you think it will…?



Source: Mergermarket

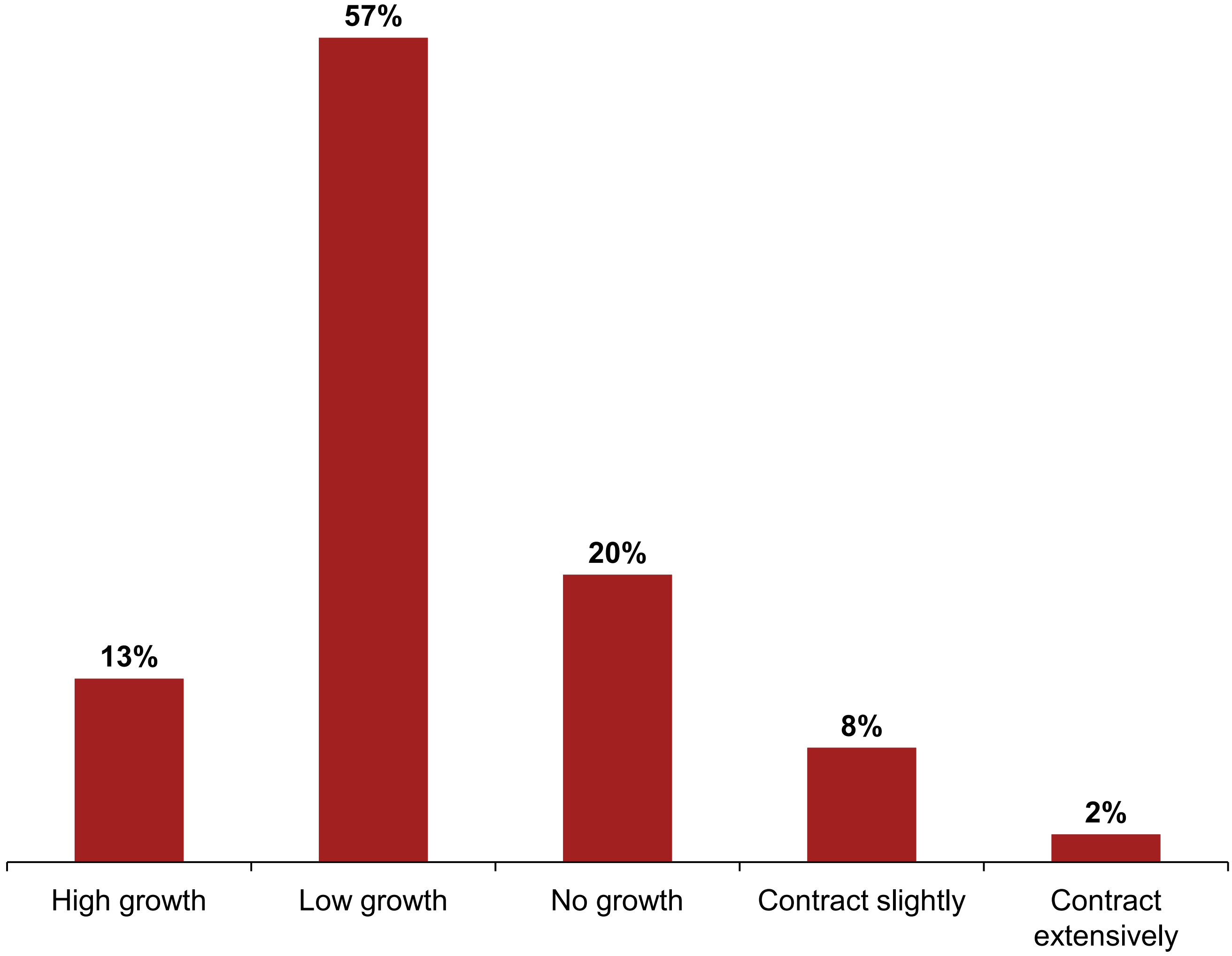
2. The year ahead

Economy expected to grow

Aligned with the upbeat market perspective, GPs are similarly positive about the bigger picture.

A large majority are confident about the macroeconomic outlook. Seven in ten respondents are expecting the global economy to grow in 2022, with only one in ten expecting it to contract. A recession may not be imminent, although there are signs that growth will undershoot earlier projections. The International Monetary Fund said in January that it expects global GDP to be up by 4.4% in 2022 – half a percentage point lower than its October forecast, the recovery having since been disrupted. This is largely owed to Omicron and the ongoing supply chain disruptions forecast markdowns in the US and China, the world's two largest economies. The euro area is expected to trail the global average with 3.9% growth.

How do you expect the world economic situation to develop in 2022?



Source: Mergermarket

3. The year ahead

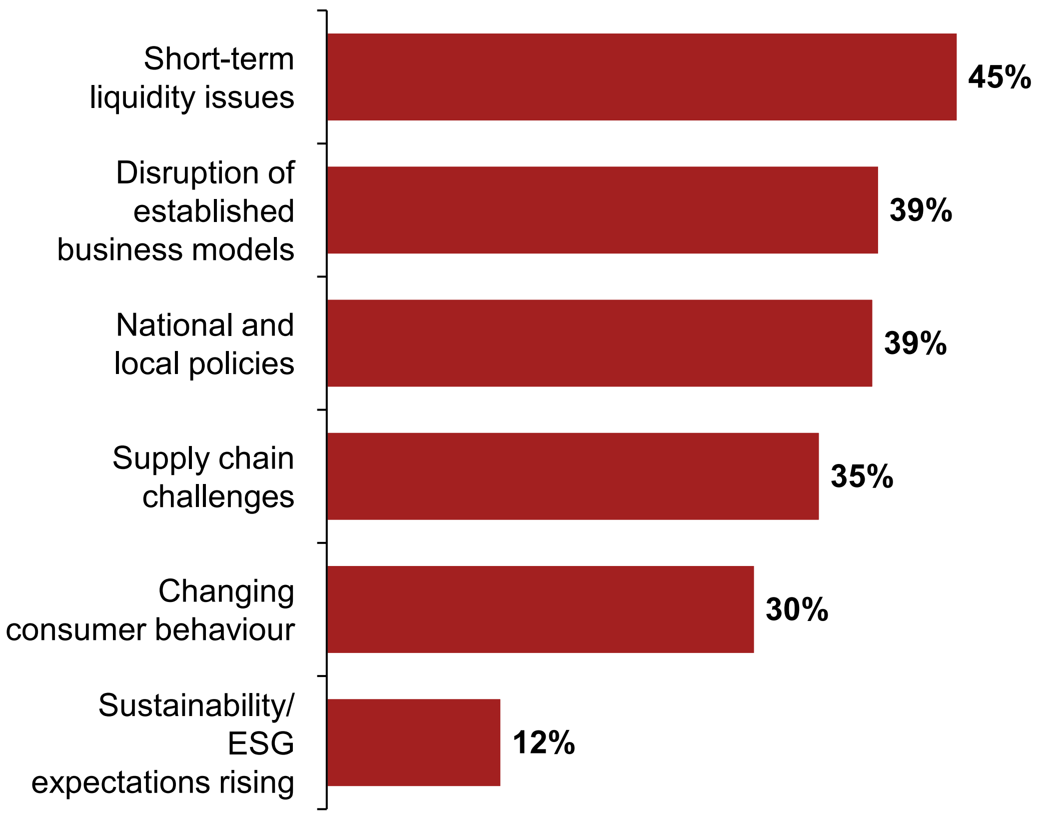
Liquidity is a little solid

Liquidity continues to be a prime concern and where GPs are feeling the greatest impacts on their own firms and their portfolio companies. Securing cash is paramount in an environment that continues to throw up unexpected challenges and disrupt the ability of businesses in certain industries to trade. In terms of the impact of the pandemic, close to half (45%) see short-term liquidity issues as having the biggest effect in the next 12 months, reflecting last year's sentiment.

Having a little more prominence than last year are concerns over the disruption of established business models and national and local policies, both cited by 39% of respondents as likely to impact their operations and investments, versus 32% for each this time last year. This seems to speak to the lasting impact of the pandemic. Many were hopeful this was a temporary crisis and that things would return to the "old" normal following the mass distribution of vaccines.
That is proving to be a premature assumption, with countries such as Switzerland indicating that they believe the disease is endemic and therefore deciding to lift all restrictions. Some pre-pandemic business models may simply not survive in their current form and governments may take increasingly divergent approaches to managing their way out of this, with all this delivering a "new normal" that GPs and their portfolios alike need to adapt to.

Looking ahead to 2022 and the effects of the global COVID-19 pandemic, which of the following do you expect will have the strongest impact on your firm as well as your portfolio?

(Select top two)



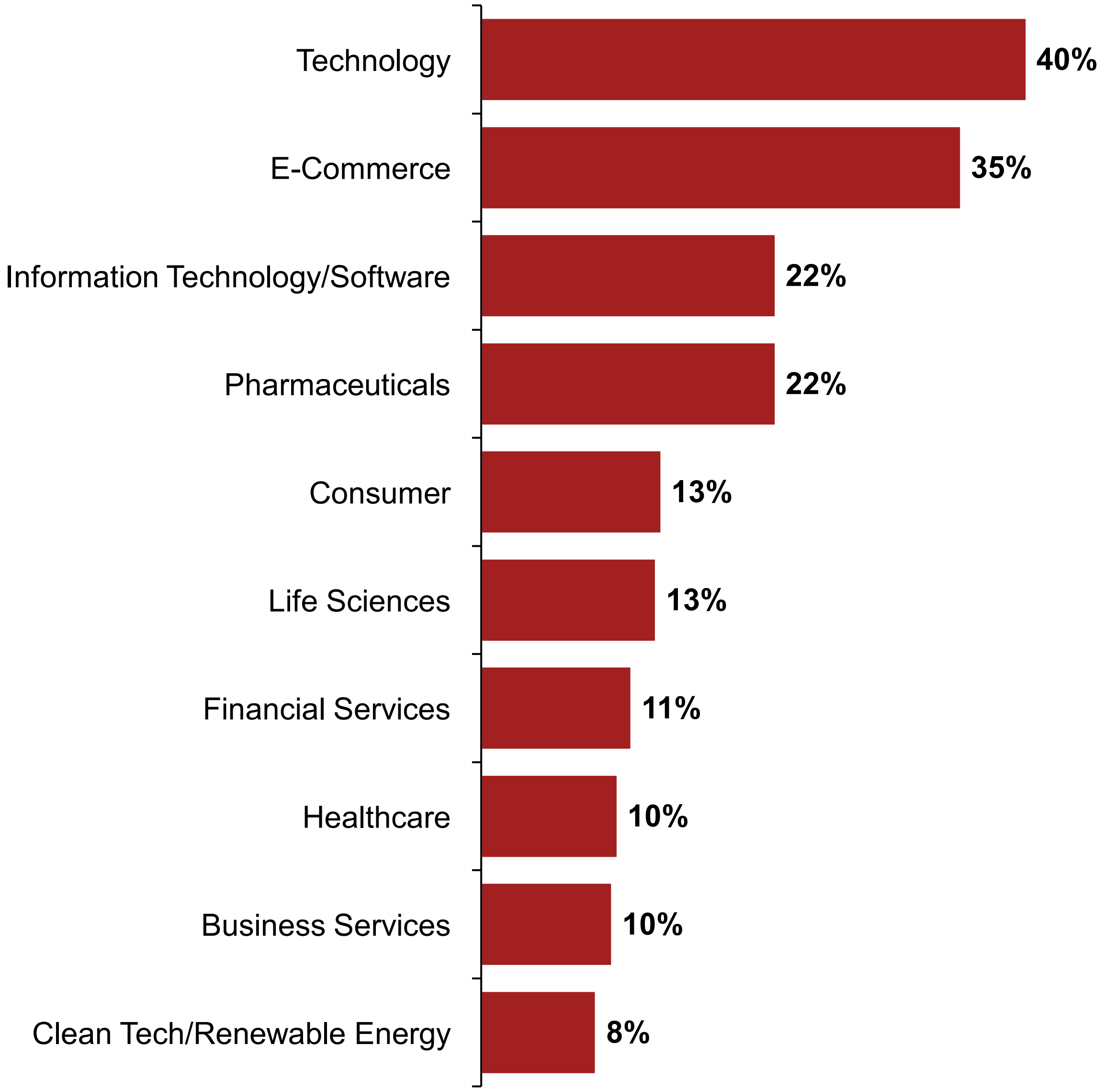
Source: Mergermarket

2. The year ahead

TMT is top

When asked which industries will emerge from the pandemic in the strongest position, respondents strongly indicated TMT sectors, resulting in technology (40%), e-commerce (35%) and IT software (22%) taking three of the top four positions. Pharmaceuticals (22%) came joint third. All of these squarely play into the pandemic narrative and despite stock market valuations getting ahead of themselves before weakening in early 2022, demand in these sectors continues to run high. The challenge for PE, as ever, will be capitalising on the growth in these industries while simultaneously securing attractive entry prices. Overpaying, even for high-growth assets, will ultimately drag on returns.

Which industries will emerge from the COVID-19 pandemic in the strongest position? (Select top two - top ten responses shown only)



Source: Mergermarket

2. The year ahead

Digitalisation is key, but drivers of equity stories are mixed

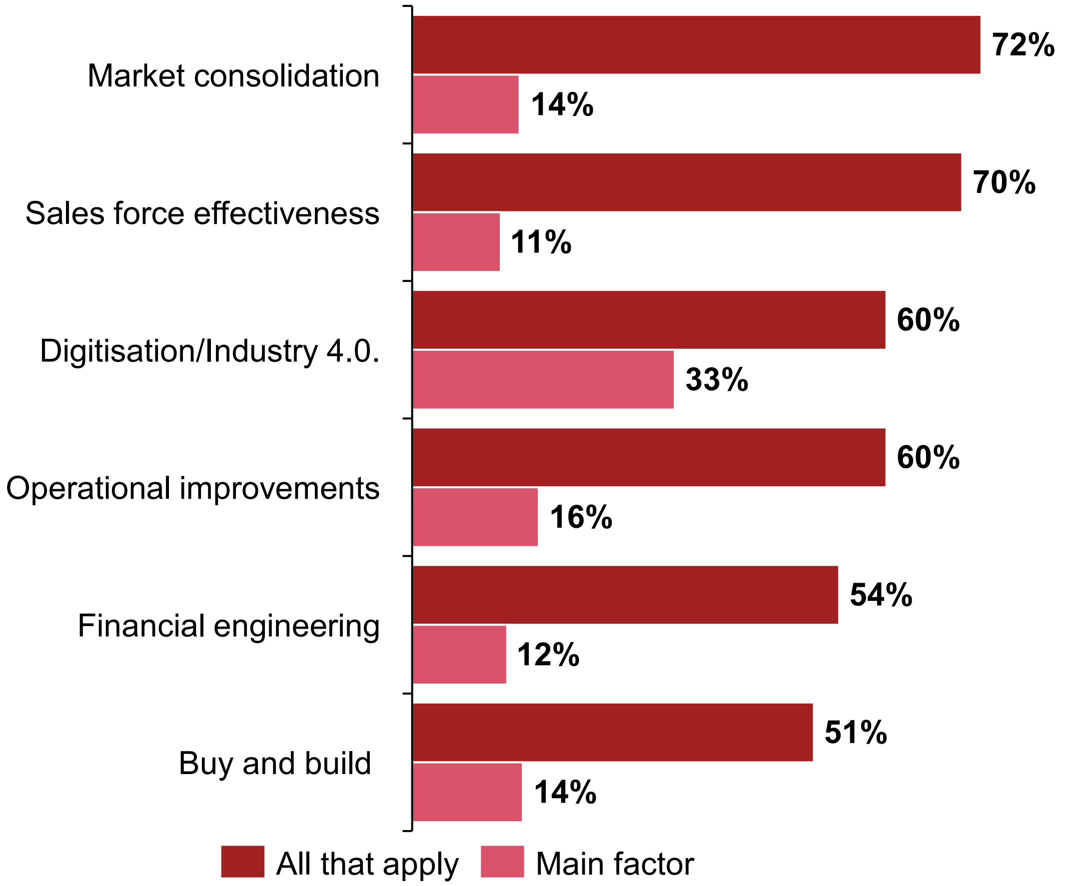
Almost three-quarters (72%) of respondents say that market consolidation will influence equity stories on their organisations' acquisitions in 2022, with sales force effectiveness receiving a 70% share. Consolidating industries is straight out of the PE playbook. It builds larger businesses that can often fetch higher EBITDA multiples at exit, while achieving growth by strengthening the enlarged company's proposition and delivering potential cost synergies.

For the managing partner of a Swiss PE firm, doing this amid continued disruption can be especially opportunistic. “The focus on market consolidation is important after an influential black swan event like the one we have seen. It opens up new opportunities for stakeholders to fast-track change in an industry and increases the chances for further growth and development”, he says.

Digitalisation and operational improvements are also each highlighted by 60% of respondents as expecting to have an impact on their equity stories. Moreover, when asked what factor will have the single most impact, a full 33% pointed to digitalisation, ahead of any other influence.

Looking ahead to 2022, which of these factors do you consider will influence equity stories on acquisitions for your organisation?

(Please select all that apply and what you consider to be the main factor)



Source: Mergermarket

3. The year ahead

New deal opportunities

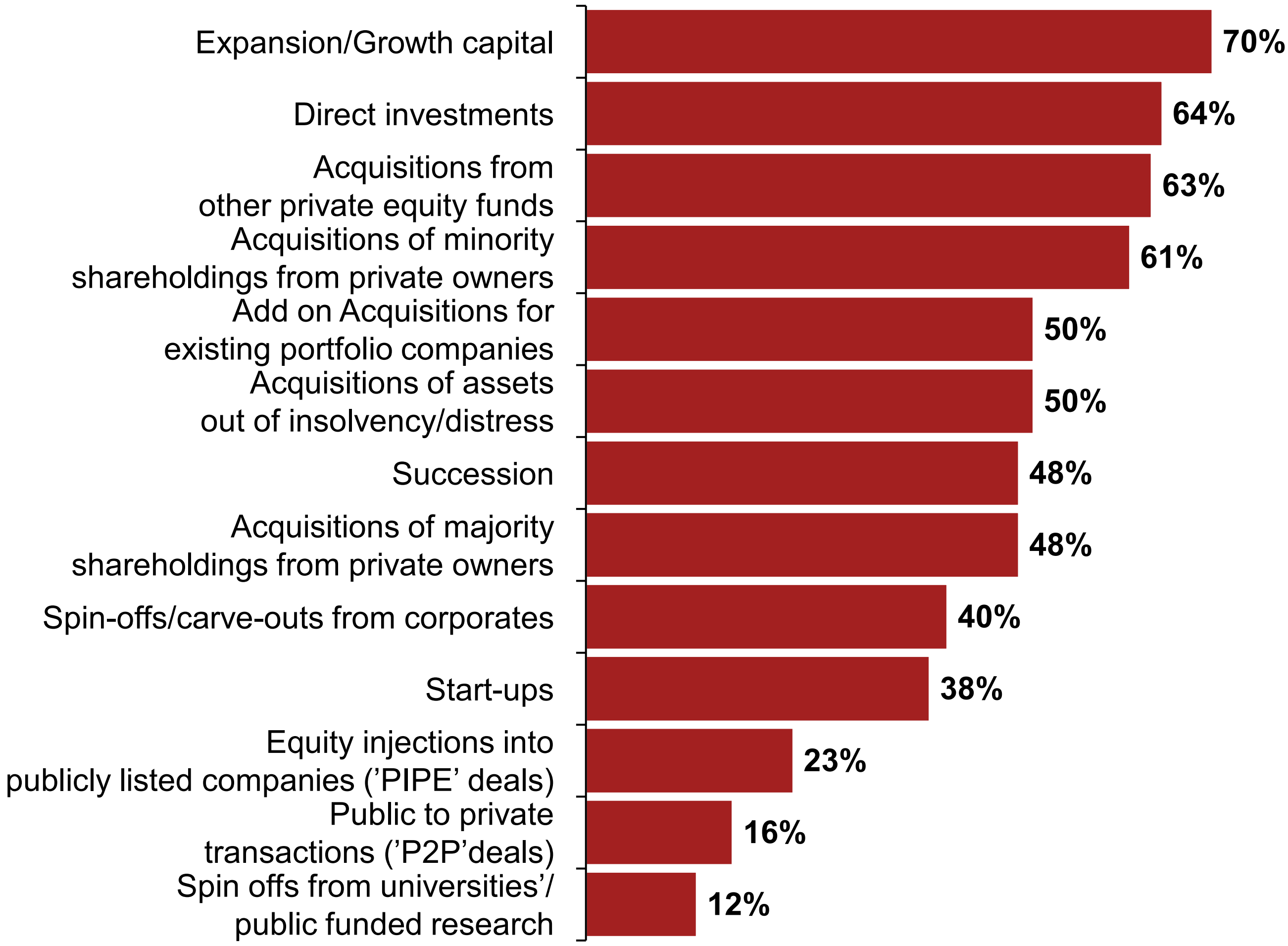
Expansion/growth capital is most commonly expected to be a source of new deal opportunities for respondents' organisations in 2022, cited by 70%. This is closely followed by direct investments (64%), as well as acquisitions from other private funds, i.e. secondary buyouts (63%) and acquisition of minority shareholdings from private owners (61%).

Growth equity deals are an anticipated leading source of deals. Growth equity strategies tend to focus on sectors that are expected to exhibit more rapid expansion than the broader economy, such as technology, healthcare, business services and financials.

Consistent with this finding, the most commonly selected industry that respondents say their organisation is most likely to invest in is technology. The order of the day is finding truly disruptive tech businesses, especially those whose products and services sell into a cross section of industries and can therefore rapidly scale up with the right investment and strategic support from financial sponsors.

In your opinion, which, if any, of the following will be sources of new deal opportunities for your organisation in 2022?

(Please select all that apply)

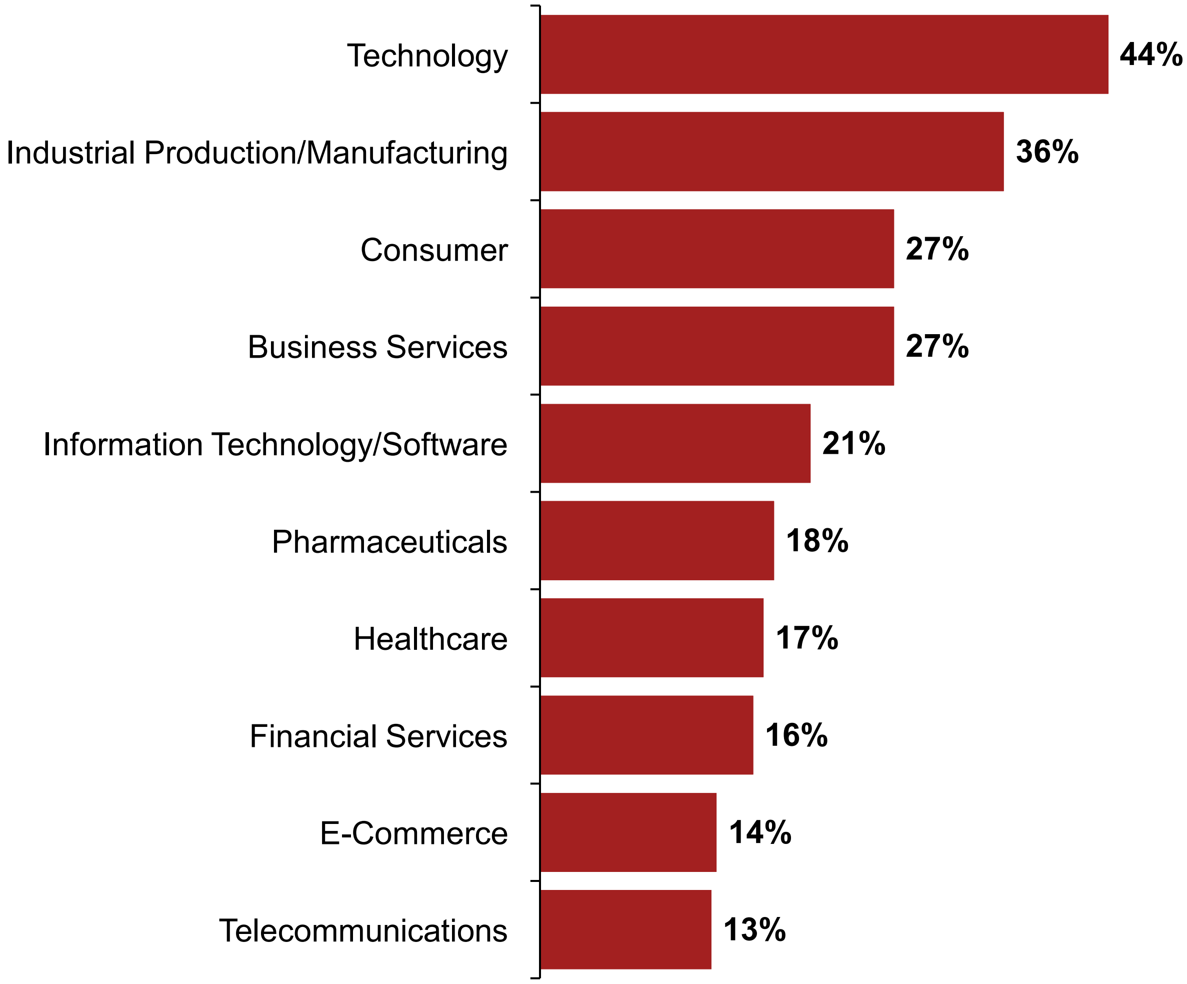


Source: Mergermarket

2. The year ahead

In your opinion, which of the following industries is your organisation most likely to invest in over the next 2 to 3 years? Please specify a maximum of 3 industries.

(Please choose up to three)



Source: Mergermarket

2. The year ahead

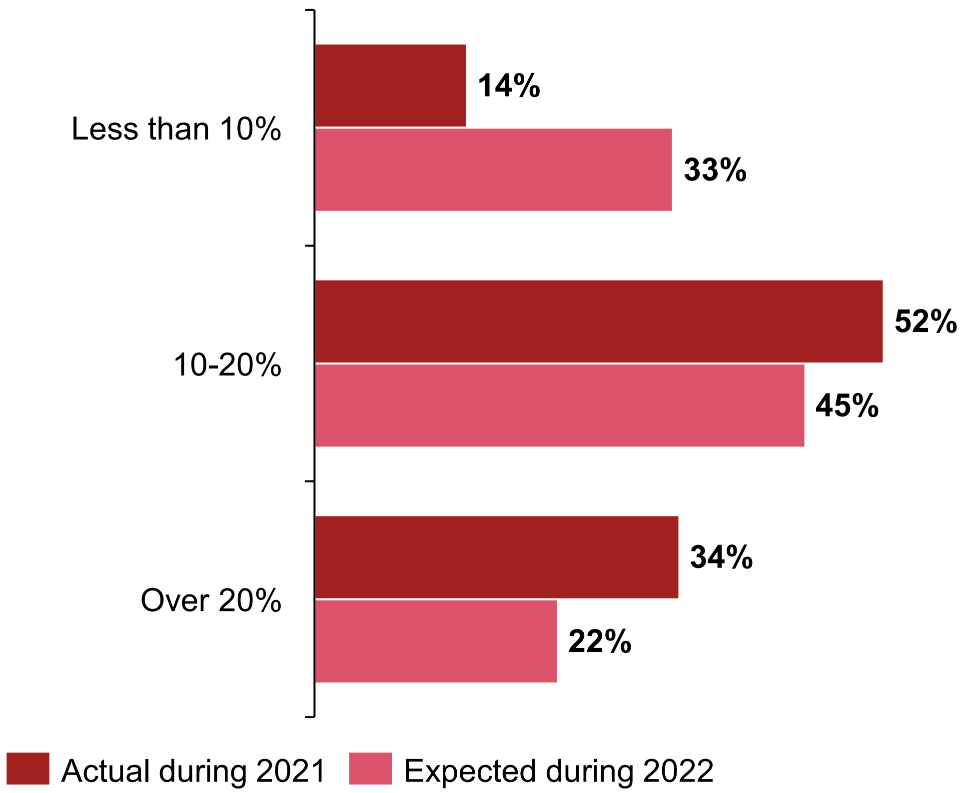
Breach of contract

Covenant breaches remained high in 2021, with pressure on companies to service their debt spilling over from the first year of the pandemic. It seems that despite government support and a push to refinance and renegotiate loan terms since the pandemic, portfolio companies continued to breach agreements.

Just over a third (34%) of respondents say this was the case for over 20% of their portfolio companies, exactly matching last year's findings. Also, 52% say that 10%–20% of their portfolio companies broke one or more bank covenants, or otherwise needed to enter negotiations with their financing providers in 2021, up a single percentage point on last year.

Looking forward, however, those expecting more than one in ten of their portfolio companies to break one or more bank covenants dropped from 86% in 2021 to 67% expecting this in 2022. This is undoubtedly a positive trend and suggests that companies' balance sheet health and earnings are improving.

During 2021, what percentage of your portfolio companies broke one or more bank covenants, or otherwise needed to enter negotiations with their financing providers? And what do you expect this percentage to be in 2022?



Source: Mergermarket

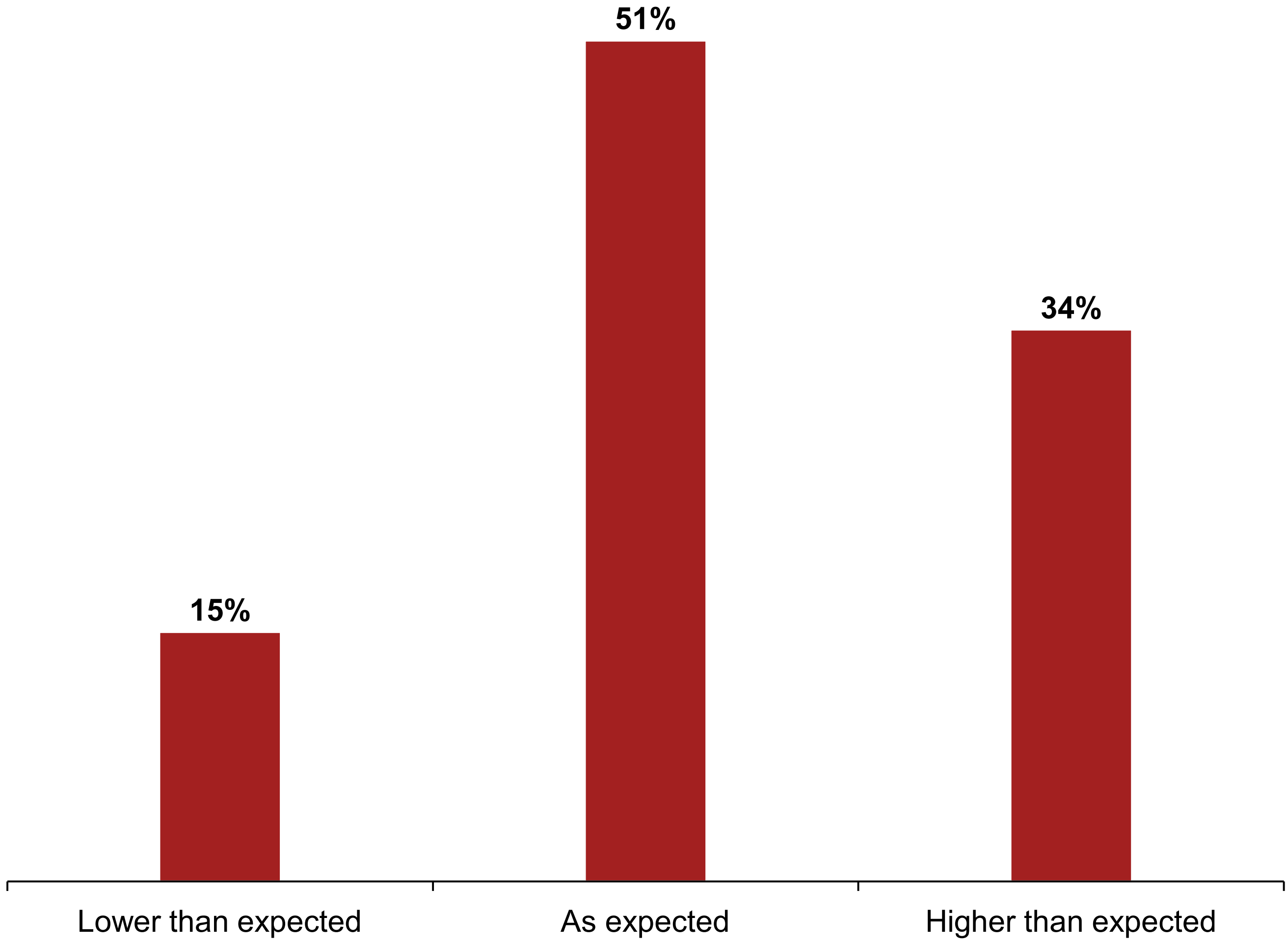
2. The year ahead

Returns: 2021 vs 2022

PE's claim is that it outperforms other equities. There is some contention over how you compare the two, given the various public market indices available. Since the global financial crisis, it is true that PE's lead has narrowed, as central banks' 'accommodative' policies fueled a massive extended stock rally. Even so, PE has managed to deliver 1%–5% over and above public equities since 2009, according to analysis by JP Morgan.

GPs are fairly satisfied with the returns they have been able to deliver over the past seven years. A 51% majority say returns have matched their expectations and 34% surprised themselves with better than expected results. Only 15% fell short of the mark. This suggests that, for the majority, their LPs should be willing to come back for more when they decide to launch successor funds – although, over the longer term, that will depend on whether this performance can be sustained.

Looking back on the returns on investments you made during the past five to seven years: have they been/are they expected to be:



Source: Mergermarket

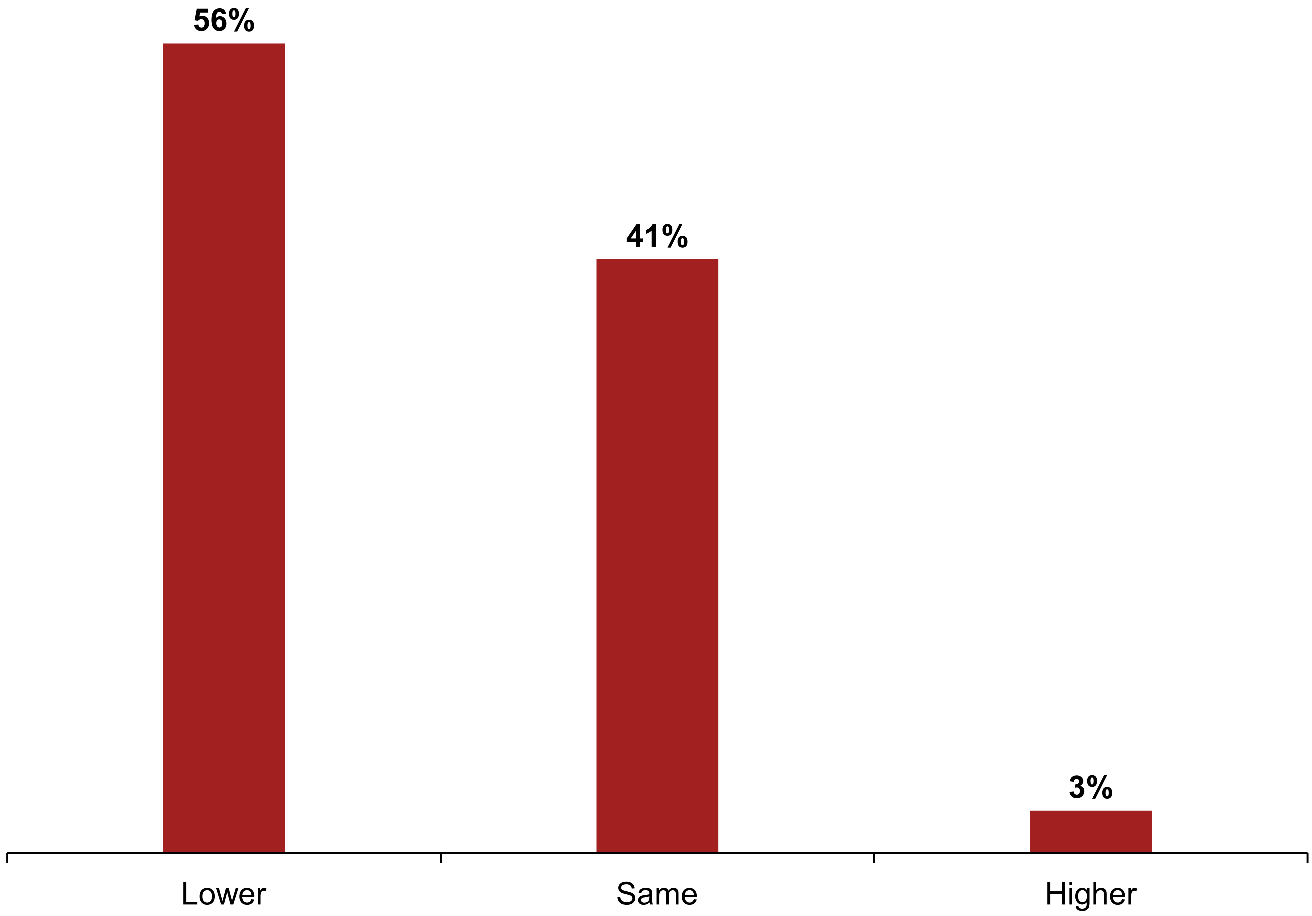
2. The year ahead

Anxiety over the 2021 vintage seems to be relatively high. A 56% majority of respondents expect their returns on investments made during the past year to underperform their historic average.

It is harder to tell how well an investment will perform in its earliest stages and whether the entry price paid will prove to be justified. There may also be some apprehension about the business trading performance on which valuations were based in 2021. Another consideration is how wildly market sentiment has been swinging, as seen in the stock markets, with investors seesawing into COVID plays and back out into traditional stocks.

Even though a majority believe 2021 could prove to be a challenging period in their track records, a sizeable 41% of respondents are more optimistic, expecting their returns to be roughly the same.

Looking ahead at 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?



Source: Mergermarket

2. The year ahead

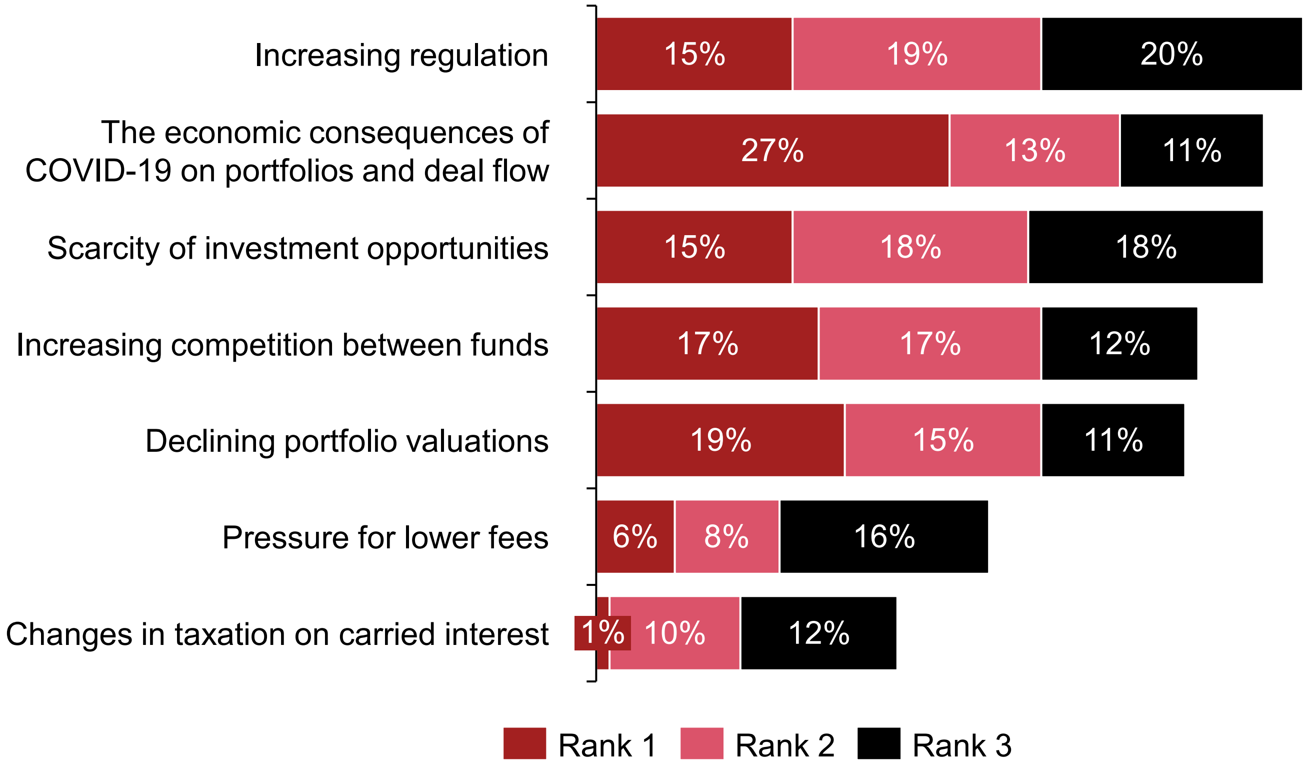
Regulation and COVID are key issues for next half decade

Scanning the horizon, GPs are realistic about how lasting the impact of the pandemic may be. More than a quarter of respondents (27%) view the economic consequences of COVID on portfolios and deal flow as the single biggest issue they face over the next five years, above all other concerns.

“We have been measuring the risk of investments under the current climate. In the past two years, COVID-19 has increased the risk of investing in mid-markets and it's difficult to know how long that will persist for or how lasting changes from the pandemic will be on company performance”, says the investment manager of a Nordic PE firm.

Just over half (51%) also see this as being among the top three issues that the European PE industry will face over this period, slightly behind the 54% who believe that increasing regulation is what will shape the industry. Much of this regulation is already in motion, the Sustainable Finance Disclosure Regulation going live last year, prompting managers to update their reporting policies and procedures. No doubt there will be more obligations to come, particularly as the European Union takes the lead internationally on imposing ESG standards and goals, which is something of a moving target.

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)



Source: Mergermarket

3. Operational improvements, value creation and digitalisation

Operational improvements and digitalisation key for returns

The past two years have put PE's operational nous to the test more than at any point in its history. Companies have been rocked by the pandemic and often made lasting changes to their operations that, in many cases, will deliver positive results that would never have otherwise been realised. These include reducing extraneous property costs and achieving leaner processes. A full 71% of respondents consider operational improvements (excluding digitalisation) to be among the top two greatest influences on their return on investment.

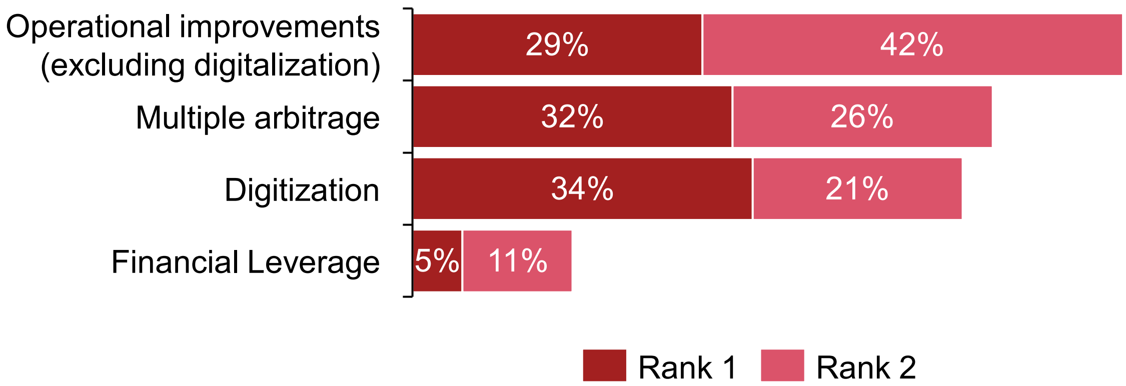
“The operational strategies changed in portfolio companies on multiple occasions. The strategies discussed and implemented in the year 2019 could no longer be used because they did not factor in the pandemic impact”, says the partner of a Nordic PE firm.

In addition, in the past three years in particular, 80% say these improvements have increased their impact on ROI, with digitalisation not far behind with 74% of the vote. There is a clear separation here, with the largely passive impact of multiple arbitrage having increased its ROI effect for 54% of firms. And leverage has decreased its positive ROI impact amid the pandemic, as GPs have sought to keep their portfolio companies' balance sheets in check and focus on improving the resiliency and performance of their assets.

“It was an uncertain period, so the impact of financial leverage decreased during the past three years. The attitude of lenders also changed during the period and they were more sceptical about the non-payment of dues”, says the partner of an Italian PE firm. “Under these circumstances, it was difficult to avail additional financing.”

This pivot away from financial engineering and arbitrage in favour of genuinely transformational investment looks set to continue. As much as 96% say that digitalisation's influence on ROI will only increase in future, and 93% say the same for operational improvements in what can be seen as a coup for an industry that has long prided itself on levelling up private businesses.

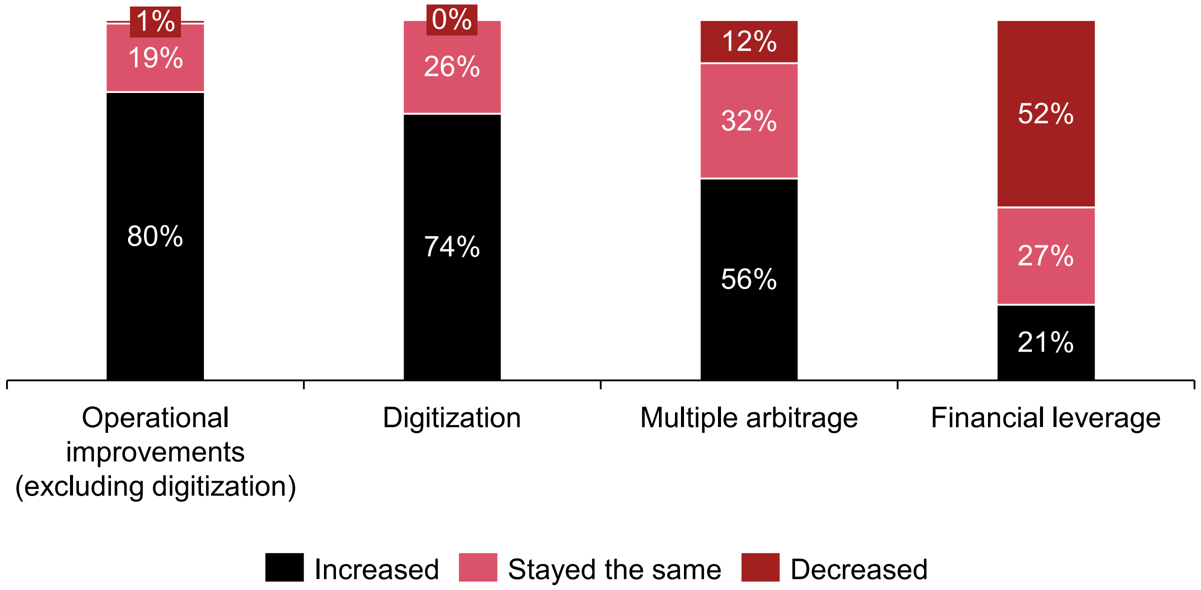
Please rank the following in terms of importance, regarding their influence on your return on investment (Please rank 1 to 4, where 1 is the most important and 4 is the least important - top two ranks shown only



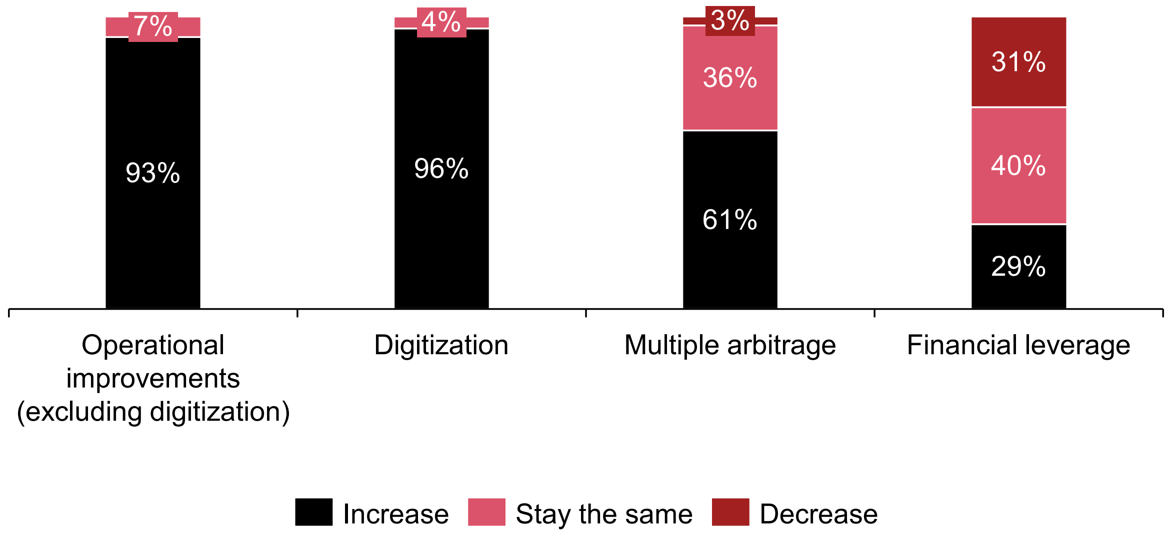
Source: Mergermarket

4. Operational improvements, value creation and digitalisation

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



Looking forward, do you expect the impact of operational improvements (excluding digitalisation), multiple arbitrage, financial leverage and digitalisation on investment to increase, decrease or stay the same?



Source: Mergermarket

3. Operational improvements, value creation and digitalisation

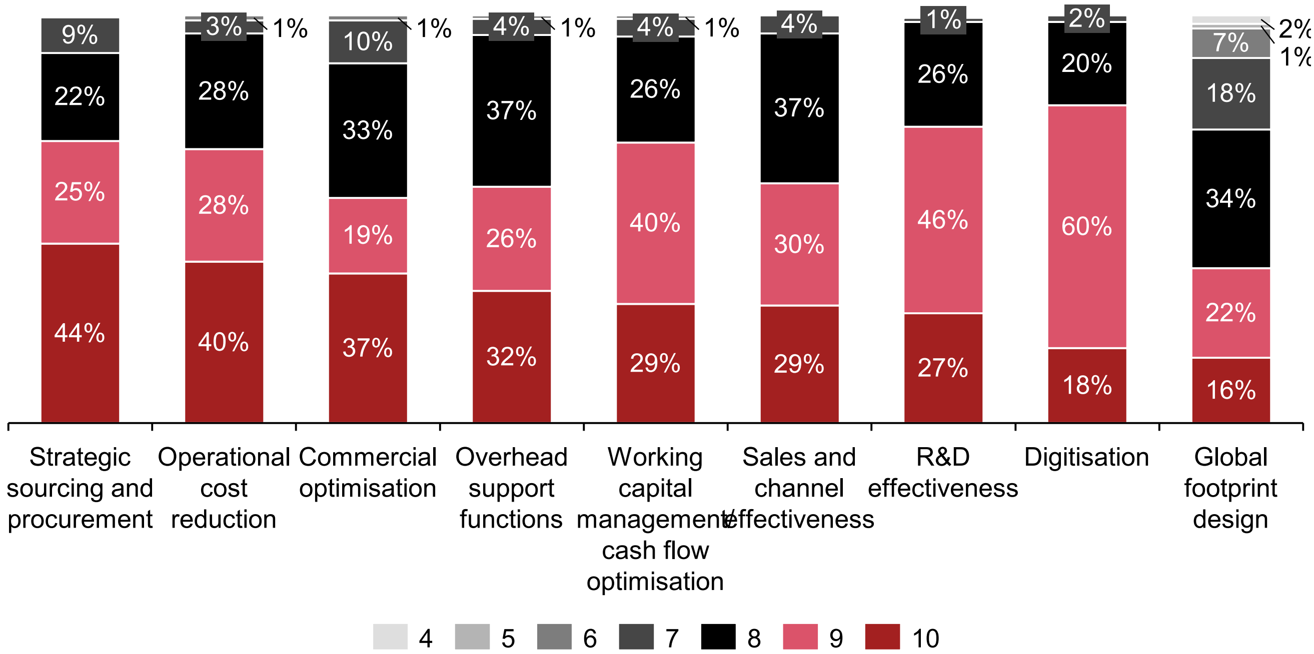
Value creation

Respondents are relatively undecided regarding which value creation levers are most important to their investment theses, with a majority allocating an importance rating of 9 or 10 out of 10 in all but one area: global footprint design, which is viewed as being relatively less important to value creation, having been given a rating of 7 or less by 28% of respondents.

Tellingly, strategic sourcing and procurement, and operational cost reduction both score just above other levers, which says a lot about the unique pressures that companies continue to face amid the pandemic. Supply chains remain an issue for many manufacturers and consumer goods businesses and with inflation reaching its highest rate in decades, businesses are having to re-strategise their sourcing while protecting their margins. Of course, these levers are not entirely independent from one another. As the partner of a French firm points out: “Digital transformation has an impact on most business functions. The production activities are monitored better. The performance of teams improves and the production capabilities are enhanced using automation and robotics. It is easier to integrate production and procurement.”

Four in five respondents also say that the way they view the potential of different value creation levers has changed how they look at new investments. Understanding exactly what a company needs to level up and which levers to pull once a business has been acquired is paramount before pulling the trigger on a deal. No two companies are identical.

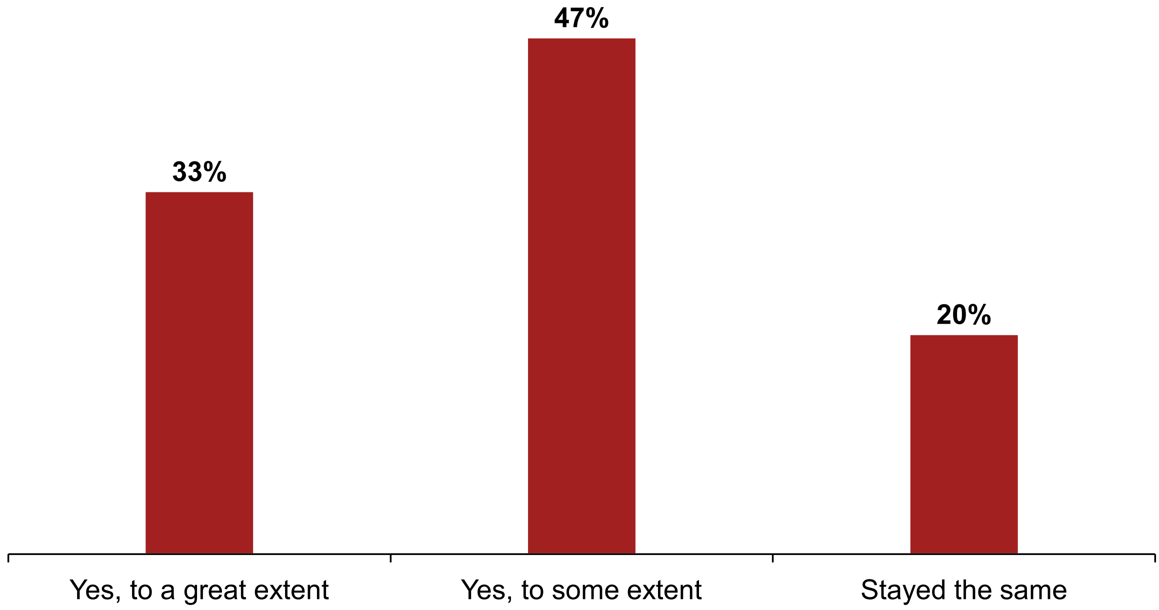
Which levers are most important to value creation, within the equity / investment story? (Please rate each on a scale from 1 to 10: 1 being “least important” and 10 being “most important”



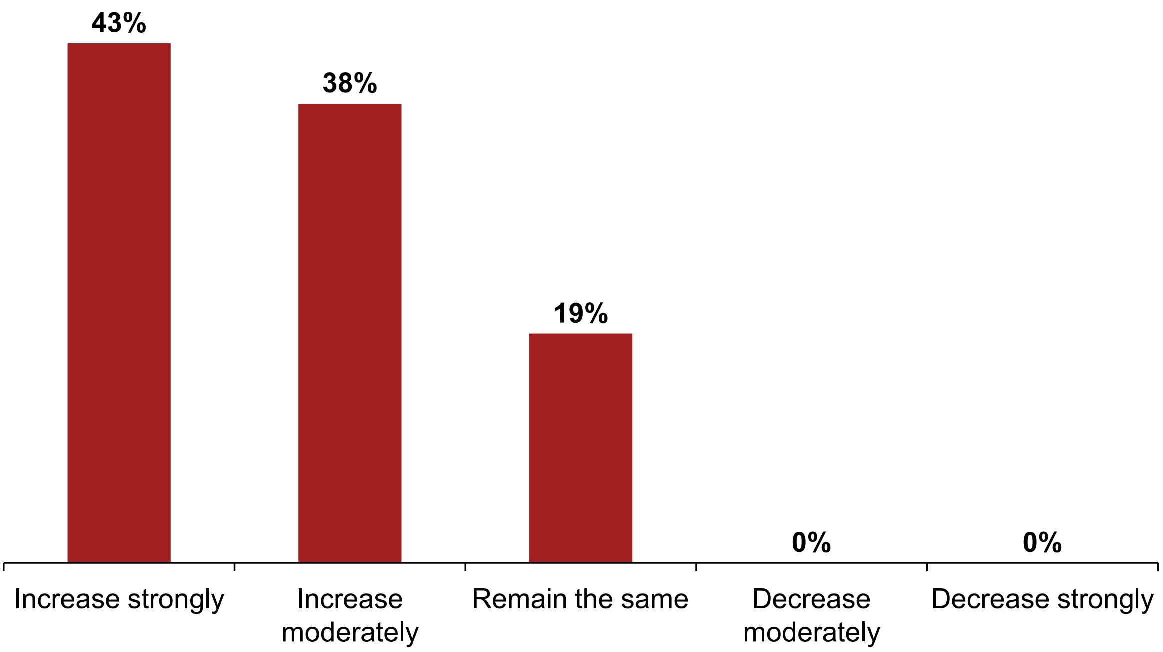
Source: Mergermarket

3. Operational improvements, value creation and digitalisation

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?



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



Source: Mergermarket

3. Operational improvements, value creation and digitalisation

Digitalisation

Digital transformation goes mainstream

It's been said before over the past two years but it bears repeating: we're not going back. The digital transformation of business has been accelerated by force. PE firms had already been looking at ways to digitally transform their investments and the pressure to do so has now ratcheted up. Digitalisation impacts sectors and business activity in various ways. For 85% of respondents there is high impact (score 9-10) on the research and development functions of businesses and how they operate. “The R&D model is influenced the most because of a new technology-driven outlook”, says a partner at a German PE firm. “Most functions are dependent on technology assets - the solutions used in the R&D process in particular are state-of-the-art.” However, major proportions of GPs see impacts across business functions. For example, purchasing and production is seen by 44% as being the absolute most impacted area (score 10), supply chains and logistics not far behind with 35% highlighting it as the most impacted (score 10). “The purchasing options have been completely digitalised for some companies. It requires minimal supervision. The integration with other departments has also been comprehensively completed”, says the managing director of a consumer sector specialist buyout firm.

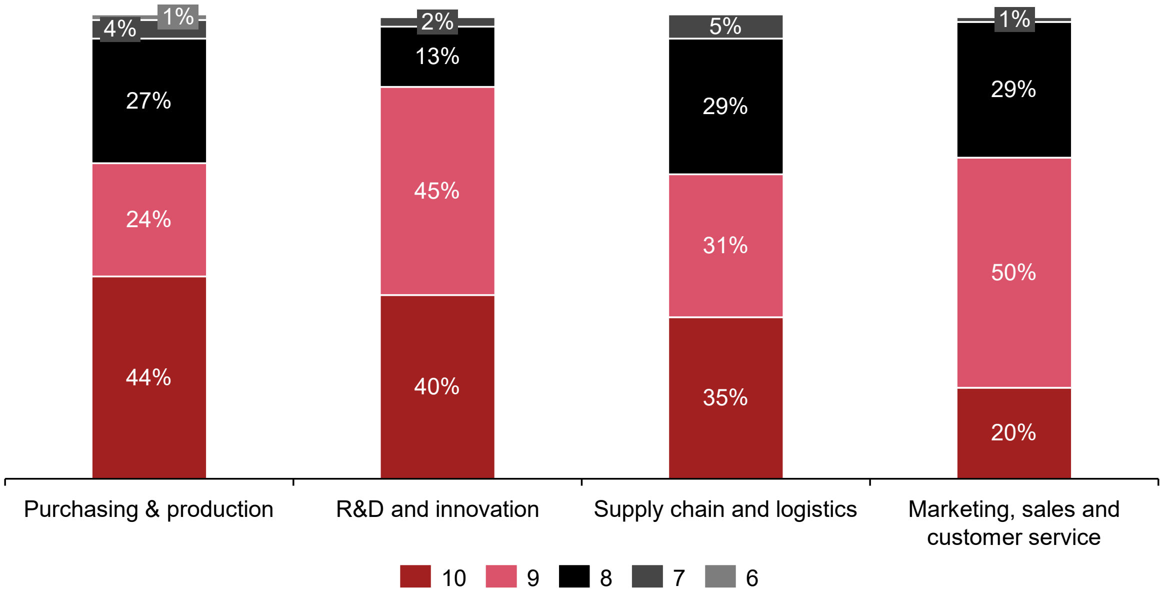
Digitalisation plans will vary from one company to the next, depending on their specific needs and the growth trends within their markets. Whatever the defined strategy happens to be, if successful, these investments will help to increase productivity and turnover, improve margins and profits and should serve to ensure the company can command a higher EBITDA multiple on exit, by virtue of high bidder demand for these newly upgraded businesses.

“After the impact of the pandemic on markets, it was digitalisation that increased returns”, says the partner of a Nordic buyout firm. “There were swift upgrades made to older processes and automation also helped in reducing mundane activities. This freed up time for employees to focus on their core tasks.”

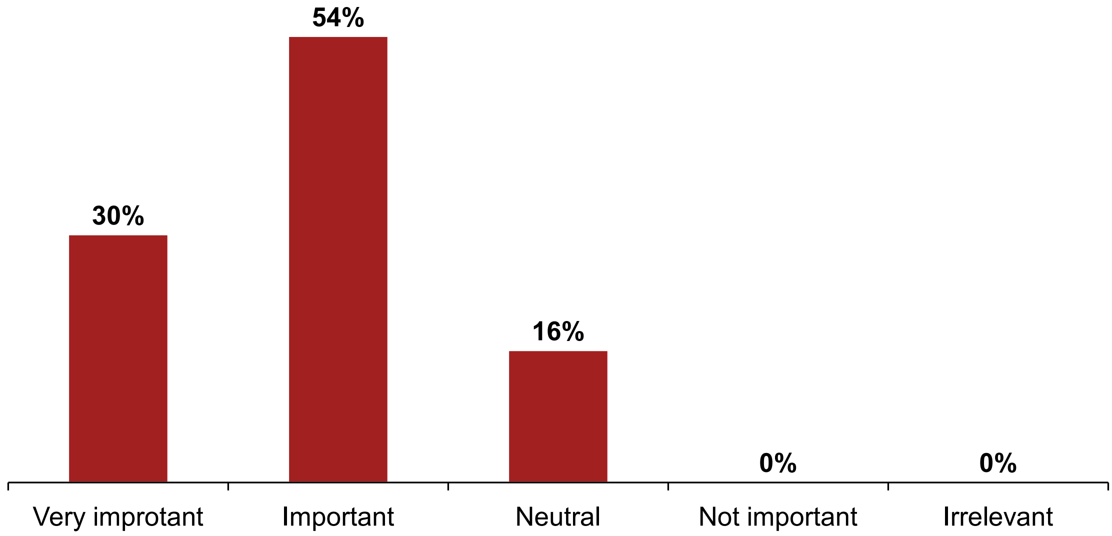
A large majority of respondents believe that the level of digital transformation they pursue is important (54%), or very important in fact (30%), to their future exits from their current portfolio companies and the subsequent returns they are able to score, demonstrating the close correlation between digitalisation and value creation.

Source: Mergermarket

Which part of the company business model do you think is impacted the most by the digital transformation? (rate from 1 to 10, 1 impacted least, 10 impacted most)



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?



Source: Mergermarket

3. Operational improvements, value creation and digitalisation

PE firms overwhelmingly invest in the digital transformation

Given the value-additive potential of digital investment, almost all respondents (94%) made such investments in the past year. This has not been exclusively reserved for revamping their portfolio companies to make them more saleable; it has also gone into upgrading their own firms. The biggest focal point has been data analytics, cited by 74%, followed by the Internet of Things (IoT) and AI invested in by 58% and 51% respectively. AI and machine learning plays into the automation theme, which is a significant value lever for PE firms, helping to improve efficiency across their portfolios. “The impact of big data, analytics and automation increased during the past three years. Digitalisation was carried out gradually after discovering the problem areas in the operations. We had to reduce the manual procedures, and replace them with automated functions”, says the partner of an infrastructure firm.

Data analytics is equally powerful and is an area that is just as applicable to fund managers' own activity as it is the companies they sponsor. Historically, this was not feasible as data was not as freely accessible as it is today. The big data revolution has enabled GPs to approach deal analysis in new and incisive ways, compounding PE's ability to identify and create value.
The main applications of data analytics in the past 12 months cited by respondents include the identification of potential target companies (87%), due diligence (78%) and aggregation of portfolio company KPIs (64%). Furthermore, the latter two areas are each highlighted by a third of respondents as being the most important areas where this technology was used.

There is also an apparent shift in focus in how analytics are expected to be employed. In 2021, only 34% and 29% of respondents respectively say they used these tools for predicting future portfolio company performance and for helping them determine fair valuations for assets. That is set to change. As much as 73% and 52% of GPs say they anticipate using analytics for these purposes in 2022, as they aim to become more sophisticated and digitally led in their investment processes.

Source: Mergermarket

3. Operational improvements, value creation and digitization

Everyone's going digital

PE firms will be making digital investments en masse in 2022. Almost all respondents (99%) say they will be spending on digitalisation over the next year.

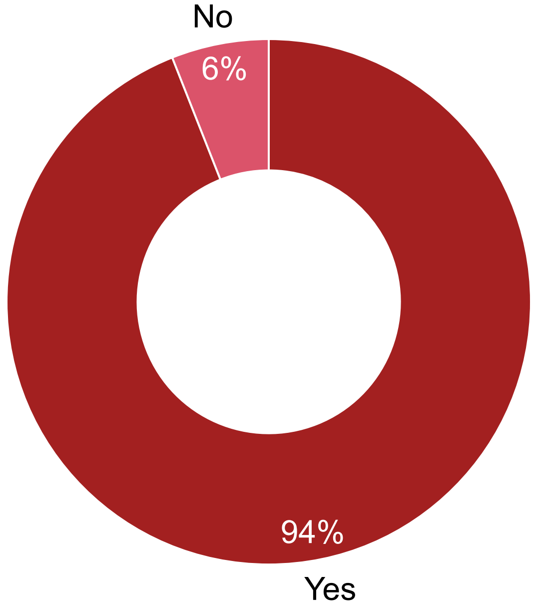
They will not be straying too far from past investments but doubling down on what has worked so far. Three-quarters say they will be investing in data analytics. However, other major areas of focus include the IoT (63%), AI (53%), blockchain (52%) and robotics (51%), with IoT in particular singled out by 19% as the technology they will focus their investment on in 2022, putting it above other options.

From smart watches to voice assistants, connected devices are going mainstream. In 2021, there were 35.8 billion IoT devices worldwide and this is expected to more than double to 75.4 billion by 2025. consumer uptake has had a huge impact on these figures, but B2B applications are also growing. Industry 4.0 and smart manufacturing has been a rising theme for a number of years already. The concept of constant real-time monitoring achieving production efficiencies has taken on new significance in the context of the pandemic and the strain it has put on supply chains.

In an uncertain world, where digitalisation promises so much growth potential and cost reduction, it also offers downside protection in turbulent times and as such it is only logical that no one wants to be or own a digital laggard.

“Supply chain and logistics has benefitted from the digital transformation”, observes the partner of a UK PE firm. “The use of the Internet of Things and analytics-based solutions has revolutionised the way logistics supplies are managed. Supply chain pain points have been successfully minimised.”

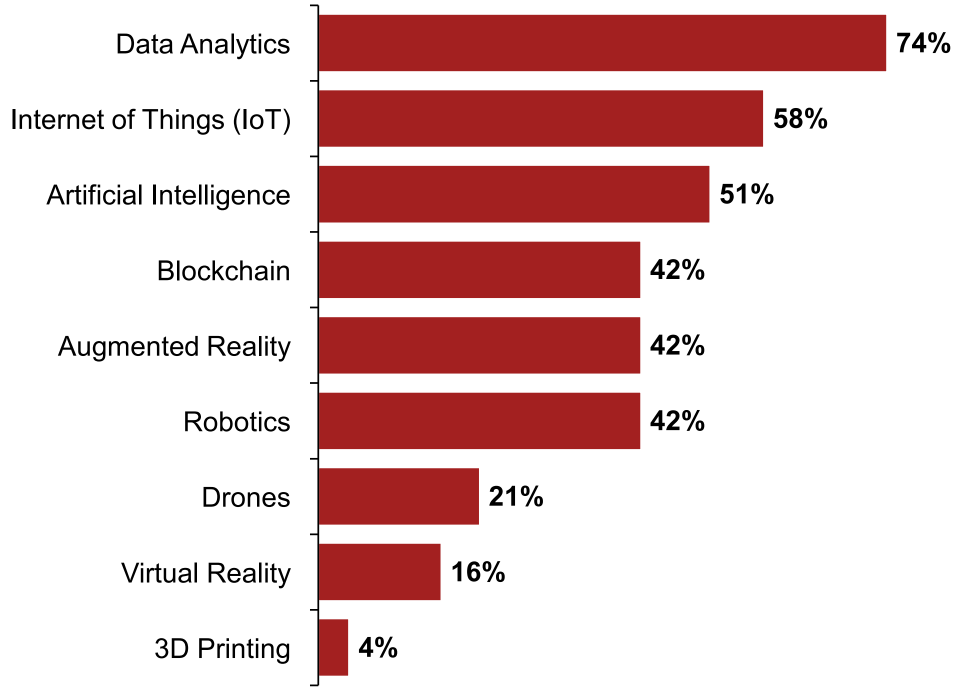
Have you made investments in digitally transforming your own firm or portfolio company business models in the past year?



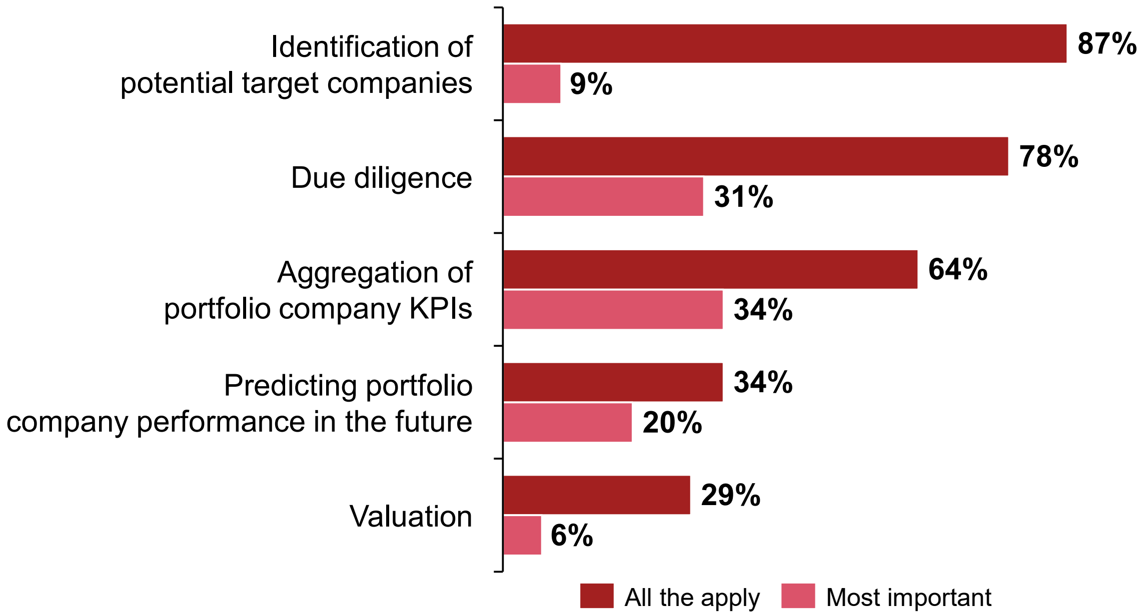
Source: Mergermarket

3. Operational improvements, value creation and digitalisation

If so, in which areas of digital transformation have you focused your investment?



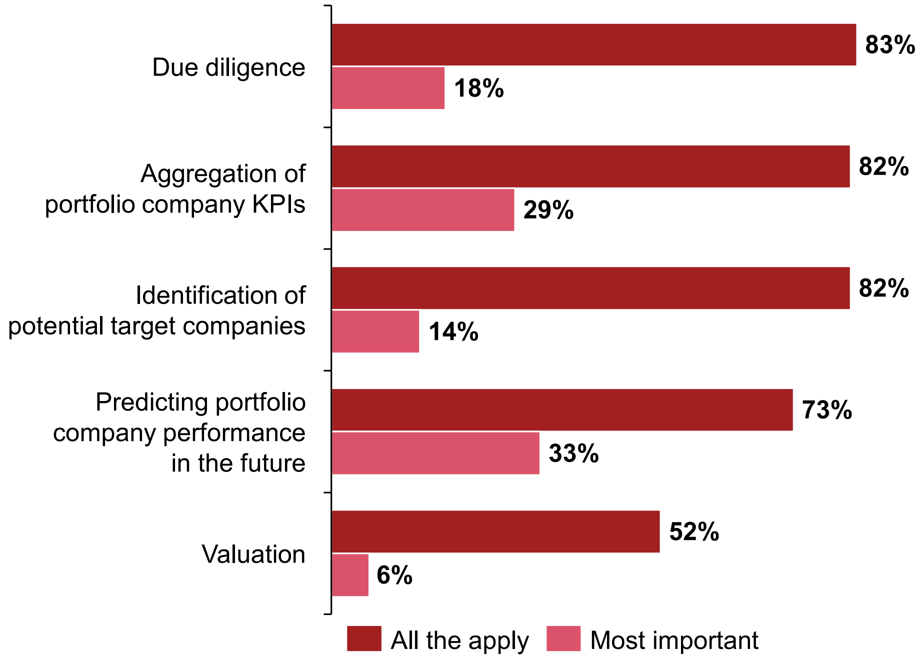
In which of the following areas of the investment cycle has your organisation used data analytics in 2021? (Please select all that apply and the most important)



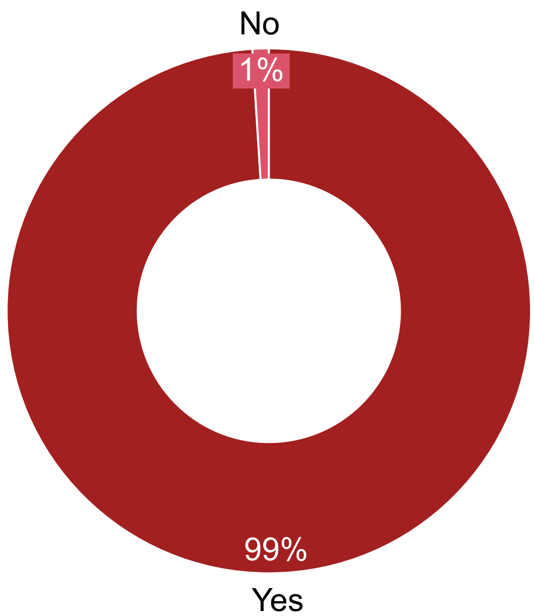
Source: Mergermarket

4. Operational improvements, value creation and digitalisation

In which of the following areas of the investment cycle do you anticipate your organisation will use data analytics in 2022? (Please select all that apply and the most important)



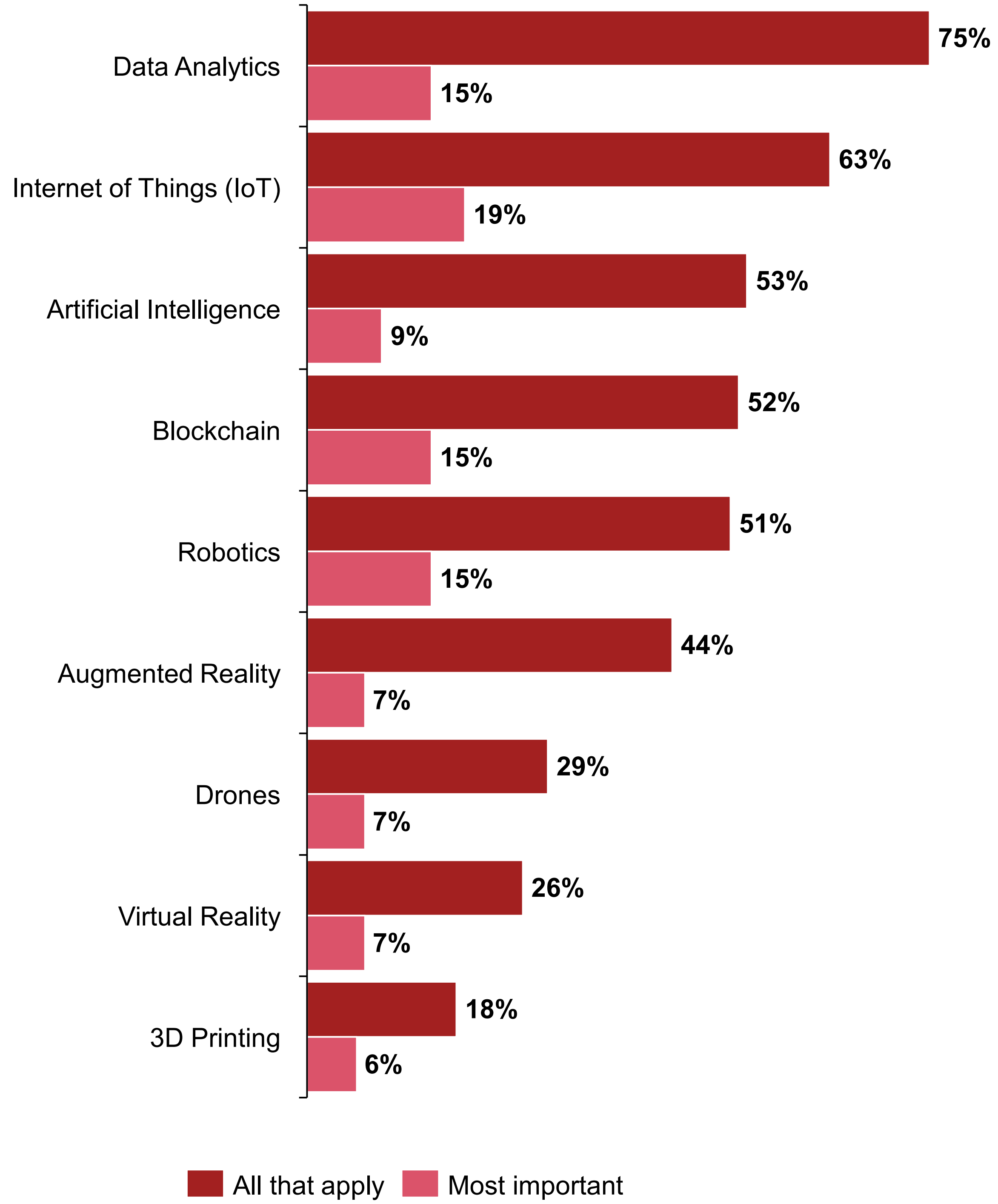
Will you be investing in digitalisation over the next year?



Source: Mergermarket

3. Operational improvements, value creation and digitalisation

Which of the following areas will you be investing in?
(Please select all that apply and the most important)



Source: Mergermarket

4. ESG and responsible investing

ESG skyrockets

ESG is becoming a fact of life for PE fund managers. This is being driven from different angles, both from LPs wanting to understand how their capital is being invested and the standards their portfolio companies uphold, but also regulators laying new ground rules.

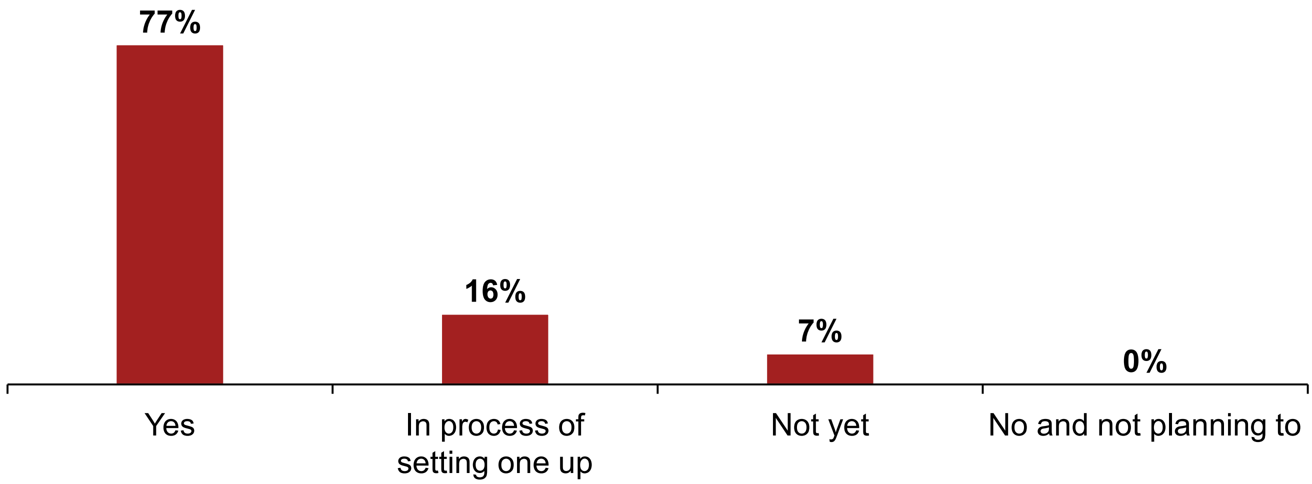
77% of respondents say their firm has a responsible investing or ESG policy, as well as the tools to implement it. A further 16% say their firm is in the process of setting one up. “We do have a responsible management system and there is emphasis on investing the right way. We address the main ESG factors and the risks during our decision-making process. There is commitment when it comes time to apply the ESG policies and we do not make any exceptions”, says the investment director of a mid-market PE firm investing across Western Europe.

Europe has been a frontrunner in this respect. As part of the EU's wider Sustainable Finance Action Plan, the Sustainable Finance Disclosure Regulation (SFDR) rules came into effect in March 2021. These mandate financial institutions to evidence sustainability activities at an entity level and this also applies to PE funds regulated as Alternative Investment Funds under the AIFM Directive.

GPs that fall within the scope of the regulations are required to disclose indicators of so-called principal adverse impacts (PAIs) on ESG factors such as greenhouse gas emissions. This is the first level of the rules.

The level two rules, known as the SFDR regulatory technical standards, involve more detail. The European Commission said in November that due to the length and technical details of these 13 standards, their date of application will not be until 2023. This was postponed from the earlier planned date of 1 July 2022. This means that the first disclosure for SFDR reporting will fall due on 30 June 2023; however, GPs will need to have started collecting relevant information from January 2022 onwards to be able to make this first disclosure next year.

Does your firm have a responsible investing or ESG policy and the tools to implement it?



Source: Mergermarket

4. ESG and responsible investing

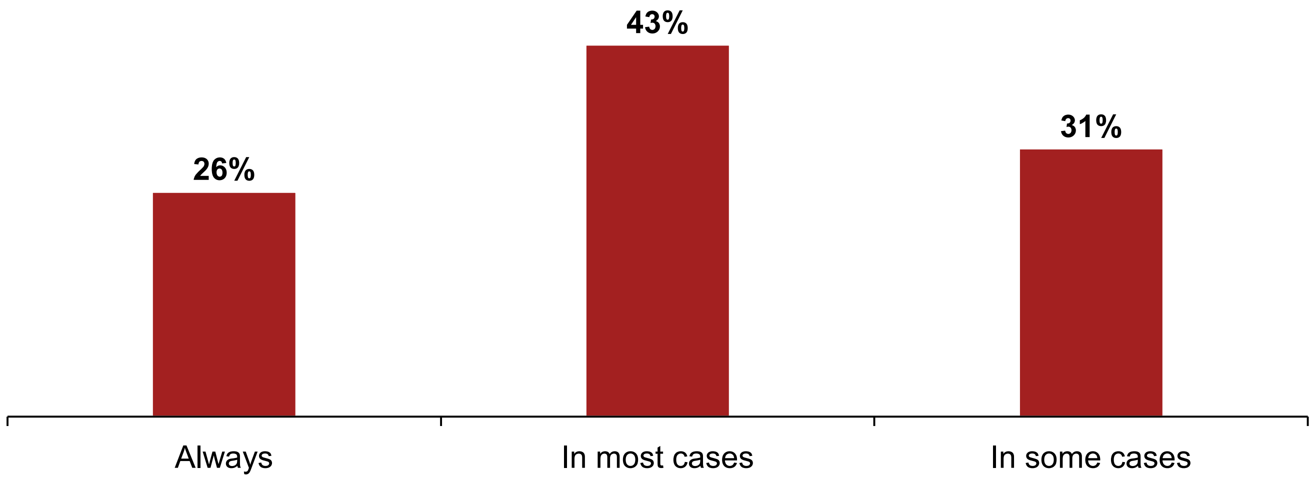
ESG (mostly) part of the value creation story

43% of respondents say that, in most cases, ESG value levers are a core part of their value creation story when assessing deal opportunities. A quarter (26%) say this is always the case.

It should be expected that ESG adds another dimension to PE's value creation toolkit. The best performing sponsors transform companies, growing not only their top and bottom lines but making them more attractive businesses for future owners.

In the past, this centred on enhancing governance and optimising operations, often by upgrading IT environments and helping companies to make better use of software and data analytics. There can be little doubt that cleaner and more socially responsible companies will be more attractive to acquirers and so ESG will be increasingly central to how PE funds deliver superior returns.

Are ESG value levers a core part of your value creation story when assessing buy-side opportunities?



Source: Mergermarket

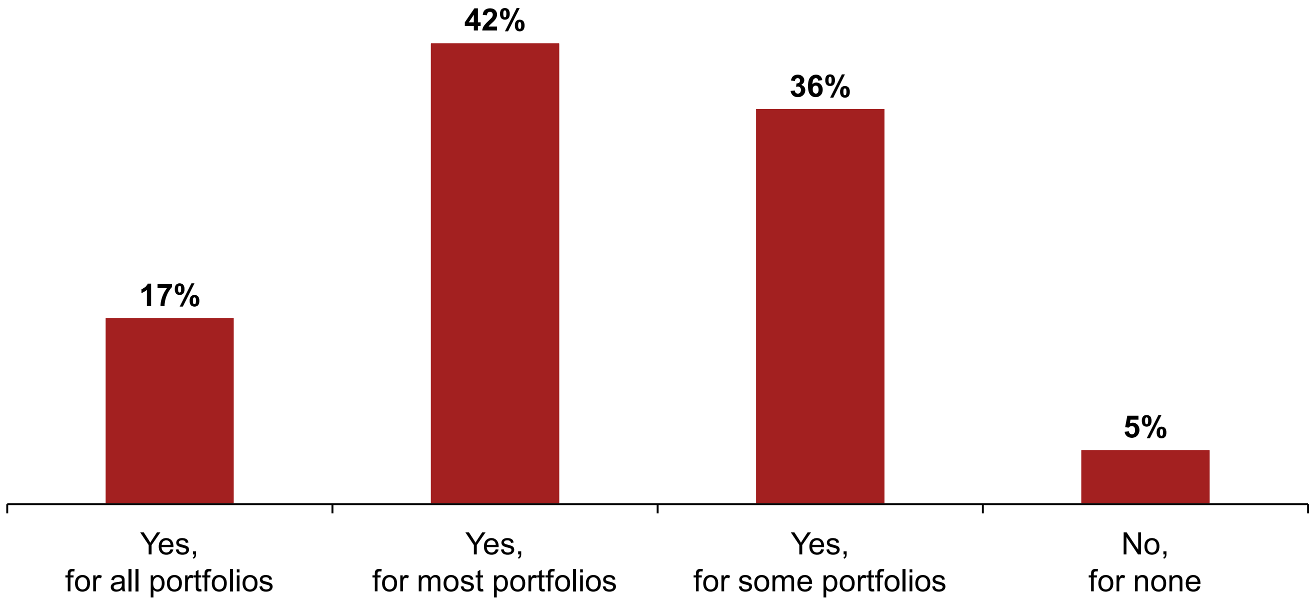
4. ESG and responsible investing

ESG KPIs are patchy

There is, however, progress to be made in applying metrics to improve ESG performance and, ultimately, value creation in these areas. Only 17% of respondents set ESG-specific KPIs for all of their portfolio companies and monitor these on a regular basis. A higher proportion of 42% say that they do this for most, but not all, of their portfolio companies.

One issue is the lack of standardisation across geographies, industries and individual companies. PE firms will have to spend time and investment improving processes and making their investments more like-for-like, as far as that is possible. “Since there is data collected from various sources, and the data types are different, it is important to use modern tools to make the data more usable”, says the partner of a French mid-cap buyout firm.

Do you set ESG specific KPIs for your portfolio companies and monitor these on a regular basis?



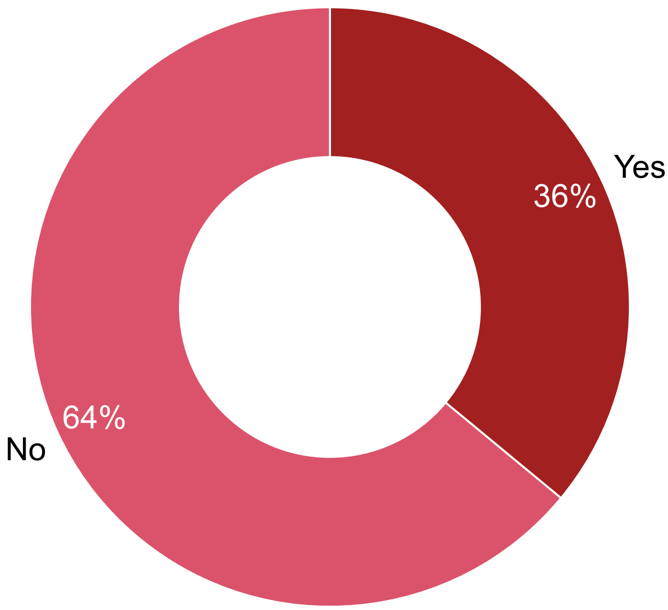
Source: Mergermarket

4. ESG and responsible investing

Not so happy returns … yet

Only 36% of respondents say with conviction that they believe the return on ESG investment exceeds the cost. This may appear to be concerning but there is little doubt a J-curve effect is at work. Establishing protocols, appointing ESG champions and embedding new workflows and analytics takes time and investment. These will not pay off on day one. It should be expected that over time the insights gleaned from measuring KPIs and supporting management teams in transforming their businesses will be value additive in the long run. With rising costs of natural resources as well as the rules of the EU Taxonomy, which will only become tighter in the future and forcing financing institutions to increase the cost of capital for brown assets, the adherence to ESG best practices and reporting will not only be a necessary evil, but indispensable to value creation and also investor interest at exit, which would therefore strongly drive portfolio valuations.

Do you believe the return on ESG investment exceeds the cost?



Source: Mergermarket

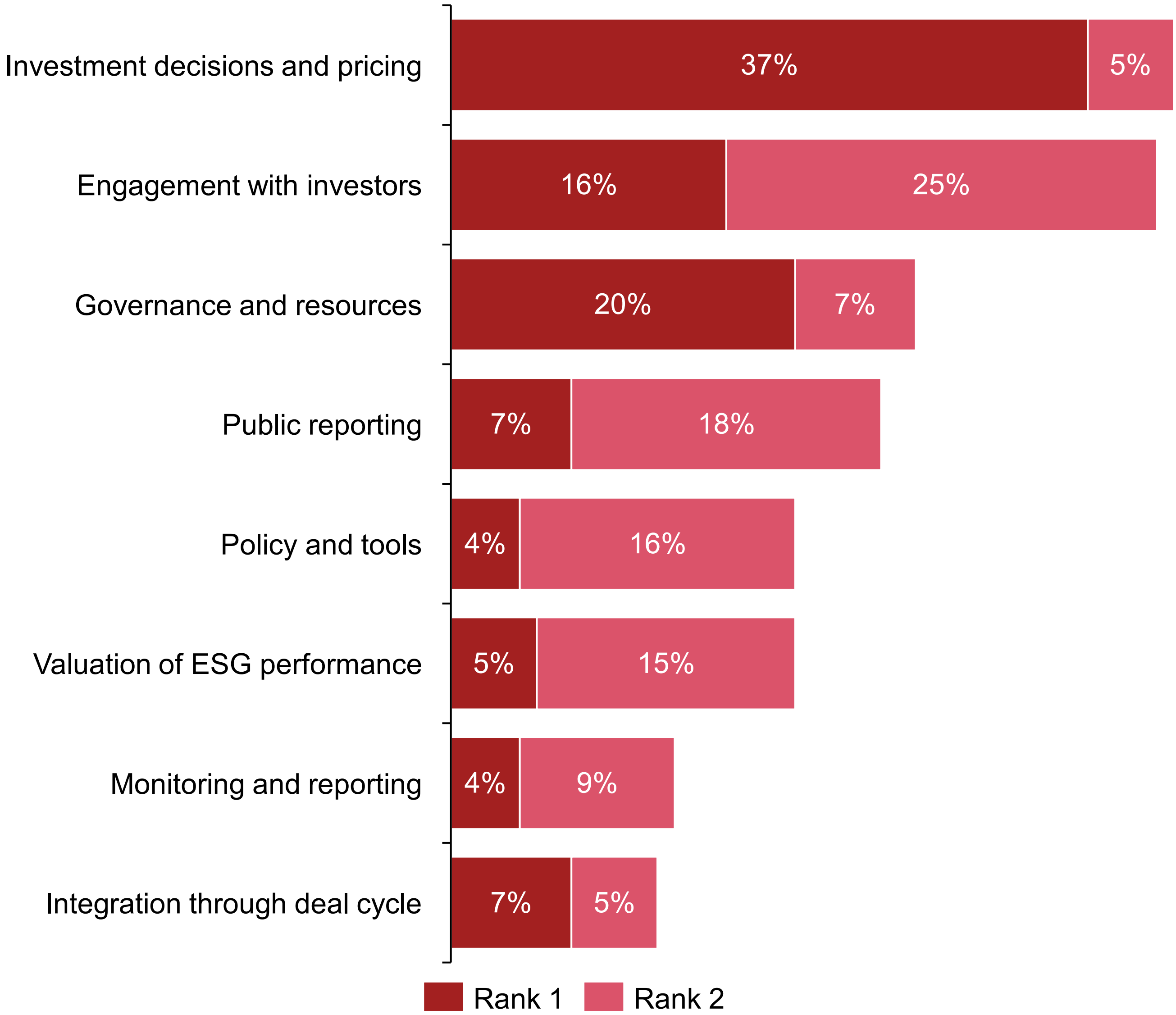
4. ESG and responsible investing

ESG impact

ESG and responsible investing can impact all areas of a PE firm's day-to-day activities. By far, the areas that are being most impacted by this shift are investment decisions and deal pricing, cited by 42%. If a PE firm cannot make intelligent investments into strong companies and at a fair price, then everything else is irrelevant. GPs will increasingly consider ESG factors into their due diligence processes and decision-making and this will help to inform their bid prices.

41% of respondents say that engagement with investors is the most key area that is being impacted by the tilt towards more responsibly -minded investing. LPs want to know exactly how their PE managers are thinking about these challenges and what actions they are taking.

Please rank the following areas of responsible investing in their importance to you from 1 (most important) to 8 (least important) – Ranks 1 & 2 shown only



Source: Mergermarket

4. ESG and responsible investing

G is the key in ESG

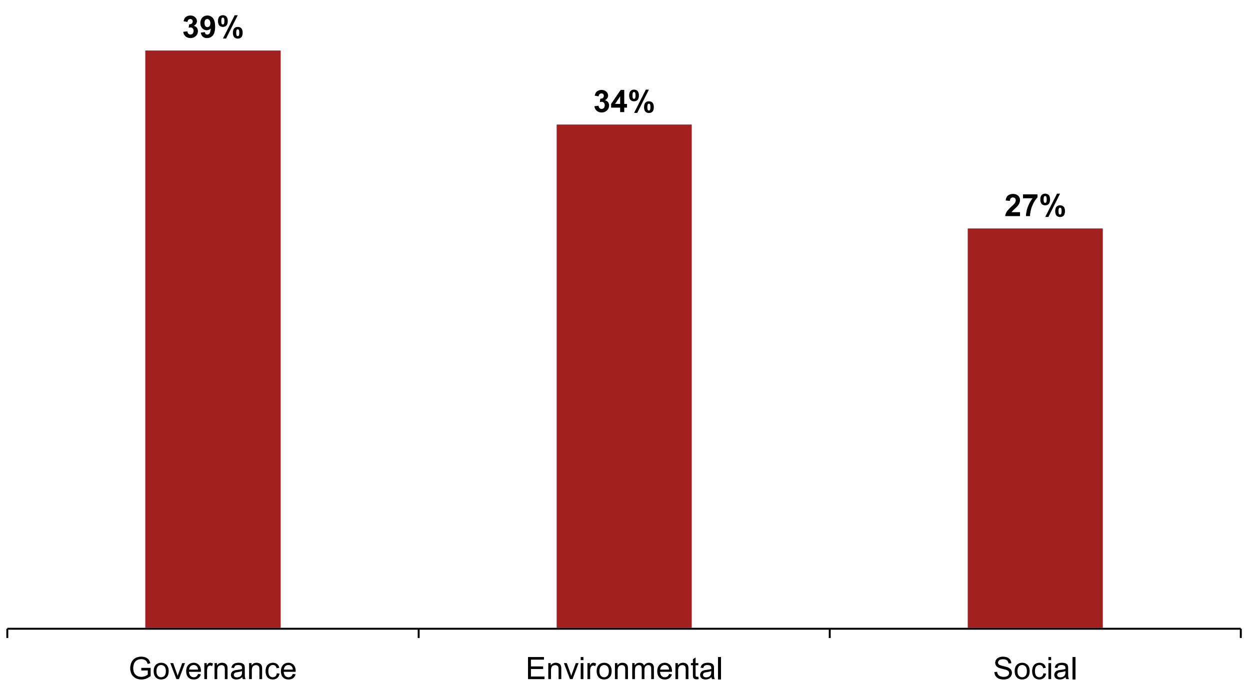
Environmental issues like climate change and social issues like diversity, equity and inclusion dominate board agendas and conversations, and this has quickly filtered through to decision-making and policymaking in the PE world. But it is less the 'E' and 'S' that buyout executives are concerned about, with more emphasis on the 'G'.

Governance concerns how a company is governed. It is the roles, processes, policies and decisions that underpin how a business is run and can include issues such as board composition, executive compensation, corporate disclosure, culture and more. As much as 39% of respondents say that of the ESG aspects in their investments, the latter, governance, is their main focus right now.

However, this does not mean that sustainability and social issues fall by the wayside, with all aspects of ESG being considered in an integrated approach. Indeed, a similarly sized 34% proportion put environmental concerns first and more than a quarter (27%) are prioritising social elements.

As the partner of a French buyout firm points out, any one of these dimensions can impact on a PE firm's brand and so they all need to be carefully considered. “Our investment decisions are made after scrutinising all of the potential ESG risks. ESG policies are closely associated with our reputation. The awareness of these factors and risks is prioritised constantly and we have dedicated teams to evaluate the latest trends and opportunities.”

Which one of the following is in the main focus of your investments and portfolios?



Source: Mergermarket

5. Zooming in on Germany

Tracking the PE dealmaking boom in Europe , Germany witnessed an avalanche of buyouts in 2021. A total of 536 transactions were recorded, valued at a combined €23.8bn. This comfortably topped the previous value record set in 2016 when €14.6bn was invested when there were 271 deals.

Over the past decade, attitudes towards financial sponsors in Germany and the broader DACH region has warmed, with the Mittelstand of around 3.6 million mid-sized mostly manufacturing businesses opening its doors to private investment. According to our research, almost half (49%) of respondents currently hold German investments, including portfolio companies, a small step up on the 46% who reported the same last year. In a clear vote of confidence for the market, a full 100% of these respondents with existing German holdings plan to continue making investments in the country over the next five years.

One notable evolution of the Mittelstand management buyout market, highlighted by long-time investor Deutsche Beteiligungs AG, is the types of assets that sponsors are seeking. The sector breakdown continues to shift towards the healthcare and software services sectors, while deals related to Germany's core manufacturing businesses are playing a lessor role. At least two reasons for this sectoral tilt are that healthcare and software service companies tend to be less cyclical than industrial businesses, which have found themselves prone to the supply chain blockages caused by the pandemic.

Germany has an export-driven economy, with outbound trade accounting for 46% of its GDP, the country's growth performance entwined with major economies such as the US and China. Germany's economy contracted in the final three months of 2021 with the emergence of the Omicron variant. While this was largely a function of COVID restrictions impeding consumer spending, supply chain blockages have caused complications for manufacturers, who have struggled to fill their backlogs of orders. In this context, it may be natural for PE to have shifted its focus.

However, indicators are giving reason for optimism. The country's key Ifo Business Climate Index improved noticeably in January, while in the same month the Purchasing Managers' Index pointed to an easing of the supply chain issues that have dragged on Germany's export-dependent economy.

Source: Mergermarket

5. Zooming in on Germany

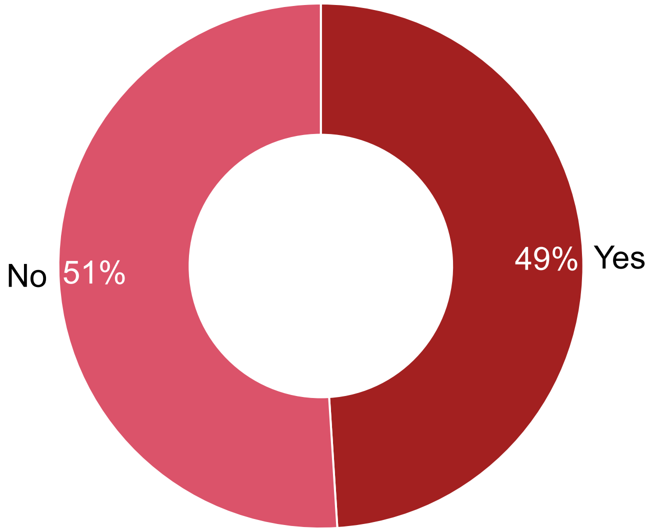
To be sure, no country has escaped the disruptive effects of the pandemic and PE firms are long-term investors that consistently deploy through the business cycle. Everything points towards growth for Germany's PE market. We find that four in five of the respondents that currently hold investments in the country, expect the assets they allocate to the market to increase over the next five years. Meanwhile, of the respondents that don't currently hold investments in Germany, 25% say they plan to invest over the next five years.

The rich source of owner-managed and often family-run middle-market companies in Germany's Mittelstand, many of which turn to PE to solve their succession challenges, make the country a highly attractive PE proposition. This is reflected in investor sentiment: a third of respondents (34%) consider the attractiveness of Germany's PE market compared with countries around the world to be very good, a further 40% considering it to be quite good.

The compelling fundamentals mentioned here also appear to be contributing towards rising optimism. As investors look ahead to the next five years, 72% expect Germany to become more attractive for PE deals, although the country is not alone. Neighbouring Switzerland, into which the Mittelstand extends, is also seen by 72% as likely to become more attractive in the medium term, 71% also pointing to the Netherlands. The Dutch buyout market appears to have become a beneficiary of Brexit. The country has historically been the UK's third-largest trading partner and the double-hit of Brexit and the pandemic has meant Dutch companies have needed new capital and operational support to restructure their businesses.

If one thing has been borne out in this recent crisis period, it's that the PE funds are not fair-weather investors. They can support and grow businesses come rain or shine, whatever the prevailing economic climate.

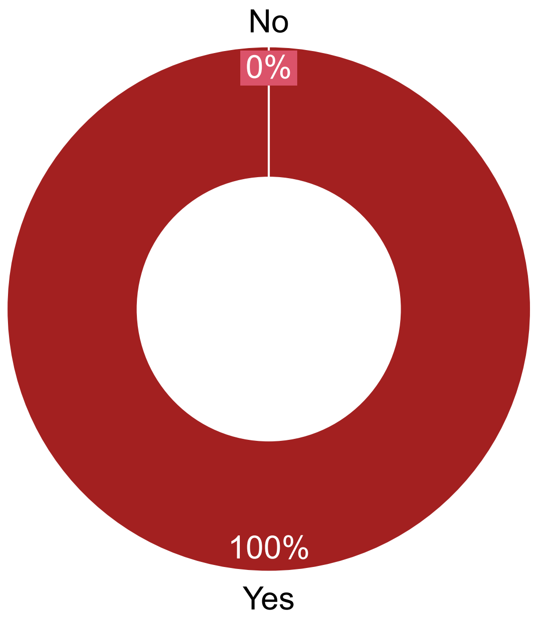
Does your firm currently have any investments such as portfolio companies in Germany?



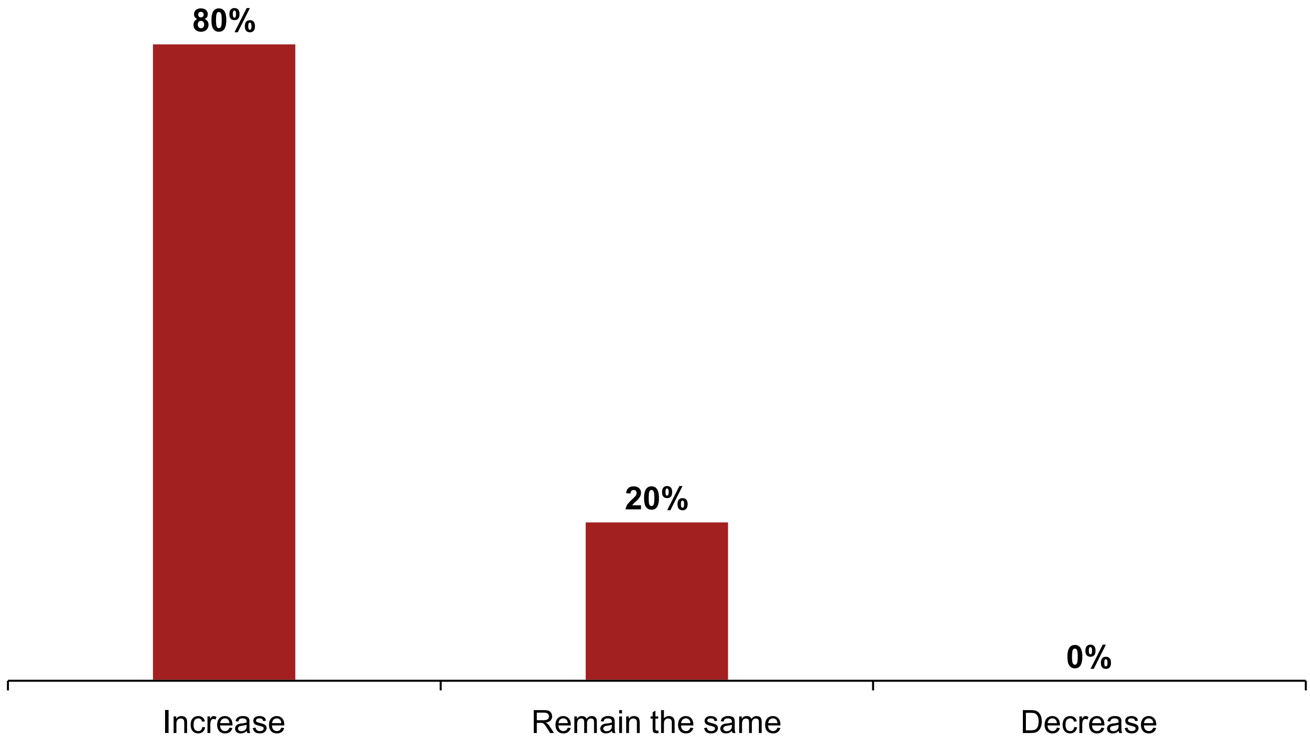
Source: Mergermarket

5. Zooming in on Germany

Do you plan to continue making investments in Germany over the next five years?



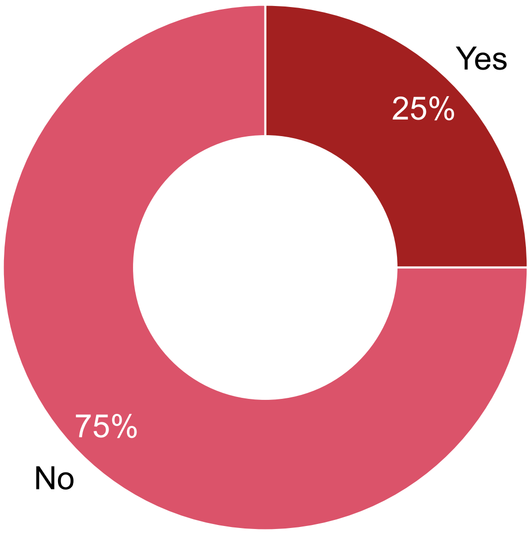
Do you think that the assets that you allocate to Germany over the next five years will…



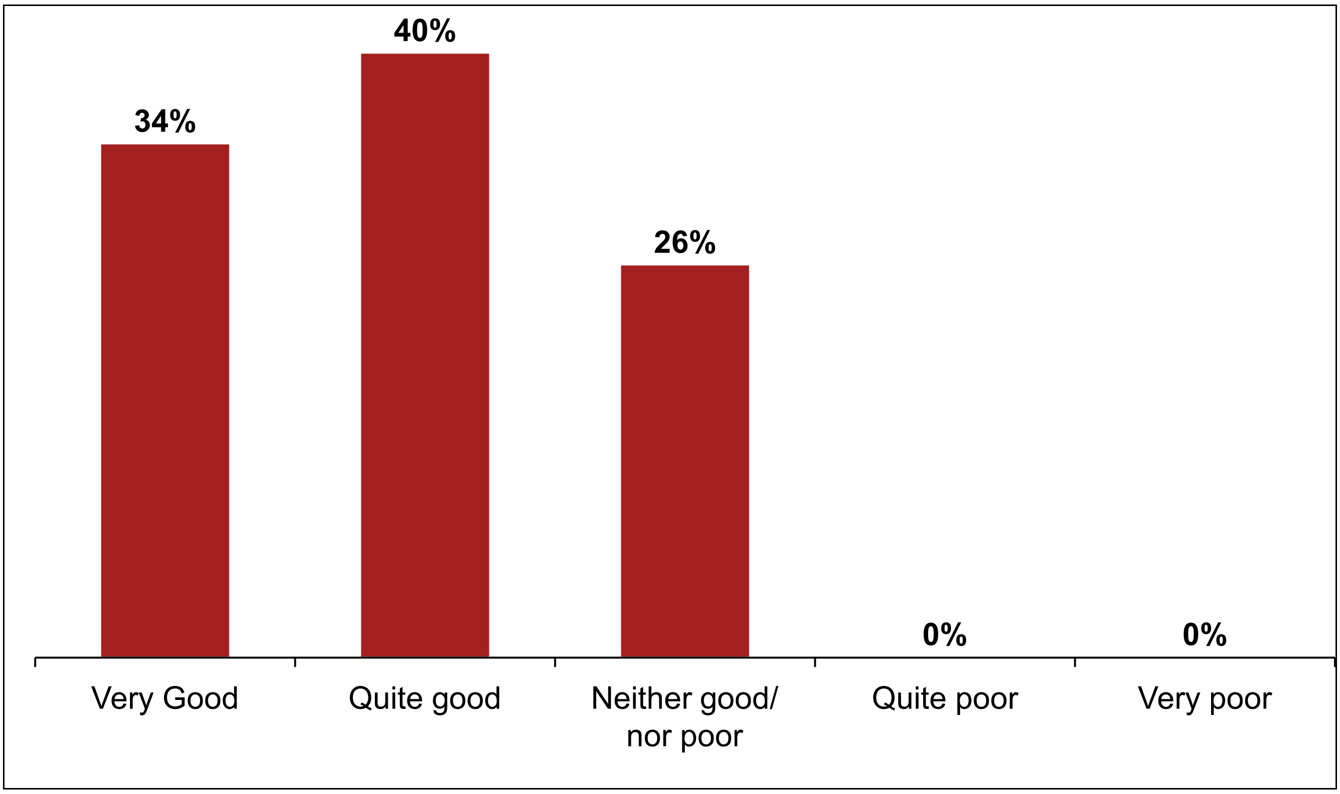
Source: Mergermarket

5. Zooming in on Germany

Do you plan to make any investments in Germany over the next five years?



In an international comparison with other countries, how would you assess the attractiveness of Germany as a location for private equity investment?

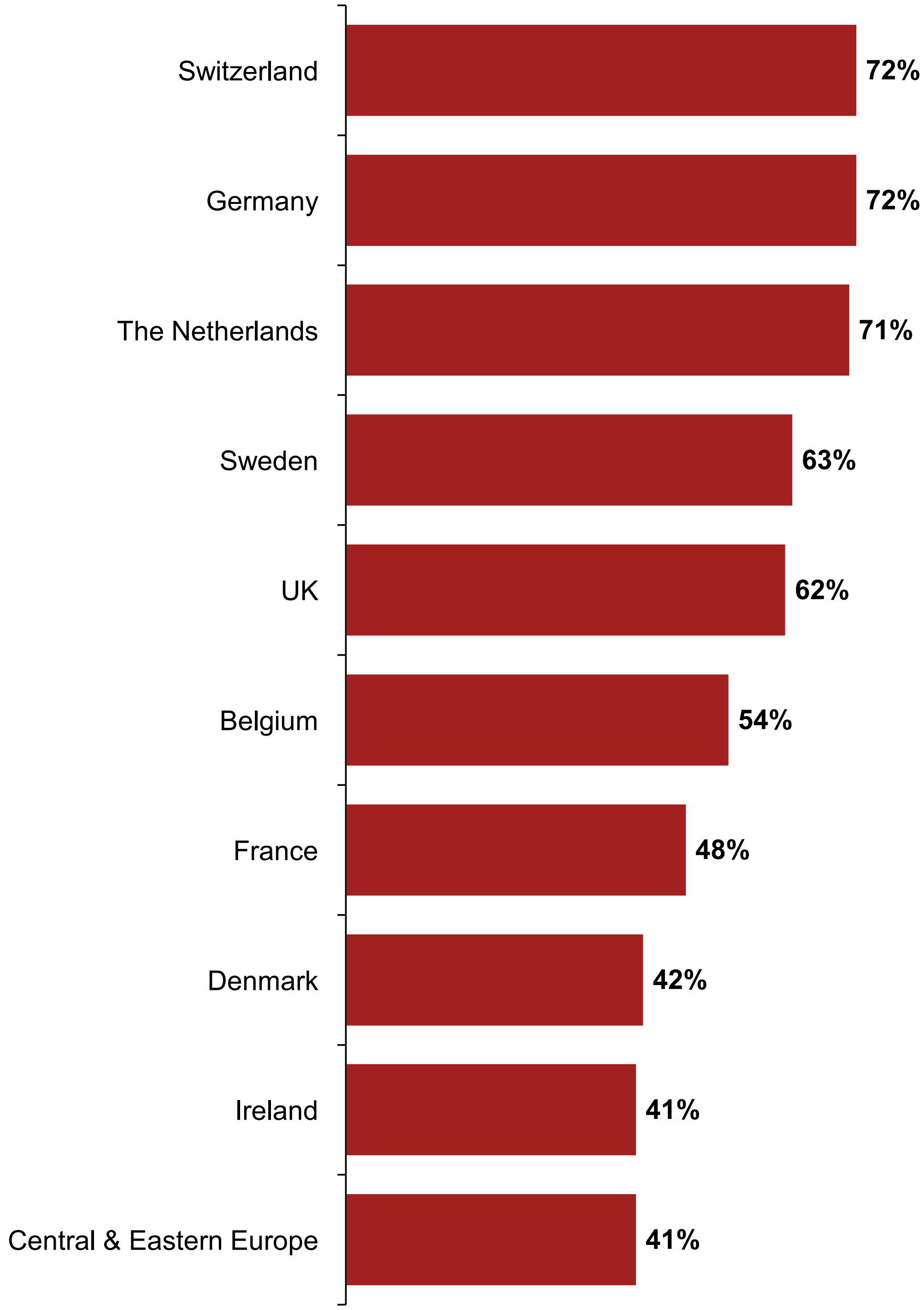


Source: Mergermarket

5. Zooming in on Germany

In your opinion, which countries or regions will become more attractive for private equity investments over the next five years?

(Select all that apply)



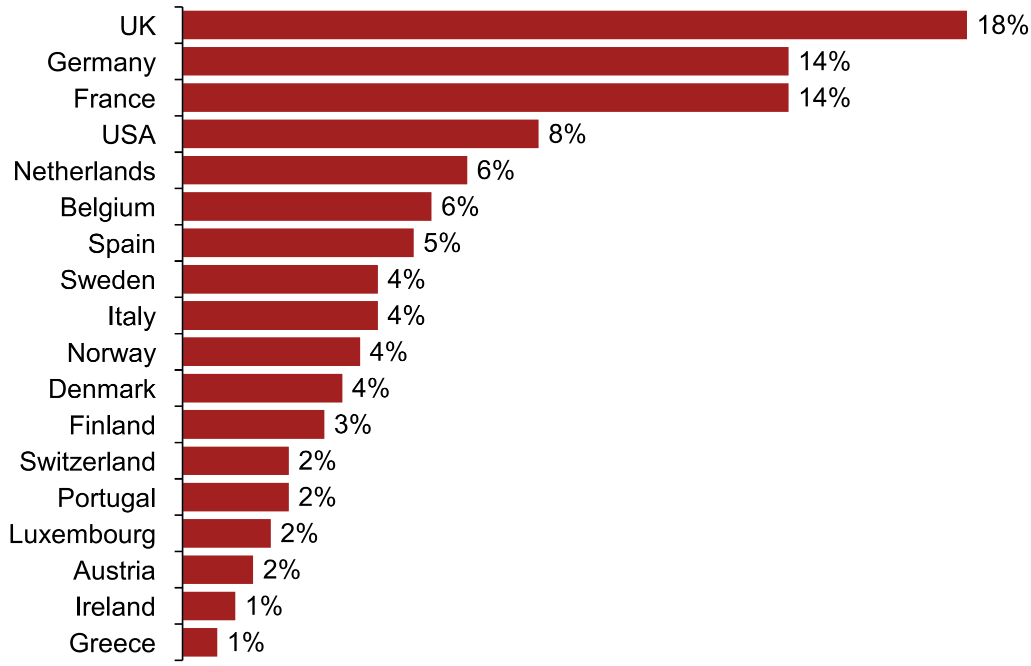
Source: Mergermarket

Methodology

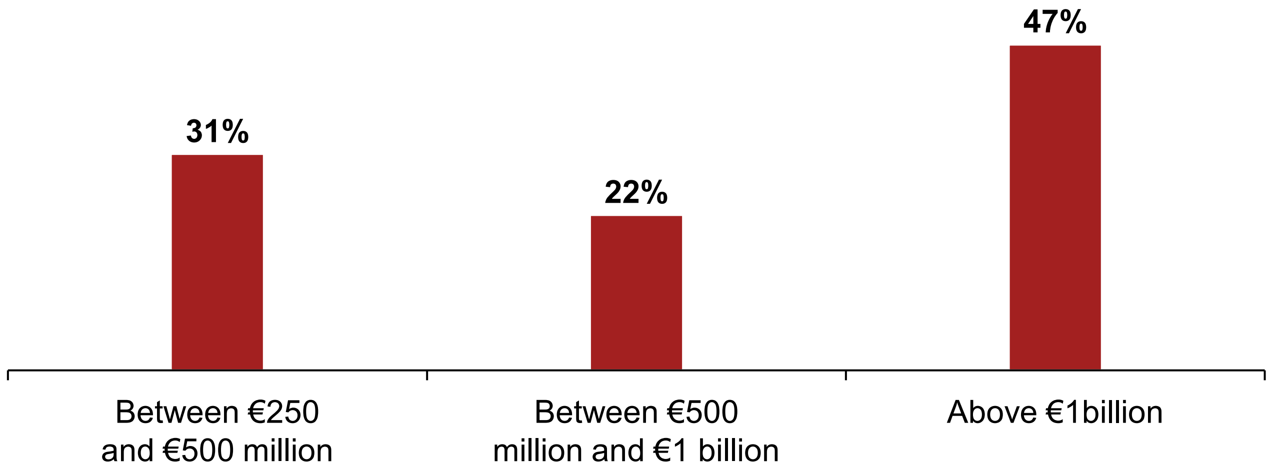
Methodology

In Q4 2021 and Q1 2022, Acuris Studios spoke to 250 PE principals on behalf of PWC. Job titles include: partner and managing director. 14% of these funds are based in Germany and 14% in Benelux countries with the remaining 72% with offices based elsewhere in Europe. Responses were anonymised and aggregated. All PE firms of respondents had a minimum of €250m of assets under management (AUM).

Can you please tell me in which country your organisations' headquarters are based?



Please could you tell me which of the following best describes your firms' current total global fund volume (i.e. assets under management)

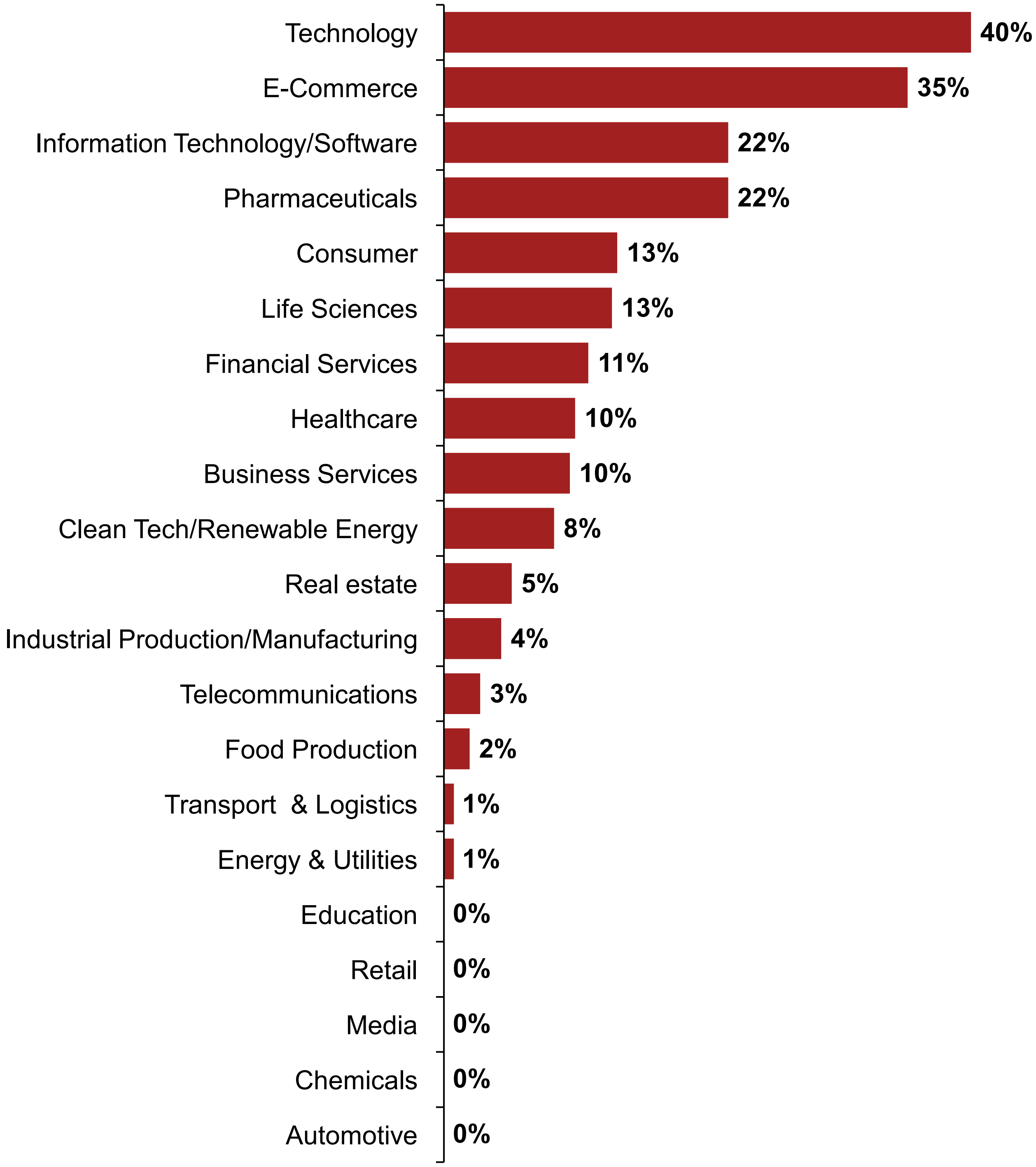


Source: Mergermarket

Appendix

Appendix

Which industries will emerge from the COVID-19 pandemic in the strongest position? (Select top two) – Top ten responses shown only)

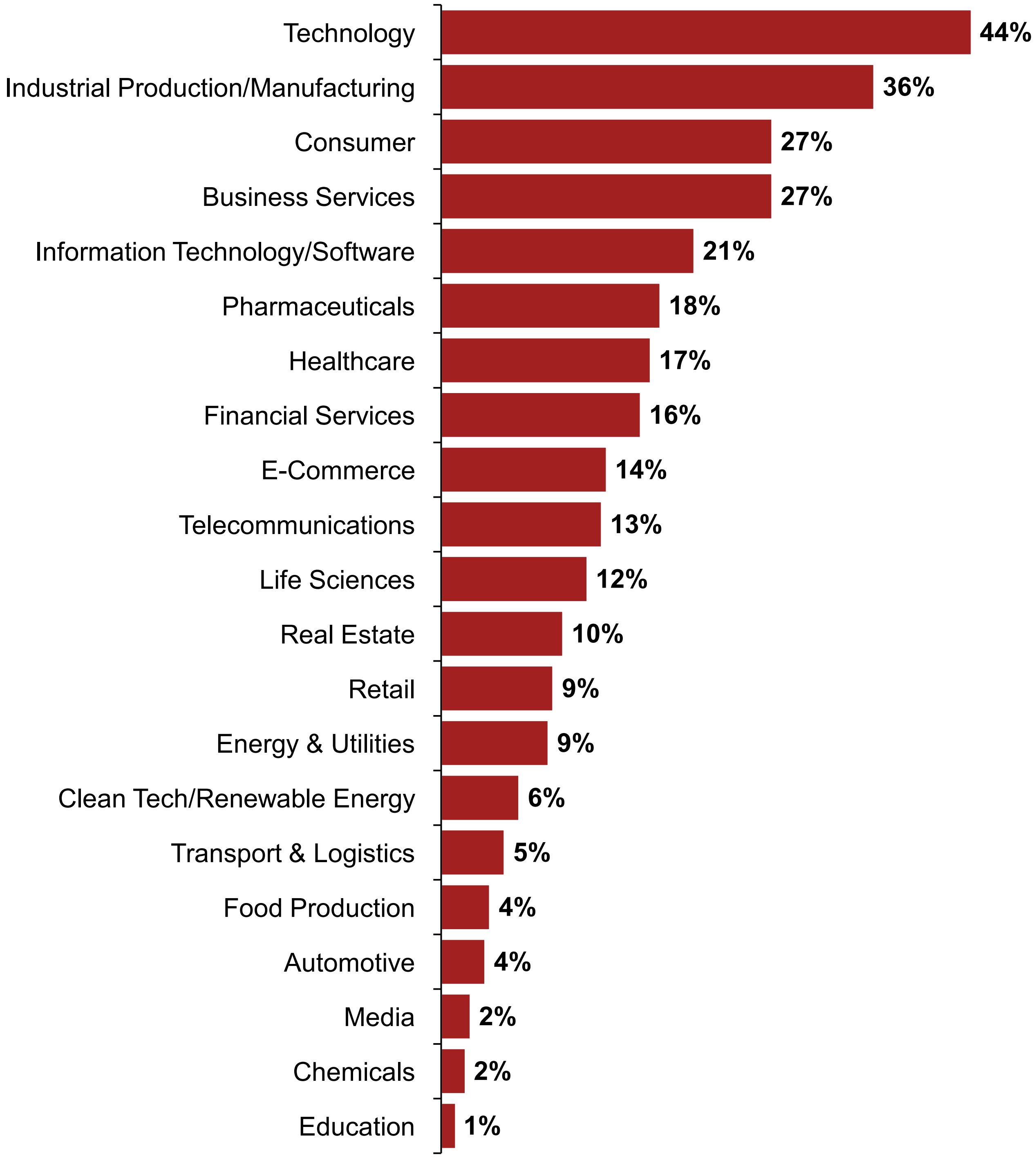


Source: Mergermarket

Appendix

In your opinion, which of the following industries is your organisation most likely to invest in over the next 2 to 3 years? Please name a maximum of 3 industries.

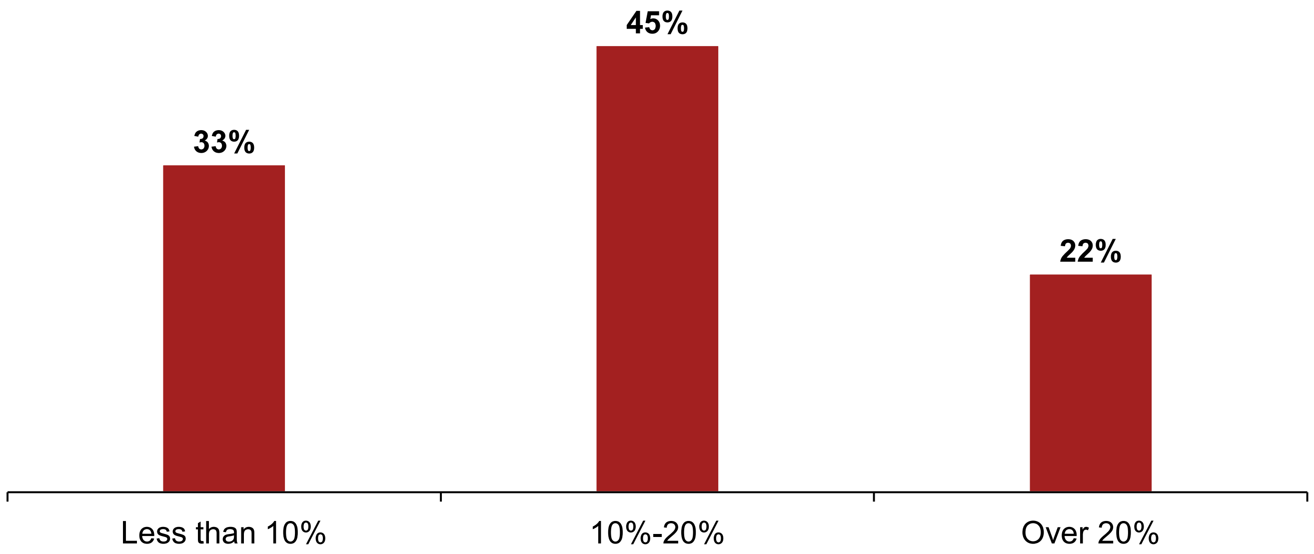
(Please choose up to three)



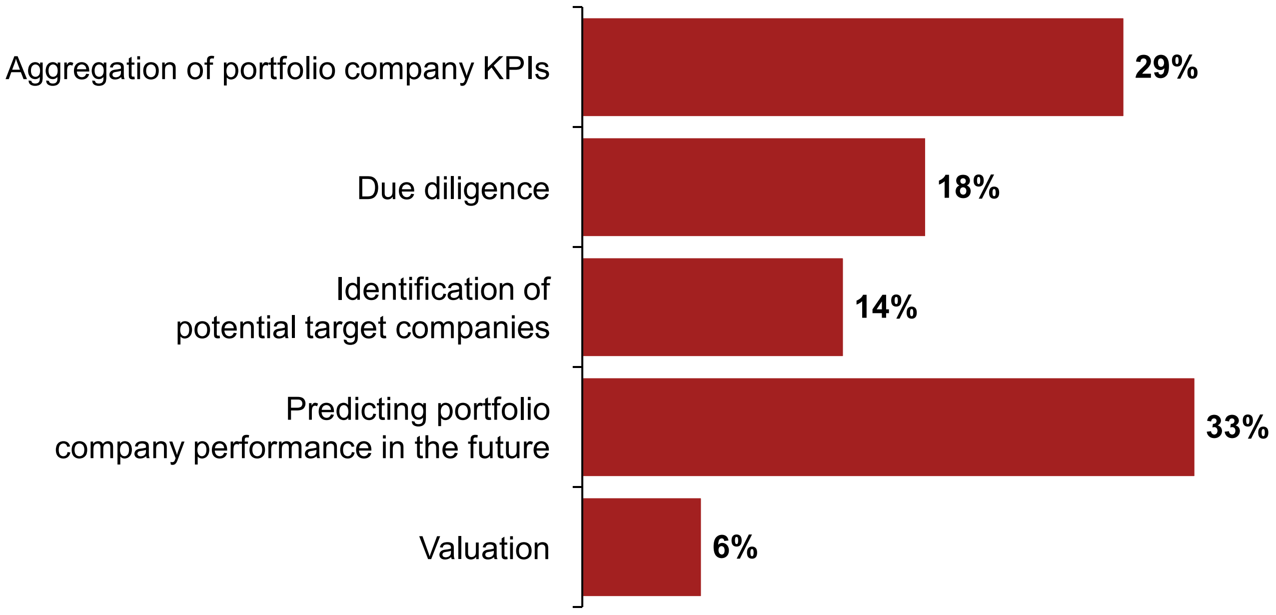
Source: Mergermarket

Appendix

Looking ahead to 2022, 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.)



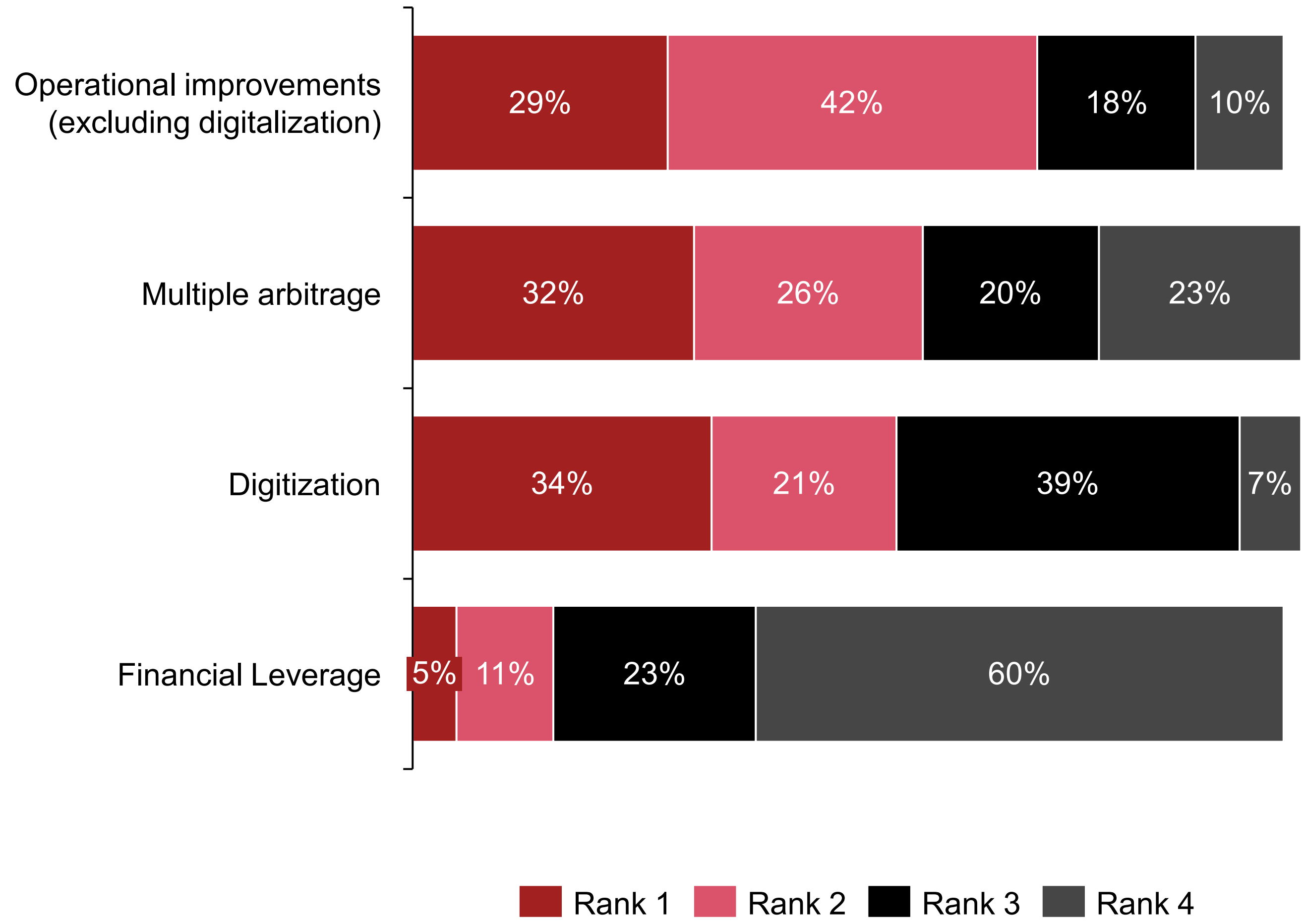
In which of the following areas of the investment cycle do you anticipate your organisation will use data analytics in 2022? (Please select the most important)



Source: Mergermarket

Appendix

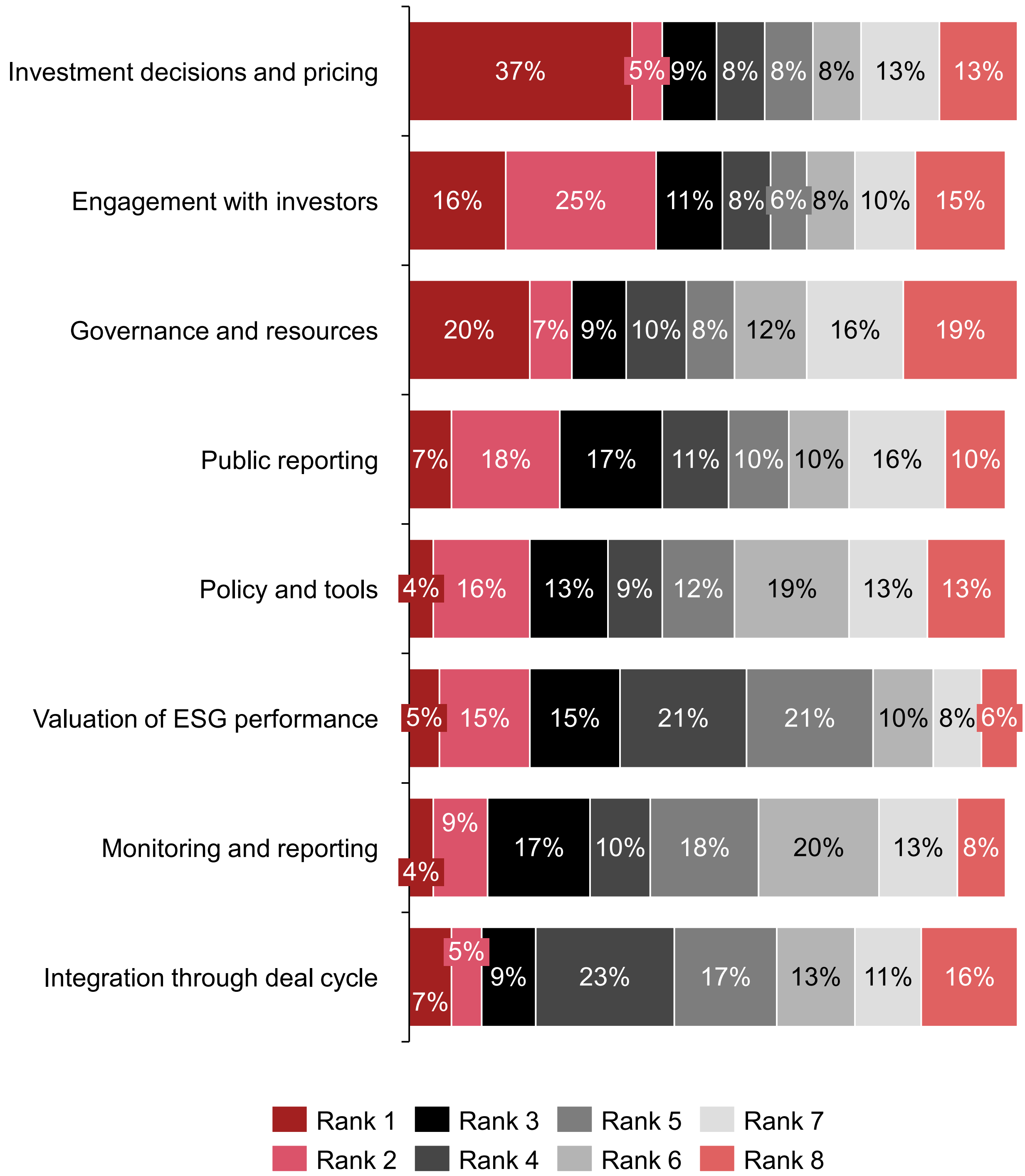
Please rank the following in terms of importance, regarding their influence on your return on investment. (Please rank 1 to 4, where 1 is the most important and 4 is the least important)



Source: Mergermarket

Appendix

Please rank the following areas of responsible investing in their importance to you from 1 (most important) to 8 (least important)

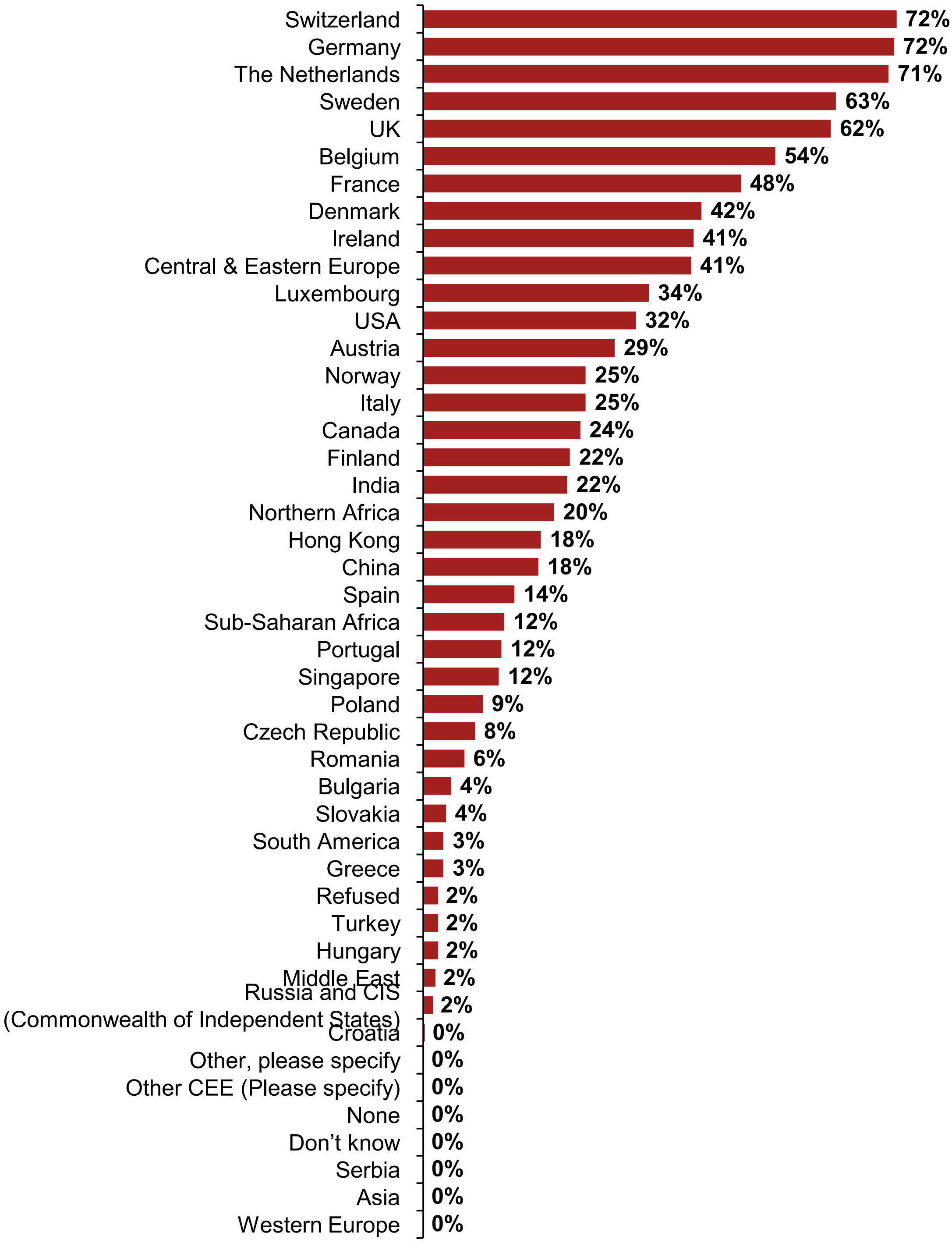


Source: Mergermarket

Appendix

In your opinion, which countries or regions will become more attractive for private equity investments over the next five years?

(Select all that apply)



Source: Mergermarket

Thank you