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# Seven Private Equity Deal Trends in 2017

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A recent report from Bain & Company [1] recaps a number of 2016 private equity developments and offers some 2017 trend predictions.  Some highlights from the report include:

**1. Deal pricing expected to stay high:**  Amble capital from private equity, active strategic / industry buyers, and affordable debt available for acquirers likely leads to deal pricing staying high.

**2. Private equity still a favored asset class:**

- For those investors seeking strong returns who have patience for longer term bets, private equity is still a strong asset class.
- Sponsors continue to work hard for their investors, find and close on good deals, and look to create value and strong exits.
- PE returns continue to outperform public markets by sizeable gaps.

**3. Longer holding periods**:

- Historically, sponsors held companies for 3 – 5 years.
- In recent times, that has occasionally trended to a median of more than 6 years, with current median holding periods remaining around 5 years.
- Also, “quick flips” (deals held for three years or less) currently represent about 18% of deals (down from 40%+ about ten years ago).

**4. Finding the right channel for an exit / liquidity:**

- The market for company exits remains strong with sales to strategic acquirers and sales to financial buyers both acting as robust channels.
- Also, dividend recaps (ie, portfolio company taking on debt to fund a distribution to its shareholders) can be a liquidity solution in certain companies.
- On a relative basis, taking a company public is also an avenue for liquidity, but the quicker pace and higher confidence in a sale to a strategic buyer or financial sponsor is often more attractive.

**5. Fundraising challenges may be ahead**:  While fundraising has been (and continues to be) strong, any upcoming economic shocks to the system could make fundraising more difficult in the future.

**6. Competition for investor commitments high:**

- According to a recent Preqin survey, about half of institutional limited partners said that they review more than 10 fund pitches each month.

- Furthermore, the survey noted that almost 40% of the respondents said that fewer than 5% of fund proposals made it past an initial review.
- In this dynamic, established private equity sponsors with a proven track record obviously have a nice advantage.
- Furthermore, firms that can clearly message their differentiators (in key drivers such as deal sourcing, portfolio company improvements and exits) will have a leg-up on others in fund-raising.

**7. Successful deal sourcing continues to be a key performance driver:**

- The deal environment is mature and the majority of companies draw multiples bids in an auction process. While there still are some proprietary deals (especially on the smaller deal size), it continues to be harder for sponsors to source proprietary opportunities.
- Furthermore, when Preqin recently surveyed buyout managers, more than a third responded that it is harder to find deals than a year ago. Even in auction processes, Sutton Place Strategies reported that, on average, private equity firms only see 18% of intermediated deals that are relevant to their investment thesis.
- Moreover, after a review of 100 potential deal opportunities, sponsors can typically expect only 1 or 2 of those opportunities to become successful closed deals.
- Given those challenges in the deal environment, sponsors need to build active networks to help both in deal sourcing and deal evaluation and execution. Those firms that can actively enhance the quantity and quality of deals in their funnel will be more successful over the long term.

[1] See Bain & Company 2017 Global Private Equity Report: http://www.bain.com/publications/articles/global-private-equity-report-2017.aspx



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