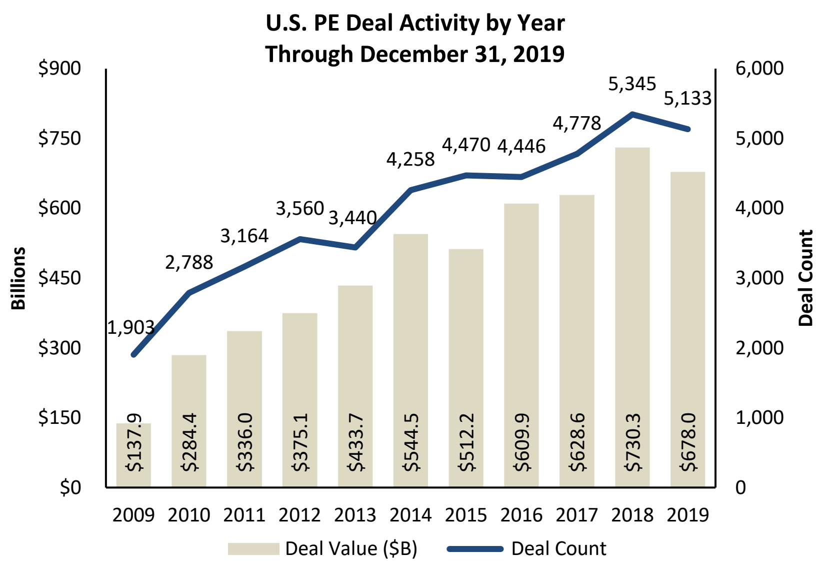
What a difference a year makes; after a volatile end to 2018, 2019 both began and closed with a bang, as the global economy and public equity markets demonstrated resiliency amid a myriad of uncertainties. The S&P 500 appreciated almost 30% in 2019, its highest yearly gain since 2013, while the tech-heavy NASDAQ produced even more impressive gains of approximately 35%. Growth outside of the U.S. was attractive, but more modest; the MSCI ACWI (global ex-U.S.) and MSCI Emerging Markets Index appreciated approximately 24% and 15%, respectively.

With respect to private equity, venture capital and growth equity, the levels of fundraising, investment, and exit activity of the recent past largely persisted in 2019. Capital raised across all segments remained elevated at or near record levels as investor demand for venture capital and private equity, two asset classes perceived to have alpha-generating return potential, continued. Elevated public and private market valuations caused a slowdown in new investment activity as private equity practitioners, in general, were disciplined deploying capital. Exit activity declined as well, likely a result of financial and strategic acquirers exercising caution and robust exit activity in the preceding years. With regard to the secondary market, general partner-led transactions remained prevalent; the continued maturation and institutionalization of the asset class has led both general and limited partners to seek eloquent liquidity solutions.

The following commentary provides an analysis of 2019 private equity, venture capital and growth equity, and secondary market activity.

Private Equity

U.S. and European fundraising activity reached record levels in 2019. Over the past year in the U.S., 202 funds raised $301 billion compared with $198 billion raised by 214 funds in 2018, with 95% of new funds raised larger than their predecessor vehicles. Across Europe, 89 funds raised €86 billion compared with €70 billion raised by 80 funds during the prior year. Global fundraising was driven by technology-focused funds, which have demonstrated the greatest outperformance relative to public markets during the current cycle, in addition to larger funds with over $5 billion in total commitments as limited partners continued to consolidate their number of general partner relationships.



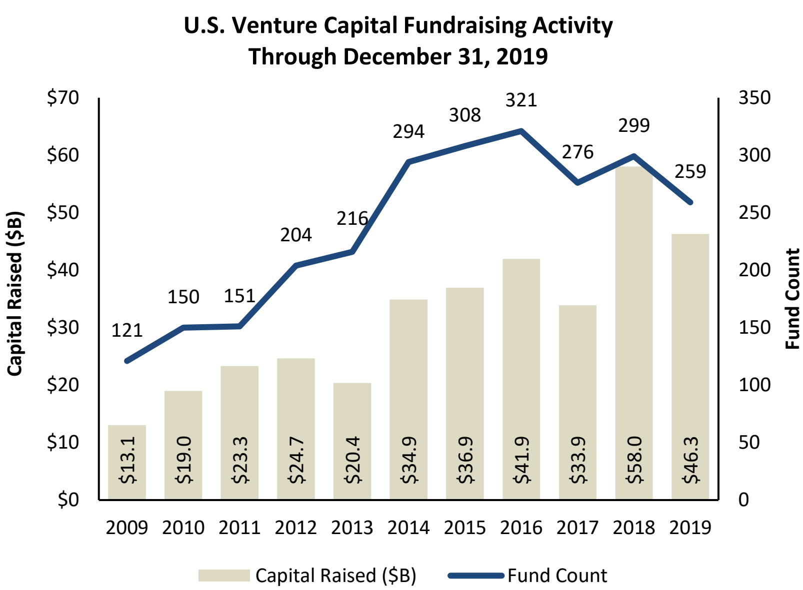
Data Source: PitchBook 2019 Annual US PE Breakdown

New investment activity in both the U.S. and Europe was strong in 2019, although it fell short of 2018 levels as robust fundraising only partially offset concerns about market pricing and the current stage of the economic cycle. In 2019, U.S. private equity firms executed 5,133 investments, representing $678 billion in deal value, versus 5,345 investments representing $730 billion in deal value in 2018. Average median purchase price multiples in the U.S. also remained elevated, but were down slightly year-over-year, at 10.9x EV/EBITDA in 2019 compared with 11.5x in 2018. New investment activity also fell slightly across Europe, with a total of 3,867 investments representing €454 billion in deal value versus 3,995 investments representing €465 billion in deal value in 2018. As mentioned previously, software and other technology-related investments continued to gain share, with sector-focused and generalist firms alike pursuing investments in these sectors.

Private equity-backed exits in both the U.S. and Europe were down meaningfully in 2019, likely a result of significant exit activity and resulting distributions in prior years, as well as a general level of cautiousness with respect to capital deployment by financial and strategic acquirers alike. In 2019, U.S. private equity-backed exits totaled $318 billion across 1,035 transactions versus $442 billion across 1,240 transactions in 2018. European exit activity was also lower, with €202 billion in exit volume across 900 transactions versus €260 billion across 1,182 transactions in 2018. Approximately 50% of private equity-backed exits, by value, were secondary acquisitions by other financial sponsors, which includes a significant number of recapitalizations whereby existing investors take partial liquidity and roll-over into the new transaction. These investments allow existing investors to generate partial liquidity for their limited partners, while also serving as a potential new investment opportunity in a company where the private equity firm has intricate knowledge of the company and thus seemingly lower team risk.

Venture Capital and Growth Equity

While overall investment activity in 2019 remained consistent with 2018 levels, activity during the second half of 2019 decelerated meaningfully when compared to the same time period last year. At the same time, venture capitalists were rewarded handsomely with record-breaking exit values, mostly the result of headline IPOs, although subsequent trading performance for many of these IPOs has been more challenged. Fundraising decreased year-over-year per numerous data sources, a slightly misleading statistic given the record fundraising market of 2018. Many venture capital and growth equity firms have deployed these funds faster than anticipated, and as a result fundraising in 2020 is once again expected to be robust.



Data Source: Q4 2019 PitchBook-NVCA Venture Monitor

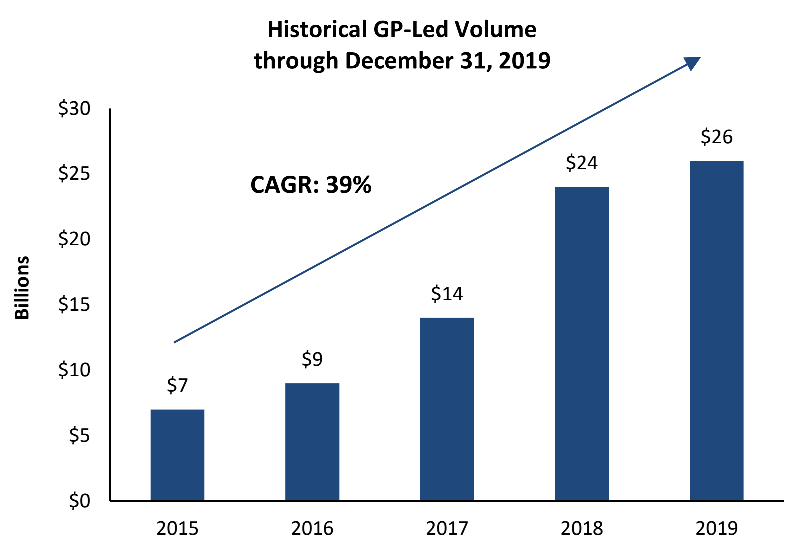
As seen in the chart titled U.S. Venture Capital Fundraising Activity Through December 31, 2019, venture capital fundraising declined 20% year-over-year, admittedly off of a record year in 2018. Overall, 259 venture capital and growth funds raised $46.3 billion in 2019. Despite the fewest number of venture funds raised since 2013, it is noteworthy that the aggregate capital raised still represented the second largest amount in the past decade. This can be rationalized by larger median fund sizes, which exhibited a 5% increase year-over-year and are now more than double the median fund size in 2013. In addition, successor funds raised in 2019 were on average 56% larger than their predecessor funds, as venture capitalists continued to take advantage of favorable market conditions and robust limited partner demand. Further highlighting the trend towards larger funds, micro-funds, or funds with less than $50 million in commitments, declined to the lowest levels since 2011. Furthermore, as smaller funds have declined, funds with committed capital between $50 million and $250 million increased to 43% of the overall fund count in 2019, 35% greater than during 2018.

According to the NVCA, venture capitalists deployed over $100 billion for the second year in a row, having deployed approximately $137 billion across 10,777 investments in 2019. Not surprisingly, later stage deals accounted for roughly 62% of the total deal value as high-growth companies continued to attract significant capital at higher valuations. This trend was driven by mega-deals, or deals that raised greater than $100 million; 181 such investments were executed in 2019 for year-over-year growth of approximately 10%. Later stage, pre-money valuations also continued to rise, with the median valuation growing to $88 million, or 16% above 2018. As discussed in numerous past market reviews, companies are staying private longer and seeking financings from later stage venture capitalists or other non-traditional venture capital investors. In fact, 85% of the completed mega-deals across all stages in 2019 saw participation from non-traditional investors, such as family offices, hedge funds, strategic investors and mutual funds. While later stage investments commanded most of the aggregate dollars and the largest valuations, pre-money valuations continue to increase across all stages. Median pre-money valuations grew 14% and 18% year-over-year across seed and early stage investments, respectively.

Venture-backed exit activity increased 97% year-over-year; in fact, full-year 2018 activity was surpassed during the first two quarters of 2019 alone, driven largely by Uber's high-profile IPO during the second quarter. Notably, industry data typically reports venture-backed IPOs as exits, although in most cases venture capitalists continue to own public shares and therefore performance remains unrealized from a limited partner perspective. Even though exit activity moderated during the second half of the year, 2019 still saw 882 exits generate $256 billion. After years of pent-up demand, venture-backed IPOs were the principal driver behind the record year. There were 80 venture-backed IPOs in the U.S. with a total value of just under $200 billion in 2019, a marked increase of 204% in value from 2018. In addition to Uber's offering, 2019 also saw IPOs from Lyft, Slack, Pinterest, DataDog, Peloton, and Cloudflare, among many others. However, post-IPO trading performance has been mixed for many of these companies over the second half of the year as public investors focused on operating metrics, most notably profitability, rather than top-line growth. This performance, as well as the highly publicized challenges and failed IPO of WeWork, has given pause to numerous technology companies that were in consideration for an IPO during Q4 2019. Of the resulting 13 IPOs in Q4 2019, nine were healthcare or life sciences businesses. Public market investors proved to have different price expectations for some of the highly-valued, venture-backed technology businesses.

Secondaries

As predicted in Abbott's mid-year market review, 2019 represented the third straight record year in the secondary market as volume grew 19% from 2018, reaching $88 billion. However, 2019 was a year of two halves; while the first half experienced a record-breaking high of $46 billion in deal volume, a 56% increase year-over-year, second half activity was softer than expected at $42 billion, or a 2% year-over-year decline. Historically, second half volume represented close to two-thirds of the total for the year, compared with the roughly 50-50 split witnessed in 2019. Abbott believes the decline in second half activity was due to several reasons, first and foremost that the unprecedented volume of activity during the first half of 2019 allowed buyers to be more selective and opportunistic over the latter six months of the year. Similarly, there were fewer full portfolio solutions during the latter half of the year, thereby increasing the number of mosaic transactions. These deals generally have a lower likelihood of transacting given the mix of attractive and lower quality assets in a portfolio.



Data Source: Greenhill, Global Secondary Market Trends & Outlook – January 2020

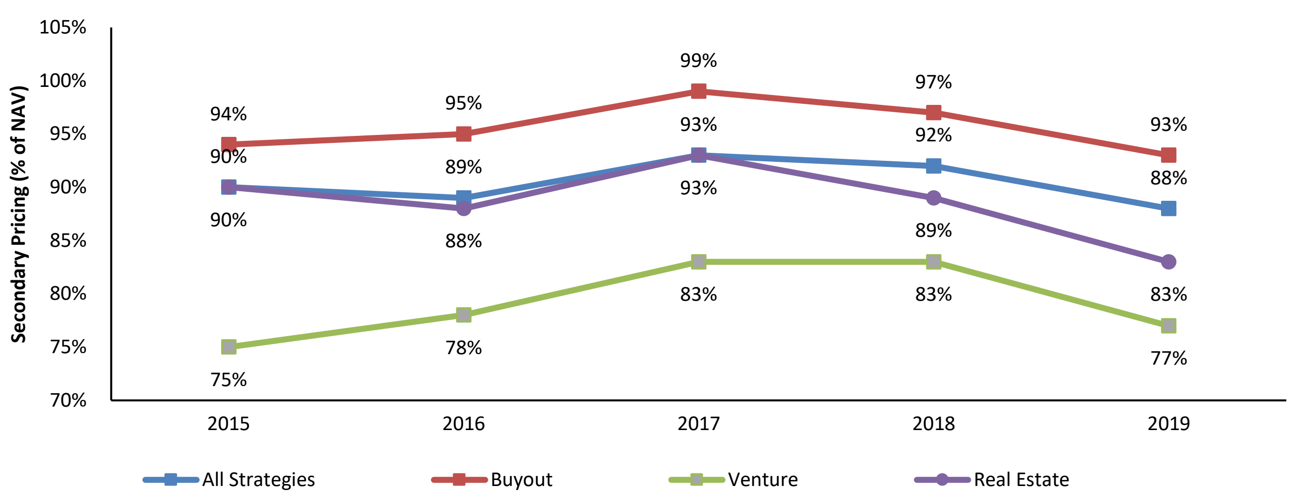
The headline transactions in the secondary market continued to be general partner-led deals ("GP-led"), which according to Greenhill, accounted for 30% of total volume in 2019. Similar to the broader market, GP-led activity in the first half of 2019 reached an all-time high, while second half activity stalled as several large transactions failed to garner requisite investor traction or were not able to successfully close by year-end. The chart to the left highlights the continued market trend of increasing GP-led transactions over the recent past.

Fund recapitalizations, otherwise known as continuation or extension fund deals, represented 76% of GP-led transactions, according to Lazard. A notable shift in 2019 was the prevalence of portfolio company concentration within such deals. According to

Lazard, single assets made up more than one-third of fund recapitalizations in 2019, which was more than double the relative volume share from the prior year. In theory, these transactions allow general partners to continue to own a trophy asset despite an expiring fund term, and potentially generate even larger returns through an extended hold period. A cynic would also note these deals allow sponsors to reap additional fees and potentially future carry, while also crystalizing carried interest in their existing vehicles. As a result, it is imperative that limited partners fully scrutinize these deals to make sure both limited and general partners are fully aligned in these transactions.

Contrary to popular opinion of elevated secondary market valuations, secondary pricing fell across the board in 2019, as the average high bid declined by 400 basis point, to an average of 88% of NAV. Pricing remains higher for younger fund vintages, or funds raised in 2013 or later, but only modestly at 89%. These vintage year funds represented 51% of total transaction volume in 2019. In addition, venture funds, on average, continue to show larger discounts compared to their buyout brethren given the relative difficulty of underwriting high growth rates in less mature businesses. Overall, discounts of 20% or greater are generally required to entice buyers in pre-GFC funds given the concentrated nature of many of these remaining funds. However, such vintages still represented 35% of funds sold in 2019, by number of transactions.

Historical Pricing by Strategy



Data Source: Greenhill, Global Secondary Market Trends & Outlook – January 2020; Greenhill, Global Secondary Market Trends & Outlook – July 2019

Summary

The financial markets started and ended 2019 on a high note, as market conditions remained accommodative for sustained economic growth leading to significant public market appreciation. However, conditions changed drastically in Q1 2020 given the coronavirus pandemic and resulting uncertainty and disruptions it has caused. The true impact of this virus on the global economy and private equity industry cannot yet be quantified, but this is surely a development that is top of mind for many investors over the coming months.

SOURCES CONSULTED

With respect to private equity information, information was sourced through: Pitchbook 2019 Annual US PE Breakdown and Pitchbook 2019 Annual European PE Breakdown.
With respect to venture capital information, information was sourced through: Q4 2019 Pitchbook-NVCA Venture Monitor.
With respect to secondary investment information, information was sourced through: Greenhill, Global Secondary Market Trends & Outlook – January 2020; Greenhill, Global Secondary Market Trends & Outlook – July 2019; Lazard Private Capital Solutions, 2019 Financial Sponsor Secondary Market Review.
The views expressed are Abbott's opinion as of March 2020 and are subject to change without notice.

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