PitchBook

European PE Breakdown

Q2 2021

PitchBook

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Introduction

The velocity of PE dealmaking continued at an unrelenting pace in Q2, posting its second-highest quarterly numbers ever, buoyed by frenetic activity in the core middle market. Deal activity has propelled to unseen levels due to a combination of strong leveraged lending markets and an accelerating European economic recovery powered by rising vaccination rates. Other contributors include the EU unleashing its fiscal power through the NextGenerationEU recovery fund, willing sellers taking advantage of high valuations, and GPs sitting on mountains of dry powder. Take-privates also had a particularly impressive H1 2021, with deal value pacing to hit its highest annual figure in over a decade, lifted by a swath of underperforming European equities.

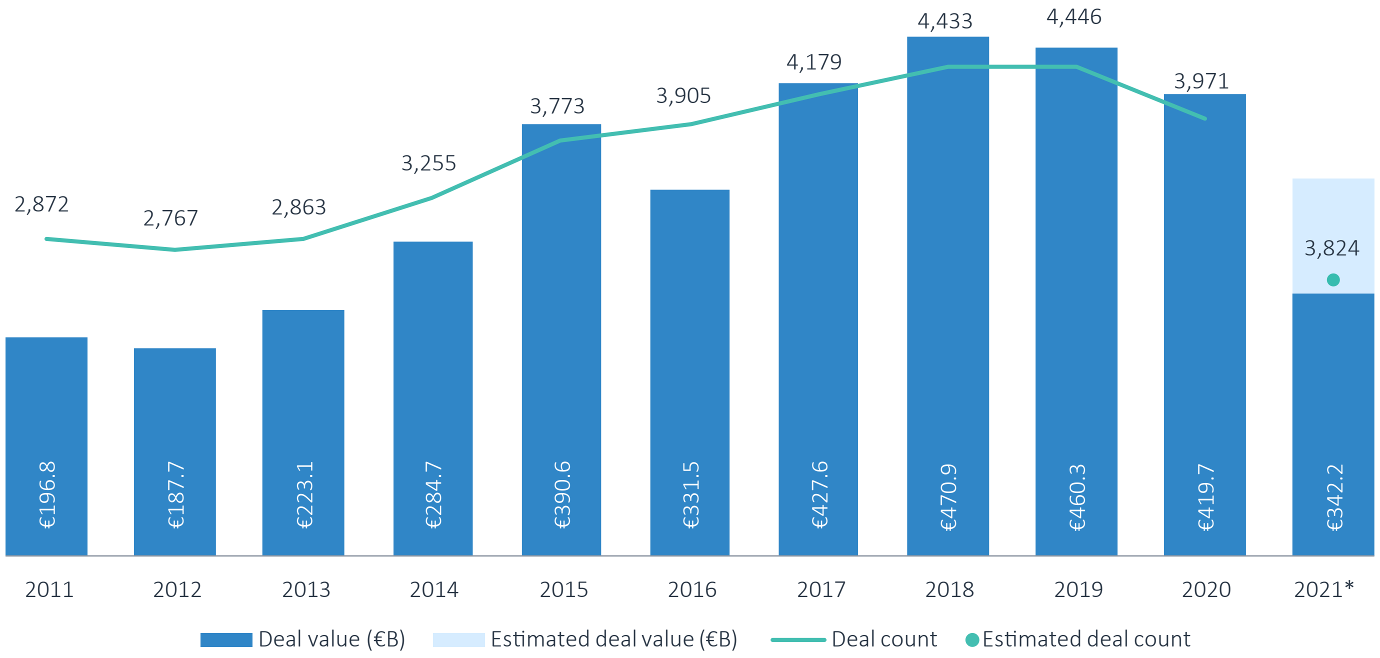
As we saw with dealmaking, European PE exit activity has returned with gusto after 2020's pandemic-induced slowdown, with Q2's exit value reaching a new high. To put H1 2021's exit value performance into context, we have already surpassed 2020's full-year annual exit value, putting the year on track for a record. A large uptick in liquidity events greater than €2.5 billion and strength in the public markets are the main drivers of Q2's lofty exit value. Other drivers include the increased pipeline of larger and higher-quality PE assets coming to market and pent-up exit demand filtering into the real economy.

European fundraising activity at the mid-point of 2021 has been exceptionally strong with capital raised pacing towards a new peak by a sizeable distance of nearly 20.0%. Strong secular fundraising trends continue to fuel LP confidence, boost PE allocations, and propel fundraising totals. Examples of these trends include the zero-rate environment, public market volatility and correlation, and the potential for significantly higher risk-adjusted returns from the alternatives space, especially PE. Conversely, fund counts are dropping towards a nine-year low as LPs sustain their flight to quality and safety.

Dominick Mondesir
Senior Analyst, EMEA Private Capital

Overview

PE deal activity

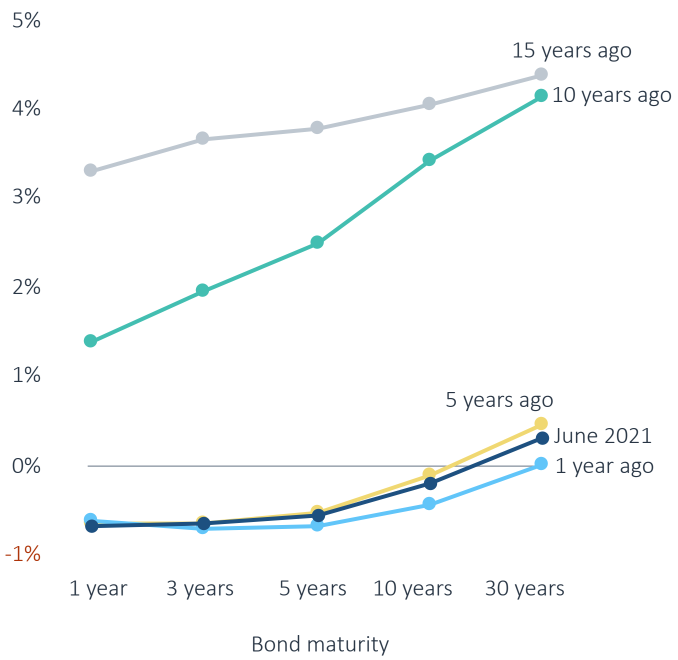


Source: PitchBook | **Geography:** Europe
*As of June 30, 2021

Despite PE deal activity slowing from Q1, the velocity of PE dealmaking continued at an unrelenting pace in Q2, posting enormous numbers. In the second quarter of the year, approximately 1,800 deals closed worth €169.6 billion—YoY increases of 161.2% and 137.3%, respectively. Q2's deal value and volume figures mark Europe's second-highest quarterly numbers ever, buoyed by frenetic activity in the core middle market (deals sized between €100.0 million and €500.0 million).

The great lockdown crisis toppled many industry forecasts and trends whilst reinforcing and accelerating others, including PE, which arguably has never seen a more favourable environment for dealmaking. Strong leveraged lending markets as a result of institutional investors' ample liquidity and aggressive hunt for yield have made financing and refinancing deals historically cheap and loose. For example, European high-yield credit spreads stand around 2.9%, levels seen just prior to the global financial crisis (GFC) in 2007.[1] Furthermore, European leveraged loan issuance came in at a record high in Q1, illustrating the relentless pace of dealmaking and investors' insatiable appetite for financing higher-yielding PE transactions.[2]

ECB yield curve*



Source: PitchBook | **Geography:** Europe
*As of June 30, 2021

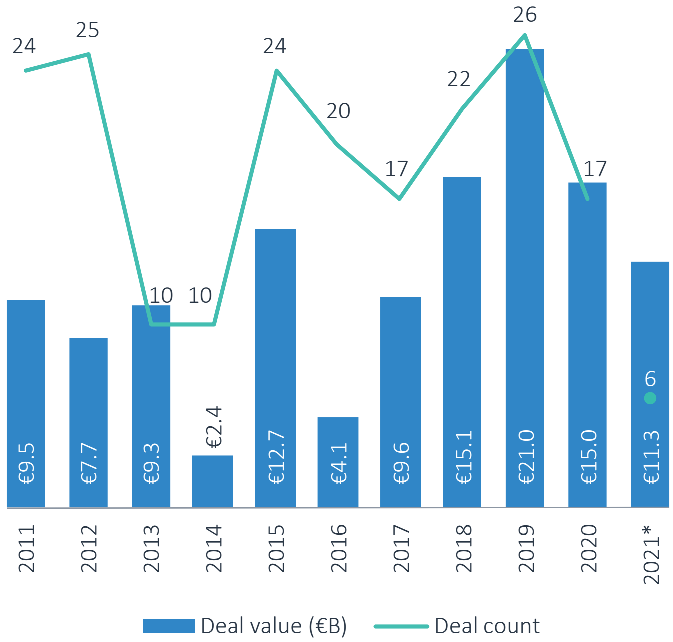
1: "Ice Data Indices, LLC, ICE BofA Euro High Yield Index Option-Adjusted Spread," Federal Reserve Bank of St. Louis, accessed July 6, 2021.
2: "Abundant Liquidity Drives Leveraged Loan Issuance," Debt Explorer, Jeremy Duffy and Eric Leicht, April 30, 2021.

Europe's strong economic recovery, illustrated by its upward-sloping yield curve, has prompted the European Central Bank (ECB) to raise its baseline growth forecasts for the bloc to 4.6% in 2021.[3] This recovery is powered by Europe's accelerating vaccination rollout, which has seen approximately 65.0% of the EU's population receive at least one COVID-19 shot, according to the European Centre for Disease Prevention and Control. A growing economy generally encourages more sponsor dealmaking as an environment of high consumption and low unemployment tends to be more favourable for sponsors to execute on their investment theses, which usually center around revenue or EBITDA growth, margin expansion, or deleveraging.

Additionally, the EU is unleashing its fiscal power through the new €750.0 billion NextgenerationEU pandemic recovery fund, with €20.0 billion worth of bonds already sold. The fund will issue a mix of grants and loans to member states to assist in their economic recovery, which will likely boost the liquidity profiles of several PE-backed targets, further encouraging dealmaking. Also, willing sellers looking to take advantage of high valuations have significantly increased the sponsor opportunity set. Lastly, GPs are sitting on €249.7 billion of dry powder that has equipped them with the firepower to act like corporates and acquire higher-quality assets at lofty prices.

A notable deal to close in the quarter was Blackstone's (NYSE: BX) €3.9 billion take-private of UK-based private jet operator Signature Aviation. At first glance, this deal may have raised eyebrows as the travel industry has been decimated by the pandemic. However, Blackstone's anticipated investment thesis for the deal is likely akin to some of the sponsor's best bets during the GFC, including its outsized returns on the Hilton Hotels buyout, where the firm cherry-picked industries and assets that were cyclically but not secularly affected by the dislocation. Over the past 18 months, private jet operators have shown more resilience than their commercial rivals as the ultra-wealthy continue to travel. In fact, Signature stated that flight activity had stabilized to around 80.0% of the previous year's levels in November 2020.[4] Blackstone sees the potential for considerable growth in the private jet market, especially in the US, where Signature does most of its business for a few reasons. With roaring public markets and house-price growth, the richest 1.0% of US households added $4.0 trillion to their net worth in 2020.[5] Globally, more than 5 million individuals became millionaires in 2020, making it the first time more than 1.0% of adults worldwide are millionaires.[6] The pandemic-induced stimulus has certainly exacerbated inequality, and it is evident Blackstone is betting this trend will continue.

Take-private deal activity



Source: PitchBook | **Geography:** Europe
*As of June 30, 2021

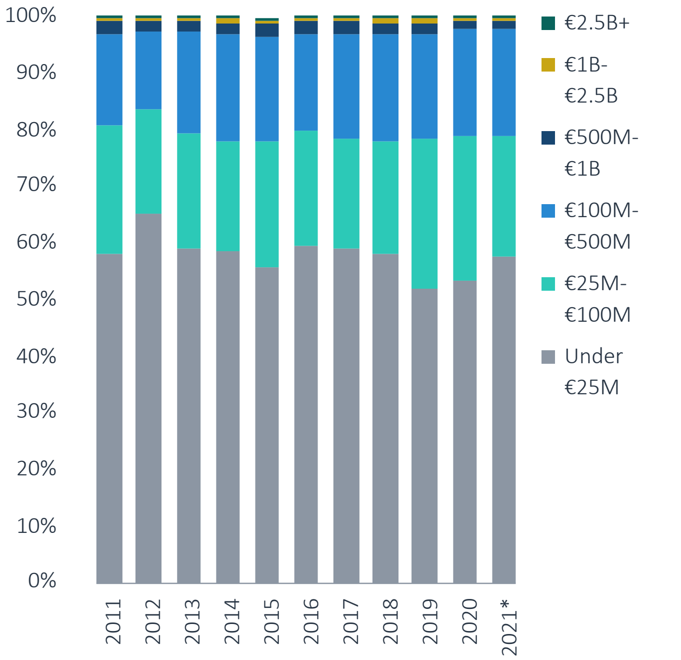
Take-private activity has had an impressive opening half of the year. In H1 2021, €11.3 billion worth of take-privates closed, putting the year on pace for its highest deal value in over a decade. Contributing factors include fundamentally strong but undervalued and underperforming European public equities and European entities struggling under heavy debt burdens. Greater political and economic stability in Europe and sponsors' increasing appetite for writing larger cheques due to massive dry powder reserves have also contributed.

In the second-largest take-private of H1, Warburg Pincus and TowerBrook Capital Partners delisted UK-based Automobile Association (AA) for €3.2 billion. Warburg and TowerBrook aim to significantly deleverage and reduce costs at AA through an anticipated combination of equity injections and potential divestitures of units, such as AA's insurance arm. The PE managers will look to capitalise on AA's discounted price, strong brand, and encouraging market position, despite ultra-competitive markets.

3: "ECB Lifts Growth, Inflation Projections, Sees Risks As Balanced," *Reuters*, Balazs Koranyi, June 10, 2021.
4: "Rivals Blackstone and GIP Join Forces in £3.5bn Signature Aviation Offer," *Financial Times*, Kaye Wiggins and Philip Georgiadis, February 5, 2021.
5: "The Wealth Gains That Made 2020 a Banner Year for the Richest 1%," *Bloomberg*, Alexandre Tanzi, March 22, 2021.
6: "Millions Became Millionaires During Covid Pandemic," *BBC News*, June 23, 2021.

Deals by size and sector

PE deal count by size



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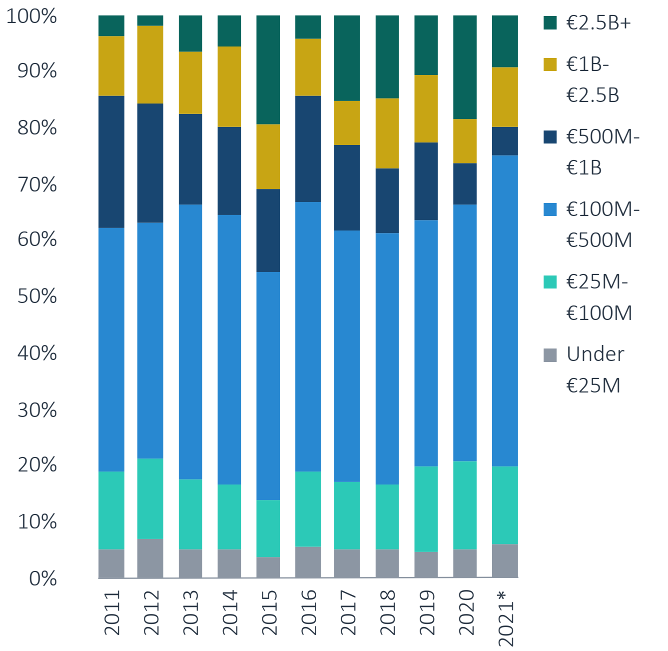
PE deal value by size



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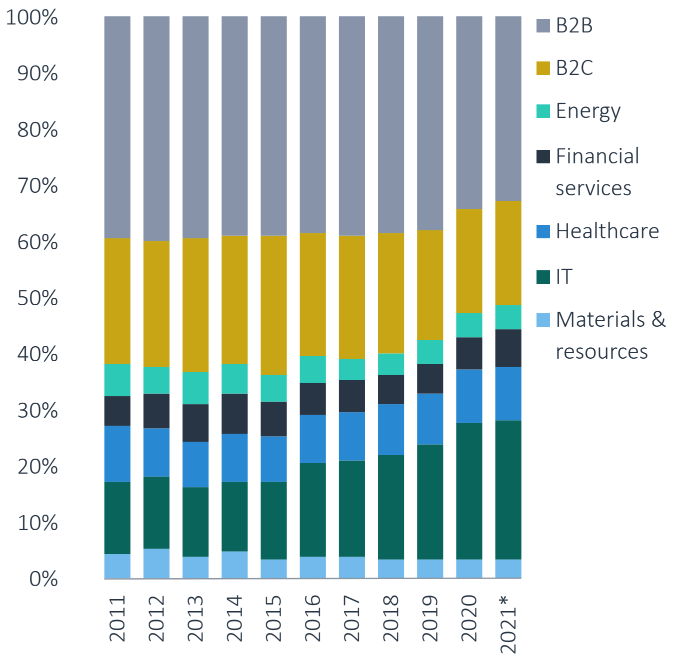
PE deal count by sector



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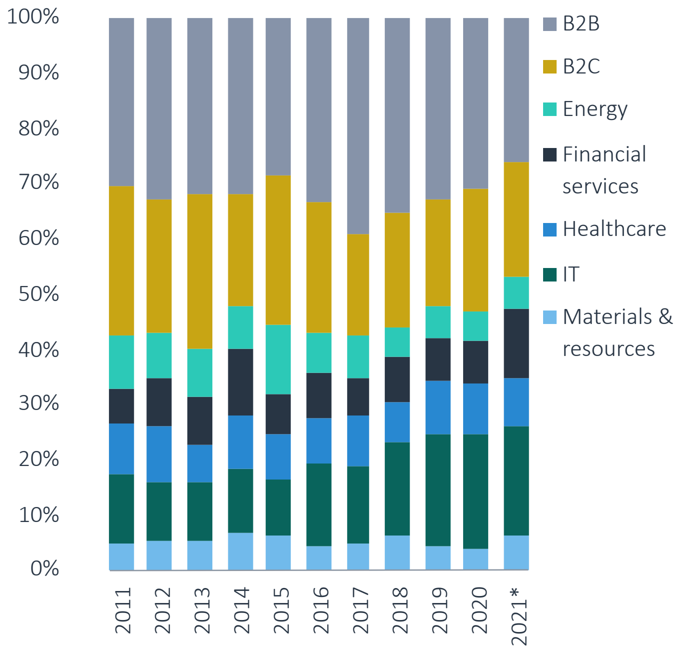
PE deal value by sector



Source: PitchBook | **Geography:** Europe
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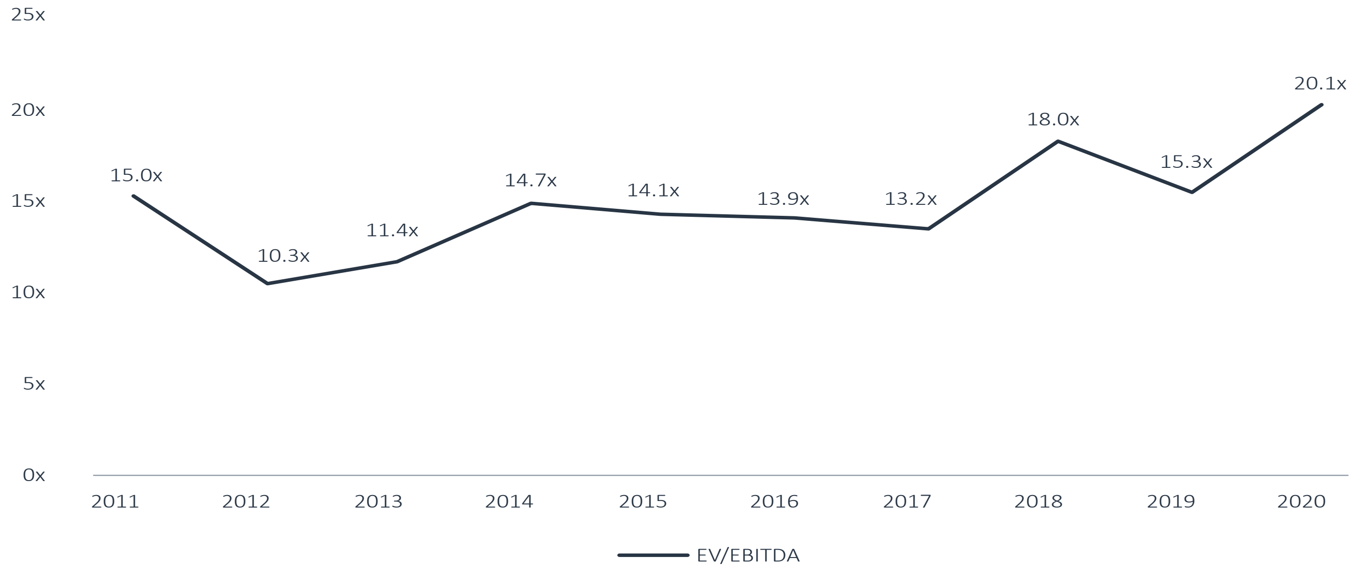
PitchBook

Spotlight: Exploring global PE multiples by sector

Information Technology (IT)

Median EV/EBITDA buyout multiples



Source: PitchBook | **Geography:** Europe and US

This spotlight was originally published in our Q3 2021 Analyst Note: Exploring Global PE Multiples by Sector on July 1.

The global IT median EV/EBITDA buyout multiple accelerated to a new peak of 20.1x in 2020, more than doubling its valuation from a decade ago and making it the most expensive sector. Prices have exceeded 10.0x since 2011, with valuations spiking upwards of 15.0x since 2018. With the MSCI European Information Technology Index and the US tech-heavy NASDAQ powering ahead in 2020, price/earnings multiples in many publicly traded tech subsectors were driven to levels above their long-term average, which consequently buoyed buyout valuations. IT assets are not monolithic, and valuations tend to diverge depending on where financial sponsors play in the sector. GPs' outsized appetite for enterprise software and IT services companies, as opposed to hardware and consumer-software entities where perhaps valuations are softer, has been a large contributor to the sector's peak pricing in 2020. These companies tend to be resilient during downturns, maintaining robust revenue growth and rock-solid fundamentals as B2B consumers are less flighty and realize they must swiftly digitize to stay competitive.

Other reasons for the sector's lofty pricing include a decade of rapid innovation around the cloud and IT infrastructure, which has allowed tech companies to come to market and scale at a phenomenal pace. In addition, because many enterprise software products and IT services are mission-critical, these solutions are difficult to dislodge once installed, causing high customer stickiness, which translates into more expensive assets for acquirers. Lastly, many companies—small and medium-sized enterprises (SMEs) in particular—are still only midway along their technology-adoption curve, so the growth prospects of the IT sector likely remain the highest of any sector, and this helps explain the sector's peak median EV/EBITDA multiples.

Key drivers of IT multiples:

- Speed of technological change
- Diversification and quality of customers
- Rule of 40[7]
- Churn rates
- Viability ratio (lifetime value/customer acquisition cost)
- Nature of earnings (recurring or once-off)
- Customer-retention rates
- Size, scale, and geographic coverage

Key COVID-19-related developments affecting IT valuations

The pandemic has materially accelerated consumer and business adoption of technology as the ubiquitous work-from-home orders—which continue to drive e-commerce, cloud, cybersecurity, and collaboration platforms, as well as SaaS implementation—are still largely in place. Many of the pandemic-induced shifts in consumer and business behaviour will likely be permanent rather than temporary, which will only push valuations higher in the sector. Both corporates and sponsors will continue to double down on IT assets to position their portfolios to take advantage of the digitization megatrend, as the earnings and growth prospects of the industry remain compelling. As a result, we have seen many IT businesses come attached with a COVID-19 premium. For example, we recently saw Kohlberg Kravis Roberts and Clayton, Dubilier & Rice begin an acquisition of US cloud-based data analytics company Cloudera (NYSE: CLDR) for €4.4 billion ($5.3 billion) at a projected 20.0x EBITDA multiple in 2021, despite Cloudera reporting a net loss of €134.0 million ($163.0 million) in 2020.[8]

Top 5 IT buyouts by EV/EBITDA multiple*

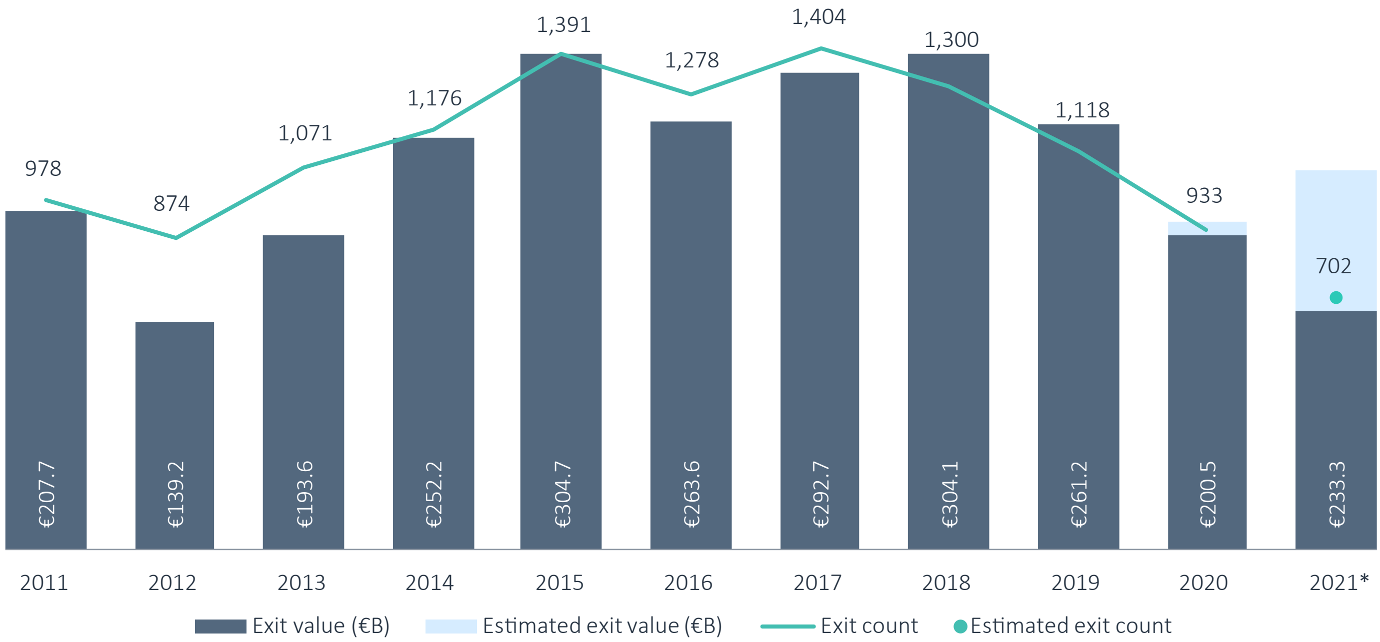
Company	Close date	Deal size (€M)	Multiple	Industry	Country
Boldon James	June 25, 2020	€33.4	42.5x	Software	UK
RealPage	April 22, 2021	€8,591.8	39.8x	Software	US
Majesco	September 21, 2020	€615.7	34.7x	Software	US
TechnoGroup IT-Service	July 1, 2020	€187.5	26.7x	IT	Germany
Virtusa	December 10, 2020	€1,674.8	21.6x	IT	US

Source: PitchBook | **Geography:** Europe and US
*Deals from January 6, 2020, to March 6, 2021 (trailing twelve months)
Note: Must have a known deal size

7: Rule of 40 states that a company's revenue growth rate plus its profitability margin should be equal to or greater than 40%.
8: "KKR/Cloudera: Decent Price for a Disappointing Business," *CorpUS NEWS*, June 15, 2021.

Exits

PE exit activity

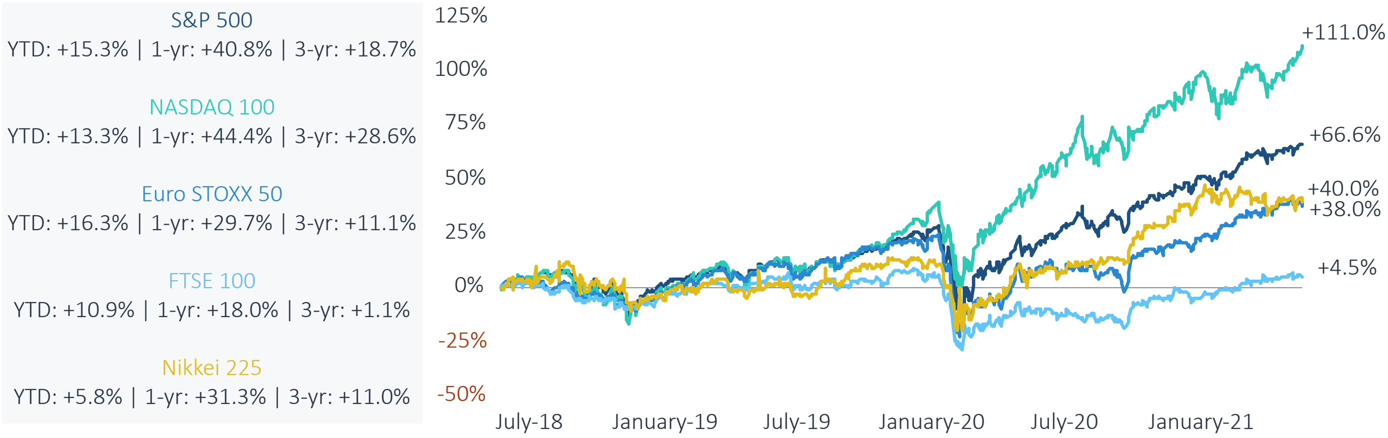


Source: PitchBook | **Geography:** Europe
*As of June 30, 2021

As we saw with dealmaking, European PE exit activity has returned with gusto after 2020's pandemic-induced slowdown, with quarterly exit value reaching a new high. In Q2 2021, 369 exits closed worth approximately €126.3 billion, marking YoY increases of 158.2% and 185.8%, respectively. To put H1 2021's exit value performance into context, we have already surpassed 2020's annual figure, putting 2021 on pace for a new annual exit value peak by a considerable distance. The main driver of the second quarter's lofty exit value was a large uptick in liquidity events greater than €2.5 billion, which contributed five exits worth €27.0 billion—YoY increases of 150.0% and 44.3%, respectively.

Other factors contributing to the robust exit environment include the increased pipeline of larger and higher-quality PE assets coming to market, as good companies tend to be for sale during sanguine economic conditions. For instance, the Euro STOXX 50 index has been one of the best-performing indices YTD, posting a healthy return of 16.3% and outpacing the NASDAQ 100 and S&P 500, which has prompted more GPs to offload European assets as prices are up and to the right. In addition, the bulk of sponsors tend to be opportunistic in terms of choosing their exit timing, and current exit conditions could not be better due to the excess liquidity theme, lofty valuations, and heightened confidence across global capital markets. Moreover, with 2020 being a down year for liquidity events, pent-up exit demand is filtering into the real economy as accelerating vaccine deployment in Europe helps improve economic conditions faster than expected. Finally, the pandemic's long-term effects on consumers, valuations, geopolitical trends, and capital markets are becoming clearer, which is propelling exit activity as buyers have increased visibility to assets' expected future cash flows.

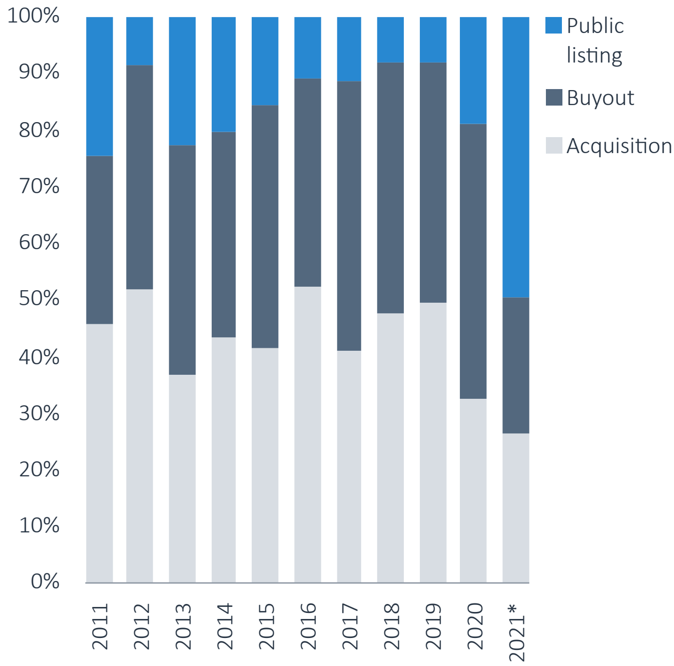
Select major indices 3-year total return



Source: PitchBook | **Geography:** Europe
*As of June 30, 2021
Note: 3-yr return is annualized above

The strength in the public markets has meaningfully contributed to the spike in exit value and volume—one not seen in a decade. In Q2 2021, 29 public listings worth €34.8 billion closed, marking YoY increases of 314.3% and 148.4%, respectively. Strong liquidity in the capital markets from the pandemic-induced stimulus, rising investor sentiment due to quickening vaccine rollouts, the addition of SPAC acquirers, and soaring liquid markets' valuations have radically pushed more sponsors to exit through public listings. For example, over half of GPs expect to exit portfolio companies via IPO or SPACs over the next 18 to 24 months, according to the 2021 EY Global Private Equity Divestment Study.[9] The five-largest exits of the second quarter were all public listings, chief of them being the Spain-headquartered IPO of Allfunds Bank (AMS: ALLFG) on the Euronext Amsterdam exchange. PE sponsor Hellman & Friedman and Singapore's sovereign wealth fund GIC exited a combined 26.0% stake in Allfunds at a €7.2 billion pre-money valuation, netting a healthy return after acquiring the company in 2017 at a €1.8 billion valuation. The listing was also a big win for Amsterdam, as it continues to emerge as the region of choice for European listings, post-Brexit.

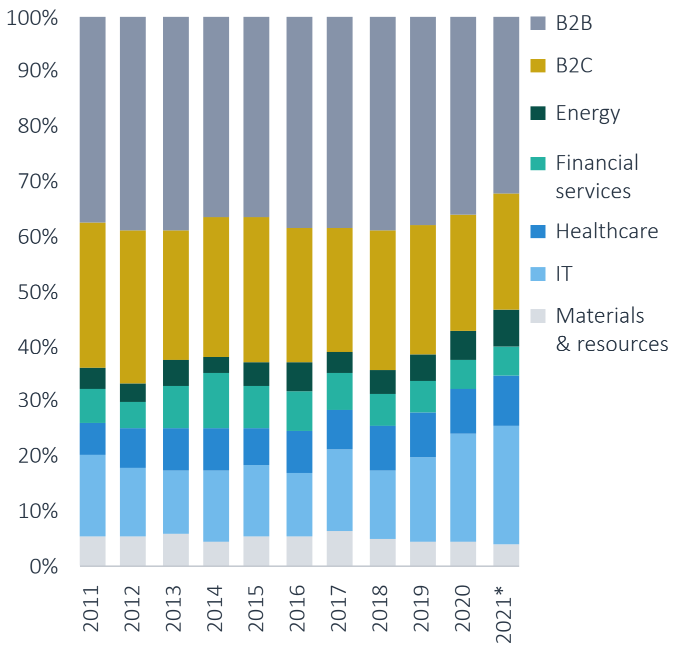
PE exit value by type



Source: PitchBook | **Geography:** Europe
*As of June 30, 2021

9: "How Private Equity is Refining Exit Strategies for Stronger Valuations," EY, Andrew Wollaston, et al., May 19, 2021.

PE exit count by sector



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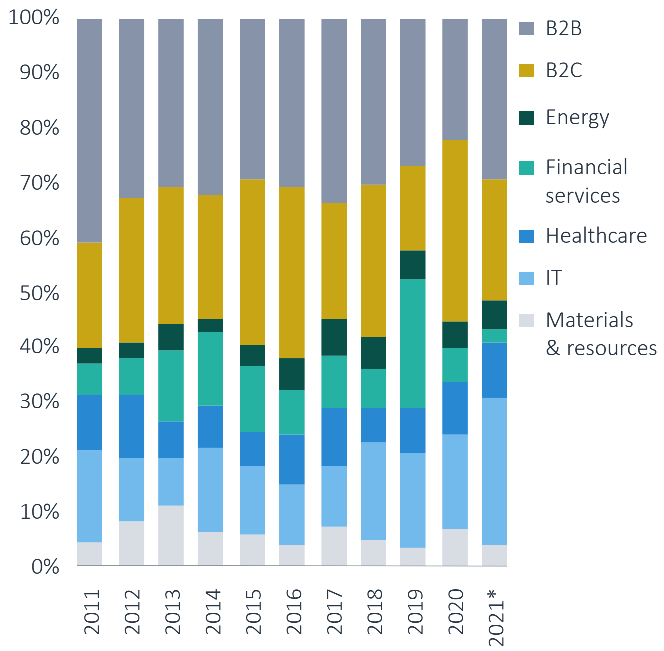
PE exit value by sector



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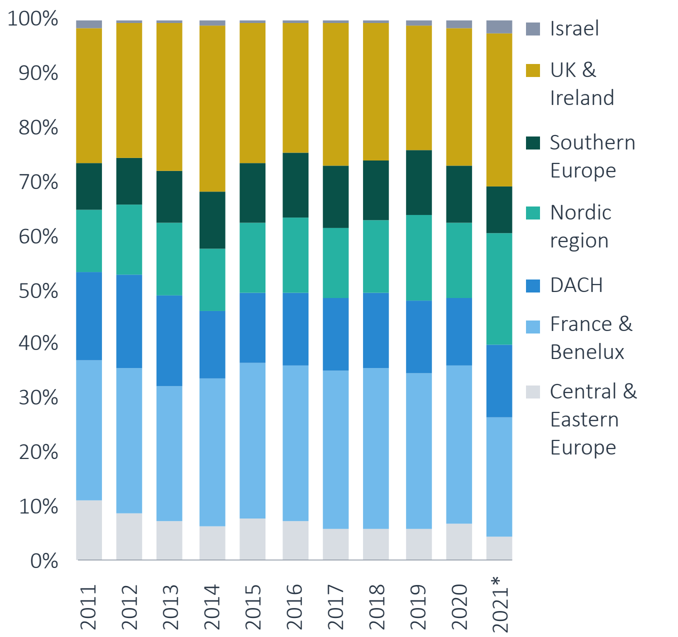
PE exit count by region



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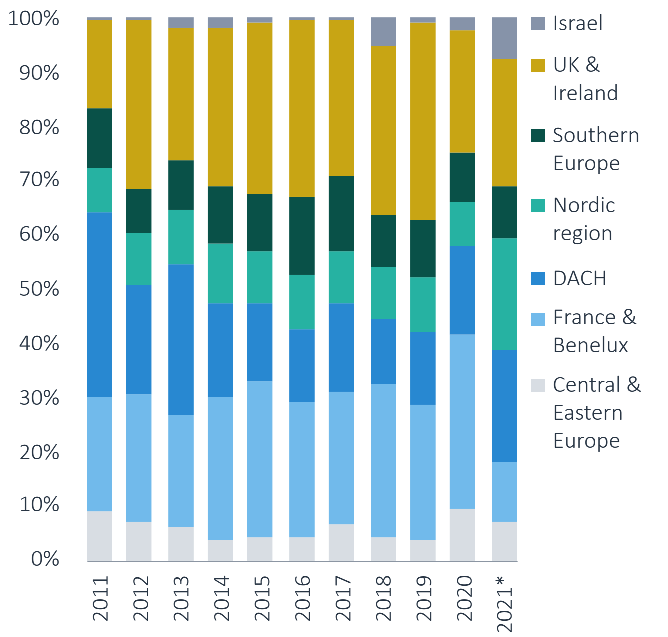
PE exit value by region



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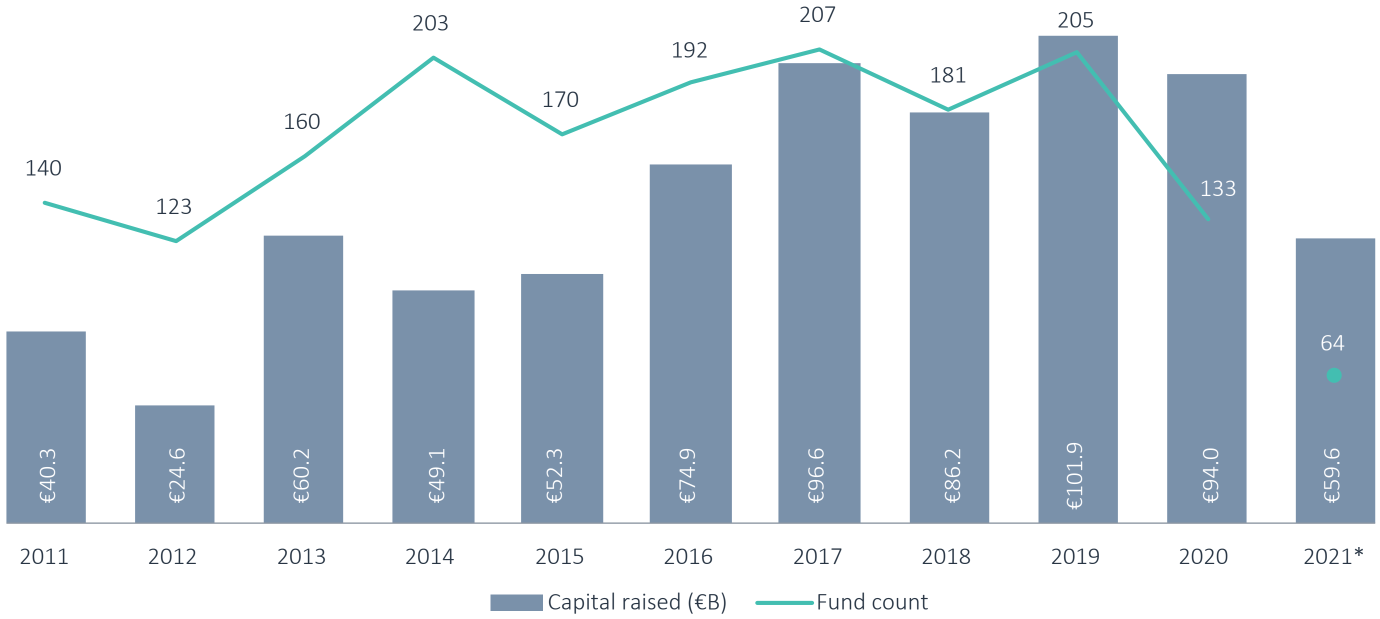
Fundraising

PE fundraising activity



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H1 2021 European fundraising activity posted strong results. The first half of the year saw 64 funds close worth €59.6 billion, which is pacing towards an annual peak in capital raised by a sizeable distance of nearly 20.0%. Strong secular fundraising trends including the zero-rate environment, public market volatility and correlation, and the potential for significantly higher risk-adjusted returns from the alternatives space—especially PE—continue to fuel LP confidence, boost PE allocations, and propel fundraising totals. Capital raised numbers are also likely understated as we do not account for the lofty coinvestment capital that is waiting on the sidelines to be deployed.

Another factor contributing to the record fundraising pace is the remarkable recovery in the public markets, which meant the denominator effect was short-lived, consequently increasing LPs' risk appetite and encouraging allocators to continue with PE commitment-pacing schedules. This dynamic inspired GPs to come to market with larger PE fund sizes, which has seen the median and average PE fund size move towards new highs in H1 2021 when compared to prior year's annual figures. In addition, bulge-bracket shops such as BlackRock (NYSE: BLK) and JPMorgan Chase (NYSE: JPM), which traditionally play in the public equity and debt spaces, are pivoting aggressively towards alternatives. They recognise that surplus capital is sloshing around, trying to find outsized yield, and PE provides a solution. Conjointly, the gradual return of travel within the continent and the accelerating inoculation rates in the EU and the UK[10] have encouraged more in-person due diligence meetings with LPs, which has augmented capital raised totals.

Conversely, fund counts are dipping towards a nine-year low. The low fund count signals the challenging fundraising environment for less-established managers, as highlighted by first-time fund counts pacing towards a decade low. The pandemic-induced dislocation certainly has contributed to the low fund volume; however, a more pronounced factor has been LPs' sustained flight to quality and safety by allocating to established and successful managers with which they have prior relationships. With that said, we expect the fundraising environment for first-time and less-established managers to improve substantially throughout the rest of 2021 and into 2022 as travel opens up and LPs search for specialist emerging managers with niche strategies positioned to benefit from the pandemic-induced volatility.

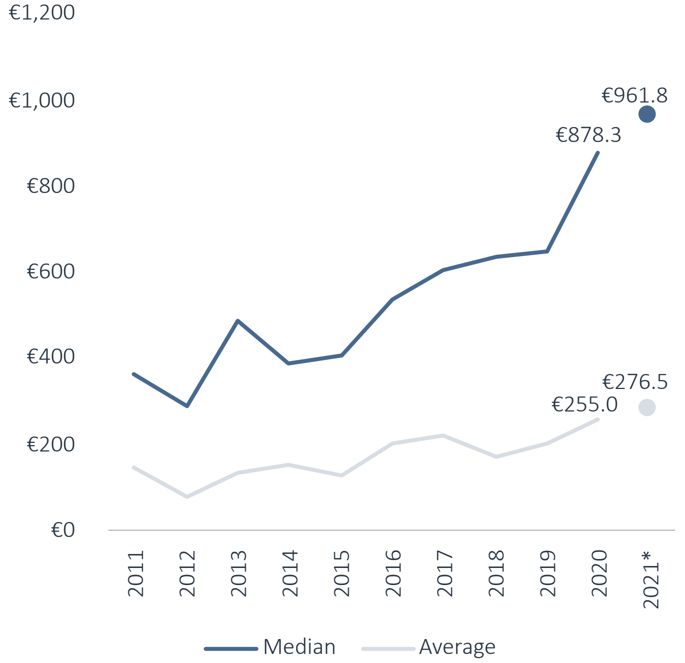
10: "A Global Database of COVID-19 Vaccinations," *Nature Human Behaviour*, Edouard Mathieu, et al., May 10, 2021.

Of the two PE mega-fund (€5 billion+) closes in Q2, EQT IX was the largest at €15.6 billion. The fund size is an enormous 1.43x larger than its predecessor, with approximately 70.0% of LP commitments coming from re-ups. EQT IX will focus on deploying capital within the healthcare, TMT, and services sectors—three industries LPs seek to increase exposure to because of the resilience shown over the past 18 months. Looking ahead, we expect the fundraising environment to remain strong in the short to medium term. However, with inflation heating up in the UK and EU, which both saw figures jump above the Bank of England (BOE) and ECB targets to 2.1%[11] and 2.0%[12] respectively in May, the prospect of earlier-than-expected interest-rate hikes is real. If we see interest rates around 3% to 4%, allocations to PE could slow as fixed-income products' risk-return profiles become drastically more attractive to institutional investors.

Fundraising activity in the upper-middle market (funds sized between €500.0 million and €1.0 billion) has had a spectacular H1 2021. The first half of the year saw 12 funds close, amassing €8.2 billion, which is just shy of 2020's annual fund count and capital raised total. LPs are attracted to the potential of outsized returns from Europe's middle-market funds due to the intense fragmentation and wide opportunity set within Europe's SMEs.

Furthermore, gaining access to brand-name mega-funds is tough for most allocators, which encourages further allocations to upper-middle-market funds. The largest upper-middle-market fund to close in Q2 was the €700.0 million fundraise of CAPZA V Flex Equity, which doubled in size from its predecessor. The fund offers flexible financing solutions, combining majority or minority capital, convertible bonds, and mezzanine financing, which increases and differentiates the fund's target base. The fund's hybrid financing model aims to support the growth of SMEs in the highly fragmented Southern European region and in parts of Western Europe. A reported average multiple of 1.97x on CAPZA's Flex Equity closed transactions demonstrates the attractive returns available in the European middle-market space.[13]

PE average and median fund size (€M)



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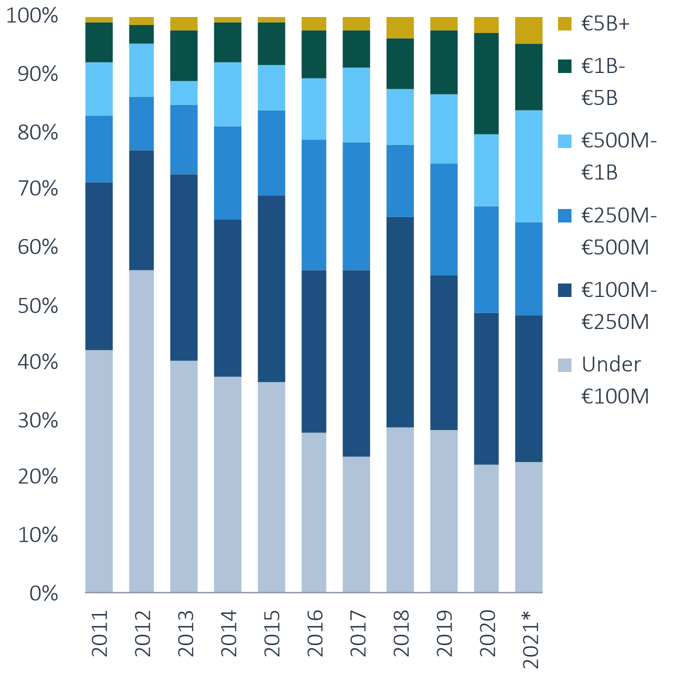
PE fund count by size



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11: "UK Inflation Hits 2.1%, Vaults Past Bank of England Target," *Reuters*, William Schomberg and David Milliken, June 16, 2021.
12: "Euro Zone Inflation Jumps Past ECB Target in May," *Reuters*, Balazs Koranyi, June 1, 2021.
13: "CAPZA Raises Record EUR700m in the Final Closing of Its CAPZA 5 Flex Equity Fund," *Private Equity Wire*, May 10, 2021.