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The Pulse of Private Equity – 1/26/2015

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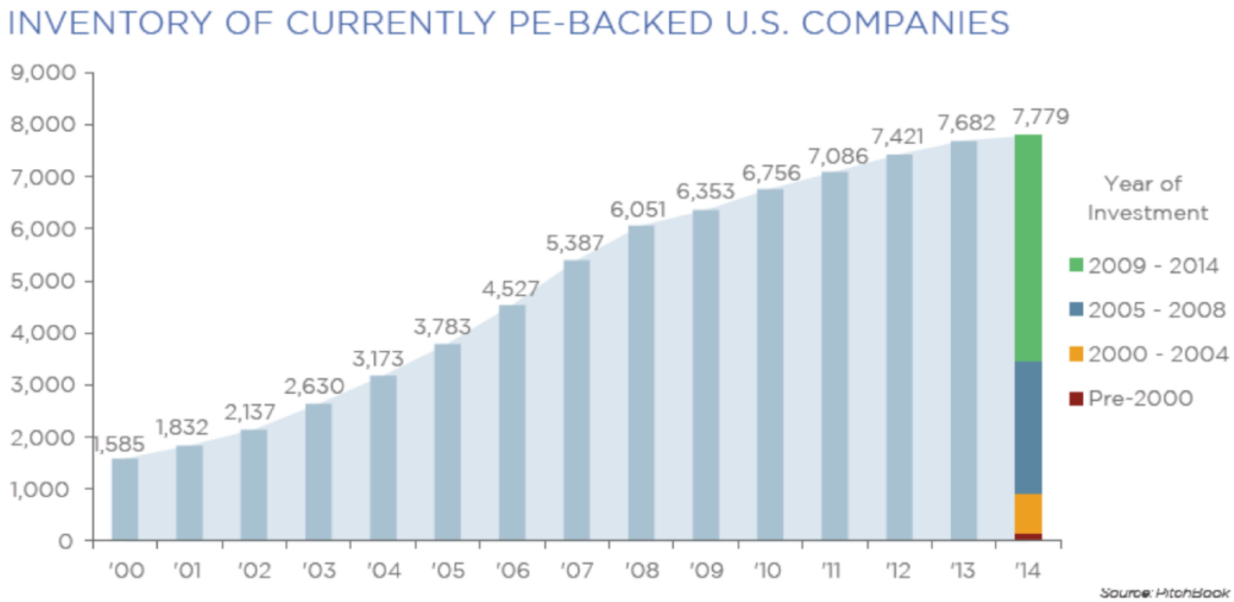
The U.S. Company Inventory is Plateauing

One of the concerns facing private equity over the past few years is the rising number of companies under PE control. The U.S. company inventory, which rose pretty dramatically between 2000 and 2008, now appears to be topping out just under the 8,000 mark. By the end of 2014 there were 7,779 U.S. companies in PE's portfolio, a miniscule increase over the 7,682 at the end of 2013. It's the first time the PE industry has added fewer than 100 new companies in a year since the 1990s.



For LPs, that's something of a relief. Between 2007 and 2013, the number of PE-owned companies rose from 6,051 to 7,682, a 27% increase. Yes, PE firms were putting their money to use, but exits weren't keeping pace to help balance the overall PE portfolio and provide liquidity back to LPs, and returns would suffer if holding periods weren't in line with typical PE timeframes. Fortunately, the exit doors started to open just in time, beginning in about 2012, and IPOs and strategic sales have allowed investors to transition portfolio companies out of the PE cycle altogether. Now LPs have a new conundrum on their hands: The worry over liquidity has given way to wondering what to do with all the cash that PE firms have distributed back to them.