



European Private Equity survey
– Full report

November 2021

Agenda

- 1 Background and executive summary
- 2 Fundraising, support and investment from LPs to GPs
- 3 Key investment criteria in Private Equity
- 4 Private Equity transaction market
- 5 Private Equity operations focus and portfolio management

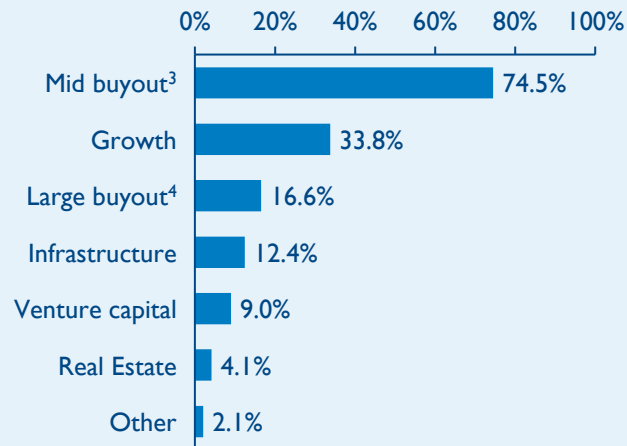
The Pan-European survey provides insights on the state of the current and future private equity and venture capital markets in Europe

- **Invest Europe in collaboration with Arthur D. Little** conducted the second consecutive ‘**Pan-European Private Equity Survey**’
 - The survey assesses the current and future state of private equity and venture capital, and examines key factors as the **impact of COVID-19** and the **significance of ESG**
- The **insights of 245 GPs and LPs** are captured in the survey
- A wide range of topics are covered, including **GP / LP future perspectives on:**
 - Fundraising
 - Portfolio management
 - Investment focus
 - Investment opportunities
 - Evolution of private equity transactions market
- The survey offers a comprehensive view on GPs’ and LPs’ evolving **experiences of the COVID-19 pandemic**, highlighting the changes over time

The survey was conducted June – September 2021 and involved 245 participants¹, out of which 145 were GPs and 100 were LPs

GP #145

Most important investment stage of firm²

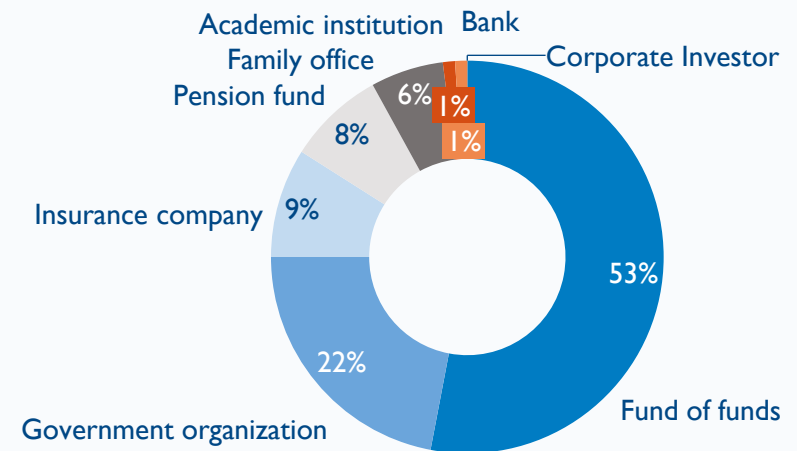


Average number of portfolio companies

25

LP #100

Type of investor



Share of European assets managed by private equity

61.9%

Source: Arthur D. Little, Invest Europe

Note: 1) Not all 244 respondents completed the surveys, the completion rate for GPs is 81% and the completion rate for LPs is 85%. Consequently, the number of GPs / LPs answering respective question differs throughout the surveys, 2) Multiple choices possible, 3) Mid buyout <€150M equity per deal, 4) Large buyout >€150M equity per deal

GPs and LPs exhibit a slightly more positive outlook on the future, with increased activity and opportunities in the Private Equity market

Executive summary



Improved fundraising

- GPs and LPs both believe in more capital to Private Equity
- GPs expect fund raising opportunities to be stronger



Stronger belief in PE market

- Auctions and IPOs will be more common going forward...
- ...fuelled by higher prices



Rise of ESG and impact funds

- ESG concerns are becoming a must-have
- GPs and LPs alike highlight importance of sustainability in several of the survey questions



Investment opportunities

- GPs have gained more confidence in finding investment opportunities, especially in certain industries
- Also driven by stronger push for portfolio divestments



Impact of Covid-19

- Covid-19 had not a significant negative impact but a more balanced and spread
- GPs express both a negative and a neutral / positive impact of Covid-19



Momentum in transformation

- Covid-19 has sped up transformation of portfolio companies
- Digitalization and ESG will be key themes, as also indicated by its importance in CDDs going forward

Agenda

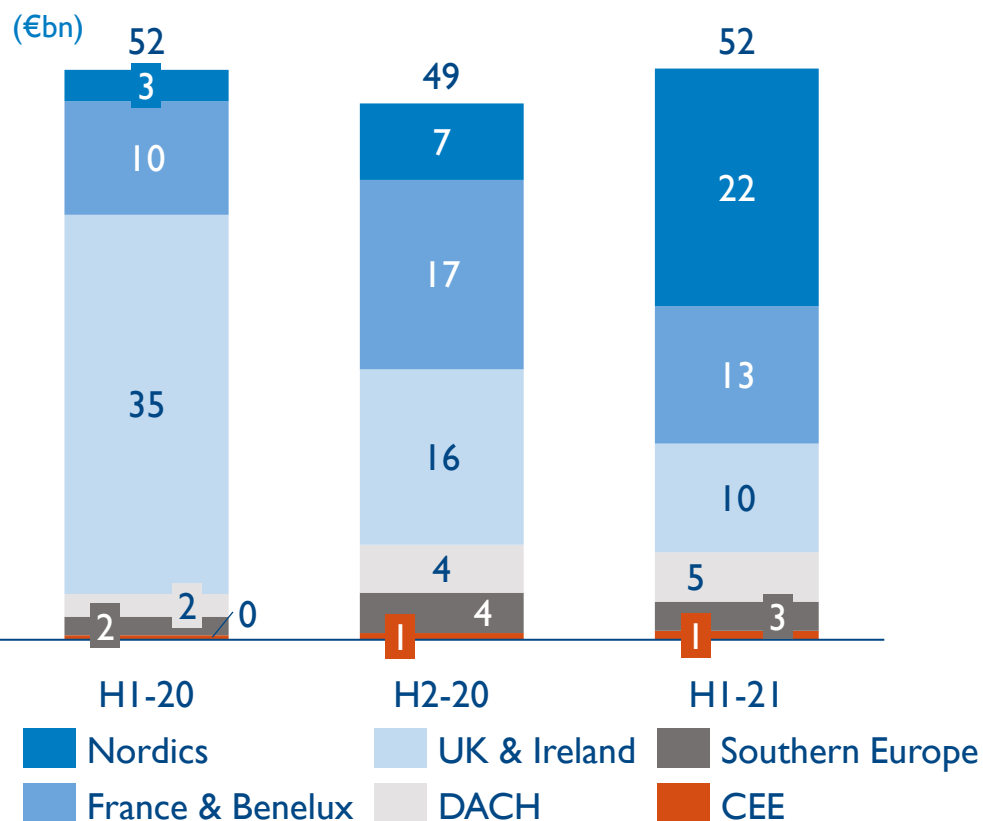
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Strong rebound in fundraising to pre-covid levels already in H1-21 - “money never sleeps”

Funds raised by European Private Equity and Venture Capital funds

Comments

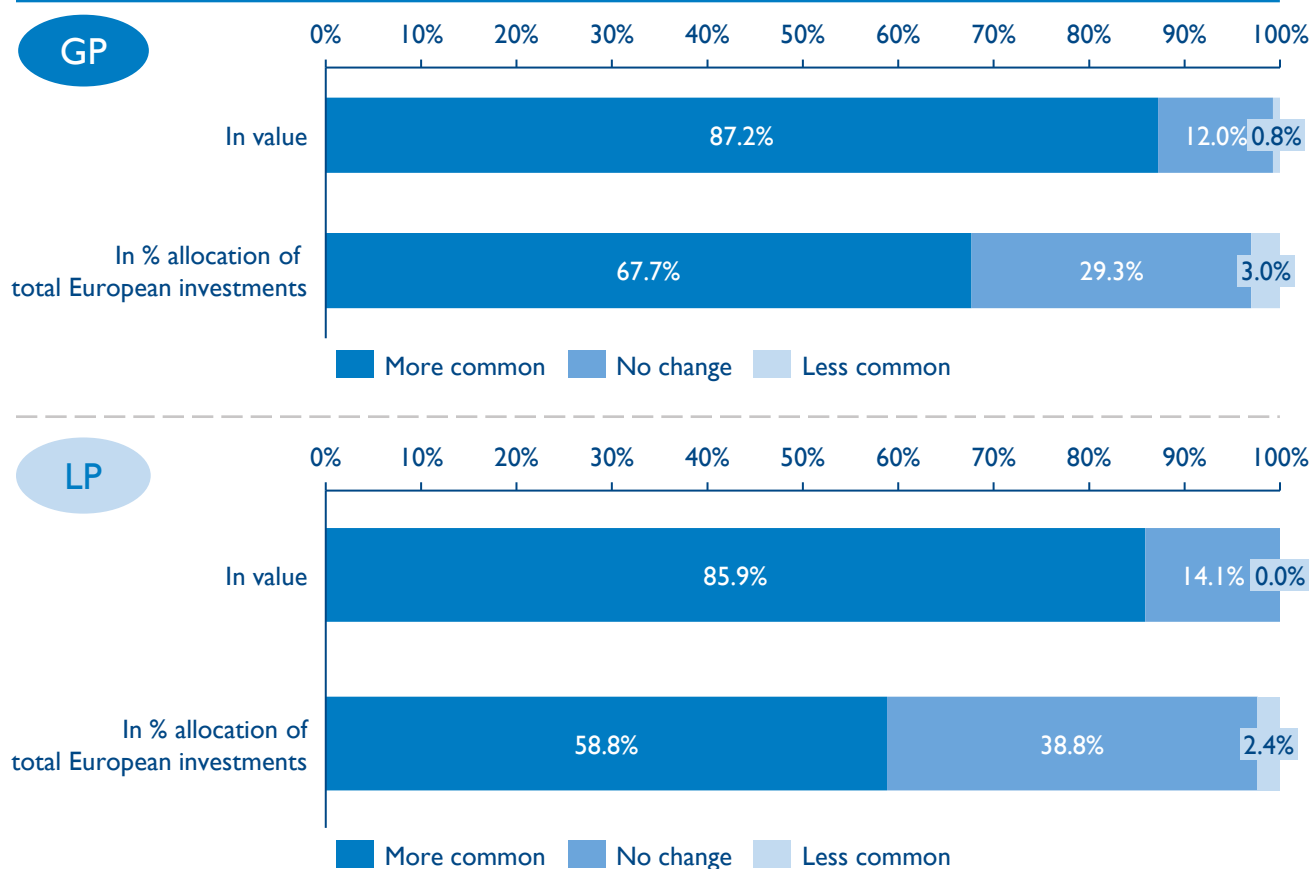


- Total value of H1 2021 fundraising was at the same level as the H1-20 period last year
- This year saw 365 funds completing a fundraising during the six months, the highest number ever recorded for H1 and 5% above H1 2020
- Nordics accounted for a large percentage of total amount raised during the six-month period: €21.8bn (42% of total)

Source: Investing in Europe: Private Equity Activity H1 2021, Invest Europe

GPs and LPs alike believe that capital allocations from LPs to the Private Equity asset class will become more common over the next 3 years

Future capital allocations from LPs to Private Equity asset class over the next 3 years, (Europe, 2021)



Comments

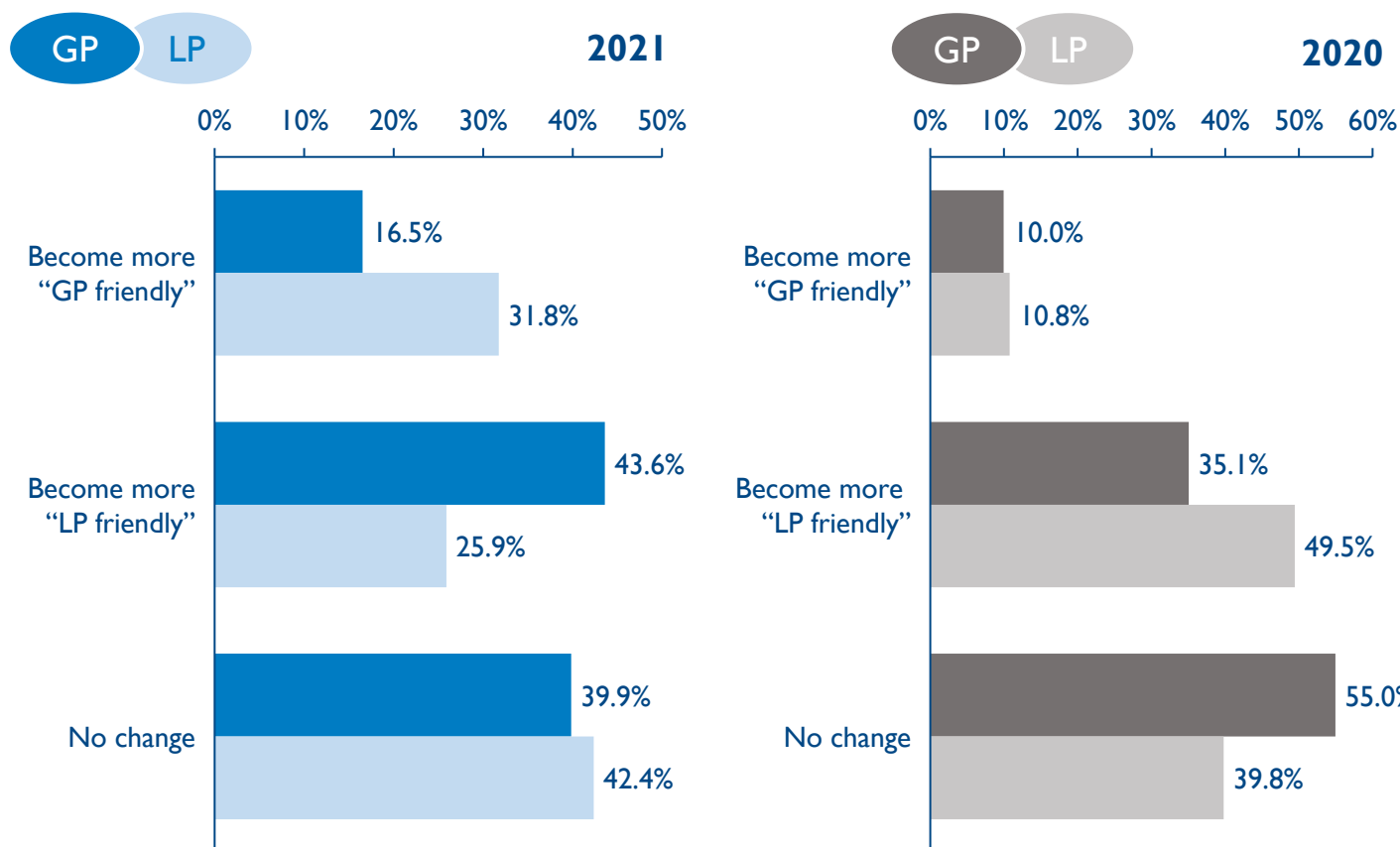
- GPs and LPs answer that future capital allocations from LPs to PE asset class will become more common in the coming 3 years
 - That is, both in value and in % allocation of total European investments
 - Both GPs and LPs consider that it will be more common in terms of value (i.e., 87.2% and 85.9% respectively)
- Only a handful of GPs think that capital allocations will become less common

Source: Arthur D. Little, Invest Europe

Most GPs and LPs consider that there will be no change in LP agreement in the coming years, and that it will become favorable for the other party

Expected changes Limited Partnership agreement next 2 to 3 years
(Europe, 2021 & 2020)

Comments



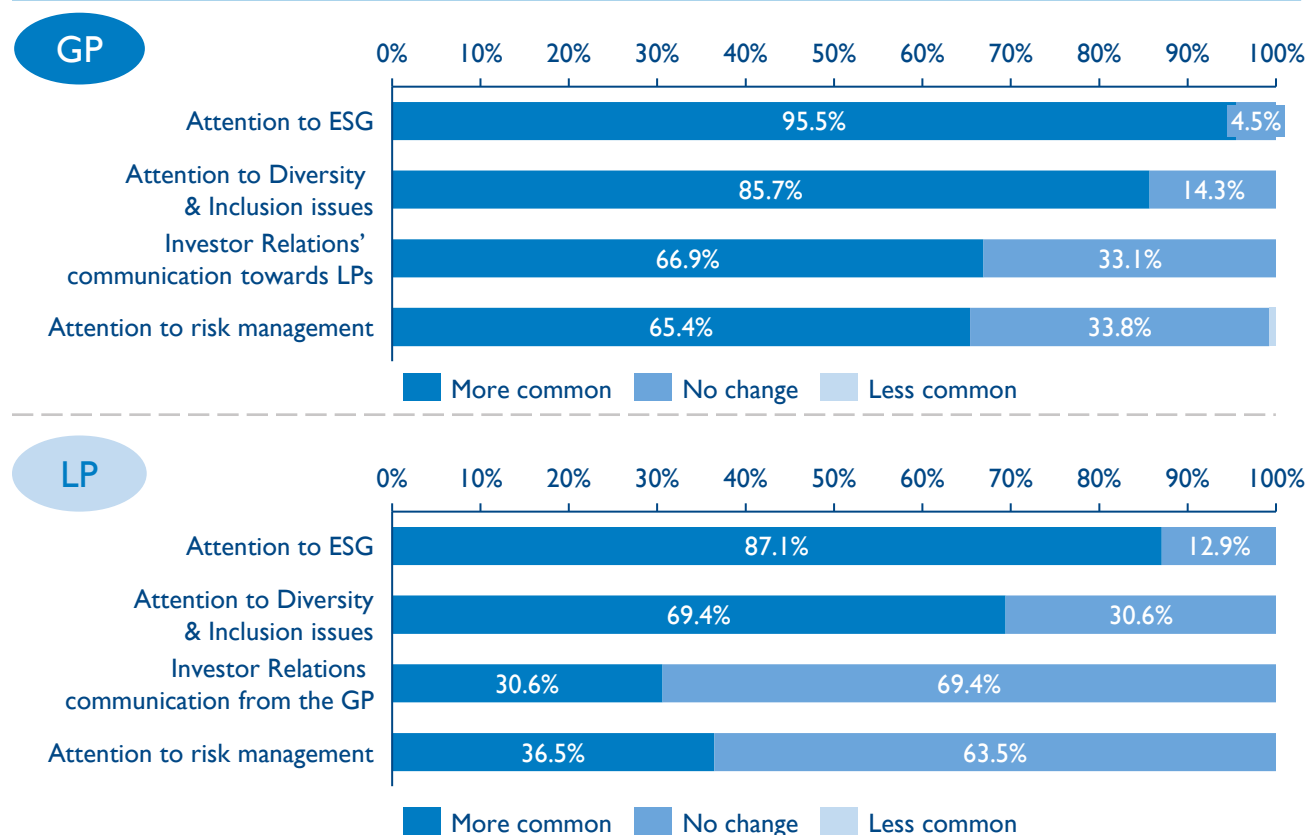
- In 2021, ~40% of GPs and LPs express that there **will be no change in Limited Partnership agreements** over the next 2 to 3 years
- GPs and LPs have a **positive view of each other** in the sense that the agreements will become more friendly for the other party in the 2021 survey
- LPs' view that it will become more "LP friendly" changed notably between 2020 and 2021

Source: Arthur D. Little, Invest Europe

GPs have a stronger belief than LPs that changes in different aspects of daily operations will become more common in the near future

Expected changes in GPs' daily operations / how LPs manage allocated capital towards PE asset class in the near future, (Europe, 2021)

Comments



- **ESG and diversity & inclusion issues** are the topics that will **receive the most attention** in the near future
 - Both GPs and LPs claim that these areas are expected to undergo most changes in daily operations
- GPs believe that **all four topic areas will see changes** in daily operations
 - Most LPs say, however, that attention to risk management and investor relations communication are likely to see no change
- **In comparison to the 2020 PE survey¹**, GPs' attention to risk management and investor relations' have barely changed
 - For LPs on the other hand, both categories have decreased by 18% and 19% respectively

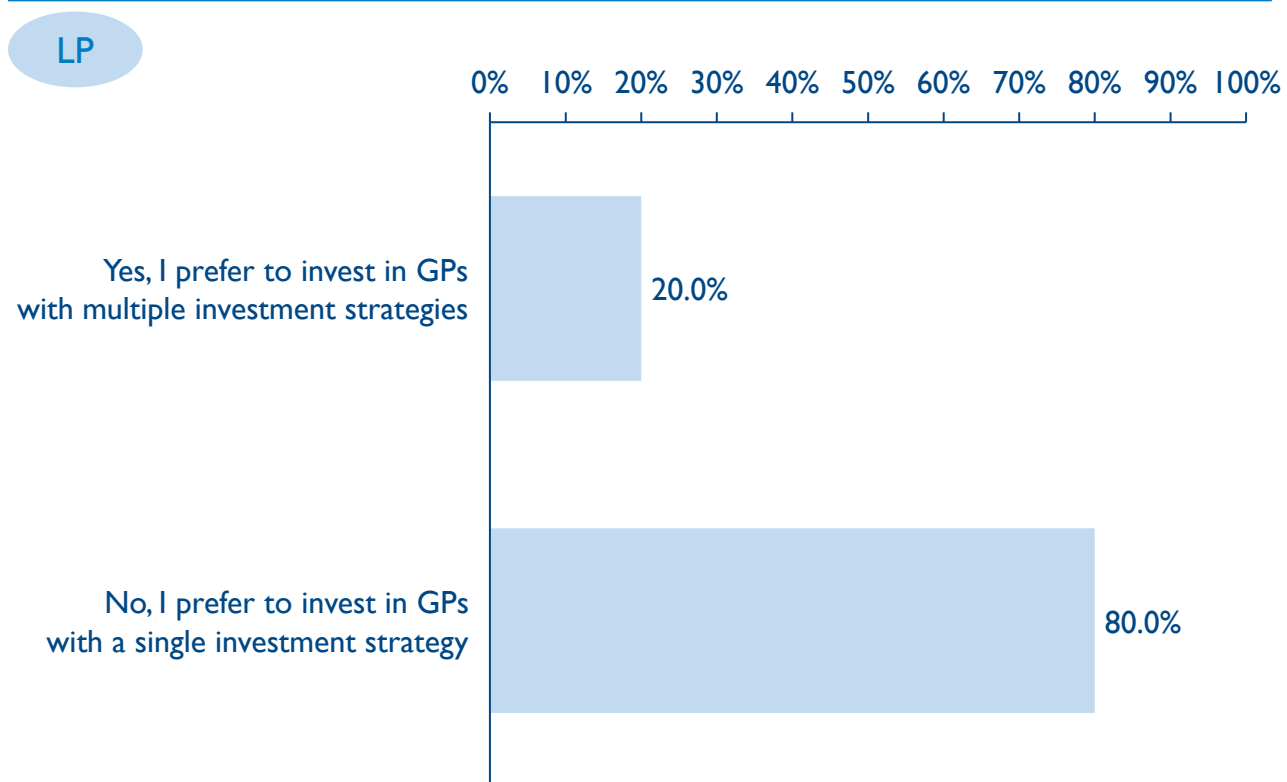
Source: Arthur D. Little, Invest Europe

Note: 1) In the PE survey of 2020, GPs and LPs were only asked questions about "Attention to risk management" and "Investor Relations communication towards LPs"

A large majority of LPs prefer to invest in GPs with single investment strategies over those that have multiple investment strategies

Investing in GPs with multiple or single investment strategy(s)
(Europe, 2021)

Comments

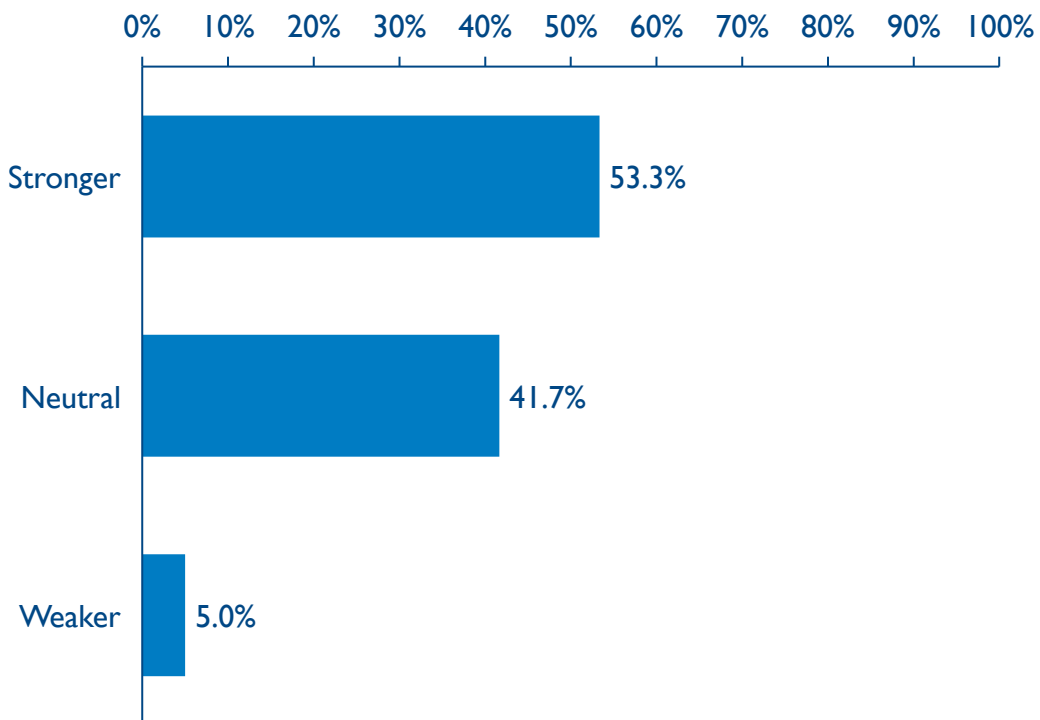


- The survey indicates that most **LPs prefer to invest** in GPs with a **single investment strategy**
 - 80% of LPs state that they prefer GPs with a single investment strategy
 - 20% of LPs prefer to invest in GPs with multiple investment strategies

GPs perceive that fundraising opportunities will become stronger in the next 12 months compared to the past 12 months

Fundraising opportunities in the next 12 months compared to the last
(Europe, 2021)

GP

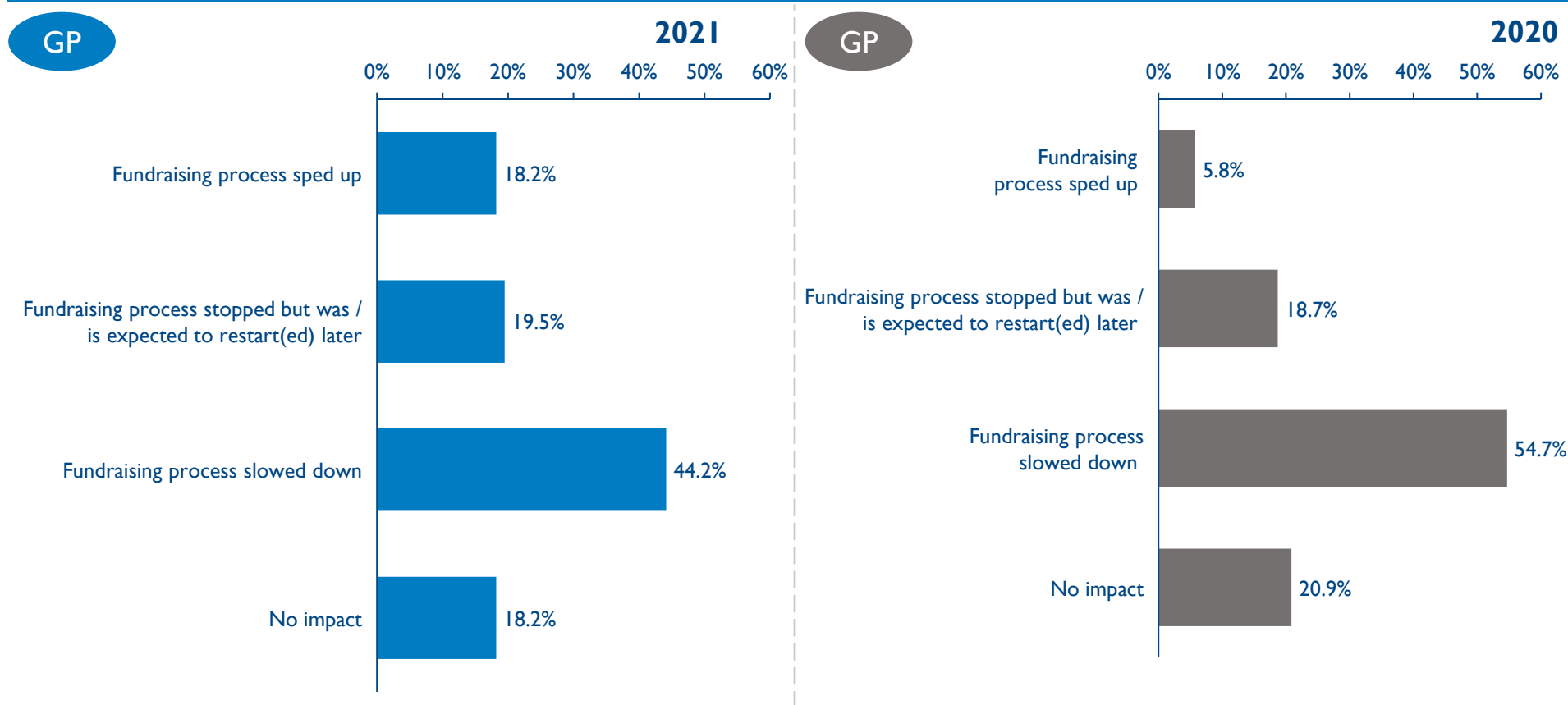


Comments

- **The market in terms of fundraising will become stronger** in the next 12 months compared to the last, according to roughly 50% of GPs
 - Most of remaining GPs believe that the market will be neutral while a minority think that it will become weaker

GPs have different opinions on the impact of Covid-19 on fundraising, fundraising has slowed down but has picked up since last year's survey

Impact of Covid-19 on fundraising process (Europe, 2021 & 2020)



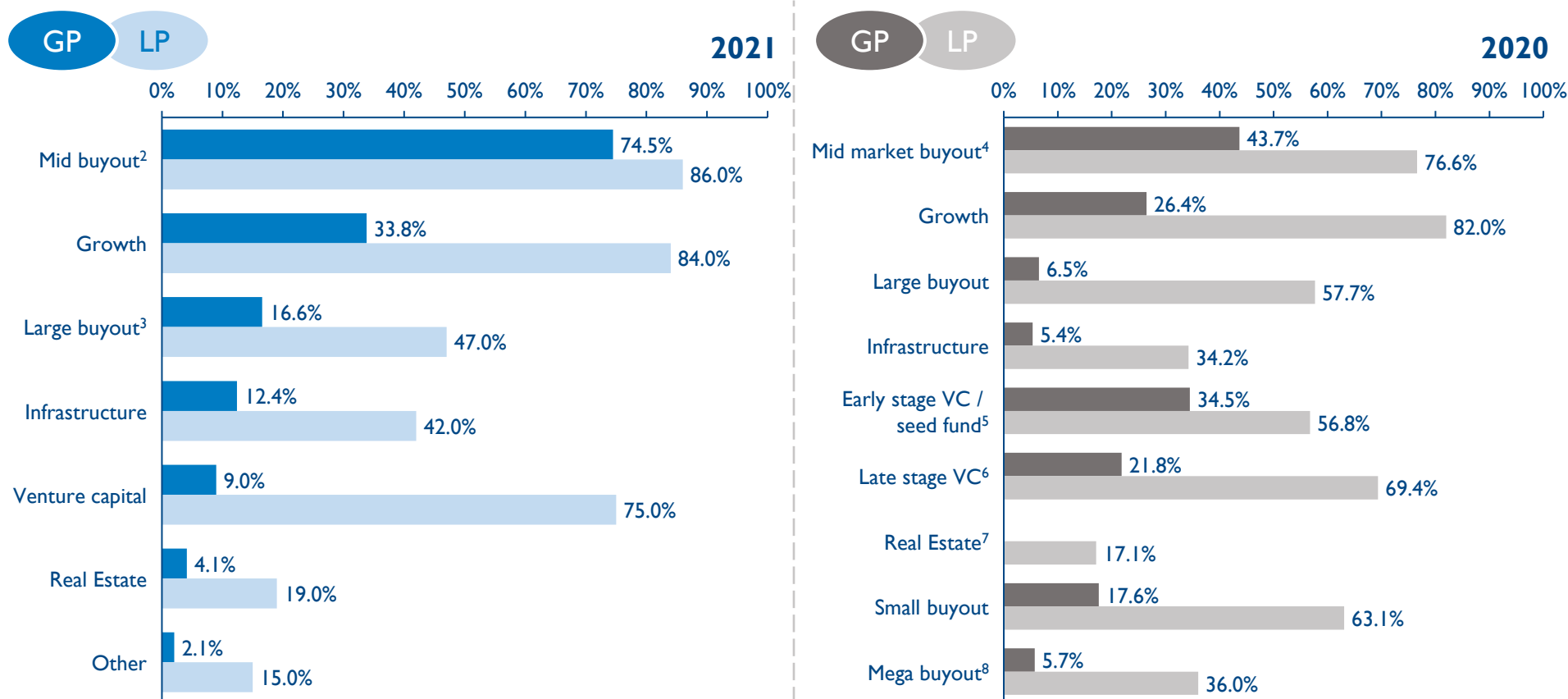
Source: Arthur D. Little, Invest Europe

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Mid buyout and Growth are the investment strategies that most GPs uphold and that LPs invest in 2I', and VC investments have decreased

Most important investment stage(s) of GPs / funds that LPs invest in¹
(Europe, 2021 & 2022)

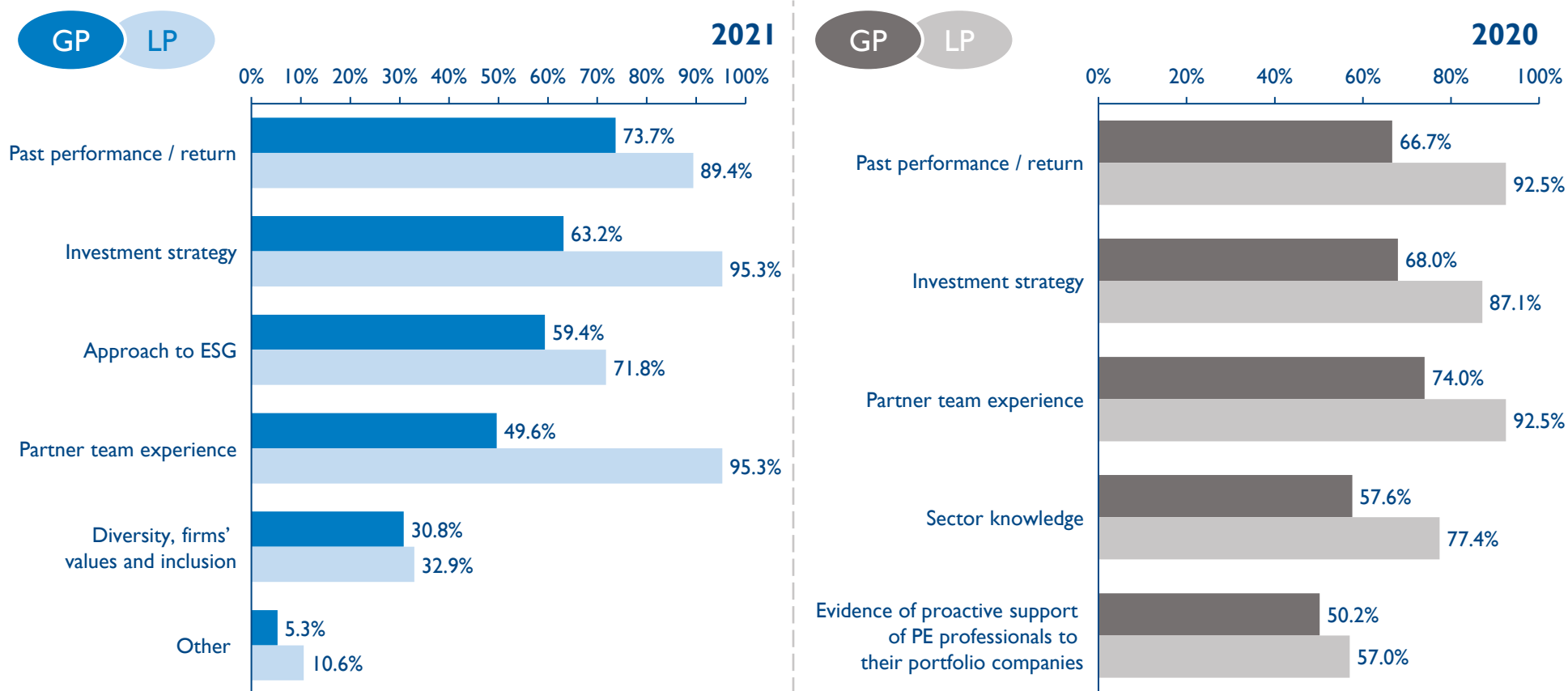


Source: Arthur D. Little, Invest Europe

Note: 1) Multiple choice answers were available, 2) Mid buyout <€150M equity per deal, 3) Large buyout >€150M equity per deal, 4) Mid market buyout 15M to 150M equity per deal, 5) Small buyout <15M equity per deal, 6) 150M to 300M equity per deal, 7) >300M equity per deal, 8) Real Estate was not provided as an option for GPs in 2020

LPs put a larger emphasis on differentiating factors than GPs, valuing Investment strategy and Partner team experience much higher than GPs

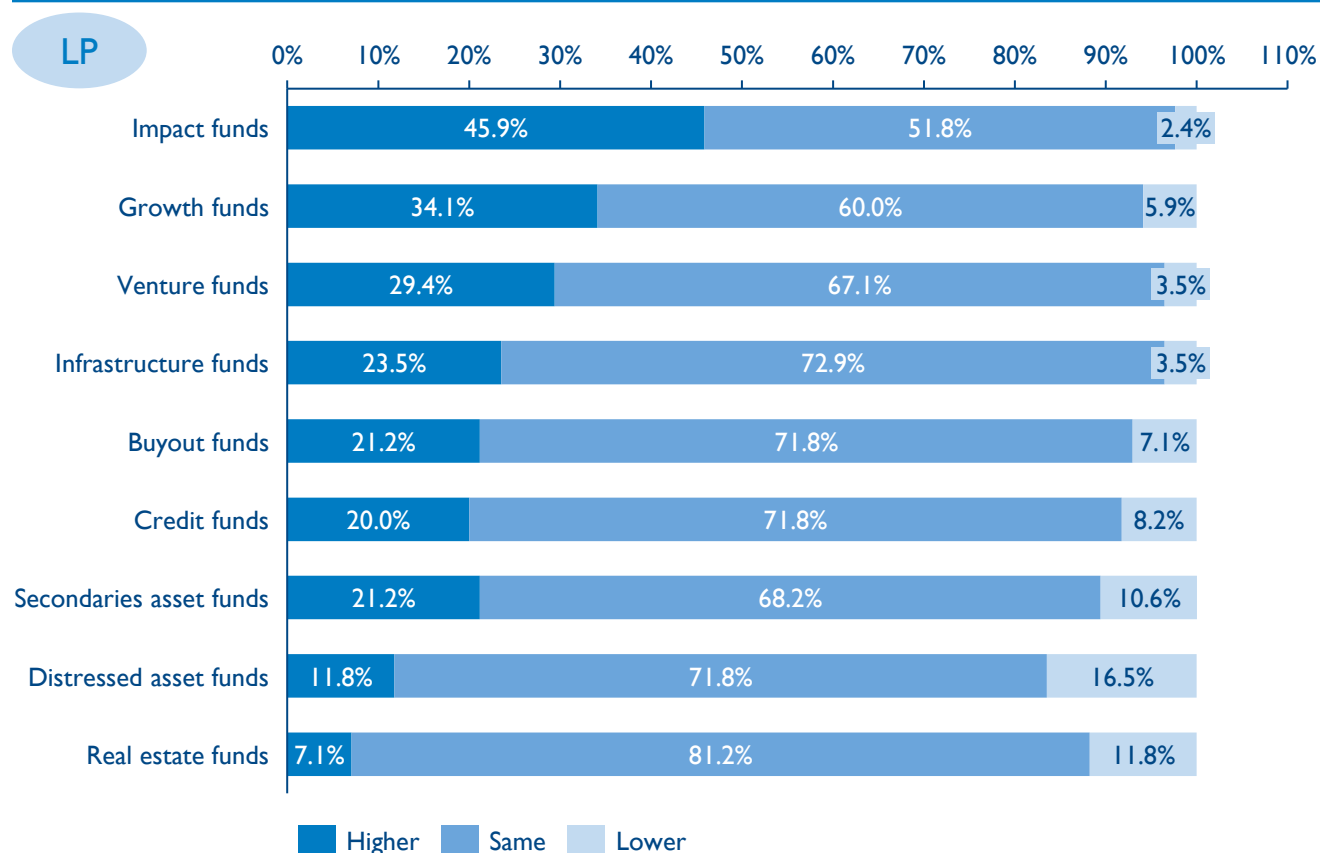
Most important factors for PE firms to differentiate themselves¹ within the PE market
(Europe, 2021 & 2020)



Source: Arthur D. Little, Invest Europe
Note: 1) Multiple choice answers were available

Overall, LPs expect little changes in their investment strategy allocations in the coming year in comparison to the preceding

Expected changes in investment strategy allocations over the next 12 months compared to the last 12 months, (Europe, 2021)



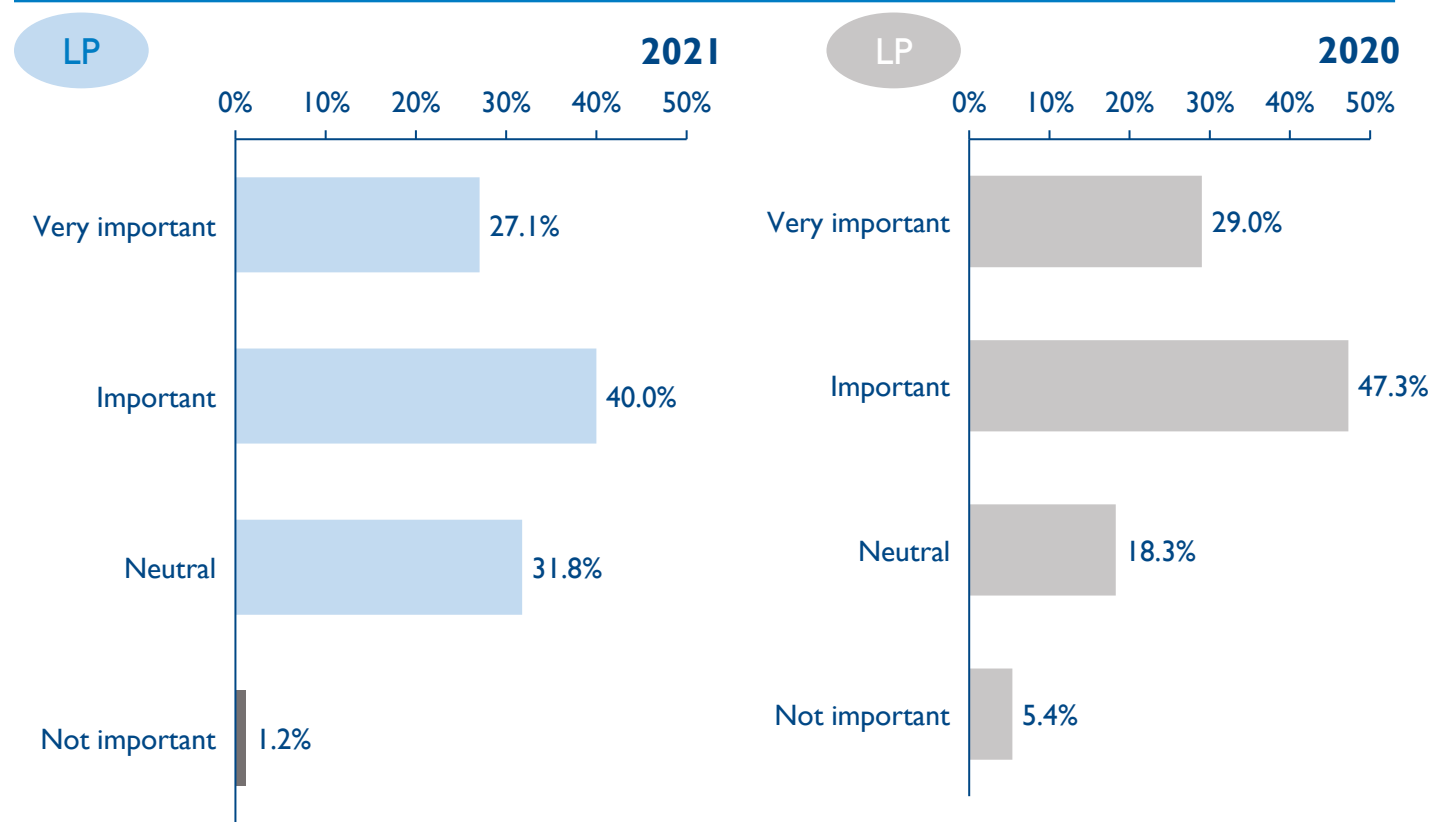
Comments

- For all fund types, most LPs see a **continuation in their investment strategy allocations** over the next 12 months
- An increasing interest in social and environmental causes in the coming year is observable
 - 45.9% of LPs expect a **higher investment strategy allocation in impact funds**
- Only a minority of LPs anticipate a lower investment strategy allocation
 - That is for all fund types

Source: Arthur D. Little, Invest Europe

A majority of LPs believe it is important or very important that GPs have an operating partner / dedicated portfolio manager

Importance of GPs to have an operating partner / dedicated portfolio management team¹, (Europe, 2021 & 2020)



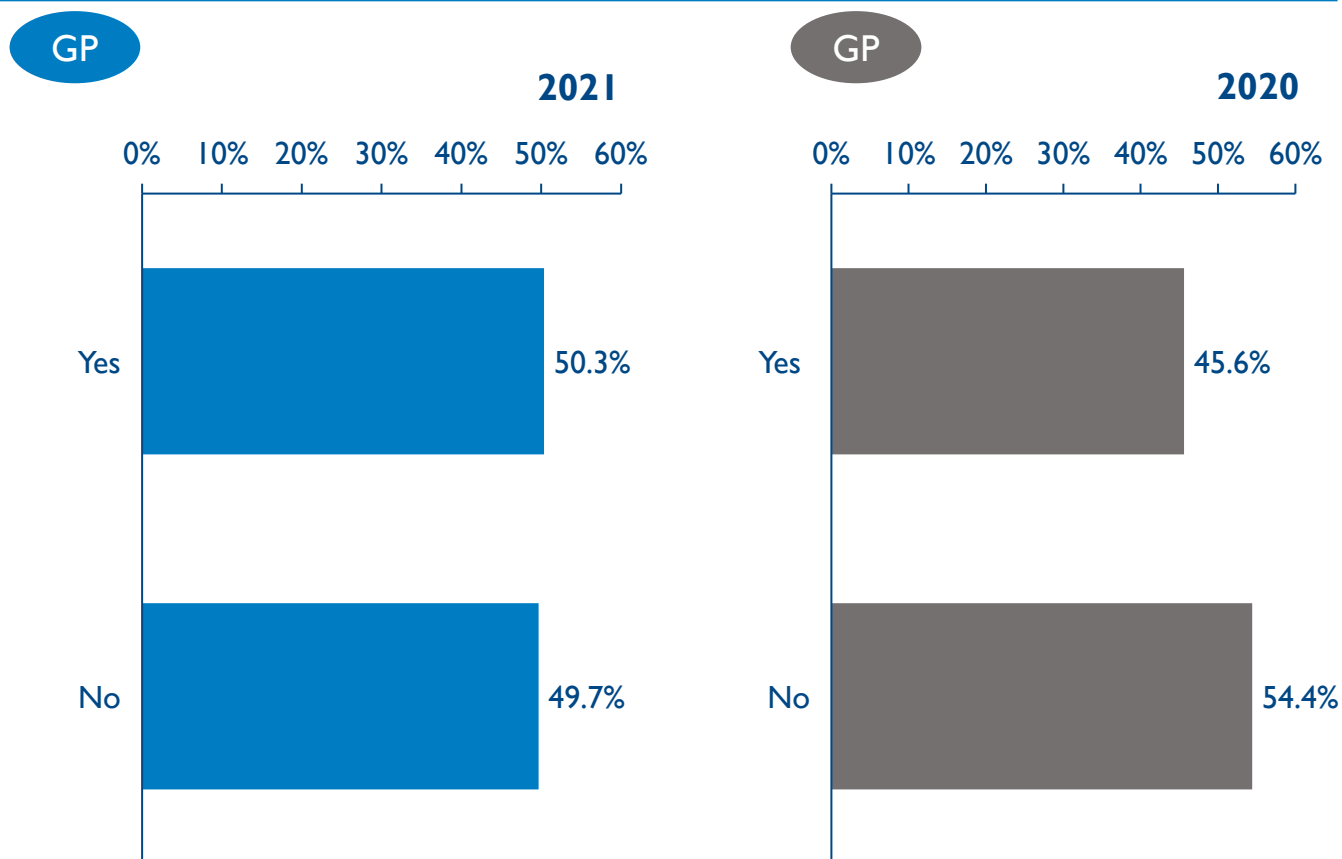
Comments

- Most LPs see it as **important** or **very important** for GPs to have an operating partner / dedicated portfolio manager in the investment team
 - 27.1% deem it as very important, while 40% as important
- A **discrepancy** between the view of LPs and team of GPs is observable, as **only half of GPs** have a team **dedicated to supporting portfolio managers**

Source: Arthur D. Little, Invest Europe
 Note: 1) That is, in addition to the investment team

An almost equal split is observable between the GPs that have and have not an internal team dedicated to supporting portfolio companies

If fund has an internal team dedicate to supporting portfolio companies, other than investment managers, (Europe, 2021 & 2020)

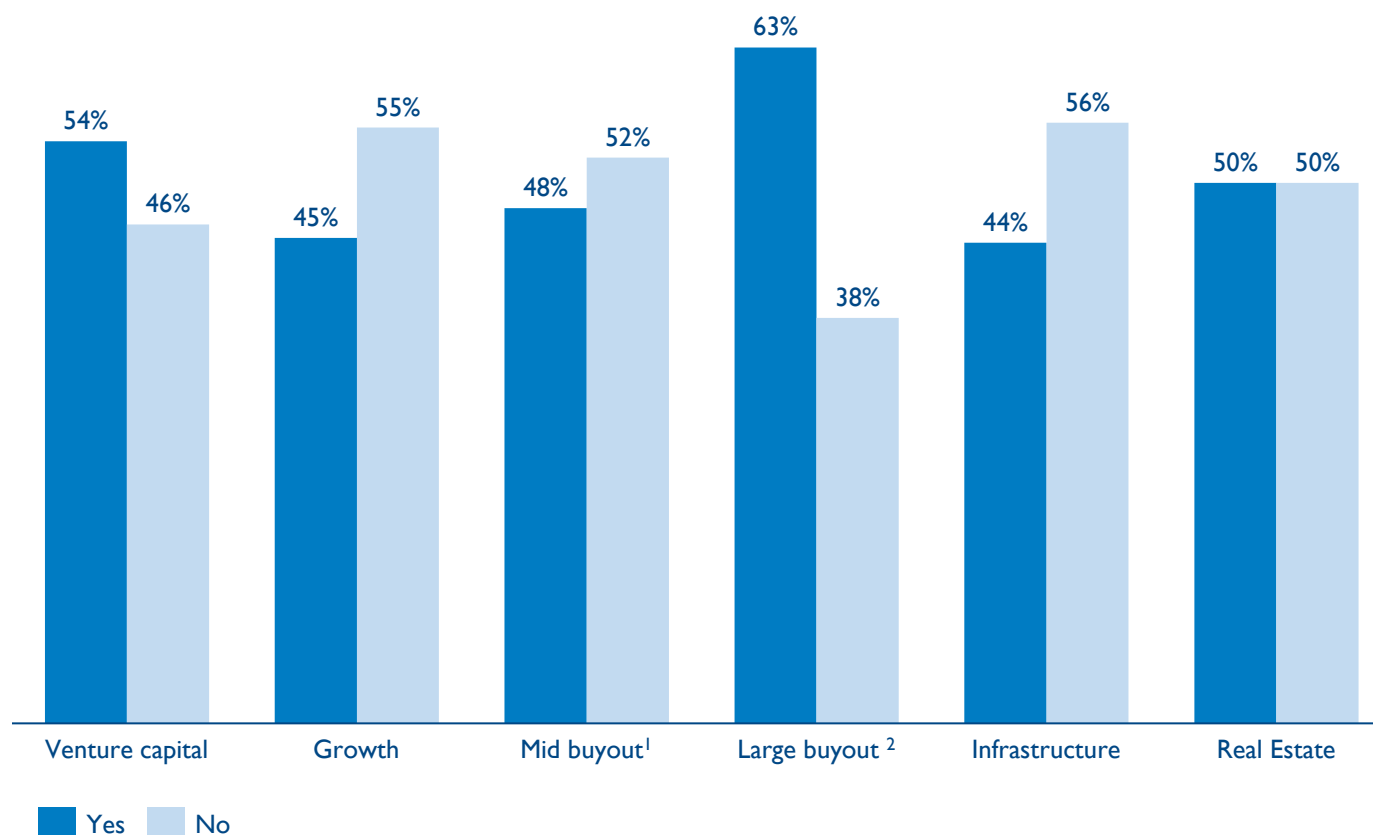


Comments

- An **almost equal split** is observable between the GPs that have and have not an internal team dedicated to supporting portfolio companies
- The share of “Yes” and “No” have changed slightly since 2020
 - ~5% more of GPs in 2021 respond that they have an internal team dedicated to supporting portfolio companies

The investment stage of GPs do not overall affect whether they have an internal portfolio company team, except in the case of large buyout GPs

If fund has an internal team dedicate to supporting portfolio companies other than investment managers, by investment stage of GP, (Europe, 2021)



Comments

- A deeper look illustrates that there are **in general no big differences** on how GPs answer regarding whether they have an internal portfolio company team other than investment managers
 - **Except in the case of large buyouts**, for which close to two thirds of GPs have an internal team
- Venture capital and large buyout are the **only fund types** for which most GPs have an internal team

Source: Arthur D. Little, Invest Europe

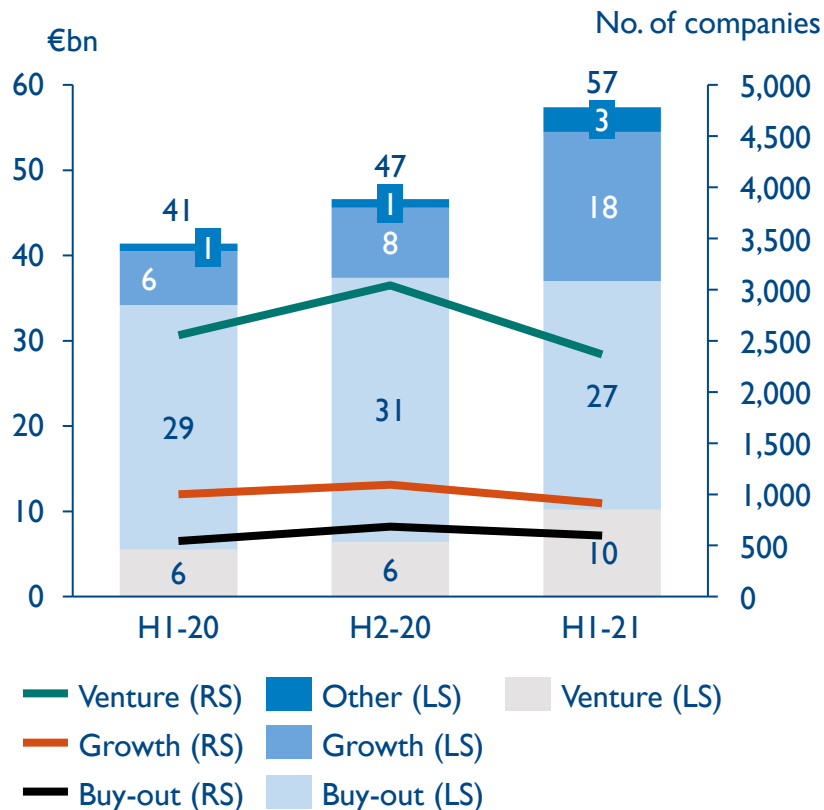
Note: 1) Mid buyout <€150M equity per deal, 2) Large buyout >€150M equity per deal

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Investments have continued to grow strongly also during Covid

Investments by stage in value and volume



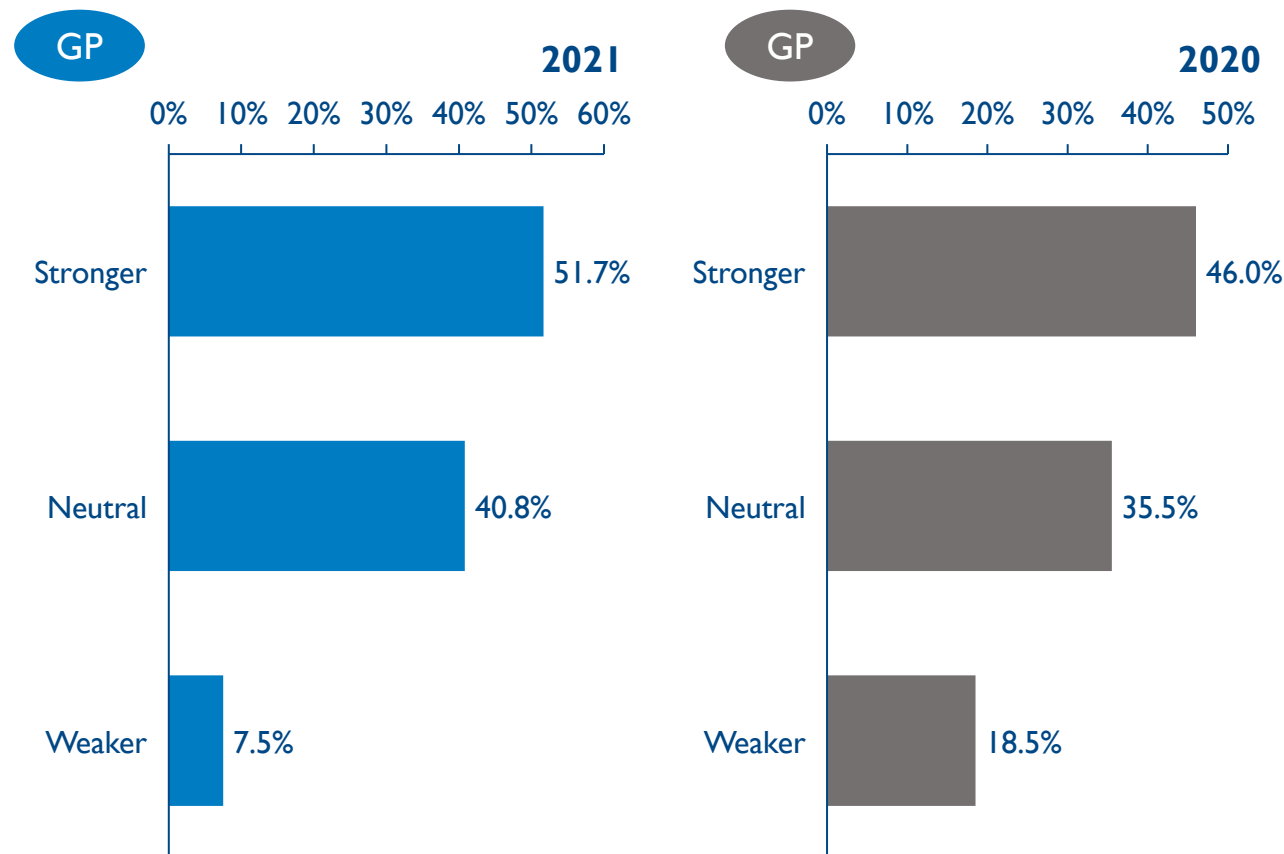
Comments

- Preliminary figures show that €57.3bn of equity was invested into European companies throughout HI 2021
- This is the highest level of investment ever seen in any half year period to date and is a significant (38%) increase in the amount invested in HI 2020

Source: Investing in Europe: Private Equity Activity HI 2021, Invest Europe
 Note: LS = Left scale; RS = Right scale

GPs are a bit more positive about the investment opportunities in the next 12 months than they were in the previous year's PE survey

Perception of investment opportunities in the market within the next 12 months compared to the last 12 months, (Europe, 2021 & 2020)



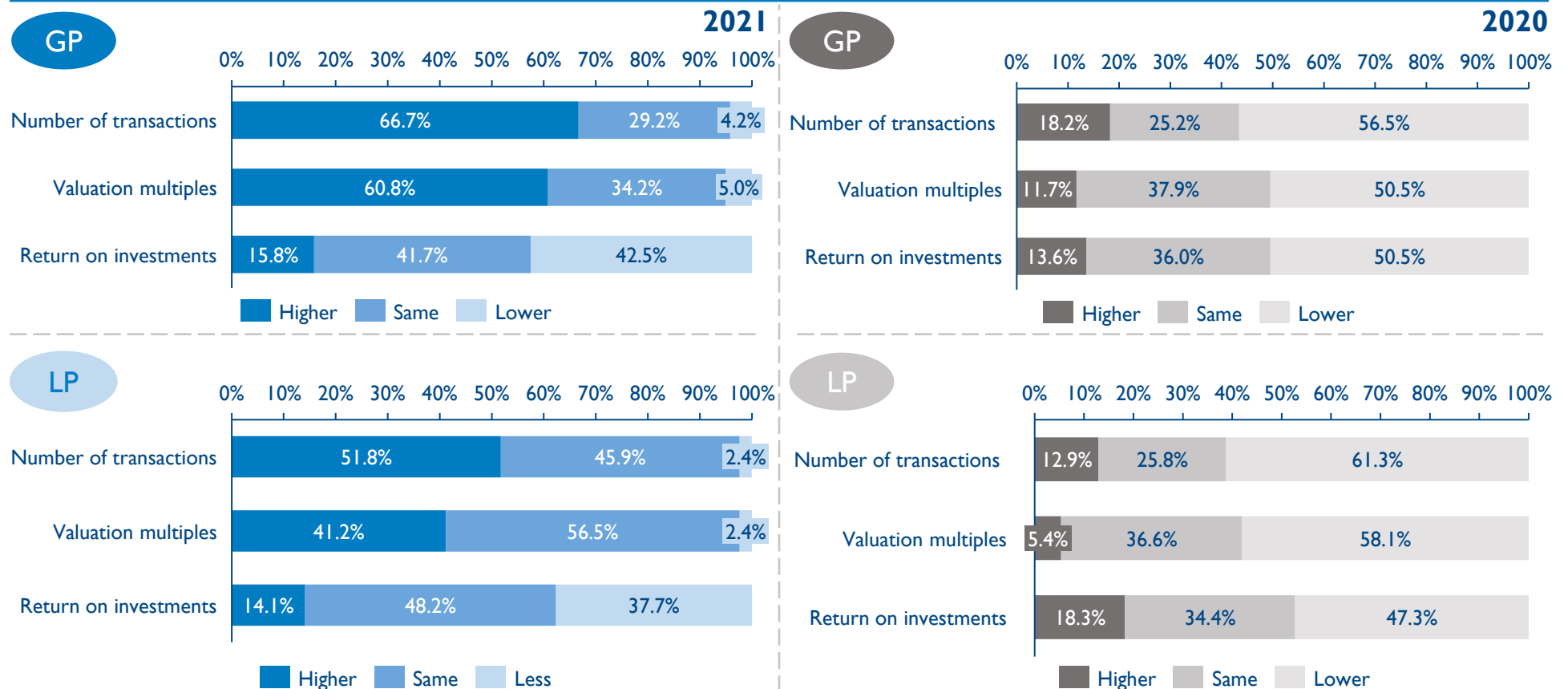
Source: Arthur D. Little, Invest Europe

Comments

- **GPs are more positive regarding the investment opportunities** in than in the previous year's PE survey
- **Half of GPs consider that investment opportunities will become stronger** over the next 12 months compared to the last 12
 - That is an increase by 5.7% from the previous year's PE Survey
- **More GPs express** that there are neutral regarding the future growth in 2021 than in 2020
 - 40.8% are neutral in 2021, while 35.5% were neutral in 2020
- Conversely, **less GPs state** that the investment opportunities will be weaker
 - That is 7.5% in 2021 and 18.5% in 2022

GPs and LPs are more confident about the future Private Equity transaction market in 21' than in 20', believing in a more dynamic market

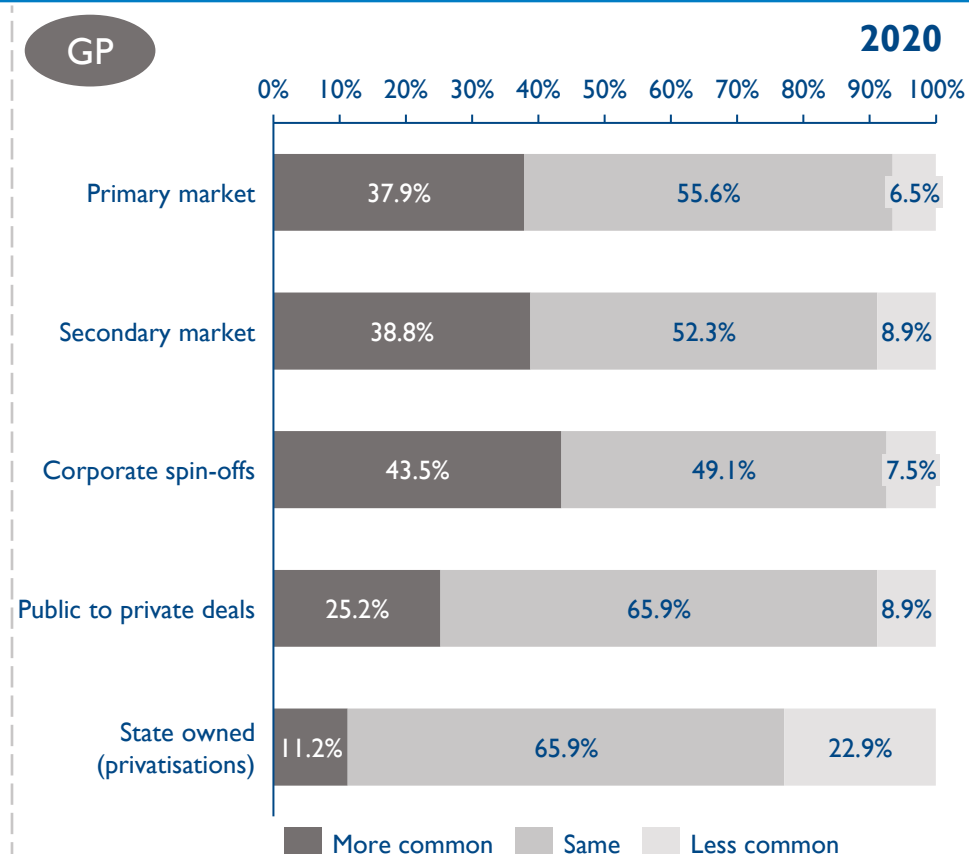
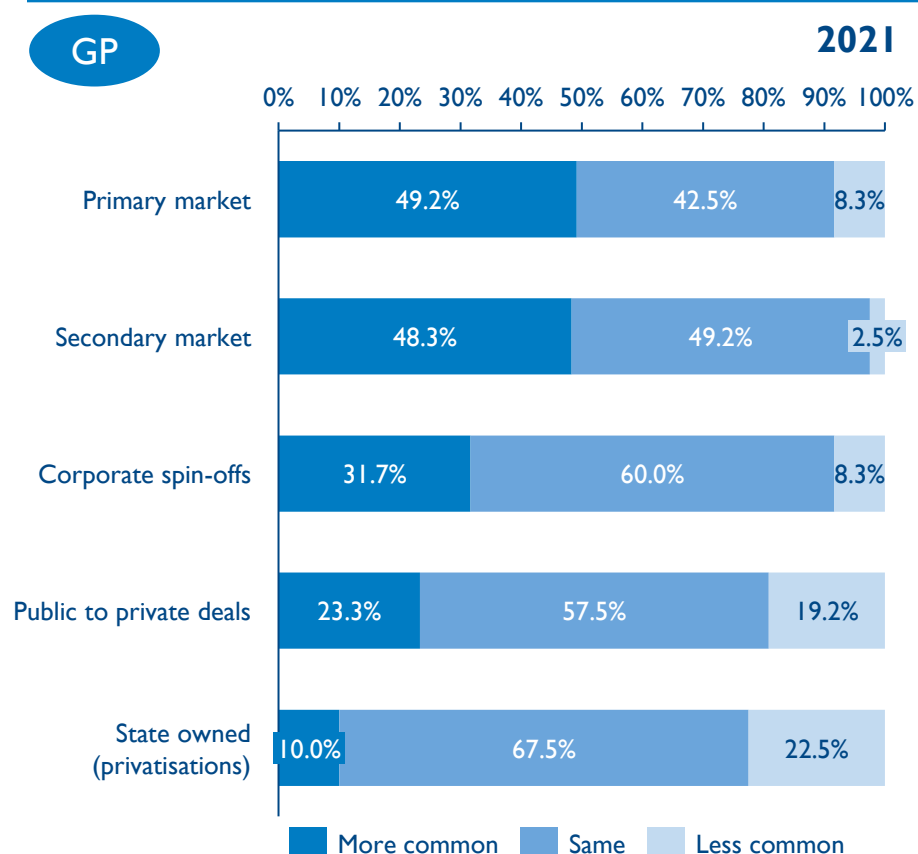
Evolution of PE transaction market in the next 12 months compared to the last 12 months by activity
(Europe, 2021 & 2020)



Source: Arthur D. Little, Invest Europe

Most GPs anticipate a market with the same levels of PE transactions in 2021, yet primary market transactions are said to become more common

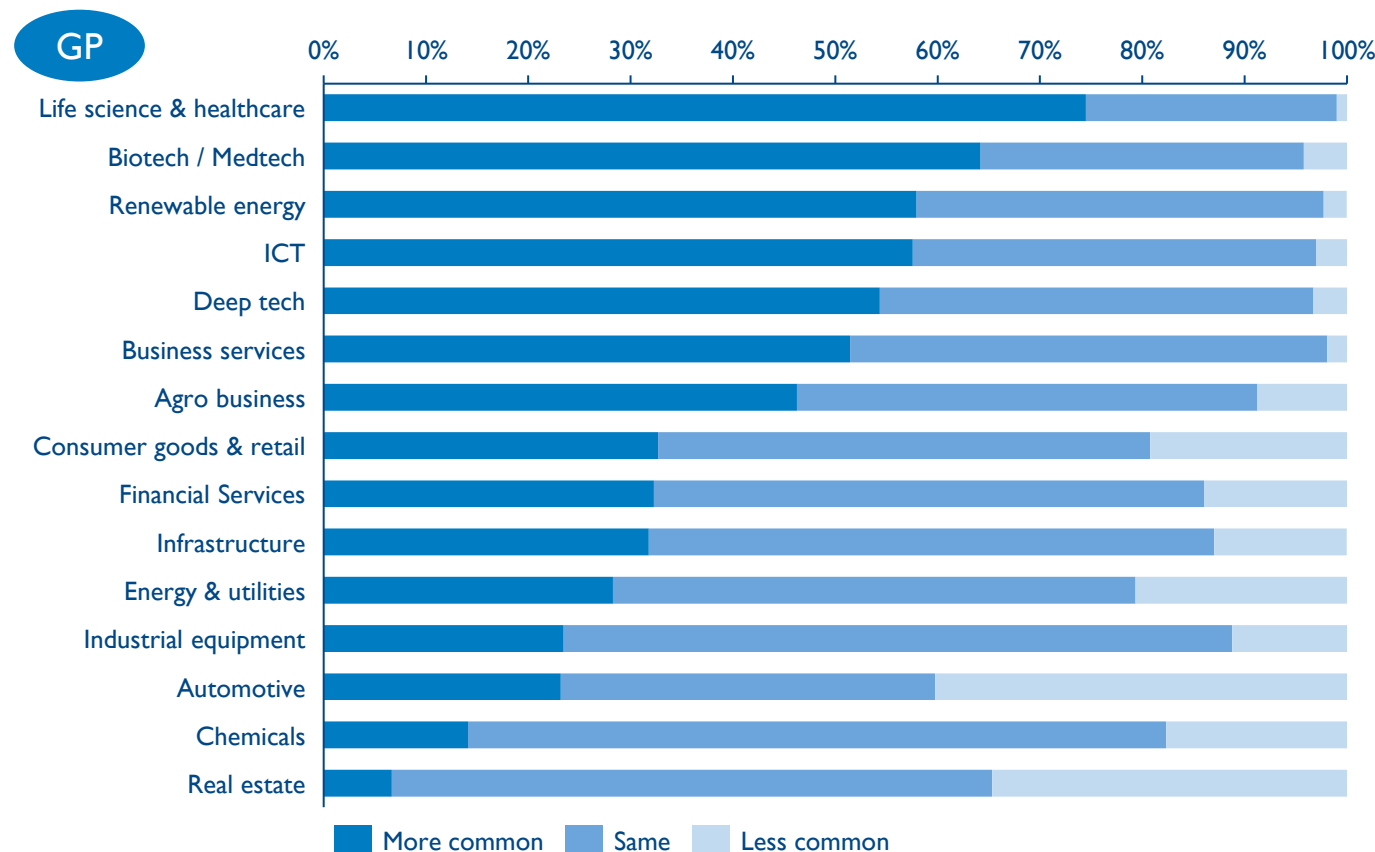
Evolution of PE transaction market in the next months compared to the last 12 months, (Europe, 2021 & 2020)



Source: Arthur D. Little, Invest Europe

The top 5 sectors remain the same in 2021 as in 2020, yet renewable energy is stated to be ~11% more common in 2021

Expected investment operation activity levels per target sectors compared to the last 12 months, (Europe, 2021)

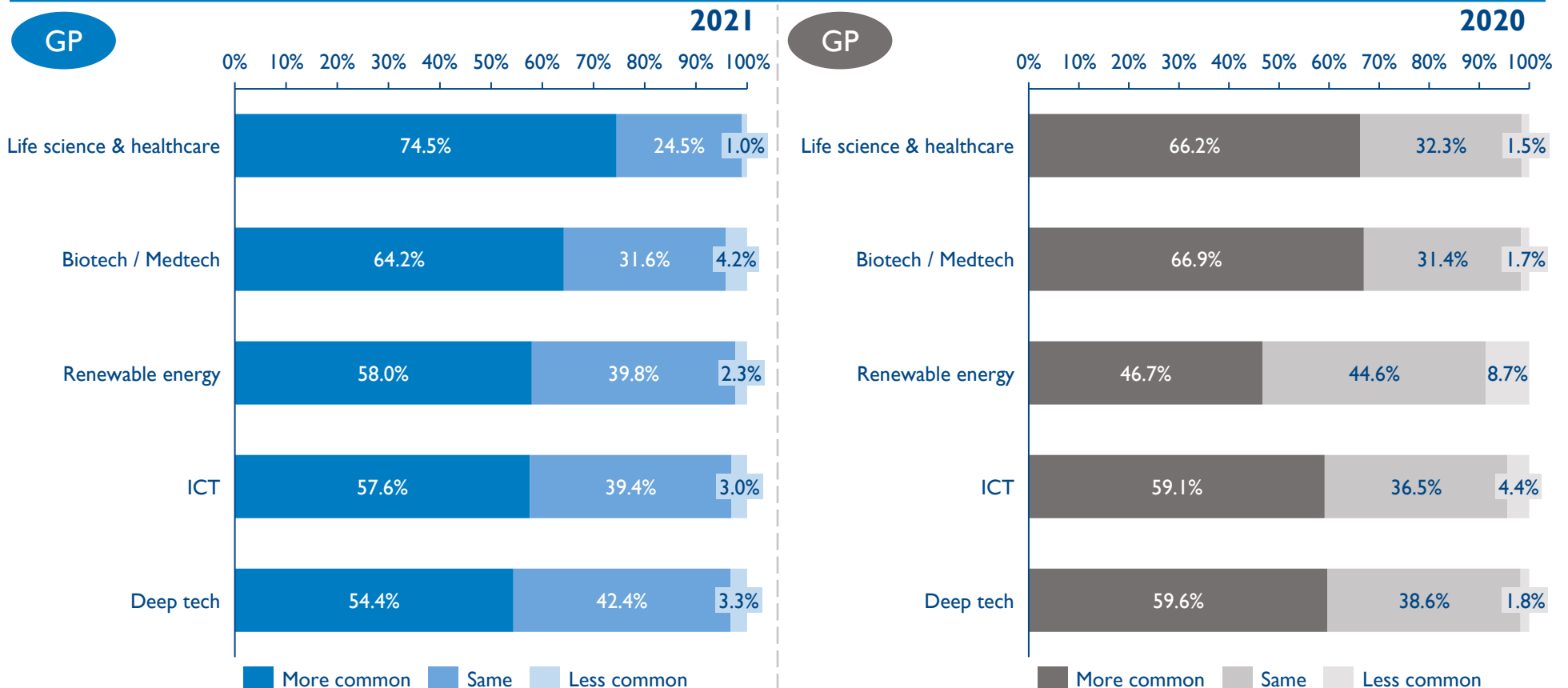


Comments

- The target sectors of focus are **similar for GPs in 2020 and 2021**, as some of the most common sectors remain Life science & healthcare, Biotech / Medtech, ICT and Deeptech
- The **increased interest in sustainability** is equally observable in terms of GPs' target sectors
 - The view that **Renewable energy is more common** has increased by 11.3% between 2020 and 2021

As in 2020, GPs Life science & healthcare and Biotech / Medtech are viewed as the target sectors with most expected activity levels in 21'

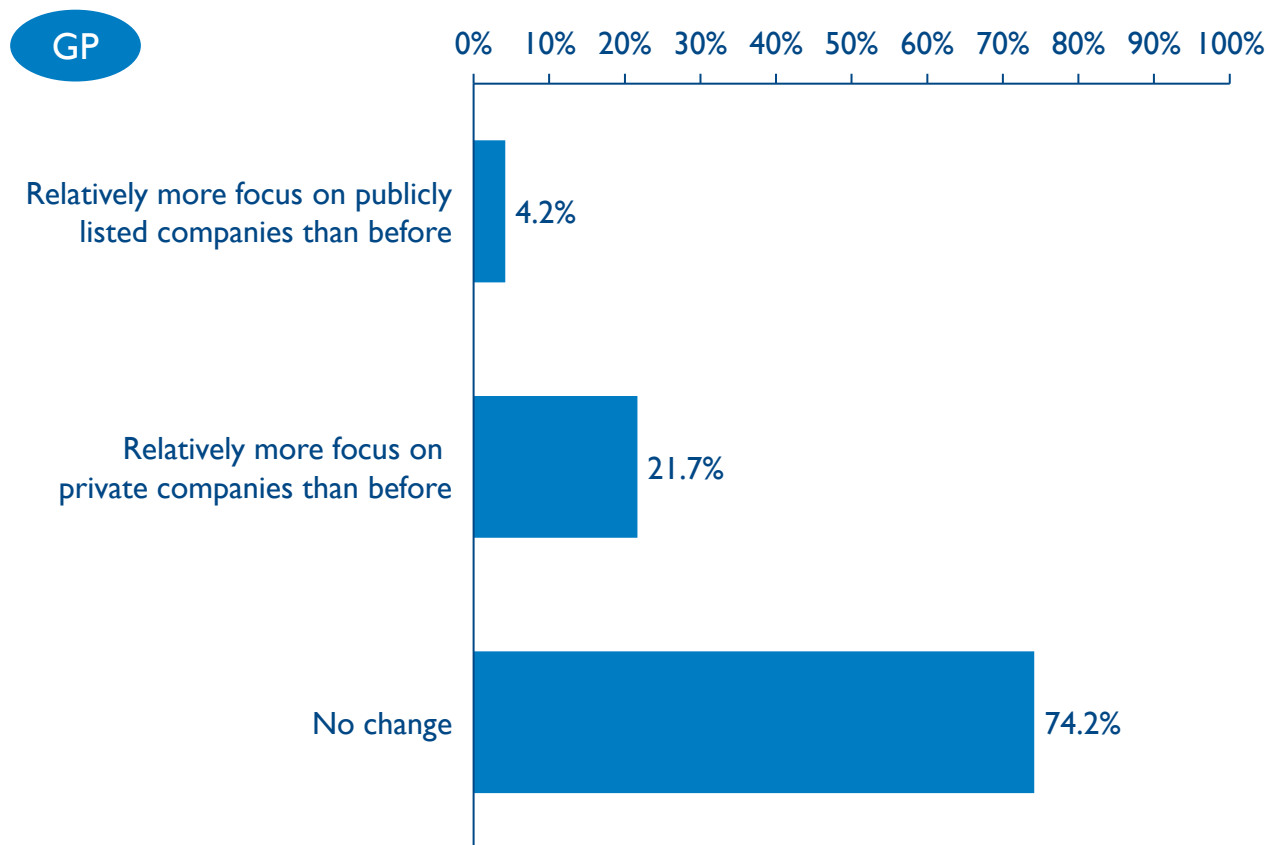
Expected investment operation activity levels per top 5 target sectors compared to the last 12 months (Europe, 2021 & 2020)



Source: Arthur D. Little, Invest Europe

A majority of GPs expect no change in investment operations when looking at private vs. public target companies over the next

Expected changes in investment operations over the next year in terms of private vs. public target companies, (Europe, 2021)



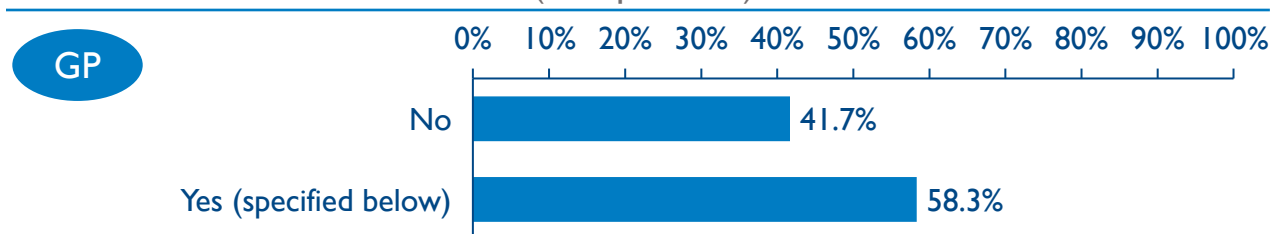
Comments

- Most GPs express that **no change** will occur for the distribution of **investment operations between private and public** target companies
- A fifth of GPs state, nonetheless, that there will be relatively more focus on private companies than before

However, recent development have also led to changes in due diligences – ESG, Digitalization and Cybersecurity will receive more attention

Expected changes in how Due Diligences are performed

(Europe, 2021)

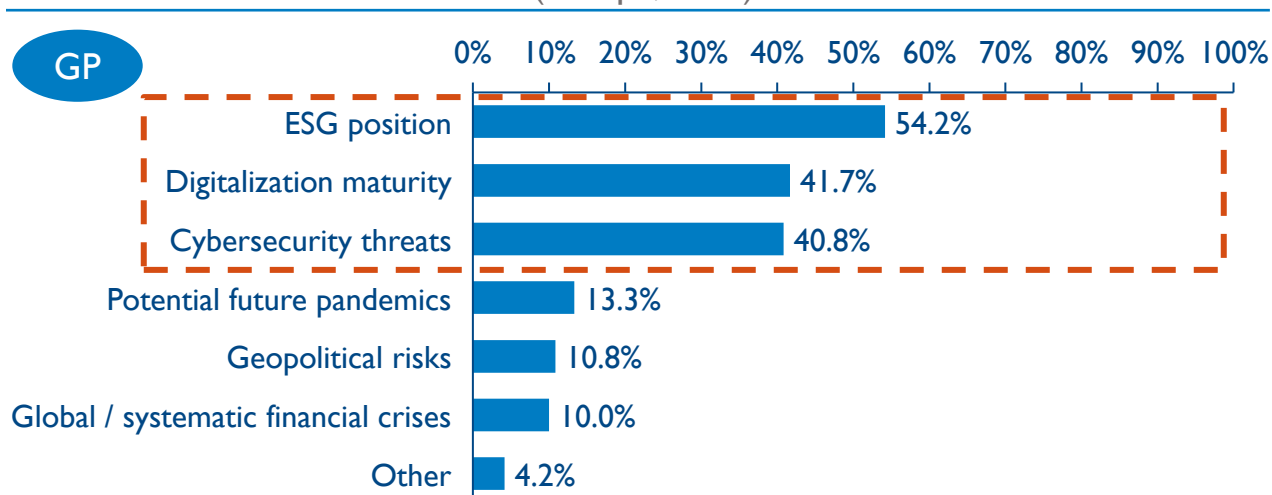


Comments

- **Most GPs** respond that the way they perform **Due Diligences (DDs) will change**
- The changes entail that certain areas will **receive more attention** in DDs

Due Diligence assessments that will receive more attention¹

(Europe, 2021)



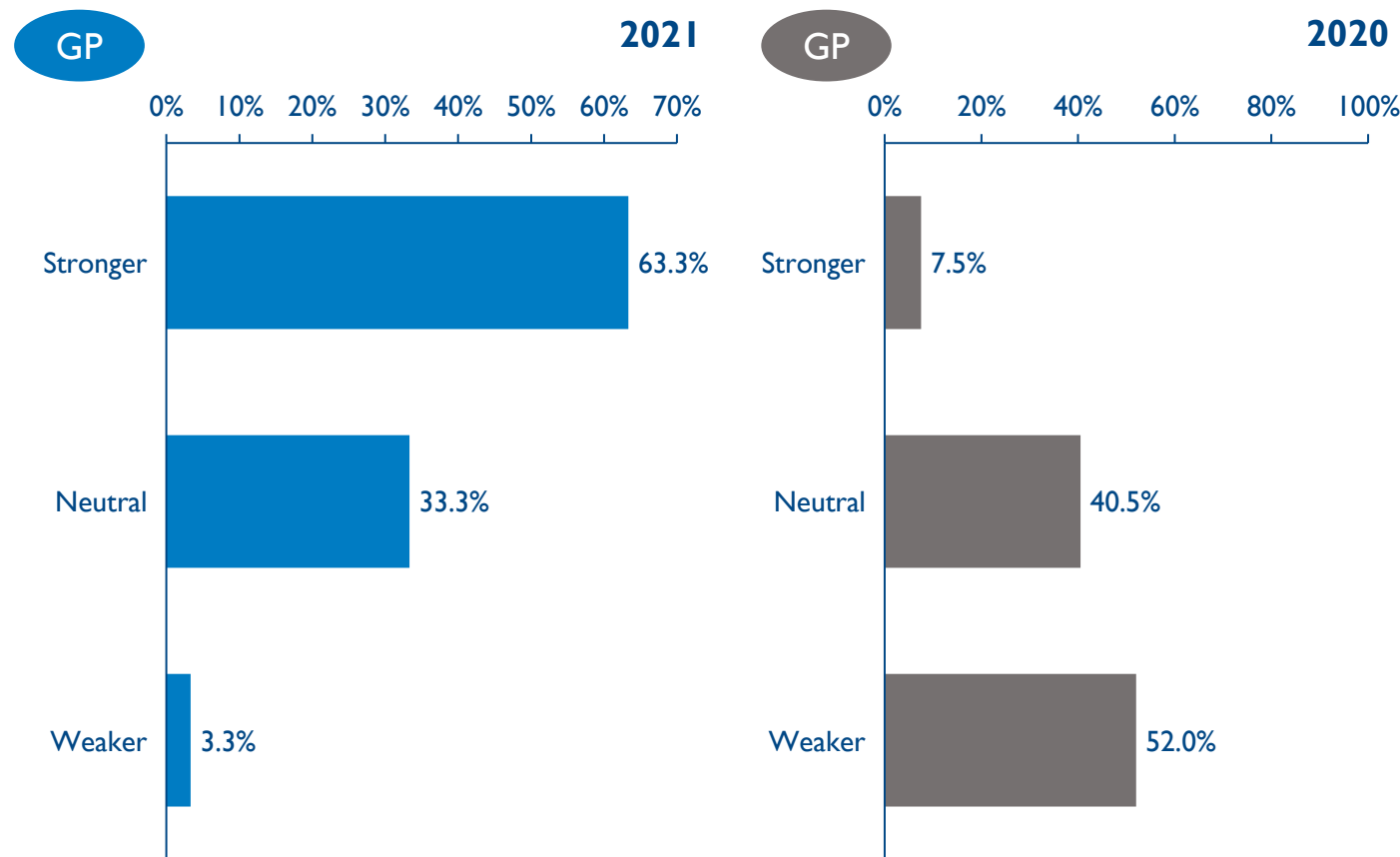
- A **rising interest in sustainability** is a common thread throughout the survey: 54.2% of GPs state that ESG position will receive more attention in their DDs
- Digitalization maturity and cybersecurity are also deemed as areas that will receive more attention

Source: Arthur D. Little, Invest Europe

Note: 1) Multiple choices were possible, and only GPs answered that gave a “Yes” in the question illustrated in the graph above

The expected changes in divestments of portfolio companies flipped between 20' and 21', as most GPs perceive that it will become stronger

Expected changes in divestment of portfolio companies over the next 12 months compared to the last 12 months, (Europe, 2021)



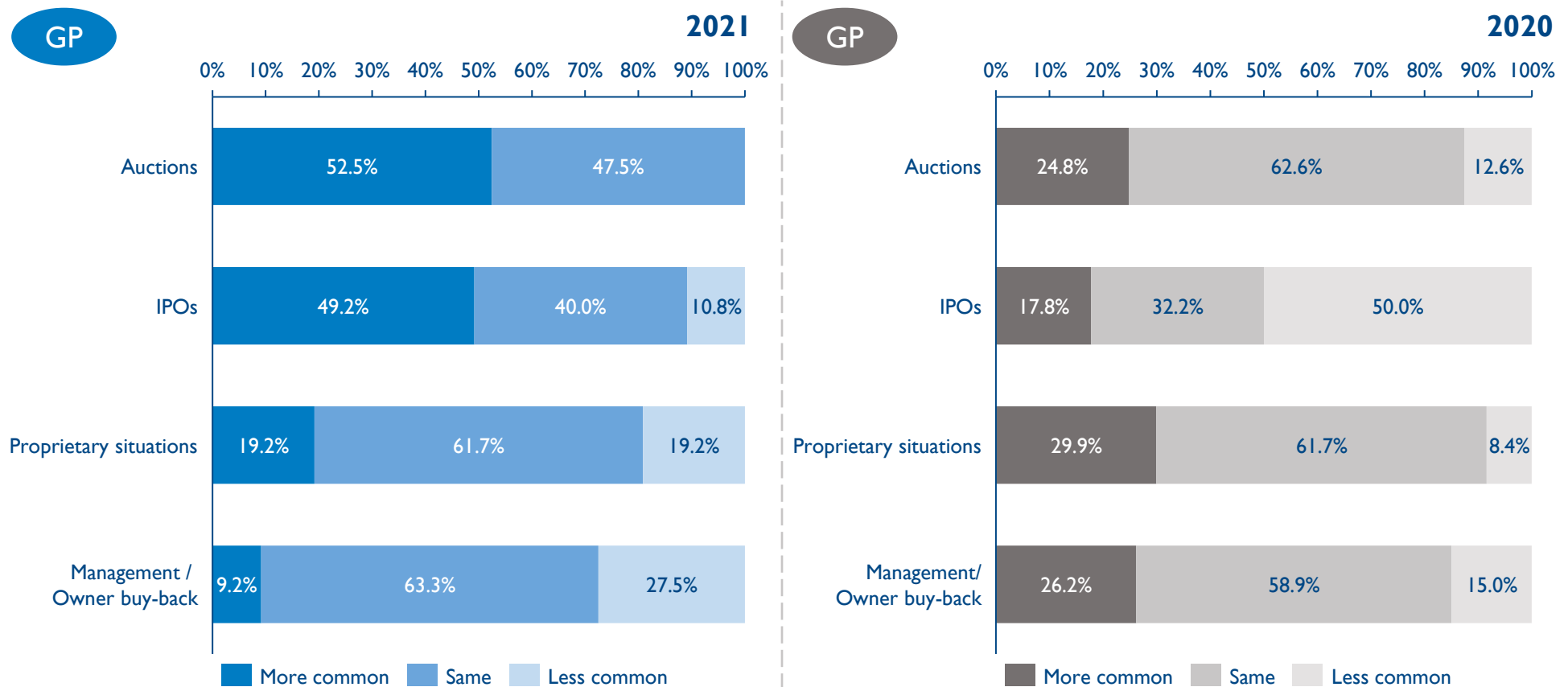
Comments

- In 2021, most GPs express that they **expect a stronger divestment of portfolio companies** over the next 12 months compared to the last 12 months
 - I.e., 63.3% of GPs
 - This is equally supported by the few GPs (3.3%) that believe divestments will be weaker
- The view of GPs in 2021 is notably **contrasted to the reversed view** of GPs in 2020
 - Most GPs expressed that the expected changes in terms of divestment would be weaker

Source: Arthur D. Little, Invest Europe

GPs have gained a stronger belief in the activity of the PE transaction market in terms of exit route in comparison to 2020's PE survey

Expected changes of exit route for companies under ownership over the next 12 months compared to the last 12 months, (Europe, 2021 & 2020)



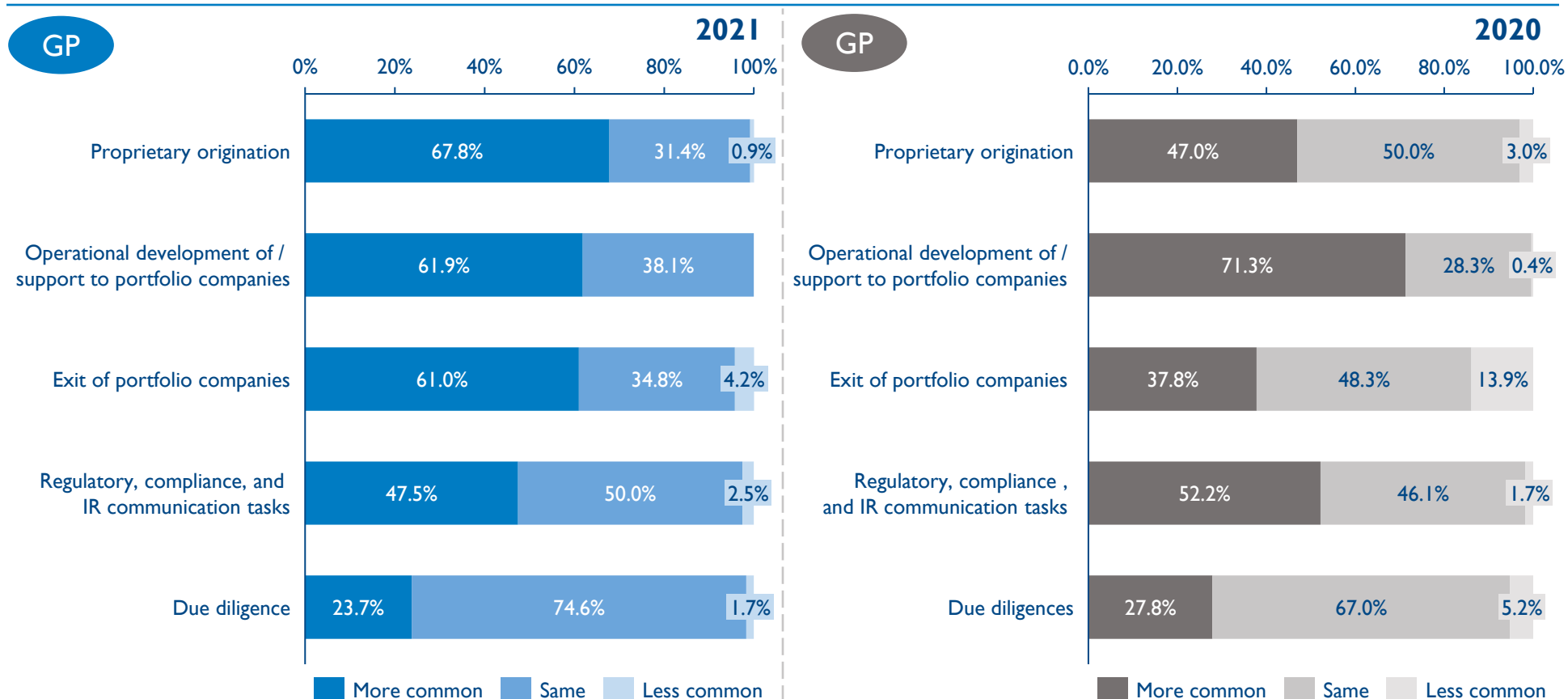
Source: Arthur D. Little, Invest Europe

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The main business focus areas of GPs in the next 12 months are expected to be the same or more intense than in the previous 12 months

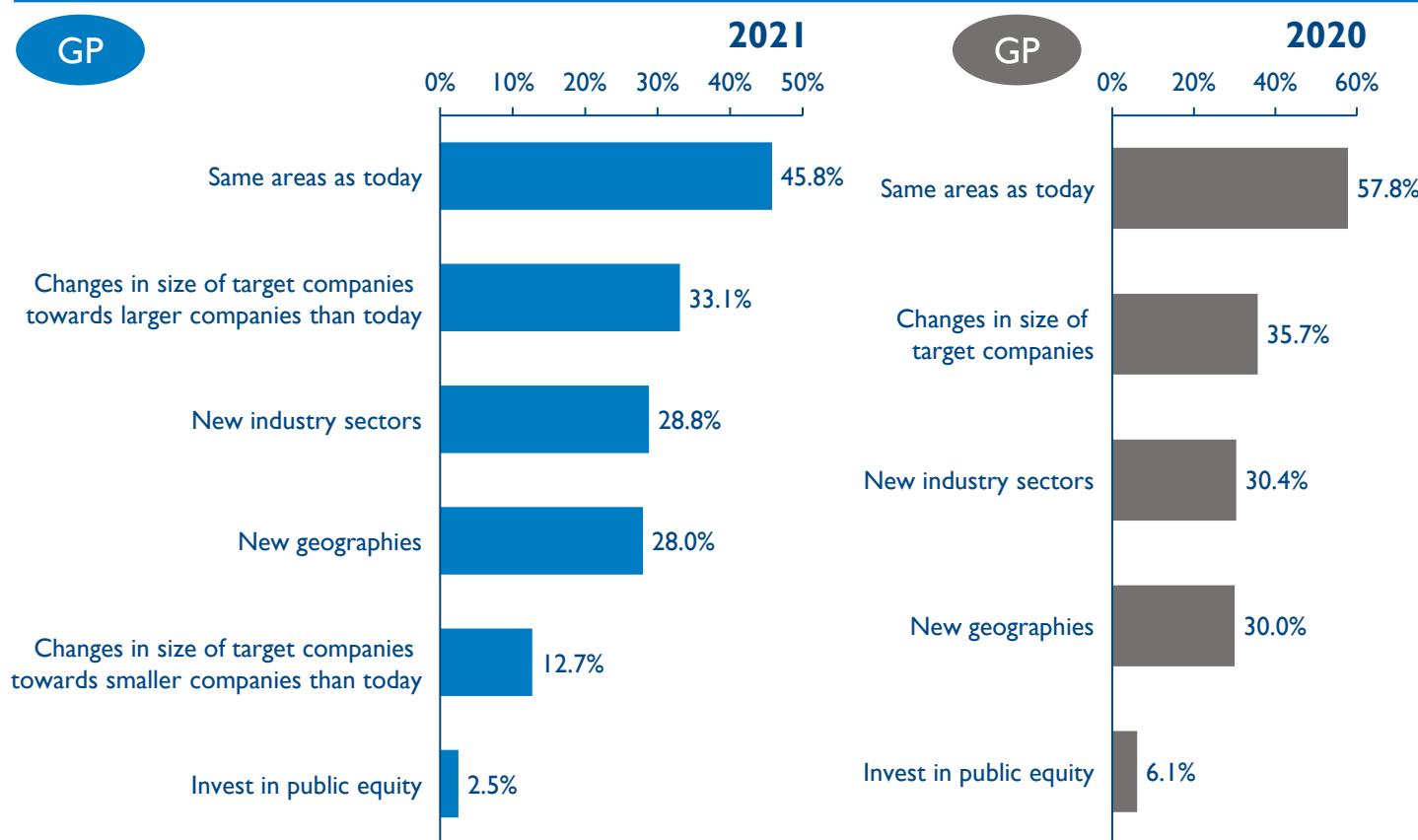
Main business focus of GP teams in the next 12 months compared to the last 12 months
(Europe, 2021 & 2020)



Source: Arthur D. Little, Invest Europe

There are small differences in how GPs answered in 2020 and 2021, GPs' view on growth has remained consistent throughout the pandemic

Expected areas future funds will grow into¹
(Europe, 2021 & 2020)



Comments

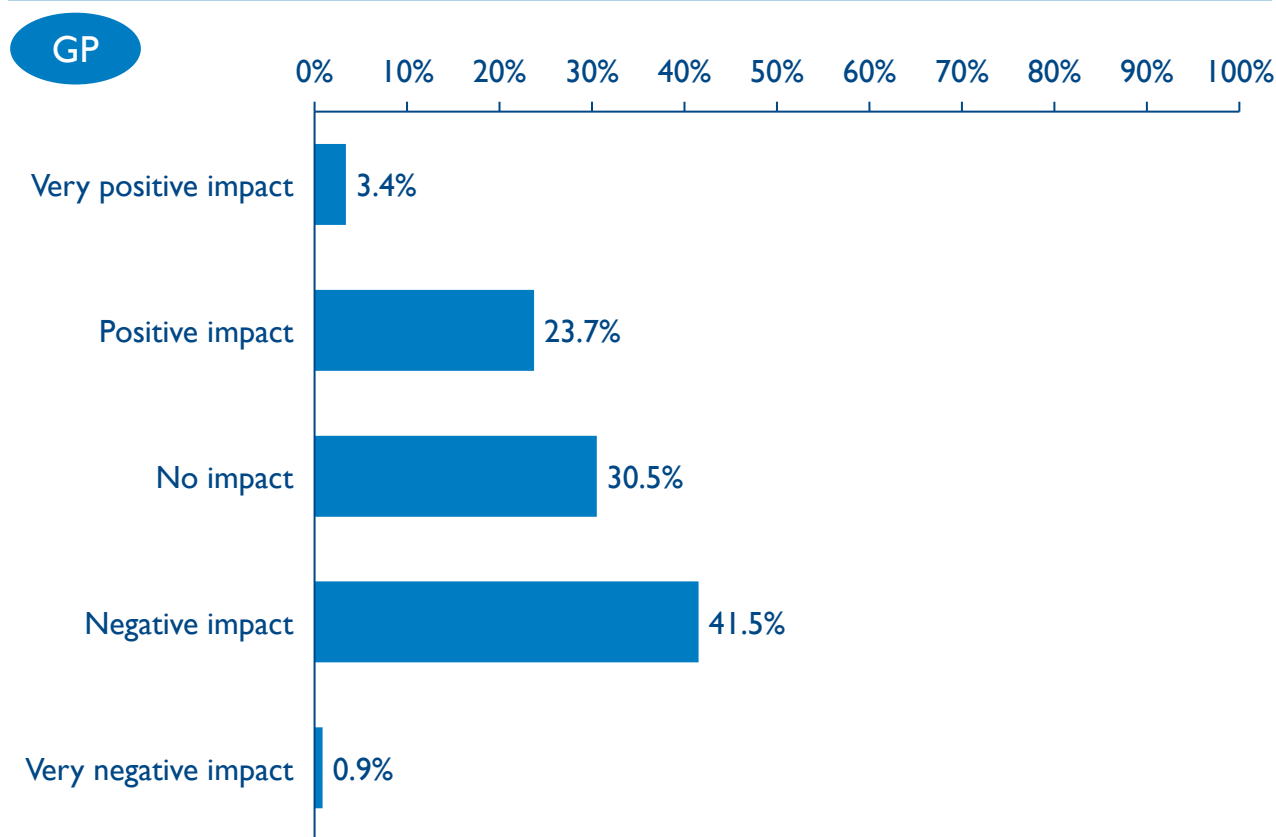
- For almost half of respondents, the **current growth areas will be the same** as today
 - The result decreased since previous year's PE survey by 12.5%
- The expected areas **are in the same order** in terms of responses as in last year's survey
- In the previous year's survey, Changes in size of target companies was one question but was separated in two 2021
 - It is thus observable that GPs believe that **larger companies are more favored** in future funds than small

Source: Arthur D. Little, Invest Europe
Note: 1) The survey question had multiple choice answers

The pandemic had a negative impact on ~41% of GPs, but for roughly one fourth of respondents it had a positive or very positive impact

Impact of pandemic on overall performance of GP fund
(Europe, 2021)

Comments



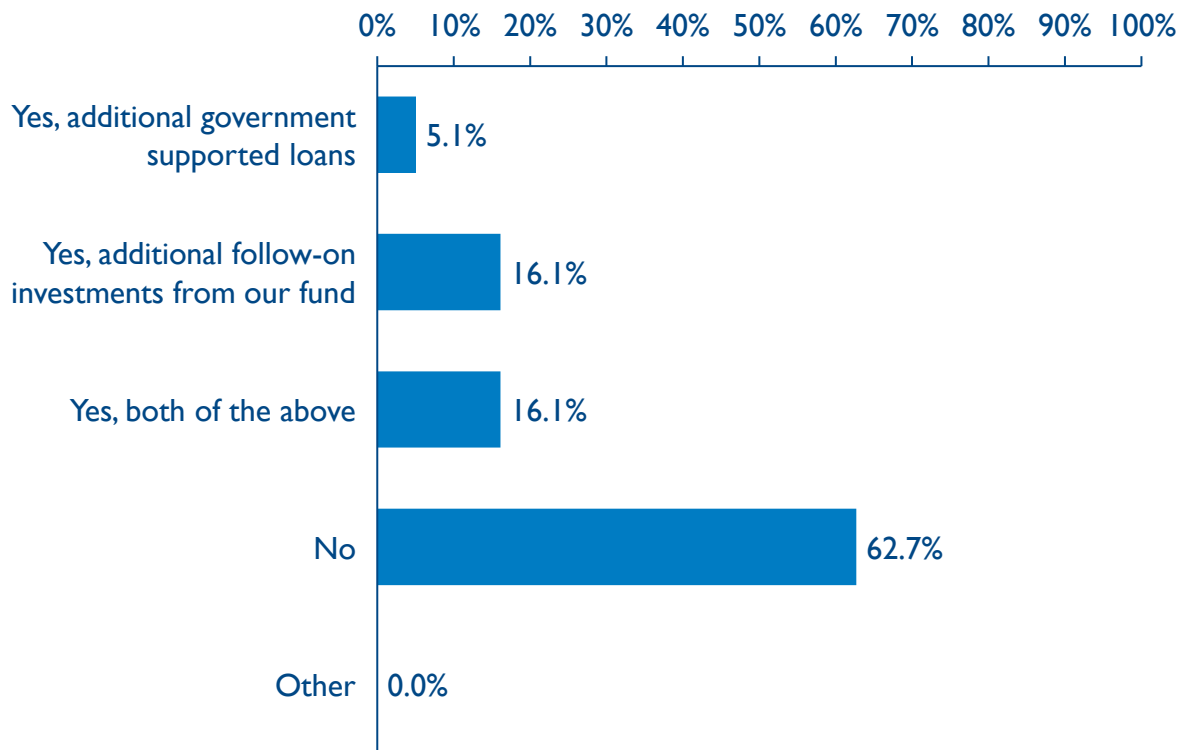
- The **Covid-19 pandemic** affected all GPs and **most negatively** or **neutrally**, but certain GPs benefited from the pandemic
- The largest share of GPs saw a **negative impact of Covid-19** on their funds
 - 0.9% answered that it had a very negative impact, and 41% that it had a negative impact
- Yet approximately **a fourth of GPs experienced** that the pandemic had a very **positive** or positive impact on their funds

Source: Arthur D. Little, Invest Europe

Over 60% of GPs express no need for additional support to overcome the impact of the pandemic

Expectation of portfolio companies needing additional support to overcome impact of Covid-19 pandemic, (Europe, 2021)

GP



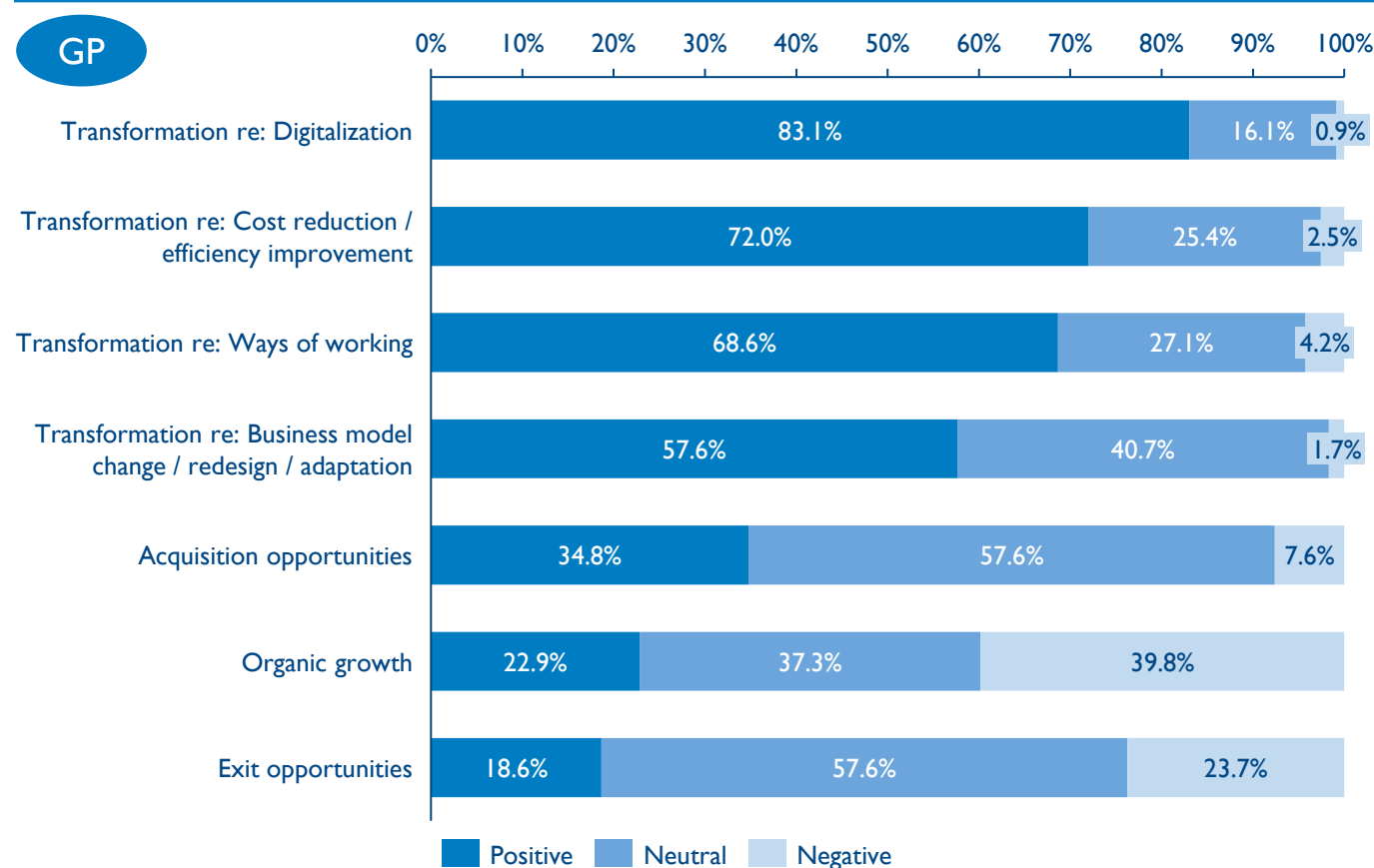
Comments

- The largest hurdles of **Covid-19 pandemic appear to be surmounted**
 - 62.7% of GPs claim that no additional support is needed to overcome the impact of the pandemic
- Nonetheless, the **rest of GPs state that additional support is needed** both in terms of government supported loans and follow-on investments from their funds
 - The focus is stronger on follow-on investment from their funds rather from governments
- However, the **need for support** appears to be **less in 2020 than 2021**
 - According to the 2020 PE survey, **on average 37% of GPs’ portfolio companies** utilized government supported loans for financing during the pandemic

Source: Arthur D. Little, Invest Europe

The impact of Covid-19 has mostly had a positive affect on the transformation of portfolio companies, notably regarding digitalization

Overall impact of Covid-19 on portfolio companies in terms of...
(Europe, 2021)



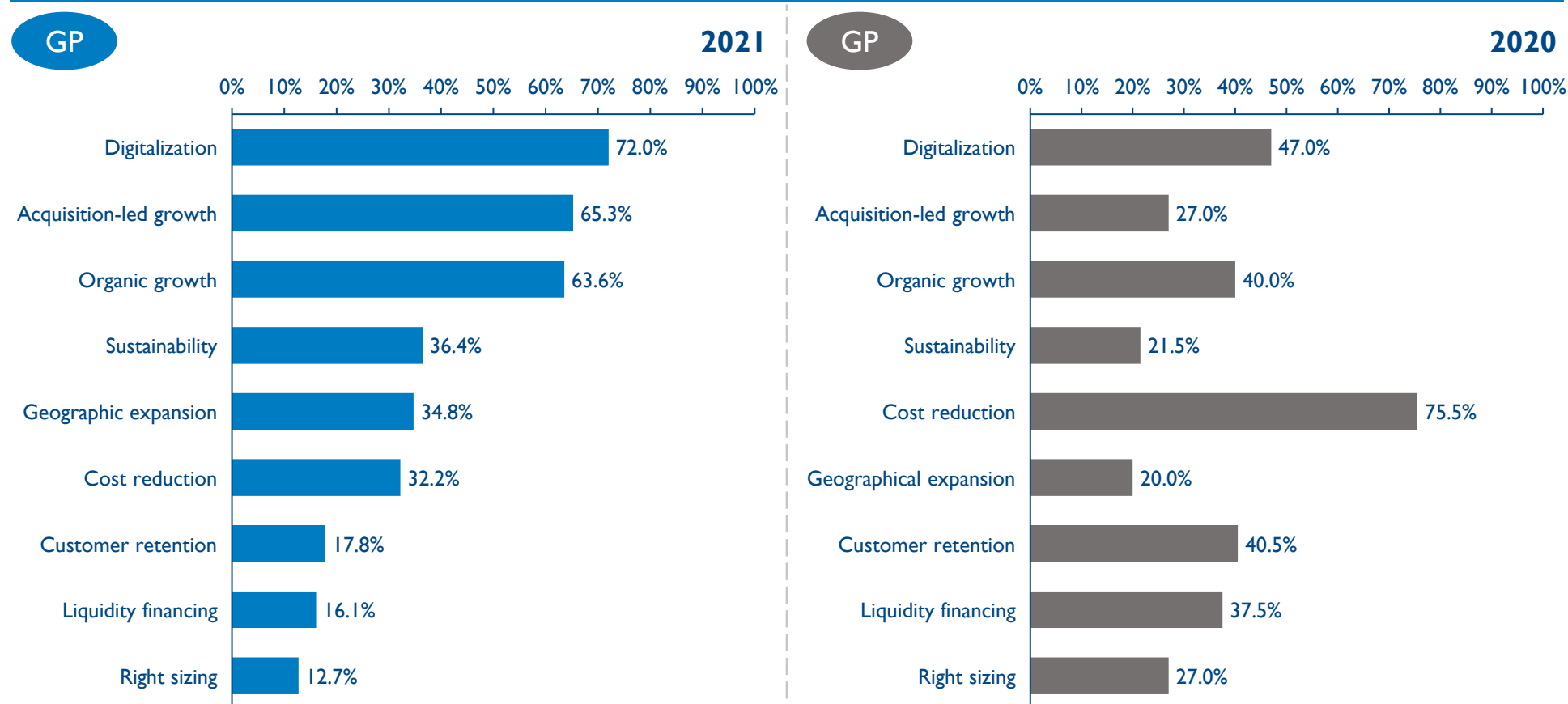
Comments

- In general, GPs tell of **positive or neutral impact of Covid-19** on portfolio companies
 - The pandemic has had a **large positive impact** in terms of **digitalization and digital transformation**, as seen in many other sectors
 - Cost reduction / efficient improvement and ways or working has also been positively affected
- **Organic growth and exit opportunities** has, on the other hand, been a **negative experience** for several GPs

Source: Arthur D. Little, Invest Europe

Digitalization and organic growth remain the most important initiatives in 2020 and 2021, but there are several differences between the two surveys

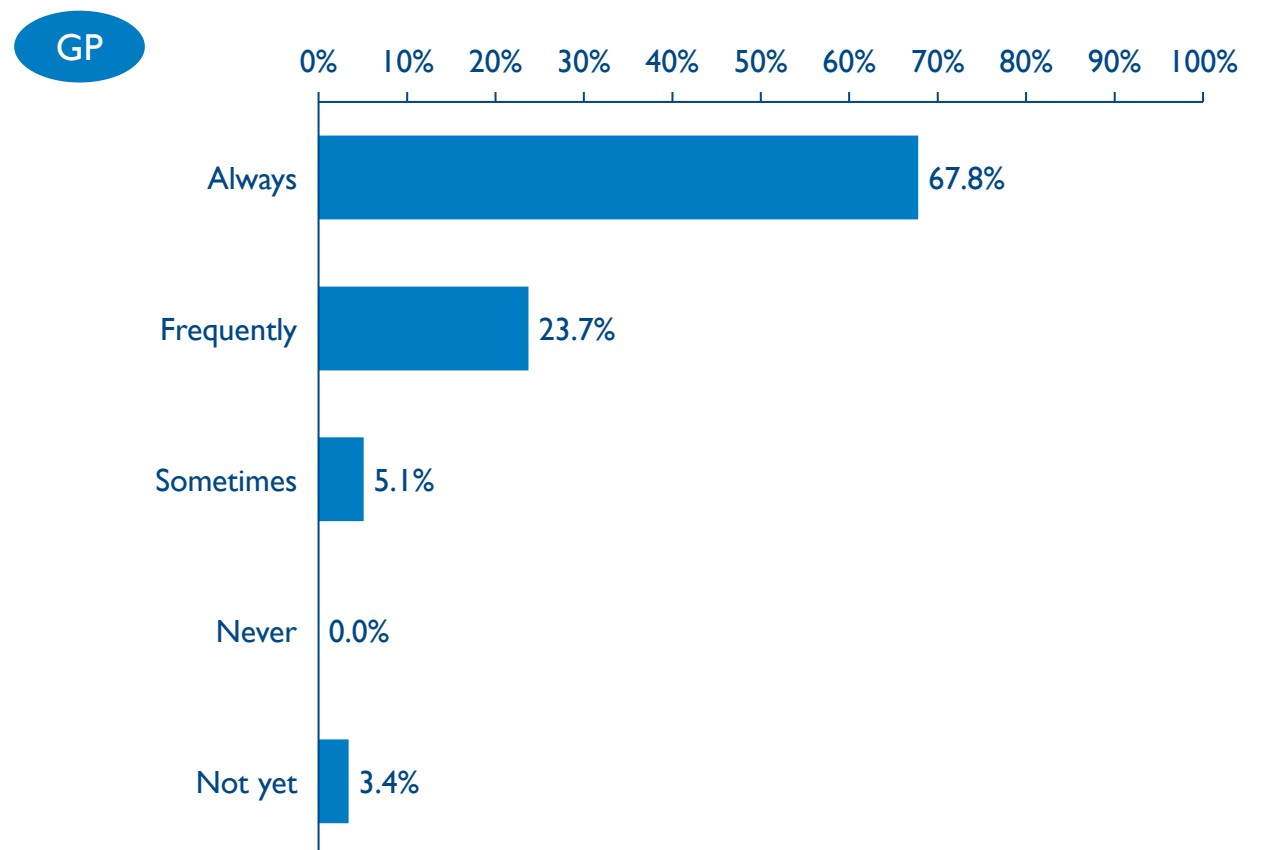
Most important improvement initiatives being run in portfolio companies at the moment¹
(Europe, 2021 & 2020)



Source: Arthur D. Little, Invest Europe
Note: 1) Multiple choice answers were available

GPs exhibit a wide integration of sustainability risks, as over 90% of GPs include ESG considerations into investments decisions always / frequently

Integration of sustainability risks into investment decision of fund(s)
(Europe, 2021)



Comments

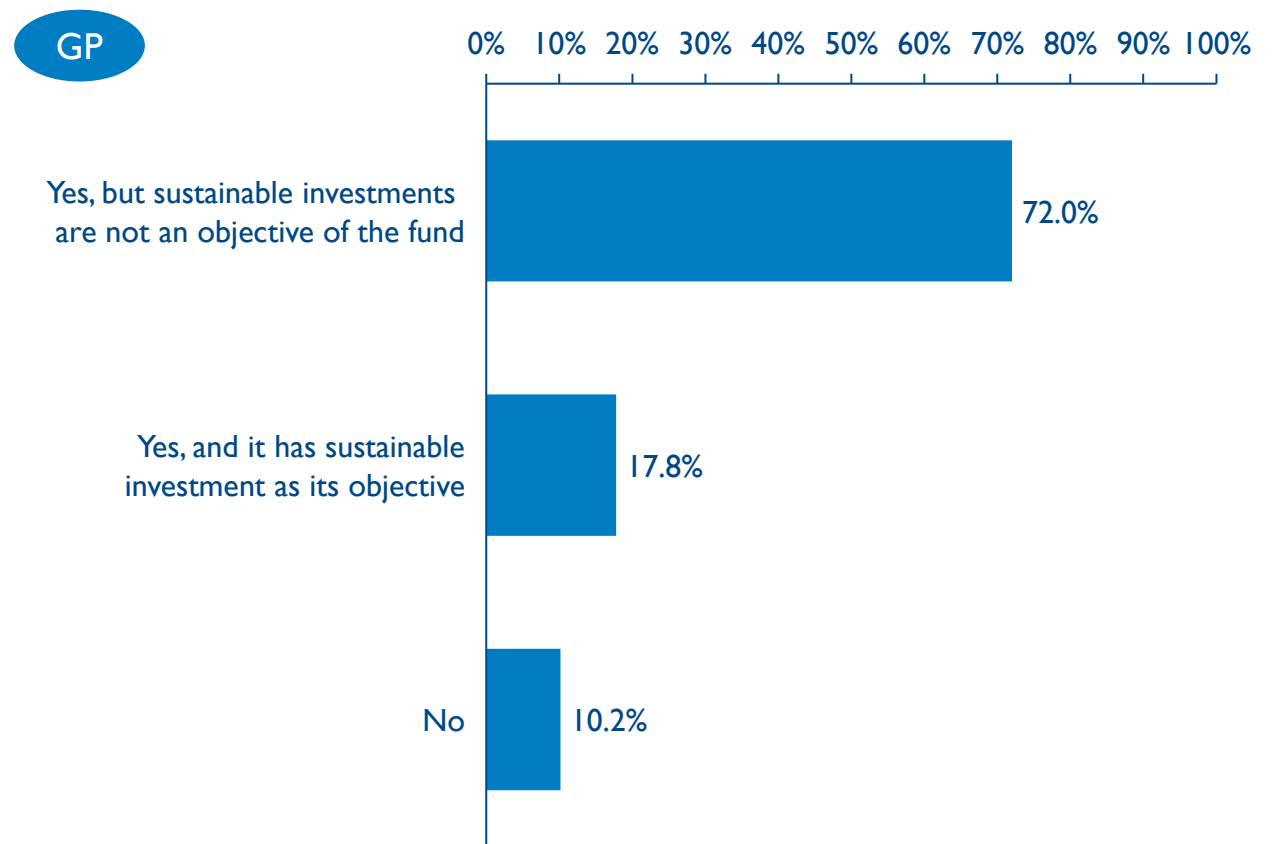
- **ESG considerations** are expressed to be **important** by GPs
 - 67.8% of GPs integrate sustainability risk always into investment decision of fund
 - 23.7% of GPs integrate them frequently
- No GPs claim that they never **integrate sustainability risks**, but 3.4% state that are **yet to do so**

Source: Arthur D. Little, Invest Europe

The most recent fund of GPs promote sustainable investments for 90% of GPs, notably in 73% of the cases even if the sustainability is not an aim

If GP's most recent fund promotes environmental and / or social characteristics, (Europe, 2021)

Comments

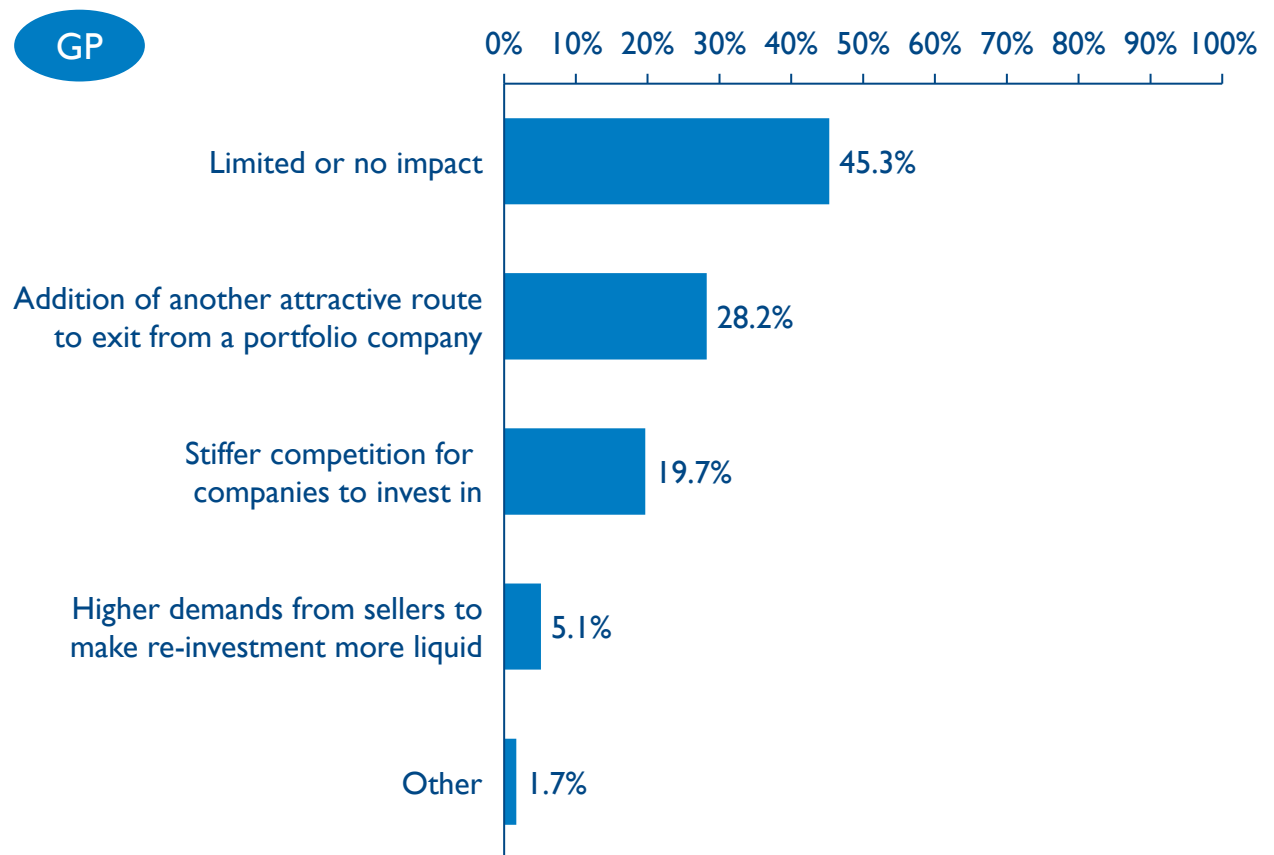


- **GPs exhibit wide sustainability concerns in their most recent funds**
 - 72% of GPs promote it even if it is not an objective of the fund
 - 17.8% promoted as it is the objective of the fund
- **Only 10.2% of respondents do not promote environmental and / or social characteristics in their most recent funds**

Source: Arthur D. Little, Invest Europe

GPs' view on SPAC is split, ~45% of GPs think that it will have limited or no impact while ~55% do see that it has a role to play

Expected implications of SPAC on Private Equity industry
(Europe, 2021)



Comments

- GPs express **different views on the implications of SPACs**
 - Almost half of GPs think that it will have limited or no impact
 - The rest of GPs have different views but consider that it has a role to play

Source: Arthur D. Little, Invest Europe

Arthur D. Little has been at the forefront of innovation since 1886. We are an acknowledged thought leader in linking strategy, innovation and transformation in technology-intensive and converging industries. We navigate our clients through changing business ecosystems to uncover new growth opportunities. We enable our clients to build innovation capabilities and transform their organizations.

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