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Private equity outlook 2021: Experts expect strong increase in M&A transactions with PE involvement

- PE market in Germany expected to grow by approx. 5 percent, followed by Scandinavia and Benelux
- Technology, media & software and pharma & healthcare are the most attractive sectors
- Family businesses remain the most popular targets

Munich, March 2021: The private equity industry is optimistic about 2021: the vast majority of professionals (82 percent) expect an increase in M&A transactions involving private equity (PE) compared to the previous year. 37 percent estimate that the rate of increase will even be in the double digits. This was the finding of the new "European Private Equity Outlook 2021", for which Roland Berger surveyed around 2,500 PE experts across Europe.

"The confidence in the PE industry, despite the ongoing coronavirus pandemic, shows its resilience to economic changes," says Christof Huth, Partner at Roland Berger. "Looking at the overall economic situation, optimism prevails among PE experts – 85 percent expect positive economic development in 2021, with almost three quarters of our respondents assuming a U- or W-shaped recovery of the economy."

Strong differences between European countries

Driven by economic development, the European PE market is likely to grow again this year – led by Germany with a forecast increase of around 5 percent compared to 2020. Scandinavia and the Benelux countries follow behind: in these regions, an increase in M&A transactions with PE involvement of

around 3 per cent is expected. The PE experts are more pessimistic about the development in Great Britain, with growth of just one percent expected.

Technology and health remain the most attractive sectors

When asked about the most attractive target sectors for private equity, the picture remains constant: technology, media & software (89 percent), pharma & healthcare (83 percent) and business services & logistics (71 percent) continue to be the most popular sectors for M&A transactions with PE involvement. "Technology and healthcare remain very exciting sectors for private equity investors due to their growth characteristics and resilience, which they also demonstrated during the coronavirus crisis," says Thorsten Groth, Principal at Roland Berger.

Around two thirds of the experts (65 percent) expect targets available in 2021 to be more attractive than those available in the previous year. Majority shareholdings in family businesses remains the most important source of targets, according to 52 percent of respondents. In terms of transaction volumes, the mid-cap and small-cap segments are seen as the most promising with deals up to €250 million.

Focus on prolongation of existing funds and fundraising

The PE industry wants to focus on the prolongation of existing funds and fundraising this year. More than half of the respondents anticipate no change in the competition for fundraising. Nine out of ten PE professionals expect the holding period for portfolio companies to be extended due to the coronavirus pandemic.

"When it comes to portfolio management, the most important value creation measures for 2021 are increased digitalization, investments in Industry 4.0 applications and add-on acquisitions," says Christof Huth. "In terms of exit options, secondary buyouts are likely to remain predominant."

With regard to valuation multiples, 82 percent of the PE experts consider assets to be overvalued. The vast majority also assume that valuation multiples will remain stable or increase slightly in 2021.

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