The chart that never goes down

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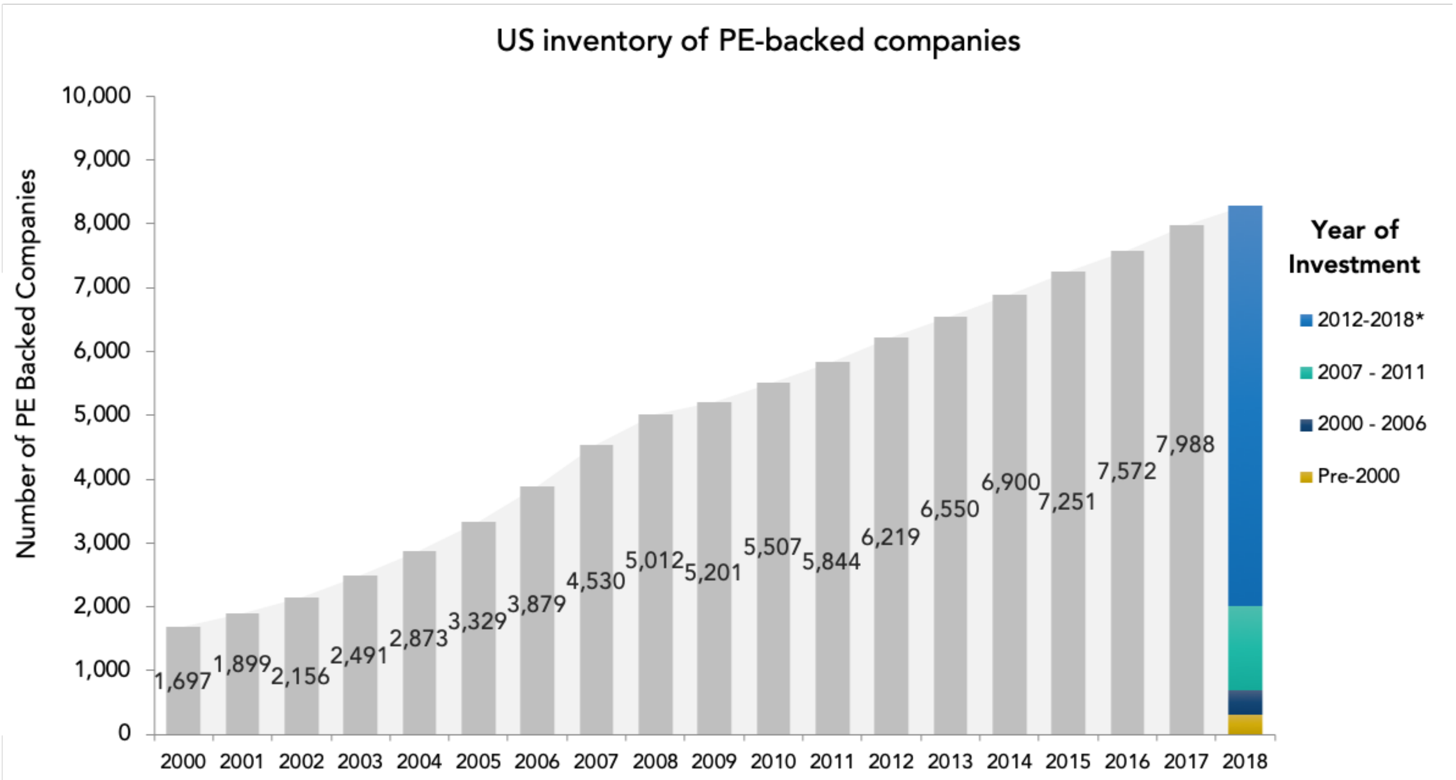

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Between 2004 and 2008—considered by many to be the boom days of private equity—PE's combined company inventory climbed 74% in the United States. Over the span of five years, in other words, the number of companies under PE control came fairly close to doubling. That was an unsustainable pace in hindsight, and inventory growth in the intervening years has slowed dramatically (up 26% between 2009 and 2013 and up only 20% between 2014 and 2018). The percentages may be falling, but they're still well above zero, and with fresh dry powder starting to hit the market, it's unlikely that PE's inventory will shrink in the near future without some sort of macro development.

Compare PE's company inventory growth to the number of active firms in the market. Last year, the number of active PE investors shrank for the first time, falling about 1%. We expect 2018 to see another decrease, though we'll have to wait one more quarter to confirm. What we can see with some certainty, however, is firm evidence of industry-wide consolidation. Going back to the 2004-2008 timeframe, the number of active PE investors rose each year around 10%-15%, which helped fuel the aforementioned spike in PE's inventory. The only year that didn't conform was 2008, which saw about 5% more investors than the prior year. What the industry didn't know at the time was that the financial crisis would have a lasting impact on the number of first-time investors entering the market, and 2008 was a harbinger of things to come. The YoY increase in active investors never touched +10% again. Meanwhile, PE's combined inventory continues to climb at a pretty even pace, but now with fewer investors involved. Even if the number of active PE firms levels off (or drops marginally), the tradeoff is a somewhat saturated market with far fewer untouched targets compared to a decade ago.

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