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The Pulse of Private Equity – 6/29/2015

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Multiples are having an impact, and that's a good thing

Global private equity activity was down in H1, by several metrics. Compared to H1 2014, deal flow declined 16% by count and 21% by total value, to 2,728 deals worth $404.7 billion. Last year's numbers were 3,265 deals worth a combined $514.7 billion. Q2 numbers don't compare favorably year-over-year, down 20% by count and 28% by value versus Q2 2014. While it may be true that PE investors are still competitive in today's market, and they still have the dry powder and flexible debt markets to work with, it might be the case that high valuations are having a negative impact on deal flow, despite investor optimism. As is, for investors willing to pay double-digit multiples, they need to assume that exit multiples will be significantly higher in four or five years. We may be seeing the PE industry hitting its breaking point, at least for the moment.

For evidence, Exhibit A is platform buyouts, which reached their lowest level (by count) in Q2 2015 since 2011. The 398 platform acquisitions done in the second quarter were down 13% QoQ and down 29% YoY. Strategic acquirers are picking off many would-be PE platforms, and the platform deals that are getting done often have extra promises behind them, like add-on acquisition financing and pre-configured "100 day plans."

Observers have gotten into the habit of comparing today's froth with the pre-crisis heights of 2006 and 2007. That just isn't the case. Investors are being much pickier in 2015 than they were a decade ago, and it shouldn't be concerning to see healthy drops in deal flow when multiples get this high. PE investors, quintessential long-term thinkers, have short memories, as well.

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