



WEBINAR

# PitchBook's Private Equity Outlook | Assessing Themes: 2019 and Beyond

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# PitchBook's Private Equity Outlook | Assessing Themes: 2019 and Beyond

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# Private Equity Outlook

## 2019 Private Equity Outlook

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### PitchBook 2019 Private Equity Outlook

Forecasting the primary trends that will shape PE in years to come

PitchBook is a Morningstar company. Comprehensive, accurate and hard-to-find data for professionals doing business in the private markets.

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#### 2019 predictions

- p. 2-3** GP stakes will experience ongoing innovation.
- p. 4-5** Secondaries activity will hit another all-time high.
- p. 6-7** Short-term returns will fall for PE funds, but performance will improve relative to public equities.
- p. 8-9** PE fundraising will grow for China-focused funds.
- p. 10-11** Private debt fundraising will rebound but remain below 2017 levels.
- p. 12-13** Multiples in public and private markets will converge further.
- p. 14-15** Take-privates will increase in prominence.

#### 2018 predictions scorecard

Buyout multiples will remain elevated.	PASS	Multiples remained elevated and even rose despite a decline in public market multiples.
SBOs will continue gaining in stature.	FAIL	SBOs declined in terms of deal sourcing as non-RE backed sourcing options gained share.
PE investment in software will proliferate further.	PASS	Software enjoyed a banner year and led a record in terms of proportion of deal flow.
Niche fundraising will continue its rise.	SPLIT	Fundraising for secondaries, first-time funds and GP stakes grew while private debt fell.
LP net cash flows will subside.	FAIL	GPs returned a record amount of cash to LPs despite flat exit activity and net cash flows rose.
The number of active US PE investors will shrink.	PASS	Active US PE investors shrank for just the second time as a global period of undernourishment.

# Key themes

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GP stakes will experience ongoing innovation

2

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Secondaries activity will hit another all-time high

3

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Multiples in public and private markets will converge further

4

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Short-term returns fall for PE funds, but performance will improve relative to public equities

5

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Take-privates will increase in prominence

6

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Private debt fundraising will rebound but remain below 2017 levels

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GP stakes will experience ongoing  
innovation

## PREDICTION 1

### GP stakes will experience ongoing innovation

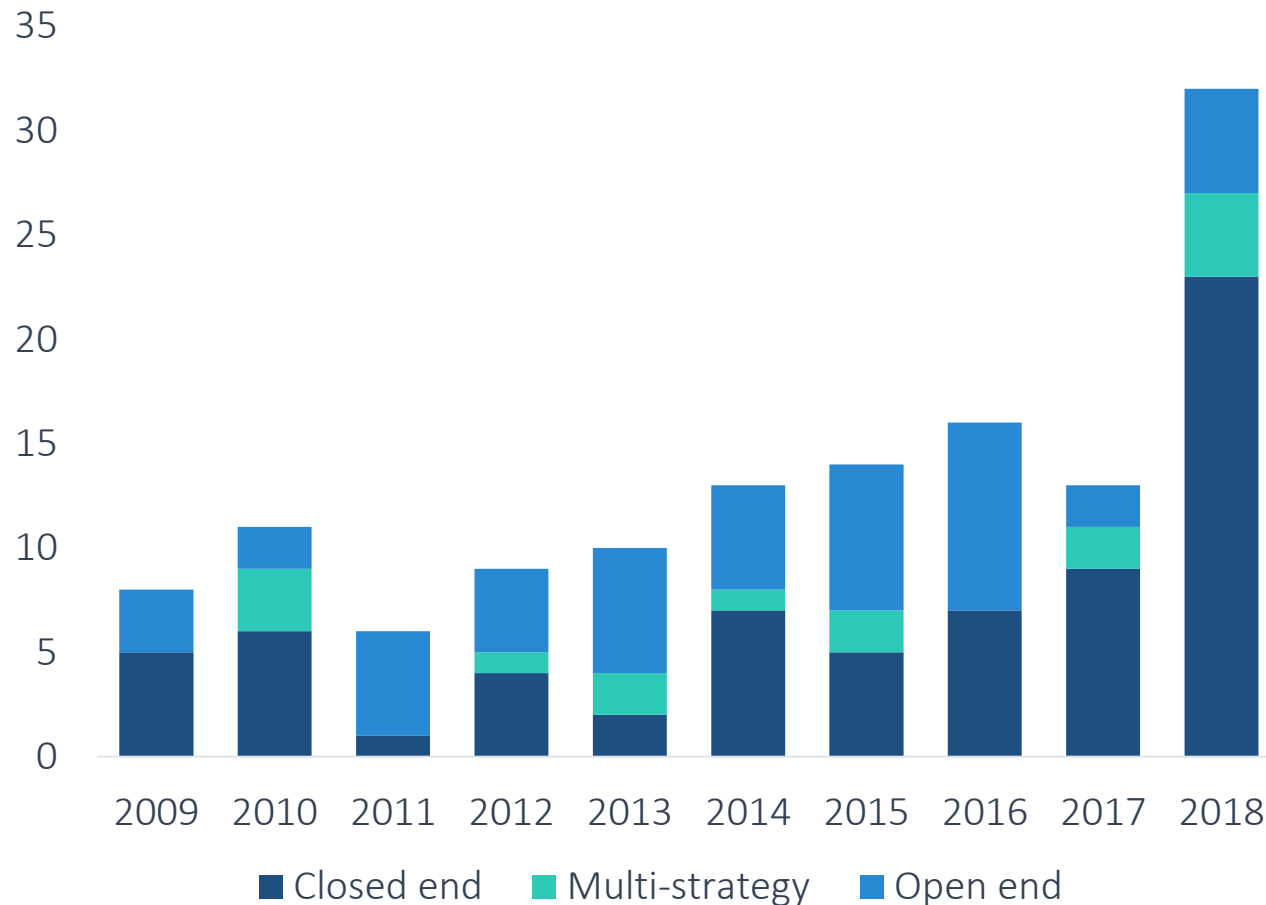
#### Rationale

In 2019, we expect to see further innovation in deal making, with GP stakes funds continuing to develop new ways to tap into smaller targets and promising emergent managers. We also anticipate concerted efforts to realize investments and predict a major liquidity event—likely an IPO—of a portfolio of GP stakes as pioneering investors seek out viable liquidity options for early LPs.

#### Caveat

Several firms have tried and failed to launch GP stakes teams and funds. The highly specialized nature of the strategy could mean there's only enough room for a handful of deep pocketed managers. If this is the case, it would almost certainly curtail innovation.

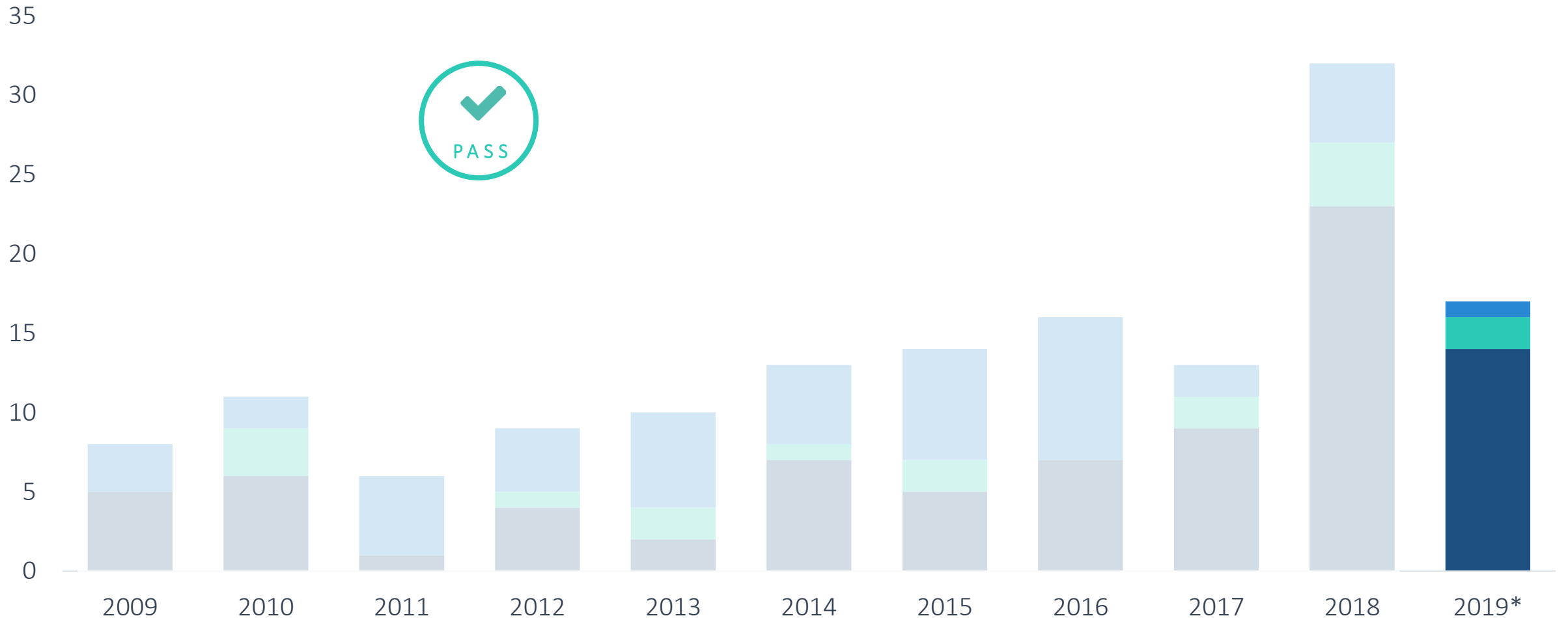
Global GP stakes deal activity (#)



## PREDICTION 1

# GP stakes will experience ongoing innovation

Global GP stakes deal activity (#)



2  
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Secondaries activity will hit another all-time high



## PREDICTION 2

# Secondaries activity will hit another all-time high

### Rationale

Sustained strength in secondaries fundraising and high levels of dry powder, combined with increasingly sophisticated market participants that have shown a willingness to experiment with new deal structures, should foment secondaries activity for the foreseeable future.

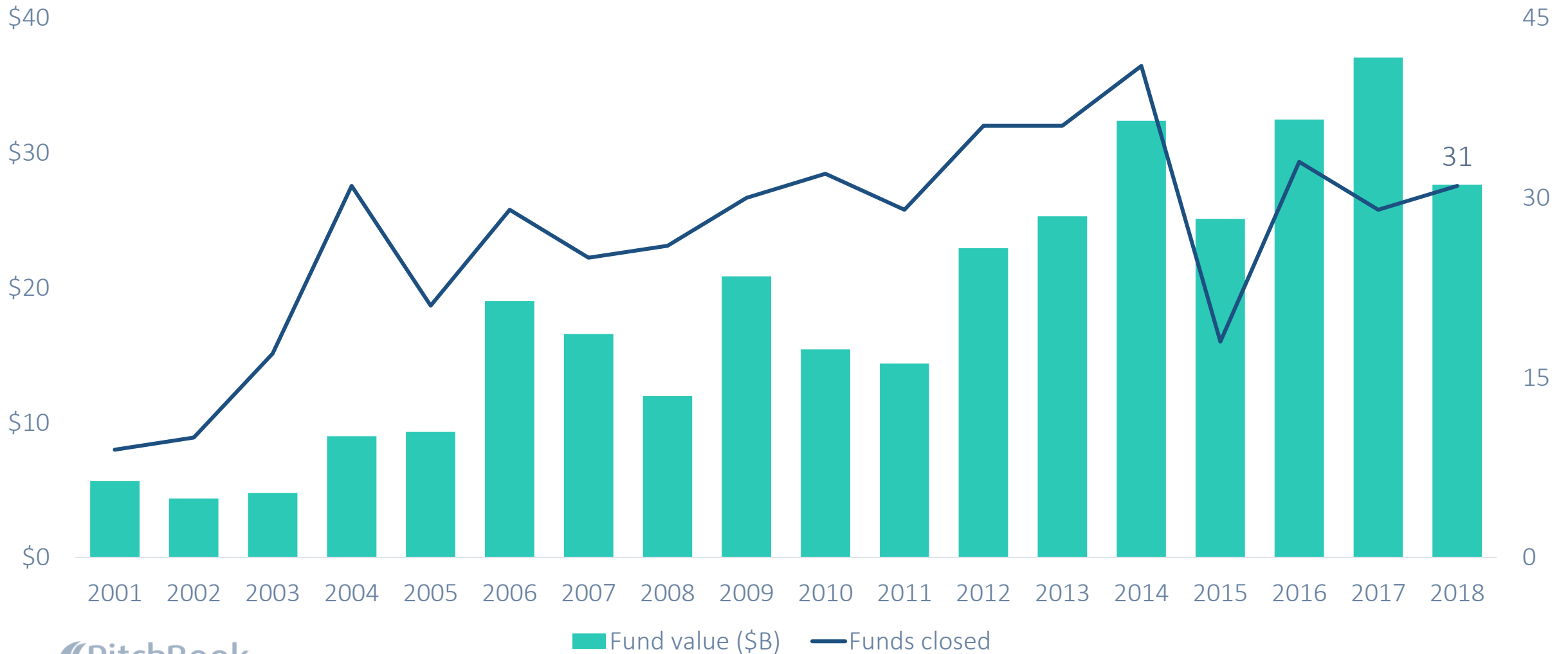
### Caveat

Some in the industry have called into question the motivations and alignment of incentives associated with certain secondaries transactions. This could lead to renewed skepticism from potential secondary market participants as well as increased regulatory scrutiny, which could dampen activity.

PREDICTION 2

# Secondaries activity will hit another all-time high

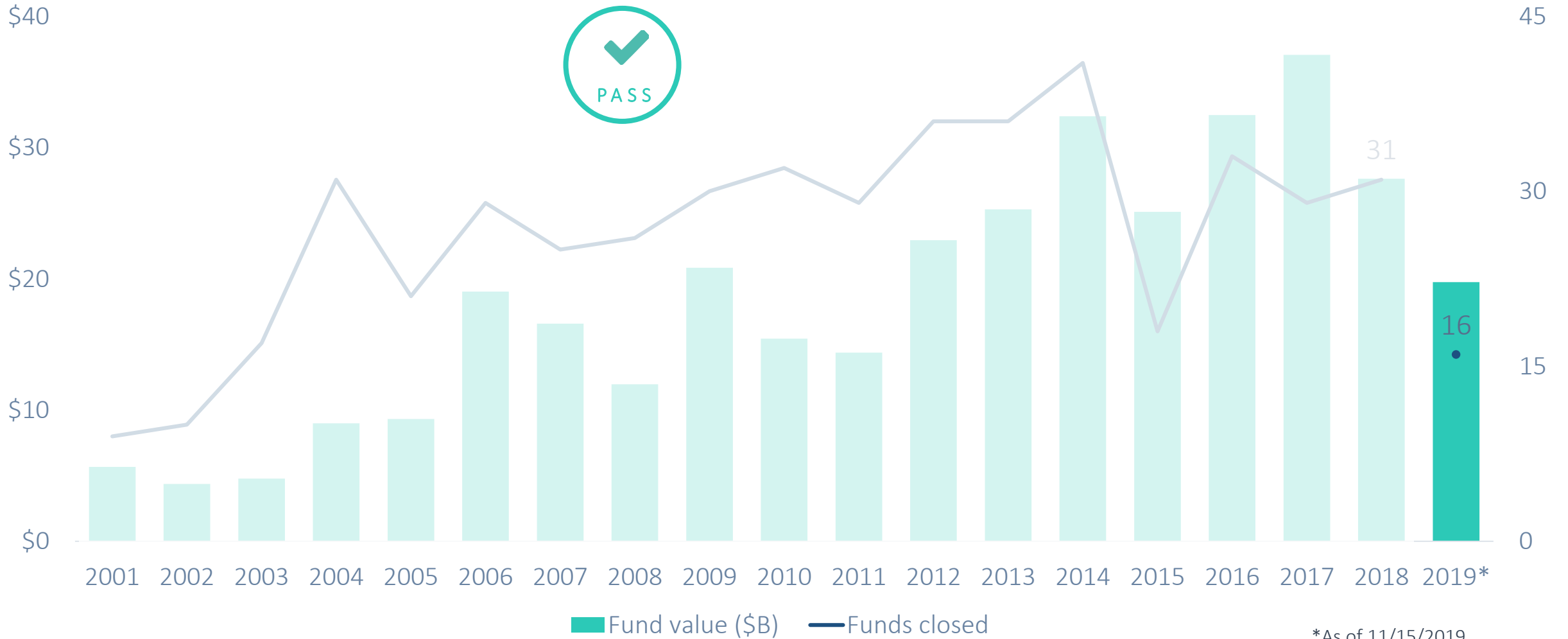
Global secondaries fundraising activity



PREDICTION 2

# Secondaries activity will hit another all-time high

Global secondaries fundraising activity



3

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Multiples in public and private markets  
will converge further

### PREDICTION 3

## Multiples in public and private markets will converge further

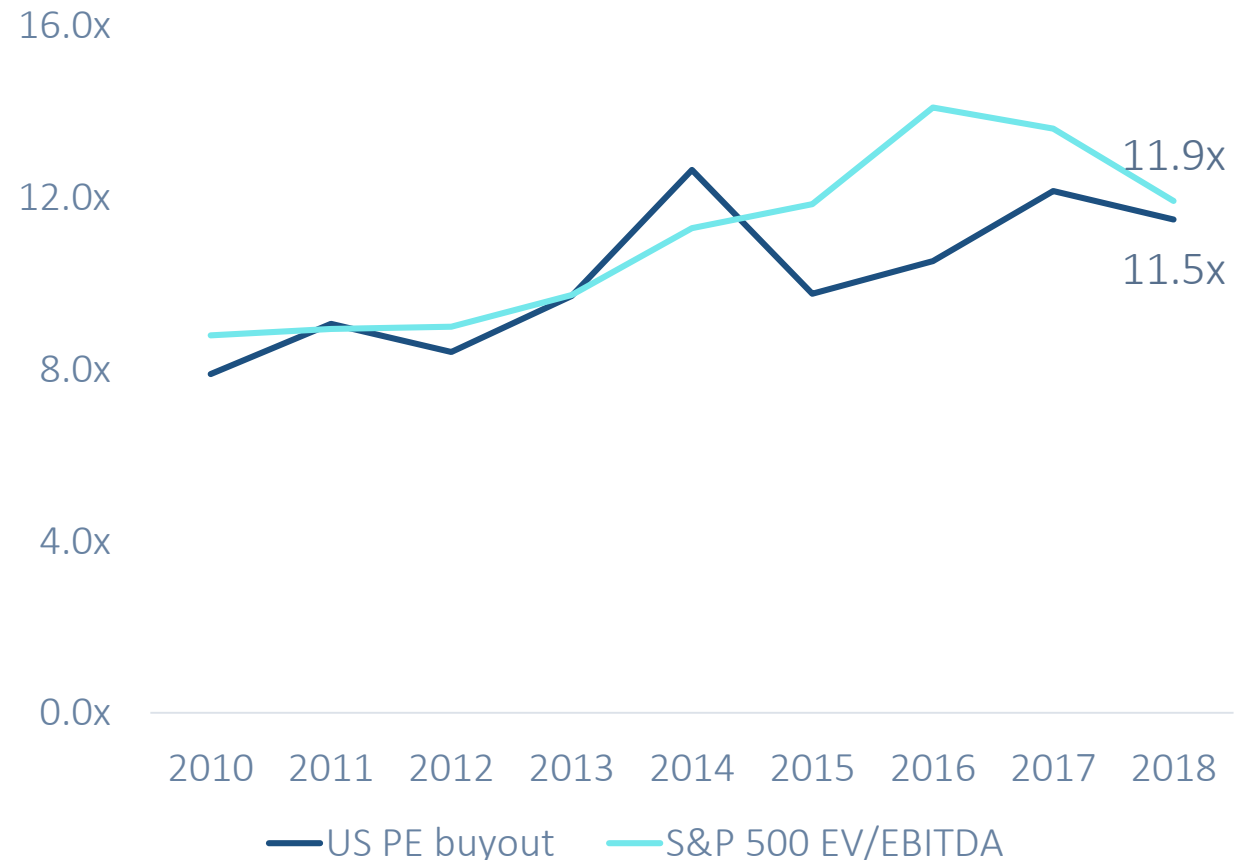
### Rationale

The discount applied to private market companies is diminishing. The growing number of PE firms offering multiple private market strategies with a need to invest vast sums of dry powder keeps increasing. With so many large players in the industry, transactions are likely to receive multiple bids as GPs must bid aggressively to win price auctions.

### Caveat

Public equity markets can be volatile; a dramatic upward move in pricing could pull multiples up at a faster rate than could reasonably be achieved in private markets.

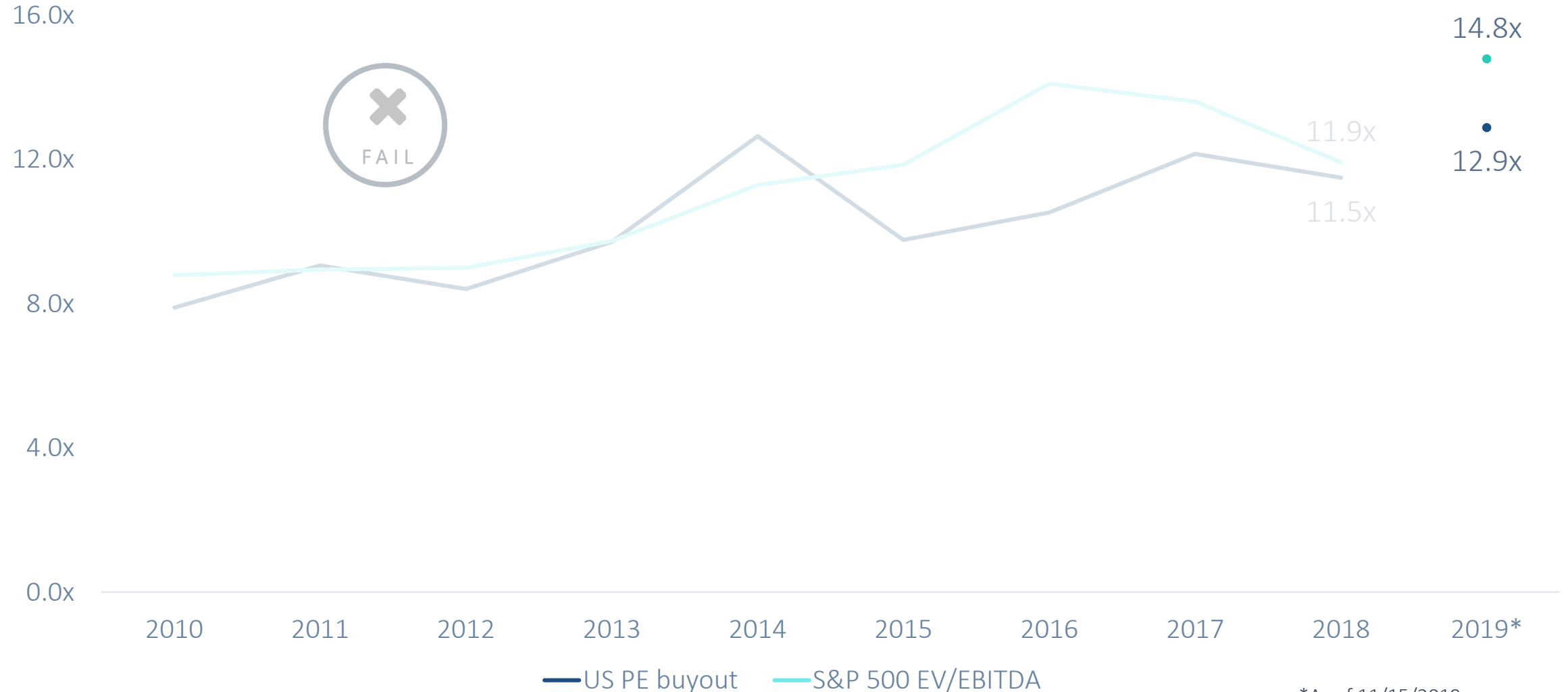
Median EV/EBITDA multiples for US PE buyouts and S&P 500



### PREDICTION 3

## Multiples in public and private markets will converge further

Median EV/EBITDA multiples for US PE buyouts and S&P 500



\*As of 11/15/2019

4

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Short-term returns fall for PE funds, but performance will improve relative to public equities

## PREDICTION 4

# Short-term returns fall for PE funds, but performance will improve relative to public equities

### Rationale

PE returns historically have been highly correlated to public equity markets, but that relationship tends to break down in periods of high volatility, as well as sustained run-ups or drawdowns in the market. Given the recent gyrations and downturn in public equities, we anticipate that PE will see short-term absolute return compression from the elevated levels seen in recent years; however, we expect that performance will improve relative to public equities.

### Caveat

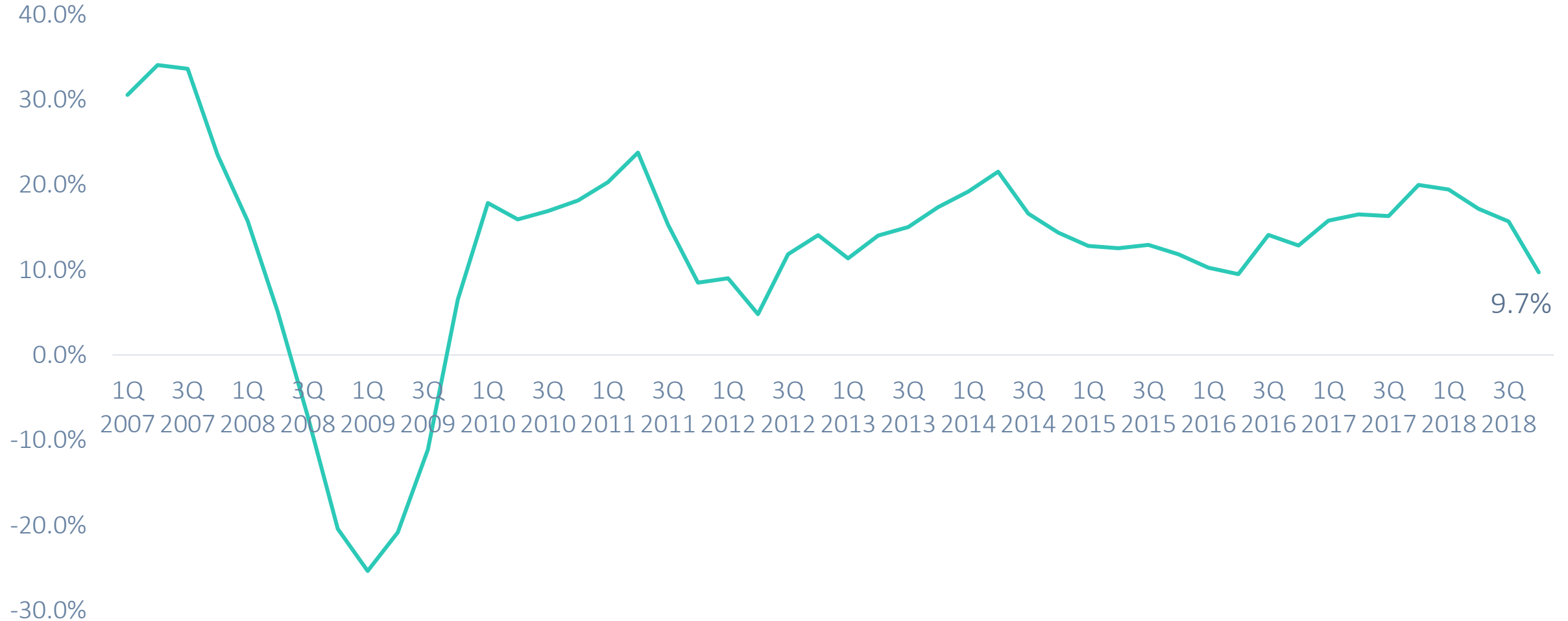
Investments in private markets are not insulated from macroeconomic forces, and any fundamental changes to business conditions will inevitably affect them. With the relatively calm nature of markets in recent years, funds have been hesitant to bake in any of the few periods of negative public market performance. If equity markets continue to encounter difficulty, PE managers may feel compelled to adjust their marks accordingly.



## PREDICTION 4

# Short-term returns fall for PE funds, but performance will improve relative to public equities

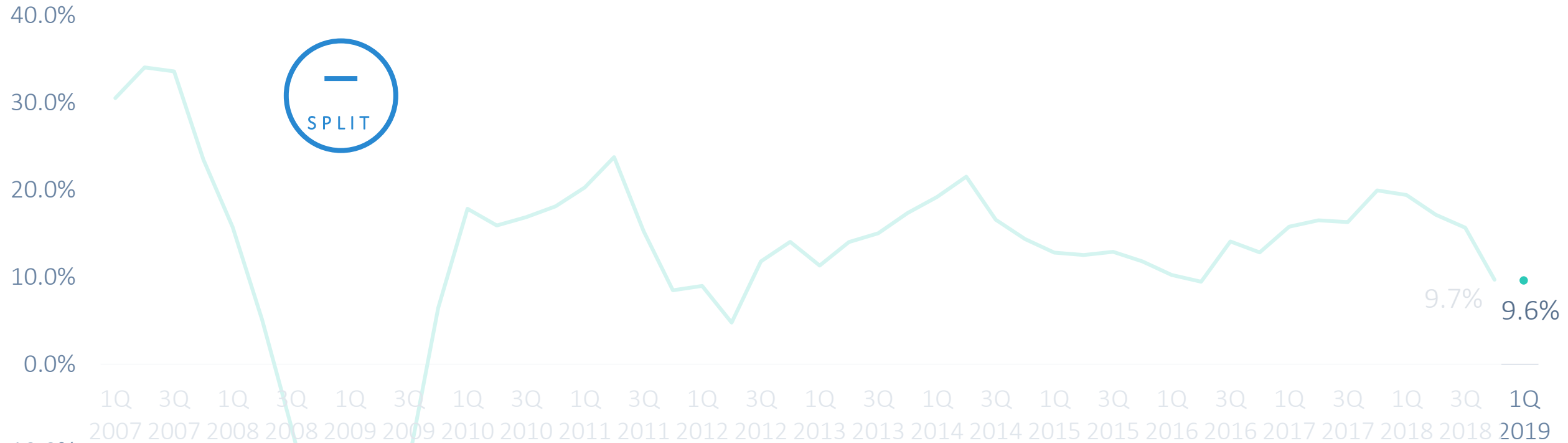
Global PE rolling 1-year horizon IRR



PREDICTION 4

# Short-term returns fall for PE funds, but performance will improve relative to public equities

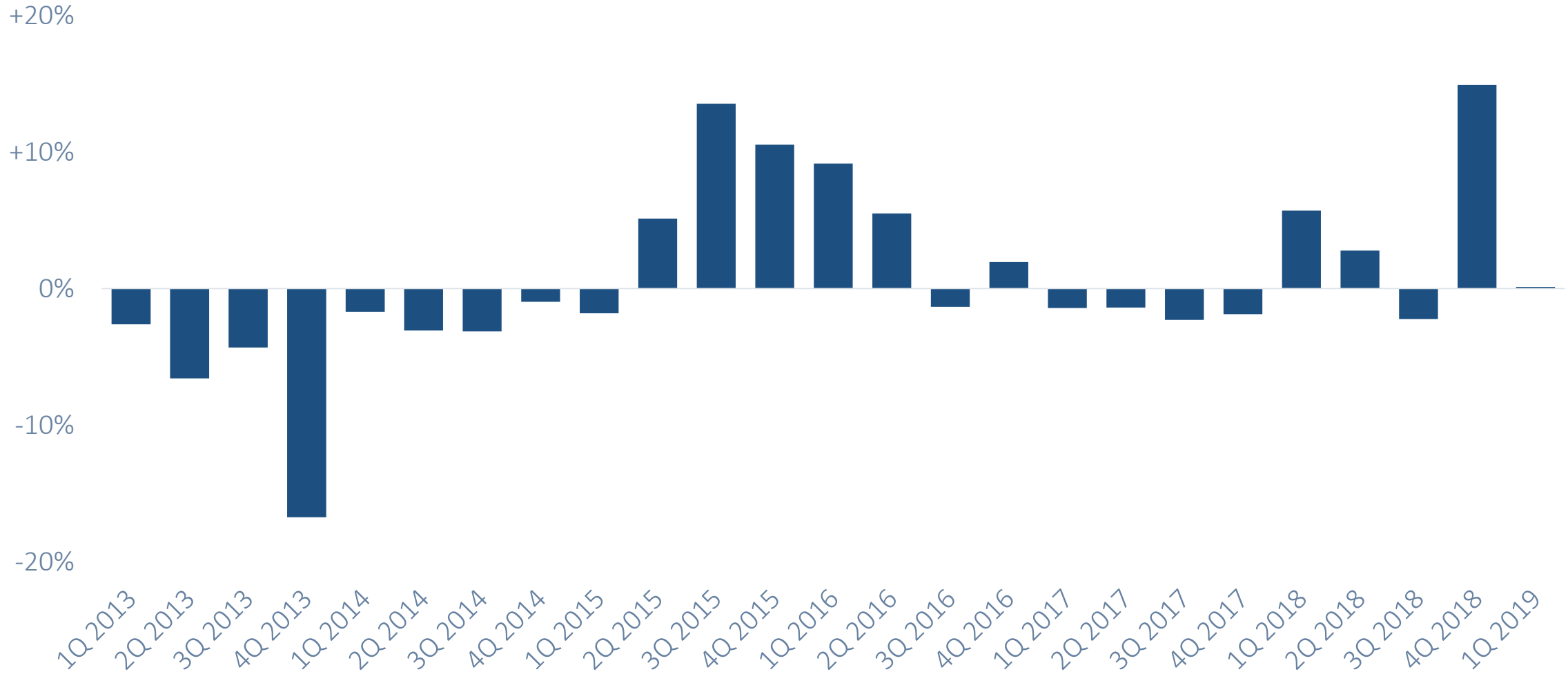
Global PE rolling 1-year horizon IRR



## PREDICTION 4

# Short-term returns fall for PE funds, but performance will improve relative to public equities

Relative performance of global PE vs. S&P 500 TR (Rolling 1-Yr)



5

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Take-privates will increase in prominence

## PREDICTION 5

# Take-privates will increase in prominence

### Rationale

The US PE industry is seeing an increasing number of mega-deals and mega-funds close. Larger funds typically execute more sizable buyouts, and the proportion of take-privates rises in tandem with deal size. The EV/EBITDA multiple valuation gap between public and private markets contracted in 2018, reducing the premium on take-private targets.

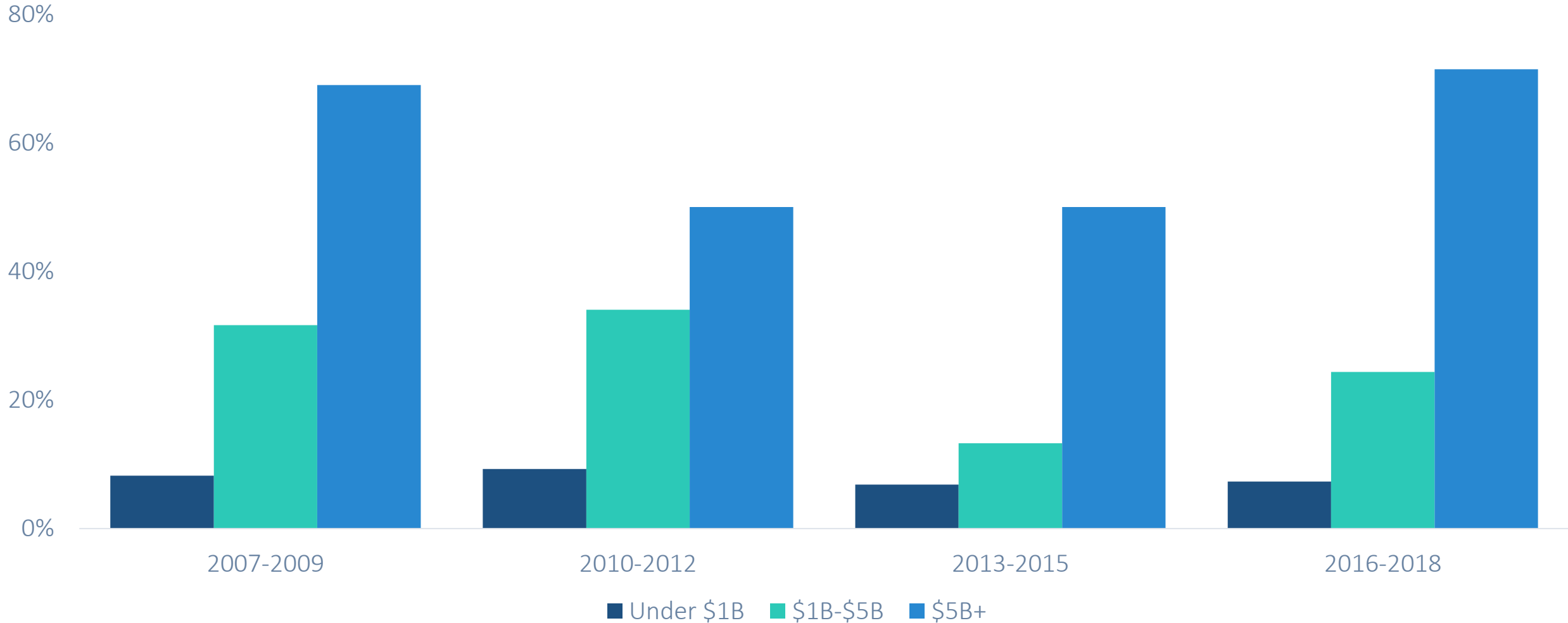
### Caveat

Public equity valuations could rise dramatically, causing many potential take-private targets to become too expensive for a leveraged buyout to pencil out. Additionally, with the number of public companies in the US halving in the past 15 years, many attractive targets have already been bought out.

PREDICTION 5

# Take-privates will increase in prominence

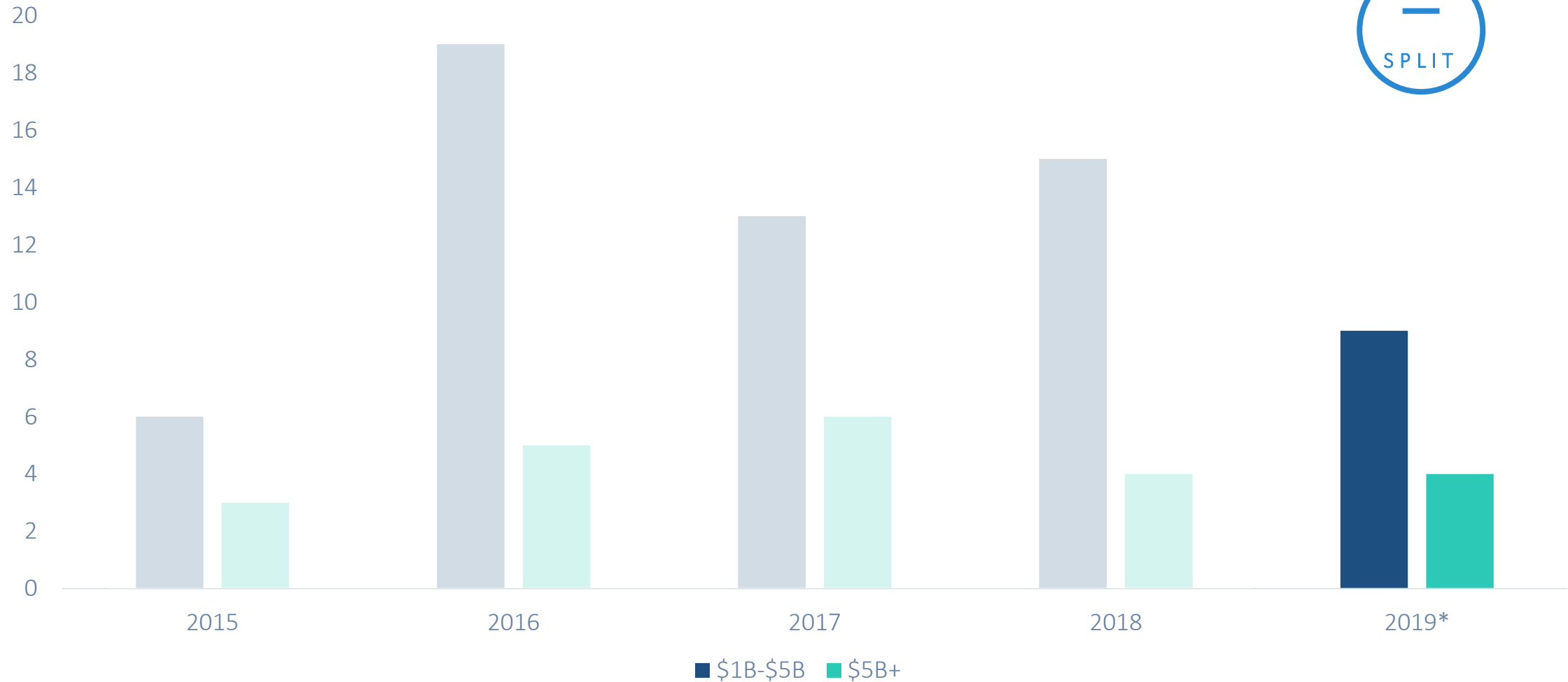
Take privates as a % of US PE buyout deals (#) by size



## PREDICTION 5

# Take-privates will increase in prominence

US take-privates (#) over \$1 billion



6

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Private debt fundraising will rebound  
but remain below 2017 levels



## PREDICTION 6

# Private debt fundraising will rebound but remain below 2017 levels

### Rationale

While there are few funds in the market that would allow next year's fundraising totals to match 2017's high, there are still plenty of reasons to be bullish about investor demand for private debt vehicles. First, benchmark interest rates, though rising, remain relatively low, driving continual demand for higher-yielding debt products. Additionally, the floating rate nature of most private debt instruments protects investors from future rate hikes, while demand for new issuances from the buyout market should remain strong. Last, worries of a broader downturn are likely to drive renewed interest in distressed debt funds.

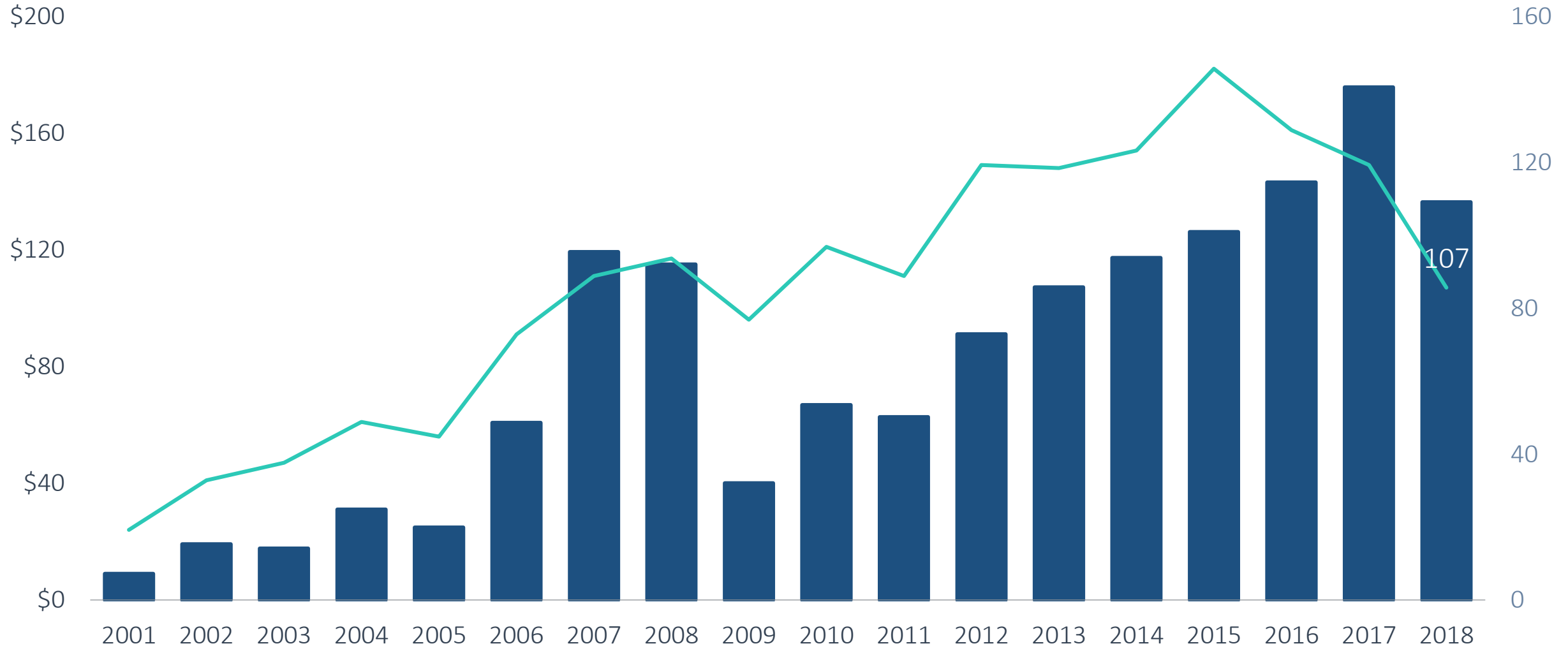
### Caveat

US leveraged loan regulations were pulled back in late 2017, leading to increased competitions from bank lenders. Federal Reserve officials have recently expressed concern regarding systemic risks posed by cov-lite issuances, which could lead to further regulation. Industry leaders have recently referred to credit markets as being in "bubble status."

PREDICTION 6

# Private debt fundraising will rebound but remain below 2017 levels

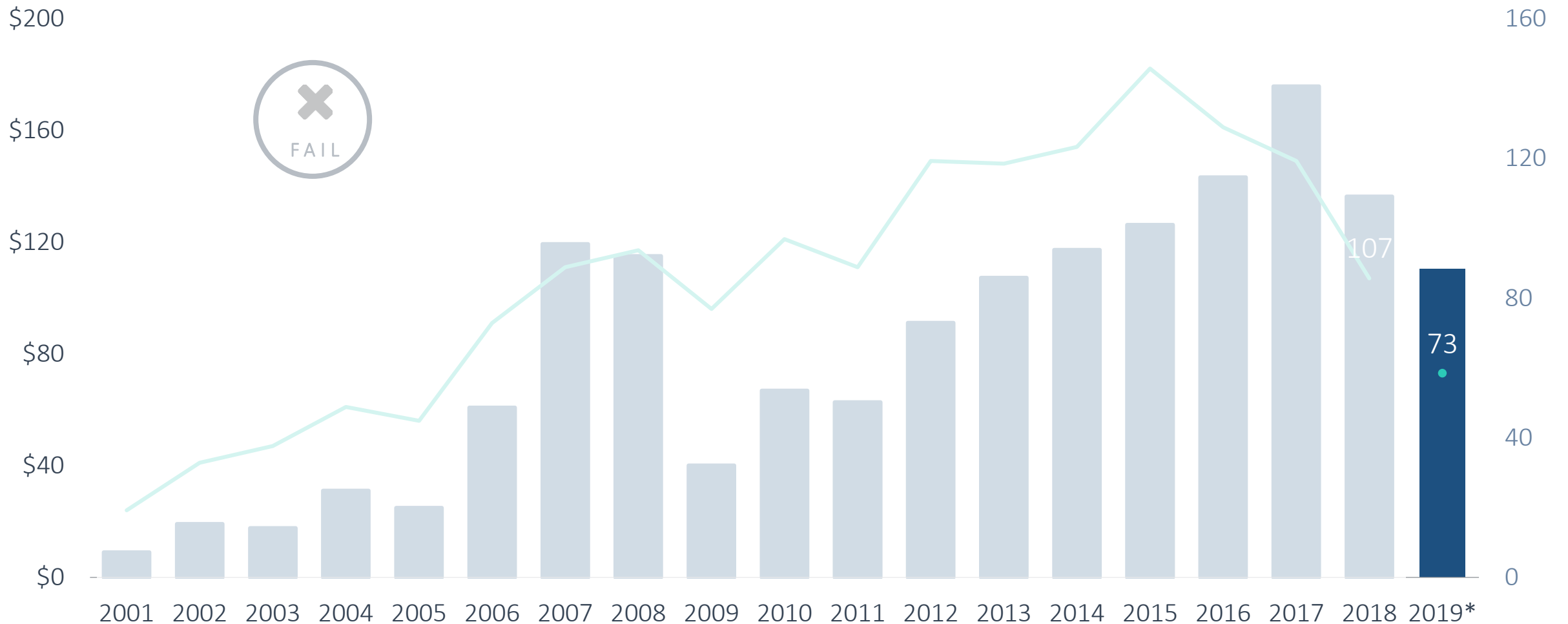
Global private debt fundraising activity



PREDICTION 6

# Private debt fundraising will rebound but remain below 2017 levels

Global private debt fundraising activity



# Key themes

1

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GP stakes will experience ongoing innovation

2

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Secondaries activity will hit another all-time high

3

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Multiples in public and private markets will converge further

4

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Short-term returns fall for PE funds, but performance will improve relative to public equities

5

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Take-privates will increase in prominence

6

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Private debt fundraising will rebound but remain below 2017 levels



# 2020 Private Equity Outlook

Published: December 16, 2019

# Key themes – 2020

1

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Global PE fundraising will fall below 2019 totals

2

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We will see another acquisition of a major alternative asset manager

3

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GPs will increasingly hold some of their top-performing assets longer

4

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The big four public GPs will expand their strategy offerings at twice the rate of comparable GPs

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SWFs and pension plans become more sophisticated investors and increase control over investments

6

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VC-to-PE buyouts will continue to grow

7

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Growth equity fundraising will rise in prominence

# Analyst Q&A



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