

Private Equity, how is the temperature ?

Private Equity, how is the temperature is an opinion item of the Luxembourg Private Equity & Venture Capital Association (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 about the Private Equity (PE) industry.



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M&A

- Global M&A topped US\$3t in the first three quarters of 2018 – the first time since the global financial crisis.
- The UK is the most favorable cross-border destination, with US\$216b of inbound deals announced so far in 2018.
- According to the EY 19th Global Capital Confidence Barometer, confidence in the M&A market remains near record highs, supported by a positive economic environment and strong corporate earnings.
- Rising geopolitical and regulatory concerns are perceived as a growing impediment to dealmaking.
- After a strong flow of deals in this cycle, some corporates are expected to be focusing on the integration of recently acquired assets over the next 12 months.

IPOs

- Global IPO activity saw mixed results in 3Q18 as the quarter lived up to the expectation of being the quietest period of the year, with the global IPO market feeling the heat from geopolitical uncertainties and trade issues between the US, EU and China. 3Q18 saw 324 deals raising US\$50.2b, a YOY decline of 16% in terms of number of deals and a 12% increase by proceeds compared with 3Q17. The increase in proceeds was mainly due to a rise in unicorn IPOs.
- In EMEA, trade uncertainties, the looming deadline for Brexit, and the delay and subsequent withdrawal of the listing of what was anticipated to be the largest IPO ever globally caused IPO activity to decline by 24% and 72% in terms of number of deals and proceeds respectively.
- US markets kept a strong pace in 3Q18, accounting for the majority of IPOs by volume and proceeds across the Americas. The US saw 55 IPOs in 3Q18 raising US\$12.3b, an increase of 53% by volume and 157% by proceeds, compared with 3Q17.
- Asia-Pacific saw a decline in the number of IPOs in 3Q18, compared with 3Q17, whereas proceeds were significantly higher, led by a rush of mega IPOs listed on the Hong Kong Stock Exchange.

Fundraising

- Investor enthusiasm remains high as fundraising sees continued momentum.
- Fundraising activity increased its pace in 3Q18, almost matching last year's record levels. PE firms raised US\$175b during the quarter, compared with US\$181b in 3Q17. However, because the first half of this year saw some moderation in closings, aggregate fundraising remains 19% lower than 2017. The average size of PE funds closed so far this year is US\$766m, up 32% from last year.
- Buyout funds remain the most active strategy, accounting for more than 34% of funds raised in Q3. Preqin's 2H18 survey suggests that 44% of the PE investors interviewed agree that small to mid-market buyout funds continue to present the best opportunities in the market.

Acquisitions

- PE deal activity remains robust, with the Americas building up momentum.
- PE firms remained committed to deploying the industry's record US\$637b in dry powder. Firms have announced deals worth US\$352b so far this year, up 9% from the same period a year ago.
- Preqin's 2H18 survey revealed that North America was cited by 55% of surveyed investors to be presenting the most favorable investment opportunities in the prevailing global scenario, followed by Europe (35%)

Exits

- Exits dipped further; PE firms focus on minority stake sales.
- Exits continue their downward trend, with 762 deals announced so far this year valued at US\$261b, down 6% from a year ago.
- Exits by M&A dropped by 6% over the same period versus a year ago, to US\$238.6b with declines evident across the Americas and EMEA regions.
- PE exits through M&A were down 14% by value in the Americas, and down 8% in EMEA.
- Asia-Pacific saw a notable upswing, with PE exits by M&A value up 64% from last year.
- Proceeds from PE-backed IPOs have declined 16% in 2018 versus last year.