



# Covid-19 and the world of private equity

# Introduction

## June 2020

In response to the Covid-19 pandemic, the Mazars Global Financial Advisory team has surveyed private equity and investor contacts to understand their challenges and concerns, gauge their level of optimism for the future and hear about their response strategy.

As the pandemic evolves, we plan to update this report and would welcome any thoughts on future analysis that you would like to see.

Should you have any questions, please feel free to contact myself or any member of the Mazars Financial Advisory team – contact details can be found at the back of this report.



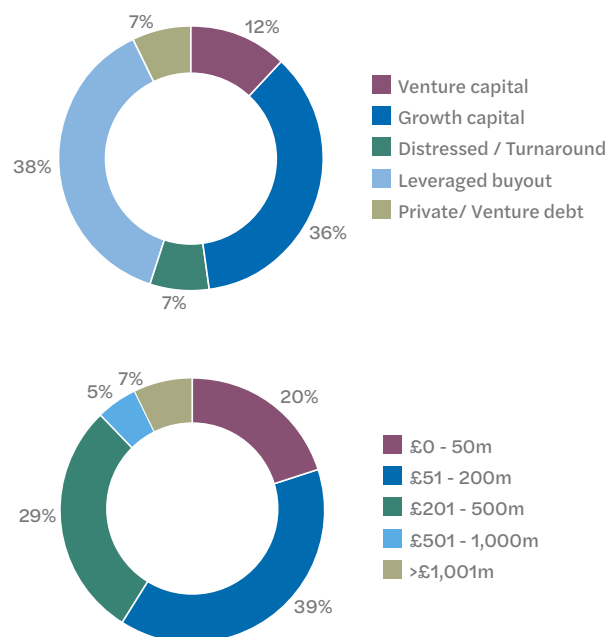
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### Survey respondents

The majority of the survey participants were from Leveraged Buyout funds and Growth Capital funds, making up a combined 74% of total respondents. Respondents were principally based across Europe, with some responses also from Asia and the Americas.

We note that some respondents chose more than one fund type option as they operate numerous funds or have a broader mandate to invest in multiple types of investments.

The majority of funds were between €51m and €500m. The most common fund size was €51m-€200m with the second most common being €201m-€500m. These two fund sizes account for 68% of all respondents.



# The immediate impact of Covid-19

How impacted have the revenue forecasts of your portfolio companies been for the next 12 months?

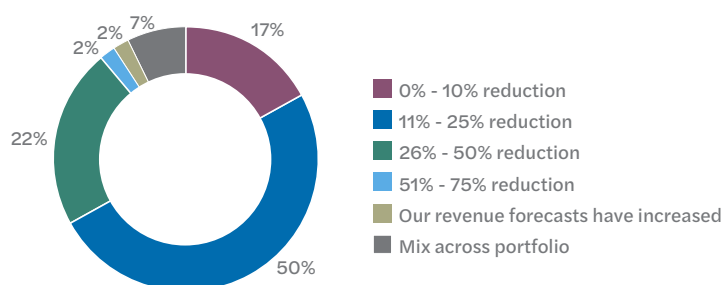
## Impact on portfolio companies revenue

Overall, respondents expect a drop in revenues for portfolio companies in the next 12 months.

50% of respondents expect a drop in revenue of between 11%-25% and this was consistent across all fund types whilst nearly a quarter of respondents expected a drop of between 26%-50%.

Larger funds were generally more optimistic with nearly half of the large fund respondents expecting a drop of less than 10%, perhaps showing a general trend of defensibility with scale.

Respondents noted that this is not a one size fits all situation. One Growth Capital fund commented: 'The situation depends on the sector. For instance, the hospitality sector and other travel related business were significantly impacted by the current global health crisis. For the rest of our portfolio, the decrease is between 5% and 30%'.



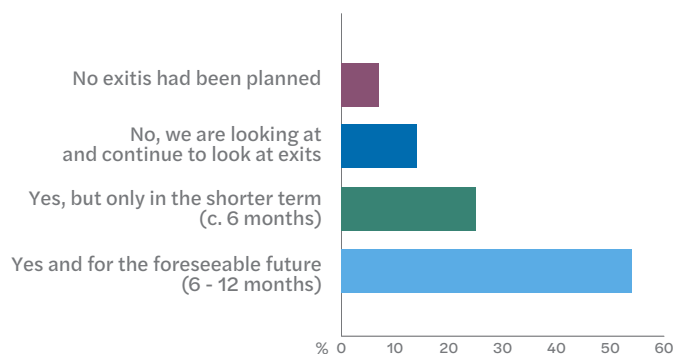
Further, one respondent from a leveraged buy out fund commented that: 'Three of our companies have not been affected at all/have been affected to a very limited extend. One company had to completely shut down for 2-3 months'.

Do you think Covid-19 will result in your fund pausing exit strategies from maturing portfolio companies?

## Impact on fund exit strategy

79% of respondents said that exit timing for their portfolio companies will be delayed. Considering that c. 90% of funds expect a drop in revenues, this is not surprising.

A larger proportion of leveraged buyout funds (61% vs. 54% of all funds) noted they expect delays for the foreseeable future. Considering that gearing ratios have likely increased and equity values may have been eroded in the short to medium term, leveraged funds are likely to have to hold positions for longer to achieve their target returns.



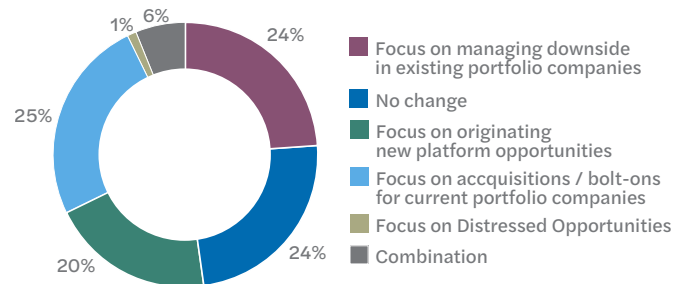
# The immediate impact of Covid-19

Which of the following best describes the strategy of your fund for the next 12 months?

## The focus for the next 12 months as a result of Covid-19

There was a broad split of opinion regarding focus over the next 12 months. 24% of respondents noted that managing downside will be a priority, whilst another 24% stated there will be no change in their strategy.

45% stated new platform opportunities and acquisitions and bolt-ons would be their focus. Clearly, private equity professionals are keen to continue to look for opportunities. While it appears exits will be delayed, the level of “dry powder” across existing funds means they are continuing to look for new platform deals and bolt-on to existing portfolio companies.

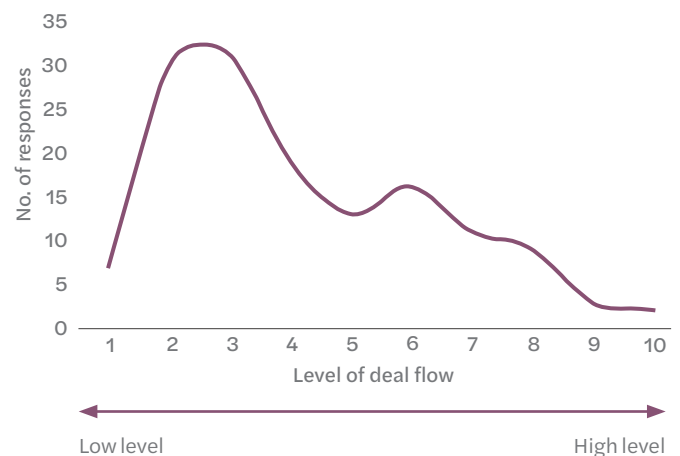


## Deal flow in the current environment

Unsurprisingly, there has been a clear decline in levels of activity as a result of the situation with the majority of respondents seeing lower levels (between 2-3) coming through in the current environment.

Whilst the majority of investors are open to new investments, there seems to be a smaller pool of available opportunities to choose from and this will make completing deals more challenging.

There is likely to be a positive impact for companies that are demonstrating resilience to the effects of Covid-19, as high-quality assets will likely be more heavily competed for by investors when originating from a scarcer pool of opportunities.



# Looking at new investments

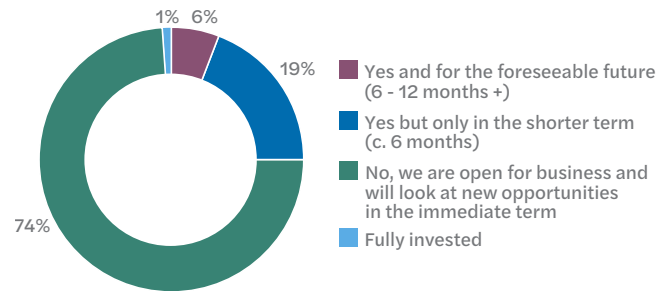
Do you think Covid-19 will cause your fund to cease looking at new investments for a period of time?

## Are investors still 'open for business'?

Only 6% noted that they expected to cease to look for new investments for the foreseeable future.

There is an strong consensus that it is "business as usual" with 74% responding that they will not only continue looking for opportunities but that they are very much open for business in the immediate term.

The responses show a general optimism that there will be an appetite to invest and pursue new opportunities. It will be interesting to see how this translates into deal volume over the coming months.

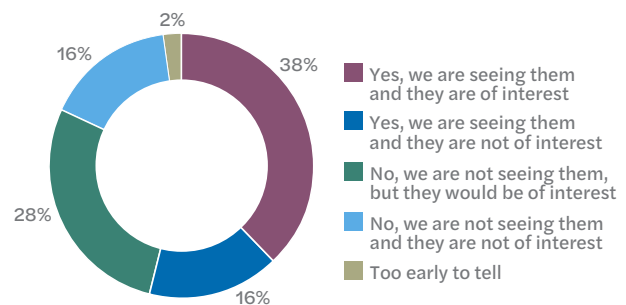


Have you come across distressed / accelerated opportunities due to Covid-19 and, where you have, are these types of opportunities of interest?

## Fewer distressed opportunities than expected

Despite the obvious financial impact of the pandemic, 44% of funds are yet to see an increase in distressed opportunities, which is most likely an indication that the government initiatives are helping to prevent businesses from seeking insolvency measures in the short term.

Although only 7% of respondents are managing a typical turnaround fund, 66% of respondents said that they would be interested in distressed opportunities. This indicates that investors are willing to look outside of their normal criteria in the current environment or will encourage their portfolio companies to be opportunistic in their acquisition strategy.



# Life in lockdown

Do you believe it will be possible to complete deals in the current working from home environment?

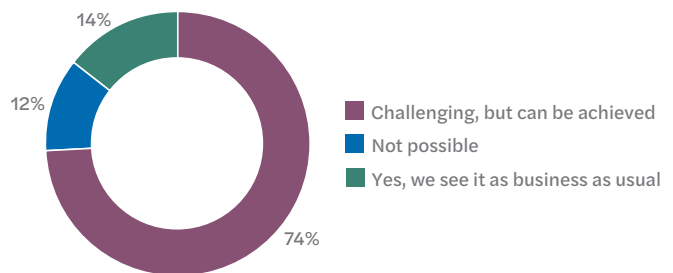
## Deals are possible but completions will be more challenging

The general consensus (c.88% of respondents) is that it will be possible to complete deals in the current 'working from home' environment, but with 74% of this group believing that it will be more challenging to do so.

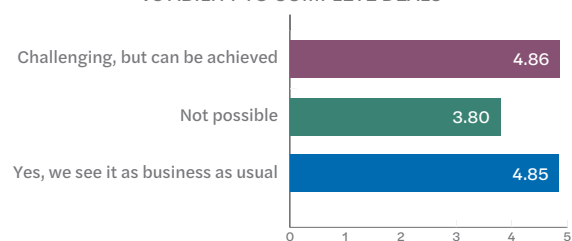
There was little correlation between fund type or size and the expected impact on the ability to complete deals from home, suggesting that funds across the market have adapted well to the new working environment.

Those who answered that it is 'not possible' to complete deals are typically seeing a materially lower deal flow, with an average deal flow score of 2.6 (1 being low and 10 being high) compared to 4.7 for those who consider it to be more business as usual. This reduction in deal flow may be impacting their views on deal executability.

Furthermore, those who consider it possible to complete deals, even with associated challenges, have an improved outlook on the next 12 months versus those who do not consider it possible.



OUTLOOK FOR THE NEXT 12 MONTHS VS ABILITY TO COMPLETE DEALS

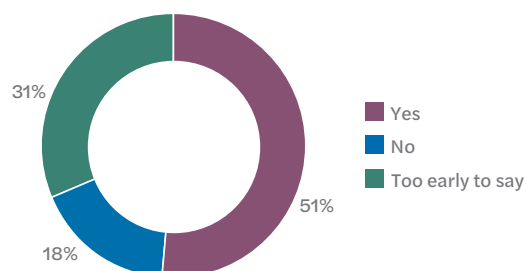


Do do you feel your Government has responded well to the current situation?

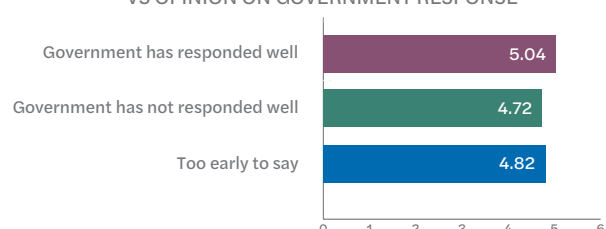
## A mixed response to current government measures

Just over half of those surveyed (51%) feel that their Government has responded well to the situation, however a significant portion (31%) consider it too early to tell.

Those who consider the Government to have responded well have a marginally more positive outlook for the next 12 months, with an average score of 5.0 (1 being low and 10 being high) versus an average score of 4.8 for those who consider their respective Government to have not responded well.



OUTLOOK FOR THE NEXT 12 MONTHS VS OPINION ON GOVERNMENT RESPONSE



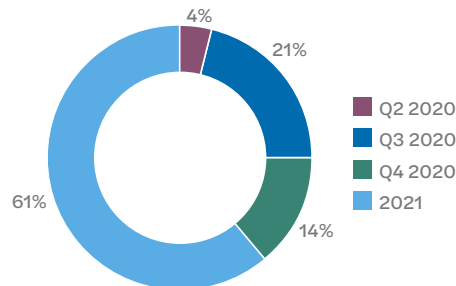
# Returning to business as usual

## When do you think everything will return to business as usual?

### Timing

There is a general consensus that things will not be back to normal until 2021 with 61% choosing this option.

Whilst respondents are generally optimistic in terms of sourcing new deals and continuing their respective strategies, they understand that it is unlikely that life will return to normal for quite some time.



## Do you anticipate we will have a V shaped or U shaped recovery post Covid-19?

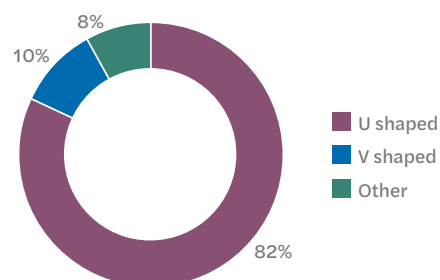
### The type of recovery

82% of respondents believe there will be a U shaped recovery.

10% believe it will be a V shaped recovery.

Other potential recovery types noted by respondents were:

- L shaped recovery
- W shaped
- Square root (where we recover to lower than before)
- A variety of recovery profiles, depending on industry
- Swoosh Logo (coined by Moody's chief economist Mark Zandi and characterized by a sharp crash and slow, prolonged recovery)



Comments received from respondents suggested we may face economic divergence with deep recession in some sectors while others will be mostly robust and well capitalised.

Respondents feel that overall credit markets will stay liquid with central bank support, although equity markets will remain volatile.



# Returning to business as usual

What is your outlook for the next 12 months?

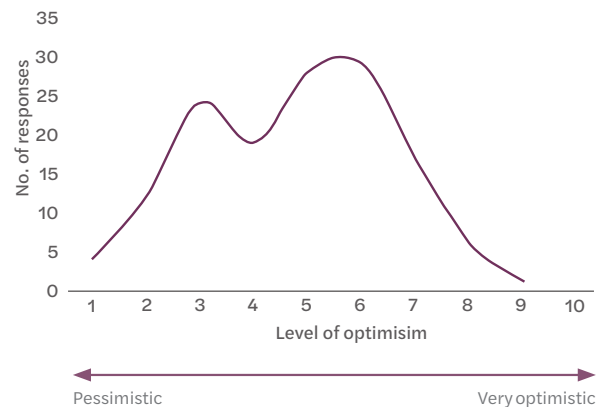
## A range of levels of optimism

Two thirds of respondents chose in the 4 to 7 range which can be considered relatively neutral in terms of optimism.

29% were not optimistic, choosing the 1 to 3 range.

Only 5% of respondents answered at the most optimistic end of the range (i.e. between 8 and 10).

With the majority of respondents believing we will have a U shaped recovery, there is natural caution as to the overall optimism in the market. However, this neither reflects a sentiment of pessimism nor optimism, with investors demonstrating the need for further clarity before being able to respond either way.





## Concluding comments

### **We are in a challenging environment, but investors are still open for business**

As expected, our survey results confirm that these are challenging times for those in the world of private equity. Deal flow has been reduced, lockdown and confinement restrictions make it challenging to complete deals when we cannot meet physically and there are increased demands in terms of managing portfolio companies.

However, despite these potentially significant challenges, we sense a level of optimism and resilience from the private equity community. Our personal experience tells us that quality transactions will still be delivered, and this is confirmed in our survey results with 74% of respondents telling us that they are open for business and looking at new opportunity in the immediate term.

It is likely that there will be increased completion for high quality assets, and respondents are already experiencing a slowdown in deal flow. Those that can differentiate and move quickly are likely to prosper.

### **We are here to help**

As an international and fully integrated firm, Mazars is here to help you and your fund during these unprecedented times. We have over 1000 financial advisory experts in over 40 countries who have vast experience in advising private equity funds and portfolio companies through the full lifecycle of transactions and funds.

If we can help in any way during this crisis, please do not hesitate to reach out to one of the contacts listed on the next page.

We plan to follow up on this survey to monitor progress. If you have any suggestions on topics or would like to be involved in our future communications, we would love to hear from you.



# Our team

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