The Pulse of Private Equity – 8/18/2014

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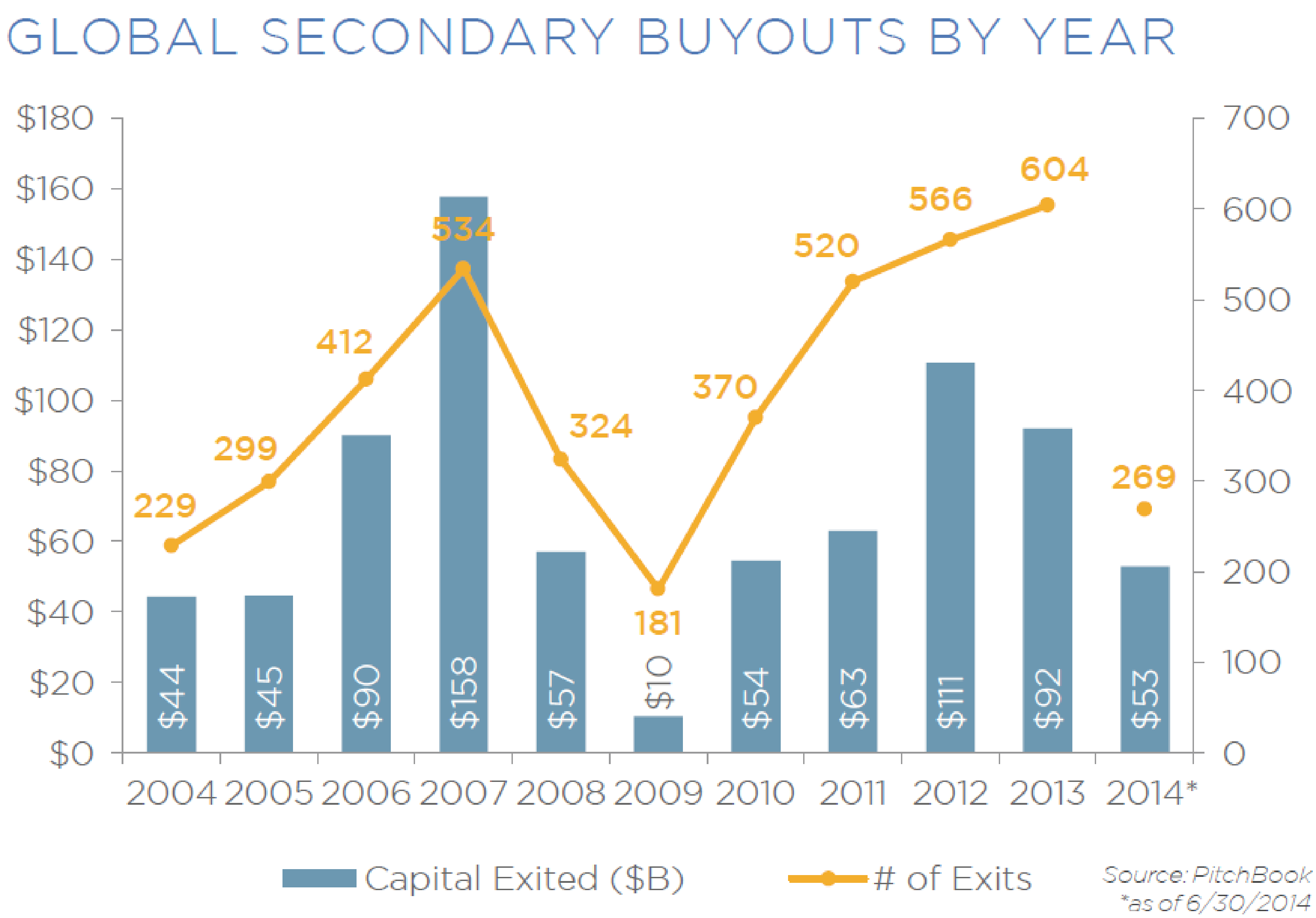
Secondary Buyouts – An Obvious Solution

The above graph suggests that 2014 is set to decline in terms of secondary buyout deal (SBO) flow. If the pace set in the first half of the year continues, this year would represent an 11% fall from the robust 2013 levels. In all likelihood, 2014 will end up historically strong by both the deal count and capital perspective. Through the 1H, the median SBO exit size came in at $329 million, a 37% step-up from $240 million last year and more than twice the median found in 2011 ($147 million).



Look for SBOs to remain a major portion of private equity activity for the foreseeable future. They offer a number of advantages; deal closing times are usually quicker, they can happen quieter and more recently SBOs have been producing higher multiples than sales to strategics (10.5x). Although, as M&A continues to heat up it will be interesting to see if PE firms are able to or willing to really outbid strategics. For now SBOs are the obvious solution to the $486 billion of PE dry powder and the inventory of 5,000 PE-backed companies currently in the exit window.

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