



US PE Middle Market Report

2018 Annual

Together we are limitless.

\$1,510,650,000

1st Lien Credit Facility



PPC Partners
Admin Agent
Lead Left Arranger

\$1,400,000,000

Senior Secured Credit Facilities



Bain Capital & Vista Equity Partners
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\$642,500,000

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Genstar Capital
Joint Lead Arranger

Thank you to our private equity sponsors and borrowers for helping make 2018 a stellar success. You've played an invaluable role in our achievements, as we closed over 300 transactions, issued more than \$24 billion in financing commitments to companies owned by 100+ private equity sponsors, and attained record syndication of more than \$15 billion.

\$450,000,000

1st Lien Credit Facility



AEA Investors LP
Admin Agent
Lead Left Arranger

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1st Lien Credit Facility



Warburg Pincus
Admin Agent
Sole Lead Arranger

\$205,000,000

1st Lien Credit Facility



Kohlberg & Company
Admin Agent
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We are excited for 2019's unlimited potential, and look forward to continued wins with you.

For more on our 2018 transactions, visit Antares.com/Limitless.



Antares Capital

Contents

Introduction	3
Overview	4-5
Antares Capital: 2019 outlook	6-7
Spotlight: Restaurants	8
ACG: Joining forces	10-11
Exits	12-13
Fundraising	14-15
2018 US PE MM lending league tables	16

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Introduction

In 2018, the US PE middle market (MM) saw:

- \$427.9 billion total deal value across 2,971 (increases of 14.8% and 15.1% YoY, respectively)
- \$187.6 billion total exit value across 876 exits (decreases of 10.5% and 14.8% YoY, respectively)
- \$110.8 billion capital raised across 131 funds (decreases of 4.4% and 21.1% YoY, respectively)

Overall deal activity in the US MM recorded several milestones in 2018. Coming into the year, the MM had not registered a single quarter in which deal value exceeded \$100 billion—it happened each quarter in 2018. Consequently, 2018 was also the first year where MM deal value exceeded \$400 billion. A sustained market appetite for high-yield bonds and leveraged loans led to an easy financing environment in which dealmakers were able to attain attractive pricing for deal financing. However, attitudes began to change in the fourth quarter as the leveraged loan market—which has swollen in size since the financial crisis—saw downward swings in pricing.

Exit activity in 2018 failed to match the pace of deal activity in the year. Since exit count and value peaked in 2014, total exit value has remained relatively steady, while exit count continues to fall. This is taking place despite the median time to exit plateauing at just over five years since 2015. Additionally, secondary buyouts (SBOs), despite accounting for over half of all exits, accounted for just 31.4% of total exit value.

Fundraising has remained relatively flat over the past five years, though we saw several mega-fund (\$5 billion+) managers return with MM funds in 2018. Nonetheless, fund sizes within the MM continue to inch up over time, and the average MM buyout fund is now approaching \$1 billion. Furthermore, competition for placement within funds across the size spectrum looks to remain healthy as LPs expect to further increase PE allocations.

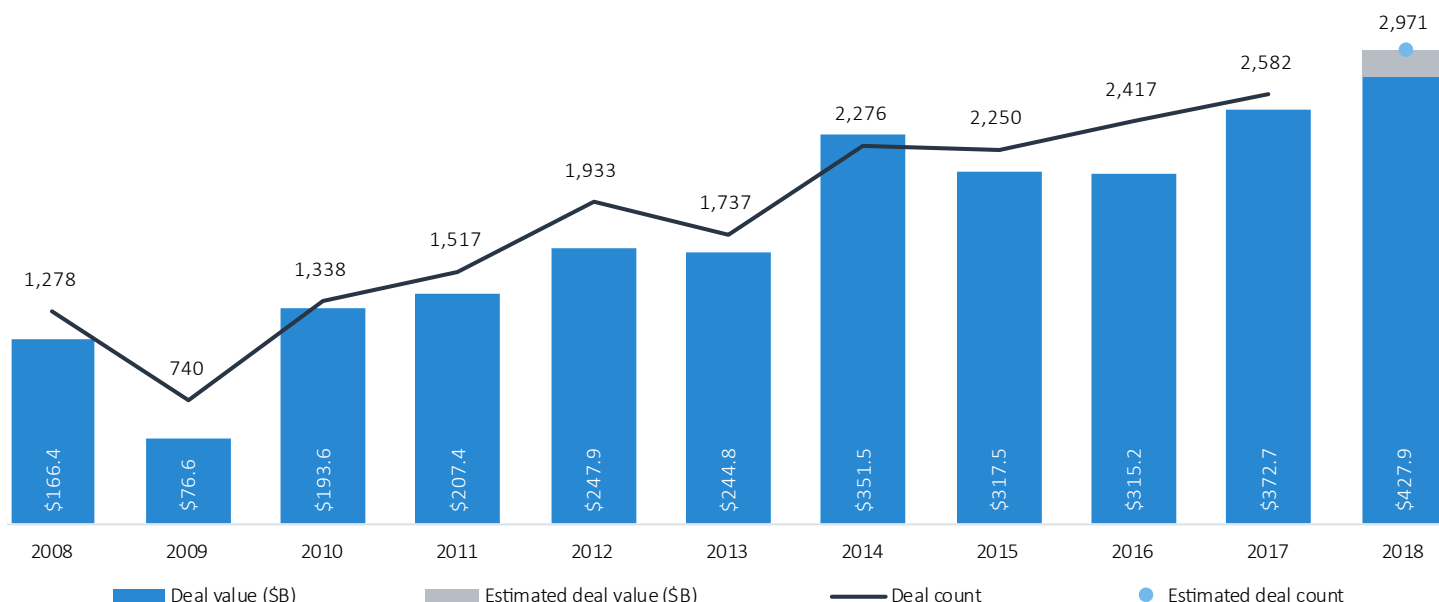


Wylie Fernyhough
 Analyst, PE

Overview

Record MM deal value and transaction volume

US PE MM deal activity



Source: PitchBook

2018's record-setting pace extended through the fourth quarter as the US PE MM recorded four successive quarters with more than \$100 billion in total deal value for the first time on record. Prior to 2018, the US MM had never tallied a single quarter exceeding this amount. Overall, the MM saw 2,971 deals close totaling \$427.9 billion—15.1% and 14.8% YoY increases, respectively. While 2018 set records for deal count and value, 2018's median deal size of \$175.0 million was a slight drop from the prior year's \$177.8 million.

One deal to note is the \$500.0 million leveraged buyout (LBO) of Tuft & Needle, a direct-to-consumer mattress company, in an add-on by Serta Simmons Bedding backed by Advent International, Ares Private Equity Group, and others. The mattress industry has become highly competitive with the old guard of companies fighting a new wave of direct-to-consumer brands. The largest of these, Casper Sleep, is VC-backed, having raised a \$170.0 million Series C round in August 2017 at a \$920.0 million post-money valuation. The company had reportedly been in talks to be acquired by Target for \$1.0 billion earlier in 2017.

During much of the year, PE firms enjoyed continued easy access to affordable acquisition financing with favorable terms thanks to the ravenous appetite for high-yield bonds and leveraged loans, which were supported by collateralized

loan obligations (CLOs). Leveraged loans have become a preferred option for financing LBOs in recent years, leading to total capital in the leveraged loan market growing at a much quicker pace than high-yield bonds after the financial crisis. Loans—which sit higher on the capital stack and are generally callable from day one—give lenders and borrowers certain advantages over high-yield bonds, which are subordinated and typically only callable several years after issuance. The floating-rate nature of leveraged loans is also attractive in a rising interest rate environment.

However, recent months have seen a dramatic turnaround with outflows in leveraged loan funds occurring at the fastest pace ever.¹ Prices of leveraged loans dipped markedly in the last quarter of the year, and the demand from CLOs appears to be slowing. Moreover, leveraged loans are riskier now than in years past. Companies have higher debt to asset ratios, making recoveries from a bankruptcy less likely. Additionally, intangible assets—which may pose valuation and liquidity challenges—make up a higher proportion of the underlying asset value than in the pre-crisis years. Liquidity is also a concern because loans are less liquid than bonds and take longer to settle. Going forward, if investors demand pricing and covenant changes in credit markets, dealmakers may have to reprice or even forego deals, dampening overall dealmaking.

1: S&P/LSTA U.S. Leveraged Loan 100 Index

Overview

Even though the leveraged loan market came under pressure during the last few months of the year, EV/EBITDA multiples remained elevated. Fierce competition and GPs inking a record dealmaking year kept prices aloft, even as US public market indices saw multiples contract due to their worst performance since the financial crisis. Some of this change may be due to a shifting composition of companies targeted by PE firms. As many GPs begin favoring software and other high-growth sectors, these high-multiple deals are likely to boost the industry's median multiple.

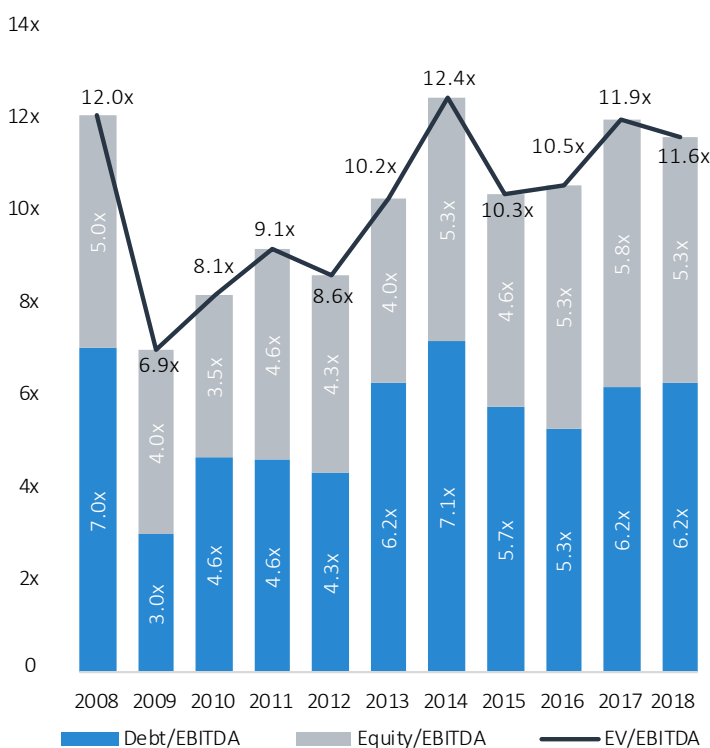
Though the US MM enjoyed a record-setting year in terms of deal value, the MM accounted for only 53.3% of overall US PE deal value in 2018, the second-lowest value post-crisis. An increasing number of buyouts are closing above the \$1 billion mark (our cutoff for the MM) as GPs look to spend down dry powder from some of the largest funds on record. 2018 recorded 73 buyouts above \$1 billion. Going forward, we expect this trend to continue as the sizes of buyouts and funds rise in unison.

Trends within the MM are mirroring what we see across the broader PE landscape. The sizes of deals, exits, and funds are all rising simultaneously. However, one interesting break from trend has been activity within the IT sector. Growth in the sector's total deal value has lagged the broader market. In fact, since 2010, the sector's deal value as a percentage of overall MM dealmaking fell to 14.8% in 2018 from 15.9% in 2010. With an explosion in VC funding and higher EV/EBITDA multiples, many IT companies have achieved \$1 billion+ valuations, placing these tech companies above the MM threshold. As multiples seem set to persist and these companies continue growing rapidly, more IT companies could advance out of reach for MM dealmakers.

Another trend we expect to continue is the prevalence of add-ons within the MM. Dealmakers see the value in growing inorganically as well as organically. Furthermore, [PitchBook research](#) on the effects of add-on investing on fund performance showed a clear trend of outperformance by firms that used higher rates of add-ons. We expect add-ons to further surge into the upper MM in the coming years and account for a higher proportion of MM deal value. Recent years have seen the average add-on deal size grow more quickly than the average non-add-on. In fact, 2018 saw add-ons increase their share of MM deal value by 5.3 percentage points while increasing deal count by only 2.1 percentage points, meaning the average size of add-ons was growing more quickly than non-add-ons.

Multiples remain elevated

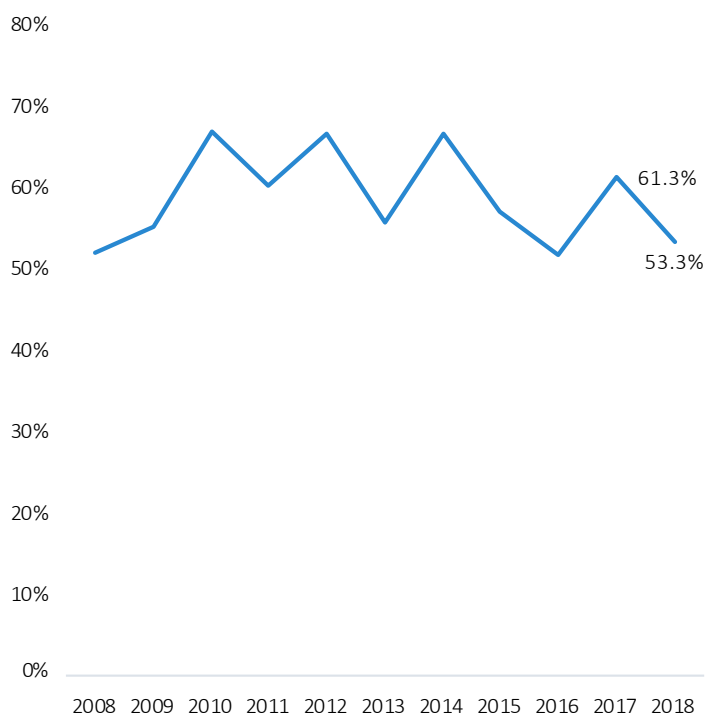
US PE buyout multiples



Source: PitchBook

MM makes up lower percentage of overall deal value as deal sizes swell

US MM as proportion of all PE (\$)



Source: PitchBook

Antares Capital: 2019 outlook

A banner year for the PE loan markets ends on a soft note

In 2018, the US saw GDP growth accelerate in the 10th year of its record-long economic expansion. This helped foster higher earnings growth, robust M&A activity and continued low default rates. LBO-related loan issuance hit record levels as did CLO issuance (demand) which was fueled in part by investor demand for floating-rate exposure in a rising-rate environment. PitchBook data indicates that 2018 closed at an all-time high for PE investment in the US middle market.

However, as 2018 progressed, skittishness over signs of economic weakness abroad and the fallout of trade tensions, rising interest rates and higher stock market volatility began to take their toll. By October, net retail dollar flows into loan funds began to turn negative, with net outflows surging dramatically by December. In 4Q 2018, loan pricing in the secondary market began to come under pressure with the SMi 100 falling below 95 by year-end. Spreads likewise began to flex upward in the primary market by year-end. Syndicated institutional loan supply hit its lowest level in 4Q 2018 since 1Q 2016, with December's level particularly weak. Direct lending volume fared much better (as is typical in times of high volatility), but overall sponsored middle-market volume still fell in 4Q 2018 versus a 2Q18 peak.

A pause that refreshes or end of the cycle?

As we enter 2019, conditions seem somewhat reminiscent of 4Q 2015-1Q 2016. Weakening economic growth abroad, sharply falling oil prices (and related credit concerns) and Brexit worries led to frosty capital market conditions and a similar drop in secondary loan pricing. It remains to be seen whether the current market swoon proves to be a healthy correction (i.e. a pause that results in more attractive valuations but still low defaults) as it did three years ago or whether the market is beginning to discount for a more full-blown end-of-cycle recession (with earnings contracting and defaults rising more sharply). There is reason for optimism that the US economy can avert recession assuming trade tensions begin to resolve, fed signals become more dovish and volatility subsides as the market digests more subdued but still healthy earnings growth expectations. However, recession odds are clearly on the rise.

"Rough waters are truer tests of leadership"

Regardless of what scenario transpires, lender excellence requires being prepared to support our sponsor clients throughout the cycle as we have done for decades. This entails offering a breadth of flexible financing structures and execution options for various market conditions, all the while maintaining credit discipline and a strong balance sheet. As it has been said: "In calm water, every ship has a good captain. Rough waters are truer tests of leadership."



Antares Capital

Antares is a private debt credit manager and leading provider of financing solutions for middle-

market private equity-backed transactions. In 2018, Antares issued more than \$24 billion in financing commitments to borrowers through its robust suite of products including first lien revolvers, term loans and delayed draw term loans, 2nd lien term loans, unitranche facilities and equity investments. Antares world-class capital markets experts hold relationships with over 400 banks and institutional investors allowing the firm to structure, distribute and trade syndicated loans on behalf of its customers. Since its founding in 1996, Antares has been recognized by industry organizations as a leading provider of middle-market private debt, most recently being named the 2017 Lender of the Year by ACG New York. The company maintains offices in Atlanta, Chicago, Los Angeles, New York, Norwalk, CT and Toronto. Visit Antares at www.antes.com or follow the company on Twitter at [www.twitter.com/antescapital](https://twitter.com/antescapital). Antares Capital is a subsidiary of Antares Holdings LP., collectively ("Antares").

Q&A: David Brackett

With 2018 now behind us, how would you characterize the year for the private debt market?

2018 was a banner year for Antares and private debt markets more broadly. Antares volume came in at almost \$25 billion (up 13% versus 2017) and our core assets saw double-digit growth. Much of loan volume growth in the US-sponsored middle market was driven by opportunistic refinancing and repricing activity early in 2018, but M&A activity picked up into the summer months with refinancing activity slowing as spreads stabilized and then began to tick up. Our portfolio performed very well with already low defaults and losses down YoY and with trailing twelve months EBITDA growing at a healthy clip. All that said, the year also brought looser terms and higher leverage and ended on a soft note due to rising economic concerns and related market/valuation volatility.

Do you feel the market has gotten too frothy?

Clearly, high fundraising activity and an influx of new entrants have driven loan demand above supply over much of the past couple of years. This, in turn, has driven narrower spreads and looser terms. This is why we believe it's been ever-more important for us to be selective on new deals and leverage our incumbency advantage. We believe our sizable originations platform and long-held relationships across hundreds of middle-market sponsors give us a first look at just about everything out there in our strike zone. We do only a small fraction of deals we see with a new borrower, and we act as lead arranger on most of those, which gives us more control of due diligence documents and portfolio management. We are also able to take advantage of the sheer scale and diversity of our portfolio—one of the largest middle-market loan portfolios in the industry—as a key source of competitively advantaged deal flow from credits we know quite well. About three quarters of our total deal count came from existing borrowers in our portfolio in 2018. Our unique access and insights into these borrowers helped drive double-digit growth in our core book.

So, yes, there is some frothiness, but equity checks are bigger than they were at the prior peak and there are still attractive deals to be done for those that are well positioned to find and lead them. Of course, being selective can be difficult because we want to do all the deals our clients bring us. It can be hard to say no to some, but credit discipline gleaned through decades of experience requires it. We also want to make sure we are well positioned to help our sponsor clients play through the cycle and capitalize on opportunities during the next downturn.



David Brackett

Dave is a managing partner and co-CEO of Antares Capital. He is a member of Antares' Investment Committee as well as Antares' Board of Directors.

Previously, Dave served as president and CEO for GE Antares. He was a founding partner when Antares was formed in 1996. Prior to starting Antares, Dave was a senior executive with Heller Financial.

What about the outlook for 2019? What does your crystal ball show?

We expect loan volume and M&A/LBO activity to be less robust in 2019 (e.g. perhaps down 10%), but prospects still generally look favorable. On the positive side, GDP and earnings growth are expected to be decent if a bit slower in 2019, with odds of recession still relatively low (albeit admittedly not insignificant). The default rate could pick up a bit but is expected to remain relatively low (i.e. below long-term average of around 3%). Meanwhile, PE dry powder remains at record levels.

However, on the negative side, rising stock market volatility, lingering trade uncertainties, interest rate concerns, weakness abroad and slowing US GDP and earnings growth appear to bedevil optimism moving in 2019 (more on this in our third annual Compass survey report). In the loan markets, this has manifested in a weaker deal pipeline and a significant drop in secondary loan prices—so 2019 is already off to a slow start.

Hopefully, a de-escalation of Chinese trade war tensions, an end to the US government shutdown and a more dovish fed will lift spirits and allow the record US economic expansion to continue through 2019. Hope is not a strategy, however. A real downcycle will come likely in the not-too-distant future (e.g. perhaps within the tenor of a loan being issued today). In fact, about two-thirds of middle-market lenders expect a recession to arrive in 2H 2019 or 1H 2020 according to a recent survey by Refinitiv. As such, PE firms should be particularly selective of the lenders with whom they partner in today's market. We stand ready to support our sponsor clients through whatever storms may come as we have for decades, with a strong hand at the tiller, fortified by a rock-solid, long-term-focused capital base.

Spotlight: Restaurants

The restaurant industry has seen an uptick in activity in recent years. Consumer preferences are shifting, and the old-guard of restaurants must continuously adapt to keep up. Younger consumers are using food delivery apps and seeking out healthier options. Additionally, growth in the industry has slowed, and [research by Morningstar and PitchBook](#) points to decelerating industry growth in the years ahead. “[W]e wouldn’t be surprised to see additional small- to mid-cap restaurant chains escape public scrutiny and explore potential go private transactions. We also believe conditions are favorable for a strategic or financial brand consolidator looking to add a new franchised concept,” wrote Morningstar’s Consumer Equity Strategist and Senior Restaurant Analyst R. J. Hottovy.

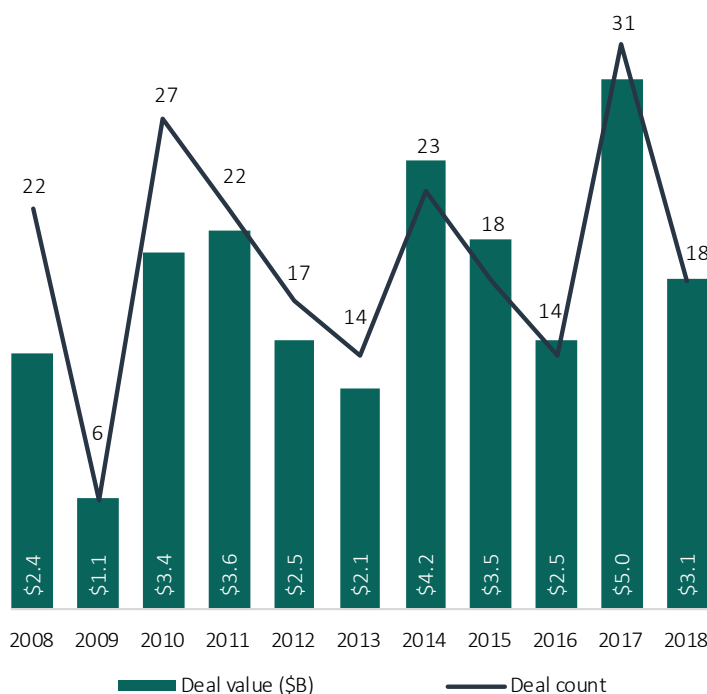
The restaurant industry, which saw several high-profile buyouts above the MM’s \$1 billion cutoff, experienced noteworthy activity within the MM in 2018. Overall, 18 deals closed worth \$3.1 billion. This was a decrease from the 31 deals completed in 2017, and the median deal size was smaller in 2018 as well. Many of the MM’s most prolific restaurant buyers were notably absent from the action in 2018, including Sentinel Capital Partners.

The MM saw several prominent restaurant transactions in 2018, including Rhône Group’s \$560.0 million buyout of Fogo de Chão, a Brazilian steakhouse chain, its first restaurant investment. Zoës Kitchen—a fast-casual Mediterranean chain backed by The Invus Group, among others—was purchased for \$300.0 million. Finally, Qdoba, a Mexican fast-casual chain that competes with Chipotle, was purchased by Apollo Global Management for \$305.0 million. The company had been struggling in recent quarters before parent company Jack in the Box, which had owned Qdoba since January 2003, decided to pursue strategic options, ultimately ending in a sale. Notably, all three transactions were take-privates.

Coming into 2019, TriArtisan Capital Partners is in talks to buy P.F. Chang’s for as much as \$700.0 million. Going forward, we believe there will be continued industry consolidation as investors seek out economies of scale to combat margin contraction from slowing (or even negative) growth.

Restaurant activity slowed in 2018

US PE MM restaurant & bar deal activity



Source: PitchBook

Select PE investors in US MM restaurants & bars

Rank	Investor	Deal count	Investor HQ state
1	Sentinel Capital Partners	6	New York
2	Olympus Partners	5	Connecticut
2	NPC International	5	Kansas
2	Kelly Companies	5	California
2	CapitalSpring	5	Tennessee
6	Boyne Capital Partners	4	Florida
7	Penta Mezzanine Fund	3	Florida
7	KBP Foods	3	Kansas
7	Sun Capital Partners	3	Florida
7	Victory Park Capital	3	Illinois
7	Partners Group	3	Switzerland
7	NRD Capital	3	Georgia
7	Hargett Hunter Capital Partners	3	North Carolina
7	TPG Growth	3	California

Source: PitchBook

This table includes refranchising deals and non-US investors participating in US deals.



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ACG®

Association for Corporate Growth

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ACG: Joining forces—Deal success stems from people

2018 was a banner year for M&A across industries. Why was it the right time for RGL Forensics to pursue a merger?

In the spring of 2017, RGL was celebrating its 20th anniversary, which was a perfect time for us to reflect on how far we had come as an organization and decide where we wanted to go. The company had reached a point where many organizations find themselves: We had achieved significant growth through organic efforts but had more great ideas than we had the platforms and financing to support them. When you get to that point, remaining independent means your choices are either to become more comfortable with debt or to stop funding certain projects to make room for others. We spent six months weighing our options and ultimately decided that joining forces with another firm was the best choice for our employees, partners and clients. We could continue to grow while expanding our services in quantity, scope and geography.

For RGL's clients, the combination with Baker Tilly gives them a wider platform, more delivery channels and more specialized advisory, tax and assurance professionals than before. As for Baker Tilly's clients, they now have access to RGL's international network of forensics accounting, technologist and business advisory services, which they can use to serve clients worldwide.

Do you expect to see further consolidation within the forensic accounting industry?

Forensic accounting is a \$4 billion+ industry that serves even larger industries seeing significant consolidation, such as insurance. To my knowledge, RGL is the first forensic accounting firm to undergo consolidation, but as technology continues to create new opportunities, disrupt industries and drive innovation, consolidation will follow.

There's growing awareness in the M&A community about the role communication plays in a merger's success. How did you approach this during your own merger?

Mergers fail when you don't respect your audience. As CEO, during the opportunities evaluation phase, I had to manage communication with several core audiences at once—the group in charge of pushing the Baker Tilly deal forward, the board and the executive committee. On top of that, I had to continue to run the business as though nothing was happening.



Angela MacPhee

Angela is a partner at Baker Tilly, where she leads the firm's global forensics consulting team.

She previously served as CEO of RGL Forensics, a leading forensic accounting firm, prior to the firm joining with Baker Tilly in 2018.

MacPhee also serves as chairman of the board for ACG Global. A former board member of the Denver chapter, MacPhee has been an active ACG member since 2005.

As more of the firm became aware of the potential combination, my communication, too, became intentional and strategic. You can't inform everyone at once, and when you bring people into the fold, respect is essential. You're speaking with professionals who are invested in the company, and this change will potentially impact their careers. They will be worried about their jobs, benefits—even their office. As a leader, you must adopt a communication style that connotes security while providing as much transparency as possible, and you should be empathetic because you are taking your employees through an emotional journey.

As a CEO, your charge is to lead the company, so you must support everyone else as they begin to understand the vision for the organization's future and see themselves as part of it. It is an incredibly well-intentioned and choreographed process. We were successful because we understood our audiences and respected each group's needs. The unanimous support of our partners for the combination and the retention of all our client-facing professionals demonstrate that we accomplished what we set out to do.

What measures have you taken to ensure successful cultural integration?

When we were evaluating potential partners, we started by testing the market to see what our options were to make sure we knew exactly what we wanted before making any decisions.

ACG: Joining forces

To narrow our search, we developed a list of five key attributes we wanted in a partner organization: respect from its clients in the industry, long-standing client relationships, a collaborative culture, a strong entrepreneurial spirit and a people-centered culture with high employee engagement and a focus on hiring the best and the brightest.

This last one was particularly important because RGL isn't a commodity business. The value of our company is not in our products—it stems from our people. And to be successful, we knew we needed to find an organization that valued its employees as much as we do so we could continue to be a great place to do great work. We found that with Baker Tilly.

Given the complexity of the deal, the selection of team members seemed to be critical. How did ACG or other organizations aid you in that endeavor?

Anyone on either side of a deal will tell you that a successful combination is contingent on relationships. You need to be able to trust the people with whom you are working and respect the company that they represent. My membership with ACG helped me find people I trust.

When I proposed a potential combination to the RGL board, my tool belt was prepped and ready to go. Over the years, I regularly tapped my ACG network for recommendations or referrals. When the board approved exploring the market for a combination, I already knew which investment bank, law firms and consulting firms we would use. My membership with ACG proved invaluable for two reasons: I built the right relationships with the right people who helped me make this deal happen, and the thought leaders and programming at ACG's events equipped me with the knowledge and confidence required to steward the board and the staff through the transaction.



Association for Corporate Growth

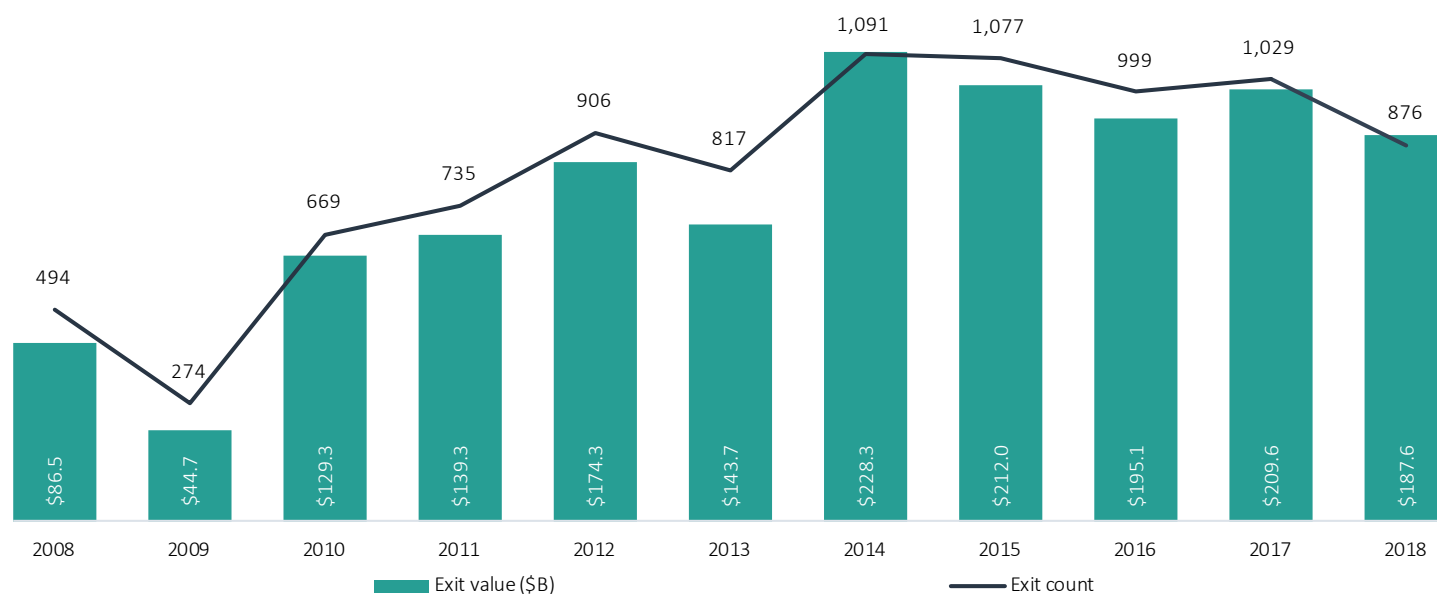
About the Association for Corporate Growth

*Founded in 1954, ACG has 59 chapters across the globe. ACG's worldwide network comprises 90,000 professionals within the middle market, including 14,500 members who serve as the investors, lenders, owners, executives and advisers to growing middle-market companies. ACG's mission is to drive middle-market growth. ACG's *InterGrowth* has been the nexus of the middle-market dealmaking community for more than half a century. Pitchbook estimates that 2018 InterGrowth attendees were involved in more than one-third of US private equity deals and sat on more than \$189 billion in dry powder. InterGrowth will be held May 6-8, 2019, at the Waldorf Astoria Orlando. For more information, please visit www.acg.org.*

Exits

Exit activity falls shy of recent years

US PE MM exit activity



Source: PitchBook

In 2018, US PE MM firms exited 876 investments for a combined deal value of \$187.6 billion. Overall exit value was down 10.5% compared with 2017 (\$209.6 billion) while exit count fell an even larger 14.8% compared with the year prior (1,029). Exit activity has generally been trending downward after peaking in 2014. We believe much of the drop can be attributed to the fervent add-on activity the MM is experiencing on the deals side. For example, Curo Health Services was bought by Alpinvest Partners and Thomas H. Lee Partners for \$730.0 million in August 2014. The company completed an add-on of New Century Hospice for \$120.0 million in January 2016, meaning the original buyout and the add-on were MM deals, but the July 2018 exit valued the company at \$1.4 billion. Despite its effect on MM exit figures, it should be noted that this change in EV is a key part of the buy-and-build strategy and is generally a positive for PE investors. Another example is TriTech Software Systems, which was bought for \$300.0 million by Insight Venture Partners in November 2014. In June 2018, the company was purchased by Bain Capital for \$1.1 billion. The company undertook five add-ons in that timeframe, although the sizes of the deals were not disclosed.

Some interesting sector-related trends emerged throughout the year. For example, IT lifted its share of exit count each year since 2014, rising from 12.0% to 17.3% of

all exits. During that time, however, its proportion of deal value remained mostly flat, going from 12.2% to 13.3%. On the other hand, healthcare did the opposite, dropping to 12.6% of overall exit value from 16.6%. Both sectors account for a higher percentage of deal count and value than exit count and value, a trend which has persisted for several years. We believe this is occurring because these two sectors tend to be dominated by add-ons and are higher-growth sectors, which means they are more likely than other sectors to exit outside the scope of the MM. This divergence appears set to persist into the future as dealmakers continue sourcing add-ons from these sectors.

2018 saw a pair of PE-backed producers of baked goods find liquidity. Mondelēz International, the snack-foods conglomerate, acquired Tate's Bake Shop—backed by The Riverside Company—for \$500.0 million. Additionally, Olympus Partners bought Rise Baking Company—backed by Arbor Investments—for \$550.0 million. Overall, consumer-facing investments (B2C) accounted for 20.4% of all exit value and 18.5% of total exit count. Financial services, another active sector, accounted for 10.8% of exit value in the year. In a noteworthy deal, Orix USA—a financial services firm—bought NXT Capital in a \$900.0 million LBO that will expand Orix USA's lending business in the US MM.

Exits

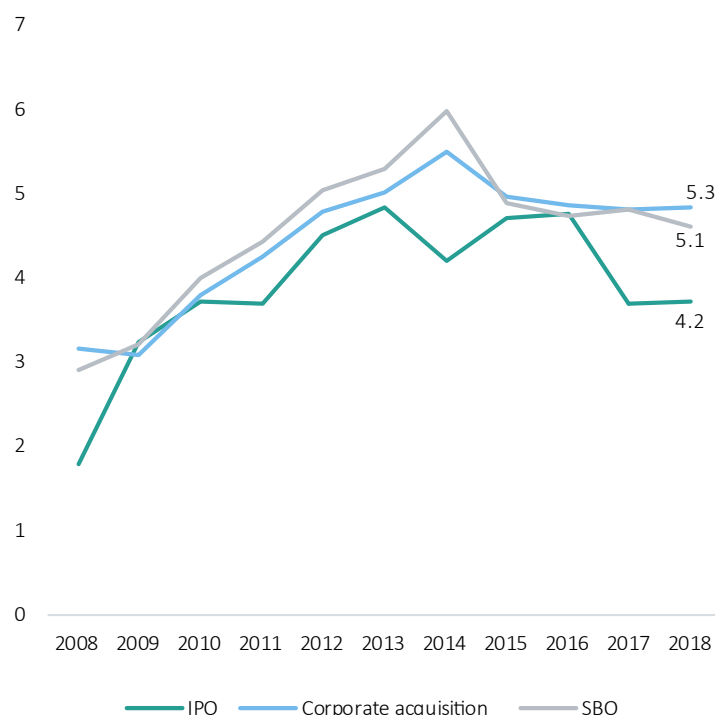
Exit times, for the most part, appear to be plateauing around five years. In fact, the median holding period for exits occurring in 2018 was exactly five years. Exits via corporate acquisition took slightly longer (5.3 years) than those via SBO (5.1 years). While the median time to exit via IPO is about a year shorter, at 4.2 years, there is a simple explanation. We track the IPO date as an exit; however, GPs often retain a sizable piece of the company to be sold off over time—usually in the next 12-24 months. Since it takes more time to fully exit an investment via IPO than the cash-up-front options, the overall exit timeframe for IPOs ought to more closely resemble the five-year median. Although holding times depend heavily on the market environment, we believe they will rise in the coming years given that GPs are raising a growing number of “long-dated funds” with investment horizons that can stretch beyond 15 years, and LPs have become more accepting of longer holding times in traditional fund structures.

The bifurcation between total count and capital exited via SBO and corporate acquisition continued in 2018. SBOs accounted for 54.0% of exits while accounting for just 31.4% of exit value. Corporate acquisitions, on the other hand, accounted for 42.9% of exits and 64.9% of exit value, a sign of the continuing importance of strategics at the upper end of the market. As the overall level of PE AUM has risen unabated for the past decade-plus, so too has the inventory of PE-backed companies. Although GPs are likely to continue selling portfolio companies to other financial sponsors at a rapid clip, the same cannot be said when it comes to deal sourcing. GPs sourced deals via SBO at the lowest rate in five years during 2018.

Several large PE-backed energy companies went public in the year, though most activity took place in the first quarter. Cactus Wellhead—which received a growth round from Cadent Energy Partners—went public at a \$985.9 million valuation, raising \$437.0 million. Liberty Oilfield Services—which received growth capital from Riverstone Holdings and Oakmont—listed publicly at a \$956.2 million valuation, raising \$216.4 million. These two exits represent the largest exits of the year in the MM. GPs frequently use public markets to exit energy companies as public markets tend to be more amenable to their irregular—and often times negative—cash flows. In fact, energy companies made up just 7.5% of overall MM PE-backed exits but accounted for 17.2% of MM PE-backed IPOs in 2018.

Time to exit plateaus around five years

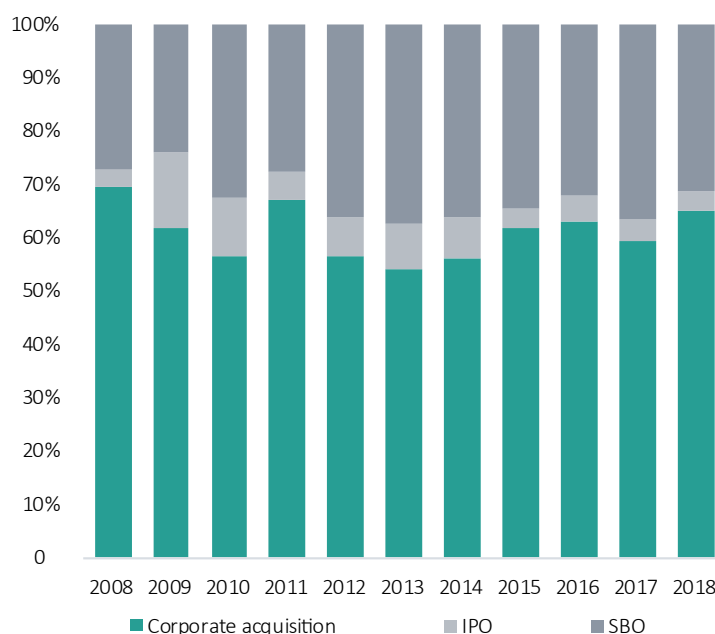
Median US PE MM time to exit (years) by exit type



Source: PitchBook

Corporate acquisitions account for bulk of exit value

US PE MM exits (\$) by type

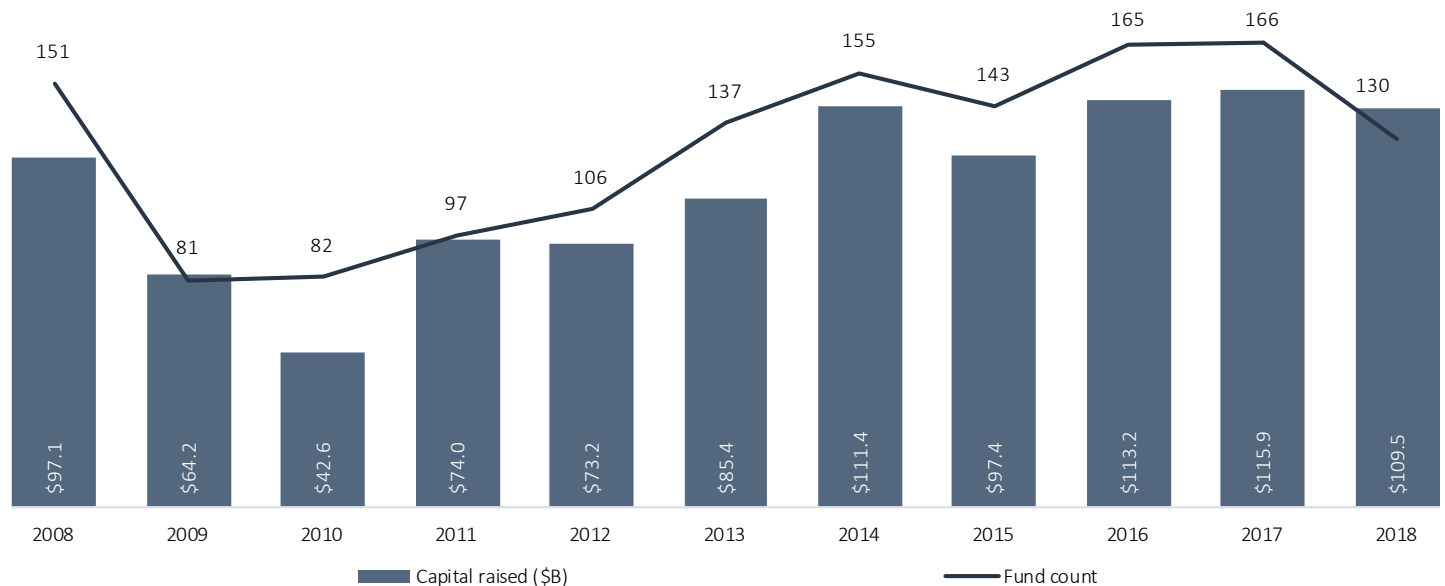


Source: PitchBook

Fundraising

Fundraising capital remains flat on fewer funds

US PE MM fundraising activity



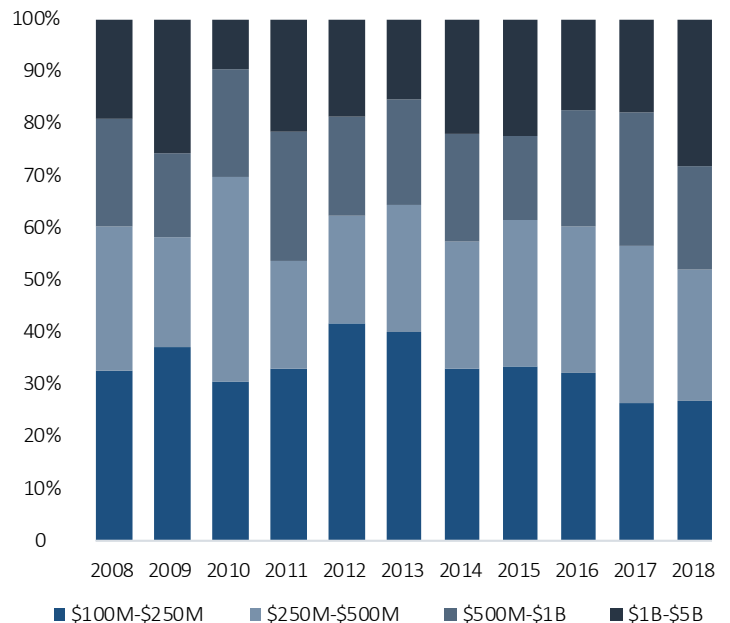
Source: PitchBook

2018 was another healthy fundraising year for the US MM with total capital raised nearly matching previous years. Overall fundraising saw 130 funds close on \$109.5 billion—declines of 21.7% and 5.5% YoY, respectively. Four out of the past five years have seen the US MM raise more than \$100 billion. This robust fundraising activity has been driven by steady returns for the asset class and a continued rise in target allocations by LPs. In fact, as detailed in our [2018 Annual Institutional Investors Survey](#), LPs are expecting to make the largest—relative and absolute—increases to their target allocation for private market strategies. Respondents foresaw their average private markets strategy allocation rising from 30.9% to 32.5%. Much of this anticipated increase will be fueled by cutting exposure to hedge funds and fixed income. Furthermore, many LPs expect to grow their number of GP relationships, which ought to augment a healthy and competitive fundraising environment for funds outside the bulge bracket.

Exemplifying the strong market demand for exposure to MM funds, some firms closed multiple vehicles under \$5 billion in 2018. For example, H.I.G. Capital closed on three MM funds in 2018: the H.I.G. Advantage Buyout Fund at \$3.0 billion, the H.I.G. Strategic Partners Fund at \$1.3 billion, and the H.I.G. Growth Buyouts & Equity

\$1B-\$5B funds make up highest proportion of MM funds in over a decade

US PE MM fundraising (#) by size



Source: PitchBook

Fund III at \$970.0 million. Interestingly, the Strategic Partners Fund will act as a sort of fund-of-funds for other H.I.G. Capital funds (though this means it will not show up in our aggregate figures in this report). The fund “is targeting \$1 billion to invest in the firm’s 12 underlying funds as they return to market over the next four years, in addition to making co-investments on an opportunistic basis alongside the underlying funds.” The selling point to LPs is “the opportunity to lock in allocations to their oversubscribed fund lines, while building in diversification across their strategies,” according to a presentation by Texas Municipal Retirement System in June 2018.²

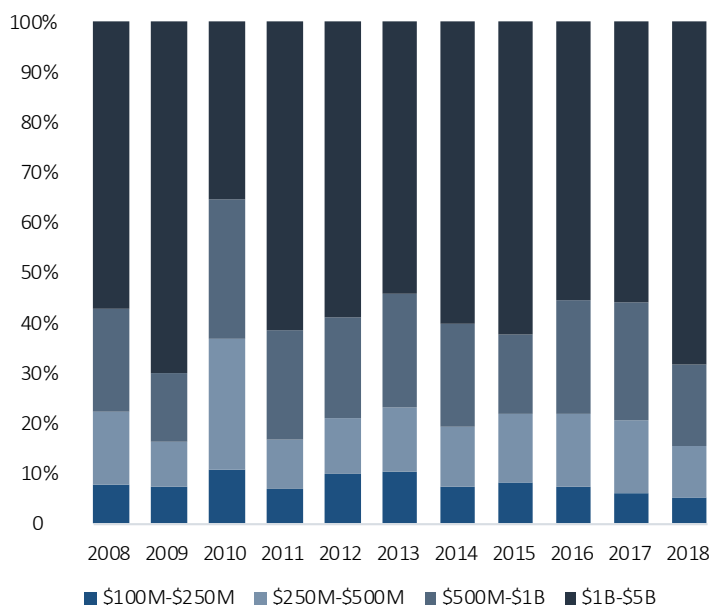
Thoma Bravo returned to the MM with the closing of its Discover Fund II in 4Q—a \$2.4 billion vehicle that will focus on MM software investments. The Chicago-based tech investor is currently fundraising for an \$11.5 billion flagship buyout fund after closing on a \$7.6 billion fund in 2016. Another tech-heavy investor, Clearlake, closed on its \$3.6 billion flagship Capital Partners V in the fourth quarter.

Funds between \$1 billion and \$5 billion made up the highest proportion of overall MM funds on record, accounting for 27.7% of all MM funds closed in the year. In fact, the 36 funds of that size are also the most the MM has ever seen, surpassing the 34 closed in 2014 and 33 closed in 2007. As larger funds make up a mounting proportion of overall fundraising, the average and median sizes of MM funds are rising as well. 2018 saw the average buyout fund hit \$929.0 million, eclipsing \$900 million for just the second time on record, the other being the \$901.3 million average in 2011.

We expect MM funds to continue swelling in size and for the larger funds to make up an ever-growing percentage of overall funds and fundraising capital. In the years to come, we also expect established GPs that have successfully raised mega-funds will continue returning to the MM to raise funds targeting smaller companies. Thoma Bravo, Audax, and others closed these funds in 2018, and 2019 is likely to see even more as GPs look to raise additional capital and further expand strategy offerings.

\$1B-\$5B accounts for nearly 70% of capital raised

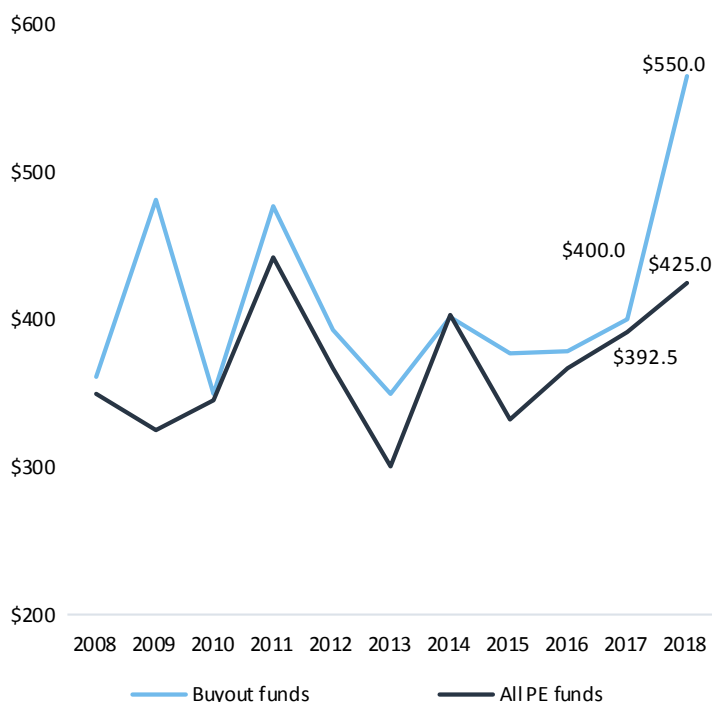
US PE MM fundraising (\$) by size



Source: PitchBook

Median buyout size hits highest value on record

Median US PE MM fund size (\$M)



Source: PitchBook

2: “Private Equity Recommendations,” Texas Municipal Retirement System, Chris Schelling, June 28-29, 2018

2018 US PE MM lending league tables

1	Antares Capital	143
2	Ares	92
3	Madison Capital Funding	82
4	Twin Brook Capital Partners	77
5	NXT Capital	72
6	Churchill Asset Management	58
7	Crescent Direct Lending	49
8	Bank of Ireland	48
9	Citizens Bank	47
10	Golub Capital	46
11	Capital One	44
11	BMO Financial Group	44
11	MidCap Financial	44
14	First Eagle Private Credit	39
15	The Carlyle Group	38
16	Jefferies Group	36
17	Monroe Capital	35
18	The Goldman Sachs Group	33
19	Varagon Capital Partners	30
20	SunTrust Banks	26
21	BBVA Bank	25
22	Kayne Anderson Capital Advisors	23
23	ING Group	21
24	PNC	20
25	Barings	19

Source: PitchBook

