

European Private Equity Outlook 2020



Roland
Berger



The European Private Equity Outlook 2020 is the 11th consecutive publication in a series launched by Roland Berger in 2010.

This year's main messages include:

→ The outlook for M&A transactions with PE involvement is broadly stable compared to last year's record level

→ Yet the outlook for the economic climate is considered less favorable, as 42% of PE professionals anticipate an economic weakening in 2020 – 70% are already taking measures to prepare for challenging times for example by investing in resilient businesses

→ In line with this, the generally more resilient technology, media & software and healthcare industries are expected to be the most popular industries for PE in 2020

→ PE experts view prolongation of existing funds and fundraising as the main activities for PE investors this year

→ 94% of surveyed PE experts consider the valuation multiples currently being paid to be overvalued; while multiples in technology, media & software are expected to see further growth, declining valuation multiples are anticipated in automotive and building & construction

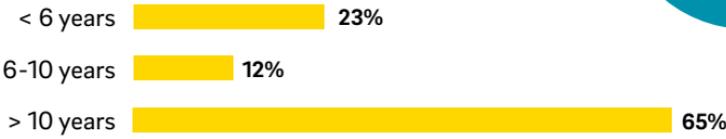
→ In terms of value creation measures, environmental sustainability demonstrated the highest growth in importance and is now one of the 5 most important measures

Exclusive survey of private equity professionals across Europe

The results mirror what experts in the market anticipate for different countries and regions and what factors they consider to be relevant for the private equity business in 2020.

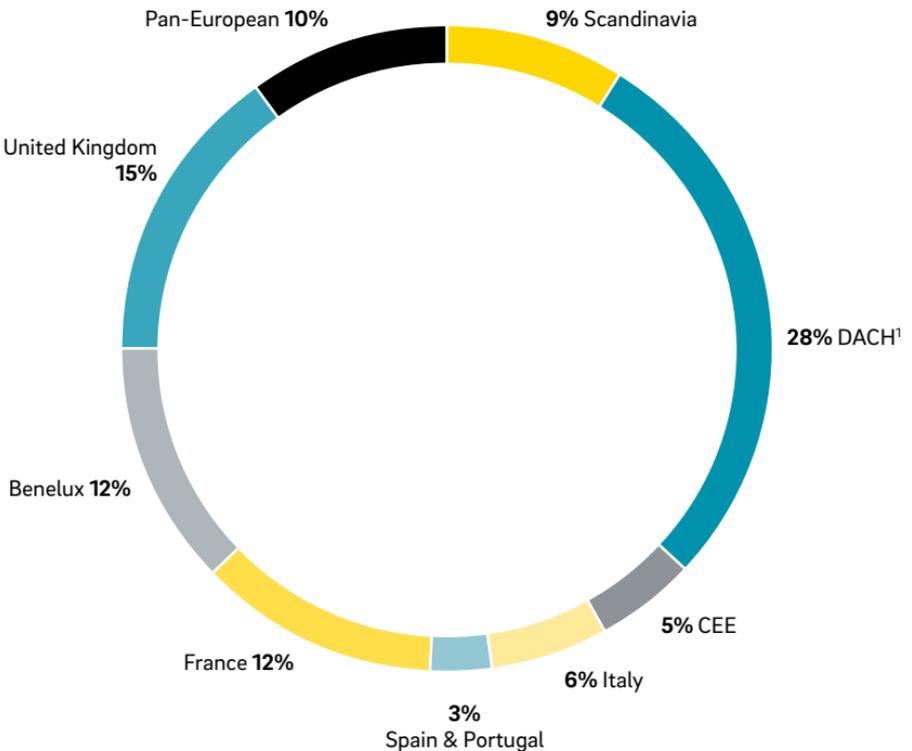
PE experience

[% of responses]



Participants

[% of responses]



Source: Roland Berger

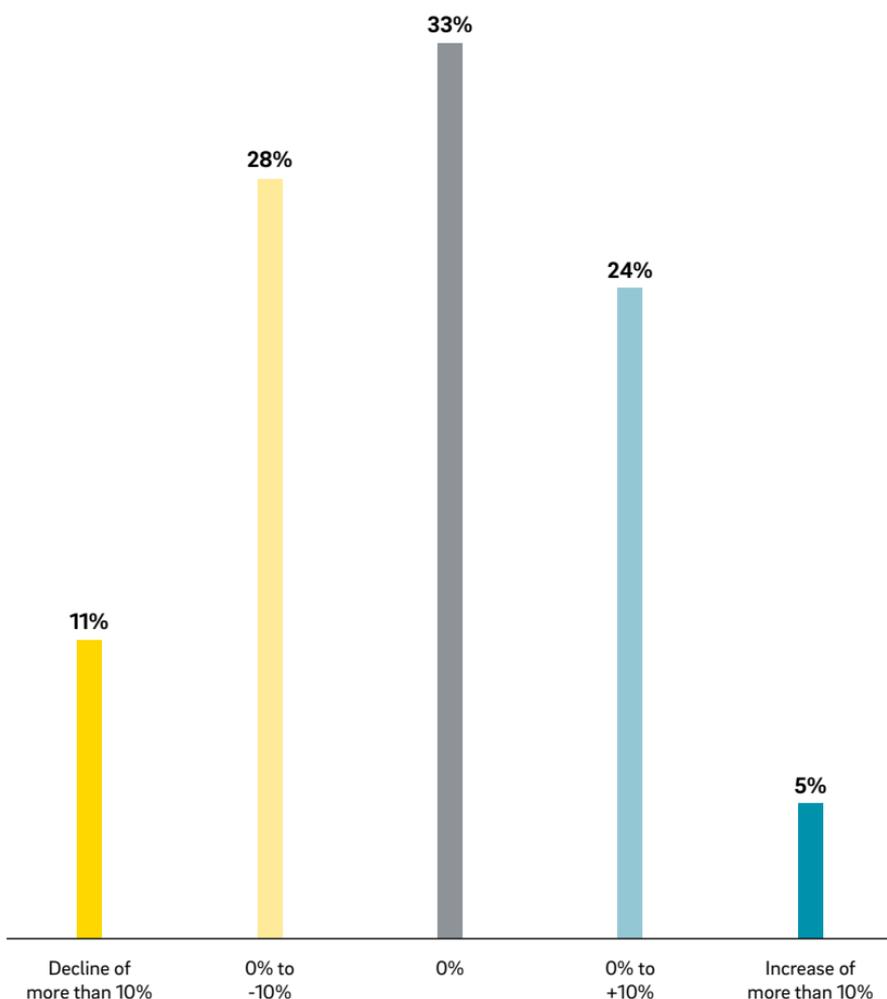
1) Germany, Austria, Switzerland

Outlook for M&A transactions has stabilized

About a third of respondents expect the number of completed M&A transactions with PE involvement not to change in 2020 compared to last year's record level. In 2019 only 21% of surveyed PE professionals expected no change. 29% of experts think there will be more M&A transactions with PE involvement in 2020, which resembles last year's result (31%). A decrease is expected by 39% of respondents, compared to 45% in the prior year.

What change do you expect to see in 2020 regarding the number of completed M&A transactions with PE involvement?

M&A transactions with PE involvement – 2020 vs. 2019 [%]



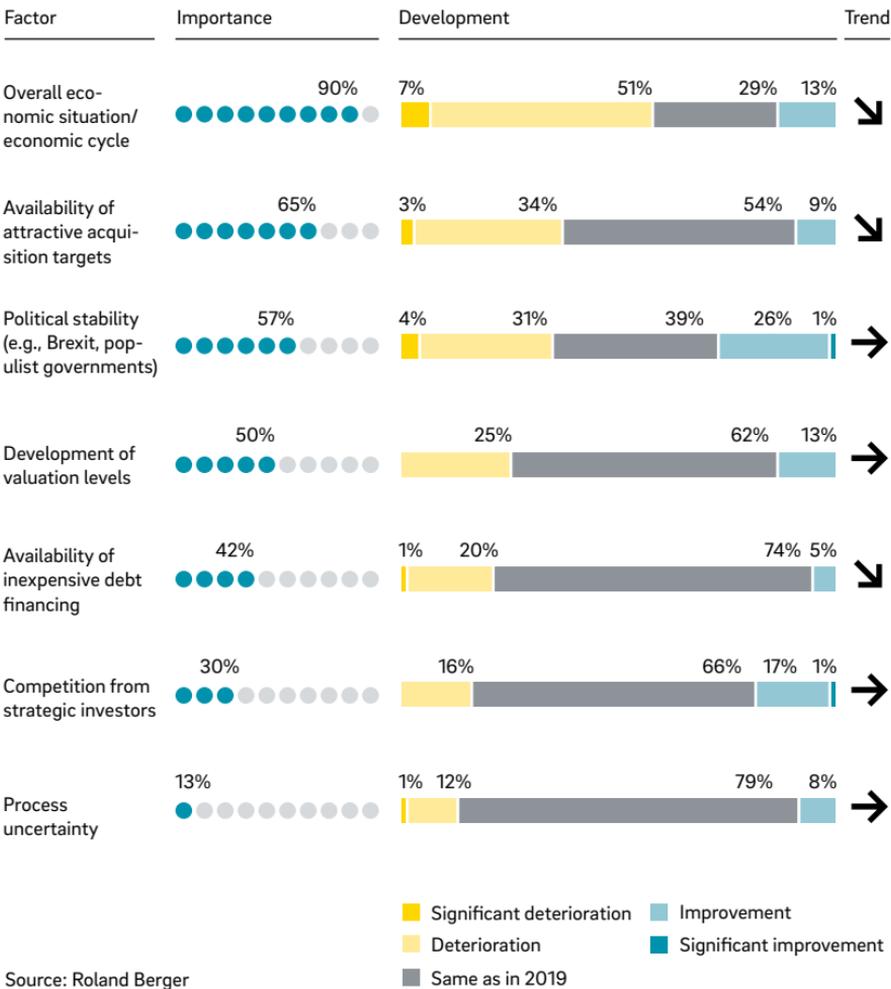
Source: Roland Berger

Overall economy strongly impacts M&A business

Most PE experts see the overall economic situation as the most important factor affecting the number of European M&A transactions with private equity involvement in 2020. 58% of PE professionals expect the economic climate to deteriorate this year. The availability of attractive acquisition targets is rated as the second most important factor impacting European M&A business. After expecting a strong decline in political stability in the last year, PE experts now assume that the political situation will remain on a par with 2019 levels.

What are the most influential factors affecting the number of European M&A transactions with private equity involvement in 2020?

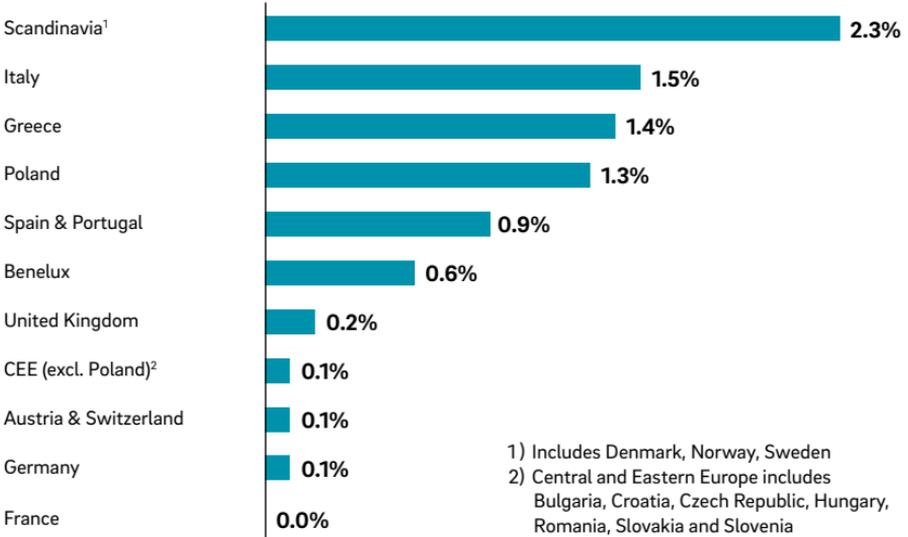
Overview of relevant factors for M&A business in Europe – 2020 vs. 2019 [%]



Tech sector to see most M&A transactions

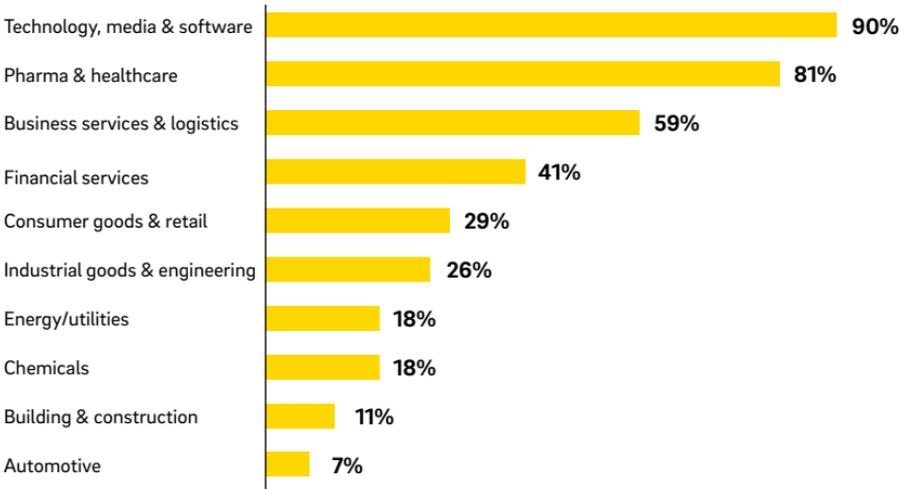
What change in PE M&A activities do you expect to see in the following countries in 2020?

Change in PE M&A activity in major countries – 2020 vs. 2019 [%]



In which industries do you expect to see the most M&A transactions with PE involvement in Europe in 2020?

Percentage of respondents [%]



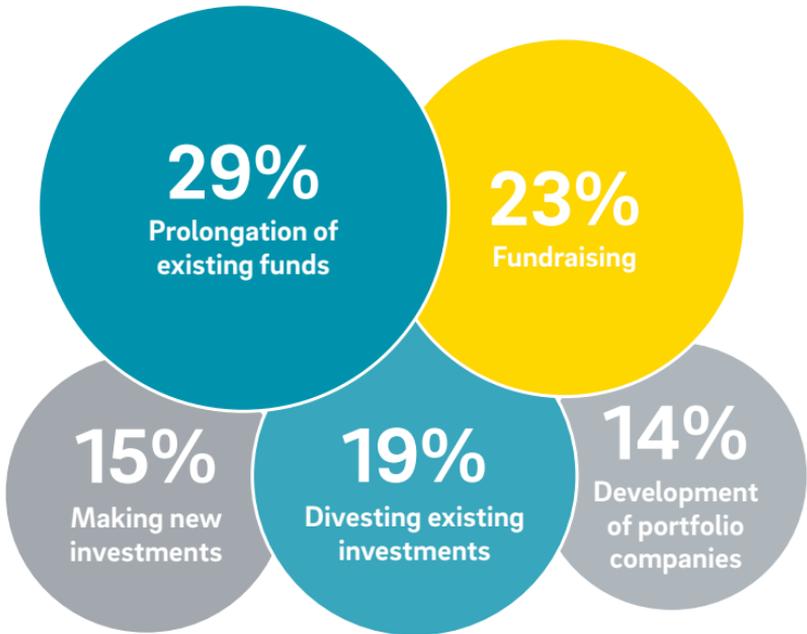
Source: Roland Berger

Prolongation of existing funds as focus of 2020 PE activity

Prolongation of existing funds and fundraising are the new top priorities for financial investors in 2020. Both increased by over 10 percentage points compared to 2019.

On which phase of the PE value chain will you focus most in 2020?

Focus of PE investors on lifecycle stages – 2020 [%]



What degree of competitiveness do you expect in fundraising in 2020?

Expected level of competition for fundraising – 2020 vs. 2019 [%]

56%



I don't expect any change in the competitive situation

39%



I expect the competitive situation to get more intense

5%



I expect the competitive situation to ease up

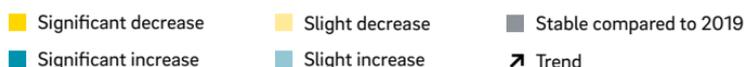
Source: Roland Berger

Sales to PE or strategic investors as most promising exit channels

In 2020, the overall trend across all exit channels is more conservative than in the previous year. Selling to PE investors and strategic investors is considered most promising, with 42% and 28% expecting an increase here. 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 2020.

How do you expect the individual exit channels to change in 2020?

Change in exit channels – 2020 vs. 2019 [%]



M&A with PE investors



M&A with strategic investors



Triple track (e.g., IPO, M&A process and refinancing)



Dual track (e.g., IPO and M&A process)



IPO



Source: Roland Berger

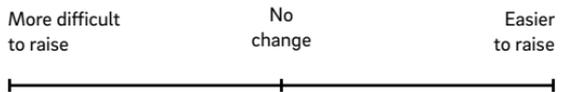
Availability of external debt financing to remain stable

Overall, the financing situation is expected to remain stable in comparison to last year. Leveraged buyouts are expected to be slightly easier to raise funds for. However, refinancing and recapitalization are expected to be slightly more difficult to fund in 2020.

Compared to 2019, how easily available will external debt financing be in 2020?

Availability of external financing – 2020 vs. 2019

- Current year
- Last year



Leveraged buyouts
i.e., new transactions



Growth financing
i.e., working capital, lines for add-on acquisitions or capex



Refinancing
i.e., improvement of terms



Recapitalization
i.e., debt substituting equity, dividend to sponsor

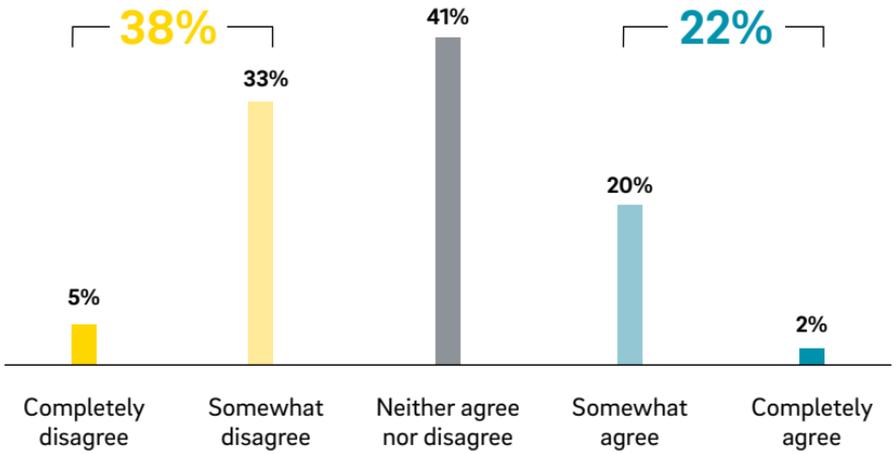


Source: Roland Berger

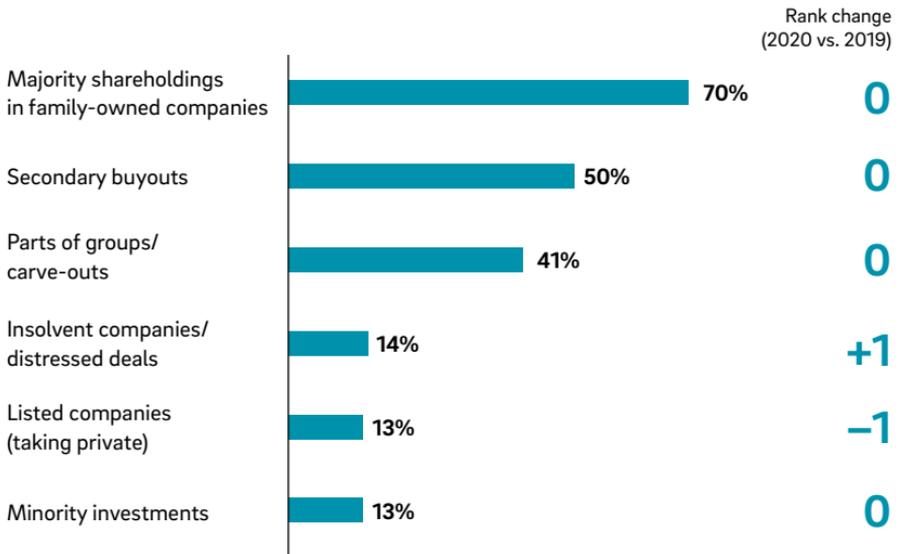
Attractiveness of available targets similar to 2019

Overall, targets available on the market in 2020 will be more attractive than in 2019. To what extent do you agree?

Expected development of investment opportunities – 2020 vs. 2019 [%]



What will the source of the most attractive targets be in 2020?



Source: Roland Berger

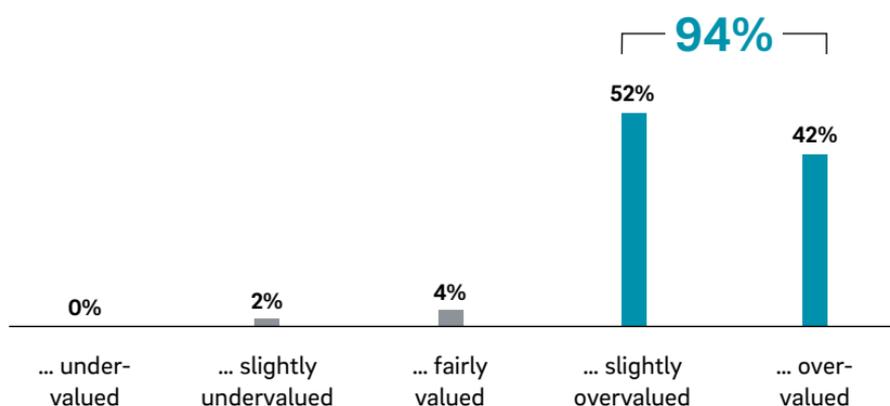
Valuation multiples considered to be overvalued

Valuation multiples paid during M&A transactions with PE involvement are described as overvalued by 94% of the respondents (up from 91% in 2019). Reasons include the low interest rate environment, continued favorable credit markets and lending environment in combination with limited investment opportunities, and increased competition for assets.

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

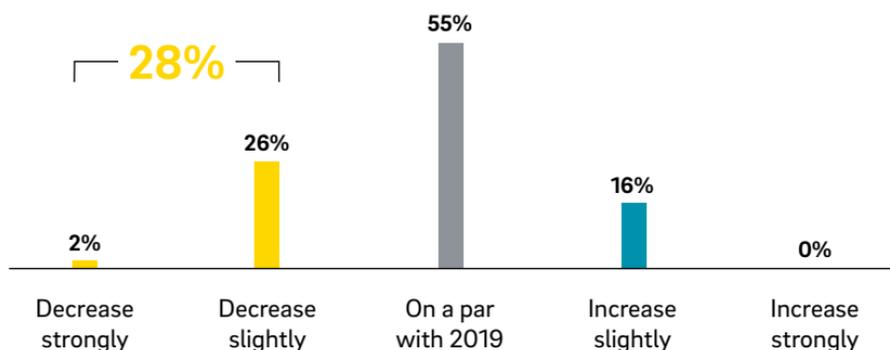
Assets are ...

Current status of valuation multiples [%]



How do you expect valuation multiples paid in transactions with PE involvement to develop in 2020?

Expected development of valuation multiples – 2020 [%]

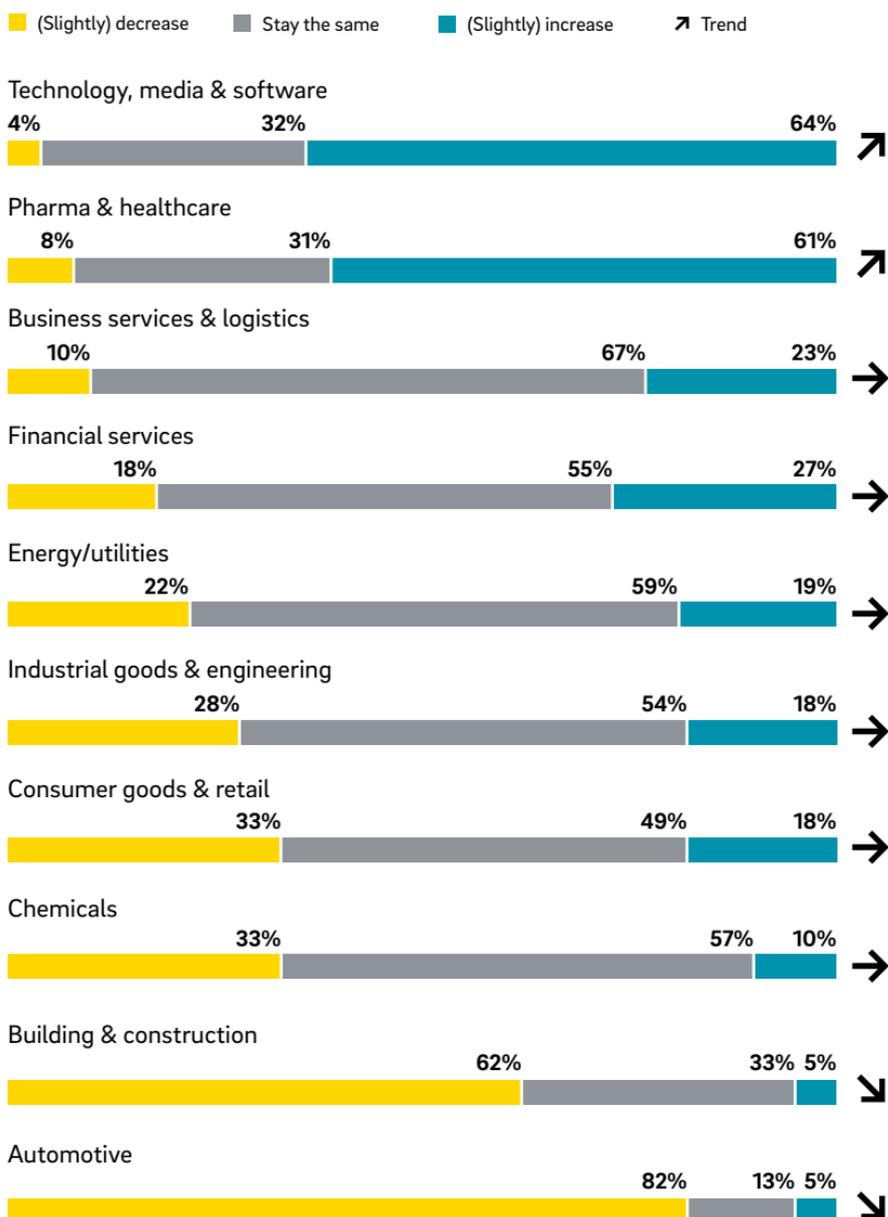


Source: Roland Berger

Tech sector expected to see further increase of valuations

Valuation multiples are expected to continue increasing in the tech sector and pharma & healthcare. However, experts anticipate further valuation declines in construction and the automotive industry.

How do you expect valuation multiples paid in transactions with PE involvement to develop by industry in 2020?



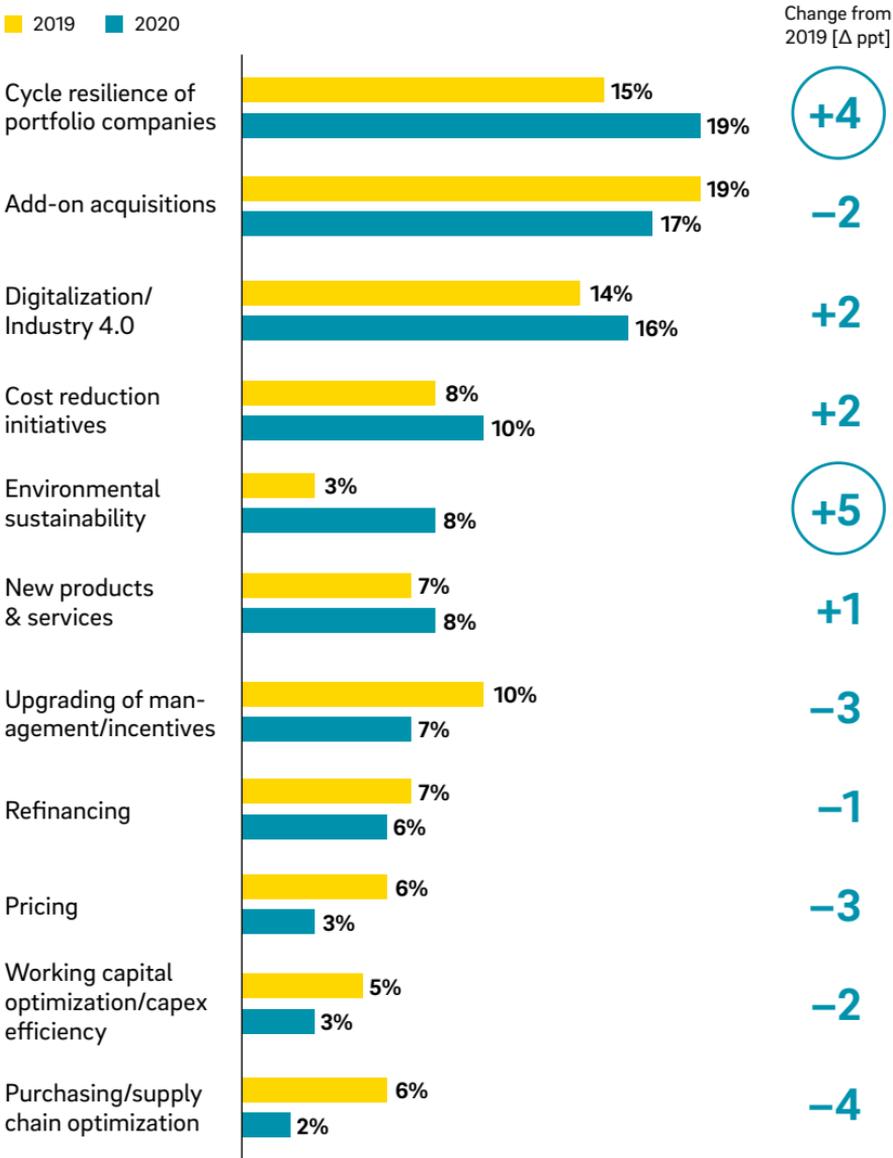
Source: Roland Berger

Resilience and environmental sustainability key trends in 2020

Respondents consider cycle resilience of portfolio companies to be the most important portfolio value creation measure in 2020. Environmental sustainability saw the largest gain of all measures, with an increase of 5 percentage points compared to 2019.

Which of the following portfolio value creation measures do you consider most important in 2020; which measures have been most important in 2019?

Importance of portfolio value creation measures – 2020 vs. 2019 [%]

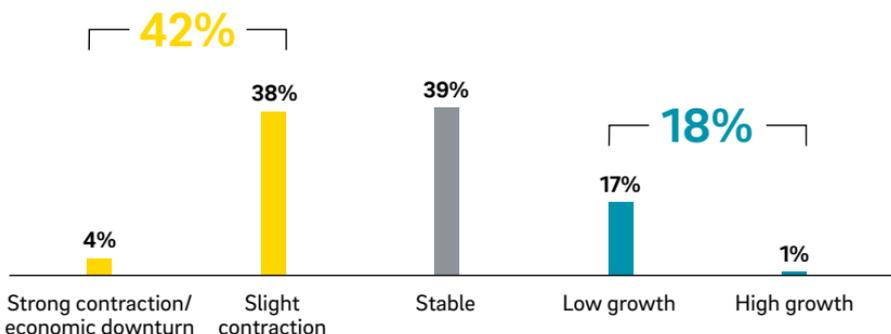


Source: Roland Berger

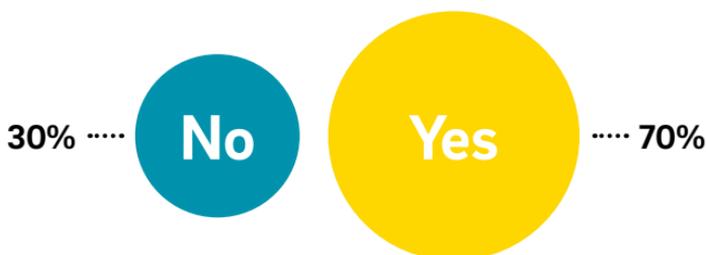
Outlook for economic climate 2020 stable to slightly declining

What is your outlook for the economic climate in 2020?

Outlook for the economic climate – 2020 [%]

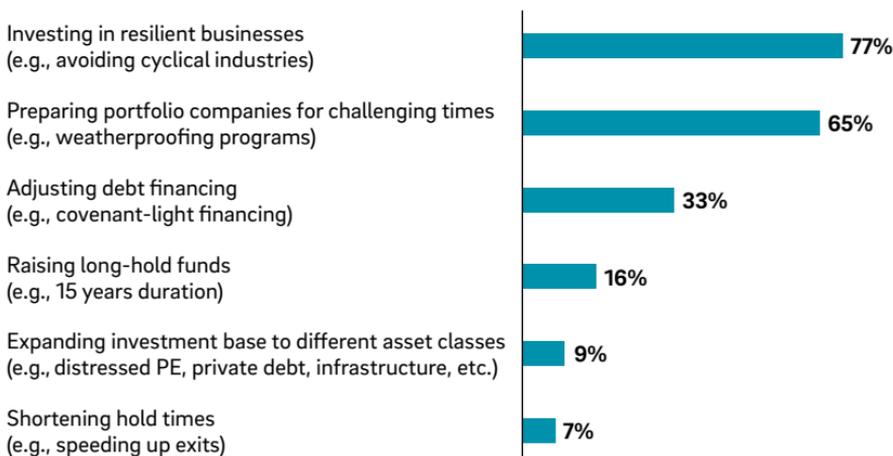


Are you currently preparing for a potential economic downturn?



Which measures do you consider to be most effective against a potential downturn?

Perceived effectiveness of measures against a potential downturn – 2020 [%]



Source: Roland Berger

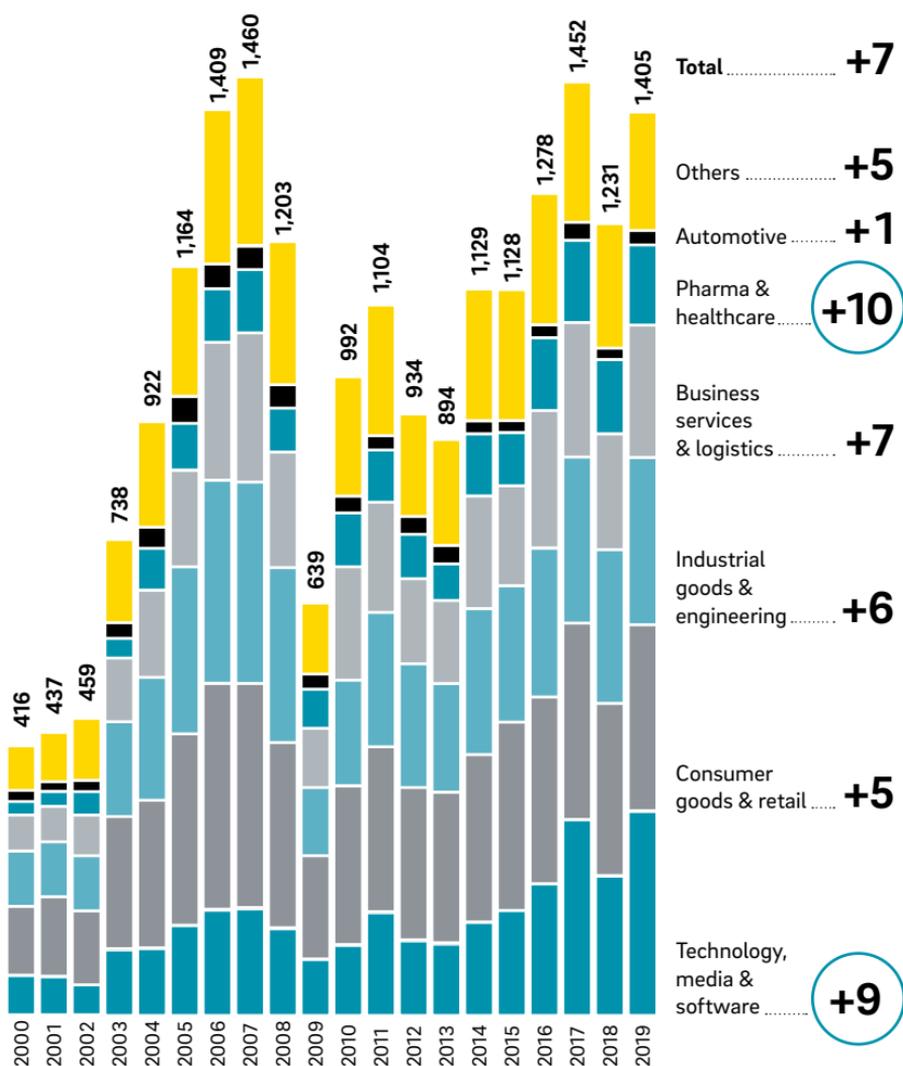
Technology, media & software saw the largest transaction volumes in 2019

Technology, media & software (c. 300 deals), consumer goods & retail (c. 290 deals) and industrial goods & engineering (c. 260 deals) were the main contributors to deal flow in 2019. The strongest growth was registered in pharma & healthcare (+10% CAGR 2000-2019), followed by technology, media & software, which grew at a CAGR of c. 9%.

Buyout transaction volume by industry

2000-2019 [# of deals]

CAGR
2000-2019



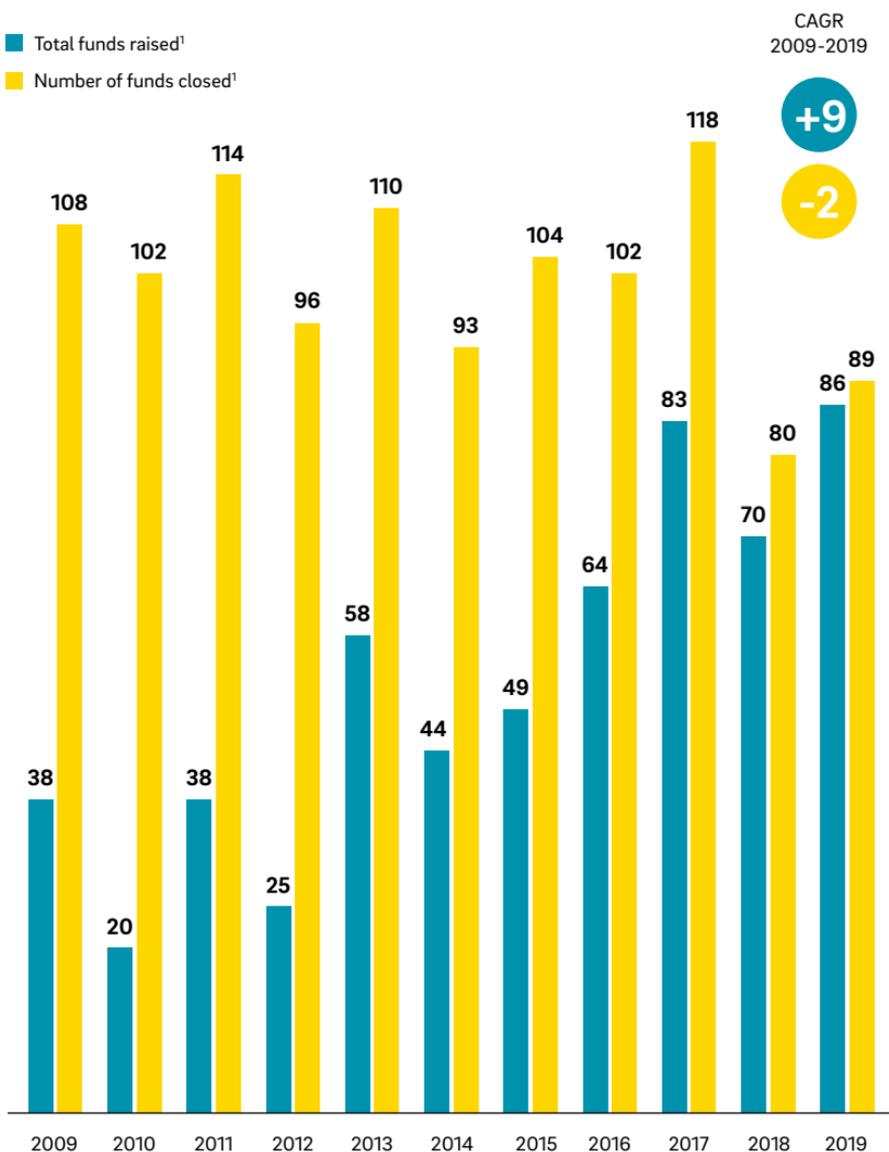
Source: Mergermarket (Feb 2020); Roland Berger

European PE investors raised record levels of capital in 2019

Total fundraising in 2019 reached c. EUR 86 bn in Europe. Geographically, three-quarters of total capital was raised in UK & Ireland as well as France & Benelux. As in previous years, the majority of raised capital was driven by buyout funds, which raised EUR 74 bn across 61 funds in 2019.

Total funds raised by European private equity investors

2009-2019 [EUR bn; # of funds]



Source: Pitchbook; Roland Berger

1) Only closed funds where the entity is located in Europe are included in the database

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