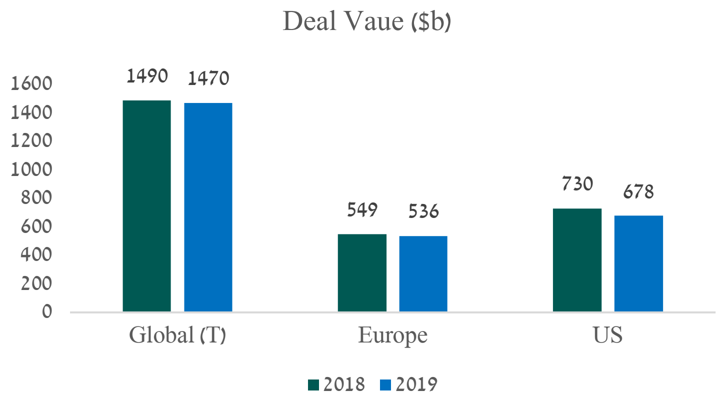
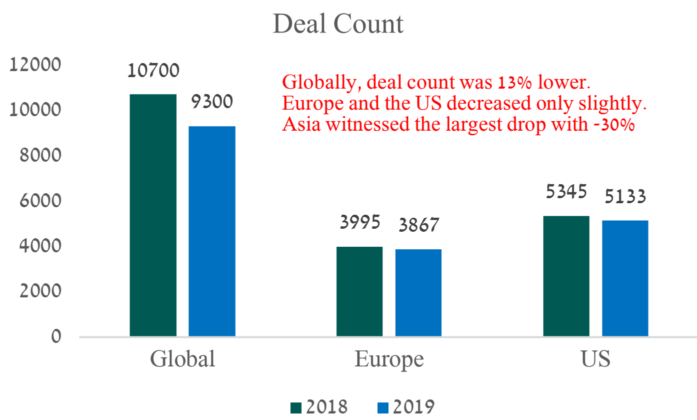
1. Global PE 2019

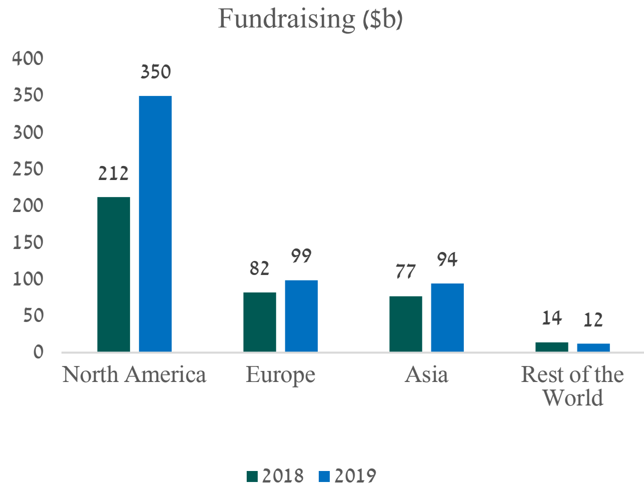
Deals' highlights for 2019 can be summarized as follows: ***75%** of deals had a **debt multiple of 6x EBITDA** or more, **30%** of deals **were $500m or less** and **EV/EBITDA** multiples were at record high, averaging **11.5x in the US and 10.9x in Europe.***



Between 2013-2018, global deal volume had grown 12% annually but dropped for the first time by 1.3% in 2019. Europe deal count decreased slightly but remained well ahead of the 5 years mean of 1,945 deals. European buyouts soared by 26%.



Exit values however, were lower globally registering $405b, and volumes were the lowest since 2012, with a count of 1,078 exits. Europe saw aggregate exit value falling by 13.3% to €121b, the lowest value since 2013. Exits to strategic buyers were 2/3 of buyout exit value and IPOs were at a 10-year low.



Investors remain positive about the alternative asset class as demonstrated by fundraising. The buyout asset class increased its share of fundraising to 40%, the highest level since 2006. Fundraising in private markets has grown at 14% annually since 2014.

PE AuMs grew 12.2% representing 60% of the total alternative asset class.

Notable Deals

- **Blackstone's** $18.7b purchase of the **U.S. warehouse portfolio** of Singapore-based GLP

- **EQT's,** Canadian pension fund manager PSP Investments and the **Abu Dhabi Investment Authority's** $10b purchase of **Nestlé's skincare unit**

- Communications infrastructure services provider **Zayo Group's** $14.3b **sale to Digital Colony Partners and EQT**

- **Blackstone and Lego family** office Kirkbi's €5.1b **delisting of Merlin Entertainments**, owner of the London Eye and Madame Tussauds

- **KKR's** backing Berlin-based media group **Axel Springer** in a **private investment** in **PIPE** deal worth €5b

- **Apax Partners, Warburg Pincus**, the CPP Investment Board and Ontario Teachers' Pension Plan's **delisting of Inmarsat** for just under €4.9b

- **Advent International's delisting of FTSE 250 UK defense company Cobham** for €4.6b

- **Altran, sold by Apax Partners and Altamir** to multinational consultancy Capgemini, received a €4.9b valuation

- **Thoma Bravo's** delisting of cybersecurity firm **Sophos** in a €3.6b deal

- **CVC Partners**-led consortium's purchase of a 30% stake in **GEMS Education** that was sold by a consortium of investors led by Fajr Capital including Blackstone and Bahrain Mumtalakat Holding Company

- **Gulf Capital's purchase** of 70% stake in health aesthetics firm **Medica**

- **Saudi Aramco's** 70% purchase of **SABIC** valued at $70b

- **ADNOC Oil Pipelines'** 40% stake going to **KKR and BlackRock** in a $4.3b deal

- **Union National Bank's** 4b takeout by **Abu Dhabi Commercial Bank**

- **Eni's purchase** of 20% stake in **Abu Dhabi Oil Refining Company** in a $3.24b deal

- **Uber's acquisition** of **Careem** in a $3.1b transaction

2. Spotlight on MENA

On the back of years of struggles including the Arab Spring, the slump in oil prices, and the Abraaj debacle, the MENA PE sector has been sluggish, and seems to be following the opposite trend as seen in the rest of the world especially when it comes to fundraising. In 2018 already, the amount of capital raised by MENA-focused funds dropped by 65% ($406m from 8 funds compared to $1.168b from 10 funds in 2017).

2019 continued to feel these effects. In terms of deal value, the region performed well in M&A with total deal value placed at $98b, equivalent to the cumulative total of the last 4 years.

However, this is mainly due to the much-anticipated Saudi Aramco deal. In March, Saudi Aramco bought 70% of SABIC valued at $70b, making it the largest deal in the global chemical space. Nonetheless, after deducting SABIC's value, the total of $28b slightly outpaced 2018's $27.5b

However, the deal count fell sharply by 34% to just 107 deals versus 161 in 2018. Therefore, the region continued to make large deals, albeit fewer of them.

The UAE saw cross border deals of sizeable scale including ADNOC Oil Pipelines 40% stake going to KKR and BlackRock in a $4.3b deal, Union National Bank's $4b takeout by Abu Dhabi Commercial Bank, the 20% stake in Abu Dhabi Oil Refining Company being taken by Italian player Eni in a $3.24b deal, and ride-sharing app group Careem being bought by US giant Uber in a $3.1b transaction.

The good performance of the M&A market can be explained by the dependence of governments in the GCC on oil which resulted in a sharp decline in their income, therefore triggering consolidation in state-owned oil and gas companies due to falling prices of crude. February 2019's ADNOC deal, attracting Singaporean fund alongside KKR and BlackRock is indicative of this kind of move.

The region continues to face a lack of dry powder due to the absence of new funds getting raised and exit barriers in terms of unattractive IPO market or secondary sales.

PE firms closed 4 buyout transactions in the 3rd quarter worth only $600m . In August 2019, a CVC Partners-led consortium purchased a 30% stake in GEMS Education that was sold by a consortium of investors led by Fajr Capital including Blackstone and Bahrain Mumtalakat Holding Company. In May 2019, Gulf Capital bought a 70% stake in health aesthetics firm Medica.

Continuous financial crisis, oil slumps, economic turmoil, and failed PE players in the region, have put enormous strains on the industry especially when it comes to investor's confidence, which explains the difficulties in fundraising. MENA has witnessed a slump in fundraising since 2018 forcing prominent PE firms such as Abu Dhabi's Waha Capital and Kuwait's Global Investment House to either scrap or delay their fundraising plans.

Economic turmoil is a global challenge. However, the two main specific regional challenges to PE's success have been opacity of dealings/poor governance standards, and a difficult IPO market. Absence of transparency and lack of effectiveness of regulations have been translated into moral hazards at firms such as Abraaj Capital and many others, whilst efforts to improve capital markets in terms of liquidity, market making, depth and coverage have borne no fruits.

As a result, the pool of successful players in the region has shrunk. Before 2008, the region had 103 PE funds. Currently, the number of active players is about a handful. The region's PE industry has shrunk to such a size that different PE associations, including the MENA Private Equity and Venture Capital Association terminated their operations.

Significant gaps in legal and regulatory frameworks, particularly in areas of investor protection and corporate governance have impacted confidence. For instance, the still evolving bankruptcy law makes it extremely challenging to deal with situations where the investee companies fail to deliver the expected results, a real deterrent for investors. Furthermore, the business landscape is primarily relationship-driven rather than legally driven, which does not emphasize the transparency expectations of global investors.

Overall, the regional corporate governance standards remain weak. While regulations do exist for timely disclosures and establishing internal controls, enforcement of infractions or violations falls short of investors' expectations. Large family groups often dominate non-listed companies and their organizational structures vary widely. They often have family councils in lieu of Board of Directors and influential directors often sit across the boards of many companies, leading to interlocked directorships. Evaluation of board performance is a sensitive issue that could potentially disrupt family ties. Centralized decisions are the norm and financial controls could be weak.

Successful PE firms in the region have remedied these 2 hurdles to reassure investors. Corporate governance has become the core battle of successful PE firms both internally and within their portfolio companies. To reassure investors, roles and responsibilities of the board and management have been clearly demarcated, conflict of interests has been minimized, independence of the board has been exerted and accountability firmly established.

In terms of exits, regional PE firms have been creative in structuring deals. The region has seen cross-border reversed mergers, foreign shell entity IPOs and other forms of exits to allow for easier exits paths without eroding returns. The region offers opportunities and few PE firms have managed to exit investments. Notably, Careem's initial investors are said to have received a 500x return whereas newer investors such as Saudi's STV Ventures, saw as much as a 2x return in just five months. Such transactions remain the outliers to the more subdued regional M&A market.

Several free zones have emerged in the region, which focus on the development of startups and SMEs and encourage new technology and innovation. As a result, the GCC has seen startups emerge in newer tech-enabled segments such as IT, e-commerce, fintech. Fintech startups in the

GCC are expected to attract $2b in private funding over the next 10 years, compared to $150m worth of investments over the last decade.

The few PE firms that have managed to whether all the storms of the past decade in the region, have done so by managing to keep investor's confidence whilst navigating the regional hurdles of transparency and liquidity. These firms have put a major emphasis on corporate governance and transparency at all levels, keeping their portfolio companies in check and increasing their returns, and have managed to find creative ways to provide returns to shareholders through various exit paths, circumventing market liquidity issues.

3. Leading Trends 2019 and beyond

Public-to-Private: 2019 saw a growing trend of taking public companies private. This was true globally but especially in Europe where a number of delisting transactions have occurred as further noted in this paper. Globally, 80% of the top 10 buyout deals involved public companies taken private, including Zayo Group Holdings, which Digital Colony and EQT bought for $14.3b as mentioned earlier.

All eyes on Tech: in 2019 PE continued to make significant inroads into technology, a sector historically dominated by venture capital. Tech deals rose to nearly 40% of US PE deals as of August 2019, and Tech-focused dry powder has almost doubled since 2016.

Re-emergence of Special Purpose Acquisition Companies (SPACs): recent years have seen a struggling IPO markets with high volatility doubled with long lockup periods that restrict how much and how quickly PE firms can sell. As a result, different forms of strategic exits to counter these issues represent an exit alternative to PE companies and one that has been gaining significant grounds (an increase in value of 325% from 2016) that is SPACs. A SPAC is a company with no commercial operations that is formed strictly to raise capital through an IPO for the purpose of acquiring an existing company at a later date. Selling to a SPAC can add up to 20% to the sale price compared to a typical PE deal. Being acquired by a SPAC can also offer business owners what is essentially a faster IPO process under the guidance of an experienced partner, with less worry about the swings in market sentiment.

For sponsors, SPACs' exchange-listed nature along with their increased liquidity make them attractive to a range of investors above and beyond PE firms' typical investor base. SPACs allow for greater flexibility and creativity in structuring than a traditional IPO and can give sponsors more tools to close deals than other structures. Some recent SPAC acquisitions have seen sponsors assign portions of their shares to other stakeholders in order, for example, to facilitate a transaction,.

For companies, SPACs are cost efficient compared to traditional IPOs. SPACs allow companies to achieve cost and time savings, which can involve multiple underwriters and months of road shows. A reverse merger with a SPAC allows for greater certainty as companies are able to negotiate the terms of a sale with greater confidence in their ultimate valuation. Companies are able to avoid much of the underpricing and first-day volatility that is inherent in a typical listing process. Also, because they don't have existing operations, SPACs encounter less bureaucratic hurdles. For instance, when Fidelity & Guaranty Life received an offer from a strategic investor for $1.6b in 2015, the deal struggled to win the necessary regulatory approvals and was ultimately scrapped. Within months, Fidelity & Guaranty Life had found a new buyer, CF Corp., a SPAC raised by former Blackstone executive Chinh E. Chu and former Fidelity National CEO William P. Foley II. The deal was ultimately struck at a 16% premium to the original offer.

For investors, they allow participation in types of deals that might be otherwise off-limits as they can offer access to PE-like opportunities for public market investors. They have increased liquidity relative to commingled PE fund as they are exchange-tradeable and relatively liquid compared with PE funds, which can lock up capital for the better part of a decade. Furthermore, the structure and economics of SPACs favor alignment because they don't charge an annual management fee, but instead typically allocate 20% of the company's shares to its sponsors, an incentive for sponsors high performance.

For all these advantages, SPACs have attracted big-name underwriters and investors and raising a record amount of IPO money in 2019. Goldman Sachs, Credit Suisse, Deutsche Bank, and Citigroup have all underwritten SPAC IPOs in recent years. TPG Capital, Apollo Global Management, Third Point, and Blackstone have each acted as SPAC sponsors as well.

In 2020, more than 50 SPACs have already been formed in the US, as of the beginning of August, raising some $21.5b in the US alone. Example of SPACs include Silver Run Acquisition Corporation II, a SPAC-backed by Riverstone Holdings, which announced a $3.8b deal for Kingfisher Midstream and Alta Mesa Holdings, both Oklahoma-based energy companies. Another recent deal involved Quinpario Acquisition Corp. 2, which merged with Apollo-backed Novitex Holdings Inc. and Source HOV in a $2.8b deal to create Nasdaq-listed Exela, which provides transaction processing solutions and enterprise information management services across the globe.

Impact investing: this is the sector that is gaining the most grounds in recent years and can no longer be ignored by PE companies. According to the Schroders 2019 Global Investor Study, which surveyed 25,000 investors world-wide, more than 60% believe that all investment funds—

not just those explicitly defined as sustainable—should consider sustainability factors when making investments.

The United Nations, funds including CDPQ, CalPERS, PensionDanmark, Swiss Re and Allianz joined the Net-Zero Asset Owner Alliance and are all pledging to transition their investment portfolios to become carbon neutral by 2050. As social and environmental issues increasingly affect consumer behavior and business conditions, there is growing evidence that environmental, social & corporate government (ESG) programs can actually improve returns and limit risk.

Since 2012, the number of signatories to the UN-supported Principles for Responsible Investment has grown from 1,050 to almost 2,400 funds, a group that controls $86t in capital. Those funds, a mix of institutional investors and fund managers, have committed to six principles, including a pledge to incorporate ESG issues into how they choose and manage investments.

Evidence is building that ESG investing may enhance performance. Over the past 16 years, a STOXX index of global ESG leaders has outperformed the STOXX Global 1800 Index by 37%. And in 2015, the University of Hamburg did a meta-study of more than 2,000 independent research efforts. They found that 63% of the studies discovered a positive correlation between ESG investing and returns.

It's also evident that operating sustainably can have cost benefits. Unilever, for instance, has saved $1b since 2008 by proactively cutting its water, energy and material usage. Water and energy saving measures implemented at 11 KKR portfolio companies are expected to generate $11m in annual savings starting in 2019. KKR started its ESG journey about a decade ago, launching its Green Portfolio Program in partnership with the Environmental Defense Fund and then signing on to the UN's Principles for Responsible Investment. The effort picked up steam in 2018, when the firm introduced its Global Impact strategy with the explicit goal of generating private equity risk-adjusted returns while investing in companies that help provide solutions to the UN's Sustainable Development Goals.

Capital costs may be lower in the absence of ESG risks, which should translate into higher valuations. This may help explain why a new McKinsey survey found that a sample of investment professionals and C-level executives would be willing to pay 10% more for a company with a positive ESG record than for a similar company with a negative one.

Payment systems: The payment sector has become a prime hunting ground for buyout firms. The number of deals involving payment companies in North America and Europe has grown 7% annually. Payment deal value in 2019 was 5x higher than it was in 2006. With the rise of contactless payments, integrated solutions and virtual payment platforms, the sector is experiencing enormous growth.

Since the global financial crisis, buyouts involving payment companies have generated a gross pooled multiple of invested capital of 2.7x, outpacing Tech, financial services and even the fintech sector generally. Strategic buyers, meanwhile, have been increasingly active. In 2019, Fidelity National Information Services bought Worldpay for $43b, and Global Payments took over Total System Services for $21.5b. KKR produced a major exit in the sector last year when Fiserv paid $39b for First Data, cutting KKR's stake from 39% to 16%.

4. The Forecast Post Covid-19

Even before the emergence of Covid-19, the year 2019 saw economies slowing across the world. As of July 2020, the IMF predicts global growth at -4.9% for 2020 on the back of the pandemic, whilst it was forecasted at 3.5% in July 2019. Every region has been subject to substantial growth downgrades. South Asia will contract by 2.7%, Sub-Saharan Africa by 2.8%, MENA by 4.2%, Europe and Central Asia by 4.7%, and Latin America by 7.2%.

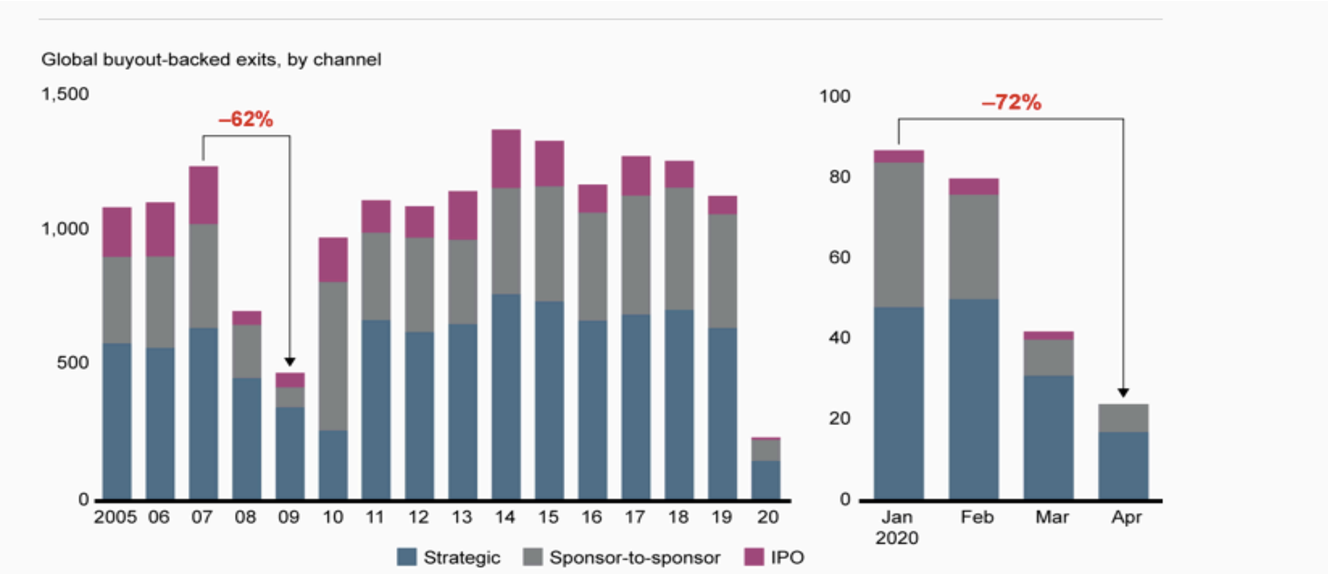
Of course, this represents a potential downturn for PE, mainly when it comes to portfolio companies' performances depending on their sector of activity, but it can also bring about some opportunities in terms of deal-making which has already been seen in some parts of the world.

GPs have largely been focused on stabilizing portfolios, sellers are reluctant to unload their companies amid volatility and lenders are busy tending to existing loans, while still trying to figure out how to assess risk surrounding deep macroeconomic uncertainty. Although bank credits are not frozen as they were during the last downturn, leveraged lending has fallen 80% this year so far. For the PE sector, the real impact was mainly felt in exit activities, which have slowed significantly since mid-March of this year. Announced PE exits dropped almost 70% globally in May 2020 versus May 2019.

Substantial barriers to deal execution have emerged. For example, it is now more difficult to conduct due diligence face-to-face or to visit production facilities and financing to support deal costs. Furthermore, new weaknesses have been revealed in many companies. This includes companies that appeared attractive in good times but are now less so to buyers (e.g., entertainment, public transport, hospitality). Some service providers have discovered that many customers/investors view their offerings as discretionary rather than 'necessary' (e.g., food, pharma) in times of crisis.

As the US PE numbers for H1 2020 are coming to the spotlight, these issues have become more apparent. During Q1 of 2020, just before the pandemic hit, PE deal volumes were higher at 1,390 than Q1 2019 at 1,351. In terms of value, Q1 2019 saw $182.6b worth of deals exactly the same as Q1 2020. In Q2 2020 however, there was a major drop. Number of deals stood only at 783, a drop of 47%.

For the rest of the world, the number of global buyout transactions fell 72% from January to April and is now trending at around a third of the five-year monthly average. Even during the financial crisis, buyouts fell by 10% less, at 62%.



But the picture is not all gloomy. PE firms are getting creative in order to continue doing deals as they pursue various kinds of structured transactions, ranging from investments in preferred stock and warrants to Private Investment in Public Equity (PIPE) transactions. PIPEs are investments in newly issued tranches of equity that can help public companies raise cash quickly when banks are reluctant to lend. PE sponsors and hedge funds, among other financial investors, have invested more than $8.6b in US PIPEs this year through May, including the $400m investment in publicly traded Outfront Media Inc. by Providence Equity Partners and Ares Management Corp. A Pinsent Masons report provides insights collected from 190 UK-led transactions in 2019 and in H1 2020 analyzing their deal structures. The report highlighted 93% growth in the proportion of deals using warranty and indemnity insurance for PE buyouts. Also, 35% of PE transactions analyzed involved staggered payments in some form or an element of deferred consideration. Most deferrals were typically for 6 or 12 months where they applied to PE deals.

With the sector adapting to the new normal and finding ways around deal-making and exit hurdles, some areas have performed well in view of the pandemic. Europe in particular, negotiated the first half of 2020 M&A activity impressively well despite severe economic disruption. Completed mega-deals demonstrate that enthusiasm perseveres as economic uncertainty lingers. European M&A deal value in the healthcare sector recorded the best first-half performance in over a decade. European M&A totaled €563.6b in H1 2020, keeping pace with 2019 figures. The standout deal to close in the quarter was AbbVie's €54.1b acquisition of Ireland- domiciled Allergan. Even Cross-border M&A activity remained healthy in Europe at €240.8b in H1 2020. Although travel may have concluded prior to lockdowns, a strong pipeline of cross-border deals closed in Q2 despite cross-country travel restrictions. 6 mega-deals closed in Q2 2020, the largest quantity in a single quarter since Q3 2017.

Asset managers across the globe have also shown renewed interest in PE in the first half of the year due to the erosion of profit margins as stock market losses shrink their portfolio values. PE is the only form of high-margin active management that a majority of investors still opt for, while the typical 10-year investment commitment to PE funds means AuMs are particularly sticky across market cycles. As a result, expansion into PE will become a strategic priority for traditional asset managers in the near future.

Furthermore, according to a study of various investors from private to institutional, by Calastone, the largest global fund network, over 50% of global investors have a positive view of the market, and are planning to invest in the near future, despite the economic downturn caused by the pandemic. Calastone surveyed investors worldwide to assess current investment behaviors and appetite. In the UK, 51% of investors are bullish, having already made new investments or considering doing so in the near future. Investors bought into the equity markets at a net £3.9b between April and the first week of May 2020. The trend is even more marked in other countries, most notably in the US where a massive 59% have already actively made new investments in light of the pandemic.

SWFs have also played a major role in keeping investments going. Particularly for the US, the equity strategies managed by third-party fund managers attracted a net flow of $5.36b from SWFs in the first quarter of the year, with the majority headed to passive S&P 500 equity strategies which posted their largest inflows in at least 3 years, according to data from eVestment.

The investment flows suggest SWFs held their nerve amid the chaos. As they try to balance between spending plans and budget deficits, the SWFs of Saudi and Abu Dhabi are looking for investment opportunities that can secure the needed returns.

This is good news for the GCC. The region's twin shock of the pandemic and weakened oil prices have continued to pressure its economies, and S&P Global announced that economic output could decrease in the GCC by about 7.5% in 2020, but the SWFs could play a major role in reducing this impact.

For instance, Saudi's PIF, with more than $300b in AuMs, is well-positioned to step in and support the Saudi economic recovery. The Saudi central bank transferred $40b of its foreign reserves to the kingdom's wealth fund. The fund has recently been on a spending spree, buying substantial stakes in major Western businesses currently trading at multi-year lows as a result of the pandemic. They include roughly $500m stakes in companies including Carnival Corp, Live Nation, Walt Disney, Marriott International, Bank of America and Facebook, among others, as well as a $714m stake in Boeing, all of these are estimated to have produced high return for PIF.

Many of the cash-rich SWFs in the region are now increasing exposure to both emerging and developed Europe, with communications and airports particularly attractive. According to an Invesco's report, 43% of SWFs in the Middle East seek to increase allocations to infrastructure and 50% to PE.

5. PE Players Sentiments for 2020

For the third year in a row, S&P Global Market Intelligence conducted an annual survey among global PE professionals.

Pre-Covid-19, investors sentiment regarding PE activity in 2020 was gloomier compared to the previous year. While 44% of players still expected the activity to improve, 20% indicated the outlook would deteriorate in the coming months. In last year's survey, only 14% of global respondents expected a deterioration of PE activity.

The US-China tensions and sluggish economic growth appeared to have affected investors sentiment, particularly in Asia Pacific, where 30% of players expected investment activity in 2020 to deteriorate. Moreover, the greater China investors were the most pessimistic, with 55% anticipating the activity to deteriorate.

European respondents highlighted skill shortage and the talent drain as an area of concern, since demographic changes, the transition towards a greener economy and the ongoing digitalization process have increased the skill gap in the region. This was the second most significant area of concern for CEE investors (48%), after macroeconomic factors (76%).

Only 9% of respondents planned to exit investments in 2020 and only 13% of North American investors pledged to sell part of their portfolio assets in the next few months.

Following the trends seen in 2019 and discussed in previous sections, and with $1.4t in dry powder, growing competition and soaring valuation multiples, investors were increasingly leveraging inorganic growth strategies and platform acquisitions to invest capital in a more efficient manner. In last year's survey, the largest appetite for add-ons was expressed by EU and US-based respondents, 25% and 26% respectively. This year, the percentage grew to 31% and 42% respectively.

When it comes to industry focus for 2020, the data also supports the 2019 trends in the deal landscape. Tech has been identified as the number one sector for investors at 54%. Also, in line with the trends of 2019, the survey explored the topic of ESG further. Over 1/3 of the respondents were planning to improve ESG-related factors in their current portfolio this year and to seek investments in companies with a good ESG track record. In EMEA, 41% of PE respondents reported that they would continue integrating ESG factors in their investments and portfolio management process by complying with a new EU Disclosure Regulation for asset managers and investment funds related to sustainable investments.

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