The Pulse of Private Equity – 6/30/2014

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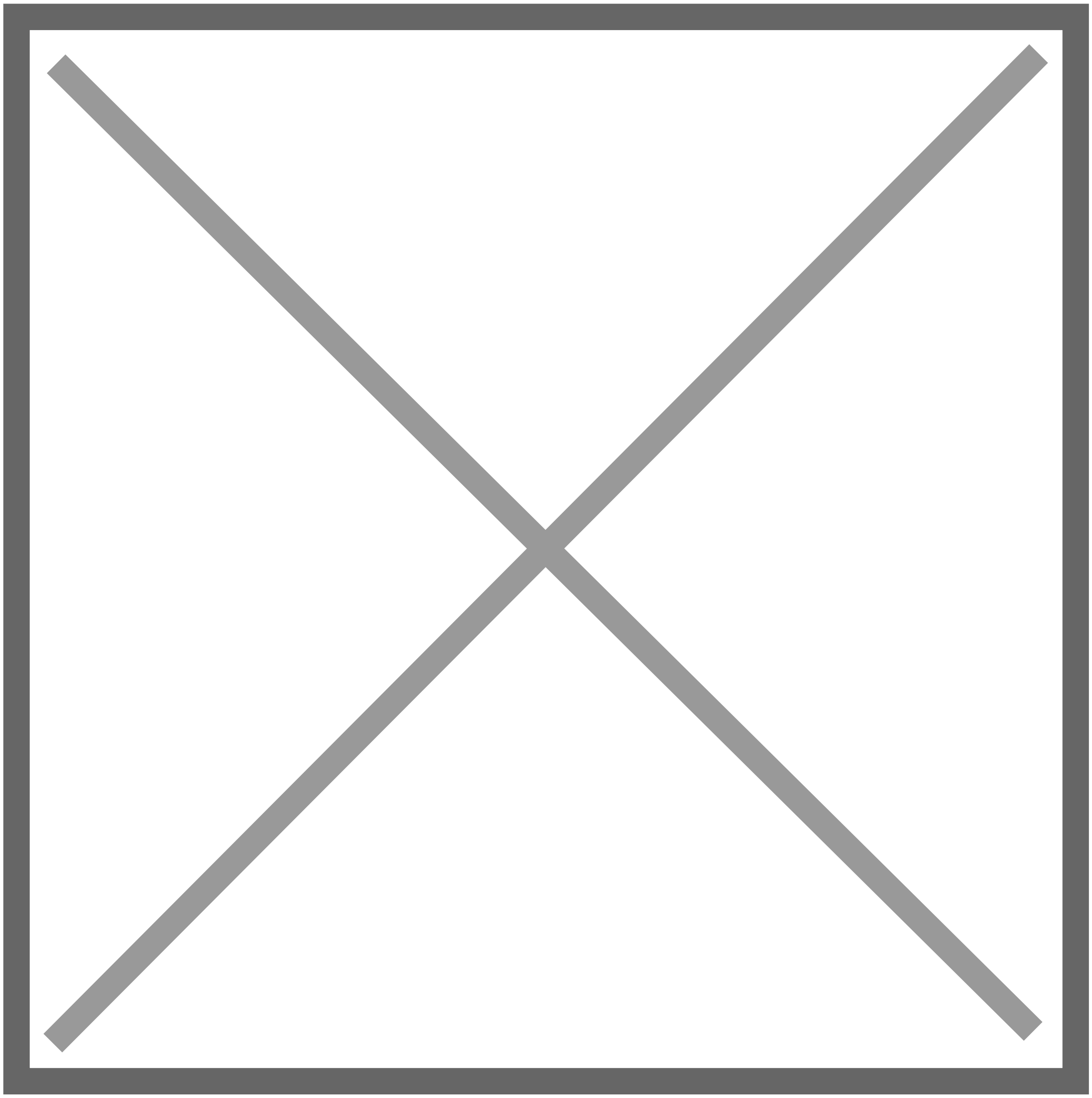

With a total of 483 U.S. deals being completed in the second quarter, private equity deal activity notched a decline of 35% from the first quarter. The decline in 2Q deal flow is likely the result of high purchase price multiples and increased deal competition. Through the first half of 2014, PE deals for U.S.-based companies are commanding a 10.8x multiple, well ahead of the 10.0x we witnessed in 2013. Investors have been increasingly talking about the tough deal market; it looks like we have now reached a point where it is beginning to seriously constrain deal activity. If you strip out add-on activity the numbers even look bleaker, With that bleak outlook said, private equity firms still have $480 billion of dry powder and fundraising has been fairly strong during the past few quarters. With LPs still believing in the asset class and over half a trillion dollars of investable capital (if you factor in leverage), we do believe that deal flow will pick back up. We are seeing PE firms get creative and use more add-on or growth deal transaction structures to get around the current market constraints. We fully expect this to continue and for PE firms to be big buyers of companies the moment this M&A market begins to cool a bit.