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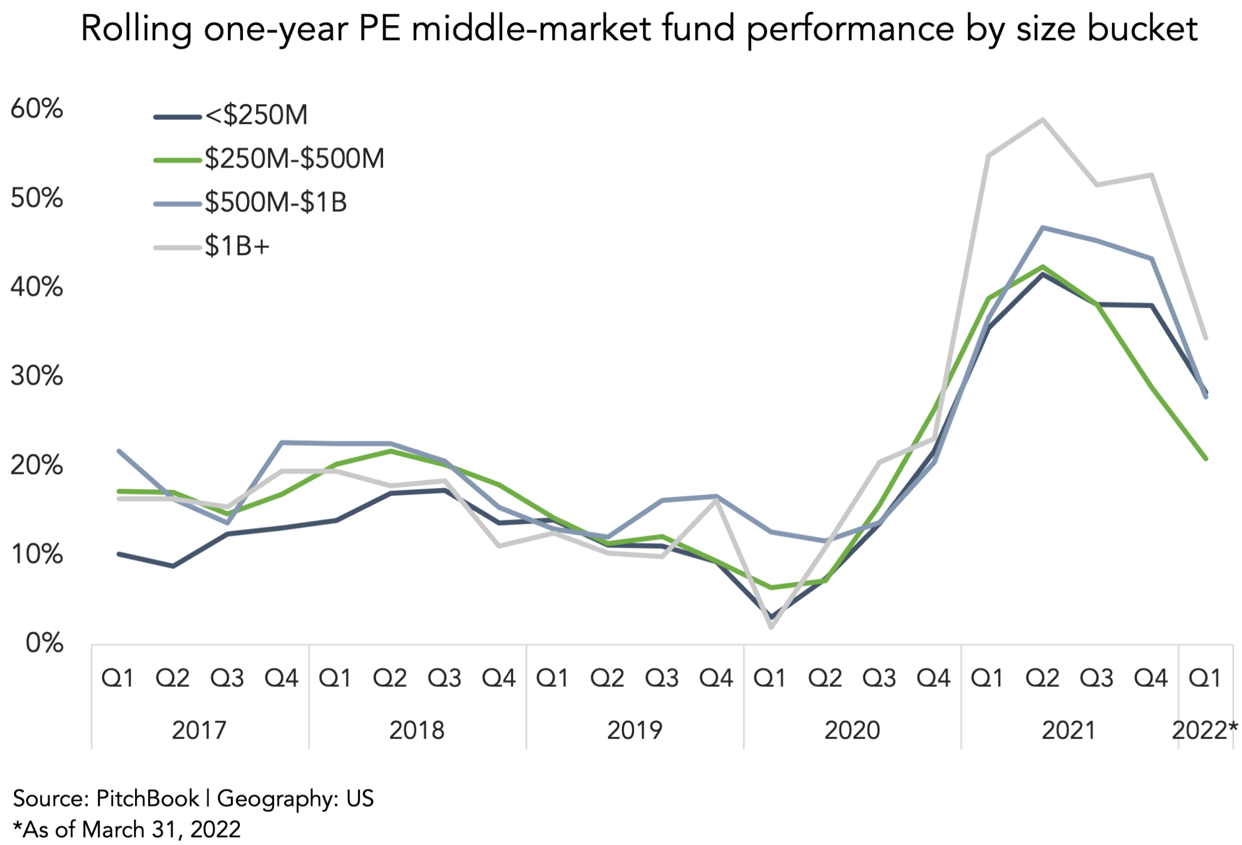
Will middle-market fund performance remain more resilient?

PitchBook | December 15, 2022



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Private market funds are due for a downturn, but there may be nuances. Shielded thus far from public markets’ volatility by sheer dint of their at-minimum quarterly markings, private pools of capital are likely going to begin seeing markdowns in performance let alone portfolio value for at least some time. Recession officially arrived by technical definition, and larger funds plus publicly traded PE giants are noting declines in performance plus headwinds from ongoing economic conditions. Although the midrange funds in terms of size – $250 million to $1 billion – have not declined quite as much as their larger and smaller counterparts, they have slid somewhat. How much further may they slide? Middle-market proportions of fundraising and buyouts have slid somewhat in the past couple of years, but the proportion of sub-$25 million deals has risen. Meanwhile, given recent spates of exuberant fundraising, deal sizes and likely valuations remained high due to competition, even though more modestly sized check sizes likely helped avoid significant inflation of transaction multiples, simply as there also weren’t that many fund managers competing especially across sector specialties within that region of the market.

As a result, fund performance across smaller funds could be semi-protected by more reasonable entry multiples in the long run. The exit environment could be chilly for a time, but as many strategic acquirers and larger PE firms that do not target middle markets much remain armed with significant levels of dry powder, there still could be upside even in a depressed period persisting into next year. All in all, for mid-market funds that were on the disciplined side, performance metrics could be muted yet not paint as morose a picture as their larger, more freely spending compatriots for the next several quarters' worth of reporting.

(Past performance is no guarantee of future results.)