The Pulse of Private Equity – 5/23/2016

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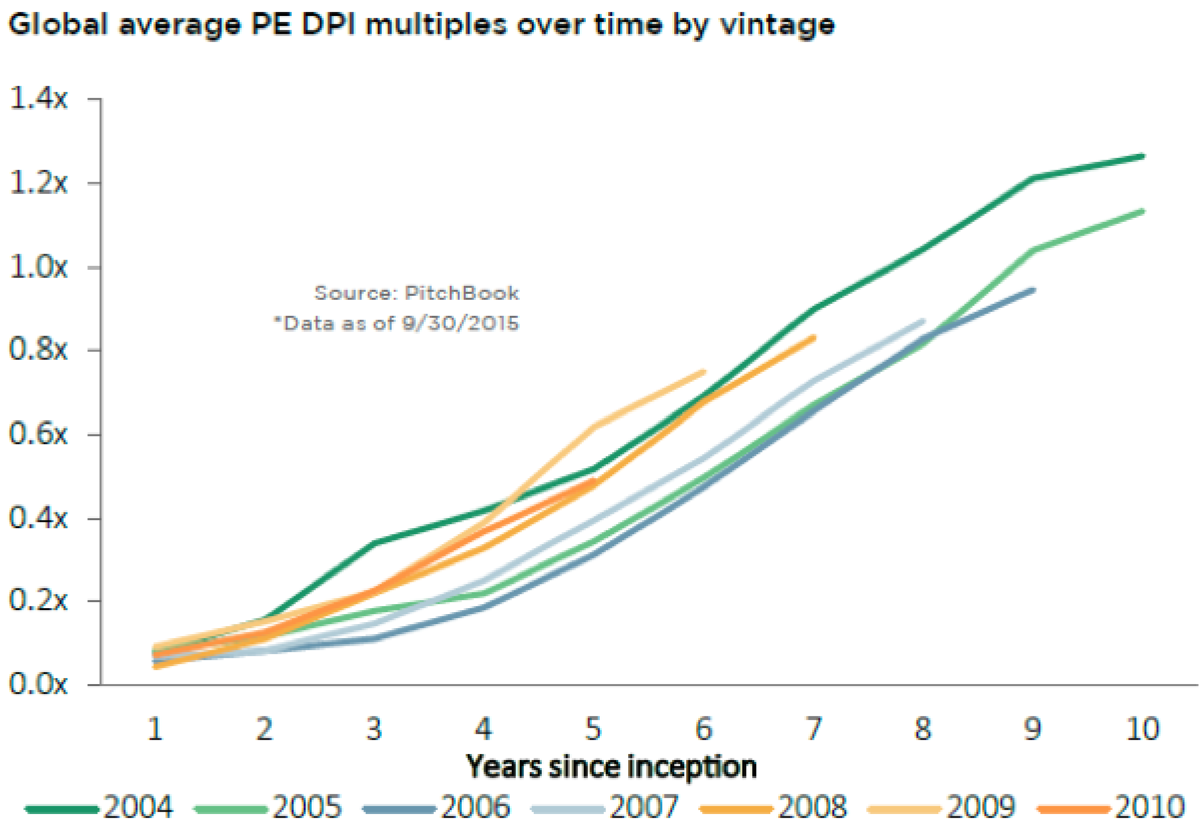
Recent PE Funds Have a Head Start

As is to be expected, private equity funds of all vintages and geographies see their average distributed-to-paid-in multiples climb over time, as managers successfully liquidate even aging holdings after years of operational enhancements. The rates of increase in DPI multiples by vintage, however, can be split into two groups, as depicted in the chart above. Funds in 2005 to 2007 vintages have experienced a marginally slower increase in average DPI multiples, while the same metrics for 2004 and post-2007 vintages have risen faster.



The disparity can be attributed to the impact of the global financial crisis, with the typical fund in those vintages consequently taking longer to rebuild portfolios hit hard by economic woes. It’s worth noting that even though the disparity exists, not only did recent vintages rebound fairly quickly, but even hard-hit vintages are still inexorably rising, aided by the wave of exit activity seen from 2013 through 2015, although sales began to slacken toward the end of that boom cycle. Given that PE-backed exits have begun to decline, diminishing steadily over the past few quarters, future advances in DPI multiples are likely to slow across the board, although it will be interesting to see whether the disparity between the groups of vintages persists. By now, older funds may still have some poorly performing companies in their portfolios left, while newer funds are still stocked with relatively youthful acquisitions. Accordingly, it’ll be a tougher prospect for further realization for vintages from 2005 to 2007 going forward, and younger vintages will see their rates of liquidation slow as well.

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