Paul|Weiss

Private Equity Digest

January 2020, Issue 27

A Review of 2019 U.S. Private Equity Trends and Expectations for 2020

In this issue of the Private Equity Digest, we take a look at private equity trends in 2019 and possible developments for 2020. In spite of a sometimes uncertain outlook across the economic, political and financial systems in 2019, the PE sector continued to make a strong showing and is likely to continue to do so into 2020.

Fundraising

While reports regarding global PE fundraising are mixed, U.S. PE fundraising had a better showing. Despite the number of U.S. funds closed in 2019 remaining relatively flat compared to 2018, the total dollars raised among U.S. funds increased significantly. In 2019, 202 funds closed, a slight decrease from the 209 funds closed in 2018. However, the dollar volume of U.S. PE fundraising was ~$302 billion in 2019, a 55% increase over the ~$195 billion raised in 2018.

In conjunction with the increase in overall fundraising, average fund size also increased from ~$933 million to ~$1.45 billion. Dry powder hit a record high again in 2019, a now almost-yearly occurrence since 2012.[1] [2]

Exits

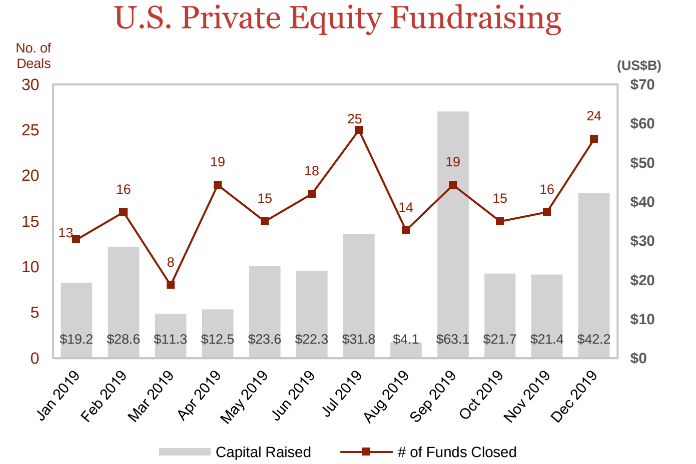
U.S. exits dropped across all measures in 2019. The number of U.S. exits dropped from 1,243 in 2018 to 923 in 2019. Sales to corporate buyers fell from 574 in 2018 to 369 in 2019, IPOs from 46 to 25, and secondary sales from 623 to 529. There were corresponding drops in the overall dollar volume of exits. The total dollar value of U.S. exits fell from ~$452 billion in 2018 to ~$334 billion in 2019. Sales to corporate buyers similarly fell from ~$224 billion in 2018 to ~$147 billion in 2019, IPOs from ~$47 billion to ~$41 billion, and secondary sales from ~$180 billion to ~$145 billion in 2019.

M&A Activity and the Credit Markets

The number of U.S. sponsor-related deals increased slightly from 2,132 in 2018 to 2,145 in 2019, while the total dollar value of such deals decreased from ~$515 billion in 2018 to ~$483 billion in 2019.[3] Average deal size is down slightly in 2019 to ~$225 million, from ~$242 million in 2018.

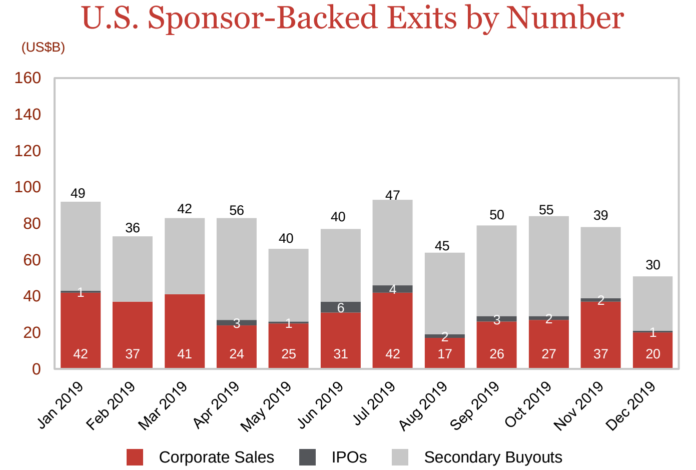
Deal making in the Computers and Electronics space continues to be the most robust both by number of deals and by dollar value, constituting 25% of the dollar value of all sponsor-related U.S. deals in 2019. This hit a five-year high in terms of market share, but at ~$241 billion for 2019, was slightly lower than the ~$242 billion in 2018. Meanwhile, healthcare deals fell from second place in 2018 to

U.S. Private Equity Fundraising



Source: Pitchbook

U.S. Sponsor-Backed Exits by Number



Source: Pitchbook

seventh place in 2019, swapping places with Real Estate/ Property, which was the second busiest sector in 2018, but the seventh busiest in 2019.

Overall syndicated lending for new acquisitions is down 17% from the high levels of 2018, to $2.7 trillion.[4] Covenant lite loans (which we discussed in the September 2019 edition) continue to dominate the market.

Observations for 2019 and Predictions for 2020

Continued Strength in the U.S. PE industry

The levels of fundraising indicate continued investor confidence in the sector in the U.S. (although some possible softening in the global market.) While smaller players are not necessarily being pushed out, the biggest managers are leading the market and generating the most visibility, raising bigger funds and doing bigger deals on average. Further, trading in the secondary market of stakes has increased 10 times over the last 10 years, reaching record-high levels in 2019. Stakes in the more prominent big buyout funds have sold at par with, or even at a premium to, the present net actual value of their assets.[5] This confidence may also be fueled in part by weakness in other sectors, e.g., hedge funds, whose overall returns were significantly lower than the broader equities markets and PE funds and lower interest rates.[6]

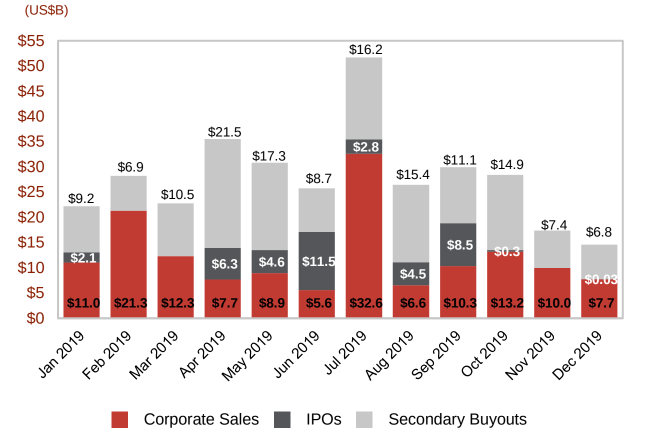
Continuing Evolution of the PE Investor and PE Firms Rising to the Challenge

Managers continue to seek growth in a crowded field by creating products to appeal to different investment strategies. For example, managers are starting funds with extended maturities and even permanent funds without maturities. This strategy reduces or eliminates the risk that an asset will have to be sold before it ripens and may increase the appeal of a PE buyout for targets that do not fit the typical PE investment horizon. LPs also continue to seek alternative investment methods, such as joining GP's as co-investors. Using this co-investment strategy, large institutional investors can avoid paying fees and play a more significant role or contribute a more significant investment in certain targets.

2018 Trends in M&A Have Continued into 2019

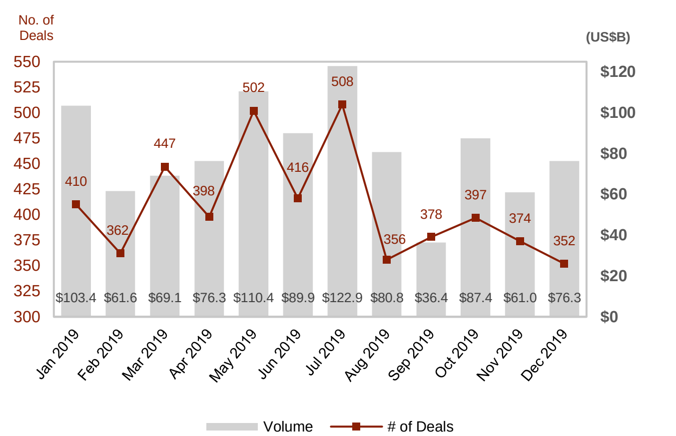
We continue to see similar trends in M&A, as funds continue to deploy record levels of dry powder amidst a competitive market for targets and mixed market for exits. Funds continue to adjust investment strategies, by, for example, buying smaller companies or deploying "buy and build" strategies. GP stakes deals (which we discussed in our April and June 2019 editions) also spur diversification by allowing firms to implement new strategies more quickly, and allowing target firms to plan for leadership succession or access more capital for future growth.

U.S. Sponsor-Backed Exits by Dollar Volume



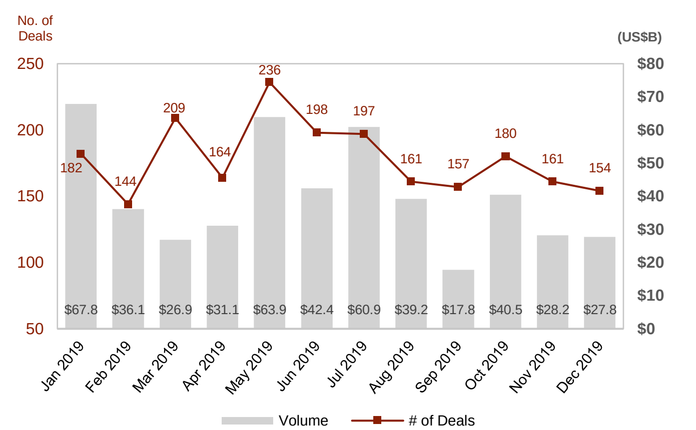
Source: Pitchbook

Global Sponsor-Related M&A Activity



Source: Cortex

U.S. Sponsor-Related M&A Activity



Source: Cortex

Each metric in this publication that references deal volume by dollar value is calculated from the subset of the total number of deals that includes a disclosed deal value

Uncertainty over Geopolitical and Macroeconomic Conditions in 2020 is the New Normal

Anxiously anticipated political events, such as Brexit and the tariff war, did not play out their worst case scenarios in 2019. While some reports indicate the investors intend to commit less fresh capital to PE funds, citing economic and policy trends in the U.S. and globally, other reports point towards continued buoyancy in the PE and M&A markets. However, PE firms appear to have adapted to an uncertain political outlook and negative predictions for the financial sector without reducing leverage or pushing down asset prices.

Nevertheless, 2020 is an election year, and the upcoming presidential vote has led to increased scrutiny of the PE sector.[7] If Democratic candidates win the White House or additional seats in Congress, there may be a change in how merger review and bank regulation, for example, are implemented, not to mention possible momentum towards additional regulation of the PE industry. We will report on these and any other developments in following issues.

---

1 Melissa Karsh and Benjamin Robertson, January 2, 2020, "Private Equity Is Starting 2020 With More Cash Than Ever Before," *Bloomberg*.

2 Unless otherwise indicated, fundraising and exit data is from Pitchbook.

3 Unless otherwise indicated, M&A data is from Cortex.

4 Dealogic, as of January 10, 2020.

5 Robin Wigglesworth, November 19, 2019, "Investors Pay up to Join the Private Equity Rush," *the Financial Times*.

6 Lindsay Fortado and Laurence Fletcher, December 27, 2019, "Hedge Funds Record Best Year Since 2013 but Still Trail Market," *Financial Times*; Kate Rooney, January 3, 2020, "Private Equity's Record $1.5 Trillion Case Pile Comes with a New Set of Challenges," *CNBC*.

7 *See*, *e.g.*, Eliza Haverstock, November 19, 2019, "4 Key Takeaways from Congress' Private Equity Hearing."

This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues addressed in this memorandum should be directed to:

Matthew W. Abbott
+1-212-373-3402
Email

Angelo Bonvino
+1-212-373-3570
Email

Marco V. Masotti
+1-212-373-3034
Email

Robert B. Schumer
+1-212-373-3097
Email

Sarah Stasny
+1-212-373-3266
Email

Taurie M. Zeitzer
+1-212-373-3353
Email

Counsel Frances F. Mi, associates David Styles and Diana Windrim and law clerks John Crain and Alexia Yang contributed to this publication.

Our M&A Group

The Paul, Weiss M&A Group consists of more than 35 partners and over 125 counsel and associates based in New York, Washington, Wilmington, London, Toronto, Tokyo, Hong Kong and Beijing. The firm's Corporate Department consists of more than 60 partners and over 300 counsel and associates.

Our M&A Partners

Matthew W. Abbott	Neil Goldman	Carl L. Reisner	Michael Vogel
Edward T. Ackerman	Bruce A. Gutenplan	Justin Rosenberg	Ramy J. Wahbeh
Scott A. Barshay	David K. Lakhdhir	Kenneth M. Schneider	Steven J. Williams
Angelo Bonvino	John E. Lange	Robert B. Schumer	Betty Yap
Ellen N. Ching	Brian C. Lavin	John M. Scott	Kaye N. Yoshino
Rachael G. Coffey	Xiaoyu Greg Liu	Brian Scrivani	Tong Yu
Ariel J. Deckelbaum	Jeffrey D. Marell	Kyle T. Seifried	Taurie M. Zeitzer
Ross A. Fieldston	Alvaro Membrillera	Sarah Stasny	
Brian P. Finnegan	Judie Ng Shortell	Tarun M. Stewart	
Adam M. Givertz	Kelley D. Parker	Laura C. Turano	