2024 European Private Capital Outlook: Midyear Update

Checking in on our 2024 European private capital predictions

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

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Introduction

At the end of every year, we share our views on how the year ahead will unfold for European private capital markets. We offered six outlooks in our 2024 European Private Capital Outlook published in December 2023, and it is time to take stock of those trends to see how they are tracking. We look forward to sharing other developments throughout the year in our quarterly reports, which include the Q1 2024 European PE Breakdown and Venture Report.

European PE and VC dealmaking in 2024 YTD has remained muted compared to recent years, indicating unfavourable market conditions. Annual PE and VC deal value and volume have been trending downwards since 2021, and data through the first five months of 2024 suggests further declines from 2023 could be expected by the end of the year. Fewer large deals are taking place across private capital markets, with higher costs of capital, sluggish growth, and valuation uncertainty affecting appetite.

Exits have been quiet across Europe, particularly within VC, as the major IPOs from private-backed entities in 2024 so far have been PE-backed companies. Nonetheless, exit value is down across most size brackets, sectors, and geographies. Inflation rates are coming down in Europe, and with interest rate increases paused, the exit pipeline could improve in H2 2024. Historical trends reveal exit markets move quickly, and with a lack of liquidity in recent quarters, a strong rebound could be imminent.

Despite the gloomier environment, European PE and VC fundraising has displayed resilience in 2024 YTD. PE fundraising has been supported by a selection of megafunds for the likes of EQT, Cinven, and Apax, while VC managers such as Plural and Partech have closed notable funds that have driven up figures in 2024. Looking ahead, conditions are still challenging, and asset class returns remain the biggest question. The continued impact of tepid exit markets and weak returns could weigh on allocations to private capital. However, macroeconomic indicators are moving in the right direction as we enter H2 2024.

For more information, our other outlook reports from December 2023 include US PE, US VC, Healthcare, Consumer Technology, Allocator, Industrial Technology, and Enterprise Technology.

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

Rationale from December 2023

Since 2015, the PE investment/exits ratio has been on an upward trajectory, and we believe the current macroeconomic headwinds will persist into 2024, putting further pressure on exits relative to investments.[1] 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, which has 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.

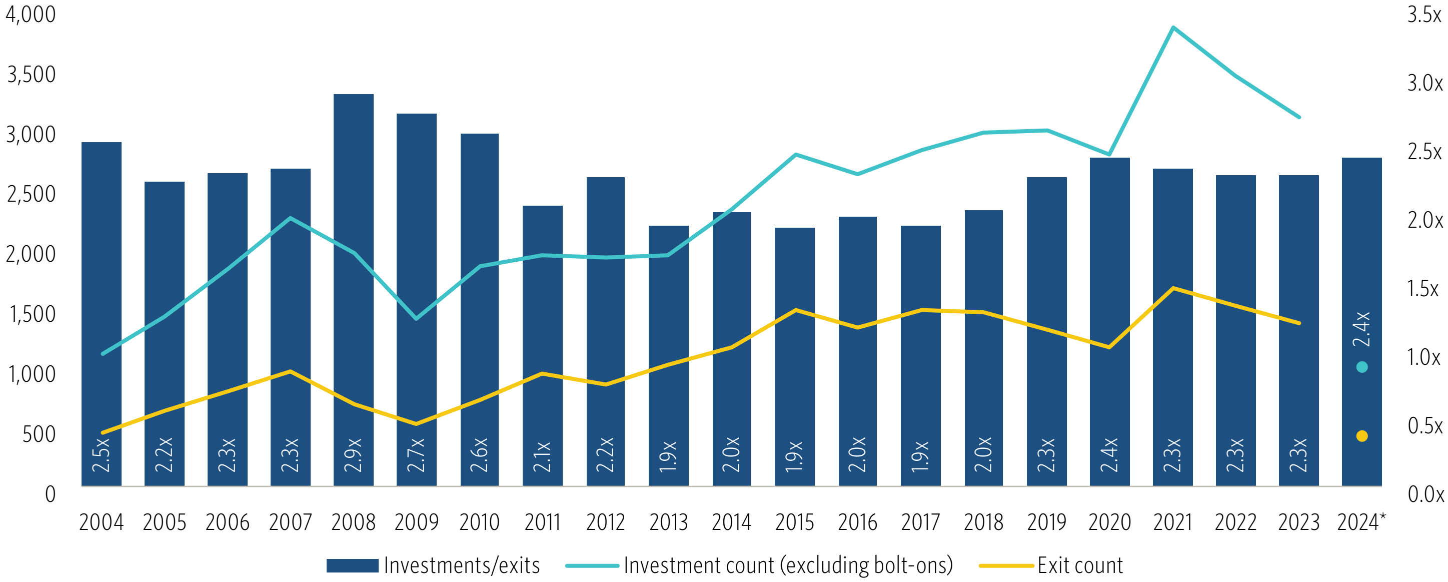
Midyear update: Outlook is tracking with some variations.

The European PE investment/exits ratio is tracking slightly higher (2.4x) at the midyear point than it was at the end of 2023 (2.3x). Our outlook thesis that exits will slow down proportionally faster than investments remains intact. With five months' worth of data, we can see that investment count is tracking around 22.1% lower than full-year 2023, while exit count is tracking 26.5% lower. As we anticipated, monetary easing has not materialised as rapidly as policymakers were hinting it would six months ago, which has continued to put pressure on exits. On the other hand, the large dry powder figures in the industry have led GPs to continue deploying capital regardless of exits and fundraising, thus leading the ratio to increase.

Looking at the second half of 2024, we expect a moderate recovery in exits given the green shoots we have been seeing, notably from PE-backed public listings, which are tracking higher than the previous two years. A soft landing would boost corporate exits, while monetary easing will help exits to sponsors. So far, we have seen rate cuts from the Swiss National Bank in March, Sweden's Riksbank in May, and the European Central Bank (ESB)in June as we wait for the Bank of England to start easing. Lower rates will help alleviate debt pressures for buyout funds, which will increase leverage in deals as rates drop. We expect deal deployment to increase in the second half of the year as macroeconomic headwinds become tailwinds.

1: Please note we have modified our rationale since our original outlook, as the ratio has fluctuated because of data backfill from historical years.

PE investments/exits ratio



Source: PitchBook • Geography: Europe • *As of May 31, 2024

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Outlook: PE fundraising concentration in the top three funds will hit a record percentage as fundraising drops from 2023 levels due to macro headwinds.

Rationale from December 2023

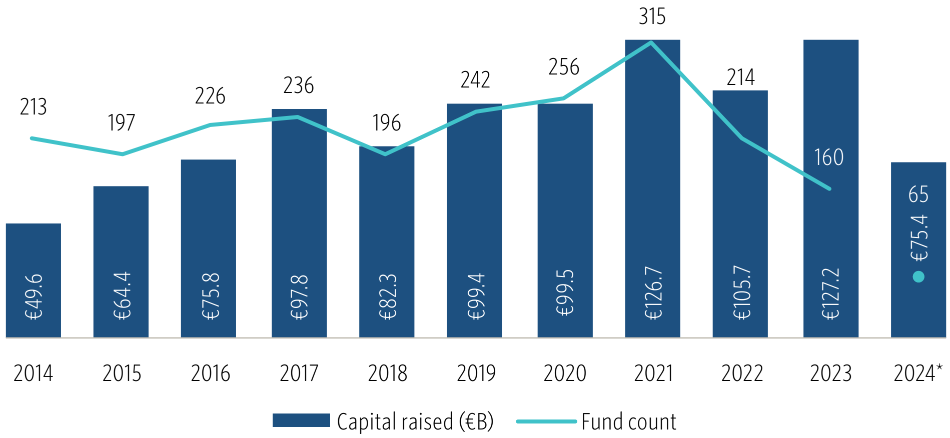
PE fundraising had a record year in 2023 in terms of capital raised despite the fund count being the lowest in over a decade. This will be surprising to most, given the macroeconomic headwinds the industry has faced and the consensus that fundraising had dried up in the latter part of 2023. This stems from the top three funds (all megafunds) closed in 2023, which contributed 39.4% of the capital raised: CVC Capital Partners Fund IX at €26.0 billion, Permira Fund VIII at €16.7 billion, and KKR European Fund VI at €7.5 billion. Experienced PE managers with established track records and existing client relationships defied the glut in fundraising.

We believe 2024 fundraising will be lower than in 2023 and estimate the top three funds will total about €46 billion based on the funds aiming to close in 2024. If fundraising in 2024 drops below €100.0 billion, which would imply a 15% to 20% YoY drop, then European fundraising will hit a record concentration in the top three funds.

Midyear update: Outlook is tracking as expected.

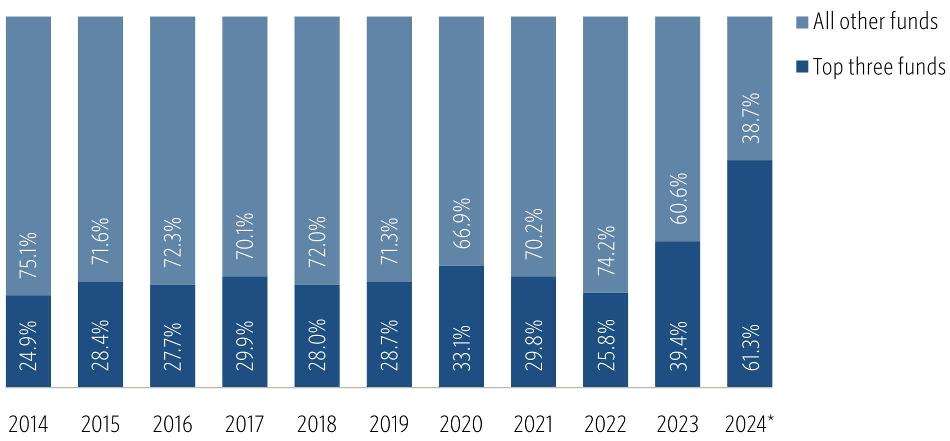
European PE fundraising has had a very strong first half of the year, with capital raised tracking 42.2% higher than 2023 if the current run rate continues to the end of the year. We correctly foresaw the closing of the largest three funds for the year, all of which closed in Q1: EQT Fund X at €22.0 billion, Eighth Cinven fund at €13.2 billion, and Apax Fund XI for €11.0 billion. These three funds accounted for €46.2 billion, or 61.3% of total capital raised in Europe YTD. As the year progresses, we expect more smaller funds to drag the concentration percentage somewhat lower. On the other hand, in H1 we did not expect such a strong start to fundraising, which is pacing above last year's record in terms of capital raised. If fundraising slows in H2—which we expect to see given the largest funds for the year have already closed—then our outlook will hold, and fundraising concentration will hit a record percentage. However, if fundraising has another record year of capital raised, European GPs will have defied macroeconomic sentiment and our own outlook. The key may lie in determining how quickly central banks will start cutting interest rates, as this will increase capital availability, boost exits, and ultimately recycle capital back into fundraising.

PE fundraising activity



Source: PitchBook • Geography: Europe • *As of May 31, 2024

Share of PE capital raised by the top three funds



Source: PitchBook • Geography: Europe • *As of May 31, 2024

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Outlook: Megadeals will constitute less than 20% of overall PE deal value as uncertainty around the cost of debt persists.

Rationale from December 2023

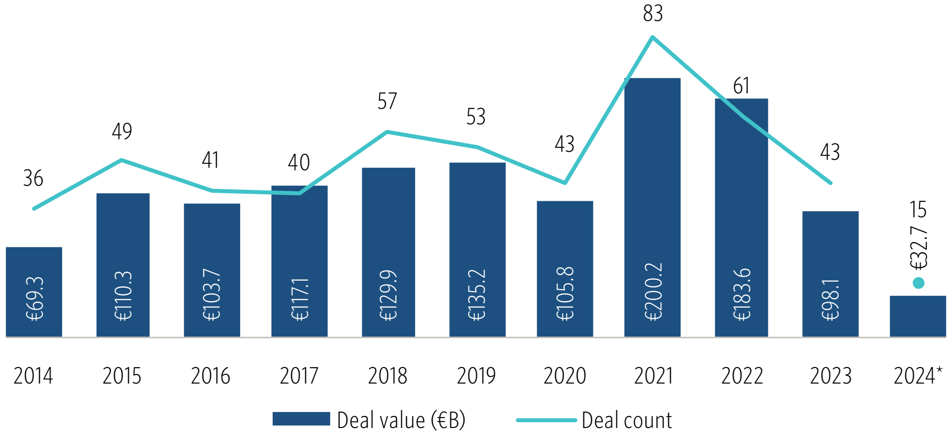
Megadeals (deals of €1 billion or more) contributed 31.9% on average to annual deal value from 2013 to 2022. In 2023, the proportion dropped to 22.7%, and we expect the figure to remain below 20% in 2024. We believe it will stay below historical proportions of overall deal value given the challenging interest rate environment. Large leveraged buyouts could fall out of favour because they rely on significant portions of borrowed debt. Higher interest rates mean the cost of debt to fund deals has risen, and we could see fewer substantial deals taking place due to the spiralling costs involved. Midsize deals such as bolt-ons could become popular, and growth could be identified in middle-market transactions as corporations focus on right-sizing rather than relying on the concept of "bigger is better." Lower valuations tied to revenue multiples could also force deal sizes lower, leading to fewer deals crossing the megadeal threshold in 2024.

Midyear update: Outlook is tracking with some variations.

At the time of writing, the proportion of total deal value from megadeals sits at a decade low of 21.6% through 2024 YTD, in line with our rationale. Although we are currently tracking marginally above the 20% threshold, a small sample size of deals could determine whether the outlook tracks as expected when the year concludes. With inflation cooling, interest rate increases have been paused across major PE hubs. However, "higher-for-longer" interest rate regimes in 2024 have not helped bring down the cost of debt for highly leveraged buyout megadeals. Recent interest rate cuts could trigger more rate cuts from central banks across different regions, but central banks remain cautious given weak growth rates and the volatile geopolitical landscape. As a result, waiting to see what debt costs look like later this year could be beneficial for PE firms looking to complete multibillion-euro deals.

In 2024 YTD, €32.7 billion worth of megadeals has been agreed, and if the current run rate continues for the remainder of the year, it could be the lowest figure since 2014. Megadeals have fallen out of favour given stubbornly high costs and weak growth forecasts. Nonetheless, just a few major deals could shift figures relatively quickly. Higher borrowing costs may affect near-term appetite, but assets with attractive price points will still attract wealthy PE backers, particularly those struggling in the public markets. Moreover, with strong European megafundraising figures in recent quarters, capital deployment into larger deals could tick upwards as we progress through 2024.

PE megadeal activity



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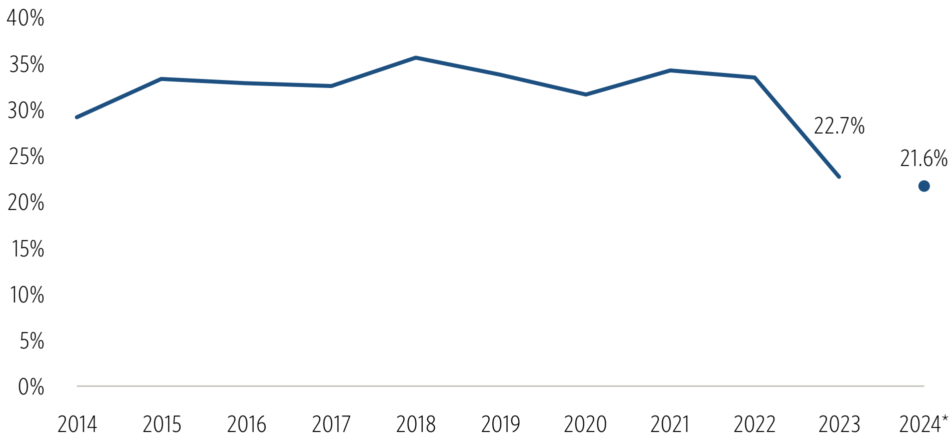
Megadeal value as a share of all PE deal value



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Outlook: There will be no meaningful recovery in the value and volume of VC-backed IPOs in 2024 as macroeconomic factors weigh on public markets.

Rationale from December 2023

“Higher for longer” emerged as the theme framing the second half of 2023. With the first ECB rate cut occurring in June this year, such sentiment is set to be carried through 2024 across Europe as stakeholders adjust to a new normal of a higher base rate. Whilst the listing market has been warming, for VC-backed companies, the market environment and returns of recent listings have not appeared conducive to a full-fledged IPO window, and stakeholders remain cautious, as fewer listings occurred and at much lower valuations. In 2023, VC-backed IPO exit value sat 88.3% lower YoY, with IPO count down 57.7% versus 2022. As exit markets remain challenged, specifically for more mature areas of the market, companies will continue to find other means to extend cash runways or raise new financing.

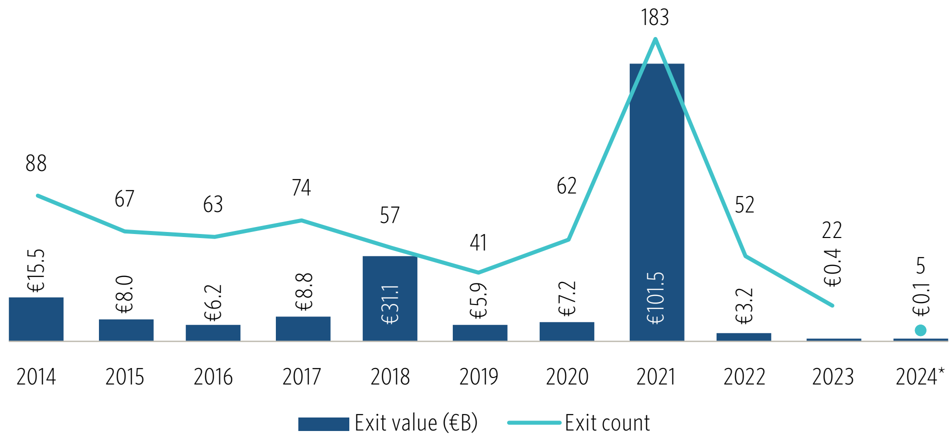
Midyear update: Outlook is tracking as expected.

European VC-backed IPO value sat at €55.8 million as of the end of May 2024. This run rate of activity is markedly depressed compared to previous years and implies 2024 will end the year 64.0% lower than 2023. This follows a significantly depressed 2023, when IPO value was 99.6% lower than 2021 and 88.3% lower compared with 2022 levels. The thin activity levels, therefore, translate into an even greater decline when looking at YoY trends as a percentage. Volume trends also are depressed, with only nine VC-backed listings in Europe YTD—five of which were IPOs—also implying a decline in counts for the full year. As we expected, little respite has emerged through the first five months of the year, with negligible signs of recovery for venture-backed listings.

However, the backing of IPOs is a tale of two halves. As we have discussed in Year of the IPO Window or Vent?, PE-backed listings are exhibiting a far greater recovery, with activity so far tracking above 2023 levels. The same run-rate exercise so far this year implies that PE IPO activity for value and listing counts will end 2024 25.4% and 92.0% higher, respectively. We have noted that the most significant listings occurring in 2024, such as Douglas AG, Renk, and Galderma, have in fact been PE-backed. Such companies have more mature business models and a more proven track record compared to typical VC-backed entities.

It is clear that at the current rate of activity, VC-backed listings will not recover YoY. We expect the picture to improve in the second half of 2024 given interest rate cuts in Europe are now underway, leading to a rally in broad public equity valuations (as well as recovery in private valuations). However, given low volumes, VC-backed listings would require significantly higher listing values to support activity this year. One example could be Shein's reported intent to list on the London Stock Exchange.[2] The clothing company is reportedly looking to raise £1.0 billion at a £50.0 billion pre-money valuation. The timing has not been confirmed but has been rumoured to be as early as this autumn. However, such a listing would not be captured by our methodology, which looks at European-headquartered companies; Shein is situated in Singapore. Looking at European exchange activity alone, however, a pre-money valuation of £50.0 billion would significantly skew 2024 exit activity trends, with totals that exceed levels of the last decade, barring 2021.

VC IPO activity



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2: "Online Fashion Giant Shein to File Prospectus for £50bn London Float," Sky News, Mark Kleinman, June 3, 2024.

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Outlook: VC fundraising levels will at least match 2023 totals as recovery from trough levels begins, supported by larger vehicles.

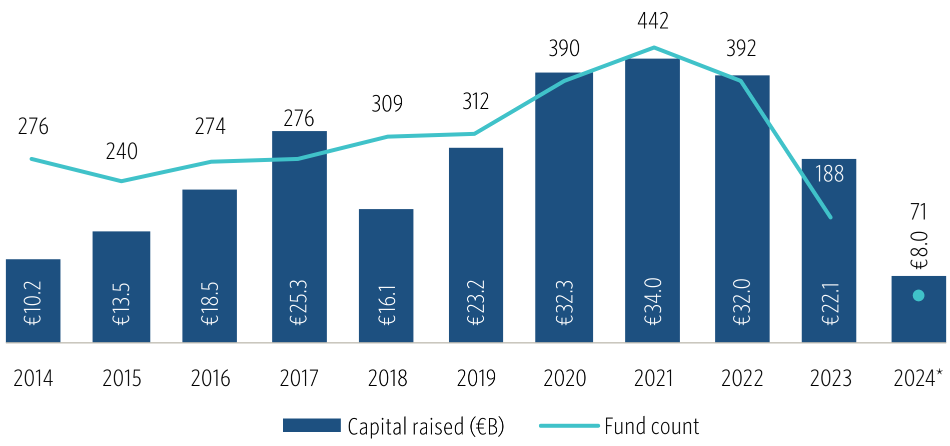
Rationale from December 2023

Despite weak returns in venture strategies given the valuations trough seen this year, LPs may also want to optimise returns by investing at the dip. Regardless of size or experience, outside of quantitative trends below, the overarching concern for venture fundraising remains the strategy's returns. It is well known that within private assets, venture returns have lagged in recent years, being the lowest performer on a one-year IRR in 2022 and 2023. However, on a 15-year horizon, the strategy sits in the top five, outperforming private capital, as noted in our latest Europe PitchBook Benchmarks report. The denominator effect appears to be less of a consideration given the rally in public equities. Liquidity and exit markets, however, still appear to be weak. Given we believe valuations have reset and are beginning to show signs of recovery in Europe, it remains to be seen if LPs will return to the strategy in investor-friendly conditions or if weak exit markets and a jaded record of returns will continue to weigh on allocations.

Midyear update: Outlook is tracking with some variations.

The run rate of activity for European VC fundraising so far this year implies capital raised will reach €19.1 billion, compared with €22.1 billion in 2023. Capital raised as of 31 May 2024 has reached €8.0 billion, illustrating that there is a €14.1 billion gap for fundraising to stay flat YoY. We track the current top 20 open VC funds, which already amount to €14.5 billion and could technically close the gap. Given there are other funds outside the top 20 that also will close through the course of the year, we think it is probable that 2024 levels could match last year's total. Our prediction that larger vehicles will support totals, however, is not being proven by current trends, where funds under €250.0 million have gained share. These smaller funds now represent 57.6% of capital raised so far in Europe, compared with the 41.6% share at the end of 2023. This tallies with trends in emerging versus experienced managers taking share, where smaller vehicles perhaps find it easier to close due to smaller targets.

VC fundraising activity



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Outlook: The UK will remain the European leader for private capital, but France and Germany could close the gap amid a challenging geopolitical landscape

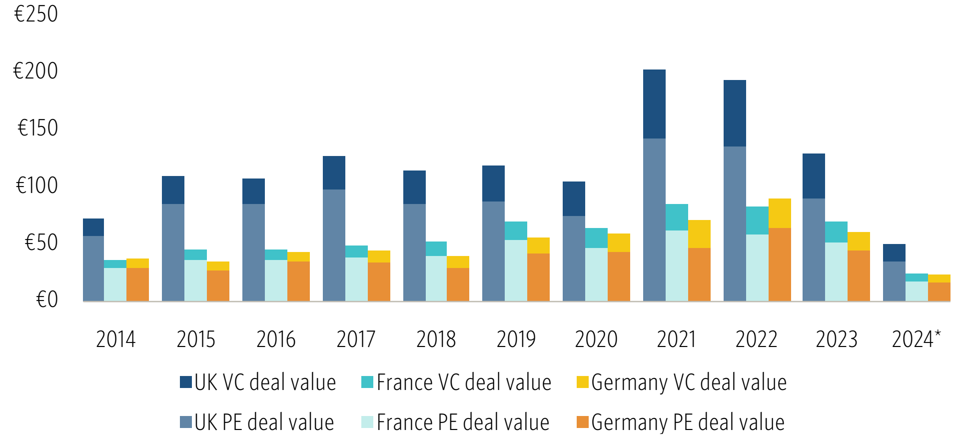
Rationale from December 2023

From 2013 to 2023, UK private capital (PE and VC) deal value was greater than France and Germany's combined private capital deal value on six occasions. In 2024, we anticipate the UK will lead private capital deal value in Europe, but we believe it will not be greater than France and Germany's combined total. We believe the evolving geopolitical environment in the UK and developing opportunities in other nations could shift capital deployment in 2024. The political landscape in the UK has been extensively covered in recent quarters, and investors and operators could pause major decision-making until a clearer legislative landscape is established. For example, a new government could implement long-term changes to taxation on carried interest, regulation of fund structures, and incentives or subsidies for certain industries. European nations including France and Germany are looking to bolster their private capital activity, with the former focusing policies on developing a strong tech ecosystem. Furthermore, investors may target less saturated nations that possess fewer competitors to drive up asset prices in traditional private capital hubs, including the UK and US.

Midyear update: Outlook is tracking with some variations.

Through the first five months of 2024, UK private capital deal value reached €50.9 billion and was greater than France and Germany's combined €48.7 billion figure. Our initial outlook in December 2023 predicted a reversal of this trend, but we have seen more of the same in 2024, as UK dealmaking has stayed well ahead. A large component of the UK figure is from PE deal value, where deals such as the €5.0 billion take-private of Darktrace have boosted the total. Through May 2024, deal value is broadly pacing lower or flat from 2023 figures across each region, with current run rates in France showing the largest potential YoY declines. The delta between the UK's and France and Germany's combined total stands at €2.3 billion, which is not an insurmountable amount with seven months left in 2024. Surprise snap elections called in the UK and France in July 2024 have grabbed media attention across Europe in recent weeks and could cause uncertainty in markets. For example, the Labour party has outlined plans to increase taxation on carried interest drastically if it wins the UK general election, which could cause fund managers to rethink where they are located.

PE and VC deal value (€B) by country



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