European Mid-Market

The Sweet Spot of GP-Led Secondaries

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This paper addresses the following:

- European buyouts generating attractive returns despite a low growth macro environment
- The deep and underpenetrated European midmarket offering compelling competitive dynamics
- Mid-market being the sweet spot for GP-led transactions to help businesses bridge the "value stretch" phase and maximise exit value.

GP-led secondaries continue to gain significant momentum, providing a distinctive way for investors to access star assets alongside incumbent sponsors.

Sponsors globally are increasingly seeking to pursue GP-led secondaries as shown by the growth in the global GP-led market from €9bn in 2015 to €71bn in 2024 (+26% CAGR)[1]. Whilst GP-led transaction volumes continue to grow at a significant pace, there are several themes within the European market which create particularly compelling dynamics for investors and can be used to gain targeted exposure with an improved risk/return profile.

European private equity buyouts have generated attractive returns

Private equity buyout funds in the US and Europe have outperformed the S&P 500 and MSCI Europe respectively by between c.4% to 9%, when considered over 10-year and 20-year investment horizons. Whilst both regions have delivered excellent returns for investors, European buyout funds have outperformed US buyout funds by c.1% over both periods despite the comparatively lower level of economic growth in Europe (see Figure 1)[2].

Buyout performance by region and vs public benchmarks

End-to-end pooled net IRRs for 10- and 20-year investment horizons

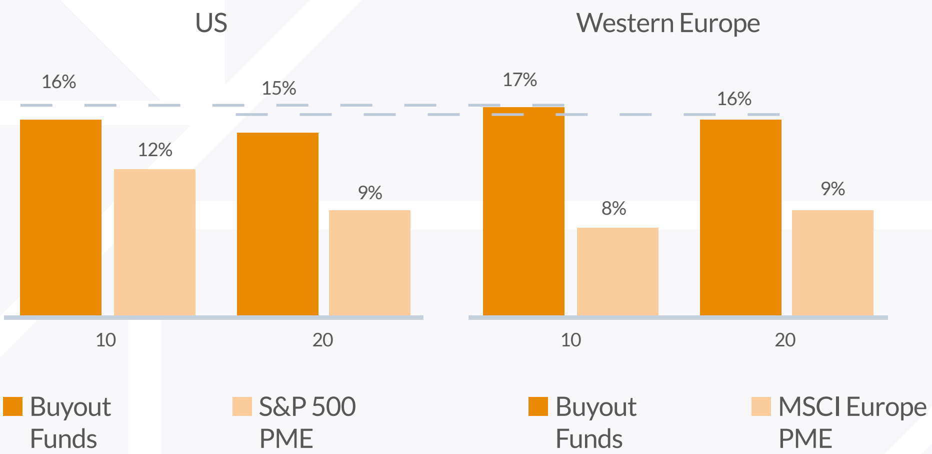

Figure 1:
Bain & Company.
Net IRR (Q3 2023)

* 'Great Unbundling: Accessing PE's Top Performers Via Single Asset Secondaries' highlights the imminent GP-led secondaries opportunity. Click here to access the white paper

[1] Evercore (2024)
[2] Bain & Company – Global Private Equity Report (2024)

The European mid-market offers compelling competitive dynamics.

We believe the European market is unusually attractive given size of the opportunity set in terms of private companies and buyout activity relative to amount of GP-led capital available. Europe represents 24% of global GDP, with 11 European countries forming part of the largest 30 economies; European 2023 GDP of $25.5tn represents the 2nd largest economy in the world, behind US 2023 GDP of $27.4tn[3].

There are more than double the number of actively investing buyout funds in the US vs Europe (c.1,160 vs c.500 buyout funds raised 2020-2024) despite not only broadly similar economic size[4] but also Europe's long heritage of creating small- and mid-cap businesses, as well as globally leading industries. Most Western European countries have global industry champions and there are c.240k private mid-market companies across Europe[5] relative to c.200k in the US[6].

Within this, approximately c.2% (i.e. c.4,500) of European private mid-market companies are private equity buyout-backed, forming a large pool of potential GP-led opportunities. We believe this number will increase over time as the level of buyout penetration grows closer to the c.3% seen in the US. Europe is a less mature but active GP-led secondaries market representing c. 40%[7] of global GP-led deal volume today. It has a smaller capital overhang for GP-led transactions, which we believe has held back transaction activity historically. Of the $108bn global GP-led equity dry powder, c.$37bn is estimated to target European GP-leds i.e. c.1.3x that of last year's European GP-led volume.[8] In the US, equity dry powder is estimated to be c. 1.6x that of last year's transaction volume[9].

Estimated dry power available for GP-led secondaries ($bn)

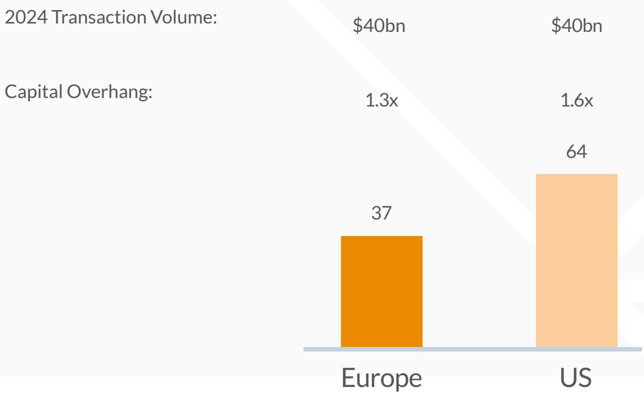

Figure 2: Dry powder availability for GP-led secondaries. PJT and Evercore (2024)

[3] Rede – European Middle Market Buyout Report (Q2 2024)
[4] Pitchbook data as of January 2025. Buyout funds $75m
[5] Eurostat. EU mid-cap businesses defined as companies with 50-249 FTEs (Oct-24)
[6] National Centre for the Middle Market. US mid-cap businesses defined as $10m-$1bn revenue businesses (Dec-23)
[7] Evercore (Q2 2024)
[8] PJT, Park Hill (2024)
[9] Evercore (2024)

GP-led secondary activity as a share of all PE activity (global)

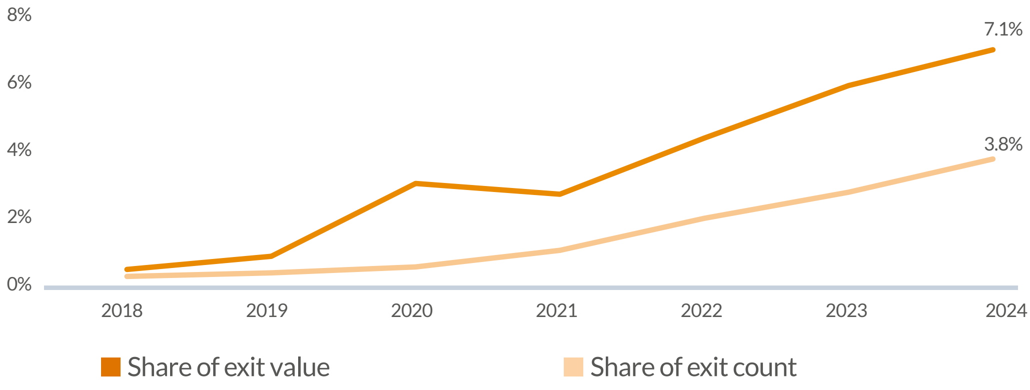

Figure 3:
Pitchbook data as at October 2024

Taking a step back, utilisation of GP-leds is growing fast but from a very low base. In 2024, c.100 GP-led deals were completed globally[10] with a growth rate of +60% CAGR (2019-2024). There were on average c.1,420 PE exits per year in Europe over the past five full years (2019-2023)[10].

We believe going forward 5%-10% of PE exits will be via GP-led transactions, at roughly 70-140 transactions p.a.

Furthermore, we believe the increase in dedicated GP-led capital will help drive the annual number of GP-leds in Europe significantly above 100 per year.

The European market has demonstrated that it is rapidly maturing, given historically GP-led volumes were skewed towards the US. From Hayfin's discussions with European sponsors, almost all are actively considering or have executed a GP-led solution.

As a further reference point, assuming 10%-20% of the c.450 mid-market companies acquired by PE per year will become star assets[11], we estimate a flow of c.45-90 new target companies per year in the mid-market alone. Focused in on healthcare, technology and businesses services, we estimate c.35-75 star assets added per year. Therefore, we believe that Europe is a deep and underpenetrated market and expect considerable growth in GP-led secondaries.

10 Pitchbook (2024)
11 Taken as a proxy of the assets in the portfolios of mid-cap EU funds with less than a 1-year hold period, from Pitchbook database as at 30 October 2024

The mid-market is the sweet spot for GP-led transactions to help companies bridge the "Value Stretch" phase and maximise exit value.

We believe European mid-market GP-led transactions can unlock a disproportionate amount of value creation because the targeted businesses are more likely to be at an inflection point of attractive fundamentals and a clear growth strategy. Once through the “value stretch” phase, these businesses are likely to find a greater number of exit venues and buyers in need to deploy dry powder.

Small- and mid-cap buyouts have historically delivered a return premium over large-cap, driven by factors including lower entry valuations, lower leverage levels, more repeatable value creation levers, and higher exit liquidity. A better ratio of target companies to available PE capital helps facilitate more attractive deal origination in the mid-market.

Relatively more attractive valuations, particularly in high growth sectors

Average entry EV / EBITDA multiple

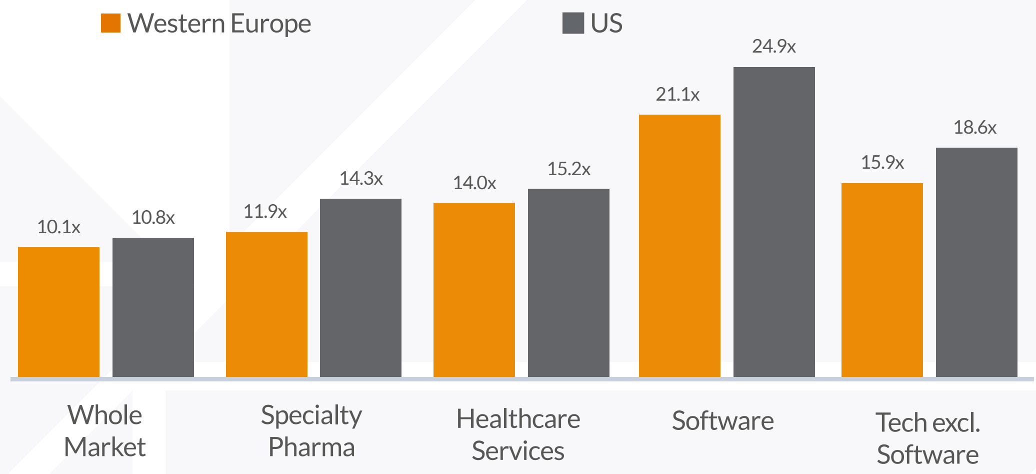

Figure 4:
Whole market data sourced from Bain Private Equity Report 2024; Sector-specific multiples based on Hayfin analysis of c.740 transactions from 2003 to 2025; Tech excl. Software includes (among others) data and analytics, UcaaS, IoT connectivity, cloud services and cybersecurity

The Sweet Spot of GP-Led Secondaries

With lower reliance on leverage

Entry net debt / EBITDA multiples

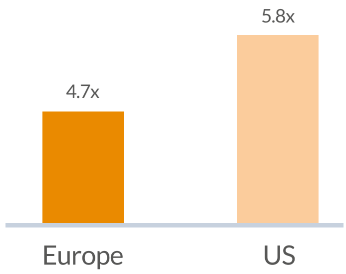

Figure 5:
European leverage ratios retrieved from BAIRD "Top ten trends in European Private Equity in 2023" (January 2024) YTD as at Sept-23. US leverage ratios retrieved from Weil "Leverage Finance Market Update" (October 2023) as at Sept-23

Furthermore, there is a larger dispersion of returns for mid-cap buyout funds ($350m-$1bn) vs mega-cap buyout funds ($3.5bn- <$5.0bn)11, with the top 5% mid-cap funds generating c.40% returns vs c.28% for top 5% mega-cap funds. This indicates a greater potential for star assets in the mid-market to deliver outsized returns.

When considering single asset GP-led transactions, European deal sizes on average tend to be significantly smaller at c.$450m relative to their equivalents in the US at c.$850m. Smaller GP-led transactions typically imply underlying businesses are smaller and this is in line with Hayfin's observations in the market. We believe the focus on smaller companies allows Europe-focused GP-led strategies to capture more of the small- and mid-cap return premium.

We see the sweet spot for entry to be €10-50m EBITDA businesses, which typically have established business models with a proven growth trajectory and several value creation levers yet to be maximised.

Opportunity to help bridge the value stretch phase and maximise exit optionality

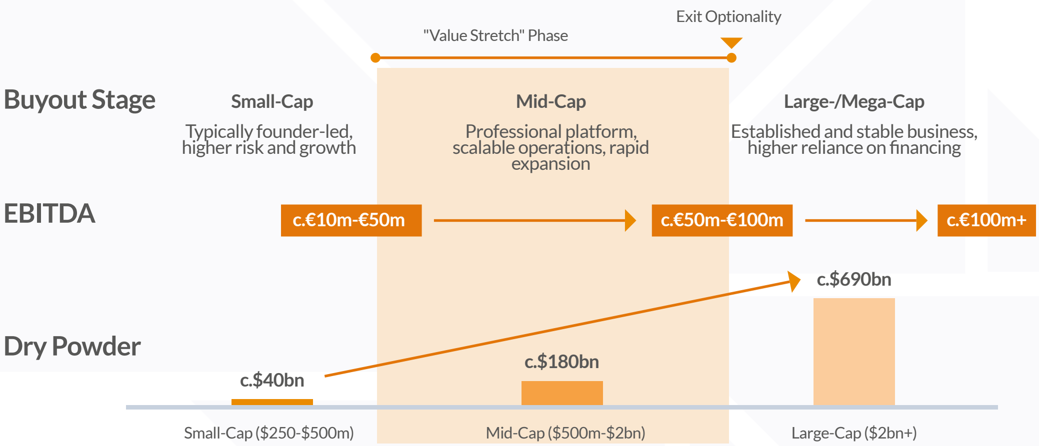

Figure 6:
Illustrative based on Hayfin analysis

With the additional capital and/or time provided by the GP-led transaction, these businesses have a path to €50m-€100m EBITDA. At that size they benefit from higher valuation multiples and strong exit optionality in the form of many potential strategic and PE buyers. Beyond this size exit options begin to narrow, with greater reliance on a smaller number of mega-cap buyers as well as the IPO market.

Characteristics of the European market and implication for transaction dynamics

Europe's fragmented market requires a relationship-driven approach to successfully execute on GP-led secondaries.

Europe is comprised of multiple individual national "sub-markets", each operating under a separate legal jurisdiction with their own cultural, political and economic framework. The regional focus is illustrated by the split of European sponsors by focus area.

Among a group of c.430 buyout GPs 85% are regionally focused, 7% are sector-focused, and 7% are pan-European without a sector focus12. The large number of smaller regional-focused GPs in Europe create a GP-led market that requires investors to have a local network, cultural insights, and the ability to converse in the local language. In Hayfin's experience, European GP-led transactions are unusually relationship-driven, with sponsors prioritising trust and credibility over optimisation of economics in order protect their relationships in the local market. We believe a track record of successfully leading GP-led transactions and the ability to provide independent pricing are integral in fully unlocking access to deal flow in these local markets, whilst ongoing dialogues with GPs provide privileged access to future deal flow.

European GPs by focus area

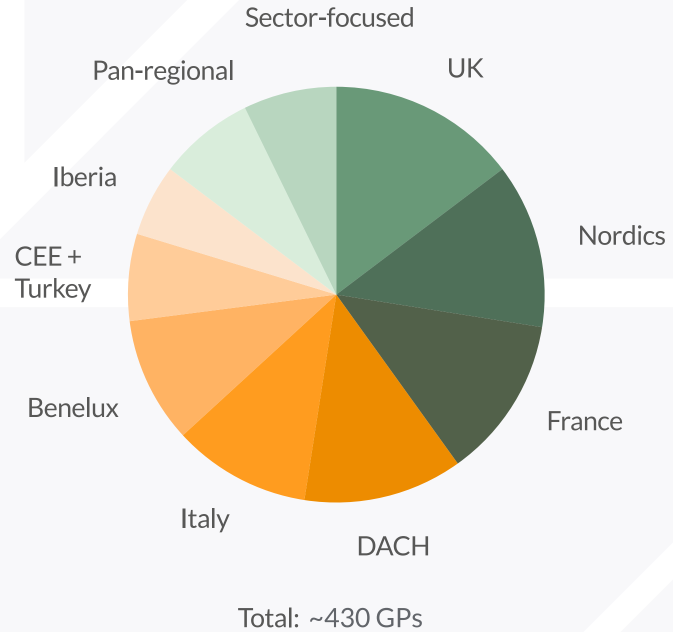

Figure 7:
Based on European GPs monitored byu Hayfin as at January 2025

[12] As of January 2025 based on Pitchbook data of 430 buyout GPs in the context of 455 total European buyout GPs with a fund size of €100m+

The European single-asset GP-led secondary market presents an unparalleled opportunity for investors seeking attractive, risk-adjusted returns in a dynamic and evolving landscape. The mid-market is characterised by a unique combination of resilience, under-penetration and access to high-quality star assets at compelling entry valuations.

These structural advantages are further amplified by Europe's diversity of sub-markets, where strong, localised relationships and a nuanced understanding of regional dynamics enable investors to unlock privileged deal flow. As the European market continues to mature, there is a powerful opportunity to achieve superior risk-adjusted returns while benefiting from the alignment and transparency inherent in GP-led structures.

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