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EIF Research and Market Analysis
Working Paper 2022/85

EIF Private Equity Mid-Market Survey 2022: Market sentiment and impact of the current geopolitical & macroeconomic environment

Helmut Kraemer-Eis, Joern Block, Antonia Botsari, Walter Diegel, Frank Lang, Davide Legnani, Solvej Lorenzen, Filip Mandys, Ioannis Tzoumas

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Editor:
Helmut Kraemer-Eis,
Head of the EIF's Research & Market Analysis, Chief Economist

Contact:
European Investment Fund
37B, avenue J.F. Kennedy, L-2968 Luxembourg
Tel.: +352 248581 394
http://www.eif.org/news_centre/research/index.htm
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Authors

Helmut Kraemer-Eis
Head of the EIF's Research & Market Analysis, EIF Chief Economist

Contact:
h.kraemer-eis@eif.org
Tel.: +352 248581 394

Antonia Botsari
Research Officer in the EIF's Research & Market Analysis division

Contact:
a.botsari@eif.org
Tel.: +352 248581 546

Frank Lang
Senior Manager in the EIF's Research & Market Analysis division

Contact:
f.lang@eif.org
Tel.: +352 248581 278

Davide Legnani
Research Consultant in the EIF's Research & Market Analysis division

Contact:
davide.legnani@ext.eif.org
Tel.: +352 248581 342

Filip Mandys
Research Consultant in the EIF's Research & Market Analysis division

Contact:
f.mandys@ext.eif.org
Tel.: +352 248581 926

Ioannis Tzoumas
Trainee in the EIF's Research & Market Analysis division

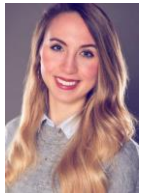
Contact:
i.tzoumas@eif.org
Tel.: +352 248581 211

Jörn Block
Professor of Management, University of Trier and Erasmus University Rotterdam

Contact:
block@uni-trier.de
Tel.: +49 651 201 3030

Walter Diegel
Research associate at the Chair of Management, University of Trier

Contact:
unternehmensfuehrung@uni-trier.de
Tel.: +49 651 201 3030



Solvej Lorenzen
PhD student, research associate at WIFU, Witten/Herdecke University

Contact:
solvej.lorenzen@uni-wh.de

We would like to thank the respondents to the EIF surveys. Without their support and valuable replies, this project would not have been possible. This paper benefited from comments and inputs by many EIF colleagues, for which we are very grateful; we would like to express particular thanks to Cindy Daniel and the EIF Research & Market Analysis colleagues. All errors are attributable to the authors.

Preface

Dear Reader,

While the European PE ecosystem has survived the COVID-19 crisis without major damage, the Russian invasion of Ukraine, the geopolitical situation, and the macroeconomic environment have started to **negatively affect the PE markets**. In the European PE mid-market segment, **uncertainty**, a **difficult market environment** and **poorer divestment opportunities** are key challenges that were mentioned by respondents of our ***EIF Private Equity Mid-Market Survey 2022***, many times and in several survey questions. Moreover, **the fundraising sentiment is at a record-low** since the launch of our equity surveys and the **exit environment has become particularly challenging** in 2022. Portfolio companies thus face significant obstacles, in particular in their access to finance, for which respondents' expectations for the near future became particularly gloomy.

Although the vast majority of the surveyed fund managers consider their current **state of business** to be good or very good, **expectations deteriorated strongly**. At the same time, fund managers also see **opportunities** arising in this situation, for example in sectors related to **healthcare, energy and the environment**. However, as respondents' expectations have substantially declined for most of our market sentiment indicators, there is a **high risk that the worst part of this new crisis is yet to come**. Despite the optimistic market growth in the recent years, **creative policy solutions will be crucial for strengthening the ability of the European PE ecosystem to absorb shocks**. This includes a deeper involvement of private long-term investors who stay in the market even during downturns, initiatives to encourage the financing of European scale-ups, and an improved exit environment in order to support a thriving and resilient European PE ecosystem.

EIF's Research & Market Analysis strives to support this process by improving the availability of information for **evidence-based policy interventions**, which are needed especially during and in the aftermath of crises. With three regular and anonymous equity surveys, the *EIF Private Equity Mid-Market Survey*, the *EIF VC Survey*, and the *EIF Business Angels Survey*, the EIF's Research & Market Analysis team provides **unique market insight**, typically on an annual basis.

The study at hand looks at the **current situation**, **developments in the recent past**, and **expectations for the future**. In this publication, the main results are summarised and compared over time. The respondents of the *EIF PE Mid-Market Survey*, PE mid-market fund managers from all over Europe, revealed very interesting insights, providing a **unique picture of the developments and the market sentiment in 2022, and an outlook for the near future**.

I thank all the contributors for this insightful project and analysis. In order to facilitate the reading, we offer a hybrid slide document instead of the traditional Working Paper style. I hope you will enjoy it.

Kind regards,

Helmut Kraemer-Eis

EIF Chief Economist and Head of Research & Market Analysis

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EIF Research & Market Analysis

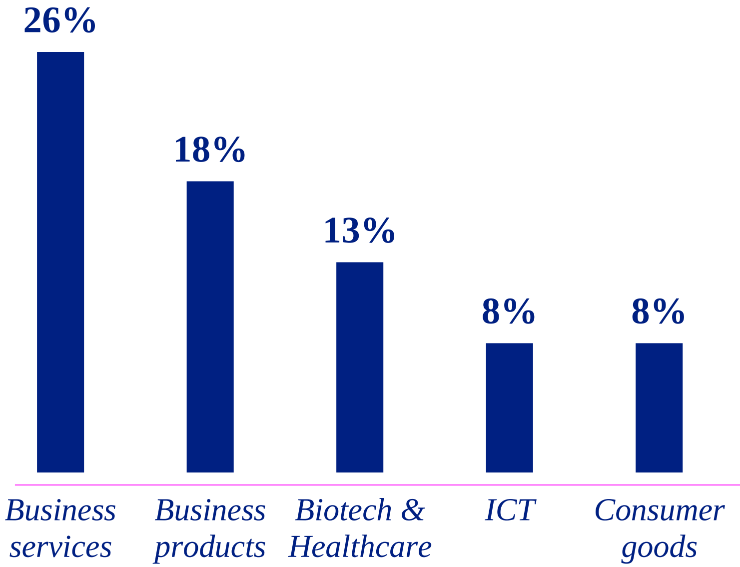
Survey wave 2022

The EIF PE MM Survey

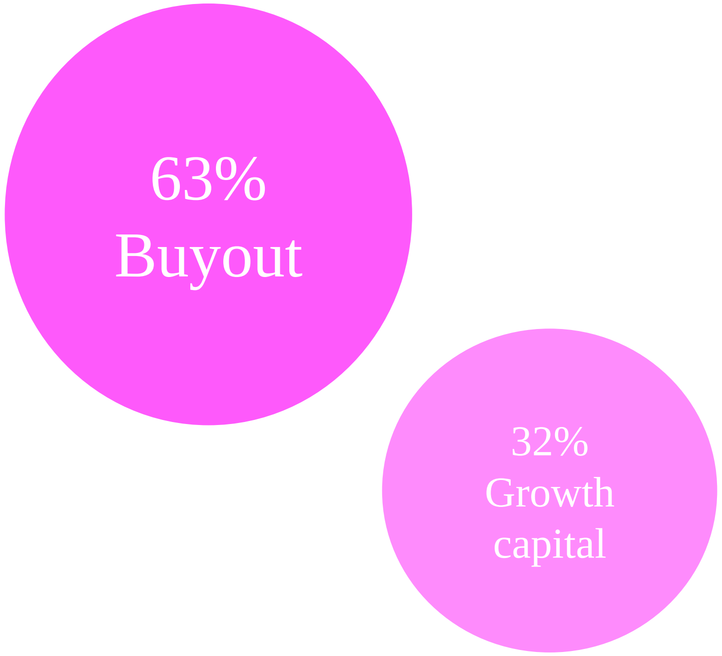
Number of respondents

224

Top sectors



Stage



Exceptional times require unique market insight

Evidence-based policy intervention to address challenges and opportunities

- The **EIF** concentrates on supporting the necessary private sector VC and PE mid-market infrastructures to **address market gaps and challenges** as well as to **support opportunities** with the aim to further enhance the **attractiveness of the European VC and PE mid-market** as alternative asset classes.
- In order to improve the availability of information for **evidence-based policy interventions**, the EIF performs, on a regular basis, the ***EIF Private Equity Mid-Market Survey***, the *EIF VC Survey*, and the *EIF Business Angels Survey*. In addition, the *EIF Private Debt Survey* has also been launched in 2021. All surveys are conducted on an **anonymous basis**.
- The already large outreach of the EIF surveys, which are **coordinated by EIF's Research Market Analysis** (RMA), and the high relevance of the questionnaire topics for both market participants and policy makers have further increased through a cooperation with Invest Europe, in particular for the *EIF VC Survey*, from 2021 onwards.

The EIF surveys provide a unique source of information and insight

- The ***EIF Private Equity Mid-Market Survey*** *(EIF PE MM Survey)*, the *EIF VC Survey*, and the *EIF Business Angels Survey* provide the opportunity to retrieve **unique market insight**. To the best of our knowledge, the combined *EIF PE MM Survey* and *EIF VC Survey* currently represent the **largest regular survey exercise among GPs in Europe**.
- The 2022 wave of the *EIF PE MM Survey* and the *EIF VC Survey* focused on the **impact of the Russian invasion in Ukraine and the geopolitical and macroeconomic implications on the European PE mid-market and VC market sentiment**. This enabled us to look at the **current situation**, **developments in the recent past**, and **expectations for the future**. We also summarised and compared the findings over time across crises. Several additional survey-based publications are under preparation as well.
- The EIF survey results are published in the **EIF Working Paper series**: www.eif.org/research.

EIF PE MM Survey results: Key highlights (1/2)

The current crises are reflected in the PE mid-market fund managers' market sentiment

- The PE MM fund managers' perception of the **current *fundraising environment* has dropped to a record-low** in the time-series of the survey results, with the vast majority of respondents expecting it to further worsen over the next year. In addition, **fewer PE MM fund managers perceive *finding co-investors* as (very) easy**. Fund managers' expectations with regard to the development of the **future *state of their business* deteriorated strongly**.
- The PE MM fund managers still see an **increase in incoming *investment proposals* and in the number of *new investments*, albeit at a slower pace** than in 2021. The share of fund managers that did not invest declined since 2020. At the same time, **investment expectations** for the 12 months following the survey **deteriorated substantially**.
- Most respondents reported that ***competition among investors*** for potential investee companies has remained **unchanged**, and this is expected to continue. ***Transaction prices* and *valuations* grew less strongly** than before, and a **decrease is expected** for the near future.
- ***Portfolio companies' development* was mostly as expected** or even better. Respondents expect a positive ***NAV* evolution** in 2022, but the **optimism is lower** than in 2021. ***Insolvencies*** have remained **subdued**. At the same time, the previously highly **optimistic portfolio development expectations have turned** and are rather balanced now. **Portfolio companies' *access to external finance* has become worse** in 2022 and is expected to further deteriorate.

Uncertainty, a difficult market environment and weak exit opportunities are key challenges

- In 2022, the majority of PE mid-market portfolio companies ***exited* via trade sales to strategic buyers**, of which more than one quarter was with the acquiring party headquartered outside the EU.
- After a recovery in 2021, the ***exit environment* has substantially deteriorated**, and expectations for the coming months are as pessimistic as at the beginning of the COVID crisis in March 2020. The main current challenges with regard to the exit environment are **general difficulties in finding potential buyers**, but **insufficient liquidity in the IPO market** and uncertainty in the current difficult market environment also play a role.
- **Costs of production and labour tops the list of *PE mid-market portfolio companies' main challenges*** in 2022, followed by **geopolitical uncertainty and related consequences**, **supply chain disruptions**, and **recruiting high-quality professionals**.
- **Geopolitical uncertainty and related consequences, including the difficult macroeconomic environment, is currently the most important *challenge in the PE MM business*. Fundraising** has remained a key challenge throughout the years, and **market volatility** gained importance.
- **Germany, France, and Italy were stated as the *most promising countries* for PE MM investments**. **Healthcare, Energy, and Environment** are perceived as the ***most promising sectors/industries*.** Despite such opportunities, fund managers' confidence in the ***long-term growth prospects*** of the PE MM industry **declined** in 2022.

EIF PE MM Survey results: Key highlights (2/2)

The geopolitical situation and, in particular, the macro-economic environment have substantially affected many aspects of the PE mid-market

Investment selection criteria and strategy

- PE MM fund managers changed the relative importance of their ***investment selection criteria*** as a response to the current geopolitical and macroeconomic situation.
- Although the **management team** is still the **most important** investment selection criterion, **other criteria have gained relevance during the crisis**, e.g., **valuation and deal terms**, the **industry** and **cash-generating capacity** of investee companies, as well as **ESG considerations**.
- PE MM fund managers also changed their ***investment strategy*** to some extent, in particular with regard to the **preferred sector/industry** and the **required experience of the entrepreneurs/managers**.

Portfolio companies

- **Rising energy costs and potential energy shortages** are currently overall the most ***survival-threatening problems*** for PE MM portfolio companies.
- Going deeper into ***financing-related problems***, **rising inflation levels**, **rising interest rates**, and **reduced exit opportunities** seem to be the most important issues.
- Among the ***market-related problems***, demand shifts of consumers as well as customer acquisition and retention appear to be the most pressing issues.
- As for ***operational problems***, rising costs (of energy, labour, and other production factors), supply chain disruptions, shortage of skilled labour, and potential energy shortages are particularly worrying for PE mid-market portfolio companies.

PE mid-market funds

- PE MM fund managers report ***important fundraising problems***, which can even be survival-threatening. These are mostly related to greater **risk aversion of LPs**, LPs **leaving the market**, and **shift of geographical focus** of LPs.
- In particular banks, insurances, high-net-worth-individuals, pension funds, but also corporate investors and family offices seem to have a ***lower willingness to invest in PE mid-market funds***. By contrast, the willingness of government funds to invest in PE MM has not changed according to a majority of respondents.
- PE MM fund managers also report ***important operational problems***. These are mostly related to **regulation and bureaucracy** in fund management, reduced **exit opportunities**, operational **performance** of portfolio companies, and decreasing **valuations**.

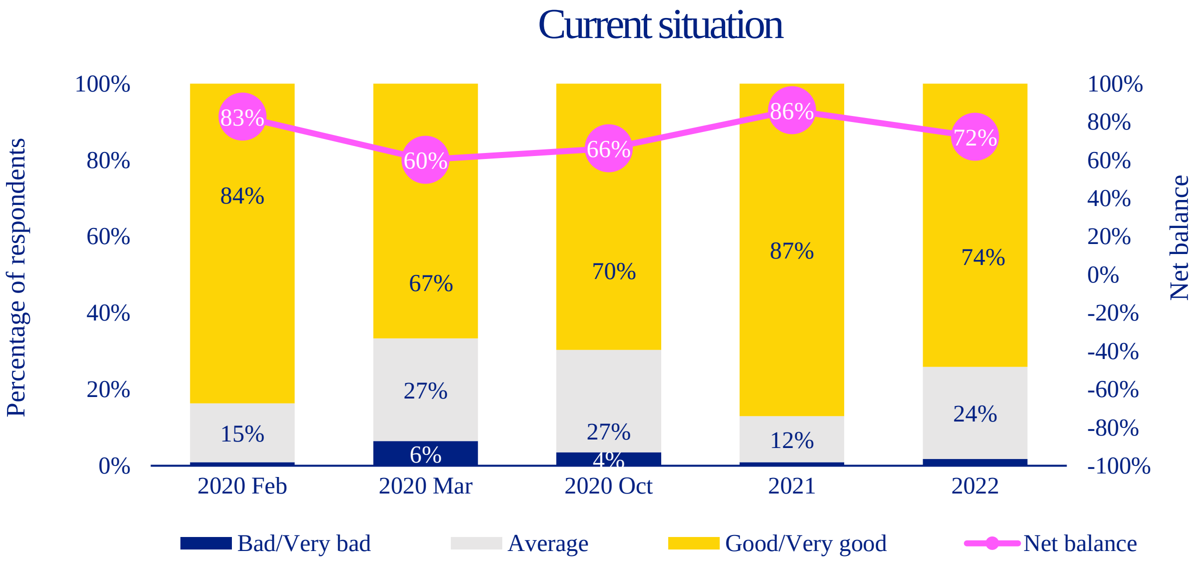
EIF PE MM Survey

2 | *Market sentiment*

EIF Research & Market Analysis

Survey wave 2022

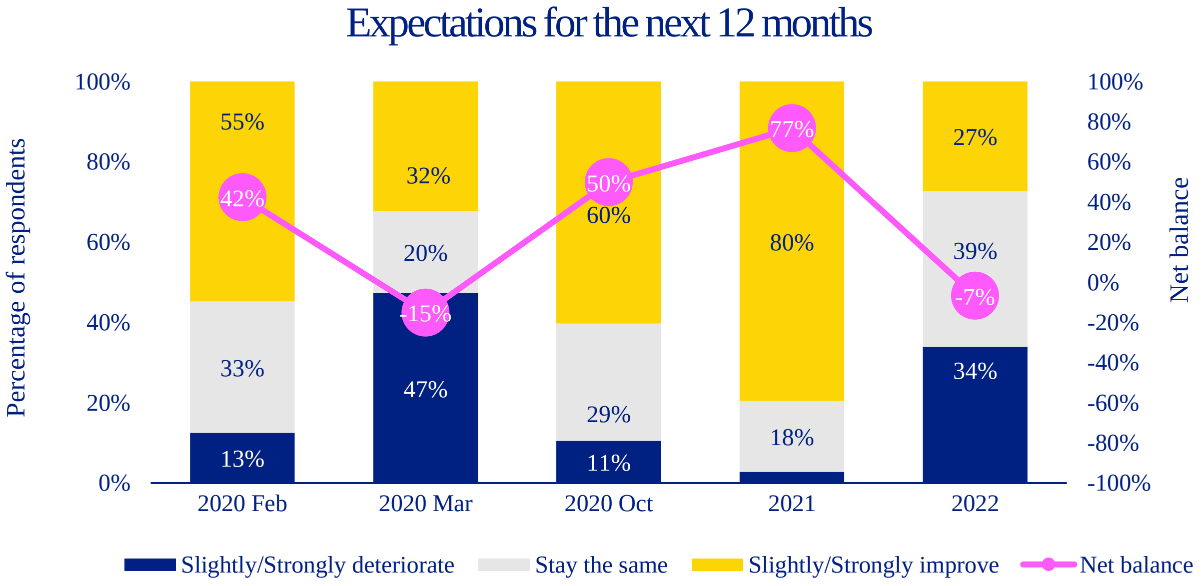
State of business



The current crises are reflected in the PE MM fund managers' perception of their state of business.

- PE MM fund managers' perception of their state of business **decreased in 2022**, but it is still more positive than during the COVID-19 crisis in 2020.
- The "net balance" **decreased** by 14 percentage points from 2021 to 2022. (See the Annex for an explanation of the term "net balance" here.)

Q: "*How would you assess the current state of your business?*"

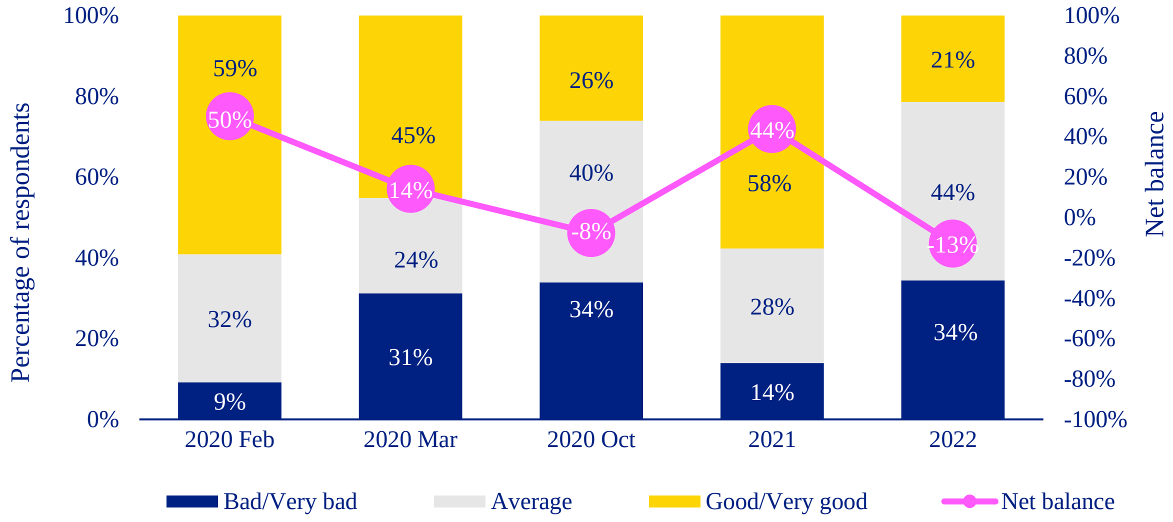


- **Expectations for the next 12 months decreased strongly. In net terms, expectations turned into negative territory.**
- Despite the strong deterioration, the **net expectations are still slightly higher than at the beginning of the pandemic** in March 2020.

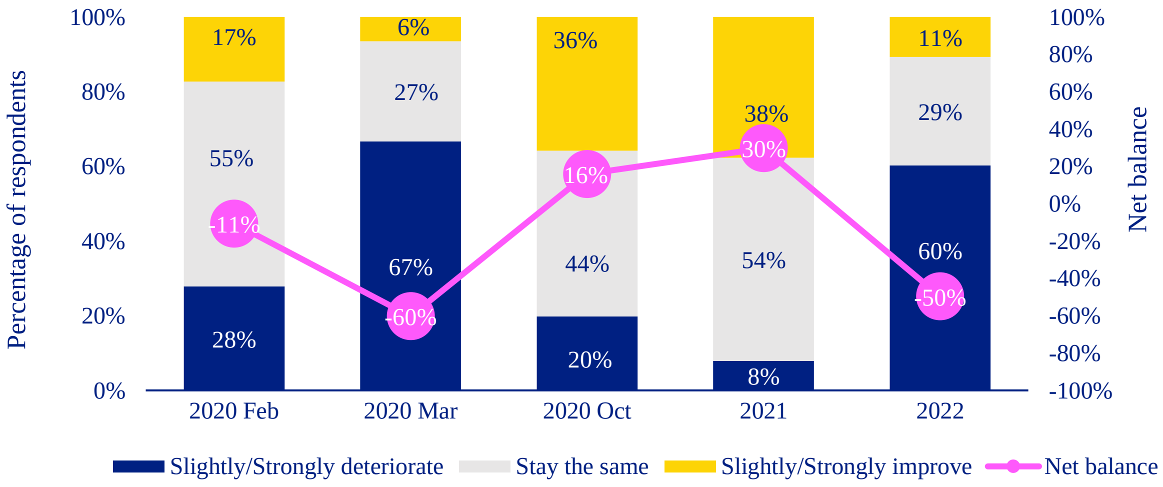
Q: "*Over the next 12 months, how do you expect the state of your business to develop?*"

Fundraising Environment

Current situation



Expectations for the next 12 months



The perception of the current fundraising environment has dropped to a record-low; expectations also slumped.

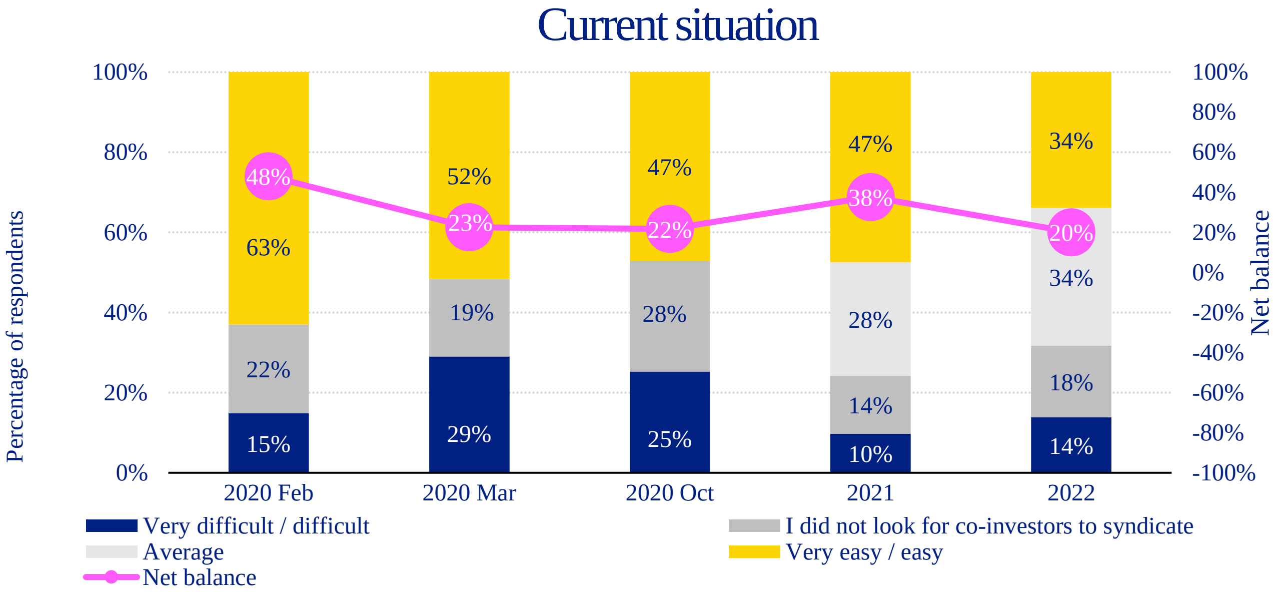
- The current fundraising environment has **deteriorated** even **stronger than in October 2020**, the previous all-time low.
- The share of respondents rating the current fundraising environment as (very) bad reached the same level as in October 2020.
- Respondents assessing the fundraising as (very) good reached an all-time low in the time series of these surveys.

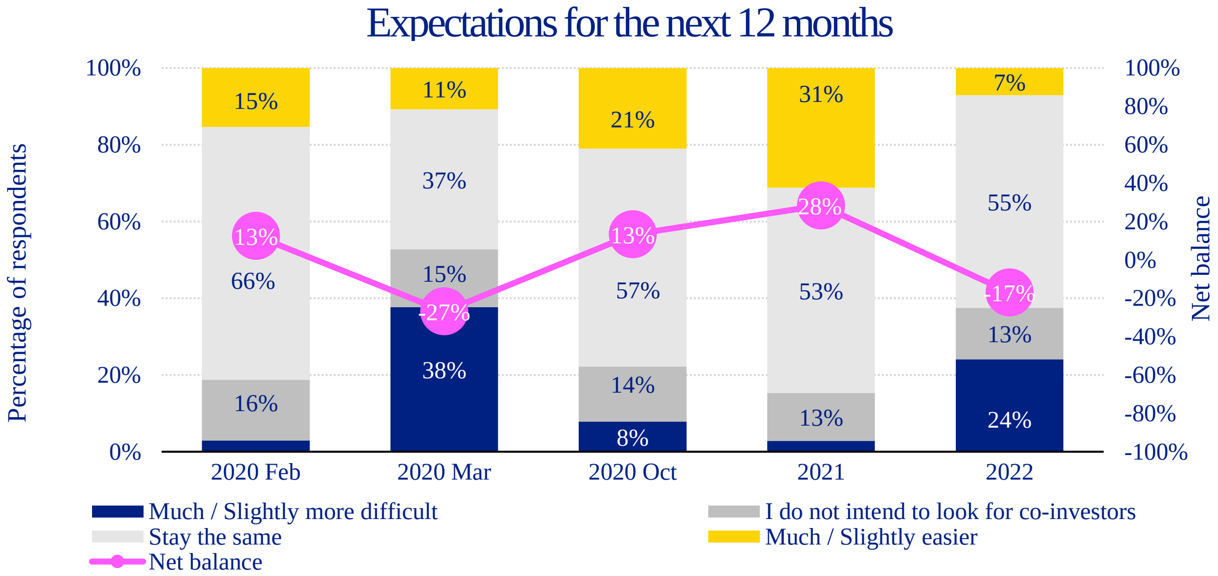
Q: *"How would you rate the current fundraising environment for PE mid-market funds?"*

- Respondents' **expectations** for the future fundraising environment **turned very pessimistic** in 2022.
- The **net-balance decreased** from an all-time high of 30% to the **second-lowest value ever** (-50%).

Q: *"Over the next 12 months, how do you expect the fundraising environment for PE mid-market funds to develop?"*

Easiness in finding co-investors





Less respondents perceive finding co-investors as (very) easy; most GPs expect no change over the coming months.

- **In 2022, the share of respondents who perceived finding co-investors as easy dropped considerably.**
- Despite a decrease, the **net balance is still positive**.

Q: *"How easy/difficult is it currently to find co-investors to syndicate?"*

Note: The "Average" response option was only provided since the 2021 Survey wave.

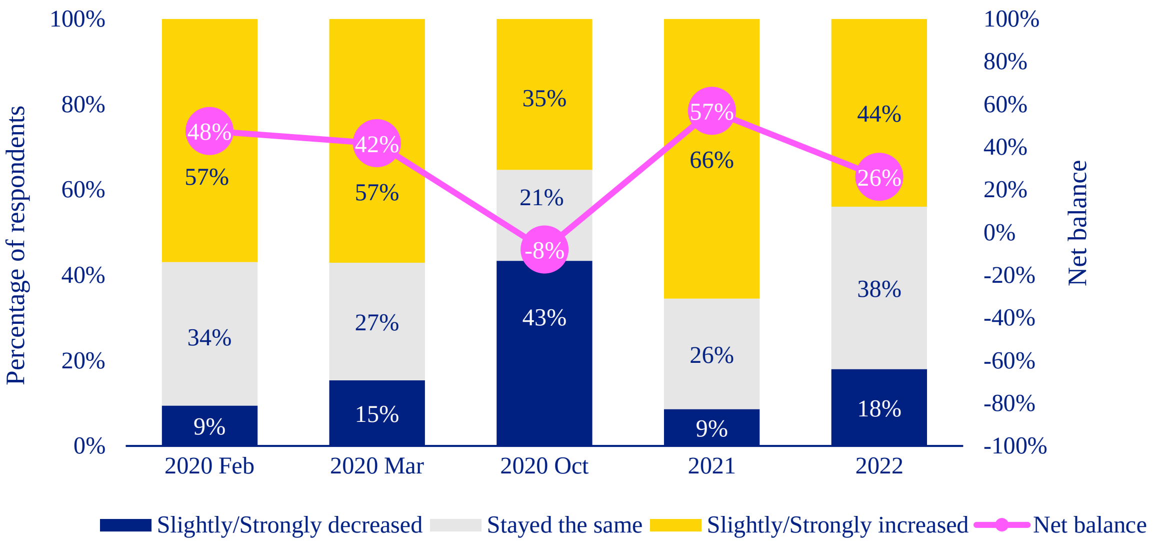
- After a recovery in 2021, **PE MM fund managers' perception regarding the easiness in finding co-investors in the future deteriorated considerably** in 2022. **The net balance reached a negative value** (-17%), which is, however, still slightly higher than at the beginning of the COVID-19 crisis in March 2020.
- While 24% of the respondents expect finding co-investors to become more difficult over the next 12 months, **a majority of 55% expect the situation to stay the same**.

Q: *"Over the next 12 months, how do you expect finding co-investors to become?"*

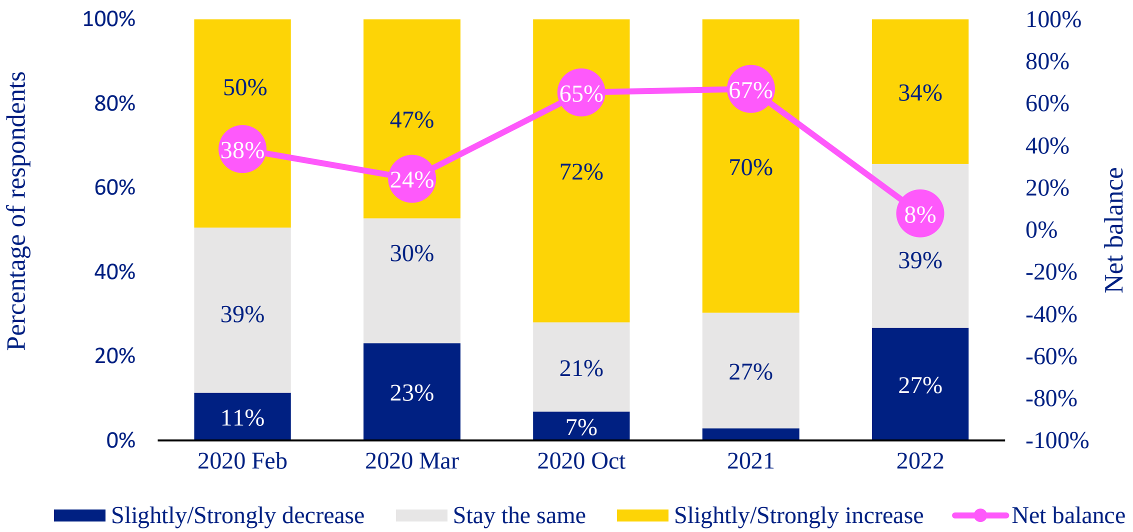
EIF PE MM Survey 2022: Market sentiment and impact of the current geopolitical & macroeconomic environment, EIF Working Paper 2022/85, EIF's Research & Market Analysis, available at www.eif.org/research

Number of investment proposals received

Current situation



Expectations for the next 12 months



Investors still see an increase in investment proposals, but less than in 2021; expectations deteriorated significantly.

- **The share of respondents stating an increase in the number of investment proposals decreased**. At the same time, the share of respondents stating a decrease in investment proposals has almost doubled compared to 2021.
- The net balance is still positive and considerably higher than in October 2020, when the time series reached its COVID crisis trough.

Q: "Over the last 12 months, how has the number of PE mid-market investment proposals to your firm developed?"

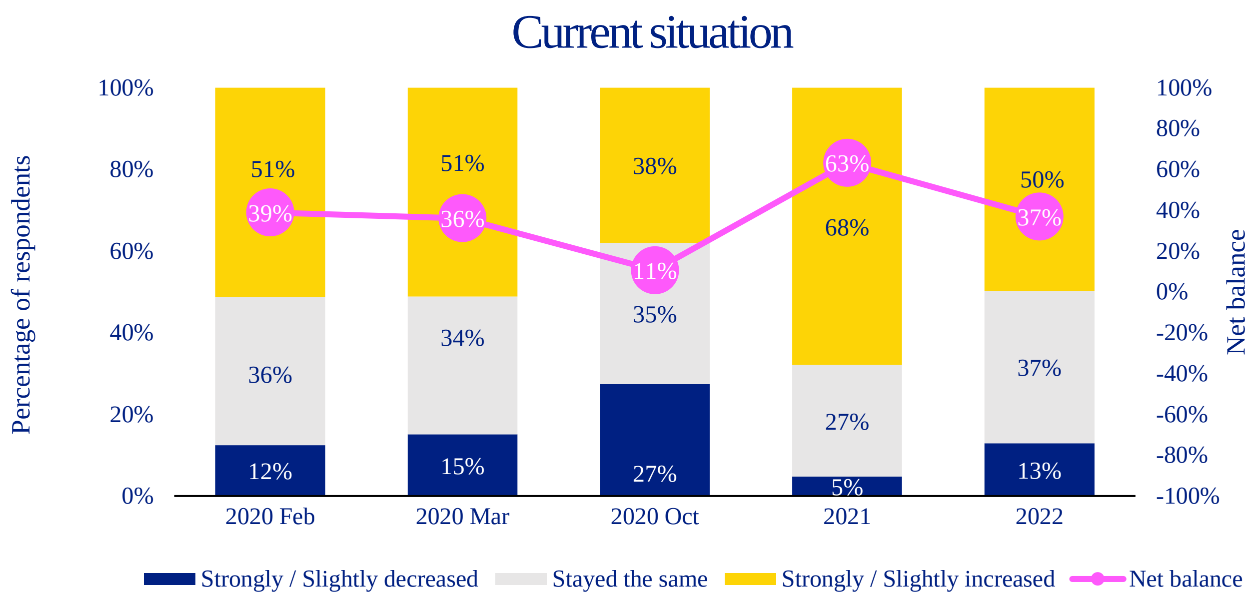
Note: Results in the diagram exclude the "Not applicable" response option.

- The **share of investors expecting an increase** in investment proposals **halved in 2022** compared to the share in the previous survey wave. In parallel, with more than a quarter of investors expecting a decrease, **pessimistic views on expected investment proposals reached an all-time high**.
- **In net balance terms, expectations for the number of incoming investment proposals reached a record-low** in the time series of these surveys. At the same time, the net balance is still at a positive level.

Q: "Over the next 12 months, how do you expect the number of PE mid-market investment proposals to your firm to develop?"

Note: Results in the diagram exclude the "Not applicable" response option.

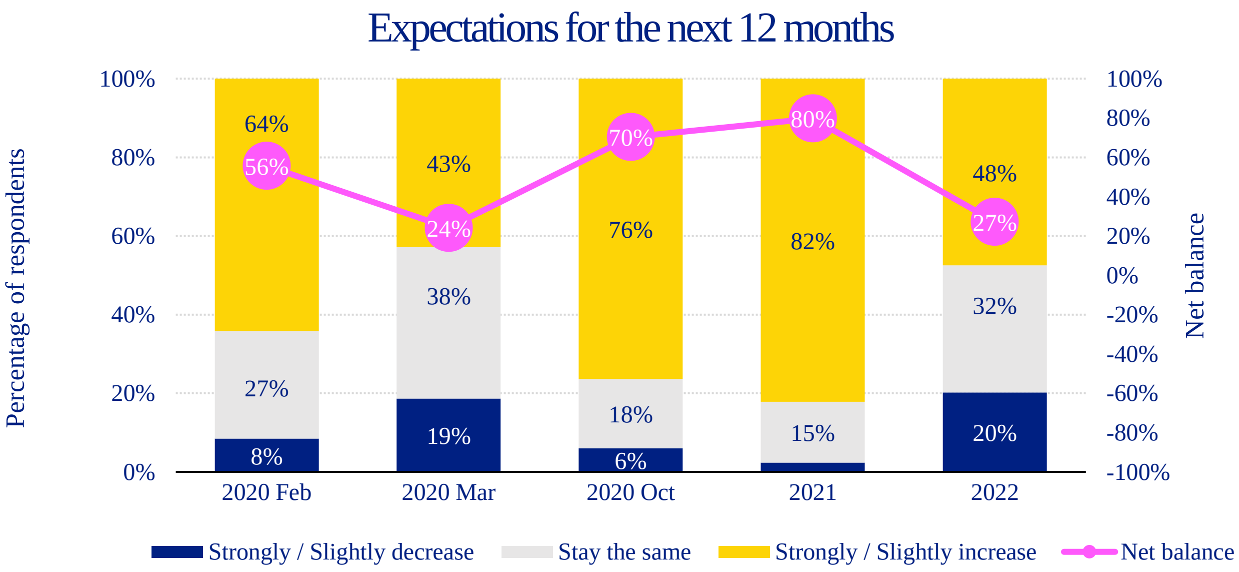
Number of new investments



On average, the number of new investments increased in 2022; expectations dropped substantially.

- **Respondents reported, on average, growing investments in 2022.**
- Despite a **strong drop in the net balance**, the results for the current situation are better than at the all-time low that was recorded during the COVID-19 crisis in 2020 and rather in line with the pre-COVID results.

Q: *"Over the last 12 months, how has the number of your new PE mid-market investments developed?"*

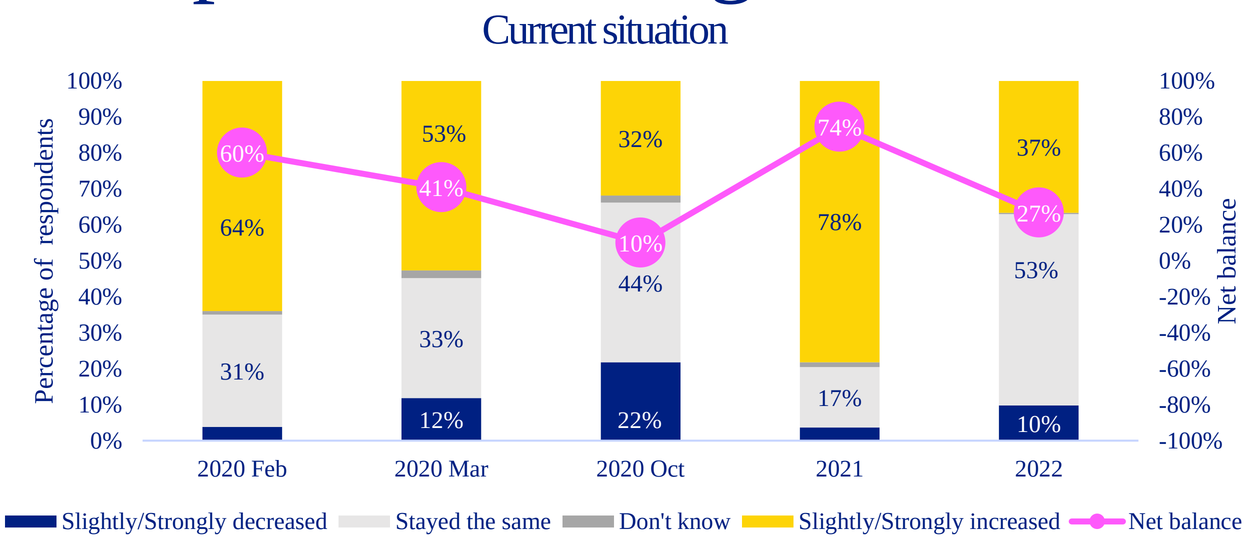


- **The expected number of new investments is still expected to increase, on average**, as reflected by a positive value of the net balance.
- At the same time, the net balance decreased sharply, indicating that **respondents expect, on average, a slowdown of the investment growth**.
- The net expectations are close to the level reached at their COVID-crisis low.

Q: *"Over the next 12 months, how do you expect the number of your new PE mid-market investments to develop?"*

EIF PE MM Survey 2022: Market sentiment and impact of the current geopolitical & macroeconomic environment, EIF Working Paper 2022/85, EIF's Research & Market Analysis, available at www.eif.org/research

Competition among investors for potential investee companies

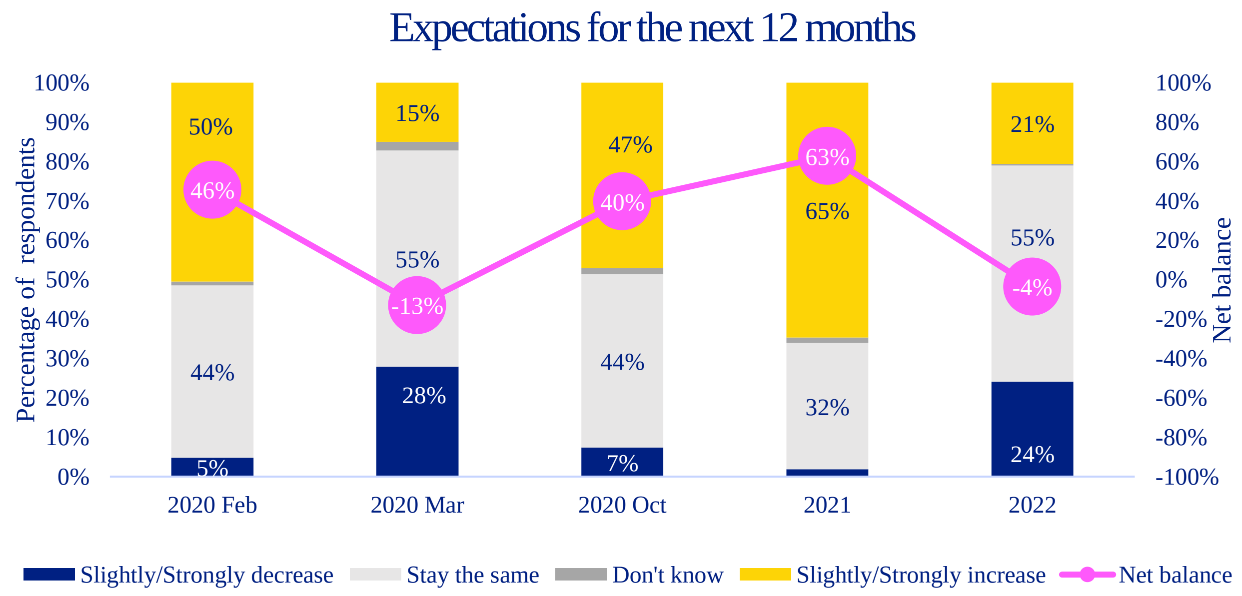


Most respondents reported that competition among investors has remained unchanged, and this is expected to continue.

- **Competition among investors for potential investee companies remained unchanged over the 12 months preceding the survey, according to the majority of respondents.** At the same time, despite a decline in the net balance, the latter remains positive.

Q: *"When you consider your market over the last 12 months, how have the following items developed?"*

Note: Graph shows the responses for "*Competition among investors for potential investee companies*".



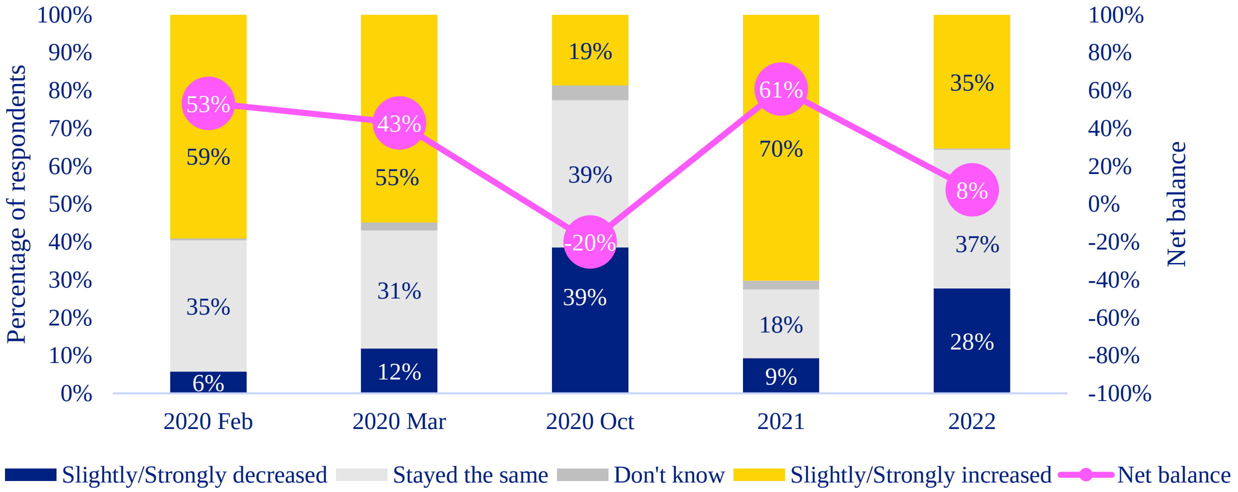
- **On average**, **competition** among investors for potential investee companies **is expected to barely change**. This is stated by a majority of respondents and also reflected in a net balance level close to zero.
- The decline in the net balance, compared to 2021, reflects that respondents do not expect, on average, a further increase in competitive pressure.

Q: *"When you consider your market over the next 12 months, how do you expect the following items to develop?"*

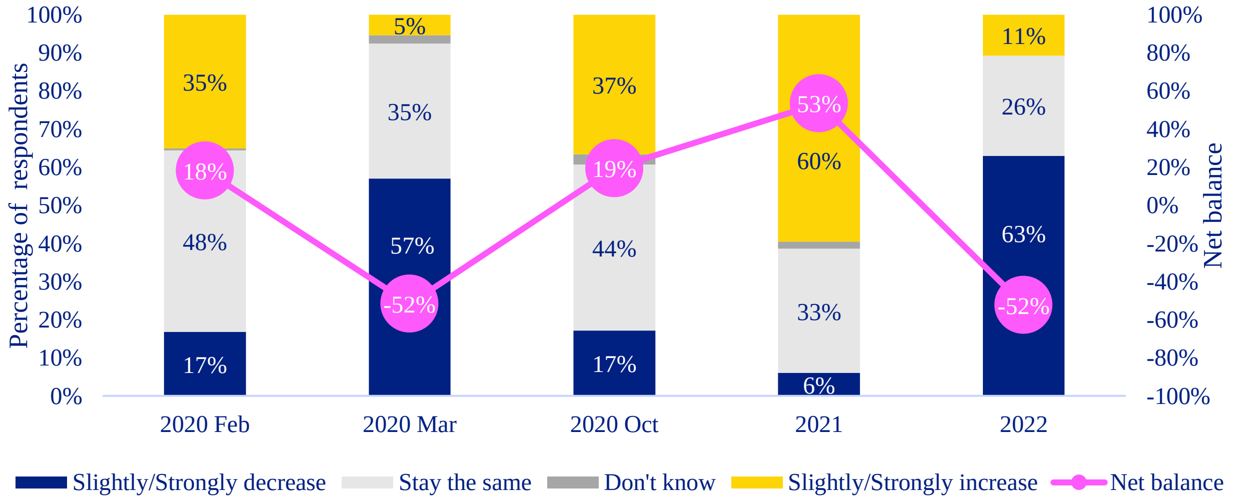
Note: Graph shows the responses for *"Competition among investors for potential investee companies"*.

Transaction prices

Current situation



Expectations for the next 12 months



Transaction prices have hardly increased, and most respondents expect a decrease for the near future.

- **The share of respondents stating an increase in transaction prices** over the 12 months preceding the survey **halved in 2022.** In parallel, the share of investors who reported a decrease in transaction prices tripled.
- **The net balance declined strongly, but is still at a positive level.**

Q: *"When you consider your market over the last 12 months, how have the following items developed?"*

Note: Graph shows the responses for "*Transaction prices*".

- **A record share of respondents expect transaction prices to decrease** over the 12 months following the survey.
- A similar signal for the expected transaction price dynamics is sent by the value of the net balance, which has dropped at the level observed at the beginning of the pandemic in March 2020.

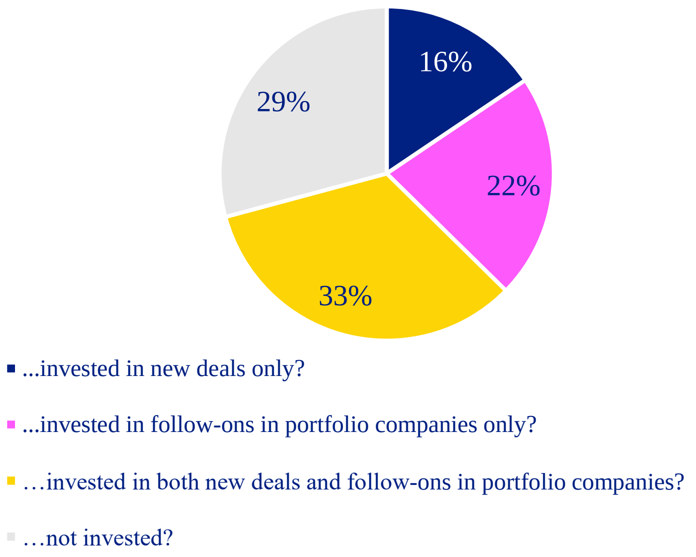
Q: *"When you consider your market over the next 12 months, how do you expect the following items to develop?"*

Note: Graph shows the responses for *"Transaction prices"*.

Investment strategy

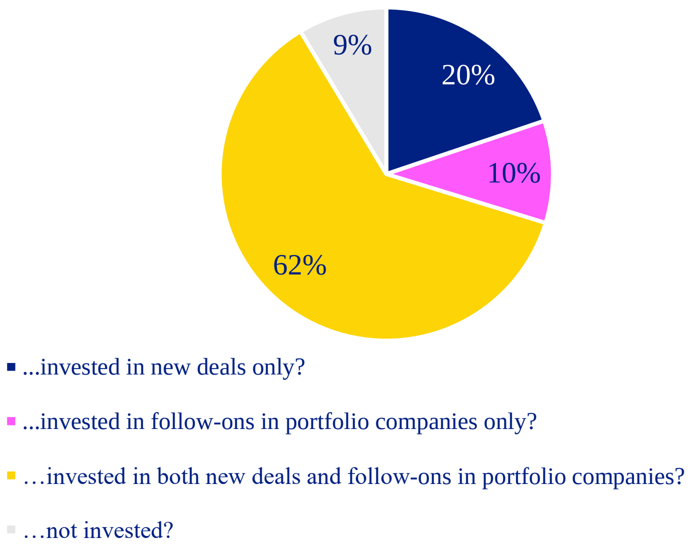
2020 Autumn

Since March, have you...



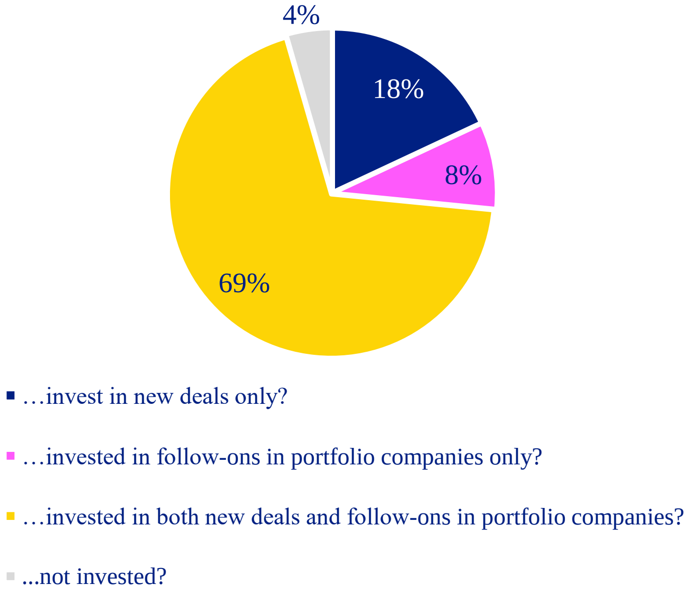
2021

Over the last 12 months, have you...



2022

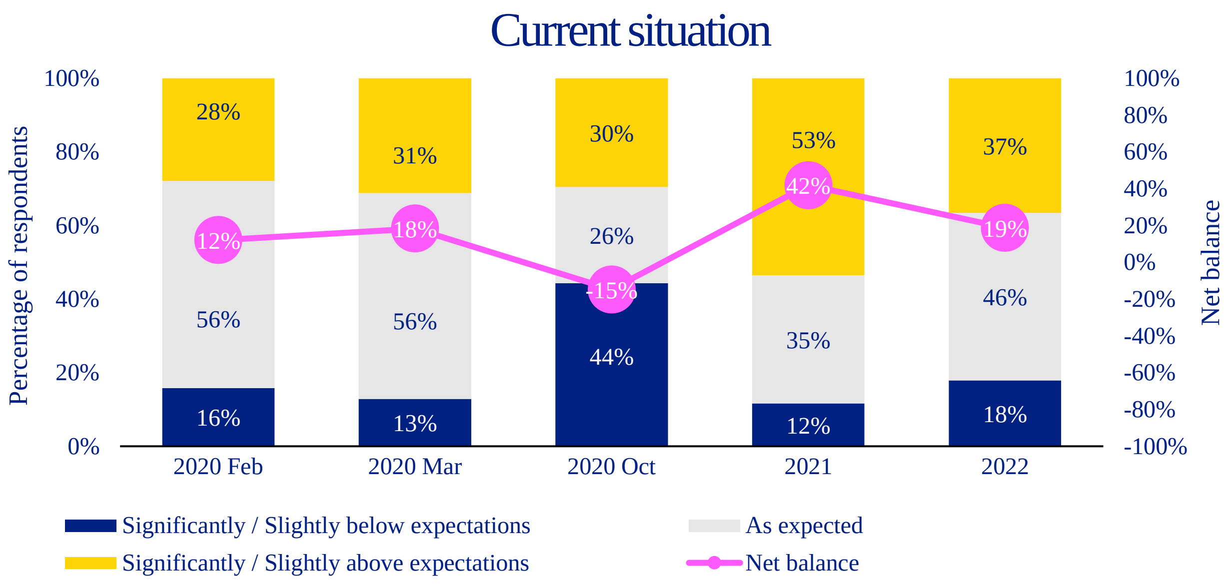
Over the last 12 months, have you…

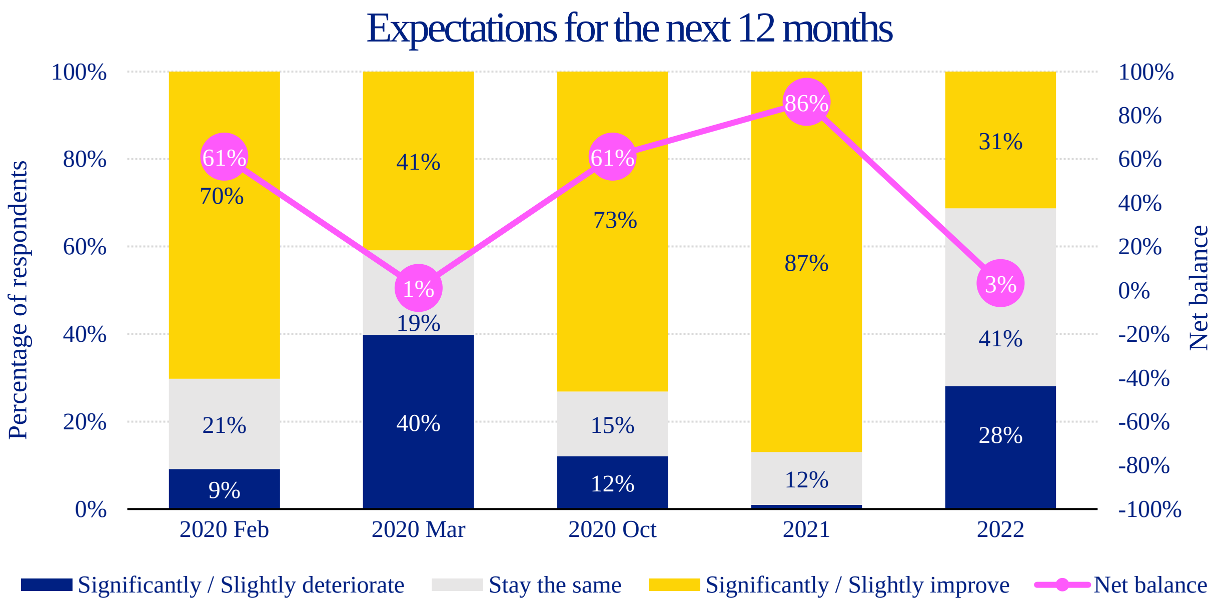


The share of fund managers that did not invest reached a record-low.

- Almost 7 in 10 fund managers invested in both new deals and follow-ons in portfolio companies over the 12 months preceding the 2022 survey.
- While the number of fund managers investing in both new deals and follow-ons increased since 2020, the number of those that have not invested decreased.

Portfolio development





Portfolio companies developed mostly as expected or better. Expectations for the future have deteriorated.

- **The share of respondents who reported portfolio companies' development to be above expectations decreased** compared to 2021.
- At the same time, almost half of the respondents reported that their portfolio companies developed as expected.
- **The net balance decreased considerably, but is still positive.**

Q: *"Over the last 12 months, how did your PE mid-market portfolio companies develop?"*

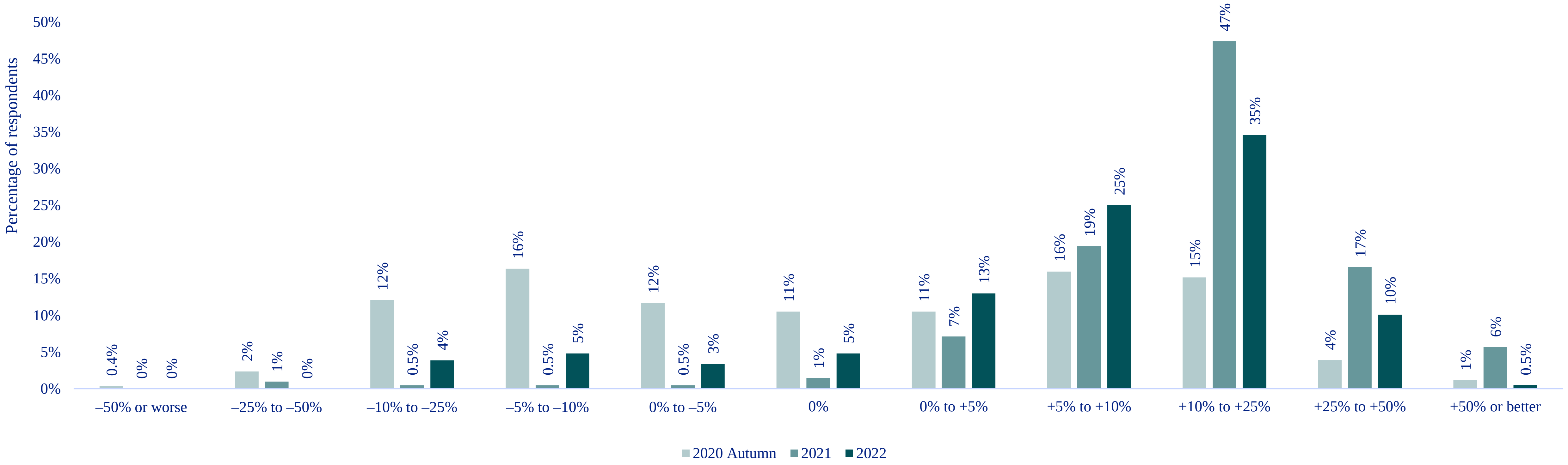
Note: The 2020 Autumn Survey wave asked about developments since March 2020, while the other waves asked about developments over the last 12 months.

- **The highly optimistic expectations from 2021 have turned** and are now rather balanced.
- **Four in ten respondents expect their overall PE mid-market portfolio development to stay unchanged.**
- The share of respondents expecting a deterioration of their PE mid-market portfolio is almost as high as the share of respondents expecting an improvement. **The net balance is only slightly positive.**

Q: *"Over the next 12 months, how do you expect your overall PE mid-market portfolio to develop?"*

NAV of fund(s) / value of portfolio

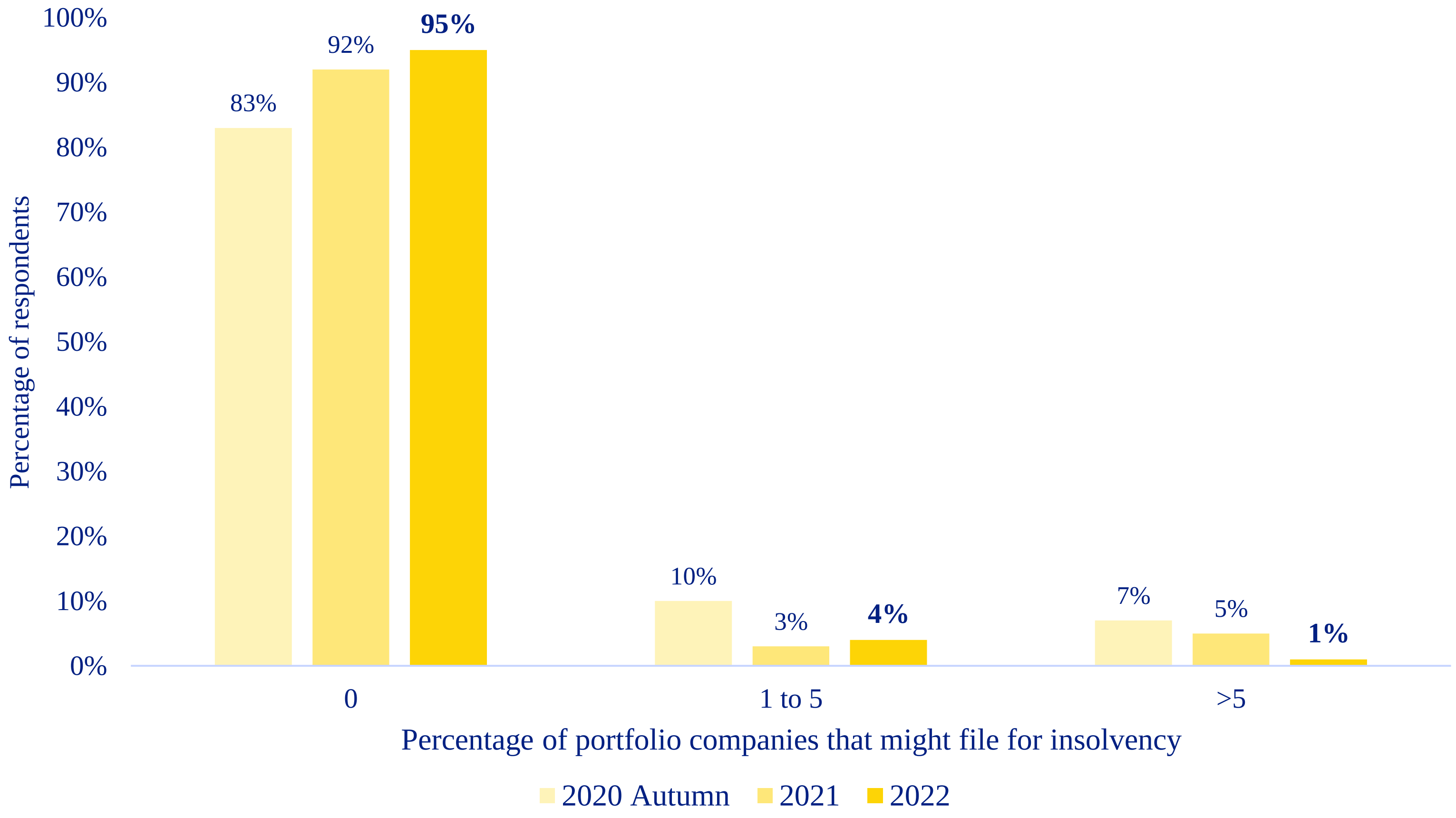
Although PE MM respondents expect a positive NAV evolution in 2022, the optimism is lower than in 2021.



Q: *"How do you expect the NAV (Net Asset Value) of your fund(s) to evolve until the end of Q4 2022 compared to the NAV as of Q4 2021? (measured as % change from Q4 2021 to expected NAV in Q4 2022)"*

- A large majority of respondents (83%) expect a positive NAV growth in 2022, but this share is lower than in 2021 (96%).
- At the same time, the share of respondents that expect the NAV of their fund(s) to decrease is higher than in 2021.

Insolvencies



The overwhelming majority of PE MM fund managers do not expect any insolvency in their portfolio.

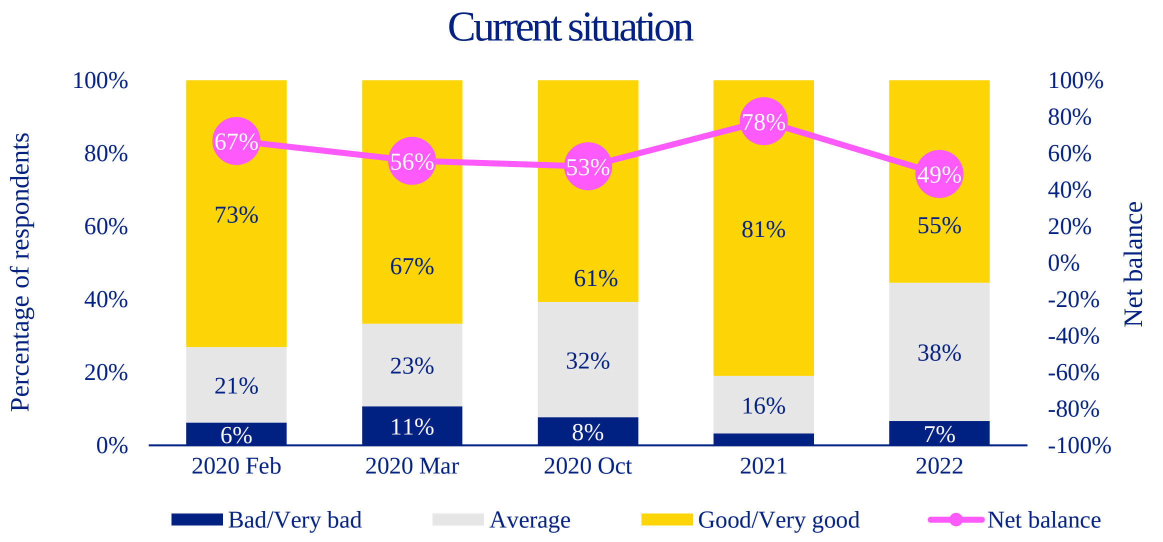
- 95% of PE mid-market fund managers do not expect any insolvencies in 2022.
- At the same time, 1% of the fund managers expect that more than 5% of their portfolio companies might file for insolvency.

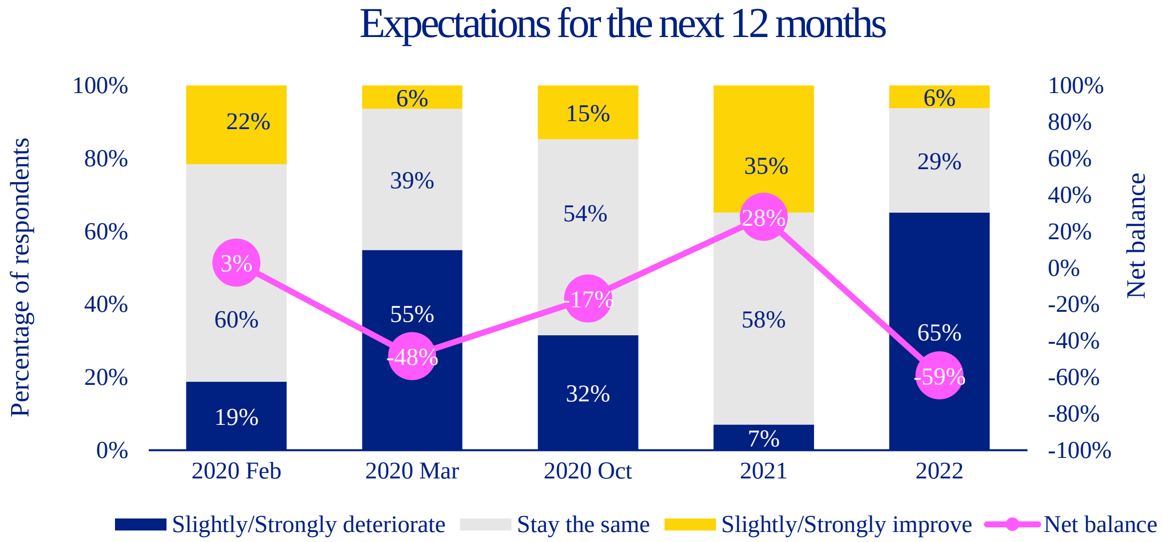
Q in 2022: *“Please indicate the expected % of your active portfolio companies that might file for insolvency in 2022”.*

Q in 2020 and 2021: *“Please indicate the expected % of your active portfolio companies that might file for insolvency due to the impact of COVID-19”.*

Note: Percentages calculated excluding those respondents who selected “I don't know/Prefer not to say” (15% of all 224 respondents in 2022).

Access to external finance of portfolio companies





Portfolio companies' access to external finance has become worse and is expected to further deteriorate.

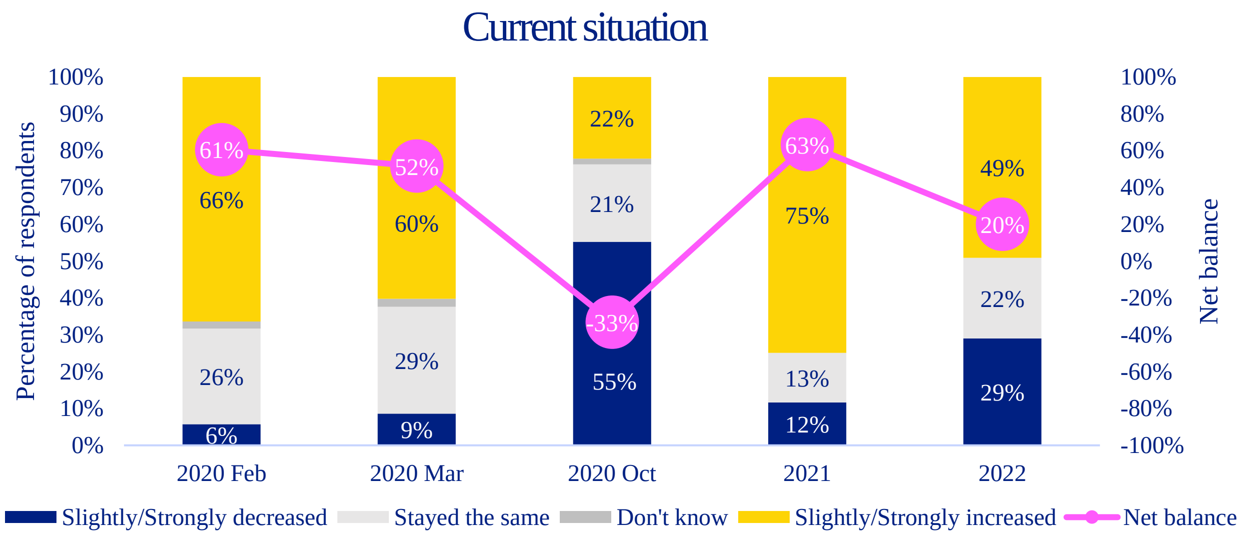
- **Over time, PE MM respondents have generally retained a positive perception** regarding access to external finance of their portfolio companies.
- Following a strong improvement in 2021, respondents' perception of their **portfolio companies' access to external finance deteriorated in 2022**.
- Despite a strong decrease, the majority of respondents still report a (very) good access to finance of their portfolio companies. The net balance decreased, but is still far above zero.

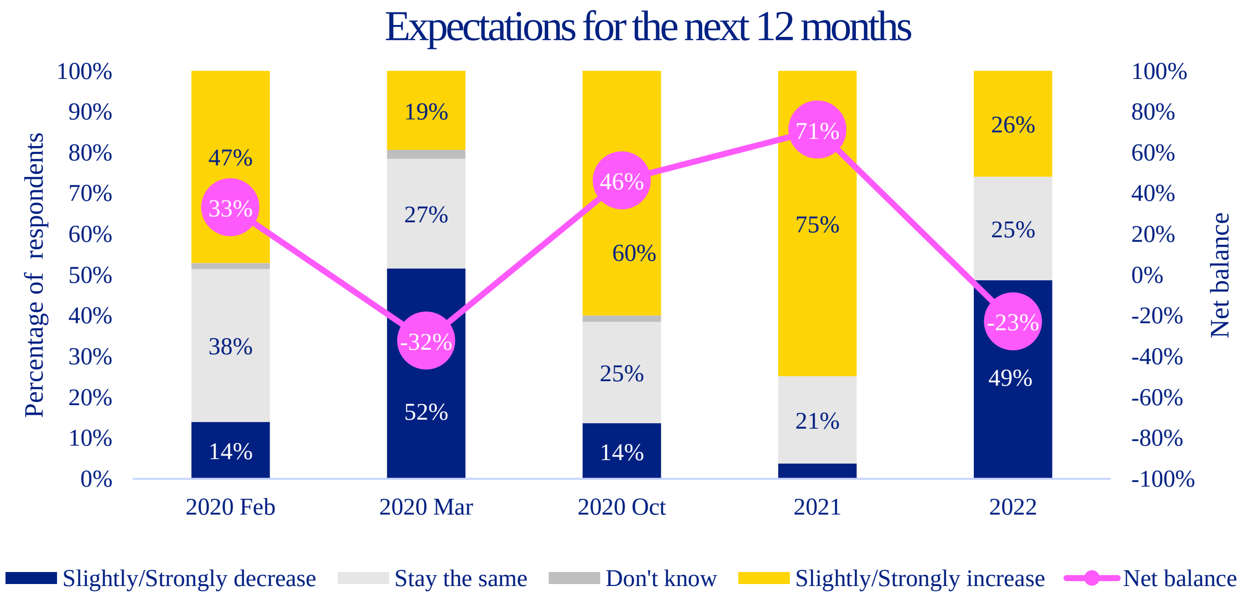
Q: *"How would you rate the access to external finance of your portfolio companies?"*

- **After a record-high in 2021, the expectations regarding future access to finance of portfolio companies declined substantially in 2022.**
- **A record-high share of almost two-thirds of respondents expect the access to external finance to deteriorate** in the 12 months following the survey. At the same time, the share of respondents expecting an improvement declined strongly. **The net balance is at a record-low.**

Q: *"Over the next 12 months, how do you expect the access to external finance of your portfolio companies to develop?"*

Valuations of portfolio companies





Portfolio company valuations are not increasing as strongly as last year, and they are expected to decrease.

- **Despite a decline in the net balance, almost half of the respondents stated that valuations increased** again over the 12 months preceding the survey. This is also reflected in a positive value of the net balance.
- At the same time, the share of respondents reporting decreasing valuations more than doubled compared to 2021.

Q: *"When you consider your market over the last 12 months, how have the following items developed?"*

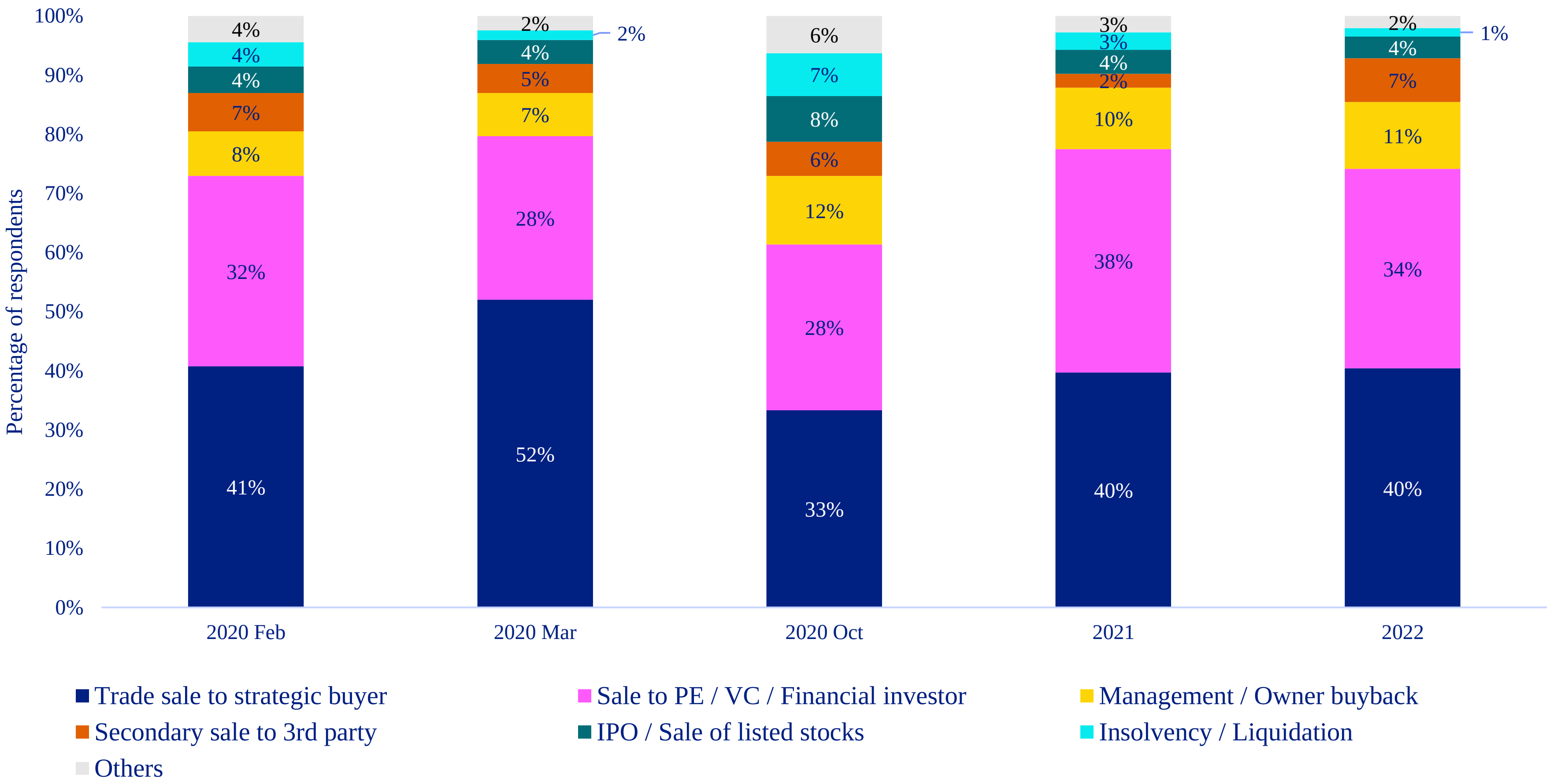
Note: Graph shows the responses for *"Current valuations of portfolio companies"*.

- **The valuations of portfolio companies are expected to decrease** in the 12 months following the survey by almost half of the respondents.
- The net balance dropped dramatically and reached negative territory, which also signals that respondents expect, on average, declining valuations.

Q: *"Over the next 12 months, how do you expect the following items to develop?"*

Note: Graph shows the responses for *"Current valuations of portfolio companies"*.

Exit routes



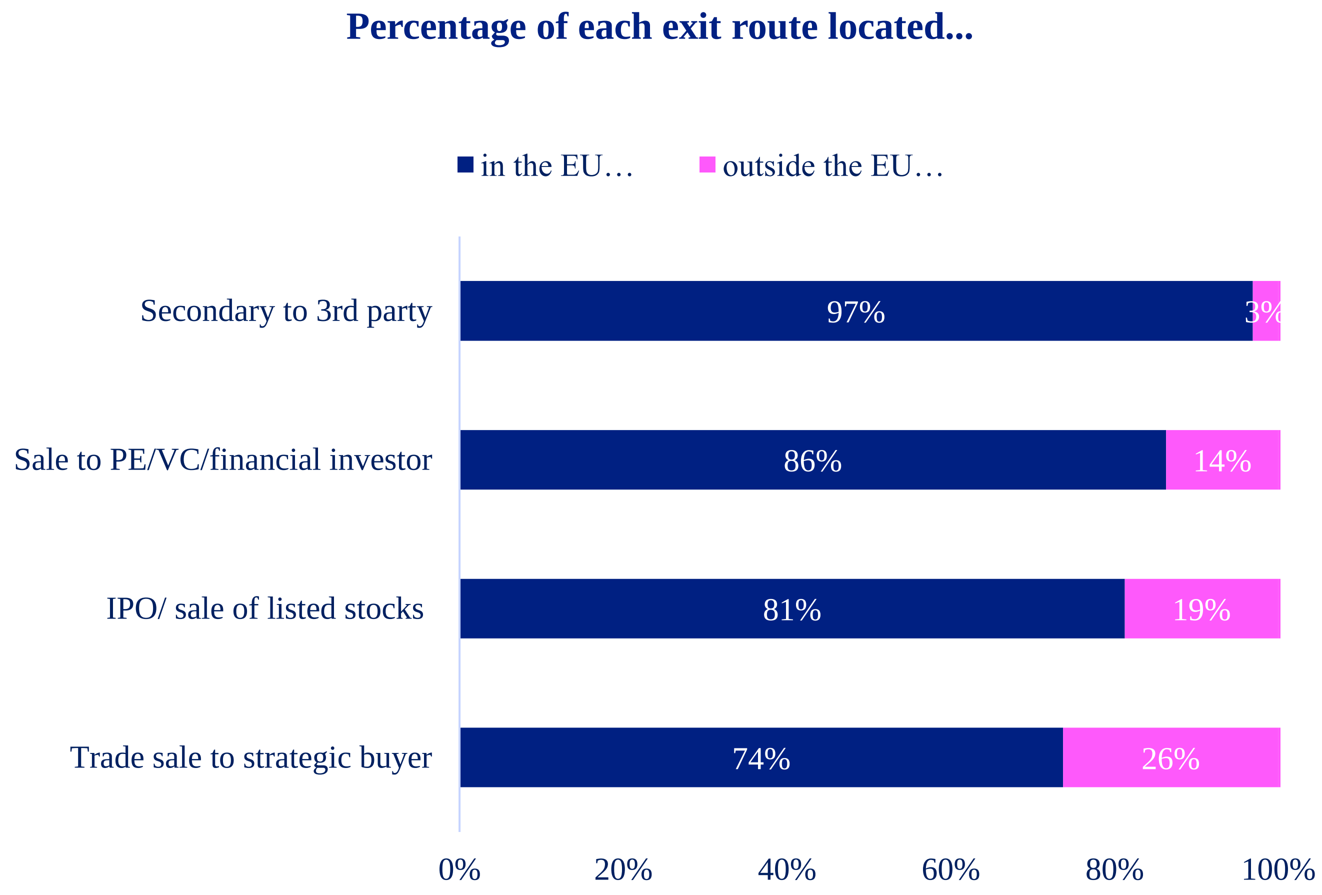
Over the past 12 months, the relative importance of trade sales as an exit route has remained stable, while sales to 3rd parties have slightly decreased.

Q: *"Over the last 12 months, how many of your portfolio companies exited via the following exit routes?"*

Note: The graph reports the resulting percentages of the respective exit routes, excluding the "no exit" option. The 2020 October wave asked about developments since March 2020.

- **Trade sales** remain the **most frequent exit route** (stable at 40% of total exits).
- In 2022, the percentage of total exits made up of **sales to financial investors** decreased slightly compared to the record-high observed a year ago. By contrast, **sales to 3rd parties** have increased again to reach their pre-COVID levels.
- The share of **insolvencies** continues its decreasing trend, while **IPOs** have remained stable.

Exit routes – within or outside the EU?



A large part of exits is inside the EU, in particular in the case of secondary sales to 3rd parties

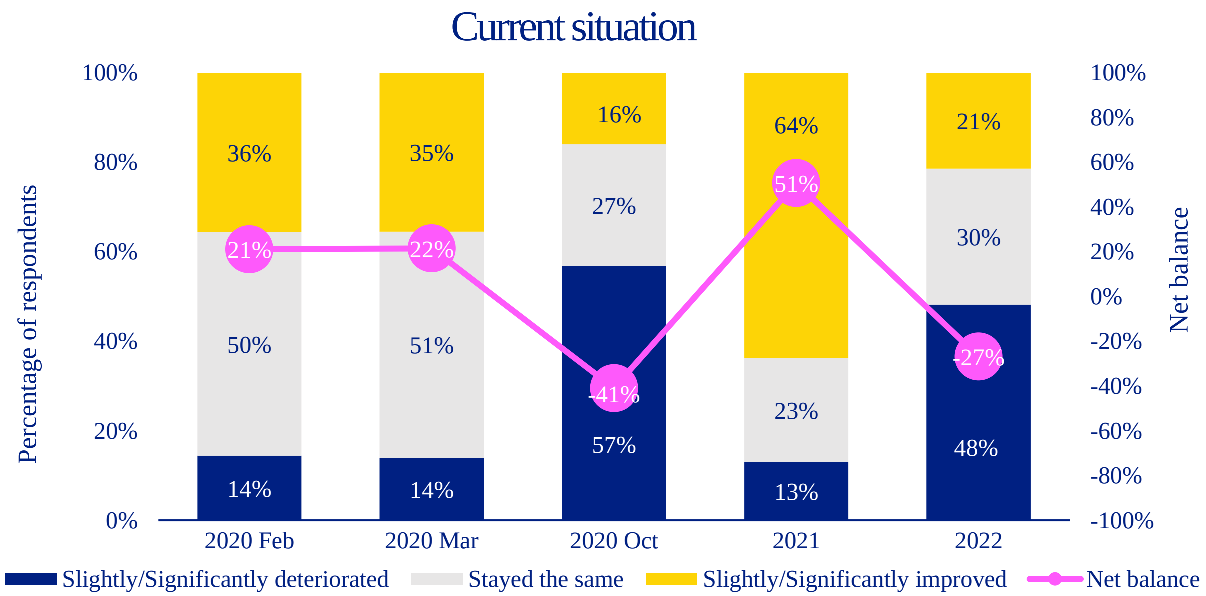
- **The majority of PE mid-market company exits take place within the EU.**
- Trade sales to strategic buyers is the only exit route in which more than one quarter of the exits occurred outside the EU (i.e. with buyers headquartered outside the EU).
- These results are in contrast to those observed for the VC market, where a larger part of the exits is outside the EU. (See EIF Working Paper 2022/82, EIF Venture Capital Survey 2022: Market sentiment and impact of the current geopolitical & macroeconomic environment.)

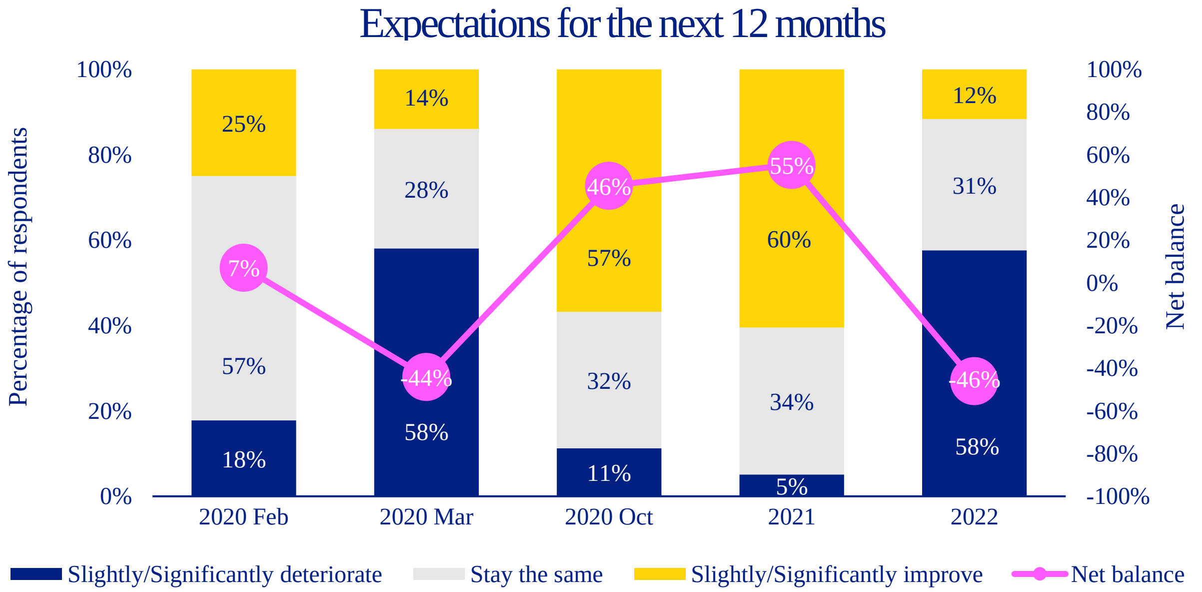
Q: *"Please tell us, if your trade sales (sales to financial investors; secondary sales) have been to strategic buyers (investors; 3rd parties) headquartered within or outside the EU"*

Q: *"Please tell us, if your IPOs / sales of listed stocks have been with primary listing within or outside the EU"*

EIF PE MM Survey 2022: Market sentiment and impact of the current geopolitical & macroeconomic environment, EIF Working Paper 2022/85, EIF's Research & Market Analysis, available at www.eif.org/research

Exit environment





The exit environment has substantially deteriorated; expectations are as pessimistic as in March 2020.

- After a strong recovery in 2021, **almost half of the respondents perceived a deterioration of the exit environment** for their PE mid-market portfolio companies in the 12 months preceding the survey.
- The net balance declined sharply and reached a negative value, albeit still higher than its low reached during the COVID-crisis in October 2020.

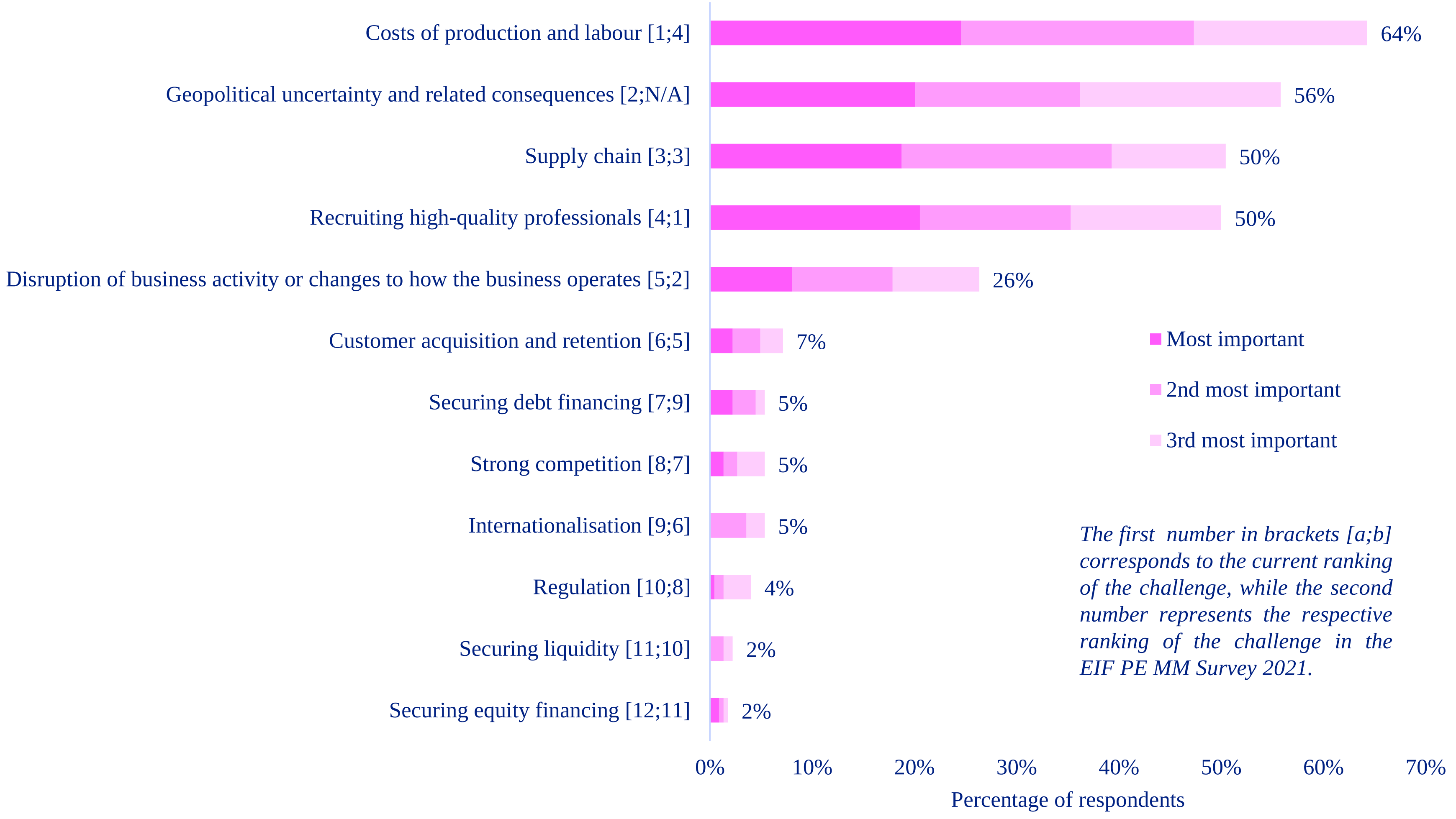
Q: *"Over the last 12 months, how has the exit environment for your PE mid-market portfolio companies developed?"*

Note: The 2020 Autumn Survey wave asked about developments since March 2020.

- **Expectations regarding future exit opportunities** for fund managers' PE mid-market portfolio companies over the 12 months following the survey **deteriorated significantly.**
- **The net balance slumped dramatically and reached a record-low level.**

Q: *"Over the next 12 months, how do you expect the exit opportunities of your PE mid-market portfolio companies to develop?"*

Biggest challenges faced by portfolio companies



The first number in brackets [a;b] corresponds to the current ranking of the challenge, while the second number represents the respective ranking of the challenge in the EIF PE MM Survey 2021.

Q: *"Please select the biggest challenges currently faced by your PE mid-market portfolio companies."* (multiple selection possible); and then *"rank them by importance."*

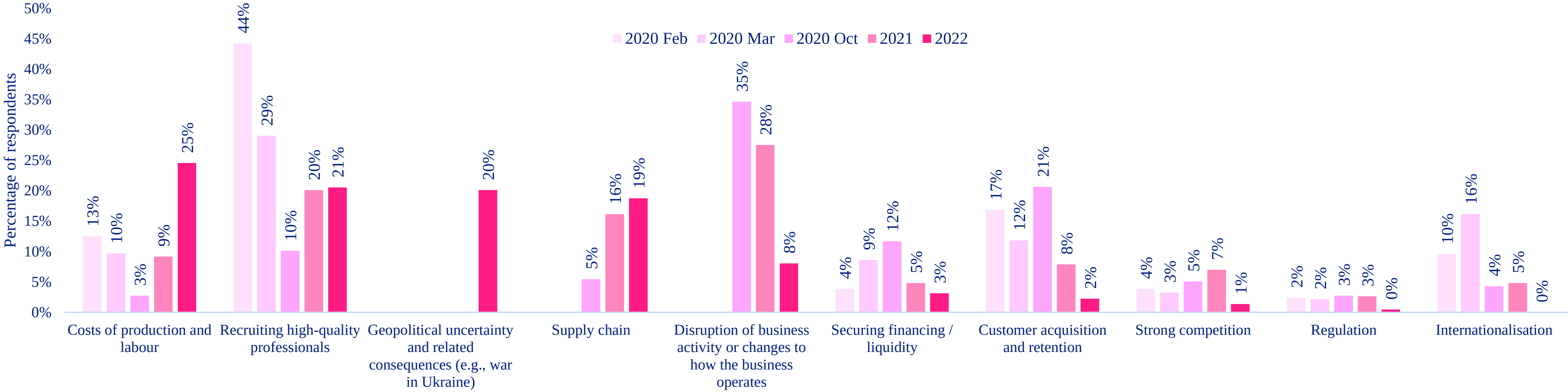
Notes: 1. The graph shows the total percentage of respondents with respect to the three most important challenges; 2. Some response options are not available for each survey wave (e.g., "Geopolitical Uncertainty" is only available for the year 2022).

Costs of production and labour tops the list of portfolio companies' most important challenges in 2022.

- In 2022, "***Costs of production and labour***" has become the new key challenge for PE mid-market portfolio companies.
- ***"Geopolitical uncertainty and related consequences"*** is the second most important challenge faced.
- ***"Supply chain"*** has remained a key challenge for PE mid-market portfolio companies.
- "***Recruiting high-quality professionals***" is still seen as a very important challenge for portfolio firms, albeit dropping from first place to fourth.
- ***"Securing debt financing"*** gained in importance as a challenge for PE mid-market portfolio companies.
- Challenges previously considered important showed a **decrease in importance** this year, i.e., "***Disruption of business activity due to COVID-19***", ***"Internationalisation"*** and ***"Regulation".***

Biggest challenges faced by portfolio companies over time

"Costs of production and labour" has climbed to the top of the list of portfolio companies' first most important challenges in 2022, followed by recruiting high-quality professionals, geopolitical uncertainty, and supply chain disruptions.

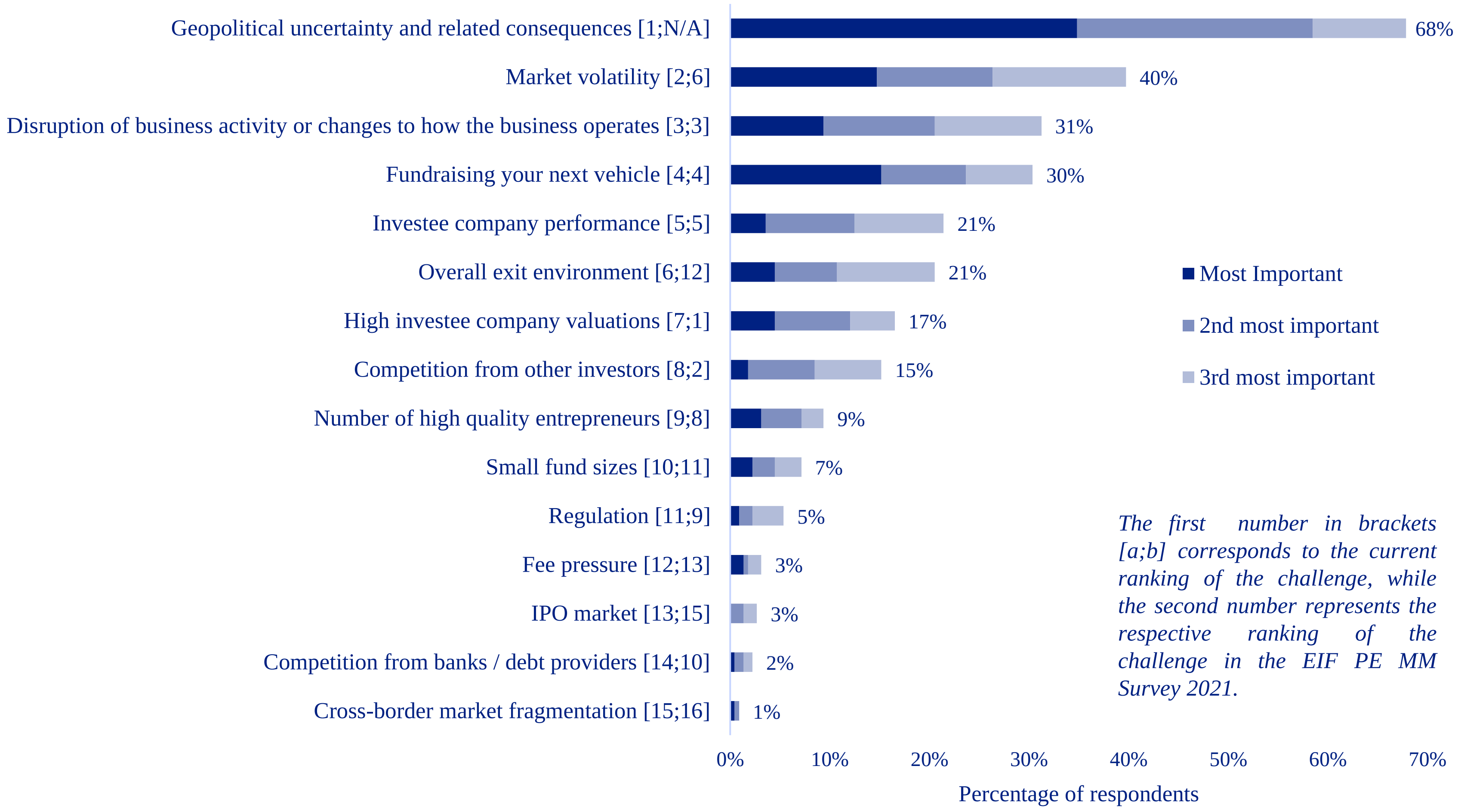


Q: *"Please select the biggest challenges currently faced by your PE mid-market portfolio companies." (multiple selection possible);* and then *"rank them by importance."*

Notes: 1. The graph shows the percentage of respondents that selected the respective challenge as the *first* most important in each survey wave; 2. The order with which the challenges are listed reflects their ranking in 2022; 3. Some response options are not available for each survey wave (e.g., "Geopolitical uncertainty" is only available for the year 2022); 4. Several sub-categories have been merged into the response option "Securing financing / liquidity".

- **"*Costs of production and labour*" tops the list of the first most important challenges faced by PE mid-market portfolio companies in 2022.** It is followed by "*Recruiting high-quality professionals*", which has always been a key challenge for portfolio companies throughout the years. In 2022, "*Geopolitical uncertainty*" was selected by a large share of respondents as the first most important challenge for portfolio companies, while "*Supply chain*" increased in importance.
- "*Disruption of business activity or changes to how the business operates*" (e.g., due to COVID-19 measures) decreased in importance in 2022, but was still selected by almost 1 in 10 respondents as the first most important challenge of their PE mid-market portfolio companies.

Biggest challenges currently seen in PE MM business



The first number in brackets [a;b] corresponds to the current ranking of the challenge, while the second number represents the respective ranking of the challenge in the EIF PE MM Survey 2021.

Q: *"Please select the biggest challenges you currently see in the PE mid-market business." (multiple selection possible);* and then *"rank them by importance."*

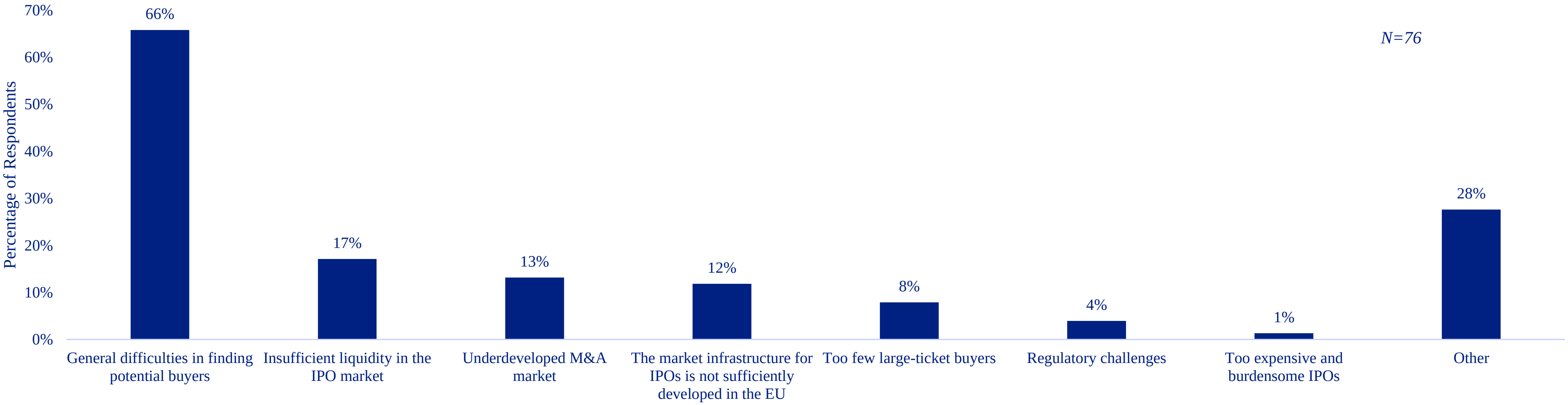
Notes: 1. The graph shows the total percentage of respondents with respect to the three most important challenges; 2. As of 2022, the "Fundraising" category has been reworded to "Fundraising your next vehicle"; 3. For 2022, the category "Political uncertainty" has been broadened to include "Geopolitical uncertainty and related consequences".

"Geopolitical uncertainty and related consequences", which includes the macroeconomic environment, has become the most important challenge currently seen in the PE mid-market business.

- PE MM fund managers' top challenge is ***"Geopolitical uncertainty and related consequences"***. The difficult macro-economic environment, which we refer to later, can easily be seen as one of these consequences. The difficult macroeconomic environment, in turn, weighs on the market, as shown by other challenges.
- "***Market volatility***" has gained importance as a challenge and ranks second in 2022. The ***"Overall exit environment"*** jumped from 12th place last year to the 6th place in 2022 among fund managers' biggest challenges.
- ***"Disruption of business activity or changes to how the business operates"*** and ***"Fundraising your next vehicle"*** have remained key challenges.
- ***"High investee company valuations"*** and ***"Competition from other investors"*** have become significantly less important as a challenge in 2022.

Challenges faced by PE MM firms in regards to the exit environment

PE MM firms consider general difficulties in finding potential buyers as the current main challenge regarding the exit environment.



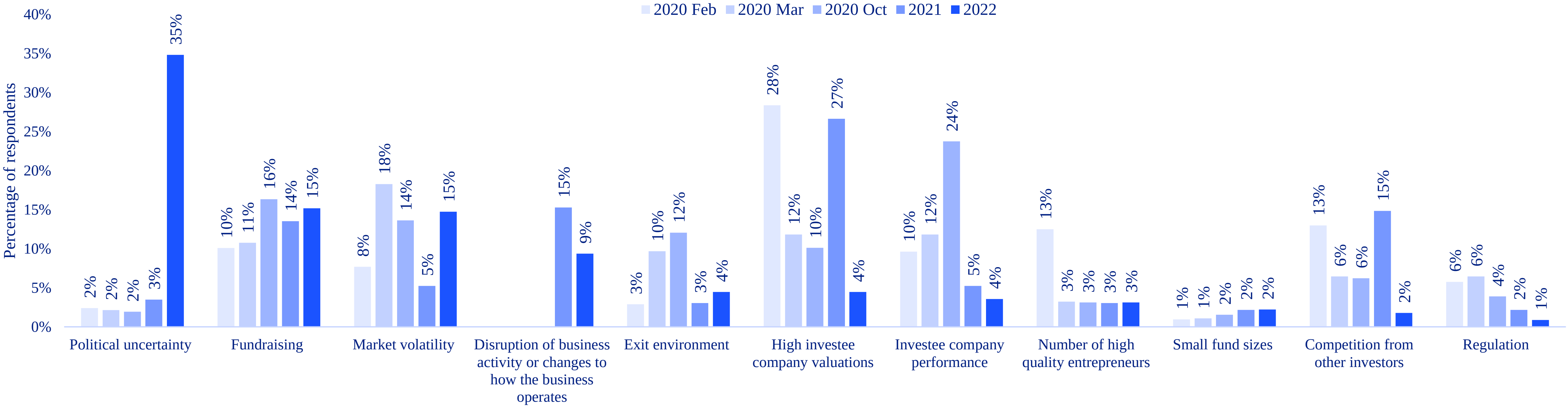
Q: *"What are the current main challenges regarding the exit environment?" (multiple selection possible).*

Note: This question was asked only to those respondents that selected the "exit environment" among the biggest challenges in PE MM business in the preceding question. As such, "N" indicates the final number of respondents to the current question.

- "**General difficulties in finding potential buyers**" is the main challenge regarding the exit environment.
- Additional challenges that were frequently mentioned by respondents are mainly "**Insufficient liquidity in the IPO market**", "**Underdeveloped M&A market**", an "**Insufficiently developed market infrastructure for IPOs in the EU"** and "**Too few large-ticket buyers**"
- Among the **"Other"** responses that were provided by PE MM fund managers in a free-text response field, **uncertainty** and the current **difficult market environment** were frequently stated.

Biggest challenges faced by PE MM firms over time

A spike in "Political uncertainty" in 2022 shows the importance that the war on Ukraine has on PE MM firms. In addition, "Fundraising" has remained, on average, a key challenge faced by PE MM firms throughout the years.

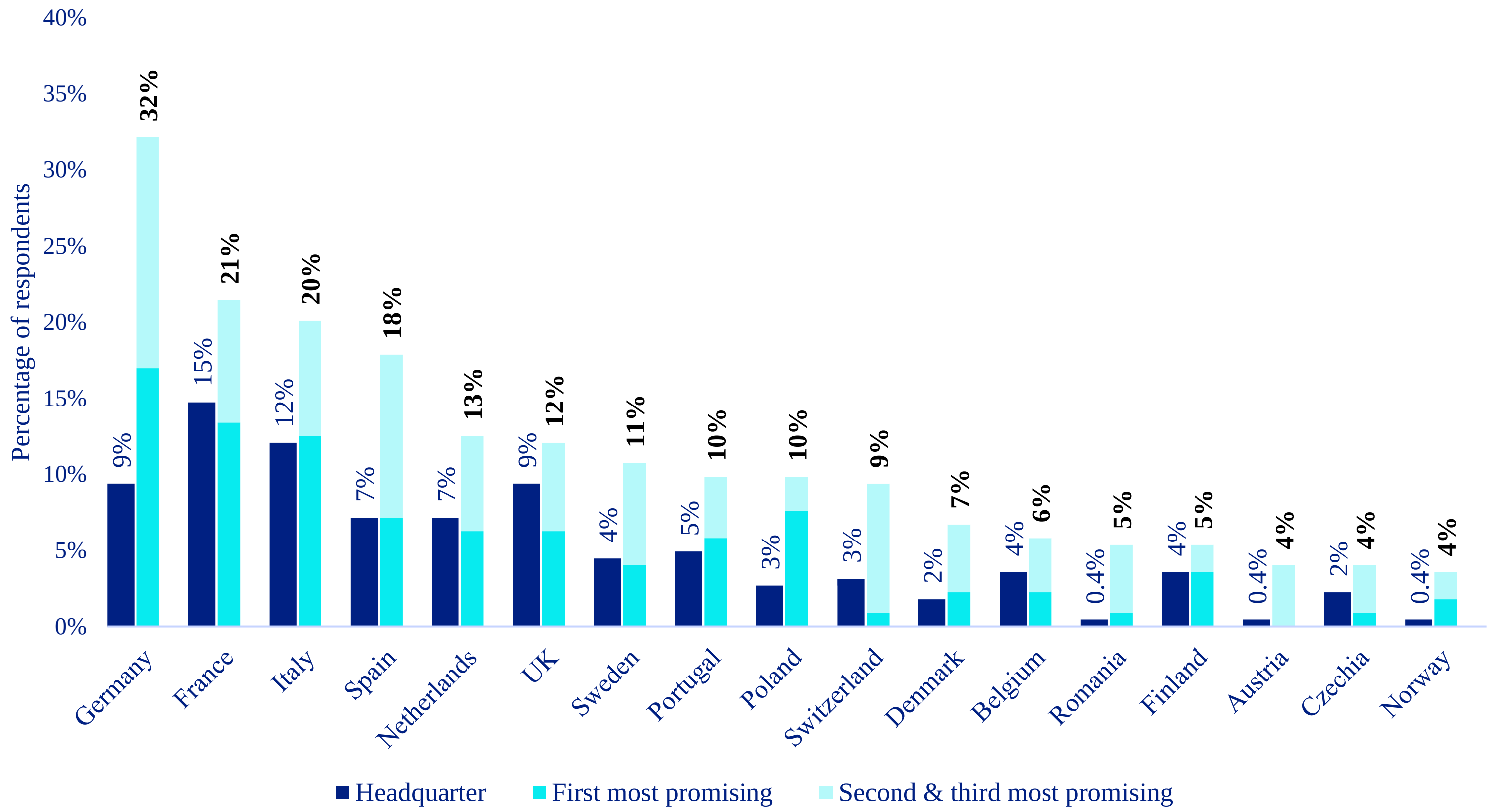


Q: *"Please select the biggest challenges you currently see in the PE mid-market business." (multiple selection possible);* and then *"rank them by importance."*

Notes: 1. The graph shows the percentage of respondents that selected the respective challenge as the first most important in each survey wave; 2. The order with which the challenges are listed reflects their ranking in 2022; 3. As of 2022, the "Fundraising" category has been reworded to "Fundraising your next vehicle"; 4. For 2022, the category "Political uncertainty" has been broadened to include "Geopolitical uncertainty and related consequences".

- In 2022, **a spike in "*Political uncertainty*"** shows the importance that PE MM firms put on the war in Ukraine and its consequences.
- **"*Fundraising*" has remained**, on average, **a key challenge faced by PE MM firms throughout the years**. **"*Market volatility*"** has also gained importance again in 2022.
- "***High investee company valuations***" and "***Competition from other investors***" decreased considerably in importance as challenges in 2022.

HQ & most promising countries for PE MM investments



*Percentages in **black font** on top of the green bars show the aggregate percentage of respondents who have ranked the respective country in their top-3 choices.*

Q: *"In which country/geography is your firm headquartered?"*

Q: *"According to your expectation, please rank those European countries that will be most promising for PE mid-market investments over the next 12 months, in order of importance."*

The most promising countries for PE MM investments are Germany, France, and Italy.

- **Germany**, **France**, and **Italy** have been ranked as the **most promising countries for PE MM investments** over the next 12 months.
- Almost 1 in 3 PE MM fund managers consider **Germany** in their top-3 choices. Furthermore, for Germany, the difference between the share of respondents that selected the respective country as the most promising and the share of respondents headquartered in the same country is particularly high.
- Compared to the previous *EIF PE MM Survey* wave, respondents' perception of key countries in **Eastern Europe** has changed only slightly.

Most promising countries for PE MM investments – reasons

1. Germany	◦ Large, strong, and stable economy, with a large number of quality SMEs. ◦ Good financing opportunities and quality workforce. ◦ Significant opportunities for digitalisation emerging. ◦ Greater openness to external investors due to the pressures of COVID and the war in Ukraine.
2. France	◦ Stable and strong economic environment. ◦ Mature and experienced market. ◦ Energy advantage - good energy mix. ◦ Large and vibrant base of potential companies.
3. Italy	◦ Large number of well-preforming, high quality SMEs; many family-run businesses. ◦ Cheaper labour costs. ◦ Lower competition and entry valuations. ◦ Considerable room for growth and improvement.

4. Spain	◦ Large number of good investment opportunities. ◦ Cheaper labour costs. ◦ Lower valuations, lower competition and good opportunity for growth. ◦ Competitive advantage on energy.
5. Netherlands	◦ Transparent, open, and flexible market. ◦ Stable, strong, and advanced economy. ◦ Traditionally good opportunities for PE MM investments.
6. United Kingdom	◦ Robust, developed, and active PE MM market. ◦ Restructuring opportunities in the post-Brexit world. ◦ High quality companies, with good talent pool.

Q: *"Why do you consider these/this countries/country promising?" Note*: We provide reasons only for those six countries considered most promising in the previous question.

Most promising sectors/industries in the near future

Key:
AI: Artificial Intelligence; B2B: Business-to-Business; IoT: Internet of Things; SaaS: Software as a Service.

Q: *"What sector/industry would you consider as the most promising for PE mid-market investments in the near future?"*

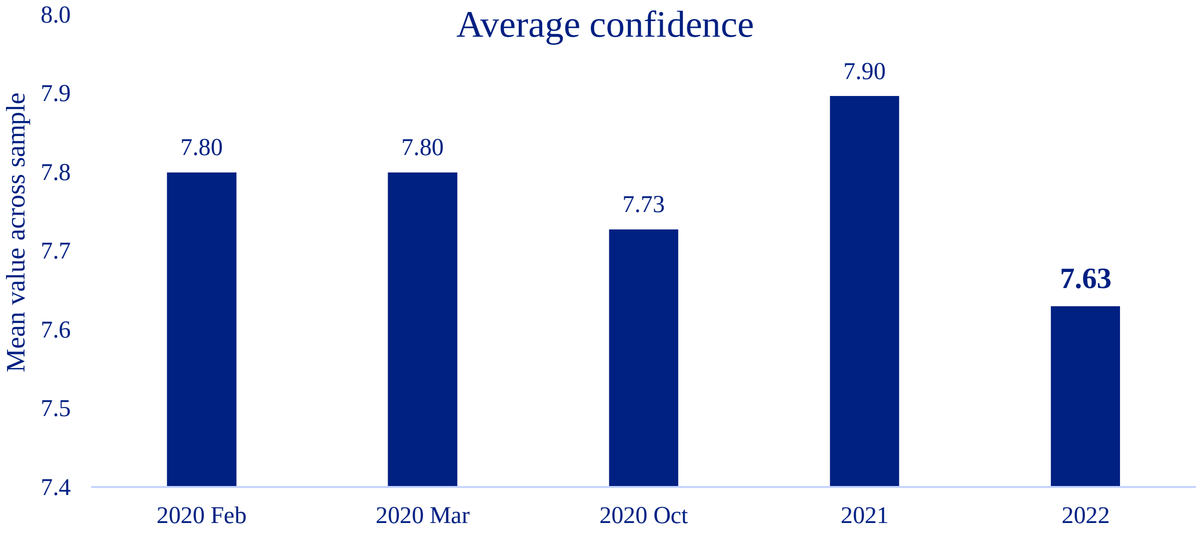
Note: The graph was generated using Wordcloud whereby the bigger the font size the more frequently the respective answer was mentioned in the free-text field.

Healthcare, Energy & Environment, and Technology applications are perceived as the areas with the greatest investment potential.

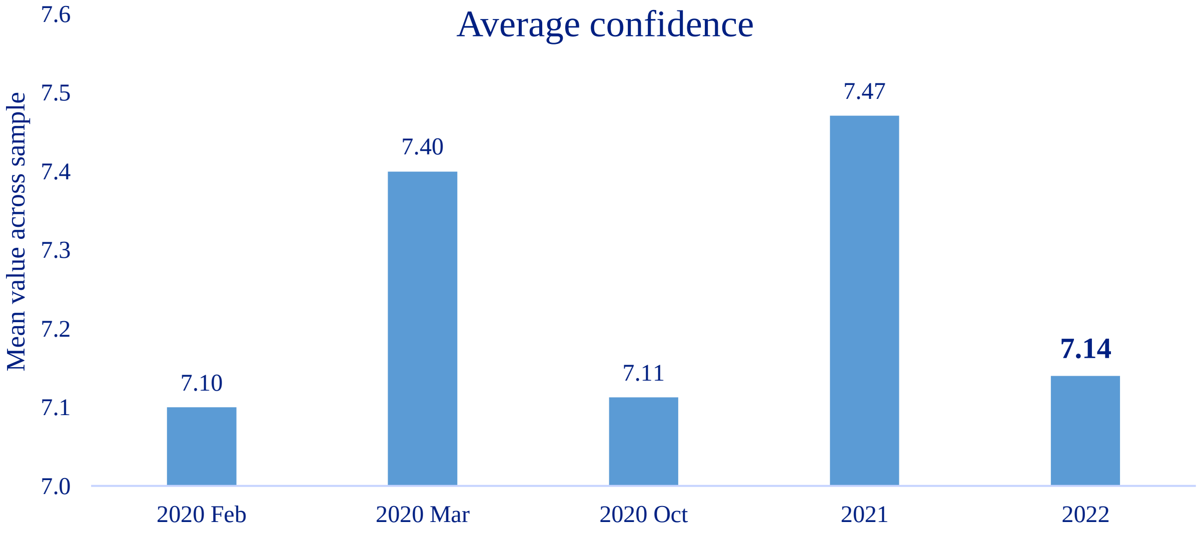
- The investment potential of the **healthcare** sector (which increased particularly amid the COVID crisis) is also flagged in this year's survey results.
- At the same time, **new promising sectors emerge** in the current macroeconomic and geopolitical context; in particular with regard to the transition to greener and more efficient **energy** sources as well as to investments with a positive **environmental footprint**.
- A pattern towards the use of **technology** applications to enable greater digitisation of businesses and processes is also on the rise.

PE mid-market industry growth prospects

On a scale of 1 to 10, how confident are you in the long-term growth prospects of the PE mid-market industry in **your market**?



On a scale of 1 to 10, how confident are you in the long-term growth prospects of the **European PE mid-market industry**?



Fund managers' confidence in the long-term growth prospects of the PE mid-market industry declined in 2022.

- **Fund managers' confidence in the long-term growth prospects of the PE mid-market industry declined** both for their own market and for Europe overall.
- At the same time, **long-term growth prospects in fund managers' own markets are at a lower level than during the COVID crisis**.
- For the European PE mid-market industry overall, fund managers' average long-term growth prospects are similar to the levels reached during the COVID crisis in February and October 2020.

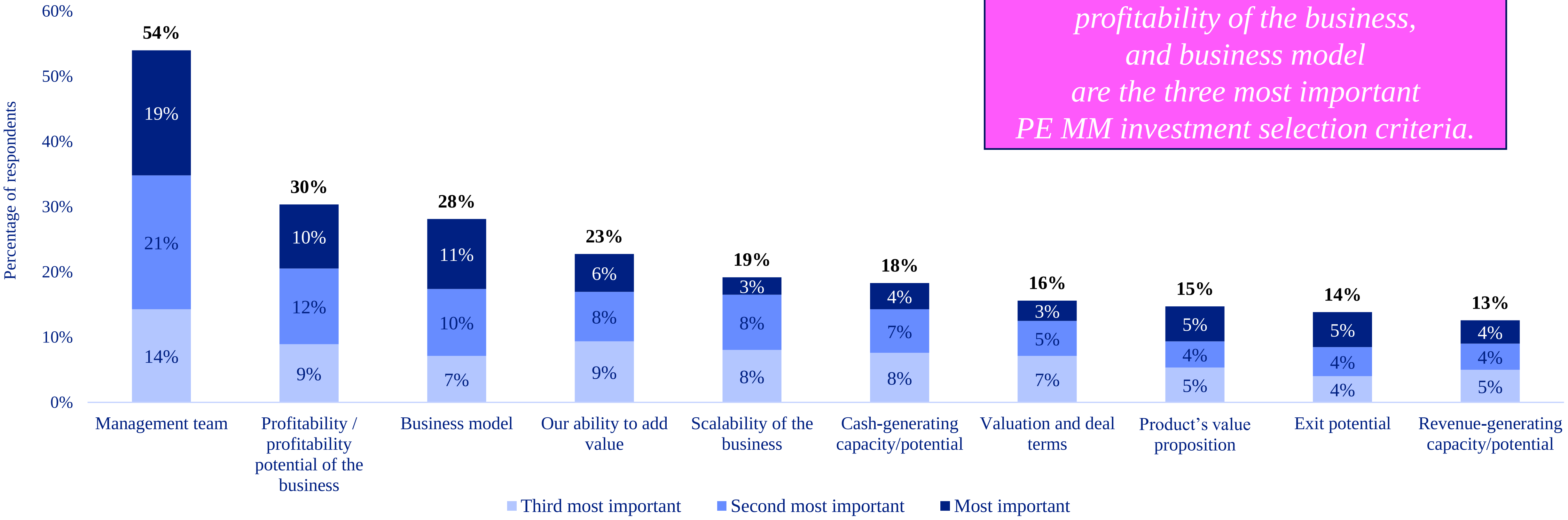
EIF PE MM Survey

3 | *Impact of current geopolitical & macroeconomic environment*

EIF Research & Market Analysis

Survey wave 2022

PE MM investment selection criteria



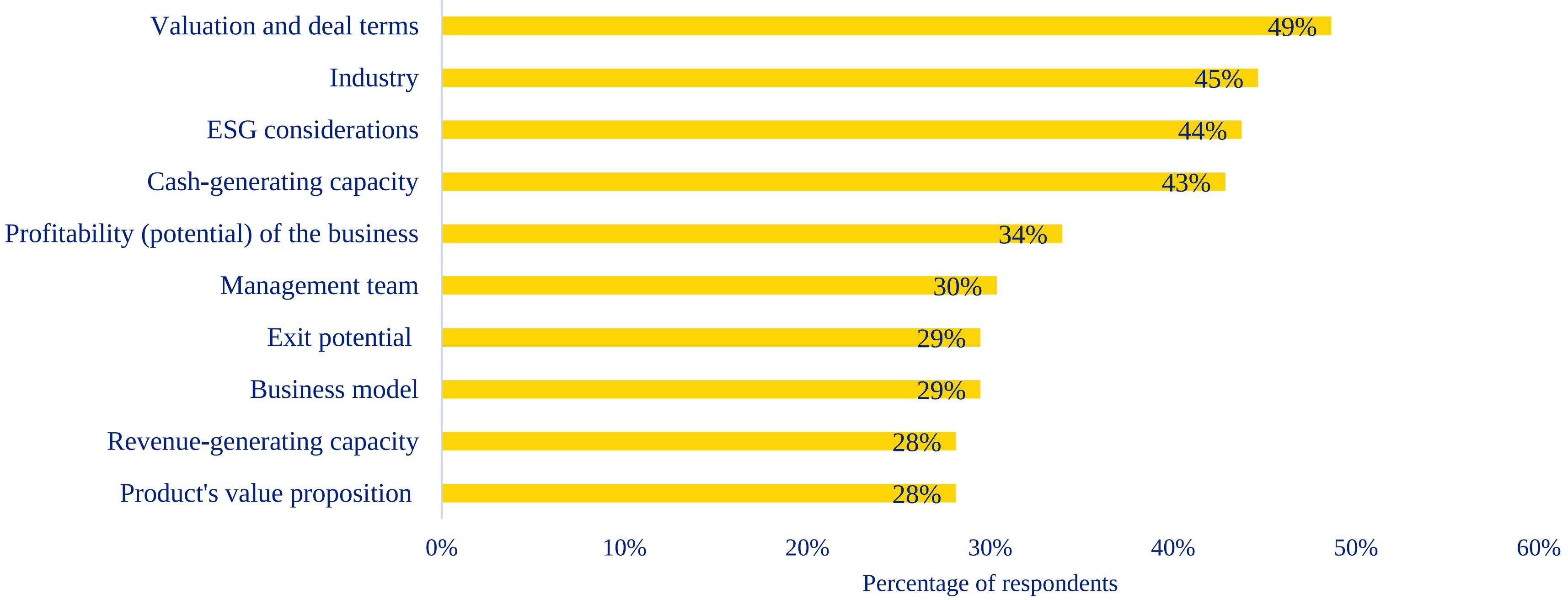
Management team, profitability of the business, and business model are the three most important PE MM investment selection criteria.

Percentages in ***black font*** *on top of the bars show the aggregate percentage of respondents who have ranked the respective criterion in their top-3 selections. Reading example: For 54% of PE MMs, "Management team" is among their top-3 criteria; for 19%, it is even the first most important criterion. The graph presents the 10 most important investment selection criteria as indicated by survey participants. For the full list of response options, please refer to the* *Annex*.

Q: *"Considering your firm's overall activity in the PE mid-market, what are the most important investment selection criteria?"* (multiple selection possible)

Changes in PE MM investment selection criteria
*(criteria with **highest increase in importance**)*

The investment selection criteria changed as a response to the current geopolitical situation and macroeconomic environment.

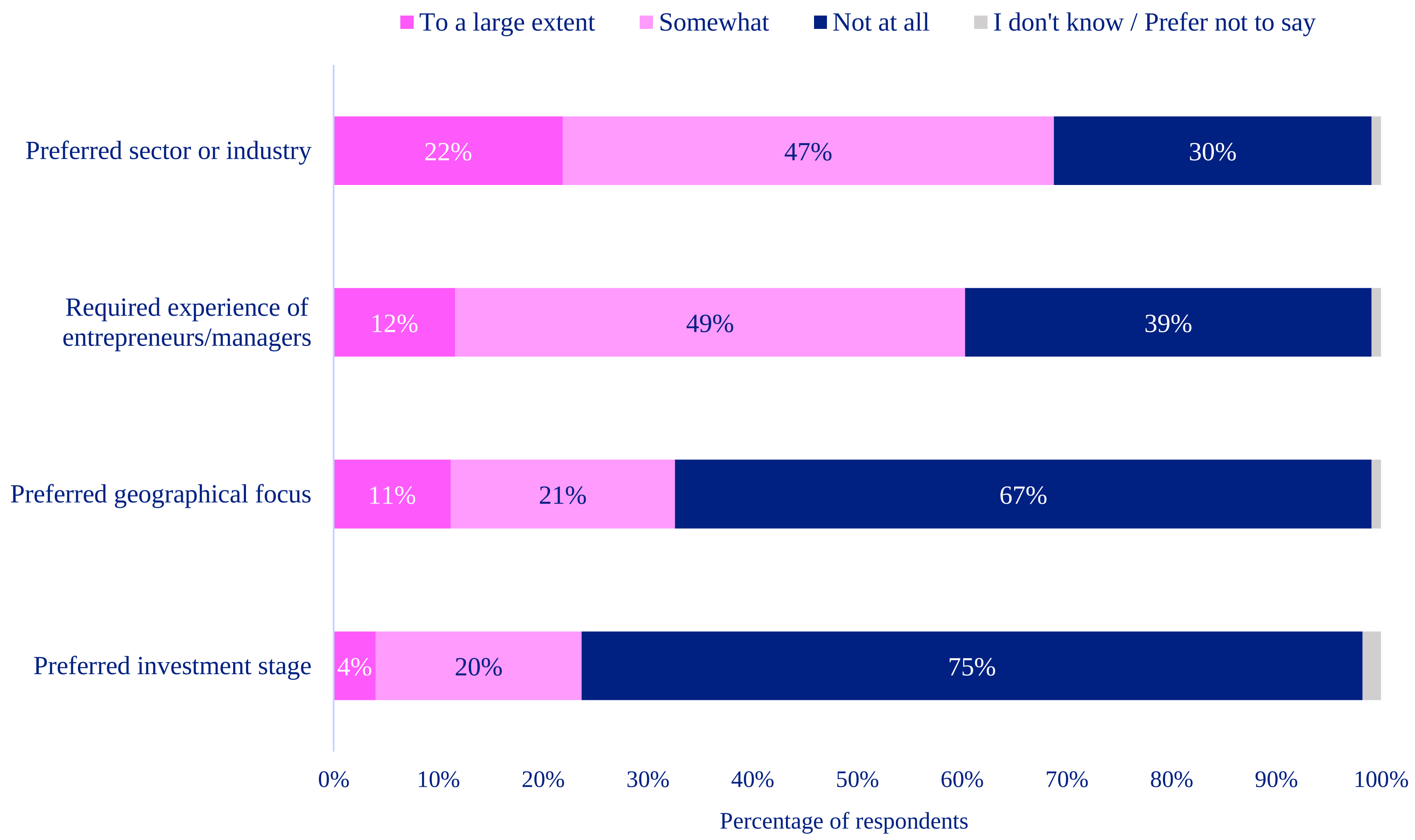


Reading example: 49% of PE MMs state that the importance of "Valuation and deal terms" has increased in the context of the current geopolitical situation and macroeconomic environment. The graph presents the 10 criteria with the highest increase in importance as indicated by survey participants. For the full list of response options, please refer to the Annex.

Q: *"Considering the current geopolitical situation and macroeconomic environment, has the importance of the respective investment selection criteria changed?"*

- **Financial criteria**, such as valuation & deal terms, cash-generating capacity, and profitability, **became more important** during the current crisis.
- But so did the **industry** focus.
- At least 4 in 10 PE MM fund managers state that the importance of **ESG criteria** also increased in the context of the current environment.

Changes in PE MM investment strategy



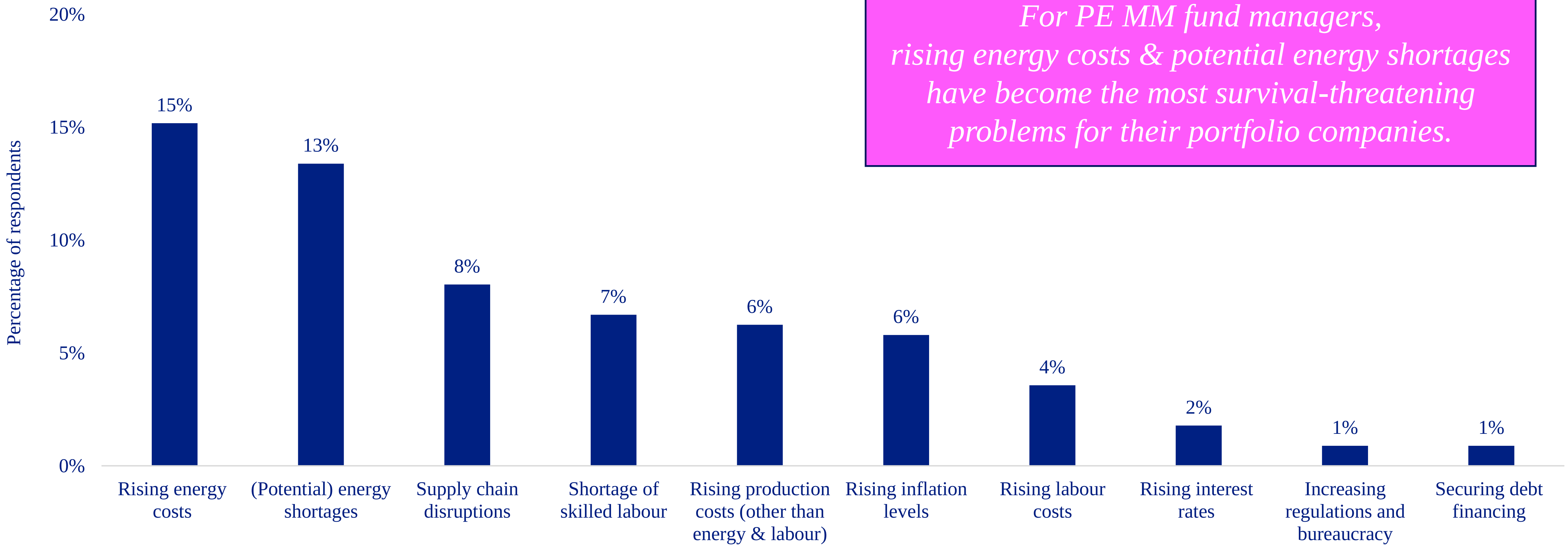
- PE mid-market fund managers made some changes to their investment strategy due to the current geopolitical situation and macroeconomic environment.
- This is particularly true with regard to the **preferred sector or industry** and the **required experience of the entrepreneurs/managers**.

Q: *"To what extent does the current geopolitical situation and macroeconomic environment change your investment strategy regarding …*

EIF PE MM Survey 2022: Market sentiment and impact of the current geopolitical & macroeconomic environment, EIF Working Paper 2022/85, EIF's Research & Market Analysis, available at www.eif.org/research

Survival-threatening issues *for portfolio companies* in the current environment

For PE MM fund managers, rising energy costs & potential energy shortages have become the most survival-threatening problems for their portfolio companies.

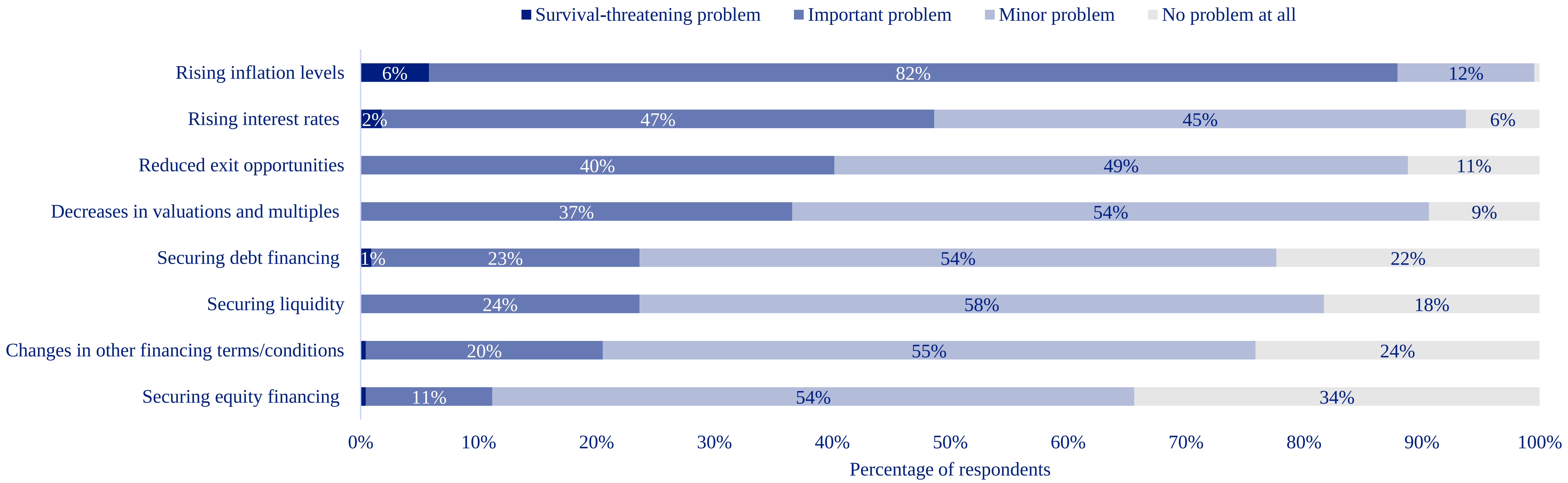


The graph presents the 10 issues that have been identified by survey participants as the most survival-threatening. For the full list of response options, please see *pp. 42-44*.

Q: *"Considering the current geopolitical situation and macroeconomic environment, to what extent do the following issues constitute a problem for your PE mid-market portfolio companies?"*

Deep dive: **Financing**-related challenges *for portfolio companies* in the current environment

Rising inflation levels, rising interest rates, reduced exit opportunities, and decreases in valuations & multiples are currently the four most important financing-related challenges for PE mid-market portfolio companies.



Q: *"Considering the current geopolitical situation and macroeconomic environment, to what extent do the following issues constitute a problem for your PE mid-market portfolio companies?"*

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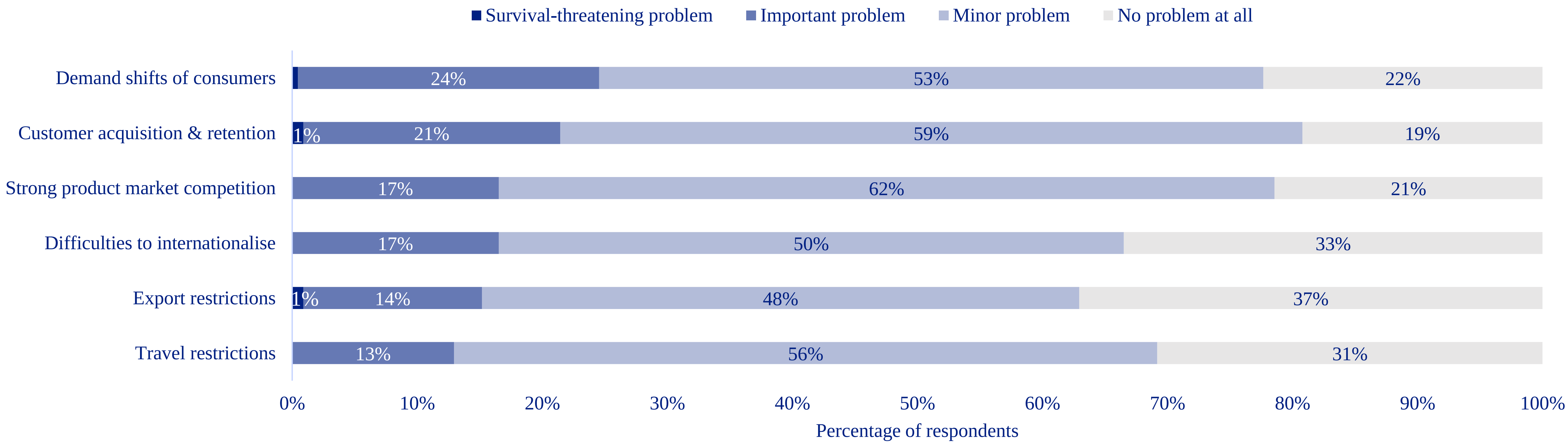
Deep dive: **Market**-related challenges *for portfolio companies* in the current environment

Demand shifts of consumers, customer acquisition and retention, strong product market competition, and difficulties to internationalise are currently the four most important market-related challenges for PE mid-market- portfolio companies.

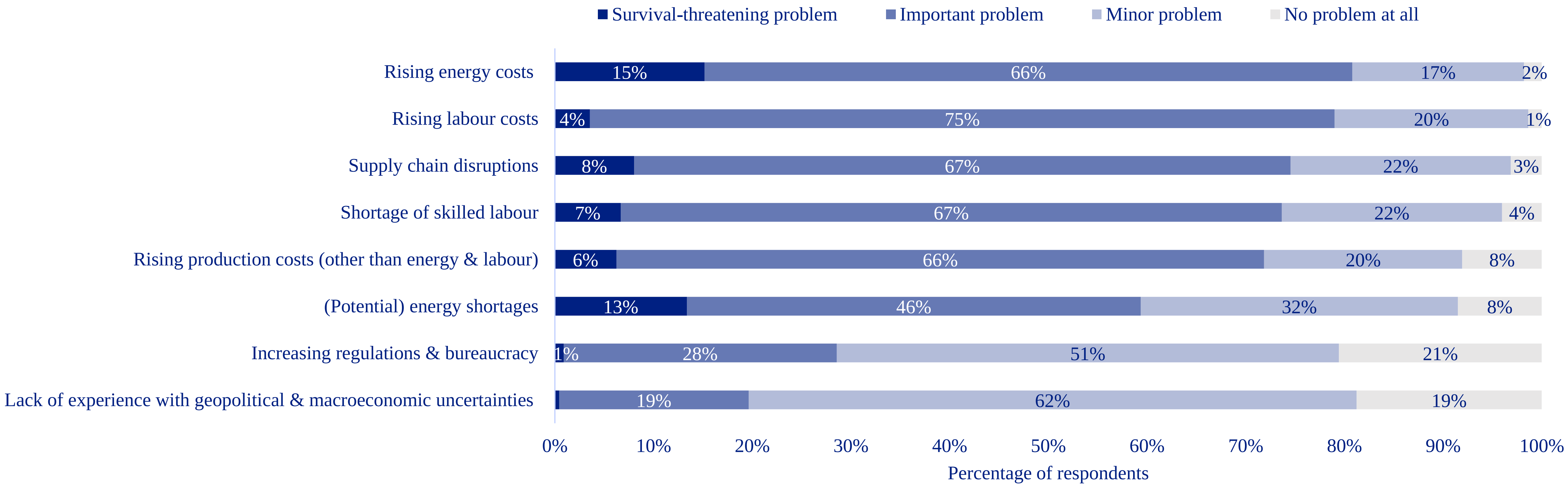


Q: *"Considering the current geopolitical situation and macroeconomic environment, to what extent do the following issues constitute a problem for your PE mid-market portfolio companies?"*

EIF PE MM Survey 2022: Market sentiment and impact of the current geopolitical & macroeconomic environment, EIF Working Paper 2022/85, EIF's Research & Market Analysis, available at www.eif.org/research

Deep dive: **Operational** challenges *for portfolio companies* in the current environment

Rising production costs (mainly in relation to energy and labour), supply chain disruptions, and shortage of skilled labour are currently the most important operational challenges for PE mid-market portfolio companies.

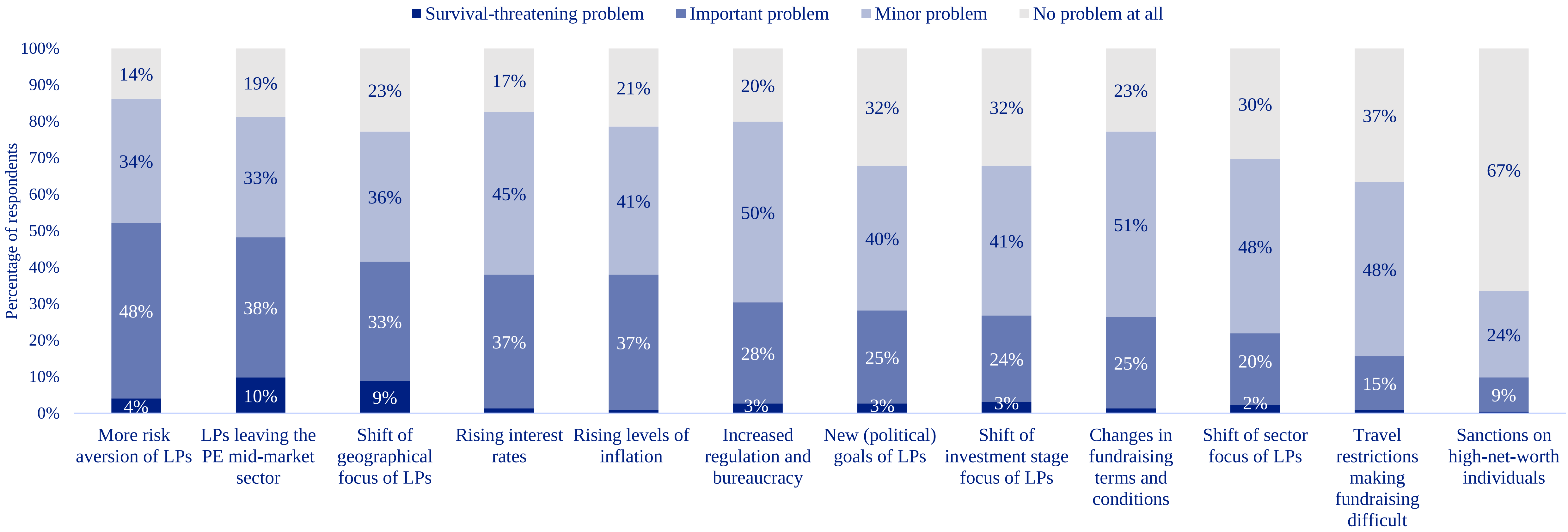


Q: *"Considering the current geopolitical situation and macroeconomic environment, to what extent do the following issues constitute a problem for your PE mid-market portfolio companies?"*

EIF PE MM Survey 2022: Market sentiment and impact of the current geopolitical & macroeconomic environment, EIF Working Paper 2022/85, EIF's Research & Market Analysis, available at www.eif.org/research

Fundraising challenges *for PE MM funds* in the current environment

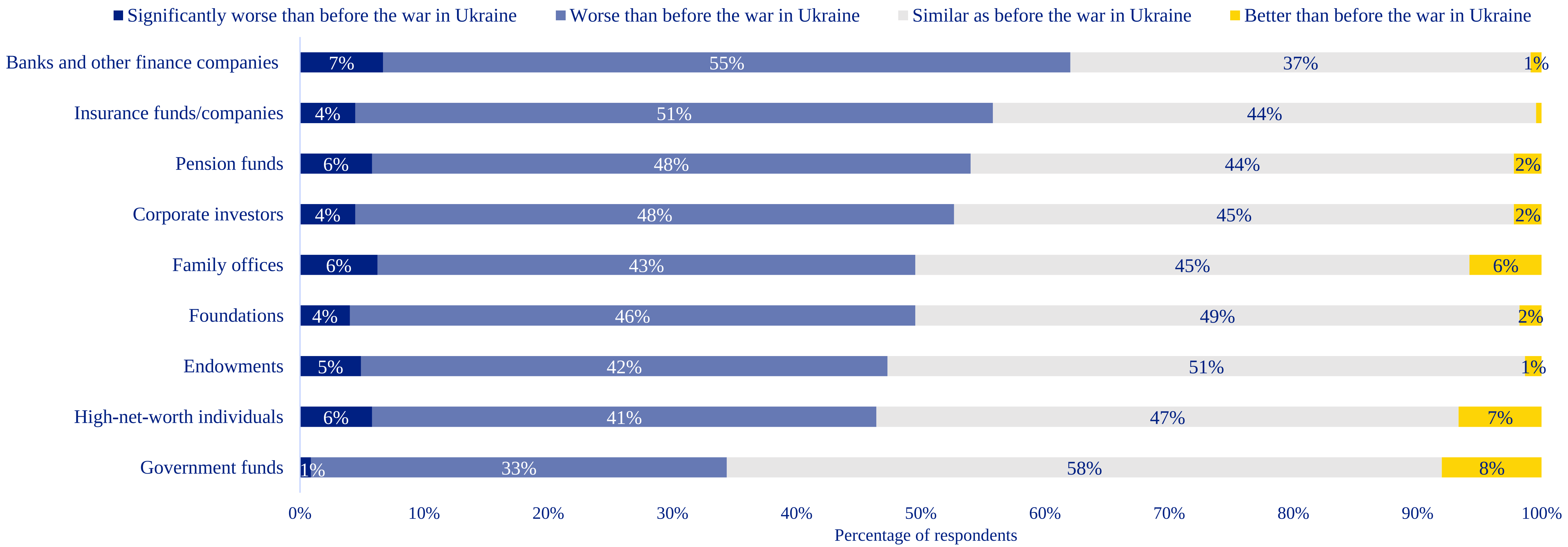
More risk aversion of LPs, LPs leaving the PE MM sector, shift of geographical focus of LPs, rising interest rates and levels of inflation are currently the most important fundraising-related challenges for PE MM funds.



Q: *"Considering the current geopolitical situation and macroeconomic environment, to what extent do the following issues constitute a fundraising problem for your PE mid-market fund(s)?"*

LPs' willingness to invest

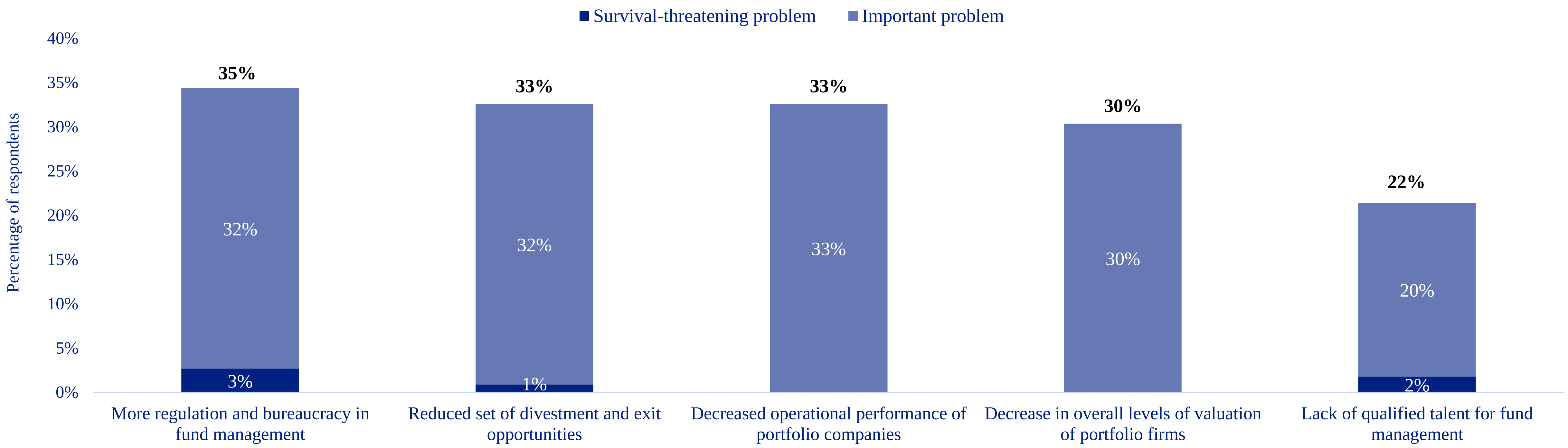
The willingness of banks, insurances, pension funds, and corporates to invest in PE mid-market funds has significantly worsened compared to the situation before the war in Ukraine.
By contrast, the willingness of government funds to invest in PE mid-market funds has not changed as much.



Q: *"How do you assess the current willingness of different LPs to provide funding for PE mid-market funds as an asset class?"*

Operational challenges *for PE MM funds* in the current environment

More regulation & bureaucracy in fund management and reduced exit opportunities are currently the two most significant operational challenges facing PE MM funds.

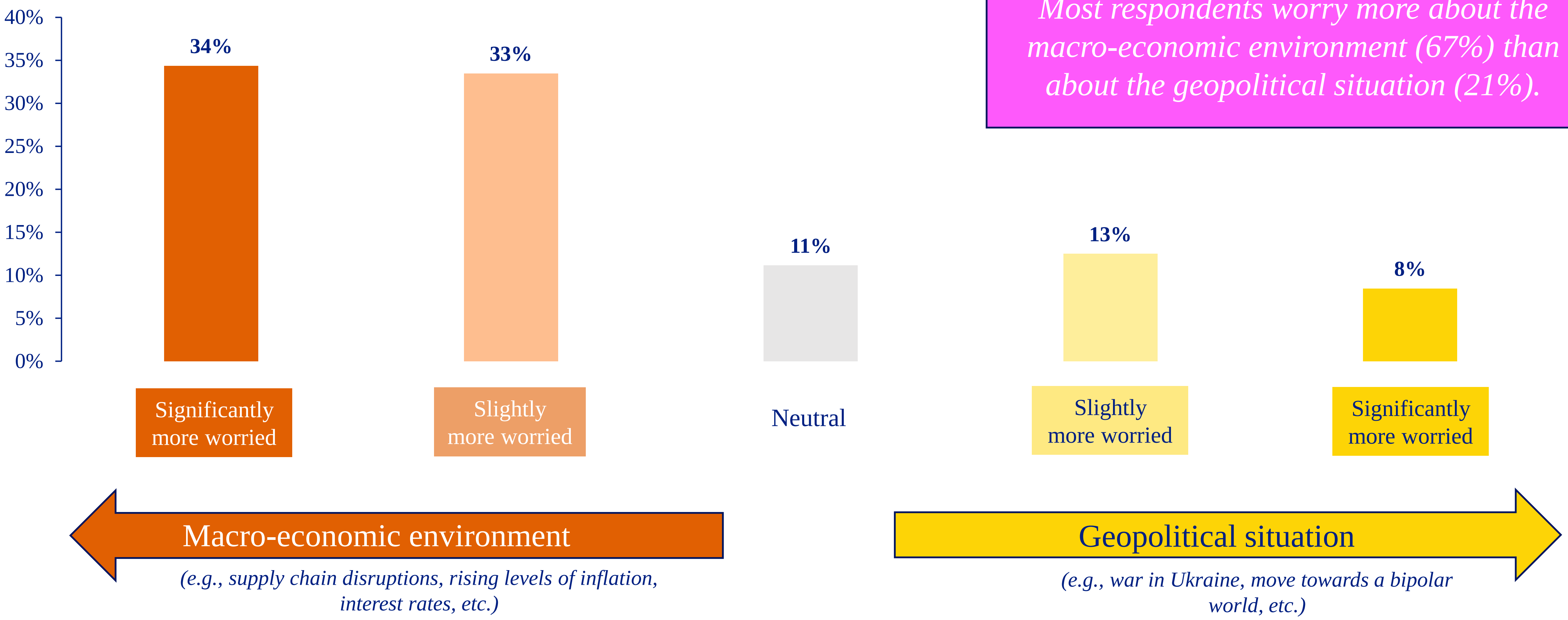


*Percentages in **black font** on top of the bars show the aggregate percentage of respondents who have ranked the respective issue as either a survival-threatening or an important problem. Reading example: For 34% of PE MMs, "more regulation and bureaucracy in fund management" are considered a significant operational challenge; for 3%, they even constitute a survival-threatening problem. The graph presents the 5 most significant operational challenges as indicated by survey participants. For the full list of response options, please refer to the Annex.*

Q: *"Considering the current geopolitical situation and macroeconomic environment, to what extent do the following operational issues constitute a problem for your PE mid-market fund(s)?*

Macro-economic environment vs. Geopolitical situation

Most respondents worry more about the macro-economic environment (67%) than about the geopolitical situation (21%).



Q: *"Comparing the different impacts of the current geopolitical situation and macroeconomic environment, what worries you more?"*

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EIF PE MM Survey

4 | *Concluding remarks*

EIF Research & Market Analysis

Survey wave 2022

Negative developments in the PE mid-market sector in 2022

Market sentiment deteriorated

- The European PE markets **initially recovered quickly** from the first shock of the pandemic and showed no signs of "long COVID".
- Having said this, the sudden halt and resumption in demand following the **COVID-19** confinement measures resulted in significant supply chain issues, **igniting**, in turn, **a rising trend in** import and producer prices, **inflation** as well as inflation expectations. These were **further fuelled by the surge in energy prices in the aftermath of the war in Ukraine**.
- In light of these developments, the survey findings clearly suggest that **market sentiment has turned around**; and that the current **geopolitical and macroeconomic uncertainties** are having a **negative impact on** several aspects of the **European PE mid-market**.
- Given that the expectations of surveyed fund managers are at record-lows for many of the market sentiment indicators in our survey, **there is a high risk that we are perhaps yet to see the worst part of this new crisis**.

PE mid-market faces significant challenges

- The **fundraising sentiment in the PE mid-market is at record-low** since the start of our *EIF PE MM Survey* in 2020. The importance of the **exit environment as a key challenge** in PE MM business has **increased substantially** in 2022, and fund managers cite in particular the **difficulties in finding potential buyers**.
- PE MM fund managers report important financing, market-related and operational issues for their investees, particularly with regard to the **rising costs** of energy, labour, and other production factors.
- The **outlook** for the next 12 months **is also pessimistic**, with many PE MM fund managers expecting the fundraising environment, finding co-investors, exit opportunities, and the access to finance of their portfolio companies to **deteriorate further**.

… and maybe longer-run risks?

- In comparison to VC (see EIF Working Paper 2022/82: *EIF Venture Capital Survey 2022*), it seems that the consequences of the energy crisis, inflationary pressures, rising interest rates, and supply chain disruptions **affect PE MM portfolios to a larger extent compared to VC-backed firms**.
- At the fund level, alongside recurring challenges, PE MM fund managers report important **fundraising issues**, mainly related to a **greater risk aversion of LPs,** LPs **even leaving the mid-market sector,** and a **shift in their geographical focus**.
- At the same time, a range of potential investors into the asset class (from banks and insurances to pension funds, corporate investors, and family offices) show a **much lower willingness to invest in PE mid-market**.
- These longer-term patterns hint towards **structural issues**, which could be interpreted as potential **long-run risks**.

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Policy implications (1/2)

A crisis is also an opportunity

- Although at the very beginning of the COVID-19 crisis it looked as if we would experience a doomsday scenario, the **PE mid-market identified opportunities** and even finally **partially benefitted from the crisis** – for example, by supporting companies providing innovative solutions in the area of Healthcare.
- In the current environment too, **new promising sectors** emerge; in particular with regard to the transition to greener and more efficient **energy** sources as well as to investments with a positive environmental footprint. A pattern towards the use of **technology** applications to enable greater digitisation of businesses and processes is also on the rise.
- At the same time, the decrease in valuations and in the competition for investees (until recently perceived among the top challenges facing the PE MM business) could be a needed **market correction**, enabling more reasonable transaction prices, reducing the risk of overfunding, and providing for new opportunities.

Permanent crisis mode?

- From the Great Financial Crisis to the COVID-19 crisis and the current crisis driven by the Russian aggression against Ukraine, it seems that since many years we are in a **permanent crisis mode**. From a public support perspective, the fact that the intervals of these external shocks have become very short or even overlapping constitutes a big challenge, **continuously having to introduce new emergency measures**.
- A crisis can also be an opportunity; but these **opportunities might not always be supported by sufficient availability of financing**. The current geopolitical and macroeconomic uncertainties may have far-reaching and long-lasting consequences, **changing the long-run framework conditions for SMEs**. The survey findings reveal indeed that fundraising and financing in general have become much more problematic.

Policy implications (2/2)

New and existing policy solutions

- **In a market downturn, efficient public support is even more important**, to mitigate the impact of the crisis on the ecosystem.
- **Creative policy solutions with different financial instruments** will be crucial in this time of crisis, to respond to the financing problems and guide the PE market through this period of high uncertainty.
- The policy solutions should primarily focus on **strengthening the ability of the European PE ecosystem to absorb shocks**, both the current ones and the future ones.
- Examples of such policies include a **deeper involvement of private long-term investors**, who would not readily leave during a crisis, but rather stay in the market even during downturns, as well as **initiatives to encourage the financing of European scale-ups**.
- With the PE exit environment significantly worsening due to the current situation and the expectations of further deterioration in the next year, **improving the exit environment** should be one of the targets for future policy.

- Over the years and the various crises, the **PE ecosystem** has improved significantly and **has proven its resilience**, but there is still a lot of **room for development**.
- An efficient approach of providing public support and **crowding-in private resources** could help to **eliminate structural issues**.
- In such market conditions, an institution like the **EIF has an important role to play**; **intervening counter-cyclically** in case of market downturns and failures to **mitigate long-run risks**, in particular by designing and implementing financial instruments that **support longer-term Public Policy Goals**.

EIF PE MM Survey

5 | Information about this study

EIF Research & Market Analysis

Survey wave 2022

The EIF Equity Surveys

A unique source of information

- **The *EIF Venture Capital (VC) Survey*, the *EIF Private Equity Mid-Market (PE MM) Survey*, and the *EIF Business Angels (BA) Survey* provide the opportunity to retrieve unique market insight.**
- To the best of our knowledge, the combined *EIF VC Survey* and *EIF PE MM Survey* currently represent the **largest regular survey** exercise among GPs in Europe.
- The *EIF BA Survey* is unique in its pan-European coverage and multi-country approach.

General survey approach

- The EIF equity surveys are **online surveys** of VC and Private Equity (PE) Mid-Market (MM) fund managers as well as of Business Angels (BAs) investing in Europe.
- Our surveys target **both EIF-supported as well as non-EIF supported** fund managers and BAs.
- All surveys are conducted on an **anonymous basis**.
- The vast majority of the respondents in the VC and PE MM surveys hold the position of CEO or Managing/General Partner, suggesting that their responses reflect the **views of the decision-makers** in the respective VC/PE firms.

Cooperation partners

- The already large outreach of the EIF surveys, which are **coordinated by EIF's Research & Market Analysis (RMA)**, and the high relevance of the questionnaire topics for both market participants and policy makers have further increased through **cooperations**, such as **with Invest Europe**.

The EIF PE Mid-Market Survey

Respondents and survey period

- This study is based on the *EIF PE Mid-Market Survey*.
- The 2022 wave of the *EIF PE MM Survey* includes anonymised responses from ***224 PE mid-market fund managers*** (from 188 PE firms).
- The headquarters of the PE firms contacted were predominantly in the EU 27 countries. Firms with headquarters outside of Europe were still included in the sample if they had an office in Europe and were active in the European PE mid-market sector.
- Responses were received between 14 July and 29 August 2022.

Topics

- The main ***topics*** covered in the 2022 survey are **market sentiment** as well as the **impact of the current geopolitical situation and macroeconomic environment**.
- Since the market sentiment topic was also covered in all previous survey waves, we compare the results using a **time series**.

Forthcoming

- All EIF survey-based studies (across all survey waves and asset classes) are regularly published in the **EIF Working Paper series, available here:** https://www.eif.org/research
- **Forthcoming publications**, based on the *EIF VC Survey* as well as on the *EIF PE MM Survey*, will cover topics related to **Investing in Environment & Climate** and **Gender diversity**.

How to read the results

General information

- Some results shown in this publication (e.g., some results about the PEs' human capital characteristics) are based on a number of respondents that is smaller than the overall number of respondents to the 2022 *EIF PE MM Survey*. This is either because some respondents selected the "I don't know / Prefer not to say" response option or because a filter question preceded the question under consideration. In these cases, the final number of respondents is indicated in the respective graphs. Further details are available upon request.
- Percentages may not always add up to 100% due to rounding.

Terminology: Survey waves

- Several analyses draw on the results of multiple *EIF PE MM Survey* waves, as outlined below:
  - "2022": 14 July – 29 August 2022
  - "2021": 7 July – 5 August 2021
  - "2020 Oct": 8 October – 3 November 2020
  - "2020 Mar": 1 March – 26 March 2020
  - "2020 Feb": 13 February – 28 February 2020

Please note that the survey results for "2020 Feb" and "2020 Mar" are based on the first 2020 *EIF PE MM Survey* wave, which was performed between 13 February and 26 March. In order to analyse the immediate effects of the COVID-19 crisis, the results of that survey wave were split into two response sets: (i) responses received in February, and (ii) responses received in March. See EIF Working Paper 2020/064 for details.

Terminology: "net balances"

- The "**net balances**" shown in graphs refer to the percentage of respondents reporting a positive response minus the percentage of respondents reporting a negative response. (For example: In the question "Over the next 12 months, how do you expect the number of your new investments to develop?", the net balance refers to the percentage of respondents expecting the number of their new investments to slightly/strongly increase minus the percentage of respondents expecting the number of their new investments to slightly/strongly decrease.)

List of acronyms

- AUM: Assets Under Management
- BA(s): Business Angel(s)
- bn: billion
- CEO: Chief Executive Officer
- COVID(-19): Coronavirus disease pandemic
- EIB: European Investment Bank
- EIF: European Investment Fund
- ESG: Environmental, Social, Governance
- EU: European Union
- EUR: Euro
- Feb: February
- GP(s): General Partner(s)
- HQ: Headquarter
- ICT: Information and Communications Technologies
- IPO: Initial Public Offering
- LP(s): Limited Partner(s)
- m: million
- M&A: Mergers and acquisitions
- Mar: March
- MBO: Management Buy-Out
- NAV: Net Asset Value
- Oct: October
- PE MM: Private Equity Mid-Market
- PE MMs: Private Equity Mid-Market fund managers
- Q: Question
- Q4: Fourth quarter of a year
- RMA: Research & Market Analysis
- SME: Small and Medium-sized Enterprise
- UK: United Kingdom
- VC: Venture Capital
- VCs: Venture Capital fund managers
- WIFU: Witten Institute for Family Business

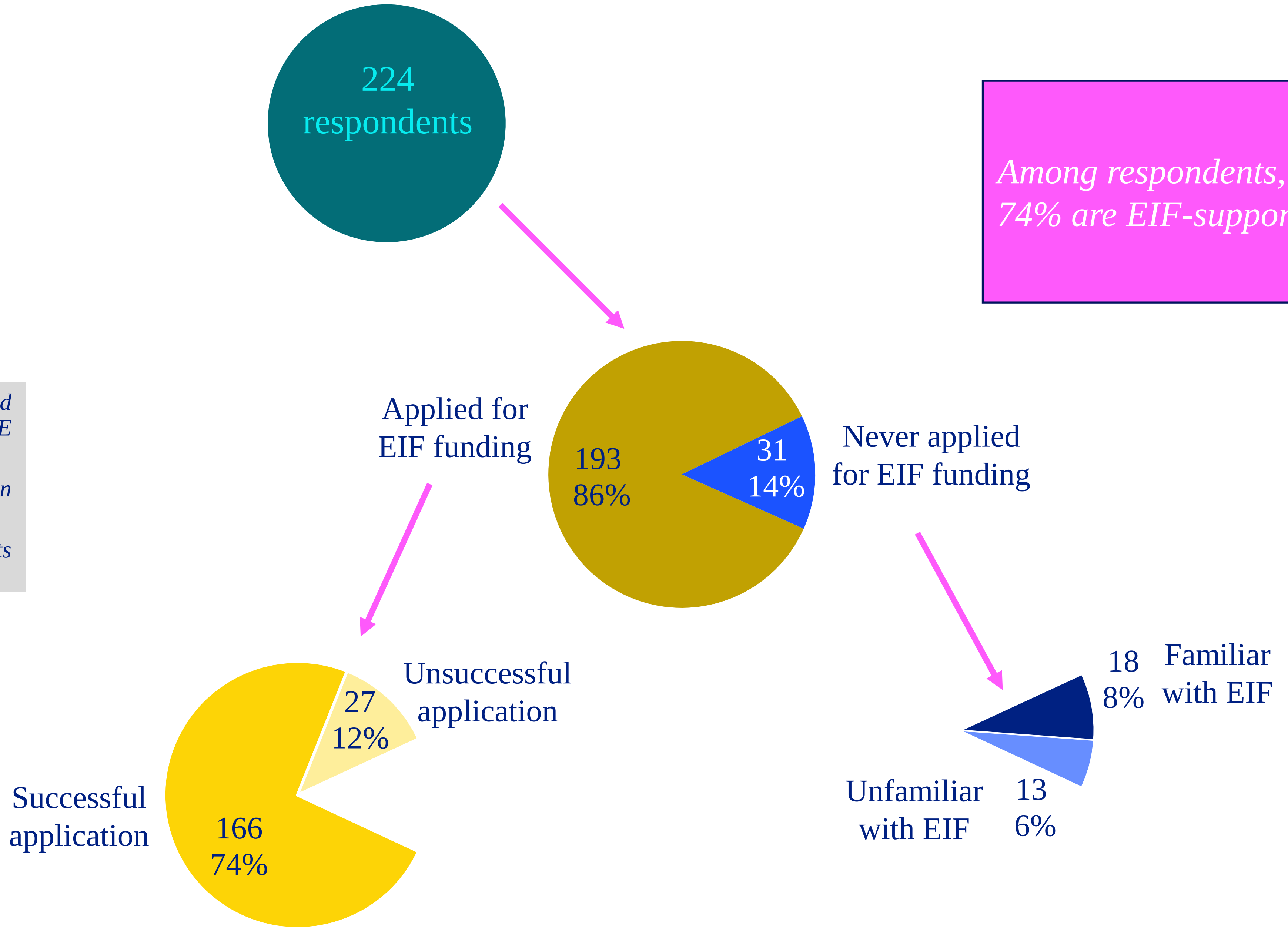
EIF PE MM Survey

6 | *Respondents' profile and PE firm characteristics*

EIF Research & Market Analysis

Survey wave 2022

EIF relationship



Among respondents, 74% are EIF-supported.

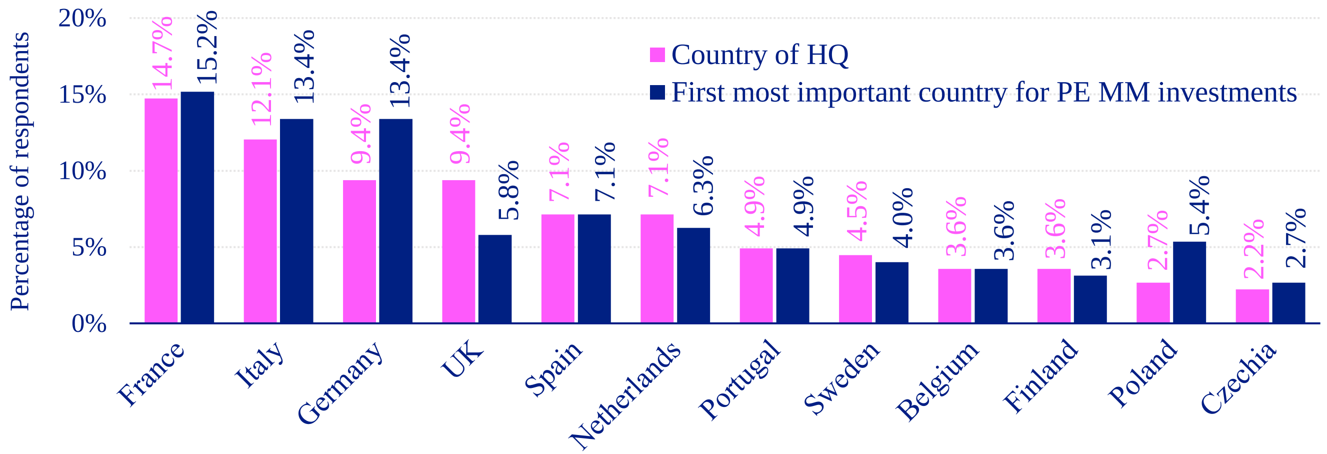
Q: *"Has your investment firm ever applied to the EIF for funding for one of your PE mid-market funds?"*

Q: *"Did any of these applications result in EIF funding?"*

Q: *"Are you familiar with the EIF and its activities?"*

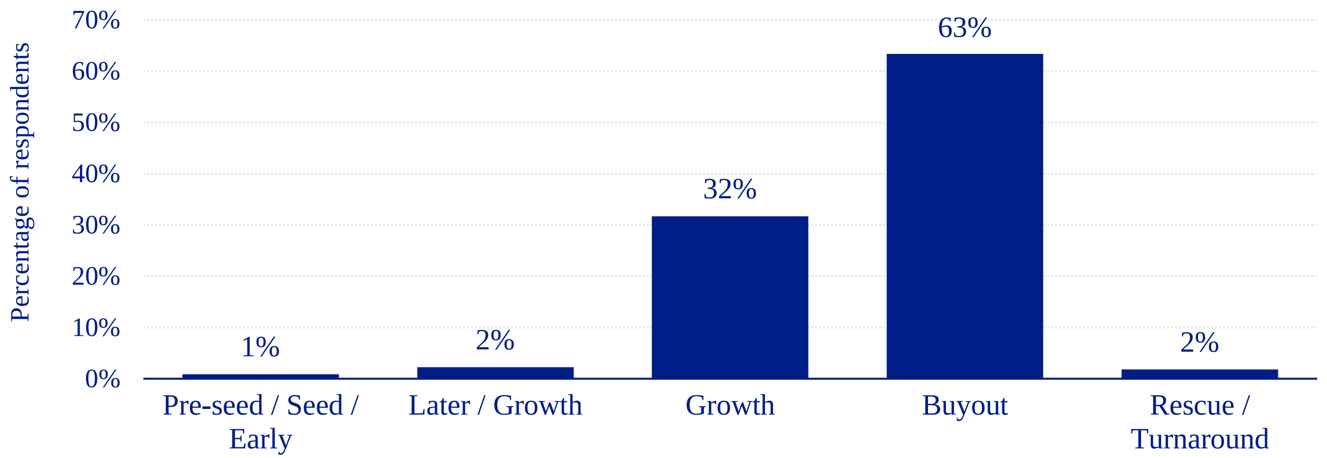
HQ & investment location / investment stage focus

Distribution of respondents by **HQ country of PE firm***



The graph only shows the top-12 countries.

Most important **investment stage**



- At least **4 in 10 PE MM fund managers** in the sample come from PE firms headquartered in **France** (14.7%), **Italy** (12.1%), **Germany** (9.4%), and the **UK** (9.4%).
- Overall, the frequency with which a country is selected as the **first most important country for investments is closely correlated with the HQ country**.
- **Germany is mentioned much more frequently** as the most important country for investments than would be expected from the frequency with which it is mentioned as a HQ country. **The exact opposite holds true for the UK**.

The vast majority (95%) of PE MM fund managers invest in the growth or buyout investment stages.

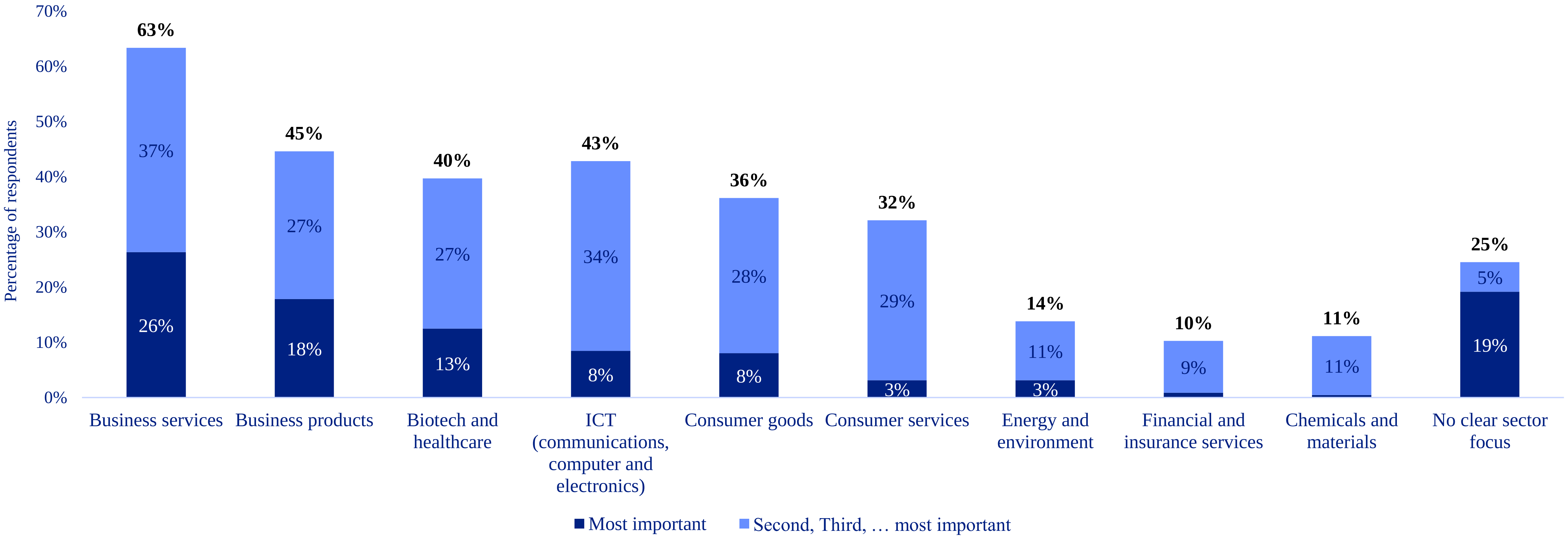
Q: "In which country/geography is your firm headquartered?"

Q: "Please select the most important countries in which your firm invests in PE mid-market." (multiple selection possible); and then "rank them by importance."

Q: "What is (are) the most important stage(s) in which your firm invests?"

Most important industries for PE MM investments

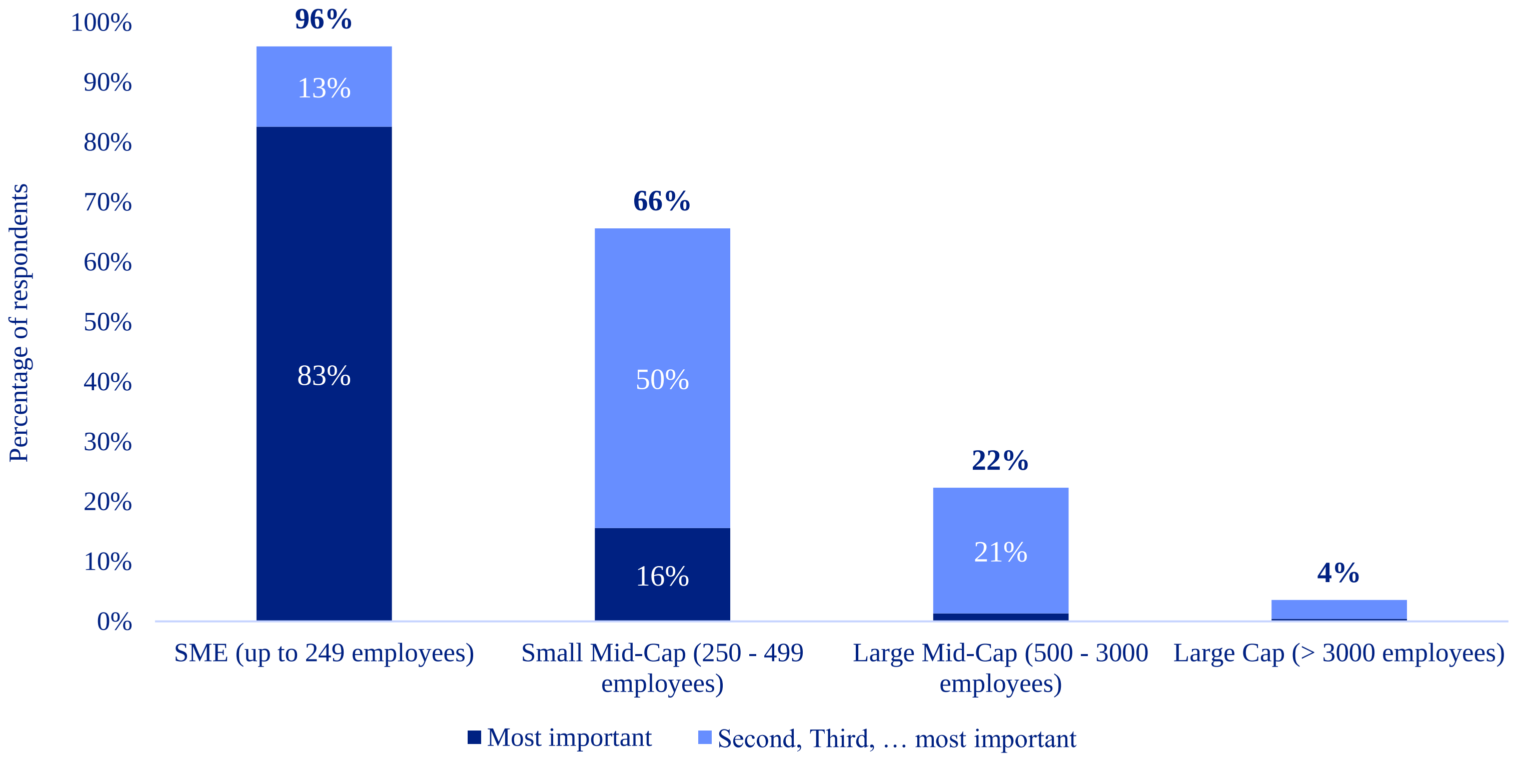
The most important industry in which PE MM fund managers invest is Business services, followed by Business products. Biotech & Healthcare was selected more frequently as an important industry for PE MM investments than in previous years.



Percentages in ***black font*** *on top of the bars show the aggregate percentage of respondents who have selected the respective industry. Reading example: 63% of PE MMs invest in Business services; for 26%, it is even their first most important industry.*

Q: *"Please select the most important industries in which your firm invests in PE mid-market." (multiple selection possible);* and then *"rank them by importance."*

Sizes of companies in which PE MM fund managers prefer to invest



Percentages in **black font** *on top of the bars show the aggregate percentage of respondents who have selected the respective market segment. Reading example: 96% of PE MMs invest in SMEs; for 83%, it is even their first most important investment target.*

Q: *"What are the sizes of companies in which your firm prefers to invest (enterprise sizes, by number of employees at the time of the first investment)?"* (multiple selection possible); and then *"rank them by importance."*

SMEs are the predominant investment target for PE MM fund managers.

- **The vast majority of PE MM fund managers tend to invest mainly in SMEs**.
- In addition, an important share (16%) of PE MM fund managers stated **Small Mid-Caps** as their most important investment target company size.
- Many PE MM fund managers also invest in **Large Mid-Caps**, even if the latter are not their most important investment target company size.

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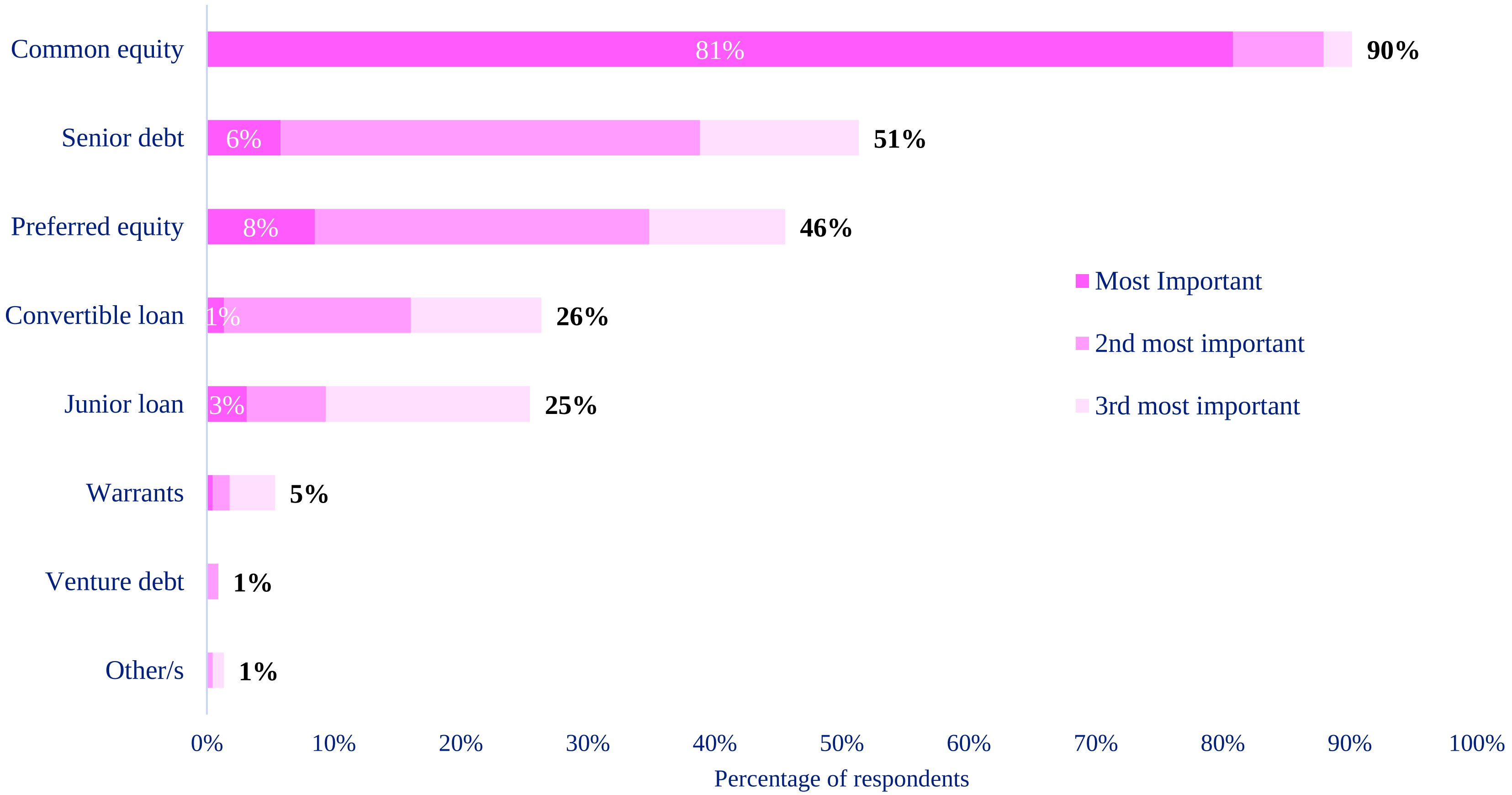
Most important instruments used to finance investee companies



"Common equity" is the most important instrument that PE MM fund managers use to finance their investees.

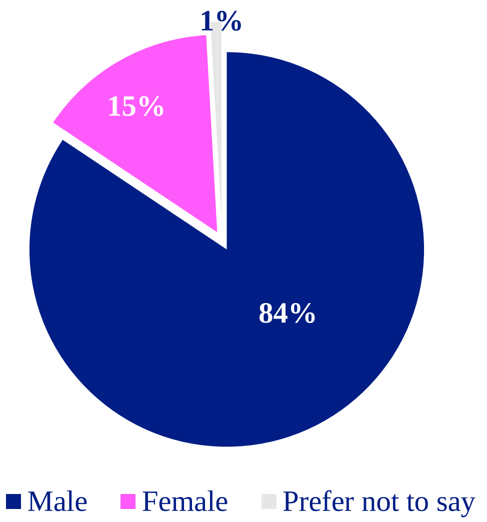
- **"Common equity"** and **"Preferred equity"** are seen as the **most important equity instruments** used to finance PE mid-market companies.
- **"Senior debt"** is considered, on average, as the **most important debt financing** instrument used by PE MM fund managers to finance their investee companies.
- In addition, **"Convertible loans"** and **"Junior loans"** play an important role as financing instruments in the PE mid-market.

Percentages in **black font** *at the end of the bars show the aggregate percentage of respondents who have selected the respective financial instrument. Reading example: 90% of PE MMs use Common equity to finance their investees; for 81%, it is even the first most important financial instrument used.*

Q: *"Considering your firm's overall activity in the PE mid-market, what are the most important financial instruments (in terms of investment amounts) you typically use to finance your investee companies?"* (multiple selection possible); and then *"rank them by importance."*

PEs' human capital characteristics

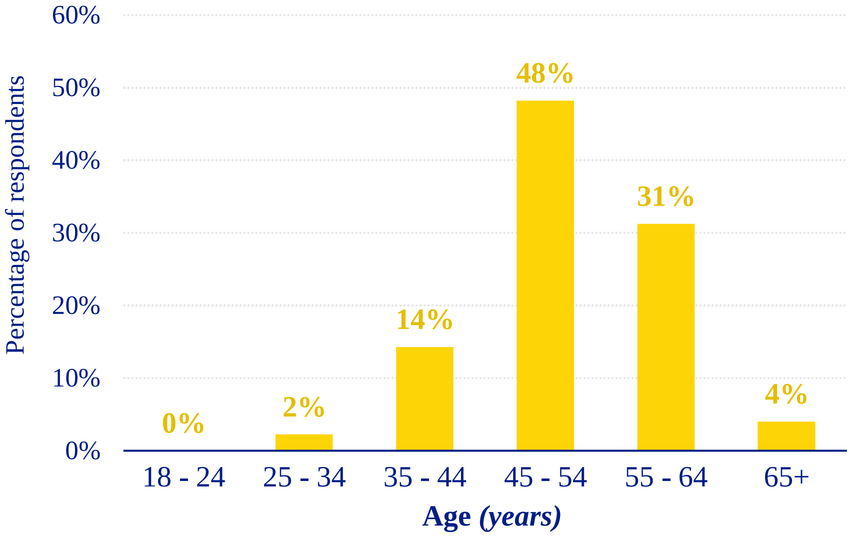
Gender



Q: *"How do you identify?"*

Almost 9 in 10 PE MM respondents are male.

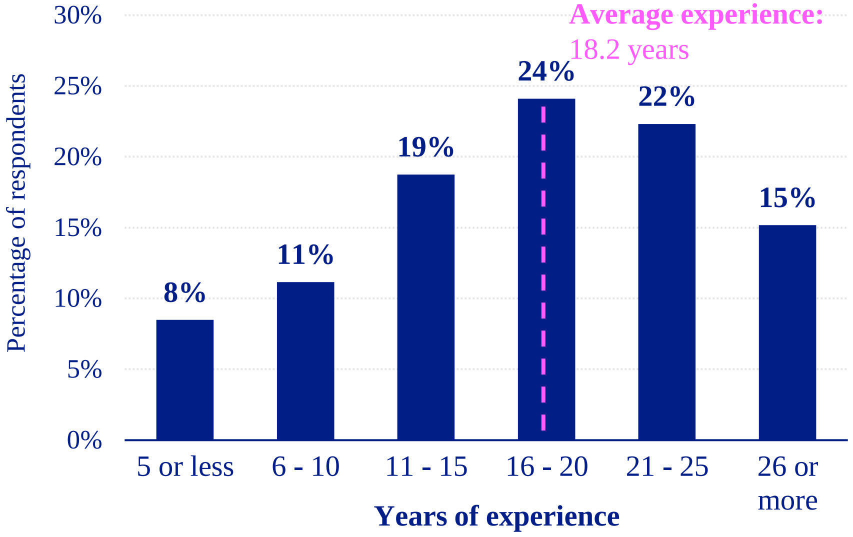
Age



Q: *"What is your age?"*

Nearly half of the PE MM respondents are middle-aged, between 45 and 54 years of age. Only 2% are younger PEs, below 35 years old.

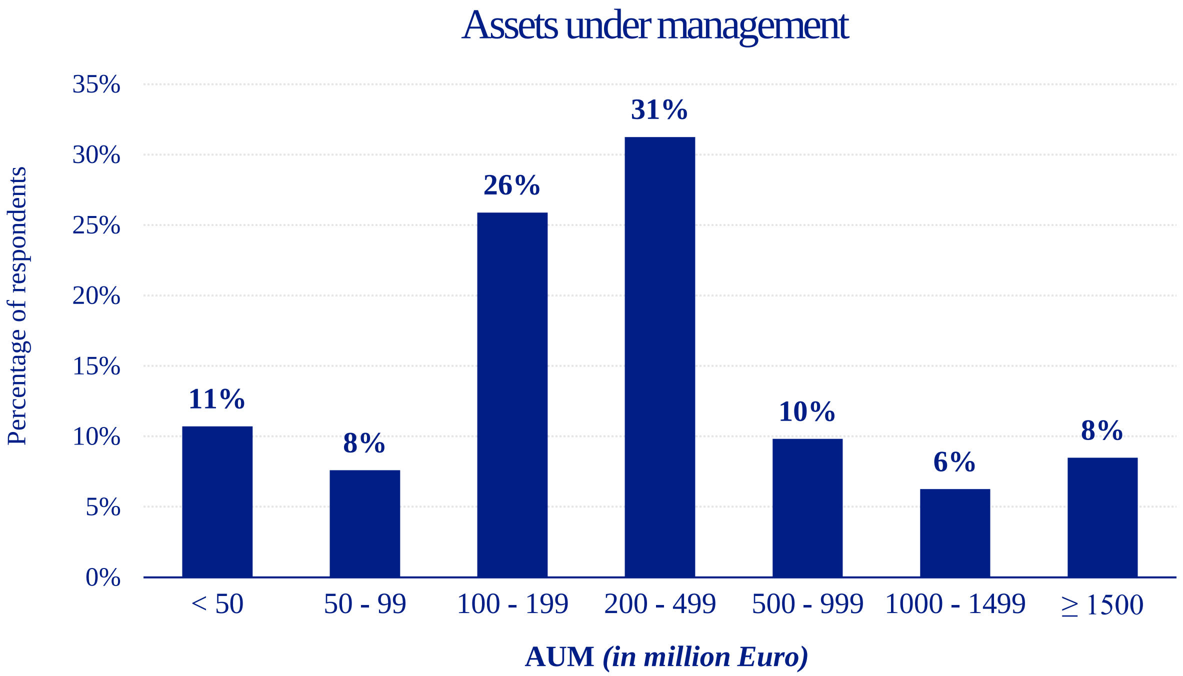
Years of experience



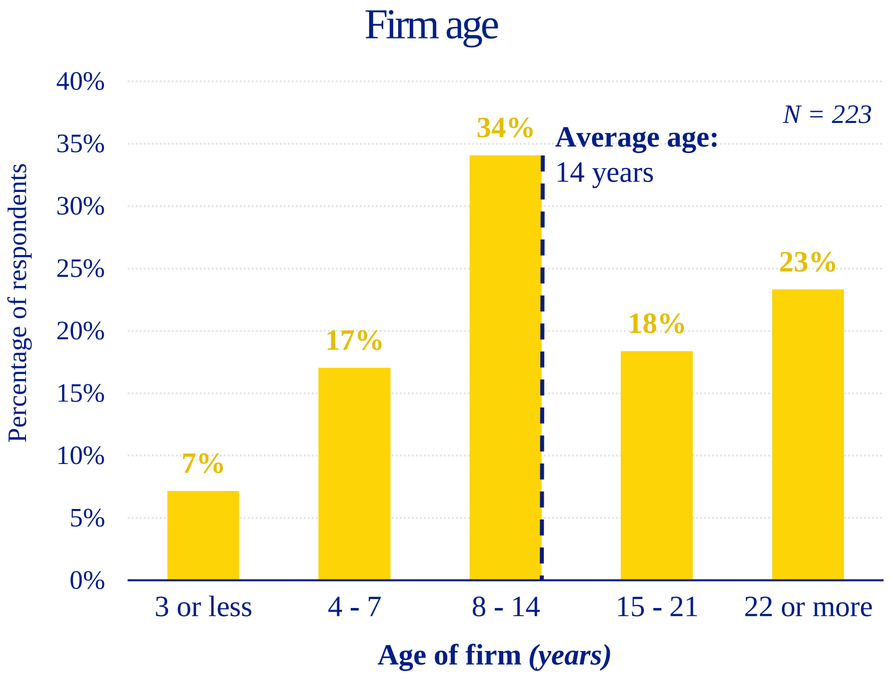
Q: *"In total, how many years of experience as a PE fund manager do you have?"*

The vast majority of the surveyed fund managers are experienced PE investors – almost half have between 16 and 25 years of experience, while 15% even have more than 26 years of experience.

PE firm characteristics



Q: "What are your firm's total approximate assets under management? (in million Euro)"



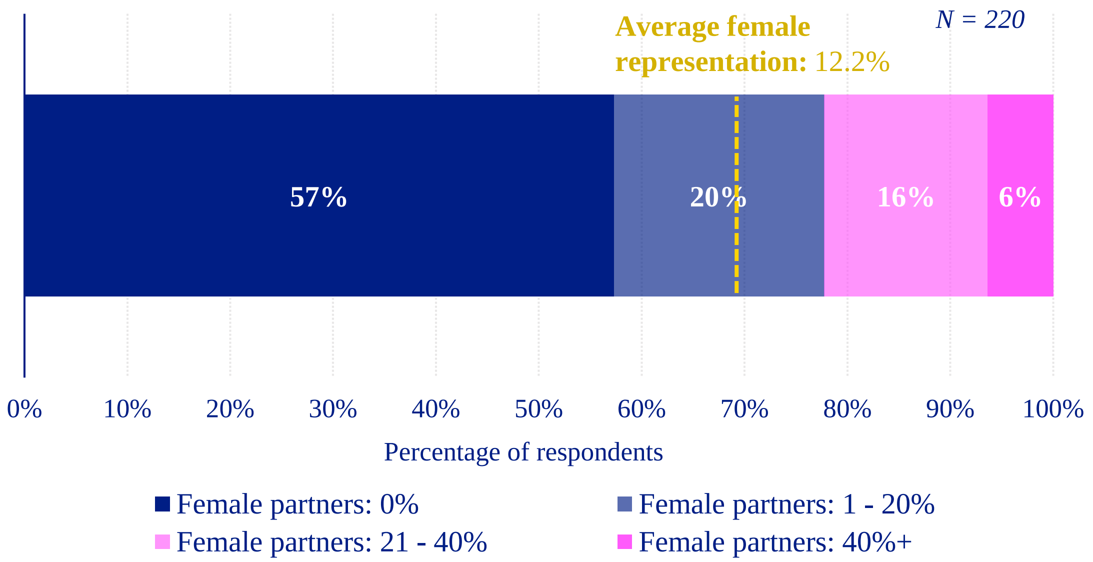
Q: "In what year was your firm established?"

Almost 6 in 10 PE firms in the sample have assets under management between EUR 100m and EUR 500m.

The average PE firm in the sample was established in 2008, making it on average 14 years old.

Gender diversity

Gender diversity of investment team

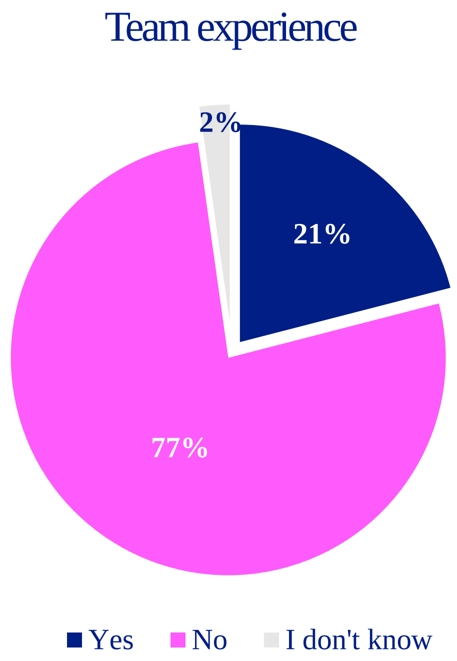


Q: "How many partners (all types) are there in your firm?"
Q: "How many female partners (all types) are there in your firm?"

The vast majority (77%) of the PE teams in the sample are male-dominated, with less than 20% females as partners. Only 6% of the PE firms have more than 40% of their partners being female.

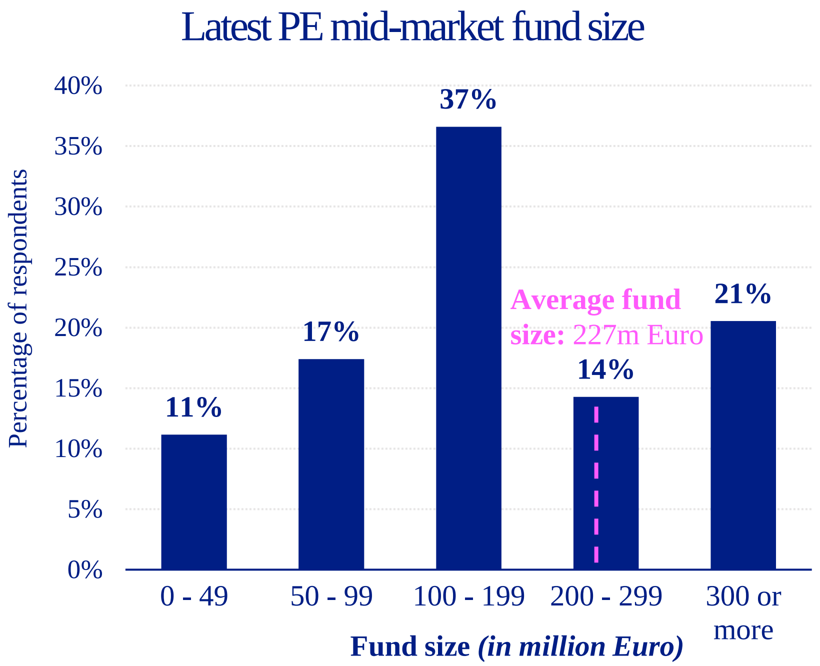
- **Almost 6 in 10** surveyed PE MMs **report no female partners at all** in the investment team of their respective PE firms.
- Almost 1 in 5 PE MMs report female representation at partner level between 20% and 40%.
- Only about **1 in 20 PE MMs report having a female partner share greater than 40%** in their investment team.
- As such, the **average female representation** in the investment team of the surveyed PE firms is **12.2%**.

Fund-related characteristics



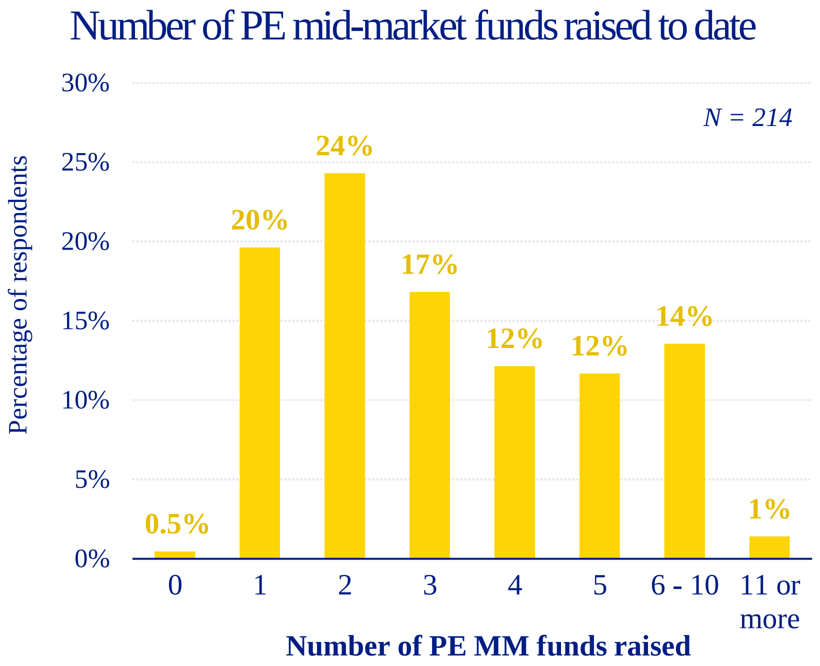
*Q: "Was this the first fund that your **team** raised?"*

For 1 in 5 PE MM fund managers in the sample, their most recent fund was also the only one raised.



*Q: "What is your **firm's** latest PE mid-market fund size? (in million Euro)"*

Half of the surveyed PE firms raised between EUR 100m and EUR 300m in their latest PE MM fund.

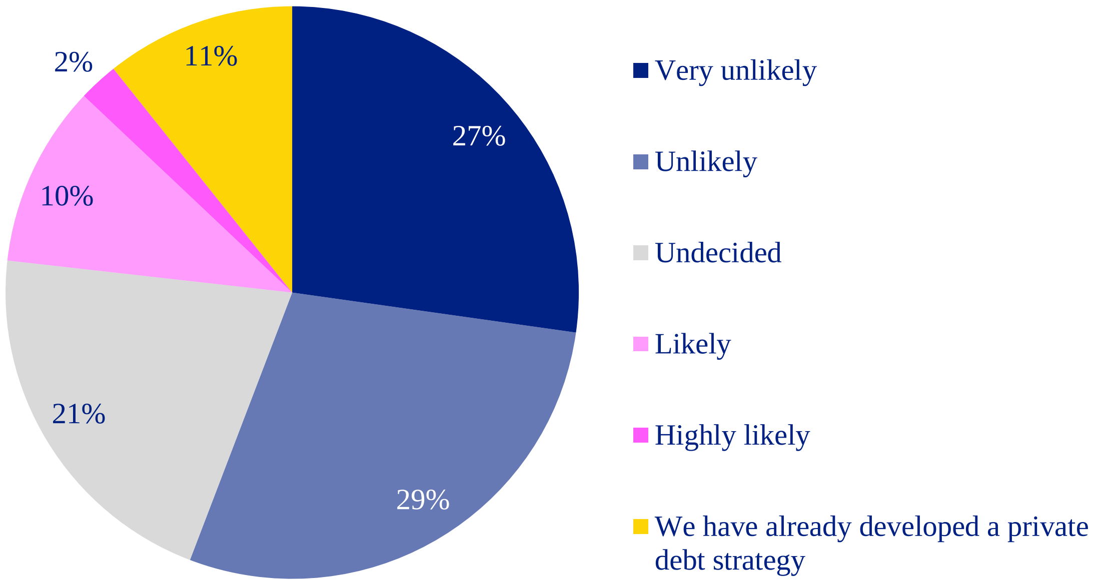


*Q: "In total, how many PE mid-market funds has your **firm** raised to date?"*

Over 60% of the surveyed PE firms have raised between one and three PE MM funds to date.

Development of a private debt strategy

Probability of developing a private debt strategy.

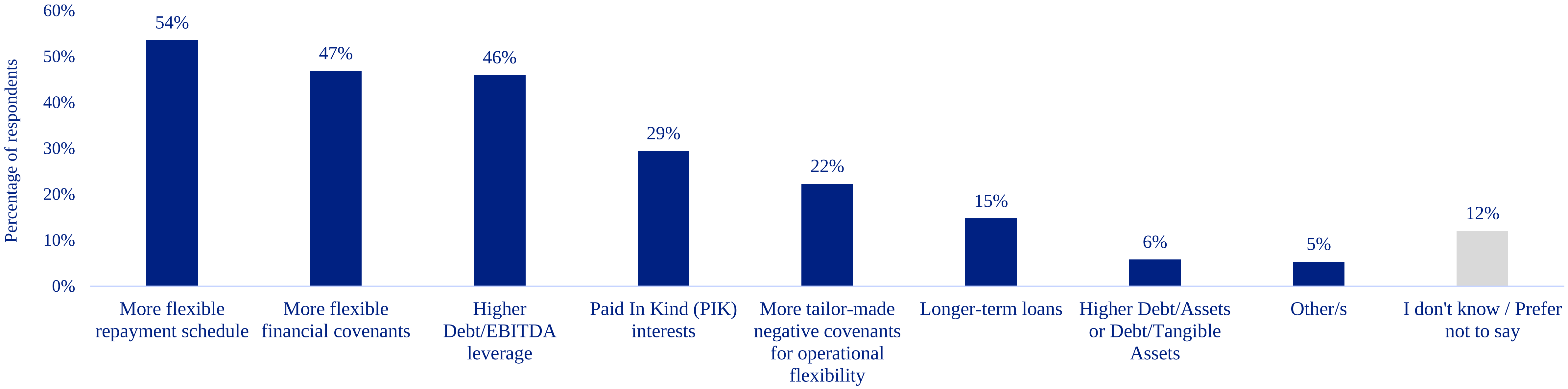


Almost 6 in 10 PE MM fund managers report that their respective firms do not intend to develop a private debt strategy within the next 5 years.

Q: "How likely would it be for your firm to develop a private debt strategy within the next 5 years?

Synergies provided by private debt providers to private equity

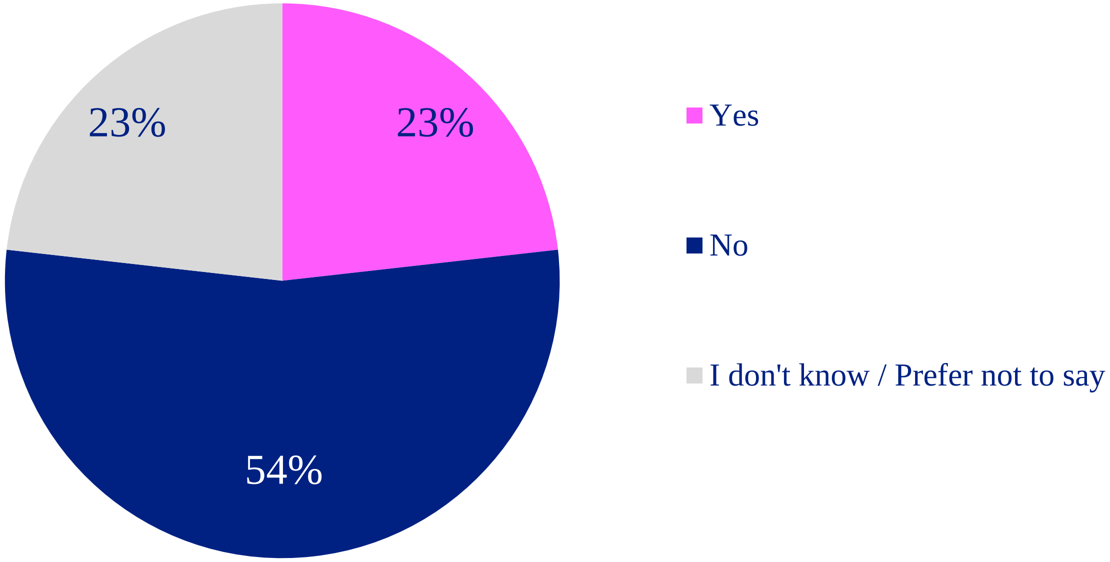
PE firms mainly consider the more flexible and tailor-made covenants of private debt as the prime sources of synergy.



Q: *"In your view, what is the greatest synergy that private debt provides to private equity (that banks cannot / can no longer provide)?" (multiple selection possible)*

- "**More flexible repayment schedule**", "**More flexible financiall covenants**" and **"Higher Debt/EBITDA leverage"** are the main sources of synergy of private debt to private equity as perceived by surveyed PE MM fund managers.
- "**Paid in Kind (PIK) interests**" and **"More tailor-made negative covenants for operational flexibility"** are ranked third and fourth.
- Among PE MM respondents, **1 in 10** did either **not know of any sources** of synergy or **did not wish to declare** such.

Technology transfer in PE MM investment strategy



The majority of PE MM fund managers do not target Technology Transfer in their investment strategy.

Q: *"Does your investment strategy target Technology Transfer?"*

- Almost a quarter of respondents state that their investment strategy targets Technology Transfer. At the same time, however, this is not the case for the majority of PE MM fund managers.

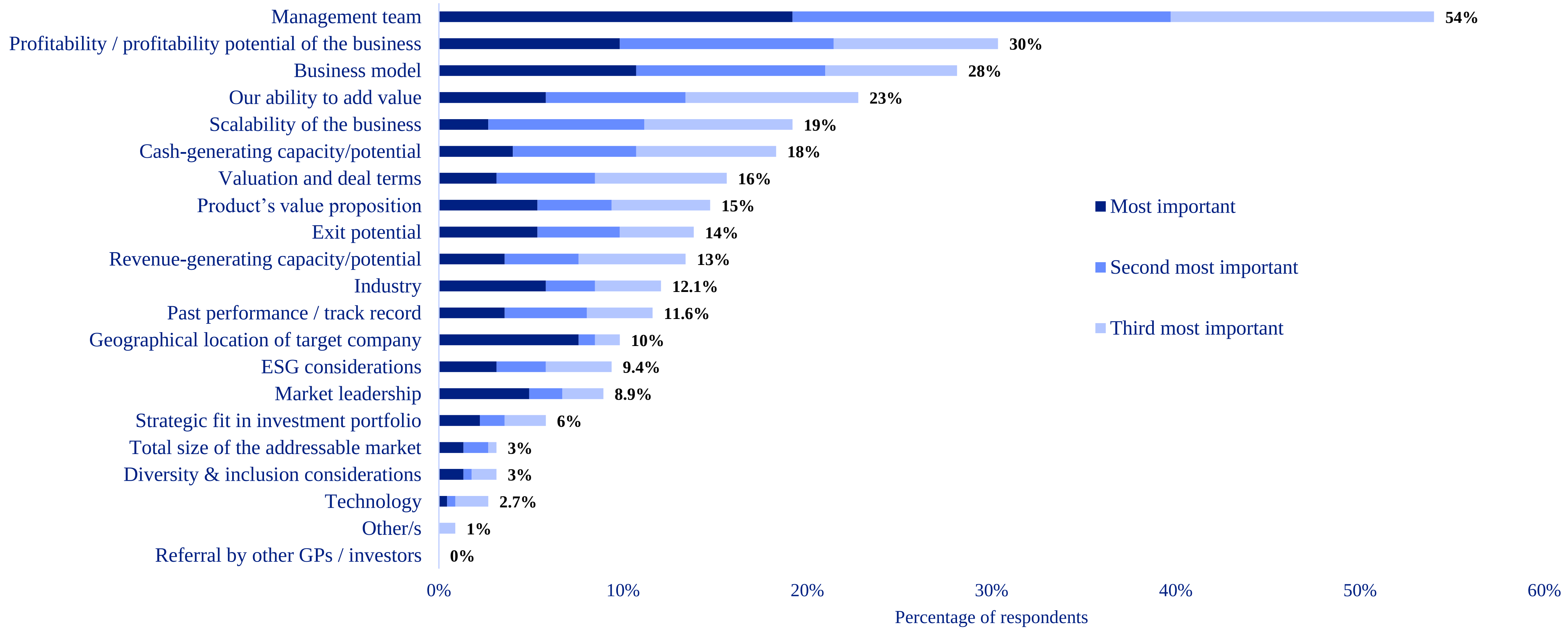
EIF PE MM Survey

7 | Annex

EIF Research & Market Analysis

Survey wave 2022

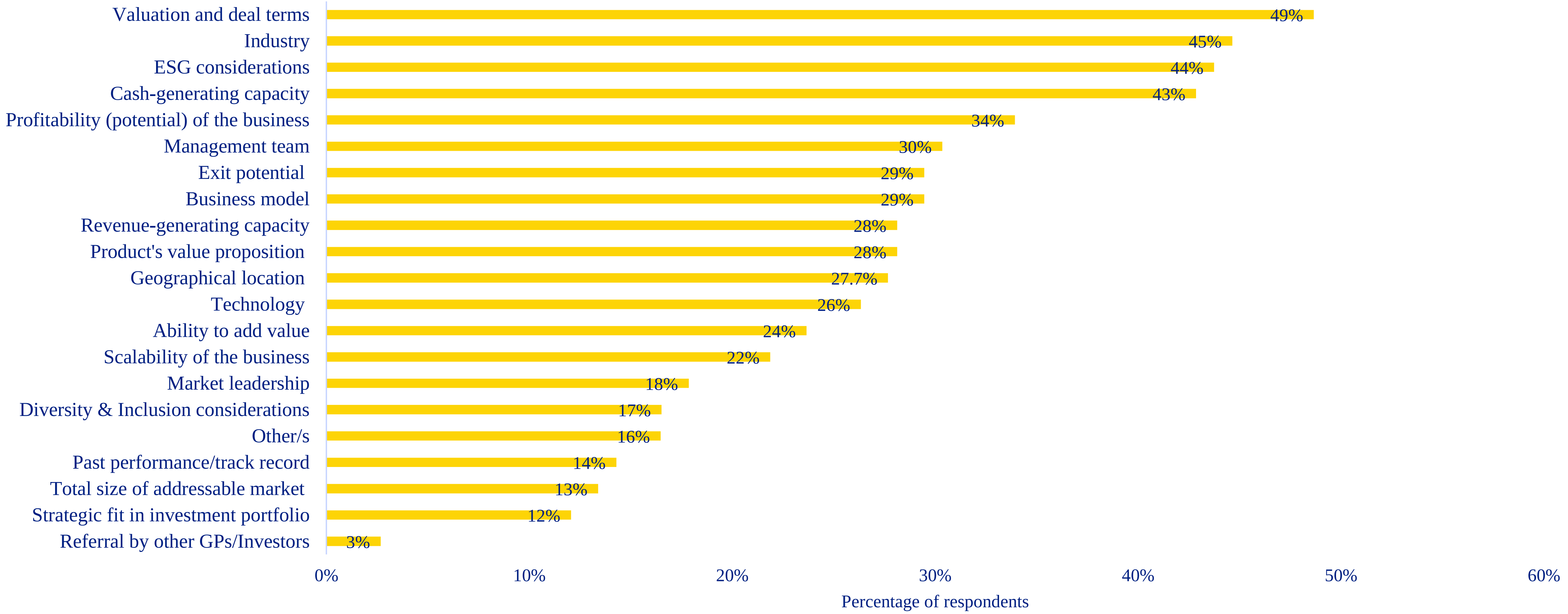
PE MM investment selection criteria
(full list of response options)



The reported percentages show the aggregate percentage of respondents who have ranked the respective criterion in their top-3 selections.

Q: *"Considering your firm's overall activity in the PE mid-market, what are the most important investment selection criteria?"* (multiple selection possible)

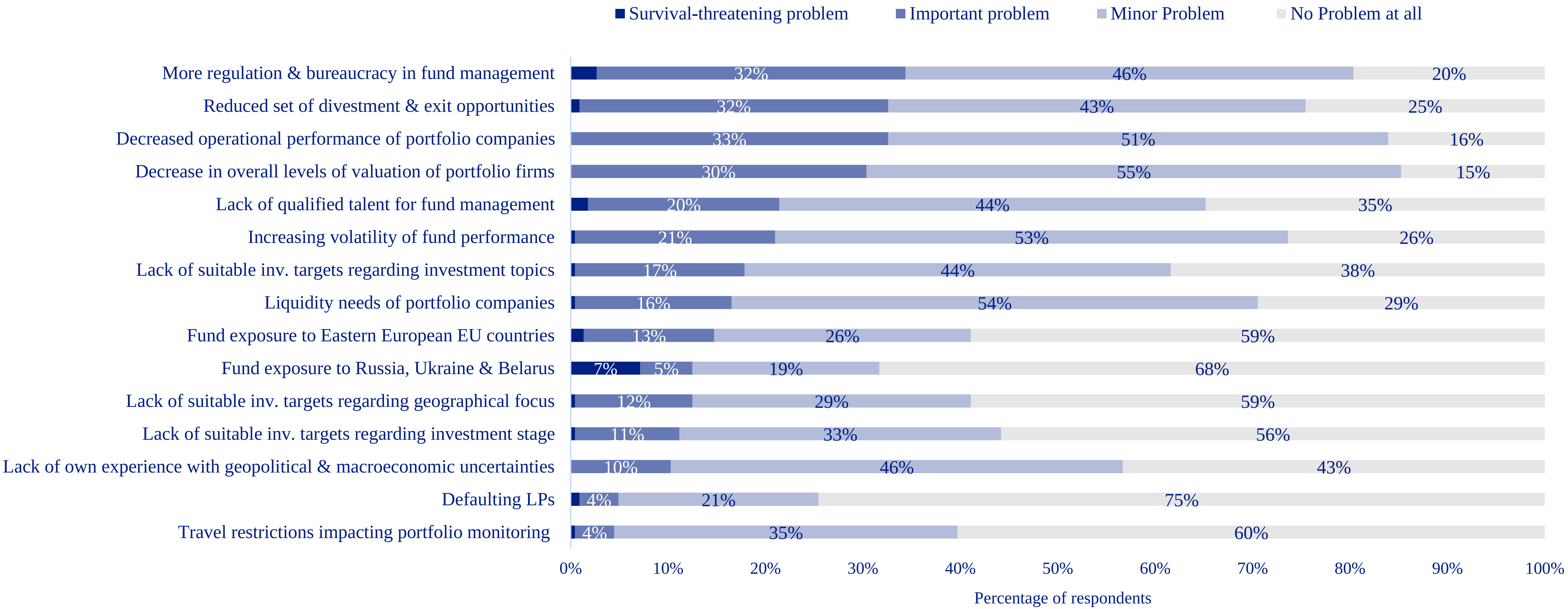
Changes in PE MM investment selection criteria
*(criteria with **highest increase in importance** – full list of response options)*



Reading example: 49% of PE MMs state that the importance of "Valuation and deal terms" has increased in the context of the current geopolitical situation and macroeconomic environment.

Q: *"Considering the current geopolitical situation and macroeconomic environment, has the importance of the respective investment selection criteria changed?*

Operational challenges *for PE MM funds* in the current environment
(full list of response options)



Q: *"Considering the current geopolitical situation and macroeconomic environment, to what extent do the following operational issues constitute a problem for your PE mid-market fund(s)?"*

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About …

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