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The Pulse of Private Equity – 8/11/2014

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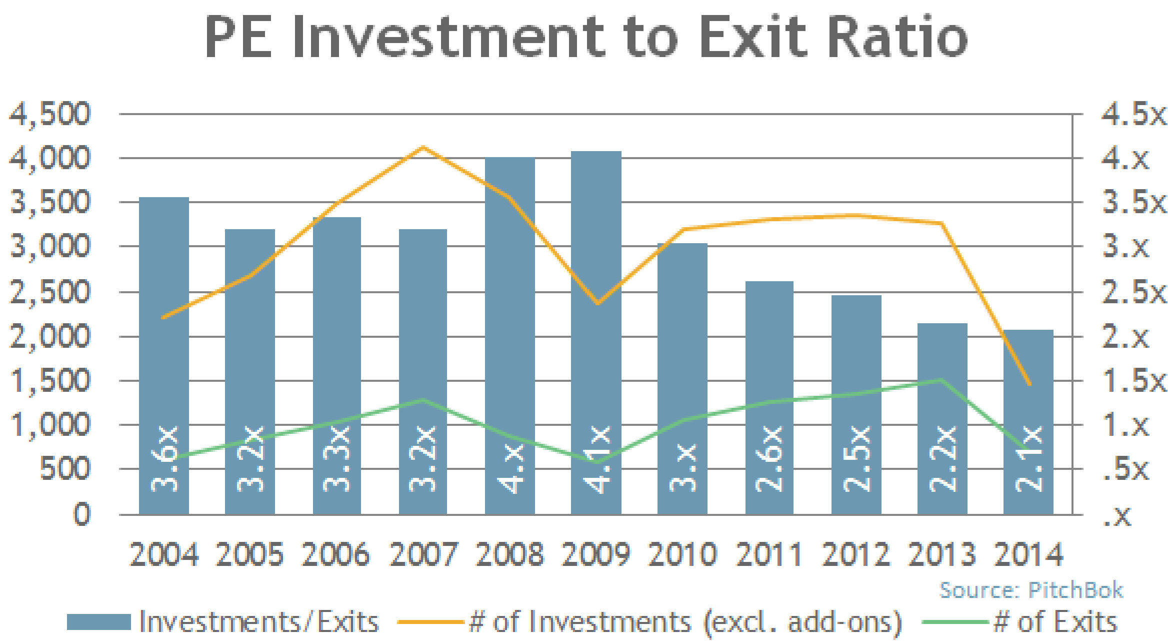
More but Less More

The private equity industry during the first half of 2014 has acquired 2.1 companies for every 1 company that was exited. The headline implication being that the number of companies owned globally by private equity investors continues to grow. As a reader of this publication you probably feel that this is actually a good thing, others feel differently – but that is not the debate we are going to get into. Instead, what we find interesting is the change in pace to the investment to exit ratio emerging in the data.



Since hitting a peak of 4.1x in 2009 (a time when PE was not selling) the ratio has steadily declined each and every year since, hitting the current decade low of 2.1x. Pushing this ratio down has been a drop in straight buyouts (thanks to a shift towards add-ons) and a very healthy exit deal flow. It is hard to say where this ratio will settle long term but it is clear that 4.1x and even something in the 3x range is unsustainable. Considering that company valuations continue to be at very high levels and the significant number of aging portfolio companies, we believe that a busy second half of this year is in store for exits. There is even the potential that the ration could get pushed below 2x by year end. If you are in the transaction business, I would make sure you having as many conversations with sponsors about sell side deals as you are buy side because their activity is rapidly becoming much more balanced.