

European Private Equity Outlook 2019



Our 10th European Private Equity Outlook reveals how experts view the market and its development in 2019



The European Private Equity Outlook 2019 is the **10th consecutive publication in a series** launched by Roland Berger in 2010



More than 2,500 experts from private equity investment companies across Europe were contacted for the PE outlook









The results reveal **what experts in the market anticipate** for various countries and regions and what they consider to be relevant factors for the private equity business throughout 2019




We hope you enjoy reading this study. **We would be happy to receive your feedback** and look forward to the opportunity to discuss the results with you in more depth

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A. Focus of study and methodology



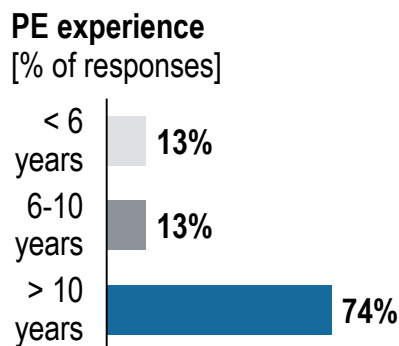
This study is based once more on an exclusive survey of private equity professionals from leading PE firms across Europe

Focus and methodology of the study

Overview of European private equity survey

- 1** Development of the European private equity market
- 2** Key challenges for private equity
- 3** Competitive dynamics and the private equity business model

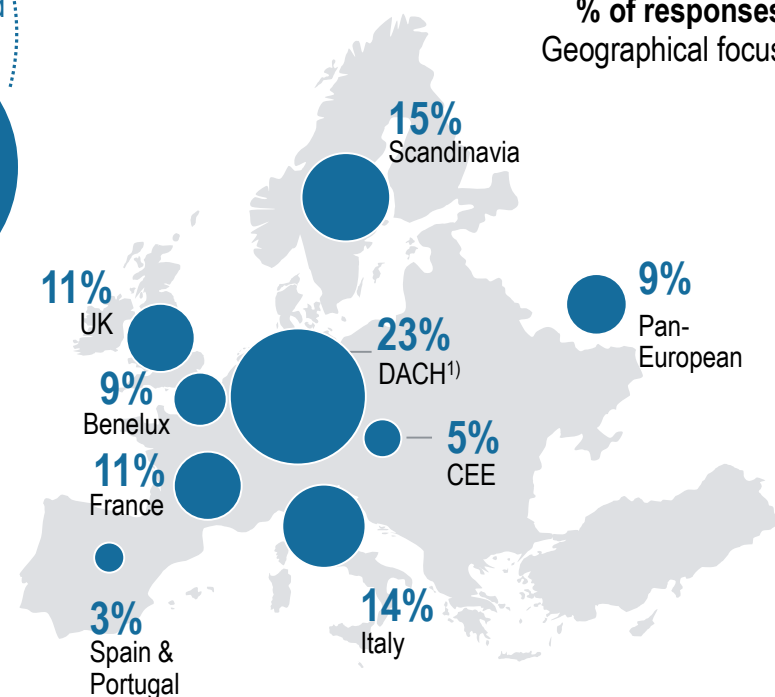
Key topics in 2019



Overview of participants

Private equity survey, 2019

% of responses
Geographical focus



1) Germany, Austria, Switzerland

B. Executive summary



PE professionals are less optimistic about the outlook for Europe in 2019 than they have been in the past

- 1** The **outlook for M&A transactions with PE involvement** has become **less optimistic**: For the first time in several years, more PE professionals expect a decrease (48%) rather than an increase (31%) in the number of transactions with PE involvement – The share of respondents expressing a positive outlook is 20 ppt. down on 2018
- 2** Among the **most influential factors for M&A with PE involvement** in 2019, PE professionals expect the overall economic situation/cycle and political stability to deteriorate at least slightly – On the whole, the availability of attractive acquisition targets is expected to remain broadly stable
- 3** Geographically, respondents differ more in their growth expectations: **Positive developments are expected for Spain and Portugal, Scandinavia and CEE** in 2019 – The lowest growth expectations are for the UK, which is clearly impacted by the uncertainty around Brexit negotiations followed by Italy, Greece and France
- 4** **Pharma & healthcare, technology & media and business services & logistics** are the top three industries expected to yield the most M&A deals with PE involvement in 2019
- 5** The **mid/small-cap segment** is considered the **most promising in 2019** with regard to M&A with PE involvement, whereas PE professionals expect a (slight) decrease for the large-cap segment
- 6** The **"development of portfolio companies"** is the focus of PE activity for 2019, followed by **"making new investments"** – Last year, the main focus was "divesting existing investments", an activity which is now expected to become slightly less relevant after several years of intense divestment activity

IPO as an exit channel is viewed with increasing skepticism – Valuation multiples are largely considered overvalued

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With regard to **exit channels**, **sales to PE investors and strategic investors** are expected to be most promising – The **IPO channel** is increasingly viewed with skepticism, and its importance is expected to decline; this may also be the result of a difficult stock market environment during the survey period (YE 2018)

8

Majority shareholdings in **family-owned companies** and **secondary buyouts** continue to be seen as the most important sources of attractive targets in 2019 – Overall, the target attractiveness level is broadly in line with past years

9

The current **valuation multiples** paid are considered **(slightly) overvalued** by the vast majority of PE professionals (91%) – Nearly two thirds expect valuation multiples paid to (slightly) decrease in 2019, a strong change from 2018, when respondents still expected stable to slightly increasing multiples

10

Half of the PE professionals (50%) expect **no change in the level of competition for fundraising** in 2019

11

The **involvement of external consultants** is highest during **acquisition** and **pre-exit phases** in the lifecycle of PE portfolio companies

Process uncertainty is expected to increase in 2019 – Add-ons and digitalization/Industry 4.0 are still seen as key value creators

12

Competition for deals from Chinese strategic and financial investors is not expected to continue to increase in 2019. Survey results instead suggest a stable level of competition from Chinese investors

13

External financing, especially refinancing and recapitalization, is expected to become slightly more difficult to raise in 2019 – Growth financing is expected to see little change

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Over half of the PE professionals (54%) expect **process uncertainty** in the M&A environment for PE companies to remain a challenge in 2019 – Only 14% of respondents expect a reduction in process uncertainty

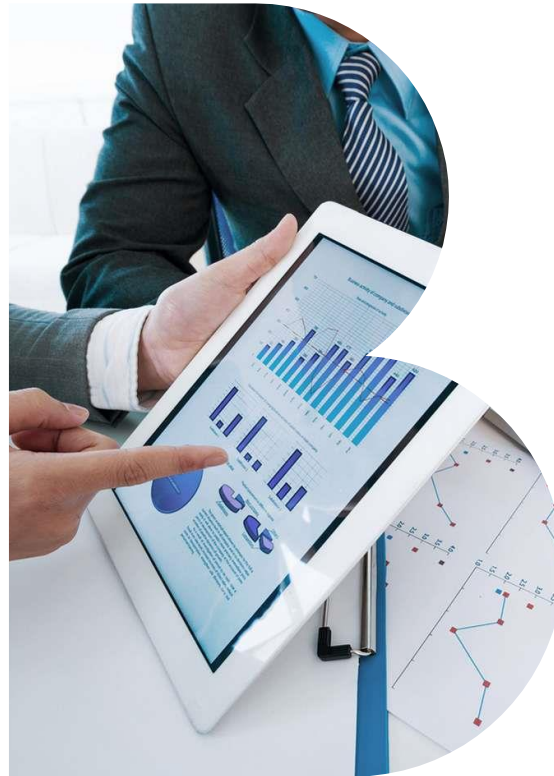
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When it comes to the **private equity business model**, more active portfolio management, an increase in the portfolio's resilience to economic changes (i.e., the "weatherproof" portfolio company) and geographical expansion are expected to gain importance for the majority of PE professionals

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Add-on acquisitions, digitalization/Industry 4.0 and **cycle resilience of portfolio companies** are expected to be the most important **portfolio improvement/value creation measures** in 2019 – Cycle resistance has grown the most in importance (+10 ppt.) compared to the year prior

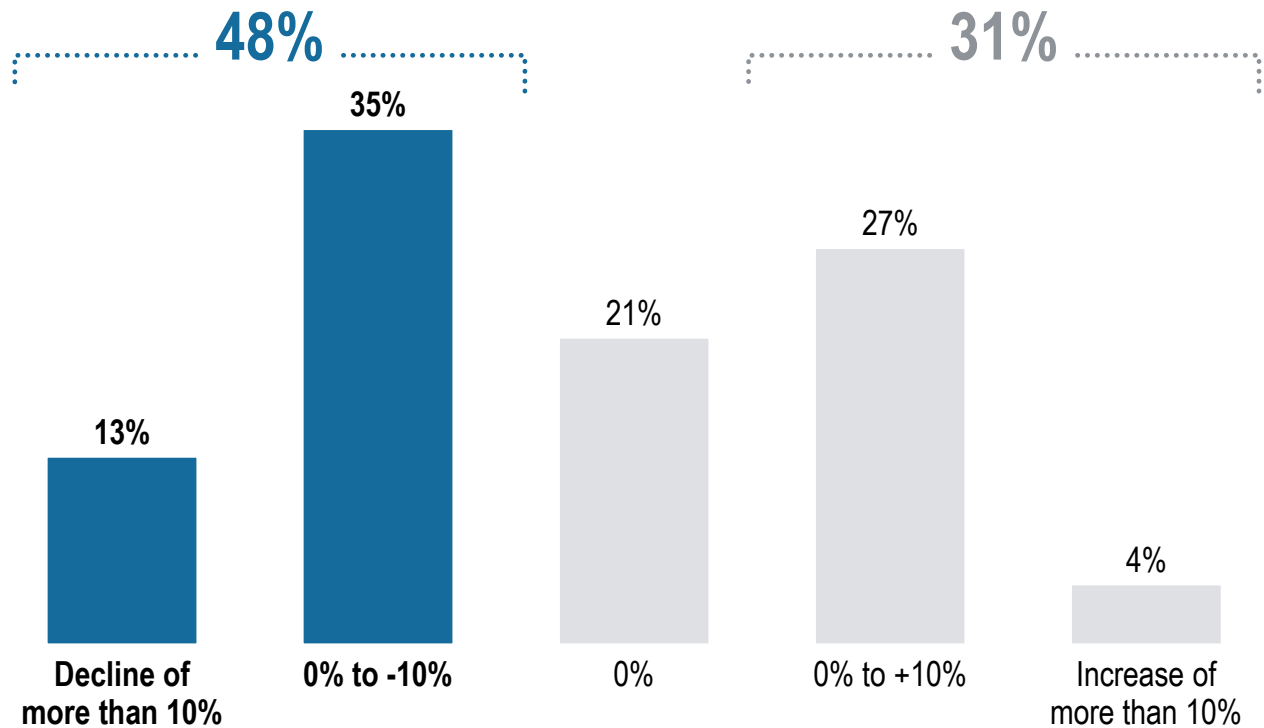
C. Results of the PE Outlook for 2019



The outlook for M&A transactions with PE involvement has changed: More PE professionals expect a decline in numbers

M&A transactions with PE involvement – 2019 vs. 2018 [%]

"What change do you expect to see in 2019 regarding the number of completed M&A transactions with PE involvement?"



- > Compared to last year's expectations, PE professionals have become less optimistic in their expectations for 2019 after a successful 2018 and 2017
- > For the first time in several years, more respondents expect the number of M&A transactions with PE involvement to decrease (48%) rather than increase (31%)

% of responses [only one response per category possible]

The economy and politics are behind the slightly negative outlook – The availability of attractive targets is expected to remain stable

Overview of relevant factors for M&A business in Europe – 2019 vs. 2018 [%]

"What will be the most influential factors affecting the number of European M&A transactions with PE involvement in 2019? How will they develop?"



Importance of factors	100 % max. value	Development of factors in 2019					Trend
Overall economic situation/ economic cycle	84%	7%	62%	26%	3%	2%	➔
Political stability (e.g., Brexit, populist governments)	66%	8%	57%	24%	9%	2%	➔
Availability of attractive acquisition targets	60%	1%	24%	60%	15%	0%	➔
Development of valuation levels	50%	1%	32%	37%	28%	2%	➔
Trade conflict/regulation	49%	1%	42%	46%	11%	0%	➔
Availability of inexpensive debt financing	46%	8%	47%	42%	3%	0%	➔
Competition from strategic investors	24%	1%	14%	66%	19%	0%	➔

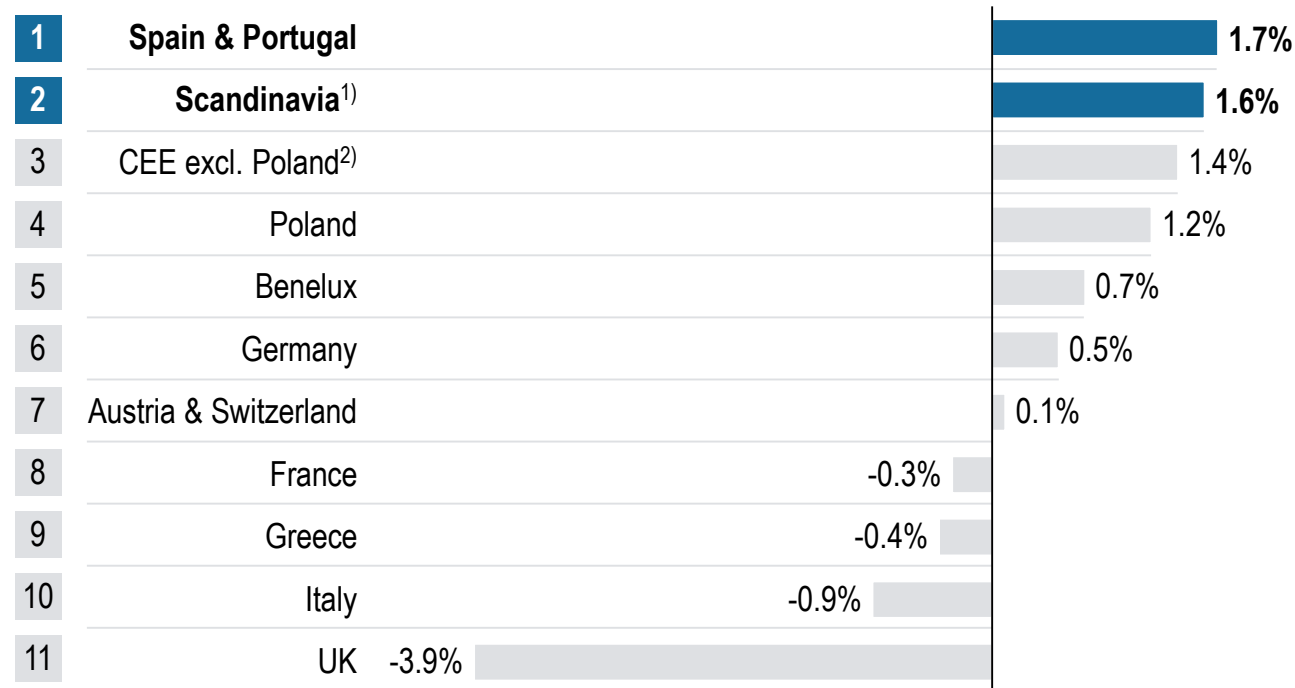
% of responses ➔ Positive trend ⬇ Negative trend
 Significant deterioration Deterioration Same as in 2018 Improvement Significant improvement

- > The most important factor is the overall economic situation/ economic cycle, which is expected to deteriorate in 2019 compared to 2018
- > Political stability is expected to further deteriorate in 2019 – Uncertainty associated with the China-US trade war, the Turkish economic crisis, political instability in Italy, ongoing Brexit negotiations, German elections in the eastern federal states, as well as elections in Eastern Europe (e.g., Poland, Ukraine) are key drivers of this development
- > The availability of attractive acquisition targets is expected to remain stable compared to 2018

Respondents differ more regarding their regional growth outlook – Positive outlooks for Spain/Portugal, Scandinavia and CEE

Change in PE M&A activity in major countries – 2019 vs. 2018 [%]

"What change in PE M&A activities do you expect to see in the following countries in 2019?"



- > Stronger differentiation with regard to the regional growth outlook
 - Most favorable outlook for PE markets in Spain & Portugal, which may benefit from positive catch-up effect
 - Germany's outlook remains positive, albeit with less intensity than seen in past years
 - A slight decline is expected for France. Expectations have shifted sharply away from the positive sentiment around a more reform-oriented agenda in last year's survey
 - UK expected to see a decline in M&A activities in the context of ongoing difficult Brexit discussions

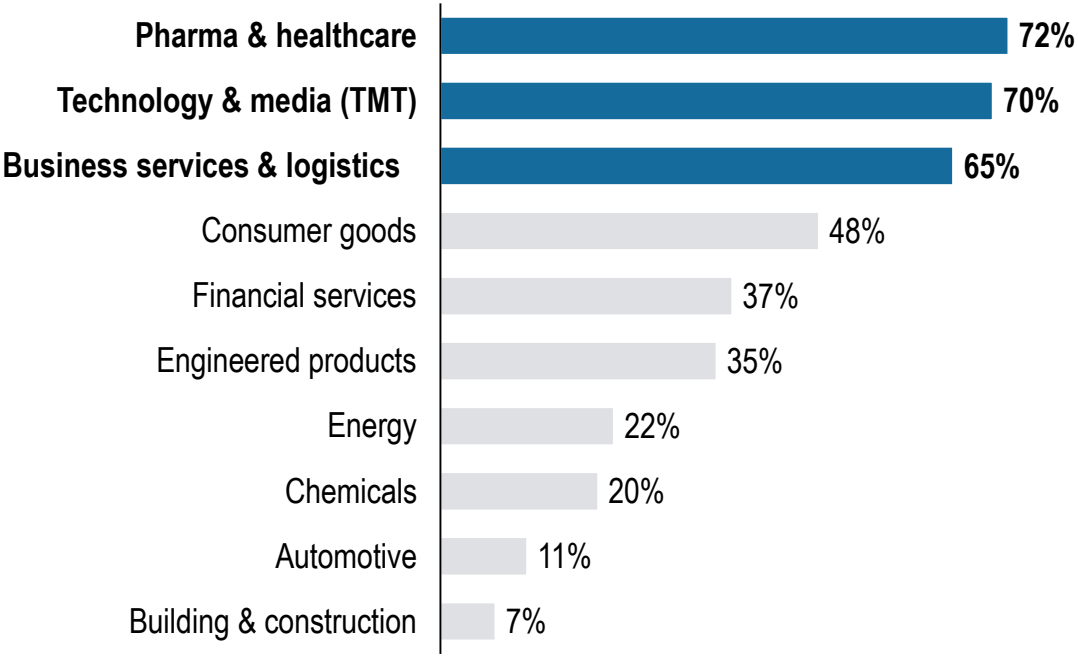
% of expected change in PE M&A activity in 2019 compared to previous year [only one response per country possible]

1) Includes Denmark, Norway, Sweden 2) Central and Eastern Europe includes Bulgaria, Croatia, Czech Republic, Hungary, Romania, Slovakia and Slovenia

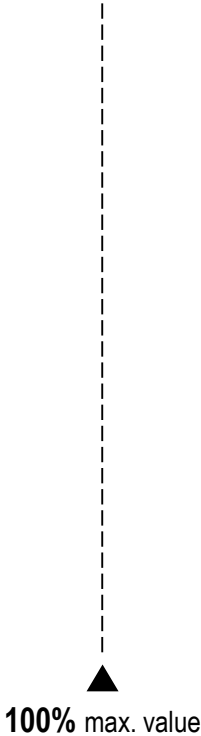
Pharma & healthcare, TMT and business services & logistics are expected to yield the most M&A deals with PE involvement in 2019

Likelihood of a high number of M&A transactions by industry – 2019 vs. 2018 [%]

"In what industries do you expect to see the most M&A transactions with PE involvement in 2019?"



- > The pharma & healthcare, TMT and business services & logistics industries are expected to be the most active in terms of the number of M&A transactions with PE involvement
- > Respondents also expect the consumer goods and financial services sectors/industries to account for a large number of M&A transactions in 2019
- > A fairly low number of PE transactions is expected in the building & construction industry (a decline of 11 ppt. from last year's survey)

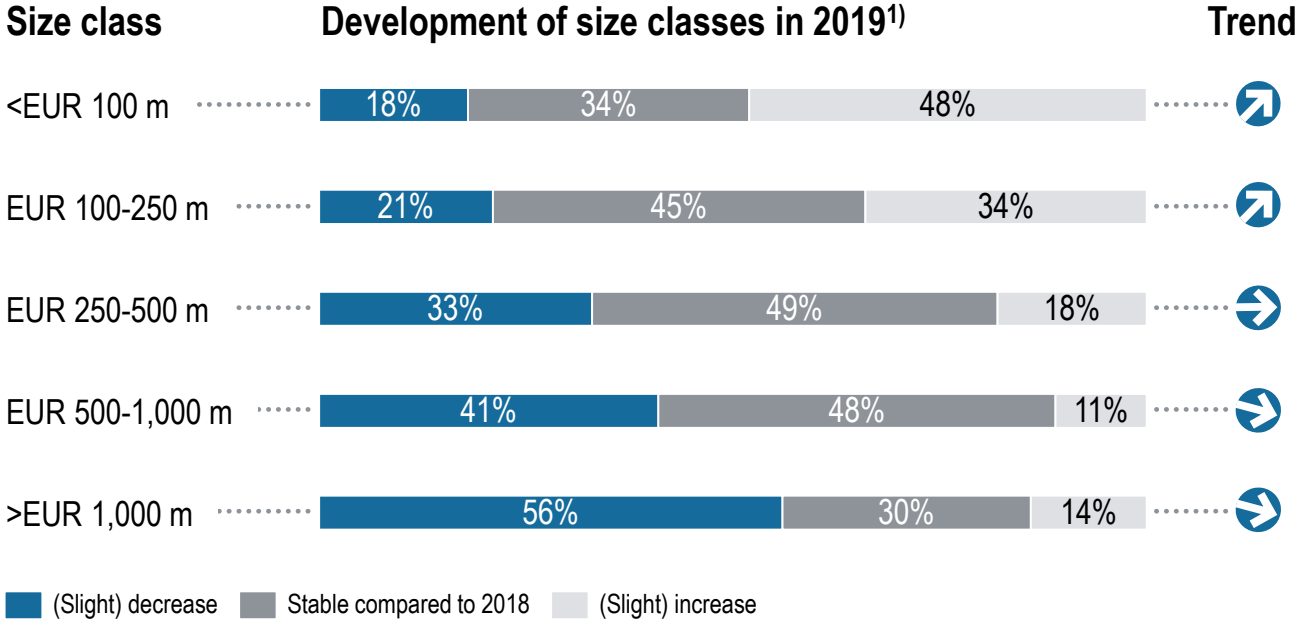


% of participants who expect a high number of transactions

The mid/small-cap segment is expected to further drive growth, whereas the large-cap segment is expected to slightly decrease

Development of PE transaction size classes – 2019 vs. 2018 [%]

"Please estimate the development of the European M&A market with PE involvement by size classes."



↗ Trend towards (slight) increase
 ↘ Trend towards (slight) decrease

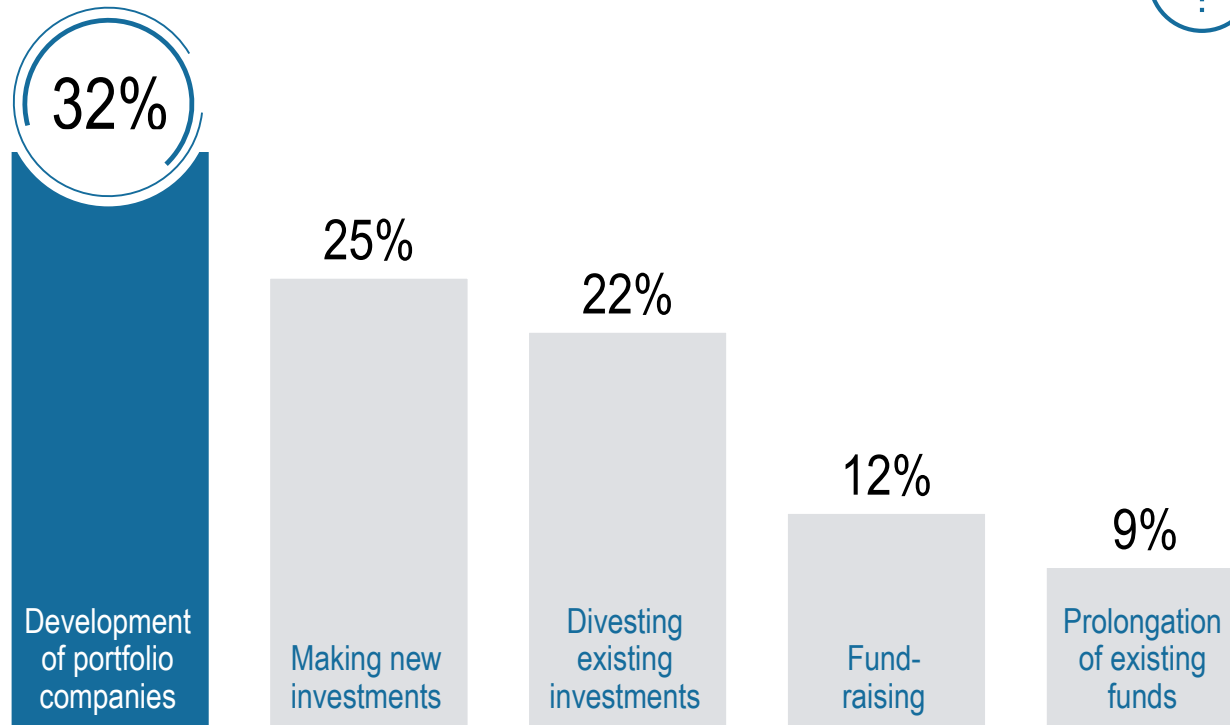
1) Simplified; excluding significant decrease and significant increase

- > The small-cap segment, with deals up to EUR 100 m, followed by the mid-cap size classes of EUR 100-500 m, are considered the most promising in 2019
- > For the large-cap segment, with enterprise values above EUR 500 m, a large number of PE professionals expect a stable to slightly decreasing development (97% in 2019 vs. 50% in 2018)

In 2019, PE activity is expected to focus on developing portfolio companies and making new investments

Focus of PE investors on lifecycle stages – 2019 [%]

"On which phase of the PE value chain will you focus most in 2019?"



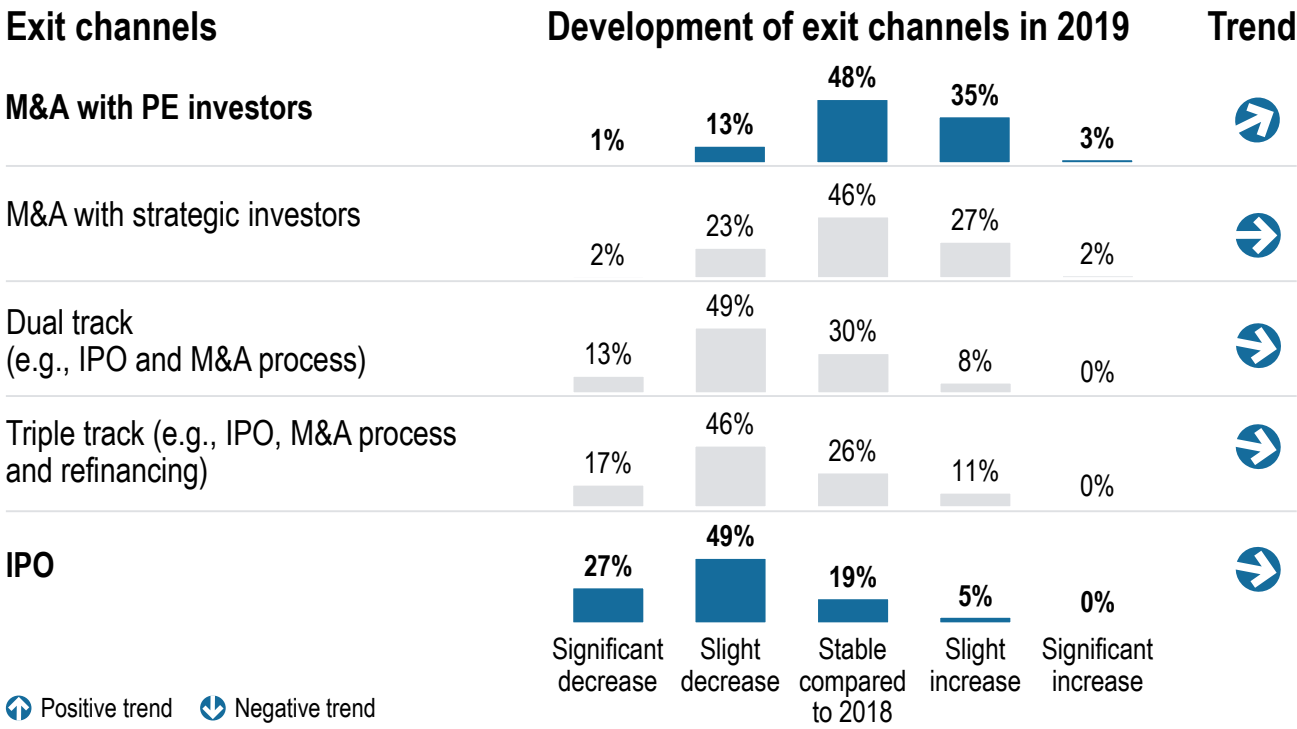
- > The development of portfolio companies is the new top priority for financial investors in 2019, up 10 ppt. from 2018
- > The top priority in 2018, cited by 30% of respondents, was the divestment of existing investments – At 22% in 2019, this has become slightly less important

% of participants who plan to place most of their focus on this phase of the PE value chain

The exit channel "sale to PE investors" is anticipated to develop favorably – IPO channel expected to decrease in importance

Change in exit channels – 2019 vs. 2018 [%]

"How do you expect the individual exit channels to change in 2019?"



↗ Positive trend ↘ Negative trend

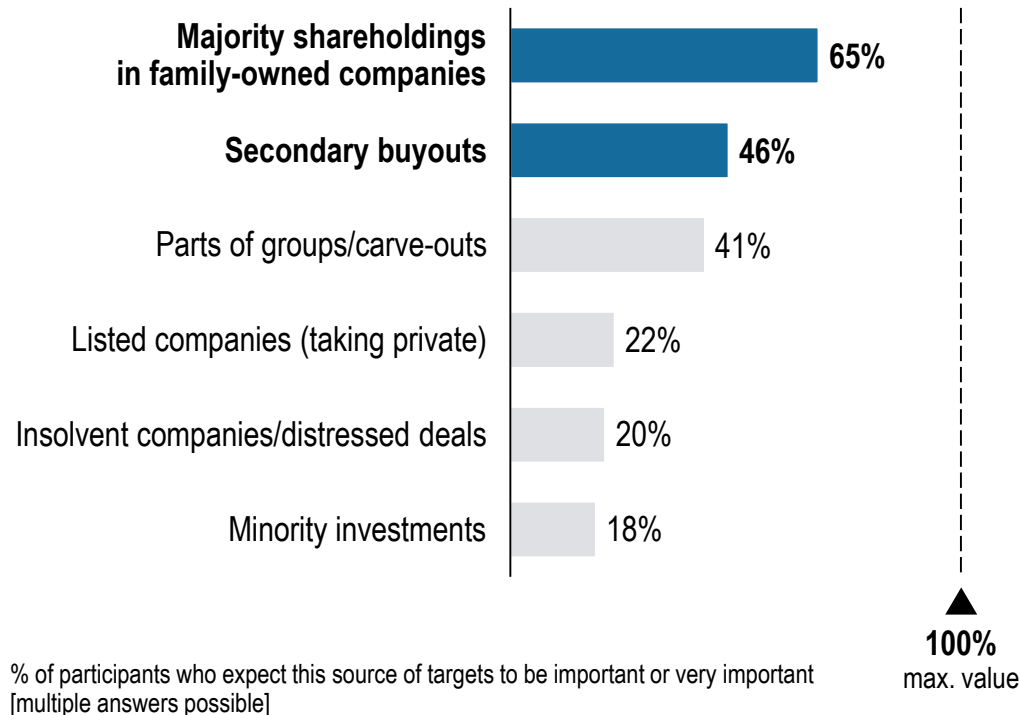
[only one answer possible for each exit channel]

- > In 2019, all exit channels are viewed less favorably compared to past years
 - Sale to both strategic and PE investors is slightly more conservative but still considered promising: 29% and 38% of respondents expect an increase, respectively
 - PE professionals expect IPO exits, dual tracks (e.g., IPO and M&A process) and triple tracks (e.g., IPO, M&A process and refinancing) to decrease (slightly) in 2019

Majority shareholdings in family-owned companies and secondary buyouts continue to be viewed as key sources of targets

Sources of most attractive targets – 2019 vs. 2018 [%]

"What will be the source of the most attractive targets in 2019?"



Rank change (2019 vs. 2018)

0

0

0

+1

+1

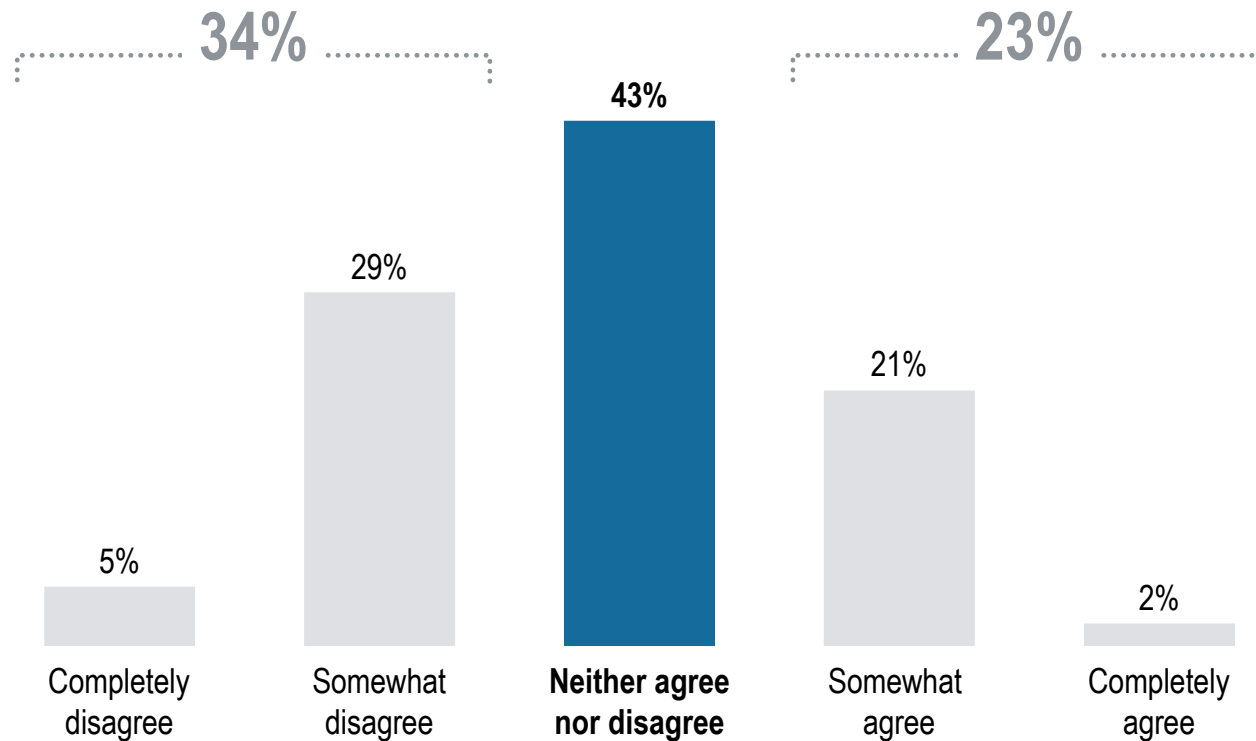
-2

- > Majority shareholdings in family-owned companies are viewed by 65% of PE professionals as the most important source of attractive targets in 2019 – The 2019 figure is significantly above 2018's 58% and roughly on the 2017 level (72%)
- > The importance of secondary buyouts and parts of groups/ carve-outs is the same as in 2018
- > Listed companies (taking private) and insolvent companies/distressed deals increased in attractiveness compared to 2018 by +9 ppt. and +10 ppt., respectively
- > Minority investments are considered less important: -4 ppt. compared to 2018

PE professionals expect the attractiveness of available targets in 2019 to be similar to 2018

Expected development of investment opportunities – 2019 vs. 2018 [%]

"Overall, targets available on the market in 2019 will be more attractive than in 2018. Do you agree or disagree?"



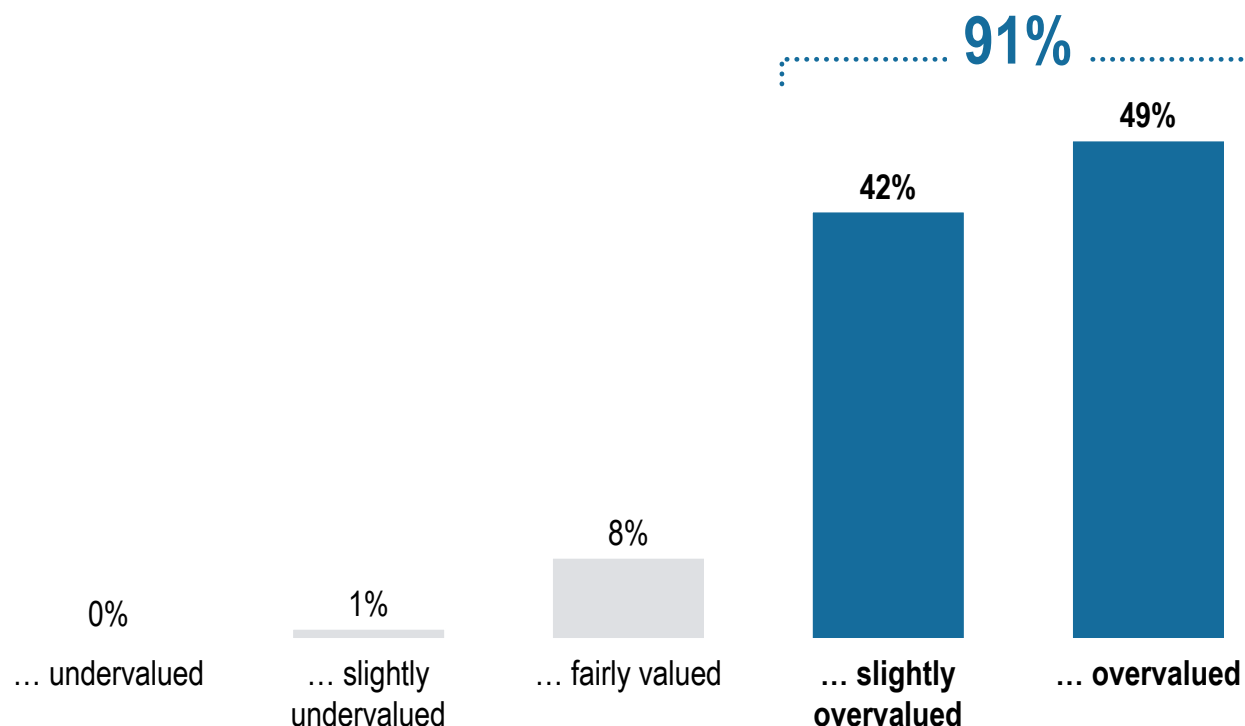
- > 23% of surveyed PE professionals expect targets for investments to be more attractive in 2019 than in 2018 – This is a slight decrease from 2018, when 26% of respondents expected more attractive market opportunities
- > The percentage of experts who somewhat disagree with opportunities being more attractive slightly decreased by 4 ppt. – The majority of respondents neither agree nor disagree
- > Participants completely disagreeing with the statement increased from 1% in 2018 to 5% in 2019

% of responses [only one answer possible]

Assets in M&A transactions with PE involvement are considered overvalued by the vast majority (91%) of PE professionals

Current status of valuation multiples – 2019 vs. 2018 [%]

"What describes best the current status of valuation multiples paid during M&A transactions with PE involvement? Assets are ..."



- > Multiples paid during M&A transactions with PE involvement are seen as (slightly) overvalued by 91% of respondents (93% in 2018)
 - Reasons behind this include the low interest rate environment and the persistently favorable credit markets and lending environment in combination with limited investment opportunities
 - Only 8% of respondents believe that assets are fairly valued

% of responses [only one answer possible]

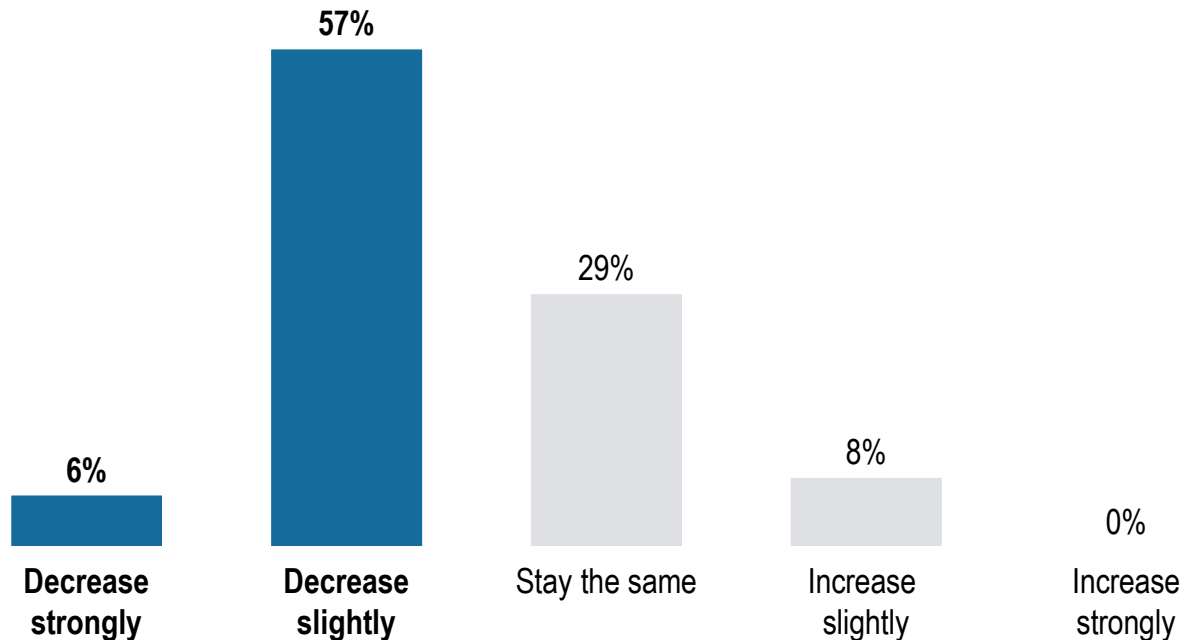
At 63%, the majority of surveyed PE professionals expect valuation multiples paid to (slightly) decrease in 2019

Expected development of valuation multiples – 2019 vs. 2018 [%]

"How do you expect valuation multiples paid during M&A transactions with PE involvement to develop in 2019?"



63%



- > 63% of PE professionals expect the level of valuation multiples to decrease in 2019, a considerable change from 2018 when most respondents still expected stable to slightly increasing multiples
- > Only 8% of surveyed PE professionals expect valuation multiples paid during M&A transactions with PE involvement to increase throughout 2019
- > 29% of participants expect valuation multiples paid during M&A transactions with PE involvement to stay the same

% of responses [only one answer possible]

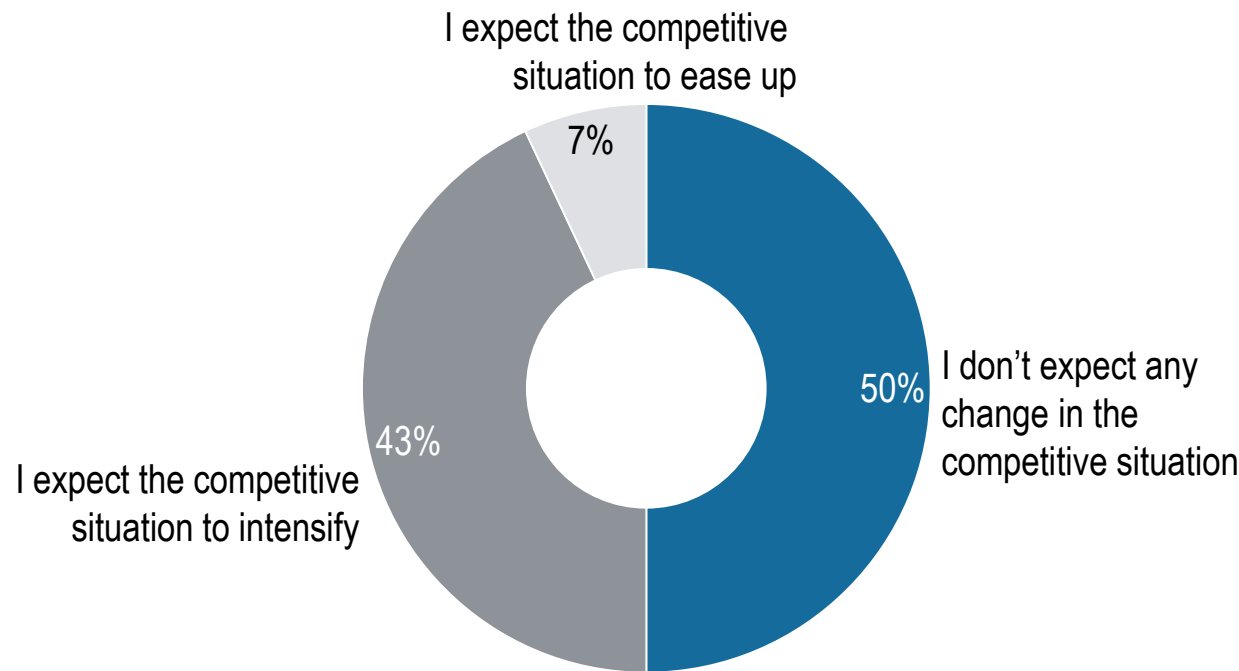
Half of the PE professionals (50%) expect no change in the level of competition for fundraising

Expected level of competition for fundraising – 2019 vs. 2018 [%]

"What degree of competitiveness do you expect in fundraising in 2019?"



- > 50% of respondents anticipate no change in the competition for funds in 2019 compared to the current status quo
- > However, compared to 2018 more PE professionals expect a more intense competitive situation – This constitutes an increase of 9 ppt. (up from 34% in 2018 to 43% in 2019) compared to the previous year
- > An easing in the competitive situation is anticipated by only 7% of respondents (up from 4% last year)

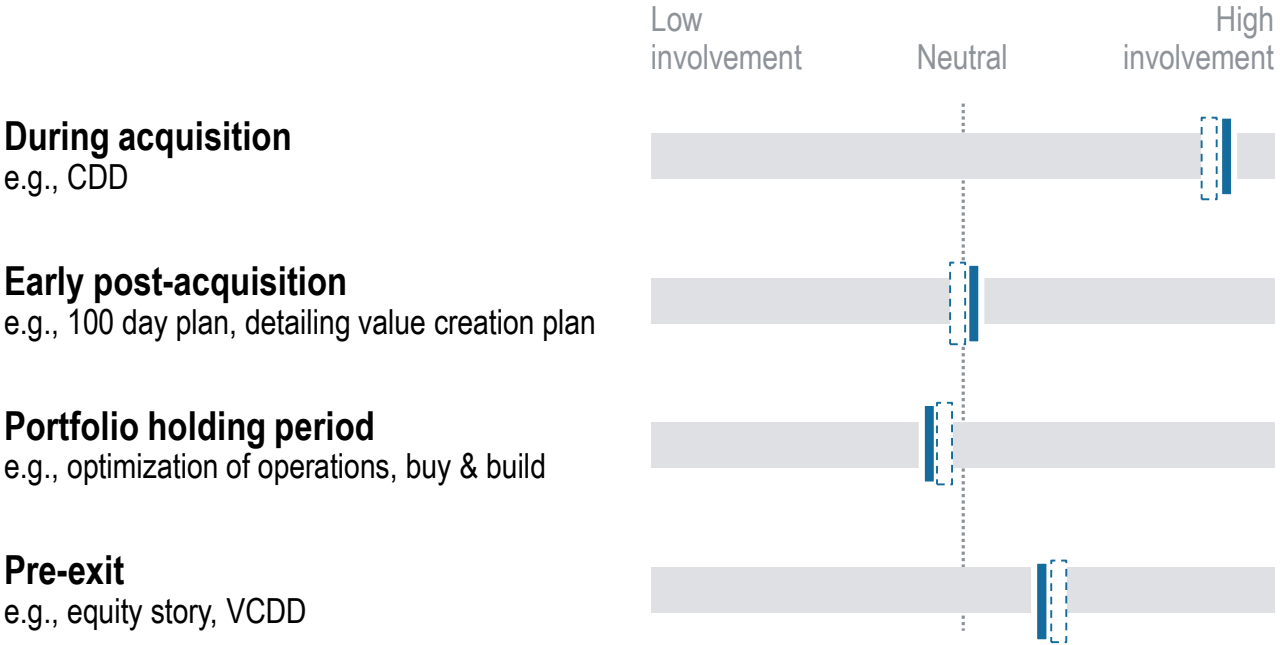


% of responses [only one answer possible]

The involvement of external consultants is highest during acquisition and pre-exit phases in the lifecycle of PE portfolio companies

Involvement of external consultants – 2019 vs. 2018

"To what extent do you involve external consultants during the lifecycle of PE portfolio companies?"



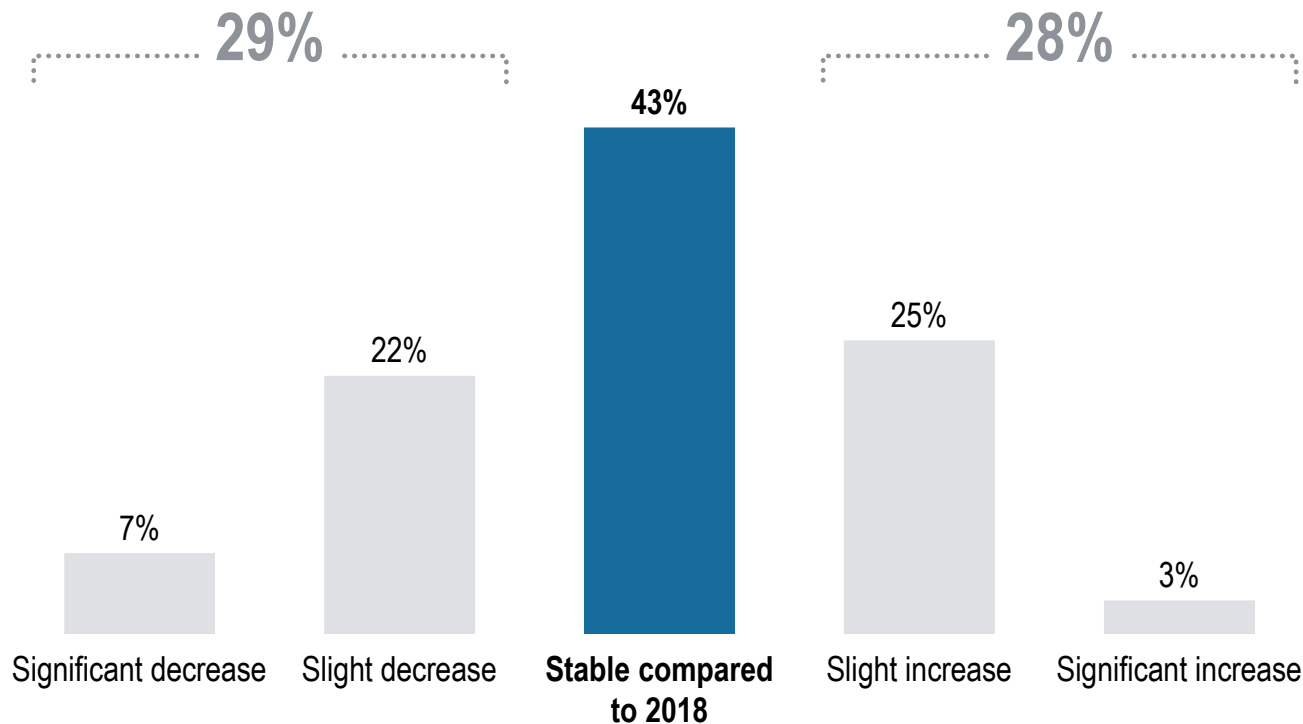
 Last year
 Current year
 [only one answer possible]

- > In general, external consultants tend to be involved during acquisition and pre-exit phases in the lifecycle of PE portfolio companies
- > During early post-acquisition and for the portfolio holding period, the involvement of external consultants tends to be lower
- > Compared to previous years, there is no significant change in the involvement of external consultants during the lifecycle of PE portfolio companies

Competition for deals from Chinese strategic and financial investors is not expected to increase further in 2019

Increasing competition from Chinese investors – 2019 vs. 2018 [%]

"Do you expect increasing competition for deals from Chinese strategic and financial investors in 2019?"



> Most surveyed PE professionals expect stability in competition from Chinese investors – Only 28% of respondents (vs. 42% in 2018) expect a further increase in competition for deals from Chinese investors this year

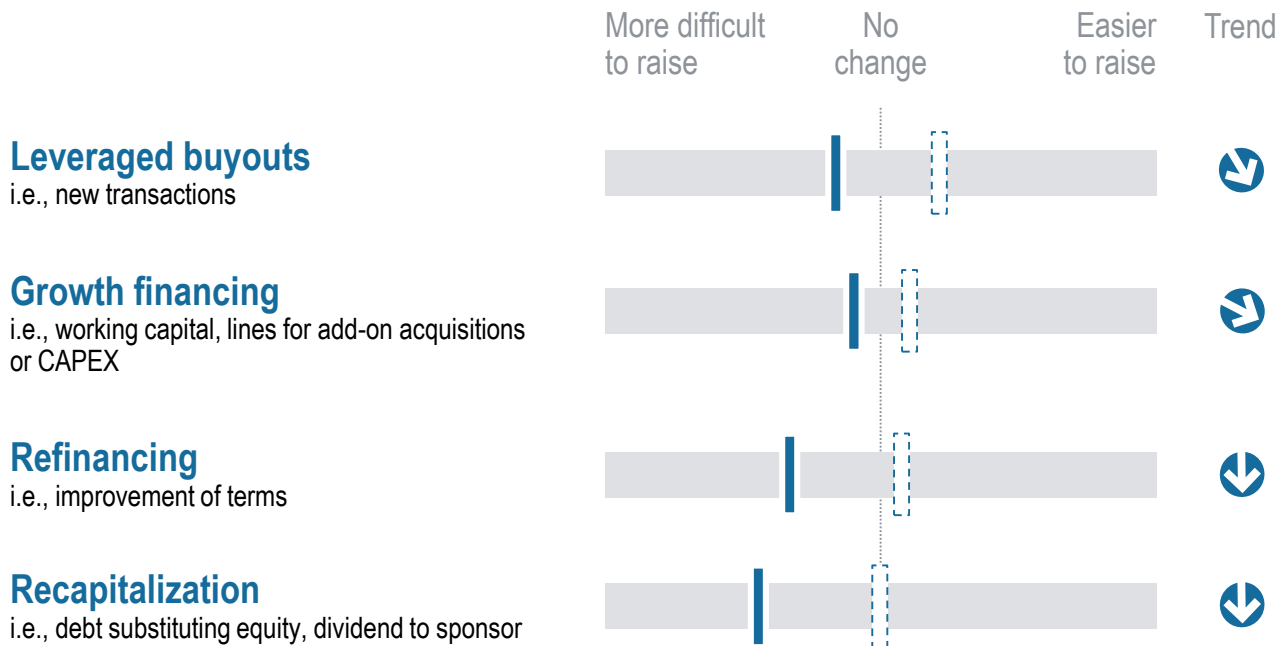
- This is not surprising given increasing regulatory hurdles in Europe (e.g., further tightening of the foreign trade ordinance by lowering the intervention threshold from 25% to 10% in Germany) as well as increasing selectivity among Chinese investors

% of responses [only one answer possible]

External financing, especially refinancing and recapitalization, is expected to become slightly more difficult in 2019

Availability of external financing – 2019 vs. 2018

"Compared to 2018, how easily available will external financing be in 2019?"



- > Overall, the external financing situation is expected to be slightly more difficult in 2019 compared to 2018:
 - Refinancing and recapitalization are expected to become more difficult in 2019
 - Expectations for growth financing have changed the least between the two years

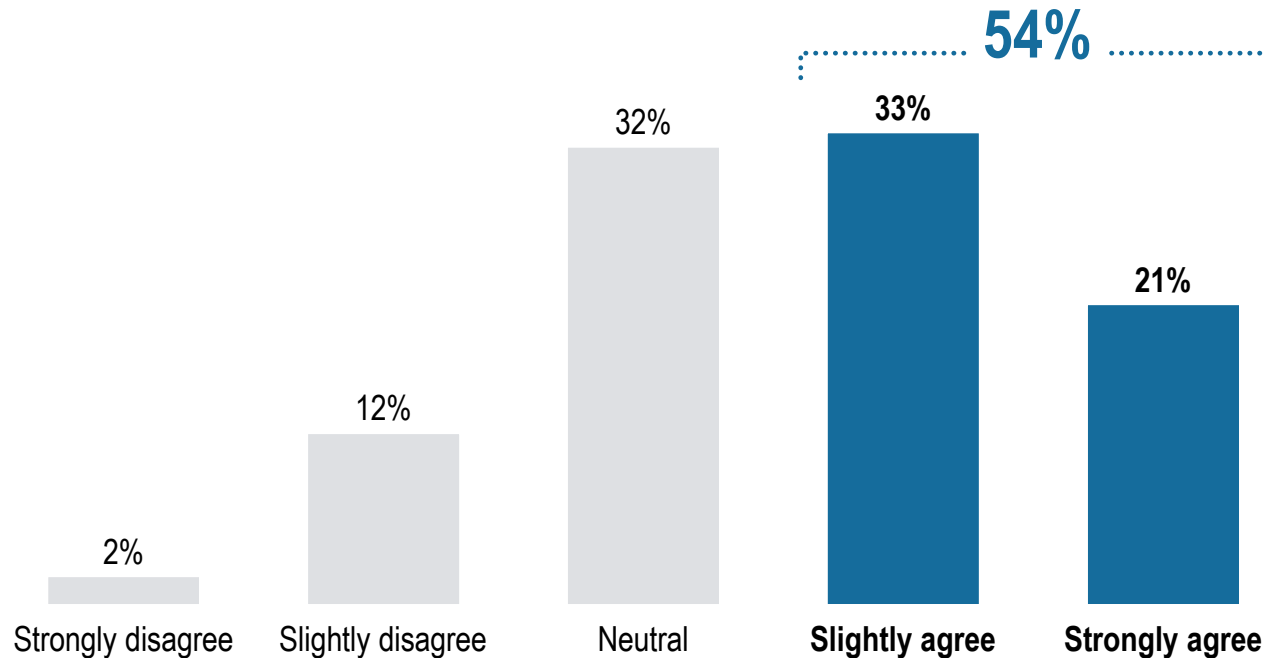
 Last year
 Current year
 ⬆️ Easier
 ⬇️ More difficult

[only one response possible for each type of financing]

Over half of PE professionals expect process uncertainty in the M&A environment to remain a challenge in 2019

Importance of process uncertainty – 2019 vs. 2018 [%]

"The M&A environment for private equity companies has been characterized by a high degree of process uncertainty in 2018, which will continue in 2019. Do you agree?"



- > A larger number of respondents (54% up from 39% in 2018) expect process uncertainty in the M&A environment for PE companies to persist in 2019
- > Process uncertainty can lead to delays in processes, pulled processes or enlarged groups of bidders

% of responses [only one answer possible]

More active portfolio management, increase in portfolio's resilience to economic changes ("weatherproof") and geographical exp. in 2019

Changes in the private equity business model – 2019 vs. 2018 [%]

"What changes in the private equity business model do you expect to occur in 2019?"



Areas of change	Development of PE business model in 2019				
	Strongly disagree	Slightly disagree	Neutral	Slightly agree	Strongly agree
More active portfolio management	0%	3%	23%	54%	20%
Increase in resilience of portfolio to economic changes	0%	12%	32%	45%	11%
Expansion into new geographies	3%	12%	36%	42%	7%
More minority shareholdings	6%	26%	31%	30%	7%
More club deals with other PE funds	4%	23%	40%	24%	9%
More cooperation with hedge funds or strategic investors	8%	25%	35%	28%	4%

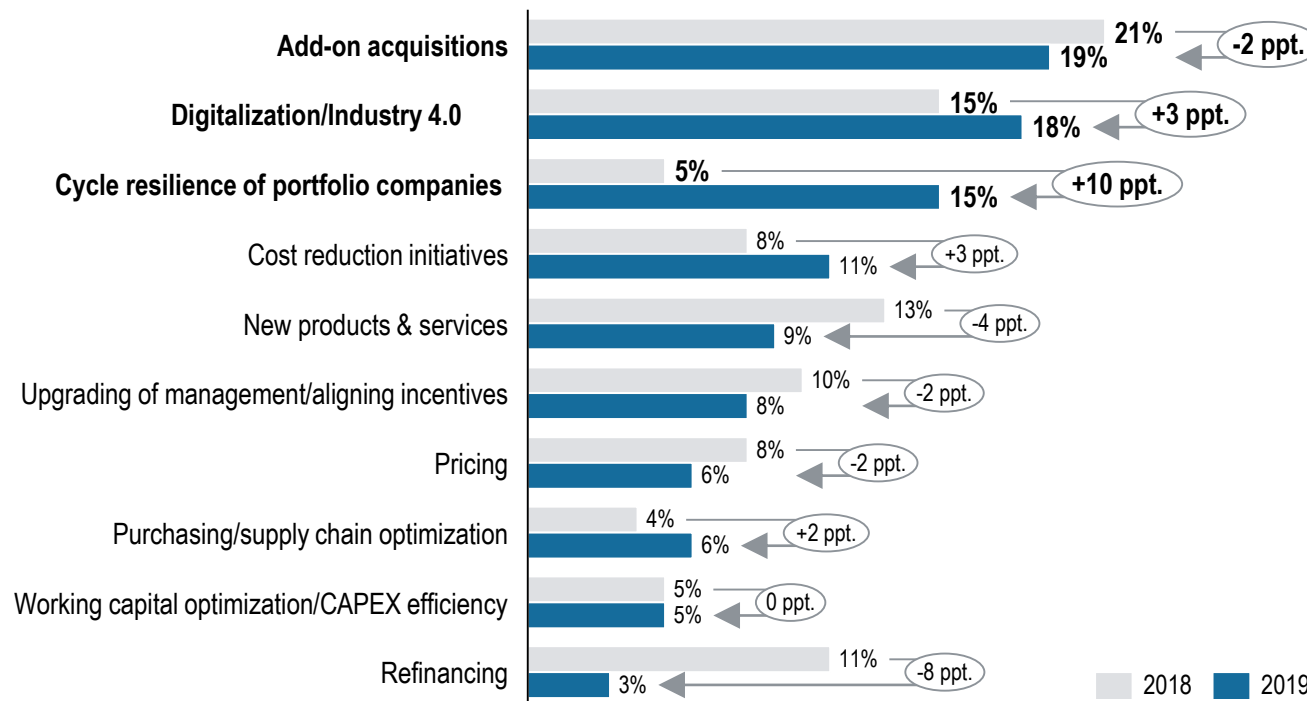
- > The PE business model is expected to change towards:
 - More active portfolio management
 - An increase in resilience of portfolio to economic changes (i.e., the "weatherproof" portfolio company)
 - Expansion into new geographies in 2019
- > Minority shareholdings have lost some appeal, whereas cooperation with hedge funds has gained some ground

% of responses [only one answer possible]

Add-ons and digitalization/Industry 4.0 will likely remain key value creators in 2019 – Increasing importance of cycle resilience

Importance of value creation measures – 2019 vs. 2018 [%]

"Which of the following portfolio improvement/value creation measures do you consider most important in 2019; which measures have been most important in 2018?"



- > Respondents expect add-on acquisitions and digitalization/ Industry 4.0 to remain the most important value creation measures in 2019
- > Cycle resilience of portfolio companies is expected to become significantly more important in 2019 (vs. 2018)
- > Pricing, purchasing/supply chain optimization and working capital optimization/CAPEX efficiency and refinancing are considered less important in 2019

% of responses [maximum of four responses possible]

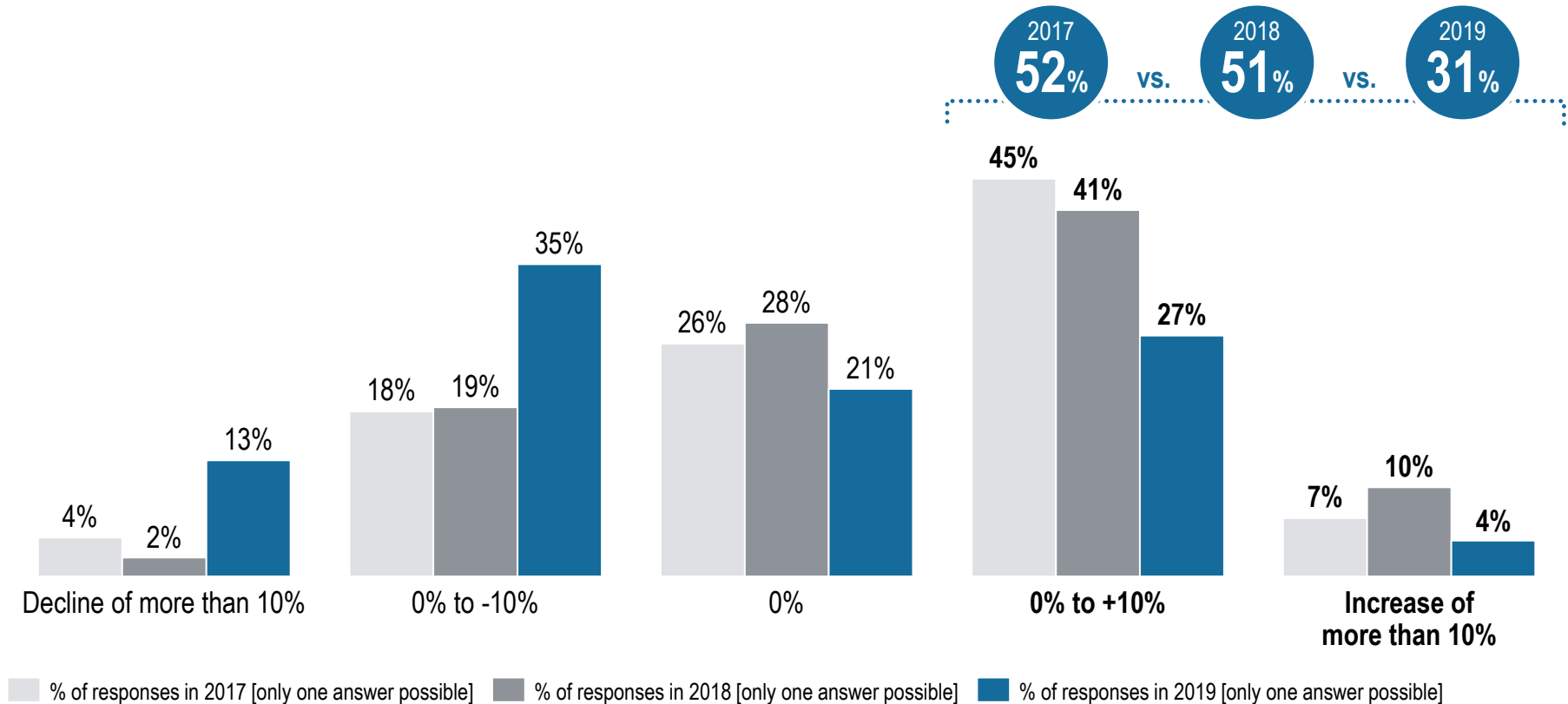
D. Comparing the PE Outlook 2019 to previous years



After an optimistic 2017-2018, PE professionals have become less confident in the development of PE-backed transactions

M&A transactions with PE involvement by year, 2017-2019 [%]

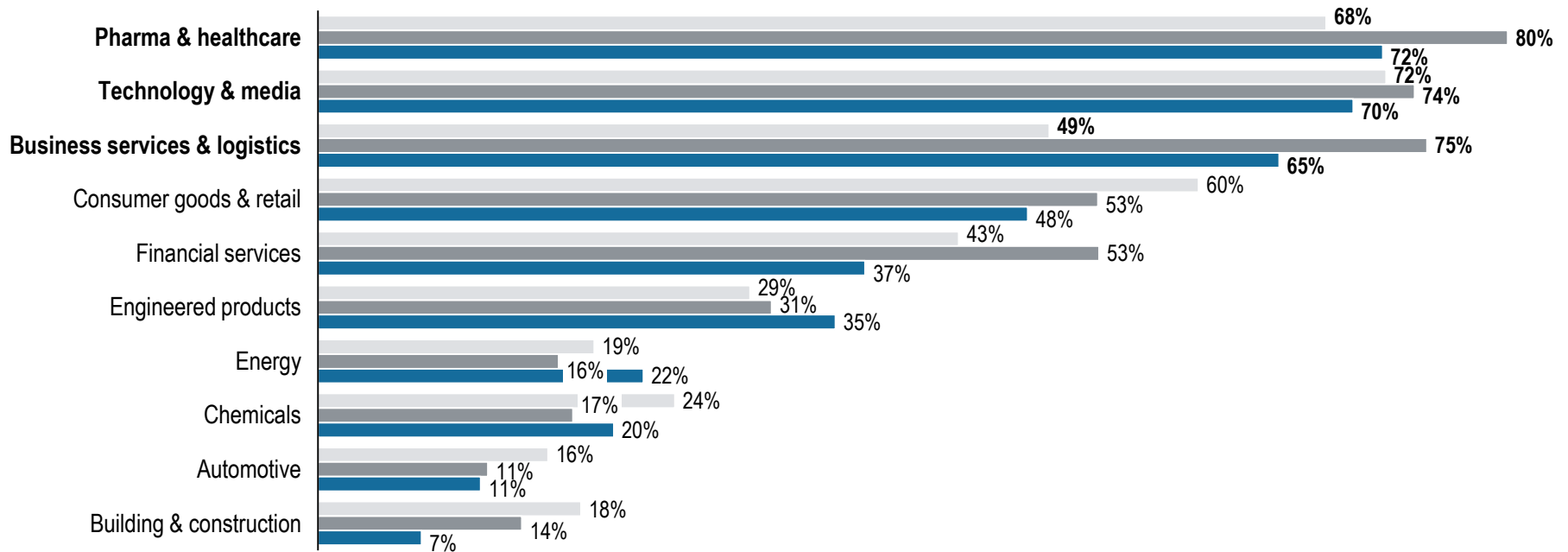
"What change do you expect to see in 2019/18/17 regarding the number of completed M&A transactions with PE involvement?"



No change in expectations over the last three years regarding the top three industries for M&A activities

Ranking of industries by number of M&A transactions by year, 2017-2019 [2019 order; %]

"In what industries do you expect to see the most M&A transactions with PE investor involvement in 2019 (2018/2017)?"



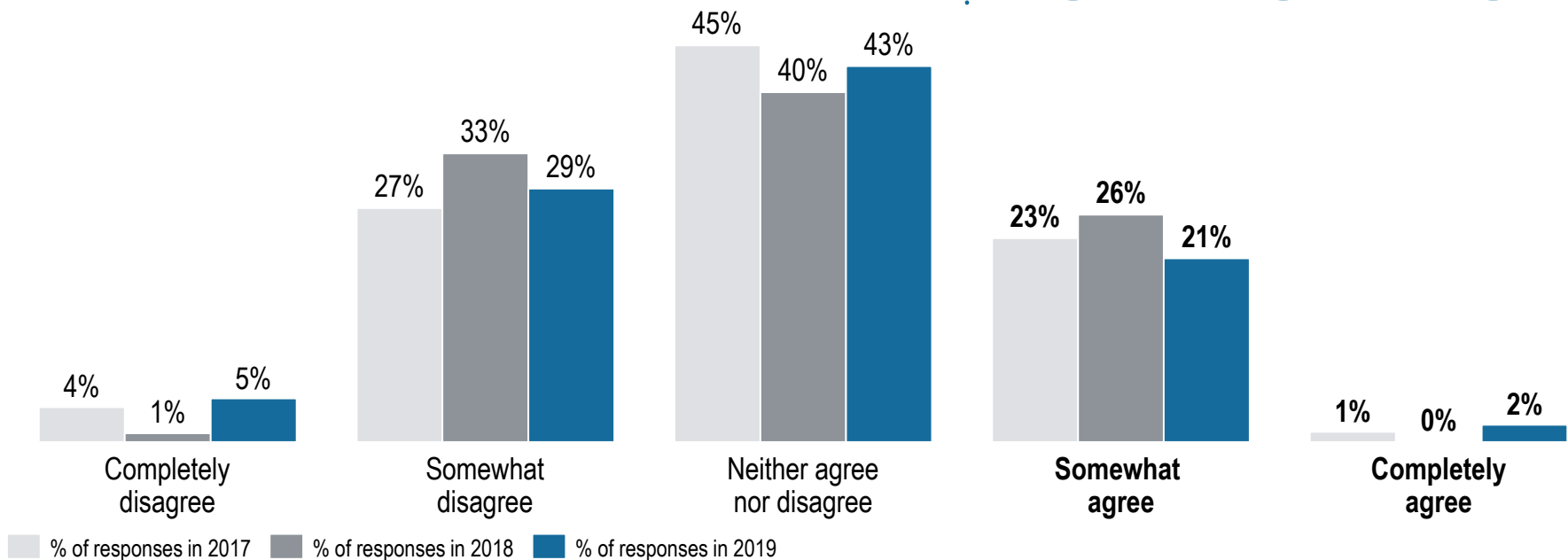
- Expected change in PE M&A activity in 2017 vs. 2016 in %
- Expected change in PE M&A activity in 2018 vs. 2017 in %
- Expected change in PE M&A activity in 2019 vs. 2018 in %

Note: Multiple answers possible

Expectations for the availability of attractive targets in 2019 are largely in line with previous years

Expected development of investment opportunities by year, 2017-2019 [%]

"Will the targets available on the market in 2019 (2018) be more attractive than in 2018 (2017)/ 2017 (2016)?"



Note: Only one answer possible

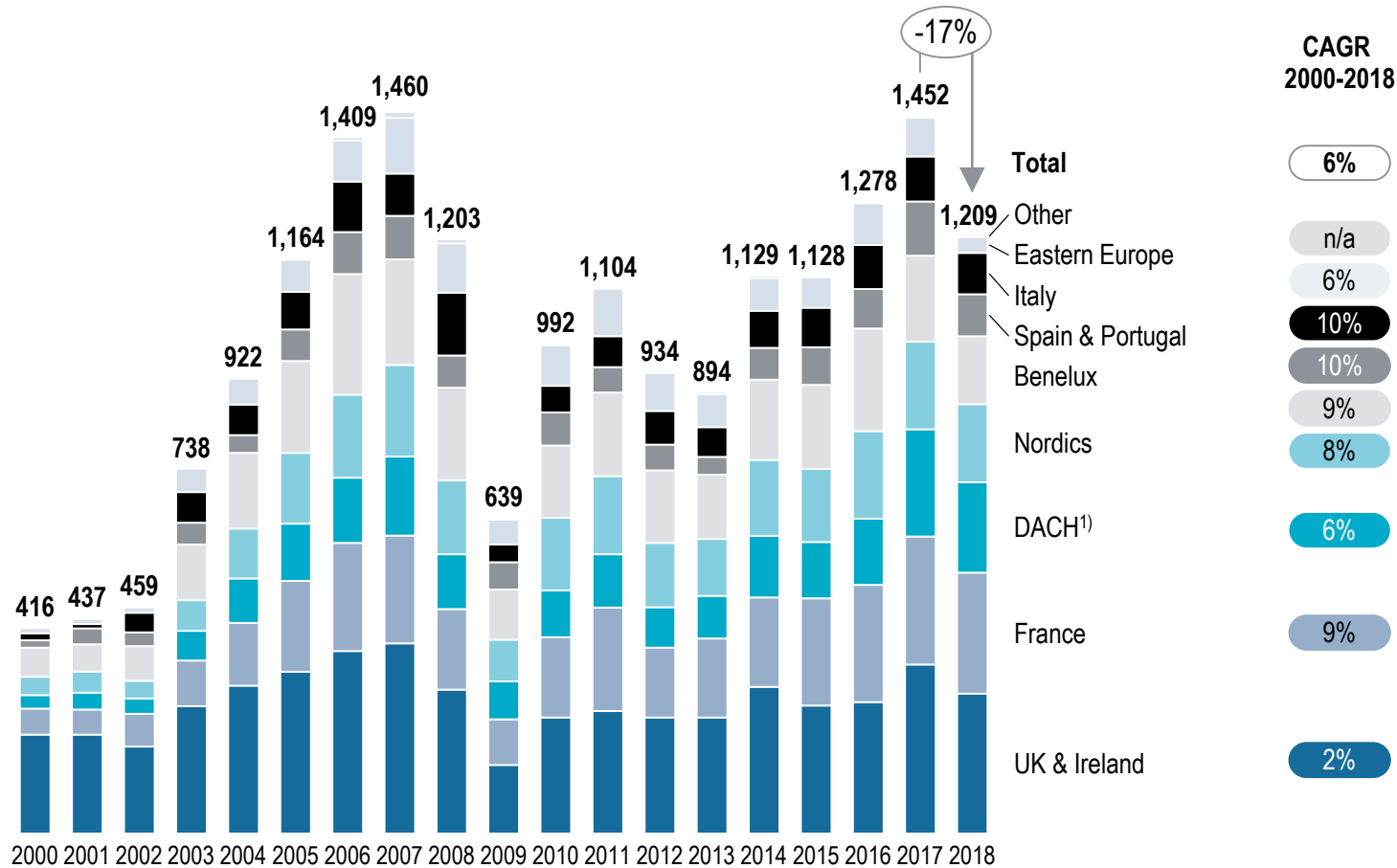
Source: Roland Berger

E. Buyout transaction statistics



European buyout transaction volume slightly decreased to 1,209 deals in 2018

European buyout transaction volume by geography, 2000-2018 [# of deals]

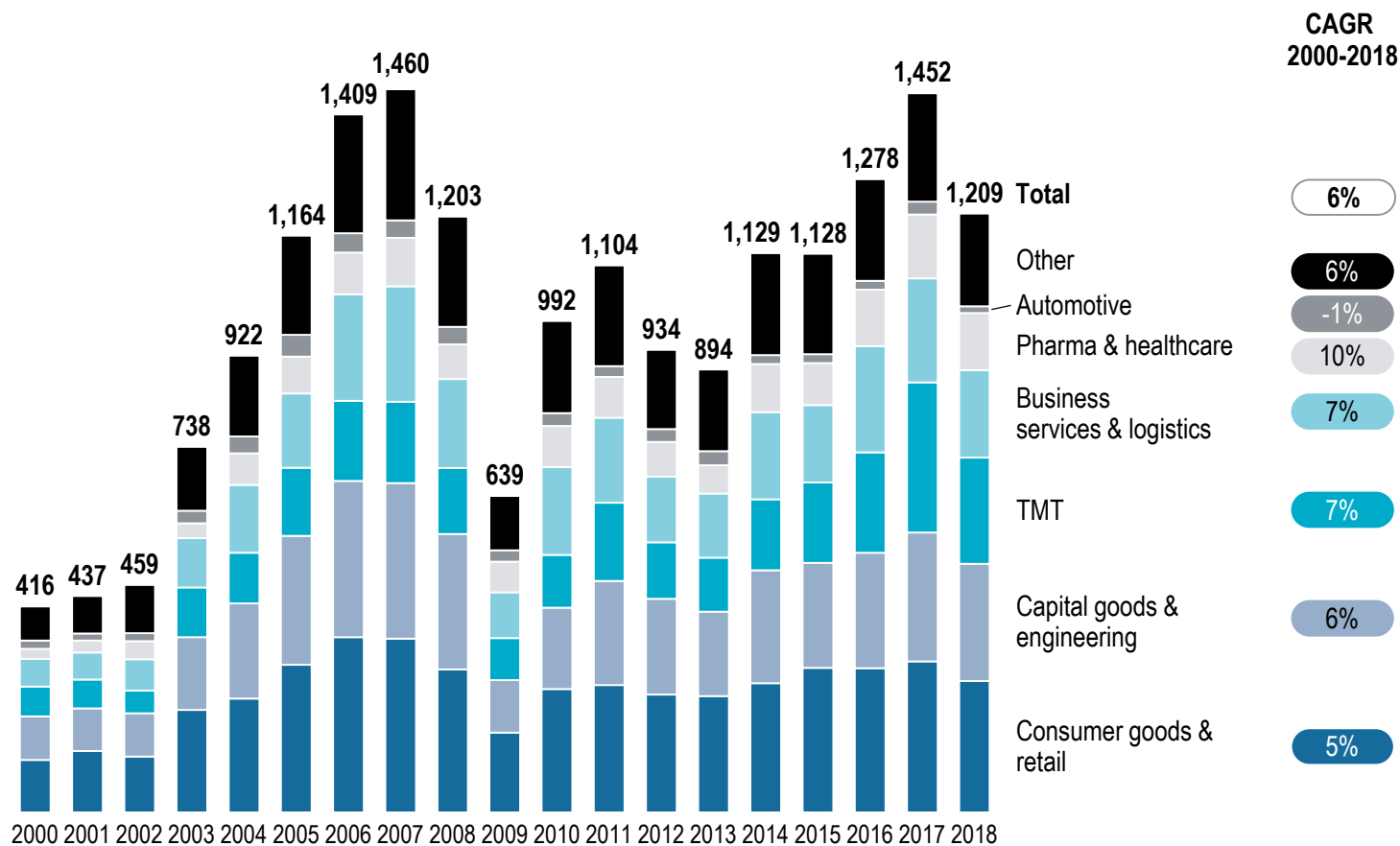


- > The period 2000-2018 saw ongoing growth of c.6% p.a. in annual buyout transaction volumes
- > Geographies with the most buyout transactions in 2018 were the UK & Ireland followed by France, DACH, Nordics and Benelux
- > After an outstanding year in 2017, buyout transactions dropped slightly in 2018 by c.17% – The strongest absolute decline was in the UK; the strongest relative decline was in Eastern Europe

1) German-speaking area (Germany, Switzerland, Austria)

TMT, consumer goods & retail and capital goods & engineering contributed significantly to the overall transaction volumes in 2018

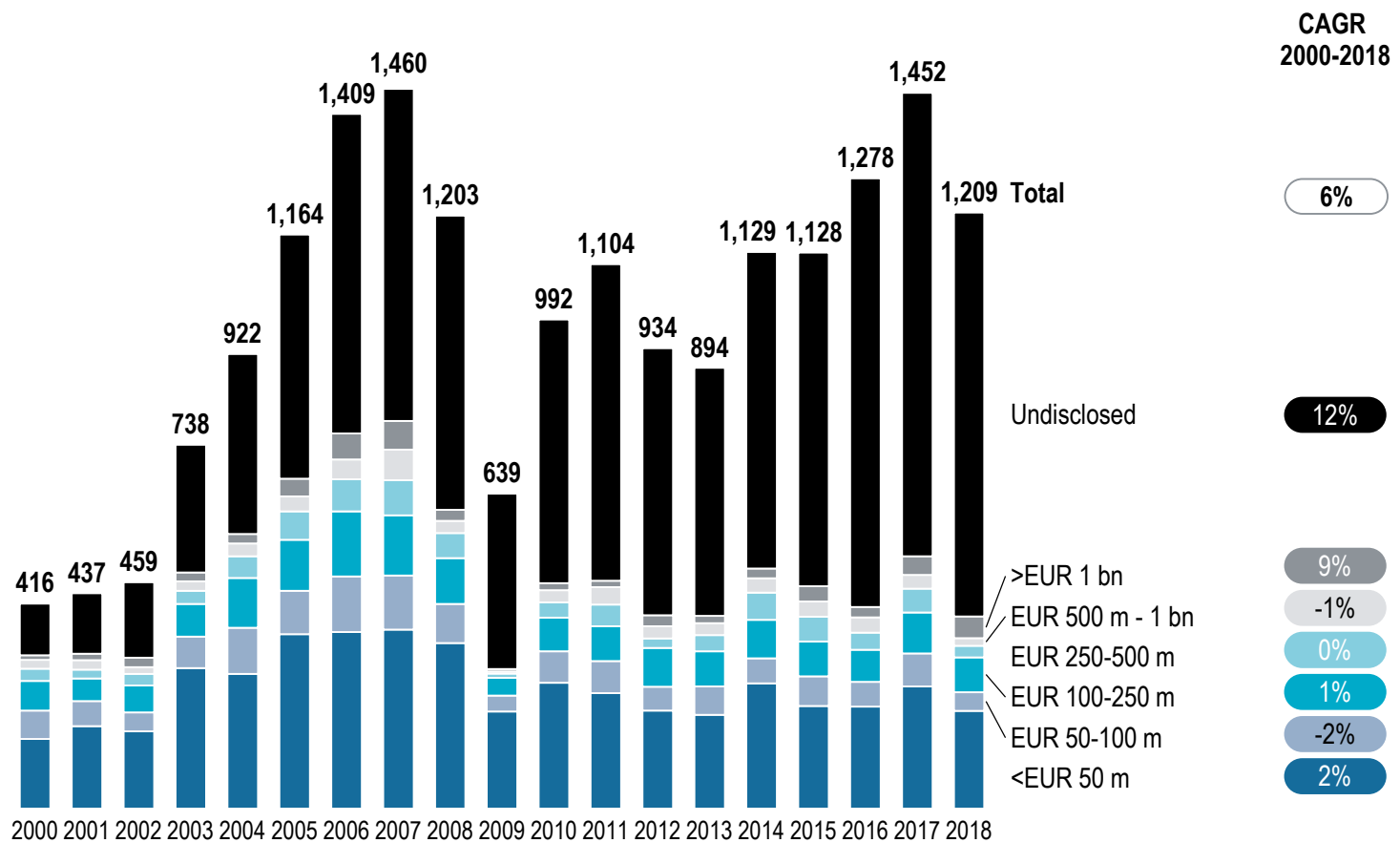
Buyout transaction volume by industry, 2000-2018 [# of deals]



- > In 2018, consumer goods & retail contributed the most volume with c.270 deals, followed by capital goods & engineering (c.240 deals) and TMT (c.210 deals)
- > In 2017, the majority of buyout transactions were in consumer goods & retail (c.300 deals), TMT (c.300 deals) and capital goods & engineering (c.260 deals)
- > The highest CAGR over 2000-2018 was c.10% in the pharma & healthcare industry

More than half of all deal values in 2018 were not disclosed – Most disclosed deals fell into the value category below EUR 50 m

Buyout transaction volume by value category, 2000-2018 [# of deals]



- > The majority of buyout transaction values in Europe in 2018 are undisclosed, a major change since 2000 when less than 25% of deal values were undisclosed
- > Most disclosed buyout transactions had a value of under EUR 50 m (c.200 deals)
- > Deals valued over EUR 1 bn have seen the highest CAGR of 9%

F. Your contacts at Roland Berger



Your contacts at Roland Berger



**Christof
Huth**

Partner
Investor Support

Roland Berger GmbH
Sederanger 1
80538 Munich

christof.huth@
rolandberger.com
+49 160 744 8291



**Sven
Kleindienst**

Partner
Investor Support

Roland Berger GmbH
Sederanger 1
80538 Munich

sven.kleindienst@
rolandberger.com
+49 160 744 8539



**Dr. Thorsten
Groth**

Principal
Investor Support

Roland Berger GmbH
Sederanger 1
80538 Munich

thorsten.groth@
rolandberger.com
+49 160 744 8325



Marc Hesse

Principal
Investor Support

Roland Berger GmbH
Sederanger 1
80538 Munich

marc.hesse@
rolandberger.com
+49 160 744 8340



**Dr. Sascha
Haghani**

CEO DACH
Head of Restructuring
& Corporate Finance

Roland Berger GmbH
Operturm,
Bockenheimer
Landstraße 2-8
60306 Frankfurt

sascha.haghani@
rolandberger.com
+49 160 744 3594



**Dr. Gerd
Sievers**

Partner
Restructuring
& Corporate Finance

Roland Berger GmbH
Sederanger 1
80538 Munich

gerd.sievers@
rolandberger.com
+49 160 744 2308

Your contacts at Roland Berger



**Olivier de
Panafieu**

Partner

Roland Berger
62-64 rue de Lisbonne
75008 Paris

olivier.depanafieu@
rolandberger.com
+33 (1) 536 70-908



**Jan
Beckeman**

Partner

Roland Berger
Sveavägen 13-15
111 57 Stockholm

jan.beckeman@
rolandberger.com
+46 8 410438 - 91



**Anand
Raghavan**

Partner

Roland Berger
55 Baker Street,
6th Floor
W1U 8EW London

anand.raghavan@
rolandberger.com
+44 20 3075-1132



**David van
der Does**

Partner

Roland Berger
WTC
Strawinskylaan 581
1077 XX Amsterdam

david.vanderdoes@
rolandberger.com
+31 20 7960-603



**Gregoire
Tondreau**

Partner

Roland Berger
100, Boulevard du
Souverain
1170 Brussels

gregoire.tondreau@
rolandberger.com
+32 478 979725



**Andrea
Marinoni**

Partner

Roland Berger
Via Melchiorre Gioia 8
20124 Milan

andrea.marinoni@
rolandberger.com
+39 (02) 29501-296

Roland
Berger

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