PitchBook

Sponsored by Grant Thornton

US PE Breakdown

2020 Annual

PitchBook

Sponsored by Grant Thornton

Contents

Credits & contact

PitchBook Data, Inc.

John Gabbert Founder, CEO
Adley Bowden Vice President, Market Development & Analysis

Research

Wylie Fernyhough Senior Analyst, PE Lead
wylie.fernyhough@pitchbook.com
Rebecca Springer PE Analyst
rebecca.springer@pitchbook.com

Data

Andrew Akers, CFA Senior Data Analyst

Design

Megan Woodard

Click here for PitchBook's report methodologies.

Introduction

After a tumultuous March and April, marred by the COVID-19 pandemic, PE dealmaking bounced back during the latter half of 2020 to finish on a high note. When traditional LBO activity for platforms effectively froze, sponsors quickly pivoted to put capital to work in minority transactions and public companies. Smaller add-on acquisitions, which had already accounted for the bulk of buyouts, proliferated as well. Not surprisingly, the pandemic seems to have further cemented the industry's interest in the technology and healthcare sectors. Although deal count and value diminished year-over-year (YoY), the momentum gained during Q3 and Q4 indicates dealmakers are bullish heading into 2021.

Exit activity followed a similar trajectory but fell even more during the crisis only to rebound more strongly. As portfolio company marks tumbled, PE firms hunkered down, investing additional capital into their holdings and pushing out exit timeframes. After the mayhem witnessed in the spring, financial markets began to bounce back. SPACs became the hottest thing on Wall Street, and a plethora of companies underwent traditional public listings. Despite this, several multibillion-dollar exits went to other PE firms, as sponsors proved they can compete with strategics and public markets on price.

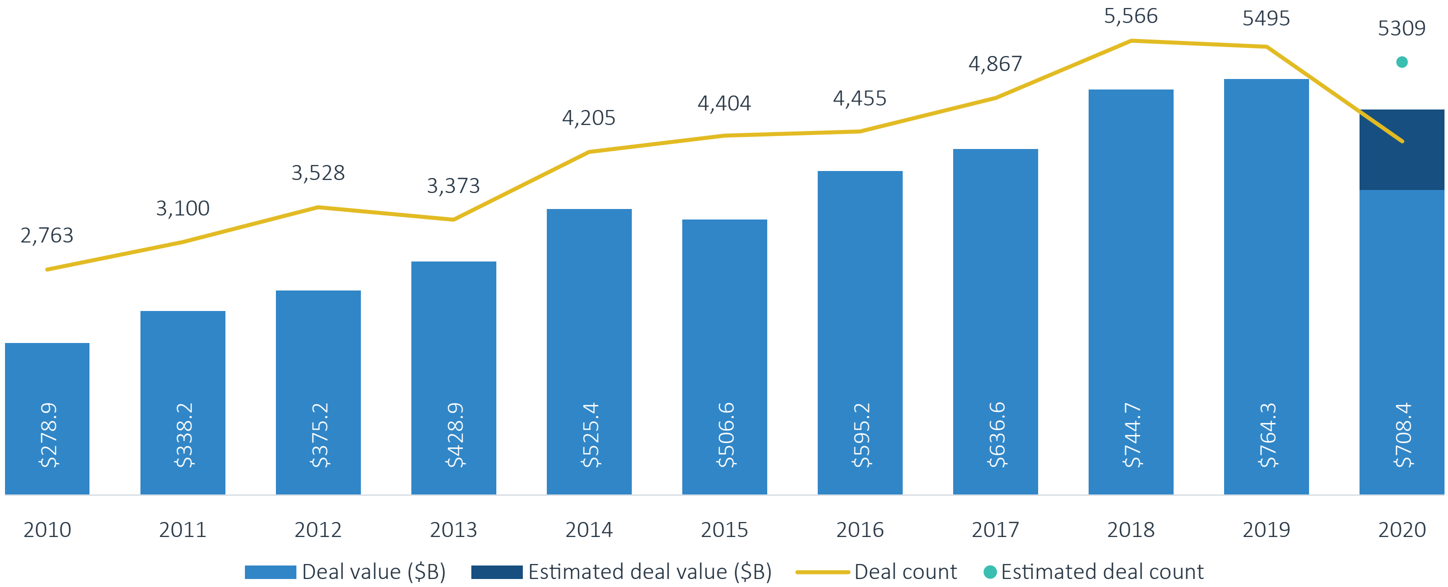
Although it also witnessed a mild decline, fundraising remained steadier than deals and exits. Early pandemic-related difficulties, such as performing due diligence via videoconferencing, delayed many fundraising efforts. However, the largest PE firms thrived as LPs reupped with existing relationships. Several name-brand firms even reported record fundraising quarters after the pandemic began. Funds targeting key themes, such as technology investments and longer holding periods, also continued to raise ample amounts of capital. Family offices and wealthy individuals stepped up to keep first-time funds afloat, although many of these emerging managers are hoping for a more fruitful 2021.

Wylie Fernyhough
Senior Analyst, PE Lead

Rebecca Springer
PE Analyst

Overview

US PE deal activity



Source: PitchBook | **Geography**: US

US PE dealmaking activity in 2020 was a rollercoaster. The year started out at a fervent pace in Q1 before going into freefall in Q2 and finally rebounding in the back half of 2020. Although many were predicting a broader economic slowdown and/or recession coming into 2020, almost nobody was predicting the pandemic that triggered such a swift crash in financial markets and an equally speedy economic recovery. PE deal activity saw 5,309 deals close for a combined $708.4 billion—YoY dips of 3.4% and 7.3%, respectively. This marks the first time since 2009 that both dealmaking value and count diminished.

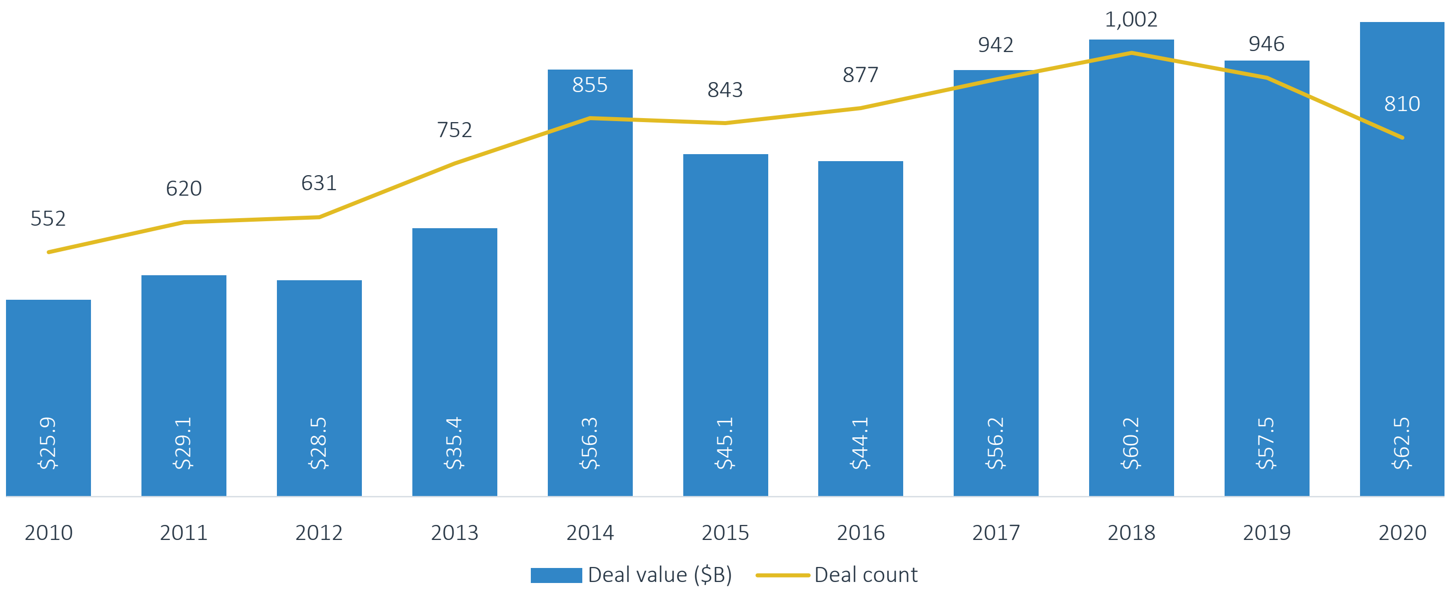
The story of 2020 PE activity is as much about broader economic factors as it is GPs closing deals. The Federal Reserve's unprecedented policy actions—which included buying corporate debt, ETFs backed by highly rated bonds, Treasurys, agency mortgage-backed securities, and more—has been credited with backstopping the economy and letting investors feel comfortable taking on risk. The Fed's liquidity injections kept the gears of the economy turning and led to a rebound in stock market prices and buyout activity. However, the stock market performance reflects the stellar performance of a few massive companies and is not an indication of the health of the broader economy.

The tech-heavy NASDAQ trounced the S&P 500 and the Russell 2000, which is made up of smaller companies. Also, thanks in part to the Fed's actions, the anticipated wall of PE-backed bankruptcies never materialized. To be sure, many PE-backed companies did not emerge from this crisis, but the number and magnitude of these business failures was far fewer than many had imagined.

Sponsors also took on a more supportive role than in past crises, providing more cash to portfolio companies than during the global financial crisis (GFC). PE firms helped portfolio companies find cost-saving solutions as well as generate incremental revenue. These firms believed keeping companies afloat would be better than a lender takeover or restructuring, according to Lincoln International.[1] The shift in the composition of lenders from mostly banks to private debt entities may also have played a role in the buoyancy of PE-backed companies. "Sponsors and lenders have worked very well together to make sure these companies have staying power," said Ron Kahn, co-head of Lincoln's valuations and opinions group.[2] The eye of the storm seems to have passed. For example, Owl Rock Capital Corp, a middle-market lender, is seeing loan amendment requests diminish as borrowers are now on a more solid footing.[3] The steps sponsors, portfolio

1: "Private Equity Cash Boosts Fortunes of America's Mid-Sized Firms," Bloomberg, Kelsey Butler, November 12, 2020.
2: Ibid.
3: Ibid.

US PE growth equity activity



Source: PitchBook | **Geography**: US

companies, and lenders took together to prevent widespread bankruptcies during this downturn exemplify how PE has stabilized over the past decade.

Growth equity was a standout performer in 2020, reaching the highest deal value on record despite the dip in PE dealmaking overall. The strategy notched $62.5 billion in deal value, up 8.8% from 2019. The resilience of growth equity underscores two key points. First, growth equity was already gaining in popularity prior to 2020, with total deal value roughly tripling since 2009. Often characterized as a middle ground between venture capital and leveraged buyouts, growth equity attracts investors because it promises the opportunity for strong returns while limiting downside risk. Growth equity is now firmly established as a mainstream PE strategy: For instance, Blackstone has doubled down on its growth equity strategy since hiring Jon Korngold, formerly of General Atlantic, to lead its growth equity investing platform last year. Among other significant deals, the firm led a star-studded $200.0 million fundraise for Swedish oat milk company Oatly in July; Oatly is reportedly planning a 2021 public listing.[4] Second, growth equity was particularly strong in the information technology sector, a clear "winner" emerging from the pandemic for reasons we describe below. 2020 saw the value of IT growth equity deals rise by 72.4%, from $11.6 billion in 2019 to $20.0 billion.

The year's largest growth equity deal was a $3.5 billion investment by Harvest Partners, TA Associates, and GI Partners into MRI Software, a real estate and investment management SaaS (software as a service) company. Another eye-catching deal, Silver Lake's and Sixth Street's April investment into Airbnb, now appears quite prescient. The $1.0 billion deal gave the PE firms warrants exercisable at an $18 billion valuation,[5] well below the company's equity market cap of $90.0 billion just nine months later.

Although not all growth equity investments are likely to produce such a stratospheric return, PE firms are clearly warming to the idea of minority investments. A greater proportion of PE funds now target or are willing to target non-control investments than before the GFC, and they are using this strategy in a broader variety of sector and target company contexts. The classic growth equity target is still founder-owned, with organic growth potential and a proven business model–yet the slate of this year's largest growth equity deals paints a more nuanced picture. For example, PE managers used growth equity financing to take advantage of pandemic-related shifts in demand by investing in mature, PE-owned companies. Lineage Logistics Holdings, a cold storage logistics company owned by Bay Grove Capital, raised $1.6 billion in September in anticipation of soaring demand due to vaccine

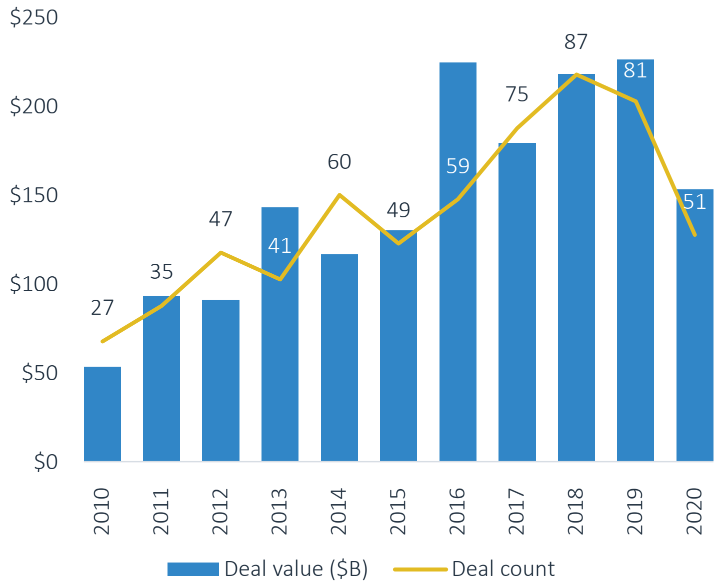
4: "Oatly, Vegan Food Brand Backed by Oprah, Is Planning to IPO Later This Year, Sources Say," CNBC, Leslie Picker, Jan. 5, 2020.
5: "Airbnb's New $1 Billion Investment Comes at Lower Valuation—Sources," Reuters, Joshua Franklin, April 7, 2020.

distribution. Yet not all pandemic-related growth equity bets paid off. In May, as restaurant lockdowns and panic buying of household essentials lifted grocery sales, Apollo and other investors injected $1.75 billion into Albertsons, a longtime portfolio company of Cerberus Capital Management. But as the pandemic tailwinds faded, Cerberus pushed forward with a downsized public listing for the debt-laden company, valuing it at $7.66 billion, a contraction from the $10.0 billion valuation at which Apollo invested.[6]

PE firms pursued several PIPEs (private investment in public equity), which are also non-control investments, during the downturn in the second and third quarters. PIPEs often become more popular during downturns, as public companies rush to add liquidity to their balance sheets in the face of market uncertainty; for PE firms, PIPEs represent opportunities to deploy capital at a time when buyouts have slowed. Although the structure of PIPE deals is highly bespoke, they are usually structured as preferred stock instruments. This offers investors the potential for attractive returns while maintaining downside protections. In April and May, respectively, the NYSE and NASDAQ temporarily waived their so-called "20% rules," which required companies to seek shareholder approval for private financing deals representing more than 20% of their existing stock or voting power.[7] The following month saw the number of PIPE deals jump, and NYSE claims that "a significant number of companies have benefited from the flexibility provided by the waiver."[8]

Apollo Global Management and Silver Lake Partners were particularly active in the space during the height of the pandemic. In a deal with parallels to its midyear Airbnb equity investment, Silver Lake joined with Apollo to provide Expedia with liquidity to help weather the pandemic, together taking a $1.2 billion stake of preferred shares with warrants. The inclusion of warrants with the preferred stock purchased should allow Apollo and Silver Lake to profit nicely from the resumption in travel as the pandemic abates. Private equity managers are also engaging in PIPE deals that form part of broader strategies aimed at improving relationships with investors. Earlier in the year, Silver Lake had completed a $1.0 billion PIPE investment in Twitter as part of an agreement that allowed Twitter CEO Jack Dorsey to remain at the helm despite activist investor pressure. Apollo also built on its existing

US PE mega-deal activity (1B+)



Source: PitchBook | **Geography**: US

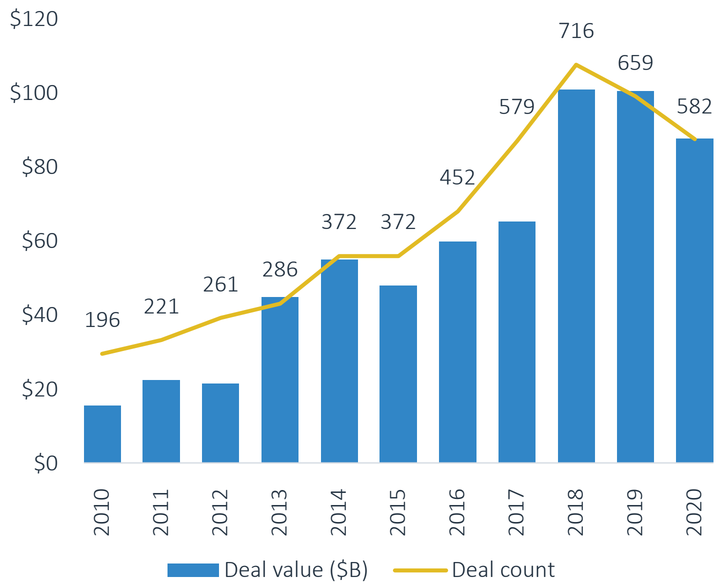
minority stake in Athene Holding, a financial services firm focused on retirement products, through a $1.55 billion investment for 18% of the company, bringing the PE firm's ownership to approximately 35%. The PIPE transaction was accompanied by the removal of Athene Holding's multi-class share structure, which had frustrated investors.[9] In all, PE firms demonstrated that they could provide a much wider range of capital solutions than just the vanilla LBO during 2020. These firms can provide capital of all sorts to companies throughout the corporate life cycle.

The pandemic also shined a light on the industry's investments into technology and healthcare, two of the fastest growing and most important sectors for PE firms. Private capital's love affair with technology investments—software in particular—has been noted for years. Much of the venture ecosystem is based around software investments and specialist firms including Thoma Bravo and Vista Equity Partners, which have each amassed over $70 billion in AUM, validating the investment thesis. Software has been a refuge for investors during the COVID-19 pandemic, as stay-at-home orders accelerated adoption of digital entertainment, ecommerce, education, and healthcare technologies and as companies continued to invest in productivity tools for their now primarily remote

6: "Cerberus-Backed Albertsons Falls Short With $800 Million IPO," Bloomberg, Crystal Tse and Scott Deveau, June 25, 2020.
7: The NYSE waiver is still in effect, and NYSE is proposing a rules change to make the waiver permanent. The NASDAQ waiver expired June 31, 2020.
8: "NYSE Proposes to Amend Shareholder Approval Requirements," Cooley PubCo, Cydney Posner, Jan. 5, 2021.
9: "Apollo Raises Athene Stake in Bid to Boost Its Value," Reuters, Chibuike Oguh, October 28, 2019.

workforces. The SaaS business model is seen as particularly attractive because it combines recurring revenue streams with the potential for low-capital-intensity growth. Moreover, once a service is embedded in a company's workflow, switching costs can be high, which discourages companies from seeking other SaaS vendors. Software companies saw their valuations soar in public markets, keeping private market prices well above other sectors. Dealmaking in software accounted for 15.6% of overall deal value—a healthy step up from the 13.1% in 2019 and significantly higher than the 5.3% it accounted for in 2009. A few select deals, such as the combination of Ultimate Software Group and Kronos—the combined entity was worth north of $22 billion—propelled overall deal value.

US PE software deal activity



Source: PitchBook | **Geography**: US

Activity in the sector may pick up in 2021. Thoma Bravo announced it will buy Real Page—a property management software company—for $9.6 billion in December in one of the largest tech deals in recent years. Vista Equity announced its intention to acquire Pluralsight for $3.5 billion. Both transactions are take-privates and may be a sign of activity to come. As public market multiples continue to diverge from private markets, opportunistic PE firms will target underperforming public companies they believe can be materially improved and returned to public markets at a loftier valuation. Furthermore, the recent fundraising success of Thoma Bravo, Silver Lake, Vista Equity, and Francisco Partners—four of the most prolific software investors—augurs well for dealmaking in the sector.

Healthcare, traditionally a haven for investors during downturns, also witnessed healthy dealmaking activity. The sector remained close to even as a share of PE deal activity, going from 15.6% in 2019 to 14.1% in 2020. Pandemic closures decimated revenues of hospitals, retail healthcare providers, and other firms with exposure to elective procedures. Nevertheless, Nirad Jain, Bain's healthcare private equity practice co-lead, reports that investors are bullish on healthcare. Dealmaking on healthcare facilities slowed primarily because GPs saw depressed revenues and looked for bargains, although sellers preferred to hold out on assets with strong fundamentals in hopes that demand for elective procedures would bounce back as the pandemic waned.[10] The regulatory environment is also worth watching. Although the recent legislation passed by Congress sought to end so-called "surprise billing" for out-of-network hospital physician fees[11]—a key revenue source for physician staffing firms such as KKR's Envision and Blackstone's TeamHealth[12]—many believe the language provides a win to PE firms. However, a Biden administration may be less friendly to PE firms, so the regulatory landscape may continue to sour in the healthcare space.

Add-ons also propelled deal activity in 2020. The strategy of augmenting a larger platform company by tacking on similar, smaller companies has been gaining in popularity in recent years, and the pandemic has accelerated the trend. In 2020, add-ons accounted for 72.5% of all buyouts, an all-time high. This easily outpaces the 68.5% achieved in 2019, the previous record. Much of the activity was completed by serial acquirers. One example is Insurity, which provides software to the insurance industry. Since GI Partners bought the company in July 2019, Insurity has completed five add-ons, four in 2020. The acquisitions helped to round out the company's suite of solutions, including adding products to focus on personal lines, a new billing system, and offerings for the broker and managing general agent (MGA) markets. With such an uncertain economic backdrop, buyout firms felt as though plowing capital into known entities through add-on acquisitions was safer than buying new entities.

10: "Healthcare and COVID-19: The Aftershocks," Bain & Company, Hugh MacArthur, Kara Murphy, and Nirad Jain, June 11, 2020.
11: "Congress Moves to End Surprise Medical Billing," The Wall Street Journal, Kristina Peterson, December 17, 2020.
12: "Ill-Timed Health-Care Buyouts Bruise KKR and Blackstone," The Wall Street Journal, Miriam Gottfried, May 28.

Overview

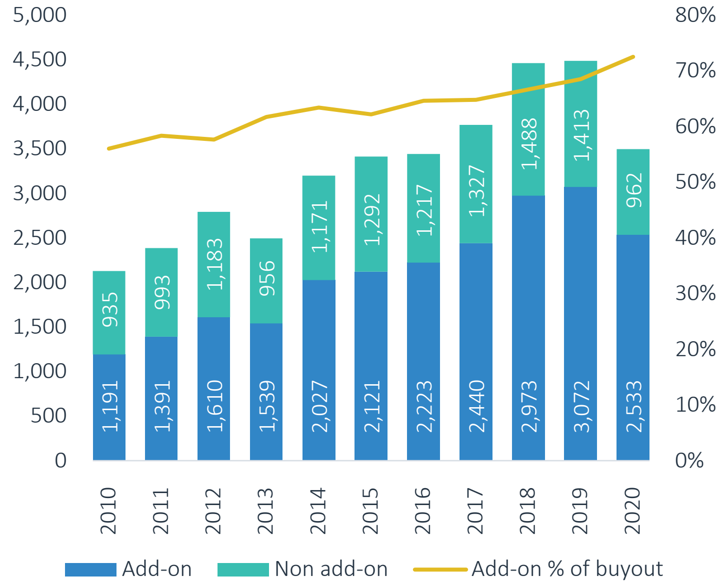
Similarly, small companies—those with $3 million-$10 million in EBITDA—may have felt a sale was the best course of action because they lacked a sufficient financial cushion to handle the downturn. The business owners could realize some liquidity and plow it into a larger company during an uncertain time. Headed into 2021, though, add-ons may account for a lower proportion of deals, or at least the growth rate will slow. GPs are likely to feel more confident deploying massive sums of dry powder into larger platforms.

Carveouts also accounted for a healthy percentage of deal activity, and the future looks bright for this deal sourcing opportunity. Although these deals contributed less than a tenth of the overall deal count, several notable transactions were carved out from larger companies. DXC Technologies sold its state and local health and human services business to Veritas for $5.0 billion in the year's largest such deal. Another hefty carveout came when HD Supply sold its construction and supply arm, White Cap, to CD&R for $2.9 billion. White Cap was then merged with Sterling Group-backed Construction Supply Group in a deal valued at $4.0 billion. Carveouts can easily reach the $1 billion+ threshold, which is especially attractive to large PE firms sitting on freshly raised mountains of cash.

Several additional tailwinds ought to propel carveout activity higher in 2021. The DOJ updated its merger remedies guidelines in September 2020 for the first time in nearly a decade. The changes describe PE firms as viable—and in some cases, preferred—buyers of divested assets in mega-mergers. PE firms were added as preferred buyers because their business model has evolved over the past decade-plus, according to Markan Delrahim, assistant attorney general for the Antitrust Division of the Department of Justice. On top of these updated guidelines, the pandemic has battered hundreds of large conglomerates, forcing these companies to take on heavy debt loads to survive. Many of these same companies are now looking to sell noncore assets to raise cash and shore up their balance sheets. On Carlyle's earnings call in Q3 2020, CEO Kewsong Lee indicated that the company is busy working on several large carveouts, signaling that divestiture activity may be heating up.

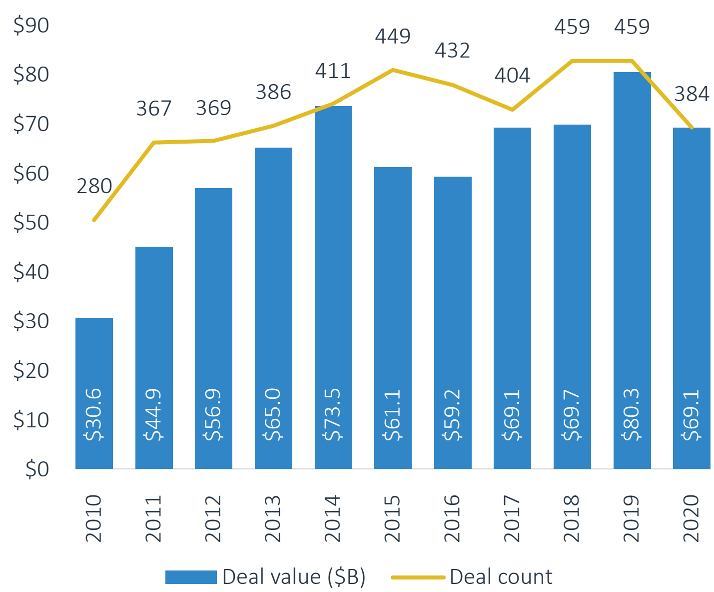
Heading into 2021, as the promise of a widespread vaccine and herd immunity becomes clear, much of the American economy still needs to recover. Despite millions remaining unemployed, discretionary spending went up in 2020, providing unique opportunities.

US PE add-on activity



Source: PitchBook | **Geography**: US

US PE carveout activity

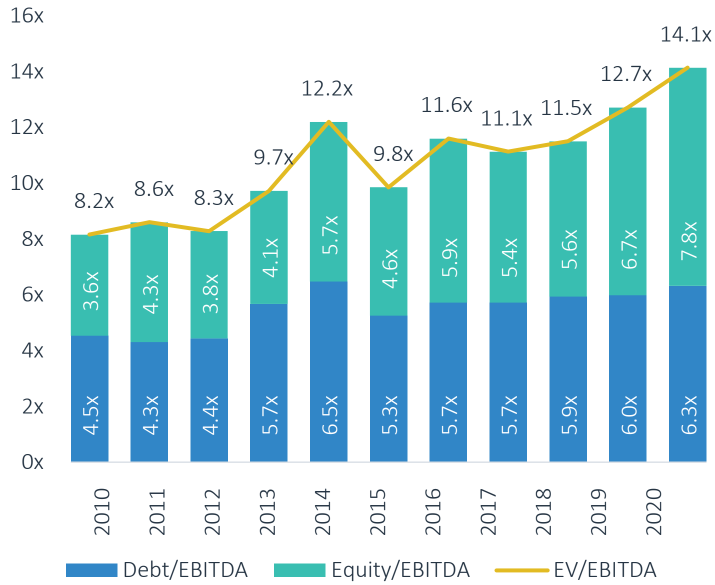


Source: PitchBook | **Geography**: US

Technology, healthcare, and financial services appear poised for a healthy recovery, although consumer-facing businesses, especially those not targeting the upper end of the income spectrum, may have to alter their price and value equation to flourish in 2021. Dry powder levels remain elevated as dealmaking slowed, whereas large GPs continued to successfully fundraise. US PE firms are sitting on more than $550 billion in dry powder that was less than two years old as of March 31, 2020. Furthermore, PE firms appear antsy to put this capital to work. Platinum Equity and Thoma Bravo each announced $7 billion+ deals in December, and additional deals may be coming down the pike as firms target massive corporate divestitures, take-privates, and more. Looking optimistically at the year ahead, Claudine Cohen and Margaret Shanley of CohnReznick say that capital is not an issue because of the ready availability of equity, debt, and sponsor purchasing power. They also indicated that, despite a flurry of announced deals in the third and fourth quarters, there is still pent up demand that will drive robust dealmaking figures in the first half of 2021, before settling into a more normalized figure in the back half of the year.[13]

There are some reasons to be cautious, though. Additional regulations by a less business-friendly administration and somewhat higher tax rates are likely. And while other regulations may be less likely, PE will continue to be under increased scrutiny as its global AUM soars past the $2 trillion mark and these firms play a larger role in the overall economy. Despite being brought on by pandemic-related hardship, PE-backed bankruptcies in the coming quarters may give extra ammunition to lawmakers looking to clamp down on the buyout industry. Regulations around who is ultimately responsible for debts of bankrupt companies could alter the calculus of many LBOs. In August, the New England Teamsters & Trucking Industry Pension Fund asked the Supreme Court to revisit a lower-court ruling that said private-equity firm Sun Capital Partners isn't responsible for $4.5 million in pension liabilities of a bankrupt company that was owned by two of the firm's funds. These will be key themes to watch as 2021 unfolds.

Median buyout multiple



Source: PitchBook | **Geography**: US

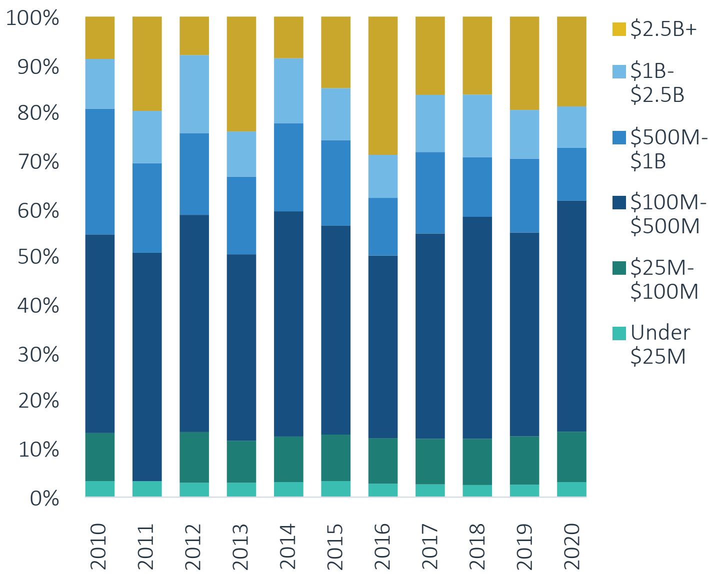
US high yield option-adjusted spread

Source: ICE Data Indicies, LLC | **Geography**: US

13: Claudine Cohen and Margaret Shanley, Telephone Interview, Jan. 6, 2021.

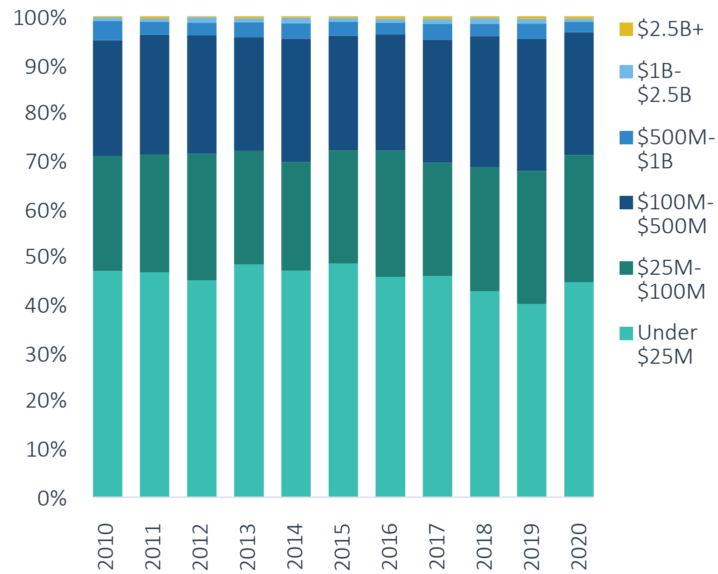
Deals by size and sector

PE deals ($) by size



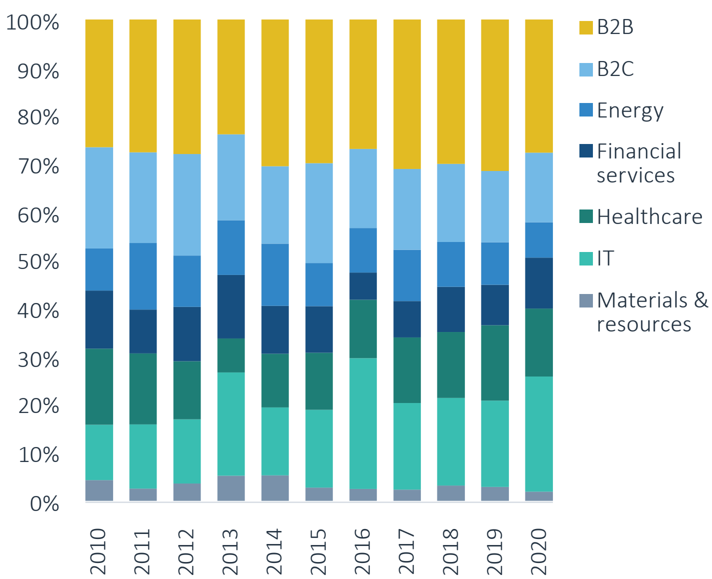
Source: PitchBook | **Geography:** US

PE deals (#) by size



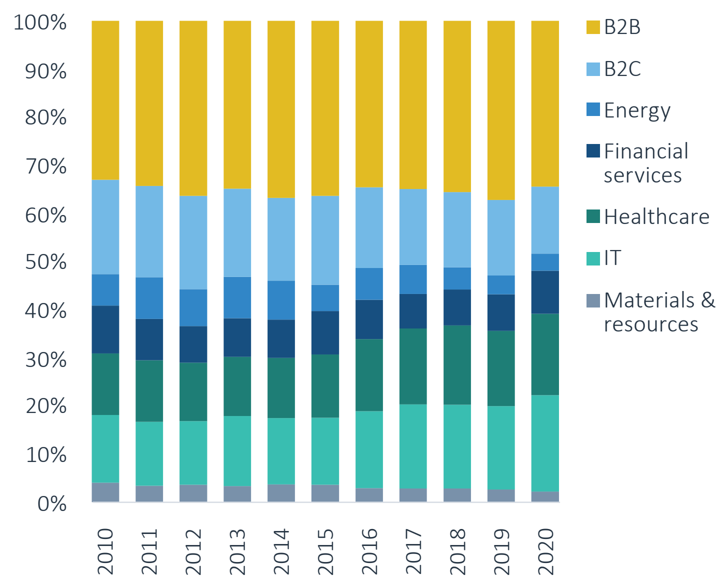
Source: PitchBook | **Geography:** US

PE deals ($) by sector



Source: PitchBook | **Geography:** US

PE deals (#) by sector



Source: PitchBook | **Geography:** US

Q&A: Grant Thornton

Carlos Ferreira

National Managing Partner, Private Equity
Grant Thornton

Carlos leads the strategic direction for the firm's private equity services designed to generate value across the investment life cycle, including areas such as M&A, growth, transformation, operations, resilience and fund and portfolio company compliance. With 25 years of experience, Carlos has developed expertise in audit and transaction services, helping business owners and investors identify the risks and maximize value in a deal.

Candice Turner

National Managing Principal, M&A Tax
Grant Thornton

Candice leads the firm's national M&A tax practice and has more than 20 years of public accounting and private industry experience and has advised clients with respect to all US and international tax matters. She has represented funds, sovereigns, foreign pensions and consortiums on investments, acquisitions, re-financings and exit strategies across various industries, including private equity and public capital markets.

What are the key risks and opportunities for private equity heading into 2021 that are least discussed?

Since the COVID-19 pandemic started, key issues being discussed have included valuations, pivoting strategies to include distressed situations, and the impact of liquidity, supply chain, and work force issues at the portfolio company level. Healthcare (including telehealth) and national security industries have also been a key focus. We expect these to continue to be key issues and opportunities in 2021.

A few issues, however, are not being discussed at the level we would expect. First, as the US and other governments have spent trillions of dollars to prop up economies, reputational risk is a key issue that should be top of mind. Taxpayer dollars have been used to lend significant funds to companies under the PPP regime, and many of those companies have been acquired by PE funds immediately after loan forgiveness. More thought needs to be given to the implications of this loan forgiveness, not only because of the impact on public opinion but also how such actions could impact further government action. Additionally, a major change to US tax law takes effect in 2021: The calculation of the amount of interest limitation under IRC Code section 163(j) becomes much more restrictive as it moves from being essentially EBITDA to EBIT based. Finally, with the economic pressure on states and inaction by the federal government, we expect to see possible privatization of key government functions moving forward.

Which recent or upcoming regulatory changes, e.g. ASC 842 or tax cuts, are having or are set to have the most impact?

We can expect the CARES Act to continue to have a significant impact on PE-owned portfolio companies. President-elect Joe Biden has been vocal about his plan to increase the corporate tax rate as well as the highest individual tax rate. In Q4 of 2020 we saw significant deal volume driven by Biden's proposed tax changes that would increase the maximum capital gains tax rate from 20% to 39.6%, which drove individual business owners to sell. Additionally, other regulatory issues might take on a greater focus. For example, climate regulations, including carbon taxes, are likely to play a critical role in PE strategy in 2021.

In 2016, the FASB and IASB issued new standards to bring lease obligations on the balance sheet, and we expect the new FASB standard (ASC 842) to have significant impact for lessees. A 2005 SEC survey estimated the off-balance sheet obligation associated with operating leases for public companies at $1.25 trillion. Under the new standards, all leases (including operating leases) with a lease term greater than 12 months will need to be recognized on the balance sheet as an asset and a liability. These changes will impact business valuations and debt covenants as it will change the calculation of EBITDA and indebtedness.

Given the potential turning point in the COVID-19 pandemic with the rollout of vaccines, what risks and impacts do you anticipate persisting and being important for PE dealmakers to be apprised of?

Valuations remain high with excess capital seeking fewer quality deals. Therefore, a key challenge in 2021 is sourcing adequate investment prospects to deploy capital. Sourcing new deals and completing diligence during the COVID-19 environment will require different processes and techniques than have been historically relied upon. Other risks that will persist into 2021 will include:

- Continued and future government stimulus for businesses and workers, including the post recovery return of this capital, and an expected increase in fraudulent activities by borrowers.
- Possible increased industry-specific regulations in asset management, healthcare, pharma, and energy.
- For funds managed in the European marketplace or Europe-based limited partners, compliance with new ESG standards will be required effective March 20, 2021.
- Understanding the lagging effects of COVID-19 on individual business plans, and how consumers and businesses may be permanently affected by change in behaviors caused by COVID-19, with travel and, media and entertainment as examples.
- Given the trade disputes that were occurring pre-pandemic, the supply chain disruptions that occurred in the early stages of the pandemic, and the growing consumer belief and political agenda for onshoring, we expect to see an increase interest in US PE investing close to home.
- In a recent survey we conducted of almost 200 M&A professionals, we found that approximately half of deals wound up in some form of accounting dispute; this risk should be a consideration for future deals. Visit gt.com/disputesurvey for insights on the most common causes for disputes, how to guard against them, and best practices for arbitration.

What characteristics of recent deals stand out to you and why? Were there any features or occurrences that surprised you?

We expected special purpose acquisition companies (SPACs) to grow in 2020, but the volume of deals involving SPACs has exceeded expectations. SPACs have been heavily pursuing areas such as tech and healthcare. In 2020 there were more than 250 SPACs raised, representing over $75 billion of capital, and we expect to see this trend continue. More capital will follow these existing SPACs through PIPEs and other private equity co-investors.

Deal activity has increased dramatically over the last six months of 2020, and deal valuations and EBITDA multiples have increased. We have seen deals terminated over unsupported valuations, and potential buyers continue to walk away when the numbers don't work.

On a sector basis, which do you think are primed for turnarounds heading into 2021 more so than expected, and why?

Pre-pandemic, the US consumer and "Made in America" businesses saw significant growth. Once the mass distribution of vaccines increases the consumer confidence to return to consumer experiences and shopping, we expect this growth trend will continue. This macro trend and the possibility of increased regulations from the new administration is expected to result in increased deal activity in sectors such as healthcare, infrastructure, energy, FinTech, media, software, and cybersecurity.

Within the healthcare sector, reimbursement changes to a bundled and value-based payment structure with more pricing transparency will have a direct impact on providers and ultimately which subsectors investors will focus on. We have seen new standout subsectors such as laboratories and pharma logistics benefiting from COVID-19. In addition, at-risk healthcare models and home health models have fared extremely well during the pandemic, and we see these as sectors that will continue to experience growth. Finally, we saw a tremendous increase in deals in healthcare technology enablement services. Particularly SaaS companies offering solutions for practice management and electronic medical records and SaaS platforms with solutions to improve and automate revenue cycle management. This current market segment is fragmented, with solutions focused on specific specialties, such as acute care, mental health, elective surgery, etc. We expect continued consolidation of SaaS solutions within specialties to offer more comprehensive packages to hospitals, clinics, and physician groups.

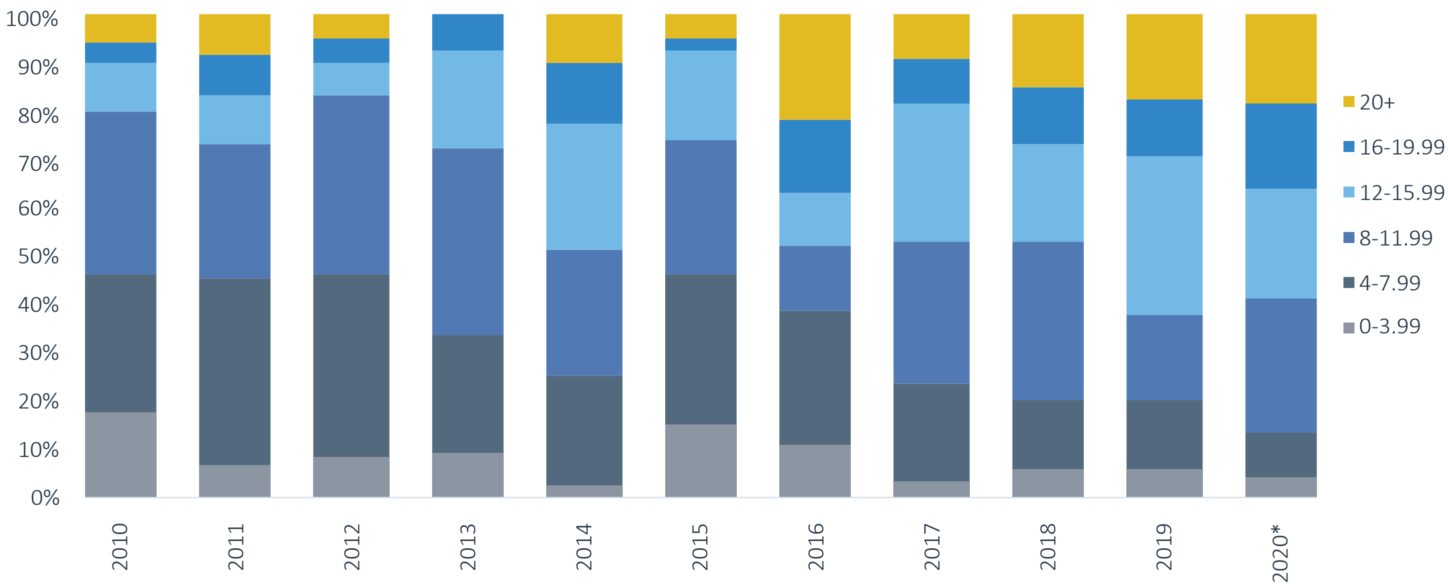
Cybersecurity and digital transformation companies are expected to continue to be a hot space for PE investors in 2021. In our 2020 CFO survey, we asked CFOs how they expect certain expenses to change over the next year as a result of the pandemic and found that CFOs expect expenses overall to stay the same with some reductions in travel and recruiting (Full survey results are available at gt.com/cfosurvey2020). Notably, 43.5% of CFOs foresaw increased spending on cybersecurity, and 40.1% saw increased spending on digital transformation. This aligns with the results from our December recession survey, in which the majority of ramped-up investments through a recession were expected in the same areas.

PitchBook

Sponsored by Grant Thornton

Spotlight: 2021 US PE Outlooks[14]

PE deal activity by EV/EBITDA bucket



Source: PitchBook | **Geography**: US
*As of November 22, 2020
**Low sample size for 2020

Prediction: 20% of buyouts will be priced above 20x EBITDA.

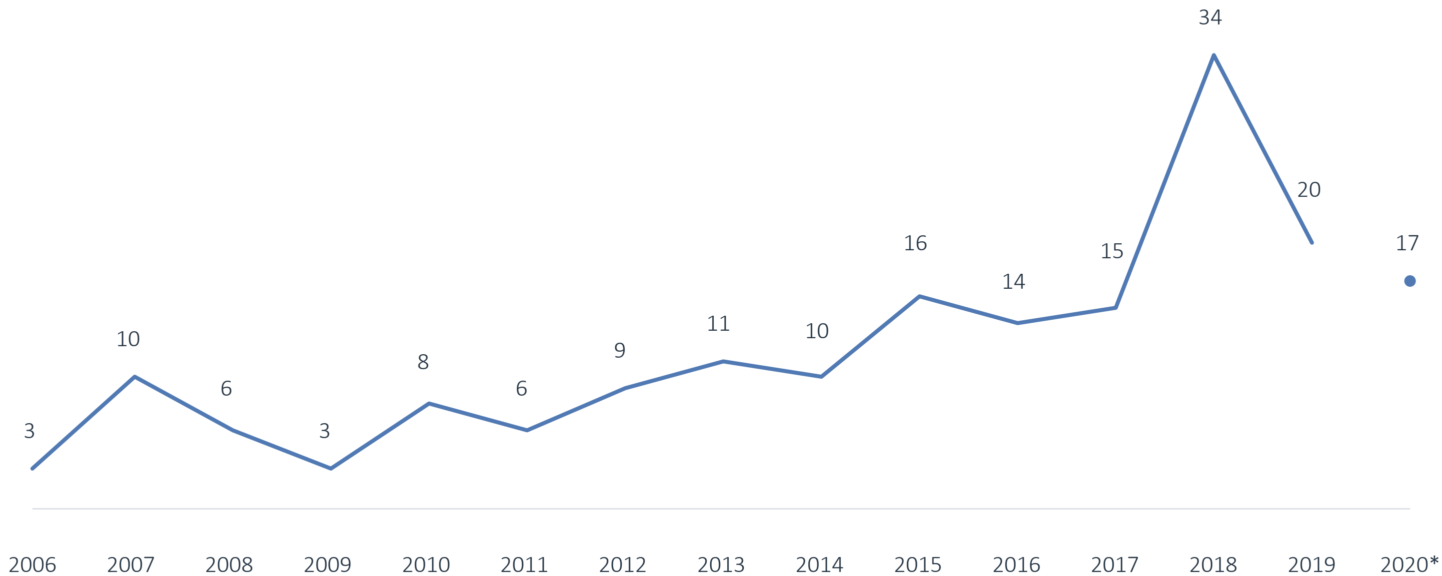
Rationale: There are two main reasons we foresee an increase in completed deals at the pricier end. First, price multiples in both public and private markets have been elevated for some time, and we see no reason for this to change in 2021. The S&P 500 now trades at a cyclically adjusted price-to-earnings ratio (CAPE) of 34.43 due to several factors including monetary easing, widespread risk-on appetite, and the emergence of large growth-oriented companies that trade at high multiples of revenue, let alone earnings. On the private side, the median EV/EBITDA multiple for buyouts was 12.7x through Q3 2020, tying its record high. Although debt/EBITDA multiples were slightly lower in 2020, we expect the use of leverage in 2021 to be propelled by low interest rates, strong demand for high-yield debt, and a surfeit of dry powder in direct lending funds.

Second, buyout funds are increasingly targeting growth-stage technology companies that tend to trade at much higher multiples of earnings than the traditional PE target. For example, software specialist Thoma Bravo acquired UK-based cybersecurity firm Sophos for about 46x the trailing 12 months (TTM) EBITDA in January 2020, an eye-popping figure that is becoming more common. Many of these internet-native businesses have seen bottom-line improvements from the accelerated move to a digital economy during widespread lockdowns. Even if pricing stays the same for most businesses, a higher proportion of buyouts taking place in sectors such as software and biotech should boost the proportion of deals taking place in this pricier range.

Caveat: If the world quickly goes back to normal after a COVID-19 vaccine arrives, we would expect to see multiple compression for those businesses that have benefitted from the lockdown, thereby decreasing the number of deals completed above this threshold. Alternatively, the COVID-19 pandemic could worsen, dampening not just economic activity but also the appetite for riskier assets more broadly.

14: These are two of our six 2021 US PE outlooks. To read the remaining four, and to see how we scored on our predictions last year, please read our 2021 US PE Outlooks.

GP stakes deal activity (#)



Source: PitchBook | **Geography**: US
*As of November 22, 2020

Prediction: There will be at least one new type of exit from a GP stakes portfolio in 2021.

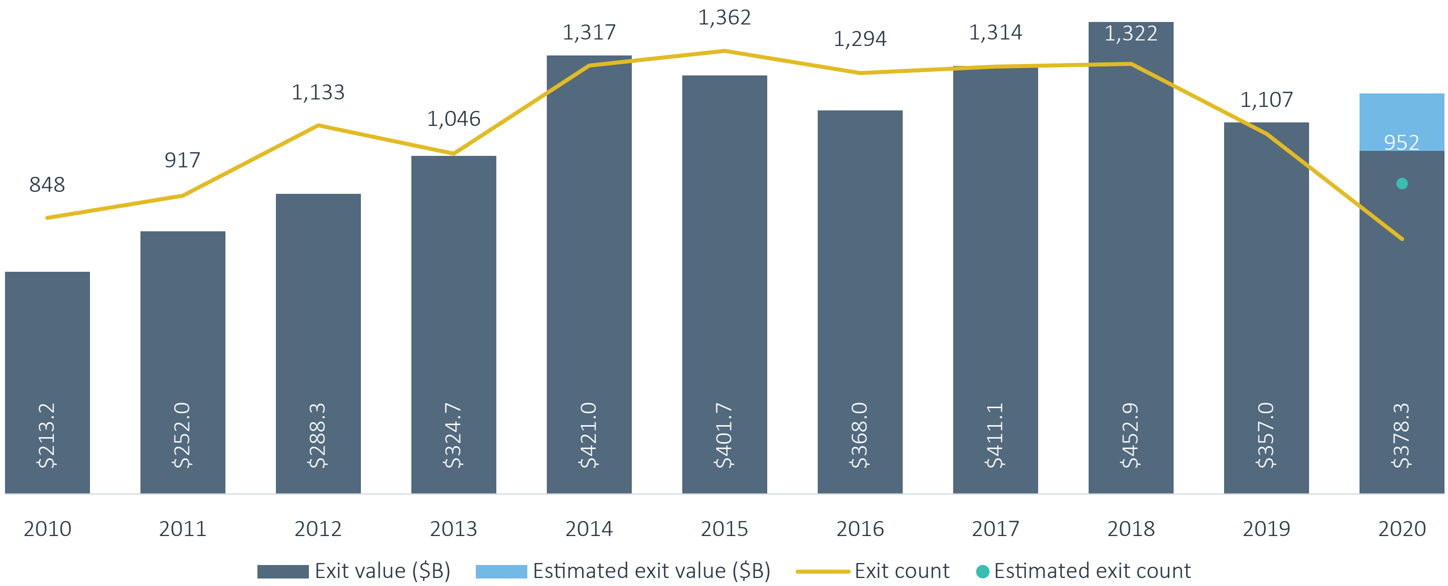
Rationale: There have been more than 100 GP stakes deals in recent years with innovation centering around deal types and target GPs, although the innovation on the exit side has been lacking. Pricing in the GP stakes market remains competitive, and the specialized PE firms will be looking to capitalize on whatever is available to achieve the best outcome for fund investors. A lift in pricing, whether it be through a strip sale, securitization, portfolio public listing, or something else, will help with future fundraising efforts and potentially bring in more LPs.

Funds including Dyal II and Petershill II are getting older and to the point that LPs may pressure them for a liquidity option. Dyal and Petershill have proven to be first movers, and we believe all options are on the table. Dyal was reportedly seeking to complete a strip sale earlier in 2020, and our analysts have heard talks that one unnamed GP is looking to securitize an entire portfolio. The potential tie up between Dyal and Owl Rock (backed by Dyal), which intends to go public via a reverse merger with a SPAC, shows the appetite for exit innovation. We believe 2021 will be a year for ingenuity in GP stakes monetizations.

Caveat: There are several fine options for monetizing GP stakes already, including sales to strategics or other sponsors. The fear of the unknown may dissuade GP stakes firms from pushing the envelope. Additionally, the GPs that sold stakes to those funds may push back on certain exit options if they believe they would be adversely impacted (i.e., sold to a nonamenable party, publicly floated, or securitized).

Exits

US PE exit activity



Source: PitchBook | **Geography**: US

Note: In this report and going forward, we will be changing "IPO" to "public listing" to reflect the prominence of SPACs and direct listings. However, SPAC IPOs are not reflected in PE exit activity unless they merge with a PE-backed company. Additionally, we will be changing "secondary buyout" to "sponsor-to-sponsor transaction" to reflect the possibility of growth-equity backed firms being bought out by a new sponsor.

PE-backed exit value fared better than expected and ended up in 2020 despite deal counts falling YoY. In total, PE firms recorded 952 exits for a combined $378.3 billion—a decrease of 14% in count and an increase of 6% in value. While myriad GPs put sales processes on hold as the full effect of COVID-19 became clear in March and April, many of those same firms restarted the processes in late Q3 and into Q4 as marks recovered. Ellie Mae—a mortgage service software firm—was one of the sales that proceeded through the downturn and minted an astounding gain for Thoma Bravo in a short window. Thoma Bravo bought Ellie Mae for $3.7 billion in April 2019 and sold it for $11.0 billion to Intercontinental Exchange just a year and a half later. Reports suggest the buyout firm only put up $2.2 billion in equity, meaning the $7.3 billion in profit was more than three times its cost. Stories like this, where PE firms realize massive gains in a relatively short timeframe, are one reason LPs continue plowing capital into tech-focused PE firms.

The story of how Thoma Bravo built up the value so quickly illustrates how PE firms must employ strategies far beyond simple financial engineering if they hope to produce top quartile (let alone top decile) returns. The firm was able to bring existing Ellie Mae customers to a significantly higher pricing tier without measurably reducing Ellie Mae's 98% retention rate. Thoma Bravo also reorganized the workforce to ensure product managers and engineers spent more time in their primary roles while boosting headcount in less expensive labor markets outside of Silicon Valley.[15] The software specialist's playbook has led to other successful monetizations in 2020, including a $1.6 billion sale of PlanView to TPG and TA Associates in December, a $2.0 billion sale of Compuware to KKR-backed BMC Software in June, and two partial sales of Dynatrace that netted Thoma Bravo over $1.9 billion.[16]

Although the splashy Ellie Mae sale was the most substantial of the year, public listings made a comeback in 2020 and propelled exit value higher than was expected. Public markets had an incredible run in 2020, all things considered. The tech-heavy NASDAQ

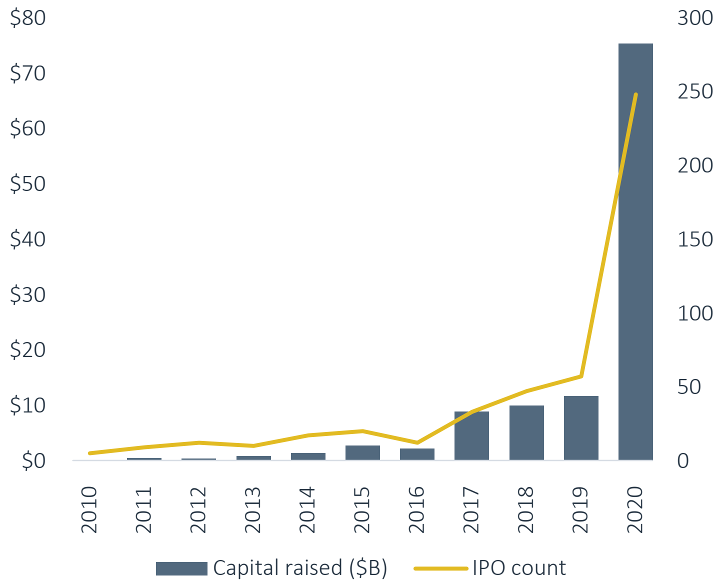
15: "Orlando Bravo Rides Software Deals to Heights of Private-Equity Industry," Wall Street Journal, Miriam Gottfried, September 22, 2020.
16: Thoma Bravo bought Compuware for $2.4 billion in December 2014. In 2019, Thoma Bravo carved out Dynatrace, a Compuware subsidiary, and took it public. Dynatrace's equity value is now north of $12 billion. Thoma Bravo then sold Compuware sans Dynatrace to BMC Software for $2.0 billion in June 2020.

was up over 40% on the year. Public listings were the preferred route for the largest exits in 2020, reflecting the arbitrage opportunity between multiples in public and private markets. In fact, eight of the 10 largest exits were public listings. The multiples spread between the S&P 500 and private markets have widened in recent years to 16 percent premium. Many of the largest exits were either directly tech companies or were primarily technology companies operating in other industries such as healthcare or financial services.

In several instances, public listings produced eye-popping returns in a truncated timeframe. For example, GoHealth—an online health insurance marketplace—went public in a listing that paid off handsomely for Centerbridge Partners, its PE backer. Centerbridge bought most of the company at a $1.5 billion valuation; just 10 months later, GoHealth went public at a $6.5 billion valuation. COVID-19 is expected to provide a tailwind to GoHealth as more Americans decide to purchase insurance online, according to its public listing prospectus. Although Centerbridge's 4x+ payoff in under a year was impressive, TA Associates and Carlyle produced even more substantial profits with their ZoomInfo investments. Based off ZoomInfo's closing $49.68 share price as of June 23, Carlyle bagged a 13x return in just over a year. TA Associates' holding period was markedly longer—it originally bought ZoomInfo for $90.0 million in May 2014—but the reports peg the firm's investment return at an astounding 80x, marking the largest gain in the PE firm's history. Lucrative payoffs such as these mean we may see even more competition from specialist and generalist managers for technology assets in the future.

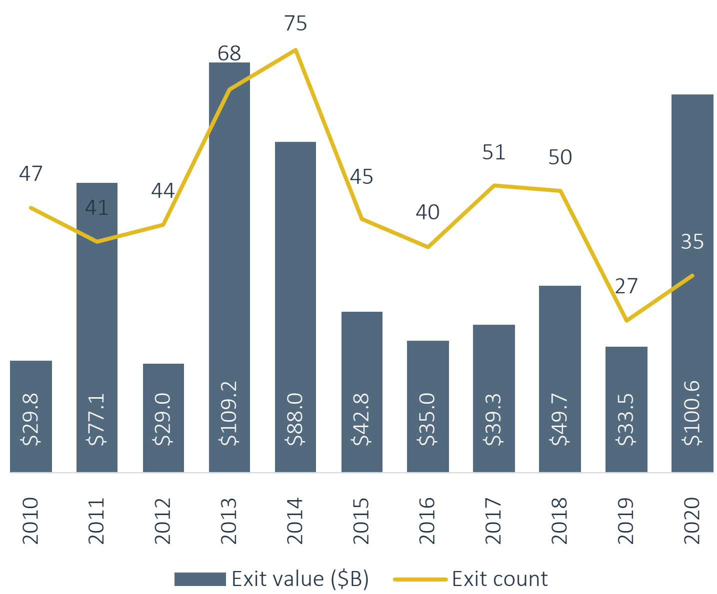
In addition to spurring a public listing comeback, roaring public equity markets made 2020 the year of the SPAC. These blank check companies raised more capital than in the previous decade combined. Well over 250 SPACs were launched on US markets in 2020. SPACs, like public listings or direct listings, allow private companies to publicly list, but they have some distinct advantages; some have deemed this a form of regulatory arbitrage. The lengthy public listing roadshow is avoided when a company chooses to go public through a reverse merger with a SPAC. These transactions are more akin to acquisitions, allowing for a swifter entry to public markets. Deals with SPACs also allow the target company to put forth forward revenue guidance, which is a violation of SEC regulations for companies listing with an IPO. This is a distinct advantage for companies wishing to be valued off future growth expectations or with lower leverage

US SPAC IPO activity



Source: PitchBook | Geography: US

US PE-backed public listing activity



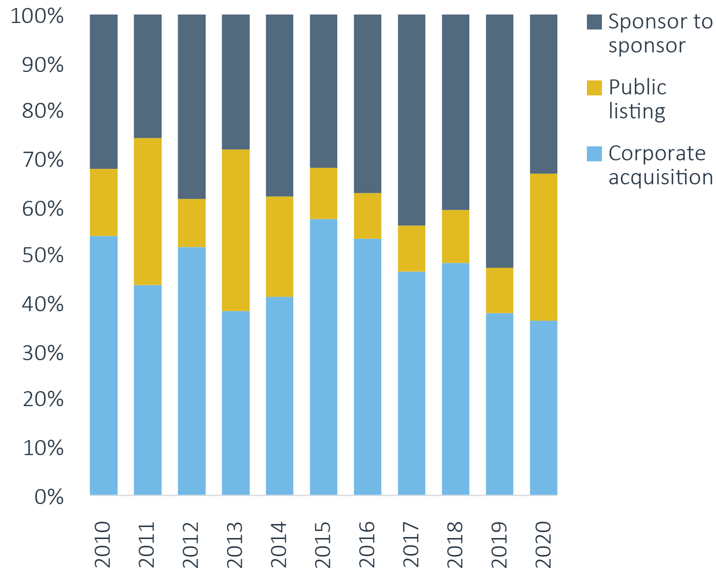
Source: PitchBook | Geography: US

profiles. However, there are also tradeoffs. SPACs used to carry a more negative connotation as few institutional players typically dabbled in the space, and they were dismissed as a disreputable Wall Street relic. This is because SPAC sponsors are awarded founder shares, which usually equates to 20% of the SPAC size and expire after two years. This expiring option meant that many sponsors sought deals no matter the price or valuation, and the shares of SPACs often dramatically underperformed public listings because of it. The promote has come under scrutiny during the current SPAC boom and "has prompted the SEC's Division of Corporation Finance (CorpFin) to issue CF Disclosure Guidance: Topic No. 11, Special Purpose Acquisition Companies, and highlights the importance of good disclosures regarding the motivations of those involved in the transaction and particularly the compensation and incentives of the sponsors," according to Carlos Ferreira, national managing partner, private equity, at Grant Thornton. Despite all these potential concerns, public markets showed unbridled enthusiasm for blank check companies, and they are now sitting on record dry powder levels. According to LUMA Partners, SPACs typically merge with companies five times their size,[17] meaning the $75 billion+ raised in 2020 equates to approximately $375 billion in buying power, more than US PE and VC firms raised in 2020, combined.

With this massive influx of capital comes choice for private companies. All else being equal, companies are likely to prefer working with higher quality, institutional SPAC sponsors. This has improved the quality of SPAC sponsors and has meant that higher quality private companies have also decided to merge with SPACs. PE firms, known for their valuation sensitivities, had typically stayed away from SPACs until 2020. Some, such as the Gores Group, had raised SPACs in the past, but many firms steered clear from merging their portfolio companies with SPACs. 2020 changed that as well. Hellman & Friedman-backed hedge fund GCM Grosvenor went public via a reverse merger with a Cantor Fitzgerald SPAC in August. In the following months, HydraFacial and Owl Rock Capital Group—both PE backed—would announce their intent to publicly list through reverse mergers with SPACs. Blackstone and CVC—often seen as bellwethers for the PE industry in the US and Europe—have also jumped into the fray, setting up Paysafe to go public via a SPAC transaction valuing the company at $9.0 billion. The PE firms reportedly stand to more than triple their money on the investment and will roll significant equity into the newly public entity. As PE firms and higher quality SPAC sponsors continue to make up a higher share of the capital raised, we believe more GPs will choose to publicly list portfolio companies through SPACs in the coming years.

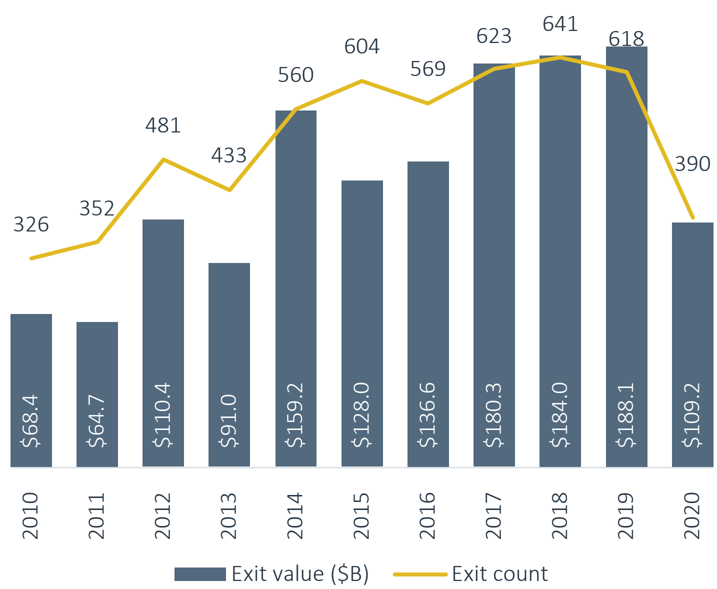
Despite public listings and SPACs having a banner year, the pandemic sent sponsor-to-sponsor exits off a cliff in 2020. The year saw GP exits to other GPs totaling

US PE exit activity ($) by type



Source: PitchBook | **Geography**: US

US PE sponsor-to-sponsor exit activity



Source: PitchBook | **Geography**: US

approximately half the value of 2019 and drop to 33.6% of overall PE exit value, even as the median sponsor-to-sponsor exit size continued climb. This reverses the recent trend in which sponsor-to-sponsor deals became more popular exit options, growing from 31.9% of exits in 2015 to an all-time high of 52.7% in 2019. During that period, stores of dry powder spurred competition for high quality targets, prompting private equity buyers to pay lofty premiums. Furthermore, the proliferation of

17: "SPAC LUMAscape," LUMA, ND.

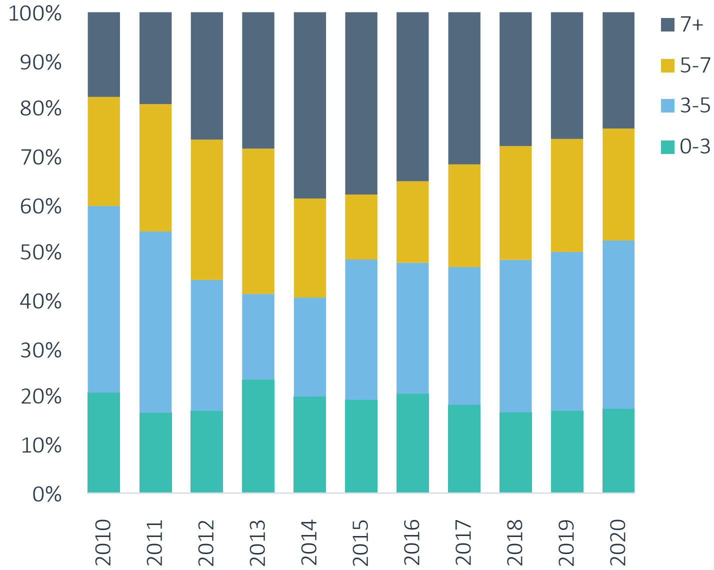
add-ons and the operational intensity of buyout firms means they act more like strategics—often outbidding non-sponsor-backed bidders. This year, though, saw a pricing mismatch as bid-ask spreads widened considerably. PE buyers looked for deals in an uncertain environment, but PE sellers tried to avoid exiting at depressed prices.

Despite the pricing mismatch for the bulk of the year, it appears that we have already passed the nadir in sponsor-to-sponsor activity. A handful of large deals late in the year propelled fourth quarter sponsor-to-sponsor exit values up to $49.1 billion, nearly 4x the third quarter result. Among them were three of the largest deals of the year, exemplifying key pandemic-era trends. In October, KKR sold Epicor to Clayton Dubilier & Rice (CD&R) for $4.7 billion, having purchased the enterprise software provider for $3.3 billion in 2016. The easy scalability and "sticky" revenue of enterprise software has made it an increasingly attractive private equity target during the downturn, including for generalist firms like CD&R. In December, Silver Lake, Spectrum Equity, and Permira sold their stakes in DNA testing company Ancestry to Blackstone at a $4.7 billion valuation; minority investor GIC chose to retain its stake. The deal is the first out of Blackstone's record breaking eight flagship corporate private equity funds and continues the firm's trend toward deploying capital in areas of the economy with long tailwinds, such as DNA services and personalized medicine. AEA's announced sale in September of 1-800 Contacts to KKR for $3.3 billion also exemplified KKR's desire to wager on this rapidly growing market.

The median holding period remained approximately steady through 2020, although the composition was slightly altered. Long held assets (7+ years) accounted for a diminished proportion of exit activity compared to recent years, prolonging a trend that began in 2015. However, there were notably fewer exits in 2020 compared to previous years. The same story played out during the GFC where holding times were relatively flat as exit count cratered and then extended considerably over the next five years. While we do not believe holding periods will be as affected by COVID-19 as they were post-GFC, it is likely that holding times will tick upward in 2021 and 2022.

The calculus behind how PitchBook calculates holding periods became murkier during 2020, as a swelling number of investors chose to hold onto minority pieces of a company post exit. As previously mentioned, GIC retained its minority stake in Ancestry.com after

PE holding periods (#) by exit year



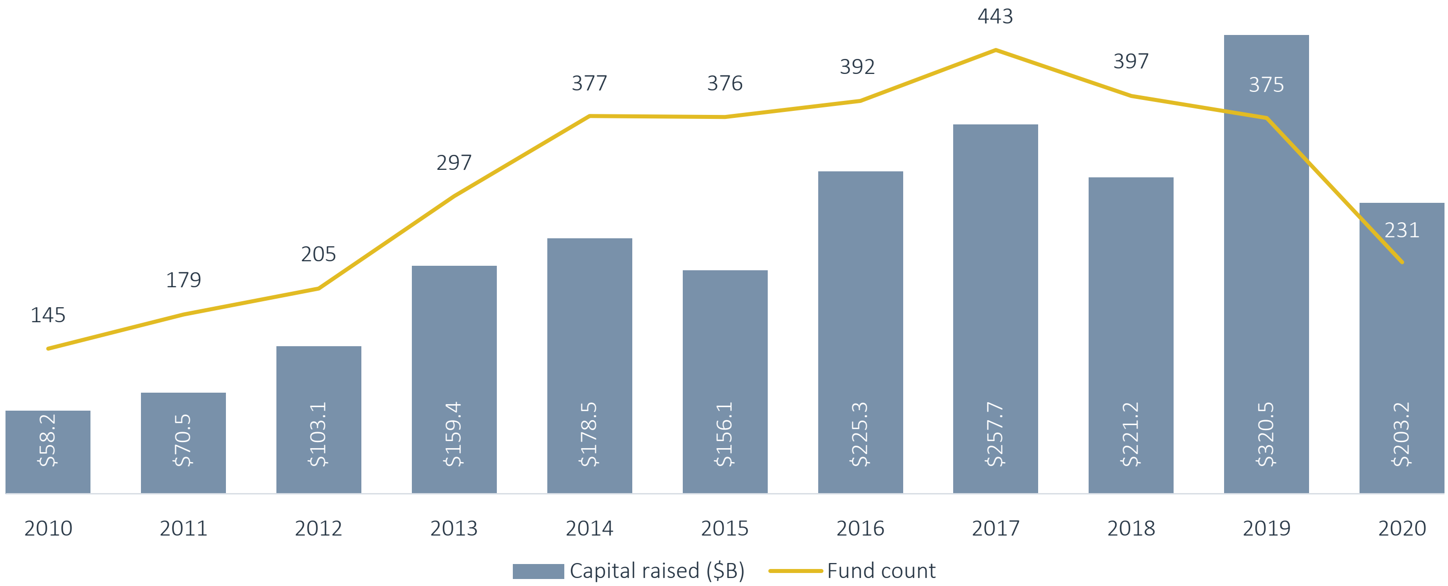
Source: PitchBook | **Geography:** US

its sale. Thoma Bravo also decided to maintain a minority position in Planview after agreeing to sell the company to TA Associates and TPG at a $1.6 billion enterprise value. In fact, Planview's previous owner, Insight Partners, also retained a minority stake in the company when it sold the company to Thoma Bravo in 2017. Retaining a minority stake in portfolio companies allows PE firms to retain some upside in the portfolio company they are exiting while returning a significant chunk of capital to LPs. Other options for a partial return of capital, such as dividend recaps, were also prevalent during 2020 and are likely to continue playing a significant role in returning capital to LPs.

PE fund monetizations can take on other forms besides full exits, including secondaries transactions. The secondaries market, which we typically segment into LP-led and GP-led, has boomed over the past decade as the stigma around exiting funds early diminished. Secondaries play a vital role in LP portfolio construction and maintenance. GP-led secondaries transactions—whereby a GP rolls one or more portfolio companies into a new special purpose vehicle (SPV) and allows LPs to opt in or cash out—have proliferated as GPs sought to push out the traditional exit timeframe. Although these transactions will not show up in our exits data because they are not company sales, LPs should be aware of how their presence impacts holding times and the liquidity of PE funds. As this segment of the market continues to balloon, it will have even greater influence over the exit environment and give LPs and GPs more exit options.

Fundraising

US PE fundraising activity



Source: PitchBook | **Geography**: US

US PE fundraising dipped in 2020, although the amount of capital raised appears reasonable given the pandemic-related difficulties of fundraising. In total, PE firms closed on 231 funds for a total of $203.2 billion—YoY declines of 38.4% and 36.6%, respectively. Back in December 2019, before the market was aware of the COVID-19 virus, our PE outlooks predicted a fall in fundraising for 2020 as many of the largest funds closed in 2019, marking a record-breaking year. And while fundraising was down in 2020—in part due to both a lack of mega-funds and virus-related issues—US PE firms closed on a healthy amount of capital, all things considered. After the initial shock of a country-wide lockdown in March began to wear off, established PE firms including KKR and Blackstone reported healthy fundraising figures where due diligence had been conducted via video conferencing. Many limited partners believed 2020 vintage funds will produce outsized returns akin to 2009 vintage funds and thus sought to quickly allocate capital. However, much of the capital raised focused on distressed or special situations credit funds. By the time buyout managers thought to launch an opportunistic fund, raise capital, and then deploy it, the opportunity set had mostly dried up. For example, one of Cohen's clients raised a distressed fund focused on the lower middle-market in the spring of 2020 and had not completed a single deal out of the fund as of early January 2021.

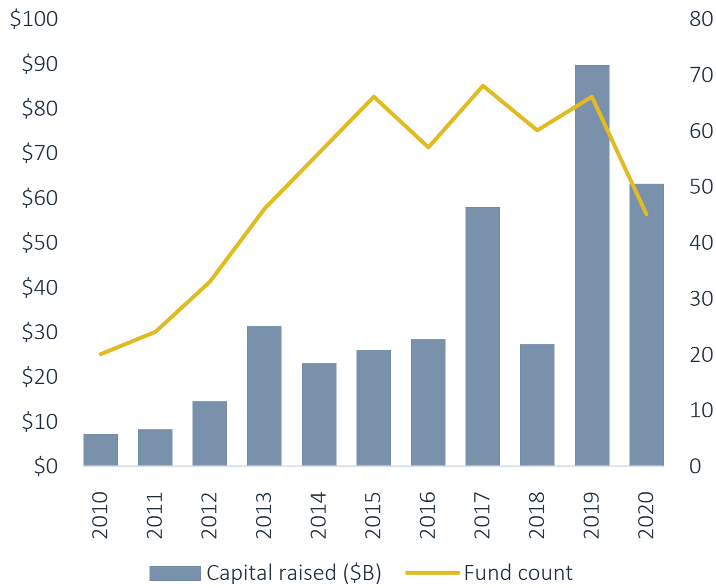
Most of the PE funds raised during the year had been planned pre-pandemic, and LPs re-up with established managers rather than risk placing capital with lesser-known entities. Similar to 2019, $5 billion+ vehicles amassed approximately half of the capital raised in 2020, but just 10 of these funds closed. Perhaps the most noteworthy massive fund closure belonged to Thoma Bravo. The software-focused buyout shop secured a combined $22.8 billion across three separate funds, including $17.8 billion in its flagship Thoma Bravo Fund XIV. The two smaller funds—Discover Fund III collected $3.9 billion and Explore Fund tallied $1.1 billion—will run parallel strategies in the middle and lower middle markets.

While Thoma Bravo's substantial fundraising effort dwarfs other 2020 closures, the $22.8 billion simultaneously collected across three funds is emblematic of the broader trend of LPs continuing to plough money into technology-focused funds. Although the pandemic took a toll on fundraising most generally, it may have been a boon for the largest technology-focused GPs. Fundraising in this sector was robust in 2019, driven by headlining numbers from Thoma Bravo and Vista Equity Partners. While failing to reach 2019's heights, 2020 US technology fundraising did surpass every other year on record, totaling $63.1 billion across 45 funds. Capital raised in technology-focused 2020 vintage funds will be more concentrated than ever before, as average technology fund size hit an all-time high. As technology valuations rise, large funds may be better positioned to invest in the most desirable targets.

In addition to Thoma Bravo's $22.8 billion haul, 2020 produced several mega-fund closures. In April, Insight Partners secured $9.5 billion for Insight Venture Partners XI, a software-focused growth fund that looks to write checks between $10 and $350 million. Insight Partners began fundraising for this vehicle in 2019 but was able to close at the height of the pandemic uncertainty. In June, Francisco Partners closed nearly $10 billion in fundraising across a trio of funds, including a $7.45 billion flagship that blew past its $5.5 billion target. In the secondaries markets, Francisco Partners IV, Silver Lake Partners IV, and Thoma Bravo Fund XI were among the highest-priced funds of the year, selling for 112%, 110%, and 110% of NAV respectively.[18] In 2021, we expect another technology mega-fund to close early in the year: As of August, Silver Lake Management had exceeded their $18.0 billion target for Silver Lake Partners VI, but the firm was reportedly still fundraising.[19]

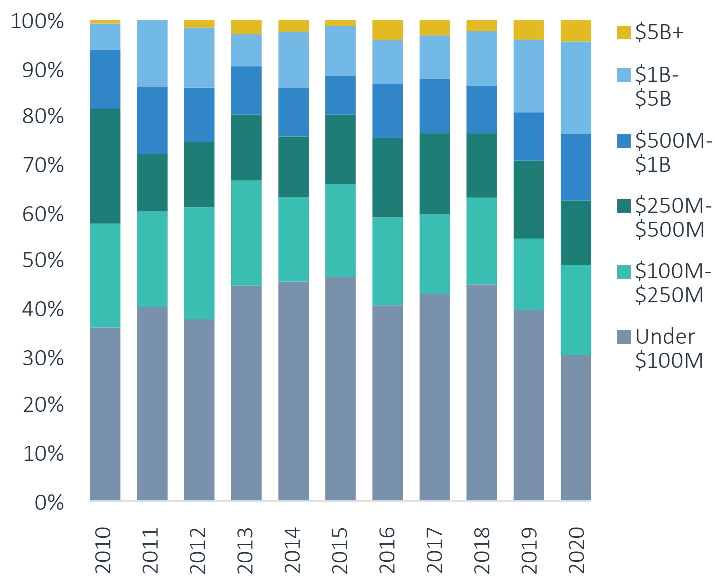
While mega-funds accounted for the lion's share of 2020 technology fundraising, it should be noted that smaller technology-focused funds are also seeing robust investor interest. For example, Accel-KKR's first small-cap fund, Accel-KKR Emerging Buyout Partners, was oversubscribed and hit its $640.0 million hard cap.[20] A pair of firms headed by Silver Lake alumni are also thriving with middle-market technology-focused funds. Sumeru Equity Partners, which solely invests in enterprise tech and SaaS, surpassed its $600.0 million target for its Sumeru Equity Partners Fund III to close on $720.0 million. LPs bet the firm's realization record would continue because each of the exits from Sumeru Equity Partners Funds I and II returned at least 4x Sumeru's invested capital, according to the Wall Street Journal as of November. Luminate Capital Partners is also raising a third fund, seeking $700.0 million. Although Luminate has not held a final close, the Washington State Investment Board approved a $150.0 million commitment to the fund in December 2020. Going forward, middle-market-sized, technology-focused PE firms will likely keep succeeding with fundraising as LPs try to establish relationships with the next Thoma Bravo, Silver Lake, or Vista.

US PE technology-focused fundraising activity



Source: PitchBook | **Geography**: US

US PE fundraising activity by size (#)



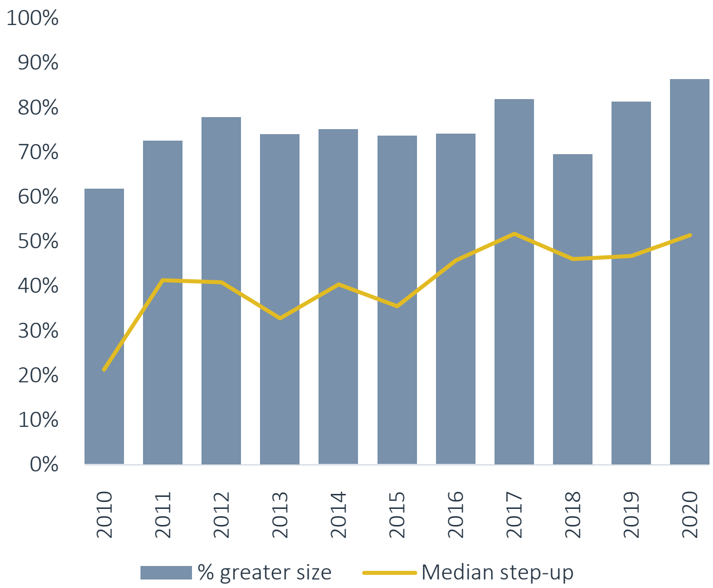
Source: PitchBook | **Geography**: US

18: "These Are the Most Popular Private Equity Funds in the Secondary Market," Institutional Investor, Christine Idzelis, December 21, 2020.
19: "Silver Lake Shoots Past $1.8bn Target for Fund VI, Private Equity International, Kirk Falconer, August 17, 2020.
20: "Accel-KKR Announces Close of $640 Million Emerging Buyout Partners LP Fund Focused on Small-Cap Software Companies," AKKR, October 29, 2020.

In 2020, the trend surrounding long-dated funds—which are meant to last longer than the traditional 10-year timeframe—appeared to continue its momentum. Not only did COVID-19 delay many exits and thereby lift holding times, but a pair of long-dated funds also hit meaningful milestones. Amassing $8.0 billion, Blackstone's Core Equity Partners II fund proved the most notable of the two. Blackstone joins KKR, Carlyle, and CVC as bulge bracket PE firms that have expanded into long-dated funds in the last five years. The fund's full $8.0 billion in commitments came during the pandemic and is around 70% larger than its predecessor, which illustrates investor demand for longer-life buyout funds. CalPERS' $1.0 billion commitment to the fund was significant, but the pension made an even heftier commitment to long-dated buyout funds in 2020: In September, CalPERS also seeded LongRange Capital, a new long-dated PE firm, with $1.5 billion for its first PE fund. LongRange is one of a few upstarts to target strictly longer holding periods. Altas Partners and Cove Hill Partners also closed on $1 billion+ long-dated funds in recent years. CalPERS often proves to be an industry bellwether, meaning other pensions with $50 billion+ in AUM may look to make similar allocations to long-dated funds in the future. The 10- to 15-year expected holding times also fit well with the multigenerational goals of many sovereign wealth funds (SWFs), endowments, and family offices.[21]

Some technology-focused specialists are also seeking to raise long-dated funds. Vista Equity Partners is pursuing at least $3.0 billion for its inaugural Vista Equity Partners Perennial long-dated fund, which Vista sells as its permanent capital strategy. As of late 2019, the fund had raised $1.5 billion. Silver Lake also forayed into longer-term funds with a unique tie-up with Abu Dhabi-based SWF, Mubadala Investment Company. Mubadala bought a minority equity stake in Silver Lake from Dyal Capital Partners, while Silver Lake and Mubadala initiated a 25-year strategy supported by the SWF's $2.0 billion investment. Although other partnerships may take different forms, we foresee sophisticated institutional investors pursuing sizable commitments to longer-dated PE funds in the years to come.

Step ups and % of funds that were larger than previous



Source: PitchBook | **Geography**: US

Despite Blackstone's and Silver Lake's windfalls, not every firm pursuing long-dated funds is triumphing. BlackRock Long-Term Private Capital fund's target had to be scaled back from $12.0 billion to between $4.0 and $6.0 billion, of which it has already raised $3.4 billion, according to reports.[22] The fund has witnessed executive-level turnover and may have been too lofty of a target for the firm's initial attempt at buyouts. These funds are one solution to the trend of holding high-quality companies longer. There has also been a concurrent rise in GP-led secondaries deals and firms. These specialized transactions allow GPs to extend the holding time by an average of 3-5 years for one or a basket of portfolio companies by rolling them into a new SPV. LPs in the fund typically get the option to cash out or continue holding their stakes.

21: "BlackRock Scales Back Private-Equity Fund Ambitions," The Wall Street Journal, Dawn Lim, January 1, 2021.
22: Ibid.

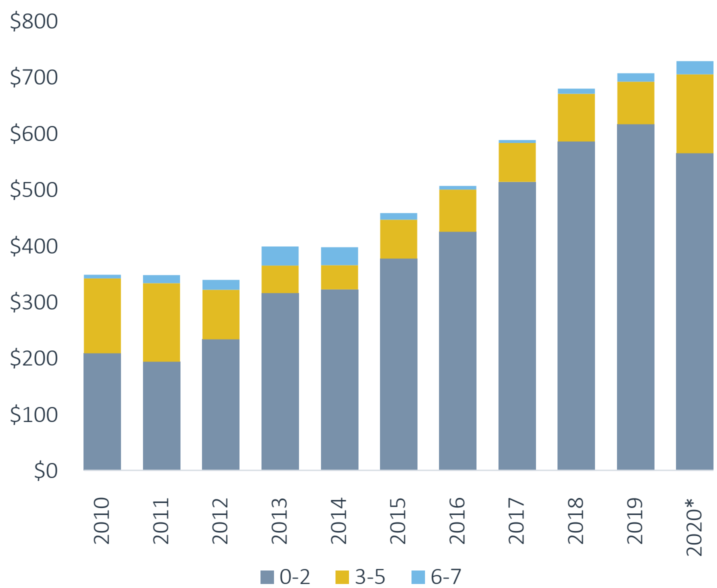
Select list of US PE funds to close in 2020

FUND NAME	CLOSE DATE	FUND SIZE ($B)	FUND LOCATION
Thoma Bravo Fund XIV	October 26, 2020	$17.8	Chicago, IL
Platinum Equity Capital Partners V	January 7, 2020	$10.0	Los Angeles, CA
Insight Venture Partners XI	April 3, 2020	$9.5	New York, NY
BDT Capital Partners Fund III	May 12, 2020	$9.1	Chicago, IL
Blackstone Core Equity Partners II	October 26, 2020	$8.0	New York, NY
GTCR Fund XIII	November 10, 2020	$7.5	Chicago, IL
Francisco Partners VI	June 2, 2020	$7.5	San Francisco, CA
Clearlake Capital Partners VI	March 30, 2020	$7.1	Santa Monica, CA
Trident VIII	January 14, 2020	$7.0	Greenwich, CT
Atlantic Park Investment Fund	April 1, 2020	$5.0	New York, NY
Blackstone Life Sciences V	July 9, 2020	$4.6	New York, NY
Thoma Bravo Discover Fund III	October 27, 2020	$3.9	Chicago, IL

Source: PitchBook | **Geography**: US

GP stakes funds, most of which expect holding periods longer than a decade, have also prospered in recent years. Dyal, the world's largest GP stakes player, seeks to raise $9+ billion for its fifth flagship fund, while Petershill and Blackstone are currently in the market for another round of funds, each targeting $4.0 billion. SEC documents reveal that Blackstone has already amassed more than $3.5 billion for this effort. Smaller firms are also jumping into the space. As of December 2020, Bonaccord Capital Partners has raised more than half of its fund's $1.0 billion target, according to sources familiar with the matter. Current fundraising figures for Stonyrock Partners' $1.0 billion fund are unavailable, but Investcorp Strategic Capital Partners, which seeks $750.0 million, has wrangled $160.0 million, according to public documents. Two other sizable players seeking outside capital include RidgeLake Partners, which has secured $500.0 million in seed capital from its parent organizations, and Hunter Point Capital. We expect RidgeLake's fundraising goal to be $1.0-$1.5 billion, while rumors suggest Hunter Point may attempt to secure $2.0-$3.0 billion. Although every firm in the space except Dyal appears to have faced a somewhat challenging fundraising environment in 2020, the broader acceptance by LPs and PE firms of decade-plus holding times and a desire for a differentiated income stream may continue to attract LPs to this niche.

US PE dry powder by age ($)

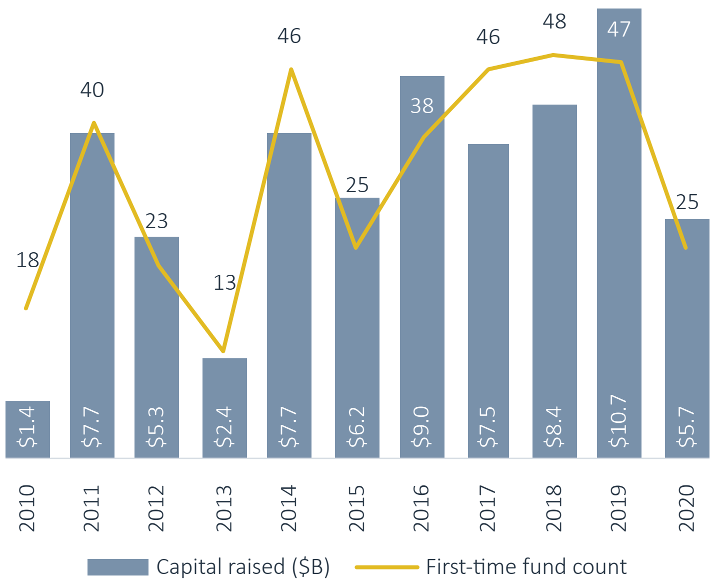


Source: PitchBook | **Geography**: US
*As of March 31, 2020

First-time funds also faced an uphill fundraising battle in 2020, as business travel ground to a halt during the pandemic. First-time managers posted their lowest fundraising numbers since 2013, raising 25 funds totaling $5.7 billion. However, the narrative around first-time fundraising difficulties appears to be overstated. To be sure, anecdotal conversations with first-time managers and the institutions looking to allocate to them indicate that many decisions have been delayed until 2021, but first-time funds accounted for approximately 10% of funds raised in 2020, a figure proportionate to the preceding five years. This suggests that LPs' strong appetites for developing relationships with the top-performing managers of tomorrow has not waned. Family offices, which typically finance the largest portion of a debut manager's fund, were active in 2020. Although Bonaccord Capital Partners did not hold a final close in 2020, the firm established a valuable partnership with multifamily office CAZ Investments, which committed up to $250 million to Bonaccord's fund. Despite the difficulties posed by restricted face-to-face due diligence meetings, the value propositions offered by first-time funds remain unaltered by 2020's upheaval. On average, first-time funds perform better than follow-on funds for several reasons. The stakes are higher for managers seeking to build a track record from scratch, and managers' attention is not diverted by legacy investments. Some socially conscious LPs are seeking to invest with more diverse fund managers, who tend to be better represented in first-time funds.[23] For these reasons and more, our 2020 PE outlooks predict that first-time fundraising will rebound in 2021 to the highest levels since the GFC.

GPs are also looking for capital with a longer duration. This move has led some of the largest players, including Apollo Global Management and KKR, to acquire insurance companies or assets off their balance sheet to invest the float. Insurance companies provide a new and unique source of capital to these managers. Apollo, the clear leader in this space, tacked on nearly $100 billion in AUM in 2020, largely due to acquisitions by insurance companies that Apollo effectively controls. Athora acquired VIVAT, while Athene closed a deal with Jackson National. Approximately 60% of Apollo's AUM now consists of permanent capital. KKR is expected to close on Global Atlantic in 2021, which should boost the firm's AUM by more than $70 billion.

US PE first-time fundraising activity

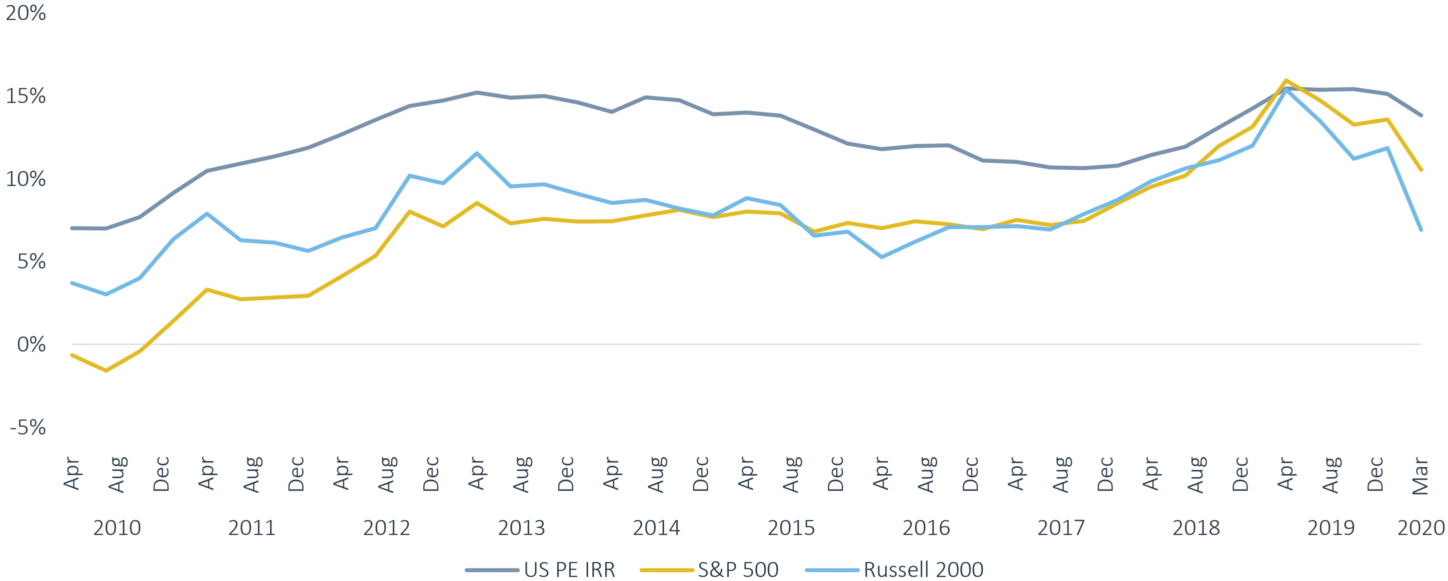


Source: PitchBook | **Geography**: US

Blackstone, meanwhile, has approached the permanent capital strategy from a different angle. The firm performed a unique recapitalization of BioMed Realty in Q3 2020, which valued the company at a gargantuan $14.6 billion. In fact, the transaction netted Blackstone the third-most profit on a single deal in the firm's history. Interestingly, BioMed was not sold. Rather, Blackstone rolled the company into a new perpetual life vehicle that allowed LPs to continue holding their stakes. Importantly, this kept a colossal and growing asset under Blackstone's stewardship. Just a few months later, Blackstone purchased $3.45 billion worth of medical research properties from Brookfield and combined them with BioMed in December. The combined entity was valued at approximately $20 billion.[24] The importance of this single transaction lives in its potential implications on fundraising and AUM in the coming years. Blackstone, or any of the other 30+ bulge bracket PE firms, could use this same approach to portfolio companies outside of the real estate sphere as well. These types of deals could allow GPs to collect management and performance fees on high-quality assets long after the traditional 10+1+1 lifespan of a buyout fund. Depending on its success and buy-in from the LPs, this is an area that has the potential to significantly alter how these mammoth PE firms approach liquidity for select assets.

23: "How a Diligent LP Finds Overlooked Private Equity Opportunities," Institutional Investor, December 7, 2020.
24: "Blackstone Buys Portfolio from Brookfield for $20bn Life-Science Real Estate Fund," IPE Real Assets, Richard Lowe, December 14, 2020.

Rolling 10-year return by asset class

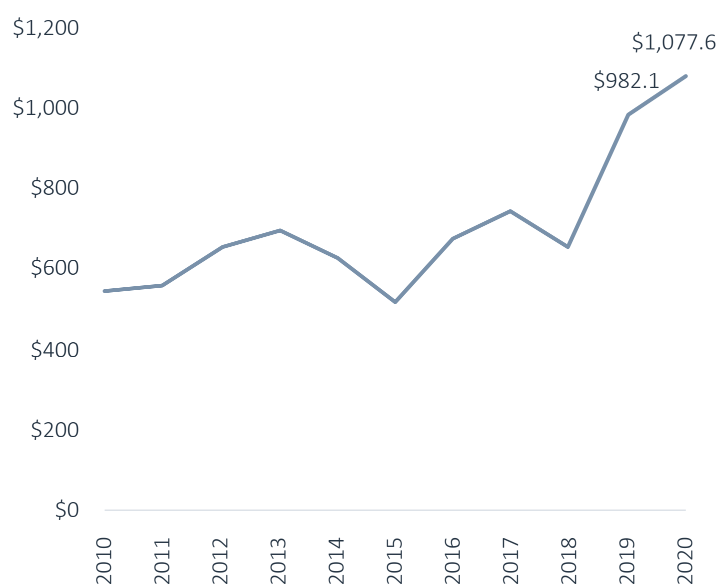


Source: PitchBook | **Geography**: US
*As of March 31, 2020

Another longer-term determinant of fundraising is the amount of outperformance LPs believe they can capture by allocating to PE. Relative to public markets, PE investors expect to earn premiums for illiquidity and the active management that PE firms bring to portfolio companies. Some academics now point to public equity indices outperforming PE over the past decade, during which US public equities have been on a tear. Although it is true that the rolling 10-year public equity market returns overtook PE in a recent quarter, PE performance has come with significantly less downside or variance. Furthermore, the benefits of PE in an institutional portfolio were on full display in the first three quarters of the year. When public markets went into freefall, PE firms marked their NAV down by just 6.4%. The result to the upside was similar, when the S&P 500 was up 20% in the second quarter, but PE returns lagged. PE can act as a ballast in these portfolios while delivering market-matching performance on the upside (as seen over the past decade) and less downward volatility in a crisis.

Public equity outperformance in recent years may even benefit PE fundraising in a roundabout way. As the public equity portion of the pie grows more quickly, institutional investors must rebalance away from the public part of the equity allocation and allocate to PE. This is known as the reverse denominator effect. Despite the discussion among academics, institutional investors do not appear dissuaded from investing in PE. In fact, an industry survey from Eaton Partners in

Average US PE buyout fund size ($M)



Source: PitchBook | **Geography**: US

Correlation between quarterly exit value and distributions

Source: PitchBook | **Geography**: US
*As of March 31, 2020

December 2020 revealed that 57% of the respondents plan on investing even more money in the asset class in 2021 with 43% planning to not make any allocation changes.[25] No respondents indicated a desire to cut allocations. Furthermore, 62% of respondents indicated that PE was the most attractive alternative asset class going into 2021. With interest rates hovering around all-time lows and the fixed income side of the portfolio struggling to produce a decent return, large investors are pushing into alternatives to try to help them hit their 5% to 7% annual return targets.

The dearth of exit activity in the first half of the year, which ought to lead to lower distributions, may impede LPs' ability to allocate to new funds because distributions from funds are typically rolled into new commitments. However, this appears likely to change going into 2021 as exit activity rebounded in Q3 and Q4. If exit activity continues through the early months in 2021 as many expect, this could provide LPs with ample capital with which to reinvest. Furthermore, dividend recap activity was fervent in 2020, meaning LPs could receive significant chunks of their capital back without a full exit taking place.

As we head into 2021, a healthy number of massive funds appear likely to close, with launches from additional GPs likely in the coming months. CD&R, Dyal, Silver Lake, New Mountain, and more kicked off fundraising efforts in 2020 for their mega-funds currently in market, and all are likely to close in 2021, given how long previous funds have been in market. Similarly, well-known managers, including Genstar and Quantum Energy, have launched new funds targeting $5 billion+. Genstar is seeking a combined $10 billion+ between two funds in a unique split. Genstar Capital Partners X is targeting $8.0 billion while an overage sidecar fund—which can be used to target larger deals—is seeking an additional $2.0 billion. Meanwhile, Quantum is targeting $5.5 billion for its QEP Public Opportunities Fund. Others, including KKR and Bain may also open new flagship offerings in 2021. We will be closely watching the fundraising environment and anticipate a fervent year.

25: "New Eaton Partners Survey Indicates High Expectations for Private Capital Market Performance in 2021," Eaton Partners, December 17, 2020.