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 25 on any of the topics covered or any PE-related issues.

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**Contacts and contributors**
1. Private equity insights
Executive summary

- Fundraising activity remains robust despite the disruptions caused by the pandemic. While down 19% from 2019’s record levels, the US$542b committed to funds through Q3 2020 is in line with the years preceding 2019.
- The year has seen LPs place capital with their incumbent firms; average fund sizes have risen by 9% through the end of Q3 2020 versus the same period last year.
- Contrary to some speculation at the onset of the COVID-19 pandemic, an Eaton Partners survey indicates LPs are largely unaffected by liquidity issues. Their private capital market asset allocation strategy remains unaltered; secondaries are becoming an expansive liquidity solution for potential sellers.

Current state

Fundraising declined from last year, but remains in line with the preceding five years.
- Commitments closed so far in 2020 declined by 19%, to US$524b. The number of funds closed fell 28% to 754.
- More than 58% of the capital raised to date in 2020 is focused on the US; notably, EMEA-focused funds went up by 17% YoY during YTD20.
- Buyout dry powder continued to grow in Q3 2020, reaching US$853b.
  - More than half of this dry powder lies with mega funds, giving them firepower to pursue large-sized deals.
  - Distressed funds have access to US$140b of undeployed capital, 15% higher from the start of the year.

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

Source: Preqin

Environment and horizon

Markets begin their return to normalcy, catalyzing demand for private capital.
- A recent LP survey by Eaton Partners found LPs’ private capital asset allocation strategies to remain intact; more than a third of respondents reported re-upping allocations to alternatives with incumbent managers. Two-thirds of LPs expressed willingness to make commitments without physical meetings. A majority of LPs believe the worst of the COVID-19 impact has passed.
- While recent studies suggest LPs and GPs are becoming increasingly comfortable with virtual due diligence and remote ways of working, there exist concerns around the impact to firms’ culture, the relevance of physical meetings and the criticality of face-to-face relationships.
- According to Preqin data, special purpose acquisition companies (SPACs) continue to thrive in 2020, with 104 vehicles being launched, raising a combined US$40b, which is already three times what was raised in all of 2019.
- Secondaries funds have seen strong demand, with fundraising more than double last year’s.
- Green Hill’s recent secondary market-focused analysis emphasised on the increasing popularity of alternative deal structures, including preferred equity and other credit-based solutions. It highlighted that buyers and sellers in this market are frequently leveraging structured liquidity solutions.
### Top funds raised in YTD20

Source: Preqin

<table>
<thead>
<tr>
<th>Fund</th>
<th>Type</th>
<th>Value (US$b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CVC Capital Partners Fund VIII</td>
<td>Buyout</td>
<td>23.9</td>
</tr>
<tr>
<td>Brookfield Infrastructure Fund IV</td>
<td>Infrastructure</td>
<td>20.0</td>
</tr>
<tr>
<td>ASF VIII</td>
<td>Secondaries</td>
<td>19.0</td>
</tr>
<tr>
<td>Silver Lake Partners VI</td>
<td>Buyout</td>
<td>18.3</td>
</tr>
<tr>
<td>EOT IX</td>
<td>Buyout</td>
<td>17.2</td>
</tr>
<tr>
<td>Lexington Capital Partners IX</td>
<td>Secondaries</td>
<td>14.0</td>
</tr>
<tr>
<td>Blackstone Real Estate Partners Europe VI</td>
<td>Real estate</td>
<td>10.6</td>
</tr>
<tr>
<td>Platinum Equity Capital Partners Fund V</td>
<td>Buyout</td>
<td>10.0</td>
</tr>
<tr>
<td>Insight Partners XI</td>
<td>Growth</td>
<td>9.5</td>
</tr>
<tr>
<td>Blackstone Real Estate Debt Strategies IV</td>
<td>Real estate</td>
<td>8.0</td>
</tr>
</tbody>
</table>

### PE fundraising by year (US$b)

Source: Preqin; includes only closed and liquidated funds

![Fundraising by year chart](chart.png)

### Fundraising by focus area (US$b)

Source: Preqin; includes only closed and liquidated funds

![Fundraising by focus area chart](chart.png)
Executive summary

- Despite a strong start to the year, deal activity is off 12% YoY in YTD20 due to mobility restrictions, worldwide lockdowns and uncertainties from the COVID-19 pandemic; volume fell 30% YoY in YTD20.
- Activity rebounded in June after lockdowns were lifted in many jurisdictions.
- Deal activity in the Americas slumped by 44% YoY in YTD20 while in EMEA it was flat; notably, APAC saw an unprecedented surge in deals (2.3x).
- Technology and telecom together comprised more than a third of deal value in YTD20; Utilities and Industrials also picked up momentum.

Current state

Though activity remained constrained through midyear, the pace of investment increased in Q3 2020.

- PE investments fell by 12% in value and 30% in volume during YTD20 when compared with YTD19; PE firms invested US$353b in YTD20 compared with US$401b in YTD19.
- The year began strongly and fell flat from mid-March 2020 until April 2020 as a result of the COVID-19 pandemic and the preventive measures taken to limit its spread. With lockdowns being lifted and international travel resuming gradually, activity is beginning to bounce back.
- Activity in Americas during YTD20 fell to almost half of that in YTD19, while in EMEA it remained flat. Notably, APAC saw an upswing of 2.3x in deals during YTD20 from YTD19.
- Technology firms received a quarter of the capital deployed in YTD20; Utilities and Industrial industries witnessed few large deals in YTD20.

2020 PE deal activity by month

Source: Dealogic

Environment and horizon

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

- Over the last decade, PE firms have built competencies, agilities and skill sets to weather economic downturns. Many firms are making a swift return to the market to pursue larger deals, leading to an increase in average deal sizes.
- A recent PE investor survey conducted by S&P Global stated that 27% of respondents are seeing steady or increasing deal activity. However, sentiment varies by region. More than 40% of APAC-focused PE investor respondents see activity to be rising on the strength of recovery in China and Eastern Asia. Less than 30% of the respondents focused on North America and Europe expect activity to remain flat or increasing in the coming months.
- The survey further revealed the majority of PE investor respondents (56%) plan on returning to the market soon in order to opportunistically take advantage of low valuations in a handful of sectors.
- ESG: One outcome of the COVID-19-led pandemic is the heightened focus on ESG factors. For many firms, ESG has moved from a “nice-to-have” to the “make-or-break” category. Investors associate higher level of ESG adoption with the capability of the firm to be resilient to potential future disruptions.
1.ii. Acquisitions

PE acquisition values and number of significant deals by year (US$b)
Source: Dealogic

<table>
<thead>
<tr>
<th>Year</th>
<th>Deal value</th>
<th>Number of deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$500</td>
<td>100</td>
</tr>
<tr>
<td>2016</td>
<td>$600</td>
<td>200</td>
</tr>
<tr>
<td>2017</td>
<td>$700</td>
<td>300</td>
</tr>
<tr>
<td>2018</td>
<td>$800</td>
<td>400</td>
</tr>
<tr>
<td>2019</td>
<td>$900</td>
<td>500</td>
</tr>
<tr>
<td>YTD19</td>
<td>$1,000</td>
<td>600</td>
</tr>
<tr>
<td>YTD20</td>
<td>$1,100</td>
<td>700</td>
</tr>
</tbody>
</table>

PE deal activity by region and YTD – deal value (US$b)
Source: Dealogic

<table>
<thead>
<tr>
<th>Region</th>
<th>Value (US$b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>$120</td>
</tr>
<tr>
<td>EMEA</td>
<td>$90</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>$30</td>
</tr>
</tbody>
</table>

Top deals YTD20
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 &amp; Gas Pipeline Network Corp. (minority)</td>
<td>Utilities</td>
<td>China Investment Corp.</td>
<td>$34.9</td>
</tr>
<tr>
<td>ThyssenKrupp Elevator AG</td>
<td>Industrials</td>
<td>Advent International Cinven</td>
<td>$19.0</td>
</tr>
<tr>
<td>United Wholesale Mortgage LLC</td>
<td>Financial</td>
<td>Gores Group LLC</td>
<td>$16.0</td>
</tr>
<tr>
<td>ADNOC Gas Pipeline Assets LLC (minority)</td>
<td>Oil &amp; Gas</td>
<td>Brookfield Global Infrastructure Partners OTPP Private Capital</td>
<td>$10.1</td>
</tr>
<tr>
<td>Univision Communications Inc.</td>
<td>Telecom</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>
</tr>
<tr>
<td>58.com Inc.</td>
<td>Technology</td>
<td>General Atlantic KKR Warburg Pincus</td>
<td>$7.8</td>
</tr>
<tr>
<td>Iqsa Group Ltd.</td>
<td>Consumer</td>
<td>Blackstone Goldman Sachs</td>
<td>$6.0</td>
</tr>
<tr>
<td>51job, Inc.</td>
<td>Technology</td>
<td>DCP Capital Partners</td>
<td>$5.3</td>
</tr>
<tr>
<td>DXC Technology Co. (state and local HHS business)</td>
<td>Technology</td>
<td>Veritas Capital</td>
<td>$5.0</td>
</tr>
<tr>
<td>Veeam Software Group GmbH</td>
<td>Technology</td>
<td>Insight Venture Partners</td>
<td>$5.0</td>
</tr>
</tbody>
</table>
1.ii. Acquisitions

PE deal activity by sector and YoY change (YTD20 vs. YTD19)
Source: Dealogic

<table>
<thead>
<tr>
<th>Sector</th>
<th>YoY Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financials</td>
<td>35%</td>
</tr>
<tr>
<td>Telecom</td>
<td>30%</td>
</tr>
<tr>
<td>Materials</td>
<td>21%</td>
</tr>
<tr>
<td>Technology</td>
<td>21%</td>
</tr>
<tr>
<td>Industrials</td>
<td>-28%</td>
</tr>
<tr>
<td>Health care</td>
<td>-33%</td>
</tr>
<tr>
<td>Consumer goods</td>
<td>-46%</td>
</tr>
<tr>
<td>Consumer services</td>
<td>-57%</td>
</tr>
<tr>
<td>Oil and gas</td>
<td>-67%</td>
</tr>
<tr>
<td>Real estate</td>
<td>-68%</td>
</tr>
<tr>
<td>Retail</td>
<td>89%</td>
</tr>
<tr>
<td>Utilities (incl. energy)</td>
<td>83%</td>
</tr>
</tbody>
</table>

PE deal activity YTD20 by sector (% of aggregate deal value)
Source: Dealogic

Financials: 12%
Technology: 22%
Utilities (incl. energy): 14%
Financials: 12%
Real estate: 4%
Oil and gas: 4%
Consumer goods: 6%
Health care: 4%
Materials: 6%
Industrials: 10%
Telecom: 11%
1.iii. Exits

Executive summary
- Overall, PE exits fell 17% YoY in YTD20 versus YTD19, due largely to the shutdown of many markets, difficulty in due diligence and concerns related to pricing. All regions saw exit activity declining with APAC witnessing the steepest fall (59%).
- Breaking down the M&A exits further revealed secondary deals to be outperforming sales to strategic firms; secondary deals grew 10% in YTD20 versus a 28% decline in trade sales.
- Notably, IPO deals returned in earnest in September, when many lockdowns were withdrawn; activity grew 27% YoY during YTD20.

Current state
A decline in M&A exits caused overall activity to fall by 17% YTD versus last year.
- PE exit activity fell 17% YoY to US$281b in YTD20; volume dipped by 31% in YTD20 to 662 deals.
- Sales to strategics declined 28% YoY to US$176b. Notably, secondary deals went up by 10%, to US$72b in YTD20. Trade sales comprised more than 28% of the total activity in YTD20.
- IPO exits grew markedly as soon as lockdowns ended, and have seen a 27% YoY growth in YTD20.
- PE exits in APAC fell sharply by 59% to US$16b in YTD20. Americas (down 11%) and EMEA (down 10%) also saw lower activity in YTD20, reported at US$179b and US$86b respectively.

Environment and horizon
With valuations stabilizing, analysts expect exits to continue rising over the mid-term.
- In a recent survey by Preqin, 74% of PE investor respondents expressed concerns over the exit environment (versus 38% last year). More than 82% of PE investor respondents said return generation in the next 12 months will be a key challenge. However, the recent increase in IPO activity and record level of secondary-focused dry powder may boost PE exits over the next few quarters.
- The EY Global Divestment Study 2020 found that sellers have moved away from an opportunistic approach to exits, and are preparing much earlier. Other key findings from the EY survey:
  - More than 80% of respondents said that consistently applying data-driven analytics in decision-making is a top portfolio review challenge.
  - More than 60% of respondents say they are capturing operational efficiencies around technology in their portfolio companies.
  - PE firms are using analytics to understand the timing of the exit decision, conduct pore-sale preparations and perform seller due diligence for potential buyers.

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

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![Chart showing PE exit activity by region (US$b) for Americas, EMEA, and Asia-Pacific for YTD19 and YTD20.](chart-image-url)
1.iii. Exits

**PE M&A exits by year (US$b)**
Source: Dealogic

<table>
<thead>
<tr>
<th>Year</th>
<th>Exit value - sale to strategics</th>
<th>Exit value - secondary</th>
<th>Number of exits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>500</td>
<td>2,000</td>
<td>0</td>
</tr>
<tr>
<td>2017</td>
<td>450</td>
<td>1,500</td>
<td>5</td>
</tr>
<tr>
<td>2018</td>
<td>400</td>
<td>1,000</td>
<td>10</td>
</tr>
<tr>
<td>2019</td>
<td>350</td>
<td>500</td>
<td>15</td>
</tr>
<tr>
<td>YTD19</td>
<td>300</td>
<td>400</td>
<td>20</td>
</tr>
<tr>
<td>YTD20</td>
<td>250</td>
<td>300</td>
<td>25</td>
</tr>
</tbody>
</table>

**2020 PE-backed IPOs by month (US$b)**
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>
</thead>
<tbody>
<tr>
<td>Ellie Mae Inc.</td>
<td>Technology</td>
<td>Thoma Bravo</td>
<td>11.0</td>
<td>M&amp;A</td>
</tr>
<tr>
<td>MultiPlan Inc.</td>
<td>Technology</td>
<td>Hellman &amp; Friedman</td>
<td>11.0</td>
<td>M&amp;A</td>
</tr>
<tr>
<td>Univision Communications Inc.</td>
<td>Telecom</td>
<td>Madison Dearborn Partners</td>
<td>8.3</td>
<td>M&amp;A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Providence Equity Partners</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Saban Capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Searchlight Capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Thomas H Lee Partners</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>TPG Capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bombardier Transportation GmbH</td>
<td>Industrials</td>
<td>CDPQ</td>
<td>8.0</td>
<td>M&amp;A</td>
</tr>
<tr>
<td>ZeniMax Media Inc.</td>
<td>Technology</td>
<td>Providence Equity Partners</td>
<td>7.5</td>
<td>M&amp;A</td>
</tr>
<tr>
<td>Credit Karma Inc.</td>
<td>Technology</td>
<td>Silver Lake</td>
<td>7.1</td>
<td>M&amp;A</td>
</tr>
<tr>
<td>CPA Global Ltd.</td>
<td>Technology</td>
<td>Leonard Green &amp; Partners</td>
<td>7.0</td>
<td>M&amp;A</td>
</tr>
<tr>
<td>Iqsa Group Ltd.</td>
<td>Consumer</td>
<td>Blackstone</td>
<td>6.0</td>
<td>M&amp;A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Goldman Sachs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opendoor Labs Inc.</td>
<td>Technology</td>
<td>General Atlantic</td>
<td>5.8</td>
<td>M&amp;A</td>
</tr>
<tr>
<td>WPX Energy Inc.</td>
<td>Oil and gas</td>
<td>EnCap Investments</td>
<td>5.8</td>
<td>M&amp;A</td>
</tr>
</tbody>
</table>
### 1.iii. Exits

#### EY Global Divestment Study 2020 (GDS) results

**Which of the below do you consider a challenge associated with your portfolio reviews?**

Source: EY GDS 2020 and 2019 survey results

<table>
<thead>
<tr>
<th>Challenge</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consistently applying data-driven analytics to drive decision-making</td>
<td>80%</td>
<td>80%</td>
</tr>
<tr>
<td>Understanding how technology impacts the value of our portfolio company</td>
<td>73%</td>
<td>81%</td>
</tr>
<tr>
<td>Making the portfolio review process a truly strategic imperative</td>
<td>67%</td>
<td>78%</td>
</tr>
<tr>
<td>Identifying the right team to drive the process (i.e., the right set of skills from a business, technical and analytics perspective)</td>
<td>65%</td>
<td>66%</td>
</tr>
<tr>
<td>Overcoming emotional attachments to assets/conflicts of interest</td>
<td>59%</td>
<td>63%</td>
</tr>
<tr>
<td>Better communication between board/strategy team and M&amp;A team</td>
<td>47%</td>
<td>49%</td>
</tr>
</tbody>
</table>

#### In your last major exit, in which of the following areas did you leverage analytics?

Source: EY GDS 2020 survey results

- **Making the exit decision (e.g., understand the true value and whether to exit)**
  - 74%
  - 18%

- **Pre-sale preparation (e.g., identify potential issues and obtain sufficient data to validate key investment metrics required by potential buyers)**
  - 72%
  - 29%

- **During diligence (e.g., look at profitability, performance and trends across segments)**
  - 71%
  - 35%

- **During buyer negotiations (e.g., stress test data with a buyer’s perspective)**
  - 49%
  - 16%

- **Post close (e.g., measure value captured)**
  - 23%
  - 2%
EY Global Divestment Study 2020 (GDS) results (continued)

Of companies you invest in, have you been able to capture operational efficiencies around technology?
Source: EY GDS 2020 survey results

61%

Where you did not leverage analytics, in which area do you wish you had leveraged analytics the most?
Source: EY GDS 2020 survey results

- During buyer negotiations (e.g., stress test data with a buyer’s perspective) 34%
- Post close (e.g., measure value capture) 33%
- During diligence (e.g., look at profitability, performance and trends across segments) 15%
- Pre-sale preparation (e.g., identify potential issues and obtain sufficient data to validate key investment metrics required by potential buyers) 15%
- Making the exit decision (e.g., understand the true value and whether to exit) 3%

The EY Global Divestment Study is an annual survey of C-level executives from large companies around the world, conducted by Thought Leadership Consulting, a Euromoney Institutional Investor company. EY conducts a separate survey among 100 private equity (PE) executives, providing their perspectives related to exit strategy, preparation and execution. Results are based on an online survey of 104 global PE executives conducted between November 2019 and January 2020. Executives are from firms across the Americas (40%), EMEIA (31%) and Asia-Pacific (29%). Published are survey results we believe address longer-term secular trends in the industry, and which are less likely to be impacted by the current pandemic.
2. Infrastructure
Executive summary

- Infrastructure fundraising activity remained strong through the end of Q3 2020, with firms raising 13% more capital than last year.
- US-focused funds comprised 58% of the total capital during YTD20, followed by Europe (31%).
- More than 63% of the capital raised in YTD20 is targeting diversified sectors; however, roughly 30% of funds is aimed to invest in energy, including renewables.
- Digital infrastructure assets, along with renewables, are expected to see significant interest from investors over the short to medium term.

Current state

- Infrastructure funds recorded US$76b in commitments across 73 funds in YTD20 compared with US$67b through 89 funds during YTD19.
- Firms invested US$249b in YTD20 across 1,615 deals versus US$350b through 1,908 deals in YTD19. Notably, 66% of the capital deployed in YTD20 targeted secondary stage projects.
- Firms have a collective US$215b in capital available for deals, 3% lower from December 2019; the majority of this capital is targeting opportunities in Americas (45%) and Europe (38%).

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>
</tr>
</thead>
<tbody>
<tr>
<td>Brookfield Infrastructure Fund IV</td>
<td>20.0</td>
<td>20.0</td>
<td>Brownfield, Greenfield</td>
</tr>
<tr>
<td>Antin Infrastructure Partners IV</td>
<td>6.3</td>
<td>7.7</td>
<td>Brownfield</td>
</tr>
<tr>
<td>Blackrock Global Energy &amp; Power Infrastructure Fund III</td>
<td>3.5</td>
<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 Stage</td>
</tr>
<tr>
<td>ArcLight Energy Partners Fund VII</td>
<td>6.0</td>
<td>3.4</td>
<td>Brownfield, Greenfield and Secondary Stage</td>
</tr>
</tbody>
</table>

Environment and horizon

The pandemic may lead to a strategic evolution in public policy skewed toward “resilience.”

- For some investors, the pandemic has brought about a renewed focus on diversified infrastructure portfolios. Infrastructure portfolios containing assets from a diverse range of sectors and geographies provides additional resiliency. Core assets such as utilities, social infrastructure and digital infrastructure have seen reduced impacts from the pandemic, while other sectors such as transportation have suffered due to lockdown measures.
- Nevertheless, high-quality transportation assets have demonstrated that when structured well they can resist significant drops in traffic; while the pandemic has raised concerns surrounding long-term traffic trends for some assets (notably airports) sectors such as local mobility (car parking concessions, highways, tramways) appear to be picking up pace gradually.
- Increased investor demand for infrastructure debt strategy: investors are eyeing an increasing appetite for higher yielding debt, as well as growing opportunity in emerging markets. This is primarily driven by notably resilient cashflows in an uncertain environment and pricing premium to corporate bonds.
- In addition to illiquidity and complexity premium in infrastructure debt, it is also possible to generate a country risk premium in many emerging markets.
2. Infrastructure

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

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

Infrastructure deals by year (US$bn)
Source: Preqin
3. Private credit
3. Private credit

Executive summary
- Private debt fundraising, in line with other asset classes, was impacted by the pandemic. Activity dipped by 14% y-o-y in YTD20 versus YTD19. There were 11% fewer funds closed in YTD20 in comparison with YTD19.
- With nearly US$319b in dry powder available for new investments, private credit firms are advantageously positioned to provide capital to promising businesses experiencing a liquidity crunch; However, due diligence and debt pricing continues to be a challenge.
- Notably, fundraising for special situation funds grew strongly during YTD20, comprising almost one-quarter of the capital raised.

Current state
- Fundraising for private credit fell 14% YoY in YTD20 to reach US$68b. The number of funds fell dramatically, from 132 in YTD19 to 118 in YTD20.
- Currently, more than 500 private credit funds are at various stages of the fundraising process, targeting US$286b. Of these, 50% are direct lending funds.
- With nearly US$307b in dry powder available for new investments, and nearly US$848b in aggregate assets under management, private credit firms are well-positioned to respond to increased demand for capital, particularly from small and medium enterprises.

Environment and horizon
- Responding to a recent survey conducted by IQ-EQ and IFI Global, 95% of investor and fund manager respondents agreed that the private debt market will continue to grow over the midterm future. The survey also indicated that distressed debt is expected to be the best performing private debt strategy over the next three years, followed by opportunities in special situations.
- There is a shift from fixed-charge covenants to minimum liquidity covenants. Private debt managers have begun temporarily installing minimum liquidity requirements to replace leverage tests, typically for the period of six to nine months, in instances where borrowers break covenants.
- Investor interest in the Asian private debt market is rising, bringing with it more capital targeting the region.
- North America and Europe still represent a significant majority of aggregate deal value globally each year.
- In fact, in 2019 both regions accounted for around 97% of the total value transacted, while Asia made up only 3% - despite the latter holding 7.5% of global private debt AUM the same year, as per the data sourced from Preqin. The figures reveal a notable gap for Asia to catch up with the more established private credit markets.
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

Special situation fundraising by year (US$b)
Source: Preqin

Top private debt funds raised in YTD20
Source: Preqin

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4. Perspectives
How private equity can define a business strategy for a digital world

By Glenn Engler, EY-Parthenon Global Digital Leader; EY Americas Strategy & Transactions Digital Leader
Richard Bulkley, EY-Parthenon Partner, Transaction Strategy and Execution

“Digital” today is about driving enhanced experiences for customers and stakeholders, whether it’s an end consumer, business customer, employee, business partner or investor. It is about modernizing business and incorporating new ways of thinking in addition to understanding the technologies that underlie these enhanced customer experiences.

Digital technologies and strategies lend significant advantages to an organization’s supply chain, commerce, tax, talent and corporate functions, yet private equity (PE) firms still grapple with what “digital” even means. For some, it’s about using intelligent automation and robotic process automation (RPA) to streamline and drive efficiency, while for others it’s strengthening cybersecurity, driving marketing and sales activities or improving end customer experiences.

Consumers of all generations and geographies have come to expect fast, intuitive digital experiences, not only from e-commerce retailers, but from insurance companies, health care providers and financial services. As a result, an exceptional customer experience is now a mandate for every organization, regardless of its technological capabilities, industry or target customer base.

Although some changes are more likely to stick than others, this current period of profound upheaval means that businesses are under pressure to make digital a top priority. Activating that transformation — while already important before the pandemic — has now become a core component of the value creation agenda. The time has come for PE to embed a digital strategy throughout the deal cycle — from origination and due diligence, right through value creation and exit — as well as within the infrastructure of the firm itself.

Today, an organization’s digital agenda should be owned by the CEO. The pandemic has exposed organizations that lack strong digital capabilities, relegating them to the sidelines as their savvier competitors’ foresight delivers measurable business benefits and attractive returns for investors.

This article examines three areas where digital can help PE drive transformative growth:

1. Upstream: helping general partners (GPs) originate deals, identify targets ripe for growth and digital adoption, and carry out due diligence pre-investment.
2. Midstream: helping PE funds be better connected to their portfolio companies and operate more effectively.
3. Downstream: helping GPs and portfolio company C-suites create value.

“We have gone through five years of digital transformation in five months.”

Glenn Engler
Creating value in the portfolio

Unlocking value through digital must be a top priority for portfolio company CEOs.

An effective, scalable transformative agenda must align across the entire portfolio, encompass both traditional and digital levers and needs an integrated execution plan. From product and operating model digitalization, to software as a service (SaaS) and cybersecurity, a range of solutions can drive innovation and improve customer experience.

GPs and portfolio company CEOs are primarily focused on value creation, for example:

- One of the fastest growing trends is creating “digital twins,” a scenario planning exercise in which an organization maps out its supply chain in a digital environment. This exercise enables investors to quickly analyze inefficiencies and their impact downstream.

- GPs and CEOs are also showing interest in RPA and intelligent automation to drive efficiency improvements in the back office. Automation can streamline labor-intensive activities within departments such as tax, finance, HR and others that are resource heavy. Machine learning and RPA can drive faster, cheaper, more efficient and higher quality results – and are unsurprisingly attractive to GPs who want to see ROI quickly.

- With increased digitization comes increased exposure to risk, and cybersecurity has become a prominent concern especially with the shift to remote working environments. With businesses operating from employees’ homes, the risks of these environments need to be considered. For example, with acute pressure on hospitals during the pandemic, uptake of telehealth services sharply increased. Here, a secure data environment is paramount to ensure medical records remain private and customers remain confident in a service they may be trying for the first time.

Improving digital readiness

The better PE firms understand a company’s digital readiness, the greater their ability to understand their competitive positioning.

GPs should be using smarter technologies to boost the breadth of their understanding around a company’s digital maturity and readiness. This can occur upstream in origination and due diligence, in which an asset’s strengths and weaknesses are evaluated through a digital “lens.” PE firms have increasingly come to appreciate that the right technologies can provide more ways to probe the quality of a potential acquisition whose competitive positioning is increasingly influenced both directly and peripherally by the digital landscape.

For tech-based organizations that may not have any traditional profit or revenue and forecast estimates, digital readiness is usually not an issue. In such instances, diligence can uncover the underlying structure, product development and R&D road map of a company, as well as answer questions around talent – particularly important if investors view an organization as a talent-based opportunity. This can also generate questions around intellectual property and patents.

Predictive analytics can help PE firms to use data more effectively, removing some of the human inconsistencies of a manual methodology. By using machine learning to create a scoring algorithm for potential deals, GPs can more accurately quantify the technological maturity of each opportunity and reduce some of the manual effort associated with managing “shadow portfolios” of potentially transactable assets.

In addition, a more robust digital readiness assessment (DRA) post-investment empowers portfolio company executives to benchmark a company’s maturity in areas such as supply chain, marketing, talent and risk. This broad survey-based assessment benchmarks seven focus areas against a peer group, provides comparative insights from across the portfolio and identifies priority areas of focus. Such an analysis can build organizational alignment around digital and identify the appropriate talent mix that can execute the digital strategy.
Putting digital strategy at the core of the fund

PE firms can benefit from dedicated digital leaders to drive the transformation agenda.

With pricing multiples at historically high levels, the PE value creation agenda has become a more important driver of EBITDA and overall deal exit returns. Digital is increasingly seen as a value creation lever that must be integrated throughout the deal life cycle: key steps to achieving this include:

• Considering both the tactical and strategic benefits of transformation
• Understanding the tax implications (e.g., R&D credits)
• Understanding the valuation benefits of an asset becoming more digitalized and therefore easier to scale
• Closing the gaps that are identified during a readiness assessment

Because of its importance, the biggest PE firms now have dedicated leaders whose sole remit is to drive their firm’s digital agenda by leveraging their own rich expertise or, if needed, the additional expertise of an external partner. Their role has become even more important – and is likely to stay central to future strategy development and execution.

Funds should not overlook their own ways of working. Like many others, PE firms have shifted to video conferencing, and in an industry that traditionally values face-to-face contact, this has been a significant adjustment. While video conferencing has been embraced, for some a continued challenge is “scheduling the informal.” After all, sometimes what is said over coffee is as important as what is said in the boardroom.

So, is PE going back to “business as usual” or is there a better way?

It is now abundantly clear that the organizations most caught off-guard by the pandemic are the ones that had not made digital a priority. Moving forward, PE firms must learn from their mistakes and embed digital into every asset and deal life cycle – as well as into their own businesses.

“

The informal conversations are irreplaceable. This is what PE is missing. You have to schedule the informal to sustain relationships.

Andres Saenz, Global Private Equity Leader, Ernst & Young, LLP
What an accelerating value creation agenda means for private equity

By Susanne Vanner, EY-Parthenon Partner, Transaction Strategy and Execution, Ernst & Young LLP

PE firms have always been change agents, but the experiences of 2020 have strapped a rocket to the value creation imperative. Business decisions that used to take months, now take days. Strategic ideas that seemed too disruptive are now firmly on the table.

At an esteemed panel of value creation specialists from leading private equity firms at the 2020 European Private Equity International (PEI) Operating Partners Forum, there was widespread agreement that the COVID-19 pandemic has permanently changed the value creation imperative. A summary of key takeaways from the Forum includes:

- The pandemic has pushed businesses into “forced experimentation,” particularly in areas such as automating routine tasks to drive efficiency and streamlining reporting to enable smarter data analysis.
- COVID-19 has opened eyes, ears and wallets to address things that were previously considered too experimental, sensitive or tricky to tackle.
- In some sectors, it has also prompted a hard look at operating models by shortening what were previously lengthy discussions around digital.
- PE leaders are now more willing to self-disrupt in order to change legacy business or investment practices, regardless of the potential to “rock the boat.”

The digital opportunity

The pandemic has also raised the stakes on the potential for digital value creation. The digitizing of customer journeys transforms what companies can do with data, and can be tangibly accretive to the equity value story. Much value can be captured from the creation of data assets that flow naturally from the rapid digitization of the customer journey. Smart digitization doesn’t merely transfer existing processes online; it uses the opportunity to fundamentally reconsider the customer experience from first principles, so that businesses can observe and understand customer behaviors in a way that was previously unimaginable.
We also face a watershed moment for business’s use of data analytics. Despite much hype over the years around “big data” and artificial intelligence (AI), many investors failed to achieve a core set of KPIs that would drive measurable efficiency gains. The pandemic has forced investors and businesses to focus on metrics that really matter. Such focus was always a prerequisite for effective reporting and data analytics, and now we have it.

It’s a similar story with robotic process automation (RPA). Early adopters in RPA were often underwhelmed by its ROI and ability to deliver value. The mistake was to treat the innovation like an outsourcing exercise, whereas RPA takes a lot more thought to apply properly, but when you do, the benefits are exponentially greater. Thanks to the enforced experimentation of the pandemic, there is a growing understanding of the need to look at processes first and manage exceptions in a holistic way that is integrated with the wider business purpose. The pandemic has demonstrated that, done correctly, automation provides vital flexibility and scaling capacity when availability of certain resources becomes constrained.

Process and culture

In addition, there are more prosaic challenges such as how to develop the management skills and capabilities to manage large remote workforces and how to systematize the working day when it is so diffuse. There are also challenges concerning how to make resilience a part of the culture of businesses and the investment process, not just for this pandemic, but for an interconnected global economy that faces more barriers and contains more fragility than perhaps had been previously recognized.

Finally, the value driver that appears to have nothing but upside is purpose.

Times of crisis expose the economic value of trust. If a company’s pronouncements and actions don’t align, its workforce and its customer base will sense this. All stakeholders must hear and see the consistency of your purpose. What was once perceived as a superfluous exercise is rapidly becoming the very element that will define successful corporate leadership.

Amid a turbulent year, it remains clear that operating partners stand boldly at the forefront. For those at the cutting edge of value creation, their foresight has enabled them to edge their businesses even further forward.
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