STUDY

March
2024

European Private Equity Outlook 2024

Positive momentum in the air

Roland Berger

The European Private Equity Outlook 2024 is the 15th consecutive publication in a series launched by Roland Berger in 2010.

Cover Radka Danailova/iStock

This year's key messages include

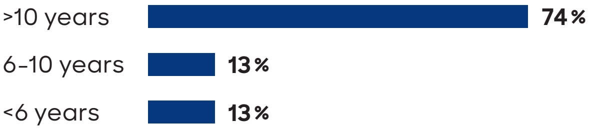
- In 2024, 65 % of respondents anticipate a higher volume of M&A transactions involving private equity (PE). A significant change in sentiment compared to 2023. This expectation is primarily driven by the anticipated easing of financing conditions and the perception of greater investment opportunities
- Technology, software & digital solutions and pharma & healthcare remain the most attractive target industries in 2024 for M&A transactions with PE involvement
- The availability of debt financing and the overall economic situation are expected to have a major impact on PE transactions in 2024. The small- and mid-cap segments are considered the most promising asset classes in 2024, being less dependent on large amounts of debt financing. Furthermore, debt financing for private equity investments in infrastructure is expected to be favorable in 2024
- Over 75 % of PE professionals believe that current valuation multiples are overvalued, a perspective that has remained largely consistent with last year's views. However, technology, software & digital solutions, pharma & healthcare, and infrastructure are likely to continue (very) high valuation multiples
- Primary investments and secondary buyouts are expected to be the most important deal sources in 2024. Majority investments are forecast to offer significant value creation potential. Secondary buyouts will become relevant as many PE exits were postponed in 2023
- Development of portfolio companies and continuation funds are set to be a key focus of PE activity in 2024, while respondents expect fundraising to be less in focus in 2024. However, 54 % of PE professionals still expect the level of competition for fundraising to become more intense in 2024, down from 78 % in 2023
- Most PE professionals continue prioritizing value creation initiatives in their portfolios. Key drivers for future value creation include the integration of AI, digitalization/data analytics and ESG. In addition to creating value in the portfolio companies, AI is also expected to provide advantages in the due diligence process

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

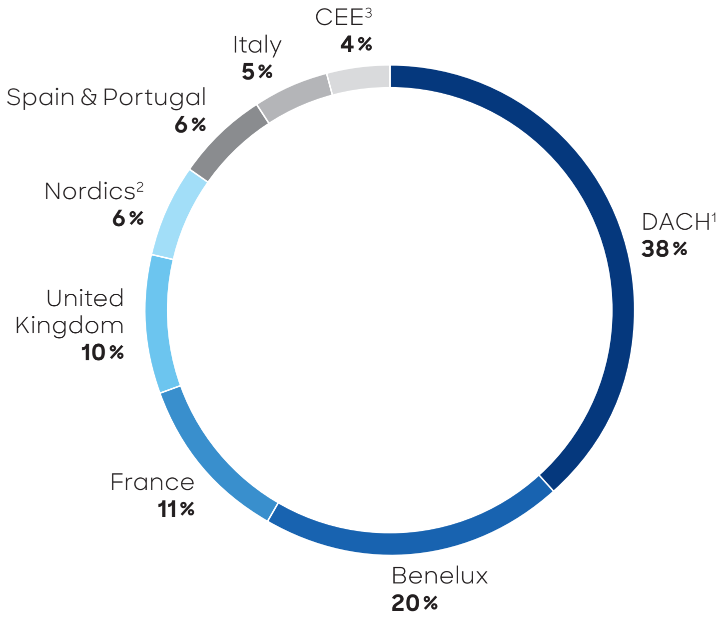
Approximately 2,200 experts from private equity investment companies across Europe were contacted for this year's PE Outlook. The results show what experts in the market anticipate for different countries and regions as well as the factors and topics they consider to be relevant for the private equity business in 2024.

~2,200
experts contacted

PE experience
[% of responses]



Participants' investment focus
[% of responses]



1 Germany, Austria and Switzerland
2 Norway, Sweden, Finland, Denmark
3 Central & Eastern Europe

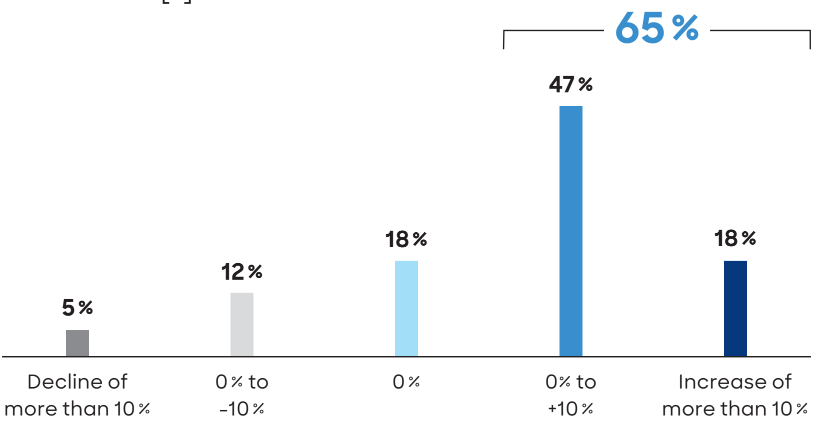
Source: Roland Berger

65 % of respondents are expecting an increased level of M&A transactions with PE involvement in 2024 – A change in sentiment compared to 2023

Around 65 % of respondents anticipate an increase in M&A transactions involving private equity firms in 2024 compared to 2023. This marks a significant shift from last year's survey, where only 30 % of respondents expected a positive development. This shift can be attributed to various factors; on the one hand, there was a decline in PE-related M&A activity in 2023, as anticipated in last year's PE Outlook, influenced by unfavorable macroeconomic conditions such as inflation and interest rate; on the other hand, the economic outlook for 2024 appears more promising, with expectations of stable or lower interest rates and a continued recovery across most key European economies. Additionally, many portfolio company exits by private equity were postponed in 2023, with plans to enter the market in 2024 instead, as investors anticipate more favorable market conditions.

What change do you expect to see in 2024 in the number of completed M&A transactions with PE involvement?

M&A transactions with PE involvement – 2024 vs. 2023 [%]



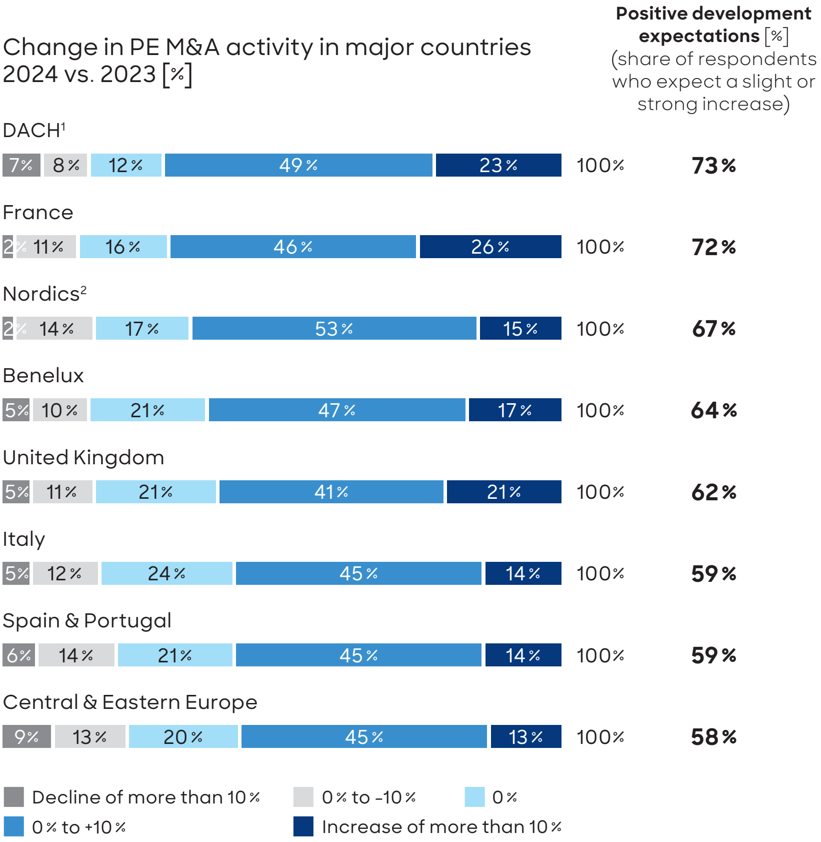
% of responses [only one answer per category possible and excluding blank answers]
Total may not add up to 100% due to rounding

Source: Roland Berger

This development outlook differs among major European countries and regions

The outlook for M&A transactions with PE involvement differs between major European countries and regions. Respondents expect the DACH region and France to see the strongest growth in 2024, followed by the Nordics and Benelux. The growth expectations for UK, Italy, Spain and Portugal are also clearly positive, but compared to the other countries, participants appear to be more conservative. Further, for Central & Eastern Europe, roughly twice as many participants expect a positive rather than a negative development of deal activity.

What change in PE M&A activity do you expect to see in the following countries in 2024?



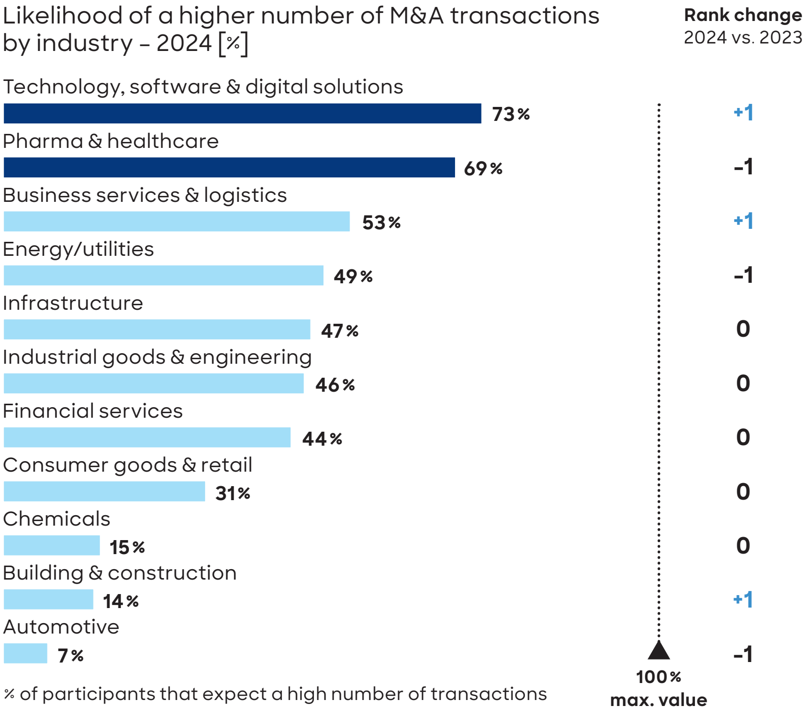
1 Germany, Austria and Switzerland 2 Denmark, Norway, Sweden, Finland, and Iceland

Source: Roland Berger

Technology, software & digital solutions, and pharma & health-care are expected to continue yielding the most M&A deals

The outlook for M&A transactions with PE involvement varies across industries. As already observed over the past three years, both technology, software & digital solutions as well as pharma & healthcare are anticipated to lead M&A transactions with PE involvement in 2024. Key reasons in pharma & healthcare include the perceived resilience against economic crises, strengthening of the supply chain, and product portfolio expansion. For technology, software & digital solutions, software-as-a-service (SaaS) and digital transformation solutions (including data analytics, hyper-automation, artificial intelligence solutions) are key. These industries are of particular interest to PE due to their fundamental growth characteristics, resilience and scalability.

What change do you expect to see in 2024 with respect to the number of completed M&A transactions with PE involvement?

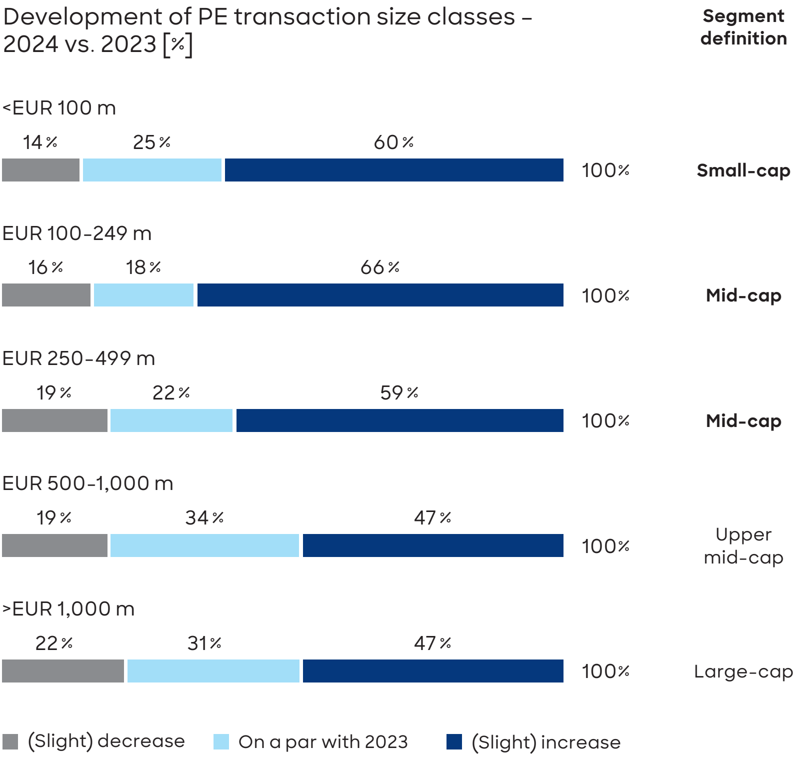


Source: Roland Berger

The small- and mid-cap segments are, once again, perceived as most promising target classes in 2024 in terms of the development of the number of transactions

While respondents consider the small-cap segment (enterprise value (EV) estimations of below EUR 100 m) and mid-cap segment (EUR 100 to 499 m) the most promising in 2024, PE professionals remain conservative with respect to the upper mid-cap (EUR 500 to 999 m) and large-cap segments (> EUR 1 bn) of the European M&A market. This is due to the size of debt needed, which is higher in large-cap compared to small- and mid-cap segments.

Please estimate the development of the European M&A market with PE involvement by size classes (based on EV estimations)



Source: Roland Berger

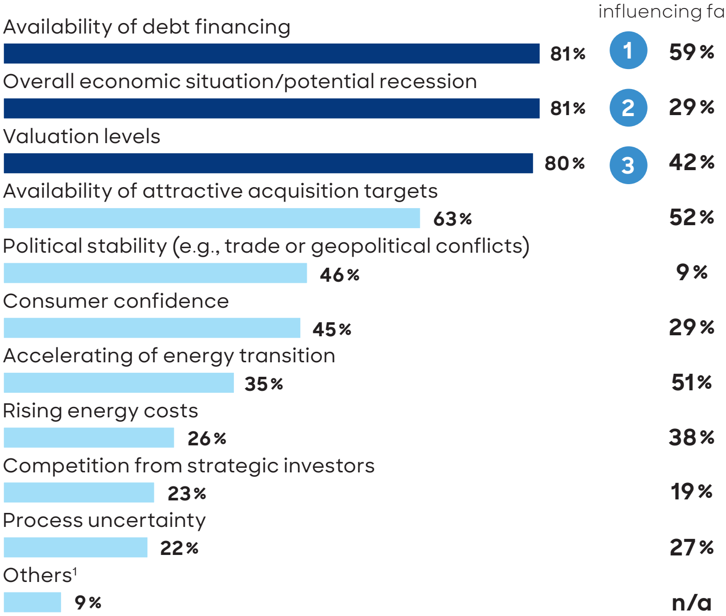
The availability of debt financing, overall economic situation, and valuation levels are anticipated to be the most influential factors on the # of PE transactions in 2024

Nearly all respondents identify the availability of debt financing, the overall economic situation, and valuation levels as the primary factors influencing the number of M&A transactions involving PE in 2024. Moreover, more than 60% of respondents emphasize the importance of the availability of attractive acquisition targets in shaping the levels of M&A activity for the year 2024.

What are the most influential factors affecting the number of European M&A transactions with private equity involvement in 2024?

Ranking of M&A influencing factors – 2024 [%]

Positive development expectations [%] (share of respondents who expect an improvement in the respective influencing factor)



Based on ranking from 1 (least influential) to 5 (most influential) – % shown represents the share of respondents assigning a score of 4 or 5 to a given factor relative to total number of respondents   1 Other influencing factors seen by respondents; not specified

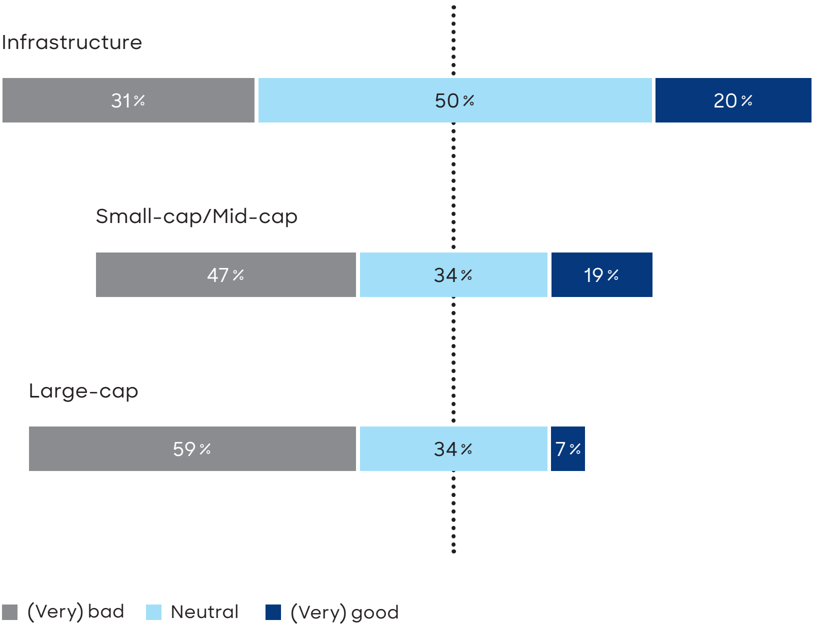
Source: Roland Berger

Infrastructure and small- & mid-cap size classes appear particularly promising for debt financing

Compared to 2023, PE professionals expect debt financing to be favorable for infrastructure and small- and mid-cap asset classes. 20 % and 19 % of respondents, expecting (very) good debt financing. However, more than half (59 %) of PE professionals expect large-cap financing to deteriorate. Looking ahead, debt financing for infrastructure and small- & mid-cap size classes is expected to improve or remain on par with the previous year, indicating an overall positive trend in debt financing.

What is the current situation of debt financing (end of 2023) and how do you expect debt financing will develop in 2024 per asset class?

Current situation of debt financing – End of 2023 [%]



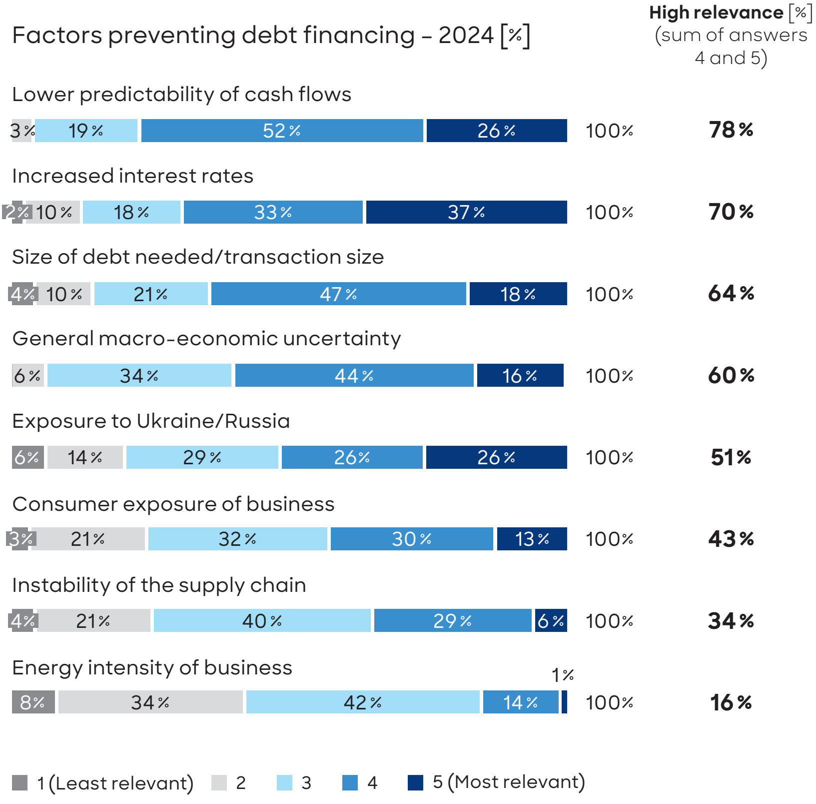
% of responses [only one answer possible]

Source: Roland Berger

Main hurdles for the availability of debt financing are the low predictability of cash flows, increased interest rates, and the amount of debt needed

PE professionals primarily attribute the limited availability of debt financing to factors such as less predictable cash flows, increased interest rates, and the amount of debt required relative to the transaction size. Additionally, broader macroeconomic uncertainties and geopolitical conflicts, such as the Russia-Ukraine war, are seen as further constraints on debt availability.

What are the most influential factors preventing debt financing for target companies in 2024?

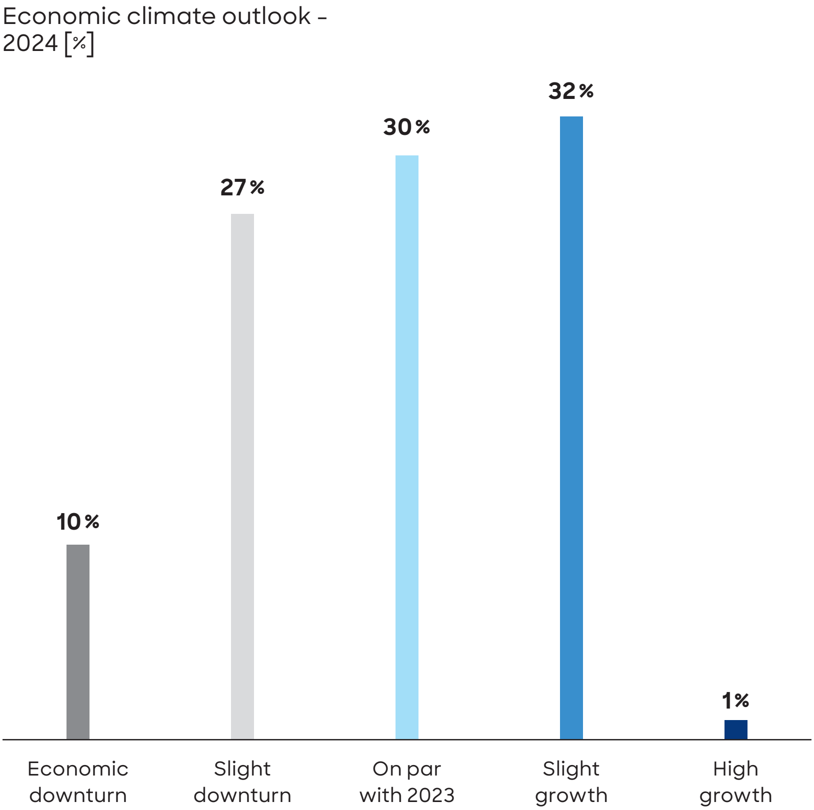


Source: Roland Berger

Varied macro-economic expectations for 2024 among PE professionals

This year's survey results depict mixed sentiments among PE professionals about the economic climate for 2024 with no overwhelming consensus. While one-third of respondents expects slight growth in the economic climate outlook, another third expects the economic climate to stay on par with 2023. Conversely, 27% anticipate a slight downturn, pointing to a cautious concern about potential economic headwinds. The spread of opinions reflects uncertainty and a wide range of expectations for the economic performance in the coming year.

What is your outlook for the economic climate in 2024?



% of responses [only one answer possible]

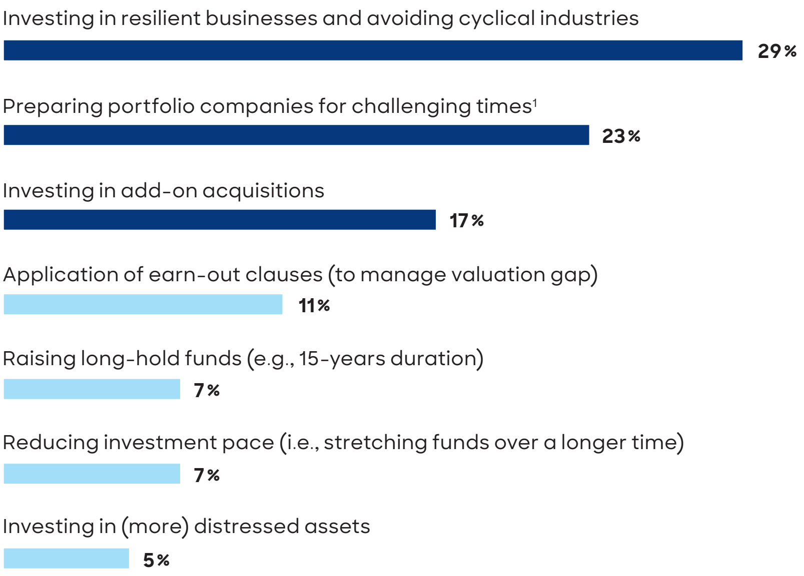
Source: Roland Berger

Investments in resilient businesses, weatherproof programs, and add-on acquisitions are considered effective measures against a downturn for PEs

Around 37 % of respondents expect a (slight) downturn in the economic climate. However, PE professionals believe that measures such as investing in resilient businesses, preparing portfolio companies for challenging times through dedicated weatherproof programs, and making add-on acquisitions could act as a downturn protection. The professionals also hold the view that reducing investment pace and investing in (more) distressed assets are clearly less effective against a potential downturn.

Which measures do you consider to be most effective against a potential downturn?

Measures for downturn protection – 2024 [%]



1 e.g., weatherproof programs

% of responses (relative frequency)

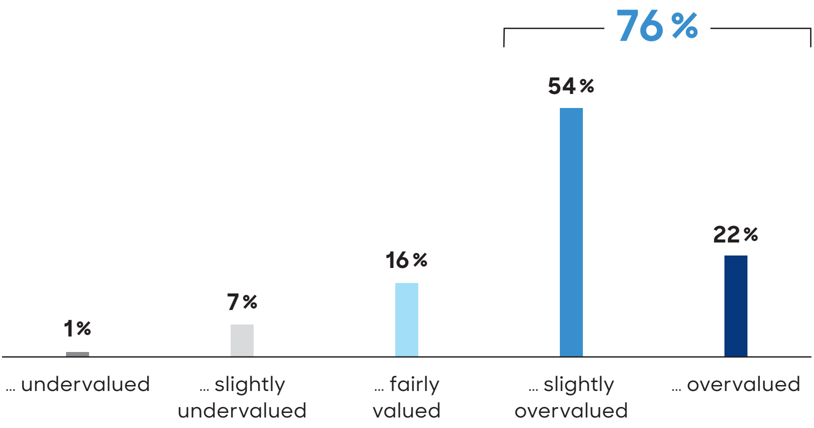
Source: Roland Berger

Over 75 % of PE professionals believe that current valuation multiples are too high, a perspective that is consistent with last year's results

In this year's survey, 76 % of respondents indicated that valuation multiples were too high, which marks a slight increase from 72 % in 2023. However, sentiment has shifted slightly, with 22 % of respondents in this year's survey seeing valuations as too high, compared to 27 % previously. Instead, 54 % of respondents now perceive valuations as slightly too high, up from 45 % in the previous year. The proportion of respondents who believe assets are fairly valued has somewhat decreased to 16 % from 21 % in 2023. Conversely, the number of respondents who perceive assets as undervalued has slightly increased, with 8 % of surveyed PE professionals expecting valuations to be undervalued compared to 6 % in 2022.

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

Current status of valuation multiples – End of 2023 [%]



0 %	6 %	21 %	45 %	27 %

Previous year's results (2023)

% of responses [only one answer possible]

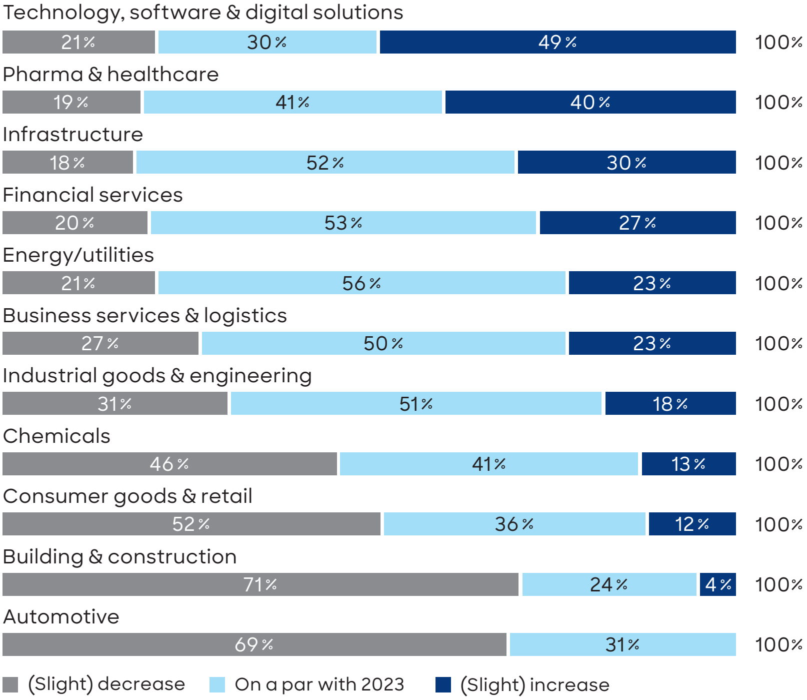
Source: Roland Berger

Technology, software & digital solutions, pharma & healthcare and infrastructure are likely to continue experiencing (very) high valuation multiples

Looking in more detail at the expected development of valuation multiples by industry, most respondents expect technology, software & digital solutions to see an increase in valuation multiples in 2024 (49%), followed by pharma & healthcare (40%) and infrastructure (30%). The majority of respondents expects valuation multiples to decrease for assets in consumer goods & retail (52%), automotive (69%) and building & construction (71%).

How do you expect valuation multiples paid in transactions with PE involvement to develop in 2024?

Expected development of valuation multiples by industry – 2024 [%]



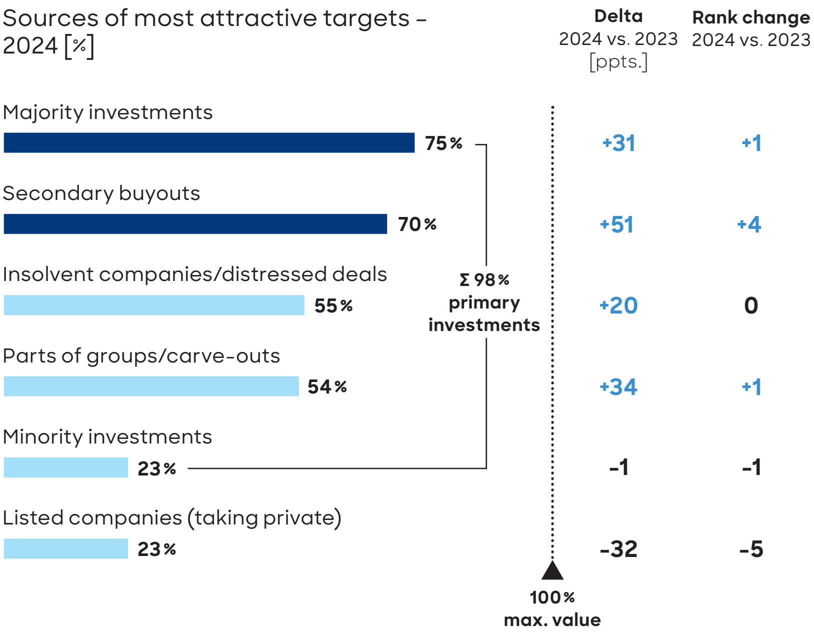
% of responses [only one answer possible]

Source: Roland Berger

Majority investments and secondary buyouts are perceived to be the most important sources of targets in 2024

Primary investments (incl. majority and minority investments) continue to be perceived as the key source for potential targets. Majority shareholdings in family-owned companies are seen as an important source of targets by 75 % of participants. Secondary buyouts are perceived as the second most important source of attractive targets, being named by 70 % of survey participants (up from c.19 % in 2023). As many PE exits were postponed in 2023 due to the unfavorable economic situation and high inflation rates, rebound effects are expected in 2024. The attractiveness of public-to-private transactions is expected to decrease significantly in 2024 due to the high number of assets being brought to market by private equity firms.

What will the source of the most attractive targets be in 2024?



% of participants that expect this source of targets to be important or very important (as defined by selecting it among the top three choices out of six possibilities) [multiple answers possible]

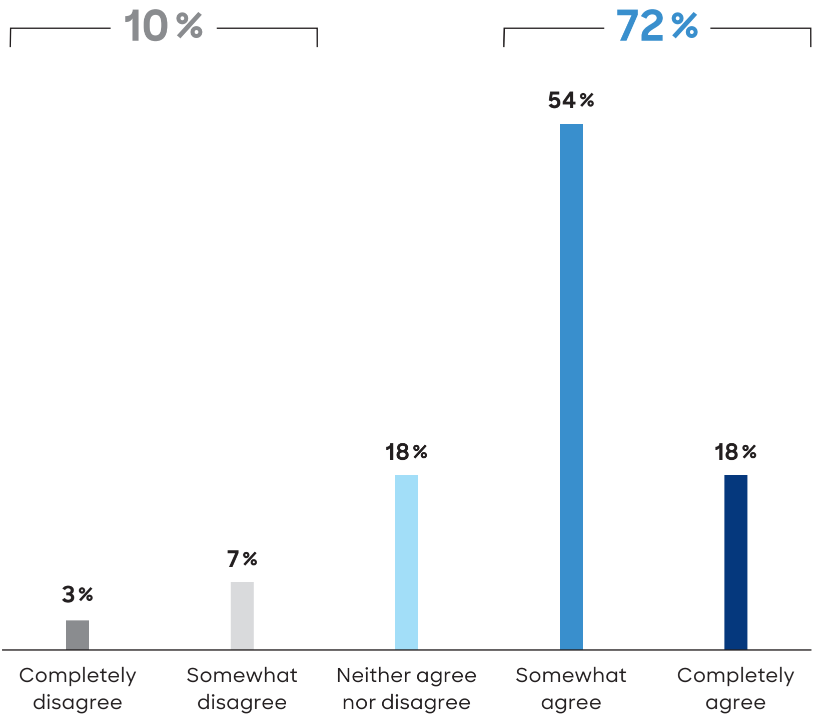
Source: Roland Berger

>70% of PE professionals expect the targets available in 2024 to be more attractive compared to the ones in 2023

90% (compared to 72% in 2023) of respondents expect the targets available in 2024 to be as attractive or more attractive than the targets available in 2023. Only 10% of PE professionals (down significantly from 28% in 2023) assume that the targets will be less attractive than in the previous year.

Overall, targets available on the market in 2024 will be more attractive than in 2023. To what extent do you agree?

Expected development of investment opportunities – 2024 vs. 2023 [%]



% of responses [only one answer possible]

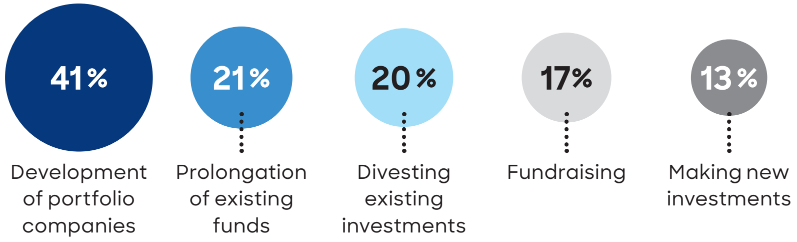
Source: Roland Berger

Development of portfolio companies and continuation funds are set to be a key focus of PE activity in 2024

About 40% of respondents indicate that development of portfolio companies will be the focus of PE activities in 2024, which received the lowest ranking with only 16% in last year's survey. Another key focus for PEs is expected to be continuation funds, albeit with declining prominence (21% in 2024 vs. 35% in 2023). Respondents expect fundraising to lose focus in 2024, whereas it was the top priority last year (17% in 2024 vs. 67% in 2023). Compared to last year's survey, the competitive situation in fundraising is still expected to be intense in 2024, but to a lower extent (54% in 2024 vs. 78% in 2023).

On which phase of the PE value chain will you focus most in 2024?

Focus of PE investors by value chain phase – 2024 [%]



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

What degree of competitiveness do you expect in fundraising in 2024?

Expected level of competition for fundraising – 2024 [%]

54% I expect the competitive situation to get more intense

39% I don't expect any change in the competitive situation

7% I expect the competitive situation to ease up

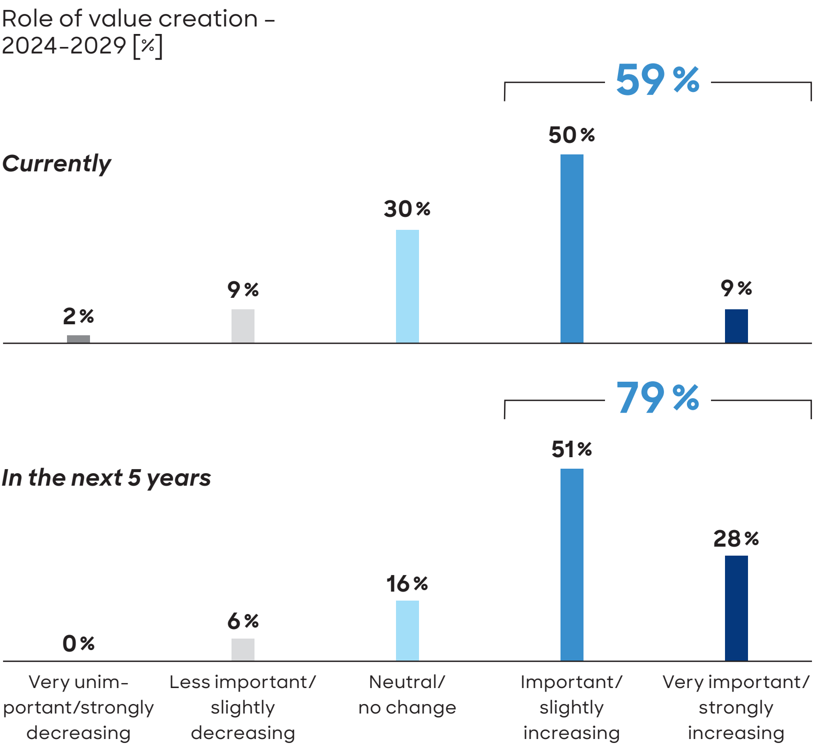
% of responses [only one answer possible]

Source: Roland Berger

In 2024, PE professionals expect value creation initiatives in the portfolio to gain further importance

59 % and 79 % of respondents believe value creation will have an important or very important role in 2024 and the next 5 years, respectively. This reflects a slight decrease of the importance compared to our survey in 2023 with 89 % and 92 % for the respective periods. Especially in times of increased interest rates, investors are constantly looking for additional creation of value besides just buying low and selling high. Since interest rates are expected to normalize going forward, the focus on value creation initiatives becomes more diversified.

What role will value creation play in 2024 and in the next 5 years?



% of responses [only one answer possible]

Source: Roland Berger

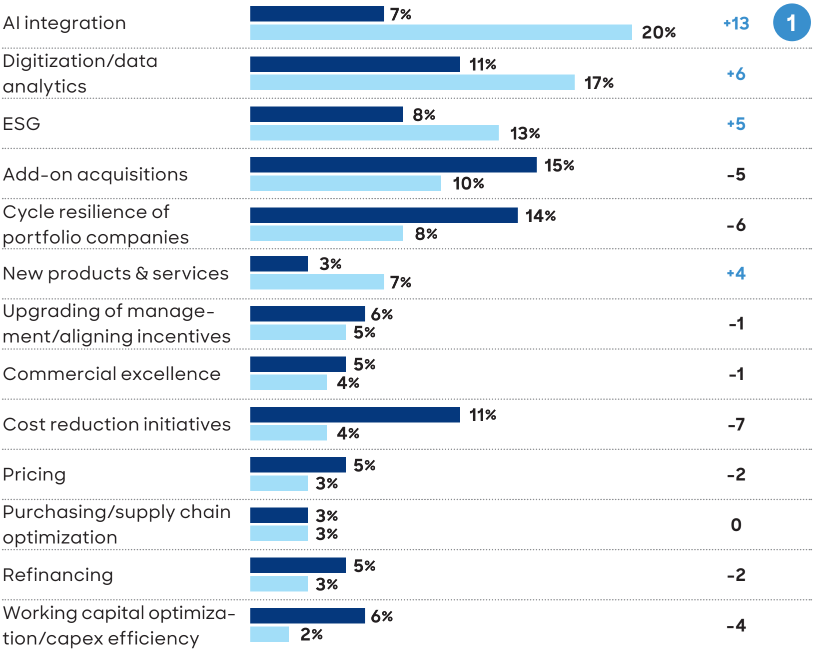
AI integration, digitization/data analytics, and ESG are viewed to be the most important drivers of value creation

Respondents expect AI integration to be the top priority in the next five years (7% vs. 20%), followed by digitalization/data analytics (11% vs. 17%) and ESG (8% vs. 13%) with regards to portfolio management and value creation. The most notable decreases in the next five years are anticipated for cost reduction initiatives (11% vs. 4%), cycle resilience of portfolio companies (14% vs. 8%), and add-on acquisitions (15% vs. 5%), which are the most relevant measures in 2024.

Which of the following portfolio management/value creation measures do you consider most important in 2024; which measures will increase in importance the most in the next 5 years?

Importance of portfolio management/value creation measures – 2024 vs. future [%]

Expected future development [ppt.]



2024 Next 5 years % of responses [only one answer possible]

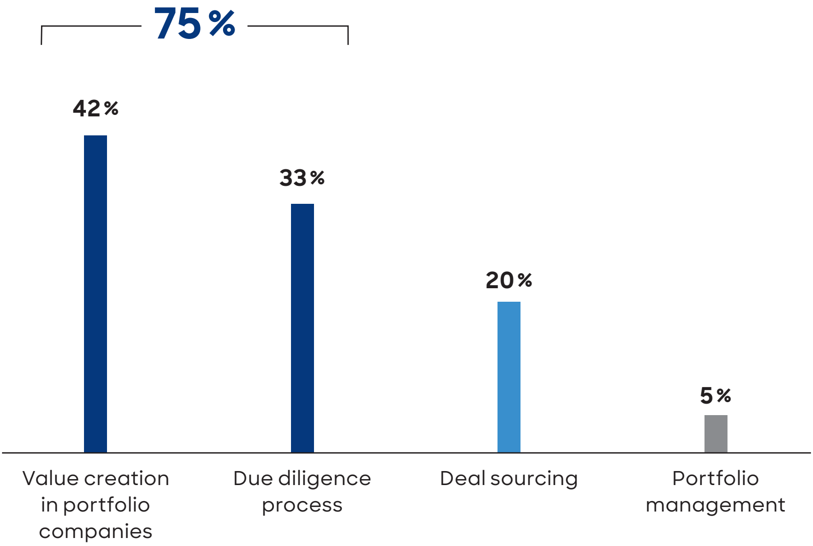
Source: Roland Berger

AI is predicted to bring the highest benefits to PE in creating value for portfolio companies and supporting due diligence processes

PE professionals expect AI integration to be the most important portfolio management/value creation measure going forward. Just over 40 % of the respondents believe that AI will provide the most benefit to value creation in portfolio companies by leveraging available data. One third said AI will enhance the due diligence process, such as providing unique insights from open-source market data, while the remaining 25 % of respondents expect AI to benefit deal sourcing and portfolio management the most.

In which of the following parts of the private equity value chain do you anticipate artificial intelligence (AI) deployment to provide the most benefits?

Benefits of artificial intelligence – 2024 [%]



% of responses [only one answer possible]

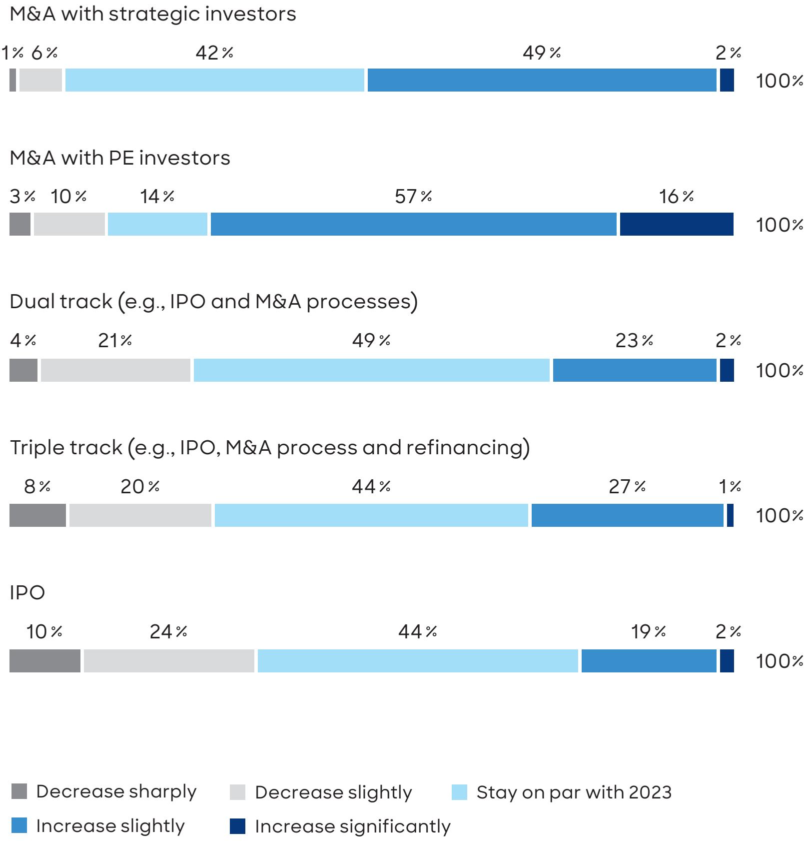
Source: Roland Berger

Strategic or other PE investors remain the most promising exit channels in 2024

In 2024, respondents continue to perceive sales to strategic investors as the most promising exit channel, followed by sales to PE investors. Compared to 2023, the expected development of sales to strategic investors and PE has become more positive. IPOs and dual- or triple-tracks are expected to remain largely stable.

How do you expect the individual exit channels to change in 2024?

Change in exit channels – 2024 [%]



% of responses [only one answer possible]

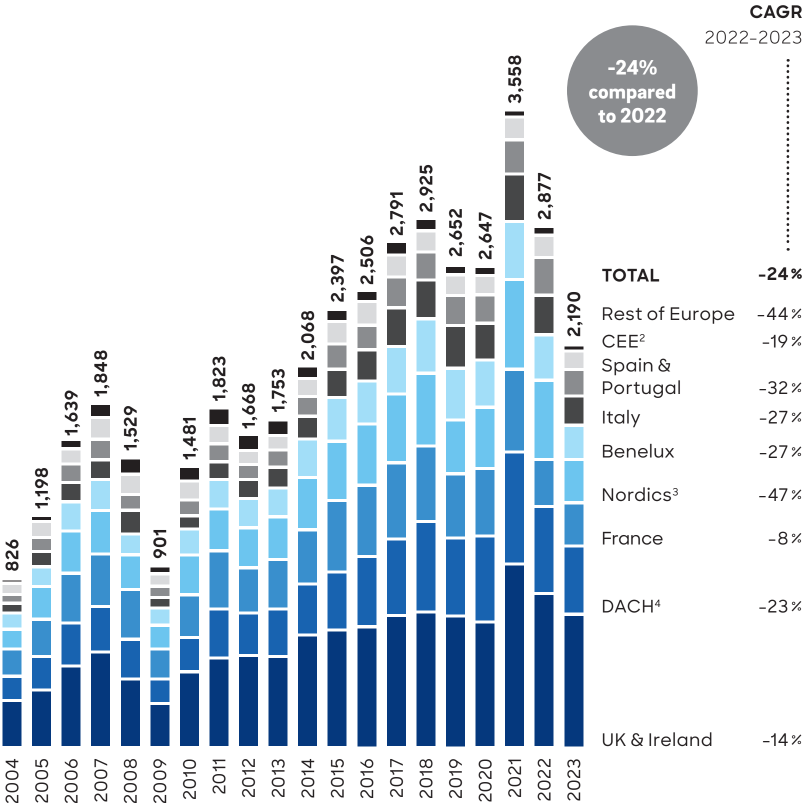
Source: Roland Berger

Significant decrease of European transactions by ~24 % in 2023 vs. 2022 across all geographies

All European countries recorded a high single or double-digit decline in 2023 compared to 2022. The UK, DACH and France are the largest regions in terms of transaction volume, and experienced a decline of -14 %, -23 % and -8 %, respectively. Strongest decline was observed in Nordics (-47 %), Rest of Europe (-44 %) and Spain & Portugal (-32 %). The primary reason for the general decline are the difficulties with debt financing.

European transaction volume by geography[1]

2004-2023 [# of deals]



1 Including all buyout deals available in Preqin (incl. add-on acquisitions)
2 Central & Eastern Europe
3 Denmark, Norway, Sweden, Finland, and Iceland
4 Germany, Switzerland, Austria

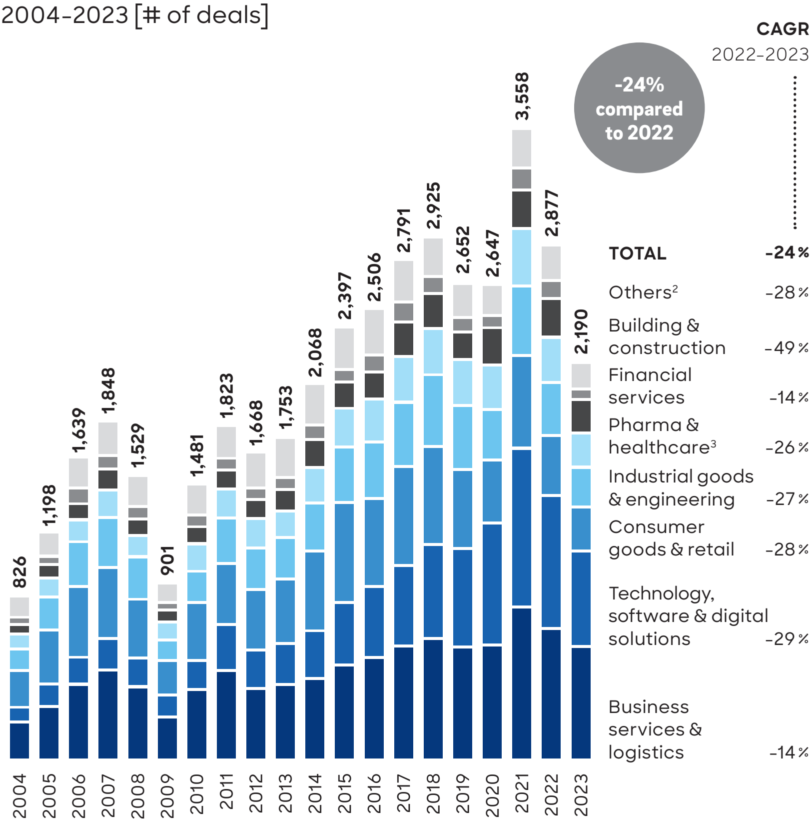
Source: Preqin (Feb. 2024 – latest data update); Roland Berger

Business services & logistics and technology, software & digital solutions recorded the largest transaction volumes in 2023

At the industry level, business services & logistics (~650 deals) and technology, software & digital solutions (~540 deals) were the main contributors to the deal flow in 2023. From 2022 to 2023, most sectors experienced a decline, with building & construction transaction volume hit the hardest with -69 %.

European transaction volume by industry[1]

2004–2023 [# of deals]



1 Including all buyout deals available in Preqin (incl. add-on acquisitions)
2 Including energy/utilities, chemicals, automotive and agriculture
3 Including MedTech & life sciences

Source: Preqin (Feb. 2024 – latest data update); Roland Berger

Overall, the following key trends are expected in the private equity market 2024

Cycle of interest rate increases expected to end in 2024 – This will facilitate financing costs and facilitate debt financing for investors. Debt funds will also gain material traction

Significant deal pipeline for large-cap – Experts expect 230 large-cap and upper mid-cap companies in Europe to come to market in 2024, although these deals are yet to materialize. The resulting large-cap recovery will likely be gradual during 2024

Investment pressure for PEs sitting on dry powder of up to c. USD 1.5 trillion (possibly reduced by some shift towards private debt) as well as **pressure from limited partners** (LPs) to realize exits of existing investments – Continuation funds as, among others, way to increase liquidity for LPs

The shift from PE to corporate M&A activities observed in the market in late 2023 is expected to continue in 2024 as corporate investors have fewer financing issues and noticed how buy and build creates value based on learnings from PE – Support offered by Roland Berger's Transaction & Investor Services (TIS) department

As already seen in 2023, **increasing pressure from shareholders on corporates to focus on core business** is expected to lead to a more active portfolio management and re-focus on core business

Mid-cap and infrastructure stable to slightly improving – Mid-cap due to easier financing for transactions of limited size and infra due to catch-up in financial investor ownership as well as increasing pressure from regulations

Source: Roland Berger

Authors

Christof Huth
Global Head Transaction & Investor Services (TIS), Germany
+49 160 744-8291
christof.huth@rolandberger.com

Grégoire Tondreau
Global Co-Head Transaction & Investor Services (TIS), Belgium
+32 478 97 97 25
gregoire.tondreau@rolandberger.com

Martin Weissbart
Principal Transaction & Investor Services (TIS), Germany
+49 160 744-8420
martin.weissbart@rolandberger.com

Key European PE team members

Sven Kleindienst
Partner, Germany
+49 160 744-8539
sven.kleindienst@rolandberger.com

Bieito Ledo
Partner, Spain
+34 9 15 90 02 50
bieito.ledo@rolandberger.com

Nicola Morzenti
Partner, Italy
+39 33 55 98 26 76
nicola.morzenti@rolandberger.com

Hans Nyctelius
Partner, Sweden
+46 70 815 74 48
hans.nyctelius@rolandberger.com

Hrishikesh Potey
Partner, United Kingdom
+44 78 80 20 20 37
hrishikesh.potey@rolandberger.com

Matthieu Simon
Partner, France
+33 6 71 37 49 45
matthieu.simon@rolandberger.com

David van der Does
Partner, Netherlands
+31 20 7960 603
david.vanderdoes@rolandberger.com

Benjamin Verhelst
Partner, Belgium
+32 476 44 63 65
benjamin.verhelst@rolandberger.com

ROLAND BERGER is one of the world's leading strategy consultancies with a wide-ranging service portfolio for all relevant industries and business functions. Founded in 1967, Roland Berger is headquartered in Munich. Renowned for its expertise in transformation, innovation across all industries and performance improvement, the consultancy has set itself the goal of embedding sustainability in all its projects. Roland Berger revenues stood at EUR 870 million in 2022.

WORLD'S BEST MANAGEMENT CONSULTING FIRMS
Forbes 2023
POWERED BY STATISTA

03/2024
ROLANDBERGER.COM

Publisher

Roland Berger GmbH
Sederanger 1
80538 Munich
Germany
+49 89 9230-0

24_2024_FLY