

THE DAILY CHECK-IN WITH GOLDMAN SACHS

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Liz Bowyer: Hi Anna.

Anna Skoglund: Hi Liz. How are you?

Liz Bowyer: Good, thanks. You advise our private equity clients in Europe. In the US, we're seeing more private equity activity than we've seen in quite a while. Tell us what you're seeing there.

Anna Skoglund: Well, very much like the US, we've also seen an incredible start to 2021. Sponsor deal volumes are up 25 percent year on year. And that's against pretty hard comps, because last year, 2020, little did we know, but the year started very strongly. And we were really comparing, you know, like for like, on that basis. Having said that, it's only two months of the year, but we are definitely very excited about what we're seeing. And I would say that it is sort of across the markets. We're seeing P2Ps. We're seeing focus on secondaries. We're seeing a lot of IPO activity. So, it's very broad based, I would say, in terms of activity.

Liz Bowyer: And in what sectors are you seeing the most activity?

Anna Skoglund: I would say that we see activity across sectors. But to give you a statistic, about 50 percent of deal volumes is in TMT, i.e., technology and telecom, and healthcare. Which I think is very reflective of the fact that those are sectors which are, you know, seen as structural growers. They're benefiting from very long-term secular trends, which are going to continue. I think it's also a reflection of the fact that, you know, some funds may feel that they're underweight those sectors. And just to basically follow the market they need to address the opportunities in those sectors. So, it's really tech and telecom and healthcare, which are the dominant ones. But we are seeing activity across the different sectors.

Liz Bowyer: So, tell us more about what's happening with European tech.

Anna Skoglund: Well, what I would say is exciting is that for a very long time there was this view that the US tech market was deeper, broader, and frankly, more able to drive highly innovative companies. If you just look at the largest tech companies in the world, they are either American or in certain instances Chinese. What is really exciting and what we have seen in the last, I would say, 24 to 36 months, but it's accelerated over the last 12 months, is the emergence of large European tech companies. And there have been some studies looking at, you know, VC funds raised in Europe, a number of unicorns in Europe. And it is very interesting to see that although on an absolute level, VC funds and backing is still much larger in the US than in Europe. In terms of growth levels, it's really catching up and actually exceeding in some instances.

The other thing is that we've seen a very strong IPO market and IPO pipeline around these high growth companies in Europe.

Liz Bowyer: And what about M&A? Your colleagues in investment banking have said they expect that historic levels of M&A activity that we've been seeing to continue for the year. How do you think that will play out in terms of sponsor M&A?

Anna Skoglund: I think we expect the sponsor M&A activity to continue in line with the broader M&A market. What's maybe interesting is to look at what kind of transactions are happening. To give you a couple of data points, in the last two years, so 2019 to 2021, year to date, we've seen 21 P2Ps. That's just a much higher number than what we have seen in previous years. And 11 out of those happened in the last 12 months. So, we've clearly seen a very significant acceleration of P2P activity. And this is really a reflection of both public boards being more receptive to considering private equity bids, private equity players believing that they can create sufficient angles to justify the premiums which are required to take companies private, and having a thesis which means that they think that they can drive value in a private setting. So, I think that's exciting, and we expect that to continue.

The second trend I would point out is carve-outs. And we already saw that last year where you saw the carve-out coming out around the elevators, which Advent and Cinven bought. But we also have also seen that activity continue this year where, for example, the Lonza Specialty chemical business was sold to Cinven and Bain. And I think it reflects-- this is, so we call it primaries, where you're able to buy a business which hasn't been owned by private equity before. And a view that the private

equity player have a skillset where they're able to do things which are maybe not possible when these businesses are owned by a larger corporate.

Liz Bowyer: So, does that mean you don't expect to see much activity in the secondary market?

Anna Skoglund: Well, I think we're still going to see sponsors selling to other sponsors. You know, there's sort of a life cycle. You could see businesses which are owned by midmarket firms which maybe have more of a regional footprint having sort of done the work for three, four, five years, and then sell it to a sponsor which has a global presence or maybe as an M&A platform they buy it to add on, basically, a different skill set. So, I definitely don't think that the secondary market is dead. I just think that we're going to see a more segmented market. You're going to see P2Ps, carve-outs, but also secondaries.

I think the big difference is, in the secondaries there needs to be a really strong rationale of why, you know, a new sponsor owner is going to drive more value than the previous one. And I think that's taking a step back, as a trend that we're seeing, you know, the GPs, as we call them, really want to make sure that they're playing to their strengths, that their sort of true value creation thesis, and that they are buying businesses that they can add real value for and drive value for their LPs.

Liz Bowyer: So, obviously, a pretty significant time for private equity in Europe. But who's driving this activity?

Anna Skoglund: The overall alternative asset management industry, of which private equity is a large part, has evolved very significantly over the last 10-15 years. It's really evolved from being a market which was dominated by a lot of the American buyout shops and a number of large European ones, to a much more broad-based landscape going from the large-scale alternative asset managers with multiple strategies, so they will have a private equity strategy, buyout strategy, but also a growth strategy, and infrastructure strategy, credit strategy, et cetera. So, these are large multi-line alternative asset managers.

Then you have still a large group of primarily buyout focused, but large global funds. And we're talking funds which, you know, between 10 to 15 billion dollars in each fund. Then you have regional funds which focus on a specific region in Europe,

whether it's, you know, the Dutch region or the Nordic region or in the UK or France. And they tend to be a little bit smaller, midmarket funds, but also some of them are very much significantly growing and expanding their activities.

Then you have a number of the LPs who have over the last ten years gone direct. There are a number of them who have been doing it for longer. But we've definitely seen a trend towards more and more LPs also doing direct deals. You have the sovereign wealth funds. You have the family offices. You also have the SPACs. So, I would say it's a really broad-based activity level across those different players.

Of course, in any given year you will have someone who's going to deploy more versus the other. It's also linked to fund cycles and fund dynamics. But ultimately, I mean, we are seeing across our client base people who are very aggressively leading forward and wanting to do deals.

Liz Bowyer: And just given how supportive the capital markets have been, are you concerned at all that clients will find it difficult to invest at current valuations?

Anna Skoglund: It's definitely challenging in the sense that, and in particular as I mentioned, 50 percent of the activity has been in healthcare in TMT, and those are the sectors where we are seeing extremely supported capital markets as you mentioned, which is why we've seen a lot of the transactions happening in the IPO market. And I think clients are aware of that. And I think I wouldn't say, necessarily, that they are concerned, per se, but I think it sort of-- it increases the importance of really having a value creation thesis and investment case and an ability to underwrite, be it cost savings or increased automation or digitalization, whatever it may be. But basically supporting the valuations which are being paid, because it is true, they are high, even in a long-term context.

Now, I would say, interest rates are low. The way a lot of the various investors, be it pension funds or across the spectrum of LPs into private equity funds, this is a way of driving yield and differentiated returns is still private equity.

Liz Bowyer: So, finally Anna, how about ESG, which is such a huge focus for investors globally? How is that playing out in the sponsor community?

Anna Skoglund: I would say that we are seeing extreme levels of

focus across those areas. And it takes different forms. It takes the forms of, around the environmental, we're seeing a lot of private equity clients considering launching-- having launched, or are considering launching, impact funds or net carbon zero oriented funds. We saw Mark Carney teaming up with Brookfield to do an initiative in that area, which everyone who knows Mark will know that he's extremely passionate about this subject and climate change more broadly. And that's really encouraging to see.

We're seeing initiatives around diversity and inclusion. And we're seeing initiatives around governance. So, I think-- I personally think that this is a real opportunity for the private equity industry.

Liz Bowyer: Certainly a great opportunity. But one with many challenges.

Anna Skoglund: Yeah, no, clearly. And I think, you know, to drive real change it takes a few things. It takes vision. It takes courage. It takes bold action. But it also, frankly, takes sort of daily blocking and tackling. And some of these changes, and maybe I can use inclusion and diversity as an example, that is really daily blocking and tackling. That is driving a real understanding of the lived experience of minorities. And I guess if I had one challenge for my own industry and the broader finance industry as a whole, including the private equity industries, it's like how do we come together and corral around some of these topics, including diversity and inclusion, to drive real change? To make our industry a better industry and more foolproof going forward? And to build better companies, basically? And that is something that I would love us to come together with our clients, with our peers, and our competitors to drive large scale change throughout the industry.

Liz Bowyer: Thanks Anna.

Anna Skoglund: Thank you very much, Liz. It was a pleasure to talk to you today.

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