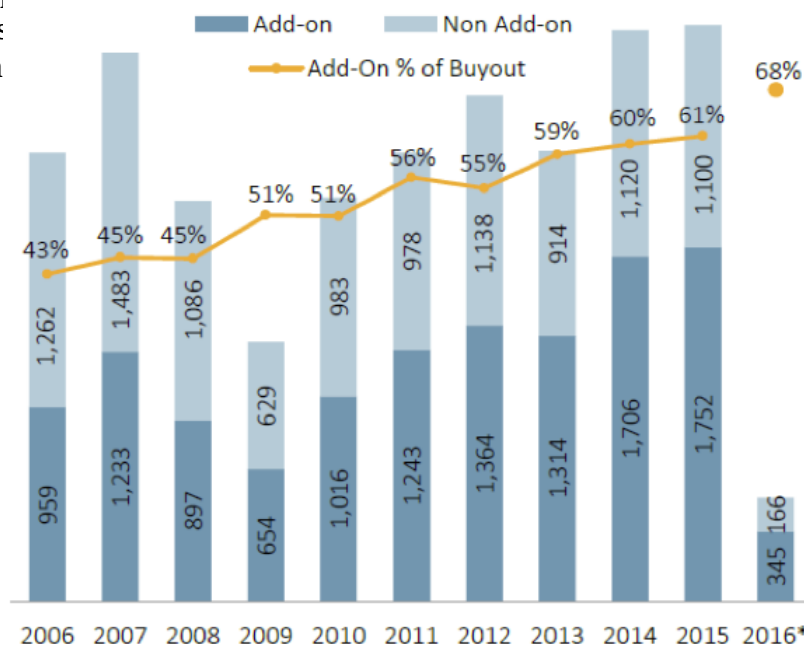


The Pulse of Private Equity – 4/18/2016

PitchBook | April 19, 2016

Will 2016 Record More Add-ons Than Last Year?

As a proportion of overall U.S. buyout activity, add-ons have gone from strength to strength. But the latest quarterly numbers have topped last year's. While this suggests that private equity investment strategies have shifted toward building of their portfolio holdings, it also reflects the recent trend of all private equity firms focusing on buying and holding in the event of an economic slowdown.



Source: PitchBook

*As of 3/31/2016

of an economic slowdown.

But there are

additional motives, namely, the mitigation of initial purchase prices in an expensive climate by adding on. There are multiple anecdotes of investors lining up potential add-ons or identifying targets prior to the initial platform buyout, or even not considering deals without clearly defined add-on opportunities. Granted, adding on is largely a sector-determined trend. For example, one of the primary drivers in add-ons within the healthcare sector has been consolidation in fragmented markets, such as dermatology practices. Accordingly, for 2016 to break the decade high of 61% for add-ons' proportion of buyouts, continued activity in such niches will have to continue at a healthy clip. More generally, as long as competition continues to be fierce and deal multiples relatively elevated, PE firms are likely to target add-on opportunities in the lower middle market, looking for some relief.

Contact: Garrett Black

garrett.black@pitchbook.com