PitchBook

European PE Breakdown

Q2 2020

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Introduction

European PE deal volume plunged in Q2 2020 to its lowest quarterly figure since Q3 2013, driven by the uncertainty caused by COVID-19. Lenders concentrated on existing loans, which saw leveraged lending activity fall precipitously; sellers tabled exit plans amid the volatility; and most GPs either paused or outright cancelled transactions as portfolio triage took precedent. That said, we believe deal activity will gradually pick up in the coming quarters, as managers seek to deploy their €237.2 billion in dry powder aggressively but wisely. While bolt-ons are apace for a record year, the UK & Ireland saw the largest YoY decline in deal volume. Multiples are expected to sustain in the short to medium term, and carveout activity should progressively rise in H2 2020.

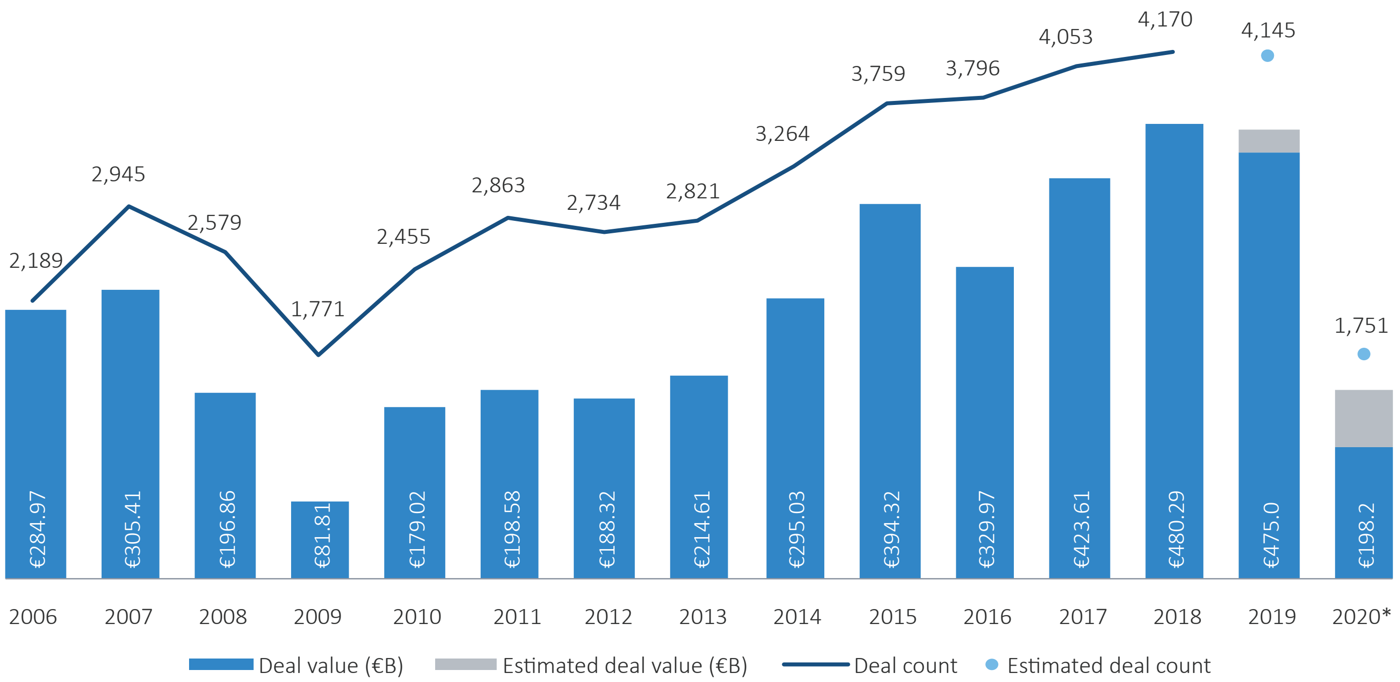
European PE exit value in 2020 is apace for its lowest annual total in six years. However, exit value in Q2 surprisingly saw an uptick from Q2 2019, propelled by the largest European IPO in nearly a decade. Exit volume in the lower end of the market has been disproportionately affected by the pandemic. IPOs may pick up steam in the coming quarters, as it appears the public equity markets have whole-heartedly embraced central bank and government stimuli.

PE fund count in 2020 is pacing towards a new annual nadir, while capital raised came in extremely subdued. Nevertheless, capital raised is expected to significantly rise in H2 2020 due to a number of open mega-funds in the market. LPs evaluating the denominator effect, liquidity schedules, and allocation targets substantially contributed to the lackluster fundraising amounts, while less experienced GPs paused on launching new funds amid the volatility. That being said, while history does not repeat but often rhymes, in this no-interest-rate environment, LPs recognize 2020 vintages have the potential to produce top-tier metrics. As a result, brand-name European managers will grow their LP wallet share during the downturn.

Dominick Mondesir
EMEA, Private Capital Analyst

Overview

PE deal activity



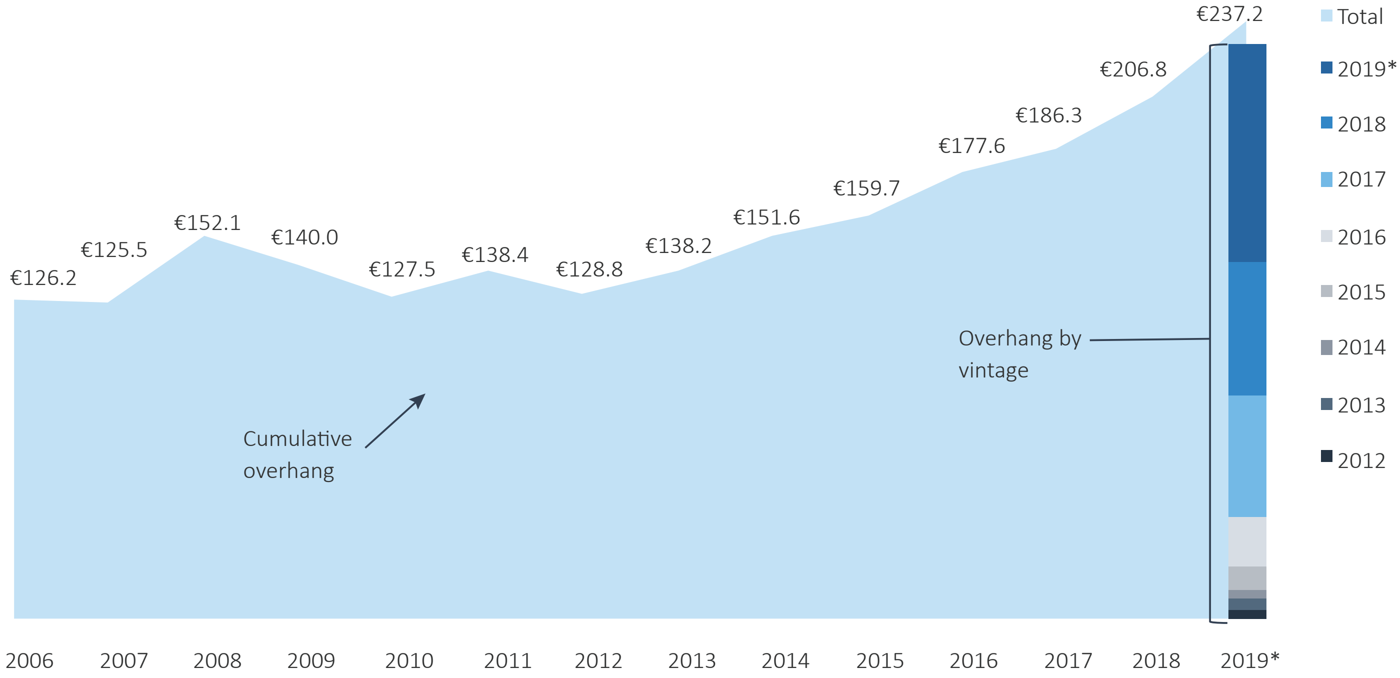
Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

European PE deal activity slowed considerably in Q2 2020. Both deal count and value plunged to their lowest quarterly figures since Q3 2013 and Q4 2016, respectively. 650 transactions closed in the second quarter of the year for a total of €79.8 billion—YoY decreases of 31.5% and 18.7%, respectively. As the COVID-19 crisis unfolded, a multitude of factors converged to reduce deal activity. Lenders concentrated on existing loans, which saw leveraged lending activity fall precipitously; sellers tabled exit plans amid the volatility; and most GPs either paused or outright cancelled transactions citing MAC clauses, as crisis management took precedent. Managers instead went into triage mode with their portfolio crisis response teams. They focused on defending portfolio companies they deemed could ride out and thrive post crisis by identifying pandemic-related risks and opportunities, while still trying to assess consequences related to the wider macroeconomic environment. For example, The European Commission recently projected in a press conference that the EU's GDP will fall by 8.3% in 2020,[1] with the impact of the lockdown proving more severe than analysts initially thought. Additionally, unemployment in the block rose to 7.3% in April, up from 7.1% in March. One of the largest threats to PE dealmaking efforts is growing unemployment rates turning systemic, which could result in Europe transitioning into a "90% economy," a term industry professionals have used to describe economies running at sub-optimal capacity due to the detrimental ramifications of COVID-19. The knock-on effects of high unemployment are anticipated to lead to reduced consumer demand, which will mean further portfolio downgrades and rising defaults, as PE-backed entities run into repayment issues. Heavy debt burdens, aggressive EBITDA add-backs that won't materialize in the near future, and weak balance sheets coming into the crisis will also contribute. Around 16 European defaults occurred in H1 2020, including PE-backed entities such as Spain-based Lecta. In 2020 thus far, defaults across European companies have surpassed the full-year 2019 and 2018 tallies already, the lead reason being missed interest and principal payments.[2]

The trend prior to the COVID-19 crisis of a larger European PE transaction environment has been completely flipped on its head in the second quarter. The median European PE deal size fell to €25.0 million for H1 2020. A lack of activity in the upper end of the market significantly contributed to the smaller transaction environment. Only two transactions sized between €1 billion and €2.5 billion closed in Q2, collectively worth €3.3 billion—YoY declines of 75.0% and 72.1%, respectively. These were the largest YoY falls of any PE deal size bucket. The majority of GPs did not make outsized bets in the quarter, as the economic

1: "Remarks by Commissioner Gentiloni at the press conference on the Summer 2020 Economic Forecast," The European Commission, July 7, 2020
2: "Defaults, Transition, and Recovery: 2020 Corporate Defaults Surpass the Full-Year 2019 Tally," S&P Global Ratings, June 25, 2020

PE capital overhang (€B)

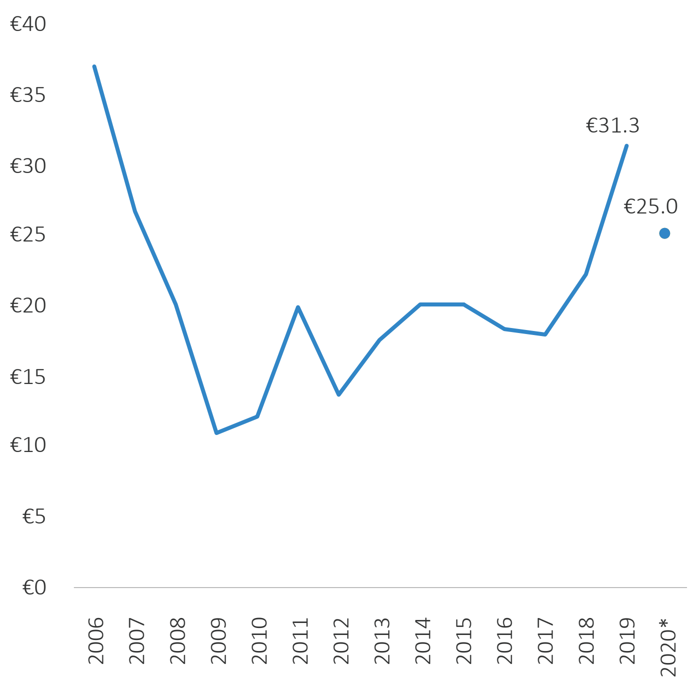


Source: PitchBook | **Geography:** Europe
*As of September 30, 2019

consequences of the pandemic were yet to play out in full. Moreover, larger entities that likely had institutional backing tabled exit plans, as they refused to sell at discounts while global uncertainty remains aloft amid a second round of spikes in confirmed cases and localized lockdowns.

As we transition from the health crisis of Phase 1 and move into the economic crisis of Phase 2, we expect deal activity to gradually pick up in the second half of 2020 and sponsors to aggressively deploy capital in 2021. With the virus more contained in Europe compared to other regions and the continent reopening in the second half of the year—albeit with localized lockdowns/outbreaks—confidence should gradually revive in European consumers and businesses. It took managers around one year following the GFC to deploy capital at scale, and with that we anticipate managers will invest their record €237.2 billion of dry power (as of Q3 2019) into discounted assets that are cyclically but not secularly under pressure. Some companies that were previously not interested in a sale may now seek an exit as the time and effort to rebuild businesses back to pre-crisis profitability may not be appealing. This is where the largest and most well-resourced GPs will be front footed, as sponsors have been preparing for a downturn for several years due to Europe's protracted cycle. Managers have learned lessons from previous downturns in not waiting to understand the full impact before resuming investment activity. Large brand-name managers with the firepower and staying power will invest more flexibly in any risk-reward they find

Median PE deal size (€M)



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

compelling during market dislocations, especially in digital (or digital-adjacent) assets that have the ability to be even more disruptive in a remote-everything world. For example, KKR (NYSE: KKR) acquired UK-based data center developer Global Technical Realty in Q2 2020 for €917.9 million.

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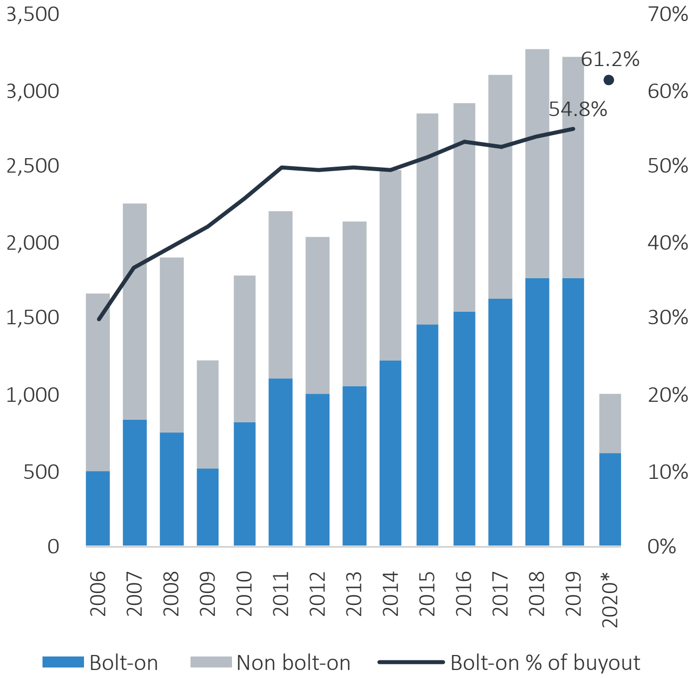
Overview

While Phase 1 of the crisis presented large but swift opportunities to invest in discounted public equities and credit, we see Phase 2 as an opportunity for sponsors to provide liquidity to SMEs via rescue or bridge capital and to accelerate bolt-on investments as a slightly lower-risk defensive approach to deploying capital. Bolt-ons as a percentage of buyout volume stands at 61.2% through H1 2020 and is apace for a record year. Managers are likely to be focused on increasing platform resilience, agility, and stability during the crisis, while playing offense via bolt-ons to heighten geographic, product, customer, and supplier diversification. Sponsors will look to be consolidators within sectors by acquiring weaker competitors that likely have no institutional backing to increase portfolio value. The largest bolt-on in Q2 2020 was Italy-based Dedalus' €975.0 million acquisition of Afga-Gevaert healthcare information technology business. After first making significant inroads in the Italian and French clinical healthcare software sector, the combination marks Dedalus consolidating the industry at the European level.

Although we saw YoY declines in PE deal volume across every European region, the UK & Ireland attributed the largest drop at 62.3%. Sponsors' hesitancy regarding the region's assets in Q2 was not surprising. First, the UK & Ireland region has the worst COVID-19 death rate in Europe. Second, its lockdown lasted through the bulk of Q2, ending after several of its European counterparts started reopening. Third, the backdrop of a no-deal Brexit and resurgence of the virus—as seen from a recent localised lockdown in Leicester—is deterring dealmakers. As PE-backed assets are somewhat GDP linked, the IMF predicting the UK's GDP will fall by 10.2% in 2020 has accelerated uncertainty.[3] That said, deals will still close in the region despite the murky road ahead. For example, US-based Searchlight Capital Partners completed an €839.2 million buyout of the UK's second-largest independent insurance intermediary, Global Risk Partners (GRP) in Q2 2020. GRP was founded in 2013 and has grown rapidly through 59 acquisitions of regional brokers and specialist managing GPs.

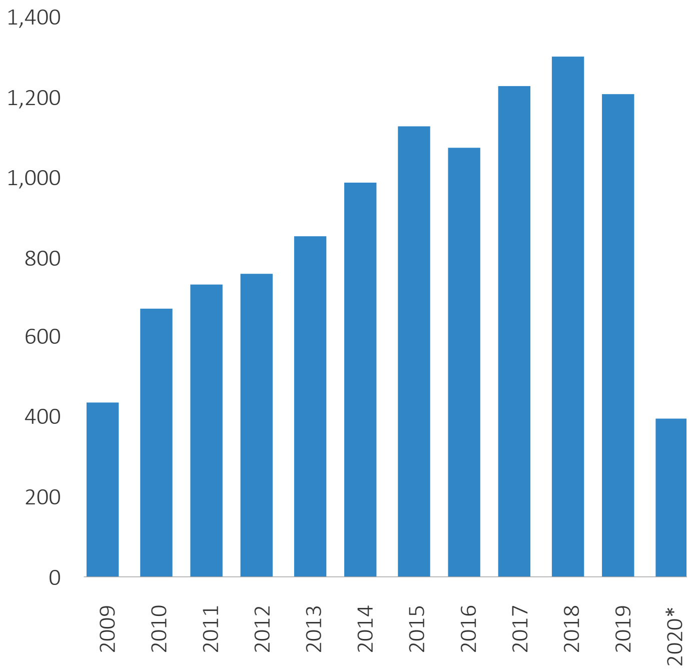
Although divestiture activity has seen a subdued first half of 2020, we anticipate public and private carveouts will considerably pick up in the second half. As the transition into the economic crisis intensifies in the coming quarters, due in part to government fiscal support winding down, the inevitable second wave of cases hitting Europe in autumn, and the resulting localised lockdowns, many companies will be forced to raise cash and deleverage. Companies and activist shareholders will be laser-focused on balance sheet

Bolt-ons as proportion of overall buyouts (#)



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

UK & Ireland PE deals (#)



Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2020

strength, levels of flexibility on costs, margin protection, and secular demand changes. Carveouts allow entities to pursue each of these while maintaining their focus on outperforming units. Four of the top-five divestitures by

3: "World Economic Outlook Update," International Monetary Fund, June 2020

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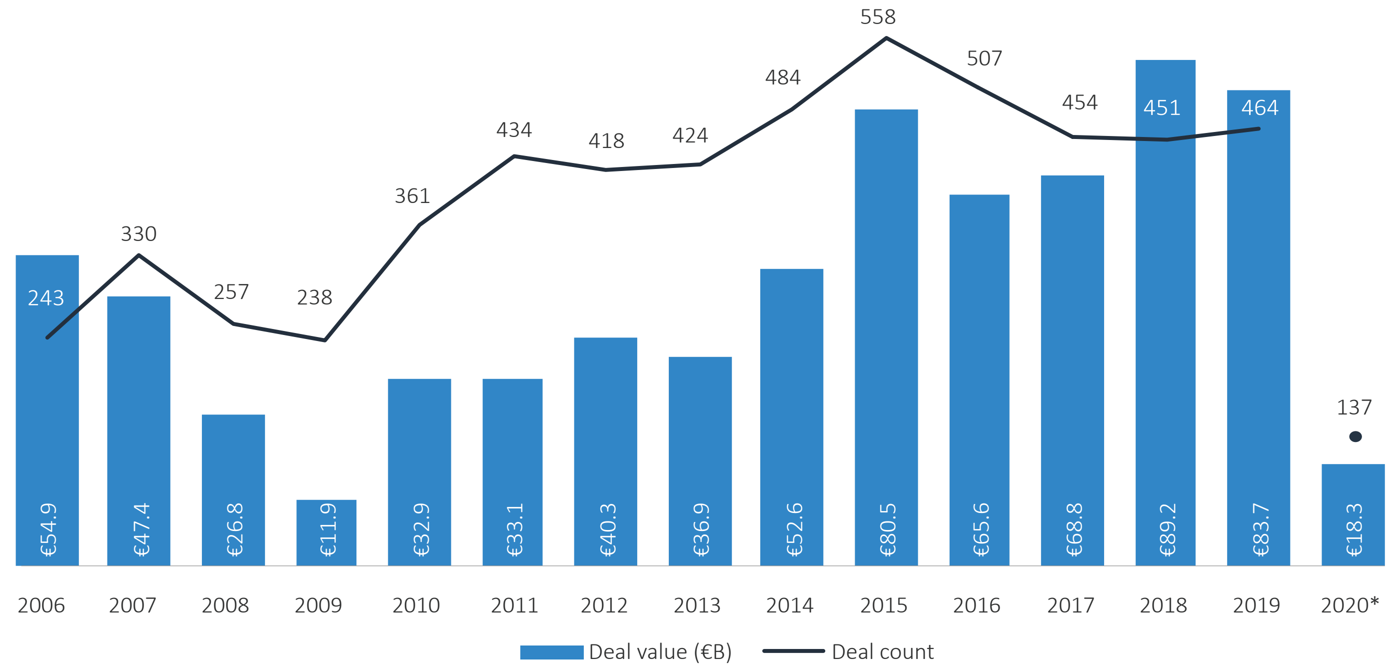
Overview

Carveout deal activity

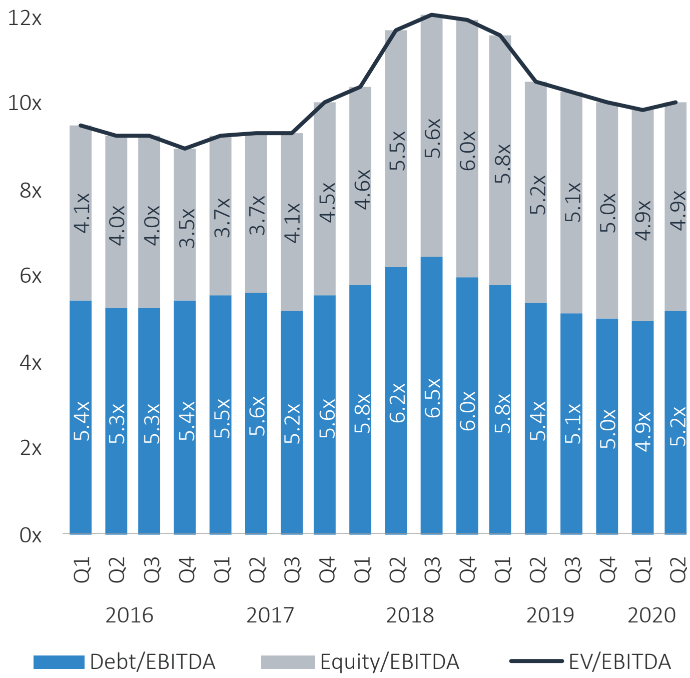


Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

deal size in H1 2020 occurred in Q2 2020, attributing close to €4.5 billion in deal value. The largest carveout in the second quarter was Germany-headquartered AutoScout24's €2.9 billion divestiture to US-based Hellman & Friedman. AutoScout24 initiated the sale under pressure from activist investor Elliott Management, which wanted the company to focus solely on its outperforming property listing business ImmoScout24.

The rolling four-quarter median PE buyout EV/EBITDA multiple came in at 10.0x in Q2 2020, dropping half a turn from the same quarter in 2019. In the short to medium term, we expect multiples to remain in the high single digits and low double digits, largely buoyed by strong European equity prices. The European Stoxx 600 index climbed 3% in June 2020 which outperformed the S&P 500. In addition, the persistent fiscal and monetary stimuli, such as Europe's proposed €750 billion joint fiscal programme, will assist in sustaining valuations. The COVID-19 crisis has accelerated the bifurcation in the "haves" and "have nots" in terms of assets. Companies that are fundamentally strong and have managed to survive or even grow through the crisis could command an even higher valuation in this environment. Sponsors will likely accept lower pro forma returns for the "haves" in this no-interest-rate world. For example, Dedalus acquired Agfa-Gevaert Healthcare Information Technology Business at a 19.5x premium to its implied revenue. Entities within healthcare and data, as well as the 5 Cs of, cloud,

Rolling four-quarter median PE buyout EV/EBITDA multiple



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

ecommerce, cybersecurity, cashless payments, and collaboration are anticipated to be part of the "haves" cohort, in which valuations will sustain, if not rise above, their pre-crisis levels.

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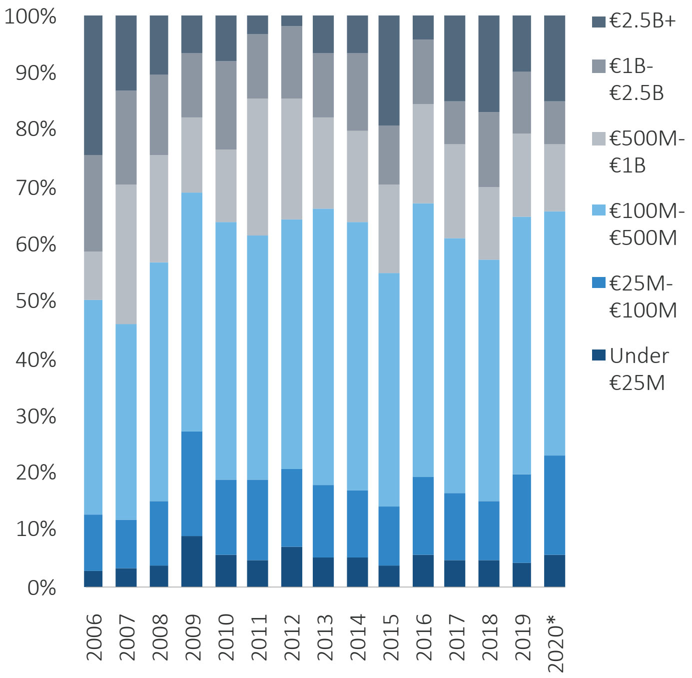
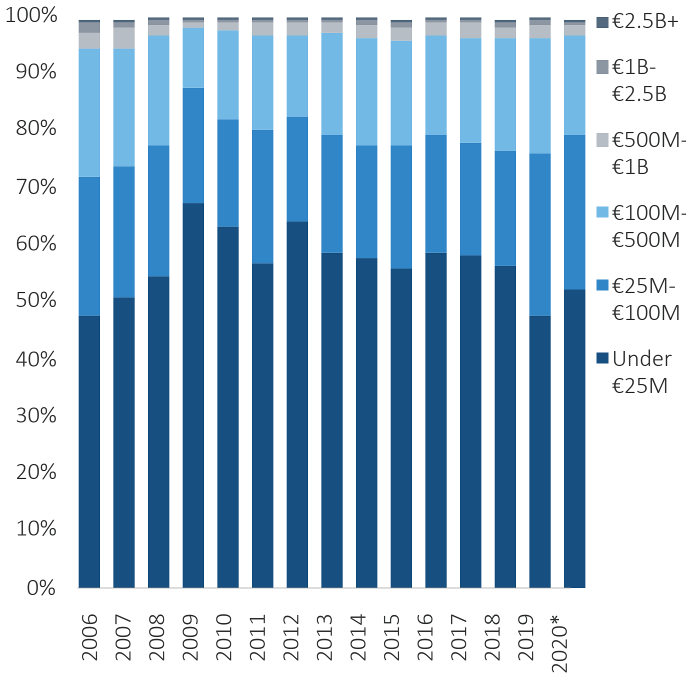
Deals by size and sector

PE deals (€) by size



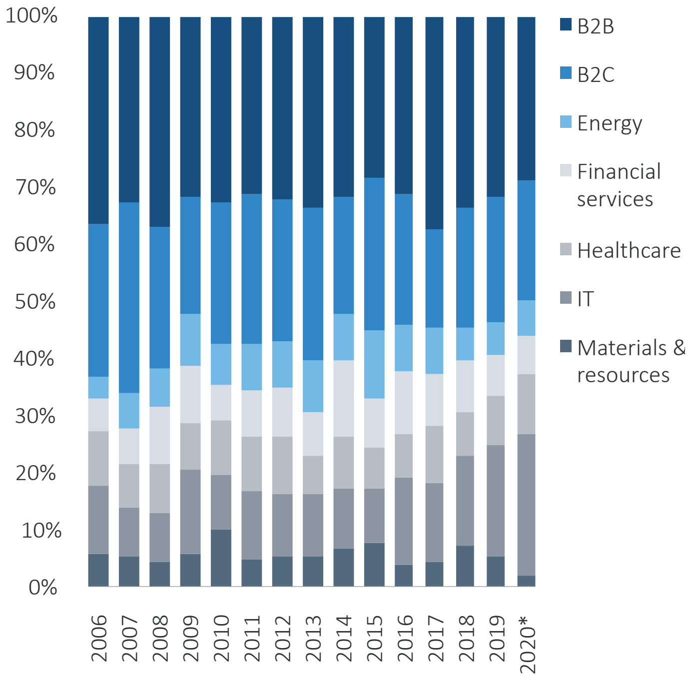
Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

PE deals (#) by size



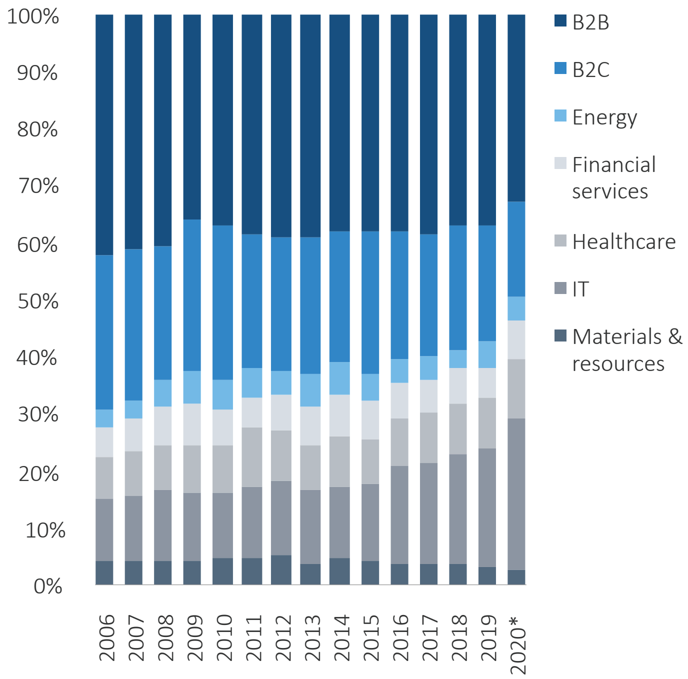
Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

PE deals (€) by sector



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

PE deals (#) by sector



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

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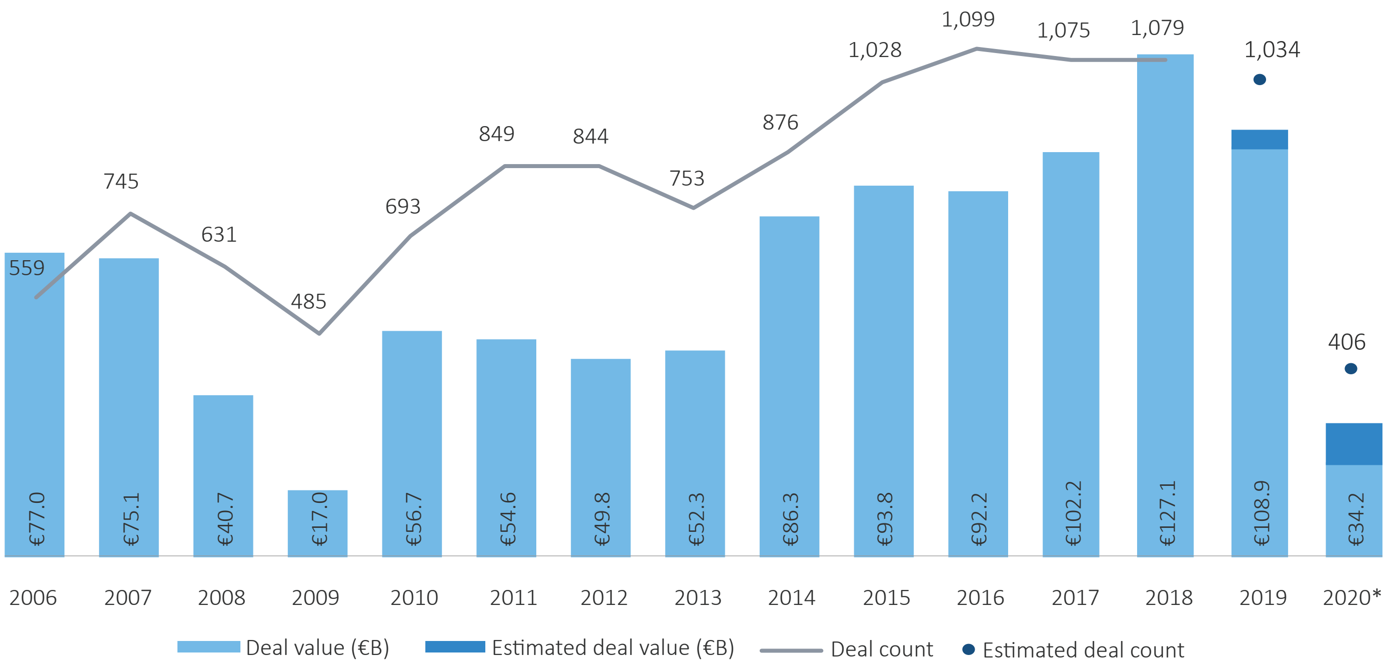
Spotlight: France & Benelux

PE deal activity



Source: PitchBook | **Geography:** France & Benelux
*As of June 30, 2020

This section is adapted from the 2020 France & Benelux Private Capital Report, written by Dominick Mondesir and Nalin Patel and published on June 24, 2020.

PE deal activity in the France & Benelux region has grown considerably over the past decade, with France contributing the bulk. Over 1,000 deals per annum have closed since 2015, and GPs have invested at least €100 billion in aggregate each year since 2017. A few factors have influenced the upward trajectory of PE deal activity. First, Brexit has reduced the number of available deals in the UK, Europe's biggest market, which has shifted a portion of deal activity to the France & Benelux region. With the no-deal Brexit cloud firmly back in the picture, we may see a further disproportionate shift of deal activity to the region, as seen from Sweden-based EQT (STO: EQT) launching a brand-new French operation in 2020. Second, the 2017 election of pro-business leader Emmanuel Macron helped alter institutional investors' attitudes towards the territory. Macron's easing of company taxes, favourable tax breaks for managers relocating to France, reduced corporate income tax, and tools to share capital gains with employees have boosted the region's attractiveness. In addition, Macron has transformed France's wealth tax and added a variety of measures to attract top talent and technology companies to the district. However, despite the region significantly easing its lockdown in recent weeks, the pandemic's effects are likely to bring about a break from the norm in 2020, with PE deal flow pacing considerably below levels of recent years. No mega-deals closed in H1 2020, as GPs avoided making outsized bets in this environment, which saw the first fall in the region's median deal size in three years to €17.8 million. Additionally, France's government recently revised its GDP forecast, with French Finance Minister Bruno Le Maire indicating a contraction of 11.0%. The country's jobless rate also surged by a record 23% in April 2020.[4]

Top five PE investors in France & Benelux companies since 2015 by deal count

Investor name	Deal count
Bpifrance	348
Crédit Mutuel Equity	142
Idinvest Partners	136
Siparex Group	113
BNP Paribas Développement	107

Source: PitchBook | **Geography:** France & Benelux
*As of June 30, 2020

4: "French Jobless Numbers Surge as Europe Limps Out of Lockdown," Financial Times, Martin Arnold and Valentina Romei, May 28, 2020

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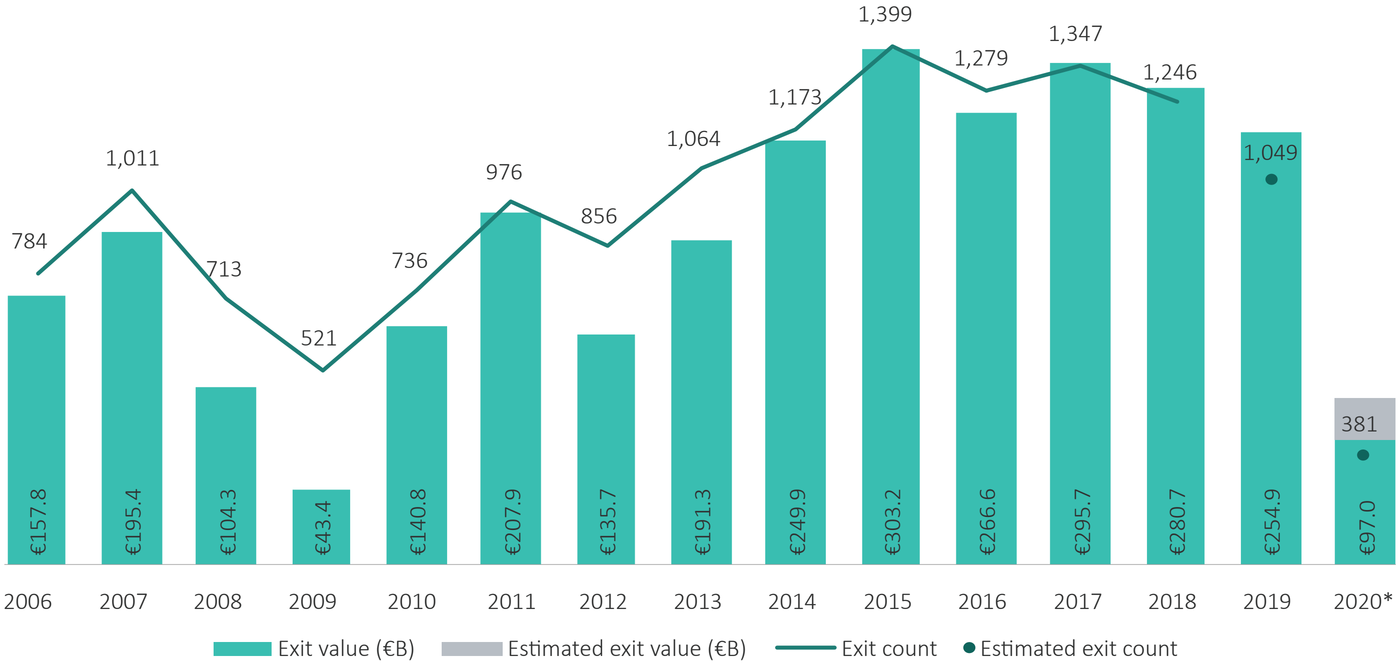
Exits

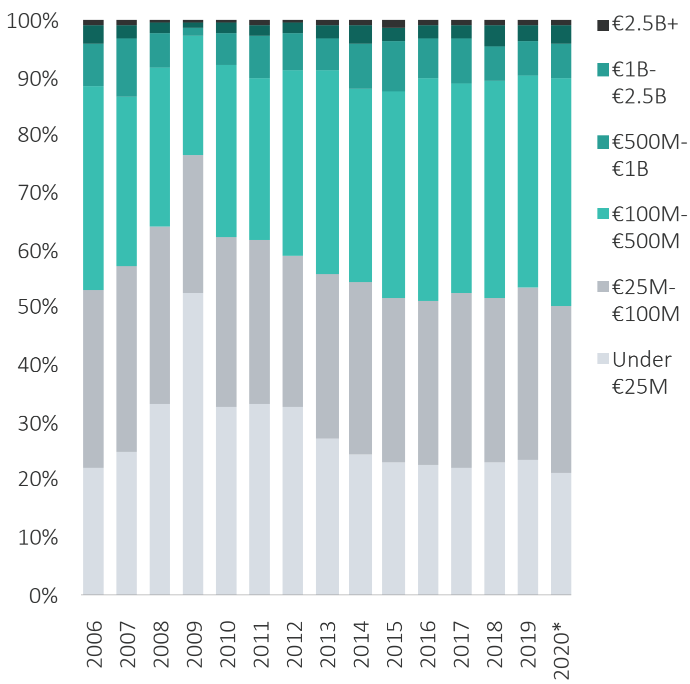
PE exit activity



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

European PE exit value in the first half of 2020 puts the year on pace for its lowest annual total in six years. €55.2 billion worth of liquidity events occurred in Q2 2020, a YoY increase of 4.9% that was largely propelled by JDE Peets' IPO. In Europe's largest listing since 2011, the company raised €2.3 billion at a pre-money valuation of €14.9 billion. This offering in part pushed the year's median exit size up to €133.7 million. Without JDE Peets' outsized IPO, we would have seen a considerable drop in exit value YoY, and on the whole, we expect exit activity to remain tepid through the second half of 2020. Only 122 exits closed in Q2, and only five of them were over €1.0 billion, marking YoY decreases of 44.6% and 50.0%, respectively. In a recent report by Investec, 83% of GPs surveyed said they did not expect to liquidate any of their portfolio companies over the next 12 months. If market conditions change and we receive positive news on the health front (vaccine and/or treatment for COVID-19), exit activity could pick up as GPs are coming off multiple years of strong dealmaking and aging portfolios. In addition, exit activity for a subset of assets benefitting from the pandemic or deemed COVID-19 proof may sustain as there likely won't be valuation disconnects.

PE exits (#) by size



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

The lower end of the market (exits sized between €25 million-€100 million) has been disproportionately affected by the pandemic, clocking close to a 90.0% fall in exit volume YoY. Exit activity for these assets is likely to remain subdued over the next six months to a year for a few reasons. First, the inherent volatility and lack of available financing in the lower middle market could lead to wider bid-ask spreads, especially in a time of pandemic-driven demand shocks. Second, most GPs will avoid selling assets at discounts and will wait for a more stable period to unload portfolio companies. Third, substantial barriers to exit execution remain, including challenges in conducting face-to-face due diligence. Fourth, managers are likely to be focused on company health issues, liquidity, and business disruptions as opposed to exit plans. And fifth, new weaknesses are expected to have evolved in entities that perhaps thought of themselves as mission critical but have discovered clients view their services as discretionary.

The median IPO size has rocketed to €722.6 million due in part to JDE Peets' listing. We anticipate IPOs may pick up steam in the coming quarters, as it appears the public equity markets have whole-heartedly embraced central bank and government policy responses, as well as a V-shaped recovery. Shares in JDE Peets climbed more than 12% in its first day of trading, highlighting the optimistic recovery public equity markets have priced in. Sponsors are likely to cash in and take advantage of these buoyant markets, even in the face of diverging and weak economic data, as optimism grows for (and investment opportunities surround) a vaccine or treatment for COVID-19 and as substantial fiscal and monetary support initiatives continue.

Median IPO size (€M)

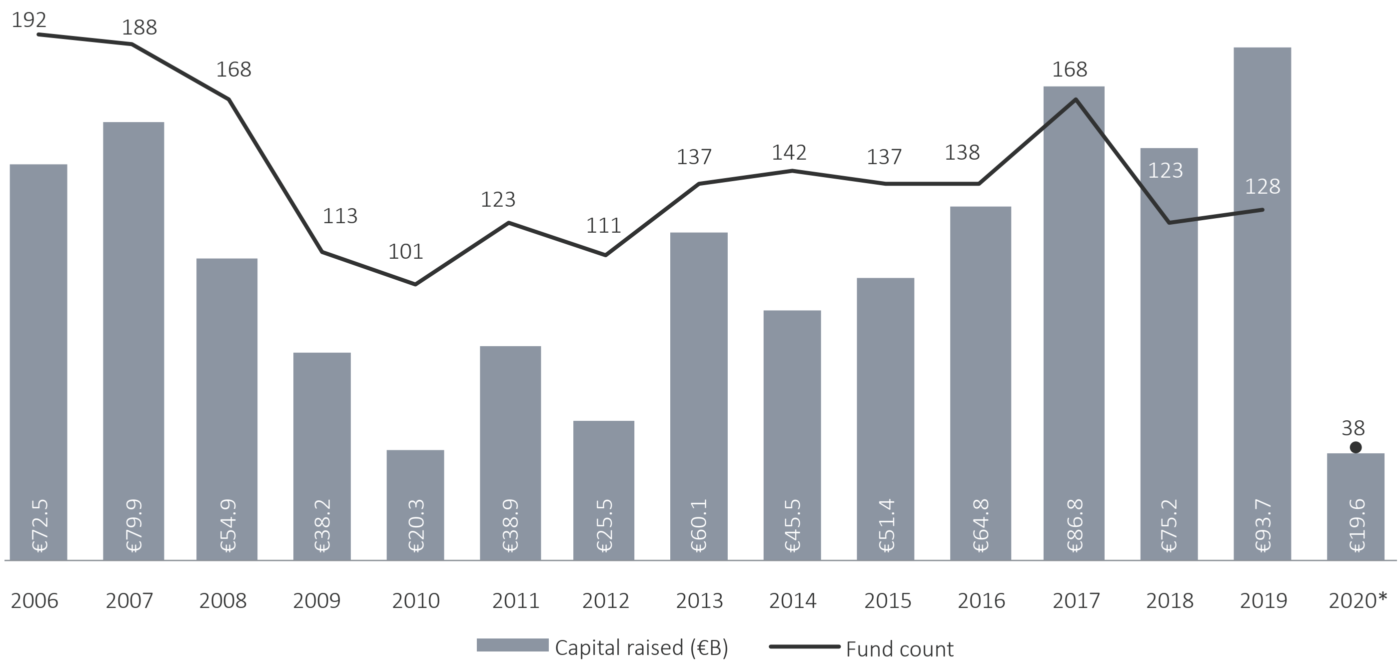
Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

PE exits (#) by type

Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

Fundraising

PE fundraising activity

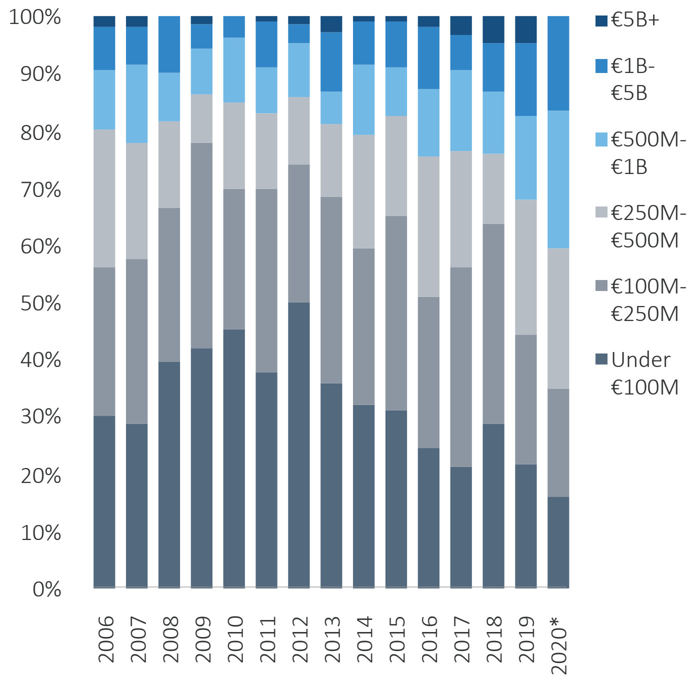


Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

European PE capital raised came in extremely subdued through H1 2020. At the halfway point in the year, €19.6 billion was raised across 38 vehicles. No funds closed above €2.5 billion in H1 2020, which significantly contributed to the lackluster fundraising total, as LPs reviewed portfolios and evaluated the denominator effect, liquidity schedules, and allocation targets. In a recent LP sentiment survey by Campbell Lutyens, only a third of LPs stated they would continue with business as usual. The rest are putting commitments on hold, proceeding with re-ups instead of new commitments or with opportunities in process.

That being said, brand-name European managers will grow their LP wallet share during the downturn, as the bifurcation in the fundraising market will continue to heighten in the coming quarters. LPs will lean into existing GP relationships to take advantage of the dislocation. With a number of European brand-name mega-funds in the market, we anticipate capital raised will increase considerably in the coming quarters. While not included in our Q2 datasets, CVC Capital Partners recently closed on €21.3 billion in Europe's largest-ever buyout fund. The firm started fundraising in January 2020 and continued to attract a significant amount of capital through the lockdown, highlighting the healthy fundraising trail for brand-name managers. While history does not repeat but often rhymes, in this no-interest-rate environment, LPs recognize 2020 vintages have the potential to produce top-tier metrics as a result of lower multiples, an expanded opportunity set, and less competition.

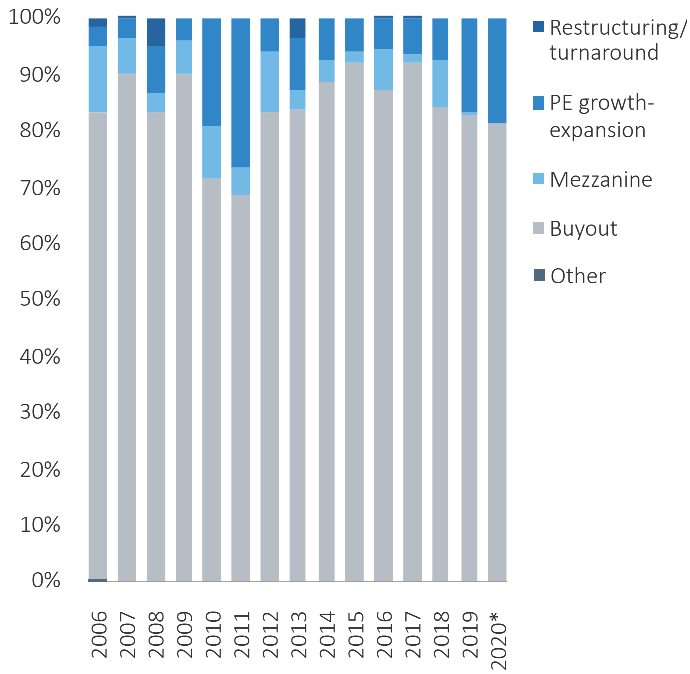
PE funds (#) by size



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

Fund count is on pace to hit a new annual nadir by the end of 2020. COVID-19 has disproportionately affected the fundraising trail for first-time GPs, spinout GPs, and those without a solid track record. Most of these managers paused on launching funds amid the volatility due to travel restrictions, challenges in meeting LPs face to face, and allocators concentrating on portfolio triage and existing GP relationships. Funds sized under €100 million closed only six vehicles in H1 2020, putting the size cohort on track for its lowest annual reading in our datasets. Managers without a solid track record may have to work with seeding groups such as Evolution Managers Capital, which provides new GPs capital with which to invest and build a track record before they move into the traditional PE fundraising market. Moreover, protracted fundraising timelines and the increased use of placement agents or deal-by-deal fundraises may prove beneficial during this time for those struggling to attract capital.

PE funds (€) by type



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

Through H1 2020, buyout funds have dominated the fundraising market, accounting for €15.9 billion in capital raised, equating to an 81.2% share. Growth equity funds have also been gaining considerable traction, contributing around 20% of the year's total commitments. The ability for businesses to be disruptive and shake out incumbents has exponentially increased due to COVID-19. We may start to see a shift away from traditional large late-stage PE deals to more growth equity investments, as the ecosystem evolves and focuses on companies that are growing significantly faster than the broader economy and are uniquely positioned to withstand the downturn due to low leverage and close proximity to profitability. This could potentially lead to GPs raising more growth equity vehicles as LPs seek returns akin to late-stage VC, coupled with less leverage and lower losses than traditional buyouts. During the downturn, fund mandates have become increasingly flexible, allowing sponsors to straddle investments across both private and public markets, as well as across a range of asset classes and capital structures. In addition to more growth equity funds, we anticipate fundraising for strategies such as distressed, special situations, dislocation, and rescue vehicles will proliferate as we move into Phase 2 of the crisis. A number of highly leveraged private entities will soon come under severe liquidity stress due to top-line decreases, inflexibility on costs, and portions of fiscal support winding down.

Top 10 open European PE funds by target size (€B)

Firm name	Fund name	Target size	HQ location
EQT	EQT IX	€15.0	Stockholm
Apax Partners	Apax X	€11.0	London
BC Partners	BC European Capital XI	€8.5	London
Partners Group	Partners Group Direct Equity 2019	€5.0	London
Nordic Capital	Nordic Capital Fund X	€5.0	Stockholm
HG Capital (UK)	Hg Genesis 9	€4.5	London
HG Capital (UK)	Hg Saturn 2	€4.4	London
Vitruvian Partners	Vitruvian Investment Partnership IV	€4.0	London
Montagu Private Equity	Montagu VI	€3.6	London
Eurazeo Pme	Eurazeo PME IV	€2.5	Paris

Source: PitchBook
*As of June 30, 2020

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