PitchBook

2023
ANNUAL

EUROPEAN
PE Breakdown

Contents

Methodology change disclosure

PitchBook continuously examines how we can provide the best estimates on aggregate deal value, which is comprised of deals with both known and unknown values (nondisclosed deals). As part of that process, we attempt to ascribe value to nondisclosed deals using a variety of known datapoints pertaining to a transaction. Our model for nondisclosed deals has demonstrated a high correlation when back tested on fully disclosed deals, where we compare predicted deal values with actual values. We have been able to further improve that correlation by incorporating expanded datasets that PitchBook has collected over the years on private companies, including employee count. This revised calculation methodology will go into effect with this report and be applied to aggregate deal values in previous years. Since aggregate deal values have been driven primarily by actual values on fully disclosed deals and, to a lesser extent, imputed values on nondisclosed deals, previously reported directional trends and rates of decrease/increase remain largely unaffected by this change.

Additionally, we have enhanced our methodology for recording normalized EBITDA values for deal multiple purposes, as further described in the addendum. Please note that these methodology changes apply only to PE deals and M&A deals and not to venture-related deals.

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Click here for PitchBook's report methodologies.

Introduction

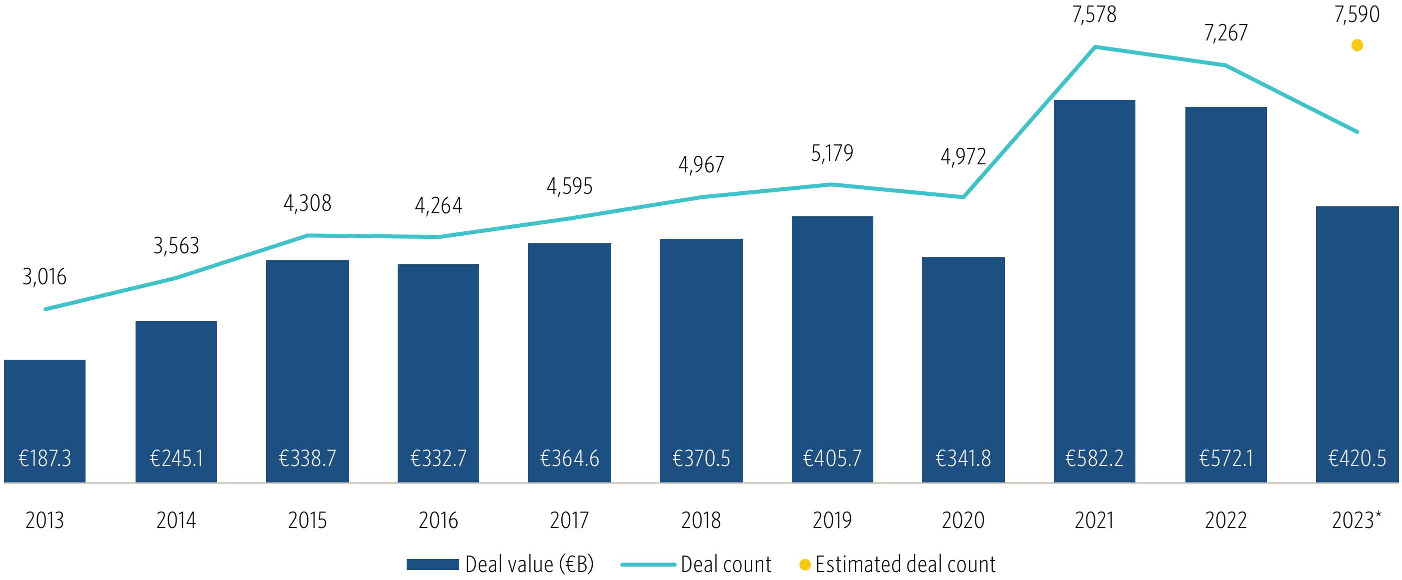
The best word to summarise the trends of 2023 in European PE would have to be resilience. Deal value in 2023 was down 26.5% YoY, but deal count increased 4.4% YoY. In fact, deal value was still 10% to 20% higher than pre-2021 levels, exemplifying the resilience of PE as an asset class despite macroeconomic headwinds. The deposit facility rate from the European Central Bank (ECB) doubled over the course of 2023, which increased the cost of debt for sponsors, often forcing them to take on less leverage. This resulted in smaller deals, often in the form of add-ons, which accounted for 54.7% of deal count, the highest figure in recent years. Megadeal activity was at its lowest since 2014 as the €500 million to €1 billion bracket displayed sturdiness YoY. Major themes in 2023 included a record number of take-privates in Europe, totalling 51, up from 41 in 2022; as well as a consolidation in financial services.

2023 saw a price dislocation in the market, creating a drought in exits as conditions moved from a seller's market to a buyer's market while valuations continued to correct. When exits did materialise, they were often mega-exits, which highly skewed the data picture. 2023 saw €263.6 billion in exit value, roughly flat YoY. However, excluding mega-exits, exit value was 24.5% lower YoY. As the IPO market remained muted for a second year, we saw many sponsors engage in sponsor-to-sponsor buyouts with roughly a quarter of exit value accounted for by this exit type.

2023 was nearly a record year for PE fundraising in Europe in terms of capital raised. This is perhaps the most resilient and surprising data point of the year as macroeconomic headwinds made it mostly tougher for sponsors to raise capital this year. We saw almost €120 billion in new capital raised across 117 funds, which is the lowest number of new funds in over a decade. Looking deeper, we note 54.0% of capital raised in 2023 can be attributed to only five funds, which are all at least the sixth fund in their respective fund families. The concentration of capital raised within megafunds hit an all-time high in 2023 as investors focused on experienced managers from established fund houses with proven track records.

Deals

PE deal activity

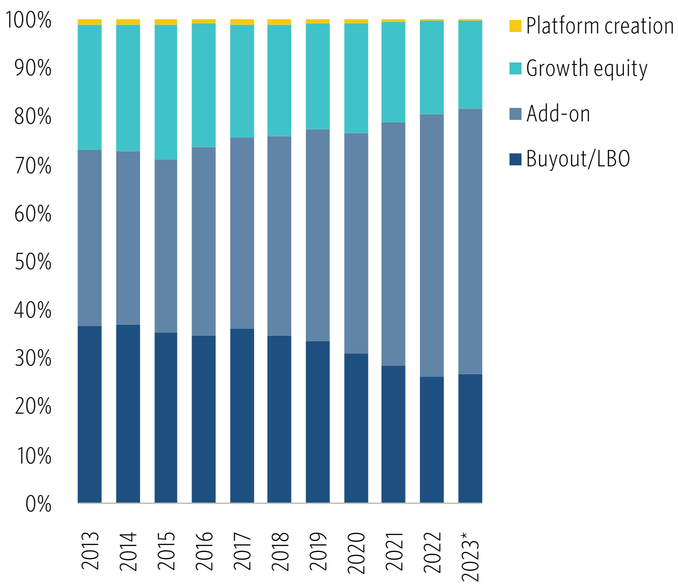


Source: PitchBook • Geography: Europe • *As of December 31, 2023

Dealmaking resilience

2023 will be remembered as a volatile year in financial services. From geopolitical conflicts to rising interest rates, the year was destined for a bleak dealmaking environment. And yet, dealmaking was surprisingly resilient in 2023 despite the higher borrowing costs and the fall in leverage used across deals. Deal value in 2023 was down 26.5% YoY, but deal count increased 4.4% YoY. In fact, deal value was still 10% to 20% higher than pre-2021 levels, which shows the overall resilience of PE as an asset class through its continued growth regardless of the macroeconomic headwinds. Having said this, macroeconomic variables have played an important role in underlying deals. The deposit facility rate from the ECB doubled over the course of 2023, which increased the cost of debt for sponsors, often forcing them to take on less leverage. In turn, this resulted in smaller deals, often in the form of add-ons, which allowed sponsors to execute buy-and-build strategies and unlock inorganic growth.

Share of PE deal count by type



Source: PitchBook • Geography: Europe • *As of December 31, 2023

Proportionally speaking, 54.7% of deals were add-ons, the highest figure in recent years. This is a result of substantial dry powder amassing since 2020 and the need to deploy it in a financial environment that was less than ideal due to falling markets and tightening monetary policy. Megadeal activity was at its lowest since 2014 as an uncertain environment combined with rising borrowing costs made debt-loaded megadeals harder to execute. Instead, we saw the highest growth in the €500 million to €1 billion bracket, which was up 12.1% YoY in terms of deal value and the only size bracket to exhibit growth in 2023.

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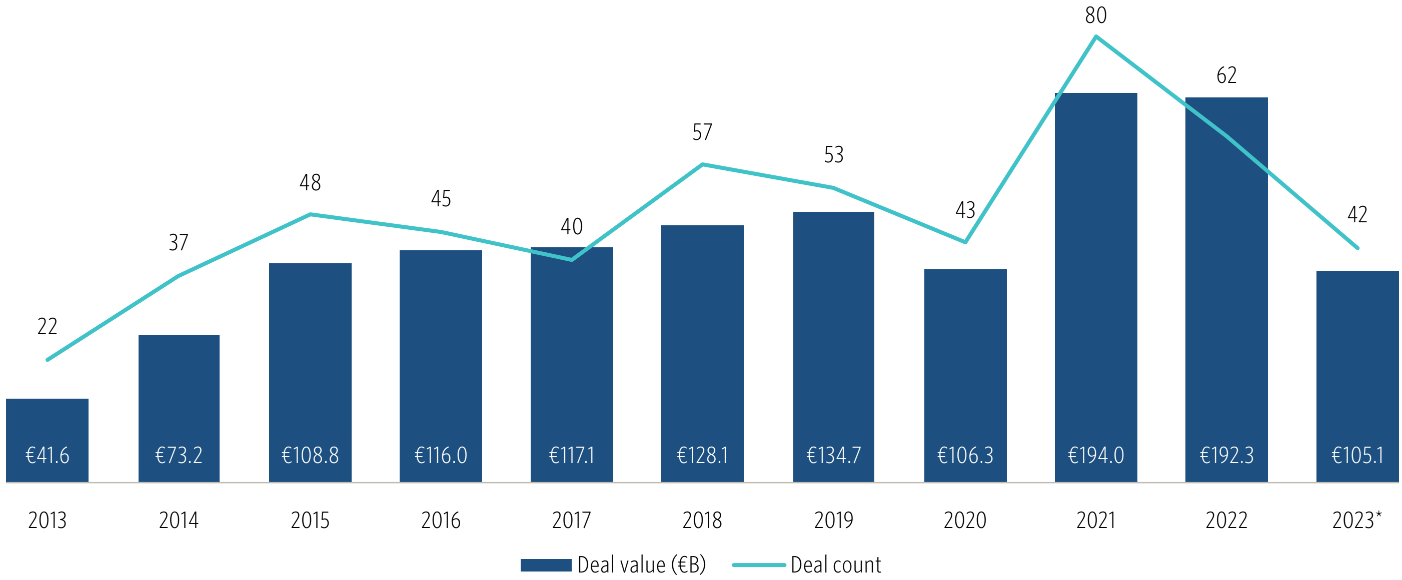
PE megadeal activity

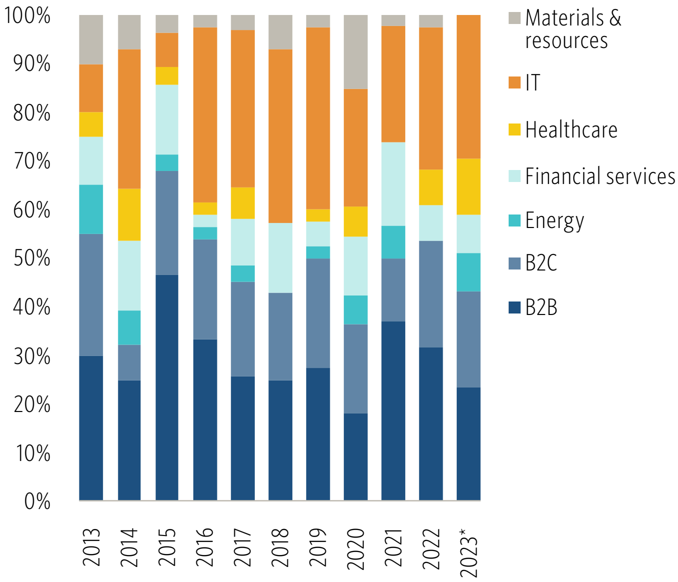


Source: PitchBook • Geography: Europe • *As of December 31, 2023

PE take-private deal activity

Source: PitchBook • Geography: Europe • *As of December 31, 2023

Share of PE take-private deal count by sector



Source: PitchBook • Geography: Europe • *As of December 31, 2023

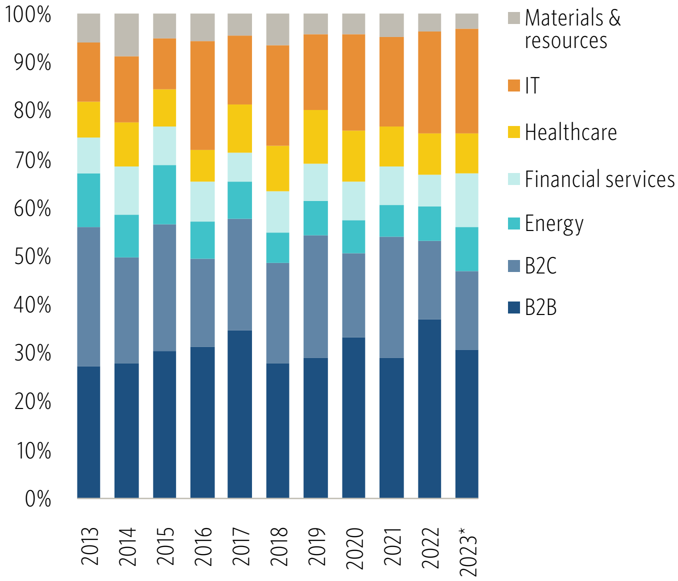
Opportunistic take-privates

All else being equal, an increase in interest rates translates into lower valuations as the discount factor increases. This led to many corrections in valuations, more so for publicly listed companies than for private ones; and more so for asset-light businesses like software. As a result, we saw companies whose share price had fallen in 2022 get taken private. For example, Software AG and Kahoot! were both taken private by Silver Lake and General Atlantic, respectively, after their share prices had dropped 31.0% and 58.3%, respectively, in 2022. The largest take-private in Europe came in Q2 when Swedish PE giant, EQT, took Dechra Pharmaceuticals private for €5.1 billion in the fourth-largest deal of the year. 2023 was a record year in terms of the number of take-privates in Europe, totalling 51, up from 41 in 2022. IT was the sector with the most take-privates, counting 15, up from 12 in 2022.

Consolidation in financial services

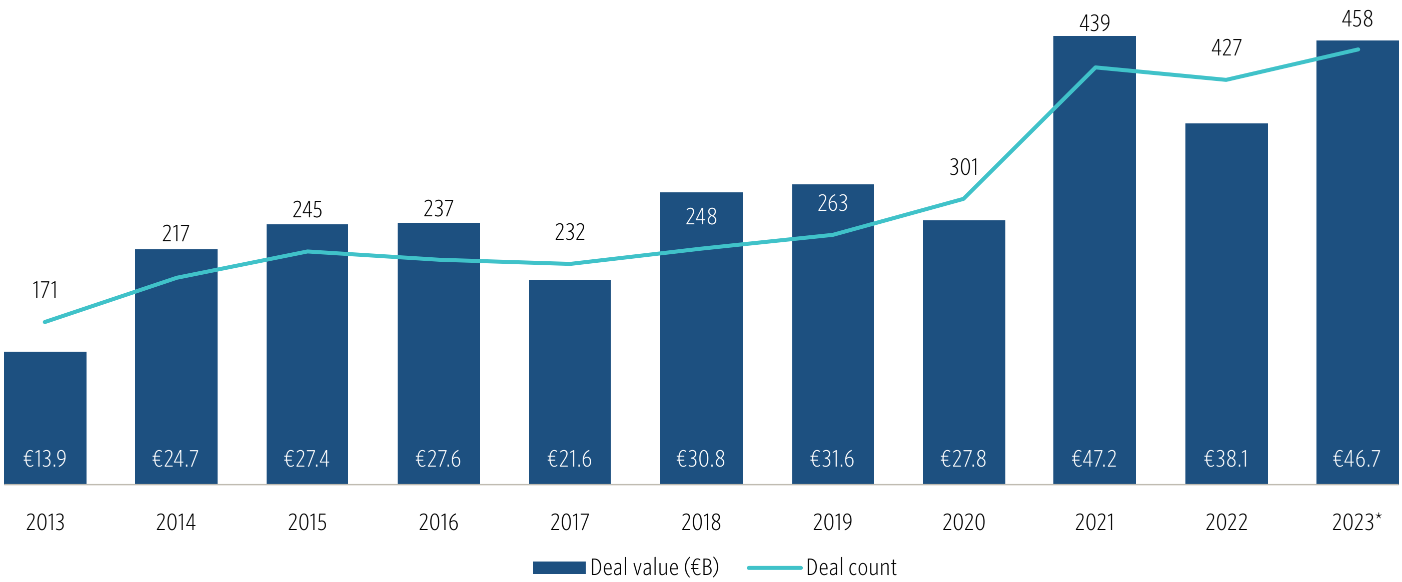
Financial services is the only sector in Europe that grew in 2023 in terms of deal value, with a 22.7% YoY growth. The year started off with a quasi-meltdown in the banking sector when Silicon Valley Bank collapsed but was eventually bought out by First Citizens Bank in the US and HSBC in the UK. This was followed shortly thereafter by the collapse of Credit Suisse, which was bought by its archrival, UBS. Consolidation within financial services has been a theme throughout 2023 as monetary tightening in a downward market often leads to such consolidation in this sector. Within asset management, we saw a number of buyouts in 2023 with Degroof Petercam, CRUX Asset Management, Gresham House, and IO Asset Management all getting acquired. We expect this trend to continue into 2024 as asset managers and banks strive to increase their assets under management through M&A whilst having to decrease fees every year. Similarly, PE houses are deploying dry powder in financial services in order to diversify and expand into new categories and geographies.

Share of PE deal value by sector



Source: PitchBook • Geography: Europe • *As of December 31, 2023

Financial services deal activity



Source: PitchBook • Geography: Europe • *As of December 31, 2023

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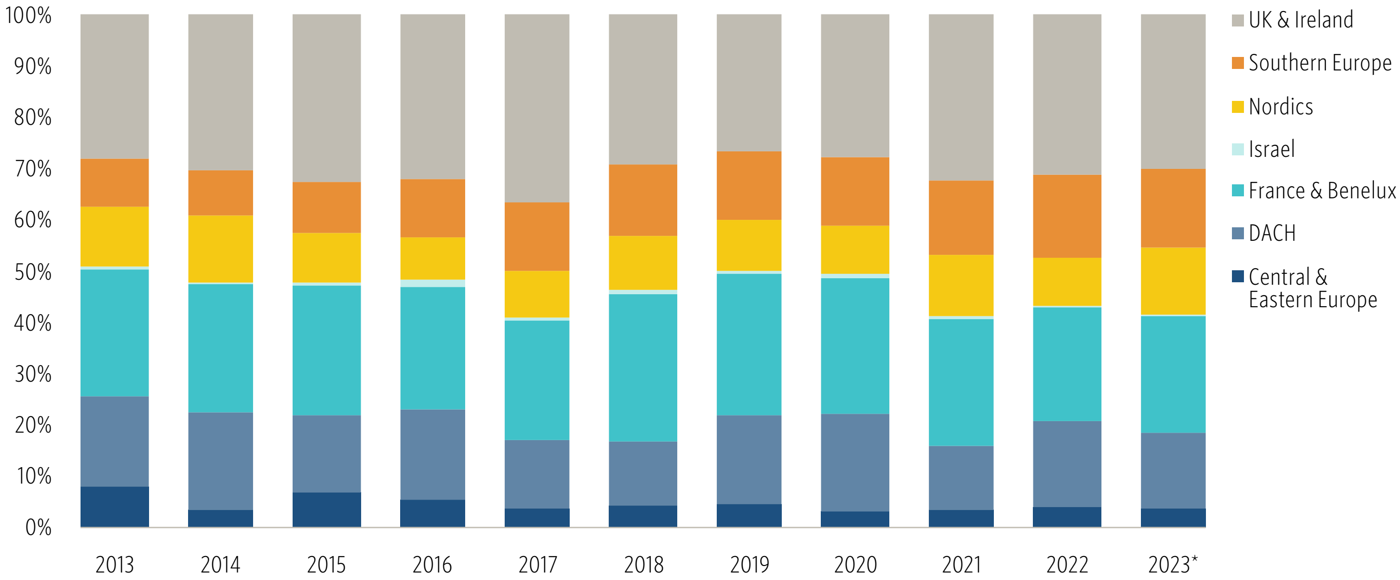
Share of PE deal value by region



Source: PitchBook • Geography: Europe • *As of December 31, 2023

Regional breakdown

The UK & Ireland continued to dominate dealmaking in Europe in 2023, accounting for 30.1% of deal value, followed by France & Benelux with 22.7% of deal value. All regions saw deal value decrease YoY, but we note the Nordics and France & Benelux showed somewhat higher resilience than the rest of the regions with declines just in the teens. The UK continues to be the heart of dealmaking in Europe by a substantial margin, as explained in our [2023 France Private Capital Breakdown], even in a post-Brexit environment.

2024

Looking ahead, we expect deal value to pick up from 2023 levels as monetary tightening becomes a tailwind and GPs continue deploying the record levels of dry powder the industry has amassed in recent years. PE as an asset class continues to draw more interest from various new stakeholders who are moving away from traditional portfolios containing only stocks and bonds to more innovative portfolios with more asset classes per the modern portfolio theory. We are also seeing existing investors increase their PE allocation, preferring the smooth returns offered by PE instead of the relatively higher volatility associated with public markets. As such, we expect at least double-digit YoY growth in PE deal activity with more megadeals than in 2023.

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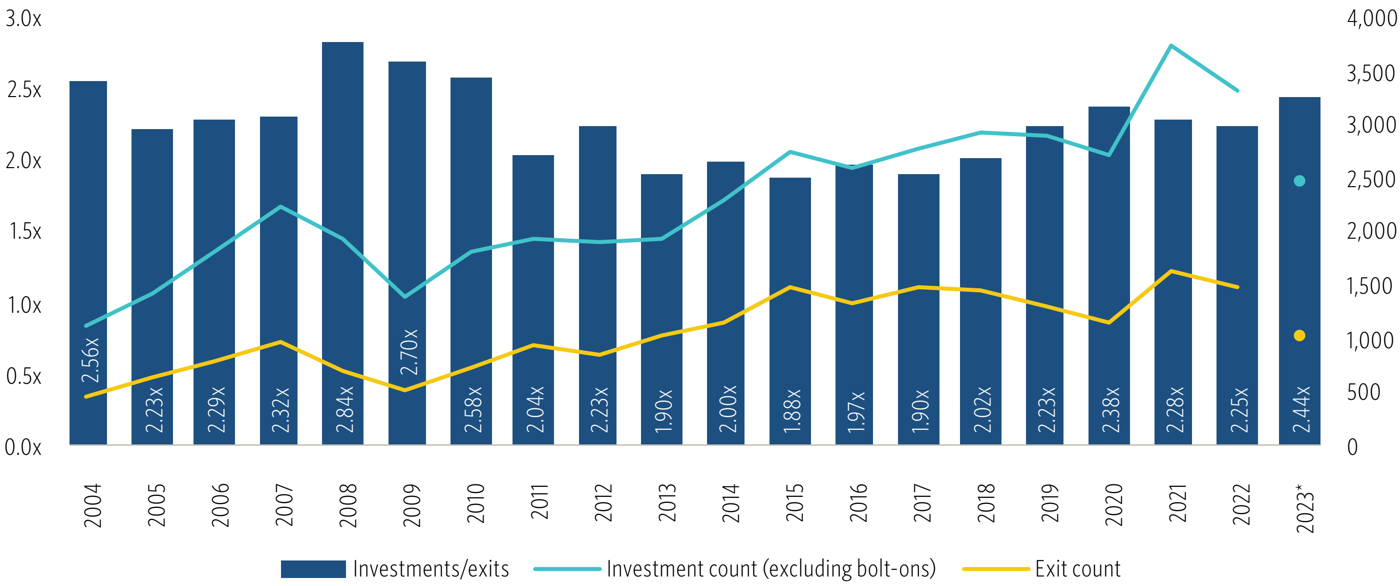
SPOTLIGHT

2024 European Private Capital Outlook

PE investments/exits ratio



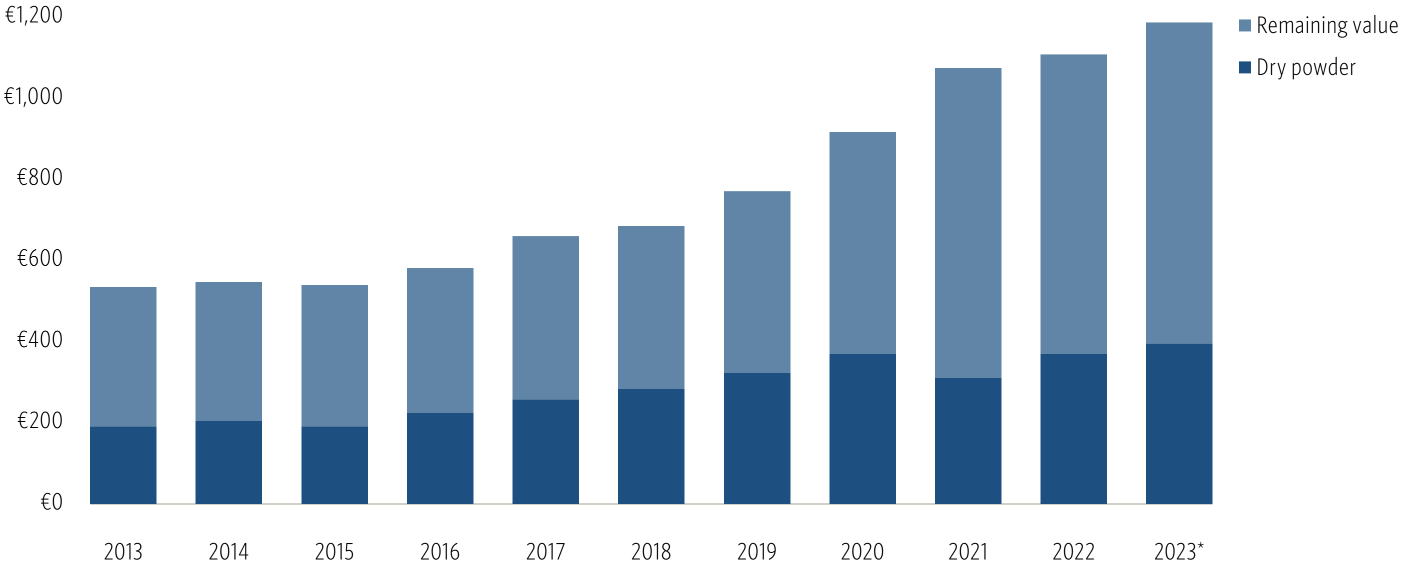
Source: PitchBook • Geography: Europe • *As of November 30, 2023

This spotlight is abridged from our 2024 European Private Capital Outlook published December 20, 2023. In the report we offer three PE outlooks, two VC outlooks, and one private capital outlook covering a range of topics. The section below draws from the deals and exit sections, which are heavily interlinked as explained in the full report.

Outlook: The European PE investments/exits ratio will reach a 15-year high due to a muted exit market stemming from price dislocation.

Rationale: As of November 30, 2023, the PE investments/exits ratio was at its highest since 2010, and we believe the current macroeconomic headwinds will persist into 2024, putting further pressure on exits relative to investments. This ratio tracks the number of PE investments, excluding bolt-ons, over the number of PE exits. Low interest rates leading up to the peak of the bull market towards the end of 2021 helped GPs amass record amounts of dry powder. Pressured to put capital to work, GPs have been deploying this dry powder regardless of exits and fundraising. This has thus increased the numerator. On the other hand, the last 18 months were characterised by monetary tightening and a correction in valuations, which led to a pricing dislocation between buyers and sellers. Ultimately, we saw exits dry up—most notably public listings, which were virtually muted. This decreased the denominator. Looking at 2024, we expect exits to remain subdued relative to dealmaking. From a macro standpoint, although inflation is coming down, it is still not at target, and recessions are still possible for some economies. The risk of recession will put pressure on exits to corporates whilst "higher rates for longer," which seems to be the consensus, will put pressure on exits to sponsors. Finally, we do not foresee a strong return to IPOs because sponsors are increasingly moving away from this exit option, preferring M&A instead, where they have more control over pricing. All of this will result in higher investment levels and lower exit count, in our opinion, pushing the investments/exits ratio to record heights.

PE AUM (€B)

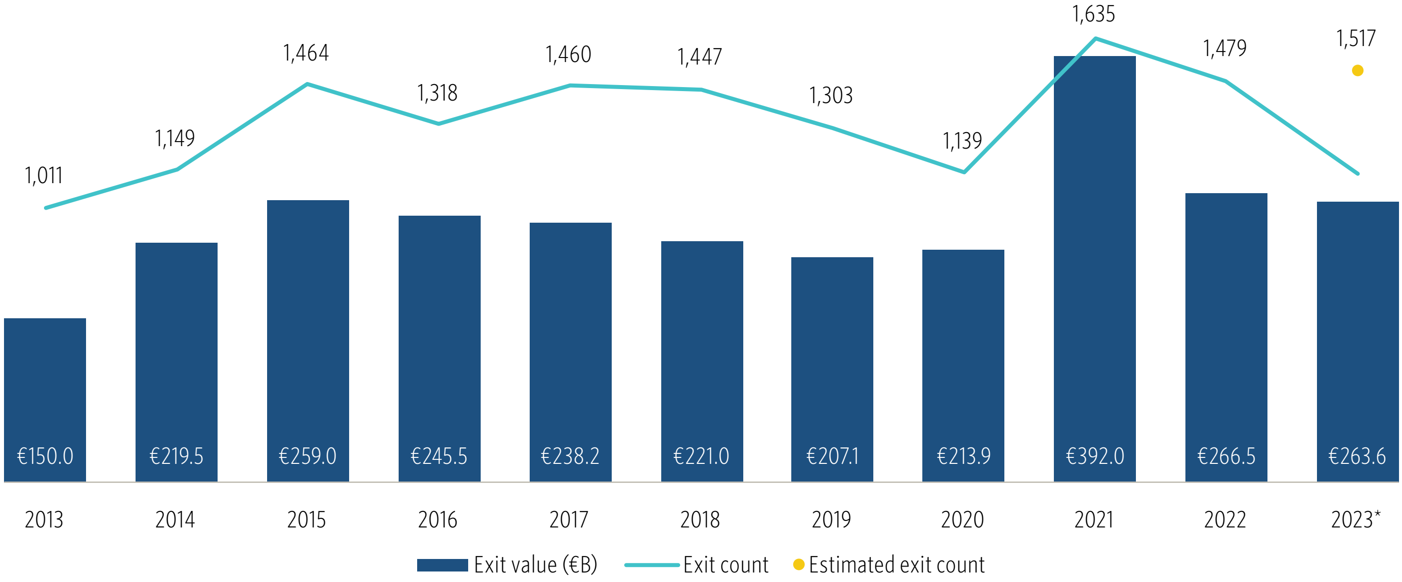


Source: PitchBook • Geography: Europe • *As of June 30, 2023

Risks: Faster-than-expected interest rate cuts are the largest risk to our thesis. This could happen for two reasons. First, in a blue-sky scenario, inflation drops faster than anticipated, and central banks start cutting rates to boost investment and growth, which has stagnated in recent years. Second, in a worst-case scenario, major European economies fall into a recession, and central banks are forced to cut rates to encourage spending. This could happen for a number of reasons, including geopolitical conflicts, a hard landing from increasing rates too quickly, and changes in political policies. The former scenario would likely lead to higher valuation multiples, cheaper borrowing, higher leverage, and an increase in exits. This could decrease the ratio depending on the effect on investments. On the other hand, the latter scenario may lead to an increase in the risk premium demanded by investors, which would keep public listings muted.

Exits

PE exit activity

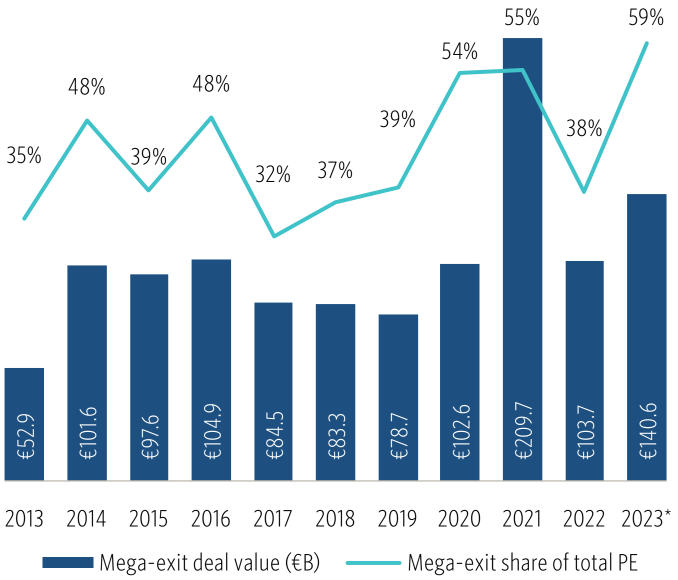


Source: PitchBook • Geography: Europe • *As of December 31, 2023

Mega-exits push the exit market's resilience

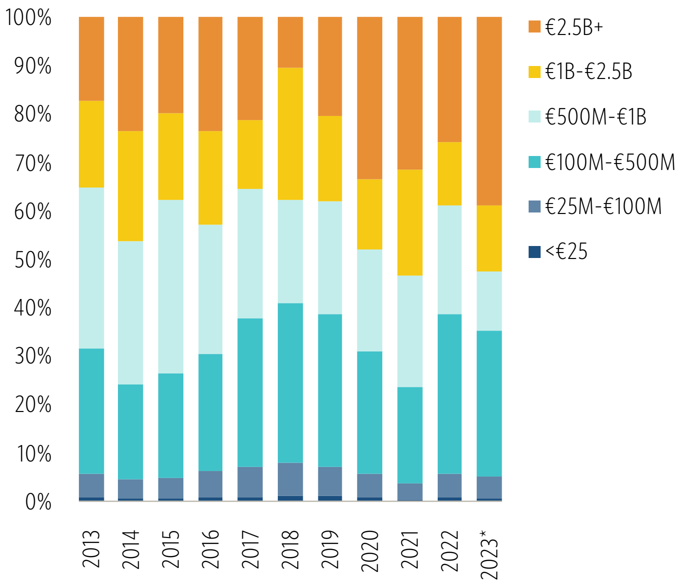
2023 saw private market dynamics change from a seller's market to a buyer's market as valuations corrected across the board with median EV/EBITDA dropping from 12.3x in 2022 to 10.2x in 2023. This led potential sellers to hold on to their assets for longer as they were unwilling to sell for the new lower prices. This price dislocation led to a drought in exits, especially in the first half of the year as central banks were still increasing interest rates with no end in sight. When exits did materialise, they were often mega-exits which significantly skewed the data picture. 2023 saw €263.6 billion in exit value, of which 58.9% came from mega-exits over €1 billion. The ARM IPO itself accounted for €48.7 billion, which was the largest exit of the year in Europe. Overall, exit value was down only 1.1% YoY. However, excluding mega-exits, 2023 exit value was 24.5% lower YoY. Alternatively, we also saw many sponsors engage in sponsor-to-sponsor buyouts with over a quarter of exit value accounted for by secondary buyouts.

Mega-exit value (€B) and mega-exit share of total PE exits



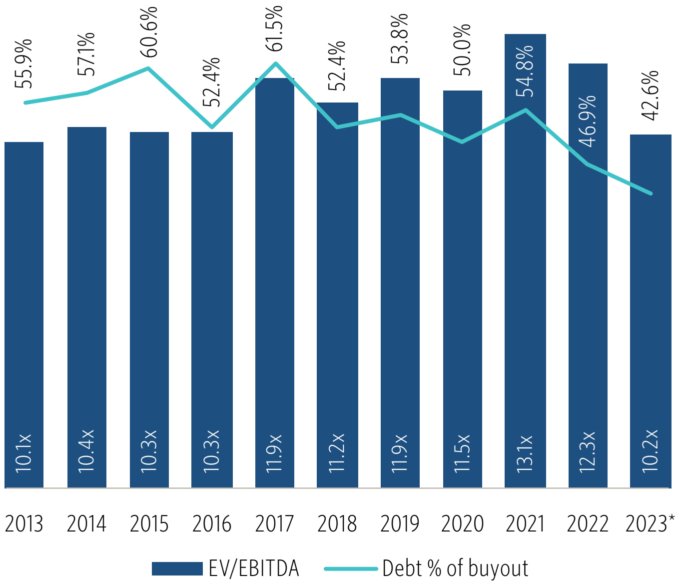
Source: PitchBook • Geography: Europe • *As of December 31, 2023

Share of PE exit value by size bucket



Source: PitchBook • Geography: Europe • *As of December 31, 2023

Median PE buyout EV/EBITDA multiple and average share of debt in buyouts

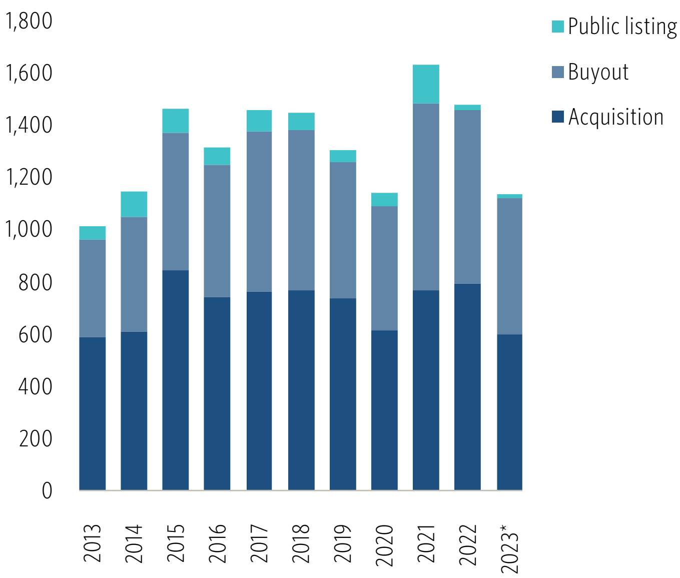


Source: PitchBook • Geography: Europe • *As of December 31, 2023

Muted exit routes

Similar to the second half of 2022, we saw a muted IPO market in 2023 with companies avoiding and postponing going public given the volatility in public markets, as was the case with PE firm CVC. The lack of share price performance from recently listed companies, such as Deezer (-64.0% since IPO) or Oddity Tech (-10.2% since IPO), has left sponsors opting for other exit routes.[1] In H1 2023, we saw acquisitions make up the bulk of exits before the trend reversed in favour of buyouts towards the second part of the year when inflation stabilised and rates started flattening, helping sponsors to lock in their debt costs. We saw a mere 15 PE exits through public listings in 2023 in Europe, a low not seen since 2009, and even lower than the 21 from 2022. We do not expect a significant recovery in exits in 2024 as outlined in the spotlight section. Fears of recessions from a hard landing and lack of prospective growth in certain individual economies accompanied by "rates higher for longer" will continue putting pressure on exits. We continue to expect deals to outpace exits by a factor equal or greater to 2.5x as per our 2024 European Private Capital Outlook.

PE exit count by type



Source: PitchBook • Geography: Europe • *As of December 31, 2023

1: Public company valuations are as of January 5, 2024.

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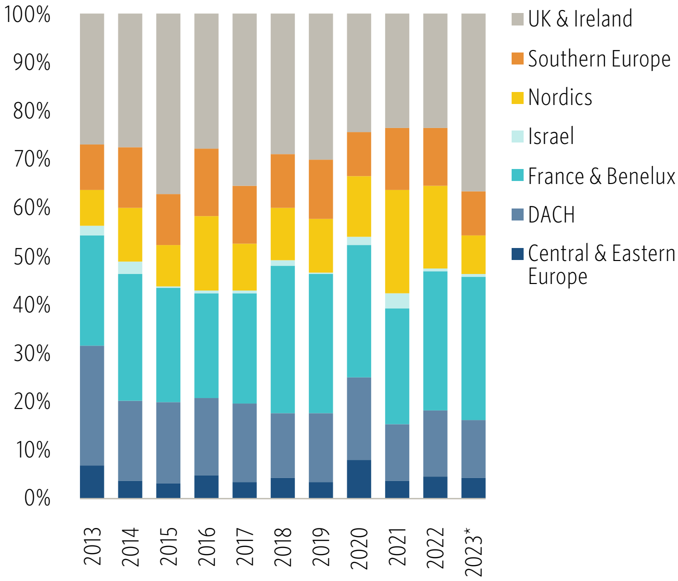
UK & Ireland's appetite for exits

Exit value in the UK & Ireland increased 59.8% YoY to €100.1 billion, thus accounting for over a third of exit value within the continent. In fact, it was the only region to grow YoY in Europe in terms of exit value. The Nordics saw the harshest withdraw in exit activity, dropping 55.1% in exit value YoY and down 76.0% from 2021 levels. The UK remains home to the financial hub of Europe, even post-Brexit, and this was evidenced in exit activity with half of the top 10 exits of 2023 coming from the UK. The country continues to be the centre of European private dealmaking for now, but the competitiveness of certain industries may be at risk in a post-Brexit environment. For example, the London Stock Exchange is seeking changes to increase its competitiveness as described in our 2023 UK Private Capital Breakdown. We note that none of the PE exits through public listings this year listed in the UK. ARM, Birkenstock, and Oddity Tech all listed in the US in 2023, all companies that would have been considered fit for the London Stock Exchange.

Share of PE exit value by region



Source: PitchBook • Geography: Europe • *As of December 31, 2023

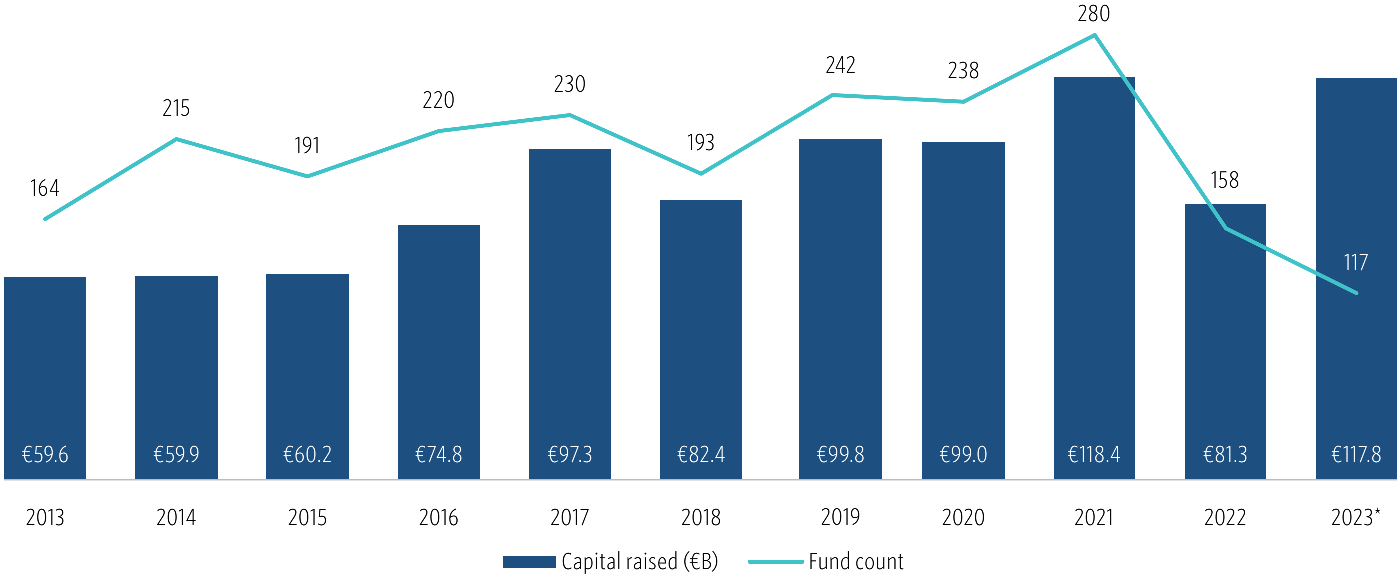
Top 10 PE exits in 2023 by exit size*

Company	Exit date (2023)	Exit value (€B)	Exit type	Industry	Country
ARM	September 14	€48.7	IPO	IT	UK
Viterra	June 13	€16.7	M&A	B2B	Netherlands
Birkenstock	October 11	€7.7	IPO	B2C	Germany
Neptune Energy	June 23	€4.6	M&A	Energy	UK
Webhelp	March 29	€4.5	M&A	B2B	France
Howden Group	March 13	€4.1	M&A	B2B	UK
IRIS Software Group	December 23	€3.7	Buyout/LBO	IT	UK
Creed Fragrances	June 25	€3.5	M&A	B2C	UK
DATA4	April 11	€3.5	Buyout/LBO	IT	France
Olink Proteomics	October 17	€2.9	M&A	Healthcare	Sweden

Source: PitchBook • Geography: Europe • *As of December 31, 2023

Fundraising

PE fundraising activity

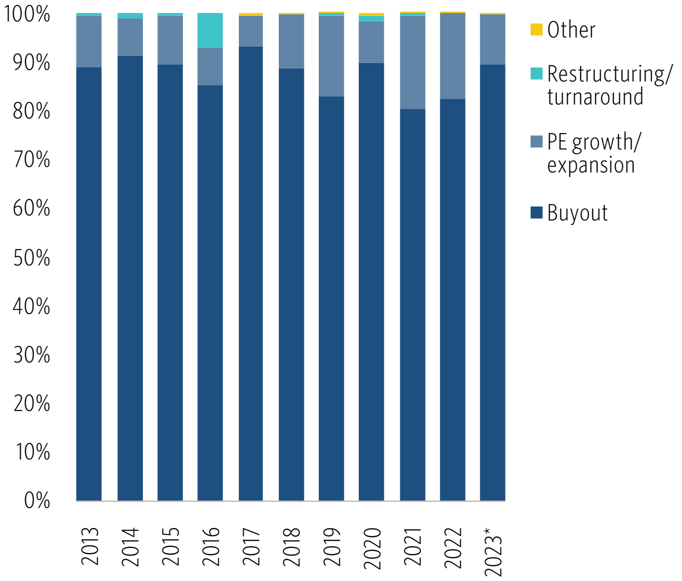


Source: PitchBook • Geography: Europe • *As of December 31, 2023

We expect 2023 will become a record year for PE fundraising in Europe in terms of capital raised, as there is a lag with the disclosure of closed funds historically, and figures often retrospectively increase. This is perhaps the most resilient and surprising data point of the year as macroeconomic headwinds made it mostly tougher for sponsors to raise capital this year. A decrease in exits has meant less capital reinvested into new funds; while higher rates have also decreased available capital. And yet, fundraising hit a new high, raising almost €120 billion in capital across 117 funds, which is in fact the lowest number of new funds in over a decade. Looking deeper, we note that 54.0% of capital raised in 2023 can be attributed to only five funds: CVC Capital Partners' Fund IX, Permira's Fund VIII, KKR's European Fund VI, PAI Partners Fund VIII, and Bain Capital European Fund VI. The latter two funds closed in Q4 raising 39.2% and 46.0% more than their previous funds, respectively. The concentration of capital raised within megafunds has hit an all-time high in 2023 as investors focused on experienced managers from established fund houses with proven track records as shown by the fact that these funds have all had at least five previous funds in their fund family.

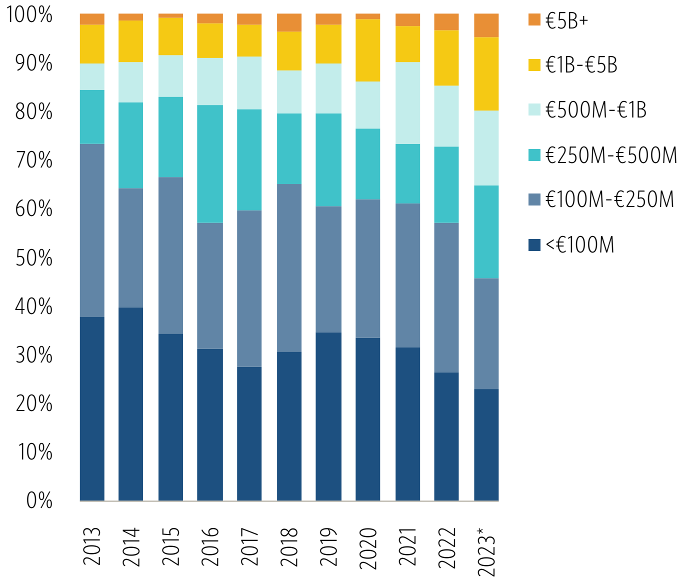
As interest rates climbed and multiples contracted, GPs have moved from financially engineering deals using leverage to focusing efforts on EBITDA and margin expansion. We saw a retreat from PE growth/expansion strategies, which were down 15.5% in terms of capital raised for new funds in 2023. Buyout funds, on the other hand, grew 57.5% YoY as we saw a flight back to traditional PE fund houses with new investors also entering the PE asset class. As outlined in our 2024 European Private Capital Outlook, we expect fundraising to slow in 2024 and thus the concentration in megafunds to become even greater than in 2023. The current macroeconomic climate makes it difficult for first-time managers to raise funds, and we expect this to continue being the case in 2024.

Share of PE capital raised by type



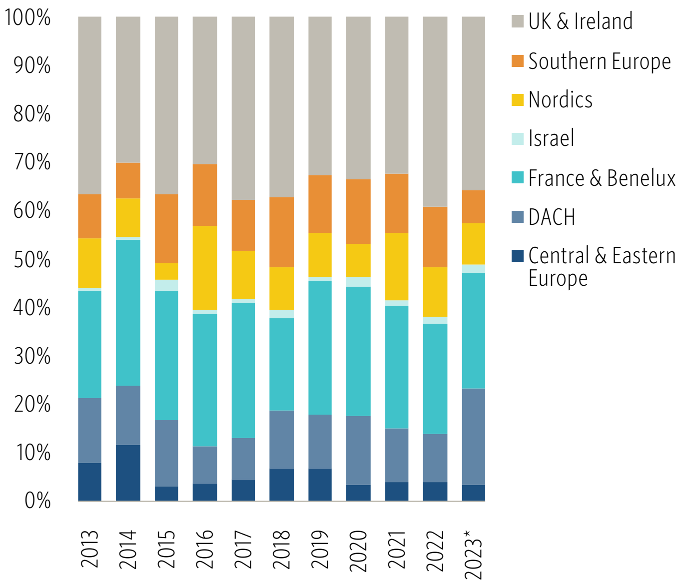
Source: PitchBook • Geography: Europe • *As of December 31, 2023

Share of PE fund count by size bucket



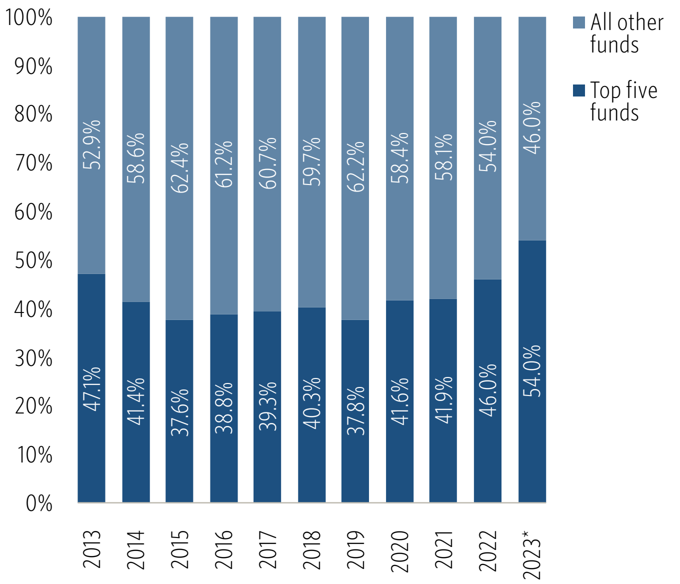
Source: PitchBook • Geography: Europe • *As of December 31, 2023

Share of PE fund count by region



Source: PitchBook • Geography: Europe • *As of December 31, 2023

Share of PE capital raised by top five funds



Source: PitchBook • Geography: Europe • *As of December 31, 2023

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Addendum

Normalized EBITDA Metrics

All EBITDA metrics referenced in this report rely on Morningstar's methodology for determining normalized EBITDA. Normalized EBITDA values are part of a broader dataset that Morningstar maintains known as Normalized Profitability Metrics (NPM). These same metrics can be found in the company financials displayed on the PitchBook Platform where such financials are available.

The objective of the NPM dataset is to normalize company earnings by adjusting for irregular income and/or expenses and one-off items that are unusual in nature, so that financials reflect the usual course of business for a company.

The starting point for normalized EBITDA is to first determine unadjusted EBITDA using the standard formula:

EBITDA = net income + interest + taxes + depreciation + amortization

From there, adjustments are made for irregular and unusual items. These items include:

- Disposal of businesses
- Merger & acquisition income/expense
- Restructuring and reorganization expense
- Stock-based compensation (non-GAAP companies only)
- Financial instruments and investments - gains/losses
- Derivatives - unrealized gains/losses
- Financial assets - unrealized gains/losses
- Gain/loss on asset disposals
- Foreign currency exchange - unrealized gains/losses
- Gain/loss on extinguishment of debt
- Debt restructuring
- Impairment/write off/write down of capital assets
- Write off/write down of other assets
- Goodwill impairment/write off
- Litigation income/expense
- Other irregular income/expenses

Morningstar maintains NPM metrics on approximately 54,000 companies, of which 24,500 receive an enhanced level of review by Morningstar analysts (Analyst Normalized EBITDA).

When any of these companies are acquired in a corporate M&A or PE buyout transaction, PitchBook will use Analyst Normalized or Normalized EBITDA where available for computing EV to EBITDA multiples. This process helps the investing community to understand the purchase price paid in relation to a company's true earnings power prior to items that may vary based on the capital structure applied, such as interest, taxes, depreciation, and amortization.

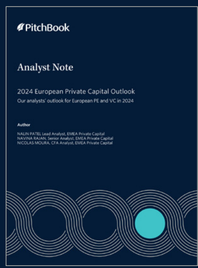
Additional information on Morningstar's NPM methodology can be found here.

Additional research

Private equity

Q3 2023 European PE Breakdown

Download the report here



2024 European Private Capital Outlook

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2023 DACH Private Capital Breakdown

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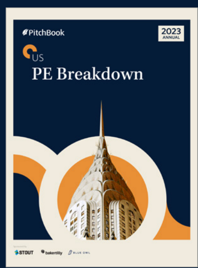

2023 Annual US PE Breakdown

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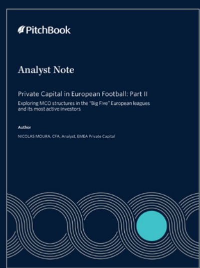

Q4 2023 Analyst Note: Private Capital in European Football: Part II

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