Q1 2024

US

PE Breakdown

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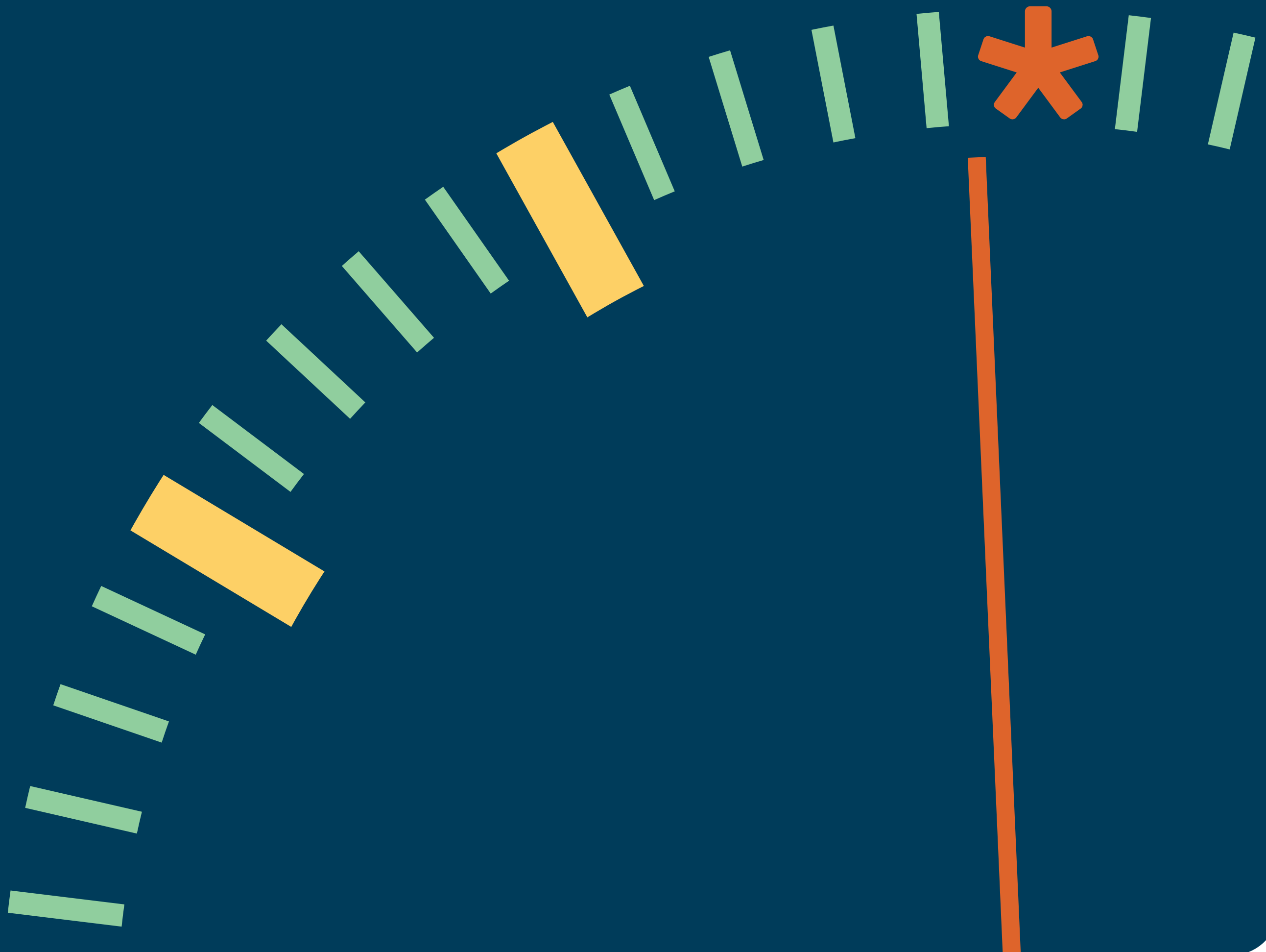


EXECUTIVE SUMMARY

Two and done?

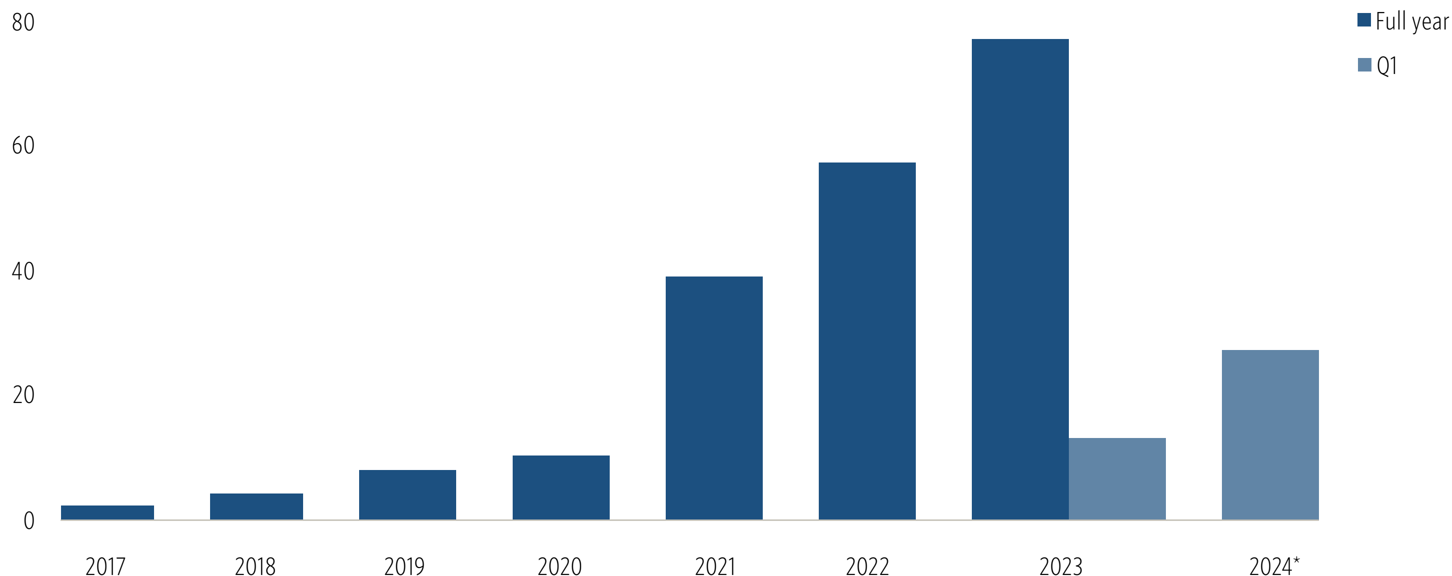
The big question entering 2024 is whether the decline in global M&A will extend into a third year. Not since the crisis years of 2001 and 2002, and then again in 2008 and 2009, has M&A declined in back-to-back years. We think we will look back on Q3 2023 as the trough in a two-year downturn that brought global M&A value 35.5% below 2021's peak. While there is no guarantee of that—after all, those previous two-year declines were much steeper at approximately 60% to 70%—we are not in a crisis year, and if anything, macroeconomic headwinds have slightly diminished and liquidity conditions are improving.

That said, we are not entirely convinced that PE will fully participate in the upside of a broader M&A recovery. As pointed out in our 2023 Annual Global M&A Report, last year was the first year that PE lost share of the global M&A market both in terms of deal value and deal count. This followed eight straight years of buyouts gaining share of total M&A, rising from 21.8% to 36.1% of deal count and an even higher share of deal value. This all reversed in 2023, with the setback in deal value especially pronounced, falling to 39.9% from a share of 44.0% the year prior. This sets up a scenario in which PE is left out of a cyclical rebound in M&A activity due to a declining participation rate.

As noted in previous reports, breaking the exits logjam holds the key to a sustained PE recovery. Without meaningful distributions flowing back to LPs by way of realizations, we are concerned that a lack of recycled capital will cause fundraising to stall, dry powder to fall, and capital deployment to decline at the margin. GPs are mindful of what is at stake and have been working ahead of this issue for several years in order to develop more exit routes and liquidity solutions. This culminated in $78.3 billion in capital closed in 2023, up 65.1% YoY, for funds that are designed to provide a more active secondary market for buyout funds and other strategies. This includes GP-led secondaries, also known as continuation funds. In our 2024 US Private Equity Outlook, we thought this would be the year that continuation funds hit critical mass, forecasting 100 or more exits of this nature. As of Q1, we are on track with 27 announced so far. While it is impossible to tell how many LPs have cashed out pursuant to a continuation fund process, we are encouraged that PE fund distributions have not fallen nearly as fast as traditional exit activity, which is down 67.7% from its peak, as highlighted by our funds team in this quarter's spotlight.

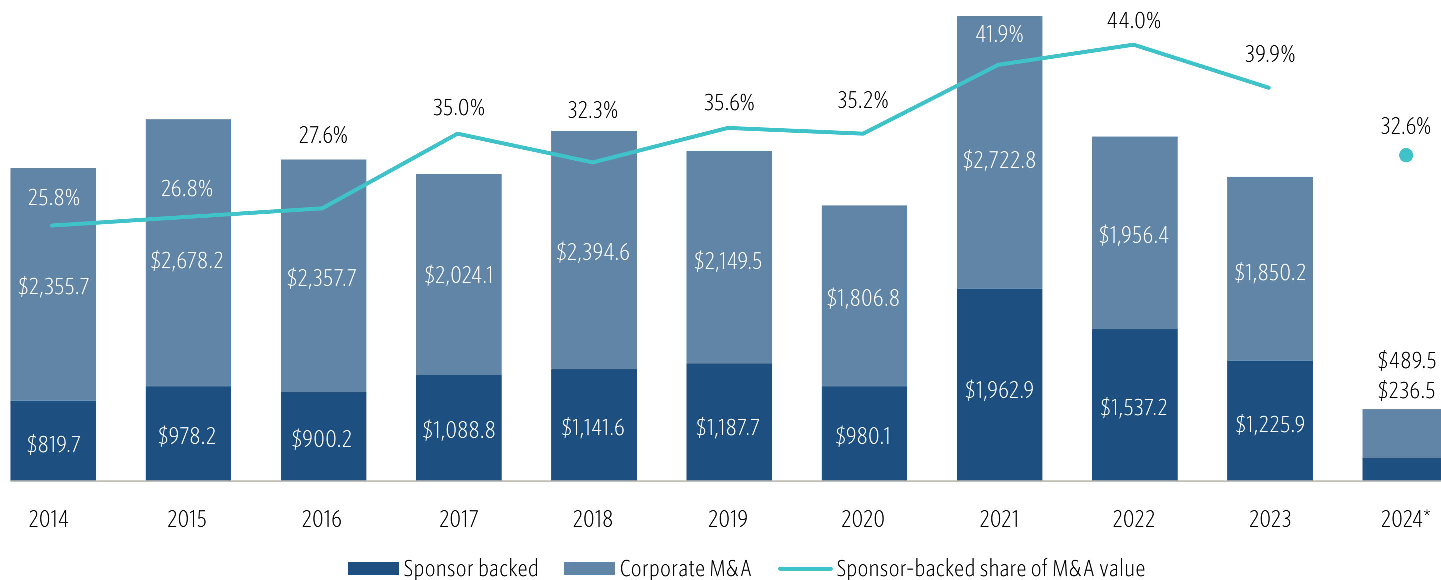
As if on cue, the final day of Q1 yielded the fourth-largest PE exit ever with Leonard Green & Partners' (LGP's) $18.3 billion sale of SRS Distribution (SRS) to Home Depot. The SRS exit was a vindication for PE's "build and buy" playbook. SRS has completed 30 add-on acquisitions since LGP bought it for $3 billion in 2018, tacking on to 58 add-ons under other PE owners since 2008. It was also a vindication for PE's continuation playbook. SRS recently rolled from two LGP funds with impending end dates into a continuation fund. The transaction provided liquidity to existing investors and secondary access for new investors led by Carlyle's AlpInvest. We tracked a total of 27 exits relating to continuation funds during the quarter, all hoping for a similar outcome.

Continuation-fund-related exit count



Source: PitchBook • Geography: North America and Europe • *As of March 31, 2024

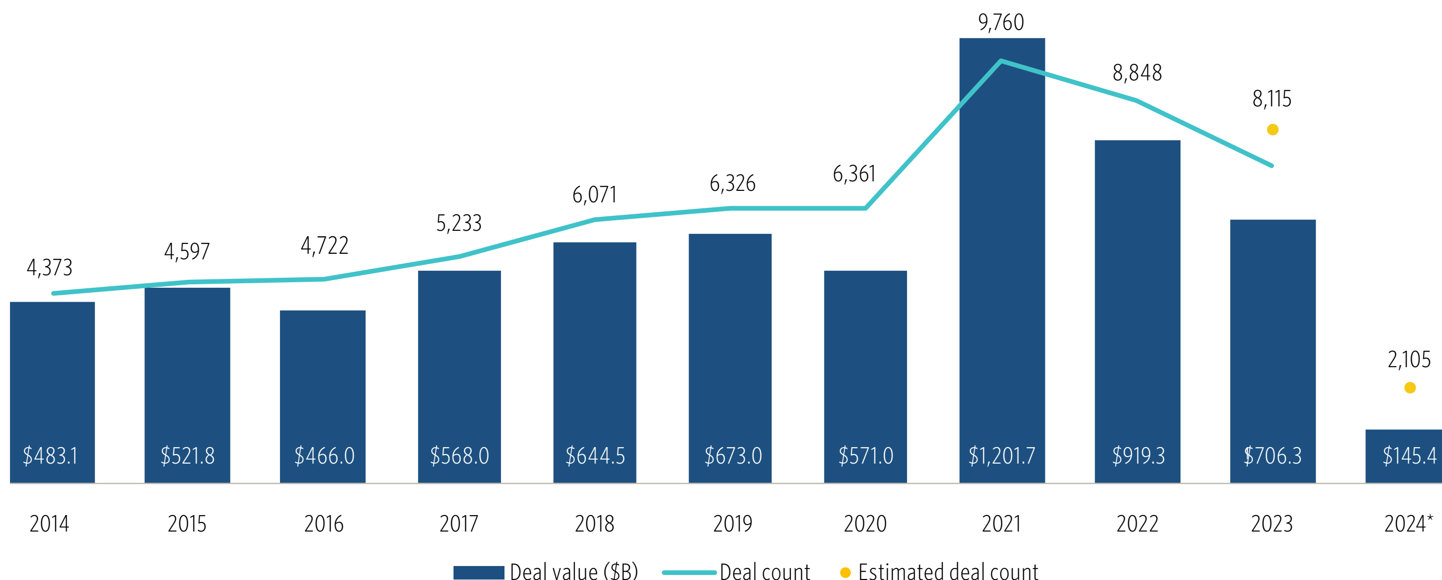
M&A value ($B) by acquirer type



Source: PitchBook • Geography: Global • *As of March 31, 2024

Deals

PE deal activity



Source: PitchBook • Geography: US • *As of March 31, 2024

Overview

US PE dealmaking finished last year down 41.2% from the all-time peak of $1.2 trillion set in 2021. While that record deal activity is unlikely to be reached again any time soon, deal flow has shown some signs of stabilizing in the past several quarters. We have revised our estimate of Q4 2023 deal activity upward, and it is now on par with Q3 and Q2 activity. In Q1 2024, deal activity continued to move mostly sideways with estimated deal count slightly elevated relative to the past four quarters and deal value moderately lower.

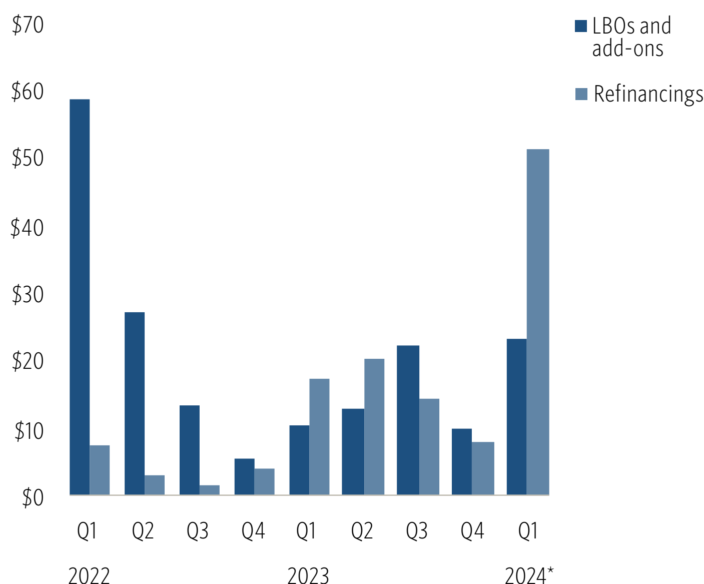
Platform LBO deals continue to be scarce due to their greater dependency on leverage, and their share of all PE deals declined to 19.0% in Q1 2024 from 19.6% for all of 2023. Their share of all PE deal value normalized somewhat at 54.7% in Q1, but that reflects a one-off divestiture of Truist's insurance segment to a PE consortium for $15.5 billion in enterprise value ($12.4 billion in deal value). Prior to then, platform deal value had collapsed by 49.0% between 2021 and 2023. Leverage ratios continue to reflect tight conditions, and this is choking the ability to pull off larger LBOs, which platform deals tend to be. Debt/EV deteriorated slightly to 45.1% in Q1 from 45.7% for all of 2023 and a 10-year average of 55.0%. Debt/EBITDA ratios are also below normal at 5.1x in Q1 versus a 10-year average of 5.6x.

PE deal activity by quarter

Source: PitchBook • Geography: US • *As of March 31, 2024

The bank-led broadly syndicated loan (BSL) market, which suffered a setback in Q4 2023 with just $9.8 billion in new-issue loans backing US LBOs or add-on M&A by PE-backed companies, bounced back with $23.4 billion in issuance for such deals in Q1 2024. Where the BSL market has fully opened

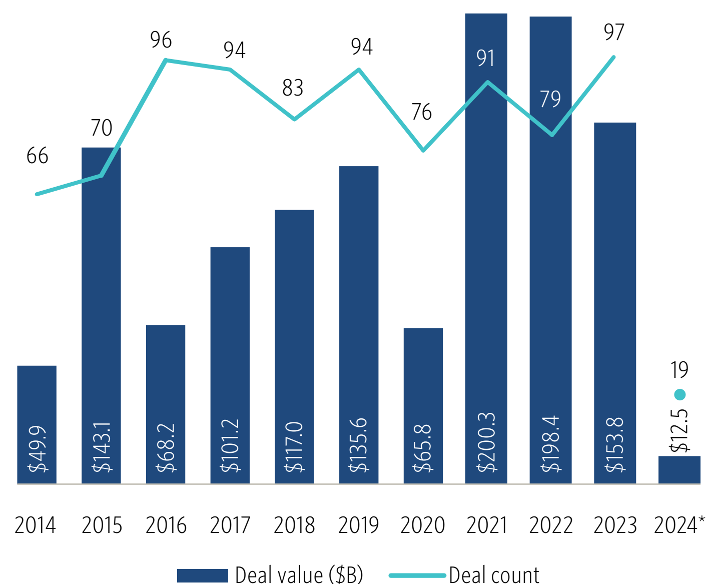
Quarterly BSL-funded loan value ($B) to PE borrowers by type



Source: PitchBook | LCD • Geography: US • *As of March 31, 2024

Note: This chart includes institutional capital only. Pro rata tranches are excluded.

PE take-private deal activity



Source: PitchBook • Geography: North America and Europe • *As of March 31, 2024

up is in refinancing (refi) activity. 2023 was the first year since 2013 that refi volumes for sponsor-backed companies or deals exceeded LBO- and add-on-related loan volume, but only slightly so. In Q1, the refi volume was more than twice that of sponsor-led M&A volume (platform LBOs and add-ons) at $51.0 billion versus $23.4 billion. Historically, the relationship has been reversed, with new M&A-related loans for sponsors exceeding refi volumes by a factor of four or more. The tightening of spreads in the BSL market has partly led this surge as PE borrowers attempt to lower their borrowing costs. Strong demand for collateralized loan obligations has also contributed to the increase in refi volume.

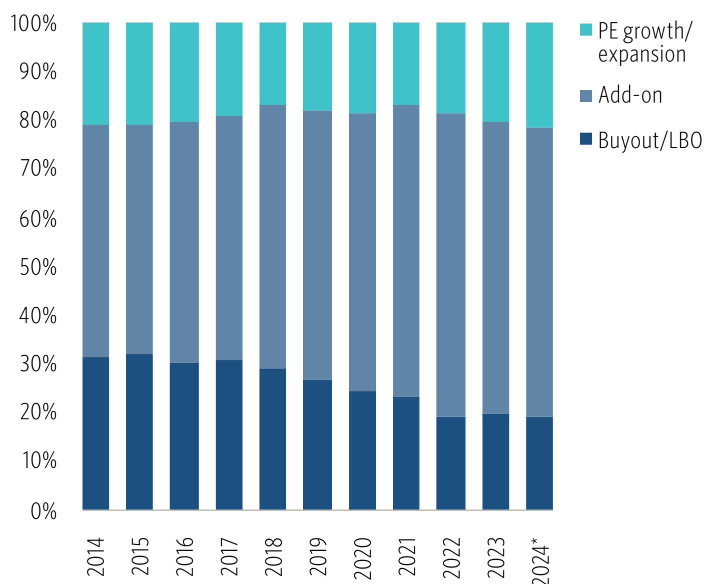
Take-privates

Take-private activity plummeted in Q1 2024. The total take-private deal value of $12.5 billion was down 50.0% QoQ and down 75.2% YoY as financing costs for large deals remained a hindrance and the Q4 2023 surge in stock prices made public companies prohibitively expensive for PE buyers. 19 deals were announced in the quarter, down from 20 last quarter and 26 in Q1 2023. With the potential for lower rates in the back half of the year, we expect momentum to build going into H2 and believe the total take-private deal value will re-accelerate. For the time being, at least, the trend is down. Quarterly deal value has declined for four straight quarters as stocks have rallied. The decline also reflects much smaller deal sizes.

Examining the Q1 data reveals a continued trend of take-privates getting smaller and migrating to the sub-$1 billion size range—what we define as the middle market in a private markets context but nearly micro-cap in a public markets context. The median deal size of the 19 take-privates announced in Q1 2024 was abnormally low at just $203.2 million. A total of 15 deals, or 78.9% of Q1's total, involved sub-$1 billion companies, up from 70.0% last quarter and 51.8% in Q1 2023. The largest take-private in the quarter was outside of the corporate LBO space in the real estate sector. Tricon Residential, a residential real estate portfolio consisting of more than 37,000 single-family rental units, agreed to be acquired by Blackstone Real Estate Income Trust for $3.5 billion.

Interestingly, we saw a greater mix of private companies and sponsor-backed deals among the large deals in the quarter, one example being the sale of Cotiviti—which provides data analytics and risk management for the healthcare sector—to KKR for a reported price tag of $11.0 billion. The deal was backed by $5.6 billion of debt funded in the BSL market, providing further evidence that in the jumbo LBO space, PE buyers now favor less expensive private companies over public ones. In fact, of the 12 LBOs funded in the BSL market in Q1 2024, eight were private. The remaining four public companies included two "boomerangs" that lasted less than three years as public companies. Instead, the original PE owners, Agiliti and HireRight, are buying back the 25% stakes that they did not already own.

Share of PE deal count by type



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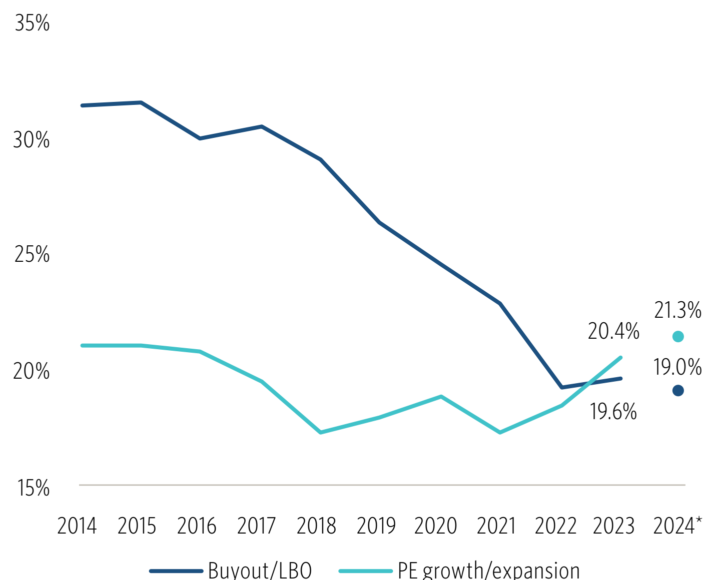
Platform LBO and growth equity as a share of all PE deals



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Growth equity

Growth equity has been relatively strong lately. The strategy made up 21.3% of all PE deals in Q1, well above the five-year average of 18.6% and tracking near the recent high of 21.6% in Q1 2023. But because growth equity check sizes are much smaller than buyout check sizes, growth equity's share of overall PE deal value is always lower. In Q1, the share was 12.9%, 258 basis points above the five-year average of 10.4% yet below the recent high of 16.5% set in Q3 2023. Growth equity deal count overtook platform LBO deal count in Q1 2023 for the first time ever, and that trend has persisted ever since. Still, we see the potential for stronger buyout deal activity in the second half of 2024 if financing costs become more manageable.

The distinct strategy of growth equity, eschewing the burden of costly debt by typically opting for all-equity deal structures, aligns well with its focus on rapidly expanding companies. By providing capital for expansion, growth equity aims to accelerate and scale growth, thereby enhancing unit economics through operational rather than financial leverage. This approach is particularly potent in the current economic climate, where value creation is realized by maximizing EBITDA margins and growth.

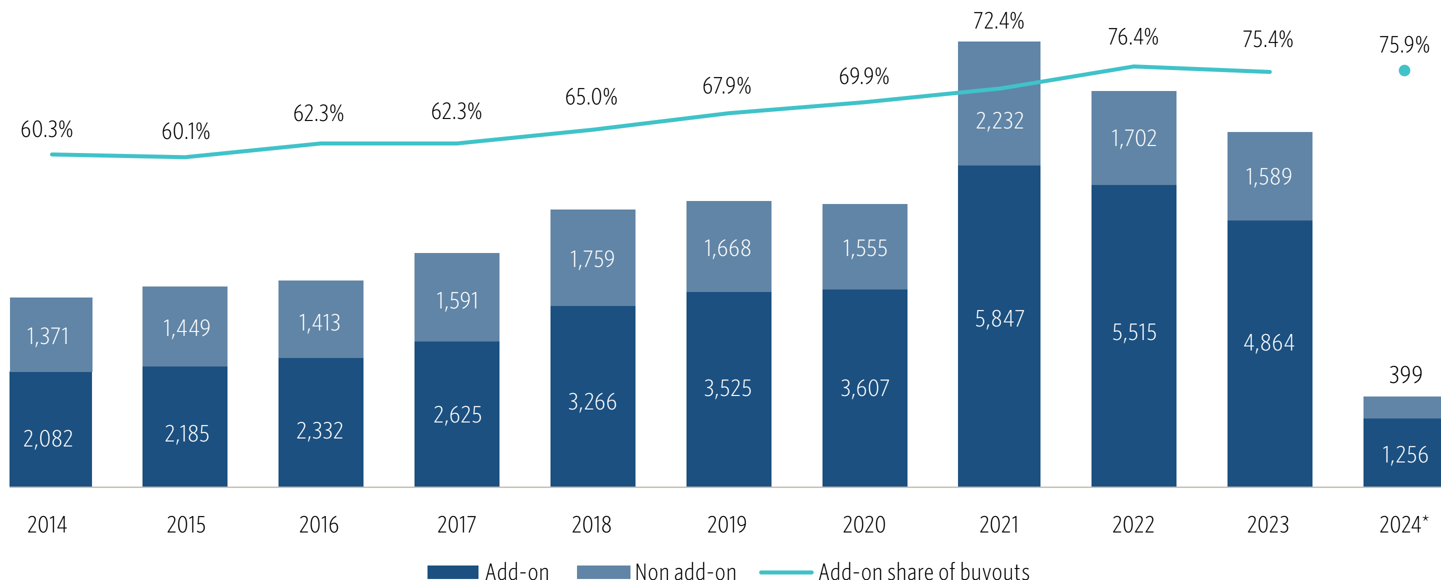
Among the more notable deals in Q1 2024, Vantage Data Centers received $6.4 billion of development capital from Silver Lake and DigitalBridge Group in January. The investment will advance the company's development of next-generation datacenters, with designs optimized for AI and cloud workloads.[1]

In February, Radiology Partners received an estimated $720.0 million of expansion capital from a consortium including Evolutionary Ventures, Heritage Group, Whistler Capital Partners, and others.[2] Part of the infusion will support debt reduction, and at least $500 million will be earmarked for investment in continued growth and innovation.

In March, Equinox Fitness received $1.8 billion of debt and expansion capital led by Sixth Street Specialty Lending with participation from Silver Lake, Ares Management, HPS Investment Partners, and L Catterton. The funds will enable Equinox to refinance maturing loans and expand its footprint with new fitness clubs.

1: "Vantage Data Centers Announces $6.4 Billion Equity Investment Led by DigitalBridge and Silver Lake," Vantage Data Centers, January 9, 2024.
2: "Radiology Partners Closes $720 Million Growth Equity Investment and Completes Previously Announced Debt Refinancing Transactions," Radiology Partners, February 22, 2024.

Add-ons as a share of all PE buyouts



Source: PitchBook • Geography: US • *As of March 31, 2024

Add-ons

In our analysis, add-on transactions continue to have outsized prominence within the PE buyout landscape, representing 75.9% of all buyout activities in Q1 2024, an increase of 52 basis points from the 2023 average. The enduring strength underscores the strategic shift toward consolidation and operational synergies among PE investors. However, our projections indicate a plateauing of this trend, with limited potential for further expansion as we advance into the latter half of 2024. The anticipation of lower interest rates could catalyze a resurgence in overall deal activity, yet this rebound might precipitate a "crowding-out" phenomenon, thereby diluting the proportion of add-on transactions in the mix. Such dynamics warrant continued monitoring, as they could significantly influence the strategic orientation of PE portfolios.

Since the initiation of the interest rate hiking cycle in 2022, add-on acquisitions have emerged as a pivotal mechanism for sustaining the momentum of the PE sector amid the challenges of tightened credit conditions and market volatility. These strategic transactions enable PE sponsors to persistently deploy capital by focusing on smaller, more manageable deals, thereby navigating through a period where the lending environment constrains the execution of larger platform buyouts. Add-ons, traditionally favored for their financial accessibility due to their reduced scale and the leveraging capacity provided by their larger platform acquirers' existing credit facilities, have become even more integral in this environment.

Larger add-on deals in the quarter included those in the B2B and technology sectors. Wesco Integrated Supply—a provider of outsourced supply chain management and services—agreed to be acquired by Vallen via its financial sponsor Nautic Partners through a $350.0 million LBO in February 2024. The unit had annual revenue of $784 million in 2023, or less than 4% of total revenue of the selling parent company, Wesco, which will use the proceeds to reduce debt and repurchase shares.[3] In February, Dole plc agreed to sell a majority 65% equity stake in its Progressive Produce unit to PTF Holdings, a portfolio company of Arable Capital Partners, for $125.3 million. Progressive Produce is a leading produce company in California with annual revenue exceeding $400 million.[4] Ansarada—offering a software-as-a-service platform to simplify legal and financial data management and workflows—agreed to be acquired by Datasite via its financial sponsor CapVest through a $172.1 million (or AUD 236.3 million) LBO in February.[5]

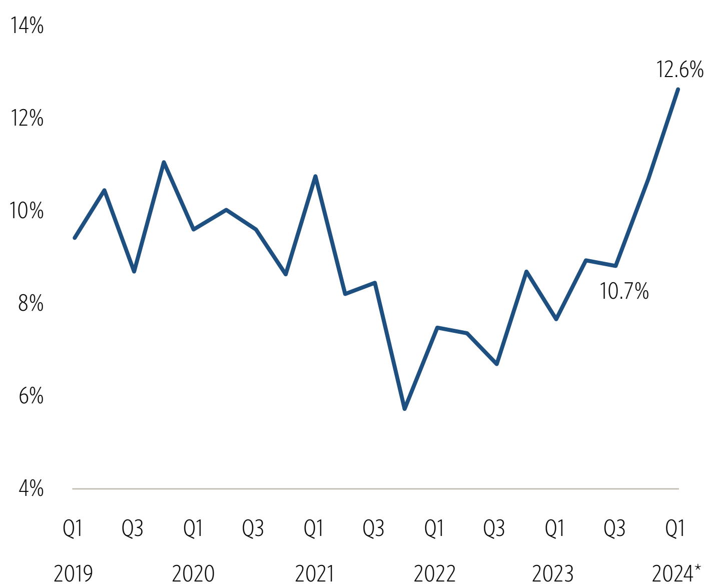
3: "Wesco Enters Agreement to Sell Integrated Supply Business to Vallen Distribution, Inc.," Wesco, February 23, 2024.
4: "Dole Plc Announces Sale of Progressive Produce to Arable Capital," Dole, February 27, 2024.
5: "DLA Piper Advises Ansarada on Its AUD236 Million Sale," DLA Piper, February 14, 2024.

Carveouts

In 2024, many large-scale companies are honing strategic plans and focusing on the most attractive growth vectors, which often involves identifying and divesting assets that no longer fit their long-term plans. These carveout deals are particularly attractive to GPs seeking platform acquisitions. For parent companies, this divestiture process is a strategic move to improve financial performance by shedding underperforming or nonstrategic divisions, allowing for a clearer and more positive financial narrative for investors.

GPs view these transactions as attractive opportunities, as they benefit from more accessible financing and can apply PE turnaround acumen to maximize the value of these acquisitions. The acquired units can serve as platforms for new growth or act as synergistic additions to existing operations, enhancing scale and efficiency. This approach allows GPs to navigate current market challenges effectively, making strategic expansions to bolster scale and performance amid a complex dealmaking landscape.

Carveouts/divestitures as a share of all PE buyouts by quarter



Source: PitchBook • Geography: US • *As of March 31, 2024

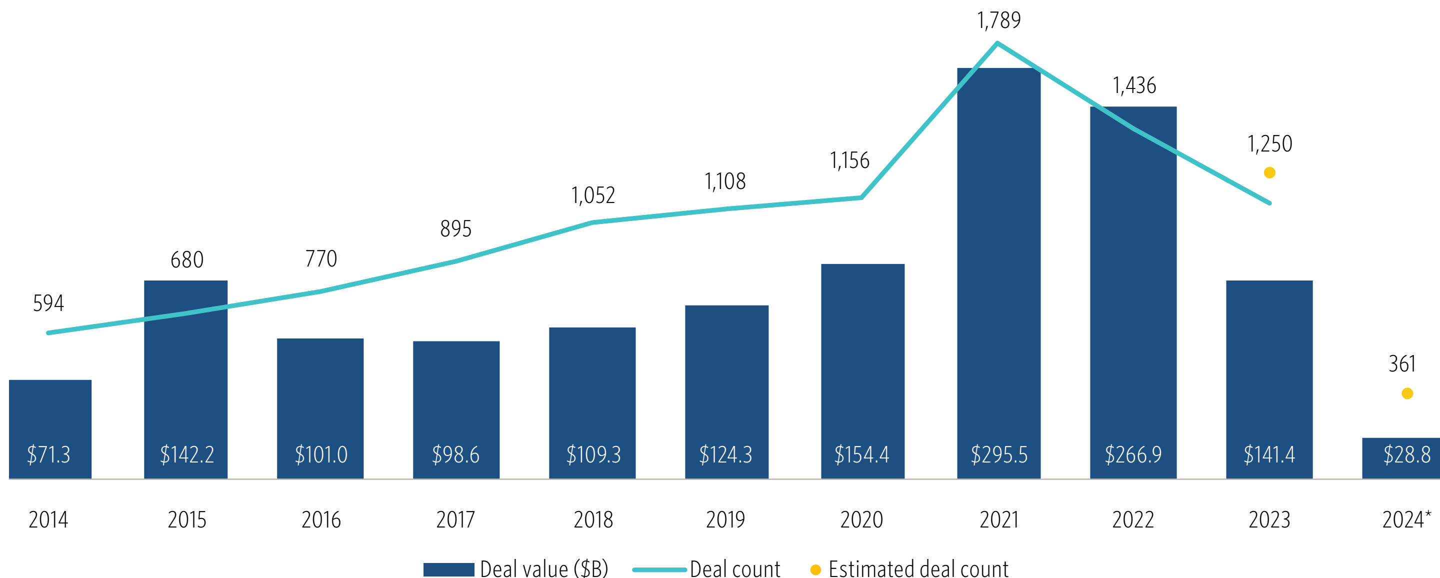
Carveouts amounted to 12.6% of all US PE buyout deals in Q1 2024, marking a full recovery from the low of 5.7% in Q4 2021 and the highest share since Q2 2016. We believe the present macro backdrop offers an attractive point to sell because there is enthusiasm around potential rate cuts in the second half of the year. However, while the category has shown remarkable resilience and growth, we anticipate that the proportion of carveout deals within the broader PE buyout landscape will stabilize at these levels. The expectation is not for a further increase in their mix but rather a sustained period of strong activity. Additionally, there is a possibility of intensifying competition from other deal types if overall PE deal activity experiences a resurgence in the second half of the year, potentially leading to a crowding-out effect.

In Q1, several large carveout assets were scooped up by PE buyers in the technology and B2B sectors. Broadcom, which recently acquired VMware, sold off VMware's end-user computing business to KKR for $4.0 billion.[6] The unit—encompassing desktop virtualization, mobile device management, and application publishing—was deemed noncore as Broadcom pursues a new strategy for VMware focused on offering private and hybrid cloud infrastructure for large enterprises globally. In the B2B sector, Corbion agreed to sell its emulsifiers business to Kingswood Capital Management for $362.0 million. The unit offers a portfolio of ingredients that enhance and preserve food, and it includes two US-based manufacturing facilities with over 175 employees.[7]

Also of note was the massive divestiture of Truist's insurance brokerage unit to Stone Point and Clayton, Dubilier & Rice and co-investor Mubadala Investment. The deal, which values the business at a total EV of $15.5 billion, is the latest in a string of insurance subsidiary divestitures by banks amid surging valuations. It also reflects a need to raise capital to meet more stringent regulatory requirements in the wake of the Silicon Valley Bank crisis and the runup to the Basel III endgame.

6: "KKR to Acquire Broadcom's End-User Computing Division," KKR, February 26, 2024.
7: "Events After Balance Sheet Date," Corbion, n.d., accessed March 28, 2024.

Technology PE deal activity



Source: PitchBook • Geography: US • *As of March 31, 2024

Technology

In reviewing the technology deal landscape for Q1, it is evident that the trends were a mixed bag. Delving into deal values, we observe a decelerating trajectory: Q1 deal value totaled $28.8 billion, reflecting a decline of 8.0% QoQ and a sharper decline of 34.9% from Q1 of the previous year, indicative of persistent challenges in getting large deals done.

Turning to deal volume metrics, the picture is more encouraging. We witnessed a total of 361 technology PE deals recorded for the quarter. This represents a modest increase of 5.2% from the previous quarter and a more significant increase of 18.3% when measured against the same period last year.

Focusing on the software sector, Q1 data underscores the persistent challenges in dealmaking conditions. Software PE deal value stood at $17.6 billion, reflecting a decline of 6.4% QoQ and a more significant drop of 46.5% YoY.

Despite the decline in value, volume metrics paint a brighter picture, suggesting a shift toward smaller deals. We estimate that a total of 247 deals were announced or completed in Q1, a significant QoQ and YoY increase.

It is important to note the inherent lumpiness in software transactions, where large deals often exert outsized influence. Following a relatively robust Q4, the dynamics of Q1 can be interpreted as an "air pocket" as bidders assessed the potential for more favorable financing conditions for large deals in the latter half of the year.

Analyzing the software sector's share of overall PE deal value and count, we observe a notable downmarket shift, likely influenced by the sector's historical penchant for megadeals. In Q1, software accounted for 12.1% of PE value, 130 basis points below the 2023 average and below the 10-year average of 13.3%. On a volume basis, software represented 11.7% of PE deals, 130 basis points ahead of the 2023 average and surpassing the 10-year average of 10.5%.

IT infrastructure topped the technology deal leaderboard in the quarter as Vantage Data Centers raised $6.4 billion of new equity investment from Silver Lake and DigitalBridge Group in January. The capital infusion will advance the company's development of next-generation datacenters, with designs optimized for AI and cloud workloads.[8] The company is seeing strong demand for digital infrastructure as investment in AI development accelerates.

8: "Vantage Data Centers Announces $6.4 Billion Equity Investment Led by DigitalBridge and Silver Lake," Vantage Data Centers, January 9, 2024.

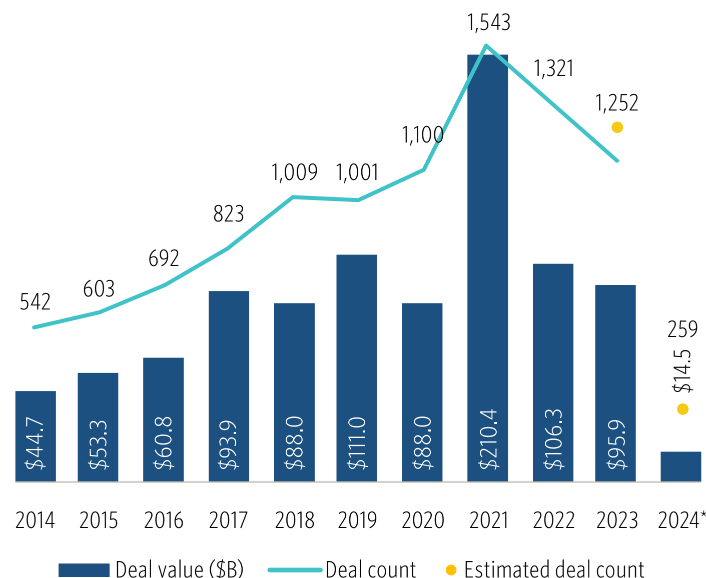
Healthcare

Healthcare PE deal activity dipped below trend in Q1 2024, accounting for 12.3% of PE deal count and just 10% of PE deal value, compared with an average of 15.5% and 14.2%, respectively, for the past three years. Sponsors announced or closed 170 deals worth a cumulative $14.5 billion. In our 2024 Healthcare Outlook, we predicted that healthcare PE investing would decline as a proportion of global deal count for several reasons, including distress in the provider market caused by elevated labor and debt service costs and flat-to-declining reimbursement, as well as the difficulty of executing roll-up strategies in a high-interest-rate environment. Although some bankers are touting improving pipelines, getting deals across the finish line remains difficult, with every stage of due diligence extended. Pro forma EBITDA adjustments continue to be a point of major debate, and panelists at the 2024 McDermott Will & Emery HPE conference acknowledged that deal returns for exits over the next year or two are likely to be doubly hit by margin compression and a lack of credit for locations still ramping up. Creative deal structures, including 50/50 splits, super minorities, seller rollover, and heavy earnouts, continue to be commonplace. While we are seeing some encouraging signs in the lower middle market, we do not foresee a meaningful uptick in large platform deal announcements until late 2024.

PE investment in healthcare was thrust into the spotlight in early March when the Federal Trade Commission (FTC), Department of Justice, and Department of Health and Human Services announced an "inquiry on impact of corporate greed in health care," accompanied by a public briefing and request for information.[9] The inquiry represents the FTC doing exactly what it has been saying publicly it would do throughout Chair Lina Khan's tenure, and we believe that the risk of direct antitrust action, particularly at the federal level, remains low for most PE-backed platforms. However, sponsors are increasingly aware of headline risk when investing in healthcare providers.

We view the FTC's actions as likely to accelerate the drifting of large managers away from provider investments and toward healthcare business services, healthcare IT, and pharma services. This movement was already occurring due to a number of secular trends, including labor cost inflation, declining commercial reimbursement in specialty service lines, pressure on Medicare Advantage margins, and limited exit opportunities for large physician practice management platforms.

Healthcare PE deal activity

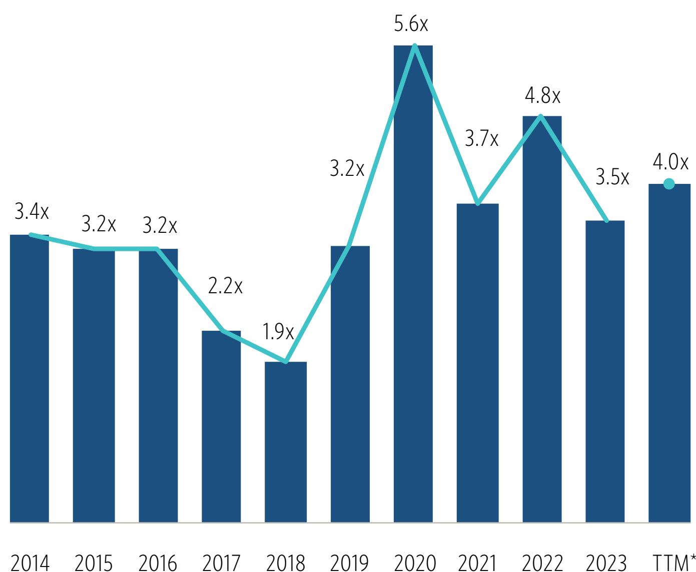


Source: PitchBook • Geography: US • *As of March 31, 2024

Healthcare IT should see further tailwinds as some large assets are exited in the next 12 to 18 months, including healthcare payments giant Zelis, which is exploring an IPO or sale, and revenue cycle platform Waystar, which filed for IPO in October but delayed the exit due to market conditions. Veritas Capital agreed to sell a 50% stake in Cotiviti, one of the major payer tech and services players, to KKR a little less than a year after Carlyle's bid to acquire the same company failed to secure the necessary financing. The deal is supported by a $5.0 billion term loan facility. In pharma services, which includes outsourced clinical research organizations, outsourced drug manufacturing, and clinical trial site management as well as various outsourced regulatory and commercialization services for pharmaceutical companies, valuations are already reaching record levels. Recent large announcements include the September take-private of Syneos Health by Elliott Investment Management, Patient Square Capital, and Veritas Capital, and a clinical research platform creation by Linden Capital Partners and Ontario Teachers' Pension Plan announced in March.

9: "Federal Trade Commission, the Department of Justice and the Department of Health and Human Services Launch Cross-Government Inquiry on Impact of Corporate Greed in Health Care," Federal Trade Commission, March 5, 2024.

Median EV/revenue multiples on deals of $2.5 billion or more



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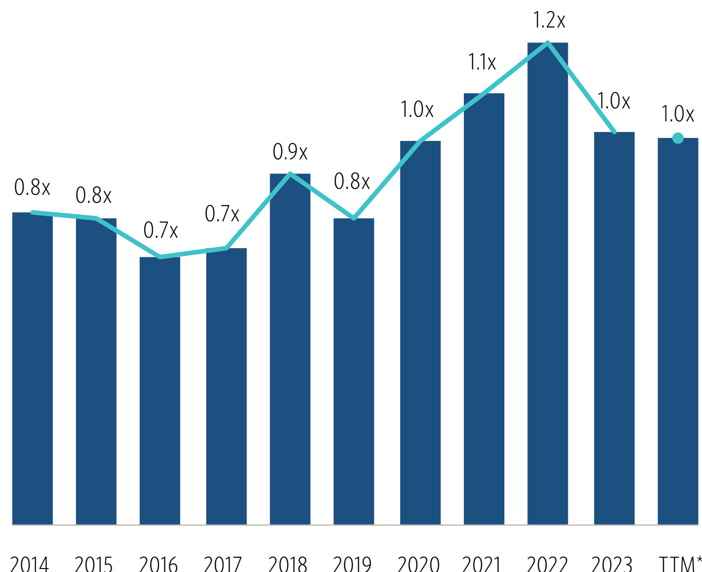
Median EV/revenue multiples on deals below $25 million



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Valuations

All of our valuation metrics tell a similar story: Valuations and leverage peaked on deals announced in 2021 and are attempting to establish a bottom after a two-year reset. PE deal multiples were down between 20.6% to 28.9% from their peak, depending on the measure, based on the broader datasets we have that are inclusive of all of North America and Europe. Most of the damage was done in 2023 when multiples accelerated to the downside. In 2024, we are seeing a bounce. Trailing 12-month (TTM) multiples have bounced by approximately 5% on an EV/revenue basis and 10% on an EV/EBITDA basis from their 2023 levels. At present, the EV/revenue multiple stands at 2.1x based on 209 disclosed deals over the last year, up from 2.0x at the end of 2023. Meanwhile, EV/EBITDA multiples have improved to 11.9x based on 194 disclosed deals, up from 10.6x at the end of 2023.

Debt and leverage multiples in the broadly syndicated market for leveraged loans reflect a similar trend of decelerating declines or in some cases a mild upturn in LBO valuations. Debt/EBITDA multiples improved from 4.9x in 2023 to 5.1x so far in 2024, and debt/EV ratios are largely unchanged at 45.1% after 2023's steep decline from 50.8% to 45.7%.

While it is a bit too early to conclude that a reset in deal valuations has run its course, we are encouraged by the recent trend and not entirely surprised given the strong Q4 2023 runup in public equity valuations.

A WORD FROM ALTER DOMUS

Secondaries sophistication: Improving operations to keep pace with rapid evolution

The secondaries market has grown steadily during the past year and has provided much-needed liquidity for managers and LPs through the rising-interest-rate cycle.

As secondaries have grown, investment strategies have become more sophisticated and complex.

Here, Alter Domus' head of private equity, Tim Toska, outlines how upgrading fund operations and infrastructure and harnessing the power of automated digital workflows will be essential for investors and managers to keep pace with developments in the rapidly evolving secondaries space.

What has made secondaries attractive for managers and investors?

Because secondaries are the primary source of liquidity in an illiquid asset class, secondaries managers have been the first port of call for managers and LPs looking for ways to unlock liquidity in a market where distributions and fundraising have slowed significantly year on year.

The outlook for IPO activity and M&A deals in 2024 is brighter than it was a year ago, and we should see more liquidity flow back into the market, but high demand for secondaries is still expected from LPs that want to rebalance portfolios and managers that want to explore GP-led deals to offer liquidity to LPs after extended holding periods.

How have secondaries strategies performed throughout this difficult period for private markets generally?

Secondaries strategies have proven remarkably resilient during the past 12 months.

There was a 4% year-on-year increase in secondaries deal flow in 2023, according to Jefferies figures, with overall secondaries deal value coming in at $112 billion in 2023.[10]

LPs have recognized the key strategic position of the secondaries market at a time of market dislocation, and appetite to back new secondaries funds has been robust. According to Jefferies, secondaries fundraising in 2023 exceeded the combined annual totals for 2021 and 2022. The amount of capital now available for investment in secondaries is more than double the amount that has been deployed in deals in the previous 12 months.[11]

How is the secondaries market positioned for the year ahead, and what is expected to drive activity in the segment?

Secondaries managers are very well placed.

The strong fundraising performance during the past 12 months has ensured that secondaries players have ample firepower to pursue deals, which should spur deal volume across the segment.

There is also growing optimism that the GP-led market will spring back to life in the year ahead. According to Jefferies, the primary driver of the growth in secondaries deal volume in 2023 was the LP-led deal space, which climbed 7% year on year, while GP-led volume stayed flat.[12]

As interest rates stabilize and asset pricing improves, however, a number of the GP-led deals that launched throughout the course of 2022 and 2023, but did not get done, will be better placed to return to market and transact as bid-ask spreads narrow.

We also anticipate further momentum building behind GP-led deals as the volumes of multi-asset continuation funds increase and complement the already high volumes of single-asset continuation funds.

Buyers like the concept of investing in curated portfolios of multiple assets, while investors are able to take sizable distributions when multi-asset deals progress.

This is an area to watch in the months ahead.

10: "Global Secondary Market Review," Jefferies, January 2024.
11: Ibid.
12: Ibid.

Do you think managers and strategies will become more specialized?

Definitely. As the secondaries industry has grown, it has also become more competitive, and secondaries managers have had to specialize in order to differentiate.

For example, Campbell Lutyens research shows that the market share of infrastructure secondaries deals nearly tripled from 2022 to 2023, while private credit secondaries saw their share double.[13]

Managers will also specialize by focusing exclusively on GP-led deals or on different types of LP secondaries deals, such as tail-end deals or early secondaries.

For investors and managers, the emergence of more niche secondaries strategies is an exciting development that provides unprecedented optionality when seeking liquidity.

How do you view the relationship between the secondaries space and GP-stakes deals?

The two strategies are distinct, but it is becoming increasingly clear that there are significant overlaps.

For example, both strategies require the ability to conduct due diligence for a manager as well as a portfolio of assets and present similar J-curves.

There are reports of early movers making the decision to roll their GP-stakes businesses and secondaries teams to facilitate data sharing and other synergies.

It is still early days, but the similarities between secondaries and GP-stakes strategies could see other managers combine these two fast-growing private markets verticals.

What should LPs and GPs focus on if they want to capitalize on the evolution and growth in the secondaries segment?

Investing in secondaries would have been relatively simple 20 years ago. Allocations would have been quite small, LP-stakes strategies dominated, and almost all transactions would have involved stakes in buyout funds.

That has completely changed. Investors are now having to keep tabs on myriad strategies and deal types. Risk exposure is no longer limited to buyouts, but also to private credit, real estate, and infrastructure. This presents a much broader risk/reward spectrum for LPs to factor in for allocation strategies and portfolio management. For managers and LPs, there is also a significantly higher volume of transactions to track and administer, especially when considering the growth of single-asset GP-led deals.

The reporting and fund accounting infrastructure that would have been perfectly adequate to run a secondaries program 15 years ago is now no longer fit for purpose. Best-in-class technology and digitally powered fund operations have become essential for secondaries market stakeholders.

We have observed great results when working with clients who have made use of Alter Domus' Digital Workflows Application to manage the growth and complexity of their secondaries portfolios.

This digitized workflow is designed to handle the volume and complexity of secondaries funds and harnesses automation and AI to build a "digital bridge" between client and fund administrator.

This has helped secondaries clients improve operational efficiency and transparency across their portfolios, end reliance on outdated communication channels, and collate data into an analysis-ready single source of truth.

When working with a fund services partner to administer a secondaries program, however, digital capability is only one part of the puzzle.

Alter Domus has worked with secondaries clients of all sizes and has been there to scale up the back-office infrastructure of secondaries managers as they have grown assets under management and expanded their franchises.

We have a long track record of providing secondaries managers with fund administration, corporate services, and alternative investment fund manager/management company support and building long-term, impactful relationships with secondaries funds.

In the fast-moving secondaries market, track record and experience really do matter.

13: "2024 Secondary Market Overview," Campbell Lutyens, n.d., accessed March 21, 2024.

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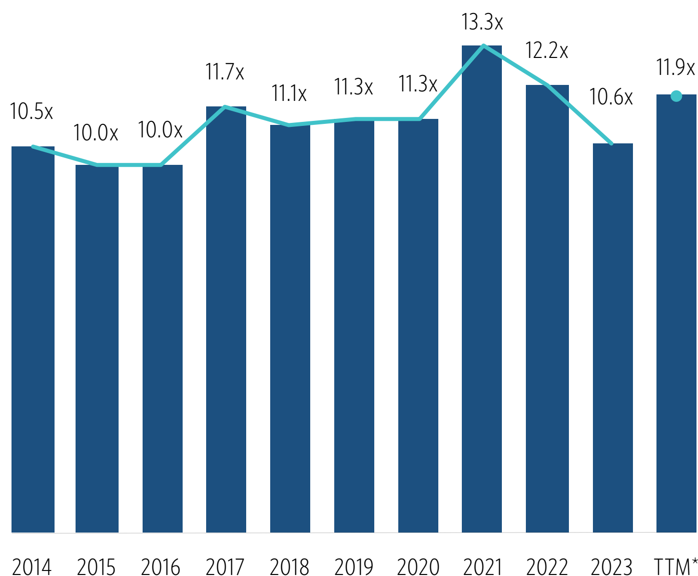
RESEARCH, REIMAGINED

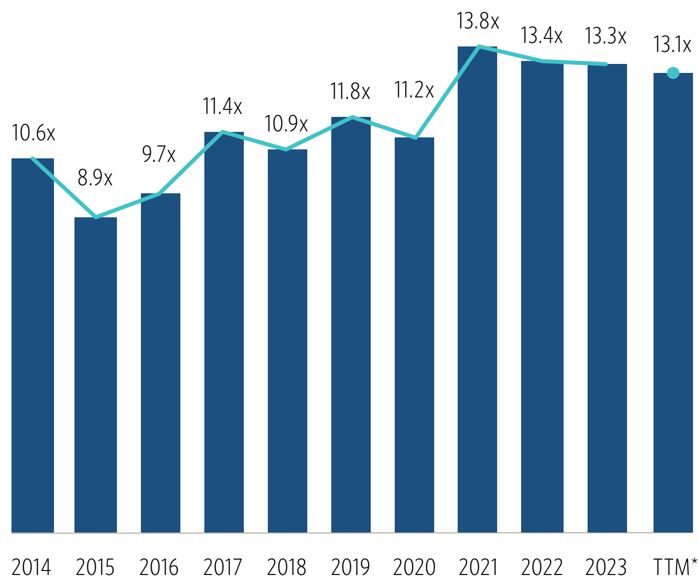
Deal valuation metrics

Global PE EV/EBITDA multiples



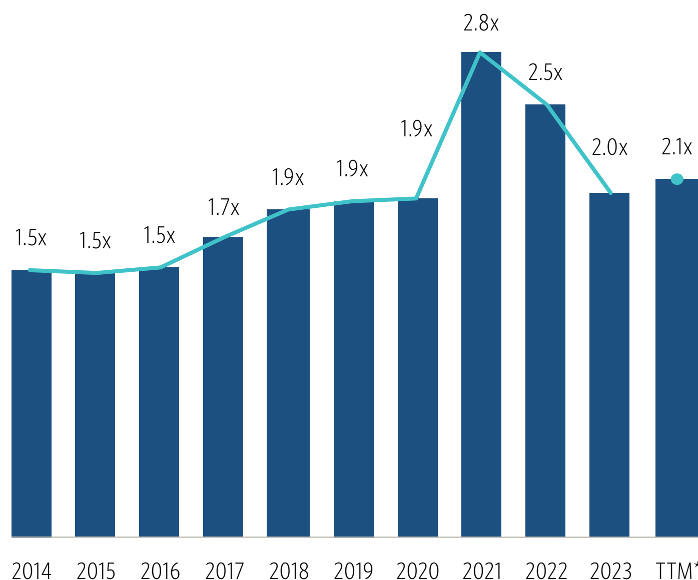
Source: PitchBook • Geography: North America and Europe • *As of March 31, 2024

US PE EV/EBITDA multiples



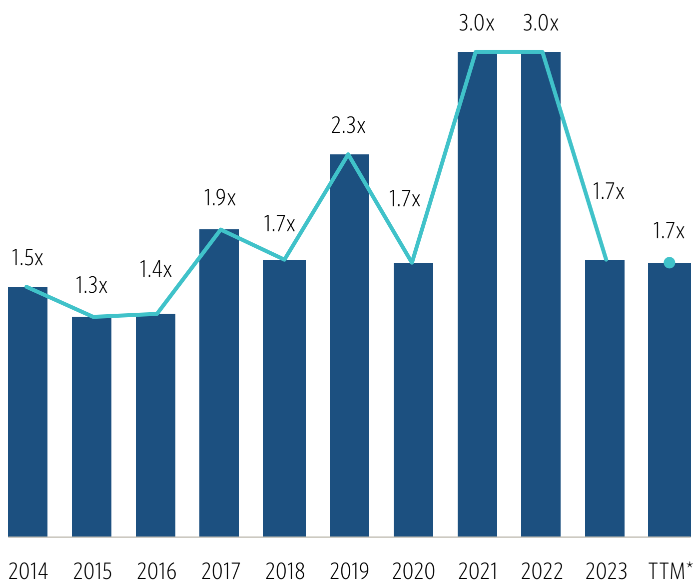
Source: PitchBook • Geography: US • *As of March 31, 2024

Global PE EV/revenue multiples



Source: PitchBook • Geography: North America and Europe • *As of March 31, 2024

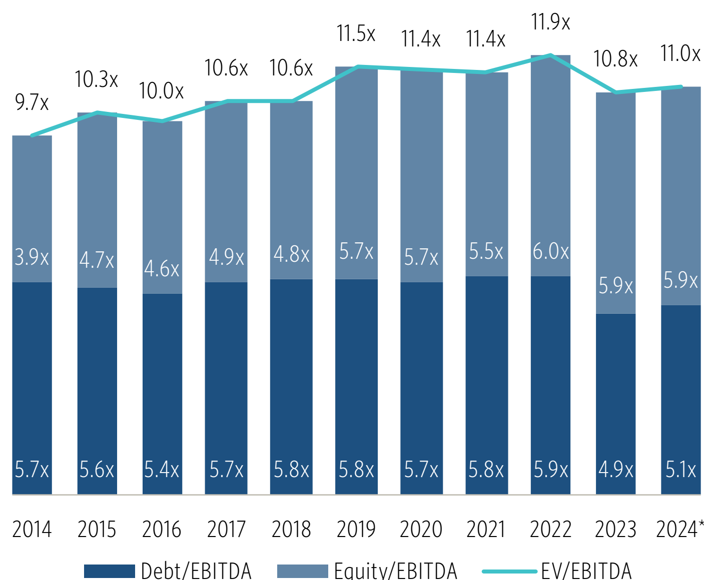
US PE EV/revenue multiples



Source: PitchBook • Geography: US • *As of March 31, 2024

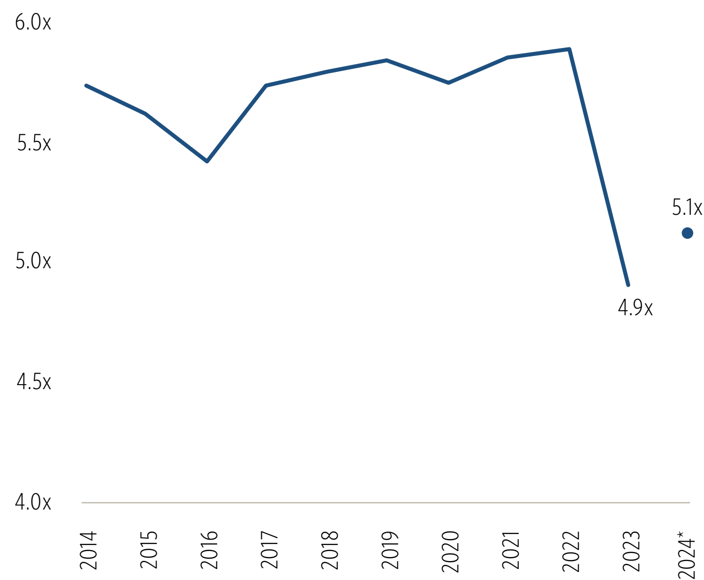
Deal financing metrics

Multiples on BSL-funded deals



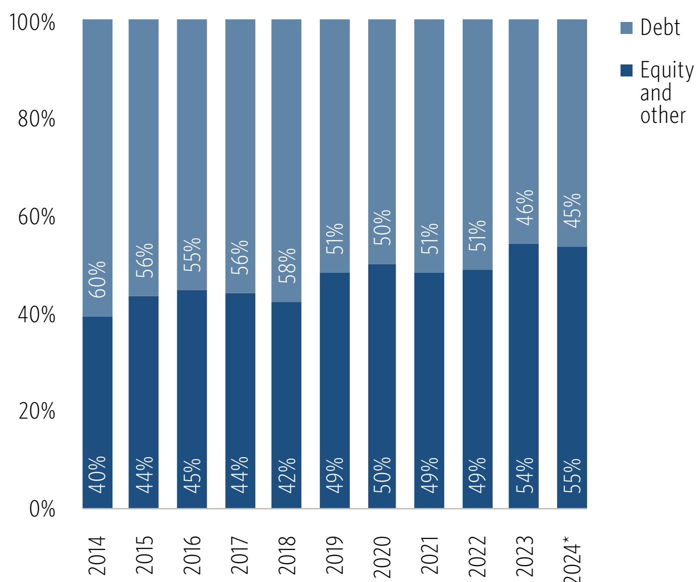
Source: PitchBook | LCD • Geography: US • *As of March 31, 2024

Debt/EBITDA multiples on BSL-funded deals



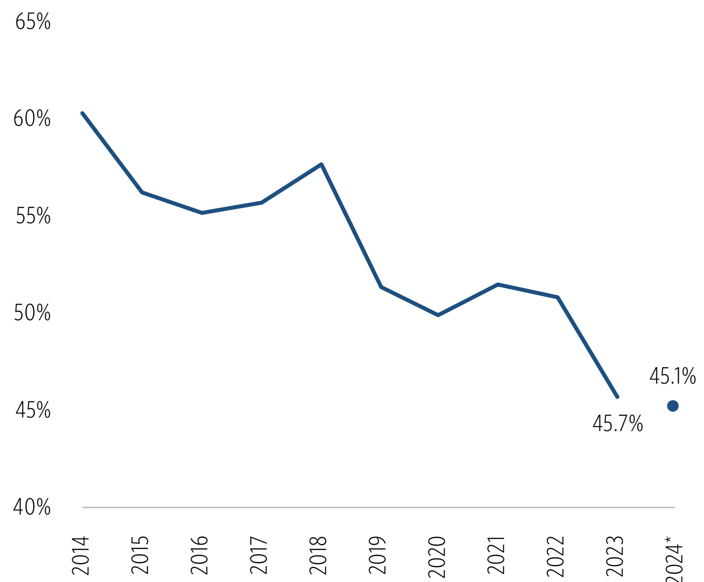
Source: PitchBook | LCD • Geography: US • *As of March 31, 2024

BSL-funded deal value by source



Source: PitchBook | LCD • Geography: US • *As of March 31, 2024

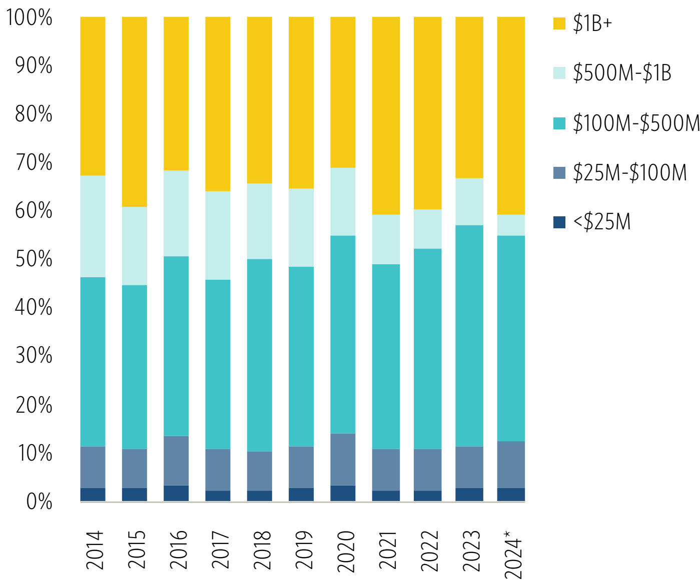
Debt/EV ratio on BSL-funded deals



Source: PitchBook | LCD • Geography: US • *As of March 31, 2024

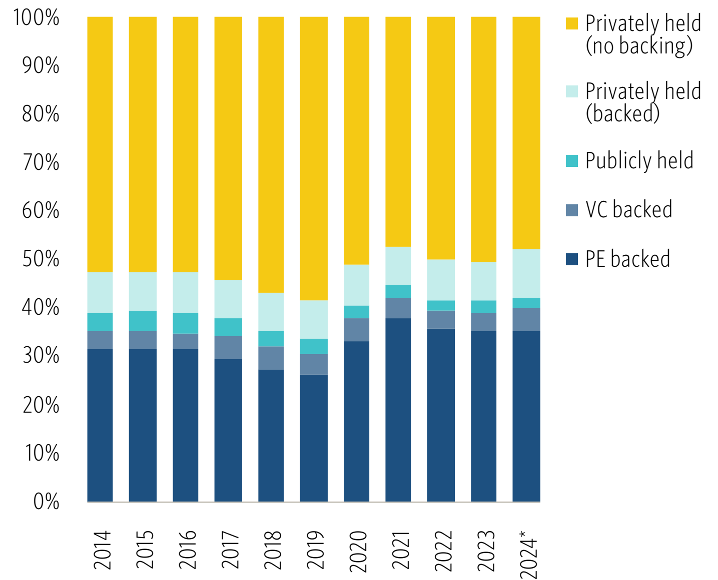
Deals by size, backing type, and sector

Share of PE deal value by size bucket



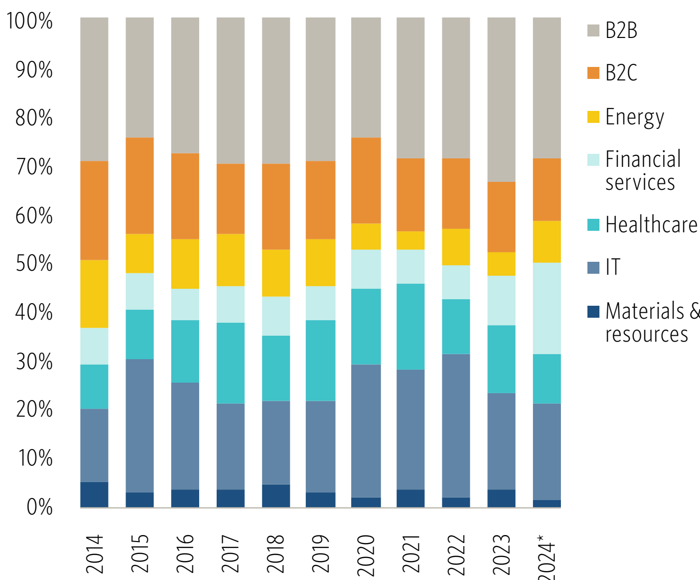
Source: PitchBook • Geography: US • *As of March 31, 2024

Share of PE deal count by backing type



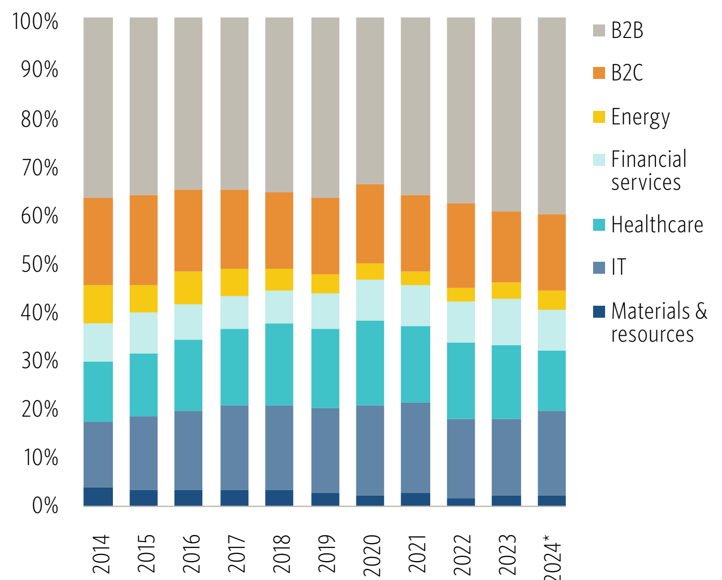
Source: PitchBook • Geography: US • *As of March 31, 2024

Share of PE deal value by sector



Source: PitchBook • Geography: US • *As of March 31, 2024

Share of PE deal count by sector

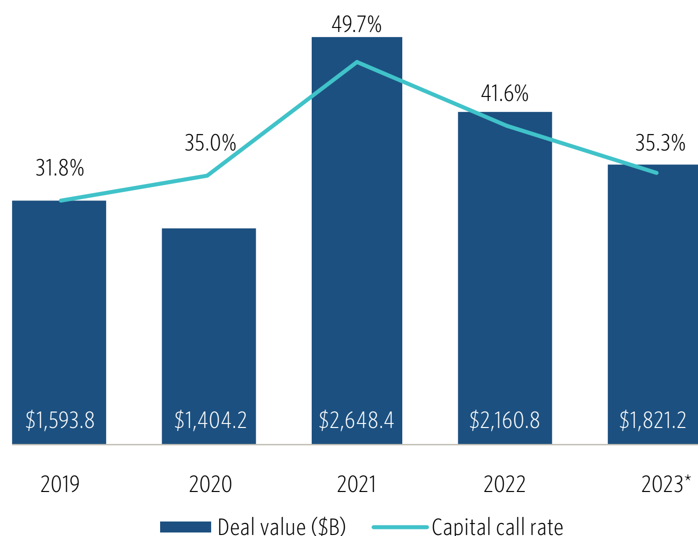


Source: PitchBook • Geography: US • *As of March 31, 2024

SPOTLIGHT

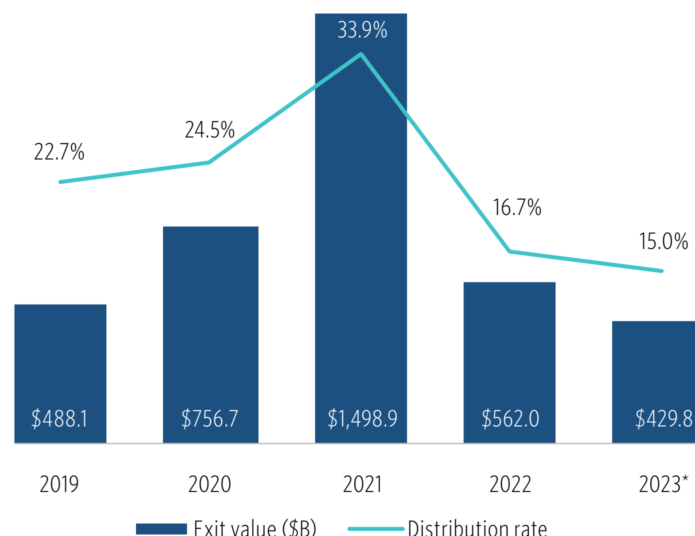
Surfing Turbulent Cash Flow Waves

PE deal value and capital call rate



Source: PitchBook • Geography: Global • *Deal value as of December 31, 2023. Capital call rates as of September 30, 2023

PE exit value and distribution rate



Source: PitchBook • Geography: Global • *Exit value as of December 31, 2023. Distribution rates as of September 30, 2023

Note: This spotlight is abridged from our analyst note Surfing Turbulent Cash Flow Waves. Please see the full note for additional analysis on cash flow patterns across private market asset classes.

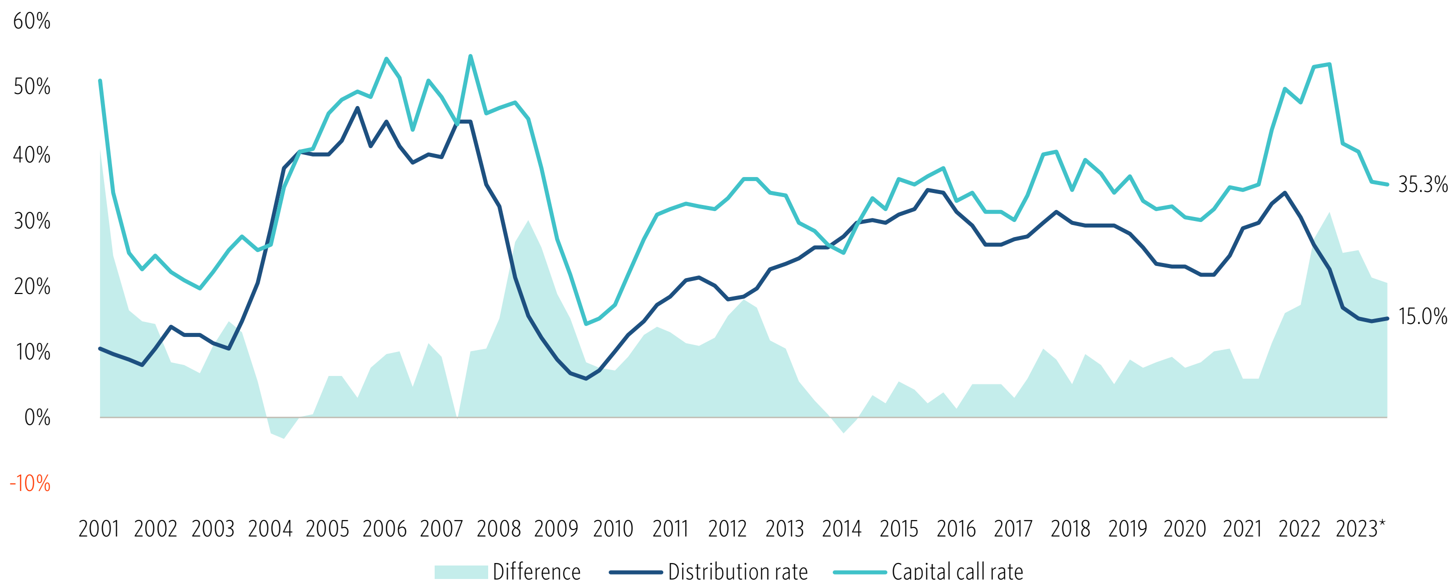
Tracking the rise and fall of tides

Many LPs strive to achieve a state where their private market portfolios are self-financing, meaning that distributions coming back from older funds pay for capital calls from newer funds. When distributions are pacing well relative to capital call rates, recycling into new fund commitments becomes a straightforward exercise and allows for investments to compound. But when mature portfolios see slower cash flows—and especially when distributions dry up faster than capital calls—LPs can experience uncomfortable liquidity-related headaches.

In our analysis, we look at cash flow data across funds within each respective strategy globally. Capital calls are pooled over rolling 12-month periods and taken as a percentage of aggregate dry powder at the beginning of the respective horizon. Distributions are similarly pooled and compared against aggregate net asset values (NAVs). This provides us with the pace of cash flow occurring relative to the available source from which capital calls and distributions are drawn, and we can compare those amounts to create a net cash flow percentage. Even though nominal NAV is often much larger than outstanding dry powder, equal-weighting the distribution and capital call percentages provides a consistent metric for historical comparison that is less impacted by the maturation of private markets. These figures tell us how much GPs have called down and distributed back to a hypothetical LP that has invested in funds in a given strategy with $1.00 in uncalled commitments and $1.00 in NAV.

In practical terms, distribution rates and capital call rates are not directly comparable because the denominators are different. However, for our theoretical framework, looking at our cash flow metrics as if we have a dollar each of dry powder

PE capital call rate versus distribution rate



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

and NAV (equal weighting) makes the two percentages more directly comparable (50% called and 50% distributed is equivalent in percentage and nominal terms with the $1.00 assumption). Capital calls usually take place over three to five years, while distributions often stretch out over 10 or more years, which is why the equal-weight net cash flow percentages are typically negative. However, the key element is the net cash flow's direction of travel and the level relative to history to provide a gauge for the state of private capital's net liquidity.

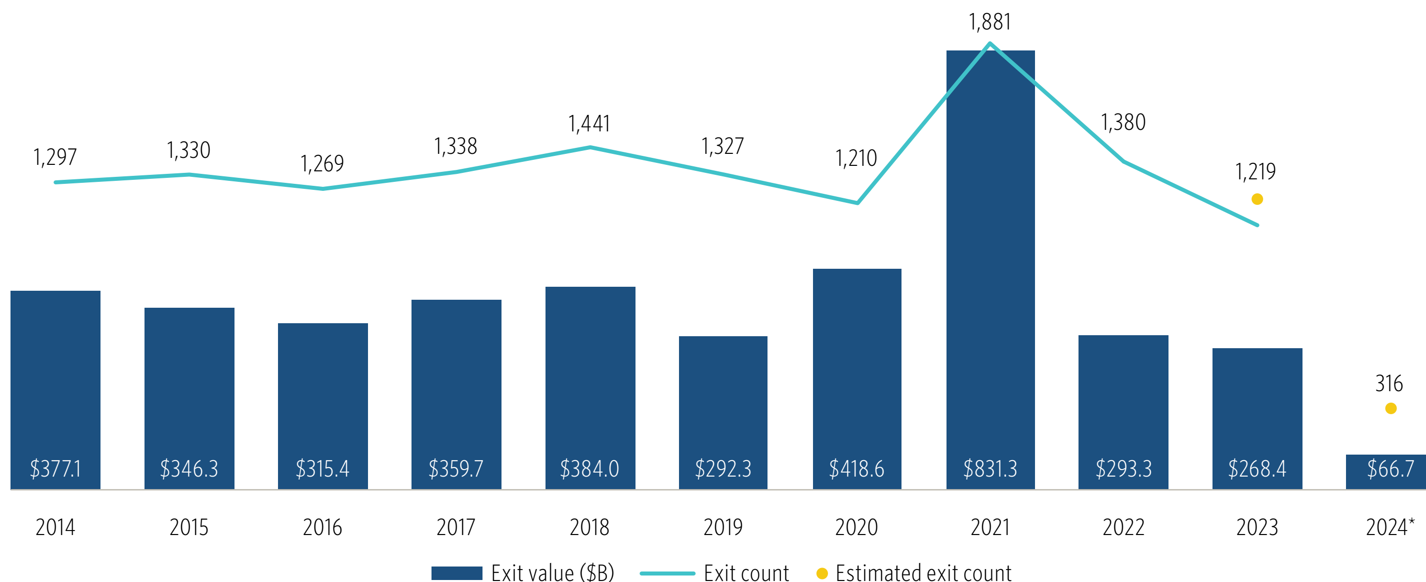
Private equity

With dealmaking flush, PE capital calls as a percentage of dry powder reached 49.7% in 2021, well above the 35.3% historical average for the asset class going back to 2000. PE funds as a whole delivered 33.9% of NAV back to LPs in distributions, also well above the historical average of 24.6%. However, the extravagance of 2021 reversed course in 2022 and continued into 2023. By 2023, both deal and exit activity had tumbled considerably. Global PE deal activity in 2023 came in at roughly $1.8 trillion, and capital call rates also fell to 35.3% as of Q3 last year. PE's 2023 exit value plummeted 71.3% from 2021's high to $429.8 billion globally, translating to just 15.0% in distribution rates.

The poor exit environment has crimped LP fund liquidity. For the year ended Q3 2023, distribution rates were the lowest they had been since 2009, during the height of the global financial crisis (GFC). However, it is interesting to note the differences between capital call and distribution rates in 2009 versus 2023. The dispersion between capital call rates and distributions in 2009 was 7.7%, while in 2023 this dispersion increased to 20.3% following the 2022 correction. That is, although distributions have hit their lowest levels since the GFC, capital calls in 2023 did not fall as sharply as they did in that same time period. As such, capital was being called down approximately twice as quickly in 2023 as it was in 2009. While deal value dropped compared with 2021 activity, 2023's deal value was still the third highest it had ever been. Deals were still getting done, and as such, GPs continued pulling down commitments from LPs.

Exits

PE exit activity



Source: PitchBook • Geography: US • *As of March 31, 2024

Overview

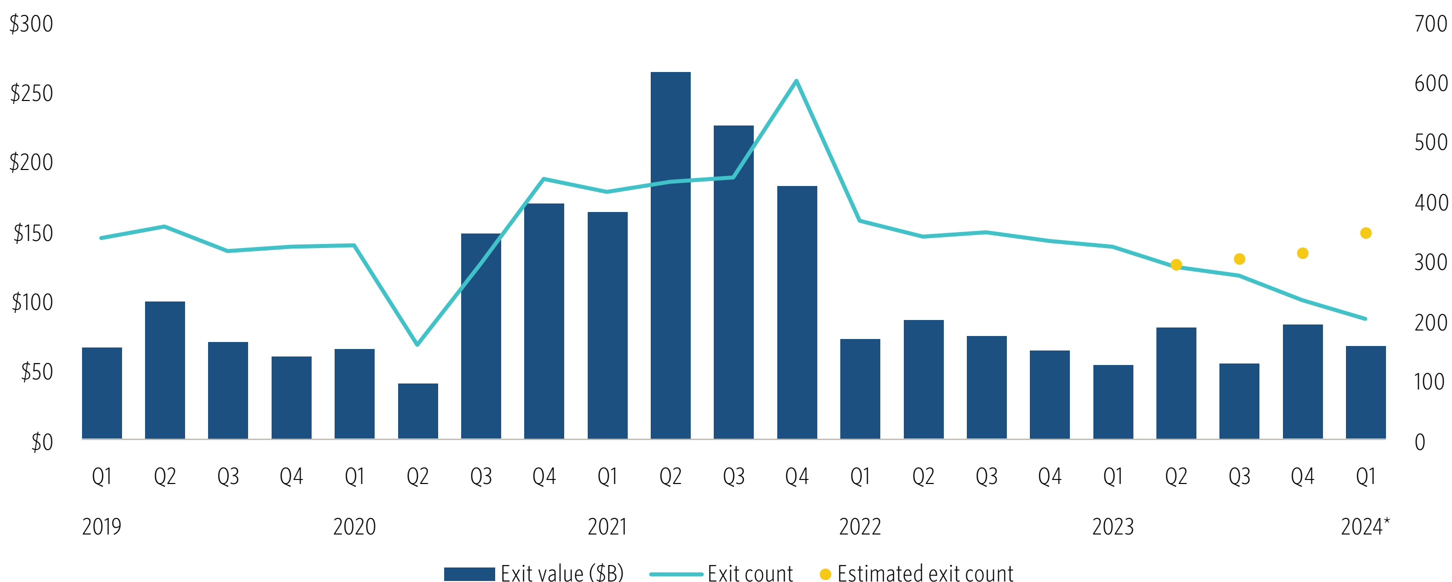
US PE exit activity got off to a slow start in 2024, with an estimated 316 exits for an aggregate of $66.7 billion in Q1 2024. This represents a decrease of 19.0% in exit value QoQ, which reverses the bounce in exit value seen in Q4 2023, demonstrating the persistent volatility in exit activity. Although the industry experienced a second consecutive year of exit slowdown in 2023, two developments suggested an impending stabilization in the PE exit market: The rate of decline had slowed from an abysmal 64.7% fall in exit value in 2022 to an 8.5% decline in 2023, and Q4 2023 marked the strongest quarter of the year with $82.4 billion in exit value. However, the unstable exit activity in Q1 2024 implies that PE exits are still finding a bottom and have yet to embark on a steady pace of recovery. In fact, quarterly exit value remains below the trends seen from 2017 to 2019. It is currently 22.7% below the pre-pandemic average and sits much lower—around 75%—compared with peak quarterly exit activity in 2021. Meanwhile, the estimated exit count for Q1 reflects a small bump-up of 0.9% from Q4 2023.

The median holding period of US PE investments exited in 2023 stretched out to 6.4 years, crossing the six-year mark for the first time since 2015. PE portfolio companies are also getting "older," having been held by their respective PE firms for a median period of 4.1 years, which is above the last-five-year average of 3.9 years before exit. With prolonged fatigue in PE exit markets, we expect holding periods of PE-backed exits and portfolio companies still held by their PE firms to continue to increase as firms hold on to assets longer before being able to sell them.[14] The frenzied deal activity seen in 2021 and 2022 is bound to worsen the backlog of investments approaching their exit timelines in the next few years and put upward pressure on holding periods.

Exit activity is crucial to the PE chain of capital formation and a lead indicator of industry growth because cash flows from exits recycle into fundraising that feeds into dry powder, fund deployment, and, most importantly, fund performance. A large imbalance between selling and buying over a prolonged period of time can disrupt that cycle and undermine industry growth. For this reason, we track these relationships on a dollar basis, especially because a few exits can unlock massive sums of realized value. Unlike in 2022, when buying kept charging ahead while selling lagged, deal activity in 2023 was down by roughly 25%, narrowing the net gap between exits and buying by $178.0 billion since the beginning of

14: For more analysis, please refer to our 2024 US Private Equity Outlook.

PE exit activity by quarter



Source: PitchBook • Geography: US • *As of March 31, 2024

the year. Still, at a deficit of $353.8 billion, we have a long way to go.

New liquidity solutions and exit offramps will need to be built by the industry to avert a pileup as more funds approach the end of their lives. Fortunately, those efforts are well under way in the form of secondary funds and continuation vehicles. In Q1, a total of 27 exits into continuation funds were announced or completed. Nine were fully disclosed for an aggregate of $10.7 billion in value received, although it is unknown how much of that represents new money contributed by secondary investors as opposed to existing investors rolling over and receiving new fund interests. The largest of these was a single-asset continuation vehicle announced by KSL Partners for Alterra Mountain Company. The fund received $3.0 billion in total commitments, which includes commitments of KSL and rollover LP investors.

The biggest exit of Q1 was the LGP sale of SRS to Home Depot for $18.3 billion. SRS was first acquired by LGP in 2018 and then moved to a continuation fund in December 2023. The sale not only marks the fourth-largest PE-backed exit of all time but is a major triumph for PE firms looking to roll assets into continuation vehicles to bide time for a successful exit down the road. The transaction, which was announced the last week of March, will expand Home Depot's service offerings in specialty trade distribution and increase the company's total addressable market to approximately $1 trillion. Although it may be too early to see more news of exits from continuation funds, we expect more GPs to push into this strategy as their portfolio companies push up against exit timelines.

Q1 showed mixed signals for the potential re-opening of the IPO market, with four exits through public listings in the quarter. Only one, BrightSpring Health Services, was an IPO, with the rest being reverse mergers. In January, the KKR-backed home and community-based healthcare services platform raised $693 million in its IPO for a market value of $2.2 billion after initially planning to market shares for a value of $3.1 billion. The lackluster debut signals a cautious mood in public markets, as reflected in other IPOs so far this year, such as Kaspi.kz. Nonetheless, with more companies gearing up for a public listing this year, PE firms could regain an exit option that has been effectively closed for over two years now. Also, reverse mergers could boost PE exits to public markets. In February, PE-backed trading platform Webull announced it will go public via a reverse merger with SK Growth Opportunities for a combined value of $7.3 billion.

Notable continuation-fund-related exits YTD*

Exited companies	Exiting funds	Announcement date	Deal value ($M)
Alterra Mountain Company	KSL Partners II	January 29	$3,000.0
HG Energy	Quantum Energy Partners VI	March 11	$1,600.0
Circana	Vestar Funds VII	February 14	$1,200.0
Omega Healthcare	West Street Capital Fund VII	February 28	$1,000.0
Barentz	Cinven	March 18	$920.0
Genesys, Mutant, eDreams ODIGEO, Evelyn Partners, Teraco Data Environments	Permira IV, Permira V	March 6	$800.0
Crown Laboratories, Hyland's Naturals	Hildred Capital Management	March 25	$750.0
zvoove, OneQrew	LEA Fund I	January 25	$703.0
World 50	Morgan Stanley Capital Partners	March 25	$700.0

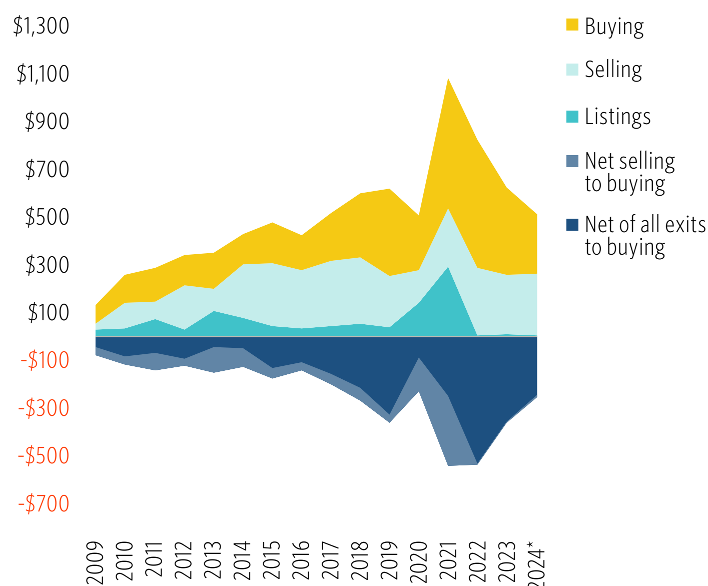
Source: PitchBook • Geography: North America and Europe • *As of March 31, 2024

Exits to corporates

Exits to corporates accounted for most of the total PE exit value for Q1 when excluding public listings, continuing the trend of corporate strategics taking the lead in PE exits that has been emerging over the past year. For Q1, exits to corporates accounted for 67.3% of the total PE exit value, and 68.9% when excluding public listings. This is above the 53.7% quarterly average seen over the past two years. Exits to corporates were less predominant when looking at the number of exits, clocking in at 47.7% of non-public-listing PE exits, compared with sponsor-to-sponsor activity accounting for 52.3%. On absolute levels, however, exit activity faltered, with an estimated 133 exits to corporates for an aggregate value of $44.9 billion in Q1, representing quarterly declines of 2.2% and 21.9%, respectively. Exits to corporates have started to recover to their pre-pandemic levels, surpassing the quarterly averages of that time period for two consecutive quarters.

Corporations with both the appetite for strategic investments and cash on hand have been steadily absorbing sizable PE-backed deals thanks to a couple of key advantages. First, corporates can issue bonds to raise capital needed for acquisitions, effectively bypassing the challenges many PE firms are facing with higher debt-financing costs. Second, PE firms are increasingly burdened by their portfolio companies that need to exit to provide liquidity and returns to their investors and may be reluctant to add more assets under their belt. Corporates have been taking advantage of other market participants' inactivity to build capacity and gain market share.

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

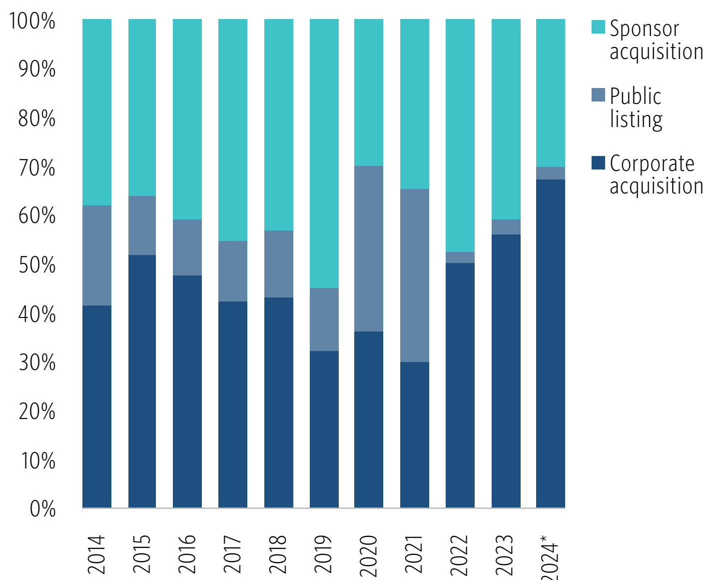


Source: PitchBook • Geography: US • *As of March 31, 2024

For example, one of the largest exits to corporates in Q1 was Montague Street Private Partners' sale of Sterling Check, a background and identity verification service company, to First Advantage for $2.2 billion. First Advantage is an employment background screening provider and is acquiring its competitor to create scale and drive efficiency as demand for the industry slows and remains uncertain for longer in the current economic environment.[15]

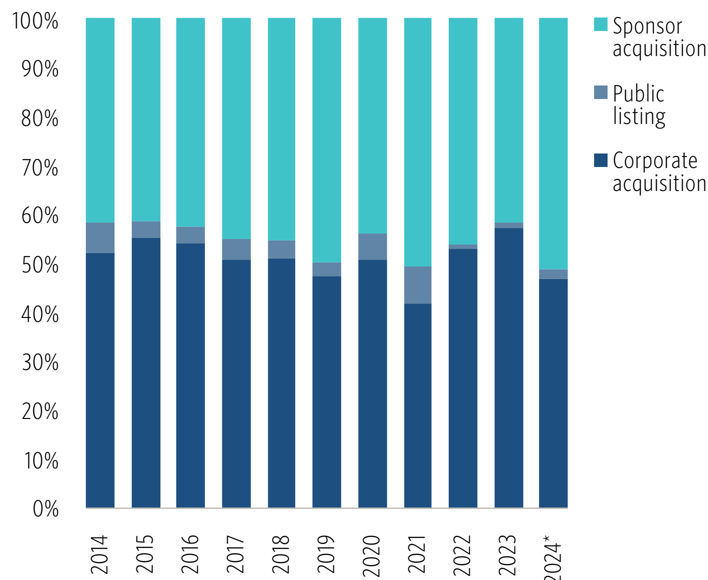
15: "Background Screening Firm First Advantage to Buy Rival Sterling in $2.2 Bln Deal," Reuters, February 29, 2024.

Share of PE exit value by type



Source: PitchBook • Geography: US • *As of March 31, 2024

Share of PE exit count by type



Source: PitchBook • Geography: US • *As of March 31, 2024

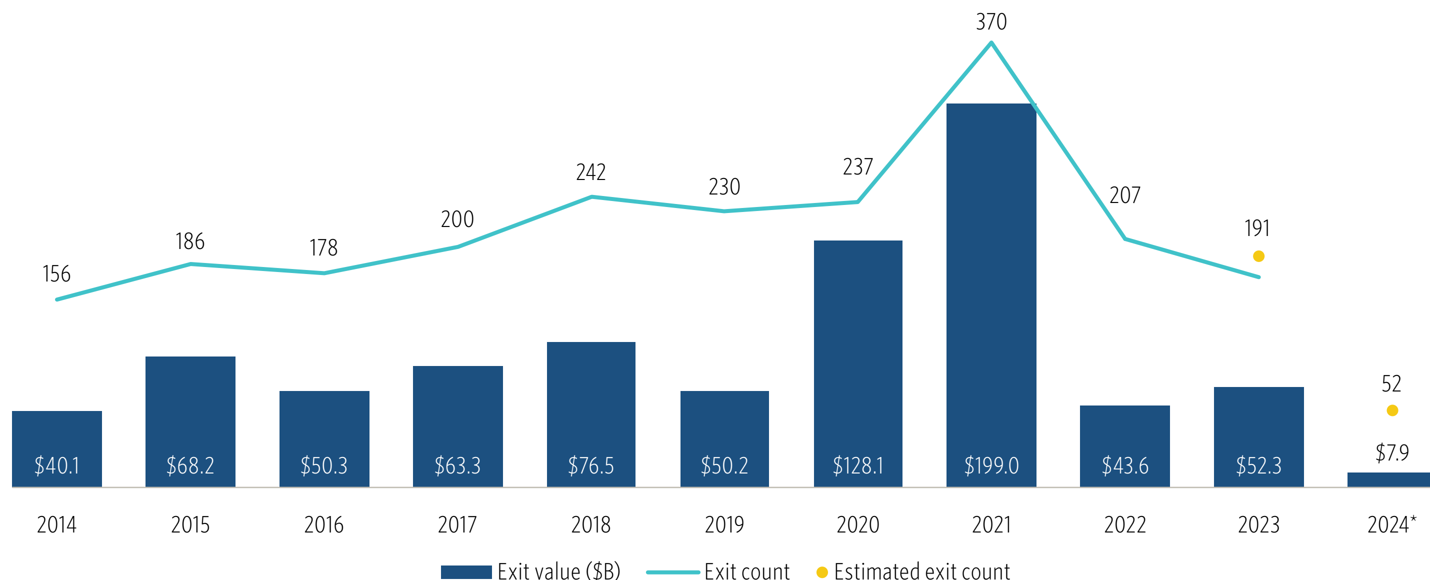
Sponsor-to-sponsor exits

Exits to sponsors continued to slump, with an estimated 148 exits for an aggregate of $20.3 billion in Q1. The quarterly value of sponsor-to-sponsor exits hit a new 10-year low, save for Q2 2020 in the height of the pandemic volatility, as sponsors have yet to sell their portfolio companies for what they view as undervalued prices. Sponsor-to-sponsor exits accounted for 30.4% of total PE exit value in Q1, and just 31.1% when excluding public listings. Activity in the first three months of this year slipped below the quarterly average of 46.3% seen in the past two years, reflecting the still-deteriorated ability to sell assets to other GPs. Although industry participants are vocally optimistic about the buyer-seller valuation gap narrowing and leading to a more active exit environment, the QoQ decline in the absolute number of sponsor-to-sponsor exits further demonstrates the long road to recovery.

In fact, with many PE firms struggling to wind down portfolio holdings, we can expect sponsors to be less able to absorb sales from other sponsors as more pressure builds for liquidity needs and exit strategies. We have been predicting that the industry will increasingly turn to continuation funds to extend exit timelines of their maturing portfolio companies or to secure liquidity without force-selling on less-than-ideal terms. We also believe it is likely that continuation funds will partially replace traditional sponsor-to-sponsor transactions, as the strategy is scalable and was backed by $78.3 billion in fundraising in 2023. PitchBook has tracked 72 exits through continuation funds in 2023, and we believe 2024 will be the breakout year for this liquidity option as the industry starts to run out of time.[16]

16: For more analysis, please refer to our 2024 US Private Equity Outlook.

Technology PE exit activity



Source: PitchBook • Geography: US • *As of March 31, 2024

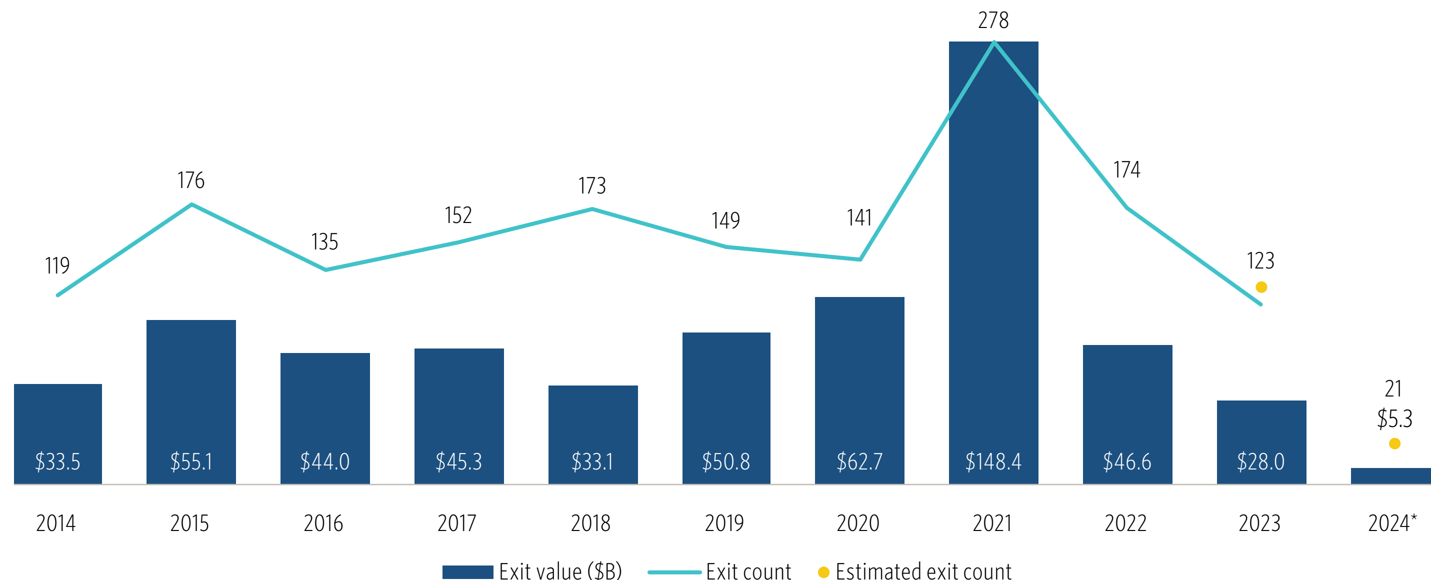
Technology

PE exits for tech companies rebounded slightly in Q1, climbing to $7.9 billion from $5.7 billion the quarter before. This was achieved with just 37 recorded exits, which was the lowest exit count for the sector since Q2 2020, indicating that high-quality assets are fetching high valuations despite a still-fatigued exit market. The tech sector commanded the highest valuations out of all the sectors in 2023 at 3.9x revenue, and the improved exit value in Q1 suggests that the winning assets in tech continue to garner interest and are finding increasingly more success in securing attractive exits. Tech exits accounted for 11.9% of total PE exit value and 18.4% of exit count in Q1, demonstrating the sector's relative resilience in a wilted market.

The largest technology exit in Q1 was TA Associates and Warburg Pincus' sale of Procare Software to Roper Technologies for $1.9 billion. Procare Software is a management software and payment solutions provider to child care centers and was sold for approximately 18 times the company's estimated EBITDA for the 12 months ended March 31, 2025.[17] The acquisition provides Roper Technologies, a diversified tech company providing solutions for niche markets, with improved long-term cash flow and recurring revenue and market leadership in a clear industry.[18] Also notable was One Equity Partners' $705.0 million exit of Computer Design & Integration (CDI) to AHEAD after more than four years of ownership that saw 165% revenue growth, a strategic acquisition, and expansion into new geographic markets and service capabilities.[19] The transaction merges two digital platforms into a $3.7 billion entity, with a bolstered solutions portfolio thanks to CDI's portfolio of cybersecurity and hybrid IT capabilities and AHEAD's data and AI platforms, as well as a greater market presence due to CDI's presence in the Northeastern US and India.[20]

17: "Roper Technologies to Acquire Procare Solutions," Procare Solutions, January 25, 2024.
18: Ibid.
19: "One Equity Partners Completes Sale of Computer Design & Integration to AHEAD," Business Wire, One Equity Partners, February 1, 2024.
20: "AHEAD Acquires CDI, Creating Digital Platforms Market Leader," CDI, February 1, 2024.

Healthcare PE exit activity



Source: PitchBook • Geography: US • *As of March 31, 2024

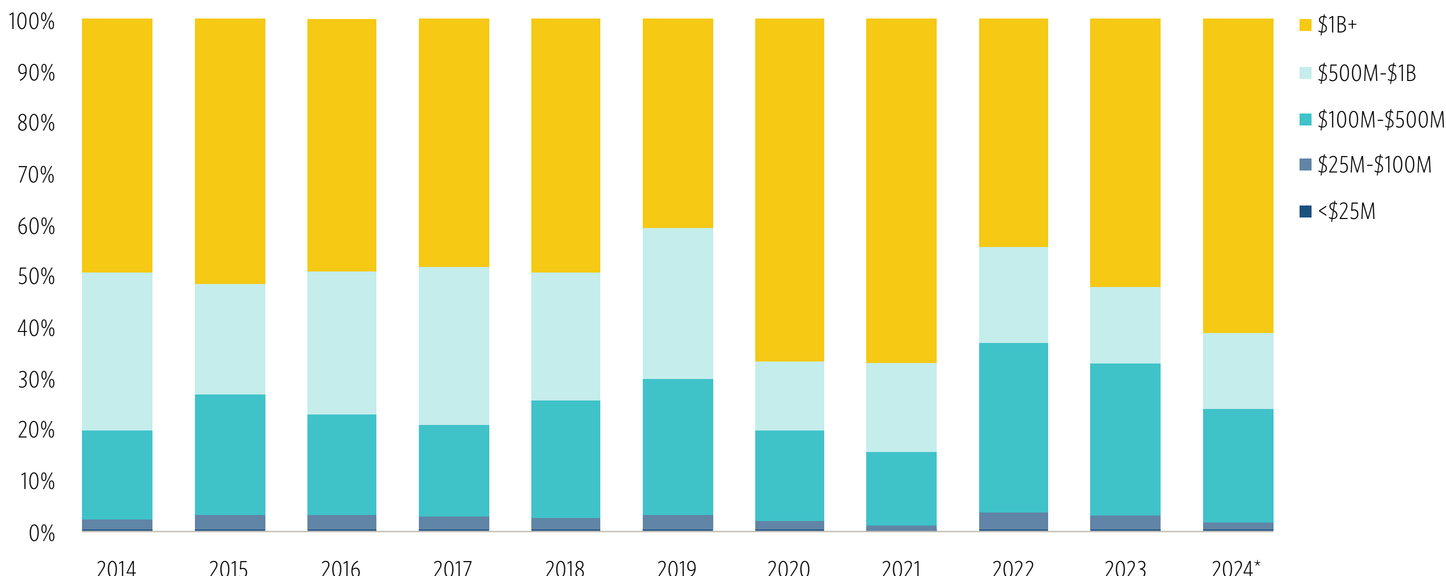
Healthcare

PE exits in healthcare started slowly in 2024, with just 21 estimated exits for an aggregate value of $5.3 billion in Q1. Despite what seems like an alarming QoQ decline of 46.7% in exit count and 65.0% in exit value, the exit value was roughly in line with the quarterly average seen in the past year, and even higher when disregarding the pop in Q4 2023. The Q1 exit count sat below the average, however, indicating the sluggish pace at which GPs are getting their portfolio companies through the door. Liquidity constraints are depressing platform deals, especially sponsor-to-sponsor trades, which have come down in proportion to exits to corporates on both an exit count and value basis starting in 2022. The decline of sponsor-to-sponsor exits is concerning given a significant exit route for platform companies was to pass them upmarket to larger PE firms. We expect PE firms to continue to hold on to their assets until valuations improve with interest rate cuts.

The healthcare services industry made up the bulk of sizable healthcare exits in Q1, with the largest being the public listing of BrightSpring Health Services in January. Other large exits were to corporates that utilized M&A to drive business growth and portfolio transformation. For example, Linden Capital Partners sold Specialty Networks, a tech-enabled healthcare services company, to Cardinal Health for $1.2 billion in January. The sale demonstrates Cardinal Health's strategic prioritization in its specialty business and provides new capabilities to the pharmaceutical wholesaler's distribution operations.[21] In the same month, Peak Rock Capital exited pharmacy services provider Paragon Healthcare to Elevance Health for $1.0 billion. The transaction will enhance health insurer Elevance Health's ability to provide convenient access to specialty medications and services for members with chronic and complex illnesses. Although macroeconomic factors continue to stunt activity in the broader deal and exit market, sponsors have been able sell their portfolio companies to corporates that are seeking to reshape their business strategies to achieve growth.

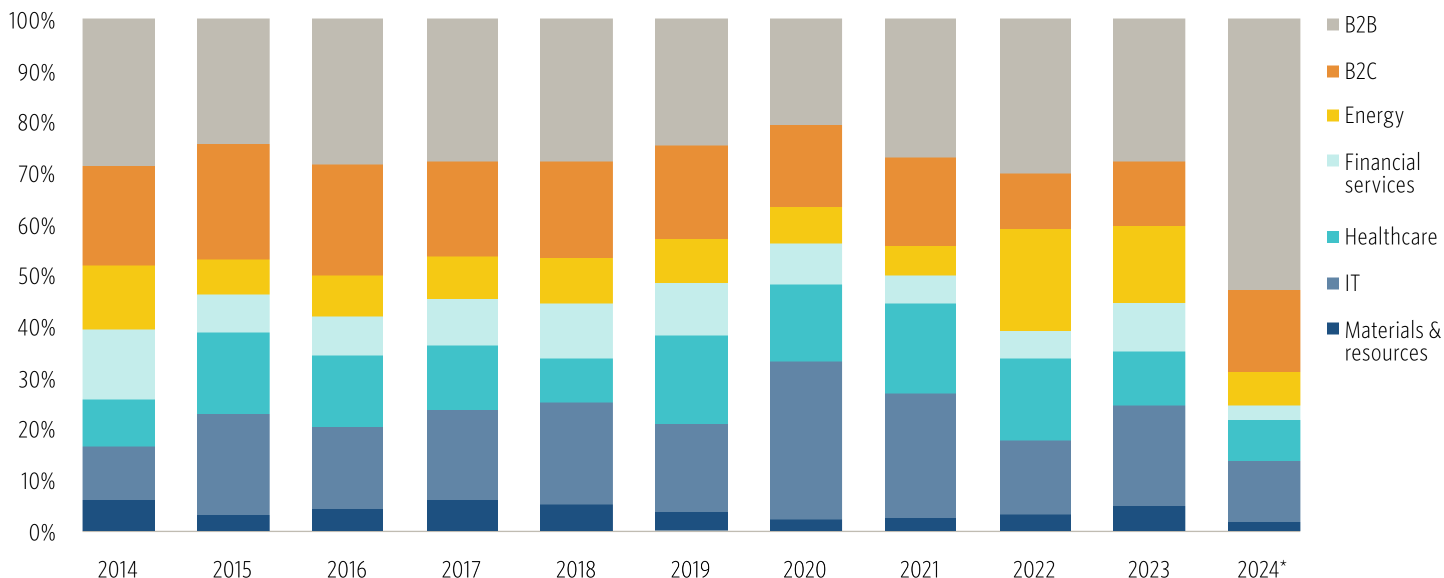
21: "Cardinal Health to Acquire Specialty Networks and Its PPS Analytics Platform, a Technology Enabled Multi-Specialty Group Purchasing and Practice Enhancement Organization," Cardinal Health, January 31, 2024.

Share of PE exit value by size bucket



Source: PitchBook • Geography: US • *As of March 31, 2024

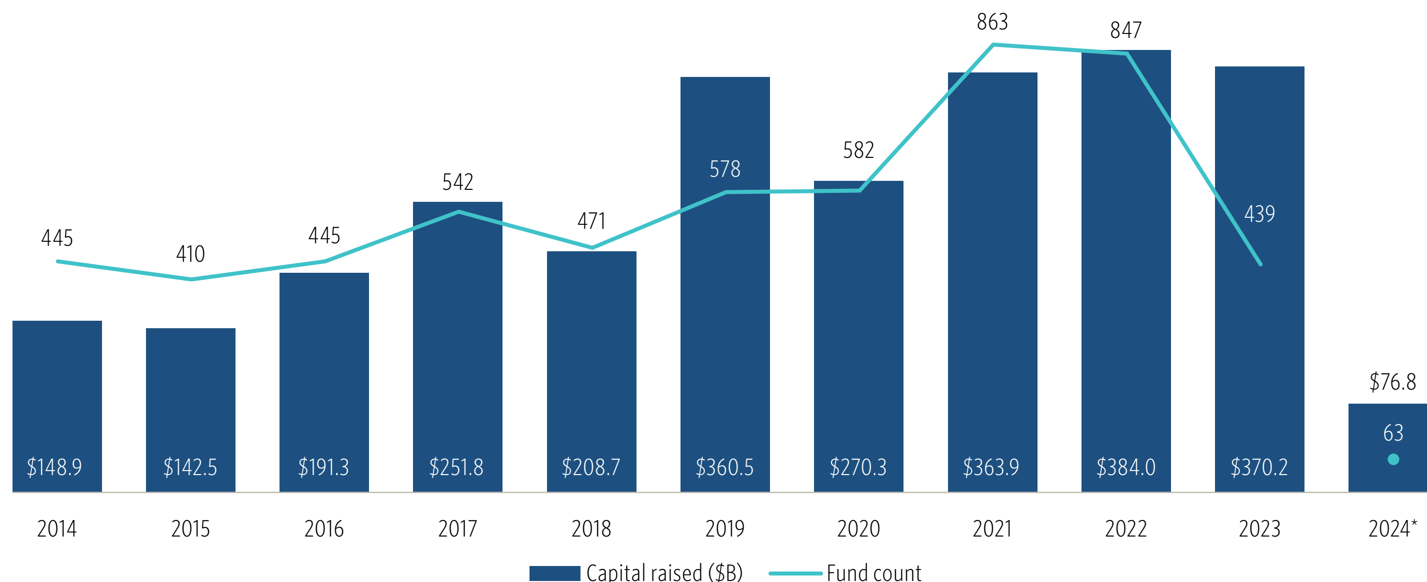
Share of PE exit value by sector



Source: PitchBook • Geography: US • *As of March 31, 2024

Fundraising

PE fundraising activity



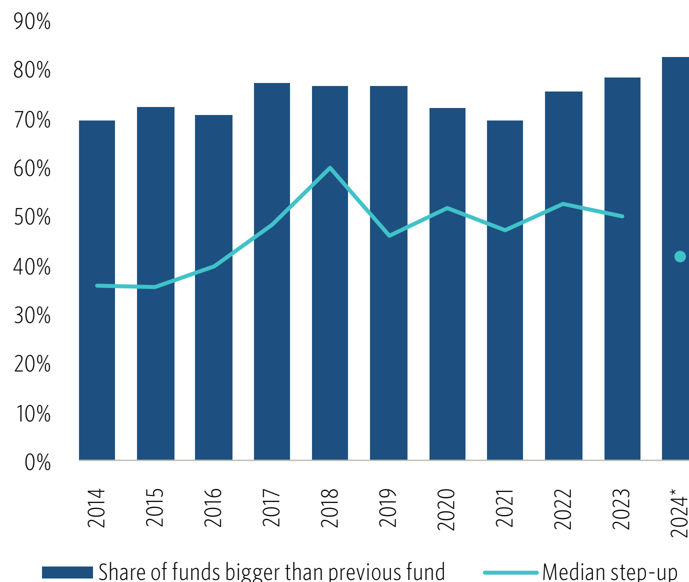
Source: PitchBook • Geography: US • *As of March 31, 2024

Overview

PE fundraising is coming off its three best years ever recorded. The overall PE fundraising environment has remained resilient in the face of headwinds that were expected to limit capital raised by sponsors, such as the denominator effect ballooning allocations to private markets and limited distributions to fuel new fundraises. To start the year, US PE closed 63 funds on $76.8 billion in Q1 2024. In comparison with the first quarter of last year, when $80.2 billion was raised, the total amount raised by closed funds remains relatively steady. This is noteworthy, especially when juxtaposed with the fact that US-based PE funds amassed just above $370 billion in 2023.

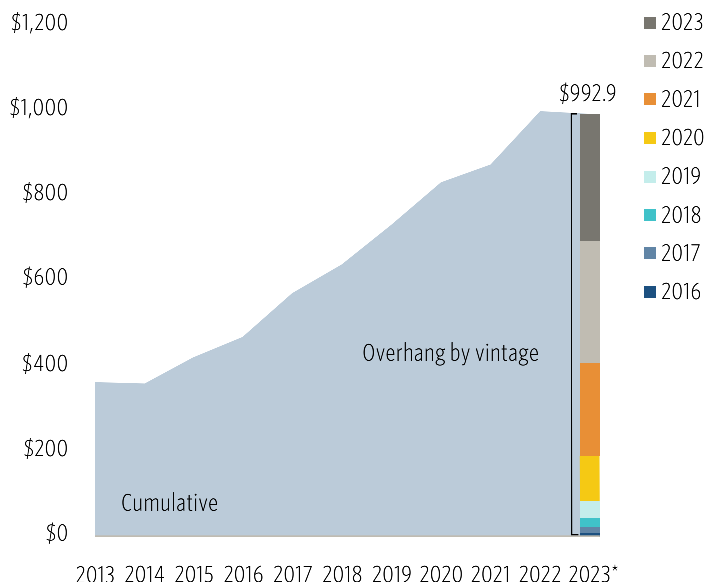
A trend that has continued has been the increased time it takes to close a fund. In 2022, the median time to close a fund sat at 11 months; this pushed higher to 14.5 months in 2023 and reached 16.8 months through the first three months of 2024. The median time between funds has also edged higher, starting at 2.7 years in 2022 and now sitting at 2.9 years through Q1 2024. Although fundraising has taken longer on average, GPs continue to achieve higher step-ups from their predecessors. Through the end of March, a record 82.4% of PE funds closed at larger sizes, surpassing the five-year average

Median step-up from previous PE fund in fund family



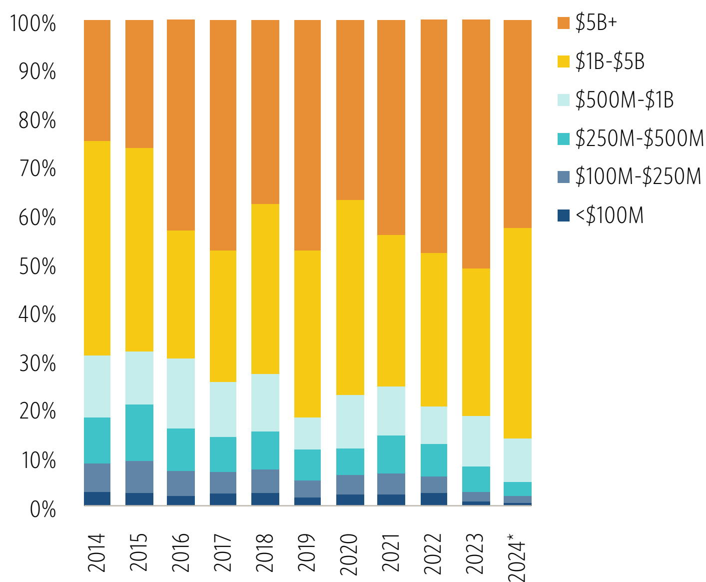
Source: PitchBook • Geography: US • *As of March 31, 2024

PE dry powder ($B) by vintage



Source: PitchBook • Geography: US • *As of June 30, 2023

Share of PE capital raised by size bucket



Source: PitchBook • Geography: US • *As of March 31, 2024

of 74.3% of funds experiencing a step-up. That being said, the median step-up size of 41.8% from the previous fund is below the five-year average of 49.4%.

In terms of fundraising by strategy, buyout funds continue to dominate and have taken share from growth equity funds in recent years. Buyout funds represented 90.3% of all capital raised in Q1, a record percentage representing an increase from 79.7% in 2023 and 76.1% in 2022. This increase came at the expense of growth equity funds, which decreased to 9.7% of the overall mix during the first quarter of 2024, down from 23.7% in 2022 and 20.2% in 2023. The tougher market conditions continue to be reflected in growth equity fundraising, which witnessed a YoY decline in Q1 fund value of 54.0%. Investor appetites have shifted away from growth at all costs in 2022 and 2023, impacting growth equity funds, and this trend has extended into 2024. Ironically, on the buy side, factors such as smaller check sizes and the absence of leverage—as growth equity relies on all-equity deal structures—have made growth equity deals increasingly attractive for investors in today's more challenging dealmaking environment.

Megafunds

The first quarter of 2024 saw three megafunds—funds of $5 billion or more—close on a combined $32.9 billion, or 42.8% of total capital raised for the quarter. The funds belonged to BDT & MSD Partners, which raised $14.0 billion for its fourth fund; TPG, which closed TPG Partners IX on $12.0 billion; and TJC, which raised $6.9 billion for The Resolute Fund VI. Over the past two years, megafunds have accounted for an average of 49.5% of total fundraising. Megafunds could take greater share in the coming months, as there are several funds currently open that have raised or are looking to raise $5 billion or more.

Headlining the list of open funds are Silver Lake, Blackstone, and Vista Equity Partners, which have amassed a combined $54.0 billion. The 10 largest open PE funds have already amassed $106.4 billion, with eight of the funds having already raised more than $5 billion for a combined $97.7 billion. Megafunds of this scale often rely on the largest pensions, endowments, and foundations for the majority of their capital, and in the past two years, many allocators have been limited in their ability to write nine- to 10-figure checks. With a multitude of colossal funds in the market and a slower exit environment reducing capital flow back to LPs, GPs have faced increasing challenges in securing commitments from LPs or closing megafunds at the same pace as in previous years. As a result, these funds are taking longer to raise. For example, of the 10 largest open funds, only one started raising capital in 2023 or after, with the remainder all listing open dates between 2021 and 2022.

Notable open funds*

Fund	Fund type	Open date	Fund size ($M)
Silver Lake Partners VII	Buyout	February 10, 2022	$19,157.6
Blackstone Capital Partners IX	Buyout	June 21, 2022	$17,852.3
Vista Equity Partners Fund VIII	Buyout	October 25, 2021	$17,000.0
Clearlake Capital Partners VIII	Buyout	June 20, 2023	$15,000.0
Platinum Equity Capital Partners VI	Buyout	October 26, 2021	$10,657.5
American Securities Partners IX	Buyout	December 12, 2022	$7,000.0
ICONIQ Strategic Partners VII	PE growth/expansion	April 28, 2022	$6,000.0
L Catterton X	Buyout	December 7, 2021	$5,000.6
Roark Capital Partners VI	Buyout	January 15, 2021	$4,624.8
Blackstone Growth II	PE growth/expansion	May 5, 2022	$4,093.7

Source: PitchBook • Geography: US • *As of March 31, 2024

Notable closed funds YTD*

Fund	Fund type	Close date	Fund size ($M)
BDT Capital Partners Fund 4	Buyout	January 12	$14,000.0
TPG Partners IX	Buyout	February 13	$12,014.0
The Resolute Fund VI	Buyout	January 31	$6,850.0
TPG Healthcare Partners II	Buyout	February 13	$3,576.0
Wynnchurch Capital Partners VI	Buyout	January 19	$3,500.0
Hunter Point Capital Fund	Buyout	March 29	$3,300.0
Cortec Group Fund VIII	Buyout	February 28	$3,200.0
Atlantic Park Strategic Capital Master Fund II	PE growth/expansion	February 15	$2,700.0
Wind Point Partners X	Buyout	March 13	$2,300.0
Valor Equity Partners VI	PE growth/expansion	March 6	$2,214.9

Source: PitchBook • Geography: US • *As of March 31, 2024

Middle-market funds

The middle market is coming off a year of robust fundraising that defied expectations and saw middle-market funds raise a collective $177.3 billion, falling just short of the record $194.3 billion and $189.9 billion raised in 2021 and 2022, respectively. Middle-market funds are those that raise between $100 million and $5 billion. Through the first quarter of 2024, middle-market managers closed on funds worth an aggregate value of $43.5 billion. In Q1, middle-market funds accounted for 56.7% of the total PE capital raised. This is below the five-year average of 62.9% seen in the first three months of the year. Over the past year, middle-market fundraising has benefited from the tougher macroeconomic landscape, as investors have gravitated toward smaller funds that focus on smaller deals. In the current landscape, smaller deals are more manageable and financing is more accessible. Additionally, the lower end of the market offers more favorable valuations, offsetting higher borrowing costs. These same factors continue to influence fundraising in 2024 and will be worth watching to see whether the middle market will reap similar benefits once more.

New sources of fundraising

A new and growing source of fundraising that many PE firms are looking to tap is the retail market.[22] Following in the footsteps of real estate and credit funds that cater to individual investors through interval and tender offer funds, PE is now stepping up. Several sponsors are already in the market with a PE retail product or are in the process of rolling out such a product. Estimated by Blackstone to be worth up to $80 trillion,[23] the retail market is one that these alternative asset managers claim is allocated to the private markets only in the low single digits. Sponsors view retail investors as the next large growth catalyst for their firms to further expand AUM. Blackstone has led the charge with its PE retail fund, BXPE, which held its first close of $1.3 billion in January. About midway through 2023, KKR launched K-PRIME and K-PEC, its US and non-US vehicles focused on PE, both part of the larger K-Series suite of products aimed at individual investors. Others, including Carlyle, are ramping up and expect to have a PE private wealth product in the market in the next several quarters.

Although not factored into our PE fundraising figures, which focus solely on primary capital formation, the fundraising activity for secondary funds is showing robust growth, predominantly targeting PE fund interests and assets for deployment. Globally, $78.3 billion was raised for secondary funds in 2023, trailing only 2020's record of $84.8 billion in capital raised. The surge in fundraising interest is due to the increasing demands for liquidity among GPs and LPs. This heightened interest has led to the emergence of larger dedicated secondary funds. 2024 has seen more follow-on from the robust fundraising of 2023. In January, Lexington Partners closed its 10th secondary fund on $22.7 billion. These secondary funds provide the feedstock for the GP-led secondary processes and the continuation-fund related exits, as discussed previously.

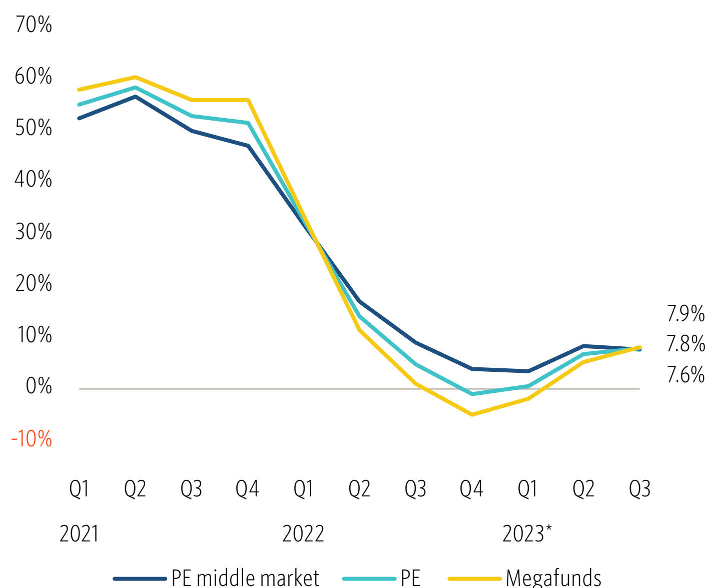
Asset gathering through acquisition

Large GPs are constantly seeking ways to expand their product offerings and increase AUM. This expansion often involves venturing into new alternative asset classes, such as private credit or infrastructure, or exploring new geographic markets. In January, BlackRock agreed to acquire Global Infrastructure Partners for $12.5 billion, the largest-ever acquisition in the alternatives space and BlackRock's largest since 2009, when it consolidated its position in the exchange-traded fund (ETF) business with a $13.5 billion deal with Barclays Global Investors. It is BlackRock's fourth acquisition in the infrastructure space—the others involve smaller managers—and it now has a combined $150 billion in private infrastructure AUM to go with the $10 trillion it has in primarily public market and ETF AUM. Similarly, General Atlantic, a growth equity investor with $83.0 billion in AUM, agreed to acquire sustainable infrastructure investor Actis, creating a global investment platform with approximately $96 billion in combined AUM. This move will position General Atlantic to unlock opportunities for investors that lie at the intersection of the energy transition and digitization.

22: For more analysis, please refer to our Q4 2023 US Public PE and GP Deal Roundup.
23: "Remastering the Universe," Forbes, February/March 2024.

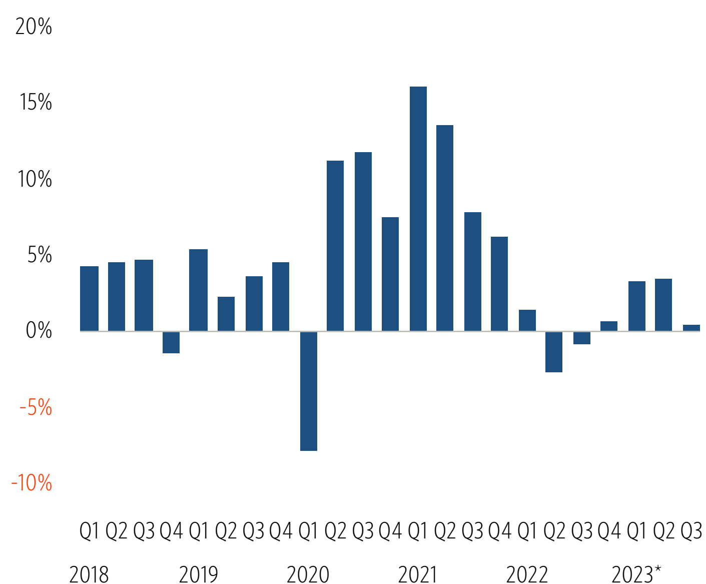
Performance

Quarterly rolling one-year PE fund performance by size



Source: PitchBook • Geography: US • *As of September 30, 2023
Note: Q3 2023 data is preliminary.

PE funds IRR by quarter



Source: PitchBook • Geography: US • *As of September 30, 2023
Note: Q3 2023 data is preliminary.

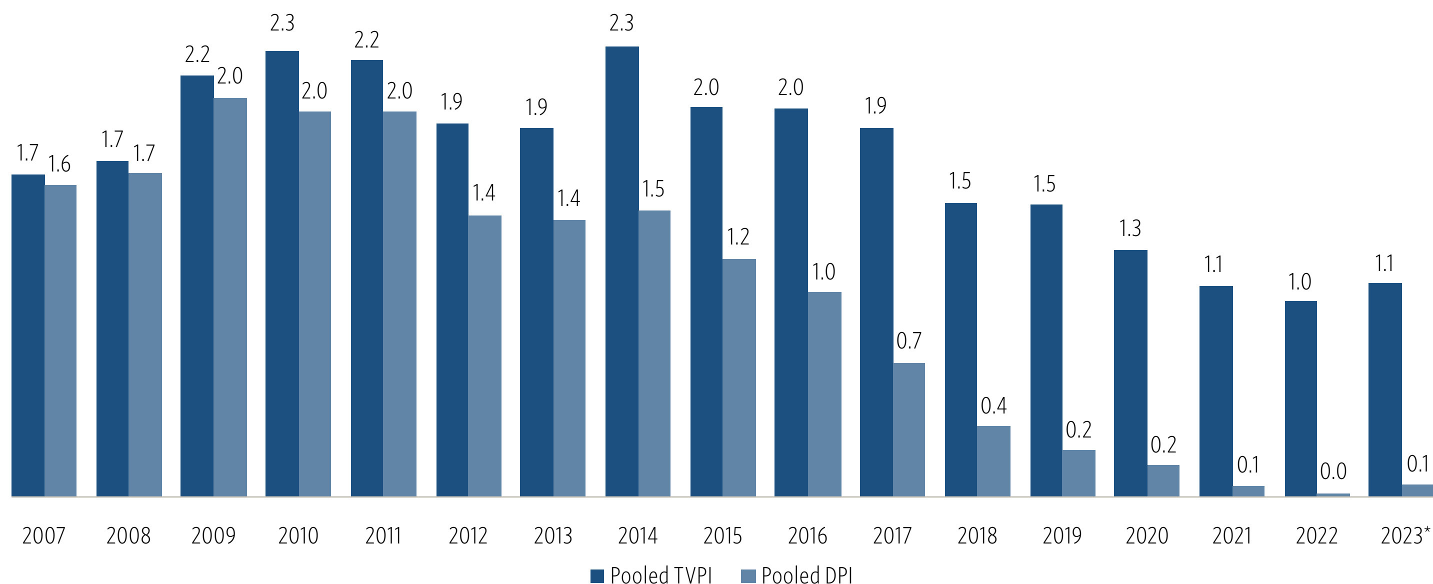
Our analysis of recent fund performance suggests that 2023 will regain double-digit returns, a welcome respite after a tumultuous 2022. We remind readers that performance reporting by private funds lags by three to six months and as a result will not reflect the positive move in public equities in Q4 2023.

Our final data for the second quarter of 2023 shows a return of 3.0%, though it falls short of the more robust 3.8% quarterly average seen during the 2017-2019 period. This illustrates a slight moderation in fund performance. Moreover, preliminary figures for Q3 2023 suggest a notable deceleration, with returns tapering off to just 0.4%, reflecting the current impact of higher financing costs on the PE sector. Pivoting to the metric of rolling one-year IRR for US PE funds through Q2 2023 reveals a more encouraging gain of 6.4%. This reflected an inflection upward from the 1.3% rolling one-year return as of Q1 yet was still well below the 2017-2019 average of 15.6%.

The six major public PE firms are a good indicator of more recent fund performance. For the 12 months ended Q4 2023, the median gross return reported by these firms in their core PE strategies was 9.8%. Here, too, Q4 performance moderated somewhat due to market uncertainty and elevated financing costs, but that was before Q4's 11.0% melt-up in the S&P 500. As a result, it is likely that net PE returns are headed back to double digits—after a long absence—once the books are closed on 2023. Still, those returns will lag public markets in 2023 by a wide margin, a reversal from 2022, when PE clung to flat returns while the S&P 500 plummeted by 19.4%.

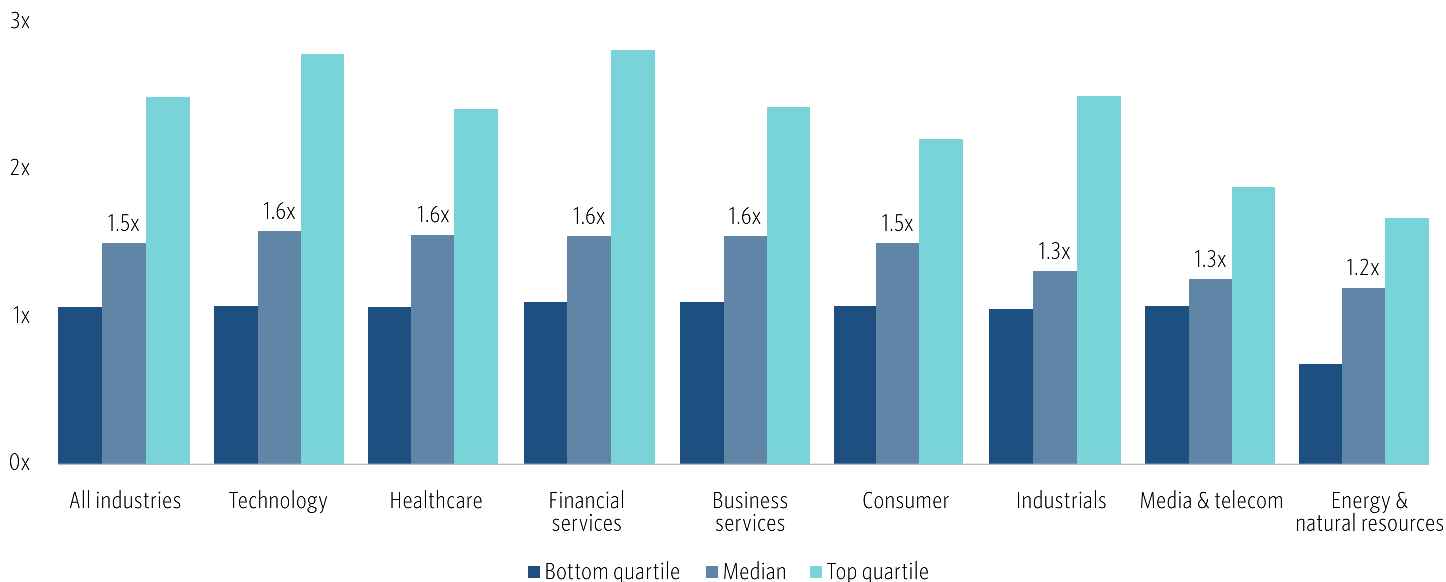
Breaking down the data by fund sizes, middle-market buyout funds outperformed megafunds for more than a year, between Q2 2022 to Q2 2023. Historically, these leadership cycles between middle-market funds and megafunds tend to run their course after one to three years before reversing again. As if on cue, based on our final estimate of fund returns for the period ending Q3 2023, one-year returns posted by megafunds outperformed middle-market buyout funds, breaking the latter's five-quarter winning streak. We expected megafunds to regain their footing concurrent with the sharp rebound in large-cap public equities, resulting in positive marks to portfolio values, and that is in fact what played out.

Total value to paid-in (TVPI) and distributions to paid-in (DPI) capital returns by fund vintage



Source: PitchBook • Geography: US • *As of September 30, 2023

Multiple on invested capital returned by sector*

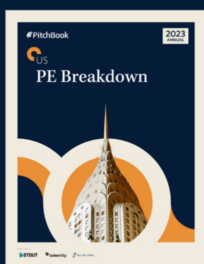


Source: DealEdge. Usage of DealEdge data outside this context, especially further publication or reprint, requires the permission of Bain & Company.
Geography: US • *As of March 25, 2024

Note: This chart includes buyout and growth deals with initial investments from 2018 to 2023. It includes fully and partially realized deals.

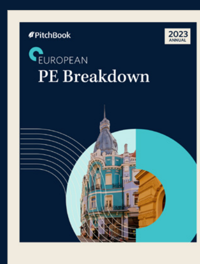
Additional research

Private markets



2023 Annual US PE Breakdown

Download the report here



2023 Annual European PE Breakdown

Download the report here

2023 Annual Global Private Debt Report

Download the report here

2023 Annual US PE Middle Market Report

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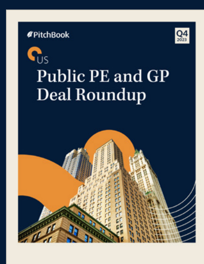
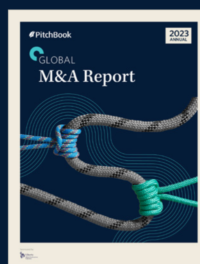


Q4 2023 US Public PE and GP Deal Roundup

Download the report here



2023 Annual Global M&A Report

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