大成 DENTONS

Your Dentons Europe
Private Equity Trends Monitor

End of Year Edition: December 2021

We are delighted to release the end of year edition of our **Private Equity Trends Monitor**, which provides you with a short overview of the current state of the private equity market in Europe and Outlook for 2022.

Central and Eastern Europe	M&A activity in CEE appears to be at its highest levels in several years, with particularly strong interest in the TMT, health care, logistics and manufacturing sectors. Financial sponsors, including private equity, continue to play an important role. While there appear to be fewer large cap LBOs, private equity is increasingly backing management teams of CEE e-commerce and software companies, and providing growth capital for CEE groups pursuing buy-and-build strategies inside and outside of the region. One thing to note is that the region has become even more attractive for strategic investors seeing the importance of manufacturing capacities within Europe, which translates into a highly competitive market especially in mid-market and large cap transactions. Warsaw-based partner **Piotr Dulewicz** comments: “The pipeline for the first half of 2022 looks very strong. The factors underpinning much of the current activity, such as the significant growth in e-commerce in CEE during the pandemic, CEE software startups reaching a level of maturity that make them attractive targets for larger, global players and CEE groups pursuing buy-and-build strategies are likely to continue irrespective of changes in the macroeconomic climate.”
Belgium, Netherlands and Luxembourg (Benelux)	M&A activity in Benelux remains robust and we expect it to maintain this level of activity heading into 2022. While most companies are still recovering from the pandemic, we see confidence and motivation towards the future. With interest rates remaining low and favorable capital markets, private equity funds are still operating in an environment that is beneficial to them. Institutional investors also seem to be looking for alternatives to achieve return on capital and private equity funds could be part of a solution for such institutional investors. Companies are drawing lessons from the pandemic and believe that investing and innovating in technology is the way forward now, especially as remote working has fast-forwarded the inflow of investments in tech companies. This is evidenced by the growth shown by technological industrial companies such as ASML and ASMI, who are leading the strong economic growth that we see in the Netherlands. In addition to the tech sector, companies engaged in climate (change), are also considered a trending investment. While the past record-breaking half year with respect to M&A will be hard to match, we do not see M&A activity slowing down significantly in the next couple of months. Important macro-economic factors such as supply chain issues and shortage of commodities and personnel are worth keeping an eye on. Amsterdam-based partner **Kuif Klein Wassink** comments: “The outlook with respect to new investments, either delayed because of uncertainty during the pandemic, or conversely accelerated by new insights as a result of the pandemic, remains promising.” Luxembourg-based partner **Namik Ramić** comments: “The dynamics in the Netherlands and Belgium clearly echo in our Luxembourg practice where we see the Luxembourg based or structured PE funds making similar investments as well.”
France	Private equity investments in France remain at a very high level with a significant deal flow and highly competitive auction processes including both investment funds and corporates. PE funds have completed large closings and lenders – both banks and private debt funds – are also eager to finance M&A deals. Through the various Covid-related measures, significant amounts have been injected into French companies, notably through state-guaranteed loans – a key driver to recovery. More importantly, strategic players and financial sponsors are confident on the prospects of the European economy which is also a vital driver. We therefore expect 2022 to be a record year in terms of M&A. The pandemic has also increased the investor interest in sectors seen as innovative and resilient, with an increasing number of transactions in the tech, life sciences and infrastructure sectors and PE firms dedicating specific teams and funds to these industries. Paris-based partner **Olivia Guéguen** comments: “The French private equity market is very active, especially in the life sciences industry which is one of our key industry focuses and is seen as both innovative and resilient by PE firms who have built sophisticated dedicated life sciences teams.”

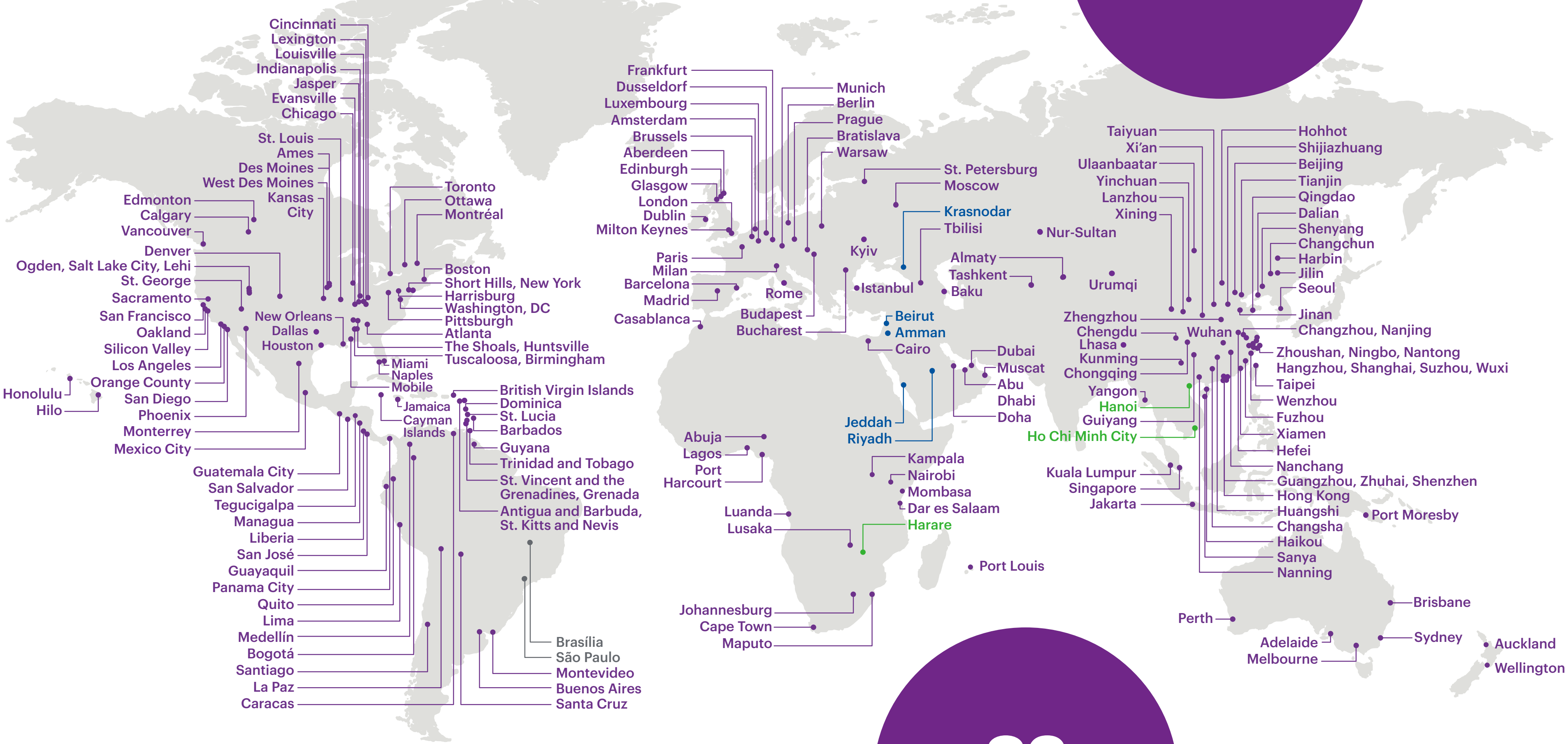
Germany	The PE business climate in Germany currently remains static at a friendly, positive level. The valuation of the current business situation slightly increased while the business forecast for the upcoming six months slightly decreased. Signals from the German Mittelstand (a typical target group for PE investors in Germany) will be key for 2022. German Mittelstand is currently struggling with increasing energy prices and supply shortages, which are both subsequent effects of the Covid crisis. These effects should, however, ease in the course of 2022. It is not yet entirely clear how companies in the automotive sector (in particular automotive suppliers) will cope with the transition to e-mobility. Nevertheless, the growth scenario for 2022 is expected to remain intact. Attractive sectors for PE investors are those benefiting from Covid side effects, such as e-commerce and logistics as well as healthcare and life sciences. Also, industries caught by macro trends will most likely see more investments, such as digitization (IT, TMT, software) and (to a certain extent) e-mobility. Hiring appears to be a bottleneck in Germany for private equity funds. Many private equity companies are looking to hire additional investment directors, but competition among employers is fierce and the number of experienced investment directors limited. Frankfurt-based partner **Robert Bastian** comments: "We expect an active mid-cap segment in 2022. PE investors should exit more portfolio companies as attractive exits were hard to achieve in 2020 and 2021. More PE investors should start appearing on the buy-side due to the high volume of dry powder available. W&I insurances will be more important than ever."
Italy	After an initial period in H1 2020 when PE funds focused mainly on managing and protecting portfolio companies, the Italian private equity market is currently experiencing a very busy phase, with a large amount of money being raised and many deals taking place. Growing competition on the best performing assets has pushed multiples upwards, especially in auction contexts. Industries and companies that weathered the Covid storm will now command an even higher multiple upon exit because they have proven their resilience, which is attractive to PE firms and investment management firms. Sectors like Fintech, healthcare and logistics have done very well in this space specifically and are currently considered the PE hot spots. In addition, the National Recovery and Resilience Plan (Piano Nazionale di Ripresa e Resilienza, NRRP) presented by Italy envisages investments and a consistent reform package, with funds totaling € 222.1 billion. Italian partner **Luca Pocobelli** comments: "The NRRP is enhancing the attractiveness of several Italian companies, which may benefit some of these funds, and is boosting interest from foreign PE firms and cross-border deals. Moreover, in anticipation of another wave of Covid, several Italian entrepreneurs are considering strengthening their financial situation and, for this reason, are looking at taking a PE firm into their shareholding structure as a financial investor."
Spain	M&A activity in Spain is at its highest in all three relevant subgroups: (i) operating businesses, (ii) energy & infrastructure and (iii) real estate. We see strong competition between corporates and private equity purchasers regarding operating businesses, the former being more aggressive on pricing and the latter being keen on offering continuity to founders (via reinvestment) with specific buy-and-build strategies. The energy and infrastructure market is very active, particularly on the energy side (renewables). It should be noted however that electricity prices in Spain are at maximum historic levels and political actors have proposed various amendments to the tariff regime, which may have a damping effect on investment in 2022. Real estate continues to be strong on logistics assets and residential properties, with traditional office space being threatened by remote working and alternative real estate models such as co-working and co-living. Madrid-based partner **Jesús Durán** adds: "We expect a very active first half of 2022. The recovery of the Spanish economy after the pandemic is a reality, with sectors such as tourism and services leading the charge."

Turkey	Traditional PE deal flow remains low, but there is strong interest in gaming and mobile app companies. The IPO market remains buoyant and we see PE funds taking advantage of the strong IPO market for exits. We expect these trends to continue and to see an increase in the deal flow as Turkish Lira fluctuations make sellers' pricing expectations more reasonable and whet the appetite of investors with dry powder in hard currencies. Turkish companies with large export portfolios and a Turkish Lira cost base are coming to the fore as very interesting targets, mainly in construction, textiles and agriculture. Funds from the GCC and Northern Europe are the leading contenders for deals. Istanbul-based partner **Doğan Eymirlioğlu** says: "Despite the rough seas caused by the fluctuation of the Turkish Lira, the deal pipeline for 2022 remains promising. While e-commerce, gaming, energy and healthcare companies are still at the front of the pack, we see growing interest in manufacturing businesses that primarily serve export markets and benefit from a lower cost base compared to foreign competitors. Since some funds are nearing the end of their fund life, exits from a multitude of PE backed companies are also imminent. We expect the current trend of IPO based exits to continue while secondary deals are also likely to rise given increasing interest from funds in the GCC."
United Kingdom	With over US$580 billion in deals announced, H1 2021 was the most active six-month period on record for the private equity industry and put 2021 on track to be the first trillion-dollar deployment year ever[1]. Record levels of deal activity and fundraising have been driven by improving macro-economic conditions, a very competitive seller's market, the widespread availability of financing on favorable terms, the return of 'megadeals' and club deals and the seemingly inexorable rise in global dry powder[2], which currently stands at US$1.3 trillion[3]. So far this year, global PE exits by trade sale and by IPO have both increased approximately four-fold by value and secondary buyouts have almost doubled by value, compared to H1 2020[4]. These trends have also been evident in the UK, which remained the largest European PE market in H1, with 207 acquisitions totalling £24.4 billion and 69 exits totalling €20 billion[5]. Interestingly, we have also witnessed a dramatic increase in European deal activity by American PE sponsors[6]. The total value of US PE investments in Europe to date has already exceeded that of any previous full year by more than 60%. In Q3 alone, US sponsors have acquired assets valued at €10.6 billion, representing more than 15% of Europe's total deal value and almost 9% of its total deal volume. The primary regional target for this deal activity has been the UK and Ireland, where investments totaling €3.6 billion represented one third of the total European deal volume by US sponsors. The key sectors benefiting from this significant increase in deal activity include industrials and chemicals, TMT (particularly software), healthcare (including healthtech), consumer goods, aerospace, automotive, insurance, leisure and recreation, metals and publishing. London-based partner **Paul Doris** says: "Whilst economic headwinds caused by factors such as Covid-19 variants, global inflationary pressures, stagnation, supply chain bottlenecks, elevated transportation costs, labour shortages, depressed consumer confidence and consumption and climate change will inevitably continue to pose challenges, the rude health currently enjoyed by the PE industry at large seems likely to continue unabated for the time being."

1. https://www.penews.com/articles/private-equity-activity-breaks-new-records-in-first-half-of-2021-20210726
2. https://www.ey.com/en_gl/private-equity/pulse
3. Pitchbook.
4. https://www.ey.com/en_gl/private-equity/pulse
5. https://www.penews.com/articles/european-buyout-industry-bounces-back-to-pre-crisis-levels-20210705
6. Clearwater International, Multiples Heatmap Q3, 2021.

About Dentons

207
locations



82
countries

Locations in purple represent Dentons offices.
Locations in blue represent associate firms, offices or special alliances as required by law or regulation.
Locations in green represent approved combinations that have not yet been formalized.
Locations in gray represent Brazil Strategic Alliance.

Contacts

Robert Bastian
Partner, Frankfurt
D +49 69 4500 12 210
robert.bastian@dentons.com

Paul Doris
Partner, London
D +44 20 7246 7561
paul.doris@dentons.com

Piotr Dulewicz
Partner, Warsaw
D +48 22 24 25 660
piotr.dulewicz@dentons.com

Jesus Duran
Partner, Madrid
D +34 91 43 22 905
jesus.duran@dentons.com

Dogan Eymirlioglu
Partner, Istanbul
D +90 212 329 30 77
deymirlioglu@baseak.com

Olivia Guéguen
Partner, Paris
D +33 1 42 68 49 87
olivia.gueguen@dentons.com

Francesco Faggiano
Partner, Milan
D +39 02 726 268 15
pierfrancesco.faggiano@dentons.com

Rob Irving
Partner, Budapest
D +36 1 488 5245
rob.irving@dentons.com

Volker Junghanns
Partner, Frankfurt
D +49 69 45 00 12 230
volker.junghanns@dentons.com

Kuif Klein Wassink
Partner, Amsterdam
D +31 20 795 31 12
kuif.kleinwassink@dentons.com

Stephen Levy
Partner, London
D +44 20 7246 4826
stephen.p.levy@dentons.com

Nicholas Plant
Partner, London
D +44 20 7246 7081
nicholas.plant@dentons.com

Luca Pocobelli
Partner, Rome
D +39 06 809 120 11
luca.pocobelli@dentons.com

Namik Ramić
Partner, Luxembourg
D +352 46 83 83 221
namik.ramic@dentons.com

ABOUT DENTONS

Dentons is the world's largest law firm, connecting top-tier talent to the world's challenges and opportunities with 20,000 professionals including 12,000 lawyers, in more than 200 locations, in more than 80 countries. Dentons' polycentric and purpose-driven approach, commitment to inclusion and diversity, and award-winning client service challenge the status quo to advance client interests.

www.dentons.com

CSBrand-76996 Private Equity Trends Monitor 4th edition-07 — 17/12/2021