The Pulse of Private Equity – 7/4/2016

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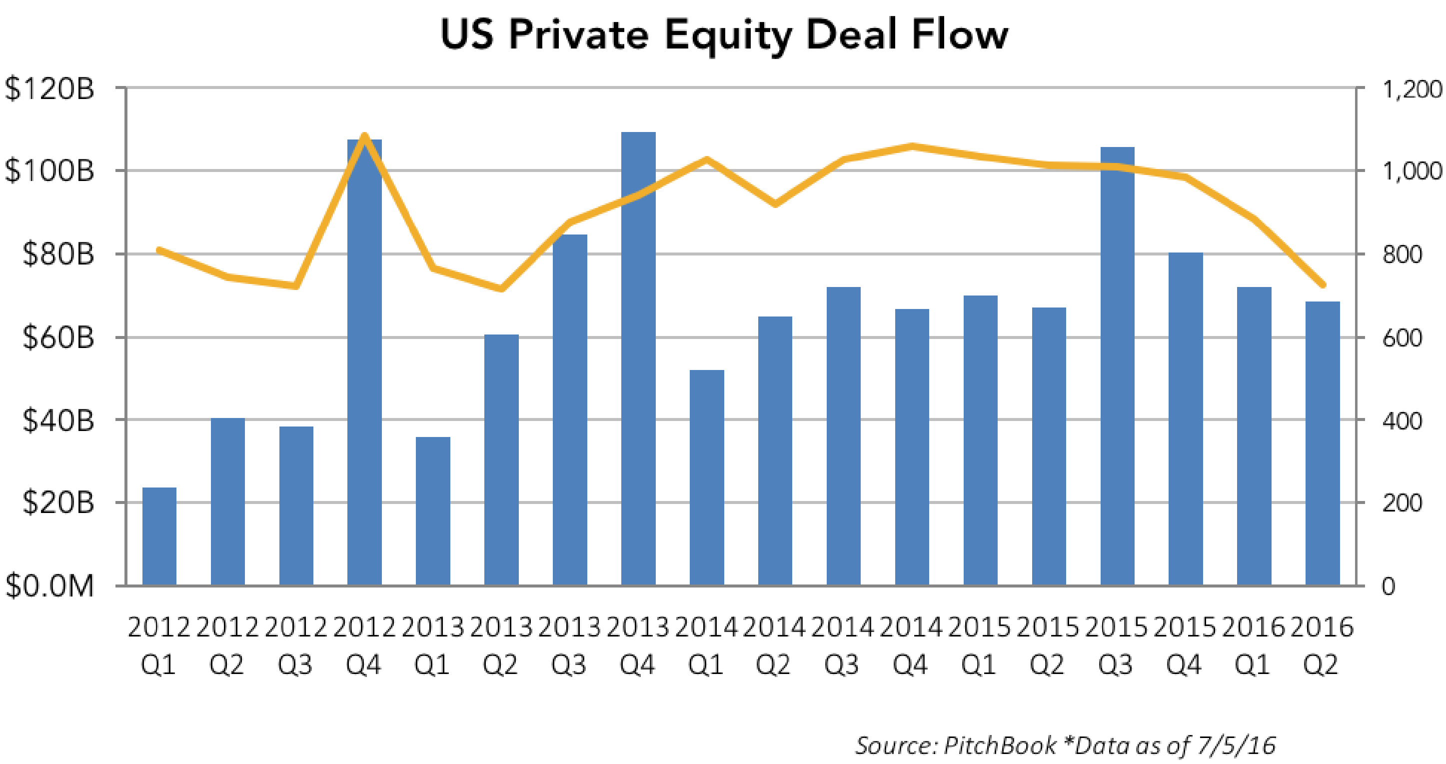
The decline in US private equity activity deepens

US private equity activity continues to fall. Even if Q2 numbers are revised upward as time goes on, with additional datapoints backfilled, a quarter-over-quarter decline will still have occurred in the first half of 2016. As of early July, completed deal count for Q2 is more in line with the comparable period in 2013. What this diminishing count signals is that the primary trends driving PE dealmakers to cut back on activity are still in full force. Whether it's a lack of quality opportunities, disconnects between buyers and sellers regarding asking price, longer due diligence periods due to perceived risk of economic downturn or any other of the multiple factors affecting PE investors, they all relatively remain in place. Relatively, because some of those factors are prone to very slow shifts which are already ongoing, such as median market prices and dealmakers' pipelines.



Valuations are already normalizing across much of the middle market, yet as capital overhang and the macroeconomic environment – among other factors – are also holding steady, it will take some time for those in particular to decline and encourage investors to pick up their pace. The earliest this may occur is in the back half of 2016, but unfortunately, many signs still point toward ongoing stagnation in key areas, such as the Fed holding interest rates steady in response to a disappointing jobs report. Given such persistence, it's possible business owners in the core and lower middle market, where PE investors are increasingly active, will choose to come to market rather than endure any more prolonged uncertainty, while others that are hit harder than most in certain industries may court PE buyers to keep their doors open. Accordingly, buyout activity could rise somewhat, but that remains an open question. What is more certain is the degree of the rise – if and when activity resumes, it is unlikely to be anything like the heightened clip of 2014 or 2015, but rather more akin to 2013.

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