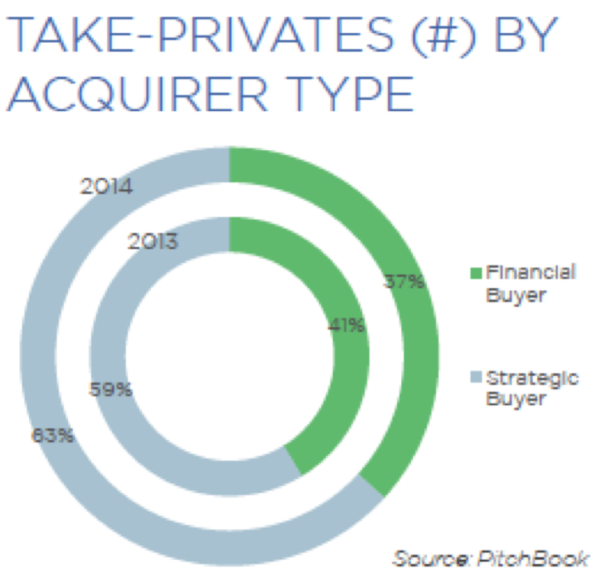
The Pulse of Private Equity: Take-Privates

PitchBook | March 10, 2015

Fewer take-privates, more carve-outs

When the $8.7 billion take-private offer for Petsmart was announced in December, some wondered if we were headed back to a more familiar private equity scene, one with semi-frequent, billion-dollar buyouts and lots and lots of debt. Three months later? Mostly radio silence. That could change, of course, but PE is up against several headwinds this year as far as take-privates go. The Petsmart deal wasn't really characteristic of the broader PE market – an activist investor helped push the company toward its buyer, BC Partners, which had to come up with some creative debt financing just to get the deal done. Doesn't sound like the barbarians of old.



PE take-privates aren't resuscitating any time soon, which is probably a good thing for LPs. But the public markets should present some viable alternatives this year for PE via carve-outs, which have been frequent (and large) in the latest divestiture wave. Those same shareholder activists that pushed Petsmart into PE hands are pressuring other companies to shed non-core assets. Since other strategics aren't likely to bid on assets deemed non-core by their rivals, private equity should see relatively light competition for those deals. And in many cases, PE is probably the only option, given the complexity that's often involved in those deals. PE firms able to restructure those businesses as stand-alone entities will also find an easier (and possibly cheaper) way to make the kinds of large, singular deals they like to make.

And they probably won't have to be as persuasive with Boards or select committees to get those deals done, either.

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