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Private Equity

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Contributing editors

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LEXOLOGY

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Through a series of engaging interviews with leading legal practitioners in key jurisdictions, *Panoramic Next: Private Equity* analyses the biggest trends and most consequential recent developments in private equity activity worldwide. Addressing major market trends and regulatory changes, it offers vital insights relevant to both sides of private equity transactions.

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Global Overview

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Americas

Announced M&A deal value during the first half of 2024 in the Americas totalled approximately US$891.6 billion, reflecting an increase of approximately 34 per cent compared to the first half of 2023. In contrast, the volume of completed deals decreased 30 per cent in the first half of 2024, for a total of 7,807 deals. During the first half of 2024, M&A activity in the United States reached a total deal value of approximately US$813.6 billion, an increase of nearly 40 per cent as compared to US$586.5 billion in the first half of 2023. On the contrary, deal volume in the United States during the first half of 2024 experienced a 33 per cent decrease relative to the first half of 2023, totalling approximately 5,928 deals, down from 8,806 deals during the first half of 2023. M&A deal volume for targets located in the Americas – excluding the United States – decreased 21.7 per cent as compared to the opening six months of 2023, with 1,879 deals during the first half of 2024 as opposed to 2,401 deals during the first half of 2023. Total deal value for targets located in the Americas – excluding the United States – reached approximately US$77.9 billion during the first half of 2024, down approximately one per cent from US$78.5 billion during the first half of 2023 (all the above from Refinitiv).

US private equity activity in the first half of 2024 encountered a year-over-year decrease of 7.4 per cent in deal value for approximately US$325.2 billion across 3,198 deals, a 17 per cent decrease in deal volume. The US Federal Reserve's focus on maintaining relatively high interest rates continued to contribute to private equity firms expressing more caution and resulted in lowered leveraged buyout (LBO) activity, which dropped 7.3 per cent to US$155.2 billion in value in the first half of 2024 compared to US$167.5 billion the same period a year ago (PitchBook). Notable announced or completed private equity acquisitions in the Americas during the first half of 2024 included the US$25 billion acquisition of Endeavor Group Holdings, Inc by Silver Lake; the US$15.5 billion acquisition of Truist Insurance by an investor group led by Stone Point Capital and Clayton, Dubilier & Rice; and the US$10 billion acquisition of AIR Communities by Blackstone Real Estate Partners.

Europe, Middle East and Africa

M&A deal value in Europe, the Middle East and Africa (EMEA) for targets located in the region totalled approximately US$388.4 billion across 8,019 deals during the first half of 2024, an increase of approximately 40 per cent from US$276.6 billion during the same period last year. European M&A activity reached approximately US$342.7 billion in total announced M&A deal volume, up 39 per cent as compared to the first half of 2023. M&A deal value involving the Middle East and Africa was up significantly at US$45.7 billion, which represents a year-over-year increase of 49 per cent. M&A deal volume involving the Middle East and Africa was down to 697 deals as compared to 910 deals during the first half of 2023 (all of the above data provided by Refinitiv). European-based private equity activity (including exits, buyouts and secondary buyouts), experienced an uptick in the second quarter of 2024 largely due to the European Central Bank cutting interest rates in June. European private equity deal value reached approximately €191.5 billion across 2,796 deals in the first two quarters of 2024, similar to the same period of 2023 (PitchBook). Private equity in EMEA saw increases in aggregate buyout and exit value but a decrease of 19 per cent in deal volume in the first six months of 2024, with sponsors engaging in smaller deals largely due to the high cost of borrowing (Mergermarket). Thus far in 2024, capital raised in private equity funds in Europe totalled €92 billion, on track to outpace the €122.1 billion raised in 2023. While the median deal size in European private equity increased slightly to about €23 million, the average private equity deal size in Europe surged from €191.9 million in 2023 to €229.8 million in the first half of 2024 (PitchBook). Notable announced European private equity transactions during the first half of 2024 included the €3.9 billion acquisition of Aareon by a consortium led by TPG Capital; €2.2 billion acquisition of Keywords Studios Plc by EQT; and the €1.4 billion acquisition of Swedish renewables company OX2 by EQT.

Asia-Pacific

Announced M&A deal value in the Asia-Pacific region totalled approximately US$258.7 billion across 7,413 deals during the first half of 2024, which represented a year-over-year decrease in deal value of approximately 27.8 per cent, marking the slowest opening six months since 2013, coupled with a year-over-year decrease in deal volume of nearly 16 per cent. During the first half of 2024, M&A activity involving China totalled US$96 billion, representing a year-over-year decrease of 26 per cent, driven in part by regulatory changes and the continued tensions with the US over Taiwan. Even though the M&A activity in China decreased from 2023 levels, Chinese dealmaking accounted for approximately 37 per cent of the overall M&A activity in the Asia-Pacific region, up from the 36 per cent overall share for the same period of 2023. M&A deal value in Japan totalled approximately US$32.6 billion during the first half of 2024, a 46 per cent decrease in deal value from the first half of 2023 (all of the above data provided by Refinitiv). Notable private equity transactions announced in the Asia-Pacific region during the first half of 2024 included the US$2.7 billion acquisition of Perficient Inc by EQT; and the US$2.31 billion acquisition of South Korea-based car rental services provider SK Rent A Car Co Ltd by Affinity Equity Partners.

Debt financing markets

During the first half of 2024, global syndicated loan revenue reached US$2.5 trillion, up four per cent year-over-year, marking the strongest opening six months in two years, with the second quarter of 2024 trailing by four per cent in loan value compared to the first quarter of the year. However, volume decreased year-over-year by 18 per cent to 4,361 deals, which marked a 12-year low. The first six months of 2024 were also the strongest opening six months for acquisition-related financing activity since 2022, as the overall volume of acquisition-related financing reached US$236.2 billion, an increase of 42 per cent from the same period last year. Syndicated lending in the United States represented 70 per cent of the global syndicated loan market by value, and increased 13 per cent year-over-year to US$1.8 trillion across 2,328 deals, marking a nine per cent decrease in volume compared to the first half of 2023 (all the above information provided by Refinitiv).

Overall global debt capital markets activity in the first six months of 2024 totalled US$5.4 trillion, up 11 per cent compared to opening six months of 2023, and marked the strongest opening six months since 2021. Investment-grade loans have proven desirable and capital has been invested in higher-rated companies' debt, which investors consider safer among the uncertainty throughout global markets. In the first half of 2024, US$2.7 trillion was raised in the investment-grade space, up 13 per cent year-over-year. Global high yield bond issuances were up 83 per cent year-over-year, marking a three-year high with US$222.1 billion in value. Offerings from issuers in the United States, France and the United Kingdom accounted for 72 per cent of all high-yield bond offerings in the first half of 2024, on par with last year's levels (all the above information provided by Refinitiv).

Private credit has blossomed alongside central banks' rate hikes and a generally conservative approach to lending by banks globally. As an asset class, private credit continued to grow during the first half of 2024 and is projected by Preqin to reach US$2.8 trillion by 2028, almost two times its presence of US$1.5 trillion in 2022, reflecting an expectation for an even greater increase in private credit allocations by a broad spectrum of investors, such as retail investors, in years to come (Preqin). The ability of private credit investors to move quickly and nimbly and remove the economic risk associated with syndication strategies will also continue to be very appealing to private equity sponsors.

Portfolio company sales and public listings

Portfolio company exits by private equity sponsors declined compared to the past year's opening six months, due in part to the relatively high cost of borrowing, stubborn inflation levels and sustained valuation gaps between buyers and sellers. In the opening six months of 2024, private equity sponsors exited 1,130 times for approximately US$309.6 billion, down 40 per cent and 26 per cent, respectively, as compared to the first half of 2023 (PitchBook). Macroeconomic and geopolitical headwinds resulted in an increased backlog of unrealised assets in private equity managers' portfolios, and in turn, has slowed liquidity distributions to limited partners (LPs). Sponsor-to-sponsor deals, in which portfolio companies are sold between private equity firms, declined sharply. In the second quarter of 2024, sponsor-to-sponsor deals accounted for just 21.8 per cent of all US exit value, down from 38.8 per cent in the first quarter of 2024 (PitchBook). To provide desired liquidity to LPs, partial sales and general partner (GP)-led secondary transactions, which are sales of portfolio companies to newer funds established by the same GP or to continuation funds established by the GP, are expected to continue their significant traction. GP-led secondaries were especially popular in 2022 and 2023 and have continued to be a viable pathway to provide private equity investors with liquidity while still allowing GPs and other investors to remain invested in strong portfolio company assets across a longer hold period. While the plunge in exit activity has resulted in longer portfolio hold periods and slowed distributions to LPs throughout last year, the secondary sale market is expected to relieve some of the liquidity demands in the coming months as GPs and LPs alike seek new paths towards liquidating their investments. Notable portfolio company investment exits during the first half of 2024 included Elliott Investment Management and Franklin Templeton's US$13.4 billion sale of Windstream to Uniti Group; and the New Mountain Capital's US$2.3 billion sale of ILC Dover to Ingersoll Rand.

During the first half of 2024, the IPO market experienced some welcome signs of life in the United States. The rapid slowdown in IPO exit activity seen in 2022 and 2023 started to shift course based on the trends seen in the first half of 2024, recording US$21.7 billion of completed value in the United States, already outpacing the US$21.5 billion in IPO exits for all of 2023. The value of completed private equity-backed exits in the first half of 2024 has accounted for 11.9 per cent of the total exit value in the United States (PitchBook). Global IPO activity fell 12 per cent during the first half of 2024, with proceeds down by 16 per cent year-over-year, raising US$52.2 billion in capital over 551 listings (Ernst & Young). The most notable IPOs were BrightSpring, which raised US$1.1 billion, Astera Labs, which raised US$819.7 million and Zeekr, which raised US$441 million. Exits via transactions with a special purpose acquisition company (SPAC) continued to fall out of favour in the United States, accounting for only 6.3 per cent of capital raised via IPOs in the first quarter of 2024 (Fortune).

H1 increase in private equity fundraising

Global private equity fundraising in the first half of 2024 accelerated in the aggregate relative to the same period in 2023. Aggregate fundraising volume rose 9 per cent year-on-year, to US$409 billion (all statistics in this section provided by Private Equity International). The total number of funds identified as holding final closings during the first half of 2024 decreased nearly 20 per cent to 861, compared to 1073 during the same period last year, which reflects the lengthening of average fundraising periods observed in the first half of 2024. However, the average size of funds closed during the first half of 2024 increased to US$475 million, up from an average of US$349 million during the first half of 2023. The increase in overall fundraising was driven largely by mega-funds, the top three of which raised at least US$20 billion each, as further discussed below. Consistent with recent prior periods, the capital was concentrated at mega-funds (ie, funds raising approximately US$5 billion or more) of the recognised top-performing sponsors. This concentration demonstrates the continued consolidation in the private equity industry in favour of larger, established sponsors with proven track records as a result of institutional limited partners seeking to make larger commitments to fewer funds, consolidate manager relationships and invest with sponsors with whom they had prior relationships. Specifically, in the first half of 2024, the 10 largest funds together raised US$150 billion, which represents about 37 per cent of the total capital raised during this period.

Regarding the distribution of capital across different types of private equity funds, buyout funds accounted for 70 per cent of capital raised during the first half of 2024, while growth equity and venture capital funds constituted only 9 and 12 per cent of capital raised, respectively. Buyout funds, however, made up only about 32 per cent of funds closed, while venture capital funds accounted for nearly 48 per cent.

Geographically, fundraising was concentrated in North America during the first half of 2024, in line with 2023. North America-focused funds accounted for 40 per cent of all capital raised in the first six months of this year, a similar proportion as in prior years. Comparatively, the proportion of total capital raised by Europe-focused funds was 10 per cent, and by Asia-Pacific-focused funds, 7 per cent. Compared with the first half of 2023, as recorded thus far, in the first half of 2024 Europe-focused funds raised nearly US$17 billion less capital than in the prior period, while Asia-Pacific-focused funds raised US$3 billion more capital than in the prior period. Additionally, funds targeting multiple geographic regions attracted US$172 billion, or 42 per cent, of aggregate capital raised during the first half of 2024.

It is expected that overall fundraising levels will remain steady in the near term. There are 5,573 private funds in the market as of 30 June 2024 seeking to raise US$1.16 trillion in total capital, compared to 4,516 funds that were targeting US$1.24 trillion at the same time last year. The considerable increase in the number of funds in the market without a corresponding increase in targeted capital suggests some tempered expectations around ultimate fund size.

Many investors are expected to continue to favour managers with established track records that have navigated many past economic cycles. Larger institutional investors will continue to consolidate their relationships with experienced fund managers and competition for limited partner capital among private equity funds will continue to increase, with alternative fundraising strategies (eg, customised separate accounts, co-investment structures, continuation funds, early-closer incentives, umbrella funds, anchor investments, core funds, growth equity funds, impact funds, GP minority stakes investing, secondaries and complementary funds (ie, funds with strategies aimed at particular geographic regions or specific asset types)) playing a substantial role. As a result, established sponsors with proven track records should continue to enjoy a competitive advantage and first-time funds in particular will need to accommodate investors by either lowering fees, expanding co-investment opportunities, focusing on unique investment opportunities or exploring alternative strategies. It should be noted that of the US$1.16 trillion in total capital targeted as of June 2024, approximately 14 per cent is being sought by the 10 largest funds, which are overwhelmingly managed by established sponsors. Moreover, it is anticipated that private equity fundraising will continue to focus on established, dominant markets in North America and Europe. Finally, it is also expected that the SEC will continue to focus on transparency (eg, full and fair pre-commitment disclosure and informed consent from investors) with respect to conflicts of interest (including, among others, conflicts of interest arising from the allocation of costs and expenses to funds and portfolio companies, the allocation of investment opportunities and co-investment opportunities and the calculation and receipt of other fees and compensation from funds, portfolio companies or service providers). Given this, larger private equity firms with the resources in place to absorb incremental compliance-related efforts and costs are likely to continue to enjoy a competitive advantage over their peers.

The characteristics of a typical fundraise reflect recent upward trends in investor demand for opportunities to invest in private equity funds and the consolidation of investor capital in experienced fund managers. Fundraising in today's environment has become less episodic and more resource-intensive, with fund structures, terms and marketing timelines customised to most effectively address the business objectives of sponsors, particularly experienced sponsors with proven track records. The following is a simplified framework and timeline for a typical private equity fundraising.

Outlook for the second half of 2024

Global M&A activity has experienced a steady recovery in the first half of 2024 and marked an increase of 10 and 15 per cent, respectively, as compared to the deal count and value during the same period of last year. Despite political turmoil caused by the continued Russia–Ukraine and Israel-Palestine conflicts and the upcoming US election, the M&A markets experienced a strong opening six months spurred by the optimism among dealmakers based on the actual and expected lowering of interest rates globally. Banks have begun to re-enter the acquisition financing market and have started to lend to dealmakers again, in addition to the non-bank financial sources who stepped in to bridge the gap for acquisition financing while traditional lenders largely abstained from the financing markets in the last two years. As the M&A deal value trends towards pre-pandemic values, we expect the remainder of the year to follow the trends of the first two quarters of 2024, particularly as private equity sponsors and other financial investors look to spend down the record dry powder reserves on hand (PitchBook). The increasing deployment of private equity dry powder in the first two quarters of 2024 pushed the private equity's share of the total M&A deal value to 41 per cent, indicating a potential end to the two-year slowdown of the deployment of capital by private equity sponsors. Private equity sponsors have currently 1.5 times more dry powder on hand than pre-pandemic with US$3.9 trillion as of June 2024 (US$1.1 trillion in buyout funds), creating ample resources for sponsors to spend after a long period of relative inactivity in the market. With buyout funds continuing to sit on unexited assets, LPs are still experiencing a liquidity crunch, creating pressure on GPs to exit their investments to return capital to their LPs, although this pressure has been partially eased by partial sales, GP-led secondary transactions and other alternative liquidity events. The combination of record levels of dry powder held by private equity firms and near-record corporate cash reserves are also expected to put potential acquirers under pressure to spend down their available capital and to further fuel the deal activity during the rest of 2024.

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