Venture-backed > PE-backed

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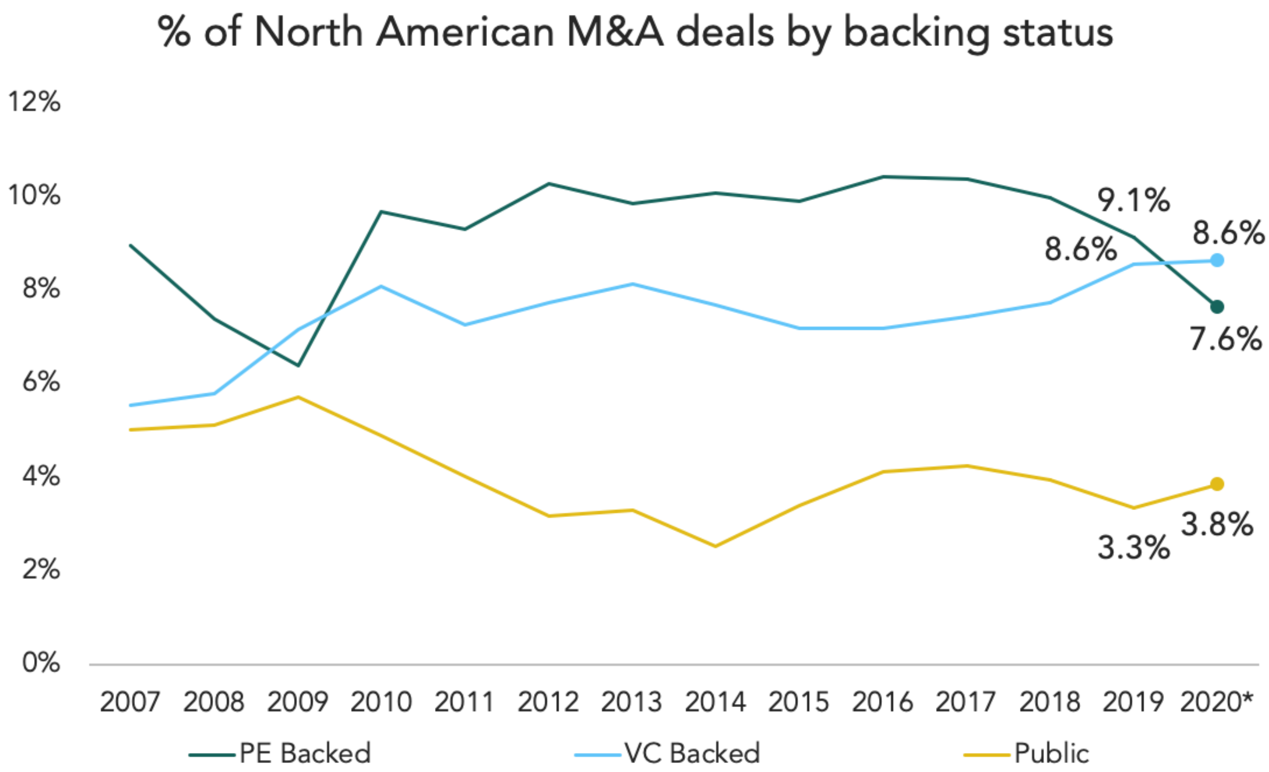

Private equity is losing its oomph as an M&A driver this year. PitchBook's new North American M&A Report found that PE-backed M&A is now less common than venture-backed M&A, at least by volume. It's the first switch between the two asset classes since 2009, which isn't a coincidence. PE exits come to a near standstill during severe financial downturns. Sales of VC-backed startups certainly slow down too, but not as much. In both 2009 and 2020, VC's share of M&A sales either increased or remained stable while PE's share fell swiftly each time. Perhaps it's because of smaller check sizes, perhaps the technology involved on the VC side is harder to ignore, even during crises. Or perhaps it's the fundamental differences between the two—a 2x return is good for PE investors but is something of a failure for institutional venture. But a negative return on a PE portfolio company is to be avoided at all cost while startup failure is almost assumed on the venture side. Revenues are a very big deal for PE firms trying to sell; they sometimes don't even factor into the equation for startup acquisitions.

Either way, the scenario will probably be short-lived. It only lasted a year during the financial crisis, and if the PE market recovers after the health crisis is solved, we should see a reemergence of PE exits in 2021 and beyond. A separate datapoint in the report shows that PE-backed sales made up only 31.1% of all M&A in Q2, down from 35.2% in Q1. That's despite a rapid decline in overall M&A, which fell 41% in Q2. M&A as a whole was hit hard, but PE was hit hardest.