The Pulse of Private Equity – 7/13/2015

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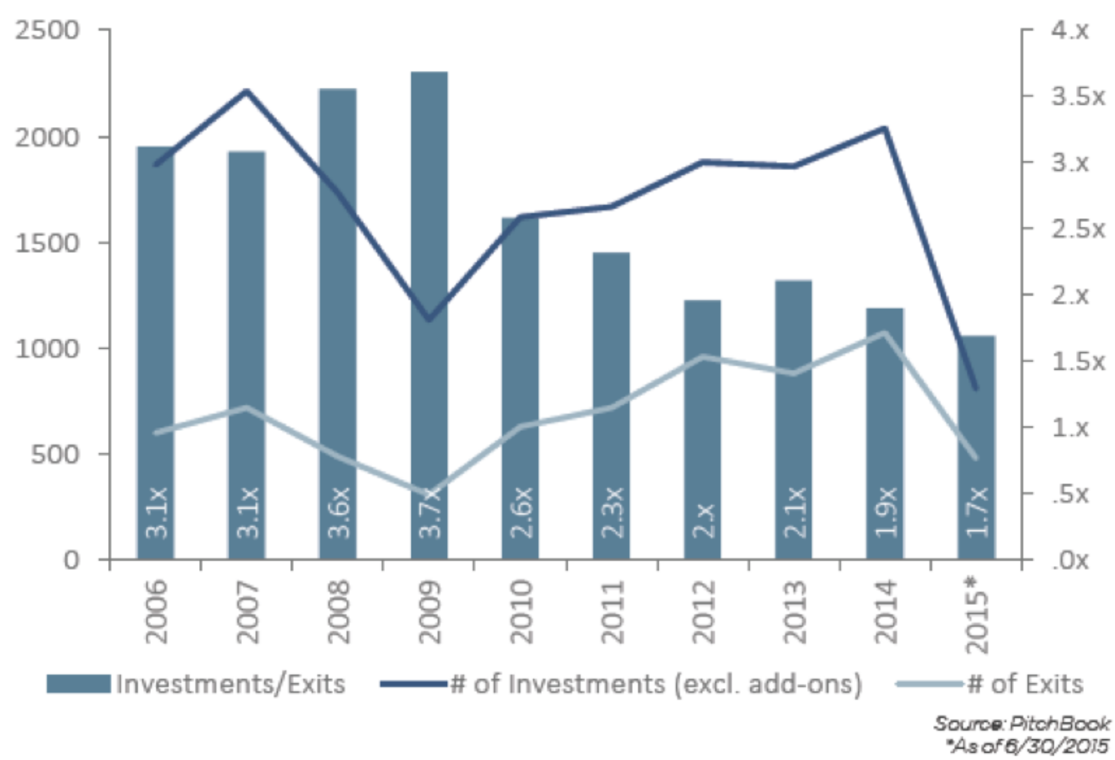
Investment-to-Exit Ratio at Record Low

While it's true that PE firms remain hopeful buyers, and the number of deals has risen over the years, they're much more active on the sell side today. Through June, the U.S. investment-to-exit ratio is at a record low 1.7x in 2015. The ratio has been trending steadily downward since the recession, and fell below 2x for the first time last year. Pre-crisis, investors were routinely making at least three deals for every exit, and now that those holding periods are expiring, it's not surprising to see so many exits, even with deal activity not far off pre-crisis highs.



It's not likely the ratio will dip too much further below 2x. While total value is on a tear (1H 2015 saw almost as much value for M&A exits as all of 2014 combined), it doesn't appear that exit counts will keep rising as they have. 2014 was a watershed year for exit counts, up 19% for SBOs and 29% for strategic sales. Through the first half, both exit types are on pace to see slightly fewer sales by count by the end of the year. The bigger variable is deal activity, which got off to a tepid start in 1H and isn't expected to gain much strength later this year. What we'll likely see over the next year and a half is an investment/exit ratio evening out around 1.8x-2.0x. Only when the deal-making environment improves will we see that ratio creep back up to its historical average.

Click here to download PitchBook's 3Q U.S. PE Breakdown Report.

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