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Carving out opportunities

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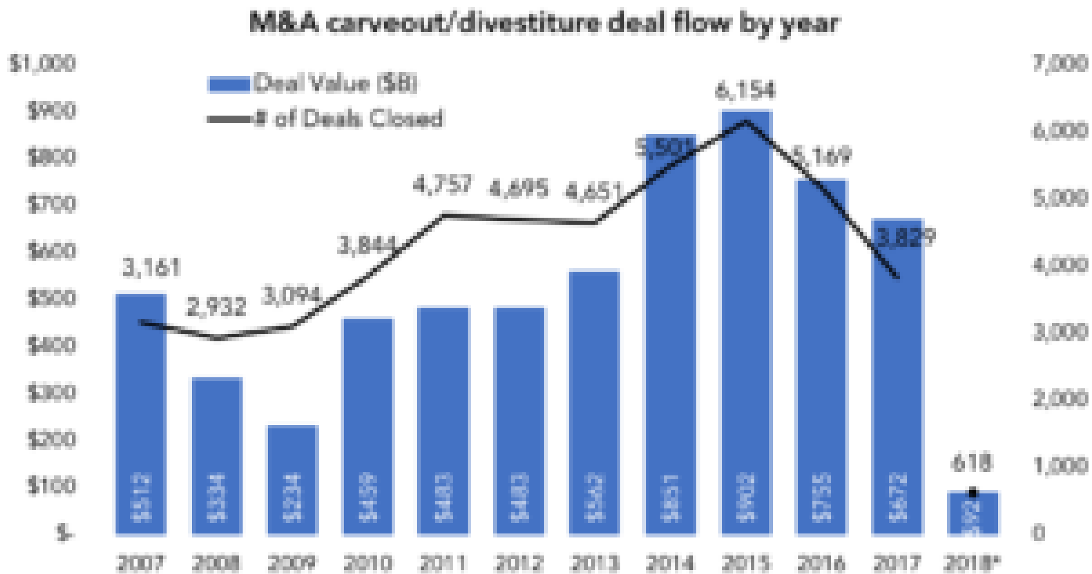

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Somewhat quietly, PE-led carveout acquisitions have boomed in recent years. This is a natural and sometimes overlooked consequence of M&A booms, especially today's. Corporate buying sprees have their own logic to them, and when public companies announce plans to buy or sell certain non-core assets, they learn very quickly what the market thinks of their new plans via share prices. Some of this has been spurred by pesky activist investors, who have become much more skilled in the art of effective agitation. Hedge funds and private equity buyers often tag-team in these situations, and we wouldn't be surprised to see more of that as activists become more influential.

More broadly, though, we expect to see more PE-sponsored carveouts due to the sheer number of M&A deals over the past five years. 87% of corporate respondents in a recent EY survey said they plan to begin their next divestment plans within the next two years. That's high but not surprising—several industries are being reshaped as we speak, and selling assets can be just as useful as buying them when it comes to sorting out synergies and new business priorities. The government has been chiming in more often, as well—anti-trust concerns have become much more common from this administration. All of this presents a significant deal sourcing opportunity for PE, especially since orphan businesses often sell at a discount in an otherwise pricey environment. Private equity has been involved in a number of billion-dollar-plus carveouts this year, including the massive $17 billion divestment of Thompson Reuters' financial/risk business to a Blackstone-led group. The middle market should see its share of opportunities, but they'll generate far fewer headlines than the blockbuster sales.

Contact: Alex Lykken
alex.lykken@pitchbook.com