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The middle market is buying more startups

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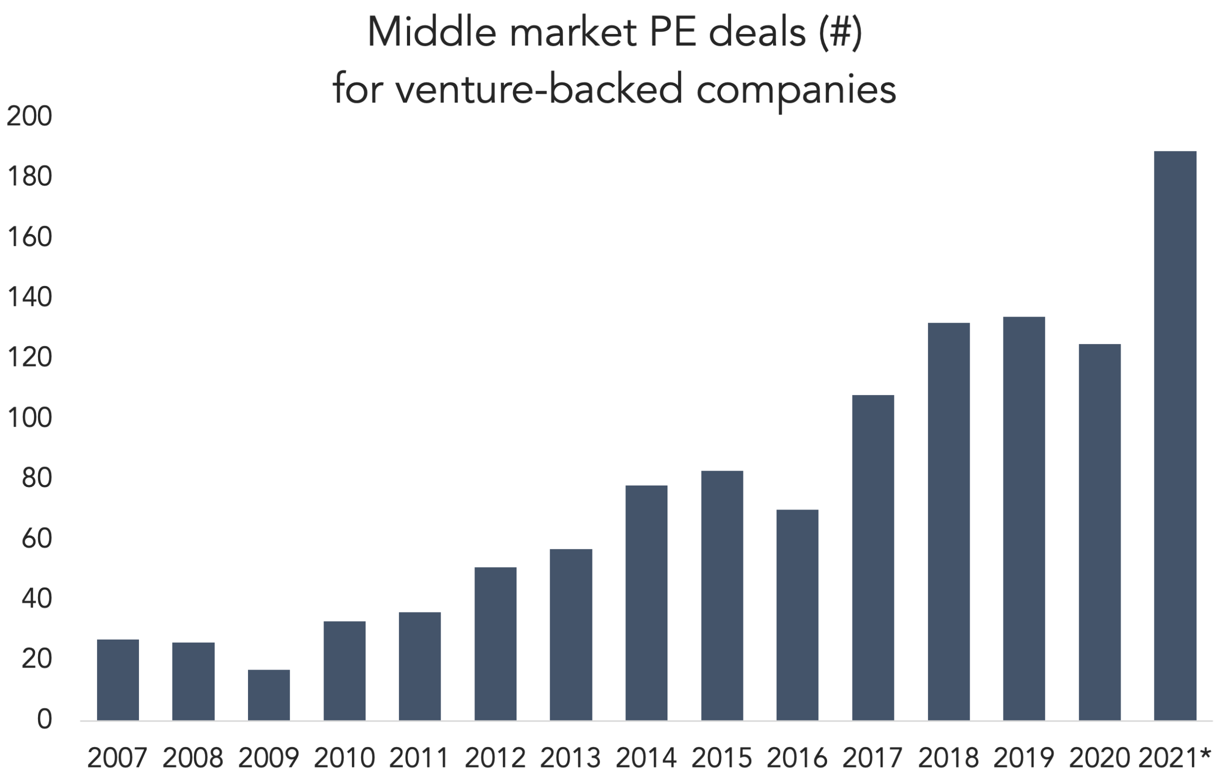

Download PitchBook's Report here.

Tucked away in PitchBook's 2021 Annual Middle Market Report is an interesting trend: more middle-market transactions involve venture-backed startups. Last year, 189 middle market deals were struck for startups, up from 36 a decade ago. The 189 deals were worth a collective $27.6 billion, another high.

The blending of PE buyers and VC sellers has some history, but it's mostly been done by tech-savvy investors like Vista Equity Partners, Thoma Bravo and Silver Lake, all of whom manage multi-billion-dollar funds. Vista's acquisition of Gainsight is a good example. Vista bought Gainsight, a CRM platform in San Francisco, for $1.1 billion in 2020. Gainsight was still raising venture capital as recently as 2018, backed by the likes of Bessemer and Battery Ventures. There's some speculation that Vista's buyout is a pitstop before eventually going public, which is an interesting trend in its own right.

Many of the middle-market buyouts are actually add-ons. Take Mystery Science, which develops digital science and STEM curricula for elementary schools. It was a 2017 graduate of Y Combinator's accelerator program and was backed by several VC firms. In 2020 it was acquired for $140 million by Discovery Education, which Francisco Partners carved out of Discovery Communications a couple years earlier. The end result, done very creatively by Francisco, is an innovative education company that gets kids more excited about science. Similar deals are being struck in healthcare and software, and we can expect to see more of these smaller, venture-backed add-ons going forward.

(Past performance is no guarantee of future results.)