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2020 prediction – more VC-to-PE buyouts

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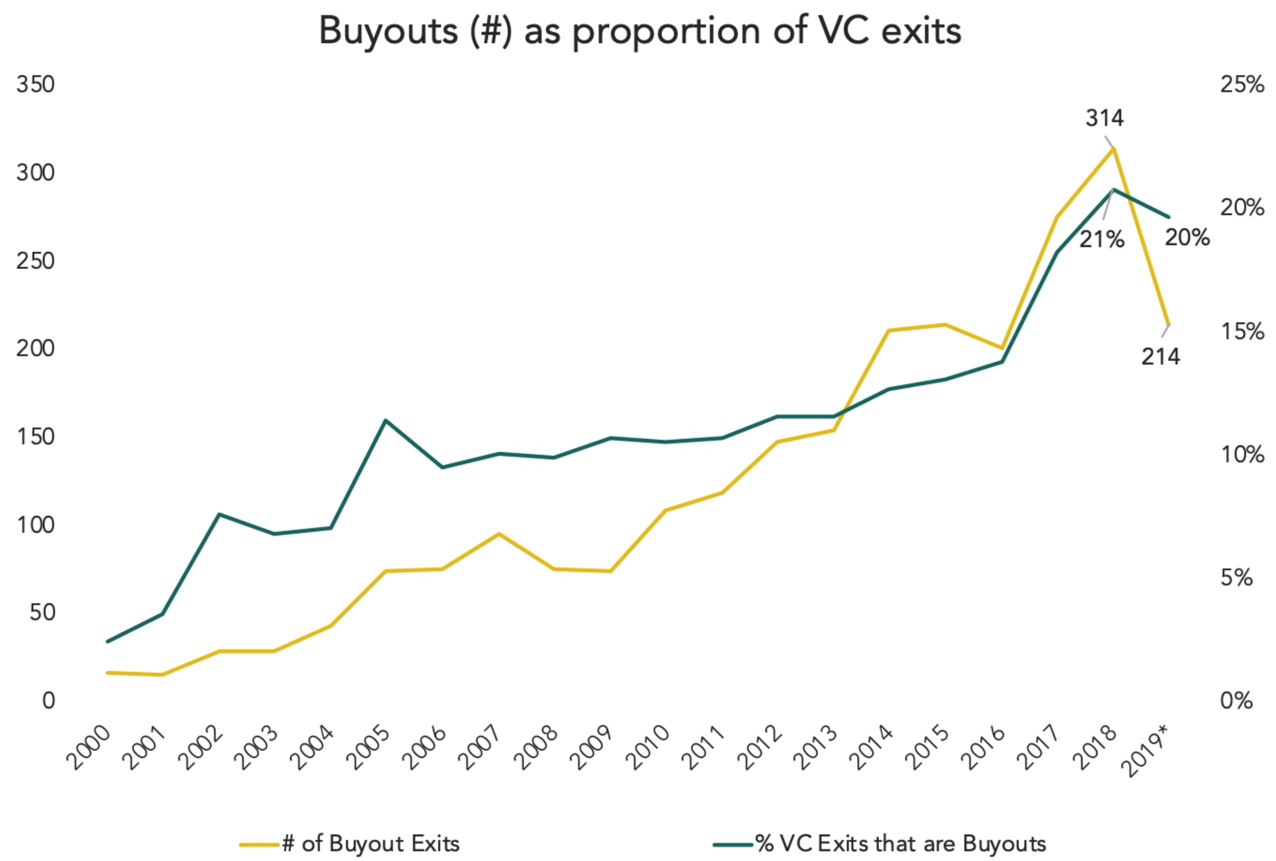

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Our 2020 Private Equity Outlook went out last week, and we'll delve into some of our predictions as we roll into the new year. One trend we expect to see more of is VC-to-PE buyouts. Though they're often mentioned in the same sentence, venture capital and private equity are distant cousins in terms of asset classes and business models. Startups are not buyout targets, but "VC-backed companies" sometimes are, thanks to an abundance of venture dollars that have helped companies stay private and mature along the way. Stable EBITDA and solid profit margins now justify these deals, which have grown at a 17.9% CAGR between 2000 and 2018.

More than 300 VC-to-PE buyouts were done in 2018. From venture's standpoint, LBOs are now a semi-viable exit strategy for companies in certain industries. That's a sea change from prior years, when IPOs and acquisitions were the only options. PE shops now account for a fifth of all VC exits. In more cases than not, though, those buyouts are actually add-ons, which have made up at least 50% of control transactions since 2013. In the grand scheme of things, VC-backed add-ons are more like corporate acquisitions than they are platform buyouts, but the numbers nonetheless point to more deals getting sourced in Silicon Valley and other VC hubs. The add-on wrinkle doesn't minimize an upswing in platform buyouts either. 2017 and 2018 both saw more than

100 VC-backed companies become PE platforms (123 in ’17 and 137 in ’18) with the stroke of a pen. You have to wonder what the cultural transition is like for employees used to kegs and ping pong tables.