Macroeconomic Commentary

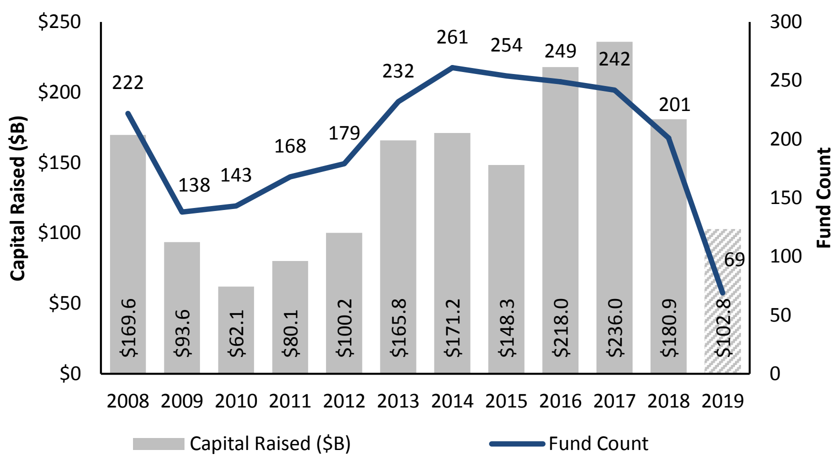
Despite interim volatility, the U.S. public markets demonstrated meaningful appreciation during the first half of 2019. The S&P 500 closed the second quarter up 17%, the best first half performance for the Index in over 20 years. With respect to the broader economy, the longest economic expansion in U.S. history remained intact, albeit with potential signs of sluggishness emerging, leading to more modest future growth expectations. Subsequent to June 30th, financial markets have demonstrated an increase in volatility, as the positive momentum from the U.S. Fed's interest rate cut was largely offset by the uncertainty created by increased trade tensions and warning signs from the bond market. Despite the potential headwinds, various market indicators such as earnings growth, consumer spending, inflation, and unemployment remained relatively strong.

With regard to private equity activity during the first half of 2019, a continuation of the recent past persisted. Fundraising within all segments of the private markets was robust, with firms raising larger pools of capital in seemingly shorter periods of time, and in some cases diversifying their product offerings. Valuations remained elevated across both the U.S. and Europe, which impacted the pace of new private equity investments, but aided selling motivations. At the same time, investors in venture capital funds benefitted handsomely given the record number and volume of initial public offerings of private "unicorn" investments.

Private Equity

After a slow start to 2019, private equity investment and exit activity picked up in the second quarter. The increase was driven by a perceived decrease in volatility and a resulting rebound in U.S. public markets during the quarter, as well as general partners' desire to deploy capital given record-high levels of dry powder combined with sustained robust fundraising activity. U.S. private equity fundraising remained strong, driven by large and mega funds, with over $100 billion raised by 69 funds in the first half of 2019, compared with $69 billion raised by 111 funds during the same period in 2018. European fundraising remained relatively consistent year-over-year, with 49 funds raising a combined €40 billion, compared with €46 billion raised by 38 funds during the same period last year. Globally, private equity fundraising in 2019 is on pace to surpass 2018 levels.

U.S. PE Fundraising Activity by Year through June 30, 2019



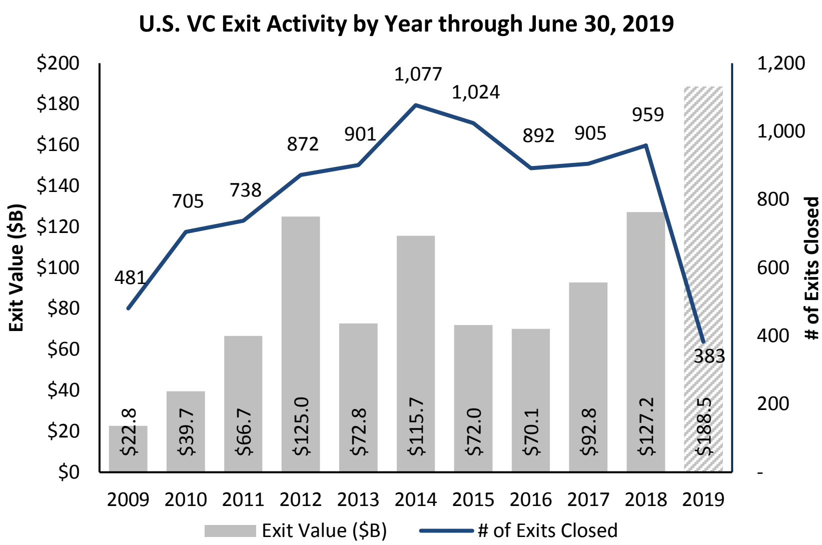
Source: 2Q 2019 US PE Breakdown

New investment activity in the U.S. during 1H 2019 was down 5% by deal volume, but up 12.5% by deal value year-over-year; within the U.S., 2,142 transactions representing $297 billion in deal value were completed in the first half of 2019, compared with 2,247 transactions representing $264 billion in deal value completed during the same period in 2018. U.S. new investment activity was driven by a recovery in the leveraged loan markets, as well as the continued increase in average purchase price multiples, which are now above 12x EV/EBITDA. In contrast, European new investment activity declined significantly from 1H 2018 levels; 1,270 deals closed valued at a total of €133 billion in the first half of 2019, representing a 14% decline by deal count and 18% decline by deal value from the first half of 2018. This marks the slowest start to a year since 2009, and is largely driven by political uncertainly, particularly in the U.K., concerns over market multiples, and increased competition from cash-rich corporate buyers. The global outlook for private equity new investment activity is balanced by robust fundraising and leveraged lending on one hand, and an escalation in geopolitical tensions and signs of slowing growth on the other. Nonetheless, purchase price multiples are expected to remain high given the strength of the public equity markets, dry powder available for investment, and low interest rates.

Private equity-backed exits in the U.S. totaled $110 billion across 371 transactions in 1H 2019, a 23% decline by number, but a 40% increase by value when compared with 1H 2018 exit value. The increase in exit value was driven by several large IPOs given the more favorable U.S. public markets during the second quarter. At the same time, European exit activity slowed to €66 billion across 305 transactions, a 36% decline by number, but a 24% increase by value from 1H 2018. Exit activity across the continent was similarly impacted by geopolitical uncertainty and trade tensions.

Venture Capital and Growth Equity

Venture capital and growth equity fundraising rebounded in the second quarter after a relatively slow start to the year. According to the NVCA, 103 venture capital funds raised $21 billion during the first six months of 2019, compared with 157 funds that raised $20 billion during the same time period last year. Notably, the sharp decline in the number of funds that raised capital was partly due to a decrease in micro-funds, or funds that raise less than $50 million. Similarly, capital raised by first-time funds, which are generally smaller in nature, is currently on pace for its lowest level since 2010. These data points further help illustrate that larger venture capital and growth equity funds, defined as fund sizes of $500 million or greater, continued to attract the vast majority of limited partner capital.



Source: 2Q 2019 PitchBook-NVCA Venture Monitor

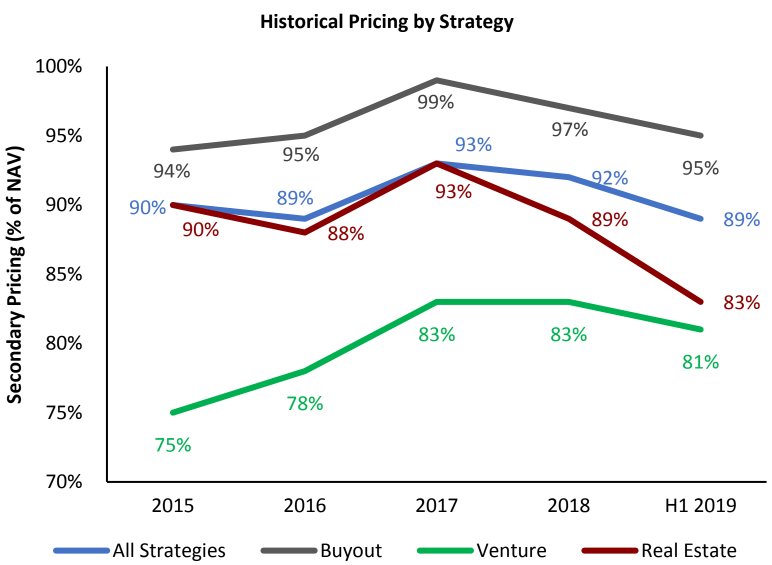
With the continued trend of venture-backed companies staying private longer, larger financing rounds at increased valuations remained the norm. There were 123 so-called "mega-deals" in 1H 2019, or rounds with in excess of $100 million raised, putting this year on pace to break the previous high of 208 set in 2018. To further highlight the prevalence of these larger financings, in 2013 there were only 36 such rounds. Total deal count and venture investment also remained at record levels during 1H 2019. According to the NVCA, venture capital and growth equity investors deployed $66 billion in 4,868 transactions, which, when annualized, would mark the second year in a row that venture investment surpassed $100 billion.

Although venture fundraising and investment activity remained strong, the biggest headlines with respect to this segment during the second quarter were from the IPO market, as evidenced by 34 venture-backed IPOs that raised $130 billion. According to NVCA, exit activity of nearly $189 billion in 1H 2019, 83% of which was from value raised through IPOs, has already shattered the previous quarterly high of $80 billion set in Q2 2012, itself an outlier due to Facebook's IPO. The high-profile public offerings of Lyft, Uber, Pinterest, Slack, Zoom, CrowdStrike, and Beyond Meat, to name a few, contributed to the record volume. Moreover, with the recent filings of Peloton, WeWork, and Cloudflare, among others, the IPO market is expected to remain strong during the second half of 2019 absent material changes within the public markets or broader economy. While high-profile "unicorn" IPOs clearly stole the headlines, M&A activity for venture-backed companies also experienced growth in terms of total value. During the past six months 254 venture-backed companies accounted for a total exit value of $30 billion, compared with 335 exits for a total of $27 billion in value during the same time period last year.

Secondaries

Secondary market transaction volume continued to break records during the first half of 2019. According to Greenhill, total transaction volume in the first half of the year was $42 billion, surpassing the previous first half record of $27 billion set last year. Deal volume for the first six months of 2019 would rank as the third largest 12-month deal volume on record, lagging only the $58 billion and $74 billion transacted in 2017 and 2018, respectively. With respect to transaction types, portfolio sales have been and continue to be increasingly diverse as sellers staple older, non-core and challenged fund interests alongside younger, less developed vintages and well-known, high-quality funds. Transactions also continued to increase in size; the largest ever secondary transaction was completed during 1H 2019, as Norinchukin Bank, under regulatory pressure, divested a $5 billion portfolio.

As shown in the chart titled, "Historical Pricing by Strategy," average secondary market pricing declined 300 basis points as the volume of more discounted tail-end funds, or those defined as older than 10 years, outweighed the sales of less mature vintages. While pricing is highly idiosyncratic and sponsor-dependent, pricing for Asian and emerging market funds remained weaker relative to their counterparts in North America and Europe. Buyout funds still dominated the secondary market, as they comprised 54% of all transactions in 1H 2019. Venture capital was a distant second at 17%, while real estate represented 7%. As discussed in prior market reviews, dry powder remains significant despite the record capital deployment given the robust fundraising environment and access to low-cost deal financing in the current market. Greenhill estimated the current secondary market dry powder was $169 billion at the end of Q2 2019, a surprisingly small decrease from $192 billion at the end of 2018 given the level of transaction volume over the last six months.



Source: Greenhill, Global Secondary Market Trends & Outlook, July 2019

GP-led transactions, which were highlighted in Abbott's year-end market review, continue their torrid pace of growth. Since 2015, first half sponsor-led transactions have increased seven-fold, from $2 billion to $14 billion, and currently represent 33% of overall secondary volume. Moreover, 1H 2019 activity eclipsed the previous first half record of $9 billion set in 1H 2017 and matched that year's total volume of $14 billion. In addition to the market's greater acceptance of these transactions, another factor contributing to their growth has been the increased diversity and complexity of such deals. There has been a material increase in single-asset transaction volume as general partners increasingly view the secondary market as an alternative channel of liquidity for their existing limited partners. Furthermore, while large transactions generate headlines, such as the $1 billion recap of BC Partners IX and $1.4 billion NewViewCapital spin-out from NEA, the vast majority of GP-led transactions were less than $500 million in size. Of the 66 sponsor-led transactions in 2018, as reported by Lazard, 50 were less than $500 million and 38 were below $250 million.

Given the current momentum and the fact that second half transaction volume has historically been higher than the first half, 2019 is projected to be another record year. With the known pipeline of deals that are currently in the market or are expected to be over the next four months, Lazard is projecting total volume to be $85 billion or more this year if market conditions hold.

Outlook
Despite a strong first half of the year in terms of economic growth, public market appreciation and private equity and venture capital performance, the third quarter is off to a more uncertain start. Volatility has increased given ongoing trade tensions between the U.S. and China and the resulting potential for slower global economic growth. In addition, geopolitical uncertainties, most notably Brexit, add an additional level of complexity and uncertainty. Abbott continues to closely monitor all of these developments and looks forward to reporting back in our Q3 market review.

SOURCES CONSULTED

With respect to private equity information, material sourced through PitchBook 2Q 2019 US PE Breakdown and PitchBook 2Q 2019 European PE Breakdown.
With respect to venture capital information, material was sourced through: 2Q 2019 PitchBook-NVCA Venture Monitor; Roof, K. (2019, July 9). Markets: Tech Offerings Drive Increase in Larger IPOs. Wall Street Journal, p. B11; and Roof, K. (2019, July 9). Markets: Tech Offerings Drive Increase in Larger IPOs. Wall Street Journal, p. B11.
With respect to secondary investment information, material was sourced through: Preqin Secondary Market Update H1 2019, and Greenhill Global Secondary Market Trends & Outlook, July 2019.

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