PitchBook

2022 European Private Capital Outlook

Forecasting the primary trends that will shape the European PE and VC industries in 2022

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Credits & contact

PitchBook Data, Inc.

John Gabbert Founder, CEO
Nizar Tarhuni Senior Director, Institutional Research & Editorial

Institutional Research Group

Analysis
Dominick Mondesir Senior Analyst, EMEA Private Capital
dominick.mondesir@pitchbook.com
Nalin Patel Senior Analyst, EMEA Private Capital
nalin.patel@pitchbook.com

pbinstitutionalresearch@pitchbook.com

Data
Charlie Farber Data Analyst

Publishing

Designed by **Julia Midkiff**

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2022 predictions

p. 2 At least 15 merged SPACs will be taken private by sponsors in 2022.

p. 4 A record 20 insurance companies will be acquired by or partner with sponsors at the company level to be used as a source of permanent capital.

p. 6 Global carveout deal value will hit a new high of €200 billion in 2022.

p. 8 European VC deal value will hit a record €175 billion in 2022.

p. 10 Nordic VC activity will reach a new record deal value of €20 billion with over 1,000 deals occurring.

p. 12 VC-backed public listings will decline in value and count from 2021 highs.

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DOMINICK MONDESIR Senior Analyst, EMEA Private Capital
dominick.mondesir@pitchbook.com

Prediction: At least 15 companies that have been through a SPAC merger will be taken private by sponsors in 2022.

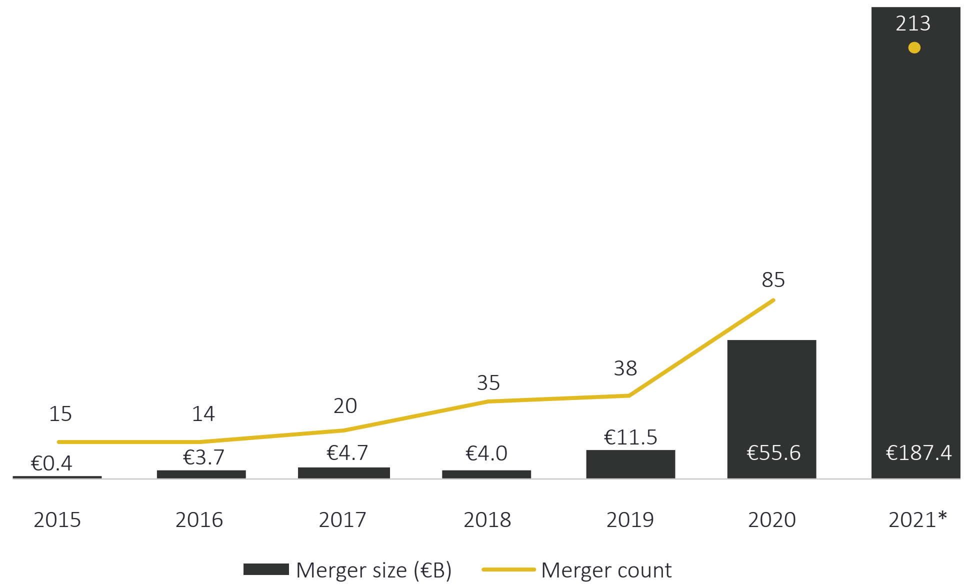
Rationale: Hundreds of SPACs have produced disappointing returns for investors and are performing poorly in the liquid markets, which is breeding opportunities for sponsors through take-privates. The SPAK ETF illustrates the lacklustre performance of SPACs, having returned -14.3% as of October 31, while the S&P 500 and the Euro STOXX 50 indexes have each returned over 20.0% during the same period. A recent analysis shows 65% of SPAC deals completed at a valuation north of €887 million ($1.0 billion) are trading below €8.9 per share ($10.0)[1]. The aggressive hunt for yield from cash-rich investors fuelled the SPAC boom as gluttony has outpaced fear in the markets.

Many SPACs have merged with companies that are not ready for the public markets, most notably in the first wave we saw in early 2021. For example, US-based flying taxi startup Archer Aviation (NYSE: ACHR) merged with the Atlas Crest Investment SPAC in Q3 2021 at an EV of €2.4 billion ($2.7 billion), despite booking no revenue. Approximately one year after Archer Aviation closed a €5.3 million ($6.0 million) seed round, it now trades on the public markets at approximately 70.0% below its 52-week high at less than €5.3 ($6.0) per share. Furthermore, US-based Metromile (NASDAQ: MILE) merged with the INSU Acquisition SPAC in Q1 2021 at a €1.0 billion valuation, while in Q4 2021 the company agreed to merge with Lemonade (NYSE: LMND) for less than half that initial €1.0 billion valuation. Sponsors will be closely monitoring take-privates of several SPACs as pricing is favourable, availability of debt financing is high, performance has been poor, and rising rates loom. For instance, Italy-based SICIT 2000 went through a reverse merger in 2019 with SprintItaly (MIL: SPRT), to then be taken private in Q3 2021 by Neuberger Berman for €380.5 million.

Caveat: First, a decent proportion of SPACs are merging with early-stage pre-revenue companies, which are likely too early in their lifecycle for a PE sponsor. Second, regulators, including the Securities and Exchange Commission (SEC) and the Financial Conduct Authority (FCA), have taken active steps to revamp SPAC rules, which aim to increase investor protections, improve alignment with key stakeholders in a SPAC, and enhance disclosures on targets. The knock-on effect could be better performance of SPACs, which may slow take-private activity as SPAC prices move upwards. For example, the recent listing of Hambro Perks Acquisition Company on the London Stock Exchange will test if the new rules help translate into better performance. Third, sponsors have outsized incentives through the SPAC "promote" to keep the SPAC listing frenzy alive. And finally, when REITs, BDCs, and high-yield debt products first arrived in the capital markets, they all had a quick acceleration in activity when first established; they then cooled and normalised before quality was found. We could be in the phase of normalisation or establishing quality in the SPAC market, which would dwindle the number of take-private opportunities.

1: "The SPAC Machine Sputters Back to Life After Dramatic Meltdown," Financial Times, Ortenca Aliaj and Miles Kruppa, November 21, 2021.

De-SPAC deal activity



Source: PitchBook | **Geography:** Global
*As of November 22, 2021

DOMINICK MONDESIR Senior Analyst, EMEA Private Capital
dominick.mondesir@pitchbook.com

Prediction: A record 20 insurance companies will be acquired by or partner with sponsors at the company level to be used as a source of permanent capital.

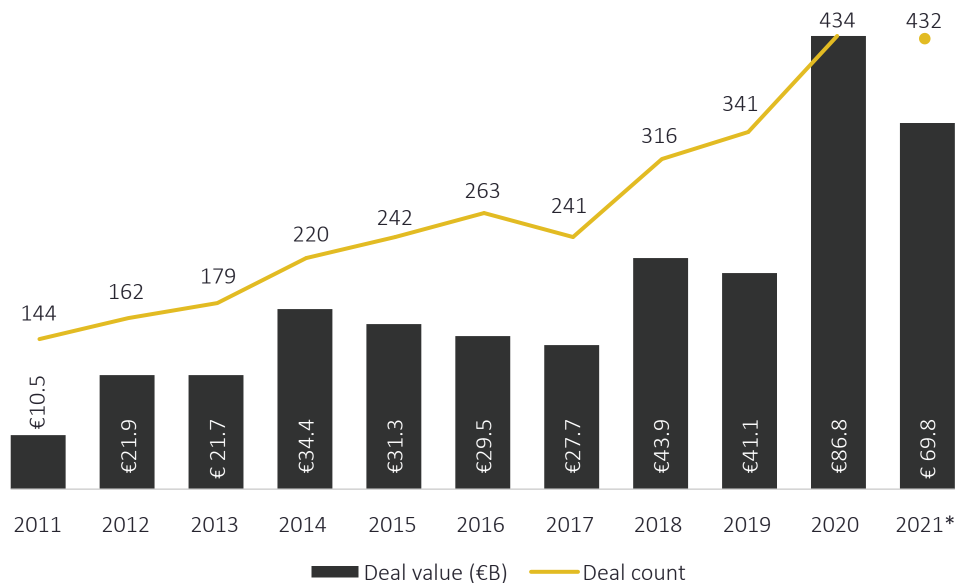
Rationale: A standout theme across PE has been sponsors partnering with or acquiring insurance companies—not as portfolio companies, but as a source of permanent capital for other investments. We anticipate this trend will accelerate in 2022 given the strong use cases. Over the past 24 months, we have seen KKR (NYSE: KKR) acquire Global Atlantic Financial Group, Carlyle (NASDAQ: CG) merge with Fortitude, and Blackstone (NYSE: BX) acquire a minority stake in AIG (NYSE: AIG) and execute a partnership with the firm to manage €44.4 billion ($50 billion) of AIG's life and retirement portfolio. That amount is set to increase to €82 billion ($92.5 billion)[2] over the next six years. While Berkshire Hathaway's (NYSE: BRK) successful Geico acquisition helped pioneer the trend of buying insurance assets, it has been primarily concentrated in large US public PE managers, and we expect European and private GPs will join the party. For instance, in Q3, we saw the private GP Sixth Street Partners acquire US-based life insurance and annuity services company Talcott Resolution Life for €1.8 billion ($2.0 billion). European outfits such as EQT (STO: EQT), Ardian, CVC Capital Partners, and Cinven could be active buyers of insurance companies in 2022 as they have the scale, resources, and profile to play in this field.

These transactions appeal to sponsors because they can demonstrably increase long-term fee-related earnings (FRE) via permanent capital vehicles, which substantially augments a PE group's valuation and provides a diversified source of earnings. For example, 60% of Apollo's total AUM comes from permanent capital vehicles, with insurance firms Athene (NYSE: ATH) and Athora accounting for over 90% of that number. Shareholders seem to be rewarding these changes; Blackstone, KKR, and Carlyle have all seen their shares appreciate around 80.0% over the past trailing twelve months, more than doubling the S&P 500's return. Insurers enjoy a bedrock of capital from sticky regular streams of cash inflows from sources such as insurance premiums, meaning GPs have long-term capital with a lifecycle beyond the traditional 10-year fund. In addition, sponsors can use this liquidity to fund deals and are less reliant on traditional fundraising activities. On the insurance side, insurers are open to PE partnerships to drive returns, as the protracted zero-rate environment has meant lower returns for their portfolios. Divesting of business units allows insurers to free up cash to invest elsewhere, diversify away some risk, keep enough capital on hand to meet regulatory requirements, and pay promised benefits. The current rush to insurance companies will likely continue in this dovish policy environment as more insurers divest of low-growth units with margins under pressure and PE firms strategize to increase permanent capital vehicles.

Caveat: The prospect of a more hawkish policy environment could dissuade insurers from sales to sponsors, as yields on their fixed-income investments should increase. In addition, we expect strong PE fundraising in 2022, and as a result some sponsors may not commit resources and time to execute upon insurance acquisitions, as liquidity is aloft.

2: "AIG Finalises Sale of Equity Stake in L&R Business to Blackstone," Insurance Business UK, Duffie Osental, November 3, 2021.

Insurance PE deal activity



Source: PitchBook | **Geography:** Global
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DOMINICK MONDESIR Senior Analyst,
EMEA Private Capital
dominick.mondesir@pitchbook.com

PE prediction: Global carveout deal value will hit a new high of €200 billion in 2022.

Rationale: Due to the pandemic, the PE supply-and-demand dynamic for corporate carveouts has never looked more conducive for a stellar year. At time of writing, global carveout deal value stands at €171.6 billion, its second-highest figure on record, and we still have around six weeks of 2021 left. Carveout trends from 2021 will extend into 2022, pushing the year to a new record for a few reasons.

First, pandemic-related stock underperformance, reducing stimulus, and the prospect of further lockdowns because of the potential of a more transmissible, deadly and vaccine resistant COVID-19 variant forming, is driving corporates to intensely re-evaluate their core competencies and exit non-core assets to pay down debt accumulated during the COVID-19 crisis. Corporates will sell business units to align the core of the organization more closely with changing consumer and employee behaviours, supply chains, and environmental, social, and governance (ESG) matters—most notably in the climate and sustainability spaces—which should foster a growing supply of carveout targets. While not quite carveouts, we recently saw large conglomerates such as GE, Johnson & Johnson, and Toshiba split up into two to three independent businesses as management, shareholders, and activist investors have likely worked out that the whole is worth less than the sum of the parts, as they look to improve balance sheet strength. This activity will prompt similar behaviour from competitors, with some opting for outright divestitures to hungry sponsors.

Second, in this zero-rate environment, M&A provides the most viable path to outsized growth for corporates, and with this comes more intense government and regulatory scrutiny. The EU, UK, and US governments all enhanced their abilities to review mergers in 2021, increasing the potential for forced divestitures. This is where sponsors will be willing buyers. For instance, in Q3 2021, manufacturer of optical lenses Essilor (PAR: EL) acquired Netherlands-based eyewear retailer GrandVision (AMS: GVNV) for €7.6 billion ($8.5 billion), with EU regulators mandating the combined entity divest of more than 300 stores to close the deal.

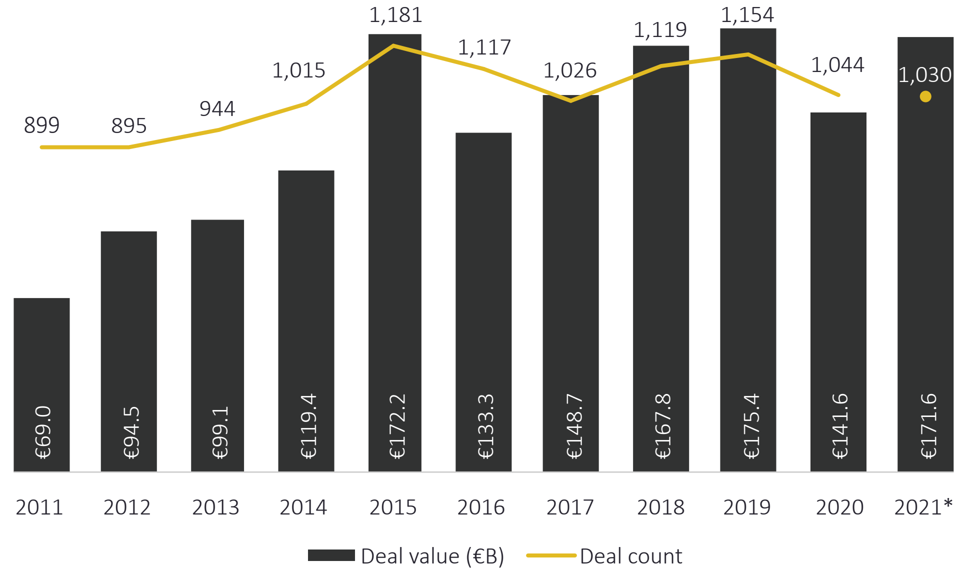
Third, sponsors are under fierce pressure from LPs to deploy their record dry powder quickly and drive higher risk-adjusted returns. The inherent complex and less-trodden path of carveouts could prove a fertile hunting ground for sponsors to deploy capital and augment IRRs. For example, a recent survey by Dechert LLP shows 58%[3] of North American managers expect the number of carveouts targeted by their firms to increase in 2022.

Caveat: Carveouts can be complex, cumbersome, and time-consuming deals to execute. With speed and scale critical in the new dawn of PE, not all GPs will have the resources or expertise to play in this arena. For example, only 40%[4] of EMEA and Asia-Pacific managers expect to increase

3: "2022 Global Private Equity Outlook," Dechert and Mergermarket, November 9, 2021.
4: Ibid.

carveout activity in 2022, according to a recent survey. Despite the prospect of a more hawkish fiscal-monetary policy, interest rates are still expected to be historically low, which could dissuade some companies from selling business units as debt is still cheap and liquidity is plentiful.

PE carveout activity



Source: PitchBook | **Geography:** Global
*As of November 22, 2021

NALIN PATEL Senior Analyst, EMEA Private Capital
nalin.patel@pitchbook.com

Prediction: European VC deal value will hit a record €175 billion in 2022.

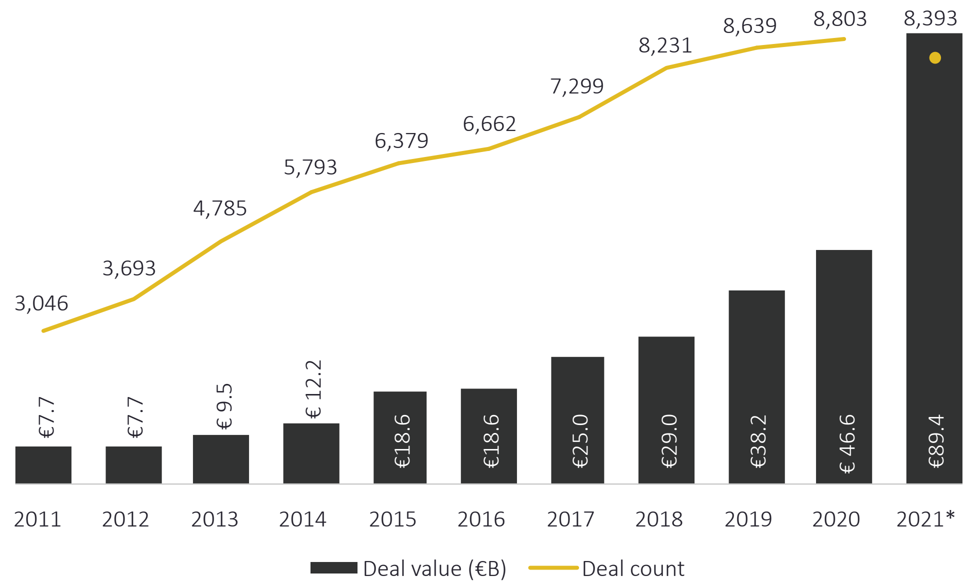
Rationale: We anticipate VC deal value in Europe will continue an aggressive upward trajectory and hit €175 billion in 2022 as investors and startups double down on dealmaking efforts. The COVID-19 pandemic has accelerated capital flows into tech-based VC-backed companies, and we feel further investment will be conducted to seek out heightened long-term returns amid high inflation, low interest rates, and an uncertain period for wider global financial markets.

Capital has found its way into venture as tech businesses have thrived during COVID-19 restrictions. Rising online users have driven up recurring revenues of companies looking to close outsized rounds at swelling valuations. We expect dealmaking in Europe to increase as nontraditional and international investors target fast-growing European assets looking to scale globally. The European VC ecosystem has matured significantly in the past three years as round sizes and valuations have spiked. Europe now possesses a wide variety of unicorns in different sectors and geographies, and these companies will likely drive up deal value figures to new heights with enormous late-stage rounds.

Caveat: The threat of a bubble bursting always remains in the financial industry. Volatility has been a key theme across wider financial markets in 2021, and with a mooted tightening of monetary stimulus amid inflationary pressure, capital availability could decline. Many VC analysts felt the COVID-19 pandemic would be a market-correcting black swan event; however, broadly speaking, it has been the opposite. Overall, the VC ecosystem is in great shape, with VC funds flush with capital from recent exits, healthy quantities of new startups that received first-time rounds, and strong growth rates for existing portfolio companies. But the threat of an industry-defining scandal or revelations about an opaque private market valuation persist. As witnessed with WeWork (NYSE: WE) in 2019, news stories can go viral and quickly dampen appetite within the VC ecosystem.

Despite the threat of new variants, new lockdowns, and varied vaccination rates in European countries, we are hopefully past the worst of the pandemic. There have been numerous pandemic-driven success stories in areas such as online event tools and remote working solutions. However, the sustainability of rapid growth for fast-growing businesses remains an ever-present question facing VC-backed companies. For example, previously VC-backed US-based home fitness provider Peloton (NASDAQ: PTON) has seen losses worsen and its share price tumble in recent months. Declines in pandemic-induced usage could impact startups' ability to demonstrate long-term revenue growth, close rounds, and increase overall deal value figures.

VC deal activity



Source: PitchBook | **Geography:** Europe
*As of November 22, 2021

NALIN PATEL Senior Analyst, EMEA Private Capital
nalin.patel@pitchbook.com

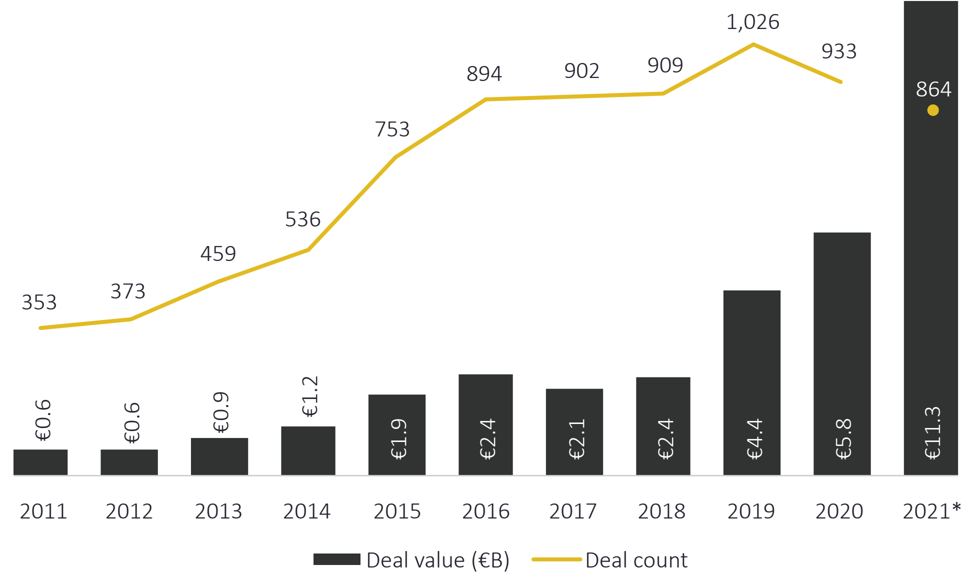
Prediction: Nordic VC activity will reach a new record deal value of €20 billion with over 1,000 deals occurring.

Rationale: The Nordic VC ecosystem has developed impressively during the past five years, with deal value jumping to €11.3 billion in 2021 YTD. We expect this momentum to carry through into 2022. There are several huge late-stage companies across the region that could drive up deal value figures with fresh funding rounds. Companies in Sweden include battery developer Northvolt, healthtech app Kry, and buy now, pay later provider Klarna. Further companies include database-as-a-service specialist Aiven in Finland, business spending platform Pleo in Denmark, and data management company Cognite in Norway. Sweden is no longer the only major deal value generator in the Nordic region, and we expect multibillion-euro companies will close multimillion-euro rounds across various sectors and countries in the coming year.

We anticipate increased dealmaking in the region could help the Nordic ecosystem become one of the highest deal value producers in Europe in 2022, perhaps surpassing the France & Benelux region as the third largest in Europe. The Nordic VC scene is now well-known by much of the global venture ecosystem, and we expect capital flows from US, European, Asian, and domestic VC funds, along with participation from nontraditional investors, to grow as late-stage Nordic companies seek outsized financing. With deal value figures predicted to rise across Europe, the region will likely compete on a more level playing field with the more established venture ecosystems in the UK & Ireland, France & Benelux, and DACH regions for substantial VC rounds. Investors are casting a wider net to seek out less expensive investments by tapping into new regional pockets, and the Nordic region is well-positioned to capitalise on increased capital flows entering VC. It already has an established ecosystem with experienced networks, skilled talent, and cutting-edge startups.

Caveat: The Nordic ecosystem may generate significant liquidity via outsized exits rather than deal value in 2022 given the maturity of highly valued companies in the region. For example, Klarna's valuation has reached €37.4 billion, and it could decide to exit, which may trigger other late-stage VC-backed companies to follow suit. Extensive capital options have extended funding runways drastically within European VC; however, with strong investor appetite for tech public listings in 2021, Klarna could exit and deliver long-awaited outsized returns to investors.

Investors may target less developed and expensive regions in Europe, such as Central and Eastern Europe or Southern Europe, and deal value may not increase at the rate it has during 2021. LPs and GPs could attempt to find better value for money investments, which has been difficult to do in 2021. The COVID-19 pandemic has increased capital within venture, and the hottest regions may face a flattening of investment curves if they price out investors or fail to produce a healthy new pipeline of startups.



Source: PitchBook | **Geography:** Nordic
*As of November 22, 2021

NALIN PATEL Senior Analyst, EMEA Private Capital
nalin.patel@pitchbook.com

Prediction: VC-backed public listings will decline in value and count from 2021 highs.

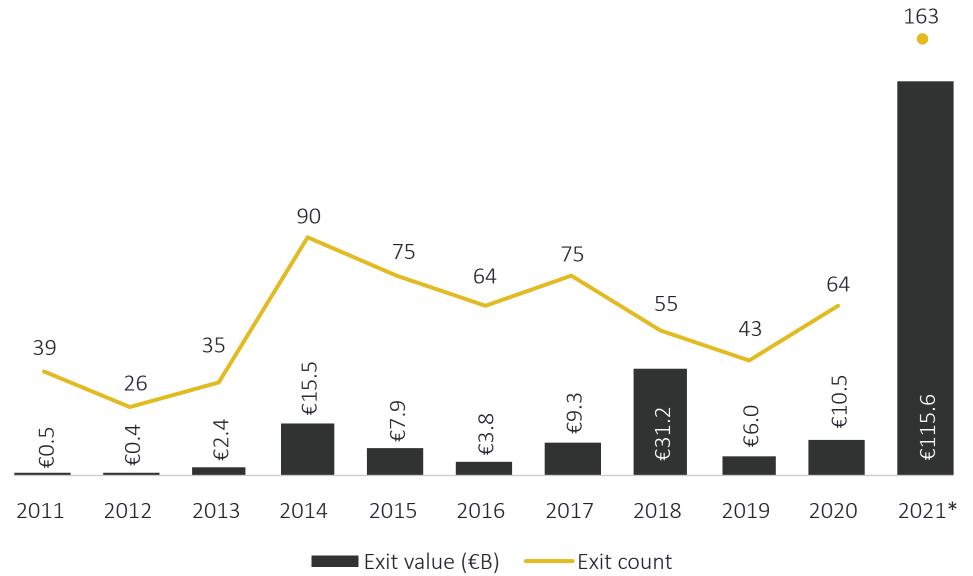
Rationale: We expect public listings to cool as nontraditional investors and VC funds flush with capital from recent exits reinvest into new batches of startups. At the time of writing, public listing exit value is on pace to outstrip deal value for the first time since 2018. In 2019, public listing exit value (which includes IPOs, direct listings, and reverse mergers with SPACs) dropped 80.9% after 2018 was skewed by Spotify's (NYSE: SPOT) DPO. Public listings ballooned in 2021, delivering excess levels of liquidity back to LPs amid insatiable appetite from investors targeting tech company debuts. LPs may now want to deploy capital into rounds rather than exit additional investments. Moreover, risky, lengthy, and costly public listings could be put on hold as mature companies seek out late-stage capital—which has been widely available—rather than an exit in 2022.

We believe the COVID-19 pandemic and subsequent uncertainty dried up investment opportunities and growth prospects of troubled sectors including tourism, transportation, and energy. Consequently, heightened growth rates of emerging online businesses and swelling market capitalisations of Big Tech companies have piqued the interest in new tech-based listings. However, growth could now slow for online businesses with lofty valuation multiples as governments look to avoid lengthy lockdowns that shut down certain sectors, such as tourism and hospitality. Founders and VC investors have been keen to accelerate towards an exit in 2021 to exploit favourable market conditions, but these dynamics may shift as economies reopen and travel resumes despite the ongoing threat from new COVID-19 variants.

Caveat: Plenty of VC-backed companies ripe for an exit remain in the European ecosystem heading into 2022. Robust levels of liquidity in recent months will not hamper exit desire from founders and VCs looking to cash out. Numerous companies that have demonstrated strong growth during the pandemic have experienced stickiness with their products or services, which could lead to long-term disruption and steady exit flows. Favourable exit conditions for VC-backed tech listings may persist in public markets and drive up listings, especially if nations re-enter lockdowns, inoculation rates flatten, or variants spread quickly.

European exchanges are competing fiercely among themselves and the US for the most sought-after tech listings. Reforms to listing requirements and loosening of rules could entice further companies to exit. Popular exit options now include DPOs and reverse mergers via SPACs alongside traditional IPOs, which could entice further listings in the near term.

VC-backed public listing activity



Source: PitchBook | **Geography:** Europe
*As of November 22, 2021

2021 scorecard

Our 2021 European Private Capital Outlook was originally published on January 14, 2021.

Prediction	Result	Outcome
European PE deal activity to top €480 billion and set a new high in 2021.	Pass	European PE deal value and volume reached new annual records in Q3, hitting 5,492 closed deals worth €548.7 billion.
European SPAC listings to hit double digits in 2021.	Pass	European SPAC volume hit 54 deals as of November 22nd, 2021.
European distressed and restructuring/turnaround capital raised to hit a new record.	Fail	Despite the quickest selloff in public markets in over a decade, double-digit unemployment percentages, and national lockdowns in 2020, distressed fundraising did not take off in 2021, largely due to the unprecedented stimuli from central banks and governments.
Brexit will not stifle VC deal value in the UK. Rather, the UK will remain the largest contributor in Europe with over €10 billion invested.	Pass	UK VC deal value surpassed €10 billion in H1 2021 and has reached a record €26.5 billion in 2021 YTD. The UK's position as the largest VC deal value contributor in Europe did not come under threat in 2021. A collection of outsized rounds drove up deal value figures in the region.
VC follow-on rounds will remain above 90% of overall capital invested across Europe.	Likely to pass	Follow-on rounds accounted for 92% of capital invested in 2021 YTD, on course to remain above 90% at the year's conclusion. Both first-time and follow-on deal value has doubled in 2021 YTD.
VC deal value with nontraditional investor participation will reach a new high in 2021.	Pass	VC deal value with nontraditional investor participation was among several annual records that were broken during H1 2021 and has reached €68.9 billion YTD. Nontraditional investors have been a key theme in 2021 as capital has flooded into the European ecosystem.