The Pulse of Private Equity – 7/20/2015

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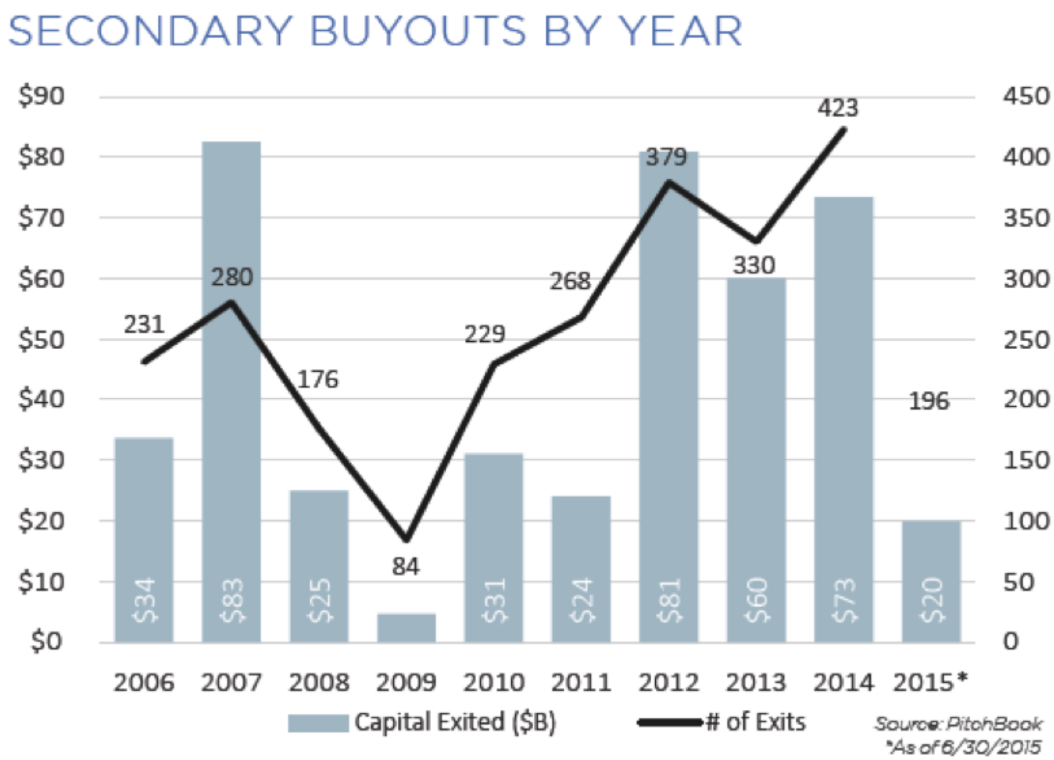
Secondary buyouts are down by value but consistent by volume. With news of First Data going public, it's worth remembering how few 2006-2008 PE investments ended up transferring to other PE sponsors, at least $10B+ companies. Realistically, those buyouts needed to be exited via IPOs or, in some cases, through strategic sales. PE buyers are having a harder time justifying the kinds of mega-buyouts we got used to seeing ten years ago, which isn't necessarily a bad thing. Blackstone's Joseph Baratta spoke for many (particularly LPs) when noting that the 2012/2013 SBO boom was "not a sign of health in our market." Studies have shown that secondary purchases generate lower returns for subsequent buyers, and distribute $0.40 less cash per $1.00 of cash invested (per Harvard Business School) and 15% lower IRRs compared to primary buyouts.



Last year, 432 SBOs were finalized, a record by volume. Average deal sizes are down, not surprisingly, with the largest SBO deal since 2014 checking in at $5 billion (Carlyle's purchase of Acosta last July). Most of the billion-dollar buyouts made pre-2008 and sold to other PEGs last year were relatively small, namely MultiPlan ($4.4B), 24 Hour Fitness ($1.85B) and The Warranty Group ($1.53B). Though small, there were a number of $1B+ SBOs done last year, helping prop up 2014 totals to a combined $73 billion, good for third-highest all-time. Through the first half of 2015, only $20 billion worth of SBOs have gone through, well off the annual paces going back to 2012. It's hard to imagine the back end of the year making up much ground, especially with the looming interest rate increase and fewer GPs willing to do "club" deals with other sponsors. Going forward, we expect SBO values to be subdued compared to prior years, at least until the M&A and public markets cool off.

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