Private Equity: Trends and Outlook for 2023

AlphaSense

What's Inside

Introduction

In order to inform the most likely outlook for private equity (PE) in 2023, it is important to look back at the most impactful trends of the past year. By noticing the patterns, key issues, and relevant events that have affected PE in the past, we can get a much better understanding of what trends to expect in the coming year.

Geopolitical risks, rising inflation, higher interest rates, and economic uncertainty have been and still are creating new challenges for private markets across the globe. Using the AlphaSense market intelligence platform, we were able to uncover the key trends affecting the private equity space on a country and regional level, as well as on an industry level.

In this guide, we will share these critical insights, as well as how they translate into an outlook for 2023 private equity trends.

Top Private Equity Trends to Pay Attention To

- Deal flow has slowed down in the first three quarters of 2022, after the historically brisk deals that marked the tail-end of 2021.
- As straight buyouts become harder to come by in a market still experiencing the effects of inflated valuations from last year, PE firms are getting more deals in the form of add-ons, take-privates, and corporate carve-outs.
- As the Fed has been hiking up interest rates in an effort to counteract COVID-19 rate cuts, bond value has deteriorated, leading to bank crises such as the infamous Silicon Valley Bank collapse.
- Data and talent continue to drive a competitive edge in private equity.
- Fundraising can be tough because of the slow exit market but established funds will continue to attract funding.
- Tech and business services will continue to attract investor interest as companies are looking for ways to offset rising costs and margin squeezes.

Data and talent continue to drive a competitive edge in private equity.

- **Environmental, social, and governance (ESG) considerations now take a critical role in how PE funds are making investments.**
- **Special Purpose Acquisition Companies (SPACs) were increasing in popularity for a time, but took a sharp decline in the latter half of 2021.**
- **Messaging cadence and curation**

CHAPTER 2

Global Private Equity Trends

United States Private Equity Trends

Perhaps the biggest development in the US affecting the PE market for 2022 is the passage of the Inflation Reduction Act. The Inflation Reduction Act of 2021 sent waves throughout the private equity industry, but new adjustments to the law have proved less restrictive to firms.

The Inflation Reduction Act's incentives for projects in the renewable energy space–wind, solar, carbon capture and sequestration, hydrogen, and other technologies–have increased confidence in investors to enter the renewables space. The IRA targets $369 billion for energy and climate investment over the next decade, improving the longer-term outlook of investments in renewables and compelling PE investors to take a strategic look into the sector.

ESG considerations, which were previously considered PR devices and "nice to haves", are [now seen as important strategic factors](), with the IRA adding a slew of new, longer-term incentives for projects in the US renewable energy space.

Deals

In Q3 2022, the US private equity market closed a total of $280.64 billion in deals, a YoY decline of 20.4%, according to [PitchBook data](). While there's a lot of dry powder waiting to be deployed, firms and investors have become more meticulous with due diligence, seeking diamonds in the rough and looking for structured ways to acquire new assets.

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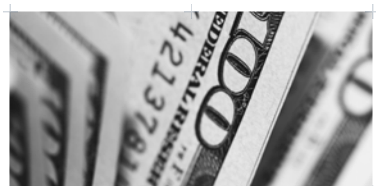

Financing deals by traditional means is a challenge with many limited partners (LPs) still waiting for re-ups due to the slowdown of exits, and instead choosing to stay with established relationships to weather this period of uncertainty.

UK Private Equity Trends

The GBP has been in a trading slump against the US dollar, the lowest dip since the 1980s. For US dollar-denominated funds, analysts expect to see a higher number of deals in the UK as a result of this "sale", according to Blair Jacobson, co-head of European credit at Ares. However, due to rising interest rates and a dimmer economic outlook, as well as the rise in the cost of debt, dealmaking activity has slowed down in 2022.

Non-tech business services that are already well-developed are poised to see continuous interest in the form of PE investments as a lower-risk strategy for deals in the midst of tough times.

Consolidation of these sectors is attractive for PE firms looking to deploy capital in the space and create business value for existing portfolio companies or gain share in established verticals, according to Jonathan Boyers, Head of KPMG's UK Corporate Finance practice.

Deals

Completed private equity deals in the UK. totaled 96 with an aggregate value of £19.7 billion in the six months to June 30, according to data from KPMG.

Dealmaking on the whole has been slow for the entire year, with talks of a deep recession already in circulation. Multiples are down, with buyers cooling interest amid inflated price tags of the previous year.

In the first half of 2022, there have been 96 total PE deal completions with a total value of around $23 billion. PE giant KKR closed on a $2 billion deal with ContourGlobal PLC, a renewable energy company, in one of the largest deals of the year for the United Kingdom market.

The macroeconomic backdrop has similarly slowed down fundraising for UK firms but six firms still managed to close $1 billion in 2022 funding for PE vehicles, with BC Partners closing the biggest fund at $7.8 billion for their European Capital XI Fund early in the year.

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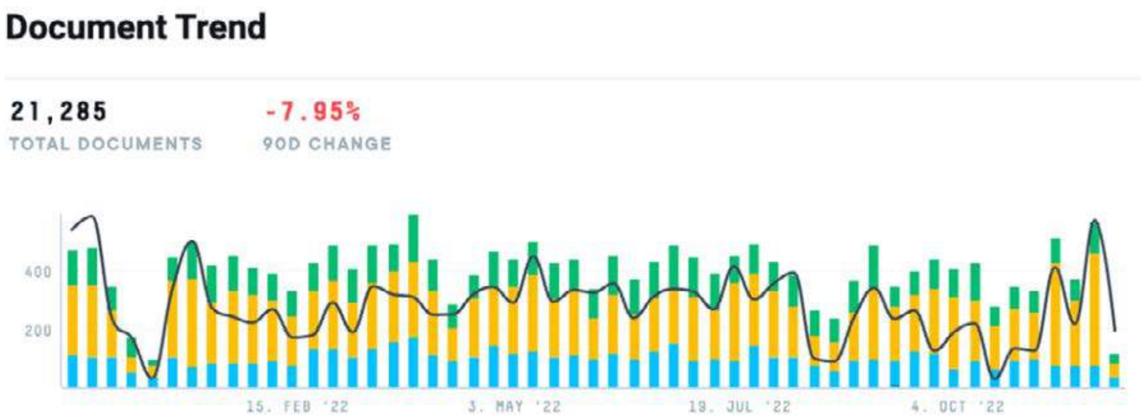

Canada Private Equity Trends

Financing has been a struggle for PE firms in Canada as it deals with the general slowdown of deal flow brought about by the broader economic situation worldwide.

Private capital invested hit a record low at the beginning of 2022, with Q1 recording a total of $1.4 billion in deals compared to the previous year's Q1 total of $2.6 billion, according to the Canadian Venture Capital & Private Equity Association.

Total H1 investment was $4.96 billion, spread over 420 deals, according to Mondaq. Mondaq reports that the Industrial and Manufacturing sector represented a total investment value of $1.4 billion, accounting for 27% of deals in dollars. In Q1, technology and communications led but ultimately fell behind with only $1 billion in total investments across 77 deals for the entirety of H1.

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Europe Private Equity Trends

With Russia's reduction of natural gas supply and a possible total cut-off looming in the horizon, Europe's biggest PE hurdle is the energy crisis with analysts fearing that a deep downturn recession is already underway. This put an accelerator in deal activity across the energy sector with oil, gas, and coal companies securing $5.36 billion in PE investments in the first 10 months of 2022, up by 83.5% compared to the entire deals of 2021, according to S&P Global Market Intelligence.

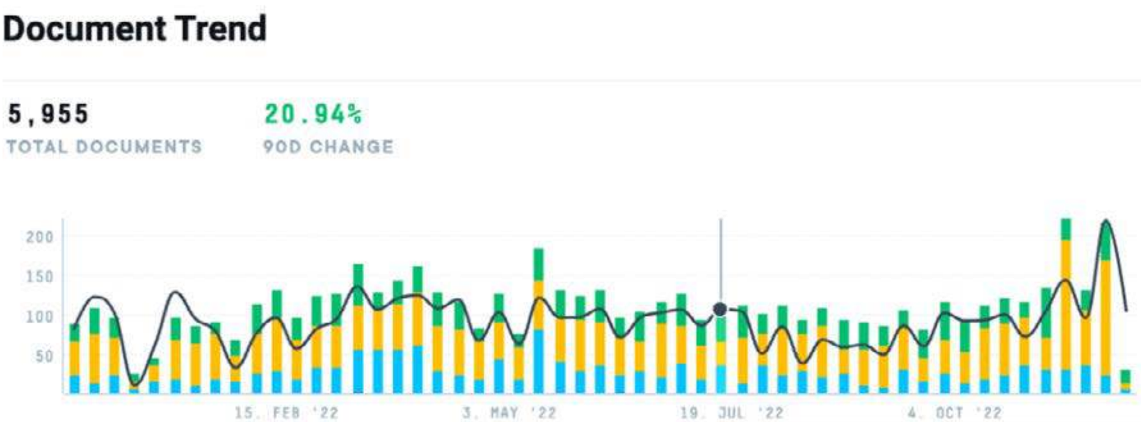
The return to natural gas is a strategic move as more established companies in the oil, gas, and coal space are aggressively increasing their investments in the transition to renewable energy, integrating ESG factors in major business decisions. Likewise, European PE firms are incorporating ESG factors in their overall investment strategies.

Business products and services deals continue to lead volume this year, accounting for 37.8% of PE deals out of Europe from Q1-Q3, totaling $175 billion, a new high since 2006. With an impending recession setting the stage for companies looking inward to improve operations, this sector is expected to continue to gain ground into the new year.

Middle East Private Equity Trends

Mergers and acquisitions (M&A) is the name of the game in the Middle East, with domestic acquisitions contributing to 48% of the deal activity in the region for H1 2022, according to EY research data.

Private equity firms and sovereign investment funds continue to pour resources into the rapidly expanding technology sector in the region. By deal value, UAE, Egypt, Saudi Arabia, Morocco, and Oman lead the pack.



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Africa Private Equity Trends

PE firms continue to see opportunities out of the African market, with H1 of 2022 seeing a total deal value of $4.7 billion across 338 deals, including 22 exits–one of the strongest half-year investment performance for the region, according to [African Private Equity and Venture Capital Association's (AVCA) latest flagship report].

West Africa continues to dominate PE deals by volume, making up a total of 34%. In this region, Nigeria and Ghana lead the pack. In East Africa, Kenya saw the most activity in the first half of the year, securing $330 million in PE investments.

Finance remains to be the leader in investments per sector, seeing the most deal activity (33%) and deal value (44%). Following finance are healthcare, education, and utilities.

The growing interest in the utilities sector in Africa is in line with the greater interest in renewables and clean technology following the current global focus on ESG-conscious investing.

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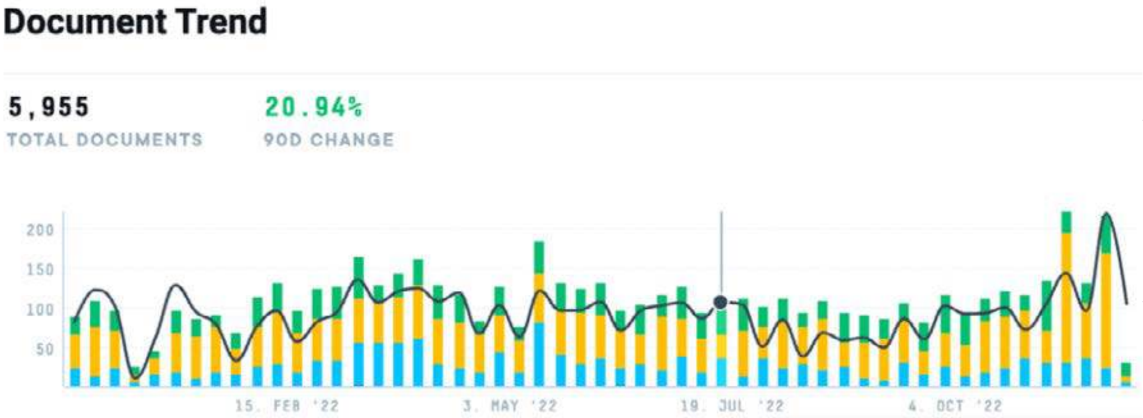
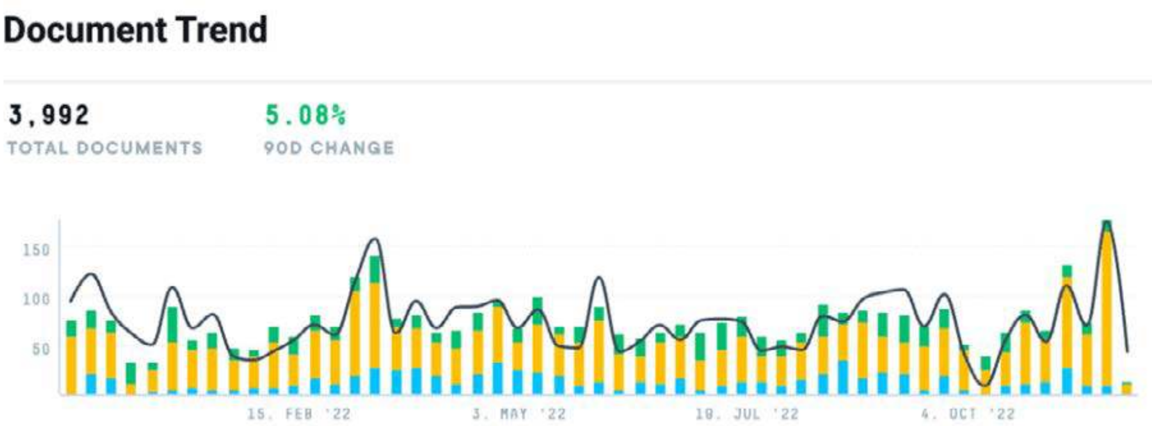


Asia Private Equity Trends

While China remains Asia's biggest player and most dominant force in PE investing given their massive influence on geopolitical and macroeconomic developments in the region and abroad, PE interest in the rest of Asia is seeing a growing focus, searching for new opportunities despite relatively immature PE markets. Overall, PE deal activity in China has dipped, while India and the Southeast Asian countries are seeing a significant chunk of PE investments with big-ticket deals in 2022.



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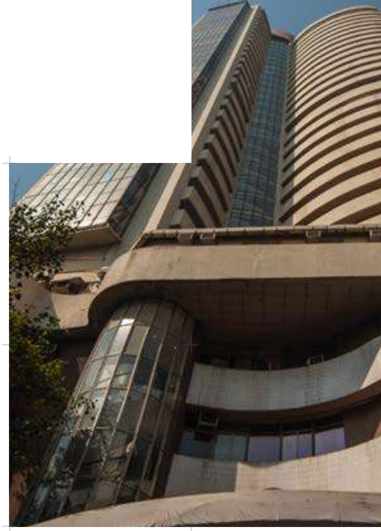
India Private Equity Trends

India has also seen a drop in activity this year. However, with the tightening of the Chinese market to outside investment, India is seeing an inflow of deals with the likes of Canadian pension funds making entries despite major global economic headwinds similarly impacting the country, according to Prakul Kaushiva, managing director of private equity at CPP Investments.

US PE firms continue to be major investors in the Indian market, especially in the tech sector where major leaps are still ripe for investment and disruption as the search for growth equity opportunities in the region continues. A relatively immature tech sector–highlighted for example by the lack of 5G infrastructure in the country–makes for ripe ground in PE investments.

Meesho's $570 million monster deal in September brought renewed vigor into the country's private capital scene. India's tech ecosystem's exponential development is still in full swing, even with tech company valuations coming down as the public market corrects last year's inflated valuations. On the whole, India's PE market still has yet to reach maturity, providing opportunities for those who can see the value in the long game for the world's fifth biggest economy.



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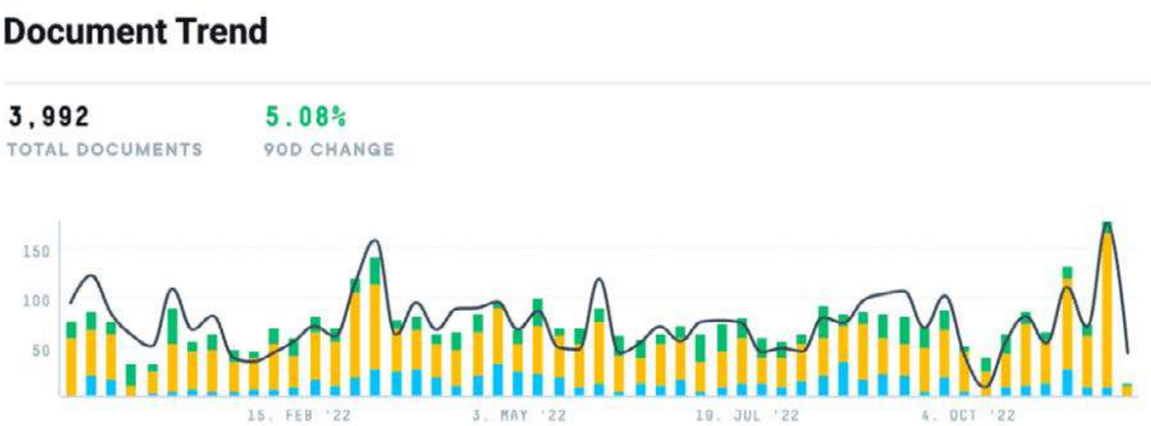

Japan Private Equity Trends

PE's entry into the Japanese market saw a considerable uptick in 2022, with the deal size already exceeding last year's performance, according to [S&P Global Market Intelligence data](#).

US private equity firms set their eyes on the Japanese market, especially in the face of the stronger dollar against the yen and corporate valuations easing off. Acquisitions by US PE firms have a total deal value of $11.26 billion between January 1 and September 12 of this year. Interest rates are relatively lower in the country, a contrast to the increasing rates globally. Fewer regulatory concerns also make the country attractive to investors.

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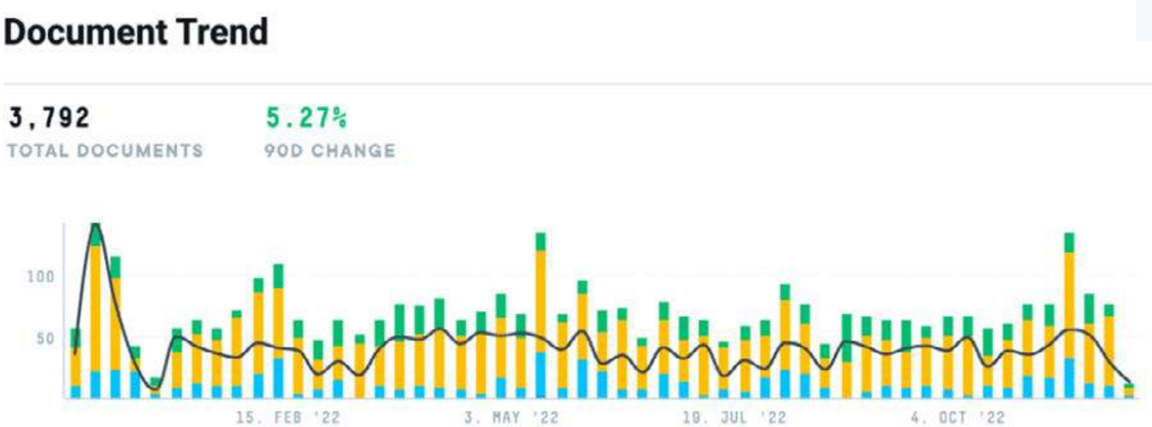

China Private Equity Trends

China still tops PE activity in the region, while it has considerably dipped in the second quarter of 2022. PE and venture capital deal volume in the country declined by 31% in Q2 2022, with the overall value plunging by 79%, per S&P data. US PE firms are the major players, but the interest has declined as Chinese economic activity weakens.

The significant state-directed reduction in PE investment in the first half of 2022 made a significant impact both in deal activity and investor confidence. Still, analysts focused on the region believe that investors looking to make entries and expansion in CPG, logistics, renewable energy, and technology must keep their eyes on the country despite uncertainty and tightening of regulations. Familiarization with the changes in Chinese regulation will be key in keeping pace with the economic giant's PE market maturation.

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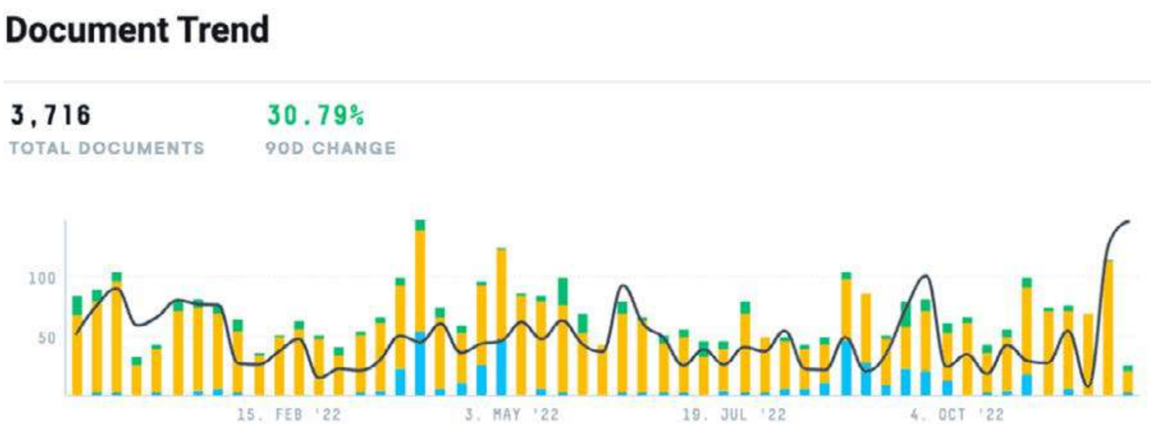

Southeast Asia Private Equity Trends

While PE activity has also slowed down in Southeast Asian countries as PE funds feel the cool-down of just one fund closing this year, the region is still experiencing growing interest as investors look to diversify in the wake of China's abatement of PE activity, as reported by Reuters.

PE giants deep in the Southeast Asian markets are continuously striking deals, most notably Carlyle is looking to close on a sizable equity stake with Malaysia's Caring Pharmacy within the year. However, there are some challenges for PE firms looking to enter the region with PE infrastructure still in its infancy. Data quality across organizations makes for challenging due diligence. Analysts focused on the region see technology and commodities as two sectors ripe for disruption and PE investment.

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Trends in Private Equity by Industry

Pharma and Healthcare

Increased costs in the current volatile market have inhibited growth for many companies in the healthcare sector. Staffing shortages have been a struggle for the sector due to duller topline growth. During these challenges, firms are looking to make moves to improve operations.

Healthcare tech is experiencing mixed interest, with software and equipment that provide immediate operational improvements gaining more interest, according to PitchBook's analysts. In the hardware arena, medical equipment that ensures continuity for high-revenue streams remains strong. Strategic investments in healthcare AI, telehealth, women's health, and financial instruments in the healthcare space are continuously seeing investor interest globally.

Deals in healthcare are holding steady, bucking the overall trend in PE. Healthcare services are at the forefront, with platform businesses still growing rapidly, fetching multiples at the 2019 level. Buyout activity has decreased but high-ticket deals with acquisitions in gastroenterology (Texas Digestive Disease Consultants $2.2B management buy-out), ophthalmology (Olympus Partners' acquisition of EyeSouth Partners at $1B), and eating disorder management (leveraged buyout of Action behavior centers for $840m at a 21x multiple) have closed strong so far this year, according to PitchBook data.

Additionally, there is growing interest among PE giants in entering the biopharma space. Challenging market conditions have not majorly affected interest in the biopharma space, with brisk investment in accelerating R&D and addressing supply chain issues through nearshoring and offshoring capital deployment.

CPG and retail firms are still in recovery mode, presenting favorable deals for PE investments in the sector.

CPG & Retail

Acquisitions in the consumer sector have seen a 50% dip in H1, with PE M&A activity recording only $11.38B in deals, paling in comparison to $24 billion total deal value in acquisitions in the sector for H1 2021, according to S&P. New funds targeting the sector are also slowing, dropping from 69 PE firms with consumer focus to 15 as of July 2022.

A dislocated market lends opportunities for keen PE firms, however. Seeing massive transformation brought about by the pandemic, CPG and retail firms are still in recovery mode, presenting favorable deals for PE investments in the sector. Further transformation in the form of improving data-driven decision-making and fueling e-commerce growth are early winners for PE entry.

Entertainment, Travel & Tourism

In the entertainment, travel & tourism sector, there's a rise in PE investment in content, with big news of music catalog acquisitions from giant PE firms setting the tone. Blackstone and KKR have both made waves establishing funds targeted at acquiring intellectual property in media verticals, in line with the global surge in streaming platforms' popularity.

In-person events and content ownership also drive the growth of PE investment in sports, with PE firms establishing entertainment-focused funds to seek out sizable investments in established media powerhouses across various sports. On the back of US dollar strength, acquisitions of non-US sports organizations have also hit the news–most notably RedBird Capital Partners' takeover of Italian football team AC Milan.

For travel and tourism, analysts globally are optimistic about recovery in a post-lockdown world. Broader economic challenges are posing risks to a swift pick-up, but PE interest in the space is still present.

Energy, Oil & Gas

Volatility in energy prices creates opportunities for PE entry. While Brent crude oil prices tumbled sharply in Q3 averaging 25% percent below their June highs according to World Bank data, prices are still above the five-year average, giving investors the opportunity to make strong exits to offset slowdowns in other areas.

Despite the overall slowdown of PE activity in the second half of 2022, oil and gas firms are seeing PE interest, especially for firms looking to make exits while prices remain favorable, and those who are looking to make strategic investments in firms committed to making leaps in the transition to renewable energy. Notably, giant PE firms are forming new funds to focus investing on companies in the energy transition space, with prospective allocations that are a mix of investments in traditional energy players as well as those with strategies in line with net zero initiatives.

Oil and gas are attracting PE investments with prices on the rise as a result of the geopolitical situation in Ukraine, supply chain issues, and rebound investment from when fossil fuels attracted fewer investments. Europe's energy crisis has also seen an increase in PE investment in oil and gas funds as Russia withholds natural gas supply in the region.

Technology

One of the biggest events of the year is the collapse of Silicon Valley Bank—a tech bank that largely catered to venture capital and private equity firms. This is the second largest bank failure in the history of the US, and though financial regulators moved fast to keep cash flowing and ensure all clients of the bank were able to get their full deposits back, there is still widespread fear that other bank implosions will soon follow.

For travel and tourism, analysts globally are optimistic about recovery in a post-lockdown world.

This concern is not baseless. When the Fed increased interest rates to counteract COVID-19 rate cuts, bonds deteriorated in value. For banks like SVB that invested client deposits in bonds, this drop in value caused panic among clients, leading to a slowdown in deposit inflow activity and then to clients rapidly withdrawing their money. With the overall slowdown in venture capital, and tech more broadly, it's likely that more banks catering to this audience will be facing similar issues in the near future.

Deals in the content and media space are continuing to garner sustained interest from PE, as the pandemic has set the tone for increased content consumption. Cybersecurity is an area that continues to gain interest in PE, with geopolitical developments making security a top concern globally.

Gaming and VR technologies are also seeing increasing interest and a proliferation of new players, according to Ian Bain, Industry Director for Large Corporate, Technology, Media & Telecoms for Barclays Corporate.

Additionally, price correction in the tech space is creating opportunities for different types of entry for PE such as take-privates and carve-outs, aiding deal flow and making advantageous but lower-risk deals possible.

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CHAPTER 4

ESG Trends in Private Equity

ESG investing has gone beyond compliance and is now seen through the lens of impact and value creation, as investors are taking climate change more seriously. In a recent study, Bain reported that 93% of LPs would walk away from investment opportunities that could pose an ESG concern.

A major backdrop for ESG investing is the increase in regulatory involvement shaping investments in the space. Incentives for ESG-focused projects are making aligned companies more viable in the near and long-term for PE investment, according to Bain analysts.

Measuring performance and risks with respect to ESG portfolio-wide is a continued challenge, especially in presenting data-driven insights to attract funding toward companies with ESG initiatives and efforts. Efforts around benchmarking and standardizing ESG metrics will be seen in the PE space in the coming periods.

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CHAPTER 5

Trends in Private Equity Funds and Investments

Earnings calls in the first half of the year have not returned favorable numbers for most funds in the PE space, expectedly in the midst of challenging global macroeconomic conditions. Still, the overall sentiment around PE investing has not waned. Acquisitions in the form of add-ons, carve-outs, and take-privates have all taken center-stage, as many companies are weathering the price cool-off following the inflated valuations from the tail-end of 2021.

Fundraising has slowed down with fewer overall exits in the broader market. With IPO exits grounded to a halt, LP re-ups challenging. Still, established megafunds and those with long histories of weathering economic cycles are seen as favorable partners during this time of uncertainty. But even with that being said, new players with industry experts at the helm continue to see success as well.

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Trends in Private Equity Operations

Longer sales cycles, slower topline growth, and flexibility in putting together deals have been the themes surrounding PE firm operations in recent years.

There is an emphasis on meticulous due diligence, highlighting the importance of quality data and analysis, and maximizing the use of tools to aid and speed up investment insights. In markets with less mature PE like Asia, talent is a challenge. Ensuring that analysts are focusing time on high-value activities is an emphasis for players throughout the PE space. The ability to harness data quickly is a strong competitive advantage for any firm in private equity, and the use of artificial intelligence (AI) for predictive analytics is gaining momentum.

General partners (GPs) and analysts that know markets extremely well are the goldstars for firms. Their skills, paired with a robust tech stack, allow them to identify opportunities even in challenging conditions in order to fuel continuous growth and competitive success for organizations in private equity.

PE Tech Stack Trends

Markets are changing at a dizzying pace, and staying on top of the massive amounts of data companies and markets are generating is a real challenge in PE. Client relationship management and sales tools continue to hold importance in the space, but the real uphill battle is keeping up with the speed and sheer volume of market and company data.

Firms are turning to tools that use AI to aid them in identifying opportunities, improve due diligence, monitor portfolio performance, and continuously pinpoint and breakdown potential portfolio risks.

Ramping up cybersecurity is another focus for PE firms. As important as unlocking the power of data is, protecting the security of that proprietary information used in daily operations is just as crucial. Mitigating security risks is a top concern for PE firms and solutions that address this are gaining popularity.

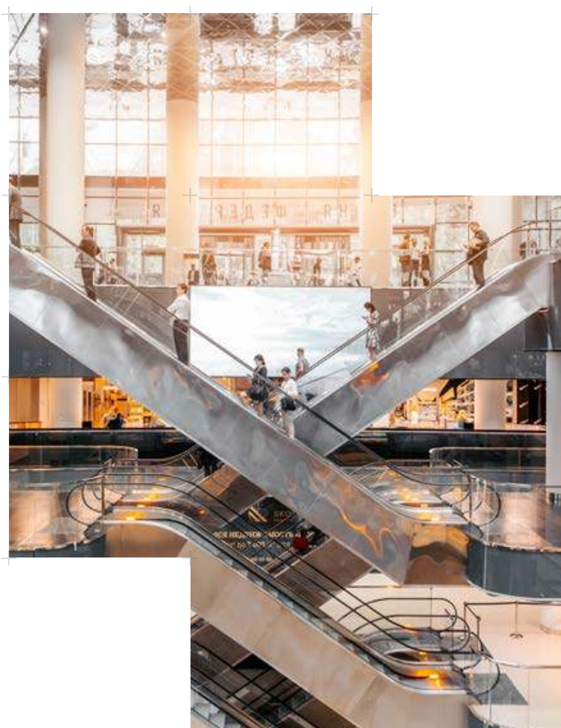
CHAPTER 8

2023 Private Equity Outlook

Many analysts are predicting tougher days ahead for PE as a whole in 2023, but incumbents who have been able to increase capacity and resilience by investing in innovation in the face of 2022 headwinds, are likely to emerge with success. Many companies will be focusing on revenue-generating activities and providing opportunities for PE investors to buy assets at a discount. Thus, creative dealmaking and flexibility will allow pockets of growth amidst tougher conditions.

Within the AlphaSense platform, talks of a recession for both Europe and the United States have been in circulation as early as 2019, with many analysts seeing things come to a head in 2023 as inflationary woes, treasuries tightening up, and geopolitical tensions continue.

Further, bank crises are a considerable threat ever since the infamous collapse of Silicon Valley Bank and Signature Bank. These bank failures have plunged the PE and VC space into uncertainty, but they have also highlighted the need for increased risk management. For PE investors who did business with SVB, capital raises will be difficult or non-existent this year. For those who were not affiliated with SVB and who still have capital, the crises have created new buying opportunities that could potentially create an entirely new ecosystem for liquidity provision.



For PE investors, this is the time to look inward and see how to best fortify existing portfolio companies and get more positions through creative dealmaking in competitive spaces. Acquisitions with modest topline growth potential will always be attractive to get economies of scale. In terms of closing new deals, PE firms with nimble GPs will be rewarded, as they find deals at attractive prices, especially in over-rotated markets where strong assets are heavily discounted.

2023 will be the year of flexibility for PE firms and their asset management. The importance of harnessing data to make confident decisions cannot be understated as market activities may slow down, but market conditions continue to move at a breakneck speed.

How AI Is Changing the Way Private Equity Performs Market Research

AI technology, powered by Natural Language Processing (NLP) and machine learning, helps surface relevant results quickly and provides key insights on underlying meanings across the content. This means you can spend less time manually combing through hundreds of documents and more time turning high-quality insights extracted by AI into actionable strategy and comprehensive analysis.

In financial and market research, having access to a wide and deep breadth of content is only part of the equation. You need AI search technology to help you speed up your ability to uncover patterns and key trends so you can better inform your analysis.

AlphaSense's investment research platform does both—it provides an extensive universe of content including company filings, earnings transcripts, expert interview transcripts, news, trade journals, and equity research, as well as proprietary AI based search technology to pinpoint key data points and insights.

AlphaSense enables professionals to make critical decisions with confidence and speed, thus improving business performance and outcomes.

AlphaSense

About AlphaSense

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Headquartered in New York City, AlphaSense employs over 1,000 people across offices in the U.S., U.K., Germany, Finland, and India.

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