IPEM 2022 PAN-EUROPEAN PRIVATE EQUITY SURVEY

THE CONFIDENCE OF CHAMPIONS AND A COMPETITIVE YEAR AHEAD

SUMMARY

Europe's private equity industry looks set to build on the back of impressive performance in 2021 and deliver another championship winning year as GPs prepare to raise more capital and launch new strategies.

A focus on operational improvement in a climate **of high valuations, navigating high inflation and rising political risk, completing deals in an increasingly competitive landscape, and improving ESG policies, will be key areas for GPs to score** victories. And prove that private equity is more important than ever to European investors.

This 4th annual survey gauges the mood and outlook of European private equity fund managers for 2022. In total, 190 interviews were completed online from Nov. 9th to Jan. 31st by the CSA institute on behalf of IPEM.

SURVEY CONDUCTED WITH THE SUPPORT OF 14 EUROPEAN PRIVATE EQUITY ASSOCIATIONS:

AIFI – Italian Private Equity, Venture Capital and Private Debt Association
AKTIVE EJERE – Active Owners Denmark
Ascri – Asociación Española de Capital, Crecimiento e Inversión
AVCO – Austrian Private Equity and Venture Capital Organisation
BVA – Belgian Venture Capital & Private Equity Association
bvca – Invested in a better future
BVK – German Private Equity and Venture Capital Association
France Invest – Association des investisseurs pour la croissance
Pääomasijoittajat – Finnish Venture Capital Association
LPEA – The Luxembourg Voice of Private Capital
nvca
NVP – Nederlandse Vereniging van Participatiemaatschappijen
SECA
SVCA

AND BY:

CSA – Consumer Science & Analytics

In this 4th edition of the IPEM annual survey, produced by the CSA Institute in collaboration with 14 national private equity associations, the general sentiment of European GPs is upbeat. An overwhelming majority have a positive outlook on the market for 2022, with only one in five fearing a major economic correction.

However, the pace of acceleration in 2022 is likely to be a little more subdued. Nearly half of respondents think the global, and European business environment will be better than last year, compared to nearly three-quarters of GPs surveyed in 2021.

EUROPEAN GPS ARE CAUTIOUSLY OPTIMISTIC ON THE BUSINESS ENVIRONMENT… IS THE COVID EFFECT WANING?

This conservative outlook suggests **PE firms will be paying close attention to the economic headwinds and tailwinds buffeting global markets** and could indicate that GPs feel the V-shaped recovery in response to Covid-19 has largely been realized.

The one outlier is Southern Europe. PE professionals in this region are feeling far more optimistic, with 82% expecting strong market performance even though 38% also fear an economic correction.

AS MACRO RISKS RISE OPERATIONAL EXPERTISE WILL COME INTO EVEN SHARPER FOCUS

A more cautious level of optimism on market performance becomes clearer to understand, when one considers that GPs are most fearful of macro risks, led by higher inflation, higher interest rates and political uncertainty in Europe, over the year ahead (Exhibit 1). The latter two represent new risks on the minds of PE professionals, having not featured in 2021.

Of note, is **the clear increased concern over rising inflation among GPs**. Whereas only one in 10 cited this in 2021, this year it rose to 65%. No doubt concerned that inflation reached a 30-year high of 5.6% in Europe in January. UK-based PE groups are especially focused on this.

Exhibit 1

MACRO-RISKS TAKE THE STAGE IN 2022, AND CLIMATE CHANGE ENTERS THE TOP 5

What external threats could the European private capital industry face this year? Top 5 global answers and mention % per year since 2019.

	2019		2020	
#1	Brexit and its consequences	80%	Protectionism / Trade wars	76%
#2	Protectionism / Trade wars	76%	Brexit and its consequences	71%
#3	Eurozone economic imbalances	62%	Rising populism and social unrest	51%
#4	Rising populism and social unrest	47%	Eurozone economic imbalances	37%
#5	Emerging markets crisis	22%	Level of corporate debt	32%

	2021		2022	
#1	Slowdown in growth	56%	**Rising inflation** (new)	**65%**
#2	Rising populism and social unrest	51%	**Rising interest rates** (new)	**42%**
#3	Brexit and its consequences	49%	**Political uncertainty in Europe** (new)	**38%**
#4	Protectionism / trade wars	40%	**Market volatility**	**36%**
#5	Market volatility	38%	**Climate change and its consequences**	**35%**

"Over half of UK GPs mention rising inflation as their primary concern. This is consistent with feedback we have had from our members. Inflation in the UK is currently at a level we have not seen for many years, as a result of supply chain disruption, geopolitical tensions, energy price rises and the reorganisation of the economy as we bounce back from the Covid pandemic. The great unknown is whether this is a short-term issue or whether expectations will become embedded throughout the economy." Suzi Gillespie, Head of Research, BVCA – the industry association in the UK.

MARKET VOLATILITY AND CLIMATE CHANGE ROUND OUT THE TOP FIVE MACRO RISKS.

Reflecting wider industry concerns over ESG risks, **the focus on climate change appears to be increasing among European PE managers**. An increasing percentage of GPs have raised concerns since 2019, with this year marking the biggest year-on-year change. This is likely to be a long-term secular trend as LPs increasingly ask GPs to quantify ESG and climate-related risks in their portfolios.

Whilst always a priority for any PE group, **the ability to generate meaningful, value-added operational improvements in portfolio companies is likely to become even more important in 2022.**

"Some very good companies have witnessed surges in their basic materials purchases and costs caused by logistical issues and value chain disruption and some of them are struggling with wage inflation. The first way that private equity will be hit by these concerns will be very operational, at the portfolio level," comments Antoine Colson, CEO and Managing Partner, IPEM.

Certain industries, such as manufacturing and construction, have been hurt more than others by supply chain issues and the rising costs of materials. Sponsors will need to determine how comfortable they are that those costs can be passed on to customers. And if that's not possible, how much margin compression might there be in certain parts of their portfolios?

"We are convinced decarbonisation of the economy will come at a cost to companies and society. There are clearly issues with raw materials and inflation is a concern for all of us. Whereas 18 months ago it was a case of looking for attractive Covid-proof businesses, the opportunities now might be in inflation-proof assets and companies, which might increase their valuation and price." Claire Chabrier, Chair, France Invest.

With elevated macro risks, high valuations and less conviction that market performance will be as strong as last year, one might expect a more challenging environment for portfolio management. However, it could be an opportunity for GPs to showcase their skills at operating and improving companies; 87% of PE professionals expect 2022 to be a good year in that respect.

EUROPE'S FUNDRAISING MOMENTUM REMAINS STRONG

There are now a record number of PE managers operating in Europe; IPEM estimates there to be around 1,600 private equity firms actively investing in Europe. And the level of competition looks set to increase this year, with 67% of survey respondents anticipating a rise in GP numbers. Last year, that figure was just over 50%. Given the popularity of fund jurisdictions like Luxembourg, one in five managers in the Benelux area expect to see a "significant increase".

As competition heats up in 2022, the appetite for fundraising also looks set to remain strong, creating a virtuous circle... as more capital flows in to Europe, it encourages more PE groups (driven by spin-outs from existing firms) to be established.

Eight out of 10 GPs expect 2022 to be another banner year as the industry rides the coattails of 2021, which saw global private equity attract $940 billion. French GPs are even more bullish, with near unanimous (95%) agreement.

GPS ARE RAMPING UP NEW FUND STRATEGY LAUNCHES... BUT WILL INVESTORS BE SEDUCED?

Two-thirds of PE professionals expect to raise a new fund with 54% anticipating a higher fundraise than for their previous fund vintage; this falls to 37% for Benelux-based GPs, reflecting the earlier point on increased competition. Half of survey respondents think European-based LPs will be the most important investor category, with Southern Europe managers emphasizing the importance of their domestic LP base (62%).

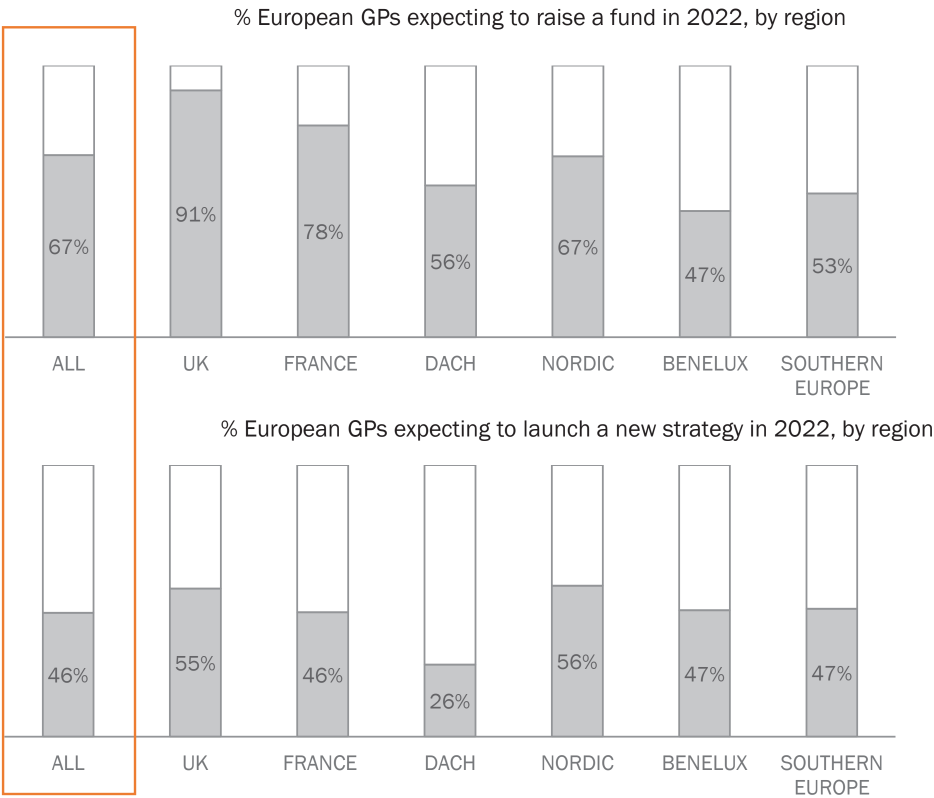
In a sign that GPs are confident about diversifying into wider areas such as private credit and infrastructure, 46% plan to launch new strategies (Exhibit 2)**.** One third of respondents expect these to be impact-focused strategies, rising to 51% among French GPs who appear more focused than their European peers on delivering dedicated ESG products to LPs.

With so many funds launching, will LPs be willing to increase their allocation at an equal pace?

The fact that private equity performed so well last year, could actually become a double-edged sword for GPs as they hit the fundraising trail. In Colson's view: *"Some pension plans have told us they would probably not be able to recommit with all the funds that they wanted to re-up in 2022. Their private market portfolios are already reaching their target allocation because performance last year was so good. One pension fund said he expected some funds that are targeting a final close in 2022 might not be able to do so until 2023. The fact that some managers are also expecting to launch new strategies highlights how agile the private equity industry has become: i.e. some large-cap managers launching mid-market funds, some buyout firms launching growth equity funds, etc."*

Exhibit 2 EUROPEAN GPS WILL BE ACTIVELY FUNDRAISING AND LAUNCHING NEW STRATEGIES IN 2022

% of European GPs raising a fund / launching a new strategy in 2022



NAVIGATING A HIGHLY VALUED MARKET WILL BE KEY

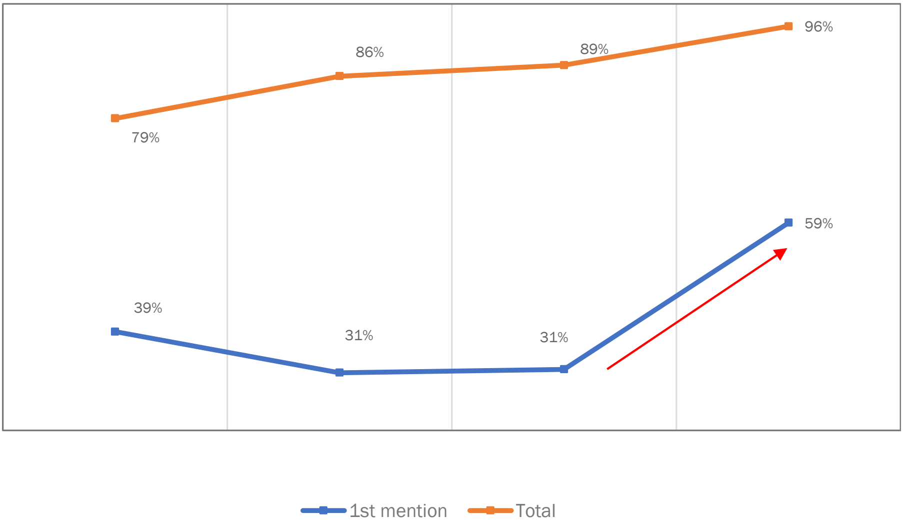
Even though the fundraising climate appears highly positive, it is not going to be easy for GPs to deploy capital. **Valuations are likely to be further stretched and represent the biggest industry risk, cited by 96% of PE professionals** (Exhibits 3 & 4)**.**

This is likely to be further compounded by record levels of dry powder.

Even though the same percentage of GPs (71%) as last year cited this as their second biggest concern, the figure rises to 85% among France-based management teams. Identifying the right assets, at the right price, and having conviction that their valuations will continue to grow over five to seven years, is something that LPs will be looking at closely in 2022, as GPs put capital to work.

Exhibit 3 **HIGH VALUATIONS TOP INDUSTRY RISKS IN 2022, MENTIONED BY 96% OF RESPONDENTS AND AS THE #1 RISK BY 59%**

What principal industry / economic risks could the European Private Capital industry face in the next 12 months?



Six out of 10 GPs think target valuations will rise even further this year, with 42% saying they expect it to become more difficult to seek out attractive investment opportunities.

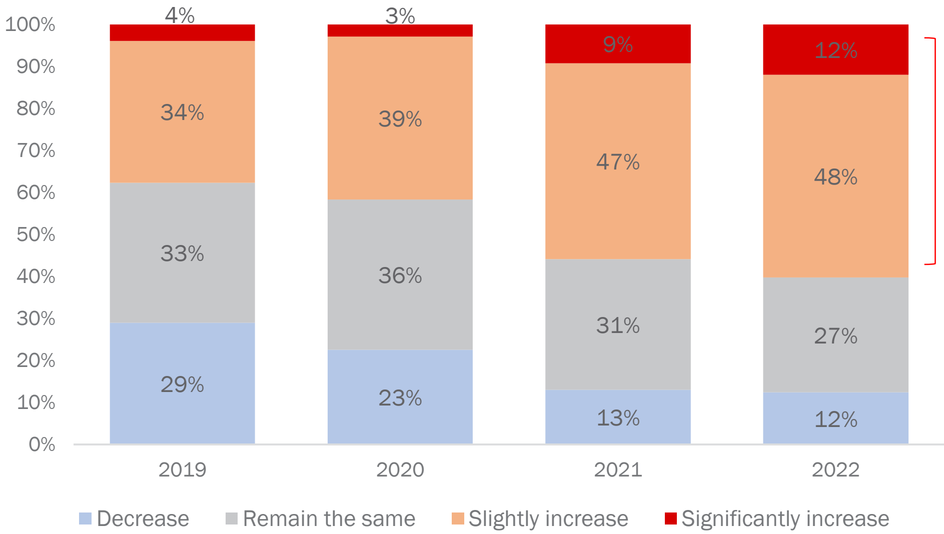
"We've had a buoyant market for a few years; we've seen a lot of new players arriving from the UK, for example, and a lot of buy-and-build strategies. We've also seen quite a few of our members opening offices in Germany where there are untapped investment opportunities." Felix Zwart, Director Research & Policy, NVP – the association representing Dutch PE firms.

Sectors like Information Technology and Healthcare have been especially vibrant in recent years, driven in part by increased competition from family offices and sovereign wealth funds as they develop their own direct investment strategies. This could continue to play a role and drive European valuations higher but despite this - perhaps due to the sheer volume and diversity of deals - 70% of GPs expect to focus their buyout activities in Information Technology.

Exhibit 4

60% OF RESPONDENTS EXPECT CONTINUED INFLATED VALUATIONS, A RECORD LEVEL

How do you expect target valuations to evolve in the coming months?



EVEN SO, GPS EXPECT A FLURRY OF DEAL ACTIVITY

In terms of anticipated deal activity, 83% of GPs think that 2022 will be conducive for exits, which is slightly higher than last year's sentiment (67%). More specifically, two-thirds of PE professionals think the number of exit opportunities will increase. This is unsurprising given that valuations expect to remain robust, providing ample opportunities for sponsors to divest positions. However, there is less conviction for restructuring opportunities, falling year-on-year from 77% to 56%

Overall, with so much dry powder to put to work, **prosecuting deals looks likely to accelerate with 62% of GPs anticipating a higher amount of capital deployment**. This is further reflected in the fact that 86% feel that 2022 will be a strong year for deal making. As for where European GPs will be focusing their deal activities, the overwhelming indication is that they will stick to their domestic markets.

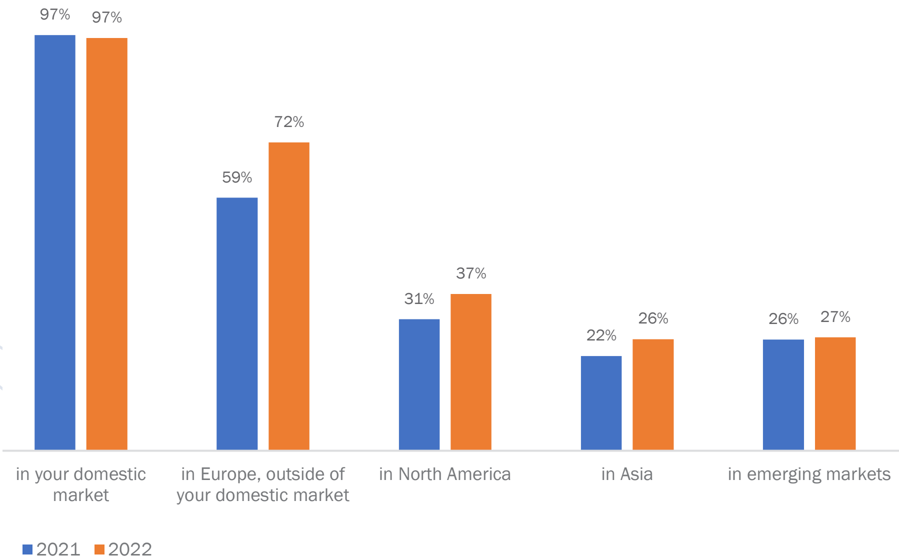
But in a sign that Europe's private equity industry is continuing to mature, 72% did confirm that they would also look beyond their home territory (Exhibit 5). This could result in greater cross-border deal activity as GPs search for the right deal size and profile.

"We have many funds in France with assets under management of more than EUR1 billion, and at that size you cannot stay in your domestic market. There is also some consolidation in our market with the creation of platforms, and with such size they are able to open offices in other European countries and do more transactions; it's a clear trend." Claire Chabrier, Chair, France Invest.

The prospect of multiple interest rate hikes in Europe, and their impact on leverage levels and financing terms for buyout funds, is also likely to influence how GPs think about prosecuting deals in 2022.

Exhibit 5 **EUROPEAN GPS ARE INVESTING MORE IN OTHER EUROPEAN MARKETS… AND INTERNATIONALLY**

In which geographies are you planning to invest in the coming months?



AND WHILE ESG IS THE BIGGEST INTERNAL FOCUS FOR 2022

ESG is set to be the biggest internal focus according to 72% of European GPs; a substantial increase on 2019, which only attracted the attention of one third of GPs. Talent management and PR/communication were cited as the other two priorities (Exhibit 6).

Exhibit 6

ESG AND TALENT MANAGEMENT ARE THE TOP INTERNAL PRIORITIES OF GPS IN 2022

What are your top 3 internal priorities for the next 12 months? (% mentions)

	2019		2020	
#1	HR / Talent management	74%	HR / Talent management	60%
#2	Fund reporting / Transparency	48%	ESG	48%
#3	PR / Communication and Marketing	44%	PR / Communication and Marketing	47%
#4	Data and IT management	41%	Fund reporting / Transparency	45%
#5	ESG	36%	Data and IT management	43%

	2021		2022	
#1	ESG	63%	**ESG**	**72%**
#2	PR / Communication and Marketing	47%	**HR / Talent management**	**67%**
#3	HR / Talent management	42%	**PR / Communication and Marketing**	**39%**
#4	Fund reporting / Transparency	37%	**Fund reporting / Transparency**	**33%**
#5	Data and IT management	33%	**Data and IT management**	**28%**

Looking more closely at the ESG trend it is clear that European managers are responding in kind to the increased scrutiny among investors. So much so that nearly eight out of 10 managers believe that the biggest demand of LPs in 2022 will be ESG policies and reporting; what ESG policies do GPs have in place? How are they implementing them? And how well are they communicating ESG metrics in their LP reports?

With so much anticipated fundraising activity, it is clear that GPs increasingly regard ESG proficiency as a key element to attracting new investors; a trend that will likely continue for many years to come. Moreover, the introduction of the European Union's Sustainable Finance Disclosure Regulation (SFDR) regulation in March 2021 means that GPs will have to ensure that they properly disclose how ESG risks are being incorporated into their investment activities; requiring robust reporting processes.

"PE firms like to have a proper plan, and to know how their businesses will achieve the targets they set. Our members are therefore more comfortable with some initiatives than others, and we encourage participation in initiatives like the UN PRI-backed Initiative Climat International, which began in France and has become international." Leon de Bono, Assistant Director General, BVCA.

A BIGGER COMMITMENT TO DIVERSITY WOULD HELP IMPROVE EUROPE'S PR IMAGE

The fact that European private equity is becoming more crowded and competitive is influencing how GPs think about talent management; this year's second most important priority. Over 80% of GPs plan to expand their teams in 2022, with four out of five confirming they would look to hire up to five new employees. Much of the focus will be on building out intermediate-level roles, with only one-third of PE firms expecting to make senior appointments. Most of these new roles will be within the investment team (94%) although 75% of GPs expect it to be a difficult task.

What is particularly revealing is that while ESG is an operational focus (reporting etc.), it is not yet being translated into PE recruitment drives. Only one quarter of GPs plan to appoint ESG/ sustainability staff. Moreover, even though 52% said they have plans in place to encourage greater diversity in their leadership teams, only one-third of GPs currently use hiring practices to build more multicultural firms.

Greater commitment to improving diversity and inclusion could go some way to improving the public perception of PE, which while stable compared to last year, remains underwhelming.

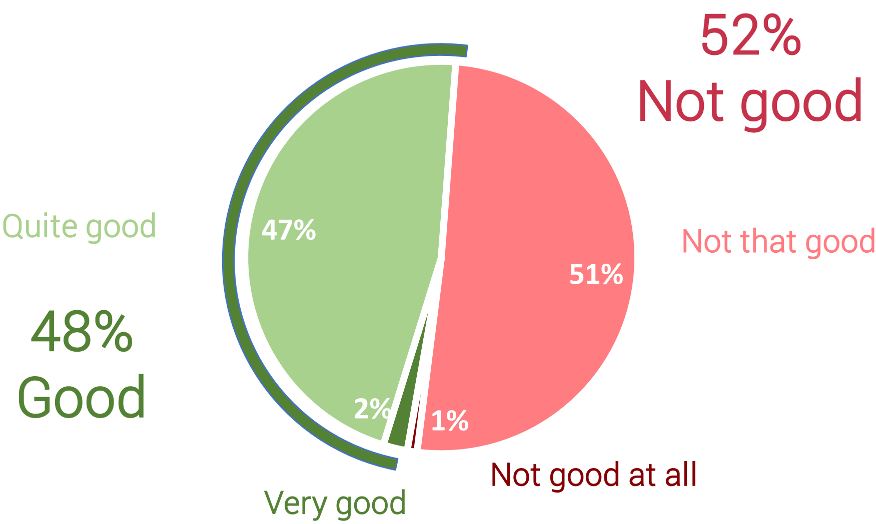
Just over half of survey respondents (52%) think it still lacks a positive image, rising to 91% for those based in the UK (Exhibit 7)**.** In Southern Europe, where perhaps PE plays a more visible role in backing family-owned businesses and helps to generate a positive multiplier effect, 85% of GPs think its image is good.

"Private equity funds are looking for enterprises with a good (business) plan, who are willing to grow, internationalize and innovate. In Italy you can find many such opportunities. We have a large number of mid-market deals, which are typically 'build-ups'. As the industry association, we are working hard to inform people on the core business of private equity" Anna Gervasoni, Managing Director, AIFI – the Italian industry body

Exhibit 7

PRIVATE EQUITY STILL STRUGGLES WITH ITS REPUTATION

What do you think is the public perception of PE/VC and its economic role?



Looking ahead, European GPs are excited about the positive impact they have on job creation, on international expansion, on financing, innovation and technology transformation. These are additional angles private equity could, and should use to better promote the industry.

"Private equity is emerging from the last difficult months as a clear and confident champion. However, the industry expects 2022 to be a highly challenging and competitive year, without mentioning the Ukraine situation and its impact on this uncertain environment. It will be a test for GPs to prove their winning mentality and for the industry to once again defend its title as the leading alternative asset class. ***At the end, a champion mindset will prevail in this year's competitive arena****"* concludes Colson.

SINCE 2019, NATIONAL PRIVATE EQUITY ASSOCIATIONS HAVE HELPED IPEM TO CONDUCT THIS PAN-EUROPEAN SURVEY. WE WOULD LIKE TO THANK THE 14 ASSOCIATIONS THAT TOOK PART TO THE 4TH VINTAGE OF THIS PROJECT!

FIND OUT MORE ABOUT THEM:

AIFI (ITALY):
https://www.aifi.it/
info@aifi.it

AOD (DENMARK):
http://dvca.dk/
aktiveejere@aktiveejere.dk

ASCRI (SPAIN):
https://www.ascri.org/
info@ascri.org

AVCO (AUSTRIA):
https://avco.at/
office@avco.at

BVA (BELGIUM):
https://www.bva.be/
info@bva.be

BVCA (UK):
https://www.bvca.co.uk/
bvca@bvca.co.uk

BVK (GERMANY):
https://www.bvkap.de
bvk@bvkap.de

FRANCE INVEST (FRANCE):
https://www.franceinvest.eu/

FVCA (FINLAND):
https://paaomasijoittajat.fi/
jonne.kuittinen@fvca.fi

LPEA (LUXEMBOURG):
https://lpea.lu/
lpea-office@lpea.lu

NVCA (NORWAY):
https://www.nvca.no/
office@nvca.no

NVP (NETHERLANDS):
https://nvp.nl/
info@nvp.nl

SECA (SWITZERLAND):
https://www.seca.ch/
info@seca.ch

SVCA (SWEDEN):
https://www.svca.se/
info@svca.se