PitchBook

Q2 2024

US PE Breakdown

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EXECUTIVE SUMMARY

Half speed ahead

For the six months ending March 2024, PE had been holding back what appeared to be a budding recovery in global M&A dealmaking. Consequently, PE share of M&A deal value plummeted to a worrisome 32.6% in Q1 2024, extending a one-year losing streak after eight years of steady gains and peaking at 44.0% in 2022. This left many observers—ourselves included—concerned as to whether PE would participate fully in the upside of an M&A rebound. In the latest quarter at least, PE appears to be joining in. PE deal activity is now tracking ahead of the prior year by approximately 12.0% through H1 2024. This has arrested the decline in PE share of dealmaking, which has stabilized at 36.8% of all M&A.

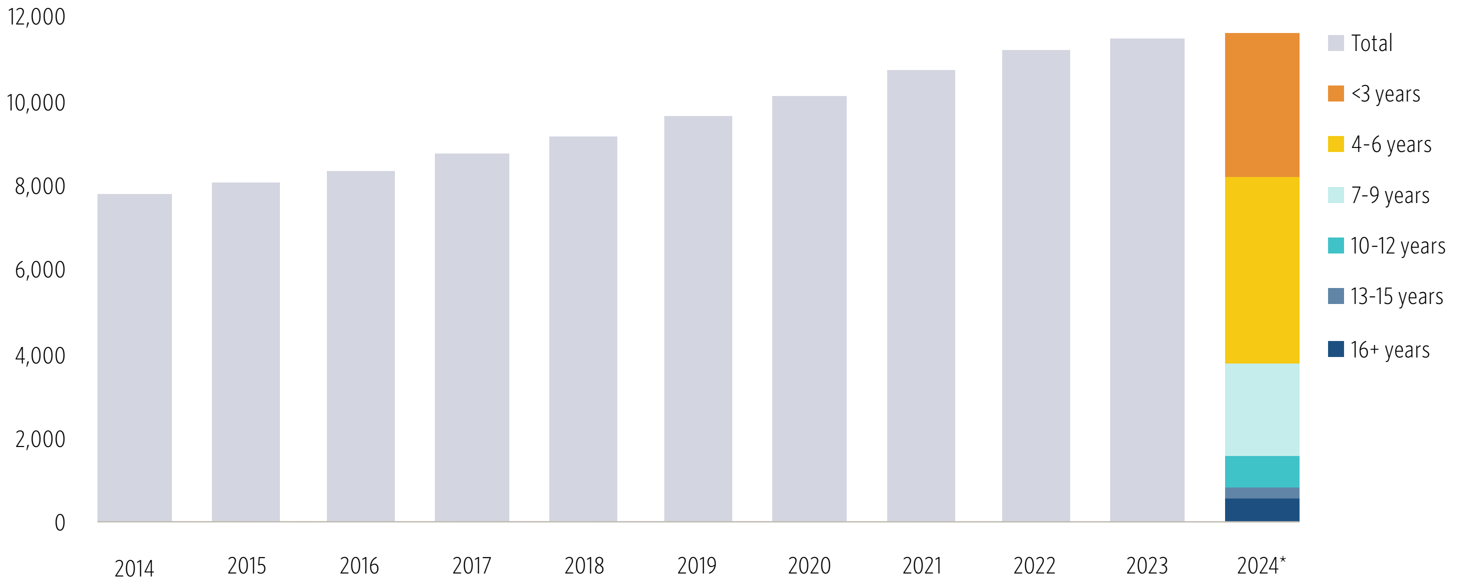
Even more encouraging, and critical at this juncture, is the lift in PE realizations. Exit activity is the key link in the PE chain of capital formation and a lead indicator of industry growth, given its knock-on effect on fundraising and dry powder. The chain has yet to break, but it is certainly getting stressed. Capital calls are outpacing distributions by more than a two-to-one factor, as highlighted by our quantitative team's March analysis in Surfing Turbulent Cash Flow Waves.

Since then, exit value has kicked into gear after being mired in a decade-plus low for all of 2022 and 2023. We are still over 50% removed from the exit volumes of 2020 and 2021, and many of these exits are partial, such as a sale and rollover of a minority stake; but half measures in a half-strength market is better than none.

PE fundraising continues to surprise on the upside at $155.0 billion YTD, although we view that metric as a lag indicator and fully expect a fade in the back half of 2024. Large fund families are on pause or wrapping up their latest flagship after being in the market for two-plus years, and as they do, they are being replaced by smaller launches. Reflecting that slowdown, PE dry powder has eased to $965.0 billion versus a peak $1.0 trillion at year-end 2022, as recent deployment has outpaced fundraising.

Lastly, there is the issue of performance. Megafunds—funds of $5 billion or more—are entering their seventh straight quarter of rolling one-year returns in the single digits, either positive or negative. This follows 40 straight quarters of rolling one-year returns in the double digits—outside of a single quarter in 2020—an incredibly consistent 10-year run. Middle-market funds have performed much better as of late, but it is megafunds that command half of the fundraising market, having grown their share of wallet every year since the COVID-19 pandemic. In Q1 2024 US PE Middle Market Report, we highlight a similar disconnect between the fortunes of big and small public companies, which are at opposite ends of the price to fair value spectrum. When the stock market rally broadens to include small cap stocks, that should do wonders for PE valuations and exits. Until then, the industry must dodge the torpedoes and move half speed ahead.

PE-backed company count by age bucket



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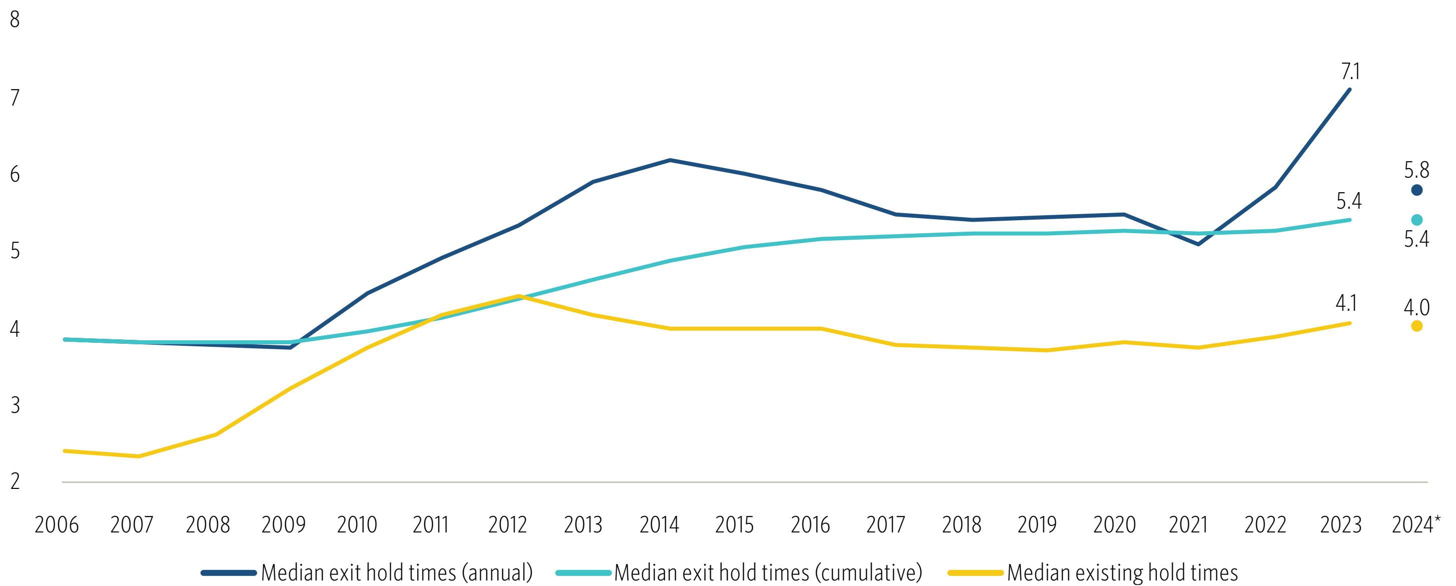
Median PE company hold times (years)



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A WORD FROM WEAVER

Private equity considers alternative deal structures in a high-interest-rate environment

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1. **How have higher interest rates affected the environment for PE deals?**

Deal flows have slowed significantly over the past year, and the rise in interest rates has changed the calculus for how PE deals are structured. Over the past 15 years, when rock-bottom interest rates made money seem virtually free, most PE deals were structured with a four- to five-year holding period and a clear exit strategy. The focus among PE firms has been on getting in and out of a deal in a relatively short period of time.

As interest rates have risen, some PE firms have begun looking at alternative deal structures and considering different tax arrangements.

2. **What are some examples of alternative deal structures that might be coming into play?**

Some deal structures that appeared uncommon as recently as a year ago are drawing attention. For example, employee stock ownership plans (ESOPs) and other employee ownership structures that have typically been considered antithetical to the goals of PE are making headlines lately. While these structures are unlikely to become a major player on the PE stage, they are intriguing in certain situations. ESOPs and PE are generally considered to be unlikely allies, but there are an increasing number of cases where they go hand in hand. It is not just about the employees but also about better returns for the PE firm as well as deal structure incentives.

3. **What is an ESOP? Can it work alongside PE?**

An ESOP is a tool for distributing ownership broadly to the employees of a company. It is an alternative buyer or exit path for those seeking to sell all or part of a business. While broad-based employee ownership can take many forms, an ESOP specifically enables unique and substantial tax benefits and efficiencies not available in an outright sale to a third party or PE firm.

Since an ESOP is a qualified retirement plan, it must own its interest in a C corporation or an S corporation. As a qualified retirement plan, ESOP owners are not taxed until they receive actual distributions. They are not taxed on flow-through income. Therefore, it is very tax efficient to combine an ESOP and an S corporation. In an ESOP-owned S corporation, the S corporation earnings can be tax-free for many years.

This tax deferral makes it attractive to finance an ESOP purchase of stock. Effectively, pretax dollars can be used to pay the selling shareholder or continue to grow the business.

Unfortunately, a PE firm is not a qualifying S corporation shareholder.

The S corporation election that enables this substantial tax benefit may appear to limit flexibility around crafting a preferred instrument familiar and attractive to PE firms. This can be solved by moving the operating company into what is commonly referred to as a "drop-down" LLC. In that case, the ESOP can own 100% of the S corporation common stock (retaining the same tax advantage) that owns a portion of

the drop-down LLC. A PE firm can invest in that drop-down LLC with the flexibility to acquire preferred and/or common units with familiar rights and features. In the case of a liquidity event, any proceeds received by the employees can be rolled into other retirement accounts without tax consequences to the employees at the time of the transaction. This is one oversimplified example of creative and effective structures that can enable mutually beneficial collaboration between PE and ESOPs.

4. **Are there other situations in which ESOPs might come into play in PE deals?**

There are several reasons PE has not traditionally considered ESOPs or broad-based ownership in deal structuring. If management and the current shareholders expect all proceeds from the PE sale, it may seem counterproductive to set up an ESOP. PE firms and management have conventionally focused on instant rewards and a short return horizon, which may appear at odds with the longer-term goals of companies that remain family held or choose the path of an ESOP or alternative employee ownership structure. But employee ownership can have a major impact on business performance and lead to future exits that create attractive returns for PE firms, management, employee owners, and family shareholders.

Because PE firms desire alignment with the management team, PE typically requires some rollover equity in transactions. PE firms also commonly grant profit interests or stock options to incentivize management to work with PE. When PE firms sell, there can be tension if the second buyer is a PE firm as well. The second buyer wants similar alignment, but management wants to participate in the proceeds. With an ESOP in place, the second PE group can reduce the ESOP's ownership, or the ESOP can remain with minimal tax consequences. For example, the ESOP could use sale proceeds to repay any remaining loans with tax-free dollars.

Another common scenario is when a business owner favors selling the company to an ESOP but desires more cash at close than an ESOP sale would typically achieve. PE (or private debt) can assist with that gap. PE firms can also partner with an ESOP-owned company to fuel acquisition growth by providing capital. Whether an ESOP is at the center of a succession strategy or a component of a more complex strategy, it can provide unmatched tax efficiency and drive superior business performance—both of which are crucial in today's interest rate environment.

PE may also appreciate the flexibility ESOPs provide as a ready buyer of company stock. Should PE need a partial or full exit, the ESOP may be able to provide a return on the capital the PE firm has invested by offering fair market value for the interest in a negotiated transaction.

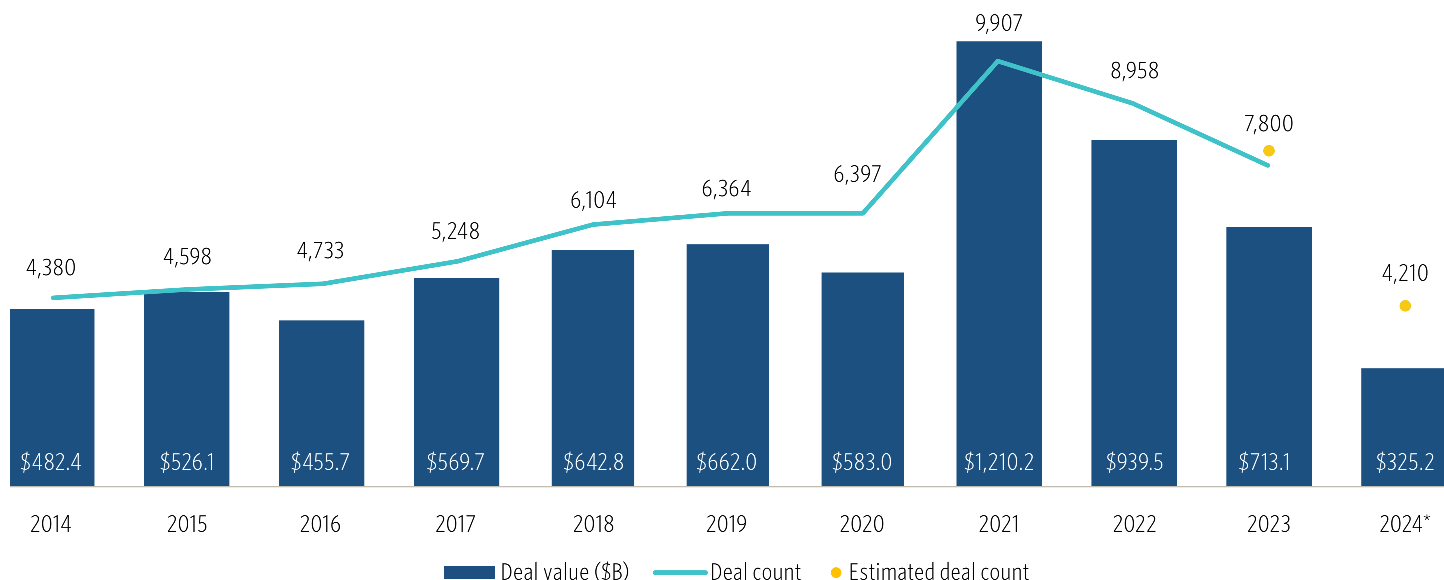
5. **How do PE firms ensure alignment between the interests of employee owners and their own investment goals?**

ESOPs, and other forms of broad-based employee ownership, align employee's and PE's financial interests in the betterment of the company. Whether the time horizon is short term or long term, PE firms and employees focusing on improvement and increased margin will create better financial outcomes for both parties.

KKR, one of the largest PE firms in the country, has implemented a form of employee ownership in more than 40 of its portfolio companies and has signaled this as a continued trend. Blackstone, another large PE firm, has committed to broad-based employee stock grants that would impact roughly 18,000 employees of a portfolio company as well as similar programs in future deals. KKR's Pete Stavros created Ownership Works, a nonprofit that exists to promote the model. To date, nearly 20 PE firms are involved with Ownership Works.

Deals

PE deal activity

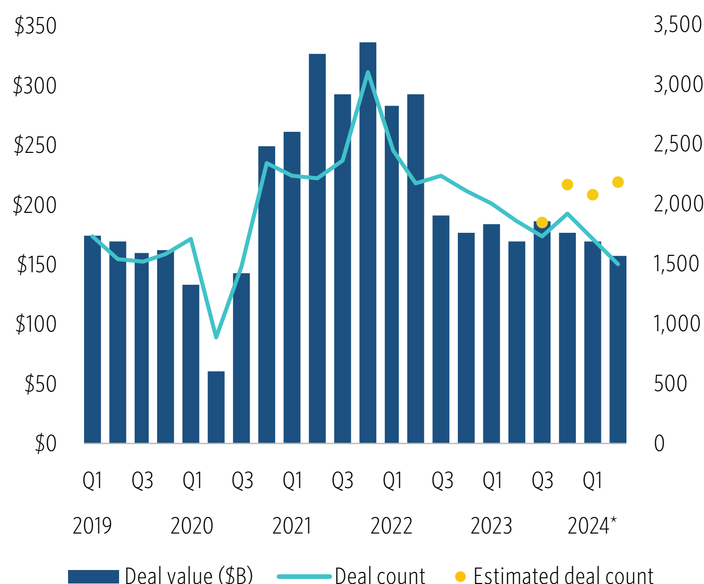


Source: PitchBook • Geography: US • *As of June 30, 2024

Overview

Including our estimate of late reporting deals, US PE dealmaking in H1 2024 advanced by approximately 12.0% YoY both in count and dollar terms. This follows a stabilizing trend over the past several quarters. When the dust finally settles, we expect deal value to top $415.0 billion across more than 4,000 deals that were announced or closed in the first half of the year, the best six month stretch since 2022 when the dealmaking was on its way down. We believe we are now on the way up, given that M&A is six months into its own recovery that was held back by sluggish PE deployment. Dollar volumes are still 46.2% removed from the peak quarters of 2021. That said, deal value and count in 2024 are significantly above the "old normal" quarterly levels of 2017 to 2019 by approximately 25% to 45%, respectively.

PE deal activity by quarter



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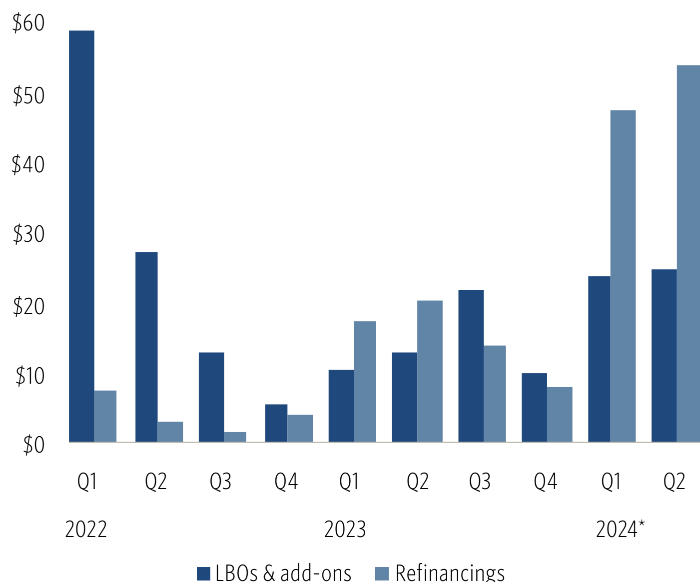
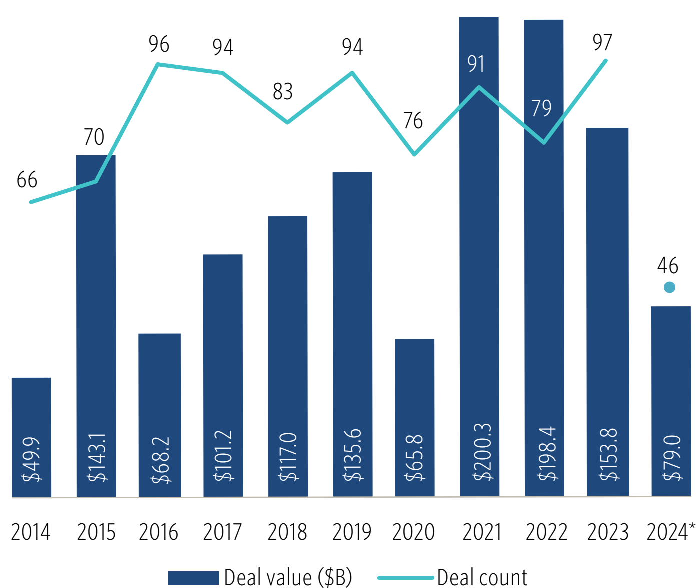
Platform LBO deals are starting to stabilize after being constrained by reduced access to debt and higher borrowing costs—both of which improved as the leveraged finance market fully reopened in recent quarters. That being said, platform LBO share of all PE deals decreased to 19.3% in Q2 from 19.9% for all of 2023. Conversely, share of PE deal value improved to 47.6% in Q2 after collapsing to a low of 44.8% in 2023. Leverage ratios continue to reflect tight conditions relative to their historical norm but are bouncing off last year's lows. Debt/enterprise value (EV) ratios on new leveraged loans moved up to 46.2% in Q2 from 45.7% for all of 2023, though it remains below the 10-year average of 53.4%. Debt/EBITDA ratios also improved to 5.2x in Q2 but remain below a 10-year average of 5.6x.

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



Source: PitchBook | LCD • Geography: US • *As of June 30, 2024

PE take-private deal activity



Source: PitchBook • Geography: North America and Europe • *As of June 30, 2024

The bank-led broadly syndicated loans (BSL) market—which faded at the end of 2023 with just $9.8 billion in Q4 volume backing new sponsor-backed deals—came roaring back in H1 2024 with $48.1 billion in new-issue volume. The BSL market fully reopened for sponsor-backed refinancings (refi). 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 H1, refi volumes for PE borrowers outpaced PE loans for M&A purposes (platform LBOs and add-ons) by a two-to-one margin, or $100.9 billion versus $48.1 billion, respectively. Historically, the reverse has been true with new M&A-related loans typically exceeding refi loans by four-to-one. The tightening of spreads in the BSL market partly led this surge, as PE borrowers attempt to lower their borrowing costs. Strong demand for collateralized loan obligations also contributed to the increase in refi volume.

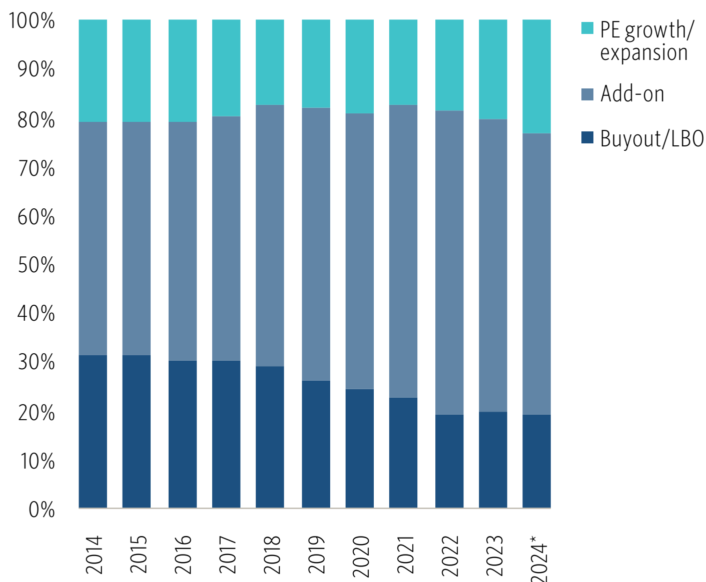
Take-privates

Take-privates rebounded strongly in Q2 2024 after fizzling in Q1. Last quarter, take-privates took a decidedly small cap turn, where valuations were still very compelling. Of the 21 take-private deals announced or completed in North America and Europe in Q1, 16 were sub-$1 billion in size, or 76.1%. With borrowing costs notching lower in the leveraged loan and private credit markets, and lower base rates in view for the US and already in place for the eurozone, the appetite for large take-private deals reawakened with a vengeance in Q2. Total deal value surged to $61.2 billion in Q2, up from $15.6 billion in Q1 and the highest quarterly total in two years. This reversed a four-quarter slide in take-private deal value; at the same time, stocks have surged, making these deals more expensive.

Topping the list of take-privates was Silver Lake's blockbuster acquisition of Endeavor Group, the global sports and entertainment company. The company is also the majority owner of TKO, which trades separately and operates the UFC and WWE entertainment brands. The transaction is being billed as the largest PE-sponsored take-private transaction in 10 years, with a combined enterprise value of $25 billion inclusive of the company's 51% ownership interest in TKO. The equity value of Endeavor on a standalone basis is $13 billion. It is unknown whether TKO will remain public or also go private. Endeavor has been in play since October 2023 when the company announced it was reviewing strategic options, including a take-private. The company only went public in 2021 at price per share of $24.00 per share, and now it is going private at $27.50 per share, a significant premium to where the shares recently traded but relatively unchanged from the IPO.

The Endeavor journey from private to public and back to private again—what we refer to as a "boomerang" stock—has a familiar ring to it when comparing with other public companies that opted to go private in 2024. This is actually the second major chapter of Silver Lake's involvement in

Share of PE deal count by type



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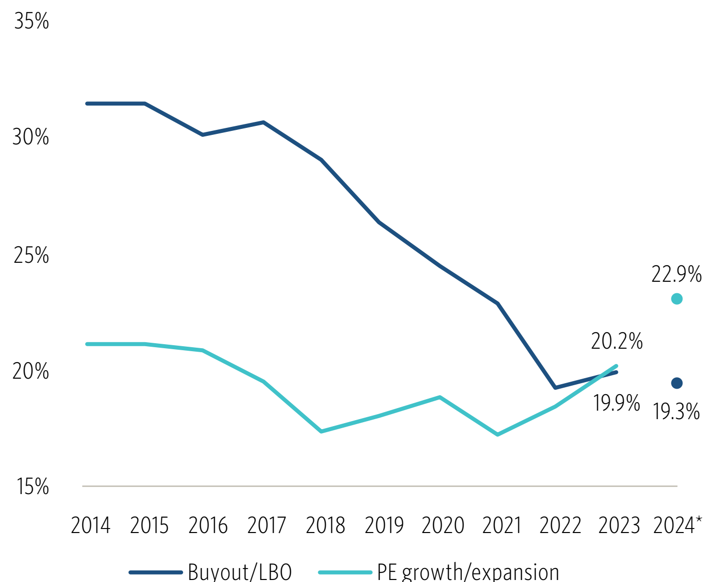
Platform LBO and growth equity as a share of all PE deals



Source: PitchBook • Geography: US • *As of June 30, 2024

the company. It has been an owner of the company, either majority or minority, since first investing in the company in 2012, followed by another five direct investments on the way to majority ownership and the IPO exit in 2021. However, the term "exit" can be deceiving. PE backers are often locked into place with restricted stock that is not free to trade for another six months or longer, and even then, often requires multiple secondary offerings spanning years in order to fully exit.

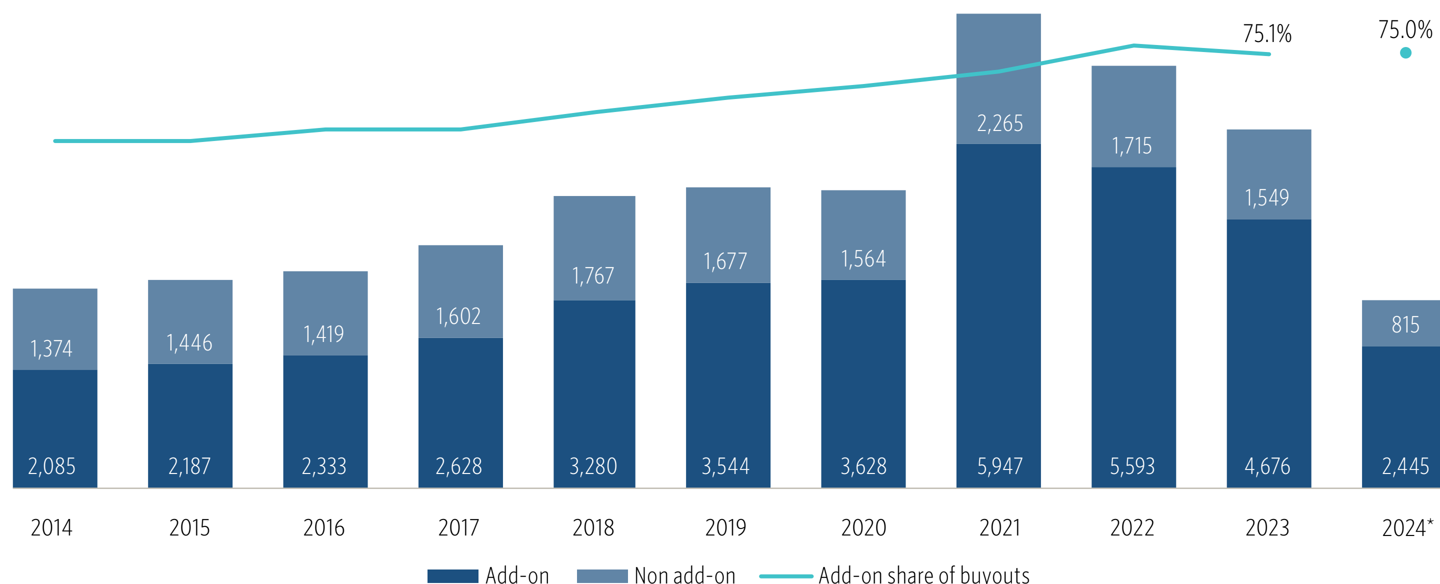
Prior to the take-private announcement, Silver Lake still owned approximately 30% of Endeavor stock and 70% in voting power. Its decision to take the company private reflects a growing disenchantment among other PE owners of portfolio companies that have gone public only to see their capital trapped at depressed valuations. Those owners are either cutting short the public life of these companies and taking them private through their own control positions, or they are selling them to other PE firms and rolling equity into a minority position in the new private company to preserve upside.

These partial exits and repatriations of public companies to private markets are becoming more common. In the $5.6 billion take-private of PowerSchool, Vista and Onex held 70% of the stock as of the deal announcement, and they will continue to own minority stakes after the deal is completed. In the $2.5 billion take-private of Agiliti Health, Thomas H. Lee Partners still owned 75% of the stock in the end and opted to acquire the 25% it did not already own. Likewise, General Atlantic and Stone Point owned 75% of NYSE-listed HireRight and opted to acquire the remaining 25% from other shareholders, valuing the company at $1.6 billion. Like Endeavor, all three companies went public through IPOs in 2021 only to go private again. All told, of the 45 in North America and Europe, 17 were "boomerangs" from the class of 2020 to 2022 IPOs and deSPACs, or nearly 40%. Going public is not all it is cracked up to be, at least for these PE owners.

Add-ons

In the second quarter of 2024, add-on transactions accounted for a significant 77.4% of all PE buyouts, marking an increase of 226 basis points over the 2023 average. This trend highlights the ongoing strategic emphasis on consolidation and operational synergies within the PE sector. Despite this strength, our analysis forecasts a stabilization in this trend, with little room for further growth as we move into the latter half of 2024. Anticipated lower interest rates could spur a resurgence in overall deal activity; however, this increase may lead to a "crowding-out" effect, reducing the relative share of add-on transactions. It is worth monitoring these statistics closely, as they could signal the early signs of a broader recovery in dealmaking.

Add-ons as a share of all PE buyouts



Source: PitchBook • Geography: US • *As of June 30, 2024

Since the commencement of the interest rate hikes in 2022, add-on acquisitions have become pivotal in maintaining the momentum of the PE sector during a period marked by tightened credit conditions and heightened market volatility. These transactions, typically involving smaller capital outlays, have allowed PE sponsors to continuously invest capital in smaller, more manageable deals. This strategy is particularly effective in the current lending climate, which often limits the feasibility of executing larger platform buyouts.

Add-ons have long been favored within the PE industry for their relative financial ease of entry and smaller scale, as well as the ability to leverage the existing credit facilities of larger platform companies that acquire them. In the face of recent economic pressures, the role of add-on transactions has grown even more crucial. They not only offer a viable pathway for PE firms to strategically deploy capital but also enable them to navigate through challenging financial landscapes while still pursuing growth and consolidation strategies.

Larger add-on deals in the quarter included those in the Healthcare and IT sectors. Medline Industries, via its financial sponsors, agreed to acquire the Global Surgical Solutions unit of Ecolab in a $950 million add-on transaction in April.[1, 2] Through this acquisition, Medline Industries intends to expand service offerings and share legacy of products. The company provides equipment for surgeons and patients to ensure a sterile surgical environment. The deal will bolster Medline's design and development capabilities to support original equipment manufacturers customers. Entitle—offering software for cloud access management—was acquired by BeyondTrust,[3] via its financial sponsors Clearlake Capital, Francisco Partners, NB Private Equity Partners, and Olam Capital, in April for an estimated $125 million. The acquisition bolsters BeyondTrust's product range for solutions to privileged access management and cloud infrastructure entitlement management.

Carveouts

In 2024, numerous large-scale corporations have been strategically streamlining their operations by shedding noncore units that no longer offer upside to their financial performance. This tactic, reminiscent of professional organizing consultant Marie Kondo's philosophy of focusing on what sparks joy, allows these companies to concentrate more effectively on promising growth areas. To facilitate these divestitures—which include transferring employees, buildings, equipment, and intellectual property—companies undertake thorough analyses to redefine their business narratives and strategies, excluding the nonessential units. This process is typically driven by the opportunity to engage

1: "Medline To Acquire Surgical Solutions Business From Ecolab, Inc.," Medline, April 30, 2024.
2: "Ecolab Delivers Very Strong First Quarter Performance; Reported Diluted EPS $1.43; Adjusted Diluted Eps $1.34, +52%; Increased 2024 Adjusted Diluted EPS Outlook: $6.40 - $6.70, +23% - 29%," Ecolab, April 30, 2024.
3: "BeyondTrust Acquires Entitle, Strengthening Privileged Identity Security Platform With Paradigm Shifting Just-In-Time Access and Identity Governance," BeyondTrust, April 16, 2024.

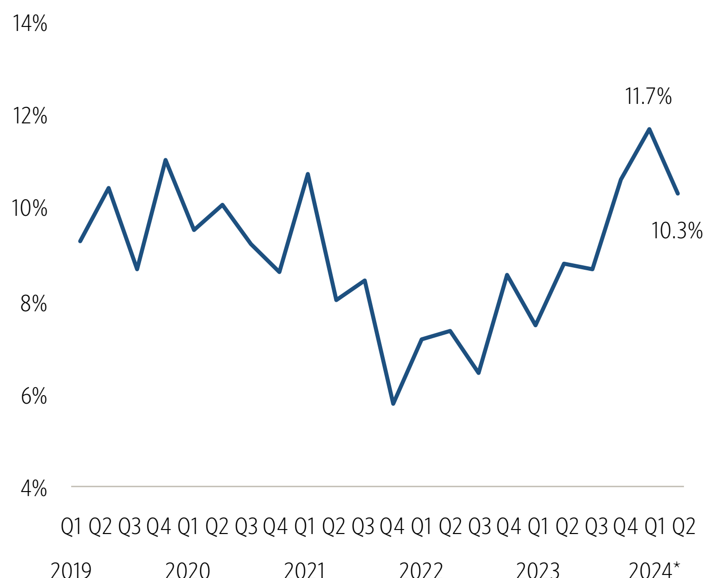
investors with a refreshed dialogue and revised financial estimates that promise to enhance shareholder value.

GPs find these carveout opportunities particularly appealing. Amid a challenging market with few willing sellers where valuation expectations meet those of the buyer, GPs are eager to bid on these transactions. They capitalize on the relatively easier financing conditions and apply their turnaround expertise to maximize the value of the acquisitions. These acquired entities often serve as platforms for new growth or integrate synergistically with existing operations, enhancing both scale and efficiency. Such strategic maneuvers enable GPs to effectively navigate the complexities of the current market, achieving significant expansion and improved performance.

Carveouts accounted for 10.3% of all US PE buyout deals in Q2 2024, down from a peak of 11.7% in the previous quarter—the highest since Q2 2016. This moderation aligns with expectations that the proportion of carveout deals will stabilize around 10%, consistent with the 10-year average. While these transactions have recently been prominent in the PE landscape, a resurgence in traditional buyout activities could lead to a crowding-out effect, likely resulting in a diminished share of carveouts.

In Q2, there were large carveout transactions in the IT and financial services sectors. Synopsys reached an agreement to sell its Software Integrity Group business to Clearlake Capital Group and Francisco Partners for up to $2.1 billion if a $475 million earnout provision is achieved.[4] The business unit's existing management team is expected to lead the newly independent application security testing software vendor with a new name to be determined. Ambac Financial Group agreed to sell its legacy financial guarantee business to Oaktree Capital Management Assurance for $420 million in cash.[5] This transaction will advance Ambac's plan to transform into a profitable specialty property & casualty insurance platform. Oaktree will also receive warrants to acquire up to $9.9% of Ambac common stock at a strike price of $18.50—a premium relative to the share price at deal announcement—enabling the buyer to participate if there is upside from the refocused former parent company.

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



Source: PitchBook • Geography: US • *As of June 30, 2024

Technology

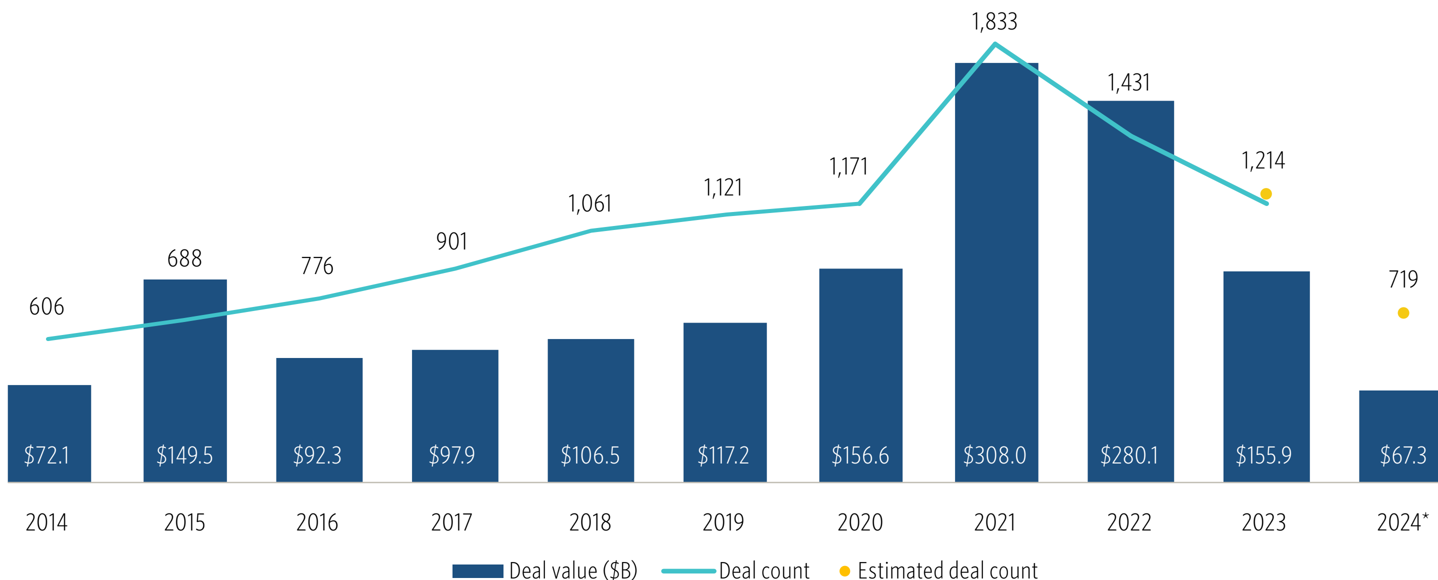
In Q2, the technology deal landscape exhibited mixed trends. Examining deal values, we observed relatively soft activity with total deal value amounting to $32.7 billion. This represents a decline of 5.6% QoQ and a sharper decline of 8.2% YoY. These figures highlight the inherent lumpiness of deal closings and the caution surrounding financing large deals ahead of the anticipated better rate environment in the coming quarters.

However, deal volume metrics painted a more optimistic picture with growth evident. A total of 405 technology PE deals were recorded for the quarter, marking an increase of 27.0% from the prior quarter and a growth of 42.6% compared with the same period last year.

Double clicking specifically on the software segment showed signs of recovery in dealmaking conditions. Software PE deal value reached $22.2 billion, up a strong 55.0% QoQ and 7.6% YoY, bolstered by a large take-private deal, noted below.

4: "Synopsys Enters Definitive Agreement To Sell Its Software Integrity Business to Clearlake Capital and Francisco Partners," Synopsys, May 6, 2024.
5: "Ambac Financial Group, Inc. To Sell Legacy Financial Guarantee Business to Funds Managed by Oaktree Capital Management, L.P.," Ambac, June 5, 2024.

Technology PE deal activity



Source: PitchBook • Geography: US • *As of June 30, 2024

Volume metrics also reflect improving dealmaking activity. A total of 253 deals were announced in Q2, representing a 20.7% increase QoQ and a 40.0% increase YoY. While technology deal activity can be lumpy, we view the strength as encouraging. The gains in Q2 software deal activity suggest a positive trend and a favorable setup for increased volume in the latter half of 2024.

There were several mega IT deals in software in the quarter. PowerSchool—a global education technology software vendor—agreed to be taken private, with Bain buying out public investors, and existing PE holders Vista and Onex rolling forward equity for an EV of $5.6 billion.[6] Perficient—a global IT consulting firm offering big data analytics, management consulting, custom applications, and technology platform implementations—agreed to be taken private by EQT in a $3.0 billion LBO.[7] The purchase price of $76.00 per share in cash represents a 51% premium to the 30-day volume-weighted average share price for the period ending April 29, prior to the transaction announcement on May 5.

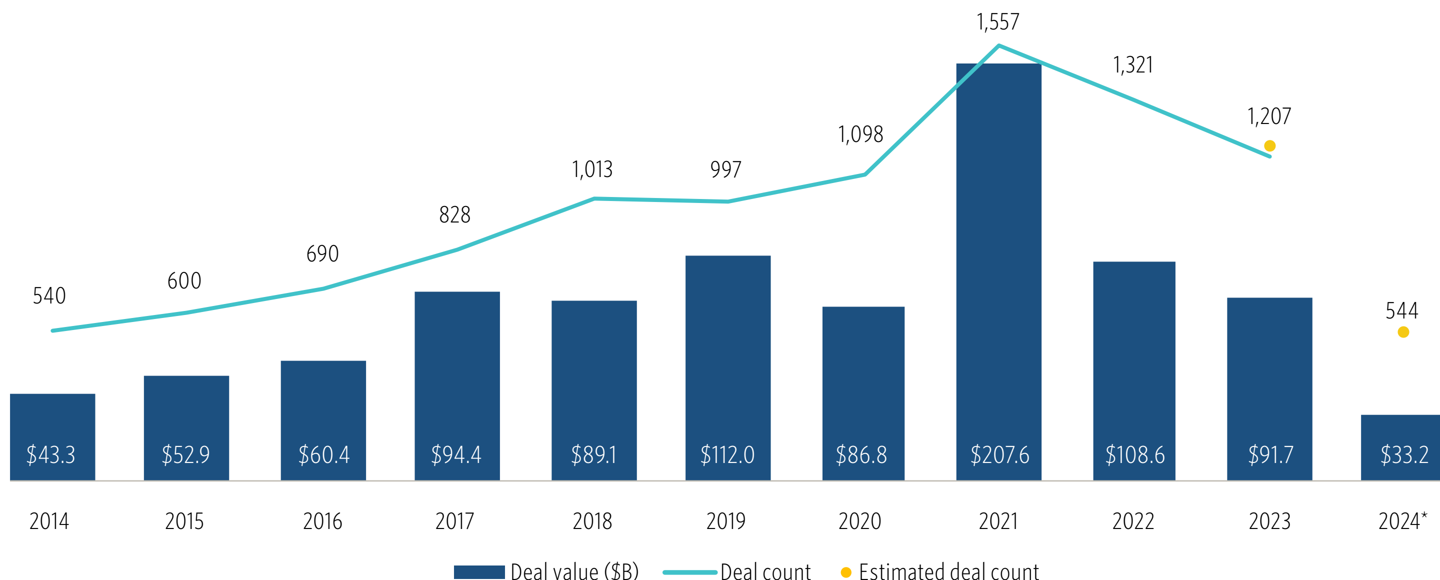
Healthcare

Healthcare PE activity was relatively light in Q2, and healthcare accounted for just 10.0% of total PE deal value in the quarter, below the five-year quarterly average of 15.0%. Healthcare contributed 12.3% of deal count in the quarter, however, this was closer to the longer-term trend and indicates more deals are getting done down market. Cotiviti's $5.6 billion recapitalization by KKR and Veritas was one of the largest deals to close in the second quarter, though this occurred a year after Carlyle was unable to reach an agreement to acquire 50% of the business from Veritas. In May, Thomas H. Lee Partners completed its take-private of medical equipment management vendor Agiliti at a $2.5 billion valuation. Apart from these, there were no other reported $1 billion-plus transactions in Q2, implying ongoing valuation gaps between buyers and sellers.

Though strategic spin-offs have subsided, large corporates are still seeking out opportunities to divest from noncore business units. On April 11, Steris announced an agreement to sell its HuFriedyGroup dental equipment business to Peak Rock Capital for $787.5 million, with proceeds primarily used to reduce leverage. If debt service continues to remain expensive alongside elevated interest rates, looming debt rollovers could lead to further divestments, or at minimum, less desire from strategics to take on further leverage to fund new acquisitions. Still, improved business unit performance can impact spin-offs and change the decision-making process, as shown by Medtronic's willingness to retain its patient monitoring and respiratory businesses after initially announcing a divestment of those units.

6: "PowerSchool To Be Acquired by Bain Capital in $5.6 Billion Transaction," PowerSchool, June 7, 2024.
7: "Perficient To Be Acquired by EQT for Approximately $3.0 Billion," Perficient, May 5, 2024.

Healthcare PE deal activity

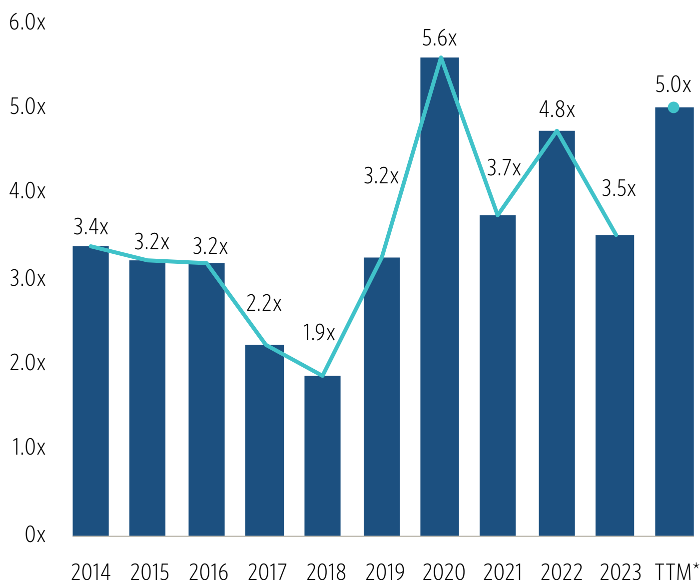


Source: PitchBook • Geography: US • *As of June 30, 2024

Healthcare services dominated the list of Q2 2024 PE deals with over 60% of healthcare transactions. While the healthcare services sector continues to account for the majority of PE deal flow, we expect headline risk and antitrust scrutiny to shift some of this investment into other healthcare sectors. Pharma has been a strong area of interest for PE sponsors as they seek out M&A-heavy strategies such as trial site businesses. In Q2, a number of platform deals in pharma services closed including InTandem Capital Partners' acquisition of Adams Clinical; The Riverside Company's acquisition of CRIO; and Arsenal Capital Partners' acquisitions of Endpoint Clinical and Fortrea Patient Access.

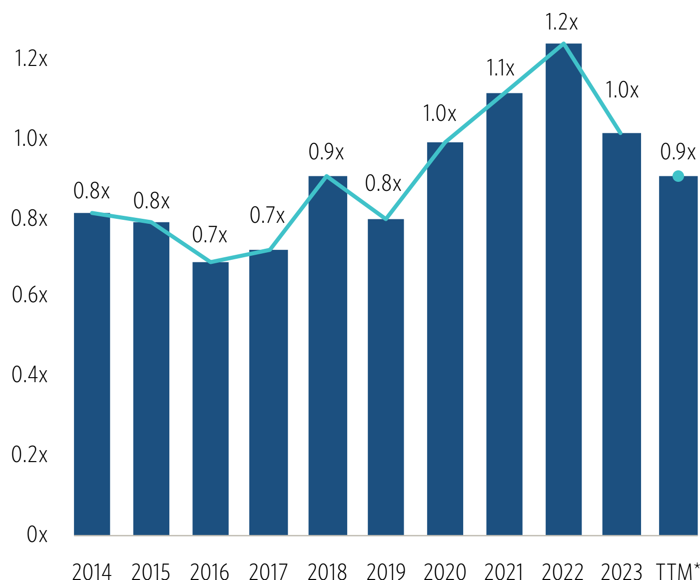
Sponsors are likely increasingly interested in peptide manufacturing as demand for GLP-1 weight loss drugs such as Ozempic stays strong. PE ownership is a good match for drug manufacturing, with greater business consistency compared to individual drugmakers that face both patent and competition risks. Still, high valuations in metabolic health could be an offset to meaningfully higher deal flow, and many businesses currently for sale could have been bought for more reasonable prices just a few years ago. For healthcare broadly, uncertainty around interest rate decisions and the looming election season—with implications for antitrust in 2025—are additional factors that could hold back large platform deal announcements in the near term.

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



Source: PitchBook • Geography: North America and Europe • *As of June 30, 2024

Median EV/revenue multiples on deals below $25 million



Source: PitchBook • Geography: North America and Europe • *As of June 30, 2024

Valuations

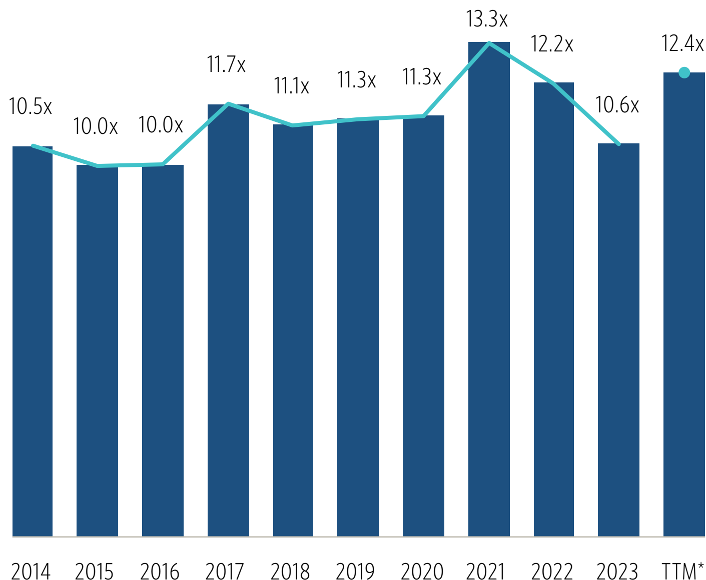
PE valuations reached their apex in 2021 and have declined sharply since. Closing out 2023, deal multiples declined somewhere between 20% to 30% from their peak—depending on the yardstick used (EBITDA or revenue)—and unlike the overall M&A market, there were no signs of bottoming. Most of that damage was done in calendar-year 2023, in contrast to the broader M&A market, which reset sharply in 2022 and bounced slightly in the following year. That firming trend appears to have spread to the PE ecosystem on a delayed basis, although the picture is still mixed. The median EV/EBITDA multiple on PE deals for the trailing 12-month (TTM) period ending Q2 2024 rose to 12.4x, from 11.9x as of Q1 2024.

It remains to be seen how much of the firming trend in EBITDA multiples is attributable to sellers bringing to market only their most prized assets where a good realization and solid bid are more certain. A truer test may come when M&A broadens out. That said, a reversal in the sharp decline in EBITDA deal multiples is another welcome sign that we may be closer to the bottom of the PE dealmaking cycle.

We defer to EV/revenue multiples as a broader gauge of valuation trends and as a proxy for technology especially, given that EBITDA metrics in that sector are often not meaningful. Revenue multiples saw a much more aggressive run-up to the peak reached in 2021 and a much faster descent thereafter. In Q1 2024, we saw initial signs of distressed selling and capitulation. EV/revenue multiples lurched downward to 1.4x from a median TTM of 2.0x at the beginning of the quarter. We normally do not extrapolate three-month trends in multiples given the volatility of the data, and we were keen to see evidence of any follow-through in Q2. The snapback in Q2 multiples to a median of 1.9x indicates that the storm may have passed for now, and we suspect it reflects the breathing room gained from lower borrowing costs and the halo effect from strong public markets.

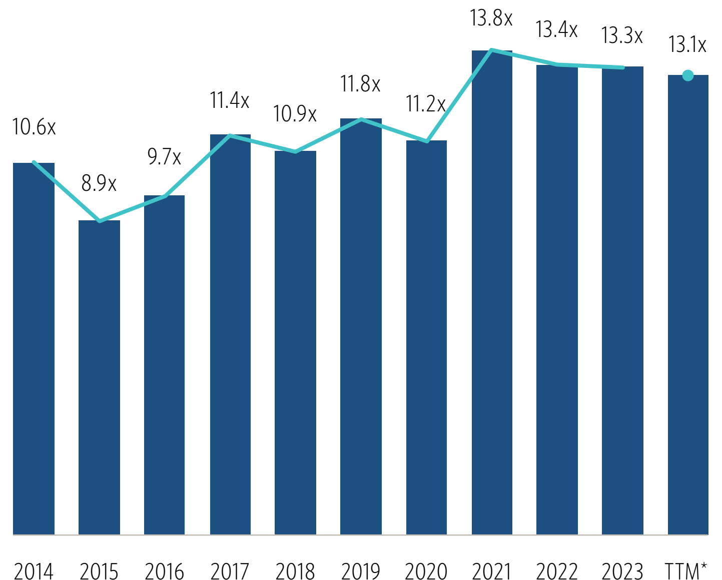
Deal valuation metrics

Global PE EV/EBITDA multiples



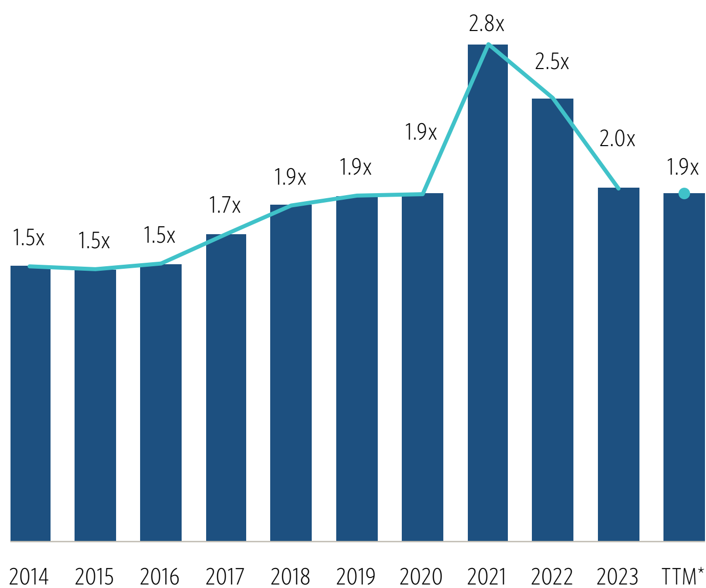
Source: PitchBook • Geography: North America and Europe • *As of June 30, 2024

US PE EV/EBITDA multiples



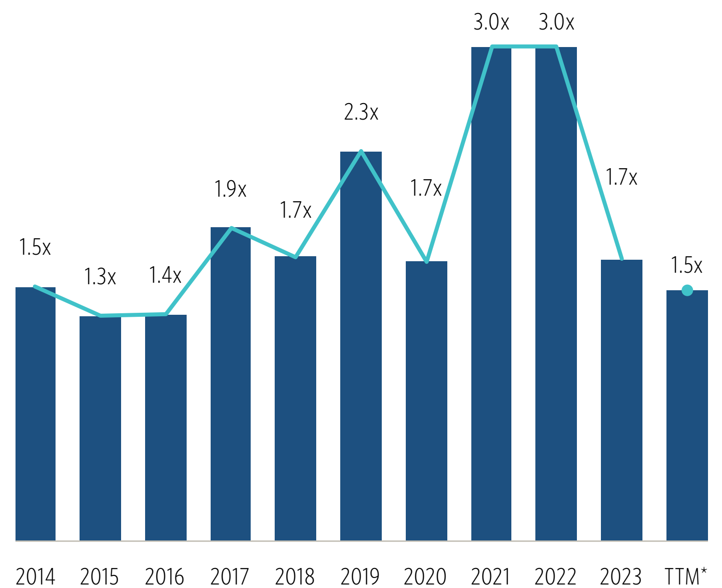
Source: PitchBook • Geography: US • *As of June 30, 2024

Global PE EV/revenue multiples



Source: PitchBook • Geography: North America and Europe • *As of June 30, 2024

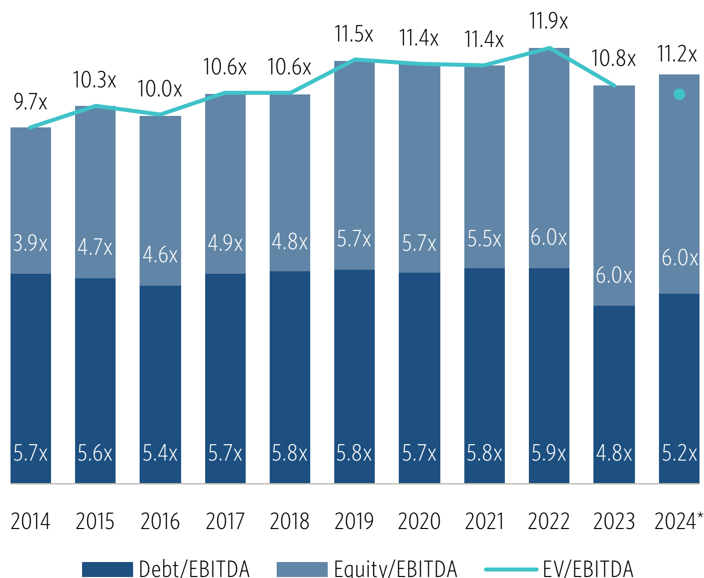
US PE EV/revenue multiples



Source: PitchBook • Geography: US • *As of June 30, 2024

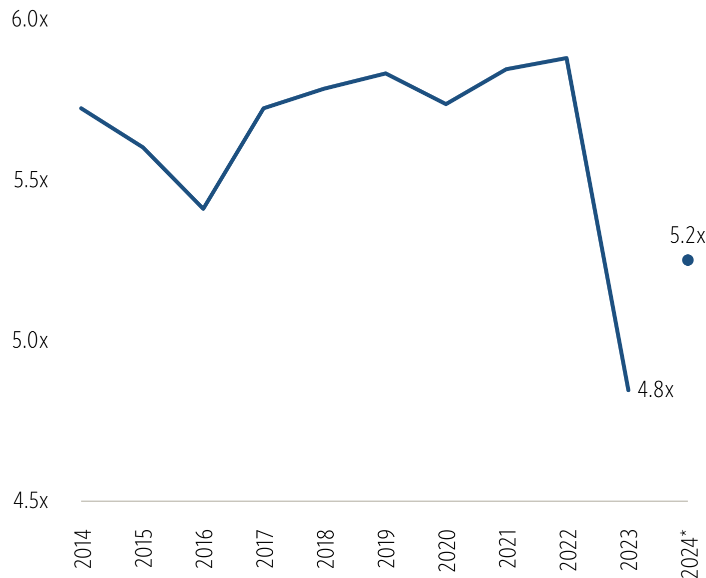
Deal financing metrics

Multiples on BSL-funded deals



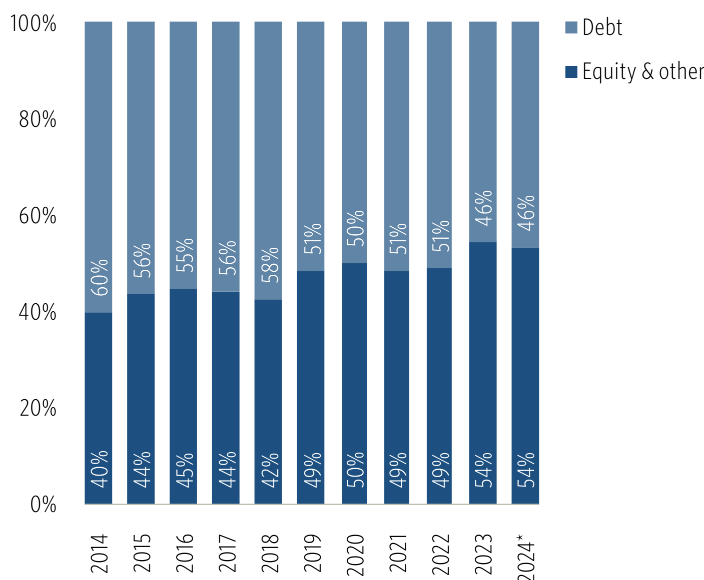
Source: PitchBook | LCD • Geography: US • *As of June 30, 2024

Debt/EBITDA multiples on BSL-funded deals



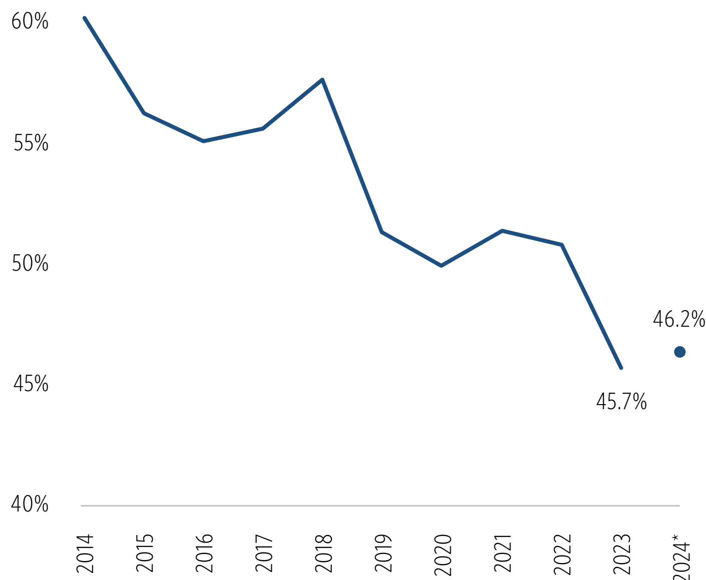
Source: PitchBook | LCD • Geography: US • *As of June 30, 2024

BSL-funded deal value by source



Source: PitchBook | LCD • Geography: US • *As of June 30, 2024

Debt/EV ratio on BSL-funded deals



Source: PitchBook | LCD • Geography: US • *As of June 30, 2024

PitchBook
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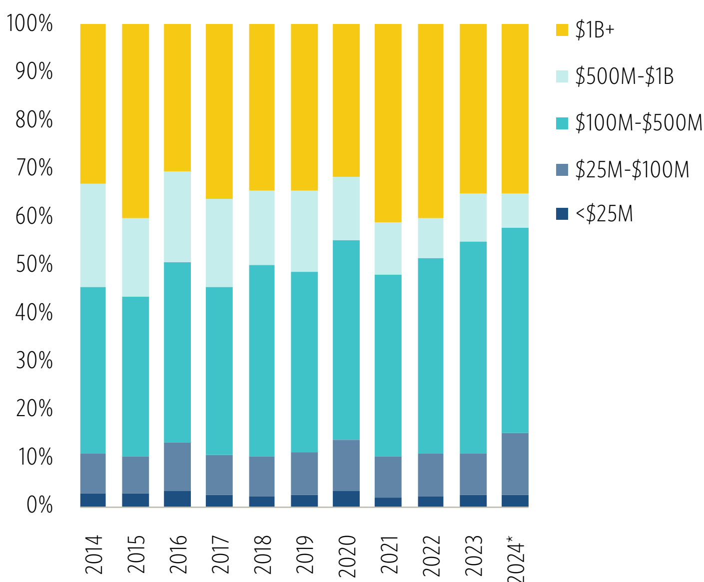
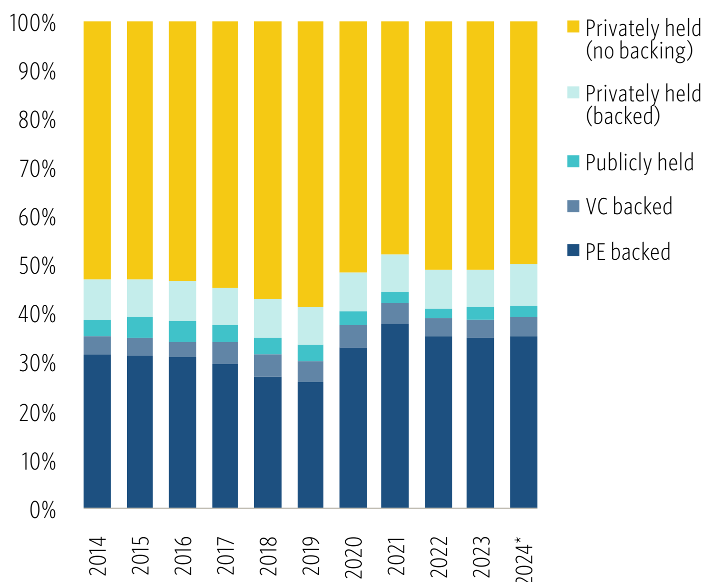
Deals by size, backing type, and sector

Share of PE deal value by size bucket



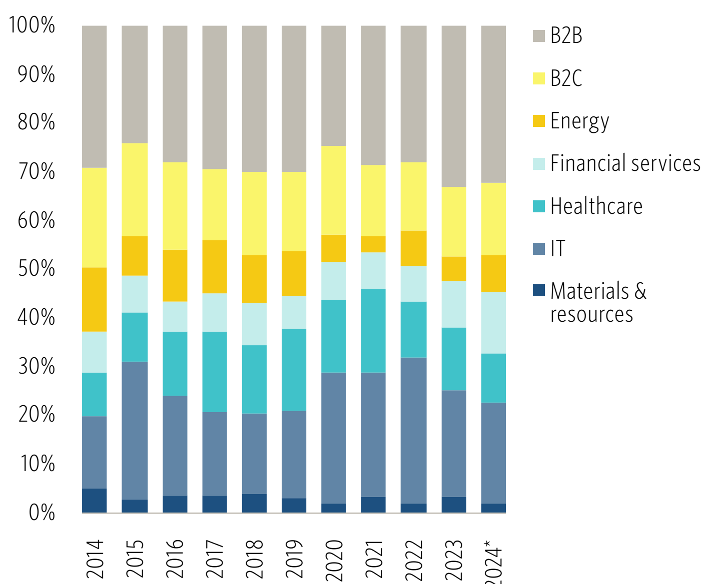
Source: PitchBook • Geography: US • *As of June 30, 2024

Share of PE deal count by backing type



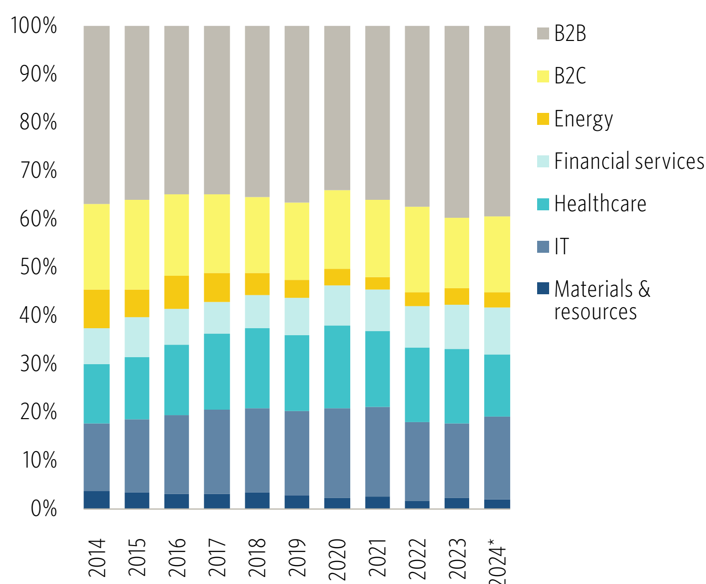
Source: PitchBook • Geography: US • *As of June 30, 2024

Share of PE deal value by sector



Source: PitchBook • Geography: US • *As of June 30, 2024

Share of PE deal count by sector

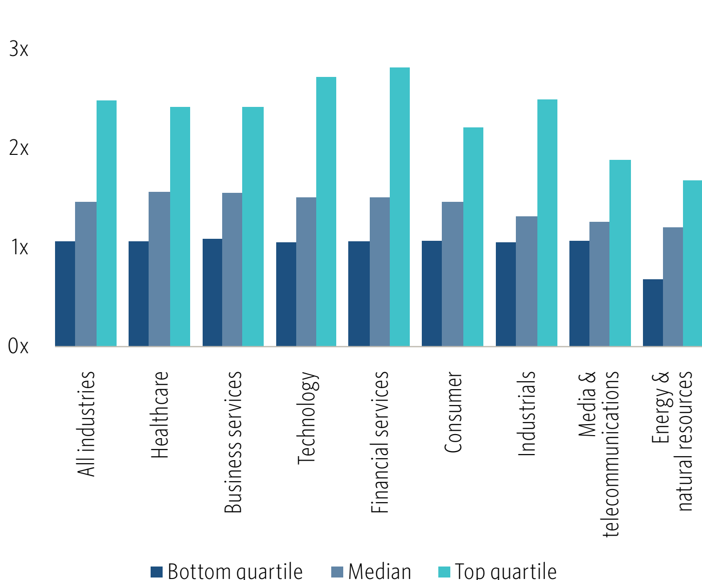


Source: PitchBook • Geography: US • *As of June 30, 2024

SPOTLIGHT

Updated deal performance benchmarks from DealEdge

All industries multiple on invested capital (MOIC) by sector (2018–2024)*



Source: DealEdge • Geography: US • *As of June 30, 2024
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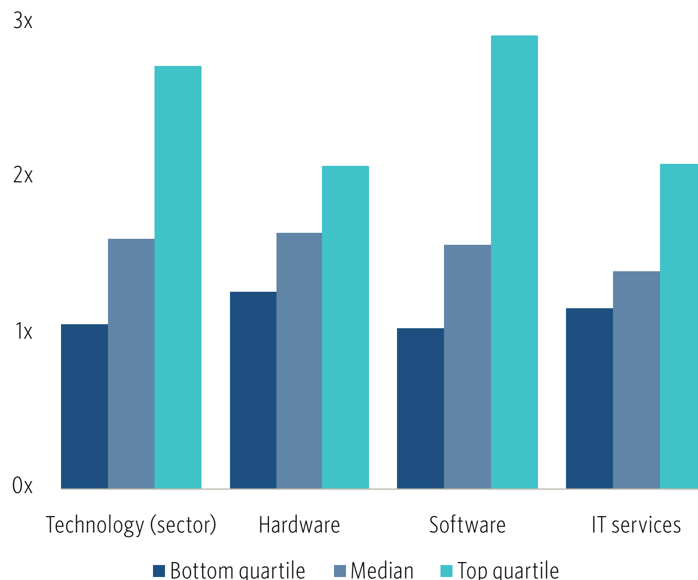
Technology MOIC by subsector (2018–2024)*



Source: DealEdge • Geography: US • *As of June 30, 2024
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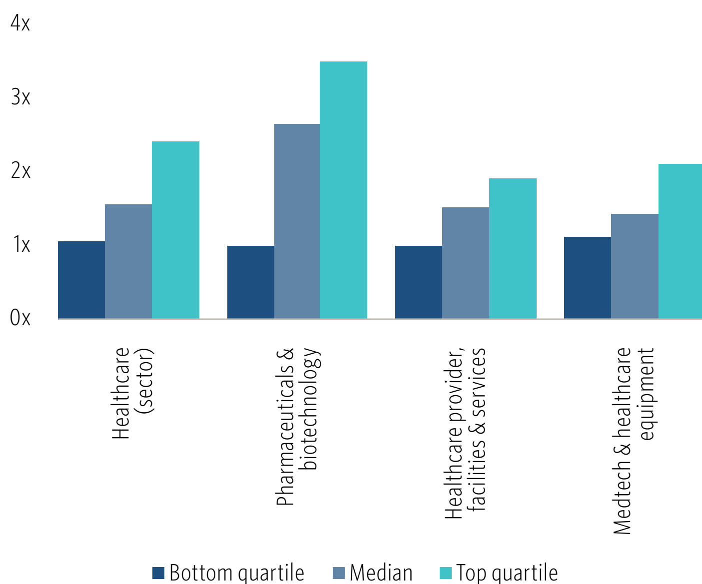
Note: This spotlight has been edited to feature only US deals, updated and derived from the original global version of DealEdge's 2024 Data Book. PitchBook has entered into a joint market report agreement with DealEdge and its partner owners Bain & Company and CEPRES, pursuant to which PitchBook and DealEdge will collaborate on certain reports and data initiatives. DealEdge is a private equity analytics platform for benchmarking sector performance and overall PE asset-class performance at the deal level. Please inquire at www.dealedge.com for more information on the DealEdge analytics platform.

Compared to the global report released earlier in the year by DealEdge, a look at US-only deals reveals that business services and healthcare emerge as the top performing sectors, with each boasting a gross median MOIC figure of 1.6x for deals entered over the last 6.5 years. Despite industrials exhibiting the third-lowest gross median MOIC, its top quartile deals outperform those in healthcare, business services, and consumer, indicating potential opportunities within this sector despite overall lower returns.

Technology deals in the US represent the third-highest median MOIC of 1.6x. In the dynamic landscape of PE investments within technology, this is still a relatively robust MOIC and a reminder of the sector's overall performance, resilience, and potential for substantial returns.

The nuanced breakdown of MOIC across subsectors is particularly enlightening when looking at the technology sector. Hardware and software delivered the highest median returns with an impressive 1.6x.

Healthcare MOIC by subsector (2018–2024)*



Source: DealEdge • Geography: US • *As of June 30, 2024
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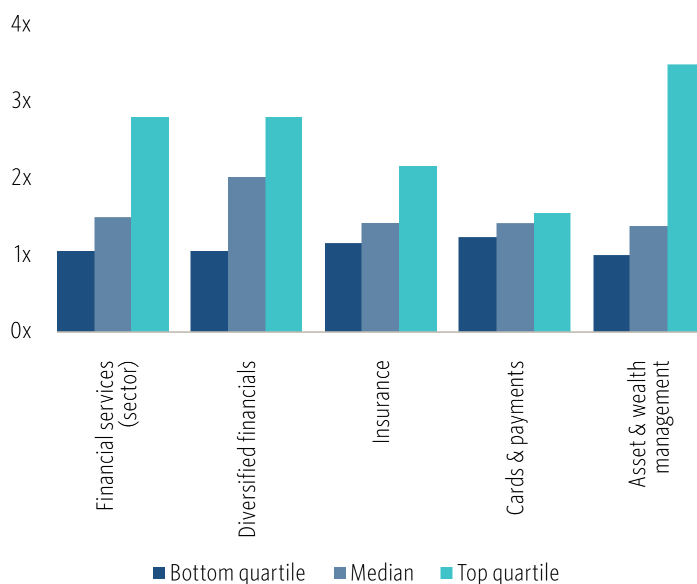
Financial services MOIC by subsector (2018–2024)*



Source: DealEdge • Geography: US • *As of June 30, 2024
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In the software subsector, impressive top quartile returns of 2.9x MOIC were driven by deals done in the HR & workforce management and data protection & recovery software subsectors.

The IT services subsector was the lowest performing across technology deals, with a median MOIC of 1.4x and top quartile returns of 2.1x for the best deals. IT outsourcing and datacenters & web hosting were drivers of this lower overall performance.

The detailed breakdown of MOIC across healthcare subsectors reveals important insights. The industry-wide median MOIC of 1.6x, with top and bottom quartile returns of 2.4x and 1.1x, respectively, reflects solid overall performance, highlighting both opportunities and sector-specific challenges.

The pharmaceuticals & biotechnology subsector leads with an impressive median MOIC of 2.7x. Similarly, the subsector has seen top quartile deals in the range of 3.5x, led primarily by exceptional deal returns in the pharmaceuticals & biotechnology products subsector.

Conversely, the medtech & healthcare equipment subsector underperformed the broader US healthcare sector, with median MOIC returns of 1.4x. According to DealEdge data, underlying deals in the healthcare supplies subsector led this underperformance.

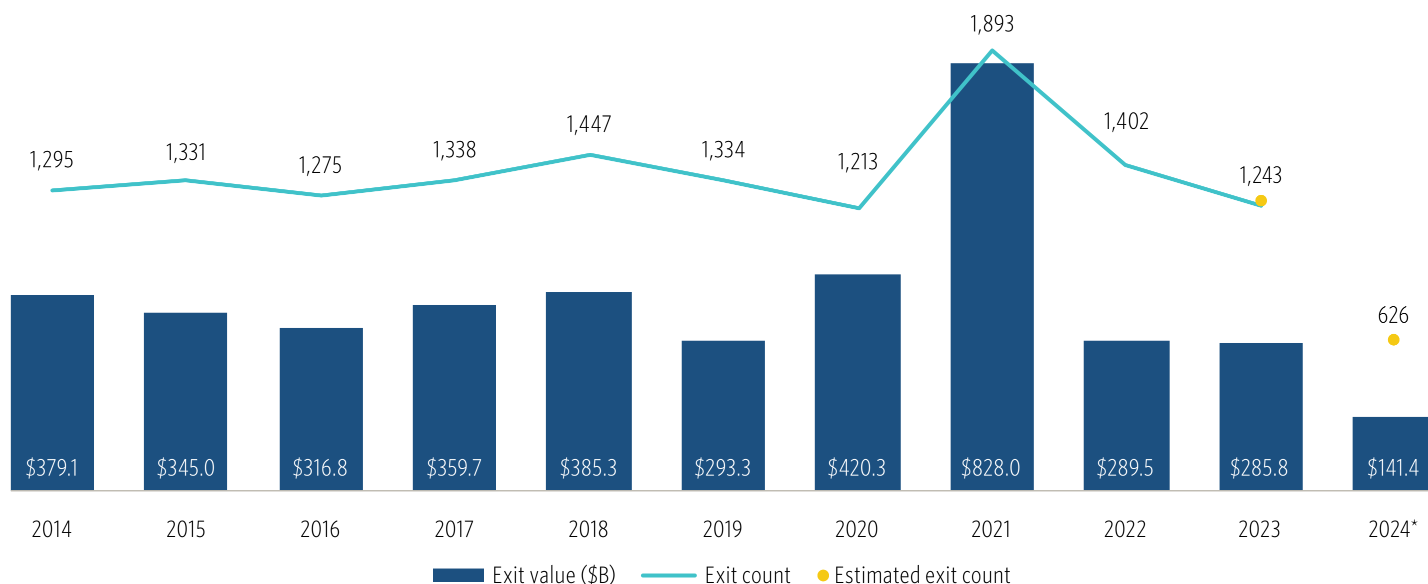
In the financial services subsector, the gross median MOIC is 1.5x, underscoring the sector's strength and ability to generate profitable revenues.

The diversified financials subsector out-performed with 2.0x median MOIC, and an impressive upside shown by the 2.8x returns for top quartile deals. According to DealEdge data, underlying deals in the speciality finance space bolstered this upside potential.

Transactions in cards & payments and asset & wealth management subsectors underperformed the broader US financial services sector, both with a 1.4x median MOIC. However, deals in the asset & wealth management space saw top quartile returns of 3.5x, significantly higher than the overall sector.

Exits

PE exit activity



Source: PitchBook • Geography: US • *As of June 30, 2024

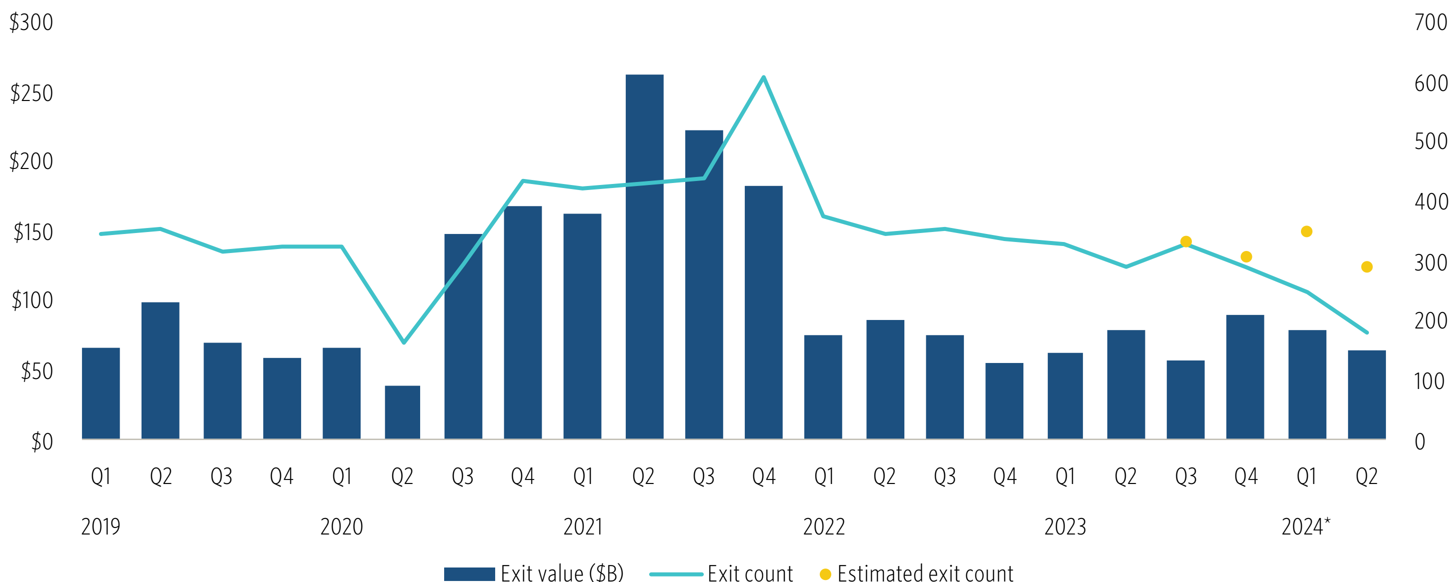
Overview

US PE exit activity produced an encouraging sign in the first half of 2024 amid growing concern over the pileup of assets that has been accumulating throughout the PE ecosystem. Including our estimate of late reporting deals, US PE exit value increased by approximately 15.0% YoY in H1 2024. That said, the industry has not cemented itself onto a road of recovery, as exit count was largely flat versus the prior year at 626 in H1. Persistent buyer-seller valuation gaps have been a major driver of muted exit activity, and the exit/investment ratio fell to 0.36x in Q2, a new record that reflects the beleaguered state of exits. Although the median value of exits jumped to $492.5 million in 2024 YTD, which is higher than the record $478.5 million seen in 2021 during a period of frenzied activity, this reflects GPs bringing their most high-quality assets to market to secure still-favorable exits while holding off on the rest of their portfolios.

GPs holding out for better exit conditions are stretching out the median holding period of US PE investments. PE assets exited in 2023 reached a record median holding period of 7.0 years before GPs alleviated some of the pressure mounting from a backlog of exits. PE portfolio companies that are still held by their respective PE firms are also getting “older,” having been held for a median period of 4.0 years, which is above the past-five-year average of 3.8 years before exit. We expect holding periods of both PE-backed exits and still-held portfolio companies to remain drawn out until the exit environment improves meaningfully.

Exit activity is fundamental to the PE chain of capital formation and is a leading indicator of industry growth, because cash flows from exits recycle into fundraising that feeds into dry powder, fund deployment, and, ultimately, fund performance. A large imbalance between exits and dealmaking over a prolonged period can disrupt that cycle and hamper industry growth. As such, we track these relationships on a dollar basis, especially considering that a few exits can unlock massive sums of realized value. The lag in deal activity starting in 2023 has helped narrow the net gap between exits and buying by $199.8 billion during the year, creating a dent on the massive $550.8 billion exit gap accumulated in 2022. Still, on an annualized basis for 2024, there remains a $266.5 billion deficit the PE industry will be forced to reckon with.

PE exit activity by quarter



Source: PitchBook • Geography: US • *As of June 30, 2024

Exits to public markets

The table below highlights PE-backed IPOs on US major exchanges in 2024, showcasing a resurgence in market activity. After a subdued 2023, which saw just $21.5 billion in IPO exits—significantly lower than the 2021 peak of $295.9 billion and the pre-pandemic average of $53.4 billion—2024 is shaping up to be markedly better. To date, there have been $21.7 billion in IPO exits, raising $3.2 billion in capital.

Share price performance for 2024 has also been robust, with median returns of 14.5% and mean returns of 21.7%. Strong public markets and improved macroeconomic stability in 2024 have supported relative value calculations, creating an auspicious setup for a further rebound in activity, particularly in the second half of the year.

Exits to corporates

Exits to corporates accounted for most of PE exit value in Q2, continuing the trend emerging over the past several quarters of corporate strategics taking the lead in PE exits. There were 89 exits to corporates for an aggregate of $34.4 billion during the quarter, which was a QoQ decline in absolute values but an improvement as a share of total US PE exit activity. Exits to corporate accounted for 53.2% of PE exit value and a whopping 71.3% when excluding public listings. This is above the 53.1% quarterly averages seen over the past two years. Corporates' lead was less intense when looking at the number of exits, accounting for 51.7% of nonpublic-listing PE exits compared with sponsor-to-sponsor exits coming in at 48.3%. Although exits to corporates still fall short of the pre-pandemic averages on an exit count basis, they are recovering to their pre-pandemic exit values, surpassing the quarterly averages of that time period for three consecutive quarters.

Corporations with both the appetite for strategic investments and cash on hand have been using M&A to build capacity and gain market share. The largest exit to corporates in Q2 was Elliott Investment Management and Franklin Templeton's $13.4 billion sale of Windstream to Uniti Group. Uniti, a TMT REIT, will merge with the telecommunications and broadband company Windstream nearly a decade after the spin out to better compete in the fiber network market in the Midwest and Southeast US. The deal also removes dis-synergies that occurred from being in a landlord/tenant relationship prior to the merger.[8] In the energy sector, Stonepeak and Diamondback Energy sold West Texas Gas (WTG) to Energy Transfer for $3.3 billion. WTG is a midstream services company operating the largest private Permian gas gathering and processing business and will provide Energy Transfer with well-positioned assets in an active region in the US.[9]

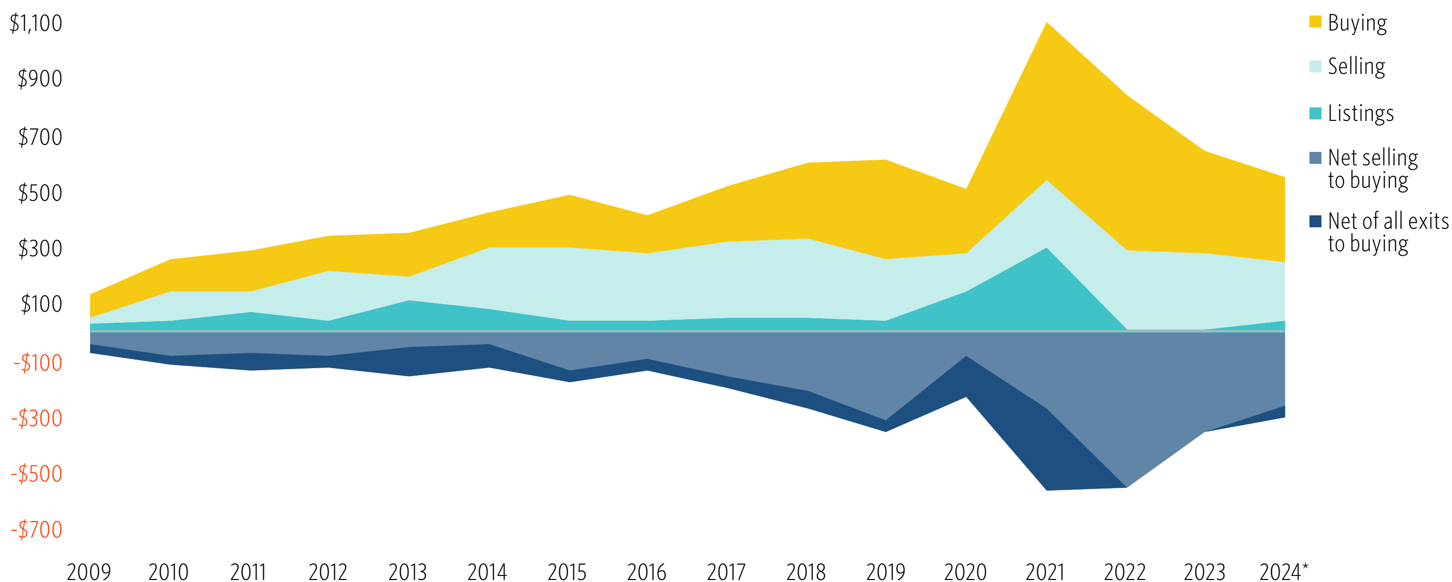
8: "Uniti To Merge With Windstream Creating Premier Insurgent Fiber Provider," Uniti, May 3, 2024.
9: "Energy Transfer To Acquire WTG Midstream in a $3.25 Billion Transaction," Energy Transfer, May 28, 2024.

Notable continuation-fund-related exits YTD*

Exited companies	Exiting funds	Announcement date (2024)	Deal value ($M/€M)
SummitIG	SDC Digital Infrastructure Opportunity Fund II	May 20	$650.0
CFS Brands, Gulfstream Services, Odyssey Logistics & Technology, Vantage Specialty Chemicals, Young Innovations	The Jordan Company Resolute Funds	May 10	$1,500.0
Academia Gruppe, Certania	Greenpeak Fund II	April 16	€350.0
Crown Laboratories, Hyland's Naturals	Hildred Capital Management	March 25	$750.0
World 50	Morgan Stanley Capital Partners	March 25	$700.0
Barentz	Cinven Fund VII	March 18	$920.0
HG Energy	Quantum Energy Partners VI	March 11	$1,600.0
Sky Zone, Del Real Foods, Jordan's Skinny Mixes	Palladium Equity Fund IV	March 10	$450.0
Genesys, Mutant, eDreams ODIGEO, Evelyn Partners, Teraco Data Environments	Permira pre-crisis fund, Permira IV, Permira V	March 6	$800.0
ARETUM, ClinicalMind, Lockstep Technology Group, Phoenix East Aviation	Renovus Capital Partners Fund I, Fund II	February 27	$325.0
Presto Brandsäkerhet, HVD Group	Adelis Equity Partners Fund II	February 20	€430.0
Circana	Vestar Funds VII	February 14	$1,200.0
Normec	Astorg Fund VII	February 5	$1,000.0
Alterra Mountain Company	KSL Partners II	January 29	$3,000.0
Zvoove, OneQrew	LEA Fund I	January 25	$703.0

Source: PitchBook • Geography: North America and Europe • *As of June 30, 2024

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



Source: PitchBook • Geography: US • *As of June 30, 2024

Completed PE-backed IPOs in 2024*

Company	Lead PE backers	Deal date	Initial valuation ($M)	Percentage change
BrightSpring Health Services	Kohlberg Kravis Roberts, Walgreens Boots Alliance	January 30	$2,038.0	-15.7%
BBB Foods	Quilvest Capital Partners	February 13	$1,811.7	34.3%
Auna	Enfoca, Oncosalud	March 22	$815.5	-34.0%
Loar Group	Abrams Capital Management	April 25	$2,293.5	90.5%
Marex Group	BXR Group, JRJ Group, Trilantic Europe	April 25	$1,252.5	2.3%
Viking River Cruises	AustralianSuper, Capital A, CPP Investments, TPG, Viking Capital	May 1	$9,657.0	38.6%
Bowhead Specialty	American Family Insurance, Gallatin Point Capital	May 23	$497.4	47.6%
Waystar Health	Bain Capital, CPP Investments, EQT, Ergo Partners, Francisco Partners	June 7	$3,305.1	0.0%

Source: PitchBook • Geography: US • *As of June 30, 2024

Sponsor-to-sponsor exits

Exits to sponsors continued to slide down, recording 83 exits for an aggregate of $13.9 billion in Q2 2024. Quarterly value of sponsor-to-sponsor exits fell by 53.7%, marking a new 10-year low save for Q2 2020 in the height of the pandemic volatility. Sponsor-to-sponsor exits accounted for 21.8% of total PE exit value for the quarter, and 28.7% when excluding public listings, hitting their lowest share of PE exit activity in over 10 years. Their share of PE exit count fared better at 48.3% of nonpublic-listing exits, suggesting that the jump in a few successful IPOs is overshadowing sponsor-to-sponsor exit value. Both exit count and exit value only amount to 52% and 34% of pre-pandemic averages, respectively, as PE firms have struggled to sell to other GPs over the past two years. With PE firms increasingly inundated by their own aging assets and still-high interest rates, we can expect sponsors to be less able to absorb sales from other sponsors and for sponsor-to-sponsor exit activity to stay muted for the near future.

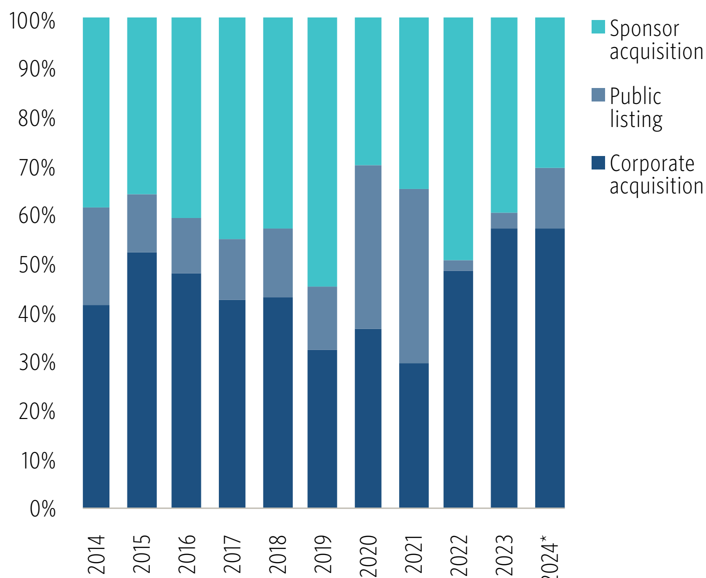
There was just one megasized sponsor-to-sponsor exit in Q2: Levine Leichtman Capital Partners‘ sale of Tropical Smoothie Café for $2.0 billion to Blackstone. The acquisition, which was the first from Blackstone's most recent flagship PE fund, will help accelerate the fast-casual restaurant company's already-impressive expansion.[10] There was one other megasized exit during the quarter, but it was the rollover of Circana into a continuation fund by Vestar Capital Partners for an estimated $1.2 billion. The rest of sponsor-to-sponsor exits in Q2 sit in the middle market, reflecting the trend we observed in 2023 of middle-market buyouts holding up better than the overall US buyout market, as reduced access to debt turned GPs toward smaller deal sizes.

Exits to continuations funds

With pressure building for GPs to provide liquidity solutions in the midst of an exit logjam, we have been predicting that the PE industry will increasingly turn to continuation funds to extend exit timelines of maturing portfolio companies or to return capital without force-selling assets on less-than-ideal terms. PitchBook has tracked 80 exits through continuation funds in 2023, and we believe 2024 will be the breakout year for this liquidity option thanks to the $81.7 billion raised in global secondaries strategies in 2023 and a growing pile of PE assets.[11] We have tracked a total of 45 exits into continuation funds through the end of Q2, which is comparable with the number of exits through continuation funds that occurred in H1 2023. Six of the deals in 2024 were fully disclosed for an aggregate of $1.4 billion in value received, and five deals only reported the total capital raised for their respective multi-asset continuation funds disclosed. It is also unknown how much of the reported capital represents new money contributions by secondary investors as opposed to existing investors rolling over and receiving new fund interests. The largest continuation fund exit so far in 2024 is expected to be the single-asset continuation vehicle by Vista Equity Partners for Cloud Software Group, which could reportedly reach $2.0 billion.[12]

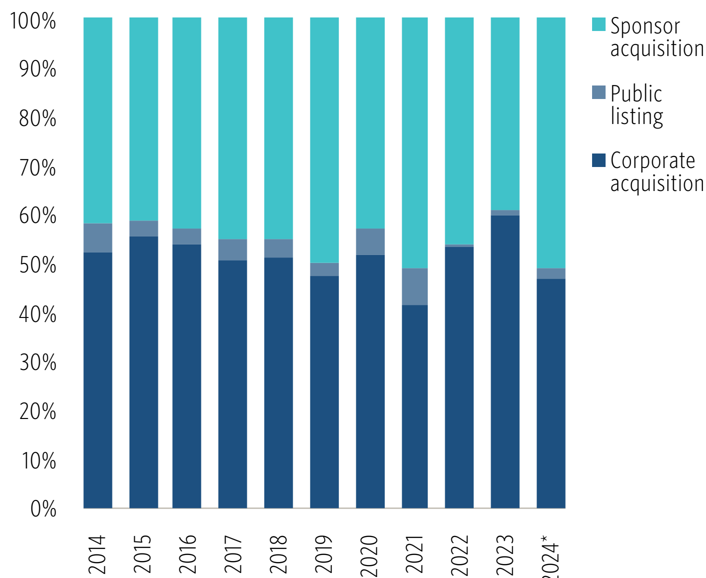
10: "Blackstone To Acquire Tropical Smoothie Cafe To Propel Leading Franchisor's Continued Expansion," Blackstone, April 24, 2024.
11: For more analysis, please refer to our 2024 US Private Equity Outlook.
12: "Vista Eyes Large-Scale Continuation Fund for Cloud Software," Secondaries Investor, Hannah Zhang and Chris Witkowsky, May 24, 2024.

Share of PE exit value by type



Source: PitchBook • Geography: US • *As of June 30, 2024

Share of PE exit count by type

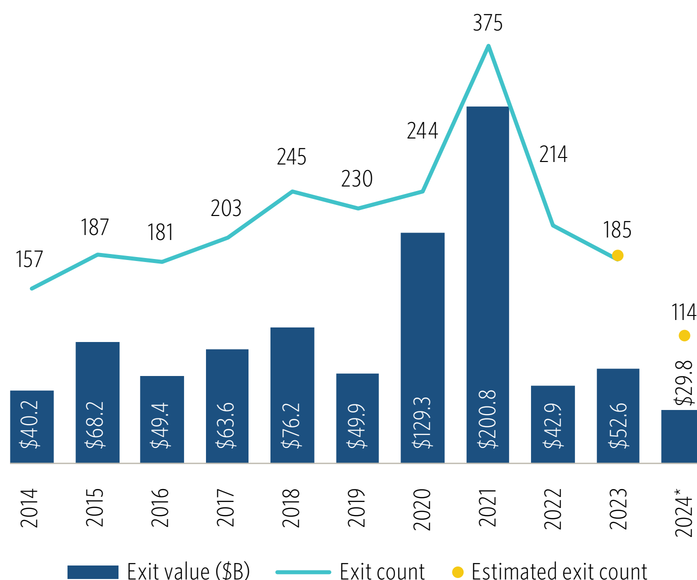


Source: PitchBook • Geography: US • *As of June 30, 2024

Technology

PE exit activity in technology companies jumped due to the giant $13.4 billion sale of Windstream in Q2, resulting in the sector taking up the greatest share of the quarterly PE exit value at 32.7%. With 36 exits for an aggregate of $20.8 billion, the tech sector accounted for 20.2% of the quarter's exit count, which was around 270 basis points above the five-year quarterly average. When excluding the Windstream exit as an outlier, tech exit activity paints a gloomier picture: At just $7.4 billion in aggregate value, tech exits are down from the small bump seen in Q1 and hit a 10-year low save from Q2 2020. Without the Windstream sale, tech exits have a long way to go to recover to pre-pandemic averages despite being a relatively resilient sector in a downtrodden exit market.

Technology PE exit activity

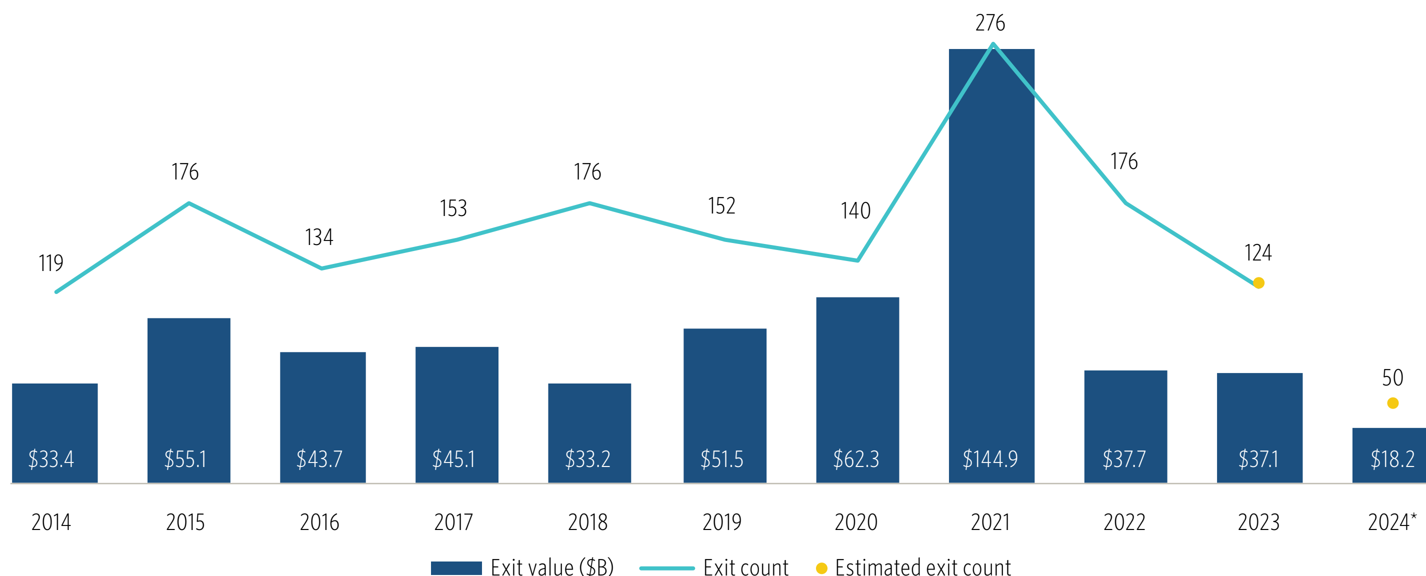


Source: PitchBook • Geography: US • *As of June 30, 2024

Corporate acquirers led the charge in buying PE-backed IT assets, with the top five exits in Q2 being exits to corporates, amounting to an estimated $16.9 billion. Of the top five, the most recent exit was K1 Investment Management's sale of software-as-a-service (SaaS) solutions provider GoCanvas to Nemetschek Group announced in early June. The sale is estimated to be $700.0 million, or a 11.5x multiple on the 2023 annual recurring revenue of $67 million. GoCanvas will complement Nemetschek's subscription and SaaS product portfolio and create synergies in geographic reach, operational efficiencies, and industry offerings.[13] Also notable during the quarter was Thoma Bravo's sale of Venafi to CyberArk Software for an estimated $1.5 billion. Thoma Bravo, a prolific investor in cybersecurity companies, initially made an investment in Venafi in 2020, valuing the company at $1.2 billion at the time.

13: "GoCanvas Joins Forces With the Nemetschek Group," GoCanvas, June 6, 2024.

Healthcare PE exit activity



Source: PitchBook • Geography: US • *As of June 30, 2024

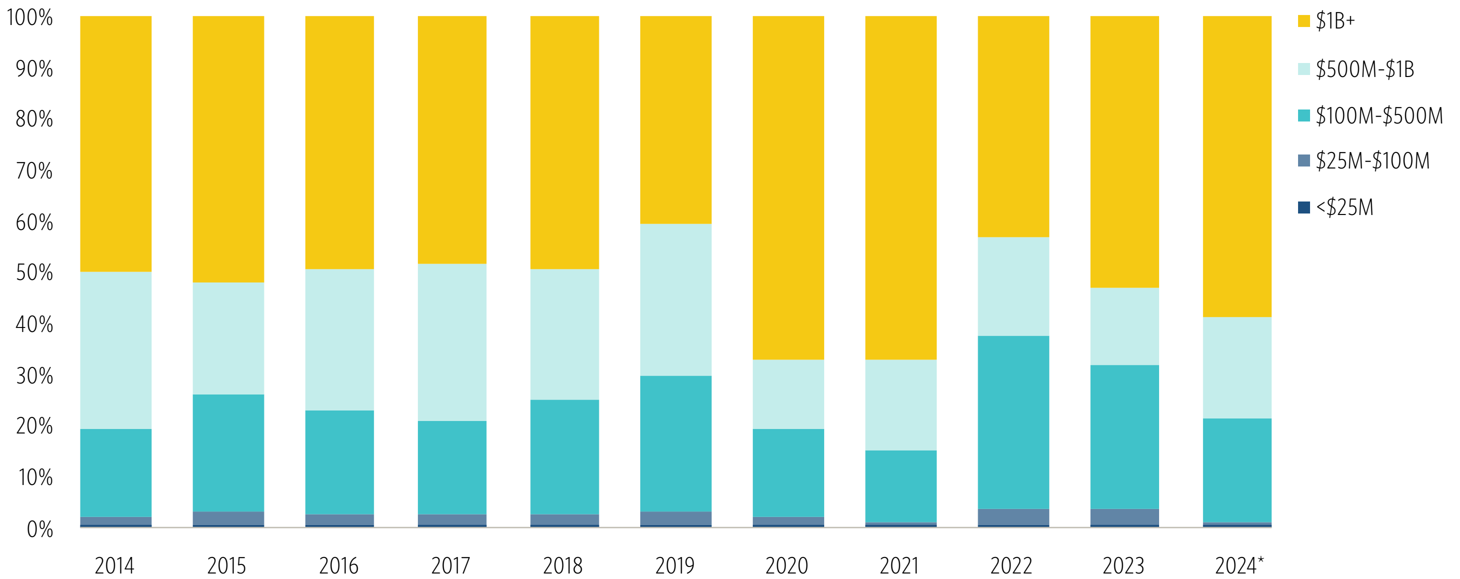
Healthcare

Healthcare saw a substantial 66.8% decline QoQ in PE exit value in Q2 2024. The sector accounted for 13 exits worth an aggregate of $4.5 billion—representing 7.3% of the quarter's exit count—and is the second consecutive quarter that the sector has been below the five-year quarterly average of 12.1%. Healthcare has been a victim of several broken deal processes. For example, in May, Webster Equity Partners looked to sell CenExel, a clinical site manager conducting studies on behalf of pharmaceutical companies, offering study services spanning from patient recruitment to medical procedures and monitoring. Webster targeted large-cap sponsors and took first-round bids; however, talks broke down over concerns that CenExel has not invested enough into its technology backbone.[14] The healthcare sector has been an example of what is being displayed in the broader PE ecosystem, where firms are bringing their best assets to market while holding onto the rest, waiting for a better exit environment. We expect firms to continue this approach until valuations improve with interest rate cuts.

Q2 was supported in large part by the $2.6 billion IPO of Waystar Health. Waystar offers healthcare payment and revenue cycle management tools. The company was taken public in the beginning of June by a consortium of PE firms including Bain Capital, EQT, Francisco Partners, and the Canada Pension Plan Investment Board (CPPIB). Following the IPO, EQT, CPPIB, and Bain own approximately 29.2%, 22.3%, and 10.8%, respectively. The proceeds of the public offering will be used to pay off existing debt. Other notable healthcare exits in the quarter include the sale of Mirus Bio from Gamma Biosciences, a life sciences platform established by KKR, for $600.0 million to Merck KGaA. For Merck KGaA, the acquisition will complement the firm's existing portfolio for development and production of novel modalities such as cell and gene therapies.[15]

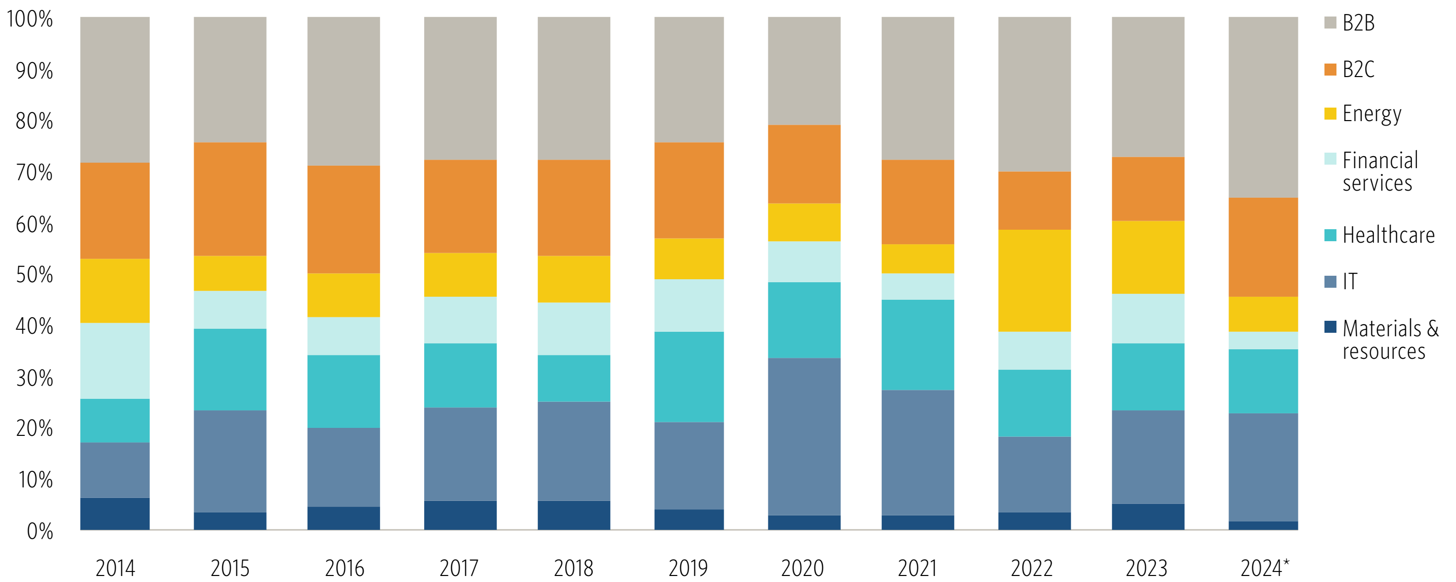
14: "Scoop: Webster's CenExcel Process on Ice, Sources Say," Axios Pro, Aaron Weitzman, May 9, 2024.
15: "Merck KGaA, Darmstadt, Germany, Signs Definitive Agreement To Acquire Life Science Company Mirus Bio for US$ 600 Million," Merk KGaA, Darmstadt, Germany, May 22, 2024.

Share of PE exit value by size bucket



Source: PitchBook • Geography: US • *As of June 30, 2024

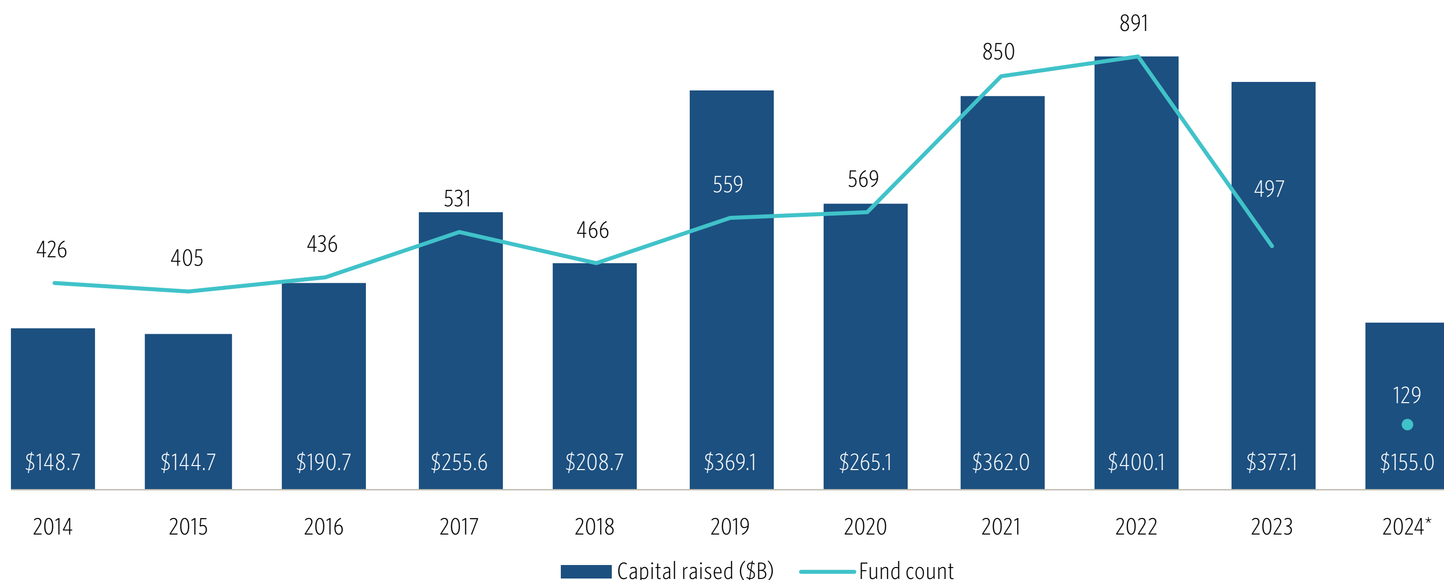
Share of PE exit value by sector



Source: PitchBook • Geography: US • *As of June 30, 2024

Fundraising

PE fundraising activity



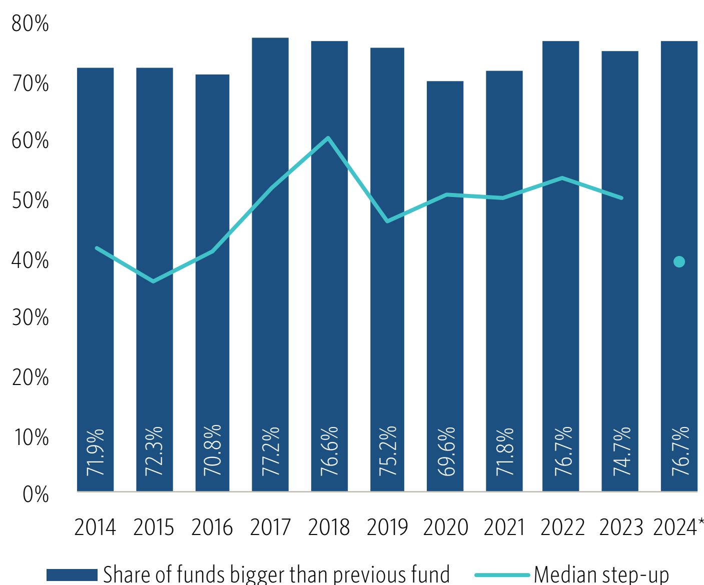
Source: PitchBook • Geography: US • *As of June 30, 2024

Overview

Halfway through 2024, PE fundraising has held its own after coming off the three best years in the asset class's history. Through the end of June, US PE funds have closed 129 funds at $155.0 billion. In comparison with the first half of 2023, which ended as PE's second-best fundraising year ever, 2024 is tracking slightly ahead. This indicates a continued resilient fundraising environment for the asset class despite expectations that PE fundraising would taper off due to continued headwinds, including a lack of exits and distributions back to LPs, which has limited capital available to be recycled into the next vintage of funds.

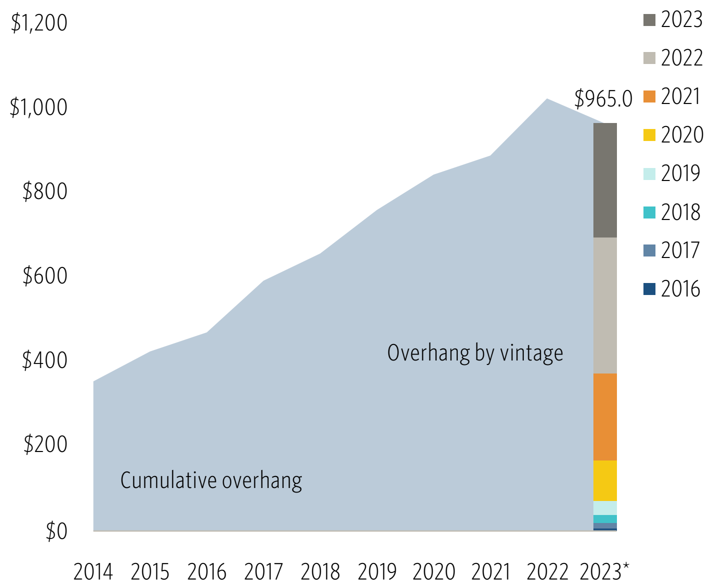
Despite the continued resilience of fundraising, the more challenging environment means that funds continue to be stretched out with a median time to close of 18.1 months, up from 14.7 months in 2023 and 11.2 months in 2022. Conversely, the median time between PE funds decreased to 3.0 years after increasing to 3.5 years in 2023. Although fundraising has taken longer on average, established managers continue to see their funds receive step-ups at the highest rate ever recorded. Through the end of June, 76.7% of PE funds closed at larger sizes, the second-highest rate ever, and surpassed the five-year average of 73.7%. However, the median step-up of 39.1% through the first six months of the year is the lowest median step-up since 2015 and well below the five-year average step-up of 50.0%.

Median step-up from previous PE fund in fund family



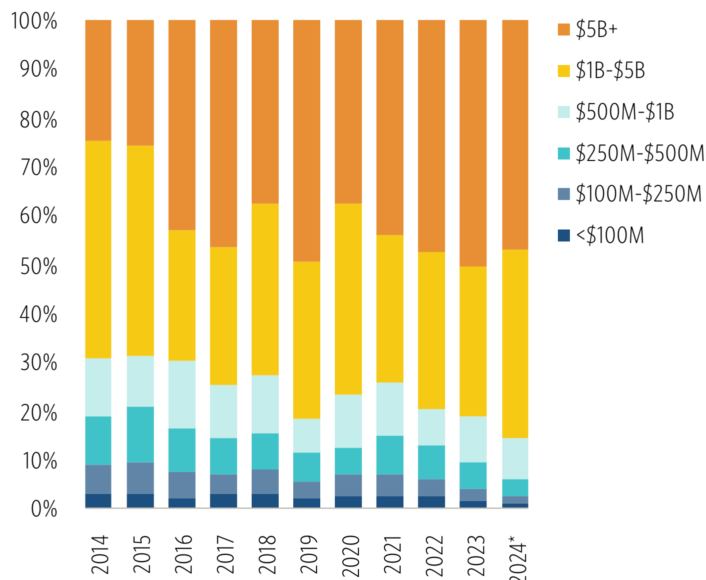
Source: PitchBook • Geography: US • *As of June 30, 2024

PE dry powder ($B) by vintage



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

Share of PE capital raised by size bucket



Source: PitchBook • Geography: US • *As of June 30, 2024

In terms of fundraising by strategy, buyout funds have dominated capital raised, accounting for $133.4 billion or 86.0% of total capital raised. On the other side, 2024 has been a challenging year for growth equity fundraising, raising just $21.6 billion or 14.0% of capital raised through the first six months of the year—the lowest figure in the first half of a year since 2018 and well below the five-year average of 20.7% of capital raised. Investor appetite continues to shift away from the growth-at-all-costs strategy that garnered investor attention in 2022 and 2023, impacting growth equity fundraising in 2024. Ironically, growth equity has accounted for more activity on the buy side, both in terms of deal value and count. Factors such as smaller check sizes and the absence of leverage—as growth equity relies on all-equity deal structures—have made growth equity more attractive for investors trying to navigate today's more challenging dealmaking environment.

Megafunds

Through H1 2024, megafunds—funds that raise $5 billion or more—have accounted for 47.3% of total capital raised, while middle-market managers raised 52.1% of total capital in the US. The second quarter saw the close of two megafunds on a combined $40.5 billion or 54.7% of capital raised. The two funds belonged to Silver Lake and Vista Equity Partners, closing their latest flagship buyout funds at $20.5 billion and $20.0 billion, respectively. Now, with the close of Silver Lake and Vista Equity Partners' respective funds, Blackstone is the only manager in the market with a fund that has a target of $20.0 billion or more. Once that fund is closed, we could see a fundraising air pocket with the lack of gargantuan megafunds currently raising compared to the extensive list seen in the past two years. While there are several megafunds in the market, we do not expect them to further increase megafunds' share of capital raised in the coming months.

While there may not be any $20 billion flagship funds in the near term, there are several in the market that have raised approximately $10 billion or more that could support PE fundraising over the next couple of quarters. For instance, Platinum Equity has raised over $10 billion to date, bringing in $10.7 billion. Through Q2, the 10 largest open funds have raised $75.3 billion, with eight of the 10 having already amassed $5 billion or more for a total of $62.6 billion. Once closed, these funds would provide the US PE fundraising ecosystem with a big boost. Though these megafunds often rely on the largest pensions, endowments, and foundations for the bulk of their capital commitments, with the continued slowdown in exits, capital flows from GPs back to LPs remain limited; this, in turn, has led to a more challenging time securing commitments from LPs or closing megafunds at the same pace seen in previous years. As a result, these funds are taking longer to close. For example, of the 10 largest open funds, only one started raising in 2023 or after, and eight of the 10 have been in the market for two years or more—longer than the industry median of 18.1 months to close a fund.

Notable open funds*

Fund	Fund type	Open date	Fund value ($M)
Blackstone Capital Partners IX	Buyout	June 21, 2022	$19,230.3
Platinum Equity Capital Partners VI	Buyout	October 26, 2021	$10,657.5
Coatue Growth Fund V	PE growth/expansion	March 11, 2021	$9,084.0
Clearlake Capital Partners VIII	Buyout	June 20, 2023	$7,500.0
Berkshire Fund X	Buyout	August 5, 2020	$5,800.0
ICONIQ Strategic Partners VII	PE growth/expansion	April 28, 2022	$5,330.2
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
Seachlight Capital IV	Buyout	December 13, 2022	$4,000.0

Source: PitchBook • Geography: US • *As of June 30, 2024
Note: Excludes evergreen funds.

Notable closed funds YTD*

Fund	Fund type	Close date	Fund value ($M)
Silver Lake Partners VII	Buyout	May 8	$20,500.0
Vista Equity Partners Fund VIII	Buyout	April 18	$20,000.0
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 29	$6,850.0
Arctos Sports Partners Fund II	PE growth/expansion	April 2	$4,100.0
TPG Healthcare Partners II	Buyout	February 13	$3,576.0
Sterling Group Partners VI	Buyout	April 22	$3,500.0
Wynnchurch Capital Partners VI	Buyout	January 19	$3,500.0
Altaris Health Partners VI	Buyout	January 1	$3,500.0

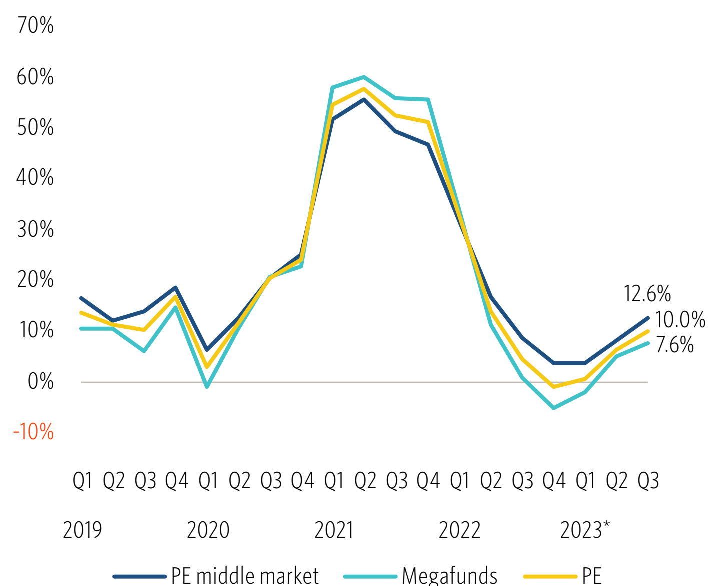
Source: PitchBook • Geography: US • *As of June 30, 2024
Note: Excludes evergreen funds.

Middle-market funds

Middle-market funds, like the broader PE ecosystem, are coming off its three best fundraising years ever recorded, and one in 2023 that defied expectations as fundraising showed resilience in the face of headwinds that were expected to limit such activity. Middle-market funds are those that raise between $100 million and $5 billion. Through H1 2024, middle-market managers held final closes on 77 funds worth an aggregate value of $80.8 billion. In turn, this capital raised by middle-market managers represents 52.1% of all capital raised in 2024. Over the past year, middle-market fundraising benefited from the more challenging macroeconomic landscape as investors 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 influenced fundraising in the first half of 2024, and it remains to be seen if the effects will carry through the remainder of the year.

Performance

Quarterly rolling one-year PE fund performance by size



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

PE funds IRR by quarter

Source: PitchBook • Geography: US • *As of September 30, 2023
Note: Q4 2023 data is preliminary.

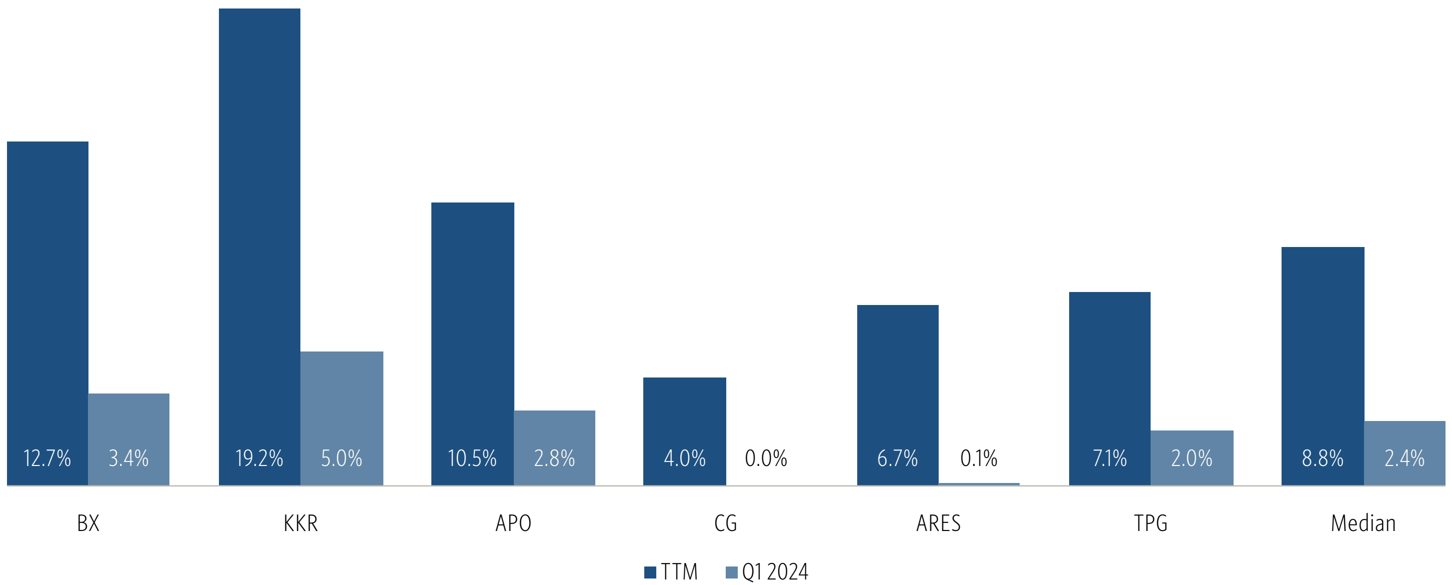
Our recent analysis of fund performance shows that PE has found its way back to double-digit returns after a tumultuous 2022. We remind readers that performance reporting by private funds lags by three to six months and, as a result, will not reflect the positive momentum in public equities seen in Q1 2024.

Our final data for the third quarter of 2023 shows a return of 2.7%, which falls short of the 3.8% quarterly average seen during the 2017 to 2019 period. However, for one-year returns, US PE funds posted a median rolling one-year IRR through Q3 2023 of a more encouraging 10.0%. This reflected an inflection upward from the 6.5% rolling one-year return as of Q2 yet remains below the 2017 to 2019 average of 15.6%.

The six major public PE firms are often a good indicator of more recent fund performance. For the 12 months that ended in Q1 2024, the median gross return reported by these firms in their core PE strategies was 8.8%. While this figure is slightly below the median TTM gross returns of 9.8% reported in Q4 2023, the continued strong performance of the S&P 500 and other large stock indexes will likely boost these returns even closer to double-digit territory. Still, those returns will lag the public markets by a decent margin—a sharp contrast to what was seen in 2022 when PE clung to flat returns while the S&P 500 plummeted by 19.4%.

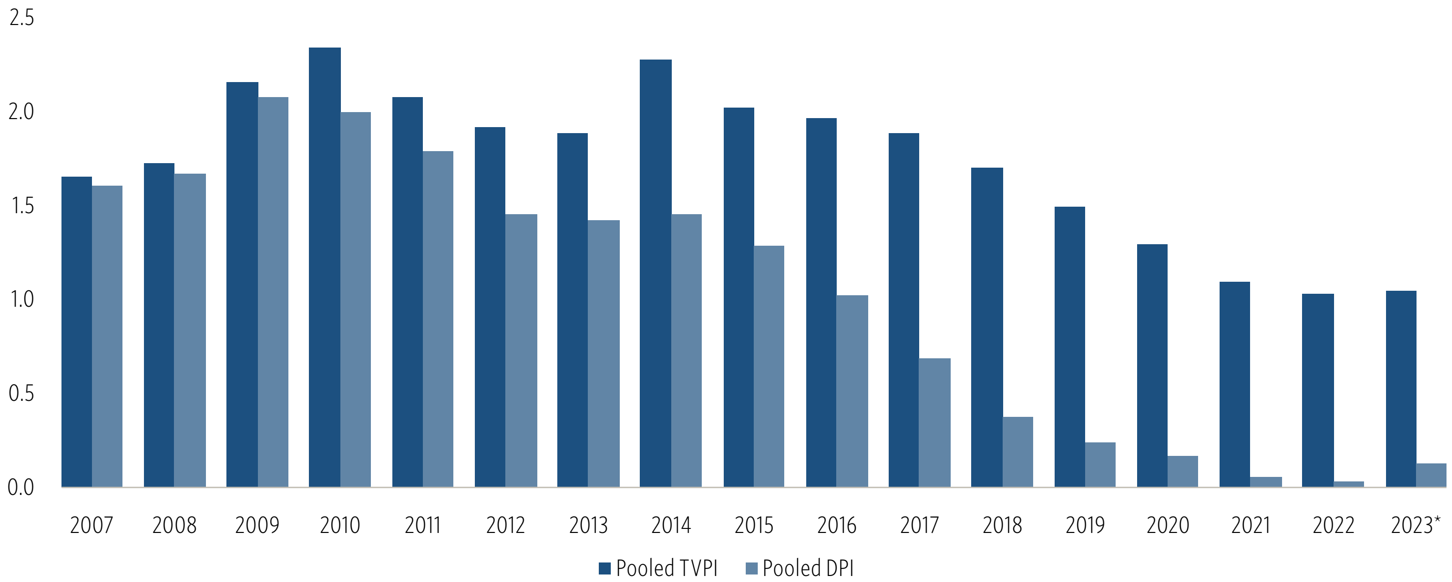
Breaking down the data by fund sizes, middle-market buyout funds have outperformed megafunds for six consecutive quarters. Historically, these leadership cycles between middle-market funds and megafunds tend to run their course after one to three years before reversing again. While middle-market managers maintain the lead, the gap between the two continues to narrow, and we expect that megafunds will continue to close the gap with the sharp rebound in large-cap equities, which has resulted in positive marks to portfolio values.

TTM and quarterly gross PE returns/appreciation by manager*



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

Total value to paid-in and distributions to paid-in capital returns by fund vintage



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

Additional research

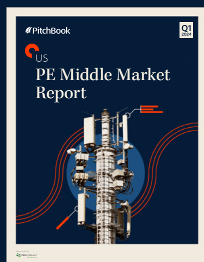
Private markets

Q2 2024 Analyst Note: PE Rediscovers Divestitures as a Value Creation Strategy

Download the report here

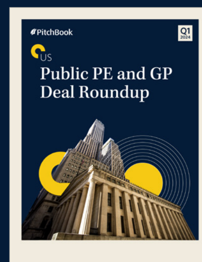
2023 Annual Global Private Debt Report

Download the report here



Q1 2024 US PE Middle Market Report

Download the report here



Q1 2024 US Public PE and GP Deal Roundup

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Q1 2024 Global M&A Report

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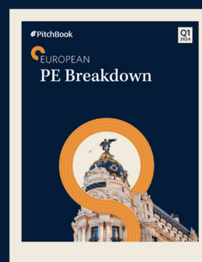

Q1 2024 European PE Breakdown

Download the report here

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