

European Private Equity Outlook 2022

Roland
Berger



The European Private Equity Outlook 2022 is the 13th consecutive publication in a series launched by Roland Berger in 2010.

This year's key messages include:

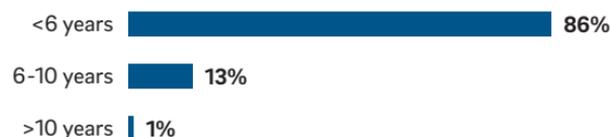
- For 2022, nearly two thirds of PE professionals expect more M&A transactions with PE involvement than in 2021
- Similar to 2020 and 2021, technology, pharma & health-care as well as business services & logistics are perceived as the most attractive industries
- In terms of associated transaction volumes, the mid-cap/small-cap segments are seen as the most promising, but all segments show a strong positive trend
- ESG is considered an important or very important element of due diligence and target selection by 66% of PE professionals – Its importance is expected to grow in the next 5 years
- PE professionals expect targets on the market to be more attractive in 2022 relative to 2021, with majority stakes in family firms as well as secondary buyouts anticipated to be the most attractive targets (just like in the previous year)
- Prolongation of existing funds and fundraising are considered to be the main focus of PE professionals' 2022 activities. Over half of PE professionals (52%) expect the level of competition for fundraising to become more intense in 2022
- The majority of PE professionals consider value creation very important and will continue to do so in the future. The respondents consider add-on acquisitions, digitalization/data analytics and cycle resilience of portfolio companies to be the most important portfolio management/value creation measures in 2022
- Valuation multiples are considered overvalued by the vast majority of PE professionals (91%)

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 2022.

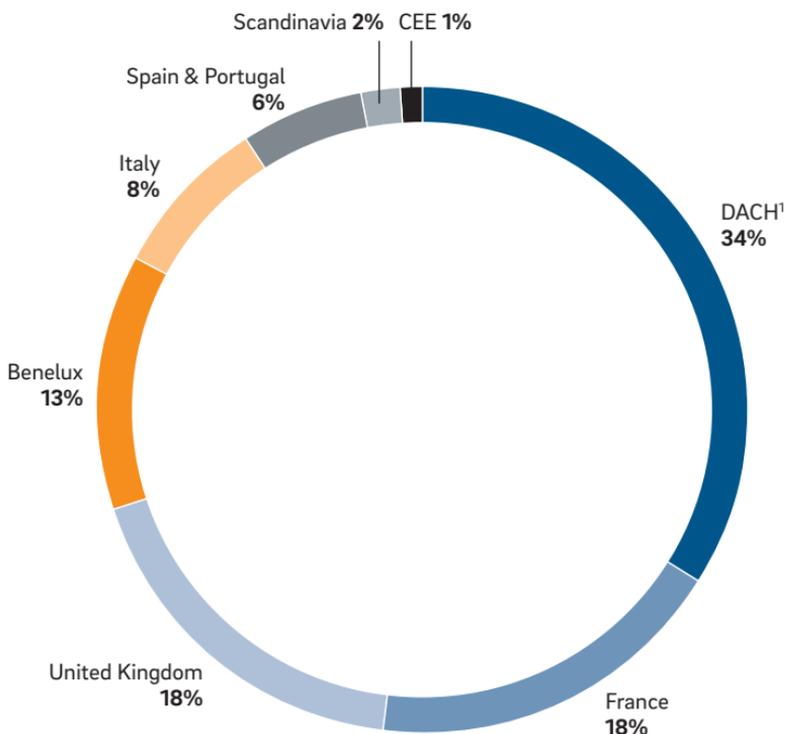
PE experience

[% of responses]



Participants

[% of responses]



Source: Roland Berger

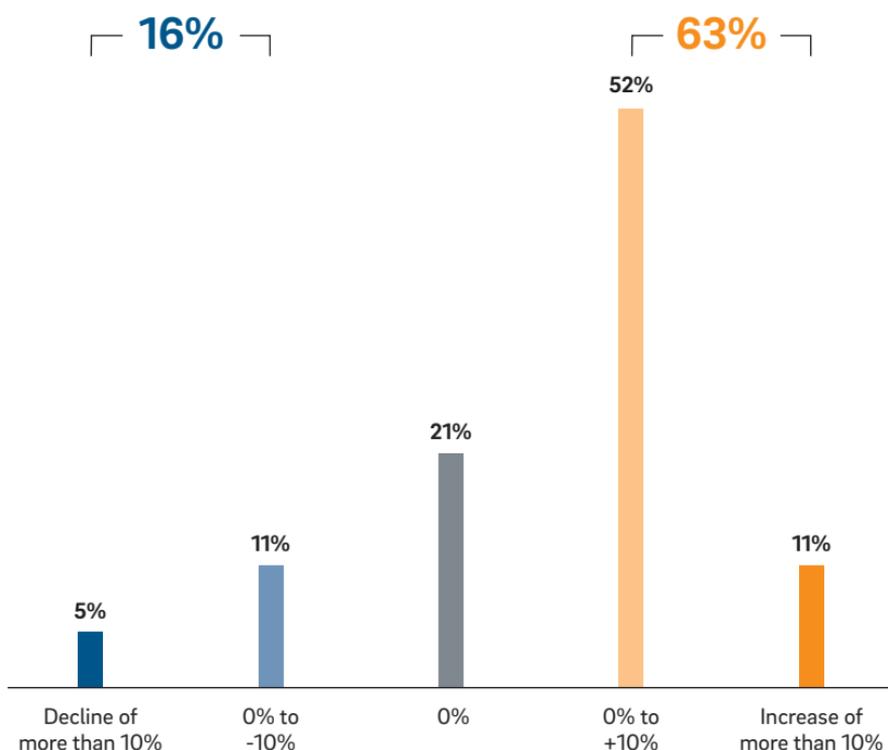
¹ Germany, Switzerland and Austria

Nearly two thirds of respondents expect more M&A transactions with PE involvement than in 2021

63% of respondents expect an increase in M&A transactions with PE involvement compared to last year's level. 11% of respondents even think this increase will be double-digit. 21% of respondents expect the same level of PE involvement as last year. A decrease in the number of M&A transactions with PE involvement is expected by 16% of respondents. This anticipated increase in M&A transactions with PE involvement may signal reasonable optimism with respect to PE opportunities on the back of the overall recovery of the macroeconomic situation and the development of Covid-19 in Europe.

What change do you expect to see in 2022 regarding the number of completed M&A transactions with PE involvement?

M&A transactions with PE involvement – 2022 vs. 2021 [%]



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

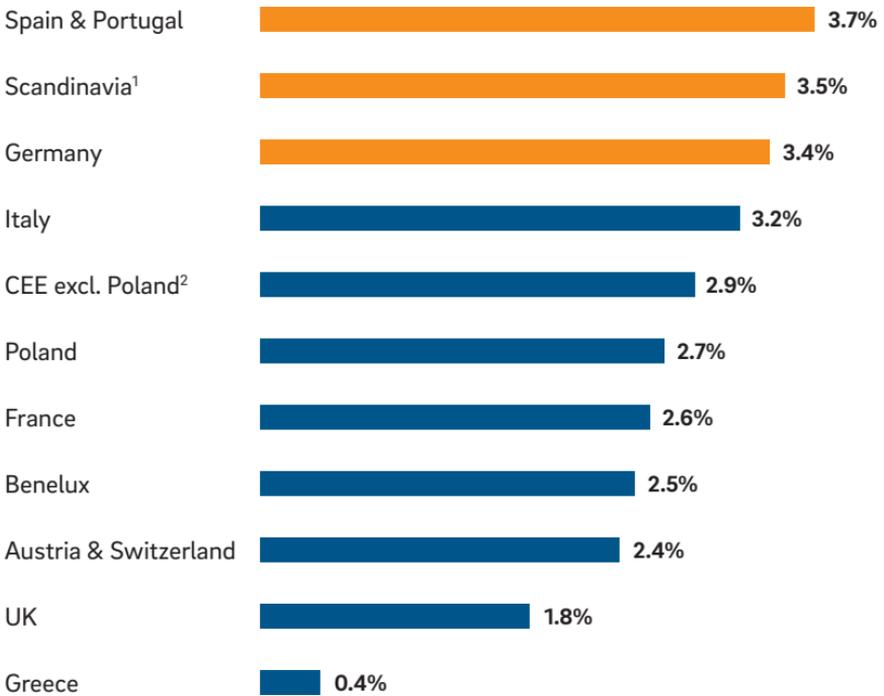
Source: Roland Berger

This growth outlook differs for various European countries and regions

The expected growth outlook of M&A transactions with PE involvement in Europe differs for various countries and regions. The PE market in Spain and Portugal is expected to see the strongest growth in Europe in 2022. Scandinavia, Germany and Italy are also likely to see a healthy increase in M&A activity. This good assessment can be interpreted as the result of a positive macroeconomic situation in these countries and regions. The participants of the survey forecast the weakest growth in Europe for the United Kingdom and Greece.

What change in PE M&A activity do you expect to see in the following countries in 2022?

Change in PE M&A activity in major countries – 2022 vs. 2021 [%]



% of expected change in PE M&A activity in 2022 compared to previous year [only one response per country possible]

¹ Includes Denmark, Norway, Sweden ² Central and Eastern Europe includes Bulgaria, Croatia, Czech Republic, Hungary, Romania, Slovakia and Slovenia

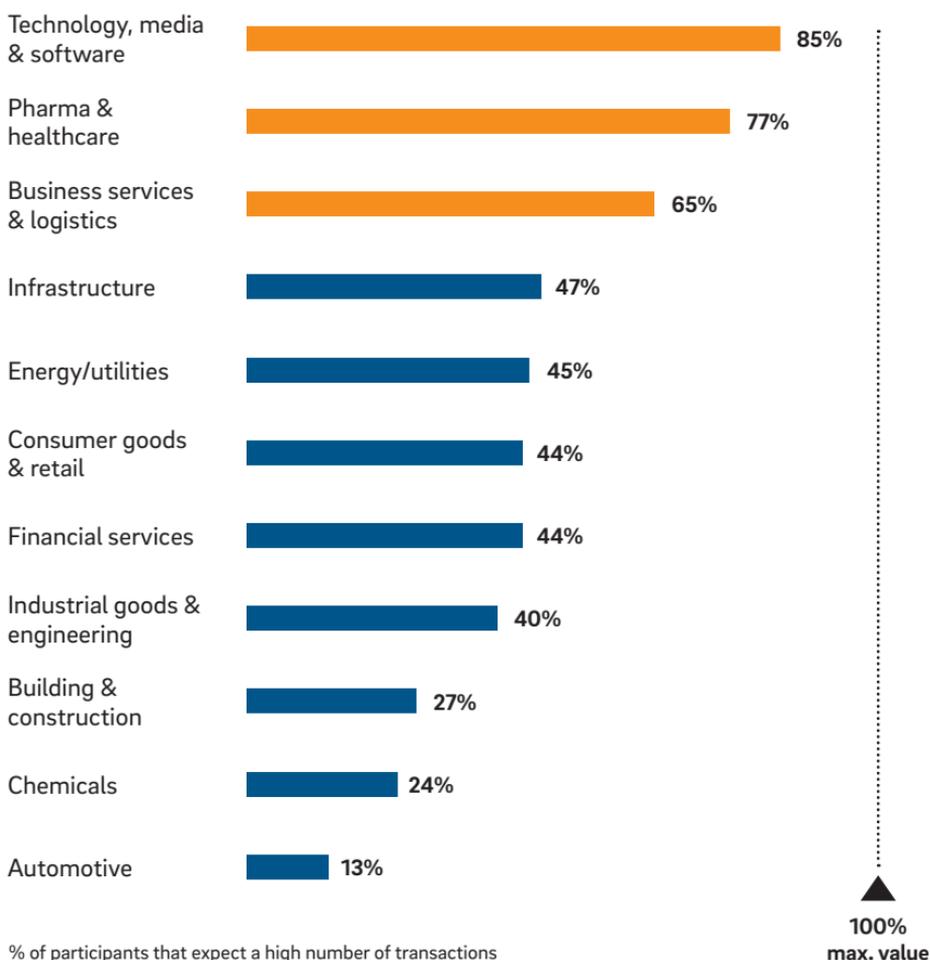
Source: Roland Berger

TMS, pharma & healthcare, and business services & logistics are expected to yield the most M&A deals

Similar to 2020 and 2021, technology, media & software, pharma & healthcare, and the business services & logistics industries are expected to be the most active in terms of M&A transactions with PE involvement. Technology and pharma & healthcare are of particular interest to the PE industry given their fundamental growth characteristics and resilience.

What change do you expect to see in 2022 regarding the number of completed M&A transactions with PE involvement?

Likelihood of a high number of M&A transactions by industry – 2022 [%]



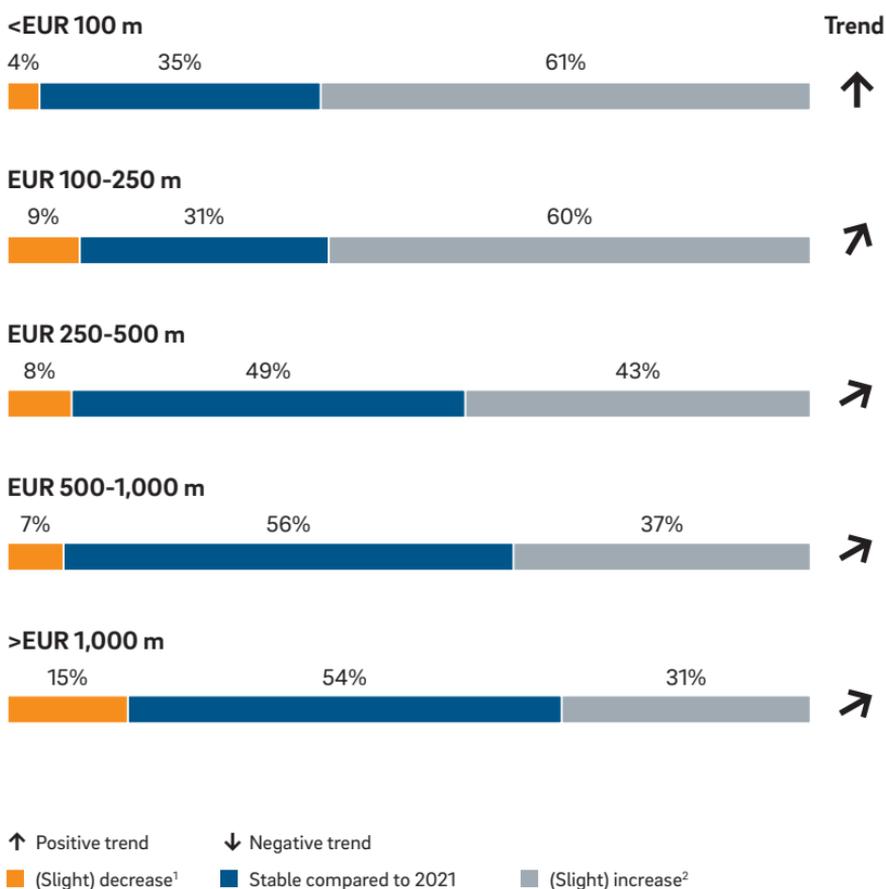
Source: Roland Berger

The mid-cap and small-cap segments are seen as the most promising

The small-cap segment with deals up to EUR 100 m and the mid-cap segment (EUR 100-500 m) are considered to be the most promising in 2022. Compared to 2021, there is a strong increase in PE professionals expecting stable development/growth in the European M&A market. This is true for all size segments, most notably for deals >EUR 500 m.

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

Development of PE transaction size classes – 2022 vs. 2021 [%]



1 Includes significant decrease 2 Includes significant increase

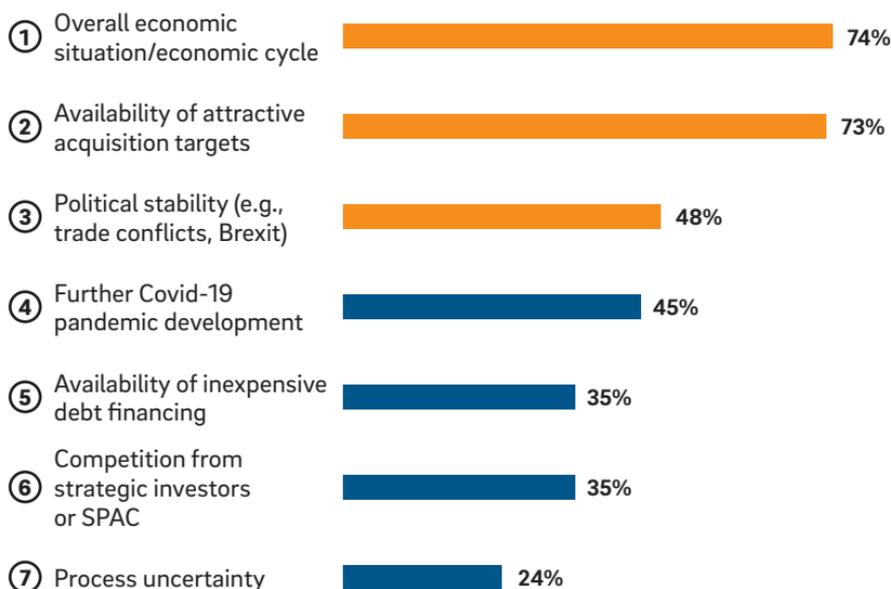
Source: Roland Berger

The overall economy and the availability of attractive acquisition targets are the most influential factors for PE transactions

The overall economic situation and the availability of attractive acquisition targets are seen as the most influential factors affecting the number of M&A transactions with private equity involvement. Survey respondents expect no change or even a slight improvement in these two key factors in 2022. It is also worth noting that 71% of the respondents expect an improvement in the Covid-19 situation in 2022. In contrast to these two factors, the availability of debt financing, competition from strategic investors or SPAC, and process uncertainty are considered to be significantly less influential.

What are the most influential factors affecting the number of European M&A transactions with private equity involvement in 2022?

Ranking of M&A influence factors – 2022



Based on ranking from 1 (least influential) to 5 (most influential) – % depicted represents the share of respondents assigning a score of 4 or 5 to a given factor relative to total number of respondents

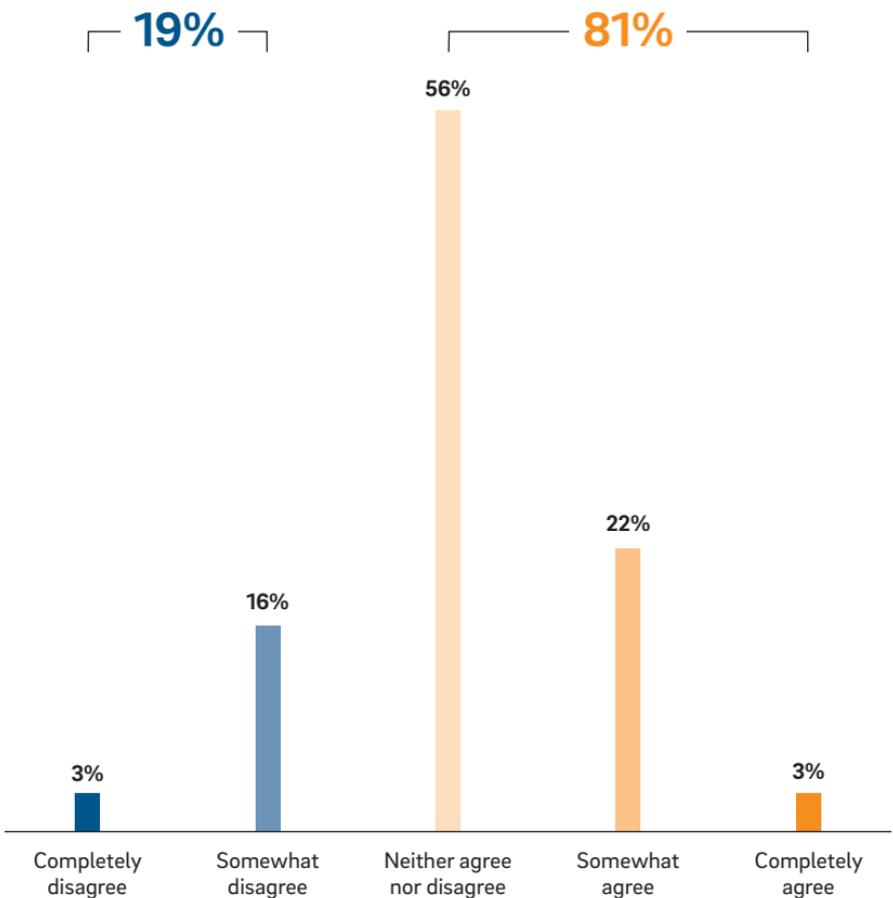
Source: Roland Berger

Most PE professionals expect the targets available in 2022 to be of similar/comparable quality to 2021

81% of the respondents expect targets available in 2022 to be equal to or more attractive than those available in 2021. 19% of PE professionals (up from 11% in 2021) anticipate that targets will be less attractive than the previous year.

Overall, targets available on the market in 2022 will be more attractive than in 2021. To what extent do you agree?

Expected development of investment opportunities – 2022 vs. 2021 [%]



% of responses [only one answer possible]

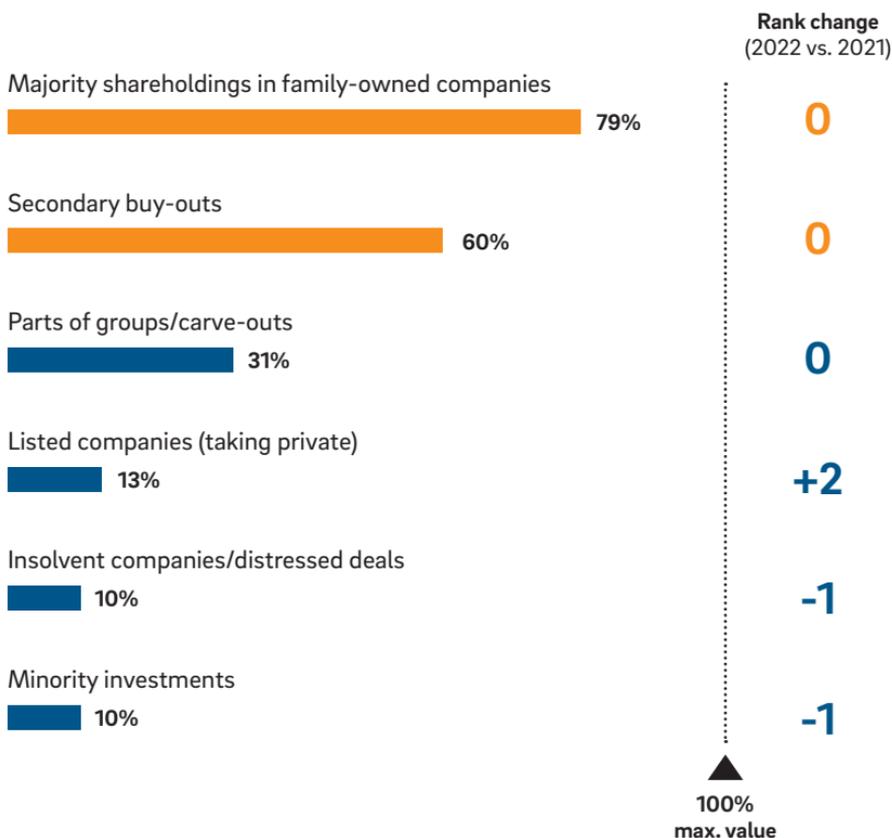
Source: Roland Berger

Majority shareholdings in family companies and secondary buyouts are the most important sources

Majority shareholdings in family-owned companies are viewed by 79% of PE professionals as the most important source of attractive targets in 2022. This figure is notably above 2021's 52%. Secondary buyouts follow at 60%, up from 48% in 2021. Listed companies, insolvent companies/distressed deals and minority investments are expected to be less relevant as attractive targets in 2022.

What will the source of the most attractive targets be in 2022?

Sources of most attractive targets – 2022 [%]



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

Source: Roland Berger

The availability of external debt financing remains broadly similar to 2021

Overall, the financing situation is expected to be relatively similar in 2022 to the situation in 2021. Two thirds of the respondents expect the chances of leveraged buyouts to be similar to last year. In particular, growth financing is expected to remain the most stable. Here, 73% of respondents see no difference to last year's situation.

Compared to 2021, how easily available will external debt financing be in 2022?

Availability of external financing – 2022 vs. 2021

Leveraged buyouts, i.e., new transactions



Growth financing, i.e., working capital, lines for add-on acquisitions or capex



Refinancing, i.e., improvement of terms



Recapitalization, i.e., debt substituting equity, dividend to sponsor



■ More difficult to raise ■ Neutral ■ Easier to raise

[only one answer possible for each type of financing]

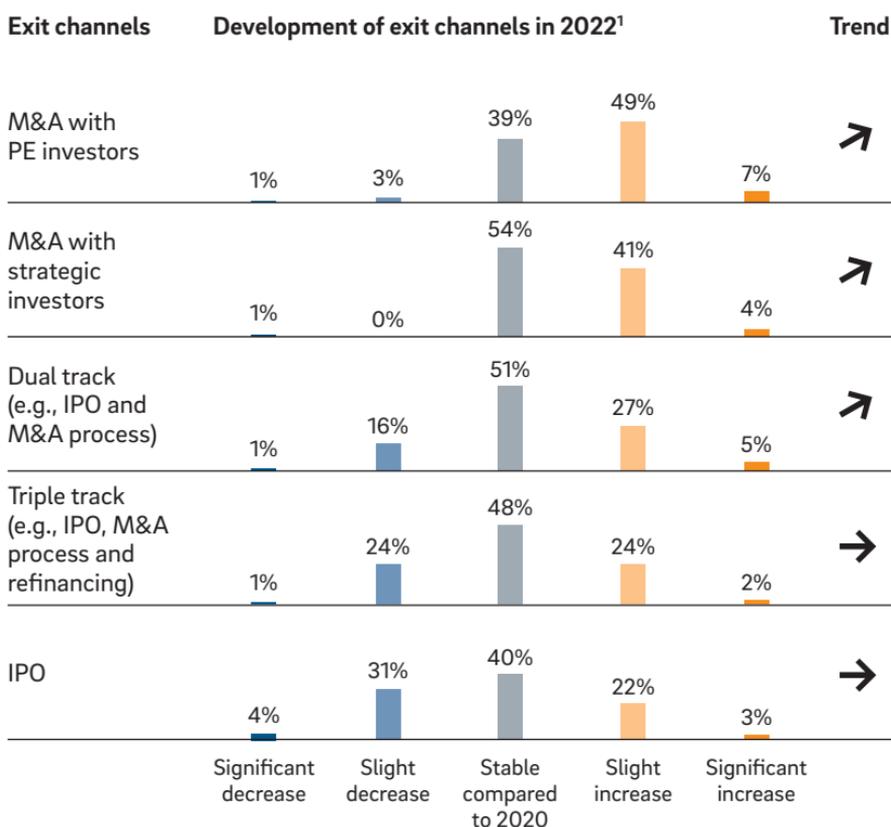
Source: Roland Berger

Sales to PE or strategic investors are the most promising exit channels

In 2022, the overall trend across exit channels is expected to be mostly positive, which is in line with respondents' overall positive market expectations: Sales to PE investors and strategic investors are considered a promising exit route, with 56% and 45% of participants, respectively, expecting an increase. PE professionals also expect dual tracks (e.g., IPO and M&A process) to increase slightly in 2022. However, IPO exits and triple tracks (e.g., IPO, M&A process and refinancing) are expected to decline.

How do you expect the individual exit channels to change in 2022?

Change in exit channels – 2022 [%]



¹ Only one answer possible for each exit channel

↑ Positive trend

↓ Negative trend

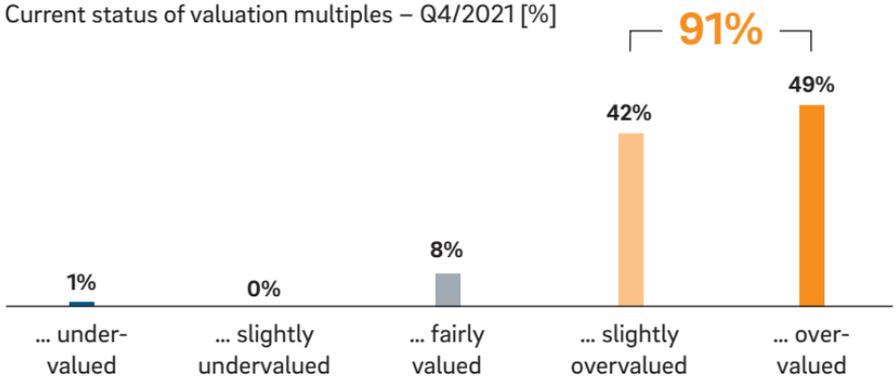
Source: Roland Berger

Valuation multiples are currently considered to be overvalued by the majority of PE professionals

Valuation multiples paid during M&A transactions with PE involvement are described as overvalued by 91% of the respondents (up from 82% in 2021). The number of respondents that believe assets are fairly valued has reduced further (8% vs. 17% in 2021). 40% of the surveyed PE professionals expect valuation multiples paid during M&A transactions with PE involvement to increase throughout 2022.

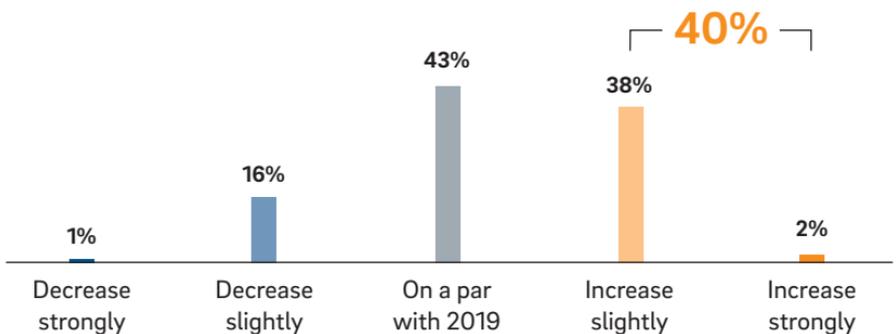
What describes best the current status of valuation multiples paid during M&A transactions with PE involvement? Assets are ...

Current status of valuation multiples – Q4/2021 [%]



How do you expect valuation multiples paid in transactions with PE involvement to develop in 2022?

Expected development of valuation multiples – 2022 [%]



% of responses [only one answer possible]

Source: Roland Berger

Pharma & HC, tech/media and business services are expected to see the biggest increase in valuation multiples

Looking in more detail at the expected development of valuation multiples by industry, most respondents expect pharma & HC to see an increase in valuation multiples in 2022 (66%), followed by tech/media (62%) and business services (47%). A decrease of valuation multiples in automotive is expected by almost half of the respondents (45%).

How do you expect valuation multiples paid in transactions with PE involvement to develop in 2022? (by industry)

Expected development of valuation multiples by industry – 2022 [%]

	Decrease strongly	Decrease slightly	On a par with 2021	Increase slightly	Increase strongly
Automotive	4%	41%	35%	19%	0%
Building & construction	4%	19%	52%	24%	0%
Business services	0%	7%	46%	46%	1%
Chemicals	0%	18%	63%	18%	1%
Consumer goods	2%	16%	53%	26%	3%
Energy& utilities	1%	19%	47%	26%	6%
Financial services	1%	11%	57%	28%	3%
Industrial & engineering	0%	16%	59%	23%	2%
Pharma & HC	1%	6%	27%	45%	21%
Tech/media	1%	6%	31%	36%	26%
Infrastructure	0%	12%	52%	34%	2%

% of responses [only one answer possible]

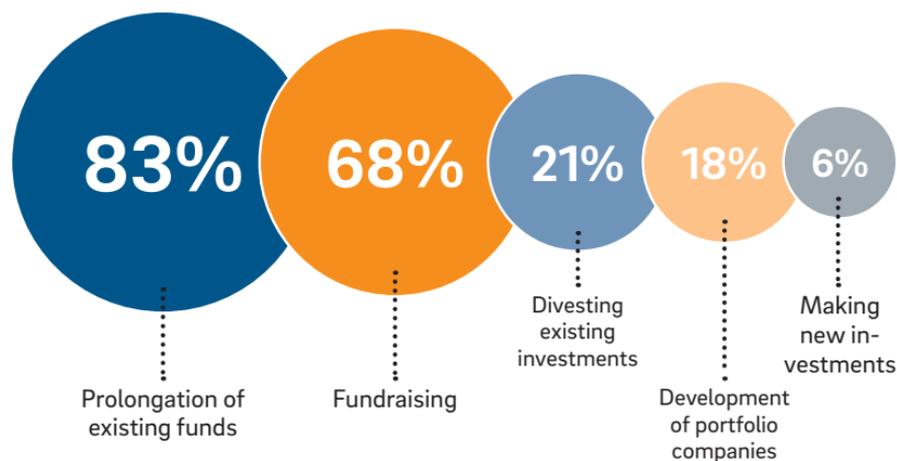
Source: Roland Berger

Prolongation of existing funds and fundraising are set to be a key focus of PE activity in 2022

Prolongation of existing funds and fundraising are by far the top priorities for financial investors in 2022, becoming even more crucial than they already were in 2021. By comparison, divesting existing investments and advancing the development of portfolio companies are assigned a much lower priority in relative terms.

On which phases of the PE value chain will you focus most in 2022?

Focus of PE investors by value chain phase – 2022 [%]



% of participants 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 2022?

Expected level of competition for fundraising – 2022 vs. 2021 [%]



Source: Roland Berger

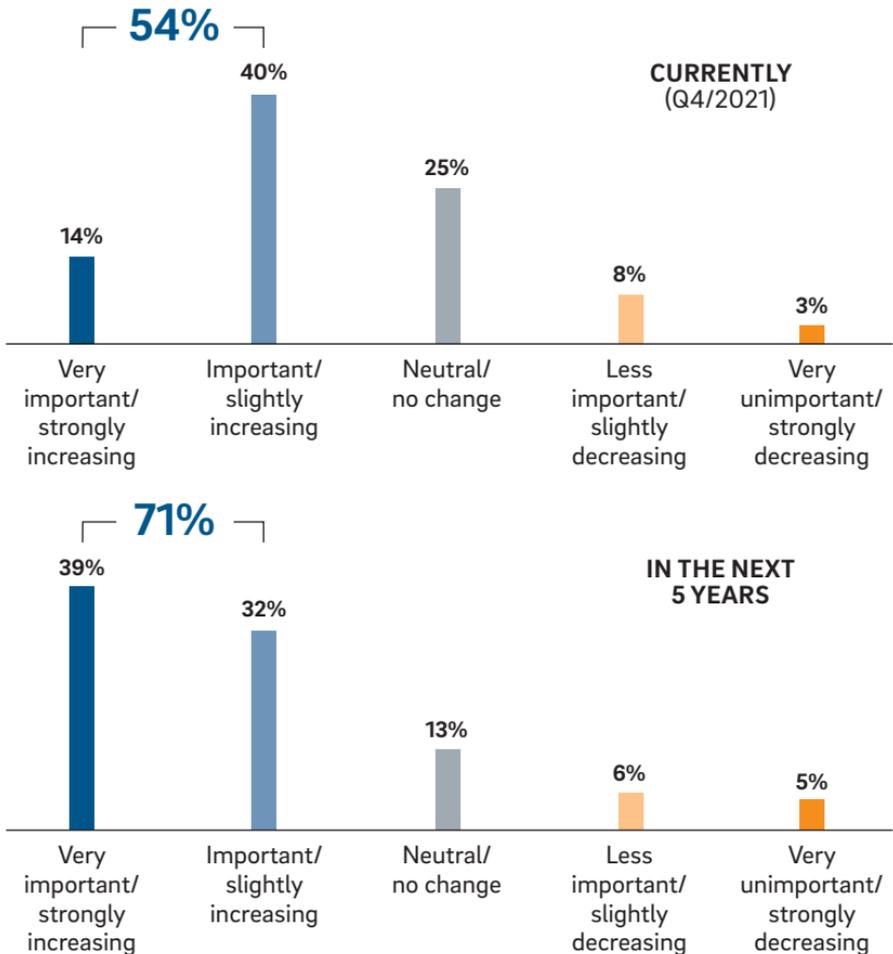
% of responses [only one answer possible]

The majority of PE professionals consider value creation important and will continue to do so in the future

54% and 71% of respondents believe value creation will have an important or very important role in 2022 and the next 5 years, respectively. Particularly, 39% of PE professionals think the role will be very important in the next five years, compared with only 14% in 2022.

What role will value creation play in 2022 and in the next 5 years?

Role of value creation – 2022-2027 [%]



Source: Roland Berger

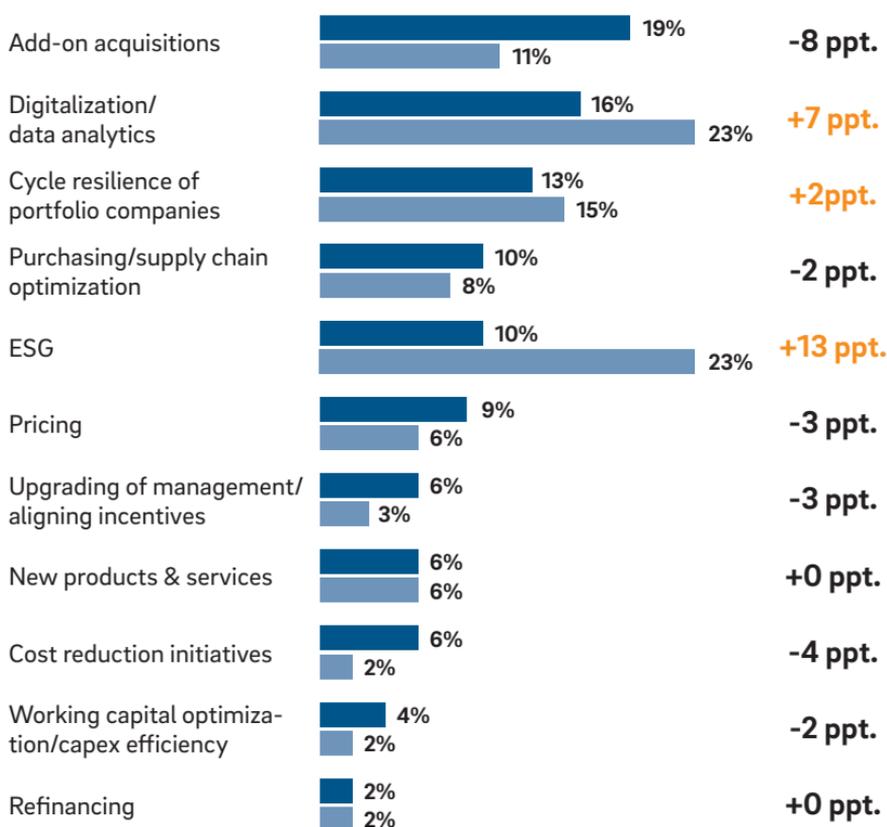
% of responses [only one answer possible]

Add-on acquisitions, digitalization and cycle resilience are the most important for value creation in 2022

Respondents consider add-on acquisitions, digitalization/data analytics and cycle resilience of portfolio companies to be the most important measures for portfolio management and value creation in 2022. However, in the next 5 years, add-on acquisitions are expected to lose importance (11% vs. 19%). ESG is expected to rise to the top of portfolio management/value creation priorities in the next five years (23% vs. 10%).

Which of the following portfolio management/value creation measures do you consider most important in 2022; which measures will increase in importance the most in the next 5 years?

Importance of portfolio management/value creation measures – 2022 vs. future [%]



■ 2022 ■ Next 5 years

Source: Roland Berger

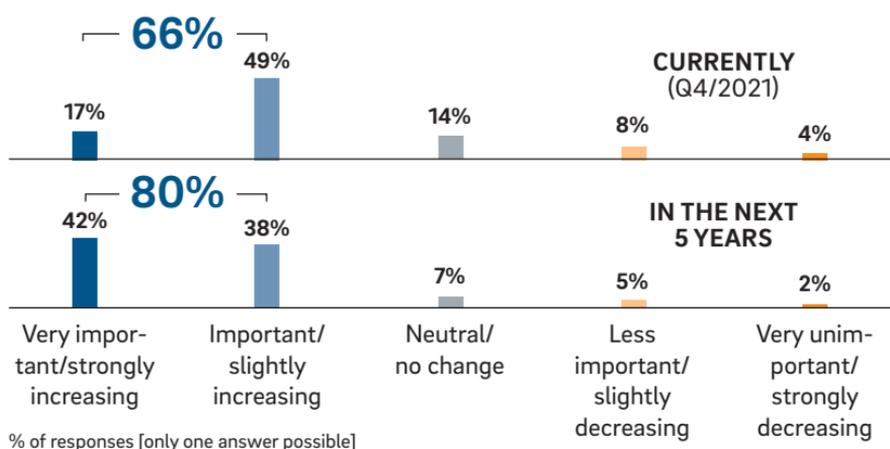
% of responses [maximum of four answers possible]

ESG is relevant and is expected to become even more relevant going forward

ESG is currently an important or very important factor in due diligence and target selection for 66% of respondents. This importance is considered to be growing and increasingly so, becoming important or very important for 80% of respondents in the next five years. Environmental concerns (68%) and brand image/reputation (50%) are the most important reasons for taking ESG-related factors into account when making investment decisions.

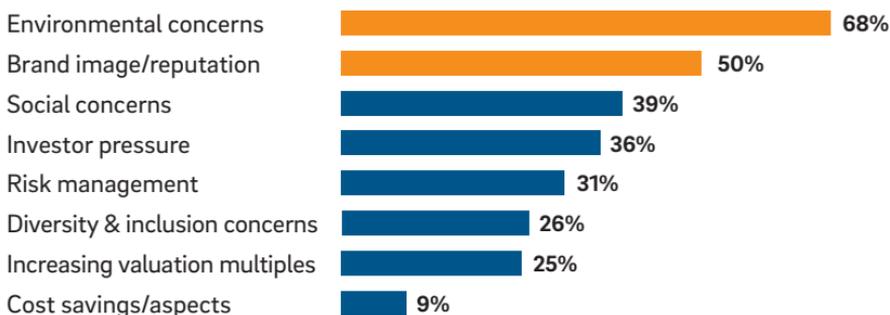
What role does ESG currently play in your due diligence and target selection? What do you expect for the next 5 years?

Role of ESG in due diligence and target selection – 2022-2027 [%]



Why do you take ESG-related factors into account when making investment decisions? Please select the factors you consider most important.

Reasons for considering ESG-related factors [%]



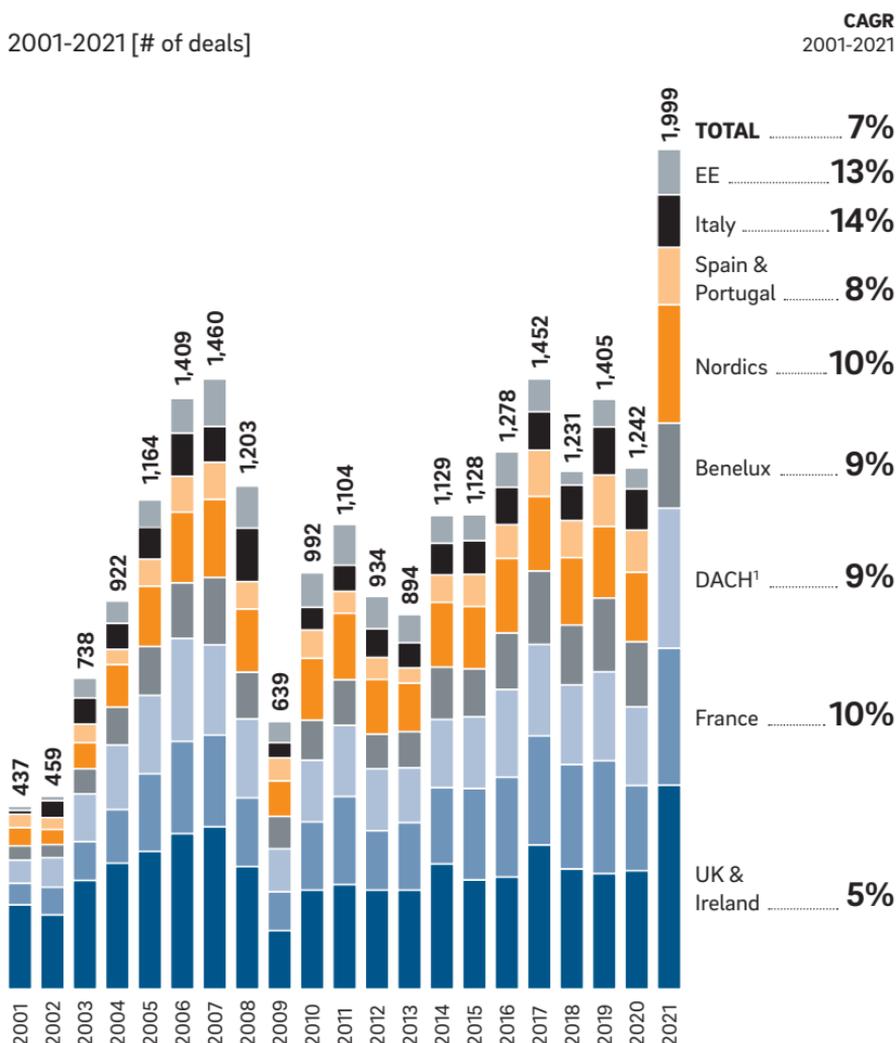
Source: Roland Berger

[Maximum of four answers]

There was a strong rebound in buyout volumes in 2021 – UK, GSA and France were the geographies with the most buyout transactions

Geographically, the UK, GSA¹ and France represent the strongest buyout markets, while Eastern Europe and Italy have historically demonstrated the strongest growth dynamics (starting from a lower base). Overall, volumes have grown at c.8% p.a. over the 2001-2021 period.

European buyout transaction volume by geography



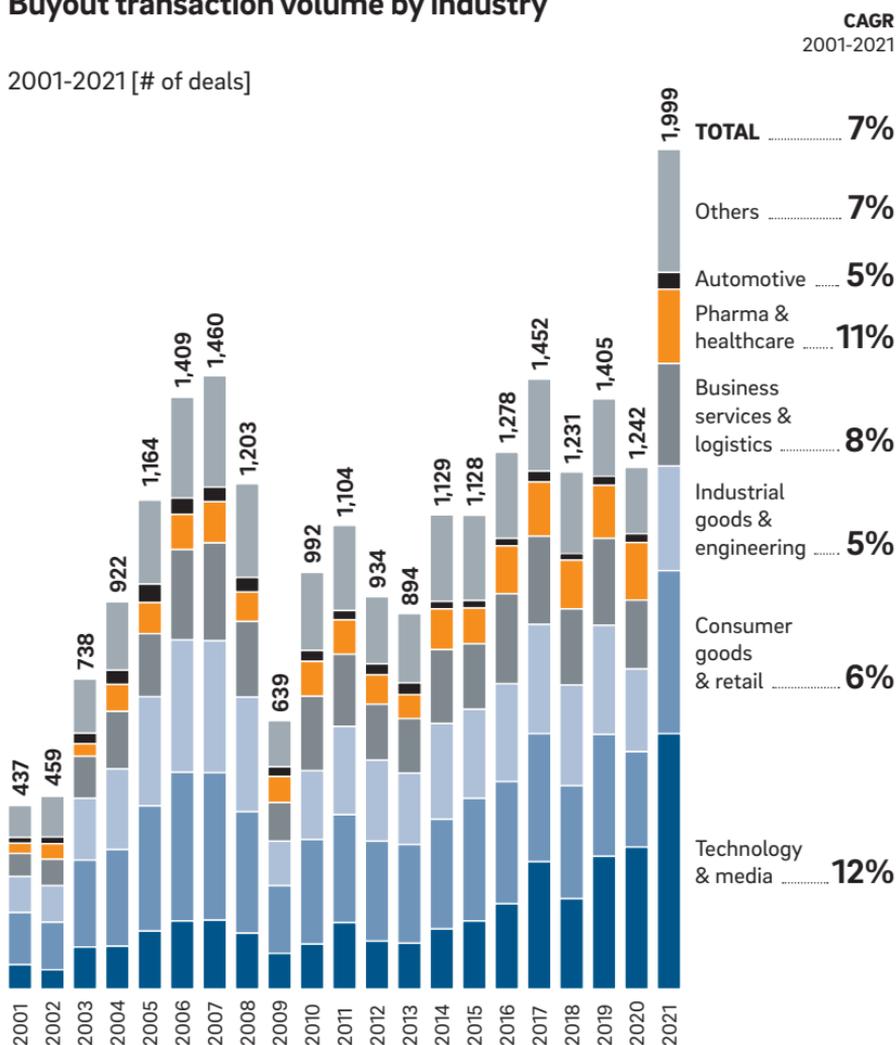
Source: Mergermarket (Feb 2022); Roland Berger

¹ Germany, Switzerland and Austria

Tech/media and consumer goods & retail saw the largest transaction volumes in 2021

At the industry level, T&M (c.600 deals), consumer goods & retail (c.390 deals) and industrial goods & engineering (c.250 deals) were the main contributors to deal flow in 2021. The strongest long-term growth was registered in tech/media (+12% CAGR in 2001-2021), followed by pharma & healthcare, which grew at a CAGR of c.11%. Recovering from the Covid-induced dip in 2020, all sectors experienced strong growth rates of 25-90% in 2021.

Buyout transaction volume by industry



Source: Mergermarket (Feb 2022); Roland Berger

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