The Pulse of Private Equity – 1/19/2015

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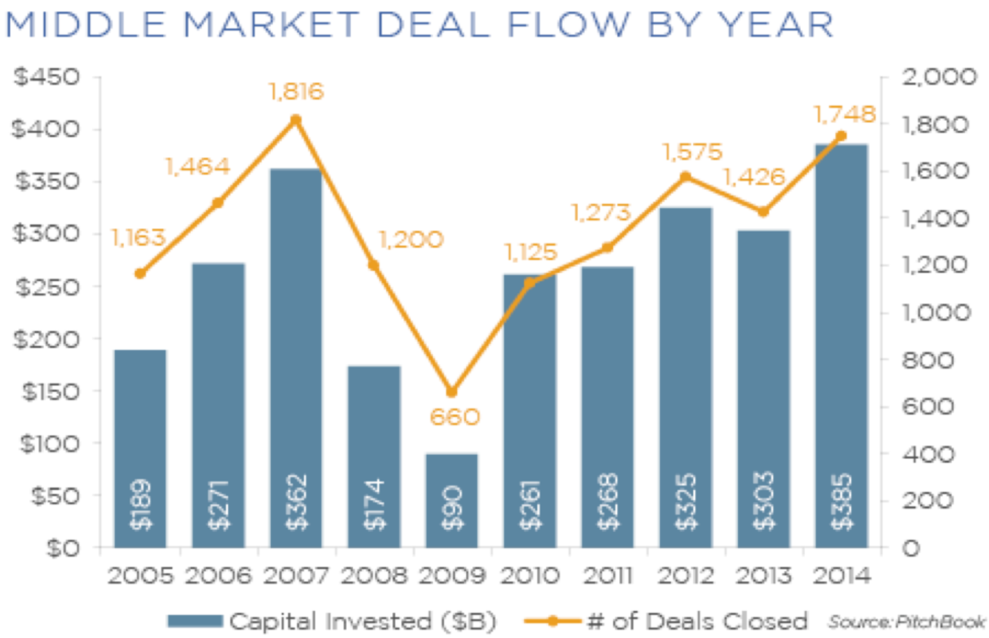
Record Year for Middle Market

The U.S. middle market is usually responsible for ~60% – 70% of PE activity in any given year. Not in 2014. Last year the middle market accounted for 78% of all PE activity by count, the highest percentage we've recorded. Calling 2014 an "active" year is an understatement.



Small surprise that 2014 was a record-breaking year for middle market investment levels. $385.1 billion was funneled into the market through 1,748 PE deals last year. The latter figure wasn't far off the reigning king of 2007 (1,816), but 2014's total value actually eclipsed 2007 by a full $13 billion, notching a new record. Much of last year's strength was bottled up in the first quarter, which saw $106.8 billion worth of PE deals close. But maybe the most impressive aspect of 2014 strength was its lack of support from take-private buyouts, which virtually ceased last year. Instead, much of the activity in the upper middle market was bolstered by big SBOs and carve-outs just under the $1 billion mark, including three $900 million+ SBOs.

Valuations are obviously high, even in the middle market, which is helping inflate those capital invested numbers. But PE buyers haven't blanched much at those price tags, especially since multiples are even sturdier at the highest end and they need to put their money to use somewhere. The exodus has been to the middle market, where expectations are high around future growth and investors feel like things are moving in the right direction. Valuations are up, yes, but so is optimism.

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