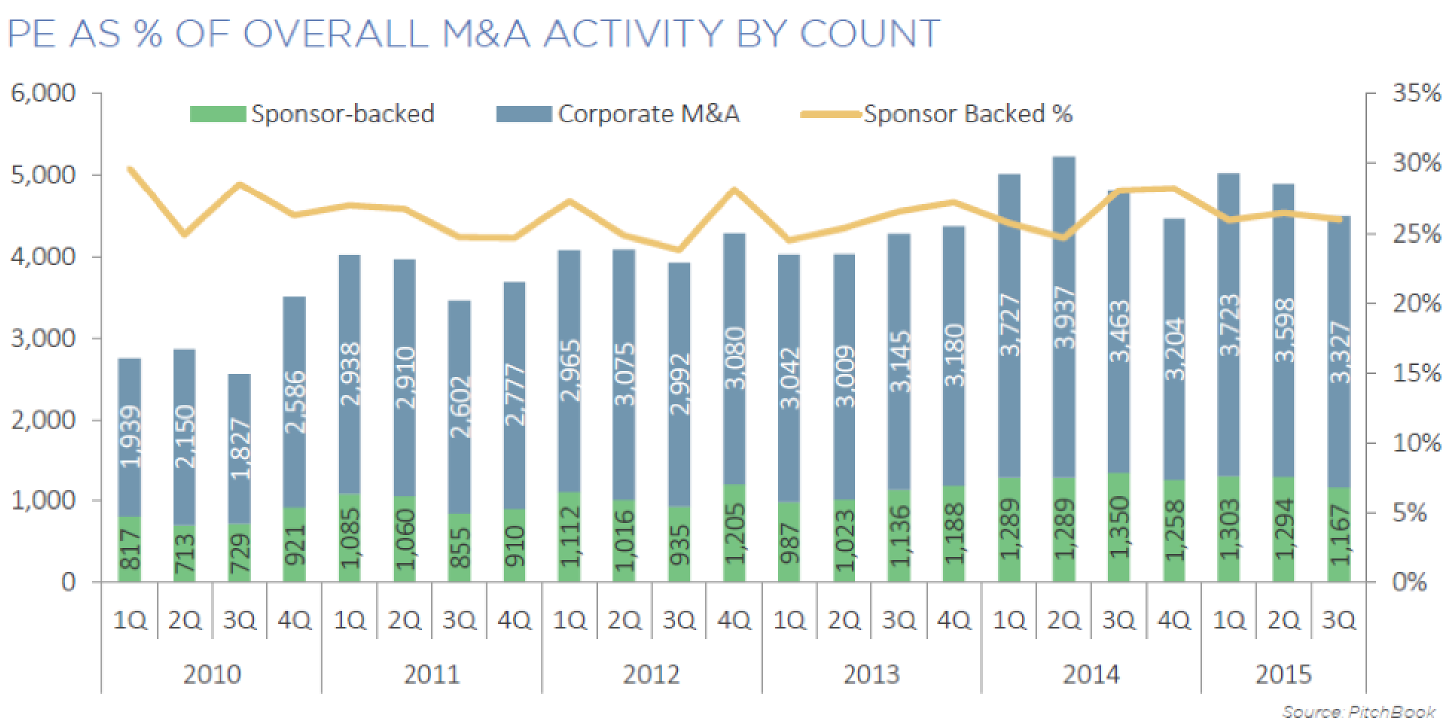
# The Pulse of Private Equity – 10/26/2015

PitchBook | October 28, 2015

**Could PE's role in the M&A boom reverse?**

Fueled by a variety of factors including the historically unprecedented run of low interest rates, mergers and acquisitions are on pace to hit a record in terms of value this year. Private equity players have not had as big a role in the boom this year as they have had in the past, mainly as cash-rich, publicly traded strategic buyers with inflated stock prices can typically outbid buyout shops. But, as the recent hit to stock markets in the wake of China's currency devaluation and slowdown in growth illustrates, that may not be the case over the next year. Strategics can stretch deal multiples based on synergies, employing rationales that PE firms can't quite mimic, but what PE firms do best is take advantage of an uptick in distressed companies, where they can put their operational prowess to work. Pundits have predicted a surge in PE activity in the energy sector in particular for some time now, for example, as energy prices remained depressed for longer and longer. Even if that surge has yet to materialize on a big scale, it's still early days yet and there are promising signs—namely, the amounts of capital committed to energy-focused PE funds. If volatility resurges, most likely in response to continued sluggish numbers from the Eurozone and uncertainty regarding China's prospects, it could be the first symptom of a widespread dip in economic growth. Depending on where pockets of distress emerge, PE buyers may ramp up activity, accounting for a higher proportion of M&A.




Where this will occur is still uncertain, but it's quite likely that Europe, for one, should still hold plenty of promise for PE firms with experience in the continent. The strong dollar will aid U.S. PE investors looking for companies still underwater in, say, Southern Europe, as growth remains generally anemic there and debt loads remain a significant concern. In short, it'll take a convergence of a few key factors, but this time next year, we could be looking at a considerably different story of PE’s role in general M&A activity.

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