The Pulse of Private Equity – 3/21/2016

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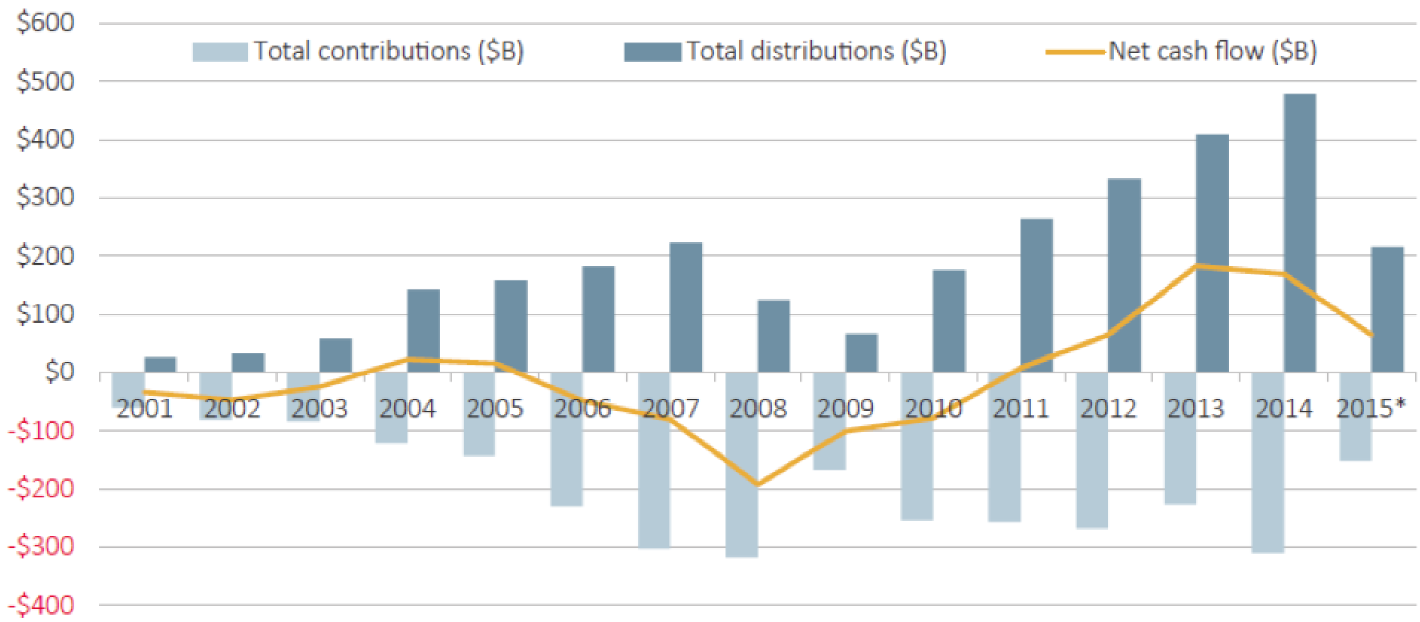
Will Net Cash Flows Decline for PE Fund Investors?

Since 2010, there has been a markedly recurrent yearly increase in total distributions to investors in private equity funds. This increase, as well as relatively plateaued contributions, has produced a significantly positive net cash flow for global PE funds. Through the first half of 2015, net cash flow has trended down somewhat, likely due to PE fund managers calling down substantial sums of capital to cut deals in an environment marked by heated multiples.

Global PE funds' annualized cash flow by year



Source: PitchBook
*As of 6/30/2015

Distributions have also remained strong, bolstering net cash flow somewhat, but it's probable that the heights of 2013 and 2014 will remain above final 2015 numbers. One reason why is an increasing spread in quality between targeted assets, with specialized vehicles potentially increasing activity throughout the rest of this year, which would result in significant contributions, pushing down future cash flows. Another potential cause could be a decrease in selling: Secondary buyouts have remained a highly utilized exit route for many PE firms, yet if they wane in popularity due to the aforementioned issues of typical company quality across prospective targets as well as issues around potential financing, overall exit activity could slide. How robust the level of M&A remains is another question mark, but, by and large, many of the drivers behind elevated M&A over the past few years are still in place, so PE selling shouldn't decrease overly much. Consequently, distributions could remain healthy, yet not enough to keep net cash flows from declining.

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