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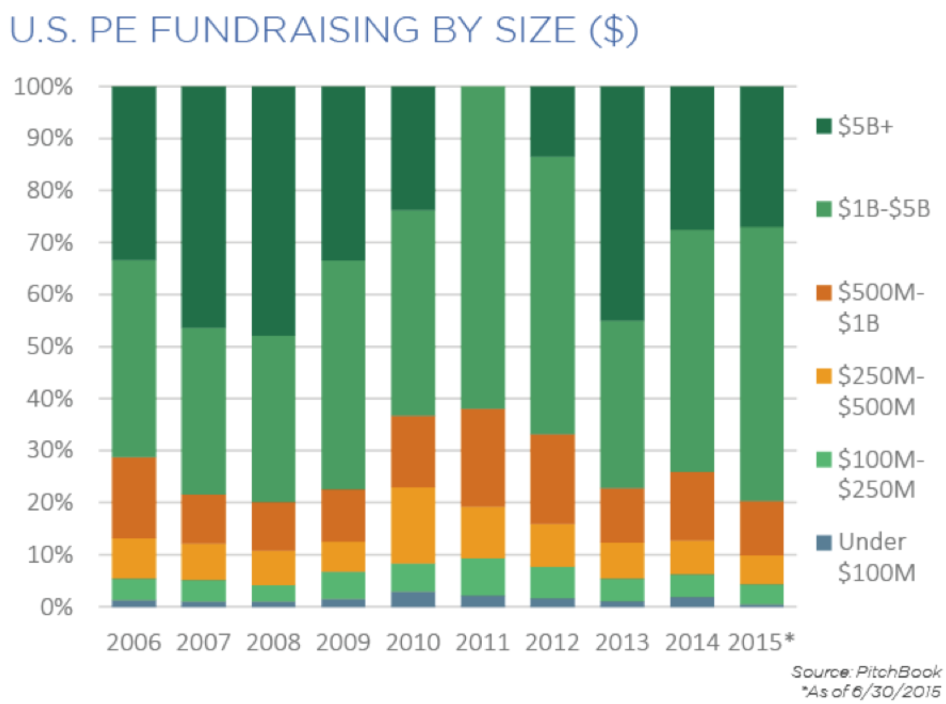
PE’s New Sweet Spot: $1bn-$5bn

Private equity seems to have a new sweet spot for fund sizes. 53% of total capital raised in the U.S. went to the $1-$5bn range, the third time since the crisis that it’s closed a majority of LP dollars. The big exception is 2013, when $5bn+ funds made a “comeback, ”but mostly because large blue-chip firms hadn’t been able to raise their mega-funds until then. The last year and a half, $5bn+ funds have commanded less than 30% of the market share for PE dollars versus 48% at its peak in 2008. Conversely, the $1bn-$5bn range brought in less than a third of the total haul in 2007 and 2008 before hitting its stride in 2011 at 62%. It’s not a fluke that the U.S. middle market has really picked up steam following that vintage. In 2011, 67% of all U.S. buyouts were done in the middle market. Through the early innings of 2015 that percentage reached 78%. That dry powder won’t be drying up any time soon.



“Bigger” has been historically better in PE. For years, bigger meant multi-billion dollar take-privates, which are looking more like fossilized remains by the day. But LPs have always clamored to get into $1bn+ funds, since their IRRs typically outpace smaller funds by at least 300 basis points. Many of those funds are now focusing solely on the middle market. The easiest corner of that market to cut large check sizes and include more debt is the upper MM, where activity continues to grow on both an absolute and relative basis.

Those $1bn-$5bn fund managers are also benefitting from LPs rapidly consolidating their PE portfolios. The larger the fund, the larger the commitment, and a higher likelihood we’ll see the $1bn-$5bn range be the most popular destination for a while.

Click here to download PitchBook’s 3Q 2015 U.S. Private Equity Breakdown Report.

Contact: Alex Lykken
alex.lykken@pitchbook.com