PitchBook

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US PE Breakdown

3Q 2018

Contents

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Key takeaways from the analyst

Dealmaking in 3Q remained vigorous; through the first three quarters, 3,501 deals were completed totaling $508.8 billion—representing increases of 2.1% and 3.4%, respectively, over the first three quarters of 2017. EV/EBITDA multiples for buyouts remain elevated at 11.9x, which has helped to push the median buyout size to an all-time high of $183.0 million.

General partners (GPs) have been keen to lock in gains in this price-rich environment, with many choosing an IPO to exit more sizable portfolio companies. In fact, the 2018 median PE-backed IPO value is $625.2 million—a full 76.4% larger than the median exit value of $354.5 million across all exit types. 39 PE-backed companies have gone public so far this year, one more than the total through 3Q 2017.

PE firms are taking advantage of this GP-friendly fundraising environment to raise record-breaking funds, with a pair of mega-funds ($5 billion+) closed this quarter and several more still fundraising. But while funds are larger, fewer GPs are raising funds compared to recent years, leading to a slowdown in overall capital raised. Still, funds are closing in 14.5 months on average, just shy of the all-time fastest figure.

$508.8B
total deal value across 3,501 deals through 3Q 2018

$280.2B
total exit value across 752 exits through 3Q 2018

$121.4B
total capital raised across 143 funds through 3Q 2018

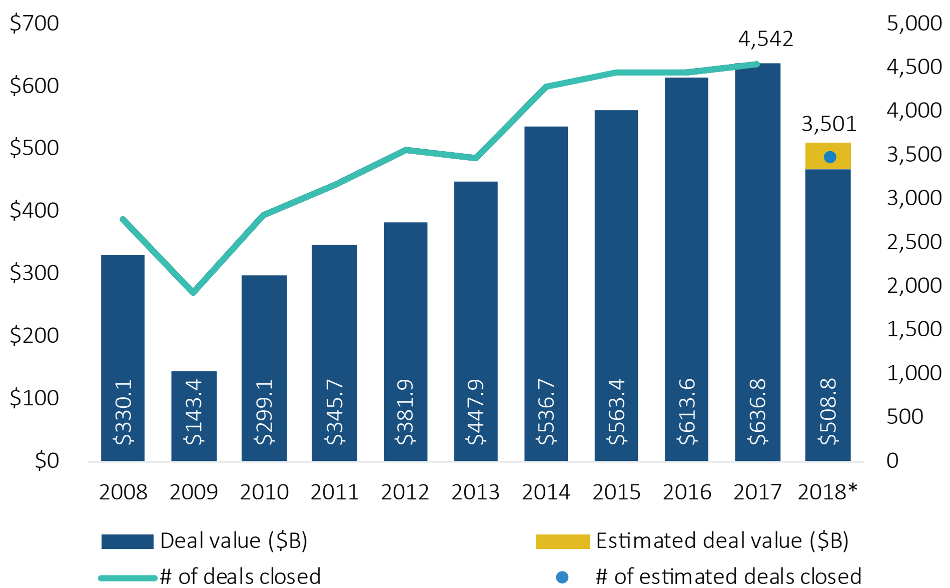
Overview

US PE experienced robust deal activity through 3Q of 2018. 3,501 deals closed for a total of $508.8 billion—YTD increases of 2.1% and 3.4%, respectively. 3Q saw a notable bump in deal value with JAB Holding and BDT Capital Partners' $21.0 billion buyout of Dr Pepper Snapple Group.

Buyout multiples remain elevated as fierce competition for prime assets persists. GPs, trying to spend down dry powder, face increased competition from already cash-rich strategics that received an additional windfall from the recent reduction to corporate taxes. Median EV/EBITDA multiples remained in double-digit territory at 11.9x YTD—a slight drop compared to 2017's figure of 12.1x. Larger buyouts, many of which are take-privates that command a premium price, tended to record higher multiples; for example, Cannae Holdings, CC Capital and Thomas H. Lee Partners' yet-to-close $6.9 billion take-private of Dun & Bradstreet, a financial services data provider, values the company at 12.4x EV/EBITDA.

A flurry of $1B+ deals puts 2018 on pace for record year

US PE deal activity



Source: PitchBook
*As of September 30, 2018

OVERVIEW

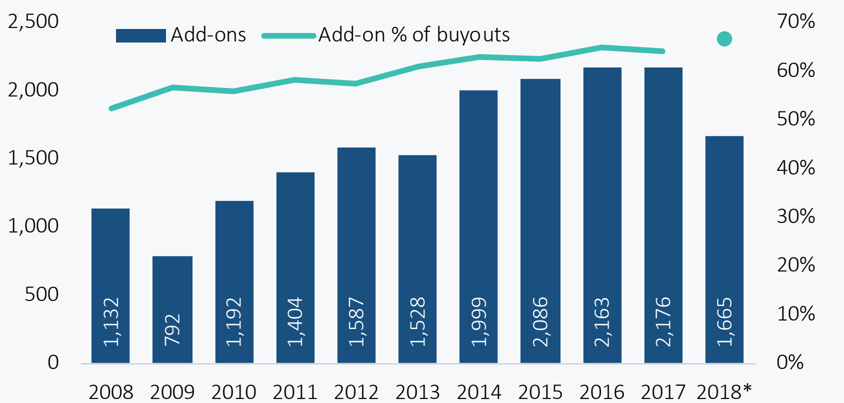
With multiples elevated, myriad dealmakers have looked to add-ons—which are generally acquired at a lower multiple—to average down the blended purchase-price multiple. The buy-and-build strategy, which we have shown to be associated with better fund performance, has proliferated. In fact, add-ons now represent nearly two-thirds of buyouts—a sizable lift from the 56% they represented in 2010. Add-ons have been growing in size, too. Getronics' $815 million add-on of Pomeroy—which closed in 3Q—is a recent example of the swelling add-on sizes.

In contrast to the fervent add-on action, secondary buyout (SBO) activity slackened in 2018. Between 2014 and 2017, SBOs comprised between 30.3% and 30.7% of non-add-on buyouts; SBOs' share has dipped to 27.4% so far in 2018. Though 2018 has experienced a proportional dip in SBO activity, the longer-term trend is that SBOs continue to play a larger role in deal sourcing. This ongoing development is worth watching at a time when these deals are becoming more heavily scrutinized, as seen in a recent FT article, "Private equity plays risky game of musical chairs,"[1] which casts doubt on the practice.

The trend of PE firms buying insurance assets accelerated during 3Q. Apollo announced it will buy Aspen Insurance for $2.6 billion, and The Carlyle Group agreed to purchase 19.9% of DSA Reinsurance. Many of these deals are executed with capital from the GP's balance sheet rather than out of a fund structure, meaning they don't show up in our deal flow numbers. PE firms and insurance companies may form a mutually beneficial relationship, whereby PE allows insurance companies to invest float more aggressively, boosting profits and improving their financial position. PE firms also gain access to permanent capital without having to fundraise from LPs. This bourgeoning trend bears watching.

Add-ons hit record percentage of buyouts

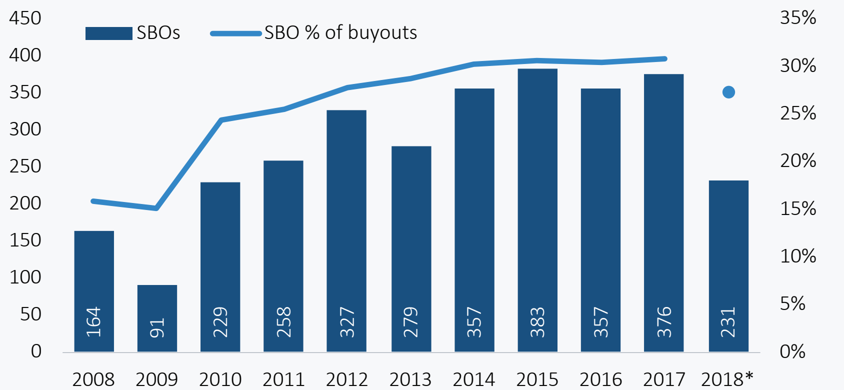
Add-on deals (#) as proportion of all US PE buyouts



Source: PitchBook
*As of September 30, 2018

SBOs see largest proportional drop since the financial crisis

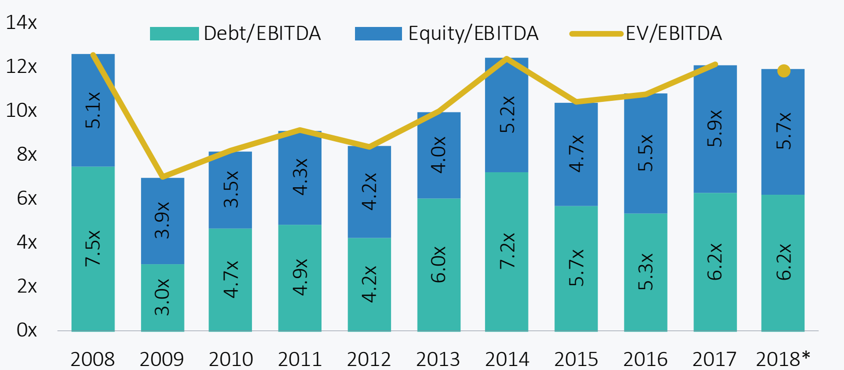
SBO deals (#) as proportion of all US PE buyouts



Source: PitchBook
*As of September 30, 2018

Multiples remain elevated as debt/EBITDA stays above 6x

US PE buyout multiples



Source: PitchBook
*As of September 30, 2018

1: "Private equity plays risky game of musical chairs," Financial Times, Javier Espinoza, September 24, 2018

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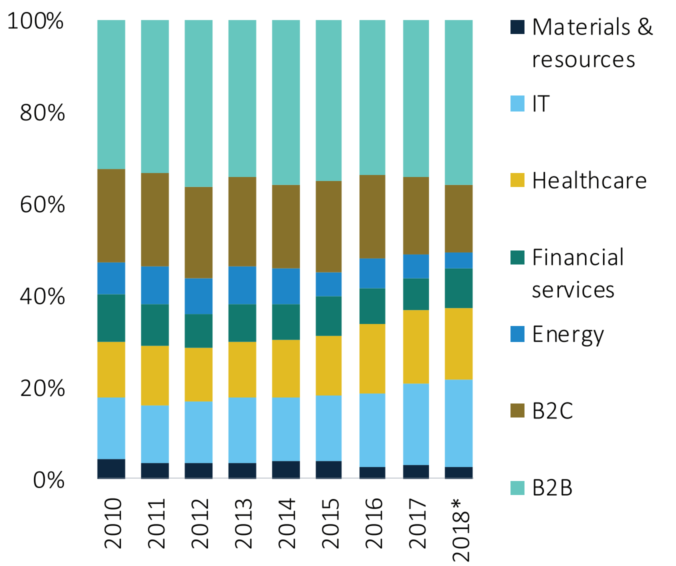
Deals by sector & size

IT and healthcare growth in deal count outpaces B2C and energy

US PE activity (#) by sector



Source: PitchBook
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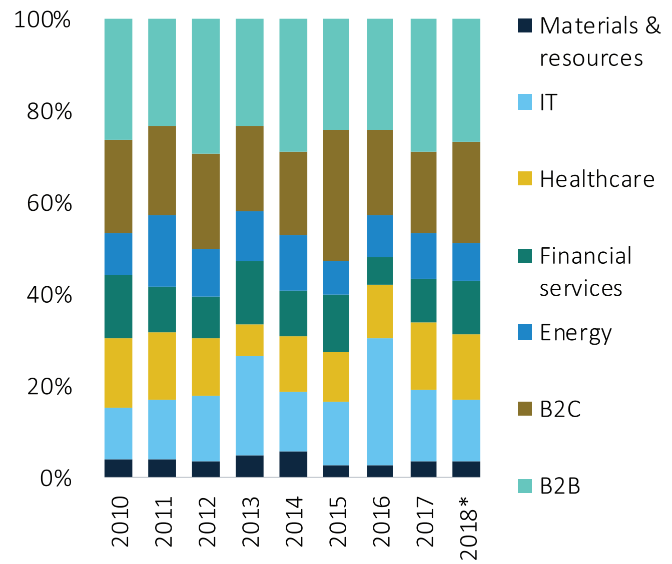
IT lags with shortage of mega-deals

US PE activity ($) by sector



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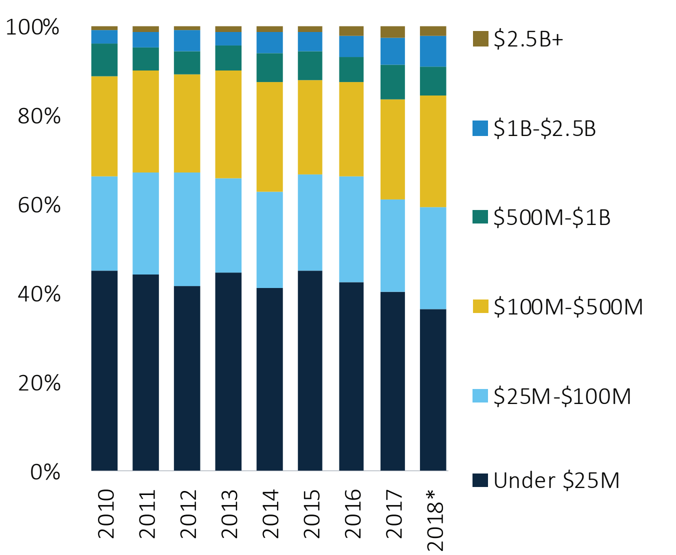
*As of September 30, 2018

Dealmaking slackens in smallest size bucket

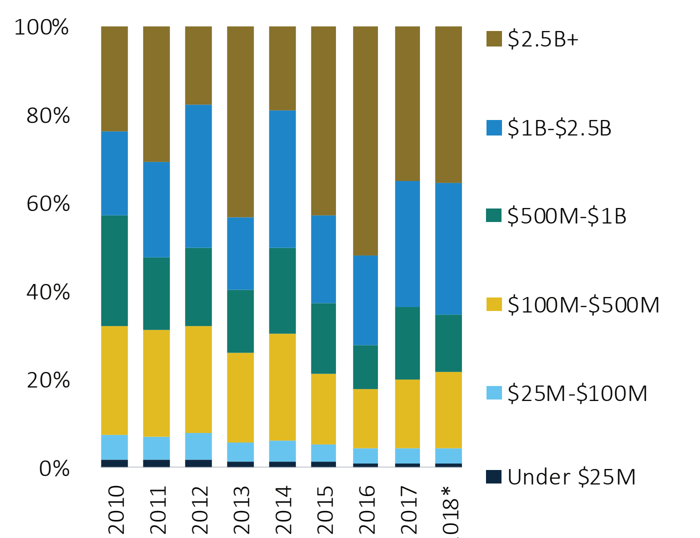
US PE activity (#) by size



Source: PitchBook
*As of September 30, 2018

Activity for $100M—$500M picks up

US PE activity ($) by size



Source: PitchBook
*As of September 30, 2018

Do you know the value of your company?

It’s more important than ever that you do.

The successful entrepreneur never loses sight of how important it is to explain their company value proposition. But first they have to learn what it is…

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Spotlight: Club deals

Club deals—a buyout with more than one sponsor—have become less prevalent with the ascendance of co-investing and ballooning of buyout fund sizes, allowing GPs to finance multi-billion-dollar buyouts that probably would have required a consortium a decade ago. Though club deals are becoming less common, they still represent 39.4% of US non-add-on leveraged buyouts (LBOs) valued at $1 billion+. Recent mega-deals, such as the aforementioned $21.0 billion Dr Pepper Snapple Group buyout and the $6.9 billion Dun & Bradstreet take-private, were completed via a consortium.

Following the buyout boom of the late-2000s, club deals came under heavy scrutiny from regulators and investors alike; the recent Toys-R-Us bankruptcy (a club deal) reignited condemnatory headlines on the subject. However, we find that club deals end up going out of business or filing for bankruptcy less frequently. In fact, between 2008 and 3Q 2018, club deals failed 8.9% of the time compared to 11.1% for sole-sponsor buyouts.

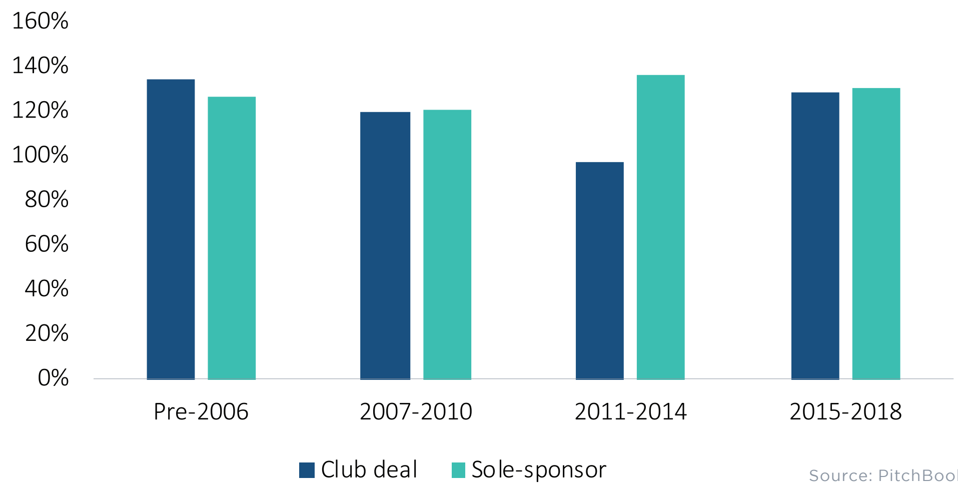
Most important for GPs and LPs, however, is performance. Here, the figures are less clear. Dividing buyouts into those less than and more than $1 billion, we gain a clearer picture. Besides the 2011-2014 period, performance for club deals and sole-sponsor buyouts less than $1 billion are nearly identical. EV growth for deals $1 billion+, on the other hand, is sporadic. Club deals outperformed sole-sponsor buyouts in the most recent period, but the stark outperformance of buyouts less than $1 billion is perhaps the most noteworthy aspect of the comparison.

While that aspect of the performance picture is murky, club deals undertake nearly twice the number of recapitalizations (recaps) as sole-sponsor buyouts, further augmenting performance that does not show up in a simple EV change calculation. The number of recaps club deals undertake has been a criticism over the years, with the assumption being that the practice leaves the companies less financially viable going forward; however, the data suggests that PE firms thus far have been able to do so while experiencing lower rates of bankruptcy/going out of business.

Please note that these US-only performance results differ slightly from the global perspective taken in an analyst note recently published on club deals.

Smaller sole-sponsor buyouts and club deals have similar performance

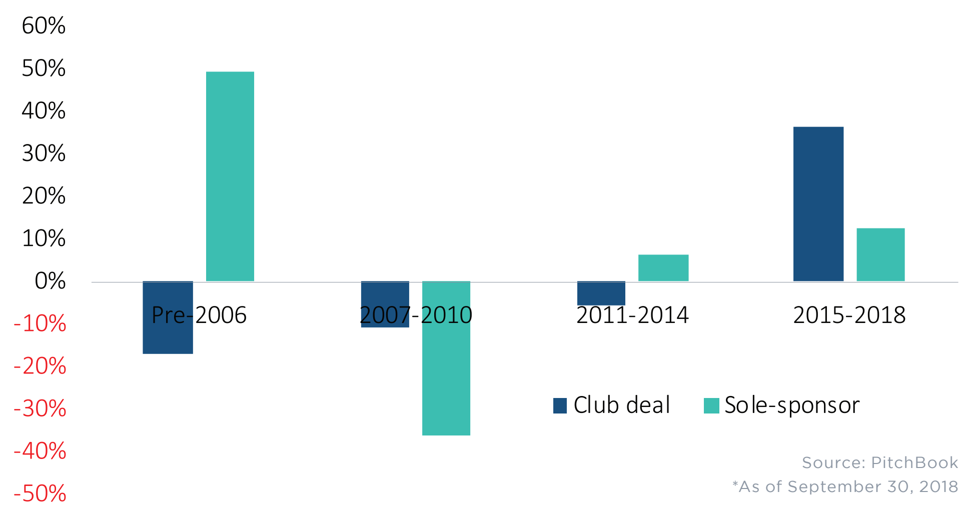
Median % change in US PE deal size by exit year (less than $1B)



Source: PitchBook
*As of September 30, 2018

Larger club deals outperform in most recent period

Median % change in US PE deal size by exit year ($1B+)



Source: PitchBook
*As of September 30, 2018

Exits

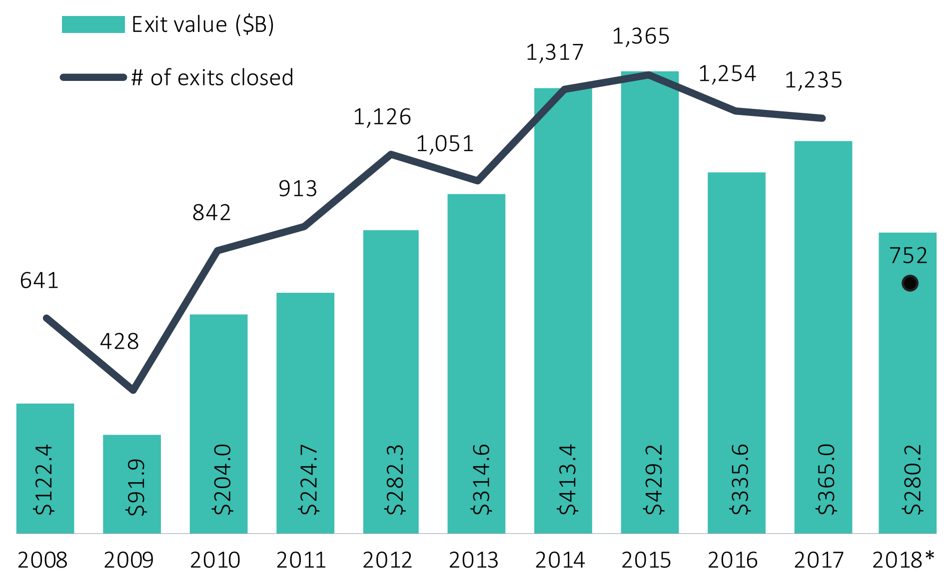
Please note previous versions of this report used size of offering as an IPO's deal value. However, in this and subsequent reports, we will use the pre-money valuation at IPO. Additionally, unknown exit values have now been extrapolated using a similar methodology to our deal value extrapolation. Please see our methodology page for more information.

After a busy first half of the year, exit activity in 3Q 2018 continued apace. The first three quarters of 2018 totaled 752 exits valued at $280.2 billion. While exit count slid, total exit value remained on pace with prior quarters as median exit size expanded to $354.5 million, an all-time high. In total, the quarter saw 207 exits valued at $94.2 billion. Several $1 billion+ exits closed in the quarter, including Carlyle and Stockwell Capital's $7.1 billion exit of HCR ManorCare as well as Charlesbank Capital Partners and Partners Group's $2.5 billion exit of Varsity Brands. These numbers put 2018 squarely on pace to approximate 2017's $365.0 billion total. With deals looking to close before year end, such as KKR's $8.3 billion buyout of BMC Software from a consortium including Bain, Elliott Management Corporation, Golden Gate Capital and others, we expect the 4Q exit environment to remain healthy.

In a year bustling with exit activity, some sectors have disproportionately utilized certain exit types. B2B investments have favored SBO as an exit type, emerging as the most likely sector to exit to another GP-led buyout. In fact, GPs exited B2B platform companies to another financial sponsor 56.6% of the time. In contrast, financial services and energy companies are the most likely to exit via IPO, choosing to go public 19.4% and 14.3% of the time, respectively. Portfolio companies within IT, the next most probable sector to exit via IPO, exited by

Exit count lags while exit value looks to match 2017

US PE exit activity



Source: PitchBook
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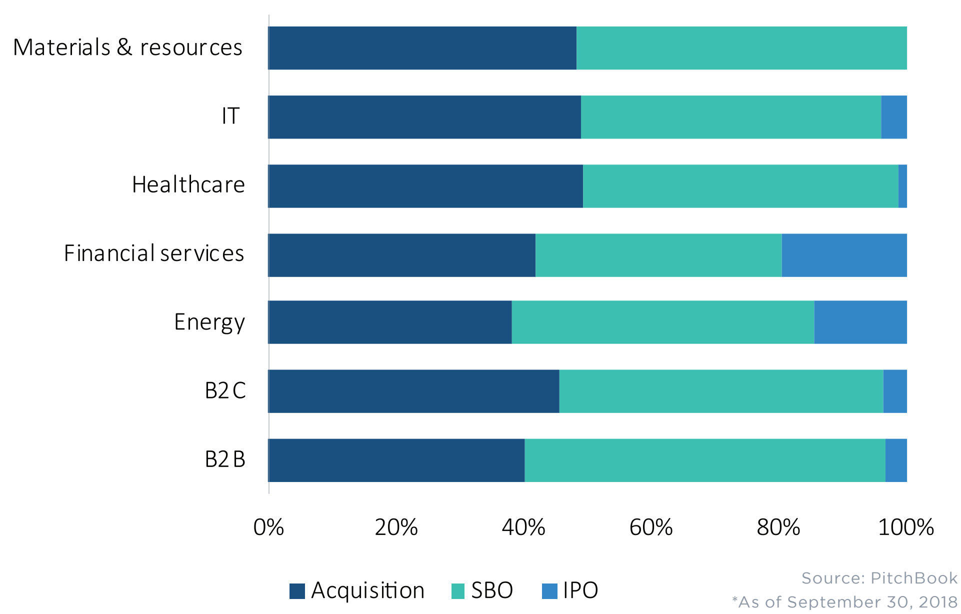
Financial services and energy most likely to exit via IPO

US PE exit types (#) by sector (2018)



Source: PitchBook
*As of September 30, 2018

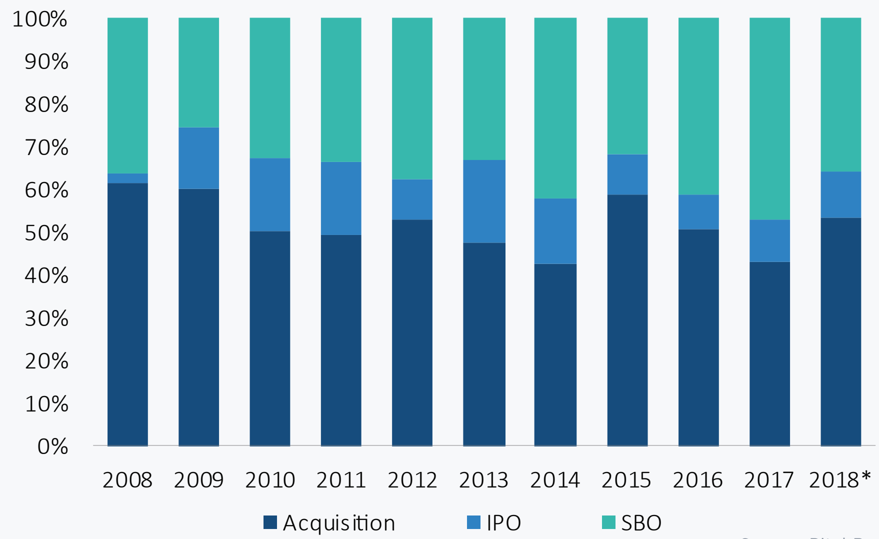
going public just 3.8% of the time. Within energy, many GPs use the rollup strategy with the intent of going public. Notably, even with WTI hovering around $75 per barrel, most companies in the hydraulic fracturing industry are still not cash flow positive,[2] something public markets seem to be more amenable toward as companies may be valued based on acreage as opposed to profits.[3]

The IPO market—following a nearly decade-long bull market in stocks—is gaining in popularity for PE exits, running counter to the longer-term trend of proportionally fewer IPOs. 12 companies went public in the quarter, placing the 2018 figure at 39 IPOs. The IPO's 10.8% of exit value is the highest since 2014 came in at 15.6%. Even though public equity markets have been performing well, PE exits via IPO can be a double-edged sword. These partial exits often allow an exiting firm to potentially exit at a higher multiple while remaining partially invested and continuing to participate in market upside. On the flip side, IPOs take longer to fully exit and gyrations in the stock market can dampen gains substantially—much to the chagrin of limited partners (LPs) allocating to PE to avoid such volatility.

Several high-profile PE-backed companies have gone public in 2018. The largest offering came via Cushman & Wakefield—an exit for a consortium including TPG Capital, Ontario Teachers' Pension Plan and others—which raised $765.0 million with a pre-money valuation of $2.8 billion. However, even though the S&P 500 has tripled in the past decade, the median IPO pre-money size has remained remarkably steady. In fact, in 2009—the low point in the stock market—the median pre-money valuation for PE-backed companies at IPO was $549.6 million. 2018's numbers are just 13.8% higher at $625.2 million. Nevertheless, the median PE-backed IPO pre-money value in 2018 is still 76.4% larger than the overall 2018 median exit value of $354.5 million.

Hot IPO market sees highest proportion of activity since 2014

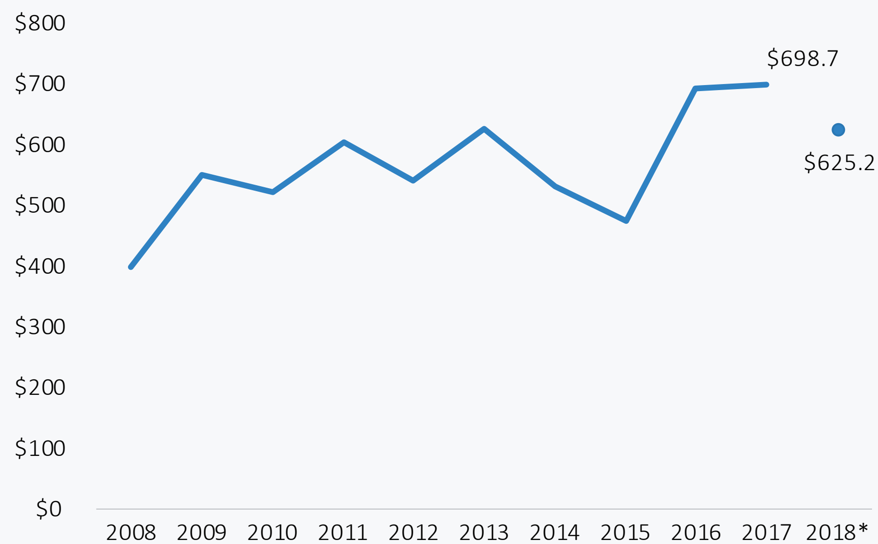
US PE exits ($) by type



Source: PitchBook
*As of September 30, 2018

IPOs see decrease in median size but remain relatively stable

Median US PE pre-money IPO exit value ($M)



Source: PitchBook
*As of September 30, 2018

2: "Oil Is Above $70, but Frackers Still Struggle to Make Money," The Wall Street Journal, Christopher M. Matthews & Bradley Olson, May 17, 2018
3: "Saudi America: The Truth About Fracking and How It's Changing the World," Columbia Global Reports, Bethany McLean, 2018

Fundraising

Please note previous versions of this report included energy and co-investment funds in overall fundraising figures. In this and subsequent reports, those categories will no longer be included in our PE fundraising numbers.

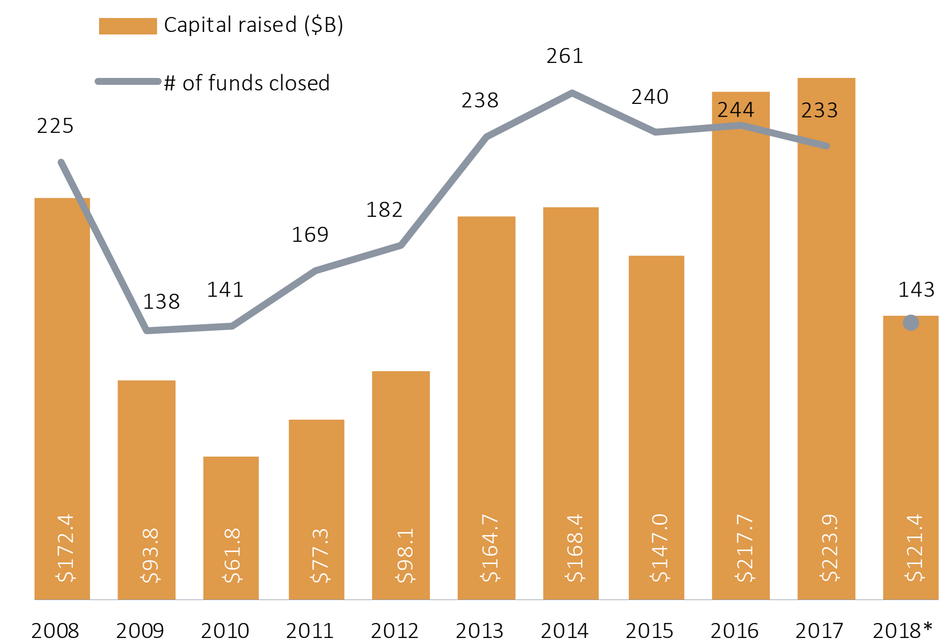
Fundraising activity in 2018 is retreating from the exceptional numbers seen in 2017—a post-recession high. 3Q 2018 counted 51 fund closes totaling $57.4 billion with a pair of mega-funds accounting for 43.2% of all funds raised in the quarter. Fewer funds have closed while the average size is dipping. In fact, the average fund size is $855.2 million YTD, down from $973.5 million in 2017—the first drop since 2015. Overall, fundraising numbers for 2018 look to come in well below 2017, in part due to the dearth of mega-funds to close.

With frequent coverage surrounding the mounting levels of dry powder and industry stalwarts raising mega-funds, it may be surprising that fundraising activity has been slowing for several quarters now. However, with Carlyle holding a final close on its $18.5 billion flagship buyout fund—Carlyle Partners VII—and Blackstone beginning to fundraise for a $20.0 billion buyout fund, we see the longer-term positive fundraising trends remaining intact.

Diving deeper into the fundraising picture, we see that growth equity—which bridges the gap between late-stage VC and PE investing—is having a stellar year. In fact, Insight Venture Partners X held its final close in 3Q 2018 having raised $6.3 billion, which represents the largest ever PE growth fund close. Within growth equity, the bourgeoning area of GP stakes investing—buying a minority stake in the GP's operating entity—continues to experience healthy activity. Goldman Sachs' Petershill unit held a final close on

2018 sees a slowdown in fundraising

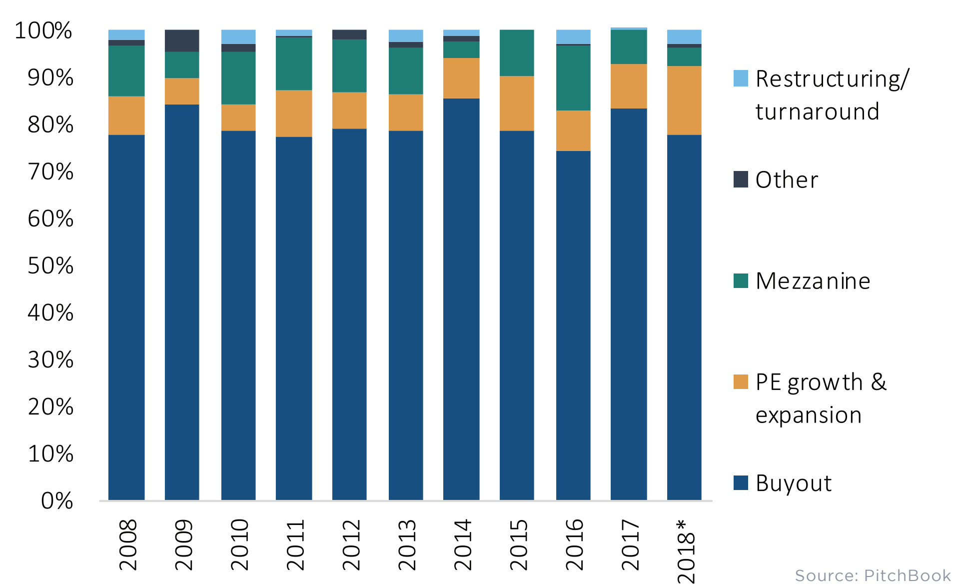
US PE fundraising activity



Source: PitchBook
*As of September 30, 2018

Growth equity on pace for best year on record

US PE fundraising ($) by type



Source: PitchBook
*As of September 30, 2018

their $2.5 billion Petershill Private Equity fund and Blackstone is seeking to raise $3.3 billion for its next GP stakes fund.

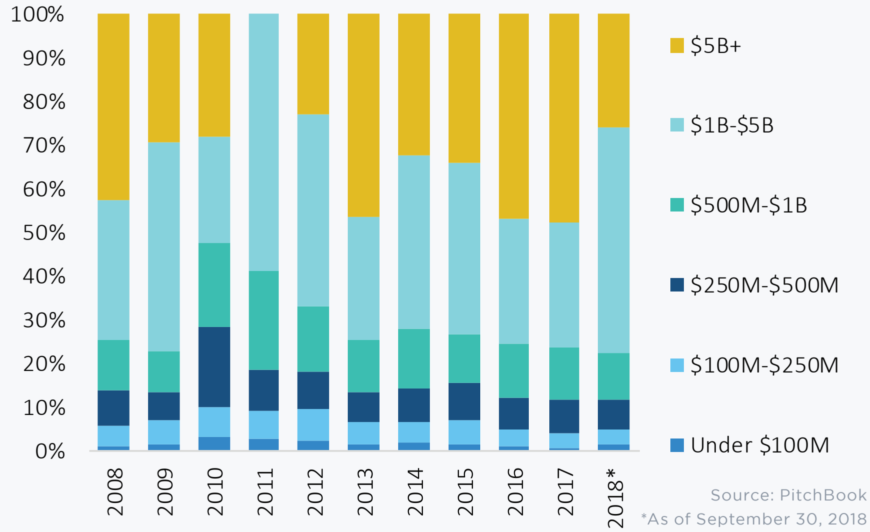
While overall fundraising and mega-funds may be facing a lull, activity in the $1 billion-$5 billion size bucket has been abundant. Through 3Q 2018, 30 funds in this size bucket have held a final close, already matching the full-year total for 2017. In fact, funds between $1 billion and $5 billion experienced the highest proportion of total capital raised (51.5%) since 2011 (58.9%)—the only year devoid of a mega-fund close in the past decade. However, with three months remaining in 2018, one mega-fund close could alter these numbers markedly. To note, the duo of Vista Equity Partners and TPG are currently attempting to raise $10 billion buyout funds.

At a time when fewer mega-funds have closed, first-time funds continued their resurgence in 2018, making up 13.3% of all funds to close YTD—a rise above the 10.7% totaled in 2017. These figures remain well below their pre-recession highs, though. Through 3Q 2018, first-time managers held a final close on 19 funds totaling $6.5 billion. Average fund size has been gradually climbing, mirroring trends seen in the broader PE fundraising milieu.

LPs have been doling out capital to one-stop-shop managers, able to allocate across PE, growth, mezzanine, real estate and more, to limit the number of GP relationships and associated diligence costs. However, first-time managers offer LPs the ability to invest in the next industry stalwart early on and secure preferential terms. Additionally, these nascent managers' funds have performed better than follow-on funds for recent vintages—likely the result of several factors. Even though proven GPs are raising larger and larger funds across a growing number of categories, emerging managers still hold a place in today's PE fundraising environment.

$1B-$5B bucket experiences robust activity

US PE fundraising ($) by size



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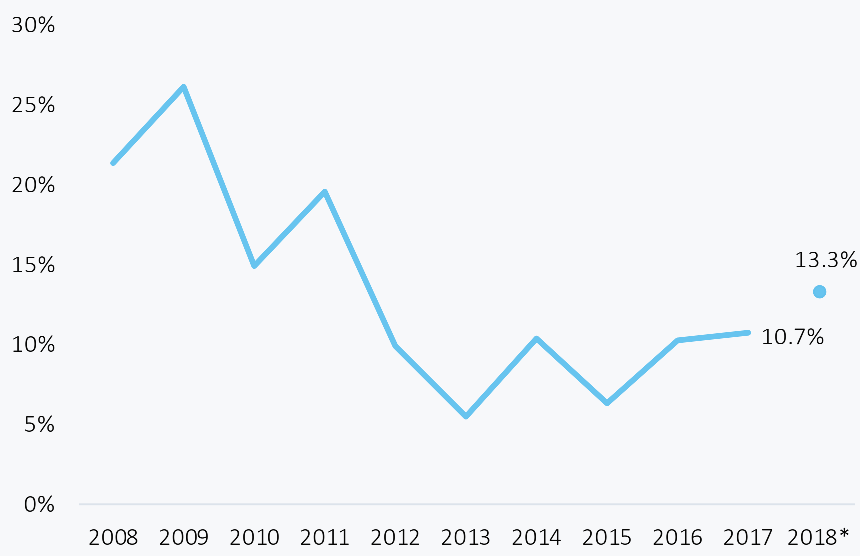
First-time funds account for highest proportion of funds raised since 2011

First-time funds (#) as proportion of all US PE funds



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