Oak Universe

Private Equity Outlook

Why investors should be more active than ever in 2023

Key highlights	Market today	Historical patterns	Window of opportunity

Introduction Statement

The private equity market is falling from its record heights in 2021. The number of deals and IPO listings has decreased significantly during the first half of 2022. A similar trend of decline has been observed on the public market, affected by an uncertain macro environment with increasing inflation and interest rates.

However, a look into history and the three latest major financial crises indicates that now is the time for investors to be more active than ever. Investments during downturns have historically generated superior returns, and 2023 may be the best investment opportunity in a decade.

Investors should not stay idle but rather be active and seize the window of opportunity for higher returns than their peers. In addition, active investors will also play an important role in supporting a struggling economy by injecting capital and expertise, not only helping companies to survive, but to come out even stronger on the other side.

"2023 may be the best investment opportunity in a decade"

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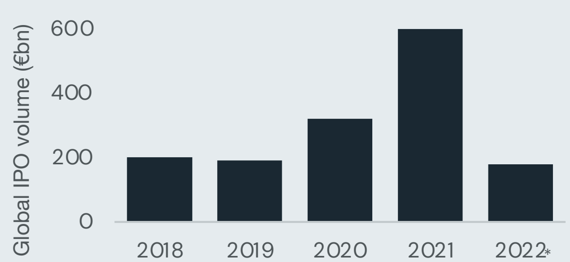
The private equity market is idling

M&A activities are falling from its record high in 2021

The Private Equity (PE) market has slowed down significantly during 2022 from its record-breaking heights in the previous year. During the first half of 2022, PE firms announced deals valued at a total of €488bn which represents a decline of 18% compared to the same period for the previous year. The decline in deal flow during the first half of 2022 was primarily the result of a more uncertain macro environment followed by increasing inflation and interest rates.

Exit opportunities by Initial Public Offerings (IPOs) have also decreased significantly. The global IPO value decreased with 73% to €91bn in the first half year of 2022 compared to the same period in 2021. Moreover, the global buyout-backed exit value decreased with 37% to €339bn in the first half year of 2022 compared to the same period last year.

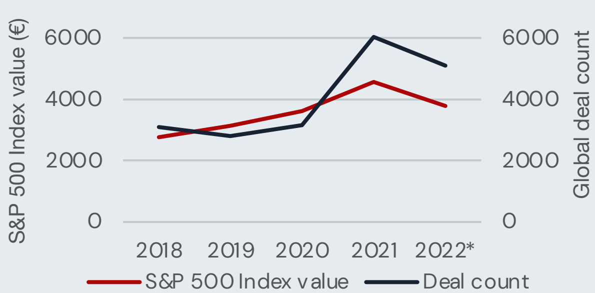
Global IPO value decreased in 2022



*IPO volume of 2022 is a projection twice the size of the value for the first half year

Both S&P 500 stock market index value and the global private equity deal count show signs of decline from a peak in 2021. The S&P 500 index value has decreased 25% from its peak last year.

Similar trends in S&P 500 and PE deal count



*Deal count of 2022 is a projection twice the size of the value for the first half year

-18% **Global PE deals** declined by 18% in H1 2022 compared to same period previous year

-73% **Global IPO value** decreased by 73% in H1 2022 compared to same period previous year

-37% **Global buyout-backed exit value** decreased by 37% in H1 2022 compared to same period previous year

Private equity can support companies in a downturn

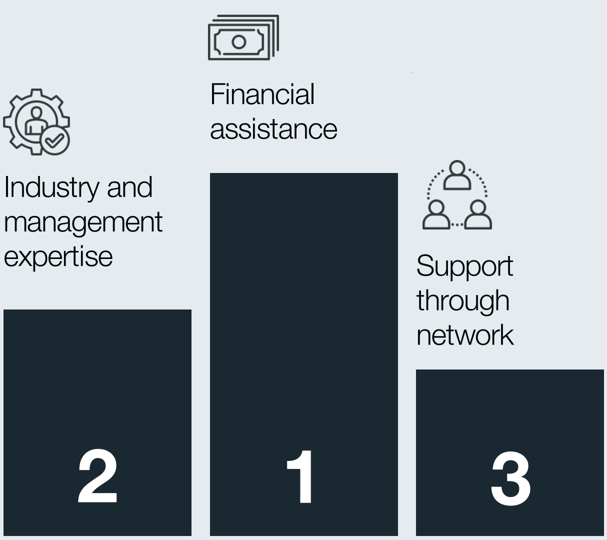
Private equity backed companies are more resilient to recessions

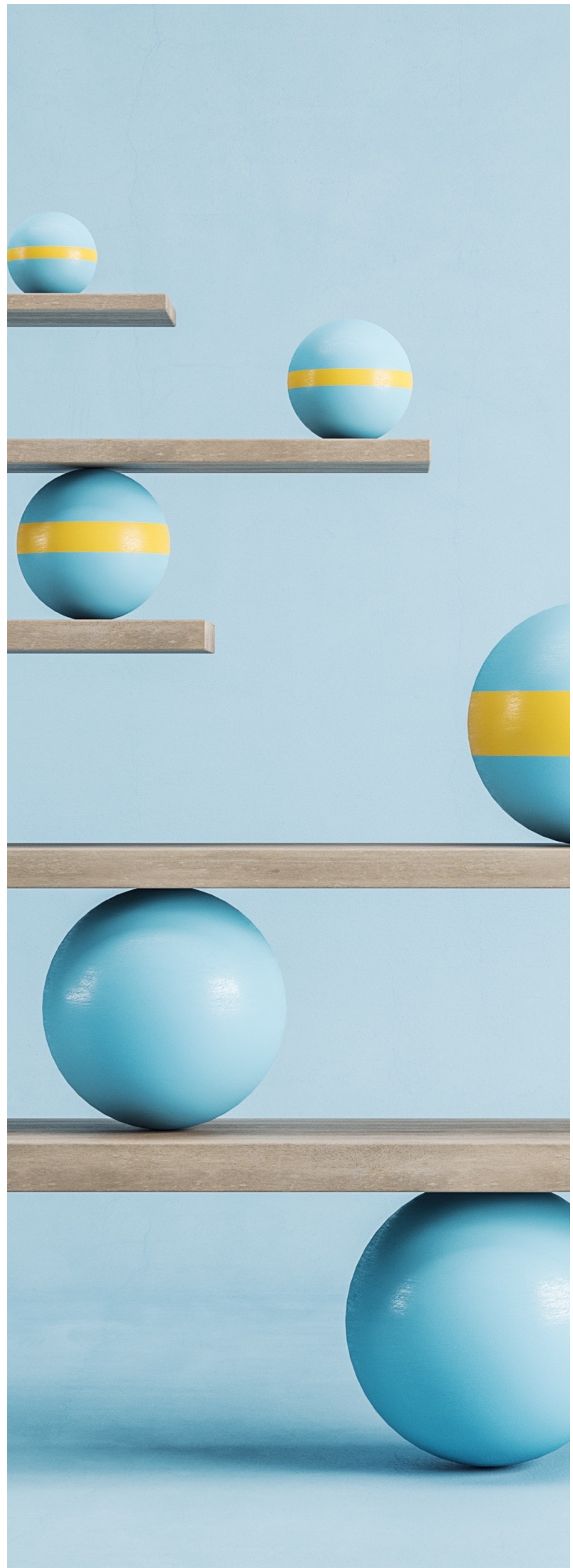
In a declining economy, PE firms can play an important role of supporting the economy. By providing capital and expertise, they can support struggling companies to withstand the downturns and come out stronger on the other side.

Historically, PE-backed companies have been more resilient to recessions than their peers. They tend to grow faster and capture more market share relative to stand alone competitors once the economy recovers.

In addition to providing financial assistance by better access to equity and debt, PE firms can provide important support by offering access to their network and expertise not easily accessible by firms on a tight budget. This include insights on how to further improve operational efficiency, enhancing digital capabilities, as well as rightsizing operating model and support functions.

Top 3 supportive areas by PE firms in downturns



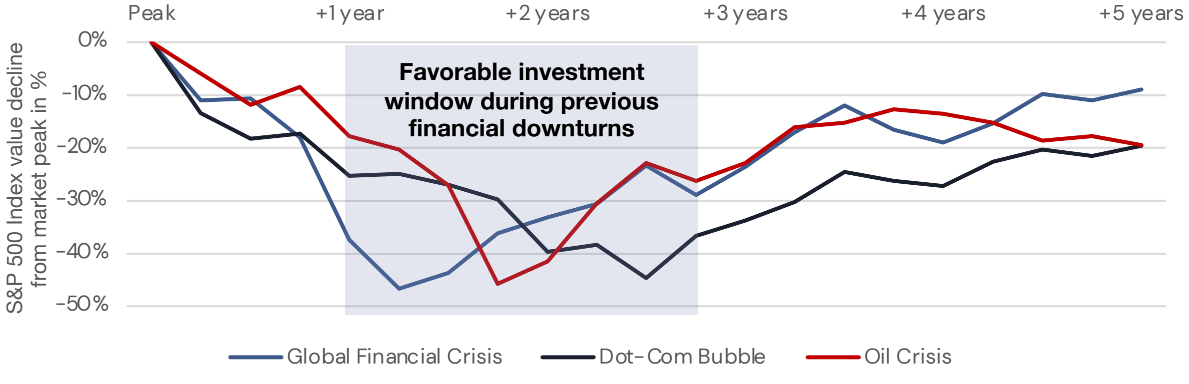


Investing in a downturn yield greater returns

The three latest major financial crises has lasted for 1-3 years

Historically, abrupt increase in consumer prices or interest rates usually trigger a recession. By comparing the Global Financial Crisis of 2007-2008, the burst of the Dot-Com Bubble in the early 2000's and the recession following the Oil Crisis in the 1970's, historical patterns have been identified to assess where we are in the current market trajectory.

History suggests market to hit lowest point 1-3 years from its peak

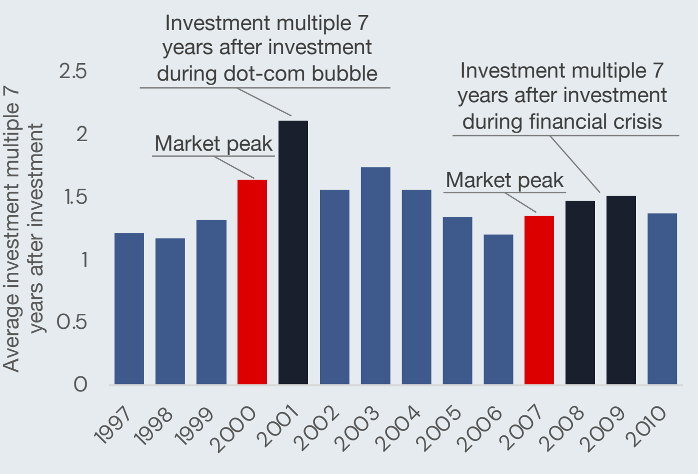


Investments during downturns yields greater returns

Historical patterns indicate that investments made during a downturn generally yield greater returns. An investment done in 2001, the midst of the dot-com bubble, resulted in a 2.1x average investment multiple seven years after the investment, which can be compared to 1.6-1.7x if the investment were to be done 1-2 years later.

A similar pattern is seen during the financial crisis in 2007-2008 where the average investment multiple seven years after the initial investment year proved to be the highest for investments done in 2008-2009, i.e. 1-2 years after the market peak in 2007.

Investments during historical downturns proved to yield greater returns

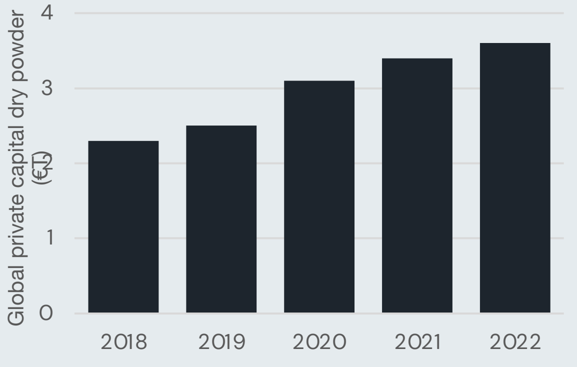


2023 may be the best investment opportunity in a decade

Private equity should leverage the dry powder to invest

The amount of dry powder available for PE firms to invest has continued to increase during the last years to €3.6tn in 2022, which puts the private equity market in a strong position to support the financial downturn by injecting capital and support portfolio companies.

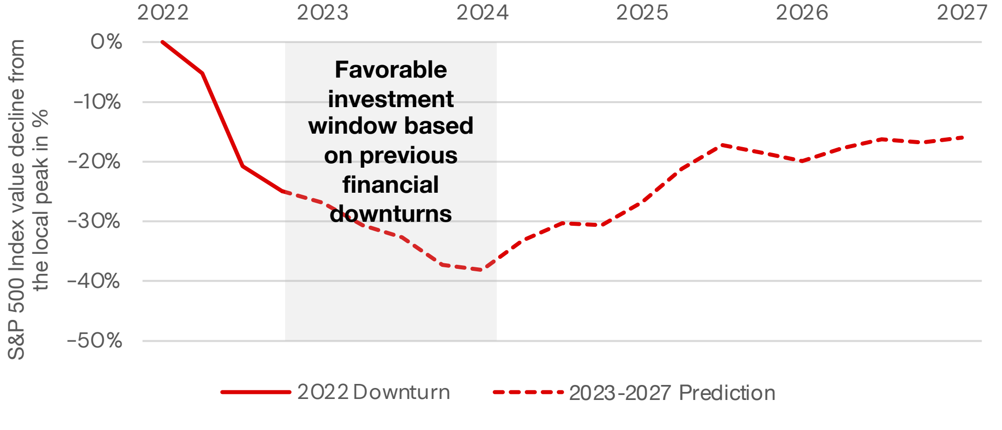
PE dry powder has continued to increase the last five years



History indicates investors active in 2023 will generate the highest returns

Comparing today's downturn to historical recessions, the trends suggests that the market is currently positioned at the middle of a market drop. However, now is the time for investors to be active and support the economy while outperforming their peers. An investment within the next year implies a successful exit scenario in 5-7 years when the market has recovered and is approaching a new height.

History suggests market to hit lowest point within the upcoming year



The prediction is based on S&P 500 index and the average decline from the peaks during the global financial crisis, the burst of the dot-com bubble and the recession that followed the oil crisis. This indicates that investors that are active during 2023 will generate the highest returns.

Conclusion

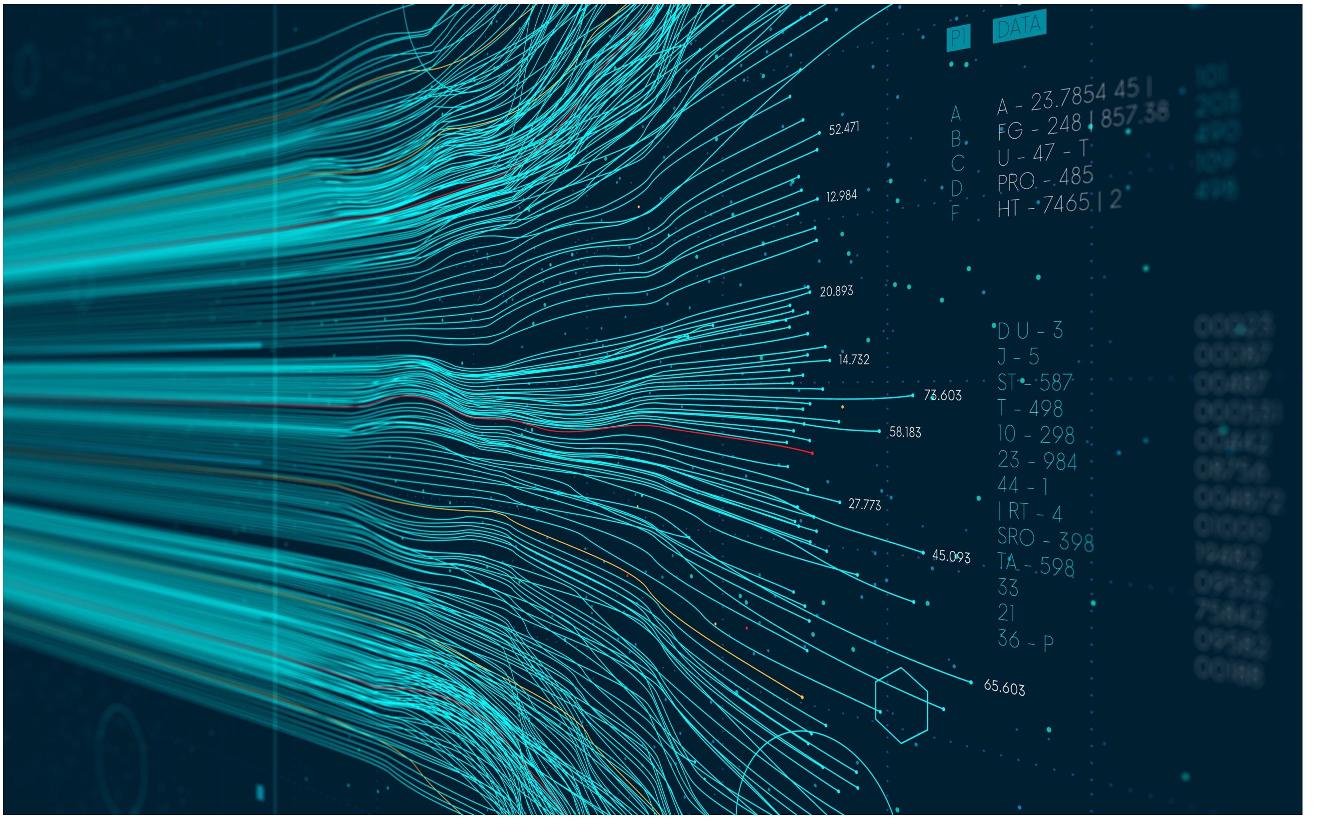
PE firms active in 2023 will outperform their peers while supporting the economy

Both the private and public markets have been declining from their previous heights, peaking around the shift from 2021 to 2022. Several factors, such as unstable macro environment followed by increasing interest rates and inflation are pressuring the market. However, while the downward trend may initially keep investors more risk averse, history suggests that risk aversion will be counterproductive.

If the current downturn is to follow historical patterns, the optimal time for PE-firms is to invest in new assets is 1-2 years after a market peak.

While not a crystal ball, this implies that now is the time for investors to be active in making new investments to yield strong returns while supporting a struggling economy. Companies supported by PE capital and expertise are more likely to weather a downturn and come out even stronger on the other side.

> “Companies supported by PE capital and expertise are more likely to weather a downturn and come out even stronger on the other side”



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