The Pulse of Private Equity – 4/25/2016

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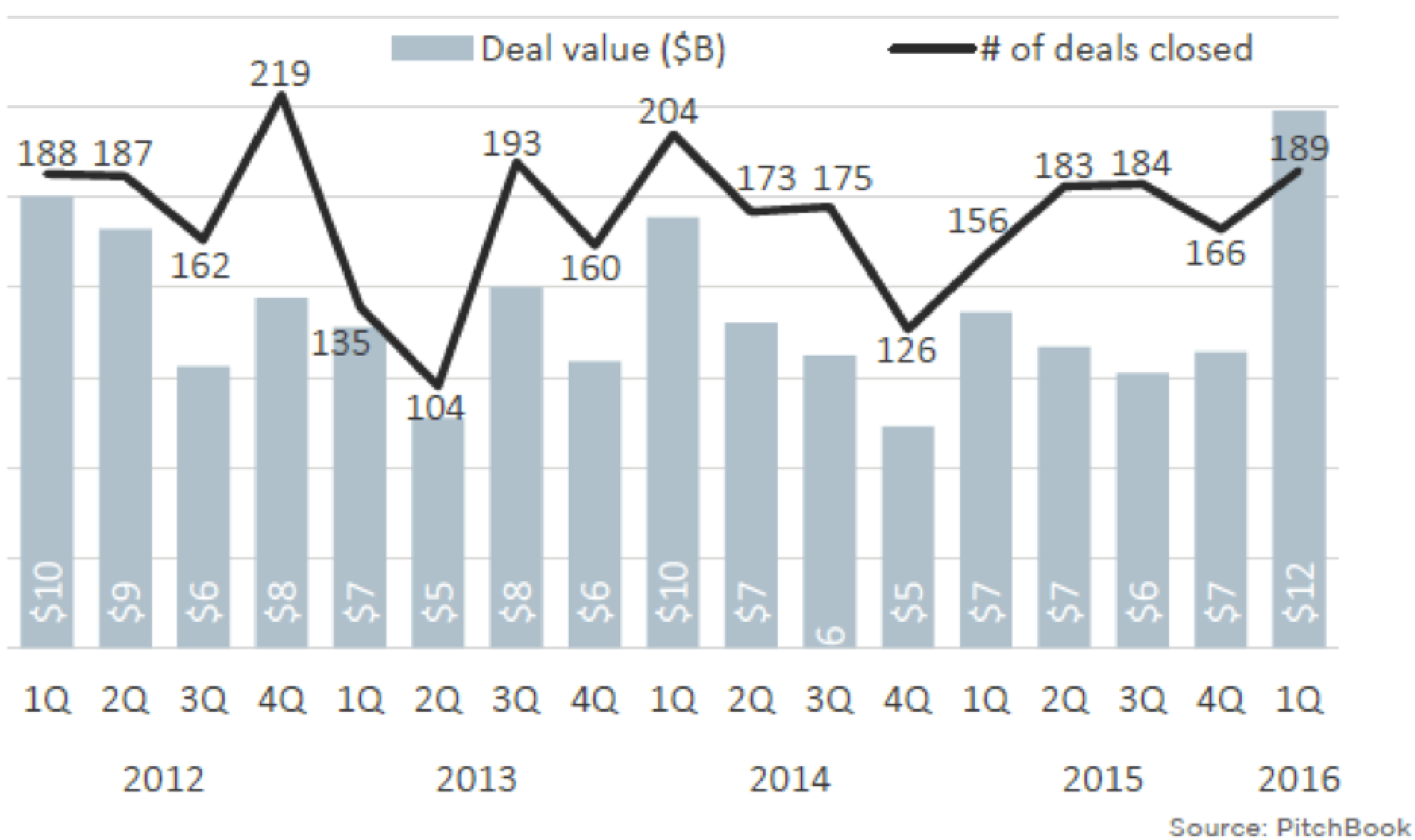
PE Firms Looking Lower for Value

As prices remain stubbornly high in many cases, a surge in overall private equity deal value in the reaches of the U.S. lower middle market is not wholly unexpected – on a quarterly basis, deal value was up by over 80% from 4Q while transactions jumped 14% in number. Quality opportunities remain costly and increasingly rare, leaving sellers with the upper hand, while on a broader basis, expectations between buyers and sellers are still being worked out.

U.S. PE LMM deal flow



This has translated into a considerable uptick in investment in deals sized between $25 million and $100 million; in fact, 1Q 2016 recorded the highest quarterly total of PE deal value since the comparable period in 2008. Beyond competition and an expensive climate, other factors contributing to this surge include the raft of small, new PE funds that have been launched over the past couple years, as well as investment strategy shifts to building and buying. Financing flow in the smaller end of the market also remains strong, likely part and parcel of well-regarded PE firms hunting for add-on opportunities. Since these market conditions are likely to remain in place for the next couple of quarters, deal flow in the lower middle market should remain strong going forward.

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