Q1 2019 GLOBAL
Private Equity
UPDATE

2018 in Review

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Introduction

Private equity had a strong year globally in 2018. Despite high valuations, there remains significant capital to invest and multiple investors looking for opportunities. Many sponsors are looking beyond traditional auction buyout activity to identify opportunities, whether in the context of platform deals, carve-outs, growth deals, or alternative asset investing. With that backdrop, we look back on 2018 in terms of market activity, trends and developments across the U.S., Europe and Asia, and look to what 2019 may bring.

	United States	Europe	Asia
Overall deal market activity	PE deal activity generally strong, with continued high valuations, generally plentiful credit, and strong competition among buyers for quality targets. While buyouts remain the main transaction type in the market, sponsors are increasingly looking at other types of transactions to put capital to work. Sponsors are spending more time evaluating transactions that require additional time commitment – like platform investments and carve-outs – where sponsors consider	Deal activity at the start of 2018 was particularly strong, with all of the year's megadeals ($10bn+) being announced in the first half. However, deal activity slowed in the second half, particularly in the final quarter, perhaps because of some global macroeconomic uncertainty, Brexit, China's economic slowdown and shrinkage in the German and Italian economies. Notwithstanding, European M&A reached its highest post-crisis value, and value	Like in U.S., PE deal activity remains generally solid, with limited quality targets and strong competition among buyers. Buyouts continue to increase but remain a relatively thin slice of the market. Average deal size significantly increased from 2017, and there was an increase in transactions structured as carve-outs. Large Asia-based sponsors continue to look outside of Asia for deals. However, increased scrutiny of foreign investments in many

	United States	Europe	Asia
	there may be more opportunities to find value than in the traditional auction buyout market. We are also seeing more take-private transactions.	share of global M&A, since 2014. The Netherlands became the top European market for private equity transactions by deal value, with the U.K. losing its number one ranking, held since 2011.	jurisdictions has made completing cross-border deals more challenging for Asia-based investors.
Industries most active	Activity robust across many industries, including business services, financial services, healthcare, and technology.	Robust activity across many industries, with the highest levels reported in energy, mining and utilities, TMT and pharma, medical and biotech.	Consumer-related sectors continue to be most active, including healthcare, financial services, retail and TMT.
Valuations	Valuations remain very high, especially for well-run companies in the upper middle market and large buyout areas. This continues to be a significant challenge for sponsors. We continue to see significant focus on the calculation of EBITDA, as sellers look to extract as much value as possible from buyers.	With record levels of dry powder available, the competition for top class assets remains strong, with exit multiples continuing to rise. Buyout deal sizes have continued to grow as sponsors continue seeking larger targets, more carve-outs and take-private deals.	Despite increasing uncertainty arising from protectionism and global trade tensions, an abundance of dry powder and a relative scarcity of quality assets has continued to result in strong competition among buyers and generally higher valuations. Valuations for assets viewed as less attractive fell in both the public and private markets.
Auction activity	Auctions are still prevalent. However, sponsors are spending more time on proprietary or alternative deals. For sponsors who have companies in a good position to sell, 2018 was a strong year in terms of exits and generated significant returns for investors.	Auctions still dominate the market, however data shows that there was a significant increase in bilateral deals, perhaps due in part to the increasing competitiveness of auctions.	Auctions continue to be prevalent, particularly for larger deals and control deals of any size.
Auction dynamics	Auctions generally remain highly competitive. To be successful in an auction, a sponsor has to be prepared to sign a deal within days from the final bid date (if not	Auctions remain highly competitive and sponsors must be prepared to execute deals quickly, with pre-emptive bids continuing to feature for attractive	Auctions for quality assets remain highly competitive. Sponsors have been less successful in jumping auctions, even when pro-actively offering transaction

	United States	Europe	Asia
	on the same day as the final bid date, after pre-negotiating the purchase agreement). Pre-emptive bids are common and proprietary deals can evolve into competitive auctions. A continuing trend is that we continue to see rising participation in auctions by non-traditional PE players (e.g., sovereign wealth funds, pension plans and family offices).	assets. Continuing the trend from last year, alternative sources holding capital (sovereign wealth funds, government pension plans, family offices and infrastructure funds) are growing as participants in the market and are creating more competition for assets.	insurance, full-equity backstop, limited conditionality and limited or no post-closing liability for the seller. Participants in auction processes are generally traditional PE players, and typically do not include family offices, sovereign wealth funds and pension plans, who are more likely to participate in deals as co-investors.
Trends in purchase agreements	We have not seen any "push back" generally on the overall seller friendly trends in purchase agreement. Deals are very often structured as "walk away" or "public style" with no or very limited indemnification (in some deals a limited escrow of 1% or less) to support transaction (R&W) insurance. There is limited conditionality, and significant focus on speed and timing, impacting marketing period discussions on financing and any other aspects of the documents that impact timing (increasing use of "inside date" rather than marketing period). In addition, we have seen an increased use of locked box structures, but the traditional purchase price calculation is still the preferred form.	Sale terms continue to be seller friendly, with reverse break fees continuing to feature on the hotter auctions and buyer "hell or high water" antitrust/regulatory conditions appearing regularly.	As in U.S., purchase agreement terms remain very seller friendly. There has been an increase in deals structured as "walk away" or "public style" with limited or no post-closing recourse against sellers and a greater utilization of transaction insurance as the availability of coverage increases across Asia and premiums continue to fall. Both locked box and traditional post-closing purchase price adjustment mechanism are common, with locked box widely utilized in auctions in Asia.
Status of debt financing markets	2018 was an overall strong year for the debt financing	European leveraged loan issuance fell 28% from	Debt financing sources were generally more

	United States	Europe	Asia
	markets. The debt financing markets during the first three quarters of 2018 saw high investor demand, contributing to lower pricing and borrower-friendly documentary terms. In addition, leverage levels for syndicated transactions in 2018 reached post-crisis highs, aided by a political environment focused on de-regulation and loosening of government-driven leveraged lending guidelines. The debt financing markets took a turn during the fourth quarter due to a combination of factors, including a declining stock market, uncertainty around Brexit, uncertainty around the U.S. trade policy with China and excess supply for leveraged loans. Despite the market turbulence in the fourth quarter, the market started to rebound somewhat in January 2019. Various deals have been syndicated this year, but with more mixed results in terms of pricing and documentary terms than prior years under similar market conditions.	2017, driven by a drop in repricing and refinancing activity. High yield bonds issuance also dropped. However, M&A related bond issuance grew from €10bn in 2017 to €18bn in 2018. Highly levered deals have become more popular. Covenant-lite loans have continued to be the norm not only for syndicated loans but also, with growing frequency, in unitranche or direct lending deals. Whilst 2018 was marked by periods of relative market uncertainty during which lenders were able to push back on some of the more borrower-friendly terms, the market trends continue to support strong sponsors achieving very flexible terms. A key feature of 2018 was the convergence in terms between the large cap transactions and the smaller deals with a trickle-down effect seen particularly for strong sponsors. Subscription lines (loans to PE fund managers secured against investor commitments) continue to be popular.	conservative in 2018, especially in the second half of the year, making access to debt financing more challenging. Banks have been increasingly focused on facilitating creative structures to leverage and generate yield for the abundance of dry power that is not being utilized by sponsors.
Activity outside auctions	We continue to see sponsors spending time on proprietary deals, more platform (or "buy-and-build") deals, carve-outs and minority investments. Sponsors continue to look at other asset classes	Public to private transactions and club deals are becoming increasingly common, alongside syndications of existing holdings. As mentioned above, the number of	Asia-based sponsors continue to look at other asset classes (country-specific and special situations), with an increased focus on Southeast Asia. Increasing utilization of carve-out

	United States	Europe	Asia
	(infrastructure, debt, special situations). We see rollovers on exit regularly. There was also a strong dividend recapitalization market in 2018.	bilateral deals is also increasing.	transaction structures, particularly in Japan and Korea.
Other trends and developments in 2018	We saw significant co-investor activity in 2018, with sponsors providing co-investment opportunities to limited partners. We saw a continuation of an existing trend where sponsors have looked to partner with strategics on some deals. We also saw the ongoing use of transaction insurance, although the use of insurance is by no means universal, with some sponsors heavy users of the product, and others less so.	Despite the slowdown in the final quarter of the year and Brexit uncertainty, buyers remained attracted to U.K. assets, with an increase in inbound deal activity from 2017.	As in U.S., continuing to see more consortium deals among sponsors and greater utilization of transaction insurance. Increased scrutiny of foreign investments in many jurisdictions has made completing cross-border deals more challenging. A significant premium awarded to dissenting shareholders in a 2017 decision in the Cayman Islands (where many U.S.-listed Chinese companies are incorporated) has led to a notable increase in appraisal proceedings in connection with “take private” transactions of Cayman Islands targets, making these transactions more expensive.
Overall outlook for 2019	2019 has started off with some degree of uncertainty given a number of factors – global trade, overall economic activity, the Federal government shutdown, and some uncertainty in the equity markets. While it is fair to say that most sponsors would welcome some moderation on valuations, given the extent of the capital to invest, and with the fundamentals of the	Expect market to be similar to 2018, with strong debt markets and the necessary dry powder providing the backing for larger deals. However, there may also be a proclivity amongst sponsors for more complex deals, such as carve-outs, take-privates and minority investments.	While unprecedented fundraising activity would suggest that 2018’s momentum will carry over to 2019, there is increasing uncertainty arising from macroeconomic risks in the region, including protectionism, global trade tensions and the economic slowdown in China. As a result, it remains to be seen how these competing forces will affect valuations and overall deal activity in 2019.

	United States	Europe	Asia
	U.S. economy generally remaining strong, the general expectation is that valuations will remain high and activity will remain solid.		

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REPRESENTATIVE 2018 TRANSACTIONS

Advent International *Sale of* MORSCO $1,440,000,000 July 2018	**Advent International** *Sale of* Bojangles' $700,000,000 January 2019	**Advent International** *Noosa Yoghurt's merger with* sovos brands Undisclosed December 2018	**American Securities** *Acquisition of* FleetPride Undisclosed December 2018	**American Securities** *Acquisition of* CPM Undisclosed November 2018	**American Securities** *Sale of* ULTERRA Undisclosed November 2018	**Antin Infrastructure Partners** *Acquisition of* FirstLight Undisclosed July 2018
Aterian Investment Partners *Acquisition of* Express Global Systems Undisclosed December 2018	**Aterian Investment Partners** *Acquisition of* Pioneer Undisclosed July 2018	**Aterian Investment Partners** *Acquisition of* VanderBend Undisclosed May 2018	**Aurora Resurgence Management Partners and EGI** *Sale of* SIRVA Undisclosed August 2018	**Avista Capital Partners** *Sale of* MPI Research $800,000,000 April 2018	**Avista Healthcare Public Acquisition Corp.** *Acquisition of* Organogenesis Inc. $673,000,000 December 2018	**Berkshire Partners** *Sale of* SRS Distribution Undisclosed May 2018
Blackstone and GS Merchant Banking Division *Sale of* IPREO $1,855,000,000 August 2018	**CPPIB** *Stake acquisition* REFINITIV $20,000,000,000 October 2018	**Centerbridge Partners** *Sale of* BILLABONG $313,160,000 April 2018	**Centerbridge Partners** *Acquisition of* Logan's Roadhouse Undisclosed November 2018	**Cornell Capital Partners** *Acquisition of* kdc/one Undisclosed December 2018	**Cornell Capital Partners** *Acquisition of* PureStar Undisclosed June 2018	**EQT Partners** *Acquisition of* SHOEBOX Undisclosed December 2018
EQT Partners *Acquisition of* TruHearing Undisclosed April 2018	**Genstar Capital** *Sale of* Power Products $910,000,000 August 2018	**Genstar Capital** *Acquisition of* ACTION Undisclosed February 2018	**Genstar Capital** *Sale of* BOYD Corporation Undisclosed September 2018	**GS Merchant Banking Division** *Acquisition of* Restaurant Technologies Undisclosed October 2018	**GS Merchant Banking Division** *Sale of* Drayer Undisclosed January 2018	**Goldman Sachs and Olympus Partners** *Sale of* PSAV Undisclosed August 2018
Gores Holdings II *Transaction with* Verra Mobility $2,400,000,000 October 2018	**Guidepost Growth Equity** *Stake sale* outsystems $360,000,000 June 2018	**Guidepost Growth Equity** *Investment in* ThinkHR Undisclosed August 2018	**Gurnet Point Capital** *Acquisition of* Corium $504,000,000 November 2018	**Irving Place Capital** *UHS' combination with* agiliti $1,740,000,000 January 2019	**Irving Place Capital** *Sale of* Pet Supplies Plus Undisclosed December 2018	**Irving Place Capital** *Sale of* CFG Caribbean Undisclosed December 2018
Kainos Capital *Acquisition of* good2grow Undisclosed November 2018	**Kainos Capital** *Acquisition of* Olde Thompson Undisclosed May 2018	**Lee Equity Partners** *Investment agreement with* McLarens Undisclosed December 2018	**Lee Equity Partners** *Sale of* Aimbridge Hospitality Undisclosed Pending	**Lindsay Goldberg** *Sale of* DealerTire Undisclosed December 2018	**Oak Hill Capital Partners** *Acquisition of* Integro Undisclosed February 2019	**OMERS Private Equity** *Acquisition of* Paradigm Outcomes Undisclosed October 2018
OMERS Private Equity *Acquisition of* Premise Health Undisclosed July 2018	**ORIX Capital Partners** *Acquisition of* NTICONNECT Undisclosed December 2018	**ORIX Capital Partners** *Acquisition of* PEAK Undisclosed June 2018	**Providence Equity Partners** *Acquisition of* KPA Undisclosed July 2018	**Providence Equity Partners** *Sale of* Vector Solutions Undisclosed November 2018	**Providence Strategic Growth Partners** *Acquisition of* ShootProof Undisclosed December 2018	**Providence Strategic Growth Partners** *Acquisition of* ExakTime Undisclosed January 2018
Providence Strategic Growth Partners *Sale of* YourCause $157,000,000 January 2019	**Providence Strategic Growth Partners** *Sale of* GLOBALTRANZ Undisclosed July 2018	**Providence Strategic Growth Partners** *Sale of* TherapyBrands Undisclosed July 2018	**Snow Phipps Group** *Acquisition of* Prime Package & Label Undisclosed November 2018	**SoftBank Vision Fund** *Minority investment* Cruise $2,250,000,000 June 2018	**SoftBank Vision Fund** *Minority investment* Cambridge Mobile Telematics $500,000,000 February 2019	**Sumeru Equity Partners** *Acquisition of* Actian $330,000,000 July 2018
TA Associates *Acquisition of* global software Undisclosed May 2018	**TCV** *Financing round* PELOTON $550,000,000 August 2018	**TCV** *Investment in* legalzoom Undisclosed October 2018	**TCV** *Sale of* IQMS $425,000,000 January 2019	**TCV** *Sale of* AppNexus Undisclosed August 2018	**The Gores Group** *Sale of* elo Undisclosed December 2018	**Thomas H. Lee Partners** *Sale of* Fogo de Chão Brazilian Steakhouse $560,000,000 April 2018
TPG Capital *Minority investment* RODAN+FIELDS Undisclosed May 2018	**TPG Global** *Minority investment* ceribell Undisclosed September 2018	**TPG Growth** *Minority investment* sutrovax Undisclosed May 2018	**TPG Tech Adjacencies** *Investment in* FREEDOMPAY Undisclosed September 2018	**Trive Capital** *Acquisition of* EarthLink $330,000,000 December 2018	**Trive Capital** *Acquisition of* Triumph Group Undisclosed August 2018	**Trive Capital** *Acquisition of* Undisclosed August 2018

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