SURVEY 2024

IPEM PRIVATE EQUITY PAN-EUROPEAN SURVEY 2024

Survey conducted with the support of 14 European PE Associations

IPEM Knowledge Partner AlixPartners

GETTING DEALS DONE

Despite the significant market challenges expected and rising political risk, will 2024 be a good year for dealmaking?

From almost every angle—exiting, raising, investing—market conditions are challenging, but 2024 is set to be a year for dealmaking. There are signs that European PE is taking the opportunity to return to the fundamentals of investor returns and, at the same time, reimagining how the PE business model operates to get deals done.

This is just a snapshot of the industry's outlook within IPEM's sixth annual Private Equity survey, analyzed by the team at IPEM in collaboration with global management consultancy AlixPartners. In total, 157 interviews were completed by the CSA Institute on behalf of IPEM during November and December 2023, working with the 14 European national PE associations.

OPPORTUNITY SEEKERS

There is cautious optimism in the GP community going into 2024, with expectations for doing business up on last year, and strong signals emerging for improving exit conditions and falling valuation levels. But concerns over a slowdown in economic growth persist, hitting their highest level ever in this survey, and geopolitical turmoil moves to the top of the external threats facing the industry.

Major elections are on the horizon on both sides of the Atlantic, too, with the presidential vote in the US, European Parliament elections, a general election in the UK, and voters heading to the polls elsewhere across the world, including in Taiwan and India. In addition to the prospect of political change impacting business and markets, rising populism and social unrest has returned to the top five external threats, after a two-year absence.

What type of external threats could the European Private Capital industry face in 2024?
Ranked from 1st to 5th mention in total

	2019	2020	2021	2022	2023	2024
#1	Brexit and its consequences	Protectionism / trade wars	Slowdown in growth	Rising inflation	Rising interest rates	Geopolitical turmoil
#2	Protectionism / trade wars	Brexit and its consequences	Rising populism and social unrest	Rising interest rates	Rising inflation	Slowdown in growth
#3	Eurozone economic imbalances	Rising populism and social unrest	Brexit and its consequences	Political uncertainty	Slowdown in growth	Rising populism and social unrest
#4	Rising populism and social unrest	Eurozone economic imbalances	Protectionism / trade wars	Market volatility	War in Ukraine	Rising interest rates
#5	Emerging markets crisis	Level of corporate debt	Market volatility	Climate change and its consequences	Market volatility	Market volatility

Economic risks
Political risks
Market risks
Other

As these macro risks play into market sentiment and operating conditions, they are heightening specific challenges and risks for European PE. The exit environment is as difficult as at any point since this survey began, cited as the top industry risk, followed by high valuations.

What principal industry or economic risks could the European Private Capital industry face in 2024?
Ranked from 1st to 5th mention in total

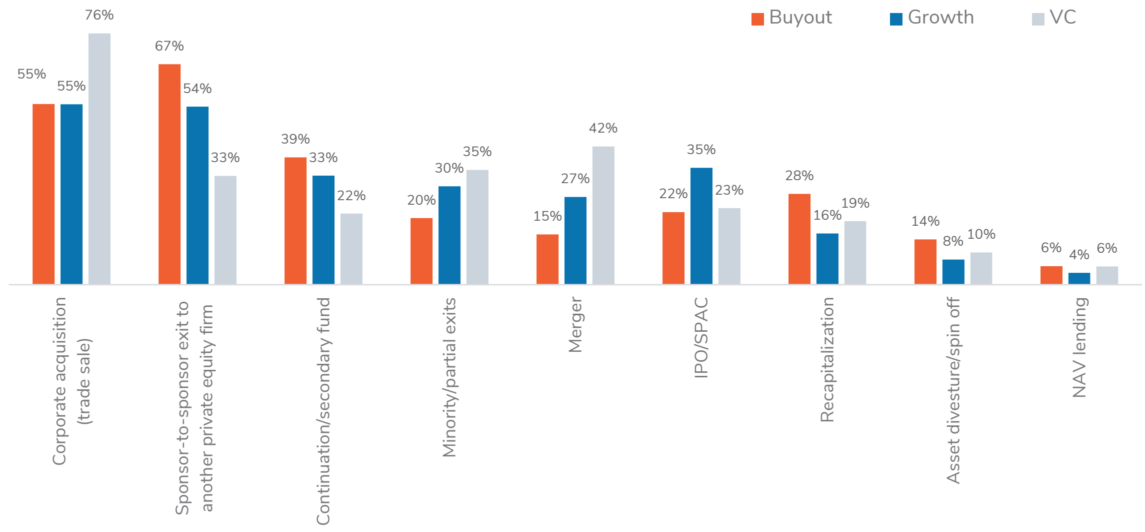
	2019	2020	2021	2022	2023	2024
#1	High valuations	High valuations	High valuations	High valuations	Difficult exit environment	Difficult exit environment
#2	NA	Excessive leverage	Increased regulation, tax environment changes	High level of dry powder	High valuations	High valuations
#3	Excessive leverage	High level of dry powder	High level of dry powder	Increased regulation, tax environment changes	Excessive leverage	Excessive leverage
#4	Increased regulation, tax environment changes	NA	Lack of attractive investment opportunities	Lack of attractive investment opportunities	High level of dry powder	Lack of attractive investment opportunities
#5	Competition from new entrants	Increased regulation, tax environment changes	Excessive leverage	Climate change and its Excessive leverage	Lack of attractive investment opportunities	Increased regulation, tax environment changes

Valuations
Leverage
Deal environment
Regulation
Other

However, there is growing optimism that exit deals can be done in 2024—a priority focus area for the whole PE industry. Overall, 56% of GPs see more exit opportunities in the next 12 months, with alternative liquidity and continuation vehicles on the table. This fi gure rises to 65% for buyout fi rms.

Corporate acquisition is seen as the top exit opportunity, at 60% overall and 76% for venture capital. The high level of dry powder that remains in fi rms and the exit backlog is likely to drive sponsor exits in 2024. Sponsor-to-sponsor exits involving another PE fi rm are a preferred option for 52% of fi rms and up to 67% for buyout fi rms. 34% of fi rms will look at continuation or secondary funds, and 28% are considering partial exits, a preferred route for 35% of VCs.

In 2024, what type of exit/liquidity opportunities will you be exploring?
Total % mentions, by GP strategy

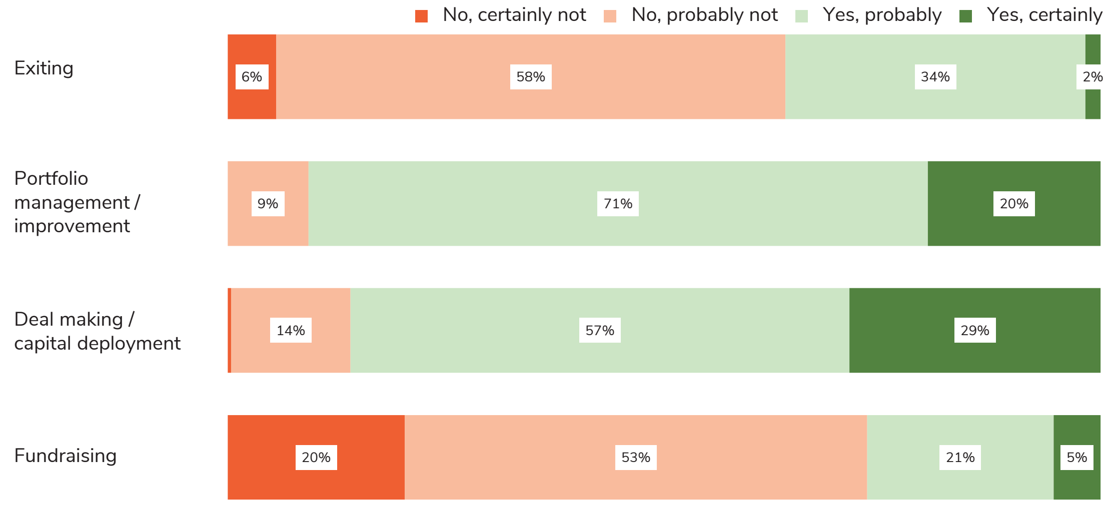


Increasing optimism and creativity in finding opportunities suggest that 2024 could be a good year for new deals and capital deployment, as dealmaking confidence climbs to 2021 levels, which was a record year for private equity deals.

For some, major dealmaking headwinds could ease as the year progresses: 42% of firms think valuation spreads will slightly or significantly improve in 2024.

At a portfolio company level, there is now greater corporate debt vigilance, which could be linked to the wall of debt maturities the industry is anticipating. These leverage levels could lead to higher restructuring activity: 69% of buyout GPs expect more restructuring.

In your markets (by geography and market segment), do you consider 2024 a good year for:
Total % mentions

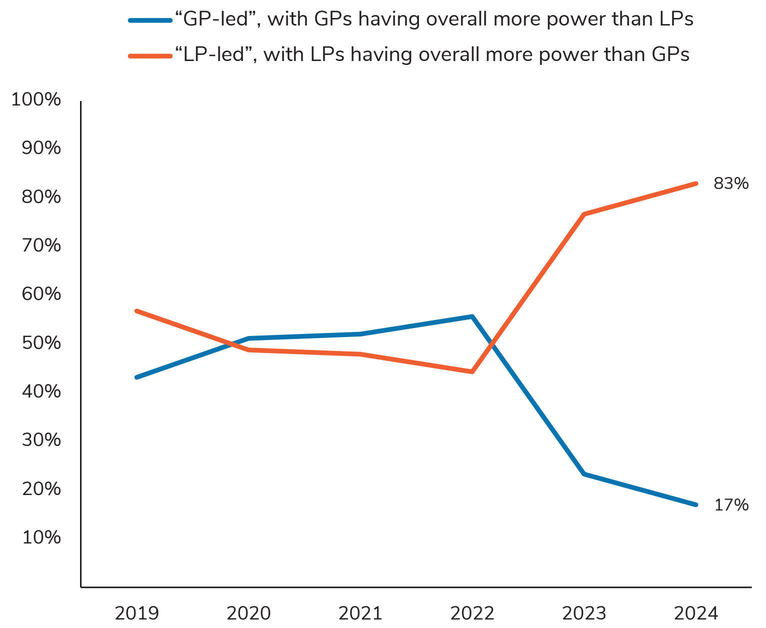


GROWING LIMITED PARTNER DEMANDS

This year marks the highest level of LP influence seen in this survey since its inception. Up from 77% last year, now 83% expect Europe's private capital market to be LP-led.

This shift in power from GPs partly reflects the continued evolution of the fundraising landscape. It will continue to be difficult to raise funds in 2024; 73% of firms view this year as a difficult one for fundraising, up from 72% last year. Venture and growth funds are particularly worried about being able to raise funds.

In 2024, do you expect the Private Capital market in Europe to be GP-led or LP-led?
Total % mentions



Despite this, 63% of GPs still expect to raise new funds in 2024, with fundraising efforts increasingly focused on a new pool of LPs: 59% expect higher family office and high-net-worth (HNW) fund flows, compared to 45% in 2023. Fund flows from retail investors is expected to grow in importance for over half of GPs too, and 31% expect an increase from foundations—the highest level since the survey began and up from 15% in 2023.

This comes as the industry continues its shift to become more accessible to retail investment, while the volatility experienced in markets prompts more family offices and HNW individuals to continue to broaden their portfolios into alternative asset classes. That is also likely to be driving foundation and endowment asset allocation behavior, as is exposure to specific investment themes, such as around sustainability aims.

The challenges in raising funds can be seen in the lower number of GPs expected to launch new strategies or raise new funds in 2024. This search for investors is continuing to look across borders, as well as towards a greater diversity of sources. Among European PE firms, 37% expect LPs in the Middle East and Asia to gain importance in fundraising, while 31% expect North American LPs to become more important.

This widening pool of LPs is sharpening its focus on liquidity and distributions, driving deal activity in 2024: 67% of firms expect investors to demand slightly or significantly more from distributions, and 63% expect greater liquidity options to be requested. LP demands are influencing PE practice in other areas too; 50% of GPs expect to align their strategy more closely with LPs' interest and offer more co-investment opportunities, while 36% are expecting more requests for portfolio company data, up from 16% in 2022.

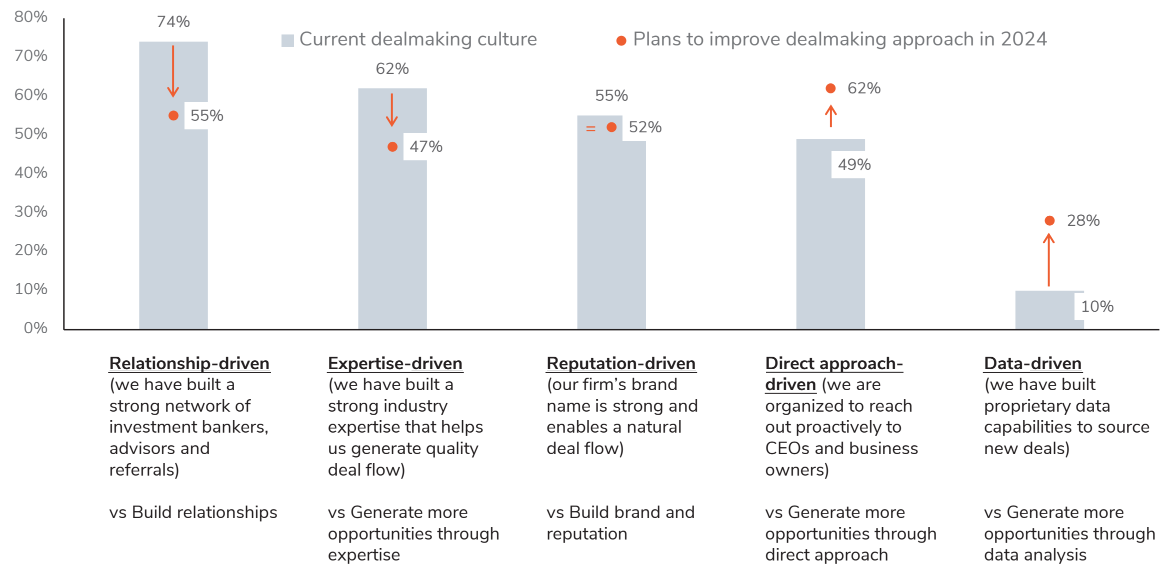
CREATIVITY IN DEALMAKING

How deals are getting backed and done is also evolving, as business and investment models adapt to market conditions and LP expectations. With clear signs of growing positive expectations around dealmaking and valuations, the requirements to get deals done are changing the business culture in firms—including exploring new deal models and financing routes, and new ways to target the next investment.

Targeting targets

Completing deals is described as relationship-driven by 74% of firms, with 55% describing their deal culture as reputation-driven, climbing to 65% for buyout funds. However, GP plans for 2024 show that dealmaking is becoming more creative and inventive, shifting from established practices. 62% of firms will be looking to generate more opportunities through direct approaches to CEOs and business owners. While 10% of firms started using proprietary data in dealmaking in 2023, 28% are now looking to data to find opportunities in 2024—rising to 44% for venture capital firms—presenting an opportunity to take advantage of advances in analytics and AI.

Current dealmaking culture vs plans to improve dealmaking approach in 2024
Total % mentions



As for the industries being targeted, at venture capital firms there is less interest in AI and big data targets—the focus of so much attention and buzz in 2023. 81% of VC firms saw AI and big data as an attractive investment industry in 2022; that's down to 62% in the 2024 survey. Health and medical technology has grown to 55%.

For buyout funds, pharma and healthcare has grown since 2022 to become the top sector, with increased interest in industrials and infrastructure. At the same time, the attractiveness of consumer goods and services has significantly dropped for buyout funds. IT is still one of the most attractive industries for buyout funds in 2024, although this interest has dropped for the third year in a row, from a high of 71% in 2021 to 58% in 2024.

For growth capital, AI and big data is down from 55% to 42%, while clean and green tech has become the most attractive investment target, slightly increasing from 43% to 47%.

Protecting returns

While ESG activity remains a top internal priority for European PE firms, this is down from 72% of firms in 2023 to 57% this year. Fund reporting and transparency, meanwhile, has grown as a top three internal priority for firms, up from 39% to 53%, as over a quarter of GPs are expecting LPs to request greater visibility of portfolio companies.

Changing internal priorities and growing LP demands could be two key factors driving due diligence priorities. Strategic and operational due diligence is the top priority for 2024, primarily for larger funds between €100m and €500m, closely followed by financial checks. The third highest due diligence priority is HR and team assessment, and is most important for venture capital and smaller funds of less than €100m.

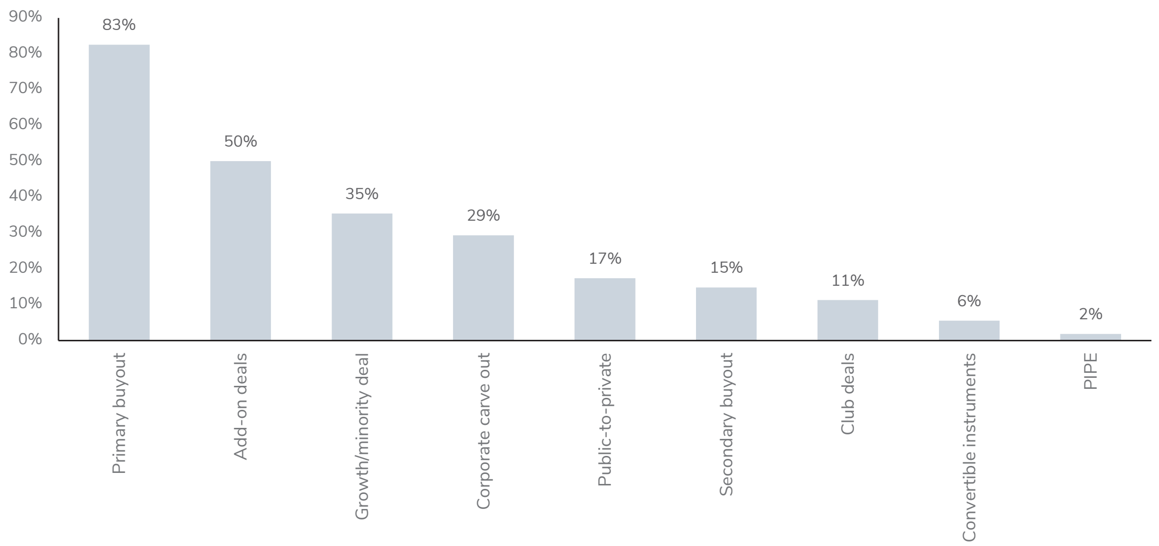
Emerging risks that are consuming due diligence attention include geopolitical risks, a priority area for 32% of firms but more so among funds greater than €500m. 31% of firms will be particularly vigilant on both cybersecurity and environmental risks in 2024.

Active portfolios

Buyouts are once again expected to be less reliant on leverage, albeit elevated from the very low levels seen in 2023; 66% of buyout funds also expect more equity to be involved in transactions this year.

There is still a focus on primary buyout and add-on deals, but also growing interest in more complex deal structures, such as corporate carve-outs, public to private transactions, and a return to development capital in the form of minority or growth capital transactions.

Which type of buyout transactions will you be looking to perform in 2024?
Total % mentions



The higher preference for add-ons among buyout funds suggests a focus on driving outperformance in right-size investments, rather than using leverage in pursuit of scale.

Half of all firms expect more opportunities for co-investment with LPs this year, and 37% see parity with last year on co-investment.

For VC and growth, new deals remain the priority, but there are indications of more active portfolio management. 80% of VCs expect to make follow-on investments in existing portfolio businesses, and 44% of growth funds expect to engage in M&A through portfolio add-on.

New models: finance and deal design

Rising rates may have fallen down the list of risks in 2024, but rates remain high. The 2024 survey reflects the growth in private credit that this interest rate environment has created. Bank loans and private credit funds are now viewed as somewhat or very interesting for buyout financing, for 62% and 61% of firms respectively. Unitranche lenders are of interest to 48% of buyout-focused GPs, with levels of interest falling to 40% and below in alternative lenders, mezzanine funds, and high-yield sources.

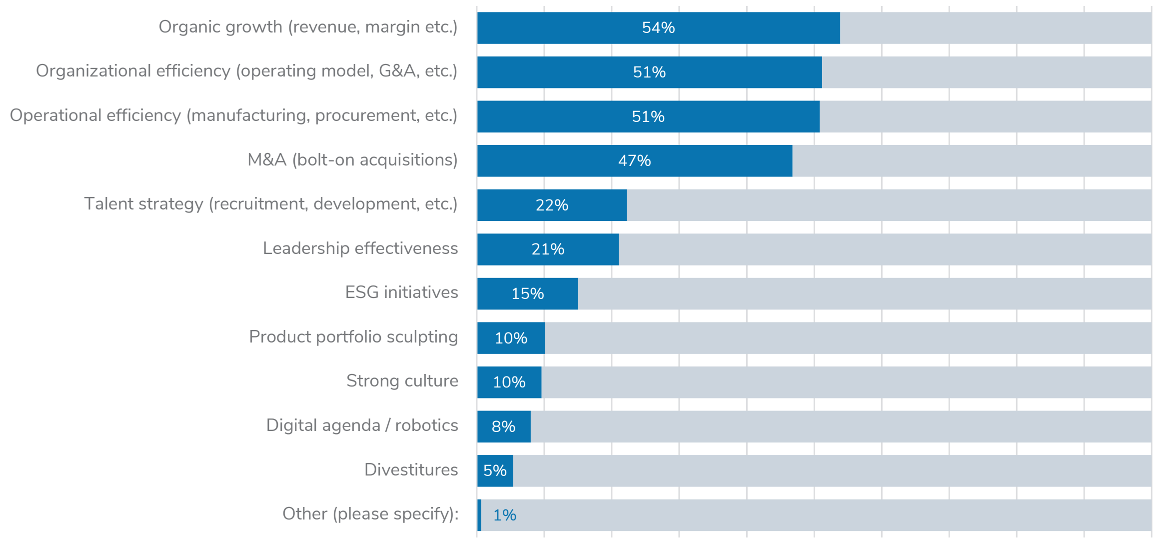
As well as different deal models, strategies to close deals are adapting to market conditions. There is also some divergence, depending on PE strategy. 67% of PE businesses have an appetite to engage in more complex transactions—a strong preference among larger funds.

59% of firms will be looking to close more and smaller deals. That approach is highest on the agenda for buyout strategies but is a common approach for all firms.

PE business strategy in 2024

As GPs look to drive returns from new acquisitions, or prepare businesses for a smooth exit in 2024, they are doubling down on organic growth and organizational efficiency. That reflects the continuing tight capital conditions and the portfolio impacts from high inflation and energy costs over the past 12 months. The continuing challenges around liquidity and finding investment targets is also prompting further changes to PE business models.

What levers do you consider to be the top priorities for generating value within the portfolio company?
Total % mentions



54% of firms cite organic revenue and margin growth as a priority for generating value in 2024, while 51% are looking at organizational efficiency within their operating models.

M&A activity—for bolt-on acquisitions—is also one of the top levers for generating value, especially for buyout strategies. 66% of buyout firms are prioritizing M&A, potentially targeting better value mid-market firms and portfolio companies as a platform for continued growth.

Sourcing, structuring, and financing deals are the top areas that these firms will focus on. 69% of firms think dealmakers should be sourcing deals more creatively, and 55% think dealmakers should be exploring different structures and deal financing options.

Low liquidity and difficulty sourcing attractive investment targets is also driving PE business strategy: 40% of firms are looking to specialize in niche strategies and new liquidity solutions or secondaries, although this is lower for growth funds. The move into private debt is likely to continue to grow in 2024, for example, while 32% of firms overall are diversifying into new or broader strategies, rising to 45% for venture capital.

More than a quarter of firms are also expecting to see longer fund duration models and consolidation among GPs, as major operators acquire smaller PE firms—a trend that could play out primarily in listed companies looking to grow assets under management. 35% of firms expect to see M&A activity and consolidation in the industry in 2024.

EXPERT COMMENTARY

Antoine Colson,
CEO & Managing Partner, IPEM

"This 6th edition of the IPEM pan-European survey confirms that some deep transformations are at work in private equity. As political uncertainty is adding up to a tougher macro-economic environment, European fund managers are naturally looking for creative ways to get deals done again after a starving year. While these uncertain times can raise some obvious concerns, they also catalyze positive change that private markets should embrace. Welcome to a more growth-oriented, hands-on, accountable, data-driven and democratized private equity!"

Nicolas Beaugrand,
Partner & Managing Director and Private Equity expert, AlixPartners

"After an unprecedented period for the PE industry, this 2024 IPEM survey points to a progressively more optimistic, though cautious, outlook for the European private equity industry, and a better business environment globally. Geopolitical concerns and global economic conditions will still require resilient leadership, however, and a slowdown in growth remains a primary threat. Industry players will need to demonstrate innovation in deal structuring and value creation; this survey confirms that over two-thirds of GPs intend to be more creative in the way they source deals. While the fundraising environment looks still challenging, there are signs of a more encouraging year for finding attractive investment opportunities and for exit opportunities, and a good year for dealmaking. Should exits prove more protracted in their timeframes, it is vital that leadership teams double down on value creation and cash generation activity within portcos. They must drive organizational efficiency and revenue and margin improvement, while also making smart moves from an M&A perspective to enhance their market position as economic conditions recover."

IPEM PAN-EUROPEAN SURVEY IN A FEW WORDS

This pan-European annual PE survey is organized by IPEM since 2018, with the support of 14 national private equity associations. Administered by CSA and analyzed with the support of AlixPartners.

The 43-question online survey was completed by a sample of 157 European GPs, from November 9 to December 12, 2023, via a link shared by IPEM and each partner association. A statistical adjustment was applied to the number of GPs in Europe by geographical region, to create the best possible representative gauge of European PE sentiment.