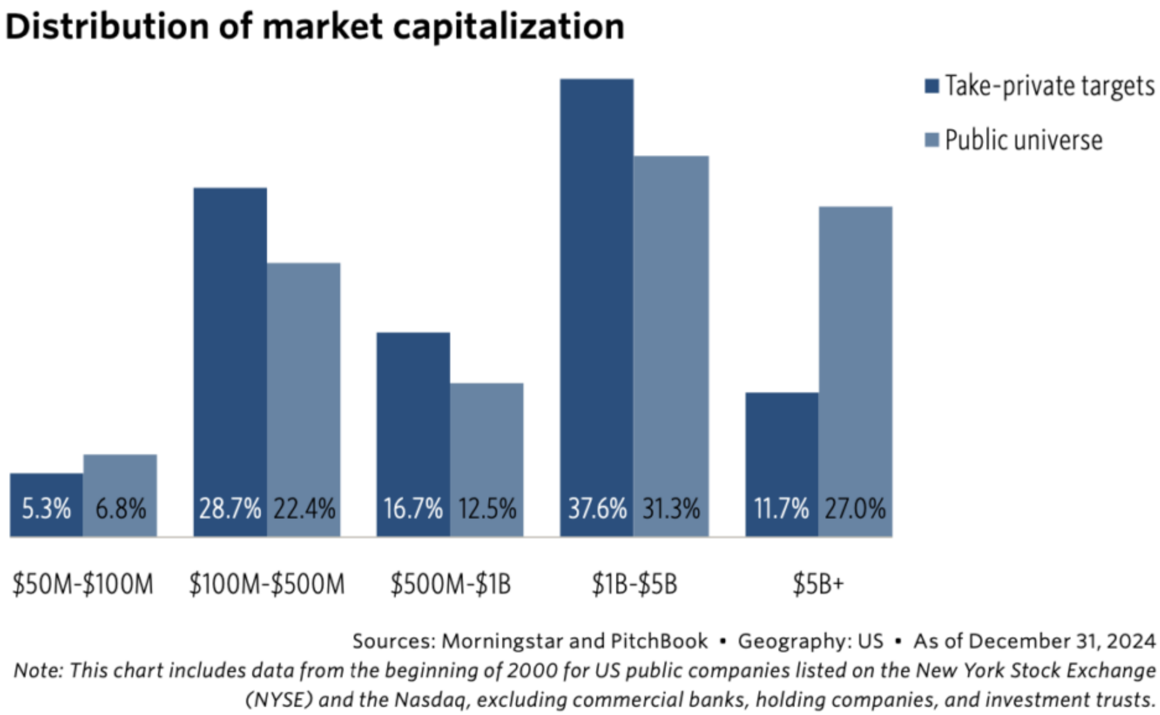
Identifying likely buyout take-private targets

PitchBook | March 19, 2025



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Since the inception of the buyout strategy in the 1980s, buyout managers have maintained a core playbook: At a reasonable price, invest in relatively small, underperforming companies that still generate enough free cash flow (FCF) to service an increased debt burden. Evidence from take-private transactions over the past 30 years confirms this playbook is being used. We found that take-private targets are more likely to be relatively cheap with respect to a variety of equity price ratios despite relatively neutral EBITDA and cash flow margins. Underperformance is apparent in both the trailing one-year stock return of these take-private targets as well as their operating efficiency in terms of revenue generated per employee.

(Past performance is no guarantee of future results.)