PitchBook

European PE Breakdown

Q3 2021

PitchBook

Contents

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Introduction

With only three months of the year left, European private equity deal activity has hit a new annual record. The first three quarters of 2021 saw the best environment for private equity dealmaking ever, characterised by strong leveraged lending markets, willing sellers, heightened dry powder, and massive stimulus. The strength in dealmaking showed up across the board, with one in three deals closing in both the UK & Ireland region and the business products & services sector. Looking ahead, we anticipate deal activity to slow in Q4 as sponsors near the completion of their dealmaking catch-up after 2020's down year. Other potential deterrents include looming risks such as higher long-term inflation, the accelerating COVID-19 Delta variant, and the prospect of tightening fiscal-monetary policy.

European private equity exit activity continues to quicken, with new quarterly and annual records being set and only one quarter left. Q3's exit volume reached a new quarterly peak, while YTD exit value has surpassed all previous years' annual figures. The stellar exit value performance in 2021 can be attributed to the large uplift in liquidity events greater than €2.5 billion, driven by corporate acquisitions. Private equity exit value in the Nordic region has had a remarkable opening three quarters, hitting a new annual high by some distance. And the IT sector is pacing to account for the bulk of private equity exit value for the first time.

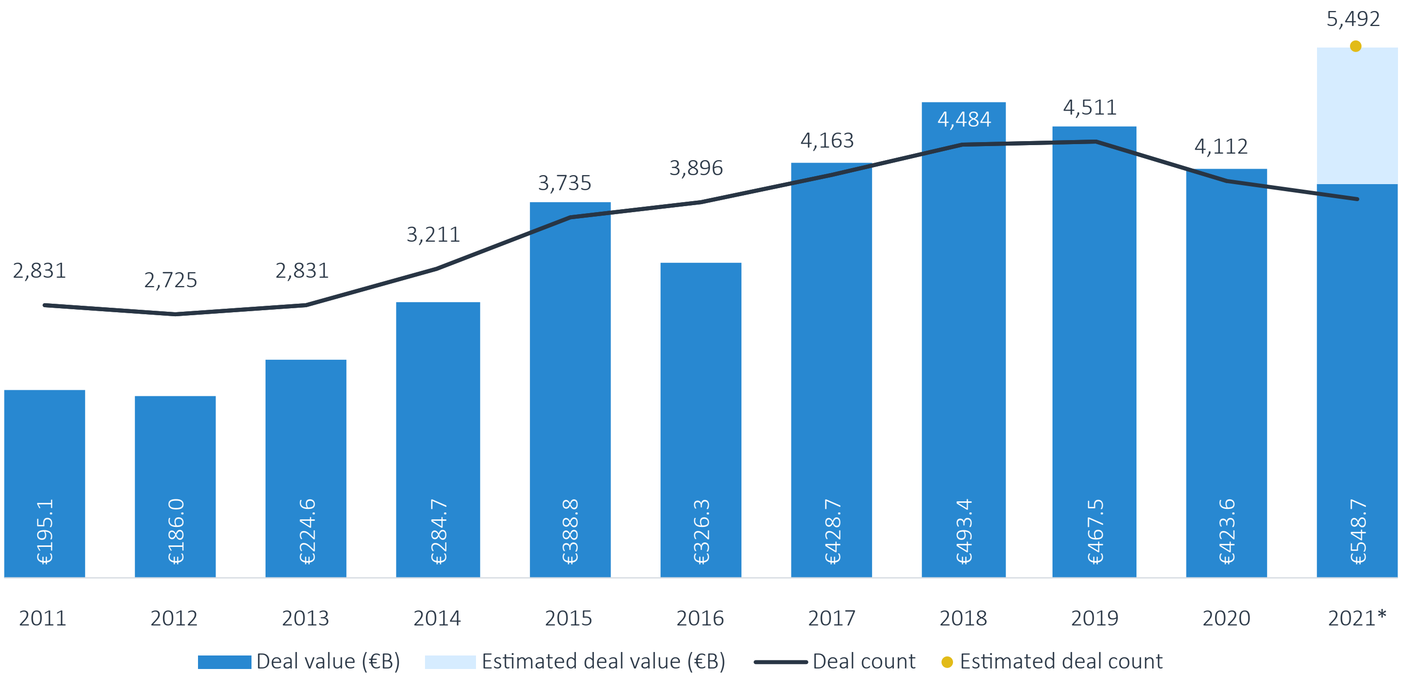
European private equity fundraising through Q3 2021 slightly cooled from its explosive first half of the year. 2021 is pacing for its lowest annual fund count total since 2012, while capital raised could hit €100.0 billion by year-end. The sustained flight of LPs' capital to safety with established GPs explains the low fund count totals and healthy capital-raised numbers. Although private equity first-time fundraising has struggled, green shoots of recovery are appearing in the space after the closing of Trill Impact's €900.0 million inaugural middle-market impact fund. Looking ahead, while LPs are somewhat concerned with higher inflation and tightening policy, they remain positive on their private markets allocations, especially buyouts and growth funds.

Dominick Mondesir
Senior Analyst, EMEA Private Capital

PitchBook

Overview

Private equity deal activity

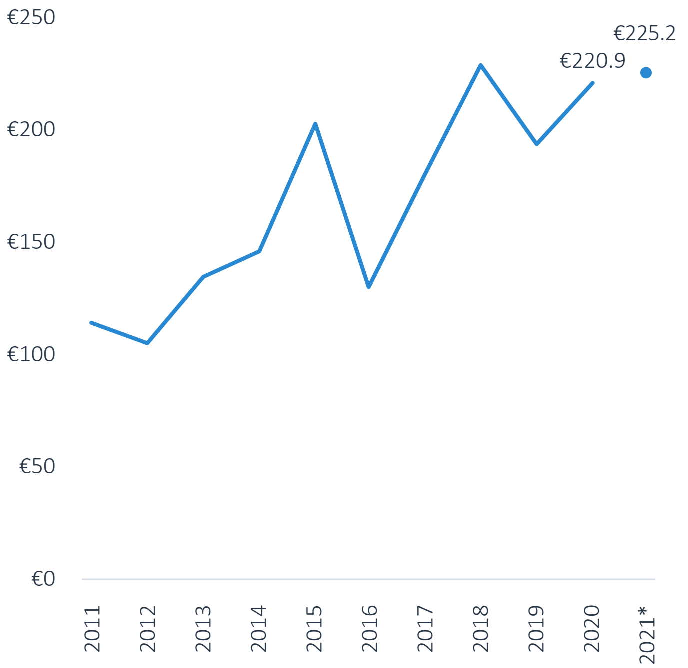


Source: PitchBook | **Geography:** Europe
*As of September 30, 2021

Three quarters into 2021, European private equity deal activity hit a new annual record. Through Q3 2021, approximately 5,492 deals closed, worth €548.7 billion—dwarfing the previous record of 4,511 closed deals set in 2019 and €493.4 billion in deal value set in 2018; and of course, we still have one quarter left. The three largest-ever quarters for private equity deal activity occurred in 2021, and it is clear that deal volume, not deal size, is behind the record deal value. On an annual basis, deal volume tracked up 96.1% when compared to the first three quarters of 2020, while both median and average deal sizes saw substantially lower YoY increases. The industry has essentially tripled in size from a deal value perspective over the past decade, powering through what turned out to be a brief pandemic shock in Q2 2020.

The first three quarters of 2021 saw the best environment for private equity dealmaking ever. Strong leveraged lending markets were driven by institutional investors' search for yield and unprecedented monetary stimulus. The deals opportunity set increased as sellers, such as sports teams and leagues, that previously shied away from private equity became receptive to private equity capital as the pandemic decimated the sports industry's cash flows. Willing sellers also wanted to take advantage of the frothy valuation environment. Furthermore, the industry's heightened dry powder

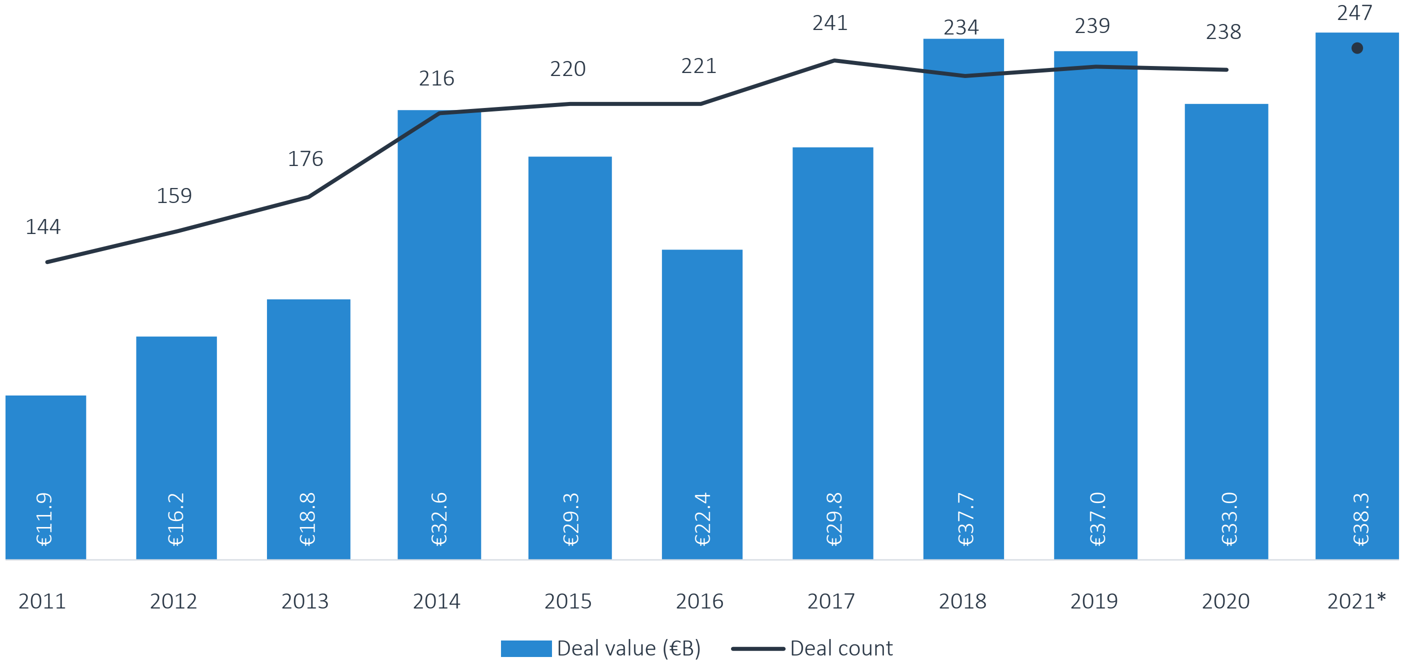
Average private equity deal size (€M)



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

meant sponsors had the firepower to aggressively acquire companies. Finally, the massive government fiscal injections and vaccines kept the European

Financial services private equity deal activity



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

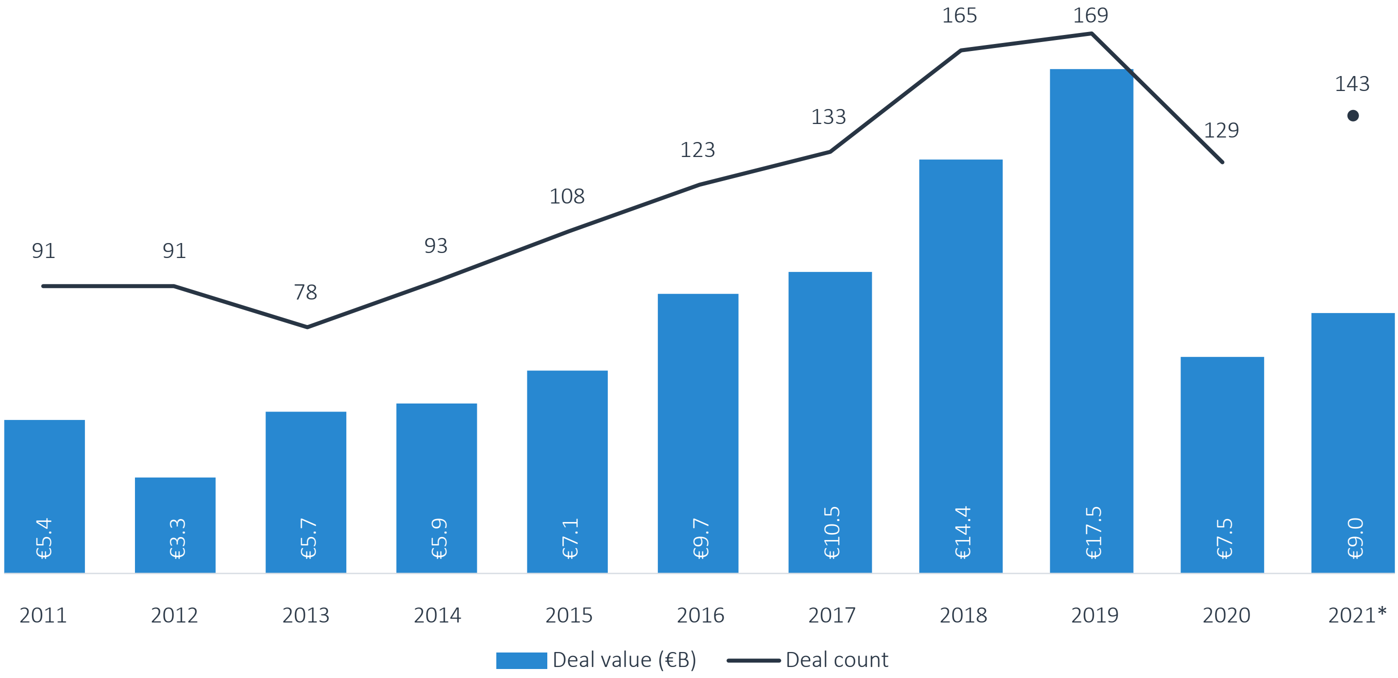
economy and markets relatively stable, which was critical for dealmaking. For instance, unemployment continues to fall in the EU, hovering around 7.6% in Q3. According to the European Central Bank (ECB), GDP growth is expected to hit 5.0% in 2021, and over 70.0% of EU adults have been fully vaccinated.[1]

Looking ahead, we expect deal activity to slow in the final quarter of the year for a few reasons. First, sponsors are nearing the completion of their dealmaking catch-up after 2020's down year. Many GPs believe we have hit the peak of private equity deal activity and investment activity should begin to normalise after three outstanding quarters.[2] Second, dealmakers will be wary of higher long-term inflation, the accelerating Delta variant as we get closer to winter, and the prospect of tightening fiscal-monetary policy. For example, fiscal programmes such as furlough schemes, tax holidays, and business grants will be winding down as we move into Q4. This could act as a headwind to deal activity, as private equity portfolio companies' and private equity targets' liquidity profiles will likely reduce. Moreover, other contributors to the investment headwinds include supply chain bottlenecks, rising raw material costs, and the hawkish tone of central bankers—especially the Bank of England (BoE), which recently stated it sees a growing case for raising interest rates in response to rampant inflation due to heated consumer demand. Inflation in the UK is expected to sit around 4.0% by year-end—more than twice its target.[3] Higher interest rates will make financing deals and servicing debt for portfolio companies more expensive, which may lower deal activity and returns.

Private equity deal activity within the financial services sector has hit a new annual peak, with three months of the year left. Through Q3, 247 deals closed worth €38.3 billion—marking YoY increases of 45.3% and 65.2%, respectively. The bulk of deal volume came from the insurance space, which saw a 20.0% increase in deal count from the first three quarters of 2020. More specifically, GPs targeted insurance brokers, which accounted for over three quarters of closed deals through Q3 2021. Private equity's interest in insurance brokers stems from the subsector's intense fragmentation, light capital intensiveness, lack of regulation, and relatively stable free cash flows. The sector has seen low rates of organic growth and has thousands of smaller players, meaning growth via scale is critical. Sponsors are happy to execute roll-up strategies by acquiring smaller players at low multiples and selling the larger platform for a substantially higher multiple, exhibiting multiple arbitrage.

1: "Europe's Recovery Hits 'Sweet Spot' but Economists See Risks Gathering," *Financial Times*, Martin Arnold, September 12, 2021.
2: "Private Equity Party Ending as Exhaustion Sets In, Carlyle Says," *Bloomberg*, Benjamin Robertson and Jan-Henrik Foerster, September 23, 2021.
3: "BoE's Bailey Sees Growing Case for Interest Rate Rise," *Reuters*, David Milliken, September 27, 2021.

Media and information services private equity deal activity



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

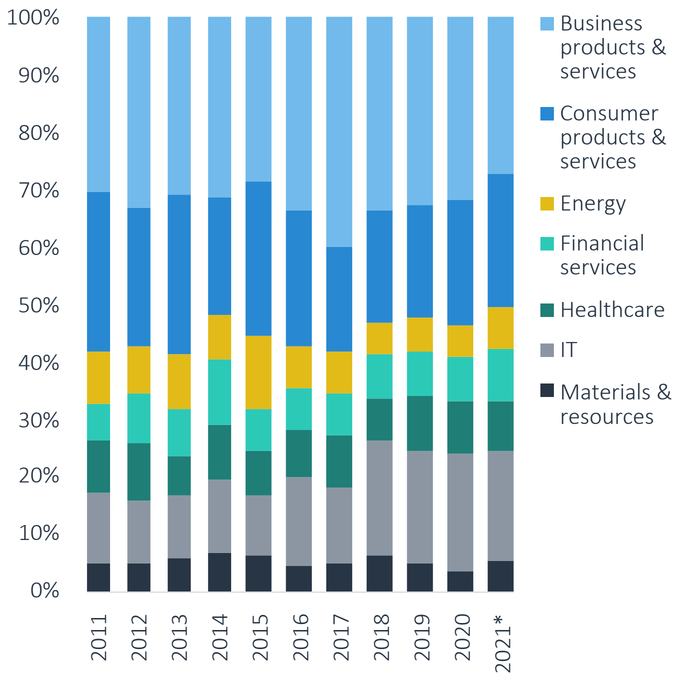
European private equity deal volume within the media and information services sector is pacing towards a new annual record. Through Q3, 143 deals closed, already surpassing every year's annual total—apart from 2018 and 2019—and we still have three months of 2021 left. The sector has remained attractive to sponsors due to its resilience during the pandemic and its adaptability in an environment that is constantly disrupted by technology. GPs and their operating partners can utilize the latest technologies and reposition assets to deliver more impactful and insightful information to customers. In addition, business models in the space are particularly durable, characterised by low customer concentration, high operating margins, and recurring revenue streams. In the largest deal of the year, EQT (STO: EQT) and Blackstone (NYSE: BX) injected €372.9 million in growth capital into Sweden-based Epidemic Sound. Epidemic's subscription-based business model offers a catalog of music tracks for content creators to use with all rights included. With online videos expected to account for over 82.0% of consumer internet traffic,[4] EQT and Blackstone are targeting accelerating customer adoption and increasing investment in the core user experience—they are also moving into new markets to augment Epidemic's growth.

We have also seen sponsors' growing interest in sports media rights companies due to its sticky, real-time, and distinctive content. The lack of institutionalisation within sports, as well as plummeting revenues during lockdowns, has given GPs the opportunity to play in the sector. For instance, CVC Capital Partners recently announced a €2.7 billion deal with Spain's LaLiga after also agreeing to purchase a 10.0% stake in Italy's Serie A. We expect this trend will continue as GPs look to monetise sports content through more direct-to-consumer platforms, and sports teams and/or leagues seek capital to drive strategic growth after losing a significant amount of revenue during 2020.

4: "Epidemic Sound Brings in EQT Growth and Blackstone Growth To Support Its Next Phase of Development," EQT Group, March 11, 2017.

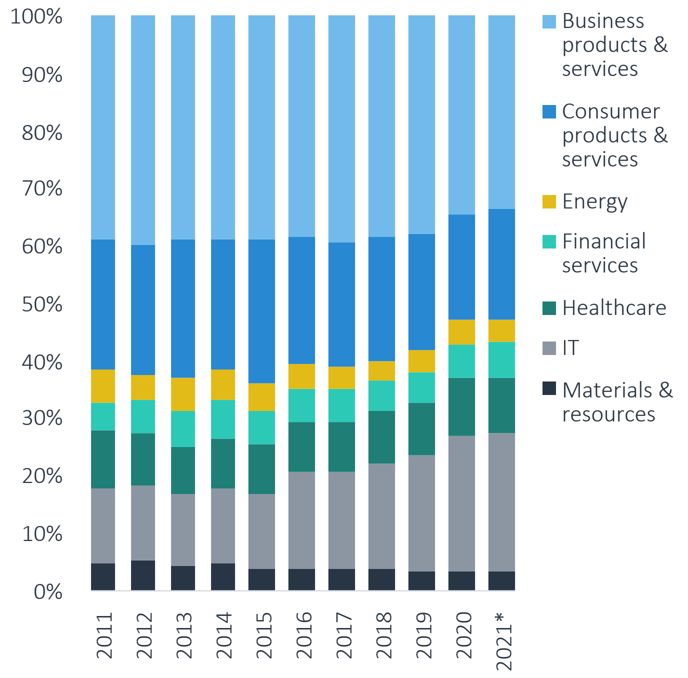
Deals by sector and region

Share of private equity deal value by sector



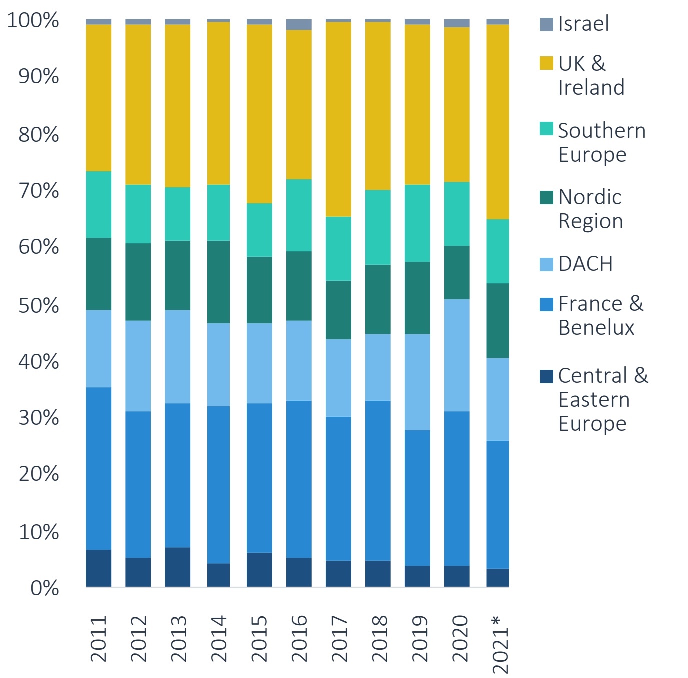
Source: PitchBook | **Geography:** Europe
*As of September 30, 2021

Share of private equity deal count by sector



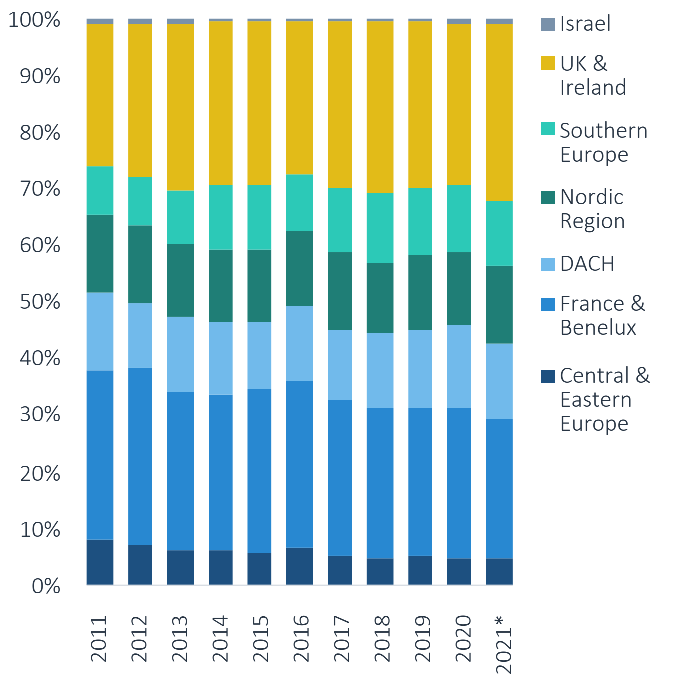
Source: PitchBook | **Geography:** Europe
*As of September 30, 2021

Share of private equity deal value by region



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

Share of private equity deal count by region



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

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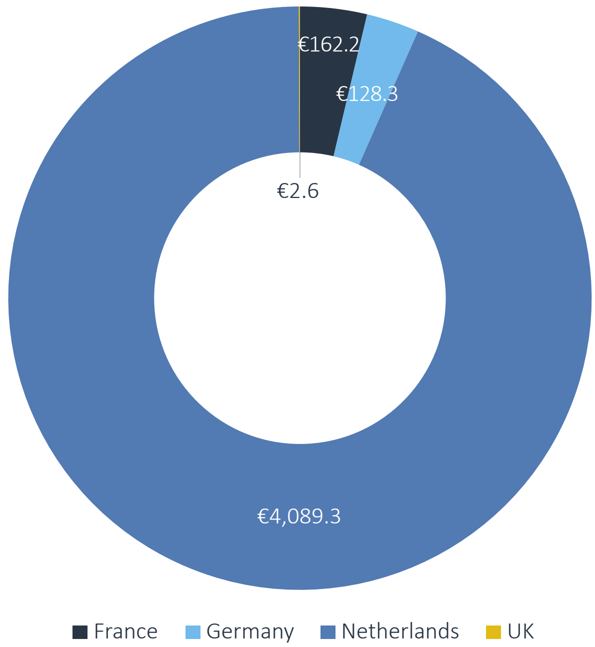
Spotlight: UK SPAC rule changes

This spotlight was originally published in our Q4 2021 Analyst Note: UK SPAC Rule Changes and Their Impacts on Private Markets on October 6.

2021* SPAC IPO value (€M) by listing exchange country



Source: PitchBook | **Geography:** Europe
*As of August 31, 2021

Impacts of new UK SPAC rules on private markets

The UK's new SPAC rules will be welcomed by most private market participants as London is now on par with other major competing exchanges in the US, Europe, and Asia, which do not suspend stock at acquisition announcement. Besides, redemption rights, shareholder approval of business combinations, and placing offer proceeds into a ring-fenced account are now in-line with the major SPAC markets. As the UK model now has the capacity to almost mimic the popular US structure, some industry participants wonder if the changes have come too late—as the US SPAC boom cools—or just in time for a change in investor appetite to the UK market. While it is too early to tell if a UK SPAC listing frenzy will begin, we do expect H2 2021 London SPAC listings specifically focused on taking UK-based companies public to outpace H1 2021 in light of the recent changes.

Opportunities for GPs

UK assets targeted

Private market GPs' focus on acquiring UK assets has been a major theme so far in 2021. We anticipate the rule changes will provide an added tool for GPs to use in UK-based M&A. Multiple sponsors have explicitly stated they will be focused on acquisitions of UK assets due to greater political certainty in the region, as a no-deal Brexit was avoided, and the UK's wide opportunity set. Private equity firms, such as KKR, have recently set up teams exclusively focused on M&A for UK companies as they look to take advantage of comparatively depressed British valuations for fundamentally strong companies.

Increasing and favourable opportunity set

In terms of sectors, newer SPACs typically look to merge with innovative and fast-growing technology companies. The continued growth in the UK's venture capital ecosystem, as well as its technology sector, makes the region favourable to hunt for targets. In addition, as UK fiscal stimulus winds down in H2, companies will likely seek scale or defensive capital in navigating the post-pandemic landscape, and UK SPACs could be well-positioned to take advantage of this favourable and increasing opportunity set. Furthermore, as the traditional IPO process comes with size thresholds, which do not allow smaller companies to list, such targets could be attractive to SPAC sponsors, especially as fiscal stimulus reduces. With that said, some form of fiscal-monetary tapering could lower SPAC fundraising activity as liquidity in the system falls and the potential for interest-rate rises increases due to heating inflation, which makes fixed-income assets more attractive. However, should H2 2021 stimulus tapering be predictable, gradual, and slow as expected, then there should not be material impacts on investors' appetite for SPAC vehicles.

Strong exit channel

Across both the European private equity and venture capital ecosystems, sponsors have been listing companies at a rapid clip—one not seen in over a decade. The recent rule changes will only extend this trend as the private equity and startup ecosystems continue to quickly grow. Despite the conflicts of interests, we may see more sponsors create UK SPACs to exit UK-headquartered portfolio companies they feel have further upside potential and will be better served on the public markets at a valuation they deem fair. The enhanced disclosure requirements will likely make this a viable exit route for sponsor portfolio companies. For instance, while US SPACs have been the most willing buyers of portfolio companies in 2021, we have already seen €4.7 billion worth of private equity-backed companies exit to European SPACs in 2021, the most on record. The venture capital side shows an even stronger trend, with €11.7 billion worth of exits to European SPACs. We expect more of these transactions to close in H2, especially in the UK given the region's rule changes, growing public markets, and wide opportunity set.

Challenges for GPs

Increased regulatory oversight & shifting policy

As the UK model draws closer to the US model, it is worth noting the quick slowdown in US SPAC listings since around April 2021. There has been growing regulatory scrutiny from the Securities and Exchange Commission (SEC) about US SPAC structures being too lax in areas such as disclosures and alignment. The same litigation trends could filter through to the UK should we see a material uptick in listings. For example, the SEC recently brought charges against the Stable Road Acquisition Company for misleading disclosures about its target company, Momentus Technology. Furthermore, former US SEC commissioner Robert Jackson recently stated that up to 50 SPACs could see lawsuits filed against them soon. As a result, SPAC participants should be prepared for similar litigation exposure and more regulatory intervention from the Financial Conduct Authority (FCA), should activity accelerate. However, some of these issues are because the US market exploded faster than the SEC could react, while the proactive nature of the UK's rule changes means the reverse is happening in the UK. The closer collaboration between sponsors and the FCA could eliminate some of these potential problems in the UK.

Sponsor vote

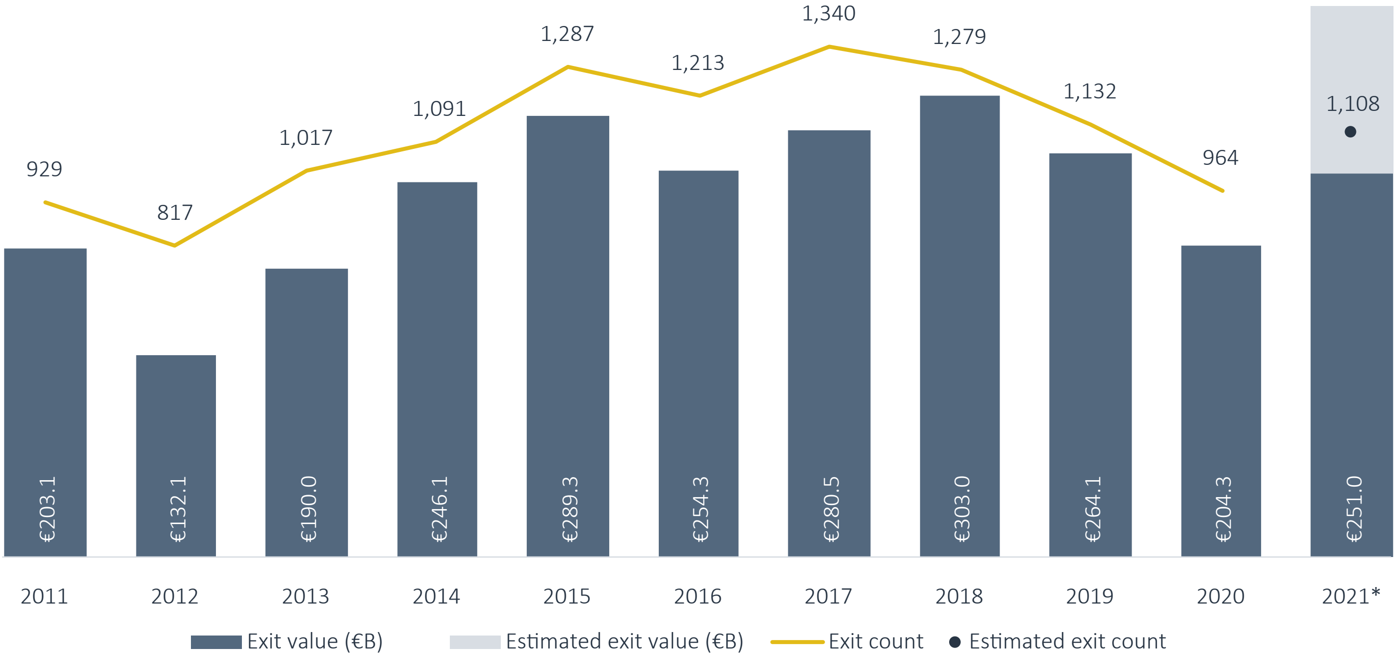
There is some divergence in the new UK rules with other major jurisdictions that could pose headwinds to SPAC managers. UK SPAC sponsors cannot vote on the proposed merger, meaning management teams are at the mercy of shareholders and are at a disadvantage when compared to rules from other regions, such as Amsterdam and Frankfurt. It will be interesting to see how the market reacts to such differences, but we do not expect this to deter sponsors from UK listings. As seen in the US, SPAC investors trust management to identify, negotiate, and execute on a favourable merger, so almost zero SPACs are voted down. Unless a deal has obvious and major flaws, we anticipate investors will vote for the proposed acquisition. In addition, we actually see this rule encouraging further investor appetite for UK SPACs as shareholder alignment, protection, and control all increase. Lastly, this rule may push sponsors to work harder to seek out quality targets or perform more intense due diligence before announcing the target to shareholders. The knock-on effect could be better long-term performance of UK SPACs.

Dry powder, heightened competition, and valuations

The rule changes are expected to add to the excess private capital dry powder still in the market. This will add to the already fierce competition sponsors face from buyout and growth funds when hunting for quality targets, which could put upward pressure on valuations. Given SPACs have the added firepower and leverage from PIPEs, the €4.6 billion in European SPAC dry powder is probably understated. While still a long way off and unlikely, if a flurry of activity breaks out in the UK, we could see a glut of SPACs chase limited opportunities. This may cause investors' capital to be returned, as we witnessed in the US. For example, Bill Ackman's Pershing Square Tontine Holdings SPAC has proposed returning €4.0 billion to investors due to not completing a merger in time.

Exits

Private equity exit activity

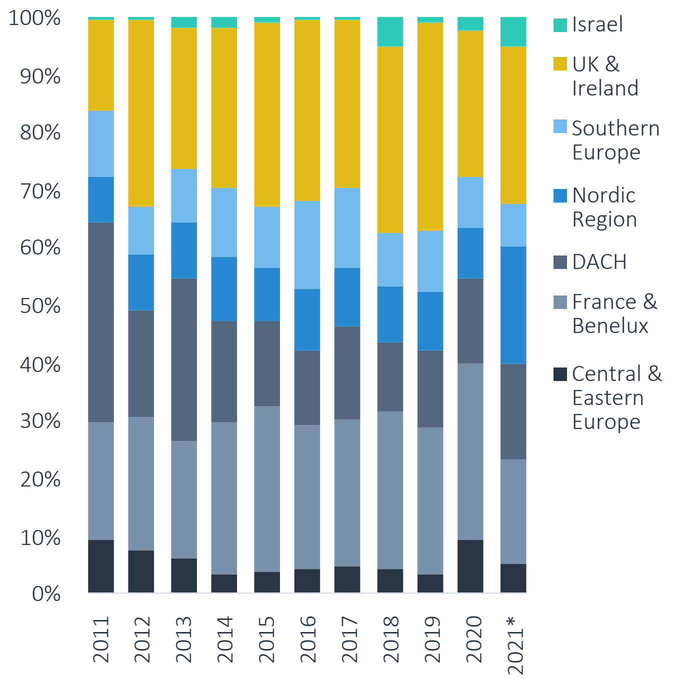


Source: PitchBook | **Geography:** Europe
*As of September 30, 2021

European private equity exit activity continues to quicken, setting new quarterly and annual records. In the third quarter of 2021, 425 exits closed worth approximately €126.4 billion, marking YoY increases of 96.0% and 202.8%, respectively. Q3's exit volume reached a new quarterly peak and is easily pacing to hit a new annual record, while YTD exit value has surpassed all previous years' annual figures, despite one quarter remaining. The stellar exit value performance in 2021 can be attributed to a large uplift in liquidity events greater than €2.5 billion, driven by corporate acquisitions. Through Q3, 16 exits greater than €2.5 billion closed, worth an aggregated €95.3 billion, while the same period in 2020 only saw five exits worth €30.7 billion close. This dynamic also boosted the median exit size, which is pacing towards an annual top.

On the volume side, exit sizes between €100 million and €500 million were the primary driver of the quarterly peak. In the largest private equity exit of the quarter, Denmark-based Nets was sold to Nexi (MIL: NEXI) for €7.6 billion to create Europe's largest payments group. The private equity sponsors behind Nets recognised the favourable exit environment, especially for financial technology (fintech) assets, as a wave of consolidation and rich valuations characterise the sector. For instance, the main private equity owners behind Nets only held onto the company for around three years and exited the asset at a reported 41.5x EV/EBITDA multiple.

Share of private equity exit value by region

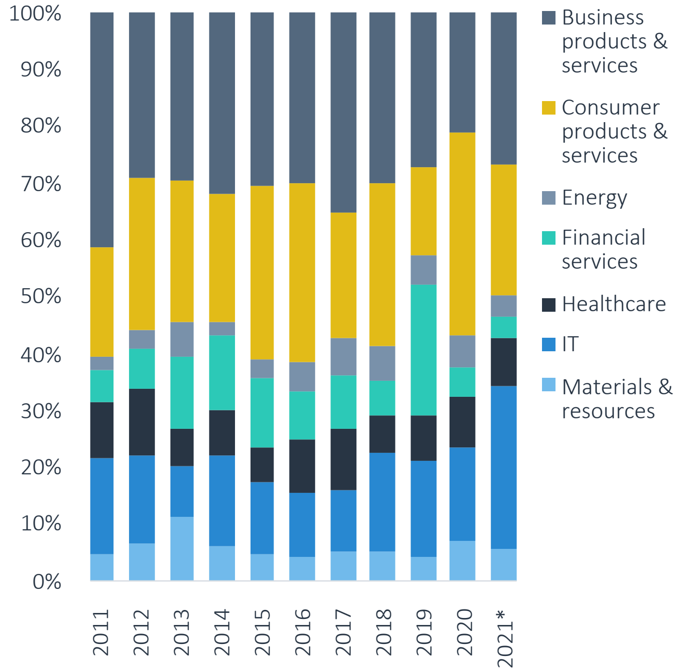


Source: PitchBook | **Geography:** Europe
*As of September 30, 2021

Private equity exit value in the Nordic region has had a remarkable opening three quarters. Through Q3 2021, €51.3 billion worth of exits closed in the region, hitting a new annual high. To put into context the region's exit value performance, the next-highest annual figure was €28.9 billion in 2018. The main drivers of the heightened exit value figure were the three liquidity events of Denmark-based Nets, Sweden-headquartered Oatly, and Denmark-based STARK Group, accounting for over 35.0% of the region's YTD exit value. With 2020 seeing the region's lowest exit value performance since 2012 due to the pandemic-induced volatility, pent-up exit demand is likely filtering through to the real economy. Looking ahead, we expect exit momentum will cool from its top but continue to be strong as vaccination rates tick upwards, COVID-19 cases trend lower, and liquidity in the system remains high.

Private equity exit activity in the IT sector has been staggeringly hot. Through Q3 2021, €71.8 billion worth of liquidity events closed in the sector—already dwarfing the previous annual high of €52.9 billion set in 2018. Even on a proportionate basis, the IT sector is pacing to account for the bulk of exit value across all sectors for the first time, with close to 30.0% of exit value coming from the industry. Sponsors have been enthusiastic to both invest and divest IT assets due to their resilience during downturns, which has catapulted valuations upwards, translating into higher returns. Moreover, the addition of SPAC acquirers focused on IT assets has increased competition, further fueling valuations and encouraging more private equity exits.

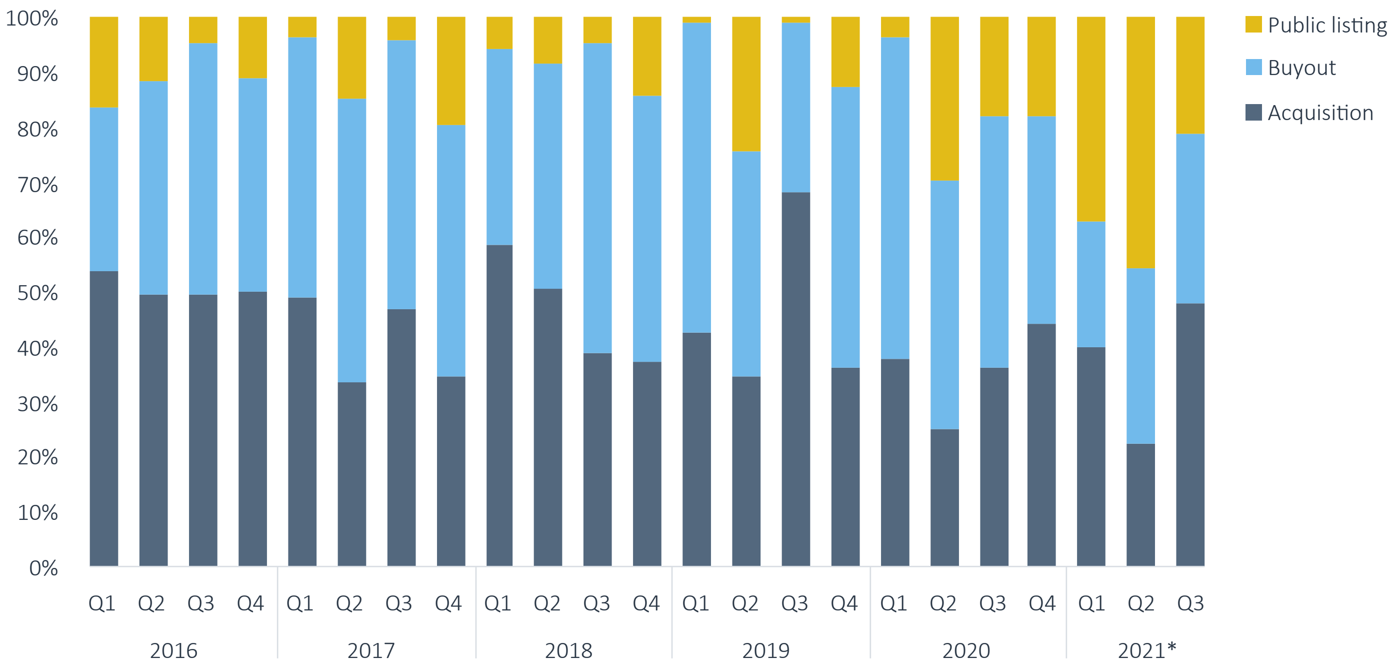
Share of private equity exit value by sector



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

For instance, in 2021 we saw private equity-backed Paysafe Group, Cellebrite, and ironSource all exit to SPACs, with Paysafe Group fetching a whopping reported 31.5x EV/EBITDA multiple.

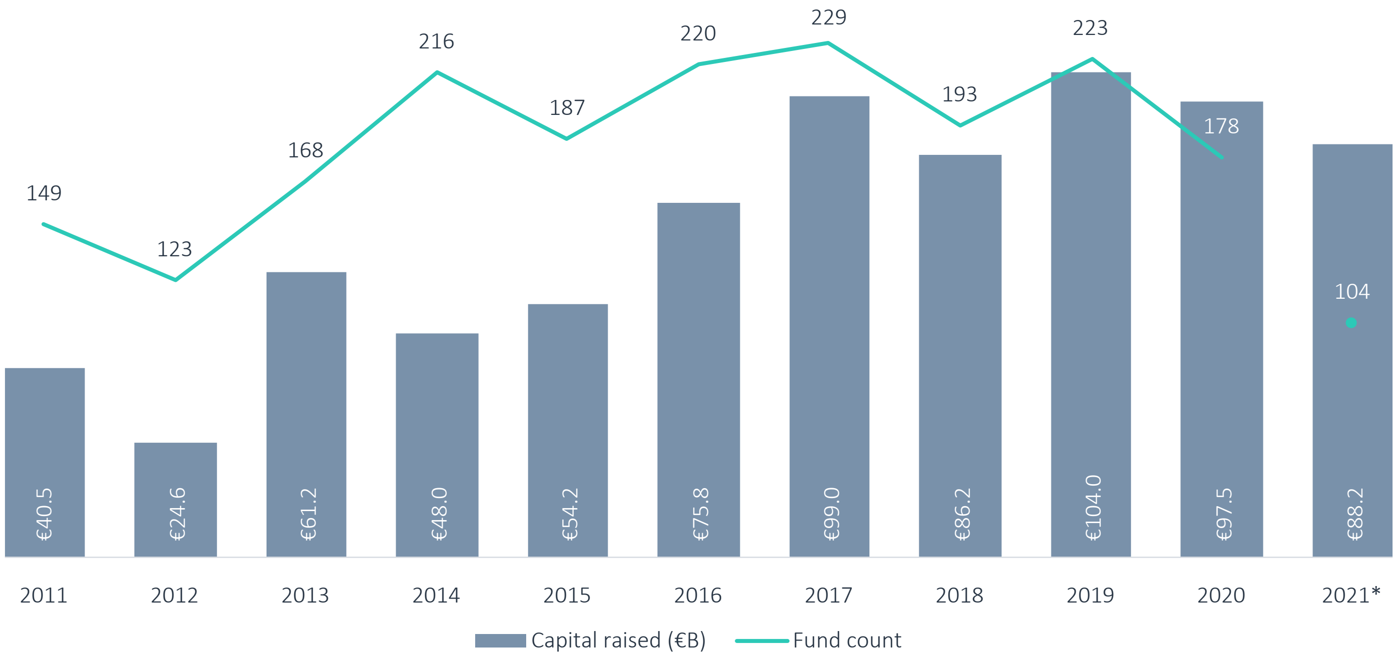
Share of private equity exit value by exit type



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

Fundraising

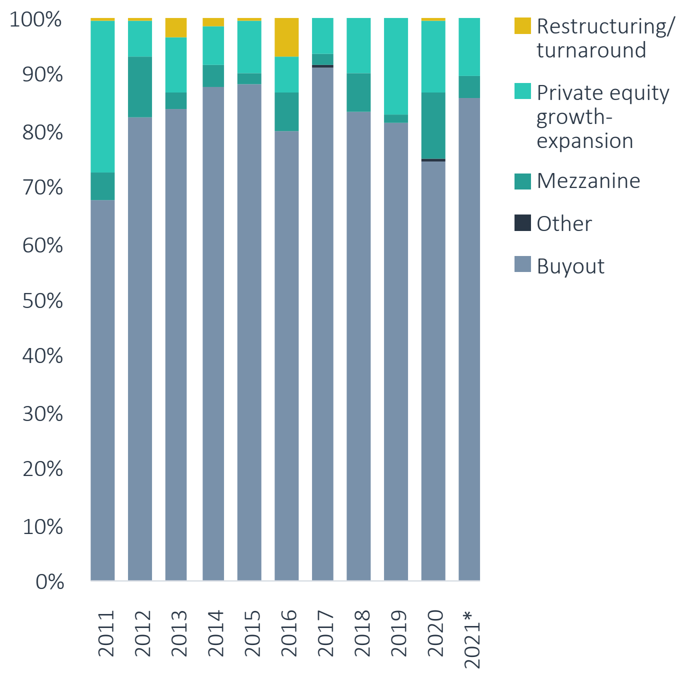
Private equity fundraising activity



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

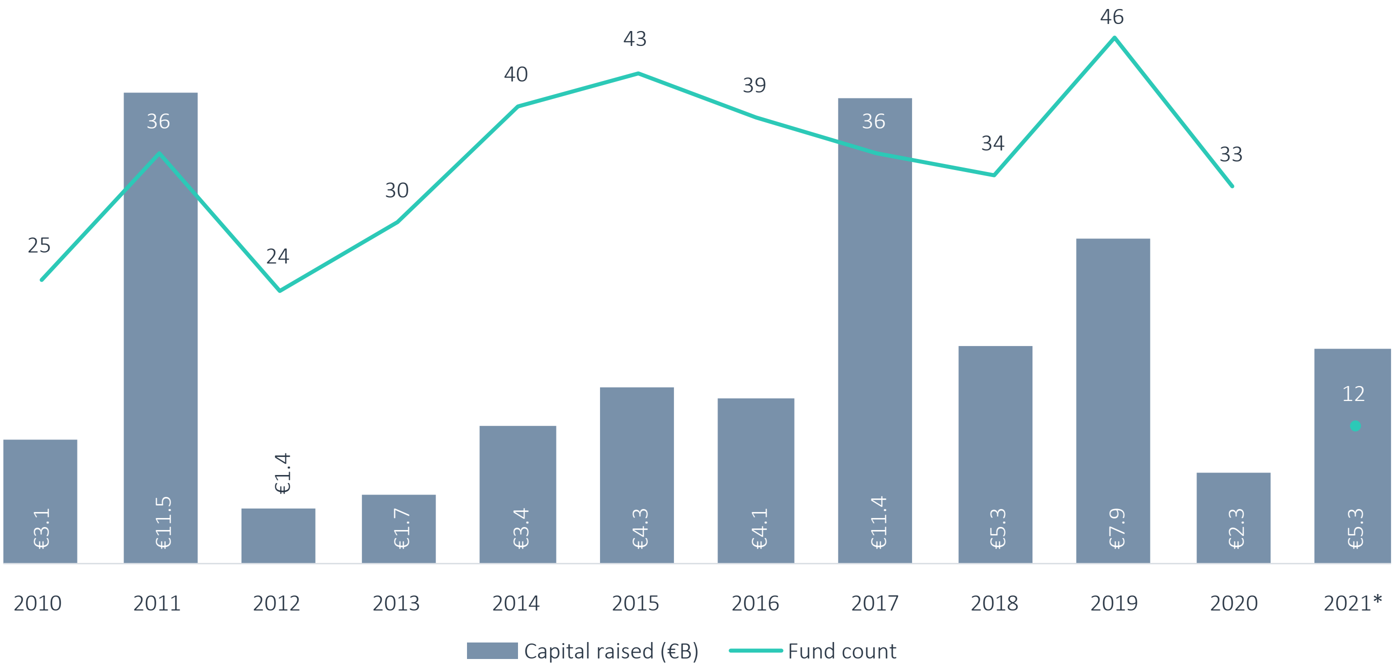
European private equity fundraising through Q3 2021 has slightly cooled from its explosive first half of the year. Through Q3, 104 private equity funds closed worth an aggregated €88.3 billion, putting 2021 on pace for its lowest annual fund count total since 2012, while capital raised could hit €100.0 billion by year-end, given the several large funds in the market. Institutional investors' sustained flight of capital to safety with established, larger GPs explains the low fund count totals, and healthy capital-raised numbers. For example, 46.3% of capital raised through Q3 2021 came from only three mega-funds. LPs are backing GPs that provide first-class service, have a strong track record, and have a clear differentiated strategy in secular growth industries such as impact, climate change, IT, and healthcare. For instance, in Q3, GHO Capital III amassed €2.0 billion in about six months for the largest European healthcare-focused private equity fund. The fund surpassed its initial €1.3 billion target and aims to invest in companies in the medtech, pharma & biotech, and patient services healthcare subsectors. In addition, we saw Apax Midmarket X close on €1.6 billion, surpassing its €1.2 billion target for a fund focused on acquiring high-growth digitally enabled

Share of private equity capital raised by fund type



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

Private equity first-time fundraising activity



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

businesses across IT, healthcare, and services. Looking ahead, while LPs are somewhat concerned about higher inflation and tightening policy, they remain positive on their private markets allocations, especially buyouts and growth funds, as highlighted in a recent LP survey.[5]

Since the onslaught of the pandemic in Q2 2020, private equity first-time fundraising has struggled; however, green shoots of recovery are slowly appearing in the space. Through Q3 2021, 12 first-time private equity funds closed worth an aggregated €5.3 billion, pacing towards its lowest fund count total ever, while capital raised is set to come in higher than its five-year average. Although private equity always has room for new injections of ideas and strategies, as LPs continually search for tomorrow's mega-fund managers, the pandemic has forced LPs to become more discerning when allocating to first-time funds, which helps explain the poor fundraising performance. That being said, committing to first-time funds has many advantages for LPs, such as the potential for more favourable fee structures, share in the GP management fees and carry pool, and exposure to niche specialist investment strategies that have the potential to produce outsized returns. For example, in the third quarter, Trill Impact's fund closed on a whopping €900.0 million for its inaugural middle-market impact fund, making it one of the largest first-time funds to close since the global financial crisis (GFC). As the private equity industry matures, first-time managers will see fewer opportunities. However, capital will always flow to compelling market opportunities, and the success of the Trill Impact fund should act as a tailwind for first-time fund managers.

Top five open private equity funds*

Funds	Fund Type	Fund Size	Investor	Fund Location
Kiltearn Global Equity (Ireland) Fund	Buyout	€6,382.4	Kiltearn Partners	Edinburgh, UK
BC European Capital XI	Buyout	€4,000.0	BC Partners	London, UK
PSC IV	Buyout	€1,113.4	Pollen Street Capital	London, UK
Lindsell Train Global Equity	Buyout	€1,013.8	Lindsell Train Investment	London, UK
DPE Deutschland IV	Buyout	€1,000.0	DPE Deutsche Private Equity	Munich, Germany

Source: PitchBook | **Geography:** Global
*As of September 30, 2021

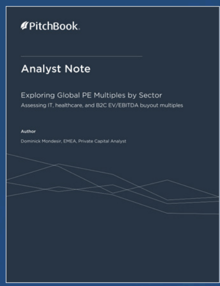
5: "New Eaton Partners Survey Finds Institutional Investors Plan To Increase Private Market Allocations," Eaton Partners, October 7, 2021.

Additional research

European Private Equity

Q2 2021 European PE Breakdown

Download the report here



Analyst Note: Exploring Global PE Multiples by Sector

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2021 France & Benelux Private Capital Breakdown

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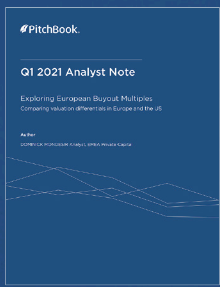

Analyst Note: Exploring European Buyout Multiples

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