

Private Equity, how is the temperature ?

The "Private Equity, how is the temperature" is an opinion item of the LPEA Newsletter curated by **Olivier Coekelbergs**, Vice-Chairman of LPEA. The "thermometer" provides you with a quick update on current market trends and key data from the Private Equity industry.



JANUARY 2016

Economic environment

- Crude oil continued its downward trajectory, as the Chinese economy faltered and the US dollar gained.
- Slowing growth in emerging economies and an anaemic showing from the developed world forced the World Bank to revise down global growth estimates.
- Eurozone's nascent recovery continued to build, while the US economy saw signs of cooling.
- Equity markets experienced tremors of uncertainty over Chinese growth and the ongoing commodities rout; volatility rose.

M&A

- Global M&A hits a new record, with US\$4.6trn of deals announced in 2015.
- Megadeals (US\$10bn+) drove value in 2015, contributing 40% of total value.
- The US cements its dominance of M&A, being involved in 56% of deals by value.
- Low economic growth, disruptive technology, sector convergence and changing consumer behavior were key deal drivers in 2015.
- Global M&A should remain firm in the near term, barring any systematic shocks.

IPOs

- Global IPO activity in 2015 saw proceeds dropping by 24%, albeit in comparison with a blockbuster performance in 2014.
- Asia-Pacific dominated 2015 IPO activity, despite the closure of mainland Chinese exchanges for new listings during the year.
- While global IPO markets should see a positive start, concerns persist about the slowdown in China and monetary tightening in the US.
- With higher M&A activity and multitrack strategies being increasingly prominent, private companies look to keep their fund-raising options open.

Fundraising

- 2015 was an active year for raising funds, with US\$451.6bn raised across 674 vehicles. Despite an 8% decrease by value versus last year, the industry has seen three straight years of strong fundraising.
- Exit markets are the primary drivers of fundraising – while exit activity moderated in 2015, LPs have received US\$1.80 for every dollar invested in PE over the last three years.
- As a result, dry powder has hit record levels of US\$487.2bn in September and PE firms ended the year with US\$469.1bn to invest in new deals.

Acquisitions

- PE activity saw moderately higher activity in 2015, as strategic acquirors competed with financial sponsors for deals. PE firms announced 1,846 deals valued at US\$316.2bn, a 10% increase on 2014.
- Increased activity from corporate acquirors is driving valuations higher, and limiting the amount of capital PE firms can effectively put to work. In 2007, PE made up 20% of total M&A activity; in 2015, PE firms comprised 5%-6% of total M&A value.
- With higher valuations and competition from corporate acquirors platform investments, PE firms looked to add-on deals as a way to put money to work. 2015 saw record levels of add-on activity, with US\$139bn in add-on deals.

Exits

- While 2015 was less impressive than 2014 in terms of exits, PE firms nonetheless announced 1,163 exits valued at US\$422bn, making it the second-most active year on record.
- 2015 saw a shift in exit modalities, as IPO activity moderated while sales to strategics remained strong.