Oak Universe

European Private Equity Outlook

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Introduction

The manufacturing of tomorrow. The European private equity industry has been resilient in the face of recent disruption, which gives fund managers and investors great confidence for the future. Data for the first quarter of 2022 shows a remarkable rebound when compared to 2021. Private equity investment levels reached a new high in the first half of 2022, putting the industry on track for another strong – and potentially record-setting – year. Fundraising is matching the high levels achieved in recent years, while exits have also improved.

Far from simply embracing a return to business as usual, private equity is treading a new path with a focus on flexible ways of working and the move to digitisation and automatisation at great speed, both of which will help to build a more innovative and competitive Europe on the world stage.

The greatest shift is an increased focus on environmental, social and governance (ESG) factors. As a long-term investor, private equity is a cornerstone of the European economy. It has supported business through the recent downturn and is now providing capital and direction for companies in the recovery. The aim is stronger, more resilient businesses that support growth and transformation across Europe and contribute to a better society long term.

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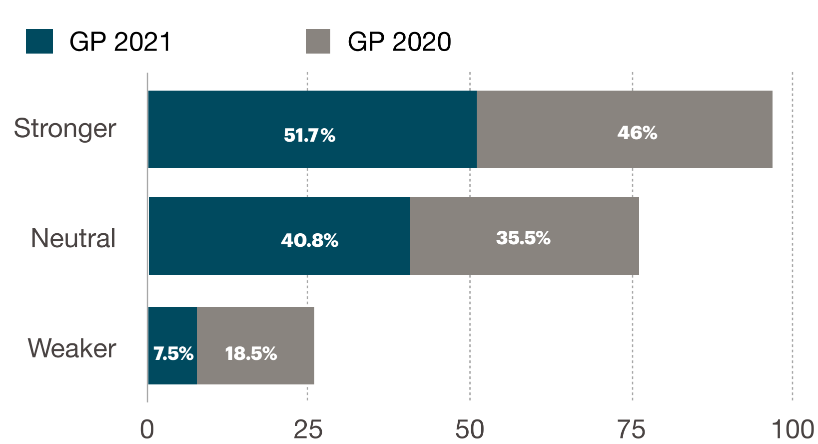
Strengthening belief in investment opportunities

Investment activity in Europe strengthened in the first quarter of 2022, hitting a new six-month high of 57 billion Euros and cementing a strong recovery from the first half of 2021. There were record totals for both growth and venture investment as GPs directed more capital towards innovative, fast-growing companies.

As investment has rebounded, private equity firms are more confident about their ability to identify companies that they can transform and grow with their capital and expertise. Over half of GPs believe the outlook for finding investments will be stronger over the coming 12 months – an increase from 46% last year. Sectors at the cutting edge of technology and health remain among the most attractive and in demand among private equity firms. Life science & healthcare has become the top target sector with three quarters of GPs expecting investment to be more frequent in the space over the coming 12 months. Renewable energy has also accelerated, with more than half of GPs expecting investment to be more common.

Utilities, chemicals and real estate are less attractive investments, though some segments have seen a rise in interest levels from last year, most notably automotive.

Perception of Investment opportunities in the market within the next 12 months compared to the last 12 months



Source : Invest Europe Private Equity survey 2021.

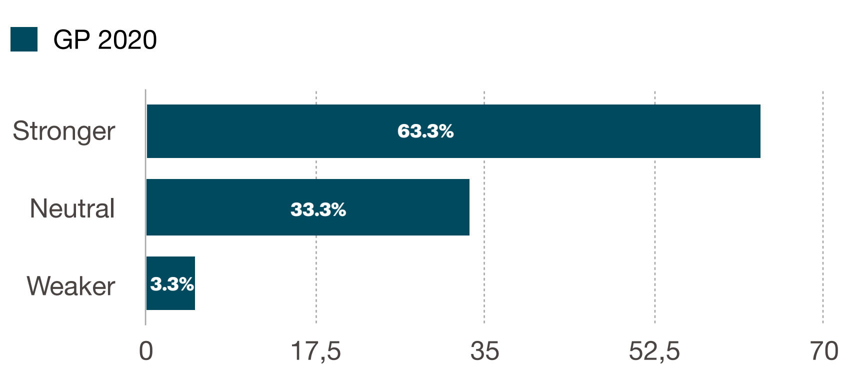
Disinvestment supports a stronger Private equity market

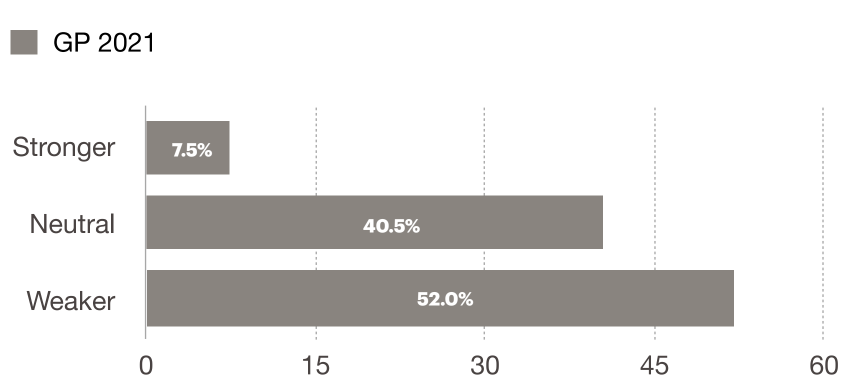
During the second half of 2021 divestments in Europe increased to 15 billion Euros (measured at original investment cost), enabling GPs to crystalize investment gains and provide LPs with capital that can ultimately flow back into new private equity funds.

Following the recovery in divestment activity from the lows of early 2020 and 2021, GPs are now expecting a significantly improved exit outlook over the coming year. This flow of exits will signal opportunities for other investors, potentially increasing the supply of companies for other private equity firms to buy and take to the next stage of their development.

Higher asset prices fuel exit optimism, enabling private equity firms to consider bringing assets to market. Over the next 12 months it is expected that valuation multiples will increase, traditional exit routes will improve, and IPOs will be more common.

Expected changes in divestment of portfolio companies over the next 12 months compared to the last 12 months





Source : Invest Europe Private Equity survey 2021.

Covid 19 Impact

Covid-19 had an immediate effect on individuals and businesses as governments across Europe imposed restrictions to curb the rise of cases. Private equity responded rapidly, together with support from the banking sector in Europe, with measure to ensure that portfolio companies had liquidity and enough support to weather the immediate shock, before devising plans to enable companies to recover and grow over the medium-to-longer term.

The result was a wide range of impacts on GP funds. On the one hand, companies in sectors such as leisure, consumer goods and travel were hit hard by physical restrictions that had a negative impact on fund performance. However, at the other end of the spectrum, companies in e-commerce and software witnessed increased sales and profits from changes in behaviour and consumption.

Analysis Overview

European private equity is adaptable, resilient and innovative. The industry has come through a challenging period for the global economy with higher-than-ever levels of investment, robust fundraising and an improved outlook for divestments. Recent activity, combined with a long track record of performance through periods of economic growth and recession, has elevated private equity in many investors' eyes. As a result, allocations are expected to grow, with the asset class likely to command a larger proportion of the portfolios of pension funds, insurers, endowments and other long-term investors in the future.

Increased investment activity has raised valuation expectations, mirroring higher multiples seen for listed equities. However, pricing levels are not dampening private equity appetite. Instead, GPs are looking to new value creation strategies to drive growth and profitability at portfolio companies, with digitization as their top priority.

Another trend is private equity's focus on ESG activities in daily operations as well as in due diligence processes. It is clear that more investors want to commit to funds that deliver tangible benefits for people and the planet alongside investment returns.

Understanding risks and identifying opportunities is at the core of what European private equity does. As a result, private equity firms build better businesses that are resilient to economic shocks, and benefit from the long-term trends that are shaping the European – and global economy.

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