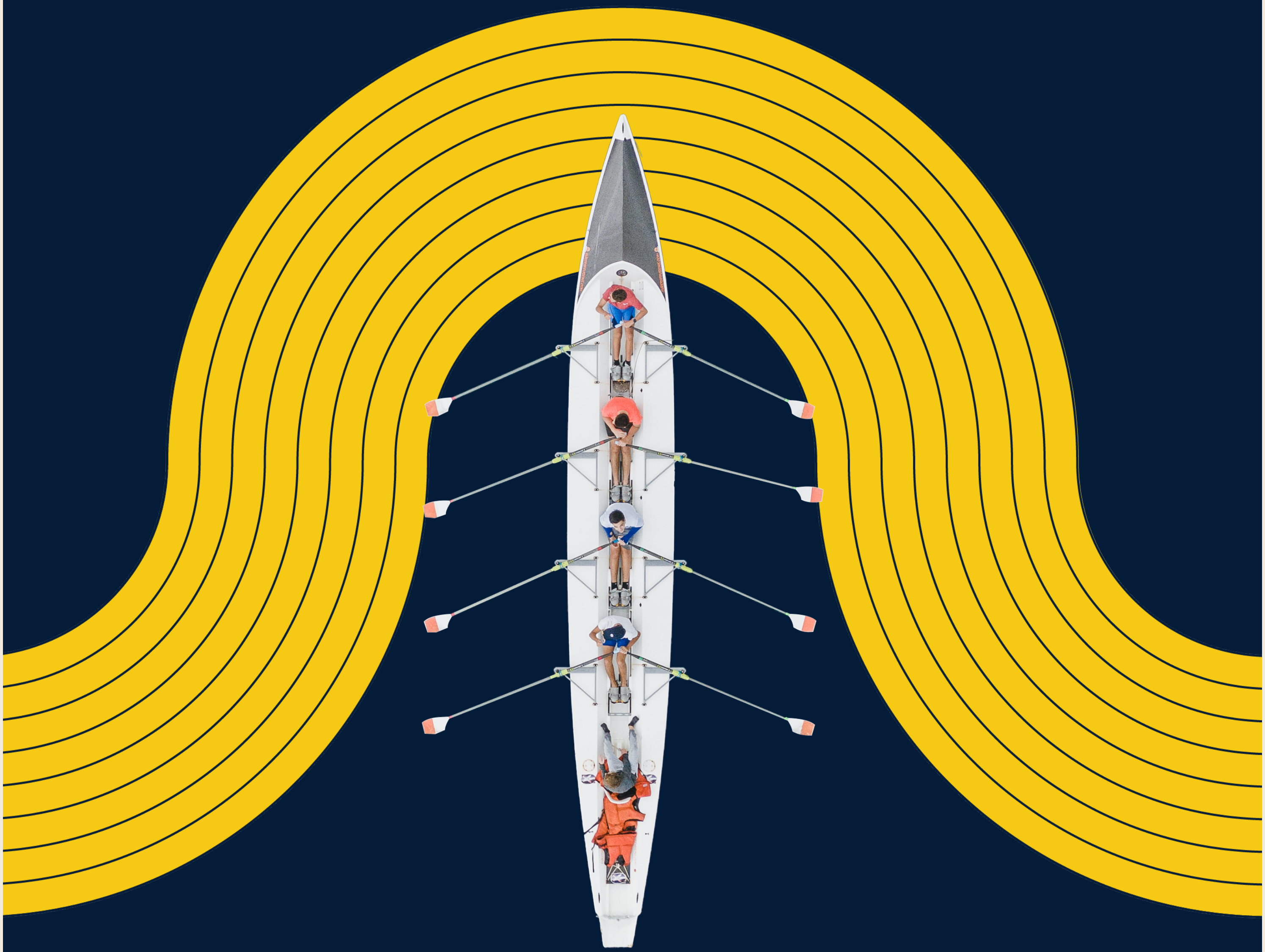
PitchBook

Q1 2022

US PE Breakdown



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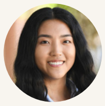

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Executive summary

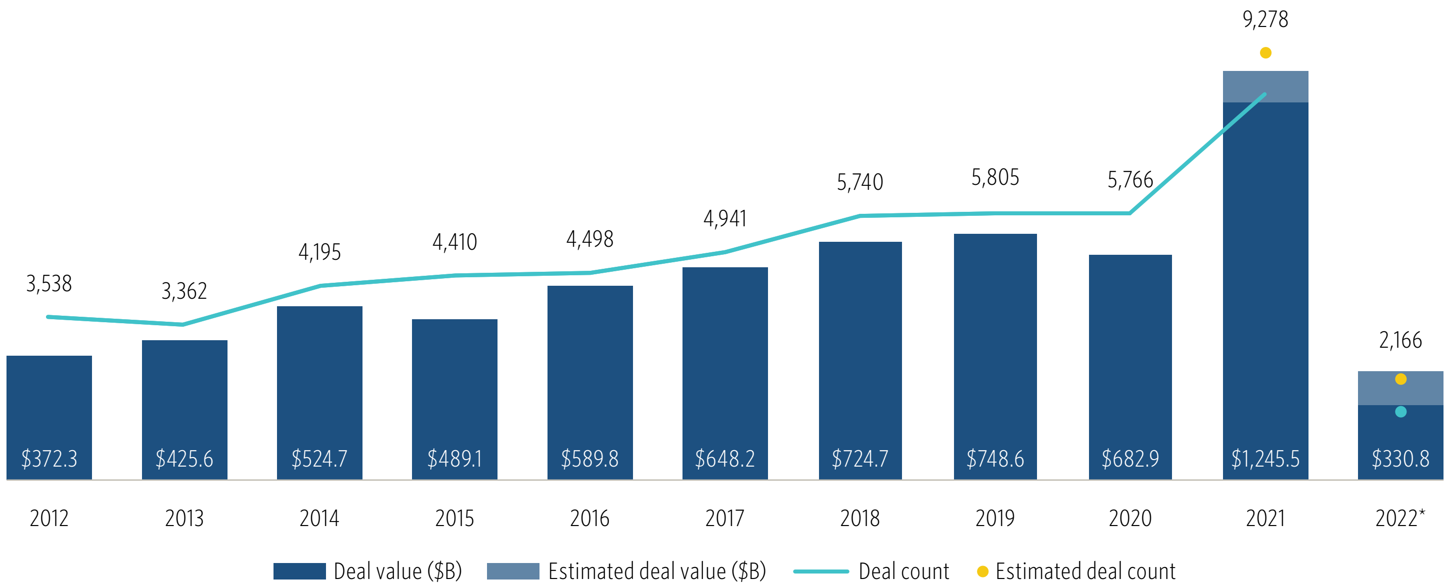
After a record-setting 2021, PE dealmaking activity got off to a tepid start in 2022. The threat of higher interest rates pressured deal activity during the quarter, and Russia's invasion of Ukraine further complicated matters. The invasion caused dealmakers to hit pause for several weeks, escalated supply chain disruptions, and further lifted inflationary pressures in commodities. Financing markets also stood still, and banks sat on tens of billions of dollars of LBO financing in early March. Dealmakers have started to bypass the traditional syndicated loan market, and $1 billion+ private debt facilities are becoming more common. From dealmaking to public equities, markets appear to be moving forward. After declining in the first two months of 2022, US public equity markets largely rallied in March, suggesting investors are expecting calmer waters ahead. Similarly, capital continued to flow into IT despite some investors rotating out of high-valuation tech stocks, as concerns about interest rate hikes put pressure on valuations. Appetite for PE tech deals remained strong, as investors focused on attractive growth prospects and even saw opportunity to secure better valuations. Deal activity in healthcare remained robust mainly through two thematic areas: healthcare IT and value-based care (VBC). Energy investments are becoming more attractive because of fears surrounding oil and gas shortages stemming from the Russia-Ukraine conflict. Deals around traditional energy assets are expected to be funded despite growing focus on low-carbon assets and sustainability.

US PE exit activity was off to a sluggish start in 2022 as well, due to the headwinds brought forth by prolonged inflation, geopolitical conflict, and market volatility. Public listings drove the impressive exit activity in 2021 but dropped in Q1 as sponsors held on to their portfolio companies amid steep stock market declines and valuation adjustments. Sponsor-to-sponsor exits and corporate acquisitions endured thanks to high levels of PE dry powder and cash on corporate balance sheets. As exits continue through other sponsors or corporations that look to take advantage of market disruptions, we anticipate public listings to come back once the dust settles, albeit at lower valuations. Lastly, the SEC's newly proposed rules to expand SPAC regulations throw another wrench into the exit environment. We must wait and see if the changes help boost PE exits through SPACs—as they offer improved disclosures and more reasonable performance forecasts—or if they will depress an already-cooling SPAC market with the imposition of new parameters.

The alternatives fundraising environment continues to operate with the wind at its back as capital pours into the space. However, the fight for limited commitments is fierce, with GPs seeking far more capital than LPs can fund. A slowdown in exits and distributions further complicates this issue because most of this capital is reinvested in an LP's PE portfolio. From under $500 million to $20 billion+, private equity vehicles of all sizes are returning to the fundraising trail sooner than LPs had anticipated. Numerous sponsors expect traditional LPs will have exhausted their full-year 2022 commitments by early summer. Because of this, many firms are pushing back final closes to 2023 at the request of LPs, while other firms are delaying the launch of successor funds to 2023. Warehouse facilities will be busy keeping deals flowing to GPs who delay fund launches. Beyond stop-gap measures, most firms are looking to tap new sources of capital to support long-term growth, including insurance companies and retail. In general, the largest firms will survive, even if their fundraising effort drags on longer than anticipated. The small- and middle-market firms will struggle the most. To cajole fresh commitments, co-investment is slated to account for a more significant proportion of capital raised for these firms. More middle-market firms are also reportedly looking to sell a GP stake—a piece of the management company—to help assuage fundraising difficulties. Not only can selling a stake bolster their balance sheet, but it can also open new investor networks and provide support and advice as the firm institutionalizes.

Overview

PE deal activity



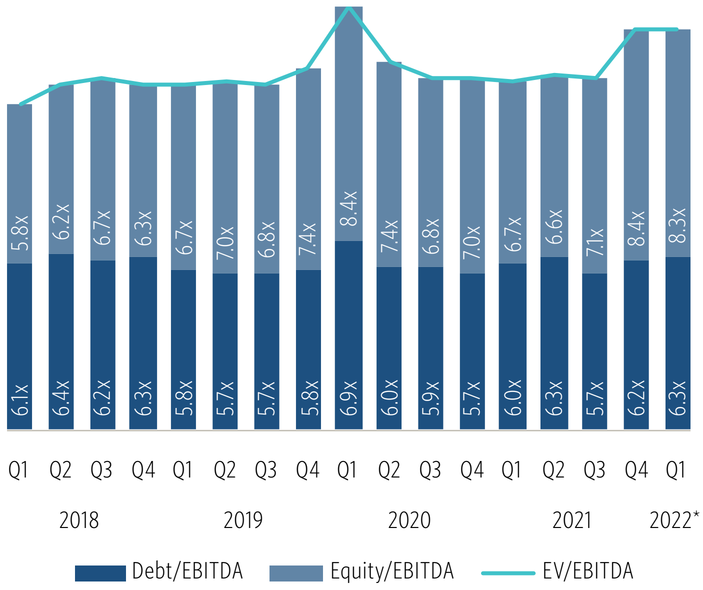
Source: PitchBook | **Geography:** US
*As of March 31, 2022

Introduction

After a blistering 2021, PE dealmaking activity got off to a lukewarm start. During Q1 2022, PE dealmakers closed 2,166 deals for a combined $330.8 billion. This represents an increase in deal count and value to Q1 2021's figures. Russia's invasion of Ukraine has caused a humanitarian tragedy, and the threat of further escalations, sanctions, and supply chain disruptions pushed dealmakers to hit pause for several weeks. The invasion also wreaked havoc in lending markets. Tens of billions of dollars in syndicated loans for LBOs remained parked on bank balance sheets in the US and Europe for weeks in March as uncertainty loomed. Final deal counts in Q1 and Q2 2022 will likely reflect this shock. Further escalations could lead to a deeper and more protracted reduction in deal activity, though.

The threat of higher interest rates also pressured dealmaking activity during the quarter. Inflation continues to run red hot, with CPI posting 7.9% gains for the 12-months ending in February. The Federal Reserve is slated to combat rising prices

Median rolling four-quarter PE buyout EV/ EBITDA multiple



Source: PitchBook | **Geography:** US
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by lifting interest rates several times during the year, with the first 25-basis-point interest rate hike having occurred in March.[1] The Federal Open Market Committee plans for six more this year, with three additional raises in 2023. The prospect of higher discount rates is already battering high-multiple growth companies in the public and private markets. There are many examples of somewhat speculative, high-growth public stocks falling more than 50% from their 52-week highs during the quarter; even privately held Instacart cut its valuation by almost 40% in March.

Markets appear to be moving forward, though. US public equity markets have largely rallied in March, suggesting that investors are expecting calmer waters ahead. Nielsen's acceptance of a $16 billion buyout offer from Elliott Management and Brookfield Asset Management also indicates that a more normalized dealmaking environment may be on the horizon. The reported $10 billion+ financing package is expected to hold up despite the turmoil in the syndicated leveraged loan markets. This deal may embolden other mega-funds, which are flush with cash, to resume deployment.

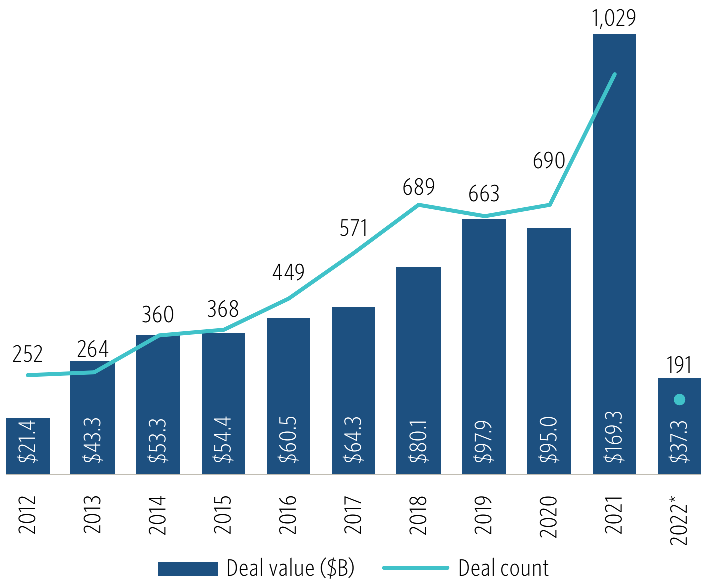
Beyond PE dealmaking, M&A by corporates also seems to be on the mend. Activity appeared to perk up throughout March, especially in the under $5 billion enterprise value (EV) range. Dealmaking is also reviving in the materials & resources space, with oil & gas producers seeing a notable benefit. The reorientation of energy supply chains as a result of Russia's invasion lifted fossil fuel energy prices and caused some investors to jump in, despite broader environmental, social, and governance (ESG) concerns, which have drained capital from the sector. Oil & gas funds have seen an uptick in investor interest for the first time in years. However, climate-friendly deals are expected to continue their upward trajectory. The importance of the move to greener energy production—and energy independence more broadly—is underscored by Europe's dependence on Russian gas imports.

IT

Tech stocks tumbled throughout the first few months of 2022 as fears of interest rate hikes put pressure on the lofty valuations at which many companies were trading. High-growth tech stocks fell out of favor because higher interest rates would reduce the net present value of expected earnings that relied heavily on future profit growth. Despite intense market volatility and some investors rotating out of high-valuation tech stocks, plenty of capital still flowed into the sector. The NASDAQ 100 Index staged a sharp rebound by the end of March, and in PE, appetite for deals remained strong as investors focused on attractive growth prospects amid adjusting valuations. Middle-market PE firms even saw the market turbulence as an opportunity to secure reasonable valuations in a sector that has been pervaded by frothy valuations. And with technological innovation and efficiency front and center in continued digitalization across industries, the opportunity set remained robust enough to attract investors. Deal activity for information technology (IT) pushed forward in Q1, with greater deal value than in Q4 2021.

The global shift to remote work and the need for a more efficient workplace continued to drive deals in business & productivity technology. In January, Vista Equity Partners and Evergreen Coast Capital, an affiliate of Elliot Management, announced they would acquire digital workplace solutions

Software PE deal activity



Source: PitchBook | **Geography:** US
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1: "Federal Reserve Approves First Interest Rate Hike in More Than Three Years, Sees Six More Ahead," CNBC, Jeff Cox, March 16, 2022.

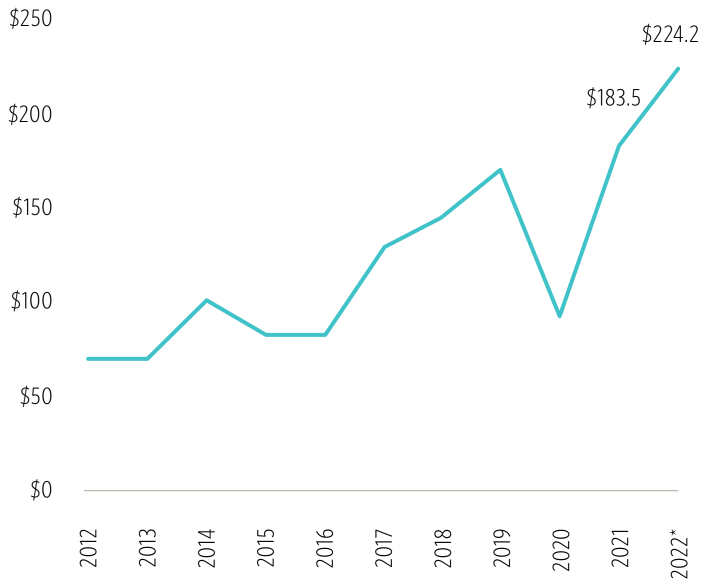
provider Citrix (NASDAQ: CTXS) for $16.5 billion in a take-private deal. Citrix will merge with Vista's existing portfolio company, TIBCO Software, which provides enterprise data management to help navigate a hybrid workplace. The deal exemplifies opportunities to unlock value in digital workplace transitions amid a major global adoption of remote work. PE firms are jumping to secure deals involved in this enormous disruption to workplace dynamics. Similarly, Vista Equity Partners invested $150.0 million of development capital in OfficeSpace Software to expand its efforts to help organizations evolve their workplace strategies. As organizations embrace and transition to hybrid work, OfficeSpace's cloud-based platform allows users to simplify how employees use their workspace, manage desk and room booking, and maintain social distancing. Changes in how companies and employees interact are also creating opportunities in HR tech. In January, Able., a cloud-based onboarding and candidate-engagement solutions provider, was acquired by Bullhorn via financial sponsors Stone Point Capital, Insight Partners, and Genstar Capital. The deal is a play on the ongoing adoption of technology in employee hiring processes, helping staffing agencies leverage data and streamline hiring and onboarding processes by employing remote digital access to reduce hiring costs.

Cybersecurity, which began to see a flurry of deal activity in the last couple years, remained top of mind in Q1 as the industry continues to expand. Increased use of digital systems, coupled with rising cybercrimes have heightened the acute need for greater online protection. In March, an investor group led by Advent International and Permira completed the $14.0 billion buyout of McAfee, which marked the largest deal in IT for the quarter and second-largest deal in PE overall. Permira's acquisition of email security company Mimecast (NASDAQ: MIME), which was announced in December, is expected to close next quarter in a $5.8 billion take-private deal. We expect to see many more PE-backed cybersecurity deals as the market expands with increasing interest; concerns about cyberattacks only heightened with Russia's invasion of Ukraine, and the Securities and Exchange Commission (SEC) proposed enhanced rules and disclosures regarding cybersecurity by public companies in early March, showing that the industry continues to be an important and developing area of focus. In March, Crosspoint Capital Partners, which is also part of the McAfee buyer consortium, led the growth investment in RSA Conference, which offers global events and resources for learning in the cybersecurity community. The investment will be used to enhance the world's largest cybersecurity event and further knowledge sharing and networking for an increasingly important industry.

Healthcare

Healthcare PE dealmaking in Q1 was driven by investments in healthcare IT and value-based care (VBC). The quarter was headlined by the close of significant healthcare software-as-a-service (SaaS) deals, including the $17.0 billion club buyout of Athenahealth and Clearlake's rollover of symplr, a healthcare governance, risk, and compliance (GRC); practice management; and credentialing software provider, into its Icon V single-asset continuation vehicle. A frequent narrative around these deals is that the healthcare industry lags a decade or more behind other sectors, such as financial services, in adopting digital capabilities, thus creating significant investor opportunities. However, the landscape for many healthcare IT products remains extremely competitive, with enterprise-grade vendors such as Epic and Cerner controlling large pluralities of the hospital market. In addition, many outpatient specialist verticals have been cornered by niche vendors. Some PE investors are betting that the most compelling software solutions can consolidate provider end markets, whereas others are focusing on downmarket vendors that target the smallest physician practices. Another key opportunity may emerge from the tumult in the public markets, which has dragged down the stock prices of digital health companies such as Teladoc (NYSE: TDOC), which once

Median buyout size ($M)



Source: PitchBook | **Geography:** US
*As of March 31, 2022

appeared to be “COVID-19 winners.” Patient Square Capital’s announced $302.5 million take-private of SOC Telemed (NASDAQ: TLMD) may portend similar activity if the current rotation continues. For instance, General Electric’s (NYSE: GE) planned spinout of its healthtech business, GE Healthcare, later this year, may provide opportunities for a firm such as Francisco Partners, which has a history of buying and turning around healthcare IT divisions from large conglomerates, to carve out part of the business.

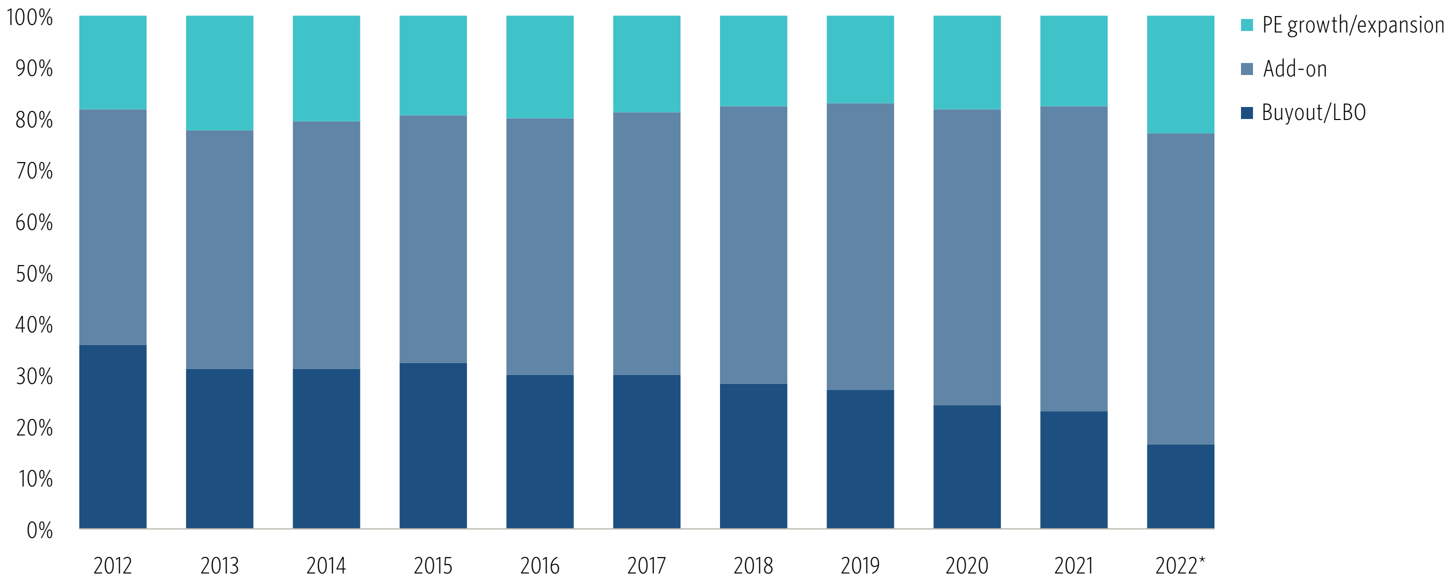
Thematic investing in value-based care (VBC)—including both providers and technology solutions—has also been red hot in Q1. VBC models tend to work well for high-spend populations, for which the potential cost savings to payers—and thus to VBC-contracted providers who share in those savings by taking on risk—are significant. Additionally, the model works well when a provider can control the full episode of care over an extended time period, investing in early-stage interventions to reduce costly disease progression. Kidney disease has been an attractive specialty for VBC investors because it ticks both boxes and is covered by Medicare’s Kidney Care Choice Model. In May, Cricket Health, backed by Welsh, Carson, Anderson & Stowe’s portfolio company Valtruis, announced a three-way combination with InterWell Health and Fresenius Health Partners. The combined $2.4 billion company will leverage both Cricket’s technology and InterWell and Fresenius’ kidney care practitioners and dialysis centers to treat patients, beginning with early-stage interventions and extending through chronic care management. We expect this is only the beginning of PE activity in the kidney care space because significant opportunities exist to grow and consolidate the current crop of early-stage kidney care technology companies—many of which are already backed by major strategic players that may become buyers down the line. DaVita’s (NYSE: DVA) CVC arm has backed seven kidney-disease-related startups since 2018, and DaVita purchased kidney transplant software provider MedSleuth in January. Concierge kidney care provider Somatus—backed by the venture arms of Anthem, Optum, and the Blues plans—closed its Series E in February at a $2.23 billion pre-money valuation. And CVS Health (NYSE: CVS) has also been building out its own kidney care provider business with a focus on home dialysis technology.

The quarter also saw the close of Kinderhook Industries’ buyout of Physician Partners, a Florida-based VBC primary care physician group focused on Medicare Advantage (MA) contracts. Primary care, once sidestepped by healthcare investors because of its low fee-for-service margins, has become an attractive investment under VBC because primary care physicians act like quarterbacks for a patient’s specialist care and are instrumental in reducing higher-acuity, higher-cost interventions down the road. Entering the crowded MA primary care market with a mature company buyout comes with a hefty price tag, and small to midsized players are pitting themselves against the largest insurers—including United Healthcare’s (NYSE: UNH) Optum, Anthem (NYSE: ANTM), and Humana (NYSE: HUM)—which are quickly gobbling up market share, particularly in the attractive Florida market. It will be interesting to watch whether firms such as Kinderhook, which has a track record of middle-market VBC investments, can scale their portfolio companies quickly enough to secure an attractive return, likely by exiting to these larger players.

Energy

The energy sector had a turbulent start to the new year, with oil dropping below $100 a barrel amid pandemic lockdowns in China, only to shoot up due to fears of an oil shortage stemming from Russia's invasion of Ukraine. Big swings in both directions are expected to continue as global markets deal with potential oil shortages. Despite growing focus on low-carbon assets and pressure from ESG principals, the panicked market reaction demonstrates the magnitude of the world's continued demand for, and reliance on, oil and natural gas. Volatility and price increases will create opportunities for energy investors, and we can expect deals around traditional energy assets that were prevalent in 2021, such as consolidation in exploration & production (E&P) companies and strategic asset sales, to continue into 2022. For example, the fossil-generating portfolio of Public Service Enterprise Group was acquired by ArcLight Capital Partners for $1.92 billion in February, and newly formed upstream oil & gas E&P company Slant Energy II (formerly Slant Energy) secured $90.0 million of capital from their existing PE partner Pearl Energy Investments. Lime Rock, a PE firm focused on the global energy sector, raised $538.0 million for its fifth energy fund and an affiliated co-investment vehicle and had already made four acquisitions before the fund's final close in March. The firm, which will acquire, improve, and operate producing oil & gas properties in the US, believes investors can benefit from present market conditions such as strong current commodity fundamentals and capital flight from the sector.[2]

Share of PE deal value by type

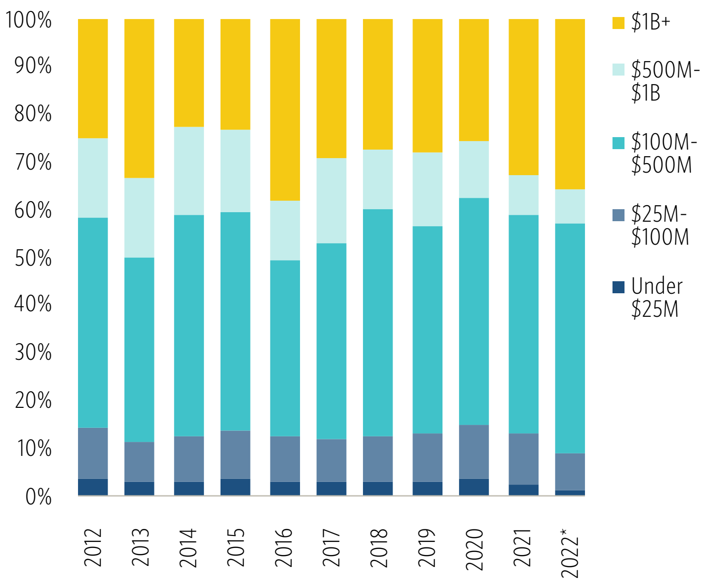


Source: PitchBook | **Geography:** US
*As of March 31, 2022

2: "Lime Rock Resources V and Affiliated Vehicle Close at $538 Million," Lime Rock Resources, March 14, 2022.

Deals by size and sector

Share of PE deal value by size



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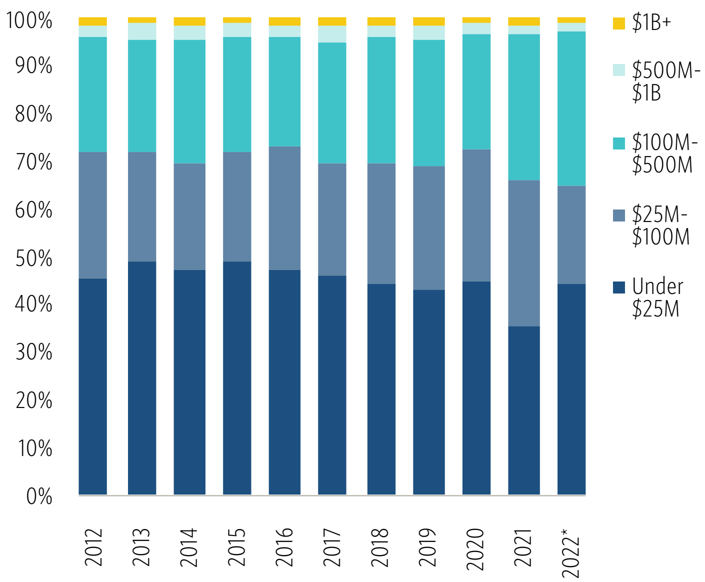
Share of PE deal count by size



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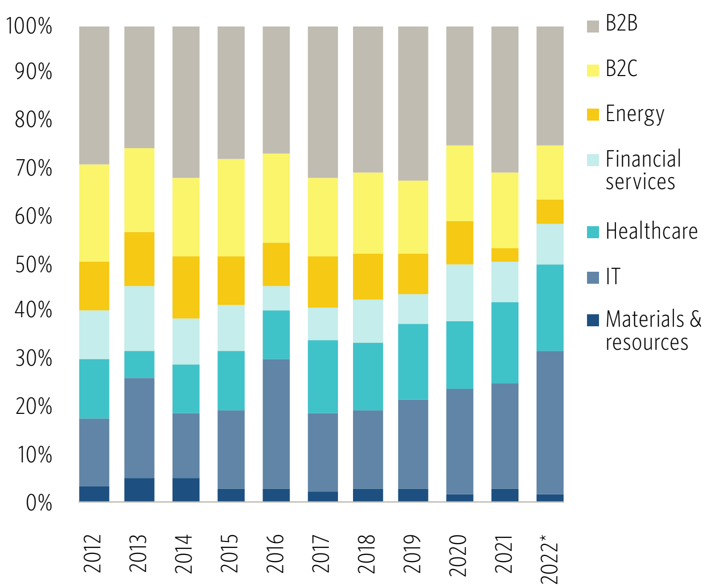
Share of PE deal value by sector



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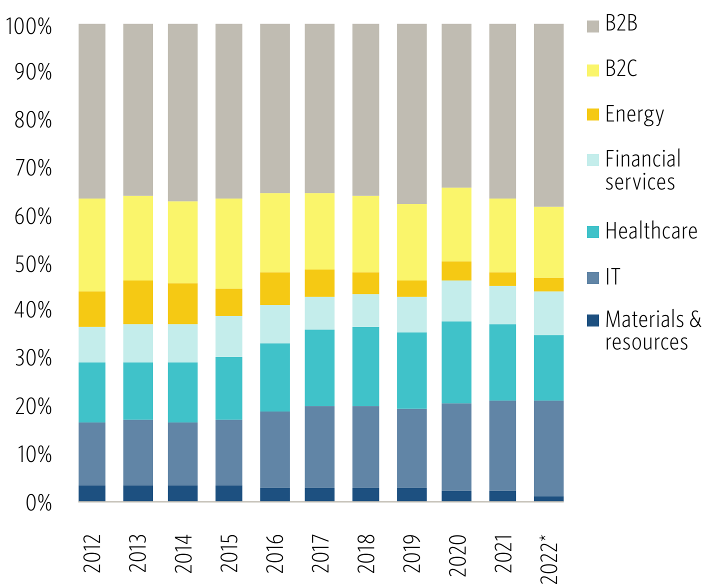
Share of PE deal count by sector



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A WORD FROM STOUT

Trending in M&A: Inflation, lending, and ESG

Jeff Zolkin

Managing Director and Head of Capital Markets
Stout

Jeff Zolkin leads the Capital Markets practice at Stout and has over 25 years of experience in the securities industry, with significant expertise in raising debt and equity capital for both sponsored and non-sponsored companies. Focused primarily on middle-market companies, Jeff has completed capital raises in excess of $20 billion across numerous industry segments, including industrial manufacturing, consumer goods, hospitality & restaurants, automotive, telecom, healthcare, and energy & oil services.

What are you seeing in terms of multiples and dealmaking activity with the uncertain and volatile global macro backdrop?

Most capital providers seem cognizant and concerned about the volatility in the markets as a result of the war in Ukraine and the rising interest rate environment. However, for now, these groups are in a position where they really need to continue conducting business as usual. With the confluence of these events and the Federal Reserve Board actively raising rates, many lenders and credit funds are viewed as providing a natural hedge to rising rates, due to their floating rate structures. As a result, these lenders and funds continue to attract meaningful new capital, and so much money has flooded into these funds that there is a clear obligation to put these funds to work.

How are your clients approaching due diligence and cost projections in this inflationary environment? How are they thinking about rising costs in the labor market and other input costs?

All of the companies we see are trying to better understand how they will be impacted by the currently elevated labor, raw material, and transportation pricing, as well as whether these pricing pressures are transitory or longer term. The impact on margins is also not just a factor of increasing input costs. The volatility in the supply chain is forcing companies to maintain higher-than-normal labor levels while still being impacted by the need for increased overtime labor. The lack of scheduling visibility has changed what would normally be considered a variable cost into a semi-variable cost. As a result, companies are finding it more and more difficult to deliver accurate projections.

How have sponsors thought about their own portfolio companies in this environment? Are they expecting to hold longer or utilize alternative exit routes?

While deal activity continues to be very strong, many of the sponsors we work with are anticipating longer hold periods for their portfolio companies. The volatility in various companies' performance—including supply chain delays, labor irregularities, chip shortages, increased commodity and transportation costs, and even, conversely, the "COVID-19 bump"—make valuation of these businesses a challenge. These companies' ability to show meaningful performance trends to the market is critical to maximizing value upon a sale. Establishing these trends will take time, and we could see hold trends extend. From a financing standpoint, we're seeing the need for sponsors to plan for longer-term capital and to have dry powder for acquisitions and longer-term capital expenditures. Things like expandable revolving credit facilities, carveouts for equipment financing, hedging solutions, or flexible surety/bonding capabilities that could previously be solved with a band-aid approach because of shorter hold periods now require more thoughtful structures and planning to avoid potential bottlenecks for growth.

How is the current deal environment impacting the lending markets?

The level of M&A and deal volume has been so high over the past few years that lenders are drinking from a fire hydrant. Lenders are seeing more PE-led deals than ever before. This, combined with the fact that many PE firms are trying to deploy more capital per deal and use less debt, means that the lenders are generally seeing better quality credits than in the past. As a result, it is very difficult to find lenders in the market that will price risk. This is one of the reasons why groups like Stout, which have significant relationships and can find lenders that will price risk, are becoming more and more relevant to PE firms and companies that need capital but have a "story" or "risk" that needs to be explained to the market. And, naturally, this capability becomes even more valuable should the markets see any kind of downturn.

Are there any trends in the market that PE should be keeping an eye on?

As it relates to lending, we have been operating in an environment where PE firms are often able to get significant cushion to their lending covenants. We think many PE firms are likely not considering how they are being impacted by "covenant creep." As purchase multiples are pushed to higher and higher levels, the implication is that the companies receiving these high multiples should grow more quickly than lower multiple companies. However, the level of cushion the lenders are giving on covenants is generally not increasing, and the combination of projected growth and a fixed cushion could create a future problem. For example, a company that is expected to grow at 10% and whose lender set covenants at a 25% cushion to projections will completely run out of cushion within three years. Even if the lender started with a 30% covenant cushion, this same company would have a true cushion of just over 5% after three years. While a strong economy can mask this issue, any type of blip, market downturn, or even just an extension of a holding period can expose significant risk in a PE firm's portfolio companies. We are always particularly attuned to issues like covenant creep because our focus is on trying to find covenant-lite or covenant-flexible solutions to give companies adequate protection when there is a hiccup in the market. While covenant-lite solutions are common for companies with EBITDA of $50 million and up, we think our ability to bring these types of solutions to the middle- and lower-middle-market companies is unique.

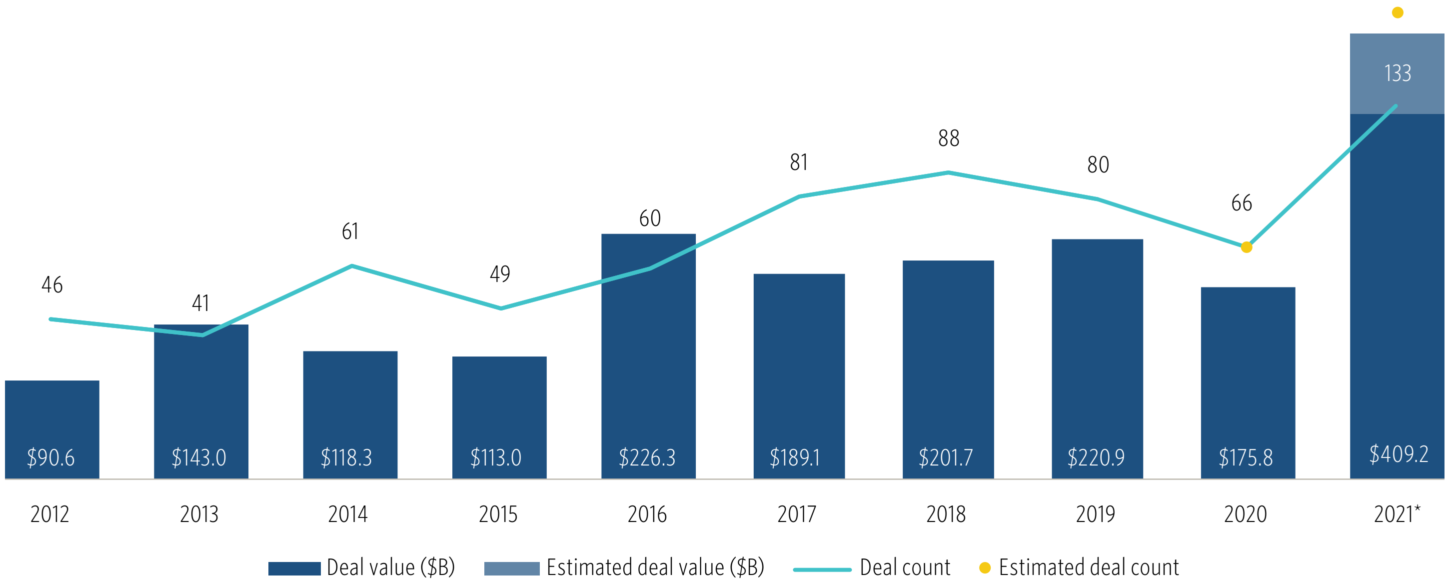
What kinds of changes have you witnessed on the ESG (environmental, social, and corporate governance) front?

ESG is becoming a significantly more meaningful element for corporates, PE firms, and lenders. While corporates have been embracing ESG, and dedicated ESG-focused PE funds have emerged over the last several years, lenders are now setting aside larger allocations for ESG sectors. A number of lenders are now allocating 10% or more of their portfolios to ESG-related credits. Lenders' expanded focus into these sectors has had a positive effect on several PE funds that were otherwise indifferent to ESG. To identify and secure more ESG opportunities, some lenders are offering higher levels of structure and pricing flexibility. As a result, PE funds are giving ESG opportunities a longer, harder look with the knowledge that a bit of financial engineering is available to either give some downside support or potentially enhance returns. We're spending time with lenders and capital providers to keep tabs on who is fully allocated on ESG and who still needs to fill their allocations. Our ability to connect PE firms that are considering ESG deals with lenders that have space in their allocations can often lead to very attractive borrowing solutions.

SPOTLIGHT

Growing prominence of mega-deals and exits in US PE

PE $1B+ deal activity



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

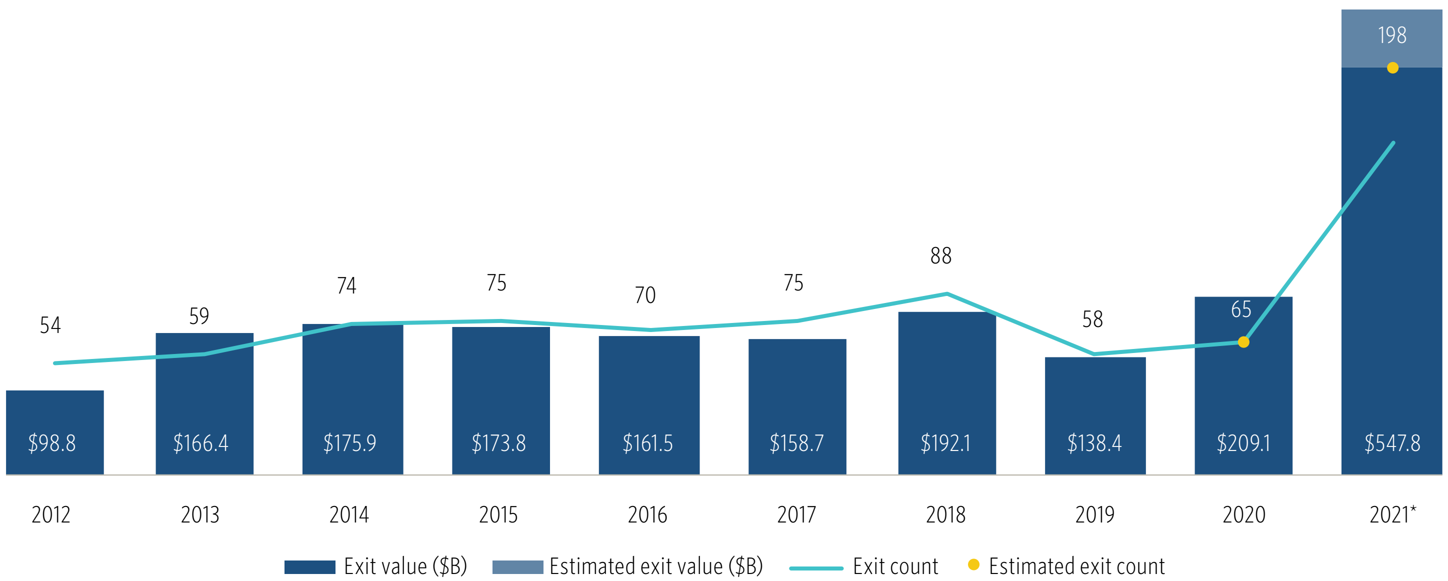
Note: This spotlight is abridged from our "Analyst Note: Growing Prominence of Mega-Deals and Exits in US PE." Please see the full note for additional analysis on the key trends driving the shift in PE toward transactions of $1 billion or more.

PE firms pushed through the volatile backdrop of the global pandemic stronger and larger than before. PE's recovery was spearheaded by a throng of sizable players seeking massive deals, as investors amassed greater amounts of capital and set out to execute on large opportunities. As explored in a previous report, cheap debt coupled with a quick bounce back in the stock market provided economic confidence, higher comparable valuations, and a healthy exit market for private companies. PE firms could then rapidly deploy capital and return to market sooner with new funds at sizable step-ups to continue chasing after a robust opportunity set. The easy fundraising environment PE enjoyed supported the growth of established managers, especially in mega-funds—vehicles with $5 billion or more. These large PE firms, armed with staggering levels of AUM, naturally sought larger transactions to match their increased firepower without adding extra deals to their funds.

Mega-deals

Mega-deal activity boomed in 2021, ending the year with a record number of $1 billion+ deals and the greatest aggregate value of mega-deals since 2007. 2021 had the highest ever annual number of mega-deals at 107 deals completed, and annual deal value grew by 90.7% from 2020's trough of deals. PE firms pursued massive deals fortified by low interest rates and an excess of dry powder, and the growing crowd of mega-funds was able to successfully deploy capital, despite higher asset prices and fierce deal competition. Mega-deals accounted for 32% of all US PE deal activity, indicating how pervasive their trend has become.

PE $1B+ exit activity



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*As of December 31, 2021

PE firms found plenty of opportunities in the public market for companies ripe for additional growth and innovation, with several large take-private deals closing in 2021 and many more announced. Public companies offered additional target companies with $1 billion to $10 billion EV along with private companies and carveouts to satiate demand for deals. The average take-private value rose to $2.8 billion in 2021 due to avid competition for deals and lofty market valuations pushed by strong corporate earnings. Additionally, while the surge of mega-deals was largely expected after record fundraising, the increase in mega-sized club deals suggests that plenty of attractive companies are still too large for current PE funds, which encourages firms to work together. GPs with more spending power than before are partnering up to combat higher valuations in a bullish market and securing large deals amid increased competition.

Mega-exits

Mega-exits also expanded, skyrocketing past previous exit count and exit value records at 84.1% and 129.1% increases, respectively. The explosion of mega-exit value was driven by exits to an expensive public market, as the median size of public listings surpassed $1 billion in 2020, at $1.4 billion, and climbed to $1.8 billion by the end of 2021. IPOs boomed as public multiples rose across virtually all sectors thanks to solid corporate earnings boosted by economic recovery, coupled with stimulus measures. Additionally, the wide delta between public and private market multiples drove PE firms to list their portfolio companies. The robust pipeline of exits benefited from high valuations throughout the year, and mega-sized IPOs clocked in at $255.4 billion in aggregate EV, more than doubling 2020's impressive record.

PE firms also easily found buyers in corporate acquirers, as companies flush with cash were eager to invest in strategic growth, such as additional digital capabilities, and consolidation plays to expand their market share. Sponsor-to-sponsor exits also provided valuable exit strategies as other large firms sought to spend down their dry powder. Sponsor-to-sponsor exits are likely to continue their pace or increase in trajectory with the growing crowd of mega-funds. With record-setting fundraising expected from mega-funds in 2022, the largest buyout firms will likely rachet up their acquisitions of other sponsors' massive portfolio companies as they face pressure to deploy capital, and the number of quality PE-backed portfolio companies continue to rise.

CAPITAL MARKETS ADVISORY

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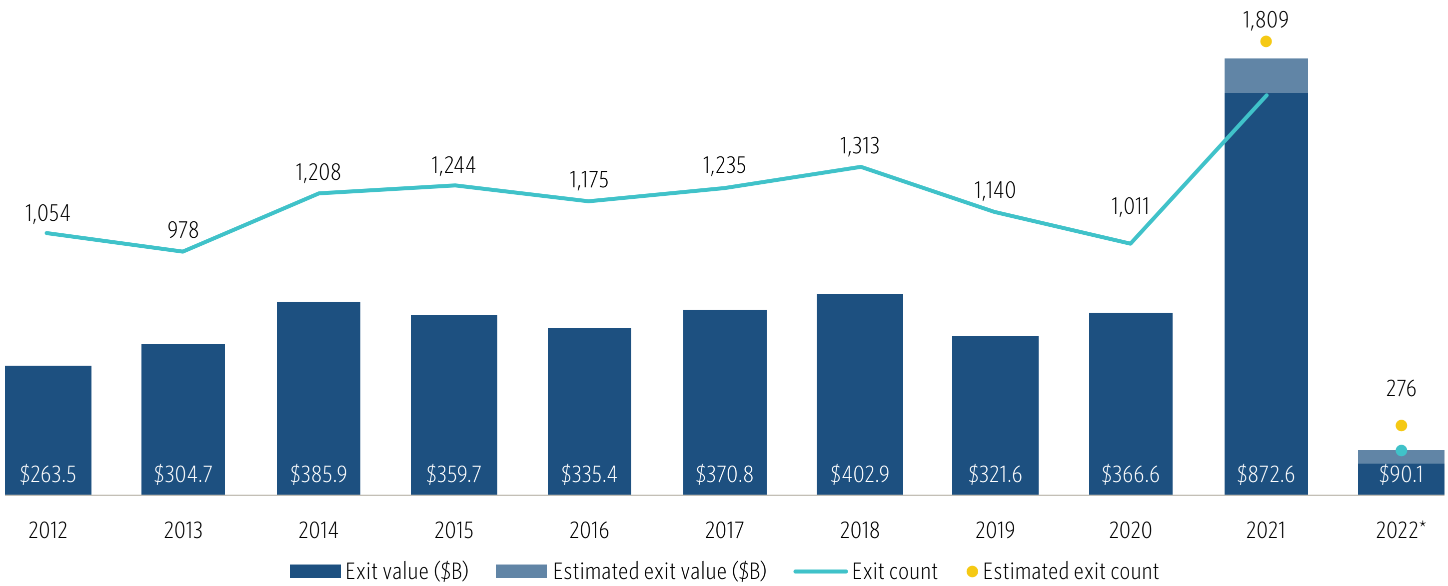
Exits

PE exit activity



Source: PitchBook | **Geography:** US
*As of March 31, 2022

Introduction

US PE exit activity was off to a sluggish start in 2022. By the end of Q1, 276 PE-backed companies exited with a cumulative exit value of $90.1 billion. Exit count and value dropped 57.2% and 57.5%, respectively, from Q4 2021, and 16.4% and 40.3% from Q1 2021. While quarter-to-quarter comparisons are usually less meaningful because of the shorter time frames, the sharp decline from the fervent exit activity witnessed at the end of Q4 2021 demonstrates the headwinds driven by prolonged inflation, geopolitical conflict, and subsequent market volatility. Public listings, which drove the impressive exit activity seen last year, all but disappeared as PE firms held on to their portfolio companies amid steep stock market declines and valuation adjustments. The exit-to-investment ratio dropped to 0.32x, akin to ratios seen in 2008 and 2009. Although this is a stark change from the historic exit activity seen at the end of 2021, it is still early in a year grappling with sudden market volatility, and the ratio could be affected more severely by the rise of add-on investments. We anticipate exits to continue through other sponsors or corporations looking to take advantage of the market disruption and lower prices, and for public listings to come back—albeit at lower valuations once the dust settles. Median exit size dropped to $330.0 million at the end of Q1, which seemed to reflect an adjustment back to the normal levels prevalent before the historic exit frenzy seen in 2021.

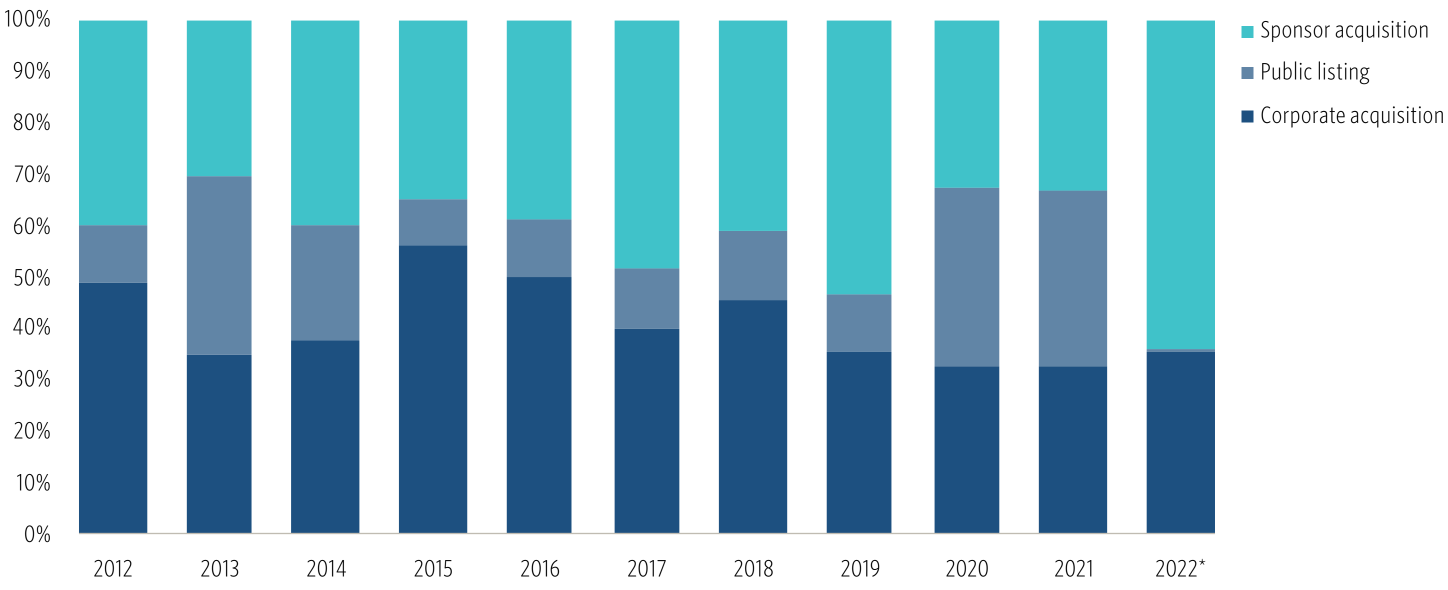
Sponsor-to-sponsor exits held on, as cash-rich PE firms continued to buy PE-backed companies with ease. With sponsors spending down record levels of dry powder while simultaneously accelerating fundraising, PE-backed companies are finding plenty of opportunities to be acquired by the next PE firm looking to create additional value. In January, FTV Capital sold wealth management technology platform True Potential to Cinven for $2.4 billion. Wealth management and fintech, which have been experiencing growth and innovation in recent years, are bringing in other PE firms to continue scaling companies that are able to take advantage of the attractive growth potential. Likewise, the sports industry, which has been attracting significant PE capital recently, saw various exits to other sponsors in Q1. For example, Madison Dearborn Partners, Merifin Capital, and The Tornante Company sold The Topps Company to PE-backed sports merchandise retailer Fanatics for $500.0 million in January. Topps, a leading sports trading card company, will bolster Fanatics' trading cards and collectibles business in its plans to become a leading digital sports platform. In February, Juggernaut Capital Partners sold sports merchandising company Mitchell & Ness Nostalgia for $250.0 million to Fanatics and other celebrity investors.

Strategics also continued to absorb PE-backed companies—albeit at a more moderate pace compared to Q4 2021. High levels of balance sheet cash remain as a key force for corporate acquisitions, although turbulent markets from continued inflationary pressures, geopolitical conflict, and increased antitrust scrutiny make companies more cautious about transactions. Q1 still saw companies from different sectors seek strategic acquisitions to position themselves for continued growth, such as Griffon Corporation's (NYSE: GFF) January acquisition of Hunter Fan Company from MidOcean Partners for $845.0 million through its subsidiary, The AMES Companies. Hunter Fan, a market leader in residential ceiling, commercial, and industrial fans, will reposition and strengthen Griffon's consumer products portfolio to further accelerate the company's growth. Consolidation plays are also rampant across industries. In February, TSG Consumer sold Sunshine Fitness Management to Planet Fitness (NYSE: PLNT) for $800.0 million. Sunshine Fitness was the first franchisee in the Planet Fitness system, and the sale of its 114 locations provides geographic diversity to Planet Fitness' current corporate store portfolio.

SPACs

The Securities and Exchange Commission (SEC) voted at the end of March to propose new rules for special purpose acquisition companies (SPACs) to curb safe-harbor protections for forward-looking statements that SPACs and SPAC targets enjoyed—protections that were not afforded to traditional IPO issuers.[3] The rules, if adopted, would require more investor disclosures around ownership and performance forecasts and seek to even the playing field for SPAC and IPO investors. Concerns about increased costs and complicated SPAC processes emerged, as investors were initially drawn to SPACs as a viable exit path because they tended to be cheaper and faster than traditional IPOs. On the other hand, with several companies' stocks stumbling in the market post-reverse merger with a SPAC, some are optimistic that greater due diligence will curtail aggressive pricing and improve performance. Nevertheless, there are currently tremendous amounts of capital raised by SPACs that are time-constrained to find target companies. 55 new SPACs have already raised more than $10 billion in 2022 on top of more than 600 SPACs already in the market seeking acquisitions.[4] We will have to wait and see if the new rules help boost PE SPAC exits through improved disclosures and more reasonable performance forecasts or if they will depress an already-cooling SPAC market with the imposition of new parameters.

Share of PE exit value by type



Source: PitchBook | **Geography:** US
*As of March 31, 2022

3: "Special Purpose Acquisition Companies, Shell Companies, and Projections," Securities and Exchange Commission, March 30, 2022
4: "SPAC Analytics," SPAC Analytics, April 6, 2022.

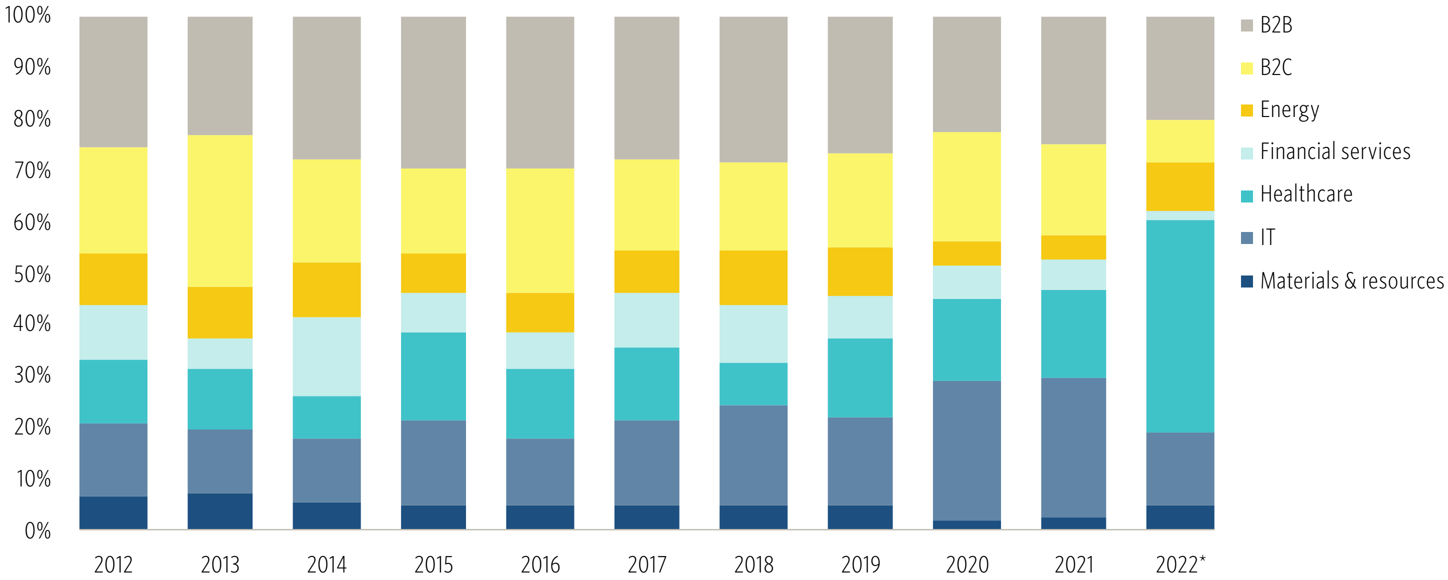
IT

IT exit activity was slow, with 27 exits completed at an aggregate value of $9.8 billion. Q1's exit activity was a sharp drop off from the strong records seen in 2021 and was reminiscent of Q2 2020's exit levels. The lackluster exit figures are due to volatility plaguing the public market since the beginning of 2022. The sharp decline in public tech stocks puts downward pressure on valuations of PE-backed companies that are exiting. More significantly, the sudden turn from the bull ride tech markets have enjoyed for the last few years is causing many PE firms to hold onto their portfolio companies instead of listing them in a struggling market environment. Although it's only the first quarter of the 2022, we are seeing a noticeable slowdown for IPOs, as sponsors are wary of risking an underwhelming debut. Firms are waiting for some of the volatility to dissipate, and we may see increased exits to corporates or sponsors, as companies feel less inclined to go public and find it easier to secure capital from private investors while extending IPO timelines.

However, IT exits still accounted for 14.6% of overall PE exit value in the quarter. The sector's secular growth trends remain strong and continue to drive exits for companies with additional value-creation opportunities. For example, Francisco Partners completed its sale of cybersecurity company Quest Software for $5.4 billion to Clearlake Capital in March. Clearlake plans to continue innovating and evolving the company through both organic growth and an accelerated buy-and-build strategy, using the PE firm's industry experience and operational improvement approach.[5] Add-ons also continued to be a popular exit path as PE firms actively sought companies to generate synergies with their larger platforms. In February, Berger Associates sold Selling Simplified Group, a marketing-as-a-service (MaaS) platform, to Blackstone-owned IDG Communications. Selling Simplified offers product growth opportunities for IDG to expand its suite of intent-based marketing technologies.

Corporate acquisitions also contributed to tech exits as increased reliance on data and analytics spurred exit opportunities for PE firms investing in tech companies focused on industries that had been less digitally inclined. In February, Clairvest Group sold AlsoEnergy, a developer of a solar asset performance monitoring, control, and management platform, to Stem (NYSE: STEM) for $695.0 million. AlsoEnergy will combine with Stem's artificial intelligence-powered energy storage services to create a one-stop-shop digital solution for renewable energy projects. Also in energy, WindSail Capital Group sold Congruitive, a developer of smart grid data software for energy networks, to Tantalus Systems (TSE: GRID) for $13.0 million. The sale will help Tantalus accelerate digitization of the electric grid and leverage data across distribution networks with a growing suite of software services. As more industries embrace and adopt technical capabilities, PE firms will be well-positioned to exit their tech companies to an expanding buyer pool.

Share of PE exit value by sector



Source: PitchBook | **Geography:** US
*As of March 31, 2022

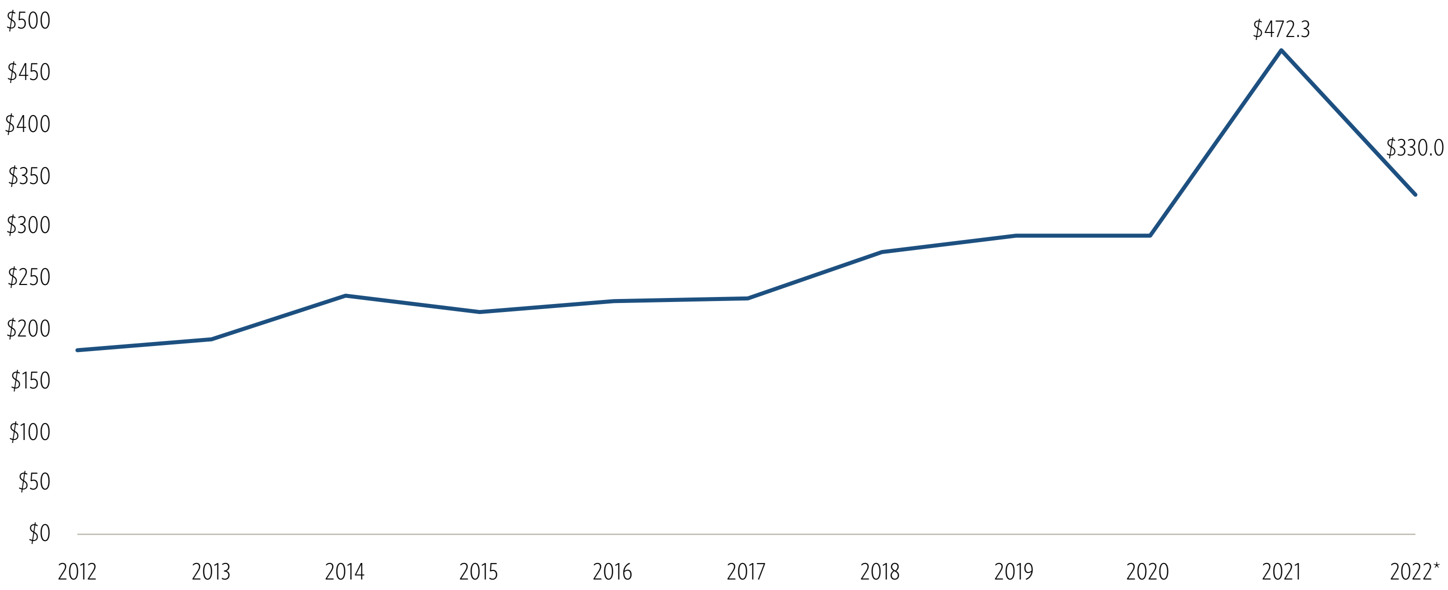
5: "Clearlake Completes Acquisition of Quest Software," PE Hub, Chris Witkowsky, February 2, 2022.

Healthcare

Although many industry observers predicted an extremely active exit environment for PE healthcare investments in 2022, Q1 represented a modest start to the year. After a wave of PE platform creation and sponsor-to-sponsor buyouts in some of the most popular provider segments crested in 2018, the pipeline of maturing PE-backed physician practice management (PPM) investments remains strong. Q1 saw a small handful of significant platform exits as a result, most notably in dermatology, a space which had seen little action over the previous two years. In February, OMERS announced the sale of Forefront Dermatology to Partners Group for a reported $1.5 billion, while CI Capital Partners completed its sale of Epiphany Dermatology to Leonard Green & Partners in the same month. However, the industry buzz that was building in late 2021 around potential public exits of skincare groups, especially those with a more cosmetic bent, has been dampened by the quarter's public market volatility. This is emblematic of the healthcare services exit environment more broadly: While sponsor-to-sponsor and strategic buyouts are proceeding at multiples similar to what we saw in 2021, predictions that 2022 would be the year of the healthcare IPO (including our own) have been shelved, at least temporarily.

Healthcare strategics have continued to acquire target companies despite public market volatility, generally speaking. Amid shrinking market caps for some public healthtech disruptors, the stock prices of companies operating in core healthcare services industries have held relatively steady, meaning that many potential buyers of PE-backed companies remain in a strong financial position. Thompson Street Capital Partners and Beverly Capital-owned Alpaca Audiology, a unique pure-play audiology platform within ENT (ear, nose and throat), the popular specialty that has been voraciously making add-on acquisitions, was sold to hearing device company Sonova (SWX: SOON). Additionally, payers and providers are racing for market share in home health, behavioral health, and value-based care (VBC), especially for the Medicare population. UnitedHealth's Optum alone has announced or confirmed three $1 billion+ acquisitions in these areas this year, two of which represented PE exits. According to Axios, Optum recently bought Kelso Group's Refresh Mental Health for $1.2 billion.[6] It also purchased TPG-backed Kelsey-Seybold Clinic, a Houston-area health system and accountable care organization (ACO) that was valued at around $1.3 billion in 2020, in April.[7] Both deals represent VBC expansions for Optum.

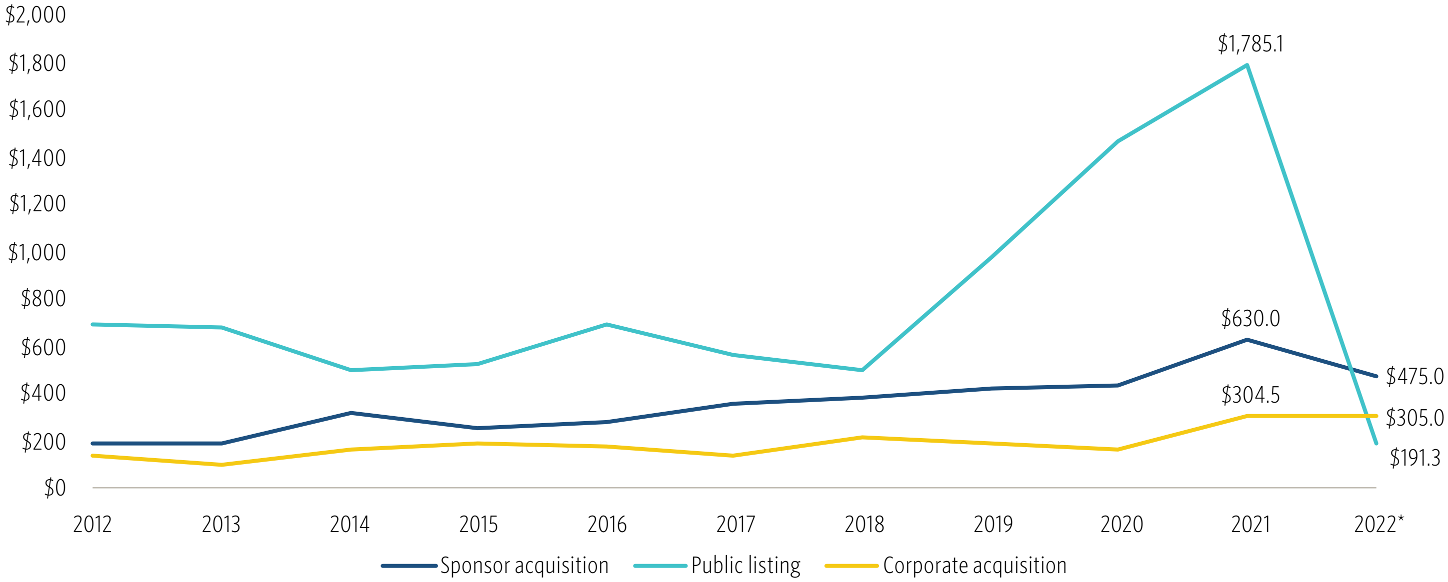
Median PE exit size ($M)



Source: PitchBook | **Geography:** US
*As of March 31, 2022

6: "Scoop: Optum Buys Refresh Mental Health," Sarah Pringle, Axios, March 24, 2022.
7: "Optum to Buy Kelsey-Seybold," Axios, Sarah Pringle, April 4, 2022.

Median PE exit size ($M) by type

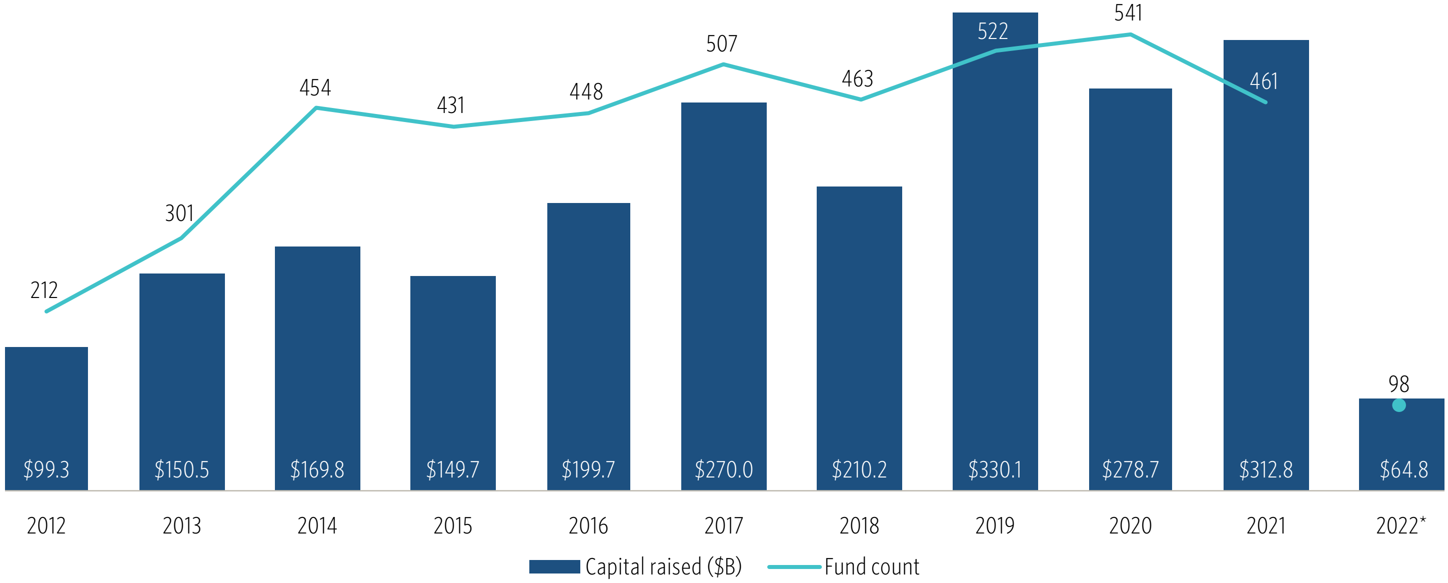


Source: PitchBook | **Geography:** US
*As of March 31, 2022

The strategic M&A landscape has also created opportunities for related technology plays: Thompson Street Capital and Northstar Capital Partners sold specialty revenue-cycle-software provider Infinity Behavioral Health Services to Sheridan Capital Partners' SimiTree Healthcare Consulting; Signify Health (NASDAQ: SGFY) acquired VSS-backed Caravan Health for $300 million, expanding its value-based care provider network and adding Caravan's population health expertise to its own specialty care offerings. We expect strategic exits to play an increasingly important role in the healthcare space in the remainder of 2022 and beyond, not only as an alternative to public markets, but because the secular changes that the industry is experiencing have created a sense of urgency since both the economics and patient care quality for value-based care models generally improve with scale.

Fundraising and performance

PE fundraising activity



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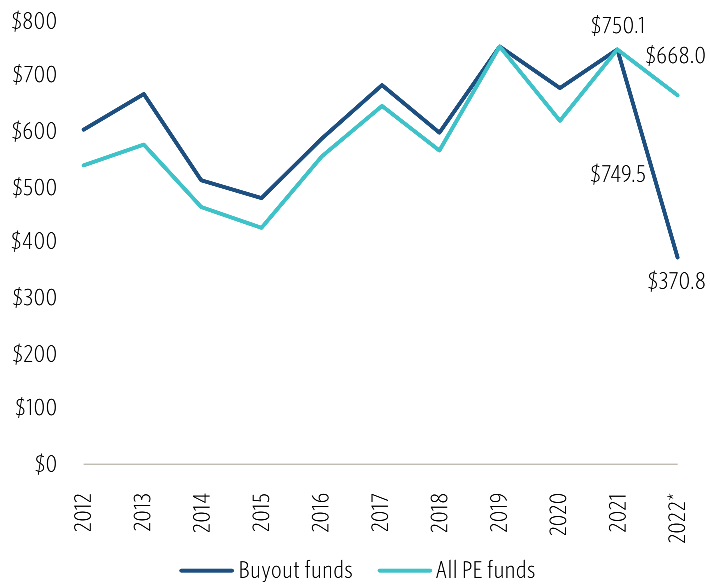
Introduction

The overall fundraising environment remains favorable in the alternatives space, especially for buyout and growth equity managers. However, individual GPs are battling for limited resources as myriad managers are currently raising capital, often seeking sizable step-ups and overwhelming traditional LP funding abilities. This is pervasive throughout the industry, from larger offerings to sub-$1 billion funds. Looking at just the top-end of the mega-funds (vehicles seeking $5 billion or more) currently fundraising illustrates how crowded the field is. Before 2022, just seven US-based PE funds closed on $20 billion+. As of March 31, 2022, there are at least nine funds either seeking $20 billion+ or have already closed on $20 billion+ this year. Hellman & Friedman began premarketing for a $30 billion+ fund in early 2022 and Blackstone's next flagship buyout vehicle is expected to garner at least that amount. The combined funding amount these funds are targeting—at least $225 billion—is more than two-thirds the total amount US PE firms raised in 2021.

Average PE fund size ($M)



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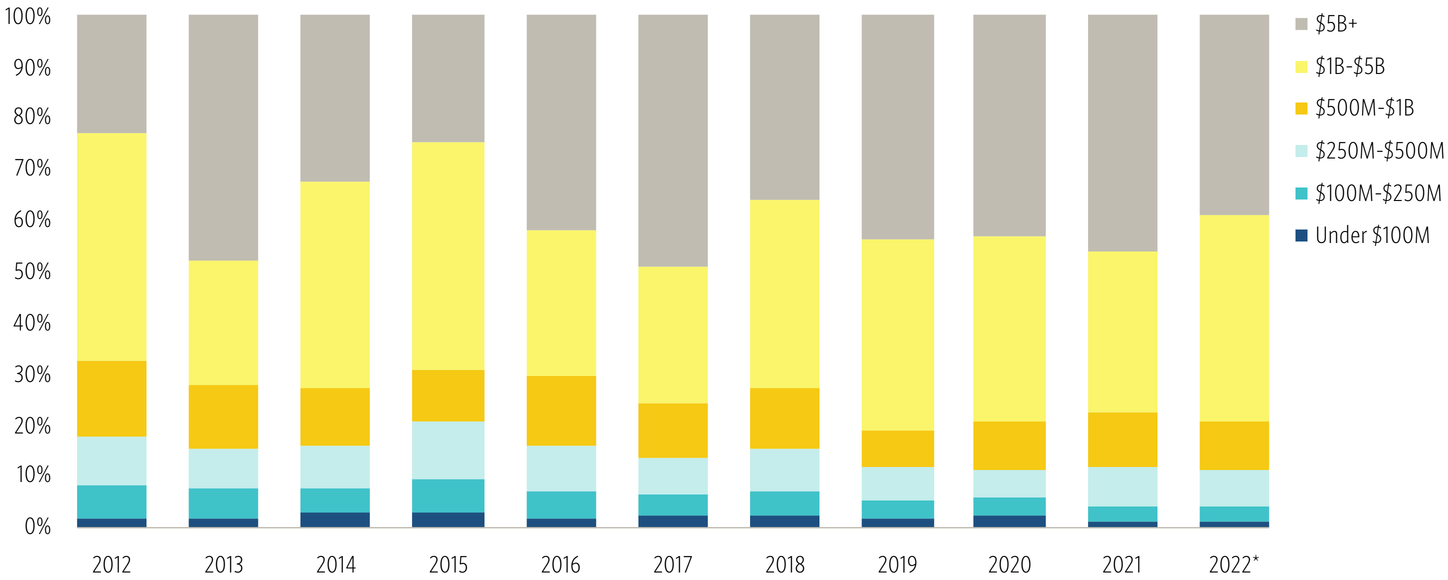
Share of PE fundraising by size bucket



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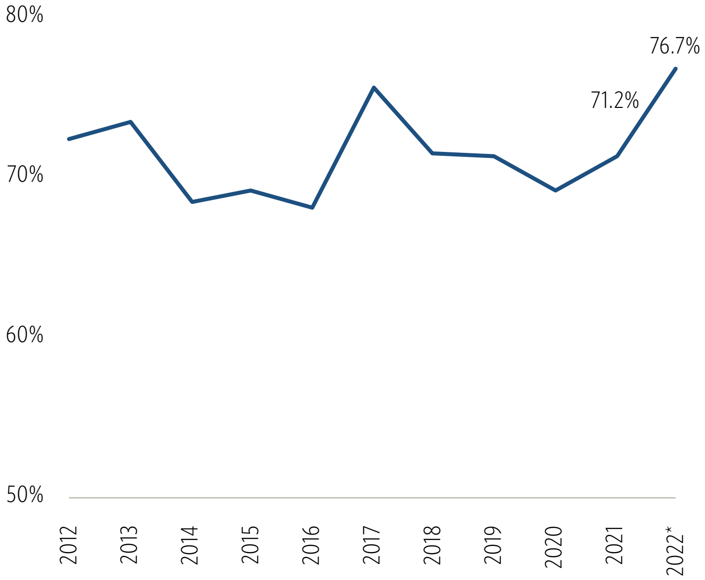
The current fundraising demand from GPs is simply overwhelming LPs' ability to supply capital. Not only are there more funds fundraising than ever, but rather than following a four-to-five-year drawdown period, many funds are fully deploying in three years or fewer. LPs' pipelines are completely full, and the general feeling is that most pensions and other major institutions, despite many boosting their PE allocations, will be fully committed for all of 2022 by Memorial Day. Some firms our analysts have spoken with are pushing back their fund launches from late 2022 to early 2023, as they also predict a dearth of capital availability after Q2 and want to avoid the perceived ignominy of a drawn out fundraise in this environment. Some firms already in the market are agreeing to push back their final close date at the request of LPs, allowing these LPs to commit part of their 2023 allocation to the currently open funds. This solution suggests the LP funding problem may persist into 2023. The slowdown in PE exits may further complicate fundraising difficulties for many GPs because much of the capital that LPs receive from distributions are recycled back into future funds.

Institutional allocations to PE keep rising and are expected to continue this trend in the years ahead. However, the trend is not funneling capital into private markets quickly enough, meaning LP capital has become a bottleneck for some managers. Some of the largest managers, including Blackstone, KKR, Apollo, and others, have struck unique agreements with insurance companies to access additional capital. Outside these bespoke tie-ups, more than 40% of global insurers plan to boost their PE allocation in the coming 12 months, according to a GSAM study.[8] Other firms, including the aforementioned GPs, Blue Owl, Ares, and more, are pushing into the retail market as well. This vast and underpenetrated pool of capital sits at around $80 trillion, yet just 1% to 2% has been allocated to alternatives. Even slight changes in that figure could open the floodgates to managers on the right platforms. Companies that have built up retail platforms—such as iCapital, CAIS, Yieldstreet, and others—are growing quickly and becoming more influential on Wall Street. However, the SEC has taken a less laissez-faire approach to alternatives, especially as the interest in attracting retail capital grows. The regulatory agency currently stresses that increased transparency alone does not provide sufficient investor protection, while simultaneously pushing for more transparency from private companies and fund managers. As a higher proportion of retail capital rotates into alternatives, the level of oversight is likely to mount as well, which could lead to a slower flow of capital to GPs than hoped for.

8: "Global Insurers Plan to Ramp Up Private Equity Investments," Reuters, Noor Zainab Hussain, April 4, 2022.

Median PE fundraising step-ups



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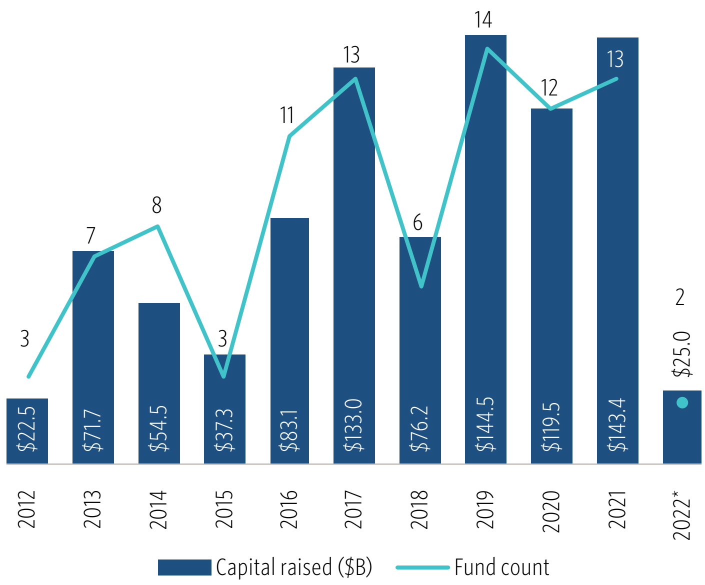
Turning back to the GPs, this current fundraising environment will be especially difficult for emerging and first-time managers. LP pipelines are full, meaning newer managers will likely have to supplant a current relationship to earn a commitment. Some allocators, such as Rhode Island's State Investment Council, are making an effort to continue backing nascent managers. But this effort by some allocators may not be enough. The challenge to convince an LP's investment committee to back a less proven entity may be too great, mainly because it takes five or more years for an investment decision to prove its performance. Similarly, younger managers without the requisite performance track record will find it arduous to access the purpose-built, alternatives-focused retail platforms or massive wirehouses. Because of these difficulties, we expect established mid-market GPs to become more creative during the fundraising process in 2022 and into 2023. If fund launches are delayed, GPs are likely to use more warehouse facilities and other stopgap measures to continue deploying capital. Additionally, a heavier use of co-investment offerings is likely. Co-investment has become highly prized by sophisticated LPs seeking to deepen manager relationships and boost returns. These pressures may also cause mid-market GPs to be more willing to sell a GP stake to deepen their balance sheet, receive expert help as they institutionalize, and more.

Mega-funds

Fundraising in the upper echelon appears to be running smoothly. Nearly every large manager has either just wrapped up fundraising, is currently fundraising, or is planning on launching their next flagship offering imminently. However, with so many gargantuan vehicles in the market, fundraising efforts may be dragged out, and planned 2022 closes may slide into early 2023. These $5 billion+ funds often count on the largest pensions, endowments, and foundations for the bulk of their capital, but many of these allocators are already maxing out their ability to write nine-to-ten figure checks.

Plenty of funds that began fundraising in 2021 are on their way toward a final close, though. After more than a year on the fundraising trail, KKR has reportedly collected at least $18.5 billion for its latest flagship fund and is expected to hold a final close sometime in 2022. The manager is also said to be targeting at least $16 billion for its second core fund, which holds assets longer than is typical in a 10-year vehicle. KKR is expected to debut a $5 billion+ offering targeted at midsized companies that are too small for its flagship. Launching a smaller buyout fund alongside a flagship offering is a tactic we have seen many other sizable managers employ in recent years, including Leonard Green, Thoma Bravo, Francisco Partners, and more. BDT Capital and Carlyle—which are reportedly seeking at least $13 billion and $22 billion, respectively—have both collected at least half of their target amounts and are pushing for year-end closes.

Mega-fund fundraising activity



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During the quarter, just two mega-funds closed. Petershill IV amassed $5 billion as the GP-stakes strategy continues to mature. This new fund promises to co-invest alongside its London Stock Exchange listed counterpart, Petershill Partners, which presents a unique offering in the space. Not to be outdone, Dyal is reportedly readying a $10 billion+ listing of its own that would present more of a direct competitor to the new Petershill entity.[9] A listing also opens up new ways for people and institutions to invest and helps provide another liquidity option for previous funds and Dyal V, which is still in market and likely to close on $9 billion+ later this year. Blackstone, which collected $5.6 billion for its second GP stakes fund in late 2021, will also likely pursue this strategy down the road.

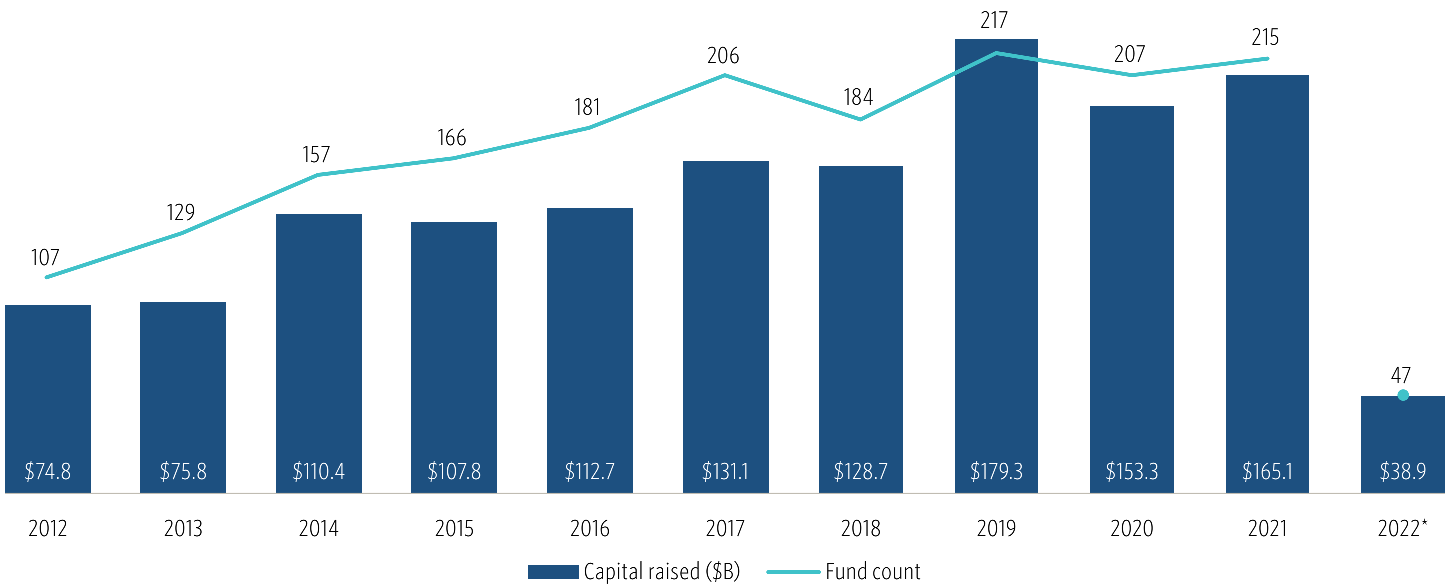
The other mega-fund close is Insight Partners' $20 billion 12th flagship vehicle, which is the largest-ever US growth equity fund. While it seemed last year as if nearly every growth equity manager was racing to spend down its dry powder and return to the fundraising market quickly, the environment looks quite different in 2022: Growth equity deal activity has slowed as plummeting public equity prices reverberated through to private market valuations. The corrections in the market could present a more attractive risk/reward prospect for investors long-term if they are able to effectively deploy their mountains of dry powder to make more attractively priced deals.

Middle-market

Fundraising for middle-market vehicles ($100 million to $5 billion) appears to be holding up relatively well overall. Much of the capital raised flowed into two broad buckets: firms pursuing healthcare and/or technology investments, and more established managers. It appears emerging and first-time managers are having difficulty breaking through in this highly competitive fundraising environment. Surprisingly, industrials-focused funds appear to be struggling to find traction with LPs despite the significant manufacturing investment that reshoring supply chains and decarbonizing the global economy will require.

Several newcomers appear to be finding traction, though. After a record-breaking first fund, which secured more than $3 billion in commitments (including co-investment capital), Arctos Sports Partners is reportedly nearing a ten-figure initial close on its second fund. Additionally, GrowthCurve Capital, a first-time manager, is seeking $3 billion for its debut fund. Multibillion-dollar first funds used to be a rarity, although we could see more in the coming years because there are more deep-pocketed LPs seeking to back emerging managers. The burgeoning middle-market-focused GP stakes field is also humming along. Hunter Point Capital, also pursuing a multibillion-dollar first fund, has already cleared the $1 billion mark and continues to sign more

PE middle market fundraising activity



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*As of March 31, 2022

9: "Blue Owl Capital Plans London IPO of Dyal Assets," Bloomberg, Sonali Basak, Aaron Kirchfeld, and Kiel Porter, March 4, 2022.

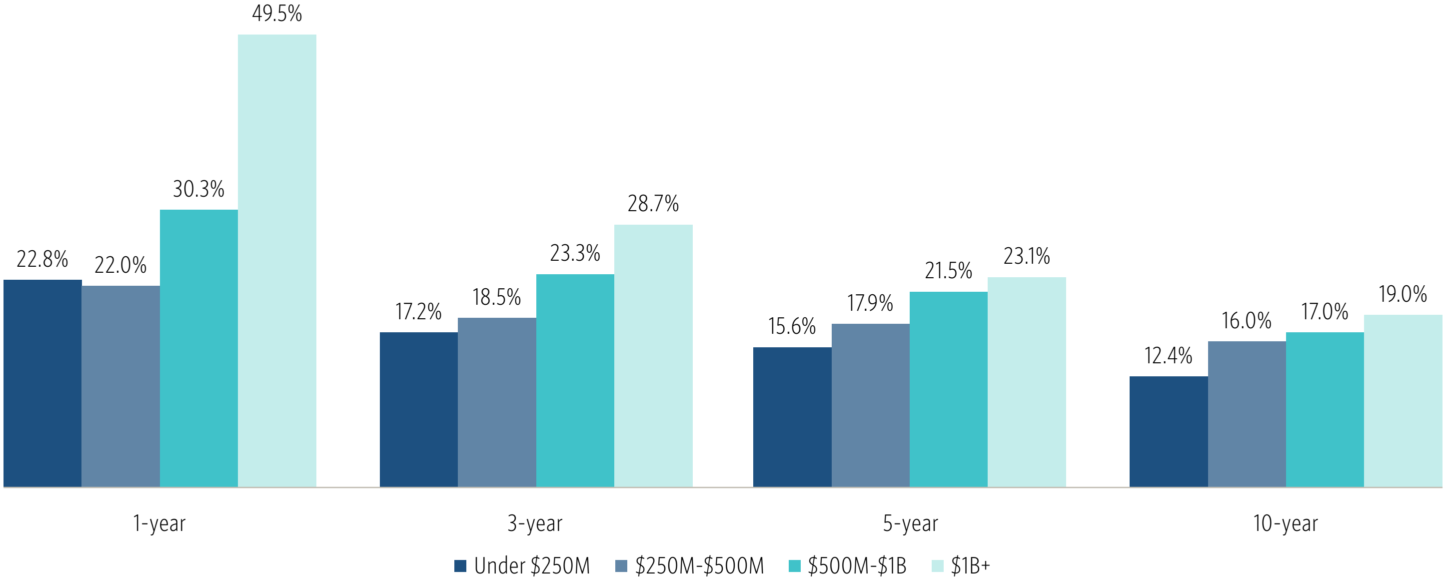
deals and accumulate additional capital. Likewise, Investcorp Strategic Capital Holdings has inked a number of partnerships, continues to build out its manager development capabilities, and seems poised to launch its second fund later this year. Bonaccord Capital Partners has also been building out its in-house capabilities and already launched its second vehicle.

Smaller generalist funds may find it difficult to fundraise in this environment of mismatched supply and demand. The largest LPs are being forced to prioritize $100 million+ re-ups with veteran managers that have sat in the portfolio for years, if not decades. For some GPs, this could lead to a reshuffling of current LPs, as a handful do not have the financial firepower to make the desired commitment. This also presents smaller managers with a few options to combat this change. The firms can delay fund closing until 2023, hoping to collect part of that year's fresh capital. Managers can also pursue new sources of capital, notably retail and family offices; the latter may have significant bargaining power over the coming 18 months. Or, firms can choose to sell a stake in the management company, raising balance sheet capital and hopefully expanding their LP base with new partnerships. For example, Investcorp has deep connections in the Gulf while Bonaccord has links to Asian capital and Hunter Point has significant inroads to family offices. Whichever path middle-market firms pursue, the fundraising road is expected to be a slog, despite being awash in capital.

Performance

US PE fund performance continued to hum along nicely through 2021. However, fund investors are likely in for a choppy start to the new year. The valuations of fast-growing companies have been negatively affected as the Fed gears up to lift interest rates multiple times throughout the year. Public company valuations in some of the more speculative corners of the market were slashed by half or more from their peaks. Additionally, Russia's invasion of Ukraine created widespread uncertainty and further pressured public company valuations. This is likely to spread to private fund marks, although to a lesser extent than in public markets. We expect the largest funds—which have done the best in this COVID-19 rally—to suffer the greatest as funds mark their portfolio companies to market. This is because the $1 billion+ portfolio companies most easily compare to public companies, and public listings are often a regular path to liquidity. Middle-market companies, on the other hand, are likely to take the volatility in stride. Many of these companies derive most of their revenue from North America and are more difficult to directly compare to public companies. These companies, too, stand to be negatively affected by higher rates as discount rates and the cost of financing creep up. Overall, 2022 promises to challenge GPs and funds of all sizes, but will likely see returns remain positive, barring a dramatic turn in geopolitics.

PE horizons IRRs by fund size*



Source: PitchBook | **Geography:** US
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Additional research

Private equity

2021 Annual Middle Market Report

Download the report here

March 2022 Global Markets Snapshot

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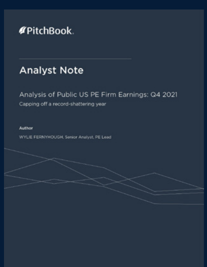

Analysis of Public US PE Firm Earnings: Q4 2021

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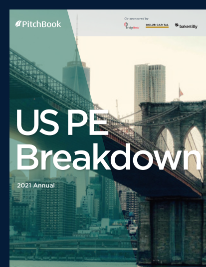

2021 Annual US PE Breakdown

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