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Breaking the deadlock

Although European mid-market M&A remains muted, creative dealmaking in select sectors is beginning to unclog the system, write Amy Carroll and Carmela Mendoza

Pockets of mid-market deal activity are starting to emerge following a multi-year M&A drought across Europe. However, with bid-ask spreads remaining stubbornly impervious to pervasive macroeconomic volatility, this recovery is limited to select sectors, geographies and creative deal structures.

Certainly, there is a pronounced trend towards resiliency. “Managers are favouring sectors that can continue to perform well in uncertain times – and B2B services tops the list,” says Ignacio de la Mora, partner at AltamarCAM, speaking on *Private Equity International’s* European mid-market roundtable.

“Companies that provide mission-critical services to clients – and that are asset-light, with recurring revenue

models, high cashflow conversion and high margins – are most in demand.”

De la Mora points to the education space as another area where GPs are increasingly active. “Tech is also making a comeback. At one point, that sector was perceived as overly expensive, but there has been an increase in investment activity that already started in prior years, particularly with respect to data analytics and AI. Consumer, by contrast, is predictably quiet, given perceived cyclicality.”

Andi Klein, managing partner at Triton Partners, adds that the announcement of spending packages in countries like Germany should create investment opportunities. He adds, however, that dealflow has remained weak over the past 18 months, and so creative sourcing has been critical. “Virtually all our new deals in our lower mid-market business

have involved bilateral negotiations, often involving multiple simultaneous acquisitions as we seek to consolidate fragmented markets,” he explains.

“With respect to the larger mid-market strategy, particularly on the industrials side, we have primarily seen corporate carve-outs rather than standalone company sales.”

Furthermore, Klein expects to see dealflow emanating from banks: “We are one of only a few firms that has a long history of doing debt-to-equity swaps. The number of assets owned by lenders is increasing by the day. This is a source of opportunity that is growing silently but quickly.”

Akhilan Nesaratnam, managing director at StepStone Group, agrees that against a backdrop of continued macro uncertainty, it is primarily differentiated dealflow that is moving ahead. “We



Akhilan Nesaratnam

Managing director, StepStone Group

Akhilan Nesaratnam is a member of StepStone’s private equity team, focused on fund and co-investments in Europe. Prior to joining StepStone, he was an M&A analyst at Canaccord Genuity.



Andi Klein

Managing partner, Triton Partners

Andi Klein is managing partner of the Triton Smaller Mid-Cap strategy, which he founded in 2017. He joined Triton in 2009 from Procter & Gamble.



Nigel van Zyl

Partner and co-head of the private funds group, Proskauer

Nigel van Zyl is a strategic adviser to European private equity sponsors and GPs across the full spectrum of investment fund matters, with a particular focus on the mid-market.



Ignacio de la Mora

Partner, AltamarCAM

Ignacio de la Mora is a partner in the private equity investment team at AltamarCAM. He joined the company when it was founded in 2004. He previously worked at Arthur Andersen Corporate Finance and at Ambers&Co, which today forms part of EY.

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AKHILAN NESARATNAM, StepStone Group

are seeing a higher proportion of carve-outs and take-privates. GP-led deals are also extremely prominent,” he says.

Meanwhile, despite a frustratingly slow recovery in deal activity, the narrative being propagated is that European fundraising should benefit from ongoing tumult in the US. “Anecdotally, we are hearing that investors generally want to maintain a high level of US exposure, given it remains the largest private equity market in the world and – according to our database of over 260,000 investments globally – has delivered attractive historical returns,” Nesaratnam says.

“However, Europe has not been far off, delivering aggregate performance within broadly a percentage point on a gross IRR basis. The benefits of diversification are more obvious now given geopolitical uncertainty, and Europe appears to be the main beneficiary.”

Nigel van Zyl, partner and co-head of the private funds group at Proskauer, is also optimistic on fundraising: “The data shows that the European mid-market has had a comparatively good 2025 so far. Ninety percent of all capital raised in the region has gone to

mid-market funds. And while we are definitely still down on 2020 and 2021, all the indications are that fundraising totals will exceed last year.”

Bring in the specialists

While European fundraising may be experiencing some headwinds as a result of uncertainty in the US, it is overwhelmingly the specialists that are benefiting.

“LPs are favouring sector specialists in fields such as technology, B2B and healthcare,” says van Zyl. “If you are a generalist, your performance would have to be exceptional to result in a successful fundraising in this environment, which we would define as being in and out of the market in around nine months.”

Van Zyl adds that US endowments and foundations are proving to be particularly active in European fundraisings, with an emphasis on firms with a specialist edge. Indeed, their interest has even facilitated a number of first-time healthcare and technology funds hitting their hard-caps.

“There is definitely a trend towards specialisation. You need to stand out on

the basis of your sector expertise or your edge in sourcing or value creation,” agrees de la Mora. “That specialisation trend was previously more pronounced in the US, but now we are seeing that specialists in Europe are also having an easier time when fundraising.”

Klein, meanwhile, points out that specialisation can extend beyond sector expertise. Triton Smaller Mid-Cap, for example, focuses on just two types of deals. “We look at situations where we can take a local champion international, substantially changing its profile, or else we build consolidation plays in fragmented markets from scratch.”

The challenge that European mid-market managers face in the fundraising arena, however, also reflects the heterogenous make-up of the territory, according to Nesaratnam. “The US has the advantage of a single, large, homogenous market. Firms can scale further domestically, whereas in Europe, that same growth equates to geographic expansion, which can involve regulatory, language and cultural hurdles – making scaling more difficult,” he says.

“Small country or region-specific funds can do very well – particularly

those in Northern Europe, where there has been a concentration of outperformance in the Nordics, Benelux and, to a lesser extent, the UK,” Nesaratnam continues.

“But many successful small funds reach a point as they scale where they need to diversify geographically. It is a story we have seen play out several times: a successful country specialist expands into another region but doesn’t have the same access to dealflow or local expertise, and so there is almost always some returns degradation. As a result, LPs have been more cautious on European managers scaling, relative to those in the US.”

Once again, the exception can be found with the specialists. “There have been technology – and, to a lesser extent, healthcare – specialists that have been able to scale beyond their home territory and continue to do well,” says Nesaratnam.

“Depending on the subsector, of course, many businesses in these sectors are likely to have international revenues at an earlier stage in their development, with CEOs tending to bring a more international mindset.

“As a result, sellers of these companies may be more open to international buyers when compared to old-economy sectors. Another area where mid-market

firms have done well is with pan-regional buy and builds, particularly within the services sector.”

“It is no surprise to me that firms struggle to internationalise,” adds Klein. “We have seen a lot of new competitors in Germany and the Nordics, for example. Players from other markets have come in and opened small offices. The same thing happened with US funds between 2010 and 2012, but most have since left. It is easy to underestimate how difficult it is to do deals outside your home country.”

Klein adds that while being local certainly brings advantages, the level of operational capabilities required to successfully add value today is making some country-specific firms less competitive: “If you bought a lower mid-market business in 2015 or 2016, it would have been trading three times higher by 2018 or 2019 without you having had to do a thing.

“My sense is that not all firms have added the necessary resources in order to be successful in what is a very different environment. LPs want to see local teams, but they also want the capabilities of a larger platform, so they know that past performance is repeatable.”

Handling private wealth

Fundraising fortunes have also been upended by the rapid acceleration of the European private wealth market. While much of these capital inflows will naturally gravitate towards the larger end of the deal spectrum, there are opportunities for the mid-market, as well.

“There are the private wealth channels that have been set up by the big private markets platforms, which have created semi-liquid evergreen vehicles, replicating the ’40 Act funds in the US,” says van Zyl. “You have to be a certain size and be multi-strategy, or at least multi-product, to take that approach because these vehicles can’t sit on capital – they have to be deployed quickly.

“Those structures have proved very effective and are growing

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ANDI KLEIN, Triton Partners

Analysis

astronomically, although I would question whether we are experiencing some oversupply. Distribution channels are getting jammed.”

Mid-market managers, meanwhile, are still able to access the wealth channel, but are doing so via the large online private markets ecosystems that have emerged. “Capital coming from these fintech platforms is proving very helpful in many of our clients’ fundraisings and means that the democratisation of private markets is definitely not exclusively for the biggest firms,” says van Zyl.

Klein is clear, however, that there needs to be a demarcation between private wealth and retail: “We raise money from family offices and high-net-worth individuals, but I do not believe that this is an asset class that should be retailised at this point in time.”

Van Zyl agrees that the focus for now is on HNWIs. “As an industry we need to be cautious on retail, because as soon as we get into that space there will be a lot more scrutiny from regulators and a greater risk of mass litigation.”

There are also potential conflicts to be managed as a result of the significant increase in private wealth exposure to private equity.

“Frictions have predominantly arisen around allocation policy,” van Zyl says. “Managers have to be thoughtful about how they structure deal allocations to ensure the semi-liquid vehicles are treated in exactly the same way as any other institutional LP in the fund, and that costs are also shared fairly.

“If you allow complete flexibility to allocate deals away from the flagship to the semi-liquid fund or change the allocation on a deal-by-deal basis as NAV adjusts, as we have sometimes seen in the US, you can understand why traditional institutional LPs may be concerned.”

Exit environment

Of course, what all investors – institutional or otherwise – want to see is

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IGNACIO DE LA MORA, AltamarCAM

Europe's defence opportunity

Rising military-related spending by governments could unlock possibilities for mid-market PE

War on multiple fronts, coupled with the withdrawal of the US as international peacekeeper, means Europe is stepping up its spending on defence. It remains to be seen, however, whether this will translate into a meaningful opportunity for the region's mid-market private equity players.

"Defence is definitely a growing theme," says Proskauer's Nigel van Zyl. "GPs are reaching out to us to see whether their fund documents allow for investment in defence-adjacent sectors."

AltamarCAM's Ignacio de la Mora, meanwhile, says defence can encompass a far broader spectrum of assets than just military hardware. "It can include software, consulting services and cybersecurity, for example," he says. "We have also seen some of the larger firms launching defence thematics, although typically labelling them as aerospace."

"We have had side letter conversations on the subject of defence, although I think it will take time for [NATO] defence spending targets to trickle down into transacted dealflow," adds StepStone Group's Akhilan Nesaratnam. "It seems as though we are currently spending a disproportionate amount of time talking about defence compared to the defence deals that are actually in play."

Nesaratnam also questions whether there are many European managers with the requisite track record to tackle defence investments. "While we have seen the recent emergence of dedicated pools of capital for the sector, deployment is taking time, and it feels like a bit of a step into the unknown in the European small- to mid-market," he says.

Defence-related investments will inevitably attract high levels of government scrutiny, including FDI approvals. "Any GP raising international capital, particularly from sovereign wealth funds in sensitive geographies, may well find this a challenge," says van Zyl.

De la Mora adds that many defence businesses carry significant customer concentration risk: "That isn't something that private equity would normally be comfortable with."

For Andi Klein at Triton Partners, there is also a risk that valuations are spiking: "Price expectations in this sector have changed dramatically. Some public companies have seen their multiples rise from 7x or 8x EBITDA to 50x or even 100x. A lot could happen in the next five to 10 years when the smoke has cleared. I think you need to have a healthy degree of scepticism as a private equity player before you double down on defence."

Klein does, however, see opportunities to invest in related infrastructure, which is indirectly linked to an increase in defence spending. "In Germany, for example, the railroads and bridges are not always fit to transport heavy tanks. The same is true elsewhere.

"It is clear that Europe is going to have to step up when it comes to handling its own defence, but there are lots of ways to invest behind this change without buying tanks and planes. My concern is that this has been an unloved sector for decades, and now it is being hyped. How long that hype will last, no one knows."

exits. Distributions have been thin on the ground for several years now. Continuation vehicles have helped bridge the gap, but the industry is still waiting for the revival of M&A to get private equity's cogs back in motion.

"If you look at the dry powder dynamics in the large-cap and global space, versus the mid-market, there is a huge sum of money that needs to be deployed over the next few years," explains Nesaratnam.

"Large-cap funds have typically had three-year investment periods in the past few years. That is expected to stretch to four to five years given the elevated cost and low availability of financing, challenges in driving growth at the asset level and limited exit optionality.

"GP-led secondaries is a long-term trend, but sponsor-to-sponsor sales may also increase at some point, potentially creating further opportunities for mid-market managers to sell to larger players.

"My personal view is that DPI will tick up over the next couple of years and that bid-ask spreads will start to narrow. We may start to see more GPs taking liquidity at or below the cost of valuations – particularly in the large-cap market, and to the benefit of mid-market firms."

De la Mora, meanwhile, says that after several years of negative cashflows, he is already seeing an uptick year on year. "We also track exit announcements, which are increasing marginally, as well as a general improvement in market sentiment."

Klein adds: "It is true that pressure is mounting for the large-cap players to deploy capital. We are also seeing strategies pre-empting auctions in some cases, although the market is bifurcated and, at the same time, the list of broken auctions is growing longer and longer. Eventually, though, the whole system will simply have to unclog." ■