EIF Private Equity Mid-Market Survey 2021: Market sentiment

Antonia Botsari, Kilian Kiefer, Frank Lang, Davide Legnani
Authors

Antonia Botsari
is Research Officer in the EIF’s Research & Market Analysis division.

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

Frank Lang
is Senior Manager in the EIF’s Research & Market Analysis division.

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

Kilian Kiefer
is Research Consultant in the EIF’s Research & Market Analysis division.

Contact:
k.kiefer@eif.org

Davide Legnani
is Trainee in the EIF’s Research & Market Analysis division.

Contact:
d.legnani@ext.eif.org

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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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Table of contents

1 Executive summary

2 Market sentiment
   ➢ Investments
   ➢ Portfolio
   ➢ Exits
   ➢ COVID-19 impact
   ➢ Challenges
   ➢ Prospects

3 Concluding remarks

4 Information about this study

5 Respondents’ profile and PE firm characteristics

6 Annex
Executive Summary

EIF PE MM Survey
wave 2021
# The EIF PE MM Survey

## Executive Summary


## Number of Respondents

- **215** respondents participated in the survey.

## Top Sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business services</td>
<td>19%</td>
</tr>
<tr>
<td>Business products</td>
<td>18%</td>
</tr>
<tr>
<td>Consumer goods</td>
<td>13%</td>
</tr>
<tr>
<td>ICT</td>
<td>12%</td>
</tr>
<tr>
<td>Biotech &amp; Healthcare</td>
<td>11%</td>
</tr>
</tbody>
</table>

## Stage

- **58%** of the respondents are in the Buyout stage.
- **35%** are in the Growth Capital stage.

Executive summary

Key EIF survey topics 2021

This paper

Impact of COVID-19

Market sentiment

Environment and Climate

Gender diversity

Forthcoming soon

EIF PE MM Survey results: Key highlights

Strong recovery in 2021

• Private Equity (PE) mid-market (MM) fund managers exhibited a very negative sentiment at the early phases of the COVID-19 crisis, particularly with regard to their state of business, the fundraising environment, the access to finance of portfolio companies, future portfolio development and exit prospects.

• However, the European PE mid-market ecosystem proved resilient and weathered the COVID-19 crisis without major damage so far. The PE MM industry’s activity did not show signs of “long COVID” and in 2021 it quickly bounced back from its crisis slump.

• According to the EIF PE Mid-Market Survey, a survey of PE MM General Partners investing in Europe, fund managers have become very optimistic again.

Even record-highs in some areas

• The current market situation is perceived even better than before the COVID-19 crisis. Expectations for the period until mid-2022 are very positive across several categories, displaying the highest values since the EIF PE MM Survey launch in early 2020.

• After a decline throughout 2020, PE MM fund managers’ perception of their state of business is back to the pre-crisis level. Expectations regarding the state of business in the next 12 months are also very positive – more than ever before.

• The sentiment regarding investment expectations had deteriorated considerably in the early phase of the crisis. Since then, however, there has been a gradual return to optimism, culminating in 2021, where expectations for the next 12 months even reached record-high levels.

Mixed impact of COVID-19

• The crisis had a heterogeneous impact on PE MM-supported companies, with the direction depending, for example, on the activity sector of the portfolio company.


• This might partly reflect the different nature of their business models as well as the different impact of the crisis on their targeted companies. For example, amid the COVID-19 crisis, ICT and Life Sciences start-ups (typically targeted by VCs) have been at the centre of very positive trends in digital transformation and health-related needs.

EIF PE MM Survey results: A more detailed summary (i/ii)

**Executive summary**

**Improved environment for fundraising and investment**

- The perception of the fundraising environment has been restored to pre-crisis levels. Expectations for the future fundraising environment reached an all-time high.
- Finding co-investors has become easier again, and most PE MM fund managers expect no change over the coming months.
- Most respondents reported more investments, and a further increase is expected. PE MM fund managers can select from an increased number of incoming investment proposals, which is even expected to accumulate further.
- While almost one third of respondents did not make any investments in 2020, in 2021 an increasing share of PE MM fund managers invested in both new deals and follow-ons in portfolio companies.

**Increased transaction prices, valuations and competition**

- Following a slump amid the COVID-19 crisis in 2020, transaction prices have rebounded upwards and are expected to increase further.
- PE MM fund managers report increased competition for investee companies in the recent past and expect this development to continue.
- Portfolio company valuations are once again on the rise and are expected, on average, to increase further.

**The exit environment recovered, while the majority of exits is within the EU**

- The exit environment has substantially recovered since last year. Expectations are also positive, more than ever before.
- While trade sales are still the most frequent exit route, sales to financial investors have also become more relevant in 2021.
- In contrast to the results observed for the VC market, the vast majority of exits in the case of PE MM investments occur within the EU.

Executive summary

EIF PE MM Survey results: A more detailed summary (ii/ii)

Portfolio companies developed better, but challenges remain

- Portfolio companies developed better than expected for most PE MM fund managers. A large majority of respondents expect further improvement.
- Portfolio companies’ access to finance is at a record-high and expected to (at least) stay similar in the near future.
- “Recruiting high quality professionals” and “Disruption of business activity due to COVID-related restrictions” are the two most important challenges faced by PE MM-backed companies. “Supply chain” has also become one of the most important challenges in 2021.

Challenges in PE MM business do not weigh on long-term growth prospects

- “High investee company valuations”, “Competition from other investors” and “Fundraising” have consistently been among the most important challenges in PE MM business.
- In 2021, “high investee company valuations” has become the most important challenge currently seen in PE MM business.
- However, PE MM fund managers are still confident in the long-term growth prospects of the PE mid-market industry in their own market and in Europe.

Optimism prevails despite COVID-19 impact

- 9 in 10 PE MM fund managers do not expect any insolvencies due to the impact of COVID-19. This finding is even more positive than the (already very positive) one observed in Autumn 2020.
- The median respondent views the impact of COVID-19 on the current performance of their fund(s)/portfolio as negative. When looking at the impact of COVID-19 on the expected final performance of their fund(s)/portfolio, respondents are rather neutral.
- PE MM fund managers are optimistic about the NAV evolution. The optimism has even increased, compared to Autumn 2020.

Market Sentiment

EIF PE MM Survey
wave 2021
**State of business**

**Perception of the state of business is back to pre-crisis levels; and expectations are also positive – more than ever before**

- After a decline between February and March 2020, PE MM fund managers’ perception of their state of business is back to the level reached in February 2020.

- The “net balance” increased by 20 percentage points from Autumn 2020 to 2021. (See the Annex for an explanation of the term “net balance” here.)

- Expectations for the next 12 months are very positive – more than ever before.

- The percentage of respondents that express a negative outlook for the next 12 months is at its lowest level since the EIF PE MM Survey was first launched in early 2020.

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

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

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Market sentiment

The pessimistic view observed in Autumn 2020 has been replaced by a very positive market perception in 2021.

The share of respondents rating the current fundraising environment as (very) good reached the same level as in February 2020. At the same time, the share of negative perceptions decreased strongly compared to March and October 2020.

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

Expectations for the next 12 months

Respondents’ expectations for the future fundraising environment are more optimistic in 2021.

The share of respondents expressing an optimistic outlook reached a record-high in the history of the EIF PE MM Survey waves; with the share of those expressing a pessimistic outlook falling to an all-time low.

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

After becoming considerably more difficult for many respondents between February and March 2020, finding co-investors has become easier again in 2021.

The share of respondents that did not look for co-investors to syndicate decreased to a record-low.

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

Note: The “Average” response option was only provided in the 2021 Survey wave.

The perception of PE MM fund managers regarding the easiness in finding co-investors in the future deteriorated considerably in March 2020, before gradually improving in Autumn 2020 and in 2021.

The expectations have significantly recovered in 2021, with 31% of the respondents expecting it to become easier to find co-investors over the next 12 months and only 3% expecting it to become more difficult. A majority of 53% expect the situation to stay the same.

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

Despite the already positive current situation, most PE MM fund managers expect a further increase in the number of investment proposals to their firm.

• The share of respondents stating an increase in the number of investment proposals received almost doubled between Autumn 2020 and 2021.

• At the same time, in 2021, the share of respondents who experienced a decline in the number of investment proposals received reached its lowest level since the survey was first published in early 2020.

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

• Despite the already positive current situation, most PE MM fund managers expect a further increase in the number of investment proposals to their firm.

• These perceptions confirm a high demand for PE mid-market investments.

• However, a high number of incoming investment proposals does not necessarily mean that these proposals are of sufficient quality for PE MM to invest.

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

Following a slump in the reported investment activity in Autumn 2020, the percentage of respondents stating an increase in the number of their new investments in 2021 is larger than before the COVID-19 crisis.

The share of respondents reporting a decrease in the number of new investments undertaken in the last twelve months is at a record-low.

Even though the actual decrease in PE MM investment activity materialised, according to the survey findings, in Autumn 2020 (see Figure above), the sentiment regarding investment expectations had deteriorated considerably already in March 2020.

Since then, a gradual return to optimism in the sentiment is observed, culminating in 2021, where expectations for the next 12 months even reached record-high levels.

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

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

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

Market sentiment – Investments

### Competition among investors for potential investee companies

**Current situation**

- Even though **competition among investors for potential investee companies** had been steadily decreasing until October 2020, it **picked up again substantially in 2021**, reaching its **highest ever level**.


**PE MM report increased competition for investee companies in the recent past and expect this development to continue.**

- Respondents **expect**, on average, a **further increase in competition** among investors for potential investee companies over the next 12 months.

- The percentage of PE MM expecting less competition is at its lowest (2%) since the start of the survey in early 2020.

**Expectations for the next 12 months**

**Q:** “**Over the past months, how have the following items developed ... ?**” Graph shows the responses for “**Competition among investors for potential investee companies**”

**Q:** “**When you consider your market over the next 12 months, how do you expect the following items to develop ... ?**” Graph shows the responses for “**Competition among investors for potential investee companies**”
Market sentiment - Investments

Transaction prices

Transaction prices have rebounded upwards; PE MM expect even higher transaction prices in the near future.

• Following a slump amid the COVID-19 crisis in 2020, transaction prices have increased again, reaching their highest level since the first EIF PE MM Survey wave.

Q: “Over the past months, how have the following items developed …?” Graph shows the responses for “Transaction prices”

• Transaction prices are expected, on average, to increase further.

• Following a dramatic decrease in March 2020, the transaction price expectations rebounded strongly in Autumn 2020 and in 2021. 60% of the survey participants expect increasing transaction prices over the subsequent months.

• The percentage of PE MM fund managers expecting a decrease in transaction prices is at a record-low (6%). The net balance reached a record level of 53%.

Q: “When you consider your market over the next 12 months, how do you expect the following items to develop …?” Graph shows the responses for “Transaction prices”

**Investment strategy**

**2020 Autumn**
Since March, have you...

- ...invested in new deals only? 29%
- ...invested in follow-ons in portfolio companies only? 22%
- ...invested in both new deals and follow-ons in portfolio companies? 16%
- ...not invested? 33%

**2021**
Over the last 12 months, have you...

- ...invested in new deals only? 9%
- ...invested in follow-ons in portfolio companies only? 10%
- ...invested in both new deals and follow-ons in portfolio companies? 20%
- ...not invested? 62%

An increasing percentage of PE MM fund managers invested in both new deals and follow-ons in portfolio companies.

- In **2020**, almost one third of respondents **did not make investments** (29%) or limited themselves to **follow-on investments** in portfolio companies (22%). In 2021, these categories decreased to 9% and 10%, respectively.

- In **2021**, over 60% of respondents **invested in both new deals and follow-ons in portfolio companies** over the past 12 months.

Portfolio development had significantly deteriorated in Autumn 2020.

However, in 2021, it recovered substantially, reaching a record-high, with portfolio companies developing above expectations for over half of respondents.

The median category of respondents expects a positive NAV impact of 10% to 25% (47% of respondents).

In 2021, only 2.5% of respondents expect a reduction in the NAV of the portfolio. In Autumn 2020, this percentage was considerably higher (42%).

PE MM respondents are optimistic about the NAV evolution. Optimism has increased, compared to Autumn 2020.

Q: “How do you expect the NAV (Net Asset Value) of your fund(s) to evolve until the end of Q4 2021 compared to the NAV as of Q4 2020? (measured as % change from Q4 2020 to expected NAV in Q4 2021)”
Over time, PE MM respondents have generally retained a positive perception regarding access to external finance of their portfolio companies.

Following a gradual deterioration in sentiment since the onset of the COVID-19 crisis, respondents’ perception of access to external finance improved significantly in 2021, reaching record level.

The share of respondents who see the access to finance as (very) bad is at its lowest level since the EIF PE MM survey was first performed.

Portfolio companies’ access to finance is at a record-high and expected to (at least) stay similar in the near future.

After a substantial deterioration in early 2020, survey participants expect the access to external finance of their portfolio companies to either stay the same (58%) or even improve (35%) in the next 12 months.

Expectations are even more optimistic than respondents’ perception reported before the crisis in February 2020.

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

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

The valuations of portfolio companies increased for 3 in 4 PE MM fund managers, which denotes a record share since the first EIF PE MM Survey wave.

At the same time, the net balance exceeded its pre-crisis level, following slumps in March 2020 and (particularly) Autumn 2020.

Q: “Over the past months, how have the following items developed ... ?” Graph shows the responses for “Current valuations of portfolio companies”

The valuations of portfolio companies are expected, on average, to increase further.

3 in 4 respondents expect an increase in valuations over the subsequent 12 months.

Only a tiny fraction of surveyed GPs (4%), the lowest ever recorded, expect lower valuations in the near future.

Q: “Over the next 12 months, how do you expect the following items to develop ... ?” Graph shows the responses for “Current valuations of portfolio companies”

• **Trade sales** are still the most frequent exit route.

• In 2021, the percentage of total exits made up of sales to financial investors reached a record-high of 38%, up from 28% in the previous (Autumn 2020) Survey wave.

• By contrast, the percentage of total exits made up of MBOs, IPOs and secondary sales to third parties has decreased in 2021, compared to Autumn 2020.

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 Autumn Survey wave asked about developments since March 2020.

Market sentiment – Exits

Exit routes – within or outside the EU?

Percentage of each respective exit route located…

<table>
<thead>
<tr>
<th>Exit Route</th>
<th>Within the EU</th>
<th>Outside the EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPO / Sale of listed stocks</td>
<td>84%</td>
<td>16%</td>
</tr>
<tr>
<td>Secondary sale to 3rd party</td>
<td>82%</td>
<td>18%</td>
</tr>
<tr>
<td>Sale to PE / VC / Financial investor</td>
<td>71%</td>
<td>29%</td>
</tr>
<tr>
<td>Trade sale to strategic buyer</td>
<td>59%</td>
<td>41%</td>
</tr>
</tbody>
</table>

Many trade sales to strategic buyers have been to buyers headquartered outside the EU.

- Of the strategic sales in 2021, 41% were to buyers located outside the EU, while 29% of financial sales were to financial investors headquartered outside the EU.
- The vast majority of exits do, however, take place within the EU.
- These results are in contrast to those observed for the VC market (see “EIF Working Paper 2021/074: EIF Venture Capital Survey 2021: Market sentiment”, p.27), where a large part of exits (particularly IPOs) are outside the EU.

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.”

After deteriorating significantly between March and October 2020, the exit environment has recovered strongly since then.

In 2021, over 6 in 10 respondents perceive an improvement in the exit environment, while only 13% perceive a deterioration. By contrast, last year, only 16% had experienced an improvement, while the majority of respondents (57%) experienced a deterioration.

Expectations for future exit opportunities deteriorated significantly between February and March 2020, reaching a net balance of – 44%.

Since then, expectations have significantly improved, reaching a net balance of 46% and 56% in Autumn 2020 and in 2021, respectively.

In light of this optimistic sentiment, expectations for an improvement are, on balance, above their pre-crisis level.

The exit environment has substantially recovered since last year; expectations are more optimistic than ever before.
Relevance of SPACs for PE MM

1 in 5 PE MM respondents have considered SPACs as an exit route.

- 16% of PE MM respondents have considered setting up a SPAC.
- Similarly, only 21% of respondents have considered using a SPAC as an exit route for their portfolio companies.
- This is in contrast to the 2021 EIF VC Survey results (see “EIF Working Paper 2021/074: EIF Venture Capital Survey 2021: Market sentiment”, p.30), where half of VC respondents have considered using SPACs as an exit route.

Q: “Have you considered ... setting up a special purpose acquisition company (SPAC)? / ... using a SPAC as an exit route for your portfolio companies?”

Advantages of SPACs as an exit route

**PE MM consider the quicker and simpler path to a public listing as the main advantage of SPACs as an exit route.**

Q: “Which advantages would you consider SPACs having as an exit route?”.

Note: Multiple selection possible. The diagram does not show the percentages for the response options “I don’t know/ Prefer not to say” (30%), “None of the above” (12%) and “Others” (1%).

- “**Quicker and simpler path to a public listing**” is most frequently mentioned as the main advantage of using SPACs as an exit route.
- “**Bridging the gap between private and public equity**” and “**De-risking of the IPO process**” in terms of the acquisition price ranked in the second and third place of fund managers’ perception of SPAC advantages.

Additional Investment in Portfolio Companies due to COVID-19

COVID-19 forces 1 in 4 PE MM fund managers to provide additional investment to their portfolio companies.

- In the Autumn 2020 Survey wave, 1 in 4 PE MM stated that they had to provide additional investment to portfolio companies due to COVID-19. This is in contrast to VC respondents, where a majority provided such investments.

- Looking ahead, 25% of respondents are planning to provide additional investment to portfolio companies due to COVID-19 until the end of 2022, while a large share does not envisage such plans.

Possible insolvencies due to impact of COVID-19

- In 2021, 9 in 10 PE MM fund managers do not expect any insolvencies due to the impact of COVID-19.
- This finding is even more positive than the one observed in Autumn 2020.

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

Impact of COVID-19 on fund / portfolio performance

The median respondent views the impact of COVID-19 on the expected final performance of their fund(s) / portfolio as neutral.

- In 2021, 62% of PE MM consider the impact of COVID-19 on the current performance of their fund(s) to be (very) negative. The remaining respondents see the impact as neutral (29%), while only 9% of respondents consider the impact as positive or very positive.

- When looking at the impact of COVID-19 on the expected final performance of their fund(s) / portfolio, respondents are rather neutral: 55% expect the COVID-19 impact on the final performance to be neutral, while 29% view it as negative or very negative.

- When comparing results between October 2020 and 2021, it is interesting to note that the perceived impact of COVID-19 has become considerably more negative, in terms of both current and final performance.

Q: “How do you assess the impact of COVID-19 on the current / expected final performance of your fund(s) / portfolio?”

### Market sentiment – Challenges

#### Biggest challenges faced by portfolio companies

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Most important</th>
<th>2nd most important</th>
<th>3rd most important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruiting high-quality professionals [4]</td>
<td>53%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>COVID-related disruptions of business activities [1]</td>
<td>48%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supply chain [5]</td>
<td>40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs of production and labour [8]</td>
<td>33%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer acquisition and retention [2]</td>
<td>23%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internationalisation [6]</td>
<td>21%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strong competition [9]</td>
<td>17%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulation [7]</td>
<td>15%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securing debt financing [N/A]</td>
<td>8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securing liquidity [N/A]</td>
<td>7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securing equity financing [N/A]</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: The number in brackets [ ] corresponds to the ranking of the respective challenge in the EIF PE MM Autumn 2020 Survey. The third biggest challenge in that survey wave was “Securing financing / liquidity”.

Q: “Please select the biggest challenges currently faced by your portfolio companies.”

Note: The graph shows the total percentage of responses with respect to the three most important challenges.

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“Recruiting high-quality professionals” and “Disruption of business activity due to COVID-related restrictions” are the two most important challenges faced by PE MM-backed companies.

- “Recruiting high-quality professionals” is the overall most important challenge for portfolio companies in 2021.
- However, “COVID-related disruptions of business activities” is identified as the first most important challenge by the highest share of PE MM respondents.
- “Supply chain” and the “Cost of production and labour” have become more important as challenges compared to the previous (Autumn 2020) EIF PE MM Survey wave, while “Customer acquisition and retention” has become less so.

Recruiting high-quality professionals was the biggest challenge faced by portfolio companies in the February/March 2020 Survey.

In Autumn 2020, more immediate challenges became prevalent due to the COVID-19 crisis, including “Securing financing / liquidity”, “Customer acquisition and retention” and the “Business disruption due to COVID-19 related restrictions”.

In 2021, “Supply chain” has become one of the most important challenges, mentioned by 15% of PE MM respondents, compared to only 5% last year.

Note: The graph shows the percentage of respondents that selected the respective challenge as the first most important in each wave.

Biggest challenges currently seen in PE MM business

- **"High investee company valuations"** has become the most important challenge currently seen in PE MM business.
- **"Competition from other investors"** have become more important as challenges compared to the previous (Autumn 2020) EIF PE MM Survey wave.
- **"Investee company performance"** was identified as the top challenge in PE MM business during the Autumn 2020 Survey wave; in 2021, it ranks only fifth.
- Similarly, **"Market volatility"** and the **"Exit Environment"** ranked in second and third place, respectively, during the Autumn 2020 Survey wave, while in 2021 they rank only 6th and 12th, respectively.

Q: “Please select the biggest challenges you currently see in PE mid-market business.”

Note: The graph shows the total percentage of responses with respect to the three most important challenges.
During the early phase of the COVID-19 crisis in March 2020, “Market volatility” and the “Exit environment” became significantly more important as challenges, while “High investee company valuations”, the “Number of high quality entrepreneurs” and “Competition from others investors” became less prevalent.

The Autumn 2020 Survey saw a major increase in the importance of “Investee company performance” as a challenge, compared to March 2020.

2021 again saw major changes: “Market volatility” and the “Exit environment” decreased to their pre-crisis levels, while “Competition from other investors” and “High investee company valuations” have significantly risen in importance. “Disruption of business activity due to COVID-19-related restrictions” is also among the most frequently mentioned challenges to PE MM activity.

Q: “Please select the biggest challenges you currently see in PE mid-market business.”

Note: The graph shows the percentage of respondents that selected the respective challenge as the first most important in each wave.

Factors explaining the European scale-up gap

Most important factors in explaining the gap with the US

- Apart from the smaller European VC industry, PE MM fund managers also state the underdeveloped IPO market / underdeveloped entrepreneurial ecosystem centred around scale-ups and the lower average fund sizes as important factors explaining the European scale-up gap compared to the US.

Q: “Which factors would you consider most important in explaining the European scale-up gap compared to the US?”

Note: Multiple selection possible.

Bridging the European scale-up gap

More engagement by large institutional investors is most frequently stated as an effective factor in bridging the late-stage funding gap for European scale-ups.

Q: “Which factors would be most effective in bridging the late-stage financing gap for European scale-ups?”

Note: Multiple selection possible.

- Apart from “increased engagement by large institutional investors”, “public support for late-stage VC and cross-over funds” were also highlighted as effective factors in bridging the late-stage financing gap for scale-ups.

Market sentiment – Prospects

Most promising countries for PE MM investments – next 12 months

**Fund managers expect Germany, Italy and France to be the most promising countries for PE MM investments in the coming months**

- **Germany**, **Italy** and **France** have remained at the top of PE MM fund managers’ ranking of the most promising countries in the next 12 months.

- Compared to the Autumn 2020 Survey wave, **Poland** has surpassed the **Netherlands** and is now in the sixth place on the list of countries that fund managers expect to be most promising for PE mid-market investments in the near future.

Note: The graph shows the percentage of respondents ranking the respective countries in their top-three of most promising countries.

## Most promising countries for PE MM investments – reasons

<table>
<thead>
<tr>
<th>Country</th>
<th>Reasons</th>
</tr>
</thead>
</table>
| Germany   | • Availability and quality of potential investment targets, including family-owned companies due to succession, and an increased willingness to partner with PE funds  
            • Strength of economy and large market size  
            • Strong industrial sector and export orientation |
| Italy     | • Strength of SME businesses and entrepreneurial activities  
            • Government and EU support  
            • Less competition and lower valuations compared to other countries  
            • Strong manufacturing capabilities |
| France    | • Market size and maturity  
            • Availability and quality of potential investment targets |
| UK        | • Post-Brexit opportunities  
            • Large market and good availability of capital  
            • Strong dealflow |
| Spain     | • Less competition and lower valuations compared to other countries  
            • Expected recovery of tourism industry |
| Poland    | • Large market and high growth expectations in Poland and the CEE region |

Q: “Why do you consider this (these) country (countries) promising?”

Note: We provide reasons only for the first six countries identified as most promising in the previous question.

Most promising sectors/industries in the near future

Healthcare, Technology / Digitisation, Business Services and Energy transition are the areas with the greatest investment potential.

• Amid the pandemic, the investment potential in the healthcare sector continues to increase.
• Alongside a pattern towards the use of technology applications to enable greater digitisation of businesses and processes.
• Transition to greener energy and climate change-related investments are also on the rise.

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.

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?

PE MM are confident in the long-term growth prospects of the industry both in their own market and in Europe.

- On average, respondents express a high level of confidence in the long-term growth prospects of their own markets as well as of the European PE MM industry.
- Indeed, both values reached a record-high since the first EIF PE MM Survey wave in February 2020.
- Over time, PE MM fund managers are consistently more confident about their own markets than Europe overall.

Concluding remarks

EIF PE MM Survey wave 2021
European PE mid-market recovered, but challenges remain

Strong recovery in 2021

• In 2021, the European PE mid-market activity recovered from its COVID-19 crisis slump. According to the EIF PE MM Survey, a survey of PE MM General Partners investing in Europe, fund managers have become very optimistic again. The current market situation is perceived even better than before the COVID-19 crisis. Expectations for the period until mid-2022 are very positive.

• The perception of the fundraising environment has been restored to pre-crisis levels and the exit environment has substantially recovered since last year. The percentage of respondents reporting an increase in the number of their new investments is larger than before the COVID-19 crisis. Following a slump amid the crisis in 2020, valuations and transaction prices have rebounded upwards and are expected, on average, to increase further.

Mixed COVID-19 impact

• The crisis had a heterogeneous impact on PE MM-supported companies.

• The largest share of respondents view the impact of COVID-19 on the current performance of their funds as negative. When looking at the impact of COVID-19 on the expected final performance of their funds, respondents are rather neutral. Expected NAV development was more positive in 2021 than in 2020.


• PE MM fund managers are, however, still confident in the long-term growth prospects of the PE MM industry in Europe and in their own market.

Challenges remain

• “High investee company valuations”, “Competition from other investors” and “Fundraising” have consistently been among the most important challenges in PE MM business.

• “Recruiting high quality professionals” and “Disruption of business activity due to COVID-related restrictions” are the two most important challenges faced by PE MM-backed companies. “Supply chain” has also become one of the most important challenges in 2021.

Policy implications

A crisis is also an opportunity

- In the aftermath of the COVID-19 crisis in Autumn 2020, VC / PE MM fund managers participating in the EIF VC / PE MM Survey stated several positive developments. In particular, the acceleration of digitisation resulting from the crisis is seen as a substantial opportunity.

- COVID-19 accelerated the adoption of new technological solutions and business models, which benefitted portfolio companies across a wide range of industries offering such solutions.

Support through appropriate instruments

- The EIF VC / PE MM Survey results support the notion that there exists an unprecedented opportunity to benefit from some of the strong tailwinds created by the crisis, for example in the digital transformation across sectors.

- These opportunities might not always be supported by the sufficient availability of financing sources. Previous survey results suggest that this is particularly relevant in the very initial stages and in the growth stage segment and financing of “scale-ups”. This creates a need for policy measures that appropriately ensure that companies which are implementing new opportunities will have sufficient access to finance.

Existing and new policy solutions

- New and creative policy solutions, making the best of digital technologies, will be pivotal in developing an increasingly interconnected and thriving European VC and PE ecosystem, capable of nurturing the tech champions of tomorrow.

- Moreover, policy responses should entail a combination of new and existing measures. In the case of financial instruments, these should support both existing and new financing channels and market players.

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 infrastructure to address market gaps and challenges as well as to support opportunities with the aim to further enhance the attractiveness of European VC and PE as an alternative asset class.

- In order to improve the availability of information for evidence-based policy interventions, the EIF performs, on a regular basis, the EIF VC Survey, the EIF Private Equity Mid-Market Survey and the EIF Business Angels Survey. In addition, a new EIF Private Debt Survey has recently been performed.

A unique source of information

- The EIF VC Survey, the EIF Private Equity Mid-Market 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 EIF BA Survey is unique in its pan-European coverage and multi-country approach.

- 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 with Invest Europe and the Joint Research Centre (JRC) of the European Commission.

Results dissemination

- In addition to the sections on market sentiment and the impact of COVID-19, the 2021 wave of the EIF VC Survey and the EIF PE MM Survey allowed us to look into recent changes with respect to Gender diversity and investing in Climate & Environment. Several related publications are under preparation. Additional analyses will look at ESG considerations in the European PE/VC market, based on our survey results. A new wave of the EIF BA Survey was also launched recently.


Information about the study

EIF PE MM Survey wave 2021
The EIF PE MM Survey

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.

- 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.

Respondents and survey period

- This study is based on the EIF PE Mid-Market Survey.

- The 2021 wave of the EIF PE Mid-Market Survey includes anonymised responses from 215 PE MM fund managers (from 188 PE firms).

- Responses were received between 7 July and 5 August 2021.

Topics

- The main topics covered in the 2021 survey are market sentiment, the impact of COVID-19, environment & climate, and gender diversity.

- The focus of this study is on the survey results for the topics of market sentiment and the impact of COVID-19. We look at the current situation, developments in the recent past, and expectations for the future. The study therefore provides a unique picture of the developments and the market sentiment in 2021.

- Since the market sentiment topic was also covered in all previous survey waves, the main results are summarised and compared on a time series basis.

How to read the results

General information

Some results shown in this publication are based on a number of respondents that is smaller than the overall number of 2021 EIF PE MM Survey respondents, either because the other respondents selected the “I don’t know / Prefer not to say” response option or because a filter question preceded the question under consideration. Further details are available upon request.

Terminology: Survey waves

• The following analyses also use results from the previous EIF PE MM Survey waves:
  ➢ “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 %age of respondents expecting the number of their new investments to slightly/strongly increase minus the %age of respondents expecting the number of their new investments to slightly/strongly decrease.)

• Percentages may not always add up to 100% due to rounding.

List of acronyms

- AUM: Assets Under Management
- BA(s): Business Angel(s)
- bn: billion
- CEE countries/region: Central and Eastern European
- 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
- JRC: Joint Research Centre of the European Commission
- 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
- PEs: Private Equity fund managers
- Q: Question
- Q4: Fourth quarter of a year
- RMA: Research & Market Analysis
- SME: Small and Medium-sized Enterprise
- SPAC: Special Purpose Acquisition Company
- UK: United Kingdom
- USA: United States of America
- VC: Venture Capital
- VCs: Venture Capital fund managers
Respondents’ profile and PE firm characteristics

EIF PE MM Survey wave 2021
Respondents’ profile and PE firm characteristics

**EIF relationship**

Among respondents, 72% are EIF-supported, while 28% have never received EIF funding.

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?”

More than 4 in 10 PE MM fund managers come from PE firms headquartered in Italy, France, the UK and Germany.

Overall, the frequency with which a country is selected as the first most important country for PE MM investments is closely correlated with the HQ country.

Germany is mentioned far more frequently as the first most important country than what would be expected from the frequency with which it is mentioned as a HQ country, while the opposite is true for the UK.

Over 9 in 10 PE MM fund managers invest in growth capital (35%) or buyout (58%).

Most important industries in which PE MM invest

ICT, Consumer Goods and Business Products & Services are the most important industries in which PE MM invest

Q: “Please select the most important industries in which your firm invest in PE mid-market.”

Respondents' profile and PE firm characteristics

Almost 40% of PE MM fund managers come from PE firms established over the last decade.

One fourth of respondents’ PE firms have AUM between EUR 200m and 499m.

Q: “In what year was your firm established?”

Q: “What are your firm’s total approximate assets under management?”

**Fund-related information**

**Team Experience**

Respondents' profile and PE firm characteristics

**Latest PE MM fund size**

Q: “What is your firm’s latest PE mid-market fund size”

<table>
<thead>
<tr>
<th>Fund size in mEUR</th>
<th>Percentage of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-50</td>
<td>13%</td>
</tr>
<tr>
<td>51-100</td>
<td>20%</td>
</tr>
<tr>
<td>101-200</td>
<td>28%</td>
</tr>
<tr>
<td>201-500</td>
<td>30%</td>
</tr>
<tr>
<td>more than 500</td>
<td>9%</td>
</tr>
</tbody>
</table>

**PE MM funds raised to date**

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

<table>
<thead>
<tr>
<th>Fund size</th>
<th>Percentage of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-50</td>
<td>25%</td>
</tr>
<tr>
<td>1</td>
<td>21%</td>
</tr>
<tr>
<td>2</td>
<td>20%</td>
</tr>
<tr>
<td>3</td>
<td>12%</td>
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<tr>
<td>4</td>
<td>9%</td>
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<td>4%</td>
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<td>6</td>
<td>3%</td>
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<tr>
<td>7</td>
<td>4%</td>
</tr>
<tr>
<td>8</td>
<td>2%</td>
</tr>
<tr>
<td>more than 8</td>
<td>0%</td>
</tr>
</tbody>
</table>

**For almost one third of the firms, the most recent fund was also the only one raised**

3 in 10 PE MM respondents raised a fund between EUR 201m and 500m.

Almost half of PE MM respondents report having raised up to 2 funds to date

Annex

EIF PE MM Survey
wave 2021
Survey publications and highlights

*Latest market sentiment is published in the EIF Working Paper series; see also “Measuring Venture Capital Sentiment in Europe”, https://doi.org/10.1007/978-3-030-17612-9_6, for methodological notes.

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About …

… the European Investment Fund

The European Investment Fund (EIF) is Europe’s leading risk finance provider for small and medium sized enterprises (SMEs) and mid-caps, with a central mission to facilitate their access to finance. As part of the European Investment Bank (EIB) Group, EIF designs, promotes and implements equity and debt financial instruments which specifically target the needs of these market segments.

In this role, EIF fosters EU objectives in support of innovation, research and development, entrepreneurship, growth, and employment. EIF manages resources on behalf of the EIB, the European Commission, national and regional authorities and other third parties. EIF support to enterprises is provided through a wide range of selected financial intermediaries across Europe. EIF is a public-private partnership whose tripartite shareholding structure includes the EIB, the European Union represented by the European Commission and various public and private financial institutions from European Union Member States, the United Kingdom and Turkey. For further information, please visit www.eif.org.

… EIF’s Research & Market Analysis

Research & Market Analysis (RMA) supports EIF’s strategic decision-making, product development and mandate management processes through applied research and market analyses. RMA works as internal advisor, participates in international fora and maintains liaison with many organisations and institutions.

… this Working Paper series

The EIF Working Papers are designed to make available to a wider readership selected topics and studies in relation to EIF’s business. The Working Papers are edited by EIF’s Research & Market Analysis and are typically authored or co-authored by EIF staff, or written in cooperation with EIF. The Working Papers are usually available only in English and distributed in electronic form (pdf).