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US PE Breakdown

Q1 2021

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Introduction

Following a tumultuous 2020 that finished with a red-hot Q4, US PE dealmaking appears to be back on track as deal count and value have normalized. Healthy PE activity will likely endure through 2021 as the vaccine rollout continues, unprecedented fiscal stimulus takes effect, and pent-up demand works its way through the dealmaking process. Despite clear signs of a broader economic recovery, GPs have opportunistically put capital to work in verticals that are still reeling from the pandemic, including retail and hospitality. Q1 2021 also saw a handful of large carveouts and take-private transactions announced. Finally, several PE firms have gone all in on the special purpose acquisition company (SPAC) craze by launching their own blank-check companies, thereby prompting LP concerns about conflicts of interest.

Q1's exit activity was similarly robust following Q4 2020's record-breaking rebound, with exit trends swinging toward large public listings and corporate acquisitions. Continued public market ebullience—despite a slight cooling off and rotation away from growth stocks in March—provided GPs with attractive options for realizing value for a range of portfolio assets, while strategics also demonstrated a voracious appetite for acquisitions. The flood of IPOs over the past two quarters has only added to the range of potential acquirers with cash on hand—not to mention the growing number of SPACs seeking reverse merger targets.

After a tepid 2020, US PE fundraising rebounded in the first quarter of 2021, although much of the value was attributable to three outsized fundraises. Additional PE mega-funds currently in the market or launching soon virtually guarantee strong fundraising numbers by year-end. In the race to achieve outsized returns in high-multiple environments, managers raised additional growth-targeted capital, and a rising number of firms are marketing themselves as sector specialists. Finally, emerging managers will likely raise more capital in 2021 than in 2020, especially as LPs grow increasingly accustomed to remotely performing due diligence on prospective commitments.

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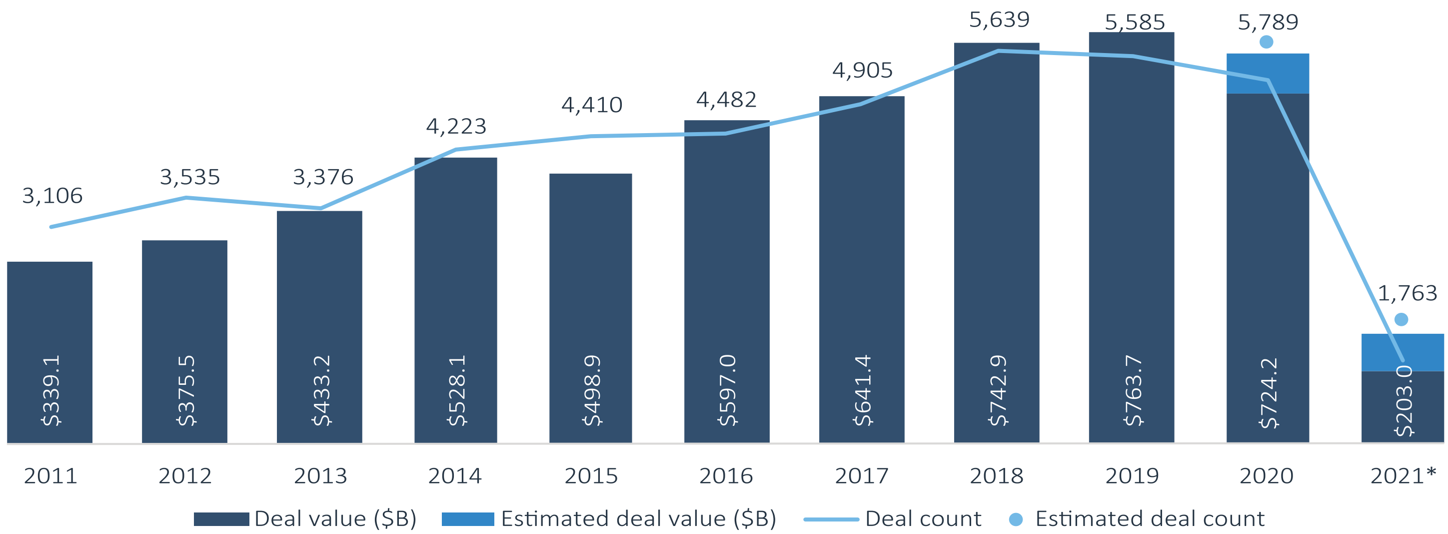
Overview

PE deal activity



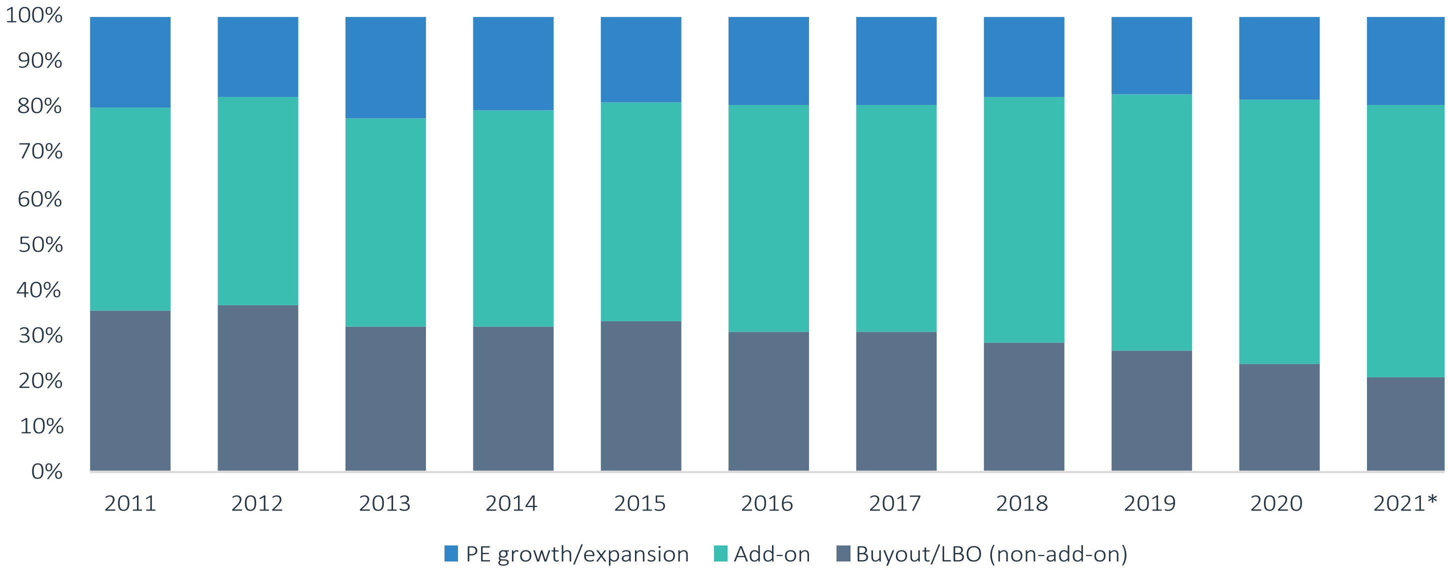
Source: PitchBook | **Geography**: US
*As of March 31, 2021

Following a tumultuous 2020, US PE dealmaking appears to be back on track, with deal value topping $200 billion in Q1 2021. However, the 1,763 deals totaling $203.0 billion is a reduction across deal count and value compared with the red-hot Q4 2020. This may indicate a normalizing deal environment as the nationwide vaccine rollout continues, though we expect dealmaking throughout the remainder of 2021 will be healthy—especially as pent-up demand works its way through the dealmaking process.

All of this is occurring despite an ever-changing economic backdrop. Perhaps the most impactful to economic activity over the short to medium term is the rising 10-year Treasury yield. Since August 2020, when the 10-year Treasury sat just above 0.5%, the yield has surged—passing 1.5% in March 2021. While rates are still historically low, the trajectory of the 10-year illustrates the way markets are anticipating the coming recovery as cyclicals and commodities have simultaneously rallied. The markets are pricing in higher inflation, though inflation has undershot Fed targets for the last 10+ years. If inflation does pick up, however, buyout firms may seek to alter their portfolios to hedge and/or capitalize on the trend. This could propel dealmaking in materials & resources higher for the first time since 2014, though this time may be different. The Fed appears to have passed the baton to Congress, which means the market expects fiscal rather than monetary stimulus to assist with economic growth. These coming quarters will determine whether the Biden administration is able to follow up its $1.9 trillion stimulus with the proposed $2.3 trillion infrastructure plan—especially considering previous infrastructure plans have failed to materialize.

Additional considerations for PE firms include both a new Securities and Exchange Commission (SEC) chairman and tax hikes. Although the Senate has yet to confirm him, Gary Gensler would mark a notable shift in the SEC's hawkishness toward PE. Gensler, who headed the Commodity Futures Trading Commission under the Obama administration, has won praise from the likes of Elizabeth Warren and other influential Democratic lawmakers. If Gensler gets past the Senate, people in the industry are expecting more fines, disclosures, and enforcements than with the previous SEC Chairman, Jay Clayton. Clayton was viewed favorably by the PE industry. In fact, Clayton will be joining Apollo Global Management's (NYSE: APO) board as a Lead Independent Director after exiting the office.

PE deals (#) by type



Source: PitchBook | **Geography**: US
*As of March 31, 2021

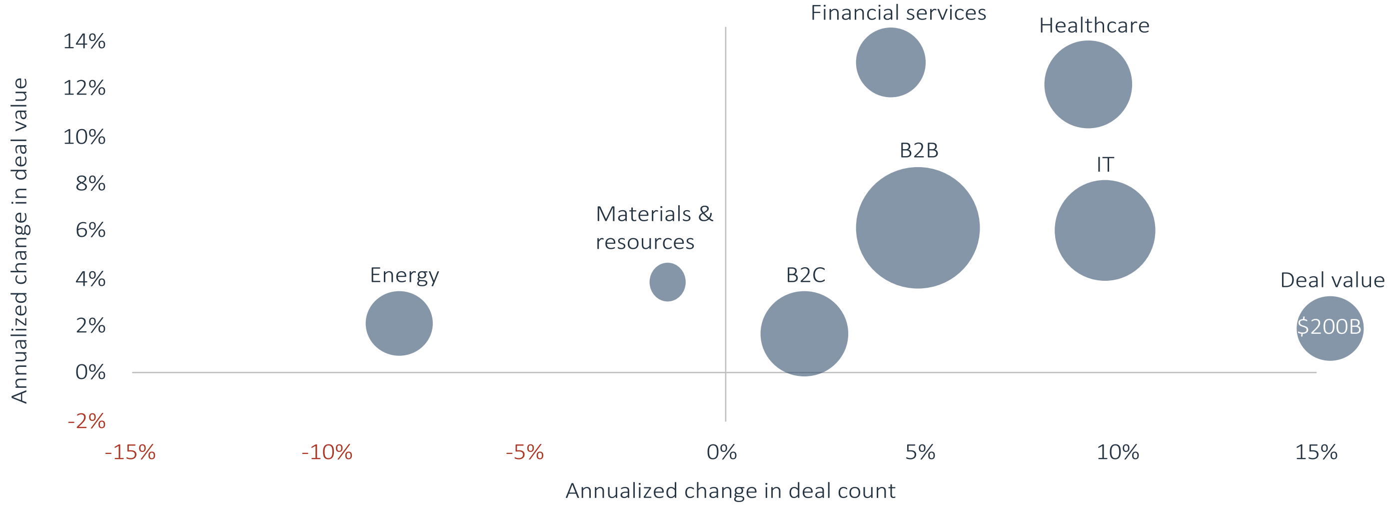
Taxes are also on PE shops' minds, though these changes are viewed more positively because of their beneficial effects on deal flow. Off-the-record conversations with dealmakers confirm that many business owners are taking tax hikes seriously. These GPs mentioned a notable uptick in their current pipelines because of a prospective hike in personal and corporate tax rates. If Congress makes notable progress toward a pair of tax hikes by mid-2021, we expect deal activity will pick up as some owners seek to accelerate liquidity plans—which ought to spur overall US PE deal activity.

By a wide margin, growth equity investments remain less frequent than buyouts. However, many firms are getting into the space while others pivot to do buyouts in more growth-oriented sectors. An illustration of this shift was the $1.9 billion capital injection into Lineage Logistics Holdings, a cold-storage provider, in March 2021. The company received a $1.6 billion growth round just six months earlier. Lineage plans to rapidly expand this year, with 21 new sites and expansions—effectively doubling its 2020 growth. Its demand spiked during the pandemic as consumers shopped online more than ever before. As a result of e-commerce changes, a similar story took place in the warehouse real estate market.

The shift in online shopping habits led to another interesting growth equity deal: Insight Partners' investment in Saks' online business in March. Insight agreed to invest $500.0 million into Saks.com, a separate entity carved out from the overall retail corporation, at a $2.0 billion valuation. The structure allows Saks' owner, Hudson's Bay, to more easily value Saks' distinct businesses while letting the growth specialist Insight run its playbook on a pure-play e-commerce company. With both The Blackstone Group (NYSE: BX) recently closing its initial growth equity fund and growth equity titans—including TA Associates and Insight—returning to market to raise $10 billion+ flagship vehicles, the future for growth equity dealmaking looks bright.

Despite the broader economic recovery, several areas are still feeling pandemic-related stress. These areas of opportunity have allowed GPs to creatively put capital to work. Most notably, in distressed deals, Certares and Knighthead Capital Management teamed up for a multibillion-dollar bid to bring Hertz out of bankruptcy. However, the late bid from Centerbridge Partners, Warburg Pincus, and Dundon Capital Partners won out. The deal will help Hertz emerge from Chapter 11 bankruptcy protection and relist as a public company. Additionally, the Hertz deal carries distinctive risks. Hertz had around $19 billion in debt as of year-end 2019 and relies heavily on airport car rentals. Centerbridge's previous experience investing in rental fleet management companies may prove effective here. As travel slowly creeps back into our lives, some businesses in the space may be forced to sell, thereby

Change in annual deal activity by sector*



Source: PitchBook | **Geography**: US
*Note: This chart displays the annualized change in aggregate deal activity during the periods Q1 2018 to Q1 2021 and Q4 2014 to Q4 2017.

leaving the doors open to investors well versed in the travel sector. More broadly, we believe certain pockets of distressed companies will continue to present attractive deployment opportunities in the coming quarters—the timing of which depends on getting COVID-19 under control.

Q1 2021 saw a handful of large carveout and take-private transactions announced, and several exogenous trends will likely propel further activity through the rest of the year. Veritas Capital is currently executing a major roll-up of federal government information technology (IT) contractors using its portfolio company Peraton. Peraton completed a $3.4 billion bolt-on of Northrop Grumman's (NYSE: NOC) IT and mission-support business in February 2021 and announced a $7.1 billion take-private of Perspecta (NYSE: PRSP), which will also be added to Peraton. The combined company will sport around $3.5 billion in federal IT contracts, making it the second-largest provider in the space. The acquisitions also increase Peraton's chances of landing coveted spots in several upcoming federal IT contract bidding processes. Another noteworthy take-private announced was the $6.0 billion acquisition of CoreLogic (NYSE: CLGX), a real estate data and analytics provider, by Stone Point Capital and Insight Partners. If completed, the acquisition will mirror two recent real estate technology take-privates by Thoma Bravo: Ellie Mae, completed in 2018, and RealPage (NASDAQ: RP), announced in 2020. However, CoStar Group (NASDAQ: CSGP) recently countered the Stone Point-Insight offer

Corporate high-yield option-adjusted spread

Source: Ice Data Indices, LLC | **Geography:** US

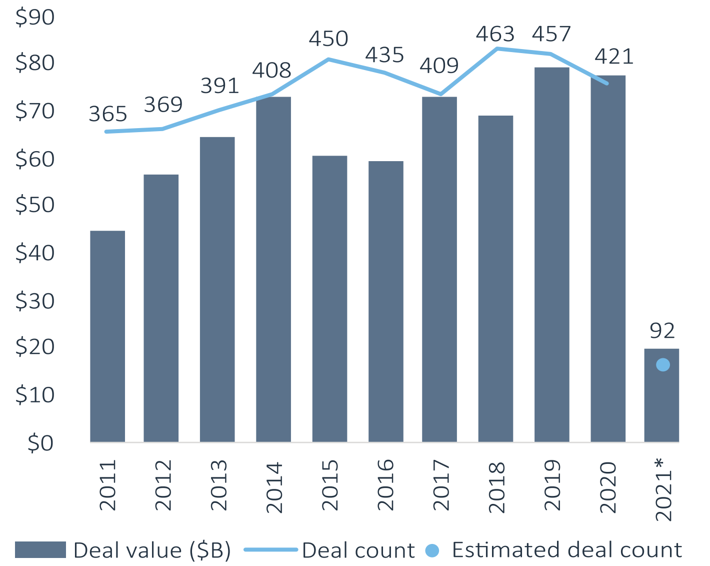
with a bid that tacks on an additional $1.25 billion to CoreLogic's valuation.

The bidding war for CoreLogic underscores the difficulty that PE firms face when acquiring attractive public market assets in a high-multiple environment. However, several factors may propel PE carveout and public-to-private buyouts in the coming months. First, the current cooling of technology stocks may provide slight relief if it continues, although the Nasdaq is still up more than 3% since the beginning of the year. Second, President Biden's nominations to key Department of Justice and Federal Trade Commission antitrust posts so far have skewed hawkish on Big Tech. Proposed mergers may need to incorporate more spin-offs to win regulatory approval, which may then create an opportunity for PE buyers. Finally, public corporations pivoting in the face of shifting secular trends may jettison underperforming assets to focus on their most promising business lines, which would create space for opportunistic buyouts. For example, cybersecurity giant McAfee (NASDAQ: MCFE) announced it will sell its enterprise business to Symphony Technology Group (STG) for $4.0 billion. Most of the company's growth has come from its consumer business in recent years.

The rise of SPACs has headlined the financial markets over the past year, and PE firms are increasingly active participants in this trend. The question of whether the SPAC is friend or foe has proven complicated. Like many things, it depends. Upper-middle-market and large PE firms like to talk up SPACs as a potential exit route, citing that they have multiple SPACs aggressively pursuing their portfolio companies. The benefits are clear: Even if the GP selects another exit route, the SPACs' high bids tend to boost the exit price. On the other side of the equation, many of these firms are concerned that the SPAC boom may cause them to either lose out on deal flow or force them to overpay to win at auction, which would potentially dampen returns. However, with the seemingly endless flood of SPACs drying up in late March 2021, competitive pressure from SPACs may be a less serious long-term threat.

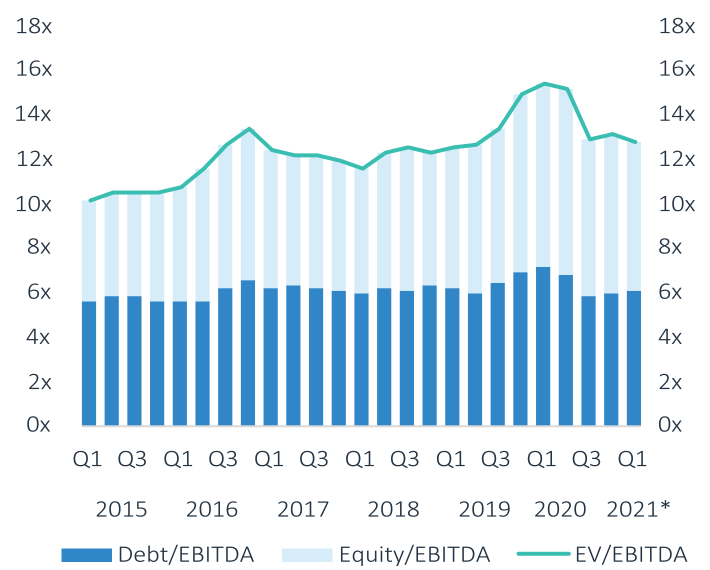
Looking to get in on the action in another way, some firms have launched their own SPACs. However, this has raised concerns from LPs. For example, news broke in March 2021 that a Herculean $15.0 billion deal between Vista Equity and Apollo—in which Vista would combine three portfolio companies and merge the combined entity with Apollo's SPAC Apollo Strategic Growth Capital (NYSE: APSG)—had been tabled. While Apollo is most commonly known as a value manager, some LPs may be questioning why this deal was not a fit for its flagship vehicle. At the very least, this illustrates a point that has frustrated many LPs in the space. Additionally, some LPs worry their management fees are paying deal team salaries and feel frustrated when the company's SPAC gets a deal rather than the fund. To quell concerns, some PE shops have discussed financing the PIPE out of the flagship fund, but that brings up concerns about valuations and having outside investors keep the SPAC bid price in check. KKR (NYSE: KKR), Apollo, and Bain Capital have launched sizable SPACs in recent months, and Apollo's Spartan Acquisition Corp. II (NYSE: SPRQ) announced in late January 2021 that it would merge with Sunlight Financial, a residential solar financing company, at a $1.3 billion valuation. Going forward, the dance between PE firms and SPACs is worth paying close attention to.

PE carveout activity



Source: PitchBook | **Geography**: US
*As of March 31, 2021

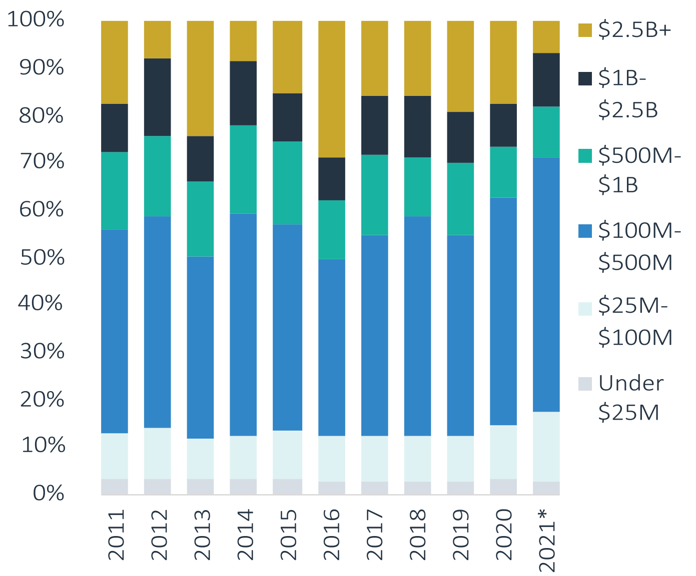
Median PE buyout multiples by rolling four quarters



Source: PitchBook | **Geography**: US
*As of March 31, 2021

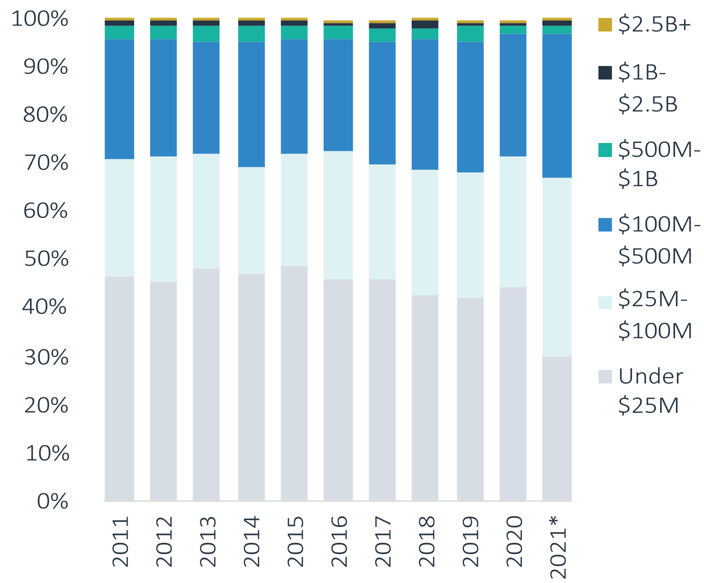
Deals by size and sector

PE deals ($) by size



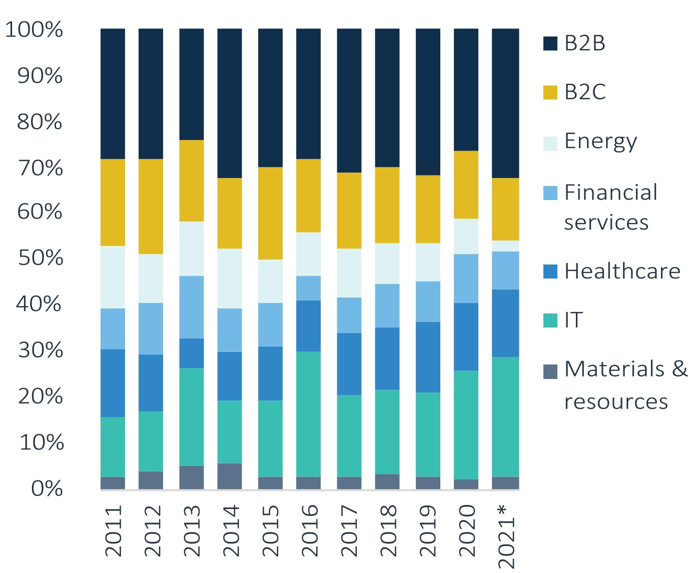
Source: PitchBook | **Geography**: US
*As of March 31, 2021

PE deals (#) by size



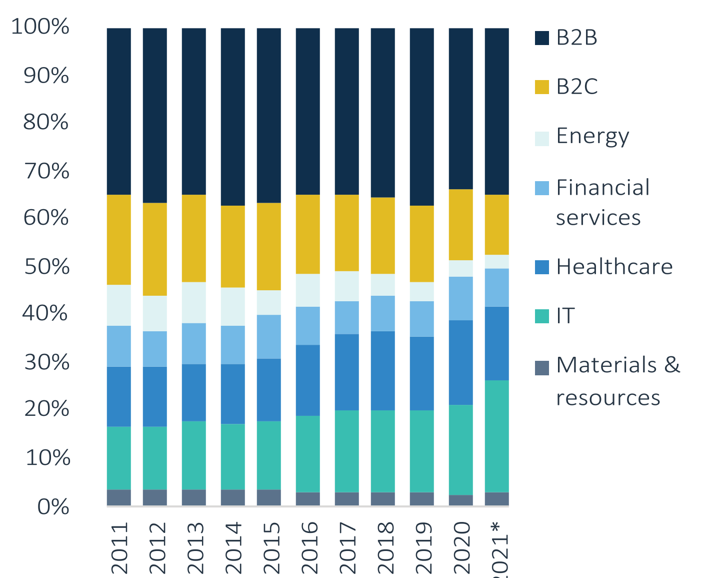
Source: PitchBook | **Geography**: US
*As of March 31, 2021

PE deals ($) by sector



Source: PitchBook | **Geography**: US
*As of March 31, 2021

PE deals (#) by sector



Source: PitchBook | **Geography**: US
*As of March 31, 2021

Q&A: Plante Moran

After a tumultuous 2020, brighter signs are on the horizon for economic growth. Given the first few months of 2021, what's your take on the macro environment into which PE portfolio companies and their sponsors are heading?

Despite the challenges affecting private equity firms and their portfolio companies, many (not all) segments are performing well within the middle market. This demonstrates that middle-market deal activity remains favorable for companies with strong value creation plans. Restructuring and distressed deal opportunities are also popping up but not at the pace that many anticipated at the pandemic's onset. In addition, many PE firms had successful fundraising efforts in 2020, which naturally drives deal activity. Coupled with the recently passed government stimulus and meaningful numbers of COVID-19 vaccine recipients, there appear to be strong drivers in place for an exciting 2021.

Based on our clients' first-quarter deal activity, we're likely heading into a robust dealmaking environment. PE funds employing a buy-and-build strategy in pandemic-affected industries are experiencing solid deal flow. Sellers who were positively affected by the pandemic want to take advantage of the high multiples. Those who were challenged by the pandemic are realizing the advantages of being part of a larger organization.

Additionally, the looming promise of a tax rate increase will drive a sense of urgency for sellers to close in 2021. The impact of the tax rate changes being discussed is significant, with capital gain rates going from 20% to 40% for any gain over $1 million. Buyers are offering gross-up payments to cover the difference when tax rates eventually increase, as well as discussing insurance policies to cover potential retroactive rate increases in 2021. One positive impact is that existing tax bases will become more valuable as they realize with higher rates.

What are the key challenges that you anticipate will carry over from 2020 for PE fund managers as they carry out deals? Conversely, what's likely to arise this year as opposed to last?

One primary challenge is determining the sustainability of the significant growth that some companies achieved during pandemic market conditions. PE fund managers are hedging on this challenge through creative deal structuring—including incorporating extended earnout periods, which provide flexibility and upside for significantly exceeding targets. This can bridge valuation expectations and protect buyers.

Moreover, the competitive process to reach exclusivity and close a deal continues to be an uphill climb for buyers. This process challenges an acquiring firm to put its best foot forward—not just on its offer price, but also on its story, fit, and detailed plans to drive value to the company it hopes to acquire.

Assuming the vaccination rollout is successful and society starts getting back to a new normal, many management teams will grapple with readjusting their already adjusted operating procedures. For example, work-from-home policies will need to be reevaluated, and some companies' footprints may warrant modifications. These decisions will be complex. And, of course, there's no playbook from the last pandemic.

Michele McHale
Partner
Transaction Advisory Services
Private Equity Practice Leader
Plante Moran

Michele leads Plante Moran's private equity practice, coordinating and supporting services to the firm's 575+ PE clients and their respective portfolio companies to increase their ROI throughout the transaction life cycle. She's also a transaction advisory services partner, wherein she helps private equity funds and financial buyers assess acquisition risk and determine sustainable post-acquisition run rates.

Ted Morgan
Partner
Strategy and Operations Consulting
Private Equity Leadership Team
Plante Moran

Ted Morgan is a partner in Plante Moran's strategy and operations consulting practice focused on commercial due diligence, market analysis, strategic planning, and business advisory. He's also on the firm's private equity leadership team wherein he helps drive go-to-market strategies, thought leadership, and client entrenchment initiatives.

How have fund managers' exit strategies evolved in the past 18 months?

Fund managers have developed a heightened sensitivity in determining the right time to exit an investment. There are new variables in play impacting valuations, many of which are linked to the pandemic and a very different landscape in Washington D.C. It's fascinating from a strategy perspective and what that means to individual organizations as they think through the timing of an exit. PE groups are also taking advantage of the appetite for deals and high multiples by bringing companies that have thrived through the pandemic to market sooner than originally planned. Companies that outperformed during the pandemic are in high demand. For those companies that had a slower rebound in the pandemic, fund managers are looking at opportunities to merge with similar companies to reduce risk and take advantage of cost synergies.

On a sector basis, where do you think PE fund managers have adapted their strategies the most, and how so?

- Industrials: Fund managers in this industry are playing offense. Liquidity, labor cost management, and customer focus positioned many PEs in the industrial space for growth in Q3 and Q4 2020. Many revisited strategic plans, which led to some doubling down on existing products and services. Others took advantage of pandemic-born opportunities to expand their products and services and/or grow in new markets.

- Business services: Fund managers are focusing on technology services and add-on versus platform-focused growth. In businesses wherein labor is the primary expense, managers are focused on staffing and utilization and looking for tools that can help manage their people more effectively.

- Healthcare: We're seeing a big shift to tech-enabled healthcare—not just to lower costs of care but also to reduce overhead costs. In addition, in the healthcare services sector, we expect an increase in merger activity of PE platforms to achieve cost synergies and revenue benefits.

Given the current environment, what are the most underrated risks and/or concerns that PE portfolio companies and their backers should take into consideration that are not currently being prioritized?

A key underrated risk and concern affecting PE firms and their portfolio companies may end up being the adjustments they make to their business processes once the pandemic is substantially over. At the pandemic's onset, people's physical safety was the primary driver of most companies as they adjusted their business models. Because of this priority, many companies within particular sectors landed in similar places, respectively, with adjusted operating procedures. That said, many companies will have much more latitude in reshaping their operating procedures in the post-pandemic era. This freedom will give management teams more options, which could make it more difficult and more time-consuming to reach a consensus on key decisions. To further complicate the matter, we have a looming people problem on the horizon. As companies start reshaping their operations, people will notice the differences in the ways organizations within the same segment approach this restructuring, which will likely lead to higher turnover than what we've seen so far during the pandemic.

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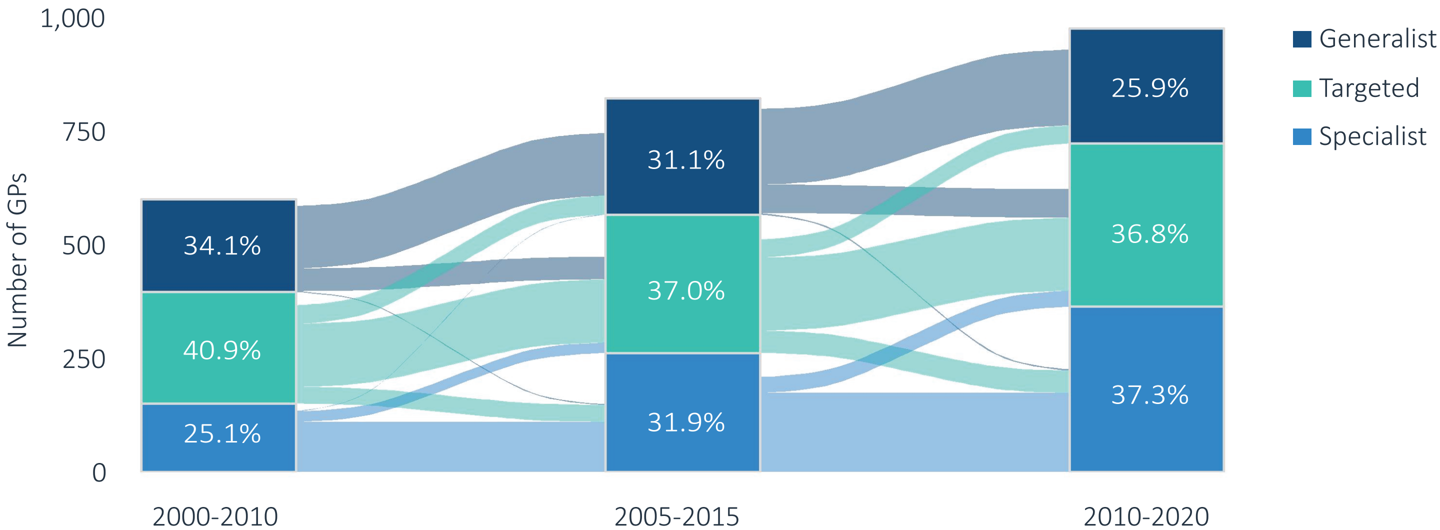
Spotlight: US PE firm style drift

PE firms (#) by style score over time*



Source: PitchBook | **Geography**: US
*As of December 31, 2020

Note: This is an abridged summary of three sections from a broader analyst note on PE firm manager style drift. To read more detail on the presented sections, see how established manager style has changed, explore the ways fundraising capital has shifted, and learn what our analysts believe will happen going forward, please download the full analysis.

Preface

In an earlier analyst note, we introduced readers to our GP style metric, which uses the Herfindahl-Hirschman Index (HHI) to assign GPs a style score. The style score is based on the concentration of investments in specific sectors, wherein a low or high number is not inherently bad or good. Rather, it informs where a manager lies upon the spectrum of generalist to specialist. Firms without a sector comprising approximately 50% or more of their deal activity are assigned as generalists. We categorize GPs that do between roughly half and two thirds of their deals in one sector as targeted. And finally, firms that do more than approximately two thirds of their deals in one sector are categorized as specialists.

Introduction

The rise of specialist firms—whether it is Thoma Bravo or Vista investing in technology or OrbiMed investing in healthcare—has been a dominant theme within private equity since the global financial crisis (GFC). Coming out of the GFC, GPs and LPs became more sophisticated with their approaches. To find an edge in an increasingly competitive environment, many GPs specialized. The larger firms with multisector strategies specialized with sector-focused teams; this meant spinouts tended to focus on just one or two sectors. LPs have also refined their approach. Many LPs no longer simply allocate to PE. Instead, they have honed their private market strategy to seek out sector-specific allocations, which allows them to under- or overweight their exposure—though less precisely than what many do in public markets. Capital has poured in as well, with a higher proportion of sector specialists finding success in the current climate than ever before.

Trends in dealmaking and fundraising have been easy enough to see, but the evidence was primarily anecdotal—until now. Using our internally developed framework, which looks at deal concentration using the HHI, we assign GPs a quantitative style score. Importantly, the scores are assigned at the firm level rather than the fund level. Additionally, we can assign multiple scores over time, which allows us to track the transition from generalist to specialist for both the industry and individual firms.

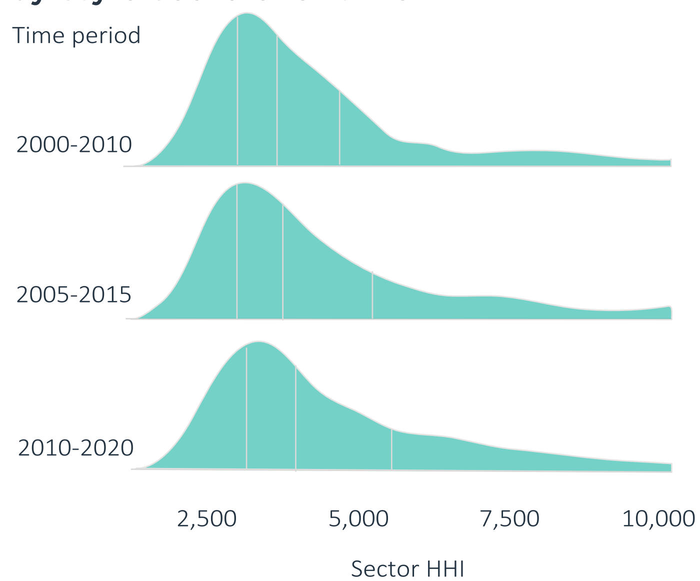
The first look at GP style migration incorporates all GPs that have completed at least 15 deals in the past decade. Depending on the sector concentration of their deals over the trailing decade, the three buckets categorize firms as Specialist, Targeted, or Generalist. For example, the leftmost column of 2000-2010 looks at firm categorization in 2010 based on deals completed since 2000. The rightmost column looks at the same universe of firms—including some new ones that were founded later—and categorizes their style based off deals done between 2010 and 2020. In each subsequent time frame, specialists account for a greater share of the population, while generalists' share diminishes. As many firms become increasingly specialized, the right tail of the distribution swells. Firms with a higher concentration of deals in one specific sector will land on the right side of the distributions. The farther right a firm lands corresponds with a higher concentration of deals in one sector.

Emerging managers

Newly formed managers have been specializing at a rate far above more-established firms, and the shift has occurred rapidly. To gain an edge, many larger, established firms have sector-focused strategies under their generalist umbrella and sector-focused dealmakers in their generalist funds. This means that when teams spin out of established firms, they often form specialist managers. Similarly, with the rise of the $50 billion+ AUM specialist firms—such as Silver Lake, Thoma Bravo, and Vista in the technology space—their numerous offshoots tend to remain specialists. For example, Sumeru Equity Partners and Luminate Capital Partners, two emerging managers currently each on their third funds, were both formed by dealmakers that once worked at Silver Lake.

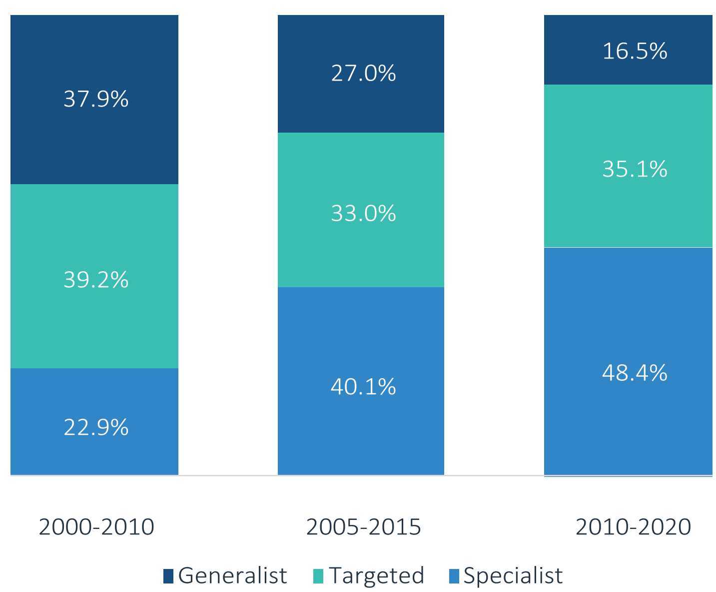
Some of the specialization trend also has to do with the kinds of firms that find success raising capital. As LPs have become more sophisticated in managing PE portfolios, many of them have built a target range around sector weightings. They may want consumer-focused GPs to account for 8% to 12% of their PE portfolio, healthcare-focused strategies to account for 12% to 18%, and so on. This exercise is much easier when allocating to a sector specialist rather than splitting the allocation across sectors as they may do with a generalist.

Quartiles and distribution for PE firms (#) by style score over time*



Source: PitchBook | **Geography**: US
*As of December 31, 2020

GP style classifications (#) for new managers by vintage bucket and style*



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Fame and fortune in SPACS

Jason Remsen
Underwriting Counsel, Liberty GTS

Jason has extensive experience as a corporate attorney representing private equity and corporate clients in connection with M&A. Prior to joining Liberty GTS, Jason was a corporate associate at Pepper Hamilton LLP and previously practiced at Arnold & Porter Kaye Scholer LLP and McDermott Will & Emery LLP. Jason received his BA in English from Cornell University and his JD from Tulane University Law School. Jason is admitted to practice in New York.

Such is the growing appeal of SPACs that the SEC recently warned, “It is never a good idea to invest in a SPAC just because someone famous sponsors or invests in it or says it is a good investment.”[1]

In the US, 274 SPACs were launched in 2020. So far in 2021, SPACs have already raised $47.2 billion.[2] Despite the SEC’s concern regarding celebrity endorsements, the typical profile of sponsors to date is investment banks or successful professional investors and executives. This trend is on a rapid upward trajectory, and, as with other areas of the M&A market, the use of representations and warranties (R&W) insurance can offer benefits to both buyers and sellers.

Managing the risks

With myriad benefits for both sides of the transaction, R&W insurance has become a standard feature for deals in the PE space in the past several years, as well as a valued tool to facilitate deals. Once a target has been identified and work is underway to complete a de-SPAC merger, SPAC participants should also consider the product.

The risks of being insured on a SPAC transaction are not radically different from those of a PE deal. For the buyers, the exposures are largely the same. However, there is one issue that the insurance market is concerned may drive risky behaviors: deals are being done against the clock.

One of SPACs’ key attributes is that deals must be completed within a two-year time frame, which imposes considerable pressure on founders to find a target and close the merger. This aggressive timeline means that some parties may be tempted to cut corners in the due diligence process, and SPAC sponsors will be aware that discovering bad news that might derail the deal. Because of both the incentive to close the business combination and the lack of a fiduciary duty to the investors, this time pressure can also mean that SPAC sponsors may make concessions during the negotiation of the purchase agreement. In most cases, sponsors are able to sell their shares soon after the deal is done, so they are less interested in the target’s long-term performance. This last issue can be resolved by making sponsors hold shares in the SPAC longer so that their interests are more aligned with other investors. The more interest the sponsor has postdeal, the deeper they will dig to understand the target, and the more invested they will be in the due diligence process.

How R&W can make it happen

The global team of underwriters at Liberty GTS has experience executing deals under tight time constraints, which can give SPAC acquirers certainty that they will have insurance in place when they sign a deal. Further, with our depth and breadth of experience across sectors, Liberty’s bench of underwriters can highlight any weaknesses in the diligence that need to be addressed to ensure meaningful coverage.

Due to the competitive pressure for targets, having R&W insurance can be an advantage in an auction process. It helps the investors secure an attractive target. For the target company, it removes the escrow requirement, meaning the sellers can realize the entire proceeds of the deal on closing. For a purchase of that size, the ability to liberate a 10% escrow with an insurance policy is attractive.

While the risk profile of a SPAC target is not critically different than other business requiring R&W insurance, the SPAC timelines and their shorter track record makes predicting outcomes more challenging. However, with the level of activity we are seeing, it is clear that SPACs are set for more than five minutes of fame.

1: “Celebrity Involvement with SPACs – Investor Alert,” SEC, March 10, 2021.
2: “Why London Should Resist the SPAC Craze,” *Financial Times*, FT editorial board, February 24, 2021.

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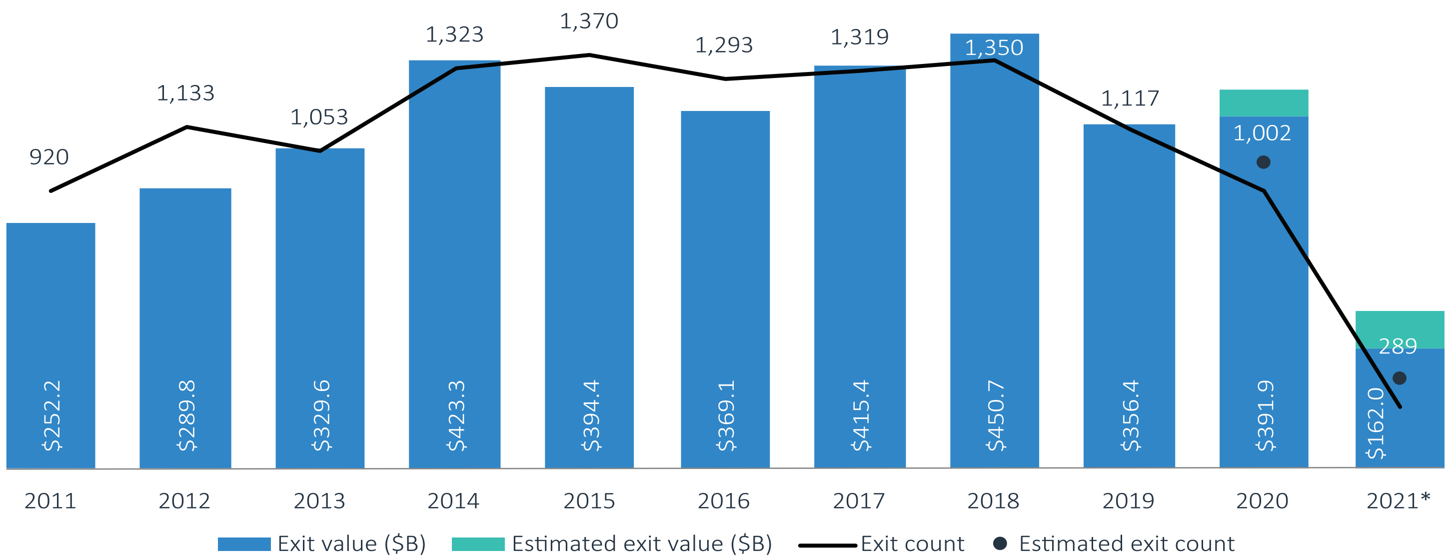
Exits

PE exit activity

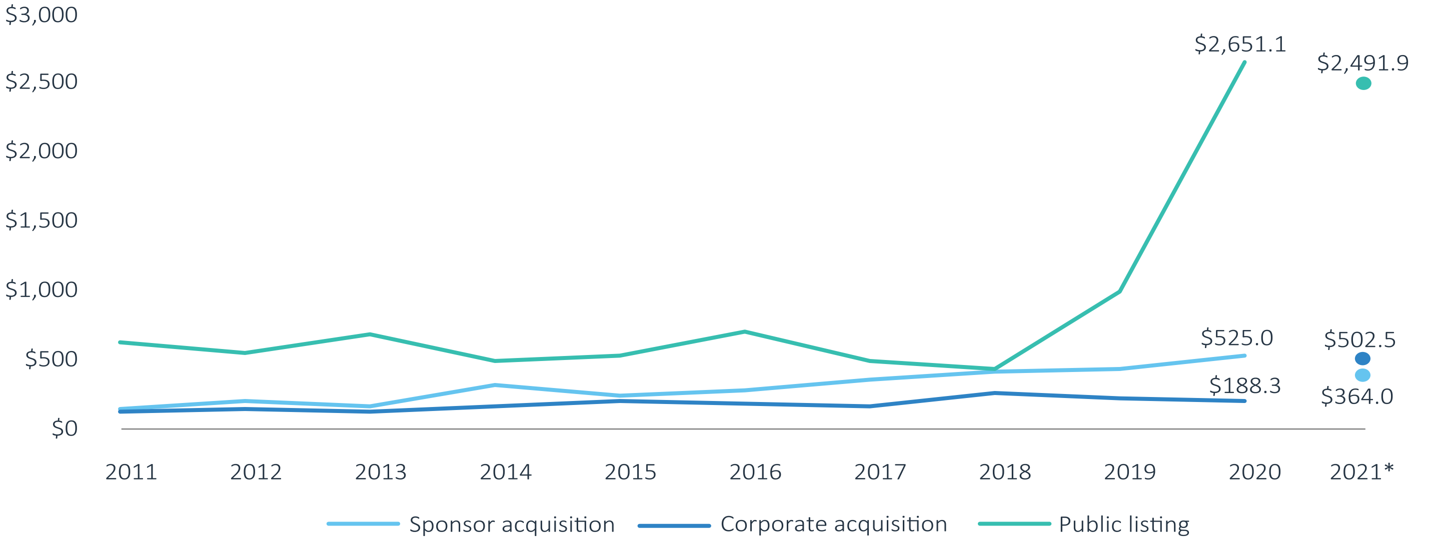


Source: PitchBook | **Geography**: US
*As of March 31, 2021

PE exit activity in Q1 2021 remained robust following Q4 2020's record-breaking rebound. GPs exited 289 portfolio companies for a combined $162.0 billion. Notably, the quarter's exit value skewed heavily toward large public listings and corporate acquisitions. Continued public market ebullience—despite a slight cooling and rotation away from growth stocks in March 2021—provided GPs with attractive options for realizing value for a range of portfolio assets. Strategics also demonstrated a voracious appetite for acquisitions: Publicly traded corporations emerged from 2020 with record buying power after freeing up balance sheet cash during the pandemic downturn and then benefiting from the unprecedented stock market rebound. The flood of IPOs over the past two quarters has only added to the range of potential acquirers with cash on hand—not to mention the more than 400 SPACs seeking reverse merger targets as of this writing.

Technology companies accounted for much of the quarter's exit value. Blackstone notched two of the quarter's three largest exits. The largest came when a Blackstone-led consortium closed on its sale of financial data provider Refinitiv to the London Stock Exchange Group (LON: LSEG) for $27.0 billion ($14.8 billion in cash and the assumption of the firm's hefty leveraged-buyout-induced debt load) just two years after a deal that valued Refinitiv at $20.0 billion—more than doubling Blackstone's initial equity investment. The other was dating app Bumble (NASDAQ: BMBL), which raised $2.15 billion in its IPO. Blackstone's investment in Bumble is a headline-grabbing success story for the firm's new growth equity strategy. The firm bought a majority stake in Magic Labs, the parent company of Bumble, and sister dating app Badoo at a $3.0 billion valuation in November 2019, and Bumble's market cap currently sits at over $7 billion. Blackstone's success with Bumble proves that large, generalist GPs that can raise specialist growth funds stand to gain from quickly turning around technology companies with strong cyclical momentum. In a similar vein, Citrix Systems (NASDAQ: CTXS) purchased Vista Equity Partners' Wrike, a software-as-a-service (SaaS) work management platform, for $2.25 billion. Vista's 2018 LBO previously valued Wrike at $800.0 million. By contrast, Providence Equity Partners cashed in on a long-term growth equity investment. The firm made successive minority investments in ZeniMax Media for over a decade before selling the video game developer to Microsoft (NASDAQ: MSFT) in March 2021, growing the company from $1.2 billion to $7.5 billion.

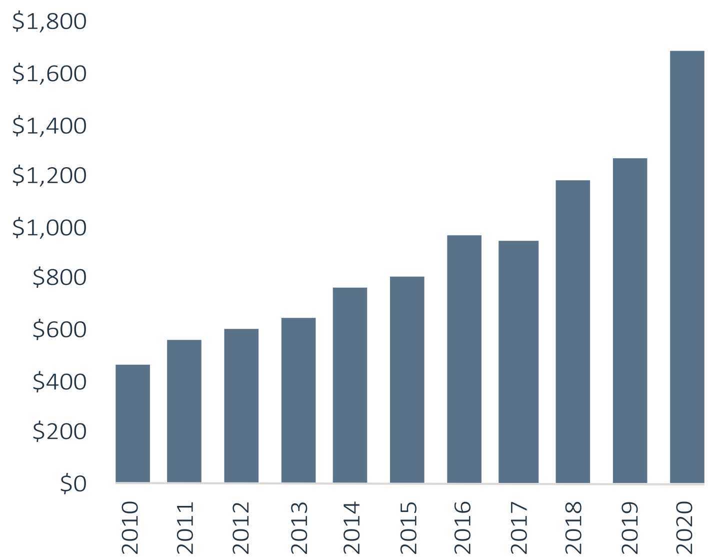
Median exit size ($M) by type



Source: PitchBook | **Geography**: US
*As of March 31, 2021

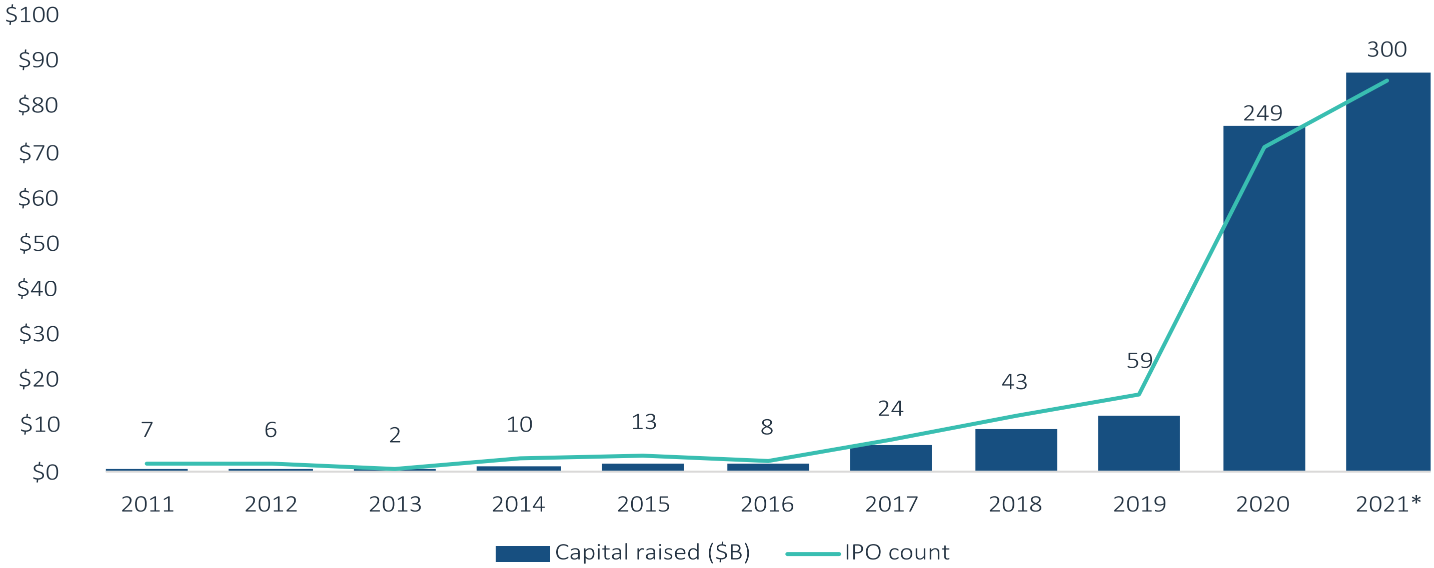
Favorable secular trends also helped PE-backed companies take advantage of positive market conditions to list shares, thus spurring large exits in Q1. An illustrative example is Petco Animal Supplies (NASDAQ: WOOF), which was bought out by CVC Capital Partners and Canada Pension Plan Investment Board (CPPIB) at a $4.6 billion valuation in 2016. The company benefited from a surge in pet ownership during the pandemic and has a current market cap around $5 billion following its January 2021 IPO. Pet-related spending has grown increasingly sticky due to "pet humanization," a phenomenon in which consumers buy products and services for their pets that are similar to ones they would purchase for themselves. Petco also pivoted toward e-commerce during the pandemic, using its network of retail outlets as distribution centers and partnering with DoorDash (NYSE: DASH) to provide same-day delivery. However, in the face of e-commerce competition from Amazon (NASDAQ: AMZN) and Chewy (NASDAQ: CHWY), it is likely that a public exit would not have been in the cards for the heavily levered company without the convergence of pandemic tailwinds and a red-hot stock market.

Nonfinancial corporate balance sheet cash ($B)



Source: Federal Reserve | **Geography:** US

SPAC fundraising activity



Source: PitchBook | **Geography**: US
*As of March 31, 2021

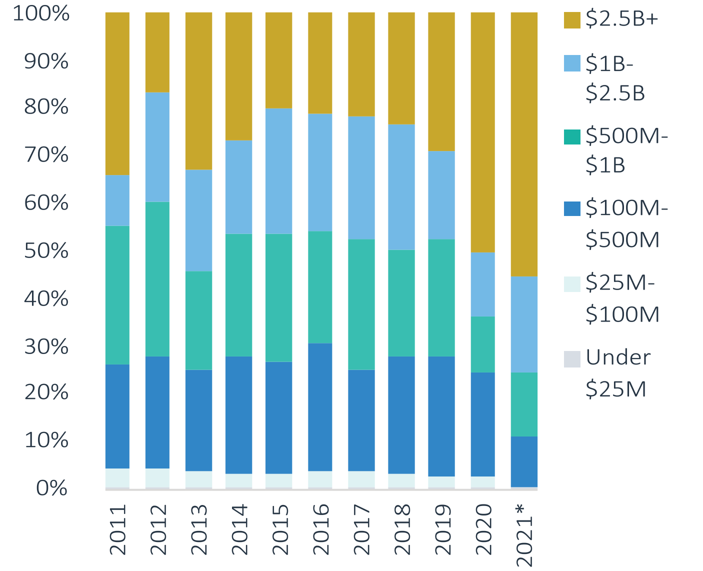
The much-discussed proliferation of SPAC IPOs has opened another exit route for PE-backed companies, and the first quarter of 2021 saw a SPAC IPO bonanza. More SPAC IPOs priced in Q1 2021 than in all of 2020. Several of the companies that completed reverse mergers with SPACs in Q1 2021, including Verano Holdings (CNQ: VRNO), Riley Permian (NYSE: REPX), and CarLotz (NASDAQ: LOTZ), previously received growth equity investments. The expansion of growth equity has brought a broader array of companies with public market ambitions into the PE landscape. For many such companies, SPACs represent a more feasible route to the public markets than an IPO.

However, at the end of Q1 2021, the pace of SPACs entering the market slowed dramatically. Whereas the first four weeks of March saw an average of 23 SPAC IPOs per week, only two SPACs went public between March 29 and April 1. Many SPACs have traded below their offering prices, and several reverse mergers were tabled in recent weeks. As mentioned in the overview section, Vista and Apollo tabled a deal that would have rolled three Vista-owned auto technology companies into a merger with the Apollo Strategic Growth Capital and Vista Equity Partners' SPAC. It has grown increasingly difficult in recent months to finance SPAC mergers due to the unprecedented demand for PIPE investments, and faltering technology stock prices reportedly caused investors to balk at the proposed $15.0 billion valuation of the combined companies. The SEC has also stepped up its scrutiny of SPAC mergers and warns of increased review times. It remains to be seen where the SPAC boom will find equilibrium in the long term. For now, the current class of SPACs seeking reverse merger targets will undoubtedly play a role in PE exits in the remainder of 2021 and into 2022.

Although public markets and strategics provided ample buying power for exits at the top end of the market, exit activity was mixed for PE-backed companies valued under $500 million. Q3 and especially Q4 2020 saw a flurry of exit activity as GPs that had delayed exits during the pandemic downturn began to make up for lost time. Many rushed to close deals before the end of the year in anticipation of tax hikes under the Biden administration.[3,4] By contrast, larger acquisitions and IPOs may have taken more time to plan and execute, spilling into Q1 2021. GPs forced to hold companies for longer may have pivoted to—or doubled down on—buy-and-build strategies to increase the return multiple. Depending on the sector, this can cause further delays while add-on acquisitions are completed. The growing popularity of continuation funds has made the long-hold buy-and-build more feasible: For instance, in March 2021, Riverside Partners raised a $532.0 million continuation fund to continue making add-on acquisitions via portfolio companies of its Riverside Fund V. Finally, some GPs may be waiting to offload companies that struggled during the pandemic—including hospitality, brick-and-mortar retail, and B2B companies with end-market exposure to faltering industries—until mid-2021 or later, when the worst effects of the pandemic begin to age out of annual financial metrics.

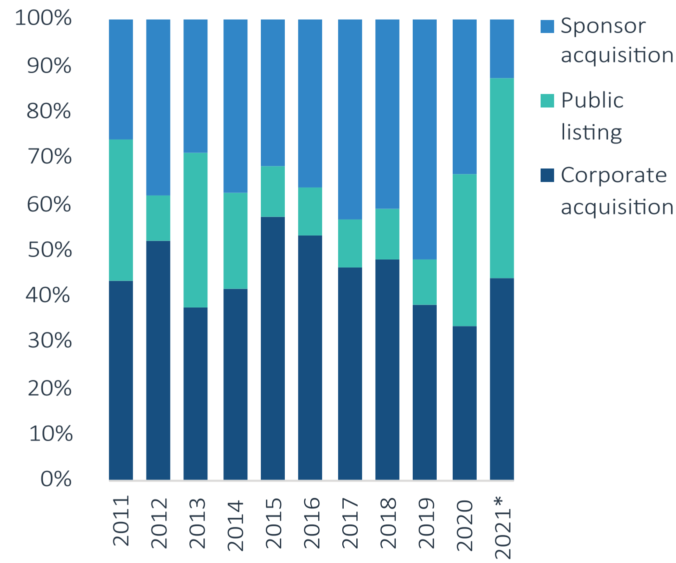
Sponsor-to-sponsor exits also faltered in Q1, continuing a trend we saw in 2020. GPs continue to delay exiting pandemic-affected businesses to avoid selling at a discount to their pre-COVID-19 fundamentals, while buy-side GPs are hunting for bargains. For GPs looking to exit larger businesses with positive secular trends, public markets—including SPACs—and corporate buyers were often willing to pay higher prices than other GPs under pressure to deliver returns in a high-multiple environment.

PE exits ($) by size



Source: PitchBook | **Geography**: US
*As of March 31, 2021

PE exits ($) by type



Source: PitchBook | **Geography**: US
*As of March 31, 2021

3: Although White House economic advisor Jared Bernstein has stated that a corporate tax increase passed during summer 2020 would not take effect until 2022, this was not known with certainty in late 2020. Retroactive federal tax increases are rare, but not unprecedented. The last one occurred in 2003.
4: "White House Economic Adviser Jared Bernstein on Biden's Big Infrastructure Plan," Axios Re:Cap Podcast, Dan Primack, March 31, 2021.

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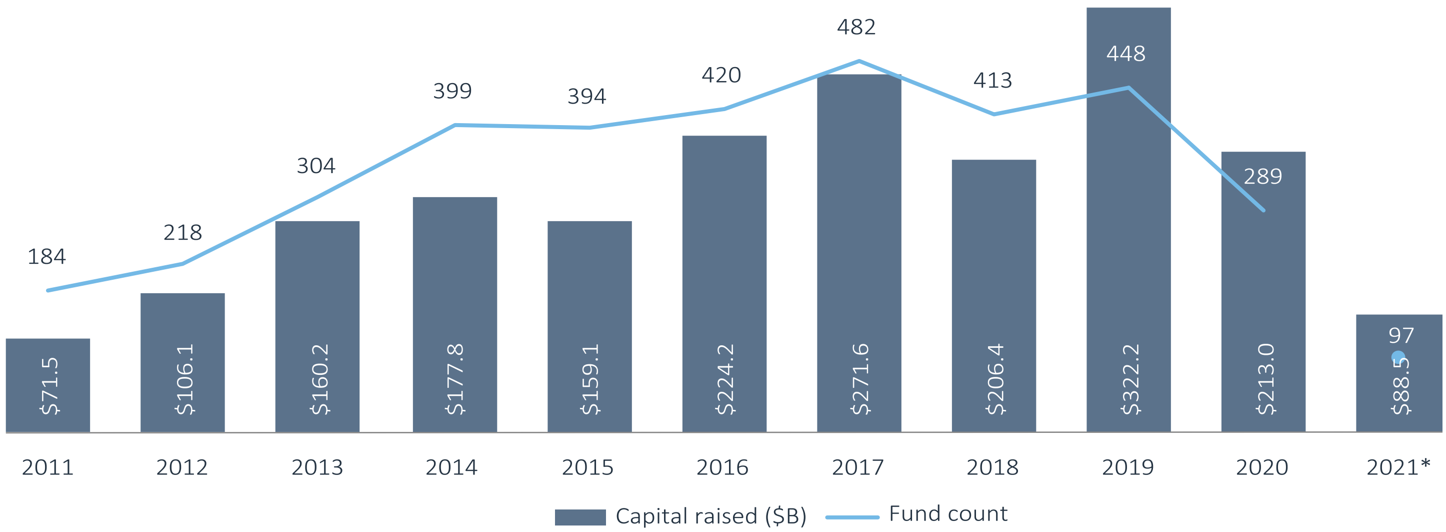
Fundraising

PE fundraising activity



Source: PitchBook | **Geography**: US
*As of March 31, 2021

After a tepid 2020, US PE fundraising rebounded in the first quarter of 2021. In total, 97 US PE funds closed, amassing a total of $88.5 billion. While this represents a healthy start to the year, much of the capital raised derived from three massive funds. Flagship offerings from Silver Lake, Clayton, Dubilier & Rice, and New Mountain Capital collected a combined $45.6 billion. Genstar also brought in $10.2 billion in early April 2021, but this figure will count toward Q2's figures. New Mountain's $9.6 billion flagship—a nearly 50% step-up from its previous offering—is noteworthy. As is the firm's $600.0 million GP commitment to the vehicle, which is twice the amount the GP and affiliates contributed to the prior fund. The fund also marks the first flagship offering since New Mountain sold a stake in the firm to Blackstone in 2018.

Q1 also saw a continuation of PE firms raising capital targeting faster-growing companies. This includes funds concentrated on majority and minority stakes. Blackstone closed its inaugural growth equity fund, which amassed $4.5 billion. This largest-ever first growth equity fund instantly makes Blackstone a dominant player in the space. The fund exemplifies broader shifts at Blackstone, which is targeting higher-growth investments across PE, real estate, credit, and more. The broader PE landscape also favors similar growth-oriented investments, and technology-focused funds have been a prime recipient of the influx of capital. After Thoma Bravo raised $22.8 billion across three buyout funds in Q4 2020—the largest of which was $17.8 billion—Silver Lake closed on $20.0 billion in Q1 2021. Silver Lake Partners VI is the largest-ever technology-focused vehicle. The fundraising also comes after a broader shakeup of top leadership, as Egon Durban and Greg Mondre became co-CEOs in late 2019. The positive market reaction portends positively for Silver Lake's future fundraising efforts.

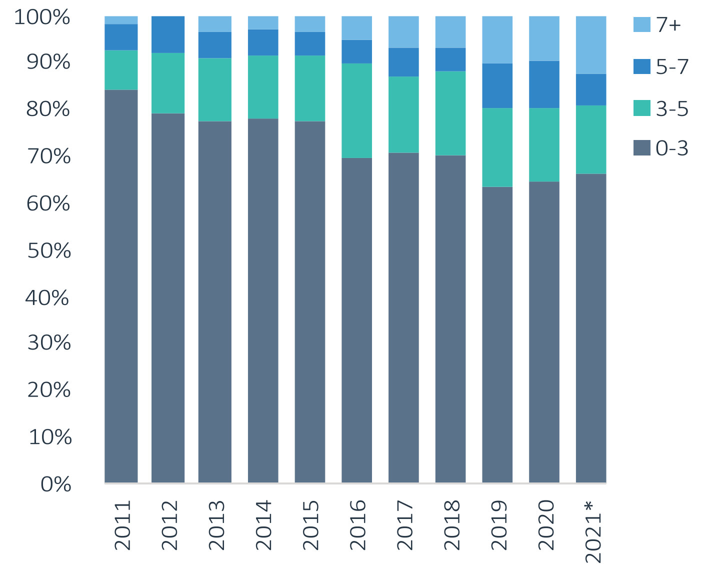
Beyond PE's push into higher-growth sectors and companies, a greater number of firms are raising capital as sector specialists. Arcline Investment Management specializes in B2B products and services and closed on a $2.75 billion Fund II in February. Similarly, technology-heavy investor JMI Equity raised its tenth flagship fund in March, collecting $1.7 billion. Going forward, we expect the trend toward specialization will continue for several reasons. In an increasingly competitive and crowded world, many managers believe specializing in one sector—and, in some cases, one or two subsectors—is a reliable way to deliver top-quartile results. On average, newer managers are more specialized than established ones, with approximately half of all new GPs falling into the specialist bucket. As these managers scale and succeed, more capital will flow into these types of funds. Even the larger generalist shops are beginning to offer sector-specialist funds. Recent examples include Blackstone's healthcare fund and KKR's technology growth fund. Lastly, LPs may prefer this trend toward specialization. Institutional investors in PE can now specify sector allocations with more precision than ever before, though the PE part of the portfolio still has markedly less ability to specify sector weightings than with public equities.

Although the PE ecosystem may be trending toward specialist firms dominating the landscape, generalists remain a force. Many of the established managers fall into this category. During Q1, Oak Hill, Charlesbank, and Kohlberg & Co. all closed funds in the $3 billion to $4 billion range. Charlesbank's $3.75 billion Fund X was particularly interesting. The headline fund size underrepresents the total capital raised because the firm concurrently raised an additional $800.0 million overage vehicle, which will allow Fund X to target larger opportunities. The overage fund could keep capital that may have been earmarked for coinvestments in house so the firm can continue collecting management and performance fees. We will be watching to see whether other firms pursue this strategy. Moreover, this established manager seemed to have no issue raising capital because of its existing relationships. According to a press release, Fund IX investors raised 94% of Fund X's capital, and the final close came less than six months after its launch.[5]

With a nationwide vaccine rollout and LPs feeling more comfortable performing due diligence on new relationships over videoconferencing systems, emerging managers will likely raise more capital in 2021 than in 2020. In the technology space, pedigreed first-time fund GPs are raising large funds out of the gate. Brighton Park Capital, a General Atlantic spin-off, secured $1.1 billion for its flagship fund; while BayPine, a new fund that counts Silver Lake cofounder David Roux among its founding members, raised $1.1 billion in its first close while pursuing a $2.0 billion goal. BayPine describes elongated target hold periods as part of its strategy, thereby mirroring an industry trend in which some of the largest firms have raised long-dated funds in recent years. Emerging managers raising smaller funds also hope for successful final closes in 2021. For example, Soleus Capital, a firm focused on healthcare devices and supplies, has raised $136.8 million toward its $175.0 million Fund II goal.

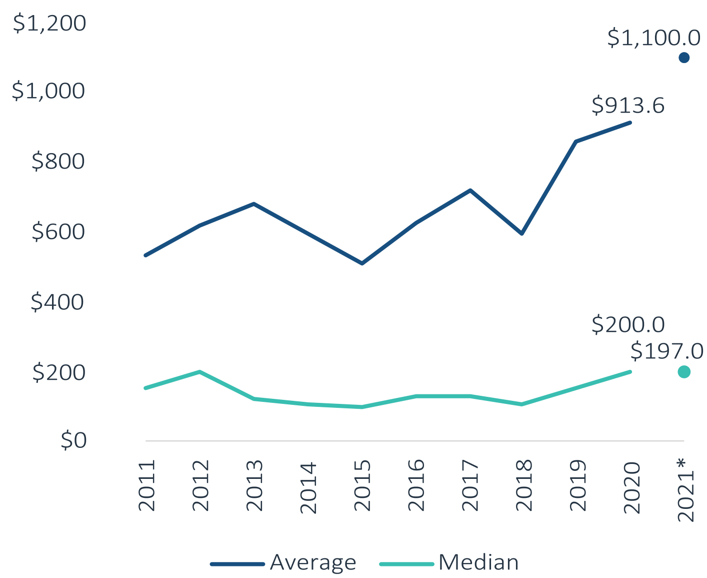
While smaller funds may have more success this year than last, a handful of PE mega-funds either currently in market or likely launching soon will continue to move the needle in 2021. Hellman & Friedman is in the market

PE fundraising (#) by fund family bucket



Source: PitchBook | **Geography**: US
*As of March 31, 2021

PE buyout fund size ($M)



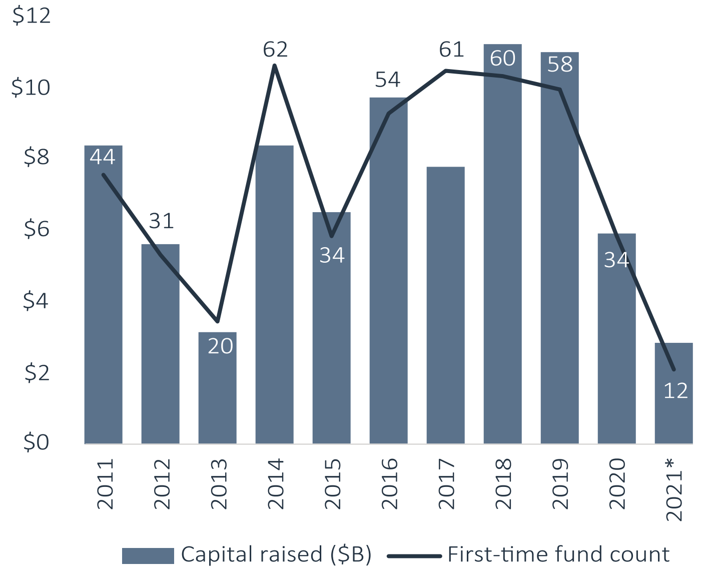
Source: PitchBook | **Geography**: US
*As of March 31, 2021

5: "Charlesbank Capital Partners Closes Fund X at $3.75 Billion Hard Cap," Charlesbank, February 3, 2021.

with a massive $20.0 billion fund, which would be one of a select few to ever reach that threshold. Growth equity investors TA Associates and Insight Partners each seek to collect $10 billion+ for their latest flagship offerings. Insight is also raising a unique follow-on fund. The $1.25 billion fund would invest in opportunities arising from the firm's 2017 vintage fund and buy existing investors' stakes in the fund. This is reminiscent of TA's distinctive $1.0 billion Select Opportunities Fund, which sought to buy minority stakes in companies the flagship fund was selling.

Elsewhere, KKR and Dyal are each fundraising for vehicles that could hit or crest the $10 billion mark. KKR is said to have launched its North America XIII, which is seeking at least $15 billion. This would be a mild step-up considering KKR's prominent industry standing and its previous three funds all producing top-quartile returns. Dyal, meanwhile, is said to be approaching a final close, according to a Blue Owl investor call.[6] Industry reports peg the fund at around $10 billion. Beyond these five PE mega-funds, many tailwinds remain at the back of PE firms currently fundraising. Low interest rates are pushing investors into riskier investments to meet their return targets. Additionally, many are cautious of elevated valuations within the public equity markets—although private multiples are elevated as well—and may seek to steer capital into the less liquid portions of their portfolios. Along those lines, the growing secondaries market means LPs can receive liquidity on a timelier basis without selling at fire sale prices, thus making some investors feel comfortable lifting target allocations.

PE first-time fundraising activity



Source: PitchBook | **Geography**: US
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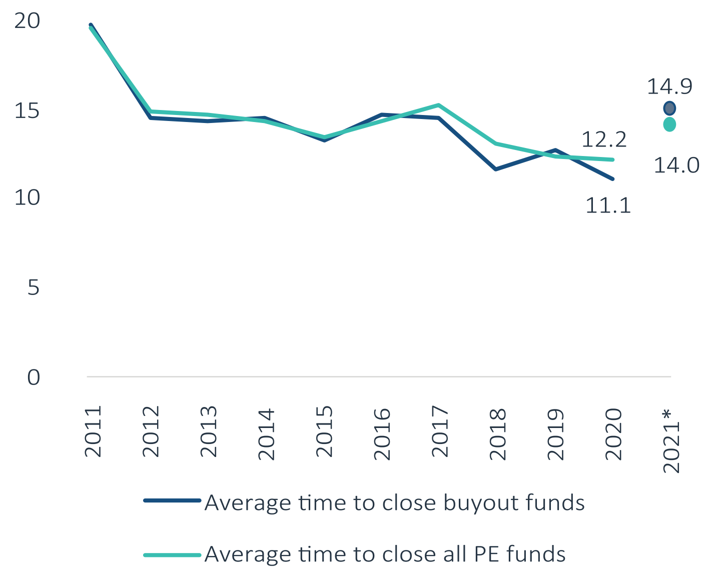
Average time to close for PE funds (months)



Source: PitchBook | **Geography**: US
*As of March 31, 2021

6: "Call Announcing Owl Rock Capital Group and Dyal Capital Partners Enter Definitive Business Combination Agreement with Altimar Acquisition Corporation to Form Blue Owl Capital, Inc.," SEC, December 23, 2020.