

**S&P Global**

Market Intelligence

# EMEA Private Equity Market Snapshot

**Essential tools for strategic decisions**

March 2020 | Issue 24

- United Kingdom Backed by a Robust Pipeline of Mega Deals
- Norway is Back on the Map for Private Equity Investors
- Feature Article: Private Equity and Venture Capital Firms Share their Outlook for 2020



## Editor's Note

Welcome to the 24<sup>th</sup> issue of **the EMEA Private Equity Market Snapshot (PEMS)**, a quarterly publication focusing on the Private Equity (PE) market in Europe, the Middle East and Africa (EMEA) from S&P Global Market Intelligence.

In spite of Brexit uncertainty and a generally turbulent year, the fulfilment of several large UK-backed deals announced earlier made for a robust last quarter of 2019 in terms of total capital deployed into EMEA, even though the number of completed deals was down. The factors behind this development forms the first part of our discussion, as we outline the deals contributing to this trend and the largely local distribution of deployed capital.

From there we move to a focused analysis of Norway's burgeoning PE activity, examining the factors at play concerning the growing appetite from global PE investors in the Nordics generally and Norway specifically - which is a significant contrast from the decline in deal activity we noted in 2017.

We close with a feature article that discusses the insights gleaned from our third annual survey of global PE professionals, this year expanded to include VC firms around the world. Overall, our study reveals a cautious 2020 investment sentiment. Though capital continues to flow, PE firms are looking for ways to deploy capital more effectively. Finally, after an overview of the main risks facing portfolio companies and the preferred investment strategies and exits in today's landscape, we discuss how survey participants globally are incorporating Environmental, Social and Governance (ESG) strategies into their investing practices.

We look forward to receiving feedback and suggestions on regions or sectors of interest for future analysis. To subscribe or comment on the complimentary EMEA PEMS, please email [market.intelligence@spglobal.com](mailto:market.intelligence@spglobal.com).

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## United Kingdom (UK) Backed by a Robust Pipeline of Mega Deals

Global General Partners (GPs) ended 2019 on a high note following the completion of large deals (those deals qualifying in the €1bn-plus bracket) that were announced in the first half of the year. The uncertainty surrounding Brexit throughout the year put pressure among GPs to look into high-value acquisitions, mostly involving UK targets, in order to hedge against its possible implications.



**€46.2bn**

PE/VC capital  
deployed in EMEA

▲ ▼ 37%

Total capital deployed into Europe, Middle East and Africa (EMEA) region in Q4 2019 jumped 37% year-over-year despite fewer deals, to an aggregate amount of

€46.2bn from €33.7bn last year. The number of completed deals in the quarter fell by 13% year-over-year to 1,192 from 1,381. The completion of seven large entry deals worth an aggregate €31.0bn in the quarter, compared to eight large entry deals worth an aggregate €21.8bn in the same period last year, strongly contributed to the growth of capital within EMEA. Most notably, four of the seven large deals were secured by UK targets.

<sup>1</sup> Kirkbi Invest A/S, Canada Pension Plan Investment Board and Blackstone Core Equity Partners, fund managed by The Blackstone Group L.P. (NYSE:BX) completed the acquisition of 70.42% stake in Merlin Entertainments plc (LSE:MERL) on November 4, 2019. (As of 10/02/20). S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=626261430&companyId=131482>

<sup>2</sup> Apax Partners LLP, Canada Pension Plan Investment Board, Ontario Teachers' Pension Plan Board and Warburg Pincus LLC completed the acquisition of Inmarsat Plc (LSE:ISAT) on December 4, 2019. (As of 10/02/20). S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=606921695&companyId=3574059>

<sup>3</sup> Bain Capital Private Equity, LP completed the acquisition of 60% stake in Kantar from WPP plc (LSE:WPP) on December 5, 2019. (As of 31/12/19). S&P Capital IQ Platform. Retrieved from

The total amount of global GPs' money put into UK targets doubled in the quarter despite fewer deals, totalling €20.8bn versus €7.2bn in the same



▲ ▼ 188%

**€20.8bn**

PE/VC capital  
deployed in the UK

period last year. The number of completed deals involving UK targets declined by 12% to 263 from 298. Standout deals in UK during the quarter include a €6.3bn acquisition of attractions operator Merlin Entertainments

PLC by a consortium that included The Blackstone Group Inc.,<sup>1</sup> a €5.1bn acquisition of satellite operator Inmarsat PLC by a consortium that included Apax Partners LLP, Canada Pension Plan Investment Board, Ontario Teachers' Pension Plan Board and Warburg Pincus LLC,<sup>2</sup> a €2.7bn acquisition of data provider and consulting firm Kantar by Bain Capital Private Equity, LP,<sup>3</sup> and a €1.0bn acquisition of automotive retailer BCA Marketplace by investment funds managed by TDR Capital LLP.<sup>4</sup>

The Rest of Europe (RoE) and Middle East regions also captured a hefty share of global GPs' investments. EQT AB's €9.2bn carve out of Switzerland-headquartered Nestlé Skin Health SA,<sup>5</sup> the largest deal of the quarter, bolstered the total deal value in RoE to an aggregate amount of €9.9bn versus €2.5bn in Q4 2018. The €3.8bn acquisition of Israel-based telecommunication

<https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=629186411&companyId=145621915>

<sup>4</sup> Investment Funds managed by TDR Capital LLP completed the acquisition of BCA Marketplace plc (LSE:BCA) on November 6, 2019. (As of 10/02/20). S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=623144636&companyId=3609208>

<sup>5</sup> A consortium led by EQT VIII, managed by EQT Partners AB completed the acquisition of Nestlé Skin Health S.A. from Nestlé S.A. (SWX:NESN) on October 2, 2019. (As of 10/02/20). S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=629860025&companyId=276199428>

provider B Communication Ltd by Searchlight Capital Partners, L.P.<sup>6</sup> pushed the Middle East's deal value to €6.1bn versus €1.1bn last year.



**263**  
total entry deals  
in the UK

▲ ▼ 12%

High-value entry deals involving Healthcare, Communication Services and Consumer Discretionary targets powered the triple-digit growth in deal

value across these sectors. However, the prominence of Information Technology (IT) tapered slightly, as deal value fell by 7% in the quarter, from €4.1bn to €3.8bn, and the number of completed deals was reduced by 15%, from 519 to 436.

Global GPs' divestments lagged behind, with total capital realized dipping by 21% in the quarter, to an aggregate amount of €26.7bn from €33.6bn in Q4 2018. This was coupled by a 22% decline in the number of completed deals, from 309 to 242.

### EMEA GPs' Money Poured into Homegrown Targets

EMEA-based GPs' investment appetite proved to be unaffected by Brexit blues, ramping up the total capital deployed globally by 15% to an aggregate deal value of €60.1bn versus €52.1bn in the same quarter last year.

Despite the number of completed deals falling by 10% (from 1,546 to 1,397), capital invested globally grew year-over-year due to the increased size of deals. In Q4 2019, the average deal value rose by 22% compared to the same period last year, from €51.1m to €62.6m.

<sup>6</sup> Searchlight Capital Partners, L.P. completed the acquisition of 51.95% stake in B Communications Ltd (TASE:BCOM) from Internet Gold - Golden Lines Ltd. (NasdaqGS:IGLD) on December 2, 2019. (As of 10/02/20). S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=613997948&companyId=9831178>

<sup>7</sup> Blackstone Capital Partners VII LP, managed by The Blackstone Group Inc. (NYSE:BX) and others completed the acquisition of F&R Business of Thomson Reuters Corporation on October 1, 2018. (As of 10/02/20). S&P

During the fourth quarter 2019, aggregate money circulated locally with EMEA-based targets snatching the lion's share of capital deployed through their involvement in large deals. Notching five of nine of those deals were Nestlé Skin Health S.A., Merlin Entertainments plc, Inmarsat Group Holdings Limited, B Communications Ltd, and BCA Marketplace plc. With this, the total



▲ ▼ 21%

**Down 21%**

total capital realized  
by Global GPs

capital invested in EMEA-based targets almost doubled to €40.0bn across 1,077 deals as compared to €17.2bn across 1,227 deals in same quarter last year.

On the other hand, cross-border targets suffered a blow. Total capital received dipped by 39% to only €21.1bn from €34.9bn in Q4 2018 across the same number of deals. It is worth noting, however, that last year was a rich quarter for North American targets with the €14.0bn acquisition of data provider Refinitiv US Holdings Inc by Blackstone Group L.P.<sup>7</sup>

On a sector basis, EMEA-based GPs' interest still resides with the IT sector, which recorded the highest number of completed deals at 579 entries worth €9.1bn. The acquisition of Presidio, Inc for €2.2bn<sup>8</sup> was the largest deal within the IT sector for the quarter.

Total capital realized from EMEA-based GPs' global divestments during the quarter plunged by 45% to only €16.3bn from €29.6bn in Q4 2018. Similarly, the number of completed deals fell by 19%, from 306 to 248. Surprisingly, Middle East targets earned the highest return, but this was mostly attributed

Capital IQ Platform. Retrieved from <https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=551096771&companyId=551096671>

<sup>8</sup> BC Partners completed the acquisition of Presidio, Inc. (NasdaqGS:PSDO) from AP VIII Aegis Holdings LP and others on December 19, 2019. (As of 10/02/20). S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=633191617&companyId=2535412>

to a single, and the largest, exit deal of the quarter involving the €4.4bn acquisition of Israel-based real estate business A.D.O. Group Ltd.<sup>9</sup>

Focusing on the Venture Capital (VC) segment, the aggregate capital deployed during the quarter was similarly robust. EMEA-based targets received 54% more capital than in the same quarter last year, despite fewer deals. There were 703 entry deals worth €4.1bn in Q4 2019, compared to 785 entries worth



# €60.1bn

total capital deployed  
by EMEA-based GPs

▲ ▼ 15%

€2.7bn in Q4 2018. The acquisition of FinanceFox Germany GmbH for €211.8m<sup>10</sup> received the highest amount of funding from global VCs in the quarter. On the other hand,

EMEA-based VCs invested €7.0bn across 849 deals during the quarter, an 18% rise compared to €6.0bn across 881 deals last year. These VCs continue to invest heavily in the IT and Healthcare sectors, putting in €2.5bn and €1.4bn, respectively, in Q4 2019 alone.

## Norway is Back on the Map for PE Investors

In early 2018, Norway's Finance Ministry denied the Government Pension Fund Global in their request to allocate assets for PE,<sup>11</sup> stating that the “often opaque and fee-heavy asset class would be a bad fit for the fund.”<sup>12</sup> Just one year later, the SWF got the “all-clear” to allocate up to 2% of the funds capital to unlisted renewable infrastructure investments,<sup>13</sup> and in August 2019, Norges Bank Investment Management (NBIM) – the funds’ manager – submitted another proposal to the Finance Ministry to overhaul the funds current tight regulations concerning investing in private companies.<sup>14</sup> NBIM, who is seeking to allocate €6.4bn to PE asset class, stated that a number of relevant transaction might have been missed due to the regulation limiting investments only to private firms that have near-term plans to go public. As institutional money continues to pour into the private markets, PE in particular, strong signs of an ongoing shift away from public markets is becoming apparent. Private business can now find sufficient capital outside public markets, eliminating the need to list early or list at all. When a listing eventually happens, the companies typically emerge as mature and large firms, with the growth already extracted by private investors, leaving the public market focused investors outflanked.<sup>15</sup> Large pension plan sponsors and other SWFs are ramping up their allocations to PE and other alternative assets classes. NBIM does not want to be sidelined and is trying to build up the desired exposure to PE over a longer period. Overall, this development sends a very strong signal to the private capital markets globally; the only caveat is that Norway's Government Pension Fund Global does not invest in assets in its own country, despite the fact that Norway's PE entry deal activity

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<sup>9</sup> ADLER Real Estate AG (XTRA:ADL) completed the acquisition of A.D.O. Group Ltd. (TASE:ADO) on December 10, 2019. (As of 10/02/20). S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=638027580&companyId=20333241>

<sup>10</sup> FinanceFox Germany GmbH amended terms of transaction and received €211.8m in this private placement transaction which closed on December 10, 2019. (As of 10/02/20). S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/CIQDotNet/Transactions/TransactionDetail.aspx?transactionId=605369755&companyId=528666019>

<sup>11</sup> Government Pension Fund Global, (As of 21/02/20) S&P Capital IQ Platform, Retrieved from <https://www.capitaliq.com/CIQDotNet/company.aspx?companyId=28155171>

<sup>12</sup> Norway Blocks Wealth Fund from Investing in Private Equity. (As of 19/02/2020). Institutional Investor. Retrieved from <https://www.institutionalinvestor.com/article/b17q8601nxqmt5/norway-blocks-wealth-fund-from-investing-in-private-equity>

<sup>13</sup> Norway's sovereign wealth fund cleared for unlisted renewable investments. (As of 19/02/2020). S&P Market Intelligence Platform. Retrieved from <https://platform.mi.spglobal.com/web/client?auth=inherit#news/article?id=51012322&KeyProductLinkType=33>

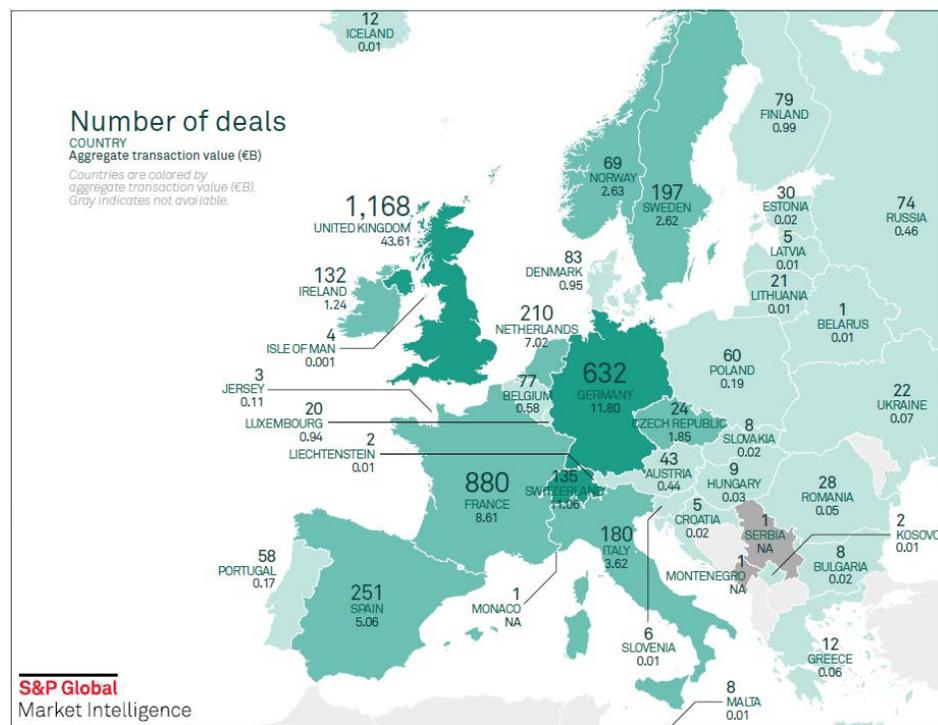
<sup>14</sup> Norway's sovereign fund seeks to allocate €6.3bn to private equity. (As of 19/02/2020). IPE Magazine. Retrieved from <https://www.ipe.com/norways-sovereign-fund-seeks-to-allocate-63bn-to-private-equity/10032993.article>

<sup>15</sup> Asset classes of tomorrow—private equity. (As of 19/02/2020). Thinking Ahead Institute. Retrieved from [https://www.thinkingaheadinstitute.org/en/Library/Public/Research-and-Ideas/2019/09/Private\\_equity\\_markets](https://www.thinkingaheadinstitute.org/en/Library/Public/Research-and-Ideas/2019/09/Private_equity_markets)

continued to rise over the past few years, mainly driven by cross-border deals. Moreover, the fund also decided to dispose its holdings in companies involved in the exploration and production of oil and gas and has been advised to cut its European exposure.<sup>16</sup>

The last time that S&P Global Market Intelligence reported on PE activity in the Nordics was in February 2018.<sup>17</sup> Two years ago, our analysis revealed a declining deal activity in the region over the study period (2013-2017). The activity has since improved, and a growing appetite from global PE investors in this region has been observed. Overall, PE entry deal activity across Norway, Sweden and Finland has picked up in 2018, as compared to the year prior, with aggregated deal count and deal value growing by 20% (from 322 to 385) and 63% (from €9.9bn to €16.1bn) respectively. However, the activity slowed down again slightly in 2019, with one exception – Norway. While Finland and Sweden experienced a slowdown in mergers and acquisitions (M&A) entry deals, Norway’s M&A activity peaked with 30 announced deals totalling an aggregated disclosed deal value of €2.5bn,<sup>18</sup> the highest numbers over the study period (2015-2019). Such a boost puts Norway firmly back on the European PE map (Fig. 1) for 2019.<sup>19</sup>

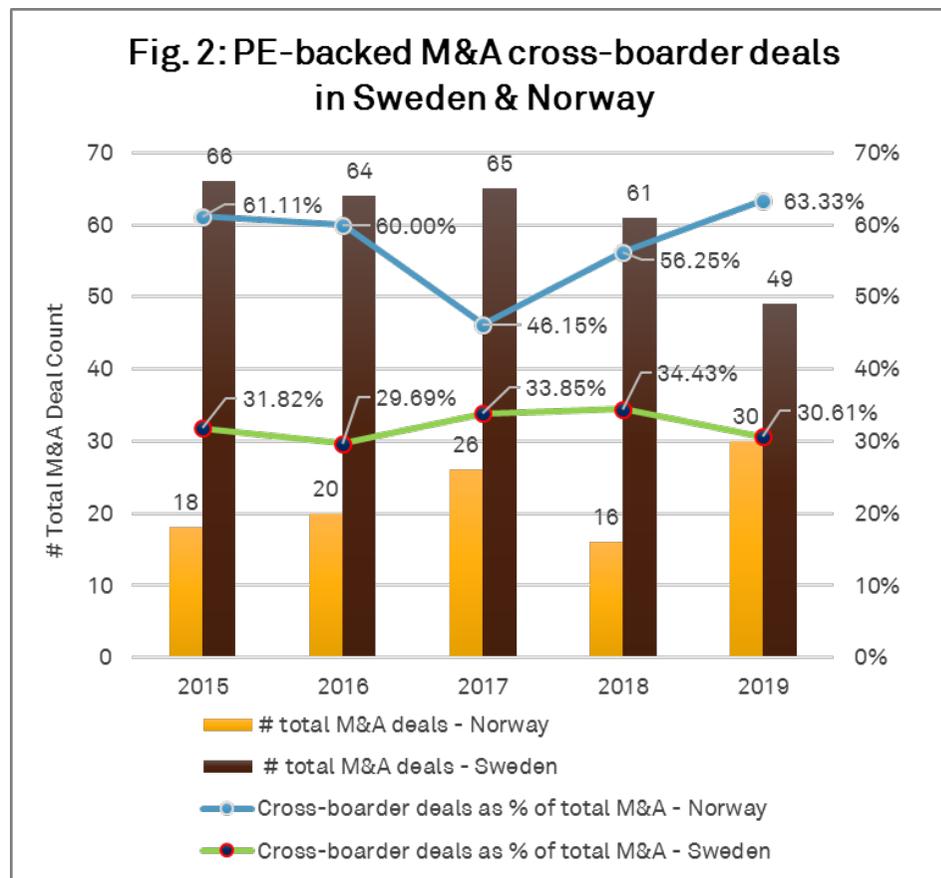
Fig. 1: Europe private equity entries by country in 2019



A strong majority (63%) of last-year’s PE-backed M&A entry deals in Norway were cross-border deals with major European PE investors like Partners Group Holding AG (SWX:PGHN), H.I.G Europe, and EQT Partners AB all acquiring assets in Norway throughout 2019. To put this into perspective, Sweden’s PE-backed M&A deal activity in 2019 recorded just 30% in cross-border deals (Fig. 2). While Sweden’s proportional cross-border entry deal activity remained stable throughout the study period, Norway managed to regain the confidence of foreign PE investors, after the dip in 2017 (46%). It’s worth noting that in October 2019 the EURNOK has hit a record high and USDNOK an 18-year high with Analysts highlighting structural reasons behind NOK weakness. Although stable domestic fundamentals supported the NOK, as an oil-exporting small open economy the sensitivity of the NOK to foreign factors, like oil price, rising risk of recession, slower global growth and trade wars contributed to NOKs depreciation. Norges Bank has reacted to those risks and raised the interest rate four times in the past year, applying a slightly different monetary policy approach than the rest of the world’s major central banks.<sup>20</sup> This hawkish monetary policy played into the hands of PE players looking to lock in returns and sell, as well as creating favourable opportunities due to favourable valuations.

Looking at the venture and growth investments in Norway and Sweden, a clear upwards trend in deal activity can be observed since the minor drop in 2017. Both deal count and deal value accelerated in Norway and Sweden, while Finland saw a persistent decline in deal count but accelerating deal value. The latter was mainly driven by a €175m growth round by the US-based Technology Crossover Ventures into the supply chain management software solutions firm Retail Logistics Excellence - RELEX Oy.<sup>21</sup>

<sup>20</sup> Record weak, but not necessarily undervalued. (As of 21/02/20). DNB. Retrieved from [https://www.dnb.no/seg-fundamental/fundamentalweb/getreport.aspx?file=MRP\\_144014.pdf&uid=552&auth=fvCK5RMJbEV3ukUxiDaCQWMwx9A%3D](https://www.dnb.no/seg-fundamental/fundamentalweb/getreport.aspx?file=MRP_144014.pdf&uid=552&auth=fvCK5RMJbEV3ukUxiDaCQWMwx9A%3D)



Data as of 31/12/20. Source: S&P Global Market Intelligence. For illustrative purposes only.

<sup>21</sup>Retail Logistics Excellence – REELEX Oy. (As of 21/02/20) S&P Capital IQ Platform, Retrieved from <https://www.capitaliq.com/ciqdotnet/company.aspx?leftlink=true&companyId=311044087>

This was not only the largest reported Private Placement deal in Finland in the past five years, but also a significant increase in capital raised since its €10m Series B rounds of funding in September 2017. As of December 2018, the firm's Total Revenue 2Y Compound Annual Growth Rate stood at 53.2%. In Norway, venture and growth investments received a significant boost after the deal count doubled in 2018. Most notably, Mime Petroleum AS, an Oslo-based oil and gas exploration firm founded in 2016, received €856.7m in venture round funding from Blue Water Energy LLP and The Blackstone Group Inc. (NYSE:BX).<sup>22</sup> This was one of three Norwegian investments by the UK-based Blue Water Energy LLP in 2018, which closed its second flagship fund Blue Water Energy II LP in late 2017, raising \$1.1bn. The most active Norwegian-based VC investor in 2019 was Northzone Ventures<sup>23</sup> with 21 investments, but only one investment was into a local firm. Alliance Venture<sup>24</sup> and Investinor AS<sup>25</sup> share the top spot with most local venture investments in 2019. The firms joined forces on two out of the four investment they made during this period.

Swedish VC and growth deals took off in 2018 and peaked in 2019 (Fig. 3), mostly due to larger deals comprising of a €883m venture investment in lithium-ion battery manufacturer Northvolt AB<sup>26</sup> as well as a €411 growth round in Klarna Bank AB.<sup>27</sup> The most active local investor in 2019 was Almi Invest AB, with 28 deals.

Undoubtedly, the PE/VC activity in all three major Nordic countries has recovered since the “muted period” in 2016/2017 reported in PEMS Issue 16.

It remains to be seen if the inflow of foreign PE capital into Norway will continue to hold given the ongoing NOK depreciation and tight monetary policy and if Sweden's innovative start-up scene will continue to attract VC investments at this compulsive rate. Certainly, the region as a whole might

get a further boost from the Norwegian SWF's should the Finance Ministry decide to allow allocation to the PE asset class going forward – and perhaps, going forward the SWFs geographical investment allocation will even include private companies in its own location – Norway.

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<sup>22</sup>Petroleum AS announced that it has entered into an agreement for gross proceeds of \$1 billion led by Blue Water Energy LLP on January 25, 2018, S&P Capital IQ Platform, Retrieved from: <https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=551067552&companyId=145538054>

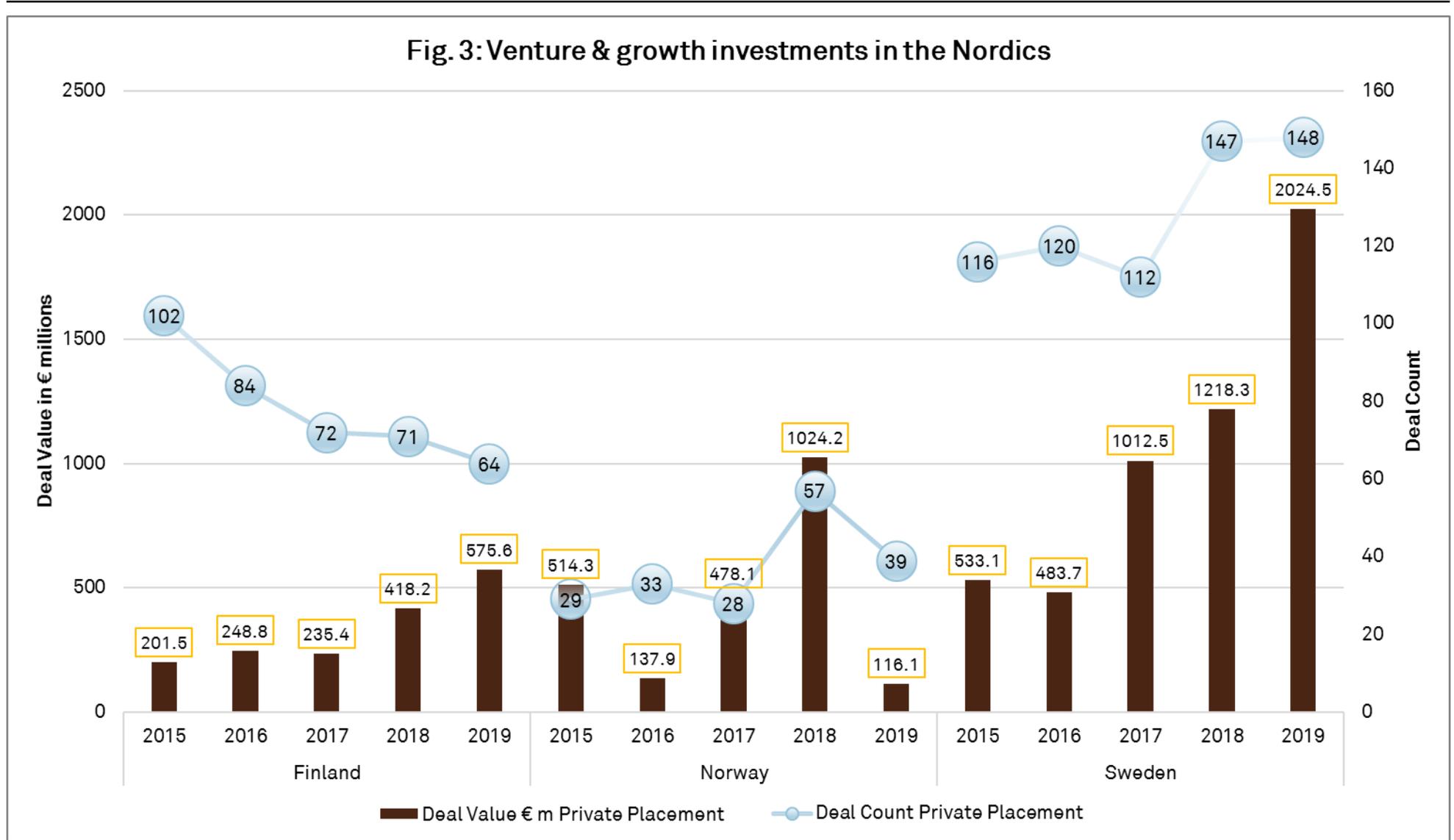
<sup>23</sup>Northzone Ventures (As of 20/02/20). S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/CIQDotNet/company.aspx?companyId=774234>

<sup>24</sup>Alliance Venture (As of 20/02/20). S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/CIQDotNet/company.aspx?companyId=1345676>

<sup>25</sup>Investinor AS (As of 20/02/20). S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/CIQDotNet/company.aspx?companyId=52897870>

<sup>26</sup>Northvolt AB announced that it has received \$1,000 million in an equity round of funding co-led by Volkswagen AG (XTRA:VOW3) and Goldman Sachs Group, Merchant Banking Division on June 12, 2019. (As of 20/02/20). S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=620791645&companyId=538140824>

<sup>27</sup>Klarna Bank AB (publ) announced that it has received \$460 million in an equity round of funding led by Dragoneer Investment Group, LLC on August 6, 2019. (As of 20/02/20). S&P Capital IQ Platform. Retrieved from <https://www.capitaliq.com/ciqdotnet/Transactions/transactionDetail.aspx?transactionId=632164163&companyId=39393440>



Data as of 31/12/20. Source: S&P Global Market Intelligence. For illustrative purposes only.



## FEATURE ARTICLE

### PE and VC Firms Share their Outlook for 2020

For the third year in a row, S&P Global Market Intelligence conducted an annual survey among global PE professionals,<sup>28</sup> this time expanding its outreach to VC firms around the world. The study focused on 2020 investment sentiment, the main risks for portfolio companies, preferred investment strategies and exits, and how the PE community is approaching Environmental, Social and Governance (ESG) factors.

#### Cautious Sentiment Dominates Global PE Market

Last year was eventful for the global economy and financial markets. Key events included the US-China trade war, which aggravated the cyclical slowdown; anti-government protests in Hong-Kong; elections in Canada, Argentina and the UK; and Brexit, which dominated the European agenda throughout 2019.

In light of this, it is not surprising that investor sentiment regarding PE activity in 2020 grew gloomier as compared to the previous year. While on an aggregate level, 44% of respondents still expect the activity to improve, 20% of PE practitioners indicated the outlook would deteriorate in the coming months. To contrast, in last year's survey only 14% of global respondents expected a deterioration of PE activity.<sup>29</sup> The US-China tensions and sluggish economic growth appears to have affected investor sentiment, particularly in Asia Pacific (APAC), where almost a third of respondents (30%) expect investment activity in 2020 to deteriorate. Moreover, the greater China

investors are the most pessimistic of the bunch, with more than half (55%) anticipating the activity to deteriorate.

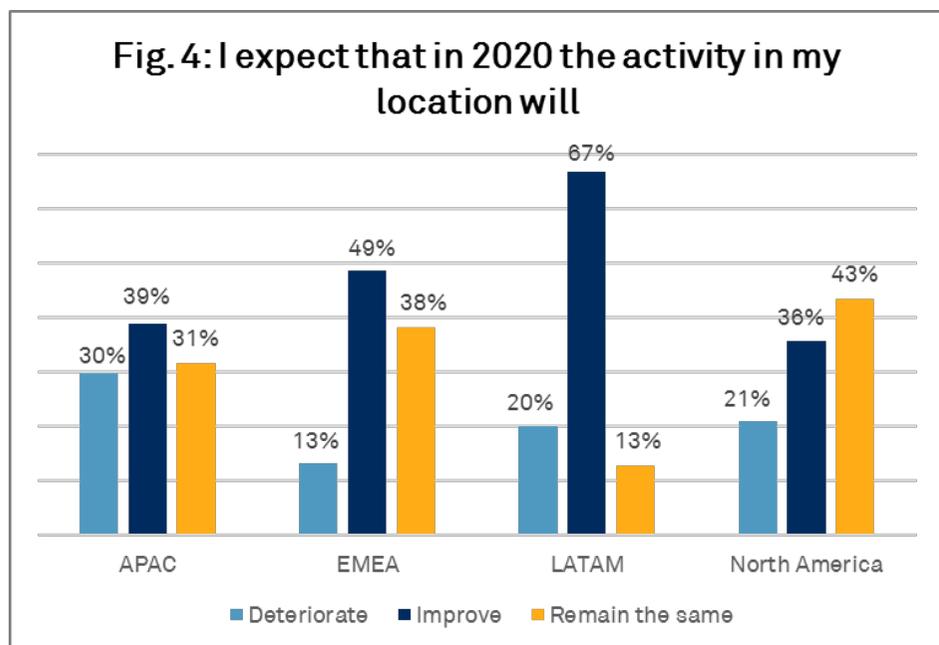
In the same manner, North American PE investors have also not been immune to the economic environment and have reacted accordingly: only 36% of them expect investment activity to improve in the coming months, a significant decrease from the 54% reported in the previous year. In contrast, in the EMEA region, the prospect of investment activity is looking brighter: 49% of the respondents anticipate the conditions to improve, a mindset only 34% of 2018's survey participants shared. Within EMEA, thanks to the high availability of capital, the Central and Eastern Europe (CCE) region has the most positive outlook, with 69% of PE respondents expecting an improvement (Fig. 4).

The final of the four leading regions—Latin America (LatAm)—maintains the most positive investors' view: 67% of respondents are counting on improved investment activity this year. This expectation is in contrast with a regional backdrop of a weak business climate, low growth and uncertain domestic political dynamics.<sup>30</sup>

<sup>28</sup> In Q4 2019, we conducted an anonymous global PE/VC industry survey, asking the opinion of 582 PE professionals on the general outlook for the industry in 2020, deal activity, investment and exit strategies and their ESG approach. 29% of the respondents were senior level professionals. Geographically, 38% of respondents were from EMEA region, 33% from North America, 18% from APAC, and 11% from LatAm

<sup>29</sup> Outlook for 2019 from a Private Equity point of view. (As of 07/02/2020). S&P Global Market Intelligence. Retrieved from <https://www.spglobal.com/marketintelligence/en/news-insights/research/outlook-for-2019-from-a-private-equity-point-of-view>

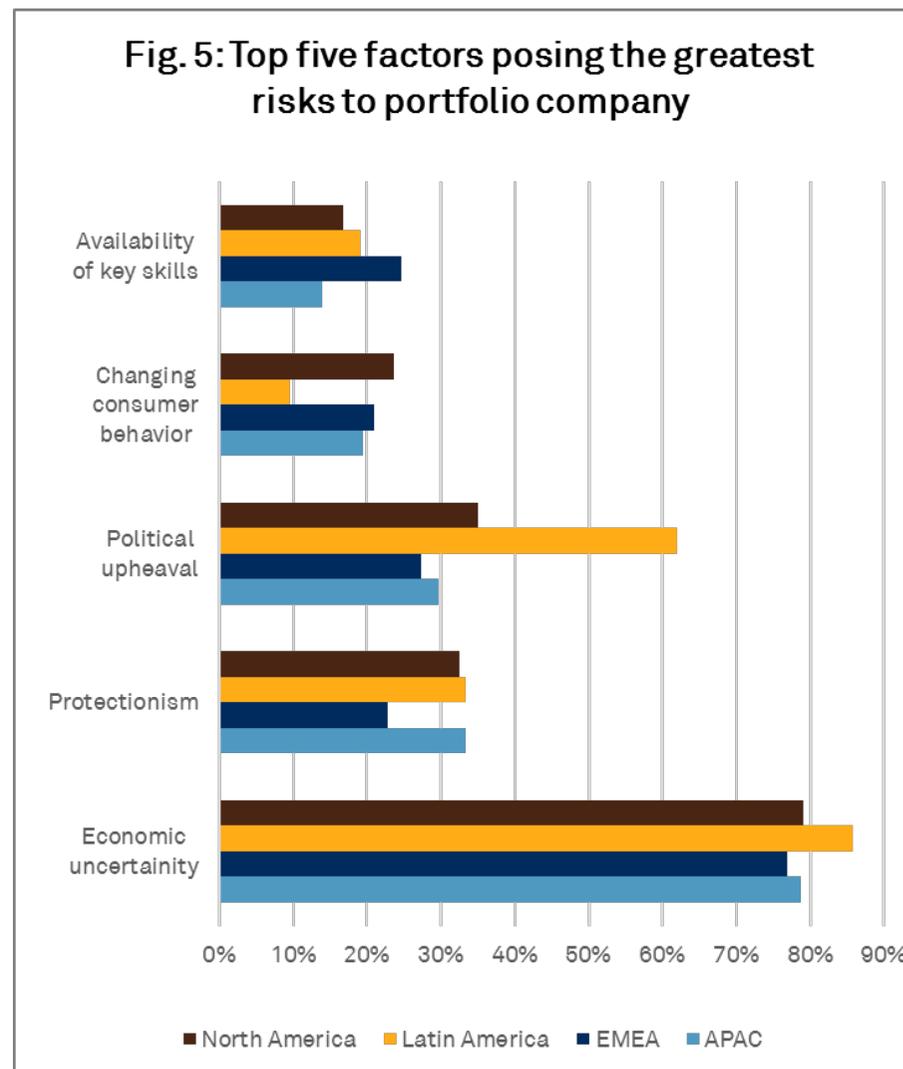
<sup>30</sup> Economic Research: Latin America in 2020: Low Growth, Low Interest Rate, High Risk. (As of 07/02/2020). S&P Global Ratings. Retrieved from [https://www.capitaliq.com/CIQDotNet/CreditResearch/SPResearch.aspx?DocumentId=43166439&From=SN\\_P\\_RES\\_PO\\_HTOP](https://www.capitaliq.com/CIQDotNet/CreditResearch/SPResearch.aspx?DocumentId=43166439&From=SN_P_RES_PO_HTOP)



Data as of 31/12/20. Source: S&P Global Market Intelligence. For illustrative purposes only.

Considering the major political and economic events that shaped global financial markets in 2019, it is unsurprising that survey participants highlighted changes in the economic environment, political upheaval and protectionism as the greatest risks to their investments in the coming months. Issues related to the increased sanctions and tariffs have risen for the third year in a row: from 16% in 2017 and 28% in 2018 to 29% in 2019, affecting all regions as they continue to dominate the global economic agenda. Changing consumer behaviour remains a major disruptor for investors, with 24% of North American and 21% of EMEA respondents ranking it as one the top risk factors for their assets (Fig. 5). In addition, European respondents highlighted skill shortage and the talent drain as an area of concern, since demographic changes, the transition towards a greener economy and the ongoing digitalisation process have increased the skills gap

in the region. Moreover, this is the second biggest area of concern for CEE investors (48%), after macroeconomic factors (76%).



Data as of 31/12/20. Source: S&P Global Market Intelligence. For illustrative purposes only.

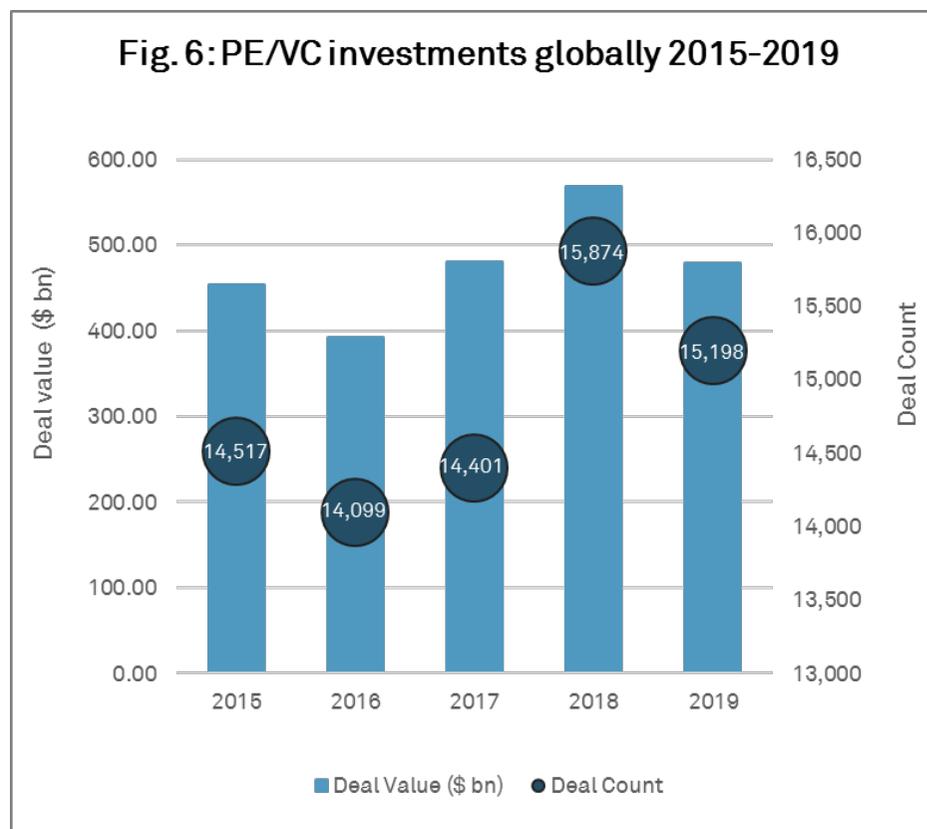
Although, on aggregate level, the high speed of technological changes is viewed as a major concern, cyber-risk for portfolio companies remains a minor worry (7%). This is particularly surprising given that the latest global CEOs survey conducted by the consultancy firm PricewaterhouseCoopers, LLP (PwC) highlighted cyber threats as one of the top four risks to organisations’ growth prospects in 2020.<sup>31</sup>

### Putting Dry Powder to Work

When it comes to core investment activity, over half of the respondents (52%) intend to prioritize new investments in 2020, whilst a further 22% will be focusing on managing their existing portfolio. The coming months will show whether this prediction will be supported by elevated deal making activity. According to S&P Global Market Intelligence, deal volume dipped 4% in 2019 on the previous year. In total, 15,202 PE and VC deals worth an aggregate \$477.22bn were closed in 2019, down from 15,868 transactions, worth a combined \$568.12bn, recorded in 2018 (Fig. 6).

On aggregate, only 9% of respondents plan exiting investments in 2020, and this number varies significantly from one region to another. Only 13% of North American investors pledge to sell part of their portfolio assets in the next few months; in LatAm this number is as low as 2%, as survey participants expect to be primarily busy with making new investments (43%) and fundraising activity (33%).

<sup>31</sup> 23<sup>rd</sup> Annual Global CEO Survey – Navigating the rising tide of uncertainty. (As of 07/02/2020). PwC. Retrieved from <https://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2020.html>



Data as of 31/12/20. Source: S&P Global Market Intelligence. For illustrative purposes only.

With a colossal \$1.4tn PE dry powder ready to be deployed, growing competition and soaring valuation multiples, investors are increasingly leveraging inorganic growth strategies and platform acquisitions to invest capital in a more efficient manner.<sup>32</sup> In last year’s survey, the largest appetite for add-ons was expressed by EU- and US-based respondents, 25% and 26%

<sup>32</sup>2020 Preqin Global Private Equity & Venture Capital Report. (As of 07/02/2020).Preqin. Retrieved from <https://www.preqin.com/insights/global-alternatives-reports/2020-preqin-global-private-equity-and-venture-capital-report/26652>

respectively. This year, the percentage has increased even further, with 31% and 42% of respondents from these regions highlighting add-ons as their key execution item. According to S&P Global Market Intelligence, 2,680 bolt-on deals worth a combined €140.47bn were announced in 2019 in Europe, surpassing the total value of PE entry deals (€104.37bn).<sup>33</sup> At the same time, growth capital remains the dominant strategy for APAC region, with a majority (52%) looking to pursue it in 2020.

### **PE Bullish on IT and Healthcare Companies**

Looking at the core geographical focus for 2020, a clear picture emerges revealing that PE investors plan to deploy capital locally. As expected, almost half of the respondents from each region prefer to scout opportunities and invest in the region of origin. This number is even higher for LatAm, reaching 62%. Further, 20% of both APAC and North American investors indicated that they would source new opportunities further afield. It appears that higher valuations and better risk-reward ratio in markets outside the US are driving the leading North American investors, such as KKR, to focus on targets in Europe and Asia.<sup>34</sup>

This drift towards cross-border investments can be confirmed by S&P Global Market Intelligence data. According to the available information, the number of PE deals outside national borders in which a North American investor was involved – either as a single buyer or part of the consortium – grew by 28% between 2015 and 2019.

When it comes to industry focus for 2020, IT has been identified as the number one sector for investors (54%). Healthcare (48%) and Industrials (41%) follow closely behind to round up the top three sectors of interest. In particular, PE investment into Healthcare has enjoyed a sustained upward growth

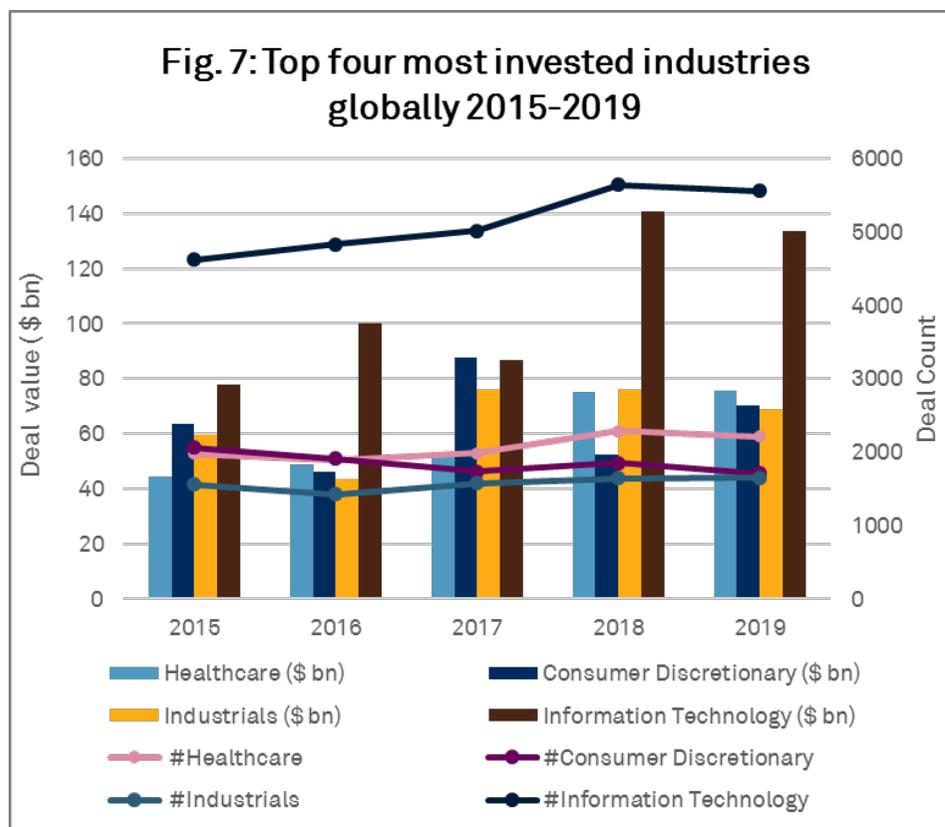
trajectory. According to our data, PE investment into the sector has grown steadily over the last five years, standing at \$75bn in 2019 compared to \$44bn in 2015, as investors seek non-cyclical, recession-proof assets in areas that are highly fragmented (Fig. 7). On the other hand, Consumer Discretionary appears to have lost momentum with only 30% of respondents planning to grow their exposure in the segment, as opposed to 33% in 2019. A notable exception to this dynamic is in the APAC region, where respondents plan to focus heavily on opportunities in Consumer Discretionary (48%) and Consumer Staples (43%). What is more, both sectors overtook Industrials (32%) as the sectors of preferred industry investment for the coming 12 months. For China-based investors this shift in sectoral preferences appears to be tied to the ongoing transition of China's economy from manufacturing-driven to services and consumption-led.

On the disinvestment front our data shows that there were 2,779 exit transactions recorded in 2019, a decline of 18% on the prior year. Although generally exit activity slowed down, public debuts gained traction in 2019. Interestingly, at the end of 2018 survey participants indicated a growing interest in Initial Public Offerings (IPOs) as an exit route, an expectation that came largely to fruition for LatAm and APAC. Both regions recorded a significant uptick in sponsor-backed IPOs compared to 2018. Likely encouraged by positive momentum for public markets, APAC-based respondents stated that they would favour IPO over secondary sale as the second most preferred exit route after strategic M&A in the next 12 months, a view that was not shared by participants from other regions. In fact, on aggregate one third of respondents from North America, EMEA and LatAm consider secondary sale as the preferred exit option, highlighting a continuing rise in the use of secondary market for liquidation purposes.

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<sup>33</sup>UK most active country for European Deals in 2019 despite Brexit Uncertainty. (As of 04/02/2020). S&P Global Market Intelligence. Retrieved from <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/uk-most-active-country-for-european-pe-deals-in-2019-despite-brex-it-uncertainty-56778032>

<sup>34</sup> KKR: Best opportunities are outside the US. (As of 07/02/2020). PEI. Retrieved from <https://www.privateequityinternational.com/kkr-best-opportunities-are-outside-the-us/>



Data as of 31/12/20. Source: S&P Global Market Intelligence. For illustrative purposes only.

### ESG Strategy is No Longer Optional

As we reported in the previous PEMS issue, PE industry has shifted its view of ESG factors to a means through which it can add value, rather than simply a

way to mitigate risk.<sup>35</sup> In the survey we explored this topic further by asking participants to define their core ESG strategy going into 2020. On aggregate, over one third of the respondents are planning to improve ESG-related factors in their current portfolio this year and will seek investments in companies with a good ESG track record. In EMEA, 41% of PE respondents reported that they would continue integrating ESG factors in their investment and portfolio management process by complying with a new EU Disclosure Regulation for asset managers and investment funds related to sustainable investments. This would appear to confirm that the ESG agenda is at the forefront for the region,<sup>36</sup> in stark contrast to North America, where 31% respondents indicated that ESG factors are not currently considered. Perhaps the industry mindset will change in 2020, given that the biggest players have raised the bar in regard to incorporating ESG metrics into investment methodologies. As an emerging trend, APAC region has demonstrated the highest number of investors (42%) that expect to improve their ESG policies this year; the region feels growing pressure from international investors and aims to step up the implementation of ESG factors into the investment decision process.

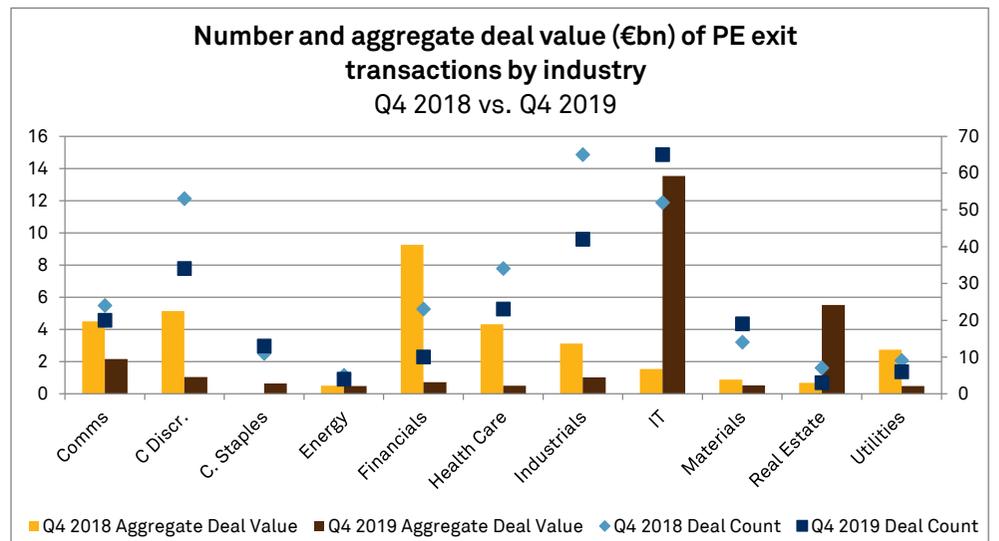
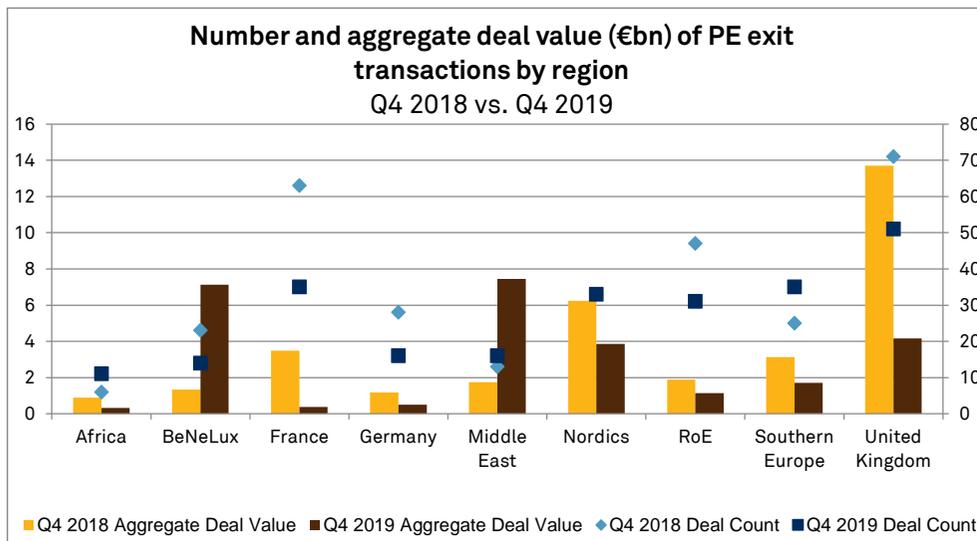
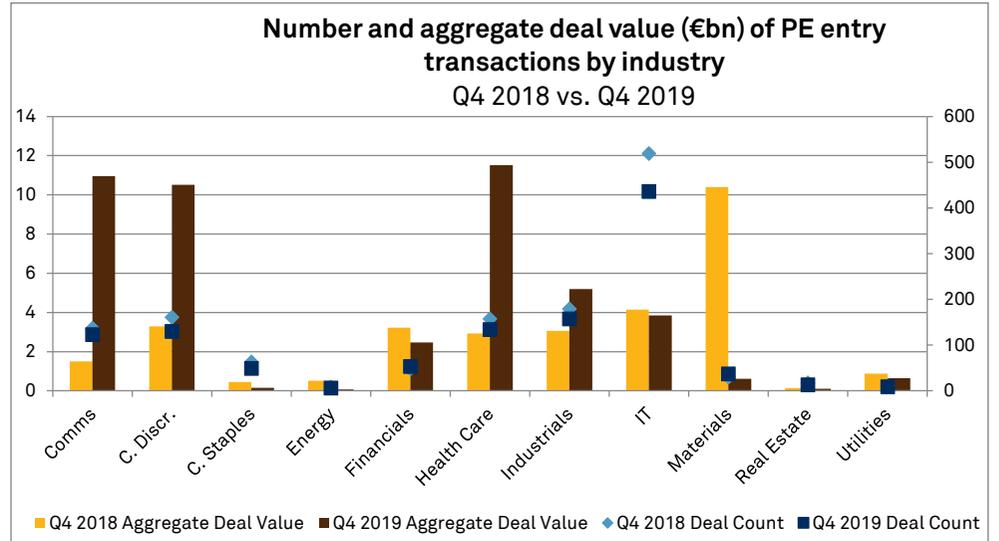
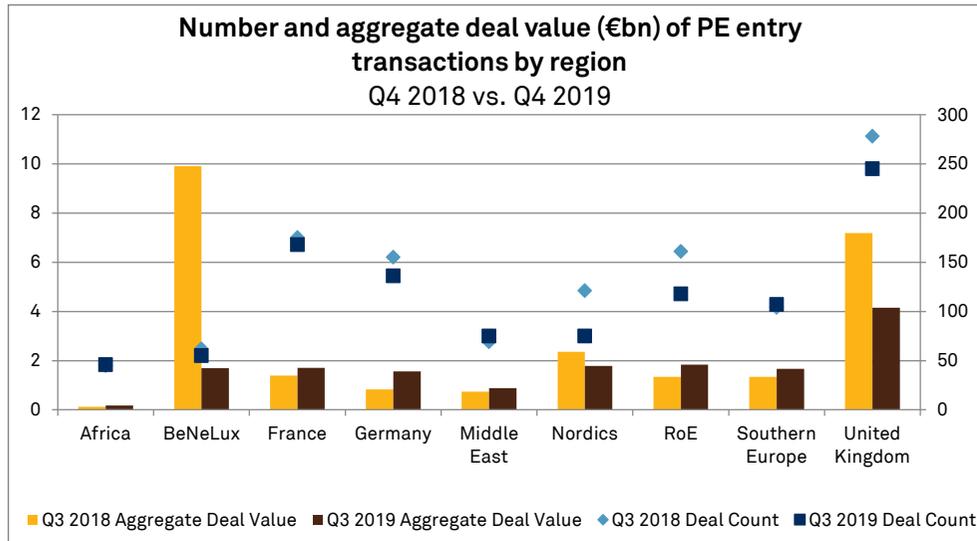
### Conclusion

This year will likely continue the trend of political and economic volatility and challenging market conditions that have coloured the investment landscape in recent years. As our survey results show, despite growing concerns over valuations and an increase in negative investment sentiment, capital continues to flow and PE firms are adjusting their activities to deploy the capital more effectively. This means leveraging inorganic growth strategies and further deal making into defensive sectors such as Healthcare and IT. To comply with the ESG adoption process led by institutional investors, the PE industry needs to continue incorporating socially responsible investing practices and demonstrate the financial value therein.

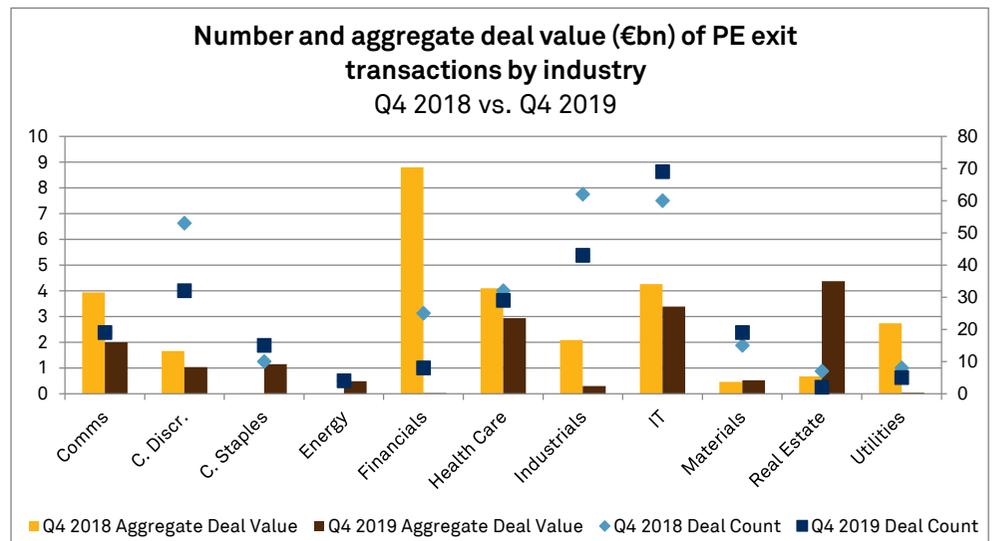
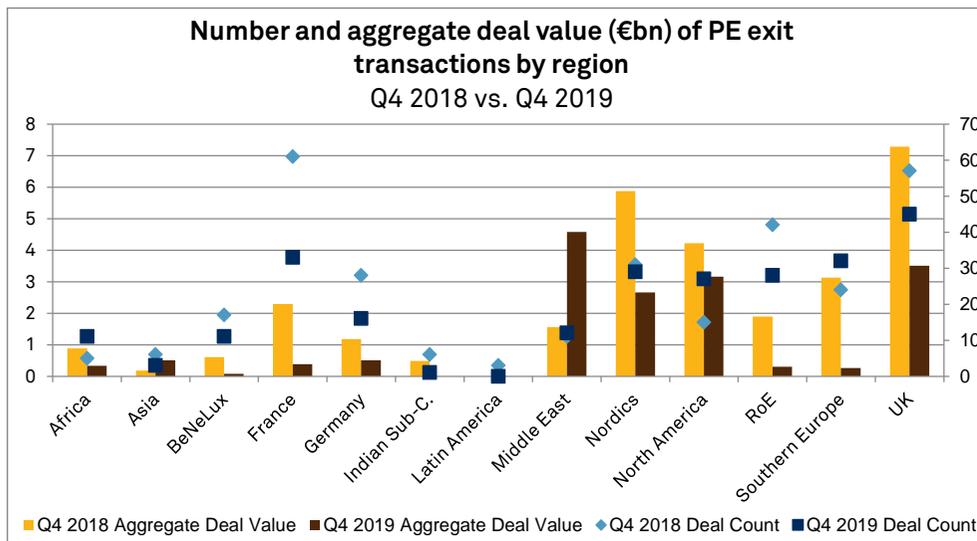
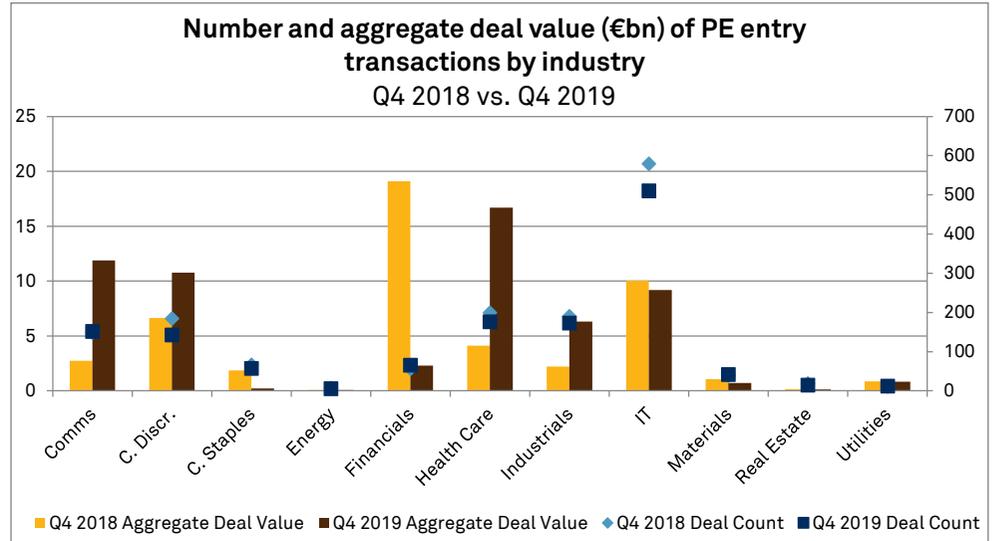
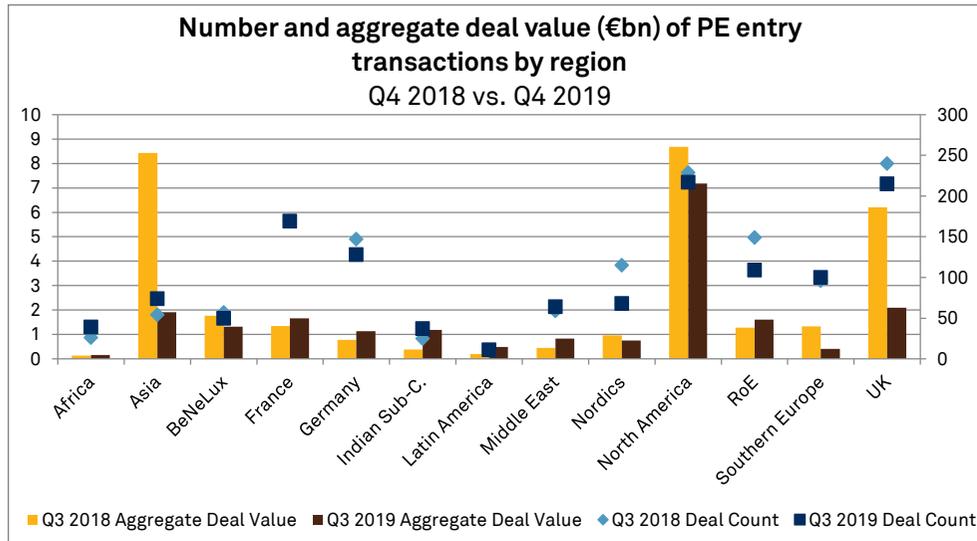
<sup>35</sup> EMEA Private Equity Market Snapshot Issue 23. (As of 07/02/2020). S&P Global Market Intelligence. Retrieved from <https://www.spglobal.com/marketintelligence/en/news-insights/research/emea-private-equity-market-snapshot-issue-23>

<sup>36</sup> New ESG Disclosure Requirements for EU Funds and Asset Managers. (As of 02/07/2020). Lexology. Retrieved from <https://www.lexology.com/library/detail.aspx?g=29981838-d720-4c40-8339-2b523dc65290>

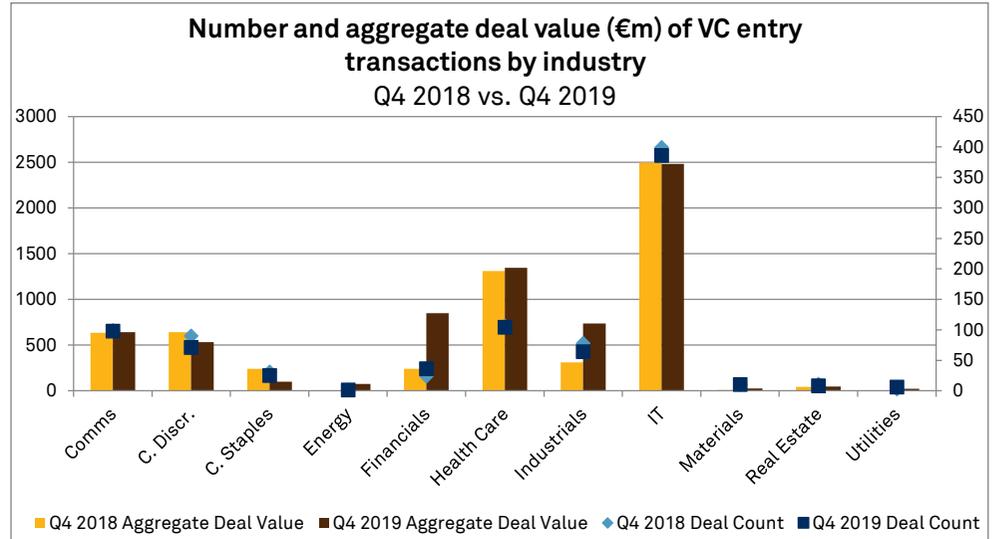
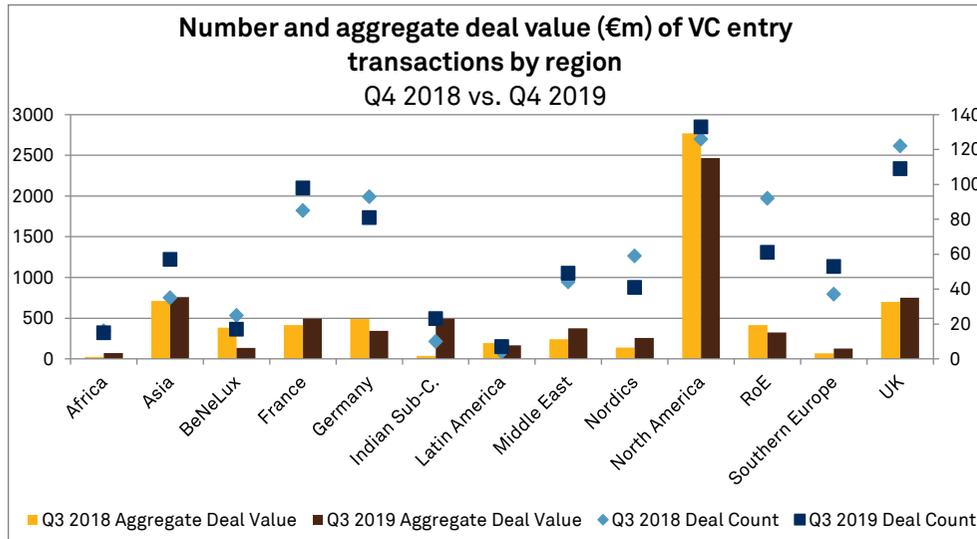
## EMEA-Based Targets



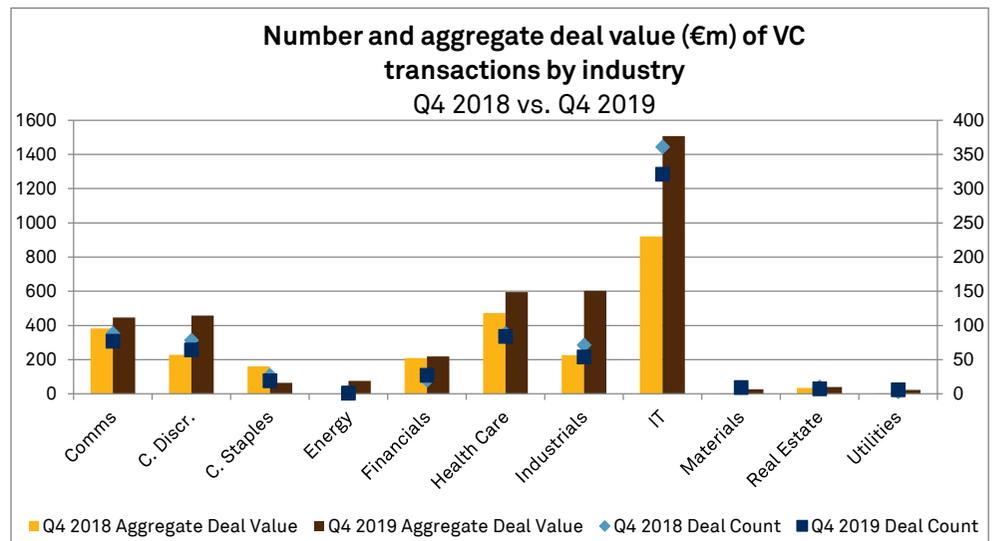
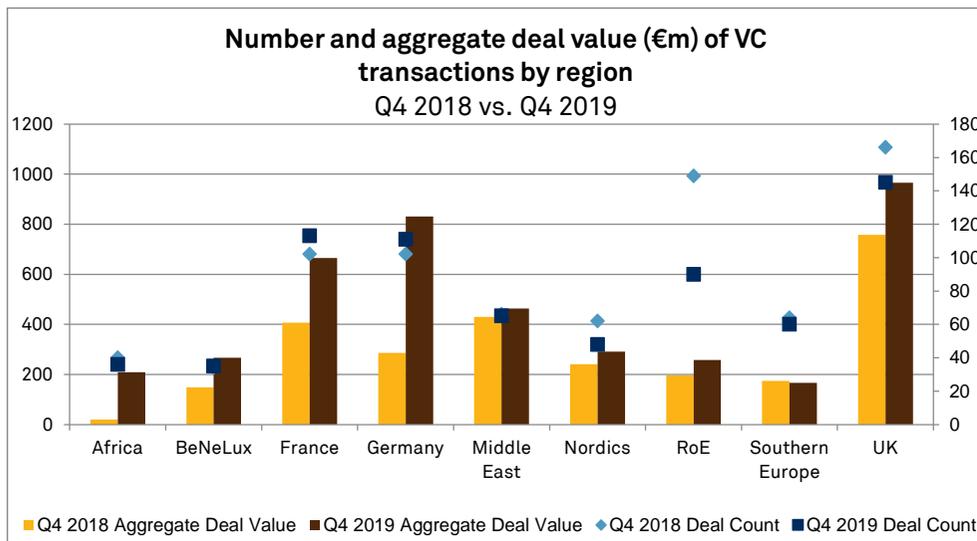
**EMEA-Based GPs**



## VC EMEA-Based GPs



## VC EMEA-Based Lux Targets



## Multiples Table EMEA

| <b>Implied Enterprise Value/EBITDA</b>     | <b>EMEA Private Equity Exits 01/10/2018 - 31/12/2019</b> | <b>M&amp;A 01/10/2018 - 31/12/2019</b> |
|--|--|--|
| Communication Services                     | 16.1   | 11.5                                   |
| Consumer Discretionary                     | 11.7   | 10.8                                   |
| Consumer Staples                           | 11.0   | 11.1                                   |
| Energy                                     | 7.3  | 7.0                                    |
| Financials                                 | 13.1   | 13.2                                   |
| Health Care                                | 12.9   | 13.6                                   |
| Industrials                                | 10.8   | 9.8                                    |
| Information Technology                     | 17.8   | 12.5                                   |
| Materials                                  | 12.4   | 10.1                                   |
| Real Estate                                | 37.9   | 21.3                                   |
| Utilities                                  | 9.5  | 11.6                                   |
|  |  |  |
|  |  |  |
| <b>Implied Equity Value/LTM Net Income</b> | <b>EMEA Private Equity Exits 01/10/2018 - 31/12/2019</b> | <b>M&amp;A 01/10/2018 - 31/12/2019</b> |
| Communication Services                     | 34.0   | 23.9                                   |
| Consumer Discretionary                     | 22.6   | 17.6                                   |
| Consumer Staples                           | 16.4   | 15.6                                   |
| Energy                                     | 12.5   | 13.5                                   |
| Financials                                 | 23.1   | 14.6                                   |
| Health Care                                | 28.7   | 23.6                                   |
| Industrials                                | 12.3   | 13.2                                   |
| Information Technology                     | 27.9   | 20.8                                   |
| Materials                                  | 9.5  | 16.1                                   |
| Real Estate                                | 7.5  | 11.6                                   |
| Utilities                                  | 0.0  | 21.9                                   |

- Multiples highlighted in bold & italics represent the sector average over a 2 year time horizon in order to provide a more comprehensive sector average
- Colour legend can be defined as "RED" representing the lowest multiple and "GREEN" representing the highest multiple observed across industry sectors, deal structures and multiple types during the period mentioned.

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