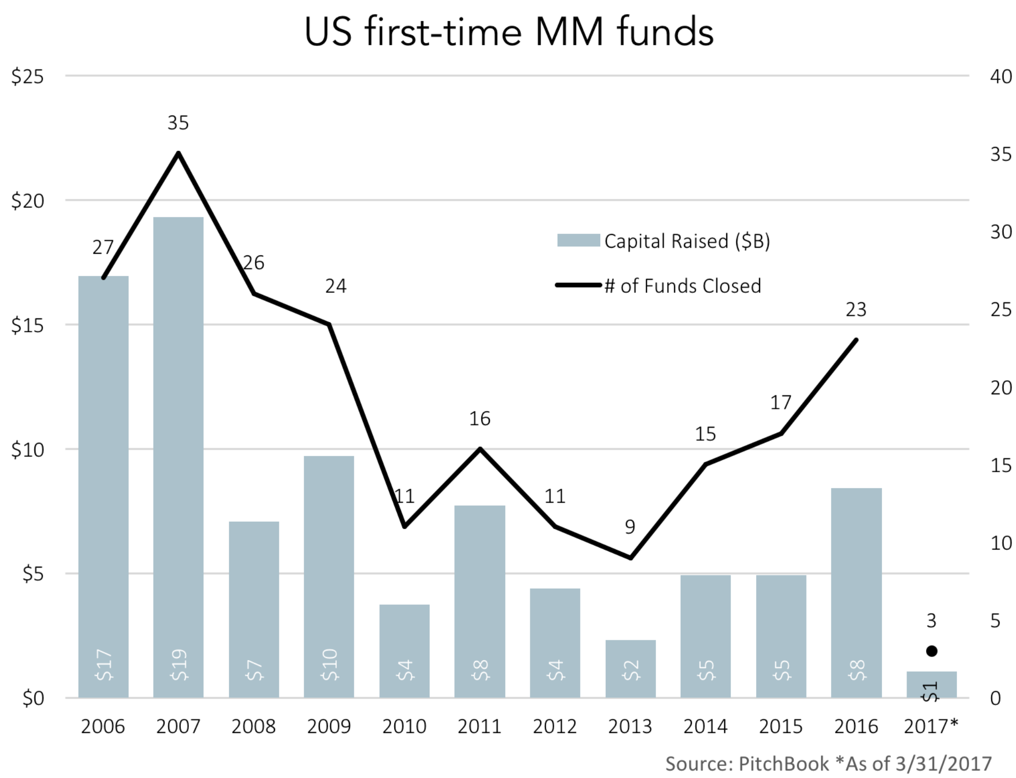
Healthy fundraising geared toward US middle market continues to set stage for competition

PitchBook | May 2, 2017



View PitchBook's 1Q 2017 US PE Middle Market Report [Here]

Pegged for some time now as a potentially more fruitful arena for private equity firms looking for respite from high valuations, the US middle market hasn't seen as much dedicated, new fundraising in years. 23 first-time middle-market funds (sized between $100 million and $5 billion in capital commitments) closed in 2016 on $8.4 billion, the fourth-highest tally for capital committed and fifth-highest by count of the past decade. Although not as impressive as in the years prior to the financial crisis, one must bear in mind that fundraising efforts are likelier to have been muted by investor perceptions of rising competition and subsequently complicated dealmaking economics. With not only the increase in sums allocated to PE funds but also consistently high-priced valuations at the upper end of the market, more and more general partners have been sourcing amid smaller enterprise size ranges or at the least expanding their scope. That in turn has led to increasing competition amid segments of the middle market. PE firms simply can't compete that much on price without potentially incurring hits to their free cash flows and eventual returns, however. Hence why even the recent peak was comparatively milder, and the first quarter of 2017 saw a much slower pace.

That said, that recent peak does still testify to fledgling fund managers’ appetite for deploying capital amid more typical targets for buyouts, where purchase prices aren’t so heated that traditional PE investment strategies are less effective. The environment will be difficult to navigate, given the level of capital-rich competition, but targeting especially the lower reaches of the US middle market could still bear fruit.