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Growth Investor Survey: "Thawing"

Q1 2024

Growth Investor Survey – Summary (1/2)

We surveyed 60 of the world's leading growth investors, with $2 trillion of assets under management, for unique insight into private capital market dynamics and what's to come. Since our prior survey ("Green Shoots"), conditions have continued to thaw.

Investors' economic outlook has improved, private market activity is slowly increasing, and valuations have stabilised…

01

Investors believe macroeconomy has turned a corner and expect IPO window to widen 2H '24/1H '25

- Investors believe the macroeconomy has turned a corner. Almost all investors expect conditions to remain stable, or improve, in the next six months.
- Almost all investors are confident that interest rates will decline in 2024—but views are divided regarding whether we will return to a persistently low inflation environment in the next two years.
- Half of investors expect the IPO window to reopen before the end of 2024, with the same proportion expecting listings to be limited until 1H '25.
- A majority of investors expect the war in Ukraine to continue to impact financial markets into 2025. Investors' views vary regarding the probable impact of the conflict in the Middle East on global financial markets.
- US investors expect November's presidential election to have a significant impact on their risk appetite. European investors expect less impact from domestic political affairs.

02

Private market activity is increasing

- A majority of investors believe we've passed the bottom of the cycle in private capital markets, with expectations of continued improvement.
- A majority of investors believe current private capital market conditions present a somewhat, or very, attractive investment opportunity.
- Conditions remain challenging, with lower deal volumes and lower conversion of investor engagement to deployment.
- But activity levels are increasing. Two-thirds of investors expect to increase their volume of dealmaking in 1H '24, with remaining investors expecting to maintain their level of activity.
- Eight in 10 investors expect a greater number of companies to come to market in 1H '24, and six in 10 investors report that the quality of companies coming to market is increasing.
- Almost no investors expect a rapid reversion to a "growth at any cost" environment, with a majority expecting the refocus on efficiency to persist into 2026.

03

Valuations have stabilised; secondary spreads are narrowing

- In 1H '24, almost all investors expect to offer valuations in line with, or slightly higher than, those offered in 2H '23.
- While two-thirds of investors believe founders' valuation expectations are somewhat misaligned with their own, just one in 10 investors perceive a gulf.
- Growth equity investors are more likely to pay a valuation premium for private companies, relative to listed comparables. Crossover and sovereign wealth fund investors are more likely to expect a discount.
- A significant gap persists in the bid-ask spread for secondaries. The gap has narrowed materially, however, in the past 12 months.

Growth Investor Survey – Summary (2/2)

"Rule of 40+" SaaS companies and energy transition propositions are in high demand.

In AI, investors caution the risk of value capture by incumbents. Demand remains reduced for consumer companies and low for unproven business models…

04

Structure is widespread; capital solutions are becoming more fluid

- Use of structure is widespread, with a majority of investors seeing additional structure (beyond a 1x non-participating liquidation preference) in most or all deals in which they participate.
- Favoured structuring components include coupons, PIKs, warrants, and minimum MOIC requirements. Alternative structures, such as HoldCo PIKs, are poorly understood and can offer attractions, including deferral of company valuation and reduced dilution.
- Nearly half of investors are becoming more flexible in their capital solutions—with increased fluidity between equity, hybrid, and debt structuring. 70% of investors seek a 2.0–4.0x MOIC, reflecting a willingness by some to forego some upside in exchange for increased downside protection.

05

Demand is greatest for SaaS, while in AI, 'Big Tech' is underestimated

- Investors continue to lean into "post-reset strategies," with investors favouring earlier-stage companies balancing attractive growth with profitability.
- Investor demand is greatest for 'Rule of 40' or greater B2B SaaS companies. Demand for energy transition propositions is also elevated.
- More broadly, technology propositions, higher margin service companies, and buy-and-build opportunities are popular.
- Appetite remains limited for consumer propositions and low for unproven business models, high burn propositions, and crypto.
- Investors believe we're early in the AI revolution, with solutions focused on workflow optimisation rather than the reimagining of business models and processes.
- Investors report some "AI fatigue"—and highlight risk of value capture by incumbents and caution regarding AI scale-ups that lack proprietary technology or data.
- ESG considerations are a high priority for only a quarter of investors.

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01

Investors believe macroeconomy has turned a corner and expect IPO window to widen 2H '24/1H '25

Investors believe the macroeconomy has turned a corner. Almost all investors expect conditions to remain stable, or improve, in the next six months.

Almost all investors are confident that interest rates will decline in 2024—but views are divided regarding whether we will return to a persistently low inflation environment in the next two years.

Half of investors expect the IPO window to reopen before the end of 2024, with the same proportion expecting listings to be limited until 1H '25.

A majority of investors expect the war in Ukraine to continue to impact financial markets into 2025. Views vary widely regarding whether or not conflict in the Middle East will significantly impact global markets.

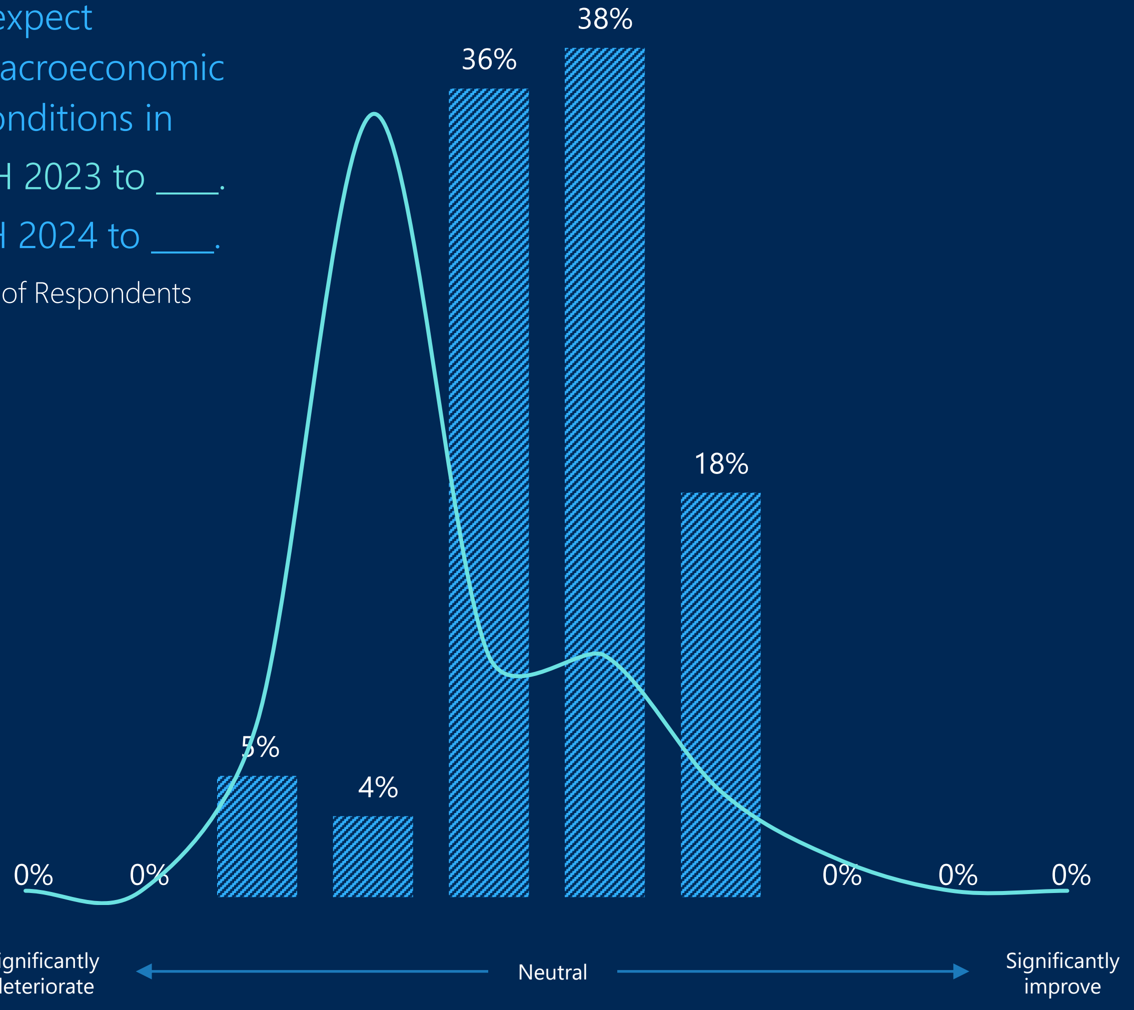
US investors expect November's presidential election to have a significant impact on their risk appetite. European investors expect less impact from domestic political affairs.

Investors believe the direction of the macroeconomy has turned a corner

In contrast to Q4 '23, when a majority of investors expected conditions to weaken further, in Q1 '24 almost all investors expect conditions to remain stable, or improve, in the next six months.

Approximately four in 10 investors expect stable conditions, while half of investors expect mild improvement. Just one in 10 investors expect conditions to weaken through 1H '24.

I expect macroeconomic conditions in
2H 2023 to ____.
1H 2024 to ____.
% of Respondents



Investors expect the IPO window to reopen in 2H '24/1H '25

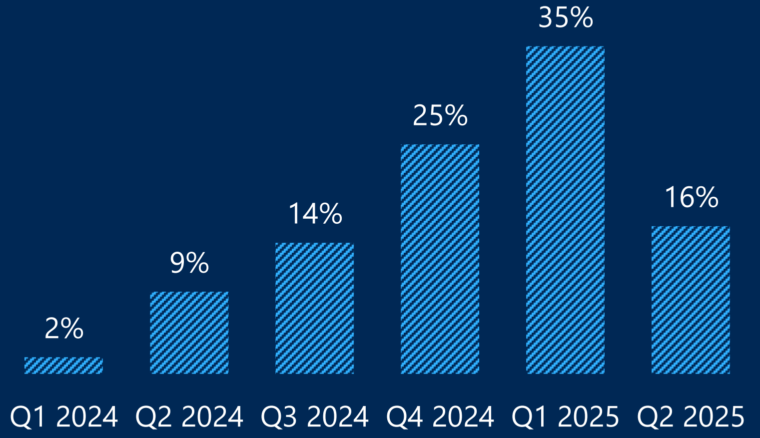
Half of investors expect the IPO window to reopen meaningfully before the end of 2H '24, with the same proportion expecting listings to remain limited until 1H '25.

Continued strengthening of the Nasdaq (+8.4% YTD, +43% LTM) provides a foundation for a reopening of the IPO window.

Investors have responded to a persistently weak environment for listings. Just one in three investors now view an IPO as their preferred exit route for a portfolio company. For a majority of investors, a company sale is favoured.

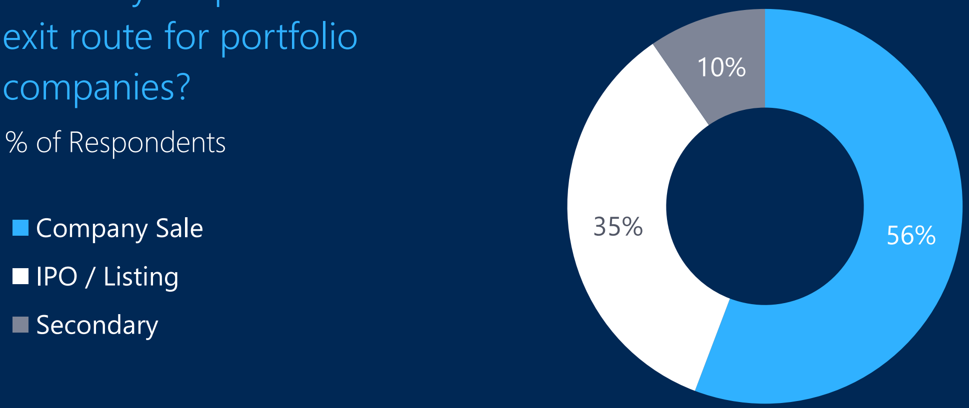
I expect the IPO window to reopen meaningfully by ____.

% of Respondents



What is your preferred exit route for portfolio companies?

% of Respondents



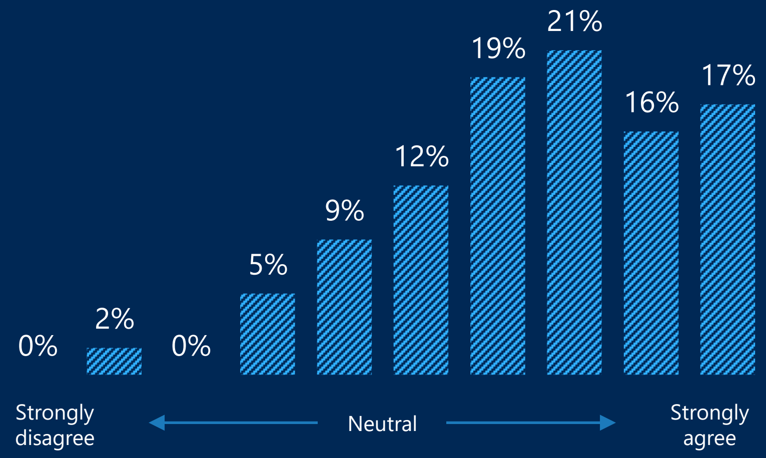
Interest rates are expected to fall, but low inflation is perceived to be fragile

With inflation readings falling in the US, Europe, and the UK, almost all investors are confident that interest rates will decline in 2024.

While inflation has fallen, investors' views vary widely regarding whether we will return to a persistently low (sub-3%) inflation environment within the next two years. The degree to which inflation has been tamed, and the normalised level of inflation in the longer term, appears fragile.

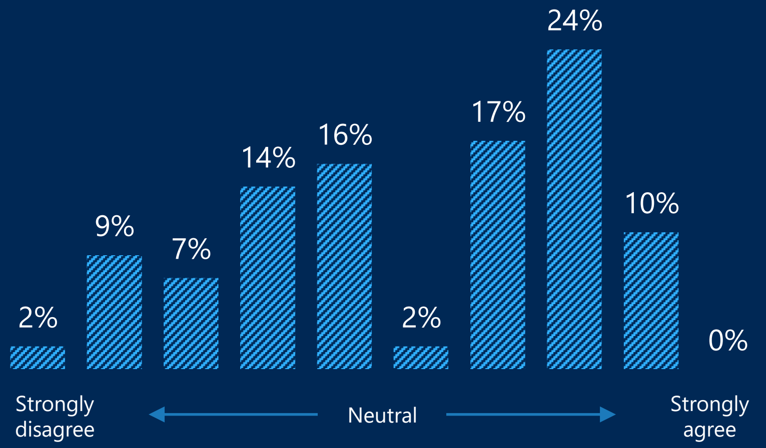
In my country, interest rates will decline in FY 2024.

% of Respondents



In my country, we will return to a persistently low (<3%) inflation environment within 24 months.

% of Respondents



Conflicts will continue to weigh on financial markets

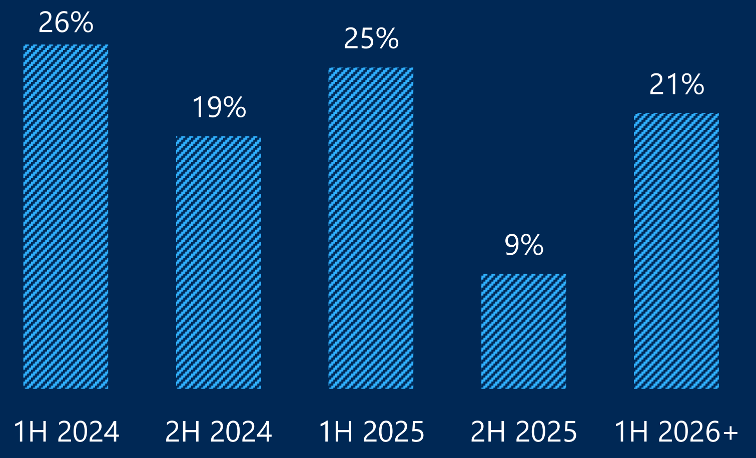
A majority of investors expect the war in Ukraine to continue to impact financial markets into 2025 or beyond.

Four in 10, however, expect resolution—or, at least, the impact of the conflict on financial markets—to moderate by the end of 2024.

Investors' views vary regarding the probable impact of the conflict in the Middle East on global financial markets. Approximately four in 10 investors expect a limited impact on financial markets, a quarter expect a moderate impact and four in 10 expect significant or very significant repercussions.

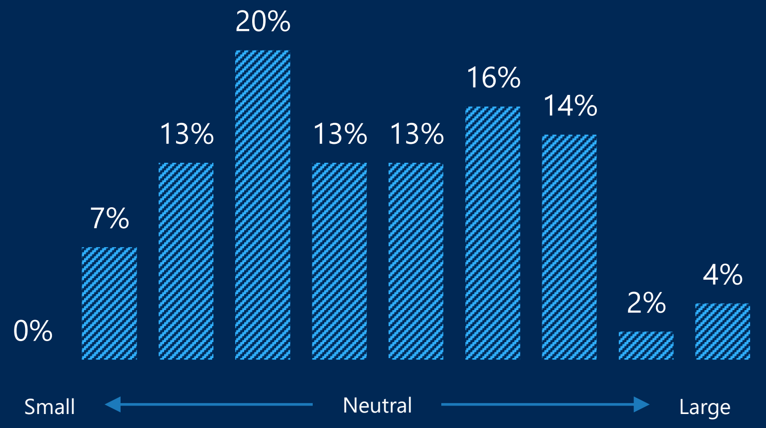
War in Ukraine will continue to impact global financial markets until ____.

% of Respondents



In 2024, conflict in the Middle East will have a ____ impact on global financial markets.

% of Respondents



Political events will weigh on US investors' risk appetite

Investors in the US expect November's presidential election to have a significant impact on their risk appetite.

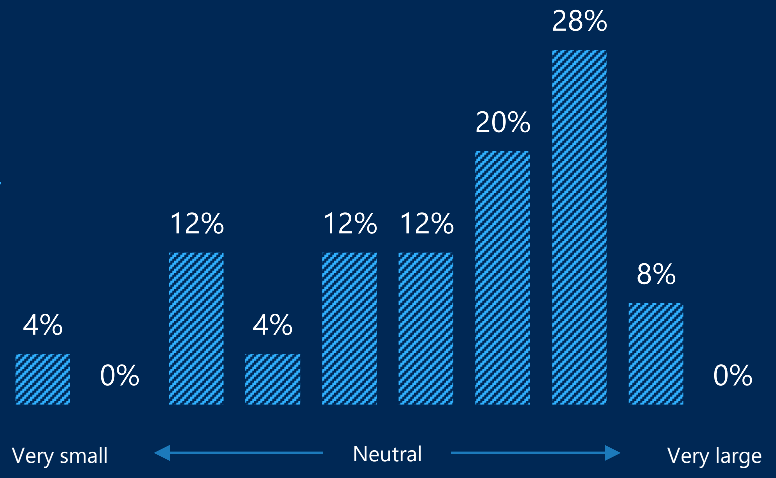
While a third of investors expect a fairly high impact on their risk appetite, a further third expect the impact to be extremely significant.

Most European investors expect less impact from domestic political affairs. While a quarter of European investors express concern, three quarters expect political dynamics in their countries to have a low or moderate impact on investment risk appetite.

US →

In 2024, political dynamics, such as elections, in my country will have a ____ impact on my investment risk appetite.

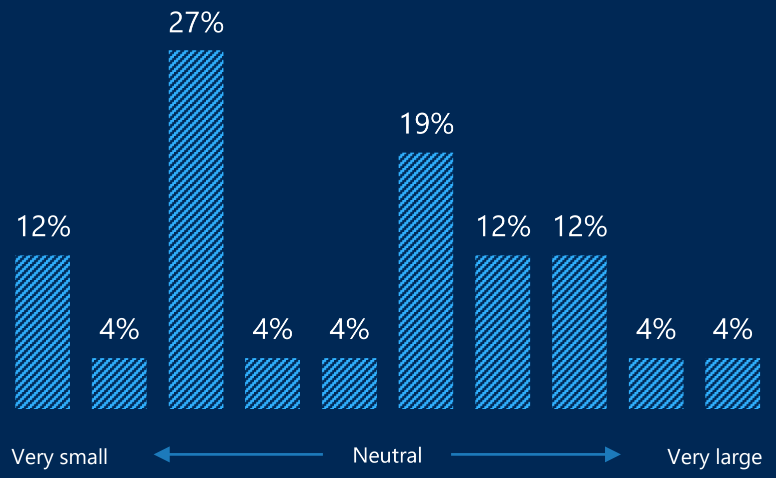
% of Respondents



Europe →

In 2024, political dynamics, such as elections, in my country will have a ____ impact on my investment risk appetite.

% of Respondents



02

Private market activity is increasing

A majority of investors believe we've passed the bottom of the cycle in private capital markets, with expectations of continued improvement.

A majority of investors believe current private capital market conditions present a somewhat, or very, attractive investment opportunity.

Conditions remain challenging, with lower deal volumes and lower conversion of investor engagement to deployment.

But activity levels are increasing. Two-thirds of investors expect to increase their volume of dealmaking in 1H '24, with remaining investors expecting to maintain their level of activity.

Eight in 10 investors expect a greater number of companies to come to market in 1H '24—and six in 10 investors report that the quality of companies coming to market is increasing.

Almost no investors expect a rapid reversion to a "growth at any cost" environment, with a majority expecting the refocus on efficiency to persist into 2026.

Investors believe we've passed the bottom of the private capital cycle

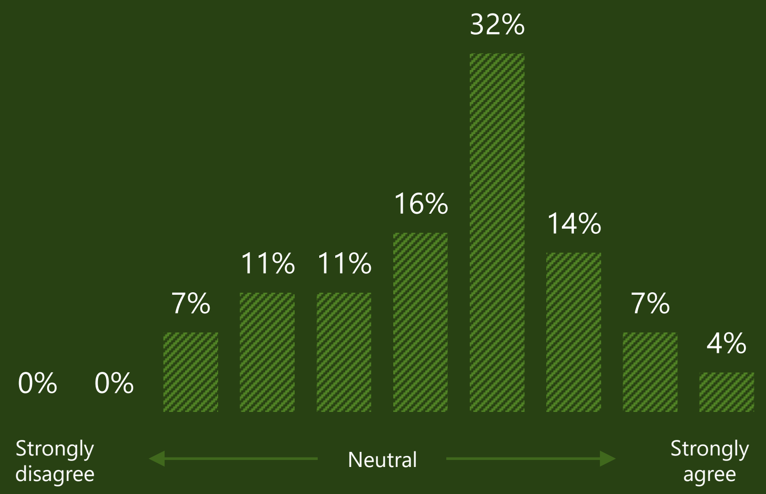
Following a sustained downturn, a majority of investors believe we've passed the bottom of the cycle in private market investment activity and expect conditions to continue to improve.

A prolonged period of reduced deal volumes, companies refocusing on efficient growth, reset valuations, falling inflation, the expectation of reduced interest rates, and improving public market price performance are all contributing to slowly increasing activity.

Four in 10 investors expect stronger private market conditions by the end of 1H '24. The same proportion expect stronger conditions in 2H '24. Less than a quarter of investors expect weaker conditions to persist until 2025.

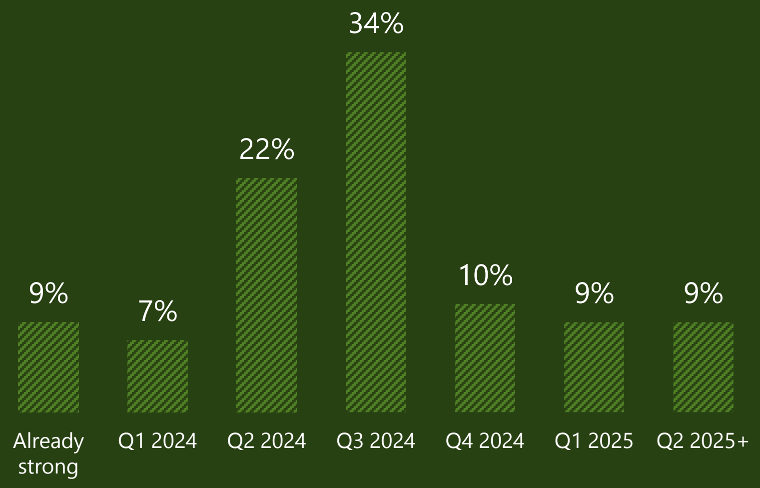
I believe we have passed the bottom of the cycle for private market investment activity.

% of Respondents



I expect weaker private market conditions to persist until _____.

% of Respondents



Investors perceive opportunity

A majority of investors believe current private capital market conditions present a somewhat, or very, attractive investment opportunity. Four in 10 are broadly neutral, and just one in 10 investors is cautious.

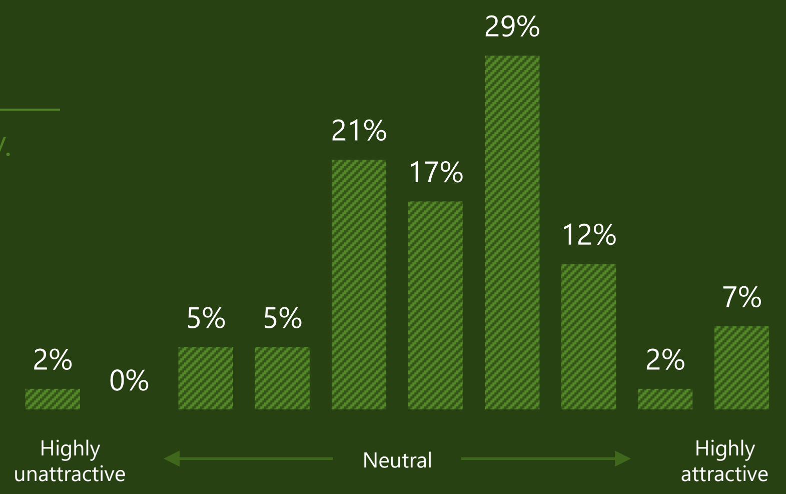
By category, Structured Capital funds are the most bullish regarding current opportunities, while Growth Equity and PE Growth funds are neutral to positive.

Divergence is also pronounced within categories, with selected institutions leaning aggressively while others remain more cautious.

Varying appetite, between and within investor categories, highlights the importance of careful investor targeting for founders—with detailed knowledge of institutions and individuals a prerequisite for success.

Current private market conditions represent a ____ investment opportunity.

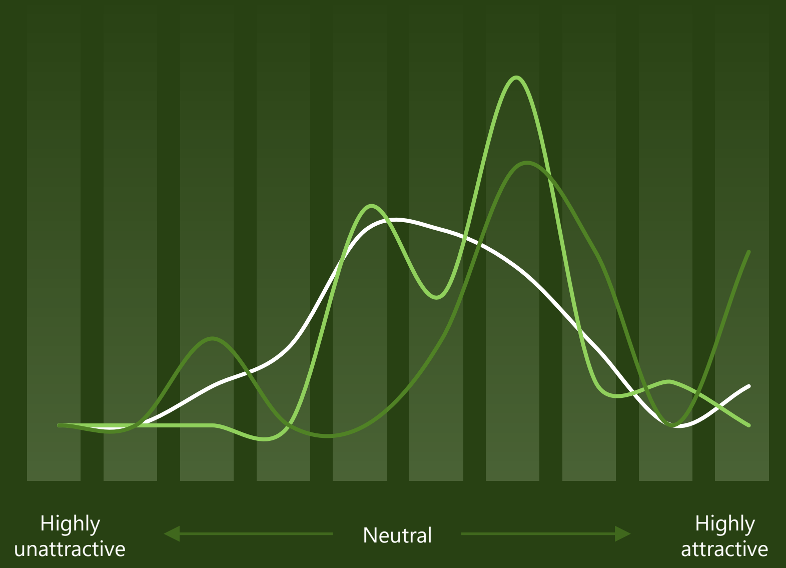
% of Respondents



Segregated View (Top 3 Category only)

% of Respondents

Growth Equity
PE Growth
Structured Capital



Activity levels are increasing

Conditions remain challenging—with deal volumes considerably reduced, valuations at “post reset” levels, and reduced conversion of investor engagement to deployment.

But activity levels are increasing—a continuation of the dynamics identified in our prior survey (“Green Shoots").

More than two-thirds of investors expect to increase their volume of investments into new opportunities in 1H ‘24, compared to 2H ‘23, with the balance of investors expected to broadly maintain their level of activity.

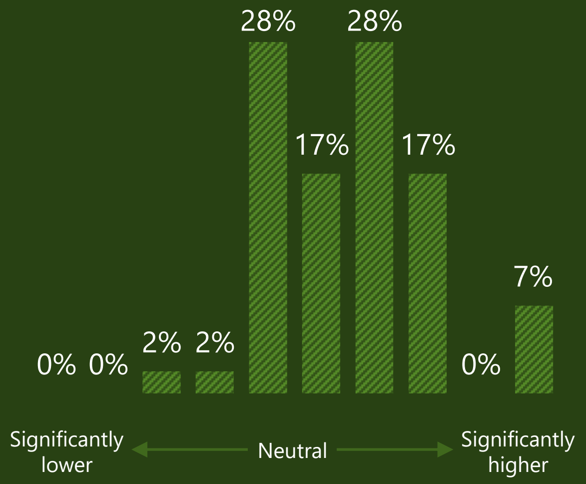
Eight in 10 investors also expect a greater number of companies to come to market in 1H ‘24 than in 2H ‘23, with a majority expecting a meaningful increase in flow. No investors expect a reduction in supply of opportunities.

Conditions remain

Compared with 2H 2023, in 1H 2024,

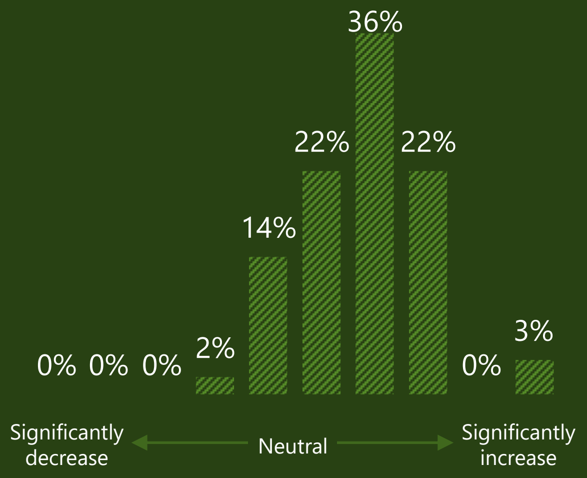
...the volume of investments I will make in new opportunities will be ____.

% of Respondents



...I expect the volume of companies, coming to market, to raise capital to ____.

% of Respondents



Higher-quality companies are coming to market

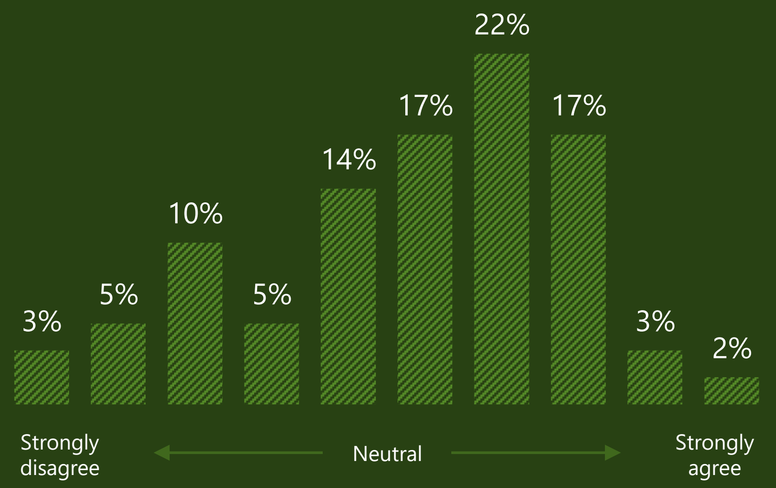
Six in 10 investors report that the quality of companies coming to market is now increasing.

The same proportion of investors report high levels of competition for deals in which they are bidding. Nine in 10 investors report medium or high levels of competition in active deals.

While demand for less appealing assets is limited, for best-in-class propositions, dynamics are now regularly "competitive" or "ultra-competitive" (Tier 1 Growth Equity investors).

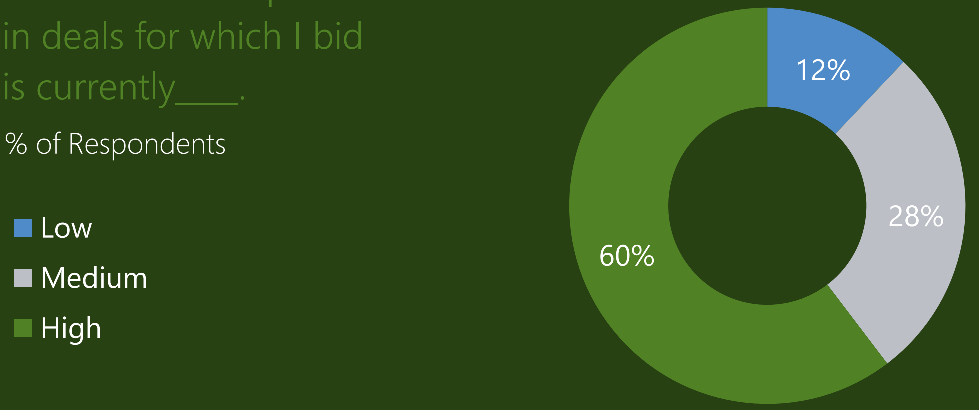
The quality of companies coming to market is now increasing.

% of Respondents



The level of competition in deals for which I bid is currently____.

% of Respondents



Investors are maintaining focus on sustainable growth

Almost no investors expect a rapid reversion to a “growth at any cost” environment, with a majority expecting the refocus on efficiency to persist into 2026.

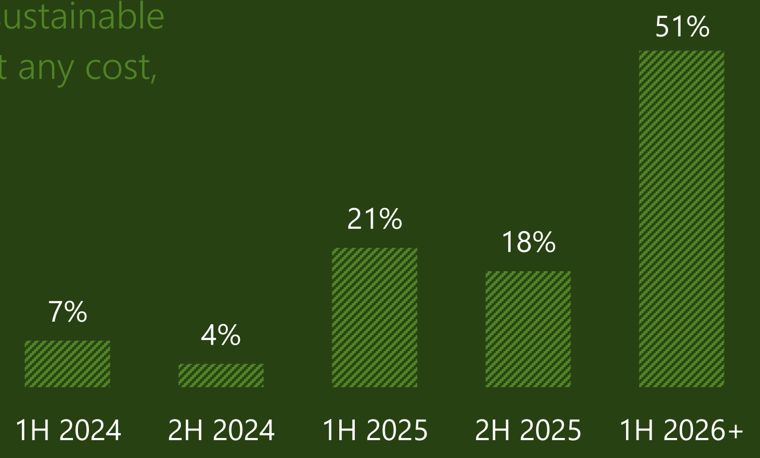
Investors continue to differentiate and reward companies delivering efficient growth.

Refocus on

- End market resilience and buyer behaviour
- Gross retention and cross/up-sell opportunities within existing customer base
- ROI on proposed growth initiatives

I expect the refocus on sustainable growth, versus growth at any cost, to persist until____.

% of Respondents

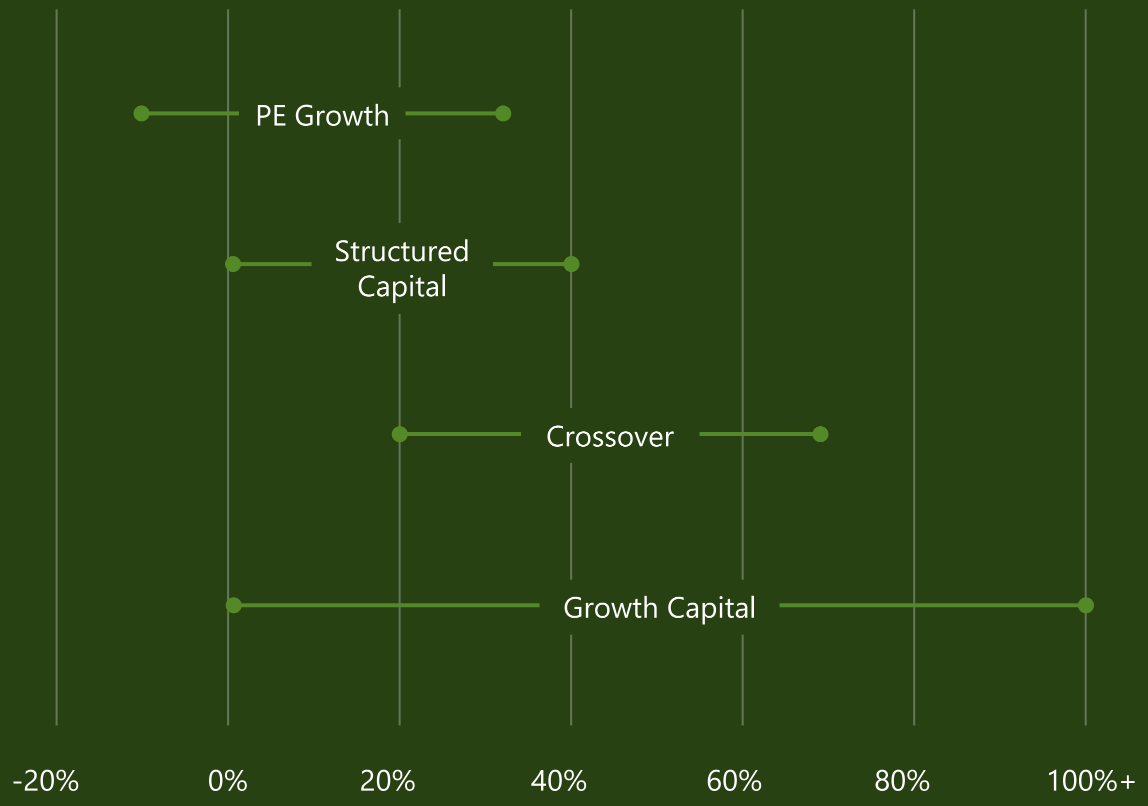


Investors having varying perceptions of 'high growth'

Investors' growth expectations for low-, medium-, and high-performing companies vary widely according to their investment strategy.

For PE Growth investors, who frequently invest in more mature, profitable businesses with scope for industry consolidation, -10% to +30% YoY growth is the window for low to high performance. Structured Capital providers are typically content with businesses that are growing up to 40%, subject to evidence of cash flow within the investment instrument. Crossover investors seek higher growth prospects on track for a favourable listing, with low performers growing around 20% YoY and top performers up to 70%. Unsurprisingly, given investments in earlier-stage companies with higher risk strategies, Growth Capital providers see the largest dispersion, with low-performing companies offering limited growth and top performers growing in excess of 100% YoY.

For FY 2023, the typical revenue growth rates I have seen for low-, medium-, and high-performing companies are____.



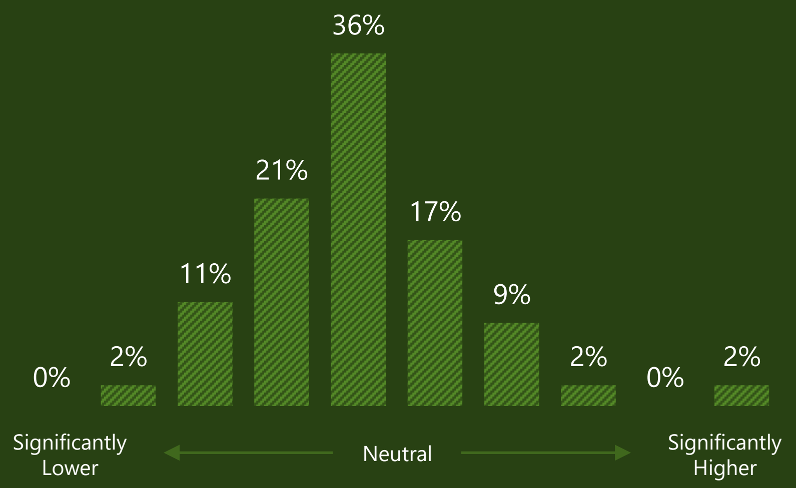
A majority of companies are performing in line with budgets for FY24

Investors report a bell curve in portfolio companies’ revisions to their FY24 revenue budgets. A majority of companies are broadly on-plan. A smaller proportion are revising modestly downwards or upwards. Few are making major revisions. As well as reflecting the typically high quality of investors’ portfolios and companies’ strength in forecasting, limited revisions reflect a stabilising macroeconomic environment with fewer exogenous impacts on portfolio companies’ growth.

Margin dynamics is similar. But while revenue revisions tend slightly to the downside, a larger proportion of companies are modestly increasing their margin expectations—reflecting companies’ continued focus on efficiency over excess growth.

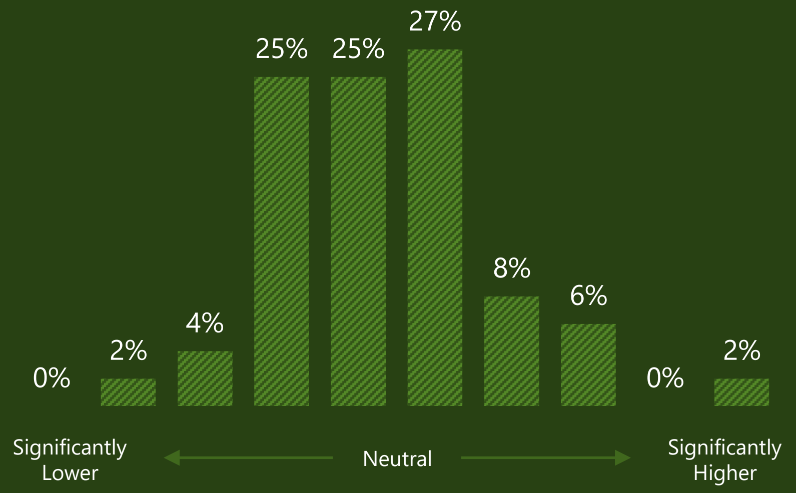
Generally, my portfolio companies revising their FY 2024 revenue budgets are _____.

% of Respondents



Generally, my portfolio companies revising their FY 2024 margin (%) budgets are _____.

% of Respondents



03

Valuations have stabilised; secondary spreads are narrowing

In 1H ‘24, almost all investors expect to offer valuations in line with, or slightly higher than, those offered in 2H ‘23.

While two-thirds of investors believe that founders’ valuation expectations are somewhat misaligned with their own, just one in 10 investors perceive a gulf.

Growth equity investors are more likely to pay a valuation premium for private companies, relative to listed comparables. Crossover and sovereign wealth fund investors are more likely to expect a discount.

A significant gap persists in the bid-ask spread for secondaries. The gap has narrowed materially, however, in the past 12 months.

Valuations have stabilised

In 1H '24, almost all investors expect to offer valuations in line with, or slightly higher than, those offered in the recent past (2H '23).

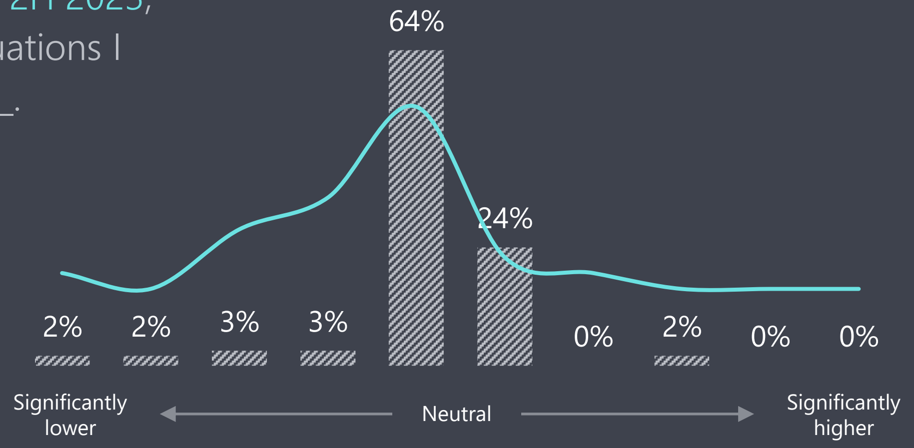
The result extends the trend to normalisation suggested in our prior survey, when half of investors intended to offer valuations in line with recent periods, but a quarter still planned to reduce pricing.

Two-thirds of investors believe that founders' valuation expectations are still somewhat misaligned with their own. However, just one in 10 investors perceive a gulf.

While extreme misalignment is rarer, investors assert that valuation dynamics are the area most misunderstood by founders today. While *"high-quality companies will garner premium valuations,"* investors note that *"2021/2022 valuations are not coming back,"* with valuation multiples *"indefinitely depressed." "Public market valuation comps remain very important."*

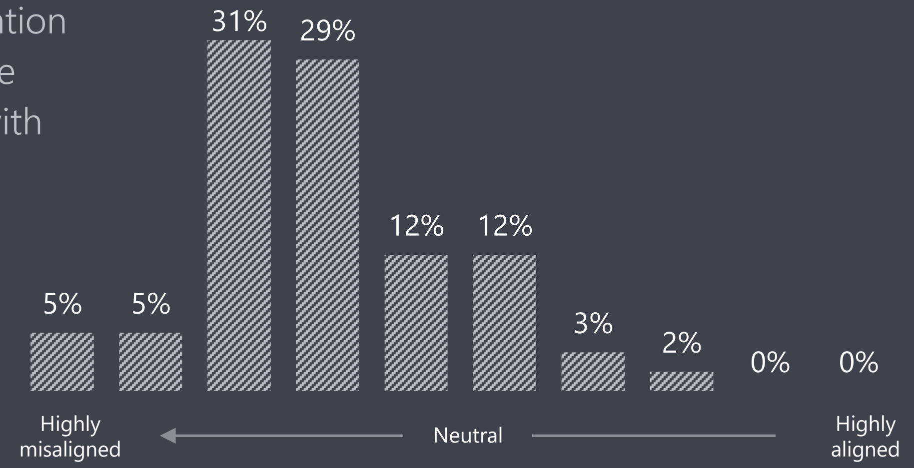
Compared with 2H 2023, in 1H 2024, valuations I offer will be ____.

% of Respondents



Founders' valuation expectations are currently ____ with investors.

% of Respondents



Public/private valuation differentials vary by investor category

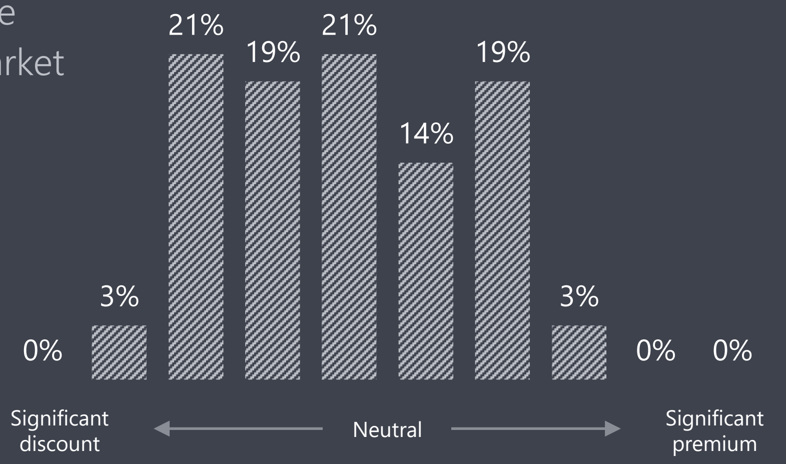
Whether investors will pay a premium, or discount, for a private company relative to its public market comparables typically depends on an investor's profile.

Survey data suggests that Crossover and Sovereign Wealth investors (with direct exposure to public markets) typically expect a discount for private market assets. Growth Equity and other investors exclusively focused on private markets will typically pay a premium.

Investors believe that a significant gap in the bid-ask spread for secondaries persists, with buyers outnumbering sellers in a lower valuation environment. The gap has narrowed materially, however, during the past 12 months.

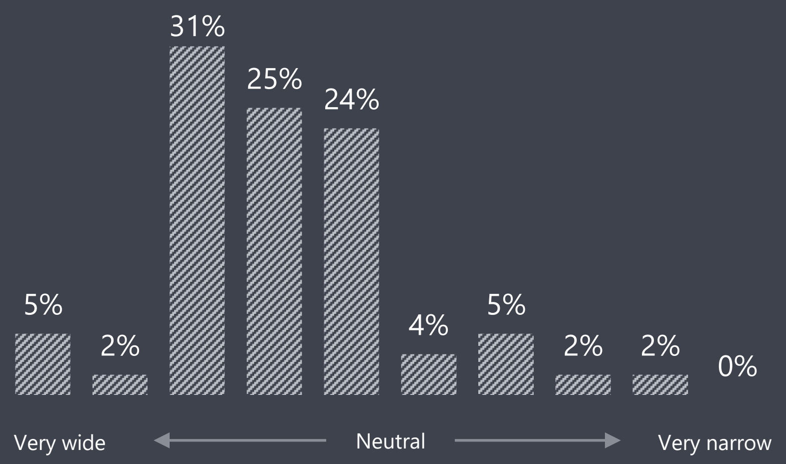
When comparing private companies to public market comparables, I expect a ____ in valuation.

% of Respondents



Currently, the "bid-ask" spread for secondary transactions is ____.

% of Respondents



04

Structure is widespread; capital solutions are becoming more fluid

Use of structure is widespread, with a majority of investors seeing additional structure (beyond a 1x non-participating liquidation preference) in most or all deals in which they participate.

Favoured structuring components include coupons, PIKs, warrants, and minimum MOIC requirements.

Alternative structures, such as HoldCo PIKs, are poorly understood and can offer attractions including deferral of company valuation and reduced dilution.

Nearly half of investors are becoming more flexible in their capital solutions—with increased fluidity between equity, hybrid, and debt structuring. 70% of investors seek a 2.0–4.0x MOIC, reflecting a willingness by some to forego some upside in exchange for increased downside protection.

A majority of deals include enhanced structure

Use of structure has become widespread, with a majority of investors seeing additional structure (beyond a 1x liquidation preference) in most or all deals in which they participate.

Just one in five investors see "clean" terms in the transactions in which they participate.

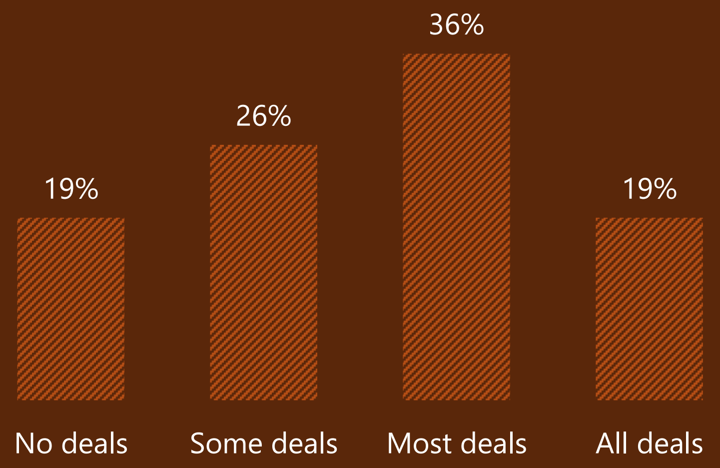
Favoured structuring components include PIKs, warrants, and minimum MOIC requirements. Alternative structures, such as HoldCo PIKs, are poorly understood and can offer attractions including deferral of company valuation and reduced dilution.

In addition to downside protection or enhanced returns for investors, founders are valuing structure as a means to bridge valuation gaps.

Given scope for misalignment in the future, however, few investors seek to engage in highly aggressive structuring that would enable a deal that is fundamentally mispriced.

The proportion of transactions in which I am participating, which include additional structure (beyond a liquidation preference), is _____.

% of Respondents



My preferred tools for enhanced structuring are _____.

Capital solutions are becoming less siloed

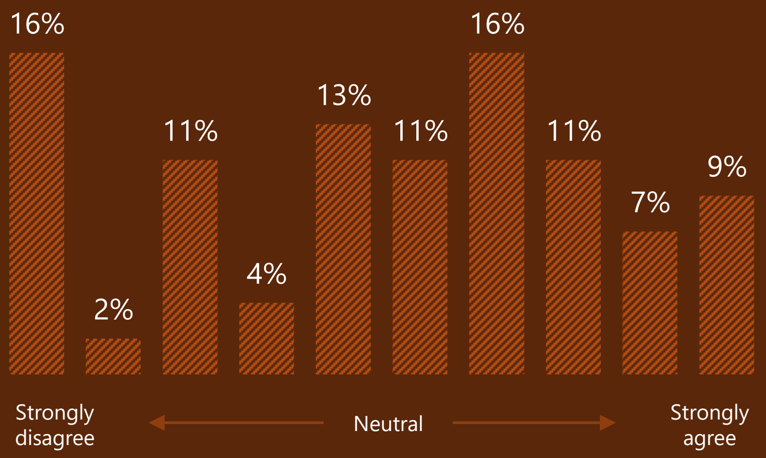
Nearly half of investors are becoming more flexible in their capital solutions—with increased fluidity between equity, hybrid, and debt structuring.

Widespread adoption of enhanced and creative structuring has blurred the line between traditionally siloed debt or equity solutions.

Minimum return ambitions provide a more holistic benchmark for investors' objectives. While conventionally it's assumed that debt-led investors seek <2.0x MOIC and equity investors target 4.0x+ MOIC, survey results highlight a convergence (70% of respondents) at the 2.0x–4.0x band. Post-reset, a majority of investors are willing to forego some upside in exchange for increased downside protection.

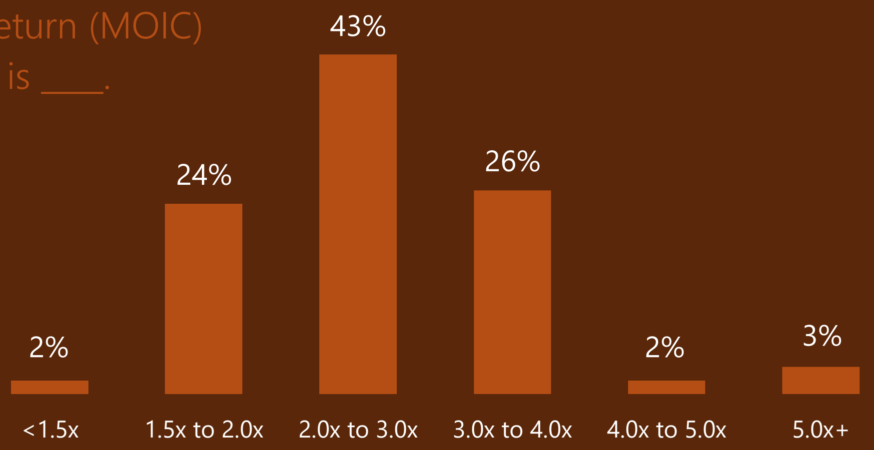
My investments are becoming more flexible from a capital structure perspective (e.g., fluidity between equity, debt, and hybrid structures).

% of Respondents



The minimum return (MOIC) I am solving for is ____.

% of Respondents



05

Demand is greatest for SaaS, while in AI, 'Big Tech' is underestimated

- Investors continue to lean into "post-reset strategies," with investors favouring earlier-stage companies balancing attractive growth with profitability.
- Investor demand is greatest for "Rule of 40" or greater B2B SaaS companies.
- More broadly, technology propositions, higher margin service companies, and buy-and-build opportunities are popular.
- Appetite remains limited for consumer propositions and low for unproven business models, high-burn propositions, and crypto.
- Investors believe we're early in the AI revolution, with solutions focused on workflow optimisation rather than the reimagining of business models and processes.
- Investors report some "AI fatigue"—and highlight risk of value capture by incumbents and caution regarding AI scale-ups that lack proprietary technology or data.
- ESG considerations are a high priority for only a quarter of investors.

B2B SaaS, energy transition, and buy-and-build are in high demand

Investors continue to lean into "post-reset" strategies, with growth investors prioritising earlier-stage opportunities balancing attractive growth with profitability.

Demand is greatest for B2B SaaS software. "Rule of 40" or greater SaaS companies tackling mission-critical use cases (such as cybersecurity), with resilient end markets and best-in-class revenue retention, attract most investor engagement.

More broadly, technology propositions, higher-margin service companies, and buy-and-build opportunities are popular with investors.

There is also demand for propositions supporting energy transition, given multiple secular tailwinds and opportunities for value creation at multiple stages of the value chain.

The importance of ESG considerations to investors varies widely. For a quarter of investors, when evaluating investment opportunities, ESG considerations are a high priority relative to other factors. For a third of investors, ESG ranks on par with other factors. And for nearly four in 10 investors, ESG considerations are a low priority.

Which investment profiles (sectors, models, financials) are most attractive to you currently?

"Recurring revenue models"	"Mission-critical SaaS"
"Technology"	"Higher-margin services"
"Buy-and-build"	"Energy transition"

Demand for consumer is bifurcated, while appetite for blockchain is low

Appetite for consumer propositions is more limited and bifurcated—with consumer-focused funds leaning into resilient, brand-led propositions while generalist investors favour B2B.

Appetite remains low for unproven business models, high burn models, and blockchain. Eight in 10 investors report very low appetite for blockchain propositions in 2024. Our next survey will detect whether improving cryptocurrency prices increases optimism regarding the broader distributed ledger sector.

What investment profiles (sectors, models, financials) are least attractive to you currently?

"Consumer"

"Unproven business models"

"Crypto"

"High burn"

For AI scale-ups, the power of 'Big Tech' may be underestimated

Investors believe we are early in the AI revolution, with many solutions focused on workflow improvement rather than the reimagining of business models and processes.

Investors express a degree of "AI fatigue," highlighting risk of value capture by incumbents and caution regarding AI scale-ups that lack best-in-class technology or proprietary data.

Investors caution that much value will accrue to incumbents given their advantages in resourcing, data, and distribution. For competitive advantage, scale-ups at the application layer can leverage proprietary data for vertically focused solutions, disrupt incumbent workflows, or create AI-first business models in spaces where scale was previously structurally impossible.

What do you believe is poorly understood, or misunderstood, about the current wave of disruptive AI?

Much value will accrue to incumbents

AI is being used for workflow improvements, not shifts in business models

AI is only being used to solve less complex problems

Access to data will be the key determinant of winners/losers in the application layer

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Global Middle-Market Investment Bank for Equity Private Placements in 2023[1]

No. 1
Global M&A Advisor for All Global Transactions in 2023[2]

No. 1
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Top 10
Global M&A Advisor Eight Years in a Row[2]

36
Locations Worldwide

300+
Managing Directors[4]

2,600+
Global Employees

$1.8B
Revenue[5]

$8.8B
Market Capitalization[6]

(1) Source: Data available from public information sources and investment bank websites/press releases as of January 2024. Excludes PIPEs.
Note: Ranking based on Middle Market transactions.
(2) Source: LSEG (formerly Refinitiv). Excludes accounting firms and brokers.
(3) Source: LSEG (formerly Refinitiv).
(4) As of December 31, 2023; excludes corporate MDs.
(5) LTM ended December 31, 2023.
(6) As of February 29, 2024.

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(1) Source: PitchBook.com
(2) Source: Data available from public information sources and investment bank websites/press releases as of January 2023. Excludes PIPEs.

No.1 in Equity Private Placements(2)

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Methodology and Disclaimer

Methodology: Online survey with both quantitative and qualitative questions, completed by 60 institutions managing >$2.0 trillion AUM in Q1 '24. 47% of respondents in North America, 45% in Europe, 9% in Rest of World.

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