EIF Private Equity Mid-Market Survey 2023: Market sentiment, scale-up financing and human capital

Report leaders: Helmut Kraemer-Eis and Annalisa Croce
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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,

The European private equity (PE) ecosystem is undoubtably facing a challenging moment. Fund managers and investee companies have navigated through a continuum of various and very different crises, including the pandemic and its related economic fallout, the Russian war of aggression against Ukraine, the energy price shock, and the current period of high inflation and interest rates.

Each of these crises has left a distinctive mark on the PE market, typically initiating with a sharp decline in market sentiment and subsequently affecting market activity. However, there are indications that the market’s resilience has strengthened compared to previous disruptions in past decades, such as the dotcom crisis in the early 2000s or the global financial and economic crisis starting in 2007. Unlike those periods, when PE fundraising and investments experienced substantial declines and prolonged subdued periods, the crises of the last three years have been characterised by smaller and shorter drops in market activity, immediately followed by robust upswing.

The present market environment, marked by tightening monetary and financial conditions, rising interest rates, and subdued economic activity, has persisted for an extended duration, contributing to a weakened fundraising and exit environment. Portfolio companies continue to grapple with significant challenges, particularly concerning escalating costs of production and labour. However, looking ahead, our new EIF Private Equity Mid-Market Survey 2023 reveals some encouraging signs of a potential turnaround. While many indicators for the current situation have reached their lowest levels since the inception of our survey in 2020, expectations for the next 12 months have improved, especially regarding fundraising and exits.

Our survey respondents have also highlighted several longer-term structural challenges, particularly concerning access to human capital. These are elements that demand attention from policy makers.

EIF’s Research & Market Analysis endeavours to support this process by enhancing the availability of information for evidence-based policy interventions, crucially needed during and in the aftermath of crises. Through two regular and anonymous equity surveys - the EIF Private Equity Mid-Market Survey and the EIF VC Survey - the EIF’s Research & Market Analysis team provides unique market insights, typically on an annual basis.

The present study examines the current situation, recent developments, and expectations for the future. In this publication, the main results are summarised and compared over time. The respondents of the EIF Private Equity Mid-Market Survey, comprising PE mid-market fund managers investing in Europe, have disclosed compelling insights, offering a distinctive snapshot of the developments and the market sentiment in 2023.

I extend my gratitude to all contributors for this insightful participation in this project. To enhance readability, we are presenting a hybrid slide document instead of the traditional Working Paper style. I hope you find it enjoyable.

Kind regards,

Helmut Kraemer-Eis
EIF Chief Economist and Head of Research & Market Analysis
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EIF PE MM Survey

Executive summary

EIF Research & Market Analysis
Survey wave 2023
The EIF PE MM Survey

Executive summary

Number of respondents: 199

Top sectors:
- Business services: 20%
- Healthcare: 17%
- Business products: 11%
- ICT: 11%
- Consumer goods: 10%
- Energy & environment: 7%

Most important stage:
- Buyout: 66%
- Growth capital: 28%
Exceptional times require unique market insight

Evidence-based policy intervention to address challenges and opportunities

• The EIF concentrates on supporting the necessary private sector venture capital (VC) and Private Equity (PE) mid-market (MM) 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 and the EIF VC Survey. In addition, the EIF Business Angels Survey was performed in 2019, 2020 and 2021/22. An EIF Private Debt Survey was performed 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) and the EIF VC 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 2023 wave of the EIF PE MM Survey and the EIF VC Survey focused on issues related to market sentiment, scale-up financing, European strategic autonomy, and the role of human capital (particularly skills and diversity) in European VC and PE mid-market. We look at the current situation, developments in the recent past, and expectations for the future. The present EIF Working Paper focuses on the topics of PE MM market sentiment, scale-up financing and human capital. The findings are also summarised and compared over time. 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.
The exit environment has worsened significantly, according to a large majority of respondents. The overall exit environment has also become more important among the key challenges for the PE MM business. The key challenge regarding the exit environment is general difficulties in finding potential buyers. Regarding exit routes, the relative importance of trade sales decreased in 2023, while the occurrence of insolvencies increased strongly.

While many market sentiment indicators of the EIF PE MM Survey that cover the current situation deteriorated further compared to 2022, expectations for the next 12 months have improved for most of the reported categories.

In the same vein, the confidence in the long-term growth prospects of the PE MM industry in the respondents’ respective markets improved in 2023.

Policies to attract insurance companies and private pension funds are the most frequently suggested measures to support the development of the PE mid-market industry.
EIF PE MM Survey

2 Market sentiment

EIF Research & Market Analysis
Survey wave 2023
State of business

Respondents’ perception of their state of business has remained positive; and the situation is expected to improve further.

- PE MM fund managers’ perception of their state of business has remained largely unchanged in 2023 compared to 2022.
- The overall perception remains positive. Only a small fraction of respondents, 4%, view the current situation negatively.

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

- The outlook is similarly positive and only 12% of the respondents expect the state of business to deteriorate in the next 12 months.
- This represents a markedly more positive outlook compared to 2022. The “net balance” increased by 49 percentage points (up to 42% from -7% in 2022). (See the related page of the section “Information about this study” for an explanation of the term “net balance”.)
- Ultimately, expectations have recovered from the record low in 2022 and are comparable to pre-COVID-19 levels.

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

The perception of the fundraising environment has reached an all-time low, but expectations have recovered.

- The pessimistic market perception seen in 2022 has deteriorated even further in 2023, reaching an all-time low in the time-series of the EIF PE MM Survey results.
- The net balance of -65% shows a high level of pessimism regarding the fundraising environment.
- Only 3% of fund managers express a positive perception of the current fundraising environment.

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

- However, respondents’ expectations for the fundraising environment in the next year have rebounded and the net balance of responses is once again positive (up to 17% from -50% in 2022).
- The share of optimistic respondents rose from last year’s low of 11% to 37%.

Q: “Over the next 12 months, how do you expect the fundraising environment for PE mid-market funds to develop?”
Finding co-investors has become more difficult in 2023. However, the outlook is more positive.

- Finding co-investors has become more difficult compared to previous years.
- The share of respondents who stated that it is easy to find co-investors dropped to a record-low of only 26%.

Q: “Over the last 12 months, how easy/difficult was it to find co-investors to syndicate?
Note: The “Average” response option was only provided since the 2021 survey wave.

- Expectations about future easiness in finding co-investors have improved from 2022.
- The share of respondents that expect finding co-investors to become easier has increased, leading to a strong improvement in the net balance of responses (from -17% to +16%).

Q: “Over the next 12 months, how do you expect finding co-investors to become?”
The most important barriers in finding co-investors to syndicate

- Constraints on timing due to transaction dynamics is the most frequently cited barrier in finding co-investors.

- By contrast, costs, regulatory hurdles, and a lack of network contacts and leads are not considered as important.

- Respondents also referred to other barriers such as heightened risk aversion, reduced capital availability due to macroeconomic and geopolitical uncertainties, and a preference for established relationships or secondary market investments.

- Relevant policy measures to support co-investments should focus on regulatory simplification, tax incentives, and fiscal support for portfolio companies, coupled with the promotion of sector-based co-investment funds and easier access to private equity deals.
Going forward, half of respondents anticipate an increase in the number of investment proposals over the next 12 months. At the same time, the share of respondents expecting a decrease in the number of proposals decreased significantly to 6% (the second lowest in the time-series of the survey results). Nonetheless, the positive net balance of 20% suggests that, on balance, the number of investment proposals increased, but at a continuously slower pace over the course of the last couple of years.

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

The number of investment proposals received decreased slightly, but is expected to increase again.

- The percentage of PE MM fund managers reporting an increase in the number of investment proposals received was similar to that of 2022.
- By contrast, the share of respondents reporting a decrease in the number of incoming investment proposals increased slightly to 22%.
- Nonetheless, the positive net balance of 20% suggests that, on balance, the number of investment proposals increased, but at a continuously slower pace over the course of the last couple of years.

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

- Going forward, half of respondents anticipate an increase in the number of investment proposals over the next 12 months.
- At the same time, the share of respondents expecting a decrease in the number of proposals decreased significantly to 6% (the second lowest in the time-series of the survey results).
- As a result, in net balance terms, expectations are much more optimistic than in 2022.
Respondents’ expectations recovered from last year’s drop, as the majority of PE MM fund managers anticipate an increase in investment activity over the next year.

In net balance terms, expectations have almost returned to pre-COVID levels.

Investment activity slowed down further in 2023, but is expected to pick up again in the coming months.

- Investment activity continues to follow a downward trend, as the share of respondents reporting an increase in the number of their new investments falls for the second consecutive year.

- While this year, the largest percentage of respondents (44%) reported an investment activity similar to that of 2022, the share of fund managers reporting a decrease in their investment activity has, at the same time, increased to 18%, second only to the one recorded during the COVID-19 crisis.

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

- Respondents’ expectations recovered from last year’s drop, as the majority of PE MM fund managers anticipate an increase in investment activity over the next year.

- In net balance terms, expectations have almost returned to pre-COVID levels.

Q: “Over the next 12 months, how do you expect the number of your new PE mid-market investments to develop?”
Competition among investors for potential investee companies

**Current situation**

<table>
<thead>
<tr>
<th>Year</th>
<th>Slightly/Strongly decreased</th>
<th>Stayed the same</th>
<th>Don’t know</th>
<th>Slightly/Strongly increased</th>
<th>Net balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020 Feb</td>
<td>60%</td>
<td>64%</td>
<td>1%</td>
<td>12%</td>
<td>-100%</td>
</tr>
<tr>
<td>2020 Mar</td>
<td>53%</td>
<td>41%</td>
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<td>2021</td>
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<td>2022</td>
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<td>4%</td>
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<tr>
<td>2023</td>
<td>28%</td>
<td>12%</td>
<td>2%</td>
<td>27%</td>
<td>0%</td>
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</table>

**Expectations for the next 12 months**

<table>
<thead>
<tr>
<th>Year</th>
<th>Slightly/Strongly decreased</th>
<th>Stayed the same</th>
<th>Don’t know</th>
<th>Slightly/Strongly increased</th>
<th>Net balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020 Feb</td>
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<td>46%</td>
<td>13%</td>
<td>28%</td>
<td>0%</td>
</tr>
<tr>
<td>2020 Mar</td>
<td>15%</td>
<td>55%</td>
<td>7%</td>
<td>44%</td>
<td>20%</td>
</tr>
<tr>
<td>2020 Oct</td>
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<td>40%</td>
<td>4%</td>
<td>32%</td>
<td>40%</td>
</tr>
<tr>
<td>2021</td>
<td>63%</td>
<td>65%</td>
<td>5%</td>
<td>24%</td>
<td>60%</td>
</tr>
<tr>
<td>2022</td>
<td>21%</td>
<td>55%</td>
<td>2%</td>
<td>14%</td>
<td>80%</td>
</tr>
<tr>
<td>2023</td>
<td>37%</td>
<td>23%</td>
<td>1%</td>
<td>49%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Respondents report decreased competition for investee companies, but expect competition to increase in the future.

- **Competition** among investors for potential investee companies has **fallen**, as expressed by an all-time-high 27% of respondents.
- As a result, the **net balance reached a record-low** (1%) in the time-series of survey results.

Q: “When you consider your market over the last 12 months, how have the following items developed?” Graph shows the responses for “Competition among investors for potential investee companies”.

- Almost **half of respondents** (49%) suggest that **competition** for potential investee companies **will stay the same** for the next 12 months.
- Nonetheless, the net balance of responses has turned positive (23%), suggesting that overall, **respondents** on balance expect **competition for investee companies to increase again** over the next 12 months.

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”.

• Following last year’s trend, **transaction prices have decreased further in 2023**, with 56% (all-time high) of respondents reporting a decrease in transaction prices.

• At the same time, the share of respondents reporting an increase in transaction prices reached an **all-time low** (16%).

Q: “When you consider your market over the last 12 months, how have the following items developed?” Graph shows the responses for “Transaction prices”.

• Nearly **half** (45%) of respondents expect **transaction prices to stay the same** in the next 12 months.

• However, given the negative net balance of -6%, respondents **expect, on balance, transaction prices to continue to decline**, albeit not at the same pace as the year before.

• Indeed, the net balance became **significantly less negative**, increasing to -6% from -52%.

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”.

**Transaction prices have decreased, and are expected to decline further.**
### Investment strategy

The share of respondents that did not invest continues to be very low.

Over the last 12 months*, have you…

- **October 2020**
  - 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: 33%
  - Not invested: 16%

- **2021**
  - Invested in new deals only: 62%
  - Invested in follow-ons in portfolio companies only: 10%
  - Invested in both new deals and follow-ons in portfolio companies: 4%
  - Not invested: 18%

- **2022**
  - Invested in new deals only: 69%
  - Invested in follow-ons in portfolio companies only: 8%
  - Invested in both new deals and follow-ons in portfolio companies: 18%
  - Not invested: 4%

- **2023**
  - Invested in new deals only: 68%
  - Invested in follow-ons in portfolio companies only: 13%
  - Invested in both new deals and follow-ons in portfolio companies: 8%
  - Not invested: 12%

*The October 2020 survey wave asked about developments since March 2020, while the other survey waves asked about developments over the last 12 months.

- In **2023**, **92%** of respondents **invested in both new deals and follow-ons in portfolio companies** over the past 12 months.
In 2023, portfolio companies’ development continued to worsen, as the net balance of responses fell further to -5%.

Almost one third (30%) of respondents reported that their portfolio companies developed worse than expected.

Although expectations had considerably worsened in 2022, this negative trend was reversed in 2023, with expectations becoming more positive again. The majority (57%) of respondents expect their PE MM portfolio to improve in the next 12 months.

At the same time, a significantly reduced share of respondents (12%) expect their portfolio companies to deteriorate in the next 12 months. These respondents referred to macroeconomic challenges such as high inflation, rising interest rates, and reduced demand, alongside geopolitical tensions, as contributing to a less favourable business and funding environment.
A large majority of respondents (84%) expect a **positive NAV growth in 2023**.

At the same time, the share of respondents that expect the NAV of their fund(s) to **decrease (7%) is lower than in 2022 (12%).**
There has been an increase in the share of respondents expecting at least some insolvencies in their portfolio.

- 11% of respondents expect insolvencies in 2023, up from 5% in 2022.
- At the same time, 5% of respondents expect that more than 5% of their portfolio companies might file for insolvency.
- An increased occurrence of insolvencies is also observed in the context of the exit routes for PE MM portfolio companies.

Q: “Please indicate the expected % of your active portfolio companies that might file for insolvency in 202X”.

* In 2020 and 2021, the question read: “Please indicate the expected % of your active portfolio companies that might file for insolvency due to the impact of COVID-19.”
Nearly half of respondents (49%) reported that portfolio companies have good access to external finance, while 44% of respondents evaluated the situation as average.

On balance, access to external finance remained positive, at 42%.

This contrasts last year’s expectations, where 65% of respondents had anticipated greater difficulties in the access to external finance.

The majority of respondents (53%) do not expect significant changes in access to external finance in the near future.

In addition, the share of respondents that anticipate a deterioration in access to finance more than halved relatively to 2022.

Nonetheless, on balance, expectations vis-a-vis access to finance are still negative (-12%), but have improved (from -59% in 2022).

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?”

Access to external finance did not get worse in 2023.
The upward pressure on valuations has further diminished, but it is expected to return again in the near future.

- The share of PE MM fund managers that reported a decrease in **current valuations of portfolio companies** over the last 12 months has reached its highest level since three years. At the same time, the share of respondents that reported increased valuations has further come down.

- This resulted in a **net balance** that is at its **lowest level since the COVID-19 crisis trough** in autumn 2020.

Q: “When you consider your market over the last 12 months, how have the following items developed?” Graph shows the responses for “Current valuations of portfolio companies”.

- More than 2 in 5 fund managers expect increasing **portfolio company valuations** over the 12 months following the survey. An almost equal share of respondents expect that valuations will stay the same. Only 15% of PE MM fund managers expect decreasing valuations.

- The net balance has returned into positive territory, thereby signaling a possible comeback of the upward pressure on portfolio company valuations.

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 “Current valuations of portfolio companies”.

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**Valuations of portfolio companies**

**Current situation**

<table>
<thead>
<tr>
<th>Year</th>
<th>Slightly/Strongly Decreased</th>
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<th>Don't Know</th>
<th>Slightly/Strongly Increased</th>
<th>Net Balance</th>
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<td>61%</td>
<td>9%</td>
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<tr>
<td>2020 Mar</td>
<td>66%</td>
<td>20%</td>
<td>26%</td>
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<td>6%</td>
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<tr>
<td>2020 Oct</td>
<td>22%</td>
<td>55%</td>
<td>13%</td>
<td>22%</td>
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<td>2021</td>
<td>63%</td>
<td>75%</td>
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<td>49%</td>
<td>20%</td>
<td>1%</td>
<td>2%</td>
<td>-1%</td>
</tr>
<tr>
<td>2023</td>
<td>38%</td>
<td>21%</td>
<td>1%</td>
<td>2%</td>
<td>-2%</td>
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**Expectations for the next 12 months**

<table>
<thead>
<tr>
<th>Year</th>
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<tbody>
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<td>2020 Feb</td>
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<td>52%</td>
<td>25%</td>
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<td>14%</td>
</tr>
<tr>
<td>2020 Mar</td>
<td>38%</td>
<td>19%</td>
<td>27%</td>
<td>-3%</td>
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<td>2020 Oct</td>
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<td>2%</td>
<td>60%</td>
<td>7%</td>
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<tr>
<td>2021</td>
<td>26%</td>
<td>25%</td>
<td>57%</td>
<td>21%</td>
<td>49%</td>
</tr>
<tr>
<td>2022</td>
<td>43%</td>
<td>21%</td>
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<td>1%</td>
<td>15%</td>
</tr>
<tr>
<td>2023</td>
<td>1%</td>
<td>1%</td>
<td>41%</td>
<td>-1%</td>
<td>-2%</td>
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Sales to PE/Financial investors replaced Trade sales to strategic buyers as the most frequent exit route, while IPOs remained scarce and Insolvencies became more prevalent.

Q: “Over the last 12 months, how many of your PE mid-market 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 October 2020 survey wave asked about developments since March 2020.

- The share of sales to strategic buyers decreased to the lowest value in the period analysed, while sales to PE funds or financial investors have become relatively more frequent.
- The percentage of insolvencies increased to 7% in 2023, same as the one observed during the COVID-19 crisis.
- In the 2023 survey wave, most of the secondary sales to 3rd parties are sales to continuation funds, an exit route that is becoming more common for PE portfolio companies.
Sales to VC / PE / financial investor headquartered in the EU tend to be to acquirers headquartered in 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 2023/93, EIF Venture Capital Survey 2023: Market sentiment, scale-up financing and human capital)

The highest share of IPOs / sales of listed stocks of portfolio companies is with primary listing outside the EU.*

Q: “Please tell us, if your sales to trade buyers have been to strategic buyers 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.”
Q: “Please tell us, if your sales to other VC / PE firms have been to 3rd parties headquartered within or outside the EU.”
Q: “Please tell us, if your sales to financial institutions have been to investors headquartered within or outside the EU.”

*Note: The category IPOs / sales of listed stocks is based on only 3 companies.
In 2023, the exit environment deteriorated more than during the COVID-19 crisis, but investors anticipate an improvement.

- The exit environment has weakened further since 2022 and PE MM fund managers currently evaluate it worse than during the COVID-19 crisis.
- With an all-time high of 67%, the vast majority of respondents stated that the exit environment has deteriorated and only a small fraction of 10% sees improvements.

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

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

- In contrast to 2022, nearly half of PE MM fund managers anticipate an improvement of the exit environment in the near future.
- In addition, the share of respondents that expect the exit environment to deteriorate has decreased from last year’s all-time high of 58% to 16% this year.

Q: “Over the next 12 months, how do you expect the exit opportunities of your PE mid-market portfolio companies to develop?”
“Costs of production and labour” has remained the top challenge facing portfolio companies in 2023, for the second consecutive year.

“Recruiting high-quality professionals” is the second most important challenge and has become even more important this year.

“Customer acquisition and retention” also gained in importance this year.

“Geopolitical uncertainty” is still perceived as a key challenge for portfolio companies, ranked in the top-3.

By contrast, “Supply chain”, “Disruption of business activity” and “Strong competition” became less important as challenges compared to 2022.
• "Costs of production and labour", “Recruiting high-quality professionals” and “Geopolitical uncertainty” have remained the top-3 challenges facing PE MM portfolio companies.

Q: “Please select the biggest challenges you currently see for your PE mid-market portfolio companies.” Notes: 1. The graph shows the percentage of respondents that selected the respective challenge as the first most important in each survey wave. 2. Some categories were not available each year. 3. Some categories are aggregated in this chart (e.g., “Securing financing / liquidity” includes “Securing debt financing”; “Securing liquidity” and “Securing equity financing”).

• “Costs of production and labour”, “Recruiting high-quality professionals” and “Geopolitical uncertainty” top the list of the most important challenges faced by PE firms’ portfolio companies in 2023. These challenges have been key for portfolio companies for the past two years.

• “Customer acquisition and retention” re-gained importance as a challenge in 2023, while “Disruption of business activity” and “Supply chain” have become less important.

• Over 40% of respondents that selected “Securing financing / liquidity” referred to the challenge of “Securing debt financing”.

### Biggest challenges currently seen in PE MM business

<table>
<thead>
<tr>
<th>Challenge</th>
<th>1st Rank</th>
<th>2nd Rank</th>
<th>3rd Rank</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geopolitical uncertainty and related consequences</td>
<td>42%</td>
<td>41%</td>
<td></td>
<td>• “Geopolitical uncertainty and related consequences” remained the top challenge for PE MM business (in contrast to the VC business, where it became substantially less important).</td>
</tr>
<tr>
<td>Fundraising your next vehicle</td>
<td>28%</td>
<td></td>
<td></td>
<td>• This was followed by “Fundraising”, “Portfolio company performance” and the “Overall exit environment” which became increasingly important as challenges; also in the case of VC.</td>
</tr>
<tr>
<td>Portfolio company performance</td>
<td>28%</td>
<td></td>
<td></td>
<td>• Linked to fundraising, “Lack of sufficient domestic LPs” and “LP ticket sizes/contributions” were new challenges introduced in this survey wave and emerged in the top-10 challenges highlighted by respondents.</td>
</tr>
<tr>
<td>Overall exit environment</td>
<td>21%</td>
<td></td>
<td></td>
<td>• By contrast, “Market volatility” and “Disruption of business activity” (the second and third most important challenges in 2022, respectively) became significantly less important this year.</td>
</tr>
<tr>
<td>Lack of sufficient private domestic limited partners (LPs)</td>
<td>20%</td>
<td></td>
<td></td>
<td>Note: 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 Survey 2022.</td>
</tr>
<tr>
<td>LP ticket sizes/contributions</td>
<td>14%</td>
<td></td>
<td></td>
<td>Note 1: Several categories were renamed or added over the years. For example, as of 2023, the categories “Availability of scale-up finance for venture-backed companies”, “Lack of skilled workforce at the VC firm level”, “Lack of sufficient private domestic limited partners (LPs)” and “LP ticket sizes/contributions” were introduced. Note 2: The graph shows the percentage of respondents that selected the respective item as their first, second or third most important challenge. Note 3: This graph presents the results only for the year 2023.</td>
</tr>
<tr>
<td>High investee company valuations</td>
<td>13%</td>
<td></td>
<td></td>
<td>Note 1: Several categories were renamed or added over the years. For example, as of 2023, the categories “Availability of scale-up finance for venture-backed companies”, “Lack of skilled workforce at the VC firm level”, “Lack of sufficient private domestic limited partners (LPs)” and “LP ticket sizes/contributions” were introduced. Note 2: The graph shows the percentage of respondents that selected the respective item as their first, second or third most important challenge. Note 3: This graph presents the results only for the year 2023.</td>
</tr>
<tr>
<td>Regulation</td>
<td>12%</td>
<td></td>
<td></td>
<td>Note 1: Several categories were renamed or added over the years. For example, as of 2023, the categories “Availability of scale-up finance for venture-backed companies”, “Lack of skilled workforce at the VC firm level”, “Lack of sufficient private domestic limited partners (LPs)” and “LP ticket sizes/contributions” were introduced. Note 2: The graph shows the percentage of respondents that selected the respective item as their first, second or third most important challenge. Note 3: This graph presents the results only for the year 2023.</td>
</tr>
<tr>
<td>Competition from other investors</td>
<td>7%</td>
<td></td>
<td></td>
<td>Note 1: Several categories were renamed or added over the years. For example, as of 2023, the categories “Availability of scale-up finance for venture-backed companies”, “Lack of skilled workforce at the VC firm level”, “Lack of sufficient private domestic limited partners (LPs)” and “LP ticket sizes/contributions” were introduced. Note 2: The graph shows the percentage of respondents that selected the respective item as their first, second or third most important challenge. Note 3: This graph presents the results only for the year 2023.</td>
</tr>
<tr>
<td>Disruption of business activity or changes to how the business operates</td>
<td>7%</td>
<td></td>
<td></td>
<td>Note 1: Several categories were renamed or added over the years. For example, as of 2023, the categories “Availability of scale-up finance for venture-backed companies”, “Lack of skilled workforce at the VC firm level”, “Lack of sufficient private domestic limited partners (LPs)” and “LP ticket sizes/contributions” were introduced. Note 2: The graph shows the percentage of respondents that selected the respective item as their first, second or third most important challenge. Note 3: This graph presents the results only for the year 2023.</td>
</tr>
<tr>
<td>Small fund sizes</td>
<td>7%</td>
<td></td>
<td></td>
<td>Note 1: Several categories were renamed or added over the years. For example, as of 2023, the categories “Availability of scale-up finance for venture-backed companies”, “Lack of skilled workforce at the VC firm level”, “Lack of sufficient private domestic limited partners (LPs)” and “LP ticket sizes/contributions” were introduced. Note 2: The graph shows the percentage of respondents that selected the respective item as their first, second or third most important challenge. Note 3: This graph presents the results only for the year 2023.</td>
</tr>
<tr>
<td>Number of high quality entrepreneurs</td>
<td>7%</td>
<td></td>
<td></td>
<td>Note 1: Several categories were renamed or added over the years. For example, as of 2023, the categories “Availability of scale-up finance for venture-backed companies”, “Lack of skilled workforce at the VC firm level”, “Lack of sufficient private domestic limited partners (LPs)” and “LP ticket sizes/contributions” were introduced. Note 2: The graph shows the percentage of respondents that selected the respective item as their first, second or third most important challenge. Note 3: This graph presents the results only for the year 2023.</td>
</tr>
<tr>
<td>Lack of skilled workforce at the PE firm level</td>
<td>6%</td>
<td></td>
<td></td>
<td>Note 1: Several categories were renamed or added over the years. For example, as of 2023, the categories “Availability of scale-up finance for venture-backed companies”, “Lack of skilled workforce at the VC firm level”, “Lack of sufficient private domestic limited partners (LPs)” and “LP ticket sizes/contributions” were introduced. Note 2: The graph shows the percentage of respondents that selected the respective item as their first, second or third most important challenge. Note 3: This graph presents the results only for the year 2023.</td>
</tr>
<tr>
<td>Fee pressure</td>
<td>3%</td>
<td></td>
<td></td>
<td>Note 1: Several categories were renamed or added over the years. For example, as of 2023, the categories “Availability of scale-up finance for venture-backed companies”, “Lack of skilled workforce at the VC firm level”, “Lack of sufficient private domestic limited partners (LPs)” and “LP ticket sizes/contributions” were introduced. Note 2: The graph shows the percentage of respondents that selected the respective item as their first, second or third most important challenge. Note 3: This graph presents the results only for the year 2023.</td>
</tr>
<tr>
<td>Compliance with LP requirements</td>
<td>3%</td>
<td></td>
<td></td>
<td>Note 1: Several categories were renamed or added over the years. For example, as of 2023, the categories “Availability of scale-up finance for venture-backed companies”, “Lack of skilled workforce at the VC firm level”, “Lack of sufficient private domestic limited partners (LPs)” and “LP ticket sizes/contributions” were introduced. Note 2: The graph shows the percentage of respondents that selected the respective item as their first, second or third most important challenge. Note 3: This graph presents the results only for the year 2023.</td>
</tr>
<tr>
<td>Cross-border market fragmentation</td>
<td>3%</td>
<td></td>
<td></td>
<td>Note 1: Several categories were renamed or added over the years. For example, as of 2023, the categories “Availability of scale-up finance for venture-backed companies”, “Lack of skilled workforce at the VC firm level”, “Lack of sufficient private domestic limited partners (LPs)” and “LP ticket sizes/contributions” were introduced. Note 2: The graph shows the percentage of respondents that selected the respective item as their first, second or third most important challenge. Note 3: This graph presents the results only for the year 2023.</td>
</tr>
<tr>
<td>Availability of scale-up finance for PE-backed companies</td>
<td>2%</td>
<td></td>
<td></td>
<td>Note 1: Several categories were renamed or added over the years. For example, as of 2023, the categories “Availability of scale-up finance for venture-backed companies”, “Lack of skilled workforce at the VC firm level”, “Lack of sufficient private domestic limited partners (LPs)” and “LP ticket sizes/contributions” were introduced. Note 2: The graph shows the percentage of respondents that selected the respective item as their first, second or third most important challenge. Note 3: This graph presents the results only for the year 2023.</td>
</tr>
<tr>
<td>Competition from banks / debt providers</td>
<td>2%</td>
<td></td>
<td></td>
<td>Note 1: Several categories were renamed or added over the years. For example, as of 2023, the categories “Availability of scale-up finance for venture-backed companies”, “Lack of skilled workforce at the VC firm level”, “Lack of sufficient private domestic limited partners (LPs)” and “LP ticket sizes/contributions” were introduced. Note 2: The graph shows the percentage of respondents that selected the respective item as their first, second or third most important challenge. Note 3: This graph presents the results only for the year 2023.</td>
</tr>
<tr>
<td>IPO market</td>
<td>1%</td>
<td></td>
<td></td>
<td>Note 1: Several categories were renamed or added over the years. For example, as of 2023, the categories “Availability of scale-up finance for venture-backed companies”, “Lack of skilled workforce at the VC firm level”, “Lack of sufficient private domestic limited partners (LPs)” and “LP ticket sizes/contributions” were introduced. Note 2: The graph shows the percentage of respondents that selected the respective item as their first, second or third most important challenge. Note 3: This graph presents the results only for the year 2023.</td>
</tr>
</tbody>
</table>
“Fundraising” replaced “Political uncertainty” as the first most important challenge faced by PE MM firms, and the “Exit environment” has strongly increased in importance as a challenge.

Biggest challenges faced by PE MM firms over time

Q: “Please select the biggest challenges you currently see in your PE mid-market business.” Note 1: Several categories were renamed or added over the years. For example, as of 2023 the categories “Availability of scale-up finance for PE-backed companies”, “Lack of skilled workforce at the PE firm level”, “Lack of sufficient private domestic limited partners (LPs)” and “LP ticket sizes/contributions” were introduced. Note 2: The graph shows the percentage of respondents that selected the respective challenge as their first most important in each survey wave.

- **Fundraising** increased in relative importance as a key challenge for PE MM fund managers over time, and was most frequently stated by respondents as the first most important challenge in 2023. In addition, a considerable fraction of respondents selected the “Lack of sufficient domestic LPs” and “LP ticket sizes/contributions” (newly introduced categories in this survey wave), which are challenges that relate to fundraising as well as to scale-up financing.

- **Political uncertainty** ranks second in 2023, followed by the “Exit environment” and “Investee company performance”, which have both become much more important as challenges this year.
Challenges faced by PE MM firms in regards to the exit environment

- **3 out of 4 respondents** highlighted **“General difficulties in finding potential buyers”** as the main challenge regarding the exit environment.
- Additional challenges mentioned by PE MM fund managers are **“Insufficient liquidity in the IPO market”**, **“Underdeveloped M&A markets”** as well as **“Insufficiently developed market infrastructure for IPOs in the EU”**.

Q: “What are the current main challenges regarding the exit environment?” (multiple selection possible)

Note: This question was asked only to those respondents who selected the “exit environment” among the biggest challenges in PE mid-market business in the preceding question.
Effect of rising interest rates

Rising interest rates will...

- Shift LPs’ attention toward better risk-reward solutions
- Have a negative impact on the performance of your portfolio companies

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Undecided</th>
<th>I don’t know</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shift LPs’ attention toward better risk-reward solutions</td>
<td>11%</td>
<td>11%</td>
<td>6%</td>
<td>55%</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>Have a negative impact on the performance of your portfolio companies</td>
<td>21%</td>
<td>21%</td>
<td>2%</td>
<td>48%</td>
<td>8%</td>
<td></td>
</tr>
</tbody>
</table>

% of respondents

Q: “Please indicate to what extent you agree or disagree with the following statements”

- Among the respondents, 73% expect that higher interest rates will shift LPs’ attention towards better risk-reward solutions that would provide attractive yields at a lower risk.
- At the same time, 56% of the surveyed PE MM fund managers expect that rising interest rates will have a negative impact on their portfolio companies’ performance.
- 1 in 5 respondents do not expect any negative impact of rising interest rates on portfolio companies’ performance.
Impact of prolonged increase in interest rates

A prolonged increase in interest rates could...

- Move investor preferences toward sectors and companies that are less sensitive to interest rate movements (60%)
- Mitigate investor appetite to invest in PE funds (52%)
- Decrease the valuation for PE fund (47%)
- Decrease investor appetite for acquisitions (42%)
- Decrease investor appetite for IPOs (15%)

Q: “What type of impact could a prolonged increase in interest rates have?” (multiple selection possible)

- Approximately half of the respondents fear that a prolonged increase in interest rates could mitigate investor appetite to invest in PE funds and decrease the valuations for PE funds.
- 3 in 5 PE MM fund managers state that a prolonged increase in interest rates could shift investor preferences towards sectors and companies that are less sensitive to interest rate movements.
Most promising countries for PE MM investments

Respondents expect Germany, France, Italy, and Spain to be the most promising European countries for PE MM investments over the coming months.

- Germany, France, Italy and Spain have been ranked as the most promising European countries for PE mid-market investments in the next 12 months.
- As regards the first most promising countries, France and Italy show the highest share of respondents.
- 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.

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 select those European countries (up to 3) that will be the most promising for PE mid-market investments over the next 12 months.”
## Most promising countries for PE investments – reasons

<table>
<thead>
<tr>
<th>Country</th>
<th>Reasons</th>
</tr>
</thead>
</table>
| Germany  | • Deep talent pool, stable environment, and a vast number of SMEs with untapped growth potential.  
          • Strong industrial base and opportunities in SMEs/midcaps in the German “Mittelstand”.  
          • Emphasis on deep tech, healthcare, and public efforts in digitalization.          |
| France   | • Large, mature market with numerous investment opportunities.  
          • Stable and resilient business-oriented economy with good government support and regulation.  
          • Promising deeptech sector.                                                               |
| Italy    | • Abundance of SMEs with growth potential and more investment opportunities due to reduced bank lending.  
          • High-quality products, expertise, and export possibilities.  
          • Re-shoring opportunities and economic revival led by the EU Recovery plan.           |
| Spain    | • Good, cost-effective skill base and low valuations.  
          • Agile economy with low inflation, a positive macro outlook and a competitive export hub.  
          • Extensive SME landscape with abundant deal flow and opportunities.                   |
| Netherlands | • Stable, reliable market with rapid rebound from crises.  
                • Mature PE sector within a highly entrepreneurial and vibrant economy.  
                • Diverse SME landscape and innovation focus.                                       |
| UK       | • Big market with many sellers, large investment opportunities available and abundant deal flow.  
          • Developed ecosystem fostering innovation and entrepreneurial business culture.  
          • Quality of management teams.                                                          |

**Q:** “Why do you consider this/these country/countries promising?” (free-text question)

**Note:** We analyse only the top-six most promising countries in the preceding question.
Most promising sectors/industries in the near future

Healthcare, Business Services, and Energy & Environment are perceived as the areas with the greatest investment potential

- The investment potential of the healthcare sector (which increased particularly amid the COVID crisis) continues to be highlighted in this year’s survey results too; alongside Business Services (which have always been a key target industry for PE MM investments across the survey waves).
- At the same time, and in light of the challenging macroeconomic and geopolitical context, Energy & Environment continue to feature prominently, as survey participants highlight climate change and the transition to greener and more efficient energy sources.

Q: “Which sector/industry would you consider as the most promising for PE mid-market investments in the near future (3-5 years)?” 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. The graph depicts the 40 most frequently mentioned sectors/industries.
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?
- … the European PE mid-market industry?

Fund managers’ confidence in the long-term growth prospects of the PE MM industry in their respective market improved in 2023

- Fund managers’ confidence in the long-term growth prospects of the PE mid-market industry in their respective market improved.
- At the same time, confidence in the long-term growth prospects of the European PE MM industry remained stable.
- These results mirror fund managers’ optimistic expectations for most of the EIF PE MM Survey market sentiment categories, despite a very difficult current situation.
- At the same time, the confidence levels are still far above the average of the bandwidth (1 to 10) from which respondents could choose their confidence value.
EIF PE MM Survey

3  Scale-up financing & European strategic autonomy

EIF Research & Market Analysis
Survey wave 2023
Scale-up financing

Although most fund managers perceive sufficient scale-up financing opportunities, the majority of respondents perceive a need for continuation secondary funds, improving possibilities to execute an IPO, and stronger activity by global investors.

Continuation secondary funds are necessary to extend the holding period in some portfolio companies

Improving the possibility for European scale-ups to execute an IPO would enhance their growth ambitions

Strong activity by global investors is needed in the European VC market to increase the chances for companies to scale up

Due to lack of European VC funds investing in scale-ups, investments in scale-ups are dominated by non-European investors

Insufficient support for late-stage VC rounds favours relocation of European companies to other world regions

The lack of secondary funds is triggering an early sale of European Tech scale-ups and hence hindering the creation of larger European Tech companies

Q: “Do you think that there are sufficient financing opportunities for companies to scale up in Europe?”
Q: “Please indicate to what extent you agree or disagree with the following statements.”
Q: “Do you see any other issue related to the financing of scale-up companies in Europe not mentioned above?”

- In the context of scale-up financing, 79% of respondents perceive continuation secondary funds as necessary to extend the holding period in some portfolio companies. Improving possibilities to execute an IPO is considered important to enhance the growth ambitions of European companies. Most respondents also agree that strong activity by global investors in European VC is needed for scale-up financing in Europe.
- Respondents also mentioned other challenges such as the absence of a robust, integrated IPO market in Europe, extensive bureaucracy, as well as disparate legislation and regulatory frameworks across countries as additional factors complicating the financing of scale-ups.
Scale-up financing: non-EU investors

Q: “Have you observed non-EU lead investors in later-stage venture funding rounds for your EU companies?”

- Among PE MM fund managers, 4% have frequently observed non-EU lead investors in later-stage venture funding rounds. A larger share of respondents (22%) has occasionally or rarely observed such investors.
- Only 6% of respondents have never observed non-EU lead investors in later-stage venture funding.
- However, among all respondents, 49% are not involved in later-stage venture funding rounds, and an additional 19% stated that they either do not know or prefer not to provide a response.

Fundraising from non-European LPs

<table>
<thead>
<tr>
<th>Non-European LPs provide ...</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 25% of new funds raised</td>
<td>59%</td>
</tr>
<tr>
<td>Between 25% and 49% of new funds raised</td>
<td>16%</td>
</tr>
<tr>
<td>Between 50% and 74% of new funds raised</td>
<td>7%</td>
</tr>
<tr>
<td>75% or more of new funds raised</td>
<td>2%</td>
</tr>
<tr>
<td>I don't know / Prefer not to say</td>
<td>16%</td>
</tr>
</tbody>
</table>

Q: “Regarding PE fundraising in your reference market, how would you describe the current share of non-European LPs versus European LPs?”

6 in 10 respondents perceive the share of fundraising from non-European LPs as below 25%

- 59% of respondents perceive the share of new funds raised by foreign LPs as less than 25%.
- Only 1 in 10 PE MM fund managers perceive the share of new funds raised by foreign LPs as 50% or higher.
Presence of non-European LPs, fund managers, and role of Brexit

The presence of non-European LPs is not perceived as a threat to the PE MM industry

The presence of non-European LPs constitutes a threat to the PE industry in your reference market.

After Brexit, there is an increasing interest of UK limited partners to invest in funds launched by fund managers located in your reference market.

After Brexit, there is an increasing number of UK fund managers moving or opening a subsidiary in your reference market.

- 65% of respondents do not perceive the presence of non-European LPs as a threat to the PE industry.
- 1 in 4 respondents do not perceive an increasing interest of UK LPs to invest in funds launched by fund managers located in your reference market after Brexit. Almost 3 in 10 respondents do not perceive an increasing number of UK fund managers moving or opening a subsidiary in those markets.
- Respondents consider tech, energy, healthcare, defense, semiconductors, and manufacturing as the most relevant sectors to strengthen the European strategic autonomy.

Q: “The presence of non-European LPs constitutes a threat to the PE industry in your reference market.”

Q: “After Brexit, there is an increasing interest of UK limited partners to invest in funds launched by fund managers located in your reference market.”

Q: “After Brexit, there is an increasing number of UK fund managers moving or opening a subsidiary in your reference market.”

Q: “Which sectors would you consider most relevant to strengthen the EU strategic autonomy?”
Policies to support the development of the PE mid-market industry

- Reducing the limits insurance companies face to invest in PE mid-market and supporting the development of competitive private pension funds are the most frequently suggested measures to support the development of the PE mid-market industry.
- PE MM fund managers also frequently suggested to reduce capital gain taxes for individual investors and to support the creation/presence of government-backed funds of funds.

<table>
<thead>
<tr>
<th>Policy</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce the limits insurance companies face to invest in PE mid-market</td>
<td>18%</td>
</tr>
<tr>
<td>Support the development of competitive private pension funds</td>
<td>21%</td>
</tr>
<tr>
<td>Reduce capital gain taxes for individual investors</td>
<td>16%</td>
</tr>
<tr>
<td>Support the creation/presence of government-backed fund of funds</td>
<td>13%</td>
</tr>
<tr>
<td>Provide fiscal incentives to individuals investing in feeder funds launched by financial institutions</td>
<td>9%</td>
</tr>
<tr>
<td>Make available EU budget that supports investments in sectors of strategic importance</td>
<td>12%</td>
</tr>
<tr>
<td>Support in complying with regulatory requirements</td>
<td>10%</td>
</tr>
<tr>
<td>Provide support for co-investments</td>
<td>11%</td>
</tr>
<tr>
<td>Others</td>
<td>1%</td>
</tr>
</tbody>
</table>

Note: Percentages in black font next to the bars show the aggregate percentage of respondents who have ranked the respective policy measure in their top-3 selections. Reading example: For 47% of the respondents, “Reduce the limits insurance companies face to invest in PE mid-market” is among their top-3 suggested policy measures; for 18%, it is even the first most important suggested policy measure.

Q: “What policy measures would you suggest to support the development of the PE mid-market industry in your reference market?” (multiple selection possible); and then “rank them by importance.”

Note: The graph shows the total percentage of respondents with respect to the three most important policies.
EIF PE MM Survey

Human capital and PE firm characteristics

EIF Research & Market Analysis

Survey wave 2023
Respondents’ human capital characteristics: gender and age

Almost 9 in 10 respondents are male.

The vast majority (78%) of the respondents are between 45 and 64 years of age. Only about 6% are younger respondents, below 35 years old.

Q: “How do you identify?”

Note: The response option “Prefer not to say” was excluded from the graph.
Respondents’ human capital characteristics: *experience in PE*

The vast majority of respondents are experienced PE investors, with almost half of them having more than 20 years of experience.

Almost 6 in 10 respondents have been involved in 20 or more signed PE deals.

Q: “In total, how many years of experience in investment-related activities in the PE industry do you have?”

Q: “In total, in how many signed PE deals have you been involved in your career?”

The vast majority of respondents are experienced PE investors, with almost half of them having more than 20 years of experience.
Respondents’ human capital characteristics: *experience outside PE*

**Years of experience outside PE**

<table>
<thead>
<tr>
<th>Years of experience</th>
<th>Percentage of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 3</td>
<td>20%</td>
</tr>
<tr>
<td>4 - 6</td>
<td>21%</td>
</tr>
<tr>
<td>7 - 9</td>
<td>12%</td>
</tr>
<tr>
<td>10 - 14</td>
<td>25%</td>
</tr>
<tr>
<td>15 - 19</td>
<td>9%</td>
</tr>
<tr>
<td>20+</td>
<td>7%</td>
</tr>
<tr>
<td>No prior work</td>
<td>7%</td>
</tr>
</tbody>
</table>

**Type of experience outside PE**

- Finance/investment banking: 58%
- Consulting: 23%
- Accounting / auditing: 17%
- Technology / engineering / industrial firm: 12%
- Entrepreneur: 10%
- Other: 8%
- Law: 3%
- Business Angel: 2%
- Governmental/public office: 2%
- Life sciences: 2%
- Academia: 1%

*Q: “How many years of work experience outside the PE industry do you have?”*

4 in 10 PE MM fund managers reported having more than 10 years of other experience outside the PE industry.

*Q: “Which of the following would best describe your type of work experience (outside the PE industry)?”* (multiple selection possible)

Respondents are more often former investment bankers or consultants; only 1 in 10 are former entrepreneurs.
Human capital and PE firm characteristics

Respondents’ human capital characteristics: education

Q: “What is your highest degree of education?”

PE MM fund managers are highly-educated investors, with 8 in 10 having a post-graduate qualification.

More than half of PE MM fund managers hold a business degree.

Q: “What was the main field in your education?”

PE MM fund managers are highly-educated investors, with 8 in 10 having a post-graduate qualification.

More than half of PE MM fund managers hold a business degree.

Human capital and PE firm characteristics

EIF relationship

Among respondents, 71% are EIF-supported.

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

Q: “Are you familiar with the EIF and its activities?”

Q: “Did any of these applications result in EIF funding?”

**PE firm characteristics**

**Assets under management**

<table>
<thead>
<tr>
<th>Values in million Euro</th>
<th>Percentage of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 50</td>
<td>6%</td>
</tr>
<tr>
<td>50 – 99</td>
<td>11%</td>
</tr>
<tr>
<td>100 – 199</td>
<td>23%</td>
</tr>
<tr>
<td>200 – 499</td>
<td>31%</td>
</tr>
<tr>
<td>500 – 999</td>
<td>13%</td>
</tr>
<tr>
<td>≥ 1,000</td>
<td>17%</td>
</tr>
</tbody>
</table>

Q: “What are your firm’s total approximate assets under management (defined as “the sum of capital committed in all active funds”)?”

6 in 10 respondents report assets under management greater than EUR 200m in their respective PE firms.

**Firm age**

<table>
<thead>
<tr>
<th>Age of the firm (years)</th>
<th>Percentage of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 or less</td>
<td>6%</td>
</tr>
<tr>
<td>4 – 7</td>
<td>13%</td>
</tr>
<tr>
<td>8 – 14</td>
<td>32%</td>
</tr>
<tr>
<td>15 – 21</td>
<td>24%</td>
</tr>
<tr>
<td>22 or more</td>
<td>24%</td>
</tr>
</tbody>
</table>

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

Note: The response option “I don’t know / Prefer not to say” was excluded from the graph.

The average PE firm was established in 2008/09, making it on average 14.4 years old.
Human capital and PE firm characteristics

Fund-related characteristics

Team experience

- 77% Yes
- 20% No
- 4% I don't know / Prefer not to say

Number of PE MM funds with completed final closing

- 0: 2%
- 1: 18%
- 2: 25%
- 3: 23%
- 4: 9%
- 5: 11%
- 6 - 10: 11%
- 11 or more: 1%

Probability of developing a private debt strategy

- Very unlikely: 1%
- Unlikely: 6%
- Undecided: 13%
- Likely: 27%
- Highly likely: 35%
- We have already developed a private debt strategy: 10%
- I don't know / Prefer not to say: 9%

Q: “Was the latest fund your PE firm raised also the first fund that your firm raised?”

For 1 in 5 respondents, their most recent fund was also the only one raised.

Q: “In total, for how many PE mid-market funds has your firm completed a final closing to date?”

Almost half of the surveyed PE firms have completed a final closing for two or three funds to date.

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

Approximately 6 in 10 respondents consider it unlikely to develop a private debt strategy within the next 5 years.

Almost 5 in 10 surveyed fund managers are from PE firms headquartered in France (15%), Italy (13%), the UK (12%), and Spain (8%). (For further details on the survey design and sample construction, please see Information about this study.)

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

Germany is mentioned as the most important country for investments more often than would be expected from the frequency with which it is mentioned as a HQ country; this also applies for Poland, while the exact opposite is true for the UK.

**Two-thirds of respondents focus on buyouts.**

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 for PE MM investments is Business services, followed by Business products, Healthcare institutions & services, and Consumer goods.

<table>
<thead>
<tr>
<th>Industry</th>
<th>First most important</th>
<th>Second, Third … Fifth most important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business services</td>
<td>62%</td>
<td>42%</td>
</tr>
<tr>
<td>Business products</td>
<td>33%</td>
<td>22%</td>
</tr>
<tr>
<td>Healthcare institutions and services</td>
<td>31%</td>
<td>23%</td>
</tr>
<tr>
<td>Consumer goods</td>
<td>31%</td>
<td>21%</td>
</tr>
<tr>
<td>Software</td>
<td>28%</td>
<td>19%</td>
</tr>
<tr>
<td>No clear sector focus</td>
<td>25%</td>
<td>22%</td>
</tr>
<tr>
<td>Healthcare-medical devices, equipment and supplies</td>
<td>24%</td>
<td>15%</td>
</tr>
<tr>
<td>Consumer services</td>
<td>21%</td>
<td>18%</td>
</tr>
<tr>
<td>Energy-related products, equipment and services (incl. renewable energy, buildings, energy efficiency)</td>
<td>16%</td>
<td>11%</td>
</tr>
<tr>
<td>Environment-related products, equipment and services (other than energy)</td>
<td>16%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Note: Percentages in **black font** on top of the bars show the aggregate percentage of respondents who have selected the respective industry. Reading example: 62% of PE MM fund managers invest in Business services; for 42%, 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.”
Focus of current & future investment portfolio

Respondents’ current investment portfolios are more likely to include companies focusing on Cleantech, Circular economy, Cybersecurity, and Artificial intelligence. In the future, investments in Digital health and Education tech are also expected to increase.

Q: “Does your current investment portfolio include at present a company focusing on the following themes?”
Q: “Does your investment portfolio aim to include in the future a company focusing on the following themes?”

Note: The response option “None of the above” was excluded from the graph.

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

- The vast majority of surveyed PE MM fund managers invest mainly in SMEs.
- In addition, a substantial share (20%) of PE MM fund managers stated that identified Small Mid-Caps as their most important target company size for investment.
- A small share of PE MM fund managers also invest in Large Mid-Caps, indicating participation in later funding rounds in scale-ups or in build-up processes.

**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.”
Human capital and PE firm characteristics

PE MM investment selection criteria

Portfolio companies’ management team, plus the business model and the strategic fit with fund orientation are the most important investment selection criteria for fund managers.

Note: 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 51% of PE MM fund managers, “Management team” is among their top-3 criteria; for 14%, it is even the first most important criterion. The graph presents the 10 most important investment selection criteria as indicated by survey participants.

**Q:** “Considering your firm’s overall activity in the PE mid-market, what are your most important investment selection criteria?” (multiple selection possible); and then “rank them by importance.”

Gender diversity: at partner level

The vast majority (80%) of the PE teams are male-dominated, with 20% or less females as partners. No improvement is observed compared to 2022.

- **57%** of respondents report no female partners at all in the investment team of their respective PE funds. This percentage is identical to the one recorded in 2022.
- 14% report female representation at partner level between 20% and 40%.
- Only about 1 in 20 report having a female partner share greater than 40% in their investment team.
- The average female representation in the investment teams of surveyed PE firms is 11.2%, slightly lower than the one (12.2%) recorded in 2022.
Gender diversity: in investment-decision bodies

Q: “Please indicate the percentage of female representation in your firm’s senior investment team.”

Almost one-third of respondents report no female representation in the senior investment team of their respective PE firms.

• For almost 4 in 10 PE firms, female representation in the senior investment team is between 20% and 49%.

Q: “Please indicate the percentage of female representation in your firm’s investment committee.”

More than half of respondents report no female representation in the investment committee of their respective PE firms.

• In only about 1 in 4 PE firms, female representation in the investment committee is between 20% and 49%.
Concluding remarks

EIF Research & Market Analysis
Survey wave 2023
Policy implications

Policy solutions to strengthen market resilience and focus on structural weaknesses

- In a market downturn, efficient public support is even more important, to mitigate the impact of the crisis on the ecosystem.

- Policy solutions should be designed to enhance the resilience of the European PE ecosystem to absorb shocks, both current ones and future uncertainties. Public support should also focus on helping to overcome structural market weaknesses.

- Examples include policies fostering deeper involvement of private long-term investors, who would not readily leave during a crisis, but rather stay in the market even during downturns.

- With the PE fundraising environment significantly worsening, strengthening the fundraising environment should be one of the targets of future policy.

- Over the years and the various crises, the PE ecosystem has improved significantly and has proven better 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.

- Important examples are policies in the areas of climate, environment, sustainability, ESG, human capital and skills as well as other areas of strategic importance to the EU.
Considerable downturn might come to a halt

**Market sentiment deteriorated**

- The European PE markets initially recovered quickly from the 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 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 the context of high inflation, monetary policy and financial market conditions have tightened, with negative impacts on the fundraising and exit environment.
- In light of these developments, the survey findings clearly suggest that market sentiment has further deteriorated. The macroeconomic uncertainties and monetary tightening have had considerable negative effects on several aspects of the European PE market.

**Challenges persist in PE mid-market, but expectations have improved**

- The sentiment on the fundraising environment has worsened further and is at record-low since the start of our EIF PE MM Survey in 2020. At the same time, and contrary to VC, geopolitical uncertainty and related consequences has remained the top challenge for the PE MM industry. This echoes the results of the 2022 survey wave which had shown that the consequences of the energy crisis, inflationary pressures, rising interest rates, and supply chain disruptions had been affecting PE MM portfolios to a larger extent compared to VC-backed firms.
- Indeed, for the second year in a row, PE MM fund managers report important challenges for their investees, particularly with regard to the rising costs of production and labour and recruitment of skilled professionals.
- In contrast to the current record-negative sentiment, the outlook for the next 12 months is more optimistic. Notably, PE MM fund managers expect the fundraising environment, new investments, exit opportunities, and the development of their portfolios to improve over the next 12 months.
- Given that surveyed PEs’ expectations have become more positive for many of the market sentiment indicators in our survey, and that the macroeconomic environment is improving, the crisis trough could have already been reached and a moderate upturn could be expected.
- While compared to VCs, PE MM fund managers perceive better financing opportunities for scale-ups in Europe (reflecting perhaps the different nature of underlying PE portfolios in terms of maturity, investment phase, and other characteristics), they still call for continuation secondary funds, improved possibilities for European companies to execute an IPO, and stronger activity by global investors in the European VC market in order to enhance the growth ambitions of European scale-ups. Moreover, policies to attract insurance companies and private pension funds are the most frequently suggested measures to support the development of the PE mid-market industry.
Policy implications

Opportunities seen in every crisis

• 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 last year’s challenging economic and geopolitical environment, following the Russian war of aggression against Ukraine and the subsequent energy price shock, new promising sectors emerged. This year too, Energy & Environment continue to feature prominently in the EIF PE MM Survey respondents’ list of sectors that are most promising in the next 3-5 years, as survey participants highlight climate change and the transition to greener and more efficient energy sources.

• At the same time, competition for investees, the upward pressure on valuations, and transaction prices have decreased, which might be a needed market correction reducing the risk of overfunding, and could also provide new opportunities.

Permanent crisis and structural weaknesses

• From the Global Financial Crisis to the COVID-19 crisis and the current crisis driven by the Russian aggression against Ukraine, it seems that permanent crisis mode has been in effect for many years. Moreover, since almost two years, the difficult macroeconomic environment with tightening monetary and financial conditions has led to a gloomy fundraising and exit environment.

• While investors might be able to overcome the current market downturn in the medium-term, there are indications that the European PE mid-market might be suffering from structural deficiencies of a longer-term nature.

• Despite PE MM fund managers perceiving better financing opportunities for scale-ups in Europe than VCs, they still urge for measures that would enable European companies to further scale-up and grow.

• At the portfolio company level, rising costs aside, PE MM fund managers raise particular concerns about recruiting of high-quality professionals.
EIF PE MM Survey

Information about this study

EIF Research & Market Analysis
Survey wave 2023
The EIF Equity Surveys

A unique source of information

- The EIF Venture Capital Survey and the EIF Private Equity Mid-Market 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.

General survey approach

- The EIF equity surveys are online surveys of VC and Private Equity (PE) Mid-Market (MM) fund managers investing in Europe.

- Our surveys target both EIF-supported as well as non-EIF supported fund managers.

- 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 – in particular for the EIF VC Survey, from 2021 onwards.

This study and beyond

Respondents and survey period

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

• The 2023 wave of the EIF PE MM Survey includes anonymised responses from 199 PE mid-market fund managers (from 173 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 25 July and 11 September 2023.

Topics

• The main topics covered in the 2023 survey are market sentiment, scale-up financing, European strategic autonomy, and the role of human capital (in particular skills and diversity).

• 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 PE MM Survey as well as on the EIF VC Survey, will cover topics related to Investing in Environment & Climate, ESG, Skills, and Gender diversity.
How to read the results

General information

• Some results shown in this publication (e.g., some results about the respondents’ human capital characteristics) are based on a number of respondents that is smaller than the overall number of EIF PE MM Survey 2023 respondents. 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.

• Throughout the report, rounded percentages are shown and therefore, for example, may not always add up to 100%.

• “European strategic autonomy” and “EU strategic autonomy” are used interchangeably in the report.

Terminology: Survey waves

• Several analyses draw on the results of multiple EIF PE MM Survey waves, as outlined below:
  ➢ “2023”: 25 July – 11 September 2023
  ➢ “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 2020. 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

- **AI**: Artificial Intelligence  
- **AUM**: Assets Under Management  
- **BA(s)**: Business Angel(s)  
- **Benelux**: (the countries of) Belgium, Netherlands, Luxembourg  
- **bn**: billion  
- **CEO**: Chief Executive Officer  
- **CESEE**: (countries in) Central, Eastern, South-Eastern Europe  
- **COVID(-19)**: Coronavirus disease pandemic  
- **DACH**: (the countries of) Germany, Austria, Switzerland  
- **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  
- **MBA**: Master of Business Administration  
- **MBO**: Management Buy-Out  
- **NAV**: Net Asset Value  
- **Oct**: October  
- **PE MM**: Private Equity Mid-Market  
- **Q**: Question  
- **Q4**: Fourth quarter of a year  
- **PhD**: Doctor of Philosophy  
- **RMA**: Research & Market Analysis  
- **SME**: Small and Medium-sized Enterprise  
- **STEM**: Science, technology, engineering and mathematics  
- **UK**: United Kingdom  
- **USA**: United States of America  
- **VC**: Venture Capital  
- **VCs**: Venture Capital fund managers
EIF PE MM Survey

Annex

EIF Research & Market Analysis
Survey wave 2023
Number of respondents by country of PE firm HQ

- Benelux [29]
  Belgium, Luxembourg, Netherlands
- CESEE [26]
  Bulgaria, Croatia, Cyprus, Czechia, Estonia, Greece, Lithuania, Poland, Romania, Türkiye
- DACH [17]
  Austria, Germany, Switzerland
- France [29]
- Nordics [20]
  Denmark, Finland, Norway, Sweden
- South [49]
  Italy, Portugal, Spain
- UK & Ireland [27]
  Ireland, United Kingdom
- Others [2]
  USA

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

Note: The list only mentions the countries with at least 1 respondent to the EIF PE MM Survey.
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 Türkiye. 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).

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2023/093  EIF Venture Capital Survey 2023: Market sentiment, scale-up financing and human capital


2023/091  Using machine learning to map the European Cleantech sector.

2023/090  Recent trends in EU corporate demography and policy.


2023/088  Fairness in algorithmic decision systems: a microfinance perspective.

2023/087  Female access to finance: a survey of literature.

2023/086  Determinants of EU Greentech investments: the role of financial market conditions.

2022/085  EIF Private Equity Mid-Market Survey 2022: Market sentiment and impact of the current geopolitical & macroeconomic environment.

2022/084  European Small Business Finance Outlook 2022.


2022/082  EIF VC Survey 2022: Market sentiment and impact of the current geopolitical & macroeconomic environment.


2022/080  EIF Private Debt Survey 2021 - ESG considerations in the lending strategy of private debt funds.

2022/079  EIF Private Debt Survey 2021 - Private Debt for SMEs - Market overview.


2021/077  EIF Private Equity Mid-Market Survey: Fund managers’ perception of EIF’s value added.


2021/075  European Small Business Finance Outlook.


2021/073  EIF VC Survey Autumn 2020 - Regional analysis.

2021/072  Financial and social inclusion in Europe.
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<tr>
<th>Year</th>
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<tr>
<td>2021/070</td>
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<td>Financing Patterns of European SMEs Revisited: An Updated Empirical</td>
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<td>Taxonomy and Determinants of SME Financing Clusters.</td>
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<td>The role of cooperative banks and smaller institutions for the financing of SMEs and small midcaps in Europe.</td>
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<td>European Small Business Finance Outlook.</td>
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<td>The European Venture Capital Landscape: an EIF perspective.</td>
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<td>European Small Business Finance Outlook.</td>
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<td>European Small Business Finance Outlook.</td>
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<td>2015/027</td>
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