The Pulse of Private Equity – 10/3/2016

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Familiarity Breeds Debt Usage

Based on PitchBook and aggregated survey data, average debt levels in the second quarter of 2016 were much higher for transactions with smaller companies than they were for their larger counterparts. In fact, businesses with enterprise values of up to $25 million averaged 53% in debt usage during transactions closed in 2Q, while those with EVs exceeding $250 million saw a mean that was five percent lower.

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Coupling that disparity with the increased prevalence of equity in 2Q, it's clear that private equity fund managers are being more diligent as they grapple with elevated transaction prices in general. Yet, within certain segments of the market, it's clear general partners are more comfortable with tapping trusted lenders to employ greater amounts of debt, although they tend to rely on more secured, senior debt still. At such size ranges, moreover, consortiums are not always necessary, thus enabling greater reliance on a given, established relationship with one lender, which in turn can facilitate greater debt usage, as both fund manager and lender know the other's strategies well and consequently act with greater confidence. To edge into a more speculative realm, since deal multiples for smaller enterprises also rose in 2Q, higher debt usage could also be a factor of mitigating price increases with shrewder.

? **Read PitchBook's 2016 Global PE Deal Multiples Report here.**
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