PRIVATE EQUITY
PERFORMANCE IMPROVEMENT

A Year of Transition:

Our Key Takeaways from European Private Equity in 2024

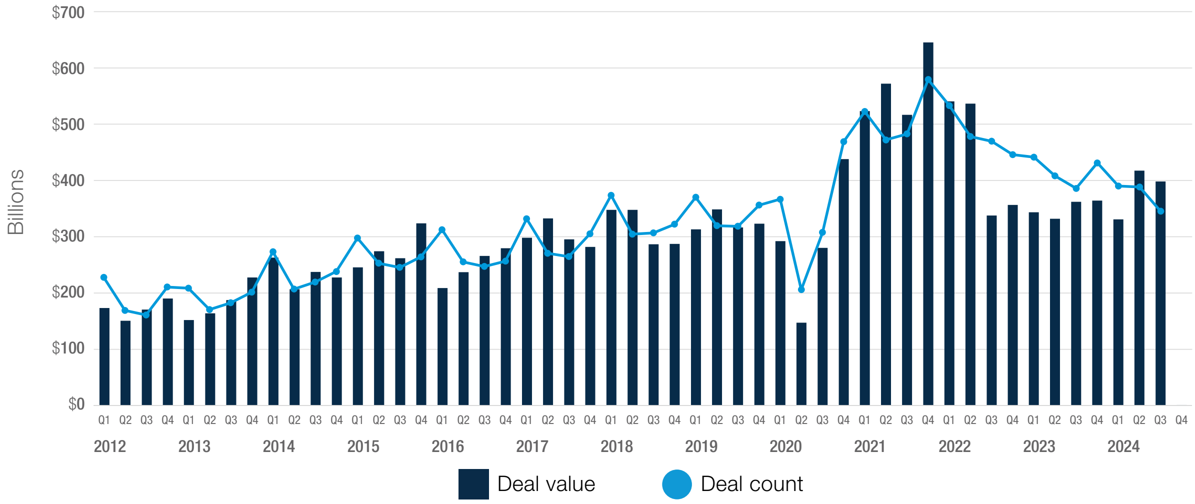
Introduction

As we reach the end of another busy fiscal year at Alvarez & Marsal (A&M), it's time to reflect on a period that has been productive but also very challenging for our clients in the private equity (PE) business.

After two years of declines in buyouts and exits, 2024 started with high hopes for a robust rebound in dealmaking that would begin to normalise the economics of transacting, holding and exiting portfolio companies for PE funds.

Eleven months on, M&A is finally picking up steam, with third-quarter global data showing an increase in both deal count and value[1] from last year. And a spate of big-ticket buyouts has injected a much-needed shot of confidence in the market, which could solidify the return of bigger PE players to the fold.

Global PE deal activity by quarter



*as of September 30, 2024 | Source: PitchBook Data, Inc.

While these represent much-awaited signs of recovery, 2024 as a whole was more a period of transition rather than the turning point many had anticipated or hoped for.

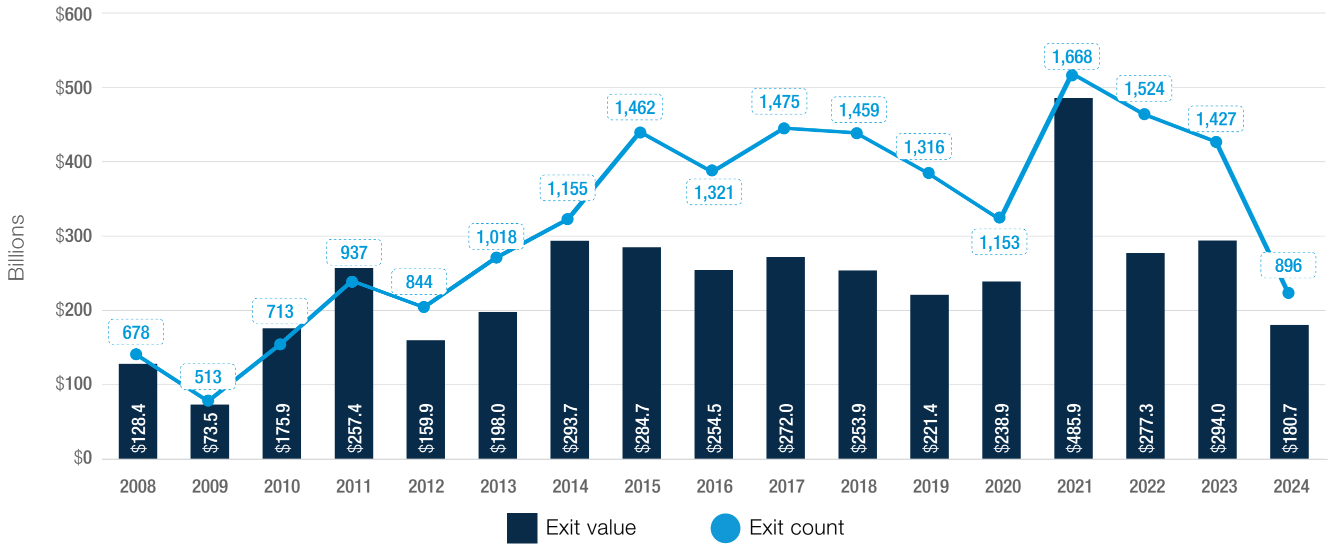
Several of the pressure points that have troubled the industry following the pandemic – elongated holding periods, pressure from LPs to exit mature investments and return cash, sluggish economic growth and continued geopolitical uncertainty– have continued to weigh heavily on funds and portfolio companies this year.

According to PitchBook data through Sept. 30, PE sponsors are sitting on a record 12,578 of European-headquartered companies, while the medium hold period is six years – down only slightly from 2023's record 6.3-year hold time[2]. LPs are growing increasingly impatient, demanding funds to complete transactions and return capital so they can finally recapture some equity.

1 https://pitchbook.com/news/reports/q3-2024-global-ma-report

2 https://pitchbook.com/news/articles/europes-loan-investors-debate-portability-as-lender-protections-erode

PE Exits: Europe



*as of September 30, 2024 | Source: PitchBook Data, Inc.

The good news is that the market did not remain passive amid these headwinds. 2024 was the year when PE funds doubled down on driving performance improvement across their portfolio companies. Recognising that gains can no longer rely on multiples expansion alone, they leaned heavily on operational transformation to deliver tangible results such as wider margins, organic growth and higher cash flow for their businesses.

Alongside that, the role of operating partners within PE funds has strengthened significantly. They have grown not only in number but in importance, solidifying their place in the PE ecosystem as acknowledged experts driving growth and value creation in portfolio companies. Their tangible influence in implementing digital transformation, optimising business processes and improving governance, among many other functions, has become especially critical in the more testing environment PE funds find themselves in.

AI's growing role across the deal lifecycle

For us at A&M Private Equity Performance Improvement (PEPI), it has been a particularly busy year helping our PE clients deliver on that renewed commitment to operational change. In addition to urgency and focus, we've also seen a new degree of sophistication being applied to traditional value creation initiatives. AI, data and automation have become essential tools for topline growth, margin expansion and cost efficiency work. For example, we have used a data-driven approach to improve sales force effectiveness and leveraged AI to identify revenue leakage. Automation has been a source of value creation in most deals, enabling the streamlining of a significant number of tasks within businesses' central functions.

AI-driven tools have also augmented our diligence capabilities, allowing for faster data gathering and preliminary analysis, and helping our team to focus on the more complex problem-solving activities of the dealmaking process. GenAI tools can perform trend analysis and identify potential red flags in specific metrics – tasks that previously took weeks can now be completed within hours.

In commercial due diligence, one of the most impactful use cases is in primary and secondary research, where our platform sifts through market reports, customer reviews and other relevant data sources to highlight trends and uncover hidden opportunities. This speeds up the process and augments the depth, comprehensiveness and richness of the analysis that can be performed on a deal.

Exit readiness and multiple break-ups

Another trend we have observed is a large focus on exit readiness strategies, with funds determined to create a full-potential plan to boost their assets performance and position them for a successful sale within a clear timeframe. Our support in these cases has often extended beyond creating the strategic roadmaps; we have also provided interim management capacity to help drive real change.

In the absence of a stronger large-cap M&A market and under pressure of LPs, we have observed PE firms breaking up and selling parts of their larger assets to raise liquidity; we have been involved in many of these deals over the past year.

So far in 2024, our team has partnered with PE clients on hundreds of deals across EMEA. In some of this year's highlights, we have:

- Made significant investment in our expertise by growing our PEPI practice to over 250 people across seven countries and expanding our footprint into growing markets such as the **Nordics and Benelux**.

- Enhanced our **commercial due diligence offering with 15 senior hires from the leading CDD firms across Europe**, aligning our excellence in all disciplines – commercial, financial, technology and operational due diligence – to help clients build a powerful, integrated transformation plan pre-deal.

- **Accelerated the integration of our multiple service lines**, offering clients combined solutions across the full **due diligence** spectrum (tax, financial, commercial, technology, operational and ESG) as well as support in **operations, corporate finance, CFO services, and data and technology services**.

- Bolstered our **sector-specific expertise** with strategic talent investments and senior hires in **media & entertainment and infrastructure**, bringing deep insights and the crucial industry track-record that clients are increasingly demanding.

- Made significant **investments in data analytics, machine learning and AI capabilities** as our **Digital & Technology Services** group – now a team of over 100 practitioners in EMEA – continues to expand and support PE clients in both pre- and post-deal work.

- Advised the largest PE funds and worked across the most high-profile deals this year, including multiple **transformational carve-out transactions** that showcased our multi-functional expertise in the complexities inherent in these transactions.

What lies ahead?

2025 is at the door, and perhaps there are more reasons to believe clearer skies lie ahead now than a year ago. The outlook is particularly brighter for dealmaking, given the prospect of further interest rate cuts by both the Fed and the European Central Bank (ECB), and less market uncertainty following the U.S. election.

That said, there are lingering issues affecting the industry, and funds will need extreme caution and precision to operate in this new normal. Deal execution in the coming months will depend on a convergence of factors, including stronger economic growth and geopolitical stability. Securing leverage for multi-billion buyouts remains challenging and is likely to stay so in the near future given the lack of a clear exit strategy for larger assets in a still-reluctant IPO market. This dynamic has already started to drive large sponsors toward smaller acquisitions in recent months. Finally, elevated dry powder and the need to return cash to LPs are expected to continue to burden PE managers for several more quarters.

One thing is for sure: those who didn't stand still, demonstrating agility and high adaptability over the past three difficult years, are poised to benefit quicker as the market environment gradually stabilises. At A&M, we look forward to applying the learnings and insights gathered over this period to continue to support PE firms across EMEA to succeed, in 2025 and beyond.

CONTACTS

Amit Laud

alaud@alvarezandmarsal.com

Bob Rajan

brajan@alvarezandmarsal.com

Mike Trenouth

mtrenouth@alvarezandmarsal.com

Follow A&M on:

ABOUT ALVAREZ & MARSAL

Founded in 1983, Alvarez & Marsal is a leading global professional services firm. Renowned for its leadership, action and results, Alvarez & Marsal provides advisory, business performance improvement and turnaround management services, delivering practical solutions to address clients' unique challenges. With a world-wide network of experienced operators, world-class consultants, former regulators and industry authorities, Alvarez & Marsal helps corporates, boards, private equity firms, law firms and government agencies drive transformation, mitigate risk and unlock value at every stage of growth.

To learn more, visit **AlvarezandMarsal.com**.