

MOFO GLOBAL PE TRENDS 2020 AND OUTLOOK FOR 2021

AFTER A YEAR WHERE SO MUCH WAS UNFORESEEN, WHAT DOES 2021 HAVE IN STORE FOR THE GLOBAL PRIVATE EQUITY MARKET? IN THIS MARKET UPDATE, MOFO PARTNERS FROM AROUND THE GLOBE REVIEW THE KEY PE TRENDS FROM 2020 AND MAKE PREDICTIONS ON PE DEAL-MAKING IN 2021.

2020 GLOBAL TRENDS

The following are the key global PE trends we saw in 2020 to help put the outlook for 2021 into context:

Deal Flow – H1 vs. H2: Deal flow slowed in H1 due to COVID-19 but there was a significant uptick in deal flow in H2, especially in Q4, as sponsors rushed to make up for lost time and to complete deals before year end.

H1 – Assisting PortCos with COVID-19 Challenges: In H1, sponsors focused on helping portfolio companies to deal with the challenges posed by COVID-19 and at points took a step back from pursuing new deals as the uncertainty of when the pandemic would end made accurate valuation of assets difficult.

Unparalleled Demand for Logistics Assets: A spike in demand globally for high-quality logistics assets driven by unprecedented adoption of online purchasing and home delivery across all product classes.

Technology and Life Sciences Focus: A continuing increase in demand for internet data centers, driven by e-commerce, fintech, online services, and virtual communication, as well as a focus on the life sciences sector, resulted in a significant percentage of the PE transactions completed in 2020 being in these sectors.

Surge in SPAC IPOs: The 2020 surge in SPAC IPOs, many of which were sponsored by PE houses, was driven primarily by a combination of higher-quality sponsors and the involvement of larger institutional investors.

Credit Markets Recovered by Year End: The credit markets came to a screeching halt in the early months of the pandemic. The bond and then the credit fund markets recovered first, followed by a credit surge in the last part of the year that swamped the available deals to be financed.

HOW CAN MOFO HELP?

- For more information on our insights into global PE trends and 2021 outlook, please contact [Marcia Ellis](#), Global Chair of Morrison & Foerster's Private Equity Group, or [Mitchell Presser](#), Co-chair of Morrison & Foerster's Global Corporate Department.
- Subscribe to [MoFo's PE Briefing Room](#) to stay abreast of the hottest topics in the global PE space.

2021 GLOBAL OUTLOOK

The following are our predictions of the 2021 global PE trends:

Uptick in Deal-Making: With the roll out of COVID-19 vaccines, PE sponsors will have more confidence in their ability to value assets and to predict which sectors and companies will be well positioned in a post-COVID-19 world resulting in a significant uptick in deal-making.

Fierce Competition: With an estimated US\$1.9 trillion in PE dry powder globally (some of which was allocated to be deployed in 2020 but was not, due to COVID-19) and the likelihood that interest rates will continue to be low, we expect competition for good assets to be fierce in 2021.

Continued Interest in E-Commerce-Adjacent Industries: Logistics assets (including cold supply chains), data centers, technology management platforms, and other opportunities driven by 2020's unprecedented adoption of e-commerce, fintech, online services, and virtual communication, will continue to be in great demand.

Continued Rise of ESG: As reporting of ESG metrics is increasingly required of GPs by LPs, mainstream PE sponsors will increase their focus on ESG attributes as part of their due diligence processes when evaluating targets. Companies whose business models play to sustainability and similar themes will continue to see premium valuations.

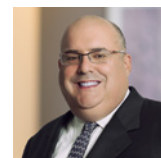
Evolution of SPACs: IPOs of SPACs sponsored by U.S.-based sponsors will slow compared to 2020 as sponsors tie their economics to post-merger success of de-SPAC transactions. De-SPAC transactions, including mergers with non-U.S. companies, will increase significantly as existing SPACs pursue business combinations before the expiration of their acquisition windows, typically 18–24 months after the IPO.

Credit Market Resurgence: Credit markets will continue their resurgence into 2021. We anticipate financing availability and structures to normalize in 2021. Keep an eye out for credit funds; we expect them to continue to expand their market share this year and beyond.

GLOBAL



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REGIONAL PERSPECTIVE FOR 2021

CHINA

- Early taming of COVID-19 => more robust deal pipeline
 - Asia's year of the SPAC
 - Take-privates of U.S.-listed Chinese companies to continue
 - Increased activity in agtech and healthcare
- [Read More](#)

UK

- The impact on PE investment following Brexit
 - Introduction of the first UK National Security and Investments Bill
- [Read More](#)

EUROPE

- German SMCs attracting PE investment
 - High PE interest in tech and life sciences
 - Stricter foreign investment control
- [Read More](#)

INDIA

- Continued traction for tech, health, and infrastructure sectors
 - Long-awaited regulatory certainty anticipated, relating to offshore IPOs
 - Rising national security concerns
- [Read More](#)

SOUTHEAST ASIA

- Focus on underserved markets such as Vietnam
 - Continued interest in late-stage/pre-IPO investment
 - Significant deal activity particularly in e-commerce and online services
- [Read More](#)

U.S.

- Uncertainty around tax reforms to continue
 - Financing availability and structures to normalize
 - Divestitures with heightened antitrust risk increase
 - Investment diversification
- [Read More](#)

LATIN AMERICA

- Pension reform to impact Latin America's private capital market
 - Continuing investment interest in Brazil
 - High-risk, high-reward opportunities across region
- [Read More](#)

JAPAN

- Expected rise in carve-outs and successions
 - Increasing trend of hostile takeover bids
 - Continued fundraising by major PE players
- [Read More](#)

FOCUS ON ESG AND PRIVATE EQUITY

- **Rise of New Corporate Structures** – Investors are shifting their interest from time-limited investment vehicles to permanent asset vehicles, enabling managers to invest in long-lived assets with long-term growth, which allows for greater focus on ESG.
- **JVs with NGOs** – Companies are utilizing licensing arrangements with third parties such as NGOs to strengthen mission lock and are considering including NGOs in the GP or management company to provide more robust screening for impact.
- **Disclosure Requirements** – The largest standard-setters (SASB, GRI, CDP, CDSB) are not coordinated in their recommendations on ESG performance disclosure, which is increasingly required by LPs. The focus has been on methodology to avoid accusations of greenwashing, as well as third-party verifications and certifications.
- **Development Finance Institutions** – DFIs play an important part in promoting the uptake of sustainable financing, particularly in Asia and Africa, by requiring the integration of ESG factors into the investment decision-making process, as well as ongoing ESG management and reporting, as a prerequisite for their investment.



ESG

[Suz Mac Cormac](#)

U.S.

- **TAX REFORM UNCERTAINTY** – Ongoing uncertainty over the likelihood and timing of U.S. tax reforms will drive activity levels in Q1 and Q2 2021, with investors pressing to get deals done under the existing tax rules.
- **FINANCING NORMALIZATION** – With benchmark rates staying low and M&A activity picking back up, the credit markets will continue their resurgence into 2021. We anticipate financing availability and structures to normalize in 2021.
- **DIVESTITURES** – In 2020, the U.S. Department of Justice identified PE sponsors as viable purchasers of divested assets and businesses, and so we expect to see a renewed focus on potential opportunities stemming from transactions with heightened antitrust risk.
- **BEYOND THE LBO** – We predict that competition for assets and returns will result in sponsors continuing to diversify the types of opportunities and investments through which they look to deploy capital, including considering add-ons, PIPEs, growth equity, other minority investments, and/or SPACs.

LATIN AMERICA

- **PENSION REFORM** – The pace of regulatory reform involving the loosening of restrictions on institutional investing in alternative investments and private companies will continue and further accelerate the development of the private capital market in Latin America.
- **BRAZIL BACK IN FAVOR** – We expect Brazil to continue to attract sizable investor interest in 2021, with a focus on technology, payment systems, mobility and logistics, and e-commerce. Other promising markets include Colombia, Chile, Peru, and Mexico.
- **HIGH RISK, HIGH REWARD** – We believe that economic contraction and currency depreciation across the major markets in Latin America could result in opportunities for LPs and sponsors looking for diversity and high rates of return.

UK

- **BREXIT** – The end of the Brexit transition period on December 31, 2020 established a new UK/EU relationship. The trade deal gives UK and EU businesses much-needed certainty, and PE firms are likely to see a boost in domestic, and cross-border M&A with the EU, particularly in sectors dependent on cross-border goods trade, including retail, manufacturing, and agriculture. It remains to be seen what the longer-term impact will be, particularly for the services sector.
- **NATIONAL SECURITY AND INVESTMENTS BILL** – If enacted in its current form, this legislation will represent a wholesale change in the UK’s national security review process for M&A and investment transactions, including a new mandatory filing regime, and extended call-in powers across a broad range of sectors. PE firms will need to consider the impact of the legislation on transaction timelines, and whether their fund structure—including the identity of LPs such as sovereign wealth funds—is likely to give rise to national security concerns.

EUROPE

- **GERMAN SMCS OPEN FOR INVESTMENT** – German SMCs are becoming more open to PE investors, raising the possibility of increased PE investment into companies that are strong in their fields of expertise and the backbone of the German economy.
- **APPETITE FOR TECH AND LIFE SCIENCES SECTORS CONTINUES** – Post-pandemic, interest in tech and life sciences investments in the EU will continue, with cloud-based products and services particularly attractive and healthcare digitization in high demand.
- **EXTENDED FOREIGN DIRECT INVESTMENT CONTROL** – The newly introduced FDI rules across Europe will impose more scrutiny on non-EU investors, with more sectors impacted and a stricter FDI test. Although this will not ultimately limit investments, it will add to the complexity of transactions.

U.S.



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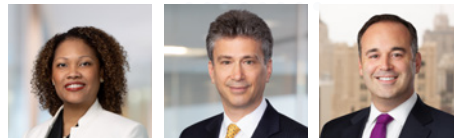
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CHINA

- **ROBUST DEAL PIPELINE** – China's success in taming COVID-19 will result in PE investors in China having more robust deal pipelines than in other markets.
- **ASIA'S YEAR OF THE SPAC?** – Asia-based investors will join the SPAC wave that swept the United States. The number of Asia-based SPACs will increase significantly, particularly those with strong China ties.
- **TAKE-PRIVATES OF U.S.-LISTED CHINESE COMPANIES CONTINUING** – PE-backed take-privates of U.S.-listed Chinese companies, followed by relistings in China or Hong Kong, will continue due to ongoing U.S.-China tensions and potential high trading multiples upon relisting in China.
- **INCREASED ACTIVITY IN AGTECH AND HEALTHCARE** – We expect increased deal activity in agtech sub-sectors such as food waste management and plant-based food alternatives, and healthcare sub-sectors such as biopharma, medtech, and digital health.

SOUTHEAST ASIA

- **FOCUS ON UNDERSERVED MARKETS** – We expect investors will continue to focus on opportunities in underserved markets such as Vietnam, where fundamentals are strong, growth has been robust, and mobile/internet adoption is high.
- **LATE-STAGE/PRE-IPO INVESTMENT** – Southeast Asia's unicorns and large pan-regional businesses have seen high levels of investment, with large secondary rounds being raised. Regional businesses are also focused on tapping the international capital markets, including by evaluating listings outside their home jurisdictions. One unicorn is even reportedly being targeted for acquisition by a U.S.-listed SPAC.
- **LOGISTICS AND ONLINE SERVICES** – Demand for e-commerce and other online services, such as digital banking and virtual communication in Southeast Asia, is higher than ever. This will continue to drive demand in adjacent industries, including logistics warehousing, delivery platforms, and data centers.

JAPAN

- **INCREASED CARVE-OUTS AND SUCCESSIONS** – We expect there will be an uptick in the small and mid-market segments as over-diversified Japanese companies look to carve out non-core businesses or distressed assets. Family-run Japanese companies continue to face succession problems and are increasingly receptive to PE buyers.
- **HOSTILE TAKEOVER BIDS** – Hostile takeover bids, until fairly recently, have been relatively rare in Japan, but the climate may be shifting as such bids have become increasingly more common in notable take-private transactions.
- **CONTINUED FUNDRAISING** – While PE firms continue to sit on a significant amount of dry powder earmarked for the Japanese market, we expect that major PE players will continue to raise funds for Japanese investments in 2021.

INDIA

- **TECH, HEALTH, AND INFRASTRUCTURE TRACTION** – With increased digitization, sectors like edtech, fintech, and e-commerce will attract continued interest in India. The Indian government is taking action to boost investments in the health and the infrastructure sectors.
- **LATE STAGE INVESTMENTS** – Amendments are expected to the regulatory framework that could permit ex-India IPOs of Indian companies; these amendments could be adopted as soon as Q1 2021. Indian companies will wait for regulatory certainty on access to foreign capital markets and, in the interim, we anticipate there will be more pre-IPO investments.
- **RISING NATIONAL SECURITY CONCERNS** – India is looking to streamline its national security investment approval framework after recently requiring investors from countries sharing a land border with it to obtain prior approval for investments in India. It is expected that the government will clarify some safe harbor exceptions to this approval in early 2021 related to shareholding thresholds and rights matrix.

CHINA



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