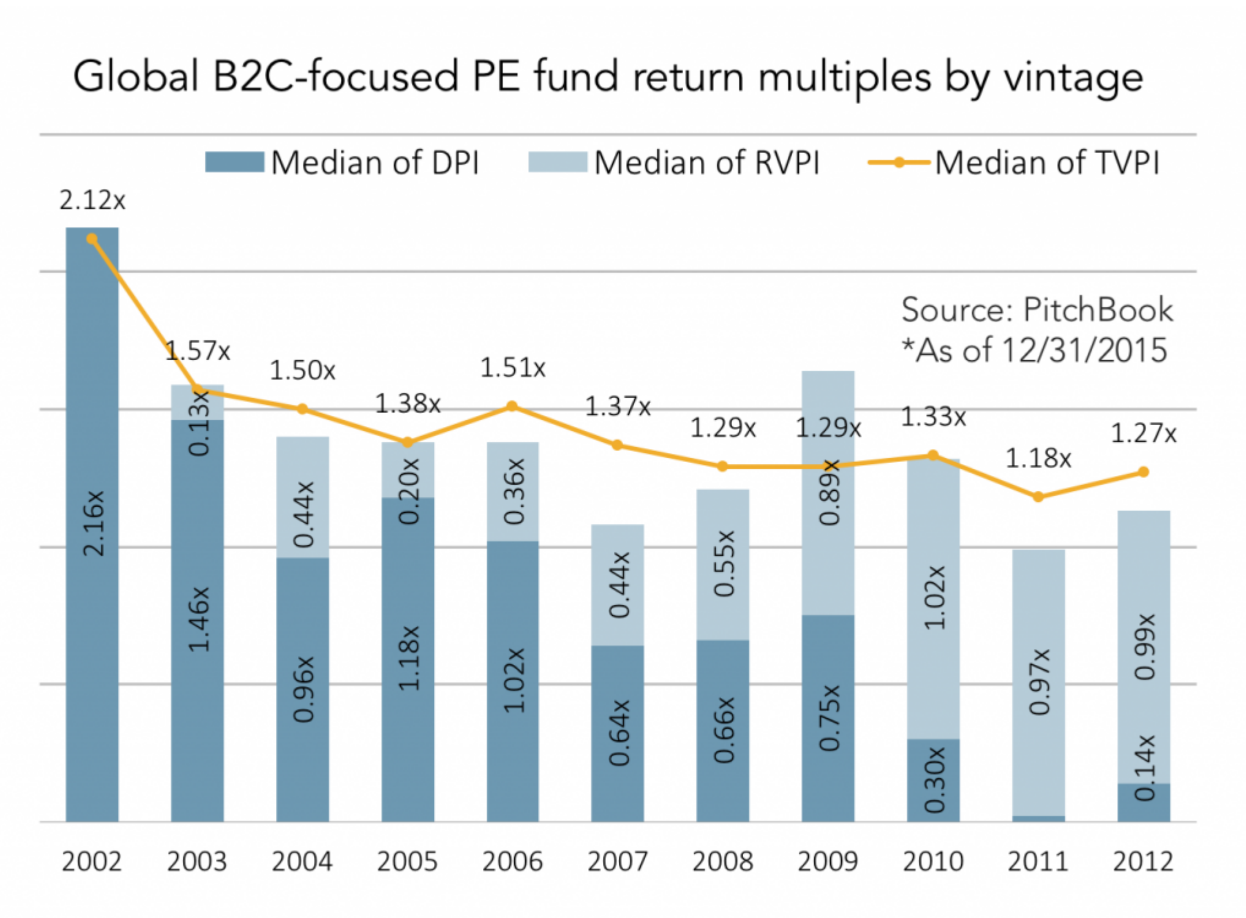
The Pulse of Private Equity – 9/19/2016

PitchBook | September 20, 2016

Recent consumer-focused PE vintages have a ways to go

Consumer spending has been on the rise, but private equity managers of youthful consumer-focused funds still have a ways to go when it comes to either increasing overall value or realizing gains. The median fund of the 2010 vintage, for example, has a total-value-to-paid-in (TVPI) multiple of 1.33x, with 0.30x for the multiple of what has been actually distributed back to limited partners (DPI). Returns data is as of the end of 2015, per normal reporting cycles, which further illustrates how funds from 2010 should be entering a period of greater realization sooner rather than later.



Granted, the PE industry’s typical fund life has been extending as of late, but it’s worth noting the phenomenon. Vintages closer to the recession understandably may take even longer to translate paper gains into reality. In addition, it’s not necessarily just the economic impact of the slowdown, but rather the shifting landscape of the consumer industry in general that is potentially prolonging PE managers’ efforts. Certain strategies have been able to capitalize early on the fast-casual space, but others in more traditional restaurant areas have not been quite as fortunate. In addition, niche or low-cost retail businesses have avoided—to at least some extent—the troubles faced by giants such as Nordstrom. It's not just about adapting to millennials' experience-based tastes, but also blending e-commerce with brick-and-mortar and keeping supply costs low while investing in more sustainable product sourcing. In short, PE fund managers of recent vintages have their work cut out for them still.

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