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Introduction

Despite a tighter policy environment, European private equity (PE) dealmaking continues to be incredibly resilient in H1 2022. Sponsors’ record dry powder levels, and the rise of private credit funds has kept the deals environment moving, as the syndicated loan and high yield debt markets come under stress. Sponsors doubled down on their investment sweet spots, as they were able to take advantage of softer multiples. Take-private and carveouts are expected to be standout themes of 2022, due in part to falling stock markets and companies de-leveraging to strengthen balance sheets. The business products & services sector roared to new highs in the first half, while sponsors continued to double down on information technology (IT) assets, which accounted for nearly one quarter of PE deal volume. In the second half of the year, we expect a more pressurised dealmaking environment due to hawkish forward guidance, slowing GDP growth, rapidly declining consumer confidence, and increasing interest rates, which is likely to cause a recession.

Unsurprisingly, European PE exit activity continued its slow start to the year. The sharp decline in exit activity is a result of the cocktail of near-term risks to the European economy including the geopolitical conflict in Ukraine, persistent inflation, downside public market volatility, and monetary tightening. Public listings, which drove the impressive exit activity in 2021 have diminished as PE firms shun the public markets due to heightened volatility and sharp valuation adjustments. Sponsor-to-sponsor exits were the most robust exit type in the first half, as sponsors armed with billions in dry powder were cautiously aggressive in buying PE-backed companies. Despite the near-term headwinds to strategics, they continued to acquire PE-backed companies, though at a substantially lower clip than last year. We expect portfolio exits to sponsors will be the most resilient in 2022, as cash rich PE firms take advantage of lower multiples and the market dislocation. Corporates will be more focused on the short-term pressures of keeping stock prices aloft, supply chains, labour issues, and rampant inflation.

Liquidity in the fundraising market is weakening due to cyclical forces and reducing confidence. The fundraising market is facing several headwinds, causing material squeezes on new capital commitments due to LPs struggling to keep up with re-up demand from existing GPs. The fall in distributions due to a weak exit market has also reduced capital raised numbers, as those distributed proceeds are usually recycled back into PE funds. In addition, quickly declining stock markets are causing more caution from LPs in allocating to PE funds as the potential for the denominator effect rises. However, against this volatile and hawkish macroeconomic backdrop, strategies including distressed and private credit, which possess considerable downside protection and floating rate structures, are seeing greater traction.
Despite a tighter policy environment and continued downside volatility, European PE dealmaking continues to be incredibly resilient in H1 2022. In the first half of the year, 4,053 deals closed, worth €463.5 billion—marking YoY increases of 16.2% and 34.8%, respectively. It is clear that deal size, not deal count, was behind the record deal value as transactions got larger. The median deal size accelerated to €47.6 million, and deals sized greater than €2.5 billion hiked nearly three times in deal value from H1 2021, the most of any deal size bucket. As the syndicated loan and high yield debt markets come under stress, sponsors’ record dry powder levels and the rise of private credit funds financing deals has kept the deals environment moving. PE firms tend to be long-term strategic acquirers, meaning they have the time, capital, and resources to ride out market volatility, as exits are not expected until at least five years down the line. This certainly helped deal activity get off to a strong opening half. Sponsors doubled down on their investment sweet spots, as they were able to take advantage of softer multiples. For instance, in the largest deal of H1, Blackstone (NYSE: BX) recapitalised Netherlands-headquartered Mileway for €24.0 billion. Investing in last mile logistics businesses has been Blackstone’s strongest conviction trade globally over the past decade, and it’s not slowing down. Mileway’s management team has grown the company into the largest last mile logistics portfolio in Europe, and it appears the sector’s resiliency and strong growth potential continues to push sponsors with deep sub-sector expertise towards the space.
In the second half of the year, we expect a more pressurised dealmaking environment due to rapidly declining consumer and business confidence, rising high yield credit spreads, falling GDP, accelerating inflation, and the expectation of further interest rate increases, which is likely to cause a recession underpinned by stagflation. UK consumer confidence recently dropped to a record low, and GDP fell 0.3% between March and April in the UK. Inflation continues to run red hot in the continent, with the Eurozone posting a consumer price index reading of 8.6% in June—a fresh record. Furthermore, the Bank of England (BoE) expects inflation to exceed 11% in October, and the European Central Bank is slated to start monetary tightening in July with a 25-basis-point hike of interest rates, and a further 50-basis-point increase anticipated in September. The BoE has already raised interest rates at its last five consecutive meetings, and many experts expect the UK’s base rate to hit 3% by year end to combat rising prices. Accelerating inflation and rising discount rates will increase costs at the portfolio company level, reduce valuations, and increase the cost of leverage for new PE deals. Higher inflation is now hardwired into routine PE deal decisions, and companies that don’t have the ability to pass on higher costs to the consumer are likely being shunned by dealmakers, possibly resulting in greater activity in infrastructure, energy, and healthcare spaces—three historically inflation hedging sectors.

**Euro area and UK 12-month percentage change in inflation**

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4: IBID.
Take-private activity picked up in the second quarter of the year. €17.5 billion worth of take-private deal value closed in H1 2022, up 22.4% from the first half of 2021. At the start of the year, we mentioned take-privates would be a major theme across PE, and we expect this will continue in H2. With public markets primarily moving in a downward trend, and sponsors flush with cash, take-privates are offering one of the best risk-reward plays for PE firms. With the Nasdaq in bear market territory, and several other indices down 10%-plus from recent highs, sponsors are aggressively pouncing on cheaper asset prices. Blackstone and the Benetton family recently bid to take-private Italy-headquartered Atlantia (MI: ATL) for around €54 billion—a which would be Europe's largest ever public to private transaction, reflecting the positive tone towards such deals. But the largest closed take-private in H1 saw Permira delist UK-headquartered Mimecast from the Nasdaq for €5.5 billion. With prices aggressively falling across public markets—especially for high-growth technology companies due to their future cash flow’s disproportionate sensitivity to interest rate increases—many management teams will likely look to cash out now as we near the end of the bull cycle. Cash rich sponsors will be willing buyers of assets that are cyclically but not secularly under pressure as valuations fall to more reasonable levels. With Mimecast specialising in cybersecurity for email, it appears Permira believes the secular tailwinds for the company are strong, due to hybrid work becoming ubiquitous and email being the predominant vector for cyberattacks, phishing, and impersonation attempts.

The business products & services sector roared to new highs in the first half. The sector accounted for €124.2 billion in deal value in H1—it's highest ever first half figure. If this pace of activity is kept up by year end, the sector will hit a new record. As we move towards a potential recession, business products & services consumption tends be one of the more resilient areas across the economy, while consumer products & services often gets hit the hardest as discretionary

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

**As of June 30, 2022**
spending quickly falls due to more layoffs and wages not rising as fast as inflation. Several companies in the business products & services sector are producing mission critical products and services for thousands of global businesses, meaning they’re likely to maintain or even grow revenues in times of macroeconomic distress, and this is partly why sponsors are leaning into the sector. The three largest deals in the first half of the year came from the business products & services space, most notably the commercial services sub-sector. In the second largest deal of H1, Italy-based Autostrade per l’Italia (ASPI) was acquired by Blackstone, state-controlled Cassa Depositi e Prestiti, and Macquarie Asset Management for €9.3 billion. ASPI manages more than 3,000 kilometers of toll roads across Italy under long-term contracts by the Italian state. Sticky cash flows from long-term recurring revenue contracts for critical infrastructure are extremely attractive in any environment, but especially as a downturn approaches. Companies with strong balance sheets offering mission critical products and services will continue to see outsized interest from PE firms.

Although carveout activity has had a slow opening half, we expect this deal type to be a major theme across PE in H2 and continuing into 2023. As stagflation bites, interest rates rise, and consumer spending falls, companies will seek to strengthen balance sheets, maintain margins, deleverage, and exit non-core assets via carveouts. Sponsors will be willing buyers of such assets due to the complexity premium that often comes attached with divestitures, and sellers will prefer PE acquirers as opposed to strategics due in part to less regulatory scrutiny. Veoneer recently agreed to carveout its Arriver business to Qualcomm (NASDAQ: QCOM), as it seeks to focus on its outperforming units of Tier-1 supplier and its integrator business. In another example, Switzerland-headquartered Swiss Post Solutions (SPS) was divested to AS Equity Partners for €366.5 million in Q1. The parent company of SPS decided to exit its SPS business, as the entity did not align with the “Swiss Post of tomorrow” strategy, which focuses on its core business of logistics and communication in Switzerland alone.
Deals by size and sector

**Share of PE deal count by size bucket**

- €2.5B+
- €1B–€2.5B
- €500M–€1B
- €100M–€500M
- €25M–€100M
- <€25M

**Share of PE deal value by size bucket**

- €2.5B+
- €1B–€2.5B
- €500M–€1B
- €100M–€500M
- €25M–€100M
- <€25M

**Share of PE deal count by region**

- UK & Ireland
- Southern Europe
- Nordics
- Israel
- France & Benelux
- DACH
- Central & Eastern Europe

**Share of PE deal value by region**

- UK & Ireland
- Southern Europe
- Nordics
- Israel
- France & Benelux
- DACH
- Central & Eastern Europe

*Source: PitchBook | Geography: Europe
*As of June 30, 2022
SPOTLIGHT

How PE firms will navigate today’s complex macro environment

Valuations and fund performance

Rising interest rates will have deleterious effects on asset prices—it is only a matter of the extent. The US Fed raised short-term rates by 50 basis points in May, and market expectations point to an approximately 3% fed funds rate by year end 2022. Assets with high duration will be most negatively affected. Profitable companies at lower multiples have seen less downward pressure on their valuations than high-growth companies where profits are many years off. The most expensive stocks are down to a far greater degree than the cheapest ones. Similarly, many venture capital-backed companies are being pummeled. With public comps down and discount rates up, PE portfolio companies, too, are under pressure. Blackstone and KKR (NYSE: KKR), which have invested heavily in more quickly growing sectors, posted -3% and -5% gross PE returns, respectively, in Q1 2022. Meanwhile, Apollo (NYSE: APO), which is known for its value investment philosophy in its PE strategy, fared much better, registering an 8% gain in the quarter. Apollo XI bought into its companies at an average 6.5x EV/EBITDA valuation, well below the 10x to 14x at which many others of a similar size transacted in recent years. In the coming quarters, companies that had invested most heavily in the high-growth technology sector may face the largest valuation and performance headwinds.

Software will persist in PE

Growth in technology and digitalization across industries drove PE to record deal and exit activity in 2021, only to face several headwinds early in the new year. Fears of rising interest rates led tech stocks to tumble throughout 2022,
Putting pressure on the lofty valuations enjoyed by the sector for the last several years. Continued market turbulence coupled with major tech companies missing earnings targets spurred major selloffs in the stock market throughout Q2 2022. Growth-oriented tech companies fell out of favour as higher interest rates reduced net present value of expected earnings that relied heavily on future profit growth. Some tech stocks traded at single-digit multiples on EBITDA and low double digits on earnings, a sharp turn from the bull market tech has enjoyed for the last decade.

**Sponsor-led secondaries and full liquidity alternatives will see further interest**

In addition to holding companies longer, many firms will look to use alternative methods of delivering—or at least offering—returns to LPs in the interim. The GP-led secondaries market has dramatically expanded and evolved in recent years. According to Jefferies, this segment of the market has outgrown the LP-led side, accounting for more than half of all transaction value the past two years. Some PE firms choosing to hold on to portfolio companies may be holding assets in a fund nearing the end of its predefined life. This will be the impetus for many continuation funds, which provide exit opportunities for LPs while allowing the sponsor to retain control for several additional years. Other managers may turn to GP-led deals to crystallize value and recapitalise highly performing companies. This has the benefit of providing additional growth capital to these companies, preventing overconcentration to one or two assets in a fund, and proving the strength of a manager’s returns to LPs. Perhaps the best example of these trends is Clearlake. The firm has recently upped its use of single asset GP-led deals with its Icon series. This has clearly illustrated the firm’s ability to produce returns, and the firm has been rewarded by LPs. Clearlake closed on €13.3 billion in May 2022—a near 100% step-up from the €6.4 billion Clearlake raised in 2020—during one of the more challenging fundraising periods in recent years with GPs seeking far more capital than LPs can supply. This macroeconomic backdrop also means firms are likely to increase their use of recaps—of both companies and funds—and partial sales, which at least return a portion of the total EV to fund investors.
European PE exit activity continued its slow start to the year, especially exit value. In H1, 739 PE-backed companies exited for a cumulative value of €157.8 billion, marking a YoY decrease of 25.3% in exit value, while exit volume remained flat. The sharp decline in exit value is a result of the cocktail of near-term risks that the European economy faces including geopolitical conflict in Ukraine, persistent inflation, downside public market volatility, and monetary tightening. Public listings, which drove the impressive exit activity in 2021, have diminished as PE firms shun the public markets due to heightened volatility and sharp valuation adjustments. The exit-to-investment ratio has increased to 2.6x, which is approaching levels last seen in 2008 and 2009. We expect portfolio exits to sponsors will be the most resilient in 2022, as cash rich PE firms look to take advantage of lower multiples and the market dislocation. On the IPO front, if we do see volatility settle in H2, public listings could make a comeback, albeit at softer valuations, as illustrated by PE-backed Joe & the Juice announcing they could IPO in H2. The median exit size dropped to €151.6 million at the end of the first half, reflecting the lower valuation environment. Looking ahead, due to the bulk of sponsor returns coming from multiple expansion, the rising interest rate environment could see exit activity reduce further as multiples flatten and as sponsors hold assets longer until return targets are met. If sponsors want to keep returns high and exits moving, there must be greater emphasis on organic growth measures—including margin expansion and revenue growth—across the portfolio.

Sponsor-to-sponsor exits were the most robust exit type in the first half, as sponsors armed with billions in dry powder were cautiously aggressive in buying PE-backed companies. In H1, 234 liquidity events came from sponsor-to-sponsor exits, the most of any exit type, and accounting for more than half of all exits for the first time. If this pace is kept up by year end, this will
be the first year that sponsor-to-sponsor exits outpace corporate acquisitions. With LPs continuing to commit capital to PE funds—albeit at a slower rate—fund sizes growing, and PE firms under pressure to close deals, one of the clearer exit routes today is to be acquired by another sponsor, typically by larger funds who can absorb higher valuations and create further value. Corporate acquirers are managing a catalogue of short-term pressures including falling stock prices, regulatory scrutiny, supply chain bottlenecks, rising input costs, and a tight labour market, meaning M&A is likely on the back burner until a sense of normalcy resumes. In the second largest sponsor-to-sponsor exit of the first half, PE group FTV Capital sold UK-based True Potential for €2.1 billion to the mega fund manager Cinven. Over the past few years, sponsors have been aggressively acquiring wealth management fintech platforms due to their strong structural growth characteristics, recurring revenues, and digital focus. Cinven will help True Potential scale across different markets while providing continued investment in recruitment and the underlying technology. We also saw Apollo acquire wealth management platform Griffin in the first quarter, as public PE firms tap the retail market for more capital commitments.

Despite the near-term headwinds to strategics, they continued to acquire PE-backed companies, though at a substantially lower clip than last year. Corporates came into 2022 from a position of strength with robust balance sheets. As a result, seeking growth via M&A, which has the potential to further digital assets and provide scale, new capabilities, and revenue/cost synergies, will continue to mean corporates play an active role in PE exits. We saw corporates acquire several companies from different sectors, including Coloplast (CSE: COLO B) buying Sweden-headquartered Atos Medical in the healthcare space, Abrdn (LON: ABDN) acquiring UK-based Interactive Investor (II) in the financial services sector, and GN Store Nord (CSE: GN) acquiring Denmark-headquartered SteelSeries in the IT industry. Coloplast’s acquisition of Atos Medical provides the group with new capabilities via adding Atos’ ENT & Respiratory care unit to its suite of healthcare services. Abrdn’s acquisition of II is a pure growth driven acquisition, as the II brand is expected to substantially increase the firm’s scale and overall addressable market. And finally, the GN Store Nord deal represents a corporate entering the fast growing niche market of gaming, which will diversify revenue streams and could be resilient during downturns.
Despite the UK & Ireland region accounting for the bulk of PE deals, interestingly, the France & Benelux region has contributed the lion’s share of exit volume since 2015, and this trend was sustained in the first half of 2022. 28.3% of exit volume came from the France & Benelux region in H1, the most of any European region, driven by sponsor-to-sponsor exits and the business products & services sector, most notably commercial products. The region is littered with small and medium-sized enterprises (SME) in fragmented markets, meaning there are clear exit routes to mega-funds or larger corporates who see opportunity to consolidate markets, acquire new capabilities, or scale. We saw the likes of France-based Asmodée, HRA Pharma, and Cromology exit to bigger strategics in H1 to achieve greater scale, while Netherlands-headquartered Buckaroo and Lyceo exited to sponsors who will assist with go-to-market capabilities, strengthen the product roadmap, and expand offerings.
Liquidity in the fundraising market is weakening due to cyclical forces and diminishing confidence. In H1, €27.9 billion was raised across 40 vehicles, which is pacing towards the lowest fund count total ever, and the lowest capital raised figure since 2014. As a result of the hawkish policy environment, falling stock markets, and persistently high inflation, the fundraising market is facing significant headwinds. These headwinds have resulted in material squeezes on new capital commitments due to LPs struggling to keep up with re-up demand from existing GPs. In addition, the fall in distributions due to a weak exit market has reduced fundraising, as those distributed proceeds are usually recycled back into PE funds. And finally, the quickly declining stock market is causing more caution from LPs in allocating to PE funds as the potential for the denominator effect rises. For example, we have already seen Alaska Permanent Fund slow its PE commitment pacing by 25% this year due to incorrect projections with regards to capital calls, distributions, and returns generated by the overall portfolio. As a result of the tougher fundraising market, we expect extended fundraising timelines, fund step-ups to soften, some high-profile fundraising failures, and less fund closures from smaller and inexperienced GPs who haven’t invested through recessionary markets.

However, against this volatile and hawkish macroeconomic backdrop, there will be some GPs who see heightened interest from allocators, including distressed strategies and private credit funds, which possess considerable downside protection and floating rate structures. Moreover, highly experienced managers who have hit top quartile return metrics through previous recessions, and sub-sector specialists in secular growth areas of the economy such as sustainability, healthcare, and technology, will continue to raise capital in this turbulent market. For instance, sustainable managers Summa Equity and Generation Investment Management closed nearly €4.0 billion between their two impact funds in H1. Conjointly, BC Partners and Inflexion—two PE firms with more than 20 years of experience—closed nearly €10.0 billion for their two respective funds in the first half, although BC Partners did miss their hard cap reflecting the overall stiffer fundraising market.8

Over the past decade, funds sized under €100.0 million have accounted for the bulk of closed PE funds, however, the first half of 2022 saw a renaissance in middle-market funds. In H1, funds in the lower middle market (funds sized between €250.0–€500.0 million) accounted for close to 30% of fund volume—the most of any fund size bracket, and reflective of LPs desire for lower mid-market PE exposure. Deal flow is usually higher in the mid-market due in part to less reliance on the volatile syndicated leveraged loan market for financing, and a high number of European SME

targets. Furthermore, returns tend to be more robust in the mid-market in comparison to larger buyouts that have taken significant hits to RVPI marks due to drops in their public market comparables, especially for technology enabled assets.

On the other hand, funds sized under €100.0 million contributed 12.8% of fund volume, far below its five-year average of 28%. During troubled markets, allocators tend to protect outperforming existing GP relationships via prioritising re-ups while shunning new commitments. This impact has been more acute on first time, inexperienced, and smaller funds as the bulk of their capital comes from new commitments. These types of managers may have to use seeding platforms, bootstrap early investments, or placement agents to generate LP demand. In addition, coming to market with funds in favourable LP areas such as co-investment, credit, technology, healthcare, or sustainability will help in the fundraising process. For example, Investcorp Technology Partners raised its third technology focused fund at €442.3 million, which will focus on investing in mobile data applications, enterprise software, communications infrastructure, and digital content enablement. The fund was oversubscribed and surpassed its €300 million initial target.⁹

Additional research

Private equity, private capital, and M&A

Q1 2022 European PE Breakdown
Download the report here.

Q1 2022 Global M&A Report
Download the report here.

2022 France & Benelux Private Capital Breakdown
Download the report here.

Q2 2022 US PE Breakdown
Download the report here.

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