

# Private Equity, how is the temperature ?

The "Private Equity, how is the temperature" is an opinion item of the LPEA Newsletter curated by **Olivier Coekelbergs**, Vice-Chairman of LPEA. The "thermometer" provides you with a quick update on current market trends and key data from the Private Equity industry.



FEBRUARY 2016

## Economic environment

- The International Monetary Fund (IMF) forecasts global economic activity remains sluggish due to the slowdown in China and underwhelming growth across emerging markets, low commodity prices and monetary tightening in the US.
- Concern is growing for the health of the global economy, with rising uncertainty and weakening investor sentiment.
- Consequently, stock markets fell sharply and posted negative returns.
- Banks face challenges from continued negative central bank interest rates in several major economies.

## M&A

- Global M&A value for January falls 36% year on year (YOY) — but shortfall entirely due to drop in megadeals.
- The US continues its dominance of M&A, being involved in 51% of deals by value and 33% by deal count.
- Strong deal intentions by China-based companies look to set the tone for 2016.
- Low economic growth, disruptive technology, sector convergence and changing consumer behavior will be key deal drivers in 2016.
- Global M&A should remain firm in the near term, barring any systematic shocks.

## IPOs

- Global IPO activity in January 2016 was significantly lower: a slow first quarter due to market volatility and concerns about global economic slowdown are expected.
- The Asia-Pacific region dominated the IPO landscape during January, primarily due to lackluster activity in other regions.
- US markets should see steady IPO activity going forward into 2016, after a quiet start to the year.
- European IPO activity is expected to rise in the coming months, supported by a steady economic recovery and loose monetary policy.

## Fundraising

- Buyout fund-raising fell 54% to US\$19.8b from a year earlier on reduced volume, affected by the timing of recent closes.
- The PE continues to provide superior returns to investors compared to other asset classes, aiding 4% dry powder growth to US\$483.3b from a year earlier.
- Regulators will continue to scrutinize PE and cybersecurity and fees will be areas of focus.

## Acquisitions

- PE players remains cautious with their capital; investment activity moderated by 36% YOY in January 2016 to US\$11.8b.
- Real estate and Oil and Gas were leading sectors for PE investments in January 2016, with each accounting for a fifth of disclosed value.
- PE could see more O&G investments this year as commodity prices remain low. Health care is another sector that may find more PE attention in 2016.

## Exits

- Deal value in January for M&A exits fell by almost 25% to US\$14b from a year earlier. The drop off reflects weaker activity in EMEA.
- PE-backed IPO activity remained muted in January due to suboptimal market conditions. One closed in latest period vs. 6 last year.
- It could be months before there is a rebound in the number of PE-backed companies pursuing an IPOs.