The Pulse of Private Equity: A tale of two markets

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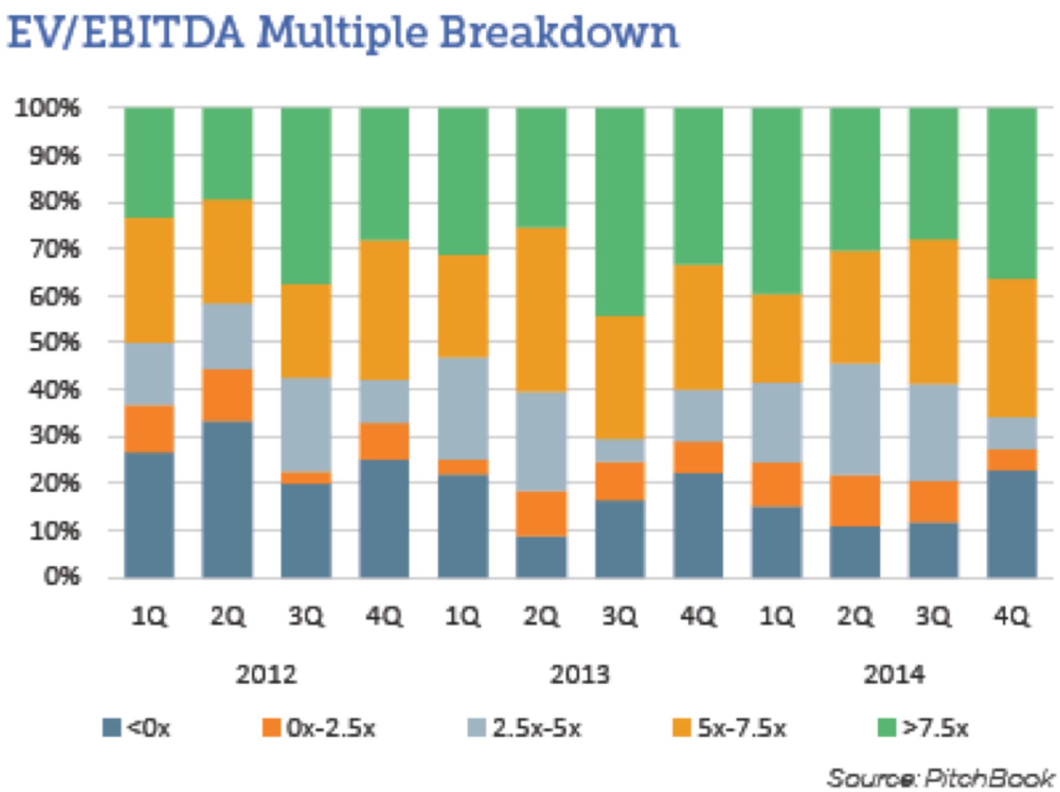
We’ve used this space several times to talk about the U.S. PE dealmaking landscape. Depending on which statistics you’re looking at, PE firms are targeting great companies and paying premiums for them, or they’re targeting stressed businesses and paying smaller multiples, especially complex deals in the healthcare and IT spaces. PE has never been a one-size-fits-all asset class, so it’s not surprising that both are true, which has created two separate markets reflected in the graph below.



Great companies are commanding higher multiples; over a third of 4Q transactions were done at a 7.5x multiple or higher, according to our recent PE Deal Multiples & Trends Report. Based on survey results, those transactions have been pretty prevalent going back to early 2013. Anecdotally, we’ve heard the same tale from PE firms chasing the best deals when they become available. That trend has fueled talk of a seller’s market, but there’s also an active buyer’s market today, with PE firms representing the only feasible buyers for hundreds of struggling companies. As we’ve discussed previously, PE firms are also at an advantage for buying the complex businesses being spun off by large corporates. That group of struggling/complex businesses help explain the number of EV/EBITDA multiples at or below 0x. They also help explain why so many transactions are taking 20+ weeks to close. Our survey results from the past three quarters show that, respectively, 42%, 29% and 24% of all 2Q, 3Q and 4Q transactions took at least 20 weeks to close.

To download PitchBook’s 1Q 2015 Global PE Deal Multiples & Trends Report, please click here.