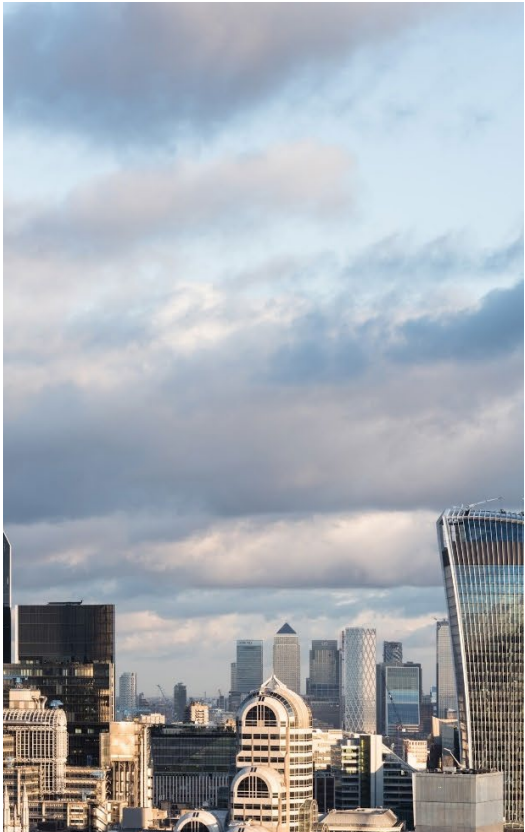


# Private Equity Trend Report 2024



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# Preface

What an eventful journey 2023 has been – just as we were adjusting to a semblance of post-pandemic normality, the year brought its own set of challenges and opportunities. While the world grappled with ongoing geopolitical tensions and economic uncertainties, the private equity landscape navigated through a complex web of changes, shaping the outlook for the industry in the coming years.

The year kicked off with cautious optimism, but geopolitical disruptions and economic volatilities soon took centre stage. Escalating tensions in various regions, coupled with supply chain disruptions and energy price fluctuations, cast a shadow over global markets. Inflationary pressures persisted, exacerbated by geopolitical conflicts and supply chain disruptions, posing challenges for businesses and policymakers alike. Within the realm of private equity, the landscape evolved in response to these macroeconomic shifts. Despite a slowdown in deal activity compared to the previous year, strategic investments continued to drive value creation. Portfolio companies became the focal point for GPs, who capitalized on quieter deal flows to nurture and optimize existing investments. The imperative of value creation amid inflationary pressures as well as contracting multiples underscored the importance of strategic portfolio management.

Furthermore, fundraising in 2023 proved to be a nuanced endeavour, with LPs exercising greater selectivity and caution. As traditional capital sources reached their allocation limits, private equity firms sought innovative avenues to secure fresh capital. Strategic partnerships with sovereign wealth funds and other institutional investors as well as credit and debt funds emerged as a means to access committed co-investment opportunities, underscoring the industry's adaptability in navigating changing market dynamics. While the large-caps profited from their scale and have raised record funds, the mid-cap area has struggled, experiencing issues in returning cash to LPs via exits or recaps in a depressed deal environment. We expect this to continue to be a challenge throughout 2024.

Looking ahead to 2024, the outlook for the private equity industry in Europe remains mixed. While macroeconomic headwinds persist, the industry is poised to capitalize on evolving market trends and emerging opportunities. Asset prices are expected to adjust to the new normal, characterized by reduced growth and heightened capital costs. Despite uncertainties, the sector's resilience and capacity for innovation position it to navigate challenges and unlock value in the years to come.

As we reflect on the past year and look toward the future, it is evident that the private equity industry is at a crossroads, poised to play a significant role in driving economic growth and transformation. The challenges ahead are formidable, but so too are the opportunities. With continued collaboration and

innovation, we remain optimistic about the industry's ability to navigate uncertainties and contribute to economic and social progress.

We extend our sincere gratitude to all those who participated in this year survey and shared their insights. Your contributions are invaluable as we collectively chart a course forward in the ever-evolving landscape of private equity. Here's to another year of collaboration and growth in 2024 and beyond!

A handwritten signature in blue ink that reads "Steve Roberts". The signature is written in a cursive, flowing style.

Steve Roberts

Private Equity Leader Germany & EMEA

# Introduction

The last 12 months have been challenging for the European private equity (PE) industry, but a change in fortune could be on the horizon. Inflation, which has been a drain on buyout firms, is finally being brought to bear. By January, the annualised inflation rates in the eurozone and the UK had eased to 2.8% and 4.0%, respectively.

This progress has opened the door for potential base rate cuts later this year, which would be a welcome development for PE by further easing syndicated leveraged loan markets and allowing for larger buyouts.

The mid-market segment is where much of the action has been taking place recently, precisely because financing has been more expensive and more challenging to source. The preference for smaller-scale acquisitions is reflected in the decoupling of deal value from volume, with the former falling more sharply than the latter. With the cost of borrowing at a generational high, sponsors have opted for more conservative quantum of debt in their transactions and have also become more creative in finding sources of debt when banks have stopped lending to leveraged buyouts.

Exit activity in Europe was also down last year. Consequently, distributions to limited partners (LPs) have dipped and this is straining fundraising environments as investors have less liquidity available for re-ups. This is the key reason why the PE secondaries market is so dynamic at the moment— LPs disposing of fund interests and GPs establishing continuation vehicles to secure partial returns.

Public-to-private transactions (P2Ps) are another recent staple feature of the market. European stocks are trading at significant discounts to the US and the market caps of UK companies in particular are lagging, creating an opportunity for PE funds. According to PitchBook, P2Ps accounted for 41% of European syndicated leveraged loan buyout volume in 2023, the second highest reading on record.

Overall, PE has made the most of the cards it has been dealt and has shown impressive resilience. Looking ahead to the rest of 2024, sponsors are cautiously optimistic. Our research shows that just over half expect to step up their pace of dealmaking this year. Any relief from the European Central Bank (ECB) and the Bank of England in the coming months would certainly help in bringing this to fruition.

# Key findings



# Key Findings

## A brighter outlook for 2024

Despite continued geopolitical concerns, inflationary pressures and high interest rates, over half (51%) of respondents expect their firms to increase the number of new investments they make, with only 10% expecting to decrease activity slightly. GPs are sitting on a wealth of dry powder and are ready to put it to good use.

## Competition intensifies

Over two-thirds of respondents (71%) agree that competition for investments among PE firms increased in 2023 compared to 2022, with one-fifth saying it significantly increased. Dealmaking may have slowed, but fund managers are vying for the most sought-after companies, which are showing growth regardless of sluggish GDP forecasts.

## Buy-and-build in vogue

In the face of elevated financing costs for large platform deals, PE firms are looking to buy-and-build strategies to drive synergies, cross-selling opportunities and scale. Over three-quarters of respondents (77%) say buy-and-builds will be an influential factor in their equity stories this year.

## Moving in on manufacturing

As supply chains are redesigned and production is localised, over a third of respondents (36%) expect to allocate more capital to the industrial production/manufacturing sector over the next few years.

## Covenant concerns

Today's high interest rate conditions are a major obstacle for buyout firms. While most expect less than 10% of their portfolio companies to breach covenants in 2024, over a third (34%) still foresee between 10% and 20% of their companies facing covenant or refinancing issues.

## Operational improvements prioritised

With debt being more costly and leverage losing its edge, 30% cite operational improvements as the number one factor influencing returns, and 71% expect this focus on operations to become even more impactful in the next 12 months.

## Returns live up to expectations

Despite the more challenging deal environment of late, 60% say returns have matched expectations over the past five to seven years. Moreover, 36% expect their investments made over the past year to outperform deals made between five to seven years ago, underscoring the asset class's resilience through cycles.

## ESG demands rise

With environmental, social and governance (ESG) factors taking on greater importance, 43% cite increased ESG expectations as the number one changing demand among their investors, and 34% point to improved disclosure in ESG reporting. LPs are clearly an important driver of change in this area.

### **Data analytics infiltrates due diligence**

Data analytics and artificial intelligence (AI) are transforming how PE firms evaluate investments, with 87% already using data analytics for due diligence and target identification. Furthermore, 33% of respondents identify data analytics as the single most crucial area for their digital investment.

### **Germany shines**

GPs are inherently long-term investors and are looking beyond Germany's current economic difficulties. The country stands out as the most attractive PE investment destination over the next five years, according to 65% of respondents, ahead of the UK, Middle East and Netherlands.

# Market Commentary



# Markets Commentary

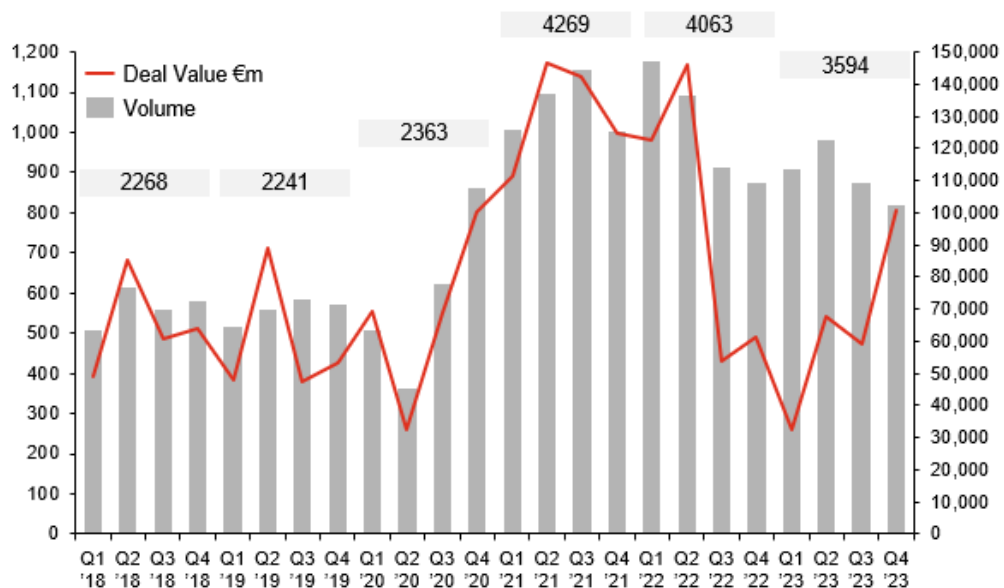
## Private Equity in Europe

Following an exceptional season for dealmaking in the wake of the pandemic, the deceleration in Europe's private equity (PE) market that took hold in the second half of 2022 carried through into 2023. An uncertain macroeconomic and geopolitical climate ensured that the industry felt the effects of higher interest rates, above-target inflation and longer lead times in global supply chains, which pressured businesses and financial investors alike, leading to fewer deals and lower average deal values.

Over the course of 2023, PE volume in Europe was down by 12% year-on-year (YoY) to 3,594 transactions. Aggregate deal value declined by 32% YoY to €259.8bn. However, these full-year figures mask two important trends.

The first is that deal value bottomed out in Q1 and marched higher throughout the year, ending in Q4 at a quarterly high not seen for 18 months. Volume is also trending well above the pre-pandemic baseline despite deal values being considerably lower on average.

**Fig. 1 European PE Trends**



## Buyout trends

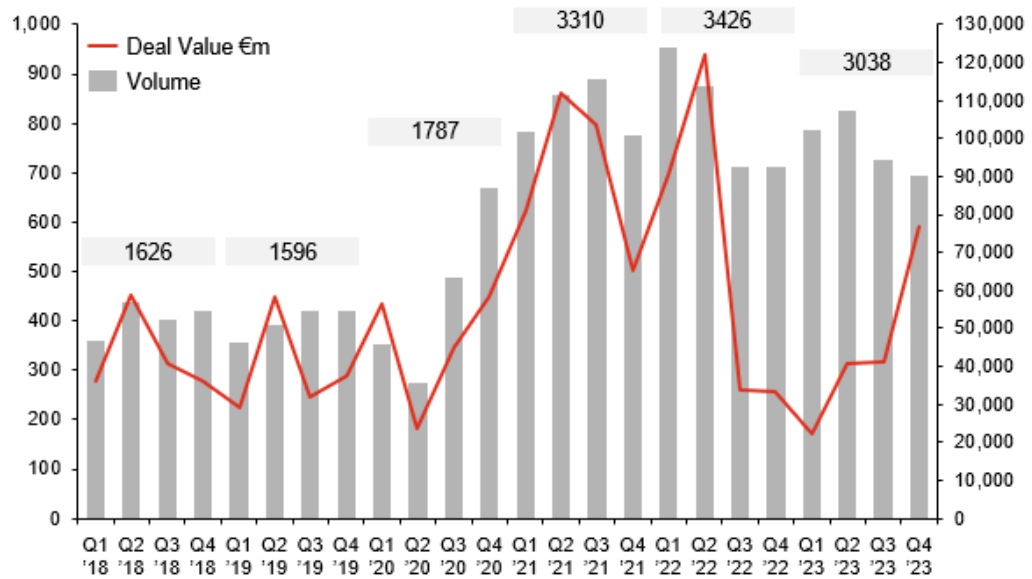
Isolating activity to buyouts, there was a 7% YoY fall to 3,038 buyouts and a 35% decline in value, from €279bn in 2022 down to €180.3bn in 2023. Sponsors favoured smaller transactions in a tougher financing environment, in many cases putting up larger equity contributions in their deals to get them over the line. In addition, sales processes of larger assets with more international exposure were pulled to await a more stable economic and geopolitical environment with

hopefully higher visibility and therefore more security in business plans and subsequent valuations.

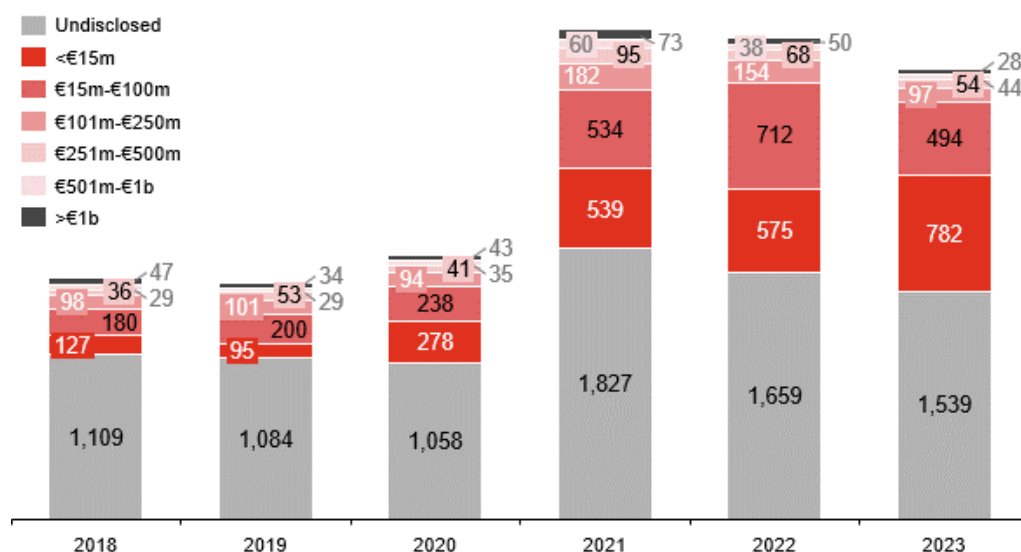
With this concerted move down into the mid-market, the number of megadeals (>€1bn) dropped by 44% to 28 deals in 2023, from 50 in 2022. The number of large deals in the upper mid-market (€501m-€1bn) registered an increase of 16%, from 38 in 2022 to 44 in 2023.

By far the largest European buyout of the year was KKR's acquisition of Telecom Italia's fixed-line network, FiberCop, for an enterprise value of €21.7bn. Another large-cap play that bumped up Q4's figures was the acquisition of Norwegian online classified ads specialists Adevinta by Blackstone, Permira, General Atlantic and TCMI for €14.1bn. These deals eclipsed the next largest. For comparison, the third largest transaction of the year saw EQT Partners and Abu Dhabi Investment Authority subsidiary Luxinva take UK veterinary pharmaceutical company Dechra private for €5.5bn, delisting it from the London Stock Exchange.

**Fig. 2 European Buyout Trends**



**Fig. 3 European Buyouts, Split by Deal Size**



## Top Buyout deals

**Fig. 4 Top Buyout Deals**

Announced date	Target company	Target Dominant Sector	Target Country/Territory	Bidder company	Bidder Dominant Country/Territory	Deal value €m
11/5/2023	FiberCop SpA	Telecommunications: Carriers	Italy	KKR & Co Inc; Abu Dhabi Investment Authority; et al	USA	21,700
11/21/2023	Adevinta ASA	Computer software	Norway	Blackstone Inc; Permira Ltd; et al	United Kingdom	14,092
4/13/2023	Dechra Pharmaceuticals plc	Medical: Pharmaceuticals	United Kingdom	Luxinva S.A.; EQT AB	Sweden	5,549
12/21/2023	Visma AS (21.05% Stake)	Computer software	Norway	HgCapital LLP; TPG Capital LP; et al	United Kingdom	4,000
11/28/2023	Heathrow Airport Holdings Ltd (25% Stake)	Transportation	United Kingdom	Ardian France SA; Public Investment Fund-PIF	France	2,732
3/13/2023	Synlab AG (57% Stake)	Medical	Germany	Cinven Ltd	United Kingdom	2,655
8/25/2023	STEAG GmbH	Energy	Germany	Asterion Industrial Partners SGEIC SA	Spain	2,600
4/21/2023	Software AG (85.1% Stake)	Computer software	Germany	Silver Lake Group LLC	USA	2,252
9/14/2023	Applus Services SA	Services (other)	Spain	TDR Capital LLP; I Squared Capital Advisors (UK) LLP	United Kingdom	2,233
6/30/2023	Applus Services SA	Services (other)	Spain	Apollo Global Management Inc; Manzana Spain Bidco SLU	USA	2,199

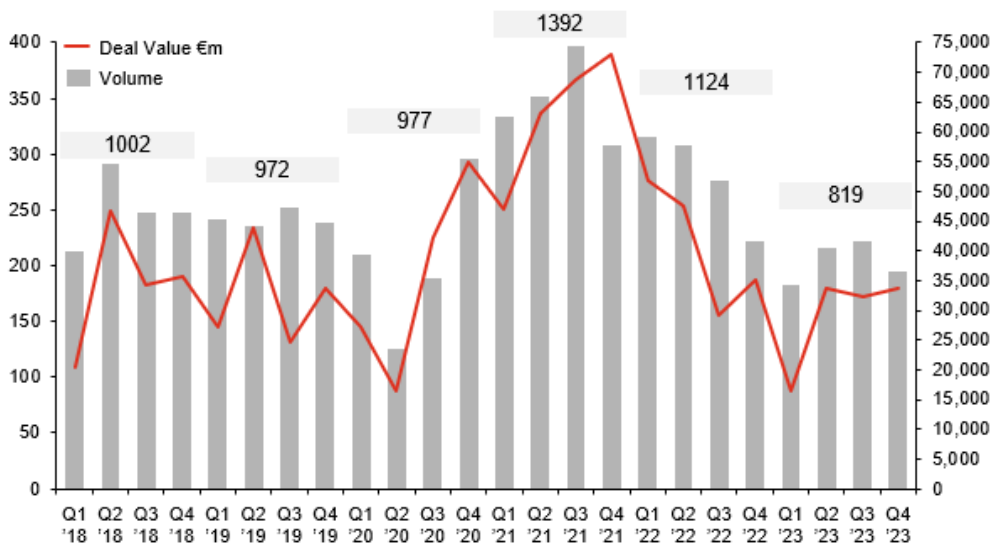
## Exit trends

Last year's decline in exit volume was far starker than the fall in new buyouts. Through 2023, there were 819 divestments, down 27% YoY. Although equally steep, the 29% fall in exit value to €116.2bn demonstrated stronger relative YoY performance than buyout value, which was down 35%. However, the decline in sponsor exits was due to the turbulent economic and geopolitical circumstances, which made many sponsors put ongoing exit processes on hold to be revived later once conditions stabilized.

As a result, one of the biggest topics of the past year has been the lack of distributions flowing back to LPs and the challenges this is presenting for fundraising. Private equity is typically cashflow positive, with investors recycling returns back into new funds. This self-funding model has come under strain over the past year or so, although this is not immediately obvious from recent data.

PitchBook estimates that a near all-time record of €115.9bn was raised by European funds in 2023. However, with CVC Capital Partners amassing €26bn for the world's largest-ever buyout fund, EQT coming close with their EQT X fund with €22bn of dry powder and the top 10 names accounting for 69.5% of the year's total, it's clear that many firms are being left empty-handed. GPs will need to start providing exit liquidity to their investors before re-ups become more forthcoming.

**Fig. 5 European Exit Trends**



## Top Exit deals

**Fig. 6 Top Exit Deals**

Announced date	Target company	Target Dominant Sector	Target Country/Territory	Bidder company	Bidder Dominant Country/Territory	Deal value €m
12/21/2023	Wintershall Dea AG (Upstream assets and carbon capture and storage licenses)	Energy	Germany	Harbour Energy plc	United Kingdom	9,021
6/26/2023	Orange Square Co Ltd	Consumer: Other	United Kingdom	Kering SA	France	3,500
10/17/2023	Olink Holding AB	Industrial: Electronics	Sweden	Thermo Fisher Scientific Inc.	USA	3,095
5/30/2023	Messer Industries GmbH (45.54% Stake)	Chemicals and materials	Germany	Messer SE & Co KGaA; Messer Industrie GmbH	Germany	3,000
7/31/2023	IMA Industria Macchine Automatiche SpA (45% Stake)	Industrial products and services	Italy	BDT & MSD Partners LLC	USA	2,925
3/13/2023	Synlab AG (57% Stake)	Medical	Germany	Cinven Ltd	United Kingdom	2,655
5/2/2023	euNetworks Group Ltd	Telecommunications: Carriers	United Kingdom	Investment Management Corporation of Ontario; APG Asset Management NV	Netherlands	2,613
3/31/2023	Polyplus Transfection SA	Biotechnology	France	Sartorius Stedim Biotech SA	France	2,400
11/22/2023	Civica Holdings Ltd	Computer software	United Kingdom	Blackstone Inc	USA	1,836
4/19/2023	Diaverum Sweden AB	Medical	Sweden	M42	United Arab Emirates	1,825

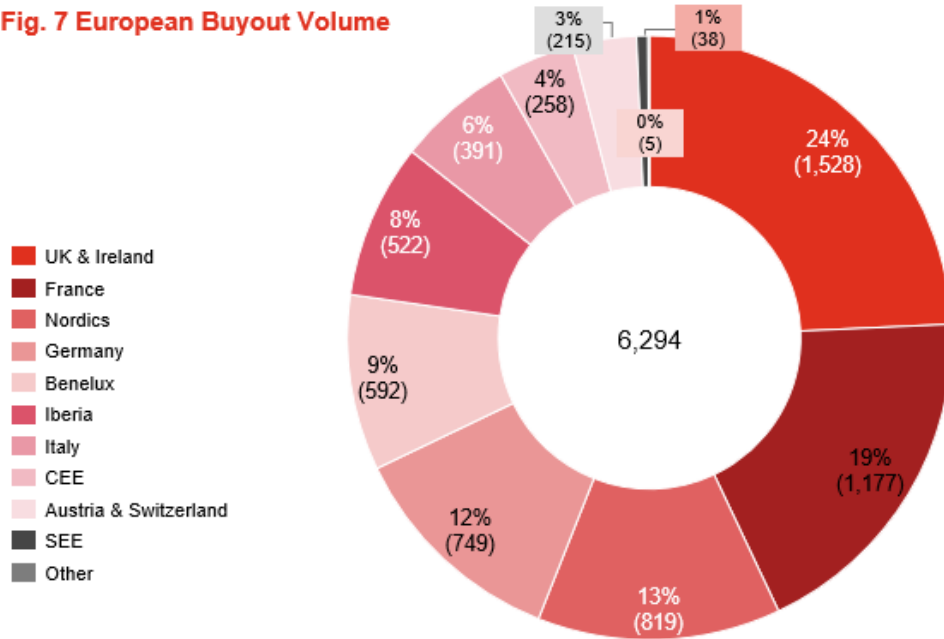
## Geography of European deals

The UK and Ireland retained their position as the most active buyout market in Europe in 2022-23, accounting for 24% of all deal volume. In terms of value, they tied with Italy, each holding a 21% share of the European market, although Italy accounted for a quarter of the transaction volume. This was made possible due to the enormous €21.7bn buyout of FiberCop by KKR, showing how far a single transaction can move the needle.

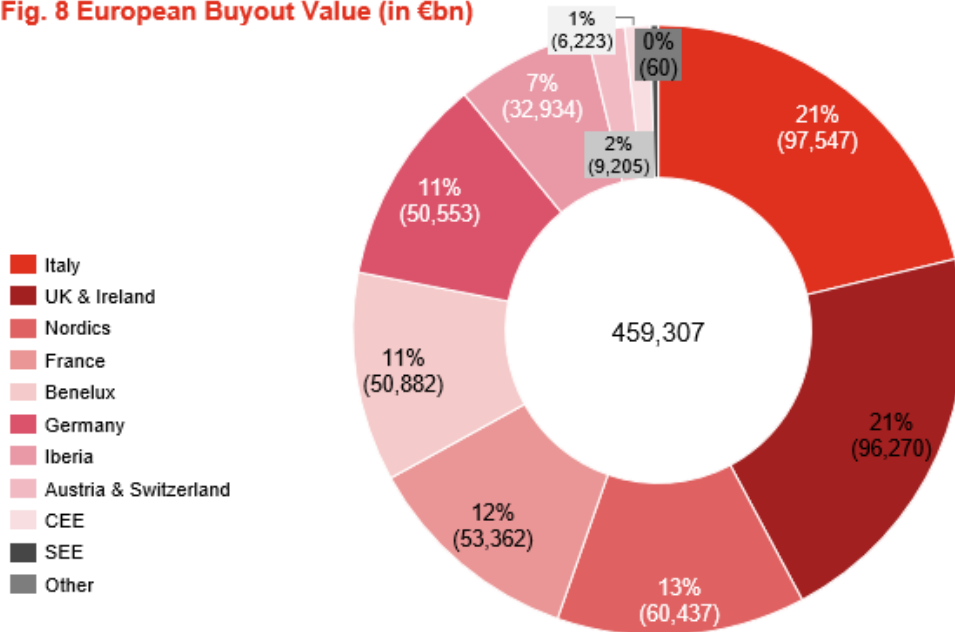
In total, the UK and Ireland recorded 1,528 deals for a total of €96.3bn in the period. Indeed, despite the UK's departure from the EU, the country remains an attractive market, particularly for US bidders whose dollars go further.

Morgan Stanley last year observed that UK equities are arguably the most undervalued in the world and sponsors have been highly active targeting UK PLCs. The strength of the market in numerical terms is also down to the simple fact that the UK is home to more PE portfolio companies than any other market in Europe, providing a generous supply of potential sponsor-to-sponsor deals.

**Fig. 7 European Buyout Volume**



**Fig. 8 European Buyout Value (in €bn)**



## Industry focus

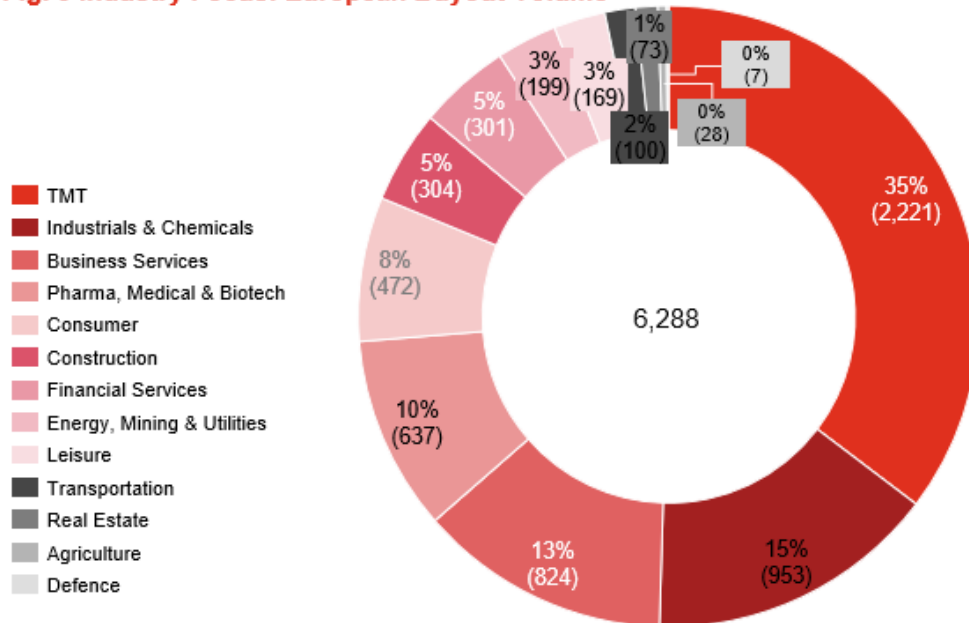
In the 2022-23 period, Technology, Media and Telecommunications (TMT) took its position as the highest volume and highest value industry by a comfortable margin, with 2,221 deals collectively worth €86.7bn. This translates to 35% of total deal volume and 32% of aggregate value over the period.

KKR's telco play for FiberCop clearly made an outsized contribution here, though that does not take away from the enduring attraction of technology assets. Four of the top 10 deals last year fell into the TMT category, three of these involving software targets.

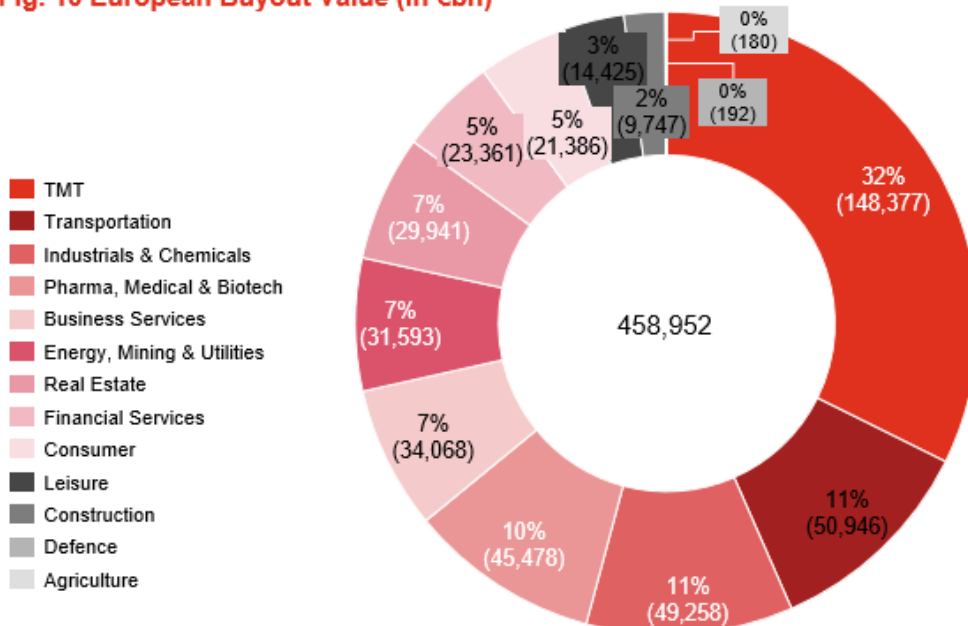
In addition to online classifieds business Adevinta, a consortium featuring HgCapital, TPG Capital, Intermediate Capital Group and several others bought a 21% stake in enterprise software firm Visma for €4bn, while US sector specialist Silver Lake paid €2.3bn for Software AG, another German business software company, which it took private.

Private equity has been capitalising on the sell-off in tech stocks – Software AG's share price more than halved from its 2021 peak before Silver Lake's tender offer.

**Fig. 9 Industry Focus: European Buyout Volume**



**Fig. 10 European Buyout Value (in €bn)**



## Deep dive: DACH spotlight

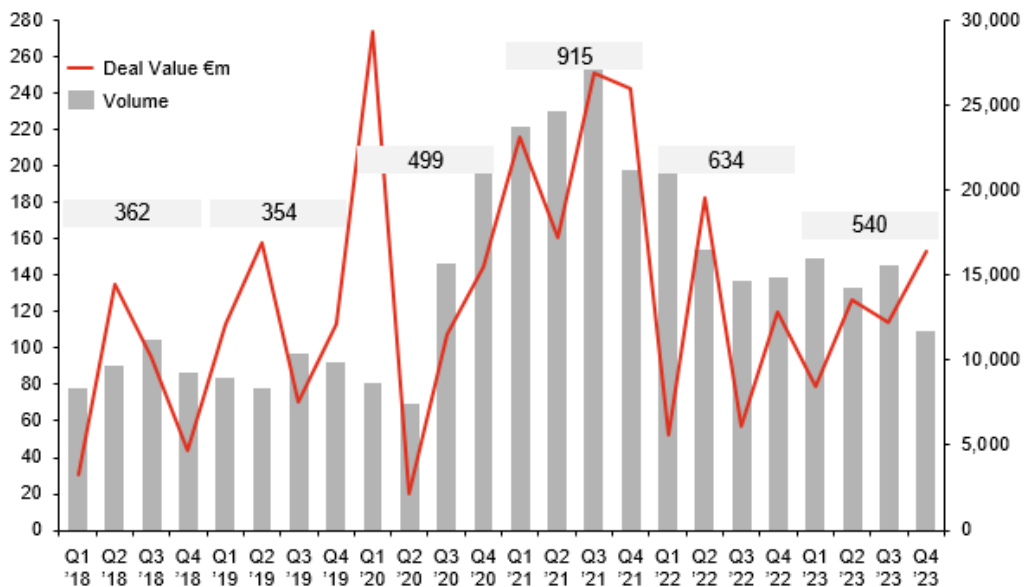
The DACH region experienced a 15% YoY decline in deal volume, totalling 540 deals. Despite this decrease, there was a notable 15% rise in deal value, which reached €50.7bn. This contrasts with the broader European trend towards the mid-market and was seen across both new deals and exits.

Buyout activity specifically mirrored this trend towards fewer but larger transactions, with a 12% decline in the number of deals to 451, while the total value of these buyouts rose by 11% to €31.4bn. Emphasising the strategic importance of the German market within the DACH region, three of the top ten deals – Synlab, STEAG and Software AG – featured German targets. These deals underline the continued attractiveness of the country for PE investors.

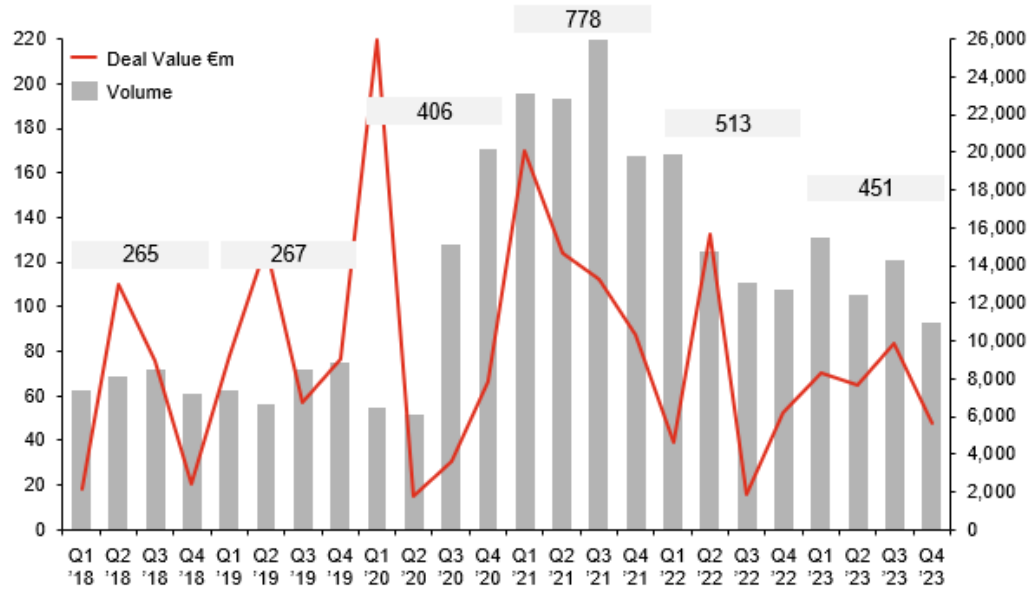
And even with weaker growth in Germany over the past year, PE sponsors' ability to return cash to investors has not wavered. This is evidenced by the 130 recorded exits, which, despite representing a 20% decline in number, saw a significant 51% increase in total value to €29bn. PE funds have been focused on creating liquidity from prized assets that are benefiting from strong buyer interest.

Both buyout and exit activity in the DACH region once again testify to the resilience and quality of the market and attractiveness of German companies to private equity investors. With a lot lower percentage of portfolio companies in total compared to the UK, the DACH, and specifically German market, has a lot of potential to be yet utilised.

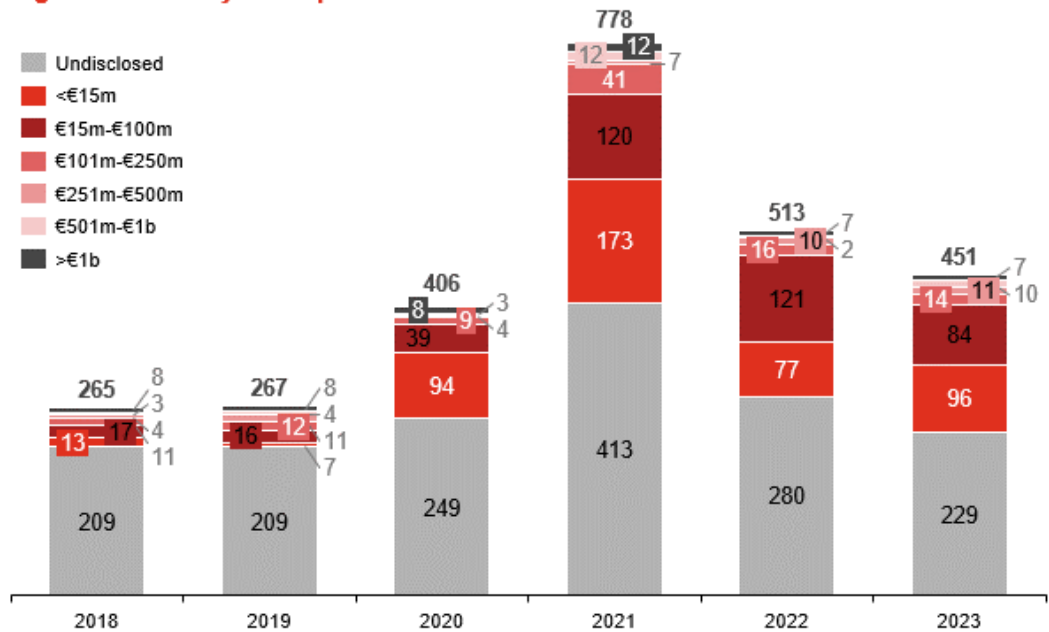
**Fig. 11 DACH PE Trends**



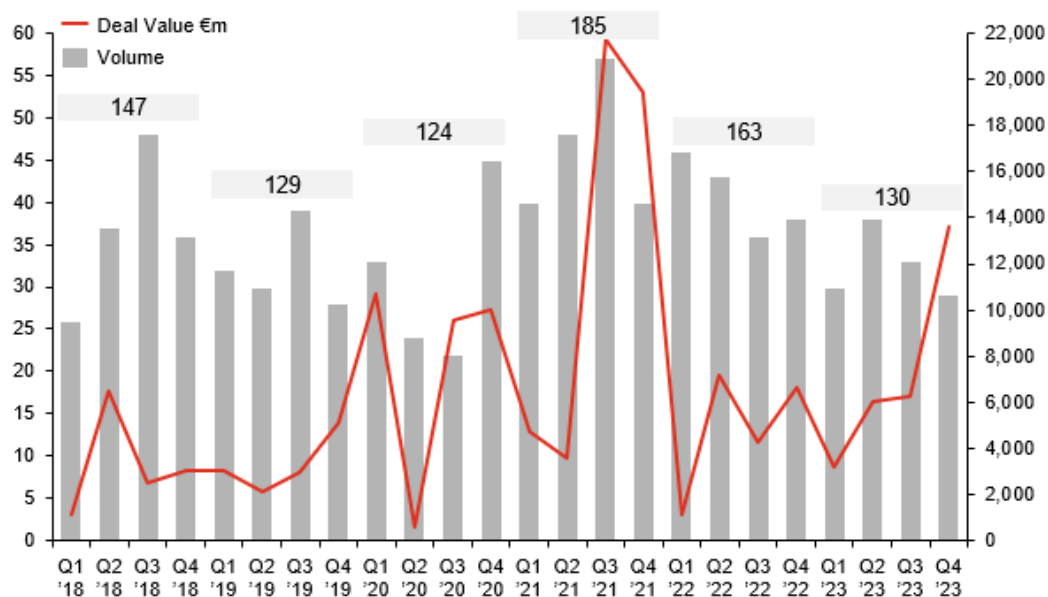
**Fig. 12 DACH Buyout trends**



**Fig. 13 DACH Buyouts Split**



**Fig. 14 DACH exit trends**



## Deep dive: Benelux spotlight

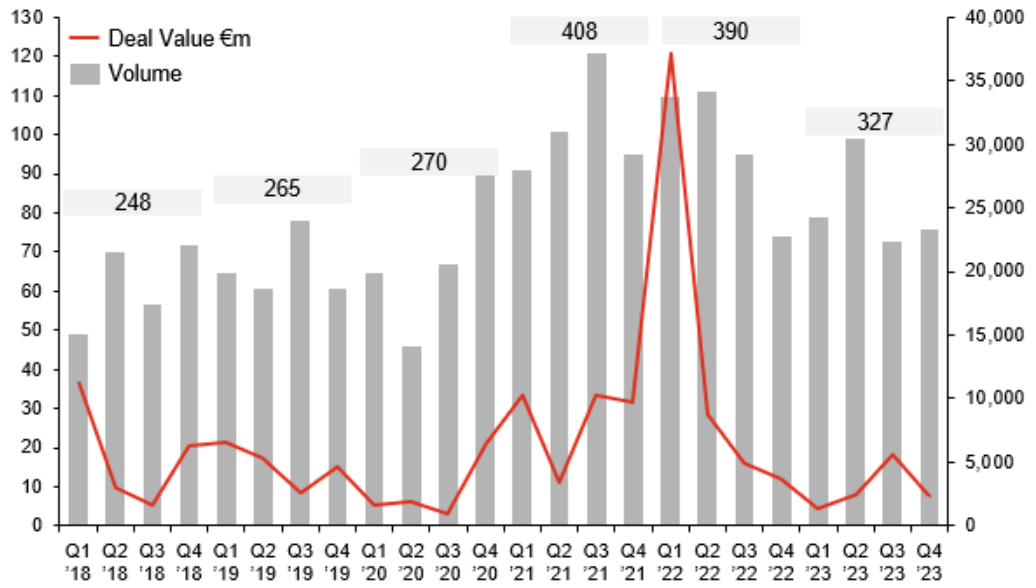
The Netherlands briefly slipped into recession last year but, unlike Germany, is expected to see marginal growth of around 0.4% in 2023. Belgium will fare better, with its economy expected to grow by 1.4%.

It's a relatively muted backdrop against which, on the surface of it, PE activity has been struggling. Volume in the region was down 16% YoY to 347 deals, while it's no exaggeration to say that total value plummeted, falling 79% YoY to €11.6bn.

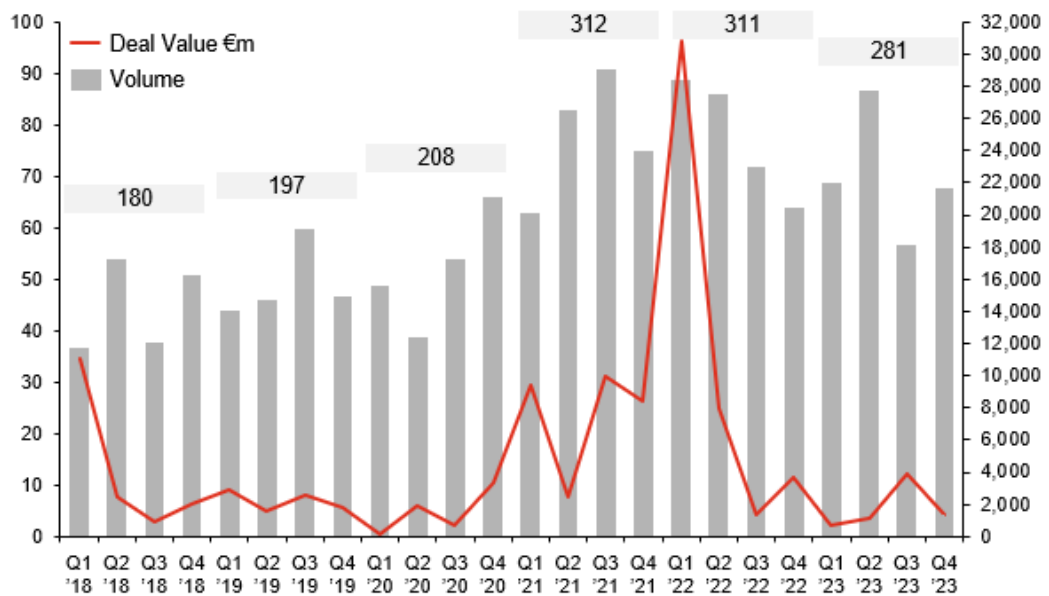
This severe contraction says less about the state of Benelux's PE market and more about the landmark deals that were made in 2022. These included Blackstone's €21bn recapitalisation of Mileway, a logistics real estate company that specialises in last-mile distribution centres across Europe, which was the second largest PE deal of the year. There were 281 Benelux buyouts last year, a 10% decline, while value tumbled by 84% to just €7bn owing to the absence of megadeals that were seen in 2022 such as Mileway, Refresco and Leaseplan.

For the same reason, the value of exits fell sharply year-on-year. There were 75 exits, down 34%, and the total value fell by a significant 61% to €7.9bn. Again, 2022 was always going to be a tough act to follow, having recorded the highest exit value for several years.

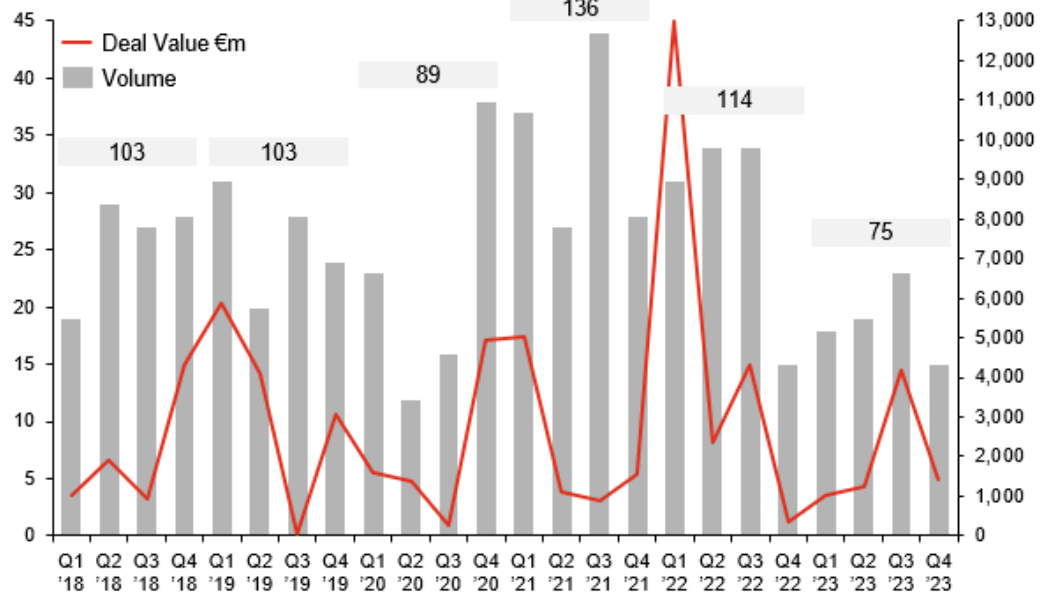
**Fig. 15 Benelux PE trends**



**Fig. 16 Benelux Buyout Trends**



**Fig. 17 Benelux Exit Trends**



# Chapter 1: 2023 in review



# 2023 in review

## Increased interest and investment

European buyout activity may have edged down by 7% last year, but sponsors were no less engaged in screening the market for opportunities. Indeed, our survey shows that, in 2023, 57% of respondents reviewed more potential transactions than in the previous year. Of this cohort, 44% only moderately increased the number of assets they analysed and 13% significantly increased the number of potential deals they analysed.

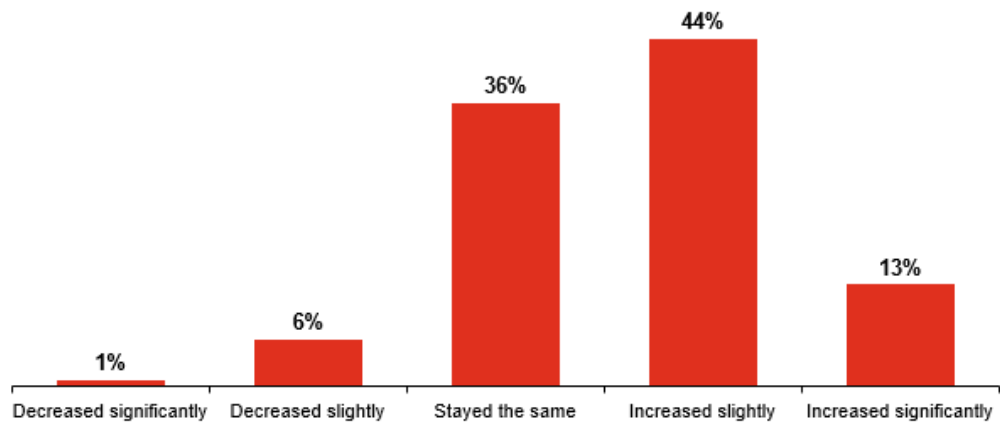
This groundwork led to more completed deals for most respondents. Almost two-thirds (61%) of respondents increased the number of new investments they made in 2023 compared with 2022. Significantly, the volume of deals actually increased in the first half of 2023 compared with the second half of 2022, and full-year figures are higher than they were pre-pandemic.

Contrary to expectations that geopolitics might dampen investment, our findings show that 60% believe their dealmaking increased as a result of conflicts in Ukraine and Israel, along with other global tensions. This was in partly because sellers have revised their expectations, compressing bid-ask spreads. The partner of a German PE firm told us: “The valuation of companies in many sectors was more reasonable compared to 2022, when the valuation gaps were wide. Due to conflicts, sellers did not over-value companies and we felt this was ideal for new investments.”

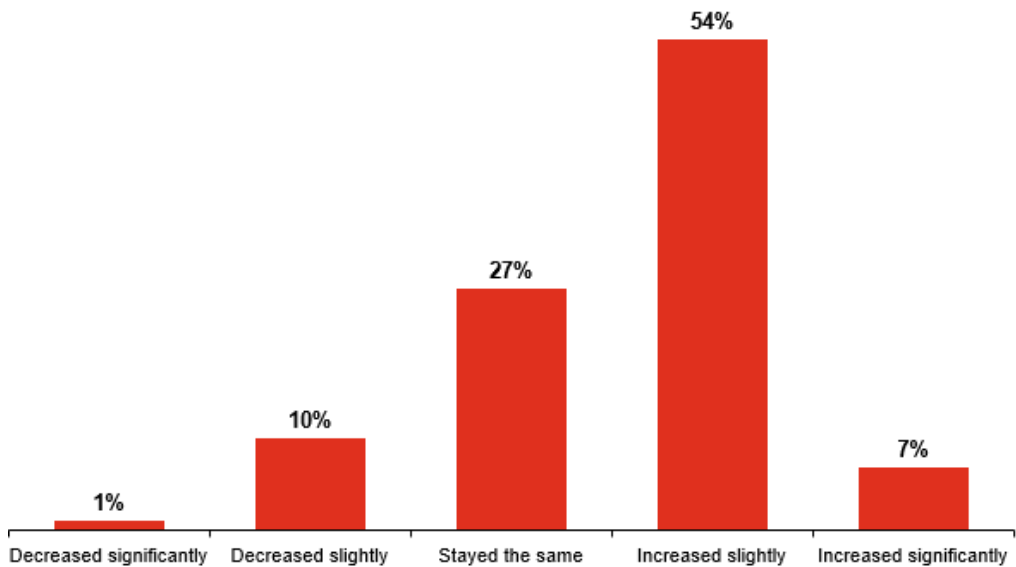
Meanwhile, for 26% of respondents, these concerns had no impact at all. Ultimately, GPs have to deploy in the bleakest of conditions and are wary of racking up management fees on idle committed capital.

“We’ve not let the conflicts affect our investment decisions. [We need to] continue new investments at the same pace, in order to avoid investor mistrust. It’s important that we keep our processes ongoing without external interruptions,” says the managing director of a Belgian PE firm.

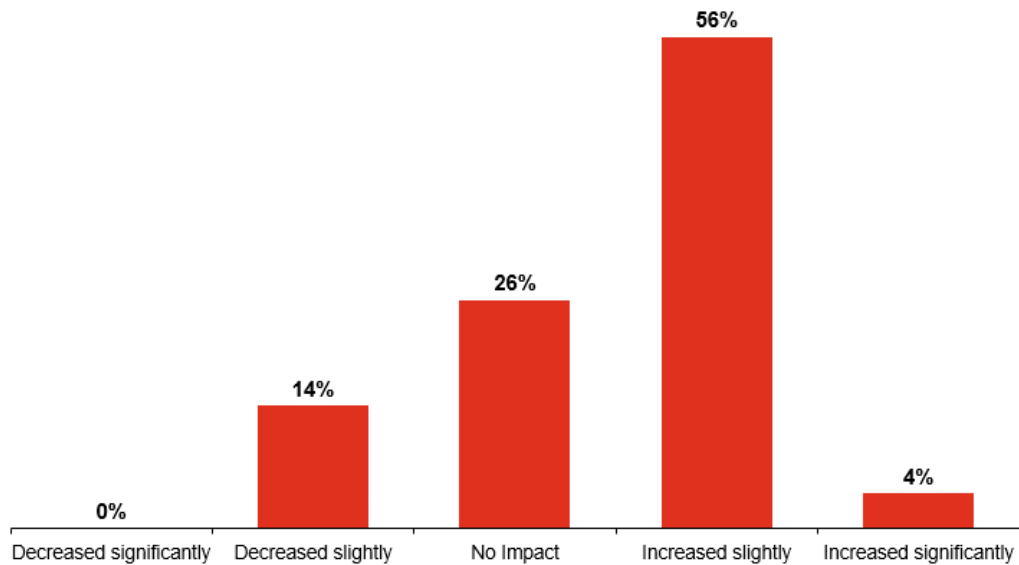
**Fig. 18 Firstly, compared to 2022, has the number of potential transactions which you have reviewed in an average month this year.....?**



**Fig. 19 Compared to 2022, has the number of new investments made by your organisation this year....?**



**Fig. 20 How have the conflicts in Ukraine and Israel in 2023 impacted the number of new investments of your organisation?**



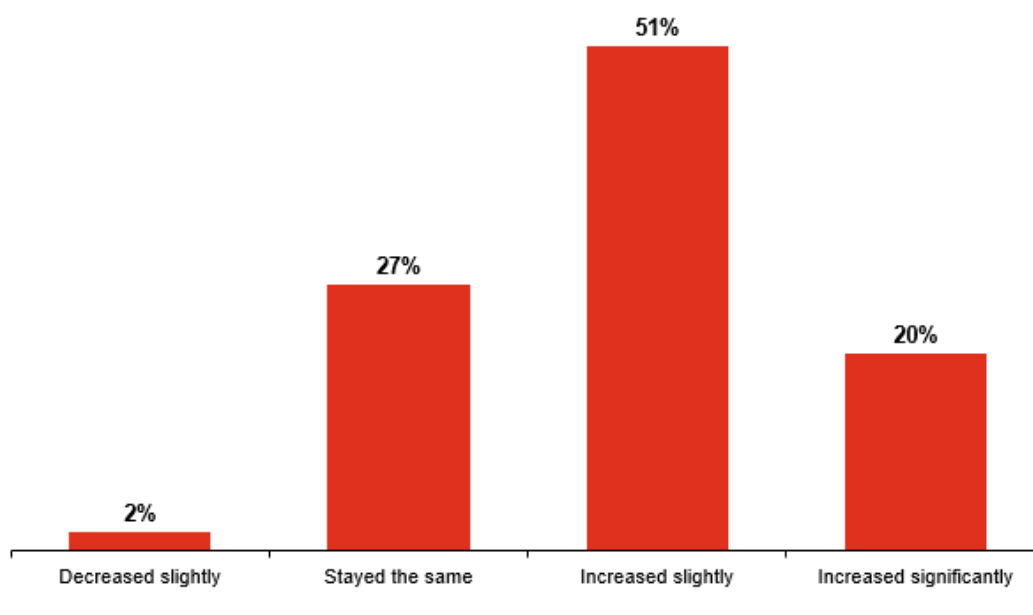
## Competition time

There's an imbalance in the PE market. The volume of capital raised annually by PE funds nearly tripled between 2013 and 2021, peaking at almost \$1.7trn, according to Preqin, before interest rates began to spike. Even with fundraising falling more recently, the decline in deployment value means that fresh powder is still incredibly high.

By the end of 2023, global private capital, including PE, venture capital, real estate, infrastructure and private credit, reached a record level of approximately \$3.9trn in dry powder. This figure represents an extraordinary growth trajectory, with a compound annual growth rate (CAGR) of 11% over the past decade.

This means sponsors continue to go head-to-head for the most prized assets. Seven out of ten respondents agree that competition for investments among PE firms increased in 2023 compared with the year before with 20% going as far as saying that competition has increased significantly.

**Fig. 21 Compared to 2022, would you say that competition for investments among private equity firms has...?**



## Exits level out

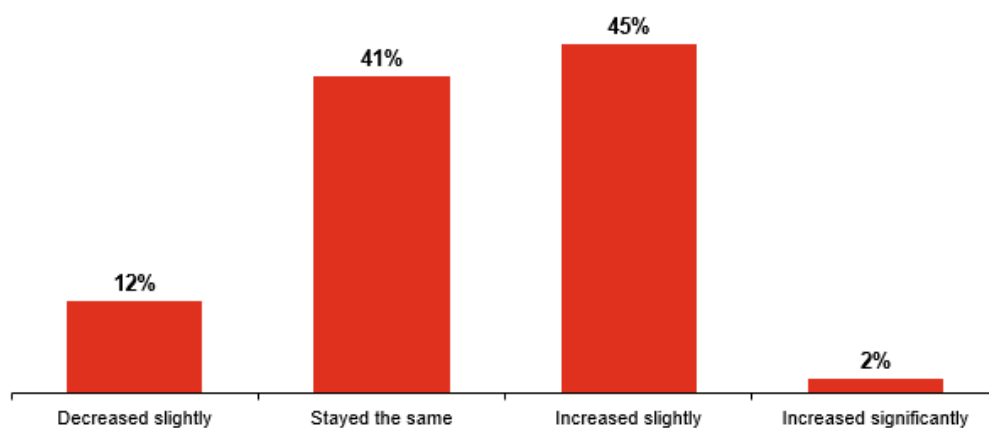
The exit environment proved to be a tough one last year. In 2023, there were 819 divestments, down 27% year-on-year. Meanwhile, there was an even more pronounced fall in exit value, dipping 29% to €116.2bn.

Higher financing costs have made PE buyers particularly selective and sensitive to valuations, stifling secondary buyouts.

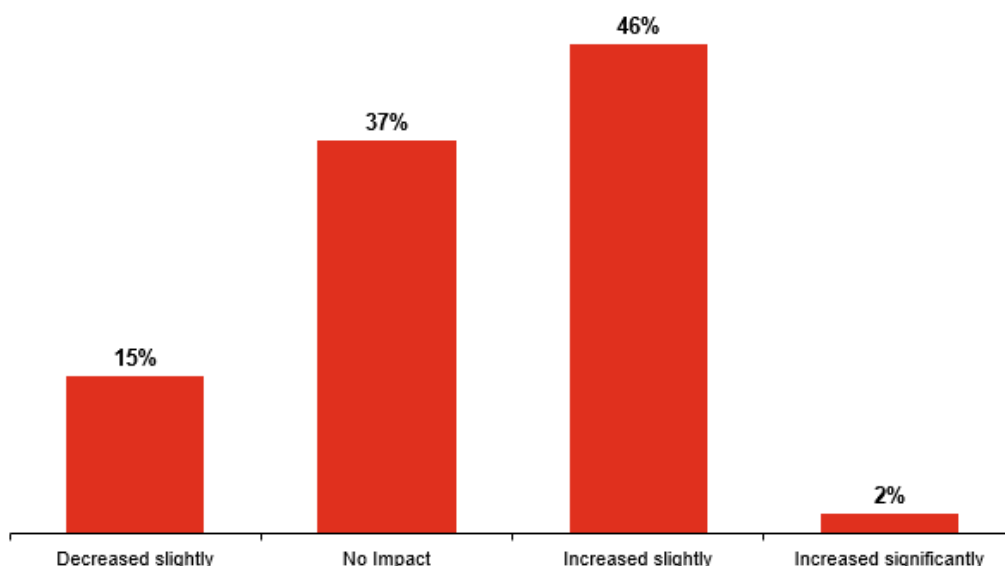
Despite the downturn in exits, those in our survey were somewhat more robust in their responses – 45% of respondents say they slightly increased the number of exits they made, while 12% noted a slight decrease. A further 41% stated that their exit volume was unchanged.

Meanwhile, in line with the previous comment (see Chart 3f), the ongoing conflicts in Ukraine and Israel, alongside other geopolitical concerns have had little negative impact on exits.

**Fig. 22 Compared to 2022 has the number of exits made by your organizations this year....?**



**Fig. 23 How have the conflicts in Ukraine and Israel in 2023 impacted the number of exits of your portfolio companies?**



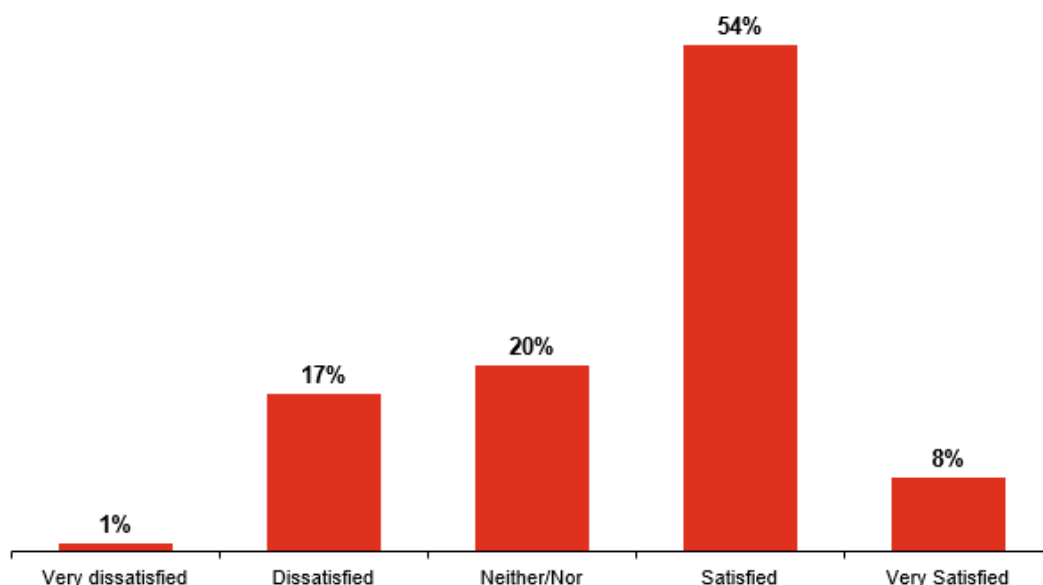
## Portfolio performance positive

On the whole, GPs are encouraged by their holdings. They may have to contend with weaker economic growth in Europe combined with high debt servicing and operating costs, but 54% say they are satisfied with the development of their portfolio companies over the past year. Nearly one in ten (8%) say they are very satisfied with how their companies are faring compared with just 1% who say they are extremely dissatisfied. This is testament to the value-added operational and strategic guidance that active owners can bring to private companies.

Of the various geopolitical uncertainties that are hanging over markets and investors, the most meaningful influence of these and their second-order effects on PE firms and their portfolios is increased difficulty in securing financing, cited by 51%. Other impacts garner roughly equal response rates, including the significant reduction of the exposure to Russia (33%), the disruption of

established business models (32%), increased financing costs (32%) as well as supply chain challenges (30%).

**Fig. 24 How satisfied or dissatisfied are you with the development of your portfolio companies in 2023? Would you say you are ....?**



**Fig. 25 Looking back at 2023 and the increasing geopolitical uncertainties, e.g. the conflicts in Ukraine and Israel, US/ China trade war, etc., which of the following have had the strongest impact on your firm as well as your portfolio:**

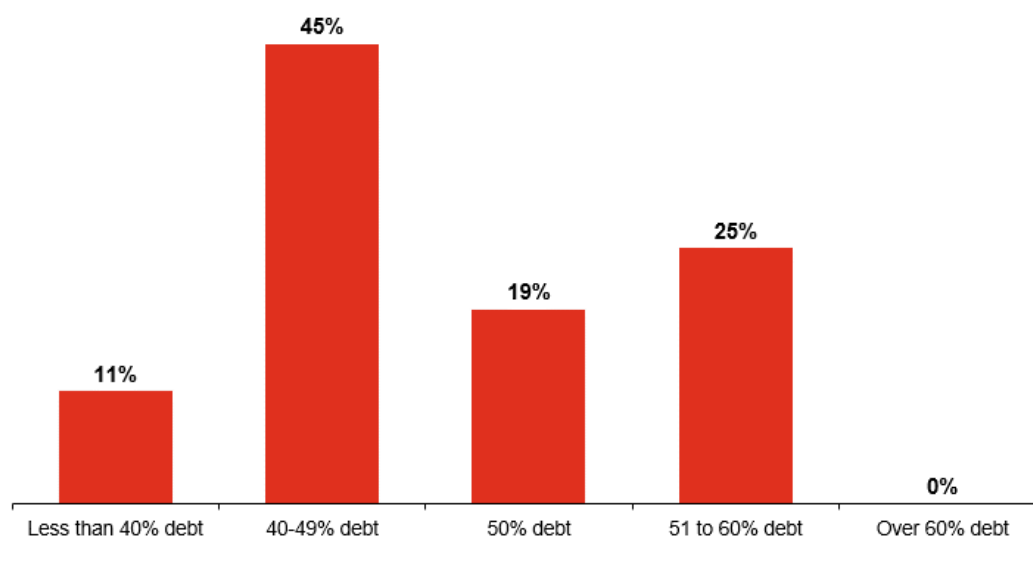


## Debt-to-equity ratios

Market data from PitchBook and RW Baird recently showed that the average EBITDA multiple on European deals last year fell to 10.1x, with 53.5% of this being covered by GPs' equity contributions and the remaining 46.5% being funded with leverage.

We find this to be broadly consistent with figures that GPs note in our survey. Specifically, 64% of PE fund managers say that, in 2023, the average debt-to-equity ratio they applied to deals was between 40% and 50%. Absolutely no GPs used leverage ratios in excess of 60% and there is a prudent contingent of 11% that gave their new portfolio companies headroom with ratios of less than 40%.

**Fig. 26 What was the average debt to equity ratio used by your organisation on new investments made in 2023?**



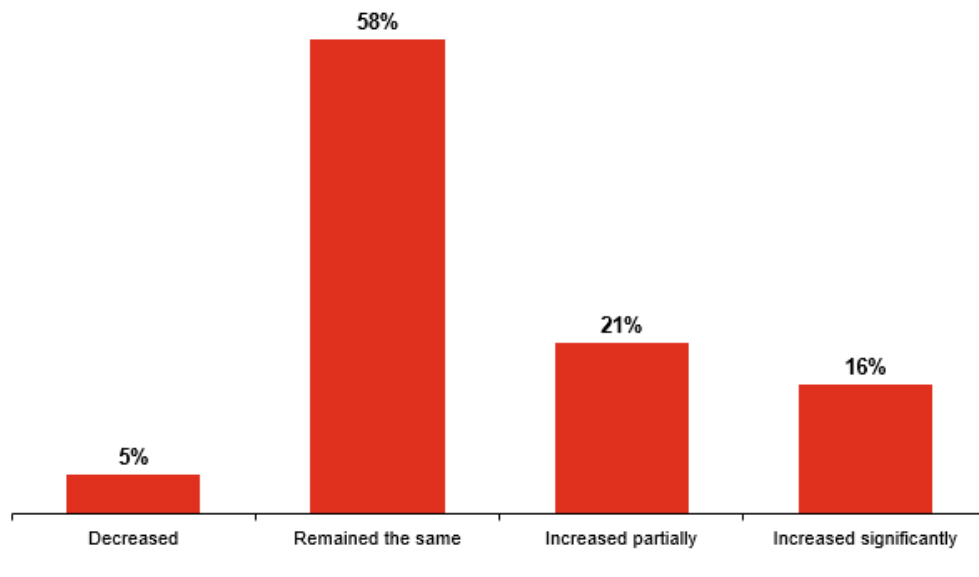
## ESG drives LP expectations

The balance of power between GPs and their LPs shifts with market cycles. In good times, GPs typically have more leverage due to high demand for investment opportunities and their funds. When times are harder, as they are now, LPs are more selective in their allocation decisions and gain more leverage over GPs, pushing for better terms.

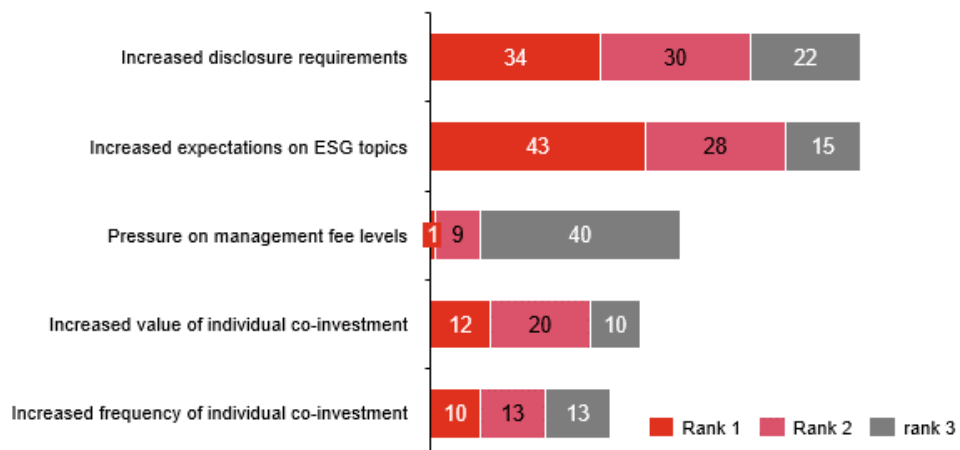
Over the past three years, 58% of respondents say the expectations and requirements of their investors has remained the same. However, well over a third felt that LP demands have risen. Just over one in five GPs (21%) say that LP requirements have increased somewhat and 16% say they have increased significantly. Only 5% say expectations have decreased.

The ball is in LPs' court and the biggest point of negotiation is around ESG. To fulfil their own fiduciary obligations, investors want to see GPs take further action on ESG, including monitoring and driving progress through their portfolio investments. This shift also requires reporting disclosures, including transparent breakdowns of how GPs are responsible for delivering progress. Our research reveals that 43% of respondents report increased ESG expectations as the number one changing expectation among their investors, and 34% say reporting disclosures is the primary change LPs want to see.

**Fig. 27 Have expectations and requirements of your Limited Partners (LPs) changed during the prior three years?**



**Fig. 28 Which of the following best describe the changes in expectations and requirements from your Limited Partners....? (Rank 1 is the biggest change):**



# Chapter 2: The year ahead



# The year ahead

## Optimism but fear for low growth and rising regulation

Although still below the all-important 50 mark, the HCOB Eurozone Manufacturing PMI, a closely watched economic indicator, climbed to a 10-month high of 46.6 in January, beating the expected reading of 44.8. Business optimism for the year ahead reached its highest level in nine months. There is still some way to go before inflation is fully tamed and the ECB can ease policy, but many seem to believe that the hard work is behind them.

GPs are also relatively optimistic about the year ahead. More than half (51%) of PE firms expect to increase their investment activity in 2024, and 39% anticipate maintaining their pace of deployment. Only 10% say they expect a slight decrease.

There are similar levels of optimism surrounding forthcoming exits: 46% expect divestments to increase, with only an 11% minority expecting them to decrease. However, a sizeable 43% take a more moderate view, predicting exits to be flat year-on-year in 2024.

GPs need to start realising portfolio value to support their fundraising efforts. Indeed, the lack of exit activity has prompted fund managers to explore other options. A recent survey by Capstone Partners found that 12% of GPs have previously used NAV financing to deliver liquidity to their investors, and this is expected to increase to 14% this year. This may cause friction – over half of LPs have said they do not consider this to be an effective means of returning capital, in part because it can be clawed back.

## Macroeconomic picture brightens but challenges remain

Having endured a slower and altogether tougher period for dealmaking, firms are largely upbeat about the months ahead. Two-thirds say they expect the European deal market to improve over the next 12 months, although 62% say it will only improve marginally. This still far outweighs the 9% who predict conditions will deteriorate further, while the remaining share of 24% are conservative, seeing no change coming in the short term.

With central banks in most of the world tightening the reins, the IMF forecasts that global headline inflation will fall to a still uncomfortably high 5.8% this year. This is stifling growth, with GDP expected to rise by 3.1%, matching 2023's performance. Against this backdrop, European GPs are managing their expectations. Over two-thirds (68%) of respondents expect low growth in the global economy this year, and nearly one in five (18%) are predicting no growth whatsoever.

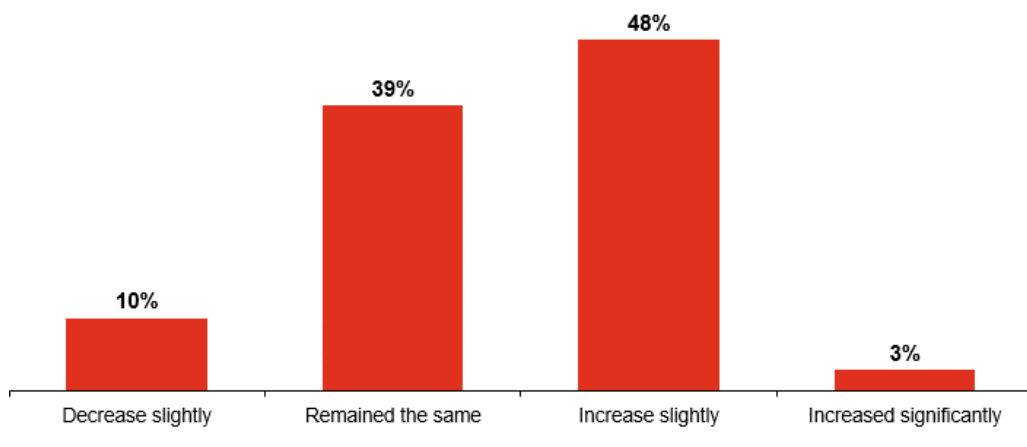
Meanwhile, the turbulent macroeconomic and geopolitical climate has slid two key challenges under GPs' microscopes for the coming year and beyond – the financing climate and growing pressure from increased regulation.

More than half of respondents (56%) felt that financing costs would rise significantly as a result of increasing geopolitical pressures such as the conflicts

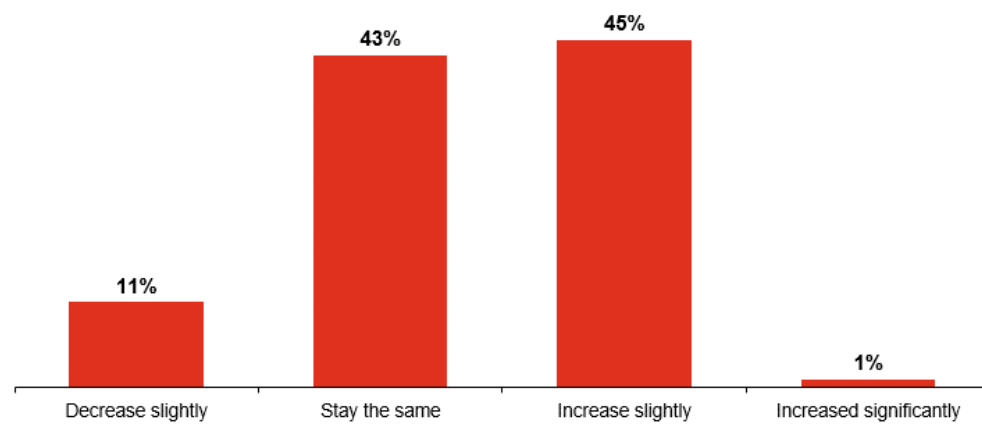
in Ukraine and Israel while 41% felt that the current climate would make it more difficult to secure finance overall.

However, over a longer timeline, specifically the next five years, the spectre of increased regulation looms large over the market. Nearly a quarter of respondents envisage rising regulatory scrutiny being the main issue that the PE industry in Europe will face in the next half decade – this undoubtedly includes the recently implemented Foreign Subsidies Regulation (FSR), which brings in new approval requirements for a significant number of M&A deals, but also ties in with responses to regulatory challenges around ESG in particular (see Chapter 5: ESG and Responsible Investing).

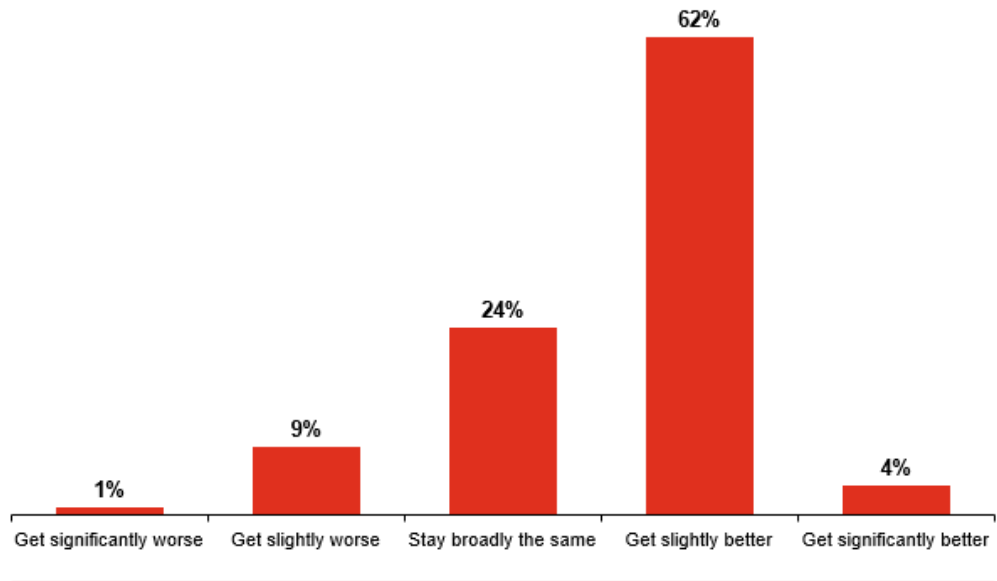
**Fig. 29 Compared to 2023, do you expect the number of new investments made by your organisation in 2024 to....?**



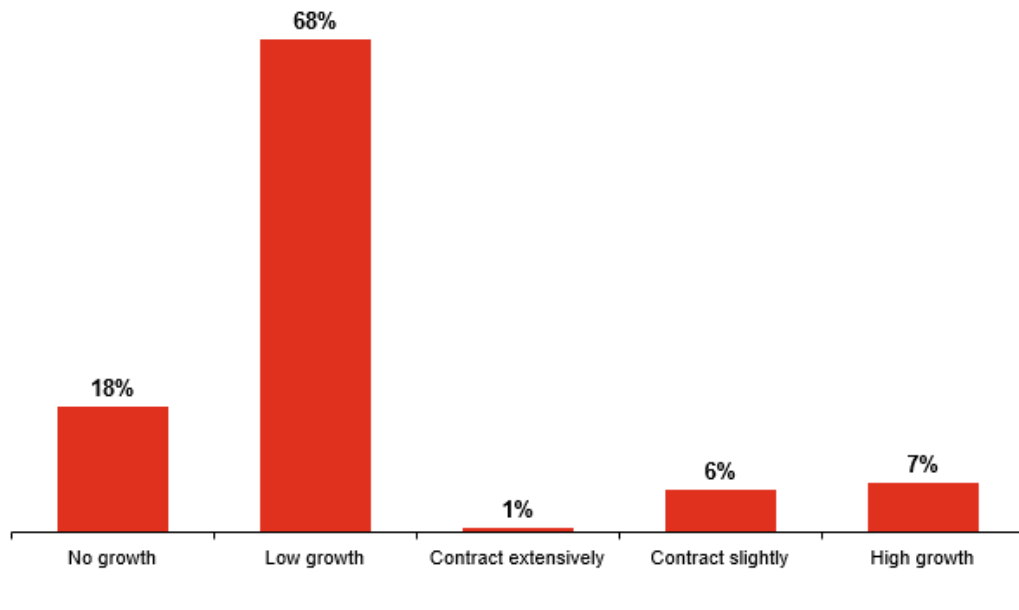
**Fig. 30 Compared to 2023, do you expect the number of exits made by your organisation in 2024 to....?**



**Fig. 31 How do you expect the European deal market for private equity to develop in 2024? Do you think it will...?**



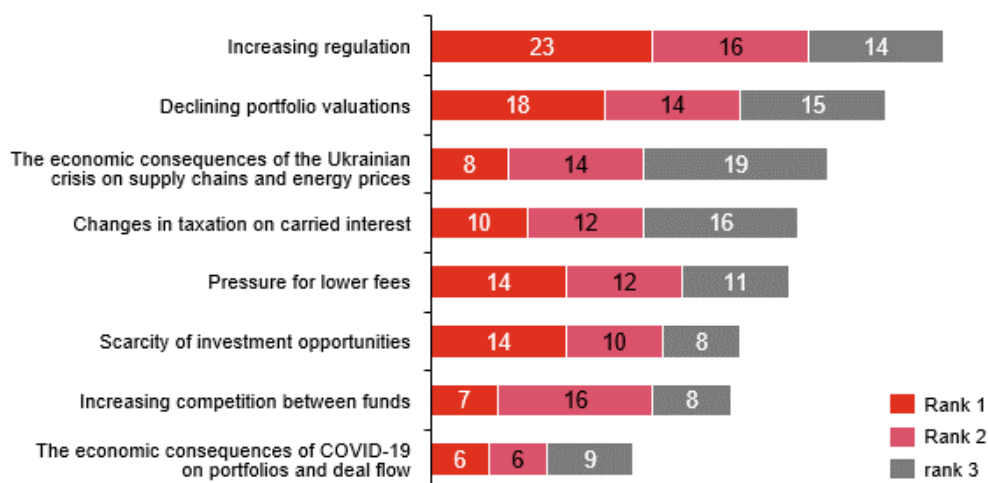
**Fig. 32 How do you expect the world economic situation to develop in 2024?**



**Fig. 33 Looking forward to 2024 and the increasing geopolitical uncertainties, e.g. the conflicts in Ukraine and Israel, US/ China trade war, etc., which of the following do you expect will have the strongest impact on your firm as well as your portfolio:**



**Fig. 34 Again looking ahead, what are the key issues which the private equity industry in Europe will face in the next 5 years? (Rank 1 is the most important issue):**



## What is driving the market in 2024?

In today's high-cost borrowing environment, PE firms have been focusing on buy-and-build strategies for several reasons. Unlocking cost synergies and cross-selling opportunities are a powerful avenue to value creation, as is the potential for multiple expansion by combining smaller entities into a more substantial business that can achieve a higher EBITDA multiple on exit. Depending on the loan terms and financial health of the platform business, it is also often possible to use a portfolio company's existing debt facilities to fund these transactions.

Against this backdrop, more than three-quarters (77%) of respondents point to buy-and-builds as the main factor which will influence equity stories on acquisitions for their firms this year, with 27% stating that this will be the single most important factor shaping these stories.

Operational improvements are another important influence, cited by 73%, followed by risk mitigation at 68%. More expensive leverage and marginally compressed multiples over the past 12 months mean that PE firms will have to roll up their sleeves and improve companies from the ground up if they are to achieve the exit premiums they desire.

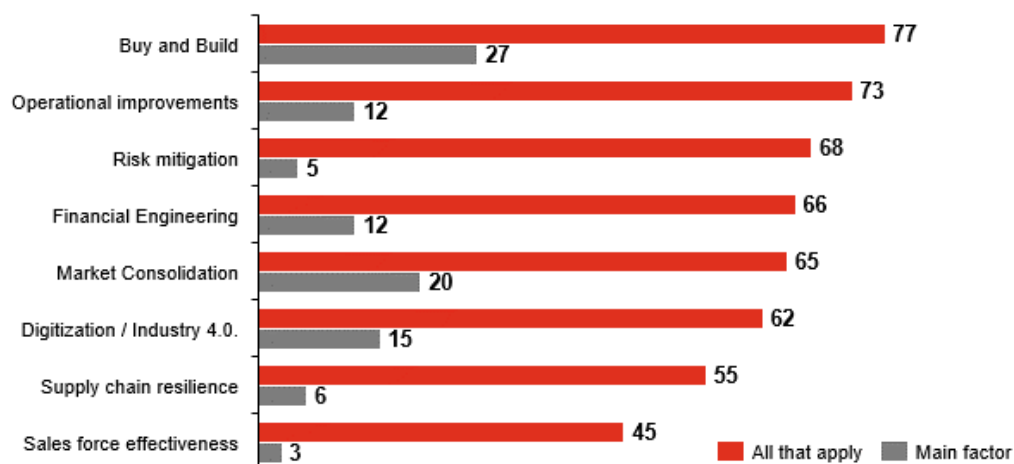
The vast majority of European PE firms have their eyes on traditional control investments this year, although an almost equal share is seeking distressed opportunities amid today's testing macro conditions. Fully, 78% see control deal openings for their organisation in 2024 and 74% will be looking to growth equity deals, which have become especially suited to current financing conditions as they require no leverage. Perhaps more telling is the fact that a sizeable 69% of respondents expect to deploy capital in insolvency and distressed acquisitions, as European companies continue to swim against the tide.

## **Sector Watch**

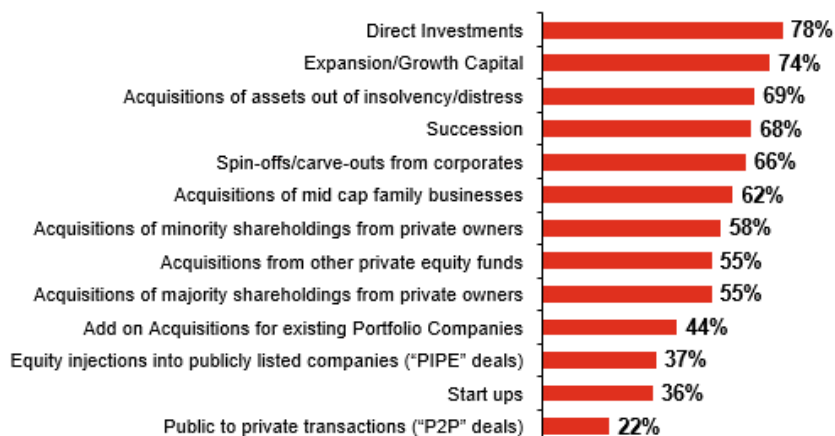
The industrial production/manufacturing sector is poised to see significant PE investment over the next few years, with 36% of respondents expecting their organisations to allocate capital there. Ongoing supply chain reconfigurations are contributing to this interest, as companies seek to localise production and reduce their reliance on imports. As one PE partner commented: "A lack of reliance on imports and the constant effort of keeping production within the country is driving funding within this sector."

This influx of investment is also enabling digital transformation efforts, allowing industrial businesses to unlock greater cost savings and efficiencies. Information technology and software likewise remains an attractive target sector, cited by 32% of respondents. As industrial manufacturing undergoes transformation, technology and software will be crucial enablers. According to the survey, industrial production/manufacturing and information technology/software are expected to be most transformative sectors in the coming years, noted by 16% and 12% of respondents respectively. For more on digitalisation within the PE sector, see Part 4: Digital Transformation.

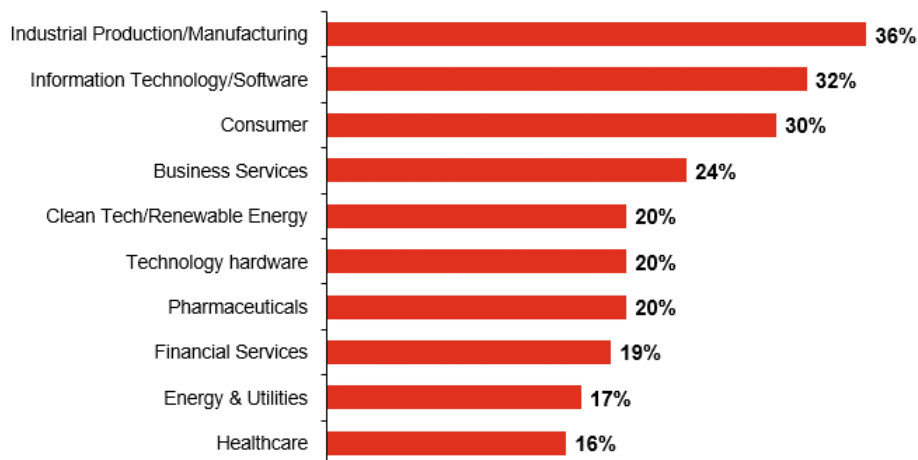
**Fig. 35 Looking forward to 2024, which of these factors do you consider will influence equity stories and be most transformational on acquisitions for your organisation?**



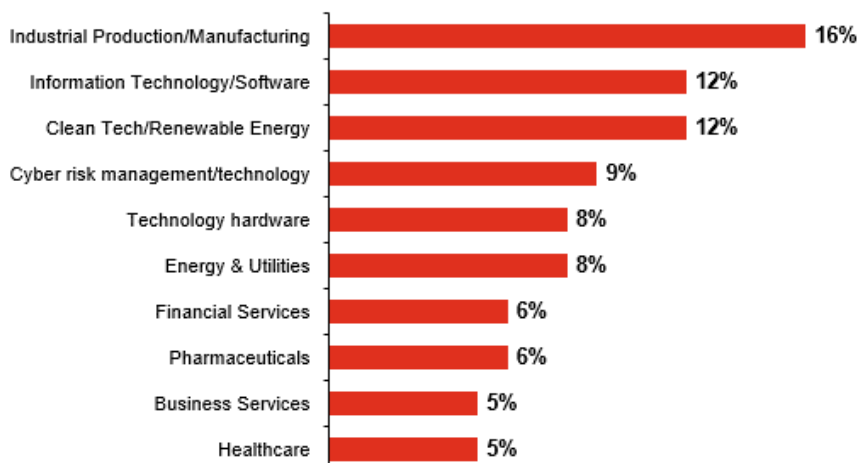
**Fig. 36 I am now going to read out a list of sources of new deal opportunities. In your opinion, which, if any, of these will be sources of new deal opportunities for your organisation in 2024?**



**Fig. 37 In your opinion, which of the following industries is your organisation most likely to invest in over the next 2 to 3 years?**



**Fig. 38 And which of these industries do you expect to undergo the most transformation?**



## Breaking the bank?

With interest rates at multi-decade highs, PE firms are keeping a close watch on their portfolio companies' ability to meet debt covenants and avoid technical defaults. Our survey results show a split perspective on covenant breaches over the past year, with 38% of respondents saying that less than 10% of their portfolio companies broke covenants or needed to renegotiate with lenders. However, 39% said that between 10-20% of companies faced such issues.

Forward-looking sentiment seems to be erring on the side of optimism. Most expect covenant breaches to decline in 2024, with 54% forecasting less than

10% of their companies will be impacted. Although still significant, the proportion expecting 10-20% falls to 34%.

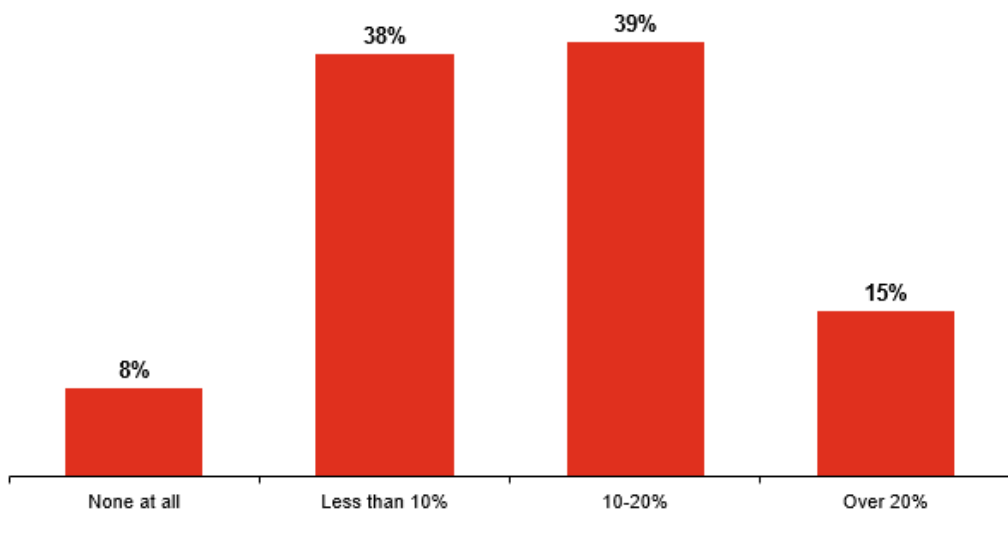
Most believe their portfolios are resilient enough to ride out this cycle. However, if interest rates rise further or remain elevated for longer than anticipated, covenant issues could surface. GPs should be taking a constructive approach to any portfolio issues that appear on their radar, by engaging with lenders early and renegotiating loan terms where possible.

## Return expectations

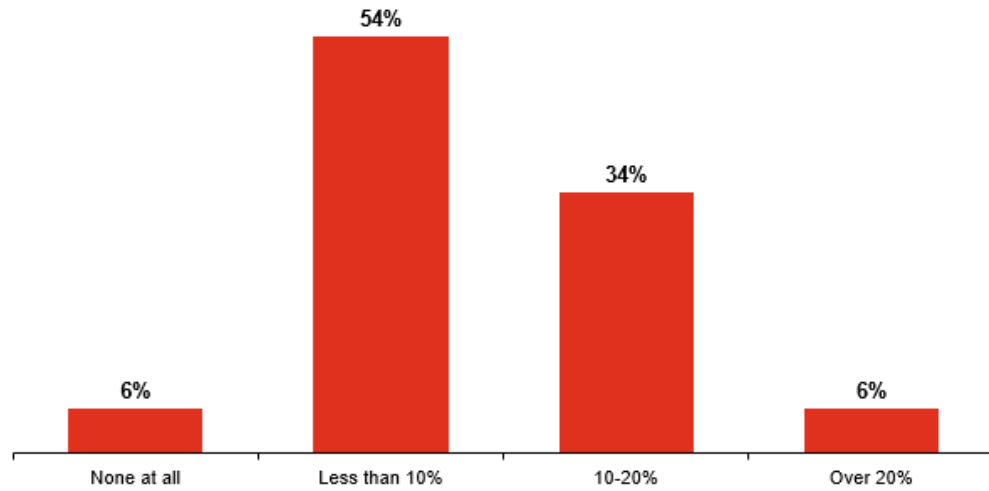
Despite the current unsettled environment, PE returns have largely lived up to expectations over the past five to seven years. For 60% of respondents, returns have matched their projections, with only 35% claiming they have fallen short. This demonstrates PE's ability to deliver consistent performance through the cycle, regardless of the obstacles facing the industry.

There is cautious optimism regarding future returns compared to historic levels: 36% expect their investments made over the past year to outperform deals made between five and seven years ago, while 50% foresee returns remaining in similar territory. This confidence is well-founded, given PE's demonstrable track record of investing through multiple cycles and downturns. However, the duration of higher rates and uncertainty around exits remain a concern. Disciplined underwriting and proactive portfolio management will be key to realising return targets. Overall, the industry remains upbeat but vigilant as clouds on the horizon have yet to clear.

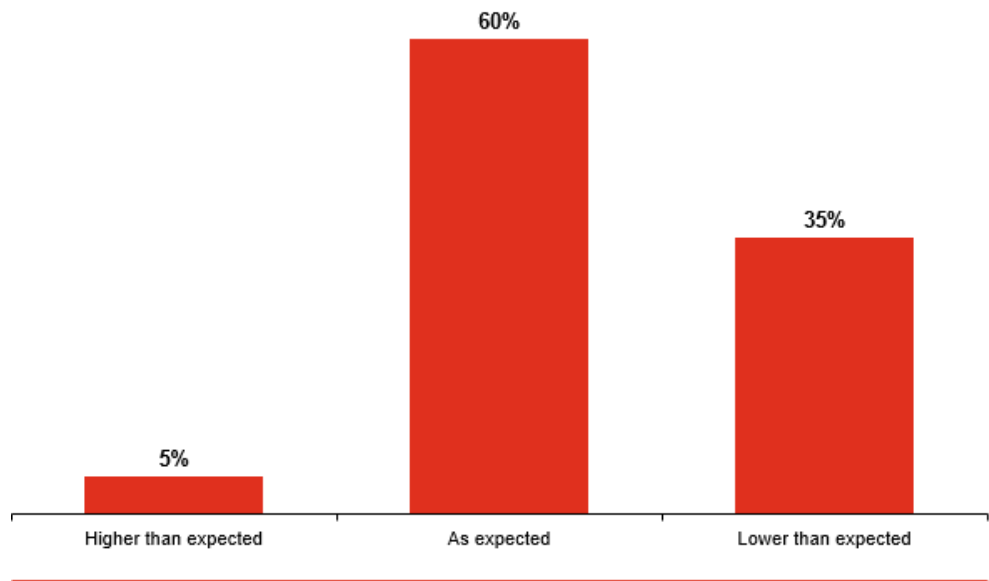
**Fig. 39 During 2023, what percentage of your portfolio companies broke one or more bank covenants, or otherwise needed to enter negotiations with their financing providers? Would you say...?**



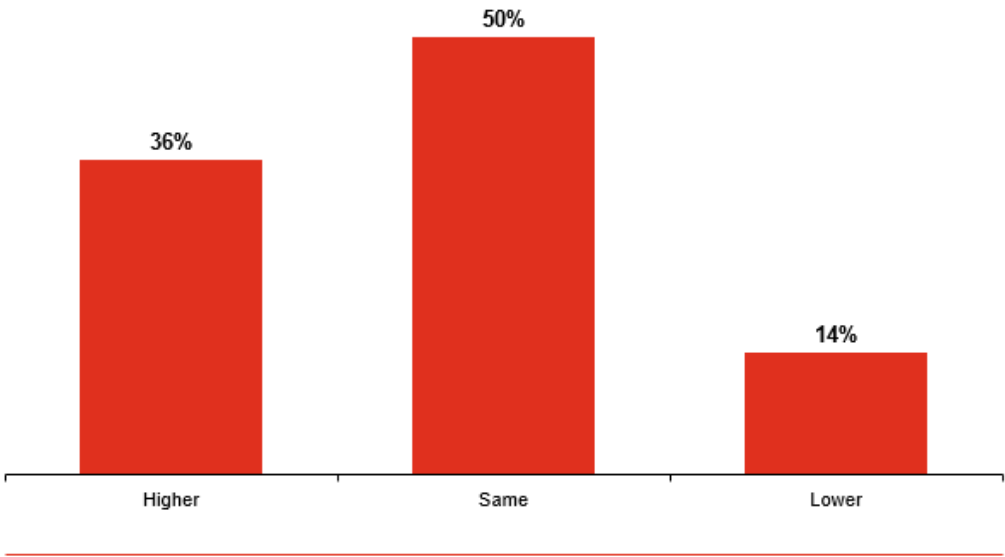
**Fig. 40 Looking forward to 2024, what percentage of your portfolio companies do you expect will break one or more bank covenants, or otherwise need to enter negotiations with their financing providers? Would you say...?**



**Fig. 41 Looking back on the returns on investments you made during the past five to seven years have they been / are they expected to be:**



**Fig. 42 Looking forward towards the expected returns on investments made during the past year, how do these compare to the returns on investments made five to seven years ago. Do you expect these to be:**



# Chapter 3: Operational improvements and value creation



# Operational improvements and value creation

## Operational improvements and financial leverage to influence ROI in the coming year

Until recently, the PE industry thrived on low-interest rates, which allowed firms to borrow extensively at minimal costs to finance acquisitions and boost their investment returns. This was highly effective during the period following the global financial crisis, a time characterised by historically low rates that facilitated easy access to cheap debt, reducing the cost of capital and inflating asset values.

However, this model has become less sustainable amid today's high-rate environment. GPs are now turning the page in their playbooks to what made PE a differentiated asset class in the first place: meticulous deal sourcing and transformational operational improvements that deliver genuine value creation.

When asked to rank what factors are having the biggest influence on their return on investment (ROI), 33% ranked financial leverage first. Rather than debt being the most important source of positive ROI, the results demonstrate that leverage is a primary concern for GPs as it loses its edge in delivering returns. Fund managers are managing the impact of elevated financing costs on their portfolio companies, whose floating-rate loans have become harder to service. In short, debt is on GPs' minds and it's clear that until interest rates fall meaningfully, leverage will not deliver the ROI it has in the past.

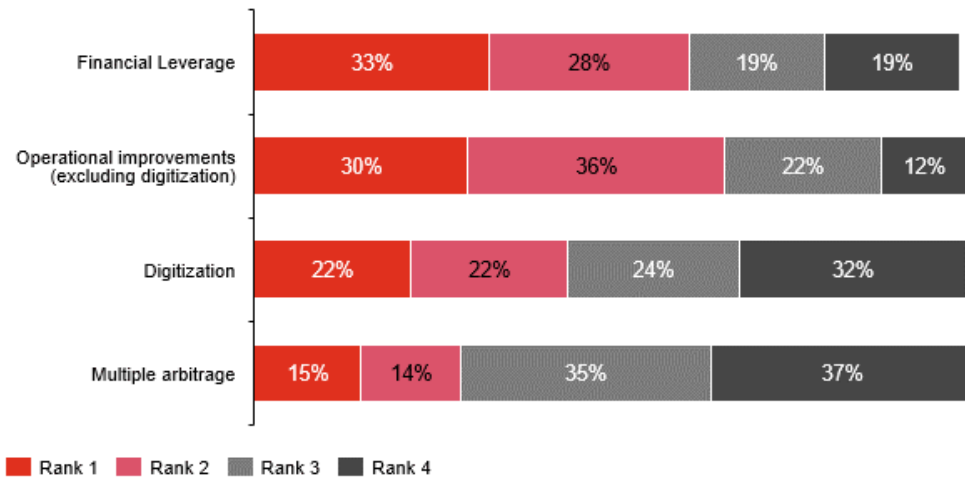
“Looking forward, I expect the financial leverage strategy to be used less frequently. Given how economic conditions are largely unpredictable, there will be more risk of using this strategy,” says the partner of a French PE firm. Meanwhile, almost a third of respondents (30%) cite operational improvements as the most important factor affecting their returns.

Most respondents also report that the impact of operational improvements (73%), financial leverage (65%) and digitisation (55%) on their ROI has increased over the past three years.

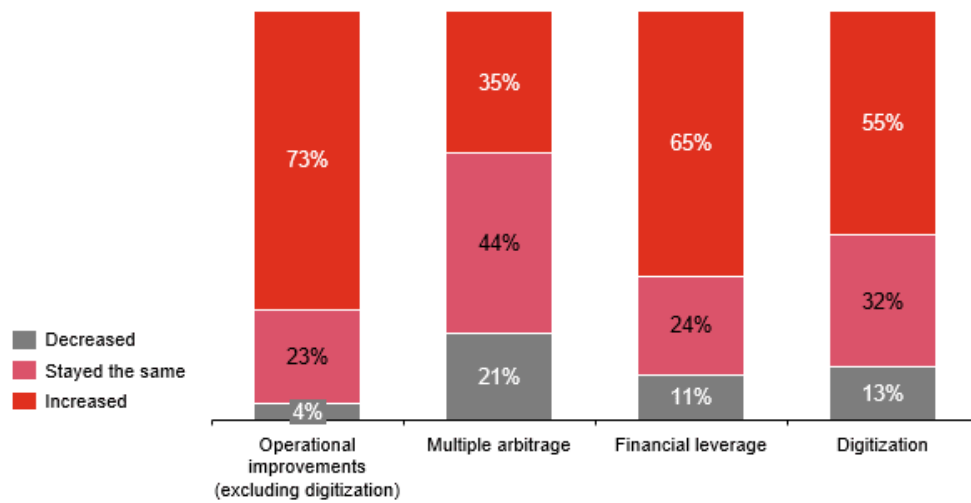
Looking forward, a majority of respondents anticipate seeing an increase in the impact of operational improvements (71%) and digitisation (58%) on their ROI. Firms are prioritising the operational repositioning of their assets, including through digital transformation, to generate returns.

This is echoed by the managing partner of a Belgian PE firm, who told us: “There is a higher probability of the financial leverage strategy ending up as a failed experiment. Operational and digital improvements will lead to more favourable results in the next couple of years. Companies becoming more client-centric and having a flexible supply chain will also help them to develop at a faster pace.”

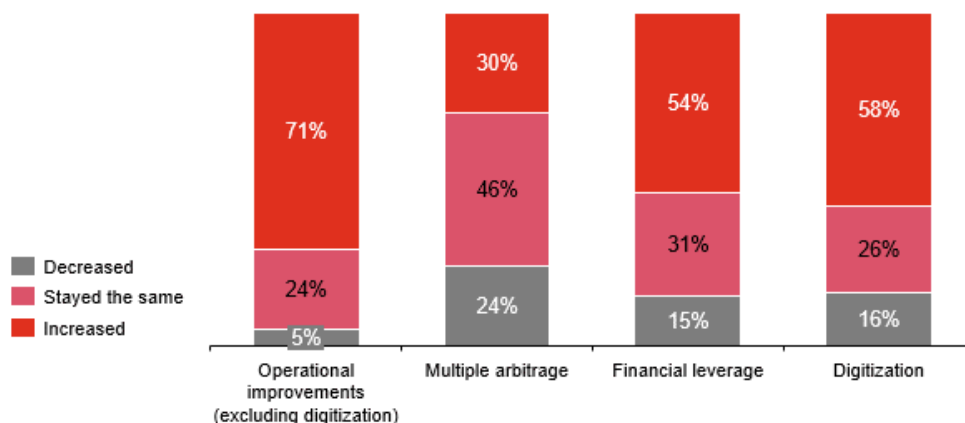
**Fig. 43 Please rank the following in terms of importance, regarding their influence on your return on investment. (Rate from 1 to 4, rank 1 is the most important and 4 is the least important):**



**Fig. 44 During the past three years has the impact of operational improvements (excluding digitization), multiple arbitrage, financial leverage and digitization on your return on investment increased, decreased or stayed the same?**



**Fig. 45 Looking forward, do you expect the impact of operational improvements (excluding digitization), multiple arbitrage, financial leverage and digitization on your return on investment to increase, decrease or stay the same?: Operational improvements (excluding digitization):**



## Homing in on value creation

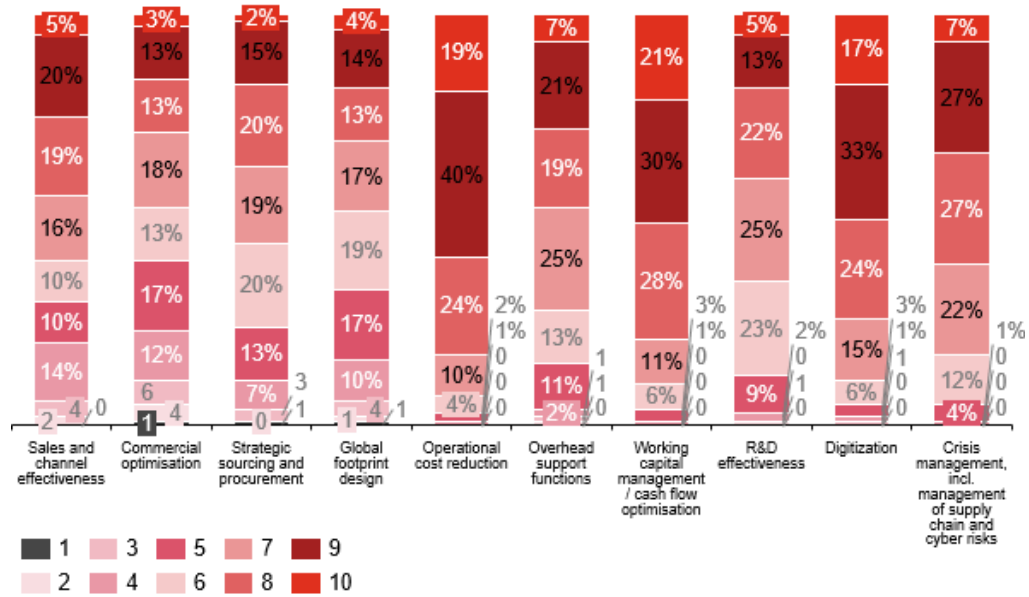
Amid diminishing returns from financial leverage, our research highlights the critical means of value creation on which sponsors are placing their bets. The most important levers within the equity story include operational cost reduction and working capital management/cash flow optimisation, which 59% and 51% of respondents, respectively, score between 9 and 10 on a scale of importance.

The significance of these levers stems from their ability to directly increase profitability and free up capital for reinvestment in growth. This, in turn, bolsters the financial health and operational responsiveness of portfolio companies. Such intrinsic value creation represents a shift away from the use of financial engineering to optimise capital structures. Digitisation is another important value-creation lever, 50% of respondents scoring it between 9 and 10.

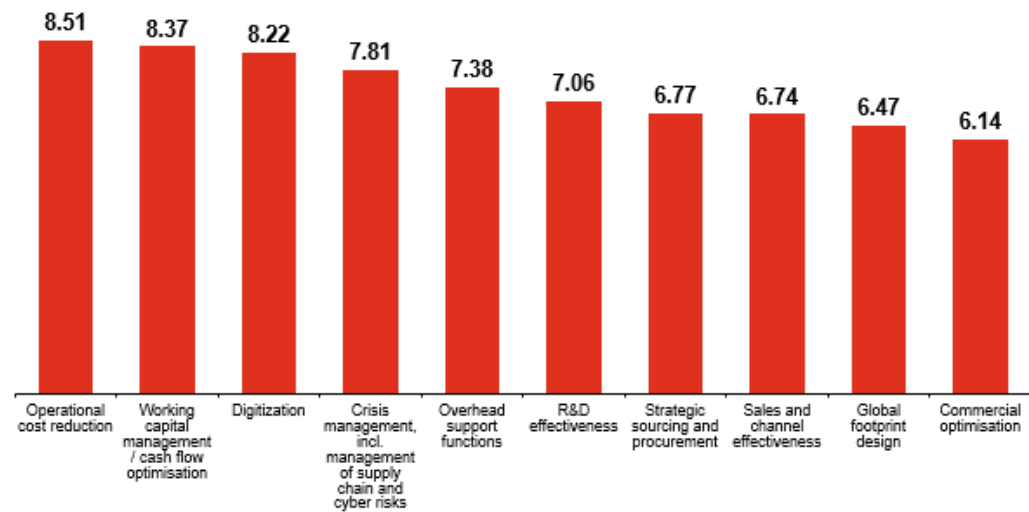
Europe's PE firms are increasingly integrating value-creation considerations into their equity story from the outset, including in the due diligence phase. A significant 58% of respondents say the rising importance of value creation has fundamentally shifted their approach to new investments. This value-minded approach marks a departure from traditional focus areas, emphasising a more strategic and holistic view of potential investments where operational efficiencies, growth prospects and innovation capabilities are evaluated upfront.

Looking ahead, an overwhelming 69% of those surveyed anticipate the importance of value creation to rise in the future. This expectation reflects a growing consensus within the industry that operational excellence and strategic enhancements will be the keys to generating sustainable long-term returns. As a result, due diligence will become more robust and comprehensive, doubling down on the transformation readiness and ability of sponsors to take a deal target to the next level.

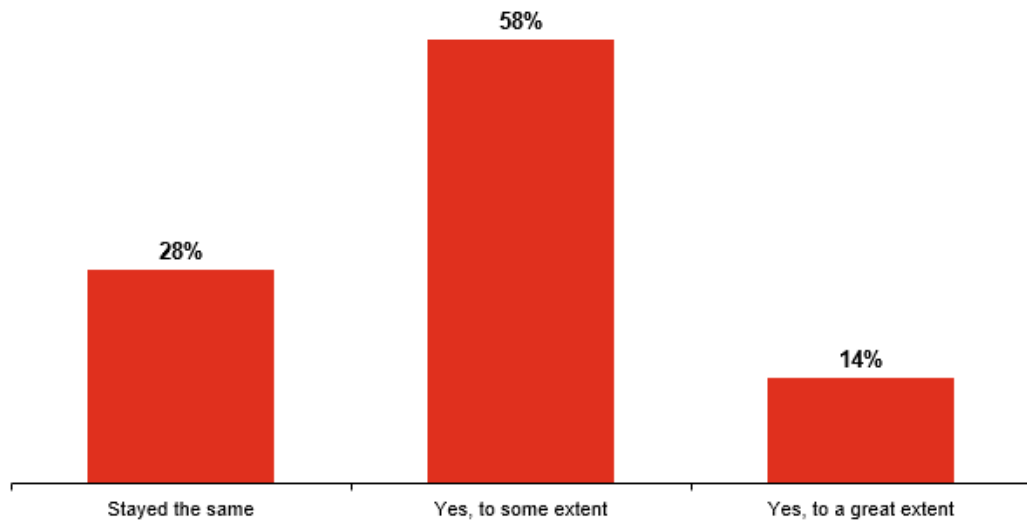
**Fig. 46 Which levers are most important to value creation within the equity / investment story? (rate from 1 to 10, 1 is the least important and 10 the most important):**



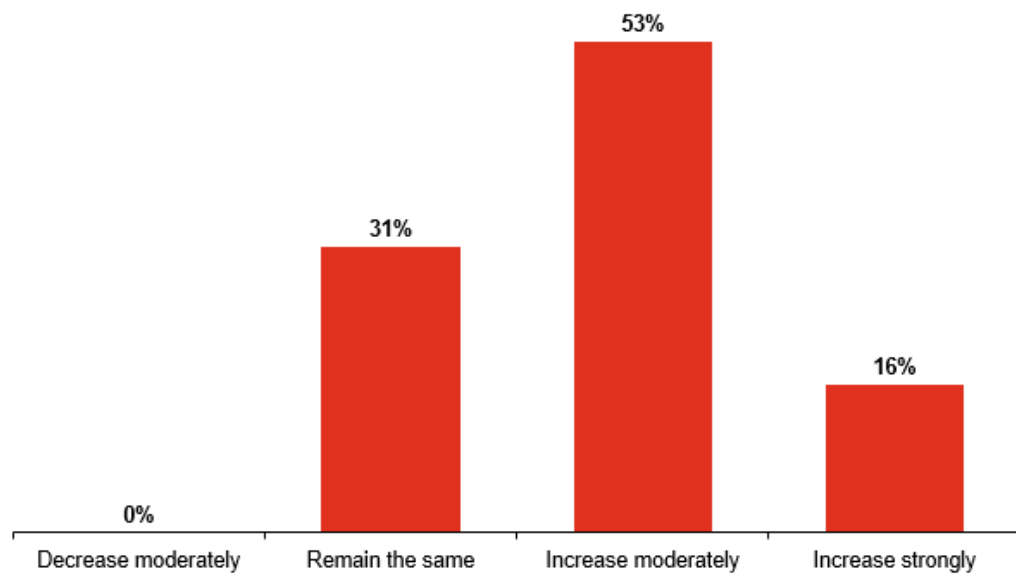
**Fig. 47 Which levers are most important to value creation within the equity / investment story? (Rate from 1 to 10, 1 is the least important and 10 the most important):**



**Fig. 48 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?**



**Fig. 49 How do you expect the importance of value creation to develop in the future:**



# Chapter 4: Digital Transformation

DO'S AND DON'TS. THE LOGO IS AN INVALUABLE ASSET. WE MUST TREAT IT CAREFULLY. NEVER ABUSE THE LOGO, IT DOESN'T HAVE ARMS TO FIGHT BACK.

## 01 SPACE AROUND THE LOGO & COLOUR

Allows the logo to breathe and it gives a unique meaning in each layout. The logo can also be set in a different colour, we advise using primary colours only.

## 02 DYNAMIC LOGO

To create a dynamic logo and rotate it (max 10 degrees) to the left or the right as its in a circular shape.

## 03 IF THE UNAVOIDABLE HAPPENS

This version of the logo is to be used if there is a fully coloured background. You may use applicable pantone colours and a background.

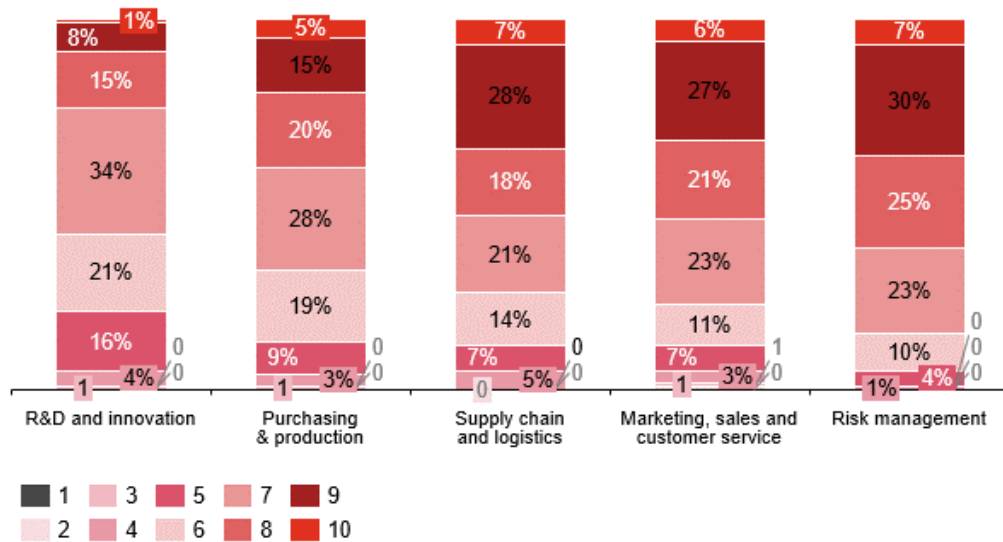


# Digital transformation

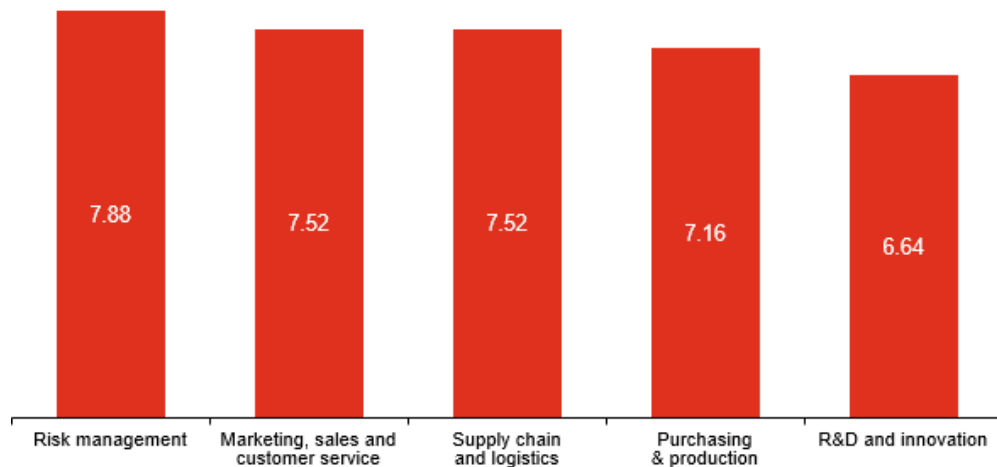
## How data and AI will drive a digital future for PE

Leading PE portfolio companies are leveraging digital capabilities to drive efficiency and secure competitive advantages, thereby navigating the complexities of the business environment with greater agility and insight. Our survey underscores a significant recognition of digital transformation's role in augmenting these insights, particularly as it applies to risk. A considerable 37% of respondents attribute a high impact rating (9 or 10 out of 10) to digital transformation in risk management, reflecting the essential role of digital tools in empowering the identification and mitigation of potential pitfalls.

**Fig. 50 How would you rate the level of impact from digital transformation on the following elements of your company business model? (rate from 1 to 10, 1 impacted least and 10 impacted most):**

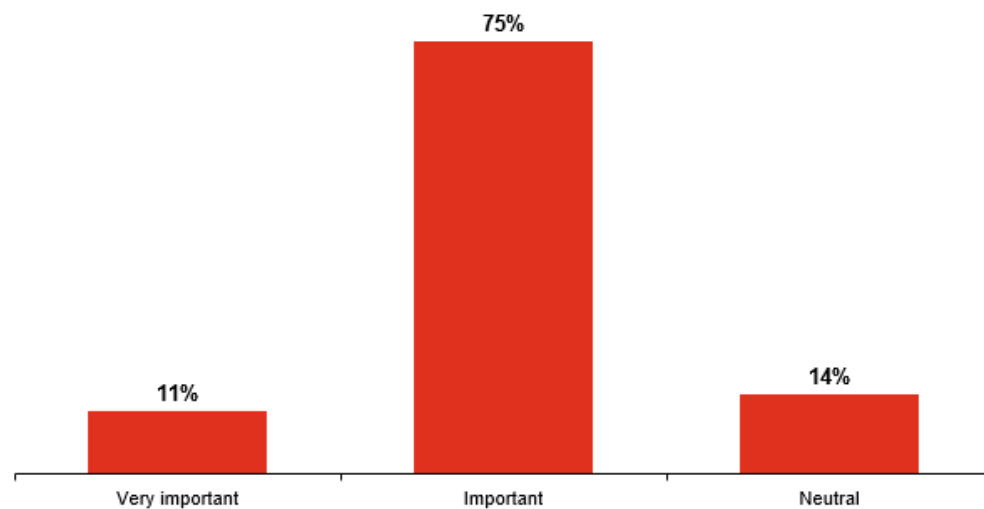


**Fig. 51 How would you rate the level of impact from digital transformation on the following elements of your company business model? (rate from 1 to 10, 1 impacted least, 10 impacted most):**



Effective execution of digital transformation can also enhance value, making companies more appealing to prospective buyers, accelerating exit timelines. An overwhelming 89% of respondents acknowledge this, saying that digital maturity is a linchpin for successful exits and superior returns.

**Fig. 52 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?**

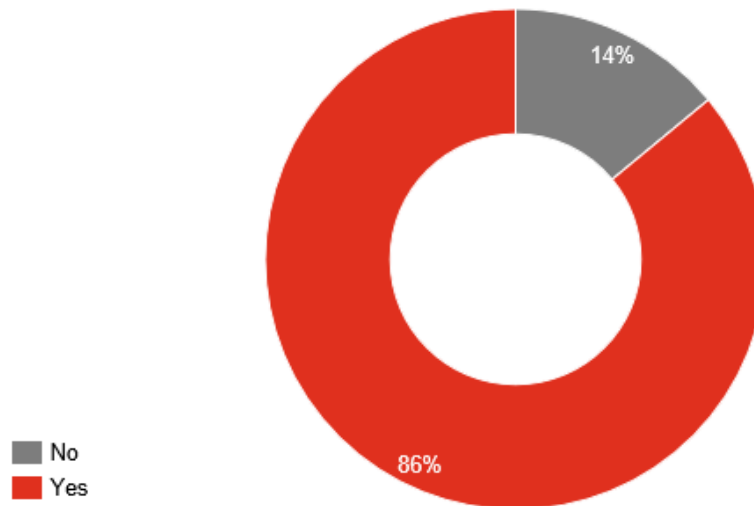


“Investing in technologies such as AI and data analytics has proven to have positive effects in terms of increased efficiency and the automation of processes. This leads to lower costs and leaner operations, which has a positive impact on valuation,” says the managing partner of a German PE firm.

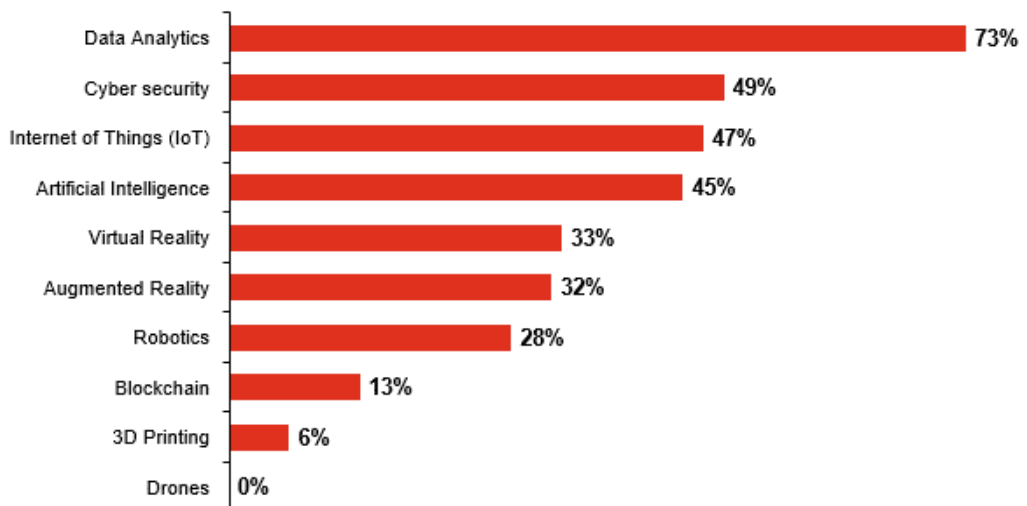
Reflecting a strong commitment to the process, 86% of respondents have invested in digitising their firm or portfolio companies' business models over the

past year. The biggest focus area has been on investing in data analytics capabilities, cited by 73%, while 49% have strengthened cybersecurity, 47% have directed efforts towards the Internet of Things and 45% have directed funds towards emerging AI applications.

**Fig. 53 Have you made investments in digitally transforming your own firm or portfolio company business models in the past year?**



**Fig. 54 If yes, in which of the following areas of digital transformation have you focused your investment in:**

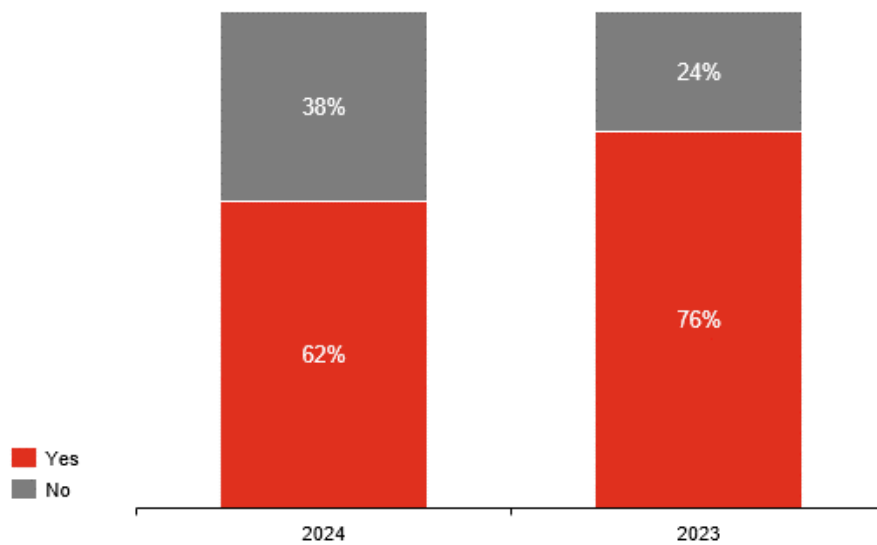


In light of the many benefits of levelling up the digital capabilities of portfolios and their own firms, 62% of respondents indicate plans to invest in digitisation within the next year. However, this represents a decrease from 76% who last year shared intentions to invest in digital transformation. Inflation has increased the cost of transformation, forcing businesses to reassess and reprioritise their opex

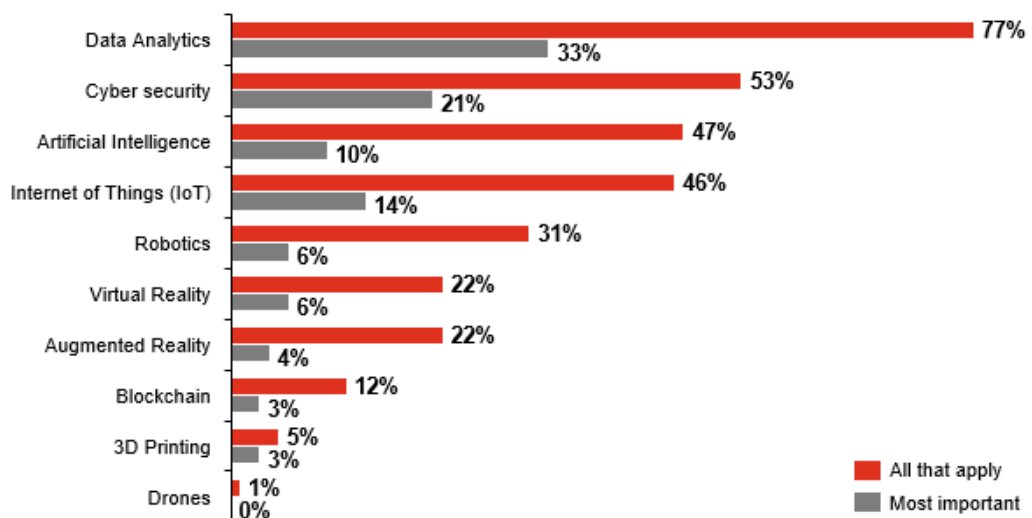
and capex budgets. However, it is vital that sponsors don't lose sight of their goals or let progress fall by the wayside in the name of cost containment.

Although fewer firms express an intention to invest in these efforts, the areas earmarked for attention show where sponsors' strategic focus lies. A significant 77% of those planning to invest in digitisation over the coming year are looking to allocate resources towards data analytics, underscoring the increasing value placed on data-led decision-making and insights. Furthermore, 33% of respondents identify data analytics as the most crucial area for their investment.

**Fig. 55 Will you be investing in digitisation over the next year?**

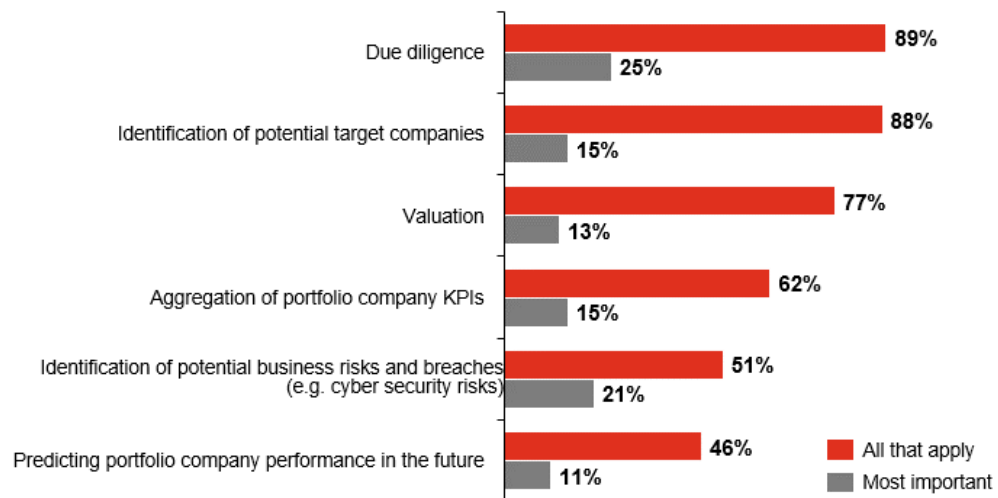


**Fig. 56 Which of the following areas will you be investing in?**



Private equity is intensifying its use of data analytics and AI to drive decision-making in the pre-deal and due diligence stages. A substantial 87% of firms report using data analytics to identify prospective deal targets and the same percentage (87%) to perform more precise due diligence, highlighting the critical role these technologies play in verifying target company assertions, refining valuation models, and uncovering commercial opportunities and risks. The strategic application of data analytics to due diligence is also considered the most crucial use of this technology by 41% of respondents.

**Fig. 57 In which of the following areas of the investment cycle do you anticipate your organisation will use data analytics in 2024?**

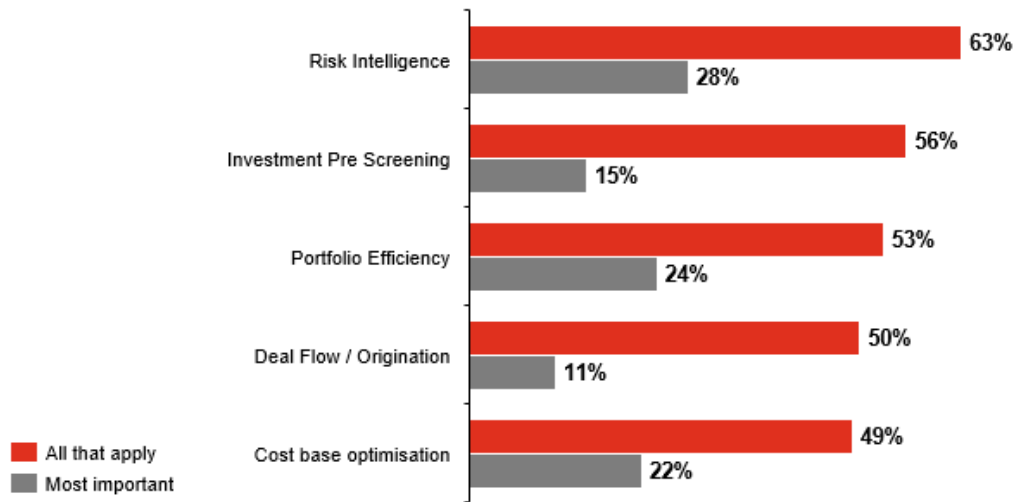


PE firms are expanding their analytical horizons beyond traditional data sources, incorporating alternative data to gain a more comprehensive understanding of market dynamics and refine their investment theses. This includes the strategic use of third-party online sales data and other external market information to assess market trends, pricing strategies and the impact of promotional spending on growth. Such innovative uses of alternative data sources are proving invaluable for validating assumptions about a brand and its competitive position, leading to more informed and strategic asset acquisition decisions.

This reliance on data analytics in dealmaking is expected to grow too, with 89% of respondents anticipating its use in due diligence activities in 2024 and 25% regarding diligence as the most important phase of the investment cycle for the application of these tools.

AI is also enhancing PE firms' observational skills. Tools capable of analysing vast volumes of data at a scale and speed beyond human capabilities can predict outcomes and identify potential risks before they manifest. Applying natural language processing and generative AI to a broad spectrum of unstructured data can tease out otherwise hidden risks that could negatively impact portfolio value. We find that 63% of PE firms are already utilising AI for risk intelligence, and 28% say this is their most critical use of the technology today.

**Fig. 58 For which purposes do you use AI?**



# Chapter 5: ESG and responsible investing



# ESG and responsible investing

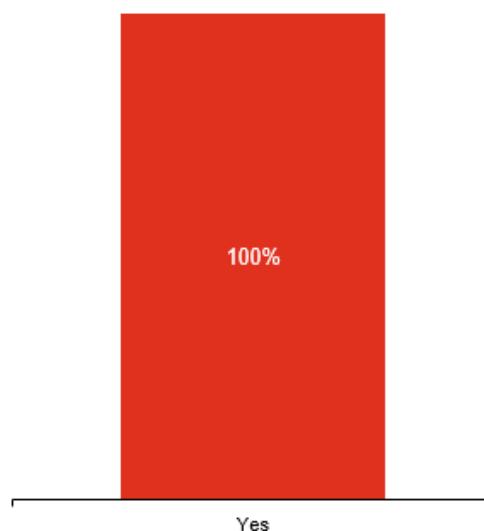
## Regulation and returns driving the ESG imperative

Few issues have become more woven into the fabric of Europe's PE industry than environmental, social and governance (ESG). Without question, this was initially driven by regulation. The Sustainable Finance Disclosure Regulation has had a clear, direct impact on PE by mandating fund managers to disclose how they integrate ESG risks into their investment decisions and the impact of their investments on ESG factors, increasing transparency and preventing greenwashing.

While the initial focus of regulations such as the Non-Financial Reporting Directive (NFRD) and its successor, the Corporate Sustainability Reporting Directive (CSRD), as well as aspects of the EU Taxonomy Regulation, primarily targets listed companies, sponsors are paying attention. This is because aligning portfolio companies with these frameworks makes them more attractive on exit, including as IPO prospects or targets for regulated strategic buyers that trade on stock exchanges.

Then there is the arguably even more pertinent return potential of ESG, which sits squarely in PE's value-creation wheelhouse. We find that all PE firms surveyed, without exception, say they have a responsible investing or ESG policy together with the tools to implement it. This unanimity reflects a significant shift towards integrating ESG factors into the core operational and strategic framework of PE investments.

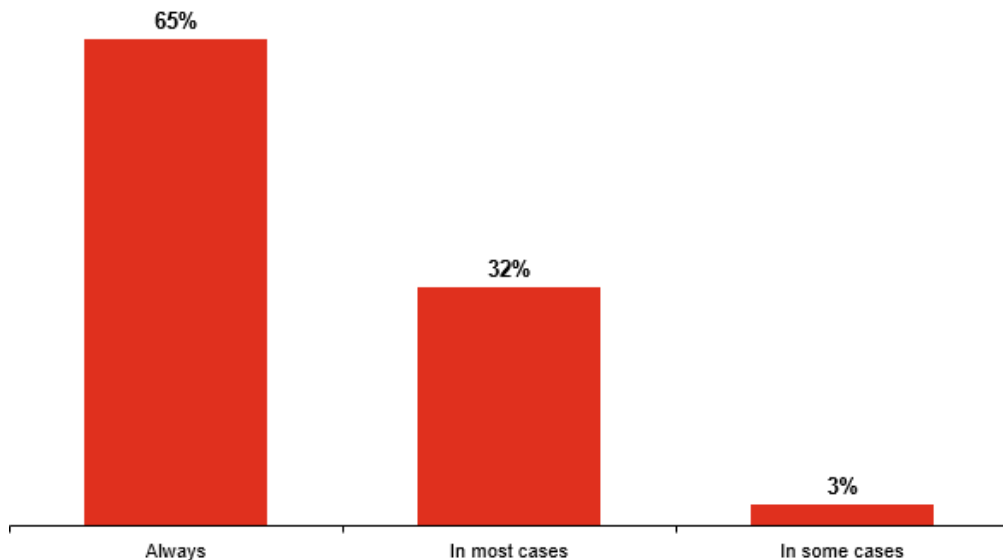
**Fig. 59 Does your firm have a responsible investing or ESG policy and the tools to implement it?**



A substantial 65% of respondents identify ESG value levers as always integral to their value creation narrative when evaluating buy-side opportunities. An additional 32% acknowledge their importance in most instances. Much more than

a compliance or risk management consideration, ESG is a fundamental component of long-term value creation.

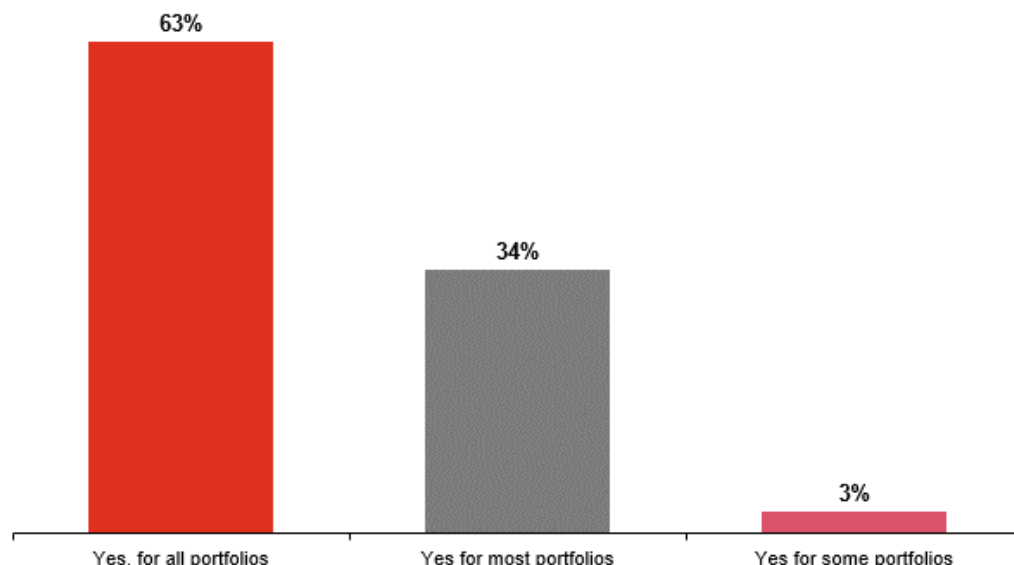
**Fig. 60 Are ESG value levers a core part of your value creation story when assessing buy-side opportunities?**



The practice of setting ESG-specific key performance indicators (KPIs) in portfolio companies is prevalent, with 63% of firms conducting continuous monitoring. This approach enables PE firms to quantifiably track ESG performance, aligning it with broader investment objectives and enabling transparent reporting to LPs.

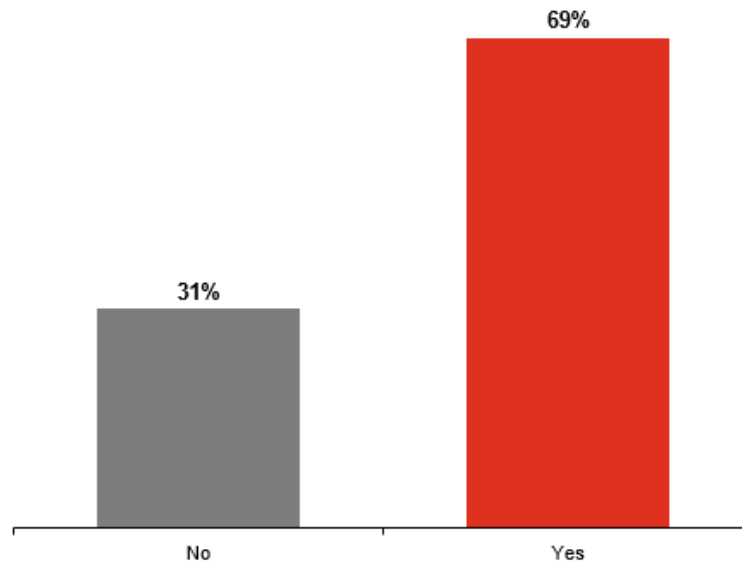
“We’ve set ESG-specific KPIs to monitor adherence to ESG goals. If we hadn’t set these KPIs, we would not be able to monitor companies on a regular basis. Now that we have more information, we can make improvements to processes,” says the managing partner of a German PE firm.

**Fig. 61 Do you set ESG specific KPIs for your portfolio companies and monitor these on a regular basis?**



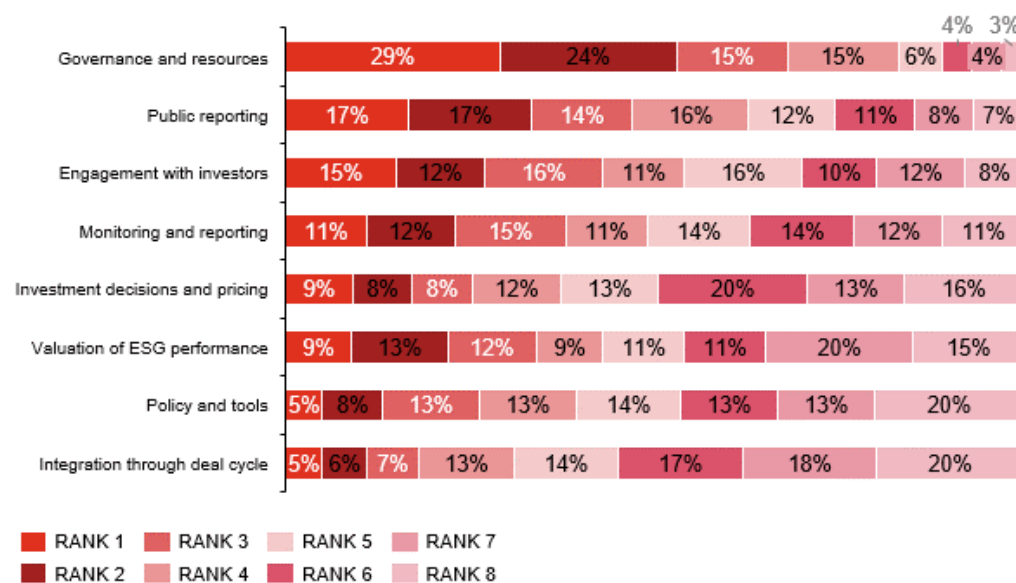
The majority of PE firms (69%) believe that the ROI of ESG initiatives exceeds their costs, confirming the business case for prioritising ESG in investment. This perspective challenges the notion that ESG considerations are merely ethical or regulatory obligations, positioning them instead as drivers of financial performance.

**Fig. 62 Do you believe the return on ESG investment exceed the cost?**



Governance and resources emerge as the top area of importance in responsible investing, ranked as number one and two by 53% of respondents. This is a clear recognition that GPs need to take a top-down approach led by their partners with established management principles and a staffing budget to make responsible investing a reality.

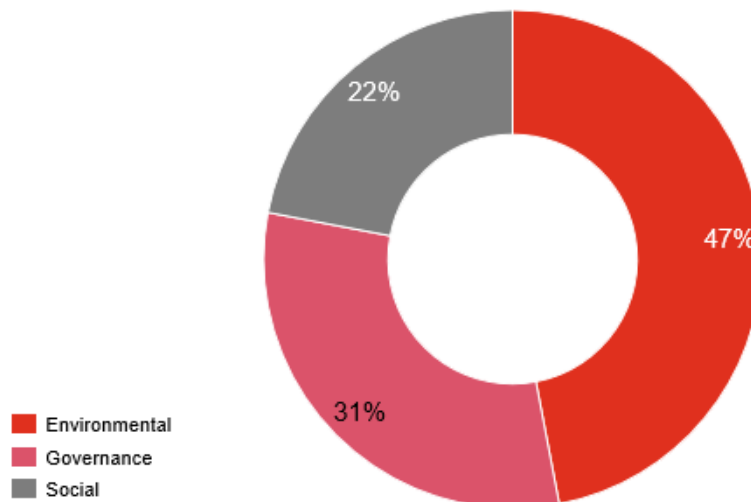
**Fig. 63 Please rank the following aspects of responsible investing in their importance to you from 1 (most important) to 8 (least important):**



## Targeting the 'E', without ignoring the 'S' and 'G'

The survey reveals a spread of focuses on the three broad ESG components, with a notable emphasis on environmental factors, cited by 47% of respondents as their primary concern. This weighting reflects the increasing global urgency around climate change and environmental sustainability, alongside regulatory pressures and public scrutiny.

**Fig. 64 Which one of the following is in the main focus of your investments and portfolios:**



Long before the term 'ESG' was even coined, PE firms had a strong focus on governance as a means of driving value in their investments, and 31% say this is a primary area of their ESG focus today. This leaves a significant minority (22%) who make social issues their primary focus. The social element is the final piece of the puzzle and is becoming integral to regulation.

For example, the European Commission's proposed Corporate Sustainability Due Diligence Directive (CSDDD) is a landmark piece of legislation aimed at ensuring that companies operating within the EU take responsibility for their impact on both the environment and society at large. Its primary objective is to foster sustainable and responsible corporate behaviour throughout global supply chains, including a wide range of social issues such as labour rights, working conditions, health and safety, and issues related to discrimination and child labour. Again, while the CSDDD applies to quoted companies, including certain publicly-listed small and medium-sized enterprises, it sets a benchmark against which PE funds can measure their portfolio companies and pave the way for cleaner, more profitable exits via strategic acquisitions to listed entities or IPOs.

As the rest of the world catches up to Europe, cross-border deal activity is likely to flow into the region, with buyers viewing businesses in this market as attractive prospects based on their progress to date, says the founding partner of a

Spanish PE firm, adding: “ESG ratings in Europe are the highest and the demand for such businesses is increasing which is likely to benefit European PE firms.”

These survey results demonstrate that ESG is becoming deeply embedded into PE investment processes. GPs recognise ESG factors can enhance returns while future-proofing portfolios against regulatory risks. This explains the industry's widespread adoption of ESG policies and monitoring mechanisms as standard practice.

# Chapter 6: Zooming in on Germany



# Zooming in on Germany

## Long-term approaches overcome short-term issues in Europe's economic hub

Germany's economy experienced a contraction of 0.3% in 2023, a short-term recessionary phase for Europe's largest economy. This downturn can be attributed to a constellation of factors including inflationary pressures and energy uncertainty, stemming from the country's reliance on energy imports that have been complicated by Russia's invasion of Ukraine. Additionally, the global economic slowdown has dampened demand for German exports, a cornerstone of its industrially centred economy.

Despite these challenges, PE funds operate with a long-term investment horizon, positioning themselves to navigate through short-term economic fluctuations. Focusing on company-specific potential rather than the broader economic landscape, these investors are driven by a mandate from their LPs to identify and cultivate deals capable of growth even in periods of slower economic activity.

Germany presents a unique proposition, underscored by its relatively low PE penetration compared to its European counterparts. With PE investment accounting for only 0.27% of GDP – significantly lower than the 1.79% in the UK and 1.09% in France – Germany offers substantial room for growth. This disparity suggests untapped potential for PE firms to bolster their presence and impact within the German market.

A notable 64% of respondents report having investments, such as portfolio companies, in Germany, indicating a strong existing foothold within the country. And these investments appear to have paid off so far. Among those who have existing German assets, a substantial 91% express plans to make further investments in the country over the next five years. Of those with existing German assets, a substantial 91% express plans to invest further in the country over the next five years. Of those who have not yet invested in Germany, 78% have no plans to do so in the next five years, but this leaves a sizeable minority (22%) planning to make their first foray into the country.

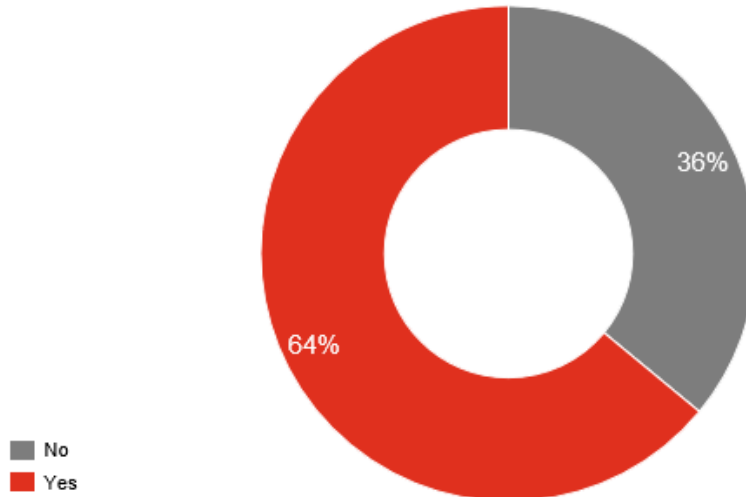
Further illustrating Germany's attractiveness, 54% of firms think the assets they allocate to the country over the next five years will increase, and 45% believe they will remain the same. Just 1% see themselves decreasing their allocation over this time.

The European powerhouse also stacks up well against alternative destinations. In an international comparison with other countries, 58% of respondents consider the attractiveness of Germany to be quite good, with an additional 26% championing the market as very good.

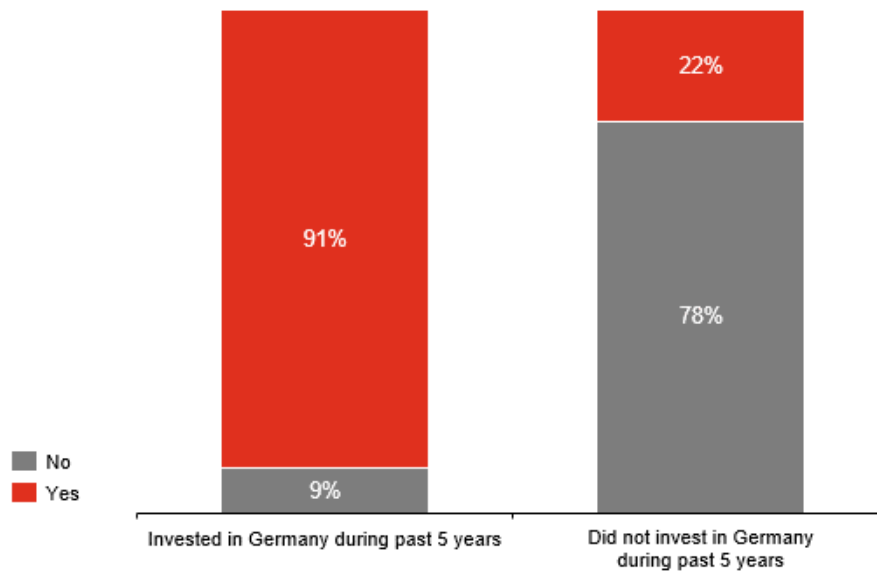
Indeed, Germany outperforms all other markets globally as the most attractive destination for PE investment over the next five years. Close to two-thirds of respondents (65%) say the country will be a great place for European GPs to deploy capital, just ahead of the UK (62%), the Middle East (52%), and the Netherlands (51%).

These observations reaffirm Germany's strategic position in Europe's PE market, presenting opportunities for discerning investors to back top-quality medium-sized businesses that cannot be found elsewhere.

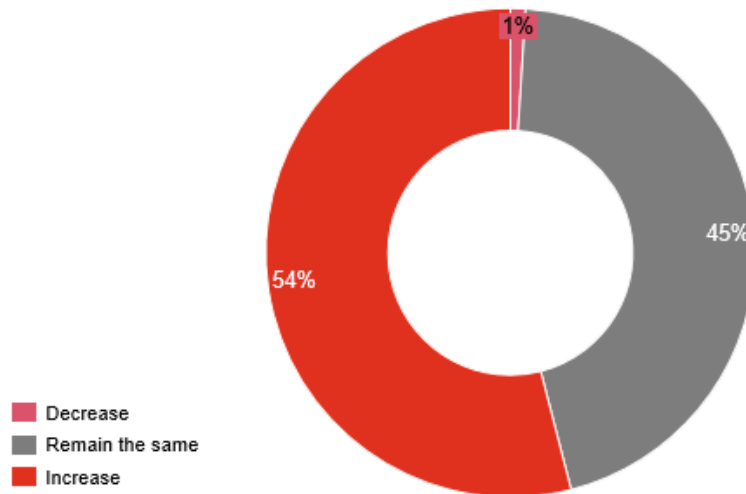
**Fig. 65 Does your firm currently have any investments such as portfolio companies in Germany?**



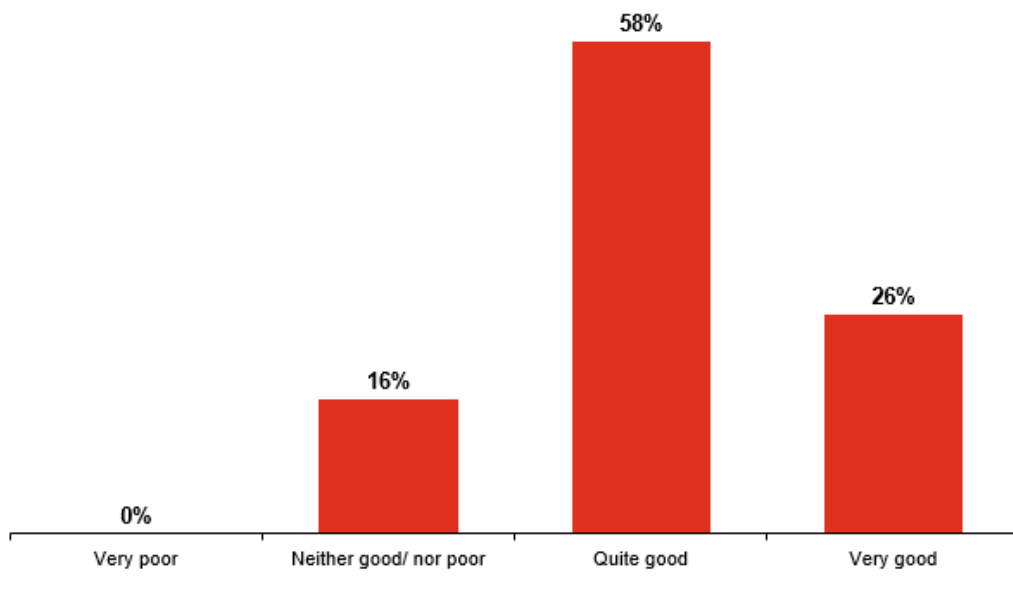
**Fig. 66 Do you plan to continue making investments in Germany over the next five years?**



**Fig. 67 Do you think that the assets that you allocate to Germany over the next five years will:**

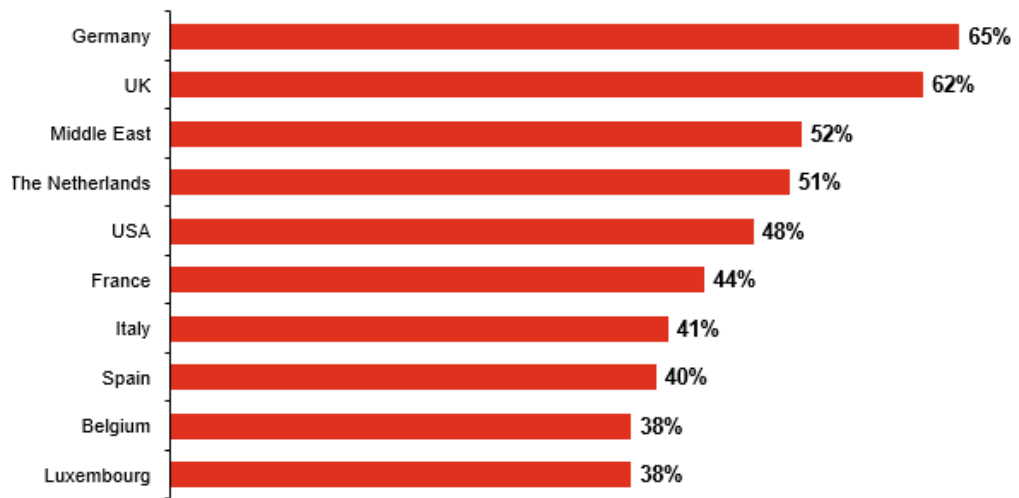


**Fig. 68 In an international comparison with other countries, how would you assess the attractiveness of Germany as a location for private equity investment?**



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**Fig. 69 In your opinion, which countries or regions will become more attractive for private equity investments over the next five years? – Top 10**



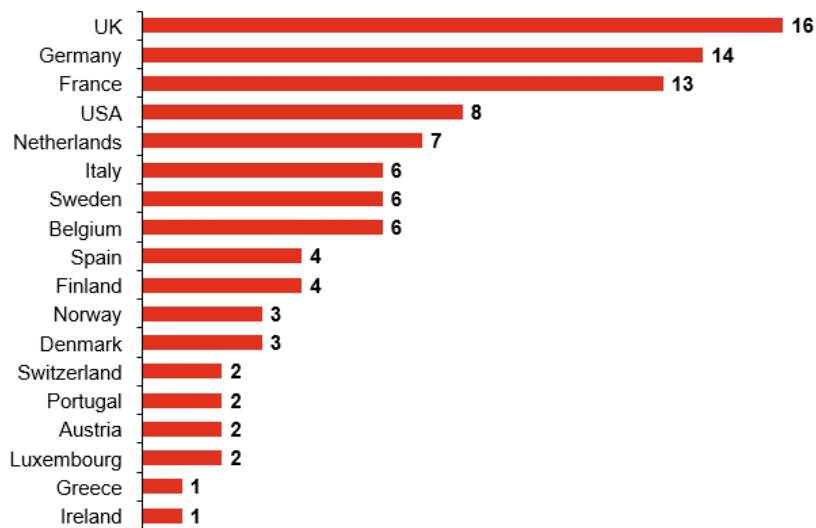
# Methodology & Appendix



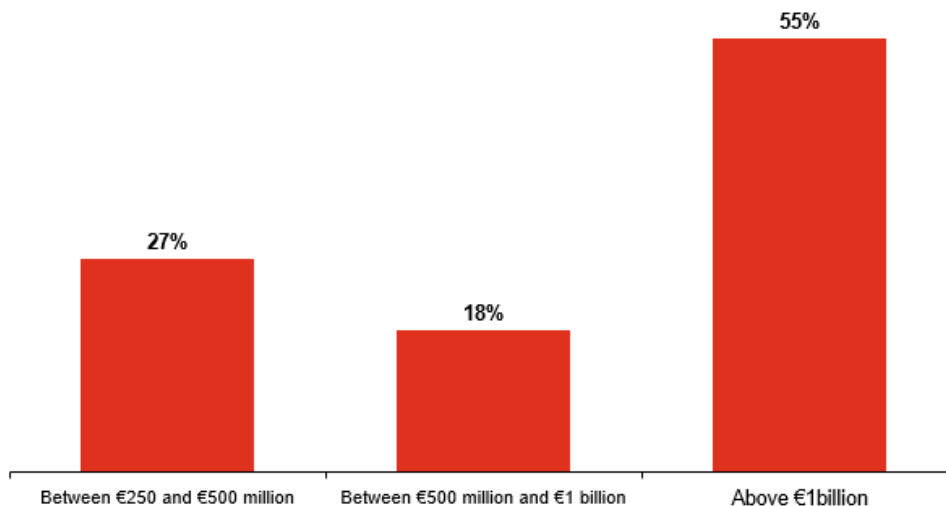
# Methodology

In Q4 2023 and Q1 2024, Acuris Studios spoke to 250 PE principals on behalf of PwC. Job titles include: partner and managing director. 16% of these funds are based in the UK, 14% in Germany and the remaining 70% have offices elsewhere in Europe. Responses were anonymised and aggregated. All PE firms of respondents had a minimum of €250m of assets under management (AUM).

**Fig. 70 Can you please tell me in which country your organisation's headquarters are based?**

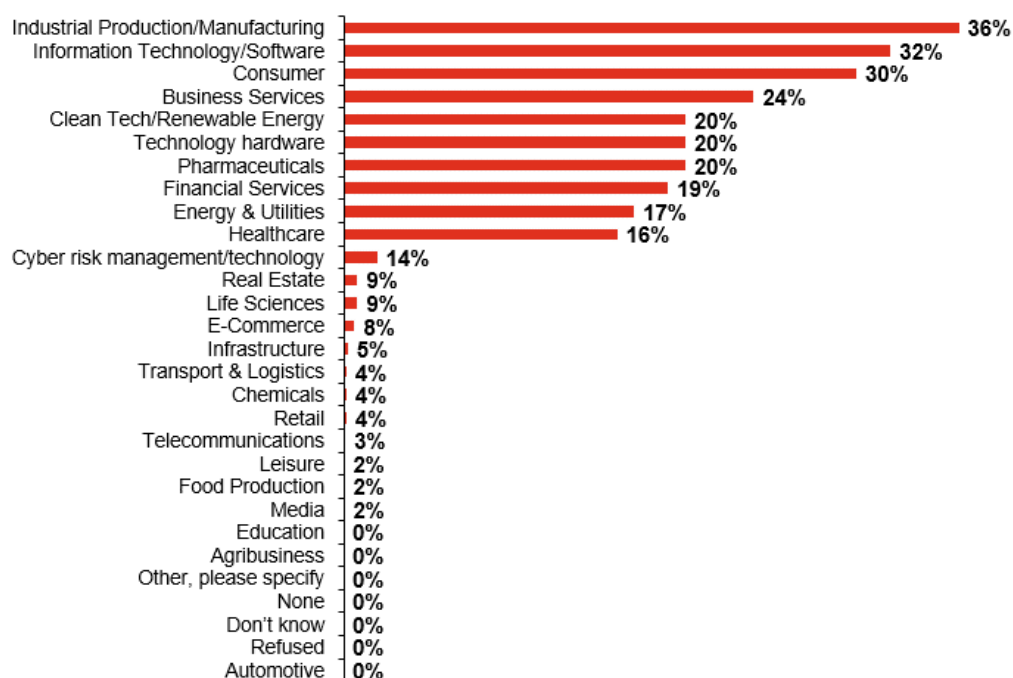


**Fig. 71 Please could you tell me which of the following best describes your firm's current total global fund volume (i.e. capital under management)?**

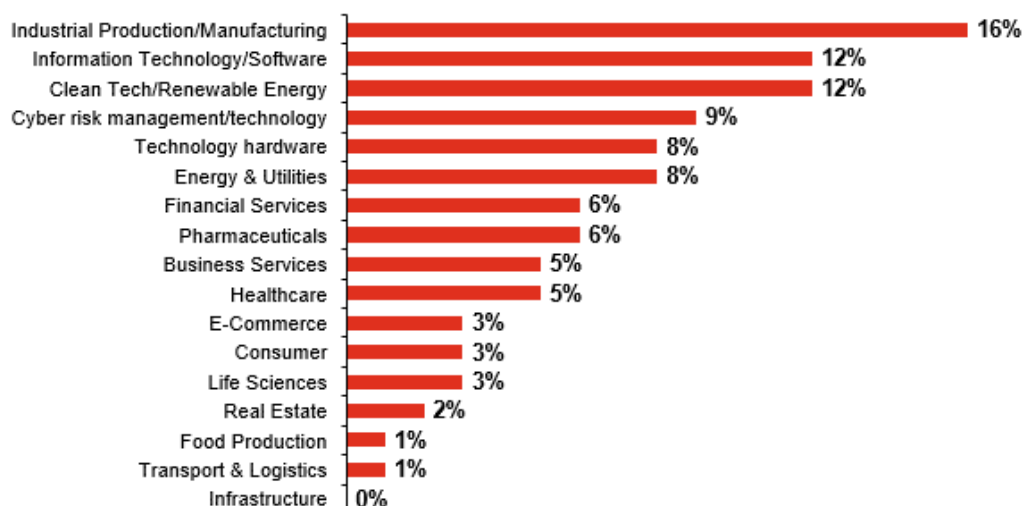


# Appendix

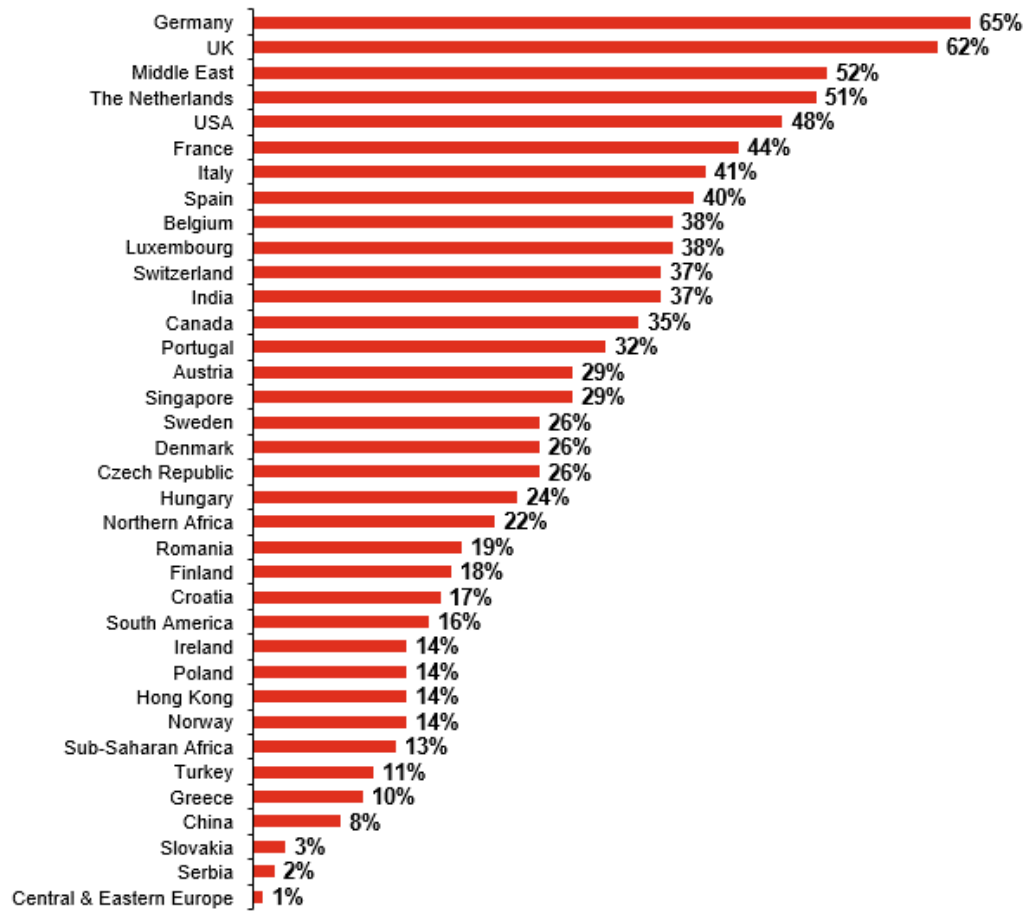
**Fig. 37 In your opinion, which of the following industries is your organisation most likely to invest in over the next 2 to 3 years?**



**Fig. 38 And which of these industries do you expect to undergo the most transformation?**



**Fig. 69 In your opinion, which countries or regions will become more attractive for private equity investments over the next five years?**



# Thank you!