

Key takeaways

- European buyouts are the second largest region in the global buyout market, with unique characteristics and opportunities.
- Historical performance of European and US buyouts has been mostly in line, with some gaps during market upturns and downturns.
- Currency impact may explain why European buyouts have higher volatility than US buyouts in USD terms but not in local currency terms.
- Manager alpha is similar across US and European buyouts, but access to top-performing funds can be limited in both regions.

The European buyout market possesses characteristics that are unique from the US market, and therefore may present a different set of opportunities to investors. The most prominent difference between the US and European buyout markets is the region's fragmentation of countries. Having one broad geographical basket that encompasses the numerous countries in Europe may bring potential challenges such as language, cultural, legal, and regulatory differences. However, these differences may also offer opportunities to develop competitive advantages, particularly in deal sourcing and value creation, for managers who are ingrained in the ecosystem and have access to local networks.

In this research note, we focus on the buyout market, as it tends to be the most prominent private equity strategy in Europe. While there are venture capital and growth equity strategies that focus on Europe, they comprise only a small portion of Europe's private equity market.¹

The European buyout universe

Europe is the third largest economy in the world, behind China and the US, representing 14.7% of global GDP.² Correspondingly, Europe also represents the second largest region in the global buyout universe, as shown in Figure 1 below.

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¹ Since 2000, Buyouts have represented 68% of the total fund count and 93% of the total capitalization in the European private equity space. Source: Cambridge Associates via IHS Markit as of October 2023. Indices: Cambridge Europe Developed Venture Capital, Cambridge Europe Buyout Composite, Cambridge Europe Growth Equity Composite.

² Source: Bloomberg, "Battle of the Biggest," November 8, 2022.

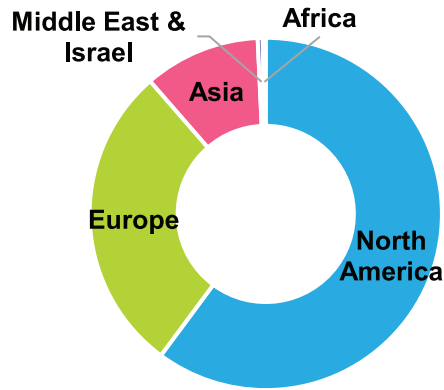


FIGURE 1
Total AUM by Region Since 2013

Source: Preqin, as of December 2023. Total AUM includes Dry Powder and Unrealized Value.

Within Europe, the United Kingdom (“UK”) and Ireland comprise the largest portion of Europe’s private equity capital raised (see Figure 2).³ It is worth noting that the amount of capital in the UK and Ireland grouping may be somewhat overstated because some of the Western Europe focused funds are classified as only UK and Ireland if the majority of capital is targeted there, despite allocations in other countries such as France or Germany.

³ Source: PitchBook, “Q3 2023 European PE Breakdown.”

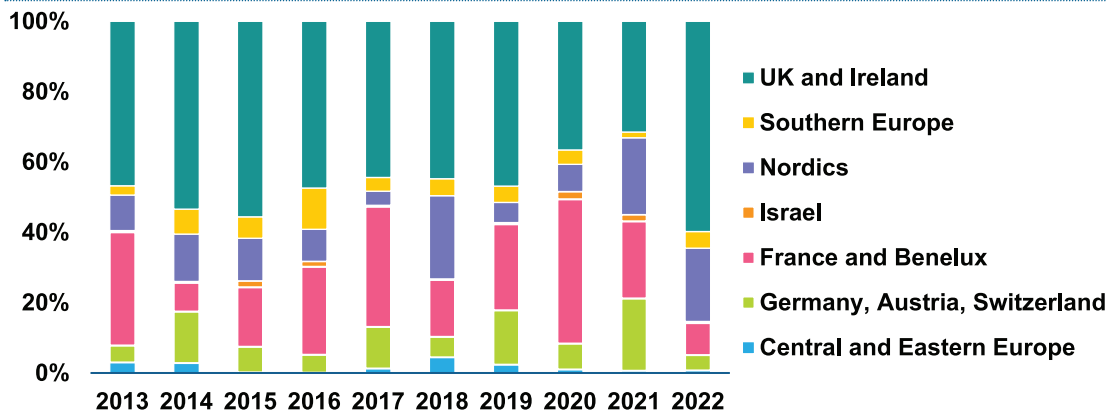


FIGURE 2
European Private Equity Capital Raised by Region

Source: PitchBook, “Q3 2023 European PE Breakdown.” While this chart represents all of private equity, the buyouts strategy comprised over 80% of capital raised for the years shown.

Fundraising has been consistent

Despite fluctuating market conditions, the European buyout market has maintained fairly consistent fundraising over the past decade. It has averaged roughly \$74 billion raised per year since 2013, ranging from a low of \$51 billion to a record high of \$102 billion in 2020.⁴

⁴ Source: Preqin, as of October 2023.

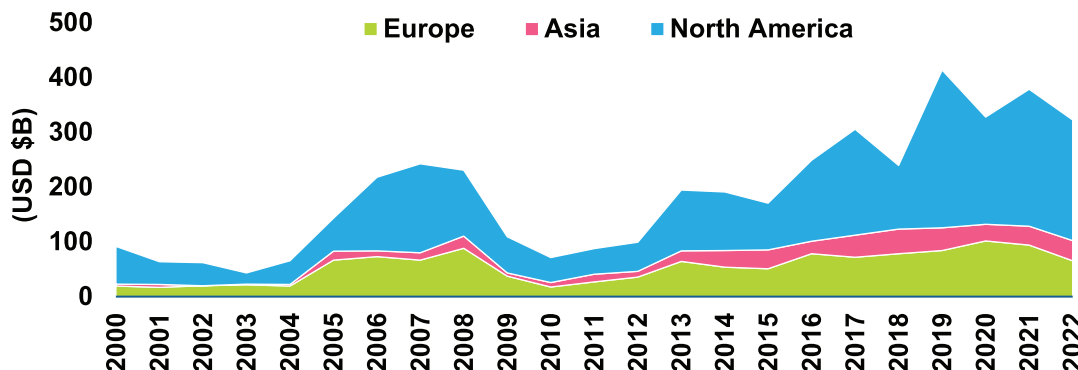


FIGURE 3
Aggregate Capital Raised by Region

Source: Preqin, as of October 2023.

Fund sizes are smaller

A difference between the US and Europe's buyout markets is fund size. As shown in figure 4 below, Europe has had a smaller average buyout fund size since 2000, at nearly \$800 million, compared to almost \$950 million in the US. When compared to Asia's buyout fund sizes, Europe has been 1.9x larger since 2000 and 2.3x larger over the past 10 years.



FIGURE 4
Average Fund Size of Buyouts Since 2000 (\$M USD)

Source: Preqin, for the period 2000 - 2022, as of October 2023.

A lower number of deals at a smaller size

When comparing buyout deals, Europe has historically had a smaller total number of deals at a smaller aggregate deal value on average compared to the US (see Figure 5). However, Europe's total number of deals and aggregate deal value has been above that of Asia over the same period. The bubble size in Figure 5 represents the average annual deal size over the past ten years. It shows that Europe's average deal size has also been smaller than that of the US and larger than that of Asia.

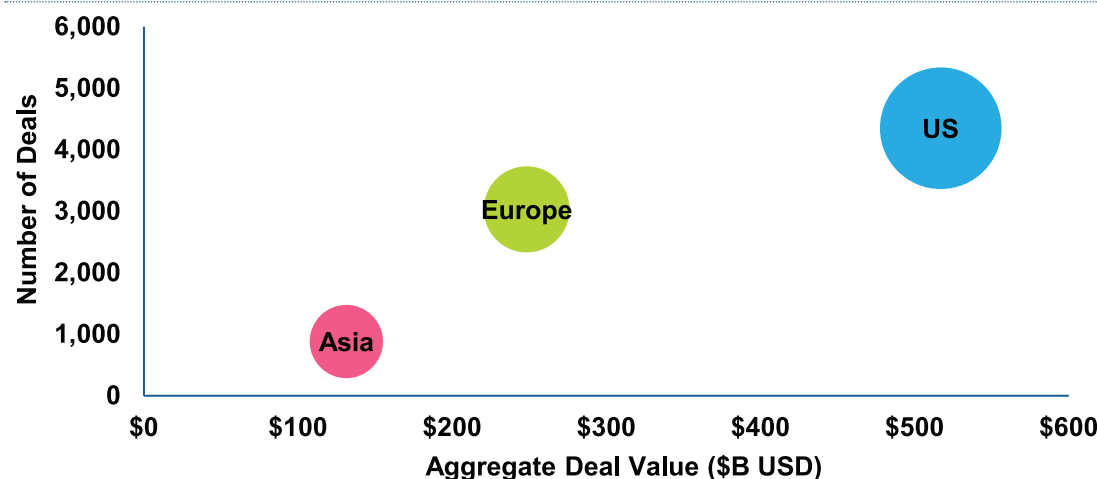


FIGURE 5
Number of Buyout Deals, Aggregate Deal Value, and Average Deal Size on Average Over the Past 10 Years

Source: Preqin, for the period 2013 - 2022, as of March 2024. Bubble size represents average deal size. Deals include investment and exit deals.

Historical performance

Historical performance of a composite of US and European buyout funds has mostly been in line with each other. The greatest disparity lies in recent performance and decreases as the measurement period increases. Overall, European and US buyouts have nearly identical long-term annualized returns at 15.8% and 15.9% for the trailing 20-year time period, respectively.

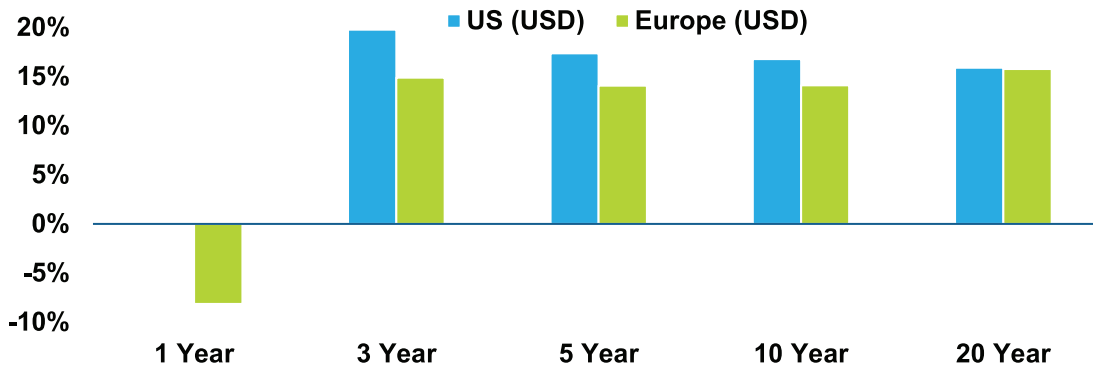


FIGURE 6
Historical Returns of US and European Buyouts

Source: Cambridge Associates via IHS Markit, annualized quarterly Pooled IRR as of October 2023, for the period ending 12/31/2022. Indices: Cambridge US Buyout Composite, Cambridge Europe Buyout Composite. Returns are net of fees. European returns were converted to US Dollars.

European buyouts have exhibited a consistently higher volatility level than US buyouts across both the short and long term. Over the past 20 years, the annualized volatility of European buyouts in US dollar terms was 5.7% higher than that of the US.

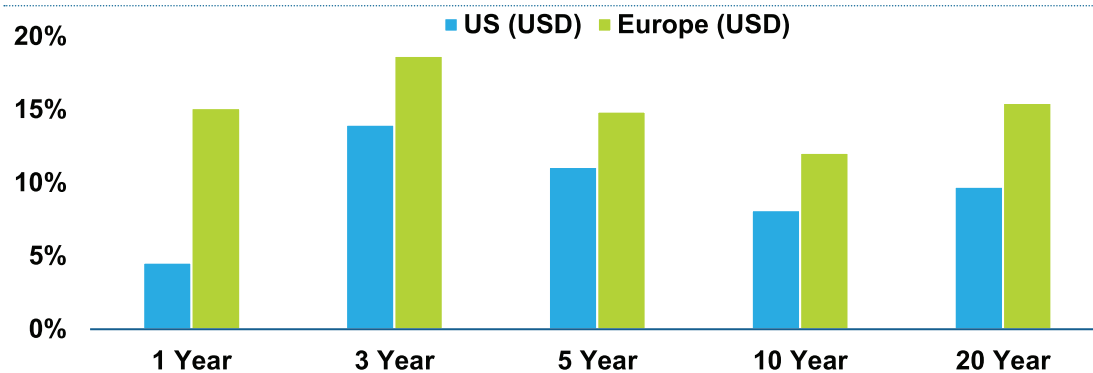


FIGURE 7
Historical Volatility of US and European Buyouts

Source: Cambridge Associates via IHS Markit, annualized quarterly Pooled IRR as of October 2023, for the period ending 12/31/2022. Indices: Cambridge US Buyout Composite, Cambridge Europe Buyout Composite. European returns were converted to US Dollars.

Currency impact

One of the reasons why European buyouts' volatility appears to be consistently higher than the US may be the impact of currency movements. Most Europe-focused funds are denominated in Euros, with a minority denominated in British Pounds, US Dollars, Swedish Kronor, or other currencies.⁵ The historical returns and volatility data shown previously in this paper are converted into US Dollars. Thus, exchange rate fluctuations may result in valuation changes from a USD perspective, even when local currency valuations remain unchanged, thus amplifying the level of volatility. This impact of currency fluctuations is evident in Figure 8, which shows volatility for European buyouts in both USD and Euros.

⁵ According to Cambridge Associates via IHS Markit, the Euro accounted for 64% of total fund count and 83% of total capitalization for local reporting currency in European Buyouts from inception to Q2 2023.

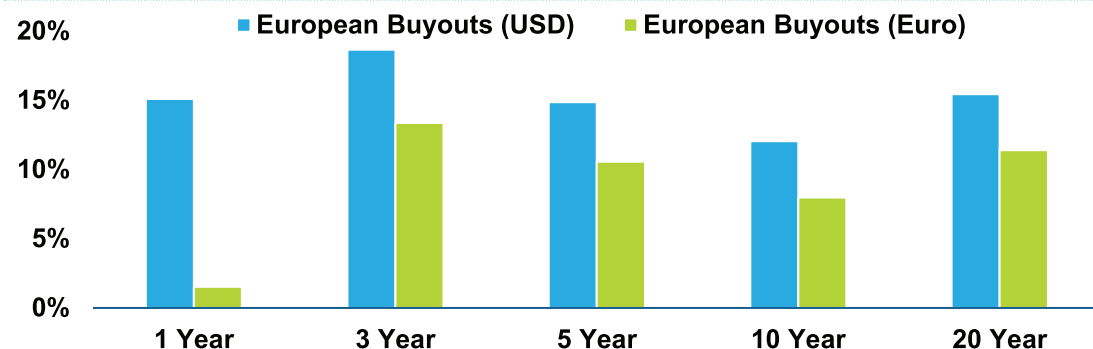


FIGURE 8
Historical Volatility of European Buyouts in Euros and US Dollars

Source: Cambridge Associates via IHS Markit, annualized quarterly Pooled IRR as of October 2023, for the period ending 12/31/2022. Indices: Cambridge Europe Buyout Composite.

Hence, a potentially more fair comparison of the underlying risk would examine European buyouts' volatility in Euros. Figure 9 provides such a comparison. It shows that, when denominated in Euros, European buyout volatility is very similar to US buyout volatility.

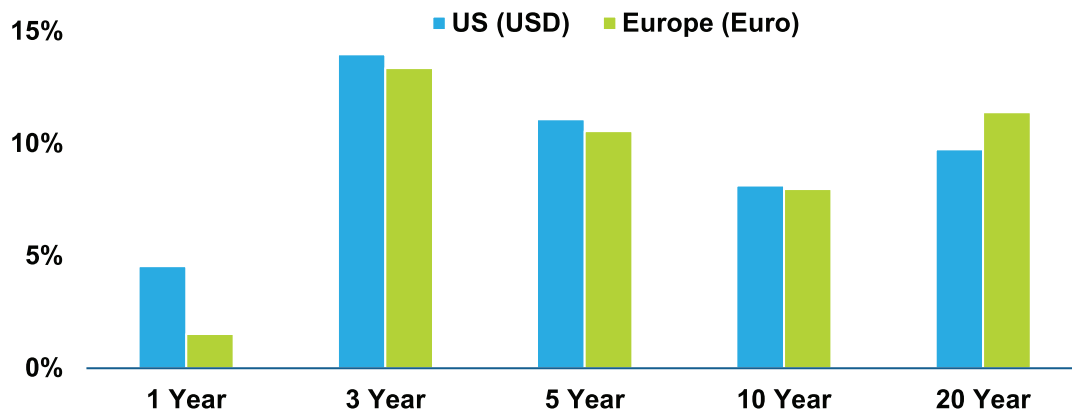


FIGURE 9
Historical Volatility of US and European Buyouts

Source: Cambridge Associates via IHS Markit, annualized quarterly Pooled IRR as of October 2023, for the period ending 12/31/2022. Indices: Cambridge US Buyout Composite, Cambridge Europe Buyout Composite.

As shown in Figure 10 below, European buyouts' volatility was consistently above the US from roughly 2007 to 2011. This may explain why the 20-year period is the only one where Europe's volatility appears higher. Since 2011, European buyouts' volatility has been very similar to that of US buyouts.

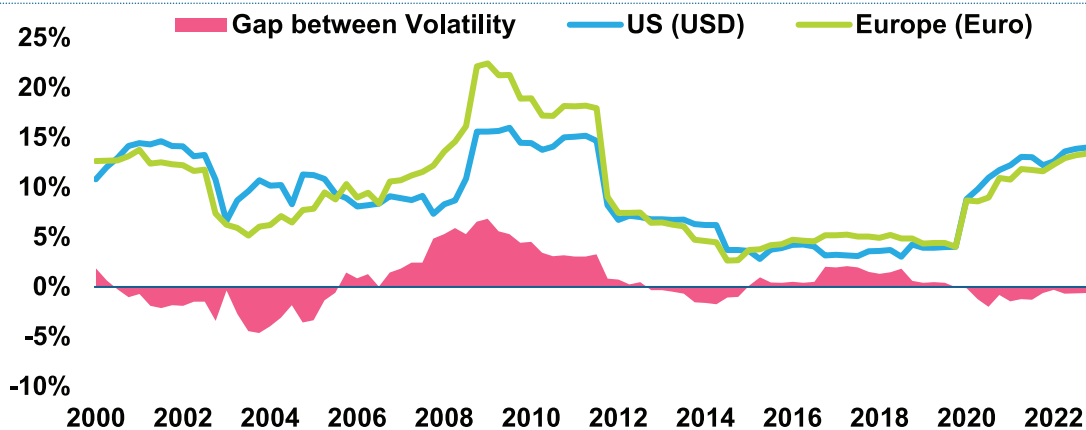


FIGURE 10
Rolling 3 Year Volatility of US and European Buyouts

Source: Cambridge Associates via IHS Markit, annualized quarterly Pooled IRR as of October 2023. Indices: Cambridge US Buyout Composite, Cambridge Europe Buyout Composite.

Europe and the US have followed similar return trends

US and European buyouts have followed similar trends since 2000. The shaded area in Figure 11 below represents the difference between European and the US buyouts rolling 3-year returns, denominated in US Dollars and Euros. It demonstrates that the gap tends to widen during times of substantial market upturns and downturns. For example, two of the largest gaps occurred as a result of the popping of the "Dot Com" bubble (circa 2000) and during the period leading up to and during the Global Financial Crisis (circa 2007). Note that these spikes may be somewhat lagged from the actual event date due to the nature of pricing in private markets.

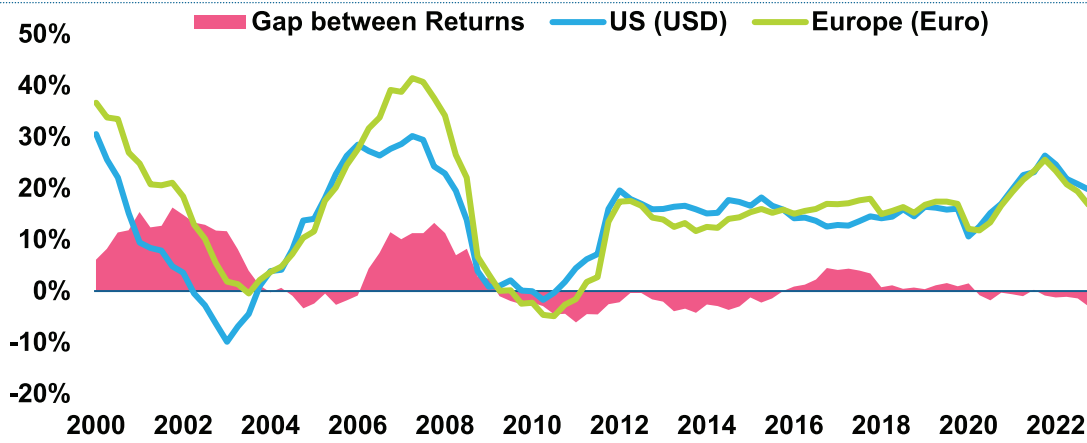


FIGURE 11
Rolling 3 Year Returns of US and European Buyouts

Source: Cambridge Associates via IHS Markit, annualized quarterly Pooled IRR as of October 2023. Indices: Cambridge US Buyout Composite, Cambridge Europe Buyout Composite. Returns are net of fees.

Manager alpha

Interquartile spreads, or the potential value from selecting superior active managers/funds, has been nearly identical across European and US buyouts. Over a 20-year period, US buyouts had an interquartile spread of 13.2%, while European buyouts had a spread of 12.0% (see Figure 12 below).



FIGURE 12
Interquartile Spread (for vintage years 2000-2020)

Source: Cambridge Associates via IHS Markit, annual Pooled IRR quartiles by vintage year as of October 2023. Indices: Cambridge US Buyout Composite, Cambridge Europe Buyout Composite. Vintage years 2021 through 2023 are excluded as they are too recent to be meaningful in this analysis. Returns are net of fees.

However, this relationship has varied over time, with European and US buyouts alternatively showing higher interquartile spreads in different vintage years (see Figure 13). This means that, like the US, manager and fund selection in European buyouts have a meaningful impact on returns.

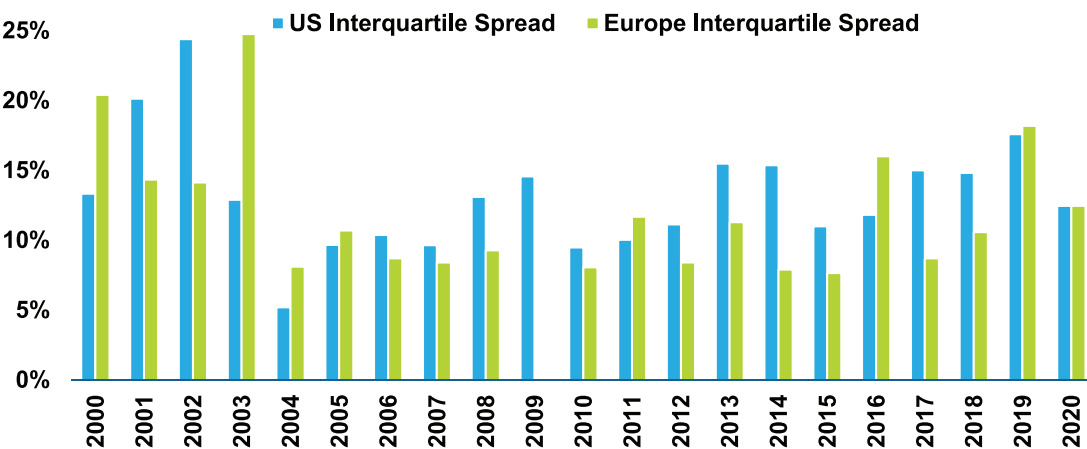


FIGURE 13
Interquartile Spread by Vintage Year

Source: Cambridge Associates via IHS Markit, annual Pooled IRR quartiles by vintage year as of October 2023. Indices: Cambridge US Buyout Composite, Cambridge Europe Buyout Composite. Vintage years 2021 through 2023 are excluded as they are too recent to be meaningful in this analysis. There is no data available for Europe's interquartile spread in 2009. Returns are net of fees.

Top quartile US buyout funds often have very limited access and can largely be closed to new investors, and the same holds true in the European buyout space. Access is a key consideration for investors looking to allocate capital to top quartile European buyout funds. It is also important to recall that Europe's investible universe is smaller than that of the US. Therefore, the number of funds and access to those funds - particularly top performing funds - may be even more limited.

Summary

European buyouts represent the second largest region in the global buyout market (as measured by AUM). Despite a smaller number of funds, smaller fund sizes, and a lower amount of aggregate capital raised, European buyouts have been able to raise consistent capital over the past two decades.

Over the long term, European buyout funds have produced returns in line with US buyout funds. The largest gaps between European and US buyout returns have typically occurred during market upturns and downturns. In USD terms, European buyouts have also exhibited higher volatility than US buyouts. However, when accounting for the currency impact, Europe's volatility is very similar to the US. Finally, the interquartile spreads of US and European buyout funds over the past 20 years have been nearly identical, implying that European buyouts may offer the same manager alpha potential as US buyouts. However, investing in top-performing European buyout funds may pose a challenge for investors as, like in the US, fund access can be limited.

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