2016 Preqin Global Private Equity & Venture Capital Report

Sample Pages

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The 2016 Preqin Global Private Equity & Venture Capital Report - Contents

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Data Source:

The **2016 Preqin Global Private Equity & Venture Capital Report** contains the most up-to-date data available at the time of going to print.

For information on how to access the very latest statistics and data on fundraising, institutional investors, fund managers and performance, or to arrange a walkthrough of Preqin's online services, please visit:

www.preqin.com/privateequity

CEO's Foreword - Introducing Private Capital

January 2016 finds private equity in good shape. Like any successful industry it faces many issues – high valuations, increasing regulation, a crowded fundraising market, fee pressures – all of which are covered in more detail by my colleague Christopher Elvin (see page 8), but the bottom line remains the same: private equity has delivered superior returns to its LPs, and most of them intend to increase their allocations to the asset class (see pages 34-41 and 53-57).

What I would like to focus on here is what precisely we mean by the phrase 'private equity' and how that is evolving.

The private capital industry has grown and changed immensely since Preqin first began tracking it in 2003. The diversity of fund strategies has grown as managers and LPs target new areas to generate alpha; sectors such as private debt, infrastructure and natural resources, all once considered subsets of private equity, have grown and evolved into discrete asset classes. Meanwhile, industry terminology has struggled to keep pace, and 'private equity' has come to have interpretations as varied as buyout funds specifically, or closed-end private funds generally.

From the beginning of 2016, Preqin will be updating its terminology to better reflect the growing diversity of the industry. Preqin reports and press releases will henceforth use the following terms:

- 'Private Equity' will refer to the core asset class centred on the buyout and venture capital industry, together with other closely related strategies.
- 'Private Capital' will refer to the broader spectrum of private closed-end funds, including private equity, private debt, private real estate, infrastructure and natural resources.

The table below indicates the fund types Preqin considers as constituting each asset class.

<table>
<tr><th colspan="5">Closed-End Private Capital</th></tr>
<tr><th>Private Equity</th><th>Private Debt</th><th>Real Estate</th><th>Infrastructure</th><th>Natural Resources</th></tr>
<tr><td>Buyout</td><td>Direct Lending</td><td rowspan="3">Private Equity Real Estate</td><td rowspan="3">Infrastructure</td><td rowspan="2">Energy</td></tr>
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<tr><td>Private Equity Fund of Funds</td><td>Private Debt Fund of Funds</td><td>Private Equity Real Estate Secondaries</td><td>Infrastructure Secondaries</td><td>Natural Resources Fund of Funds</td></tr>
</table>

In this year's 2016 Preqin Global Private Equity & Venture Capital Report you will find an overview of the entire 'private capital' universe, followed by a deep dive into the key developments and trends in each of the 'private equity' strategies. You can find a similar deep dive into private debt, real estate, infrastructure and natural resources in Preqin's other annual reports.

The private capital industry continues to evolve rapidly, and Preqin strives to support investors, fund managers and their respective advisors with the best and most comprehensive information to help them make the best decisions and achieve their objectives. We are very grateful to our many customers for your support, feedback and suggestions and we are continuing to invest heavily in Preqin's data and products to continue to serve you in 2016 and beyond.

Thank you,

Mark O'Hare

2015 Key Stats

Private Capital* Highlights

$4.2tn
Private capital assets under management reach a new high as of June 2015.

$551bn
Aggregate capital raised by **1,062** private capital funds closed in 2015.

3.8%
Increase in total unrealized portfolio value from 2014. Total unrealized value stands at **$2.8tn** as of June 2015.

7.1%
Increase in dry powder from 2014. Total dry powder stands at **$1.3tn** as of June 2015.

Private Equity Highlights

$2.4tn
Private equity assets under management reach a new high as of June 2015.

$288bn
Aggregate capital raised by **689** private equity funds closed in 2015.

$189bn
Total capital distributions in H1 2015. Momentum continues from the record distributions seen in 2014.

9.0%
Increase in dry powder from 2014. Total dry powder stands at **$755bn** as of June 2015.

Buyout Activity

$411bn
Aggregate value of the **3,556** buyout deals in 2015.

$416bn
Aggregate value of the **1,620** buyout exits in 2015.

Venture Capital Activity

$136bn
Record aggregate value of the **9,241** venture capital deals** in 2015.

$73bn
Aggregate value of the **1,053** venture capital exits in 2015.

**See page 4 for the definition of private capital.*
***Figures exclude add-ons, grants, mergers, secondary stock purchases and venture debt.*

Private Equity & Venture Capital in 2016

- Christopher Elvin, Preqin

Private capital assets under management (AUM) now stand at $4.2tn as of June 2015 (latest data available) and the AUM of the core private equity strategies encompassing buyout, venture capital and other closely related strategies has expanded to $2.4tn of this total. This growth has been fuelled by another strong year for fundraising, a rise in dry powder levels and an increase in the unrealized value of portfolio assets. This growth, however, is not without its concerns; the fundraising market is more competitive than ever and dry powder levels continue to increase and put further stress on finding attractive entry prices for assets.

Fundraising Market

As a result of the record distribution levels seen in 2014, private equity fundraising in 2015 was robust, with 689 vehicles raising $288bn over the course of the year. While currently below 2014 levels, this number will increase as more data becomes available and it is likely that 2015 will be on a par with the total capital raised in 2014. The fundraising market is, however, more competitive than ever; there are currently 1,630 private equity funds on the road seeking $483bn. The gap is also widening between established fund managers and emerging managers; just 8% of the capital raised in 2015 was secured by new GPs and 54% of investors surveyed at the end of 2015 stated they would not consider investing in first-time funds over the next 12 months.

Investor Appetite

As confirmed by Preqin's analysis of public pension fund returns (see page 39), private equity continues to deliver superior returns compared to all other asset classes over the longer term. The trend of distributions significantly surpassing capital calls continued in 2015. As of June 2015 (the latest data available) $189bn was returned to investors compared with $117bn in capital calls, following on from 2014 when $475bn was distributed while only $294bn was called from LPs. This flow of capital back to LPs has unsurprisingly helped to drive investor appetite for the asset class, and the results of Preqin's latest investor survey showed that 94% of the investors surveyed felt that the performance of their private equity portfolios had met or exceeded expectations, compared with just 6% of respondents that felt returns had fallen short of their expectations. While the majority of LPs will be delighted with the returns they have received, many will now find themselves with more work to do in order to maintain their allocation. However, the strong performance of the asset class and positive investor outlook means more capital will continue to flow into the asset class.

Valuations

Concern over pricing and the impact it may have on returns is clearly at the forefront of both fund managers' and investors' minds. The results of Preqin's most recent LP and GP surveys (see pages 53 and 65) showed that 70% of LPs and 40% of GPs surveyed believe valuations to be the biggest challenge facing the industry in 2016. However, the survey results also highlighted that fund managers in different regions perceive themselves to face different challenges. Unlike their North America- and Europe-based counterparts, Asia- and Rest of World-based fund managers, while recognizing valuations as an important issue, in fact appear more concerned about fundraising.

Venture Capital

There can now be no doubt that the venture capital market is in a boom period. Following on from a strong 2014, venture capital funds raised a further $47bn in capital, which included the closing of the largest venture capital fund in history, the $3.4bn Insight Venture Partners IX. Venture capital funds also recorded the highest one-year horizon returns (20.5%) of any strategy and venture capital deal activity reached a record aggregate level with $136bn from 9,241 transactions. Investors have taken note of this turnaround in fortune and 36% of investors surveyed by Preqin at the end of 2015 were looking to invest in venture capital funds in 2016.

Outlook for 2016

The outlook is bright for private equity & venture capital in 2016, but the year will not be without its challenges. Fundraising should remain strong due to investor demand, but the challenge of identifying the best investment opportunities in a competitive market remains for LPs. GPs will be excited by the prospect of fundraising in the year ahead, given the liquidity within the investor community, but less established fund managers face a difficult task vying for investor capital and meeting the demands of an increasingly sophisticated community.

Preqin's fund manager survey confirms that the majority of GPs are looking to deploy more capital in 2016 than they did in 2015 despite concern over valuations. The same market conditions that are making it challenging for GPs to find investments at attractive entry prices continue to make it a seller's market, and with many assets still to be exited from funds that are reaching the twilight stages of their lives, we are likely to see further strong exit activity in 2016 as well.

Assets under Management and Dry Powder

In Brief

- Private capital* assets under management grew by 4.9% during the six months since December 2014, standing at $4.2tn as of June 2015.
- The level of capital overhang continues to grow, with the amount of private equity dry powder available to invest triple the amount of capital called in the previous year.

The private capital industry's total assets under management (AUM), defined as uncalled capital commitments (dry powder) plus unrealized value of portfolio assets, grew by 4.9% between December 2014 and June 2015, and currently stands at a record $4.2tn. Dry powder levels rose steadily in the six-month period, increasing from $1.25tn to $1.34tn. Similarly, the total unrealized portfolio value increased from $2.71tn to $2.82tn between December 2014 and June 2015.

Fig. 3.1 shows 15 consecutive years of growth in the private capital industry's aggregate AUM since December 2000. Despite increasing levels of capital being distributed back to LPs in recent years, aggregate unrealized value is continuing to rise as GPs put more capital to work and portfolio valuations increase.

Funds holding real estate assets were the only fund type to see their portfolio values decrease in aggregate over the first half of 2015, falling from $561bn in December 2014 to $541bn in June 2015. During the same period, all other fund types saw an increase in unrealized value. In particular, buyout saw an increase of $49.6bn and venture capital an increase of $9.3bn; these two fund types combined accounted for half of the overall increase in the unrealized value of all private capital strategies.

Unrealized Assets – A Secondary Market Solution?

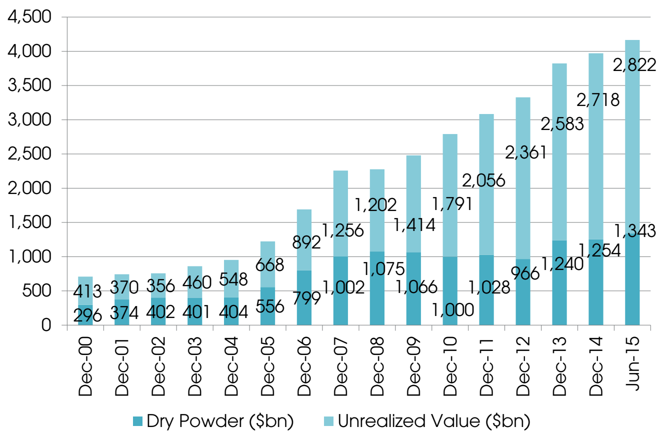
The average lifespan of funds across the whole private capital industry is increasing beyond the typical 10 years, and as seen in Fig. 3.2, older funds of vintages 2000-2005 still hold a substantial $204bn worth of investments, equating to 7.2% of total unrealized assets. For investors, the inability of a fund manager to exit investments in ageing funds is a deciding factor when considering committing to the GP's future funds. One solution GPs are utilizing to help return capital back to their investors is a GP-led fund restructuring, which involves finding secondary buyers to purchase their stake in the fund. Vintage 2006-2008 funds, nearing the end of their planned lifetimes, account for $1.1tn of total unrealized assets as of June 2015, compared to $1.3tn as of June 2014. The managers of these older funds have therefore been taking advantage of favourable exit conditions to realize assets, and have returned an aggregate $397bn back to LPs between June 2014 and June 2015. However, with $1.1tn in unrealized assets remaining in the funds, it is clear that further GP-led fund restructurings will remain on the agenda.

Dry Powder

During 2015, private capital dry powder increased by $120bn (Fig. 3.4). With the exception of infrastructure funds, all fund types have seen a growth in available capital, with the majority sitting in buyout funds. This is unsurprising as fund managers raise larger funds for buyout than any other fund type, and for buyout vehicles with a 2015 vintage, the average final close size is $1.1bn.

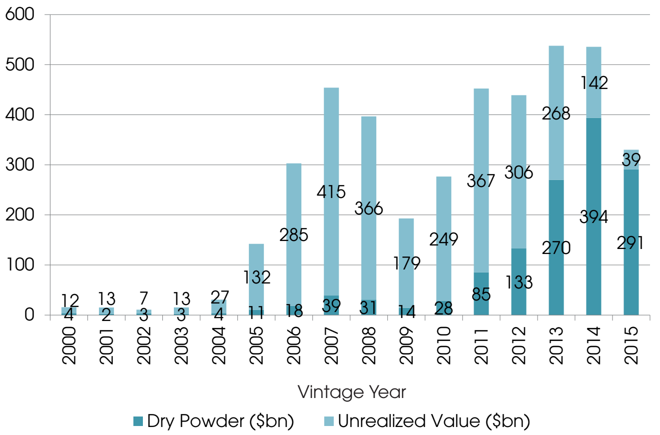
Fig. 3.5 shows the ratio of year-end private equity total dry powder levels to the total capital called in the previous year between 2001 and 2014. These ratios represent the amount of capital overhang, expressed over a number of years; as of December 2014, dry powder was 3.2x the capital called in 2013. This is the highest ratio recorded since December 2010,

Fig. 3.1: Private Capital Assets under Management, 2000 - 2015**



Source: Preqin Fund Manager Profiles and Preqin Performance Analyst

Fig. 3.2: Private Capital Assets under Management by Vintage Year as of June 2015**



Source: Preqin Fund Manager Profiles and Preqin Performance Analyst

**See page 4 for the definition of private capital.*
***Direct lending is excluded prior to 2006.*

2015 Fundraising Market

In Brief

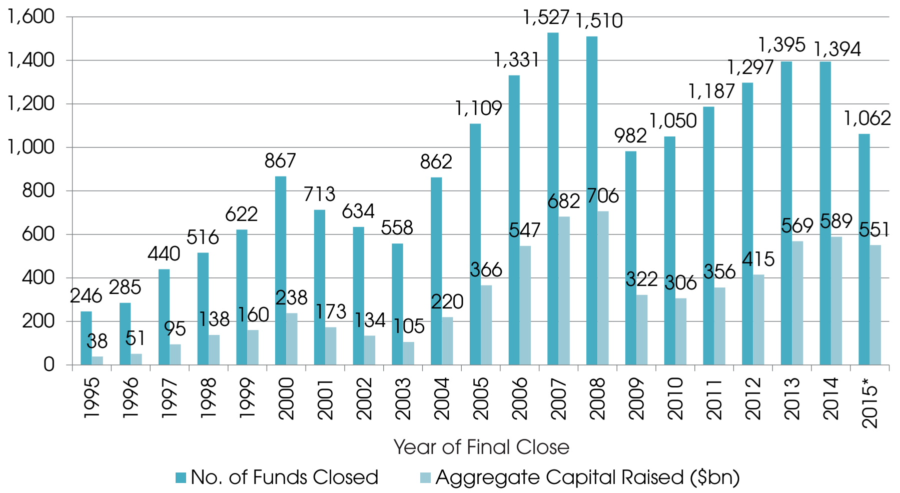
- 2015 was the third consecutive year in which private capital fundraising surpassed the $500bn mark.
- Capital remains concentrated among fewer funds; 1,062 private capital funds held a final close in 2015, the lowest number since 2010.

Record distributions to LPs in 2014 helped 2015 become the third consecutive year in which private capital fundraising surpassed the $500bn mark. An aggregate $551bn was raised by 1,062 vehicles in 2015, less than the $589bn raised in 2014; however, this figure will increase as more data becomes available (Fig. 4.1). As a result, it is likely 2015 fundraising will surpass the levels seen in 2014, making it the highest amount of aggregate capital raised since the onset of the Global Financial Crisis. 2015 saw a 24% drop in the total number of funds closed compared to the previous year, and accordingly, the average fund size increased to $578mn, an all-time high.

A substantial amount of capital was channelled into the asset class via alternative routes to market beyond the traditional commingled fund structure. Some large LPs provided additional capital to existing separate account mandates in 2015 (see page 129: 'Investor and Fund Manager Use of Separate Accounts'), while co-investments are also increasing in prevalence (see page 131: 'Co-Investments'). In addition, 2015 witnessed a rise in prominence of pledge and search funds among emerging private capital fund managers. These alternative routes to market equip LPs with a platform to negotiate better fund terms and have greater control over their investments.

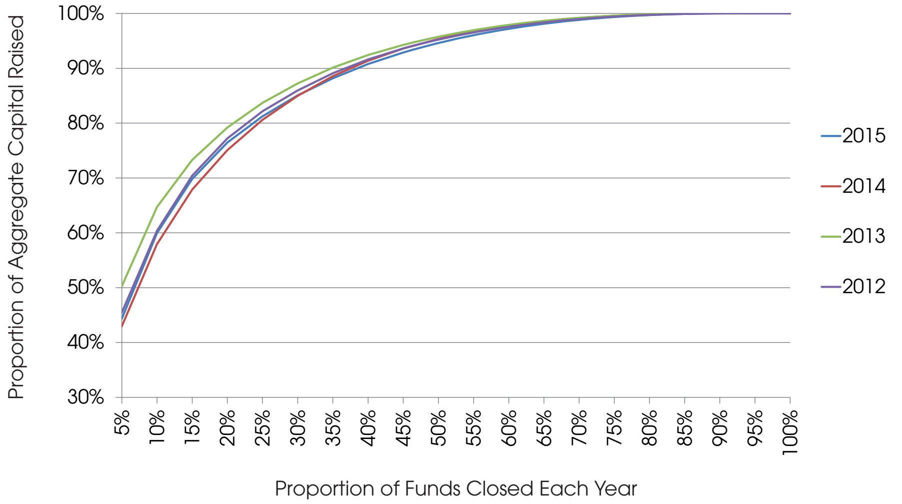
The largest 10% of private capital funds closed in 2015 accounted for 60% of aggregate capital raised, as seen in Fig. 4.2, slightly more than in 2014 (58%). This demonstrates the trend of LPs putting more capital to work with a select number of managers, notably experienced firms with proven track records. Furthermore, the 10 largest private capital funds closed raised a combined 17% of the total capital in 2015, compared to 13% in 2014. In 2015, 139 private capital funds closed on $1bn or more, a similar amount to the 145 funds of this size closed in 2014.

Fig. 4.1: Annual Global Private Capital Fundraising, 1995 - 2015



Source: Preqin Funds in Market

Fig. 4.2: Breakdown of Aggregate Capital Raised by Proportion of Private Capital Funds Closed, 2012 - 2015



Source: Preqin Funds in Market

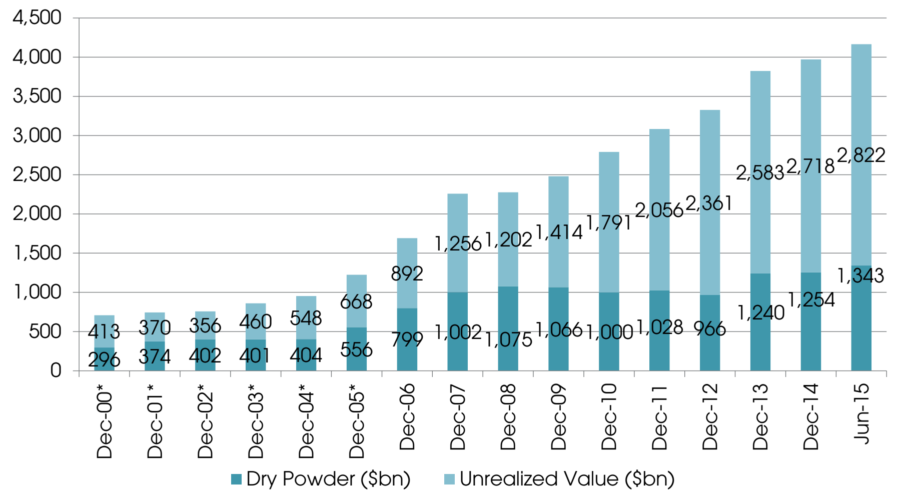
**Data is correct as at time of publishing (15 January 2016); 2015 fundraising figures are expected to increase as further data becomes available.*

Performance Overview

The years since the financial crisis have seen the private capital* industry continue to grow in both prominence and size, with private capital assets under management standing at $4.2tn as at 30 June 2015. The asset class is becoming an ever more integral part of investors' portfolios; 43% of LPs surveyed recently by Preqin stated they will increase the amount of capital they invest in private equity over the next year, compared to 33% at the same time last year. In contrast, only 13% of the LPs surveyed were looking to invest less capital over the next 12 months. Therefore, having access to comprehensive, transparent and up-to-date performance data is of great importance when assessing manager track records and conducting due diligence for future fund commitments. For fund managers, fund-level performance data is important to gain insight on the competition and also to assess industry trends as a whole.

Industry professionals including service providers, fund managers and investors are using Preqin's performance data, which includes net-to-LP performance data for over 7,800 private capital funds raised by over 2,400 fund managers. This chapter highlights just some of the potential analysis that can be powered by Preqin performance data, and the wider trends and patterns in the industry.

Fig. 5.1: Private Capital Assets under Management, December 2000 - June 2015



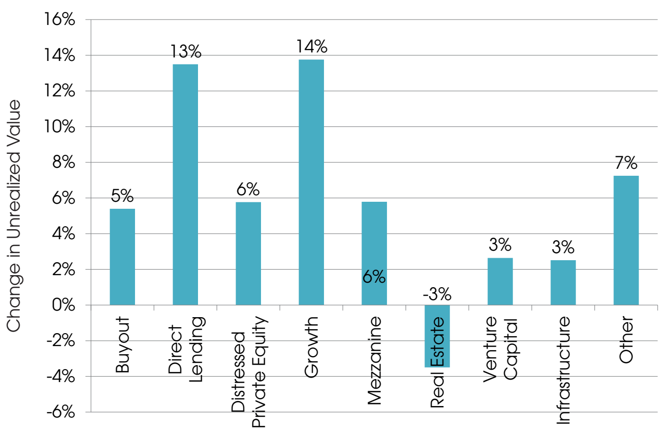
*Direct lending is excluded prior to 2006.

Source: Preqin Performance Analyst

Growth of the Asset Class

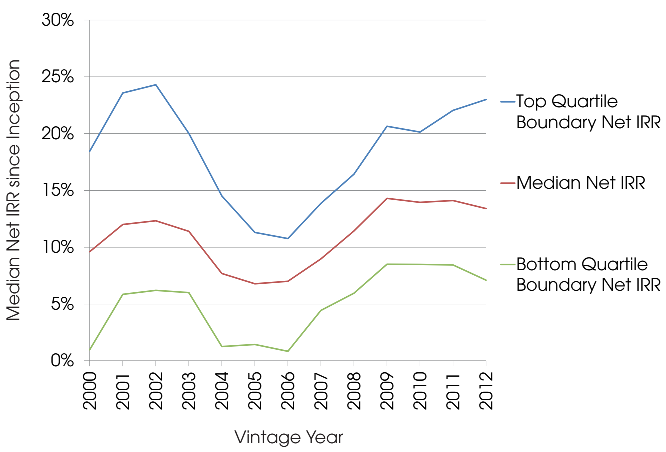
Since December 2000, the private capital industry has grown five-fold in terms of assets under management. Fig. 5.1 highlights the growth in terms of both dry powder and unrealized value, the amount available for investment and invested in private capital respectively. In the six months to June 2015, total unrealized value has increased by 3.8%, despite the portfolio values of real estate funds falling by 3%. As can be seen in Fig. 5.2, all other fund types have experienced rising valuations for portfolio companies, in particular growth funds. However, whether these funds will prove to be as successful upon liquidation as their unrealized values suggest is not certain. It will be interesting to see whether distributions from growth capital funds over the next few years match up to the large portfolio valuations currently being reported.

Fig. 5.2: Change in Unrealized Value by Fund Type between December 2014 and June 2015



Source: Preqin Performance Analyst

Fig. 5.3: All Private Equity Strategies Median Net IRRs and Quartile Boundaries



Source: Preqin Performance Analyst

*See page 4 for the definition of private capital.

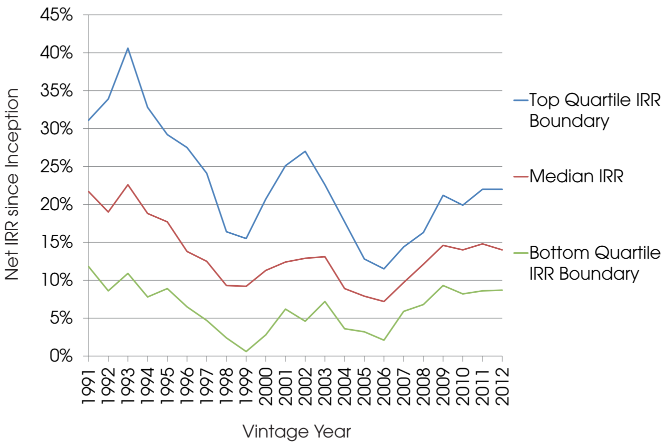
Performance Benchmarks: All Private Equity

Fig. 5.15: Preqin Median Benchmarks: All Private Equity - All Regions (As of 30 June 2015)

Vintage	No. of Funds	Median Fund			Multiple Quartiles (X)			IRR Quartiles (%)			IRR Max/Min (%)	
		Called (%)	Dist (%) DPI	Value (%) RVPI	Q1	Median	Q3	Q1	Median	Q3	Max	Min
2015	111	11.4	0.0	96.4	1.00	0.96	0.87	n/m	n/m	n/m	n/m	n/m
2014	236	23.5	0.0	98.0	1.10	1.01	0.90	n/m	n/m	n/m	n/m	n/m
2013	266	43.7	1.3	100.0	1.19	1.07	0.96	n/m	n/m	n/m	n/m	n/m
2012	258	68.6	9.2	105.0	1.35	1.20	1.08	22.0	14.0	8.7	83.0	-42.9
2011	297	76.2	17.8	104.9	1.50	1.27	1.14	22.0	14.8	8.6	64.0	-84.2
2010	211	89.7	39.5	98.5	1.64	1.43	1.24	19.9	14.0	8.2	80.5	-28.4
2009	150	93.9	49.0	87.1	1.74	1.48	1.25	21.2	14.6	9.3	448.0	-17.5
2008	336	93.0	60.6	81.5	1.71	1.46	1.25	16.3	12.1	6.8	71.3	-32.0
2007	379	95.1	75.2	67.0	1.77	1.48	1.24	14.4	9.7	5.9	55.1	-51.9
2006	359	97.0	80.2	50.9	1.70	1.42	1.12	11.5	7.2	2.1	31.8	-100.0
2005	287	98.5	93.6	36.7	1.71	1.44	1.10	12.8	7.9	3.2	105.5	-100.0
2004	172	99.1	118.1	17.8	1.87	1.49	1.17	17.7	8.9	3.6	75.0	-26.0
2003	134	99.7	143.8	7.5	2.06	1.62	1.29	22.6	13.1	7.2	239.8	-49.9
2002	141	100.0	145.2	1.9	2.08	1.60	1.26	27.0	12.9	4.6	207.0	-47.2
2001	186	100.0	150.0	4.4	2.10	1.61	1.28	25.1	12.4	6.2	70.0	-23.9
2000	266	99.3	140.0	0.6	2.07	1.50	1.05	20.7	11.3	2.8	138.0	-96.0
1999	182	100.0	140.8	0.0	1.83	1.41	0.90	15.5	9.2	0.6	154.7	-40.6
1998	192	100.0	142.4	0.0	1.86	1.43	1.02	16.4	9.3	2.4	514.3	-100.0
1997	171	100.0	153.7	0.0	2.33	1.55	1.21	24.1	12.5	4.7	267.8	-45.7
1996	127	100.0	167.2	0.0	2.25	1.68	1.26	27.5	13.8	6.5	188.4	-33.3
1995	116	100.0	187.2	0.0	2.53	1.88	1.38	29.2	17.7	8.9	447.4	-22.0
1994	102	100.0	179.2	0.0	2.50	1.79	1.30	32.8	18.8	7.8	92.2	-22.6
1993	87	100.0	233.2	0.0	3.40	2.33	1.53	40.6	22.6	10.9	105.7	-29.1
1992	79	100.0	183.9	0.0	2.84	1.84	1.36	33.9	19.0	8.6	110.4	-49.9
1991	42	100.0	219.6	0.0	3.02	2.20	1.68	31.1	21.7	11.8	346.4	-0.5

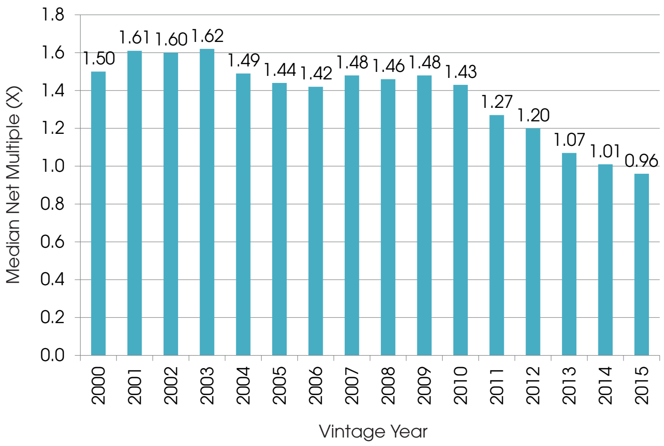
Source: Preqin Performance Analyst

Fig. 5.16: All Private Equity - All Regions: Median Net IRRs and Quartile Boundaries by Vintage Year (As of 30 June 2015)



Source: Preqin Performance Analyst

Fig. 5.17: All Private Equity: Median Net Multiple Returns by Vintage Year (As of 30 June 2015)



Source: Preqin Performance Analyst

Investor Appetite for Private Equity in 2016

In Brief

- The proportion of LPs that have seen private equity exceed their expectations has almost doubled since 2014, as record distributions continue to keep investors happy.
- North America has witnessed a resurgence in investor appetite; the region is viewed by over 70% of investors as providing the best private equity opportunities in 2016.

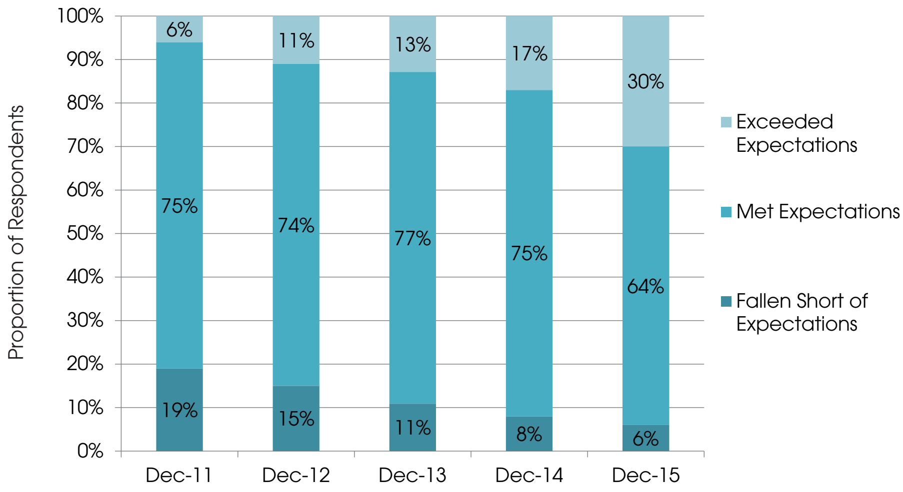
In December 2015, Preqin spoke with 100 LPs globally to determine their current appetite for private equity & venture capital and their future investment plans. The positive survey results suggest that investor appetite for the asset class will remain strong over 2016; the majority (65%) of LPs maintain a buoyant perception of the industry, while only 6% currently perceive it in a negative light.

Investor Sentiment and Returns Expectations

Fig. 6.11 reflects this optimistic perception of and outlook for the private equity market. Sixty-four percent of investors stated their private equity portfolio had met their expectations in 2015, with an additional 30% feeling their investments had exceeded expectations. Over the past five years investors have become increasingly positive in regards to their private equity fund investments, with the proportion that had their expectations surpassed increasing fivefold from 2011 to 2015. With record levels of distributions outstripping capital called, LPs are seeing more and more money returned to them, helping to explain the optimism.

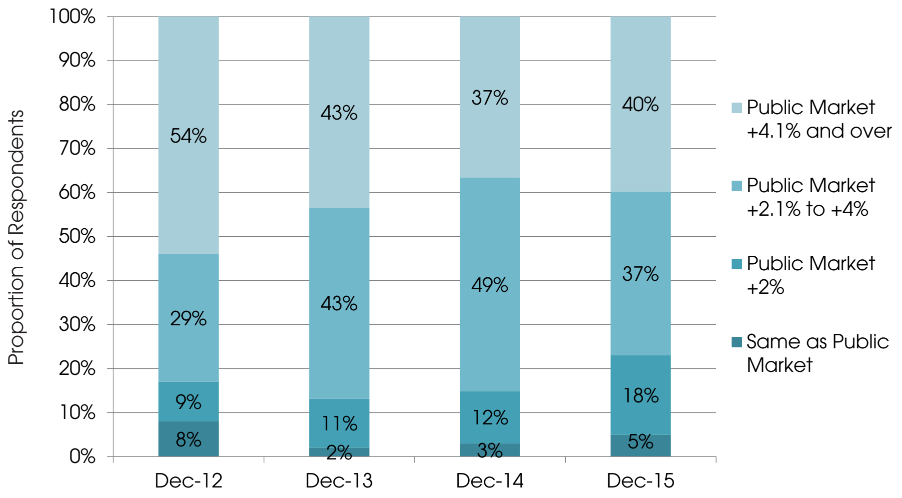
As shown in Fig. 6.12, 95% of investors surveyed expect their private equity portfolio returns to exceed public market returns, which is a marginal decrease from 97% in the corresponding 2014 survey. The proportion of respondents that are expecting to receive returns of more than four percentage points over public markets has decreased considerably from December 2012 to December 2015. This is perhaps a knock-on effect of recent pricing concerns and an illustration that while LPs still expect superior returns to the public market, their expectation about the degree of outperformance has reduced.

Fig. 6.11: Proportion of Investors that Feel Their Private Equity Fund Investments Have Lived up to Expectations, 2011 - 2015



Source: Preqin Investor Interviews, December 2015

Fig. 6.12: Investors' Return Expectations for Their Private Equity Portfolios, 2012 - 2015



Source: Preqin Investor Interviews, December 2015

Fund Manager Outlook for 2016

In Brief

- Valuations are the primary concern for North America- and Europe-based fund managers in 2016, while fundraising is viewed as the biggest challenge for managers outside these regions.
- The majority of fund managers are looking to increase or maintain the amount of capital deployed in private equity investments over the next 12 months.

In November 2015, Preqin surveyed 330 private equity and venture capital fund managers from around the world to gain insight into the current issues affecting the industry and their outlook on the year ahead.

Key Issues

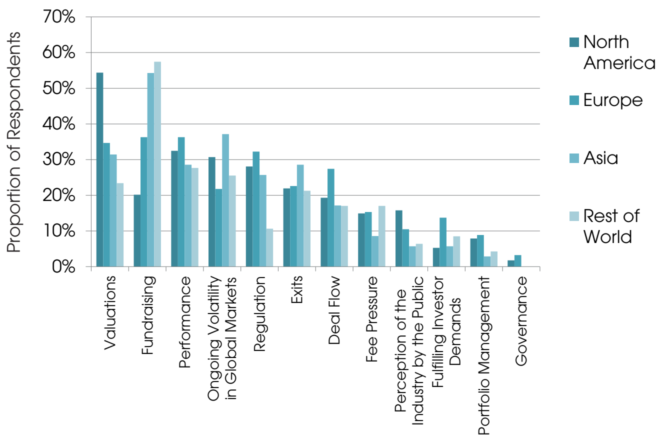
Overall, valuations are seen by fund managers as the most widespread issue for private equity in 2016, with 40% of all respondents concerned about the price of portfolio companies. This issue has seen an eight percentage point rise from last year, and has overtaken fundraising to become the greatest challenge that fund managers perceive as facing them in 2016. However as Fig. 7.3 shows, there is significant variation geographically in the perception of the biggest challenges for GPs in 2016. Of the North America-based GPs surveyed, concern over valuations outweighed any other issue by some margin, while a more equal proportion of Europe-based GPs highlighted a far wider range of issues as their area of primary concern, including valuations, fundraising, performance and regulation. Asia- and Rest of World-based managers however, appear to be far more apprehensive about fundraising, with 54% and 57% of respondents selecting this issue respectively. As confirmed by Preqin's LP survey results (see page 55), the fact that the majority of LPs believe the more developed private equity markets are the regions presenting the best opportunities, combined with the rise of 'unicorn' valuations and greater competition for deals, perhaps goes someway to explain this geographic variation.

Performance, regulation and the ongoing volatility and uncertainty in global markets were all selected by significant proportions of fund managers, with Asia-based managers unsurprisingly the most concerned about the global economic outlook moving into 2016. Europe-based managers were the most concerned about regulation, highlighting the long-term impact that the AIFMD and other regulation is having on the European private equity market. Additionally, 29% of Asia-based fund managers were concerned about exits, more than in the other regions, possibly due to economic fears and the difficulty of pulling off a successful IPO.

With valuations cited as the largest challenge for the coming year, this suggests that private equity managers have been struggling to find the best investment opportunities at the right prices. When asked about the difficulty of sourcing attractive investment opportunities compared to 12 months ago, 38% of fund managers expressed that it is more difficult now than last year. Only 9% of respondents suggested that it is now easier to find attractive opportunities, the same proportion seen in last year's survey. Over half (51%) of fund managers stated that they have seen no change in the difficulty of finding attractive deal opportunities, despite the widespread concerns over valuations.

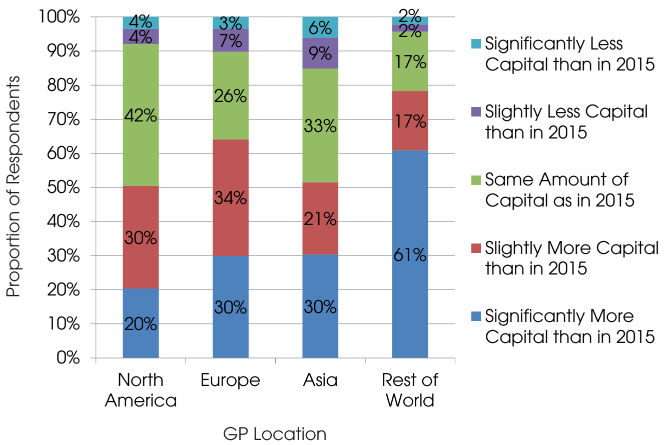
In spite of this, the majority (60%) of fund managers expect to increase the amount of capital deployed in private equity assets in the next 12 months. As shown in Fig. 7.4, Rest of World-based fund managers are the most likely to

Fig. 7.3: Biggest Challenges Facing Private Equity Fund Managers in 2016 by GP Location



Source: Preqin Fund Manager Survey, November 2015

Fig. 7.4: Amount of Capital Fund Managers Plan to Deploy in Private Equity Assets in 2016 by GP Location



Source: Preqin Fund Manager Survey, November 2015

Private Equity-Backed Buyout Deals

At $411bn, 2015 witnessed the highest annual aggregate value of private equity-backed deals since the 2007 peak, as shown in Fig. 8.12. Notably, 26% of that amount was represented by just two deals: the announced $67bn acquisition of EMC by Dell Inc., Silver Lake, MSD Capital and Temasek Holdings – the largest private equity-backed buyout on record – and the $40bn merger between H.J. Heinz Company, a portfolio company of Berkshire Hathaway and 3G Capital, and Kraft Foods Group.

This significant aggregate value of private equity-backed buyout deals in 2015 represented an 18% increase on 2014's total and denotes the sixth consecutive year of year-on-year rises. Based on data currently available, 6% fewer deals took place in 2015 (3,556) than in 2014. This has meant that the average size of a private equity-backed buyout deal has increased for the fourth consecutive year, and stands at $494mn in 2015.

Q4 2014 saw the greatest number of deals take place in any quarter since Q2 2011, with the number of deals 14% lower in the first quarter of 2015 at 876 transactions. However, the aggregate value increased by 17% with total quarterly deal value exceeding $100bn for the first time since 2007, largely due to the aforementioned $40bn merger between H.J. Heinz Company and Kraft Foods Group. Deal activity for the remainder of the year was varied. Q4 2015 registered both the lowest quarterly number of deals (864) and the highest aggregate deal value ($131bn), once again exceeding the $100bn mark due to the announced $67bn EMC deal.

2015 in Context

- Deal flow has continued to recover since 2009, with 2014 deal volume (3,796) exceeding the 2007 record level (3,765).
- 2015 saw 3,556 deals take place, in line with the average number of deals annually since 2011 (around 3,600).
- Aggregate deal value has seen consistent growth each year since 2009, reaching $348bn in 2014 and increasing further to $411bn in 2015, a post-crisis high.
- However, despite aggregate deal value increasing by 254% since 2009, it is yet to reach the level seen in 2007 ($694bn).

Secondary Buyouts

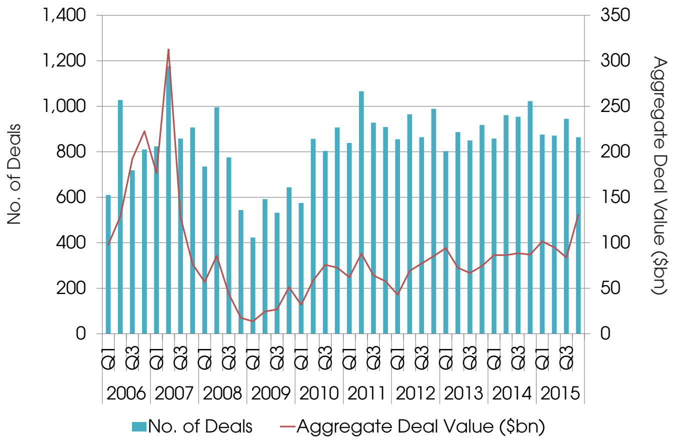
Secondary buyouts (SBOs) are somewhat controversial within the private equity industry and at times are labelled negatively as 'pass-the-parcel' deals. Some LPs are sceptical of the value-enhancing strategies that a GP can bring to a portfolio company previously owned by another private equity firm, while there is also the possibility of an LP being exposed to the same portfolio company via both buying and selling GPs. Conversely, others maintain that different private equity firms can take a portfolio company to the next stage of growth using their different skillsets and expertise, as well as injections of capital that may not have been available from the previous owners.

In 2015, there were 492 SBOs announced globally, valued at $72bn, representing a 3% decrease in number and 25% reduction in aggregate value compared to 2014 (Fig. 8.15). Nevertheless, SBOs accounted for 14% of the total number of buyout deals in 2015, a one percentage point increase on 2014 levels, suggesting that despite varying views with regards to SBOs, fund managers see them as both a viable exit route and as a potentially viable source of deal flow for new investments.

Outlook

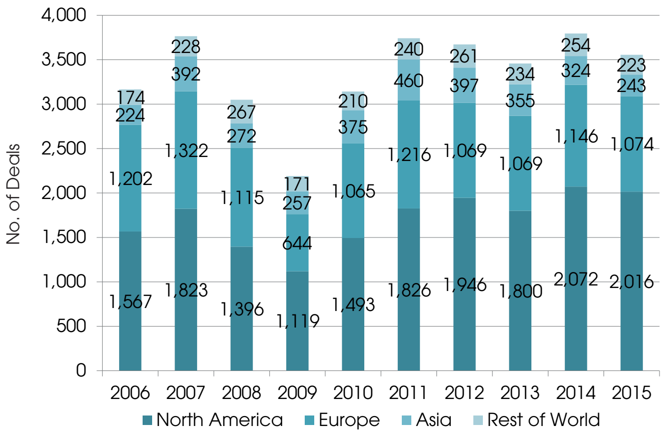
2015 saw a fall in the number of private equity-backed buyout deals compared with 2014. The year will be remembered for concerns over high entry valuations while managers were placed under increasing pressure to put the growing stores of dry powder to work. Secondary buyouts accounted for one in every seven transactions for the second year in a row and add-on & merger deals accounted for a record 38% of the number of all private equity-backed buyout deals (see page 78). These figures are reflective of

Fig. 8.12: Number and Aggregate Value of Private Equity-Backed Buyout Deals Globally, Q1 2006 - Q4 2015*



Source: Preqin Buyout Deals Analyst

Fig. 8.13: Number of Private Equity-Backed Buyout Deals by Region, 2006 - 2015*



Source: Preqin Buyout Deals Analyst

*Data is correct as at time of publishing (15 January 2016); 2015 deals figures are expected to increase as further data becomes available.

Industry in Focus: Internet

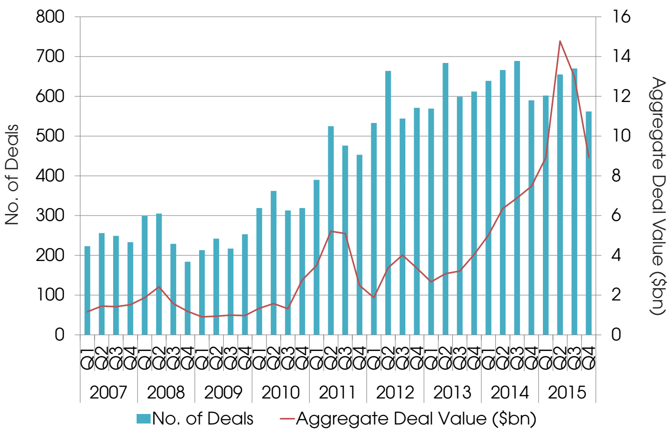
The impact of technological developments across the globe and the rise of the internet since the turn of the century has been felt in economies the world over. The influence on the venture capital industry has been great, with the internet sector growing to be responsible for over a quarter (27%) of the total number of venture capital deals and over a third (34%) of aggregate deal value in 2015, up one and six percentage points respectively from 2014.

In 2015, 2,489 venture capital financings were announced globally in the internet industry, a slight decrease from 2,584 transactions in 2014 (Fig. 9.27). Despite this, aggregate value in 2015 ($46bn) was 77% higher than in the previous year, and represents the highest annual figure recorded in the period since 2007.

2015 was the first year since 2007 that saw Greater China overtake Europe in terms of the number of venture capital financings in the internet industry and surpass North America in terms of aggregate deal value (Fig. 9.28 and Fig. 9.29). Greater China saw 681 deals in the internet industry in 2015 with an aggregate value of $20bn, representing 27% of the total number of global internet financings and 44% of the value, the highest recorded for the region in the period 2007-2015.

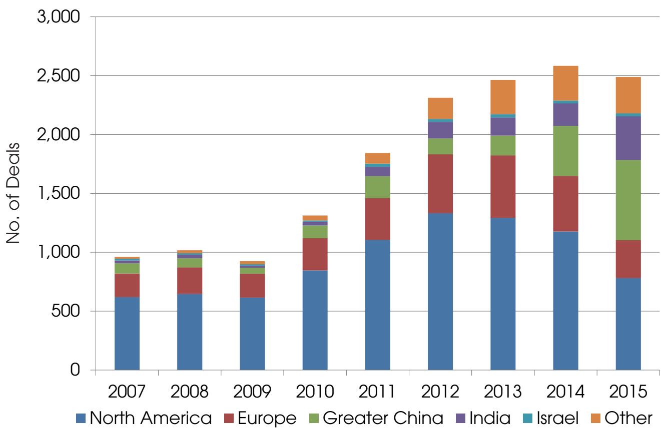
The market share for North America financings decreased in 2015 for both number of deals and aggregate value to 31% and 28% respectively for all global venture capital internet financings, the smallest proportions for the region since 2007. Notably, the number of internet deals in India almost doubled from 192 in 2014 to 371, representing 15% of all global financings in the industry in 2015.

Fig. 9.27: Number and Aggregate Value of Venture Capital Deals* in the Internet Industry, Q1 2007 - Q4 2015**



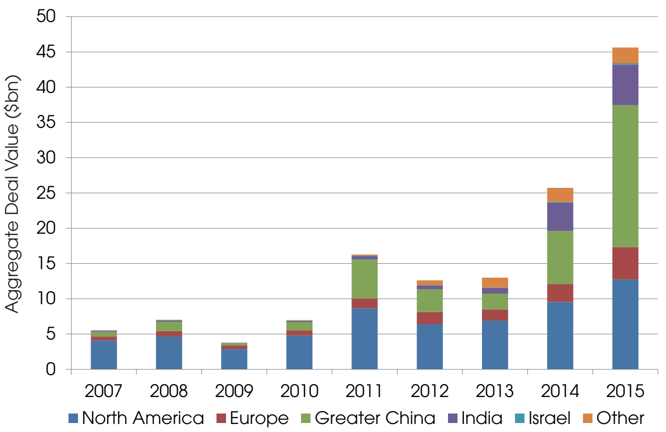
Source: Preqin Venture Deals Analyst

Fig. 9.28: Number of Venture Capital Deals* in the Internet Industry by Region, 2007 - 2015**



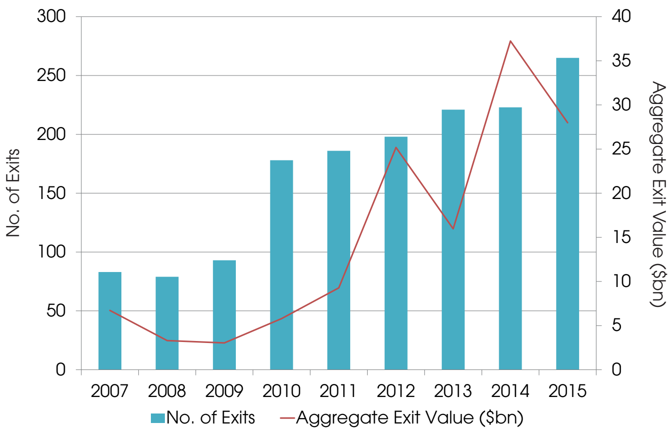
Source: Preqin Venture Deals Analyst

Fig. 9.29: Aggregate Value of Venture Capital Deals* in the Internet Industry by Region, 2007 - 2015**



Source: Preqin Venture Deals Analyst

Fig. 9.30: Number and Aggregate Value of Venture Capital Exits in the Internet Industry, 2007 - 2015**



Source: Preqin Venture Deals Analyst

**Figures exclude add-ons, grants, mergers, secondary stock purchases and venture debt.*
***Data is correct as at time of publishing (15 January 2016); 2015 deals and exits figures are expected to increase as further data becomes available.*

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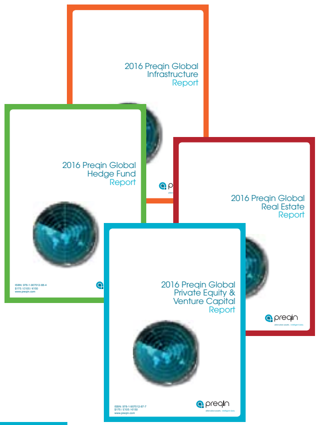

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