2023 European Private Capital Outlook

Our analysts' outlook for European PE and VC in 2023

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

2023 outlooks

PitchBook Data, Inc.

John Gabbert Founder, CEO

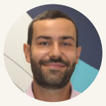
Nizar Tarhuni Senior Director, Institutional Research & Editorial

Dylan Cox, CFA Head of Private Markets Research

Institutional Research Group

Analysis

Nalin Patel
Lead Analyst, EMEA Private Capital
nalin.patel@pitchbook.com



Nicolas Moura, CFA
Analyst, EMEA Private Capital
nicolas.moura@pitchbook.com

Data

Charlie Farber
Senior Data Analyst
Oscar Allaway
Associate Data Analyst

pbinstitutionalresearch@pitchbook.com

Publishing

Designed by **Drew Sanders**

Published on December 20, 2022

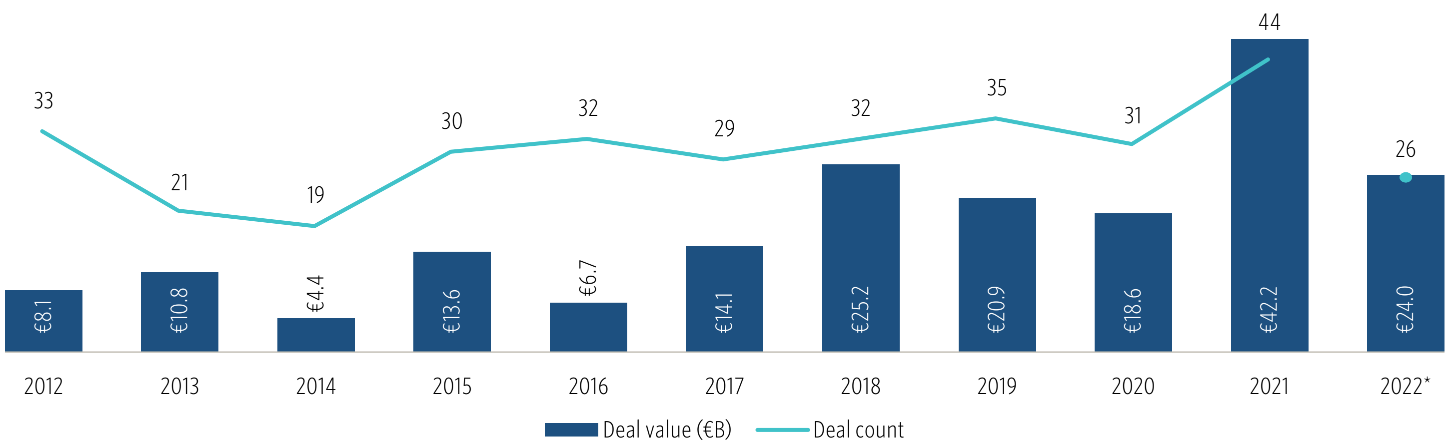
Nalin Patel
Lead Analyst, EMA Private Capital
nalin.patel@pitchbook.com

Outlook: Take-private deal value will reach €30 billion.

Rationale: Publicly listed companies have struggled during 2022, with share prices languishing. Quarterly public market scrutiny in the current climate, which has been characterised by rising costs and weaker growth, could present an unappealing prospect for corporations and their shareholders. From the company perspective, private equity (PE) firms equipped with high levels of dry powder could provide a sought-after capital injection for publicly listed companies trying to secure investment. From the investor perspective, PE firms will be targeting businesses that are trading at multiples significantly below the record highs of recent years. Take-privates could reflect substantial capital deployment in 2023 as PE firms identify undervalued companies and put capital to work in hope of delivering greater returns when markets rebound and valuations pick up.

Risks: Take-private leveraged buyouts (LBOs) can frequently be funded with debt, and with interest rates rising aggressively—along with the potential for further hikes in 2023—LBOs will become more expensive and harder to agree. Publicly listed companies can be worth several billions of euros, and if PE firms do not have the risk appetite or are unable to fully fund take-privates with cash, dealmaking could slow. Given the uncertainty facing companies amid recessions and tighter spending, a costly and potentially protracted change of ownership via a take-private may not be the best course of action for management teams under pressure. Board members and investors may change leadership teams, conduct layoffs, and identify operational efficiencies internally to boost the financial performance of publicly listed companies instead.

PE take-private deal activity



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

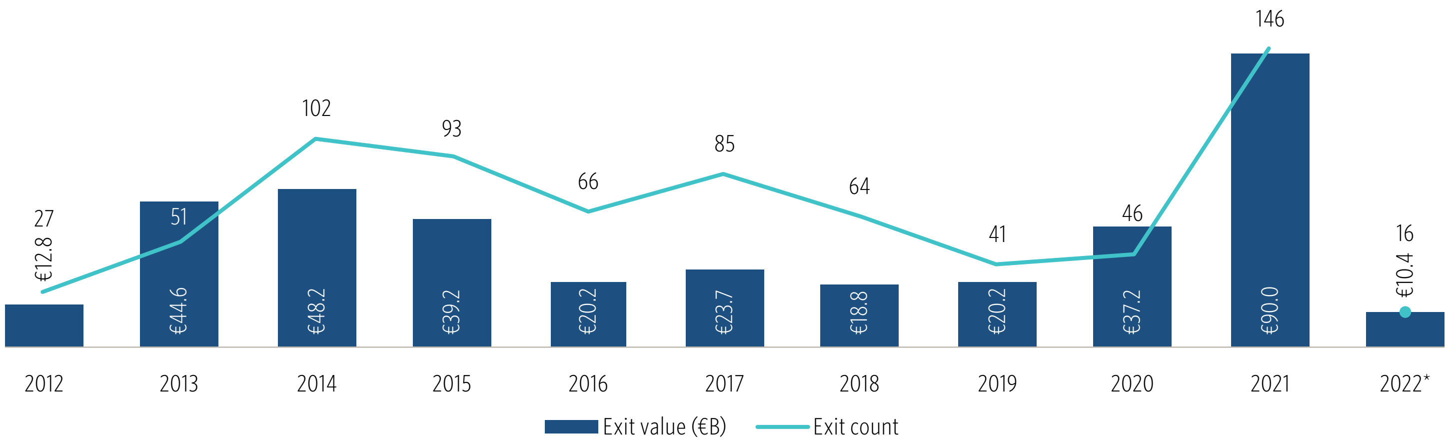
Nalin Patel
Lead Analyst, EMA Private Capital
nalin.patel@pitchbook.com

Outlook: Fewer than 40 PE-backed public listings will take place.

Rationale: While we expect public listings to pick up from 2022, we do not expect a glut of activity in the space akin to 2021. Public markets have been sluggish throughout the past year, and this will continue deep into 2023. Several companies that have listed in recent years have been experiencing lowly share prices in public markets, and listings could therefore remain an unpopular choice. Businesses may seek alternative exit routes including sponsor-to-sponsor buyouts or corporate acquisitions rather than engage an investment bank to conduct a costly and lengthy public listing. Companies and investors may also want to adopt a wait-and-see approach and may feel that the risks linked to a high-profile listing within a volatile market period outweigh the potential benefits on offer.

Risks: The quantity of public listings will be impacted by multiple factors that can change relatively quickly. Any signs of economic recovery and strong investor demand will crystalise interest in mooted public listings. The public listing exit route has dried up in 2022; however, historical data suggests that they pick up relatively quickly after market downturns. For example, there were 14 in 2009 during the Global Financial Crisis, spiking to 57 in 2010. In 2020, 45 public listings took place amid the COVID-19 pandemic lockdowns, with the vast majority in H2, once the impacts of COVID-19 were established.

PE-backed public listing exit activity



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

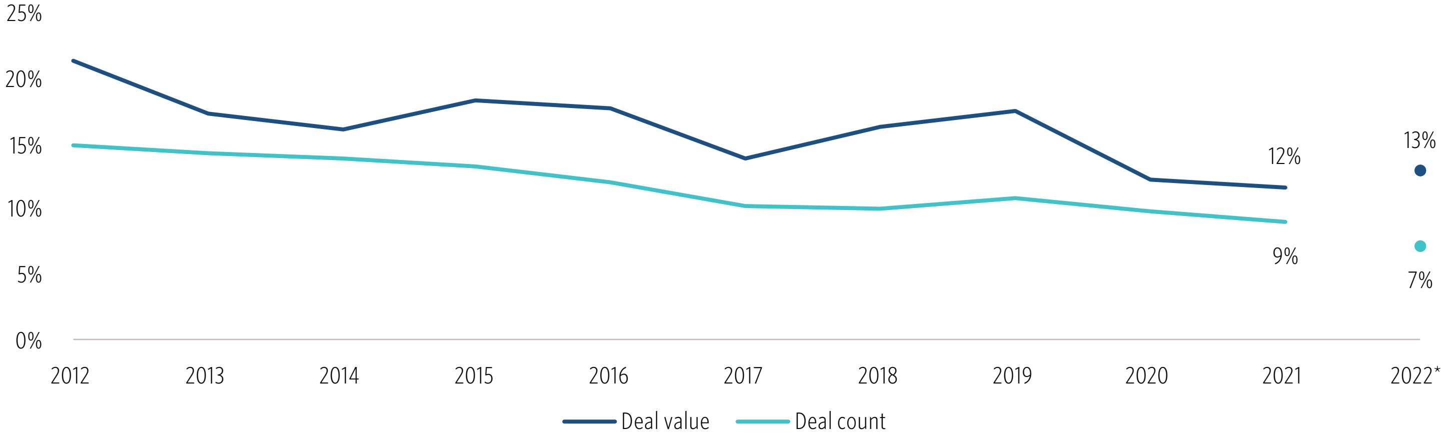
Nalin Patel
Lead Analyst, EMA Private Capital
nalin.patel@pitchbook.com

Outlook: PE carveout deal value will account for more than 15% of aggregate PE deal value.

Rationale: Carveouts offer companies and investors the opportunity to instantaneously raise capital from noncore assets. Companies are always wary of offering resources to potential competitors, which is regularly the case during corporate divestitures. Hence, PE firms will be preferable buyers. Management teams may look to offload portions of their business to raise capital to invest in areas they deem more effective in delivering long-term growth. Moreover, with layoffs hitting large entities, particularly in the tech sector, they may look to divest expensive business units to bidders to alleviate financial pressure. Carveouts can often be in sectors linked to tangible or real assets, such as oil & gas or infrastructure, which have performed well in recent months. As a result, businesses may seek highly capitalised PE buyers for assets that can command a premium. Carveouts could prove to be a popular strategy in 2023 and increase their proportion of the deal value total, as broader PE deal value flattens amid the wider market downturn.

Risks: Companies in trouble may opt to reduce headcount or restructure business units rather than offer subsidiaries to the market for sale. Carveouts of operations without a separate brand or organisational structure from an existing company can be difficult to value, market, and sell. Therefore, alternative methods of raising capital that do not split up an entity via debt or equity may be utilised. Regional carveouts of a subsidiary are common, but companies may want to reduce operations in a location that they are struggling in or redeploy resources elsewhere, rather than manage internal uncertainty from employees and external public scrutiny of having to sell parts of a business.

PE carveout deal activity as a share of all PE deal activity



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

Nicolas Moura, CFA
Analyst, EMA Private Capital
nicolas.moura@pitchbook.com

Outlook: 2023 will see a record €60 billion of dry powder in the European VC ecosystem.

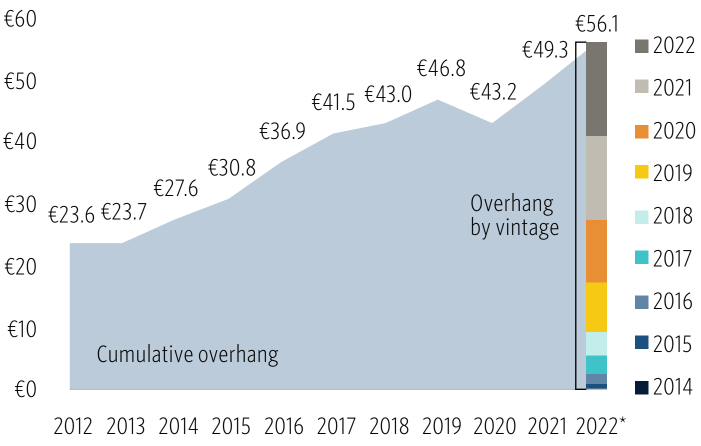
Rationale: Venture capital (VC) as an asset class has exploded in the past decade in Europe, growing fivefold, from an AUM of roughly €60 billion in 2013 to over €300 billion in 2022.[1] This is in part thanks to the rise of nontraditional investors within the asset class that have increased their allocation to alternatives and away from the traditional 60/40 portfolio allocation in stocks and bonds, respectively.[2]

Dry powder will further rise in 2023 due to a mix of strong fundraising and less capital deployment from capital allocators. In 2022, fundraising remained very strong despite the shift in economics—rising interest rates, high inflation, and higher commodity prices—and radical geopolitical events that rocked the continent and led to public markets crashing. Having said this, for dry powder to remain elevated, we also need capital committed to avoid being deployed as quickly. We expect more of the same from a macroeconomic and political standpoint in 2023, with central banks adjusting interest rates to control inflation and with the war in Ukraine continuing. This instability and lack of visibility will likely bring a more cautious approach to capital deployment and thus lead to higher dry powder.

Risks: In an ideal 2023, recessions across the continent will be less severe and less prolonged than expected, thereby leading to business confidence increasing and venture capitalists pouring capital into new investments with their dry powder.

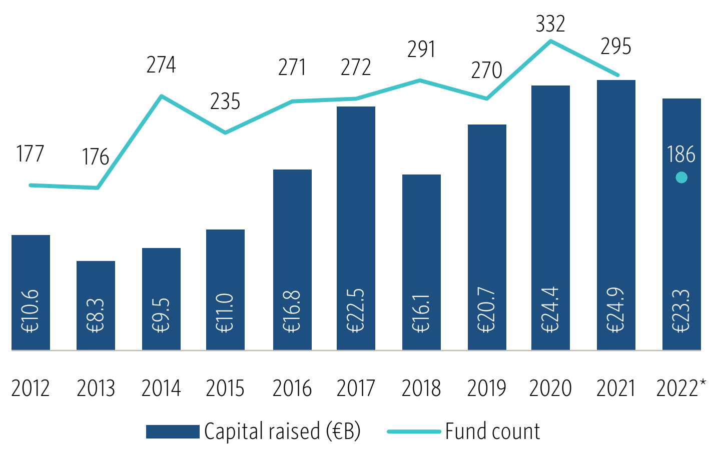
Another risk is if nontraditional investors temporarily look away from the VC industry and refocus their energy on traditional asset classes, such as stocks, shifting their asset allocations to take advantage of lower valuations and a depleted stock market.

VC dry powder (€B) by vintage year



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

VC fundraising activity



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

1: Note: This data is as of November 30, 2022.
2: Note: Nontraditional investors include corporate VC arms, asset managers, investment banks, PE firms, pension funds, sovereign wealth funds, and hedge funds, among others.

Nicolas Moura, CFA
Analyst, EMA Private Capital
nicolas.moura@pitchbook.com

Outlook: The venture growth stage will represent over 25% of all deal value in Europe.

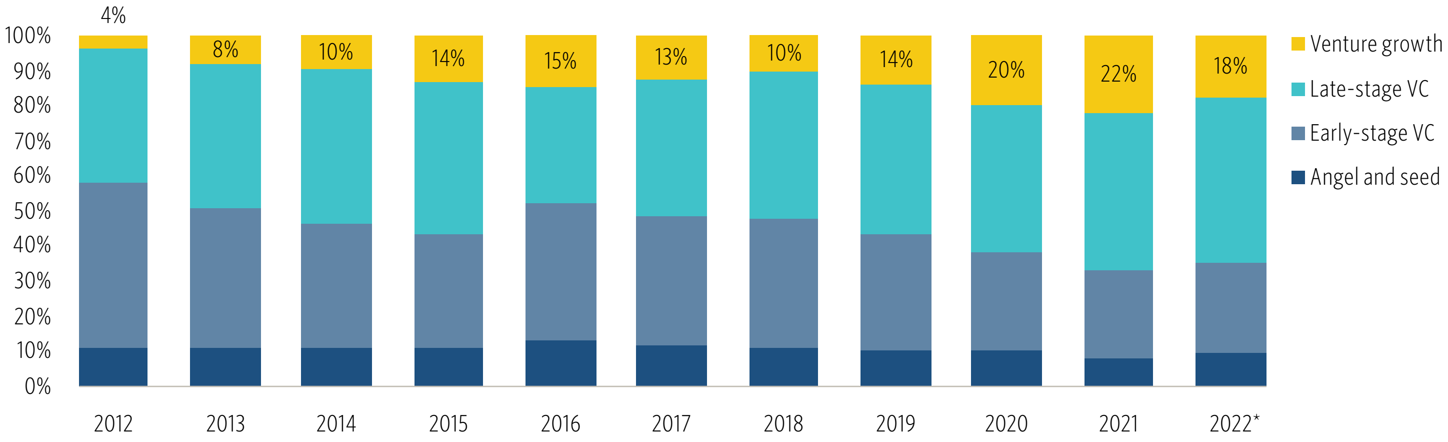
In 2023, we are introducing a new financing stage for mature companies called venture growth. We define venture growth as any financing that is Series E or later or any VC financing of a company that is at least seven years old and has raised at least six VC rounds. For more information, please see our PitchBook Analyst Note: Introducing Venture Growth.

Rationale: Venture growth encompasses many unicorns and late-stage businesses that have been on the rise in the past decade. In 2010, there were no unicorns, while 2022 counts 125 cumulative unicorns in Europe with 40 new ones added in 2022, according to our latest Q3 2022 European VC Valuations Report. The venture growth stage is of particular interest to nontraditional types of investors that tend to write larger cheques and look for companies mature enough to look like they are publicly traded but young enough to continue growing at double- or triple-digit growth. They are also usually closer to an exit and potential IPO, which is a favourable characteristic for nontraditional investors. So, as nontraditional investor participation continues to expand, we expect most of this inflow to feed into venture growth businesses.

The second aspect is that capital has been abundant within the industry, which has allowed companies within the venture growth stage to remain longer in the VC ecosystem. Companies used to rush to exits as founders were happy to cash out and as IPOs were the Holy Grail for startups. But as capital has become more readily available within the VC industry, we are seeing portfolio companies flourish within the VC ecosystem, which allows for some insulation from the volatility seen in public markets as well as the regulatory costs that come with being a public company.

Risks: If the macroeconomic picture brightens and public markets pick up, we could expect the IPO market to make a comeback and many unicorns within the venture growth stage to exit. We have seen many such companies hold back on exits in 2022 due to the lower valuations that some recently exited companies have fetched. The second risk is that we may have a slowdown of new unicorns in 2023 as valuations took a hit in the past year, and thus fewer companies are close to unicorn and venture growth status.

Share of VC deal value by stage



Source: PitchBook | Geography: Europe
*As of November 28, 2022

Nicolas Moura, CFA
Analyst, EMA Private Capital
nicolas.moura@pitchbook.com

Outlook: European VC activity with US participation will represent over 25% of deal count.

Rationale: The European VC market has always been somewhat smaller than the size of the US VC market, where we trace back the beginnings of the VC asset class. Over the last five years, the US count of deals has been between 30% and 50% higher than for all of Europe. Where the US has Silicon Valley, Europe has somewhat lagged to establish the equivalent. The big European cities for VC are London, Paris, and Berlin. In 2012, only London ranked in the top 10 global cities by VC deal value, coming in at number four, while Paris ranked 22nd, and Berlin 25th. Fast-forward 10 years, London is ranked third, Paris is eighth, and Berlin is 13th globally, while their combined deal value multiplied by a factor of 15. As European cities have improved the regulatory framework for startups to thrive and emulate Silicon Valley, deal activity has grown and attracted capital from outside the continent. This has allowed for further portfolio diversification for US investors. We expect European cities to continue climbing the global ranks and challenge some of the larger VC players in China and the US, with the likes of Stockholm and Tel Aviv becoming local VC hubs. Recent European success stories include Revolut, Bolt, Deliveroo, Wise, eToro, and Northvolt, which all had US participation in their latest private funding rounds. In addition to this, we have seen giant US VC players building teams in Europe to look for regional opportunities. For example, Sequoia Capital began building a team in London in 2020,[3] while General Catalyst opened an office at the end of 2021.[4] Furthermore, as seen in our Q3 2022 US VC Valuations and Q3 2022 European VC Valuations reports, US valuations tend to be higher than European across financing stages and thus may offer a more attractive opportunity for US investors.

The second element that plays in favour of US participation in European VCs relates to recent macroeconomics developed in the past year. The US dollar has strengthened in 2022 versus all other major currencies, appreciating 10.9% versus the British pound,[5] and 7.3% versus the euro as of December 7, 2022.[6] This makes an investment in a European company somewhat cheaper for a US investor denominated in USD.

Risks: We have seen a wave of political changes in Europe in 2022, from the UK's three prime ministers to Italy's far-right party victory. This political uncertainty could weigh negatively on the VC industry if, for example, the regulatory framework of certain cities or countries changes. For instance, London's future as the financial hub of Europe may be in jeopardy in the aftermath of Brexit. Secondly, we see no near-term ending of the war in Ukraine, which has negatively affected economies across the continent—most European countries are expected to spend much of 2023 in a recession. Prolonged recessions in Europe, as well as currency swings, would negatively affect investor appetite from US investors.

3: "Sequoia Hires its Fifth Partner in Europe," Sifted, Amy O'Brien, September 27, 2022.
4: "General Catalyst's Investments in Europe: Listed," Sifted, Amy Lewin, September 29, 2022.
5: "USDGBP:CUR," *Bloomberg*, December 12, 2022.
6: "EURUSD:CUR," *Bloomberg*, December 12, 2022.

Top 15 cities by VC deal value (€B) by year

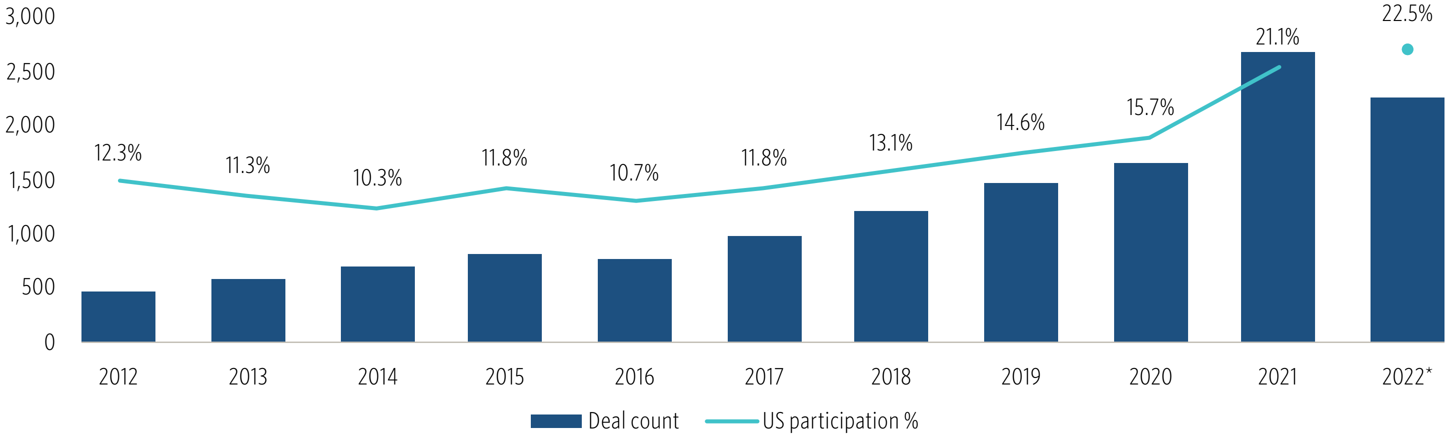
2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022*
San Francisco (€3.5)	San Francisco (€4.8)	San Francisco (€9.6)	Beijing (€17.8)	Beijing (€32.4)	Beijing (€20.1)	Beijing (€32.9)	Beijing (€32.2)	Beijing (€26.4)	San Francisco (€50.9)	San Francisco (€28.9)
New York (€2.0)	New York (€3.0)	Beijing (€6.9)	San Francisco (€16.2)	San Francisco (€15.6)	Shanghai (€12.6)	San Francisco (€31.9)	San Francisco (€23.0)	San Francisco (€23.7)	New York (€40.4)	New York (€24.3)
Beijing (€1.5)	Beijing (€2.5)	New York (€4.9)	Shanghai (€10.5)	Shanghai (€10.5)	San Francisco (€12.0)	Shanghai (€26.6)	New York (€20.4)	New York (€15.3)	Beijing (€30.0)	London (€23.0)
London (€1.4)	London (€1.3)	Shanghai (€2.1)	New York (€9.0)	Hangzhou (€9.2)	New York (€10.1)	Hangzhou (€17.7)	Shanghai (€11.2)	Shanghai (€15.2)	Shanghai (€25.4)	Shanghai (€13.3)
San Jose (€1.1)	Boston (€1.1)	Bengaluru (€1.9)	Hangzhou (€4.6)	New York (€8.7)	London (€7.0)	New York (€12.9)	Singapore (€7.7)	London (€9.4)	London (€22.1)	Singapore (€9.1)
San Diego (€1.1)	San Diego (€1.1)	London (€1.9)	London (€3.4)	London (€3.4)	Bengaluru (€5.2)	London (€6.6)	London (€7.7)	Shenzhen (€7.0)	Bengaluru (€11.6)	Beijing (€8.9)
Redwood City (€1.0)	San Jose (€1.0)	Santa Clara (€1.8)	Shenzhen (€3.0)	Wuhan (€3.1)	Shenzhen (€4.7)	Shenzhen (€6.3)	Nanjing (€4.3)	Boston (€5.8)	Boston (€10.4)	Chicago (€8.9)
Boston (€1.0)	Austin (€1.0)	Palo Alto (€1.6)	Boston (€2.5)	Shenzhen (€3.0)	Boston (€3.6)	Singapore (€4.4)	Los Angeles (€4.3)	Mountain View (€5.1)	Cambridge (€9.5)	Paris (€7.8)
Austin (€0.8)	Berlin (€0.9)	Boston (€1.5)	Bengaluru (€2.4)	Boston (€2.8)	Hangzhou (€2.6)	Los Angeles (€4.3)	Seoul (€4.2)	San Diego (€4.7)	Berlin (€9.5)	Boston (€7.4)
Shanghai (€0.7)	Cambridge (€0.8)	Berlin (€1.3)	Berlin (€2.3)	Los Angeles (€2.4)	Noida (€2.3)	Boston (€4.2)	Boston (€4.1)	Cambridge (€4.6)	Shenzhen (€9.0)	Los Angeles (€6.3)
Mountain View (€0.7)	Redwood City (€0.8)	Denver (€1.2)	Cambridge (€1.9)	Santa Monica (€2.0)	Singapore (€2.1)	Seoul (€3.8)	Hangzhou (€3.9)	Paris (€4.5)	Singapore (€8.0)	Palo Alto (€6.3)
Irvine (€0.7)	Palo Alto (€0.7)	Austin (€1.2)	San Jose (€1.7)	Cambridge (€1.9)	Nanjing (€2.1)	Shatin (€3.5)	Mountain View (€3.5)	Singapore (€4.4)	Hangzhou (€7.3)	Guangzhou (€6.3)
Seattle (€0.6)	Mountain View (€0.7)	Redwood City (€1.1)	Guangzhou (€1.4)	San Diego (€1.6)	Palo Alto (€2.0)	Cambridge (€3.0)	Shenzhen (€3.2)	Bengaluru (€4.2)	Jakarta (€7.2)	Berlin (€5.9)
Santa Clara (€0.6)	Tokyo (€0.7)	Seattle (€1.1)	San Mateo (€1.4)	Guangzhou (€1.6)	Berlin (€1.9)	Guangzhou (€2.9)	Tokyo (€3.1)	Hangzhou (€4.1)	Mountain View (€7.0)	Seoul (€5.8)
San Mateo (€0.5)	Shanghai (€0.7)	Shenzhen (€1.1)	Noida (€1.4)	Singapore (€1.4)	Cambridge (€1.9)	Nanjing (€2.9)	Gurgaon (€3.1)	Tokyo (€3.7)	San Diego (€7.0)	Shenzhen (€5.5)

UK Europe India Asia

Central US Eastern US Western US China

Source: PitchBook | Geography: Global
*As of November 30, 2022

VC deal count with US investor participation



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