Oak Universe

Venture Capital and Private Equity in Europe

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Introduction Statement

2021 had been a blockbuster year for private equity (PE) and venture capital (VC) funds across Europe. With a record number of deals, and an equally soaring level of exit activity, the global pandemic has acted as a stimulus for a new era of growth within private capital markets across Europe and other developed markets. To recalibrate towards continued growth, portfolio resilience, heightened multiples and renewed global investor confidence, it is also a time for transformation within the industry. The PE funds which embrace new business models, clearly define their sectoral focus, prioritize deep industry-know-how within their teams, and place value-creation at their core will continue to reap the benefits of the current booming environment and will have an advantage to gain access to highly competitive deals.One country that we are immediately associate with the manufacturing of tomorrow, or the Industry 4.0 transformation, is Austria. It is no secret that Austrian manufacturing is characterised by outstanding companies that equal the backbone of the industry in the country, if not beyond. Think of Austrian manufacturing, and several globally significant, large, multinational enterprises might spring to mind. But it doesn't stop there. Medium-sized firms are also important actors in this manufacturing transformation, with innovation, research and first-mover initiative all being terms we associate here. With such a stellar reputation, it might be all to easy to assume that the industry is moving in the way it should to cement the region as a global leader in manufacturing excellency. Yet the adoption of more cutting-edge innovative technologies is a must for Austrian manufacturers, and particularly SMEs, to increase both productivity and competitiveness.

Tatjana De Kerros
Managing Partner. / Switzerland

A new golden era for growth equity

The surge in venture capital, valuations, mega-funds, and record-levels of investments in technology firms- both young and established- is an opportunity, rather than a threat to incumbents and mid-market private equity funds.

In 2021, PE funds invested over $2.1 trillion in new capital across 8,548 deals- nearly doubling 2007's record year of $1.1 trillion. In parallel, venture capital funds across all investment stages saw investments over $643 billion in 2021- a 93% increase from 2020. Whilst VC investors have historically focused on providing equity funding to early stage companies, and PE funds have dominated the buy-out market, we witnessed a new, growing trend in 2021. The rise of growth equity as a new sub-asset class.

This new golden era for PE to invest in growth equity is strongly linked to three critical factors that have emerged over recent years. The first is an appetite and need for diversification in investment portfolios, enabling better management and allocation of dry powder across deals. PE firms that actively invest in growth equity find they not only have better balanced portfolios, but are able to pursue a better diversification strategy across fund lifecycles.

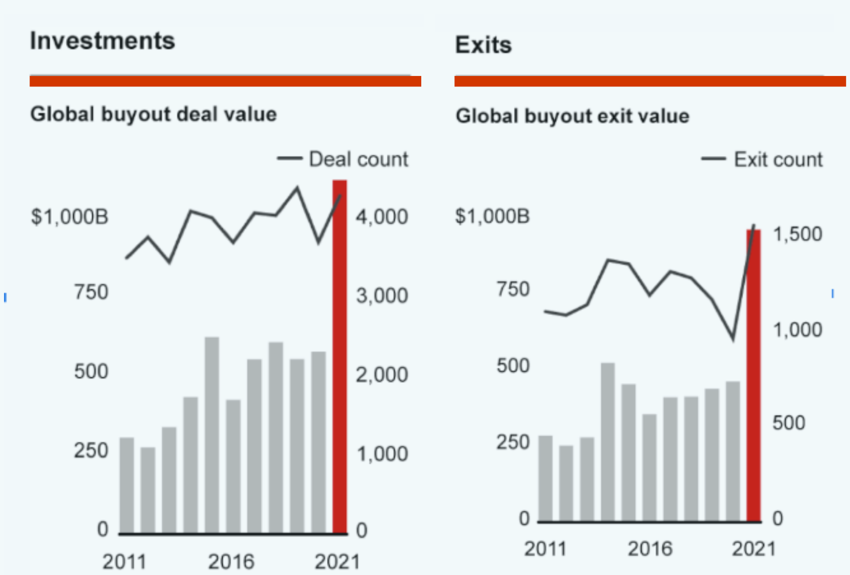
The second is linked to the industry's move away from a traditional focus on cost-cutting to create growth, towards technology and value-driven growth and innovation. With digital transformation and Industry 4.0 giving rise to new business models, investors are increasingly responding by providing much more sophisticated growth tools to their portfolio companies. This provides a much better environment to enhance deep sectoral expertise, digitally-driven solutions, and the ability to move quickly and access the best deals in a competitive market.

Lastly, deals in technology and technology-enabled markets have dominated PE and VC activity across recent years. As this has driven-up valuations and also created a demand for more sectoral expertise- growth equity is today regarded as the most favorable instrument to generate the best multiple for investors as market out-performance is increasingly linked to technological expertise and innovation drivers.

Whilst it may seem that PE and VC are competing in the same space, they are actually working hand in hand to fuel access to capital across all stages of growth.

The continued venture capital boom in Europe is creating a new pathway for growth among more mature companies, facilitating access to technology, R&D, new commercialisation channels, new markets, and new consumers- at a much lower cost and risk profile. In fact, bolt-ons and M&A activity among mid and large-cap companies in the industrial, health and software sector has grown in the last year.

This trend is only consolidated by the continued rise in corporate venture capital as a means to actively track, scout and integrate new innovations as a means of continuous innovation. Interdependence is giving rise to a breakthrough opportunity for PE funds to capitalize on demands for growth and expansion capital that responds to this emerging trend, and ensures portfolio resilience.



Responding to an untapped middle market opportunity

European private equity has witnessed a blockbuster year with 2021 seeing 7,197 deals closed worth $745.5 billion. The core middle market that integrates deal sizes between $100 million to $500 million witnessed the most growth, increasing by over 60%.

Whilst small and medium sized enterprises (SMEs) are Europe's engine for growth, unlike its North American counterpart, it remains an untapped opportunity. The very industrial fabric of Europe see's a high, but fragmented concentration of SMEs across manufacturing, industry, ICT, health and life sciences that require growth capital to unlock innovation and digitally-driven growth.

PE deal activity

2021

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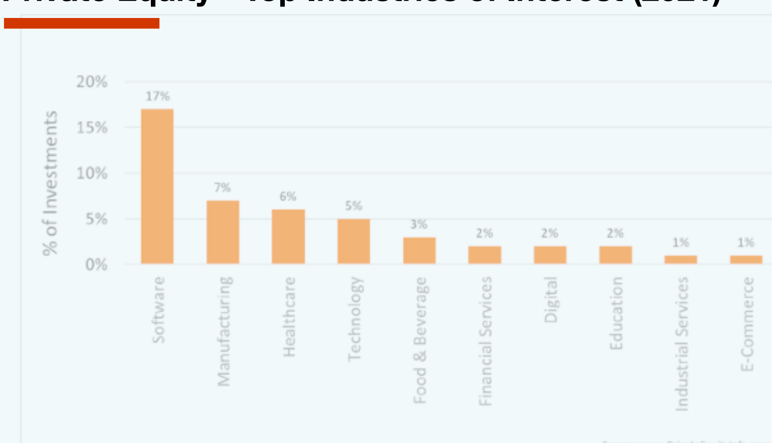
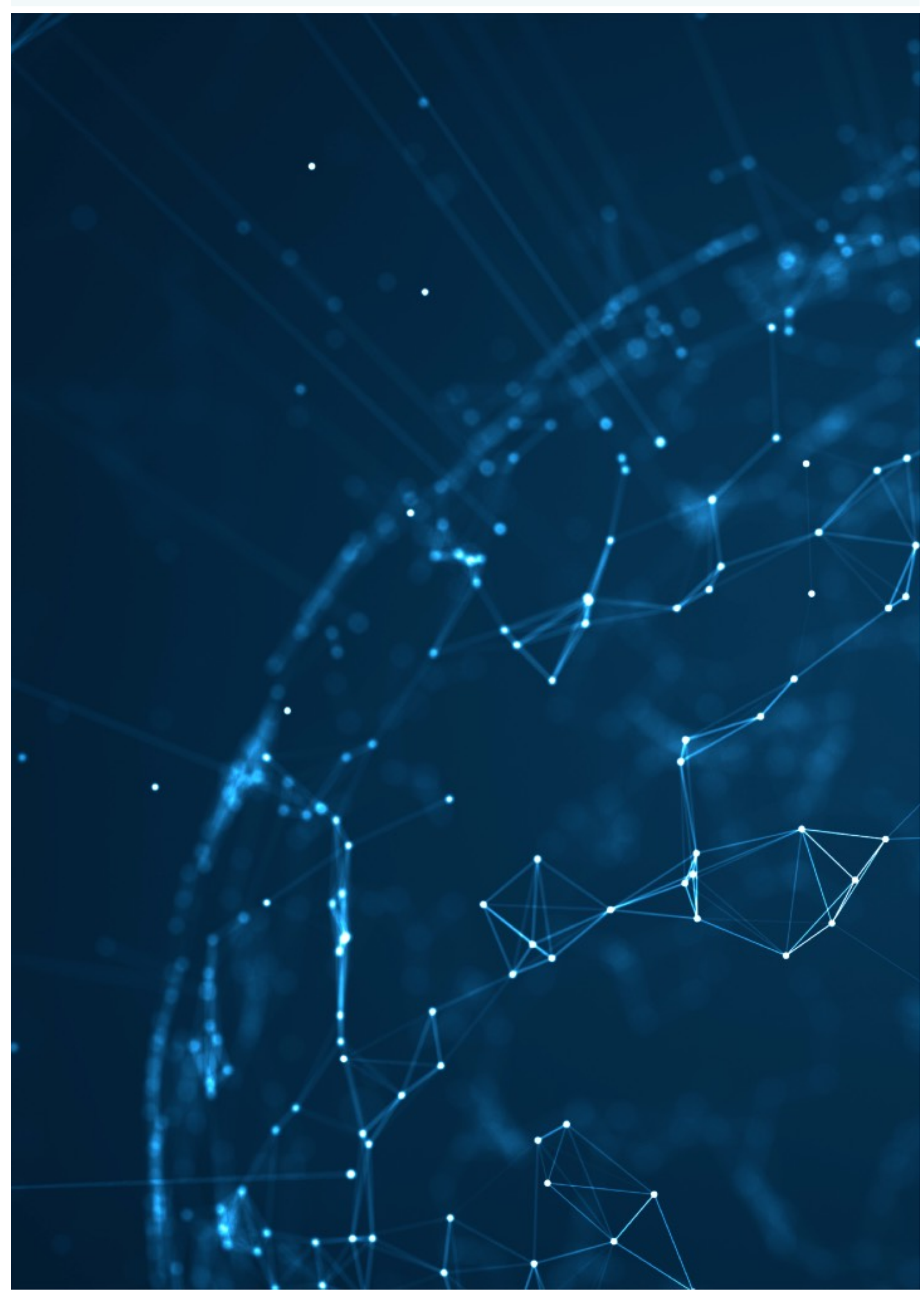
Concurrently, European PE funds are increasingly being regarded as more attractive for investors than dominating their North American counterparts. The impact of inflation, currency fluctuations, liquidity crisis, and tax regimes are contributing to uncertainty in North American PE markets, only strengthened by price volatility and mega-valuations pinching potential exit multiples. Coupled with geo-political uncertainty and supply-chain disruptions, European PE investments are increasingly regarded as more stable, offering better value, and more room for growth, especially when coupled with growth equity.

Tapping into European mid-market deals is today regarded as one of the strongest, untapped opportunities for PE investors. Such companies have an exponential opportunity to accelerate their growth, whilst providing a less risky investment than technology-driven startups. Growth capital cannot only unlock the potential, but enable them to grow through an increased surge in M&A activity and bolt-ons to capture new markets, business models and cost efficiencies. In 2021, bolt-ons were the dominant path to value creation, accounting for 65% of buy-outs and M&A activity. This once again shows the intrinsic relationship between European PE and VC activity, with VC-funded startups being ideal bolt-on assets for exponential growth within the SME mid-cap segment.

Most critically, approximately 14 million SMEs in Europe are family-owned, and in some countries represent 55% to 90% of the business fabric. For example, 40% of the 250 largest companies in Germany and France are still owned by families. With the emergence of growth capital in private equity, this provides a yet untapped opportunity to invest in such companies, which have so far been resistant to more traditional debt and buy-out instruments. As these SMEs require capital to fuel market expansion, digitalisation, innovation, R&D and new market growth-private equity players that can meet the demand for strategic growth capital will come out as winners.

Private Equity - Top Industries of Interest (2021)





European Investment Growth Indicators.

SMEs in Europe

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European PE funds

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Untapped Opportunities

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M&A activity

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The rise of Industry 4.0 and advanced manufacturing

The manufacturing industry is one of Europe's strongest economic assets, accounting for 1 in 10 enterprises, and over 2 trillion in gross added-value. Advanced manufacturing through the application of technologies such as robotics, IoT, digitalisation and 3D printing are fueling the creation of new business models, price and cost efficiencies, and most importantly, room to scale.

Over 69% of VC deal activity across Europe in the manufacturing sector was seen across additive manufacturing and sensor and IoT platforms, and as a whole, the manufacturing sector accounts for 33% of total deal volume. With intense pressure to adopt new technologies such as electrification of the automotive industry, manufacturing SMEs will increasingly turn towards European private equity investors that can provide growth capital to pursue technological opportunities.

The new private equity model, one that is focused on growth and value-creation, enables SMEs to consolidate and transform their respective industries by investing in critical technologies that enable them to scale and compete globally. Among growing supply chain disruptions, digitalization provides an opportunity for manufacturers to reinvent their supply chains to fully realize the benefits of an interconnected system.

In fact, investments in Industry 4.0 leads to better, if not more financial efficiency gains than traditional cost-cutting measures typically adopted by PE firms. For example, a manufacturer that adopts Industry 4.0 technologies can see up to 40% reduction of costs in maintenance, 80% increase in demand forecast accuracy, and up to 25% increase in labour productivity. In addition, low-level adoption intensity of Industry 4.0 technologies pay's off incrementally more than investing haphazardly in numerous technologies, creating a valuable investment strategy for investors when coupled with active value-

One of Europe's strongest economic assets

New Business models through advance manufacturing :

Robotics

IoT

3D Printing

Digitalisation

40% reduction of costs in maintenance

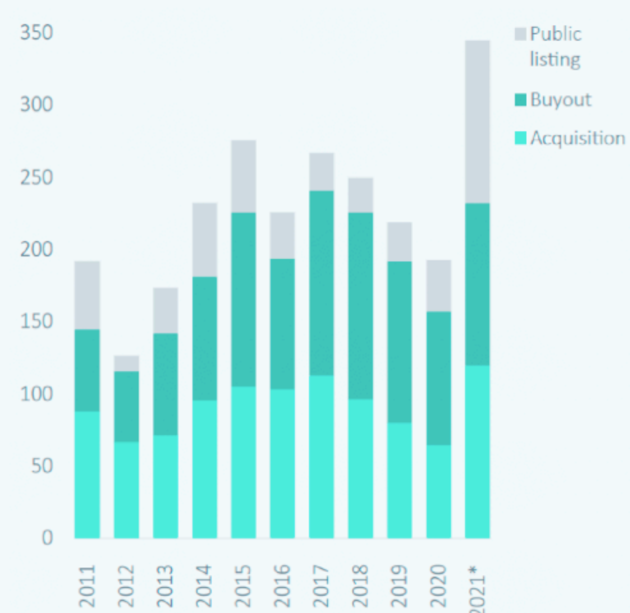
80% increase in demand forecast

25% Increase in labour productivity

Building upon a thriving exit market

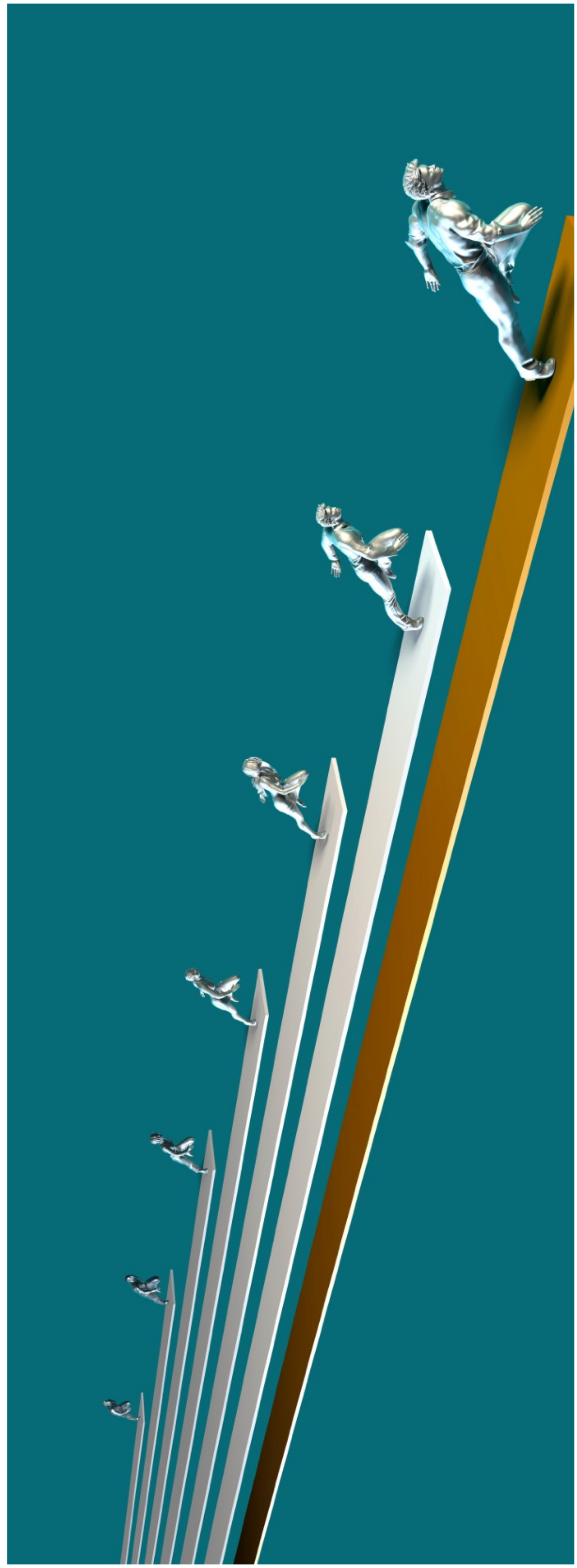
The tail-end of the pandemic has led to one of the strongest exit markets on record in Europe. An excess of liquidity, growing asset allocation, significant amounts of dry powder and heightened post-pandemic valuations led to exits worth over $445.2 billion. The core middle market (companies valued between $100 million to $500 million) drove liquidity events for investors, primarily through secondary buy-outs, corporate acquisitions and IPOs, with the technology and healthcare sector paving the way. M&A activity- the driving force behind corporate acquisitions also surged, with an 100% increase in industrial deal volume across Europe.

PE exit value by type



Looking forward to the year ahead, PE investors will retain a pole position as financial investors versus strategic investors, with liquidity remaining king in a post-Covid revival. Technology, advanced manufacturing and healthcare are predicted to fuel market growth for 2022-2023, with particularly attractive markets concentrated in the United Kingdom, Germany, Italy and Switzerland.

Whilst a certain volatility can be expected in the coming year, buyer pools will continue to grow and deal multiples show no signs of slowing down. Specifically, the advanced manufacturing sector is projected to enhance its profitability margins, opening the door to a reinvigoration of exit markets, particularly due to an easing of the supply-chain crisis across Europe. A more favourable policy environment towards investors versus its transatlantic counterpart will also push an increasing number of global investors, particularly from Asia, towards European markets as the European Union reformulates transparency and access to PE funds through ELTIF and ELTAF.



Oak Universe: A formula for success in the new dawn of European Private Equity

The investment firm Oak Universe is dedicated to scaling the manufacturing champions of tomorrow. It helps privately-owned, mid-sized manufacturing businesses achieve the next stage of their growth through the adoption of advanced technologies. It does this by providing not only capital, but also a close partnership bringing access to strategic insight and consulting support for undertaking carefully selected value creation initiatives. Unlike the classical private equity model, which relies on financial leverage, buyout of controlling stakes and wholesale management changes to impose what is often perceived as an aggressive and alien top-down programme, Oak Universe provides capital for growth and transformation by taking a minority stake and working in partnership with existing owners and management to inject the finance, expertise and project management in support of an agreed value creation plan. The partnership is expected to last over a 3-5 period of transformation, running from initial engagement and planning through mobilisation and execution of key initiatives to their full realisation and value creation impact.

Oak Universe invests in companies with outstanding value creation potential, but most importantly selects those with openness to change and with whom a true partnership for value creation is possible. To validate this fit, Oak Universe undertakes the initial Engagement Phase at its own expense, exploring growth opportunities and planning the value creation approach jointly with owners and management.

The initiatives that drive value creation can be highly varied, for example new market entry, reshoring of production, M&A to effect vertical integration or bolt-on acquisitions, best-in-class digital enhancements to processes and data analytics, supply chain optimisation. In some cases, the transformation could amount to a wholesale reworking of the company's business model. Besides Oak Universe's in- house team of management consultants and investment professionals, the firm draws upon an extensive R&D network and Expert Board to provide access to expertise and new know-how required by the value creation initiatives, including extensive links with academia.

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