

# Top 10 Private Equity Trends for 2016

By the Private Equity Growth Capital Council and powered by EY

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# Top 10 Private Equity Trends for 2016

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- 1.** Investments will remain challenging, as firms seek opportunities in a high-valuation landscape
- 2.** Although valuations will remain high, they will stabilize or dip slightly
- 3.** Equity contributions will likely increase
- 4.** Investment strategies of larger and smaller firms will continue to diverge
- 5.** Regulatory guidance may continue to restrict some firms' ability to finance deals

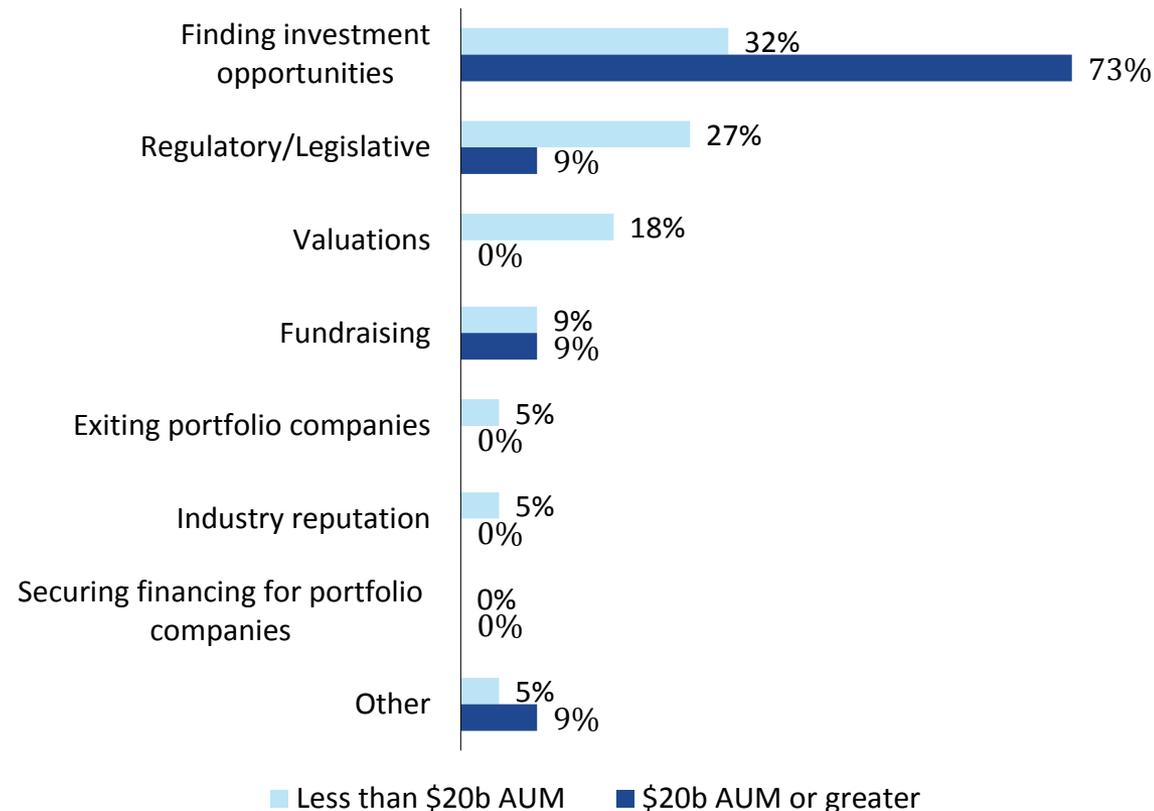
# Top 10 Private Equity Trends for 2016

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6. Firms have adjusted to the new regulatory regime and will be better positioned to manage compliance issues
7. LP/GP relationships will be bolstered by an increase in co-investments
8. Smaller firms will face more competition for limited partners' dollars
9. Exit volume will plateau, with the number of IPOs falling significantly
10. PE-backed companies will experience job growth and wage growth

# Investments will remain challenging, as firms seek opportunities in a high-valuation landscape

*What do you view as the most significant challenge facing your private equity firm at the moment? Select one.*

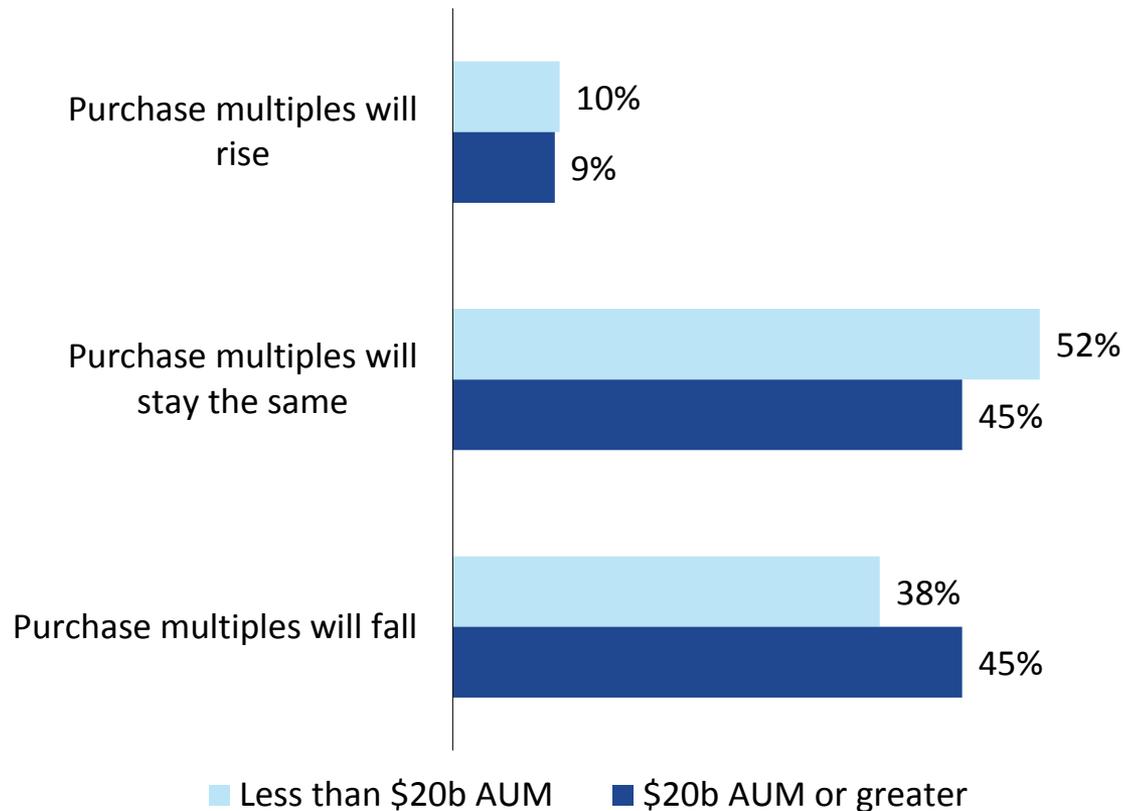


## PE challenges

- ▶ Finding investment opportunities is cited as the most significant challenge by respondents. It was noted by nearly a third of smaller firms and 73% of larger firms as their most significant challenge
- ▶ Regulatory/legislative challenges and valuations are bigger priorities for smaller firms

# Although valuations will remain high, they will stabilize or dip slightly

*Do you expect purchase multiples to rise, fall, or stay the same over the next 12 months?*



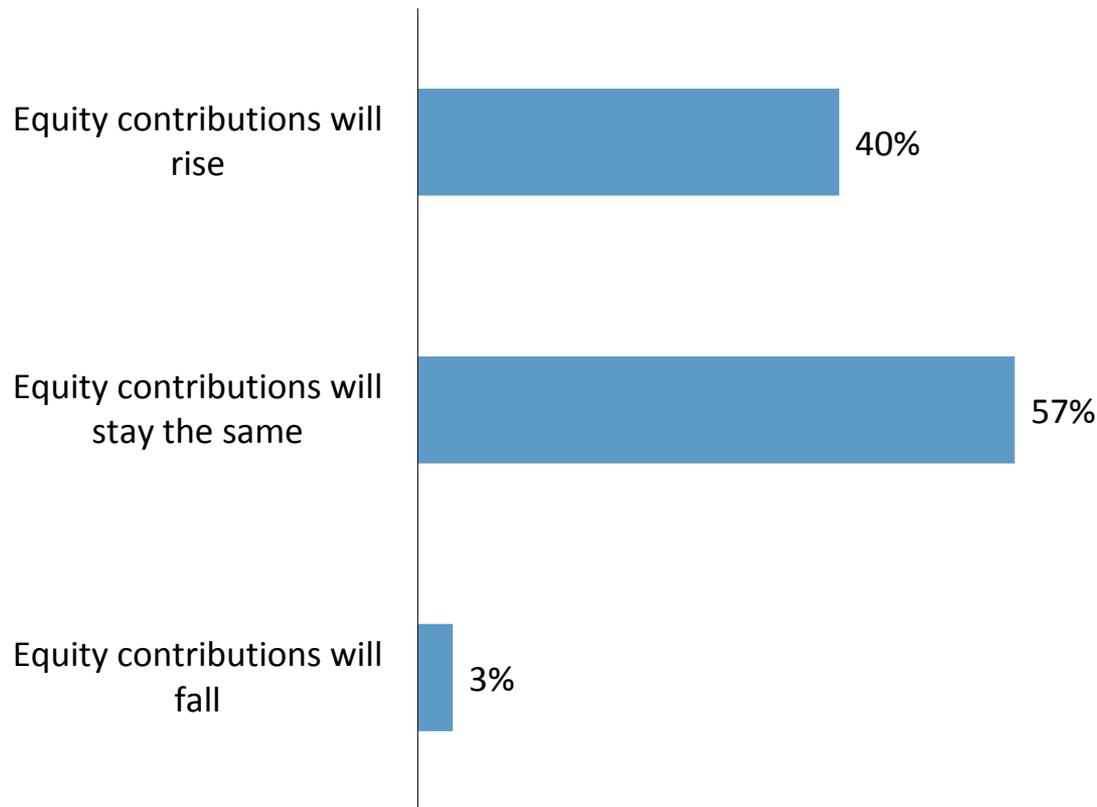
## Purchase multiples

► Larger and smaller firms are in consensus — purchase multiples are most likely to either stay the same or fall in 2016

► While public market volatility will impact purchase valuations, we expect them to remain historically high

# Equity contributions will likely increase

*Do you expect equity contributions into your portfolio acquisitions to rise, fall, or stay the same over the next 12 months?*



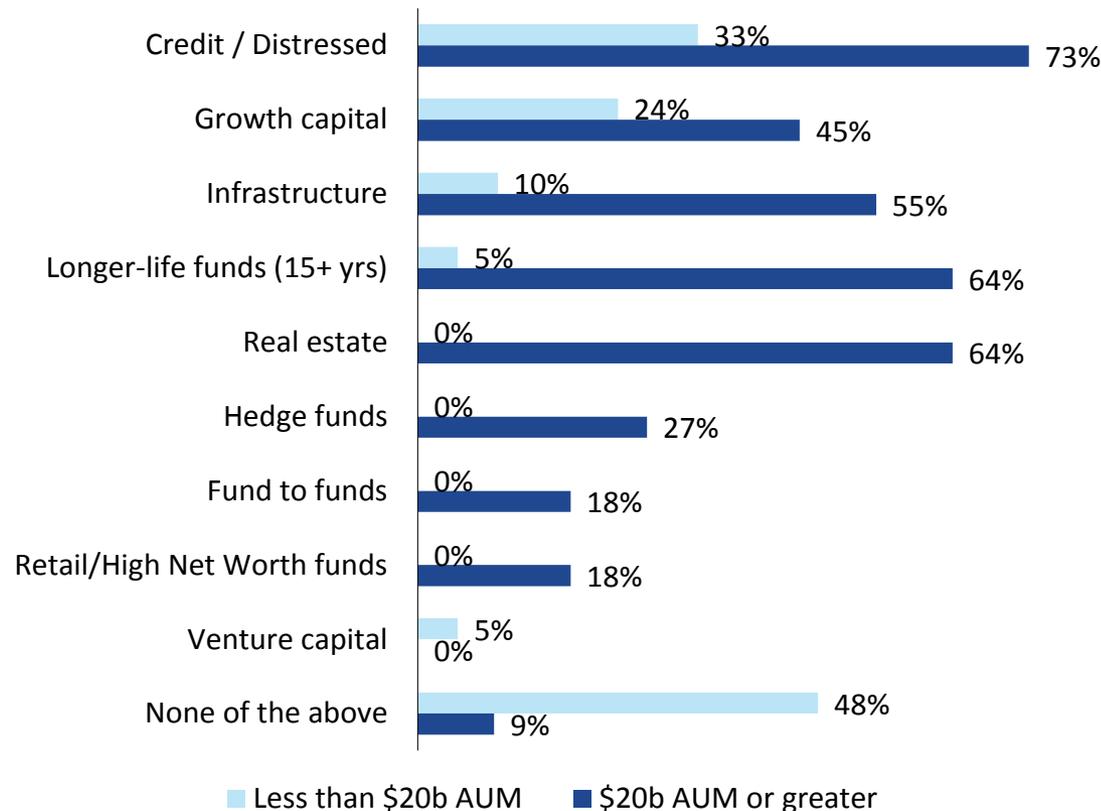
*All respondents*

## Equity contributions

- ▶ Only 3% of firms expect equity contributions to fall in 2016
- ▶ While the majority of firms expect equity contributions to stay the same, a large percentage (40%) expect them to rise

# Investment strategies of larger and smaller firms will continue to diverge

*Is your firm considering increasing your involvement in any of the following investment strategies/styles over the next 12 months?*



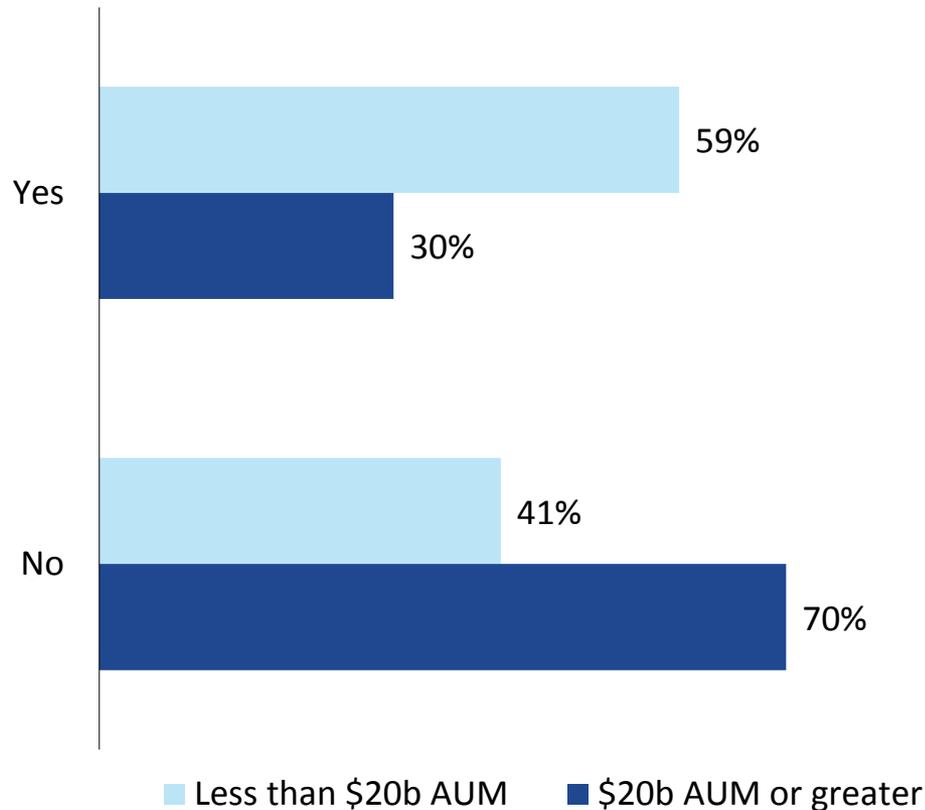
*Multiple Responses Allowed*

## Investor strategies

- ▶ 73% of larger firms are considering increased involvement in credit/distressed investments in 2016, compared to a third of smaller firms
- ▶ Larger firms are also planning significantly more involvement in real estate, hedge funds, fund to funds, or retail and high net worth focused funds
- ▶ Nearly half of smaller firms do not plan to increase their involvement in any of the investment strategies listed

# Investment strategies of larger and smaller firms will continue to diverge

*Does your firm have an industry specialization or expertise (e.g., SAAS, healthcare, etc.)?*



## Industry specialization

- ▶ Smaller firms were more likely than larger firms to report an industry specialization
- ▶ Industry specializations noted include energy, healthcare, business services, software & technology, automotive, operating talent, and other sectors

# Regulatory guidance may continue to restrict some firms' ability to finance deals

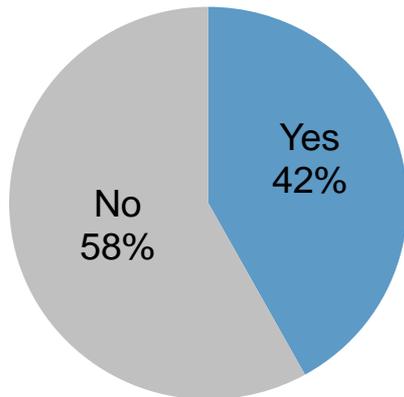
## U.S. regulatory guidance

The majority of firms have not been impacted by U.S. regulatory guidance on leveraged lending over the past 12 months

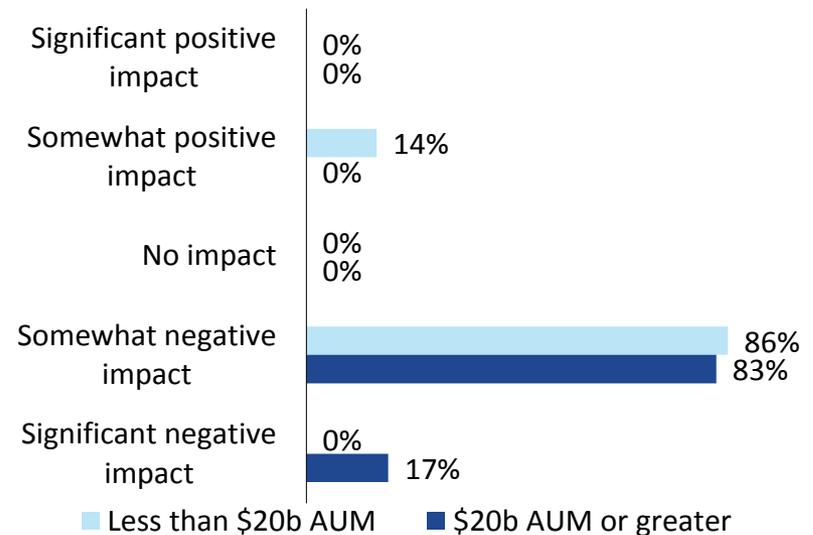
Larger and smaller firms agree—if U.S. regulatory guidance has impacted their ability to secure financing it has had a negative effect

*Over the past 12 months, to what extent has U.S. regulatory guidance impacted your ability to secure financing?*

*Has U.S. regulatory guidance on leveraged lending had an impact on your ability to secure financing over the past 12 months?*



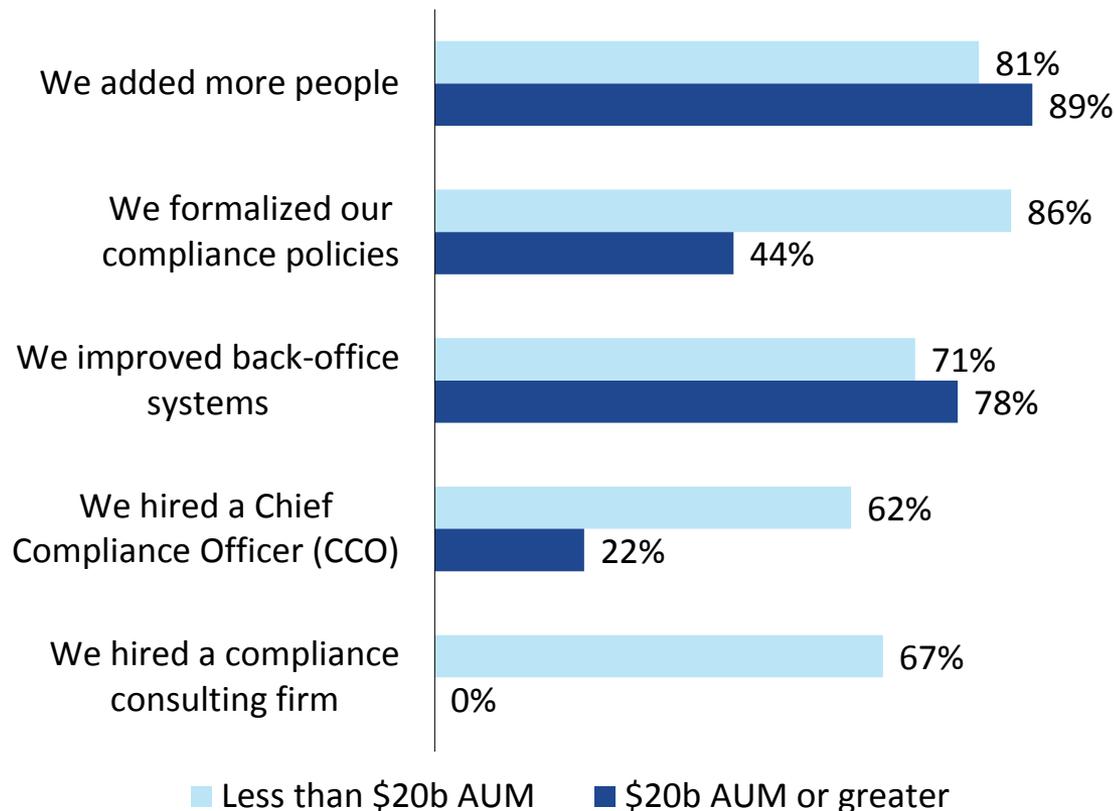
All respondents



*Includes respondents who answered "Yes" to "Has U.S. regulatory guidance on leveraged lending had an impact on your ability to secure financing over the past 12 months?"*

# Firms have adjusted to the new regulatory regime and will be better positioned to manage compliance issues

*How has your firm reacted to the implementation of Dodd-Frank? Check all that apply.*



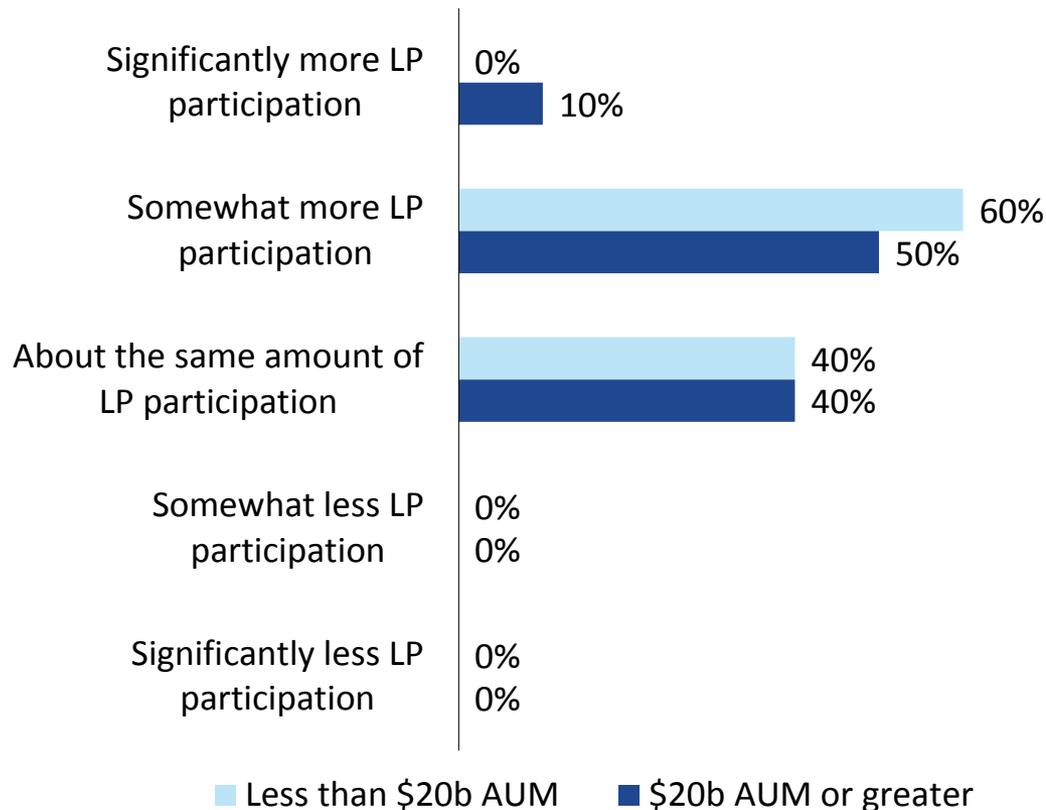
*Multiple Responses Allowed*

## Impact of Dodd Frank

- ▶ No larger firms report having hired a compliance consulting firm, compared to two-thirds of smaller firms
- ▶ Larger firms were also less likely than smaller firms to formalize compliance policies or hire a chief compliance officer (likely because such policies and positions were already in place)
- ▶ Nearly all firms have added more people as a result of Dodd-Frank
- ▶ Smaller firms took appropriate measures to formalize compliance in accordance with Dodd-Frank

# LP/GP relationships will be bolstered by an increase in co-investments

*Do you expect more or less LP participation in co-investment opportunities provided by your funds over the next 12 months?*

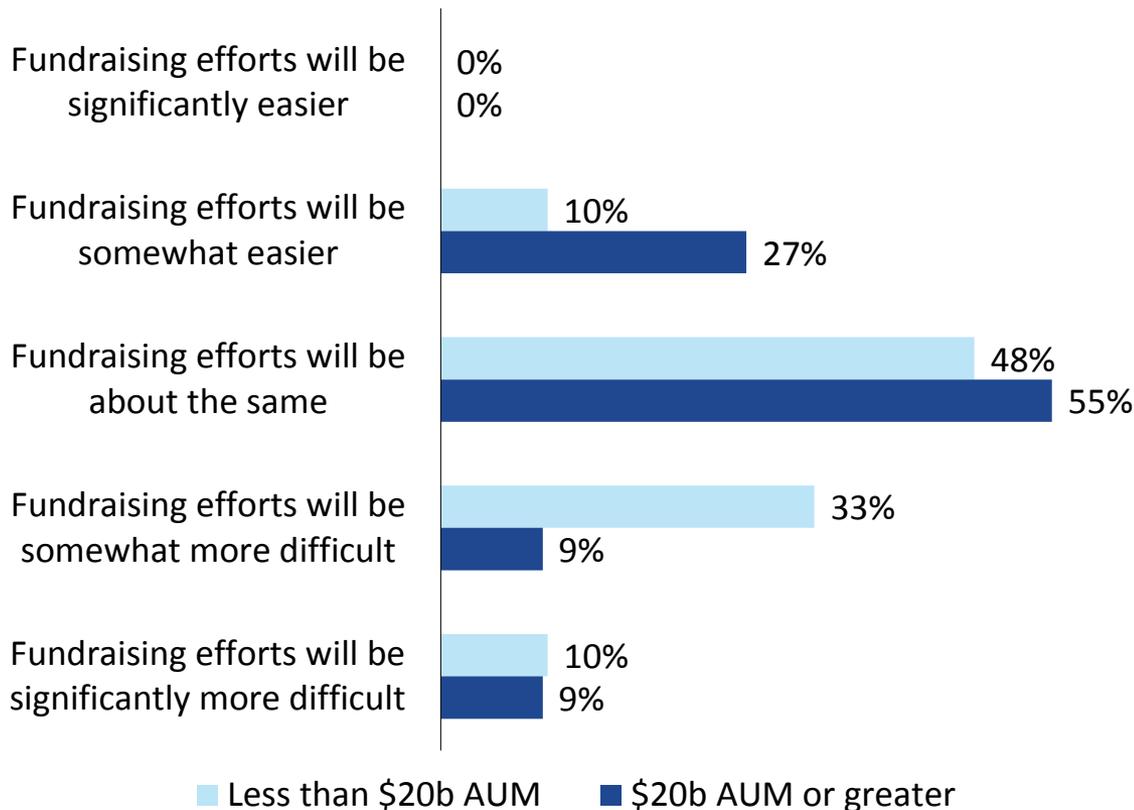


## LP participation

- ▶ The majority of respondents expect LP participation in co-investment opportunities to increase over the next 12 months
- ▶ No respondents of any size believe that LP participation will decrease

# Smaller firms will face more competition for limited partners' dollars

*Over the next 12 months, do you expect the fundraising to be easier or more difficult than the past 12 months?*



## Ease of fundraising

▶ Smaller firms are more concerned about fundraising—33% expect fundraising efforts to be somewhat more difficult while 10% believe fundraising efforts will be significantly more difficult

▶ By contrast —27% of larger firms believe fundraising efforts will be somewhat easier in 2016

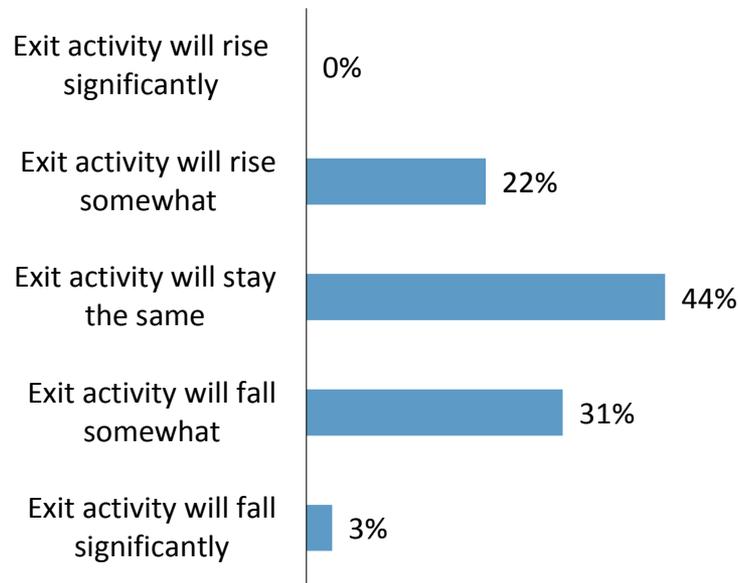
▶ Half of respondents expect to see no change in the difficulty of raising funds

# Exit volume will plateau, with the number of IPOs falling significantly

## Exit activity

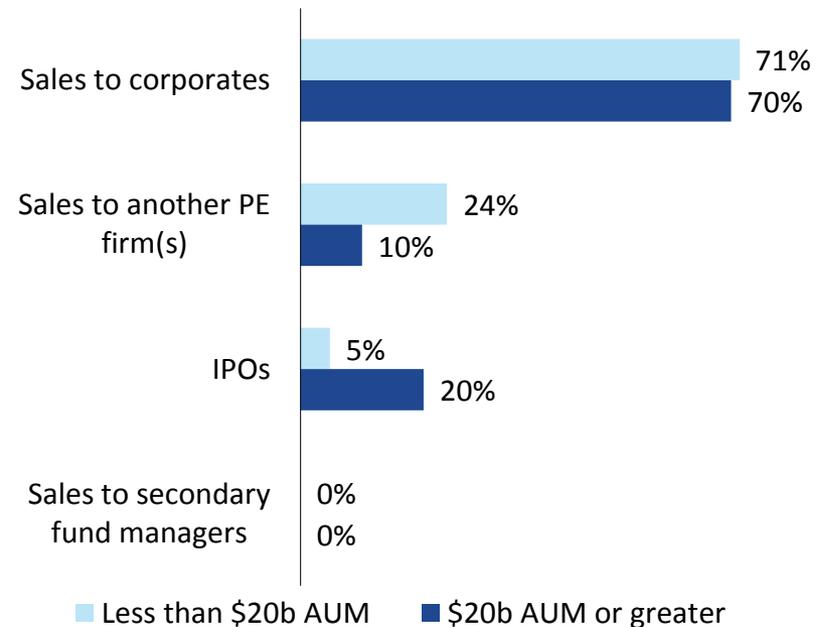
Most respondents expect exit activity to either stay the same or decrease over the next 12 months. In general, sales to corporates is seen as the most attractive exit route

*Do you expect exit activity to rise, fall, or stay the same over the next 12 months?*



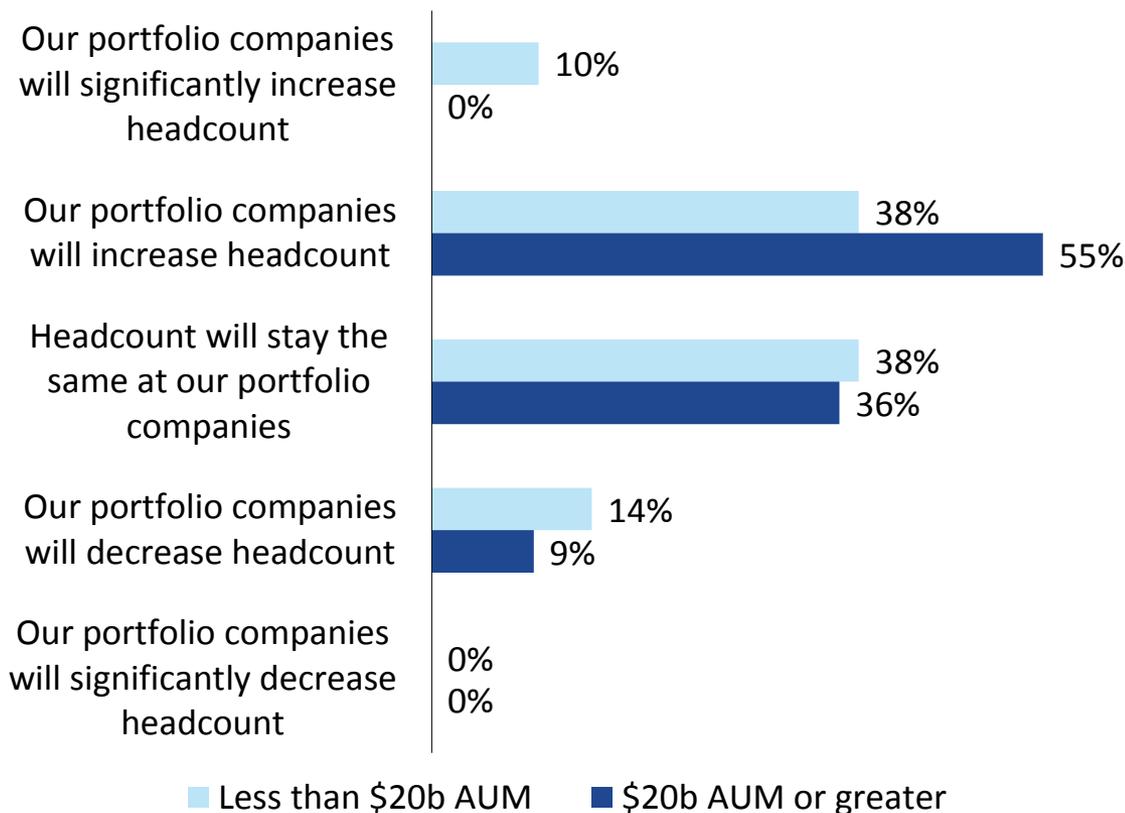
All respondents

*Which exit routes do you see as being most attractive over the next 12 months? Select one.*



# PE-backed companies will experience job growth and wage growth

*Keeping your portfolio companies in mind, on average, will your portfolio companies increase or decrease their head count over the next 12 months?*



## Change in headcount

- ▶ About half of respondents expect an increase in headcount, though most do not believe the increase will be significant
- ▶ Larger firms are slightly more likely to expect an increase in headcount in 2016
- ▶ Few respondents expect headcount decreases at their portfolio companies

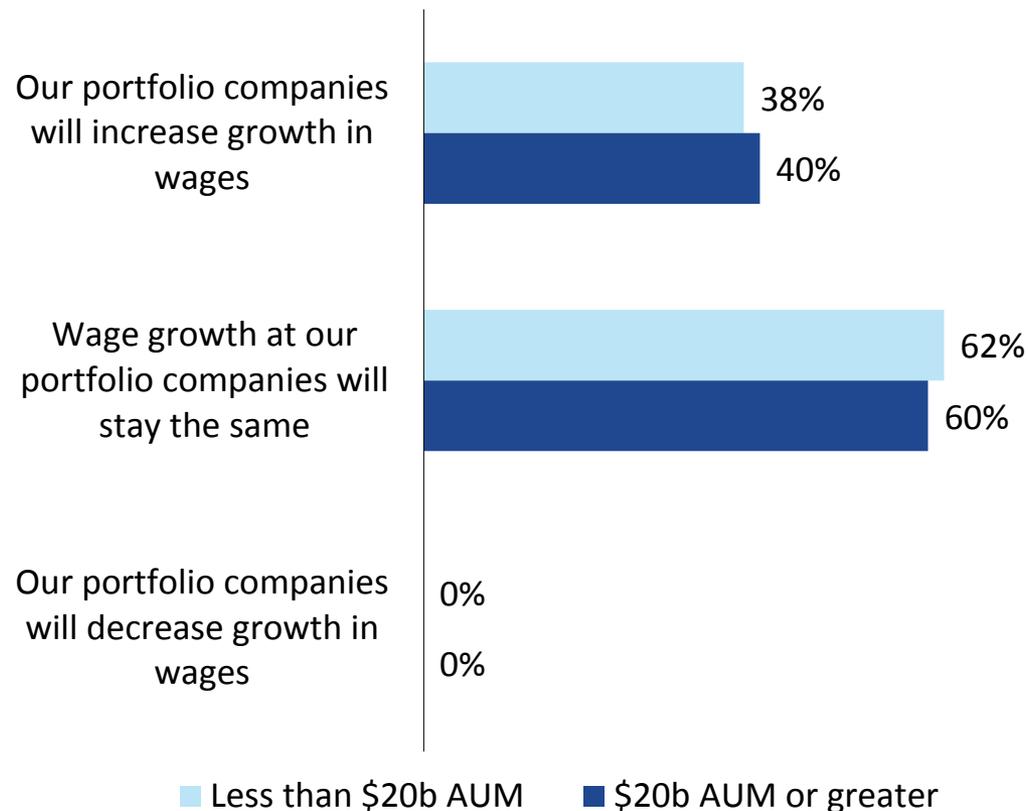
# PE-backed companies will experience job growth and wage growth

*Keeping your portfolio companies in mind, do you believe average wage growth will increase or decrease over the next 12 months?*

## Change in wage growth

► The majority of respondents expect wage growth to remain the same at portfolio companies over the next 12 months

► Among those who expect average wage growth to increase over the next 12 months, half expect an increase between 2% and 3%



# About this survey

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## Survey

- ▶ 36 questions concerning investment, financing and fundraising
- ▶ Conducted from October 2015 to December 2015

## Respondents

- ▶ More than \$276 billion assets under management (AUM) are represented by respondents
- ▶ 26 unique firms responded to this survey
- ▶ Solely for the purposes of this report, we consider firms with less than \$20 billion AUM as “smaller” firms, and those with \$20 billion AUM as “larger” firms

*Note that all survey results in this report were prepared by EY. All predictions and subjective commentary were provided by PEGCC.*

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# About the Private Equity Growth Capital Council

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