

PRESS RELEASE

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Resilient deal activity and strategic growth amid economic challenges

CMS is pleased to announce the release of the **CMS European Private Equity Study 2024**, providing a detailed analysis of private equity transactions advised on by CMS in 2023. Despite the challenging macroeconomic environment, the private equity (PE) market demonstrated resilience and stability, maintaining steady deal activity compared to the previous year.

The study, now in its third edition, examined over 100 PE deals, highlighting significant trends and offering insights into key contractual terms, deal structures and market dynamics. The findings underscore the adaptability and strategic focus of PE investors amidst economic uncertainty.

Key findings and insights

- **Deal activity:** Despite high inflation, rising interest rates and geopolitical conflicts, PE deal activity remained relatively stable in 2023 compared to 2022. The last quarter of 2023 saw a notable pickup in deal flow.
- **Investment trends:** New investments constituted 69% of the deals analysed, with a continued trend towards add-on acquisitions, accounting for 50% of all PE transactions. Secondary buyouts doubled, reflecting increased exit processes and auction activities.
- **Sector focus:** Technology, Media, and Telecoms (TMT) led the sector activity at 24%, followed by Life Sciences and Consumer Products at 15% each. The Energy & Utilities and Infrastructure & Project Finance sectors also saw significant growth.
- **Purchase price mechanisms:** The use of earn-out provisions declined but remained higher than pre-pandemic levels, indicating greater confidence in valuations. The preference for locked box mechanisms continued, highlighting the importance of deal certainty for PE investors.
- **ESG considerations:** ESG due diligence was conducted in 47% of PE deals, up from 38% in non-PE transactions. This reflects the growing importance of ESG factors in investment decisions.

- **Arbitration clauses:** There was an increase in the use of arbitration clauses, with over half of the PE deals incorporating them. This highlights the preference for expert resolution, faster dispute resolution times and confidentiality.
- **Foreign Direct Investment (FDI) procedures:** Reflecting tighter regulatory regimes, there was a significant increase in PE deals requiring FDI approval, rising to 21% in 2023 from 8% in 2022.
- **W&I insurance:** Warranty & Indemnity insurance remained a key feature, particularly in larger deals. The use of W&I insurance was higher in PE deals compared to non-PE deals, emphasising the focus on risk management.
- **Management incentives:** The structure of management incentive schemes continued to evolve, with a rise in share options and shorter vesting periods, reflecting a more manager-friendly trend.

Market outlook

The study projects a cautiously optimistic outlook for the PE market in 2024. With growing confidence in the debt markets, falling inflation and a significant investment backlog, deal activity, including exits, is expected to increase. PE investors are likely to focus on mid-market transactions, operational improvements and strategic acquisitions to drive value creation.

Alexander Rakosi, Partner/Head of Private Equity Austria: “We are very excited to publish the third edition of our private equity study, a unique product that provides insights into key deal terms and trends in the European private equity market. The analysis confirms that PE markets remain resilient, having adapted to macroeconomic headwinds, and we expect robust activity in various industries over the coming year.”

Conclusion

The CMS European Private Equity Study 2024 provides insights into the PE market, highlighting key trends and offering a positive outlook for 2024. The study reinforces CMS's leading position in the private equity sector, delivering expert legal guidance and strategic solutions to clients across Europe.

Read the full CMS European Private Equity Study 2024 here.

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Notes to editors:**About CMS**

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