



WEBINAR

# PitchBook's Private Equity Outlook: Assessing 2018 Themes and Beyond

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# Private Equity Outlook: Assessing 2018 Themes & Beyond



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# Private Equity Outlook

## 2018 Private Equity Outlook

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## 2018 Private Equity Outlook: 1H Follow-Up

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### PitchBook 2018 Private Equity Outlook

Forecasting the primary trends that will shape PE in the year to come

PitchBook is a Morningstar company. Comprehensive, accurate and hard-to-find data for professionals doing business in the private markets.

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Secondary Buyouts Gain Stature  
Software Becomes Even More Popular  
Niche Funds Become More Mainstream  
LP Net Cashflows to Subside Further  
Active US PE Investor Population Contracting



### 2018 Private Equity Outlook: 1H Follow-Up Assessing our PE predictions

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**Predictions** 1  
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In late 2017, PitchBook's PE research analysts provided our outlook for development in the year. In this note, we look at how five of our themes have played out half-way through 2018.

#### Predictions

- Secondary buyouts (SBOs) will continue gaining in stature.
- PE investment in software will proliferate further.
- Niche fundraising will continue its rise.
- Limited partner (LP) net cash flows will subside.
- The number of active US PE investors will shrink.

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# Key themes

1

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Buyout multiples  
to remain  
elevated

2

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Secondary  
buyouts will  
continue gaining  
stature

3

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Limited Partner net  
cashflows will  
subside

4

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Niche fundraising  
will continue its  
rise

5

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The number of active  
US PE investors will  
shrink

6

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PE investment in  
software will  
proliferate further

1

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Buyout multiples to remain elevated

## PREDICTION 1

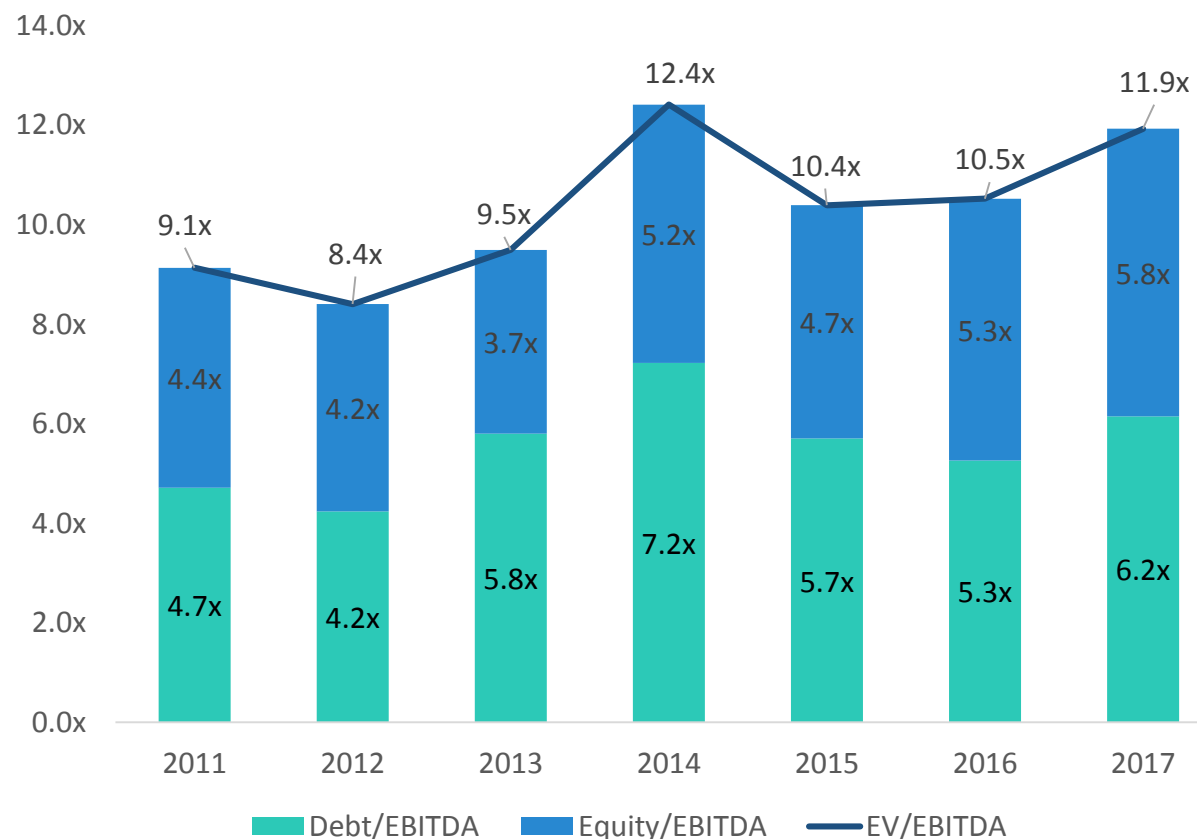
# Buyout multiples to remain elevated

### Rationale

Strong corporate balance sheets and elevated dry powder, combined with relatively easy access to financing, will support continued M&A activity from both corporate acquisitions teams and PE firms

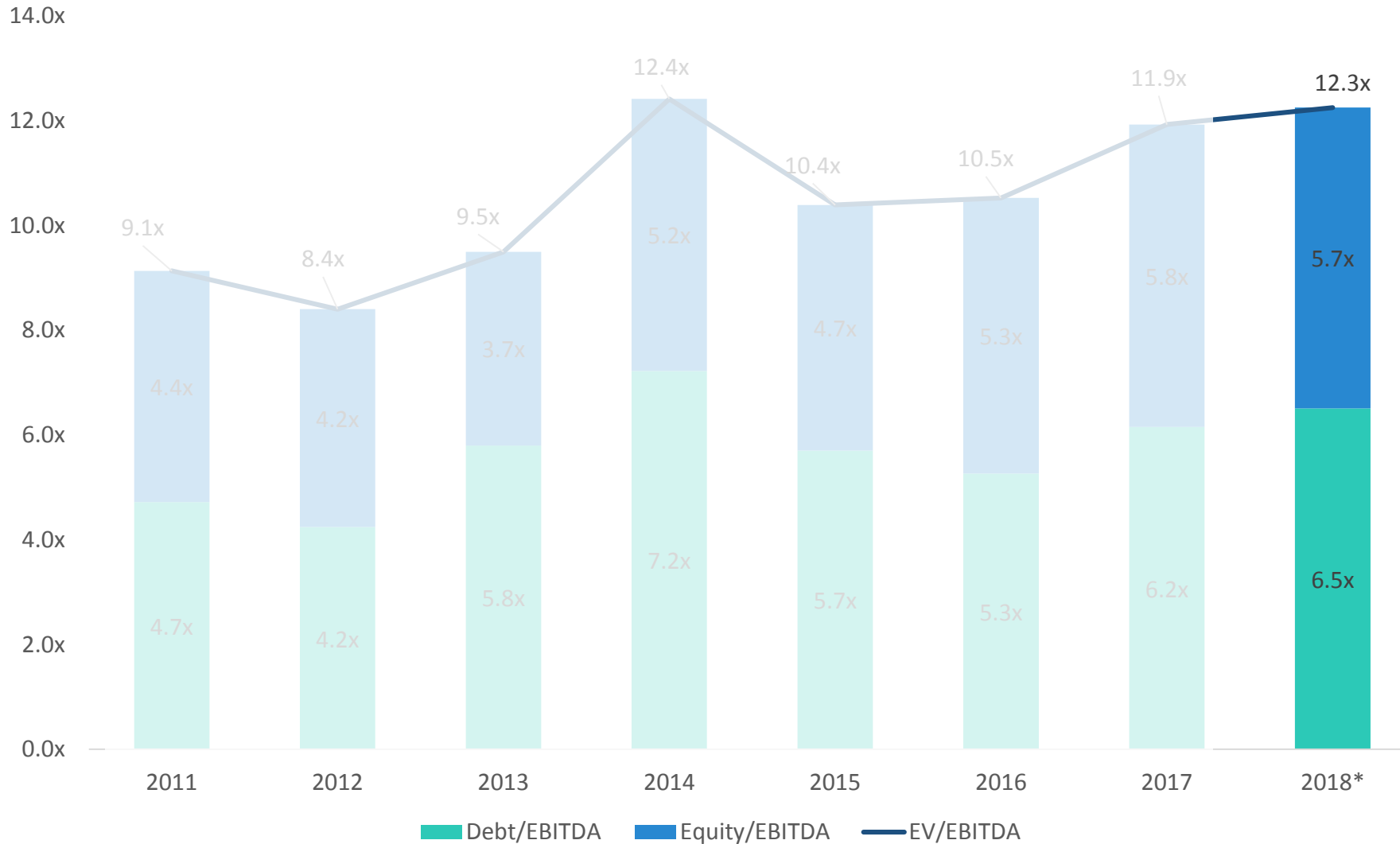
### Caveat

Purchase-price multiples tend to be highly correlated with public market valuations; as such, a drawdown in public equity markets could have knock-on effects for PE dealmaking.



## PREDICTION 1

### Buyout multiples to remain elevated



\*As of 11/15/2018

# 12.3x

2018 YTD Median US PE  
EV/EBITDA multiple

2  
—

Secondary buyouts will continue gaining  
in stature



## PREDICTION 2

# Secondary buyouts will continue gaining in stature

### Rationale

Secondary buyout activity will be supported by the complementary needs of PE buyers and sellers; PE firms have record levels of dry powder to deploy but also need to exit aging portfolio companies.

### Caveat

While gaining in popularity, secondary buyouts are still stigmatized by some PE professionals, who see limited upside for subsequent financial sponsors. Additionally, PE firms may be able to fetch higher prices for portfolio companies when the acquirer is a strategic.



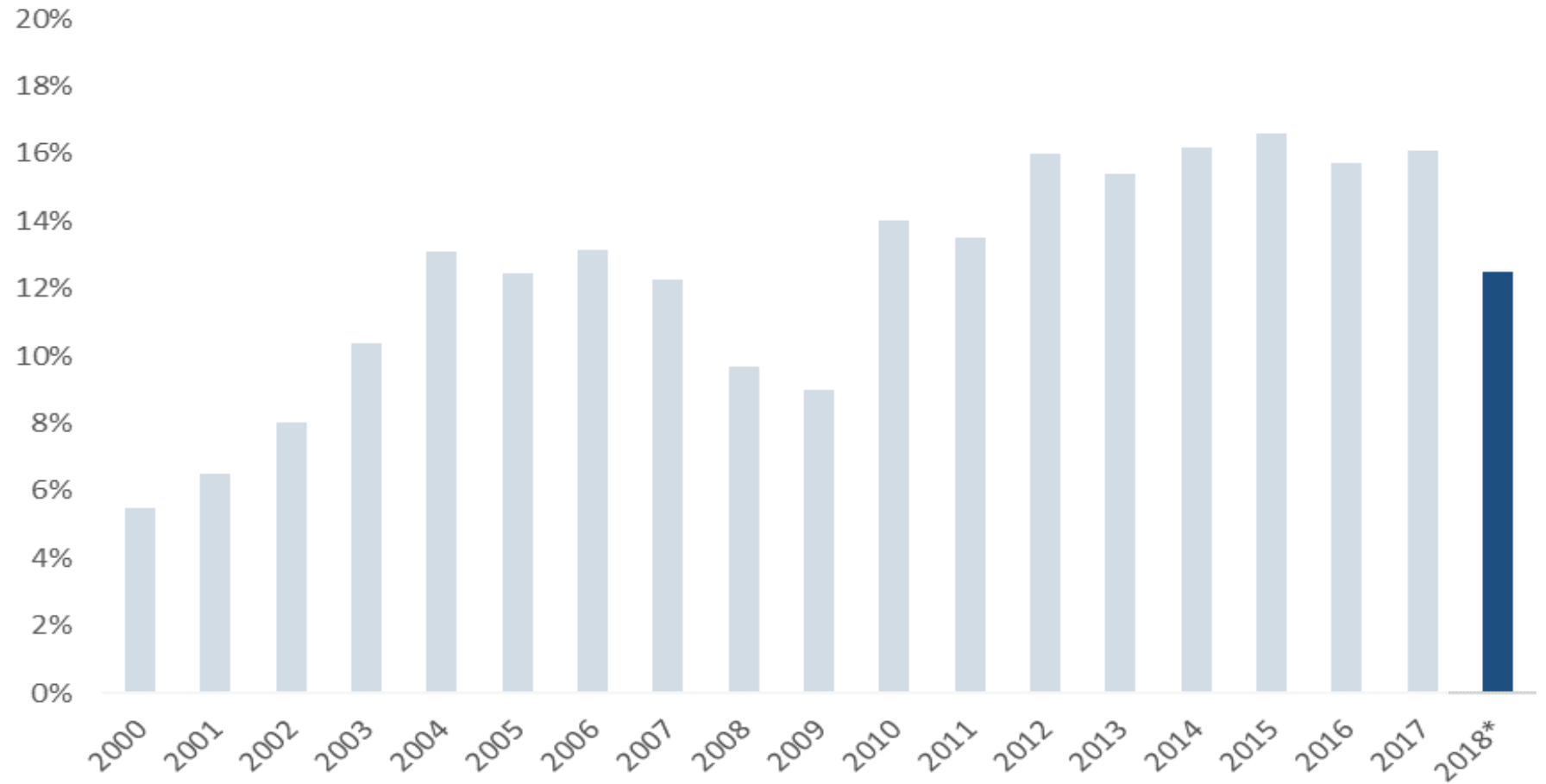
12%

of buyouts accounted  
for by SBOs YTD

## PREDICTION 2

### Secondary buyouts will continue gaining in stature

Secondary buyouts as % of all PE buyouts

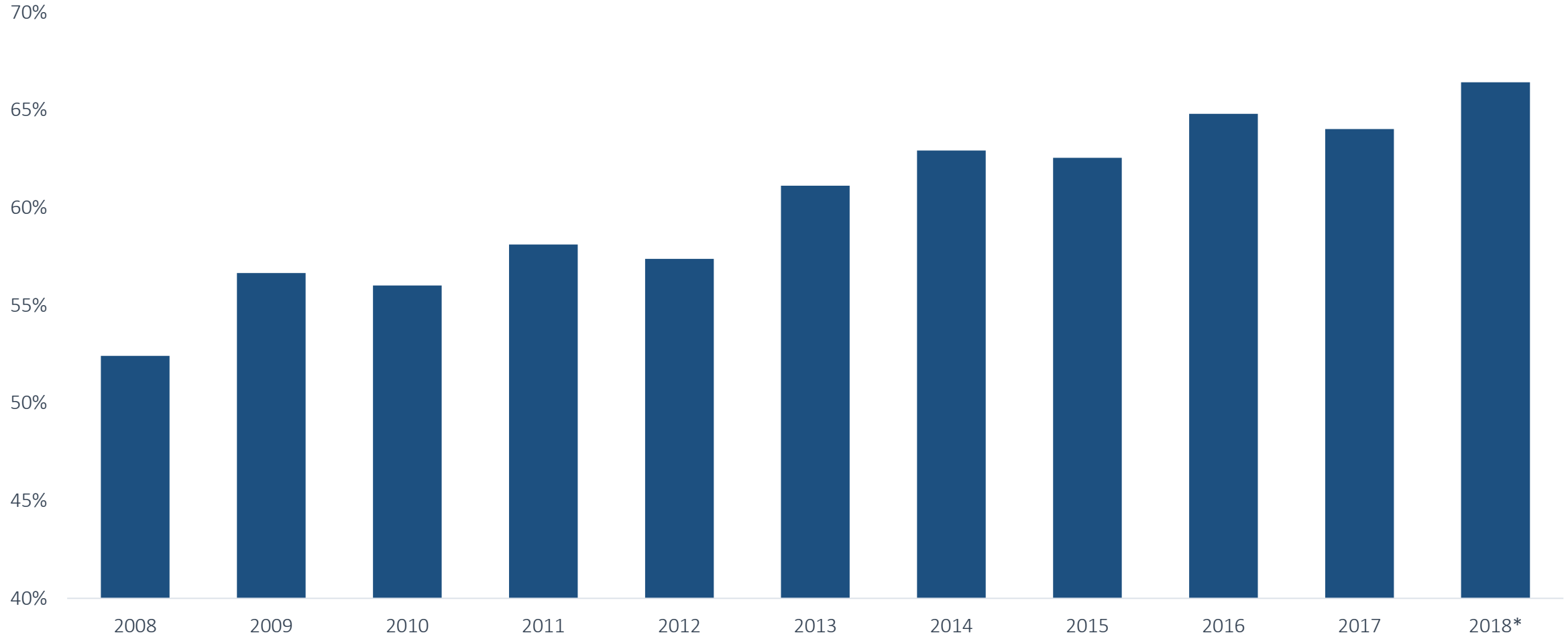


\*As of 11/15/2018

## PREDICTION 2

# Secondary buyouts will continue gaining in stature

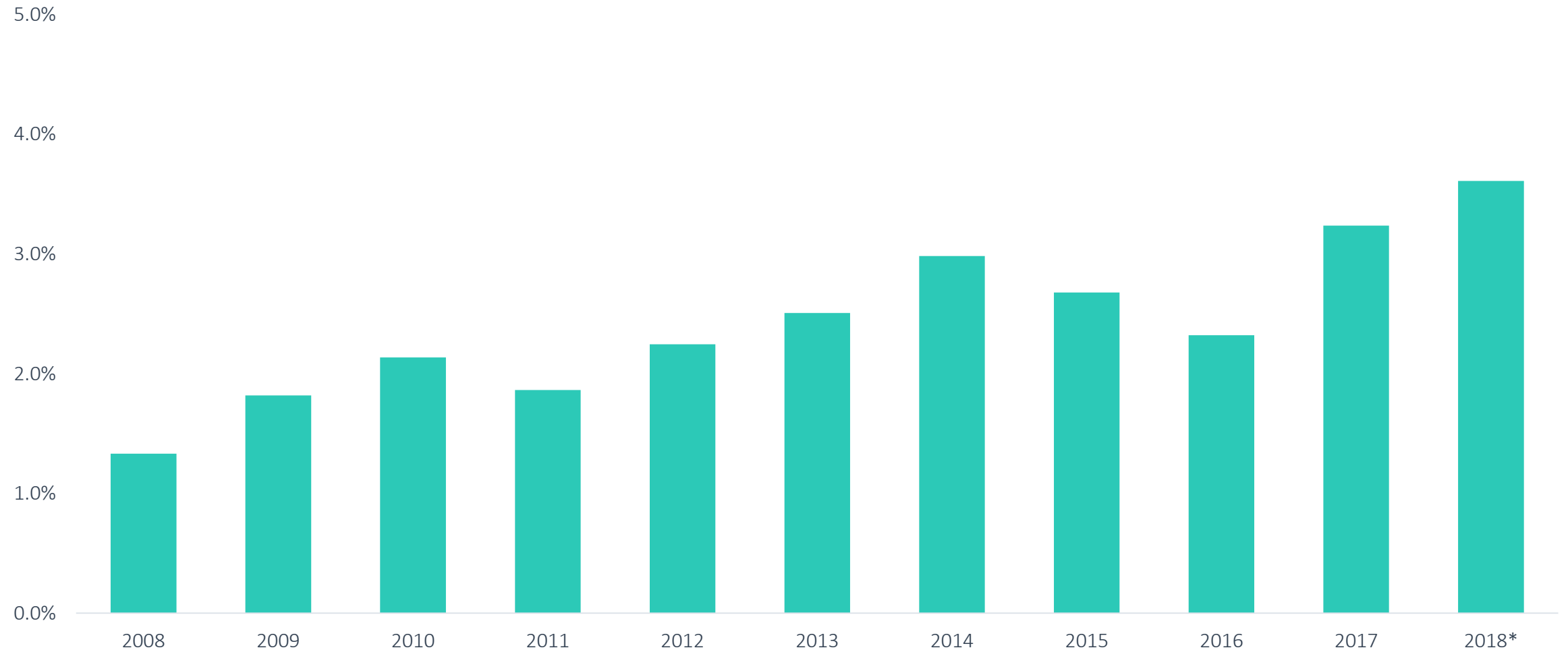
Add-ons become more prominent source of deals



## PREDICTION 2

# Secondary buyouts will continue gaining in stature

PE increasingly sourcing deals from VC portfolios



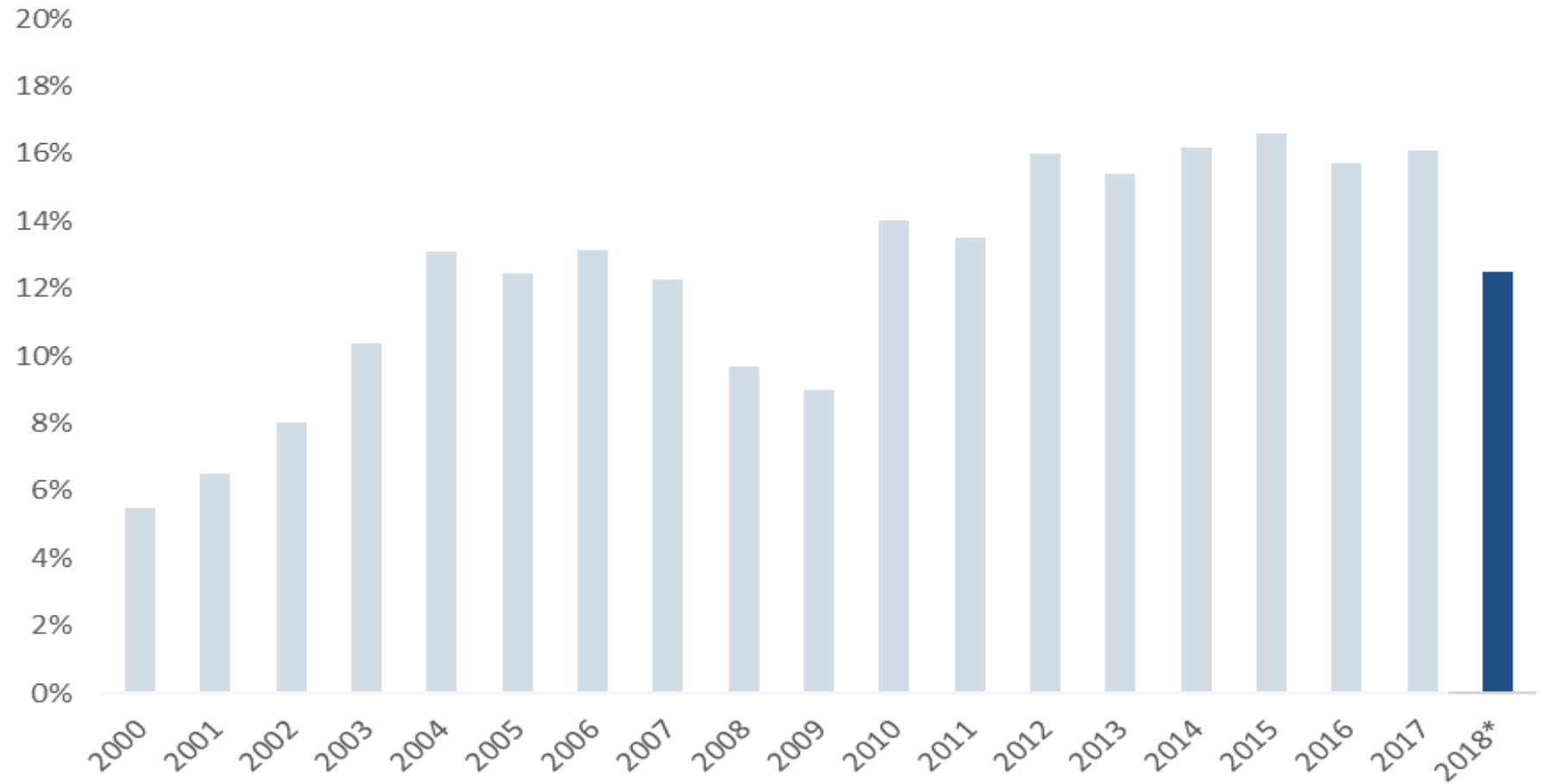
12%

of buyouts accounted  
for by SBOs YTD

## PREDICTION 2

### Secondary buyouts will continue gaining in stature

Secondary buyouts as % of all PE buyouts



\*As of 11/15/2018

3

—

Limited Partner net cashflows  
will subside

## PREDICTION 3

# Limited Partner net cashflows will subside

### Rationale

Net cash flows to LPs of PE funds grew every year from 2009 to 2013. Since, rising buyout multiples and larger capital calls have dampened cash flows, which could turn negative if exit figures continue to stagnate.

### Caveat

PE firms have been utilizing more creative—and harder to track—ways to realize value without fully exiting their investments, which could provide an unanticipated boost to distribution figures.



Highest on record

**\$472.6B**

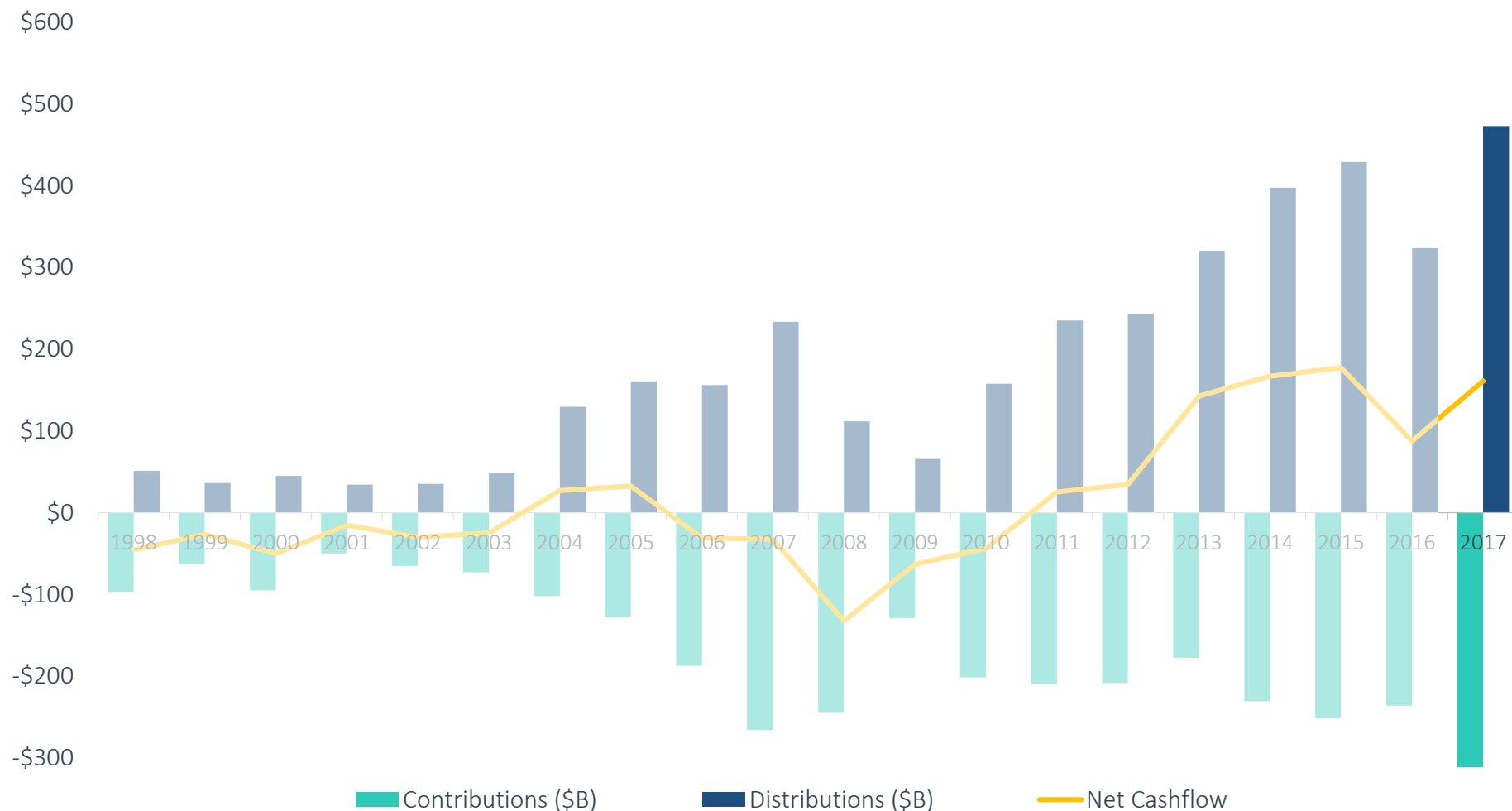
YTD distributions to LPs  
of PE funds

**\$311.5B**

YTD contributions to LPs  
of PE funds

### PREDICTION 3

## Limited Partner net cashflows will subside



\*As of 3/31/2018



4

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Niche fundraising will continue its rise

## PREDICTION 4

# Niche fundraising will continue its rise

### Rationale

Due to the rising competition in traditional realms of PE, it will likely be easier for more niche strategies to identify opportunities to deliver alpha.

### Caveat

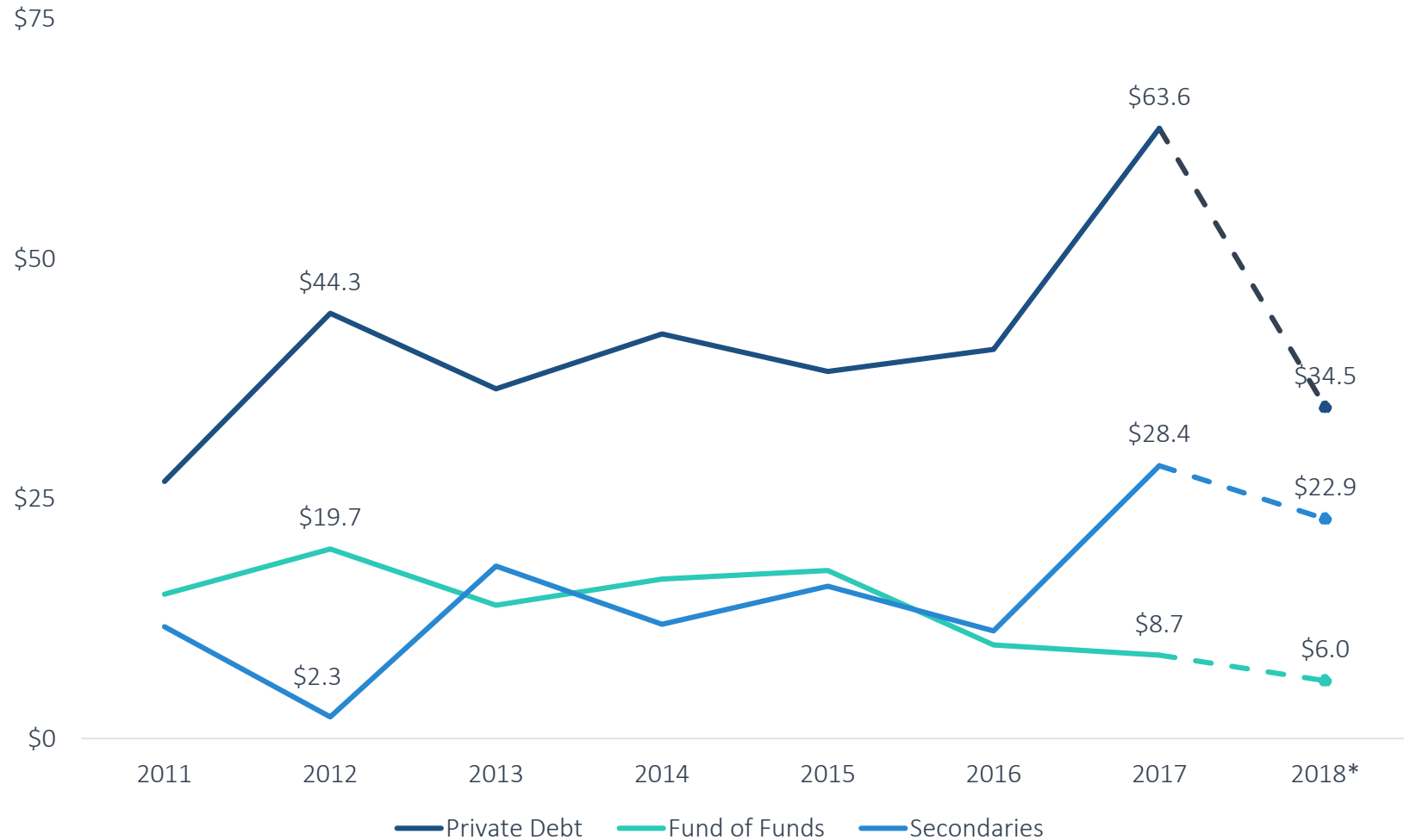
Appetite for private market exposure might be so strong that some LPs can only realistically meet their commitment targets by committing large sums to traditional buyout funds.



## PREDICTION 4

# Niche fundraising will continue its rise

Fundraising by select strategy (\$B)



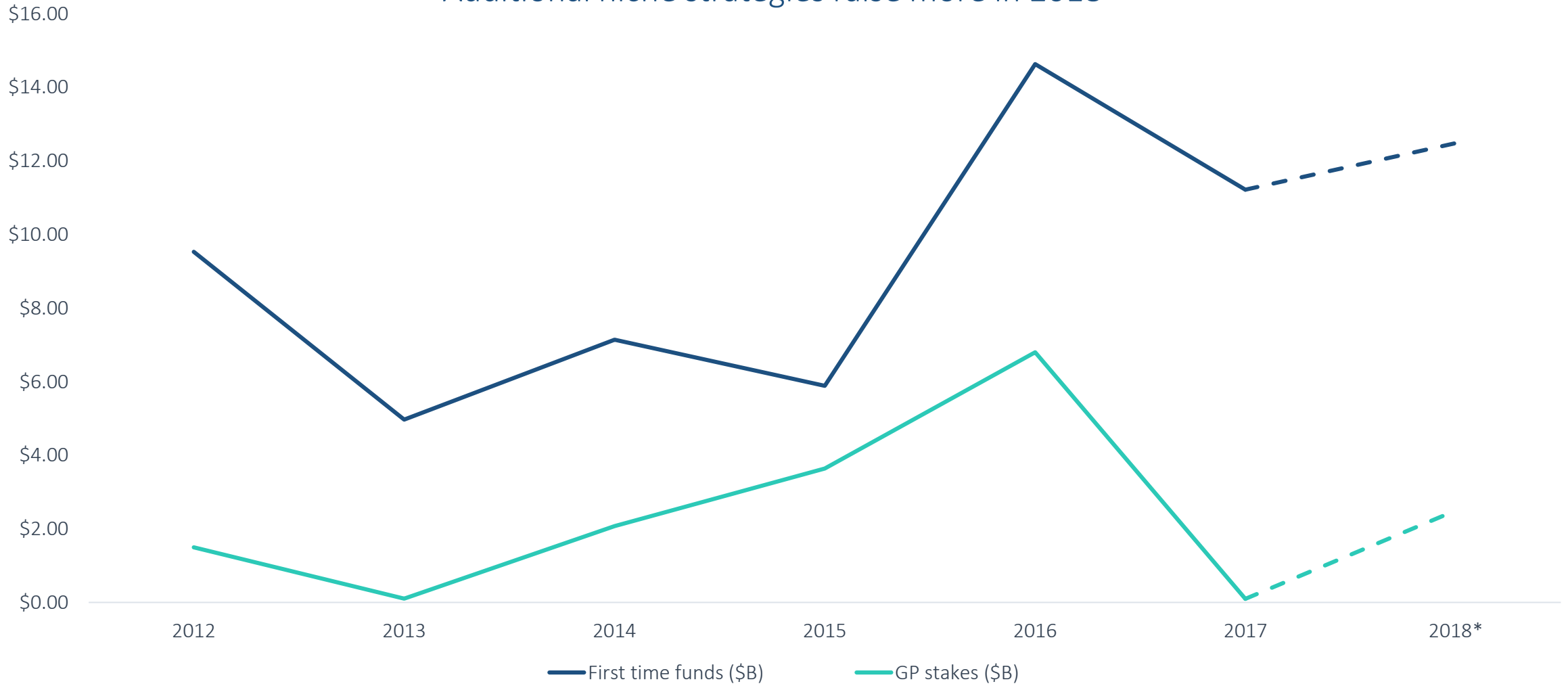
# \$34.5B

in private debt  
fundraising YTD

## PREDICTION 4

# Niche fundraising will continue its rise

Additional niche strategies raise more in 2018



5

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The number of active US PE investors  
will shrink

## PREDICTION 5

# The number of active US PE investors will shrink

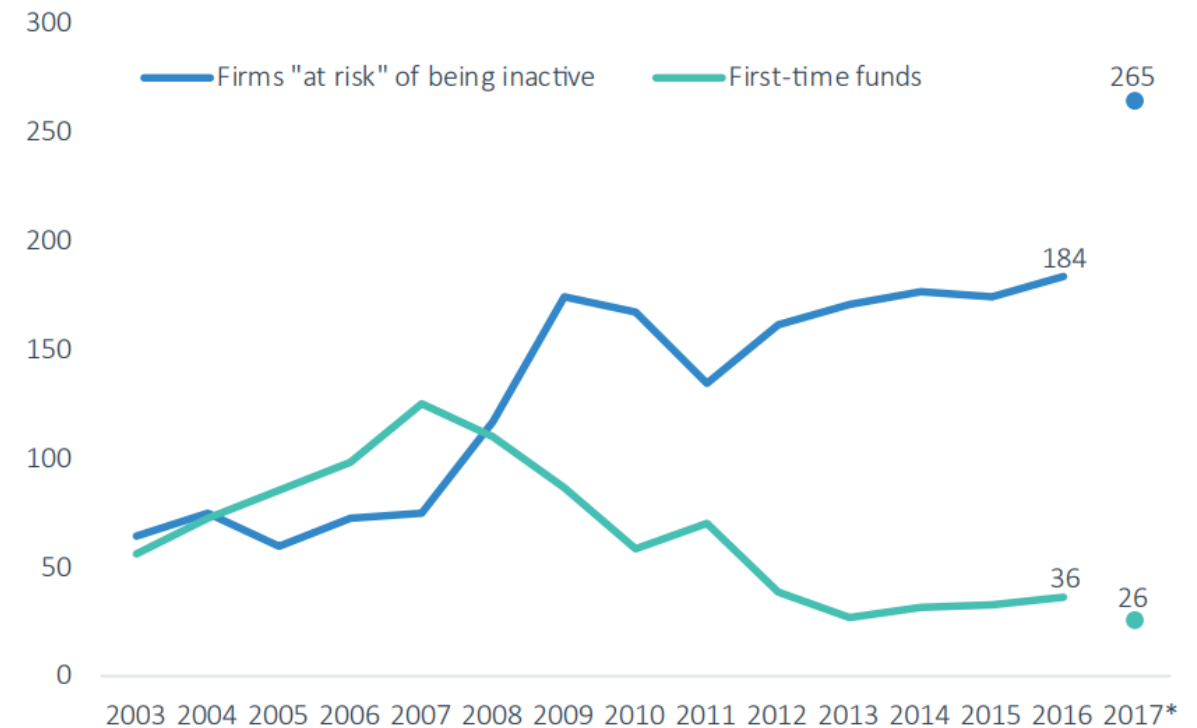
### Rationale

The number of active firms fell in 2017 for the first time since at least 2000 (and possibly ever) while the number of firms that are at risk of becoming inactive is at the highest point we have ever recorded.

### Caveat

LPs are increasingly experimenting with direct deals and represent a potential source of growth in the active firm count while they also maintain a healthy appetite for PE funds, which should continue to support first-time fundraises from established investment professionals.

PE firms (#) by status



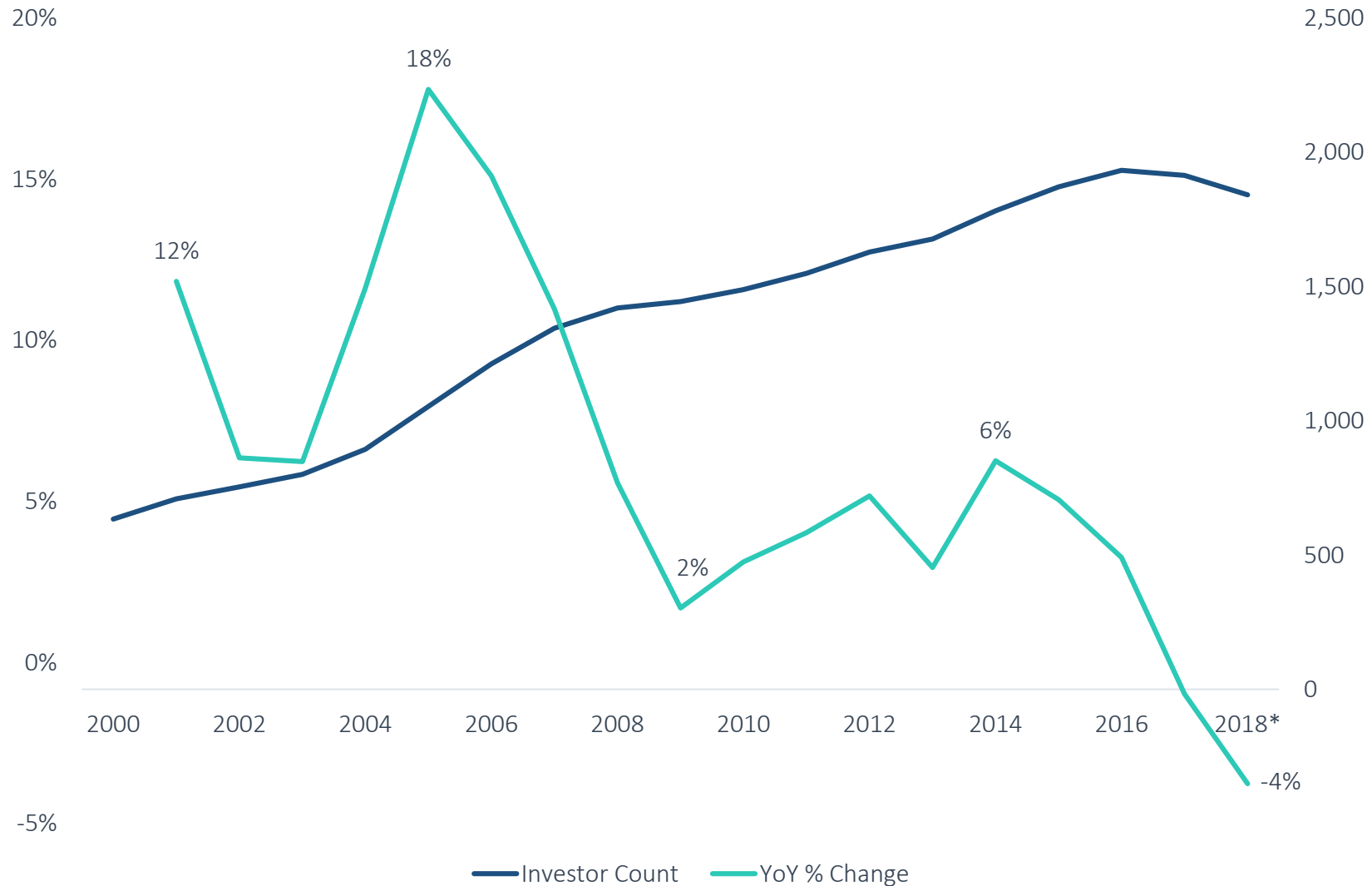
Source: PitchBook

\*As of 11/30/2017



## PREDICTION 5

# The number of active US PE investors will shrink



4% ↓

number of active PE  
investors YTD

\*As of 11/15/2018

6

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PE investment in software will  
proliferate further



## PREDICTION 6

# PE investment in software will proliferate further

### Rationale

Fast-growing software firms, particularly those with the recurring revenue typical of a SaaS business model, can provide a much-needed source of growth for financial sponsors—both in terms of portfolio company earnings and the pool of investable companies.

### Caveat

Given the fast-moving and innovative nature of software companies, operational improvements may prove too difficult, while sky-high valuations may scare away potential suitors.



13.9%

of PE activity YTD  
(highest figure on  
record)

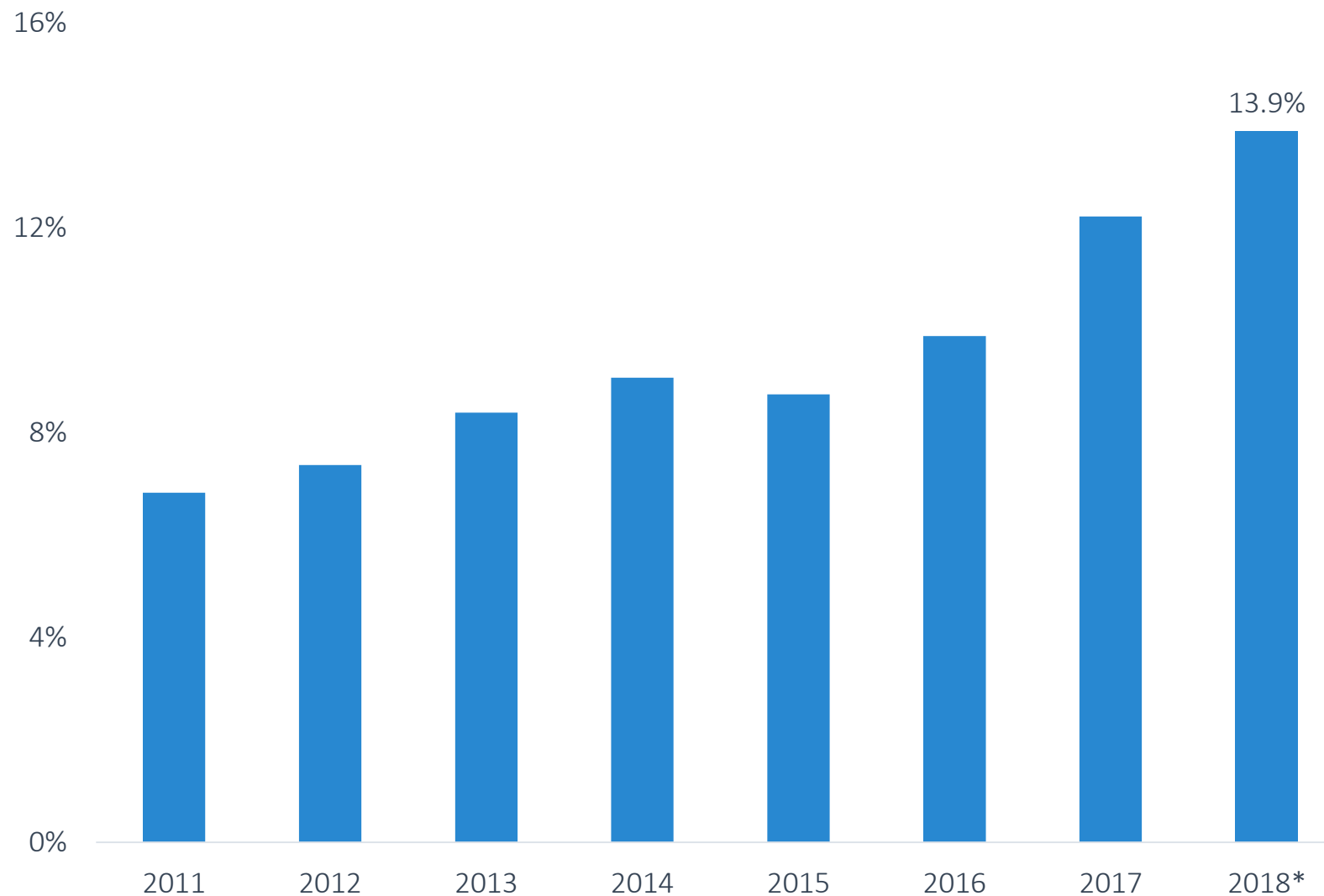
3,470

YTD number of Software  
deals complete by PE

PREDICTION 6

## PE investment in software will proliferate further

Software activity (#) as % of all PE activity by year



\*As of 11/15/2018

# Analyst Q&A



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