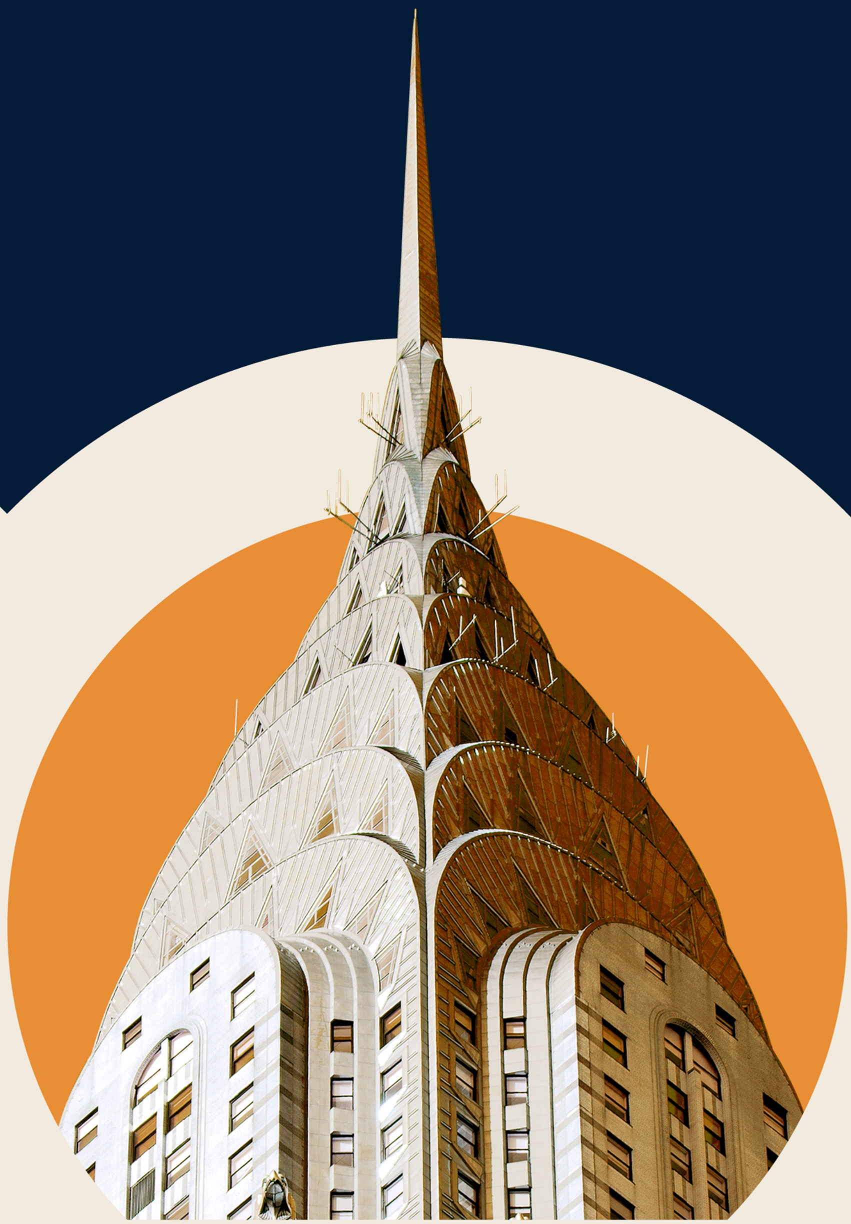
PitchBook

2023 ANNUAL

US PE Breakdown



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Contents

Methodology change disclosure

PitchBook continuously examines how we can provide the best estimates on aggregate deal value, which is comprised of deals with both known and unknown values (nondisclosed deals). As part of that process, we attempt to ascribe value to nondisclosed deals using a variety of known datapoints pertaining to a transaction. Our model for nondisclosed deals has demonstrated a high correlation when back tested on fully disclosed deals, where we compare predicted deal values with actual values. We have been able to further improve that correlation by incorporating expanded datasets that PitchBook has collected over the years on private companies, including employee count. This revised calculation methodology will go into effect with this report and be applied to aggregate deal values in previous years. Since aggregate deal values have been driven primarily by actual values on fully disclosed deals and, to a lesser extent, imputed values on nondisclosed deals, previously reported directional trends and rates of decrease/increase remain largely unaffected by this change.

Additionally, we have enhanced our methodology for recording normalized EBITDA values for deal multiple purposes, as further described in the Addendum. Please note that these methodology changes apply only to PE deals and M&A deals and not to venture-related deals.

PitchBook Data, Inc.

John Gabbert Founder, CEO

Nizar Tarhuni Vice President, Institutional Research and Editorial

Dylan Cox, CFA Head of Private Markets Research

Institutional Research Group

Analysis

Tim Clarke
Lead Analyst, Private Equity
tim.clarke@pitchbook.com

Garrett Hinds
Senior Analyst, Private Equity
garrett.hinds@pitchbook.com

Jinny Choi
Senior Analyst, Private Equity
jinny.choi@pitchbook.com

Kyle Walters
Associate Analyst, Private Equity
kyle.walters@pitchbook.com

Kazi Helal, Ph.D.
Senior Analyst, Emerging Technology
kazi.helal@pitchbook.com

Data

Alyssa Williams
Senior Data Analyst

pbinstitutionalresearch@pitchbook.com

Publishing

Report designed by **Joey Schaffer, Chloe Ladwig,** and **Megan Woodard**

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Click here for PitchBook's report methodologies.

EXECUTIVE SUMMARY

Growing for longer

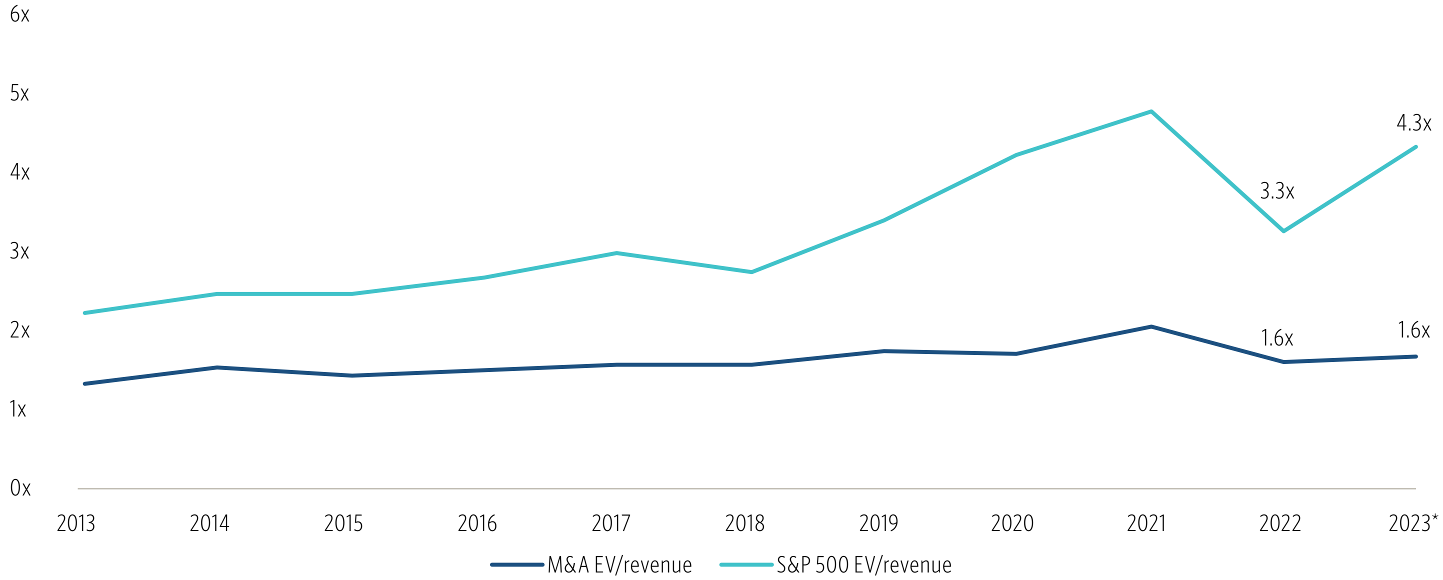
The $3.0 trillion US PE industry just trudged through its worst year in combined deal activity since 2016. While PE buying managed to surpass the truncated volumes of the COVID-19-pandemic-induced lockdown in 2020, selling activity fell to its lowest point in over a decade. PE capital deployed in the US declined by a sobering 29.5% on the year while value derived from US exits fell by 26.4%, although the peak-to-trough decline from the euphoria of 2021 now measures 73.0%. A snapback in exit activity is what's needed to spark a broad-based recovery in PE dealmaking, which is now entering its third year of decline.

The bar is certainly set low enough. While not as depressed as exits, buy-side activity has reset to roughly half of 2021's peak, with platform deals slowing to a crawl. Add-ons and PE growth equity rounds have filled the void, but only partially so as they are smaller deal types. Slower deployment amid robust fundraising means that dry powder continues to build, swelling by 9.3% in the past two years to a new record high of $955.7 billion. Fundraising has been the one bright spot over the past two years. Despite paltry distributions, US PE fundraising has pushed to record highs. However, fundraising is often a lag indicator, and sooner or later we expect the slump in exits to catch up with that part of the market as well.

The PE end game at present is to grow portfolio companies back into the values of old. With interest rates higher for longer, PE companies are needing to grow for longer. Across the 11,059 US companies currently held by PE owners, the median age has stretched to 4.2 years and continues to climb. For those that achieved an exit—just 1,121 companies in 2023—the median hold time was 6.4 years, a new all-time record. PE owners are holding out for better prices, but not all can afford to do so. A maturity wall is fast approaching in the form of finite-term funds and loans. Meanwhile, a 5.5% base rate puts many LBOs at risk of not covering debt expense, and a Federal Reserve (the Fed) rate cut cannot come soon enough.

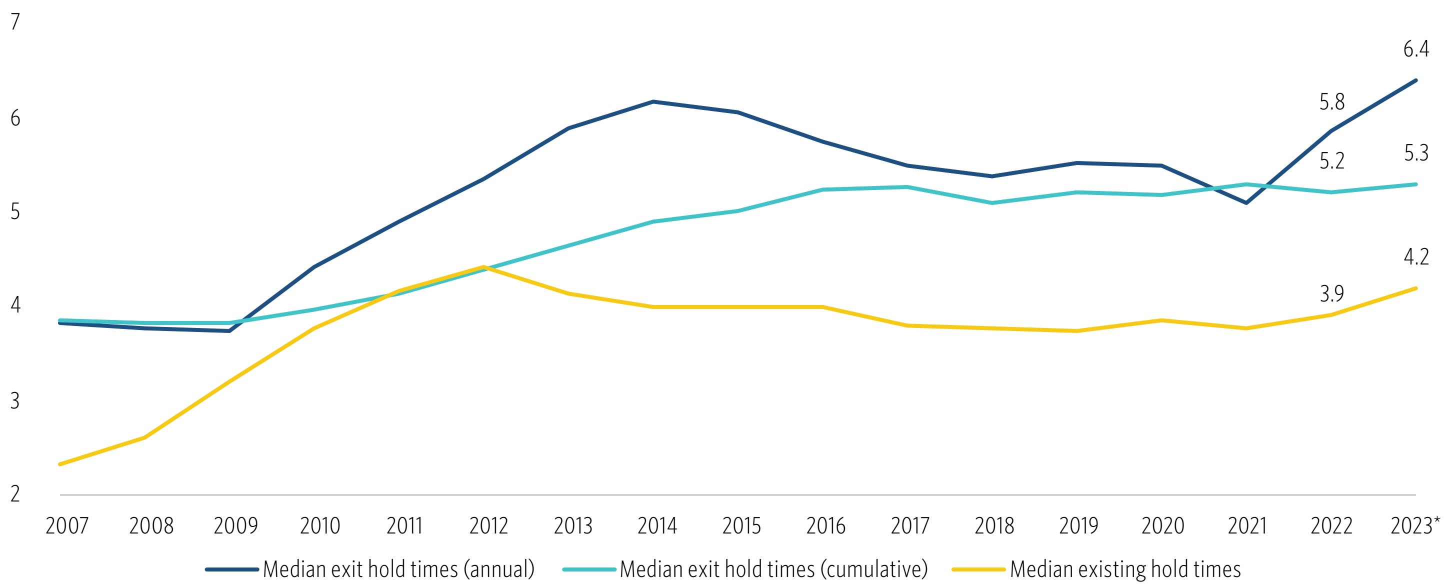
The good news is that public trading multiples have pushed significantly higher than private M&A deal multiples. History shows that before long, a bull-whip effect kicks in to propel M&A multiples higher. Additionally, a wide gap between public and private markets can help pry open a tight IPO window. That would be good for exits and carry over to M&A. For these reasons, we believe PE volumes are set to rebound in 2024; however, exits hold the key. Without a re-boot in exits we doubt that a broader recovery in dealmaking can commence, and fundraising is likely to falter as well.

Public company trading multiples versus M&A multiples (EV/revenue)



Source: PitchBook • Geography: North America and Europe • *As of December 31, 2023

Median PE company hold times (years/months)



Source: PitchBook • Geography: US • *As of December 31, 2023

A WORD FROM STOUT

Evolving PE strategies for operational growth in today's market

Tony Crisman

Managing Director and Head of Healthcare

Tony Crisman has more than 20 years of experience executing M&A and capital-raising transactions for private equity, venture capital, publicly traded companies, and privately held and family-owned businesses operating in the healthcare industry. His sector focus is outsourced pharmaceutical and laboratory services end markets and their supply chains. [Learn more about Tony.]

Recently, PitchBook-LCD noted that equity contributions had topped 50%, an all-time high. How are PE firms tactically adjusting without pressuring returns in this new reality?

In the current higher-interest-rate environment, PE firms are adjusting portfolio strategies, sector focus, investment structures, and operational enhancements to maintain return levels. There are changes to capital allocations by industry to focus on higher-growth industries with better risk-adjusted returns. This has been very apparent as numerous PE funds have sought to enter, seek exposure to, or allocate larger fund percentages to healthcare.

PE funds are developing thoughtful sector/subsector investment theses in greater partnership with operating partners and industry specialists. Due diligence has been enhanced, somewhat driven by lenders, to better understand the market dynamics, financial metrics, and growth prospects to avoid problematic investments and be aggressive on well-positioned businesses. There has been a shift to operational focus and willingness to invest, even if temporarily at the expense of margins, in product or service growth strategies. To be certain, there is a shakeout of PE coming due to the capital-raising velocity and heightened valuations seen from late 2020 to today.

What are some of the more novel methods for growth that PE firms are pursuing as they look to prioritize operational, nonmultiple growth?

Some of the best PE funds have long leveraged select operational strategies that other PE funds are now realizing, in a constrained market, drive outsized returns in any market environment. Using basic financial engineering and planning for multiple arbitrage at exit is no longer a strategy in an economy with universal access to information. Revenue growth and operational efficiencies are the focus.

Digital transformation (unlocking database value for recurring, high-margin revenue streams), executive mentoring and talent development, internal process automation, revenue stream diversification, roll-up/add-on usage, identification and management of the right key performance indicators, supply chain optimization (beyond "We have a consolidated FedEx account across our portfolio companies that saves money."), and distribution channel/sales strategy diversification are all solid strategies for growth.

The good news is that buyers are willing to "pay for growth" even when it temporarily depresses margins. As it turns out, even the largest publicly traded companies need growth to satiate their investors' demands.

What key regulatory or industry standards are changing for valuation methods, if any? Which tactics have you seen shift for assessing valuations more accurately in this era of elevated risk?

There's no such thing as "more accurately" in terms of M&A valuation models. A business is ultimately worth what the top buyer is willing to pay in a fair, well-orchestrated process. The best M&A bankers will advise, whether sell-side or buy-side, based on a realistic assessment of value with guidance on the path to an outlier/upside valuation. We all talk about EBITDA multiples ad nauseam, to the point my 11-year-old tells people my job is talking about "EBITDA, UBITDA, ABITDA, BEBITDA!"

The reality is that pragmatic corporate buyers still focus on discounted cash flow models, and PE funds focus on leveraged buyout models. Cost of capital is built in based on market realities. The shift is how buyers are leveraging their unique market expertise to adjust the target forecast for the specific organic and inorganic revenue growth strategies and operational efficiencies/synergies available to them. A proper sell-side banker can help prepare, support, and guide buyers toward their specific maximized financial potential of the target. We are seeing less optimism being built into forecast models and more sensitivity in moving to the high end of the internal valuation range.

Fortunately, all of us deal makers will continue to talk and negotiate in "BABITDA" multiple terms, to my son's delight.

How else have PE tactics evolved in the past two years from what was common in the 2010s, and how does that set the stage for the PE market heading into the rest of the 2020s?

The best PE operators have focused on industry/sector specialization while adding expert resources, both operational and across industries. Industry specialization is increasingly common and will continue at an accelerated pace. There is a greater willingness to invest in growth during the holding period, whereas historically the focus was on operational expense savings.

Certain irrelevant blanket investment committee (IC) guardrails, like the maximum 20% customer concentration, have given way to industry-specific IC risk assessment. Being a healthcare banker focused on outsourced pharma and laboratory services as well as the related supply chain, I have had a front row seat to these changes. For the first 15 years of my career, it was nearly impossible to get PE to invest in outsourced pharma services; it never cleared the 20% single customer concentration IC threshold.

Turns out these companies are validated by having a Big Pharma client, and those clients create concentration by the sheer size of their spending. Today, this is one of the most sought-after subsectors in healthcare for investment, as it is recession and pandemic resistant with exponential growth potential. Pharma and government research budgets aren't going down materially anytime soon.

We will see more thesis-driven, expert-informed, operating-partner-involved investing from PE through the remainder of the decade and beyond. We will also see PE partnering with PE in new and different ways. Watch for larger, well-capitalized funds partnering with (having as a minority investor) smaller, sector-expert funds. Or larger funds continuously buying businesses from the same smaller funds that have a similar sector thesis and investment style. Smaller funds will more frequently roll-over into those exits to participate in the upside that a like-minded, deeper-pocketed PE fund can deliver. We all like to play with house money.

To some degree, LPs are well aware that emerging or newish managers can produce the highest returns, yet given the sheer degree of competition and public equities' volatility, there is some potential consolidation in the PE industry and flight to experienced, larger fund managers. What are your thoughts on this dynamic?

There is always a flight to quality in an uncertain market. There are also the old, not-entirely-accurate adages of "Never invest beyond fund II because the GPs are not as hungry," or, my favorite, "Don't invest in a fund led by GPs with a private plane or vineyard." There are high-quality large, well-diversified funds where portfolio theory and the law of large numbers ensures stable, attractive returns.

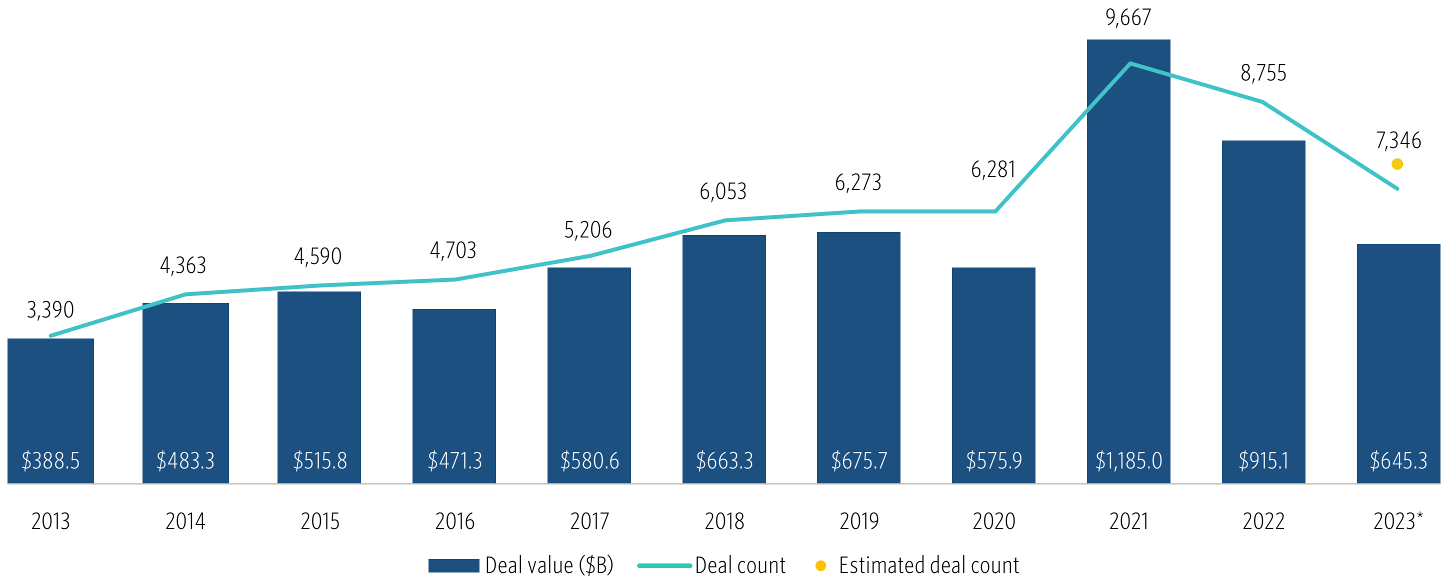
That said, LPs do understand the dynamics that midsized funds have great returns, often driven by partners that came from larger funds. It comes down to deep domain/market knowledge, specific operational expertise, and specialization. Funds with that mindset will have longevity and strong returns irrespective of tenure.

There are dedicated healthcare-only funds with around $2 billion fund sizes, still squarely in the middle market. The few dedicated healthcare funds to breach that level are going to continue to see strong inflows because of their focus, knowledge, creativity, and flexibility. Many middle-market funds with diversified industry focus are also sector specialists within their industries. These "smaller," more nimble funds can have a greater impact on portfolio companies delivering the expertise and support of a large fund with a "roll-up-our-sleeves" attitude. Plus, it never hurts to be the first institutional investor.

If you are smart in a sector, whether you are a conservative or growth-oriented fund, you will know how to enter and exit businesses and see the diamond in the rough when it is in front of you.

Deals

PE deal activity



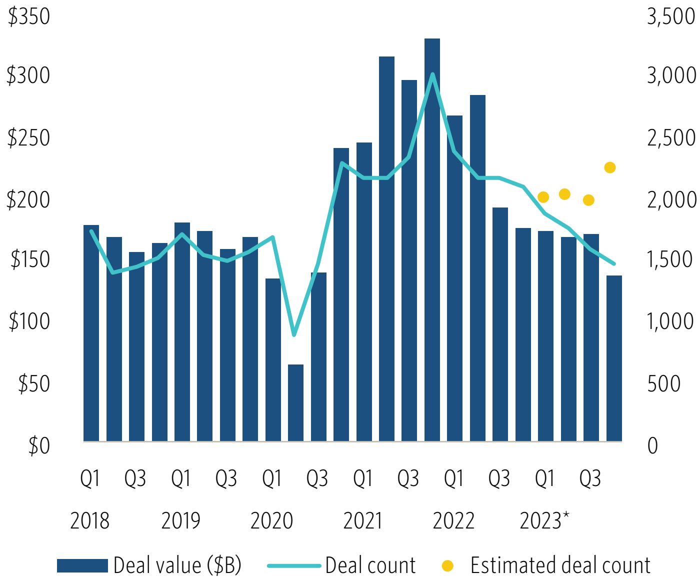
Source: PitchBook • Geography: US • *As of December 31, 2023

Overview

US PE dealmaking finished the year similar to how it started: still struggling to find a bottom. Q4 2023 deal value declined 22.6% YoY, although deal count appears to be firming. For the full year, deal value declined by 29.5% to $645.3 billion, its lowest point since 2017 outside of the pandemic-induced lockdown of 2020. Deal count also declined by 7.3% to 8,115, inclusive of growth equity deals, add-on acquisitions, and platform buyouts.

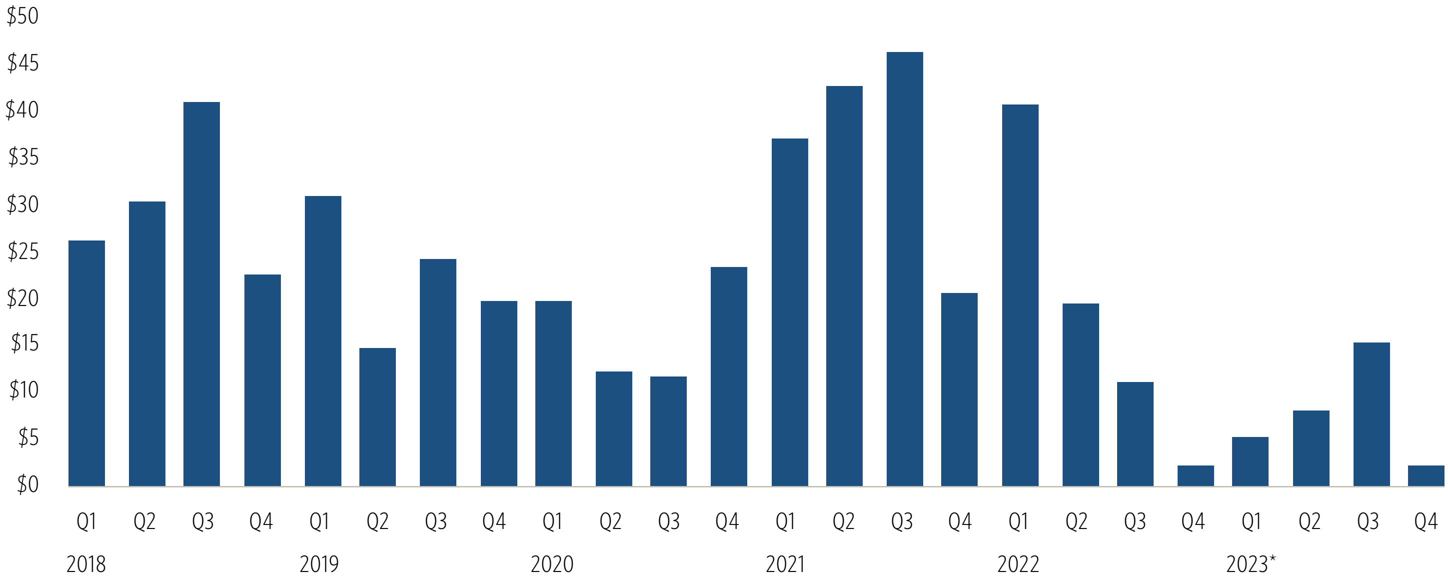
Of all deal types, platform deals have been especially hard hit due to their greater dependency on leverage. Platform deal value is down 36.5% from 2022 and 51.8% from its peak in 2021. Leverage ratios have contracted significantly since the beginning of 2023, and this is choking the ability to pull off larger LBOs, which platform deals tend to be. Debt-to-loan ratios plunged to 45.7% in 2023, down from 50.8% in 2022 and a 10-year average of 55.0%. Debt/EBITDA ratios also contracted sharply, shrinking to 5.0x in 2023 from 5.9x in 2022.

PE deal activity by quarter



Source: PitchBook • Geography: US • *As of December 31, 2023

Broadly syndicated new-issue LBO loan volume ($B) by quarter



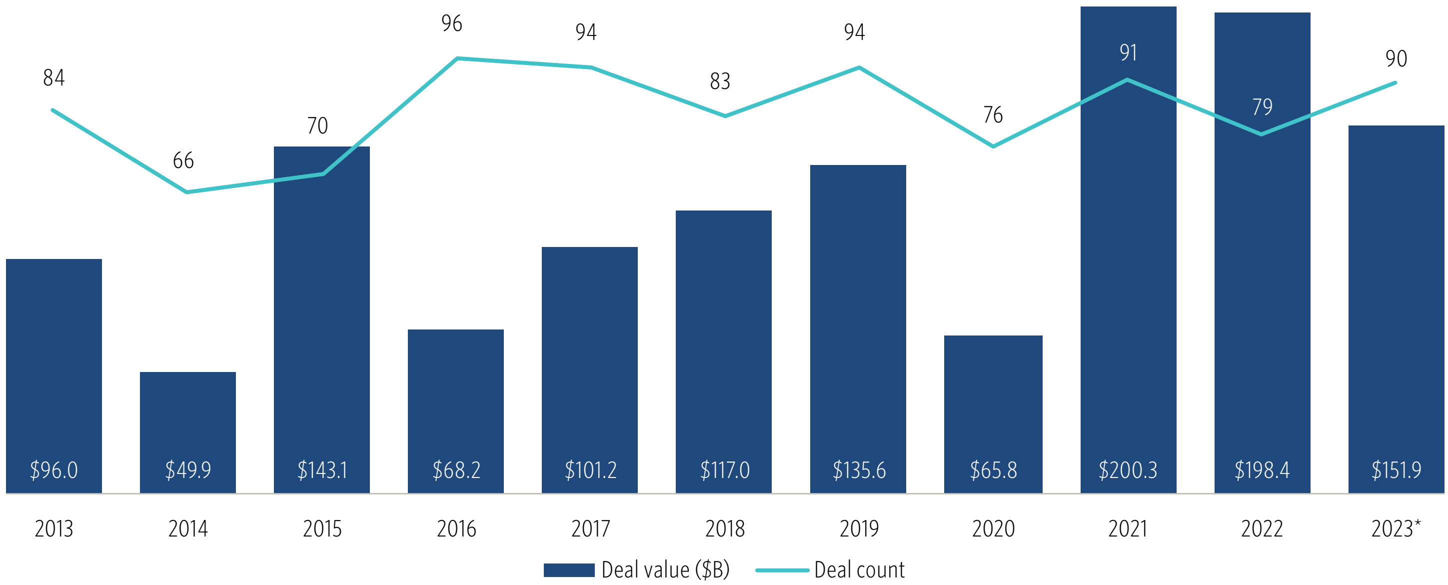
Source: PitchBook | LCD • Geography: US • *As of December 31, 2023
Note: This represents institutional volumes only, exclusive of pro rata tranches.

The contraction in leverage ratios reflects a more conservative posture among lenders. The bank-led broadly syndicated loan (BSL) market, which appeared to be staging a recovery in Q3 2023, suffered a setback in Q4. New-issue loans backing US LBOs totaled just $2.2 billion in the quarter, compared with $15.3 billion in the prior quarter. The private credit market has also retrenched. In Q3 earnings calls, the six largest US-listed private credit lenders reported a 33% average decline in origination volumes over the trailing 12-month (TTM) period.

Other deal types that are less dependent on access to new debt have taken share of the PE deal market. Add-ons are smaller deals that have an easier time getting financed by using the balance sheet of the platform-company acquirer. However, even they are starting to encounter financing headwinds, having leveled off at 59.5% of all deals and 39.3% of all deal value in 2023.

The category that has really sprinted ahead is growth equity. Its share of deal value has nearly doubled from its low in 2018 to 12.7% in 2023, up 2.8 percentage points in the past year. While PE platform LBOs and add-ons declined 36.5% and 24.6%, respectively, in 2023, PE growth deals were flat both in terms of value and count. The obvious advantages of not relying on leverage whatsoever and a historic focus on high-growth and high-profitability companies has played to PE growth's advantage, and it was deployed much more as a strategy as a result. In fact, never before have growth equity deals outnumbered platform LBO deals, but that is what happened in 2023.

PE take-private deal activity



Source: PitchBook • Geography: North America and Europe • *As of December 31, 2023

Take-privates

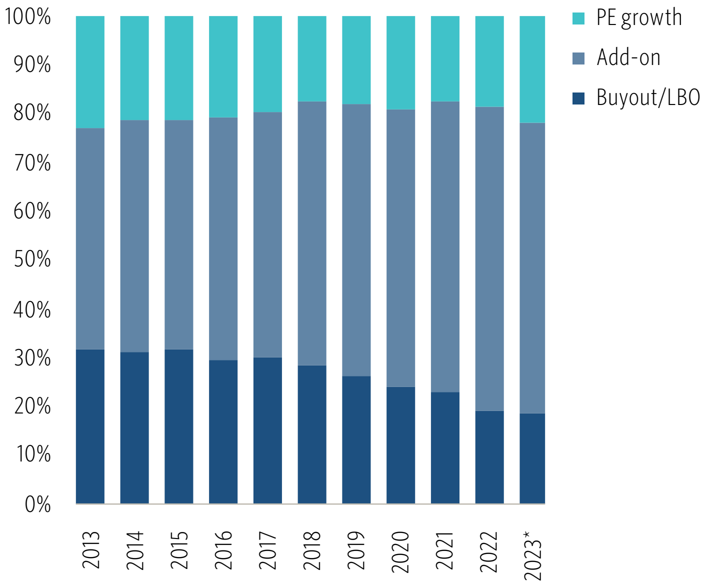
The best two-year run in North American and European take-privates since the half-trillion-dollar boom of the 2006 to 2007 era lost steam in 2023. This will be the first year in three that total deal value has fallen well short of the $200 billion mark. Large deals are still getting inked, as seen by the recently announced $4.4 billion take-private of Alteryx, but the pace is once again decelerating, similar to what occurred in the back half of 2022. For 2023, deal value declined by 23.4% across a deal count that remained largely unchanged. Deal sizes shrank, with the median stepping down by 37.5%, from $912.2 million to $570.0 million. Of the 90 North American and European take-privates announced in 2023, 53 were below $1 billion and 27 involved companies that lasted three years or less in public markets before going private again—what we call boomerang stocks. By comparison, there were 41 sub-$1 billion take-privates in 2022, and just 13 were boomerangs.

Take-privates used to be synonymous with mega-LBOs. However, arranging debt financing is proving to be laborious, and this has pushed out the process time between deals. It has been three months since a large take-private received a loan commitment in the BSL market. Meanwhile, 16 public-to-private buyouts of $100 million or more have been announced in that same three-month span. Deals are being struck first and seeking funding later, with a loan commitment no longer required as a condition to close.

The BSL market went through a similar dry spell in 2022 of nine months without a new loan commitment to a large take-private. At the time, banks were working through a backlog of hung deals, and nonbanks were all too happy to jump in to fill the void. This time around, banks are unburdened but still cautious, and private credit lenders have been notably absent as well. Not since Blackstone's $13.2 billion joint bid for Adevinta has there been news of a private credit commitment to a large US or European take-private LBO. While this may reflect a caution similar to that of banks, it may also signal a shift to private-only deals in the large LBO market. A recent example is EQT's $3.4 billion buyout of Zeus, a private US-based supplier of polymer components. The deal netted $1.4 billion in private credit financing from lenders that included Goldman Sachs Asset Management and KKR.

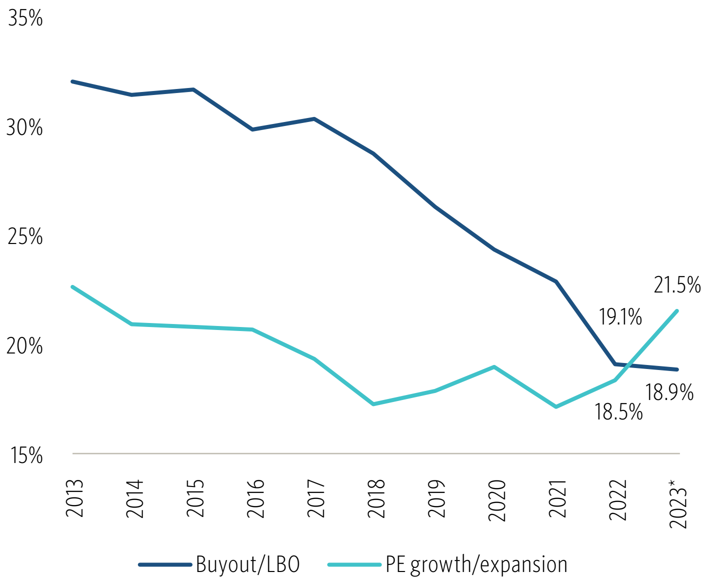
Looking to 2024, the wide valuation gap that has opened between private companies, as indicated by M&A multiples, and the very high multiples at which public companies now trade will cause further moderation in take-private deal flow and large private-only deals to gain favor. We would also expect the increasing trend of take-privates in the sub-$1 billion category to persist. That is where public valuations are still compelling and check sizes the most manageable in a debt-constrained environment.

Growth and add-on share of PE deal count



Source: PitchBook • Geography: US • *As of December 31, 2023

Platform LBO and growth equity as a share of all PE deals



Source: PitchBook • Geography: US • *As of December 31, 2023

Growth equity

Growth equity deals are gaining prominence, demonstrating their suitability to the prevailing market conditions. In 2023, the growth equity share of PE deal value swelled to 12.7%, an increase of 276 basis points from 2022 at 9.9%. When assessed on a deal count basis, growth equity constituted 21.5% of 2023 PE deals, well ahead of the five-year average of 18.0%. Importantly, this was the first year that growth equity deals accounted for a greater share of all PE transactions than LBOs, which decreased to 18.9% in 2023 well below the five-year average of 24.3%. Due to the generally smaller check sizes associated with growth equity compared to buyouts, their share of total deal value is inherently lower.

A key characteristic of growth equity is its avoidance of costly debt, as it relies on all-equity deal structures. This strategy targets rapidly expanding companies, providing them with expansion capital to fuel and scale their growth, ultimately aiming to enhance unit economics. The primary driver of value creation in growth equity is operating leverage rather than financial leverage. In the current macroeconomic environment, this approach is particularly effective with management optimizing for the right mix of margin expansion and top-line growth.

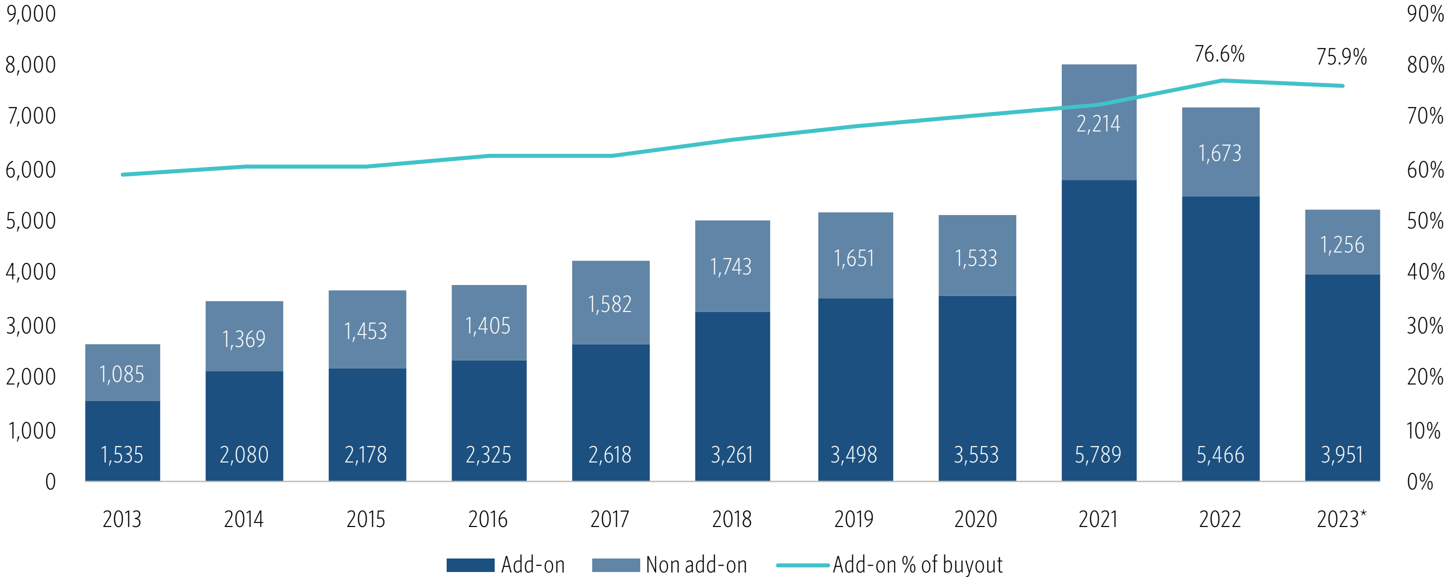
Moreover, there is a growing trend within growth equity investments to align with objectives beyond financial returns, increasingly targeting initiatives that generate positive climate and social impacts. This shift not only reflects a broader change in investment priorities but also demonstrates the versatility of growth equity in adapting to evolving market demands and societal expectations.

Among the more notable deals in Q4, two were in financial services and one was in B2B. In November, Hadron Insurance received $250.0 million in expansion capital from Altamont Capital Partners and other institutional investors.[1] Hadron is a hybrid platform that helps managing general underwriters administer commercial insurance portfolios while offering reinsurance capacity. Additionally, in December, GuideOne Insurance announced a $200.0 million investment from Bain Capital Insurance.[2] GuideOne will use the infusion to strengthen its balance sheet and introduce a new platform, The Mutual Group, to serve the mutual industry.

In the B2B space, Cambrian Innovation announced a $200.0 million investment from Pennybacker Capital to expand and improve its offering to customers. Cambrian provides distributed wastewater treatment and resource-recovery services to mitigate both economic and environmental risks.

1: "Hadron, a Novel Hybrid Insurer, Announces Launch With Over $250m in Capital from Altamont," Business Wire, Hardon, November 3, 2023.
2: "Bain Capital Insurance Invests $200 Million Into GuideOne Insurance Company to Launch Innovative New Platform Dedicated to Mutuals," Business Wire, Bain Capital, The Mutual Group and GuideOne, December 20, 2023.

Add-ons as a share of all PE buyout activity



Source: PitchBook • Geography: US • *As of December 31, 2023

Add-ons

The role of add-on acquisitions has been pivotal in the PE landscape, especially in the context of recent market dynamics. For the full year of 2023, add-ons maintained a substantial presence, accounting for 75.9% of all PE buyouts. This figure, though slightly down by 69 basis points from 2022, remains near a historical peak.

In periods characterized by tightened credit and market dislocations, add-ons have been crucial in sustaining the momentum of the PE sector. These transactions enable PE sponsors to persistently deploy capital by opting for smaller-scale deals, thereby adapting to the current constraints in lending markets that hinder larger platform buyouts.

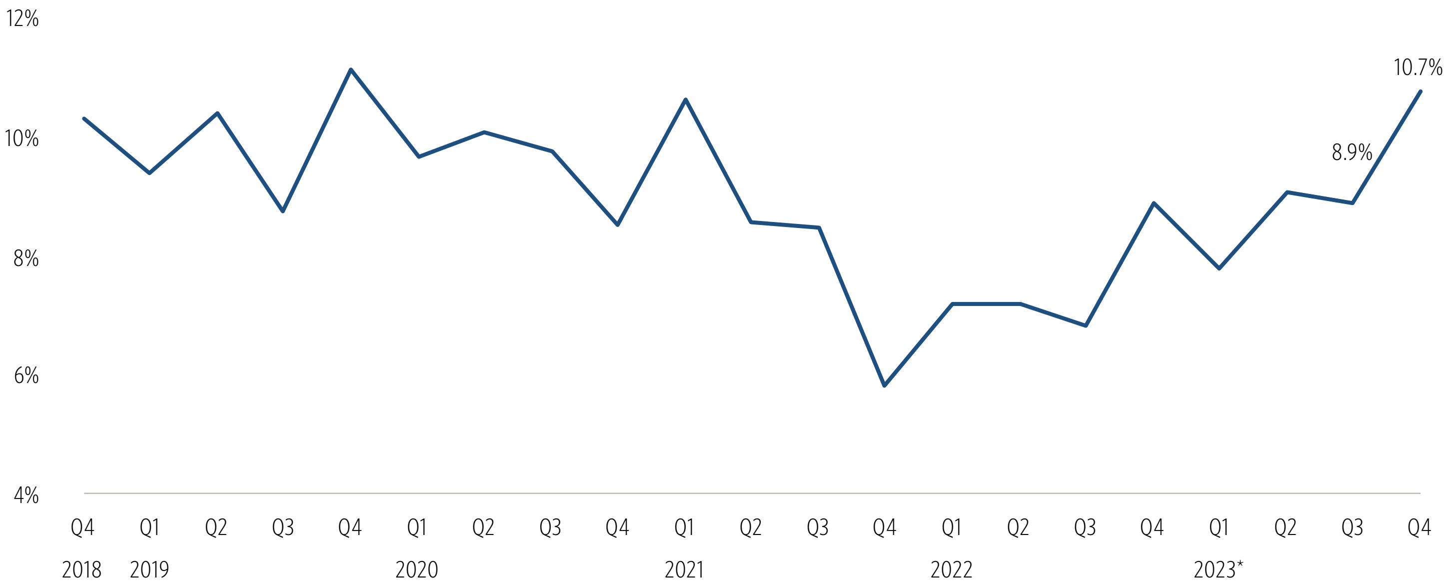
The financing of add-ons is typically more feasible due to their smaller size and the leverage of existing credit facilities of the larger platform companies acquiring them. Since 2018, the PE sector has witnessed $343.5 billion in leveraged loan deals for M&As, involving 497 unique PE-backed issuers. While these loans are often refinanced within the first few years, those issued just before the significant rate hikes of 2022 are likely still active given their usual seven-year terms. These older loans are advantageous, often featuring more favorable spreads and terms compared with current offerings. Consequently, they are less costly and more beneficial for PE platforms.

This financial environment facilitates the continuation of buy-and-build strategies by PE firms, albeit through smaller add-on deals. These transactions are integral in enabling PE platforms to progressively expand and enhance their market position, even amid challenging market conditions.

Notable add-on transactions in Q4 2023 included technology and consumer deals. Avantax, a provider of a tax-focused wealth management services and software, closed its sale to Cetera Financial Group in November. Cetera is a platform company of PE-sponsor Genstar Capital, and per PitchBook, the implied EV/sales multiple is 1.5x. In the consumer space, the emerging coffee brand and café operator La Colombe Coffee Roasters was spun out of Keurig Dr Pepper and sold to Chobani, a portfolio company of Healthcare of Ontario Pension Plan. The transaction value was $900.0 million and was partially funded by a $550 million term loan issued by Chobani in the BSL market.[3] The merger will enable each brand to collaborate to leverage best practices while maintaining independence. Chobani pre-filed for an IPO in 2022 but later withdrew due to worsening market conditions and shifted its focus to M&A to bolster growth.

3: "Greek-Yogurt Maker Chobani Buys Coffee Company La Colombe for $900 Mln," Reuters, Anuja Bharat Mistry, December 15, 2023.

Carveouts/divestitures as a share of buyouts by quarter



Source: PitchBook • Geography: US • *As of December 31, 2023

Carveouts

In the current environment, where dealmaking faces significant challenges, GPs are more actively pursuing corporate carveouts and divestitures from larger organizations. Their aim is to uncover hidden gems within these divested assets. This trend is increasingly evident as major corporations, observing a stabilization in inflation and interest rates, are moving forward with their plans to streamline their portfolios by offloading noncore units.

For the parent companies, divesting these assets provides an opportunity to reshape their financials by eliminating underperforming or nonstrategic divisions. This process not only streamlines their operations but also allows management to present a more positive financial narrative to investors, free from the burden of these so-called albatross assets.

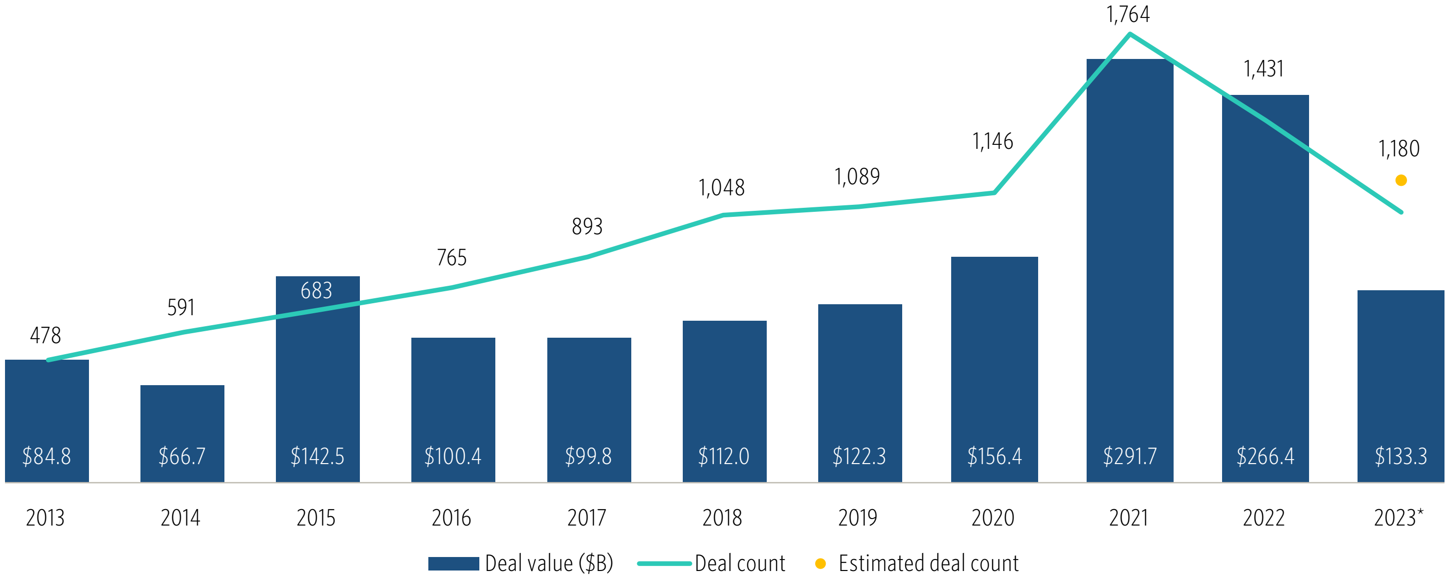
GPs often find financing for these carveout transactions more accessible, and they employ various strategies to generate value from these acquisitions. The acquired entities can either serve as new platform companies or function as add-ons, enhancing scale and creating operational synergies. This approach is especially beneficial in the current market, enabling GPs to make strategic expansions and optimize their portfolio performance despite the broader headwinds in the dealmaking landscape.

Carveouts amounted to 10.7% of all US PE buyout deals in Q4 2023, as activity continues to build from the recent low of 5.8% in Q4 2021. This places the mix above the 2017 to 2019 average of 10.1%, completing a mean reversion. As corporate sellers often have more financial flexibility to wait out economic volatility, we believe the recent macro stabilization and softening of rates will be a positive catalyst for companies to proceed with sale plans if they have been patient.

In Q4, several large carveout assets were scooped up by PE buyers in the technology and B2B sectors. In October, RTX Corporation (formerly Raytheon Technologies) announced a definitive agreement to sell its Cybersecurity, Intelligence & Services business to an undisclosed buyer, reportedly to Blackstone,[4] for $1.3 billion. The unit performs special intelligence missions, software modernization, and cybersecurity services for customers including the US intelligence community.[5] In the B2B sector, L3Harris Technologies announced an agreement to sell its Commercial Aviation Solutions (CAS) business to TJC (formerly known as The Jordan Company) in November.[6] The purchase price is $800.0 million, consisting of $700.0 million in cash and a $100.0 million earnout based on achieving certain financial performance targets.

4: "RTX Beats Q3 Estimates, Approves $10 Bln Share Repurchase," Reuters, Pratyush Thakur, Mike Stone and Valerie Insinna, October 24, 2023.
5: "Cybersecurity, Intelligence & Services," Raytheon, n.d., accessed December 21, 2023.
6: "L3Harris Technologies Announces Definitive Agreement to Sell Its Commercial Aviation Solutions Business to TJC for $800 Million," L3Harris Technologies, November 27, 2023.

Information technology PE deal activity



Source: PitchBook • Geography: US • *As of December 31, 2023

Technology

Technology deal value in Q4 2023 came in at $27.8 billion, down 2.8% from the previous quarter and down 33.5% from Q4 2022, as conditions for dealmaking continue to be challenging. In terms of volume, the situation is improving. Smaller deals are showing an upward trend, with 368 deals in the current quarter. This represents a significant increase of 43.2% compared to the previous quarter and a steady growth of 9.8% compared to Q4 2022.

Software

Homing in on software specifically, 2023 is shaping up to be a step downward from the recent highs of 2021 to 2022, yet above pre-pandemic levels. Unsurprisingly, in the full-year 2023 data, software PE activity declined by 54.0% in deal value and 18.5% in deal count when compared with 2022. Yet, relative to the pre-pandemic average for the full years of 2017 to 2019, we find 2023 is actually up by 24.4% in deal value and up by 4.2% in deal count. These trends support our view that the software sector is increasingly important and a focus for PE investors in the post-pandemic-peak investing landscape.

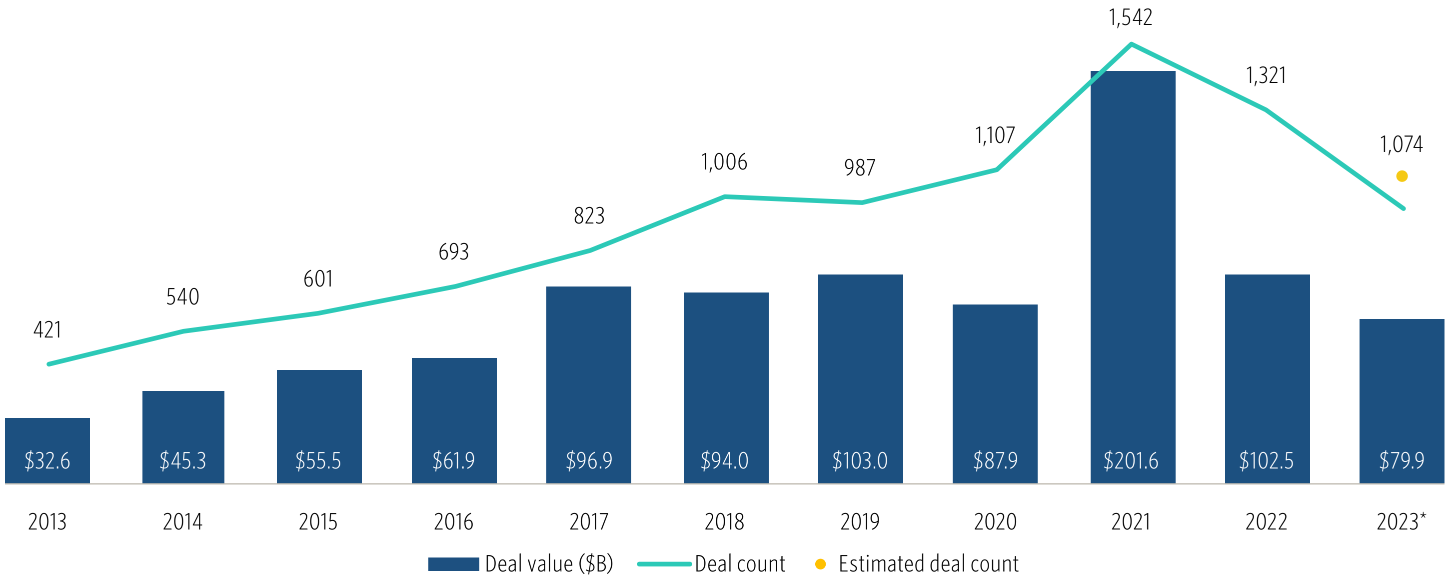
The software sector's contribution to overall PE deal value in 2023 is noteworthy, capturing approximately 14.1% of all transactions. This marks a discernible uptick from the 11.3% average observed during the 2017 to 2019 period. The sector's performance indicates a robust positioning in the current market landscape, largely attributable to the unique characteristics of software companies.

The ongoing disparity in valuation expectations between potential buyers and sellers is a pivotal factor in the current market dynamics. In this context, we are observing a trend where premium assets are garnering a larger share of the deal flow because buyers are more inclined to meet higher valuation demands in these instances. Software companies are well positioned for this dynamic with their ability to create competitive moats, sustain high profit margins, and operate with relatively low capital expenditure requirements. These characteristics render software entities particularly resilient and attractive in the current, more challenging dealmaking environment.

A notable software LBO was announced in Q4. Alteryx, a leading cloud-based analytics platform, agreed to be acquired by Clearlake Capital Group and Insight Partners for $4.4 billion, including debt.[7] This equates to an EV/sales multiple of 4.1x. Company shareholders will receive $48.25 per share, a substantial 58.8% premium to the unaffected stock price on September 5, 2023, when media reports discussed a possible sale transaction.

7: "Alteryx Enters Into Definitive Agreement to Be Acquired by Clearlake Capital Group and Insight Partners for $4.4 Billion," PR Newswire, Alteryx, December 18, 2023.

Healthcare PE deal activity



Source: PitchBook • Geography: US • *As of December 31, 2023

Healthcare

In the closing quarter of 2023, the US healthcare PE sector presented a mix of caution and targeted confidence. With total deal value sliding to $79.9 billion across 1,086 deals, the industry witnessed a downturn from the previous high of $201.6 billion in 2021. Despite a general slump in transaction numbers, certain high-value deals, such as Syneos Health's $7.1 billion buyout, suggested selective optimism within pharmatech and medtech.

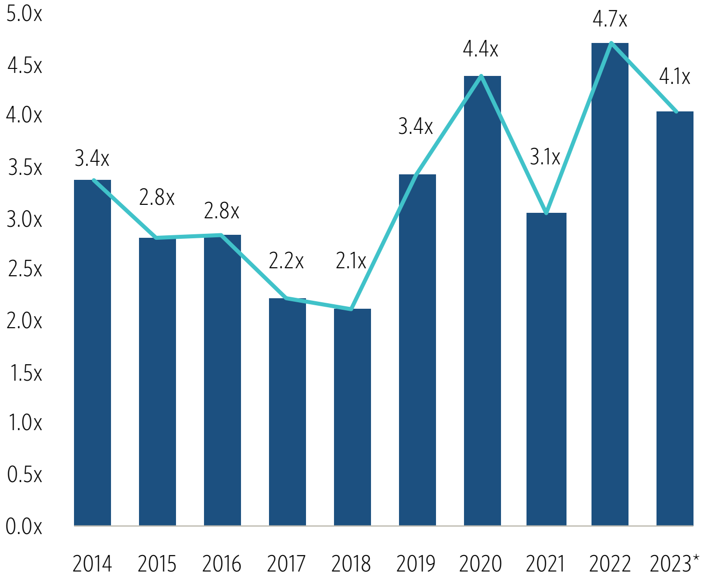
Syneos Health, acquired by Patient Square Capital, Veritas Capital, and Elliott Investment Management, exemplifies the strategic investments in pharmatech services, where companies provide critical clinical trial support spanning early to late stages. Syneos Health competes in the space by aiming to fill the need for a full-coverage and high-quality clinical-to-commercialization solution. This sector has seen a surge in investments, especially post-2021, driven by biopharma startups aiming to capitalize on future clinical advancements without incurring the high costs of in-house development or the challenges of partnering with large pharma corporations. Yet, these ventures come with risks, reliant on the startups' ability to progress to later stages and the continued innovation from established players such as IQVIA and Labcorp.

Following COVID-19-pandemic trends, the pharmatech manufacturing segment has seen substantial deals due to the anticipated need for increased clinical consumable production in response to potential viral threats. The $4.3 billion acquisition of Simtra BioPharma Solutions by Warburg Pincus and Advent International underscores the capital-intensive nature of this field dominated by large players such as Lonza and WuXi AppTec. Similarly, in medtech, the potential $900.0 million buyout of TIDI Products by TJC reflects a growing emphasis on medical supplies and equipment necessary for clinical operations.

In contrast, the healthcare services sector has not experienced significant large-scale transactions. Instead, the focus appears to be shifting toward healthcare IT and solutions such as telehealth or clinical-operation-focused software, evidenced by deals such as Martti's $180.0 million acquisition by GTCR and NextGen Healthcare's $1.8 billion buyout by Thoma Bravo.

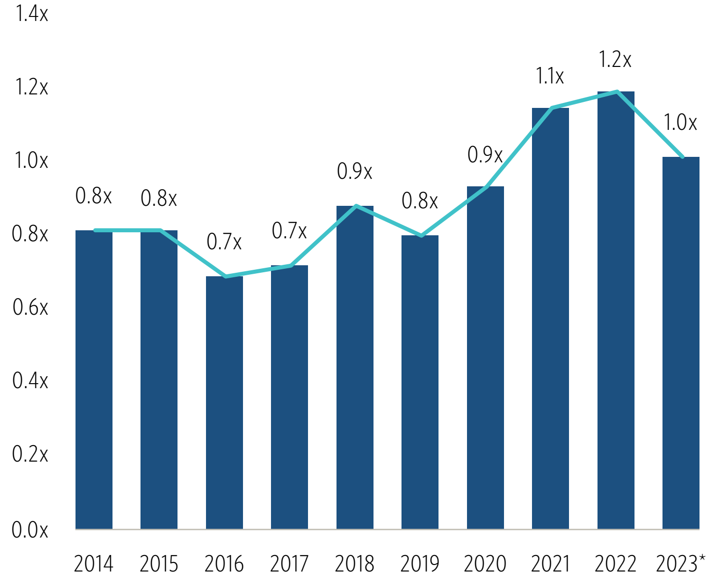
As the industry looks forward, the PE market's short-term outlook remains cautious due to current economic signals and the changes observed over the previous year. We are predicting a further decline in healthcare's share of global PE deal count in 2024. However, we also believe the pharmaceutical industry will shift toward biologics in the long term. This is spurred by economic policies such as the Inflation Reduction Act pushing greater investments toward antibody and protein drugs instead of small-molecule ones. Evolving in parallel are healthcare-coverage trends, including obesity treatments, which drive potential biologics-focused manufacturing demands to scale peptide-based GLP-1 drugs. PE firms will likely capitalize on these opportunities by continuing to invest in pharmatech contract organizations offering research and manufacturing services.

Median EV/revenue multiples on deals $2.5 billion-plus



Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

Median EV/revenue multiples on deals below $25 million



Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

Valuations

We have reintroduced US-only multiples with adjustments made to further normalize EBITDA for one-time items such as restructuring-related costs, a major factor in the last two years. Even after these adjustments, US PE EBITDA multiples skew higher due to a disproportionately high disclosure rate by megadeals, which in turn fetch elevated multiples. For this reason, we prefer combining our US dataset with Europe due to the latter having a higher disclosure rate among PE deals involving small and midsized private companies. Better yet, we believe revenue multiples are an even broader and less volatile indicator of PE deal valuations and trends. All of these metrics are offered in the charts that follow and the data pack associated with this report.

Additionally, we offer valuation metrics among deals funded in the BSL market. Though a subset of all PE deals, they provide transparency on key leverage ratios and related financing trends including loan to value, equity to value, and debt to EBITDA.

All of these metrics tell a similar story: Valuations and leverage peaked on deals announced in 2021 and have been sliding ever since. PE deal multiples are down between 18.7% to 18.0% from peak based on the broader revenue and EBITDA datasets, with most of that decline occurring on deals announced in the last year. Enterprise value (EV) to revenue multiples on PE deals landed at 2.1x for 2023, down 12.0% from 2022. EV multiples on EBITDA finished at 10.9x, down 12.9%. Similar to deal volumes, valuations have yet to find a bottom.

Meanwhile, leverage ratios in the BSL market have collapsed to near or all-time lows, reflecting just how conservative bank lenders have become in lending to new LBO deals. The debt to EBITDA multiple on the 32 deals funded in 2023 averaged 4.9x, down from 5.9x in 2022. The debt to EV ratio on those same deals also fell sharply to 45.7% in 2023, down from 50.8% in 2022.

Breaking down valuations by sector, revenue multiples were hit hardest in the financial and consumer sectors, which suffered a peak-to-trough decline of 37.8% and 56.8%, respectively. Energy held up the best, with valuations rising in 2023. The tech sector commanded the highest valuations of any sector at 3.8x revenue but could not buck the overall trend, with multiples contacting by 18.9% from peak.

A WORD FROM BAKER TILLY

Patience and planning create PE opportunities

Which 2023 PE trends do you anticipate will make the most impact in 2024?

Rising interest rates have been one of the biggest factors influencing PE deals, and we expect the current high-interest environment to continue for an extended period. As a result, we're seeing more structure around a deal, with more earnouts and seller notes. Sellers have been rolling more equity into a deal structure, which has tended to have less debt than in previous years, and buyers are thus more likely to retrade deals. Before, PE firms focused less on earnings and more on working capital and debt items, as those two areas had a greater impact on the net purchase price. Earnings were important, but buyers wouldn't necessarily retrade based on a discrepancy that turned up in due diligence. That isn't the case anymore. Consequently, sellers are more likely to adopt sell-side preparation to preserve value.

A more recent development involves entrepreneurs and family-owned businesses. Typically, when interest rates start to climb, these types of businesses wait for the market to turn in their favor, so the bid-ask spread on deals can be fairly wide, based on the expectation that the spread would decrease with changing interest rates. Since the end of Q3, we've seen a capitulation from private and family-owned sellers. The bid-ask spread has tightened to the point wherein PE firms have opportunities to negotiate for purchase and to close deals.

Given current economic pressures and slowdowns in exits combined with rising costs of capital, what mitigating tactics do you see PE fund managers deploying with their portfolio companies?

In 2023, PE firms have focused on enhancing the values of current investments. They're enhancing the technology base, upgrading their talent base, and focusing on the metrics associated with key performance indicators. To illustrate, in a more active M&A environment, we spend most of our time—often 70% or more—talking with investment professionals versus operating professionals. Today, we spend at least 70% of our time talking to operating professionals who want to enhance the performance of currently held businesses.

Marc Chase

Principal, Private Equity Industry Leader
marc.chase@bakertilly.com

Marc is a seasoned professional with operational and board-level proficiency in PE investments. As the leader of Baker Tilly's national PE practice, he offers tailored services and solutions for middle-market investors and their portfolio companies. From pre- to post-transaction, Baker Tilly provides specialized support, ensuring clients achieve growth and success throughout the entire life cycle.

Damon Houterman, CPA

Partner, Transactions and Financial Advisory
damon.houterman@bakertilly.com

As a partner with Baker Tilly's transactions and financial advisory practice, Damon supports buyers and sellers in domestic and cross-border deals. With nearly two decades of M&A experience, he has evaluated more than 500 transactions for PE clients and multinational corporations, ranging from $5 million to $30 billion in enterprise value.

Supporting this effort, PE firms are starting to investigate and adopt AI & machine learning (ML)-based technologies. Overall, the sector is curious about the new technology, and some players are implementing systems or processes related to AI. It remains to be seen what the adoption rate will be—and whether the payoff for the investment ultimately matches the hype.

Of the concerns that your colleagues and PE clients worked on in 2023, which do you think are still underdiscussed or underrated, and why?

Due diligence is taking longer, and sellers are finding the process more tedious than in years past. Think about the periods that companies review when evaluating a potential acquisition—typically, two years and a stub. For most businesses, those were turbulent times, with many factors—positive and negative—affecting companies' financial performance. PE firms need to sift through the noise to uncover that baseline business they can count on in 2024, 2025, and beyond. Due diligence now requires a lot more work than it did in pre-pandemic and recovery years, so there's a level-setting of expectations going on.

Also, with the increase in retrading, we're seeing more conversations with the previous owners of portfolio companies. Because the acquisition process can be difficult, these individuals aren't always the best salespeople for the PE firms that bought their businesses, and these increasingly common conversations add another layer of complexity to the process.

One key area that has been underdiscussed is the prevalence of cyberattacks and contemporaneous cyber work within the current portfolio. In quiet conversations, operating partners will admit to breaches—whether it's ransomware, malware, phishing, spoofing, or any other derivative cyberattack. In our experience, many firms lack a thoughtful, portfolio-wide policy on concurrent security evaluation and testing. Failure to establish a foundational cybersecurity policy is pure folly, particularly given the increased exposure of migrating to cloud-based processes and systems. With the current geopolitical unrest, the most effective way for foreign actors to attack a country is by destabilizing confidence in the commerce system. Cyberattacks will only increase, jeopardizing not only the portfolio company and its performance but also the fund's performance and investor confidence.

Which regulatory and/or tax-relevant legislation are you tracking most closely?

The first piece of tax-related legislation that comes to mind involves the Tax Cuts and Jobs Act, which featured several individual tax cuts that expire at the end of 2025 and will revert to 2017 levels. While the end of these cuts probably won't prompt people to sell, it might move up deals. The upcoming election will undoubtedly shape how this situation develops, as changes in tax regimes influence when people go to market.

We're also monitoring the impact of the Securities and Exchange Commission (SEC) private fund advisor rules that came out this past August. We don't yet know what operational changes will be required to provide the transparency the SEC is requesting on behalf of investors. PE firms are addressing compliance now and determining how these rules affect their ability to raise capital. Compliance could either have minimal impact or dramatically increase the scrutiny and transparency of their current operations.

What interests you most in the current PE landscape, and why? Which concerns do you think are overblown?

We're very interested in seeing how PE firms use AI & ML—specifically, whether the technology will deliver, disrupt, or distract PE buyers. Will it deliver sustainable, tangible results equal to the hype that's in the marketplace? Will it disrupt business models, potentially creating new models or cannibalizing existing models? Will it distract firms by attracting huge inflows of capital to technology with an elusive or indiscernible investment thesis? Consider the example of robotic process automation, which was a hot topic for quite a while, yet we still don't know whether the technology has delivered the results investors hoped for.

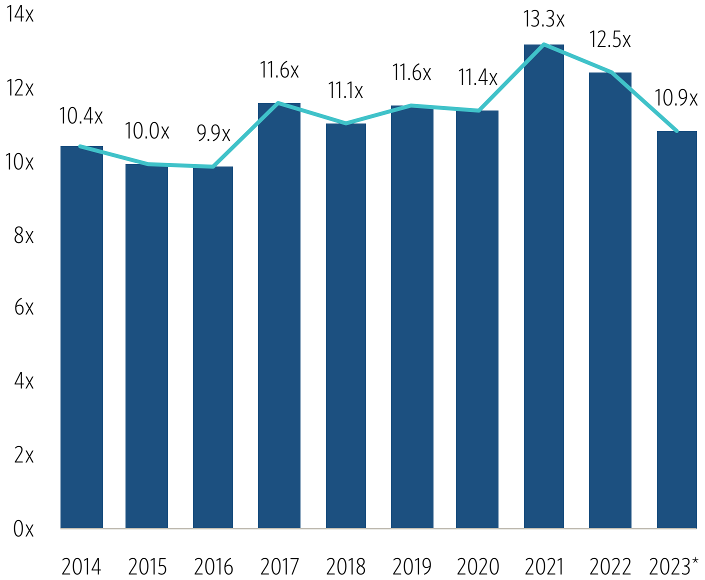
Regarding overblown concerns, we believe the PE sector is more resilient than credited. People are saying that PE is oversaturated and can't survive in this environment, but we disagree. Firms have reoriented their focus and are waiting for the right timing. Historically, PE outperforms public equities during crises and recovers more quickly. Funds launched in this tepid environment could have similar results to those launched during the global financial crisis (GFC), which outperformed funds preceding the GFC.

Please expand on any of the above topics or address those that have not yet been broached.

Today, PE firms are struggling to find qualified talent with experience in managing not only finance and accounting but also operations in a challenging economy. This historic problem has only worsened in recent years, with many professionals retiring and fewer people graduating with accounting degrees. Also, many individuals left the financial profession during the pandemic to pursue other aspirations. It's created a void that firms are striving to fill.

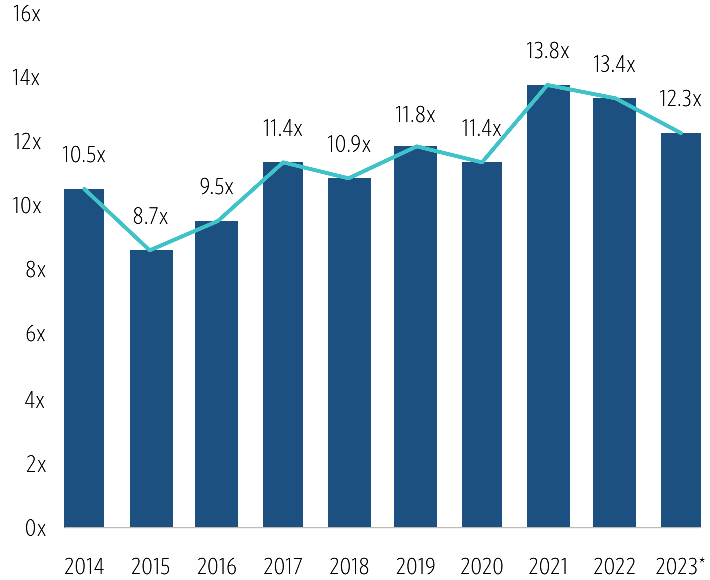
Deal valuation metrics

Global PE EV/EBITDA multiples



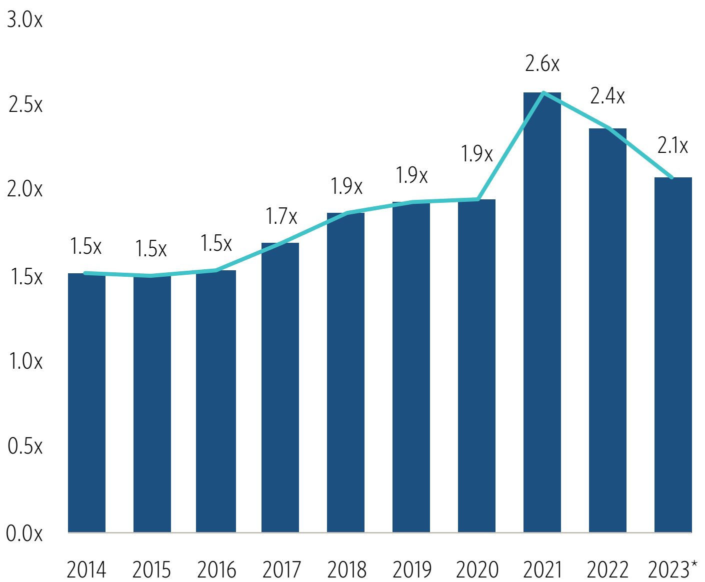
Source: PitchBook • Geography: North America and Europe • *As of December 31, 2023

US PE EV/EBITDA multiples



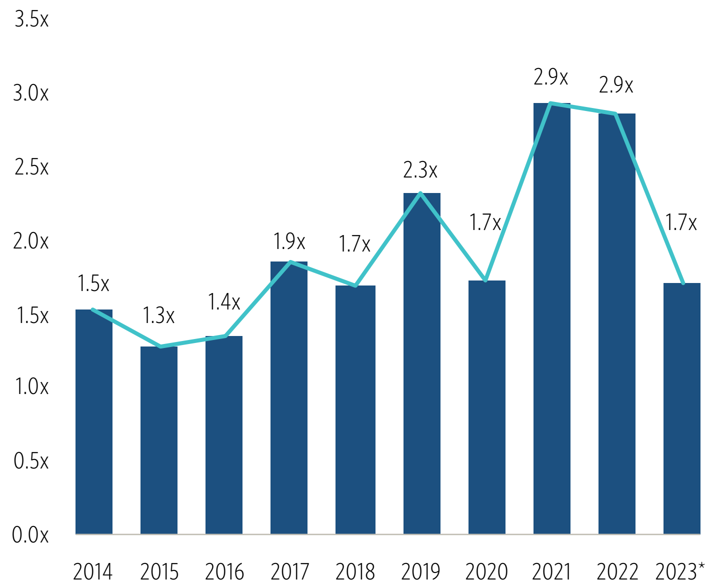
Source: PitchBook • Geography: US • *As of December 31, 2023

Global PE EV/revenue multiples



Source: PitchBook • Geography: North America and Europe • *As of December 31, 2023

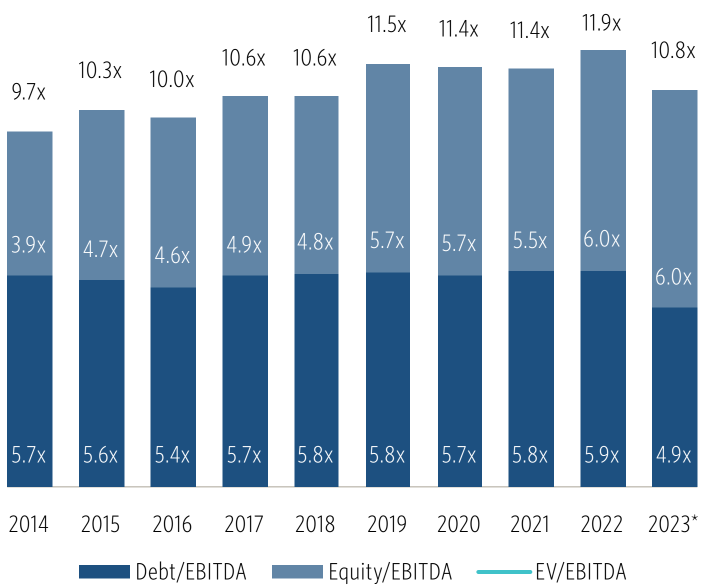
US PE EV/revenue multiples



Source: PitchBook • Geography: US • *As of December 31, 2023

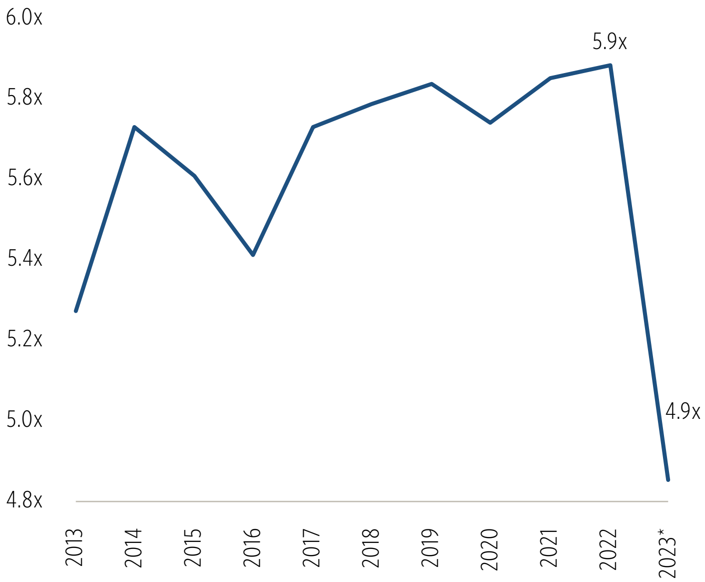
Deal financing metrics

Multiples on BSL-funded deals



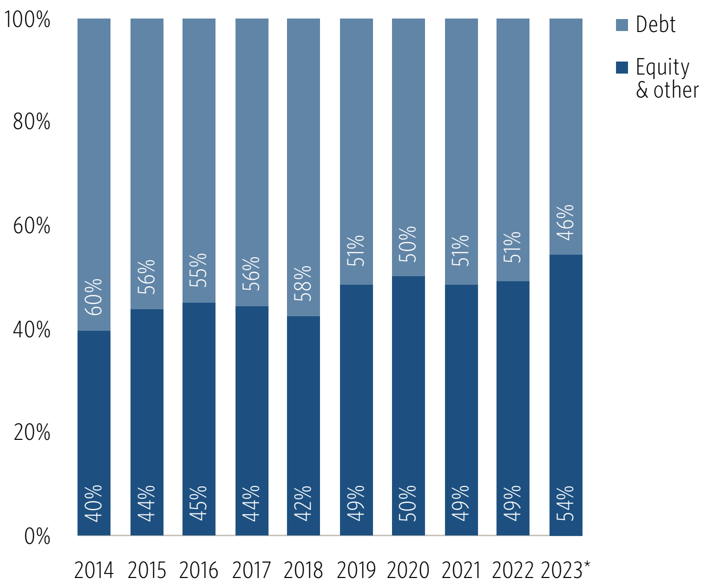
Source: PitchBook | LCD • Geography: North America and Europe
*As of December 31, 2023

Debt/EBITDA multiples on BSL-funded deals



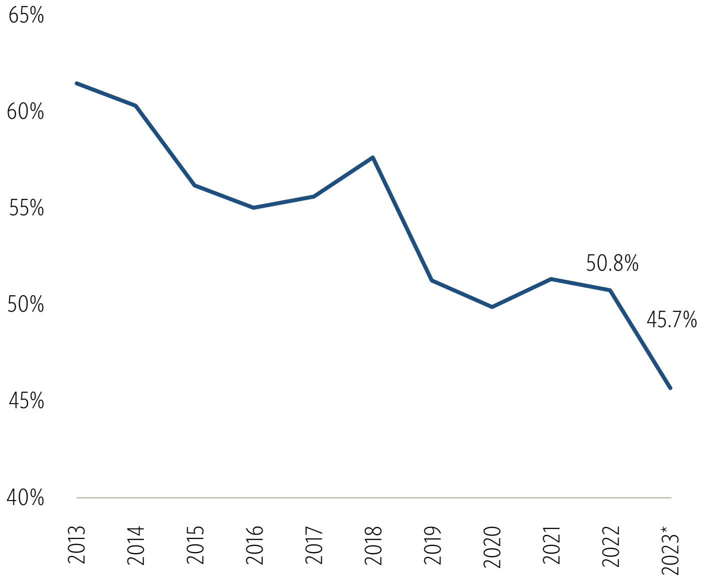
Source: PitchBook | LCD • Geography: North America and Europe
*As of December 31, 2023

BSL-funded deal value by source



Source: PitchBook | LCD • Geography: North America and Europe
*As of December 31, 2023

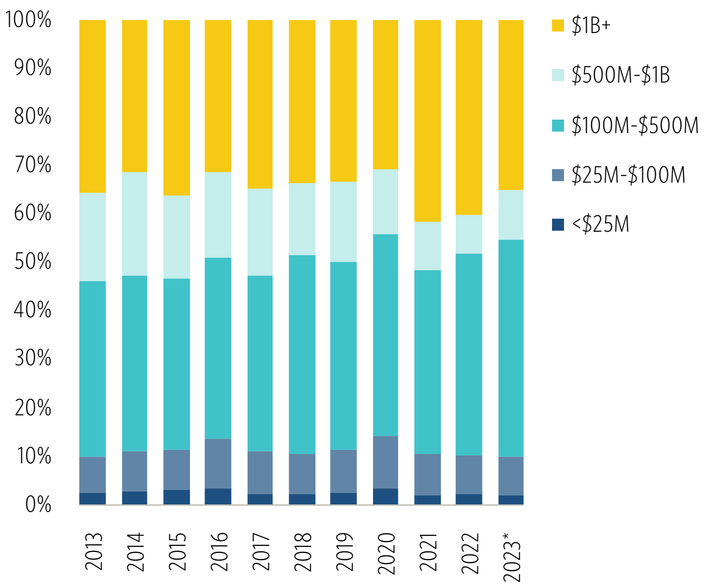
Share of debt to EV on BSL-funded deal value



Source: PitchBook | LCD • Geography: North America and Europe
*As of December 31, 2023

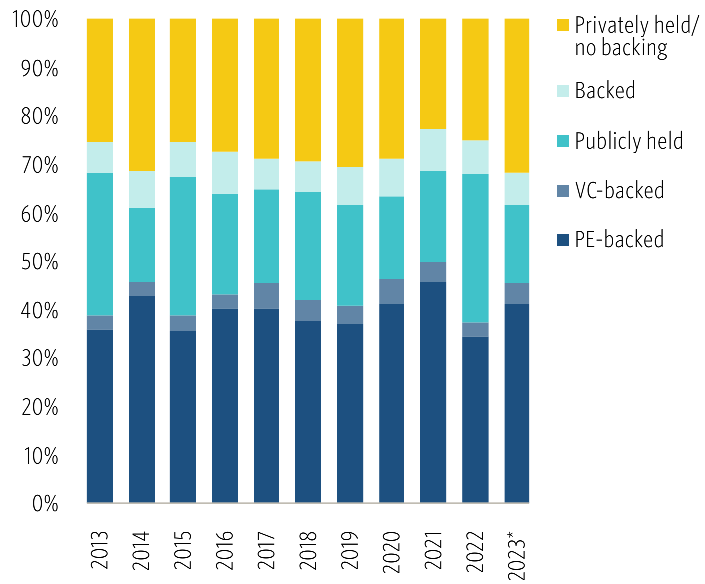
Deals by size, backing type, and sector

Share of PE deal value by size bucket



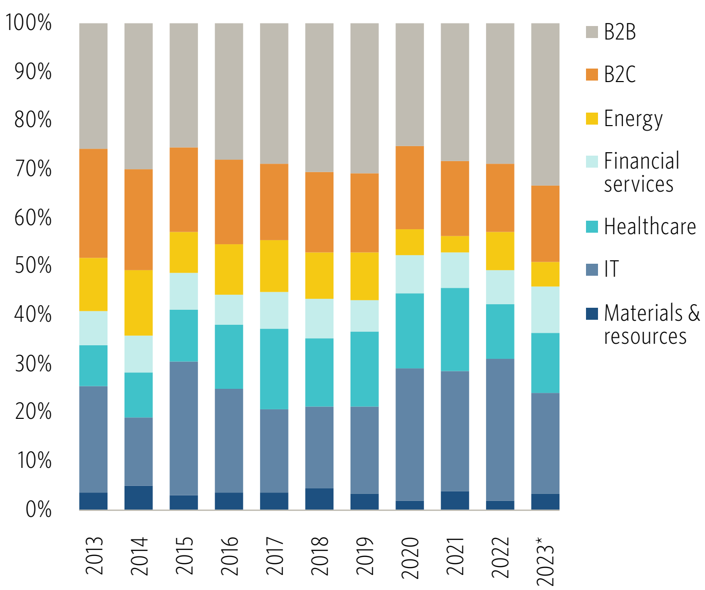
Source: PitchBook • Geography: US • *As of December 31, 2023

Share of PE deal value by backing type



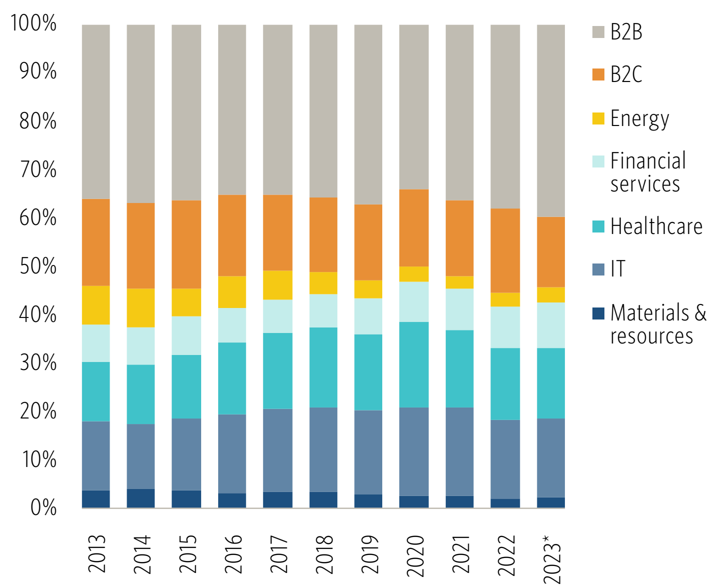
Source: PitchBook • Geography: US • *As of December 31, 2023

Share of PE deal value by sector



Source: PitchBook • Geography: US • *As of December 31, 2023

Share of PE deal count by sector



Source: PitchBook • Geography: US • *As of December 31, 2023

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A WORD FROM BLUE OWL CAPITAL

Built to Last v.2.0

A lens on what makes a great GP

In the 1994 book "Built to Last,"[8] authors Jim Collins and Jerry Porras selected 18 exceptional companies that have enjoyed success over decades and studied each in direct comparison to its closest competitor. They examined the companies through multiple generational transitions—eliminating the factor of a single leader or idea—as startups, mid-sized enterprises, and large corporations, and presented a framework of principles these companies share. The principles emphasized the importance of a strong core ideology—the "North Star" concept—long-term vision, adaptability, a commitment to continuous improvement, and a focus on building enduring organizational structures.

Since Dyal (now Blue Owl's GP Strategic Capital platform) was founded in 2010, we have studied what makes a great GP. Today, we have strategic equity partnerships with alternatives firms managing close to $2 trillion of assets in aggregate, giving us differentiated insights into how industry leaders are adapting in the face of a rapidly changing asset-management landscape.

Following the first of our 55 private markets-focused GP investments in 2014, we recognized a pattern of behavior among the GPs that came to us looking for strategic growth capital. They shared a laser focus on institutionalization, a strategic motivation to establish a permanent balance sheet, and a desire to build a durable organization with real enterprise value—one that would outlast the firm's current leadership.

That framework remains as potent today as it was then and has been applied to every GP we have diligenced since. But, while the ideology remains remarkably consistent, the means of delivery has become more complex. As we enter a new era in private markets, what are the key drivers of enduring franchise value for our industry? What does "Built to Last v.2.0" look like for private markets firms seeking long-term success?

Differentiated investing

Excellence in private capital investing is increasingly about sector specialization and differentiation—in the quality of underwriting and a team's ability to recognize value creation potential where others don't. Competitive advantage lies in choosing different activities or choosing to perform activities differently—choices that support sustainable outperformance and scarcity value. You know what you're getting when you meet a firm with a strong North Star: Vista's command of thematic, operationally focused software investing, HIG's skill in identifying smaller firms with extreme upside potential, or Veritas' ability to build moats around highly specialized niches within government-influenced markets. They adapt and evolve, but they do not stray from their compass orientation.

It also requires continuous investment in talent, both to identify a pipeline of candidates who fit the analytical, quantitative, and, importantly, cultural ethos of the firm, and to develop that talent by providing them with resources to deliver strong, replicable returns, all while preserving the core. Cultivating a strong corporate identity and a runway for internal promotion is critical—not only for LPs that entrust GPs with their capital for over a decade, but also for a franchise that can withstand cycles and transcend generations of future investors. You will find the DNA of a CVC investment professional in the 1990s to

Michael D. Rees

Co-President, Blue Owl Capital

Michael is Co-President and Co-Founder of Blue Owl Capital, and Head of GP Strategic Capital (formerly known as Dyal Capital). Michael is a pioneer in the GP stakes industry and manages funds that have purchased stakes in 66 alternative firms. Prior to founding Dyal, he was a founding employee of Neuberger Berman.

Cara Griffiths

Managing Director, Blue Owl Capital

Cara is a member of the GP Strategic Capital investment team. Cara was previously at Bank of America, where she was an adviser to Blue Owl. Based in London, Cara focuses on strategic projects, GP relationships, and client development activity across EMEA.

8: "Built to Last: Successful Habits of Visionary Companies," Harper Business, Jim Collins and Jerry I. Porras, September 16, 1994.

be strikingly similar to the CVC class of 2020, and consciously distinct from their competitors.

Somewhere between specialization and repeatability sits consistency—a calm strategic consistency that empowers firms to recognize when and how a change in approach may be required. It is a consistency that gives partners the conviction to remain disciplined in pattern recognition and diligence, rather than chasing momentum trades and drifting out of their lane. Consistency is the nirvana of a firm with real durability and the confidence to prioritize long-term value creation over short-term profit.

An equal focus on client development

It is no longer enough just to be a great investor. Successful GPs must now give equal focus to both sides of the business: They must continue to be great investors and must also institutionalize their business development teams.

A right-sized client coverage effort is central to any strategic thinking around long-term franchise value. To understand what that means today requires an appreciation of how the investor base has shifted. 10 years ago, client outreach consisted of a calling effort to a well-known group of endowments & foundations and US pension funds. Now, GPs must market to a client base that has six distinct client types: endowments & foundations, public pensions, sovereign wealth funds, corporate pensions, insurance companies, and wealth & retail.

Each subsegment is at a different point on the adoption S-curve. In 1990, US endowments and government pensions had both allocated around 10% of AUM to alternative assets; by 2019, that had increased to more than 50% for endowments and around 30% for government pensions.[9, 10] Today, Bain estimates that corporate pensions have allocated a little over 10% of their AUM to alternatives, and the retail, wealth, and 401k pools remain largely untapped.[11] The adoption of a new asset class is never linear, and capacity in each channel fluctuates over time according to risk appetite, maturity, and regulatory considerations. It is inaccurate to refer to "demand for alternatives" as though it derives from a homogenous body of investors who behave in a uniform way.

The fundraising environment has fundamentally and structurally changed, and to be successful in this new paradigm requires a global, multichannel sales management effort, and deep knowledge of a client's investment needs to increase the quality and quantity of a GP's investor engagements. Middle Eastern sovereign wealth funds prefer local presence and a longstanding development effort. Insurance companies require knowledge of a complex set of capital charge rules and liquidity frameworks not relevant to earlier adopters. The wealth & retail channel is the most complex, with a multilayer sales process (to platform, then to client) and an economic sharing model that keeps many GPs wondering if it's worth it.

In an environment where competition for capital has intensified, a well-invested capital formation strategy is a key differentiator and specialization. For now, that means thoughtfully incentivized boots on the ground in key regions, direct or via agents, to develop global relationships and continue the process of institutionalization by diversifying the investor base. The best GPs have an embedded mindset of prioritizing investment in long-term client development over short-term focus on speed and firm profitability.

Succession mentality

The mentality of managing partners regarding ownership evolution is the most critical factor in our assessment of long-term franchise value—more important than whether a plan is actually in place or not. With 45% of PE firms managing $1 billion-plus now over 20 years old,[12] generational transfer is even more in focus. Good leadership succession is meticulously planned, and great leadership is never random. For a visionary company, it's not enough to be successful during the current generation. What matters is how the company will perform in the next generation.

We are entering an exciting new phase of development in private markets, one in which value creation will become increasingly specialized, and the ability to attract incremental capital requires an institutionalized approach to client development. GPs that can adapt and facilitate generational transfer, whose guiding principle remains to build a sustainable business above all else, are best placed to thrive in and benefit from the continued expansion and growing importance of private markets. It will be interesting to see which GPs are "Built to Last."

9: "The Pension Crisis Revealed," Journal of Investing, Ronald J. Ryan and Frank J. Fabozzi, 2023, accessed December 20, 2023.
10: "The Endowment Model and Modern Portfolio Theory," Management Science, Stephen G. Dimmock, Neng Wang, and Jinqiang Yang, April 28, 2023.
11: "Global Private Equity Report: Navigating a Shifting Tide," Bain & Company, 2023, accessed December 20, 2023.
12: PitchBook, December 2023. Includes all US-headquartered private equity buyout firms with AUM greater than $1 billion.

BLUE OWL

The vision & discipline to create the exceptional.

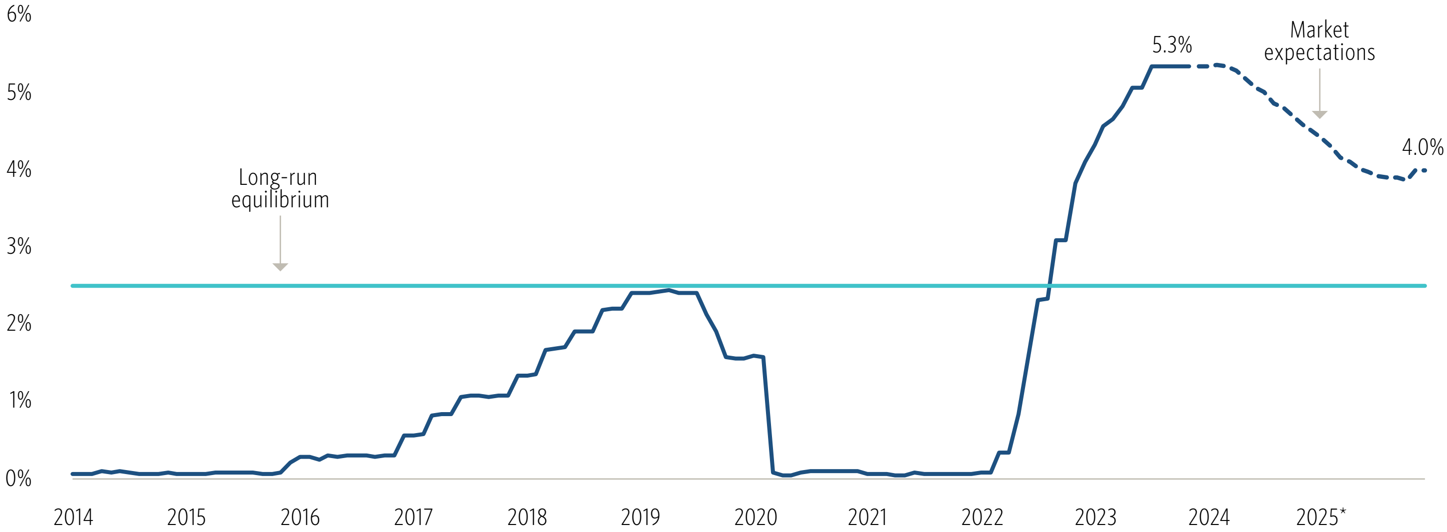
At Blue Owl, we are doing more than just investing in private markets—we are redefining alternatives.

We focus on providing businesses with private capital solutions to drive long-term growth and offer investors differentiated alternative investment opportunities.

SPOTLIGHT

Quantitative Perspectives: The Waiting Game

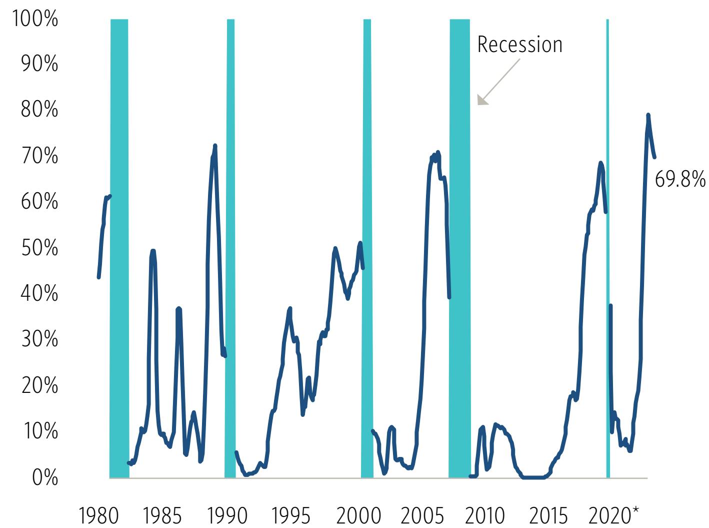
Federal funds rate with market expectations



Source: Federal Reserve, CME Group • Geography: US • *As of November 6, 2023
Note: The long-run equilibrium is based on the Fed's latest Summary of Economic Projections.

Note: This spotlight is abridged from our report, Quantitative Perspectives: The Waiting Game. Please see the full report for additional analysis on economic trends and their impact on private equity.

Smoothed probability of a US recession occurring in the next 18 months

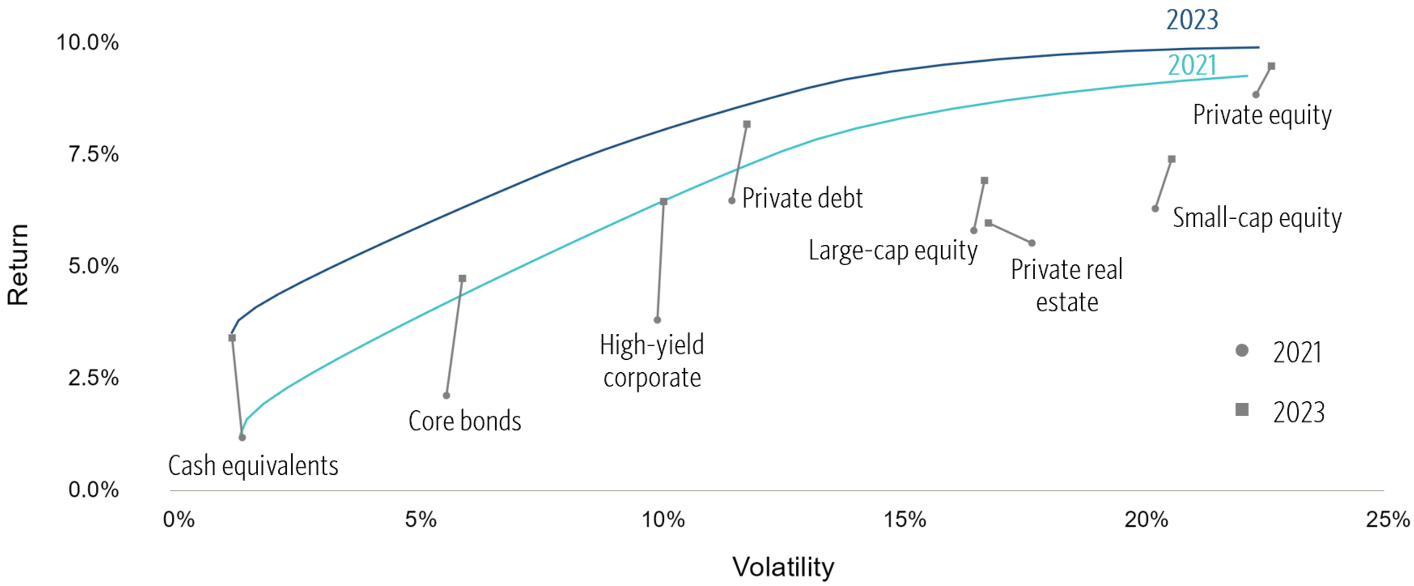


Source: PitchBook • Geography: US • *As of October 31, 2023
Note: Predictions are out-of-sample and not made during a recession.

The economic environment

Economic conditions are better than many people expected after a period of aggressive monetary tightening. Real growth is running above trend, the labor market has started to normalize without a material rise in unemployment, and inflation has cooled from very high levels. Despite this positive backdrop, a challenging dealmaking environment and a lack of exit routes have left many PE investors waiting for more clarity on where the economy, interest rates, and valuations are headed. Lower borrowing costs are likely a precondition for a material pickup in buyout activity, but despite the Fed now holding rates steady, significant rate cuts are unlikely to happen anytime soon. Meanwhile, sellers are not budging much on valuations and do not want to sell into a weak market as corporate buyers remain generally cautious on spending. These dynamics

10-year expected risk and return for select asset classes with efficient frontiers*



Sources: PitchBook, Horizon Actuarial • Geography: US • *As of December 31, 2023
Note: The 2023 expectations were generated before the recent further rise in long-term bond yields.

suggest sluggish PE conditions may grind along for the next several quarters.

The long-term outlook for the PE market has its own challenges. In particular, the recent rise in long-term bond yields has altered the risk/return trade-offs facing institutional investors. The near-zero interest rates and compressed risk premiums over the past decade helped fuel strong demand for PE as investors looked for ways to meet their return objectives. The re-emergence of attractive Treasury yields on an absolute and relative basis will have the opposite effect.

The key question about monetary policy has now shifted from how high rates will go to how long they will remain restrictive. That will depend primarily on economic growth. If a recession does occur, we expect the Fed will act aggressively. However, if the economy remains resilient, we think the Fed will be reluctant to cut rates until inflation is running consistently around its 2% target. Given that underlying inflation appears to be stabilizing around 3%, there is a risk that short-term rates remain above 5% for the foreseeable future, contrary to market expectations. And despite increased optimism for a soft landing, the risk of recession remains elevated as well.

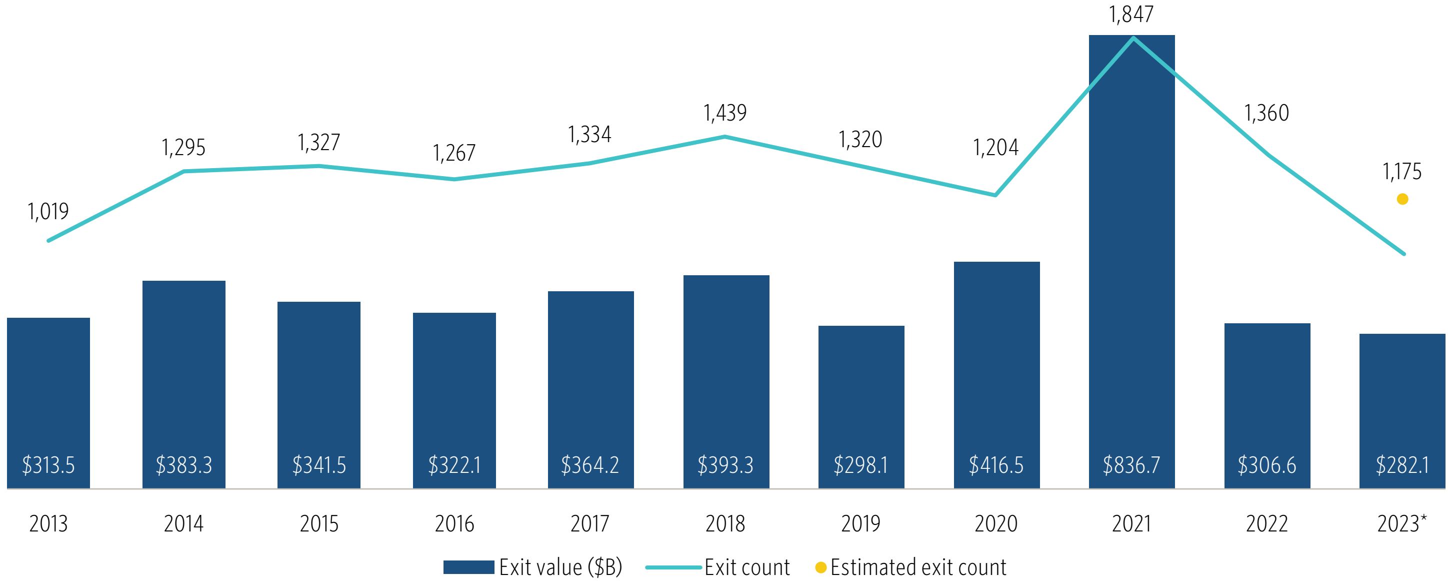
Shifting bond market dynamics and considerations for allocators

For asset allocators, most of the 2010s were defined by low expected long-term returns across asset classes due to a decade of extremely loose monetary policy in the wake of the global financial crisis. Facing fixed return targets, many allocators were "pushed out on the risk curve." This dynamic hit an extreme after another massive episode of monetary stimulus in 2020 and 2021. Private market strategies were key beneficiaries of low expected returns as money flowed into riskier assets.

The long-term outlook for returns now looks quite different than it did in the last decade, and especially since risk premiums bottomed in 2021. The entire efficient frontier has shifted higher, but much more so at the front end. This will allow allocators to take less risk to meet return targets and, in turn, decrease demand for risky assets like PE.

Exits

US PE exit activity

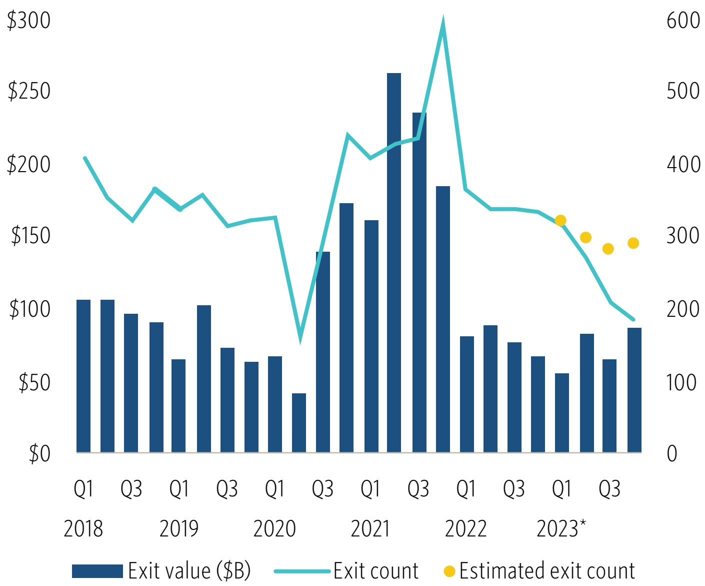


Source: PitchBook • Geography: US • *As of December 31, 2023

Overview

US PE exit activity fell further in 2023 as sponsors struggled against prolonged inflation and unfavorable valuation trends. 1,175 companies exited or were announced to be exited for a total exit value of $282.1 billion, which is 13.9% and 19.8% below pre-pandemic averages, respectively. Exit activity in Q4 was the strongest for the year, with 285 companies exited for $85.4 billion in aggregate. This rebound represents an increase of 2.8% and 35.9% QoQ, respectively. Quarterly exit activity bounced up and down throughout the year rather than declining consecutively, potentially suggesting that PE exits are finding a bottom. Exits decreased across all fronts, with exits through public listings especially abysmal. There was just $7.3 billion worth of IPO exits in 2023 compared with the 2021 peak of $296.5 billion and the pre-pandemic average of $45.1 billion. A handful of VC-backed and PE-backed listings cracked open the IPO market in 2023, and there is a growing pipeline of PE-backed companies looking to go public. PE-backed companies could jump the IPO queue ahead of VC-backed unicorns due to a preference for companies in later cycles with more seasoned results. Q4 saw three PE-backed companies go public, the most notable being the $1.5 billion IPO by Birkenstock. The IPO price translated to $8.6 billion in total EV, a significant premium to the $4.8 billion that L. Catterton and other PE firms paid to acquire the company in April 2021.

US PE exit activity by quarter



Source: PitchBook • Geography: US • *As of December 31, 2023

PE-backed public listings in 2023*

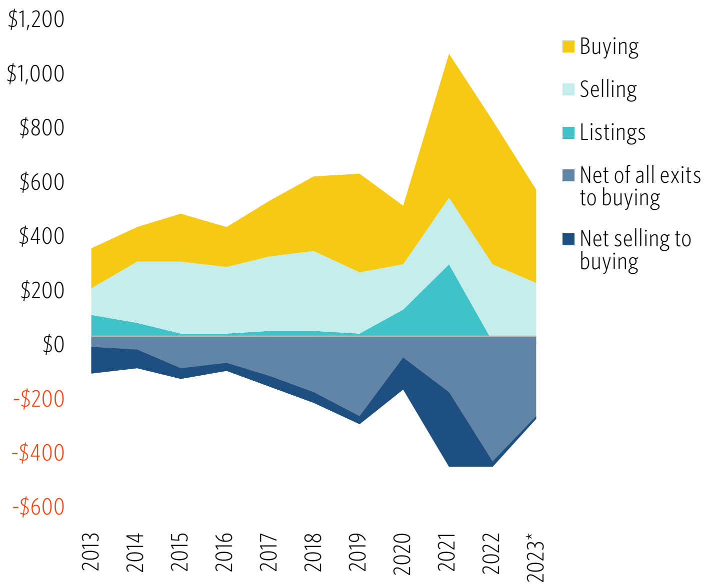
Company	Lead PE backers	Deal date (2023)	Initial valuation ($M)	Percentage change
Bridger Aerospace Group Holdings	Blackstone	January 24	$1,110.0	-30.9%
TXO Energy Partners	Bluescape Group	January 27	$600.0	-9.1%
Verde Clean Fuels	Bluescape group	February 10	$500.0	-76.4%
Drilling Tools International	Hicks Equity Partners	June 20	$319.0	-68.0%
Savers	Ares Management	June 29	$2,888.2	-3.4%
Kodiak Gas Services	EQT	June 29	$1,200.0	25.5%
Fidelis Insurance	ADAI, CVC Capital, Crestview Partners	June 29	$1,650.8	-9.5%
Intensity Therapeutics	Rock Gate Partners	June 30	$65.5	42.8%
Oddity Tech	L Catterton	July 19	$1,978.9	32.9%
Mobile Infrastructure Corporation	Bombe Asset Management	August 28	$550.0	-59.5%
Birkenstock	L Catterton, GIC	October 11	$8,640.0	5.9%
Mach Resources	Amberjack Capital Partners, Ara Partners	October 25	$1,810.0	-13.2%
Shimmick	Oroco Capital	November 14	$178.5	-5.7%

Source: PitchBook • Geography: US • *As of December 31, 2023

Fatigue in PE exit markets is expected to remain until H2 2024 as PE firms continue to wait for market conditions to improve. PE firms typically avoid being forced sellers, opting instead to hold on to promising assets for longer. The median holding period of US PE investments exited in 2023 reached 6.4 years, crossing the six-year mark for the first time since 2015. PE-backed companies currently being held in their respective funds reached a median holding period of 4.2 years, which is higher than the last-five-year average of 3.8 years. We expect holding periods for both currently held PE companies and those that have successfully exited to stretch out as it takes longer for firms to exit their portfolio companies.[13] The exit/investment ratio has also hit a historically low mark, standing at 0.34x by the end of 2023, compared with 0.47x in 2021 and 0.41x in 2022.

The slowed exit market means that an impending "maturity wall" looms in the PE industry for deals made five to seven years ago that are beginning to reach their natural exit timelines.[14] The investments made during the bullish deal environment of the last 10 years are now confronted with an economic downturn and will need to adjust to a much different exit environment. GPs will need to address the oncoming maturity wall of their existing investments, and fortunately, those efforts are well under way. Investors and sponsors alike are increasingly turning to continuation funds and GP-led and LP-led secondaries to extend exit timelines or secure liquidity without force-selling. Continuation funds will be an increasingly attractive option for PE firms with promising assets. Continuation funds are created to acquire one or more portfolio companies of a fund that are nearing the end of their lifespan and roll them into their own investment. Rather than using continuation funds as vehicles for distressed assets, which has been the case in the past, GPs are using them to hold on to assets they believe have further

PE buying to selling and the net exit gap ($B)



Source: PitchBook • Geography: US • *As of December 31, 2023

13: For more analysis, please refer to our 2024 US Private Equity Outlook.
14: For more analysis, please refer to our Q2 2023 Analyst Note: PE Exit Timelines and the Impending Maturity Wall.

upside and prevent unfavorable exits. Continuation funds also offer another way for GPs to provide liquidity to their investors should they choose to sell their stake in the company instead of rolling it into the continuation fund.

Sponsor-to-sponsor exits

2023 experienced another year of decline in PE exits to other sponsors, in line with the overall contraction in the exit markets. Although we originally predicted that sponsor-to-sponsor exits would continue to take up a record portion of US PE exits in 2023, exits to other sponsors declined starting at the beginning of the year.[15] Sponsor-to-sponsor exits took up 49.7% of total US exit value in 2023, which was an improvement from 46.4% in 2022 but below the record of 53.9% seen in 2019. Excluding public listings, sponsor-to-sponsor exits made up 51.2% of exit value, compared with 48.3% the year before. Despite a near record amount of dry powder, PE buyers have been hampered by buyer-seller disconnect. While plenty of PE firms are looking to buy, many others are not willing to let go of their assets for what they see as an undervalued price. At the same time, a weakened financing market made it difficult for sponsors to secure the leverage needed to acquire large PE-backed assets, further disrupting transactions between sponsors.

In 2023, GPs exited an estimated 503 companies to other sponsors for a total of $116.3 billion. Both value and count of sponsor-to-sponsor exits hit a new low in the past 10 years and fell 18.2% and 18.9% from 2022 levels, respectively. During Q4, 88 companies exited to other sponsors for $19.5 billion, declining for two consecutive quarters since the slight bump in Q2. At the same time, the median size of sponsor-to-sponsor exits ticked up to $400.0 million in 2023 from $361.0 million in 2022. This suggests that sponsors are still able to fetch attractive prices for their higher-quality assets despite the stunted exit environment. For example, TPG closed its $7.0 billion sale of Creative Artists Agency to Groupe Artémis in Q3. The exit generated $2.4 billion of gains across TPG Partners VI and the continuation vehicle the company was moved to in 2021. Also in B2B, NB Capital Solutions and Veritas Capital announced their exit of consulting firm Guidehouse to Bain Capital for $5.3 billion in November. Guidehouse, which services government and commercial markets, will continue to grow by leveraging Bain Capital's resources and expertise in the space. All in all, we anticipate activity to bounce back with the overall rebound in M&A activity and deal underwriting, since sponsor-to-sponsor exits currently sit below their pre-pandemic average of 636 exits for $165.3 billion. The industry remains hopeful that the large amount of dry powder that PE firms have accumulated over the past three years will be put to work soon.

Exits to corporates

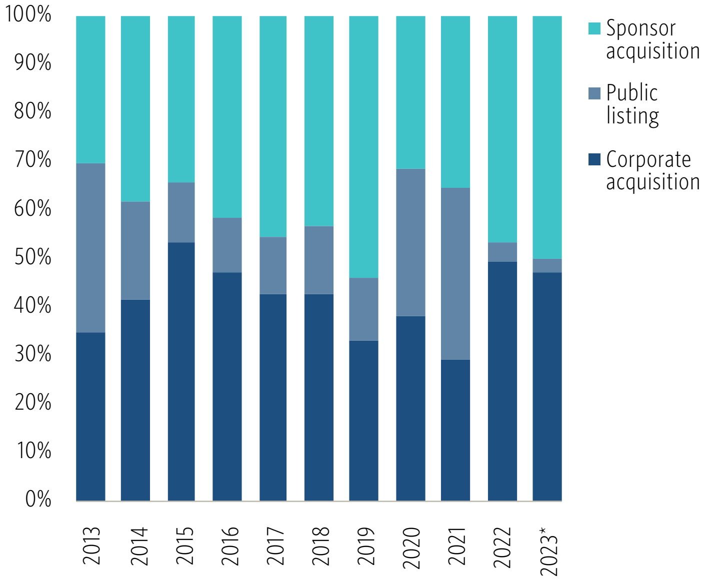
Exits to corporates have come down as well. Historically, corporate buyers have snapped up 150 to 200 companies from PE sellers each quarter for an average of $37.0 billion in exit value. In Q4 2023, exit count declined sequentially to just 89, which is the lowest count recorded for quarterly exits to corporates in the last 10 years including during the pandemic-induced lockdown. For the full year, PE firms exited 604 companies to corporate buyers for an aggregate $111.0 billion. Exit value declined by 26.9% from 2022, while exit count declined by 16.7%. Corporate C-suites have been more guarded in their approach to acquisitions and are devoting equal care to protecting their balance sheets with the prospect of an economic downturn looming.

Still, exits to corporates have been strong in its share of total US PE exits. They accounted for 47.4% of 2023 exit value, remaining above the past five-year average and accounting for nearly half of total exit value for the second year in a row. Exits to corporates accounted for 53.9% of the total exit count for the year, which is a new record since 2015, when exits to corporates made up 57.0% of PE exit value. Excluding public listings, which were effectively nonexistent during the year, exits to corporates accounted for 48.8% of exit value and 54.6% of exit count in 2023. Corporates with the ability and appetite to pursue acquisitions are pursuing larger deals, as demonstrated by the greater drop in exit count compared with exit value and the rise in the median exit size for exits to corporates. The median size of exits to corporates soared from $252.1 million in 2022 to $367.5 million in 2023, driven partly by the increased share of megadeals during the year. While not with the same fever amid current market conditions, PE firms were still able to capitalize by exiting investments to companies seeking acquisitions with strategic logic and fit to position themselves for continued growth.

Sizable exits to corporates occurred across sectors as industry actors sought targets to increase the size and scale of their operations. For instance, PE firms in the energy sector were able to capitalize on higher energy prices and the profitability of energy producers to successfully exit their portfolio companies. In June, EnCap Investments

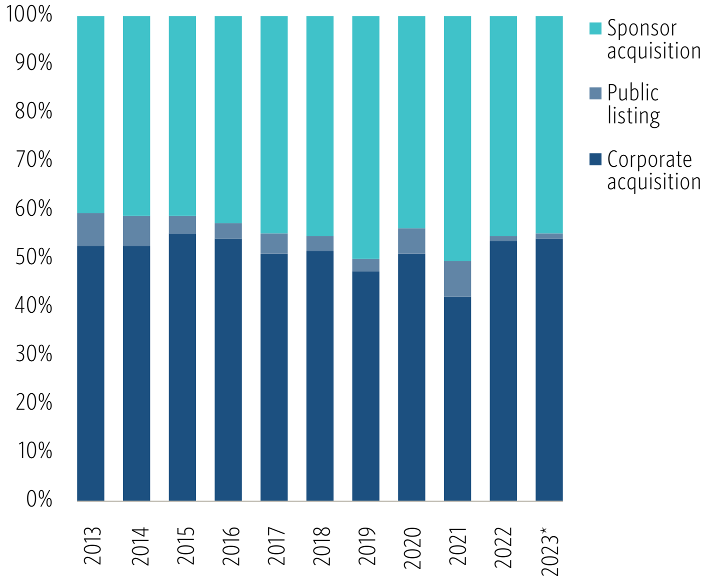
15: For more analysis, please refer to our 2023 US Private Equity Outlook: H1 Follow-Up.

Share of PE exit value by type



Source: PitchBook • Geography: US • *As of December 31, 2023

Share of PE exit count by type



Source: PitchBook • Geography: US • *As of December 31, 2023

closed its sale of oil & gas exploration & production (E&P) services company Piedra Resources to Ovintiv for $3.2 billion. Alongside this transaction, Ovintiv acquired E&P assets of two other portfolio companies from EnCap Investments for a total value of $4.3 billion. The acquisitions show Ovintiv doubling down on production in the Permian Basin while adding Midland Basin and Bakken assets adjacent to the company's existing Permian operations.[16] Over 85% of PE exits in the energy sector were to corporations as E&P companies continued to consolidate. There were also a couple of sizable exits to corporates in B2C during the year as consumer food brands realigned their portfolios with growing segments to improve sales. In Q3, Advent International exited Sovos Brands to Campbell Soup Company for $2.7 billion while a group of PE firms sold Kevin's Natural Foods to Mars for $810.0 million.

Technology

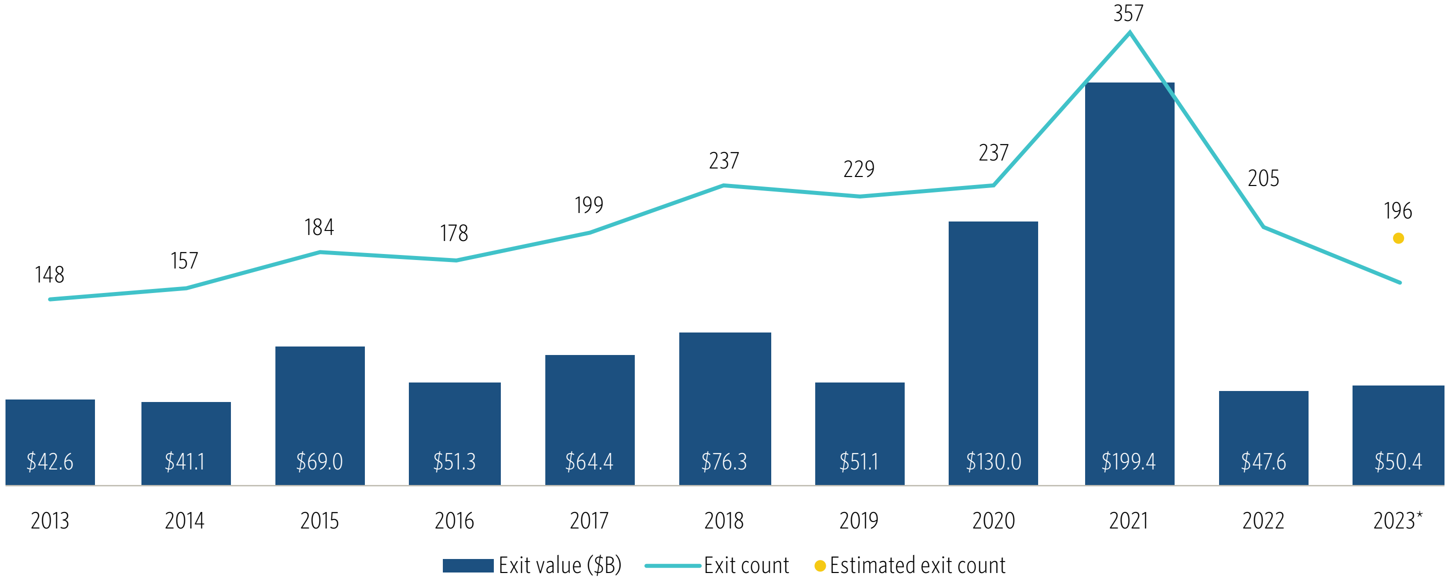
Technology struggled to recover fully from the large step-down in exit activity seen last year, ending 2023 with mixed results. Exit activity for the sector was weak throughout the year but declined even further in Q4 with just 34 exits for an aggregate of $5.6 billion, marking the lowest quarterly exit value in over a decade. On an annual basis, 196 IT companies exited or were announced to exit by the end of 2023 at an aggregate exit value of $50.4 billion. Compared with IT exit activity in 2022, exit count dropped by 4.6%, while value increased by 6.0%.

Although exit value is still 74.7% below the peak in 2021, it recuperated some of its losses, climbing back up to roughly 21% below the pre-pandemic averages. Although investors faced buyer-seller disconnect throughout the broader market, the reset in valuations was especially harsh for tech companies that had previously enjoyed a long streak of lofty valuations. PE firms continued to hold on to portfolio companies while waiting for pricing to converge further and marking expectations to market amid stubbornly high interest rates.

The lack of public listings, which was a key driver of tech exits in the past few years, is indicative of the risk-off sentiment currently taken up by PE firms. Public listings nearly came to a full stop in 2023 as investors were reluctant to exit their investments in a still-weak IPO market and risk an unfavorable debut, especially compared with valuations that tech companies may have fetched before 2022. However, the IPOs of a handful of VC-backed software firms in September 2023, such as Arm, Klaviyo, and Instacart, have provided a positive sign for those that could be exploring a public market exit. With public listings out of the picture for now, corporations and sponsors picked up PE-backed tech companies at larger sizes. Sponsors and corporate buyers drove higher exit values in 2023 despite a drop in exit count: There were 77 exits to other sponsors for $11.6 billion in 2023 compared with 107 exits for $8.0 billion in 2022, and there were 69 exits to corporates for $22.5 billion in 2023 compared with 96 exits for $14.7

16: "Ovintiv Announces Closing of Midland and Bakken Transactions & Inclusion in S&P 400 Index," Ovintiv, June 12, 2023.

Information technology PE exit activity



Source: PitchBook • Geography: US • *As of December 31, 2023

billion the year before. This could be a sign that tech valuations have recovered moderately from their recent drop, and well-capitalized sponsors and corporate buyers are able and eager to pursue high-quality companies at larger transaction sizes.

IT exits now sit squarely below pre-pandemic averages (2017 to 2019) on an absolute basis but have increased as a share of total US PE exit activity, demonstrating resilience against other sectors. IT accounted for 16.0% of US PE exit count in 2023 and 21.2% of exit value. Software has continued to lead the segment to better exit volumes, as secular growth trends in tech spurred companies with long-term growth opportunities to exit. Software accounted for all but one mega-size exit for the sector during the year. Thoma Bravo's $10.5 billion exit of Adenza, a risk management and regulatory software provider to the financial services industry, was the largest tech exit of the year and closed in November after being announced in Q2. The sale to Nasdaq is expected to help reposition the company as a scaled fintech provider and offer a full portfolio of products to customers in an evolving fintech space.[17]

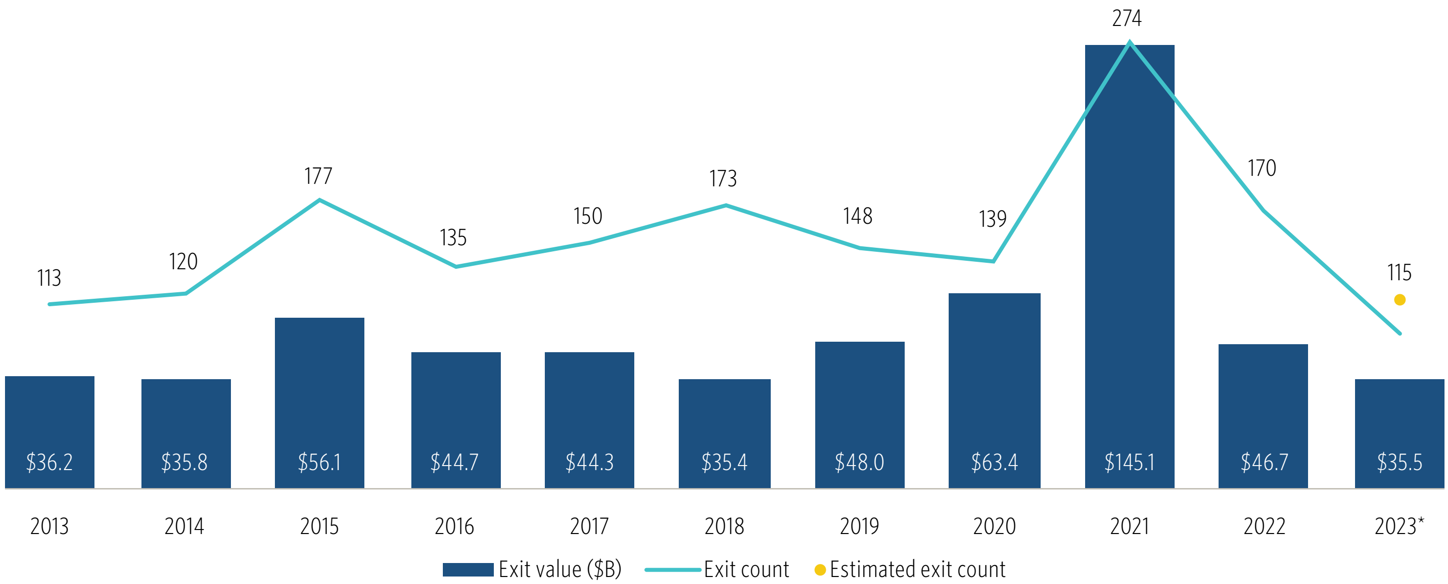
Healthcare

US healthcare PE exit activity experienced another year of a downward trend. In 2023, there were 115 exits for an aggregate of $35.5 billion, which was approximately a 30% decline from levels seen in 2022. Compared with the peak seen in 2021, exit count and value fell a whopping 58.1% and 75.5%, respectively. Exit activity also dropped below pre-pandemic averages, indicative of the harsh headwinds the sector struggled against throughout the year, such as high labor and input costs, acquirer cost cutting, and even antitrust scrutiny. Like the broad PE industry, healthcare investors have been slow to exit their portfolio companies, waiting instead for better prices and debt service costs. The sector's share of PE exit activity shrunk for the second consecutive year, and healthcare exits now account for 9% to 11% of PE exits compared with the 15% to 18% share they held just two years ago.

Investors remain hopeful for better days ahead, however, and expect to see improvement in exit opportunities as price gaps begin to narrow and inflated labor and input costs come down. In fact, healthcare exits rallied in the fourth quarter with 29 companies exited or announced to be exited for an aggregate of $14.2 billion, accounting for more than half of the year's total exit value and passing the sector's pre-pandemic average quarterly deal value. The jump in exits was driven by two companies: Cerevel Therapeutics and Paragon Medical. In December, NovaQuest Capital Management announced its sale of neuroscience drugmaker Cerevel Therapeutics to AbbVie for $8.7 billion. Through the deal, AbbVie will add a wide range of assets to complement its neuroscience portfolio. Also in the same month, PE-backed MW

17: "Nasdaq Completes $10.5 Billion Adenza Deal in Fintech Bet," Bloomberg, Katherine Doherty, November 1, 2023.

Healthcare PE exit activity



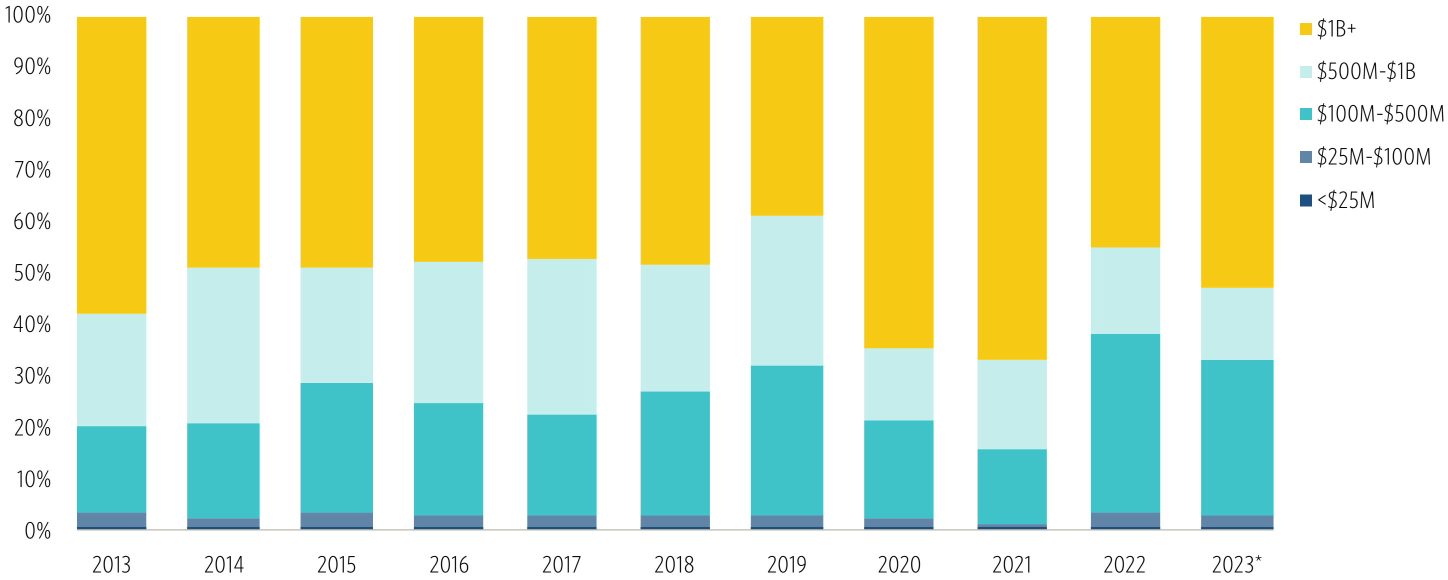
Source: PitchBook • Geography: US • *As of December 31, 2023

Components completed its spinout sale of Paragon Medical to AMETEK for $1.9 billion. Paragon Medical manufactures a wide range of medical devices and broadens AMETEK's presence in the medtech industry. These two exits alone accounted for over 74% of Q4's healthcare PE exit value and pushed the sector's share of the quarter's total PE exit value to over 31%.

As inflation, interest rates, and the debt market continue to stabilize, more sponsors are likely to bring their well-performing assets to market, while healthcare specialist PE firms are expected to pick up those exits thanks to their successful fundraises in the past few years. Furthermore, the sector is due for an exit cycle of maturing healthcare platforms, which will bring more quality assets to the market in time for market stabilization. We anticipate that exits will pick back up in the second half of 2024 thanks to robust fundraising by healthcare-focused PE firms and a more stable macroeconomic outlook. There are even green shoots of a reopening of the IPO market for healthcare companies. At the end of Q3, it was reported that KKR-backed BrightSpring Health Services filed for a public listing with a goal of raising $1 billion.[18] The company, a home and community-based healthcare services provider for elderly and disabled people, initially planned to list in late 2021 but ultimately withdrew its filing in November 2022 after the IPO market turned. BrightSpring Health Services' listing would be a welcome change after a two-year freeze of new listings.

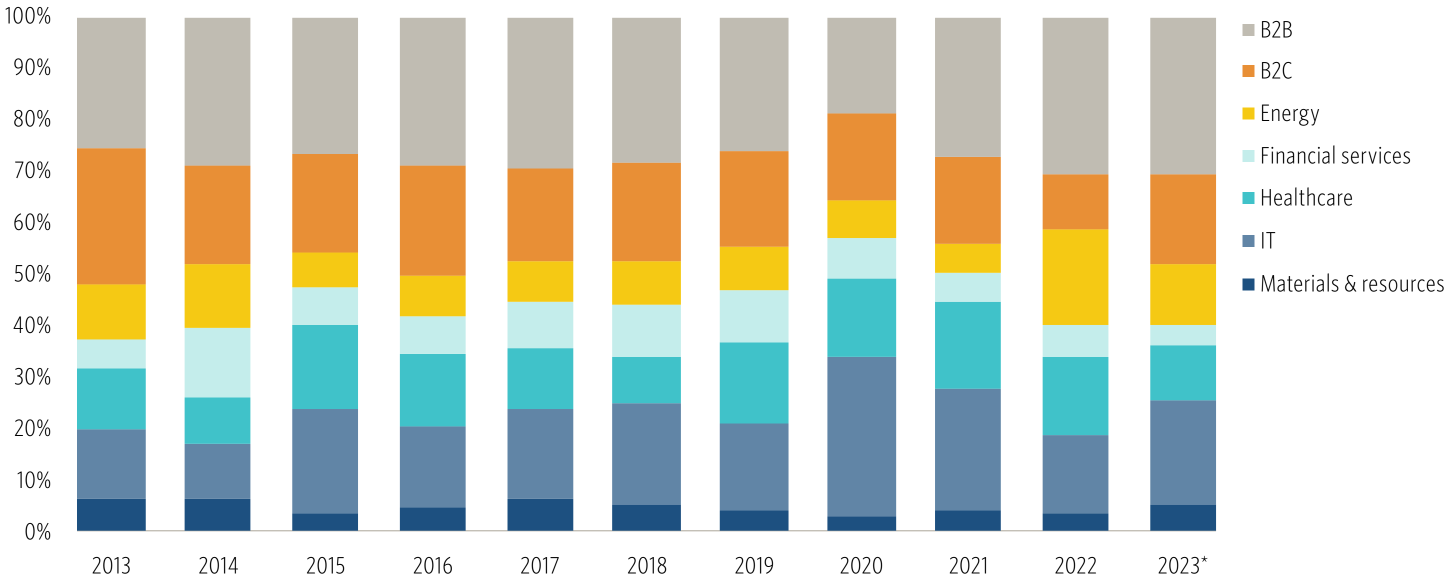
18: "KKR-Backed BrightSpring Is Said to Revive IPO Seeking $1 Billion," Bloomberg, Amy Or and Ryan Gould, September 22, 2023.

Share of PE exit value by size bucket



Source: PitchBook • Geography: US • *As of December 31, 2023

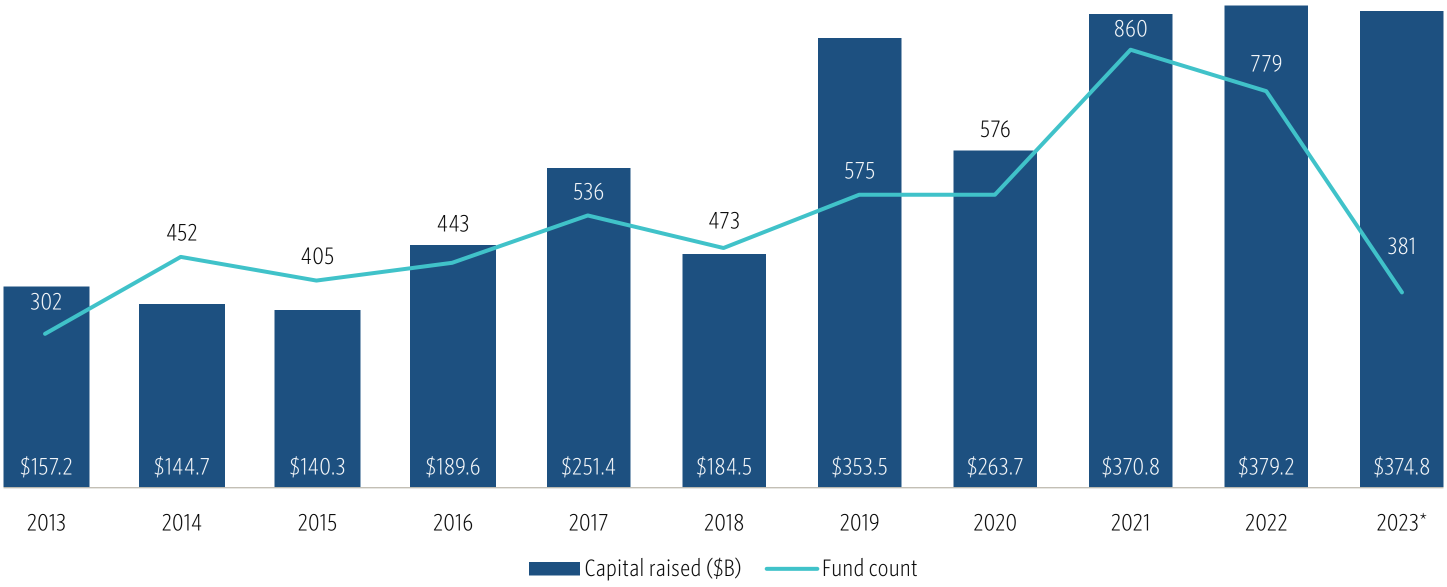
Share of PE exit value by sector



Source: PitchBook • Geography: US • *As of December 31, 2023

Fundraising and performance

PE fundraising activity



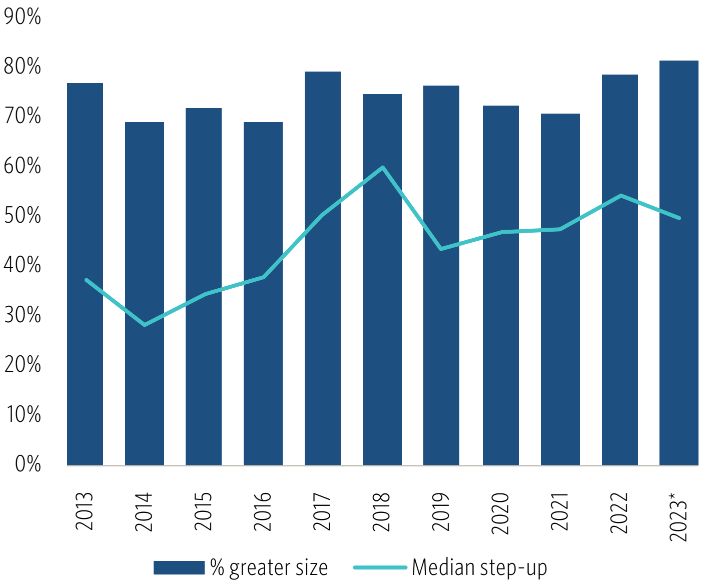
Source: PitchBook • Geography: US • *As of December 31, 2023

Overview

In 2023, GPs encountered a more arduous fundraising environment than in previous years. This shift was primarily due to constrained capital allocation from LPs as a result of limited distributions. This scarcity of available capital extended fundraising timelines, pushing GPs to explore diverse avenues for raising funds. Remarkably, despite these headwinds, the total capital amassed throughout the year amounted to $374.8 billion across 381 funds, aligning with the record-setting figures of 2021 and 2022. This indicates LPs' sustained commitment to private equity, which is buoyed by its robust long-term prospects and a history of resilient returns in economically volatile periods.

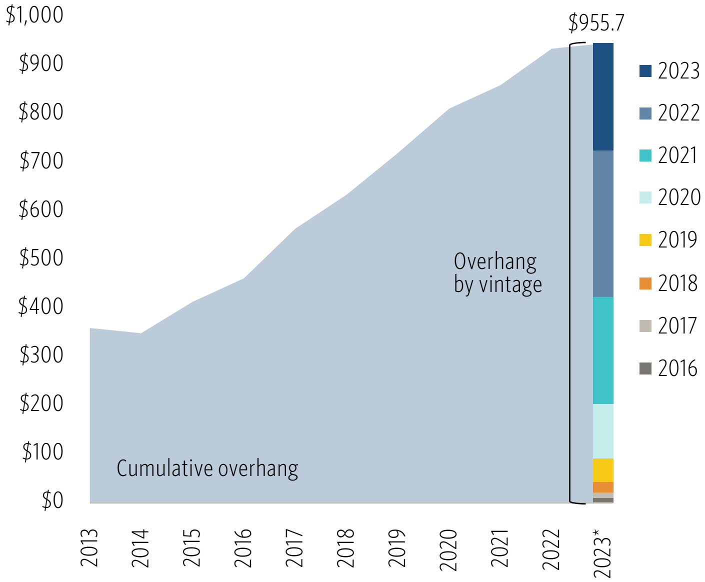
Investor commitments to private equity managers persisted, although they were tempered early in the year by the denominator effect and a sluggish exit market, which postponed return of capital from older funds. Consequently, the median time to close funds has stretched to 14.1 months, the longest since 2011 and up from 11.0 months in 2022. As a result of keeping their funds open for longer, GPs have been able to achieve higher step-ups from their predecessors. By the end of 2023, a record 81.3% of PE funds closed at larger sizes, surpassing the five-year average of 74.6% of funds experiencing a step-up. The 2023 median step-up size of 50.0% from previous funds aligns very closely with the five-year average of 50.6%.

Median step-up from previous PE fund in fund family



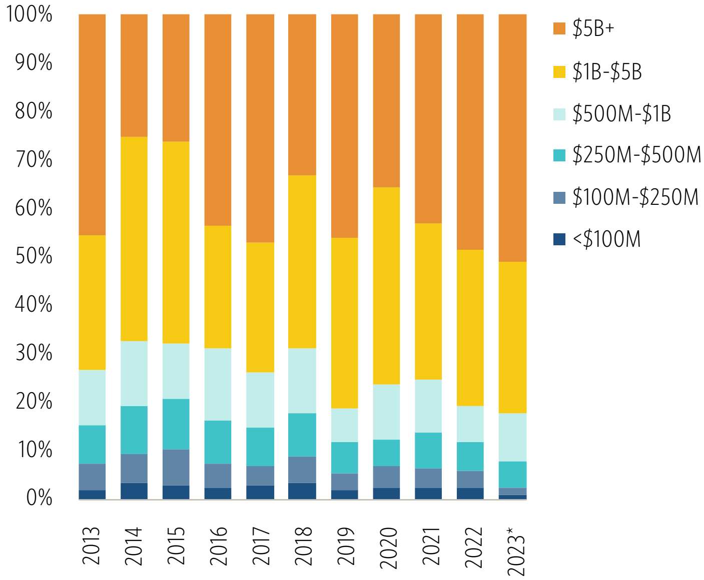
Source: PitchBook • Geography: US • *As of December 31, 2023

US PE dry powder ($B) by vintage



Source: PitchBook • Geography: US • *As of March 31, 2023

Share of PE capital raised by size bucket



Source: PitchBook • Geography: US • *As of December 31, 2023

In terms of fundraising by PE strategy, buyout funds dominated with a share of 80.5% of total capital raised. This represents an increase from 76.3% in 2022 and 69.5% in 2021. This increase came at the expense of growth equity funds, which decreased to 19.4% of the overall mix, down from 27.6% in 2021 and 23.6% in 2022. The tougher market conditions were reflected in growth equity fundraising, which witnessed its second consecutive annual decline in fund count and value. Investor appetites have shifted away from growth at all costs and growth equity funds were swept up in that. Ironically, on the buy-side, GPs have been more actively investing in the growth equity space, bouncing back from a subdued 2022. The appeal of the space lies in the smaller check sizes required and the absence of leverage, as growth equity relies on all-equity deal structures. These factors make the space increasingly attractive for closing deals in today's more challenging dealmaking landscape. While company prospects at the growth stage are far more predictable than early-stage VC investing, the potential for losses is real. Many growth strategies, for example, involved accelerating customer acquisition, which in hindsight did not have sufficient loyalty or lifetime value to justify the marketing spend. This resulted in unsustainable, low-quality growth. Broadly speaking, growth equity companies are generally much closer to an exit event than early-stage VC companies. This has forced the recent cohort of growth companies to navigate through difficult market headwinds that have muted the exit environment over the last 18 months. The peak of growth equity fundraising occurred in 2021, with 168 funds raising a collective $102.4 billion. However, as of the end of 2023, the number of funds and the amount raised have decreased to 59 funds and $72.6 billion.

Megafunds

In 2023, 17 megafunds—funds of $5 billion or more—closed on a combined $191.4 billion, the most raised in a single calendar year by US-based megafunds. Leading the way was Clayton, Dubilier & Rice with its 12th flagship buyout fund that closed on $26.0 billion, tying it with Blackstone Capital Partners VIII as the largest US buyout fund ever raised and trailing only CVC Capital Partners, which closed on $28.6 billion in July, as the largest buyout fund ever raised. Additional notable funds include Hellman & Friedman's Capital Partners XI, which raised $20.2 billion, and Apollo's Investment Fund X, which closed on $20.0 billion. While these megafunds continue to attract substantial capital, with several surpassing the $20.0 billion mark, it is worth noting that they are taking longer to raise compared with the previous two years. Megafunds of this scale often rely on the largest pensions, endowments, and foundations for the majority of their capital, and many allocators were limited in their ability to write nine- to 10-figure checks throughout 2023, a continuation of a trend that started in 2022. With a multitude of colossal funds in the market and a slower exit environment reducing capital flow back to LPs, GPs have faced increasing challenges in securing commitments from LPs or closing megafunds at the same pace as in previous years. The limited availability of capital from traditional LPs has

Notable open funds*

Fund	Fund type	Open date	Fund value ($M)
Silver Lake Partners VII	Buyout	February 10, 2022	$19,157.6
Blackstone Capital Partners IX	Buyout	June 21, 2022	$17,550.2
Vista Equity Partners Fund VIII	Buyout	October 25, 2021	$17,000.0
Clearlake Capital Partners VIII	Buyout	June 20, 2023	$15,000.0
BDT Capital Partners Fund 4	Buyout	March 25, 2022	$13,051.9
TPG Partners IX	Buyout	April 29, 2022	$10,736.1
Platinum Equity Capital Partners VI	Buyout	October 26, 2021	$10,657.5
The Resolute Fund VI	Buyout	May 30, 2023	$6,500.0
ICONIQ Strategic Partners VII	PE growth/ expansion	April 28, 2022	$6,000.0
Blackstone Growth II	PE growth/ expansion	May 5, 2022	$4,093.7

Source: PitchBook • Geography: US • *As of December 31, 2023

Notable closed funds in 2023*

Fund	Fund type	Close date (2023)	Fund value ($M)
Clayton, Dubilier & Rice Fund XII	Buyout	August 26	$26,000.0
Hellman & Friedman Capital Partners XI	Buyout	July 14	$20,164.5
Apollo Investment Fund X	Buyout	June 30	$20,000.0
Warburg Pincus Global Growth XIV	PE growth/ expansion	October 10	$17,300.0
TA XV	PE growth/ expansion	June 15	$16,500.0
Carlyle Partners VIII	Buyout	August 1	$14,797.0
Genstar Capital Partners XI	Buyout	April 27	$12,600.0
GTCR Fund XIV	Buyout	May 23	$11,500.0
KPS Special Situations Fund VI	Buyout	November 1	$8,000.0
American Securities Partners IX	Buyout	January 1	$7,000.0

Source: PitchBook • Geography: US • *As of December 31, 2023

resulted in an extended period in the market for some of these megafunds, leading some managers to postpone their fund closings until 2024.

As fundraising efforts are taking longer, a slew of open megafunds have already surpassed $5 billion. The 10 largest open PE megafunds have already amassed $119.7 billion. Notable managers such as Silver Lake, Blackstone, and Clearlake Capital Group lead the list, having raised $19.2 billion, $17.6 billion, and $15.0 billion, respectively. Several of these managers stated they expect closes in early 2024 after pushing their fundraising timelines into the new year, striving for additional commitments. Vista Equity Partners, for instance, extended the closing of its eighth buyout fund to early 2024, aiming to reach its $20.0 billion hard cap.[19] Blackstone and TPG are also anticipating final closes in early 2024. The slower pace of capital raising has prompted several managers to revise their fund targets, both for funds that have already closed in 2023 and those that are currently in the fundraising process. Many megafunds that did manage to close were also required to lower their targets. For example, Apollo initially aimed for $25.0 billion for its 10th flagship buyout fund but later adjusted the target to the low-20-billions. After 12 months in the market, Apollo closed the fund at $20.0 billion without extending the fundraising timeline amid the challenging environment.

Middle-market funds

Middle-market managers followed up their best-ever fundraising years in 2021 and 2022 with a strong 2023. Middle-market funds are those that raise between $100 million and $5 billion. In 2023, middle-market managers closed 205 funds worth an aggregate value of $180.6. Despite a challenging fundraising landscape, total capital raised in 2023 showed resilience, finishing just below the previous year. Since 2019, middle-market managers have consistently raised over $165 billion per year, with most years even surpassing $180 billion. In 2023, middle-market fundraising took center stage, accounting for a significant 59.4% of the total funds raised. This marked a substantial increase from the 41.5% recorded in 2022 and well above the 10-year average of 46.7%. Large-fund fatigue has started to set in, and as a result, investors have gravitated more toward smaller funds that focus on smaller deals. This shift is driven by the current

19: "Vista Equity Tops $100 Billion in AUM, as Tech Deals Reignite," Axios, Dan Primack, September 25, 2023.

macroeconomic landscape, where smaller deals are more manageable and financing is more accessible. Additionally, the lower end of the market offers more favorable deal valuations, offsetting higher borrowing costs. These factors combined to create an environment that favored middle-market funds in 2023.

New sources of fundraising

Heading into 2023, traditional LPs faced capital constraints, presenting a significant challenge for GPs raising capital. In response, many GPs sought alternative funding sources to successfully close their funds. This search led to a promising solution: family offices and sovereign wealth funds (SWFs). Both entities have been actively increasing their allocations to private markets, particularly in private equity. Family offices, which aim to preserve and grow wealth for future generations, share a well-aligned investment time horizon with GPs, as both prioritize long-term outcomes. In a 2023 survey of North American family offices led by RBC and Campden Wealth, respondents stated that the private market, and specifically private equity, is their top choice for the asset class that will generate the best returns in the coming years.[20]

Sovereign wealth funds possess surplus capital and aim to allocate it to private markets. For GPs, SWFs provide a dependable source of funding, especially in the face of current challenges in private equity fundraising. The presence of SWFs simplifies the investment process for GPs, particularly when leveraging is costly. Additionally, SWFs frequently engage in co-investments with PE firms, demonstrating their agility, flexibility, and substantial financial resources. As a result, GPs can turn to SWFs as an additional avenue for funding during periods of tight financing. In July 2023, Mubadala, an SWF from Abu Dhabi, United Arab Emirates, partnered with KKR in acquiring CoolIT, a designer and manufacturer of liquid cooling components. Another Abu Dhabi-based SWF, the Abu Dhabi Investment Authority, actively participated in co-investments throughout the year. The SWF co-invested in four of the largest take-privates of 2023: Univar for $8.1 billion, Coupa for $8.0 billion, Dechra Pharmaceuticals for $5.5 billion, and Cvent for $4.6 billion.

Though not included in our fundraising totals for PE, which only tracks primary capital formation, fundraising for secondaries is experiencing strong fundraising growth with the vast majority targeting PE fund interests and assets for deployment. Globally, $68.1 billion was raised for secondary funds as of Q3 2023,already surpassing the $57.6 billion raised for the entire year of 2022. The surge in fundraising interest is due to the increasing demands for liquidity among GPs and LPs. This heightened interest has led to the emergence of larger dedicated secondaries funds. In early 2023, Blackstone closed Strategic Partners IX, the largest private equity secondary fund to date, with a whopping $22.2 billion in total commitments. More recently, Goldman Sachs Asset Management raised $14.2 billion for Vintage IX, the ninth edition of its diversified private equity secondary fund. Additionally, there are still several large funds in the market actively raising capital, including those managed by Lexington Partners and HarbourVest Partners. To date, these funds have raised over $18.5 billion and $9.5 billion, respectively.

Continuation funds, a subset of secondaries, have garnered significant attention and attracted fundraising. A GP-led continuation fund allows GPs to roll assets into a new vehicle instead of selling them at the end of a fund's life. This strategic approach is employed when GPs perceive untapped value in an asset or wish to avoid selling in unfavorable market conditions. Adding to the momentum, Blackstone closed its inaugural GP-led continuation fund strategy, raising $2.7 billion. In October, Alpine Investors raised a $3.4 billion single-asset continuation fund to further its partnership with Apex Service Partners, an HVAC, plumbing, and electrical services business and portfolio company of Alpine Investors VII. Commitments for the new Apex continuation fund include contributions from Blackstone Strategic Partners, HarbourVest Partners, Lexington Partners, Pantheon, and Alpine's Fund IX.[21]

Over time, many observers expect capital raised and deployed in PE secondary markets to pull even with primary activity, similar to public equity markets. With primary fundraising for PE likely to approach $500 billion globally in 2023 there is quite a ways to go, but the gap is shrinking.

Asset gathering through acquisition

Large PE managers are always on the lookout to expand their product offerings and AUM. Increasingly, this has led them to diversify away from PE and into new alternative asset classes, like private credit, or exploring new geographies. Many of the largest GPs aspire to be a one-stop shop for LPs, with the top dozen or so firms offering myriad strategies. This

20: "The North America Family Office Report 2023," RBC Wealth Management and Campden Wealth, 2023.
21: "Alpine Investors Closes $3.4 Billion Single-Asset Continuation Transaction to Support Continued Growth of Apex Service Partners," Alpine Investors, October 25, 2023.

seems to benefit both managers and institutional allocators. Managers can sustain growth, providing attractive returns to shareholders, while also offering upward mobility to retain top talent. For LPs, they can consolidate significant portions of capital with only a handful of trusted relationships.

Perhaps more than any other manager in 2023, TPG illustrates the trend of GPs diversifying away from PE through transformative acquisitions. TPG started the year with 67.0% of its AUM in PE and ended the year at 44.0% in PE. What happened in between was the $2.7 billion acquisition of Angelo Gordon, which closed in November. Angelo Gordon added $72.0 billion of AUM in primarily private credit, widely viewed as a strategic area of industry growth. Its stock has responded by climbing more than 60% since the announcement.

KKR, another manager with a strong PE heritage, recently took steps to bolster its fundraising prospects by acquiring the 37% it did not already own of Global Atlantic, an insurer with $158.0 billion in AUM. The insurance channel has turbo charged AUM growth for the "big three" alt managers in particular (Blackstone, KKR, Apollo), accounting for 25% to 50% of TTM fundraising through Q3 2023 across all strategies. Unfortunately for PE, the vast majority of that fundraising has flowed to non-PE strategies such as private credit and real estate. Coinciding with the Global Atlantic deal announcement was KKR's unveiling of a new five-year plan. KKR has split its asset management away from PE business in order to focus on the latter's dividend growth and exit realization prospects. Increasingly, core PE is being characterized as maturing while other strategies, private credit in particular, are viewed as emerging in an AUM growth context.

While some firms are diversifying into different asset classes and distribution channels, others are focusing on broadening their geographic reach in order to drive PE AUM growth. In July, Ares acquired Crescent Point Capital, an Asia-focused private equity firm with approximately $3.8 billion in AUM. Headquartered in Singapore, Crescent Point has a presence in China, Indonesia, the Philippines, and Vietnam, presenting Ares with an opportunity to enhance its PE presence and capabilities in the region. In October, Ares announced a $100 million investment in Vinci Partners, a Brazilian alts manager, in order to collaborate on distribution, product development, and other opportunities in Latin America.

Performance

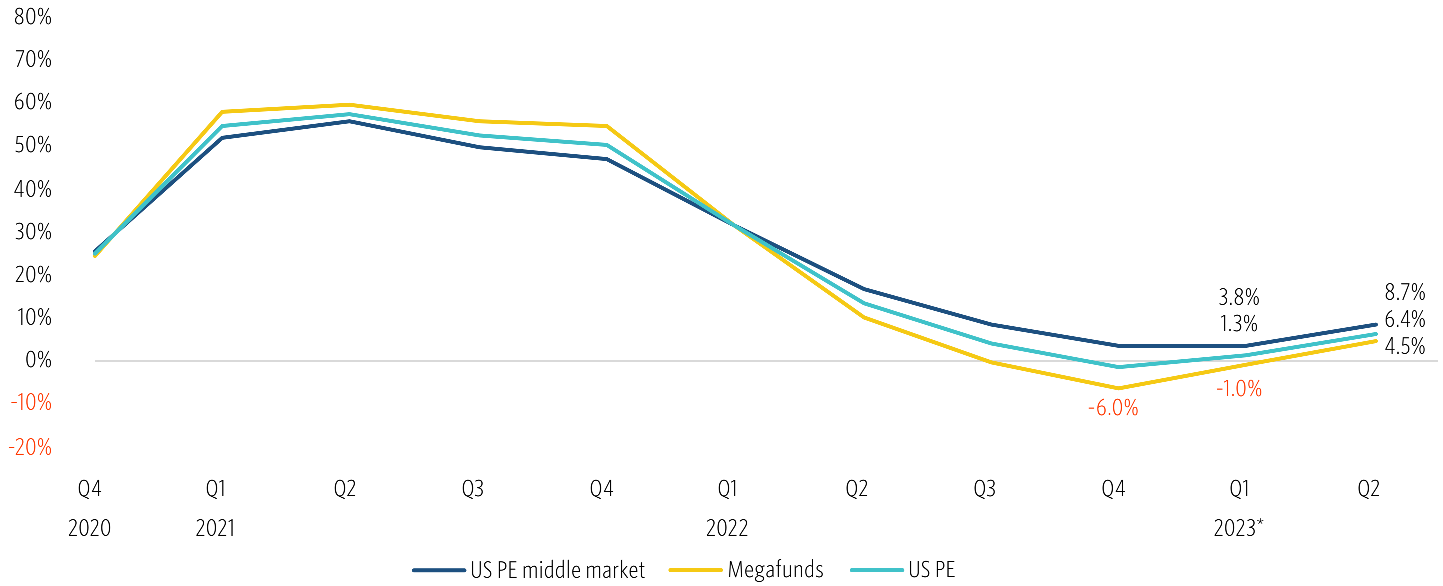
In analyzing recent PE fund performance, it points to a welcome return to double digit territory on an annual basis. We remind readers that performance reporting by private funds lags by three to six months and as a result will not reflect the explosive move in public equities in Q4 2023.

Our final data for the second quarter shows a return of 3.0%, though it falls short of the more robust 3.8% quarterly average seen during the 2017 to 2019 period. This illustrates a slight moderation in fund performance. Moreover, preliminary figures for the third quarter suggest a notable deceleration, with returns tapering off to just 0.4%, reflecting the impact of higher interest rates, heightened volatility, and uncertain market dynamics currently impacting the private equity sector. Pivoting to the metric of rolling one-year IRR for US PE funds through Q2 2023 reveals a more encouraging gain of 6.4%. This reflected an inflection upward from the 5.1% rolling one-year return as of Q1 yet was still well below the 2017 to 2019 average of 15.6%.

The six major public PE firms are a good indicator of more recent fund performance. For the 12 months ending Q3 2023, the median gross return reported by these firms in their core PE strategies was 11.5%. Here too Q3 performance moderated somewhat due to market uncertainty and the sharp backup in long-term rates, but that was before Q4's 11.7% melt-up in the S&P 500. As a result, it's likely that net PE returns are headed back to double digits—after a long absence—once the books are closed on 2023. Still, those returns will lag public markets by a wide margin in 2023, a reversal from 2022 when PE clung to flat returns while the S&P 500 plummeted by 19.4%.

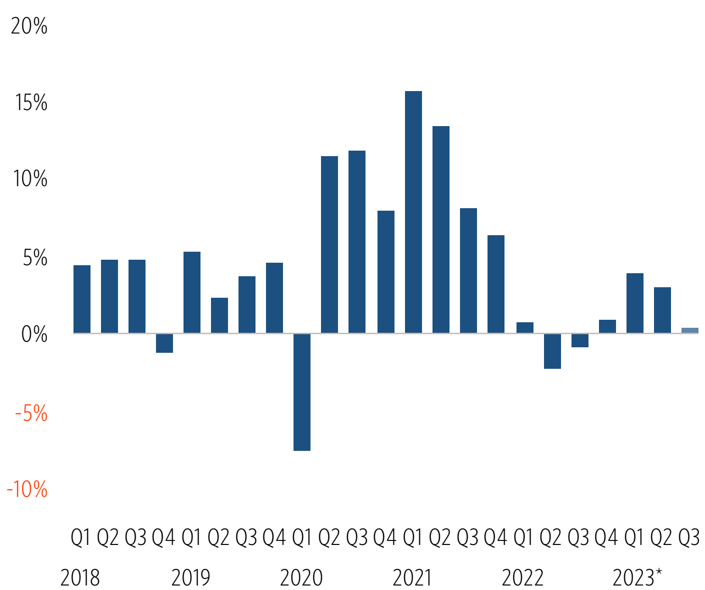
Breaking down the data by fund sizes, we find that middle-market funds have maintained their performance advantage over megafunds, with a notable 423-basis-point spread on a rolling one-year basis. This outperformance by middle-market managers began in Q2 2022 and has now persisted for five consecutive quarters, marking the longest streak since 2019. Historical cycles of outperformance by middle-market managers have typically lasted between one and three years, with the two most recent instances spanning five and four quarters, respectively. The recent retreat in interest rates during December could provide megafunds with improved access to debt financing for large LBOs and support a more accommodative environment for investment returns in the upcoming year.

PE rolling one-year performance by size



Source: PitchBook • Geography: US • *As of December 31, 2023

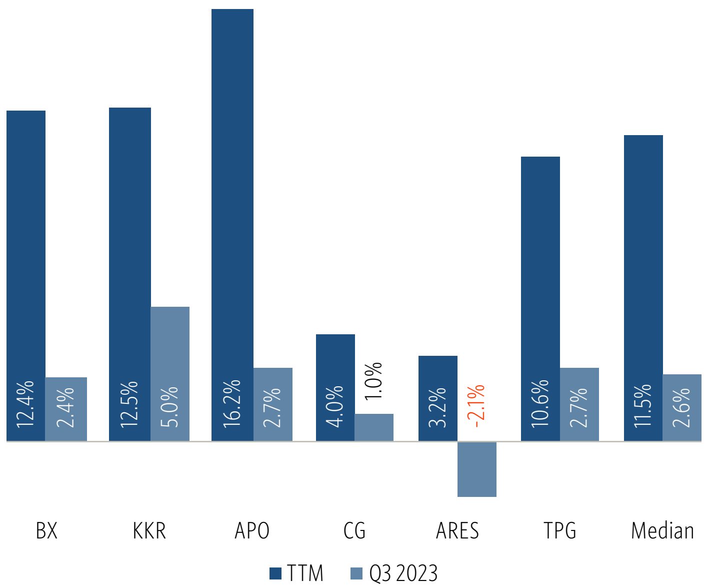
PE funds IRR by quarter



Source: PitchBook • Geography: US • *As of December 31, 2023

Note: Q3 2023 data is preliminary.

TTM and quarterly gross PE returns/appreciation by manager*



Source: Company reports • Geography: Global • *As of September 30, 2023

Addendum

Normalized EBITDA Metrics

All EBITDA metrics referenced in this report rely on Morningstar's methodology for determining normalized EBITDA. Normalized EBITDA values are part of a broader dataset that Morningstar maintains known as Normalized Profitability Metrics (NPM). These same metrics can be found in the company financials displayed on the PitchBook platform where such financials are available.

The objective of the NPM dataset is to normalize company earnings by adjusting for irregular income and/or expenses and one-off items that are unusual in nature, so that financials reflect the usual course of business for a company.

The starting point for normalized EBITDA is to first determine unadjusted EBITDA using the standard formula:

EBITDA = Net Income + Interest + Taxes + Depreciation + Amortization

From there, adjustments are made for irregular and unusual items. These items include:

- Disposal of businesses
- Merger and acquisition income/expense
- Restructuring and reorganization expense
- Stock-based compensation (non-GAAP companies only)
- Financial instruments and investments - gains/losses
- Derivatives - unrealized gains/losses
- Financial assets - unrealized gains/losses
- Gain/loss on asset disposals
- Foreign currency exchange - unrealized gains/losses
- Gain/loss on extinguishment of debt
- Debt restructuring
- Impairment/write off/write down of capital assets
- Write off/write down of other assets
- Goodwill impairment/write off
- Litigation income/expense
- Other irregular income/expenses

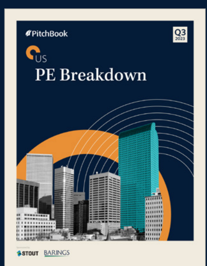
Morningstar maintains NPM metrics on approximately 54,000 companies, of which 24,500 receive an enhanced level of review by Morningstar analysts (Analyst Normalized EBITDA).

When any of these companies are acquired in a corporate M&A or PE buyout transaction, PitchBook will use Analyst Normalized or Normalized EBITDA where available for computing EV to EBITDA multiples. This process helps the investing community to understand the purchase price paid in relation to a company's true earnings power prior to items that may vary based on the capital structure applied, such as interest, taxes, depreciation, and amortization.

Additional information on Morningstar's NPM methodology can be found here.

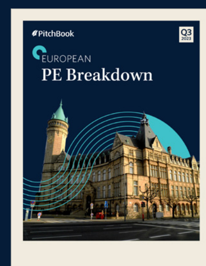
Additional research

Private equity



Q3 2023 US PE Breakdown

Download the report here



Q3 2023 European PE Breakdown

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Q3 2023 US PE Middle Market Report

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H1 2023 Global Private Debt Report

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Q3 2023 US Public PE and GP Deal Roundup

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