Heidrick & Struggles

Private Equity Practice

2020 Europe and Africa Private Capital Compensation Survey

Contents

Introduction

Welcome to our *2020 Europe and Africa Private Capital Compensation Survey*, the eighth annual edition.

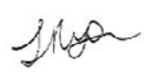
Our goal in producing the survey is to develop and share with the industry a comprehensive understanding of both the compensation practices and the backgrounds of investment, fundraising, and operating professionals at private capital firms. This year's survey includes responses from 552 of these professionals working across Europe and Africa, as well as a section dedicated to private capital compensation in Italy.

Many thanks to all of you who have completed the survey, whether you have done so every year or participated for the first time this year. We appreciate your time and effort in contributing to the project. If you would like to discuss the survey in greater detail, please do not hesitate to contact us.

With warmest regards,

Tom Thackeray
Partner
Private Equity Practice

tthackeray@heidrick.com



Leanne Ryan
Engagement Manager
Private Equity Practice

lryan@heidrick.com

On confidentiality

The Europe and Africa private capital compensation survey, 2020, was conducted on an anonymous basis; no data relating to the identity of individual respondents or their employers is included in the following report.

Acknowledgments

The authors wish to thank **Mohd Arsalan** and **Giulia Iuticone** for their contributions to this report.

Methodology

In an online survey, we asked participants to provide their compensation data from 2018, 2019, and 2020. All data collected was self-reported by private capital professionals and has been aggregated to evaluate trends in compensation packages, including base salary, bonus, and carried interest (carry). In addition to overall compensation data, we segregated responses by level of seniority, fund size, and investment strategy across buyout, growth capital, distressed, credit, direct lending, secondaries, fund of funds, co-investment, and venture capital.

The survey results include responses from 552 participants. In some compensation charts, we report the mean, lower quartile (25th percentile), median, and upper quartile (75th percentile) responses. Please note that the mean can be influenced by particularly high or low data points, especially in small sample sizes. Many firms that use compensation surveys set their compensation targets around or above the upper quartile.

Carried interest is calculated using "carry euros at work"—the expected return on total carry participation across all vehicles, based on achieving a net 2x return (above hurdle and after fees) in a vehicle charging a 20% performance fee. For example, 7 points (700 bps) of carry (out of a possible 100) in a €500 million fund with 20% carry would result in €7 million of carry euros at work (500 X 0.2 X 0.07 = 7).

A note on titles

While title structures vary according to firm, we have divided respondents into three groups based on level and responsibility.

Managing partner/partner
Experienced dealmakers and senior members of the firm who are responsible for sourcing and originating investments. Managing partners and partners interact directly with management teams, lead negotiations, and are part of or deal with the firm's investment committee.

Principal
Considered "deal captains," principals are accomplished executives who lead and manage deal teams. They also may be expected to originate their own investments and identify potential acquisitions.

Associate
The entry-level role for investment professionals. Associates are responsible for analyzing companies and business plans, financial modeling, conducting due diligence, working with service providers, and assisting with the management and monitoring of portfolio companies under the direction of senior team members.

Executive summary

This year's survey includes a review of private capital activity in Europe and Africa, as well as our thoughts on the major hiring trends for private capital professionals in 2020, an in-depth look into the structure of 2020 compensation packages, and a spotlight on trends in Italy.

Private capital

Private capital continued its long-standing healthy growth in 2019 but is now confronting the impact of the global COVID-19 pandemic. Buyout and exit transactions in Europe and Africa have fallen sharply, although somewhat less than elsewhere in the world. We continue to see the development of non-traditional investment firms including family offices, sovereign funds, pension funds, and traditional asset managers that are growing their private markets businesses.

Page 7

Hiring trends

The COVID-19 pandemic has constrained hiring, except for one key role: operating partner. Companies that were functioning well before the pandemic hit may not have the right management teams to run them post-pandemic; operating partners can supply missing skill sets or viewpoints. We also see an increasing need for tech-savvy operating partners. With the outlook for Brexit still uncertain, some UK firms are focusing on hiring professionals with language skills and networks relevant in other European countries.

Page 8

Compensation

In 2020, almost half of all respondents saw a rise in base compensation and almost as many saw a rise in cash bonus. In many cases, increases were substantial: 37% of those who reported an increase in base said that the increase was between 21% and 40%. Compensation continued to track with fund size, seniority level, and years of experience. Looking at compensation by investment strategy, co-investment and distressed displaced secondaries as paid most to managing partners and partners. For principals, the highest pay this year was in buyout, followed by distressed, with direct lending—last year's top strategy—falling near the bottom.

Page 9

Spotlight on Italy

The Italian economy is dominated by family-owned companies; private capital firms have been courting them for the past two decades to provide the capital that these companies were not finding elsewhere in the Italian economy. Now, COVID-19 is threatening that market. Nonetheless, fundraising conditions in Italy are generally positive for domestic sources. Financial institutions are investing in private capital with greater interest and attention, and there is new interest from pension funds. Compensation for private capital professionals in Italy is little changed from last year, and firms are hiring, as in the rest of Europe, operating professionals.

Page 16

State of the private capital market

Private capital is a cornerstone of both European and African economies. It continued long-standing healthy growth in 2019 but is now confronting the impact of the global COVID-19 pandemic.

European private capital had a banner year in 2019. Total fundraising reached €109 billion, a 6% increase from 2018 and the highest level of the preceding decade. The equity invested in European companies rose to €94 billion in 2019, the highest level of investment ever recorded. And the €15 billion in venture capital raised in 2019 was a 17% increase over 2018 and the seventh consecutive year of growth.[1]

Indeed, 2019 was the peak of a vibrant period of growth for private capital. From 2015 to 2019, more than 22,000 small- and medium-sized enterprises had been backed by private equity and venture capital funds, which had raised almost €1 billion over the period. Some 10.5 million Europeans—4.5% of the entire active European workforce—worked in companies backed by private capital. These companies range across sectors from energy and the environment to biotech, healthcare, and information technology, and they have been creating jobs at five times the European job creation average.[2] Job growth has been particularly robust in Central and Eastern European companies backed by private capital, but it has exceeded the rate of other companies all across the continent.[3]

And then the pandemic hit. According to a June report from Bain & Company, the number of buyout transactions in Europe fell 51% from January to April, compared with a 60% drop globally.[4] The number of exit transactions in Europe fell 58% during the same period, compared to a 72% drop globally. Bain found that there is $600 billion in dry powder (money there will be pressure to deploy next year, regardless of economic sentiment) focused on European markets. Furthermore, the vast majority of general partners (GPs)—83% of GPs surveyed by Investec—didn't expect to exit any of their portfolio companies in the near future.

Given private capital's familiarity with technology, including that which enables working remotely, it may seem odd that the pandemic has so curtailed dealmaking. But private capital firms, on the whole, continue to believe that they must meet the management of target companies multiple times, face-to-face, so they can assess both the company and its leaders. Firms want to see their potential companies—and their assets—in action.

As of this writing, however, COVID-19 infection rates are rising, and travel remains restricted.

Nonetheless, due diligence completed before the pandemic took hold has made it possible to conclude some deals this year, including 80 private equity–backed M&A transactions in Europe in the first half of 2020.[5]

We also continue to see the development of non-traditional investment firms including family offices, sovereign funds, pension funds, and even traditional asset managers that are growing their private markets businesses. These institutions tend not to pay carry as part of compensation, nor do they compensate for that by increasing base and bonus. Instead, they compete for talent by emphasizing their work–life balance.

In Africa, private equity activity had also been growing in recent years, but COVID-19 has reversed growth. According to the African Private Equity and Venture Capital Association (AVCA), the value of private equity deals in Africa is likely to fall 63% in 2020, from 2019. Fundraising, which had good years in 2017, 2018, and 2019, has also collapsed.[6]

1 Invest Europe, *Investing in Europe: Private Equity Activity 2019*, May 20, 2020, investeurope.eu.

2 Invest Europe, *Private Equity at Work*, September 2020, p. 1, investeurope.eu.

3 Invest Europe, *Private Equity at Work*, September 2020, p. 22, investeurope.eu.

4 Christophe De Vusser, "How European private equity is taking coronavirus' first punch," Bain & Company, June 3, 2020, bain.com.

5 Benjamin Robertson, "Private equity titans turn to Europe for mega-deals," Bloomberg Quint, July 17, 2020, bloombergquint.com.

6 Yomi Kazeem, "Private equity deals in Africa are on pace for a 60% drop this year," Quartz, October 1, 2020, qz.com.

Hiring trends

Hiring in private capital has been constrained by the pandemic. Firms imposed hiring freezes early in the year as COVID-19 spread, and while some have now been lifted, recruiting levels at private equity firms are nowhere near the levels they reached before the crisis.

Operating partner roles are increasingly in demand, as the stalled investment climate has put pressure on the investors to focus on how their current portfolio of assets will perform once the pandemic ends. Companies that were functioning well before COVID-19 hit may not have the right management teams to run them post-pandemic. Operating partners can bring missing skill sets or viewpoints, and we believe that operating partner groups will upskill where they currently lack knowledge.

We also see an increasing need for tech-savvy operating partners across all forms of digital knowledge, from core technologies to e-commerce and digital transformation. This trend started well before the pandemic but has become increasingly important. Firms have also been interested in hiring investment professionals with sector specializations, particularly in healthcare technology and tech-enabled services.

With the outlook for Brexit still uncertain at this writing, some UK firms are focusing on hiring people who have either native or business fluency in languages other than English—and significant networks within the country where those languages are spoken.

There is a pent-up need and pressure to hire, but that pressure valve won't be released until there is some return to normality. As hiring begins again, we expect that individuals with proven sourcing and origination capabilities will be in highest demand.

Finally, when hiring restarts, we think it likely that private capital firms will face the same increased pressure for more diversity in their ranks as all other companies—particularly, for private capital, in terms of gender diversity. But until leaders become more comfortable hiring from outside the sector and both willing and able to retain and develop diverse staff at the junior and mid-level, significant changes are unlikely.

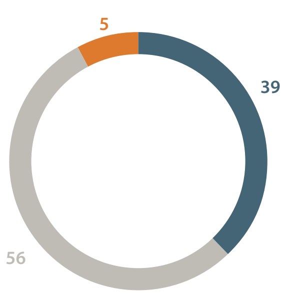
State of professional compensation

We asked respondents whether their base and bonus had risen, fallen, or stayed the same in 2019 and 2020. For 2020, the percentage of those reporting an increase in base rose notably, to 48%, while 42%, about the same share as in 2019, reported an increase in bonus. Moreover, 89% of those who saw a rise in base compensation say it was at least 11%—often significantly more. The percentage of survey respondents who reported a decrease in base fell again, to just 2% in 2020, and 7% reported a decrease in 2020 bonus.

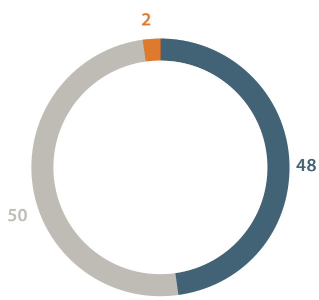
Overall cash compensation trends, 2018–2020 (%)

Increase No change Decrease

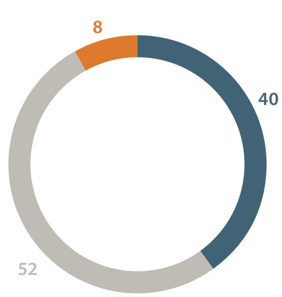
Base salary 2019 vs. 2018



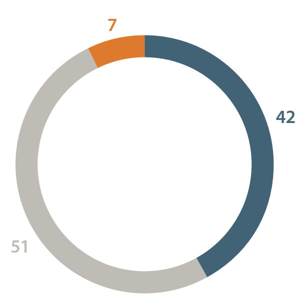
Base salary 2020 vs. 2019



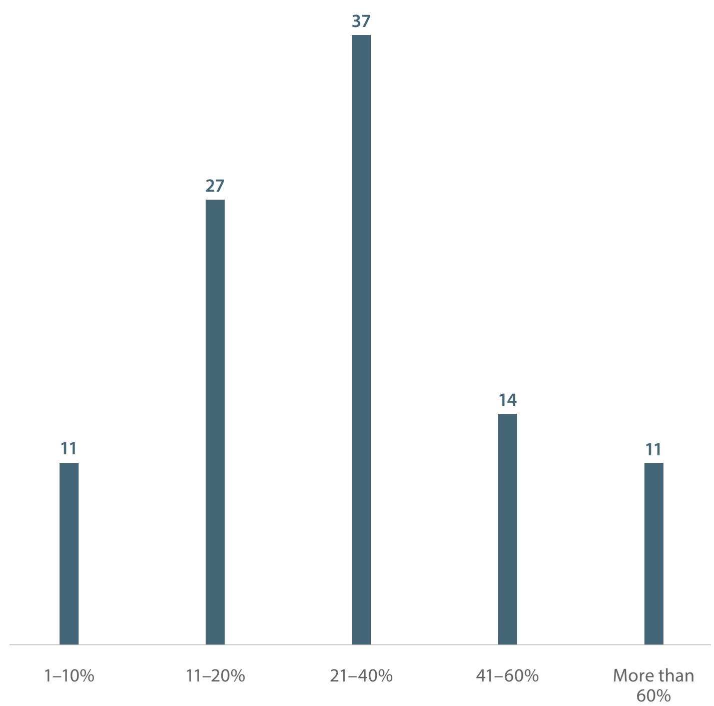
Bonus 2019 vs. 2018



Bonus 2020 vs. 2019



Breakdown of respondents reporting an increase in 2020 base salaries (%)

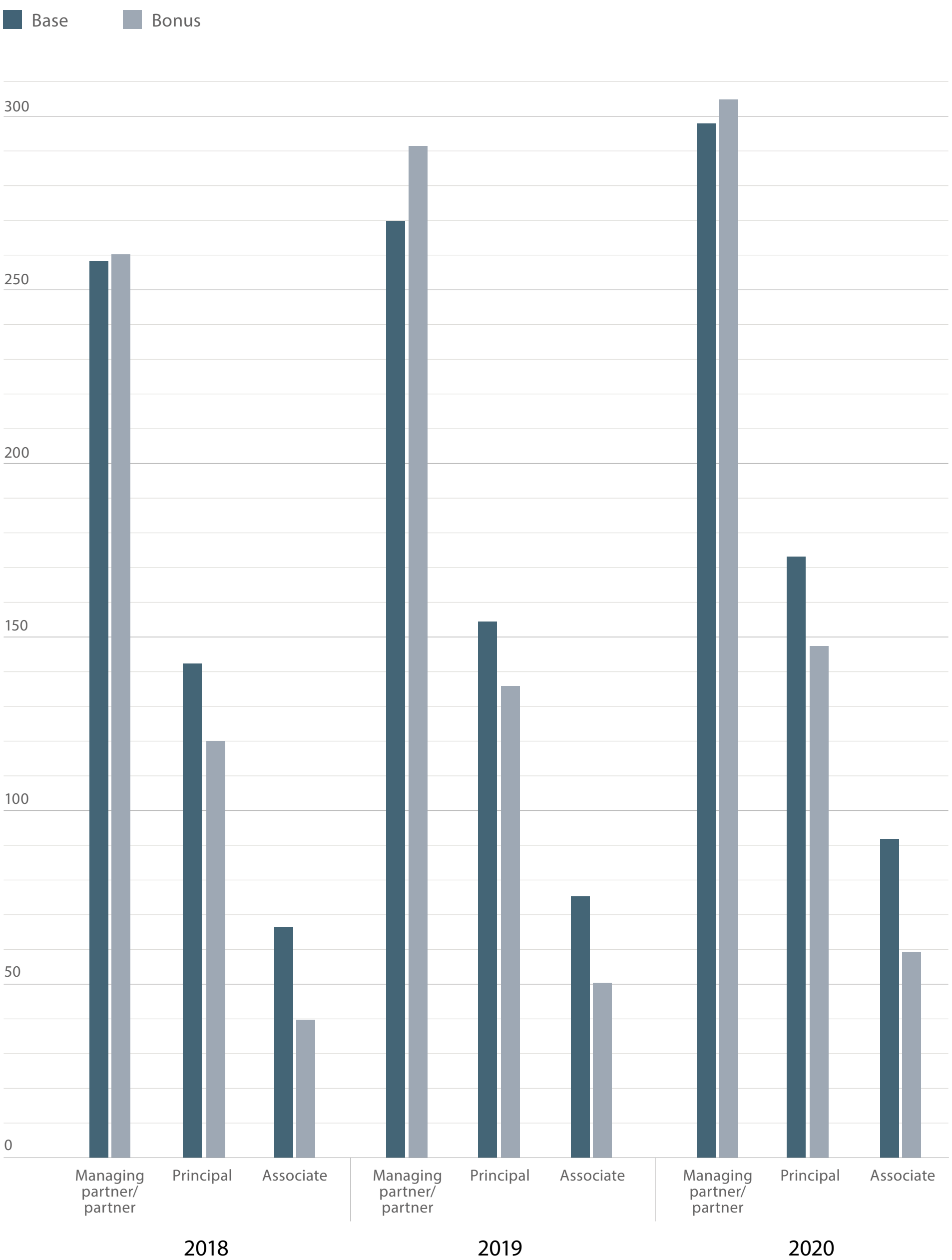


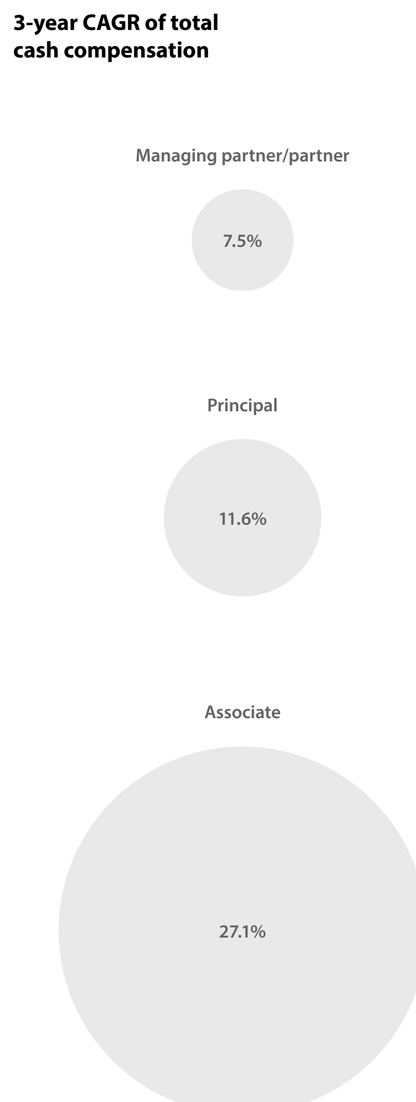
Source: Heidrick & Struggles' Europe and Africa private capital compensation survey, 2020, n = 552 respondents

All professionals

Total annual cash compensation (base and bonus) steadily increased over the past three years for investment, operating, and investment relations professionals at all levels. Associates enjoyed the highest three-year growth in base and bonus and, as a result, the highest CAGR (27.1%).

General observations on compensation trends (EUR, thousands)





Source: Heidrick & Struggles' Europe and Africa private capital compensation survey, 2020, n = 552 respondents

Investment professionals

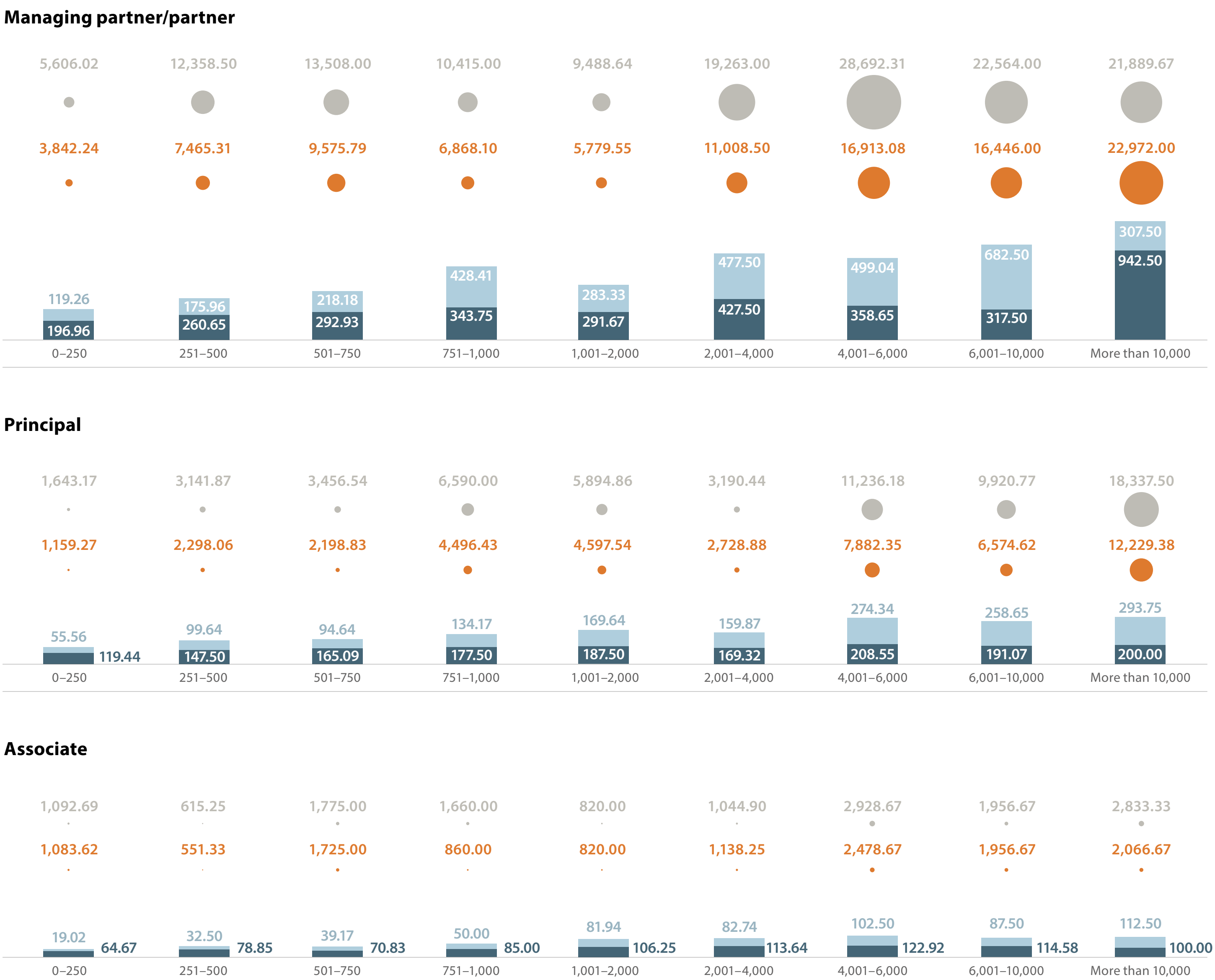
Compensation by seniority and fund size

Investment professionals' 2020 compensation shows that total compensation and each of its three components (base, bonus, and carry) rose roughly in line with fund size and seniority level.

Mean base, bonus, and carry by fund size, 2020

Mean base, 2020 (€k) | Mean bonus, 2020 (€k) | Mean carry, all funds (€k) | Mean carry, current fund (€k)

Carry € at work: The expected return on total carry participation across all vehicles. Based on achieving a net 2x return (above hurdle and after fees) in a vehicle charging a 20% performance fee.



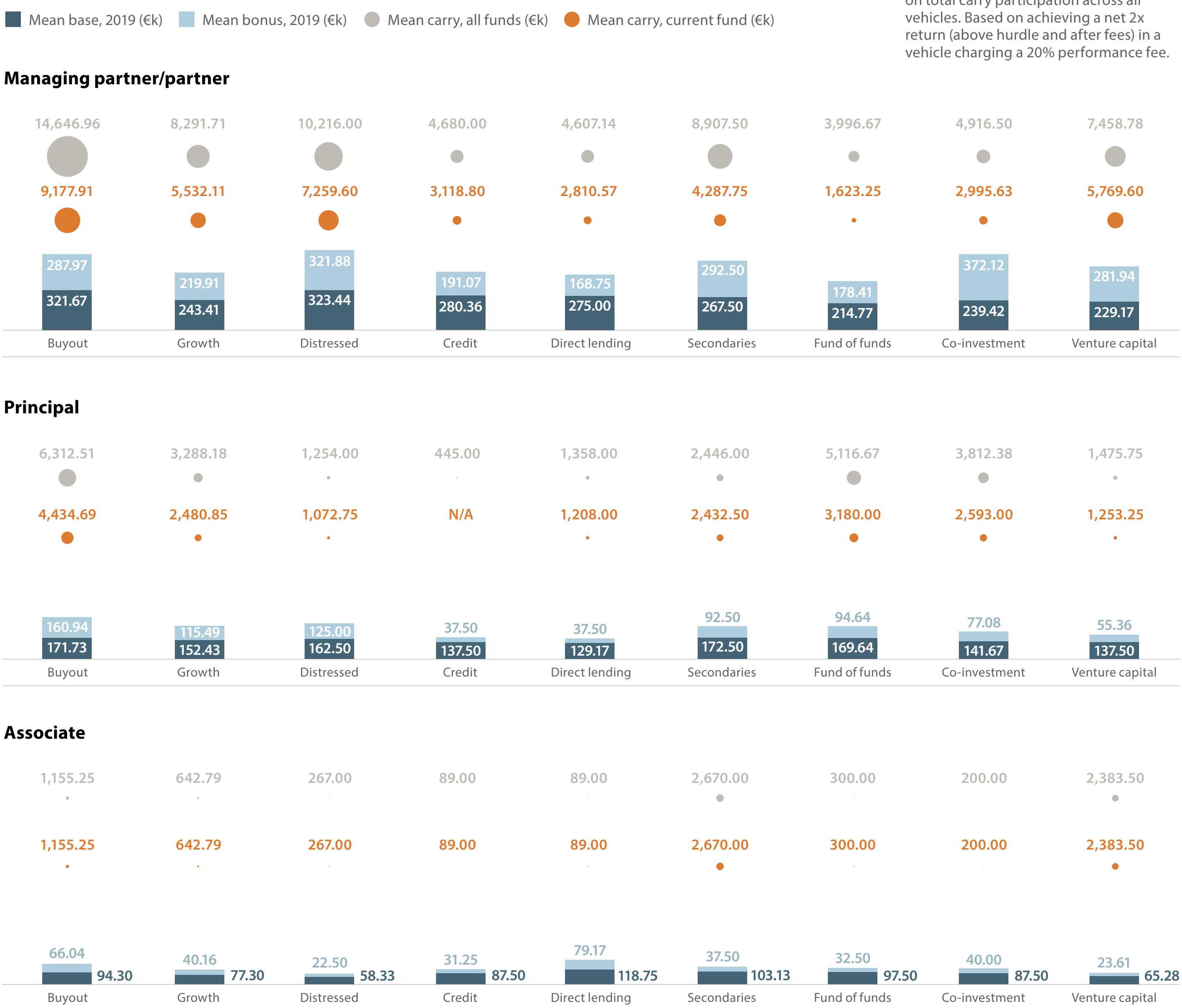
Source: Heidrick & Struggles' Europe and Africa private capital compensation survey, 2020, n = 472 respondents

Compensation by investment strategy

As was the case in our 2019 report, the strategy in which professionals earned the highest cash compensation varied by level. For managing partners/partners, co-investment and distressed displaced secondaries for the top spot. For principals, the highest this year was buyout, followed by distressed, with direct lending—last year's top strategy—falling near the bottom. Direct lending was the top strategy for associates.

Mean base, bonus, and carry by investment strategy, 2019

Carry € at work: The expected return on total carry participation across all vehicles. Based on achieving a net 2x return (above hurdle and after fees) in a vehicle charging a 20% performance fee.



Source: Heidrick & Struggles' Europe and Africa private capital compensation survey, 2020, n = 559 respondents

Compensation by years of experience

Junior investment professionals (those with less than two years of industry experience) enjoyed the highest three-year CAGR from 2018 to 2020, at 24.92%, followed by those with two to four years of experience, at 16.71%. Carry peaks for professionals with 15 to 16 years of experience.

Cash compensation by years of experience

Mean (€k)

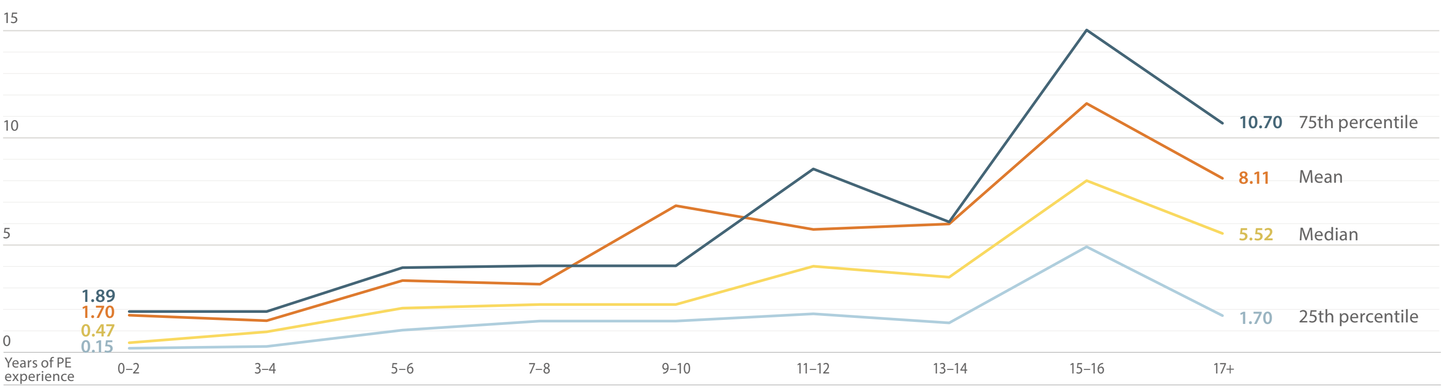
Years of PE experience	Base (2020)	Bonus (2020)	Total cash (base + bonus 2020)	Total cash (base + bonus 2019)	Total cash (base + bonus 2018)	3-year CAGR total cash (2020)
0–2	88.48	51.94	134.31	100.98	86.07	24.92%
2–4	106.25	72.07	176.82	146.61	129.81	16.71%
5–6	148.37	122.88	264.13	234.42	204.48	13.65%
7–8	179.85	153.46	327.04	311.73	279.59	8.15%
9–10	204.61	218.58	417.43	376.97	329.61	12.54%
11–12	258.33	167.36	425.69	390.28	354.17	9.63%
13–14	240.00	305.92	530.63	448.13	428.75	11.25%
15–16	347.76	295.39	635.58	584.62	532.24	9.28%
17+	287.04	254.48	536.81	517.59	484.72	5.24%

Note: Total cash compensation is equal to the sum of reported mean base and bonus.
Source: Heidrick & Struggles' Europe and Africa private capital compensation survey, 2020, n = 472 respondents

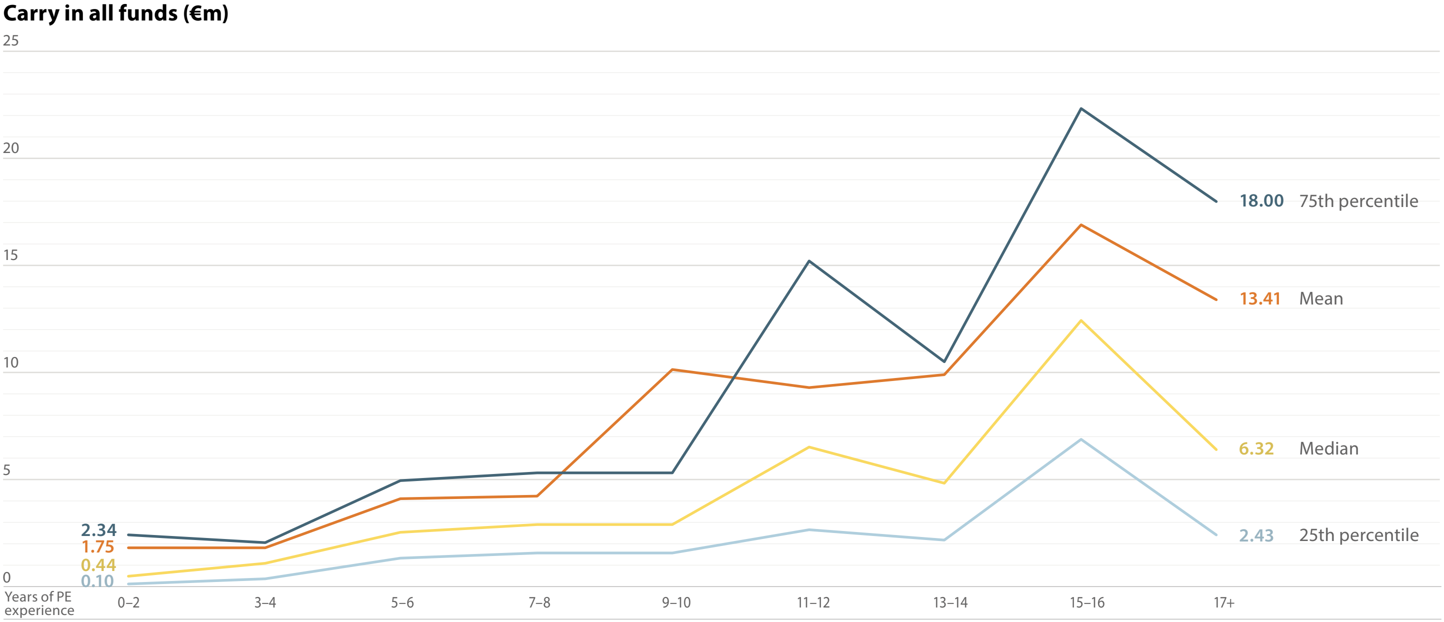
Years of PE experience and carry

Carry € at work: The expected return on total carry participation across all vehicles. Based on achieving a net 2x return (above hurdle and after fees) in a vehicle charging a 20% performance fee.

Carry in current fund (€m)



Carry in all funds (€m)



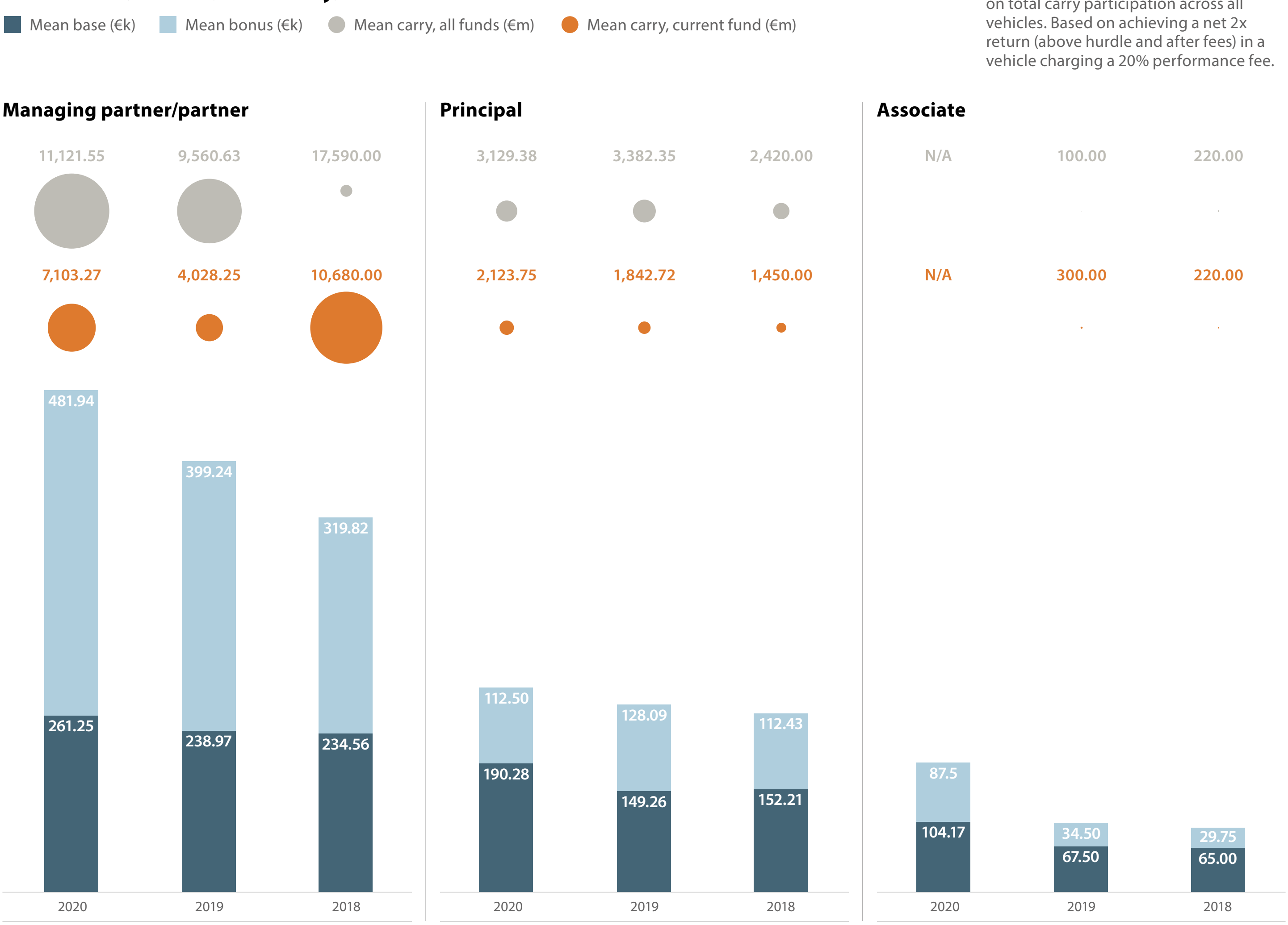
Source: Heidrick & Struggles' Europe and Africa private capital compensation survey, 2020, n = 403 respondents

Fundraising and investor relations professionals

Bonuses for fundraising and investor relations (IR) professionals at the managing partner and partner level have risen substantially since 2018, with a notable jump between 2019 and 2020. Base compensation rose more markedly at more junior levels. Since the pandemic has constrained fundraising professionals' ability to meet with investors, the amount of capital they will have raised in 2020 may well limit their compensation next year.

Mean base, bonus, and carry, 2018–2020

Carry € at work: The expected return on total carry participation across all vehicles. Based on achieving a net 2x return (above hurdle and after fees) in a vehicle charging a 20% performance fee.



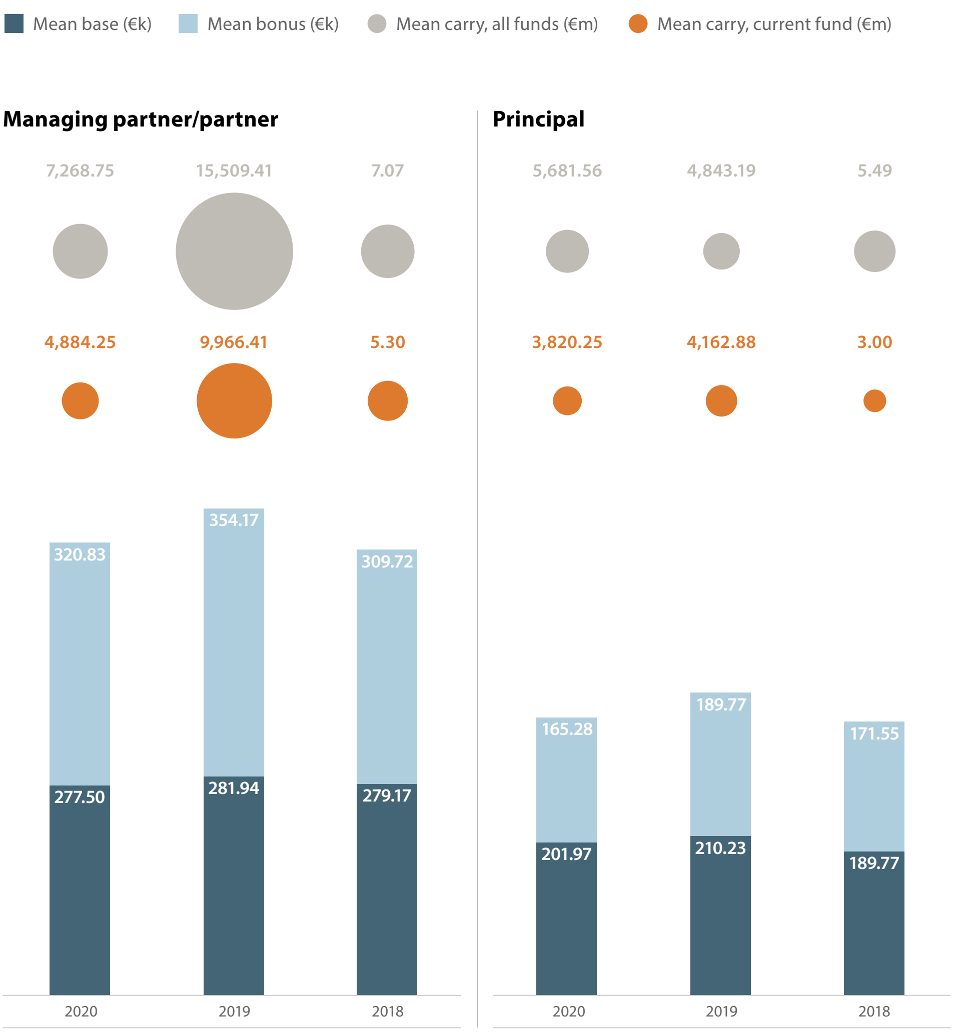
Note: The compensation figures for 2019 and 2018 are taken from last year's report.
Source: Heidrick & Struggles' Europe and Africa private capital compensation survey, 2020, n = 42 respondents

Operating professionals

As noted earlier, the spotlight is now on operating professionals to raise the value of portfolio companies through operational improvements. However, base and bonus for these professionals in 2020 has fallen from 2019, as has carry for managing partners and partners.

Mean base, bonus, and carry, 2018–2020

Carry € at work: The expected return on total carry participation across all vehicles. Based on achieving a net 2x return (above hurdle and after fees) in a vehicle charging a 20% performance fee.



Note: The carry figures for 2018 and 2019 are taken from last year's report.
Source: Heidrick & Struggles' Europe and Africa private capital compensation survey, 2020, n = 35 respondents

Spotlight on Italy

Each of our reports on private capital in Europe and Africa has included a specific focus on compensation for one country or region. This year's highlight is Italy.

The Italian economy is dominated by family-owned companies, and private capital firms have been courting them for the past two decades to provide capital that these companies were not finding elsewhere in the Italian economy. After serving Italy from afar, several firms opened offices in Milan in 2019.[7] According to Invest Europe, the attention had been paying off. PE-backed job growth was 10.1% in Italy, compared to 5.0% for France (last year's report spotlight).[8] Within Italy, the largest numbers of PE-backed jobs were in Lombardy (180,326 jobs), Piedmont (100,962), and Emilia-Romagna (92,072).

And therein lies a roadblock: Lombardy, Piedmont, and Emilia-Romagna are home to many of the country's dynamic, export-oriented companies, and these regions bore the brunt of the first wave of the COVID-19 pandemic.[9] As of this writing, Italy has seen the sharpest fall in GDP of any major European country, and Italian fashion and auto companies—linchpins of its economy—look to end the year in the red.[10]

Nonetheless, Italian private capital firms are hiring. At the analyst and associate level, they tend to hire people coming from investment banking because of the mindset and competencies developed there. For senior positions, the preferred background is private equity. Firms are looking for individuals with specific sector and deals knowledge who can originate and bring in successful deals. International funds are hiring more in Italy, and more advisory professionals are coming in as senior experts, particularly former C-level executives with a large network of professional contacts, which add value to the investment strategy. Italian firms are also hiring operating partners, with particular recent interest in tech and digital sectors, pharma, food, and consumer goods. Diversity remains a low priority for Italian firms.

At this writing, operating partners at Italian firms continue to prepare portfolio companies for a post-pandemic exit. However, their exit timelines have gotten longer, and, as a result, Italian firms could be making additional operating partner hires to provide more support. Partners are paying strong attention to cash positions and balance sheets at their companies, enhancing control procedures and focusing on improving EBITDA through cost-cutting. Valuation is an ongoing concern and could result in additional exit delays and possible delays in variable compensation for all professionals. We expect a reevaluation of future compensation plans.

Firms from outside Italy are still looking at the country as a potential market for expansion and offices. Part of the reason is the favorable fiscal treatment of carry and tax treatment advantages for professionals. At this writing, the cost of doing business in Italy remains substantially less than that of London and many places in the rest of Europe.

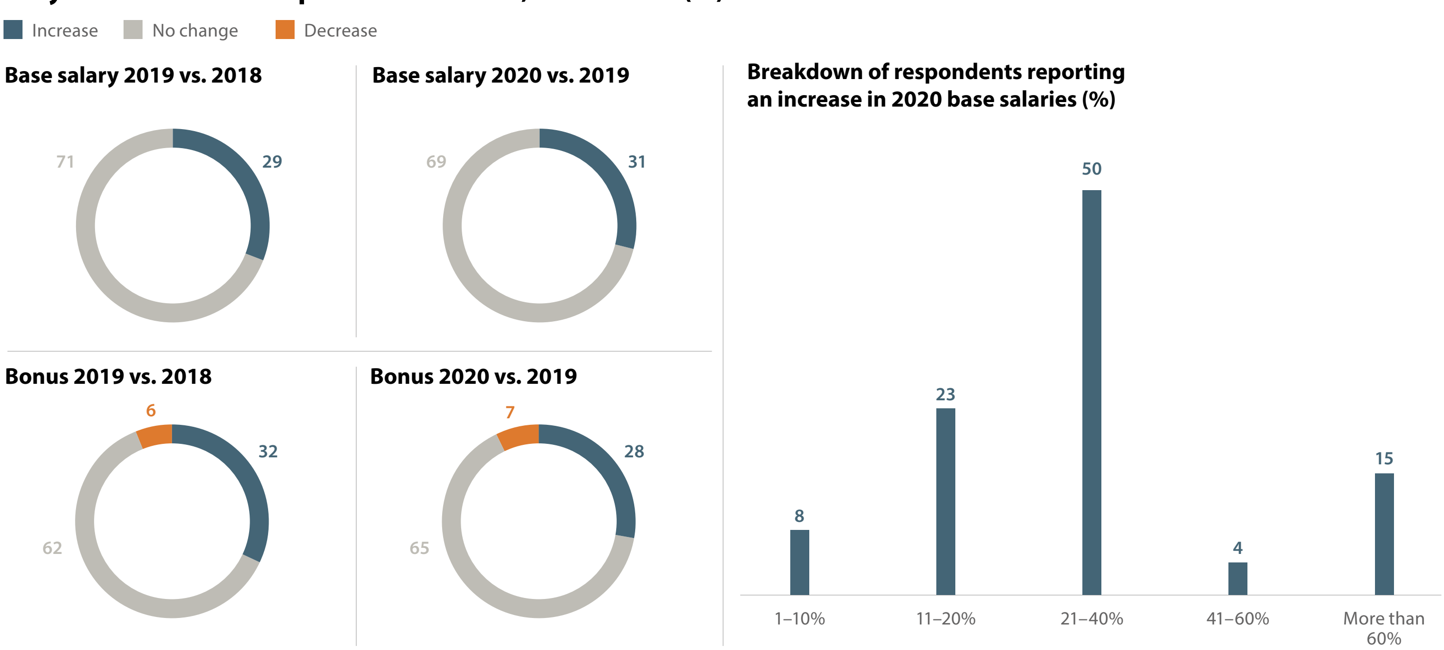
7 Pamela Barbaglia and Stephen Jewkes, "Destination Milan: Private equity firms spread wings to woo Italy clients," Reuters, May 23, 2019, reuters.com.

8 Invest Europe, *Private Equity at Work*, September 2020, investeurope.eu.

9 Michael Safi, Angela Giuffrida, and Martin Farrer, "Coronavirus: Italy bans any movement inside country as toll nears 5,500," *The Guardian*, March 22, 2020, theguardian.com.

10 "Manifattura italiana, solo la Farmaceutica chiuderà l'anno con segno positivo. In coda moda e automotive," *la Repubblica*, October 28, 2020, repubblica.it.

Italy: Overall cash compensation trends, 2018–2020 (%)



Source: Heidrick & Struggles' Europe and Africa private capital compensation survey, 2020, n = 92 respondents

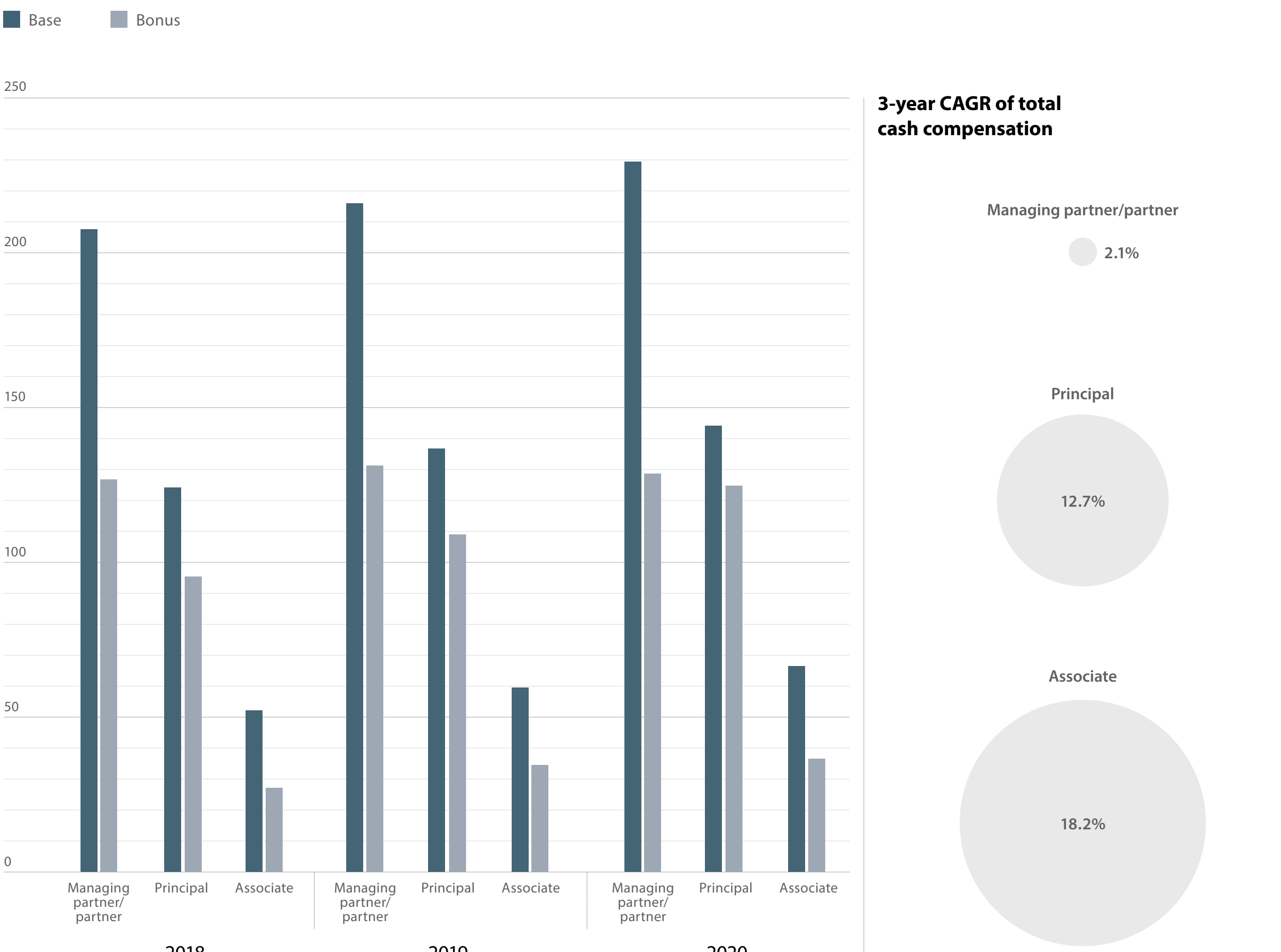
In addition, Italian family business owners generally consider it critical to meet with potential partners before opening themselves to investors from outside their families.

Finally, fundraising conditions in Italy are still generally positive for domestic sources. Financial institutions are investing in private capital with greater interest and attention, and there is new interest from pension funds. Some firms have even raised more than last year. Italian institutional investors are investing, but they remain cautious on new initiatives and fund investment strategies.

In that context, it's good news that cash compensation for private capital professionals in Italy is little changed from last year.

As is true across the region, associates in Italian firms are seeing the largest gains in their compensation: total pay rose at a CAGR of 18.2%, compared with just 2.1% for managing partners and partners.

Italy: General observations on compensation trends



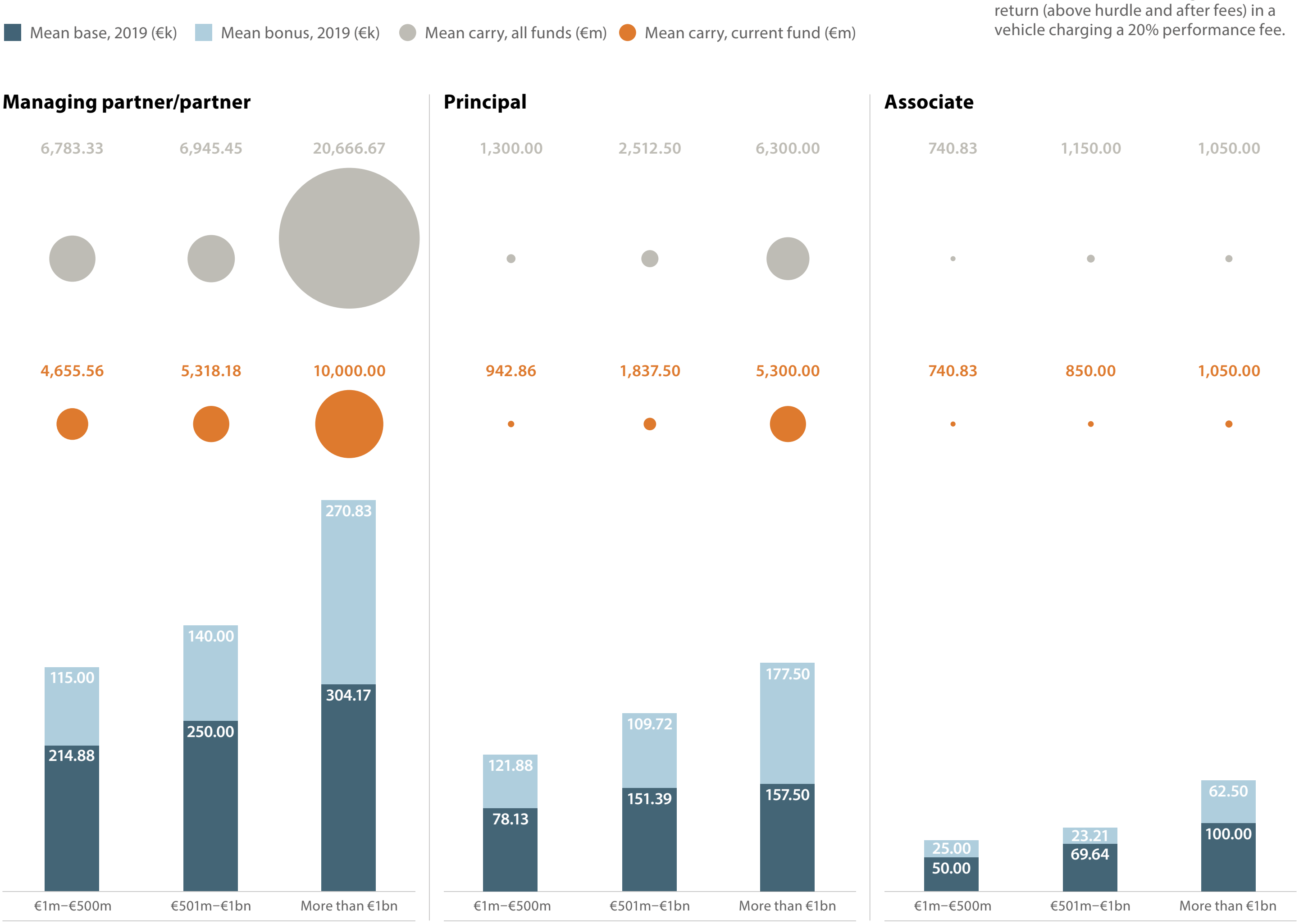
Source: Heidrick & Struggles' Europe and Africa private capital compensation survey, 2020, n = 92 respondents

As is true across the rest of the region, total compensation for investment professionals in Italy rose roughly in line with fund size and seniority level.

Italy: Mean base, bonus, and carry by fund size, 2020

Investment professionals only

Carry € at work: The expected return on total carry participation across all vehicles. Based on achieving a net 2x return (above hurdle and after fees) in a vehicle charging a 20% performance fee.



Source: Heidrick & Struggles' Europe and Africa private capital compensation survey, 2020, n = 85 respondents

Private Equity Practice

Heidrick & Struggles' global Private Equity Practice combines a deep understanding of private equity markets with world-class expertise across all major industries and functions to provide a broad range of value-adding services.

We pride ourselves on finding top private equity management talent by recruiting investment professionals, operating partners, and other essential senior managers who support financial growth. Additionally, we work with private equity–backed portfolio companies to bring innovative services designed to meet today's challenges while securing the leadership needed to deliver on tomorrow's strategies.

Our expertise includes due-diligence support, pre- and post-acquisition executive search, leadership assessment, proactive introductions, and the construction of advisory boards for both private equity firms and their portfolio companies. With more than 80 consultants in 50 offices around the world, our team includes functional experts in areas such as technology and operations, finance, human resources, marketing, compliance, risk, and legal infrastructure. Our blend of search and consulting services enables us to develop long-term strategic partnerships that build winning leadership teams and create substantial value.

Leaders of Heidrick & Struggles' Private Equity Practice

Global

Todd Monti
New York
tmonti@heidrick.com

Americas

Daniel Edwards
Washington, DC
dedwards@heidrick.com

Jonathan Goldstein
New York
jgoldstein@heidrick.com

Europe and Africa

Muriel Moreau
Paris
mmoreau@heidrick.com

Will Moynahan
London
wmoynahan@heidrick.com

Tom Thackeray
London
tthackeray@heidrick.com

Asia Pacific and Middle East

Steven Greenberg
Tokyo
sgreenberg@heidrick.com

WE HELP OUR CLIENTS CHANGE THE WORLD,
ONE LEADERSHIP TEAM AT A TIME®