PE’s impending maturity wall

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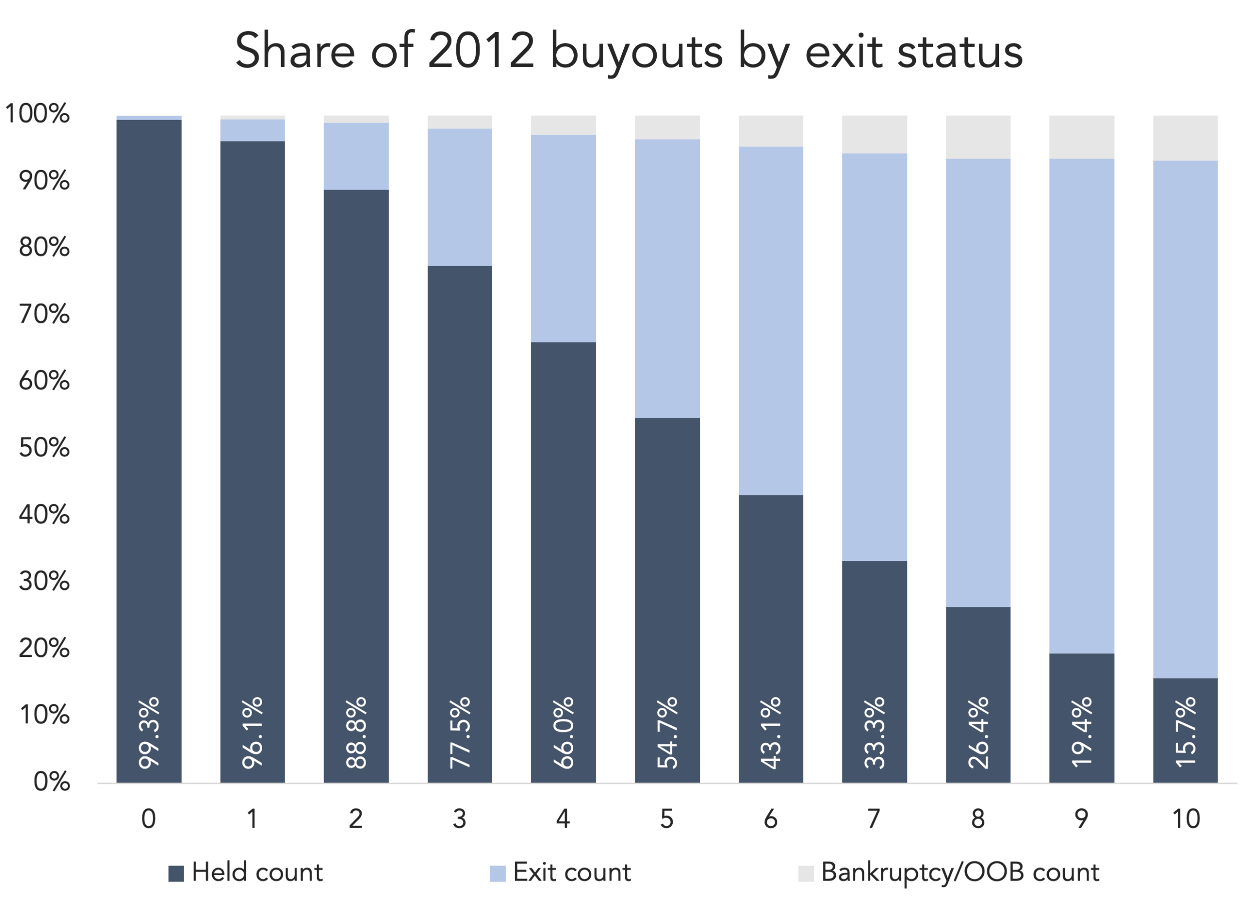

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Private equity’s stunted exit market is now several quarters old, and it comes on the heels of a historic run of deal activity. A new PitchBook analyst note looks ahead to an “impending maturity wall” and the ripple effects it could have on the industry. If exit paces don’t pick up to more historical standards, upwards of 26% of capital invested will hit a maturity wall—a 10-year holding period in this case. 26% is a comparably high percentage; for 2012 investments, 15.7% of capital invested was still held after ten years. In a hypothetical extrapolation, the combined value of all those portfolio companies could eclipse $360 billion over the next 12 years.

It’s a far way out, but it’s safe to predict an increase in continuation funds if all this plays out. Continuation funds have already emerged as a tool for GPs, though LPs have expressed frustration with them. Even in healthy years, there are situations where companies need to be held longer than expected. It’s possible that many more of them will be needed in the years ahead, alongside more secondary sales and NAV lending, if sponsors want to avoid becoming forced sellers.

(Past performance is no guarantee of future results.)