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Is private equity at full capacity?

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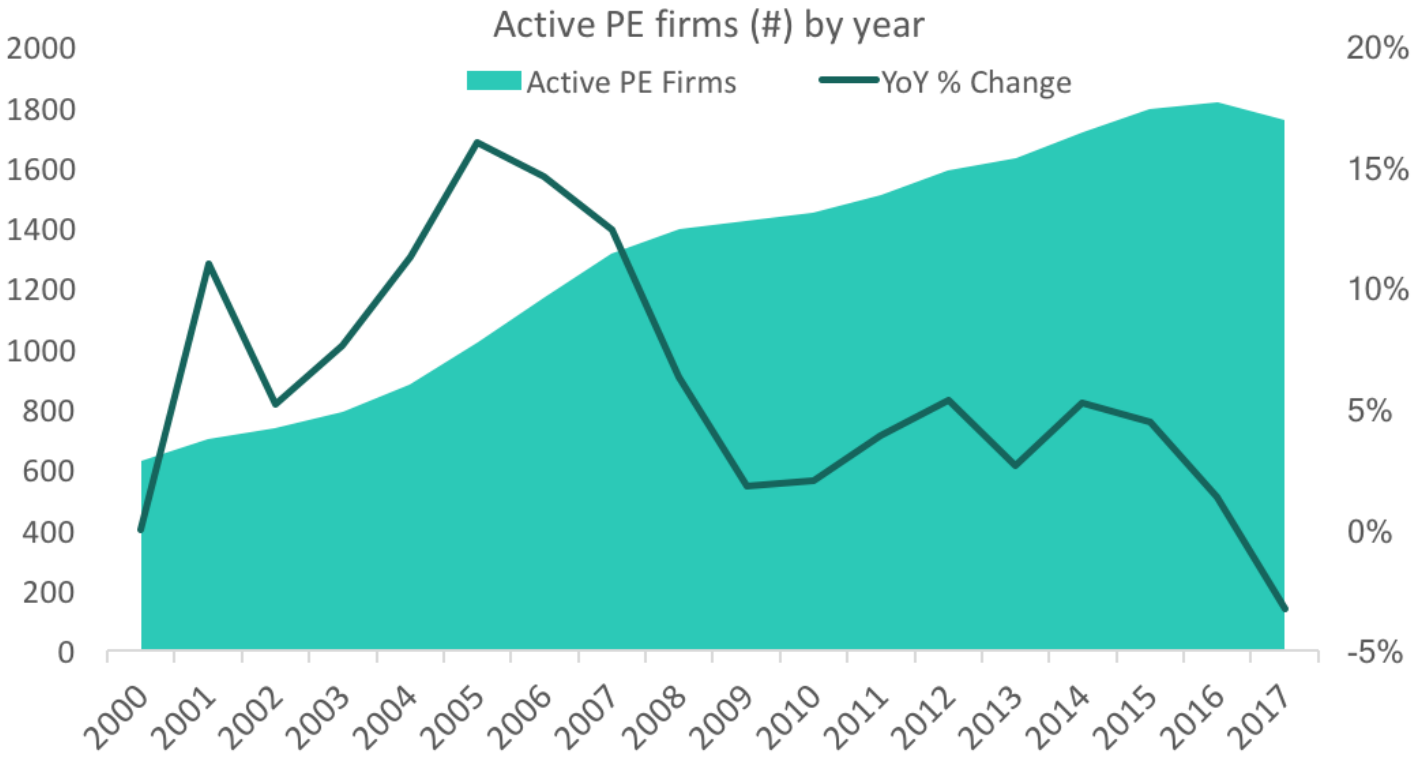

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2017 may have been a watershed year for private equity. 2009 certainly was: for all the discussion about PE's recovery post-crisis—a record seller's market, record dry powder levels, another big fundraising boom—the number of new entrants slowed to a crawl in 2009 and never really recovered. Last year marked the first absolute decline in the number of PE firms active in the market, which saw 3.3% fewer of them against year-end 2016 numbers. But as the accompanying graph shows, the numbers have been sliding for some time now. Between 2004 and 2007, the YoY numbers were 11.3%, 16.0%, 14.6% and 12.4%, respectively. By 2008 that percentage was down to a still-respectable 6.3%, but that percentage hasn't been higher than 6% in the intervening decade. 2016 saw just 1.3% more firms in business, which turned out to be a sign of things to come in 2017 (and quite possibly 2018).

In our latest analyst note (the PitchBook 2018 PE Outlook), we're predicting another fall in firm counts this year. There are a few broader trends that we don't see reversing any time soon, and point to a sustained culling of PE players over the near-term. For one, the number of first-time funds aren't being formed nearly fast enough to make up for the number of firms "at-risk" of being inactive (having not closed a fund in the last four years or a deal in the last two). Through November, we counted 265 such "at-risk" funds in the market, the highest we've recorded, against just 26 new funds in 2017. Far from a blip, those 26 first-time funds were in-line with what

we’ve seen going back to 2012 (about 32 per year, on average). Those 26 new firms represented about 1% of the 2017 totals—ten years ago, first-time funds made up about 10% of the total.

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