PitchBook

Q3 2022

EUROPEAN PE Breakdown

Contents

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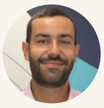

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Introduction

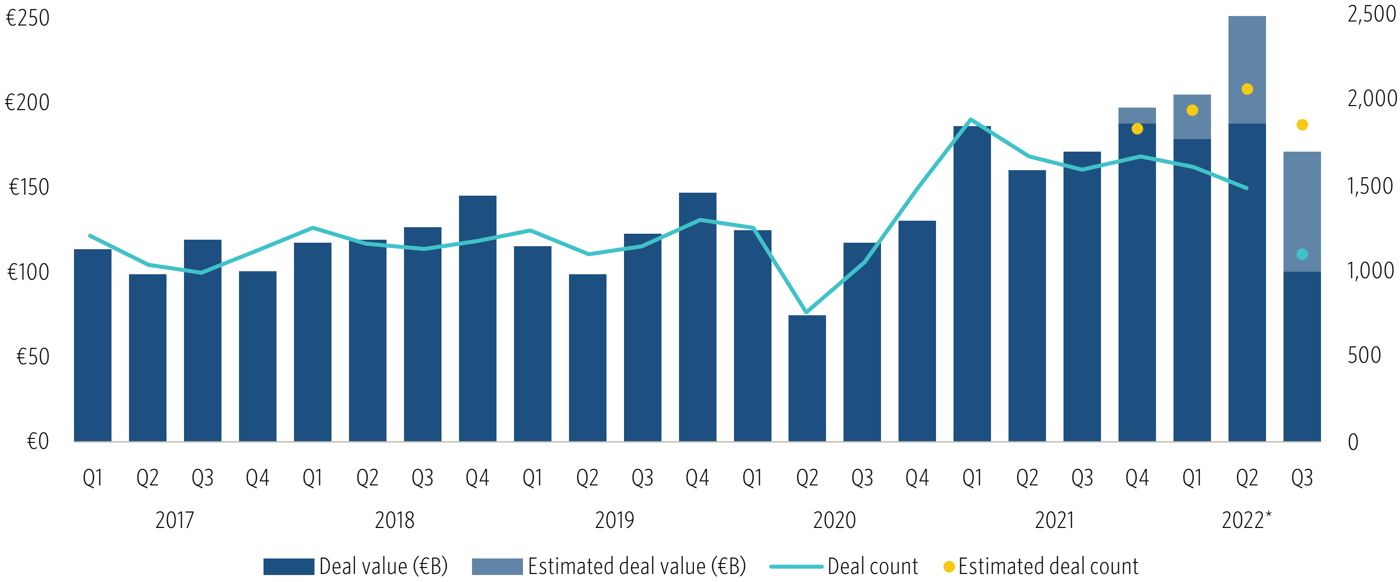
PE dealmaking remained resilient through Q3 2022 despite the worsening macroeconomic picture spreading across Europe. Large deals continued to close and underpin figures despite uncertainty stemming from a combination of headwinds facing financial markets. Take-privates and carveouts remained crucial to PE strategies in Q3 2022. Further developments, including currency volatility and fiscal and monetary stimulus, have impacted PE activity. We expect the European dealmaking environment to continue being under pressure in Q4 given declining consumer and business confidence, rising inflation, interest rate hikes across the continent, and the decline in gross domestic product (GDP) growth, which may lead to recessions across Europe.

Through Q3 2022, European PE exit value sustained declines from elevated figures logged in 2021. Despite the challenging exit environment, volatile public equity markets, and gloomy macroeconomic outlooks, exit value could register the second-largest figure from the past decade at the end of 2022. As bear markets have proliferated across Europe, exits have become less appealing for investors and management teams. Lower valuation multiples tied to major public stocks have naturally raised questions about the accuracy of lofty valuations linked to privately backed companies. An assortment of factors, including geopolitical tension, weak economic growth, spiralling inflation, and interest rate hikes, has impacted exit appetite. The bulk of exit value was generated in core PE regions including the UK & Ireland and France & Benelux. Exit value via public listings is on pace to record its lowest annual total since 2012.

PE fundraising slowed in 2022 YTD as capital becomes more expensive in a hawkish interest rate environment. Distributions have fallen due to less favourable exit conditions, and therefore fundraising will be weaker as less capital is available to be reinvested. LPs are adopting a wait-and-see approach before committing new capital to new, less-established GPs given the nervousness of private markets deriving from the fall in public markets. Fundraising figures indicate fund sizes could be shifting as we enter a market downturn. PE growth-expansion funds have proven popular through Q3 2022, as investment horizons linked to high-growth companies could generate heightened returns in the long run for GPs and LPs.

Overview

PE deal activity



Source: PitchBook | **Geography:** Europe
*As of September 30, 2022

In Q3 2022, European dealmaking remained resilient, with deal value flat year-over-year (YoY) and deal count increasing 16.9%. However, quarter-over-quarter (QoQ) deal value was down 31.6% and deal count was down by 9.6% as the macroeconomic environment caught up with private equity (PE). We continue observing a trend towards larger transactions as the average deal size is pacing higher than previous years, at €289.1 million through Q3 2022 versus €215.9 million in 2021. As the macroeconomic picture worsens, we expect due diligence timelines to lengthen and sponsors to become pickier in the investments they make and the terms they negotiate. For example, AC Milan's owner, Elliott Management, took over 15 months to sell the football club, which eventually fetched a €1.2 billion price tag. In 2021, a leveraged buyout (LBO) takeover bid for the club by World Lab Technologies collapsed, then Elliott rejected a bid from Investcorp in early 2022 before finally accepting a bid from RedBird Capital Partners. The deal was further delayed from May to August as Elliott Management, an activist hedge fund founded by Paul Singer and known to specialise in distressed securities, pushed for the deal to be partly financed by high-interest loans it would benefit from, thanks in part to rising interest rates.

In Q3, large deals continued to close involving US-headquartered PE giant Blackstone, which has now participated in four of the top 12 largest deals this year in Europe. UK-based Cobham bought out Ultra Electronics, a software electronics defence contractor, for €3.0 billion in a public-to-private LBO sponsored by Advent International and Blackstone. The deal took one year to close after the UK government launched a probe into national security concerns as Ultra makes highly sensitive defence equipment for Britain's nuclear submarines and its acquirer, Cobham, has US sponsors.

We expect the European dealmaking environment to continue being under pressure in Q4 given declining consumer and business confidence, rising inflation, interest rate hikes across the continent, and the decline in GDP growth, which may lead to recessions. Q3 was marked by a flood of interest rate hikes with the Bank of England (BoE) hiking the rate twice in three months, thereby bringing the UK interest rate, also called the Bank Rate, to 2.25%. There were six hikes in 2022. The European Central Bank (ECB), which has been historically slower to hike rates, also increased rates twice in Q3, bringing interest rates up by 75 basis points on September 14 to 1.25% for the refinancing rate, 0.75% for the deposit rate, and 1.5% for the lending rate. These hawkish measures are intended to squash inflation, which has been skyrocketing. UK inflation peaked at 10.1% in the 12 months leading to September,

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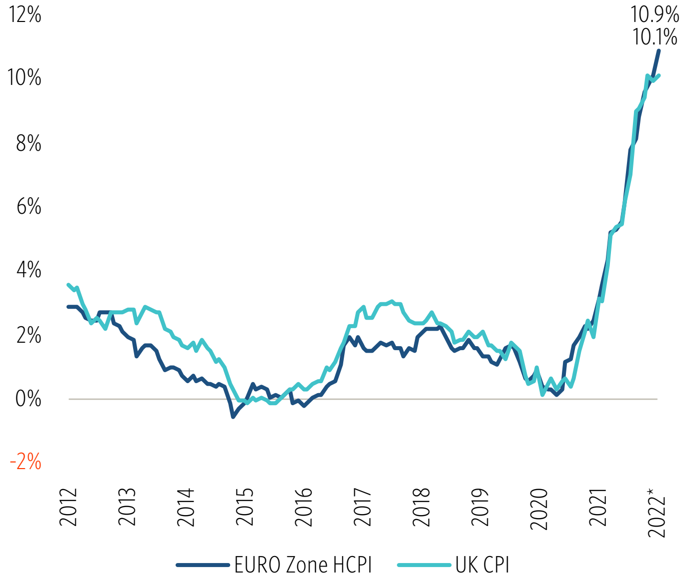
but the BoE has warned it expects a new peak of 11.0% in October before inflation starts dipping.[1] Higher inflation and rising discount rates mean it will become costlier for companies to borrow money, which has been cheap since the Global Financial Crisis (GFC). It will also increase costs at the portfolio company level, as well as decrease valuations due to the higher discount rate. Companies that can pass on the higher costs to consumers, and thus hedge away inflation, will likely be the winners. In 2022, those companies have tended to be in the energy, infrastructure, and healthcare spaces.

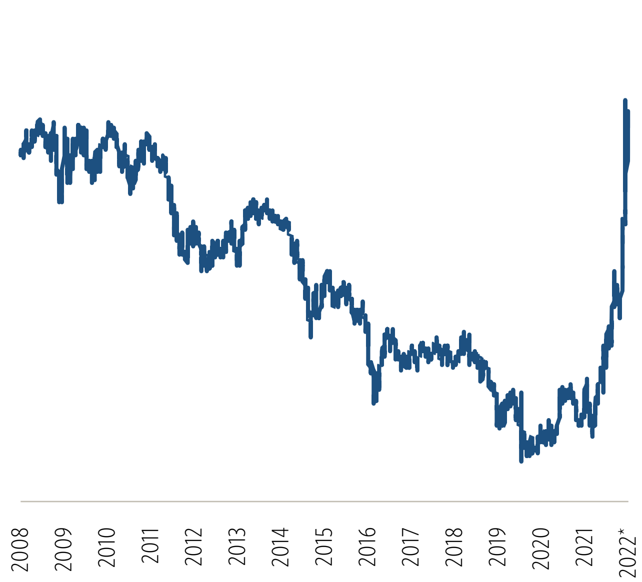
The UK's recent fiscal and monetary hops following the former UK Chancellor's mini-budget are worth examining. Although the announced measures by former Chancellor Kwasi Kwarteng stood to benefit private markets by scrapping the increase in corporate tax by 6%,[2] for instance, the announced unfunded tax cuts sent the British Pound (GBP) spiralling versus the US Dollar (USD) down to $1.0350/£, almost reaching parity, hitting an all-time low versus the USD on September 25. Then on September 28, UK government bonds went through the roof with 30-year gilt yields jumping to a 20-year high above 5%.[3] That same afternoon, the BoE took emergency action to avoid a meltdown in UK pensions, which were being hit with margin calls as a result of the surge. The solution was to go back to quantitative easing by injecting £65 billion worth of bonds into the economy over a 13-day period, a measure known to be inflationary.[4] The BoE did however reiterate its intent to continue hiking interest rates, which is why we feel the measures are contradictory. UK-based PE companies will have had mixed feelings about the news as on one side, the cut in taxes and the possible slowdown in interest rates would benefit portfolio companies by increasing their profits and reducing their cost of debt. But on the other hand, they would be impacted with lower valuations due to the turmoil in public market conditions, and these valuations may prove more difficult to estimate due to the weakening of the currency. In an extraordinary turn of events, Kwarteng was replaced by Jeremy Hunt on October 14, who reversed the mini-budget policies most notably on tax cuts, which will see a corporation tax increase from 19%

Inflation rate by percentage



Source: ONS, Eurostat | **Geography:** Europe
*As of September 30, 2022

30-year gilt yield



Source: Investing.com | **Geography:** UK
*As of September 30, 2022

1: "When will inflation come down?," the Bank of England, September 23, 2022.
2: "Private markets to gain from UK mini-budget," *PitchBook*, Andrew Woodman, September 23, 2022.
3: "UK gilt yields rise after plunging on BoE action," *Reuters*, William Schomberg, September 29, 2022
4: "Bank of England launches £65bn move to calm markets," *the Financial Times*, Chris Giles, et al., September 28, 2022.
5: "UK corporate tax: U-turn signals the end of Trussonomics," *the Financial Times*, October 14, 2022.

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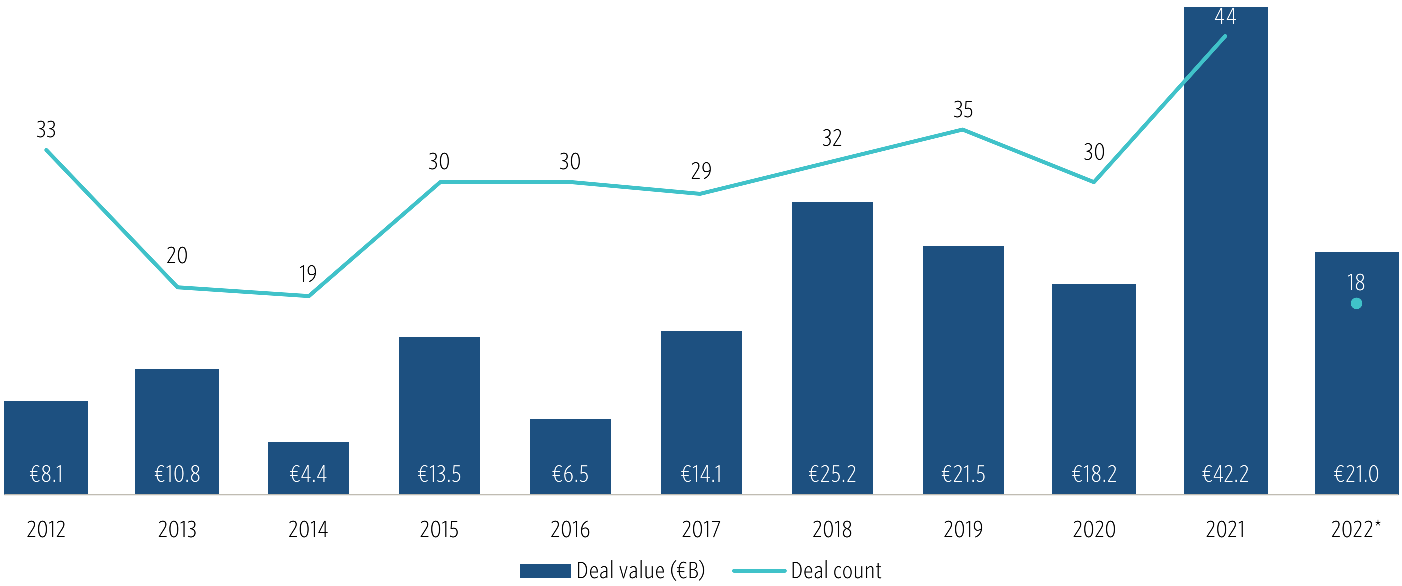
Take-private PE deal activity



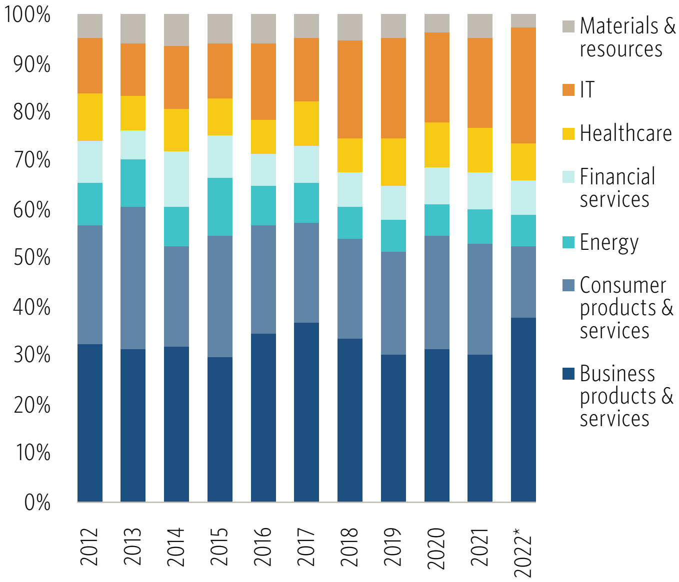
Source: PitchBook | **Geography:** Europe
*As of September 30, 2022

to 25% starting April 2023,[5] thus trimming profits for UK-based PE houses.

Take-private deals continued to be a theme of 2022, with six new deals in Q3 worth a combined €5.8 billion. With public markets in bear territory and assets becoming increasingly cheaper, general partners (GPs) with substantial dry powder are taking public companies private. For example, British waste management company Biffa accepted a lower €1.5 billion takeover bid from US PE firm Energy Capital Partners, lowering its bid from 445 pence per share to 410 pence per share.[6] In fact, Biffa had already gone from public to private back in 2008 before rejoining the stock market in 2016. Moving forward, UK companies will be prime targets for foreign PE firms because of the weakening of the pound sterling combined with lower valuations stemming from bear market territory.

The business products & services sector continues to lead the charge of deals in Q3, accounting for one-third of all deals. The sector is on track for its strongest year in terms of deal value at €176.3 billion and currently represents 37.8% of all deals YTD, the highest since 2006. Although the UK narrowly missed going into a recession at the end of Q3, forecasts suggest that most of Europe will enter a recession in H1 2023. Sectors such as business products & services tend to be resilient in a downturn, while consumer products & services gets hit hardest as discretionary spending

Share of PE deal value by sector

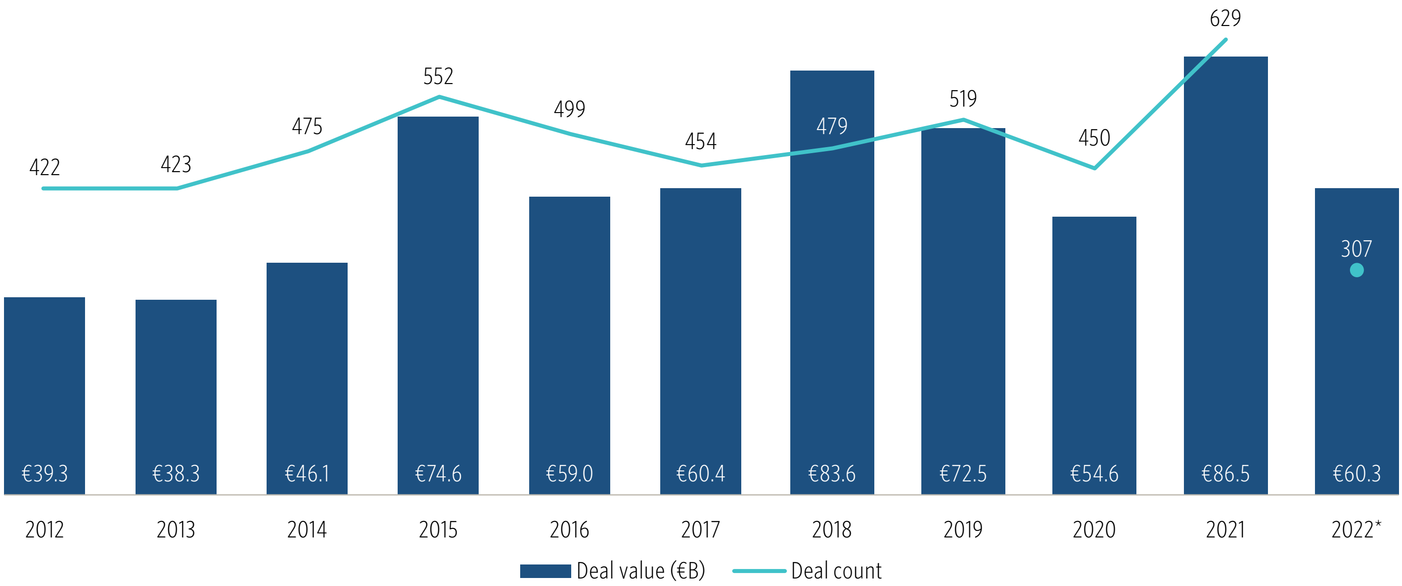


Source: PitchBook | **Geography:** Europe
*As of September 30, 2022

quickly falls as wages do not increase as fast as inflation and layoffs begin. This is essentially what economists label as stagflation: high inflation, slowing economic growth, and high unemployment. In Q3, consumer products & services deal value was down 52.2% YoY and 30.4% QoQ, a complete capitulation as inflation rose. Many companies

6: "Bank of England launches £65bn move to calm markets," *the Financial Times*, Chris Giles, et al., September 28, 2022.

Carveout PE deal activity



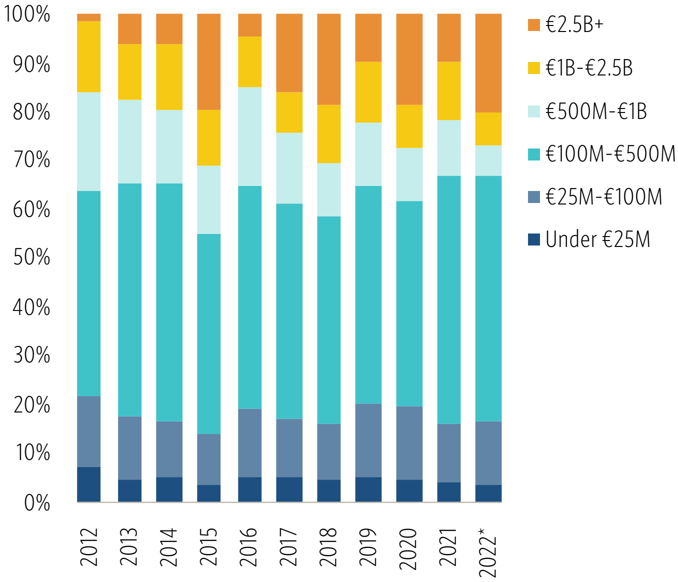
Source: PitchBook | **Geography:** Europe
*As of September 30, 2022

have struggled to complete deals within the sector, including Cineworld, which has gone into bankruptcy, Ted Baker, and Paperchase.

Although carveouts have drastically slowed in terms of deal count this year by 38.4% YoY, deal value continues to be resilient, coming in at €60.3 billion YTD. As interest rates increase and consumer spending falls, companies will seek to strengthen their balance sheets by offloading noncore or nonperforming assets. GPs will be interested in such assets due to the complexity premium often attached with divestitures, and sellers will prefer PE acquirers as opposed to strategics due in part to less regulatory scrutiny. Q3's largest deal was a divestiture that saw Unilever sell its tea business, Ekaterra, for €4.5 billion to CVC Capital Partners. As Unilever is chasing higher organic growth, it decided to dispose of the company behind Lipton, Pukka Herbs, and PG Tips as this product category was maturing in terms of growth. Companies might also seek to divest to raise extra cash on the balance sheet while still retaining control. This is the case of the Porsche initial public offering (IPO), Europe's largest IPO since Glencore listed in 2011. Volkswagen divested of a 25% stake in Porsche at the end of Q3, raising over €9 billion from investors while still retaining a 75% stake. Though not a PE transaction, this is emblematic of trends that are likely to take place in PE portfolios.

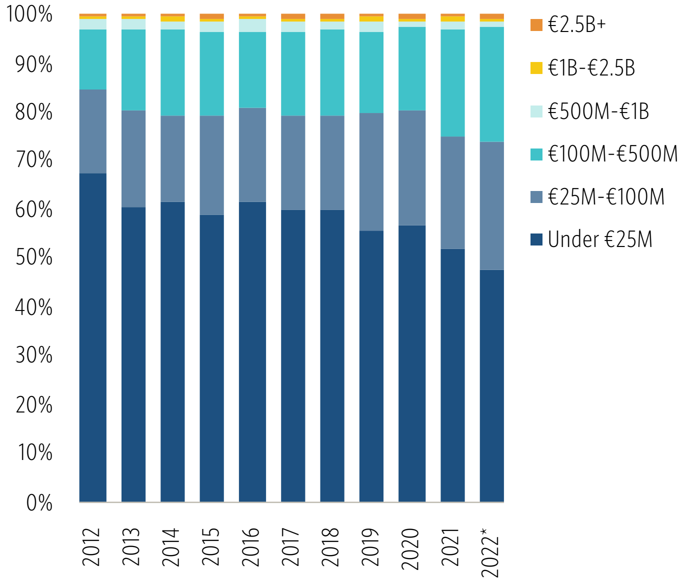
Deals by size and region

Share of PE deal value by size bucket



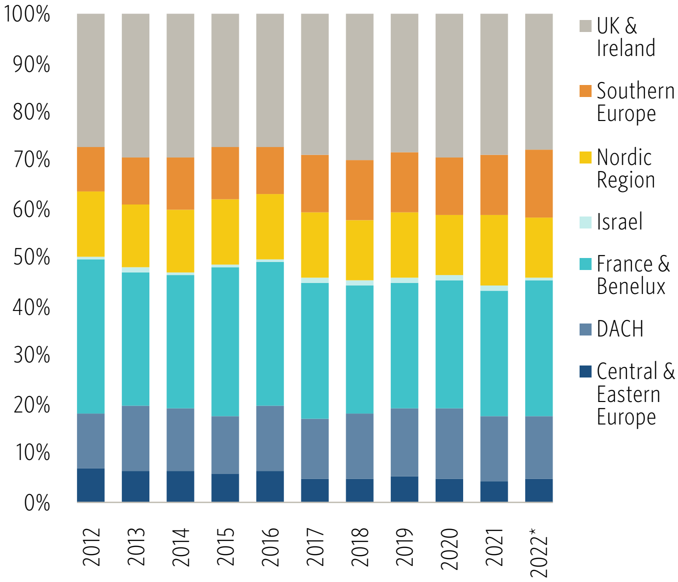
Source: PitchBook | **Geography:** Europe
*As of September 30, 2022

Share of PE deal count by size bucket



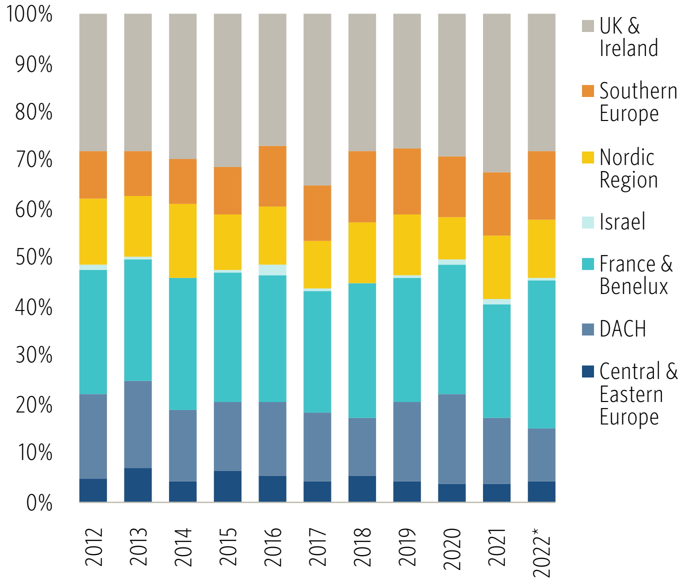
Source: PitchBook | **Geography:** Europe
*As of September 30, 2022

Share of PE deal count by region



Source: PitchBook | **Geography:** Europe
*As of September 30, 2022

Share of PE deal value by region



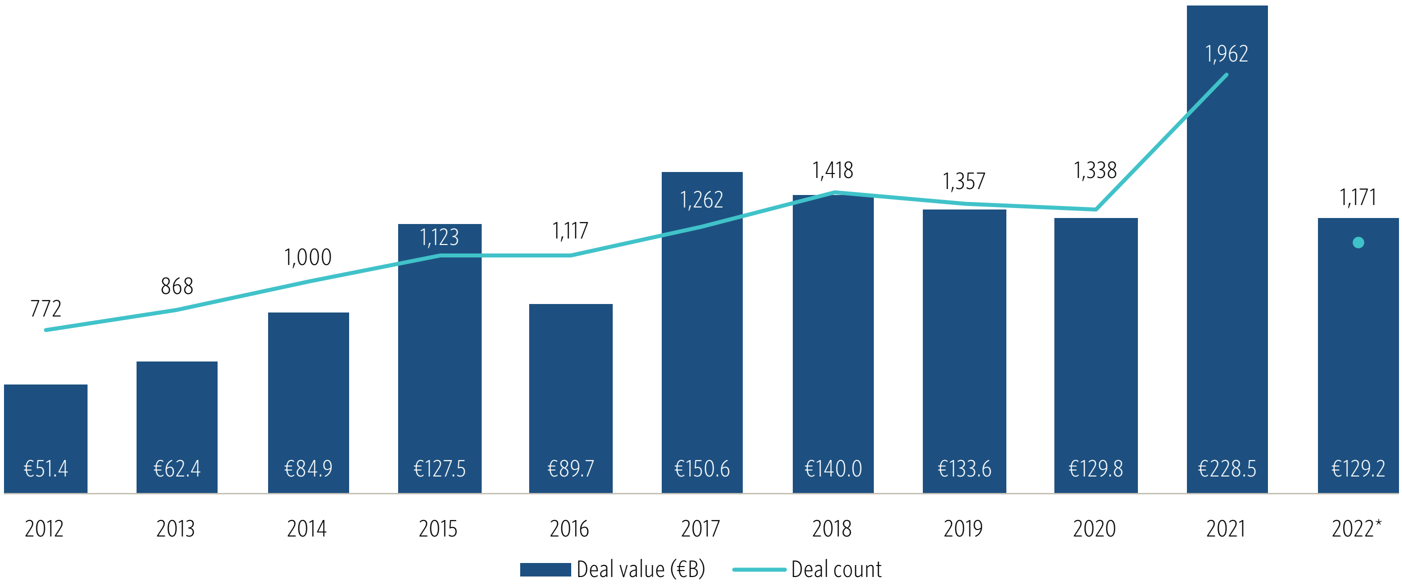
Source: PitchBook | **Geography:** Europe
*As of September 30, 2022

Dealmaking activity in the France & Benelux region performed strongly and remains resilient despite the downturn. The UK & Ireland has often been the number one region for PE dealmaking within Europe, but with Q3 data, France & Benelux has now overtaken it, accounting for 30.4% of 2022 deals YTD versus 27.7% for the UK & Ireland.

The rise in deals in the France & Benelux region could be explained by GPs avoiding UK investments due to currency and political volatility. Having said this, given the recent drop of GBP versus USD, we expect US-based PE firms to scoop up cheaper British companies given that the GBP has fallen 20% versus the USD YTD as of September 27, 2022.

Spotlight: UK & Ireland

UK & Ireland PE deal activity



Source: PitchBook | **Geography:** UK & Ireland
*As of September 30, 2022

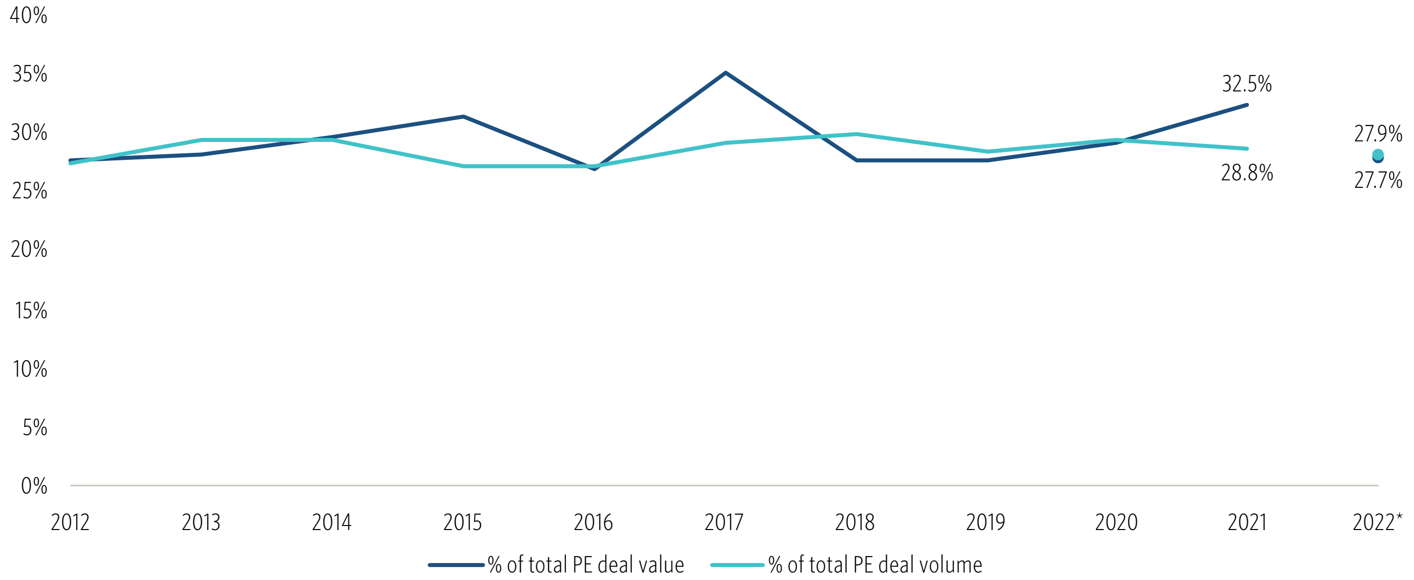
This spotlight is abridged from our 2022 UK & Ireland Private Capital Breakdown. Please see the full report for the full analysis.

The UK & Ireland—particularly the UK—has been one of the largest European PE deal value generators of the past decade. The development of large-scale portfolio companies and PE sponsors with considerable assets under management (AUM) is a major part of the financial industry in the UK, alongside traditional investment banking, management consulting, and accounting services.

As witnessed globally, outsized deals have skewed UK & Ireland deal activity. Despite a softening in activity through Q3 2022, substantial deals continued to close. For example, Permira's take-private of London-based cloud cybersecurity provider Mimecast was one of the largest deals in the first half of the year. Mimecast was delisted after debuting on the tech-heavy Nasdaq in 2015. Tech stocks have enjoyed a bull run for several years, characterised by an insatiable appetite from investors, strong growth metrics, and an increasing reliance on technology in everyday life. Furthermore, UK- and Europe-based tech companies have often listed on established US exchanges to increase their exposure to new markets and leverage wider investor bases.

2022 has seen numerous public tech companies struggle below their high multiples of the past two years. Take-privates could become increasingly popular in upcoming quarters as PE firms with high levels of dry powder target undervalued high-growth companies in the current market. Lofty valuations tied to soaring revenue multiples have fallen, as investors have turned to value instead of growth in recent months. US-based tech companies are scattered among the largest company market capitalisations in the world, and UK-based counterparts have constantly looked to bridge the gap. Instead of risking an IPO to promote growth or struggling with a lowly share price, companies may look to PE firms for take-privates to focus on long-term growth efforts and avoid the noise, financial reporting, and scrutiny facing public companies.

UK & Ireland PE deal activity as a share of all Europe PE deal activity



Source: PitchBook | **Geography:** UK & Ireland
*As of September 30, 2022

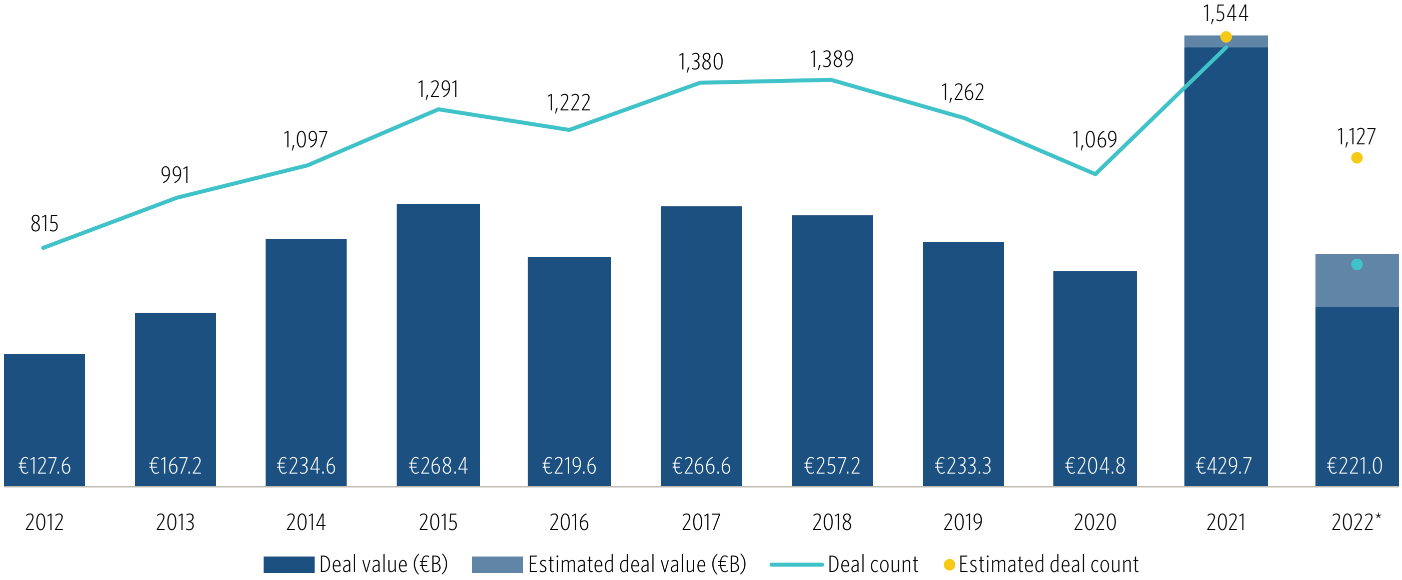
In H1 2022, UK & Ireland PE exit value kept pace with 2021's record-breaking total. Exit markets often reflect near-term challenges facing companies and economies first; however, PE exits remained surprisingly resilient in through Q3 2022. Major exits tend to skew exit value, and a selection of high-profile exits closed through Q3 2022. Further, as public listings have declined in popularity, buyouts and corporate acquisitions have continued to take place at a rapid clip despite market uncertainty. Exit agreements in place prior to financial market volatility in H1 2022, as well as elevated dry powder levels, drove exit activity in the first half of the year.

The pace of PE fundraising in the UK & Ireland was slightly down on figures registered in the past three years. During the past decade, fundraising totals have oscillated, indicative of figures that are dictated by mega-funds closing in the region. Naturally, factors including tentative financial markets, rising interest rates, political instability, and inflationary pressure are likely to adversely impact multibillion-euro fundraising efforts. In contrast, established PE fund managers with strong track records and vast networks, combined with deep-pocketed limited partners (LPs) seeking returns, can help commitments flow into funds based in the region.

![PitchBook]

Exits

PE exit activity

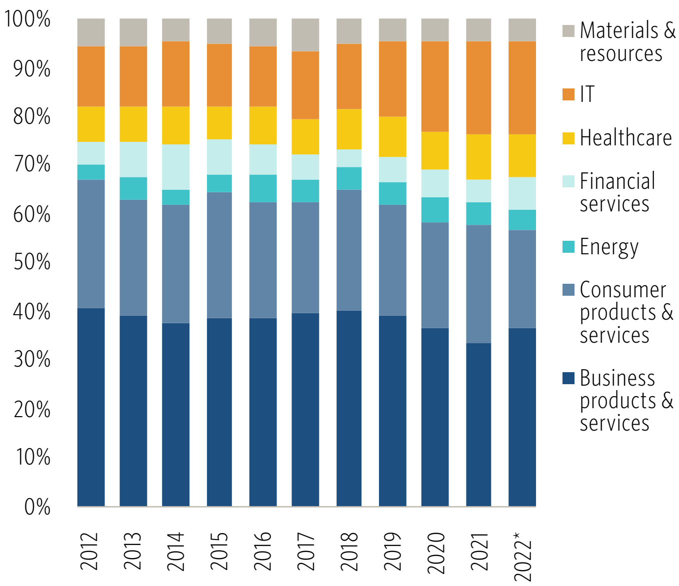


Source: PitchBook | **Geography:** Europe
*As of September 30, 2022

European PE exit value reached €221.0 billion through Q3 2022, sustaining declines from elevated figures logged in 2021. If the current pace continues, exit value is expected to land just shy of €300.0 billion at the year's conclusion, down from €429.7 billion in 2021. Despite the challenging exit environment, volatile public equity markets, and gloomy macroeconomic outlooks, exit value could register the second-largest figure from the past decade at the end of 2022. As bear markets have proliferated across Europe, exits have become less appealing for investors and management teams. Lower valuation multiples tied to major public stocks have naturally raised questions about the accuracy of lofty valuations linked to privately backed companies. Furthermore, an assortment of factors including geopolitical tension, weak economic growth, spiralling inflation, and interest rate hikes have impacted exit appetite.

Exit value has steadily declined QoQ as we have progressed through 2022, with €48.0 billion logged in Q3. The decline in exit activity has coincided with worsening wider financial market sentiment, as fears of market-correcting recessions have surfaced. Despite the looming economic downturn, exit activity has been in line with pre-2021 figures. One of the largest exits in Q3 2022 was the €2.7 billion buyout of Reden Solar by Macquarie Asset Management, British Columbia Investment Management, and MEAG from InfraVia Capital Partners and Eurazeo.

Share of PE exit count by sector



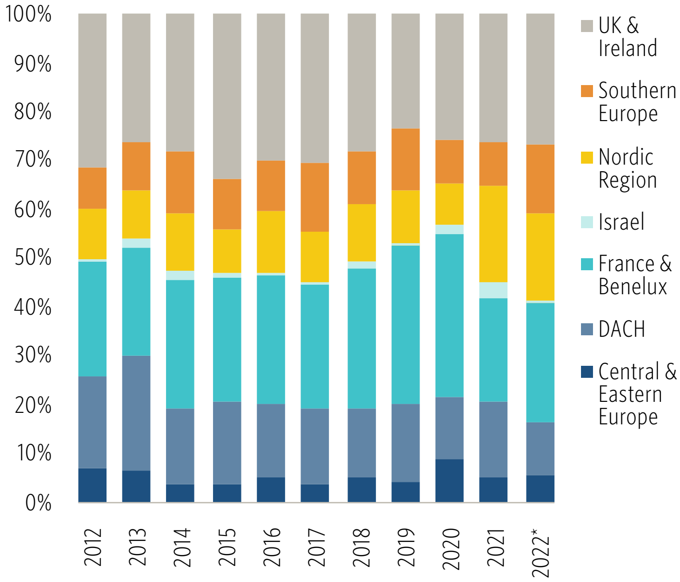
Source: PitchBook | **Geography:** Europe
*As of September 30, 2022

We expect activity in the renewable energy space to remain strong in upcoming quarters. The energy sector has been resurgent in 2022, as international conglomerates have recorded strong profits and robust share prices. The war in Ukraine has forced the cost of energy to rise drastically across Europe given its reliance on Russian oil and gas with the costs passed directly onto consumers. Existing volatility facing finite energy markets has rejuvenated focus on renewable energy providers to negate near-term shocks, prevent future supply issues, and deliver long-term transition targets for nations. European countries and companies are working towards a greener future and recent events could increase demand for renewable energy as well as accelerate efforts to prevent future energy crises.

Unsurprisingly, through Q3 2022, the bulk of exit value was generated in core PE regions. The UK & Ireland and the France & Benelux regions accounted for 51.1% of exit value, producing €45.9 billion and €41.5 billion, respectively. One notable exit in the UK & Ireland was the €1.4 billion acquisition of Siccar Point Energy by Ithaca Energy. Although Siccar Point Energy focuses on the production of oil and gas, while Reden Solar focuses on solar, both exits demonstrate the increased attention on and activity in the broader energy industry in 2022. Energy resources, infrastructure, and energy-focused companies will be exit targets in coming months as PE firms and corporates recalibrate portfolios.

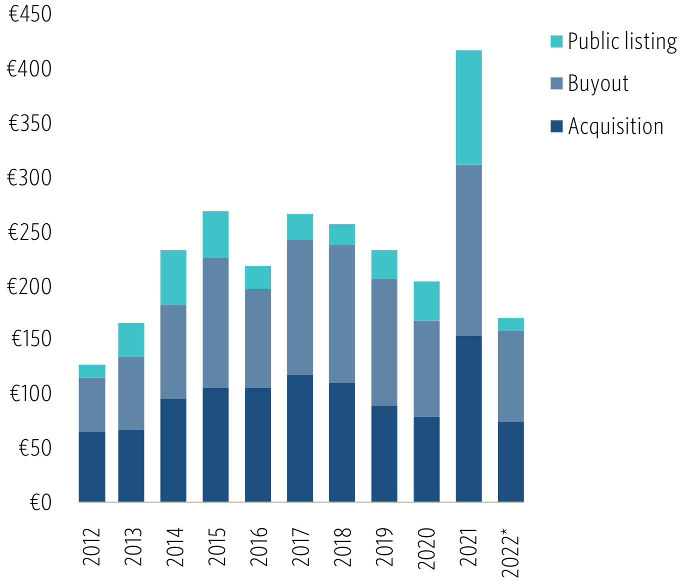
Exit value via public listings reached €11.3 billion through Q3 2022, on pace to record its lowest annual total since 2012. Public listings have dried up as a combination of choppy market conditions, weaker macroeconomic indicators, and tighter monetary policy have soured desire from PE-backed companies to risk a floatation. 2022 has seen a shift away from the glut in public listing activity in 2021, which saw a record €104.4 billion exited. We believe public listings will remain quiet for the remainder of 2022, as PE-backed companies seek alternative exit routes. In Q3 2022, no PE-backed public listings were among the 20 largest exits. Most exit activity is expected to take place via buyouts or acquisitions in the near term. However, as we have witnessed recently with rapidly evolving market dynamics throughout 2021, markets can shift quickly. Mature PE-backed companies have the resources to hastily accelerate towards an exit to take advantage of market conditions and maximise returns to investors.

Share of PE exit value by region



Source: PitchBook | **Geography:** Europe
*As of September 30, 2022

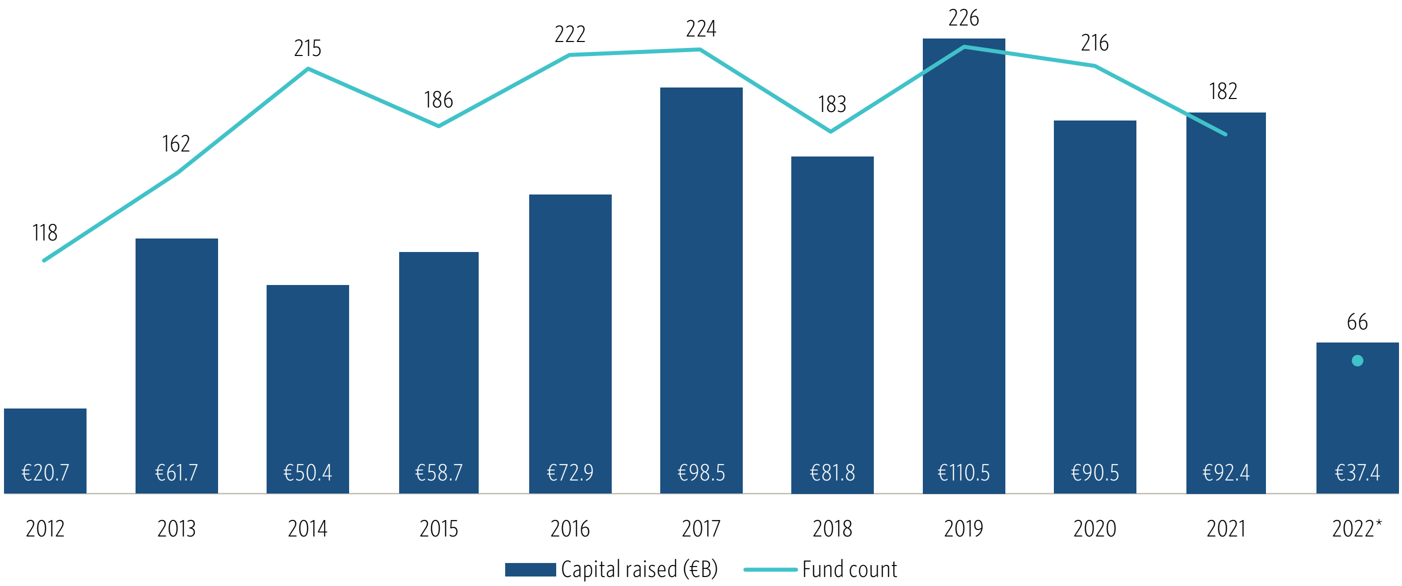
PE exit value (€B) by type



Source: PitchBook | **Geography:** Europe
*As of September 30, 2022

Fundraising

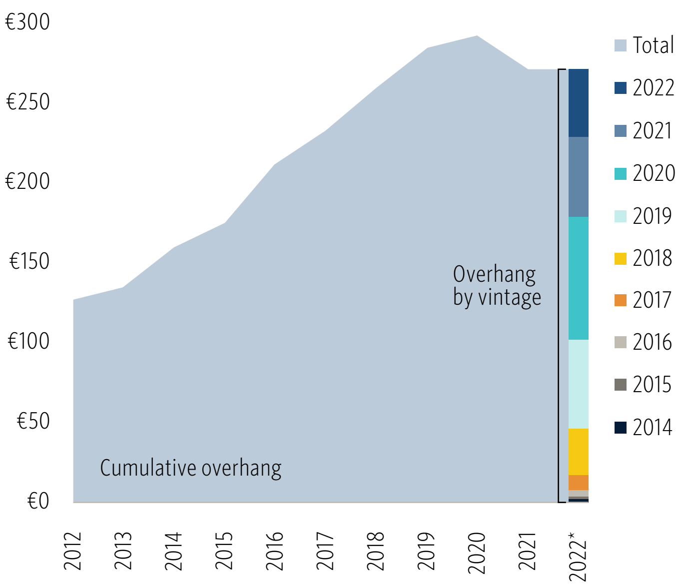
PE fundraising activity



Source: PitchBook | **Geography:** Europe
*As of September 30, 2022

Fundraising in Europe is on track for its lowest total in 10 years, raising a mere €37.4 billion across 66 vehicles YTD as capital is becoming more expensive in a hawkish interest rate environment. Another explanation is that distributions have fallen due to less favourable exit conditions and therefore fundraising will be weaker as less proceeds are available to be reinvested. LPs are adopting a wait-and-see approach before committing new capital to new, less-established GPs given the nervousness of private markets deriving from the fall in public markets. Only one out of the 15 largest funds this year is a first-timer: Nextalia, in Italy. In Q3, we saw experienced PE fund houses create new funds such as Cinven, Synova, and even EQT. Seemingly, they felt less squeezed due to their previous experience in downturns and thus were oversubscribed: EQT closed at €2.4 billion, surpassing their target of €2 billion, and Synova Capital's fifth fund closed at the hard cap of €1 billion, surpassing their target of €859.8 million.

Private equity dry powder (€B) by vintage year



Source: PitchBook | **Geography:** Europe
*As of September 30, 2022

15 Largest PE funds closed in 2022

Investor	Fund	Fund type	Close date (2022)	Fund value (€M)	Country
BC Partners	BC European Capital XI	Buyout	January 31	€6,900.0	UK
Inflexion Private Equity Partners	Inflexion Buyout Fund VI	Buyout	March 1	€2,984.5	UK
EQT	EQT Growth Fund	PE growth/expansion	September 12	€2,400.0	Sweden
Summa Equity	Summa Equity Fund III	PE growth/expansion	January 20	€2,300.0	Sweden
Generation Investment Management	Generation IM Sustainable Solutions Fund IV	PE growth/expansion	May 18	€1,605.7	UK
Cinven	Cinven Strategic Financials Fund	Buyout	July 11	€1,500.0	UK
Astorg (Paris)	Astorg Midcap	Buyout	February 22	€1,263.0	France
Astorg (Paris)	Astorg IQ-EQ Fund	Buyout	January 13	€1,235.0	France
Synova Capital	Synova Capital V	Buyout	July 26	€1,024.8	UK
Pollen Street Capital	PSC IV	Buyout	February 17	€1,174.0	UK
Ufenau Capital Partners	Ufenau VII	Buyout	March 31	€1,000.0	Switzerland
Nextalia	Nextalia Private Equity Fund	Buyout	June 30	€800.0	Italy
Ergon Capital Partners	Ergon Capital Partners V	Buyout	May 12	€800.0	Luxembourg
Polaris Private Equity	Polaris Private Equity V	Buyout	January 1	€690.0	Denmark
GRO Capital	GRO Fund III	Buyout	March 16	€600.0	Denmark

Source: PitchBook | **Geography:** Europe
*As of September 30, 2022

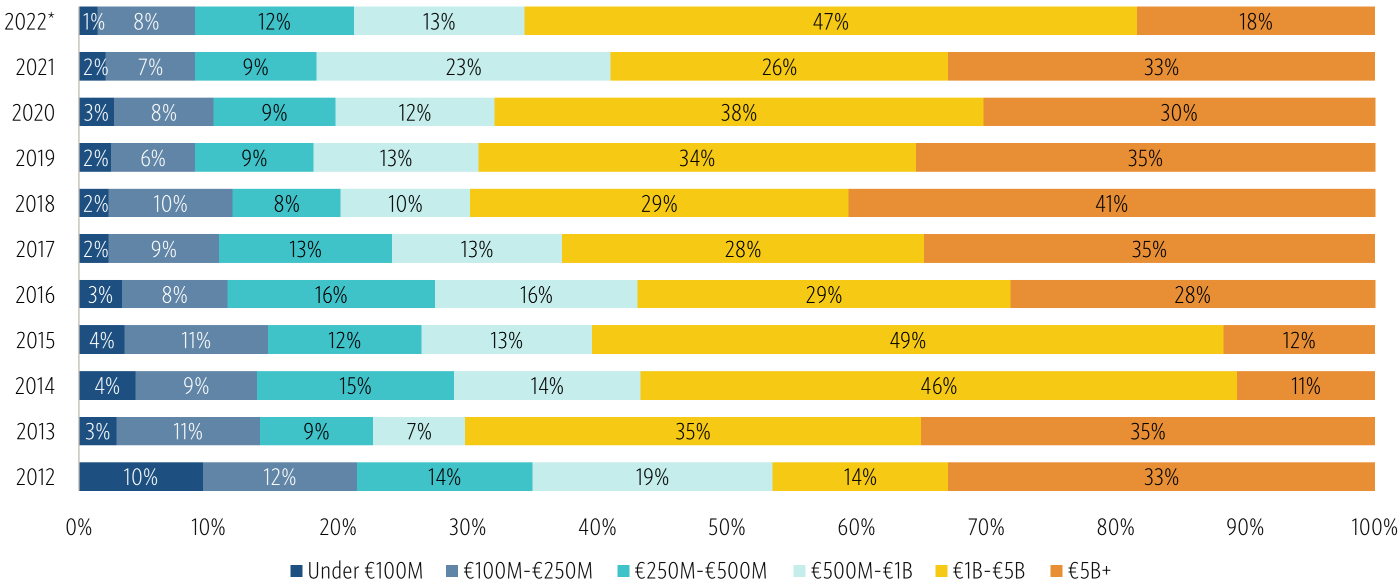
Q3 saw fundraising become more sector-specific as LPs are becoming pickier, evidenced by some of the largest funds closed. Cinven's latest fund raised €1.5 billion and will specialise in financial services like insurance, reinsurance, and asset and wealth management services where it plans to target investments between €150 million and €400 million on average, according to Caspar Berendsen, a partner at Cinven who leads the financial services team.[7] Similarly, three funds raised a combined €414 million within energy in Q3 as the sector has proven resilient in 2022 thanks to, in part, a commodities boom deriving from the war in Ukraine, but also companies being able to pass inflationary, higher costs onto customers.

Fundraising at the €1 billion to €5 billion level stands out this year, YTD, accounting for almost half of all the fundraising in 2022 in terms of European PE capital raised. This is directly tied to the nervousness LPs are exhibiting in this downturn economic cycle as they are unwilling to commit too much capital and create mega-funds which will struggle to deploy capital. At the same time, they are unwilling to swim in new waters with unexperienced first-time managers which are often in the lower brackets of fundraising. Coming back to Cinven, it is a good example as it raised €1.5 billion, but it reportedly took longer than expected according to sources familiar with the matter.[8]

PE growth/expansion funds have been very popular in 2022, representing 29% of capital raised in European PE funds. This fund strategy is at the cross section between PE and venture capital (VC) as it targets growth companies that are well-established but still young, fast-growing, and seeking minority stakes. These tend to have higher returns than more mature PE targets, and are less risky than the less-established companies targeted by VCs. Investors have turned to PE growth/expansion funds as

7: "Cinven Raises $1.5 Billion for Dedicated Financial-Services Fund," *Bloomberg*, Jan-Henrik Foerster, July 11, 2022.
8: Ibid.

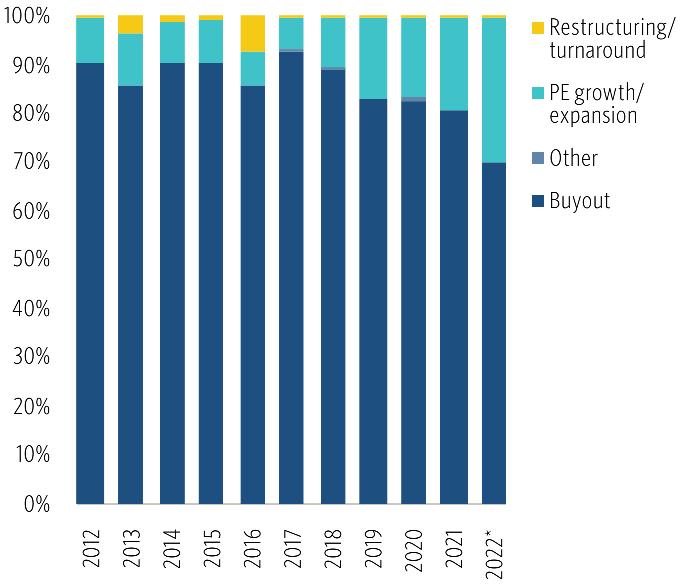
Share of PE capital raised by size bucket



Source: PitchBook | **Geography:** Europe
*As of September 30, 2022

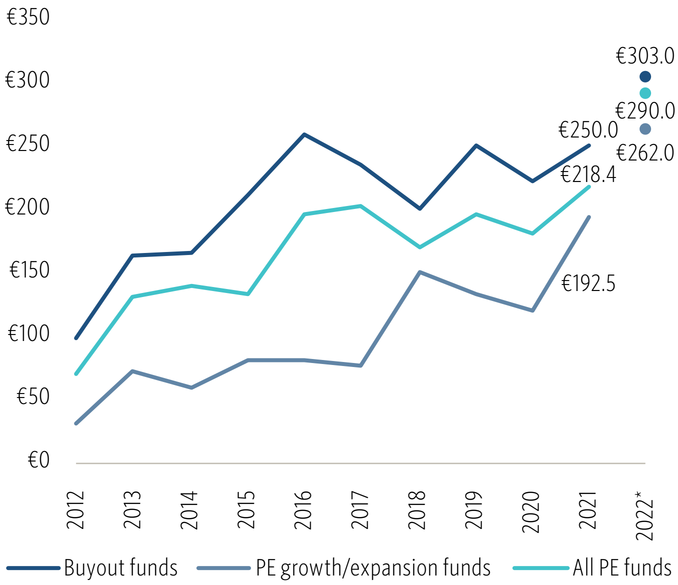
dry powder has amassed and LPs are able to write larger cheques than in VC, as the targeted companies are larger and more established. This year's third largest fundraising saw Sweden-based EQT raise €2.4 billion for their EQT Growth Fund making it the largest fund in Europe running a growth/expansion strategy. The strategy seeks to invest €50 million to €200 million per company within four tech sub-sectors: enterprise, con/prosumer, health, and climate. Our quantitative team has calculated a 15.8% internal rate of return (IRR) over the past 15 years for the growth/expansionary strategy as stated in our Global PitchBook Benchmarks report published on October 14. We expect the strategy to continue growing during the impending downturn.

Share of PE capital raised by type



Source: PitchBook | **Geography:** Europe
*As of September 30, 2022

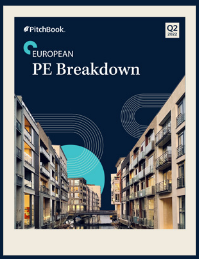
Median PE capital raised by type



Source: PitchBook | **Geography:** Europe
*As of September 30, 2022

Additional research

Private equity, private capital, and M&A

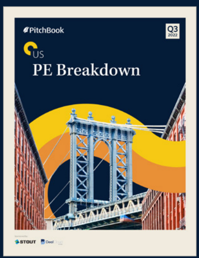


Q2 2022 European PE Breakdown

Download the report here.

2022 UK & Ireland Private Capital Breakdown

Download the report here.



Q3 2022 US PE Breakdown

Download the report here.

Q2 2022 Global M&A Report

Download the report here.

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