

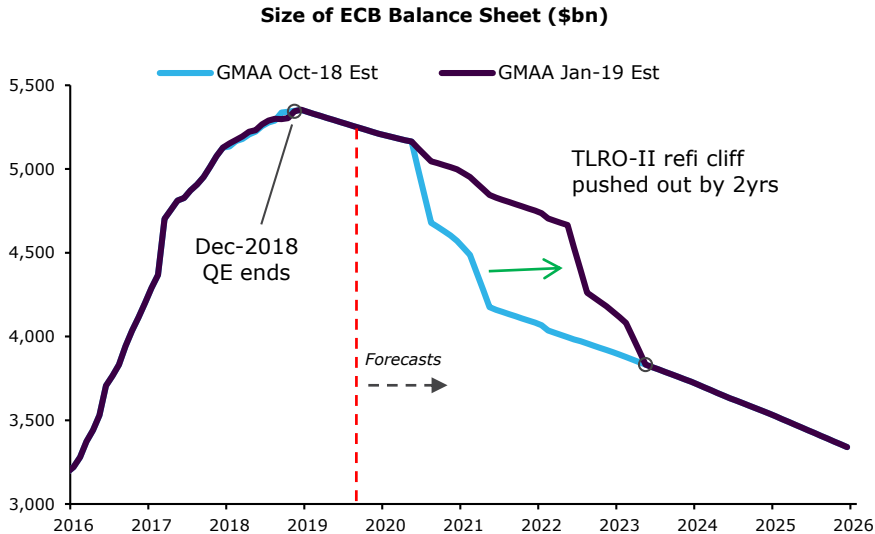
# How Challenging is the Environment Out There?

*Johannes Huth, Head of KKR Europe*

# European Macro: ECB and government policy providing tailwinds

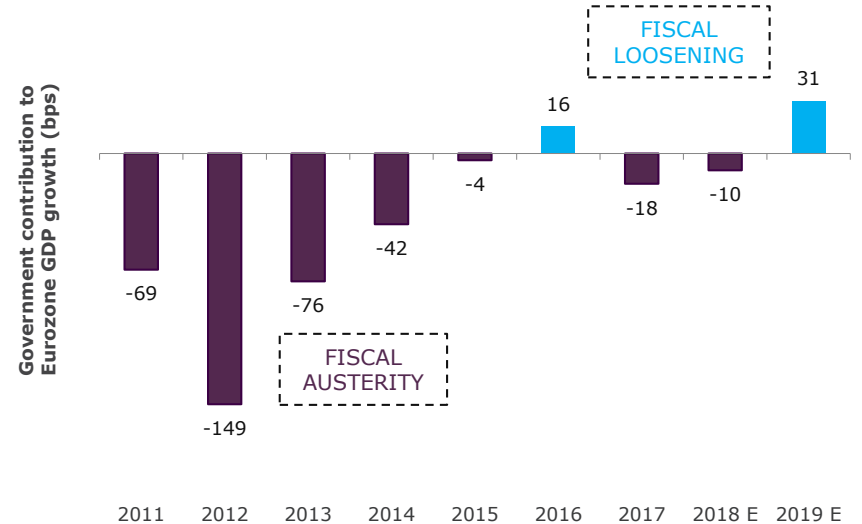
## Monetary Policy Supportive

The ECB's Balance Sheet Looks Set To Remain Large For Several Years....



## Fiscal Conditions Supportive


Government Spending Is Now A Small Positive for GDP...





# However, Political Risk is Real and a Global Trade War Would be Bad for EU


## Political Risks are Present Across Europe

With individual countries facing their own leadership and policy changes and challenges, and the eventual outcome of Brexit a question for many parties.


 **To watch:** Defence spending, EU leadership, right wing gains  
**Events:** 2021 elections

 **To watch:** Structural reforms, FDI, EU leadership  
**Events:** Ongoing reform programs

 **To watch:** Structural reforms, EU relationships, Salvini comeback

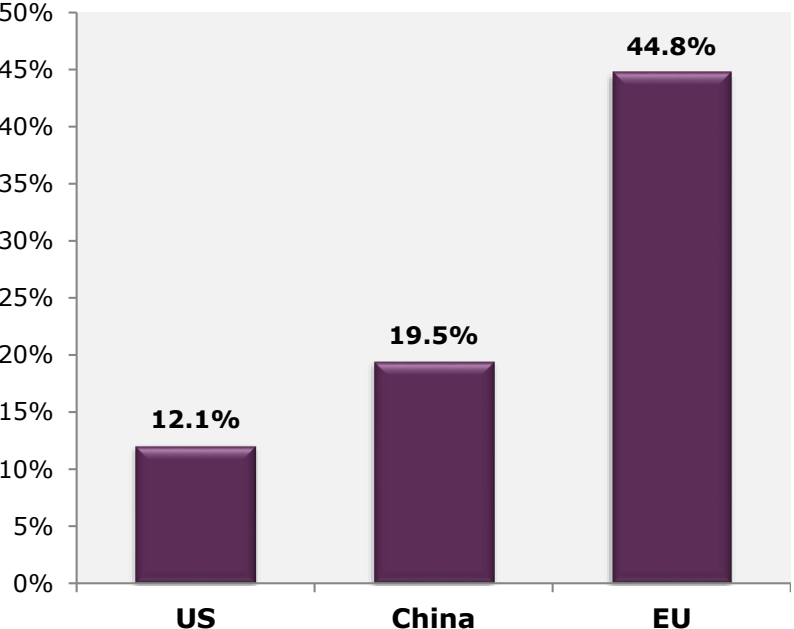
 **To watch:** Access to EU, immigration policy, FDI  
**Events:** 2020 Brexit deal

 **To watch:** Tension in Catalonia  
**Events:** New coalition stability

 **To watch:** Deepening EU (Banking union & immigration reform)  
**Events:** New leadership transition; 2020 Brexit

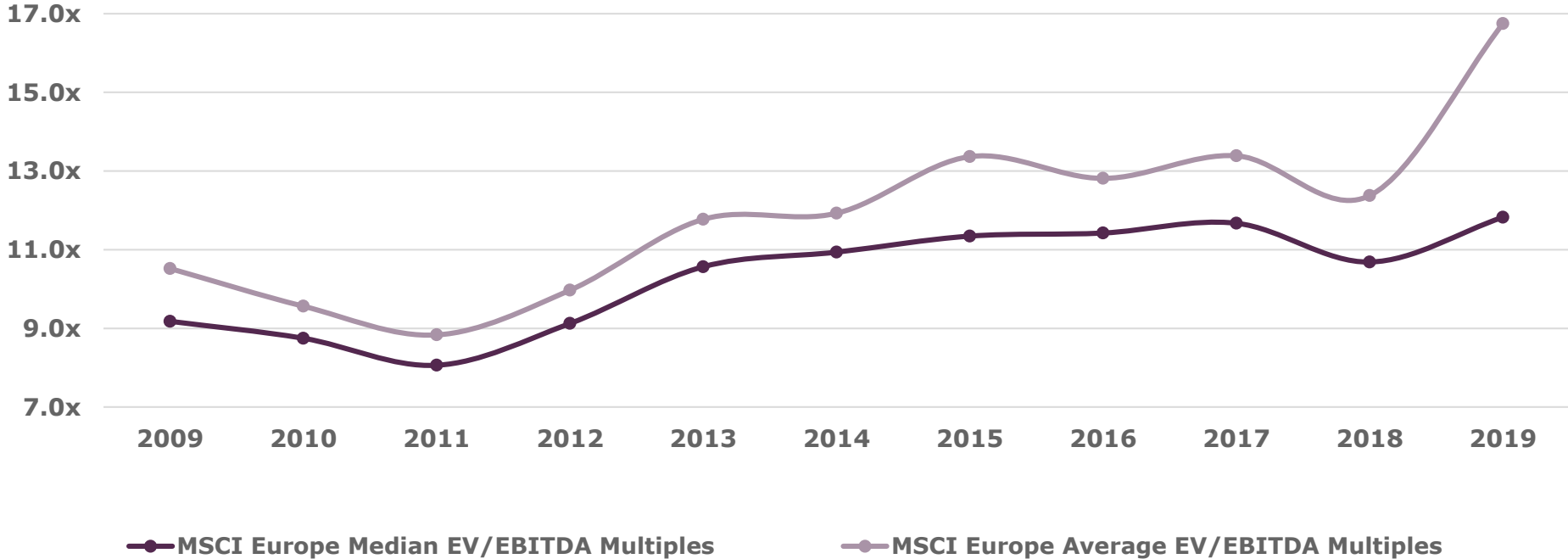
## Gross Exports as % of GDP in Europe

significant, and Europe would have a lot to lose from a trade war. Exports falling 2017-2019 across US, China and EU as tensions rise.



# European Public Market Valuations are High

Public Markets have continued to climb higher, particularly in 2019...



# Total Exposure in Europe is Diversifying

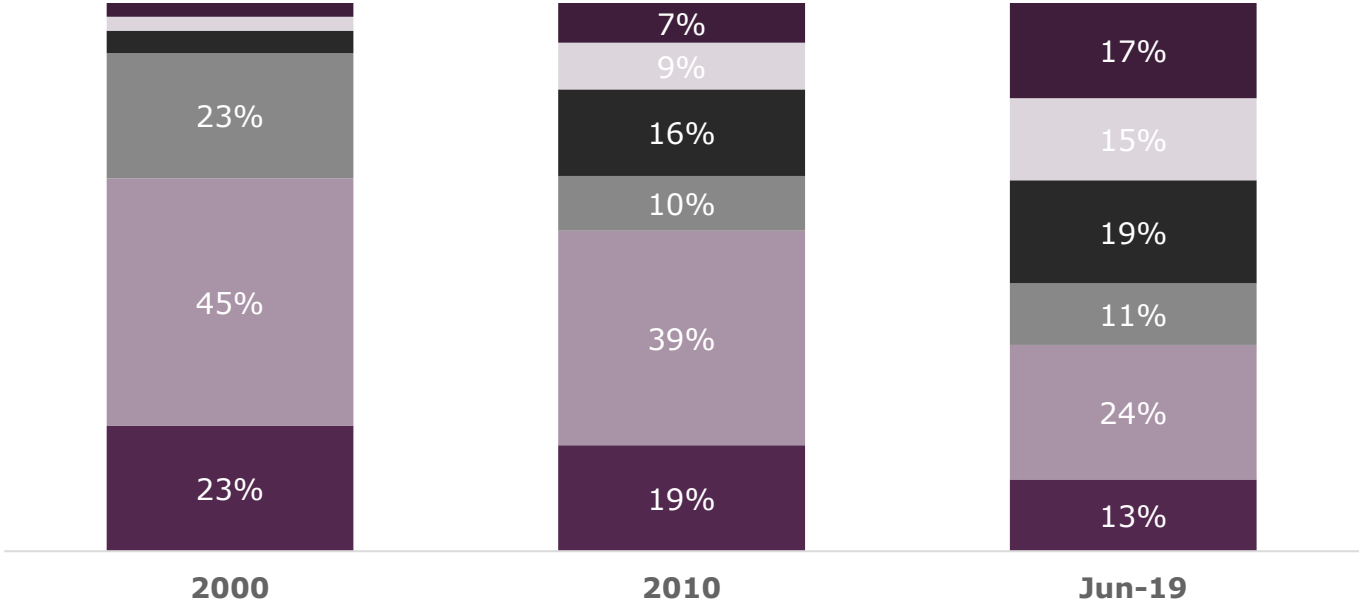
**Western Europe  
Private Markets Total Exposure:**



**MSCI Europe Market Cap:**



- Credit (Private Debt)
- Infrastructure / Natural Resources
- Real Estate
- VC / Growth
- Mega / Large Buyout
- Mid / Small



# Private Equity: Average LBO Purchase Price Multiples in Europe

## Pricing Remains Competitive as Sponsors Continue to Deploy Capital...

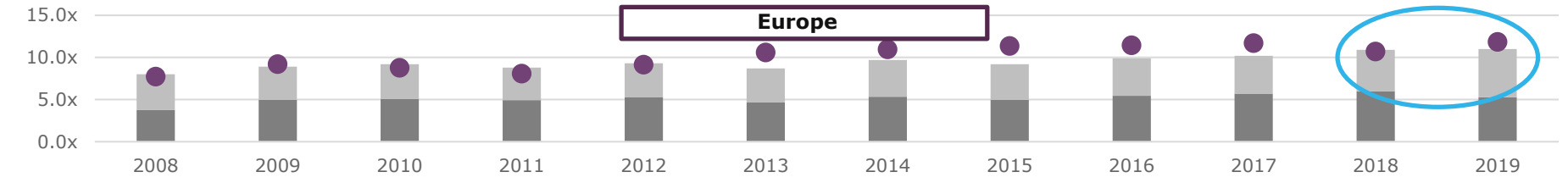


# Private Equity: Global Public vs. Private Pricing

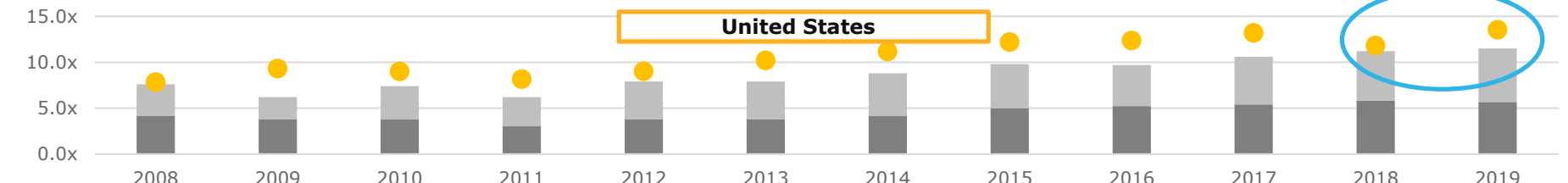
- S&P 500
- MSCI Europe
- MSCI World

Purchase Price

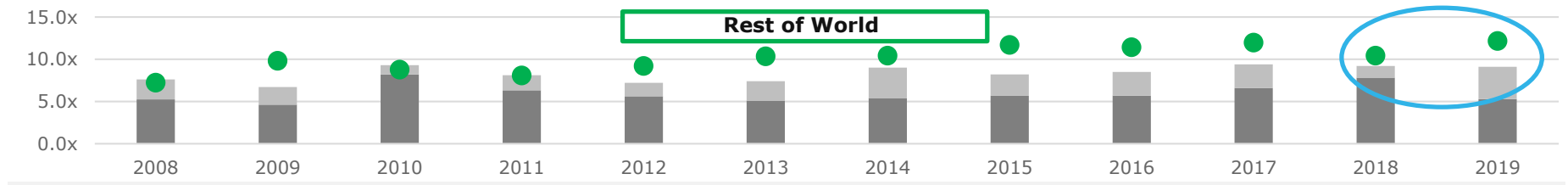
- % Debt
- % Equity



# of Deals	123	54	152	149	120	102	133	109	98	94	79	20
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# of Deals	211	139	283	235	285	191	264	268	260	260	190	86
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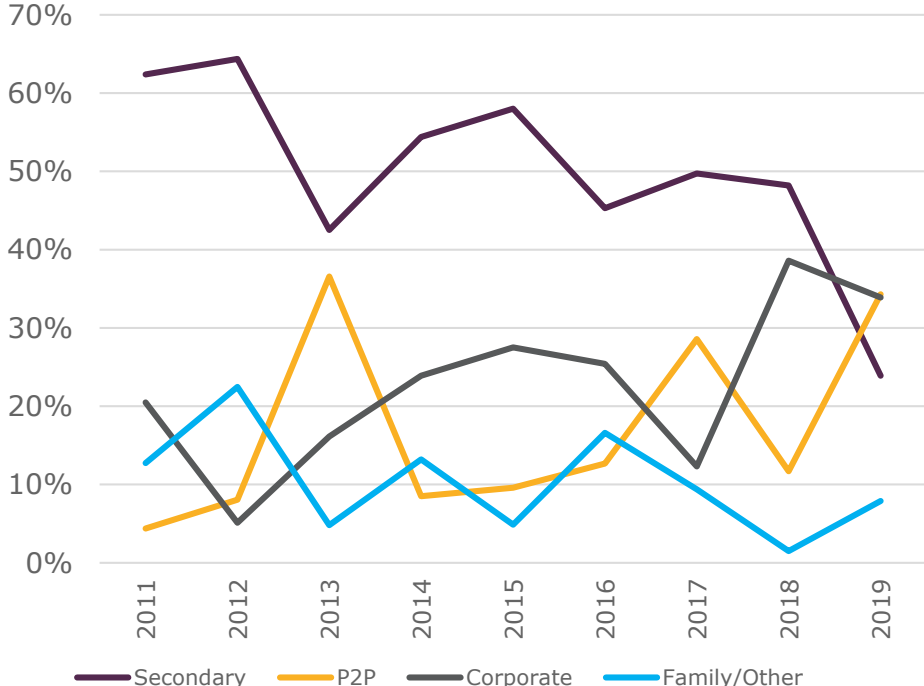
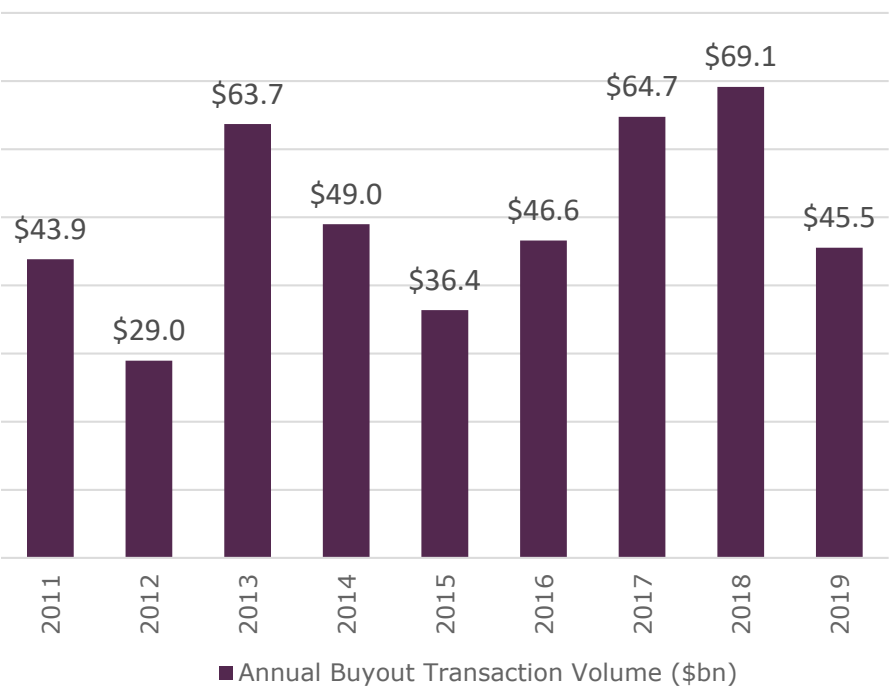


# of Deals	78	50	76	78	64	47	56	37	35	56	27	26
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# Private Equity: Deal Volume Dropped in 2019, Type of Transaction Changing

## European deal activity reached historical highs in 2018, but 2019 is first year to see a slowdown

Significant deal volume, but source of deal shifts to P2P, corporate and family-owned from secondaries.



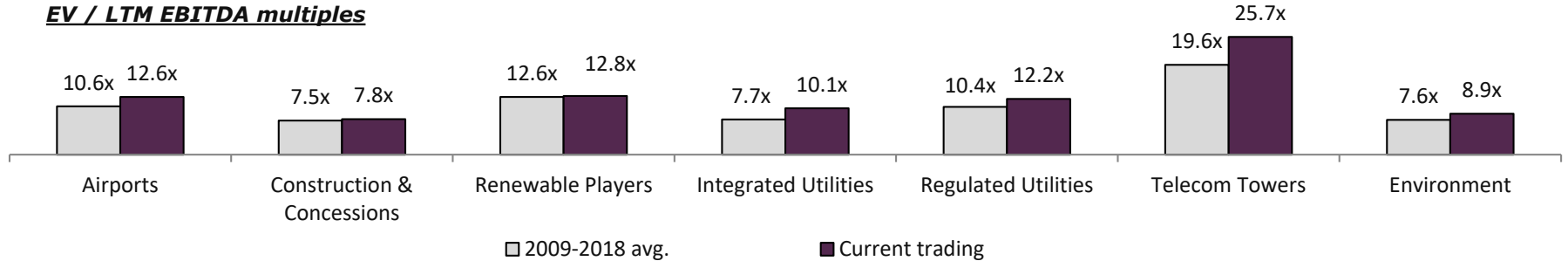


# Infrastructure: Public Market Valuations have Continued to Increase in 2019

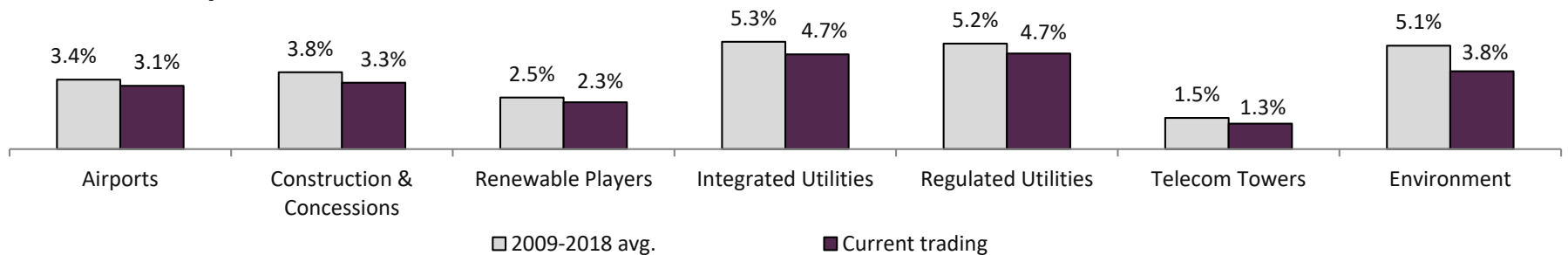
## European infrastructure comps – current vs. '09-18' trading average

Infrastructure valuations across Europe have trended higher in 2019 compared to the last 9 years, particularly in core infrastructure assets (e.g., Airports, Regulated Utilities)

### EV / LTM EBITDA multiples



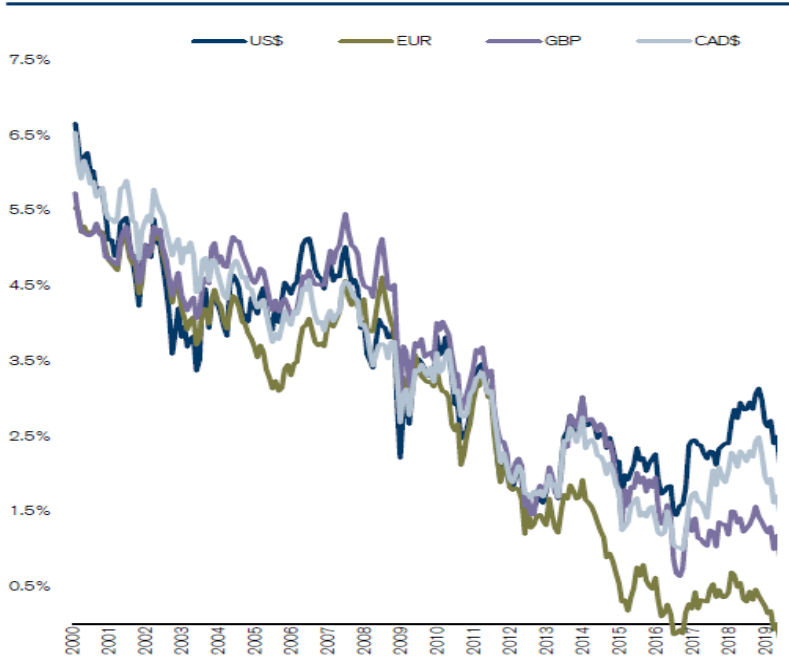
### LTM dividend yield



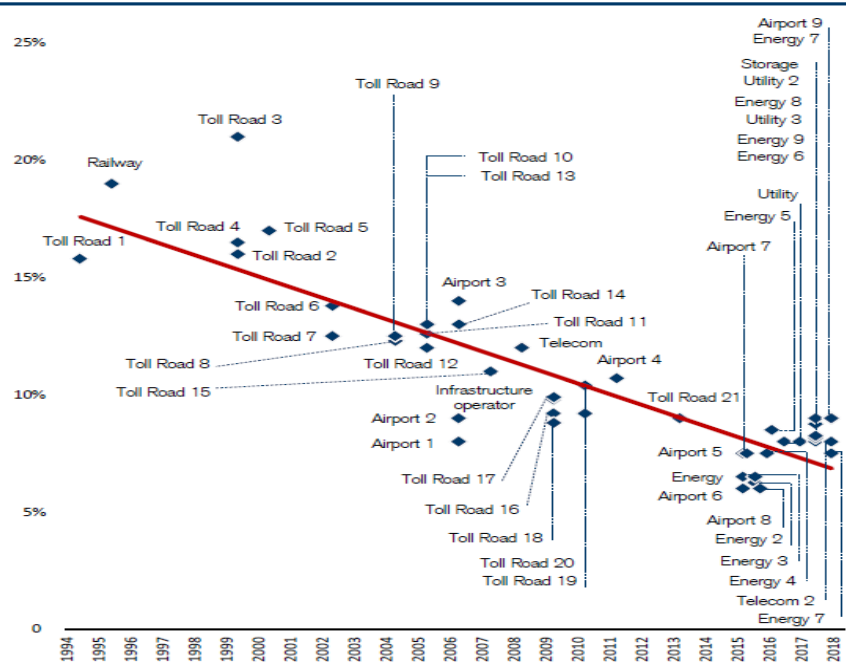
# Infrastructure: Private Market Valuations have Increased Significantly too

We believe record levels of dry powder and low interest rates have driven equity returns for core infrastructure to historical lows

Low base rates drive cheap cost of capital (10 year bond)



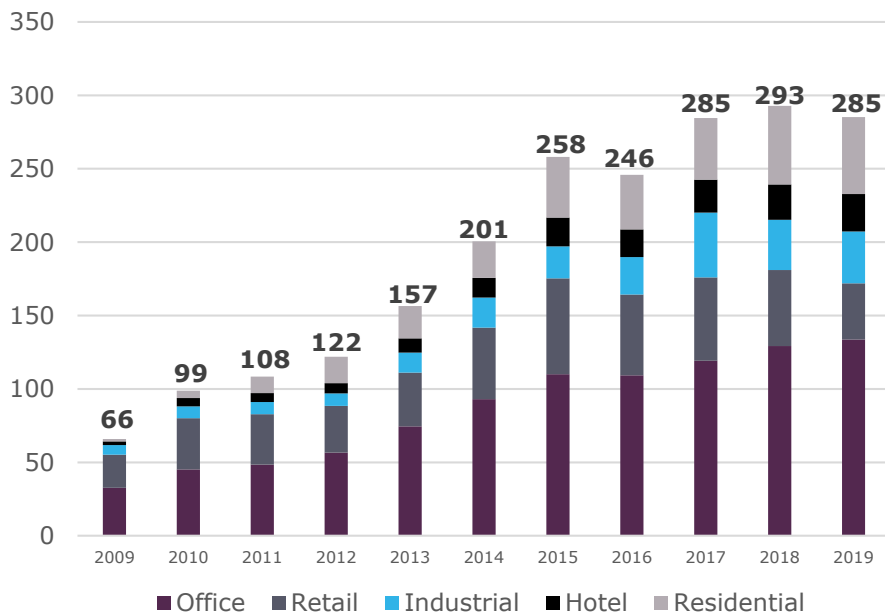
Infrastructure equity IRRs have been in decline



# Real Estate: Today's European Real Estate Environment in Context

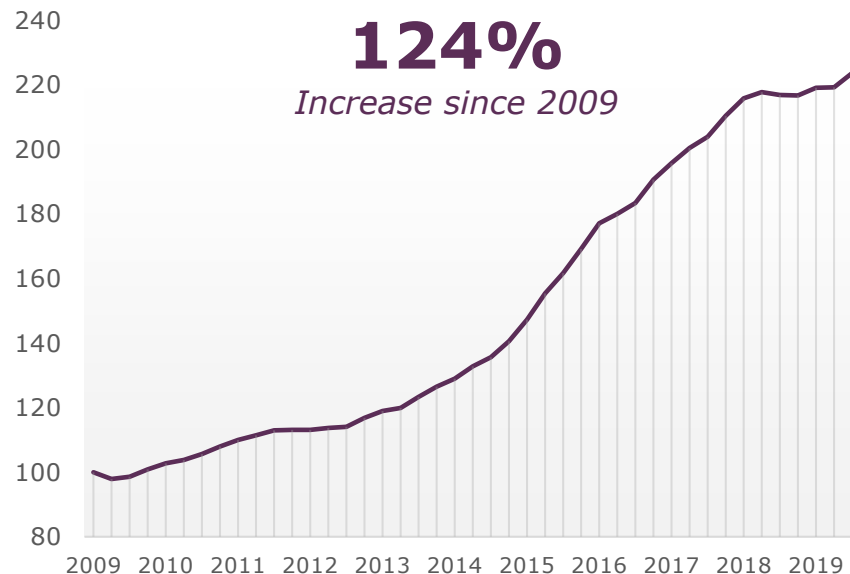
## Liquidity Remains High

Historical Transaction Volumes Across Europe (€ bn)



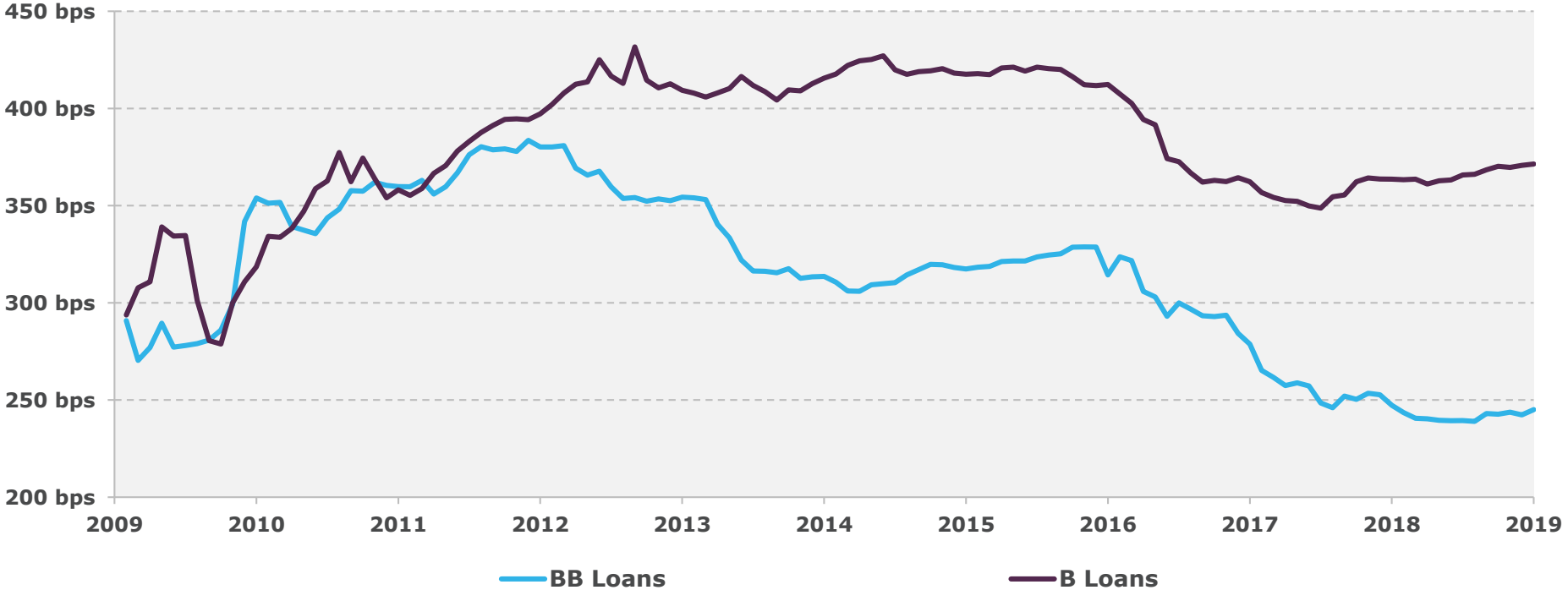
## Pricing Remains Elevated

EU-15 Prime Capital Value Index



# Private Credit: The Flight to Quality in Europe is Evident...

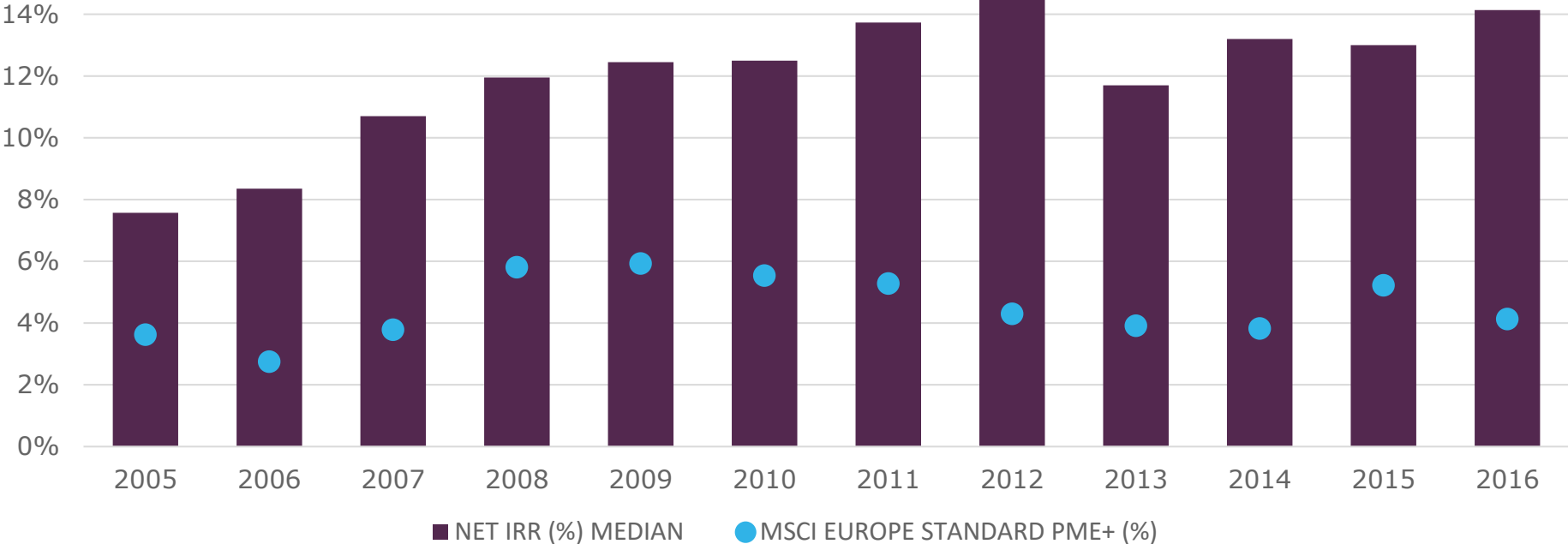
## The bifurcated European loan market has created an opportunity for European Private Debt...



# Net IRR across Private Capital in Europe Consistently Outperforms Public Markets

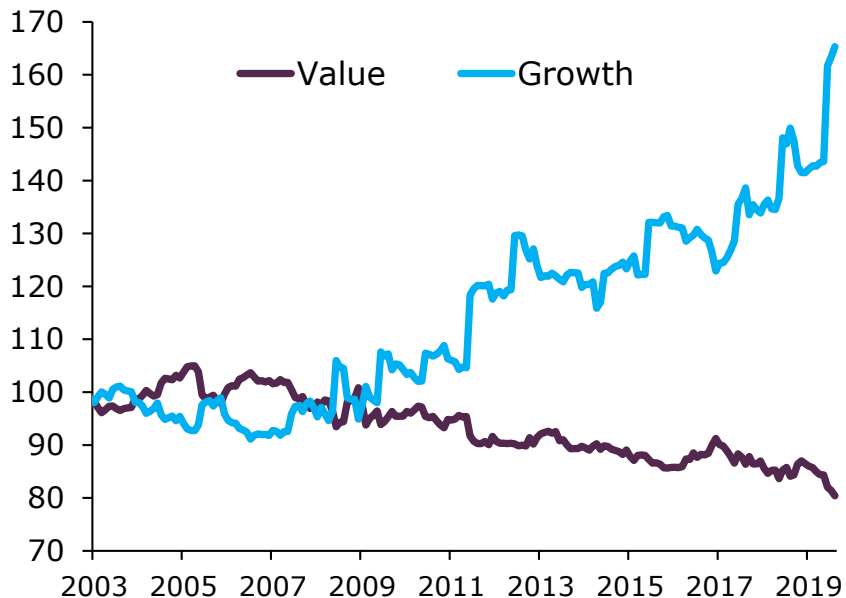
## Pooled Returns Across Private Markets By Vintage Year

Private markets deliver an average 7.5% outperformance to MSCI Europe PME+ returns.



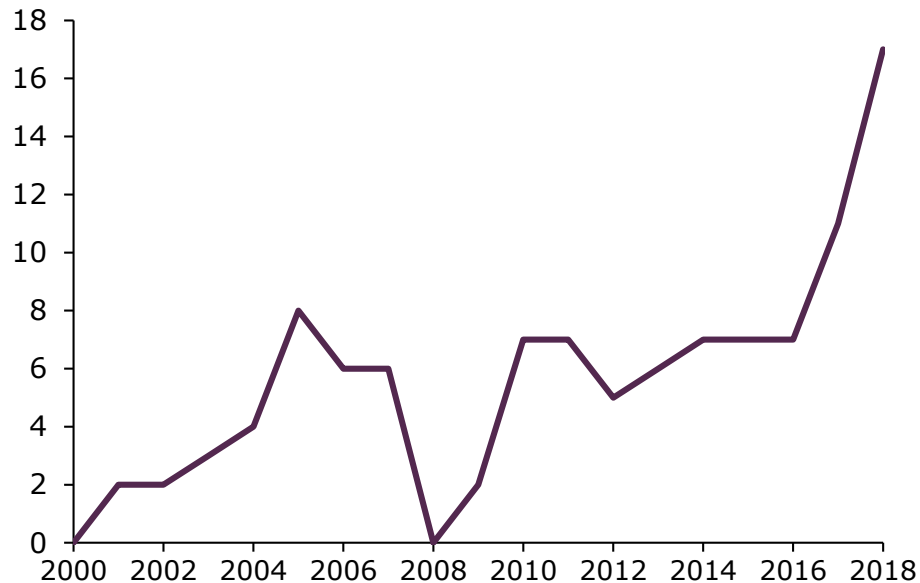
# How are we Doing this in Private Equity...? Complexity & De-Conglomeration

**Significant Value to be Found in Complex Opportunities:** Attractive entry valuations where significant operational improvement required



Price to Book (Indexed to 100), Based on Russell 3000 Sub-indices

**Corporates Increasingly Looking to Simplify Business Operations:** Often as a result of shareholder activism



Spin-Off Announcements per Annum, Western Europe: 2000 - 2018

# And in Infrastructure...? Corporate Partnerships & Joint Ventures

The challenges in executing on complex situations give us the potential to deliver attractive returns while minimizing incremental risk.

## KKR Infrastructure's History of Corporate Partnerships and Joint Ventures


**Fund I**  
2011

**26%**

of invested capital in Fund I was through a Corporate Partnership or Joint Venture, including:

Bayonne Water      Middletown Water

SunTap Energy II      SunTap Energy I



**Fund II**  
2014

**63%**

of invested capital in Fund II was through a Corporate Partnership or Joint Venture, including:










**Fund III**  
2018

**64%**

of committed capital in Fund III was through a Corporate Partnership or Joint Venture, including:




Rocky Mountain Midstream      **ADNOC Oil Pipelines**



# And in Real Estate...? Platforms, Value-Add & Special Situations

Currently focused on more fragmented, operationally complex or less established asset classes that we believe continue to offer compelling opportunities and growth potential



Sector	Opportunity Set
Residential	1 2 3
Student Housing	2
Hospitality	1 2 3

Sector	Opportunity Set
Logistics/Industrial	1 2
Office	1 2 3
Retail	



## In Summary...

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- 1** All markets are increasingly competitive and prices continue to rise
- 2** Alternative Assets/Private Markets continue to outperform
- 3** Differentiated strategies will be key in delivering attractive and diversified returns going forward