PitchBook

US PE BREAKDOWN

2015 ANNUAL

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DEAL FLOW, CAPITAL INVESTED BOTH UP IN 2014, DESPITE MULTIPLES

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Introduction

2014 was another big year for private equity (PE). Deal activity, by both volume and value, was historically high despite expensive valuations and strong competition from strategic buyers. PE firms, with record levels of dry powder available, are generally optimistic about the U.S. economy. Perhaps the biggest storyline of 2014 was cheap and abundant credit. Liquidity flowed into all corners of the market, particularly the middle market. In some cases, lenders were known to be the aggressors in pushing deals. The consensus expectation seems to be "more of the same" heading into 2015, notwithstanding a big bump in interest rates.

For many, 2014 was a year of cautious optimism, but some worry that the PE market is approaching euphoric levels. A recent headline in the *Wall Street Journal*, "Investors Fear Industry is at 'Top of the Cycle,'" captured that concern. But those most exposed to a PE downturn, limited partners (LPs), are doubling down on the asset class. Another $189 billion was raised in 2014 through 283 funds, both historically high numbers. PE has become a preferred asset class among LPs, and the best fund managers were hot commodities in 2014, to say the least. 90% of funds that closed last year matched or beat their targets, and more than a few hard caps were revised upward to accommodate demand. The most popular funds were able to wrap up fundraising quickly, sometimes in as little as three or four months. In some cases LPs were turned away altogether, or were forced to make smaller commitments than planned.

> The consensus seems to be "more of the same" in 2015.

It's easy to see why LPs are clamoring to invest; GPs posted another big year of exits — a combined $241 billion through 904 liquidity events. All three major exit routes — corporate acquisitions, secondary buyouts (SBOs) and initial public offerings (IPOs) — were robust in 2014. PE sponsors took 69 portfolio companies public, and the yield-hungry stock markets greeted those IPOs with several first-day pops. SBOs and strategic sales were also strong, aided largely by aggressive buy-side sentiment. In fact, three of the largest exits in 2014 were SBOs, and all three of those companies were held for about three years each, hardly aging investments.

"Given current market conditions, we expect another strong year for exit activity, and in tandem another strong year for deals and fundraising," says Richard Martin, Senior Director at Merrill DataSite.

We hope the information and data in this report are useful and help inform your decision-making process in the coming quarters. As always, if you have any questions, comments or suggestions, please contact us at research@pitchbook.com.

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Richard Martin

Sr. Director, Merrill DataSite®

Richard A. Martin, Jr. is a Senior Director at Merrill Corporation, responsible for Merrill DataSite's global marketing group. His 18 years of marketing experience working and residing in the US, UK and Europe has developed Martin's understanding of disparate business cultures and the global financial industry, evidenced by a successful record of growing businesses.

Martin currently works closely with financial professionals to provide first class virtual data room (VDR) solutions for their transaction and due diligence needs. Prior to joining Merrill, Martin led the hedge fund marketing strategy group at Morgan Stanley Capital International and the global equity product strategy group at Reuters International, London. He received his B.A. from Dartmouth College, a marketing certificate from the University of Michigan Business School and currently resides in New York City with his wife and children.

Q: 2014 was another big year for deal-making, exits and fundraising. What are your two or three big takeaways from the past year?

A: As the numbers proved, 2014 was a very successful year for private equity in the United States. But what stands out to me most was the intensity of competition in the middle markets (transactions between $25 million - $1 billion). Whereas the number of mega-deals was limited in 2014, the collective volume of middle market transactions made up for the lack of individual size. Middle market deal activity wasn't relegated to middle market private equity firms – firms that have historically concentrated their efforts on larger transactions, have also become extremely active in the middle markets. The consequence of this shift is that the middle markets have become increasingly competitive, which caused it to be a sellers' market in 2014. It has also made it increasingly difficult for smaller private equity firms to compete effectively.

Another important observation coming out of 2014 was that M&A activity skewed towards PE sponsor to PE buyer transactions. The fact that a tremendous amount of capital remains un-deployed drove a precipitous increase in secondary buyouts as well as frothy valuations. The other driver of robust private equity activity was the availability of low-cost debt and the abundance of dry powder. If a private equity firm wasn't the buyer, it was sure to be a corporate, as strategic buyers paid over $150 billion for private equity-owned companies in 2014.

How do you see the first half of 2015 shaping up, from a deal-making perspective?

For the first half of 2015 we expect to see much of the same – strong middle market transaction activity fueled by eager, well-capitalized private equity buyers. While we expect to see some mega-deals play out during the year, the majority of private equity activity is expected to come from the middle markets.

A few words of caution: potential interest rates increases during 2015 could put a damper on private equity deal activity. Higher costs of capital could also result in lower company valuations. And, a market correction could impede momentum in deal activity. In spite of these potential challenges, we remain bullish and predict that 2015 will yield plenty of opportunities for private equity investors.

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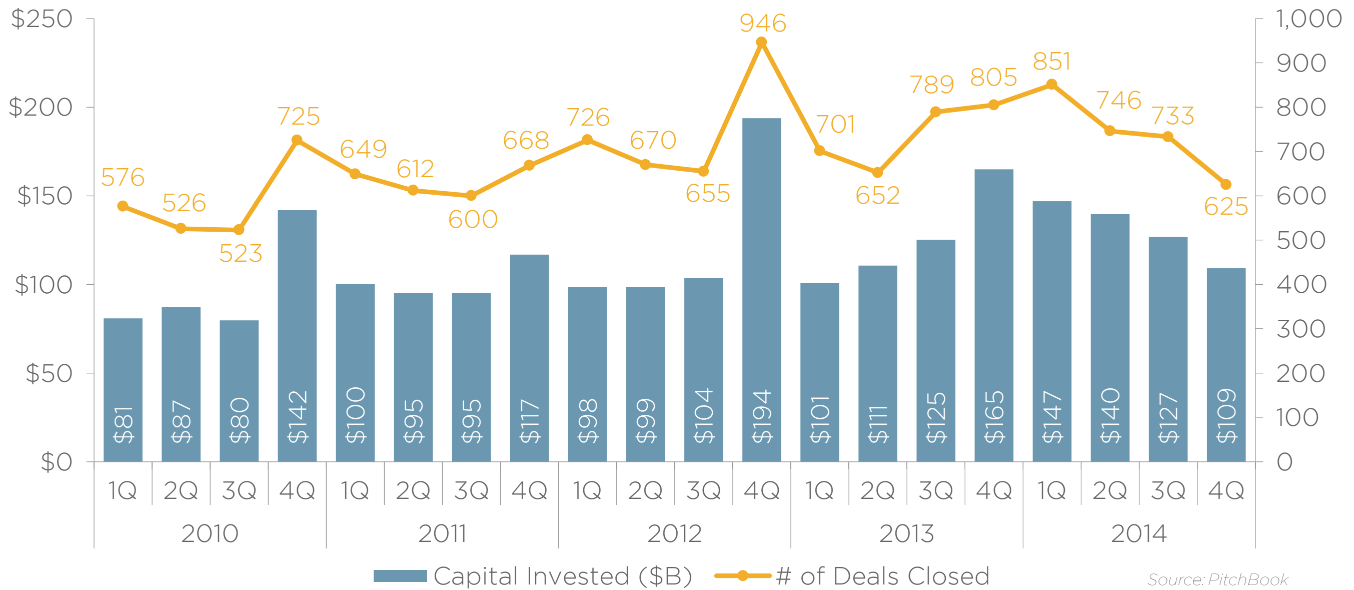
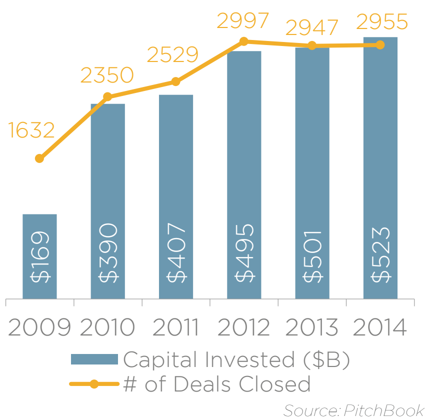
Overview

U.S. PE DEAL FLOW BY QUARTER



2014 closed with a whimper, with 625 deals worth a combined $109 billion.

U.S. PE DEAL FLOW BY YEAR



2,955 U.S.-based PE investments closed last year totaling $522.6 billion in value. Final counts were in line compared to 2013 (2,947), though the value of those deals surpassed last year's aggregate ($501.5 billion). The capital invested figure says quite a bit about today's market; capital invested in 2014 wasn't inflated by a handful of huge buyouts, and was instead bolstered by high valuations spread across hundreds of smaller investments. Typically, at least a few mega-deals of at least $10 billion will close. In 2013 it was Dell and Heinz, at $24.9 billion and $23 billion, respectively. The biggest deal that closed this year, the $5.4 billion SBO of Gates Global, was about one-fifth as big. Most mega-deals are originated in the stock market, but with share prices as high as they were in 2014, large take-privates all but disappeared. According to some observers, today's stock prices reflect better company performance; listed companies are both expensive to buy today and have less room for improvements than prior years. PE firms had little choice but to shun mega-deals.

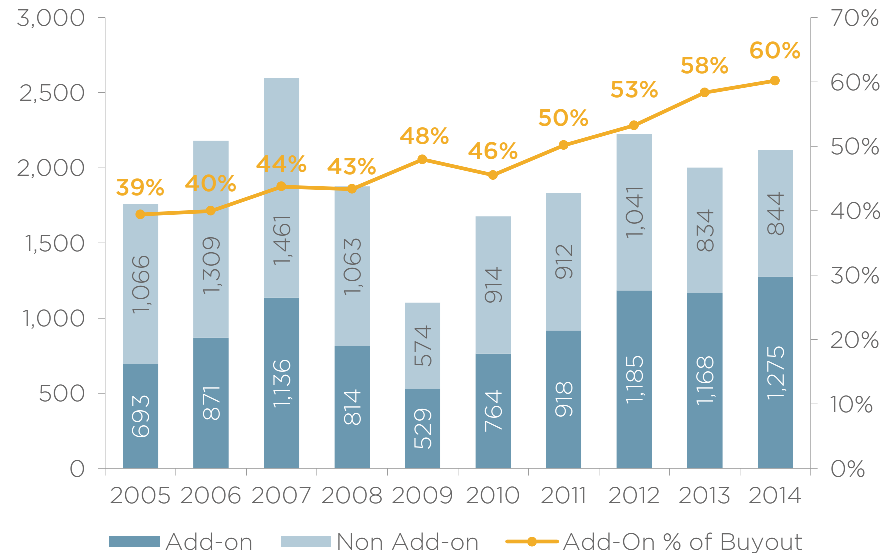
In lieu of mega-deals, PE firms migrated to the middle market. Even big firms like Carlyle and TPG did more small deals in 2014, and they expect to keep exploring the middle market in the near-medium term. Activity in the middle market increased last year, with deals in the $100 million to $1 billion range in particular rising 58% over 2013 levels by total value. Lenders have also migrated toward smaller deals, which

Overview

bodes well for activity in 2015. The middle market is home to more opportunities today, at least compared to the upper end of the market, where valuations and competition have priced out many investors. We anticipate another strong year for middle-market activity in 2015, as conditions aren't expected to change substantially.

Investors and lenders alike have migrated to the middle market.

BUYOUTS: ADD-ONS VS. NON ADD-ONS

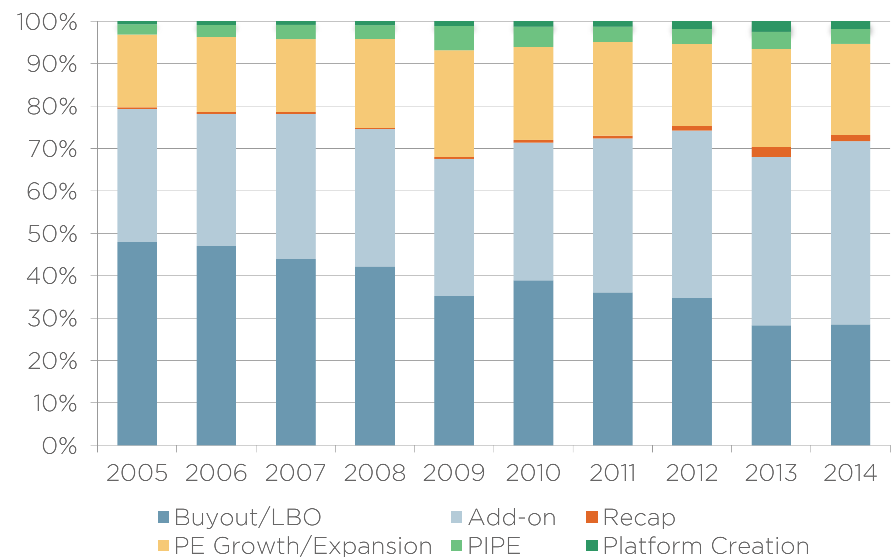


Source: PitchBook

The "new normal" has normalized

We've discussed in prior reports the increase in add-on and minority deals compared to platform buyouts. PE firms have adopted the buy-and-build strategy in a big way, with add-ons comprising 60% of all control investments in 2014, up from 40% in 2006. Minority deals have also increased; 636 growth/minority investments were made in 2014 versus 491 in 2006, an otherwise frenzied year of overall PE activity. Today's market conditions require investors to creatively deploy capital, but the change in strategy is rooted deeper than that. Add-ons and non-control investments are likely here to stay, given the evolution of the PE industry since the financial crisis. PE firms are more specialized and focused today, and can justify buy-and-build and minority investments because of their better understanding of the markets involved, and their role in adding value to their investments. PE firms no longer need total control over a company, and in many cases only need a seat at the table to help improve the business.

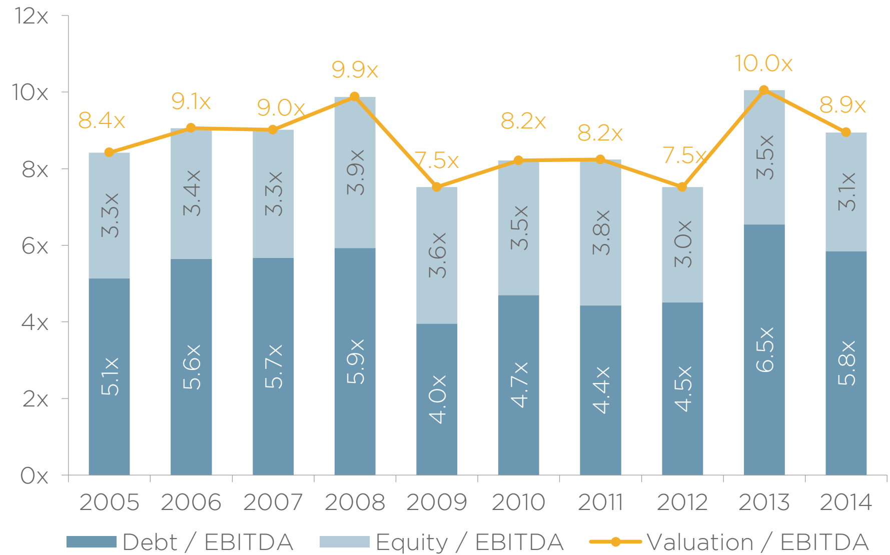
INVESTMENTS BY DEAL TYPE



Source: PitchBook

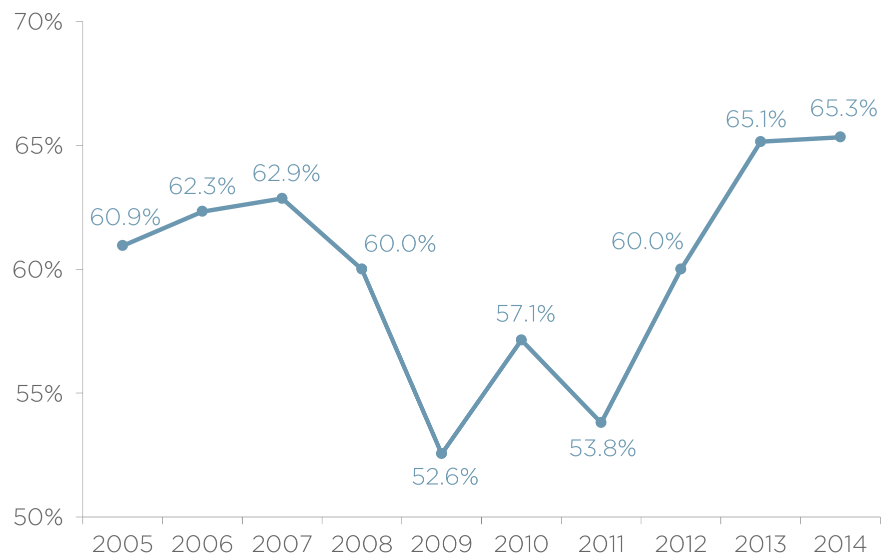
Deal Multiples & Debt Levels

MEDIAN EBITDA MULTIPLES FOR BUYOUTS



Source: PitchBook

MEDIAN DEBT PERCENTAGES FOR BUYOUTS



Source: PitchBook

The median purchase price multiple for buyouts was 8.9x in 2014. The debt component was 5.8x, down from 6.5x in 2013, while equity comprised a median of 3.1x in the 2014 capital structure. As a data point, multiples are hard to quantify and should be taken with a grain of salt, especially since different segments of the market will command different multiples — think distressed B2B companies versus high-flying software providers. In many cases it's apples and oranges.

High valuations have been blamed for dampened deal flow; investors have had to maintain discipline, sometimes staying on the sidelines altogether. For the deals that were made, debt was heavily utilized. The median debt percentage for 2014 buyouts was 65.3%, up from 65.1% in 2013 and 53.8% in 2011. Cheap credit has allowed investors to justify bigger bids — according to several industry players, valuations haven't been overly burdensome on investors, except at the top end of the market. In the middle market especially, the debt market is wide open, allowing investors to stretch bids and stay competitive in an active environment. And as we've noted in previous Deal Multiples & Trends reports, a larger portion of the average capital structure is being financed by senior debt instead of mezzanine or second-lien debt.

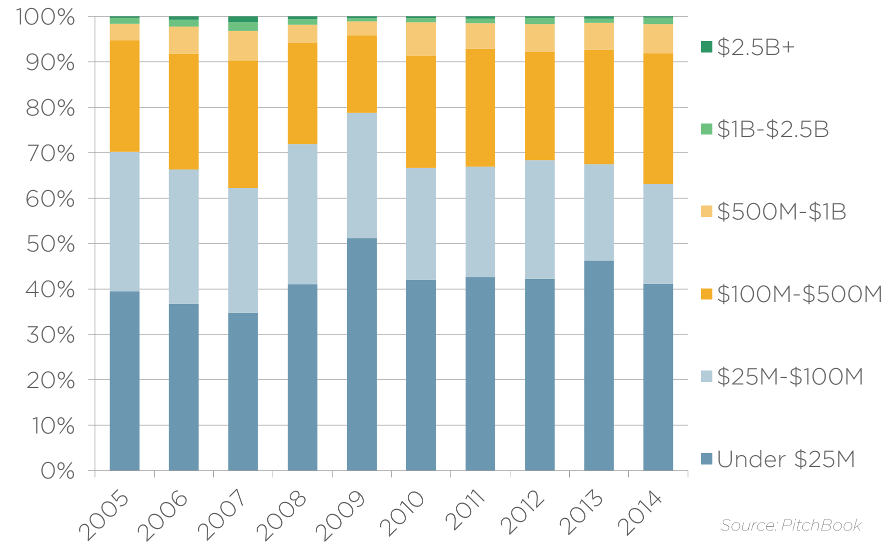
Many of the PE professionals we've talked to expect current conditions to stick around for a while. One executive analogized today's multiples to the parable about the frog in boiling water: Investors are more comfortable with today's high prices than they would have been in 2010 and have adjusted accordingly. Combining that comfort level with buy-side optimism, strong competition and steep dry powder levels, it's hard to imagine valuations depressing much over the next few quarters.

Investment by Deal Size

» As mentioned, investors have shifted their focus away from multi-billion-dollar deals and focused instead on smaller, middle-market deals, defined here as transactions valued between $25 million and $1 billion. When comparing deal activity by size buckets, annual counts don't usually vary much year-to-year, but in 2014 the change was visible, especially in the $100 million-$500 million range. 853 such transactions closed in 2014, a 15% increase over 2013 (743). Overall activity rose less than 0.1% in the same span. Moreover, the $100 million-$500 million range accounted for 28.9% of overall activity by count, up substantially from 25.2%. Not all middle markets are created equal, however; the lower middle market ($25 million-$100 million) saw it's share of activity rise from 21.2% last year to 22.0%, and the upper middle market ($500 million to $1 billion) inched up by half a percent, 5.9% to 6.4%.

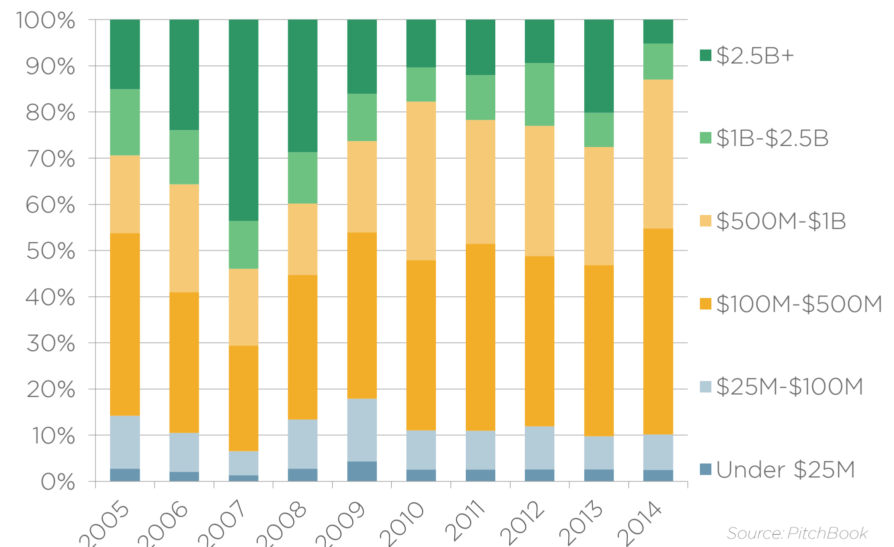
Deal counts subsided in the $2.5 billion+ bucket. Only eight deals over that mark were completed in 2014, down from 14 in 2013 and nine in 2012. As a percentage of capital invested, $2.5 billion+ deals accounted for just 6% of 2014 value, down from 20% the prior year. For context, $2.5 billion+ deals represented nearly half of total capital invested in 2007 (44%), a staggering ratio. Today's valuations and more scrutinized debt restrictions for large lenders have severely dampened activity at the upper end of the market.

DEAL COUNT BY DEAL SIZE



Big buyouts ($2.5B+) all but disappeared in 2014, especially take-privates.

CAPITAL INVESTED ($) BY DEAL SIZE



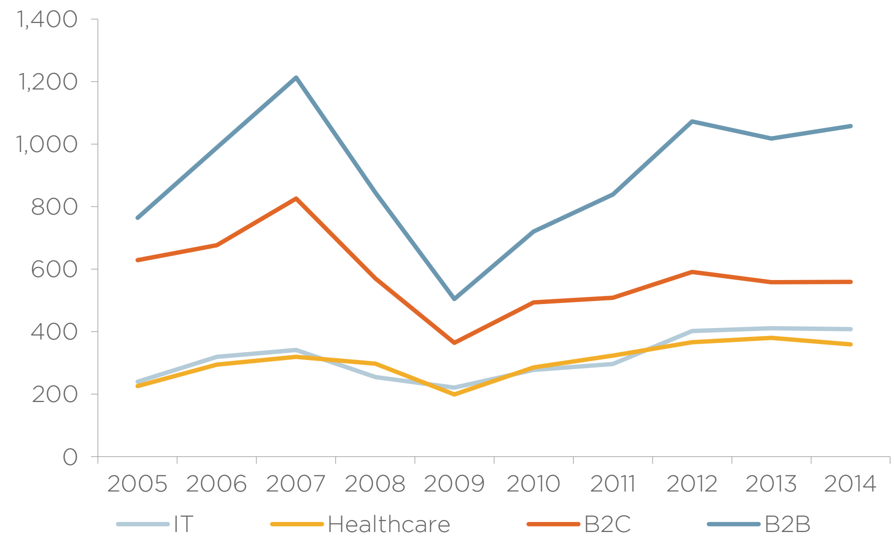
Investment by Industry

By sector, PE activity can change dramatically from year to year, especially by value but sometimes by count, as well. In the case of B2B, both went up noticeably in 2014, with deal count increasing a relatively strong 4% and value increasing by 61%. In all, the U.S. B2B sector took in $184.4 billion of PE capital in 2014, the highest single-sector total since 2007. PE firms have flocked to the industry recently, as B2B companies are performing well in terms of operations and revenue, and the industry has stabilized impressively since the recession.

B2C companies received $95.2 billion in 2014, down from the Heinz-inflated $107.9 billion in 2013. The past year marked the industry's third consecutive year above $90 billion in capital invested, a healthy increase from less than $70 billion as recently as 2011. Likewise, the healthcare sector was buoyant; $69.9 billion was invested in 2014, a big incline from $50.4 billion last year and $43.4 billion in 2010, when the ACA was passed. PE firms have become more comfortable with new U.S. healthcare regulations and have gone to work investing, consolidating sub-segments like urgent care centers and pain management servicers. For healthcare, 2014 was the second-biggest year for capital invested on record, behind only the $74.1 billion invested in 2007.

The IT industry was capitalized to the tune of $64.5 billion in 2014. That's down from $99.7 billion in 2013, which was boosted by the $24.9 billion Dell buyout. Taking out Dell, the past three years have seen between $65 billion and $75 billion invested per year in the IT industry.

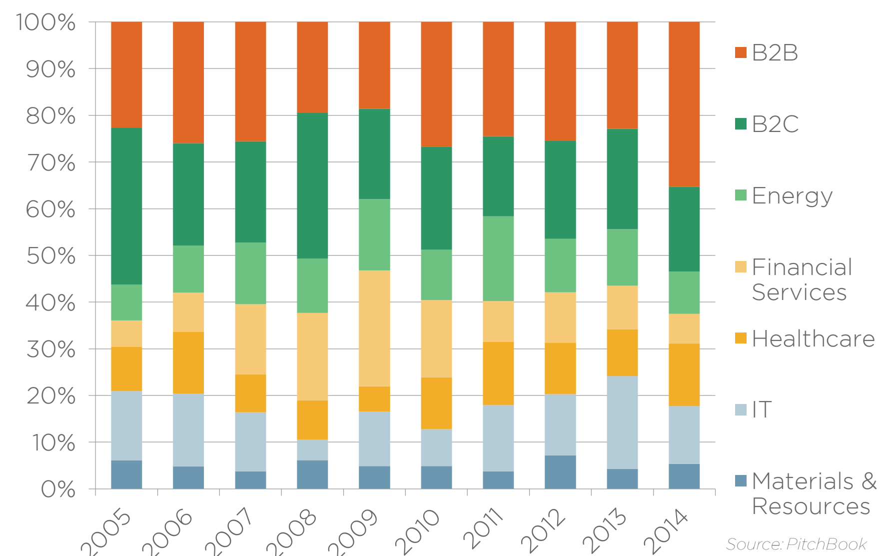
DEAL COUNT BY INDUSTRY



Source: PitchBook

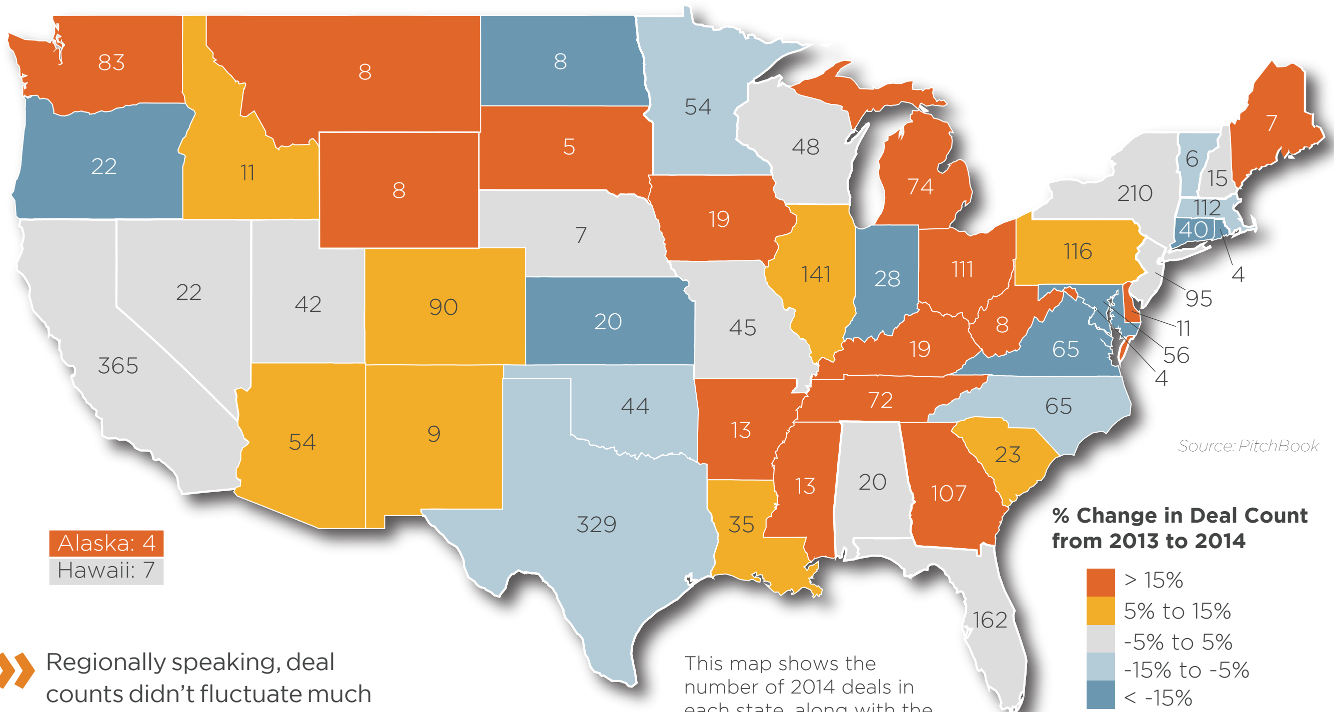
The $184 billion invested in B2B in 2014 was the highest single-sector total since 2007.

CAPITAL INVESTED ($) BY INDUSTRY



Source: PitchBook

Investments by Region

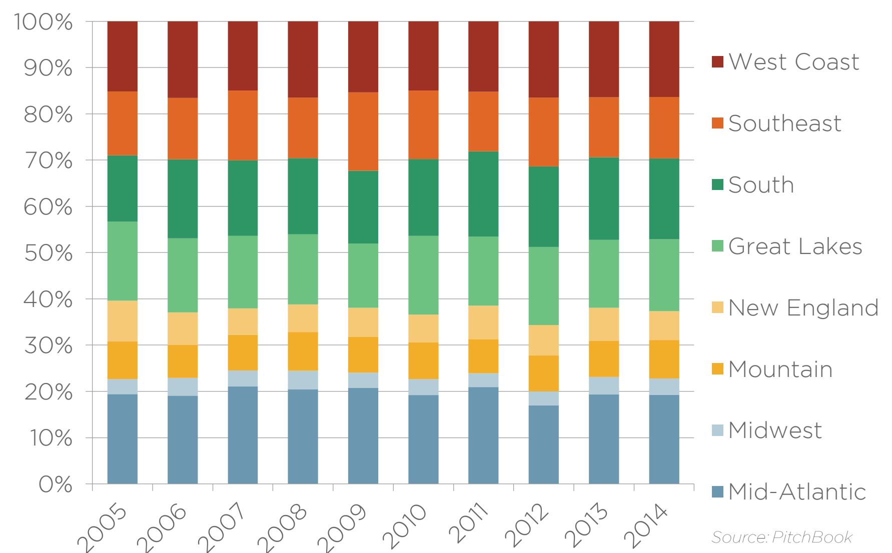


This map shows the number of 2014 deals in each state, along with the % change range (color bar to the right) in deal count from 2013 to 2014.

» Regionally speaking, deal counts didn't fluctuate much between 2013 and 2014. The West Coast and Mid-Atlantic regions both recorded nearly identical totals compared to 2013, while the South and Southeastern regions deviated about 2.5% each. The region that saw the biggest percentage decline in deal flow was New England, which dipped about 10% from 2013. The Midwest also experienced a noticeable decline of 6.3%. The two biggest regional winners in 2014 were the Mountain and Great Lakes regions, up 6% each in 2014.

It's interesting to compare regional activity during good and bad years. Certain regions got more attention during the downturn in 2009, at least compared to the rest of the country – the Southeast, for instance, received 17% of overall activity by count in 2009, though that percentage whittled back down to 13% in 2014, the same percentage it received in 2006.

INVESTMENTS (#) BY REGION



Carl Marcellino

Carl Marcellino's practice focuses on representing private equity funds and their portfolio companies in a wide range of transactions and corporate matters. He has broad experience representing clients in mergers and acquisitions, leveraged buyouts, leveraged recapitalizations, preferred equity investments, PIPE investments, subordinated debt financings and securities offerings. In addition, Marcellino devotes a significant portion of his time to representing public and private companies in connection with the formation of strategic joint ventures, securities law compliance, governance, and other general corporate matters. He represents private equity sponsors such as Bain Capital, Fenway Partners, TPG Growth (TPG Capital's investment platform for early stage and growth investments) and Welsh, Carson, Anderson & Stowe. He also represents a number of smaller venture capital funds.

Q+A Carl Marcellino
Partner, Ropes & Gray

With 2014 in the books, PitchBook got in touch with Carl Marcellino, a partner in Ropes & Gray's New York office, to discuss trends in the PE industry and get his thoughts and deal-making in early 2015. Here's what he had to say.

Q: How do you see the first half of 2015 shaping up? Do you see any signs of a slowdown in deal flow? Or valuations, for that matter?

A: 2015 looks very good right now. We're not seeing a slowdown at all. Valuations remain high, and the capital markets remain active. We've actually seen an uptick in the number of new matters that have started up in December, anticipating a first quarter close. Often at the end of the year, we see clients attempting to push everything into the end of the year, and January is really just about the deals that missed that timeline. Interestingly enough, this year, we're seeing a number of companies beginning their sales process now (and therefore activity on the buyside and sellside), as well as a number of businesses beginning their IPO process. Given that, 2015 looks very good in terms of activity, at least for the first few months.

What are your thoughts on the lack of activity in the upper end of the market, particularly with so much dry powder available? And do you anticipate a comeback of sorts in 2015?

While mega-deals may resurface at some point, we do think there are a number of factors that will prevent them from ever coming back with the same frequency as seen before the downturn. There haven't been many mega-buyouts or go-privates this year across the market, and there are a number of reasons for that, which aren't necessarily private equity specific. Larger deals are struggling due to high valuations and the recent restrictions from the Fed on debt levels. An increased amount of debt is needed to fuel buyouts at valuations being sought now, and the result is that fewer mega-deals are getting done. Within PE, we have seen certain limited partners push back on such deals, as they require many firms to partner in a "club," which can dilute an individual sponsor's control (if it's a small member of a large club, or one of three or four large members) and increase risk for the LPs. As a result, while deals may come back, we think another seven-sponsor deal like SunGard is unlikely to occur with any frequency, and we believe even smaller club deals will occur only in limited instances.

What are your thoughts on today's PE strategies, and do you think these are fundamental changes in strategy, or temporary reactions to the current deal-making environment?

We've definitely seen an increase in PE firms pursuing smaller deals and taking minority interests in deals. This seems more about finding creative ways to deploy capital in a market where valuations remain high and club deals are discouraged. The increase in minority deals is a particularly interesting development. It's opening the door to investments in businesses that typically wouldn't be looking for PE investments, but companies (and the advisors they engage to find capital) are beginning to see the benefits of private equity investors being part of the capital structure. >>

>> To read the full interview, which includes a discussion on middle market deal-making, click here. >>

Exits Overview

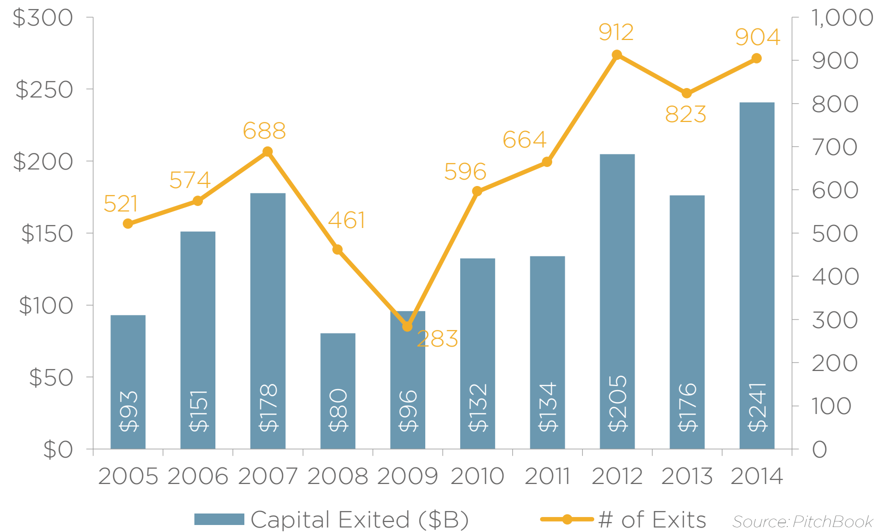
2014 was another banner year for sellers. 904 exits were completed, the second-highest tally of the decade, totaling $240.9 billion of capital exited. That topped the $204.8 billion recorded in 2012, with 2014 being the most bountiful year for sellers in a decade. A trio of factors produced this historic selling environment: strong public markets, strategic acquirers hungry for acquisitive growth and PE firms' eagerness to empty aging portfolios and acquire worthwhile targets in a difficult deal-making environment.

High valuations across the industry contributed to a slowdown in deal-making toward the end of 2014, yet they also produced rich rewards for sellers. Looking to unload the swathe of portfolio companies amassed during the buyout boom of 2005-2008, PE firms found corporate acquirers willing to dig into their cash hoards to snap up PE-backed companies, even at hefty purchase prices. Another popular exit ramp was the welcoming (and yield-hungry) public markets; although the number of companies taken public fluctuated sizably quarter to quarter, PE backers still bet on public markets proving kinder than private markets, completing a near record number of IPOs.

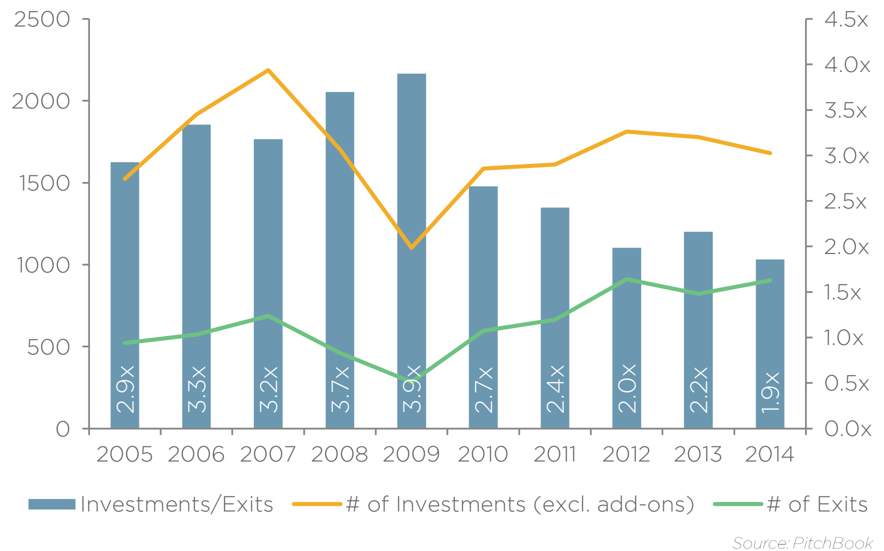
One trend likely attributable to the rise in valuations was the increase in SBOs. 2014 narrowly beat 2012 for the most completed SBOs of the past decade, and the rise in valuations coupled with graying portfolios suggests a possible reason why: As PE firms looked to feed money back to LPs and quality targets became increasingly rare, they turned to other PE firms as potential buyers. Total capital exited through SBOs, however, was less than the tallies of both 2012 and 2007. Compared to strategic sales, the $63 billion in capital exited through SBOs was dwarfed by the $153 billion corporate acquirers shelled out for PE-backed companies.

Among the portfolio companies snatched up by strategic acquirers, most were in the B2B industry, which enjoyed its most active year of the past decade. Energy, on the other hand, decreased; even PE firms had a hard time selling energy companies, as the space was subject to fluctuating factors like the increase in U.S. oil & gas production. By and large, other industries saw the same levels of exit activity, although the increase in valuations resulted in sizable increases in capital exited across most industries.

U.S. EXIT FLOW BY YEAR



U.S. INVESTMENTS TO EXITS RATIO

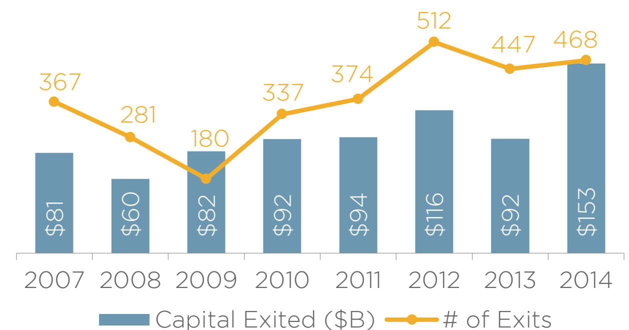


Exits by Type

CORPORATE ACQUISITIONS

Strategic buyers shelled out a record $153 billion for PE-backed companies in 2014. With U.S. corporate savings rates still high as of late, strategics had plenty of cash to dole out for PE portfolio companies, turning to M&A as a source of growth, often in lieu of traditional R&D expenditures. Although the number of corporate acquisitions fell below 2012 counts, the 468 recorded in 2014 was still the second highest of the decade, and slightly above 2013's tally. That slightly shrunken number, as well as the burgeoning number of SBOs, led to the transaction type's share of overall exit activity dropping to its lowest level in seven years, at just over half.

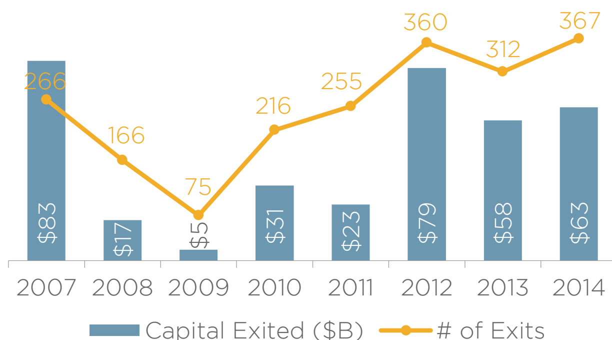
ACQUISITION EXITS BY YEAR



Source: PitchBook

SECONDARY BUYOUTS

SBO EXITS BY YEAR



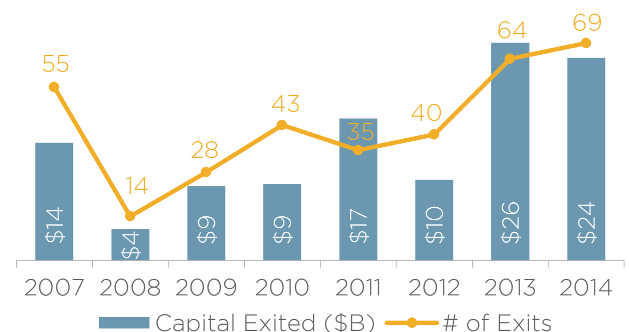
Source: PitchBook

With SBOs reaching a decade high in 2014, it's unsurprising that the sum of capital exited was the third highest of the decade, given the depressing factor of the industry-wide rise in valuations. What's more, the quarterly fluctuation in SBO volume remained low throughout the year, suggesting sponsor-to-sponsor deals were a consistently popular exit route in the competitive market. Notably, three of the largest deals this year were SBOs: Gates' $5.4 billion sale to Blackstone, Carlyle's $5 billion purchase of Acosta, and MultiPlan's $4.4 billion acquisition by Starr Investment and Partners Group. In a year of heightened valuations, it appears PE firms felt safest doling out the largest sums to each other.

IPOs

Of total IPOs in 2014, PE firms backed 8%, sustaining the same share observed in 2013 by taking 69 companies public. However, PE's share of total IPO proceeds shrunk from a high of 15% in 2013 to 10% last year, while the number of companies that debuted below their target jumped from 21% to 27%. In their attempt to capitalize on the activity in public markets, PE firms may have taken companies that weren't quite ready for primetime public. However, a majority of companies did hit their target, and the $24 billion in capital exited through IPOs was a near-historic high. Furthermore, if public market activity stays strong, PE firms could reap additional rewards through secondary sales.

IPO EXITS BY YEAR



Source: PitchBook

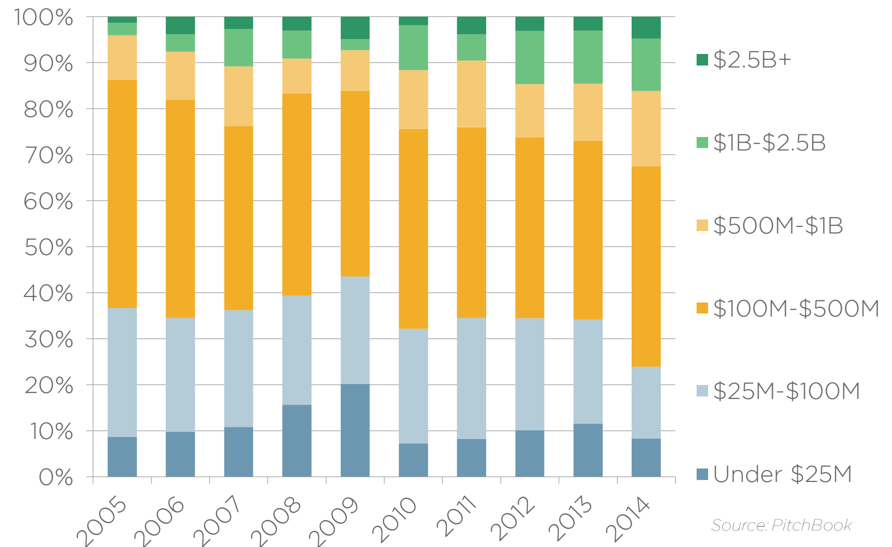
Exits by Size

Deals worth $1 billion or more in size accounted for over 60% of all capital exited in 2014, the second highest percentage of the decade. Given that the highest percentage occurred in 2009, a low point for exits by both count and value, that year's tally is more of a statistical quirk, leaving 2014 as a high-water mark among normal years. In particular, the 19 exits worth $2.5 billion+ recorded in 2014 accounted for a huge $79.1 billion, nearly double 2013's tally and easily eclipsing 2006's $72.6 billion; by count, those 19 $2.5 billion+ exits represent a sizable jump in count from the decade's previous high in 2012 (13). In fact, there were as many exits worth $1 billion+ in 2014 (64) than in 2006 and 2007 combined.

This swell in billion-dollar-plus sales was presaged by hefty figures in 2012 and 2013, and contributed to a gradual decline in the percentage of capital reaped from exits in lower size ranges. The current $1 billion+ selloff is largely a matter of timing, as the record-setting investments made in 2005-2007 are bumping up against their expiration dates.

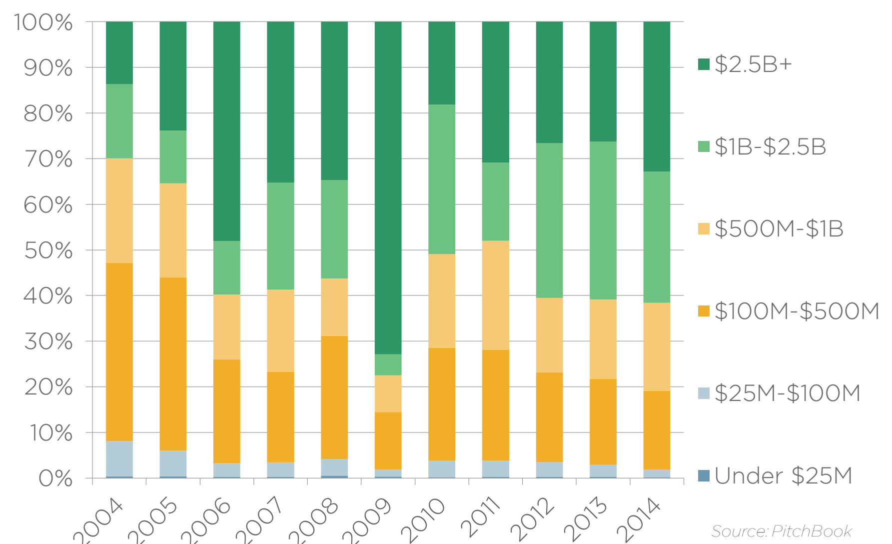
The $100 million-$500 million range still accounts for the most exits by count, with highs of 167 and 173 in 2012 and 2014, respectively. As for smaller sales ($25 million to $100 million), 2014 saw the fewest number since 2009, falling from a high of 103 in 2012 to just 62 last year. Sub-$25 million exits also decreased in frequency.

U.S. EXITS (#) BY SIZE



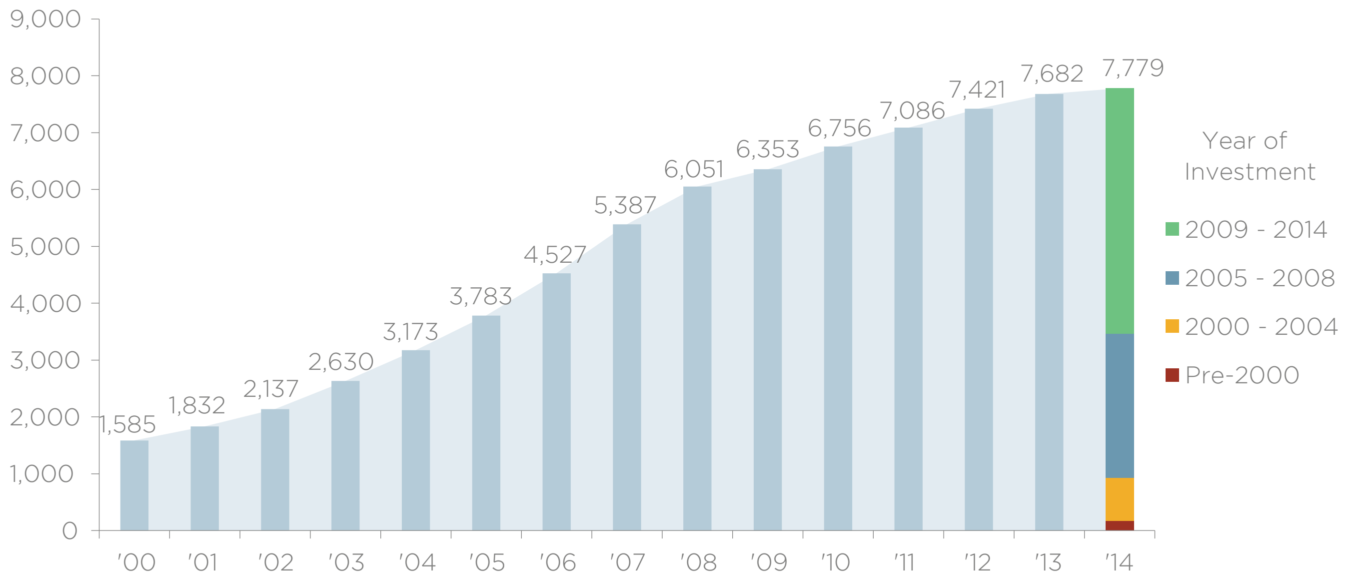
Exits valued at $1B+ are on the rise, thanks largely to boom-era investments hitting the market.

U.S. EXITS ($) BY SIZE



Company Inventory

INVENTORY OF CURRENTLY PE-BACKED U.S. COMPANIES



Source: PitchBook

From 2004 to 2008, U.S. PE company inventory rose steadily to crest at a little over 6,000 in 2008. The rate of increase grew more slowly thereafter, hitting 7,779 in 2014. A sizable portion of that 7,779 is composed of investments made in that initial time range of 2005 to 2008; the aging of this bucket is one of the key factors driving the near-record rates of exit activity, as PE firms seek to turn over their portfolios and return money to LPs by selling off their older portfolio companies.

In addition, the slacking of new investment activity since 2012, coupled with the increase in exit rates, has combined to produce a decade-low investment-to-exit ratio. In fact, 2014 recorded the second lowest number of new companies added to the U.S. PE inventory since 2005. In their quest to take advantage of rising valuations, PE firms are focusing on the sell side for now; another factor to consider is the increasing focus on platform building. As companies that are added on to existing platforms are not included in company inventory, and because 2014 saw record numbers of such deals in the U.S., investment activity with add-ons taken into account is not quite as low as it may appear. Rather, it reflects the much-discussed shift in PE investing toward growth creation, or buy-and-build. As minority and other, less-traditional deals grow in popularity, U.S. PE company inventory may not reflect PE investment activity on the whole, but it does speak to evolving PE strategies and market drivers.

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Fundraising Overview

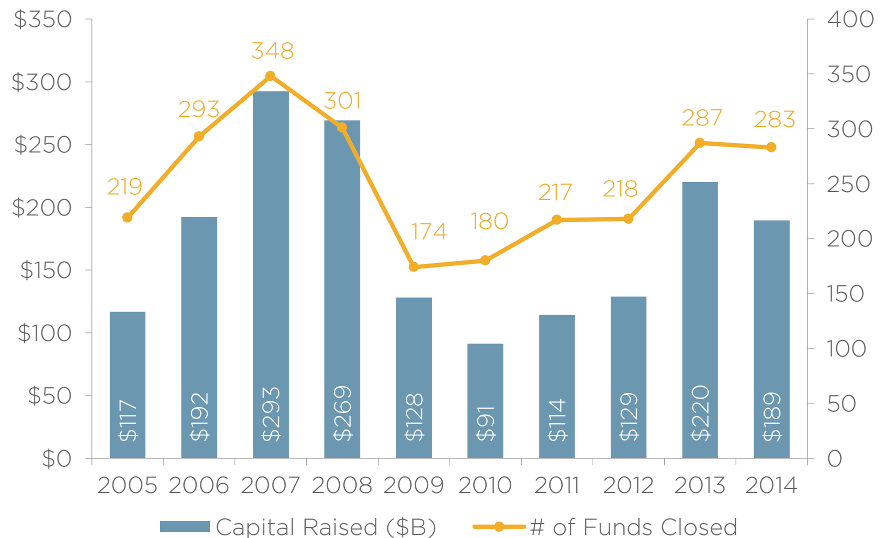
One year may be a fluke, but two years may make a trend, as PE firms in 2014 continued their strong fundraising streak from 2013. Last year saw 283 funds close on $189 billion in commitments—totals that were just slightly lower than a stellar 2013, which had the most funds and capital raised since 2008—with eight mega-funds of $5 billion or greater, such as Hellman & Friedman's eighth fund and the $7.3 billion Bain Capital Fund XI, leading the way.

It's not much of a surprise that the PE firms have found it easier to fundraise over the last two years. First off, while mega-funds have come back in a big way in 2013 and 2014, the number of vehicles to close with less than $100 million has more than doubled since a low of 51 in 2009 to 109 last year. Smaller funds have been easier to pitch to LPs since the financial crisis, and their proliferation has helped lead the way to record high percentages of PE funds hitting their targets. Closing times have also improved to a four-year best of 13.7 months.

The fundraising environment has also drastically improved since the depths of the financial crisis, as LPs have been willing to allocate money to private equity, and several of the largest PE firms haven't had too much difficulty closing their latest round of flagship funds. The 20 mega-funds that closed over 2013-2014 was the most over a two-year period since 2007-2008, when 26 funds closed with more than $5 billion in commitments.

The question now is whether this two-year trend will continue. There are both reasons to be optimistic and concerned. PE firms have received positive news from limited

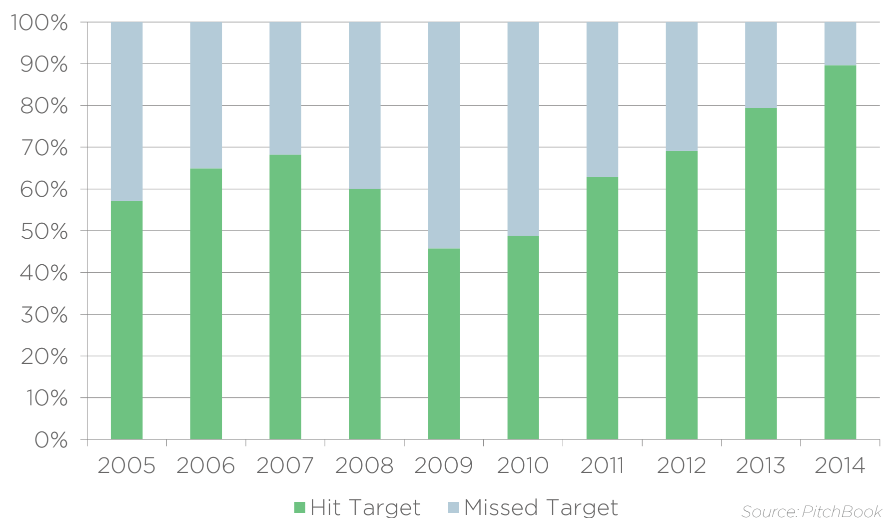
U.S. PE FUNDRAISING BY YEAR



Source: PitchBook

Making it look easy: 90% of PE fund closings hit their targets in 2014, up from 79% in 2013 and 69% in 2012.

% OF FUNDS THAT HIT FUNDRAISING TARGET



Source: PitchBook

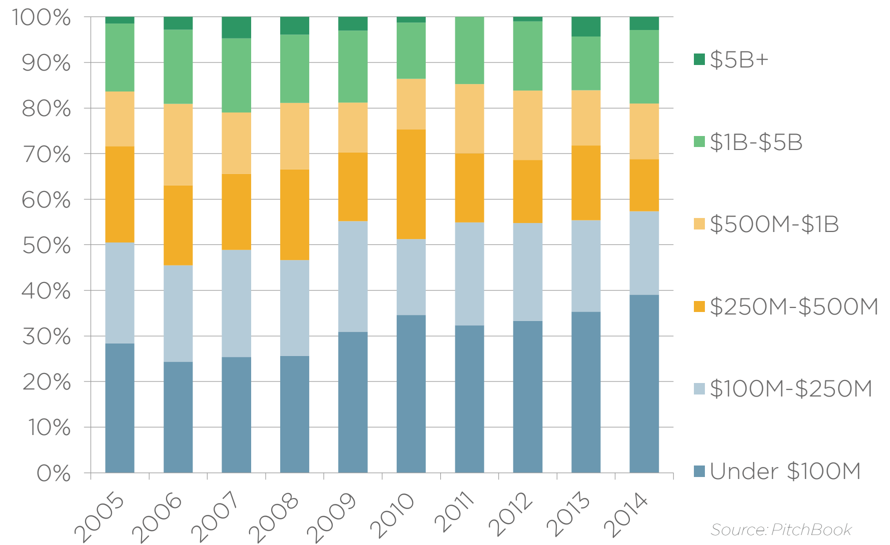
Fundraising Overview

partners, some of which have begun or plan to re-evaluate shifting away some of their allocations from hedge funds. CalPERS, which this year dropped hedge funds due to their "complexity, cost and the lack of ability to scale," is leading the way. Other LPs may follow suit, potentially freeing up additional money for private equity, one of the better performing asset classes historically. In addition, the U.S. economy has continued to exhibit strength, with the Commerce Department revising up their third quarter GDP growth estimate to 5%, the fastest in more than a decade.

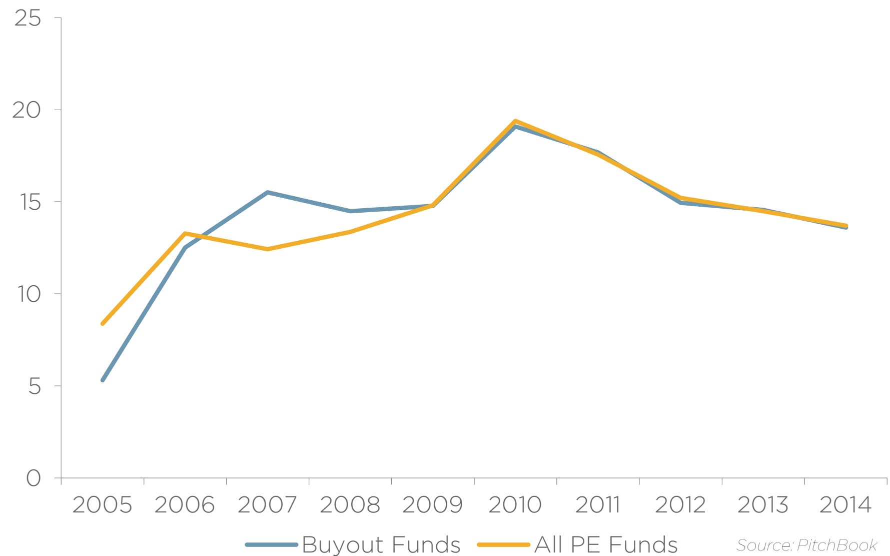
But one potential sign of a decline in fundraising is that there has actually already been a decline. PE fundraising totals dropped for the fourth consecutive quarter in 4Q 2014, even as capital raised remained relatively steady over the same period. This is largely because the number of smaller funds to close (less than $500 million) fell from 55 in 4Q 2013 to just 30 in the same period last year, still a respectable total, but a clear decline.

There's also a concern that too much LP money in private equity may end up being a bad thing. PE funds could end up with more commitments than they know what to do with, leaving GPs with three options if they can't find suitable deals: sit on the sidelines, invest in riskier or undesirable assets or invest outside of their focus. This may be why there has been strong growth in the $1 billion to $5 billion fund-size bucket (from 33 such funds in 2013 to 45 in 2014), where LPs may be more confident about their track records. It's also possible 2015 could see continued growth in this bucket. PitchBook is currently tracking 64 open or upcoming funds that are targeting between $1 billion and $5 billion, including some from successful middle-market players such as Golden Gate Capital, Thomas H. Lee and Madison Dearborn. By comparison, there are 10 open funds targeting more than $5 billion, with two "core" private equity funds from Blackstone and Carlyle attempting a more long-term strategy new to the high end of the PE industry.

U.S. PE FUNDRAISING (#) BY SIZE

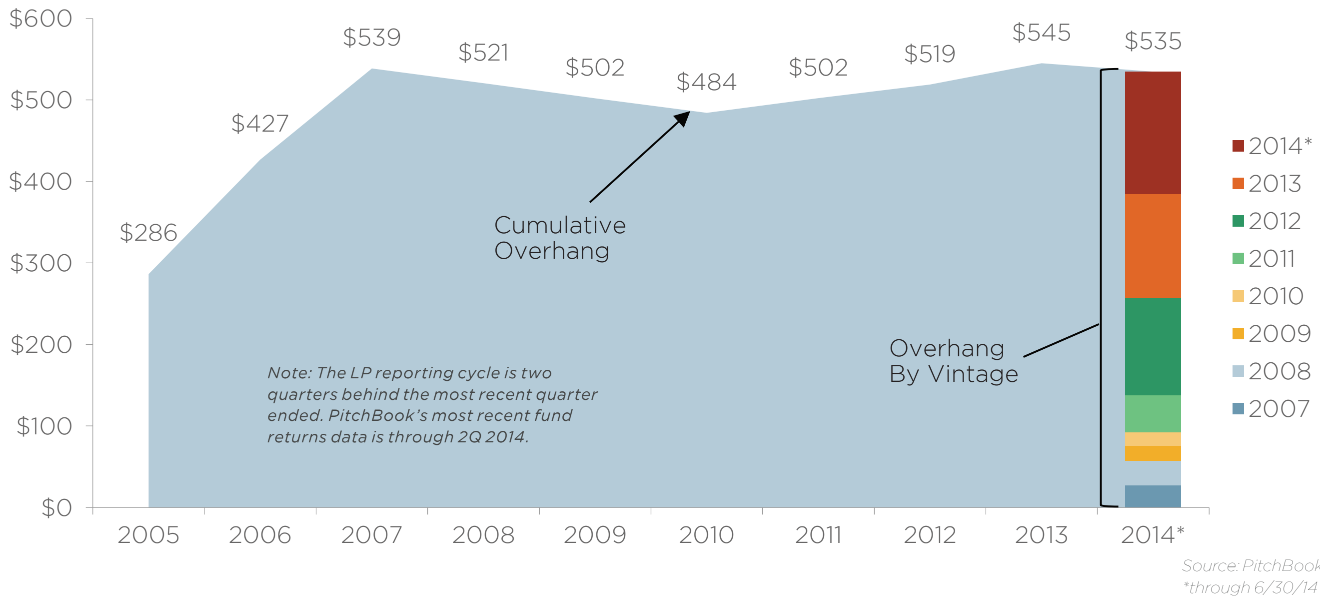


U.S. PE FUNDRAISING TIME TO CLOSE (MONTHS)



PE Capital Overhang

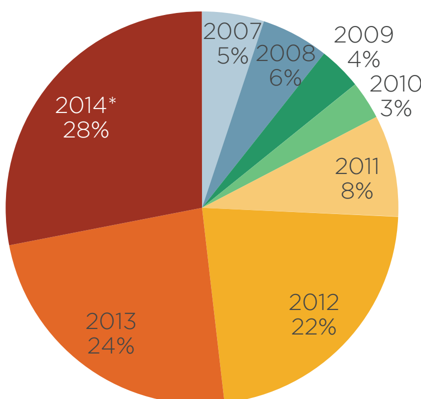
U.S. PE CAPITAL OVERHANG ($B)



Source: PitchBook
*through 6/30/14

2012 and 2013 vintages account for 46% of overall dry powder.

PE CAPITAL OVERHANG BY VINTAGE YEAR



Source: PitchBook
*through 6/30/14

The massive lingering capital overhang continues to hover over the private equity industry as a potential problem over the next few years. U.S. dry powder is still high—at $535 billion through June 30, 2014—and has remained relatively steady since 2007. While PE firms did manage to chip away at the overhang from 2007-2010—partly due to a combination of massive deals from 2007-2008 and lackluster fundraising in from 2009-2010—an improving fundraising environment has increased the capital available for PE firms to deploy from $484 billion in 2010 to $545 billion in 2013. This number declined slightly through the early part of 2014 due to strong deal-making and a slight dip in capital raised by PE funds.

The current situation represents a bit of a conundrum for LPs and GPs alike. First off, the market is frothy all around, leading to deals and exits closing left and right. This kind of brisk activity only serves to increase LP interest in commitments to alternatives like private equity. In addition, the bull market has caused many LPs to reallocate their available assets more toward PE, which had its second best year since 2009 for fundraising, despite a slight dip. But PE firms haven't been able to put LP capital to work at a fast enough pace to make up for the massive growth in dry powder leading up to 2007.

Even as LPs are generally positive about private equity, they may be concerned about PE firms that are unable to put their money to work in promising companies, particularly as valuations and competition remains high. Relatedly, GPs could be put under pressure to invest and close deals they might otherwise think twice about.

Largest Funds of 2014

BUYOUT & RESTRUCTURING

INVESTOR	FUND NAME	FUND SIZE ($M)
Hellman & Friedman	Hellman & Friedman Capital Partners VIII	$10,900
Lone Star Funds	Lone Star Fund IX	$7,400
Bain Capital	Bain Capital Fund XI	$7,300
Clayton, Dubilier & Rice	Clayton, Dubilier & Rice Fund IX	$6,430
Centerbridge Partners	Centerbridge Capital Partners III	$6,000

Source: PitchBook

GROWTH

INVESTOR	FUND NAME	FUND SIZE ($M)
Sycamore Partners Management	Sycamore Partners II	$2,500
Pine Brook	Pine Brook Capital Partners II	$2,435
American Capita	American Capital Equity III	$1,100
Accel Partners	Accel Growth Fund III	$1,000
JMI Equity	JMI Equity Fund VIII	$1,000

Source: PitchBook

ENERGY

INVESTOR	FUND NAME	FUND SIZE ($M)
First Reserve	First Reserve Fund XIII	$3,500
EnCap Flatrock Midstream	EnCap Flatrock Midstream Fund III	$3,000
KKR	KKR Energy Income & Growth Fund I	$2,000
Ridgewood Energy	Ridgewood Energy Oil & Gas Fund II	$1,100
Merit Energy	Merit Energy Partners I	$850

Source: PitchBook

TOP OPEN & UPCOMING FUNDS TO WATCH IN 2015

INVESTOR	FUND NAME	FUND TARGET ($M)
The Blackstone Group	Blackstone Capital Partners VII	$15,000
Oaktree Capital	Oaktree Capital Distressed Opportunities Fund	$10,000
The Blackstone Group	Blackstone Core Private Equity Fund	$10,000
TPG Partners	TPG Partners VII	$10,000
Silver Lake Partners	Silver Lake Partners V	$9,000

Source: PitchBook

Largest Deals & Exits of 2014

BUYOUTS

COMPANY	ACQUIRER(S)	DEAL SIZE ($M)
Gates	The Blackstone Group	$5,400
Acosta	The Carlyle Group	$5,000
MultiPlan	Partners Group, Starr Investment	$4,400
Tibco Software	Vista Equity Partners	$4,300
Ortho-Clinical Diagnostics	The Carlyle Group	$4,150

Source: PitchBook

GROWTH DEALS

COMPANY	INVESTOR(S)	DEAL SIZE ($M)
First Data	KKR, Stone Point Capital	$3,500
Varietal Distribution Holdings	Apollo Global	$1,427
Venari Resources	BlackRock Private Equity, Singapore Investment Corporation, Kelso & Co., Temasek Holdings, The Jordan Company, Warburg Pincus	$1,300

Source: PitchBook

EXITS BY TYPE

COMPANY - TYPE	SELLER(S)	EXIT VAL. ($M)
Gates - *SBO*	Canada Pension Plan Investment Board, Onex	$5,400
Acosta - *SBO*	Thomas H. Lee Partners	$5,000
Nuveen Investments - *M&A*	HarbourVest, Madison Dearborn, U.S. Bank	$6,250
GeoSouthern Energy (Eagle Ford Assets) - *M&A*	The Blackstone Group, GeoSouthern Energy	$6,000
Ally Financial - *IPO*	Cerberus Capital, Oaktree Capital, Sun Capital	$12,038
Santander Consumer USA - *IPO*	Centerbridge Partners, KKR, Warburg Pincus	$8,337

Source: PitchBook

SELECT IPO CANDIDATES FOR 2015

COMPANY	SPONSOR(S)
First Data	KKR, Stone Point Capital, W Capital Partners, AlpInvest
Virtu Financial	Silver Lake, Temasek
Smashburger	Navigator Partners, Consumer Capital Partners
McGraw-Hill Education	Apollo Global Management
Univision	Madison Dearborn, TPG, Providence Equity Partners, AlpInvest, Thomas H. Lee, Pamlico, Partners Group, Stockwell Capital, Ridgemont Equity Partners

Source: PitchBook

4Q 2014 PE Deal
League Tables

INVESTOR	DEALS
ABRY Partners	14
Hellman & Friedman	10
The Blackstone Group	10
Audax Group	9
Kohlberg Kravis Roberts	9
The Carlyle Group	8
The Riverside Company	8
Triangle Capital Corporation	8
GTCR Golder Rauner	6
H.I.G. Capital	6
NewSpring Capital	6
Advent International	5
Altamont Capital Partners	5
Bregal Partners	5
Genstar Capital	5
Ontario Teachers' Pension Plan	5
RFE Investment Partners	5
The Edgewater Funds	5
The Gladstone Companies	5

Source: PitchBook

LAW FIRM	DEALS
Kirkland & Ellis	42
Jones Day	22
Ropes & Gray	17
Paul Weiss Rifkind Wharton & Garrison	16
Weil Gotshal & Manges	14
DLA Piper	14
Latham & Watkins	13
Paul Hastings	12
Goodwin Procter	9
Shearman & Sterling	9
Skadden, Arps, Slate, Meagher & Flom	9
Honigman Miller Schwartz and Cohn	8
Morgan, Lewis & Bockius	7
Willkie Farr & Gallagher	7

Source: PitchBook

LENDER	DEALS
BMO Harris Bank	32
GE Capital	17
Madison Capital Funding	7
Credit Suisse	6
PNC Financial Services Group	6
Triangle Capital Corporation	5
Bank of Ireland	4
Fifth Third Bank	4
Goldman Sachs	4
Ares Capital	4
CIT Group	4

Source: PitchBook

ADVISOR	DEALS
Harris Williams & Co.	11
Houlihan Lokey	11
William Blair & Company	9
Lincoln International	9
Goldman Sachs	8
Evercore Partners	7
Piper Jaffray	7
Deutsche Bank	6
Morgan Stanley	6
Jefferies Group	6
Credit Suisse	5
Raymond James & Associates	5
Bank of America Merrill Lynch	4
GulfStar Group	4
Robert W. Baird	4
JP Morgan	4
UBS	4
RBC Capital Markets	4
Duff & Phelps	4
Deloitte & Touche	4

Source: PitchBook

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