The Pulse of Private Equity – 8/15/2016

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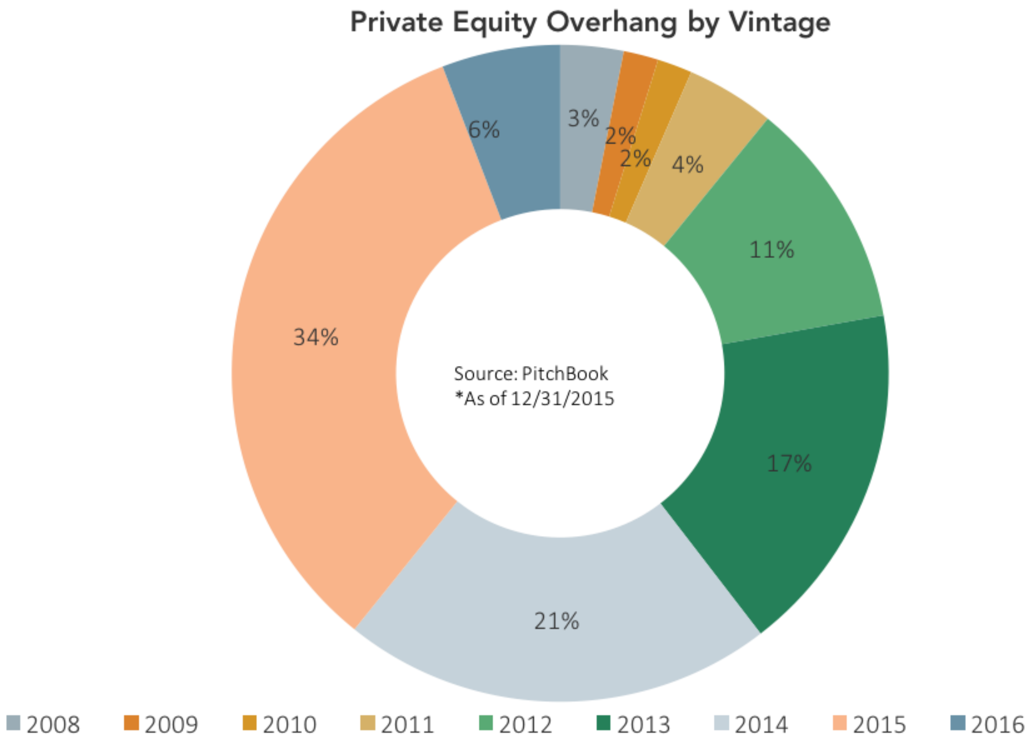
What does PE's capital overhang portend?

Through the end of 2015, the private equity industry in North America and Europe had an overhang of no less than $749.4 billion. A plurality of that is concentrated in funds of the 2015 vintage, with a majority—55%—in funds closed in the past two years (funds return data is overall through the end of 2015, with 2016 numbers from vehicles that have begun reporting yet have not fully closed).



With such proportionate recency in mind, it's clear that PE investors have more than enough capital to fuel typical investment cycles for some time. For the midterm, the heft of capital in 2012-2013 vintages will continue to contribute to the upward pressure on valuations for worthwhile targets currently in the market. Both PE buyers and company sellers know that there is more than enough capital in funds to pay up for the right prospects, so even as dealmaking activity has softened overall as investors have grown more cautious, when they do enter the running, things can grow inflated rather quickly. This state of affairs shall persist for some time as the buyout cycle winds slowly down. With such a hoard of youthful dry powder, many PE funds are prepared for the onset of the next investment cycle, however, which will continue to see further deployment of niche strategies designed for a high-priced environment of varying quality, such as secondaries, lower-middle-market rollups and more.

Read PitchBook's 2Q 2016 M&A Report here.

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