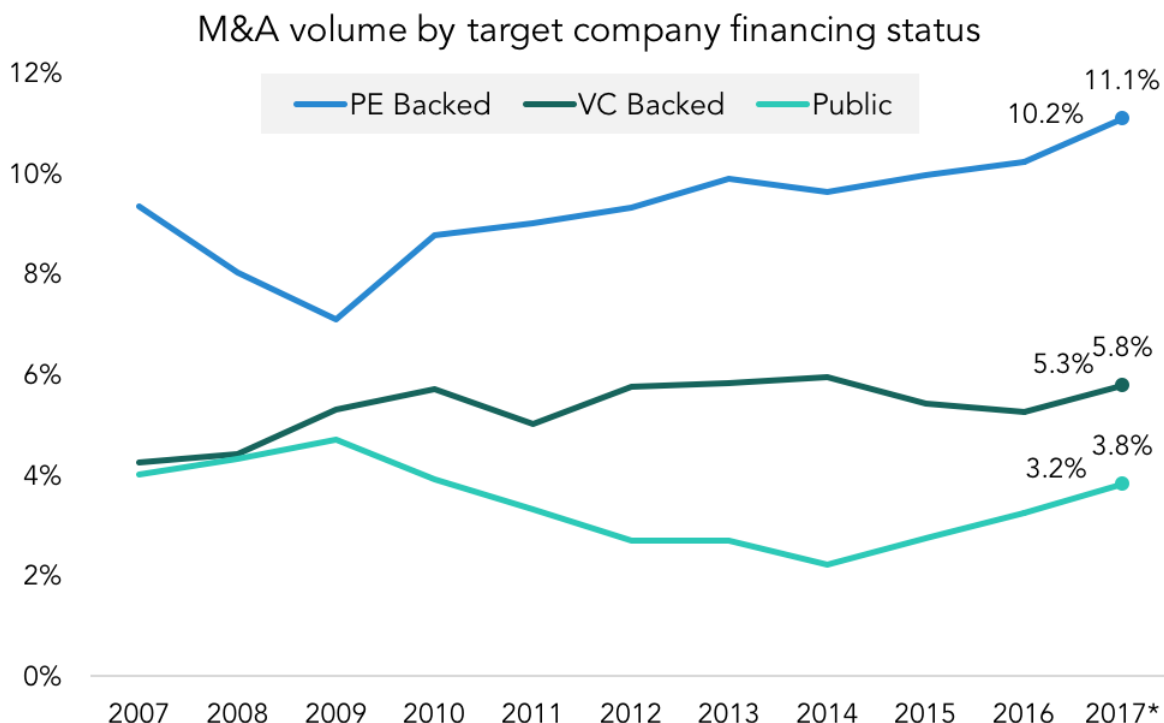


PE's growing influence on M&A

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Private equity holdings now make up 11% of all target companies in the M&A market. That percentage was a good deal smaller in the not-so-distant past, but the share of PE-backed M&A targets has steadily increased since the financial crisis. Simple arithmetic explains part of this—with PE's company inventory growing alongside a dwindling supply of listed companies, it would be surprising if PE's share *didn't* go up. Even so, it's a bit surprising that PE's ratio shot up so quickly after the crisis—from 7.1% in 2009 to 8.8% in 2010—an almost two percentage point increase in a very large market. Meanwhile, listed companies represented just 2.2% of the M&A market in 2014, less than half its share in 2009 (4.7%). As we argue in our just-released [3Q 2017 M&A Report](#), this trend partly reflects the growing institutionalization of private markets worldwide. But another question worth asking is this: Why did PE-backed companies and public companies go in opposite directions in the aftermath of 2009?

A recent [Harvard Law School study](#) helps explain this. The study asked what impact the financial crisis had on PE-backed portfolio companies, and whether PE-backed companies performed better, worse, or similarly compared to a non-PE-backed control group. Contrary to popular belief, debt-laden PE-backed companies did not perform worse than their peers as the crisis set in, according to the paper. In fact, because PE sponsors were able to relax the financial constraints of their companies through equity infusions and cheaper debt, PE-backed companies “experienced a greater growth in the stock of assets” post-crisis relative to the rest of the market. The

paper also found that the PE-backed companies they studied *increased* their market share in their respective industries—*during* the crisis. They didn't necessarily make more money than their peers ("PE-backed companies did not underperform their peers; that is, they did not become relatively less profitable"), but stronger funding channels and stronger investments from sponsors afforded them relative health in an otherwise sick economy. For the buyers who could afford them, PE investments were the healthiest targets available. And even as the market has strengthened ten years on, PE-backed companies apparently haven't lost their shine.

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