Q3 2023

US

PE Breakdown

Sponsored by

STOUT BARINGS

Sponsored by

Contents

PitchBook Data, Inc.

John Gabbert Founder, CEO

Nizar Tarhuni Vice President, Institutional Research and Editorial

Dylan Cox, CFA Head of Private Markets Research

Institutional Research Group

Analysis

Tim Clarke
Lead Analyst, Private Equity
tim.clarke@pitchbook.com

Garrett Hinds
Senior Analyst, Private Equity
garrett.hinds@pitchbook.com

Derek Hernandez
Senior Analyst, Emerging Technology
derek.hernandez@pitchbook.com

Jinny Choi
Analyst, Private Equity
jinny.choi@pitchbook.com

Aaron DeGagne, CFA
Analyst, Emerging Technology
aaron.degagne@pitchbook.com

Kyle Walters
Associate Analyst, Private Equity
kyle.walters@pitchbook.com

Data

Alyssa Williams
Senior Data Analyst

pbinstitutionalresearch@pitchbook.com

Publishing

Report designed by **Drew Sanders, Julia Midkiff,** and **Megan Woodard**

Published on October 10, 2023

Click here for PitchBook's report methodologies.

STOUT FINANCE INTEGRATION

Solving the challenges that impact Finance during M&A and other liquidity events.

Integrating or standing up finance functions within the context of an M&A transaction is a complex undertaking, often causing unintended operational challenges for the post-close entity or jeopardizing expected deal value.

Stout assists private equity buyers with finance-focused integration of platform companies or add-ons. We rapidly assess the incoming Finance function's readiness to meet the demands of a new operating and reporting environment, and help ensure preparedness at closing, smooth execution during the first 100 days, and establishment of a sustainable finance operating model at steady state. Let us relentlessly deliver for you.

Stout is a global investment bank and advisory firm specializing in corporate finance, accounting and transaction advisory, valuation, financial disputes, claims, and investigations. We serve a range of clients, from public corporations to privately held companies in numerous industries. Our clients and their advisors rely on our premier expertise, deep industry knowledge, and unparalleled responsiveness on complex matters.

LEARN MORE AT STOUT.COM

EXECUTIVE SUMMARY

Exits shutdown

The third quarter of 2023 was disappointing for US PE. The second quarter ended on a stronger note, especially on the exits front. PE-backed companies were the first to pass through the IPO window when it cracked open on the final day of Q2, but the continued threat of a government shutdown has taken care of that for the time being, along with a heavy dose of cold from the Federal Reserve on the prospects for future interest rate cuts.

With disruption in the traditional LBO lending market now seemingly a thing of the past, stalled exit activity sets up as the next flashpoint. Exit value hit an air pocket in Q3, falling 40.7% from the prior quarter to its lowest quarterly level since the global financial crisis (GFC)—excluding the lockdown of Q2 2020—and is now down 83.7% from the Q2 2021 peak. This was a reversal from the 44.1% increase in Q2 exit value versus Q1. The most recent quarter gave all of that recovery back, and then some.

Exit activity is arguably the most important link in the PE chain of capital formation and a lead indicator of industry growth. Its cash flows recycle into fundraising that feeds into dry powder and 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.

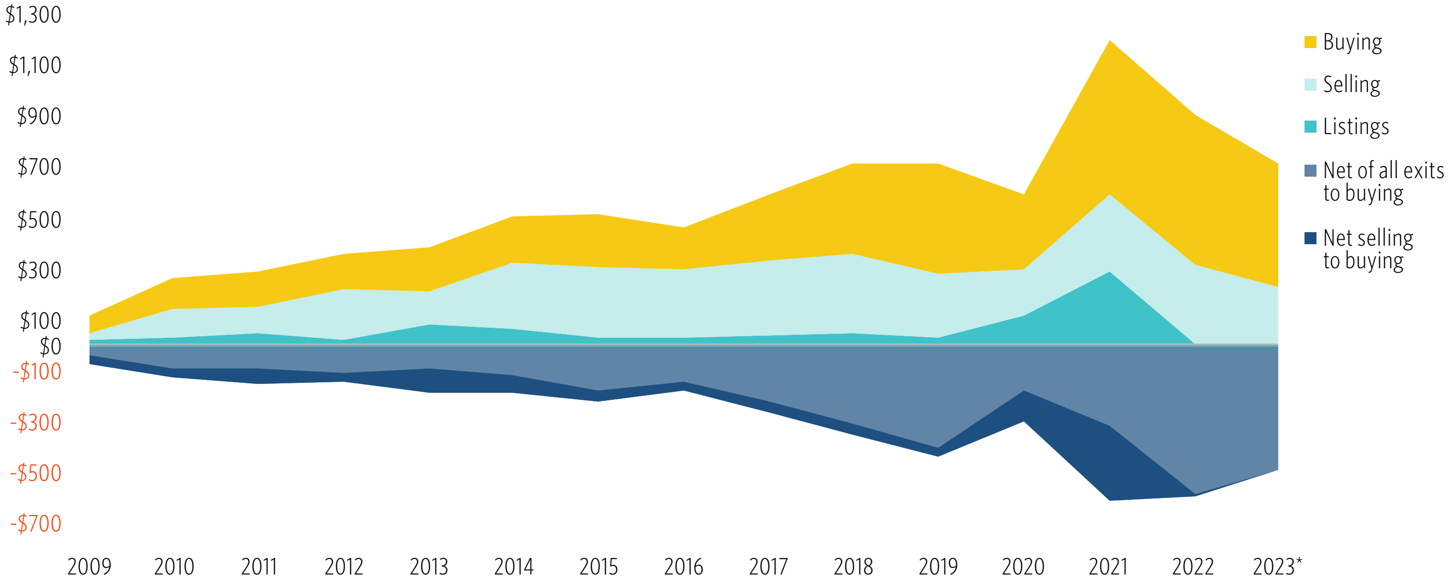
For this reason, we track all of these relationships on a dollar basis, especially since a few exits can unlock massive sums of realized value. Unlike in 2022 when buying kept charging ahead while selling flagged, both are down in 2023 by roughly 25%. As a result, the net gap between exits and buying has narrowed by $104.2 billion since the beginning of the year. Still, at a deficit of $475.1 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 end of life, as we discuss in our recent analyst note, PE Exit Timelines and the Impending Maturity Wall. Fortunately, those efforts are well under way in the form of secondary funds and continuation vehicles. We expect these deals and announcements to accelerate in the next few quarters, and we will be tracking the new trend closely.

So far, it is looking good on the fundraising front. The year is tracking approximately 13% down from prior YTD, but that is better than feared, especially given that 2022 turned into a record year. LPs continue to exhibit megafund fatigue, although that is showing early signs of fading, with some big fund closings during the quarter. Middle-market funds have grabbed share of the fundraising market in 2023, much as it has grabbed share in underlying deal activity.

On the deal front, there are two noteworthy developments. PE growth is on track to outnumber platform LBOs, excluding add-ons, for the first time ever in 2023. Secondly, carveouts continue to gain steam as a mechanism to buy cheaper assets that are also more bankable for lending purposes. And more of these are megadeals. This was on full display with Worldpay's $18.5 billion carveout from FIS, and acquisition by GTCR. The corresponding $9.4 billion debt package provided by banks and high-yield investors represented the ninth largest since the GFC.

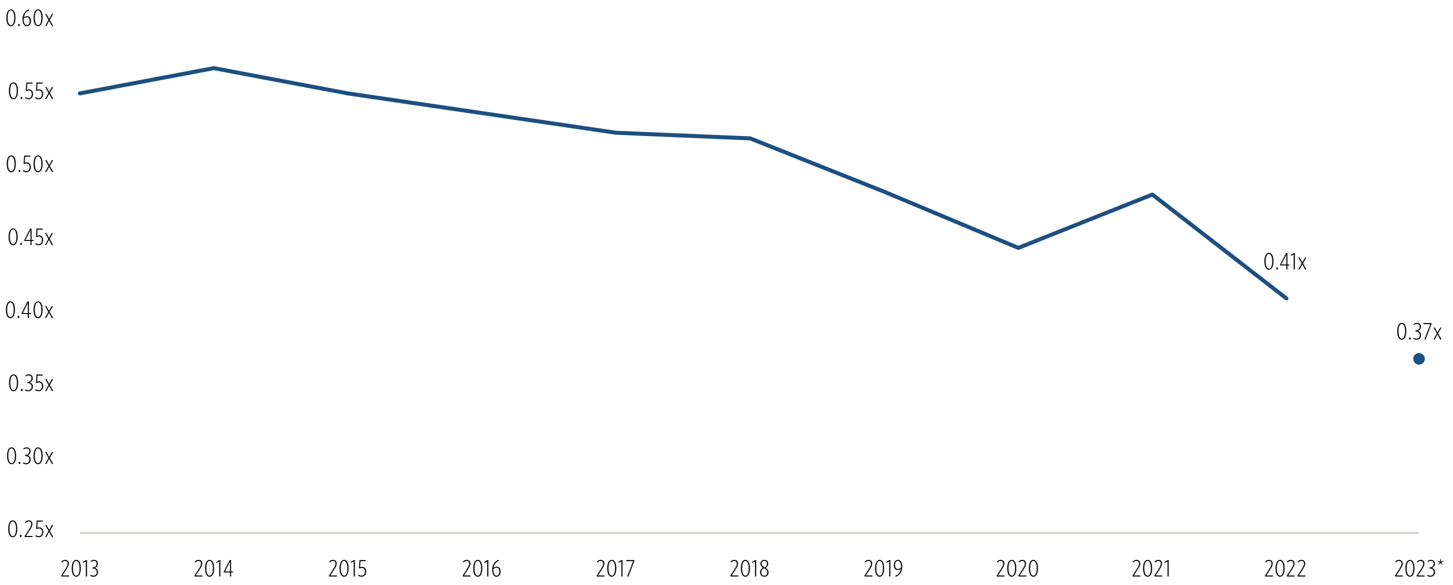
Lastly, on the financing front, wounds are finally healing, and banks are wading back to their traditional role as lenders to large LBO transactions. They are splitting that share with private credit, which continues to dominate the sub-$1 billion market, but it's a welcome development after a seven-month shutdown of its own that ended six months ago. Almost on cue, one of the first hung deals from a year ago—Tenneco's term loan backing Apollo's take-private—was successfully marketed to investors earlier this month, signaling business almost as usual for the leveraged loan market.

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



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

PE exit/investment ratio



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

A WORD FROM STOUT

Prevent deal erosion with a holistic approach to finance integration

Why it's important to move beyond traditional M&A-related compliance matters and approach a transaction with a holistic suite of accounting and finance services that are applicable throughout the deal lifecycle

Seemingly immune to economic, pandemic, and geopolitical influences of the early 2020s, M&A players, whether strategic or financial (PE) buyers, remain flush with dry powder and challenged to deploy capital as efficiently as possible. The overabundance of capital and limited supply of targets are creating an era of investing characterized by:

- Companies paying unprecedented multiples for investments.
- Investors seeking growth potential over profitability.
- Compressed diligence periods and intense pressure to close.
- Sellers driving the process more than buyers.
- Investors buying "strategically" versus buying "cash flow."
- Investors buying to exit versus to embrace and absorb.

What's the upshot of all this? Capital begets capital, and it needs to get deployed. The principles of value investing that stress a strong balance sheet, cash flows, and low price-earnings multiples were abandoned decades ago. Even within private equity where EBITDA reigns supreme, a fundamental strategy is to buy EBITDA at a platform company, bolt on additional EBITDA with subsequent tuck-in acquisitions, then package and sell to the next buyer. The return on investment is not realized through strong earnings and distributions, but by exiting at a larger multiple than the effective blended multiple of platform plus bolt-ons.

As more and more PE and strategic buyers search for viable and desirable companies to buy, they are forced to find firms that fall outside of their classic investment criteria. This is especially true in middle-market PE. Multiples of EBITDA continue to strain credulity and traditional measures of profitability like net income or even operating income.

Simba Dutt-Mazumdar

Managing Director, Finance Integration

Simba has over 20 years of experience helping companies navigate liquidity or other complex events that stress an organization. These include mergers, acquisitions, divestitures, special situations, and even enterprise resource planning (ERP) implementations.

He has expertise in finance-focused postmerger integration across multiple sectors, including industrial manufacturing, aerospace, automotive, consumer goods & technology, and media & entertainment.

Over the last five years, Simba has focused primarily on upgrading or optimizing the finance functions of private equity portfolio companies that are scaling and unable to provide decision support to management. In addition, he has assisted companies that are seeking their first institutional capital and whose finance function is struggling with the rigors of due diligence and other sale-related processes.

So, what can an investor do to protect their capital or at least implement some form of guardrails? Today's market participant must deploy a broader set of tools than the traditional commercial, tax, and financial due diligence arsenal of the past.

Minimizing value leakage during the hold period

Today's market participant must minimize value leakage after the transaction close. Many deal costs are either part of the purchase price or characterized as nonrecurring or "below the line." However, the costs and effort to fix broken business processes and rationalize the IT landscape and nonoptimal human capital across the enterprise are very much charges to EBITDA and are difficult to "normalize" out to future buyers or current stakeholders.

Evaluating the acquisition operating model

Accordingly, how does an investor evaluate the people, processes, and technology (the operating model) of an acquisition to determine whether it will be a source of value leakage or a potential multiplier on exit price as it evolves throughout the hold cycle? The answer is, of course, "it depends" but also "start early." Let's discuss how we think about identifying sources and uses of value across the operating model.

People

People are the trickiest aspect of the operating model to properly evaluate. Individuals at the target are often playing multiple roles, which is common for those fulfilling back-office functions (for example, your office manager is also the accounts payable clerk). If there are gaps between current performance and required performance post-transaction, do these gaps reflect deficits in competency or capacity? Buyers typically assume the former, but experience shows that lack of capacity manifests in issues and challenges that are interpreted as lack of competency (for example, an accounting closing process that is protracted and does not produce complete, accurate, or timely information for decision support).

Processes

Processes employed by the incoming business are generally poorly understood or concentrated in the hands of a few key individuals. Buyers do not need to commission consultants to create desktop procedures or process flows, but they do need to understand who does what process (for example, "billing and invoicing," "purchases and payables," or the "accounting and reporting"). Once the buyer understands the end-to-end core business processes and who does what, the buyer can begin to document what is necessary, identify critical points of failure (such as the inability to reconcile bank accounts if a key individual goes on vacation), and begin de-risking and improving the most important business processes.

Technology

Technology at middle-market PE portfolio companies generally sits in two buckets: rudimentary or excessive. Companies either are operating on a technology stack that is woefully insufficient to meet current requirements or have built out an application stack with functionality that far exceeds anything the company requires.

A savvy operator understands that assessing the operating model upon the letter of intent allows them to better assess in several key areas:

- Ability of the organization to turn around financial and operational data for decision-making.
- Readiness of the organization to integrate into a new environment.
- Ability of the organization to scale.
- Magnitude of postclose integration costs.

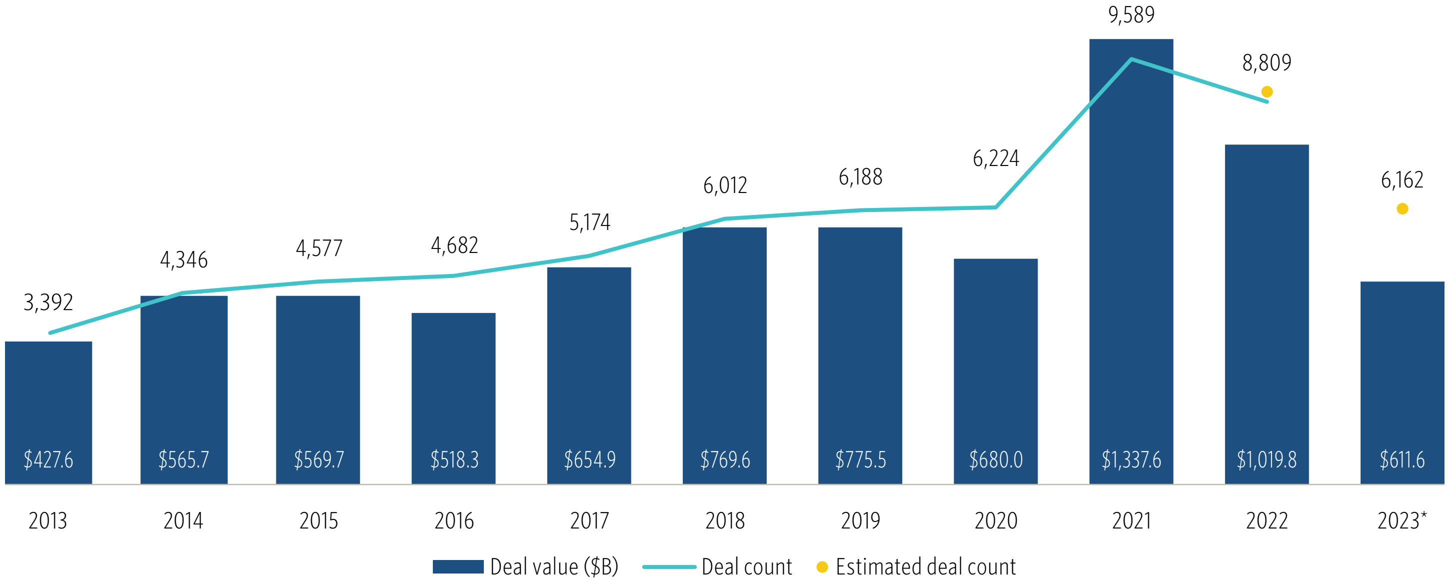
Deeper insight into these areas at the front end of a transaction can strengthen negotiations and help drive healthy or more reasonable multiples.

Hindsight is 20/20, but many acquirers identify issues well after transaction close, such as during the hold period. Acquirers can assess, diagnose, remediate, stabilize, and optimize the operating model of a target during the hold phase.

However, beginning the operating model assess-to-optimize process after day 100 often has negative ramifications, including the irrevocable loss of value or nonrealization of deal synergies. In addition, beyond six to nine months, external stakeholders of the acquirer, whether "the Street" or limited partners, will focus on deal value realized versus the realization process. So "start early" and assess the entire operating model to prevent deal value loss.

Deals

PE deal activity



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

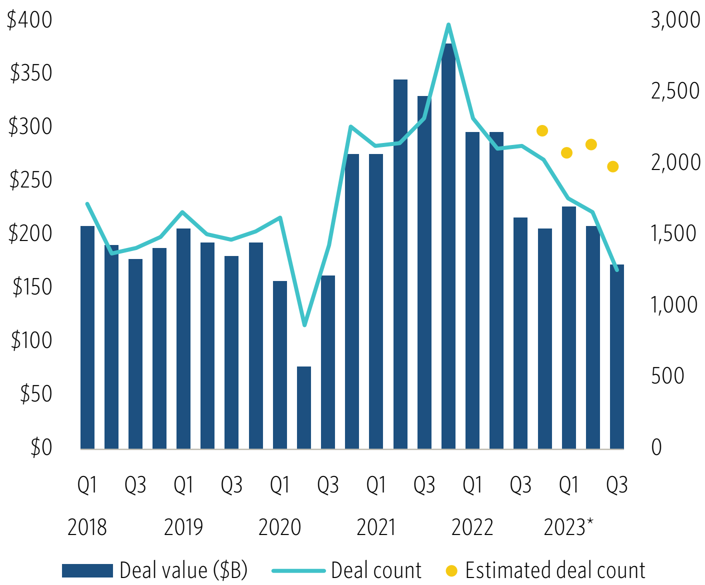
Overview

US PE dealmaking stalled in Q3 2023. Deal value broke below the $200 billion level for the first time since the COVID-19-pandemic-induced lockdown of 2020. Outside of that span, deal value is at a six-year low. Since peaking in Q4 2021, quarterly volumes are now down 34.0% by deal count and 54.7% by deal value. Deal flow has been flat to down in six of the last seven quarters, including a 7.2% and 18.1% sequential decline by count and value, respectively, in the latest quarter. Dealmaking has clearly yet to find a bottom.

Of all deal types, platform deals have been especially hard hit due to their greater dependency on leverage. Platform deals declined 20.6% in value from the prior quarter and 42.9% YTD. Leverage ratios have contracted significantly since the beginning of the year, and this is choking off the ability to pull off larger LBOs, which platform deals tend to be. Debt as a percentage of total deal value (loan-to-value) in the leverage loan market has plunged to 43.7% in Q3 from 50.8% in 2022 and a 10-year average of 55.0%. Debt to EBITDA ratios have also contracted sharply, shrinking to 5.1x YTD from 5.9x in 2022.

At the same time that leverage ratios have contracted, reflecting more conservative lending standards, the broadly

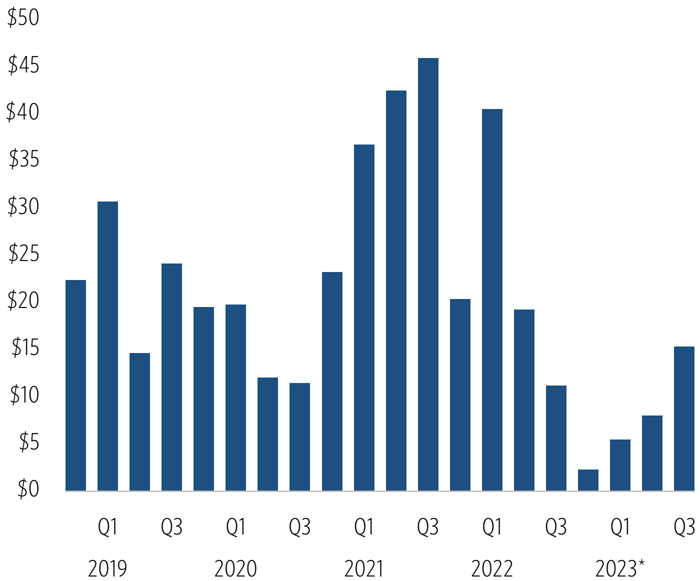
PE deal activity by quarter



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

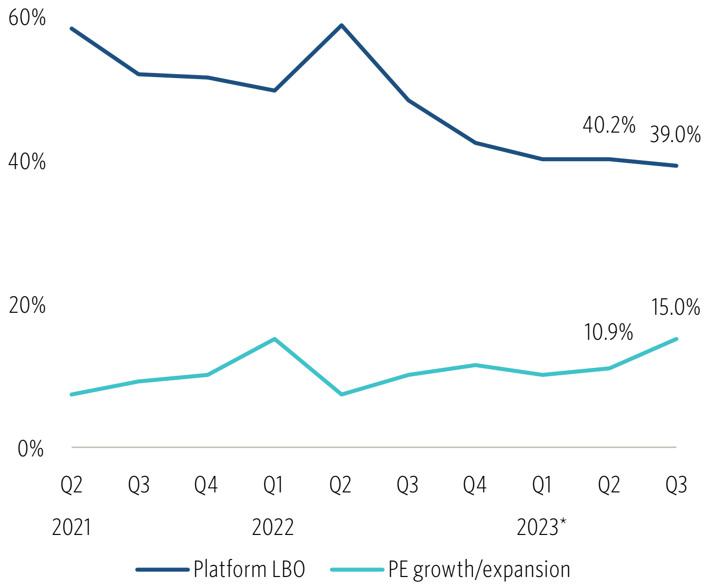
syndicated loan (BSL) market has continued to recover from a virtual standstill at the start of the year. Q3 has seen its best volume of the year, matching the first half total with $14.2

Broadly syndicated US LBO loan volume ($B) by quarter



Sources: PitchBook | LCD • **Geography:** US
*As of September 30, 2023
Note: Institutional capital only; prorata tranche excluded.

Platform LBO versus growth equity share of PE deal value



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

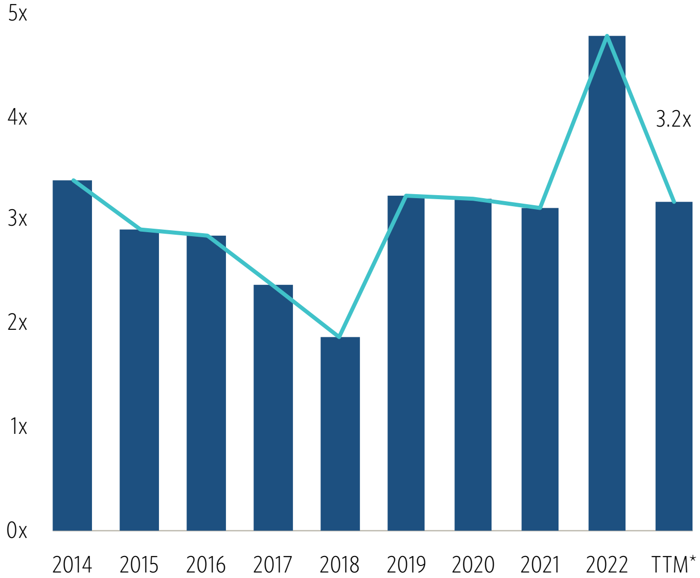
billion in institutional money raised for new loans backing LBOs. This includes the upsized $5.2 billion cross-border term loan pricing for Worldpay, which at $9.4 billion in total loan and bond proceeds, became the ninth largest LBO debt financing since the GFC.

The private credit market was there all along. We estimate that $46.8 billion in direct loans were originated by these non-bank lenders in H1 2023 in support of LBOs. This exceeded what banks raised for M&A in both the BSL and high-yield markets combined. The recent upturn in underwriting by these traditional sources of M&A debt funding in addition to what non-traditional non-bank sources have been funding all along is a welcome development for the LBO market. We would expect a corresponding pick-up in platform deal activity on a lag basis as a result in Q4 2023 or Q1 of next year.

Other deal types that are less dependent on access to new debt have taken share of the PE deal market. Add-ons, while leveling off lately, continue to account for nearly eight out of every 10 buyouts, in part due to a more accommodating credit environment but also due to much smaller deal sizes. The leveraged loan market stayed open for sponsor-backed companies wanting to do add-ons, and many have old facilities locked into place. A total of $333.7 billion in capital was raised in the BSL market for PE-backed companies for add-on acquisition purposes since 2018. Net asset value (NAV) lending has been another source of financing, and of course private credit has been active too, inclusive of mezzanine and special situation funds with their alternative structures.

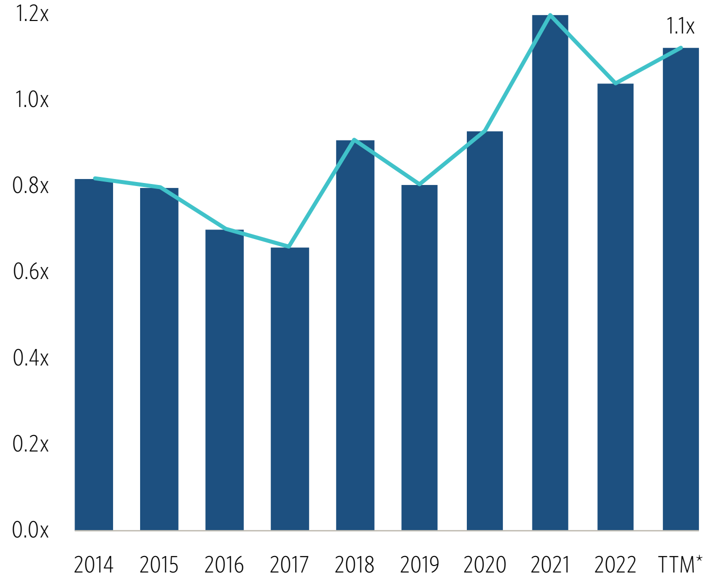
More recently, growth equity has filled the void left by platform LBOs, having gained 4.2 percentage points in the last quarter alone. Growth equity now accounts for 15.0% of all US PE deal value, which is more than twice its share as recently as Q2 2022. For the first time, growth equity deals will likely outnumber platform LBO deals for the year. The strategy's all-equity minority structure and penchant for investing in fast-growing late-stage companies is a good fit for the present debt- and growth-starved macro environment.

Median EV/revenue multiples on deals $2.5 billion-plus



Source: PitchBook • **Geography:** North America and Europe
*As of September 30, 2023

Median EV/revenue multiples on deals below $25 million



Source: PitchBook • **Geography:** North America and Europe
*As of September 30, 2023

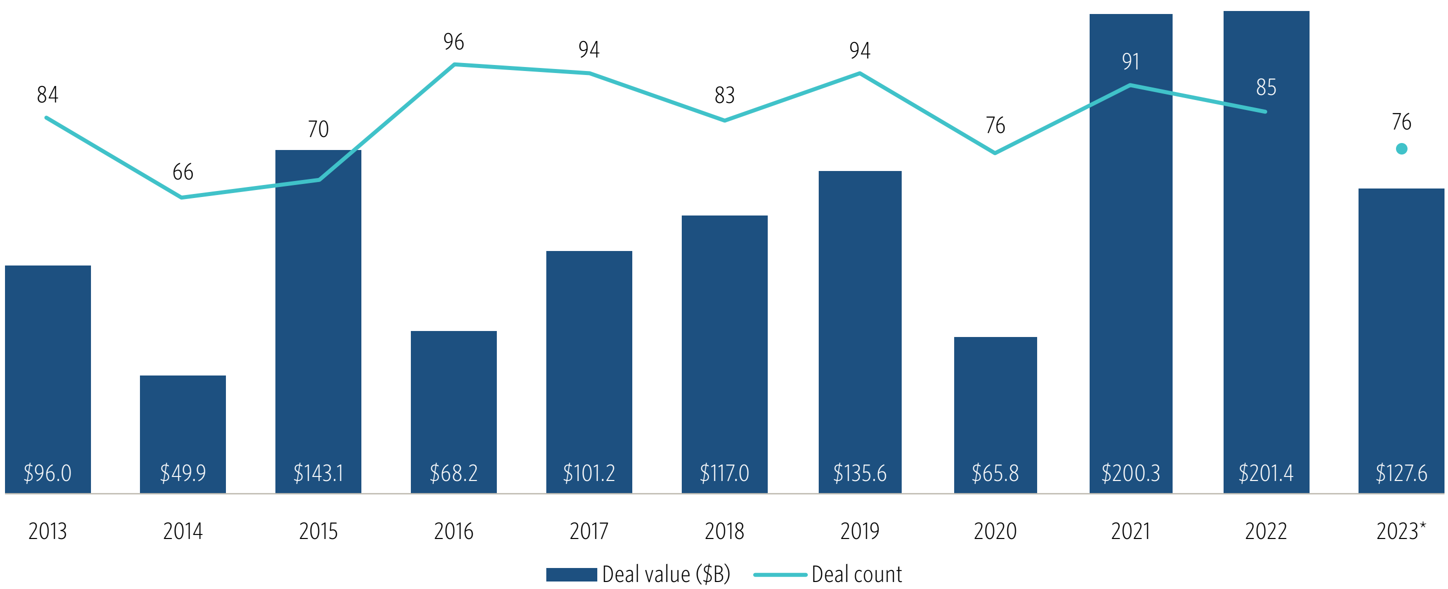
Valuations

It took two years from the 2021 peak, but prices paid for PE buyouts have finally cracked and are in full correction mode. This is most notable on an enterprise value (EV) to revenue basis. After moderating to 2.4x in 2022, revenue multiples have plummeted to 2.0x trailing 12-month (TTM), down 16.5%. Looking at EV to EBITDA multiples, the correction has been more moderate, easing from 12.7x in 2022 to 12.0x TTM, or -5.2%.

Breaking this down by sector, financials and consumers have suffered the worst peak-to-trough declines of 53.9% and 48.6%, respectively, while the resources sector is unchanged, and energy valuations are still rising. Tech multiples held up well heading into 2023 but have been hard hit ever since. Tech multiples are still at a premium to other sectors at 4.8x revenue on a TTM basis, but the median has fallen sharply to 3.7x on a YTD basis, down 21.6%. We take that as a sign of a narrowing bid-ask spread resolved in the favor of buyers—a theme echoed by many of the public PE management teams on their recent earnings calls.

Just as we found in our Global M&A Report, which incorporates the corporate buyer in addition to the PE buyer, there is a clear relationship between purchase price multiples paid and size. Valuations stepped up in order to buy scale and stepped down due to a lack thereof for smaller bolt-on deals. PE acquirers paid a median multiple of 3.2x revenue in megadeals of $2.5 billion or more in size, which is a 60% premium to the median multiple for all deals. While at first blush that may look like an enormous multiple and premium to pay, it was even higher last year at 4.8x, reflecting that valuations have fallen harder in this segment of the PE deal market as leverage for large deals grew scarce. Looking at the other end of the size scale—companies and deals below $25 million in value—significant discounts emerge with a median revenue multiple at 1.1x, or 45.5% below the median multiple paid for deals of all sizes. Multiples in this size category were relatively unchanged from last year. Everything else in the middle hewed closer to the 2.0x all-deals median and 16.5% average decline.

PE take-private deal activity



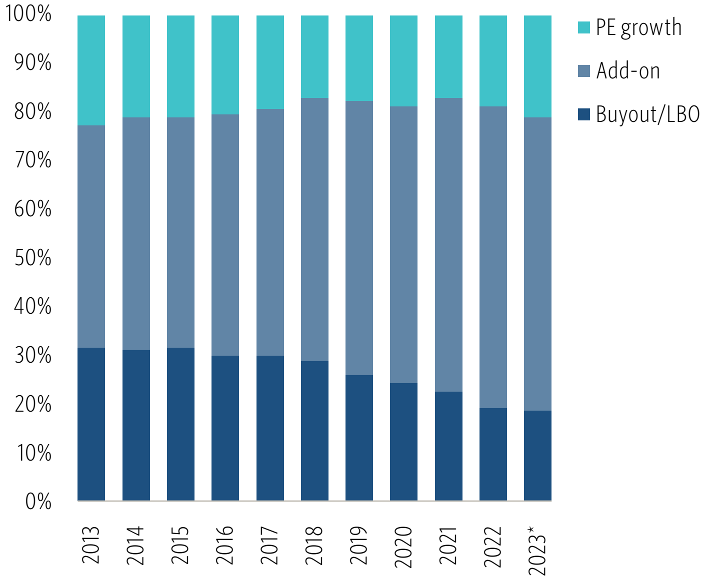
Source: PitchBook • **Geography:** North America and Europe
*As of September 30, 2023

Take-privates

Take-private activity slid in Q3 2023. While flat YoY, total value was down 45.0% from Q2. Deal count was relatively unchanged at 26 for the quarter, but due to a larger quantity of smaller deals, value totaled to $23.1 billion versus $42.0 billion the prior quarter. YTD, a total of 76 take-privates have been announced in the US and Europe and $127.6 in value, down 27.7% from last year. Still, take-privates are on track to exceed $150 billion for the third consecutive year in a record run.

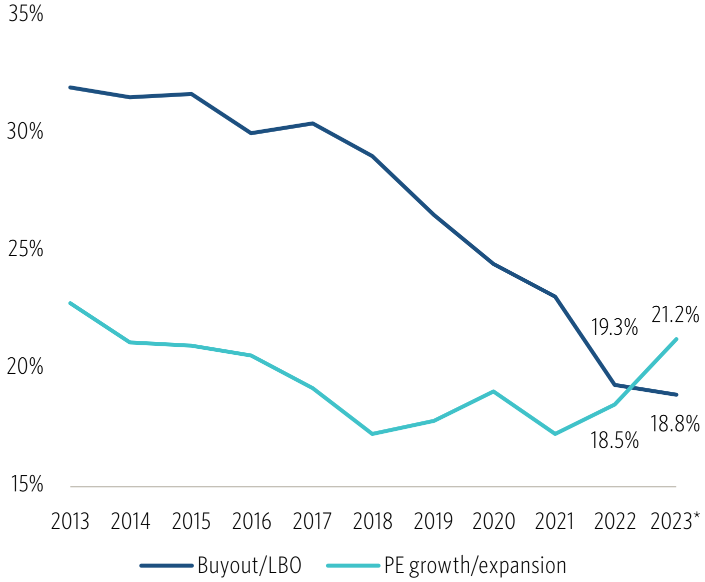
Examining the Q3 data reveals a continued trend of take-privates getting smaller and migrating to the sub-$1 billion size range—what we define as the middle market in a private markets context but nearly micro-cap in a public markets context. A total of 17 deals, or 65.4% of Q3's total, involved sub-$1 billion companies, up from 51.8% in Q1. The median size of all take-privates in Q2 was abnormally low at just $520 million. Fewer recent listings fell into Q3's deal list, or what we call the "boomerang" stocks: companies that went public between 2020 and 2022, only to go private again years later. Four of the sub-$1 billion take-privates fit that description in Q3, down from six in Q1, and there are plenty more to come. Over 1,000 unicorns were taken public in the last take-public wave, with two-thirds having been rendered sub-$1 billion companies as a result of the 70% to 80% price declines.

Share of PE deal count by type



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

Platform LBO versus growth equity share of PE deal count



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

Growth equity

Growth equity has seen good relative strength lately. The strategy made up 15.0% of all PE deals in Q3. As recently as Q2 2022, its share was exactly half that at 7.5%. On a deal count basis, growth equity accounts for one out of every five PE deals; but since check sizes are much smaller than buyouts, share of value is always lower. Still, 15.0% represents a new quarterly high and well above its historic 10-year average of 9.2%. Growth equity deal count overtook platform LBO deal count in Q1 2023 for the first time ever, and that trend has persisted ever since. 2023 will likely be the first year that growth equity outnumbers LBOs, excluding add-ons.

Growth equity, of course, avoids the costly debt expense, as it typically employs all-equity deal structures. It targets fast-growing companies and provides expansion capital to accelerate and scale that growth to achieve superior unit economics. Its main weapon is operating leverage, not financial leverage, and that is the name of the game in the current macro environment: unlocking EBITDA margin and EBITDA growth wherever and whenever possible. Increasingly, these investments are aimed at achieving climate and social impact as well.

Among the more notable deals in Q3, $700 million in debt and expansion capital was provided to sustainable steel startup Hybar, with the equity portion coming from TPG's Rise Climate Fund. Proceeds will be used to build a technologically advanced scrap metal recycling steel rebar mill that positions the company to become the lowest greenhouse gas (GHG) emitting North American steel producer. It's estimated that the global steel industry accounts for 7% to 9% of global CO_2 emissions today.[1]

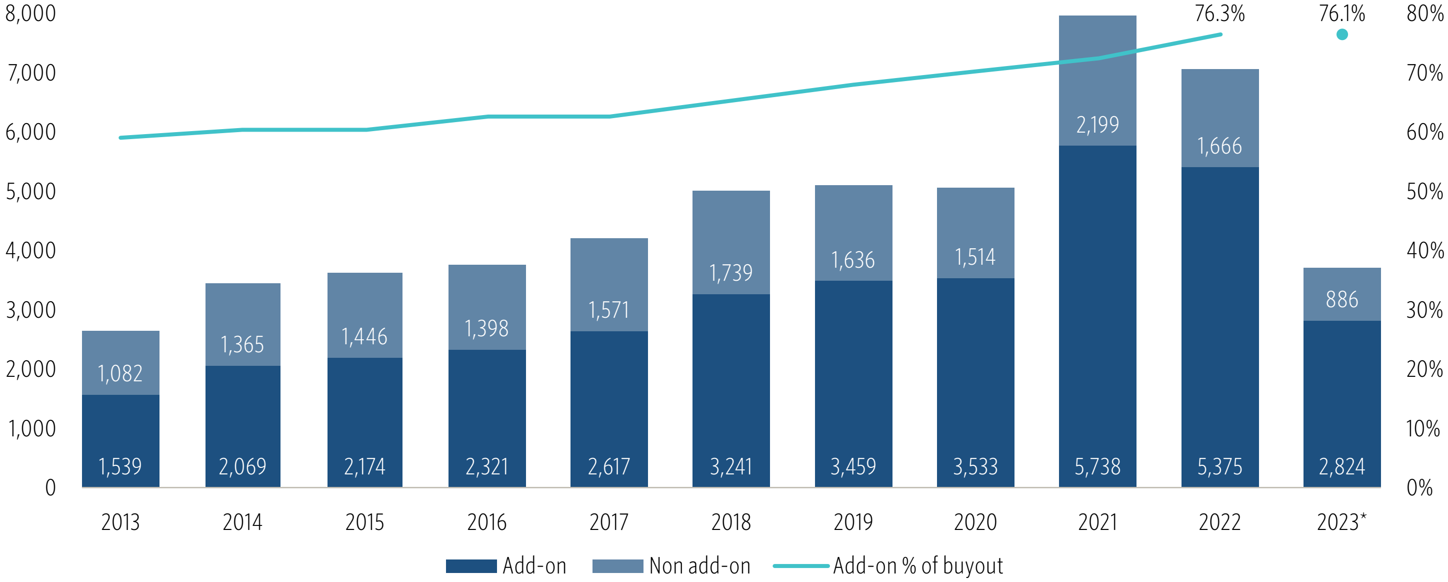
In July 2023, o9 Solutions, an AI software platform provider for planning and decision-making at global enterprises, received an additional $116.0 million in funding from General Atlantic's beyondNetZero growth equity climate fund alongside existing investors Kohlberg Kravis Roberts (KKR) and Al Gore's Generation Investment Management. The investment follows a period of 55% YoY growth in annual recurring revenue, and values the company at $3.7 billion, up from $2.7 billion since the last investment in January 2022.[2]

In September 2023, ICG's infrastructure team entered into an agreement to make a $400 million EUR investment in US-based Enfinity Global, an operator of solar power plants and one of the fastest-growing independent power producers globally. Proceeds will strengthen the company's balance sheet and accelerate the completion of its 17-gigawatt portfolio including energy storage assets.

1: "Sustainable Steel Startup Hybar Raises $700 Million," ESG Today, Mark Segal, August 2, 2023.
2: "Existing Investors Double Down on o9 Solutions' Growth With Incremental Investment at $3.7 Billion Valuation," o9, July 19, 2023.

Sponsored by

Add-ons as a share of all PE buyout activity



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

Add-ons

Add-ons have leveled off lately but are still at a near record high share of all PE buyouts at 76.1% YTD, making it relatively unchanged from 2022.

Add-ons have been instrumental in keeping the PE flywheel spinning during this period of tight credit and market dislocation. They allow PE sponsors to continue deploying capital while taking down deal size and biding time until lending markets can support larger platform buyouts. Add-ons have always been easier to finance, given their smaller size and ability to rely on the existing credit lines of their larger platform acquirer. Since 2018, $333.8 billion in leveraged loan deals have been closed for M&A purposes by 479 unique PE-backed issuers. While many tend to be refinanced within the first two to three years, the ones immediately predating the historic rate hikes of 2022 are likely to be still outstanding given their typical seven-year term. These older facilities are likely to have more advantageous spreads and other terms than what is available today, making them less expensive. This allows these PE platforms to continue with their buy-and-build strategies, albeit in smaller increments that add-on deals are known for.

There were two debt financings above $1 billion in the syndicated loan market for PE-backed companies seeking add-on facilities. Osaic Holdings, a wealth management firm with 11,000 advisors, was acquired in a $2 billion LBO in 2019 by Reverence Capital. It has since added on four times including the $1.2 billion acquisition of Ladenburg Thalmann. It closed on a $1.7 billion facility in August to support additional M&A.

The second was OMNIA Partners, a provider of procurement and purchasing services intended for the nonprofit, multifamily housing, public, and private sectors. Acquired by TA Associates for $236.0 million in 2016, AustralianSuper, Leonard Green, and Claritas Capital have provided additional growth rounds. It has completed nine add-ons under its current PE ownership and is looking to do more with a $1.8 billion facility.

Notable transactions in Q3 include the $230.0 million acquisition of Fiserv's Frontier Reconciliation business by Trintech, a Vista and Summit Partners platform company. Trintech is a financial close solution for finance and accounting departments serving large enterprises. The acquisition further enhances the company's portfolio of financial capabilities and provides access to Frontier's 400 blue chip clients across the globe.

In July, Carlyle and Warburg-backed Duravant acquired PPM Technologies for $85.0 million from Stonehenge Partners. PPM is a manufacturer of high-quality conveying, coating, and thermal equipment. The acquisition complements Duravant's existing suite of products in its food processing and handling equipment portfolio. Duravant is a global engineered equipment and automation solutions provider to the food processing, packaging, and material handling sector. It followed with another add-on in August, acquiring National Presort Services, a provider of automated handling solutions, for an undisclosed amount. The company has made 12 add-ons since its acquisition by Warburg in 2017.

Carveouts

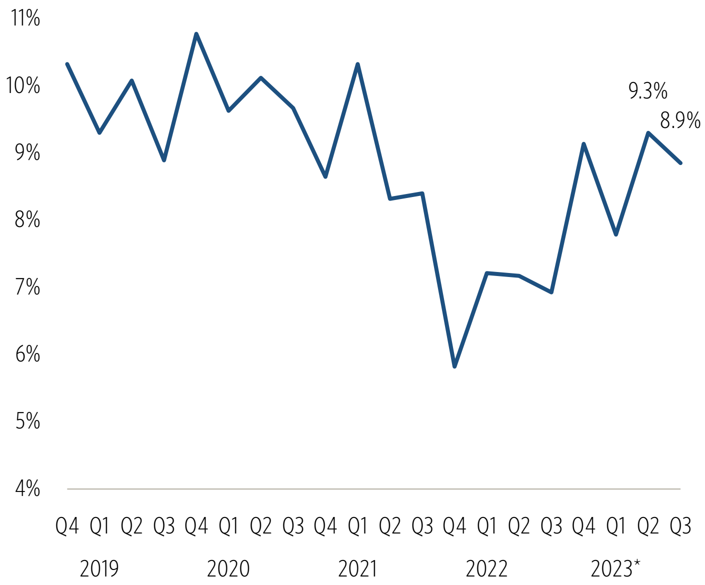
As headwinds to dealmaking persist, GPs are active in pursuit of corporate carveouts and divestitures from larger entities, hoping to find a diamond in the rough. Increasingly, large capitalization companies are viewing the stabilization in both inflation and interest rates as a cue to proceed with long-planned portfolio pruning and finalizing sales of non-core units. Such actions enable the parent company to recast its financials minus the albatross asset, giving management the opportunity to paint a rosier narrative to investors.

GPs often find these transactions to be easier to finance—with Worldpay being a notable example—and employ a range of plays to create value when acquiring carveouts. These can be new platform companies or add-ons that increase scale and achieve synergies. Carveouts amounted to 8.9% of all US PE buyout deals in Q3 2023, as activity continues to build from the recent low of 5.8% in Q4 2021. We expect the mix to continue increasing toward the 2017 to 2019 average of 10.1%, on a path to mean reversion. As corporate sellers often have more financial flexibility to wait out economic volatility, we believe the recent macro stabilization will be a positive catalyst for companies proceeding with sale plans, if they have been waiting this out. A deal also helps management stay ahead of a potential recession, even if the consensus is that one will be avoided.

Several large carveout assets were scooped up by PE buyers in Q3 in the media and B2B sectors, and there was a notable missed opportunity in aerospace. Media conglomerate Paramount Global announced the sale of its Simon & Schuster unit, a leading publisher of digital and physical book titles, to KKR for $1.6 billion on August 7, 2023. KKR swooped in after a federal judge blocked a prior agreement to sell the unit to a rival publisher, Penguin Random House, after citing concerns about market consolidation and a likely reduction in competition. Deal funding will include a leveraged loan of approximately $1 billion.

ADT announced the sale of its commercial security, fire, and life safety business unit to private equity firm GTCR for $1.6 billion. This marks GTCR's fourth investment in the security and fire sector, and the firm noted the possibility of additional strategic M&A.[3] ADT will use the proceeds of the sale for debt reduction and noted the interest savings will approximately offset the impact of divesting the unit.[4]

Carveouts/divestitures as a share of buyouts by quarter



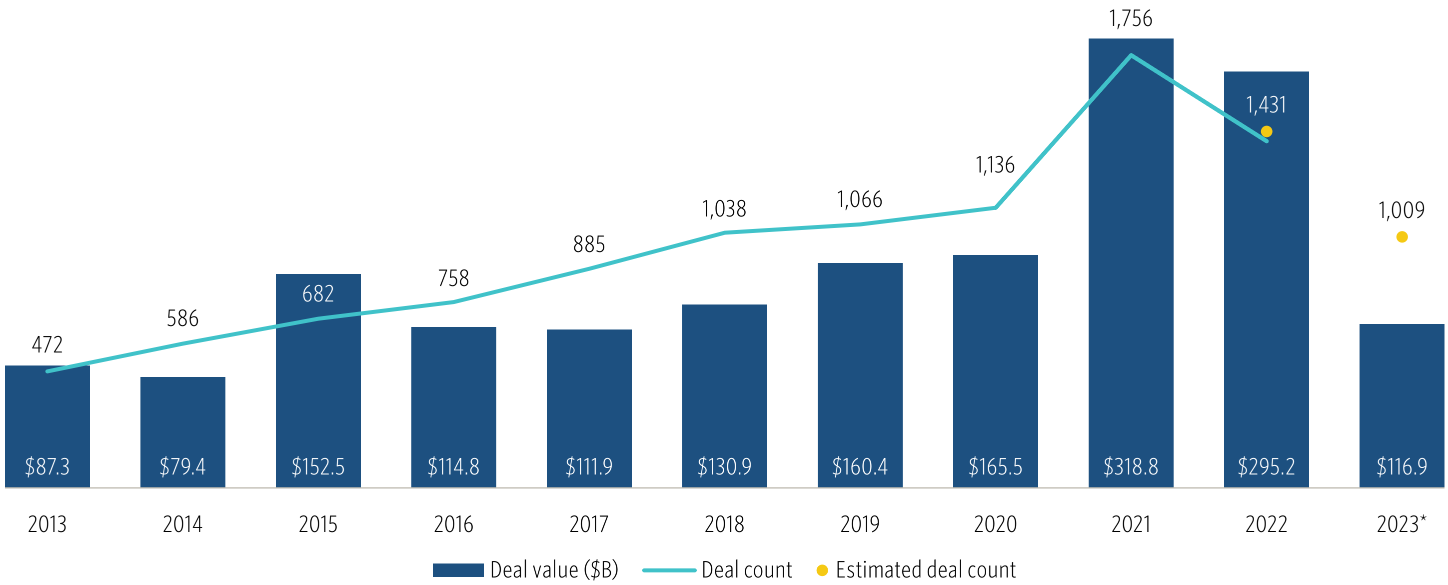
Source: PitchBook • **Geography:** US
*As of September 30, 2023

GTCR was very busy on the carveout front. While technically a UK-based company, Worldpay is being carved out by US parent FIS Data in a deal that values the company at $18.5 billion, and lines up GTCR once again as the buyer of a 55% majority stake. The deal ranks as the second largest PE-led LBO in the financial sector after First Data in 2007, and it is the ninth largest debt package in support of an LBO—$9.4 billion comes from both the syndicated loan and high-yield bond markets. Both offerings were led by banks, and the cross-border term loan offering was upsized in the end to $5.2 billion from $3.4 billion. This is the second courtship of Worldpay by PE, with Advent International having grown it through acquisition before exiting in a $48.2 billion sale to FIS in 2019.

After Ball Corporation initiated a sale process for its aerospace unit, several PE firms were reportedly in the running to acquire it.[5] The prevailing bid, however, was ultimately provided by a corporate buyer, BAE Systems, which agreed to pay $5.6 billion in cash, or 19.6x EBITDA.[6] This is a reminder that even when multiple PE firms line up for a carveout target, they may face stiff competition from strategic buyers with more favorable costs of funding.

3: "GTCR Partners With Former GTCR Executives to Acquire ADT's Commercial Fire and Security Segment," Cision PR Newswire, August 8, 2023.
4: "ADT Announces Sale of Commercial Business For $1.6 Billion," ADT, August 8, 2023.
5: "Exclusive: PE Firms, Defense Companies Vie For Ball Corp's Aerospace Unit," Reuters, David Carnevali and Mike Stone, July 7, 2023.
6: "Ball Announces Agreement to Sell Aerospace Business for $5.6 Billion," Ball, August 17, 2023.

Information technology PE deal activity



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

Technology

Overall technology deal value faded in Q3 2023 to $28.8 billion, down 23.5% from last quarter and 39.5% from last year's Q3, as conditions for dealmaking continue to be challenging. On the basis of volume, it was a similar story, with 229 deals in the quarter, down 15.5% from last quarter and down 27.8% from last year's Q3.

Software

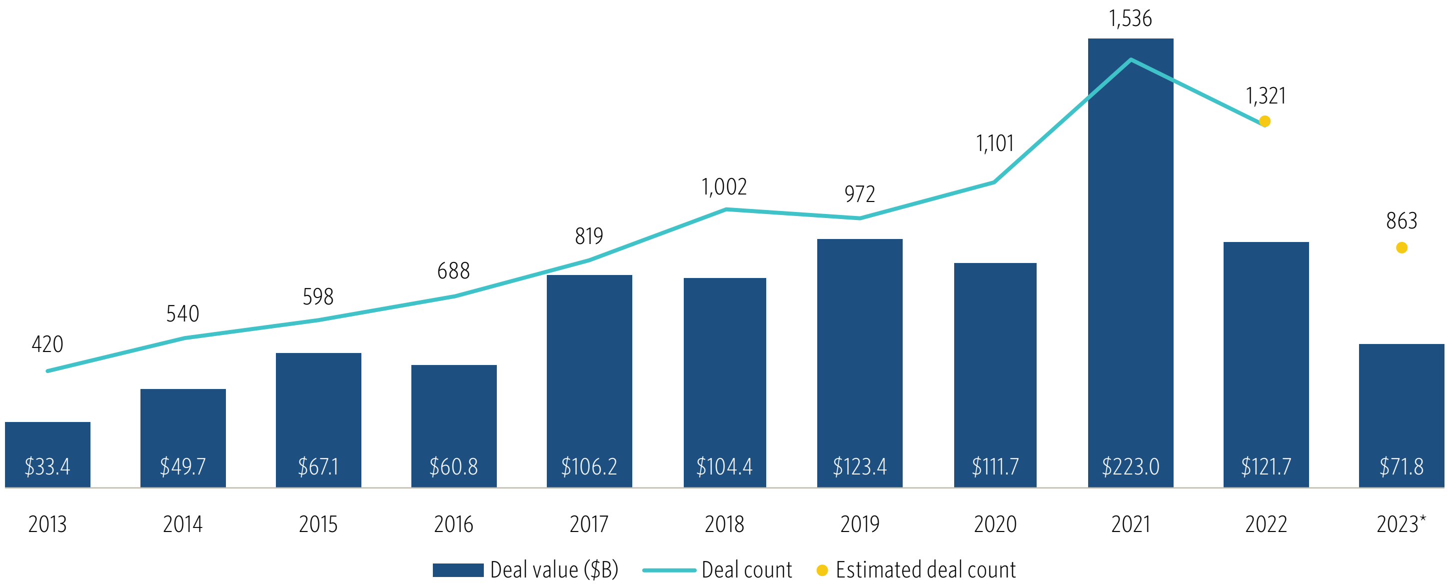
Homing in on software specifically, 2023 is shaping up to be a step downward from the recent highs of 2022, yet above pre-pandemic levels. Importantly, 2022 was a high-water mark for software PE activity, especially compared with the general rout of software equities in public markets at the time. Unsurprisingly, in the first nine months of 2023 (YTD), software PE activity declined by 57.9% in deal value and about 28.5% in deal count when compared with the first nine months of 2022. Yet, relative to the pre-pandemic average for the first nine months of 2017 to 2019, we find 2023 is actually up by 18.3% in deal value. These trends support our view that the software sector is increasingly important and a focus for PE investors in the post-pandemic-peak investing landscape; yet, the period from January 2021 to June 2022 was an anomaly.

Looking at the software sector's share of overall PE deal value and PE deal count, the sector declined modestly. While 2022 was an exceptional year for software activity, with the proportion of deal value rising to a high of 20.4%—compared with a five-year average of 15.1%—Q3 2023 fell to 11.1% of total deal value. We believe this is in part due to a wide bid-ask spread on software assets, as macro headwinds impacted IT budgets and software spending on the whole, and asset owners have preferred to wait out the capital markets volatility before selling.

The software sector topped the technology deal leaderboard in the quarter with New Relic announcing that Francisco Partners and TPG agreed to take the company private in a $6.5 billion all-cash transaction,[7] equating to 6.8x TTM EV/revenue. New Relic is an observability platform enabling engineers to access and analyze all telemetry data on IT environments and improve reliability and operational efficiency. The purchase price of $87.00 per share was approximately a 30% premium to New Relic's LTM volume-weighted closing price as of the deal announcement date.

7: "New Relic to Be Acquired by Francisco Partners and TPG for $6.5 Billion," New Relic, July 31, 2023.

Healthcare PE deal activity



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

Healthcare

Healthcare PE activity continued to experience cyclical pressures in Q3 2023. Healthcare accounted for just 9.5% of PE deal value in the quarter and 11.7% of deals YTD, putting it several percentage points below the long-term average. Discrepancies remain between buyer and seller expectations; this is a contributing factor to there being only 162 recorded healthcare PE deals in the quarter versus 228 in Q2, and down significantly compared with the 301 deals from Q3 of last year. PE firms that leaned into labs, testing, and healthcare services during the pandemic may be looking to reduce their healthcare exposure as pandemic tailwinds subside.

On the positive front, plus-sized deals reemerged in Q3. Over the past five years, there has been an average of 10 deals that are $1 billion-plus, and 2023 has already matched that figure with 10 deals of $1 billion or more through the third quarter. Perceived economic stability has driven deal flow at the top of the market, and financing prospects have improved somewhat as the system recovered from the Q1 banking crisis spurred by Silicon Valley Bank's collapse, and the syndicated loan market cracked open. Leading the way at the top of the market was NextGen Healthcare's take-private by Thoma Bravo at a $1.8 billion deal size, and Schülke & Mayr's €1.4 billion buyout by PE groups Athos, Bitburger Holding, and other investors. While not quite at the same scale, the NextGen Healthcare deal is comparable with Athenahealth's 2022 buyout by Bain Capital and Hellman & Friedman, and a further sign that PE sees potential to consolidate the relatively fragmented ambulatory/group practice electronic health record space.

From a sector perspective, there was a decent number of healthcare services deals in the long tail of PE deal flow in the quarter, and services accounted for about 62% of total deal flow. While staffing cost inflation has subsided, the sector still faces headwinds from higher expenses broadly and flat-to-negative reimbursement dynamics. Pharmaceuticals, along with drug discovery, has been more concentrated in larger deal sizes, including buyouts of Fabbrica Italiana Sintetici, Ergomed, and Thorne Research. And in the medtech sector, the third quarter was a light period overall with few notable deals. Though there hasn't been a deal update on Medtronic shopping, its patient monitoring business Carlyle was rumored to be bidding through its newly formed healthcare investment platform Atmas Health. Regardless of the outcome of the Medtronic transaction, we expect Carlyle's Atmas to be active in potential deal negotiations over the next year, particularly if private market deal conditions continue to improve.

A WORD FROM BARINGS
Capital solutions: Flexible financing

Bryan High

Head of Capital Solutions

Bryan High is the Global Head of Capital Solutions. He currently serves on the investment committees for Capital Solutions and U.S. High Yield. He is an acting Vice President for Barings BDC Inc. and a member of the Board of Directors for Eclipse Business Capital LLC and Coastal Marina Holdings, LLC. He graduated with distinction from the University of North Carolina at Chapel Hill with a B.S. in Business Administration.

Describe what a "capital solutions" strategy is and how it differs from traditional sponsored finance.

The term "capital solutions" has become an increasingly popular way to describe flexible, often credit-focused strategies that provide investors access to unique or bespoke deal flow and sponsors and borrowers access to customized financing packages. In particular, a capital solutions strategy aims to create a tailored solution for those sponsors and borrowers that may be in complex situations and are seeking an alternative to traditional capital markets financing. At Barings, our Capital Solutions platform sits at the intersection of public and private credit markets, where we are positioned to leverage the firm's deep industry knowledge, sector coverage, and cycle-tested experience structuring unique or complex financings.

From a borrower or sponsor's perspective, it's important to note the difference between traditional sponsored finance and capital solutions strategies. The former is typically more akin to assembly lines producing standardized products (typically first-lien loans with covenants) while the latter may be more appropriately thought of as "custom builds" that depend greatly on the unique needs, sensitivities, and objectives of borrowers and sponsors in very specific situations.

Exactly how flexible are "flexible capital solutions" strategies?

Capital solutions strategies can be flexible in a number of ways. At Barings, we have visibility into a wide variety of investment instruments up and down the capital structure—from debt through to equity. Our solutions can take on several different forms, from opportunistic lending to structured asset financing to structured/preferred equity. Some of these financing solutions are more appropriate at distinct parts of the economic cycle, while others can be leveraged throughout the entire business cycle and/or may be more idiosyncratic.

Given that we are unconstrained by investment instrument, we take a solutions-focused rather than "product first" approach to create a customized financing package. This gives us the flexibility to support our borrowers as their financing needs evolve throughout the market cycle.

For example, when a large, well-established family business was seeking a solution after management had taken some missteps and was required to refinance, we partnered with them to simplify their balance sheet—and introduced some equity financing, which is not something they had previously considered. In this case, taking a more creative approach allowed them to continue their growth trajectory while making their financing obligations more manageable. Deals like this are often outside the remit of traditional direct lenders, but we've found that they can form the foundation of long-term financing relationships that can be fruitful for all involved.

What trends are you seeing across the market today?

On the deal origination front, one of the main trends that we're seeing is managers making strategic platform investments that themselves act as origination engines. For example, at Barings, we have ownership interests in Eclipse Business Capital, a non-bank asset-based lending platform, and Rocade, a litigation finance platform. In our view, these platforms can act as origination channels for unique deal flow in a growing area of the private credit market. From a solutions perspective, this gives us additional tools in our toolkit, enabling us to offer more creative financing solutions to the market. We expect to see this trend continue to gain steam in the industry.

Another trend we're seeing, in part related to the much-discussed "denominator effect," is pressure from LPs on their managers to return capital. This has led to traditional private credit lenders, in many cases, being less flexible with sponsors and borrowers who may see attractive growth opportunities but need financing support to pursue them. This is where we've seen opportunities for capital solutions platforms to step into the void that has been created, and to get creative by putting together sometimes non-traditional packages that help borrowers, sponsors, and investors stay aligned for the long term and potentially exit investments at a later time when conditions may be more favorable.

A final trend we're seeing is a rise in the number of stressed situations emerging across the market, which is creating investment opportunities in the opportunistic lending space. In our view, opportunistic lending is the core of a capital solutions portfolio. In most cases, bilateral senior loans are made to companies facing economic challenges or those in illiquid situations that are unable to access traditional capital markets. For instance, some companies have holdover issues from the pandemic, while other companies may have had strategic missteps and/or have been hit hard by the rapid rise in base rates. These companies are seeking solutions—and again, by taking a creative approach, we believe it is possible to structure financing packages that help businesses continue to grow even through difficult times and do so while ensuring stakeholder alignment.

What are the potential benefits of partnering with a large investment platform?

In the capital solutions space, there are a number of important considerations to be aware of when considering partnering with an investment platform. In our view, large, well-established platforms offer a range of benefits—especially when the emphasis is on forming a long-term relationship, rather than simply focusing on an individual transaction.

In particular, a larger investment platform has the ability to be a one-stop financing shop for a company as its business evolves. At Barings, for instance, our Capital Solutions team may initially work with a borrower on a debt financing. As the company delivers on its performance targets and its financing needs evolve, we have the ability to work with our middle market, direct lending team. Subsequently, if the business continues to grow and mature, we can seamlessly transition it to our broadly syndicated credit group, which is one of the largest in the industry.

Coastal Marinas (CMH), an owner and operator of marinas in Charleston, South Carolina, is a good example of a capital solution in action. Barings partnered with CMH to creatively structure a long-term financing package that incentivizes growth and reinvestment—including providing CMH a delayed-draw term loan in 2021 followed by structuring a common equity line in 2022. In our view, this has given CMH the flexibility to pursue growth at its own pace while maintaining a strong balance sheet and financial flexibility.

Managers that have broad and deep experience crafting solutions over an entire market cycle are well placed to provide stability through evolving markets. Barings is a subsidiary of a Fortune 100 insurance company in MassMutual, which brings with it a long history of stability through the ups and downs of market cycles. This positions us to truly take a long-term approach and be a supportive and strategic financing partner.

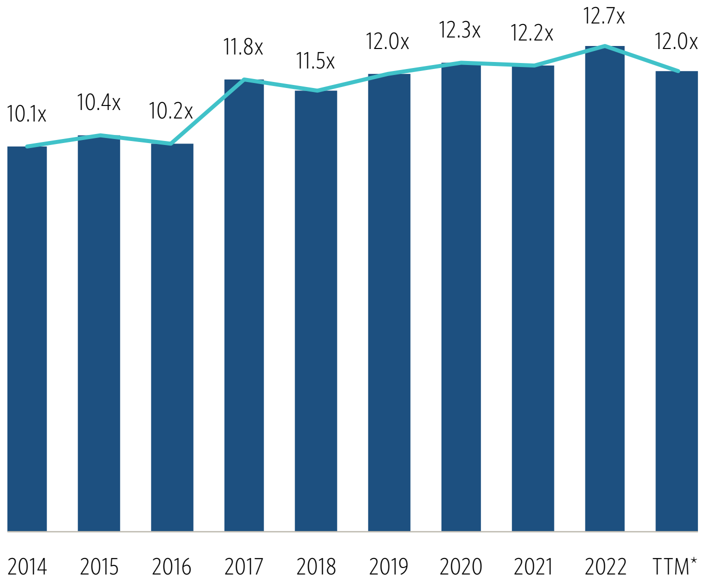
Ultimately, capital solutions are about creativity and long-term partnerships. As the financing landscape continues to evolve in areas of the market such as private credit, we expect demand to continue to grow for bespoke, customized financing packages, and we believe capital solutions strategies will be a big part of filling that void.

PitchBook

Sponsored by STOUT BARINGS

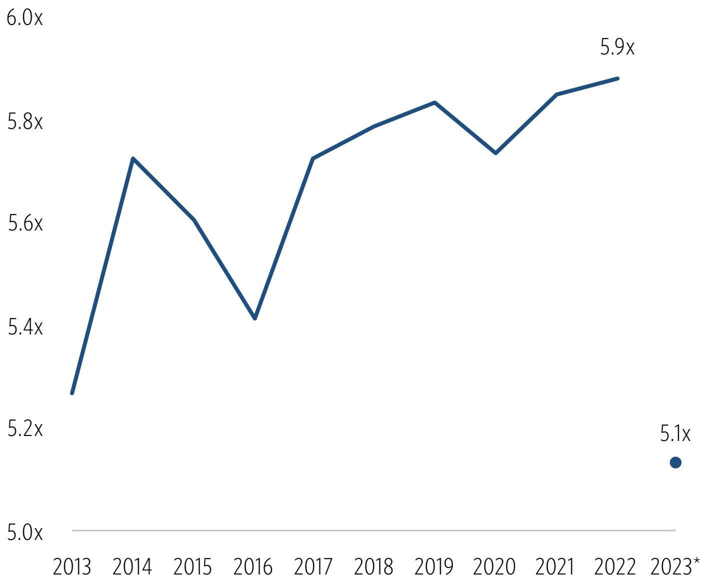
Deal valuation and debt metrics

Median PE EV/EBITDA multiples



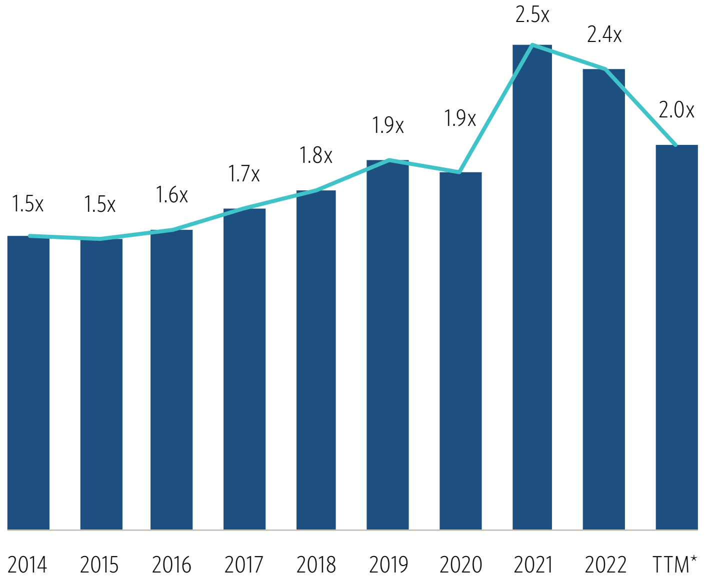
Source: PitchBook • **Geography:** North America and Europe
*As of September 30, 2023

Average PE debt/EBITDA multiples



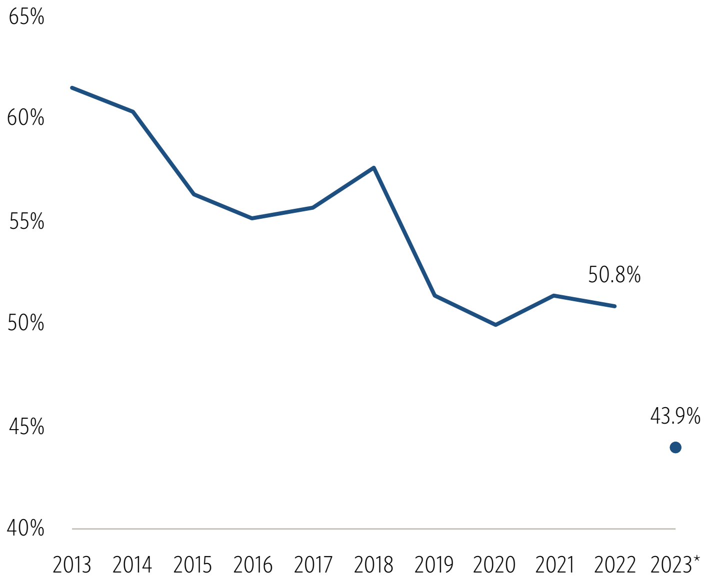
Sources: PitchBook | LCD • **Geography:** North America
*As of September 30, 2023

Median PE EV/revenue multiples



Source: PitchBook • **Geography:** North America and Europe
*As of September 30, 2023

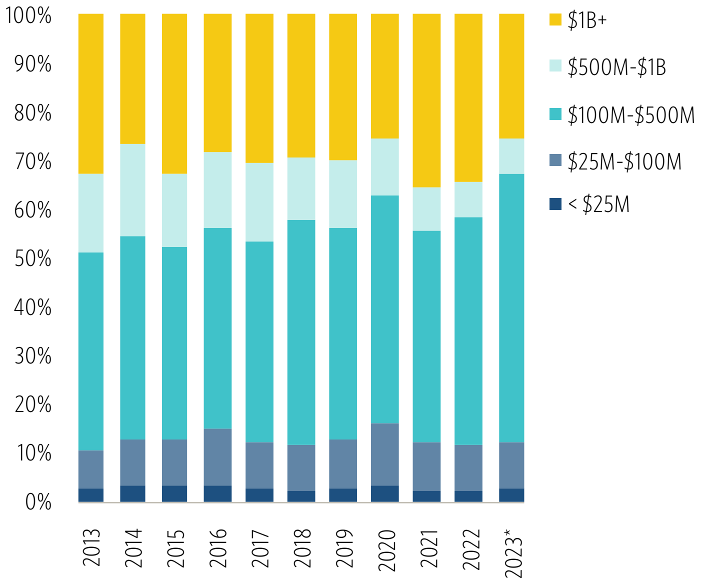
Share of PE LBO debt to EV



Sources: PitchBook | LCD • **Geography:** North America
*As of September 30, 2023

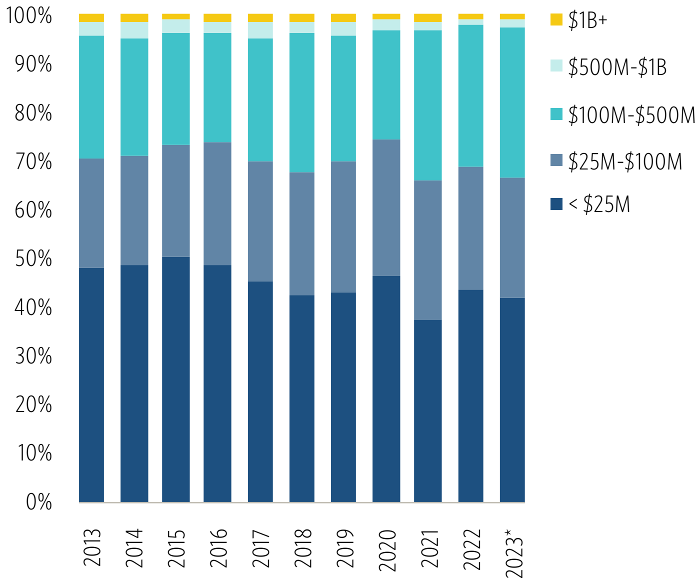
Deals by size and sector

Share of PE deal value by size



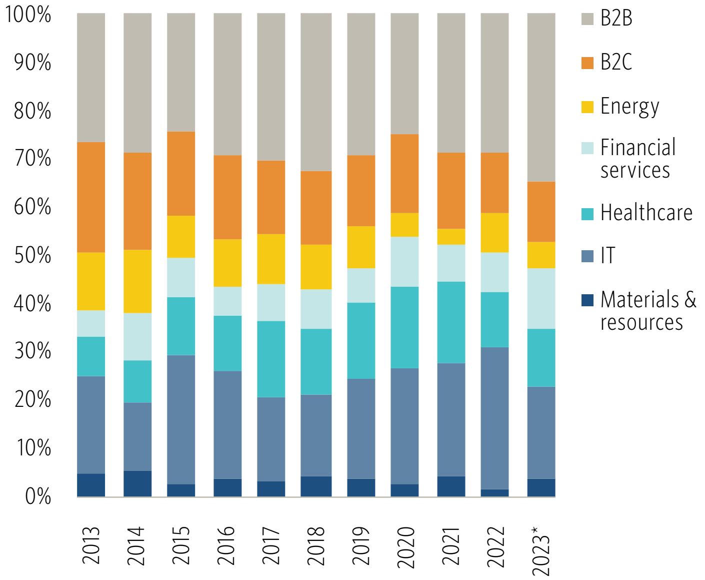
Source: PitchBook • **Geography:** US
*As of September 30, 2023

Share of PE deal count by size



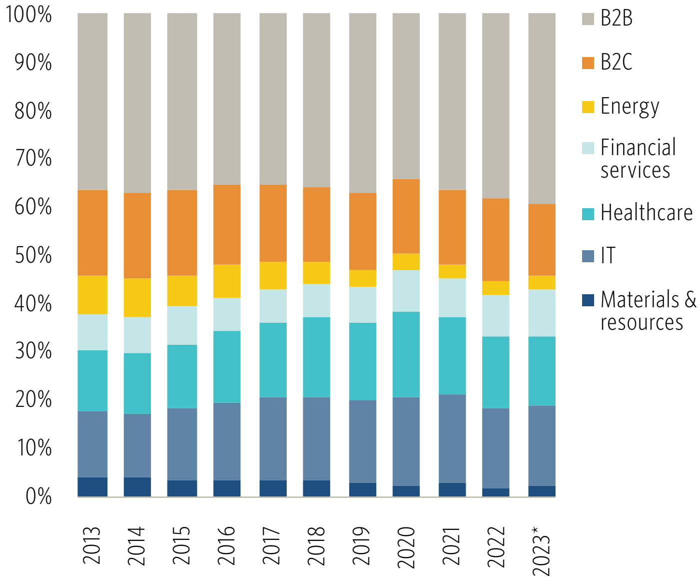
Source: PitchBook • **Geography:** US
*As of September 30, 2023

Share of PE deal value by sector



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

Share of PE deal count by sector

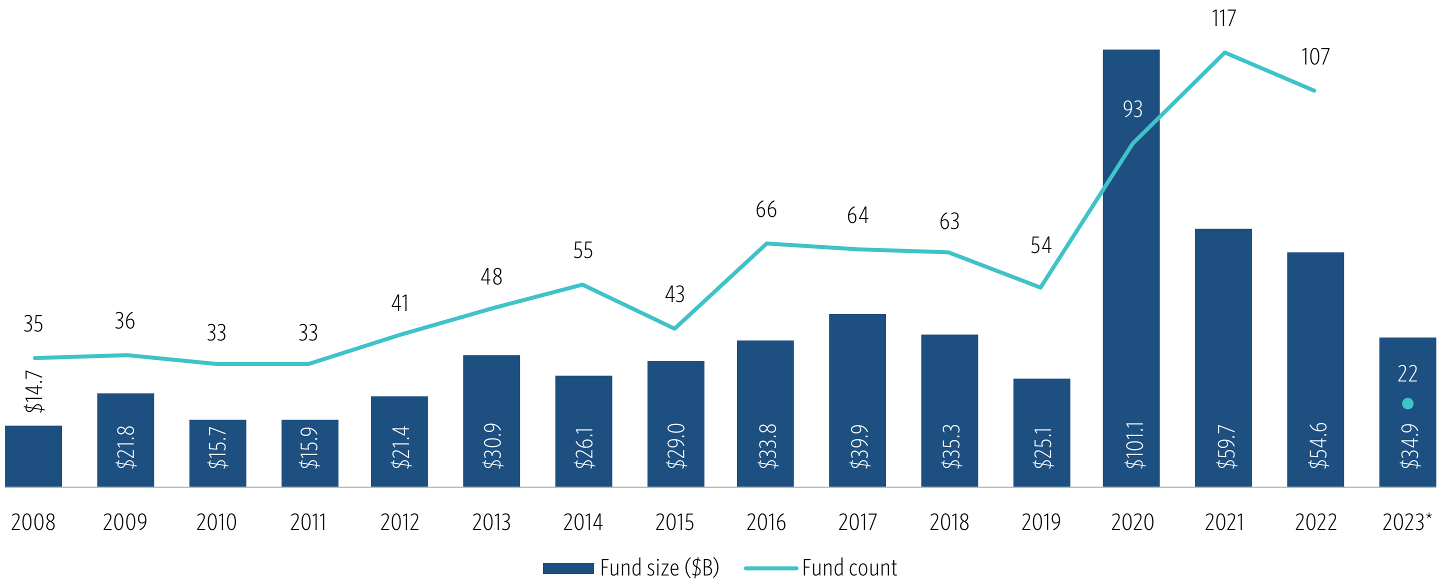


Source: PitchBook • **Geography:** US
*As of September 30, 2023

SPOTLIGHT

Secondaries and Liquifying Illiquid Investments

Secondaries fundraising activity



Source: PitchBook • **Geography:** Global
*As of June 30, 2023
Note: This chart originally appeared in the PitchBook Analyst Note: The Evolution of Private Market Secondaries.

Note: This spotlight is excerpted from our analyst note, Secondaries and Liquifying Illiquid Investments*, which recapped our webinar featuring three experts on private fund secondary transactions:*

- *Faris Elrabie, Managing Director of Greenhill's Sponsor Solutions platform in North America*
- *Kevin Dunwoodie, Partner on Pantheon's private equity secondaries team*
- *Aaron Daley, Assistant Senior Investment Officer at Washington State Investment Board*

Key takeaway: Pricing in LP-led deals has started to bounce back in 2023, leading more LPs to bring portfolio deals to market. On the GP-led side, an overcrowded market is leading GPs to offer incentives to buyers, such as discounts, deferrals, earnouts, and preferred equity solutions.

The stalled exit environment left the secondary market as one of the only viable routes to liquidity for LPs. The growth in transaction volume has translated to an expansion of capital raised. Secondaries fundraising has started off strong in 2023, reaching $30.7 billion in Q1, mainly driven by Blackstone Strategic Partners' $22.2 billion close on its ninth secondaries fund. Additionally, there are several large funds currently in the market that are targeting north of $10 billion. On top of these large fundraising volumes is the $167.6 billion in dry powder dedicated to the secondaries market as of the end of Q3 2022.

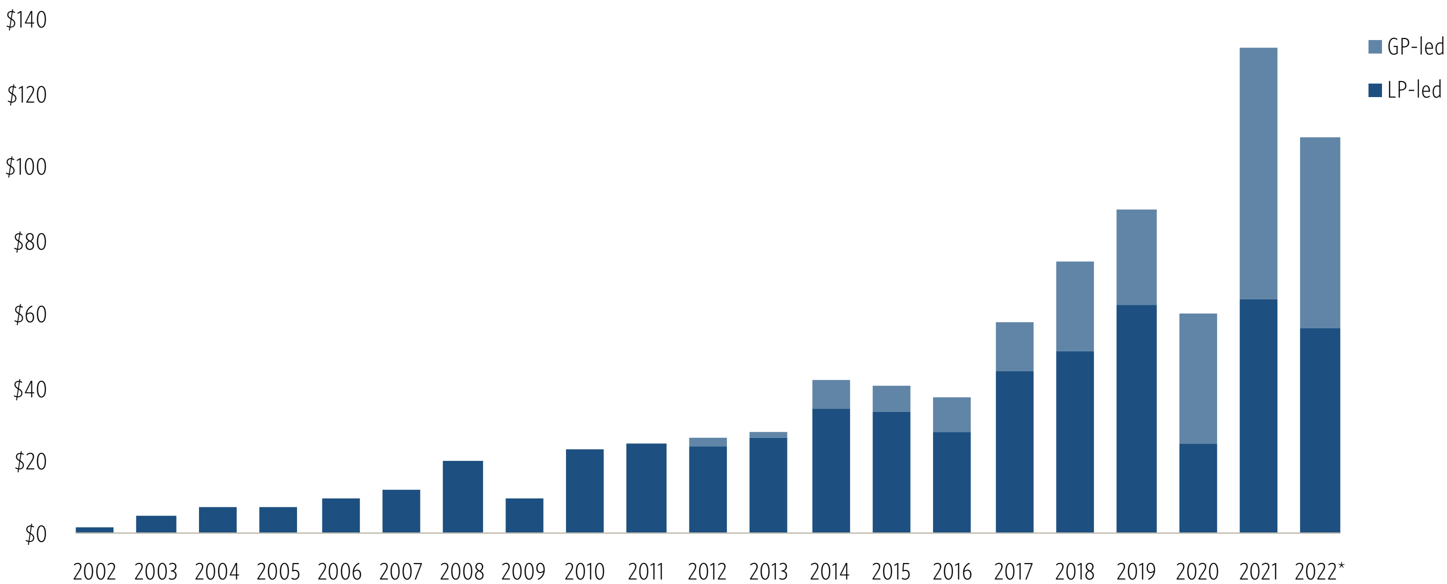
To start off the discussion, we first explored the factors that led to the slowdown in secondary market volume between 2021's record high of $134 billion and the $111 billion closed in 2022. According to our panelists, buyout funds commanded a high level of pricing coming out of 2021 in the mid- to high 90s relative to NAV. Dunwoodie noted that when volatility hit the markets in 2022, GPs argued that their assets had not been written up as much as the rest of the market in 2021; thus, when the public markets dropped in 2022, these valuations did not need to be revised as dramatically as secondary buyers were expecting to see. From the secondary buyers' side, while recognizing there may be truth in GP assessments on conservative valuations, viewing these marks against public comps in 2022 influenced how much buyers were willing to pay and how much risk they were willing to take in believing that these GP assessments reflected reality.

This put a damper on secondary activity as buyers, particularly on the LP-led side, became cautious because they expected private market valuations to eventually converge with public markets. In addition, there had been expectations that LP-led [selling] would experience a jump that did not materialize. "The denominator effect that everyone thought was going to cause a very large number of LPs to come to market to sell didn't necessarily happen to the same magnitude as we expected," said Elrabie. "I think that's because LPs probably used a number of portfolio management tools or reallocated their portfolios in a strategic way using NAV [loans] and preferred equity." As opposed to offloading fund positions for large discounts, these structured solutions allowed LPs to retain their interests while also generating much-needed liquidity.

How have LPs been feeling about continuation funds? "Most LPs I talk to are frustrated by continuation funds due to the conflicted nature of the transactions and also the burden that they place on LPs, many of which are spread quite thin already," said Daley. He also hammered home the need for sound logic for these transactions. "Some of the first things we want to look at are what is the rationale for the transaction and what is the GP trying to solve for? Is it because the fund is near the end of its life?" Daley was a member of the team that drafted the Institutional Limited Partners Association's guidance on continuation funds.

Looking ahead: Consensus seemed to be that the second half of 2023 will be more active than the first half, with LP-led volume overtaking GP-led volume by a 60/40 split, or perhaps even by 70/30. "I think some of what was happening in 2022 hung over into 2023," commented Elrabie. According to Dunwoodie, the amount of dry powder corresponds to only 1.3 to 1.5 years of runway. The limited supply of capital available for targeting secondaries deals may result in a market where these dollars end up chasing only trophy assets in the GP-led segment, as well as a beneficial pricing environment for secondaries buyers. Additionally, the trend of GPs offering secondaries buyers specialized structures—such as earnouts and preferred equity—is expected to continue due to this supply imbalance.

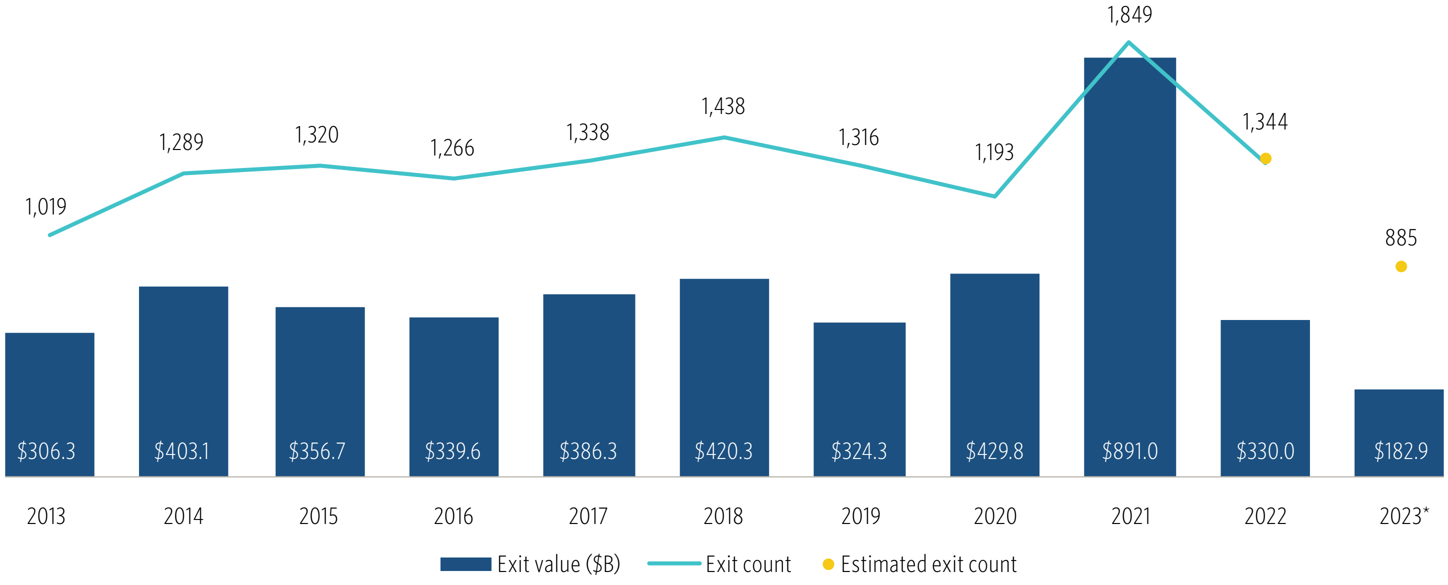
Secondaries market transaction volume ($B)



Source: Jefferies • **Geography:** Global
*As of December 31, 2022
Note: This chart originally appeared in the PitchBook Analyst Note: The Evolution of Private Market Secondaries.

Exits

US PE exit activity



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

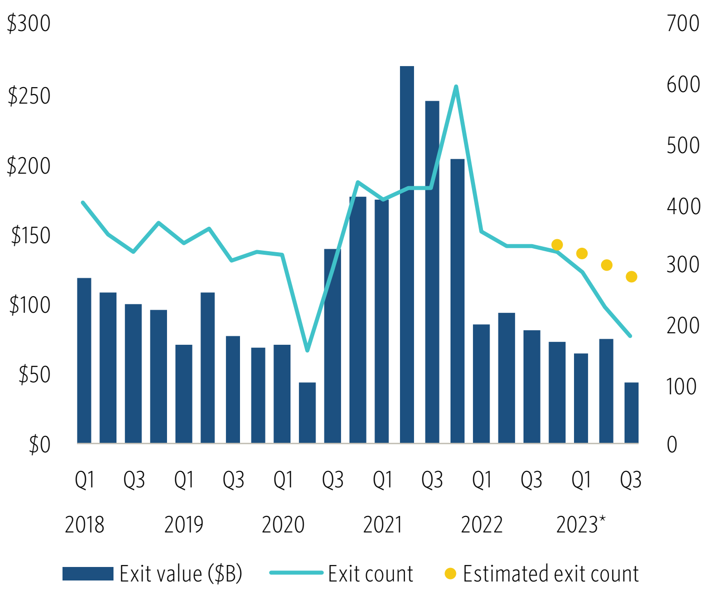
Overview

Following a bounce-back in exit value in Q2, exits have once again declined in Q3, thus resuming the downward trend. During the quarter, a total of 275 PE-backed companies exited, accumulating an exit value of $44.1 billion. This represents a decrease of 6.9% and 40.7% QoQ, respectively. Notably, the quarterly exit value of $44.1 billion—excluding Q2 2020 during the onset of the pandemic lockdown—marks the lowest recorded figure in more than 10 years. This observation potentially suggests a bottoming out for PE exits. The PE exit markets continue to show signs of fatigue, with both exit value and count remaining well below pre-COVID-19 averages (2017 to 2019) by 53.2% and 19.4%, respectively.

Private equity firms typically avoid being forced sellers, instead opting to hold on to promising assets until exit conditions improve. Consequently, the exit-to-investment ratio has hit a historically low mark, standing at 0.37x by the end of Q3 2023, compared with 0.48x in 2021 and 0.41x in 2022. YTD, the number of exits has declined by 13.2%, indicating that 2023 is likely to conclude as a more lackluster year in terms of exits.

In early 2022, IPOs virtually disappeared, with a quarterly average of only $2.0 billion since. GPs were cautious of the

US PE exit activity by quarter



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

unpredictable public stock markets, resulting in a quiet period for exits through public listings in the PE ecosystem. However, recently, several VC-backed companies have listed, bringing some activity to the broader IPO landscape. Despite the limited number of listings, there is a growing pipeline of PE-backed companies looking to go public. The IPOs of Arm, Klaviyo, and Instacart in September 2023 have provided a positive indication for those who have been hesitant to exit investments due to concerns about an unfavorable debut. Moreover, the valuation gap between private and public companies has once again widened, favoring the latter. This may entice sellers to consider the IPO route for listing their portfolio companies.

These VC-backed IPOs were actually preceded by a wave of PE-backed IPOs to begin the summer. There were three alone on the final day of Q2—Savers, Kodiak Gas Services, and Fidelis Insurance—with a fourth, Oddity Tech, to follow a few weeks later for $7.8 billion in combined exit value. This sequence was consistent with predictions that PE-backed companies might jump the IPO queue ahead of VC-backed unicorns due to a preference for later-cycle companies with more seasoned results. Once it is known whether the SEC stays open along with the rest of the US government, we would expect more PE-backed companies to test the IPO waters. We count 19 PE-backed companies that have either filed S-1s or are believed to be exploring public markets exit. These include a number of reenlistments from bygone years such as KKR-backed BMC Software being taken private in 2018 for $8.0 billion, and Platinum Equity-backed Ingram Micro, which was a $7.2 billion carveout from a public company in 2021 that traded as a standalone company in 2016.

Exits to corporates

Exits to corporates continued to take the lead in its share of total PE exit value, accounting for 56.6% in Q3 and 54.8% YTD. On an absolute basis, exit activity faltered, from 101 exits to corporates for an aggregate of $38.6 billion in Q2 to 94 exits for a total of $25.0 billion in Q3. The third quarter marked the worst ever for quarterly exit count to corporates and lowest quarterly exit value since Q2 2020, demonstrating the abysmal state of the exit environment. With a quarter left until the end of 2023, YTD exit value is tracking around 43.7% less than that of last year.

Still, those corporations with appetite for strategic investments and cash on hand have been pursuing large PE-backed deals, thus boosting exit activity. Median size of exits to corporates is $414.0 million, which is a huge jump from a previous record of $297.5 million in 2021. Four mega-sized exits to corporates were announced or closed in Q3 for an aggregate value of $9.1 billion. The largest exit to corporates was Thoma Bravo's announced sale of data security software developer Imperva to Thales Group for $3.6 billion in July. Thales, a French aerospace and defense group, will use the acquisition to enter the attractive application security market and expand its addressable market outside of its historic defense business and geographic reach.[8]

In B2C, Advent International announced its $2.7 billion sale of Sovos Brands to Campbell Soup in August. Sovos Brands, maker of popular Italian food brands like Rao's sauces and Micheal Angelo's frozen entrees, is expected to diversify Campbell Soup's Meals & Beverages portfolio with fast-growing brands.[9] Exits in B2C have been weak throughout the year as inflationary markets mean that companies are struggling to protect their margins while consumers are cautious in their spending habits. A few other sizable exits in the food & beverages space helped buoy the sector's Q3 exit activity, such as the $1.1 billion sale of Fogo de Chão from Rhône Group to Bain Capital and the $810.0 million sale of PE-backed Kevin's Natural Foods to Mars.

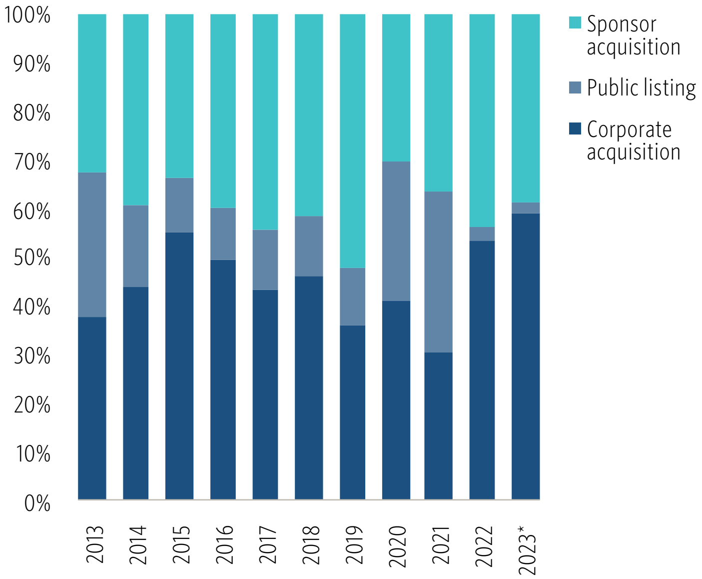
PE-backed IPOs YTD*

Company	Lead PE backers	Deal date (2023)	Initial valuation ($M)	Percentage change
Savers	Ares Management	June 29	$2,888.2	1.1%
Kodiak Gas Services	EQT	June 29	$1,200.0	14.6%
Fidelis Insurance	ADAI, CVC Capital, Crestview Partners	June 29	$1,650.8	5.9%
Oddity Tech	L Catterton	July 19	$1,978.9	-19.0%

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

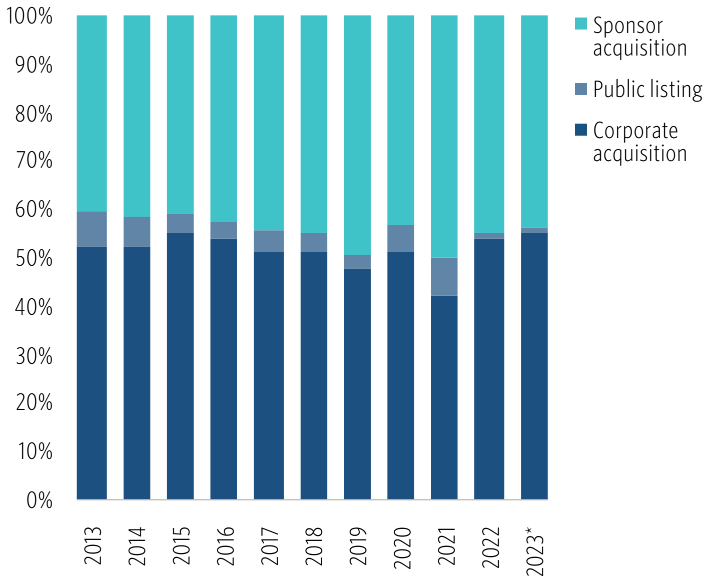
8: "France's Thales to Buy Imperva in $3.6 Billion Cybersecurity Deal," Reuters, Tim Hepher and Mathieu Rosemain, July 25, 2023.
9: "Campbell Soup Company Buys Sovos Brands, Maker of Rao's for $2.7 Billion," CNN Business, Eva Rothenberg, August 7, 2023.

Share of PE exit value by type



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

Share of PE exit count by type



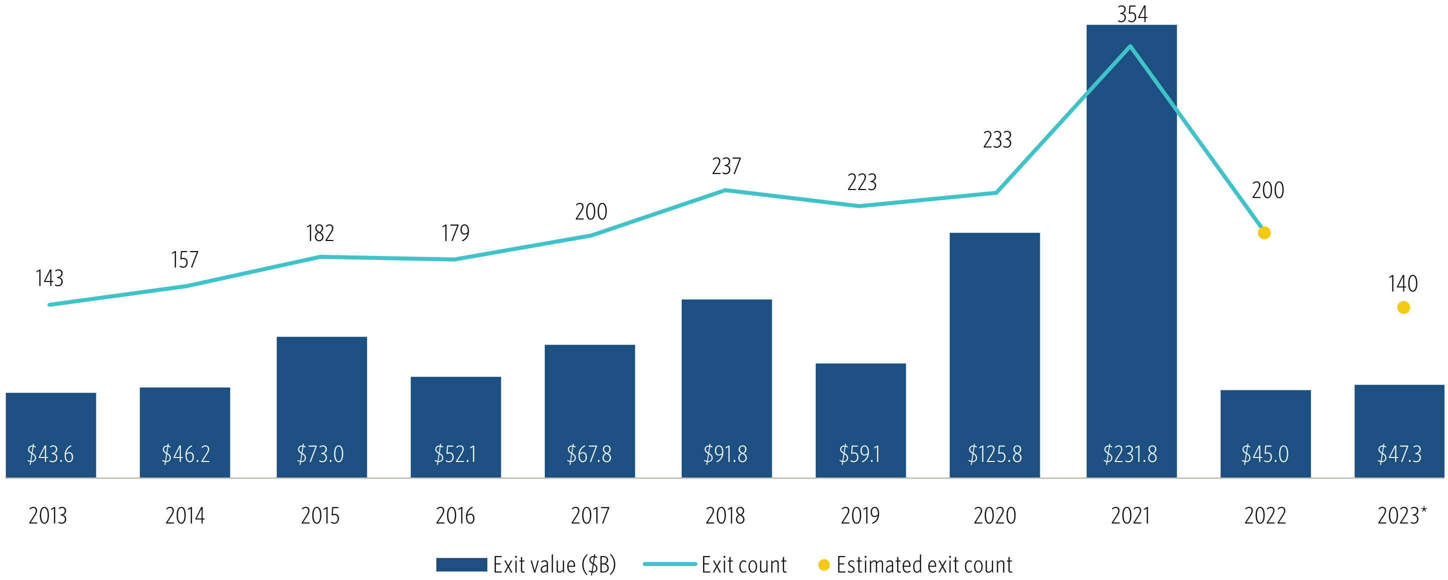
Source: PitchBook • **Geography:** US
*As of September 30, 2023

Sponsor-to-sponsor exits

Although we originally predicted that sponsor-to-sponsor exits will continue to take up a record portion of US PE exits in 2023, exits to other sponsors declined starting at the beginning of the year.[10] YTD, sponsor-to-sponsor exits accounted for 42.2% of total PE exit value compared with 43.8% in 2022. Economic uncertainty and valuation volatility reduced sponsor dealmaking and encouraged sellers to hold on to their portfolio companies for longer, reducing transactions between sponsors, while a challenged lending market further disrupted GPs' ability to acquire sizable PE-backed deals. Corporate buyers, on the other hand, were more easily able to afford large deals because of their ability to issue bonds. With just 82 exits to sponsors for a total of $18.9 billion in Q3, both sponsor-to-sponsor exit count and value fell to new quarterly lows since the height of the pandemic in Q2 2020. We do anticipate activity to bounce back, with the overall rebound in M&A activity and deal underwriting, as sponsor-to-sponsor exits are below their historic averages along with the broader market. Large public PE firms reiterated their confidence that there is still appetite for sponsor-to-sponsor exits for the remainder of 2023, and the industry remains hopeful that the large amount of dry powder that PE firms raised over the last two years will be put to work soon.

10: For more analysis, please refer to our Q2 2023 US Public PE and GP Deal Roundup.

Information technology exit activity



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

Technology

Technology exits decelerated in Q3 2023 to $10.0 billion, down sharply from $26.8 billion in Q2, as buyer and seller valuation expectations diverged and financing costs sting. Summing the first nine-month 2023 tech exits arrives at a total of $47.3 billion—an encouraging level that is above the first nine months of 2022's $33.6 billion, and slightly ahead of the first nine months of 2019 at $46.6 billion.

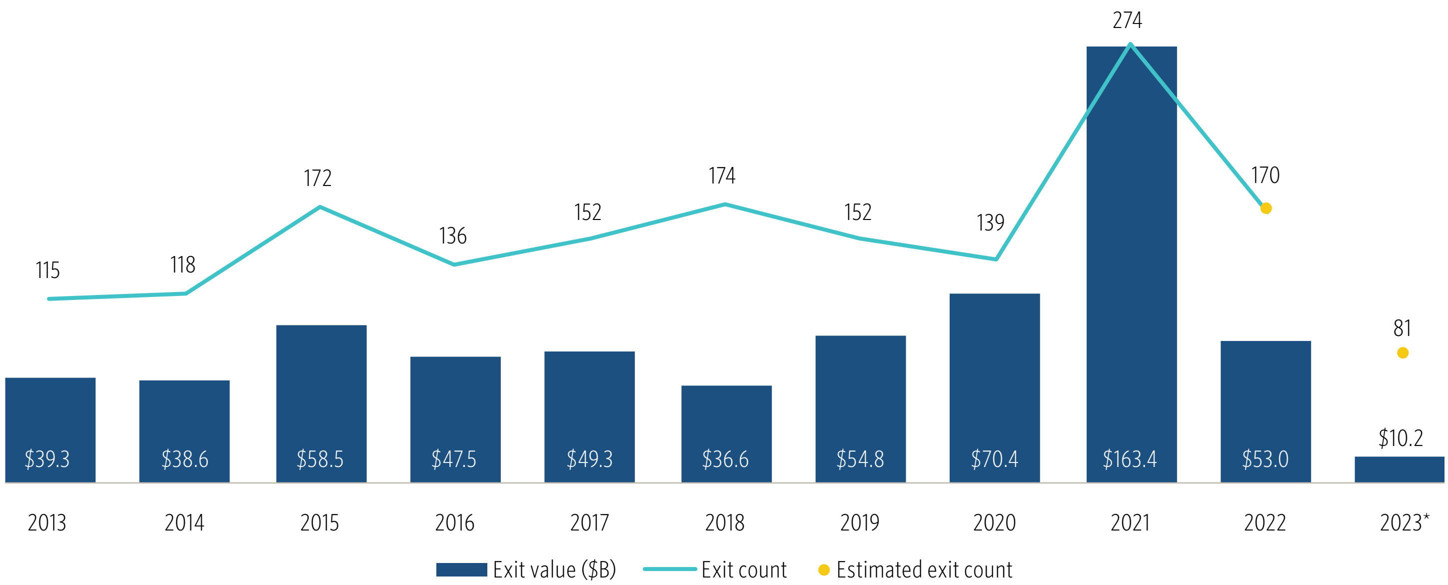
Software continues to be the headline segment, and similar to last quarter, a well-capitalized corporation was the buyer on the largest deal. Imperva, a developer of data security software to protect data through all stages of digital transformation, agreed to an acquisition by Thales Group for $3.6 billion on July 25, 2023.[11] This equates to a 6.1x forward EV/revenue multiple, as per management. The deal will bolster Thales Group's cybersecurity revenue by more than $500 million to over $2.5 billion and enable $110 million of run-rate cost and revenue synergies, according to management. The sellers of Imperva include Thoma Bravo with a majority stake, along with Quiet Capital and Sprout Capital both holding minority stakes. The deal is expected to close in early 2024.

Healthcare

Healthcare exit activity fell for another quarter, with just 20 exits for an aggregate of $3.1 billion in Q3. The sector accounted for 9.0% of exit count and a mere 5.1% of PE exit value YTD, falling dramatically from the mid-to-high-teens share it held over the last handful of years. Like the broad PE industry, healthcare investors have been slow to exit their portfolio companies, waiting instead for better prices and debt service costs. The sector has been struggling with various headwinds such as higher labor and input costs, acquirer cost cutting, and even antitrust scrutiny. Investors remain hopeful for better days ahead, however, and expect to see improvement in exit opportunities as price gaps begin to narrow and inflated labor and input costs come down. As inflation, interest rates, and the debt market continue to stabilize, more sponsors are likely to bring their well-performing assets to market, while healthcare specialist PE firms are expected to pick up those exits thanks to their successful fundraises in the last few years. Furthermore, the sector is due for an exit cycle of maturing healthcare platforms, which will bring more quality assets to the market in time for market stabilization.

11: "Thales to Create a World-Class Global Cybersecurity Leader, Acquiring US-Based Cyber Champion Imperva from Thoma Bravo," Thoma Bravo, July 25, 2023.

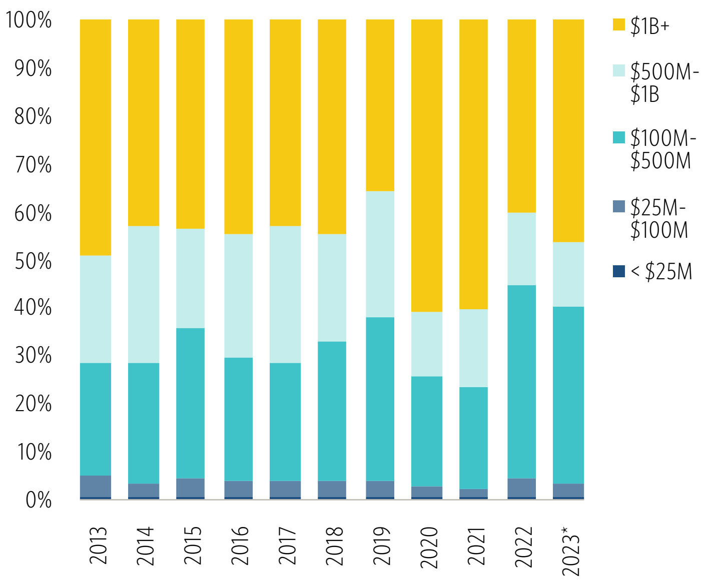
Healthcare exit activity



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

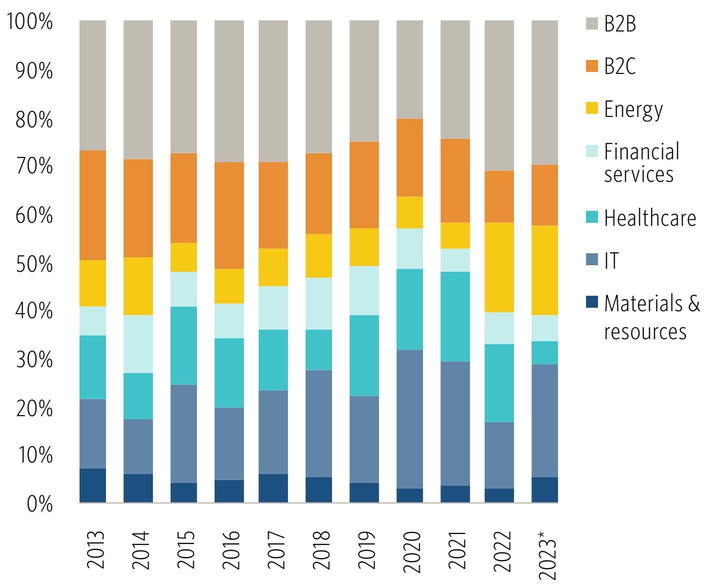
Green shoots of the reopening of the IPO market can also be seen in healthcare. It was reported at the end of Q3 that KKR-backed BrightSpring Health Services filed for a public listing with a goal of raising $1 billion.[12] The company, a home and community-based healthcare services provider for elderly and disabled people, initially planned to list in late 2021 but ultimately withdrew its filing in November 2022 after the IPO market turned. The last PE exits through IPOs in the elderly and disabled care market have been Aveanna Healthcare, which listed in April 2021 and raised $458.8 million; and InnovAge, which listed in March 2021 and raised $350.0 million.

Share of PE exit value by size



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

Share of PE exit value by sector

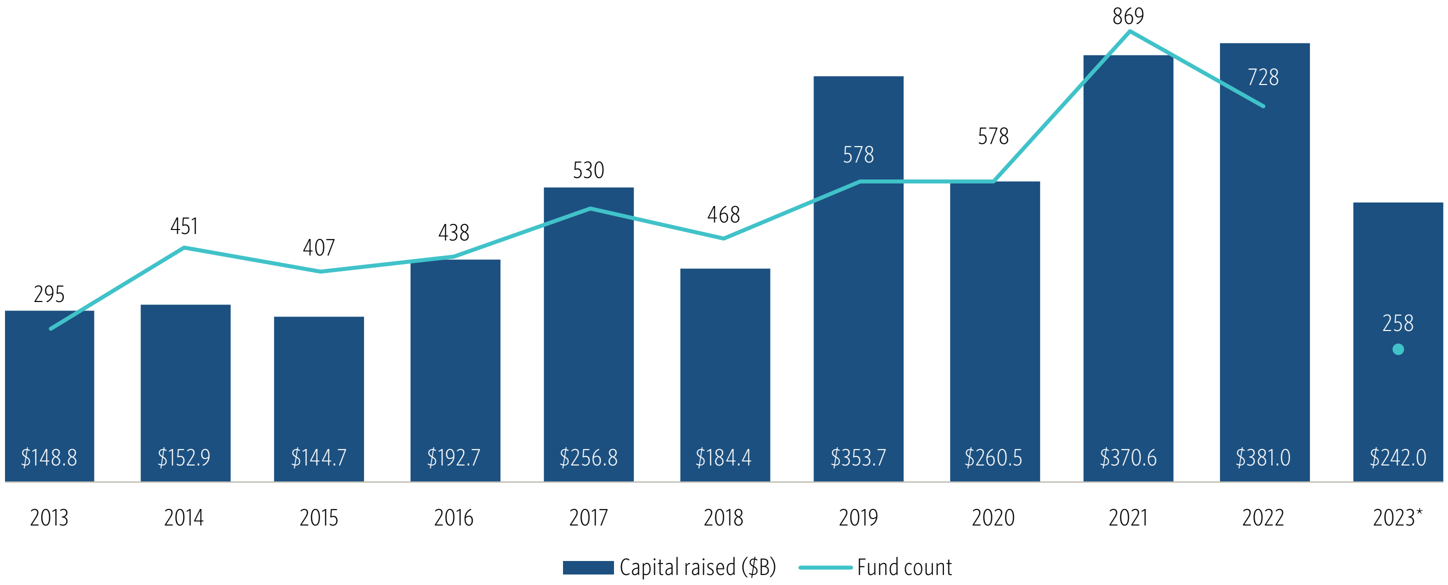


Source: PitchBook • **Geography:** US
*As of September 30, 2023

12: "KKR-Backed BrightSpring Is Said to Revive IPO Seeking $1 Billion," Bloomberg, Amy Or and Ryan Gould, September 22, 2023.

Fundraising and performance

PE fundraising activity



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

Overview

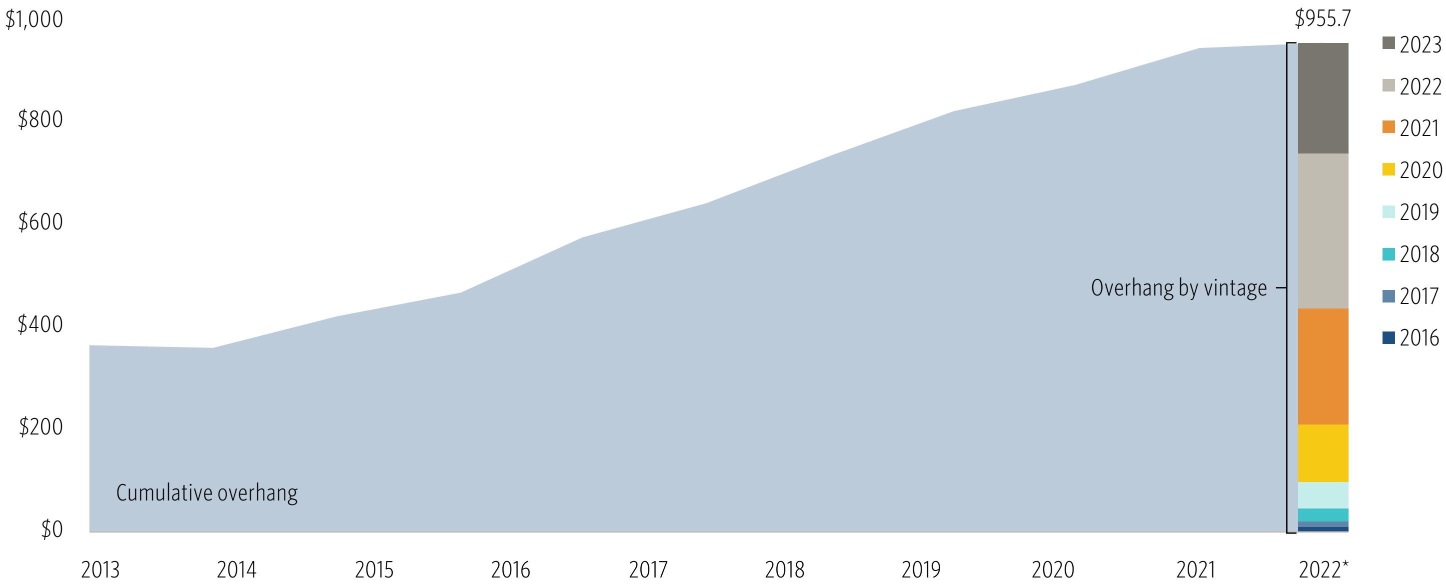
Through the end of Q3 2023, the pace of private equity fundraising activity has slowed compared with last year. The total amount raised by closed funds are down by 12.9%. This deceleration was not unexpected, however, considering the record-breaking year of 2022 when US-based PE funds raised an impressive $381.0 billion.

Interestingly, the middle markets have displayed resilience in this challenging environment, witnessing consistent fundraising activity. These middle-market funds, falling within the range of $100 million to $5 billion, have accounted for 50.1% of the total value of all PE funds closed in 2023—an increase from 47.8% last year. Numerically, the middle market's share of all PE fund closings has reached its highest level since 2009, standing at 58.7% through Q3 2023.

The average duration to close a PE fund has expanded to 15.6 months, reaching its highest point since 2011. As the fundraising market continues to present challenges for GPs, the list of funds open for 15.6 months or longer is growing, including some well-regarded names. This trend suggests that several significant funds may conclude in the coming months, potentially revitalizing the lackluster fundraising figures observed in 2023 thus far. Notably, firms such as Silver Lake and BDT & Company have funds that have been in the market for over 15.6 months. Their flagship funds have successfully raised $19.2 billion and $10.4 billion, respectively, and are nearing closure, potentially injecting a much-welcomed boost into the landscape of US PE fundraising.

In terms of fundraising by PE strategy, buyout funds dominated with a share of 81.7% of the total capital raised, marking an increase from 76.3% in 2022. This increase came at the expense of growth equity funds, which decreased to 18.3% of the overall mix, down from 23.5% last year. Moreover, as LPs seek exposure to unique investment opportunities, specialist funds have gained popularity, accounting for 20.2% of the total fund count through Q3—an increase from 15.4% in the previous year.

US PE dry powder ($B) by vintage

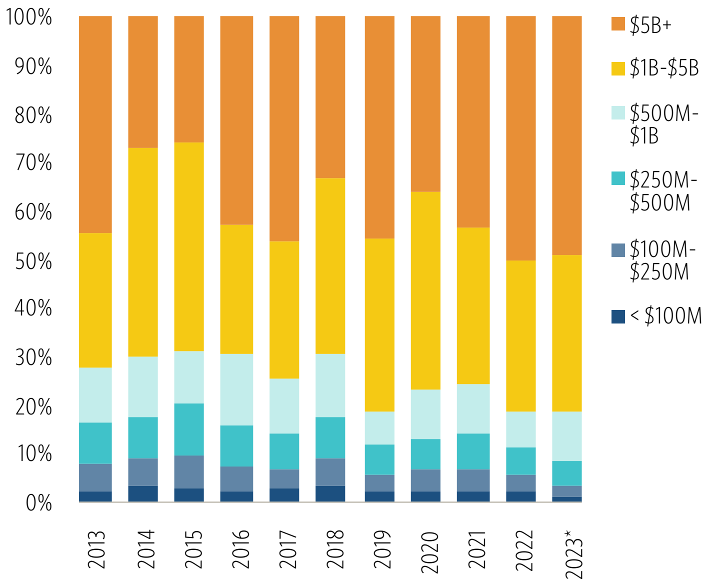


Source: PitchBook • **Geography:** US
*As of March 31, 2023

Megafunds

The number of megafunds—funds of $5 billion or more—closed in Q3 nearly doubled from what was closed in the entire first half of 2023. This possibly signals an end to what we've called "megafund fatigue." Six megafunds were closed in the first half of the year, and by the end of the third quarter, the total had reached 11. Megafunds have accounted for 49.1% of all US PE capital raised through Q3. Notably, Apollo's Fund X, which closed at $20.0 billion, ranked as the largest US PE fund this year, eclipsed by Clayton, Dubilier & Rice's 12th buyout flagship that closed two months later at $26.0 billion. TA Associates closed its 15th buyout and growth equity flagship at $16.5 billion, and TSG closed its ninth flagship focusing on the consumer sector at $6.0 billion. Vista Equity Partners, another specialist manager only focusing on the technology sector, has raised $17.0 billion for its eighth flagship buyout fund. Originally expected to close in October, fundraising is likely to extend into early 2024 in order to reach its $20.0 billion hard cap.[13]

Share of PE capital raised by size



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

Megafunds continue to raise capital, albeit at a slower pace compared with the past two years. Consequently, some GPs have adjusted their expectations for fund targets and the timeline for capital raising. Notably, a few managers anticipate that many of the funds still open will fall short of matching the size of their predecessors. Currently, there is a considerable list of megafunds still open in the market, each having already surpassed the $5 billion mark but still struggling to reach their fund targets. These firms and their flagship funds have been actively fundraising for a year or more, accumulating over $130 billion in original closings, and had initial targets totaling to approximately $175 billion.

13: "Vista Equity Tops $100 Billion in AUM, as Tech Deals Reignite," AXIOS, Dan Primack, September 25, 2023.

Notable open funds*

Fund	Fund type	Open date	Fund size ($M)
Hellman & Friedman Capital Partners XI	Buyout	December 13, 2022	$20,165
Silver Lake Partners VII	Buyout	February 10, 2022	$19,158
Vista Equity Partners Fund VIII	Buyout	October 25, 2021	$17,000
Blackstone Capital Partners IX	Buyout	June 21, 2022	$16,624
Warburg Pincus Global Growth XIV	PE growth/ expansion	January 26, 2022	$15,400
Carlyle Partner VIII	Buyout	April 27, 2021	$14,604
Platinum Equity Capital Partners VI	Buyout	October 26, 2021	$10,658
BDT Capital Partners Fund 4	Buyout	March 25, 2022	$10,382
TPG Partners IX	Buyout	April 29, 2022	$9,516
Roark Capital Partners VI	Buyout	January 15, 2021	$4,987

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

Notable closed funds YTD*

Fund	Fund type	Close date (2023)	Fund size ($M)
Clayton, Dubilier & Rice Fund XII	Buyout	September 12	$26,000
Apollo Investment Fund X	Buyout	June 30	$20,000
TA XV	PE growth/ expansion	June 15	$16,500
Genstar Capital Partners XI	Buyout	April 27	$12,600
GTCR Fund XIV	Buyout	May 23	$11,500
TSG9	Buyout	January 11	$6,000
H.I.G. Middle Market LBO Fund IV	Buyout	September 12	$5,500
Audax Private Equity Fund VII	Buyout	July 11	$5,250
Blackstone Tactical Opportunities Fund IV	Buyout	August 21	$5,200
West Street Global Growth Partners	PE growth-expansion	February 7	$5,200

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

Middle-market funds

Middle-market funds—vehicles that raise between $100 million and $5 billion—have seen sturdy fundraising activity relative to the entire US PE market going on multiple quarters now. Through the first three quarters of the year, 142 middle-market funds have closed with an aggregate value of $121.2 billion, putting it on track for one of its best fundraising years ever. Large fund fatigue remains in place, and as a result, investors are gravitating toward smaller funds that focus on smaller deals. This preference is driven by the current macroeconomic landscape, as smaller deals are often easier to close and finance. Moreover, deal valuations are more favorable in the lower end of the market, making it easier to offset the lack of leverage and higher borrowing costs. On a fund count basis, the middle market accounted for 58.7% of all buyout funds closed in the first half of 2023. This is well above 2022's 43.4% and the 10-year average of 47.2%. Furthermore, middle-market funds captured the majority of total funds closed on a dollar basis in H1, at 50.1%, up from 47.8% of total capital raised in 2022.

New sources of fundraising

As traditional LPs face limitations, GPs are actively exploring alternative avenues for fundraising. GPs are expanding their search beyond their usual regions or LP types, seeking investors who have faced fewer headwinds in the past year and possess available capital for private equity investments. One particular target for GPs is family offices, which they are keen on engaging further. Recently, Apollo announced its plans to establish a team focused on the world's leading family offices, aiming to cater to the needs of the ultra-wealthy.

Sovereign wealth funds (SWFs) have emerged as a prominent group of LPs attracting the attention of GPs seeking capital. The relationship offers mutual benefits, as SWFs possess surplus capital and seek to allocate it to private markets. For GPs, SWFs provide a reliable source of funding, particularly in the face of current challenges in private equity fundraising. The presence of SWFs streamlines the investment process for GPs, especially when leverage is expensive. Moreover, SWFs frequently engage in co-investments with PE firms, showcasing their agility, flexibility, and substantial financial resources. Consequently, GPs can turn to SWFs as an additional avenue for funding during periods of tight financing. In July, Mubadala, an SWF of Abu Dhabi, partnered with KKR in the acquisition of CoolIT, a designer and manufacturer of liquid cooling components. Another Abu Dhabi-based SWF, the Abu Dhabi Investment Authority, was actively involved in co-investments during H1. The SWF co-invested in three of the largest take-privates of 2023, including Cvent for $4.6 billion, Univar for $8.1 billion, and Dechra Pharmaceuticals for $5.5 billion.

Secondaries is a space that has witnessed strong fundraising activity. As the industry gained interest, substantial fund sizes followed suit. In early 2023, Blackstone closed the largest private equity secondary fund, Strategic Partners IX, with total commitments of $22.2 billion. More recently, Goldman Sachs Asset Management secured $14.2 billion for Vintage IX, the ninth iteration of its diversified private equity secondaries strategy. Continuation funds, a subset of secondaries, have also captured attention and attracted funding. GPs can implement a GP-led continuation fund, wherein a GP can roll an asset or assets into a new vehicle rather than selling at the end of a fund life. This strategy is employed when GPs believe there is untapped value in an asset or to avoid selling in an unfavorable market. In addition to the closure of Strategic Partners IX, Blackstone closed its inaugural GP-led continuation fund strategy, raising $2.7 billion. During the second quarter, Insight Partners and One Equity Partners each raised continuation funds exceeding $1 billion. Later, in August, Frontenac Company established a continuation vehicle to support future growth initiatives for its portfolio company, Motion & Control Enterprises.

Asset gathering through acquisition

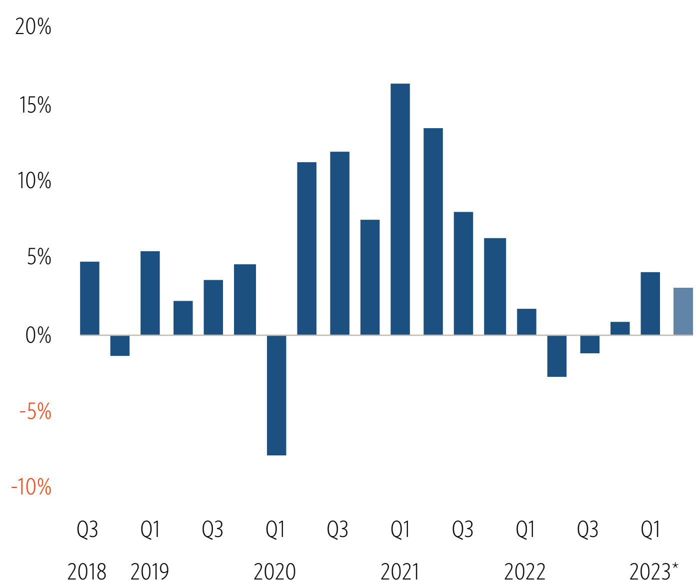
Large GPs are constantly seeking ways to expand their product offerings and increase AUM. This expansion often involves venturing into new alternative asset classes, such as private credit, or exploring new geographical markets. In July, HighVista Strategies, an alternative asset manager, announced the acquisition of Abrdn's US private markets business, which includes PE and VC assets, as well as investment and operational teams. This strategic move enables HighVista to broaden its presence in the lower-middle-market PE space and substantially increase its AUM from $5 billion to $9 billion.[14] While some firms are expanding by diversifying into different asset classes, others are focusing on expanding their geographic reach. Ares, for example, recently acquired Crescent Point Capital, an Asia-focused private equity firm with approximately $3.8 billion in AUM. Headquartered in Singapore, Crescent Point has a presence in China, Indonesia, the Philippines, and Vietnam, providing Ares with an opportunity to expand its footprint and capabilities in the region.[15]

Performance

Based on our final data, PE funds delivered a return of 4.1% in Q1. Preliminary returns for Q2 indicate a positive return of 3.1%. These figures align with the reported median quarterly returns of 2.4% and 3.1% for Q1 and Q2, respectively, by the seven major public PE firms. However, it's important to note that these returns pale in comparison to the 16.9% return of the S&P 500 during the first half of 2023. The rolling one-year IRR through Q1 for US PE funds remained relatively flat at 0.7%, while increasing to 6.8% through Q2. This stands in stark contrast to the peak in Q2 2021, where US PE funds reported a rolling one-year IRR of 58.0%.

The latest Q1 returns reveal that middle-market funds have maintained their performance advantage over megafunds, with a notable 419 basis point spread on a rolling one-year basis. This outperformance by middle-market managers began in Q2 2022 and has now persisted for four consecutive quarters, marking the longest streak since the 2018 to 2020 cycle. Historical cycles of outperformance by middle-market managers have typically lasted between one and three years, with the most recent instance spanning 10 quarters. Barring any significant shifts in interest rates, which could provide megafunds with improved access to debt financing for large LBOs and subsequently boost returns, it is expected that the middle market will continue to thrive in the near term.

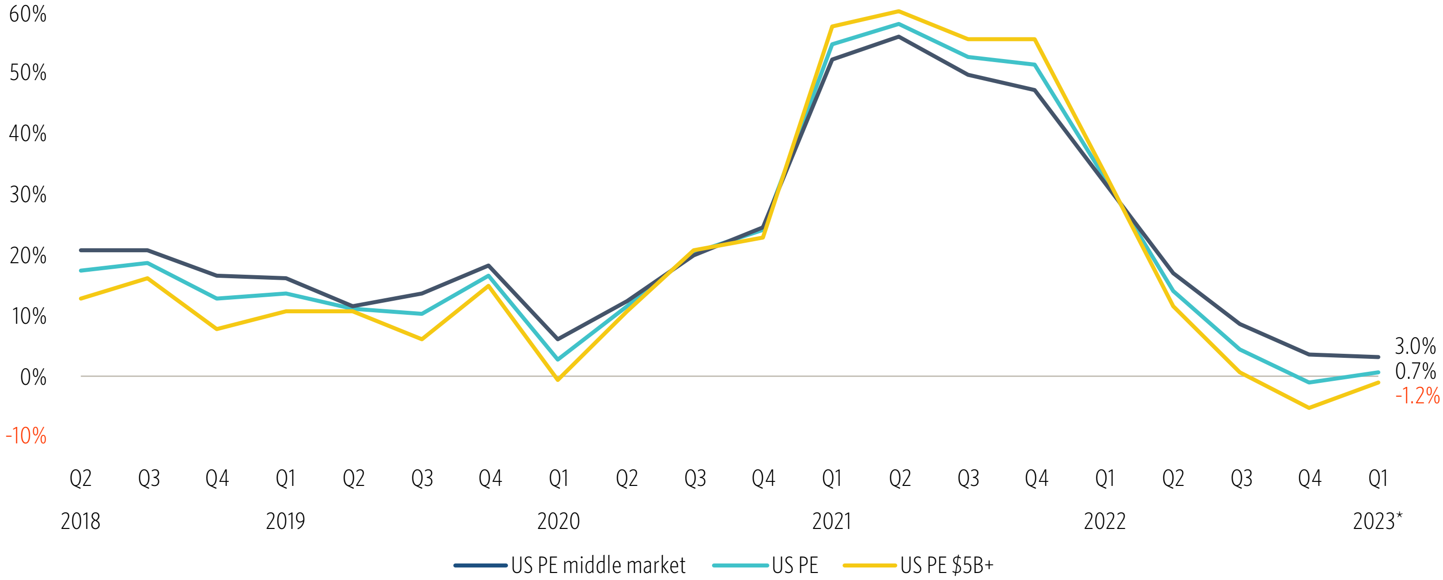
PE funds IRR by quarter



Source: PitchBook • **Geography:** US
*As of June 30, 2023
Note: Q2 2023 data is preliminary.

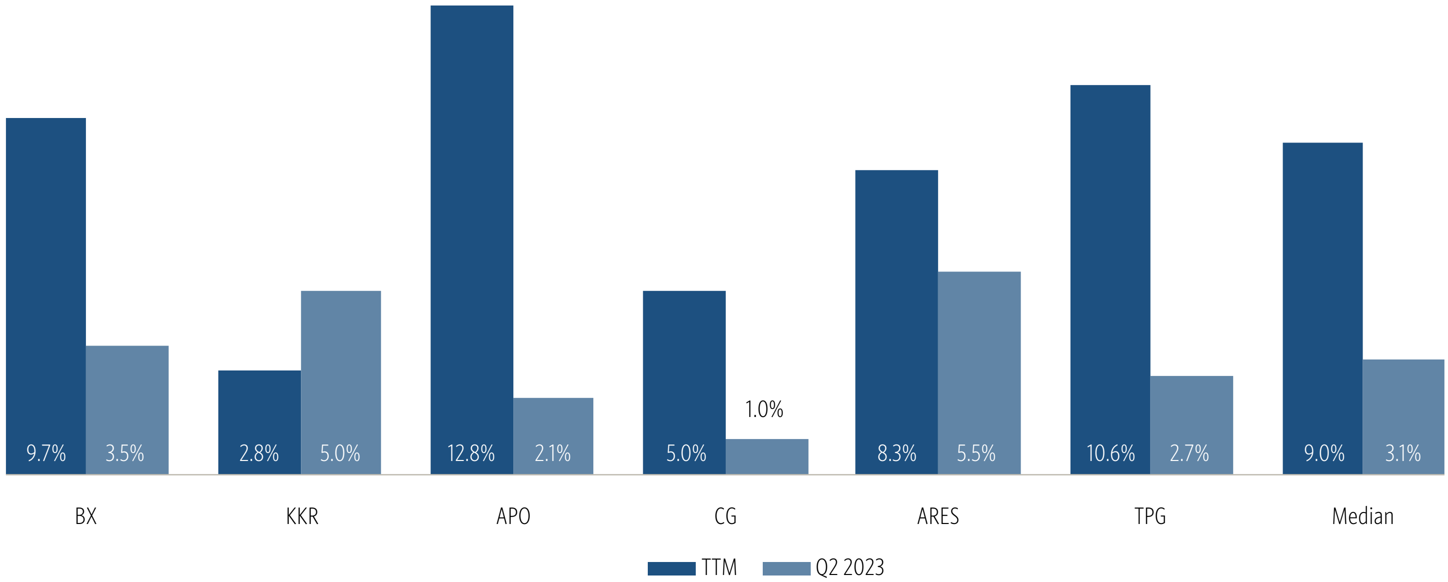
14: "Alternative Asset Manager HighVista Strategies LLC to Acquire abrdn's U.S. Private Markets Business," Businesswire, July 20, 2023.
15: "Ares Management Corporation to Acquire Crescent Point Capita," Businesswire, July 17, 2023.

US PE rolling one-year performance by size



Source: PitchBook • **Geography:** US
*As of March 31, 2023

Gross PE returns/appreciation by manager*



Source: Company reports • **Geography:** Global
*As of June 30, 2023

Additional research

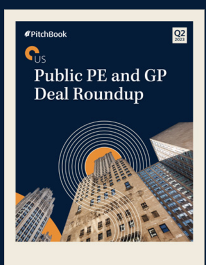
Private markets

Q2 2023 US PE Breakdown Report

Download the report here

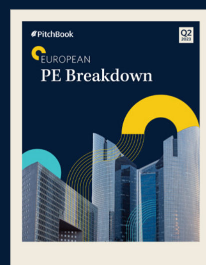
Q2 2023 US PE Middle Market Report

Download the report here



Q2 2023 US Public PE and GP Deal Roundup

Download the report here



Q2 2023 European PE Breakdown

Download the report here

H1 Global Private Debt Report

Download the report here

Q2 2023 Global M&A Report

Download the report here

More research available at pitchbook.com/news/reports