The Pulse of Private Equity – 7/27/2015

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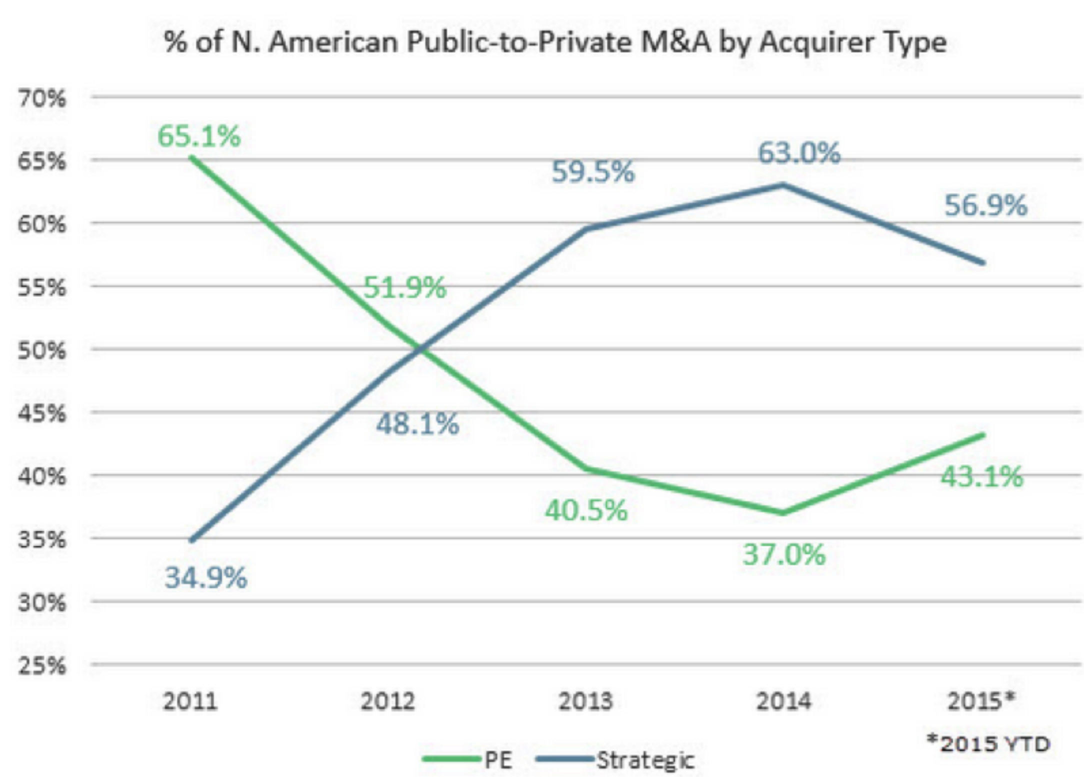
Take-privates making a comeback?

One of the big differences between today's M&A boom and 2007's comes down to which buyers were involved. Almost a decade ago, PE firms were the muscle behind M&A. Mega-buyouts in the $10B+ category were common, inflating overall deal activity to record levels. Today's market is dominated by strategic buyers. The deals are just as large (and seemingly just as frequent), but corporate acquirers are getting immediate feedback from shareholders on proposed deals, with buy-side and sell-side stock prices jumping once announcements are released. That wasn't the case in 2007, when the credit bubble helped mask the pitfalls of all those mega-deals. Arguably, today's optimism around M&A is more warranted, at least on the strategic side. PE firms learned their lessons from 2007.



That's what makes this graph a bit curious. Relative to 2014, financial buyers have taken more companies private as a percentage of overall M&A, up from 37% of 2014 activity to 43.1% YTD. One possible explanation: strategic M&A may be running out of room to consolidate. You could argue that many of the industry-defining transactions that could have happened have already wrapped up. On top of that, PE firms have one big gust of wind at their back: activist shareholders. Activists have played supporting roles in some of the biggest take-privates the past few years, including Darden Restaurants and Petsmart. As strategic M&A comes under a brighter spotlight from anti-trust regulators, we might see a bit of a comeback for PE buyers this year. And if stock prices stumble, those percentages could change pretty quickly.

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