Q1 2023

US PE Breakdown

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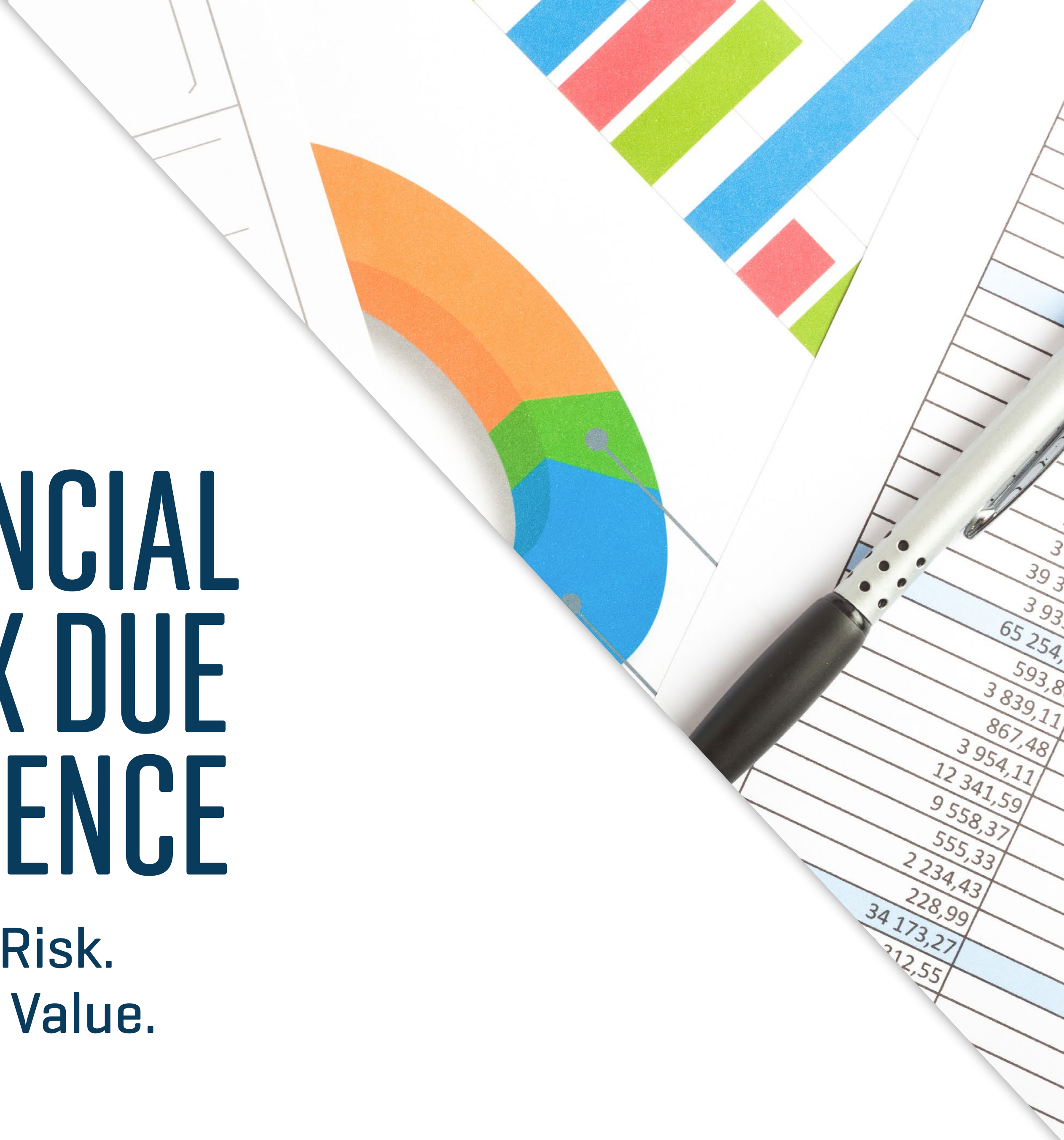

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EXECUTIVE SUMMARY

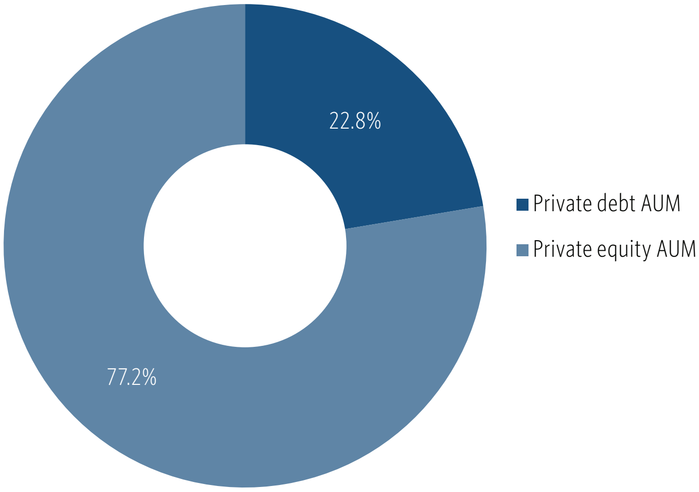
The stress test

Stress in the banking system—starting with the collapse of its three high flyers (Silvergate, Signature, and Silicon Valley Bank) and continuing with the rescue of Credit Suisse, one of Europe's largest and oldest banks—has rocked the venture capital world and upended public equity and fixed income markets more broadly. Conspicuously absent from the headlines has been private equity. If anything, PE has been business as usual. In the same seven-day span that saw SVB bank accounts and loan facilities freeze momentarily for sponsor-backed companies and funds, private equity announced five megabuyouts worth $31.3 billion in aggregate, including the year's largest so far, Qualtrics' take-private at $12.5 billion. Clearly, PE dealmakers were undisturbed by the events that preceded and followed the SVB meltdown. This has left industry observers to wonder whether PE might emerge unscathed and perhaps even a winner longer term, or conversely, if more fallout is around the corner with some type of PE-related shoe ready to drop.

It's no secret that private equity has had its sights set on stealing the thunder from public markets and traditional capital formation for some time now. Since 2016, through all of the booms and busts in IPOs, SPACs, secondary offerings, and other forms of public underwriting, more equity capital has been raised from private markets than public markets. That phenomenon has expanded to parts of debt capital markets and lending as well. For almost one year now, private credit funds have stepped in to fill the growing void left by public markets for private borrowers, or the so-called broadly syndicated loan (BSL) market, a bank-led activity. According to LCD estimates, new-issue volume for leveraged loans provided by private funds in 2022 nearly equaled BSL institutional volume, at $200.0 billion and $225.1 billion, respectively. That compares to $155.9 billion for private funds and $614.6 billion for the BSL market in 2021.

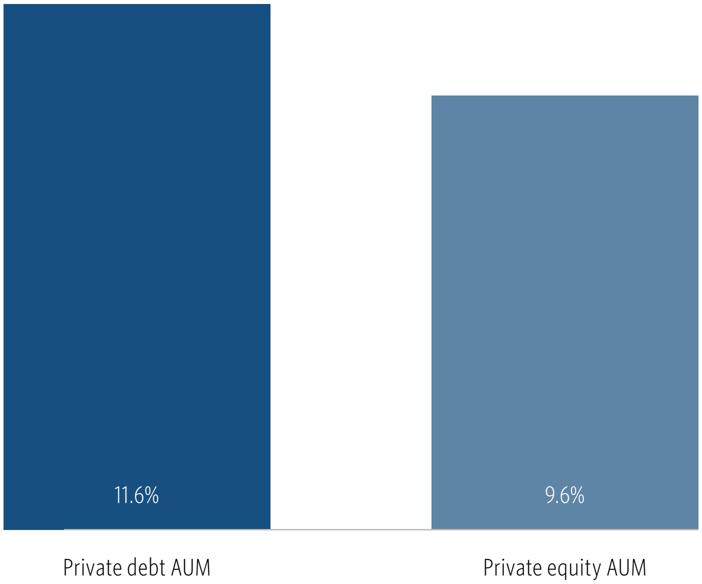
But private equity's vision does not stop there. With this latest push into credit, the industry has its eye on a broad range of new strategies to supplement the $1.3 trillion it has under management in private debt funds and close the gap to the $4.4 trillion it is managing in private equity funds. Apollo CEO Marc Rowan sums up the industry's ambitions best in reference to the $40 trillion replacement market for investment-grade fixed-income returns: "The opportunity

Share of AUM by strategy in 2022*



Source: PitchBook • **Geography:** Global
*As of December 31, 2022

AUM CAGR by strategy (2014-2022)*



Source: PitchBook • **Geography:** Global
*As of December 31, 2022

for us is to continue to be a conduit for investors to take investment-grade-type, safe yield opportunities from the banking system to the investment marketplace to maintain diversification of our financial system."[1]

Given its voracious appetite for buying and building credit strategies in recent years—a total of 33 deals for private credit managers have been completed since 2020—private equity figured into several scenarios as a possible buyer for parts of SVB and Credit Suisse, and understandably so. While that still may be the case (SVB's asset management and Credit Suisse's leverage finance unit are still up for grabs as of time of publish), several negating factors are at work, including restrictions that limit private equity investment in banks. At this point, a brief history is in order.

The Bank Holding Company Act, which dates back to 1956, generally prohibits nonbank investors from exerting material control (25% of voting stock or more) over a bank without becoming a bank holding company itself, subject to FDIC oversight.

This was relaxed somewhat during the global financial crisis (GFC). PE investors were allowed to take passive stakes for as much as 33% (not more than 15% voting stake) without triggering the bank holding company rule. This resulted in PE "club" deals that gave regulators enough pause to raise the bar for failed banks specifically. The "Final Statement of Policy," published by the FDIC in 2009, made it tougher for PE firms to invest in failed banks, though not impossible. PE suitors were required to buy healthy banks as a conduit for bidding on failed banks, and a mandatory three-year holding period was imposed along with stringent tier 1 capital requirements. A flurry of PE deals for failed banks followed. According to FDIC records, a total of 489 banks failed between 2008 and 2013—of which, 60 were purchased by 17 PE-backed banks.[2] The overwhelming majority of failed banks, or 88%, were sold to non-PE banks, excluding a small handful that were wound down and sold in pieces. At the time, this was believed to be the safest and least costly way of resolving bank failures, and it pervades the FDIC's thinking to this day.

Against this backdrop, it's unsurprising that the SVB auction bypassed PE involvement. According to some observers, PE firms were not even given direct due diligence access, which makes sense, given the need for a bank charter in order to bid. That said, there is a road map for PE involvement in the banking system during times of stress, and it will no doubt get dusted off should systemic risk creep back into the picture.

2008-2013 PE-backed banking acquisitions*

PE bank platform	Failed banks acquired	Open banks acquired	Total
State Bank and Trust	12	5	17
Community & Southern Bank	8	3	11
Premier American Bank	8	2	10
NAFH National Bank	3	5	8
First Michigan Bank	4	3	7
Grandpoint Bank	1	6	7
NBH Bank	3	3	6
Hamilton State Bank	4	2	6
Harbor Community Bank	1	5	6
CertusBank	5	0	5
Bay Bank	2	2	4
OneWest Bank	3	0	3
BankUnited	1	1	2
First Southern Bank	2	0	2
Premier Bank	1	1	2
AloStar Bank of Commerce	1	0	1
Superior Bank	1	0	1
Total	**60**	**38**	**98**

Source: PitchBook • **Geography:** US
*As of March 31, 2023
Note: Data includes open bank deals subsequent to 2013.

1: "Buyout Titans Weigh Purchases From Silicon Valley Bank Loan Book," Financial Times, Sujeet Indap, Antoine Gara, and Eric Platt, March 14, 2023.
2: "Report No. 2021-01 Private-Equity-Backed Acquisitions of Failed Banks, 2008-2013," FDIC, n.d., accessed March 20, 2023.

A WORD FROM STOUT

The state of M&A in a fragile market

Given broader market tumult, where are your clients looking for the most opportunism?

Joe: With deal activity slowing from 2022, companies with cash availability are well-positioned to take advantage of the reduced competition and more attractive valuations. This sets up well for corporate buyers who have faced fierce competition from private equity firms for quality assets over the last several years.

Corporates generally seem to have entered this recessionary environment with stronger balance sheets than they had in previous down markets. While the leveraged buyout model often utilized by private equity firms faces a hurdle with rising interest rates, we still see private equity firms looking at add-ons, searching for proprietary deals, and exploring take-private opportunities.

Acquisition targets that were strategic yesterday may not be strategic today. Having been in a "seller's market" over the past two years, we are seeing buyers become much more selective and proactive in seeking out strategic fits to their portfolios.

Given the rates of PE penetration in key markets on both geographic and sector bases, how are add-on strategies evolving?

Joe: Private equity firms are getting much more niche with the sectors in which their investments are focused. When looking at add-ons, there seems to be a greater focus placed on value creation beyond the traditional multiple arbitrage opportunities that most private equity firms seek. This can take various forms, but often targets that can add additional capabilities or technologies to an existing platform have been of interest.

For add-ons, private equity firms have been more willing to look at deals with increased complexity and risk. Additionally, they are searching for proprietary deals where they can often get more attractive valuations. We are even beginning to see earnouts return to the discussion as buyers become more focused on valuations.

Joe Randolph
Managing Director and Financial Due Diligence Practice Co-Leader
Stout

Joe has 15 years of experience in finance, due diligence, and M&A, servicing private equity and strategic clients. He has extensive expertise across a broad range of industries, including technology, media & entertainment; business & industrial services; and healthcare.

Harry Gruits
Managing Director
Stout

Harry has over 20 years of experience advising financial and strategic dealmakers with their M&A objectives. He has led or executed financial and cross-functional due diligence on over 150 transactions across several sectors domestically and abroad, ranging in size from $10 million to $5 billion.

The focus on value creation even carries over to due diligence. Due diligence has become more focused on analyzing value creation compared with the traditional approach of solely focusing on risk mitigation.

What are the primary concerns that have cropped up among your clients this year that differ from concerns over the past few years?

Joe: COVID-19 is just starting to fade out of focus. We've been spending less time normalizing COVID-19 periods now that we have a good sample size of activity after COVID-19 and the CARES Act for most industries—though we certainly still see lasting effects in some industries and sectors.

There is increased concern about a deepening recession, the rising interest rate environment, continued inflation, and the stability of banks and financial institutions. The concerns from 2022 also still exist relating to the Russia-Ukraine war and US-China relations.

A new concern that seems to be on the rise is the stability of the labor market and the availability of top talent. Private equity firms and their portfolio companies alike are placing increased focus on attracting and retaining talent. This can often come with increased price tags.

PitchBook analysis has noted that current market conditions are potentially prime for take-privates. What is your perspective on those and similar transactions, such as carveouts, given current market conditions?

Harry: A number of economic factors such as inflation and supply chain disruption have put more pressure on public companies when trying to achieve projected earnings. Taking a company private offers flexibility and can significantly reduce compliance costs associated with being public. Private equity recognizes this, as illustrated by an increase in private equity-backed delistings over the past two years, per Reuters.[3]

Carveout transactions present an interesting opportunity for both buyers and sellers in today's environment. While strategic sellers seek to divest noncore assets to raise capital or realign their strategic focus, buyers with operational expertise and/or existing back-office capabilities can recognize synergies with the right value creation plan. It's important to remember carveouts are complex and require more time than a traditional divestiture. Therefore, even if sellers don't plan to divest assets today, it's important to start early to prepare companies for carveouts.

What are you and your teams watching most closely from a monetary and regulatory perspective as it pertains to either PE directly, or broader business conditions?

Harry: The Federal Reserve's decision on further interest rate hikes is critical. While further rate hikes were expected based on its last announcement, the collapse of Silicon Valley Bank and others may pause or lessen future rate hikes. Private equity dealmaking has slowed, given the interest rate environment, and it's difficult to see how future rate hikes will change that.

Consumer spending and consumer credit card debt are other factors worth watching. While many expect spending to flatline in 2023, that has not happened, which could continue to put pressure on the Federal Reserve to raise rates. With spending continuing to increase, the level of consumer credit card debt hit an all-time high in February 2023 at just under $1 trillion. Rising interest rates don't help this dynamic, and as one would expect, delinquencies have also increased. Eventually this will impact companies as consumer purchasing power and activity decreases. The student loan moratorium is also ending in June, which will put additional stress on consumers with student loans regardless of what the Supreme Court decides.

Which risks do you think are still not appropriately priced into dealmaking now, and why?

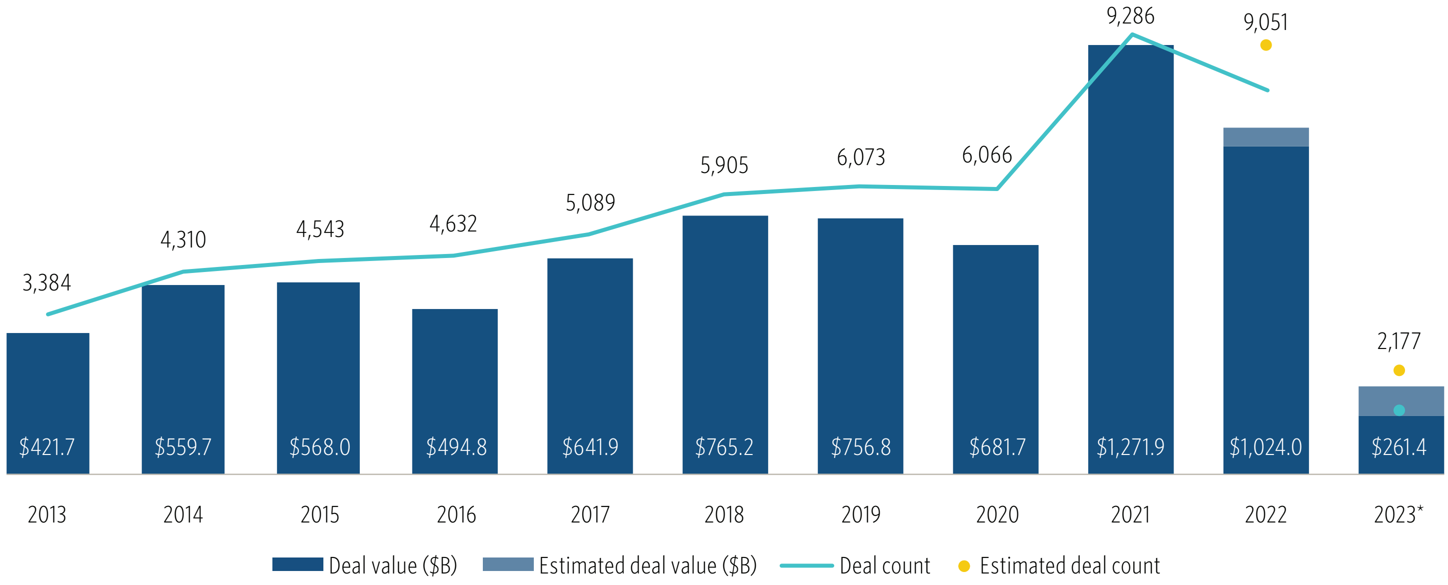
Harry: First, geopolitical uncertainty. The war in Ukraine just had its one-year anniversary. While many companies have realigned their supply chains and exited Russian markets, the risk of a global conflict can't be ignored. The US' relationship with China is also highly strained, particularly as it relates to Taiwan. While these conflicts are no secret to sophisticated companies and dealmakers, the impact of any such conflict on the global supply chain would be significant, especially to companies with significant offshore supply concentration tied to these countries. This was witnessed during the pandemic as governments and economies effectively shut down, causing a ripple effect through the highly entangled global supply chain. Supply chain exposure needs to be thoroughly vetted as part of due diligence when evaluating an acquisition target and priced accordingly, not only to understand the exposure, but also to assess alternative sourcing options.

The second risk is a longer-than-expected recession. Many expect a recession to occur in 2023 and abate by the end of the year. However, it's important to consider the risk of a prolonged recession continuing into 2024 and how that would impact company performance.

3: "Private Equity Firms Pounce To Take Companies Private," Reuters, By Patturaja Murugaboopathy and Chibuike Oguh, July, 21, 2022.

Deals

PE deal activity



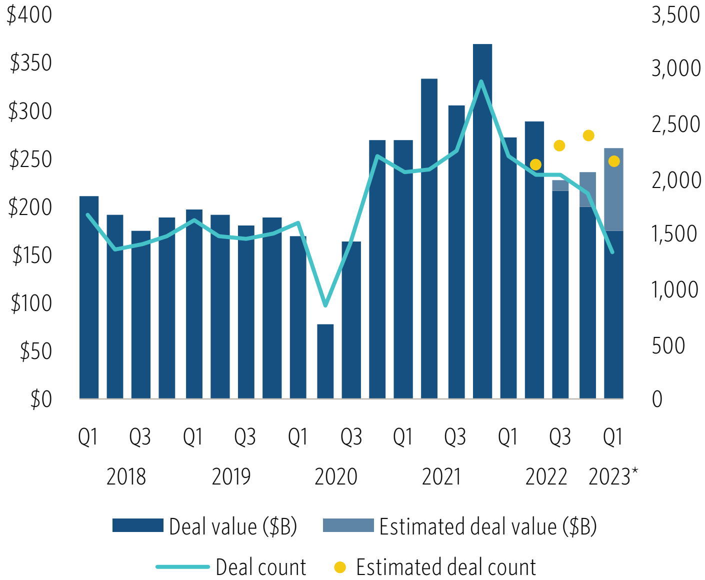
Source: PitchBook • **Geography:** US
*As of March 31, 2023

Overview

After showing some signs of stabilization in Q4 2022, US PE dealmaking delivered a mixed verdict, with deal count faltering by another 9.3% and deal value rising by 11.4% in Q1 2023. The quarterly data has taken on the appearance of a stock chart trying to find support. While we are well above the pre-COVID-19 averages of roughly 1,400 deals and $180 billion in deal value, the trend is still flat to down, and we have yet to make a definitive bottom.

PE managers have had to adjust to make deals happen and keep the leveraged buyout (LBO) machine functioning. Deals have gotten smaller, making them more digestible and easier to finance. Many are add-ons, which can deliver incremental revenue and EBITDA growth to cover the escalation in interest costs. They are also easier to borrow against. The leveraged loan market is still open for M&A financing by sponsor-backed companies. Another source of credit for add-ons is the emerging net asset value (NAV) lending market, which is estimated to have grown by 50% in 2022.[4]

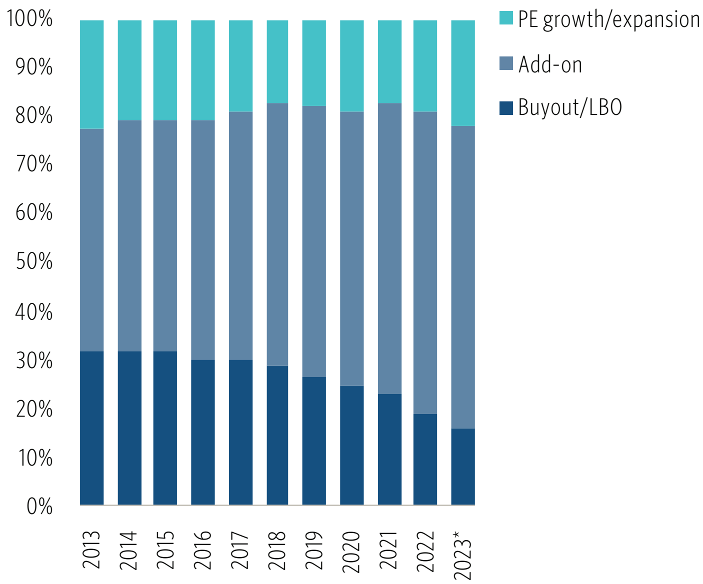
PE deal activity by quarter



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

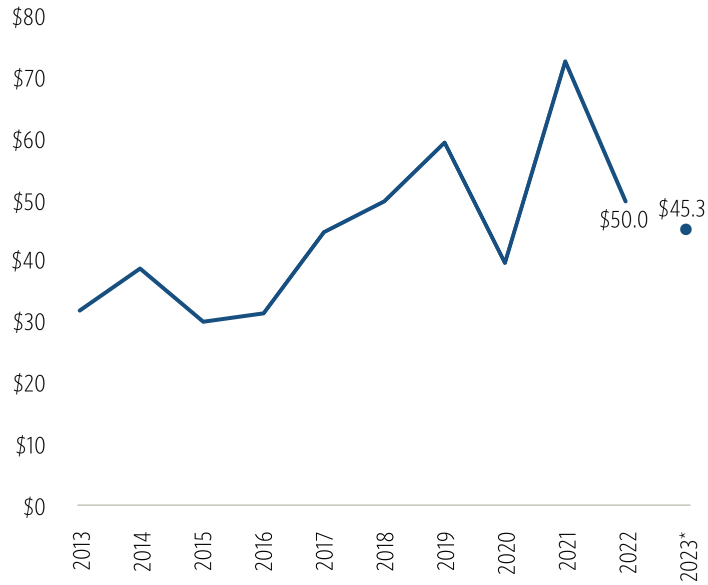
4: "Why 2022 Was Another Record-Breaking Year for NAV Finance," 17 Capital, Robert de Corainville and Greg Hardiman, March 22, 2023.

Share of PE deal count by type



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

Median PE deal value ($M)



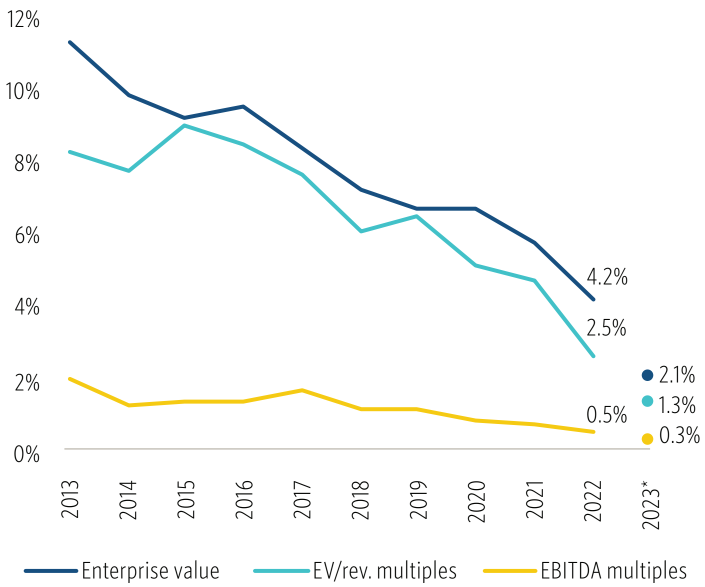
Source: PitchBook • **Geography:** US
*As of March 31, 2023

Growth equity deals, which are smaller deals not reliant on debt that allow PE firms to apply active management despite fractional ownership, also saw an uptick. Corporate divestitures are another manifestation of smaller deals. In recent months, buying smaller pieces of larger companies has seen a resurgence. PE firms are also buying up founder-owned private companies more than ever before as a percentage of overall deal flow. Lastly, PE is making more frequent use of co-investment funds in order to minimize the check size that its own funds have to write. Co-investment fundraising was up in 2022 for a third consecutive year, while the rest of the fundraising market was flat to down. These are all examples of how PE has adapted to a rising rate environment: keeping deal sizes small or finding other sources of capital to fill the gap.

On the other end of the deal scales, robust activity continued in big take-privates, allowing megafunds—funds with $5 billion-plus—to more efficiently deploy dry powder in both speed and price. The 24.9% swoon in the S&P 500 through early October 2022 allowed PE firms to buy up public companies at discounts to their recent high-water marks, while deal multiples for private companies refused to budge. And when the lending spigot began to run dry to finance these large LBOs, private equity turned to its own private debt funds and nontraded business development companies (BDCs).

Whether all of these adjustments that PE has made on the fly will hold up in a recession remains to be seen. Some of the industry's best returns were generated from recession-vintage funds. However, PE has a much larger portfolio heading into this potential recession than prior ones, and LBO-related debt ratios have been higher for longer than in prior cycles. While unlikely, a severe downturn and earnings contraction would place a significant strain on PE-backed companies' ability to service higher levels of debt expense. In the base case, we see PE completing its transition and having more liquidity options than ever before. Traditional sources will join nontraditional sources that PE has innovated in their absence. IPO deals will start flowing again, banks will start lending again, and PE will restock its enormous store of dry powder.

PE buyout disclosure rate by metric



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

PE purchase price multiples paid versus corporate

Source: PitchBook • **Geography:** North America and Europe
*As of March 31, 2023

Valuations and disclosure rates

Prices paid on PE buyouts are in full correction mode. Using enterprise value (EV) to EBITDA as a metric, multiples peaked in 2020 and have since glided down by 9.9%. The median EV to EBITDA multiple stands at 11.1x for the 12 months ended Q1 2023, down from 12.2x in 2020. EV to revenue multiples tell a slightly different story. This is a broader measure and does a better job capturing tech, where EBITDA is often missing or isn't meaningful. By that metric, prices held firm over the last two years but have dropped sharply year to date. The median EV to revenue multiple on PE buyouts stands at 1.7x through the first three months of 2023. That compares to 2.5x in 2021 and 2.4x in 2022. This would indicate that tech may have finally found a price at which private deals will clear, two years on from reaching dizzying heights in public markets.

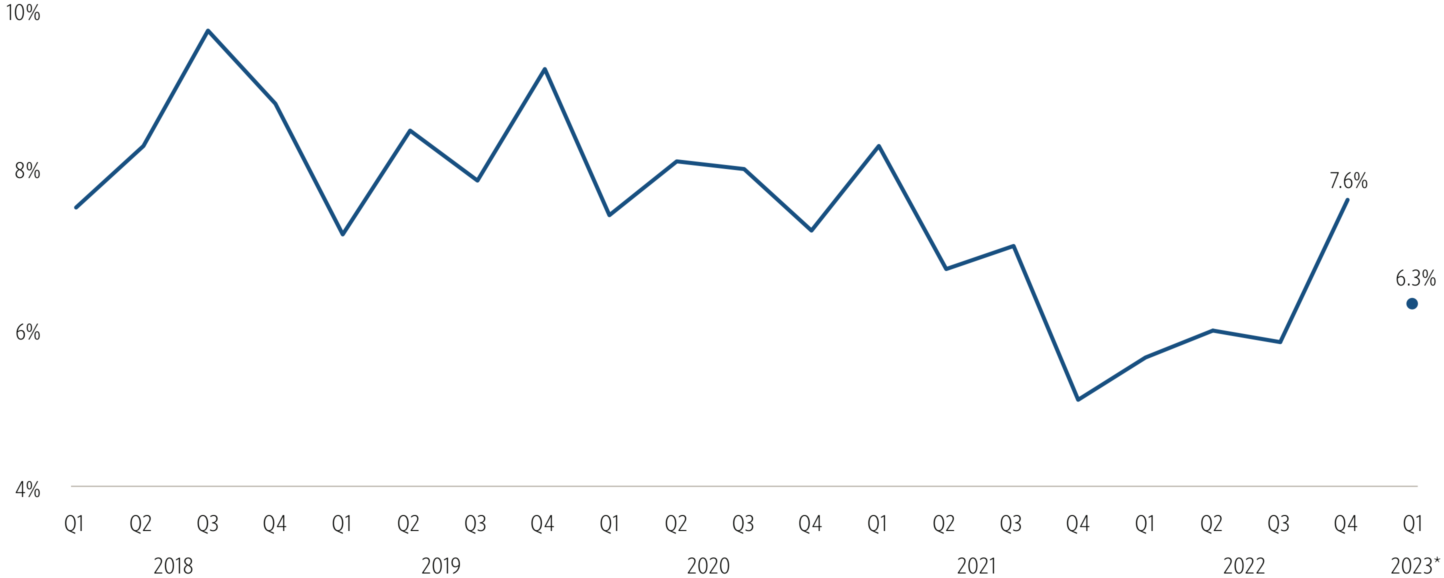
Any discussion of buyout multiples is incomplete without also discussing disclosure rates. For many years, disclosure on PE deals has been shrinking. In 2022, the EV to EBITDA multiple was disclosed on just 139 PE deals. That's nearly half of 2011's total despite deal count having tripled. The disclosure rate on EV to EBITDA multiples has declined to just 0.3% at present, down from 2.9% more than one decade ago. Other metrics reflect this same overall PE trend: Rates of disclosure on EV size and on EV to revenue multiples are also down precipitously.

The two-year surge in US take-privates has helped somewhat as those targets are public companies. But it's not nearly enough to stem the tide of declining disclosure among the 6,000 or more private buyouts that annually occur in the US. That world has gone relatively dark. Moreover, as public buyouts take over, they skew the data higher as they are much more expensive deals.

One way to solve for this shrinking sample size is to expand the deal universe. Deals with corporate buyers have a disclosure rate that is 3x higher than PE deals. For this reason, we often point readers to our Global M&A Report and accompanying dataset for a more comprehensive view of prices paid for private and public companies by corporate and PE buyers alike.

That said, PE is its own animal, and it often pays different prices for different companies. For this reason, we provide PE-only multiples in this report. To correct for shrinking sample size and skew, we combine two highly correlated regions: North America and Europe. Europe's PE deals feature much better disclosure rates than US PE deals. They also provide better insight into prices paid for middle-market companies. There are droves of small companies in Europe that are listed but don't really trade, and they all file financials. The EU also requires private companies above a certain size to annually file financials.

Carveouts as a share of all PE deals by quarter



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

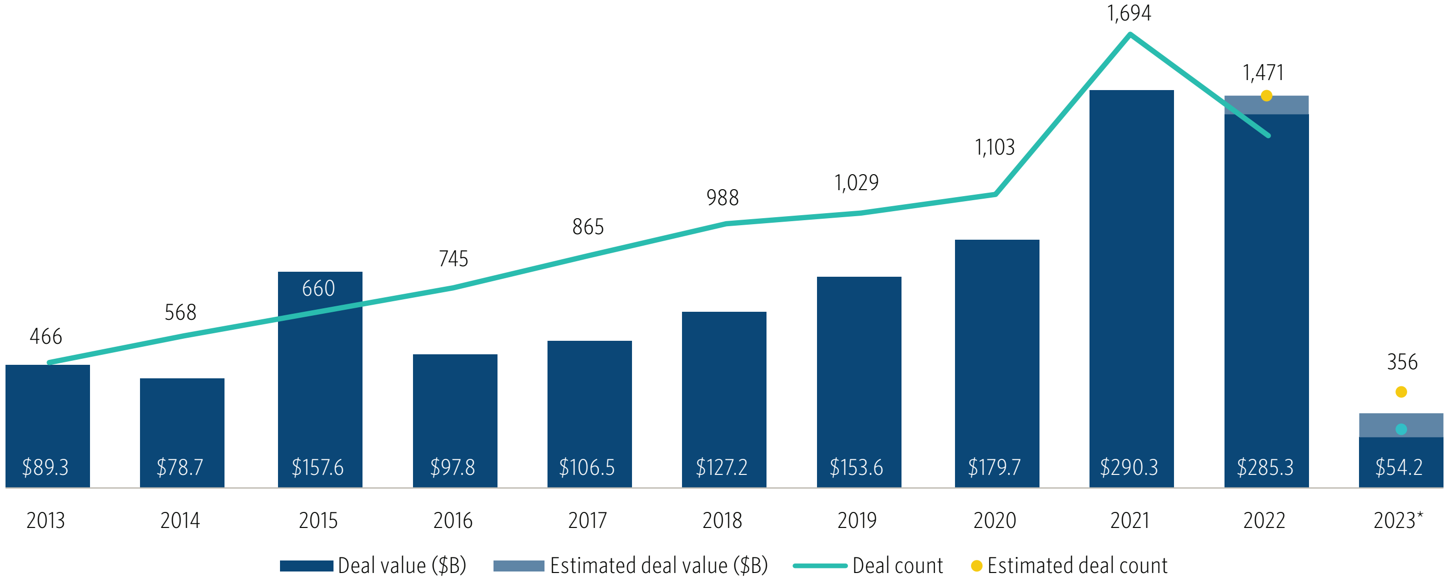
Carveouts

Sponsors are finding increasing deal opportunities in corporate carveouts and divestitures. In a volatile market environment, companies reassess core operations and business strategies, and often consider divesting nonperforming assets to other buyers to strengthen their businesses and free up cash. At the same time, current rising rates and disrupted access to loans for leveraged buyouts mean PE firms are more inclined to look for attractively priced deals. In a match made in heaven, sponsors are buying the spun-out corporate-owned assets cheaply to either restore them to health or bolster their growth prospects. Sponsors, which are still well-equipped with dry powder, can inject new capital to drive additional value and also provide operational efficiency and scale. The vast majority of carveouts deals are add-ons—with the share at 78.6% in Q1 2023—and sponsors will often fold these assets into platform companies to drive synergies or combine them with other portfolio companies to create new platforms. PE firms seek to buy a significant business unit of a large company as valuations fall, instead of those large companies outright. Carveout strategies are appealing because PE investors can buy developed businesses at more digestible sizes and with more seasoned operating histories, which can be easier to bank and finance.

Carveouts were frequently used in the aftermath of the financial crisis, when distressed companies sold assets for much-needed cash. Carveouts as a share of total US deals reached their peak in 2009, at 13.2%, and have been slowly sliding since. However, a recent jump in quarterly activity shows that PE firms are eyeing carveouts once again. PE buying of corporate carveouts increased from 5.1% of total deal activity in Q4 2021 to 7.6% in Q4 2022. The largest carveout deal of Q1 2023 was SAES Getters' $900.0 million divestiture of Memry and SAES Smart Materials to Resonetics, which is backed by Carlyle and GTCR. The two businesses, which are based in the US—compared with SAES Group's headquarters in Italy—will bolster Resonetics' products and service offerings to the medical device industry. The SAES Group will benefit from a significant cash injection, which will enable it to develop an industrial plan based on growth and allow a return to stakeholders.[5] With high rates and sustained slowed economic growth, more corporations may be motivated to spin off assets to focus on strategic growth and pay down debt, which PE firms would be able to pick up with relative ease.

5: "SAES Announces the Signing of a Binding Agreement for the Divestiture of the Nitinol Business," SAES Group, January 9, 2023.

Technology PE deal activity



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

Technology

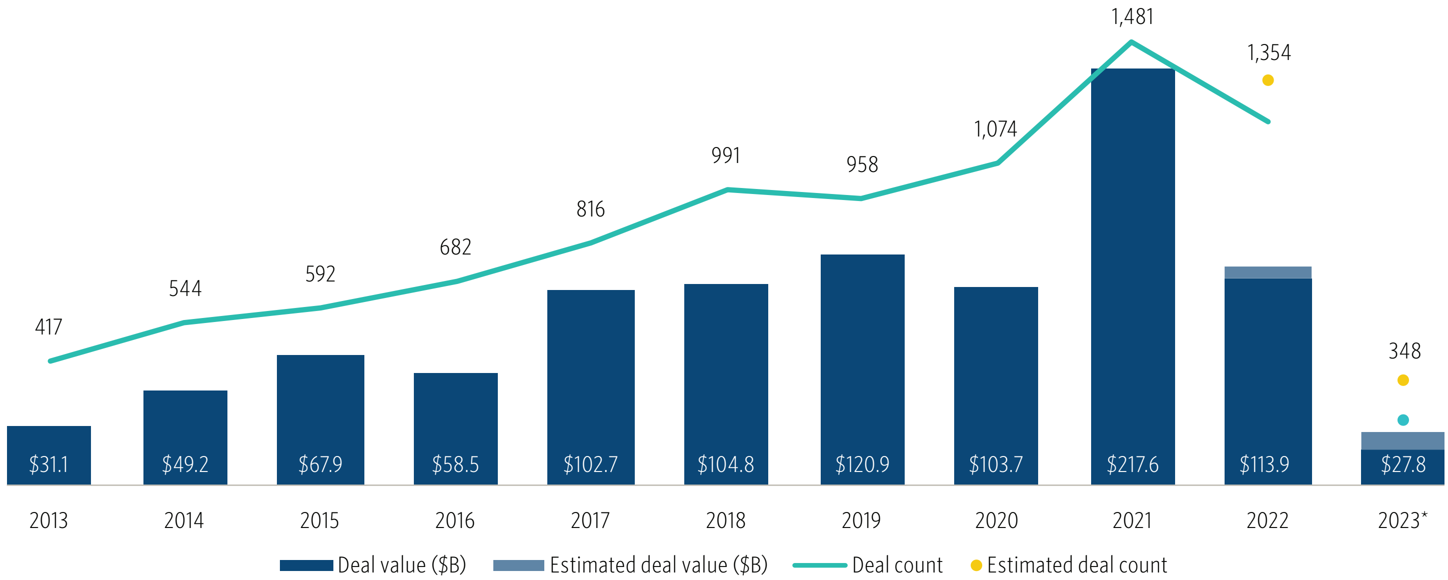
Despite market volatility in the tech industry throughout 2022, PE sponsors still put capital behind the IT sector. Appetite for deals remained resilient as PE investors tend to be long-term oriented and focused on attractive growth prospects in tech-enabled businesses. Although the absolute value of PE deals in the sector dropped from its record of $290.3 billion in 2021 to $285.3 billion in 2022, IT deals still recorded their second-best year. IT also increased as a share of total PE deal value, demonstrating PE investors' affinity for tech. In Q1 2023, 356 deals closed for $54.2 billion in aggregate, accounting for 20.7% of total US PE deal activity.

Take-privates have become popular as public valuations have stumbled—especially for high-growth tech companies that have come down from their previously frothy valuations during the interest rate hikes of 2022. Out of 48 US take-private deals in 2022, 25 were in tech-related companies as both software-focused and general GPs sought the long-term growth potential of tech-enabled businesses at more attractive prices. This trend has continued into 2023, with software take-private deals making up half of the 10 public-to-private deals announced in Q1. The largest announced deal in Q1 was SAP's sale of its majority stake in software-as-a-service (SaaS) company Qualtrics to Silver Lake and the Canada Pension Plan (CPP) Investment Board for an estimated $12.5 billion. The deal comes two years after SAP spun out the business as an independent publicly traded company and after Qualtrics' market value, which had reached a high of $28.0 billion in early 2021, had declined to a low of around $5 billion by end of 2022.[6] Silver Lake expressed confidence in Qualtrics' growth outlook by committing to further investment across all aspects of the business, including key areas such as AI and other new technologies.[7]

With rising interest rates, more risk-averse lenders, and the leveraged loan market coming to a virtual standstill in H2 2022, sponsors are turning to nonbank lenders to provide debt financing for LBOs or are outright decreasing the use of debt. This trend continued amid a banking crisis in the US: The three software take-privates announced in March featured equity contributions between 70% and 92% and very little debt. This compares to a median equity contribution for tech LBOs that never exceeded 48% in the last five years. The Qualtrics deal, for example, was funded substantially by equity commitments, including a $1.75 billion in equity co-investment from CPP and just $1 billion in debt. The $4.6 billion take-private of Cvent by Blackstone has received a $1.0 billion loan commitment from private credit funds also managed by Blackstone. The rest is funded by a $1.25 billion equity rollover by Vista Equity, the largest shareholder, with an equity contribution by Blackstone's PE funds, and a co-investment by the Abu Dhabi Investment Authority. Lastly, STG's $1.5 billion take-private of Momentive Global (also known as SurveyMonkey) has received a $450.0 million private credit loan commitment with the rest funded through equity.

6: "Qualtrics Accepts $12.5B All-Cash Acquisition Offer to Go Private," TechCrunch, Paul Sawers, March 13, 2023.
7: "Qualtrics To Be Acquired by Silver Lake and CPP Investments for $12.5 Billion," Qualtrics, March 12, 2023.

Healthcare PE deal activity



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

Healthcare

Healthcare deal activity continued to show resilience in Q1, and the sector accounted for 16.0% of PE deal flow in the quarter. Still, large, notable PE deals in healthcare were hard to come by, and while over the past five years, there has been an average of 10 $1 billion-plus deals, there have been none so far in 2023. That could change with Carlyle's rumored purchase of healthcare analytics company Cotiviti for $15.0 billion. This deal is indicative of healthcare technology pivoting toward the payer side, a more resilient end-market than health systems. And in a sign that sponsors are still opportunistically deploying capital despite financing challenges, Europe saw two deals in the $1 billion to $3 billion range in Q1 with the LBOs of Orpea and Diaverum. We expect to see more distress-driven PE deals in healthcare technology from higher debt servicing expenses and elevated staffing costs. Companies that are not experiencing distress may wait to sell, which could delay some PE deal volume in the near term. And considering the mismatch in buyer-seller valuation expectations, fewer sponsor-to-sponsor transactions are likely to close as sellers can wait patiently for higher multiples.

In medical technology (medtech), there has been an ongoing trend of carveouts and spin-offs as conglomerates look for efficiencies and greater business focus, and PE has been involved in several deals. In March 2023, New Mountain Capital acquired PerkinElmer's applied sciences, food, and enterprise services business for $2.4 billion including earnouts. Medtech giant Medtronic is currently shopping out its patient monitoring business, and both Carlyle and Clayton, Dubilier & Rice are rumored to be in the bidding mix. We could see further breakups occur as more companies focus on core business lines. Medtech is likely to remain an attractive opportunity for PE as large medtech firms divest ancillary business units. While perhaps less profitable than core markets, these businesses often still benefit from attractive sector tailwinds including sticky business models, aging populations, and pricing power. Carved-out business units that may have received less investment from their previous parents can also benefit from PE's focus, and new private equity owners can look past short-term inflationary and other economic pressures—and in some cases, acquire these units at a discount.

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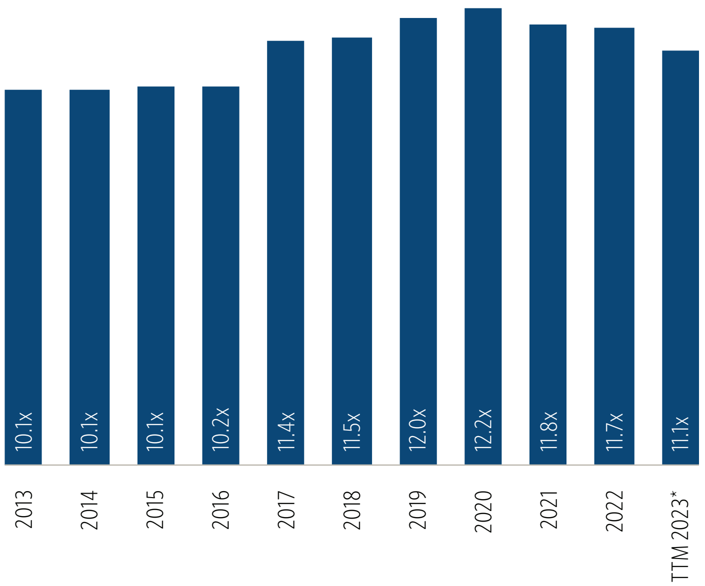
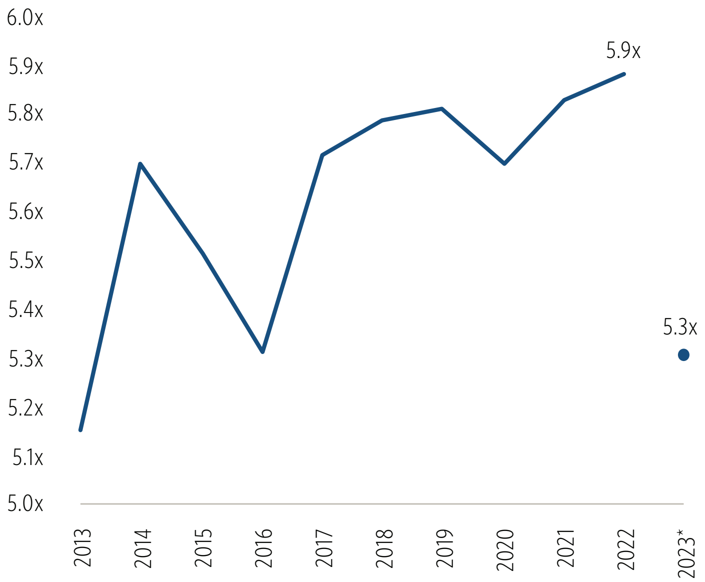
Deal valuation and debt metrics

Median PE EV/EBITDA multiples



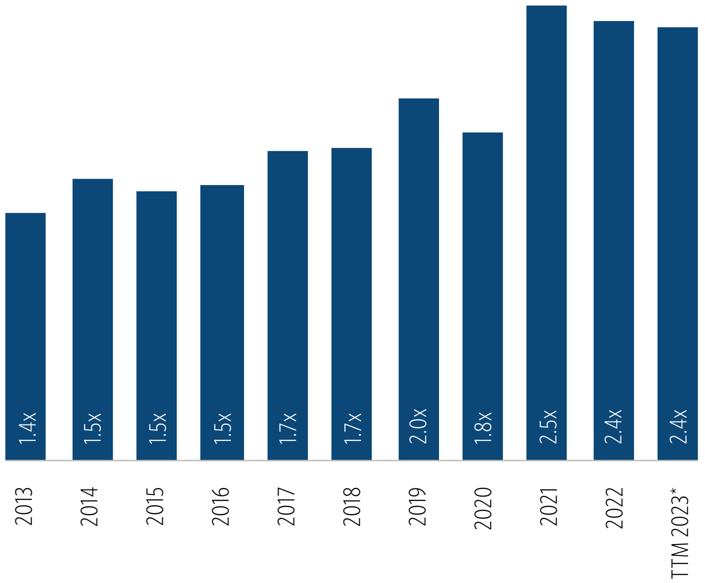
Source: PitchBook • **Geography:** North America and Europe
*As of March 31, 2023

Median PE debt/EBITDA multiples



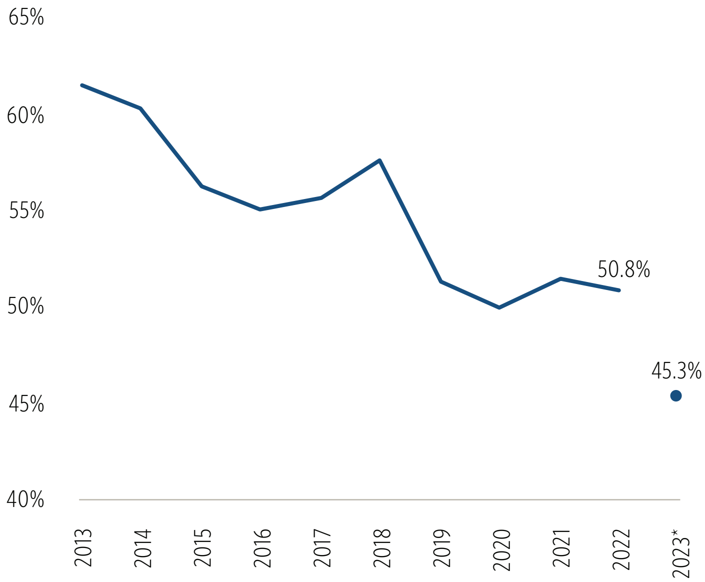
Source: PitchBook | LCD • **Geography:** US
*As of March 31, 2023
Note: Data excludes subordinated debt.

Median PE/revenue multiples



Source: PitchBook • **Geography:** North America and Europe
*As of March 31, 2023

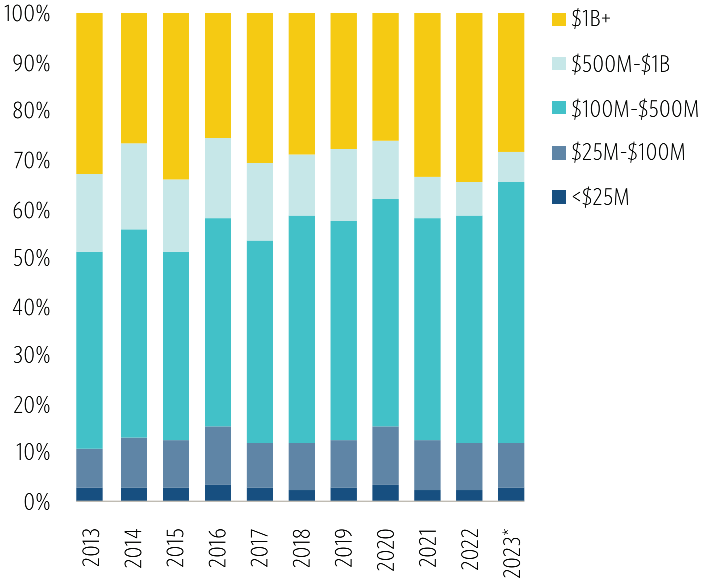
Share of PE LBO debt to EV



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

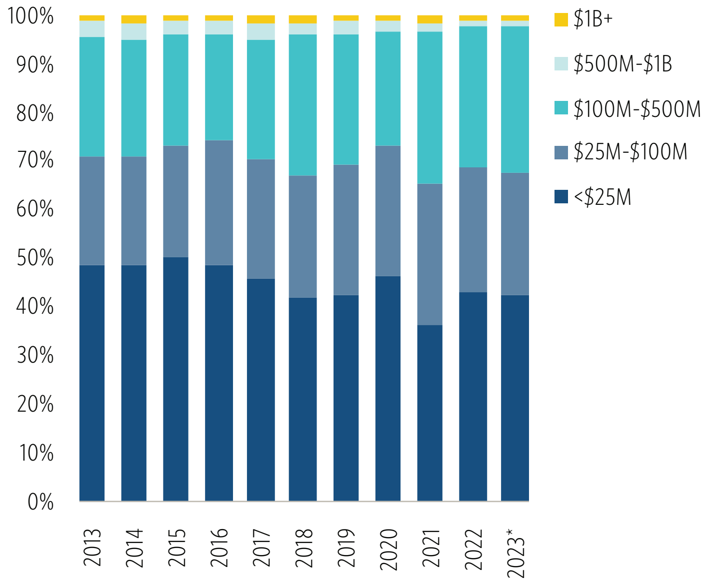
Deals by size and sector

Share of PE deal value by size bucket



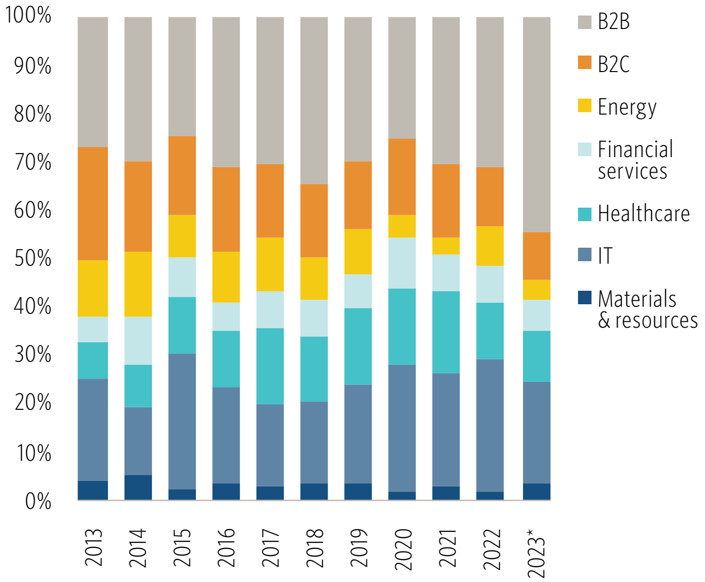
Source: PitchBook • **Geography:** US
*As of March 31, 2023

Share of PE deal count by size bucket



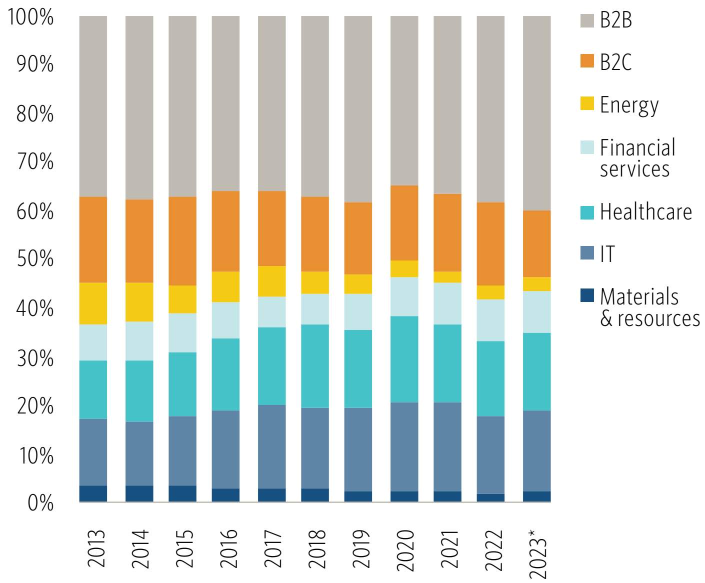
Source: PitchBook • **Geography:** US
*As of March 31, 2023

Share of PE deal value by sector



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

Share of PE deal count by sector



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

SPOTLIGHT

2022 Annual Global Private Debt Report

2022 cumulative returns by asset class

Loans outperformed stocks and bonds for just the third time in 25 years

Source: PitchBook | LCD; Morningstar; S&P Dow Jones Indexes • **Geography**: Global
*As of December 31, 2022

Note: For more analysis, please see the full report, which combines PitchBook's proprietary data and insights on private debt fundraising and fund performance with LCD's timely reporting on private credit deal activity and broader trends in the leveraged loan market.

Key takeaways

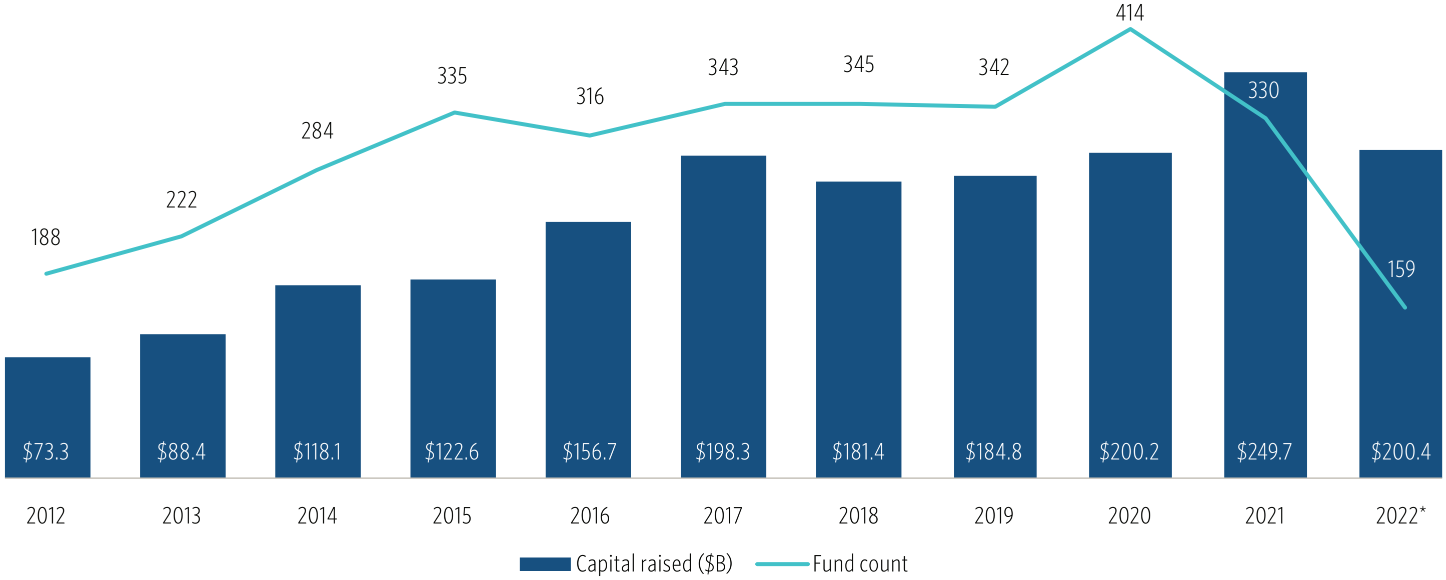
- Private debt fundraising finished the year on a strong note, with $60.7 billion in total fundraising in Q4 and surpassing the $200 billion full-year fundraising mark for the third consecutive year. While institutional fundraising was down from 2021's record, private debt managers leaned on the retail channel to erase much of that decline.

- Direct lending continues as the most sought-after private debt substrategy by far among capital-starved borrowers and yield-hungry investors, with the latter seeking a hedge against rising interest rates and the former combating a wholesale retreat by bank lenders. Mezzanine also had a stellar year of fundraising and contributed several of the largest funds.

- Floating-rate debt, which characterizes much of private debt as well as the more liquid leveraged loan market, held up well and proved its mettle in one of the worst years on record for fixed-income investors and 60/40 allocators. The Morningstar LSTA US Leveraged Loan Index returned -0.6% for the year compared with -15.7% for high-grade corporate bonds and -18.1% for the S&P 500. This is just the third time loans have ever outperformed stocks and bonds in the 25-year life of the LSTA Loan Index.

Private debt fundraising activity

Institutional flows to private debt funds exceeded $200 billion for the third straight year; retail flows were also significant



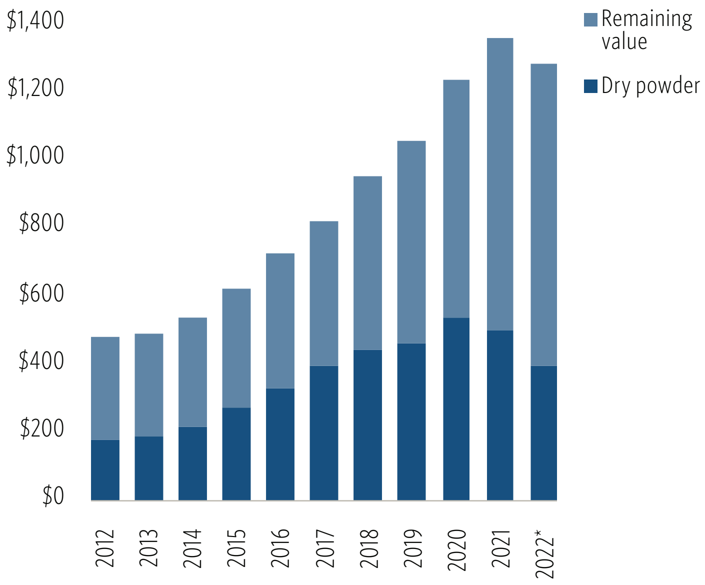
Source: PitchBook • **Geography**: Global
*As of December 31, 2022

Fundraising and dry powder

Following a weak start, private debt fundraising finished the year on a strong note. The asset class saw steady sequential gains throughout the year, culminating with $60.7 billion in total fundraising in Q4. Private debt has surpassed the $200 billion mark for the third consecutive year but fell short of 2021's record pace by 19.7%. That shortfall was fully offset by the enormous growth in fundraising from nontraded BDCs and credit-oriented interval funds marketed to individual investors, which are not found in the call-down universe that we draw upon for this report. Fundraising for these vehicles is estimated to have exceeded $40 billion in 2022, up 47.2% from 2021. The largest retail vehicles have overtaken their institutional brethren, such as Blackstone's Private Credit Fund at $22.7 billion under management, and Owl Rock's six nontraded BDCs, which combine for more than $16 billion. This has not gone unnoticed by other managers looking to break into the retail market for high-yield alternatives. Fidelity, T. Rowe Price, PGIM, Bain, and Angelo Gordon all either are pre-effective or have recently launched their own private debt funds for the mass market.[8]

Private debt AUM ($B)

AUM exceed $1.2 trillion with $395.2 billion in dry powder



Source: PitchBook • **Geography:** Global
*As of December 31, 2022

8: "Non-Traded Alternative Investments Raised Record $104 Billion in 2022," The DI Wire, Kinsley Lively, January 20, 2023.

Private credit growth marched on in Q3, taking more BSL share

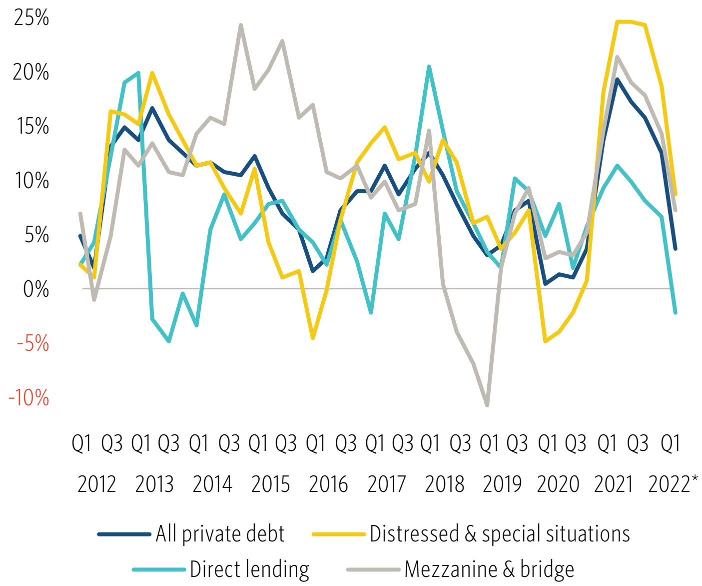
In 2021 to 2022, private credit providers all but cornered the market for large buyouts, deals that traditionally would have been done in the syndicated loan market. Private credit also likely took transactions that would have been done in the high-yield bond market.

Private credit providers have championed the unitranche loan, arguing that the simplified structure was more efficient than a complex structure typically available in the syndicated loan market with senior and junior tranches.

Another appeal of private credit is the recurring revenue structure. Private credit providers have been willing to underwrite loans based in recurring revenue, rather than EBITDA. This has been particularly useful to pre-EBITDA borrowers in growth mode. In contrast, recurring revenue loans have not traditionally been available in the syndicated loan market.

Private debt rolling one-year horizon IRR by type

One-year returns stay positive despite the rout in public markets



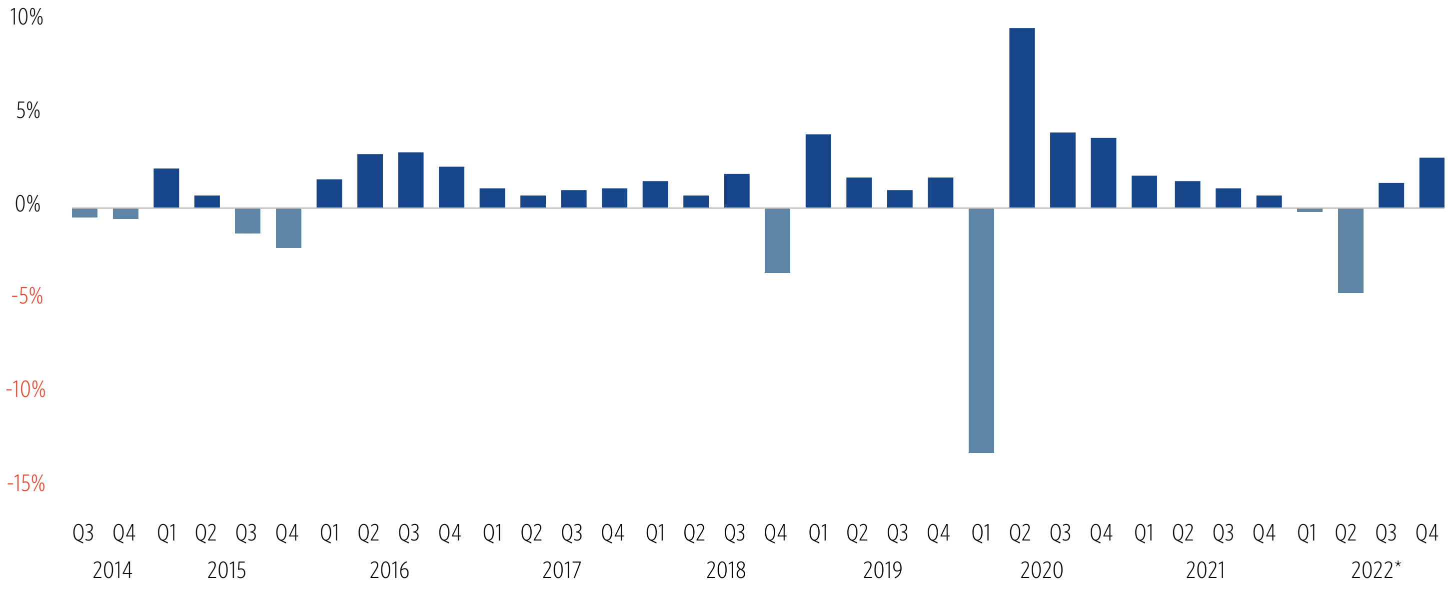
Source: PitchBook • **Geography:** Global
*As of December 31, 2022

Private debt fund performance

Our preliminary data for Q3 2022 points to a rebound of 1.3%, which is below private debt's median quarterly return of 2.2% but enough to rank it as the third-best performer relative to other private market strategies. Ranking toward the top of the private markets league table is unfamiliar territory for private debt, which has lagged its equity alternatives for most time periods. The setup for private debt, however, is promising going forward.

US leveraged loans quarterly returns

A quick snapback in the liquid leveraged loan market would likely diminish flows to private credit



Source: PitchBook | LCD; Morningstar • **Geography:** Global
*As of December 31, 2022

A WORD FROM BARINGS

Four considerations for PE sponsors in the months ahead

What are you seeing right now in terms of current M&A trends or changes in M&A processes and volumes?

M&A volumes in North America have remained below historical levels as a result of the more challenging market environment. In addition to the record increase in reference rates, the widening gap between buyer and seller bid-ask spreads—stemming from the combination of macroeconomic uncertainty, significant increases in borrowing costs, and lower public equity valuations—has been a notable contributor.

In terms of trends, one theme we continue to see is that for the best assets in the market, banks are running what are essentially nonprocesses. They are considering a very narrow subset of the most likely buyers through fireside chats and management meetings rather than through broader sell-side auctions. Whereas one year ago, a bank may have taken a business to market and reached out to more than 150 PE firms and more than 30 strategic or corporate buyers, today those numbers look much smaller. In other words, the processes are being conducted very quietly and quickly, often with the intention of avoiding the unfavorable market optics of a broken auction if a seller's reserve price is not achieved.

For PE sponsors that are not on that very short list, there is a good chance the asset will never be seen. This increased selectivity underscores the importance, particularly in this challenging, low-volume environment, of taking a proactive approach when it comes to tracking assets, instead of a reactive one. From a borrower or capital market perspective, it is equally important to know which private credit lenders are open for business and actively deploying capital.

Is the decrease in North American M&A driving more sponsors toward cross-border deals? If so, what are the potential implications of that?

The short answer is yes. With lower M&A volume in North America, more PE funds are looking to cast a wider net via cross-border deals. In addition to offering sponsors access to a larger universe of deals, looking beyond their domestic markets can position sponsors to deploy funds more efficiently and potentially capitalize on opportunities that generate attractive returns.

However, while foreign markets may offer accelerated growth at attractive valuations, cross-border deals are not without challenges. For one, M&A process dynamics and intracompany structuring have become significantly more complex, and it can be challenging to secure financing on a global basis. Due to the limitations of most banks and institutional lenders, US acquirers typically fund foreign deals in US dollars, and such transactions are often executed through the use of intracompany transactions, exposing companies to foreign exchange and tax inefficiencies.

For these reasons, it is critical for sponsors looking into cross-border transactions to consider the size and scale of the lender they are partnering with. A lender of scale with an international platform, particularly one that can do business in both new currencies and geographies, can offer a notable advantage.

Max McEwen

Managing Director, Global Private Finance

Max McEwen is a senior member of Barings' Global Private Finance Group, responsible for originating, analyzing, structuring, and monitoring North American and European private finance investments. Max has worked in the industry since 2004. Prior to joining the firm in 2015, he worked for Bunker Hill Capital, a lower-middle-market PE fund, as a Principal Investor. Before joining Bunker Hill Capital, he was an Associate in Banc of America Securities' Business and Technology Services Team focused on M&A. Max has a bachelor's degree in business management with a concentration in finance from North Carolina State University.

Private credit continues to take market share from the broadly syndicated markets. How are you envisioning the outlook for private credit in the next six to 12 months?

Private credit is clearly continuing to take market share from the broadly syndicated markets—in the fourth quarter of 2022, direct lending LBO volume was more than eight times higher than syndicated middle-market LBO volume, which decreased to $1.3 billion.[9] We expect this is a trend that will continue and likely even accelerate for at least the next six to 12 months due to a couple of key factors.

For one, strong transactions in the middle market often move fast, and private credit is typically quicker than its broadly syndicated counterpart. This can be advantageous, as speed to sign a purchase agreement often is a key differentiator in a competitive process. Another advantage of private market transactions is the price and term certainty, or the certainty of close. Because private credit transactions typically exclude price and structural flex, in addition to being held by committed parties (versus syndicated), capital market and execution uncertainty is effectively eliminated. There is also a lack of credit ratings in the private markets, which eliminates a preclosing workstream and potential source of pricing and structural uncertainty. And finally, most transactions in the middle market are conducted with known, relationship-oriented lending counterparties, which can help streamline a borrower's postclosing transactional negotiations and amendments.

It is also worth noting that there is still a significant amount of private credit dry powder in the market. As of March 1, $34.7 billion of middle-market direct lending capital had already been raised in Q1 2023.[10] At the same time, interest in the asset class from wealth and retail investors continues to grow, as does participation from institutional investors as they continue to ramp up their allocations to the maturing asset class. These trends have made it easier for the private market to put together large syndicates or clubs, and in fact, we have recently seen some of the largest club transactions in the history of the market.

What are some of the challenges PE platforms are facing today as a result of the higher-base-rate environment?

One of the biggest challenges facing PE platforms today relates to the effect that higher base rates are having on M&A and cash flows. For many platforms, M&A has been a requirement to achieve underwritten returns over the last decade, as these businesses' entry multiples were at very high enterprise values relative to historical mean and median values.[11] Whether through private credit or the syndicated markets, M&A activity has been fueled largely by abundant, cheap credit.

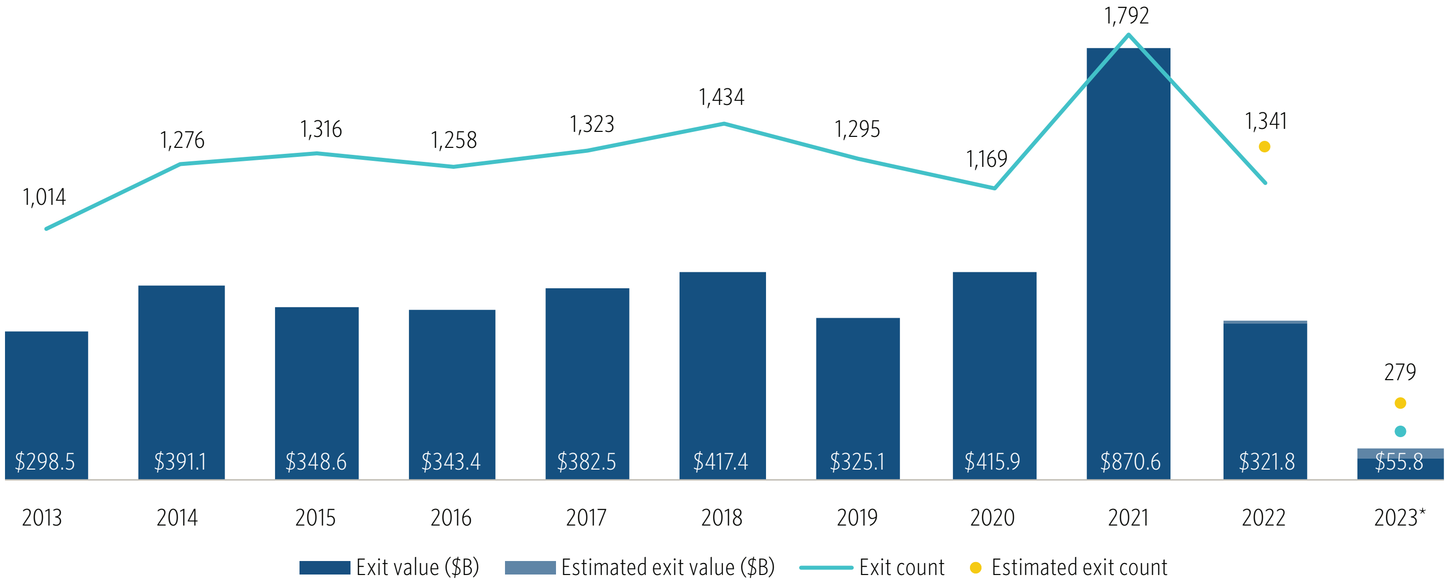
Today, many of these businesses are overlevered because the underwritten base cases assumed an anemic base rate on a go-forward basis. Now that we are in a period of higher base rates, with further increases likely based on US Federal Reserve and other central bank messaging, challenges are surfacing. For instance, certain borrowers, now facing the reality that they can no longer raise additional debt at historical levels, are having to proactively deleverage their balance sheets, often with expensive holding company or preferred equity tranches, so they can continue M&A. We expect these challenges to persist, particularly if rates remain elevated for longer, which will compound the stress on borrowers.

Looking ahead, while the private credit market is continuing to mature, we believe the asset class is still in the early innings with ample opportunity for further innovation and growth.

9: "The Middle Market Opportunity," Refinitiv LPC's Middle Market Connect, Diana Diquez, David Puchowski, and CJ Doherty, February 1, 2023.
10: "1Q23 Mid-Quarter Trends," Refinitiv LPC's Middle Market Connect, Diana Diquez, David Puchowski, and CJ Doherty, March 1, 2023.
11: "The Middle Market Opportunity," Refinitiv LPC's Middle Market Connect, Diana Diquez, David Puchowski, and CJ Doherty, February 1, 2023.

Exits

PE exit activity

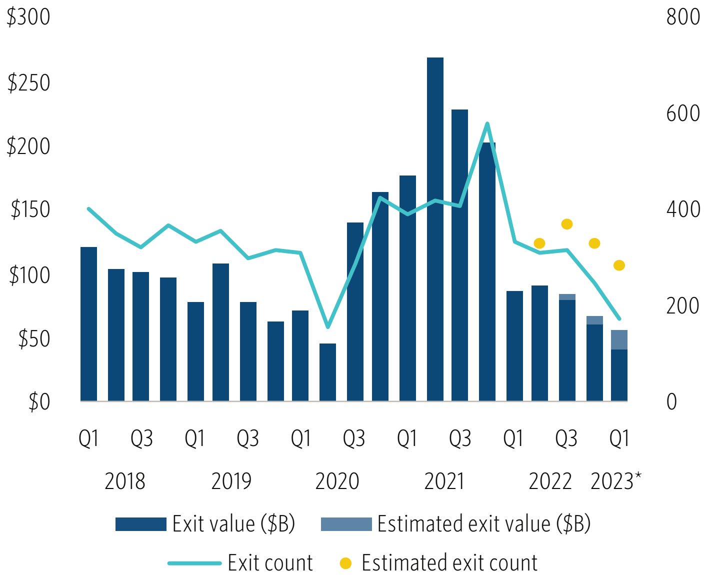


Source: PitchBook • **Geography:** US
*As of March 31, 2023

Overview

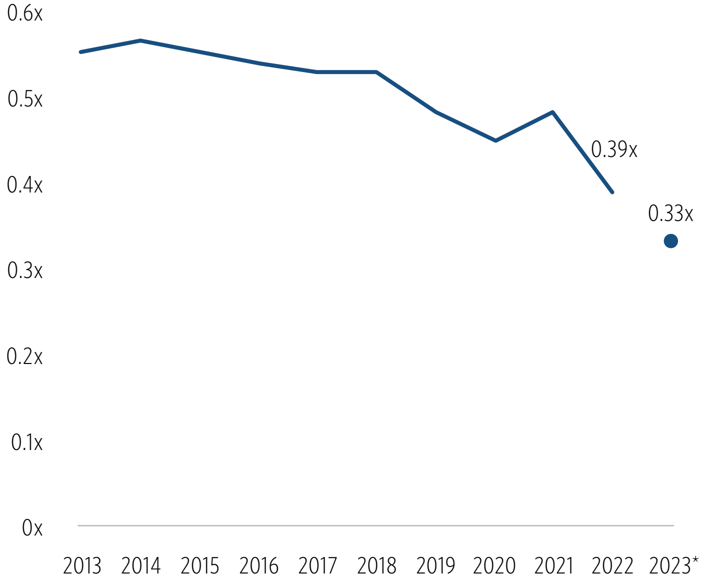
US PE exit activity is off to a disappointing start in 2023. Both exit count and exit value declined for the third consecutive quarter as sponsors continued to struggle against prolonged inflation and unfavorable valuation adjustments. In a challenged exit environment, GPs continued to hold on to their portfolio companies instead of exiting them at lower valuations than desired. PE firms tend not to be forced sellers, choosing instead to hold promising assets for longer to wait until exit conditions improve. By the end of Q1, 279 PE-backed companies exited with a cumulative exit value of $55.8 billion, marking quarter-to-quarter declines of 14.6% and 14.5%, respectively. YoY exit value declined by 33.9%, while exit count declined by 15.3%, demonstrating how fatigued the PE exit market is after a year of macroeconomic headwinds. The IPO market remains effectively closed due to steep public market price declines, with just four IPOs of US PE-backed companies in Q1 2023. Although PE firms had driven an average of $73.1 billion of quarterly exit value through public listings during 2021, when public market multiples climbed high with easy money and a bullish investor base, exits through IPOs all but disappeared starting early in 2022 for a quarterly average of $2.2 billion as GPs avoided testing the volatile public stock markets. Exits continued through M&A to other sponsors or corporations looking to pick up opportunistic acquisitions during market disruption, but those exit routes are also partially blocked due to an uncertain economic outlook. Q1 2023 marked the lowest exit value since Q2 2022, and the exit-to-investment ratio dropped further, from 0.39x at the end of 2022 to 0.33x in Q1.

PE exit activity by quarter



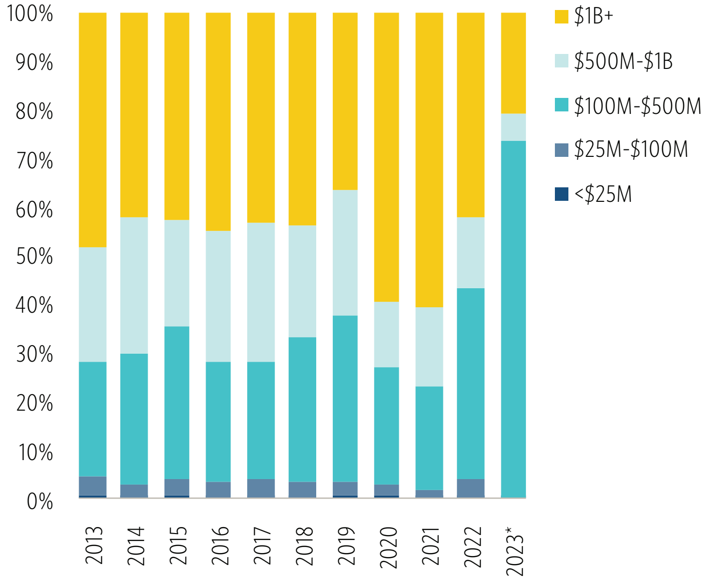
Source: PitchBook • **Geography:** US
*As of March 31, 2023

PE exit/investment ratio



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

Share of PE exit value by size bucket



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

Exits to corporates

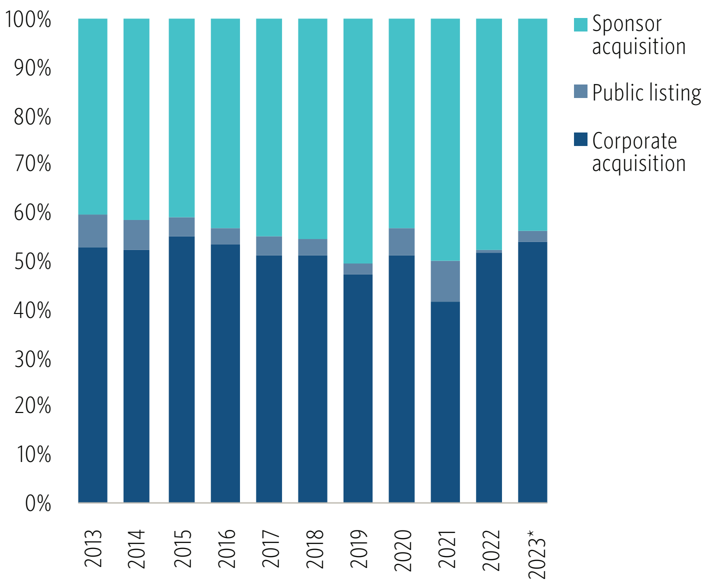
Exits to corporates took the lead in Q1, accounting for 69.7% of total PE exit value. Excluding public listings, exits to corporates took up 71.8%. Still, PE exits to corporates continued to decline on an absolute basis: 91 companies exited in Q1 for an aggregate of $28.3 billion, compared with the usual 150 to 200 companies in a typical quarter. Exit value is now just two-thirds of the quarterly average recorded in the five years before the pandemic (2015 to 2019), as market uncertainty significantly dampened the C-suite's ability and appetite to pursue acquisitions. Those with sustained levels of balance sheet cash, however, are seeking PE-backed companies with strong strategic logic and fit to position themselves for stronger growth during market dislocation. For example, Matador Resources announced its acquisition of Advance Energy Partners, an EnCap Investments-backed oil & gas exploration & production company, for $1.6 billion in January. The asset will increase Matador Resources' drilling locations in primary development zones and improve overall rates of return.[12]

PE firms are capitalizing on higher energy prices and profitability of energy producers to successfully exit those portfolio companies. The recent sale of Ranger Oil, controlled by Juniper Capital, to Baytex Energy Corporation demonstrates that sellers are currently able to secure a modest premium for quality inventory assets—Ranger Oil was sold for a 7.4% premium over its last closing price.[13]

Strategic sales to corporates occurred across sectors in Q1. In March, Merit Capital Partners and MFG Partners exited Indiana-based Storage Solutions to Jungheinrich, a German intralogistics company, for $375.0 million. The acquisition adds a strategic foothold in a fast-growing US warehouse automation market, provides midterm potential to build a presence in Canada and Mexico for Jungheinrich, and is in line with the company's growth goals for 2025.[14]

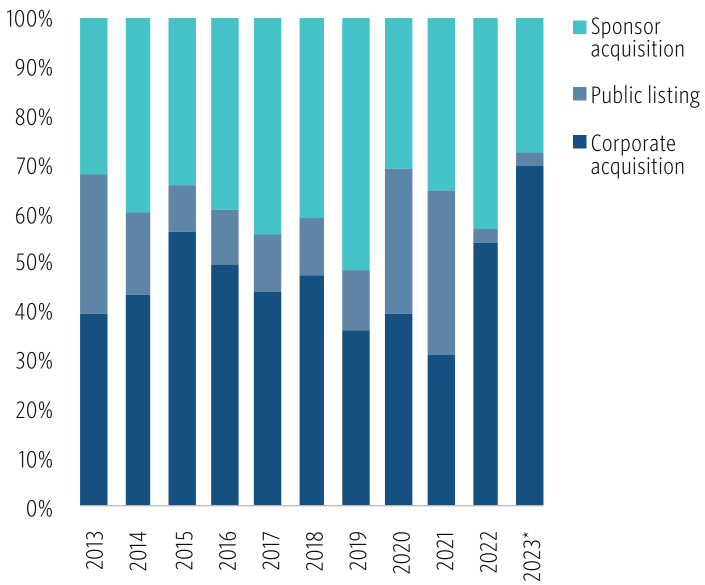
12: "Matador Resources Signs $1.6Bn Deal to Buy Advance Energy Partners," Offshore Technology, January 25, 2023.
13: "Canada's Baytex Energy to Buy Ranger Oil for $2.5 Billion," Reuters, February 28, 2023.
14: "Jungheinrich AG to Acquire Storage Solutions Group to Add Strategic Foothold in Fast-Growing U.S. Warehouse Automation Market," BusinessWire, January 25, 2023.

Share of PE exit count by type



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

Share of PE exit value by type



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

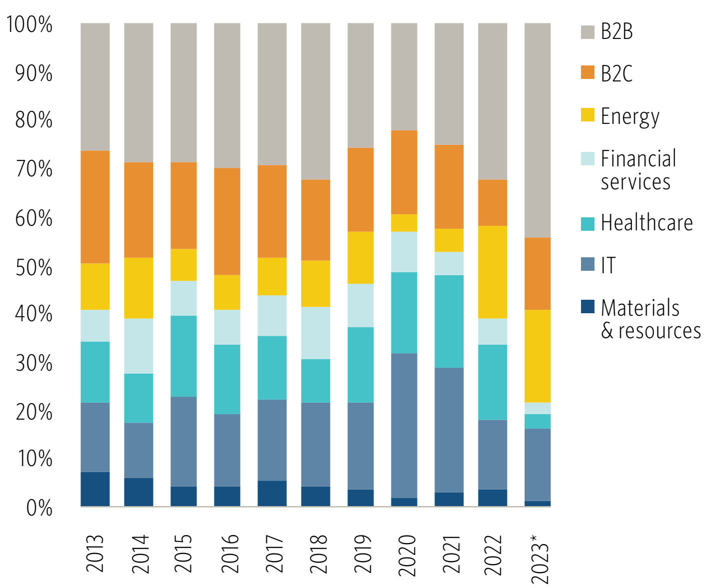
Exits to sponsors

Exits to other sponsors recorded the lowest quarterly activity since Q2 2020, with just 74 exits for an aggregate of $11.1 billion. With access to financing for big transactions hampered, sponsor-to-sponsor exits got off to a slow start, accounting for just 27.3% of exit value in Q1 2023. With plenty of dry powder left for PE firms, sponsor-to-sponsor exits will likely soldier on through the rest of the year as PE firms seek opportunities to spend down their capital, albeit at smaller sizes. By the end of Q1, the median size of exits to sponsors slid down to $170.0 million from its peak of $529.5 million in 2021. In February, Compass Diversified sold Advanced Circuits for $170.0 million to APCT, a printed circuit board manufacturer backed by Industrial Growth Partners. Advanced Circuits will merge with APCT, and the add-on deal will enhance APCT's product offerings and bring several software solutions to improve customer experience.[15]

B2B

B2B exit activity showed strength, taking up a whopping 44.3% of total PE exit value in Q1 2023. With 75 exits for an aggregate value of $18.0 billion, B2B was one of the few sectors that saw positive QoQ growth in exit value, at 12.6%, although exit count declined 26.5% QoQ. Although the sector closed below its quarterly average of the last five years, B2B exits are expected to remain resilient throughout

Share of PE exit value by sector



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

15: "APCT Agrees To Acquire and Merge With Advanced Circuits," IGP, January 2023.

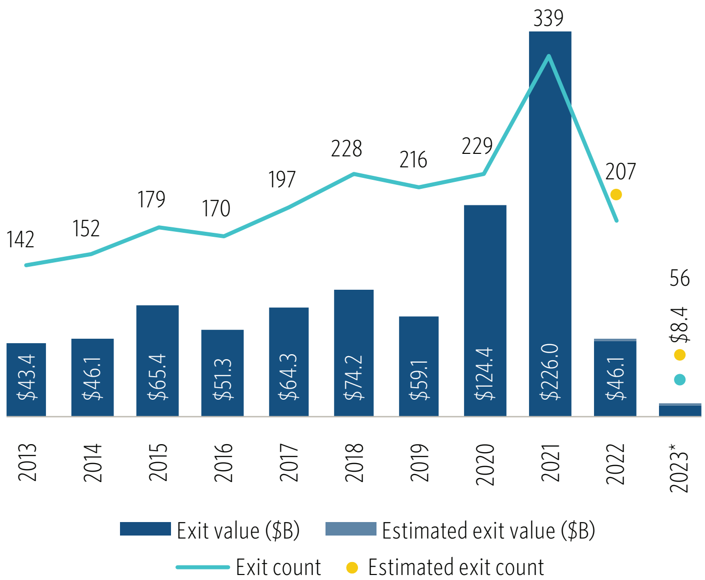
the year. B2B captures a broad mix of primarily nontech and service-oriented businesses, and the exits that occurred in Q1 spanned various subsectors. For example, Vesta Modular, which provides temporary and permanent modular space, was sold to McGrath RentCorp for $400.0 million by Kinderhook Industries. The acquisition strengthens McGrath RentCorp's core mobile modular business and expands the company's geographical footprint.[16] In aerospace and defense, Sowell & Company sold Ace Aeronautics, a BlackHawk solutions provider, to International Defense & Aerospace Group (IDAG) for an undisclosed amount in March. The acquisition provides IDAG with a vertically integrated supply chain, an important cost-effective solution to replacing obsolescing Russian-made helicopters.[17]

Technology

IT exit activity experienced another quarter of stunted activity. 56 IT exits took place in Q1 at an aggregate exit value of $8.4 billion for a QoQ exit count increase of 1.9% and value decline of 26.0%. Q1's exit value was the lowest level since Q2 2020, when sponsors recorded just $4.6 billion of exit value, demonstrating the significant market volatility working against PE firms in selling their portfolio companies. Sellers are either holding on to assets to avoid exiting companies at lower valuations than they may have fetched before 2022's reset in valuations, or still adjusting to the changes and not yet meeting buyers' reset expectations. No public listings of PE-backed tech companies have taken place in the last year—a stark turn from the record-breaking activity in 2021, when IPOs drove over half of all exit value. While risk-off conditions don't point to a sure recovery in IPO markets soon, many PE-backed tech companies are reportedly readying themselves to go public at the first opportunity. This lends support to those who expect more seasoned and profitable PE-backed companies to leapfrog VC-backed companies despite less spectacular growth profiles.

For now, sales to corporates and other sponsors are driving exits in IT. Sales to corporates accounted for most of the sector's exit value in 2022 and also in Q1 2023 as companies looked for transformative acquisitions amid valuation adjustments. Companies that are looking to strengthen their positions during a bearish market cycle are finding opportunities to acquire complementary technological capabilities at a relative discount. For example, the Firmament Group sold Envase to WiseTech Global for $230.0 million in February. Envase provides transport management systems software for trucking, drayage, and landside logistics, and strengthens WiseTech Global's position in one of its key development priority areas.[18] Sponsors also picked up PE-backed companies in tech, but they could be turning more attention to take-private opportunities as valuations continue to compress in public markets. The largest tech sponsor-to-sponsor exit in Q1 was the $237.5 million sale of Zapproved, an e-discovery software provider for corporate legal departments, from K1 Investment Management and Vista Equity Partners to Exterro, a PE-backed legal tech and compliance software provider.

Information technology exit activity

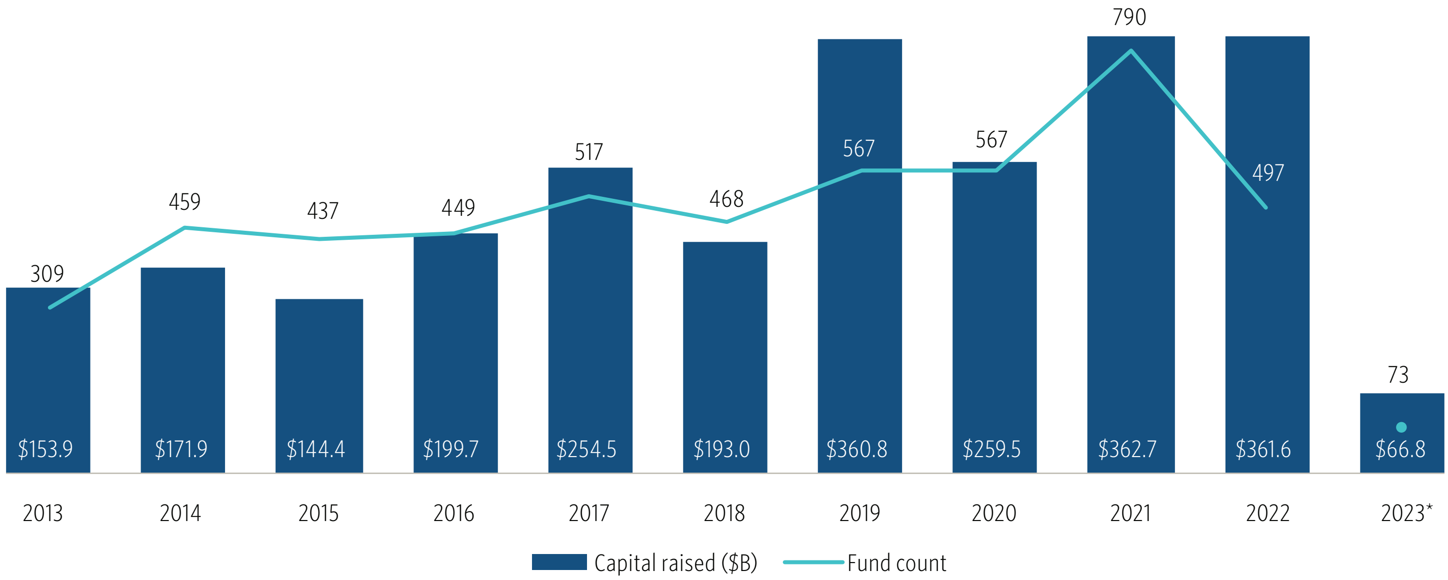


Source: PitchBook • **Geography:** US
*As of March 31, 2023

16: "McGrath Acquires Vesta Modular and Concurrently Divests Adler Tank Rentals," Businesswire, McGrath RentCorp, February 1, 2023.
17: "IDAG Acquires Ace Aeronautics," IDAG, March 8, 2023.
18: "WiseTech Global Acquires Envase Technologies Leading North American Landside Logistics Software Platform," Businesswire, WiseTech Global, January 24, 2023.

Fundraising and performance

PE fundraising activity



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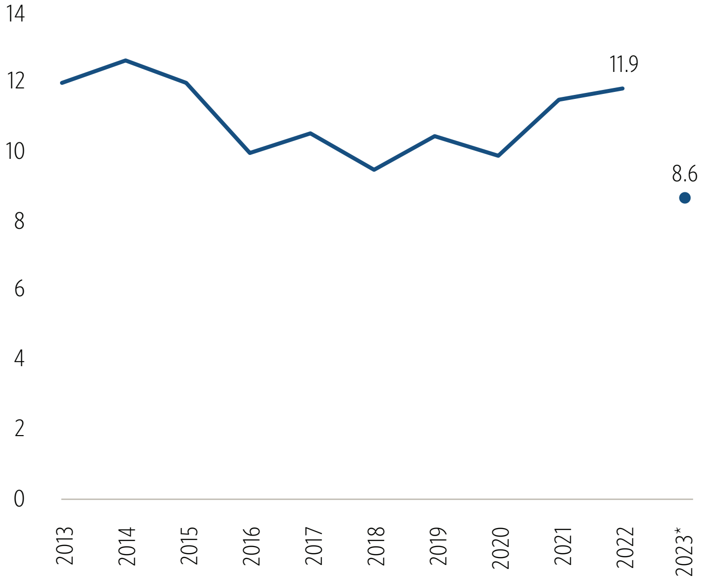
*As of March 31, 2023

Overview

Fundraising in 2023 got off to a slow start. At the end of Q1, 73 funds were closed for $66.8 billion in total capital raised. Q1 2023 continued the trend of fewer funds raising more capital, which has persisted for many years. Many of the same challenges faced by LPs in 2022 have carried over into the new year. A persistent denominator effect and a lack of distributions from GPs have left LPs capital-constrained. Despite this, the median time to close a fund has dipped to 8.6 months in 2023 versus 2022's 11.9 months, indicating that funds are being raised and closed in record time, despite a more congested fundraising environment. However, a deeper dig reveals that 835 open funds rolled in from the prior year. That compares to 584 in 2022. The average time between funds was 2.9 years in 2022 and ticked down to 2.7 years at the start of 2023. While this decline is minute, it continues the trend that accelerated in 2020.

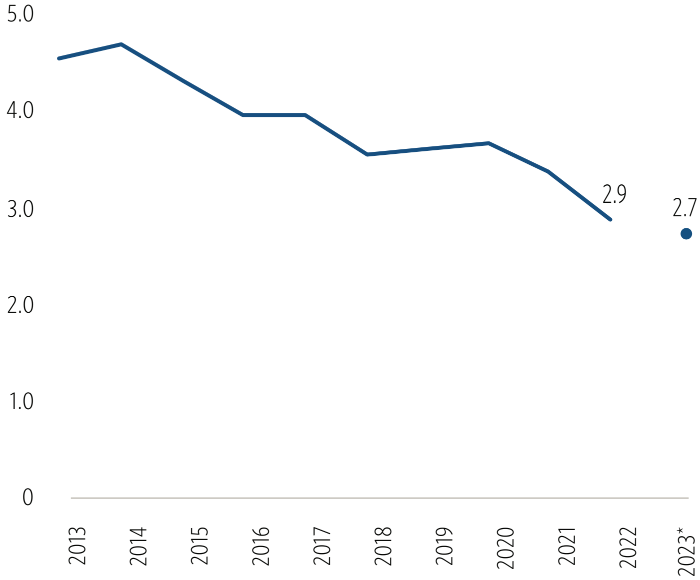
In 2021, the median size of PE funds started to increase. Larger fund sizes have continued into 2023, with median fund sizes for all PE funds expanding, rising 122.1% to $305.0 million from $137.3 million in 2022. Growing fund sizes is a trend that accelerated in 2022, posting fundraising figures similar to 2021's historic year. Fundraising figures in 2021 and 2022 were nearly identical, despite 2022's 300-plus fewer funds than 2021. This revealed that fund sizes were increasing as LPs prioritized relationships and fund commitments, which is reflected by the continued drop of the share of the count for funds under $200 million. In 2021, 72.7% of the total fundraising count consisted of funds under $200 million. That figure dropped 870 basis points to 64.0% in 2022 and has fallen even further in 2023 to 47.9%, crossing below 50% for the first time.

Median time (months) to close for PE funds



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

Average time (years) between PE funds



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

PE tie-ups and strategy expansion

Asset managers and alternative asset managers continue building out their array of products and services. Firms are doing so by stretching into new asset classes or expanding their current base through organic and inorganic growth. In March, the investment arm of MetLife acquired Raven Capital Management, a US private credit manager with $2.1 billion in AUM. The addition of Raven will allow MetLife Investment Management to broaden its private credit offerings.[19] In February, Bridge Investment Group announced that it would acquire Newbury Partners, an investment manager specializing in acquiring LP interests in PE funds through secondary transactions. Bridge Investment Group agreed to acquire Newbury for $320.1 million. The transaction allows Bridge to expand into the rapidly growing PE secondary market,[20] which is seeing accelerating demand.

Megafunds

The first quarter of 2023 saw only two megafunds close. Those funds belonged to TSG Consumer, which raised $6.0 billion for its ninth buyout fund, and Goldman Sachs Asset Management, which closed West Street Global Growth Partners on $5.2 billion. Over the past two years, megafunds have accounted for 48.7% of total fundraising. That share dropped to 16.8% of Q1 fundraising, but the decline may be short-lived. 14 funds that launched in 2022 with fundraising targets of $5 billion or more carried over into 2023 and are seeking to close at some point this year.

Headlining that list is Apollo's 10th flagship buyout fund, which has raised $15 billion through January and is targeting a $25 billion close later this year. Clayton, Dubilier & Rice is raising a $20 billion fund and has reportedly collected around $16 billion from investors. However, the fundraising environment remains challenging even for the typically pedigreed megafunds. Carlyle is raising Carlyle Partners VIII, a buyout fund with a target of $22 billion. The fund missed its March 2023 deadline and asked investors for an extension.[21] The fund has reportedly raised over $17 billion thus far. There has been less certainty around Carlyle and its fundraising efforts, as until the middle of February, it lacked a permanent CEO. Uncertainty behind the firm's direction and an already more difficult fundraising environment have made raising capital a challenge.

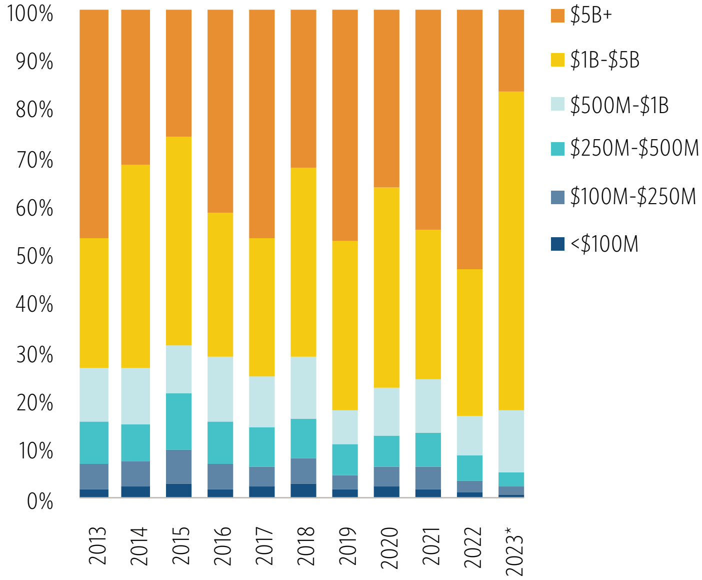
19: "MetLife Investment Management To Acquire Alternative Investment Firm Raven Capital Management," MetLife, February 7, 2023.
20: "Bridge Investment Group To Acquire the Business of Newbury Partners, Diversifying Bridge's Product Offerings and Client Base With Leading PE Secondaries Platform," Bridge Investment Group, February 14, 2023.
21: "Carlyle To Miss Deadline for $22Bn Fund as Investors Cool on Private Equity," Financial Times, Tabby Kinder and Kaye Wiggins, December 13, 2022.

Growth equity

Growth equity followed the lead of the broader fundraising market. Eight growth equity funds closed in the first quarter, worth an aggregate value of $13.6 billion. Well-known industry players continue to lead the charge in growth equity fundraising. The $5.2 billion for West Street Global Growth Partners was not only the largest PE fund of the quarter, but it was also the largest growth equity fund, followed by JMI Equity's $2.4 billion closing of its sixth growth equity fund. Bain Capital also closed on a growth fund, Bain Capital Tech Opportunities Fund II, which raised $2.4 billion.

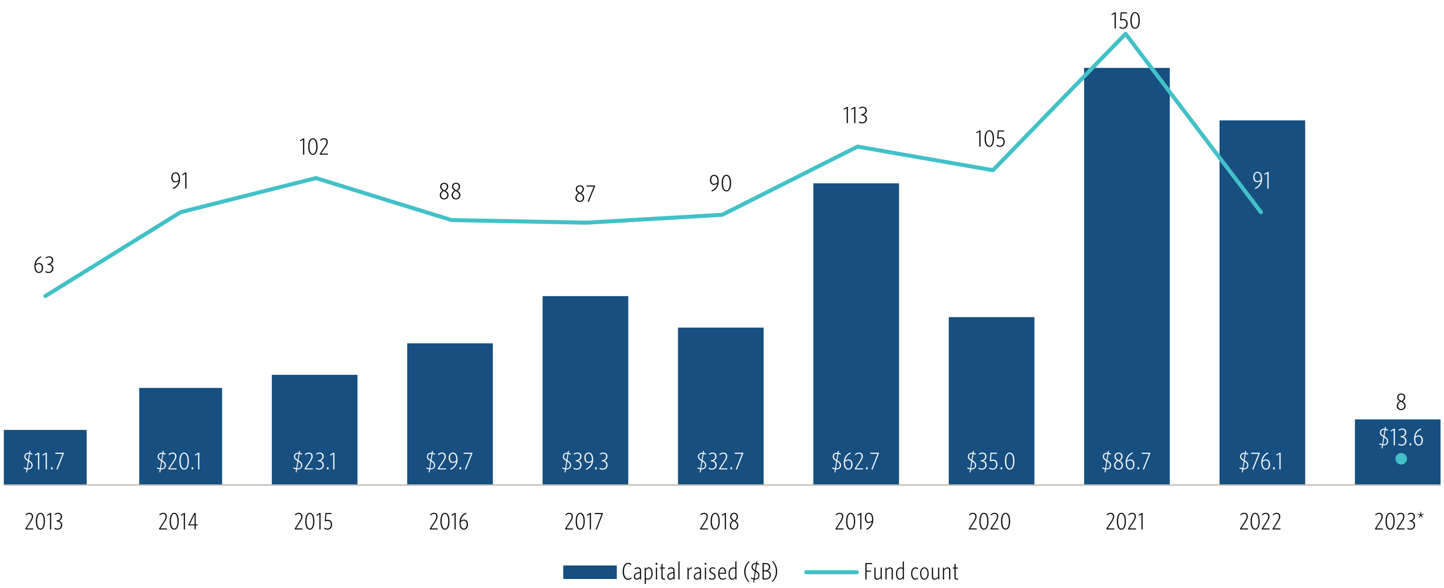
Strong interest continues to track the growth equity space. The strategy is not reliant on debt and is based instead on taking high-growth and profitable companies to the next level. This skillset is well suited to the current environment in which future returns will be derived more from driving operating leverage than financial leverage.

Share of PE capital raised by size bucket



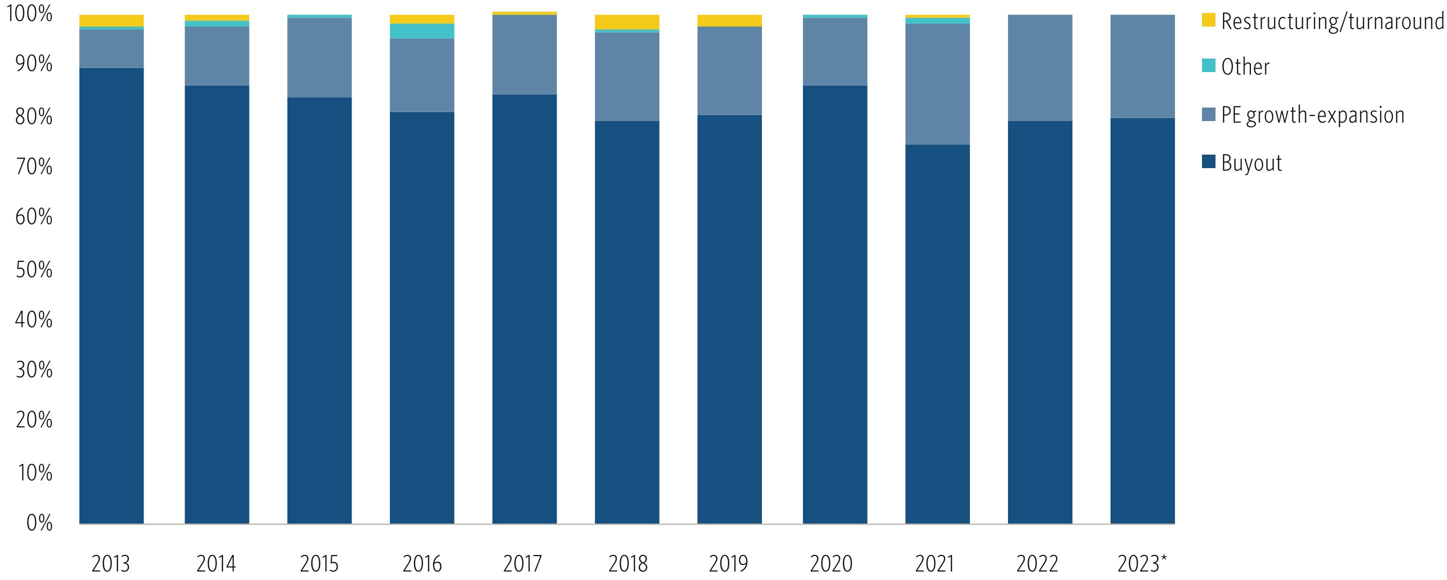
Source: PitchBook • **Geography:** US
*As of March 31, 2023

Growth equity fundraising activity



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

Share of PE capital raised by type



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

New sources of capital and liquidity

The private equity secondary markets garnered significant attention in 2022, and that has rolled into 2023. The demand for liquidity remains for LPs and GPs alike. As a result, more firms have entered the secondary market by raising new funds or expanding their strategy by acquiring a secondary business. For example, Goldman Sachs closed its latest secondaries fund, Goldman Sachs Vintage Fund IX, on $5.5 billion in Q1. LPs can turn to the secondary markets to part with stakes of certain funds and gain liquidity to fund future commitments or prioritize certain manager relationships. 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. A GP can do this when it feels that there is more value to be captured within an asset or to avoid selling in an unfavorable market. The use of the secondary market has soared over the past couple of years, with market expectations that the industry will continue to grow.

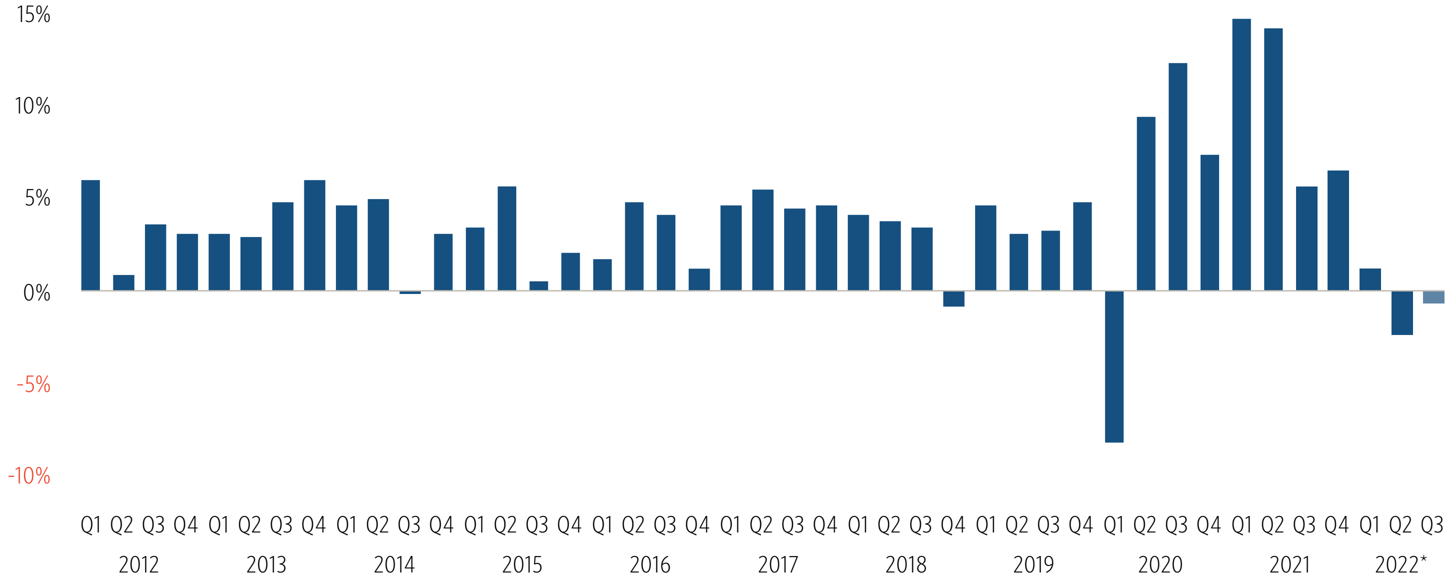
The fundraising market has proven more challenging in recent quarters. Traditional institutional investors have a finite amount of capital that can be allocated to private equity. The limited capital pool has forced GPs to explore other capital sources. Avenues for fundraising outside of traditional LPs include sovereign wealth funds, family offices, and the largely uncaptured market of retail investors. According to Bain & Company, retail investors own half of all assets under management globally but only 16% of alternative assets under management. International investors have become fundraising targets for GPs as traditional LPs, such as pension funds and endowments, have less capital to deploy. Among the crowd of international investors are sovereign wealth funds. Many sovereign wealth funds of countries that benefited from higher natural resource prices ended 2022 with large amounts of capital to invest. Returns generated by PE funds are attractive to these investors and have captured their attention. The strong dollar relative to other currencies can be an attractive feature that US PE can possess, and it can help to pad returns for international investors.

Performance

Preliminary data collected by PitchBook points to a return of -0.6% for global PE funds in Q3 2022, following -2.4% in Q2. The results reported by public PE firms in Q4 indicate a return to positive territory, with a median gain of 1.4% for the PE strategies managed by those firms. The rebound in performance may be comforting to some investors; however, many are viewing PE markdowns with some skepticism, wondering if they are in line with the macroeconomic conditions or if funds are waiting out the market downturn.

22: "Why Private Equity Is Targeting Individual Investors," Bain & Co., Or Skolnik, et al., February 27, 2023.

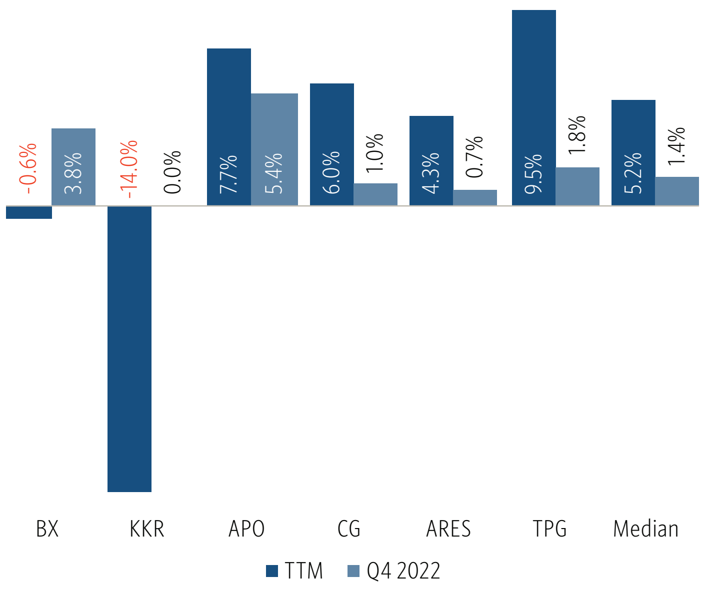
PE funds quarterly IRR



Source: PitchBook • **Geography:** US
*As of September 30, 2022
Note: Q3 2022 data is preliminary.

PE returns experienced a mild correction relative to public markets, where the S&P 500 ended 2022 down 19.4%. By comparison, the rolling one-year horizon IRR for US PE funds as of Q3 2022 was 6.6%. The divergence between the one-year returns for public markets and private equity is one of the widest we've seen over the last 20 years. A good way to resolve this would be for public equity to push higher while private equity stays relatively flat. That prospect seemed far-fetched only a month ago, but now, with the calculus on interest rates having changed since the SVB meltdown and the possibility of a Fed pivot coming back into view, it's a more plausible scenario.

Gross PE returns/appreciation by manager*



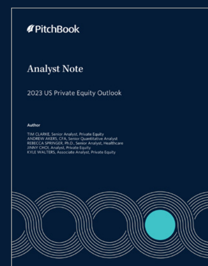
Source: Company reports • **Geography:** Global
*As of December 31, 2022

Additional research

Private equity

2022 Annual US PE Breakdown

Download the report here



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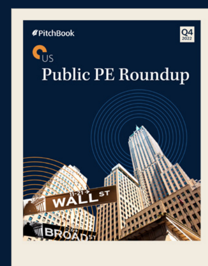

Q4 2022 US Public PE Roundup

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