

## Third Quarter 2017 Private Equity Market Review

### Macroeconomic Commentary

Global equity markets continued to climb during the third quarter, posting their eighth consecutive quarterly gains on the back of strong earnings growth, low unemployment, relatively low interest rates, and muted perceived volatility. In terms of monetary policy, the Fed opted against raising interest rates but left the door open for a fourth quarter rate hike, while accommodative policies remain in place across much of the developed world. With that stated, political uncertainty, particularly in the U.S., appears to be increasing given ongoing negotiations regarding healthcare and tax reform. At this point it is unclear how this political uncertainty coupled with potential tightening of monetary policy will affect the venture capital and private equity markets or the broader global economy.

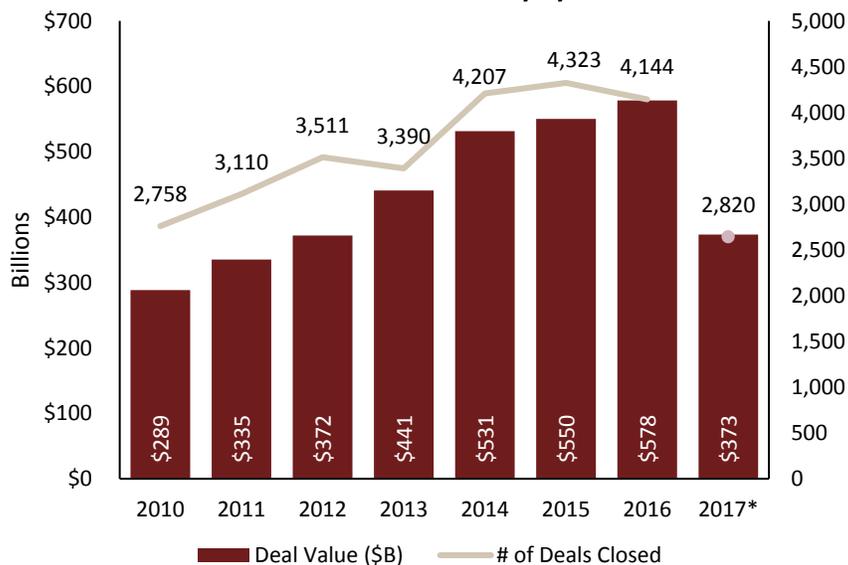
### Global Private Equity Commentary

Institutional investors' appetite for private equity commitments showed no signs of slowing during the third quarter, as fundraising remained robust across geographies and various strategies and styles. Within the U.S., 58 funds raised \$62.4 billion in the third quarter compared to just \$33 billion raised during the same time period last year. Notably, the 2017 figure includes the \$24.7 billion raised by Apollo Investment Fund IX, L.P. – the largest private equity fundraise in history – which is reflective of the overarching trend of increasing fund sizes across the industry. Similarly, European fundraising activity during the third quarter was on par with that of the last three months, with 22 and 24 funds raised, respectively. This is an

increase from the same period last year when 17 funds were raised with an aggregate value of €14 billion, versus the €18 billion raised in Q3 2017. In the U.S., deal volume was down slightly from the same period last year as private equity firms invested \$163 billion in the third quarter, compared with \$171 billion last year. However, European investment activity was higher; private equity firms invested €95 billion across 644 transactions, compared with €72 billion across 554 transactions in Q3 2016. Add-on acquisitions continued to play an important role across the U.S. buyout market, accounting for 64% of all U.S. buyout transactions in 2017. Private equity firms look to add-on acquisitions for inorganic growth opportunities and/or synergies, as well as a tool to average down the cost of an initial platform company. Lastly, after years of meaningful liquidity, exits across the U.S. and Europe slowed in the third quarter. Despite the continued perception of a seller's market, there now appears to be a lower inventory of mature portfolio companies ready for exit, given the robust selling activity of many sponsors in the recent past. In the U.S., 224 exits accounted for \$40.8 billion in value, representing a 20% decline from last quarter's \$51.1 billion. In Europe, exit value totaled €49.9 billion across 203 transactions, with secondary transactions accounting for approximately half of the 2017 exit activity in the region.

- Fundraising:** U.S. private equity funds have raised \$178 billion across 184 funds year-to-date in 2017, compared with \$214 billion raised by 283 funds for the full year 2016, representing an average increase in capital raised per fund of over \$200 million. European funds have raised nearly €59.5 billion year-to-date, a 43% increase from the same period last year.

U.S. PE Investment Activity by Year



\*As of 9/30/2017. Source: PitchBook

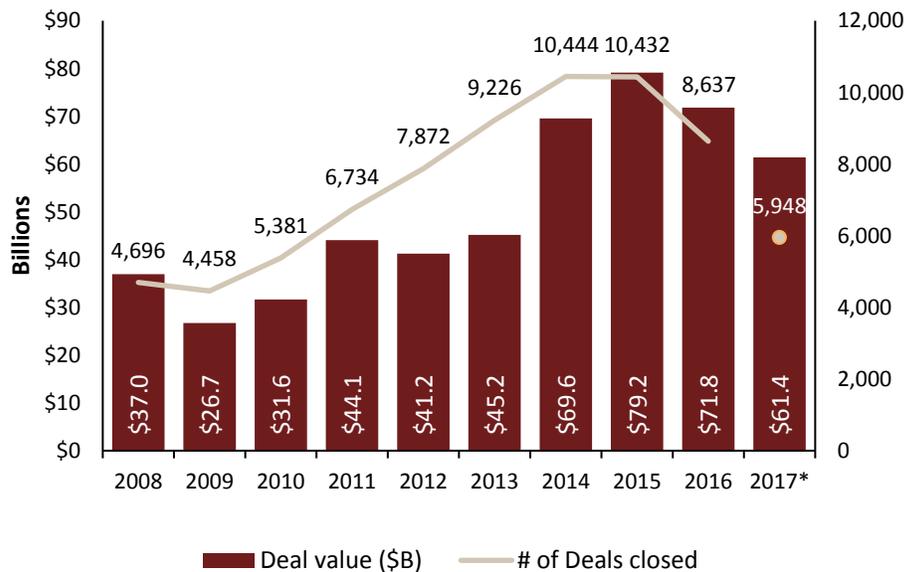
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- Investment:** Within the U.S., year-to-date deal transaction volume has dropped 11% compared to that of 2016, likely a result of investors exercising caution due to increased purchase price multiples and general market and political uncertainty. Within Europe, year-to-date deal volume totaled €256 billion across 2,031 deals (figure includes estimated deal value), which is modestly up from €249 billion across 1,989 deals for the same period last year.
- Exit Activity:** Based on annualized year-to-date statistics through Q3, 2017 will mark the second consecutive year of declining global exit activity. Q3 U.S. exit value, which totaled \$40.8 billion, declined 27% from the same period last year while year-to-date European private equity exit activity remained comparable to that of 2016.

### Global Venture Capital Commentary

Global VC fundraising slowed during the third quarter, as 34 U.S. venture capital funds closed on \$5.3 billion, compared to 58 funds that raised \$11.4 billion in Q2. In Q3 2017, 1,706 investments across all stages closed with an aggregate value of \$21.5 billion, compared with 2,164 deals with an aggregate value of \$22.9 billion in Q2 2017. Declines in the number of investments were observed across multiple stages, including both early and later-stage investments. However, despite a decrease in the number of companies receiving financing, 2017 dollars invested is on pace to beat 2015 levels, due to larger investments in later stage financing rounds. Consistent with the previous two quarters, global VC exit activity has remained sluggish, with only 144 U.S. exits in the third quarter compared to 162 exits in the same time period last year. This decline points to an increasingly difficult exit environment which is largely a result of a slow IPO market for venture-backed companies.

### U.S. VC Investment Activity by Year



\*As of 9/30/2017. Source: PitchBook

- Fundraising:** Compared to 2016, 2017 U.S. VC fundraising has slowed significantly. With only 157 funds raising an aggregate \$24.4 billion year-to-date to date, it is unlikely capital raised this year will match the \$40.4 billion raised in 2016, which was the largest amount raised in 10 years. Moreover, in 2016, seven firms raised funds greater than \$1 billion, accounting for 23% of capital raised during the year, and helping to explain the difference when looking at year-over-year fundraising activity. European VC fundraising activity is on par with the amount raised last year, but remains far below the amounts raised in the U.S.
- Investment:** U.S. aggregate deal volume by value increased more than 40% year-over-year, however the number of deals closed dropped by nearly 18%, which is reflective of a continued pattern of investors gravitating toward larger investments in later stage, highly-valued private companies. Given this dynamic, 2017 deal volume by value is poised to reach its highest level in a decade.
- Exit Activity:** U.S. venture-backed exit activity remained sluggish in terms of both number of exits and aggregate transaction size, mostly due to the trend of companies opting to delay IPOs and stay private longer. Such delays could compel venture capital managers to explore secondary transactions in order to return capital to investors.

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All data sourced from Pitchbook between 10/20/17 and 11/3/17.

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