

October 2024

# IBA Private Equity Transactions Symposium 2024

Goldman Sachs Kick-Off Presentation

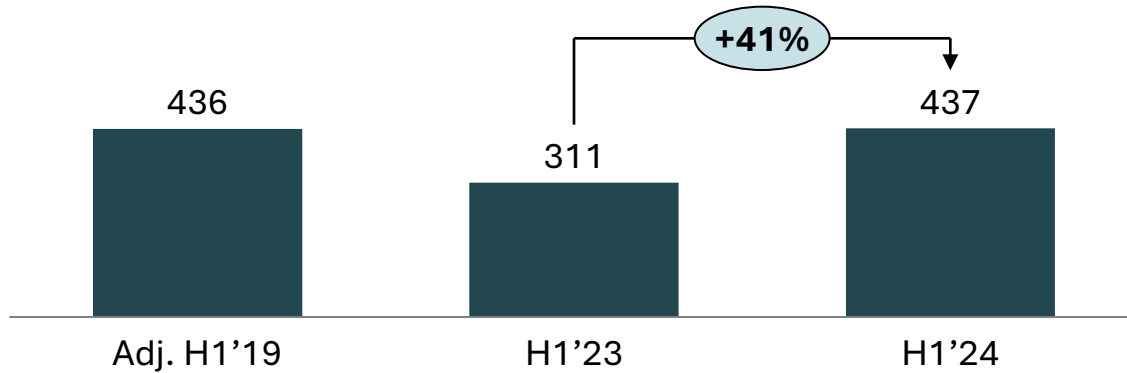
*Lia Larson – Partner, Financial and Strategic Investors Group*

*Carsten Woehr – Partner, Co-Head of M&A in EMEA*

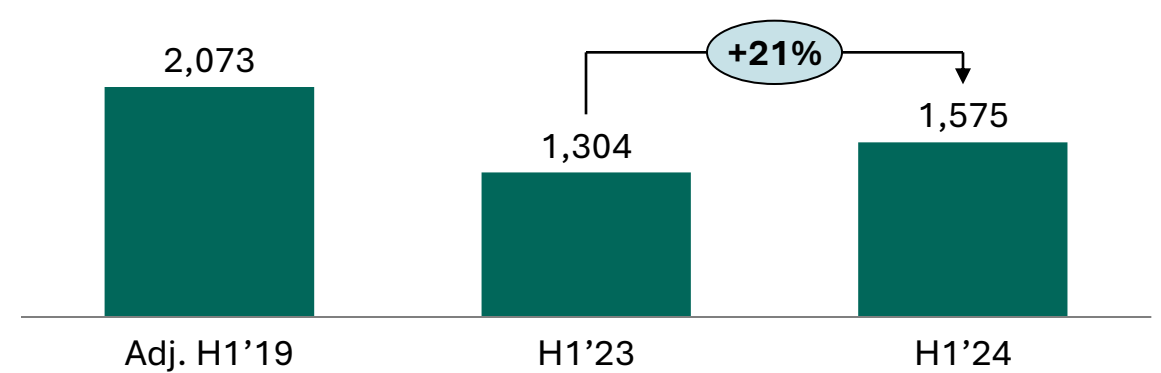


# Strong Momentum in 2024 M&A Activity

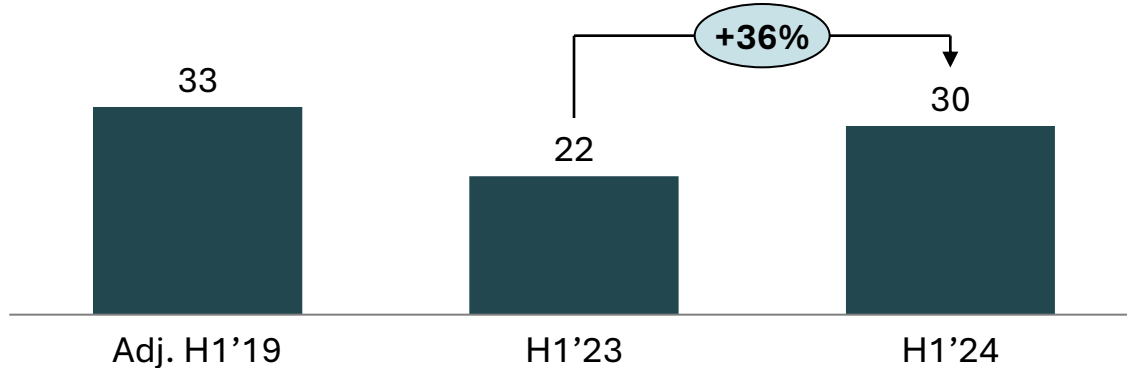
**EMEA M&A Volume (\$bn): +41% Increase in H1'24 vs. H1'23**



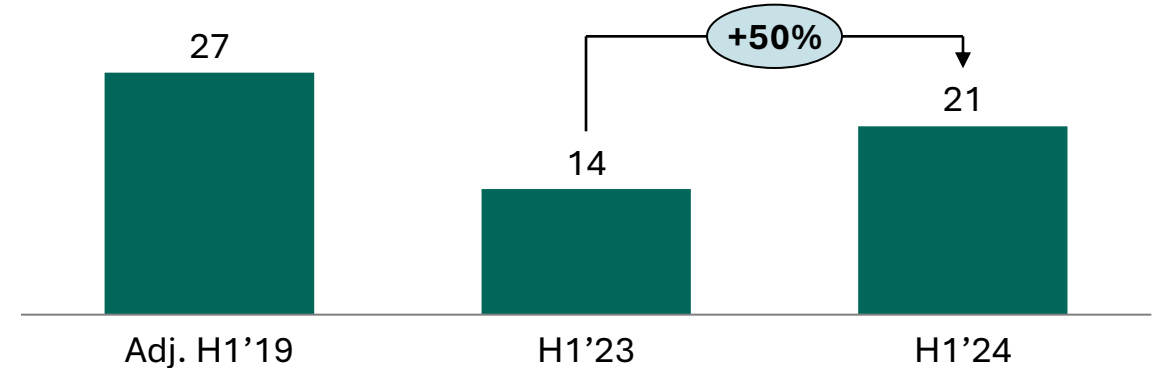
**Global M&A Volume (\$bn): +21% Increase in H1'24 vs. H1'23**



**EMEA M&A # of Deals (\$2-5bn): Deal Count in Line with 2019**



**Global M&A # of Deals (>\$10bn): Return of Very Large Deals**

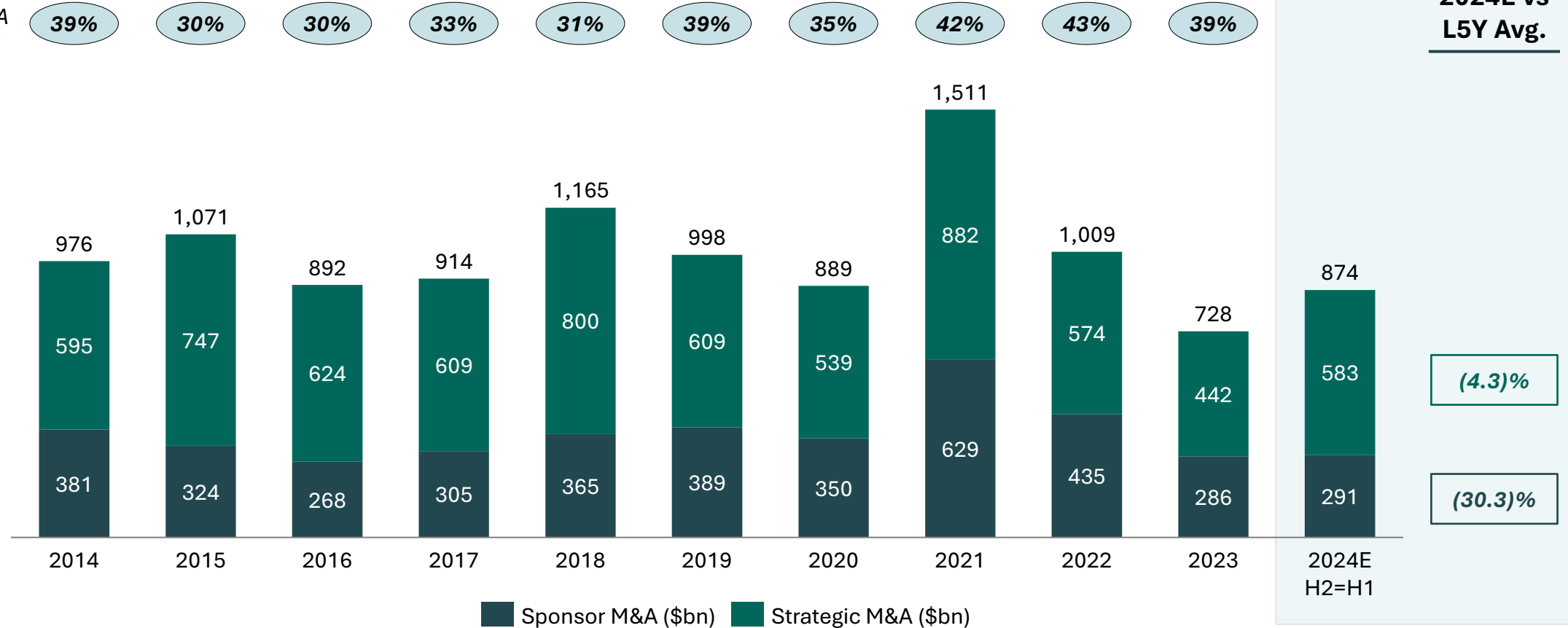


Source: Dealogic. Disclosed deal size >\$50m. Data as of 30-Jun-2024.

# H1 Uplift in EMEA M&A Mainly Driven by Strategics

EMEA Sponsor and Strategic M&A Volume (\$bn)

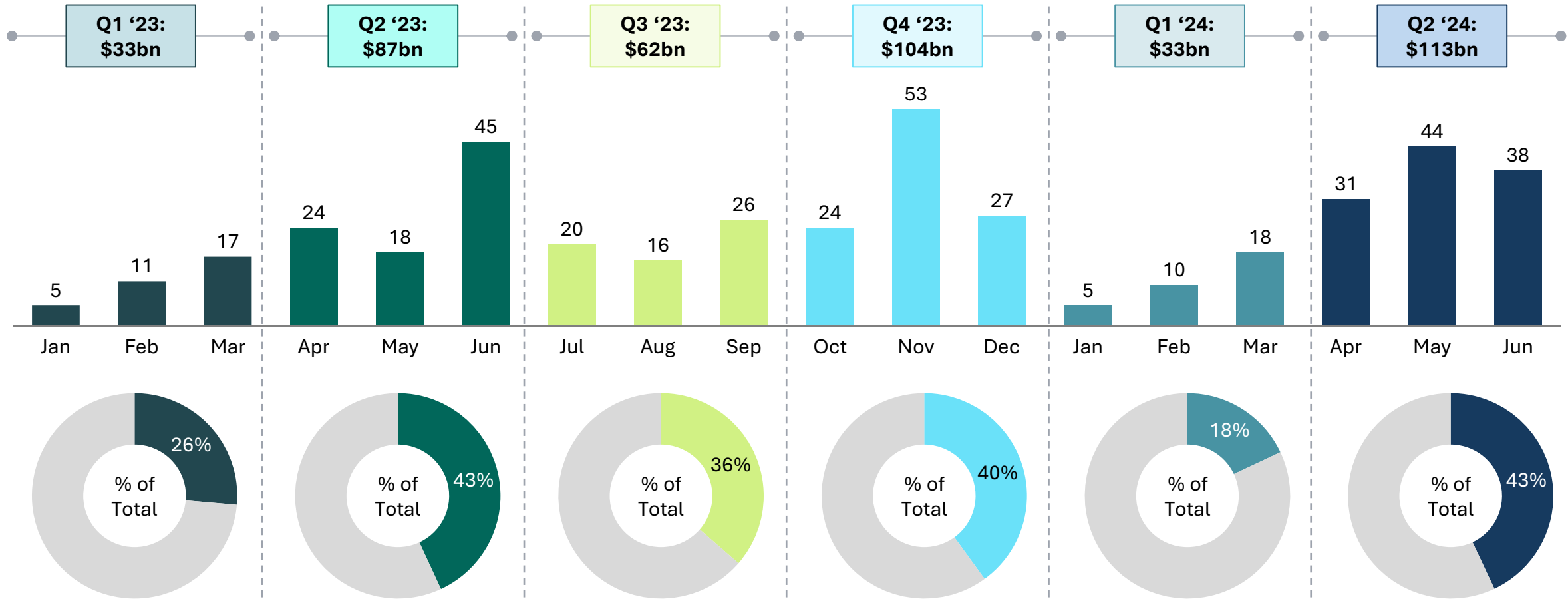
Sponsor M&A as % of Total M&A



Source: Dealogic. Disclosed deal size >\$50m. Data as of 30-Jun-2024.

# But the EMEA Sponsor Share Significantly Increased in Q2

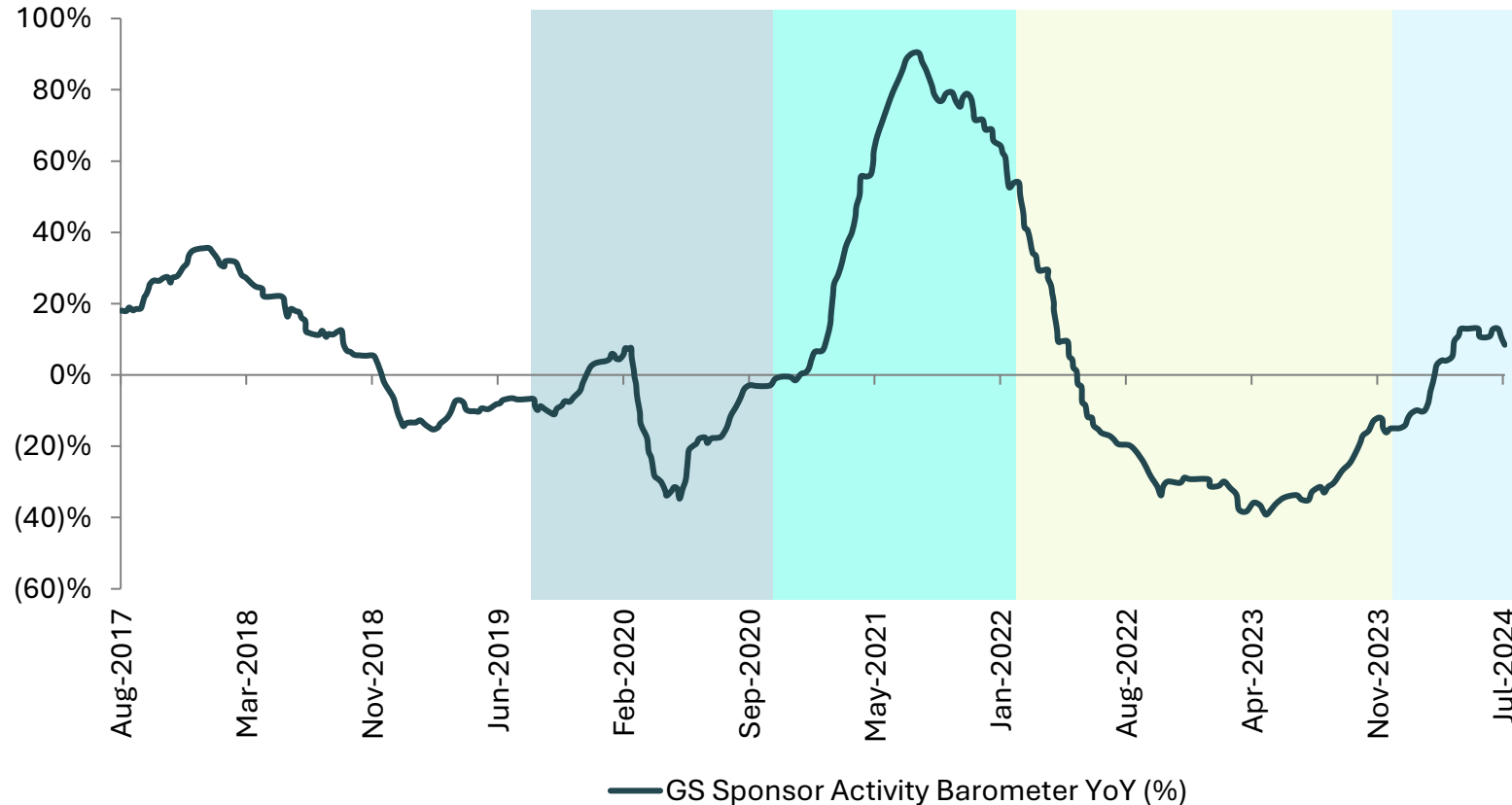
EMEA Sponsor M&A Volumes (\$bn)



Source: Dealogic. Disclosed deal size >\$50m. Data as of 30-Jun-2024

# Global Sponsor Activity Also Shows More Momentum Recently

## Sponsor Activity Barometer (GS Research)



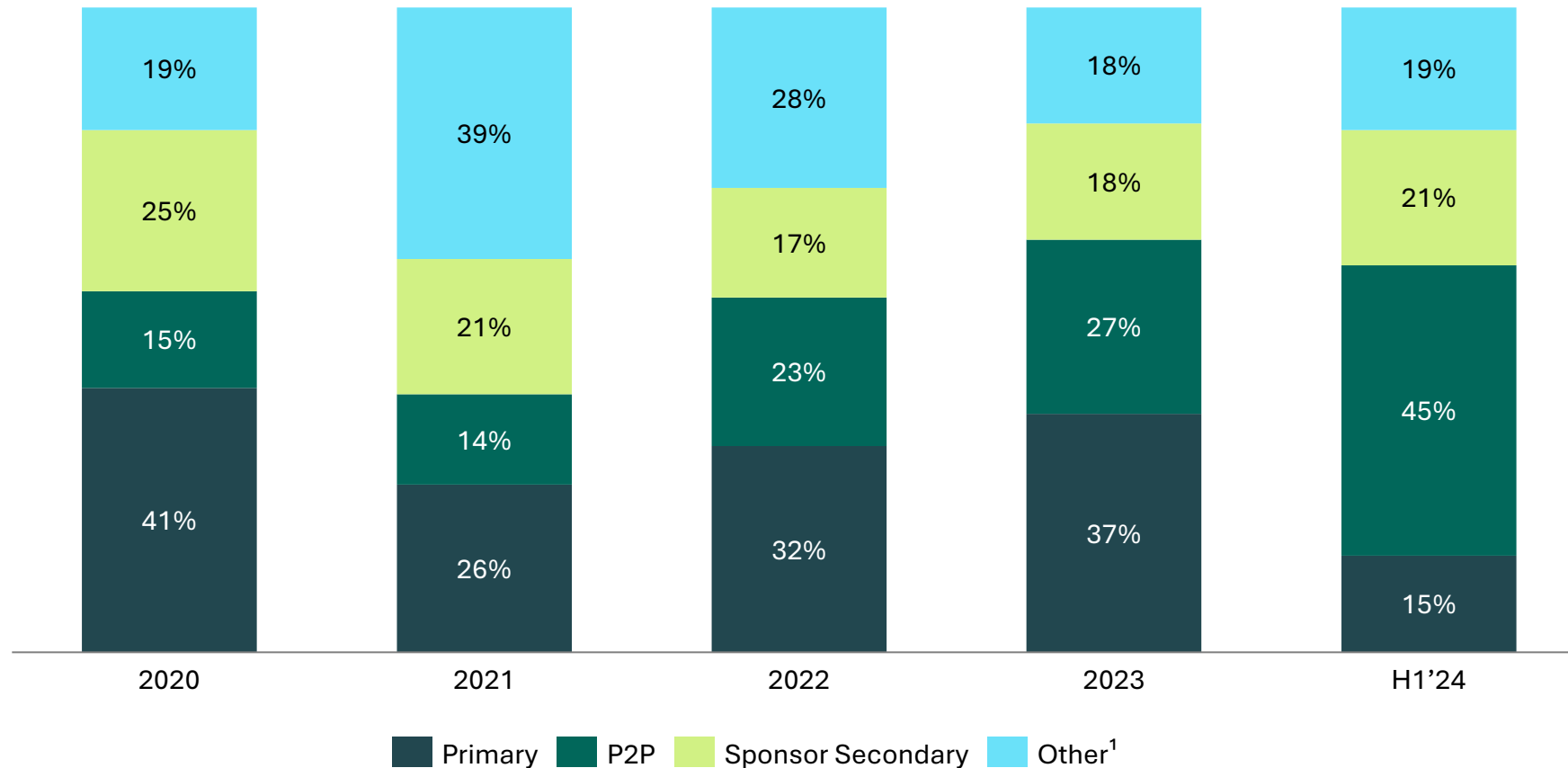
## Commentary

2020	Significant decrease in deal activity during COVID-19
2021 until Early 2022	Very attractive financing and macro conditions drove record sponsor deal activity
Early 2022 until 2023	Increasingly difficult financing markets and challenging macro-outlook
2024	Improving conditions due to more constructive financing markets + pressure to deploy

Source: Goldman Sachs GIR (Sponsor Activity Barometer: Issue #28, 9-Sep-24)

# Looking at Deal Types: Particularly P2P Deals Drove 2024 EMEA Sponsor Deal Activity

EMEA Sponsor Entry – By Type | 2020-H1'24



- **P2Ps** as a key driver for sponsor entries with **~45% share of total entries** in H1'24
- **Secondaries** in line with prior years – **increase in share to 21% largely driven by Q2 activity**

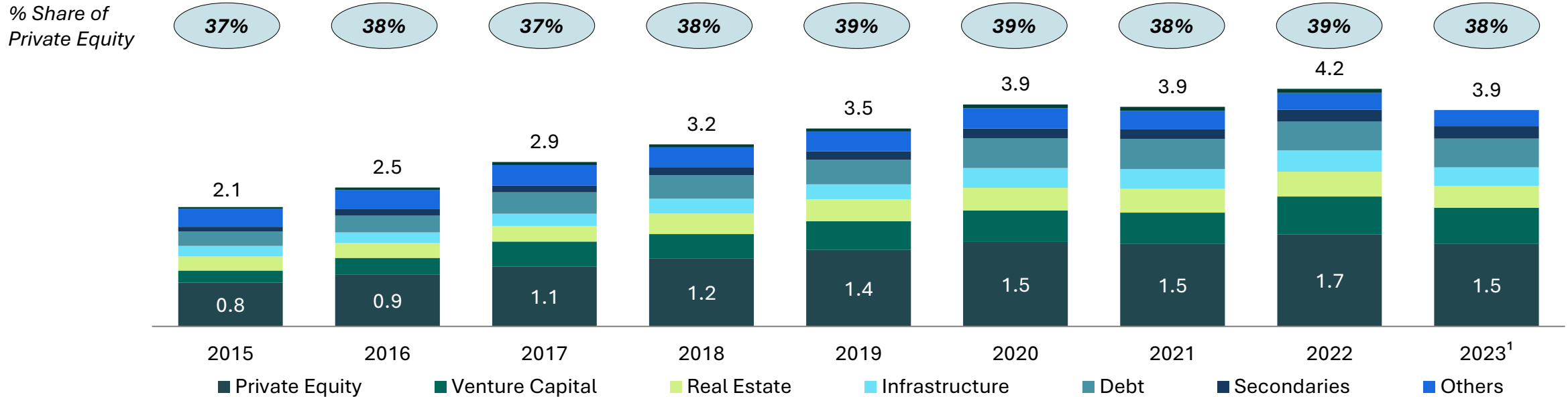
Source: Dealogic. Disclosed deal size >\$50m. Data as of 30-Jun-2024. <sup>1</sup> Includes: Carve-outs, minority transactions, De-SPACs, etc.

# What is Driving Deal Activity

- 1 Dry Powder Remains at High Levels
- 2 Ever Increasing Fund Sizes
- 3 Growing LP Pressure to Return Capital
- 4 Increased Backlog of Sponsor Owned Businesses
- 5 Constructive Financing Markets
- 6 Very Active P2P Markets
- 7 More Diverse Exit Routes

# 1 Dry Powder Remains at High Levels

Global Private Capital Dry Powder, by Fund Type (\$tn)



## Key Fundraising Facts H1'24

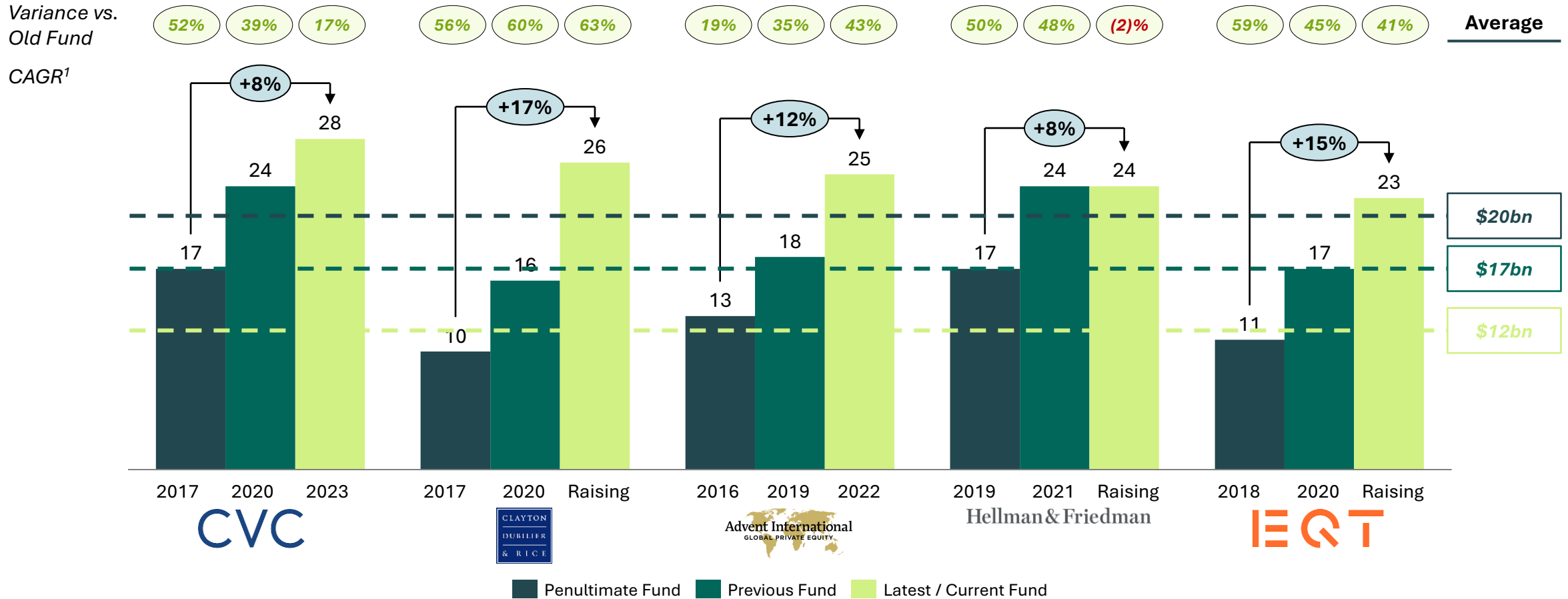
<p><b>+75%</b></p> <p>Increase in average fund size (H1'24 vs. '22)</p>	<p><b>105%</b></p> <p>Achievement of target fund size (H1'24)</p>	<p><b>26 months</b></p> <p>Average time spent in market in H1'24 (vs. 14 months in '19)</p>	<p><b>\$337bn</b></p> <p>Capital raised in H1'24 (vs. \$352bn in H1'22 and \$332bn in H1'23)</p>
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Source: PitchBook <sup>1</sup> Data as of Dec-2023 since dry powder figures are updated with a lag of 6-9 months. Notes: Others category include fund-of-funds, co-investment and real asset funds.



## 2 Ever Increasing Fund Sizes

Global Buyout Funds Raised (\$bn) - New vs. Old Fund Size Variance (Selected Large-cap Funds)

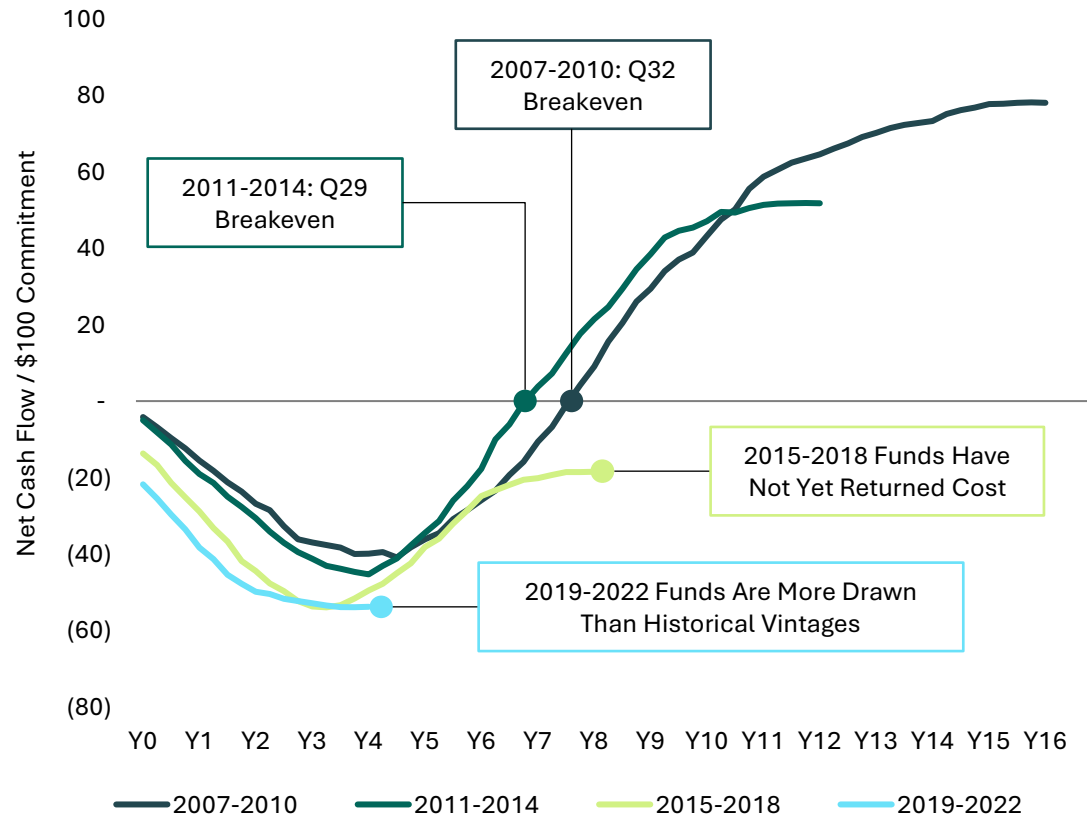


Source: PitchBook. Includes buyout funds only. EUR denominated fund converted at 1 EUR : 1.06 USD. <sup>1</sup> Based on vintage years.

### 3 Growing LP Pressure to Return Capital

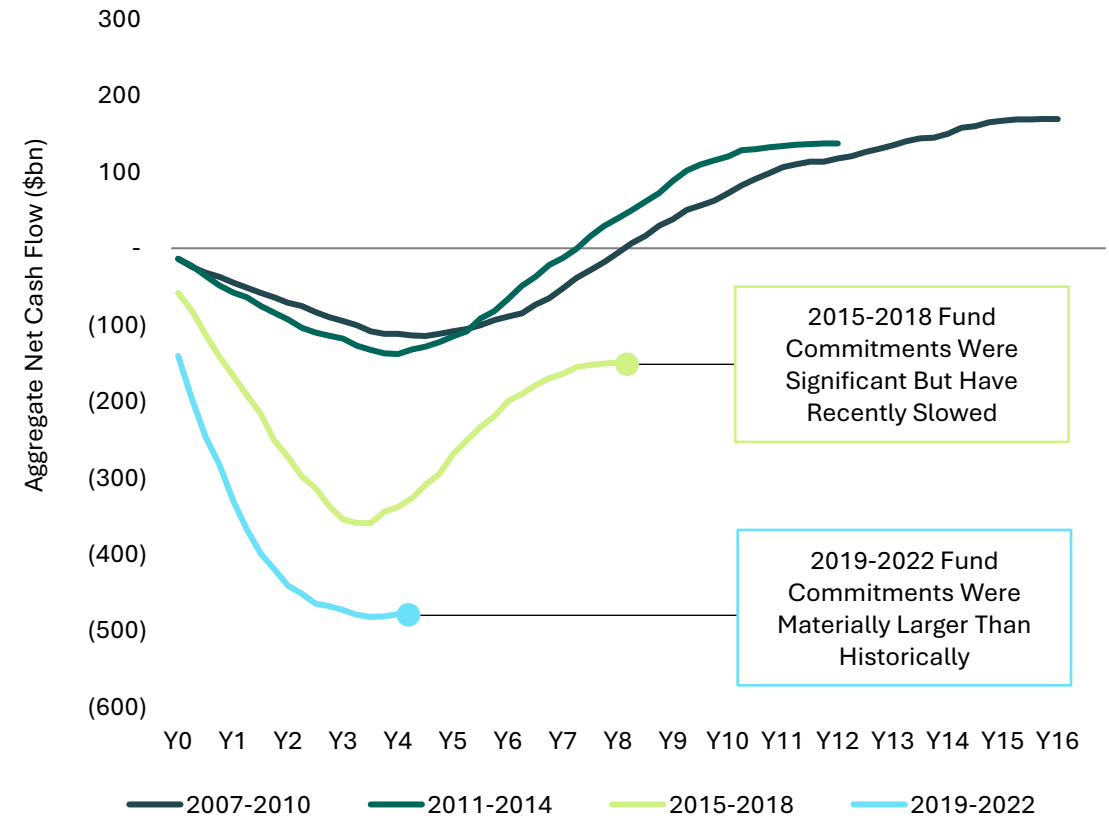
#### Steeper J-Curve Experienced by LPs for Newer Vintages

Average Net Cash Flow Per \$100 Committed (Rebased at T=0)



#### Younger Vintages Are Calling More Capital Than Before

Cumulative LP Cash Flow (Rebased at T=0)

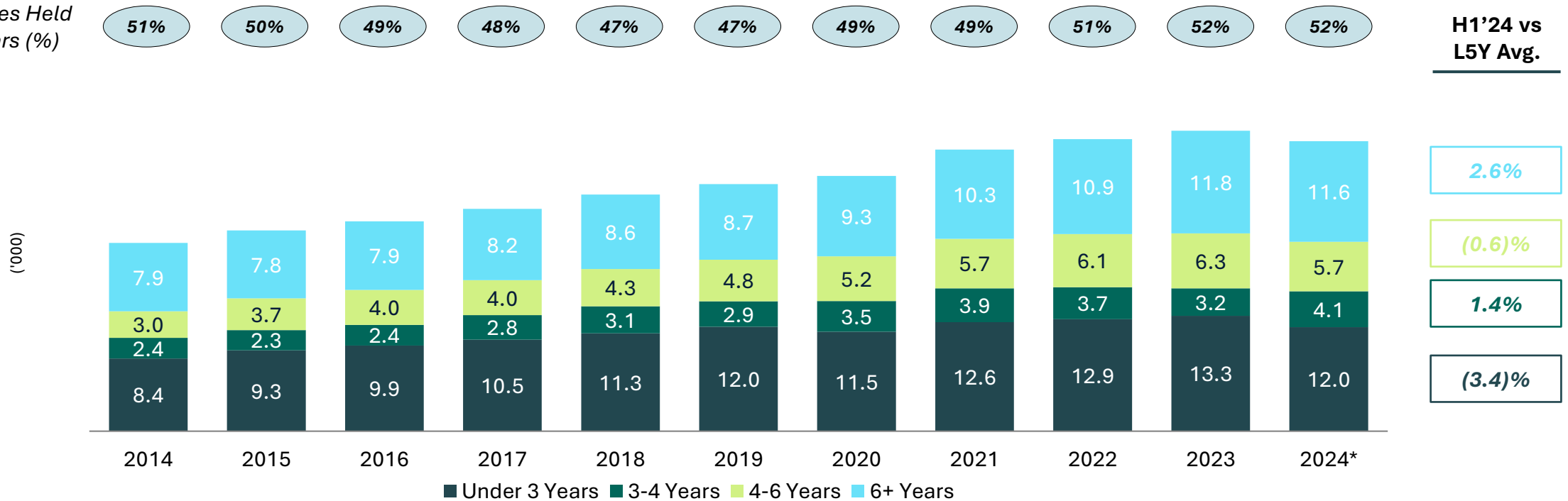


Source: Preqin; as of most recent reporting date available on 03-Apr-2024. Date of first cash flow defined as T=0 for each fund in given vintage (i.e., Y1 represents ~2017 for 2016 vintage funds, but ~2019 for 2018 vintage funds).

# 4 Increased Backlog of Sponsor Owned Businesses...

## Global Active Buyout-backed Companies, by Time in Portfolio

Companies Held for >4 Years (%)



**~800**  
PE Owned Companies with EV>\$1bn

**~\$2.7tn**  
Cumulative EV of PE Owned Companies with EV>\$1bn

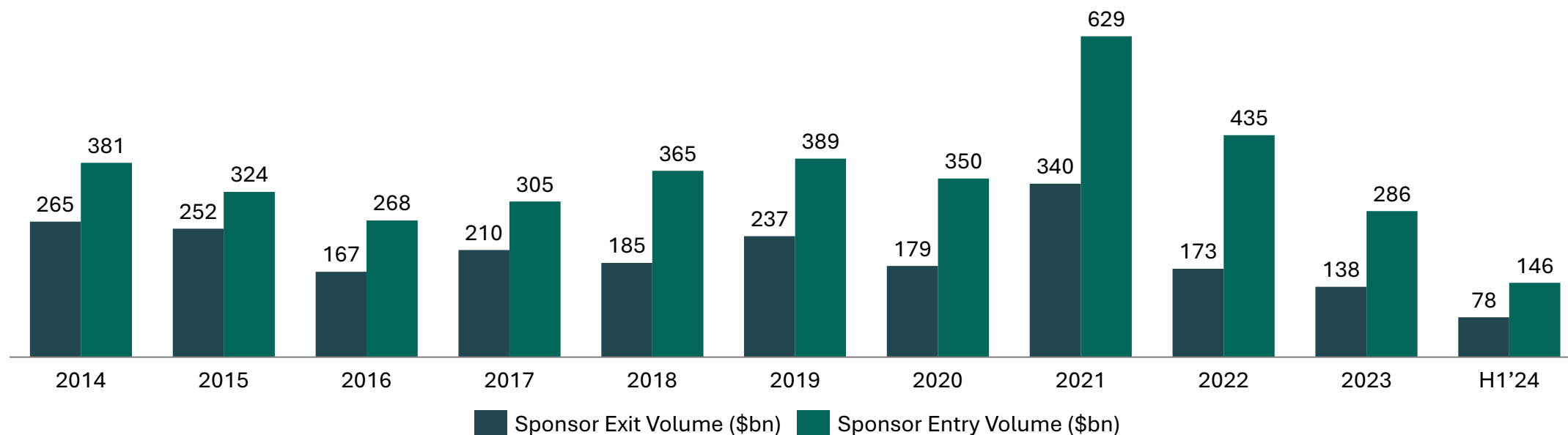
**~6.0 Years**  
Average Investment Life<sup>1</sup>

Source: Bain Global Private Equity Report 2024 & Pitchbook as of 30-Jun-24. Excluding Add-ons. <sup>1</sup> Based on year of entry for majority sponsor owner in a portfolio company in case of multiple sponsors

## 4 ... with Sponsor Inventory Significantly Increasing Since 2019

### EMEA Sponsor Entry / Exit Activity (\$bn)

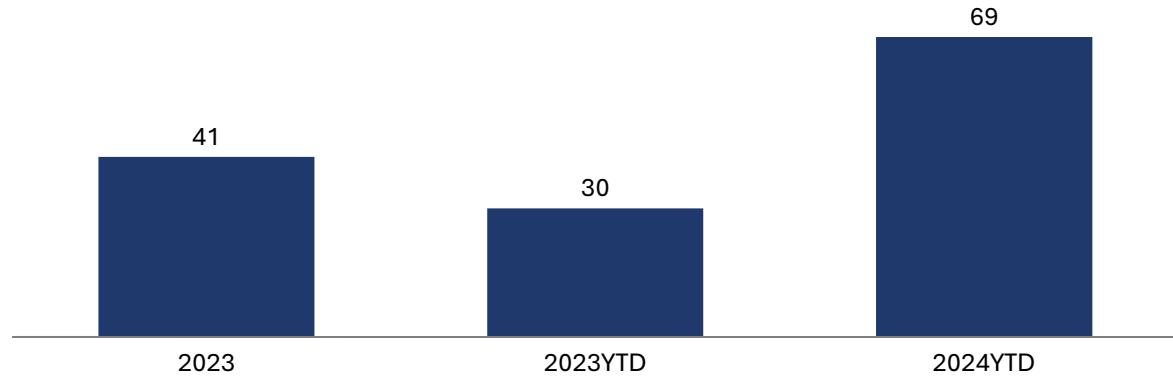
# Exits	300	373	312	310	280	237	196	338	215	143	76
# Entries	302	311	297	309	293	324	264	426	335	194	78
Entry / Exit	1.0	0.8	1.0	1.0	1.0	1.4	1.3	1.3	1.6	1.4	1.0



Source: Dealogic. Disclosed deal size >\$50m. Data as of 30-Jun-2024. [1 FY'2024 annualized when H2 = H1.]

# 5 Constructive Financing Market: Volumes up, Spreads down

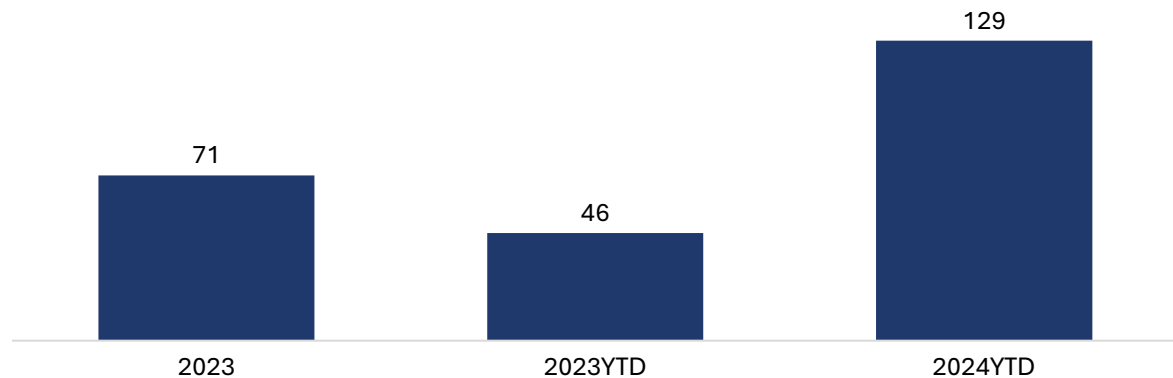
High Yield Primary Market Annual/YTD Volumes (€bn)



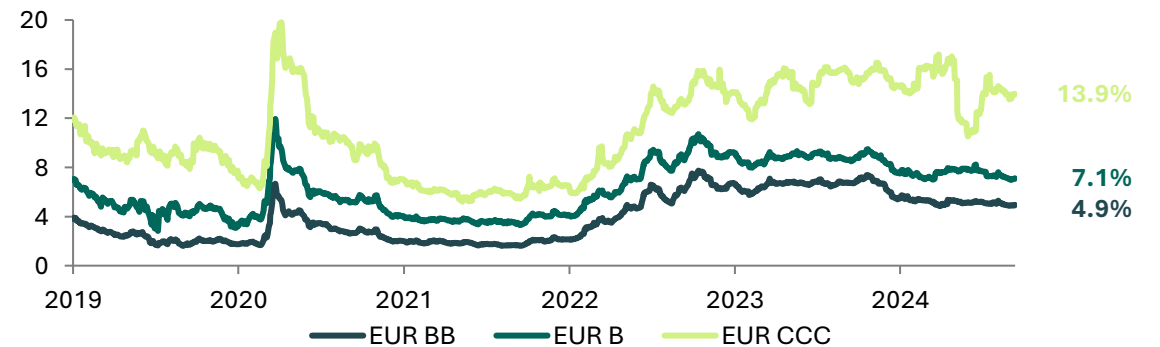
iTraxx Xover Index (Since 2019, Spreads BPS)



Leveraged Loan Primary Market Annual/YTD Volumes (€bn)



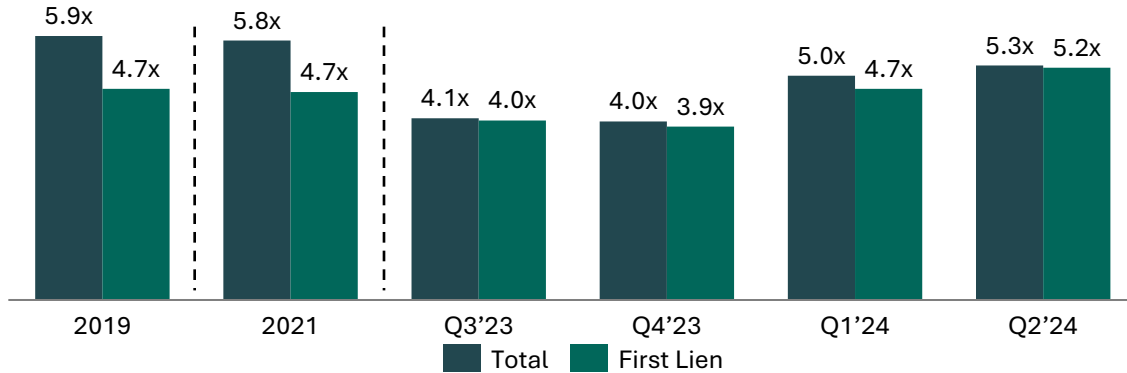
Sub Investment Grade Yields (Since 2019, YTW %)



Source: LCD, Dealogic as of 06-Sep-2024

# 5 Constructive Financing Markets: Leverage Levels up Again – Although Still Below Levels Seen in 2019 or 2021

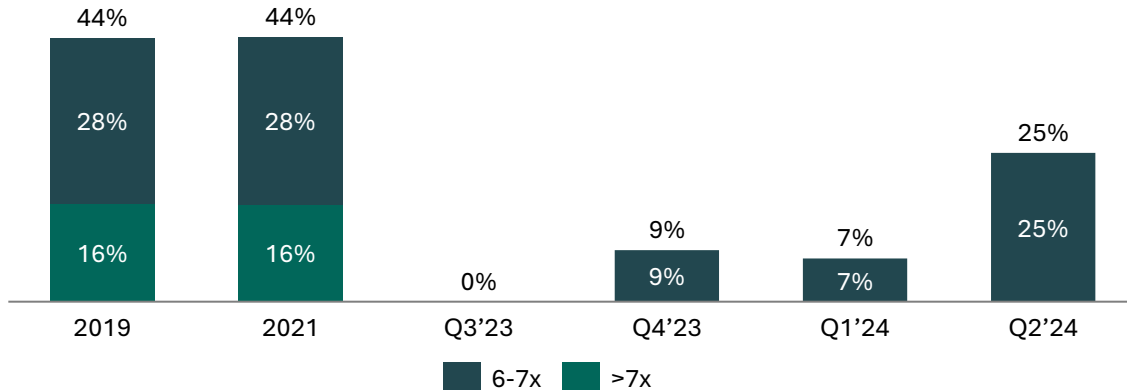
Average Adj. Leverage for LBO Loan Deals (First Lien vs. Total)<sup>1</sup>



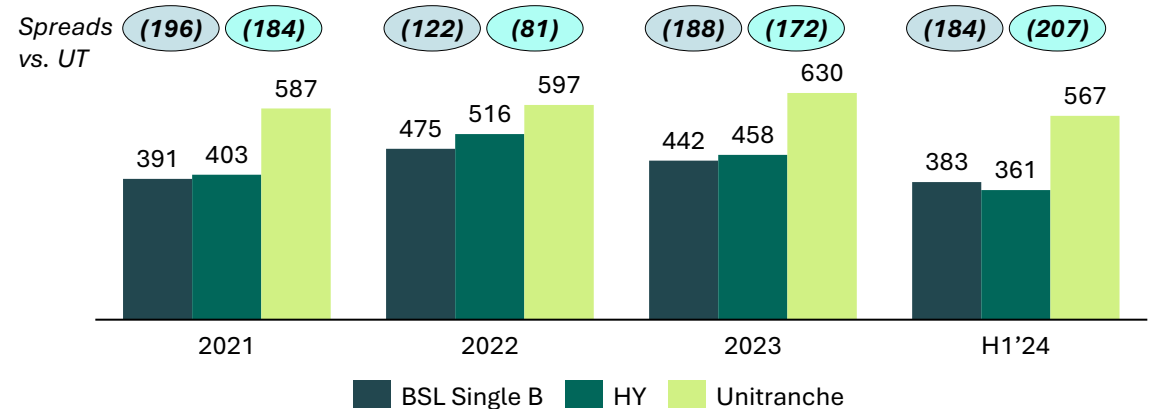
Institutional Market vs. Direct Lending

- Private equity can tap both institutional financing markets and private credit (debt funds)
- Particularly many small and mid-sized deals are financed by private credit (~90% by deal count in H1'24)
- Larger deals mainly funded by institutional financing (85% of LBOs >\$1bn in H1'24), but can also be combination of both
- Gap between institutional and private credit spreads widened in 2024 – putting pressure on debt funds to reduce spreads

Percentage of Deals With Leverage of 6x or Higher (M&A Only)



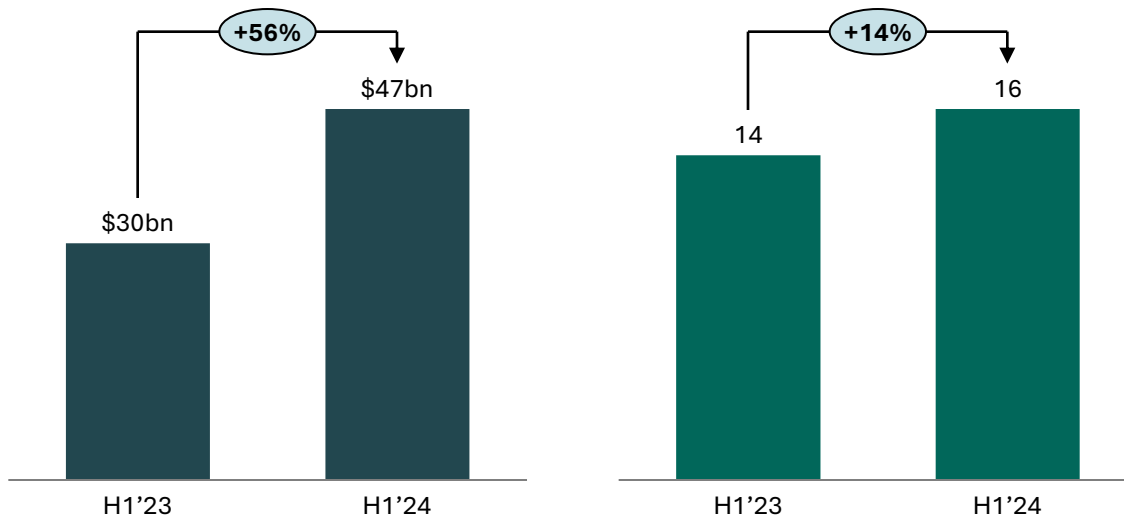
Spreads - Private Credit vs. Institutional (BPS)



Source: Kirkland & Ellis Study, KBRA DLD; BSL, 2L & HY: Pitchbook LCD, July 17, 2024. LevFin Insights report, July 8, 2024. <sup>1</sup> Insufficient syndicated LBO loan data in Q3–Q4 2022 to determine averages 3-month rolling averages; Unitranche and Non-uni averages comprised of first-lien term loans; KBRA DLD in 2024 revised the definition of unitranche to >=4.5x (on an all-senior basis) to reflect the current market

# 6 Very Active P2P Markets

EMEA Sponsor P2P Volume (\$bn) & Number of Approaches<sup>1</sup>



Key Stats on EMEA Sponsor P2P Activity

- ~32% Global Sponsor Buyside's Were P2Ps (vs L10Y Avg. of ~15%)
- ~40% EMEA P2Ps Were Launched at UK Targets
- ~45% EMEA P2Ps Avg. Premium to Undisturbed Price in 2023-24
- ~60% EMEA P2Ps in L5Y Were Successfully Completed

Top 10 EMEA Sponsor P2Ps – H1'24






















Date <sup>1</sup>	Target	Acquiror	Size (\$m)	HQ	Sector
May-24	NEOEN	Brookfield TEMASEK	10.0	FR	NR/INFRA
May-24	Atlantica Sustainable Infrastructure	ECP	7.7	UK	NR/INFRA
May-24	HARGREAVES LANSDOWN	CVC NORDDIC CAPITAL ADIA	6.7	UK	FIG
Mar-24	ENCAVIS	KKR VIE MANN	4.6	DE	NR/INFRA
Apr-24	DARKTRACE	THOMABRAVO	3.8	UK	TMT
May-24	Keywords Studios	IEQT	2.7	IT	TMT
Apr-24	BIPOINOSIS	Blackstone	2.1	UK	FIG
May-24	OX2	IEQT	1.5	SE	NR/INFRA
Feb-24	believe.	IEQT TCV	1.4	FR	TMT
Apr-24	SALCEF GROUP	Morgan Stanley Infrastructure	1.1	IT	NR/INFRA

Increasing Competition Among Sponsors With Topping Bids

<p><b>network</b></p> <p>2023 ~€2.4bn</p> <p>Bid 1: CVC FP</p> <p>Bid 2: Brookfield</p>	<p><b>Caverion</b></p> <p>2023 ~€1.2n</p> <p>Bid 1: BainCapital Consortium</p> <p>Bid 2: Triton</p>	<p><b>Applus+</b></p> <p>2023 ~€2.6bn</p> <p>Bid 1: APOLLO</p> <p>Bid 2: TDR Capital ISQUARED CAPITAL</p>
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Source: Dealogic as of 30-Jun-2024. <sup>1</sup> Includes deals >\$500m, that are completed, pending, withdrawn, offer expired, rejected, not pursued and in preliminary discussions.

# 7 More Diverse Exit Routes Available for Sponsors

<p><b>Continuation Funds</b></p>	<ul style="list-style-type: none"> <li>• GP sells one or more companies to a new fund ('continuation fund')</li> <li>• GP continues to manage the new fund for another holding period (up to 5-7 years)</li> <li>• Ownership of new fund: Secondary investment funds, rolling LPs, re-invest of GP</li> </ul>	 Single-Asset CF  2023	 Multi-Asset CF  2023
<p><b>Cross-fund Deals</b></p>	<ul style="list-style-type: none"> <li>• GP sells a company from an 'old' fund to a 'new' fund</li> <li>• GP continues to manage the new fund for a new holding period (up to 5-7 years)</li> <li>• Often combined with e.g. a minority sale to get an external valuation mark</li> </ul>	 Fund VI  Transferred to new strategy  2021	 Fund VII  Transferred to new strategy  2021
<p><b>Minority Deals</b></p>	<ul style="list-style-type: none"> <li>• GP sells a minority stake to another third-party investor (or a group of investors)</li> <li>• Allows to generate some proceeds for LPs, while still retaining control and upside</li> <li>• Critical negotiation items: Minority rights, lock-up period, exit rights</li> </ul>	  Sold minority stake to  2023	 EST. 1981 Sold minority stake to  2023
<p><b>Co-control Deals</b></p>	<ul style="list-style-type: none"> <li>• GP sells a ~50% stake to another third-party investor</li> <li>• Allows to generate proceeds for LPs, while still retaining control and upside</li> <li>• Critical negotiation items: Veto rights, approval majorities, lock-up period, exit rights</li> </ul>	 Acquired Co-control with  in  2022	 Acquired Co-control with  in  2021



# Trends in Sponsors Processes – Generally More Constructive in H1'24 Than in 2023

## Higher Buyer Engagement But Sponsors Remain Selective

- **Sponsors' interest regaining momentum but on a selected basis**
  - Funds generally willing to deploy capital but often rather for “unique” or “special” assets
  - Focus on primary deals and P2P vs secondary LBOs – although secondary volumes recently increased
- **Strategics remain a key buyer group for many assets – strategic interest often makes a real difference**

## Sellers Keen To Retain Flexibility

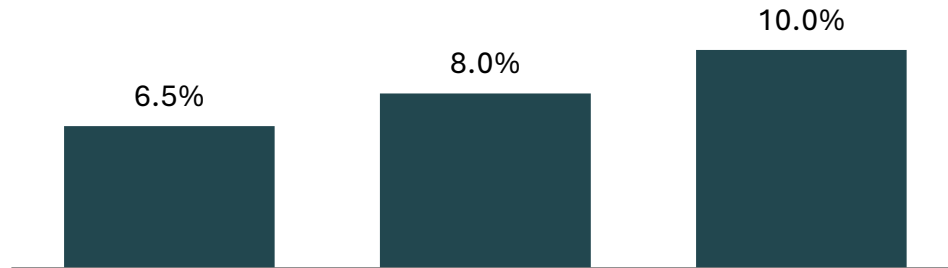
- Continued trend of **extended pre-marketing phases** to create excitement among buyers
- Buyers continue to conduct **extended due diligence**
- Still **only a minority of processes executed with standard two stage auction timetable**

## Cautious Stance On Valuation

- **Bid / ask spread seem to be getting smaller** – albeit valuation gaps between sellers and buyers still persist
- Sponsors only prepared to pay **better multiples for assets with strong investment thesis**
- Strategics continue to pay **premium valuations for “must have” assets**

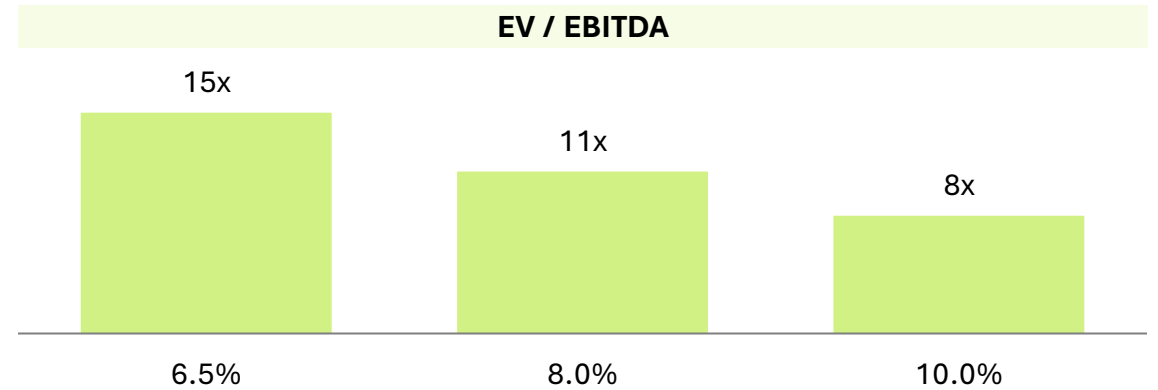
# ...But Diverging Valuation Views Remain a Challenge...

## A Change in WACC Due to Increasing Interest Rates...

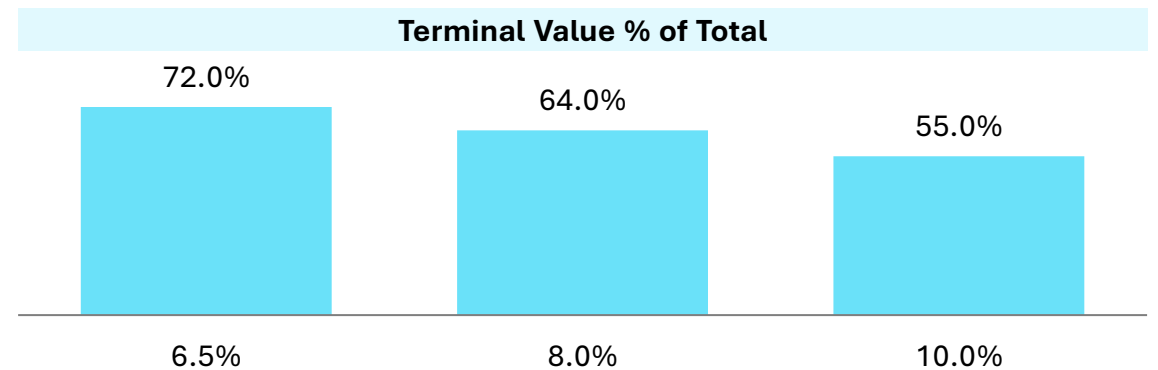


<b>Risk Free Rate</b>	~0%	~1.5%	3-4%
<b>Beta</b>	1.0	1.0	1.0
<b>Risk Premium</b>	6.5%	6.5%	6.5%

## ...Impacts Value...



## ...and Duration



Note: Based on an illustrative company with the same 10-year projections.

# ...with Creative Structuring and Financing Gaining Importance to Bridge the Gaps

## Potential Solutions and Examples of Recent Deals

1	 <b>FEDRIGONI</b> 2022, EV: €2.7bn	 <b>BainCapital</b> 45.6%, Fund to Fund Transfer  45.6%, New Investor	  2022, EV: ~€1.4bn	Combined majority <b>ARDIAN</b> Reinvesting NB <b>RENAISSANCE</b> New Investor	 <b>AZETS</b> 2023, EV: c.\$1.8bn	 Acquired co-control  Retained co-control		
2	  2023	 Acquired maj% from <b>KKR</b> Retained min%	 2023, EV: ~\$650m	<b>SILVERLAKE</b> Acquired min% from <b>H&amp;F</b> Retained maj.%	 2023	<b>ADIA CapitalG</b> Acquired min% from  Retained min.%		
3	 <b>KERRY</b> Sweet Ingredients 2023, EV: €500m	<b>irca</b> SINCE 1919 Portfolio company of Advent International GLOBAL PRIVATE EQUITY	  Climate Technologies 2022, EV: \$14bn	<b>Blackstone</b> 55% stake in the JV alongside Emerson				
4	 <b>TOM FORD</b> 2023, EV: \$2.8bn	<b>ESTÉE LAUDER</b>	 <b>TARSUS</b> 2023, EV: \$940m	<b>informa</b> Acquired from charterhouse 				
5	  2022	<b>SILVERLAKE</b>	 Ideagen 2022		 2022	Stonepeak	 2022	

# 2024/25 Outlook: The Current “Push and Pull Environment” is Creating a Lot of Opportunities

## Whilst the Environment Remains Challenging...

Macro uncertainty

Diverging views on valuation

Buyer / Investor cautiousness and scrutiny

More challenging regulatory environment

## ...Key Drivers for Sponsor M&A Remain Intact / Improve

Strong financing markets and decreasing interest costs

Record funds to deploy with continued fundraising

Pressure to return capital to LPs

Recovery in secondary deals and sponsor exits

## Resulting in a Positive Outlook for Sponsor M&A in 2024/25

High number of active P2P discussions or planned approaches

More engagement by sponsor buyers in sponsor exits

Corporate buyers remaining active as buyers in sponsor exits

Large number of discussions on alternative deal types

# Thank You!

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