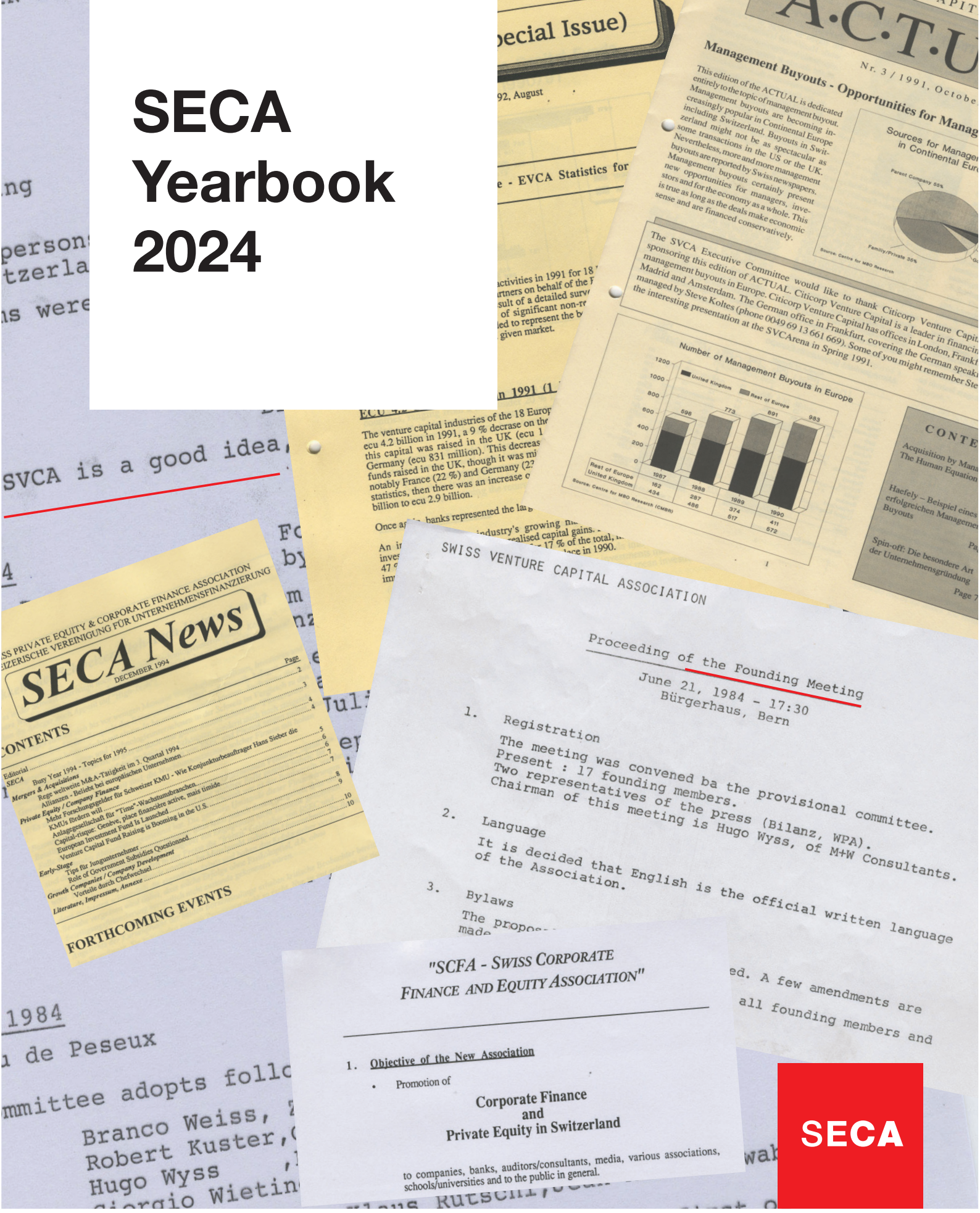


SECA Yearbook 2024



Swiss Private Equity & Corporate Finance Association
 Schweizerische Vereinigung für Unternehmensfinanzierung
 Association Suisse des Investisseurs en Capital et de Financement



The Swiss Private Equity & Corporate Finance Association (SECA) is the representative body for Switzerland's private equity, venture capital and corporate finance industries. SECA has the objective to promote private equity and corporate finance activities in Switzerland. Meanwhile, SECA has a strong base of more than 500 members, which is composed of several investment companies, banks, corporate finance advisors, auditing companies, management consultants, lawyers and private investors.

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Private Equity Chapter

In the SECA Chapter Private Equity, we try to look at different sides of private equity in established companies, at the structuring of private equity deals and the nature of the fund-of-fund business. Switzerland has an excellent position worldwide in the field of the for private equity business. Therefore many members are concerned with comparability, not just of privately held businesses, but also of funds as a whole. The industry standards have gone far beyond rules of thumb.

How private equity buyouts can continue to succeed in the new macro regime

Source: [Partners Group Private Markets Mythbusters Series](#)

Strong tailwinds from stable growth, abundant financing, and low interest rates and inflation have helped propel private markets into an unprecedented era of expansion in the last decade. But this benign environment has changed. With higher interest rates and sticky inflation, a new macro regime is at play, with consequences to all asset classes across both private and public markets.

The buyout model in the new macro regime

Since 2022, buyout investors in various regions and market segments have been facing a more challenging macro environment, which directly impacts the key drivers of returns they have been relying on until now. In particular:

- **Higher interest rates and debt scarcity:** Following a series of interest rate hikes by major central banks, the cost of financing acquisitions has soared, with floating rates for senior loans – a debt instrument typically used in buyouts – doubling to 10% in just one year. With heightened uncertainty, many banks have also reined in their lending offerings. While private lenders have stepped in to partially fill this void, overall financing capacity is decreasing, with debt availability largely directed to high-quality businesses.
- **Valuation correction:** On the back of lower transaction volumes and higher uncertainty, buyout valuations started to decline in 2022 and continued to correct in early 2023. EV/ EBITDA multiples in the broad buyout space are down 5-15% compared to 2021 peak levels, data from Burgiss, PitchBook, LCD and Partners Group research show. Buyout investors can no longer rely on steadily growing asset prices and multiple expansion to generate consistent returns.

Against this backdrop, can the buyout model continue to generate attractive returns for investors? We estimate that a more unfriendly debt financing scenario could result in a drop of around 300-500bps in gross IRR. This total is broken down into the following two components. Lower availability of financing – with the share of debt in the company's capital structure reducing from 50% to 40% – could cut gross IRR by 200bps. Higher costs of debt could further reduce returns by approximately 200bps (100-300bps). Keeping all else equal, gross IRR could decrease from around 20% to an upper mid-teen figure.

Returns sensitivity analysis (gIRR in %)

Higher financing costs and lower debt availability can hit return expectations...

		Debt level in the capital structure						
		30%	35%	40%	45%	50%	55%	60%
Interest on debt	5%	17.1%	17.8%	18.6%	19.6%	20.6%	21.9%	23.5%
	7%	16.8%	17.4%	18.1%	18.8%	19.7%	20.8%	22.1%
	8%	16.6%	17.2%	17.8%	18.4%	19.2%	20.2%	21.3%
	9%	16.5%	16.9%	17.4%	18.0%	18.7%	19.5%	20.5%
	10%	16.3%	16.6%	17.1%	17.5%	18.1%	18.8%	19.6%
	11%	16.1%	16.4%	16.7%	17.0%	17.5%	18.0%	18.6%
	12%	15.9%	16.1%	16.2%	16.5%	16.8%	17.1%	17.5%
...but these impacts can be offset by lower entity multiples...		Entry multiple						
		12.5x	12.0x	11.5x	11.0x	10.5x	10.0x	9.5x
Exit multiple	11.5x	19.0%	20.6%	22.3%	23.9%	25.7%	27.5%	29.4%
	11.0x	17.9%	19.5%	21.1%	22.8%	24.6%	26.4%	28.3%
	10.5x	16.7%	18.3%	20.0%	21.7%	23.4%	25.3%	27.2%
	10.0x	15.4%	17.1%	18.7%	20.5%	22.2%	24.1%	26.0%
	9.5x	14.1%	15.8%	17.5%	19.2%	21.0%	22.9%	24.8%
	9.0x	12.7%	14.4%	16.1%	17.9%	19.7%	21.6%	23.5%
	8.5x	11.3%	13.0%	14.7%	16.5%	18.3%	20.2%	22.2%
... and returns can further increase through higher EBITDA growth.		EBITDA growth						
		7.0%	9.0%	10.5%	11.5%	12.5%	14.0%	16.0%
		15.5%	17.7%	19.3%	20.5%	21.6%	23.2%	25.4%

Source: Partners Group (2023).

Reassess and refocus

Despite these headwinds, we believe it is not time to bid farewell to private equity buyouts. As experienced investors know, changing dynamics bring not only challenges, but also opportunities.

- Taking advantage of uneven price corrections: Buyout transactions in early 2023 have seen an average decrease of 5-15% in entry valuations. Models show that this cut in prices (assuming a reduction in entry multiple from 12.0x to 11.0x) can increase gross IRR by 300-500 bps and largely offset the negative impact of lower debt loads and higher interest costs. The average decline, however, masks some marked differences between industry sectors and market segments, which investors need to carefully factor in at underwriting. Investment managers with a differentiated approach to sourcing are best positioned to identify pockets of opportunities and take advantage of a correction in asset prices. Recent examples of acquisitions completed demonstrate that disciplined underwriting and a thematic approach to sourcing – underpinned by deep research on the most attractive transformative trends across sectors – has allowed active private markets managers to acquire long-known, high-quality companies at entry multiples c.2-3x lower than what was observed in 2022 during the early stages of due diligence. Now more than ever, a proactive and disciplined investment process is key to generating top-quartile buyout returns.
- Doubling down on value creation: Driving operational value has become even more important in the current environment. Governance and productivity improvements as well as strategic platform expansion can help assets to overcome macro challenges and increase returns. Supported hands-on entrepreneurial ownership approach, portfolio companies still achieve organic growth levels higher than global growth rates, with a double digit historical average annual EBITDA growth since 2015, approximately ten percentage points above public equity market companies.

Navigating the cycles

The buyout model has proven its relevance over time, and historical data shows that the most successful managers have generated relatively stable returns across different cycles and rate regimes. This suggests investment excellence can deliver solid performance despite macro headwinds. But managers will need to adapt their approach as debt financing tightening creates less room for error. More than ever, disciplined underwriting – acquiring high quality companies at attractive entry valuations through a thematic approach to sourcing – is paramount. With multiple expansion also arguably out of the equation in most cases, operational value creation will be central to any strategy. Only those buyout investors who can adapt to the forces shaping the current investment environment will prove resilient and come out stronger on the other side.

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