Q1 2024

EUROPEAN PE Breakdown

Contents

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Introduction

Q1 2024 PE deal activity was bleak in Europe after a resilient year of dealmaking. Q1 PE deal value was down 37.2% sequentially and 19.6% YoY. We saw only five megadeals in Europe in Q1, worth a combined €8.1 billion—a fraction compared with the €108.4 billion in 2023. The preferred strategy we observe in the current environment is to buy-and-build through smaller add-on deals that continue to take market share, representing 45.0% of deal value in Q1 compared with the 10-year average of 27.6%. Looking ahead, we anticipate dealmaking to recover due to the high levels of dry powder, bullish public markets, and the anticipation of monetary easing.

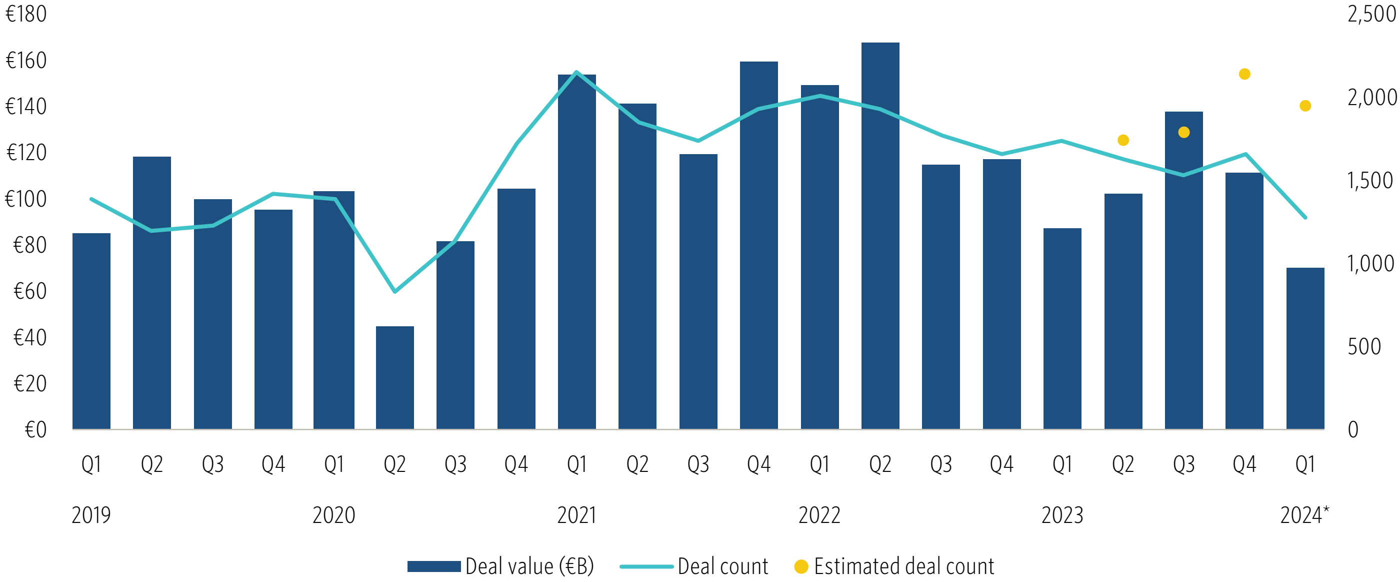
The dearth in exit activity continues into Q1, dropping for the second consecutive quarter as we await a recovery. Excluding Q2 2020, this is the worst quarter for European PE exit value since Q1 2013. We did, however, see some IPO green shoots come out of the DACH region in Q1 with the listings of Galderma, Parfümerie Douglas, and RENK. Sponsors will look at the performance of those listings moving forward as a gauge for IPO appetite in 2024. Q1 exit value derived from public listings was greater than 2022, which is encouraging while we look for signs of a recovery. Trailing 12-month (TTM) enterprise value (EV)/EBITDA stands at 11.7x—slightly higher than the 2023 figure of 10.2x—pointing to early signs that valuations are climbing back up from their trough. Valuation levels still remain 12.3% lower than from their peak in 2021.

Our spotlight section this quarter looks at the rise in PE deals in European nonbacked companies, which went from representing 57.5% of deal count in 2014 to 68.2% in Q1 2024. We define nonbacked companies as those that have yet to accept institutional money. For the most part, these represent businesses that are still in the hands of the employees or families that founded them. PE firms have increased their appetite for these nonbacked companies, because they are able to start with a clean slate, free from any baggage or conflicting cultures from prior owners. PE firms are also able to bring their operational expertise to unlock value by optimising costs and streamlining processes.

After a record year of European fundraising, Q1 saw a record quarter of capital raised, raising roughly half of the entire 2023 figure in just one quarter. The story remains one of megafunds, with the top three largest funds accounting for 75.9% of capital raised in Q1. EQT closed its tenth flagship fund, raising €22 billion, while Cinven and Apax also raised in the teen double digits. These three funds will likely be the largest in Europe in 2024, as we expect megafunds to cool off in subsequent quarters. Middle-market fundraising remained healthy, while regionally, we saw a surge in Nordic and UK fundraising, which account for all of the top 10 funds. Bottlenecks to fundraising persist, and we believe monetary easing in H2 and early 2025 will help fuel the exit market so distributions can be reinvested in fundraising.

Deals

PE deal activity by quarter



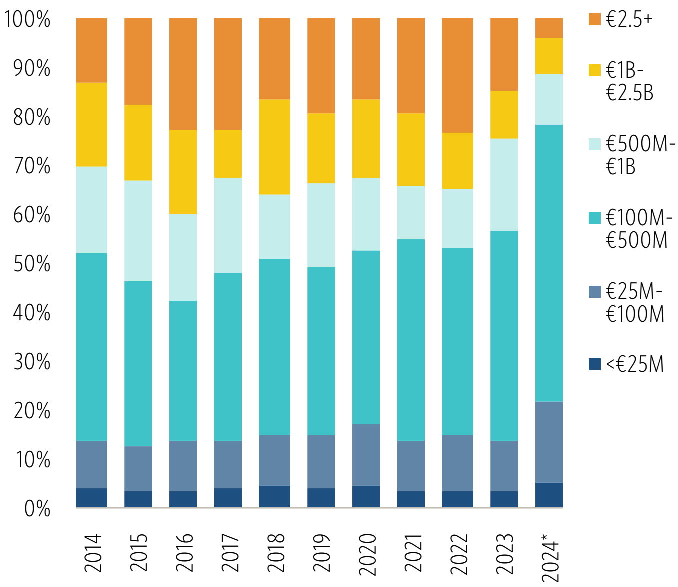
Source: PitchBook • Geography: Europe • *As of March 31, 2024

A sluggish start to the year, but more dealmaking on the horizon

Q1 2024 PE deal activity was bleak in Europe after a resilient year of dealmaking. Q1 PE deal value was €69.9 billion, down 37.2% sequentially and 19.6% YoY. This is surprising given we have seen a recovery in public markets as central banks have signalled towards monetary easing across the continent. The Swiss National Bank was the first mover, with a 25 basis point rate cut in March. The Euro STOXX 50 is up 12.6% as of the end of Q1. Deal count, on the other hand, points towards more PE resilience, as it is higher than three out of the four quarters last year. This means that we have seen a higher volume of deals shift towards the smaller size of the spectrum and away from megadeals, which often drive deal value for European PE.

In fact, we saw only five megadeals in Europe in Q1, worth a combined €8.1 billion, compared with 43 megadeals worth €108.4 billion in 2023. In the current interest rate environment, megadeals have become harder to execute given the higher borrowing cost and lower leverage levels. They are only worth pursuing if the entry multiple is attractive and compensates for the higher borrowing cost. Megadeals also tend to take longer to execute and by the time the deal is struck, certain key performance indicators and macroeconomic variables may have moved, such as debt costs, growth projections, or even inflation targets. Megadeals will also often involve more than one sponsor in

Share of PE deal value by size bucket



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

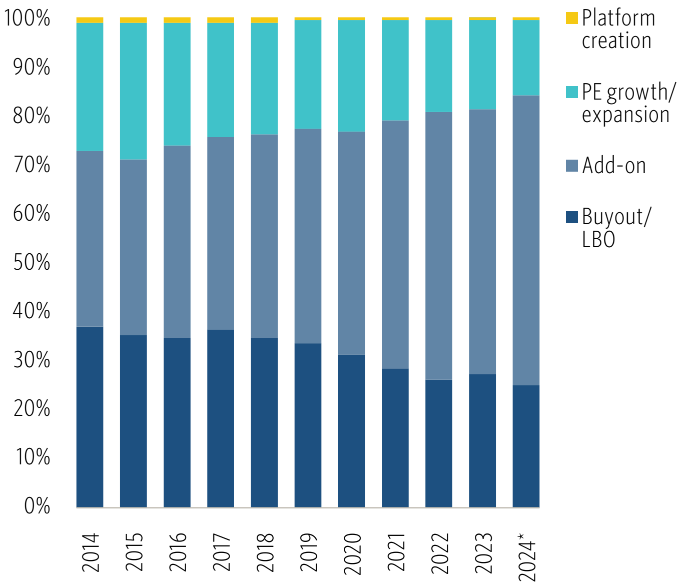
so-called "club deals." We have seen a rise in club deals in the last 12 months, ticking up from 28.2% of buyout count in 2023 to 31.6% in 2024 as sponsors join forces to provide higher levels of equity contributions.

The preferred strategy we observe in the current dealmaking environment is to buy-and-build through add-on deals, which continue to take market share. In Q1, 45.0% of deal value came from add-ons compared with the 10-year average of 27.6%. Add-ons tend to be smaller in size and complimentary to the existing portfolio of companies the sponsor owns.

Looking at the next nine months of the year, we expect dealmaking to recover from this sluggish first quarter for three reasons: Firstly, European sponsors still have record levels of dry powder they amassed during the low interest rate environment, and fundraising has not stopped even with higher borrowing costs. Secondly, the recovery in public markets is a positive indicator for private markets, which often lag public markets by a few quarters. Thirdly, the outlook of monetary easing will further boost dealmaking when central banks finally decide to start cutting interest rates.

The PE naysayers often point out that higher borrowing costs and lower leverage means sponsors will not be able to sustain the returns they previously earned and that the golden age is over. However, this really depends on the entry multiple you purchased your asset at; considering that valuations came down while the discount factor increased in the past 18 months, the argument could be made that you can still deliver similar returns if you purchased your asset lower than in the previous cycle.

Share of PE deal count by type



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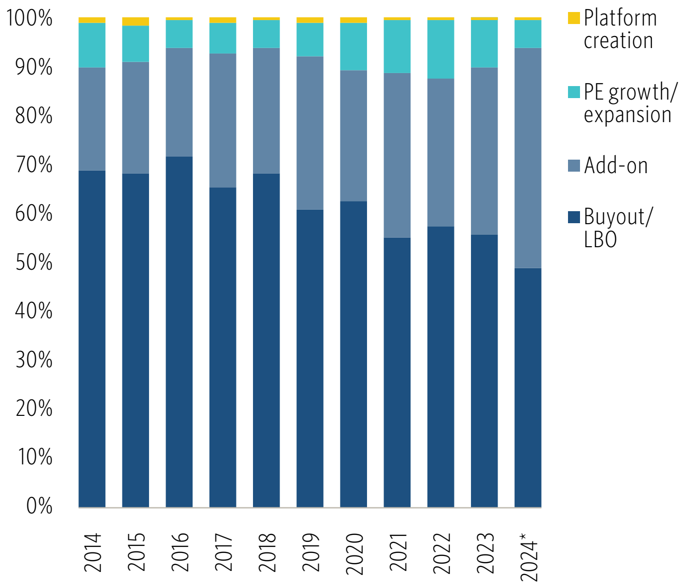
Share of PE deal value by type



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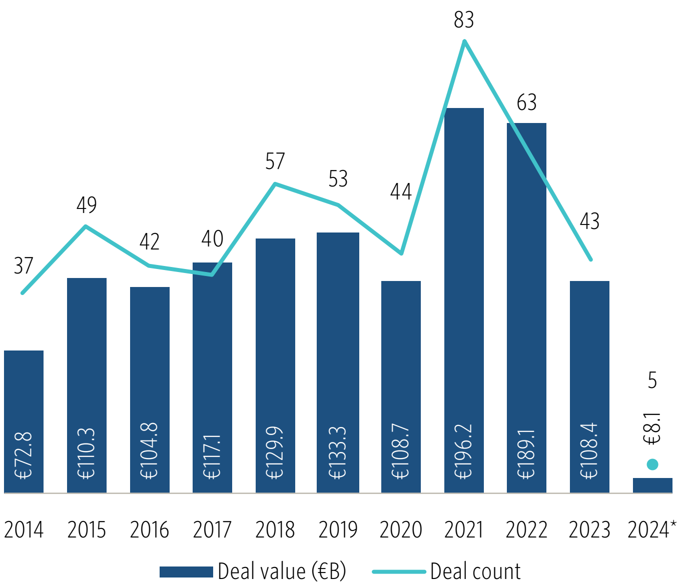
PE megadeal activity



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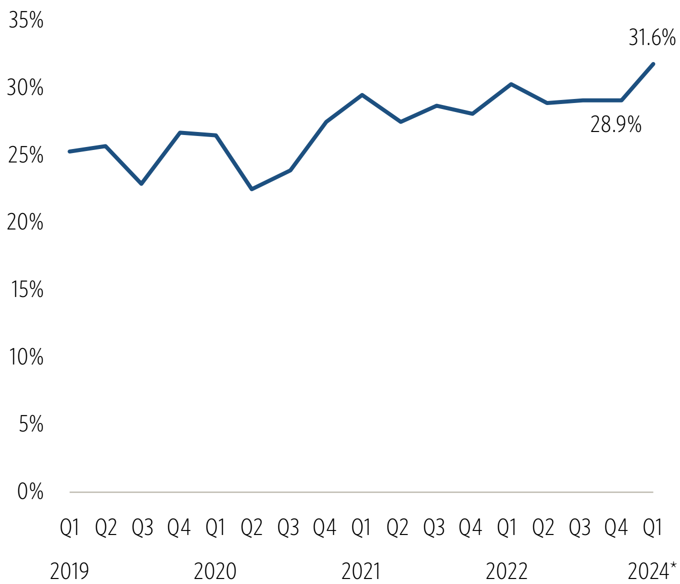
Quarterly club deals count as a percentage of total buyout count



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

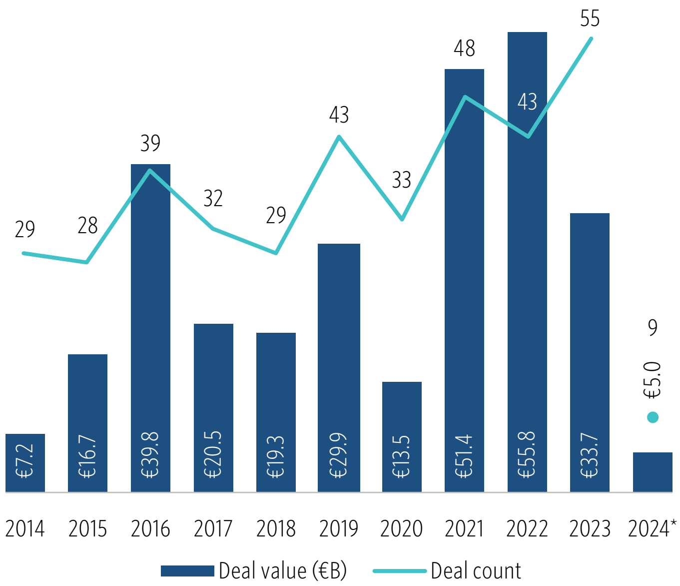
Take-privates cool down as public markets rise

In Q1 2024, only nine companies were taken private in Europe, worth a combined €5.0 billion. The bulk of the value came from the proposed takeover of Encavis by KKR for €2.8 billion. Encavis shares halved in the 18 months prior, which is often the case in take-privates we have seen in the last three years. But with public markets rising, their valuation multiples are getting more expensive for PE firms to pursue, and opportunities are once again getting scarcer. Nonetheless, three out of the top 10 deals in Q1 were take-privates. Believe, the French digital music company that listed less than three years ago, is being taken private for €1.1 billion by its founder who has partnered with EQT and TCV. In the founder's own words: "Since being a public company, Believe has systematically outperformed its objectives, delivering its IPO plan two years ahead of schedule. However, the strength of its operational performance has not been reflected in the share price evolution."[1] The company will be taken private at a lower market capitalisation than when it initially listed. The third-largest take-private in Q1 saw Pollen Street acquire UK wealth manager Mattioli Woods for €505.4 million. As described in our 2023 Annual European PE Breakdown, we have been seeing more M&A within financial services due to the latest monetary tightening cycle that is consolidating such industries as banking, brokerage, insurance, and asset management companies.

Healthcare resilience in Q1; tech to bounce back in 2024

Healthcare was the only sector to show some resilience in Q1, with deal value increasing 15.4% QoQ and roughly flat YoY. Having said this, absolute levels were still 40% lower in Q1 than the average quarterly of the last five years. Roughly one in four PE deals was done in the IT sector, a higher share than in previous years. We expect further deals in the tech sector this year, given it was one of the sectors where we saw the strongest valuation corrections in the past two years and where we anticipate a strong recovery as rates start dropping. As we enter what is certainly a new cycle of digitalisation characterised by AI, we believe tech deals will multiply and take a larger share of dealmaking. In Q1, Bregal Milestone sold CUBE to Hg in a sponsor-to-sponsor deal, exiting the business after less than two years of ownership. London-based CUBE provides a comprehensive source of classified AI-driven regulatory data covering every regulated country and territory across the globe.[2]

PE take-private deal activity



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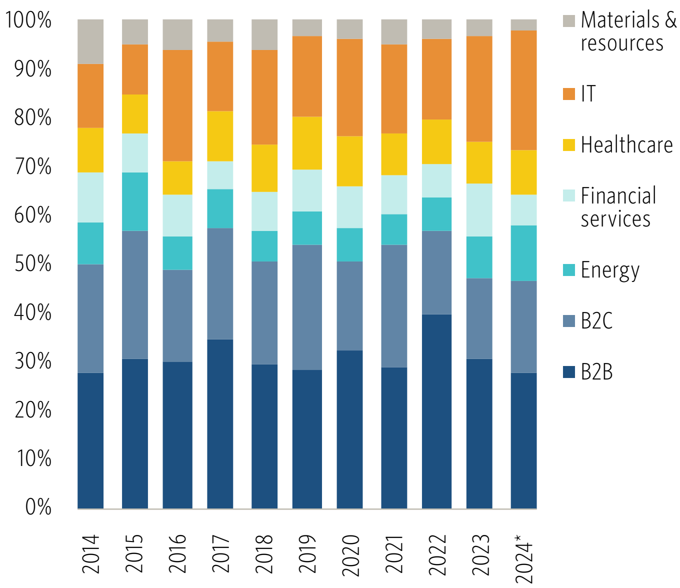
Share of PE deal value by sector



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

1: "Believe Looks to Take Music Group Private Less Than 3 Years Since IPO," Financial Times, Adrienne Klasa, February 12, 2024.
2: "Hg to Acquire Cube From Bregal Milestone," PE Hub Europe, Irien Joseph, March 20, 2024.

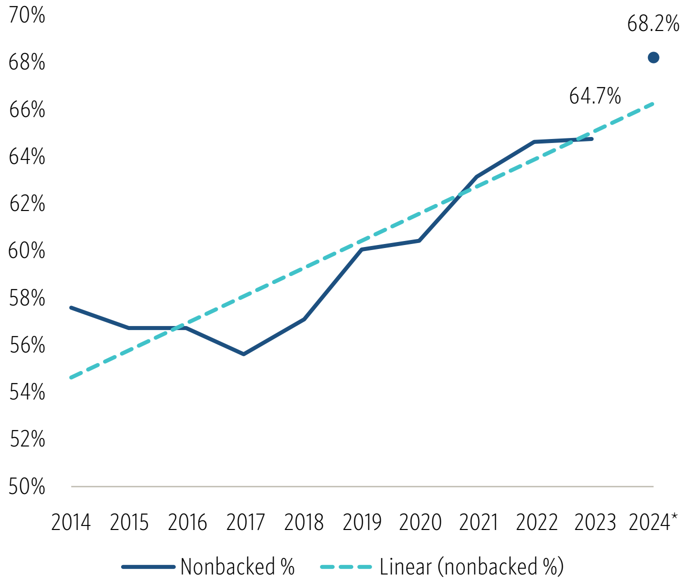
SPOTLIGHT

Rise in PE deals in European nonbacked companies

Over the last 10 years, we have seen a rise in PE deals in European nonbacked companies, going from representing 57.5% of deal count in 2014 to 68.2% in Q1 2024. We define nonbacked companies as those that have yet to accept institutional money. For the most part, these represent businesses that are still in the hands of the employees or families that founded them. Since 2020, businesses in Europe have had to endure the COVID-19-pandemic lockdown, a disruption in supply chains, higher commodity costs, higher inflation, higher borrowing costs, and lower growth. Faced with these challenges, founder-led businesses have often looked for outside capital. On the other side, PE firms have increased their appetite for these nonbacked companies, as they are able to start with a clean slate, free from any baggage or conflicting cultures from prior owners. Depending on the situation, they can either work alongside the founders or decide to replace the existing management. Founder-owned businesses also tend to offer lower purchase price multiples, which is welcomed by sponsors facing higher borrowing costs—as explained in our Founder-Owned Businesses Are Attractive M&A Targets analyst note. The core of the PE philosophy is to make operational improvements by optimising and streamlining processes. Especially in this new era of higher-for-longer rates, we are seeing buyout shops refocus their energy on improving EBITDA and margins as opposed to multiple expansion, which drove 47% of value creation in the past decade, according to Bain's Global Private Equity Report 2024—with 53% coming from revenue growth and only 0.1% coming from margin expansion.[3] To sustain the performance of the past 10 years, sponsors will need more returns to come from margin expansion moving forward.

The increased appetite for nonbacked companies is also a factor of the growth of private companies in recent years. Companies are now able to stay private for longer. According to Nasdaq, the median age for companies going through an IPO in 2001 was six years. In 2021, it was 11 years.[4] The appetite for IPOs has also decreased, especially in the past two years as we have seen exits to public listings be virtually non-existent. To alleviate this and provide liquidity to stakeholders, newer solutions are becoming more prevalent. Secondary transactions, whether LP-led or GP-led, have been booming globally with secondary funds raising record levels of capital in 2023. In Europe, we saw 10 new continuation funds close in 2023. Another solution proposed by Europe's largest PE firm, EQT, has been to do private IPOs. The idea would be to create a market of shares for some of their portfolio companies every so often and offer it to their clients. This would decrease the fees they pay investment banks and increase their own capital market fees by taking a commission whilst creating some liquidity for LPs to buy and sell. Exit strategies will continue to evolve, but what is certain is that there are more private companies today than five or 10 years ago; and the owners of those private companies have more resources allowing them to stay private for longer. According to a recent presentation from Swiss PE firm Partners Group, private market capital formation has outpaced global equity issuance since 2016.[5]

Deals with nonbacked companies as targets as a share of total PE deals

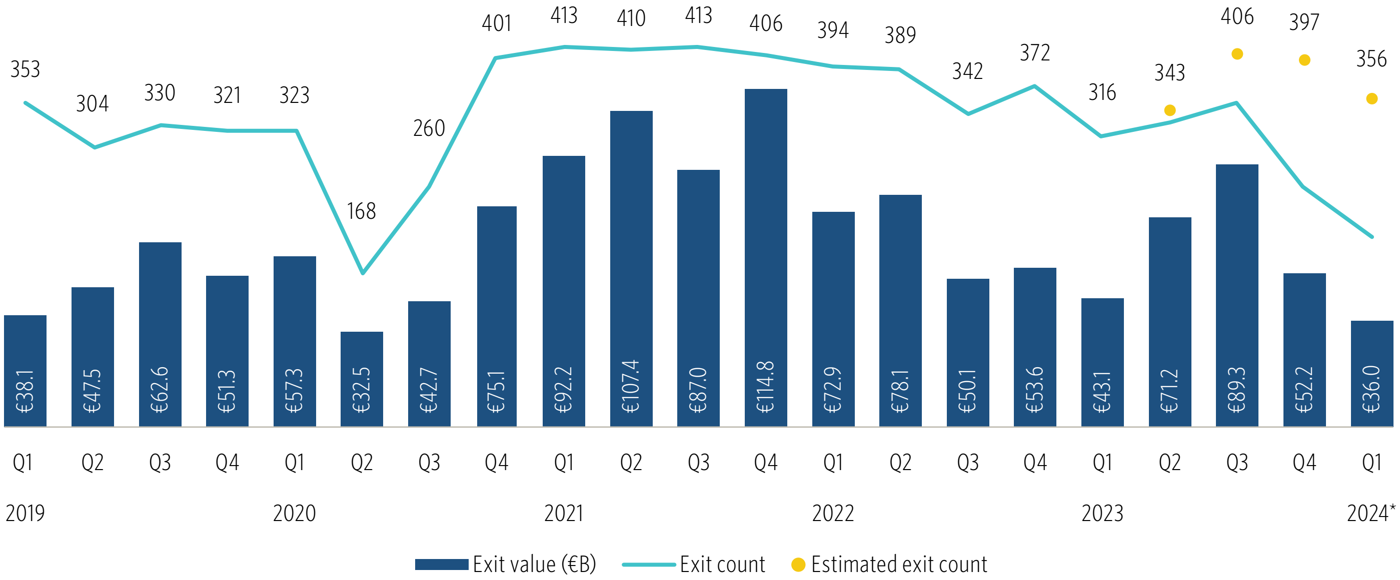


Source: PitchBook • Geography: Europe • *As of March 31, 2024

3: "Global Private Equity Report 2024," Bain & Company, Hugh MacArthur, 2024, n.d., accessed April 5, 2024.
4: "A Record Year for IPOs in 2021," Nasdaq, Phil Mackintosh, January 13, 2022.
5: "Annual Report 2023," Partners Group, March 15, 2024.

Exits

PE exit activity by quarter



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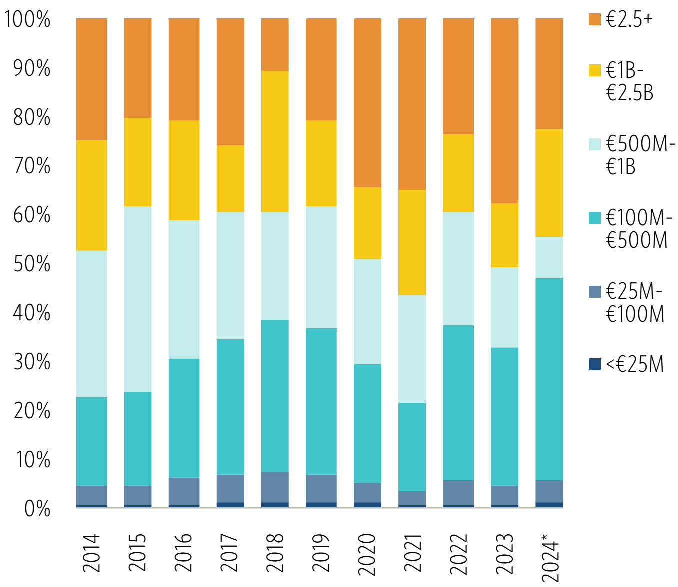
Exit value at trough but light at the end

The dearth in exit activity continues into Q1, dropping for the second consecutive quarter while we await a recovery. Excluding Q2 2020, which was during the pandemic lockdown, this is the worst quarter for European PE exit value since Q1 2013. Exit value is down across most size brackets, sectors, and geographies. In 2023, a few mega-exits kept overall figures afloat, but this quarter, we saw only six mega-exits worth a mere €16.1 billion.

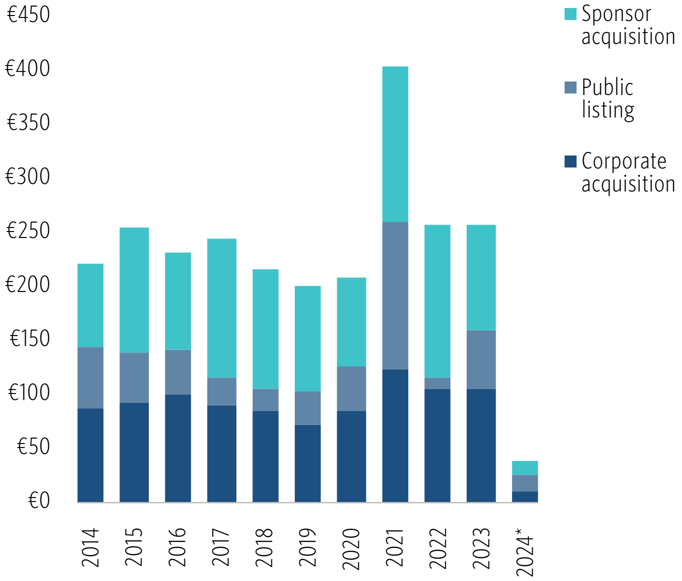
We did, however, see some IPO green shoots come out of the DACH region in Q1 with the listings of Galderma, Parfümerie Douglas, and RENK. Sponsors will look at the performance of those listings moving forward as a gauge for IPO appetite in 2024. Q1 exit value derived from public listings was greater than 2022, which is encouraging as we look for signs of a recovery. If history is to serve as a lesson, exit markets have rarely stayed in the doldrums for more than two years, and we expect exits to recover from this point on. As monetary policy starts to ease in H2, we believe the exit and IPO pipeline will intensify. Some companies, such as CVC, have already postponed their public listings from last year.

Share of PE exit value by size bucket



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

PE exit value (€B) by type



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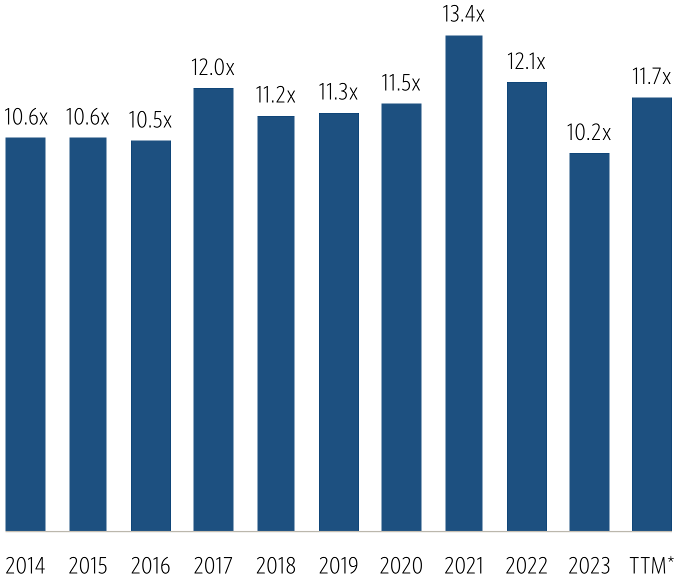
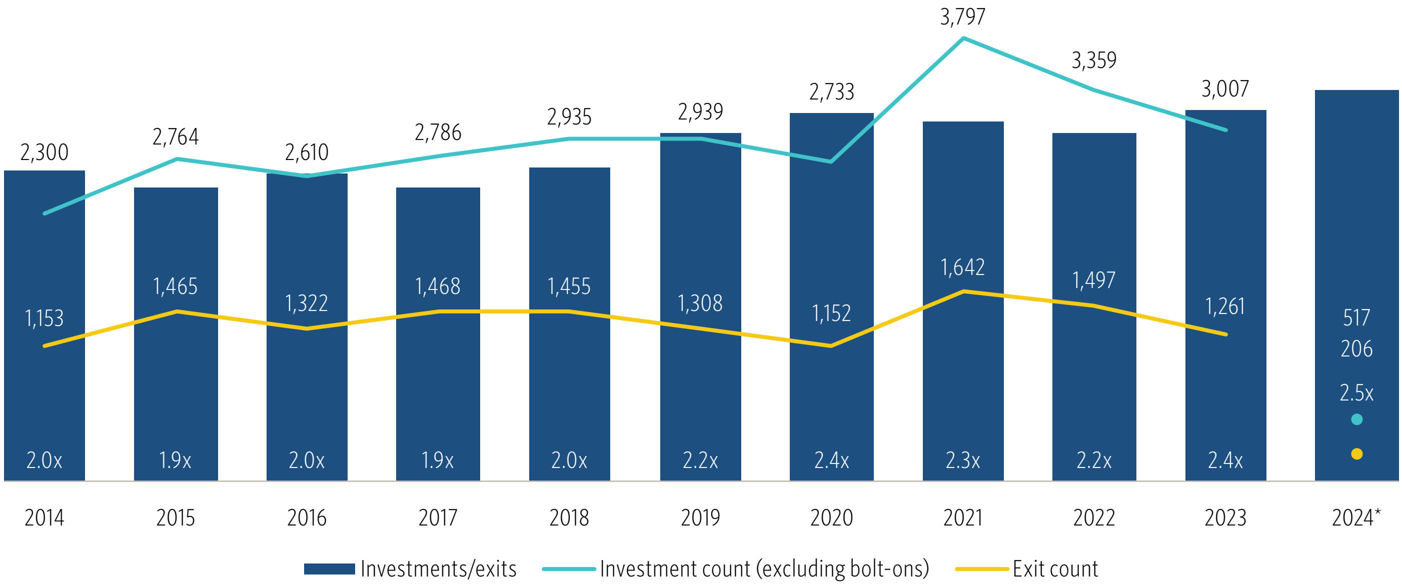
Median PE buyout EV/EBITDA multiple



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

Investment-to-exit ratio



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

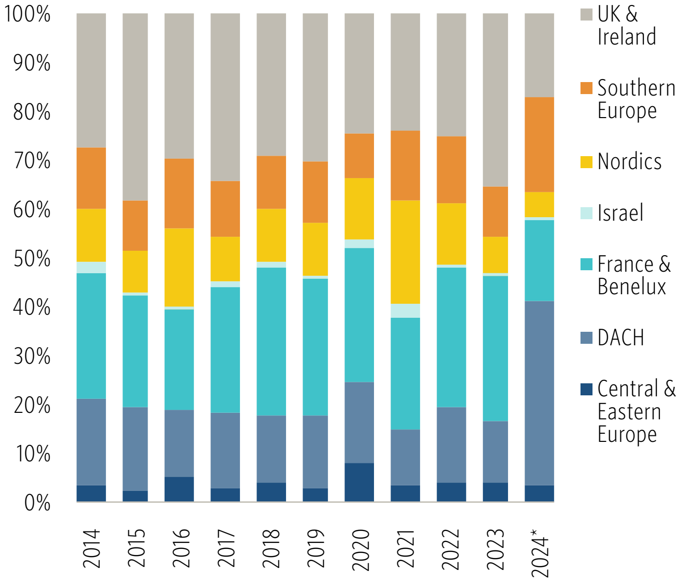
Furthermore, the bid-ask spread seems to have narrowed as valuations slowly converge in this new regime of higher interest rates. We recently attended the SuperReturn Secondaries Conference in London, where sponsors noted that discounts to net asset value on assets are slowly decreasing after a period of market correction. According to PitchBook, TTM EV/EBITDA for European buyouts stands at 11.7x—slightly higher than the 2023 figure of 10.2x—pointing to early signs that valuations are climbing back up from their trough. Valuation levels still remain 12.3% lower than their peak in 2021.

At the end of Q1, the investment-to-exit ratio stood at 2.5x, continuing its climb higher. Given high levels of dry powder, we still see deals getting done, but exits have continued retracting, thus leading the ratio to increase. As explained in our outlooks for 2024, we expect the ratio to finish the year at a 15-year high.

DACH region dominates, Southern Europe rises, and Nordics hibernate

Q1 saw a shift in the mix of exit value regionally. Exit value in the DACH region increased 4.9% QoQ and 133.6% YoY in part thanks to the three regional IPOs we mentioned earlier. This is the second consecutive quarter in which the DACH region dominated exit value in Europe. Similarly, we saw an 8.7% QoQ and 61.0% YoY increase in Southern Europe exit value, which counted four of the top 10 exits. Athens International Airport listed on the Greek stock exchange, marking the first IPO of the year in Europe in early February. The airport was valued at €2.5 billion, although only 30% of the shares were put up for the IPO. On the other side of the spectrum, the Nordics saw a 67.5% QoQ decline in Q1 as the region froze, awaiting spring for more exits. In our 2024 Nordic Private Capital Breakdown, we delve into the drought in Nordic exits, especially in terms of public listings. 2023 saw only two PE-backed public listings in the Nordic region, which averaged 22 IPOs a year for the past decade.

Share of exit value by region



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

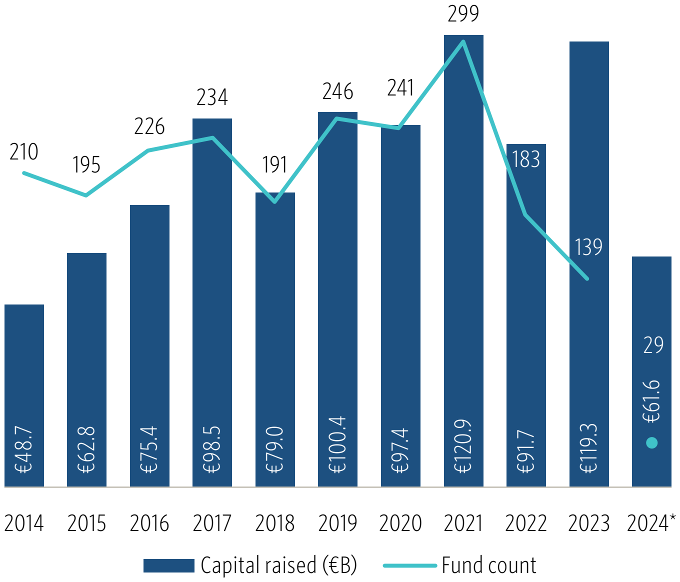
Top 10 PE exits by size bucket in Q1 2024*

Company	Close date	Exit value (€M)	Financing type	Industry group	Country	Region
Galderma	March 22	€8,061.3	IPO	Pharmaceuticals & biotechnology	Switzerland	DACH
Athens International Airport	February 7	€2,460.0	IPO - PIPE	Commercial transportation	Greece	Southern Europe
Parfümerie Douglas	March 21	€1,950.0	IPO	Retail	Germany	DACH
RENK	February 7	€1,500.0	IPO	Transportation	Germany	DACH
Forno d'Asolo	February 5	€1,100.0	M&A	Consumer nondurables	Italy	Southern Europe
Jagex	February 9	€1,062.6	Buyout/LBO - secondary buyout	Software	UK	UK & Ireland
Czech Gas Networks Investments	March 21	€846.5	M&A	Utilities	Luxembourg	France & Benelux
CH&Co	January 22	€550.5	M&A	Commercial services	UK	UK & Ireland
OpNet	February 5	€485.0	M&A	Communications & networking	Italy	Southern Europe
BeautyNova	March 18	€330.0	Buyout/LBO - secondary buyout	Consumer nondurables	Italy	Southern Europe

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

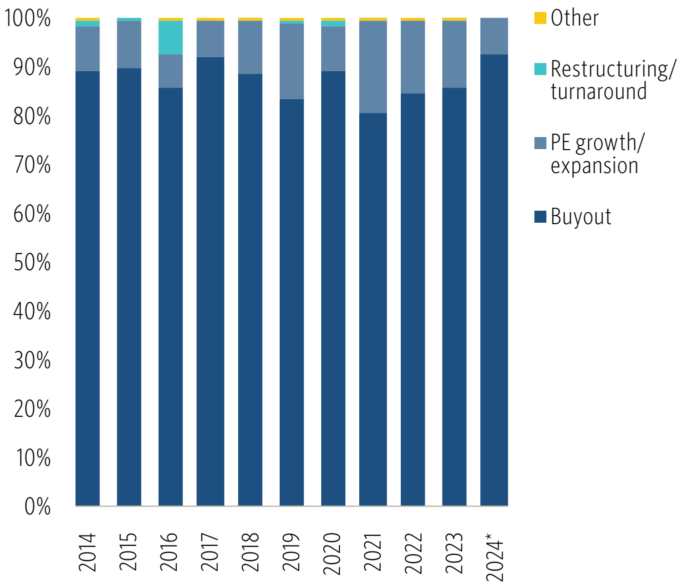
Fundraising

PE fundraising activity



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

Share of PE capital raised by type

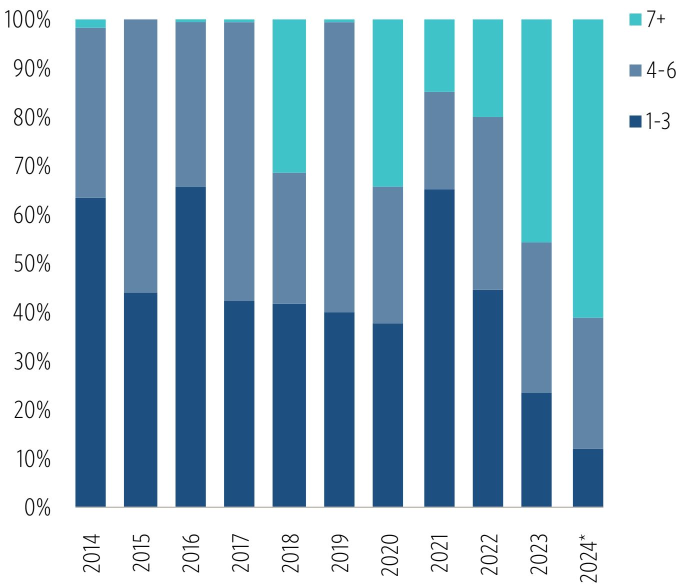


Source: PitchBook • Geography: Europe • *As of March 31, 2024

Record quarter thanks to megafunds

After a record year of European fundraising, Q1 saw a record quarter by raising roughly half of the entire 2023 figure in just one quarter. The story remains one of megafunds, with the top three largest funds accounting for 77.2% of capital raised in Q1. EQT closed its tenth flagship fund in February, raising €22 billion after pushing the deadline back by six months.[6] The fund is over 40% bigger in size than its predecessor and is already 30% to 35% invested. At its first ever Capital Markets Day in March, EQT explained that with a larger fund they were able to go after even bigger megadeals that were previously not investable—such as its take-private of Dechra Pharmaceuticals that closed in January for €5.2 billion. With increasingly larger funds, EQT's strategy is to increase dealmaking in North America, to which it has allocated a 50% deployment target. According to our data, EQT X should be the largest fund close in Europe in 2024. The other double-digit funds raised in Q1 include Cinven's eighth fund and Apax XI raising €14.5 billion and €11.0 billion, respectively. We continue to see the bulk of capital raised going to experienced managers of generalist buyout funds from fund families with at least seven previous funds.

Share of PE capital raised by fund family



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6: "EQT Raises €22 Billion for Its Largest-Ever Private Equity Fund," Bloomberg, Swetha Gopinath, February 26, 2024.

PitchBook

Healthy middle-market fundraising

Middle-market fundraising activity was in line with previous years, raising €14.0 billion across 22 funds. Given fundraising data can be lumpy, we believe these figures could be higher. This is encouraging considering the fundraising challenges seen across the industry with rates being higher. Middle-market funds are the heartbeat of the PE industry, and to get a good sense of fundraising, we often look at middle-market data. First-time fund managers, on the other hand, are still facing the harshest fundraising barriers to entry, as having no track record and capital scarcity are playing against them. Q1 saw no new first-time funds.

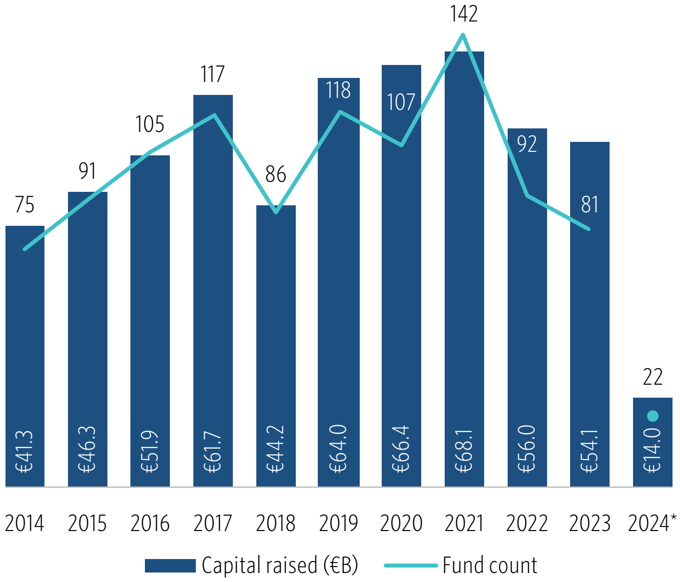
UK & Ireland dominates

All of the top 10 funds closed in Q1 were headquartered in either the UK or the Nordics. Fundraising was particularly absent in the Nordic region in 2023, as it fell 76.9% YoY to just under €4 billion. However, Q1 saw six new funds raising over €27 billion, already eclipsing 2023. We expect the UK & Ireland to continue dominating the regional European fundraising landscape, as it historically accounts for one in every three new funds and almost half of the capital raised over the last decade. Looking at the list of the top 25 open funds, 14 funds are currently headquartered in the UK.

Will the European fundraising boom continue?

We expect a slowdown in fundraising in subsequent quarters following this record quarter, as we have likely closed the three largest funds for the year in Q1. Megafunds should contribute less to overall fundraising in subsequent quarters; we do not anticipate any further double-digit megafunds in 2024. We believe fundraising distribution will normalise with more middle-market funds coming to market as opposed to megafunds. Fundraising bottlenecks continue to be present, given the lack of exit activity translates into less capital distributed and thus less capital availability to be reinvested in new funds.

Middle-market fundraising activity



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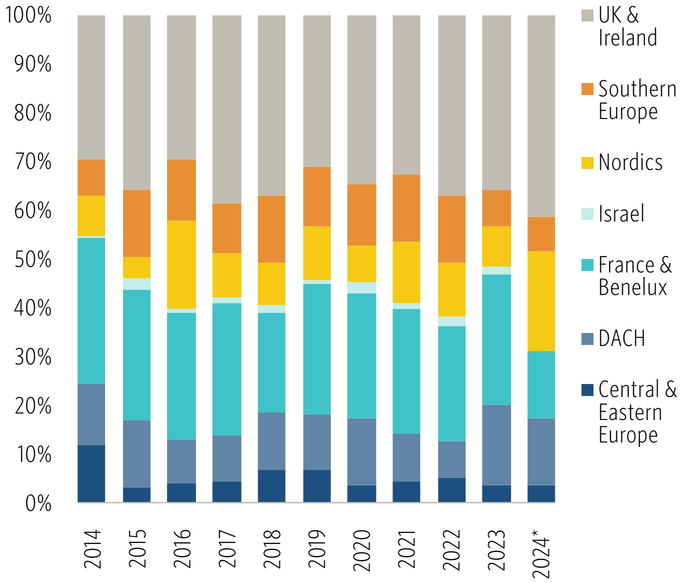
Share of PE fund count by region



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PitchBook

Top 10 funds closed in Q1 2024*

Fund	Capital raised (€M)	Close date	Fund type	HQ location
EQT X	€22,000.0	February 27	Buyout	Sweden
Eighth Cinven Fund	€14,500.0	January 9	Buyout	UK
Apax XI	€11,033.4	March 31	Buyout	UK
Altor Fund VI	€3,000.0	January 19	Buyout	Sweden
Inflexion Partnership Capital Fund III	€2,047.7	March 11	PE growth/expansion	UK
Axcel VII	€1,296.0	February 1	Buyout	Denmark
Epiris Fund III	€1,220.5	February 13	Buyout	UK
Bowmark Capital Partners VII	€1,041.6	January 17	Buyout	UK
Verdane Edda III	€1,018.9	February 25	Buyout	Norway
Cibus Fund II	€476.4	March 4	PE growth/expansion	UK

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Additional research

Private equity

2023 Annual European PE Breakdown

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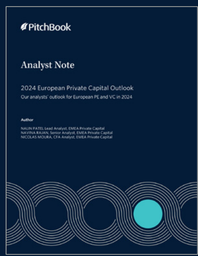

2024 European Private Capital Outlook

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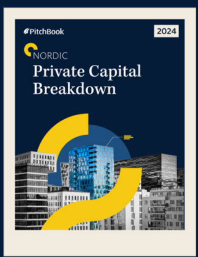
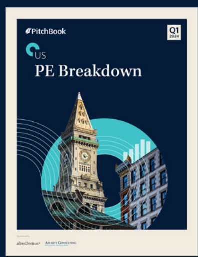


2024 Nordic Private Capital Breakdown

Download the report here



Q1 2024 US PE Breakdown

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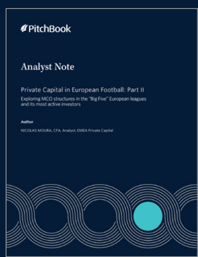

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