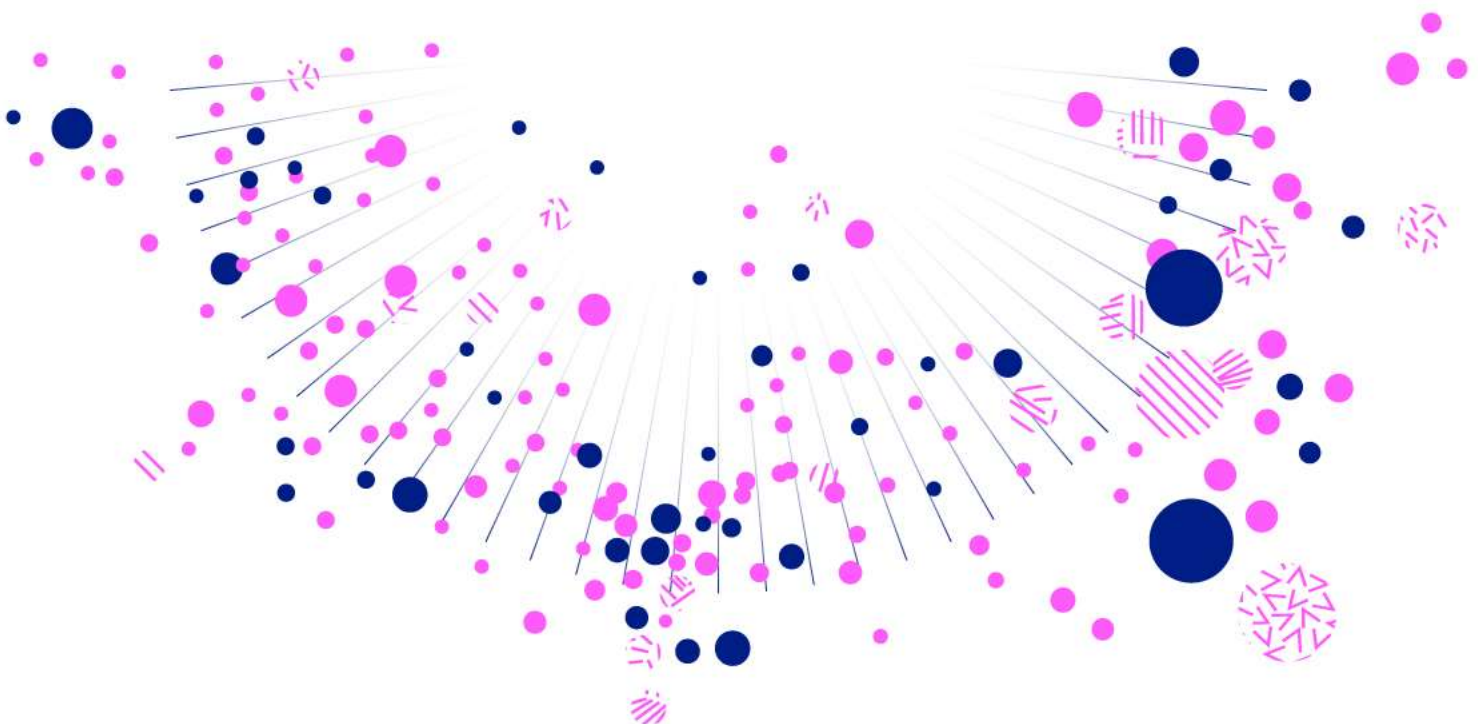


EIF Private Equity Mid-Market Survey 2021: Market sentiment

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Executive Summary

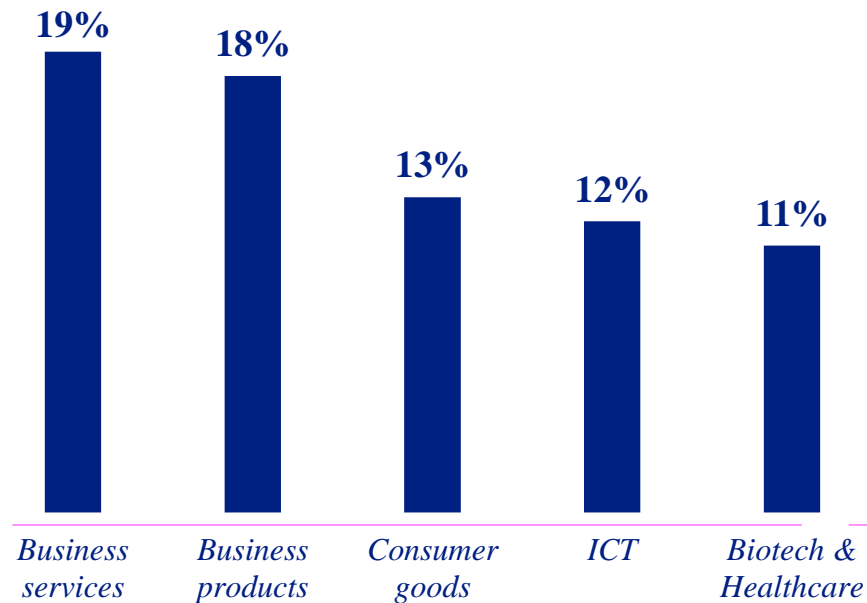
*EIF PE MM Survey
wave 2021*

The EIF PE MM Survey

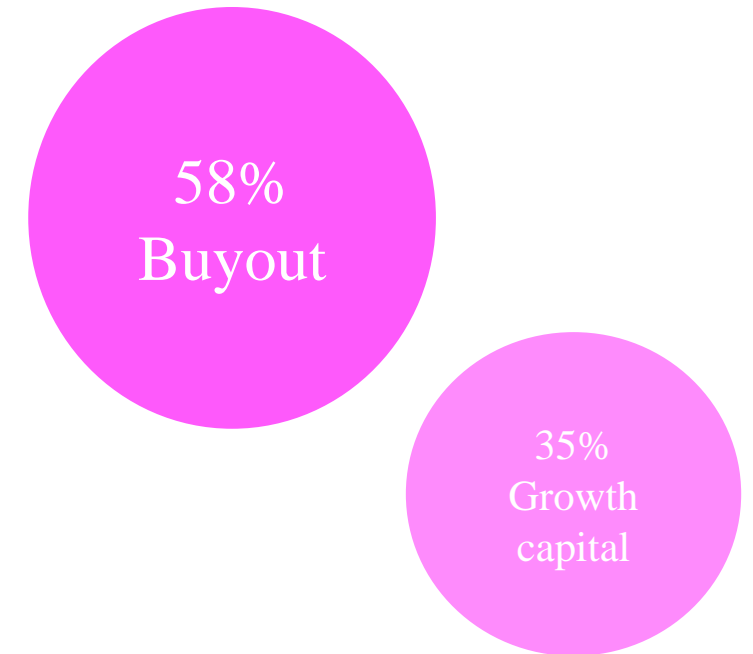
Number of respondents

215

Top sectors



Stage



Key EIF survey topics 2021

This paper

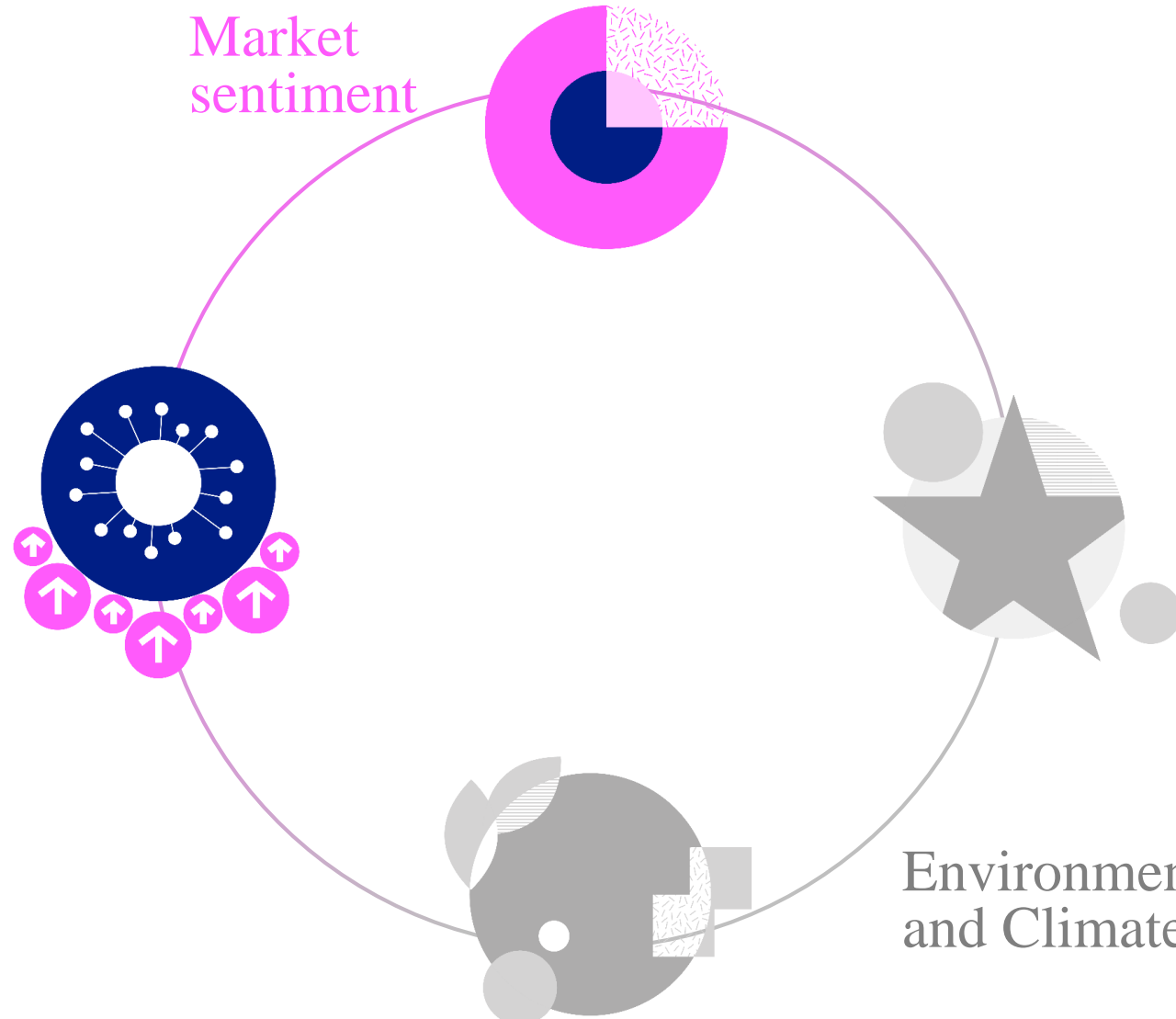
Impact of
COVID-19

Market
sentiment

**Forthcoming
soon**

Gender
diversity

Environment
and Climate



EIF PE MM Survey results: Key highlights

Strong recovery in 2021

- Private Equity (PE) mid-market (MM) fund managers exhibited a very **negative sentiment** at the **early phases of the COVID-19 crisis**, particularly with regard to their state of business, the fundraising environment, the access to finance of portfolio companies, future portfolio development and exit prospects.
- However, the European PE mid-market ecosystem proved **resilient** and weathered the COVID-19 crisis without major damage so far. The PE MM industry's activity did not show signs of “long COVID” and in 2021 it **quickly bounced back from its crisis slump**.
- According to the *EIF PE Mid-Market Survey*, a survey of PE MM General Partners investing in Europe, **fund managers** have become **very optimistic** again.

Even record-highs in some areas

- The **current market situation** is perceived **even better than before the COVID-19 crisis**. **Expectations** for the period until mid-2022 are very **positive** across several categories, displaying the highest values since the *EIF PE MM Survey* launch in early 2020.
- After a decline throughout 2020, PE MM fund managers' perception of their state of business is back to the pre-crisis level. **Expectations regarding the state of business in the next 12 months are also very positive – more than ever before**.
- The sentiment regarding **investment expectations** had deteriorated considerably in the early phase of the crisis. Since then, however, there has been a **gradual return to optimism, culminating in 2021**, where expectations for the next 12 months even **reached record-high levels**.

Mixed impact of COVID-19

- **The crisis had a heterogeneous impact on PE MM-supported companies**, with the direction depending, for example, on the activity sector of the portfolio company.
- **Compared to VCs** (see “[EIF Working Paper 2021/074: EIF Venture Capital Survey 2021: Market sentiment](#)”), **PE MM fund managers perceive a more negative impact of COVID-19 on the performance of their funds**.
- This might partly reflect the different nature of their business models as well as the different impact of the crisis on their targeted companies. For example, amid the COVID-19 crisis, ICT and Life Sciences start-ups (typically targeted by VCs) have been at the centre of very positive trends in digital transformation and health-related needs.

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

Improved environment for fundraising and investment

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

Increased transaction prices, valuations and competition

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

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

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

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

Portfolio companies developed better, but challenges remain

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

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

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

Optimism prevails despite COVID-19 impact

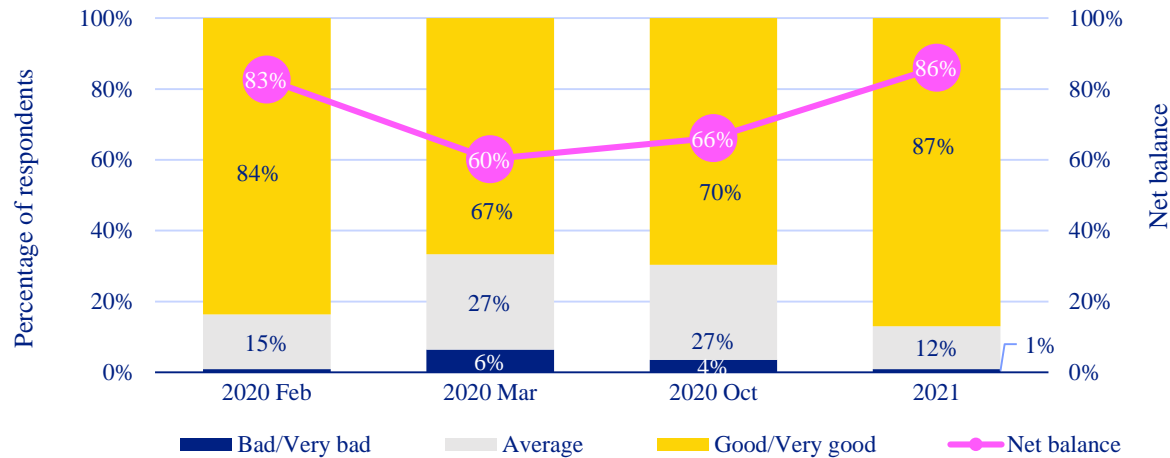
- **9 in 10** PE MM fund managers **do not expect any insolvencies** due to the impact of COVID-19. This finding is even more positive than the (already very positive) one observed in Autumn 2020.
- The median respondent views the **impact of COVID-19 on the current performance** of their fund(s)/portfolio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

Market Sentiment

*EIF PE MM Survey
wave 2021*

State of business

Current situation

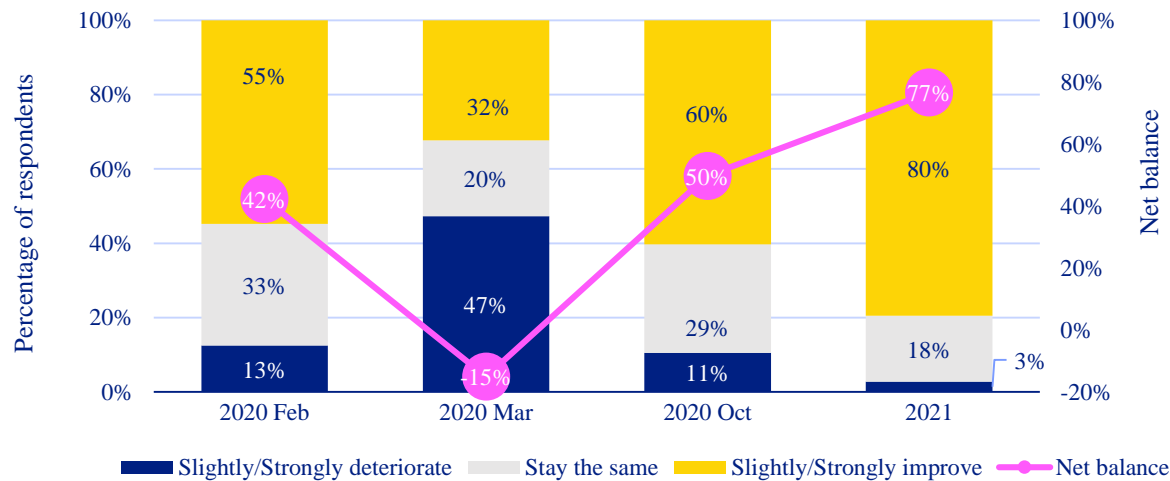


Perception of the state of business is back to pre-crisis levels; and expectations are also positive – more than ever before

- After a **decline between February and March 2020**, PE MM fund managers' perception of their state of business is **back to the level reached in February 2020**.
- The “net balance” **increased** by 20 percentage points from Autumn 2020 to 2021. (See the Annex for an explanation of the term “net balance” [here](#).)

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

Expectations for the next 12 months

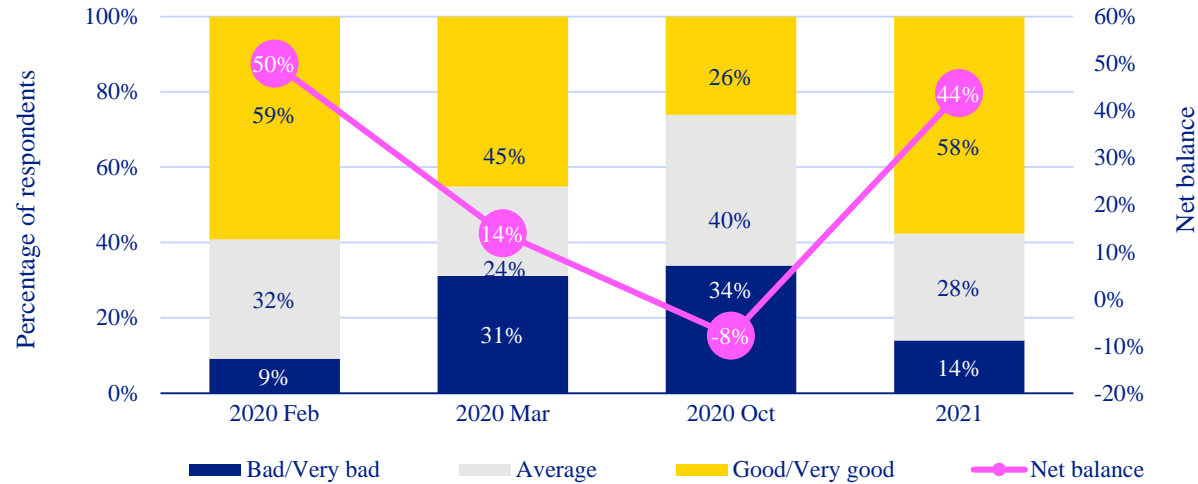


- **Expectations for the next 12 months are very positive** – more than ever before.
- The percentage of respondents that express a **negative outlook** for the next 12 months is **at its lowest level** since the *EIF PE MM Survey* was first launched in early 2020.

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

Fundraising Environment

Current situation

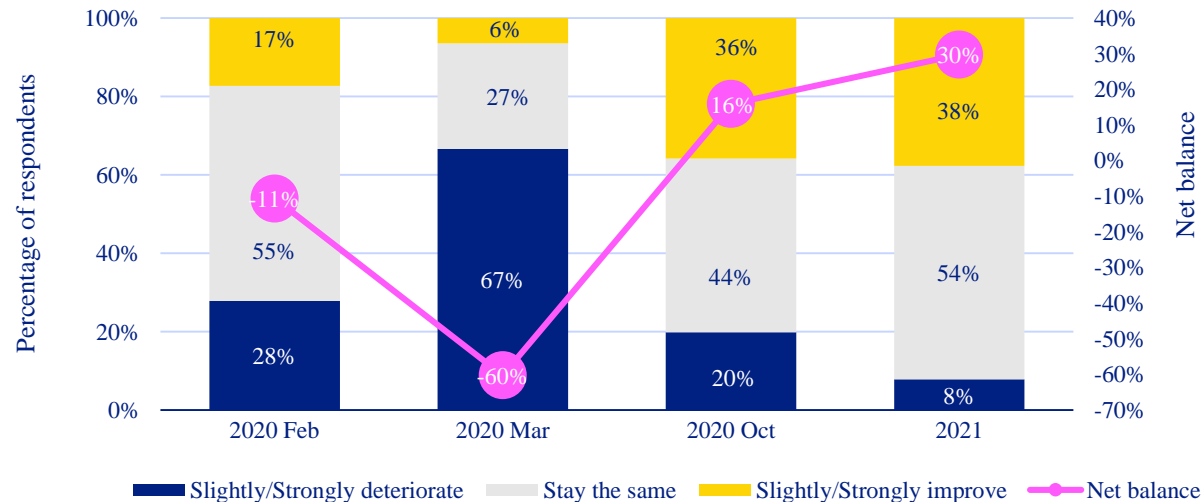


Perception of the fundraising environment has been restored to pre-crisis levels; while expectations reached an all-time high.

- The pessimistic view observed in Autumn 2020 has been replaced by a **very positive market perception in 2021**.
- **The share of respondents rating the current fundraising environment as (very) good reached the same level as in February 2020.** At the same time, the share of negative perceptions decreased strongly compared to March and October 2020.

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

Expectations for the next 12 months

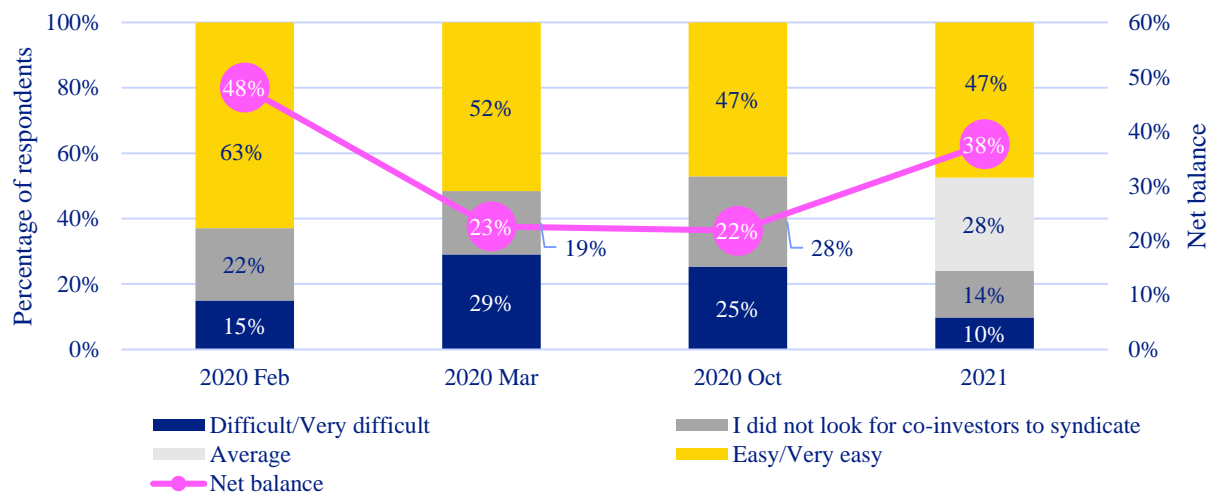


- Respondents' **expectations** for the future fundraising environment are **more optimistic in 2021**.
- **The share of respondents expressing an optimistic outlook reached a record-high** in the history of the *EIF PE MM Survey* waves; with the share of those expressing a pessimistic outlook falling to an all-time low.

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

Easiness in finding co-investors

Current situation

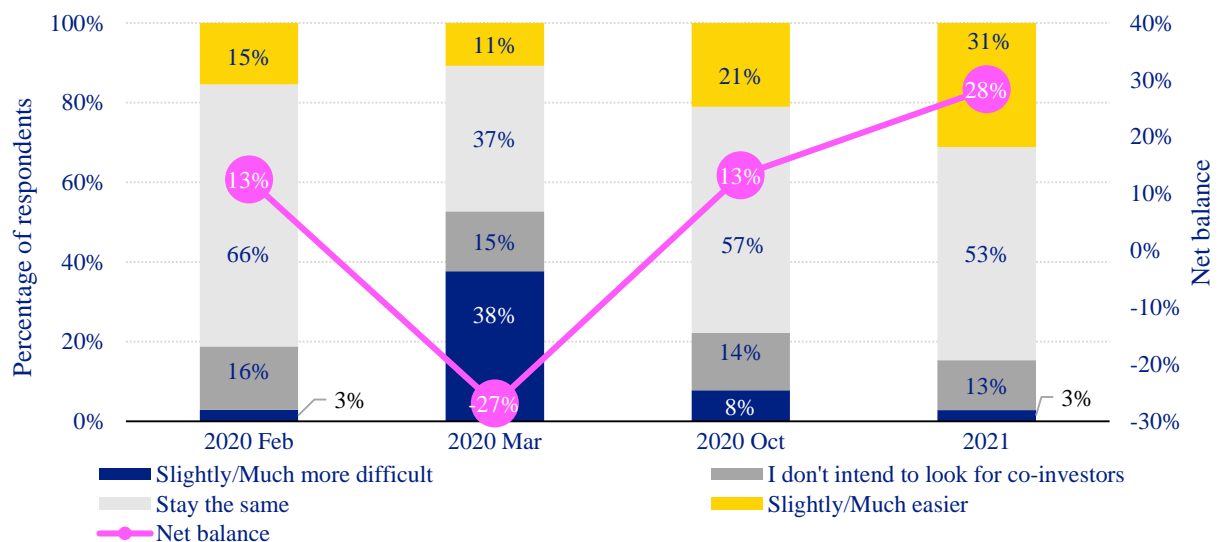


Finding co-investors has become less difficult; and most GPs expect no change over the coming months.

- After becoming considerably more difficult for many respondents between February and March 2020, **finding co-investors has become easier again in 2021.**
- The share of respondents that did not look for co-investors to syndicate decreased to a record-low.

Q: "How easy/difficult is it currently to find co-investors to syndicate?"
 Note: The "Average" response option was only provided in the 2021 Survey wave.

Expectations for the next 12 months

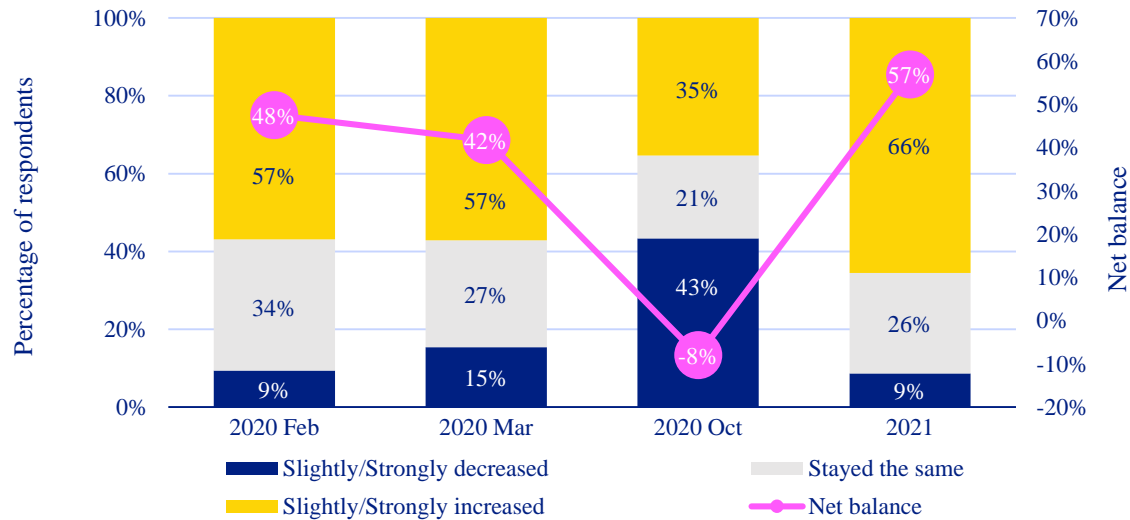


- The perception of PE MM fund managers regarding the **easiness in finding co-investors in the future** deteriorated considerably in March 2020, before **gradually improving** in Autumn 2020 and in 2021.
- The **expectations have significantly recovered in 2021**, with 31% of the respondents expecting it to become easier to find co-investors over the next 12 months and only 3% expecting it to become more difficult. A majority of 53% expect the situation to stay the same.

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

Number of investment proposals received

Current situation

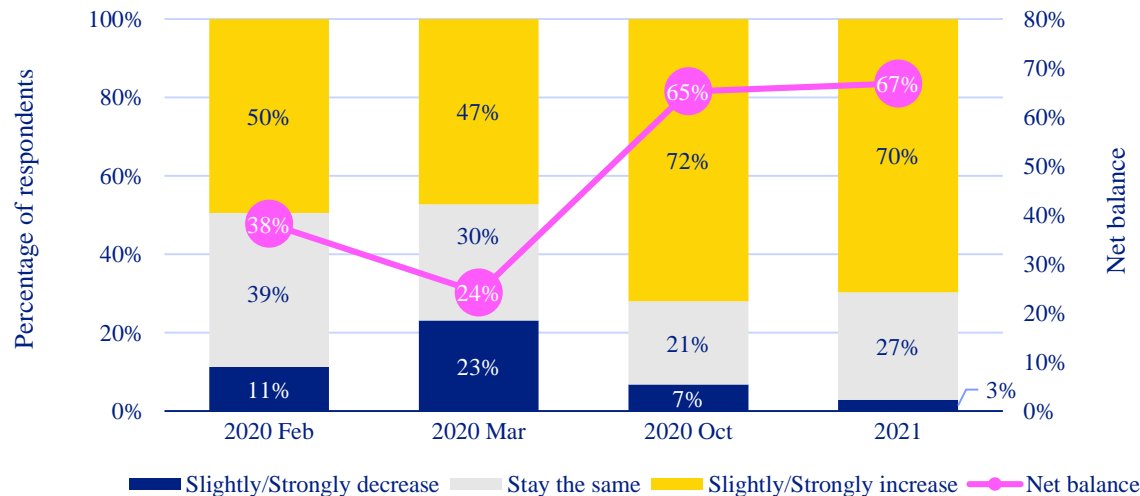


PE MM can select from an increased number of incoming investment proposals, which is even expected to accumulate further.

- **The share of respondents stating an increase in the number of investment proposals received almost doubled between Autumn 2020 and 2021.**
- At the same time, in 2021, the share of respondents who experienced a decline in the number of investment proposals received reached its lowest level since the survey was first published in early 2020.

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

Expectations for the next 12 months

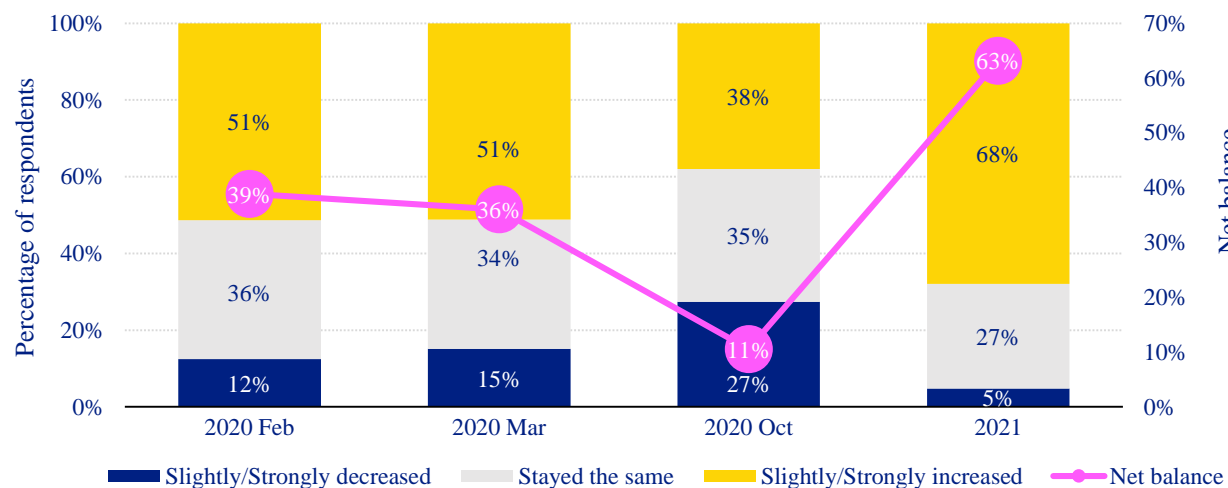


- Despite the already positive current situation, **most PE MM fund managers expect a further increase in the number of investment proposals to their firm.**
- These perceptions confirm a **high demand for PE mid-market investments.**
- However, a high number of incoming investment proposals does not necessarily mean that these proposals are of sufficient **quality** for PE MM to invest.

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

Number of new investments

Current situation

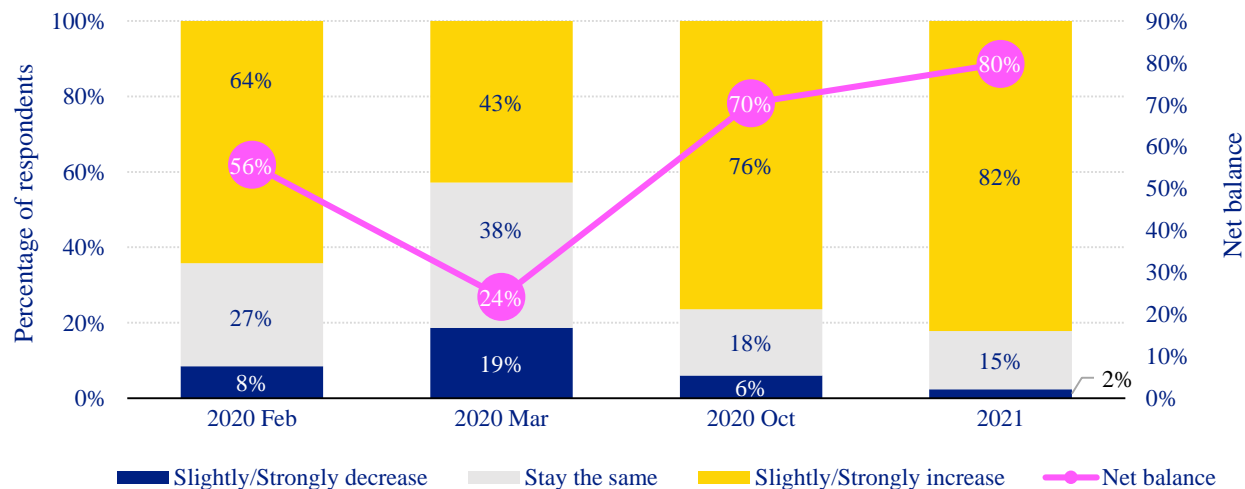


Most respondents reported more investments, and a further increase is expected.

- Following a slump in the reported investment activity in Autumn 2020, the **percentage of respondents stating an increase in the number of their new investments in 2021 is larger than before the COVID-19 crisis.**
- The **share of respondents reporting a decrease** in the number of new investments undertaken in the last twelve months is **at a record-low.**

Q: “Over the last 12 months, how has the number of your new PE mid-market investments developed?”
 Note: The 2020 Autumn Survey wave asked about developments since March 2020.

Expectations for the next 12 months

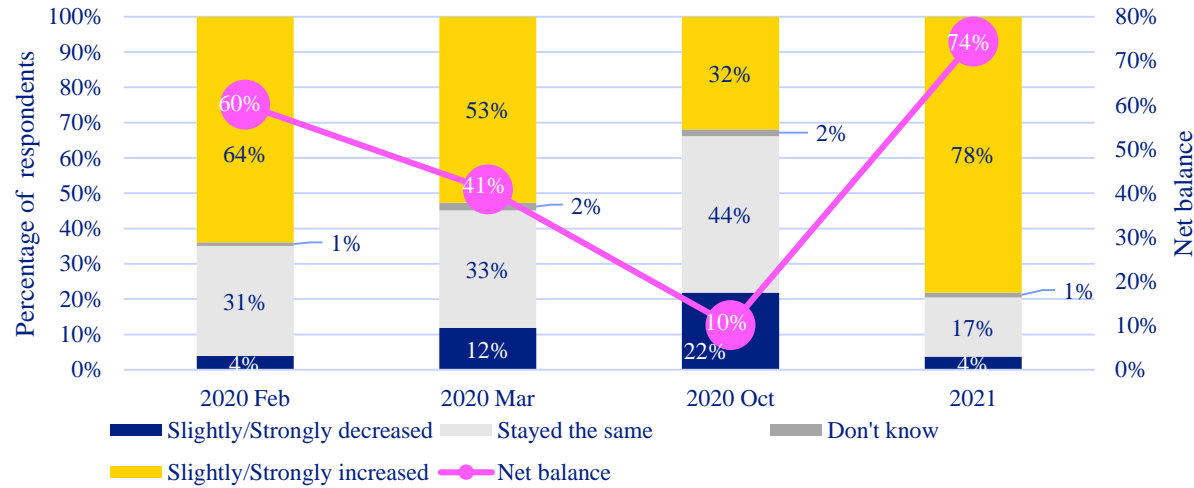


- Even though the actual decrease in PE MM investment activity materialised, according to the survey findings, in Autumn 2020 (see Figure above), the sentiment regarding investment expectations had deteriorated considerably already in March 2020.
- Since then, a gradual return to optimism in the sentiment is observed, culminating in **2021**, where **expectations for the next 12 months even reached record-high levels.**

Q: “Over the 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

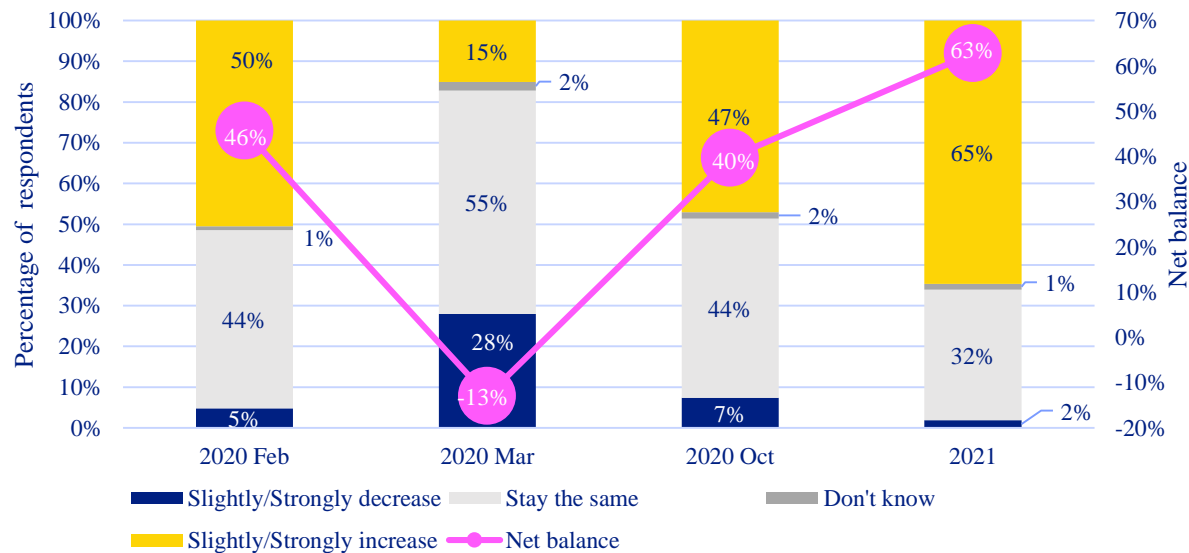


PE MM report increased competition for investee companies in the recent past and expect this development to continue.

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

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

Expectations for the next 12 months

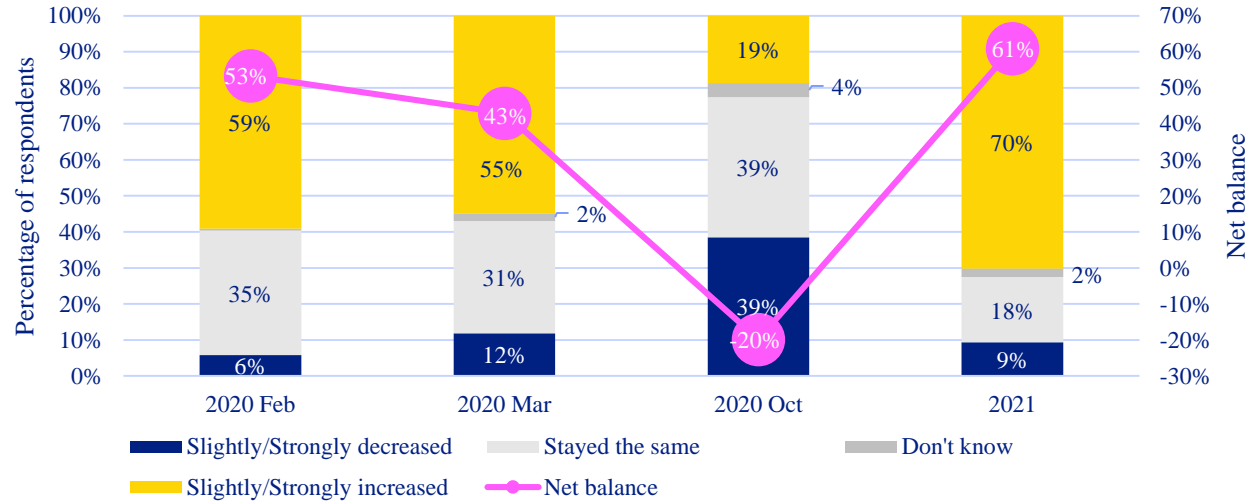


- Respondents **expect, on average, a further increase in competition** among investors for potential investee companies over the next 12 months.
- The percentage of PE MM expecting less competition is at its lowest (2%) since the start of the survey in early 2020.

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”

Transaction prices

Current situation

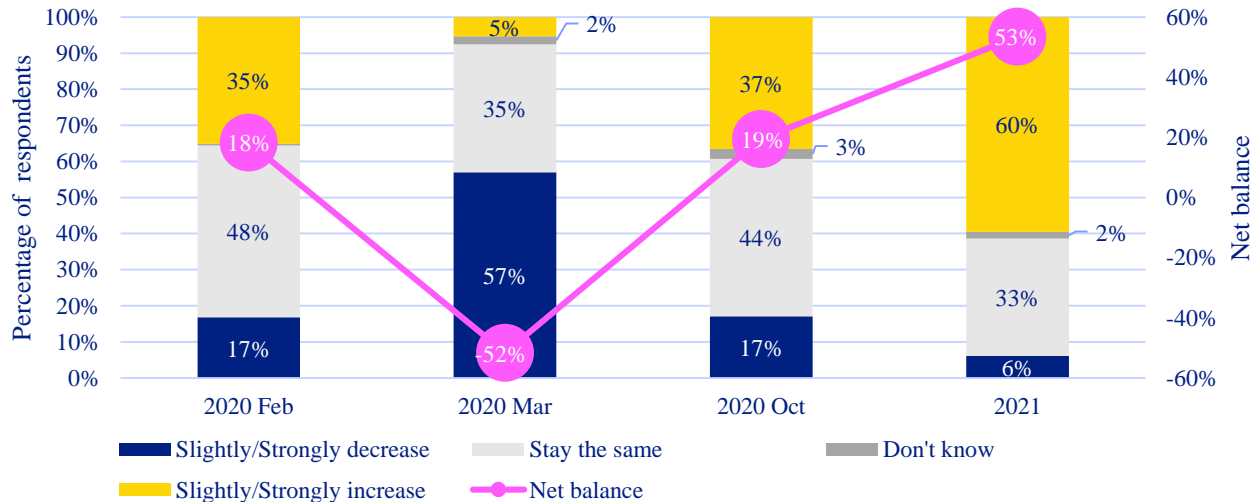


Transaction prices have rebounded upwards; PE MM expect even higher transaction prices in the near future.

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

Q: "Over the past months, how have the following items developed ... ?" Graph shows the responses for "Transaction prices"

Expectations for the next 12 months



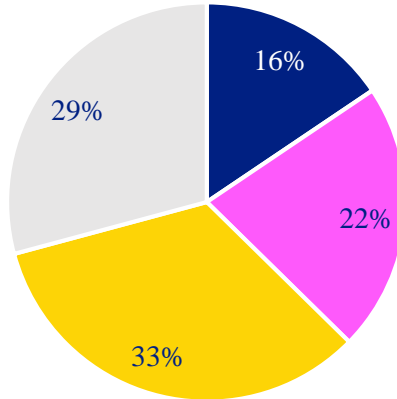
- **Transaction prices are expected, on average, to increase further.**
- Following a dramatic decrease in March 2020, the transaction price expectations rebounded strongly in Autumn 2020 and in 2021. 60% of the survey participants expect increasing transaction prices over the subsequent months.
- The percentage of PE MM fund managers expecting a decrease in transaction prices is at a record-low (6%). The net balance reached a record level of 53%.

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

Investment strategy

2020 Autumn

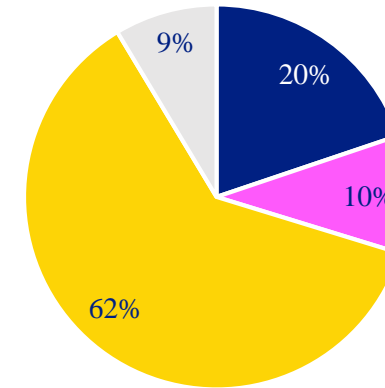
Since March, have you...



- ...invested in new deals only?
- ...invested in follow-ons in portfolio companies only?
- ...invested in both new deals and follow-ons in portfolio companies?
- ...not invested?

2021

Over the last 12 months, have you...



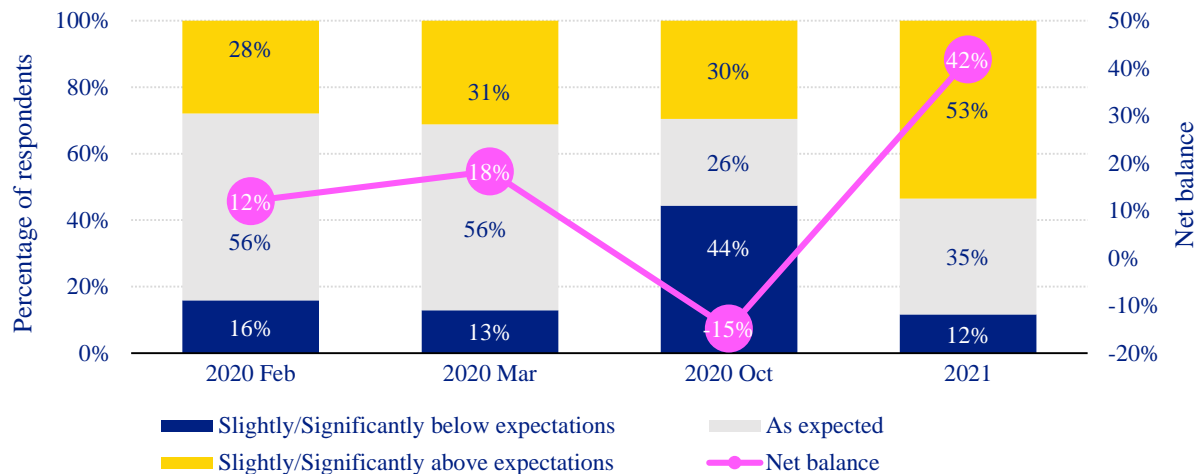
- ...invested in new deals only?
- ...invested in follow-ons in portfolio companies only?
- ...invested in both new deals and follow-ons in portfolio companies?
- ...not invested?

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

- In **2020**, almost one third of respondents **did not make investments** (29%) or limited themselves to **follow-on investments** in portfolio companies (22%). In 2021, these categories decreased to 9% and 10%, respectively.
- In **2021**, over 60% of respondents **invested in both new deals and follow-ons in portfolio companies** over the past 12 months.

Portfolio development

Current situation

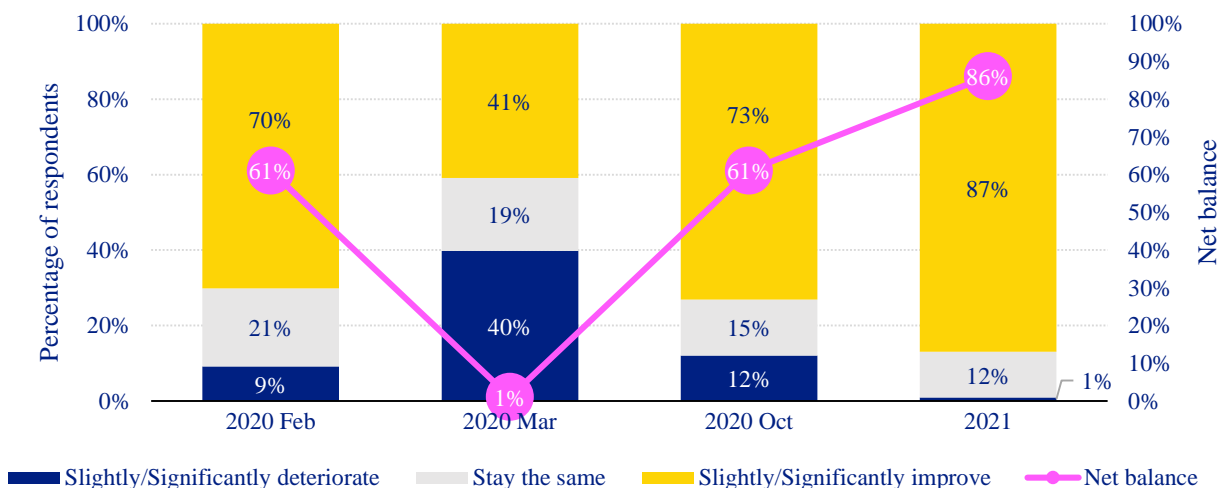


Portfolio companies developed better than expected for most GPs; a large majority expects further improvement.

- **Portfolio development had significantly deteriorated** in Autumn 2020.
- However, **in 2021, it recovered substantially**, reaching a record-high, with portfolio companies developing above expectations for over half of respondents.

Q: “Over the past months, how did your portfolio companies develop?”
 Note: The 2020 Autumn Survey wave asked about developments since March 2020.

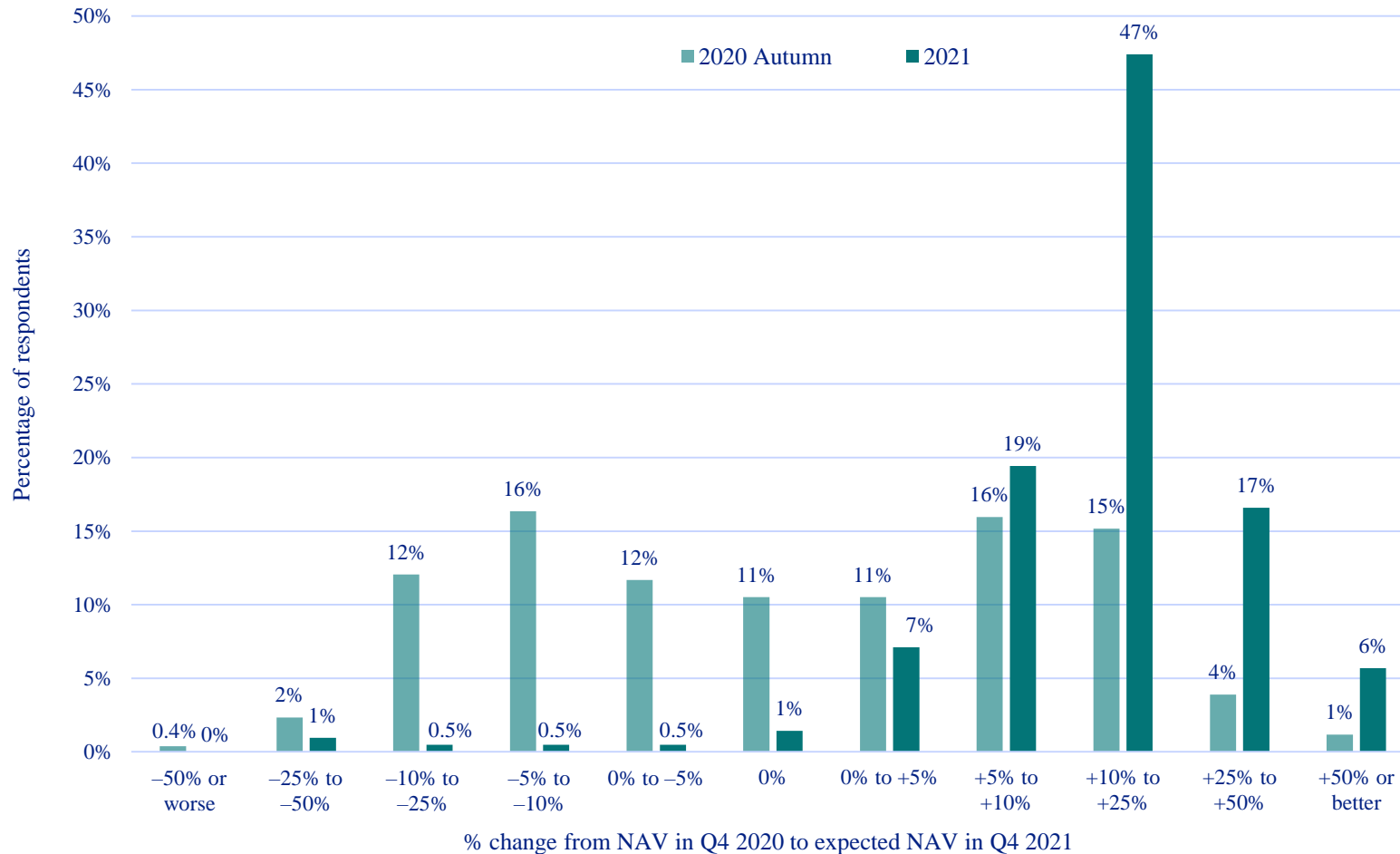
Expectations for the next 12 months



- Expectations for **future portfolio development** had worsened significantly during the early phase of the COVID-19 crisis.
- Since then, **expectations have improved significantly**, reaching the pre-crisis level in Autumn 2020 and even exceeding it in 2021.

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

NAV of fund(s) / value of portfolio: Q4 2021 vs. Q4 2020



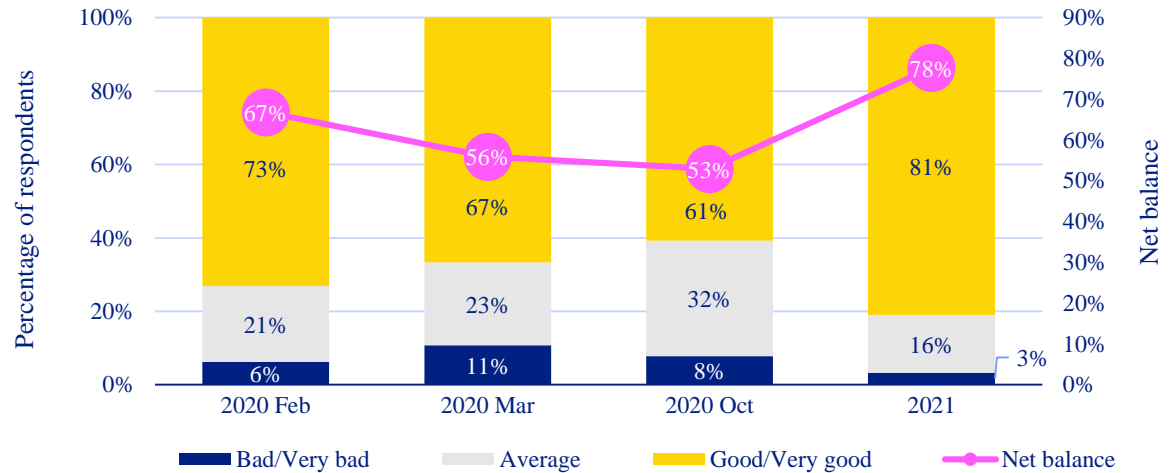
PE MM respondents are optimistic about the NAV evolution. Optimism has increased, compared to Autumn 2020.

- The median category of respondents expects a **positive NAV impact of 10% to 25%** (47% of respondents).
- In 2021, only **2.5%** of respondents expect a reduction in the NAV of the portfolio. In Autumn 2020, this percentage was considerably higher (42%).

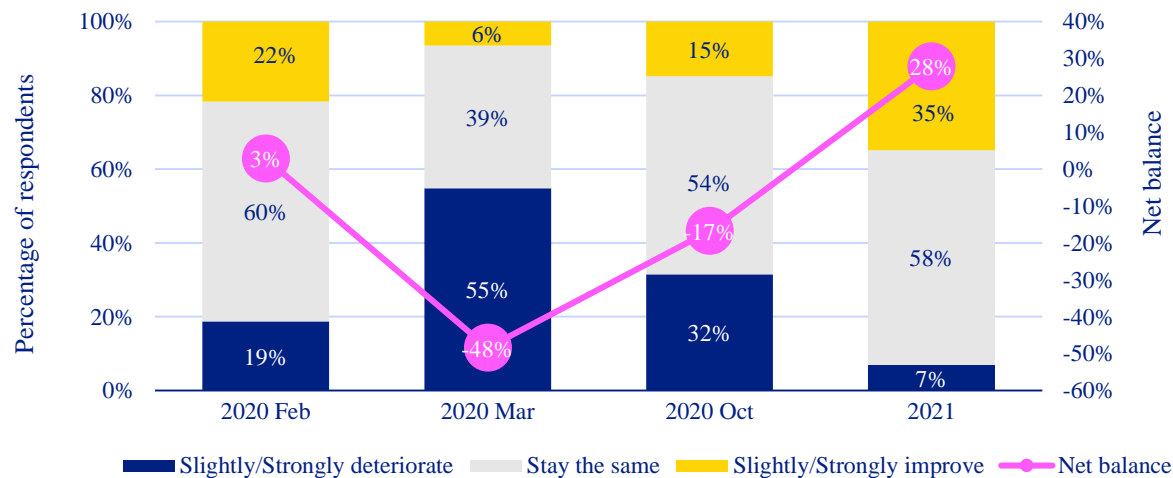
Q: “How do you expect the NAV (Net Asset Value) of your fund(s) to evolve until the end of Q4 2021 compared to the NAV as of Q4 2020? (measured as % change from Q4 2020 to expected NAV in Q4 2021)”

Access to external finance of portfolio companies

Current situation



Expectations for the next 12 months



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

- **Over time, PE MM respondents have generally retained a positive perception** regarding access to external finance of their portfolio companies.
- **Following a gradual deterioration in sentiment since the onset of the COVID-19 crisis**, respondents' perception of access to external finance **improved significantly in 2021**, reaching record level.
- The share of respondents who see the access to finance as (very) bad is at its lowest level since the *EIF PE MM* survey was first performed.

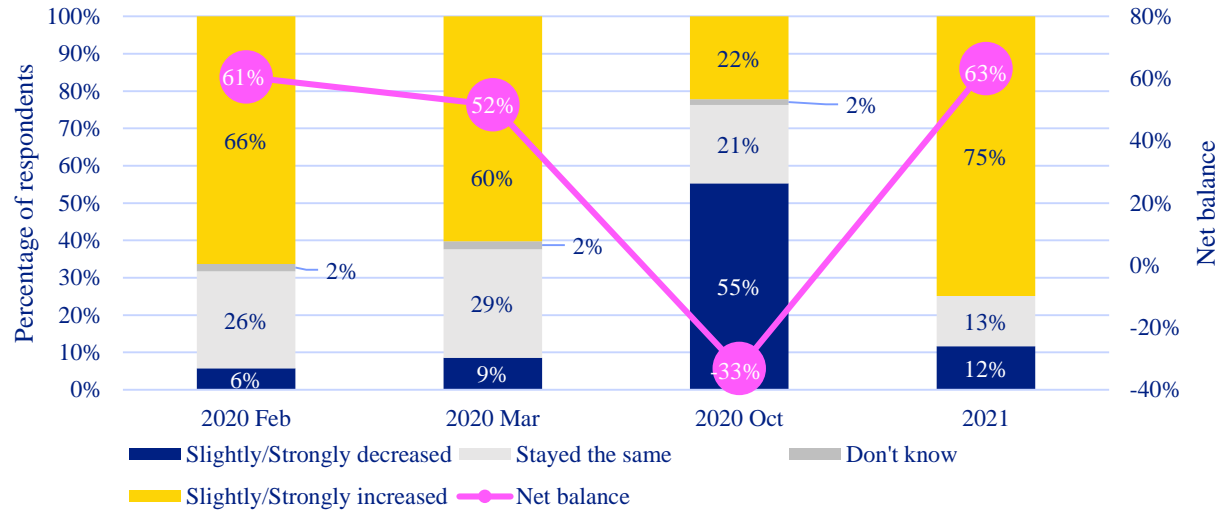
Q: "How would you rate the access to external finance of your portfolio companies?"

- After a substantial **deterioration in early 2020**, survey participants expect the access to external finance of their portfolio companies to either **stay the same (58%)** or even **improve (35%) in the next 12 months**.
- **Expectations are even more optimistic than** respondents' perception reported before the crisis **in February 2020**.

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

Valuations of portfolio companies

Current situation

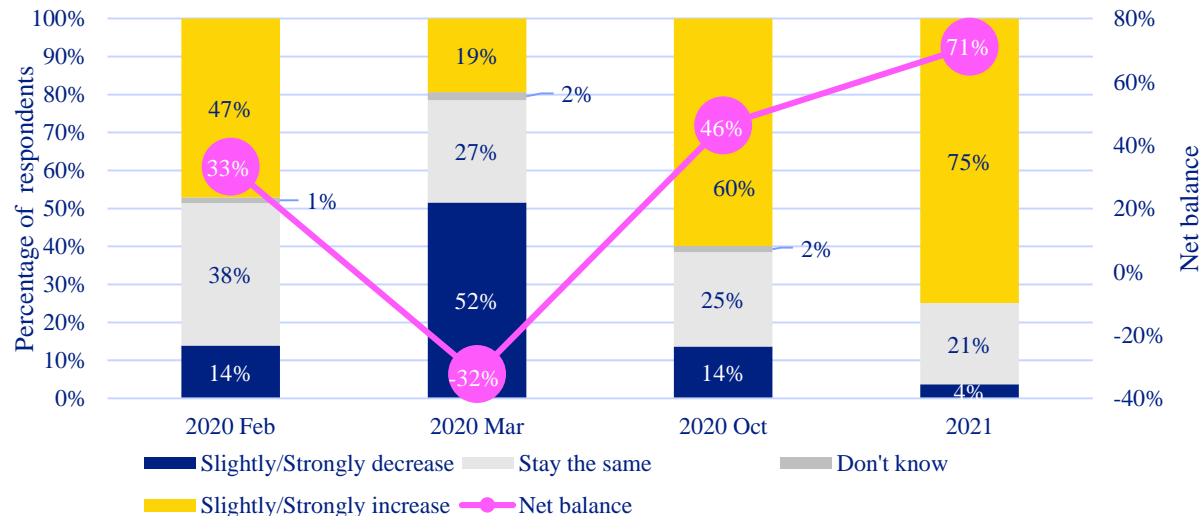


Portfolio company valuations are once again on the rise; and most respondents expect a further increase.

- **The valuations of portfolio companies increased** for 3 in 4 PE MM fund managers, which denotes a record share since the first *EIF PE MM Survey* wave.
- At the same time, the net balance exceeded its pre-crisis level, following slumps in March 2020 and (particularly) Autumn 2020.

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

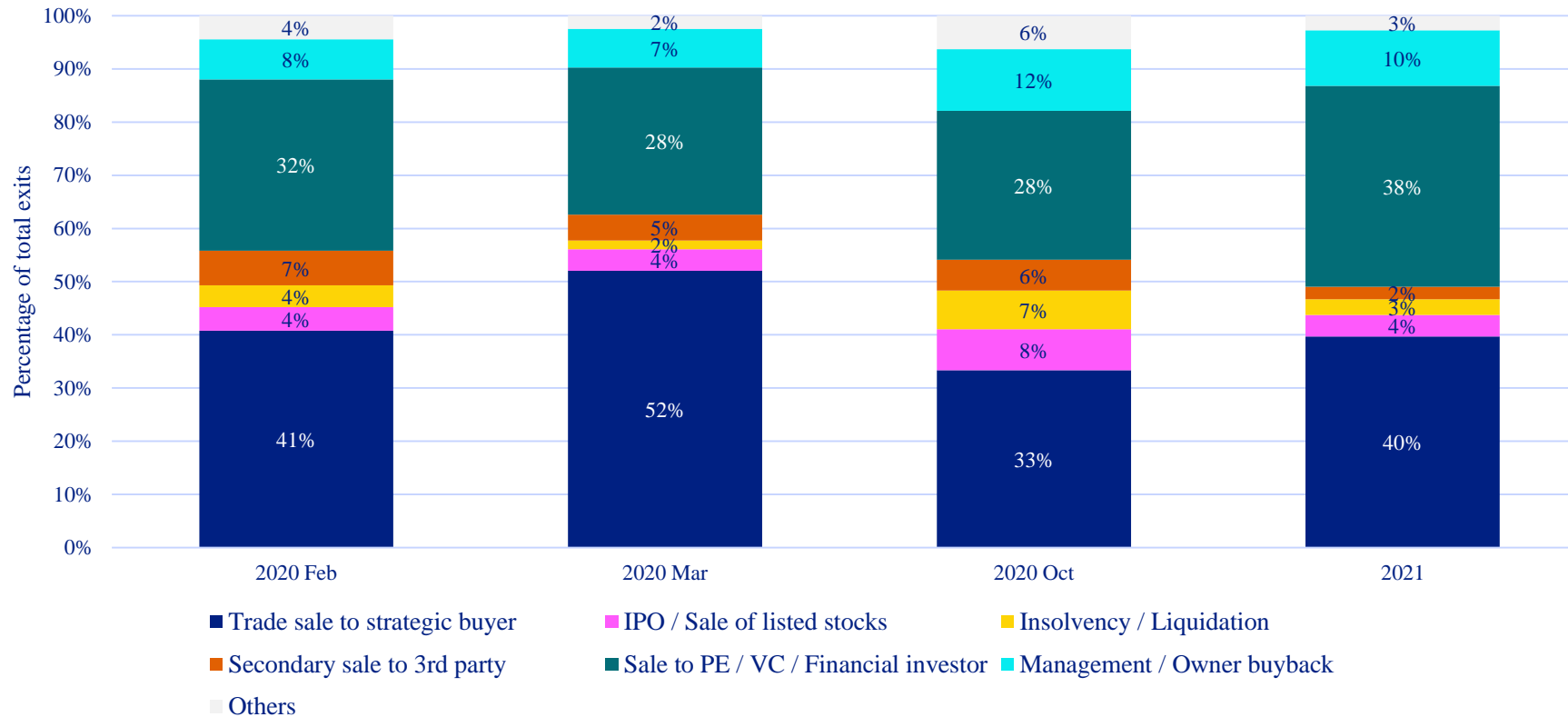
Expectations for the next 12 months



- **The valuations of portfolio companies are expected, on average, to increase further.**
- 3 in 4 respondents expect an increase in valuations over the subsequent 12 months.
- Only a tiny fraction of surveyed GPs (4%), the lowest ever recorded, expect lower valuations in the near future.

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

Exit routes



While trade sales are still the most frequent exit route, sales to financial investors have also become more relevant.

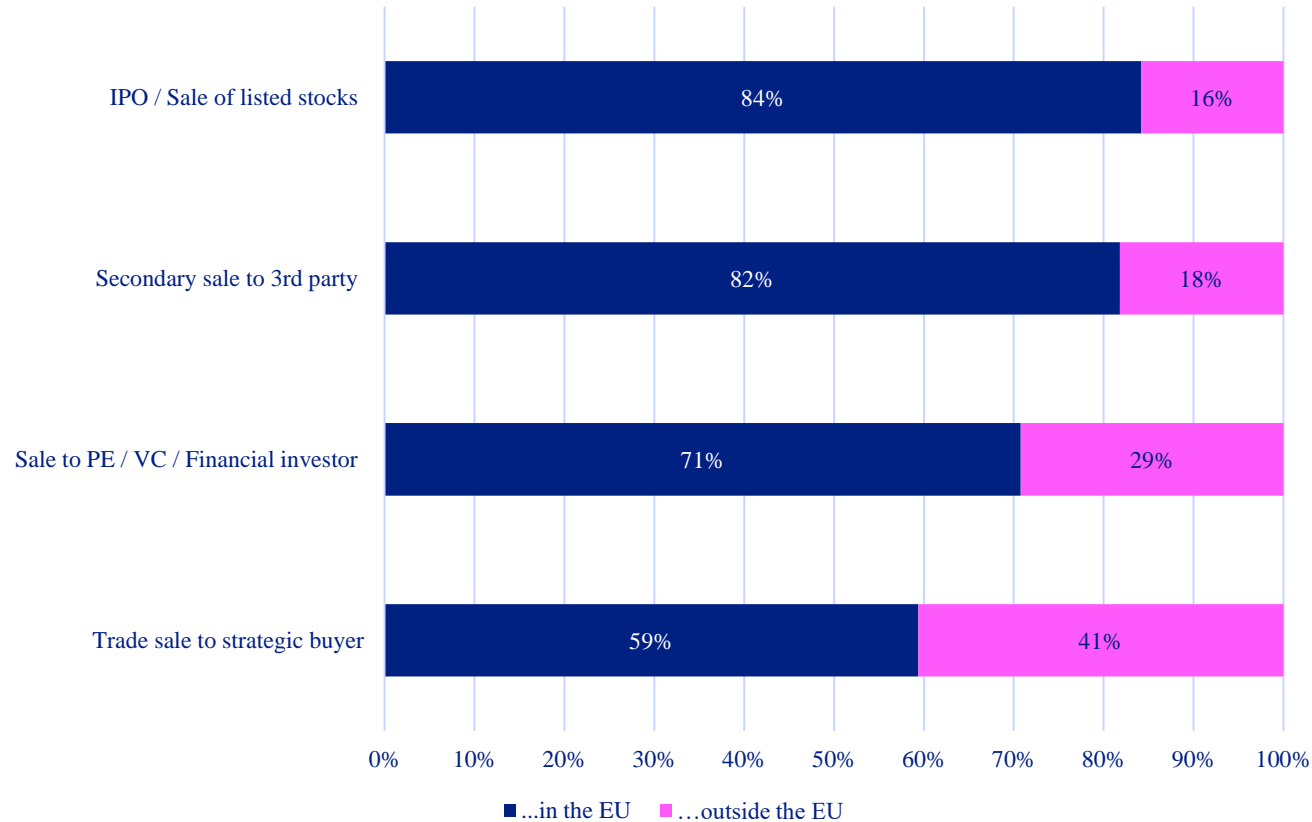
Q: “Over the last 12 months, how many of your portfolio companies exited via the following exit routes?”

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

- **Trade sales are still the most frequent exit route.**
- In 2021, the percentage of total exits made up of sales to financial investors reached a record-high of 38%, up from 28% in the previous (Autumn 2020) Survey wave.
- By contrast, the percentage of total exits made up of MBOs, IPOs and secondary sales to third parties has decreased in 2021, compared to Autumn 2020.

Exit routes – within or outside the EU?

Percentage of each respective exit route located...



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

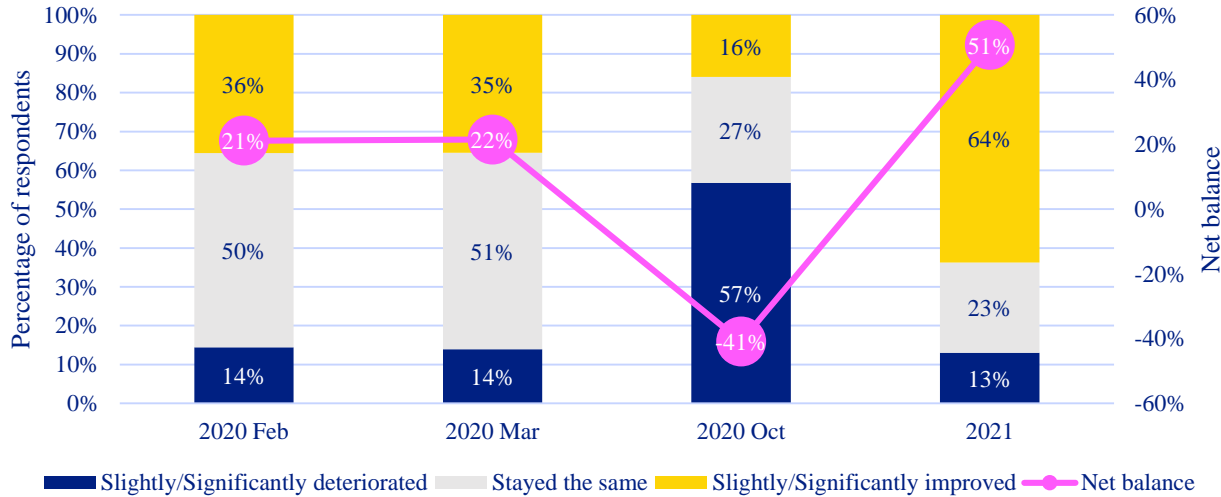
- **Of the strategic sales in 2021, 41% were to buyers located outside the EU**, while 29% of financial sales were to financial investors headquartered outside the EU.
- The vast **majority of exits** do, however, take place **within the EU**.
- **These results are in contrast to those observed for the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

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

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

Exit environment

Current situation



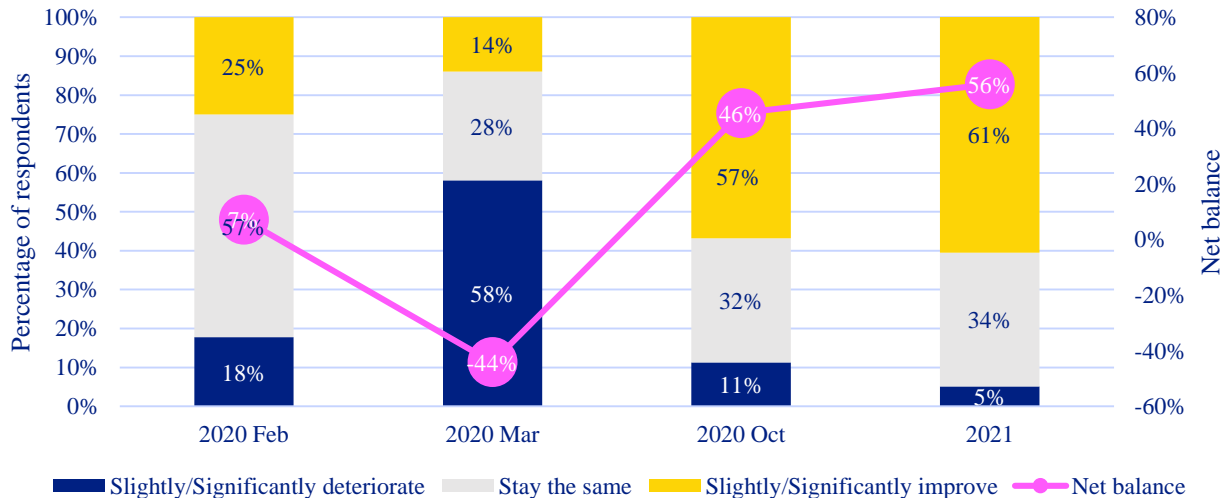
The exit environment has substantially recovered since last year; expectations are more optimistic than ever before.

- After deteriorating significantly between March and October 2020, the **exit environment has recovered strongly** since then.
- In 2021, over 6 in 10 respondents perceive an improvement in the exit environment, while only 13% perceive a deterioration. By contrast, last year, only 16% had experienced an improvement, while the majority of respondents (57%) experienced a deterioration.

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

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

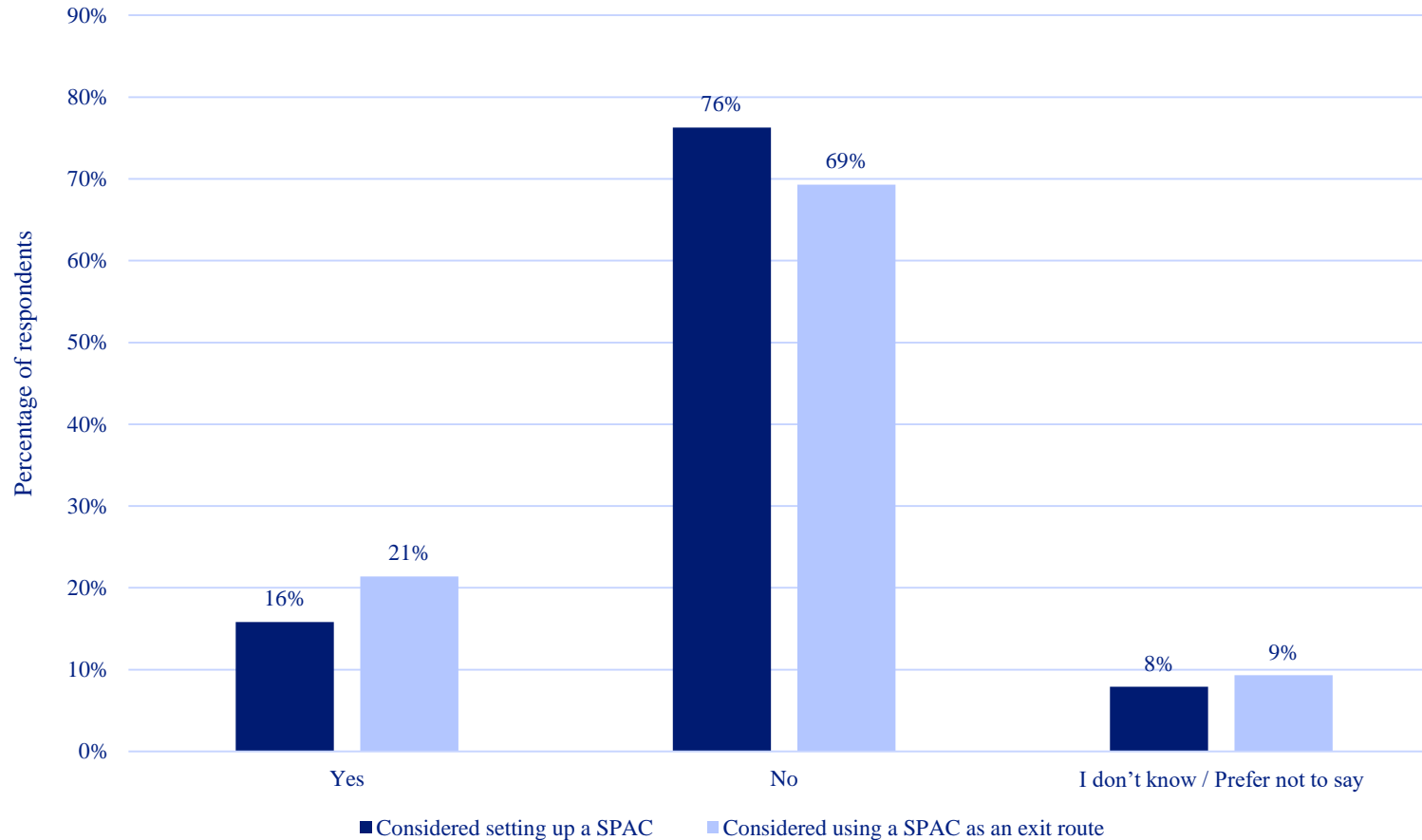
Expectations for the next 12 months



- Expectations for **future exit opportunities deteriorated significantly between February and March 2020**, reaching a net balance of – 44%.
- **Since then, expectations have significantly improved**, reaching a net balance of 46% and 56% in Autumn 2020 and in 2021, respectively.
- In light of this optimistic sentiment, expectations for an improvement are, on balance, **above their pre-crisis level**.

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

Relevance of SPACs for PE MM



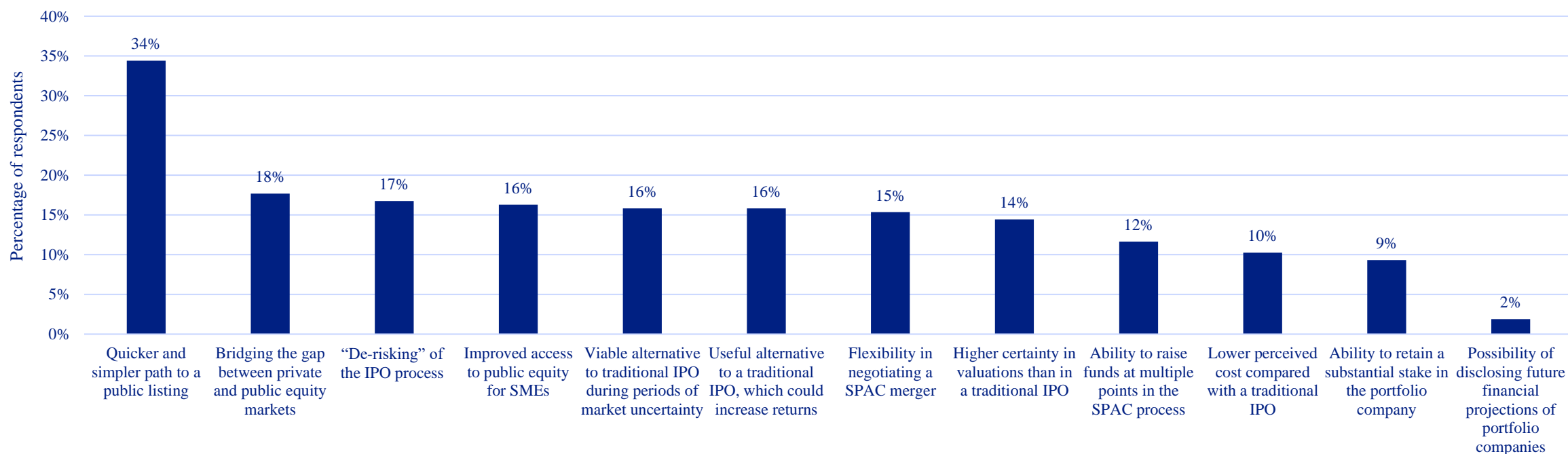
1 in 5 PE MM respondents have considered SPACs as an exit route.

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

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

Advantages of SPACs as an exit route

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



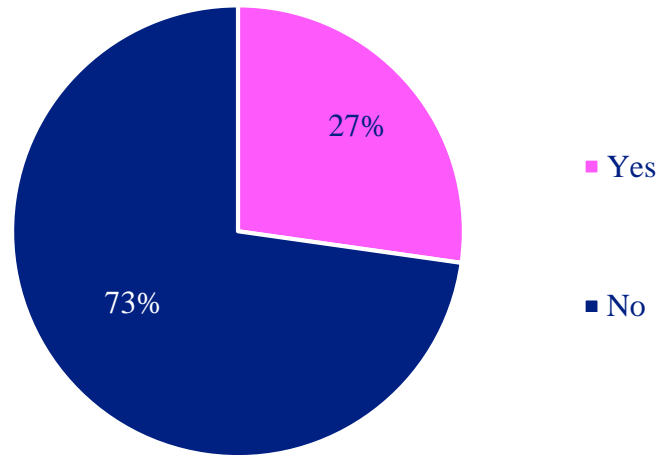
Q: “Which advantages would you consider SPACs having as an exit route?”.

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

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

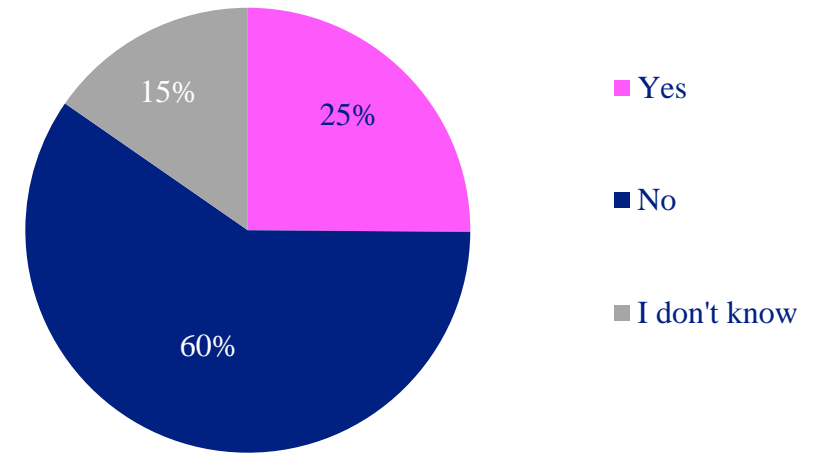
Additional Investment in Portfolio Companies due to COVID-19

2020 Autumn



Q: “Have you provided additional investment to portfolio companies due to COVID-19, where such investment was not foreseen at the start of 2020?”

2021

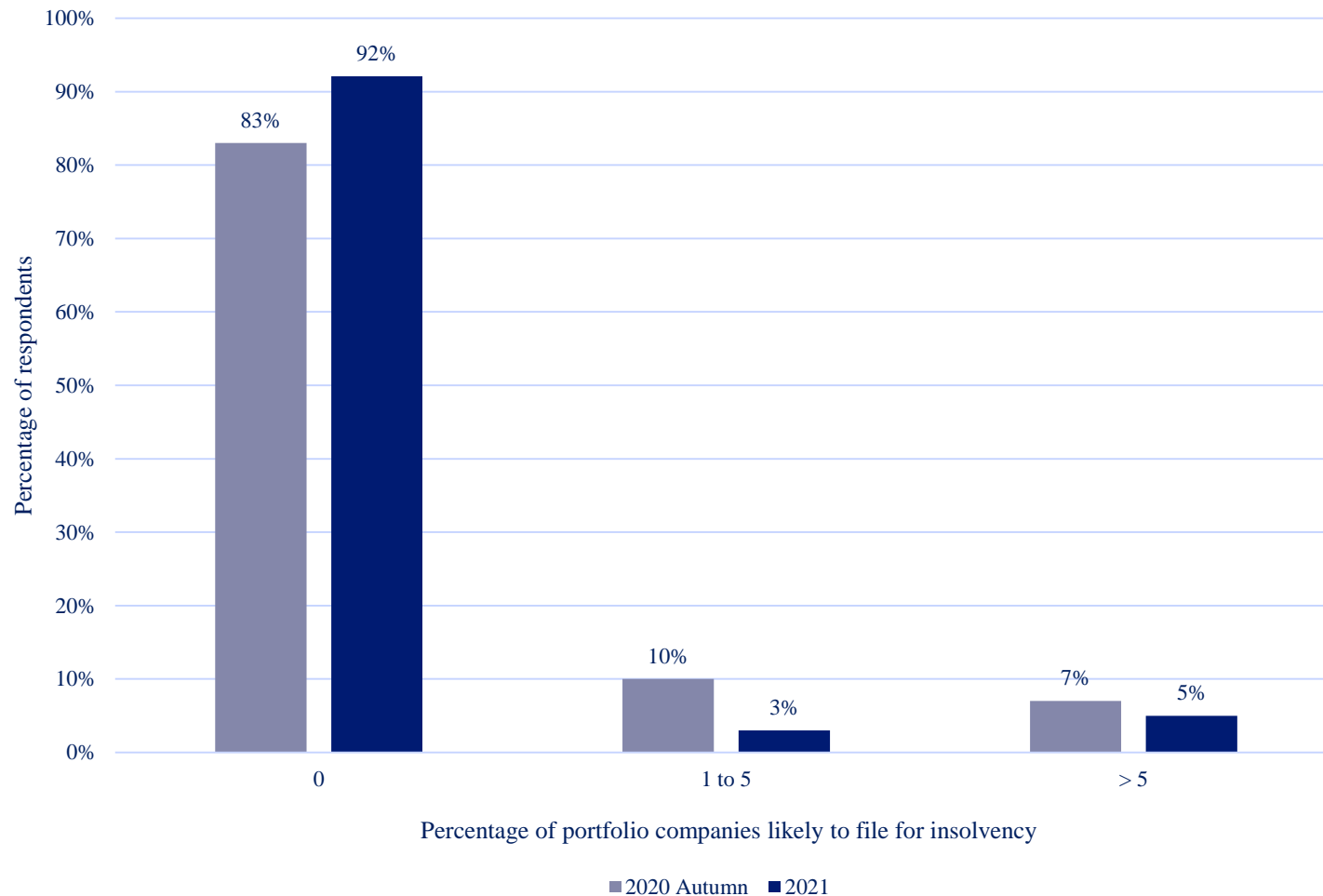


Q: “Are you planning to provide additional investment to portfolio companies due to COVID-19 until the end of 2022?”

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

- In the Autumn 2020 Survey wave, 1 in 4 PE MM stated that they **had to provide additional investment** to portfolio companies **due to COVID-19**. This is in contrast to VC respondents, where a majority provided such investments.
- Looking ahead, 25% of respondents are **planning** to provide **additional investment** to portfolio companies **due to COVID-19** until the end of 2022, while a large share does not envisage such plans.

Possible insolvencies due to impact of COVID-19



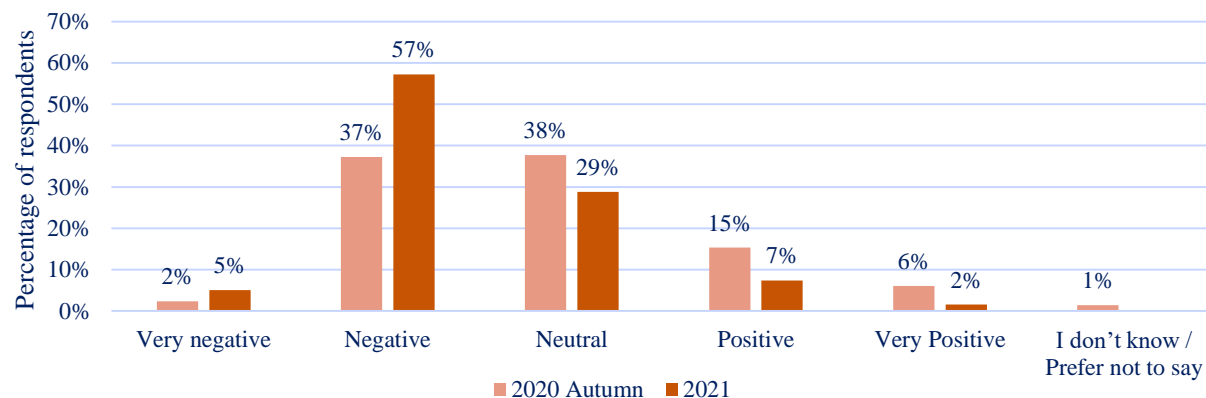
The number of insolvencies caused by COVID-19 is very low in the PE MM space

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

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

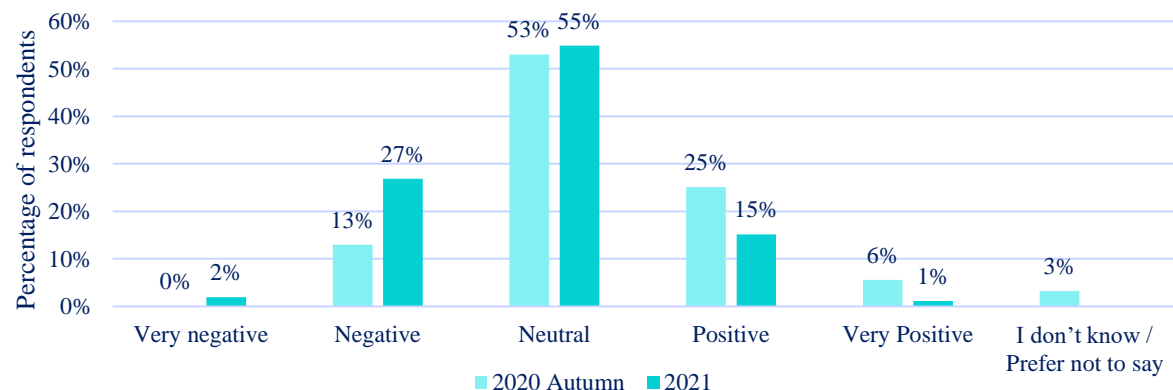
Impact of COVID-19 on fund / portfolio performance

Impact of COVID-19 on current performance of fund(s) / portfolio



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

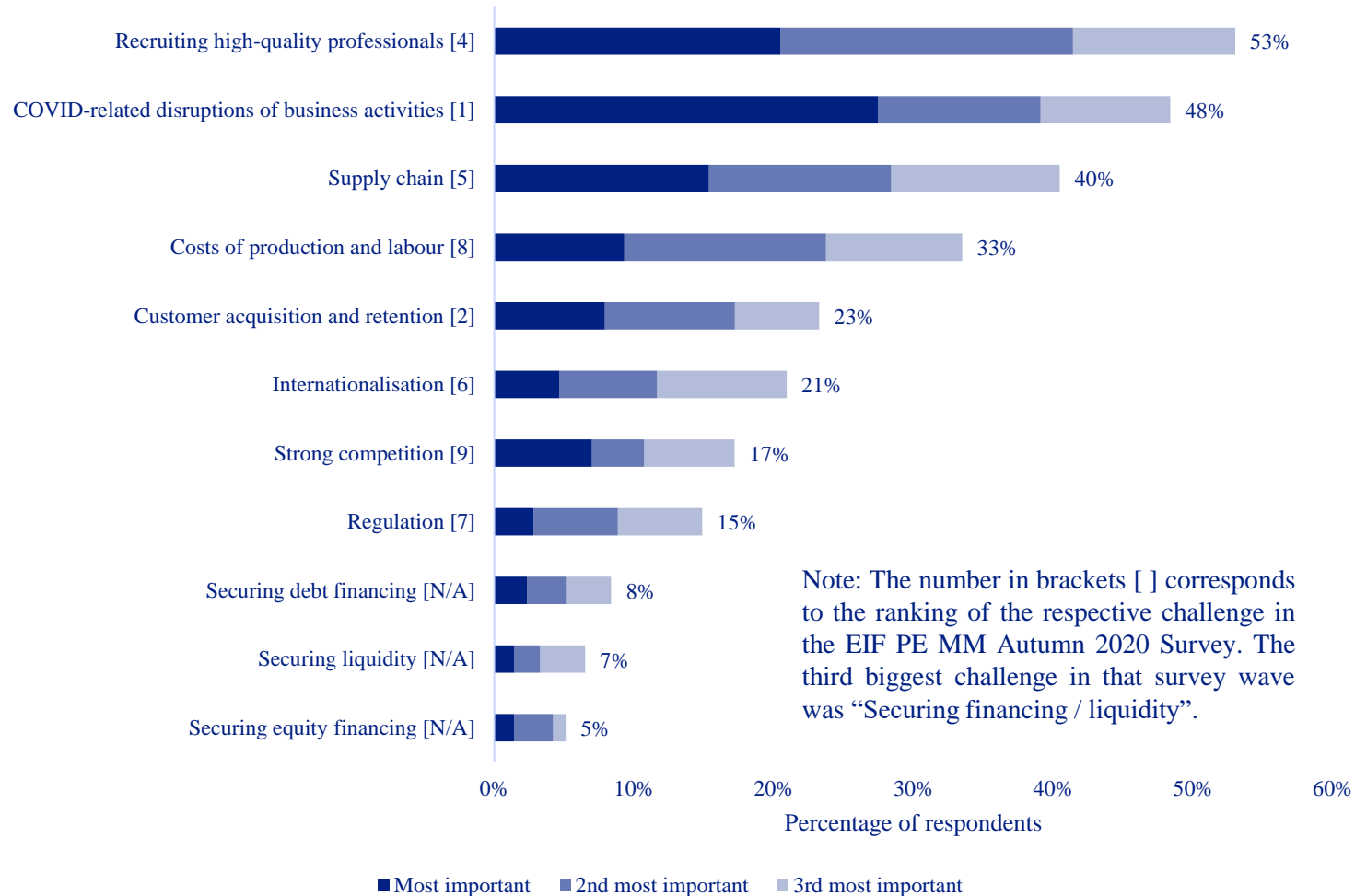
Impact of COVID-19 on expected final performance of fund(s) / portfolio



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

- **In 2021, 62% of PE MM consider the impact of COVID-19 on the current performance of their fund(s) to be (very) negative.** The remaining respondents see the impact as neutral (29%), while only 9% of respondents consider the impact as positive or very positive.
- When looking at the impact of COVID-19 on the **expected final performance** of their fund(s) / portfolio, respondents are rather **neutral**: 55% expect the COVID-19 impact on the final performance to be neutral, while 29% view it as negative or very negative.
- When comparing results between October 2020 and 2021, it is interesting to note that the **perceived impact of COVID-19 has become considerably more negative, in terms of both current and final performance.**

Biggest challenges faced by portfolio companies



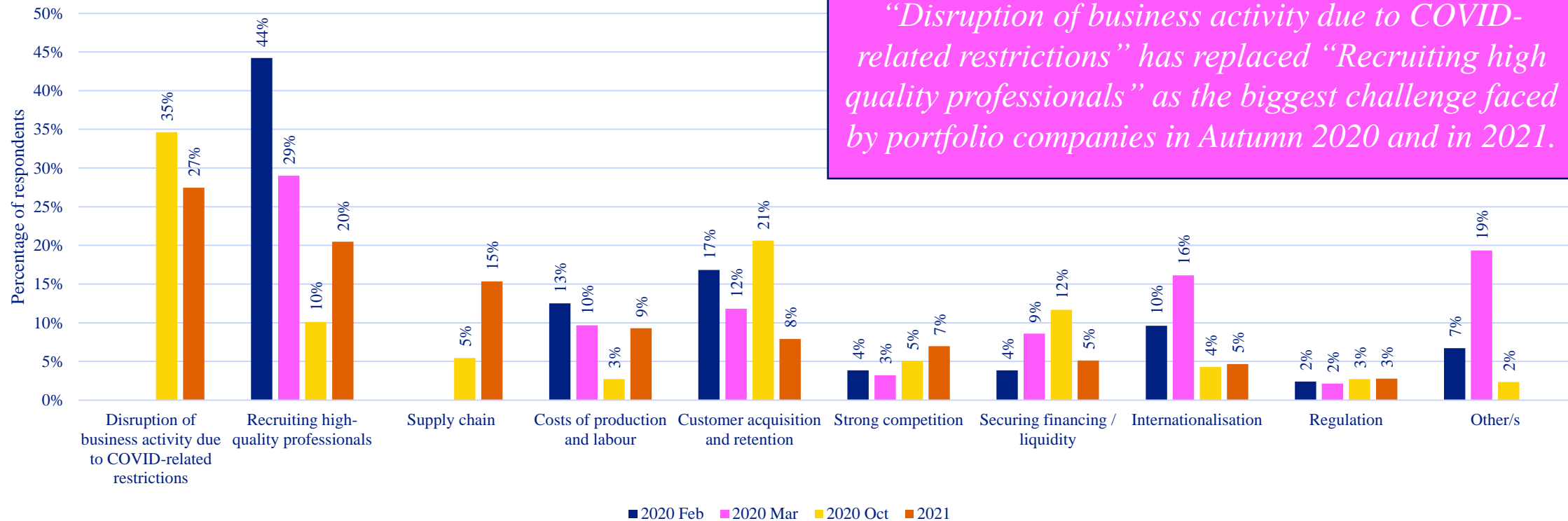
“Recruiting high-quality professionals” and “Disruption of business activity due to COVID-related restrictions” are the two most important challenges faced by PE MM-backed companies.

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

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

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

Biggest challenges faced by portfolio companies over time

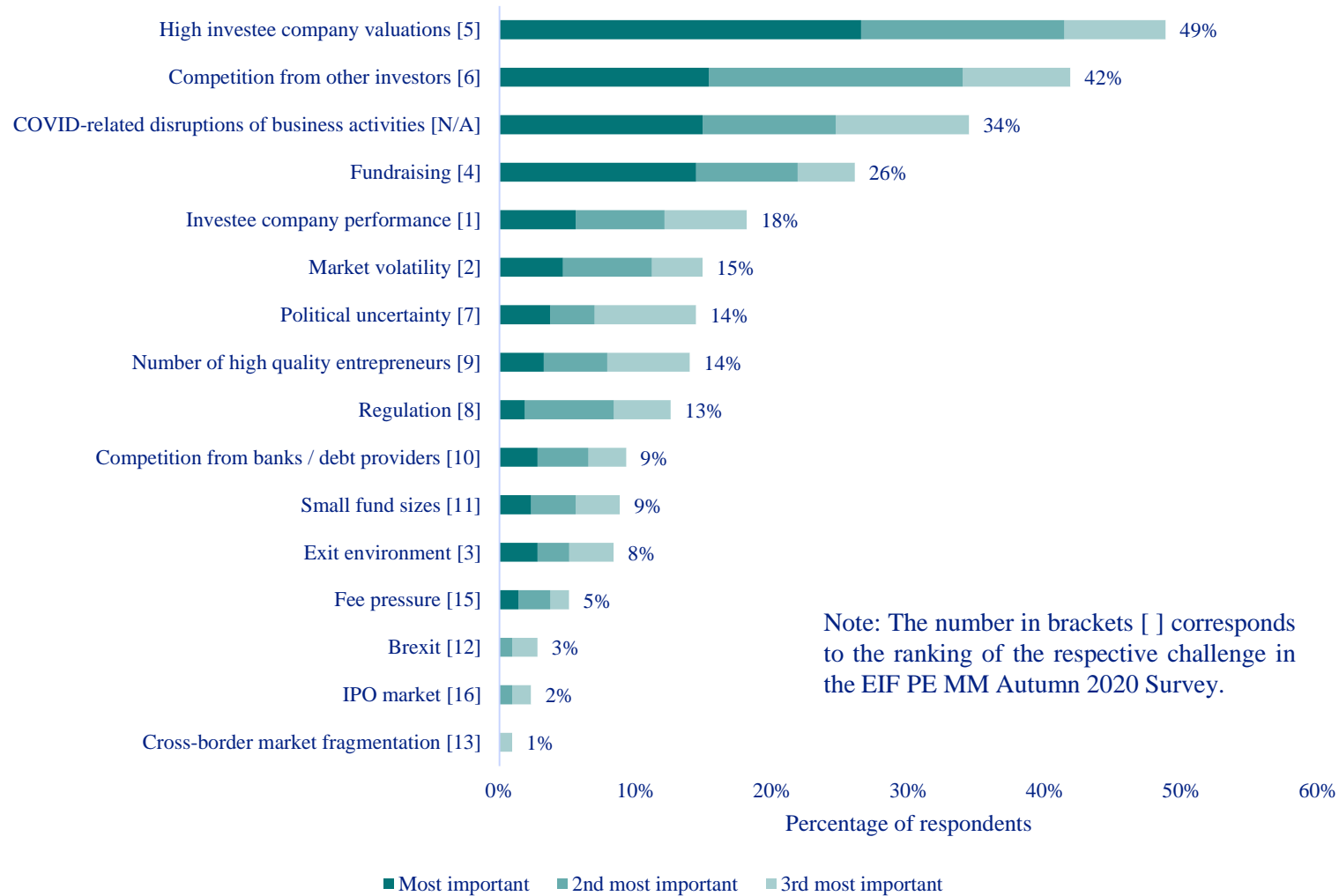


Q: “Please select the biggest challenges currently faced by your portfolio companies.”

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

- “**Recruiting high quality professionals**” was the biggest challenge faced by portfolio companies in the February/March 2020 Survey.
- In Autumn 2020, more immediate challenges became prevalent due to the COVID-19 crisis, including “**Securing financing / liquidity**”, “**Customer acquisition and retention**” and the “**Business disruption due to COVID-19 related restrictions**”.
- In 2021, “**Supply chain**” has become one of the most important challenges, mentioned by 15% of PE MM respondents, compared to only 5% last year.

Biggest challenges currently seen in PE M&A business



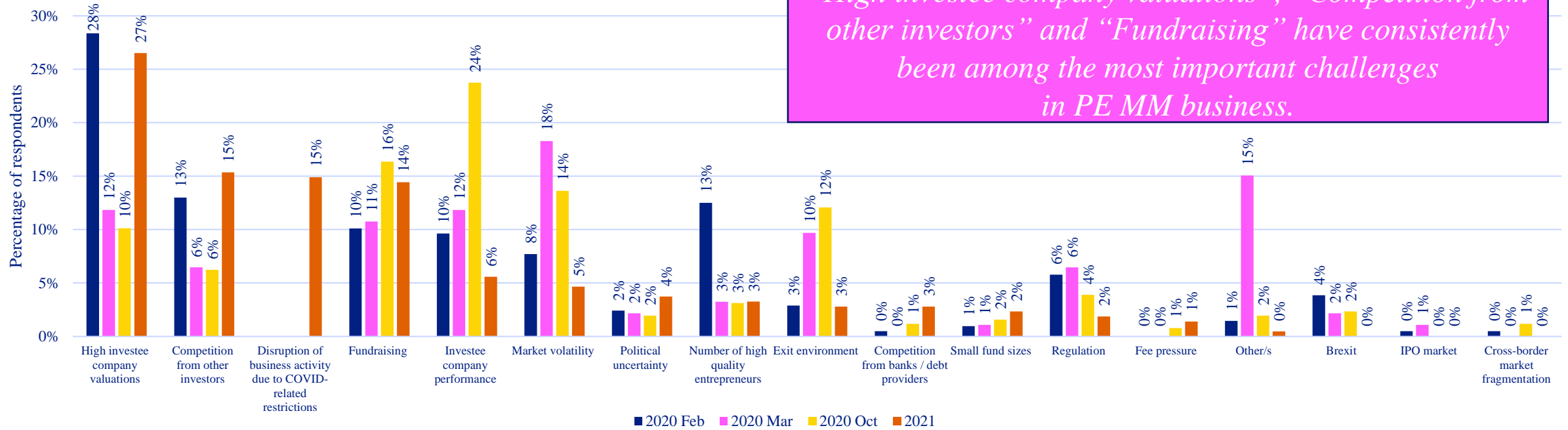
“High investee company valuations” has become the most important challenge currently seen in PE M&A business.

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

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

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

Biggest challenges currently seen in PE MM business over time



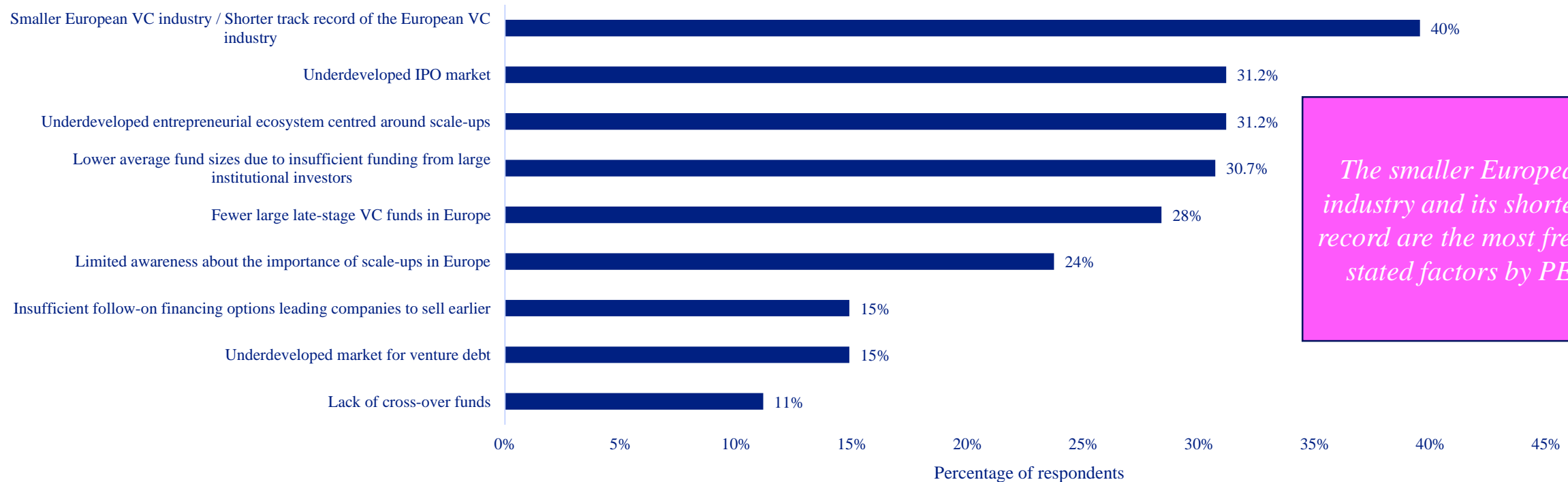
Q: “Please select the biggest challenges you currently see in PE mid-market business.”

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

- **During the early phase of the COVID-19 crisis** in March 2020, “Market volatility” and the “Exit environment” became significantly more important as challenges, while “High investee company valuations”, the “Number of high quality entrepreneurs” and “Competition from others investors” became less prevalent.
- The **Autumn 2020** Survey saw a major increase in the importance of “Investee company performance” as a challenge, compared to March 2020.
- **2021** again saw major changes: “Market volatility” and the “Exit environment” decreased to their pre-crisis levels, while “Competition from other investors” and “High investee company valuations” have significantly risen in importance. “Disruption of business activity due to COVID-19-related restrictions” is also among the most frequently mentioned challenges to PE MM activity.

Factors explaining the European scale-up gap

Most important factors in explaining the gap with the US



The smaller European VC industry and its shorter track record are the most frequently stated factors by PE MM

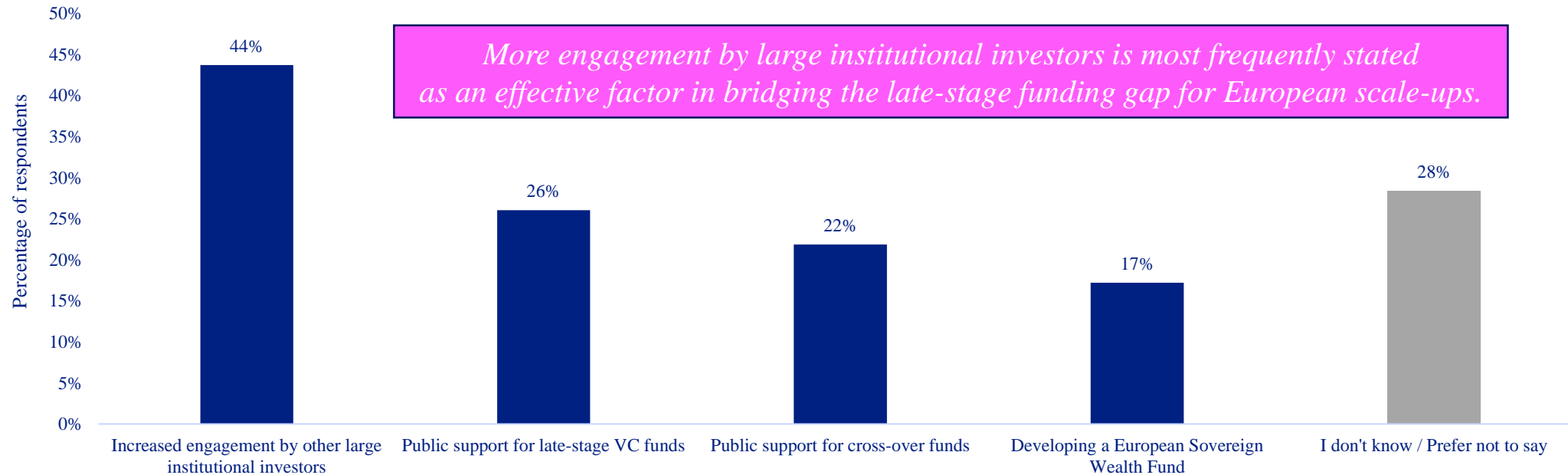
Q: “Which factors would you consider most important in explaining the European scale-up gap compared to the US?”

Note: Multiple selection possible.

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

Bridging the European scale-up gap

Most effective factors in bridging the late-stage financing gap



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

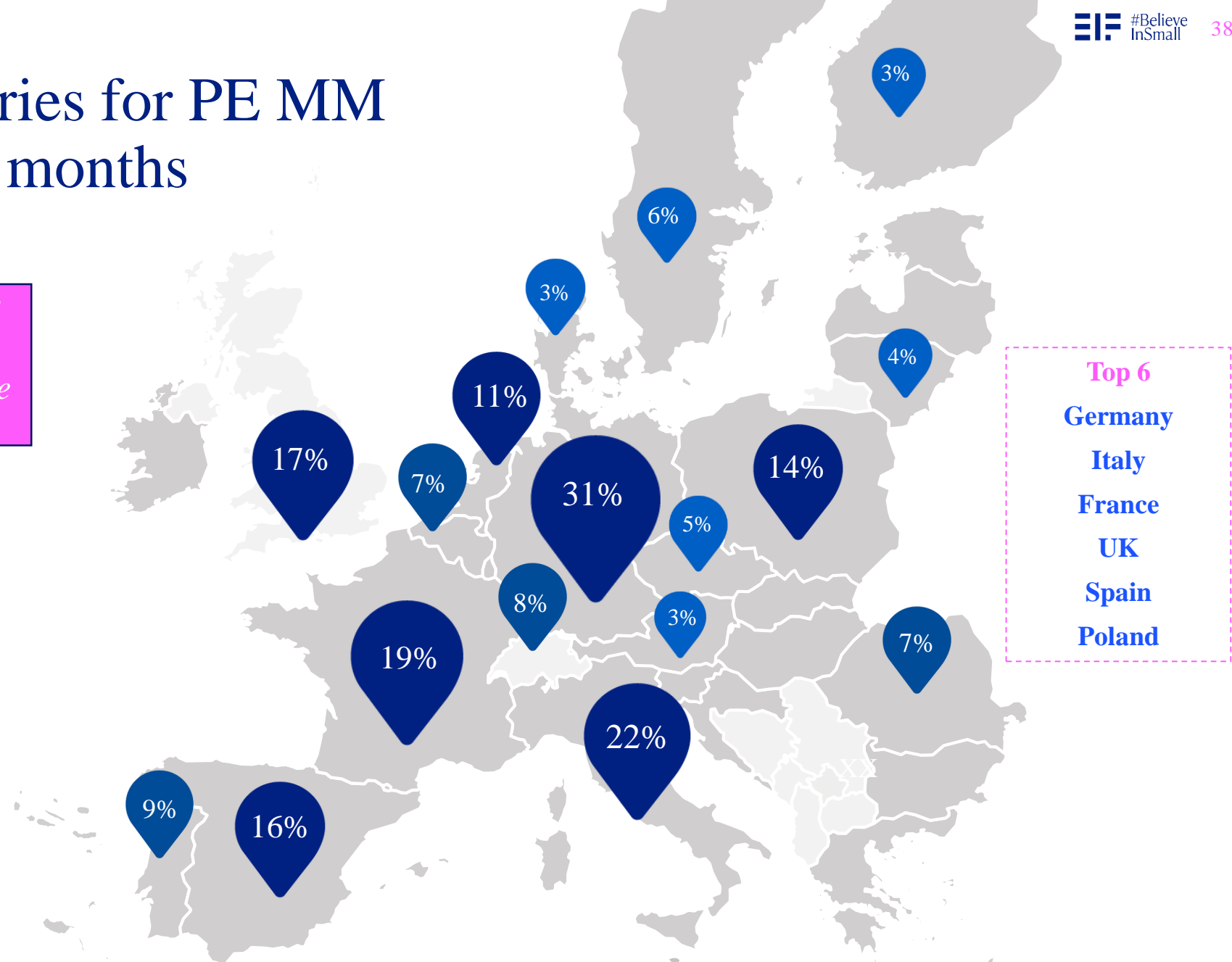
Note: Multiple selection possible.

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

Most promising countries for PE MM investments – next 12 months

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

- **Germany, Italy and France** have remained at the top of PE MM fund managers' ranking of the most promising countries in the next 12 months.
- Compared to the Autumn 2020 Survey wave, **Poland** has surpassed the **Netherlands** and is now in the sixth place on the list of countries that fund managers expect to be most promising for PE mid-market investments in the near future.



Top 6
Germany
Italy
France
UK
Spain
Poland

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

Most promising countries for PE MM investments – reasons

Germany	<ul style="list-style-type: none"> • Availability and quality of potential investment targets, including family-owned companies due to succession, and an increased willingness to partner with PE funds • Strength of economy and large market size • Strong industrial sector and export orientation 	UK	<ul style="list-style-type: none"> • Post-Brexit opportunities • Large market and good availability of capital • Strong dealflow
Italy	<ul style="list-style-type: none"> • Strength of SME businesses and entrepreneurial activities • Government and EU support • Less competition and lower valuations compared to other countries • Strong manufacturing capabilities 	Spain	<ul style="list-style-type: none"> • Less competition and lower valuations compared to other countries • Expected recovery of tourism industry
France	<ul style="list-style-type: none"> • Market size and maturity • Availability and quality of potential investment targets 	Poland	<ul style="list-style-type: none"> • Large market and high growth expectations in Poland and the CEE region

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

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

Most promising sectors/industries in the near future



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

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

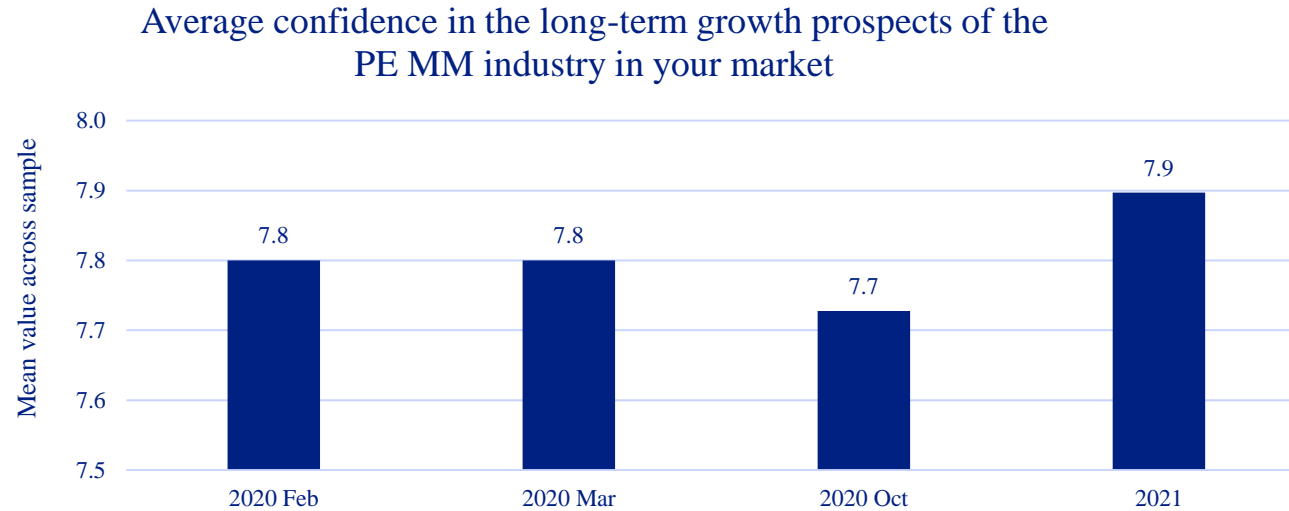
Note: The graph was generated using Wordcloud whereby the bigger the font size the more frequently the respective answer was mentioned in the free-text field.

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

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

PE mid-market industry growth prospects

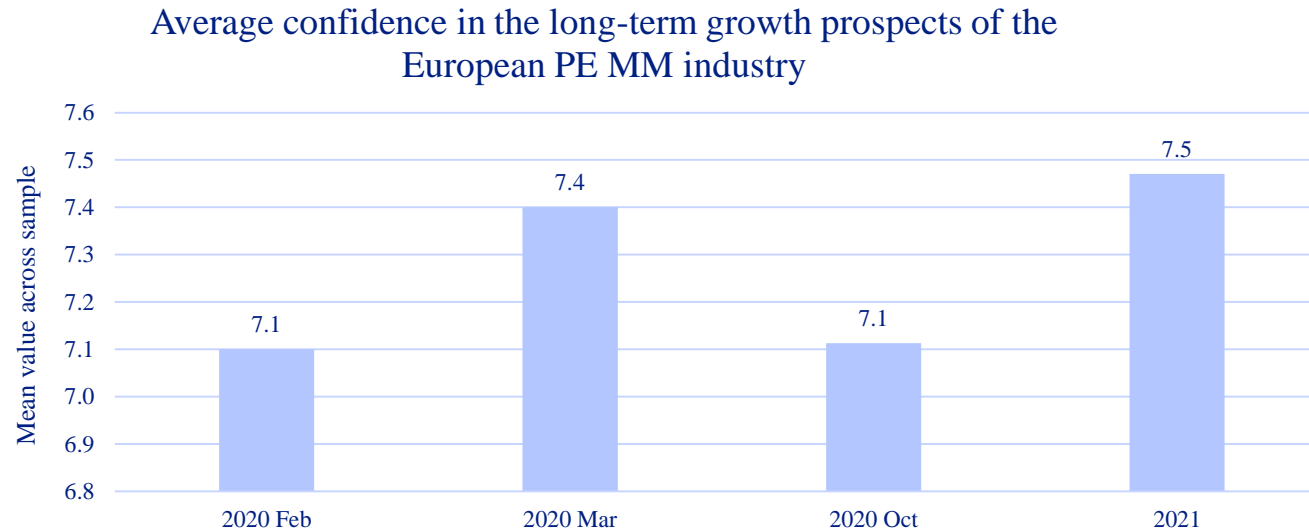
On a scale of 1 to 10, how confident are you in the long-term growth prospects of the PE mid-market industry in **your market**?



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

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

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



Concluding remarks

*EIF PE MM Survey
wave 2021*

European PE mid-market recovered, but challenges remain

Strong recovery in 2021

- In 2021, the **European PE mid-market activity recovered** from its COVID-19 crisis slump. According to the *EIF PE MM Survey*, a survey of PE MM General Partners investing in Europe, **fund managers** have become very **optimistic** again. The **current market situation** is perceived **even better than before the COVID-19 crisis**. **Expectations** for the period until mid-2022 are very **positive**.
- The perception of the **fundraising** environment has been restored to pre-crisis levels and the **exit environment** has substantially recovered since last year. The percentage of respondents reporting an increase in the number of their new **investments** is larger than before the COVID-19 crisis. Following a slump amid the crisis in 2020, **valuations** and **transaction prices** have rebounded upwards and are expected, on average, to increase further.

Mixed COVID-19 impact

- The crisis had a **heterogeneous impact** on PE MM-supported companies.
- The largest share of respondents view the impact of COVID-19 on the **current performance** of their funds as **negative**. When looking at the impact of COVID-19 on the expected **final performance** of their funds, respondents are rather **neutral**. **Expected NAV development was more positive in 2021 than in 2020**.
- **Compared to VCs** (see “[EIF Working Paper 2021/074: EIF Venture Capital Survey 2021: Market sentiment](#)”), **PE MM fund managers perceive a more negative impact of COVID-19 on the performance of their funds**.
- **PE MM fund managers** are, however, **still confident in the long-term growth prospects of the PE MM industry** in Europe and in their own market.

Challenges remain

- “**High investee company valuations**”, “**Competition from other investors**” and “**Fundraising**” have consistently been among the most important challenges in PE MM business.
- “**Recruiting high quality professionals**” and “**Disruption of business activity due to COVID-related restrictions**” are the two most important challenges faced by PE MM-backed companies. “**Supply chain**” has also become one of the most important challenges in 2021.

Policy implications

A crisis is also an opportunity

- In the aftermath of the COVID-19 crisis in Autumn 2020, VC / PE MM fund managers participating in the *EIF VC / PE MM Survey* stated several **positive developments**. In particular, the acceleration of digitisation resulting from the crisis is seen as a substantial opportunity.
- **COVID-19 accelerated the adoption of new technological solutions and business models**, which benefitted portfolio companies across a wide range of industries offering such solutions.

Support through appropriate instruments

- The *EIF VC / PE MM Survey* results support the notion that there exists an **unprecedented opportunity to benefit from some of the strong tailwinds created by the crisis**, for example in the digital transformation across sectors.
- **These opportunities might not always be supported by the sufficient availability of financing sources.** Previous survey results suggest that this is **particularly relevant in the very initial stages and in the growth stage segment and financing of “scale-ups”**. This creates a need for **policy measures** that appropriately ensure that companies which are implementing new opportunities will have sufficient **access to finance**.

Existing and new policy solutions

- **New and creative policy solutions**, making the best of digital technologies, will be pivotal in developing an increasingly interconnected and thriving European VC and PE ecosystem, capable of nurturing the tech champions of tomorrow.
- Moreover, **policy responses should entail a combination of new and existing measures**. In the case of financial instruments, these should support both existing and new financing channels and market players.

Exceptional times require unique market insight

Evidence-based policy intervention to address challenges and opportunities

- The **EIF** concentrates on supporting the necessary **private sector** VC and PE infrastructure to **address market gaps and challenges** as well as to **support opportunities** with the aim to further enhance the **attractiveness of European VC and PE** as an alternative asset class.
- In order to improve the availability of information for **evidence-based policy interventions**, the EIF performs, on a regular basis, the *EIF VC Survey*, the *EIF Private Equity Mid-Market Survey* and the *EIF Business Angels Survey*. In addition, a new *EIF Private Debt Survey* has recently been performed.

A unique source of information

- The *EIF VC Survey*, the *EIF Private Equity Mid-Market Survey* and the *EIF Business Angels Survey* provide the opportunity to retrieve **unique market insight**.
- To the best of our knowledge, the combined *EIF PE MM Survey* and *EIF VC Survey* currently represent the **largest regular survey** exercise among GPs in Europe.
- The *EIF BA Survey* is unique in its pan-European coverage and multi-country approach.
- The already large outreach of the EIF surveys, which are **coordinated by EIF's Research & Market Analysis (RMA)**, and the high relevance of the questionnaire topics for both market participants and policy makers have further increased through **cooperations with Invest Europe and the Joint Research Centre (JRC) of the European Commission**.

Results dissemination

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

*Information
about the study*

*EIF PE MM Survey
wave 2021*

The EIF PE MM Survey

General survey approach

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

Respondents and survey period

- This study is based on the *EIF PE Mid-Market Survey*.
- The 2021 wave of the *EIF PE Mid-Market Survey* includes anonymised responses from **215 PE MM fund managers** (from 188 PE firms).
- Responses were received between 7 July and 5 August 2021.

Topics

- The main *topics* covered in the 2021 survey are **market sentiment**, the **impact of COVID-19**, **environment & climate**, and **gender diversity**.
- **The focus of this study** is on the survey results for the topics of market sentiment and the impact of COVID-19. We look at the current situation, developments in the recent past, and expectations for the future. The study therefore provides a unique picture of the developments and the market sentiment in 2021.
- Since the market sentiment topic was also covered in all previous survey waves, the main results are summarised and compared on a **time series** basis.

How to read the results

General information

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

Terminology: Survey waves

- The following analyses also use results from the previous *EIF PE MM Survey* waves:
 - “2021”: 7 July – 5 August 2021
 - “2020 Oct”: 8 October – 3 November 2020
 - “2020 Mar”: 1 March – 26 March 2020
 - “2020 Feb”: 13 February – 28 February 2020

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

Terminology: “net balances”

- The “**net balances**” shown in graphs refer to the percentage of respondents reporting a positive response minus the percentage of respondents reporting a negative response. (For example: In the question “Over the next 12 months, how do you expect the number of your new investments to develop?”, the net balance refers to the %age of respondents expecting the number of their new investments to slightly/strongly increase minus the %age of respondents expecting the number of their new investments to slightly/strongly decrease.)
- Percentages may not always add up to 100% due to rounding.

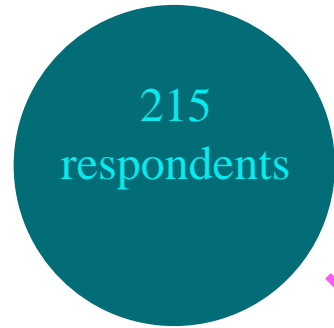
List of acronyms

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

*Respondents'
profile and
PE firm
characteristics*

*EIF PE MM Survey
wave 2021*

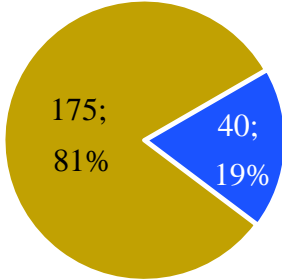
EIF relationship



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

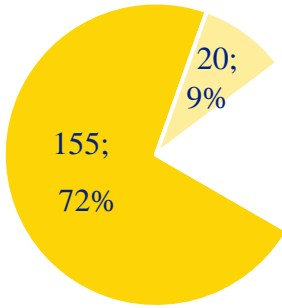
Q: "Has your investment firm ever applied to the EIF for funding for one of your PE mid-market funds?"
 Q: "Did any of these applications result in EIF funding?"
 Q: "Are you familiar with the EIF and its activities?"

Applied for EIF funding



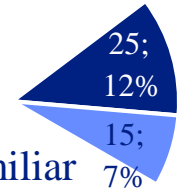
Never applied for EIF funding

Successful application



Unsuccessful application

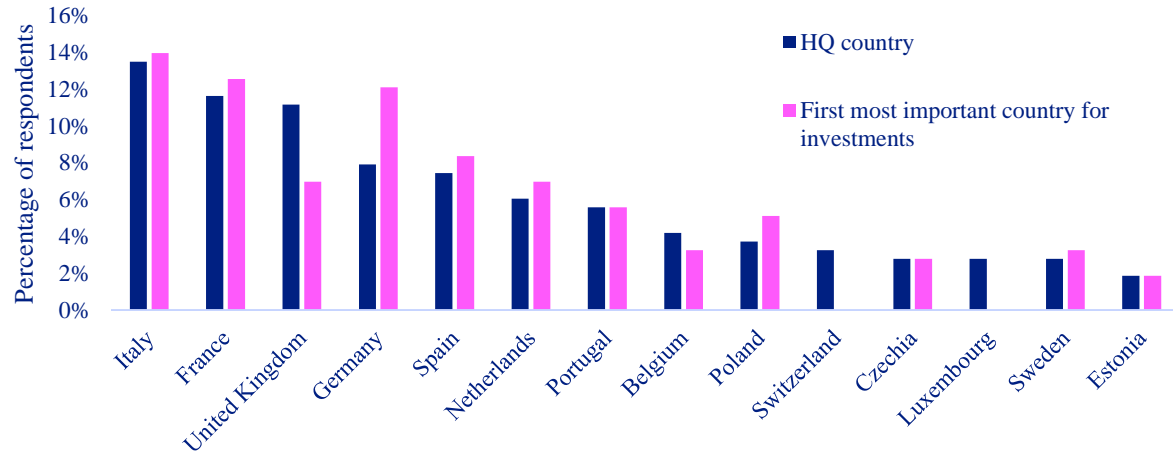
Unfamiliar with EIF



Familiar with EIF

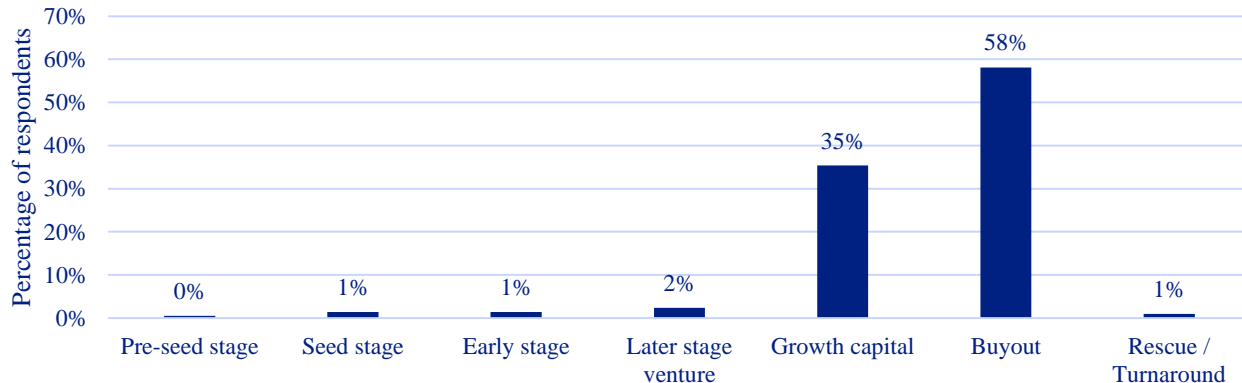
HQ & investment location / investment stage focus

Distribution of respondents by HQ country of PE firm



- More than **4 in 10 PE MM fund managers** come from PE firms headquartered in **Italy, France, the UK and Germany**.
- Overall, the frequency with which a country is selected as the **first most important country for PE MM investments is closely correlated with the HQ country**.
- **Germany is mentioned far more frequently as the first most important country** than what would be expected from the frequency with which it is mentioned as a HQ country, while the **opposite is true for the UK**.

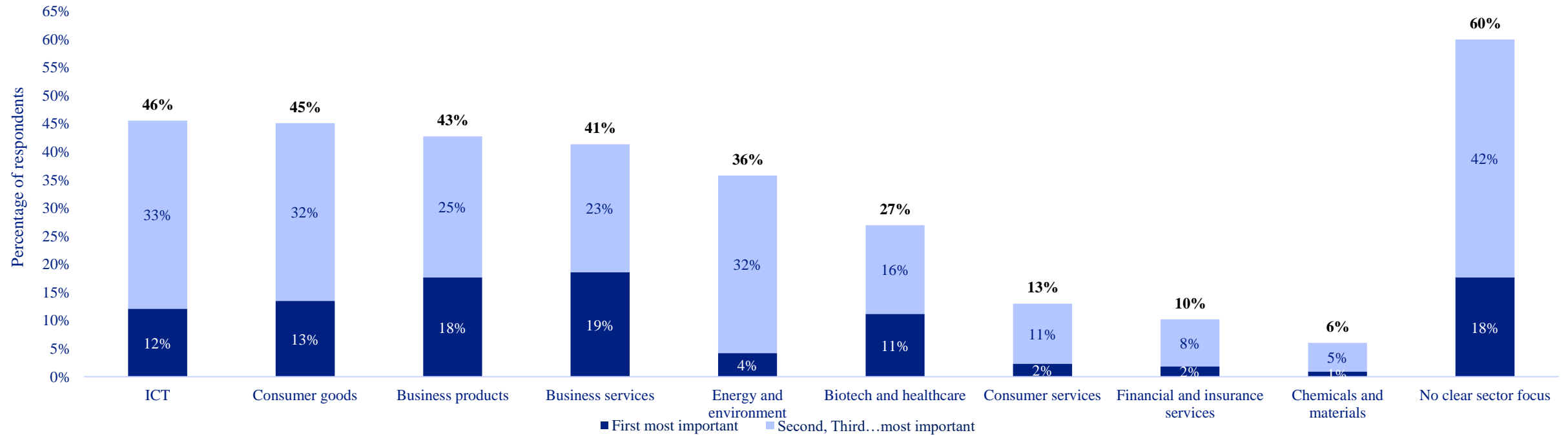
Most important investment stage



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

Most important industries in which PE M&A invest

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



*Note: Percentages in **black font** on top of the bars show the aggregate percentage of respondents.*

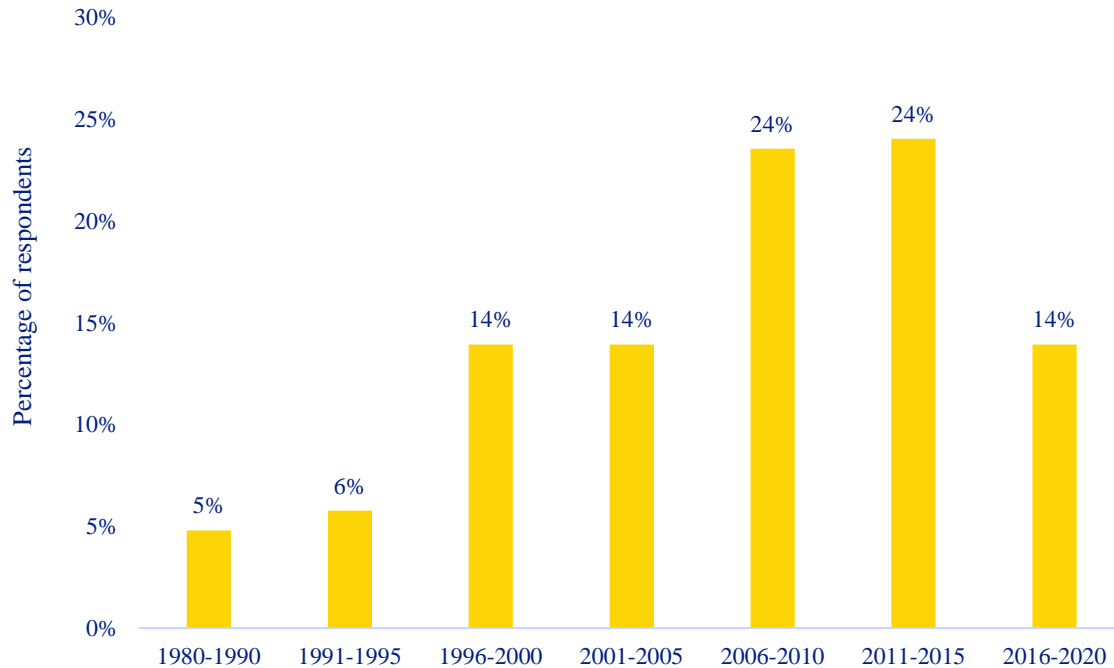
Q: "Please select the most important industries in which your firm invest in PE mid-market."

Respondents' PE firm

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

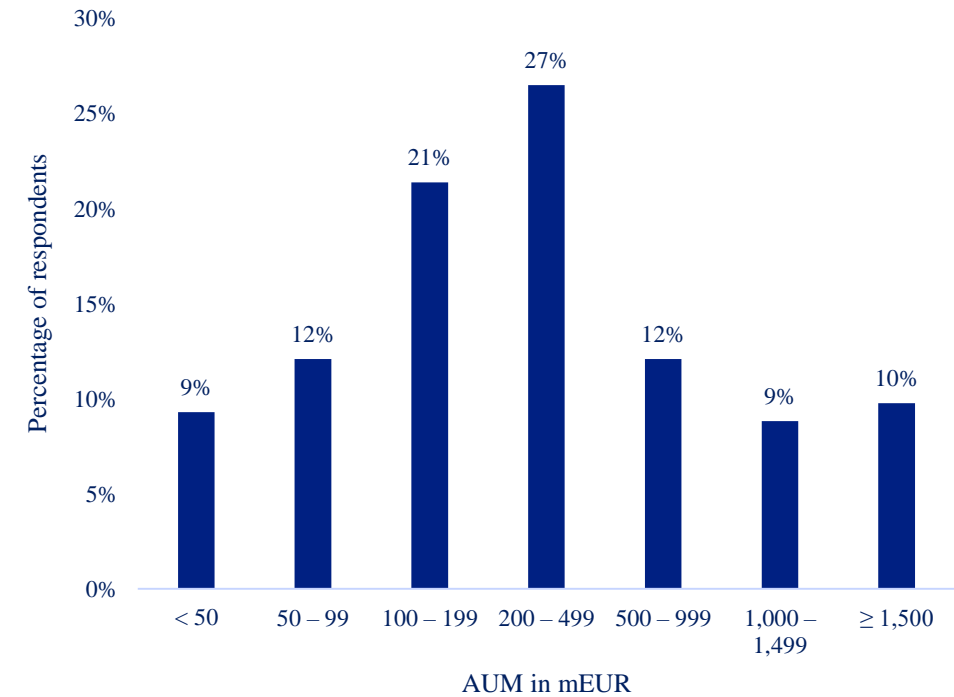
One fourth of respondents' PE firms have AUM between EUR 200m and 499m.

Year of establishment



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

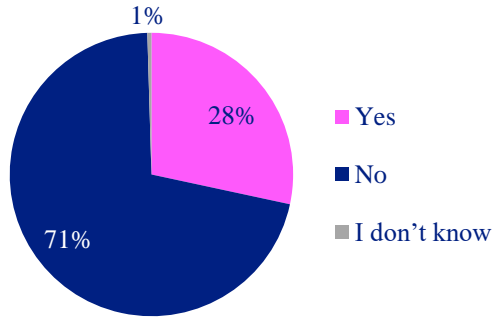
Assets under management



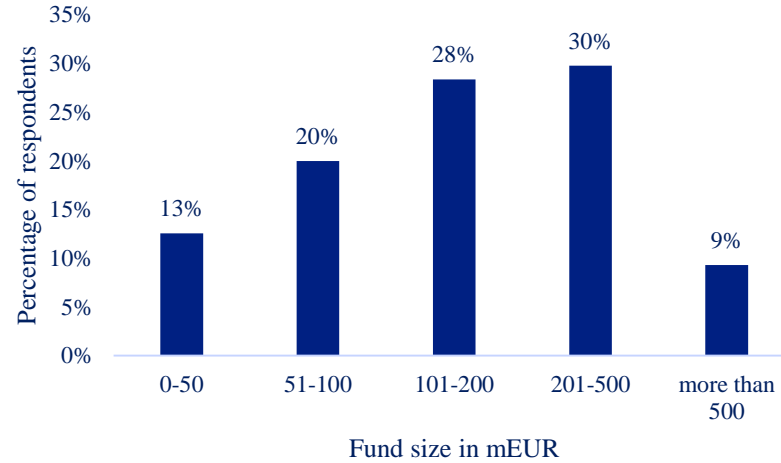
Q: "What are your firm's total approximate assets under management?"

Fund-related information

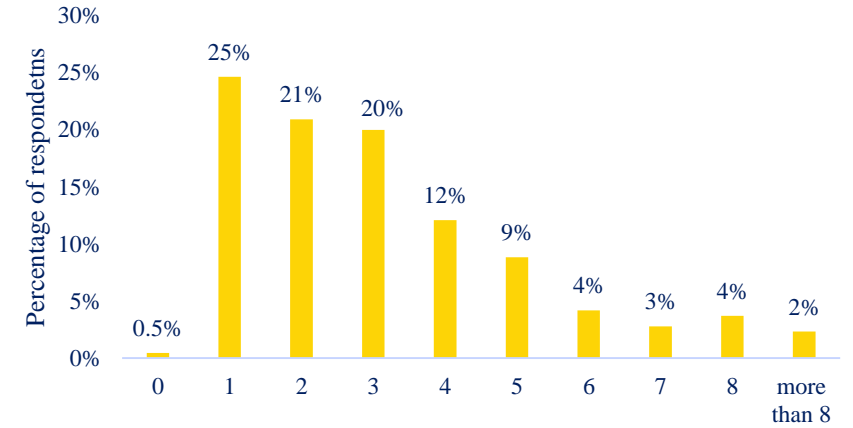
Team Experience



Latest PE MM fund size



PE MM funds raised to date



Q: "Was your firm's most recent fund also the first time that your team raised a PE mid-market fund?"

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

Q: "What is your firm's latest PE mid-market fund size"

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

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

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

Annex

*EIF PE MM Survey
wave 2021*

Survey publications and highlights



Public intervention in VC

Fund managers more satisfied with European programs than with national or regional ones

EIF's value added, products and processes

EIF's presence has high value-added and helps to crowd-in private investors, but red tape should be reduced

Policy suggestions

Tax harmonisation, regulatory simplification and overcoming cross-border market fragmentation

Business Angels

Public programmes for BAs also foster VC ecosystem; European Angels Fund procedures are appropriate and help increase BA reputation

ESG
First ever testimony on the integration of ESG considerations and impact investing in VC & BA

Market sentiment*
Unique insights into the impact of the COVID-19 crisis on the European PE and VC ecosystem

Scale-up financing & IPOs
Low scale-up focus of funds in Europe is one of the biggest challenges for VC/PE fund managers & BAs

COVID-19 impact & policy measures
A crisis is also an opportunity, which needs appropriate policy instruments.

VC market sentiment
Strong recovery; optimism prevails despite COVID-19; but challenges remain.

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

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