The PE Pulse has been designed to help you remain current on capital market trends. It captures key insights from subject-matter professionals across EY member firms and distills this intelligence into a succinct and user-friendly publication. The PE Pulse provides perspectives on both recent developments and the longer-term outlook for private equity (PE) fundraising, acquisitions and exits, as well as trends in private credit and infrastructure. Please feel free to reach out to any of the subject-matter contacts listed on page 26 on any of the topics covered or any PE-related issues.

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Contacts and contributors
1. Private equity insights
1.i. Fundraising

Executive summary
• Fundraising activity fell by 19% in 2020, as the pandemic put many roadshows and investor meetings on hold. The amount raised was the lowest in the last five years.
• Buyout funds accounted for 35% of commitments in 2020.
• Fundraising for secondaries funds saw steep growth; commitments closed in 2020 were up 3.2 times from the previous year.
• ESG has gained significant relevance for PE investors. Climate, governance, social value and carbon emissions have become recurring topics of discussion among investors.
• The legacy of the pandemic is expected to persist in fundraising, and increased dependence on collaboration platforms, remote working and virtual fundraising are integrating into the “new normal.”
• Increased dependence on collaboration platforms, remote working and virtual fundraising is gradually becoming the new normal.

Current state
Despite the downturn, big funds got bigger in 2020. Average fund sizes grew by 11%:
• PE firms raised US$776b during 2020, compared with US$961b in 2019. The number of funds closed dipped by 28% to 1,170 over the same period.
• The US remains a key destination; 57% of the capital raised over the last 12 months is targeted at US opportunities.
• Average fund sizes saw an increase of 11% during 2020 to US$752m.
• Fundraising for secondaries funds soared to US$82b in 2020 from US$26b last year. Firms in the space are seeking to add another US$58b by next year.
• Buyout dry powder rose by 9% during 2020 to US$865b, 44% of which resides with mega funds (size greater than US$4.5b).

Dry powder – buyout funds by size (US$b)
Source: Preqin

Environment and horizon
• Virtual fundraising is likely here to stay: One of the concerns heading into the pandemic was that in addition to challenges with deals, PE firms would have a hard time connecting with LPs to conduct fundraising roadshows. For many funds, though, some shift to virtual forms of fundraising could be permanent. Carlyle’s Kew Lee was reported in a recent Pensions and Investments piece saying “... having conversations that start in the morning with Korea, Japan and China before moving on to Europe in the afternoon is something you couldn’t do ... in a world where you’re hopping on an airplane.” One important caveat is that fundraising via Zoom is generally thought to benefit larger, well-established funds more than smaller or newer funds. Nonetheless, for many managers, integrating the best of virtual fundraising alongside existing practices could become a way of life.
• PE AUM growth on track for US$9t by 2025: The growth of PE assets under management (AUM) has been one of the defining features of the industry over the last decade. New research from Preqin expects that growth to continue. Since 2010, PE AUM has grown from “just” US$1.7t to more than US$4.4t. Most importantly, after surveying investors in the asset class on their intentions for their portfolios, Preqin expects AUM to hit US$9.1t by 2025. Indeed, nearly 80% plan to increase their allocations to private equity over the next five years. More broadly, Preqin expects private capital AUM as a whole – which includes PE, private debt and other private asset classes – to climb from US$10.7t at present to more than US$17t by 2025.
• SoftBank, Carlyle and others join PE climate framework: ESG is an area of significant and growing focus for PE. Last month saw several firms take additional steps to increase their commitment to driving social value when five PE firms came together to fight against climate change. Ardian, The Carlyle Group, Global Infrastructure Partners, Macquarie Infrastructure and SoftBank Investment Advisers have joined a number of Sovereign Wealth Funds under the One Planet initiative to create the One Planet Private Equity Funds. In a joint statement, the group said “as long-term investors in companies and real assets that underpin both economies and communities, our goal is to advance the understanding of climate-related risks and opportunities within our investment portfolios so that we can build better and more sustainable businesses.”
1.i. Fundraising

PE fundraising by year
Source: Preqin; includes only closed and liquidated funds

PE fundraising by type (US$b) – 2019 vs. 2020
Source: Preqin; includes only closed and liquidated funds
1.i. Fundraising

PE fundraising by quarter (US$b)
Source: Preqin; includes only closed and liquidated funds

<table>
<thead>
<tr>
<th>Fund</th>
<th>Type</th>
<th>Focus area</th>
<th>Sector</th>
<th>Value (US$b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CVC Capital Partners Fund VIII</td>
<td>Buyout</td>
<td>Multi-regional</td>
<td>Diversified</td>
<td>23.9</td>
</tr>
<tr>
<td>Brookfield Infrastructure Fund IV</td>
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<td>US</td>
<td>Energy, infra</td>
<td>20.0</td>
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<tr>
<td>ASF VIII</td>
<td>Secondaries</td>
<td>Europe</td>
<td>Diversified</td>
<td>19.0</td>
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<td>Buyout</td>
<td>US</td>
<td>Technology, health, financials</td>
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<td>Thoma Bravo Fund XIV</td>
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<td>US</td>
<td>Technology, health, infra</td>
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<td>US</td>
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<td>AlpInvest Partners</td>
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<tr>
<td>Vintage Fund VIII</td>
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<td>US</td>
<td>Diversified</td>
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</table>
Executive summary

- Investment activity in 2020 can be defined in three phases: the early part of the year, when activity was on track for the best year since the 2008 global financial crisis; the lockdowns, when deal activity effectively ground to a halt; and H2, when PE activity rebounded strongly, led by investments in technology.
- In aggregate, firms announced 1,830 deals valued at US$555b, up 4% from 2019.
- Significant regional variance in the activity existed in 2020; investment activity fell by 25% in Americas, while increasing in Asia-Pacific (APAC) and Europe, Middle East and Africa (EMEA) by 110% and 15%, respectively.

Current state

Deal activity was strong at the beginning of the year but came under pressure through mid-2020, only to rebound in the latter half of the year.

- PE firms announced deals valued at US$555b during 2020, up 4% from 2019. Deal volume fell 18% to 1,830.
- Activity in the Americas fell by 25% to US$227b in 2020. Volume slipped by 23% during the period.
- EMEA saw a growth of 15% in PE investments during 2020. Volume declined by 17% during the year.
- APAC outperformed other regions in 2020, with a 110% jump in activity; however, growth in the number of deals remained flat at 2%. Notably, the largest deal announced during the year comprised 27% of the aggregate deal value in 2020 for the region.

Leveraged loan and high-yield issuance by quarter (US$b)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Leveraged Loans</th>
<th>High Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q20</td>
<td>$50</td>
<td>$100</td>
</tr>
<tr>
<td>2Q20</td>
<td>$100</td>
<td>$150</td>
</tr>
<tr>
<td>3Q20</td>
<td>$50</td>
<td>$100</td>
</tr>
<tr>
<td>4Q20</td>
<td>$100</td>
<td>$150</td>
</tr>
</tbody>
</table>

Source: S&P leverage commentary and data

Environment and horizon

With PE deal activity starting to revisit pre-COVID-19 norms, firms are well prepared for deployment opportunities.

- Firms are returning to work in the new normal: After months working from home, employees of global PE firms are now getting back to the office. Recent weeks have seen a number of firms introduce new commuter policies, many of which encourage the use of nonpublic transportation, and under which return to the office remains purely voluntary.
- Leveraged finance markets shake off the effects of the pandemic: When COVID-19 pandemic hit, lenders largely honored existing commitments, but the market for new financings ground to an effective halt. Existing portfolio companies drew heavily from revolvers, and much of the market shifted toward high yield. Indeed, the high-yield market saw US$435b in issuance in 2020, a record. Today, fueled by central bank liquidity injections and the return of CLO issuance, conditions in the leveraged finance markets have improved considerably. As a result, conditions are currently such that financing is widely available for firms seeking new acquisitions, a state we expect to continue into the new year.
1.ii. Acquisitions

PE acquisition values and number of significant deals by year
Source: Dealogic

PE acquisition values and number of significant deals by quarter
Source: Dealogic

Top deals in 2020
Source: Dealogic

<table>
<thead>
<tr>
<th>Target</th>
<th>Industry</th>
<th>Sponsor</th>
<th>Value (US$b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Oil and Gas Pipeline Network (minority)</td>
<td>Energy</td>
<td>China Investment Corp</td>
<td>34.7</td>
</tr>
<tr>
<td>ThyssenKrupp Elevator</td>
<td>Industrials</td>
<td>Advent, Cinven</td>
<td>18.8</td>
</tr>
<tr>
<td>United Wholesale Mortgage</td>
<td>Financials</td>
<td>Goes Group</td>
<td>15.9</td>
</tr>
<tr>
<td>ADNOC Gas Pipeline Assets (minority)</td>
<td>Oil and gas</td>
<td>Brookfield Capital Partners, GIC, Global Infrastructure Partners, OTPP Private Capital</td>
<td>10.1</td>
</tr>
<tr>
<td>RealPage Inc.</td>
<td>Technology</td>
<td>Thoma Bravo</td>
<td>10.1</td>
</tr>
<tr>
<td>Asda Group</td>
<td>Retail</td>
<td>TDR Capital</td>
<td>8.7</td>
</tr>
<tr>
<td>Univision Communications</td>
<td>Telecom</td>
<td>Madison Dearborn Partners, PEP, Saban Capital Group, Searchlight Capital Partners, Thomas H. Lee Partners, TPG Capital</td>
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<tr>
<td>Astound Broadband</td>
<td>Telecom</td>
<td>Stonepeak Infrastructure Partners, TPG Capital</td>
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<tr>
<td>58.com Inc.</td>
<td>Technology</td>
<td>General Atlantic, KKR, Warburg Pincus</td>
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</tbody>
</table>

Note: Volume data for transactions with disclosed value of US$50m+
1.ii. Acquisitions

PE acquisition values and number of significant deals by week in 2020

Source: Dealogic

Note: Volume data for transactions with disclosed value of US$50m+
PE acquisition activity by key regions and countries
(2019 vs. 2020)

- **UK & I**
  - 2019: US$52.3b
  - 2020: US$50.2b
  - Change: -4%

- **Western Europe**
  - 2019: US$146.4b
  - 2020: US$154.7b
  - Change: 6%

- **SE Asia**
  - 2019: US$4.9b
  - 2020: US$7.1b
  - Change: 46%

- **Australia**
  - 2019: US$8.7b
  - 2020: US$21.3b
  - Change: 147%

- **US**
  - 2019: US$259.3b
  - 2020: US$216.4b
  - Change: -17%

- **Canada**
  - 2019: US$20.6b
  - 2020: US$6.6b
  - Change: -68%

- **China**
  - 2019: US$11.8b
  - 2020: US$62.2b
  - Change: 426%

- **India**
  - 2019: US$10.6b
  - 2020: US$18.4b
  - Change: 74%
### 1.iii. Private equity: acquisition activity by region

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<tr>
<td>Canada</td>
<td>$11.6</td>
<td>$6.4</td>
<td>$5.3</td>
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<td>$8.3</td>
<td>$5.6</td>
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<td>-5%</td>
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<td>$9.9</td>
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<tr>
<td>UK&amp;I</td>
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<td>$29.9</td>
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<td>$50.3</td>
<td>$44.4</td>
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<td>$52.3</td>
<td>$50.2</td>
<td>-4%</td>
<td>0%</td>
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<td>$15.3</td>
<td>$21.9</td>
<td>$29.4</td>
<td>$18.5</td>
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<td>$20.5</td>
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<td>11%</td>
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<tr>
<td>China</td>
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<td>$10.3</td>
<td>$10.7</td>
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<td>17%</td>
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</table>

Source: Dealogic. All Rights Reserved.

Note: Data is continually updated and therefore subject to change.
Executive summary

- Investments in the technology sector, particularly in the US, have led the recovery in deal activity. Tech has been a powerful theme for the last four to five years, but the pandemic has accelerated interest; currently, PE deals account for 24% of overall PE investment.

- Financials also gained traction from investors, with deal value growing nearly 26% over the past five years. PE investment in life insurance during 2020 went up 3.4x compared with 2019 due to increased sector attractiveness amid growing health risk concerns.

- Despite the lockdowns, retail witnessed significant investment from PE in 2020. Activity during the year grew by 2.8x of that in 2019. Large-sized deals saw PE firms investing in retailers to strengthen their omnichannel capabilities.

Key themes

- Technology and telecom accounted for the largest share of PE deal activity in 2020, at 34%.

- While financials, retail, technology and utilities picked up momentum, the contribution of consumer goods, consumer services, real estate and oil and gas to the aggregate deal value fell in 2020 compared with 2019.

<table>
<thead>
<tr>
<th>Industry</th>
<th>2019 % of value</th>
<th>2019 % of volume</th>
<th>2020 % of value</th>
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<tbody>
<tr>
<td>Consumer goods</td>
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<td>5%</td>
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<tr>
<td>Consumer services</td>
<td>8%</td>
<td>12%</td>
<td>4%</td>
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<tr>
<td>Financials</td>
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<td>6%</td>
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<td>8%</td>
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<td>Health care</td>
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<td>9%</td>
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<td>8%</td>
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<td>2%</td>
<td>4%</td>
<td>1%</td>
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<tr>
<td>Real estate</td>
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<td>3%</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>Retail</td>
<td>2%</td>
<td>3%</td>
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<tr>
<td>Technology</td>
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<td>Utilities</td>
<td>8%</td>
<td>3%</td>
<td>11%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Increase | Decrease | No change
1.iv. Private equity: acquisition activity by sector

**Industrials**
- PE activity in the industrials space dipped 15% in 2020 relative to last year; machinery and auto/trucks saw positive growth, whereas other areas saw a decline in deal value.
- Activity in machinery grew at 59% CAGR between 2016 and 2020, much higher than consolidated industrials, which witnessed a CAGR of 10% during the same period. Advent’s acquisition of ThyssenKrupp Elevator AG was the largest deal during the year which significantly increased the consolidated deal value for 2020.
- Auto/trucks saw growth of 34% in PE deal value at the back of a surge in demand for parts and equipment businesses.

**Technology**
- Tech and telecom remain an area of focus for PE investors; together, they constitute 34% of total deal value and saw annual growth of 31% in 2020. Activity in telecom has risen at a compounded rate of 42% in the past five years.
- Wireless or cellular firms garnered tremendous interest from PE in 2020.
- Activity in semiconductors and tech-related services surged notably during 2020.

**PE acquisition in industrials — values (US$b) and volumes**
Source: Dealogic

**PE acquisition in tech — values (US$b) and volumes**
Source: Dealogic

Note: Industrials include transportation, machinery, auto/trucks and aerospace and defense subsectors (excludes holding companies).
Consumer

- PE investments in the overall consumer industry (including retail, goods and services) fell in 2020 by 12%; however, the five-year CAGR of PE deals in the sector remained almost flat at 3%.

- Notably, retail saw an upsurge of 180% in activity during 2020.

Financials

- Investments in financials surged by 61% in 2020 from the past year; the sector contributed 11% to the aggregate PE deal activity in 2020, up from 7% last year.

- Notably, activity in the life insurance space during 2020 went up multifold in comparison with 2019.

- PE investments in mortgages increased notably at the back of supportive housing prices.

PE acquisition in consumer – values (US$b) and volumes
Source: Dealogic

Financials

- Investments in financials surged by 61% in 2020 from the past year; the sector contributed 11% to the aggregate PE deal activity in 2020, up from 7% last year.

- Notably, activity in the life insurance space during 2020 went up multifold in comparison with 2019.

- PE investments in mortgages increased notably at the back of supportive housing prices.

PE acquisition in financials – values (US$b) and volumes
Source: Dealogic

Note: Finance comprised banking, lending investments management and other finance-related activities.
Executive summary

- PE exits fell 2% in 2020 as focus shifted from monetization to value protection for portfolio companies.
- For assets in the pipeline before the pandemic, mobility restrictions and difficulty in physical meetings interfered with due diligence, causing delays.
- Exits via IPO rebounded strongly in the latter half of 2020; activity was up by 101% from the previous year.
- M&A exits fell by 11% during 2020 from 2019; all regions witnessed a dip in activity; however, APAC was affected the most.
- With record levels of special-purpose acquisition company (SPAC) issuance, PE firms now have a fourth exit option for portfolio companies.

Current state

M&A exits planned in 1H20 were delayed due to mismatches in price expectations and the inability to conduct due diligence. PE-backed IPO activity was the highest since 2015.

- Exits saw a downward trend, with 1,049 deals valued at US$436b, down 2% from 2019.
- PE exits by M&A in 2020 slipped by 11% from 2019, reaching US$366b.
- APAC saw a steep decline in exits by 39% in 2020 from last year; Americas and EMEA saw a moderate growth of 4% and 2%, respectively, during the same period.
- PE-backed IPO proceeds in 2020 were up 101%. The number of PE-backed IPO deals increased 52%, reaching 96 deals from 63 deals announced in 2019.
- IPOs constituted 16% of total proceeds in 2020, up from 8% in 2019.

Environment and horizon

- After a quiet 2020, PE exit activity should resume in earnest this year: Periods of increased volatility and uncertainty, such as what characterized 2021, generally have the most significant impact on PE exits. During the 2008 global financial crisis, for example, many firms’ exit timelines were pushed back one to two years because of an increased valuation gap between buyers and sellers. 2020 was characterized by a similar dynamic, with a handful of additional factors that have impacted decisions with regard to exits – for example, mobility restrictions that have limited or obstructed due diligence processes and the more immediate needs of the portfolio. As 2021 begins, however, we expect firms to refocus on their exit pipelines and avail themselves of stronger markets for sellers. In particular, we expect the following may occur:
  - In some cases, reorder the exit pipeline. Companies that were once at the front of the line may move to the back, and companies that were once lower priority may move to the front.
  - Where it’s necessary, sellers will rewrite their equity stories for a post-COVID-19 world. Forecasts will be reworked to include various scenarios for the economic recovery and for changing consumer behavior patterns as economies reopen in earnest.
  - Firms in many cases will have a different set of buyers than they did pre-COVID-19. Many strategic buyers, for example, may be looking for different types of assets than they were before the pandemic.

PE exit activity by region – deal value (US$b)

Source: Dealogic

![PE exit activity by region – deal value (US$b)](chart)

- The fourth liquidity option? SPACs as buyers for PE assets. According to Dealogic data, US-listed SPACs raised US$82b in 2020. While a significant amount of attention has been given to the degree to which many of these are sponsored by PE, less focus has been given to the potential for these vehicles to represent an exit route for existing PE-backed companies. For many firms, this new wave of SPACs will represent attractive buyers for assets; indeed, a number of SPACs issued in 2018 and 2019 acquired assets from PE firms. For sellers, the certainty of economics that a SPAC brings, along with the cost savings, can be an advantage relative to a traditional public listing.
### PE M&A exits by year (US$b)
**Source:** Dealogic

#### PE-backed IPOs by month (US$b) in 2020
**Source:** Dealogic

#### Largest PE exit deals this year
**Source:** Dealogic

<table>
<thead>
<tr>
<th>Target</th>
<th>Industry</th>
<th>Sponsor</th>
<th>Value (US$b)</th>
<th>Type</th>
</tr>
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<tbody>
<tr>
<td>Ellie Mae</td>
<td>Technology</td>
<td>Thoma Bravo</td>
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<td>M&amp;A</td>
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<tr>
<td>MultiPlan</td>
<td>Technology</td>
<td>GIC, Hellman &amp; Friedman, Leonard Green &amp; Partners</td>
<td>9.7</td>
<td>M&amp;A</td>
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<tr>
<td>CPA Global</td>
<td>Technology</td>
<td>Leonard Green &amp; Partners</td>
<td>8.9</td>
<td>M&amp;A</td>
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<tr>
<td>Univision</td>
<td>Communications</td>
<td>Madison Dearborn Partners, Providence Equity Partners, Saban Capital Group, Searchlight Capital Partners, Thomas H. Lee Partners, TPG Capital</td>
<td>8.3</td>
<td>M&amp;A</td>
</tr>
<tr>
<td>Astound Broadband</td>
<td>Telecom</td>
<td>Stonepeak, Infrastructure Partners, TPG Capital</td>
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<td>M&amp;A</td>
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<tr>
<td>Bombardier Transportation</td>
<td>Industrials</td>
<td>CDPQ</td>
<td>7.7</td>
<td>M&amp;A</td>
</tr>
<tr>
<td>Zenimax Media</td>
<td>Technology</td>
<td>Providence Equity Partners</td>
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<td>M&amp;A</td>
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<td>Credit Karma</td>
<td>Technology</td>
<td>Silver Lake</td>
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<td>M&amp;A</td>
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<tr>
<td>Vivint Solar</td>
<td>Utility</td>
<td>Blackstone</td>
<td>6.9</td>
<td>M&amp;A</td>
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<tr>
<td>Iqsa Group</td>
<td>Consumer</td>
<td>Blackstone, Goldman Sachs Capital Partners</td>
<td>6.0</td>
<td>M&amp;A</td>
</tr>
</tbody>
</table>
2. Infrastructure
Executive summary

- Infrastructure funds have raised US$99b over the last 12 months, down 16% from the US$117b raised in 2019.
- However, infrastructure investors are sitting on record levels of dry powder, with US$231b of capital available for deployment. The bulk of this is focused on the US and Europe.
- Close to 70% of the capital deployed by PE firms in the infrastructure space was allocated to secondary stage projects, followed by greenfield opportunities.
- More than one-third of PE deal activity in the infrastructure space during 2020 occurred in Europe. The region witnessed a slight decline of 6% in investments received from PE firms during 2020 compared with 2019.

Current state

- Infrastructure fundraising dipped by 16% in 2020, to US$99b when compared with the same period last year. The number of funds closed decreased from 138 in 2019 to 104 in 2020.
- Despite the slowdown in the pace of fundraising, infrastructure dry powder has continued to pile up significantly in the last few years, with US$231b of capital as of December 2020 compared with just US$146b in December 2016, according to Preqin figures.
- On the deployment front, both deal value and volume dipped 42% and 15%, respectively, in 2020 compared with last year. Europe received 36% of the aggregate PE investments in 2020, the highest among all regions.

Top infrastructure funds raised 2020
Source: Preqin

<table>
<thead>
<tr>
<th>Fund</th>
<th>Target (US$b)</th>
<th>Commitments (US$b)</th>
<th>Type</th>
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</thead>
<tbody>
<tr>
<td>Brookfield Infrastructure Fund IV</td>
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<td>20.0</td>
<td>Brownfield, greenfield</td>
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<tr>
<td>Antin Infrastructure Partners IV</td>
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<td>7.7</td>
<td>Brownfield</td>
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<tr>
<td>Blackrock Global Energy &amp; Power Infrastructure Fund III</td>
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<td>5.1</td>
<td>Brownfield, greenfield</td>
</tr>
<tr>
<td>Strategic Partners Infrastructure III</td>
<td></td>
<td>3.8</td>
<td>Brownfield, secondary</td>
</tr>
<tr>
<td>DIF Infrastructure VI</td>
<td>2.8</td>
<td>3.5</td>
<td>Brownfield, greenfield and secondary</td>
</tr>
</tbody>
</table>

Environment and horizon

- North America became more attractive for investors than it was a year ago: Preqin’s recent survey results suggested North America has become more attractive for investors than it was a year ago. Over 40% of investors expect to target the region in the next 12 months, compared with 30% during the same time last year.
- Europe remains key, with 55% of investors intending to invest in the region.
- Notably, over 42% of investors prefer global infrastructure allocations now compared with 56% last year, indicating investors’ retreat to familiar markets.
- Private capital to fill a gap created by potential decline in state funding for infrastructure projects: As a fallout of COVID-19, the public debt of significant economies skyrocketed as governments had to come up with fiscal stimulus packages of unprecedented sizes. Due to the reallocation of budgets and economic recovery still underway, analysts expect that private capital will play a crucial role in funding new and in-progress large-scale infrastructural development programs.
2. Infrastructure

Infrastructure fundraising by year (US$b)
Source: Preqin; includes closed and liquidated funds

Infrastructure dry powder by region (US$b)
Source: Preqin

Infrastructure deals by year (US$b)
Source: Preqin

Note: Only completed deals were considered.
3. Private credit
3. Private credit

Executive summary

- Private credit witnessed a measure of softening in fundraising in 2020; the asset class raised US$118b of capital across 201 funds, down 11% vs. last year. Almost half of the funds raised in 2020 committed to direct lending.
- Mezzanine strategies witnessed a sharp upswing of 200% to US$26b, while direct lending raised US$54b, a 29% decline from 2019.
- More than half of the funds raised in 2020 aim to pursue opportunities in the US, followed by Europe (28%).
- The outlook for fundraising remains strong, with 521 funds currently seeking an aggregate of US$278b in fresh capital.

Current state

In line with the broader fundraising environment for private capital, credit vehicles saw a slowdown in capital raised in 2020. Nevertheless, the future seems promising, with firms raising a record level of capital for the asset class.

- Credit fund managers closed 201 debt funds in 2020 with aggregate commitments of US$118b, down 11% from last year.
- Within private credit, direct lending continued to be the dominant strategy for capital raising. With more than US$54b of capital commitments received in 2020, direct lending contributed 46% to the aggregate funds raised during the year.
- Mezzanine strategies witnessed an increase of 200% in aggregate capital raised in 2020; funds closed on US$26b of commitments across 36 funds.
- Notably, in line with preceding years, dry powder continued its upward movement in 2020; value was recorded at US$321b by December 2020 compared with US$272b during the same time last year.

Environment and horizon

- Private debt markets are expected to continue to thrive; AUM may reach US$1.5t by 2025: Preqin’s recent study found 58% of the surveyed private fund managers to be upping their allocation to private debt by 2025. Of the surveyed debt fund managers, 49% said they expect lending terms to improve over the next five years, and over 62% expected private credit to be playing a much more significant role over banks as the critical lenders during this period.
- Illiquidity premium to boost return for mid-market opportunities: Pitchbook data suggests the current illiquidity premium for middle-market loans to be at 2.3%, higher than the long-term average of 1.8%. Experts consider higher illiquidity premiums amid low interest rates and tighter spreads to be driving income from mid-market loans upward.
- 2020 saw a wave of COVID-19-induced opportunistic funds: Distressed debt and special-situation funds gained interest from investors looking to leverage the dislocation that the pandemic caused to many businesses. Although many bankruptcies and loan default opportunities didn’t arise due to flexibility offered by current lenders and the availability of cheaper financing, fund managers see new opportunities to be emerging due to the current repricing phase.
- Distressed fundraising slipped in 2020 from the previous year; however, the largest debt fund ever – Oaktree Opportunities Fund XI (US$15b) – is still in the market, which may increase totals.
3. Private credit

Private credit dry powder over time (US$b)
Source: Preqin

Private credit fundraising by year (US$b)
Source: Preqin; includes closed and liquidated funds

Mezzanine fundraising by year (US$b)
Source: Preqin

Top private debt funds raised in 2020
Source: Preqin

<table>
<thead>
<tr>
<th>Fund name</th>
<th>Type</th>
<th>Location focus</th>
<th>Target size (US$b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HPS Mezzanine Partners 2019</td>
<td>Mezzanine</td>
<td>US</td>
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<tr>
<td>Clearlake Capital Partners VI</td>
<td>Special Situations</td>
<td>US</td>
<td>7.0</td>
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<tr>
<td>GSO European Senior Debt Fund II</td>
<td>Direct Lending</td>
<td>Europe</td>
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<tr>
<td>Permira Credit Solutions Fund IV</td>
<td>Direct Lending</td>
<td>Europe</td>
<td>3.7</td>
</tr>
<tr>
<td>Ares Special Opportunities Fund</td>
<td>Special Situations</td>
<td>US</td>
<td>3.5</td>
</tr>
</tbody>
</table>
4. **2021 outlook**
Four years ago, one of the top business schools in the US was holding its annual private equity conference. At one point, one of the speakers, a senior executive at one of the largest PE funds in the world, asked the audience a question: “How many of you expect that we’ll see a recession within the next 6 to 12 months?” Give or take, 80% to 90% of the audience raised their hands.

It seemed, at the time, a safe assumption. Equities were consistently setting record highs despite one of the longest bull runs in history, and M&A valuations were nearing and, in some cases, exceeding what was seen in the 2008 financial crisis. Of course, things played out much differently. Markets continued to soldier on with barely the whisper of a downturn.

We point this out for the purpose of noting that PE firms had been mindful of the potential for a recession for a number of years. While there was certainly no foreknowledge of the trigger or of the dramatic impact that a pandemic-induced supply/demand/liquidity shock would have – firms had been prepping for something for a number of years.

Which makes perhaps the degree to which many firms have survived and indeed, in some cases, thrived during the recession no surprise.

As 2021 dawns, there exists a great deal of optimism. As vaccines begin to roll out across the world, many consumer-facing businesses, for example, are looking forward to supplying a year’s worth of pent-up demand. At the same time, significant uncertainty remains about what the “final” wave of the pandemic might look like in the early months of the year. With that in mind, we put forth a few predictions based on our read of current dynamics, with the caveat that we remain in uncharted waters.

"PE will look to supercharge growth with the deep benches of operational expertise they’ve built over the last decade." 
Andres Saenz, EY Global Private Equity Leader
The tech train keeps rolling

- What's been interesting about the recovery in the second half of 2020 is the degree to which it's been led by investments in the tech space. While PE investment in tech has been a powerful theme for a number of years – representing anywhere from one-quarter to one-third of PE investment activity – the pandemic has accelerated interest in the space. In the second half of this year, PE investment in tech companies represented roughly 40% of total deal value.

- 2021 should see a continuation of the trend, as firms invest at both ends of the size spectrum. At the larger end of the scale, they'll continue to seek out opportunities in the SaaS and enterprise software spaces, often with more mature companies that value the opportunity to effect large-scale transformation away from the quarterly pressures of the public markets. At the smaller end of the scale, they'll continue to invest in high-growth companies in emerging verticals such as FinTech, HealthTech and mobile.

- And across companies of all sizes, they'll invest in those companies that are poised to benefit from the long-term behavioral changes we're likely to see as a result of the pandemic. It is perhaps telling that one of the first large deals in Asia that occurred as the lockdowns there were lifted was an investment in the online education space.

Paying up for growth

- One of the defining characteristics of the post-2008 global financial crisis period has been the steady march of high valuations. In a world that remains awash in liquidity, firms can continue to expect to pay substantial premiums for platform acquisitions. Indeed, according to S&P Leveraged Commentary and Data, LBO purchase multiples hit an all-time high in 2019, at 11.5 times EBITDA. Perhaps more significantly, 2020 saw little respite despite the uncertainty posed by the pandemic. While the number of deals was markedly lower, deals that did go through traded an average of 11.0x EBITDA.

- We expect the trend to continue in 2021, and that PE firms will take a number of steps to mitigate their expensive investments. They'll continue to look toward buy-and-build strategies in order to average down multiples when the thesis allows it. Most importantly, they'll maintain their rotation into growth-oriented businesses, and look to supercharge that growth with the deep benches of operational expertise they've built over the last decade.

The year of ESG

- It's clear that the direction of travel for global commerce has been toward greater awareness of the environmental and social implications of economic activity, and PE has been no exception. The last several years have seen firms begin to report on their ESG initiatives in earnest.

- However, questions have remained. A focus on ESG is easy when times are good, but do companies still care when times get tough? Or do they revert to a singular focus on the bottom line?

- What 2020 showed us was strong bottom-line accountability can indeed coexist with attention to a business's broader responsibilities around the human, consumer and social impacts that it has. PE firms ushered their portfolio companies through one of the worst crises in modern times. Concurrently, many of them made significant advancements with their ESG agendas, developing new protocols and elevating the role of the Sustainability Officer. 2021 will undoubtedly see firms continue these advancements. For some, it will mean embedding the foundational elements of ESG into the investment management and portfolio oversight process in order to manage risks and capitalize on opportunities. For others, it will involve comprehensive frameworks that cover the entire PE enterprise, wherein a broad range of externalities is identified, tracked, measured and reported to a firm's key stakeholders.

With more than US$750b in dry powder currently available to buyout funds, greater economic certainty, and strong tailwinds from the leveraged finance markets, firms will be actively looking to deploy capital in compelling opportunities. Amid increased competition, more than ever, they'll need a compelling investment thesis and the ability to pull multiple value creation levers.
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