



5TH PAN-EUROPEAN
PRIVATE EQUITY SURVEY

DEALING IN A DOWNTURN: A “REALITY CHECK” FOR PRIVATE EQUITY?

Survey conducted with the support of 14 European PE Associations



IPEM Knowledge Partner **AlixPartners**



2023

is set to be a year of continued economic disruption for PE. As with all industries across Europe, GPs look set to grapple with a series of immediate macroeconomic headwinds, all the while striving to find growth opportunities in a muted market.

IPEM's fifth annual Private Equity survey acts as a litmus test for the industry, and here European GPs give their views on the road ahead. In total, 188 interviews were completed by the CSA Institute on behalf of IPEM from 28th November 2022 to 2nd January 2023 with the support of PE's 14 national associations in Europe. The data was analysed in collaboration with AlixPartners, IPEM's principal knowledge partner.

A CHALLENGING MACROECONOMIC OUTLOOK

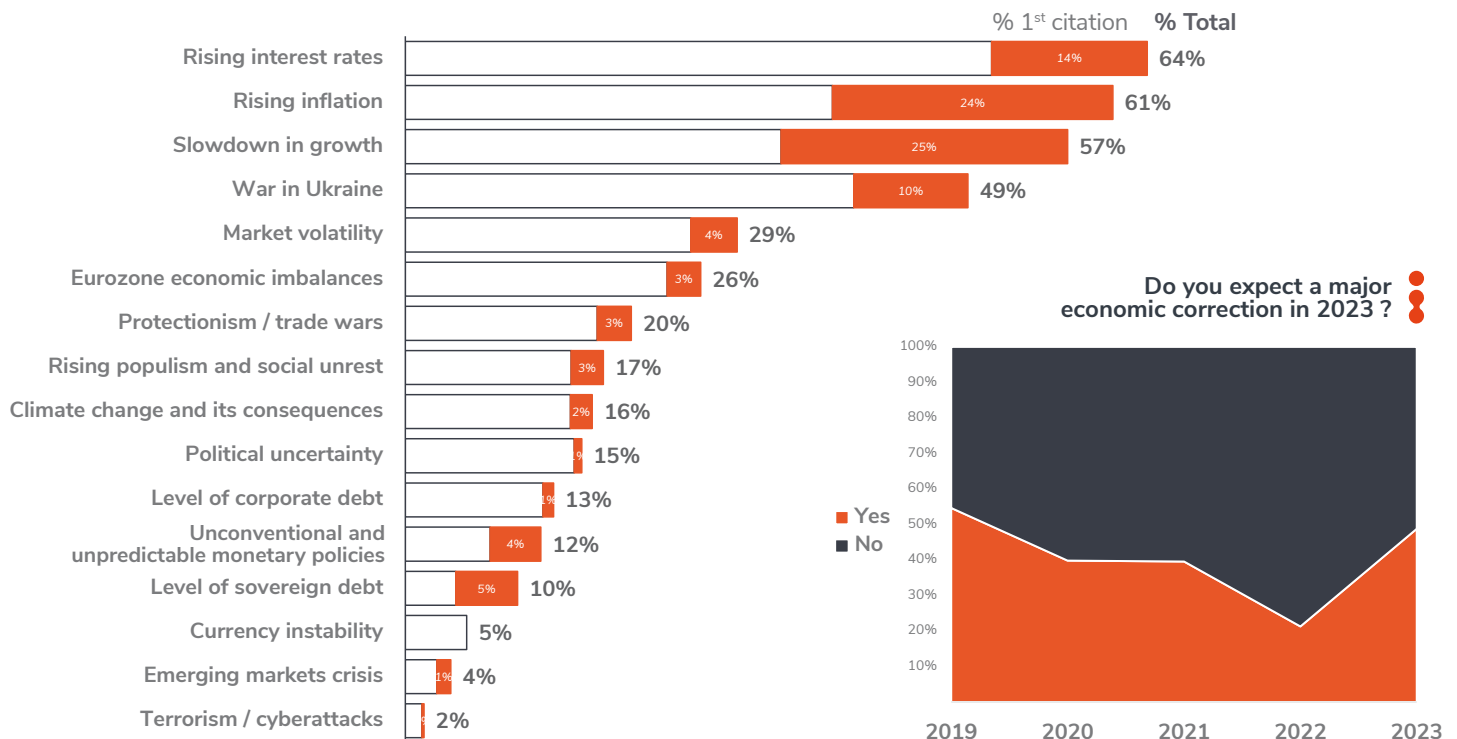
As many of the concurrent disruptive forces of 2022 bleed into the new year, the results of our latest IPEM annual survey display a pronounced reflection of the overall global mood. With recessionary times already evident in some European territories, it is perhaps of little surprise that nearly half expect an economic correction this

year (49%), more than double that of 2022 (Exhibit 1). There is, of course, good reason for concern. Rising interest rates, spiking inflation, a slowdown in growth, and the persistent ripple effects from the Ukraine crisis are all headwinds that look set to dominate the business agenda over the coming 12 months.

ECONOMIC RISKS, TOP EUROPEAN PE CONCERNS IN 2023

EXHIBIT 1

●●● What external threats could the European Private Capital industry face in 2023 ?



Distilling the macroeconomics into the European Private Capital industry, a highly challenging exit environment looms largest, called out by 72% of respondents. However, there remain positive expectations for deal-making and capital deployment (78%) across Europe (Exhibit 2).

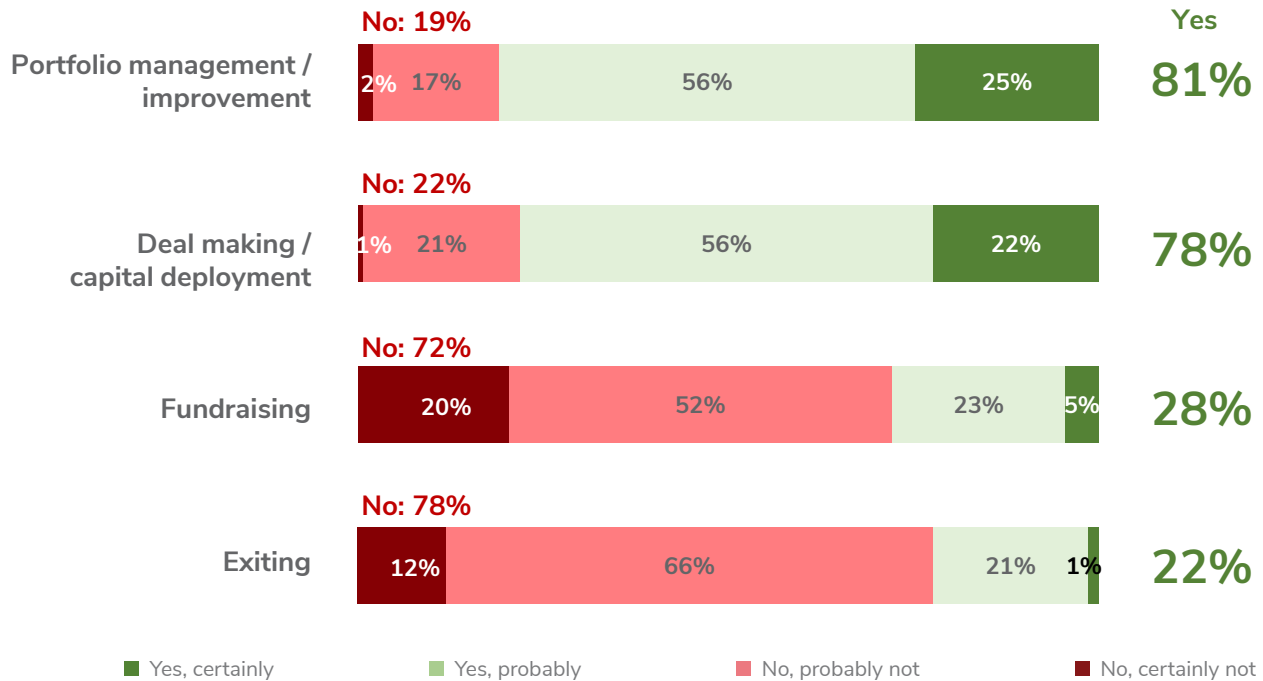
The issue of fundraising will be critical. For the first time since our survey launched five years ago, we see that significant difficulties may lie ahead here, representing a turnaround from the air of positivity in this area at the start of last year (72% negative in 2023 vs. 81% positive in 2022).

For those GPs still expecting fertile ground for dealmaking, this could be driven by the assertion that nearly 80% expect more restructuring opportunities to emerge this year, as some leadership teams are forced to sell assets or reconsider investment in others to protect shareholder returns and generate greater liquidity.

EXHIBIT 2

A TOUGH FUNDRAISING AND EXIT ENVIRONMENT IN 2023

●●● In your markets (by geography and market segment), do you consider 2023 as a good year for:



FUNDRAISING IN FOCUS

In light of the fundraising challenges expected, the Private Capital market is expected to be LP-led in 2023, with 77% of respondents telling us that LPs will hold more power than GPs in the market. A tough exit environment will of course impact LPs' ability to be more active, tempering expectations of distribution from GPs that can be redeployed in the market.

Nonetheless, two-thirds of respondents (69%) expect to raise new funds in 2023, consistent with 2022 levels. For those with fundraising plans, more than half expect to raise more capital than they achieved in 2022, and while expectations of deploying more capital have dipped from 62% in 2022, 48% of GPs still plan to make a bigger market impact than the previous year.

The optimism for dealmaking remains an unwaveringly positive characteristic of our industry community. With these levels of

ambition in the face of such severe headwinds, where do our respondents think that funding will most likely manifest itself?

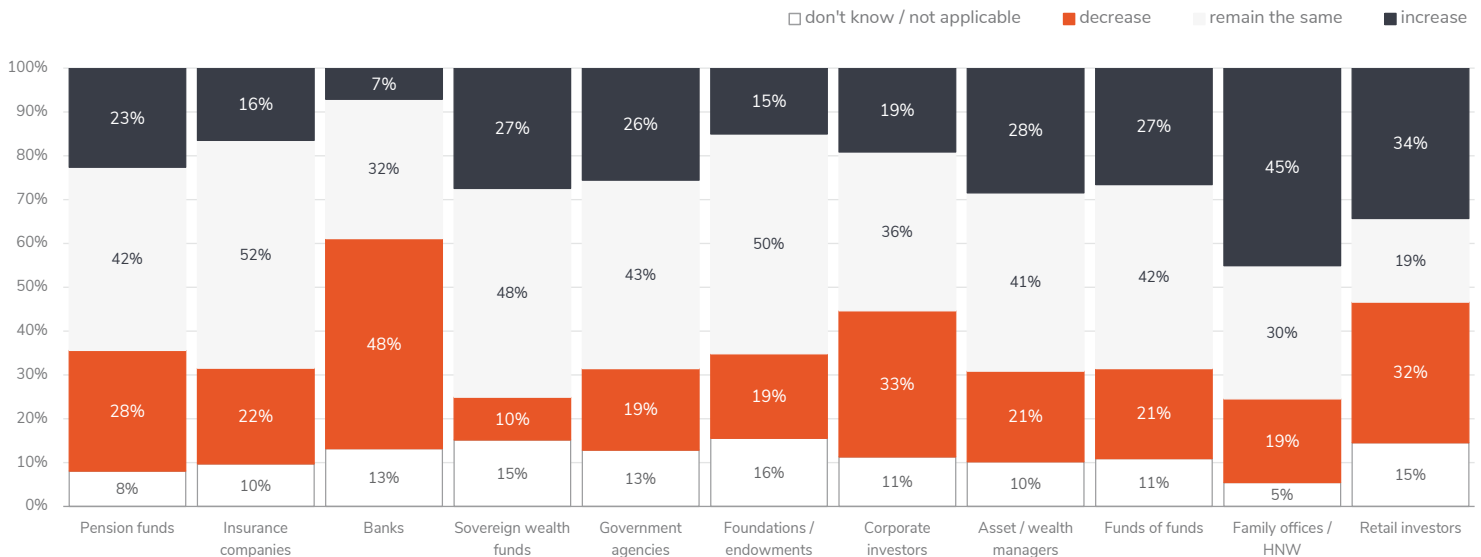
A key source of funds expected to grow its importance in fundraising during 2023 is Sovereign Wealth Funds, growing by 8 percentage points from 2022 from 19% to 27%, while a marked decrease in anticipated funding from pension funds and insurance companies will be an important trend to monitor (Exhibit 3A & 3B).

When it comes to the deployment of capital by European Private Equity, investments further afield geographically are predicted to be curtailed in 2023, and a fall is expected in the number of transactions outside of Europe with more investments therefore expected in domestic markets and within Europe.

FUNDRAISING IS SHIFTING FROM INSTITUTIONAL TO RETAIL

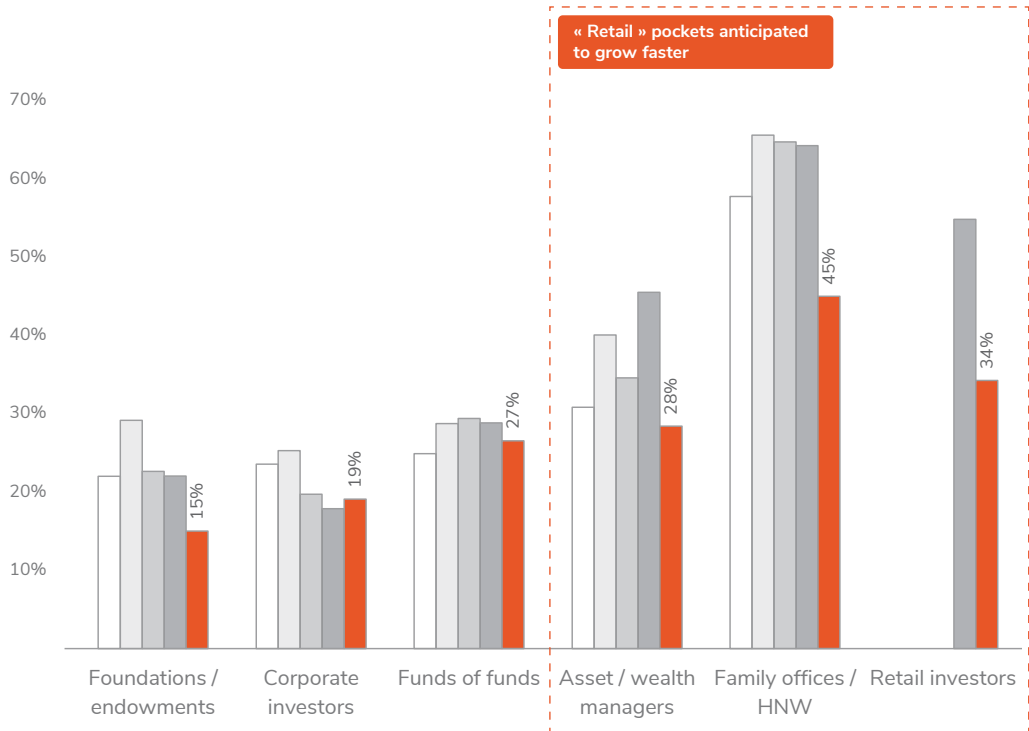
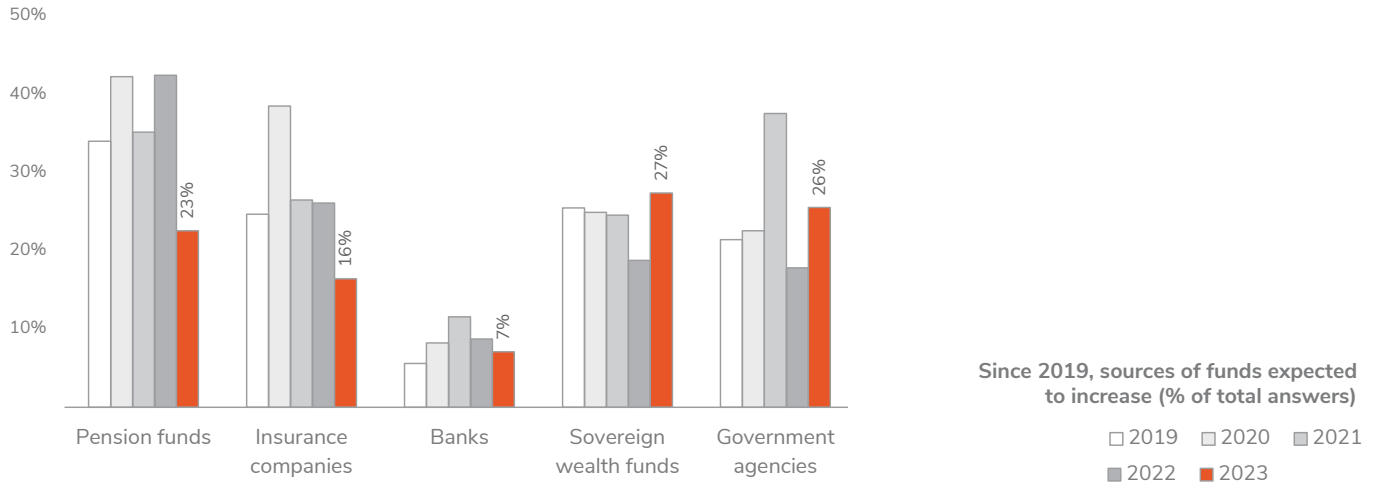
EXHIBIT 3A

●●● In your markets (by geography and market segment), which sources of funds do you expect to gain importance in fundraising in 2023?



FUNDRAISING IS SHIFTING FROM INSTITUTIONAL TO RETAIL

●●● In your markets (by geography and market segment), which sources of funds do you expect to gain importance in fundraising in 2023?



INTERNAL AND PORTCO PRIORITIES

The internal priority list for firms in 2023 is topped by ESG once again (72%), followed by HR/Talent management (67%), PR/Communication and Marketing as well as Fund Reporting/Transparency also feature highly, with an increased focus to be placed on these areas this coming year.

This year's survey also investigated the preparedness of portcos to face the challenges ahead. GPs delivered a strong vote of confidence to leaders of their portfolio companies, with just 5% saying that their portco leaders are not prepared to face the multiple disruptive issues ahead. The skills considered vital for portco managers in navigating the uncertain environment are

adaptability and agility, resilience, the ability to lead change, and developing strategic perspectives.

It seems that the actions and strategies typically deployed in times of distress and uncertainty are now the norm, and adopting a mindset where disruption is a constant is a model that all firms should embrace.

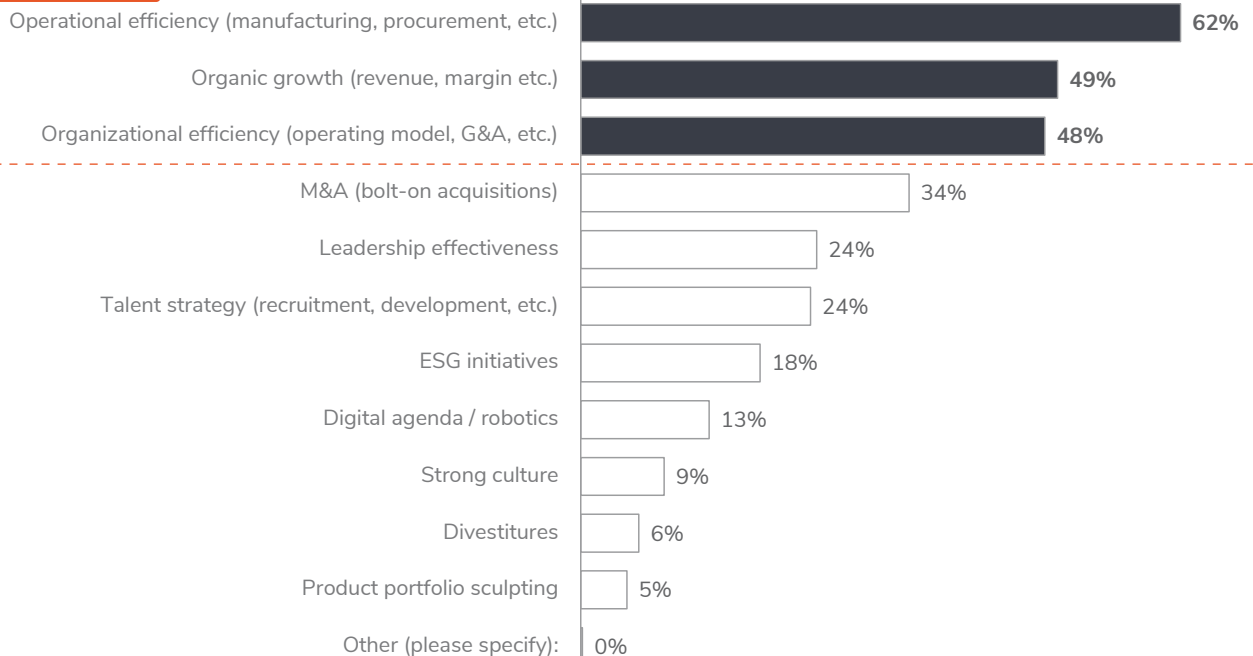
Meanwhile, the levers considered top priorities for generating value within portcos are headed by operational efficiency (62%), organic growth (49%), organisational efficiency (48%), and M&A bolt-on acquisitions (34%) (Exhibit 4).

HANDS-ON VALUE CREATION WILL BE KEY IN 2023

EXHIBIT 4

●●● In the current environment, what levers do you consider to be top priorities for generating value within the portfolio company?

Top 3 levers to generate value in 2023



IN DEPTH: ACTION ON CLIMATE CHANGE

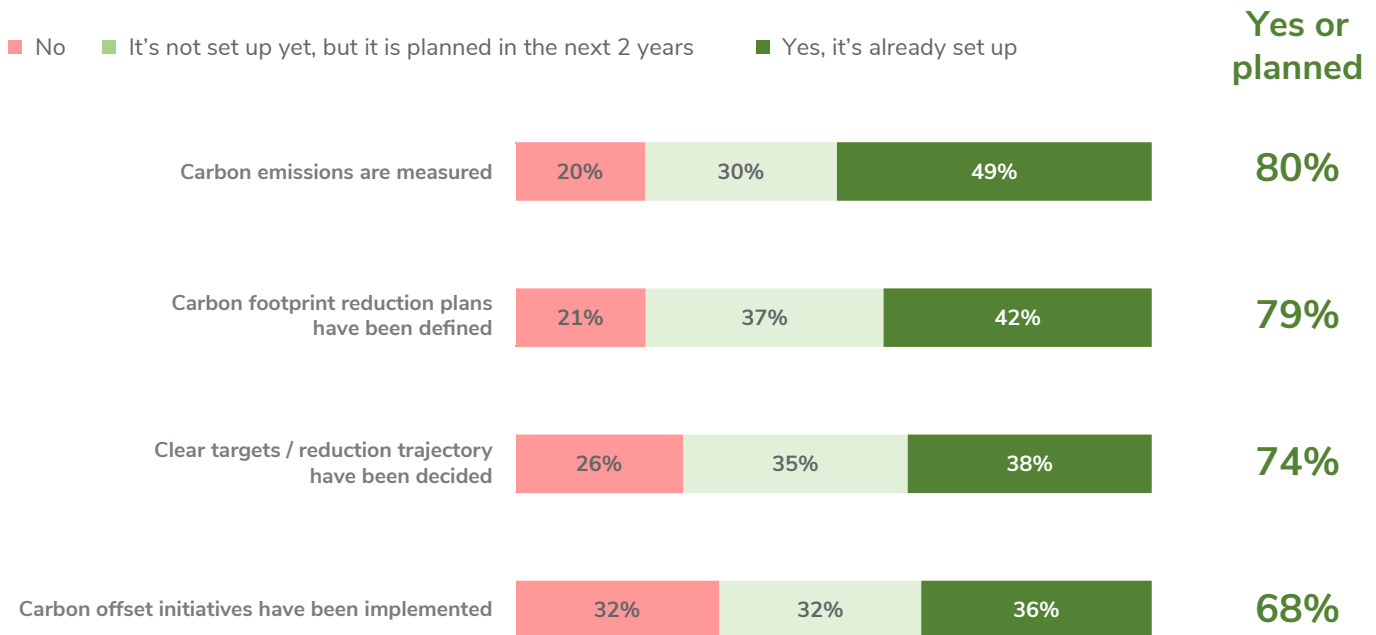
In our survey, the economic threats of inflation, interest rates, and funding availability have superseded the threat of climate change and its consequences. The latter has fallen to its lowest level for four years (16%), down 18 percentage points from 2022. The dilemma is clear – short-term leadership focus will understandably be on navigating the immediate storm, yet the long-term goal for our industry and the world at large to positively respond to climate change cannot fall by the wayside.

With climate action (38%) cited as the most important ESG priority for 2023, we explored our community's views on this topic in greater depth. GPs agree that PE can provide serious answers to climate (69%), and our survey revealed that climate considerations are believed to be important in all areas of operations, from fundraising and investments opportunity selection to value creation and external/internal communications.

LESS THAN 50% OF EUROPEAN GPs MEASURE THEIR CO2 EMISSIONS... BUT MANY PLAN TO

EXHIBIT 5A

●●● At a GP level, did you take the following actions regarding your carbon emissions?



There is still much work to do. Just half of our respondents currently measure carbon emissions, and around 4 in 10 have defined carbon footprint reduction plans, set clear targets, and implemented carbon offset initiatives (Exhibit 5A).

Positive momentum seems to be growing though, with many other initiatives planned for the next two years – from launching climate-dedicated strategies or funds to adding climate experts

to their teams. However, around half of our survey respondents told us that they do not plan or have not yet planned to make these positive moves. We will observe with interest further industry developments in the coming years (Exhibit 5B); initiatives and target-setting must be backed by concrete action and measurable results to materially move the environmental needle.

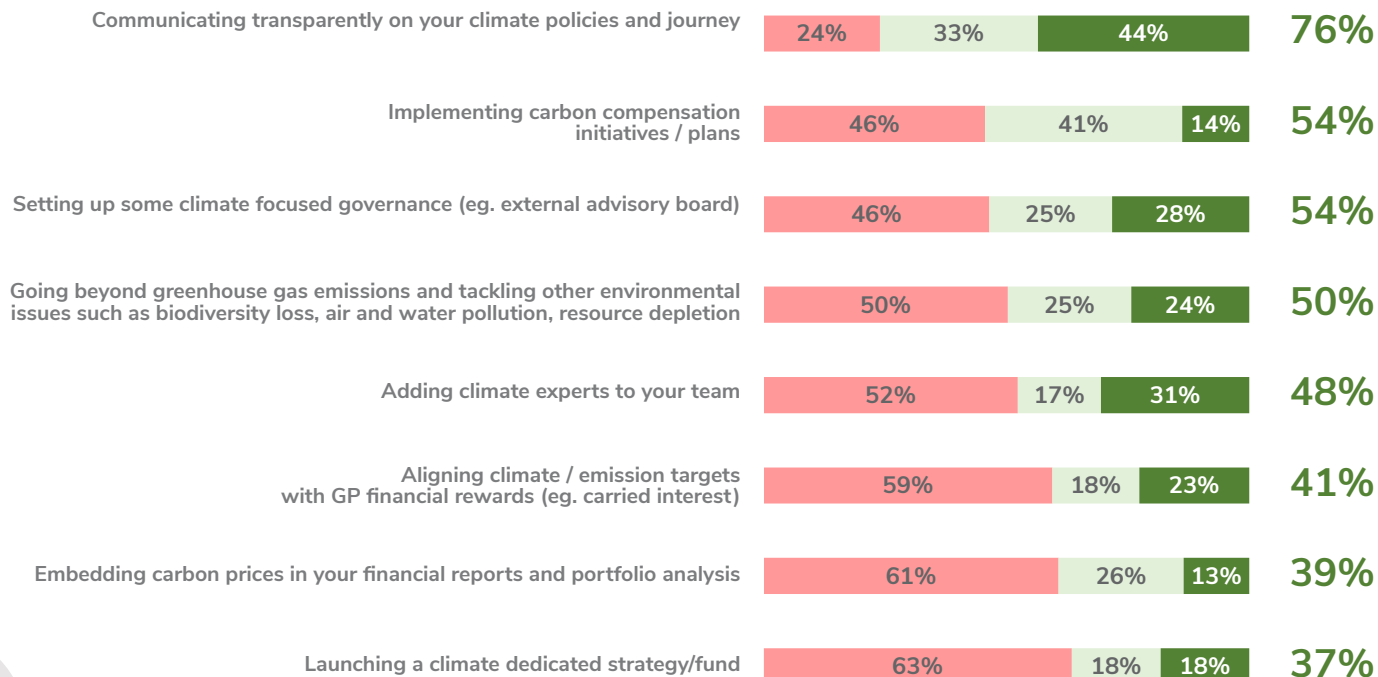
MANY PROJECTS & INITIATIVES BEING EXPLORED BY THE PE INDUSTRY ... TO BE CONTINUED

EXHIBIT 5B

●●● What are your next climate actions?

■ No, not planned yet ■ Yes, it is planned in the next 24 months ■ Yes, and you are already doing it

ST Yes or planned



Antoine Colson,
CEO, IPEM

“

I have always been amazed by the positivity and optimism of the PE Industry, which we see again for 2023, despite headwinds and a rapidly changing macro paradigm. This provides proof of the self-confidence, grit, and resilience that you simply wouldn't find in many other industries.

If I have a concern, it is whether this drive and enthusiasm will be shared by LPs. The usual suspects (pensions, insurance companies) are seen as allocating less to the asset class and struggling with less distribution and adverse J-curve effects – they have been instrumental in fueling PE's stellar growth over the last cycle. In addition, while much is expected from pockets of capital that are relatively new – especially retail – this represents a big test and I sincerely hope it doesn't prove to be a mirage.

There's a sense that PE is coming back to its operational playbook – and that's something the small and mid-cap segment looks better positioned to realise. A very high concentration of funds has been raised by the largest fund managers in recent years, yet these mega fund platforms are now among the most concerned or cautious, while smaller mid-market players seem to be showing strong resilience. This could suggest that a time of some decoupling may be ahead, and it will be interesting to see where the market heads in this respect and the impact on the GP landscape.

Finally, the high priority assigned by European GPs to climate considerations is a very significant trend – a sense of urgency seems to be shared across the industry. We can imagine soon climate finance becoming a standalone asset class, bringing fresh perspectives to the industry. Much remains to be done, but it is yet another example of industry positivity that will continue to shine through despite the many challenges ahead.”

Nicolas Beaugrand,

Partner & Managing Director and Private Equity expert, AlixPartners

“

In a highly disrupted market where credit conditions are clearly difficult and economic conditions uncertain, I do expect reduced M&A activity globally in 2023, although there will still be opportunities for good deals to be done, though it may take some time for a revised balance to be established between IRR expectations, leverage ratios and conditions, and sellers' values expectations.

With exit options appearing dampened and multiples likely to be muted, we are increasingly seeing operating partners battling with inflation, labour, and supply chain challenges; working to build greater agility and create value within their portcos by identifying the levers they can pull to reduce break-even points without inhibiting performance or a return to growth and, most importantly, revising forecasts to key scenarios, managing cash carefully in light of continued uncertainty.

Leadership at this time requires resilience, agility, and adaptability. The most effective leaders will champion change and inspire and motivate others to high performance, driving this with empathy and emotional intelligence (EQ). Clarity of communication will also be essential for leading during a period of rapidly escalating disruption.

There are so many dimensions to ESG and climate action, and I am convinced that Private Equity has a strong role to play in this transformation. Globally, economically, and societally it is a factor that compels companies to change. Viewed statically, the investment required could be seen as simply a greater cost burden, or even an inflation driver, but it's vital that ESG is viewed as part of a more dynamic system, where the steps made to transform now will improve long-term trajectory; company image; the ability to access funding; hiring potential; talent retention; and, ultimately, exit values.”

**SPECIAL THANK TO THE PE'S 14 NATIONAL ASSOCIATION IN EUROPE
FOR THEIR INVOLVEMENT:**

AIFI

Italian Private Equity, Venture Capital
and Private Debt Association



AKTIVE EJERE
ACTIVE OWNERS DENMARK

AVCO



BELGIAN VENTURE CAPITAL &
PRIVATE EQUITY ASSOCIATION



Invested in a better future

BVK

Bundesverband
Beteiligungskapital e.V.

FRANCE INVEST
Investors for growth

LPEA

nvca

NVP

Nederlandse Vereniging
van Participatiemaatschappijen



Pääomasijoittajat
Finnish Venture Capital Association

SECA



SPAINCAP
Capital por un Futuro Sostenible

SVCA

AND TO IPEM KNOWLEDGE PARTNER:

AlixPartners

ipem | 5TH PAN-EUROPEAN
PRIVATE EQUITY SURVEY

DEALING IN A DOWNTURN: A “REALITY CHECK” FOR PRIVATE EQUITY?

The full report and the panel discussing
the mood of the European PE Industry
for 2023 are available on-line

