LUXURY DAILY

The News and Intelligence You Need on Luxury

RESEARCH

Private equity deal value fell by 37pc in 2023: Bain

April 16, 2024

Rising interest rates and recession fears are said to be behind the decline. Image credit: Bain & Company

By ZACH JAMES

The latest findings from global consulting firm Bain & Company showcase a stagnant market on a massive scale.

In the "Global Private Equity Report 2024," the company warns of even harder times ahead for the industry, comparing the period of 2022 to 2023 to the time directly after the 2008 financial crisis. These fears are exemplified by downward trends in the value of business deals, exits and funding either continuing to decline or worsening in 2023.

"The word for this market is stalled," said Hugh MacArthur, chairman of global private equity at Bain & Company and an author of the report, in a statement.

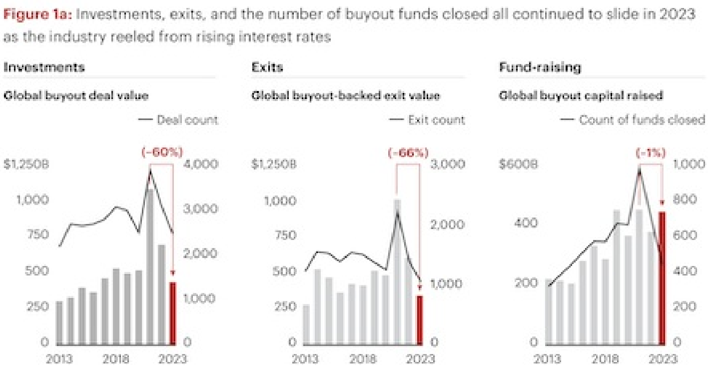
"Cutting through all of the macro noise was the 525-basis-point increase in U.S. central bank rates from March 2022 to July 2023," Mr. MacArthur said. "The speed and magnitude of this rise caused general partners to hit the pause button.

"Just 20 funds accounted for more than half of all buyout capital raised."

The report, authored and prepared by several advisors at Bain & Company, utilizes a variety of sources, both internal and from third-party companies. For the publication, financial analysis was provided via interviews with industry figures.

Slim returns

Global economic factors, such as impending recessions and high interest rates, are credited for the private equity industry's wide-ranging downturn.



While investment and exit values floundered, fundraising is barely in the red. Image credit: Bain

Among the major figures discussed is the value of deals, which fell by 37 percent year-over-year from $699 billion in 2022 to $438 billion last year. Another is exit value defined as the cash generated from selling ownership stakes which nearly halved over the course of a year, from $613 billion to $345 billion by the end of 2023.

Meanwhile, fundraising is down 30 percent from the all-time peak of $1.7 trillion in 2021, representing $1.2 trillion in 2023, the lowest since the pandemic. Despite this, the figure is within the area the market was generating before COVID-19, ranging from under $1 trillion to $1.4 trillion, marking a sort of return to form, even if that means lower financial stimulation.

With the global market as it is now, as realistic optimism (see story) and fears (see story) dictate corporate and private action, Bain & Company predicts a turnaround, though states that unprecedented times and events make that forecast less solid than usual. One factor could be key to flipping the script for a brighter financial future.

Latent potential

The possible value of cashing out or exiting from investments currently being held in portfolios is at an all-time high, reaching $3.2 trillion by the end of last year.

> Private equity continued to reel in 2023 as rapidly rising interest rates led to sharp declines in dealmaking, exits, and fund-raising.
>
> Discover more in our 2024 #PE Report, featuring data from @DealEdge. https://t.co/i6Psb2HrWr pic.twitter.com/gOHMwCLgT5
>
> Bain & Company (@BainandCompany) March 27, 2024

While the figure has been on a continuous upward trend for the majority of the past decade, the authors of the report view now as the time to sell. According to Bain & Company, 46 percent of global buyout companies "have been held for at least four years," leaving the door wide open for a sale.

Getting money back in the hands of investors is seen as a way to reverse fortunes, but garnering the liquidity to actually buy those investors out of their stakes would require cash from other investors that may or may not exist.

A conundrum has formed where the value exists to stimulate the market, but the cash flow to unlock that value is tied up in other investments. The private equity industry is one to watch in 2024, as either a crash or a recovery could be on the horizon, with the odds seemingly equal between the two options.