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Enduring Confidence
20+ years • Central Europe
Private Equity Confidence Survey

MAKING AN IMPACT THAT MATTERS since 1845

Summer 2024

Contents

"We are greatly encouraged to see the Index surpassing its 20-year average after a period of prolonged uncertainty. This recovery in sentiment is more gradual and sustained than those which followed the three other dips, suggests cautious optimism and reflecting experienced gleaned over a quarter century of navigating economic cycles and complex environments."

Jan Brabec, Deloitte Partner and Private Equity Leader

Enduring Confidence

The Deloitte Central European (CE) Private Equity (PE) Confidence Survey Index has served as a barometer of sentiment for over 20 years and has just achieved its longest-ever climb to surpass the historical average.

It suggests activity levels are set to increase, with a number of successful fundraises a testament to the ability of experienced PE houses to generate strong returns across cycles.

Buy-and-build remains a highly popular method of accelerating growth. Private equity firms are increasingly focusing on these strategies to drive synergies and achieve scale, particularly in the face of elevated financing costs for large platform deals. This approach is seen across myriad sectors with technology, software and healthcare in particular attracting substantial investment due to their growth potential and resilience.

GPs are doing a lot of work with existing portfolios to drive value. In addition to buy-and-builds, we are seeing substantial organic growth through a variety of methods. These include digitalisation, reviewing sales strategies, progressing ESG agendas and looking more at data to finesse strategies. A growing number of sponsors are working with artificial intelligence (AI) to drive these value creation efforts.

Though activity remained subdued in H1, conditions are ripe for transactions to pick up. Several factors point to this, including easing inflation and vendors adapting to a new market paradigm as they collaborate more closely with advisers to prepare businesses for sale. We also see leverage markets loosening, particularly as credit funds establish a stronger presence in the region.

We are entering a new era for valuations. Many prospective buyers will understand that some assets coming to market are forced and so may try and buy good assets at attractive prices. This will decrease benchmarks for future assets, but not all – while multiples are down on average, a precious few highly valuable ones may go for a premium as GPs are hungry to deploy and looking for the best quality businesses.

Our latest Survey coincides with the 20-year anniversary of the first EU enlargement to accept eight countries from Central Europe: Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic, and Slovenia. The strides they made to accede were rewarded with significant growth in their per capita incomes, with this "convergence story" underpinning much of the region's success as it helped the countries outpace the growth of other emerging markets at similar levels of development. We've witnessed private equity accelerate many areas of convergence in the region – from telco to healthcare and now consumer and technology – and this has helped the industry to generate strong returns. The longevity of many regional firms is helping the region's fast-growing businesses, supporting many of these economies.

Private equity firms have always been a core focus for us, whether for transaction advisory or value creation services. We remain well placed to support local, regional and global players as they continue to build sustainable businesses and generate high returns for investors, and look forward to an acceleration of activity.

JAN BRABEC
Partner, Private Equity Leader,
Deloitte Central Europe

Central European Private Equity Index: Key findings

Sentiment regarding the economy continues to improve, with 59% expecting conditions to remain the same and a third (31%) expecting conditions to get better. Pessimism has halved again, with just a tenth now expecting a decline, down from a fifth last time and 43% a year ago. The direction of travel is clearly encouraging.

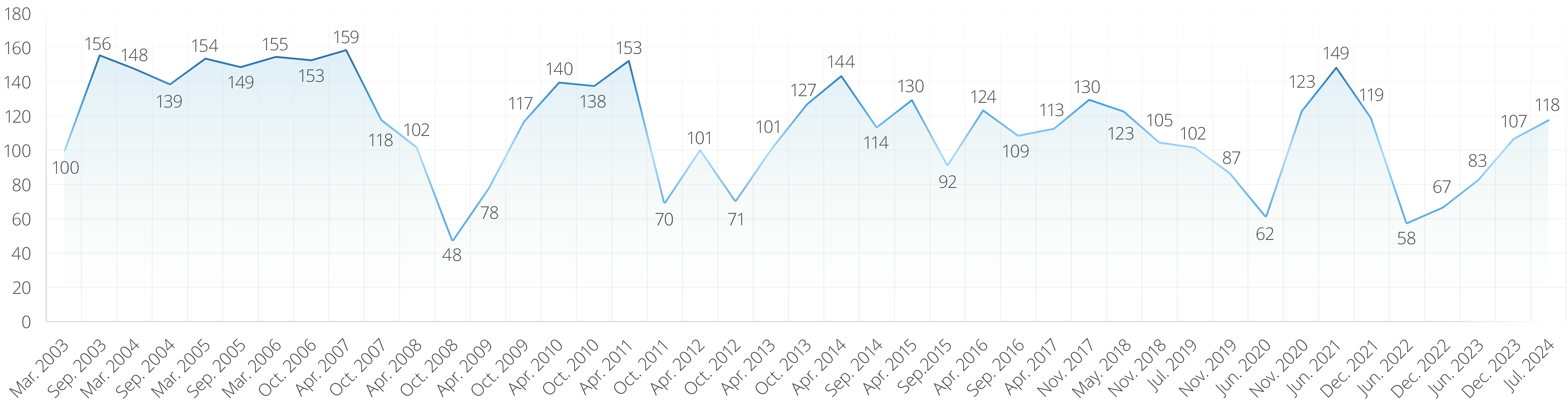
Expectations around market activity are stabilizing, with over half of respondents (51%) expecting activity levels to remain the same, up from 37% last time. Over two-fifths expect an increase, while the proportion expecting a reduction in activity has more than halved to just 6%.

Investors in Central Europe are vastly more optimistic about liquidity in the region, with a third expecting debt availability to increase (33%) or remain the same (59%) for the rest of this year. The numbers reinforce the positivity seen over the last year, with our latest Survey the fourth in a row to see a reduction in pessimism.

The Index has achieved its longest-ever continuous climb,

rising for a fourth consecutive semester to exceed the Survey's historical average and land on 118. Other periods of growth also followed dips, such as in 2008, 2012 and 2020, but this recovery is longer and more gradual than the others, suggesting our respondents are more cautious in their optimism. This is unsurprising, given many in the current generation of deal-doers boast a quarter century navigating economic cycles and complex environments.

Central Europe PE Confidence Index



Survey Results

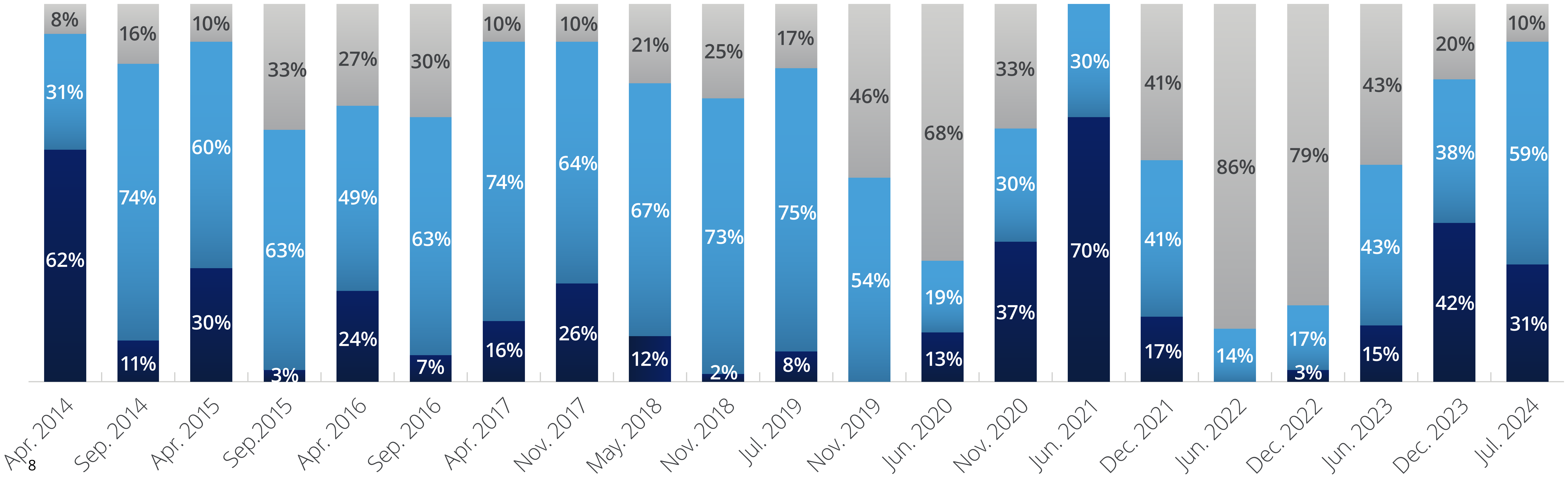
Economic climate

Sentiment regarding the economy continues to improve, with 59% expecting conditions to remain the same and a third (31%) expecting them to get better. Pessimism has halved again, with just a tenth now expecting a decline, down from a fifth last time and 43% a year ago. The direction of travel is clearly encouraging.

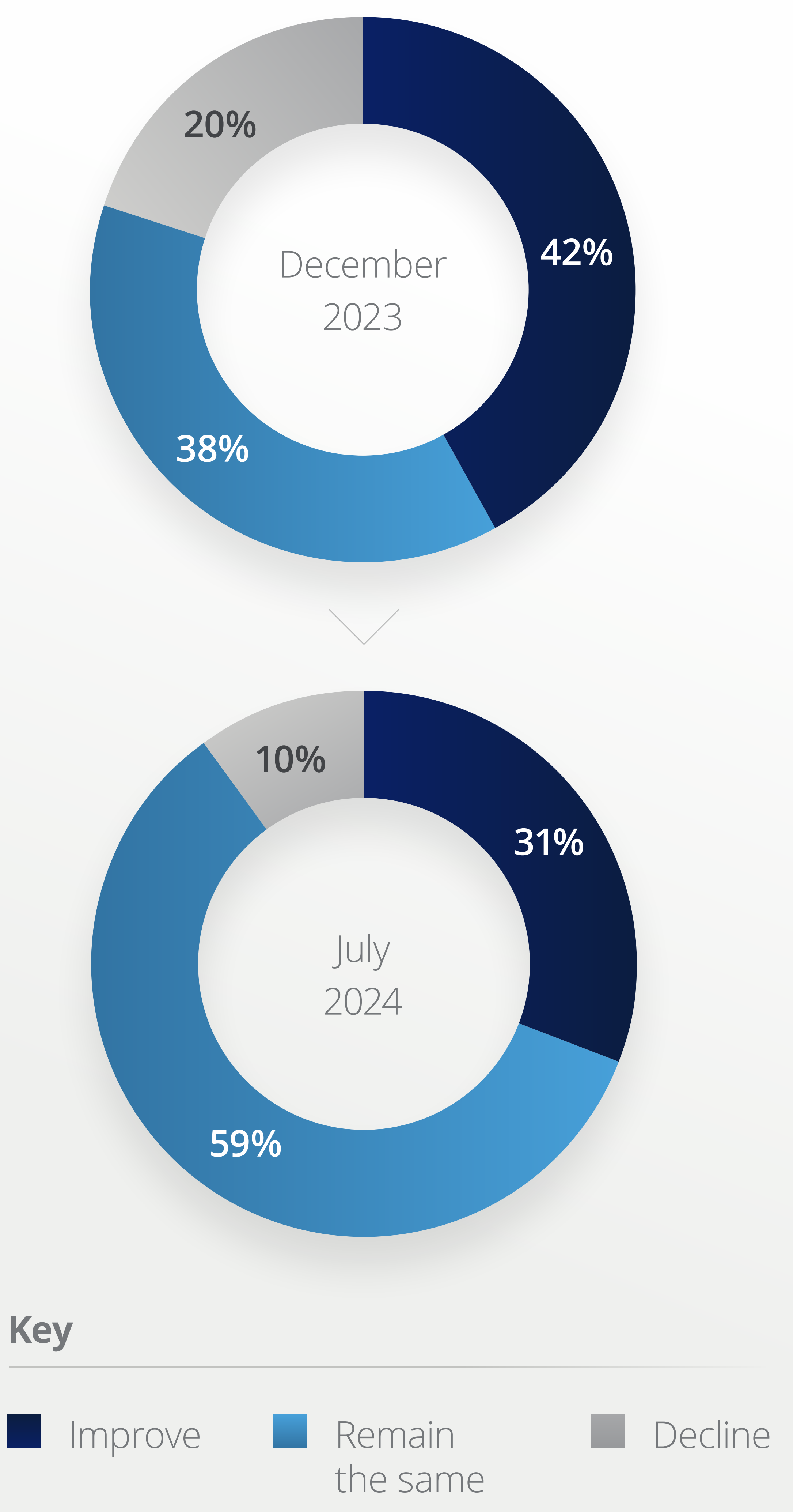
The economies of Central Europe (CE) continue to outperform the eurozone, with EBRD forecasting GDP growth of 2.2% for the region this year, expected to rise to 3.1% in 2025. The European Commission supports these projections, noting strong prospects for Poland, the region's largest economy, with an anticipated 2.8% growth this year, even as inflation more than halves . The Western Balkans, attracting increasing levels of investment, is expected to grow by 3.3% in 2024, up from 2.5% last year.

This robust performance is attributed to several factors, including low government debt levels and sovereign currencies, which have enabled the region to adopt defensive positions against recent economic headwinds. Additionally, the ongoing economic convergence in the region has led to increasing consumer demand.

For this period, I expect the overall economic climate to:



Economic climate
(December 2023 vs July 2024)



Debt availability

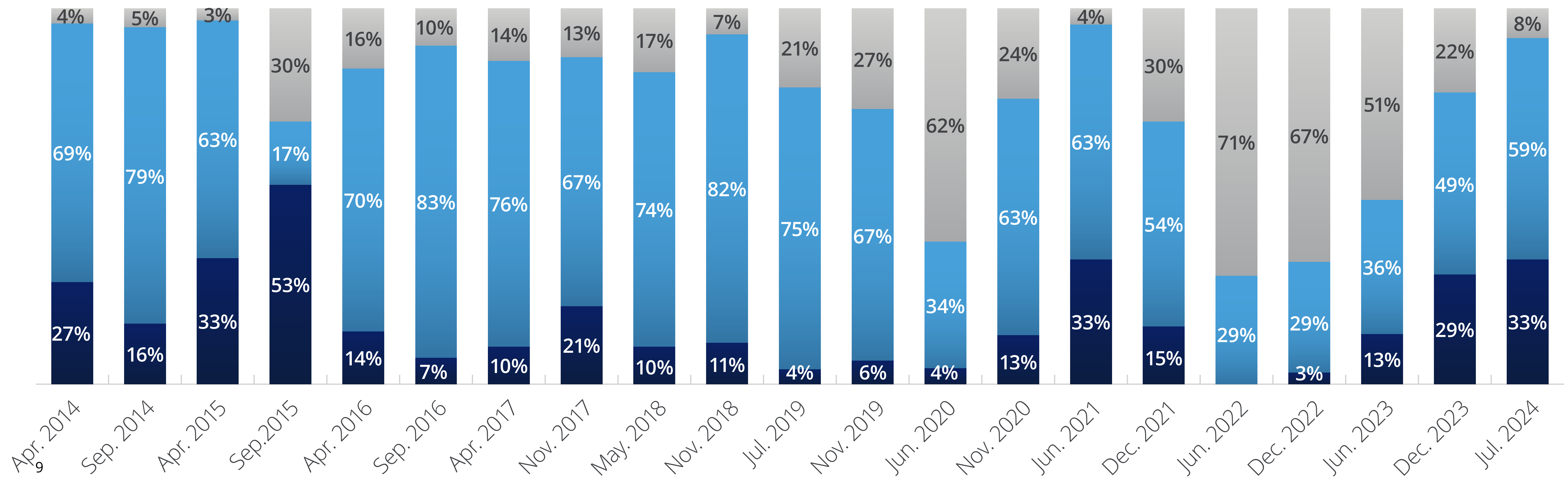
Investors in Central Europe are vastly more optimistic about liquidity in the region, with a third expecting debt availability to increase (33%) or remain the same (59%) for the rest of this year. The numbers reinforce the positivity seen over the last year, with our latest Survey the fourth in a row to see a reduction in pessimism.

Inflation and the high interest rates that ensued hampered liquidity from banks for some time, but a combination of falling inflation and alternative sources of leverage is helping the situation. Credit funds are typically less impacted by interest rates owing to committed capital, and Central Europe has seen more of these vehicles recently, adding to sponsors' financing options.

Last year saw Accession Capital Partners (ACP) launch ACP Credit Fund I to provide senior-secured debt solutions as well as its fifth fund for structured growth capital, with its AMC V closing on €336m this summer. Last year also saw CVI close on €132m for its CEE Private Debt Fund to provide senior debt, junior and unitranche loans to SMEs in CE, with a focus on Poland.

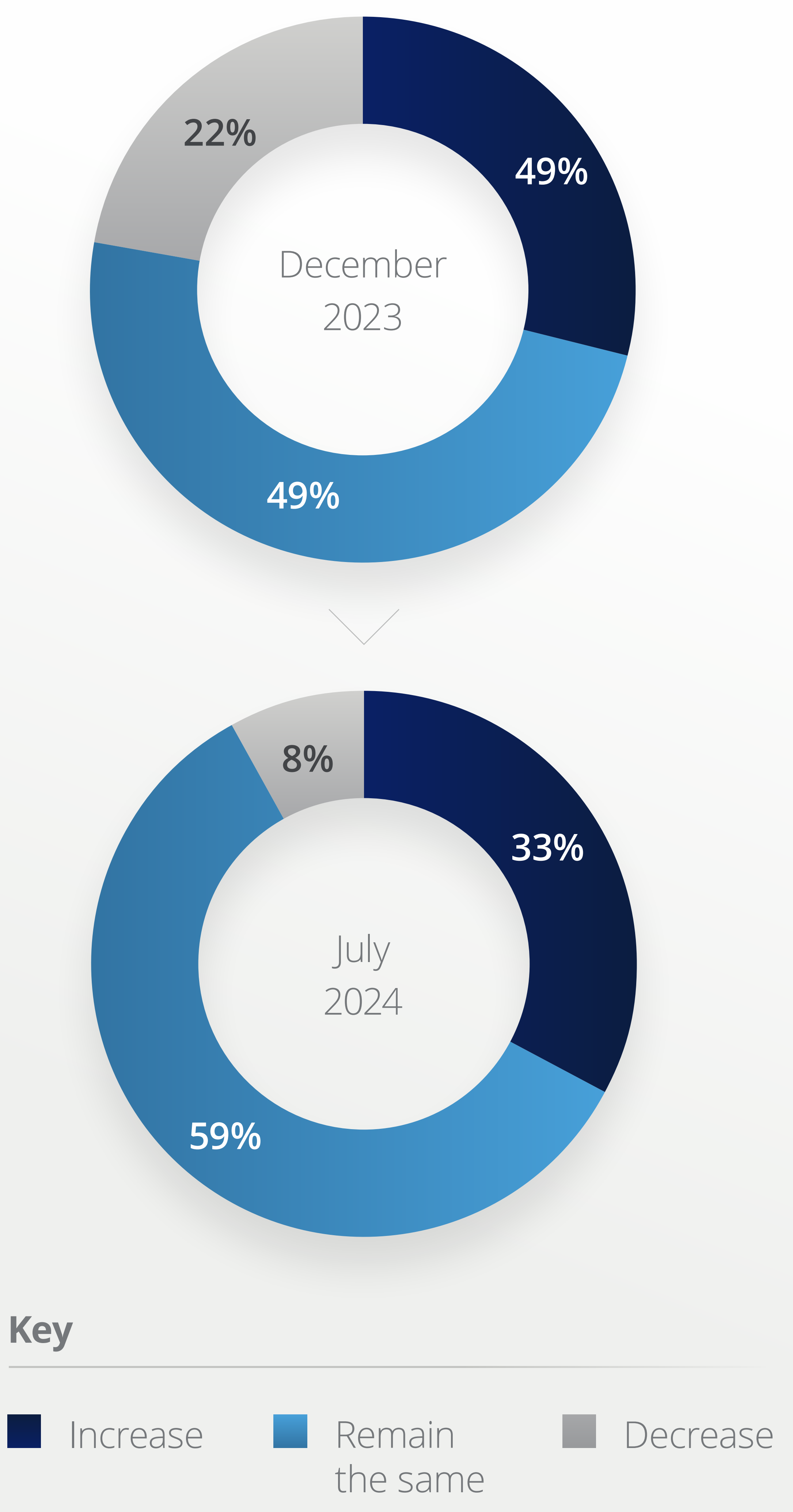
The advent of lending taking place in euros even where the target is based in a country with a sovereign currency may be encouraging more lenders to back growing businesses in Central Europe.

For this period, I expect the availability of debt finance to:



Debt availability

(December 2023 vs July 2024)



Investors' focus

Further signs of optimism can be seen in the number of respondents expecting to focus on new deals for the remainder of 2024. With 59% expecting to spend most of their time on deployment, it is clear that deal-doers feel the current backdrop is conducive to transacting. This is up a fifth on last semester, while the number expecting to nurture portfolios saw a commensurate drop from over a third in the winter (35%) to just a quarter now (25%).

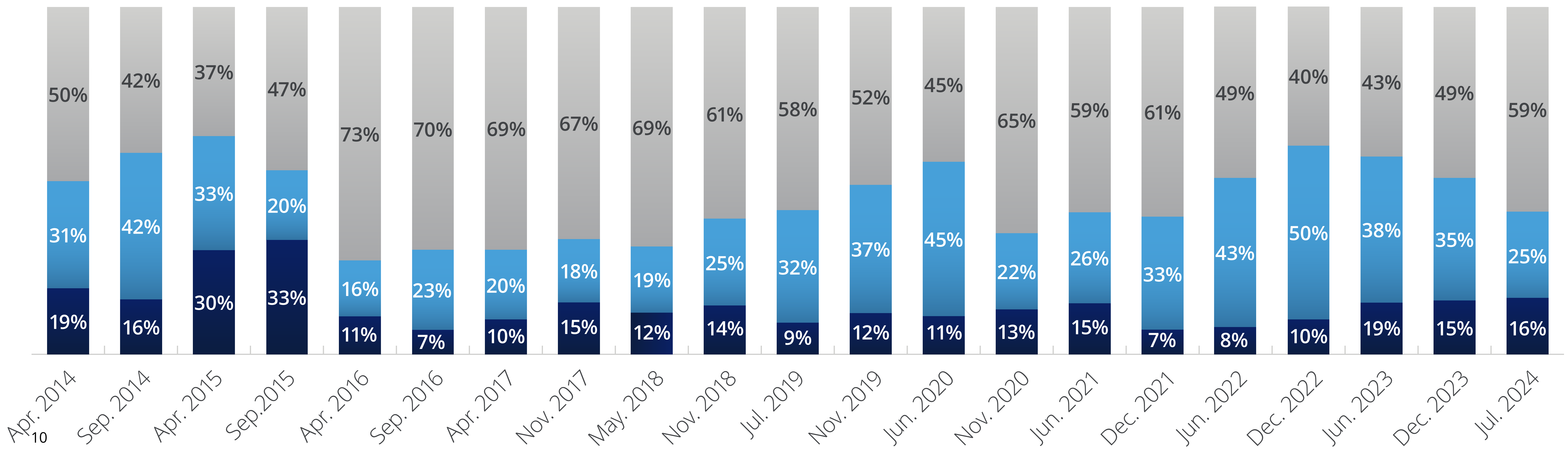
The numbers may point to various factors, all signifying a refreshing shift away from defensive investing, with portfolio management typically the preserve of challenging backdrops. Firstly, it may be that the highly experienced deal teams we surveyed have sufficient expertise to navigate current landscapes. It may also be that they have tracked businesses for some time and so have time to gain comfort around trading conditions and believe in financials (which have become tricky owing to companies' varying narratives around the last few unprecedented years).

It will also be the case that private equity is paid to invest across cycles, not time them, and so needs to put committed capital to work or risk their management fees and possibly future funds.

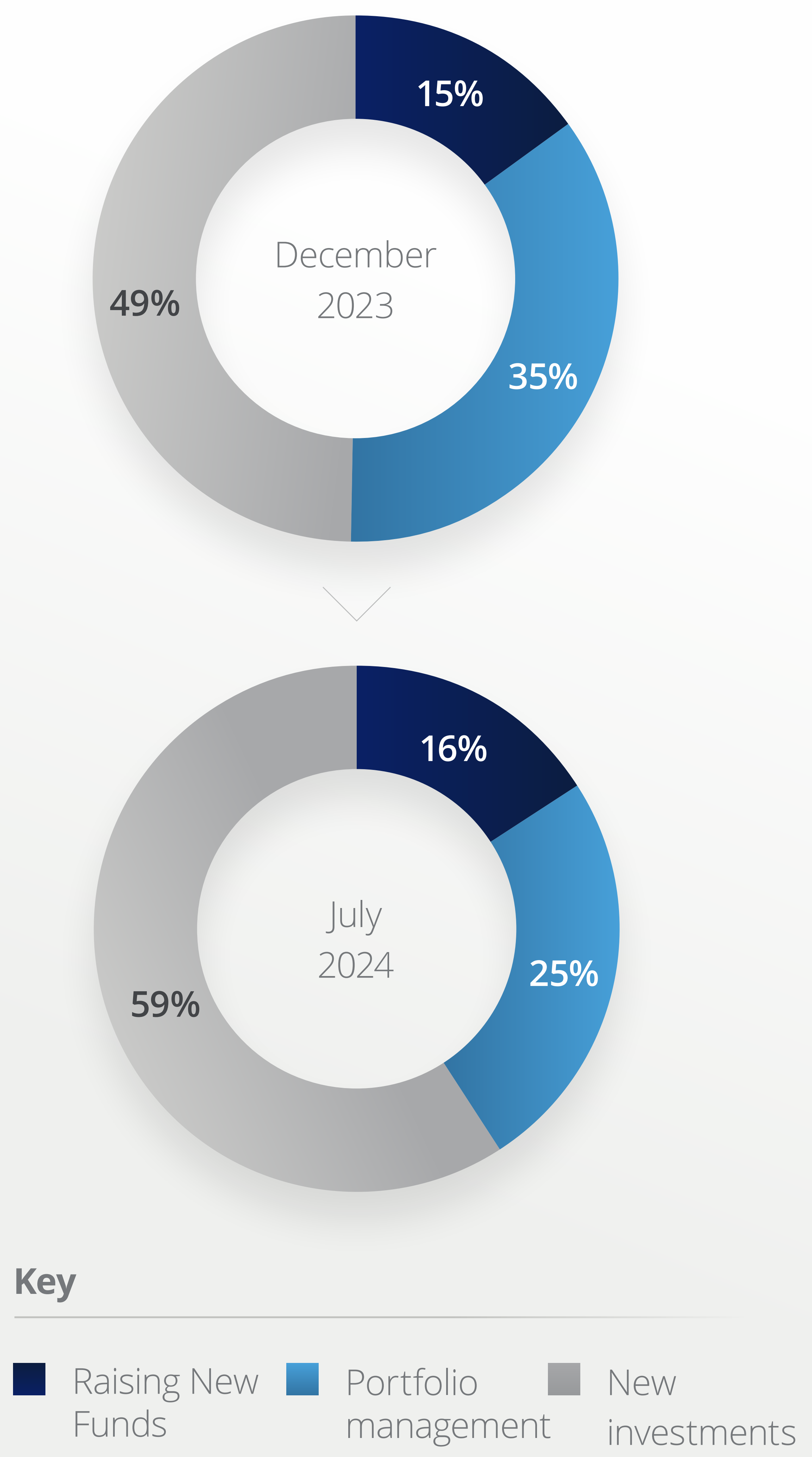
A number of successful fundraises recently mean there is more capital to deploy into growing businesses in the region. Innova Capital closed its seventh fund in April on €407 million, it's largest ever. The firm has made over 70 investments across the region since it was launched in 1994.

Structured growth capital provider Accession Capital Partners (ACP) also recently raised its largest vehicle, with €336 million achieved for AMC Fund V. 3TS closed its tech fund TCEE IV on €111 million and Value4Capital just hit €110m for a first close of V4C Poland Plus Fund II, making it 20% larger than its predecessor and exceeding the hard cap. bValue has raised €90 million to back tech scale-ups in Central Europe, and Genesis Capital has launched its seventh fund with a target of €250 million.

For this period, I expect to spend the majority of my time focusing on:



Investors' focus
(December 2023 vs July 2024)



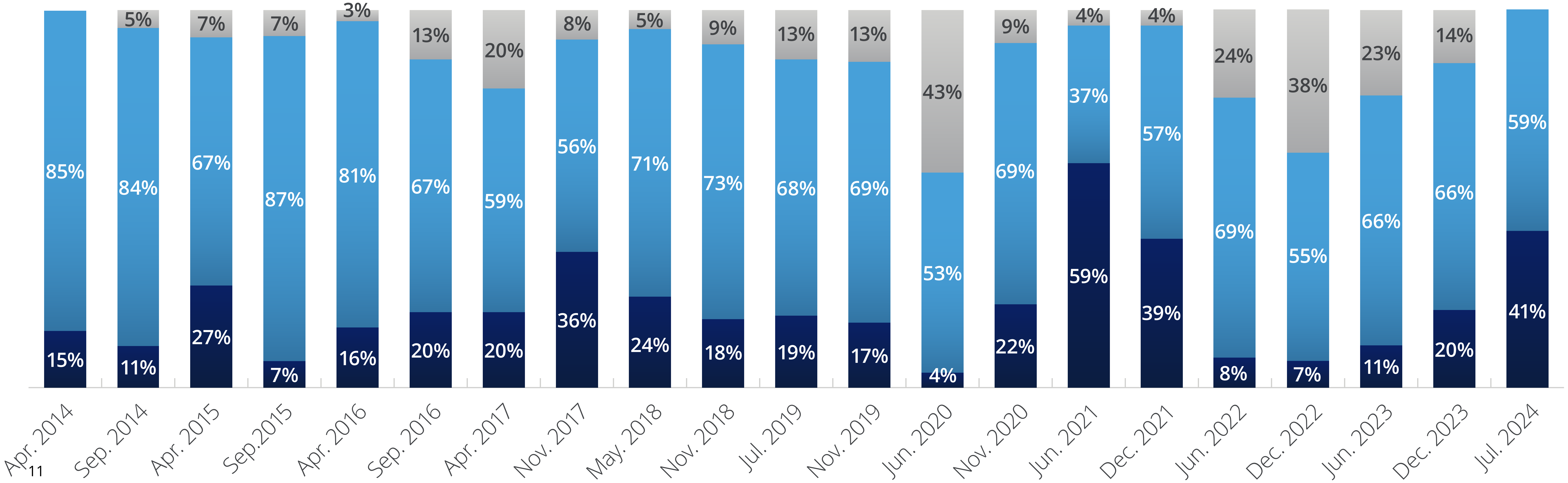
Size of transactions

Larger transactions may be staging a comeback, with over two-fifths of deal-doers (41%) expecting average deal sizes to increase, more than double our last Survey. Furthermore, for the first time in a decade, no respondents expect deal sizes to decrease.

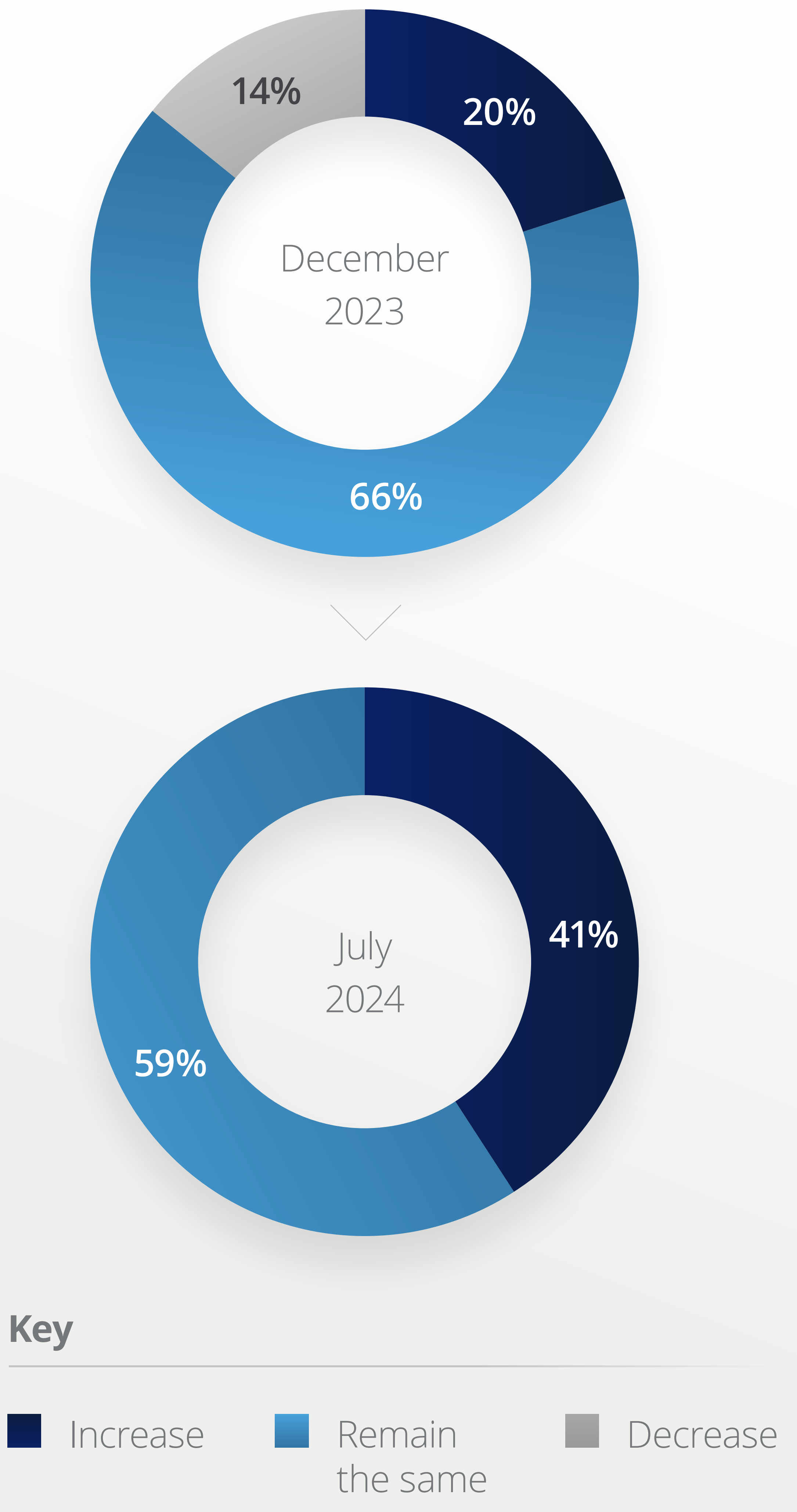
It may be that improved liquidity is supporting transaction sizes as sponsors can better meet pricing expectations through leverage.

While the region has long been a mid-market opportunity, the years have seen a number of large deals come to market. For example, this summer saw global PE giant CVC make its first Hungarian investment when it bought Partner in Pet Food from Cinven after tracking the asset for a decade.

For this period, I expect the average size of transactions to:



Size of transactions
(December 2023 vs July 2024)



Market activity

Expectations around market activity are stabilizing, with over half of respondents (51%) expecting activity levels to remain the same, up from 37% last time. Over two-fifths expect an increase, an impressive number but down on last Survey's 49%. Countering this is the fact that the proportion expecting a reduction in activity has more than halved to just 6%.

The deals being agreed now should perform well, with 84% confident it will be a good vintage (see page 18).

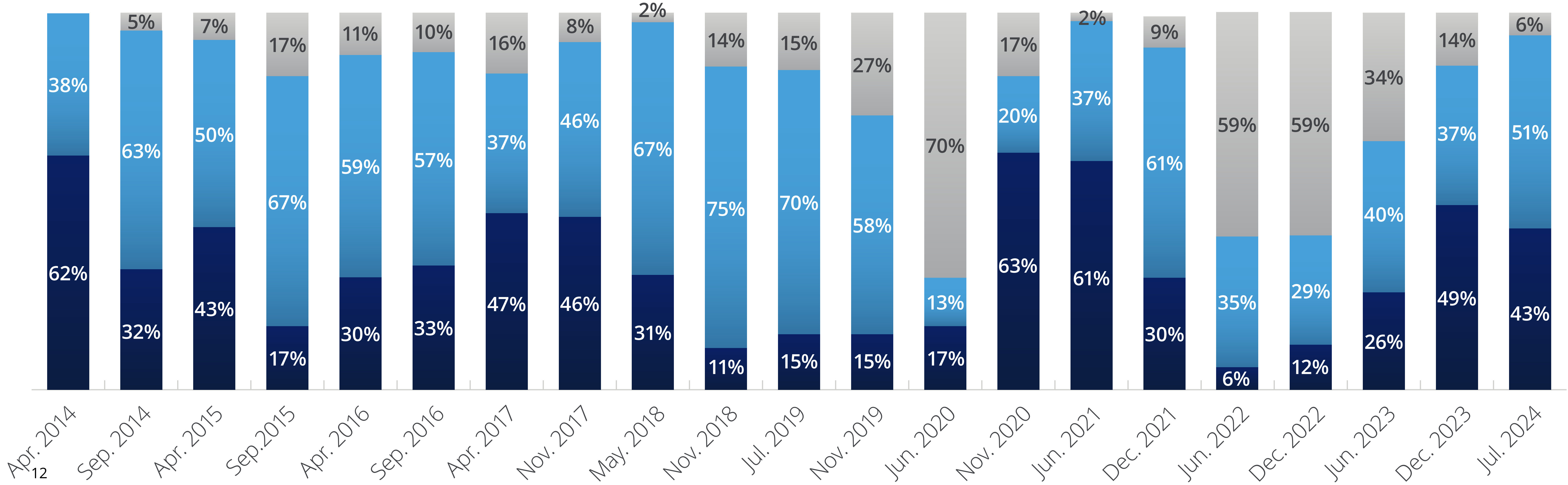
Transactions in 2024 span a variety of new investments, exits and a lot of bolt-on activity.

Innova is having a busy year. In addition to closing its seventh vehicle, the long-time CE PE investor made minority investments to two companies (CloudFerro, Dimark) and supported three bolt-ons for its existing portfolio.

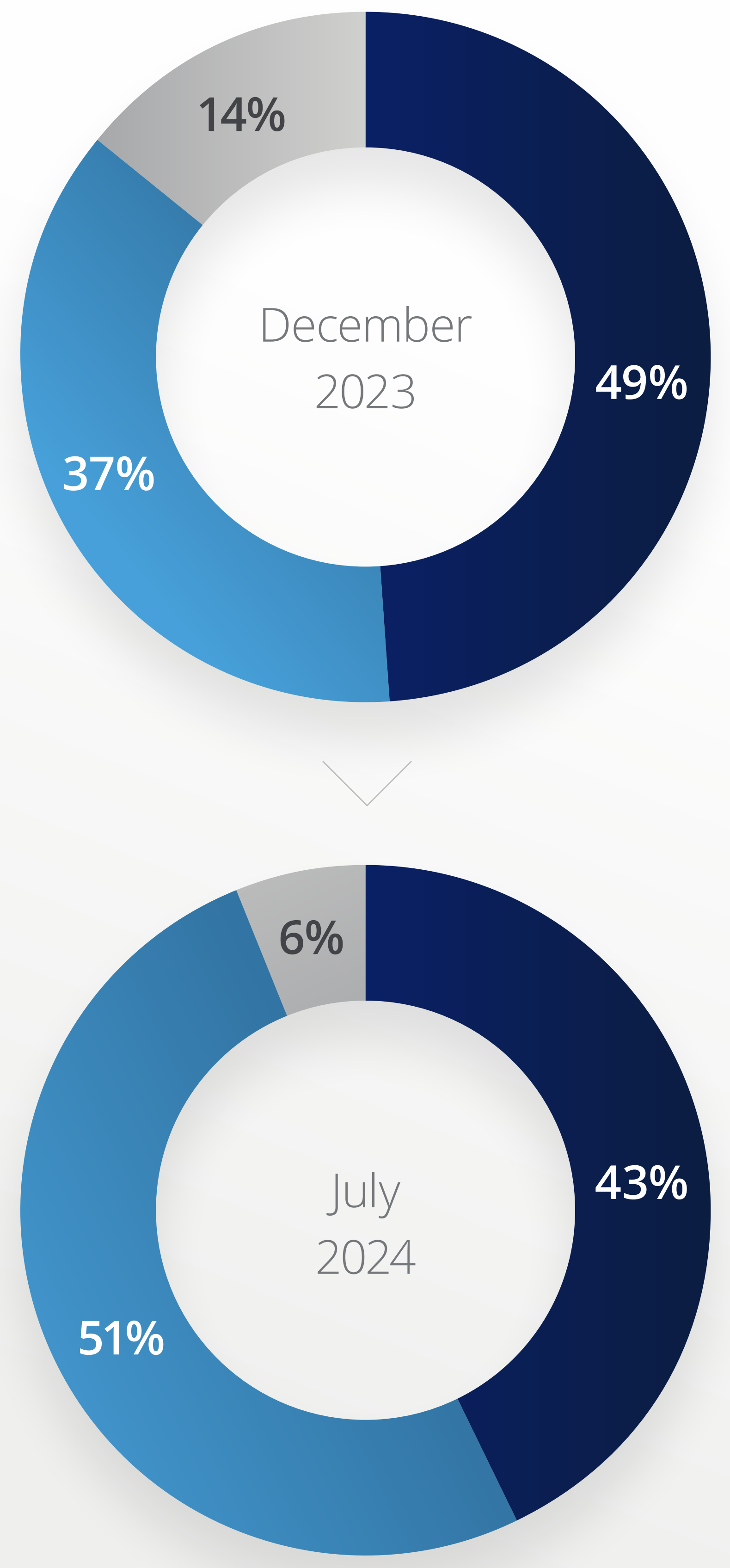
Genesis Capital has also had a strong H1, announcing the sale of HP Tronic, a portfolio add-on for PFX, a minority investment into Kasper and buyouts of Predvyber, GAF and Schulte. MidEuropa announced its fourth acquisition for eye health specialist Optegra, as well as a first international acquisition for software specialist Symfonia.

Enterprise Investors led the €24.7 million investment into Sescom, a facility management provider servicing the modern retail sector.

For this period, I expect the overall market activity to:



Market activity
(December 2023 vs July 2024)



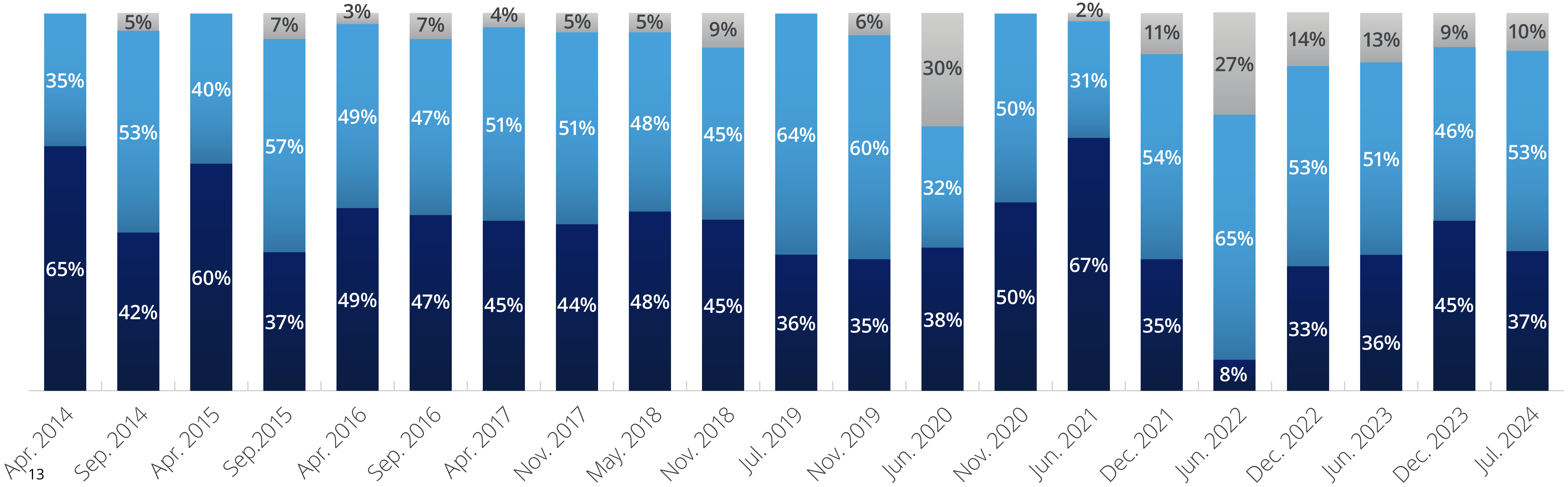
Key

Increase | Remain the same | Decrease

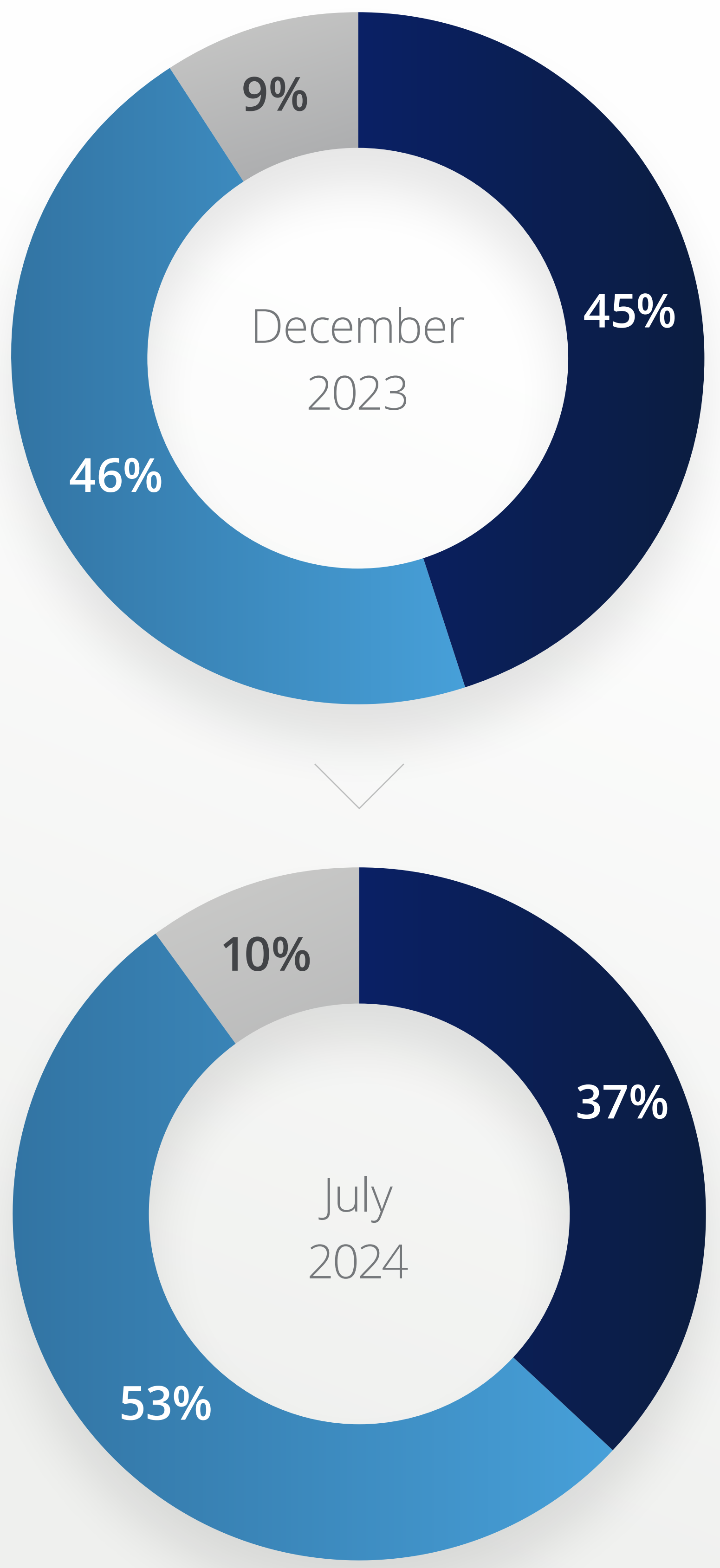
Investment return

Confidence around financial efficiency of investments has stabilised, with over half (53%) expecting efficiency to remain the same, up from 46% in our last Survey. There has been a commensurate reduction in those expecting efficiency to improve, with 37% expecting this, down from 45% last time. Those expecting a reduction was flat on a tenth.

For this period, I expect efficiency of my financial investments to:



Investment return
(December 2023 vs July 2024)



Key

Improve
Remain the same
Decline

Investors' activities

Expectations around buying and selling have shifted gently to land in line with expectations a year ago. Nearly half (47%) expect to buy more than they sell, down from 57% last time. Over two-fifths (41%) expect to buy and sell equally, up from last Survey, and 12% expect to sell more, flat on last time.

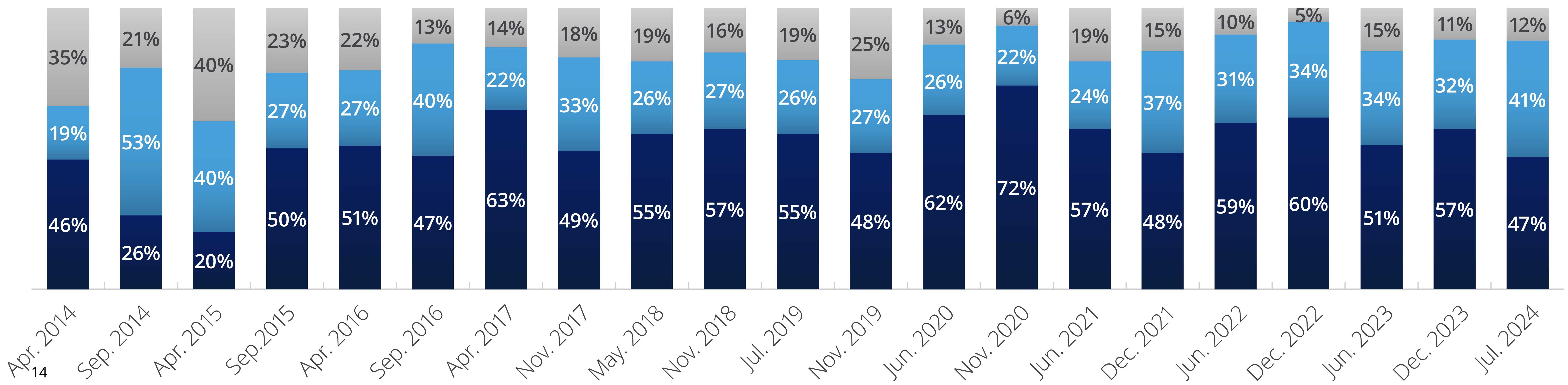
To suggest that the backdrop drives activity is an oversimplification, and erroneously suggests private equity is about mere multiple arbitrage. The fact is that 30 years of private equity in the region means yesterday's reliance on multiples and leverage has given way to meaningful value add through operational improvement, and so businesses being prepared for sale now are likely more agile and professional than when they were invested in.

It also means there is a sizeable buyer universe for private equity-backed businesses: many position their portfolio companies well for transitions to new financial backers which have specialised expertise to help the next phase of a company's growth or have the capacity to support a larger-scale business. Additionally, strategic buyers may be looking to scale or access new verticals or geographies through M&A and so seek out professionalised private equity-backed business.

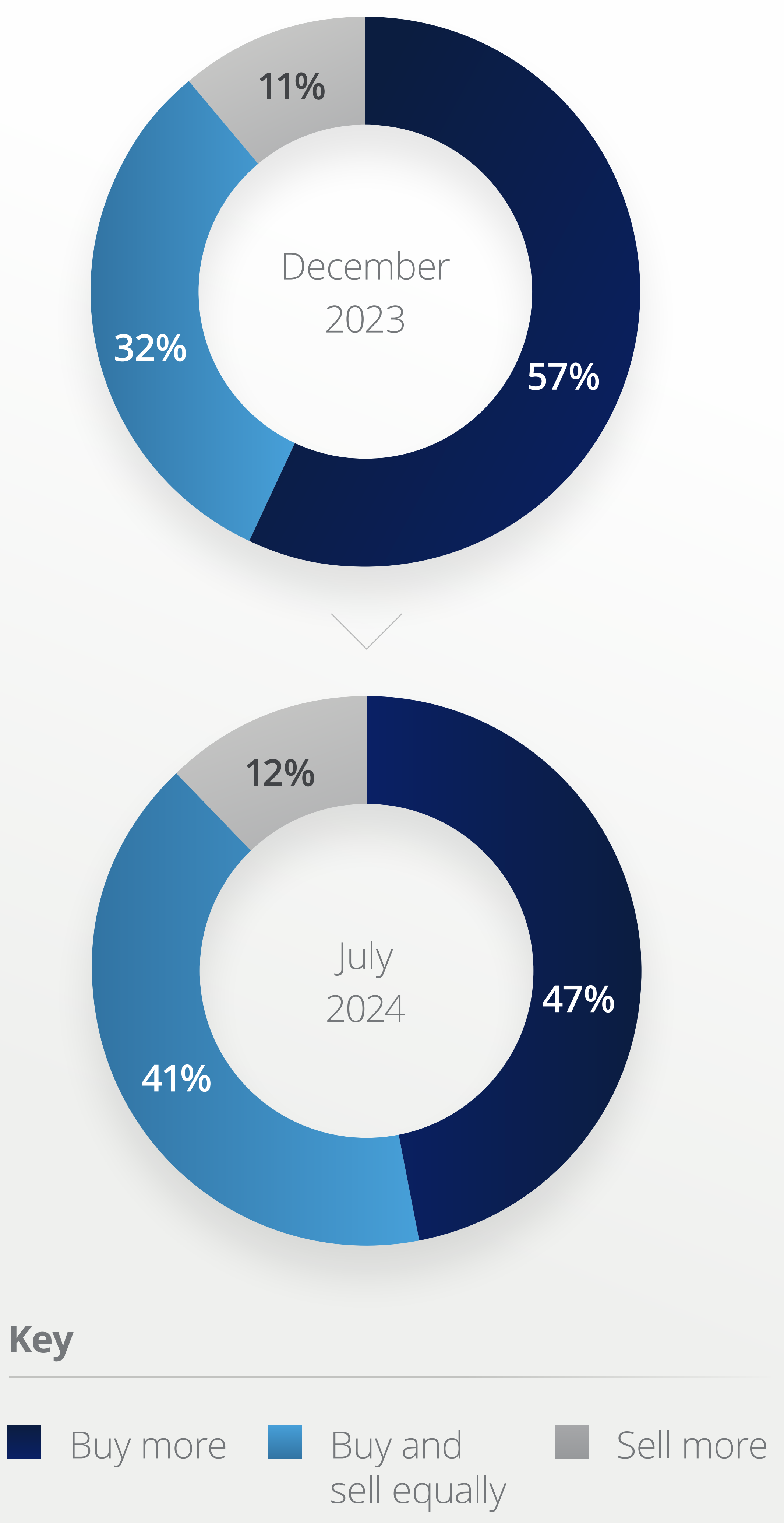
The semester this Survey covers saw a number of exits. Abris Capital Partners agreed to sell private healthcare provider Scanmed to the American Heart of Poland Group, while Enterprise Investors sold wine business JNT Group to its management team. Livona sold corporate wellness business Stebby to a French strategic buyer after a two-year hold. Nordic Capital sold Unisport to Innova-backed R-Gol while 3TS sold its software business Perfect Gym to a PSG Equity-backed trade buyer. Genesis Capital's Growth Equity Fund made its debut exit with the sale of Homecare Holding to a Czech buyer.

Some firms also reported multiple investments during the first half of 2024. Accession Capital Partners announced three investments, into SMYK, Wiss and eFaktor. Genesis Capital made an investment into recruitment specialist Predvyber and HIG Capital, a US investor, backed CGH, a storage tank maker based in Poland.

For this period, I expect to:



Investors activities
(December 2023 vs July 2024)

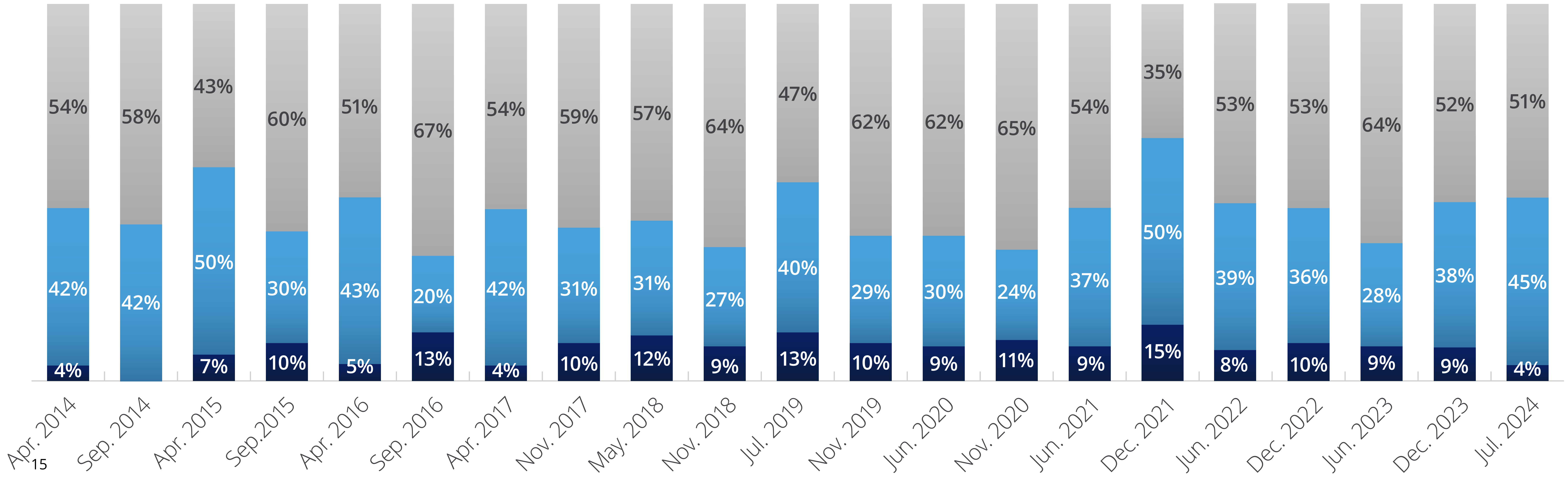


Competition for new investments

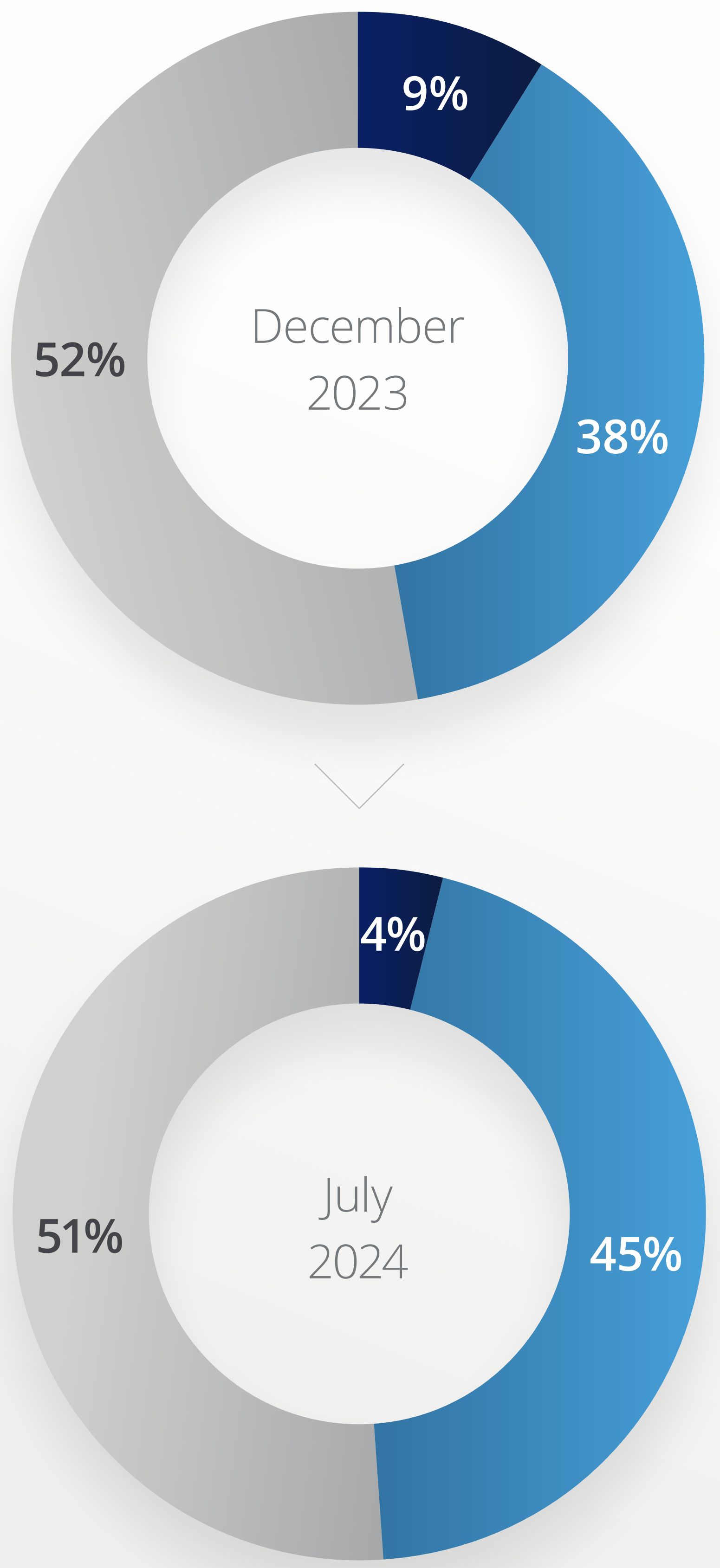
Our latest Survey reinforces the notion that investors are looking to middle-size growing companies for opportunities to drive growth, with nearly half (45%) expecting them to be the most competitive in the market this year. While half (51%) still expect market leaders to command the highest level of interest, this is down from a year ago and suggests a shift towards smaller businesses.

Historically market leaders could attract financing through established revenues and cashflows and so underpin lending. However, the advent of credit funds – now established for over a decade in the region – means bespoke offerings can adeptly diligence mid-market companies and identify potential, enabling sponsors to secure leverage for such deals.

For this period, I expect the highest competition for new investment opportunities in:



Competition for new investments
(December 2023 vs July 2024)



Key
Start-ups
Middle size growing companies
Market leaders

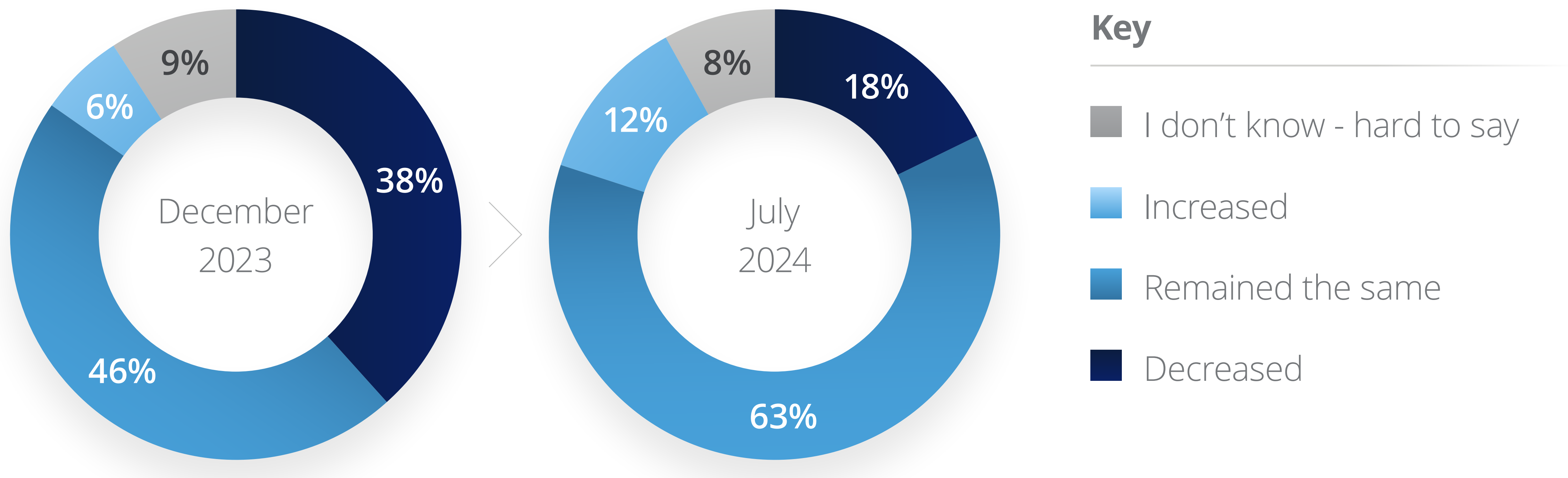
Vendor pricing

Sentiment around pricing is varied.
The percentage feeling prices increased this year has doubled to 12%, while the proportion feeling they have come down has dropped markedly from 38% to 18%. The lion's share (63%) feel they stayed the same.

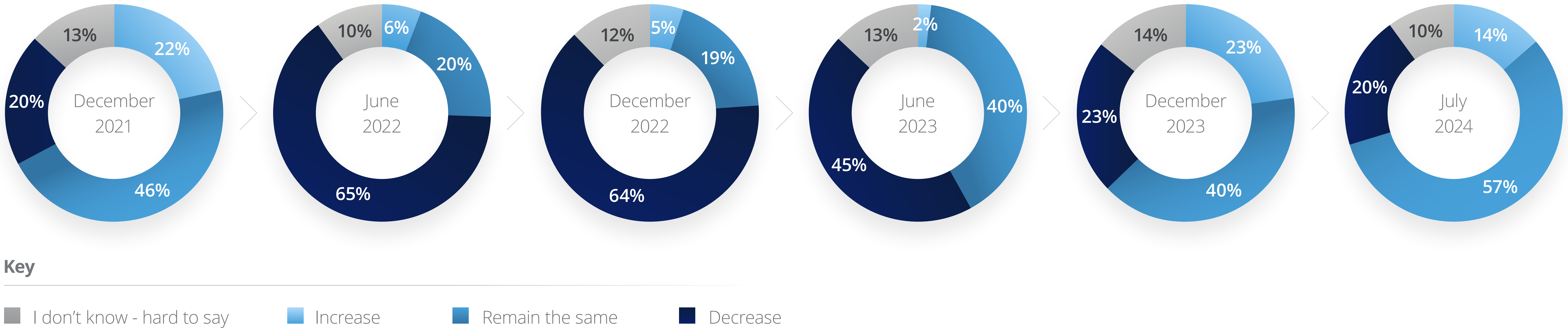
The year ahead may be more stable, with 53% feeling prices will remain, more than over the Winter. Just 14% expect vendors' pricing expectations to increase, down from 23% six months ago.

There are multiple possible explanations for the shift in expectations. It may be that prospective sellers have had sufficient time to understand the market and how it's evolved and so are more accepting of prices in line with would-be buyers. This may be down to time, sound advice, or a mixture of both. It may also be that owners' circumstances are changing, whether because of personal aspirations or a business's own growth plans.

Relative to 6 months ago, vendor pricing expectations have:



Over the next 12 months, we expect vendor pricing expectations to:

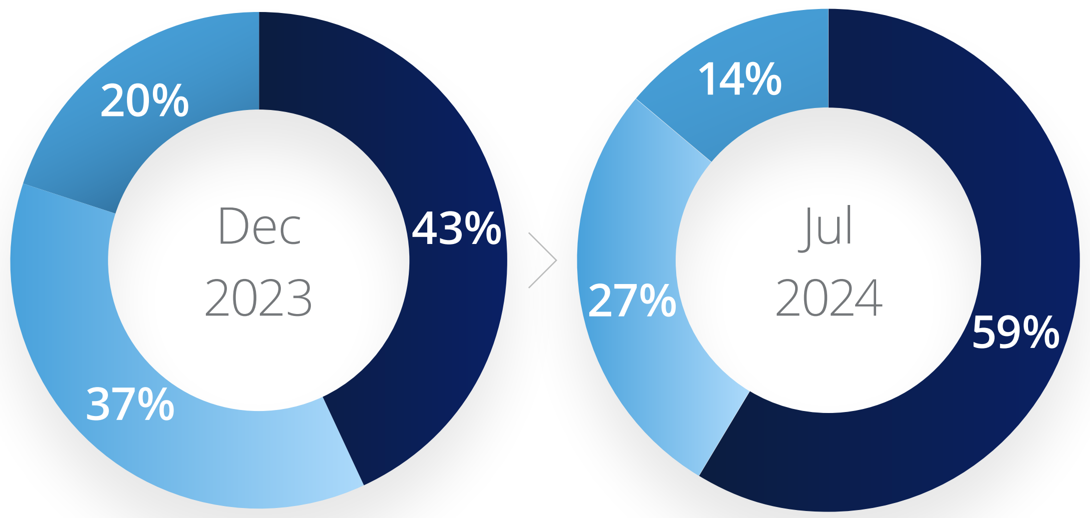


Impact of uncertainty

Impact of uncertainty

Deal-doers are more comfortable with today's backdrop, with 59% persisting with sale processes, up from just 43% six months ago. Fewer are awaiting a 'better time', with just 14% doing so now, down from 20% in the Winter.

Are you putting off sales processes as valuations are impacted by uncertainty /higher interest rates?

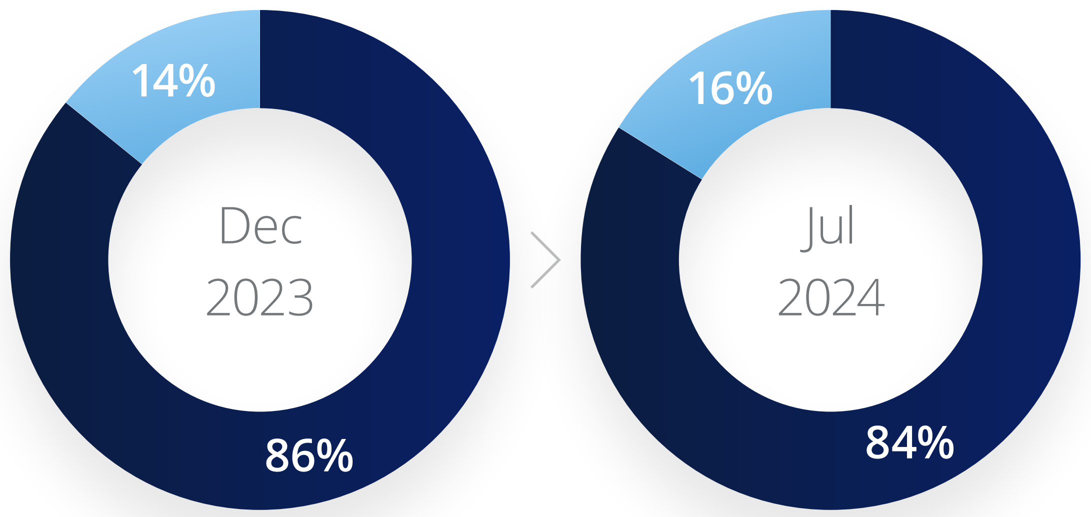


Key

- Yes, we are waiting for a better time to go to market
- We are currently assessing/pursuing select divestments owing to inbound interest
- Our processes remain underway

Deal-doers remain overwhelmingly confident that 2024 will be a good vintage for investments, with 84% stating it will be a strong time to invest, flat on our last Survey and up from three-quarters a year ago. While only time will tell whether this proves true, it is believed that vendors' price expectations are stabilizing (see page 16) and this may mean more transactions will sign for the remainder of this year and into next.

Will 2024 be a good vintage for Private Equity fund investments?

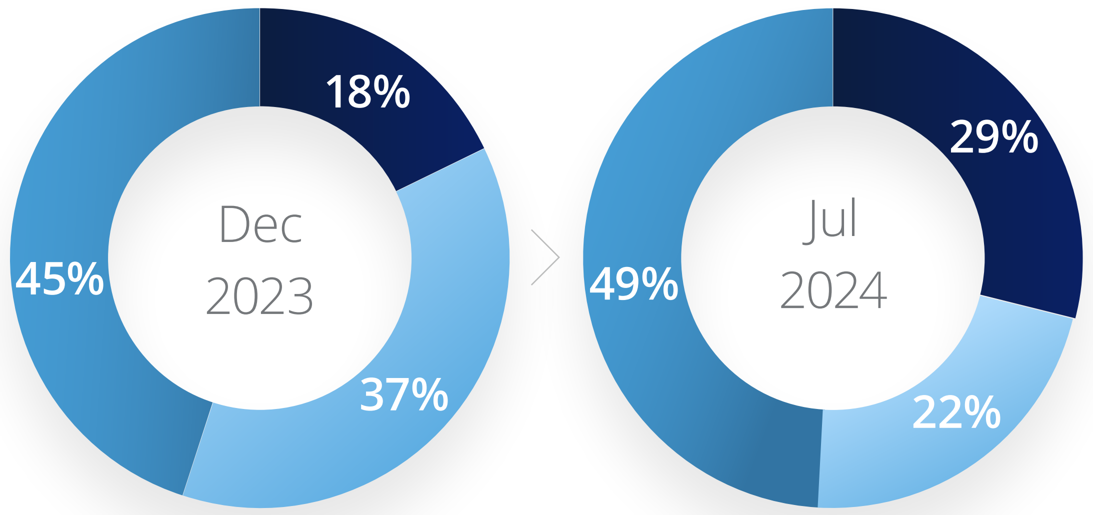


Key

- Yes
- No

Pipelines are getting stronger, with nearly half of respondents (49%) feeling there are more actionable opportunities now than six months ago. Nearly a third (29%) feel pipelines are the same, while 22% feel they are deteriorating – roughly flat on last Survey.

Is your deal pipeline:

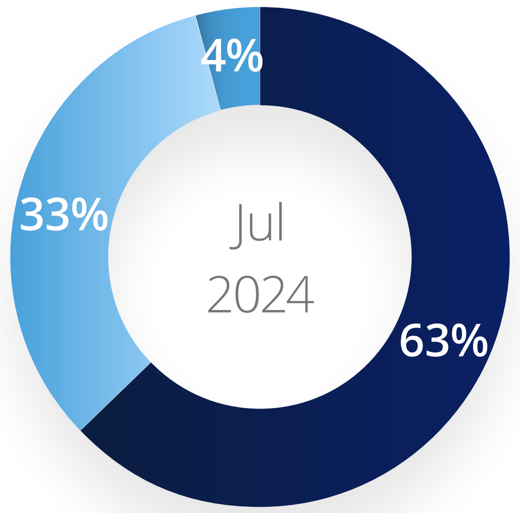


Key

- Looking better (more actionable opportunities) than 6 months ago
- Looking worse (fewer actionable opportunities) than 6 months ago
- About the same as 6 months ago

Private equity has long been about drivinggrowth across cycles, and our latest Survey attests to this. Despite ongoing uncertainty, (4%) of transactions closed in the last two years are underperforming. The vast majority (63%) are performing in line with expectations and a third (33%) are meeting revised growth plans as the evolving backdrop meant reassessing and recalibrating priorities. These figures are steady on six months ago and likely reflect deal-doers' ability to foster resilience by bringing expertise to bear, both from the firms' experience across previous cycles and also the learnings of diverse portfolios.

Are transactions you closed in the last 24 months:



Key

- Underperforming and considering options to refocus the strategy or finances
- Performing in line with revised growth plans as the backdrop necessitated reassessing priorities
- Performing in line with expectations

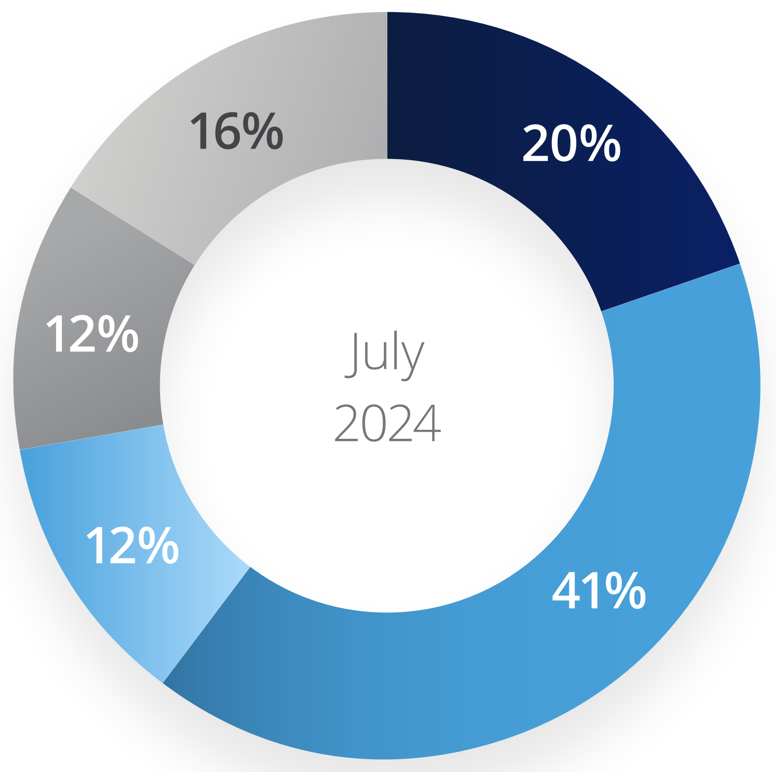
Sustainability and ESG

Sustainability and ESG

The majority of PE deal-doers in Central Europe are taking environmental concerns and sustainability seriously, with over two-fifths (41%) starting to develop future commitments and targets towards climate neutrality and another fifth having already implemented formal decarbonization commitments and targets. At the beginning of this year, MidEuropa announced it had its greenhouse gas emissions targets validated by the Science Based Targets Initiative. Its target for Scopes 1 & 2 is to reduce emissions by 42% by 2030 and the firm has committed over a third of its portfolio to announce SBTs by 2028.

Over two-thirds of houses in CE have policies that include ESG factors, either specific investment policies (53%) or ESG improvements post-deal (18%). The high percentage illustrates growing understanding of the importance of ESG among regional deal-doers when it comes to driving value and attracting commitments.

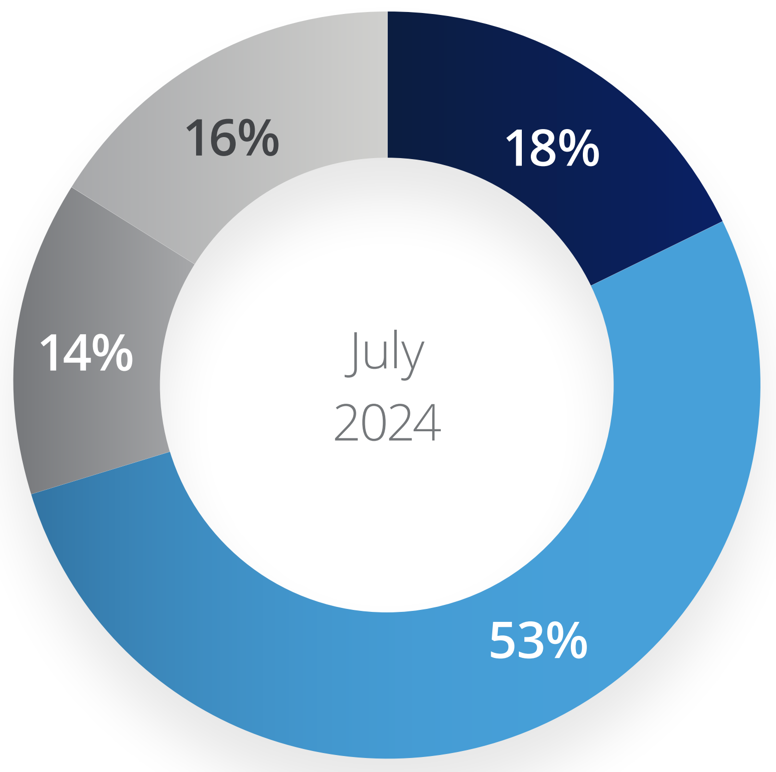
Has your fund made any commitments towards climate neutrality?



Key

- No, and I don't think it's something we will implement any time soon
- Not yet, however, we will be moving in this direction
- No, we are not focusing on that aspect of our operations
- Yes, we have started to develop our future commitments and targets
- Yes, we implemented formal decarbonization commitments and targets

Has your fund implemented a formal investment policy which incorporates ESG (E-environmental, S-social, G-governance) and sustainability factors as part of investment decision considerations?



Key

- No, and I don't think it's something we will implement any time soon
- Not yet, however, we will be moving in this direction
- No, we implemented an investment policy, however, it doesn't specifically include ESG factors
- Yes, we implemented an investment policy which specifically includes ESG factors
- Yes, we implemented specific measures (eg. 100 day plan) which are connected with ESG improvements among portfolio companies

Technology

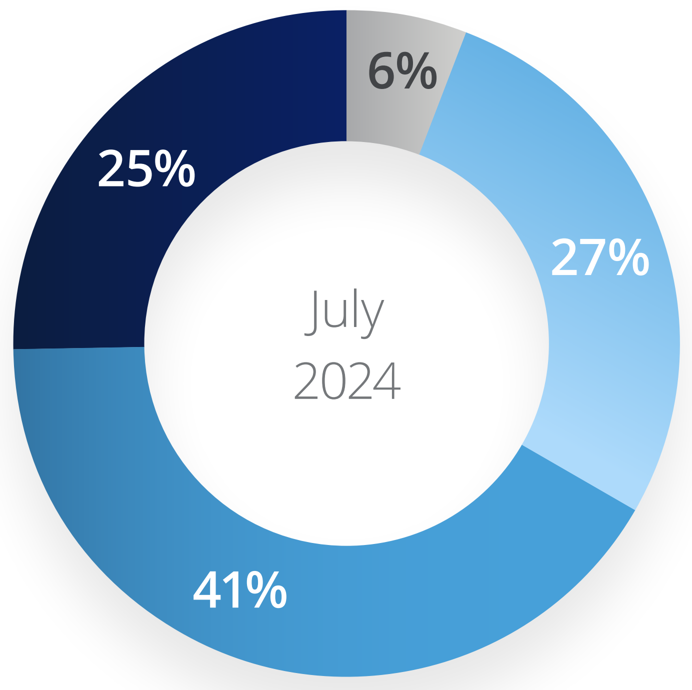
Why technology, IT, and cyber security are critical factors in M&A deals

Technology capabilities matter in M&A

Private equity firms deem technology capabilities of their Targets even more important now than six months ago as more and more companies become impacted by cyber threats and business cases depend on robust technology implementation.

The percentage that consider IT and Cyber highly important has gone up a third to 41% while those deeming critical remained flat on a quarter. Similarly, the percent that deem such capabilities of medium importance has come down from a third to a quarter.

How important do you deem Technology, IT, and Cyber aspects during the due diligence process in M&A transactions?



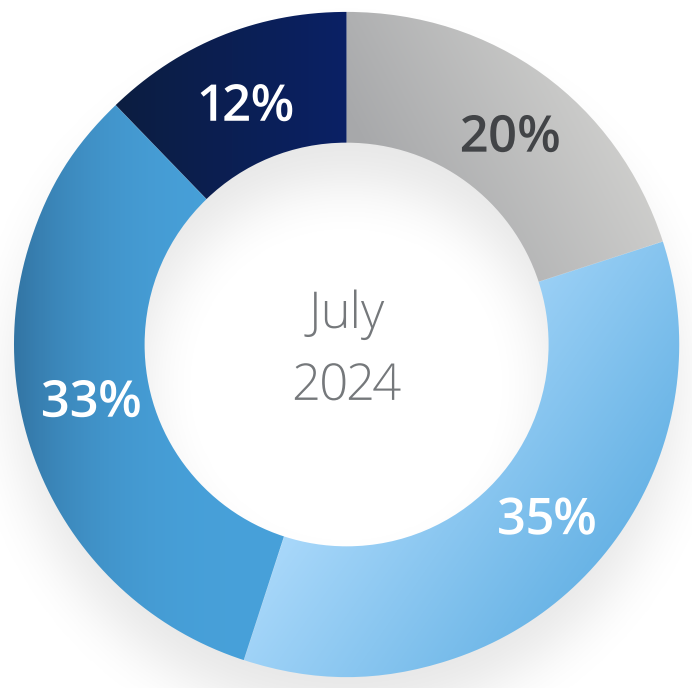
Key

- Critical importance: These factors are integral to a company's overall health, performance, and potential risks; they significantly influence the success and synergy of the deal
- High importance: Cyber failures can influence the valuation of the company and can have a significant impact on EBITDA with future tech-related OPEX
- Medium importance: They are important only for potential material risks with high potential value
- Low importance: Technology, IT, and cyber component have a very limited influence on the process

Embracing AI

While looking for growth drivers, one of the strategies private equity investors use to boost portfolio performance is harnessing data and embracing artificial intelligence (AI). Over a third (35%) have data governance but aren't yet utilizing AI, while another third are engaging with external consultants to drive this. Over a tenth (12%) have internal expertise supporting its portfolio in this area, and a fifth are not yet exploring this.

Are you working with your portfolio to harness company data and enhance its performance with AI?



Key

- We have in-house expertise to support this
- We are exploring both topics with external consultants
- We have data governance, but not working with AI yet
- No, this isn't something we're doing

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