

European Private Equity Outlook 2023

More challenging
times ahead?

Roland
Berger



The European Private Equity Outlook 2023 is the 14th consecutive publication in a series launched by Roland Berger in 2010.

This year's key messages include:

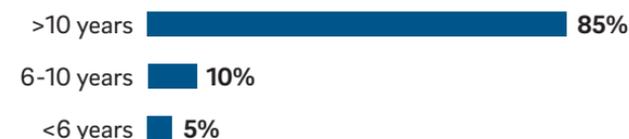
- In 2023, nearly 60% of PE professionals expect a similar level of M&A transactions with PE involvement compared to 2022 – Easing of financing conditions and greater investment opportunities foreseen in the second half of the year
- Similar to previous years, pharma & healthcare and technology, software & digital solutions remain the most attractive target industries in 2023, driving M&A transactions with PE involvement
- The availability of debt financing and the overall economic situation are expected to have a major impact on PE transactions in 2023 – The mid-cap and small-cap segments are considered the most promising asset classes in 2023, being less dependent on large amounts of external financing
- Primary investments and investments in listed companies (P2P) are expected to be the most important deal sources in 2023 – Especially primary investments are forecast to offer significant potential for value creation
- Over 70% of PE professionals think that valuation multiples are currently overvalued (especially in pharma & healthcare and technology, software & digital solutions) – Slight multiple decrease expected for 2023
- Fundraising and divesting existing investments are forecast to be the focus of PE activity in 2023. Over three quarters of PE professionals (78%) expect the level of competition for fundraising to become more intense in 2023
- The majority of PE professionals consider value creation initiatives in the portfolio to be a very important topic and say they will continue to be so in the future – ESG, cycle resilience and digitalization are seen as the most important measures for value creation in 2023

Exclusive survey of private equity professionals from leading PE firms across Europe

Approximately 1,700 experts from private equity investment companies across Europe were contacted for the PE Outlook. The results mirror what experts in the market anticipate for different countries and regions and what factors and topics they consider to be relevant for the private equity business in 2023.

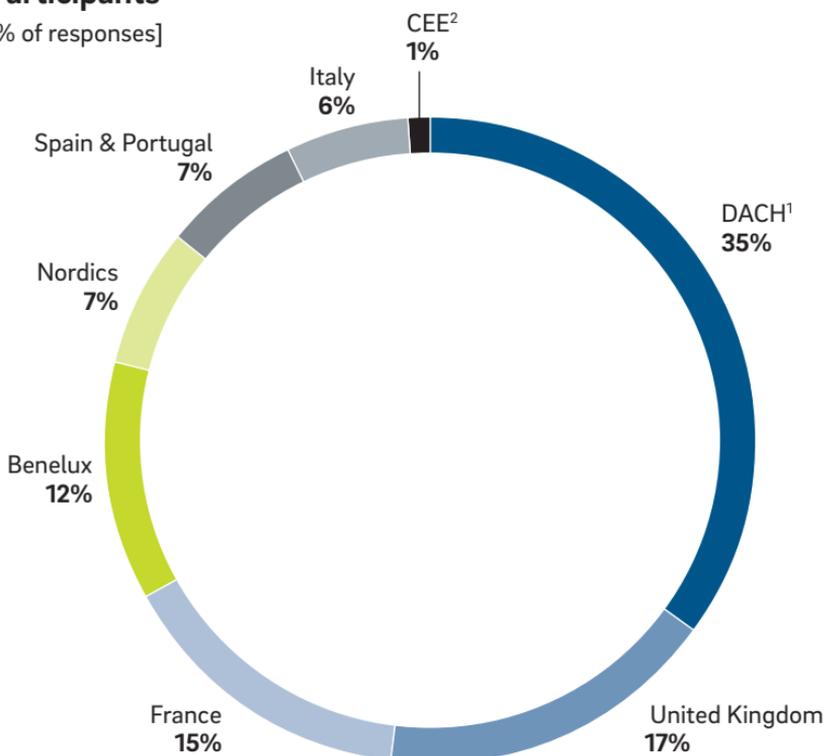
PE experience

[% of responses]



Participants

[% of responses]



Source: Roland Berger

¹ Germany, Switzerland and Austria

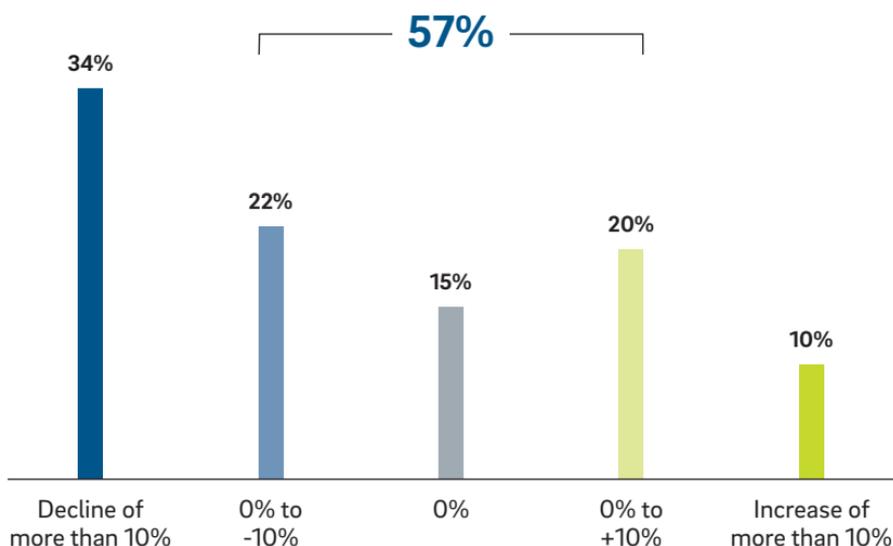
² Central & Eastern Europe

Nearly 60% of respondents are expecting a similar level of M&A transactions with PE involvement compared to 2022

Around 57% of respondents expect M&A transactions with PE involvement to be at a similar level compared to 2022, while ~1/3 view the trend in 2023 more conservatively. This picture is mainly the result of the current uncertainties in the market resulting from the ongoing geopolitical crises – in particular, the Russia-Ukraine war and the trade war between the United States and China, as well as the expected further interest rate increases by the central banks worldwide. Further uncertainty exists around ongoing supply chain issues, which continue to put pressure on companies' operations and cash generation. However, market experts appear more optimistic about the midterm perspective when they expect a larger number of opportunities for private equity investments – both add-on acquisitions and buyouts.

What change do you expect to see in 2023 in the number of completed M&A transactions with PE involvement?

M&A transactions with PE involvement – 2023 vs. 2022 [%]



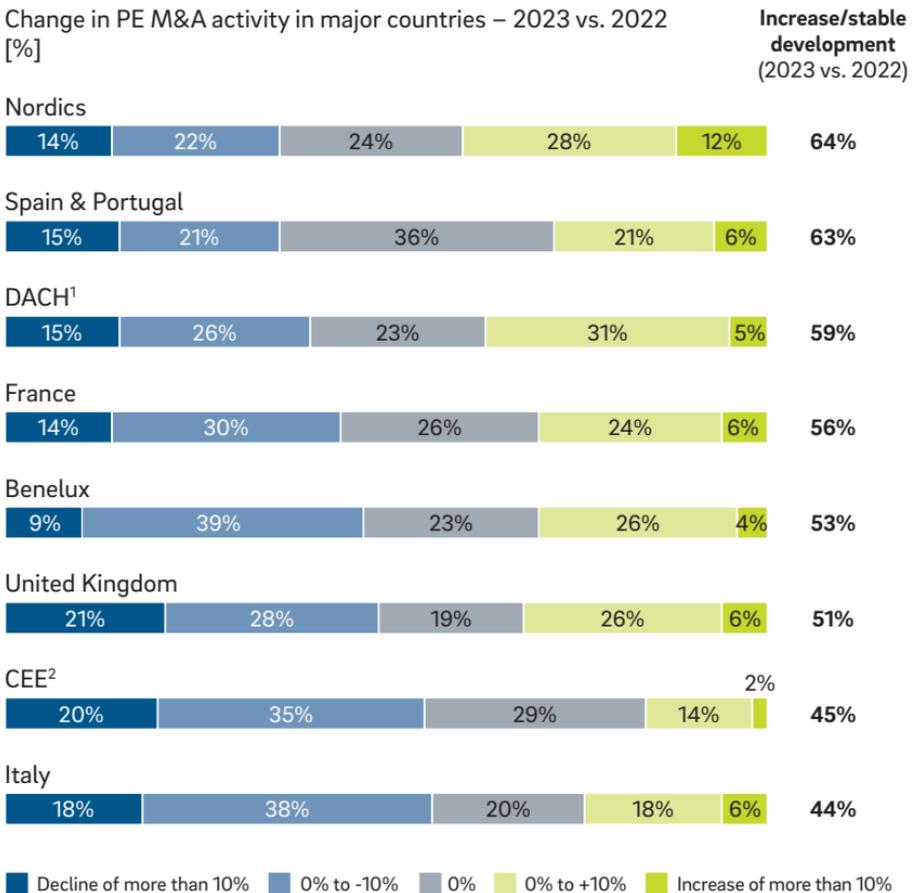
% of responses [only one answer per category possible and excl. blank answers] – All totals in this paper may not add up to 100% due to rounding

Source: Roland Berger

This development outlook differs among major European countries and regions

The outlook for M&A transactions with PE involvement differs among major European countries and regions. Respondents expect the Nordics and Spain & Portugal to see the strongest growth in 2023. For the DACH region (Germany, Switzerland, Austria), experts also expect a relatively positive development, with more than half of the respondents expecting M&A activities with PE involvement to be either stable or exhibit slight growth compared to 2022. The most pessimistic forecast was provided for Italy, Central and Eastern Europe (CEE) and the United Kingdom.

What change in PE M&A activity do you expect to see in the following countries in 2023?



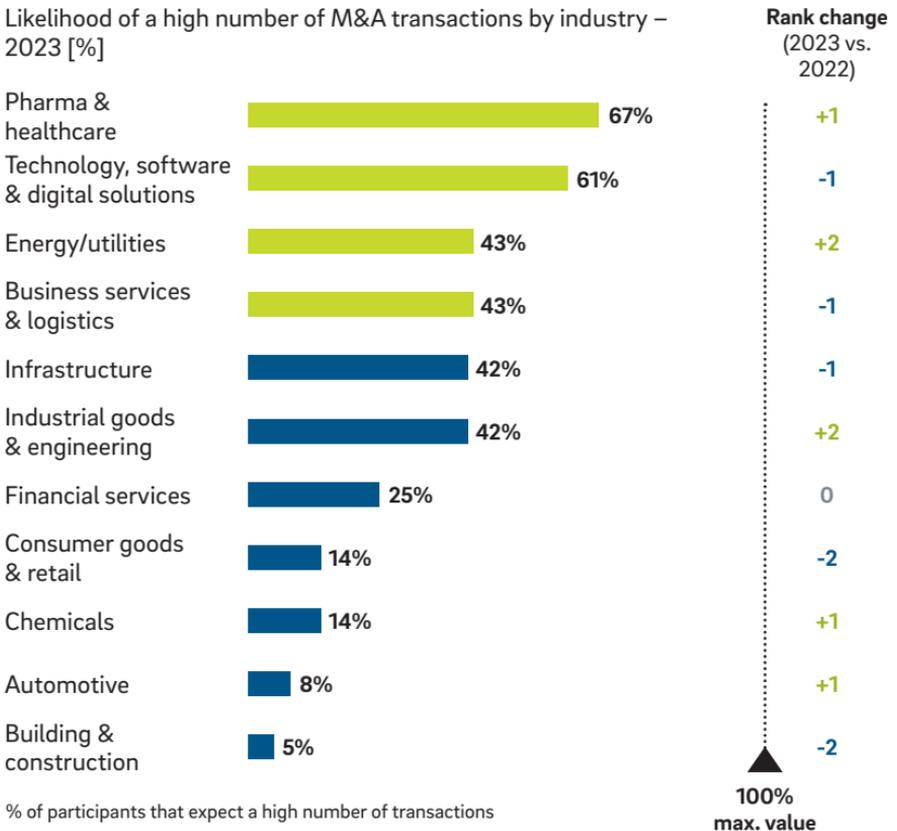
¹ Germany, Switzerland and Austria ² Central & Eastern Europe

Source: Roland Berger

Pharma & healthcare and technology, software & digital solutions are expected to continue to yield the most M&A deals

Similar to the last two years, both pharma & healthcare and technology, software & digital solutions are expected to drive M&A transactions with PE involvement in 2023. Key rationales include strengthening of the supply chain and product portfolio expansion in pharma & healthcare, software-as-a-service (SaaS) and digital transformation solutions (including data analytics, hyper-automation, artificial intelligence solutions) and the energy transition with a focus on renewables. These industries are of particular interest to PE due to their fundamental growth characteristics, resilience and scalability.

What change do you expect to see in 2023 with respect to the number of completed M&A transactions with PE involvement?



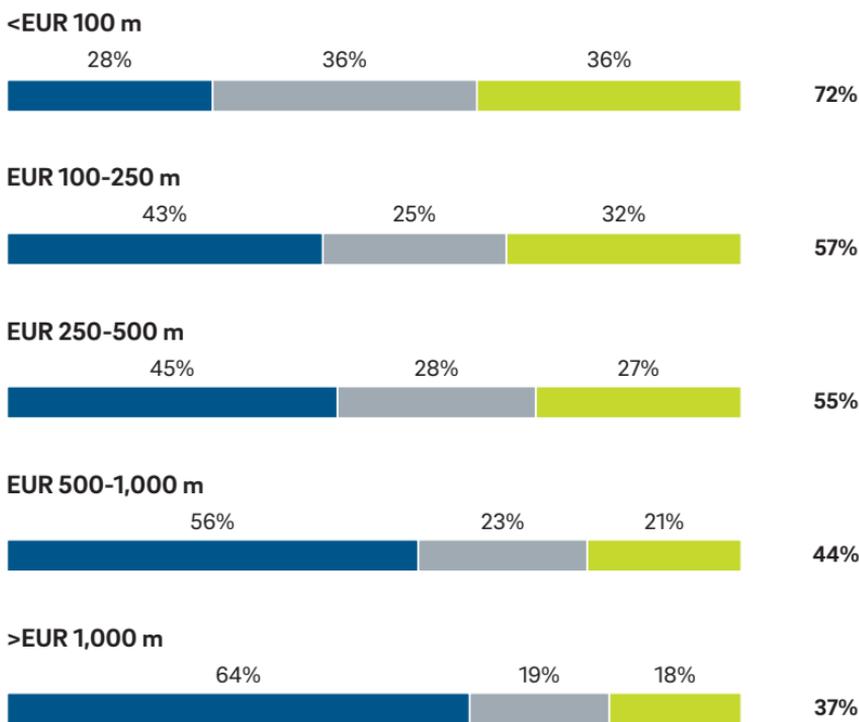
The small-cap and mid-cap segments are seen as the most promising target classes in 2023

While respondents consider the small-cap segment (deals worth up to EUR 100 million) and lower mid-cap segment (EUR 100 to 249 million) the most promising in 2023, PE professionals remain conservative with respect to the upper mid-cap (EUR 250 to 999 million) and large-cap segments of the European M&A market.

Please estimate the development of the European M&A market with PE involvement by size classes.

Development of PE transaction size classes – 2023 vs. 2022 [%]

Increase/stable development (2023 vs. 2022)



■ (Slight) decrease ■ On a par with 2022 ■ (Slight) increase

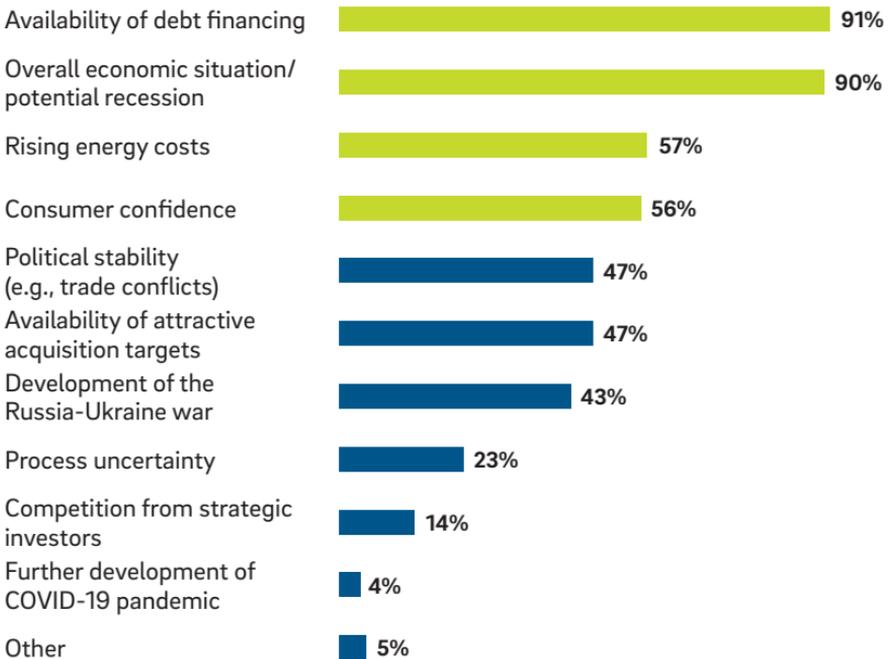
Source: Roland Berger

Availability of debt financing and the overall economic situation will have the biggest influence on PE transactions in 2023

Nearly all respondents see the availability of debt financing and the overall economic situation as the key factors influencing the number of M&A transactions with PE involvement in 2023. Almost 60% also mention rising energy costs and consumer confidence, which is largely driven by uncertainty about future inflation developments. Factors such as a worsening of the COVID-19 situation – a major issue in last year's PE Outlook – or competition from strategic investors are no longer considered major issues by respondents.

What are the most influential factors affecting the number of European M&A transactions with private equity involvement in 2023?

Ranking of M&A influence factors – 2023 [%]



Based on ranking from 1 (least influential) to 5 (most influential) – % shown represents the share of respondents assigning a score of 4 or 5 to a given factor relative to the total number of respondents. Other includes the energy transition and bid/ask spread

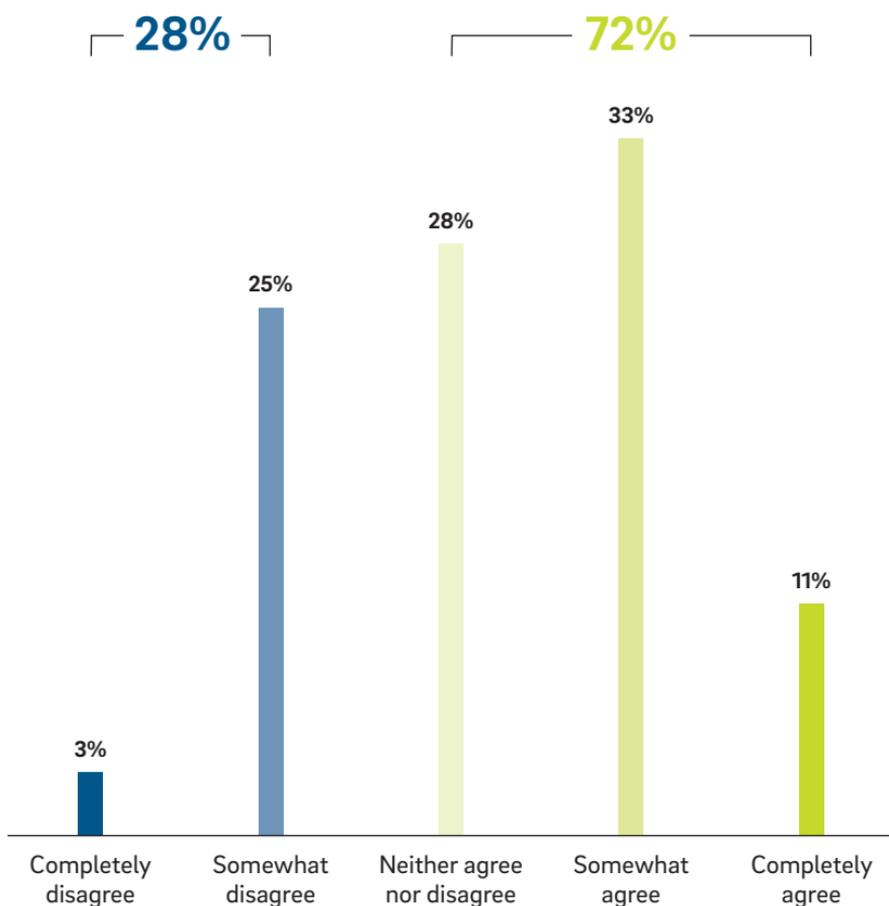
Source: Roland Berger

Most PE professionals expect the targets available in 2023 to be of similar/comparable quality to 2022

Fully 72% of the respondents expect targets available in 2023 to be equal to or more attractive than those available in 2022. By contrast, 28% of PE professionals (up from 19% in 2022) anticipate that targets will be less attractive than the previous year.

Overall, targets available on the market in 2023 will be more attractive than in 2022. To what extent do you agree?

Expected development of investment opportunities – 2023 vs. 2022 [%]



% of responses [only one answer possible]

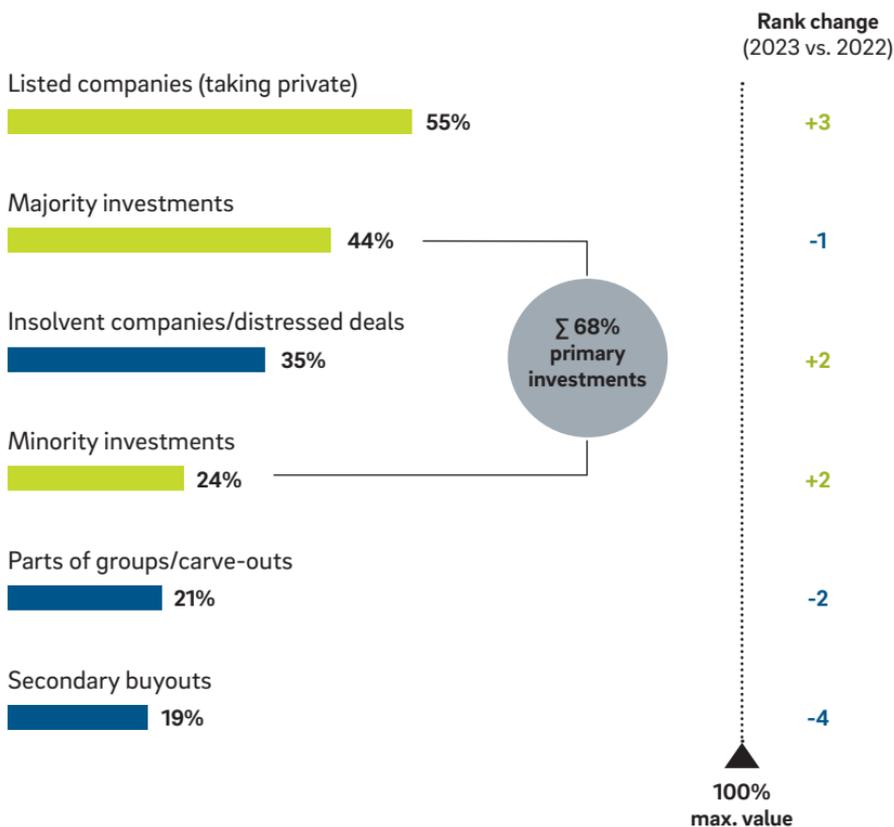
Source: Roland Berger

Primary investments and taking public companies private (P2P) are set to be the most important deal sources in 2023

Primary investment opportunities (majority and minority) are viewed by 68% of PE professionals as the most important source of attractive targets in 2023. These investments still offer considerable potential for value creation, which has become a priority for PE firms. The biggest increase in attractiveness is shown by listed companies at 55%, up from 13% in 2022, while secondary buyouts are seen as least relevant at 19%, down from 60% in 2022.

What will be the source of the most attractive targets in 2023?

Sources of most attractive targets – 2023 [%]



% of participants that expect this source of targets to be important or very important [multiple answers possible]

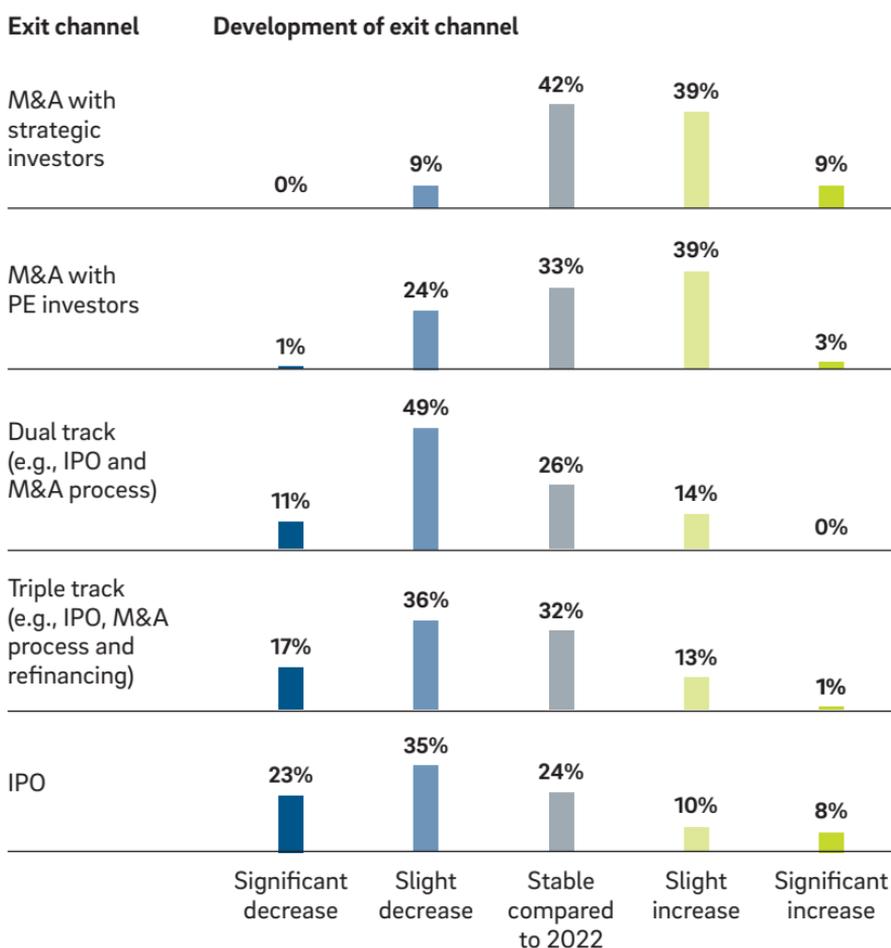
Source: Roland Berger

Strategic investors and PE investors remain the most promising exit channels in 2023

In 2023, respondents see sales to strategic investors as the most promising exit channel, followed by sales to PE investors. Compared with 2022, sales to strategic investors have increased in relative importance against sales to PE investors. IPO exits and triple and dual tracks, on the other hand, are expected to decline.

How do you expect the individual exit channels to change in 2023?

Change in exit channels – 2023 [%]



% of responses [only one answer possible]

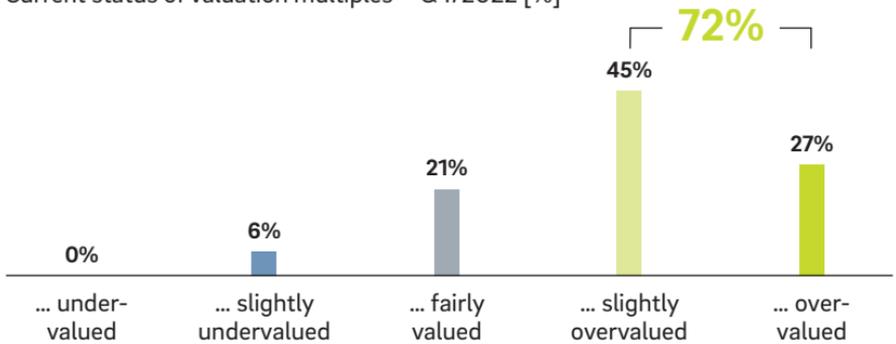
Source: Roland Berger

Over 70% of PE professionals think that current valuation multiples are overvalued – Slight multiple decrease expected for 2023

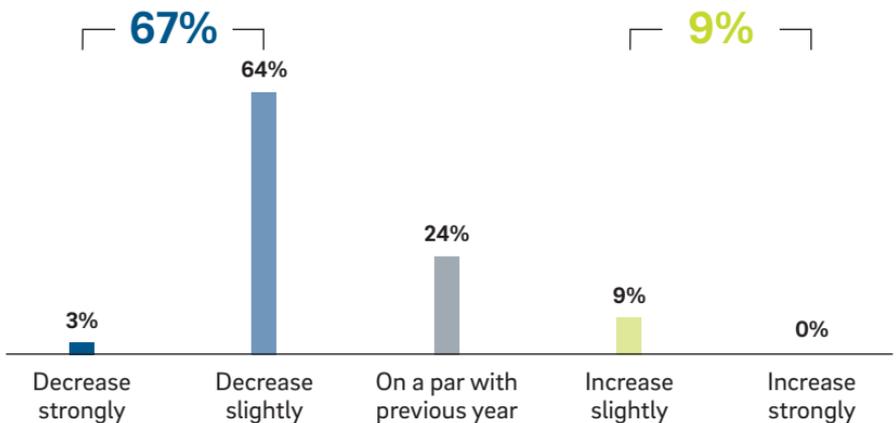
In this year's survey, 72% of respondents stated that valuation multiples were overvalued (down from 91% in 2022). The number of respondents that believe assets are fairly valued has increased strongly (21% vs. 8% in 2022). Only 9% of the surveyed PE professionals expect valuation multiples paid during M&A transactions with PE involvement to increase throughout 2023, while 67% even expect a (slight) decrease in multiples.

What best describes the current status of valuation multiples paid during M&A transactions with PE involvement? Assets are ...

Current status of valuation multiples – Q4/2022 [%]



Expected development of valuation multiples – 2023 [%]



% of responses [only one answer possible]

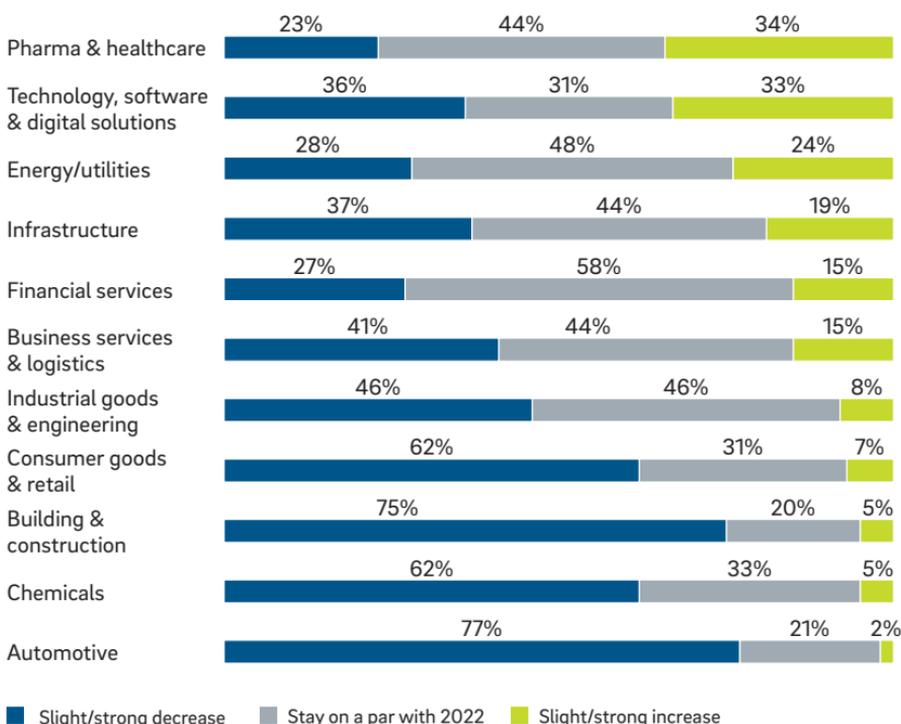
Source: Roland Berger

Expectations for the development of multiples in 2023 vary by industry - Pharma & healthcare as well as technology, software & digital solutions have the highest expectations

Looking in more detail at the expected development of valuation multiples by industry, most respondents expect pharma & healthcare to see an increase in valuation multiples in 2023 (34%), followed by technology, software & digital solutions (33%) and energy/utilities (24%). The majority of respondents expect valuation multiples to decrease for assets in consumer goods & retail (62%), chemicals (62%), building & construction (75%) and automotive (77%).

How do you expect valuation multiples paid in transactions with PE involvement to develop in 2023?

Expected development of valuation multiples by industry – 2023 [%]



% of responses [only one answer possible]

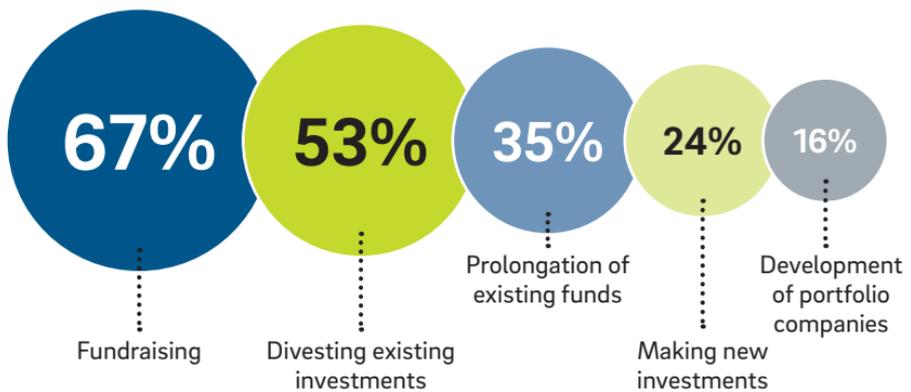
Source: Roland Berger

Fundraising and divesting existing investments again the focus of PE activity in 2023

Around two-thirds of respondents indicate that fundraising will be the focus of PE activities in 2023, in line with last year's survey results. However, respondents expect the competitive situation in fundraising to intensify in 2023 (78% in 2023 vs. 46% in 2022). While the prolongation of existing funds was the major topic in 2022, the divestment of existing investments has become significantly more important in 2023 (53% in 2023 vs. 21% in 2022).

On which part of the PE value chain will you focus most in 2023?

Focus of PE investors by value chain phase – 2023 [%]



% of respondents that will place most of their focus on this phase of the PE value chain [multiple answers possible]

What degree of competitiveness do you expect in fundraising in 2023?

Expected level of competition for fundraising – 2023 [%]



% of responses [only one answer possible]

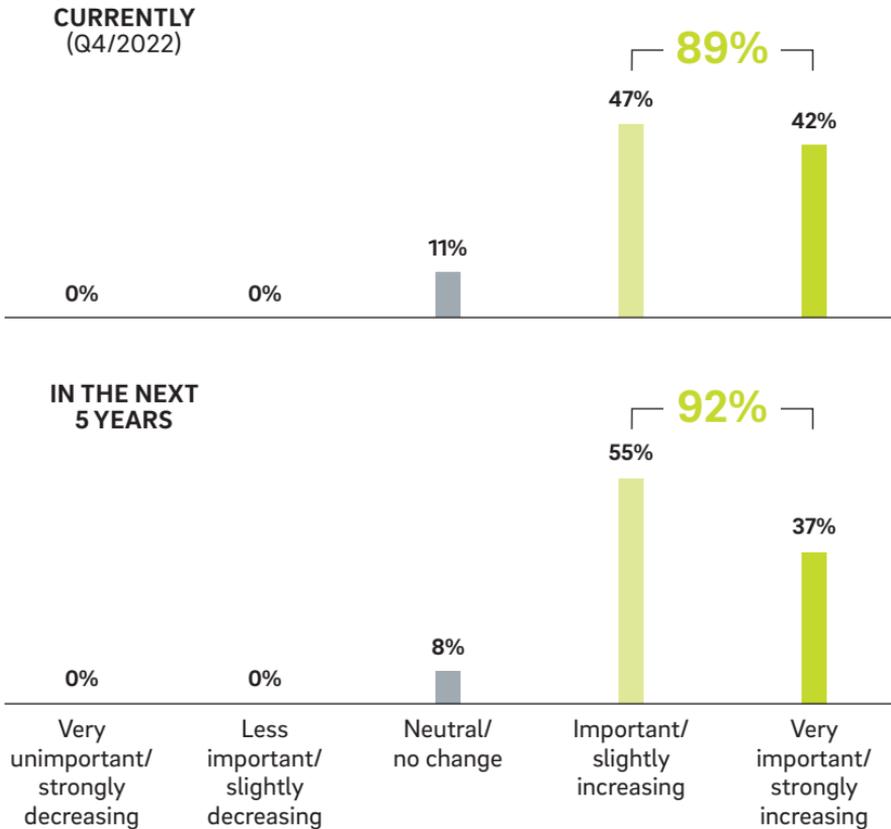
Source: Roland Berger

In 2023, PE professionals expect value creation initiatives in the portfolio to gain further in importance

89% and 92% of respondents believe that value creation will have an important or very important role in 2023 and the next 5 years, respectively. This reflects a significant increase in importance compared to our survey in 2022 (54% and 71% for the respective periods). Especially in times of increased interest rates, investors are constantly looking for additional ways of creating value besides just buying low and selling high.

What role will value creation play in 2023 and in the next 5 years?

Role of value creation – 2023-2028 [%]



Source: Roland Berger

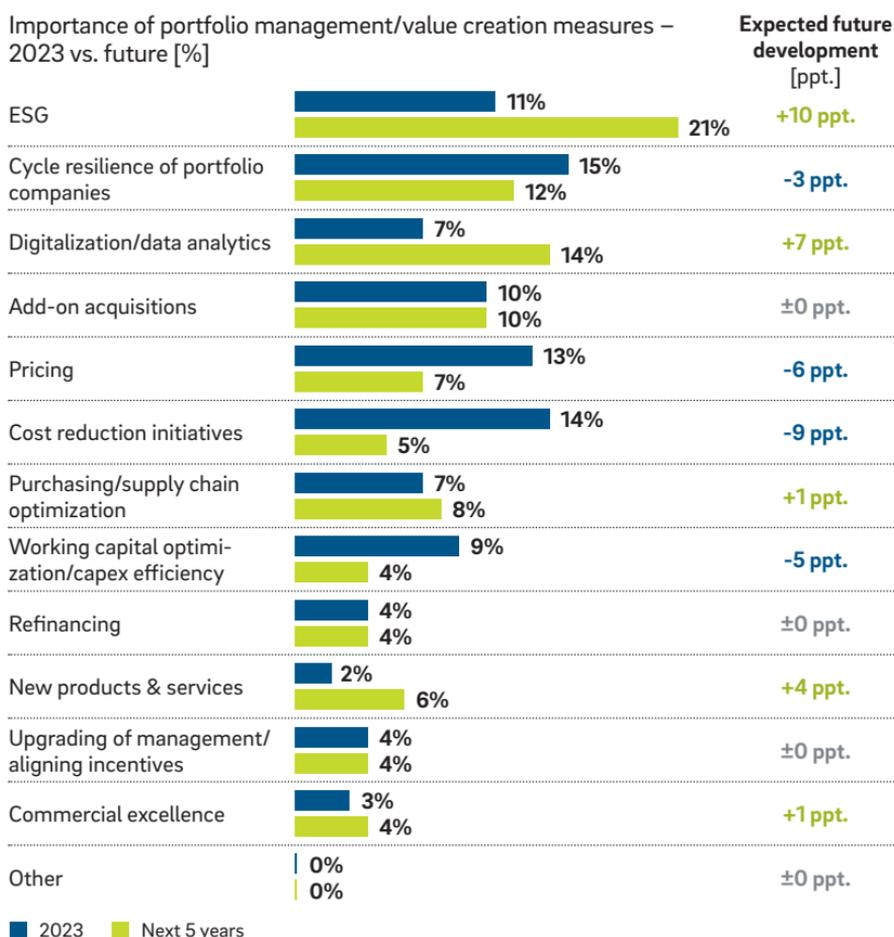
% of responses [only one answer possible]



The most important measures for value creation in 2023 include ESG, cycle resilience and digitalization

Respondents consider ESG, cycle resilience of portfolio companies and digitalization/data analytics to be the most important measures for portfolio management and value creation in 2023. The biggest decreases in the next 5 years are expected for cost reduction initiatives (14% vs. 5%), pricing (13% vs. 7%) and working capital optimization/capex efficiency (9% vs. 4%). ESG is expected to rise to the top of portfolio management/value creation priorities in the next five years (11% vs. 21%).

Which of the following portfolio management/value creation measures do you consider most important in 2023; which measures will increase in importance the most in the next 5 years?



Source: Roland Berger

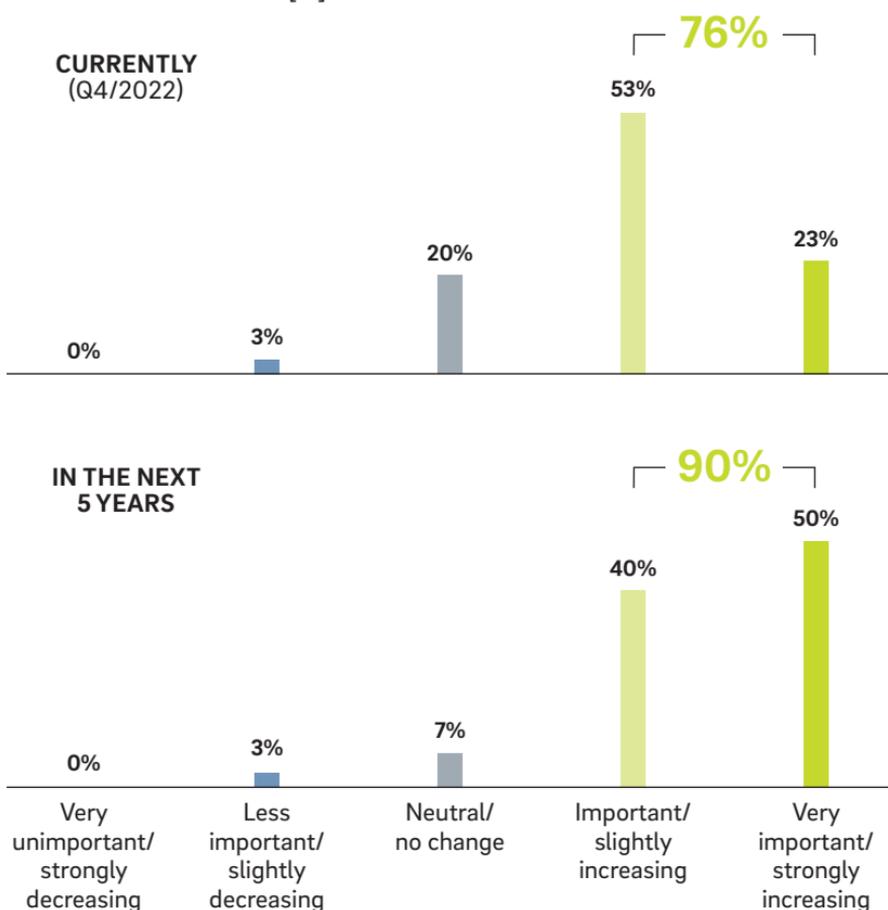
% of responses [maximum of four answers possible]

ESG is highly relevant and is expected to become even more so in the next 5 years

ESG is seen as an important value creation measure and its importance is even increasing. Altogether 76% and 90% of respondents state that ESG plays and will play an important role in their due diligence and target selection in 2023 and in the next 5 years, respectively. This constitutes an increase compared to the 2022 survey (66% and 80% for the respective periods).

What role does ESG currently play in your due diligence and target selection? What do you expect for the next 5 years?

Role of ESG – 2023-2028 [%]



% of responses [only one answer possible]

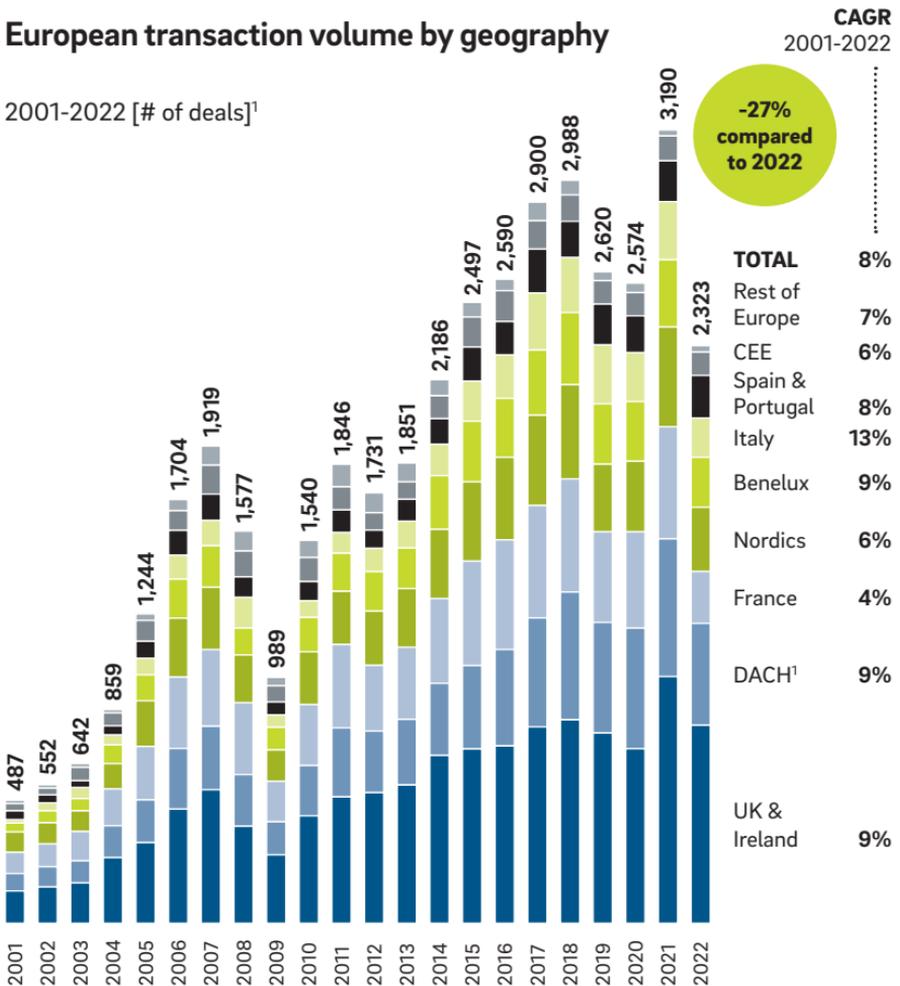
Source: Roland Berger

Strong decrease of European transactions of ~27% in 2022 vs. 2021 – While most regions experienced a similar trend, Spain saw a slight increase

Most of the European countries recorded a double-digit decline in 2022 – a trend that is expected to continue in the first half of 2023. The only exceptions to this general downturn were Spain and Portugal, where the deal count grew slightly by ~4% in 2022, primarily driven by small-cap and mid-cap deals. However, PE experts expect the current difficulties, especially in accessing debt financing, to ease by mid-2023.

European transaction volume by geography

2001-2022 [# of deals]¹



¹ Including all buyout deals available in Preqin ² Germany, Switzerland, Austria ³ Central & Eastern Europe

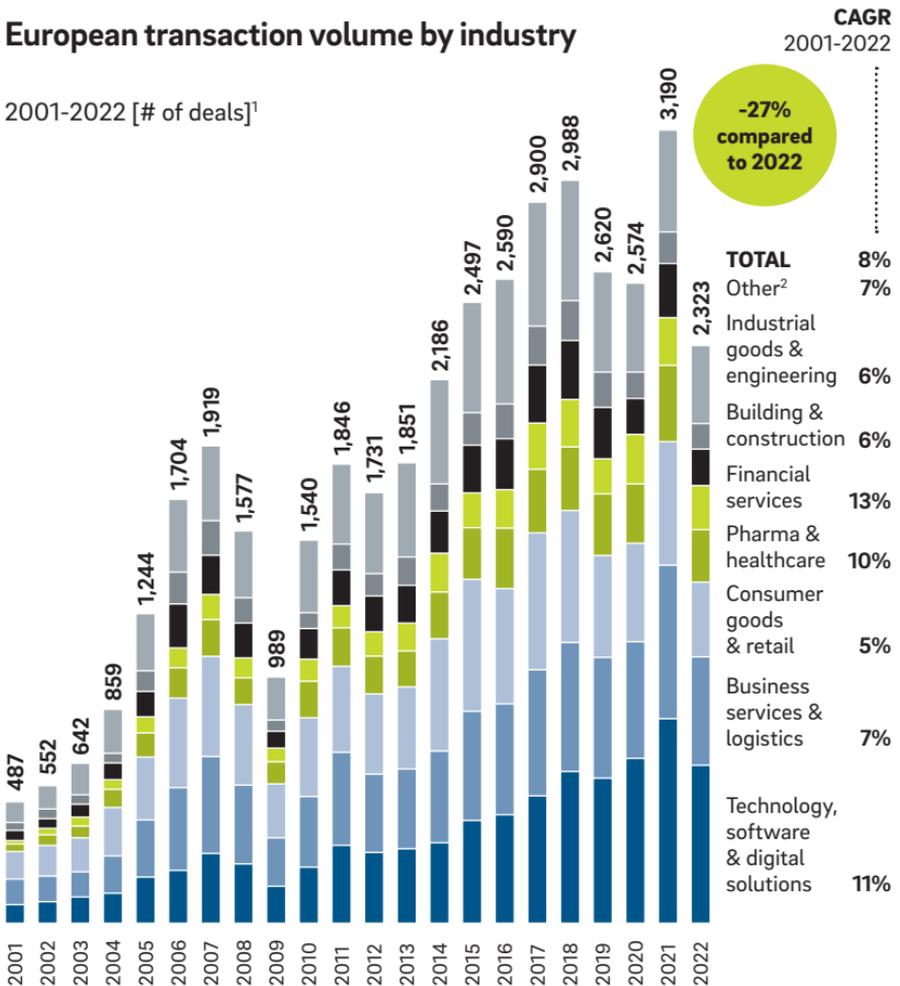
Source: Preqin (Feb. 2023); Roland Berger

Technology, software & digital solutions and business services & logistics saw the largest transaction volumes in 2022

At the industry level, technology, software & digital solutions (~630 deals) and business services & logistics (~440 deals) were the main contributors to deal flow in 2022. From 2021 to 2022, all sectors experienced a strong decline, with consumer goods & retail transaction volume hit the hardest at -39%. The strongest long-term growth was visible in financial services (+13% CAGR in 2001-2022), followed by technology, software & digital solutions (+11%) and pharma & healthcare (+10%).

European transaction volume by industry

2001-2022 [# of deals]¹



¹ Including all buyout deals available in Preqin

Source: Preqin (Feb. 2023); Roland Berger

² Including energy/utilities, infrastructure, chemicals, automotive and agriculture

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