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The Pulse of Private Equity – 12/14/2015

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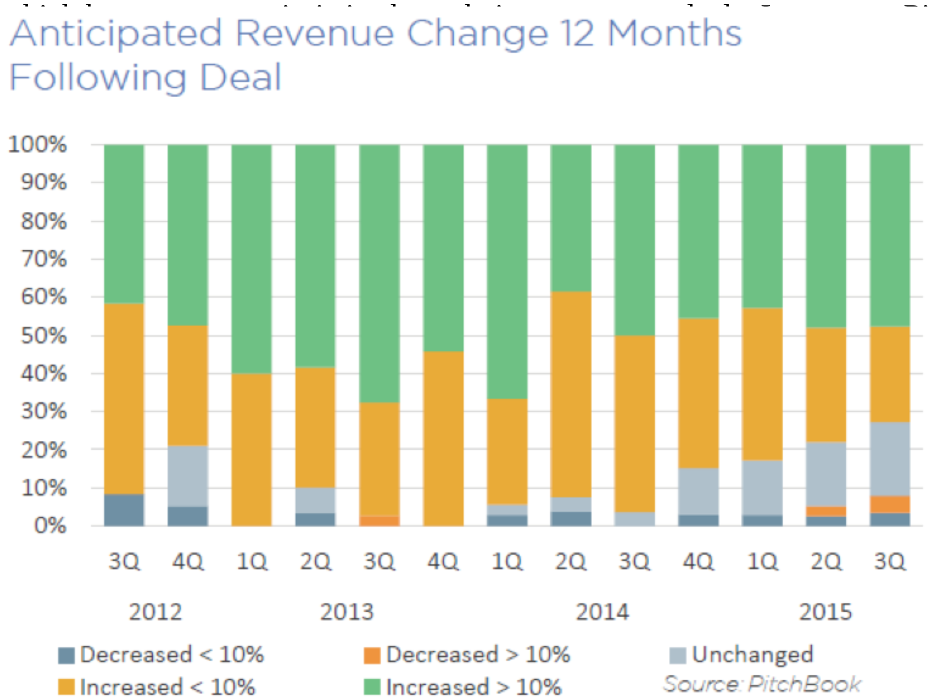
Caution Growing Among PE Investors

Assessing investor sentiment is always somewhat of a tricky prospect, but one useful heuristic is the extent to ... chBook survey of private equity ... change in revenues for the year ... a downturn in revenues, that figure



Even though the majority of respondents remained sanguine, the steady growth in the percentage of more dour survey takers indicates more and more investors are dialing back expectations around immediate revenue growth. Potential reasons why are myriad, likely rooted in general uncertainty around overall economic growth prospects worldwide as well as changes in the PE industry overall. More and more respondents are cognizant of how, in today's economic environment, revamping operations to achieve more sustainable, organic growth will require considerable time. Consequently, the shift in investor expectations may not necessarily be a surge in pessimism regarding overall growth prospects, but also a reflection of how the PE industry is pivoting more toward buy-and-build as an investment strategy, with firms pursuing more sustainable portfolio company growth over a longer timeframe. In addition, with plenty of anecdotes abounding about how the quality of companies coming to market nowadays is not quite as high as one could wish, perhaps PE firms that are looking to put capital to work have closed buys of companies that they anticipate will require a longer timeframe to achieve significant, sustainable growth. In short, the shift in expectations is likely the result of several intertwined factors, with a different primary cause on a sector-by-sector basis. For example, growth for a healthcare services platform build-out is more likely to be restricted by the timeline necessitated in closing supplementary add-ons.

Contact: Garrett Black
garrett.black@pitchbook.com