



2021
PREQIN GLOBAL
**PRIVATE EQUITY &
VENTURE CAPITAL**
REPORT

Mid-Market Private Equity: 2.0

We hear from Eric Deram, Managing Partner at Flexstone Partners, on solving the challenge of geographical diversification in the middle market

Mid-market private equity has grown in popularity as investors seek to invest in the high-growth companies that drive economies.

The relatively small scale of deals compared with the large buyout funds means the focus of mid-market private equity is local. That is, the segment is dominated by domestic private equity funds investing primarily in domestic companies. Investing in single countries or regions can make sense – the closer you can get to investee companies, the more likely you are to select the ones with the greatest potential. However, the model lacks diversification; investors are potentially exposed to countries and regions that have structurally slow growth or suffer from geopolitical problems.

Exposure to companies in a larger number of countries, across geographic regions, strengthens diversification, potentially providing protection against underperforming national economies and benefiting from faster-growing ones.

But is it possible to both invest locally and, at the same time, have a global focus?

Why Invest in the Mid-Market?

The small- and mid-market private equity sector has historically provided outperformance across most phases of the economic cycle.¹ Investors also like the fact that they usually pay lower entry multiples than for larger deals. In addition, it is a highly active segment with strong deal flow. In fact, 83% of the deals closed since 2014 were classified as mid-market.²

The strategy is good at adapting to changing market conditions compared to larger deals because smaller companies tend to be more agile and give the breadth of investment opportunities, allowing investors to nudge their investment strategy more easily. In addition, the mid-market reduces risk by relying less on leverage to generate returns. Whereas large-cap deal leverage is



Eric Deram
Managing Partner

Flexstone Partners
www.im.natixis.com/flexstone-partners

Flexstone Partners is a global private investments firm delivering customized solutions across small- and mid-cap private equity, real estate, private debt, and infrastructure. The firm seeks to actively capture responsible growth opportunities in compelling, hard-to-access markets across North America, Europe, and Asia. With more than 27 years of private market average experience, Flexstone Partners has over 40 institutional clients with more than \$7.8bn under management across primary, secondary, and co-investment funds in North America, Europe, and Asia-Pacific.

5.4x a company's profits, leverage is just 5.0x profits for smaller deals.³

There is a wider array of exit opportunities in the mid-market too, including selling a portfolio company to a larger fund or peer-group competitor.

Mid-Market Is Well Placed to Withstand Headwinds

Of course, there are currently potential headwinds amid the pandemic shock to the global economy. But the long-term perspective may be some consolation to private equity investors. Put simply, no buyout vintage has ever failed to produce positive returns on capital, no matter how severe the downturn.⁴ Even vintages

¹ Preqin, global data Q2 2020

² Preqin Pro as of March 31, 2019

³ LCD data [S&P Global Market Intelligence], 30/06/2020

⁴ Preqin Pro

launched in the years immediately before the Global Financial Crisis (GFC) produced positive IRRs; however, there is no guarantee that future vintages will produce similar returns.

Mid-market funds are particularly resilient to downturns, given their relatively low leverage and greater potential to refocus companies. To protect value, we think it is also vital to transact only deals that are within the 'sweet spot' of the lead private equity investor. That is, the GP has demonstrable skills and knowledge of the deal type and is not transacting opportunistically.

When a buyout fund makes a sweet spot investment, average returns are 2.2x the price paid. When the fund strays from the sweet spot, returns are just 1.3x the price paid.⁵ We cannot stress this point too strongly and have developed a systematic sweet spot framework to address it. This framework helps avoid style drift, conserve resources, and produce more accurate decision-making. It is an important defense against the kind of crisis we have seen in 2020.

The Challenges of Geographic Diversification

Even if the mid-market has great potential to create superior value, geographical diversification is key to secure this value creation while mitigating the downside risk.

There are challenges to achieving geographic diversification, not least because of the diversity of the private equity environments in different countries and regions. In Europe, for instance, the bulk of the private equity markets are driven by smaller deals, while in the US, average fund sizes tend to be larger. Meanwhile, in Europe debt levels for mid-market deals have fallen markedly since 2016, while in the US they have remained more or less stable.

From a regional and cultural standpoint only the US is homogenous. Europe and Asia are both fragmented so you need a local partner. Each country in Asia and Europe has different codes, cultures, structures, and laws. It is possible to take a blanket approach and target only larger, highly visible companies that operate across Europe or across Asia, but this risks missing the value created by fast-growing, lesser-known enterprises in niche sectors.

⁵ Bain & Company, *Global Private Equity report, 2016*

Global Presence, Local Focus

To unearth the most promising mid-market companies worldwide requires a global team with local expertise in the world's major regions: Europe, US, and Asia. Accessing a global opportunity set necessitates feet on the ground, and proximity to companies and deal networks. With subscriptions to the best-performing mid-market funds in high demand, access to managers is critical. None of this can be achieved by operating remotely.

Flexstone Partners was conceived expressly to bring a global perspective to the private equity mid-market. Constructed by the combination of three existing Natixis affiliates present in the three largest private equity markets in the world, its management team has decades of experience in the mid-cap buyout and growth segments.

A la Carte Investing

Investors have told us they want globally diversified portfolios that are tailored to their particular needs. Some want certain geographical exposures to dovetail with existing exposures in their portfolios. For others, the priority may be to take more risk, perhaps by investing in first-time funds or by loading up on emerging markets. We think it is important to respond to this and provide an a la carte menu for investment strategy, research and selection, structuring, tax, accountancy, and reporting.

This approach allows investors to diversify by region, but also by manager type, sector, and size of deal. The resulting portfolios respond to the objectives of clients, with assets matching these objectives.

Some institutional investors have the resources and experience in private equity investing to make their own global allocations. Many others, however, would like to tap the historically high returns from the private equity mid-market, but seek a partner to steer them through the complexities.

This is where a global private equity advisor, with a local presence on the ground in all the major regions of the world and 20+ years' experience of investing the mid-markets, can prove its worth.

For Professional Investors only. All investing involves risk, including the risk of capital loss. Flexstone Partners is an entity of Natixis Investment Managers, the holding company of a diverse line-up of specialized investment management and distribution entities worldwide. Services and products managed by Flexstone Partners are not available to all investors in all jurisdictions. Provided by Natixis Investment Managers UK Limited, authorised and regulated by the Financial Conduct Authority (register no. 190258). Registered Office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. ADINT195-1019



ACTIVELY CONNECTING INVESTORS TO ALTERNATIVE OPPORTUNITIES

Real Estate | Infrastructure | Private Equity | Private Debt | Natural Capital

im.natixis.com/en-institutional



This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors.

In the E.U. (outside of the UK and France): Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. **In Switzerland:** Provided for information purposes only by Natixis Investment Managers, Switzerland Sàrl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich.

In the British Isles: Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258) - registered office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. When permitted, the distribution of this material is intended to be made to persons as described as follows: **in the United Kingdom:** this material is intended to be communicated to and/or directed at investment professionals and professional investors only; **in Ireland:** this material is intended to be communicated to and/or directed at professional investors only; **in Guernsey:** this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Guernsey Financial Services Commission; **in Jersey:** this material is intended to be communicated to and/or directed at professional investors only; **in the Isle of Man:** this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Isle of Man Financial Services Authority or insurers authorised under section 8 of the Insurance Act 2008. **In Japan:** Provided by Natixis Investment Managers Japan Co., Ltd., Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No. 425. Content of Business: The Company conducts discretionary asset management business and investment advisory and agency business as a Financial Instruments Business Operator. Registered address: 1-4-5, Roppongi, Minato-ku, Tokyo. **In Taiwan:** Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F, No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei City 11065, Taiwan (R.O.C.), license number 2020 FSC SICE No. 025, Tel. +886 2 8789 2788. **In Singapore:** Provided by Natixis Investment Managers Singapore Limited (company registration no. 199801044D) to distributors and institutional investors for informational purposes only. **In Hong Kong:** Provided by Natixis Investment Managers Hong Kong Limited to institutional/ corporate professional investors only. ADINTZ76-1120

End-User License Agreement (EULA) for Single Users

END-USER LICENSE AGREEMENT FOR **Preqin Digital Publications** Single-User License.

IMPORTANT - PLEASE READ THE TERMS AND CONDITIONS OF THIS LICENSE AGREEMENT CAREFULLY BEFORE CONTINUING: Preqin Ltd's End-User License Agreement ("EULA") is a legal agreement between you (either an individual or a single entity) and Preqin Ltd. for the Preqin Ltd product(s) identified above, which may include associated media, information, artwork, text, or pictures (collectively, "Content"). By downloading and otherwise using the Content, you agree to be bound by the terms of this EULA. This license agreement represents the entire agreement concerning the Content between you and Preqin Ltd, (referred to as "licenser"), and it supersedes any prior proposal, representation, or understanding between the parties. If you do not agree to the terms of this EULA, do not complete the download of the Content.

The Content is protected by copyright laws and international copyright treaties, as well as other intellectual property laws and treaties. The Content is licensed, not sold.

1. GRANT OF LICENSE

The Content is licensed as follows:

(a) Download and Use

Preqin Ltd grants you the right to download and use the Content on a personal computer and/or e-book reader running validly licensed software for which the Content was designed.

(b) Reproduction/Copying

The terms of this license permit the creation of copies of the Content for backup and archival purposes only. Any other form of reproduction of the Content is strictly prohibited.

2. DESCRIPTION OF OTHER RIGHTS AND LIMITATIONS

(a) Maintenance of Copyright Notices

You must not remove or alter any copyright notices on any and all copies of the Content.

(b) Distribution

This license is for the sole Authorized User only. You may not distribute copies of the Content to any third party, either partially or fully, without the express written consent of Preqin Ltd.

(c) Prohibition on Reverse Engineering, Decompilation, and Disassembly

You may not reverse engineer, decompile, or disassemble the Content, except and only to the extent that such activity is expressly permitted by applicable law notwithstanding this limitation.

(d) Rental

You may not rent, lease, or lend the Content.

(e) Compliance with Applicable Laws

You must comply with all applicable laws regarding use of the Content.

3. TERMINATION

Without prejudice to any other rights, Preqin Ltd may terminate this EULA if you fail to comply with the terms and conditions of this EULA. In such event, you must destroy all copies of the Content in your possession.

4. COPYRIGHT

All title, including but not limited to copyrights, in and to the Content and any copies thereof are owned by Preqin Ltd. All title and intellectual property rights of the Content are the property of the owner and may be protected by applicable copyright or other intellectual property laws and treaties. This EULA grants you no rights to use such material. All rights not expressly granted are reserved by Preqin Ltd.

5. NO WARRANTY AND LIMITATION OF LIABILITY

Preqin Ltd expressly disclaims any warranty for the Content. The Content is provided 'As Is' without any express or implied warranty of any kind, including but not limited to any warranties of merchantability, non-infringement, or fitness of a particular purpose. The information presented in the Content is for information purposes only and does not constitute and should not be construed as a solicitation or other offer, or recommendation to acquire or dispose of any investment or to engage in any other transaction, or as advice of any nature whatsoever. If the Authorized User seeks advice rather than information then he/she should seek an independent financial advisor and hereby agrees that he/she will not hold Preqin Ltd. responsible in law or equity for any decisions of whatever nature the reader makes or refrains from making following its use of the Content.

While reasonable efforts have been made to obtain information from sources that are believed to be accurate, and to confirm the accuracy of such information wherever possible, Preqin Ltd. does not make any representation or warranty that the information or opinions contained in the Content are accurate, reliable, up-to-date or complete.

Although every reasonable effort has been made to ensure accuracy, Preqin Ltd. does not accept any responsibility for any errors or omissions within the Content or for any expense or other loss alleged to have arisen in any way from use of the Content.

2021 Preqin Global Private Equity & Venture Capital Report

Published by:

Preqin Ltd.

ISBN:

978-1-912116-31-7

Sub-Editors:

Cat Hall
Nicole Lee
David Lowery
Charles McGrath
Milly Rochow
Michelle Stern

Executive Editors:

Cameron Joyce
Grant Murgatroyd

Production Editors:

Logan Scales
Tim Short

Managing Editor:

Charlotte Mullen

Research Coordinator:

Clara Bleda Martínez

Client Contributions Manager:

Kainoa Blaisdell

External Contributors:

Amit Anand, *Jungle Ventures*
Joe Bae, *KKR*
Kelsey Banos, *First Republic Bank*
Alex Brooks, *Capstone Partners*
Jacques Chillemi, *Hermance Capital Partners*

Eric Deram, *Flexstone Partners*
Tan Choon Hong, *Northstar Group*
Ming Liao, *Prospect Avenue Capital*
Sunata Tjiterosampurno, *Northstar Group*
Matt Van Itallie, *Sema Software*

In-House Contributors:

Farnod Afsharnejad
Joseph Borda
Gia Huy Bui
Emma Chen
Shaun Chng
Meaghan Conlon
Connie Dayina
Thea Diaz
Darren Fernandes

Richard Gifford
Milan Hirani
Adam Jackson
Ronit Karamchandani
Brian Lee
Rahmin Maali
Chase Mahar
Samuel Malec
Jaysul Mistry

Maxine Nhin
Akash Patel
Sandra Peña
Lenka Rabatinova
Andrea Ramirez
Pinja Saariskoski
Ethan Siegman
Kamarl Simpson
Megan Wood

Important Notice, Please Read

All rights reserved. The entire contents of 2021 Preqin Global Private Equity & Venture Capital Report are the Copyright of Preqin Ltd. No part of this publication or any information contained in it may be copied, transmitted by any electronic means, or stored in any electronic or other data storage medium, or printed or published in any document, report, or publication, unless expressly agreed with Preqin Ltd.

The information presented in 2021 Preqin Global Private Equity & Venture Capital Report is for information purposes only and does not constitute and should not be construed as a solicitation or other offer, or recommendation to acquire or dispose of any investment or to engage in any other transaction, or as advice of any nature whatsoever. If the reader seeks advice rather than information then the reader should seek an independent financial advisor and hereby agrees that he/she will not hold Preqin Ltd. responsible in law or equity for any decisions of whatever nature the reader makes or refrains from making following his/her use of 2021 Preqin Global Private Equity & Venture Capital Report.

While reasonable efforts have been made to obtain information from sources that are believed to be accurate, and to confirm the accuracy of such information wherever possible, Preqin Ltd. does not make any representation or warranty that the information or opinions contained in 2021 Preqin Global Private Equity & Venture Capital Report are accurate, reliable, up to date, or complete.

Although every reasonable effort has been made to ensure the accuracy of this publication Preqin Ltd. does not accept any responsibility for any errors or omissions within 2021 Preqin Global Private Equity & Venture Capital Report or for any expense or other loss alleged to have arisen in any way with a reader's use of this publication.

Data contained within the 2021 Preqin Global Private Equity & Venture Capital Report was sourced from Preqin Pro, unless otherwise stated, as of January 2021 and represents the most up-to-date data as of that date.

Additional Notes

This material has been provided for information purposes only to investment service providers or other Professional Clients or Qualified Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors. In the E.U. (outside of the UK and France): Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. **Italy:** Natixis Investment Managers S.A., Succursale Italiana (Bank of Italy Register of Italian Asset Management Companies no 23458.3). Registered office: Via San Clemente 1, 20122 Milan, Italy. **Germany:** Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Im Trutz Frankfurt 55, Westend Carrée, 7. Floor, Frankfurt am Main 60322, Germany. **Netherlands:** Natixis Investment Managers, Netherlands (Registration number 50774670). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. **Sweden:** Natixis Investment Managers, Nordics Filial (Registration number 516405-9601 - Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. **Spain:** Natixis Investment Managers, Sucursal en España, Serrano n°90, 6th Floor, 28006 Madrid, Spain. **Belgium:** Natixis Investment Managers S.A., Belgian Branch, Gare Maritime, Rue Picard 7, Bte 100, 1000 Bruxelles, Belgium. ● In France: Provided by Natixis Investment Managers International – a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris. ● In Switzerland: Provided by Natixis Investment Managers, Switzerland Sarl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich. ● In the British Isles: Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258) - registered office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. When permitted, the distribution of this material is intended to be made to persons as described as follows: in the United Kingdom: this material is intended to be communicated to and/or directed at investment professionals and professional investors only; in Ireland: this material is intended to be communicated to and/or directed at professional investors only; in Guernsey: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Guernsey Financial Services Commission; in Jersey: this material is intended to be communicated to and/or directed at professional investors only; in the Isle of Man: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Isle of Man Financial Services Authority or insurers authorised under section 8 of the Insurance Act 2008. ● In the DIFC: Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients or Market Counterparties as defined by the DFSA. No other Person should act upon this material. Registered office: Unit L10-02, Level 10 ,ICD Brookfield Place, DIFC, PO Box 506752, Dubai, United Arab Emirates. ● In Taiwan: Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F., No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei City 11065, Taiwan (R.O.C.), license number 2020 FSC SICE No. 025, Tel. +886 2 8789 2788. ● In Singapore: Provided by Natixis Investment Managers Singapore Limited (company registration no. 199801044D) to distributors and institutional investors only. ● In Hong Kong: Provided by Natixis Investment Managers Hong Kong Limited to institutional/ corporate professional investors only. ● In Australia: Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only. ● In New Zealand: This document is intended for the general information of New Zealand wholesale investors only. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand. ● In Latin America: Provided by Natixis Investment Managers S.A. ● In Chile: Esta oferta privada se inicia el día de la fecha de la presente comunicación. La presente oferta se acoge a la Norma de Carácter General N° 336 de la Superintendencia de Valores y Seguros de Chile. La presente oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la Superintendencia de Valores y Seguros, por lo que los valores sobre los cuales ésta versa, no están sujetos a su fiscalización. Que por tratarse de valores no inscritos, no existe la obligación por parte del emisor de entregar en Chile información pública respecto de estos valores. Estos valores no podrán ser objeto de oferta pública mientras no sean inscritos en el Registro de Valores correspondiente. ● In Colombia: Provided by Natixis Investment Managers S.A. Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. This material does not constitute a public offering in Colombia and is addressed to less than 100 specifically identified investors. ● In Mexico: Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity, securities intermediary, or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. While shares of certain ETFs may be listed in the Sistema Internacional de Cotizaciones (SIC), such listing does not represent a public offering of securities in Mexico, and therefore the accuracy of this information has not been confirmed by the CNBV. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority. Any reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of its investment management subsidiaries, which are also not authorized by or registered with the CNBV or any other Mexican authority. ● In Uruguay: Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorised and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, Montevideo, Uruguay, CP 11500. The sale or offer of any units of a fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627. ● The above referenced entities are business development units of Natixis Investment Managers the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorised. Their services and the products they manage are not available to all investors in all jurisdictions. It is the responsibility of each investment service provider to ensure that the offering or sale of fund shares or third party investment services to its clients complies with the relevant national law.

The provision of this material and/or reference to specific securities, sectors, or markets within this material does not constitute investment advice, or a recommendation or an offer to buy or to sell any security, or an offer of any regulated financial activity. Investors should consider the investment objectives, risks and expenses of any investment carefully before investing. The analyses, opinions, and certain of the investment themes and processes referenced herein represent the views of the portfolio manager(s) as of the date indicated. These, as well as the portfolio holdings and characteristics shown, are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material. The analyses and opinions expressed by external third parties are independent and does not necessarily reflect those of Natixis Investment Managers. Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy, or completeness of such information. May not be redistributed, published, or reproduced, in whole or in part. Amounts shown are expressed in USD unless otherwise indicated.