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PE is consolidating, but why now?

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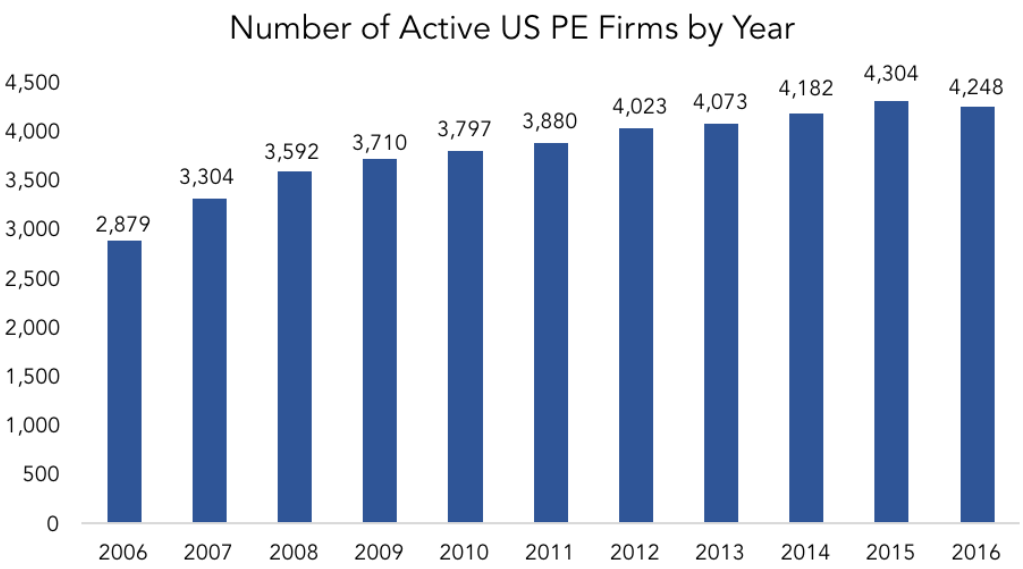

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It wasn't by much, but the US private equity field shrank last year for the first time in over a decade. By year-end, 4,248 PE firms still had their lights on, a 1.3% decline from year-end 2015. Industry observers have been predicting consolidation since at least 2009, and the discussion was amplified in 2011/2012 when firms were struggling to regain a foothold on the fundraising trail. As late as 2013, the head of a boutique advisory firm told Financial News that some PE shops were able to stay on "life support" and stuck around "for many more years" than they should have. "Simply given the dynamics of the fundraising market, the crisis will lead to consolidation and more casualties." As it happened, the money didn't dry up and the credit markets loosened, forestalling the inevitable shakeup.

Fast forward to 2016, when the PE industry finally shrank by firm count but amidst a very strong fundraising cycle. 2017 totals could end up rivaling pre-crisis numbers in terms of capital raised, and the number of funds hitting their targets last year (record high 93%) and the average time to close those funds (record low 12.3 months) don't offer much of a reason to shut down. Rather, as we argued in our recent PE Breakdown Report, large investors have been buying smaller, niche firms to become "one-stop shops" for limited partners. We expect those larger players to continue growing AUM through consolidation and cementing their places in the industry, but they may just be getting started.

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