PitchBook

European PE Breakdown

2020 Annual

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This report was updated on January 27, 2021 to correct a data error in the chart on page 7.

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Introduction

After capsizing in Q2 2020, PE deal activity came booming back in H2 2020 to record its third-highest annual value in over a decade. Meanwhile, quarterly deal volume hit a fresh peak in Q4 2020. An unprecedented fiscal-monetary cocktail worth trillions, vigorous demand for new debt issuance, and lofty dry powder levels encouraged sponsors to pursue acquisitions of discounted assets that were cyclically but not secularly under pressure. Managers moved quickly to close on assets that benefitted from the IT adoption and transformation trend, highlighted by IT deal volume proportions hitting a new high. The use of bolt-on deals, one of many trends underway pre-pandemic, accounted for a new record of 61.4% of all buyouts in 2020. Looking to 2021, we expect the risk-on atmosphere will propel deal activity to a new high, epitomized by tight credit spreads, low interest rates, and a healthy fundraising environment.

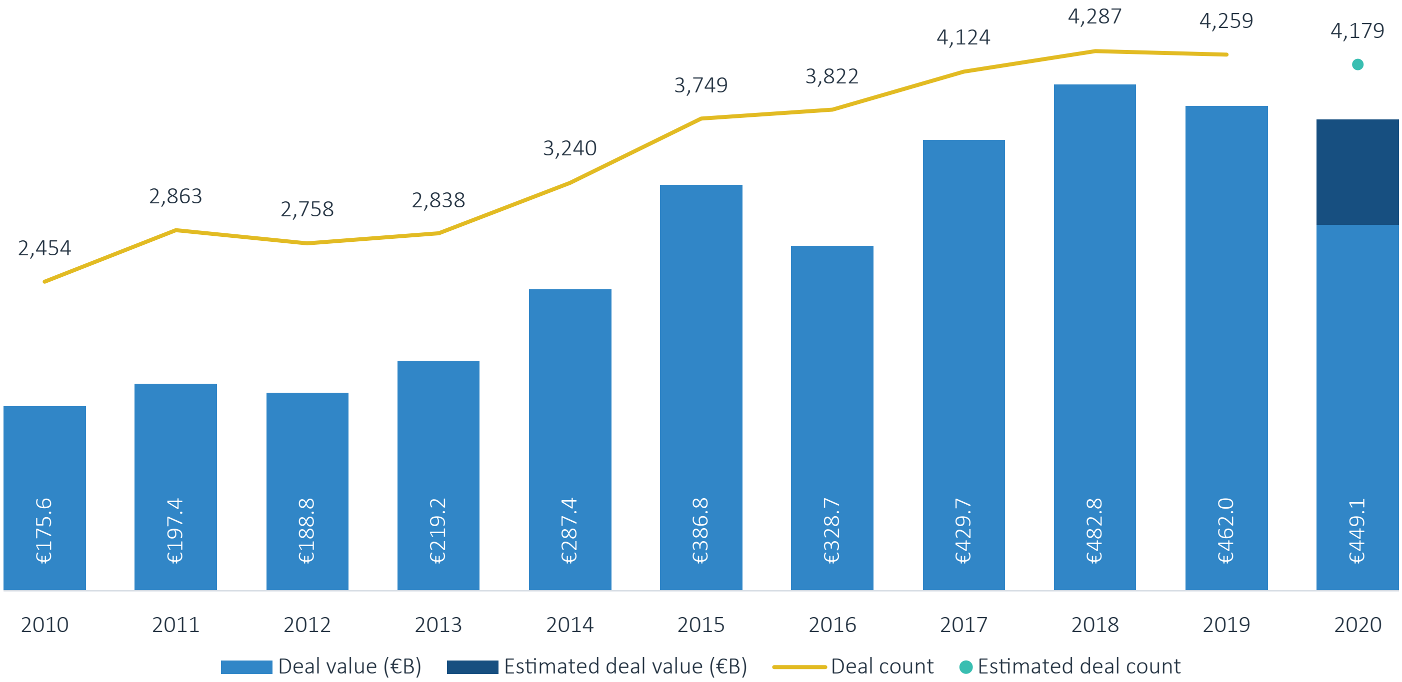
European PE exit activity was lethargic in 2020, as sponsors waited for a more sanguine environment to offload assets. For the first time on record, sponsor-to-sponsor deals (SBOs) accounted for as many exits as corporate acquisitions in 2020, while IPOs substantially lagged. However, the exit market may have some silver linings. SPACs will likely become a meaningful liquidity path for European PE-backed companies in 2021. Coming off the back of 10 years of strong dealmaking—and with mass vaccinations underway—we could see the exit environment bounce back towards H2 2021 as governments begin to loosen restrictions.

2020 European PE fundraising experienced an extremely strong year, with capital raised hitting its second-highest value ever, though fund counts dipped to a new trough. Established managers uncovered success in the remote environment, something more nascent sponsors found challenging. Mezzanine capital commitments set a record as the COVID-19 pandemic brought on strong demand for non-investment-grade credit platforms. Going into 2021, we anticipate European PE fundraising will remain strong across the board as mass inoculations ramp up in Europe, which could mean a return to onsite due diligence and face-to-face meetings in H2 2021. Furthermore, the continued low interest rate environment will see more institutional investors shift allocations towards PE and away from fixed income products to close the gap between the risk-free rate and target returns.

Dominick Mondesir
EMEA Private Capital Analyst

Overview

PE deal activity



Source: PitchBook | **Geography:** Europe

European PE deal activity in 2020 proved extremely robust and resilient given the COVID-19 crisis. PE deal volume reached a new quarterly peak in Q4 2020, closing over 1,200 transactions for the first time ever. On an annual basis, both deal value and volume recorded their third- and fourth-highest totals, respectively, in over a decade—a remarkable feat considering Europe was confronted with its worst economic outlook since the Great Depression in Q2 2020. 4,179 transactions closed in 2020 for a total of €449.1 billion—a minor YoY decrease of less than 3% on both the value and volume front.

European PE deal activity experienced a brief and sudden shock towards the end of Q1 2020 after starting the year in blistering fashion. As the COVID-19 crisis, social unrest, and Brexit negotiations unfolded, deal activity abruptly slowed from March through June 2020 as managers paused, reassessed, and recalibrated, entering "risk-off" mode and knocking most auction processes off course. PE deal volume dropped over 30.0% YoY in Q2 2020 as GPs focused on portfolio triage and public equity deployment—most notably PIPE and minority transactions. Conjointly, material valuation gaps and deal diligencing challenges weighed on activity due to lockdowns, social distancing measures, and travel bans. As European economies started to reopen in Q3 2020 and the stabilization in the public health crisis allowed for the beginning of an economic recovery, dealmakers quickly pivoted to regular control deals. Europe's GDP grew at a stunning 12.7%[1] in the third quarter, bringing activity to 95.7% of its pre-virus level. Managers were selectively aggressive in deployment activity while remaining appropriately circumspect on the broader macroeconomic environment. Despite large swathes of European economies tightening restrictions in Q4 2020 as the predicted winter surge in COVID-19 cases and deaths hit, PE deal momentum remained strong in the final quarter, notching a new quarterly high.

A multitude of factors in 2020 converged to aid the razor-sharp recovery in PE deal activity. First, unlike the aftermath of the global financial crisis (GFC), austerity was taken off the table by European authorities. European governments and central banks expeditiously executed an unprecedented fiscal-monetary cocktail worth trillions of euros—a feat that seldom occurs, and which meant liquid markets experienced the shortest bear market and fastest recovery in history while keeping bond yields down. This helped LPs stay largely insulated from the denominator effect and forced investors into higher-risk assets, which helped foster a remarkable recovery in leveraged lending markets as institutional

1: "Eurozone Economic Rebound Leaves Output Below Pre-Pandemic Levels," *Financial Times*, Martin Arnold and Valentina Romei, October 30 2020.

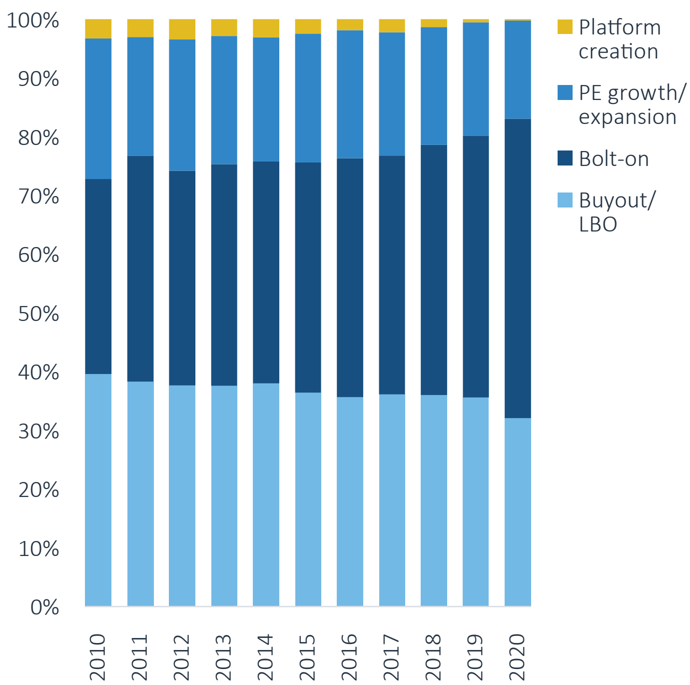
European high-yield credit spread

Source: ICE Bank of America Euro High Yield Index Effective Yield, retrieved from FRED, Federal Reserve Bank of St. Louis | **Geography:** Europe

investors' appetite for higher-yielding leveraged loans and high-yield bonds soared. Moreover, the €294.0 billion in European PE dry powder on hand and the start of mass inoculations across the continent also substantially contributed to the deals recovery. Further, frothy valuations of pandemic-proof assets meant there were willing sellers, and a European inflation rate stuck at or below zero has kept interest rates depressed, helping to fuel cheap debt—arguably the lifeblood of PE. Lastly, the frequent use of less risky and cheaper bolt-on acquisitions in acquiring competitors and executing upon sector rollups accounted for a new record of 61.4% of all buyouts in 2020. The combination of these factors considerably helped deal activity roar back from its second quarter lows and has created a favourable environment for PE dealmaking going into 2021.

Although the annual median PE deal size dipped slightly in 2020, the trend of a larger European PE transaction environment came marauding back in the second half of the year. The average European PE deal size hit a new annual zenith after collapsing in H1 2020, increasing to €248.9 million—a 22.3% YoY increase from 2019. Valuations remained stubbornly high as investors focused on resilient assets. Activity in the upper end of the market significantly increased, with 13 transactions sized above €2.5 billion closing in 2020, collectively worth €74.2 billion—YoY increases of 30.0% and 64.2%, respectively. The largest European LBO in over a decade closed in Q3 2020, which saw a consortium of investors carve out

PE deals (#) by type

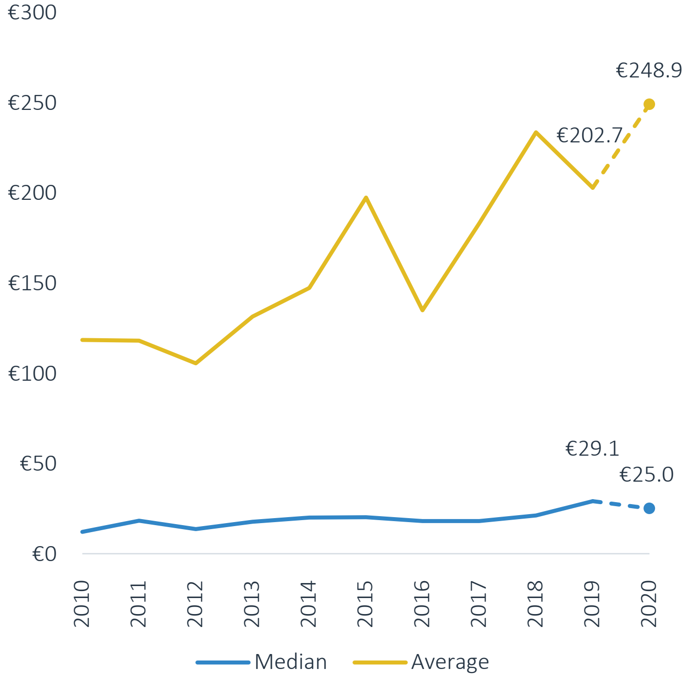


Source: PitchBook | **Geography:** Europe

Germany-based ThyssenKrupp elevator business for €17.2 billion, which certainly helped buoy the average European PE deal size. Managers are now prepared to pay premiums and make outsized bets on assets that have managed to sustain or grow revenues through the pandemic, have attained above-average profit margins, and benefit from palpable secular tailwinds, while also adjusting return expectations for LPs. For example, in the largest transaction of Q3 2020, KKR (NYSE: KKR) carved out UK-headquartered Viridor Waste Management, a division of FTSE 250 company Pennon Group, for €4.7 billion. KKR is betting the recurring and long-lasting nature of Viridor's revenue generation activities will make the company robust during volatile periods, as it benefits from contracts with local authorities that last as long as 25 years.

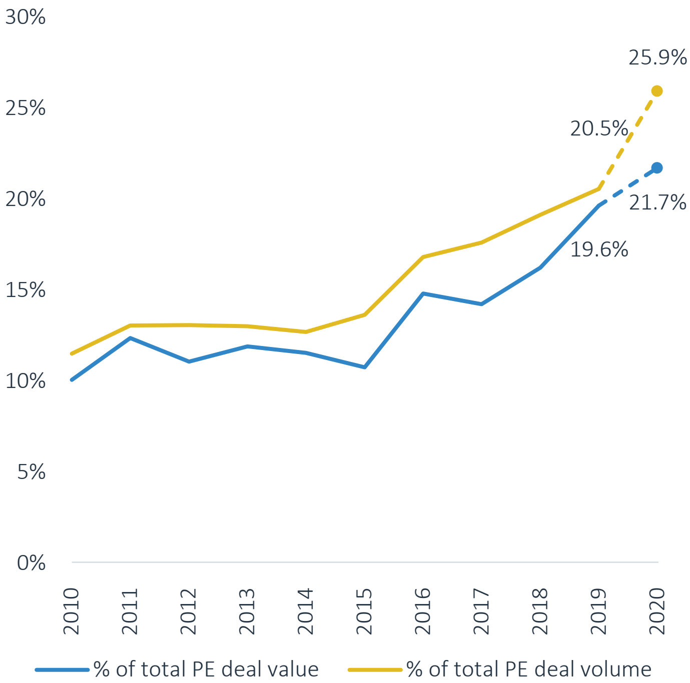
PE IT deal activity hit record proportions on both a value and volume basis in 2020, making up 21.7% and 25.9%, respectively, of overall European PE deal flow. The IT sector has been the number-one source of interest for PE managers over the past five years and will likely remain so for the next decade. Opportunities for GPs to ride and extend secular technological tailwinds and extend them further, become disrupters through multiple different strategies, and also defend market share against disruption through technology (regardless of a portfolio company's underlying sector) has significantly contributed to the sectors interest. Managers are now taking a technological lens to each portfolio company to understand where tech implementation could create upside potential and forecast where tech disruption may destroy value. The COVID-19 pandemic has quickly pivoted customer behaviour towards remote everything and has accelerated trends of digital adoption and transformation across PE portfolios, most notably in cybersecurity, enterprise software, and the cloud. Analysing IT deals by type, managers pursued IT bolt-ons with gusto. Many GP's investment thesis for a buy-and-build pertains to forming a platform company around a core technology or building a market leader in an emerging sector. IT bolt-on volume hit a new peak in 2020, accounting for 56.8% of all closed IT transactions. A notable transaction to close in the space was the acquisition of Bulgaria-based telecommunication services provider Vivacom by Netherlands headquartered United Group for €1.2 billion in Q3 2020. The transaction comes after the United Group acquired Croatia-based telecoms operator Telemach and Greece-based Nova in 2020 as part of its plans to become a market leader in the southeastern European telecommunications sector.

Median and average PE deal size (€M)



Source: PitchBook | Geography: Europe

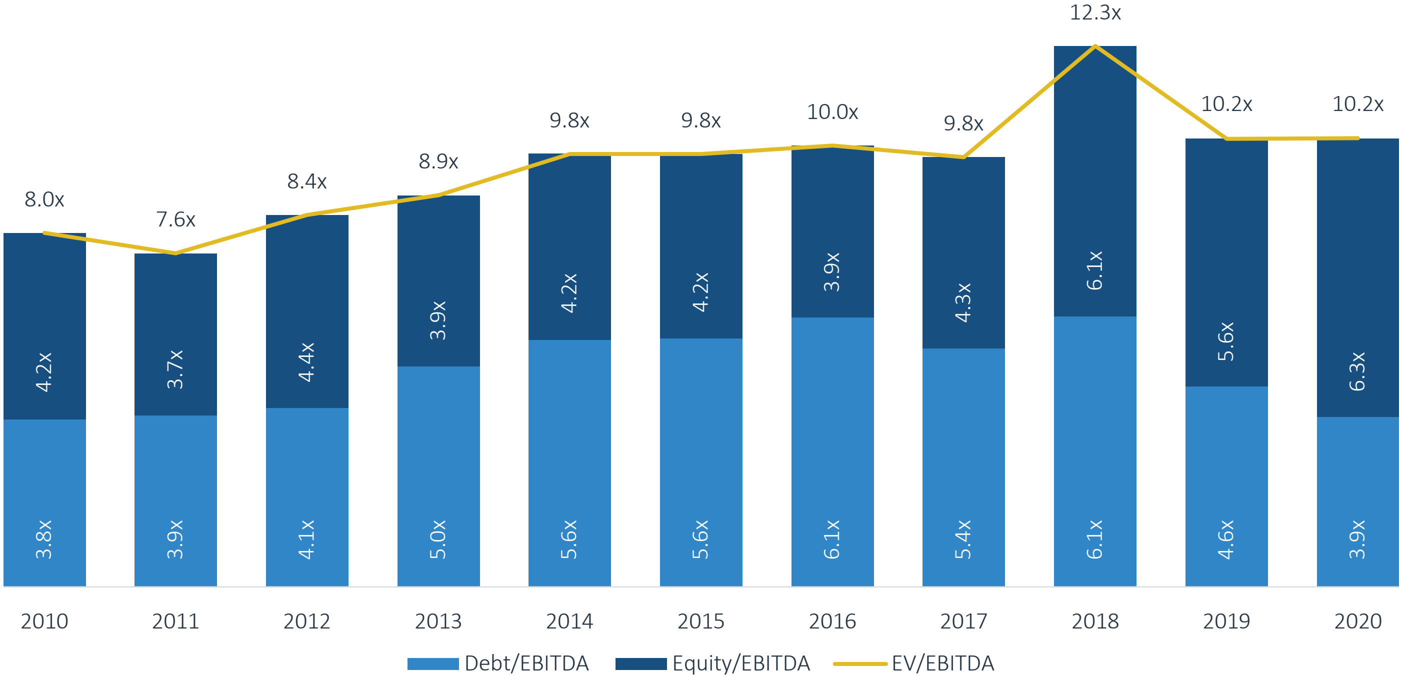
IT deal activity proportion of overall PE



Source: PitchBook | Geography: Europe

Overview

Median EV/EBITDA buyout multiples

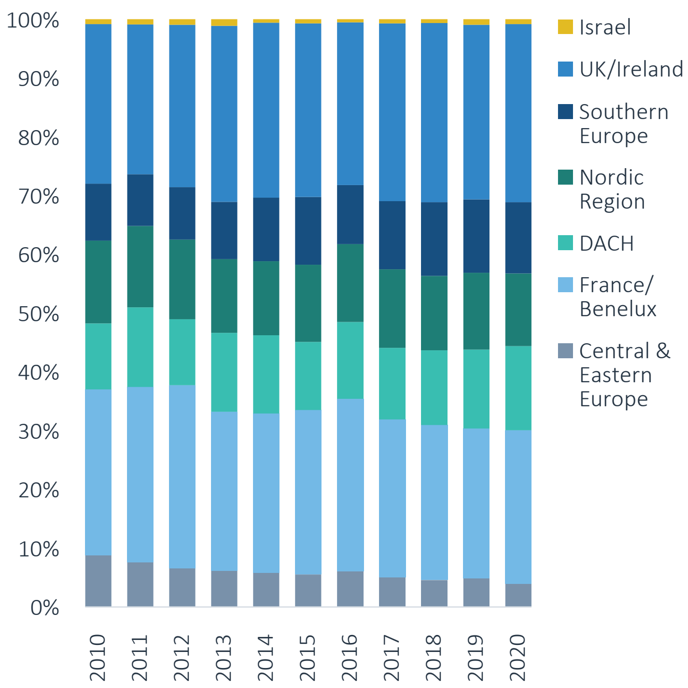


Source: PitchBook | **Geography:** Europe

The COVID-19 crisis has accelerated the bifurcation in the "haves" and "have-nots" in terms of asset valuation, creating considerable dispersion across asset prices. Despite the pandemic and the European Stoxx 600 index closing down 3.8% in 2020,[2] the median EV/EBITDA buyout multiple remained unchanged from 2019 at 10.2x. Sturdy business models that have managed to sustain revenues, lower debt, and expand margins through 2020 have powered through sell-side processes. With fierce competition and elevated dry powder levels on hand, GPs have been willing to pay premiums for such companies, resulting in frothy valuations. Likewise, the syndicated leveraged loan and high-yield bond market has been willing to lend to such entities. For example, Thoma Bravo acquired UK-based cybersecurity company Sophos in the first half of 2020 at a multiple of around 32x[3] unlevered free cash flow.

Conversely, cyclical or assets adversely affected by the pandemic have not actively traded, with dealmakers wary of selecting non-performers or fire-sales, as well as leveraged finance investors shying away from such assets. 2020 also saw the debt/equity composition mix in the buyout multiple change, with more equity and less leverage being injected into deals. The equity/EBITDA multiple increased from 5.6x in 2019 to 6.3x in 2020, while the debt/EBITDA multiple lowered from 4.6x in 2019 to 3.9x in 2020.

PE deals (#) by region



Source: PitchBook | **Geography:** Europe

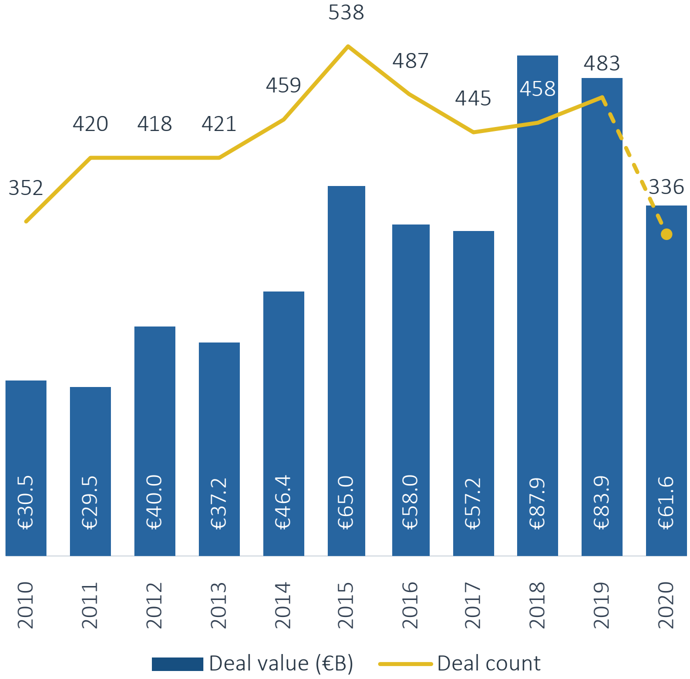
2: "European Shares Post 3.8% Loss for 2020 as Coronavirus Dominates; FTSE has Worst Year Since 2008," CNBC, Holly Ellyatt, December 31, 2020.
3: "Thoma Bravo Announces a Recommended Cash Offer for Sophos Group Plc," Thoma Bravo, October 14, 2019.

Overview

PE deal activity in the DACH region gained considerable momentum in 2020. For the first time in over a decade, one-fifth of PE deal value came from the region, while its PE deal volume proportions also hit a new high. Several factors converged to help drive deal activity in the region. First, despite Germany being thrust into another near-national lockdown due to rising COVID-19 cases, it has been one of the standout performers in navigating the pandemic in Europe. Leadership in the European powerhouse has been decisive, consistent, and quick, which allowed Germany to flatten the curve of COVID-19 transmission early on through mass testing, which kept death rates low in comparison to neighbouring countries. As of January 11th, 2021, Germany had a death rate of 492.4 people per one million, while the UK has 1,216.4 per one million.[4] Second, Brexit acted as a tailwind for DACH deal activity in 2020, and the new skeleton Brexit deal will add further wind to the backs of DACH PE deal flow. The UK has become a "third country," according to EU law, meaning the free movement of services across Europe no longer exists for UK-based companies. Third, the German government injected around €1.3 trillion worth of fiscal-monetary stimulus funding into the economy, which included a furlough scheme that protected 6 million jobs and the suspension of normal bankruptcy rules. And finally, a large manufacturing sector and rising exports to China meant Germany has been less disrupted by social distancing measures, whereas jurisdictions such as the UK that are primarily service-based have been hit hard. While the German economy is expected to shrink by around 1% in Q4 2020 due to renewed lockdown measures and may go into a technical recession, the country will perform considerably better than most other European nations, and this bodes well for more PE deal activity in 2021.

Although carveout deal activity fell by around one-quarter YoY in 2020 on both the value and volume front, we expect divestiture activity to pick up quickly in 2021 as public and private companies seek to offload non-performing assets to raise liquidity amid the pandemic turmoil. 336 carveouts occurred in 2020, putting the year on track for its lowest total since 2013. The unprecedented fiscal-monetary stimulus and hot liquid markets have given companies viable avenues to raise cash, which helps explain why carveout activity dipped in 2020. With that said, companies struggling to service looming debt maturities and deals involving antitrust concerns will likely turn to carveouts, and this is where PE groups will step in. Further, we could see more carveouts of UK-based subsidiaries as management teams look to focus on higher-growth regions, de-risk operations, and avoid disruption from the new Brexit deal. For example, the recent announcement that UK-based Ferguson (LSE: FERG) will carve out its British plumbing parts distribution business to New York-based Clayton, Dubilier & Rice for €340.9 million (£308 million) will shift 100% of Ferguson's revenues to North America, as it homes in on its fastest-growing geography.

Carveout and divestiture activity

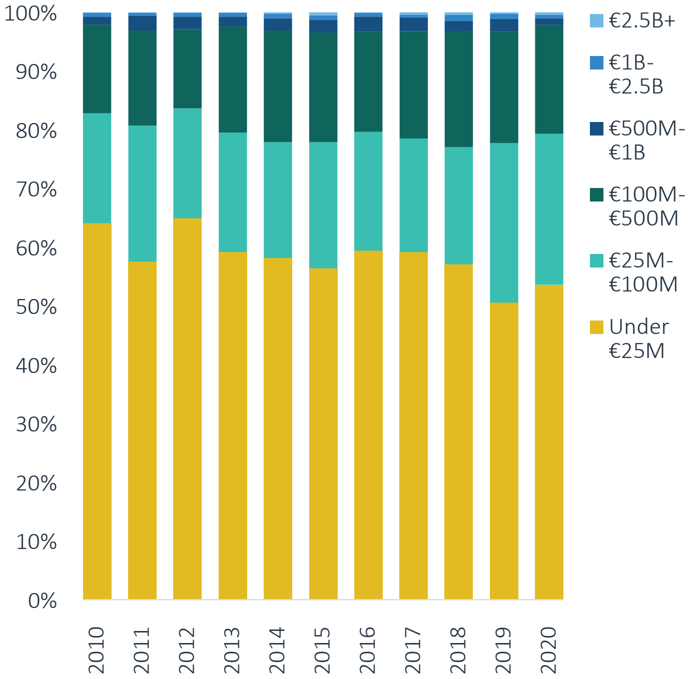


Source: PitchBook | **Geography:** Europe

4: "Coronavirus (COVID-19) Deaths Worldwide per One Million Population as of January 11, 2021, by Country," Statista, Raynor de Best, January 11, 2021.

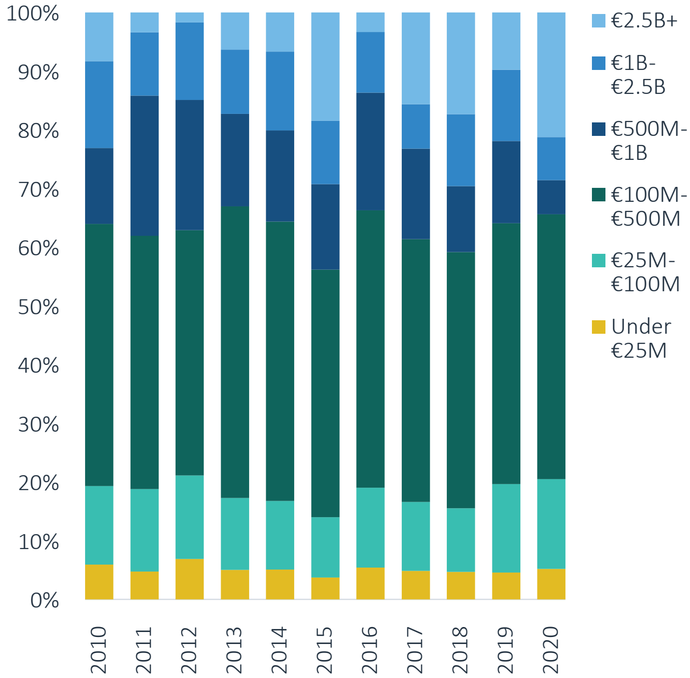
Deals by size and sector

PE deals (#) by size



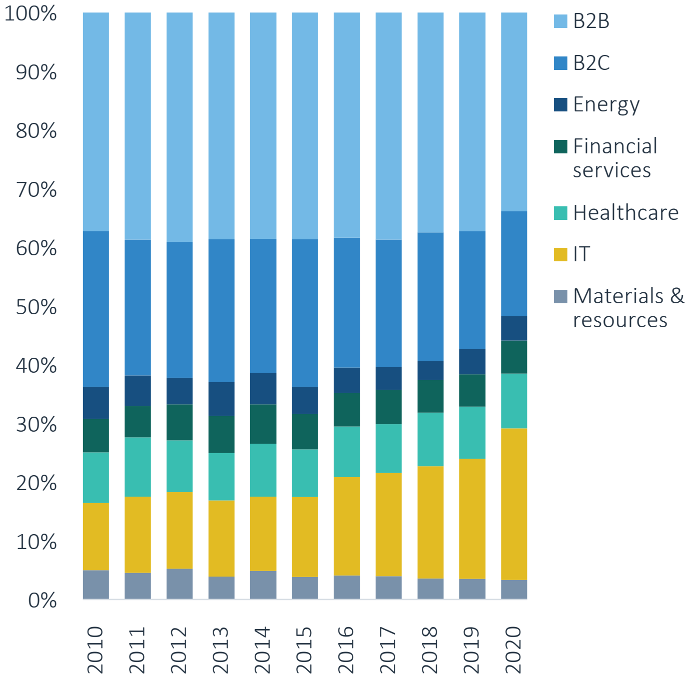
Source: PitchBook | **Geography:** Europe

PE deals (€) by size



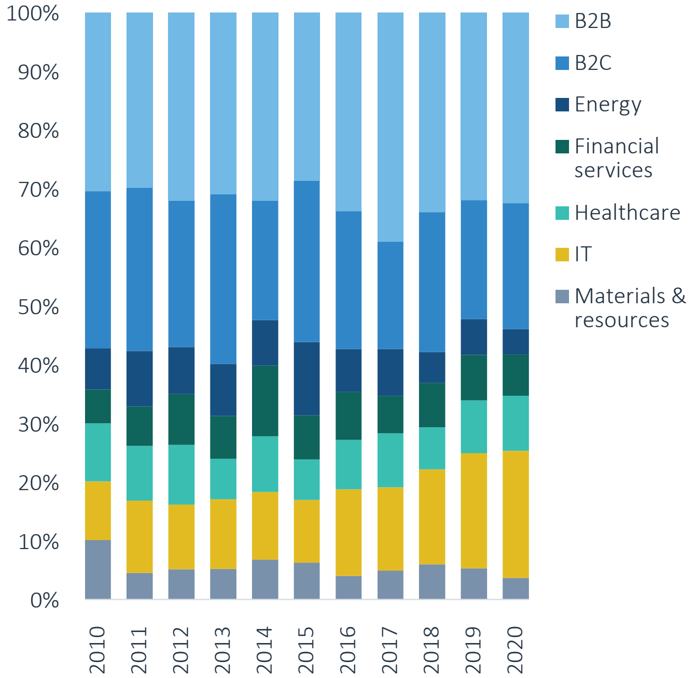
Source: PitchBook | **Geography:** Europe

PE deals (#) by sector



Source: PitchBook | **Geography:** Europe

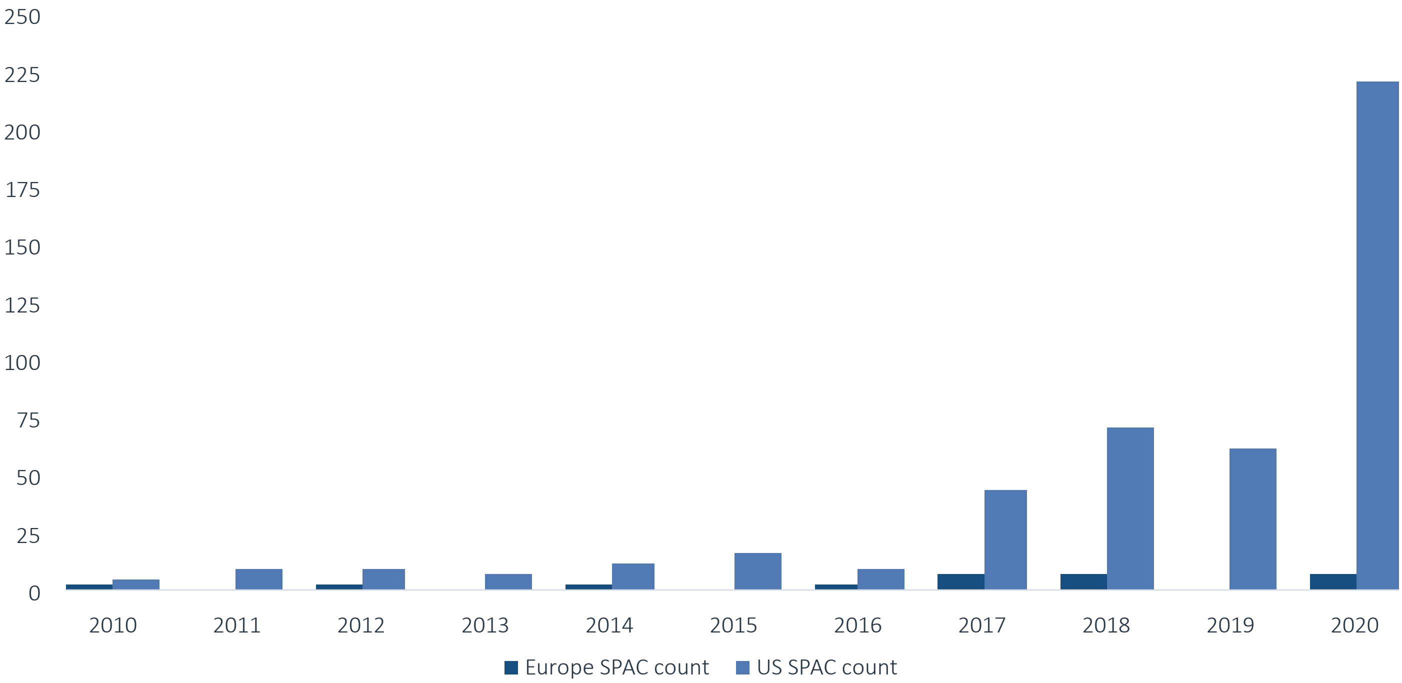
PE deals (€) by sector



Source: PitchBook | **Geography:** Europe

Spotlight: 2021 European PE outlooks

European versus US SPAC volume



Source: PitchBook | **Geography:** Europe

This text was originally published in the 2021 European Private Capital Outlook on January 14, 2021.

Prediction: European SPAC listings to hit double digits in 2021.

Rationale: While 2020 was the year of the US SPAC, a substantial opportunity for sponsor European SPAC vehicles has emerged as a viable option to raise capital outside the traditional close-ended commingled fund structure, and as a route to exit portfolio companies. Only four European SPAC listings closed in 2020, while the US has seen over 220. The outsized activity in the US means a portion of that market share will inevitably move to Europe. Multiple European exchanges and regulators are now competing to become the most favourable exchange and jurisdiction to list a European SPAC. They are working to change rules around SPACs that allow vehicles to look and feel like a US structure in order to entice a robust investor base. For example, the Nasdaq Nordic exchange expects to launch a US-type SPAC structure imminently. Furthermore, as the UK looks to redefine itself post-Brexit, the London Stock Exchange (LSE) is working to reverse takeover rules, which currently cancels a listing of SPAC shares where it completes a reverse takeover. This means, if the SPAC listing is to be maintained, the enlarged entity will have to publish a prospectus or AIM admission document outlining information on the acquisition and the new expanded group in order to be readmitted to trading.

Duplicating the favourable portions of the US SPAC structure, improving upon its weaker areas, and changing exchange rules will be crucial in unleashing European SPACs as an option for sponsors and institutional investors. With the potential of an oversupply of US SPACs chasing fewer quality deals, the European target opportunity set is compelling. If one of the initial European SPACs in 2021 trades well post-acquisition, we expect others will quickly follow suit and a listing frenzy will begin. Harvester Holdings Ltd is set to raise €750.0 million and list on the LSE in 2021. Subject to the performance of Harvester Holdings Ltd and shifting exchange rules, this could catalyse widescale adoption in the European market.

Caveat: A thinner investor base in Europe, a perceived lack of credible managers, and key structural and regulatory challenges continue to plague the European SPAC market. European sponsors will continue to move into the US SPAC market until they see material regulatory changes. Institutional investors simply won't commit to a structure they're not familiar with. In the UK, stock being suspended and shareholders' inability to vote on an acquisition target are major structural problems. Furthermore, while redemption features can be inserted into UK SPACs, the traditional structure does not allow investors to redeem shares should they disapprove of the target acquisition. Heightened activity in the European SPAC market largely relies on regulators and exchanges amending rules to almost mimic the US structure.

Prediction: European PE deal activity to top €480 billion and set a new high in 2021.

Rationale: The bulk of 2021 will be a year of reopening not lockdowns, recovery not recession, risk on not risk-off, and vaccine not virus. While sponsors focused on liquid markets and portfolio companies in Phase One and Phase Two of the COVID-19 crisis, respectively, the focus in 2021 will be on regular way control deals. Many managers have stated their deal pipelines across all strategies is particularly robust going into 2021, and recent GP surveys indicate deploying capital in 2021 is the main priority for managers. With interest rates at all-time lows, tepid inflation, and record dry powder levels on hand, we expect dealmakers to act with cautious aggression. There are no signs of slowing fiscal and monetary support, and the recovery in the leverage finance markets has been remarkable, illustrated by institutional investors' soaring demand for higher-yielding leveraged loans and high-yield bonds. For example, Blackstone received over €8.2 billion ($10 billion) of demand for a €2.3 billion ($2.8 billion) bond and loan offering to fund its planned acquisition of Ancestry.com. When analyzing previous downturns, it took managers around one year post-crisis to deploy capital at scale, and we expect outsized figures in 2021 to reflect that trend. Finally, pent-up demand from sponsors that were not able to hit deal volume and capital deployment targets in 2020 will also contribute.

Managers will likely transact more as opportunities for industry consolidation across multiple sectors such as financial services, energy, healthcare and TMT occur. We believe managers will utilize these opportunities to create European champions; drive scale, margins, and distribution channels; and seek to survive the market volatility. The combination of these factors almost creates the perfect environment for PE dealmaking in 2021.

Caveat: COVID-19 has already caused further rounds of lockdowns due to a more transmissible variant of the virus ripping through Europe. This will lead to considerable dispersion across European economies and dampened economic and PE deal activity. The new skeleton Brexit deal will likely see European geopolitical tensions continue as services, which contributes the bulk of UK GDP output, is yet to be negotiated. This will cause material disruption to PE deal activity in Europe's largest PE market. In addition, should inflationary pressures return, the landscape for PE deal activity will quickly change, as interest rates could rise, meaning financing buyouts and debt servicing becomes prohibitively expensive and unsustainable.

Fiscal programmes such as furlough schemes are set to end or taper in 2021, which could see unemployment increase as the recovery loses momentum and becomes even more uncertain and choppy. This could potentially mean zombie companies are forced into bankruptcy, leading to a reduction in demand for goods and services as unemployment numbers rise. The knock-on effects of substantial headwinds in valuing businesses would lie ahead, which could counter any resurgence in PE deal activity.

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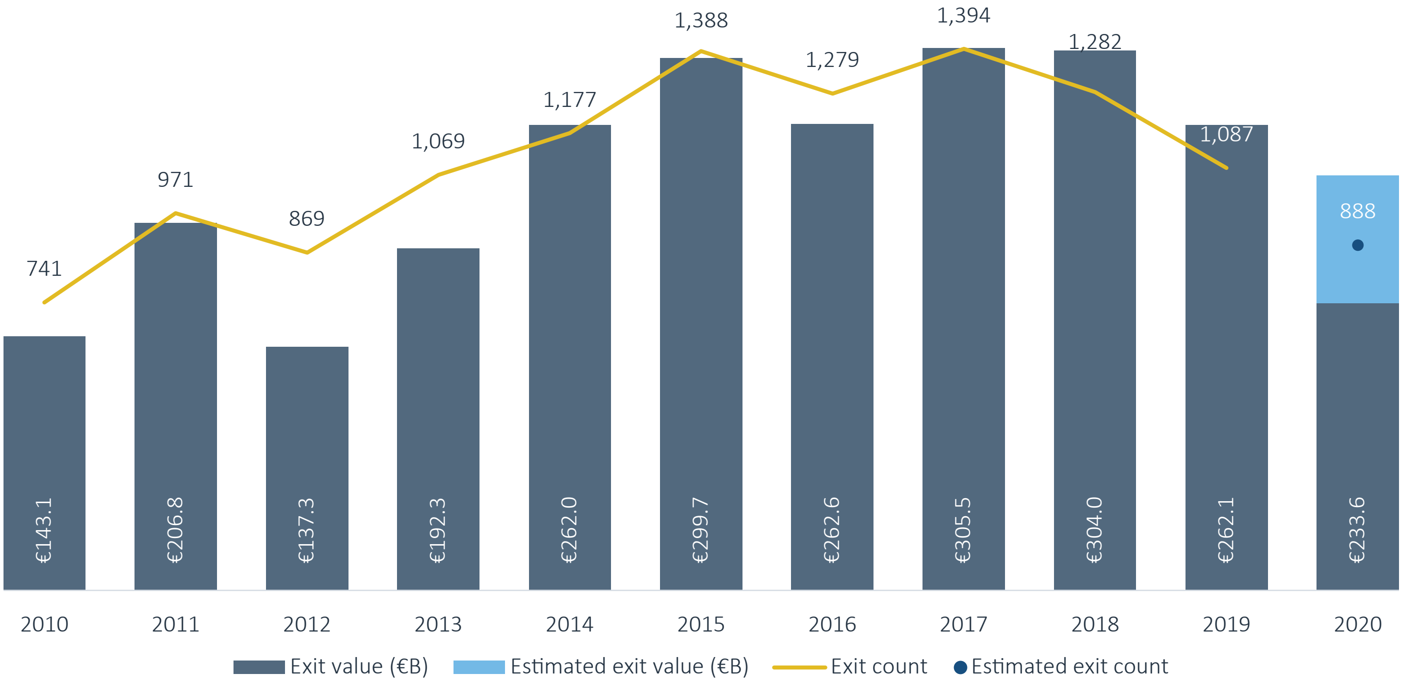
Exits

PE exit activity



Source: PitchBook | **Geography:** Europe

European PE exit activity was lethargic in 2020—unsurprising given the volatility during the period. Under 1,000 exits closed in 2020 for a total of €233.6 billion in 2020. This equates to YoY falls of 18.3% and 10.9%, respectively. Exits sized under €25 million saw approximately 50% slashed off its 2020 volume, the largest of any exit size bucket. One explanation for the decline in activity at the lower end of the market is the inherent volatility and lack of available financing, which likely led to wide valuation disconnects, especially in a time of pandemic-driven demand and supply shocks.

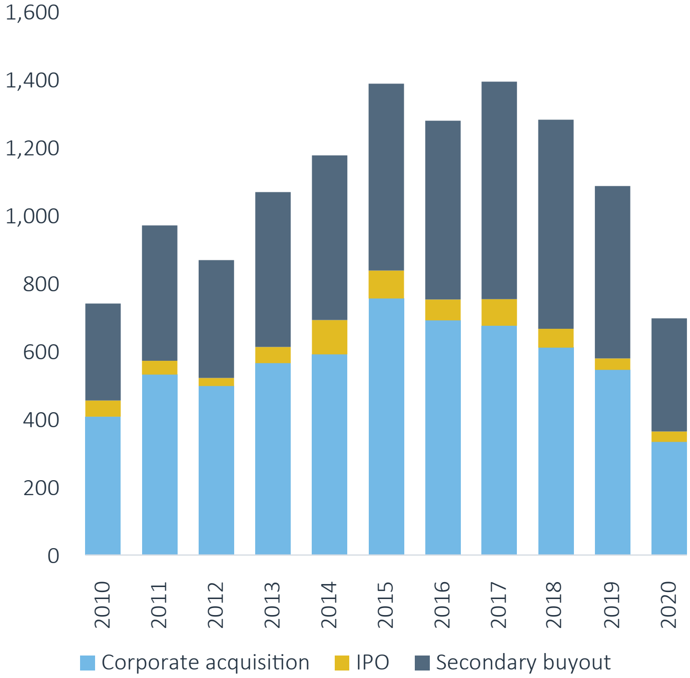
More broadly, exits have markedly declined more than deal activity. This is largely due to sponsors pushing exit timeframes back and waiting for a more sanguine environment to offload cyclical PE assets. Managers opted to invest more into portfolio companies to take advantage of expected growth as PE fund valuations dropped. In addition, sponsors increasingly turning to dividend recapitalisations and GP-led secondaries contributed to a weak exit environment in 2020, as investors searched for ways of taking money of the table, boosting IRR, and returning proceeds to LPs amid the tepid exit environment. Buoyant credit markets and an increasing appetite for alternatives from LPs has been the bedrock of such transactions.

However, on a more positive note, the exit market does have some silver linings going into 2021. First, realization activity has consecutively increased QoQ since Q2 2020. Second, coming off the back of 10 years of strong dealmaking, and with mass vaccinations underway in Europe, we could see the exit environment bounce back towards the second half of 2021. We have also seen many publicly traded PE funds move into the black towards the end of 2020, as valuation marks, which are critical in driving exit processes, have taken cue from comparable public companies' strong recovery. Furthermore, public PE firms have recently discussed the restart of many sale processes that paused in March 2020. As a result, given the bulk of PE assets are sold through an auction, portfolio companies that were put on the market in H2 2020 will likely not close until 2021, which could mean exit figures move substantially north in the coming year. Lastly, SPACs will likely be a new and prominent acquirer of European PE-backed companies in 2021. With a glut of US SPACS chasing a finite number of North American targets, and the potential for a European SPAC listing frenzy, we could see additional US and European vehicles pursue more compelling European risk-reward targets in 2021 (see spotlight section for further commentary on SPACS).

For the first time on record, sponsor-to-sponsor deals (SBOs) accounted for as many exits as corporate acquisitions, though both saw substantial declines. SBOs and corporate acquisitions accounted for 333 exits apiece in 2020—YoY drops of 34.5% and 38.9%, respectively. Entities conserving liquidity due to the pandemic may have contributed to the steeper decline on the corporate side. Given the healthy fundraising environment, we expect SBOs to account for the lion's share of exit volume in 2021 as sponsors attempt to hit deployment targets that were possibly missed in 2020. Despite IPOs accounting for less than 5% of exit volume in 2020, we anticipate the number of IPOs to rise a healthy amount in 2021 for a few reasons. First, the combined €24.7 billion listings of Netherlands-based JDE Peet and Poland-headquartered Allegro were the two largest exits of 2020, underpinning public equity investors' willingness to pay astronomical valuations for growth. Second, IPOs attributed the smallest YoY fall of all exit types in Europe at less than 10%. Finally, the continued acceleration in the divergence between the public markets and the real economy may mean more listings, as equity markets continue to grind higher implying higher exit valuations for sponsors.

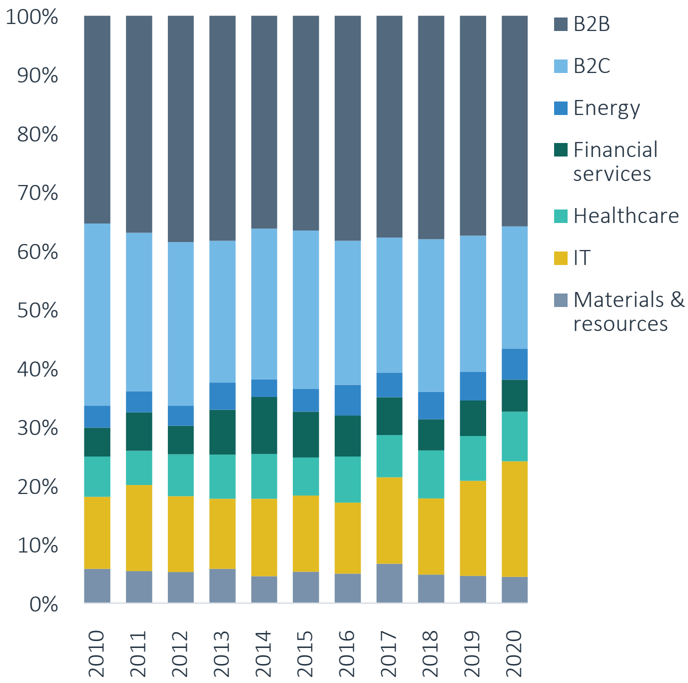
Dissecting our analysis by sector, IT exit volume proportions substantially increased in 2020, hitting a new high. Close to 20% of all exit volume came from the sector, up from 12% a decade ago, predictably mirroring the trend seen in dealmaking. The bulk of PE assets that are actively trading have been in sectors benefiting from the pandemic, such as IT, due to valuations holding steady and, in some cases, rising. This potentially points to why the median exit size ticked up 10.1% in 2020 to €114.2 million. Notably, Japan-headquartered NEC Corporation (TKS: 6701) acquired Switzerland-based SaaS company Avaloq, a Warburg Pincus portfolio company, in Q4 2020 for €1.9 billion. According to recent reports, Avaloq was purchased at a steep 21.4x[5] adjusted EBITDA and underlines the attractive valuations fetched by IT assets. Warburg Pincus purchased the company in 2017 and converted the Avaloq sales model from traditional software licensing, which involves a large upfront payment, to a SaaS model, which provides long-term recurring revenue.

PE exits (#) by type



Source: PitchBook | Geography: Europe

PE exits (#) by sector

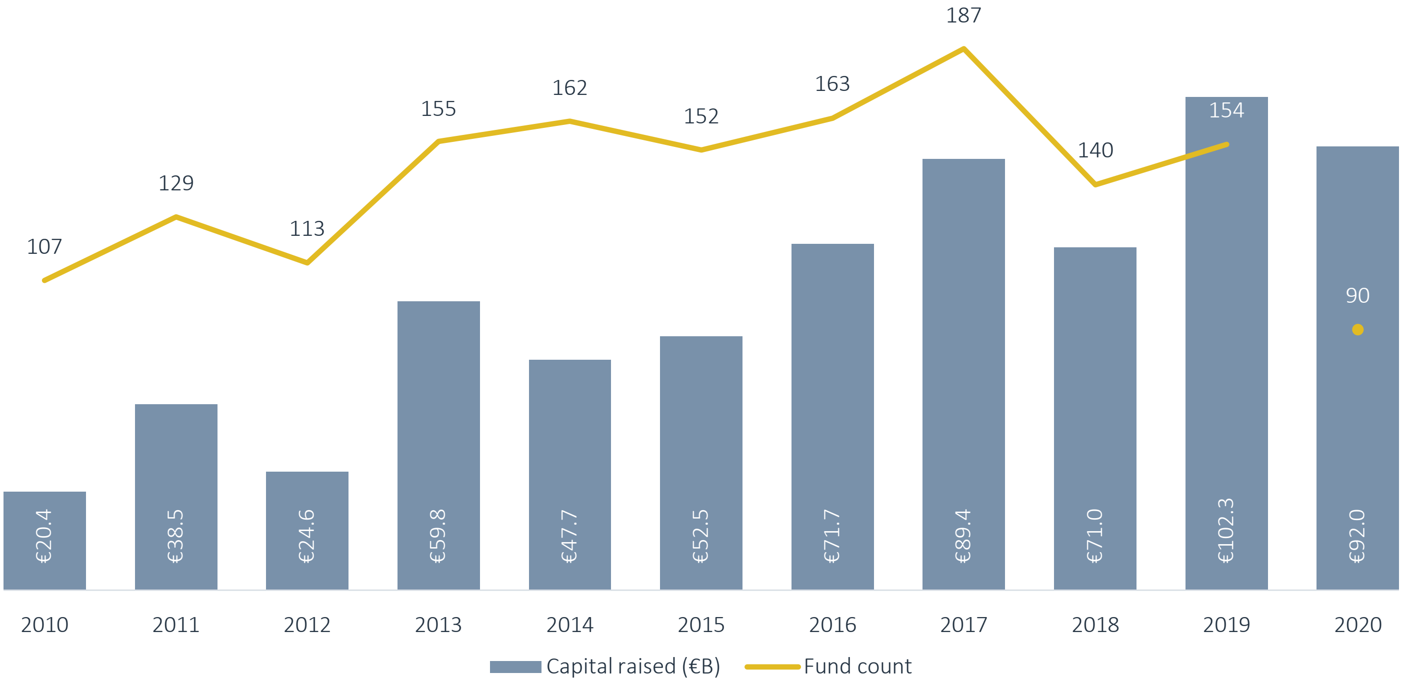


Source: PitchBook | Geography: Europe

5: "NEC to Acquire Warburg Pincus-Backed Avaloq for $2.2 Billion," Bloomberg, Jan-Henrik Foerster, Myriam Balezou, and Vlad Savov, October 5, 2020.

Fundraising

PE fundraising activity

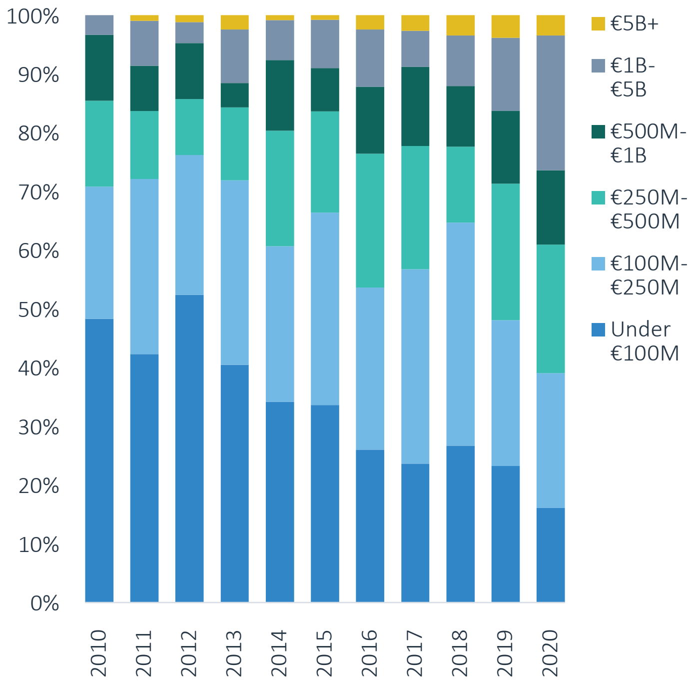


Source: PitchBook | **Geography:** Europe

European PE fundraising in 2020 experienced an extremely strong year underpinned by palpable divergence. 2020 reached its second-highest value ever, even as fund counts dipped to a new trough. European PE firms closed 90 funds for a combined €92.0 billion. The COVID-19 crisis had profound effects on fundraising in H1 2020, with capital raised figures coming in extremely subdued. However, allocators and managers quickly adapted to the new virtual environment in H2 2020 to finish the year strong. The fastest bear market on record made the denominator effect short-lived, arguably the most important contributor to the lofty capital raised figures. The unimaginable quick recovery in the liquid markets meant LPs had capital ready to commit to PE as allocation targets remained in sync, and the gap between assets and liabilities did not balloon out of control.

The COVID-19 pandemic largely accelerated fundraising trends that were present pre-pandemic and helps explain the considerable divergence in the market. For instance, low interest rates, low inflation, low global growth, and public market volatility were all present before COVID-19 hit, but have all been materially hastened by the crisis. This has caused pronounced secular shifts towards PE allocations. The traditional 60/40 allocation mix of institutional investors has long been changing, with greater portions of the 40% fixed-income allotment being

PE funds (#) by size



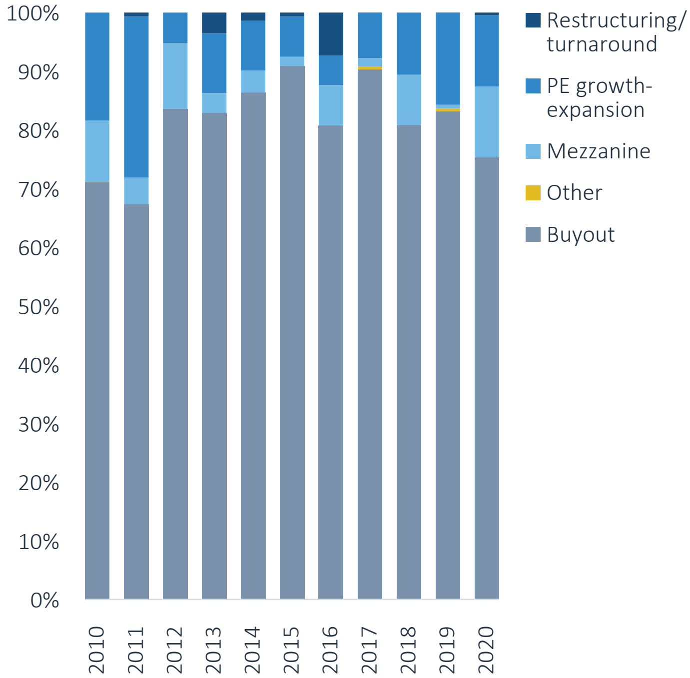
Source: PitchBook | **Geography:** Europe

funnelled into alternatives, especially PE, as interest rates remain lower for longer and the gap between the risk-free rate and target returns widens. This outlines why capital raised came in at healthy levels.

In addition, LPs that were focusing on larger outperforming managers pre-pandemic further homed in on such sponsors in 2020. The larger, brand-name managers that have successfully navigated multiple business cycles and have long-standing LP relationships generally benefitted from the remote fundraising environment as allocators reupped with existing GPs. For example, CVC closed the largest European buyout fund in 2020 at €21.3 billion in seven months. This dynamic goes a long way to help summarize why the median and average PE fund sizes hit records in 2020 at €377 million and €1.1 billion, respectively, and why the median time to close for funds sized greater than €1.0 billion dipped to 10.8 months. Lastly, favourable marketing timing helped bolster fundraising numbers. History proves fund vintages that immediately follow any downturn tend to outperform, as managers can capture mispriced risk and deliver attractive returns. With that said, the short-lived nature of 2020's pullback could make finding mispriced assets more difficult.

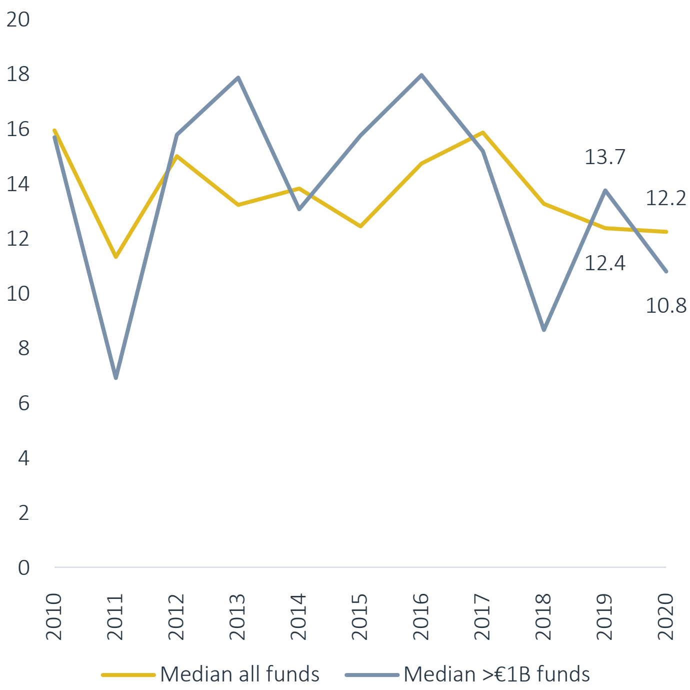
Although buyouts continued to dominate the PE fundraising landscape, mezzanine capital commitments caught our eye in 2020. €11.1 billion was raised across the strategy, setting a new record and near equalling growth equity commitments for the year. Although the bulk of mezzanine annual commitments came from one PE mega-fund (€5 billion+) closed by HPS Investment Partners, the COVID-19 pandemic has brought on strong demand for non-investment-grade credit platforms from LPs. The demand and supply driven shocks from the pandemic means liquidity bridges built from March 2020 to December 2020 have probably depleted for many companies, especially small and medium sized enterprises (SMEs). Renewed lockdowns due to a more transmissible new variant of the virus ripping through Europe, limited access to fiscal-monetary stimulus for SMEs, and the potential of inflationary pressures will put highly levered SME's under profound stress as margins and cash flows are squeezed, which could make debt servicing unsustainable. This is where PE firms' non-investment-grade credit platforms will step in to provide flexible capital solutions. For instance, HPS Investment Partners closed a €9.4 billion mezzanine fund in Q4 2020. The fund will invest in junior debt, which ranks behind senior and other first-lien debt in the capital structure. Additionally, Ares Management (NYSE: ARES) recently closed on one of the largest European

PE funds (€) by type



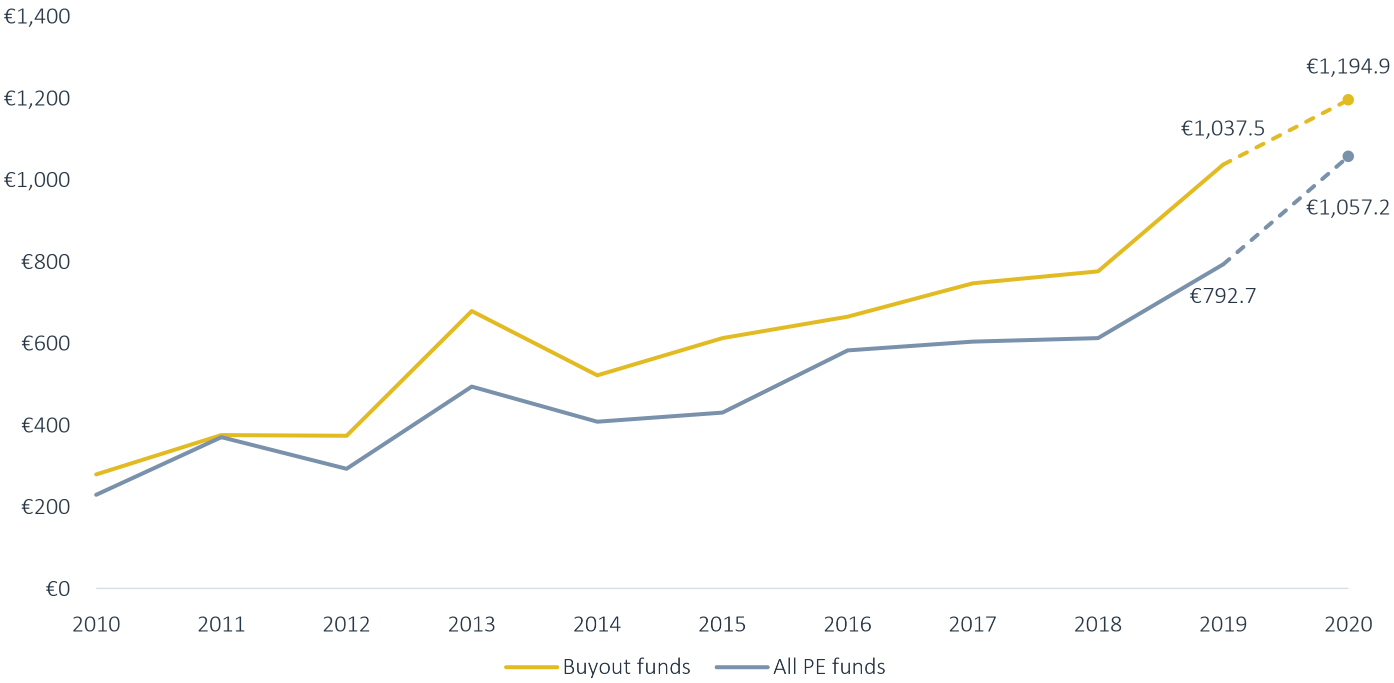
Source: PitchBook | **Geography:** Europe

Median and average PE fund closing time (months)



Source: PitchBook | **Geography:** Europe

Average PE fund size (€M)

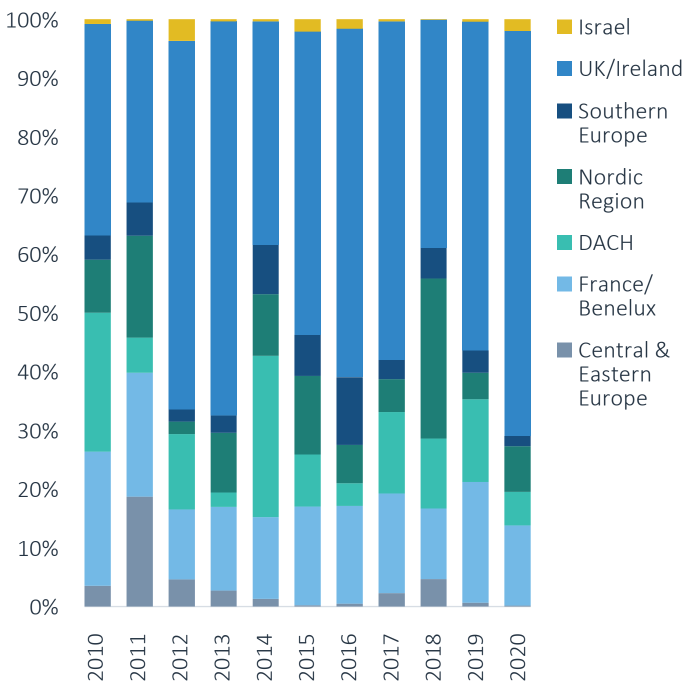


Source: PitchBook | **Geography:** Europe

direct lending funds in Q1 2021 at around €9.0 billion, underscoring LPs' appetite for non-investment-grade credit platforms.

European PE fundraising should remain strong heading into 2021. With mass inoculations underway in Europe, in-person due diligence could be back on the table in H2 2021, removing one of the biggest pandemic-driven fundraising challenges. This would bring many institutional investors back in the fold that have regulations in place that prohibit commitments to PE firms without undergoing onsite due diligence. Subsequently, both fund count and capital raised numbers for first-time funds and less-established managers could improve, as they heavily rely upon those initial in-person interactions to entice commitments. Conjointly, elevated public market valuations will cause some LPs to capture gains and commit to asset classes such as PE, where they believe outsized risk-adjusted returns could be made over the medium to long term. With an abundance of capital chasing a finite number of attractive deals, sponsors will have to work hard to convince LPs they can effectively and quickly put capital to work in 2021.

PE fundraising (€) by region



Source: PitchBook | **Geography:** Europe