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The Pulse of Private Equity – 1/18/2016

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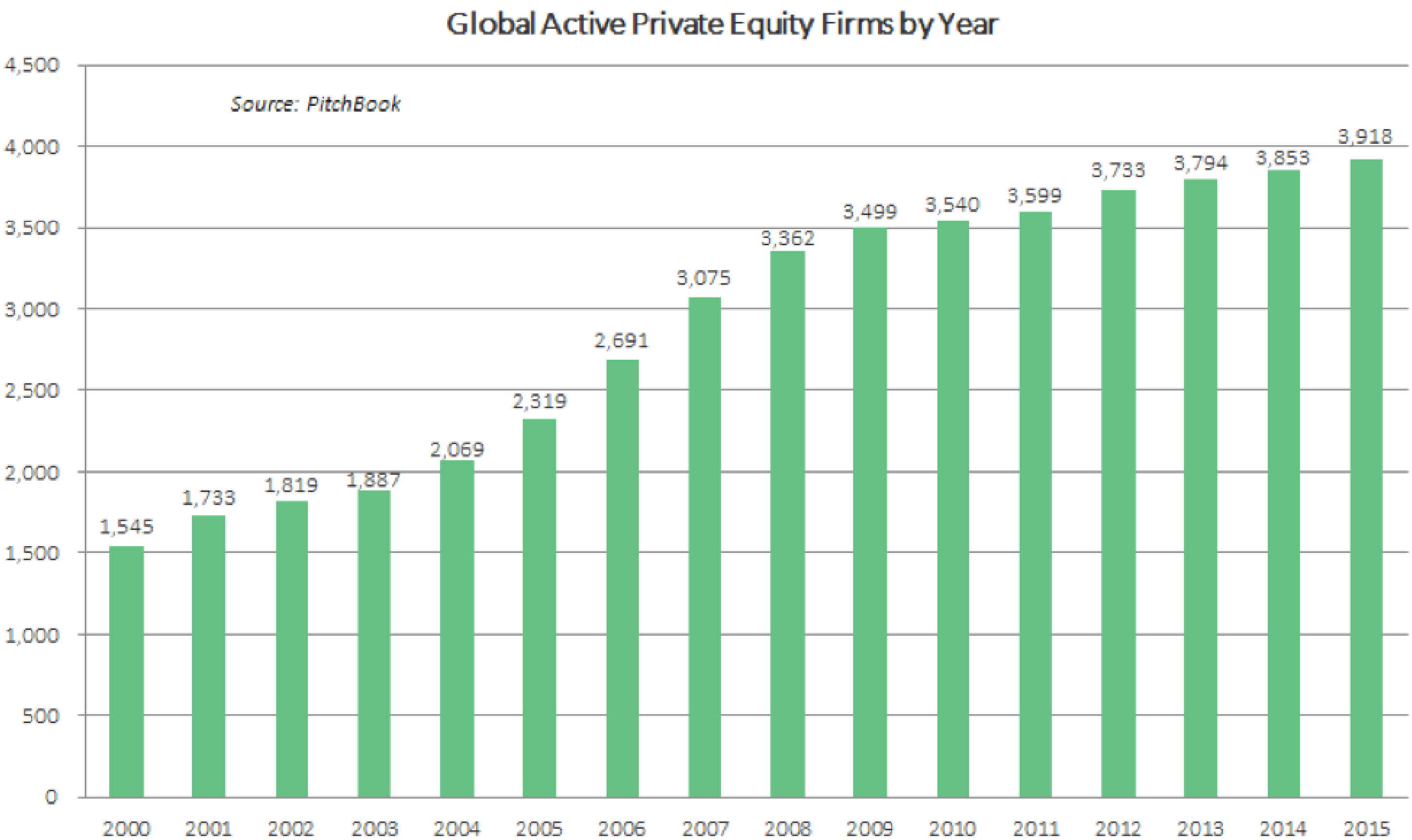
Is There a Glut of Private Equity Firms?

Since the turn of the century, there has been a steady surge in the number of private equity firms that are active worldwide. From 1,545 in 2000, the number has crested to 3,918, an increase of over 153%. As was perhaps to be expected, the rate of increase considerably slowed after the financial crisis, likely due to either the sheer level of competition or the difficulty of launching a new private capital firm in an era of heightened volatility and risk aversion, among other causes.



But such obstacles weren't sufficient to dissuade all, and now, with the number of active firms potentially clearing 4,000 by the end of 2016, all competing for commitments from institutional investors, it prompts one to wonder whether a pruning is in the offing. Granted, there are plenty of markets that have yet to be significantly tapped by PE, but there are reasons why that is so, ranging from regulatory hurdles to opaque markets to regional volatility. The largest PE firms, having anticipated such volatility in emerging markets, can afford to ride it out to some extent, but fund managers without the luxury of global operations and plentiful resources are likely looking to remain active in relatively safer, more developed markets. The problem is that, as evidenced by declining activity in the U.S. and plateauing numbers in Europe, deploying capital is ever harder, given not only competition but also the lack of quality targets and still-heightened valuations. Certain firms, such as Blackstone, are already marketing for their next funds with a slowdown in mind, extending lifetimes and offering perks to entice subscribers. But not all LPs will be enthused by such a prospect, particularly when offered such by fairly new firms. Accordingly, there may be troubled seas ahead for quite a few of the younger PE firms.

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