The Pulse of Private Equity – 9/21/2015

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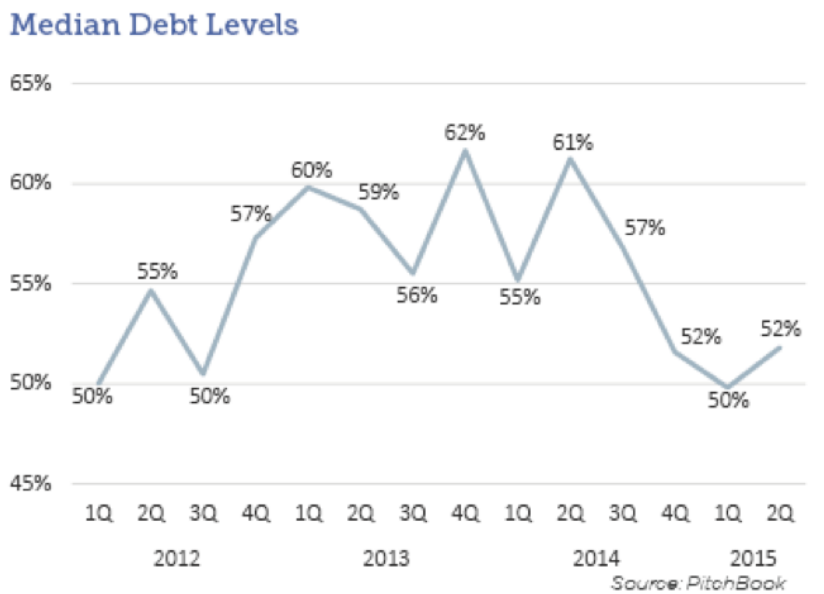
With High Valuations Persisting, PE Buyers Still Cautious

PE dealmakers are still grappling with increased regulatory scrutiny and stubbornly persistent high valuations. The chance to ameliorate price pressures still remains, with lending markets left wide open by ongoing competition among nonbank lenders for business as banks shy away from risk. BDCs in particular have been jockeying for market share as CPPIB finalized its purchase of Antares Capital. That could have led to the uptick in debt usage—particularly of the non-senior kind—from 1Q to 2Q. Since the start of 2014, the proportion of equity employed has decreased steadily quarter-on-quarter, a trend attributable to PE sponsors unwilling to pony up too much equity in expensive deals and potentially depress future returns.



Given how slight it was, the potential hike in interest rates wouldn't have shifted matters much anyways, but with that key factor contributing to overall uncertainty resolved, debt remains cheap and alternate lenders willing to aid PE sponsors, so continued usage of debt at least on the level we've seen for the past few quarters seems likely. In light of sustained regulatory oversight, the popularity of senior debt and other more secure types seems set to hold fast. The percentage of non-senior debt employed in 2Q was the highest in several quarters, but that could be a matter of timing; it'll take a few more quarters of numbers like that to reverse the overall trend toward safer debt.

To Download PitchBook's 3Q 2015 Global PE Deal Multiples & Trends Report, please click here.

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