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Contents

Private Equity Newsletter

SG Analytics' premier private equity monthly newsletter and your window to the latest trends, deals, and strategies reshaping the industry. Each edition of Axia will bring you an exclusive feature article and topical news developments with our experts dissecting critical topics, offering insights and commentary that go beyond the headlines.

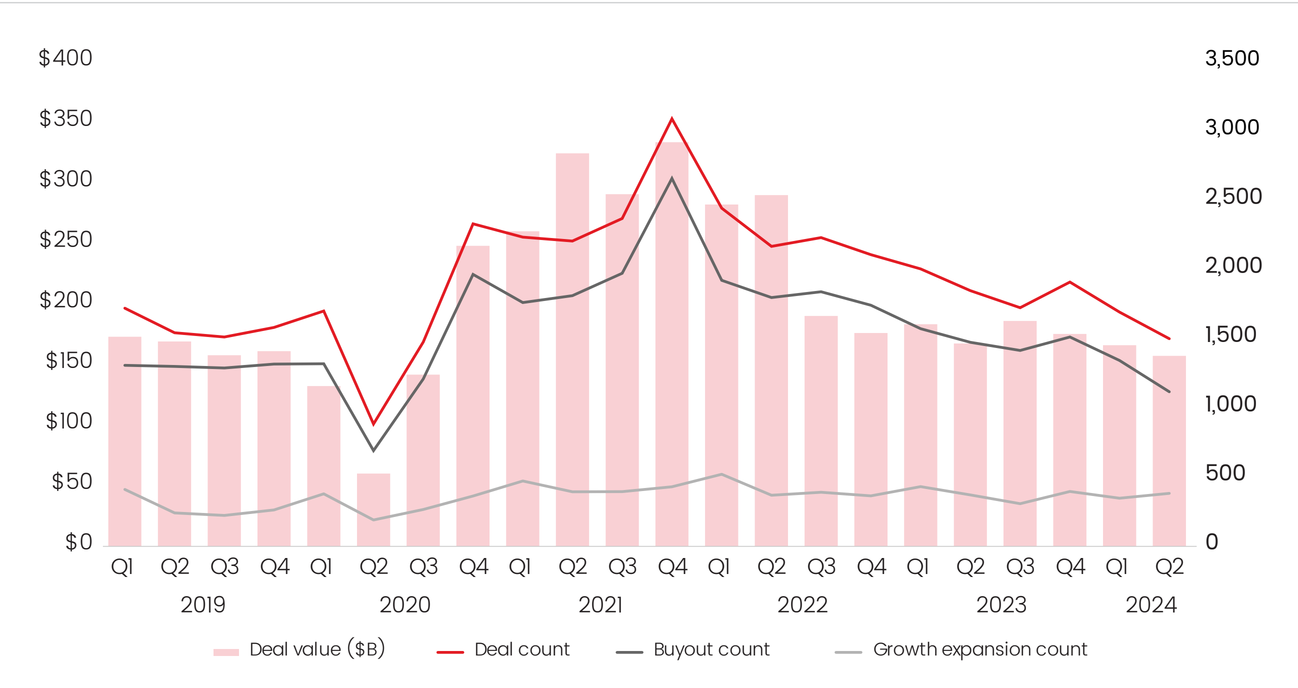
US Private Equity – Mid-Year Outlook

The US Private Equity (PE) segment grappled with sluggish deal activity in 1H24, driven by persistently high interest rates and firm seller expectations. Despite the dip in transactions, fundraising efforts remain robust, with middle-market funds gaining traction. As the industry adjusts to economic challenges, a renewed focus on value creation and strategic innovation could pave the way for a rebound.

PE deal activity remained sluggish and amounted to $323.8 billion across 3,196 transactions, marking YoY declines of 8% in value and 17% in deal count, according to Pitchbook. Buyers' ability to meet sellers' price expectations has been constrained by higher-than-anticipated interest rates, limiting the use of inexpensive debt. Meanwhile, sellers have held firm on their pricing, unwilling to realize losses on assets acquired during the inflated pandemic market. Consequently, the number of buyout deals saw a significant decline of 19%, dropping from 3,050 in 1H23 to 2,463 in 1H24.

Middle-market funds demonstrated robust fundraising, with 77 funds raising $80.8 billion, representing 52.1% of the total capital raised.

Figure 1: Quarterly US PE Deal Activity



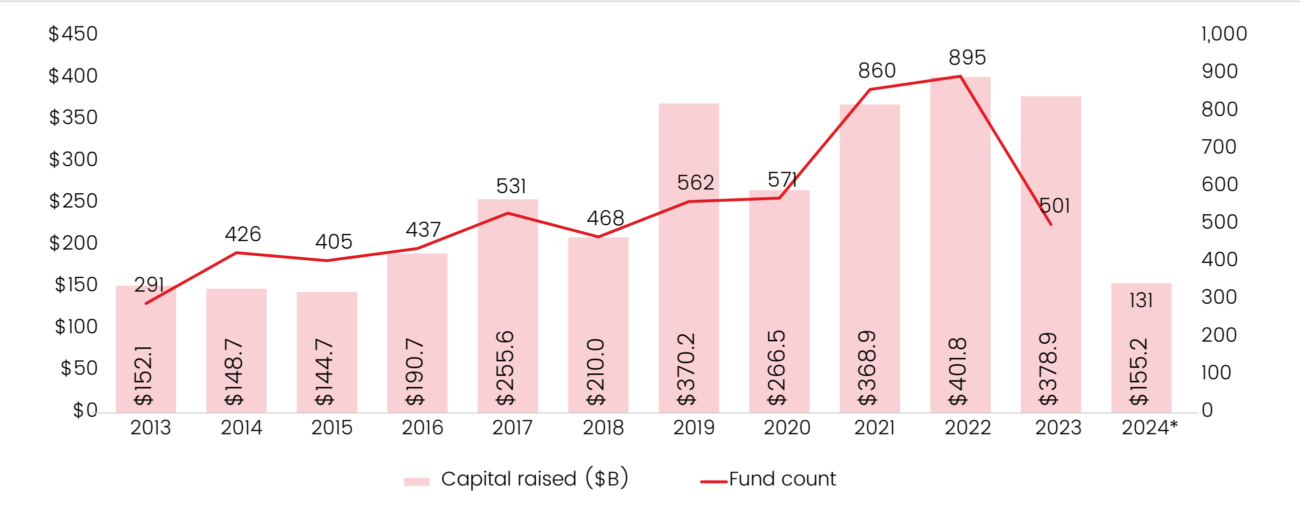
Source: Blackrock

In 1H24, US PE funds raised $155.2 billion by closing 131 funds, according to Pitchbook. Compared to 1H23, which concluded as PE's second-best fundraising year ever, 2024 has been performing slightly better. This suggests a continued resilient fundraising environment for the asset class, despite expectations that PE fundraising would taper off due to a lack of exits and a slowdown in distributions back to LPs.

Middle-market funds demonstrated robust fundraising, with 77 funds raising $80.8 billion, representing 52.1% of the total capital raised. While the first half saw the closure of five megafunds, this is a notable decrease compared to the past two years. Investors appear to be favoring smaller funds amid the challenging macroeconomic environment, opting for more manageable deals with accessible financing and favorable valuations.

Despite the sustained capital inflow, the pace has slowed. According to Pitchbook, the median time to close a fund has risen to 18.1 months, up from 14.5 months in 2023 and 11 months in 2022.

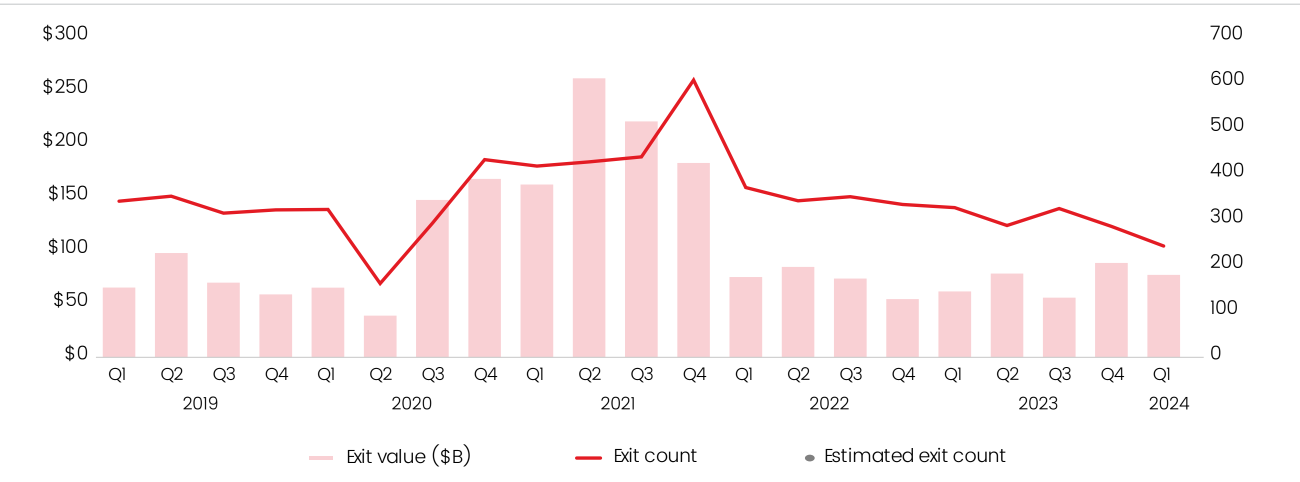
Figure 2: US PE Fundraising



Source: Pitchbook

1H24 US PE exit activity showed encouraging signs, with exit value increasing by approximately 15% YoY, according to Pitchbook estimates. However, the number of exits remained largely flat and was still more than 50% below the exit volumes of 2020 and 2021, indicating persistent valuation gaps between buyers and sellers.

Figure 3: US PE Exit Activity



Source: Pitchbook

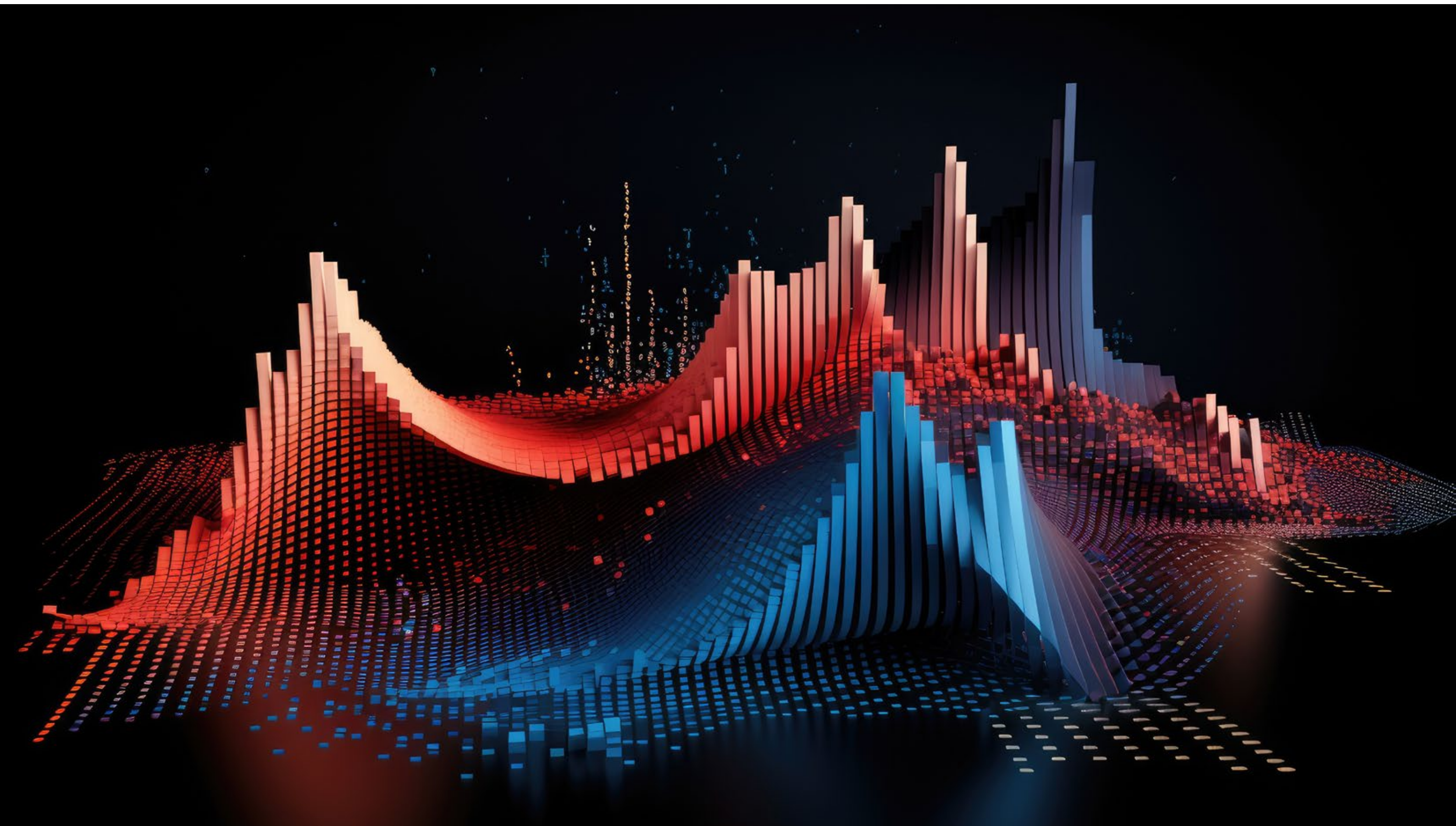
Looking ahead, the PE industry faces significant challenges due to a high-interest rate environment, current valuations, and political uncertainty.

The year began with expectations of five to six rate cuts, but now only one is anticipated. YoY, prices have risen by 3.3%, with core inflation up by 3.4%, both exceeding the Federal Reserve (Fed)'s 2% annual target. May's prices remained steady month-over-month, briefly reigniting hopes for rate cuts. Despite the cooling inflation, immediate rate cuts are unlikely. According to PwC, a near-term rate reduction is improbable and a return to the low-rate environment of the past 15 years is doubtful. For 2H24 to differ from the past 18 months, PE firms must adapt to transactions at higher interest rates.

Value creation remains central to the PE thesis. Investors are increasingly focused on sustainable value creation, which will be crucial in bridging the value gap. By linking deals and operations teams to develop deeply researched transformational plans, firms can enhance the value of their assets from acquisition to exit, regardless of interest rates. This strategy was exemplified by TPG's rescue of Continental Airlines and Blackstone's transformation of Equity Office Properties into one of its most profitable deals.

Additionally, political uncertainty in the US and globally is delaying major corporate decisions. 2024 has been a significant election year, with at least 64 countries holding national elections. The US Presidential election in November is expected to introduce market volatility, potentially dampening the enthusiasm of dealmakers hoping for a strong rebound in deal-making activities. Neuberger Berman Group notes that while certain sectors and industries may face headwinds based on the election results, there is little historical evidence to suggest a predictable effect on overall market performance or the attractiveness of private equity as an asset class.

In conclusion, despite a resilient fundraising environment, PE deal activity remained sluggish in 1H24 due to higher-than-expected interest rates and firm seller pricing. The political uncertainty and economic challenges have compounded the difficulty in meeting price expectations. Nevertheless, the focus on sustainable value creation and strategic operational enhancements remains pivotal. As the industry navigates the second half of the year, adapting to higher interest rates and leveraging deeply researched transformational plans will be crucial for bridging valuation gaps and driving successful exits.

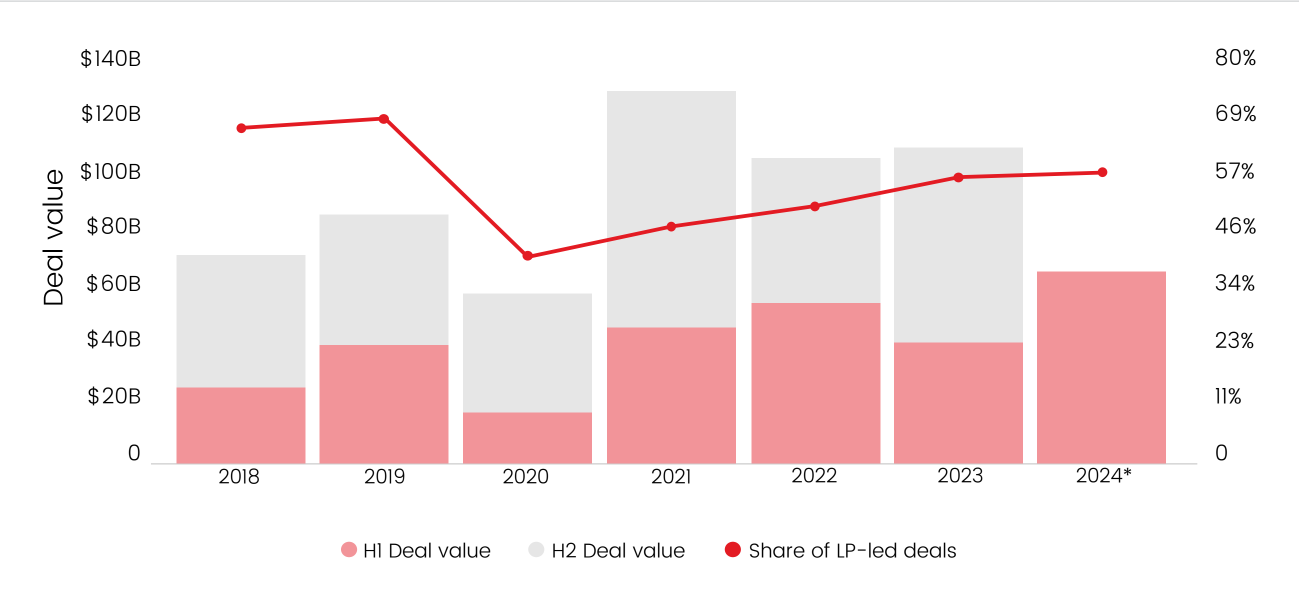


Monthly News and Analysis

Secondary Deal Value Hits New Record in 1H24

Secondary deal value is poised for a record year, as more investors turn to the secondary markets for liquidity. Global secondary deals totaled approximately $68 billion in 1H24, a 58% increase from the $43 billion recorded during the same period last year and a record for this timeframe, according to Jefferies Financial Group.

Figure 4: Secondary Deal Value, 2018–1H24



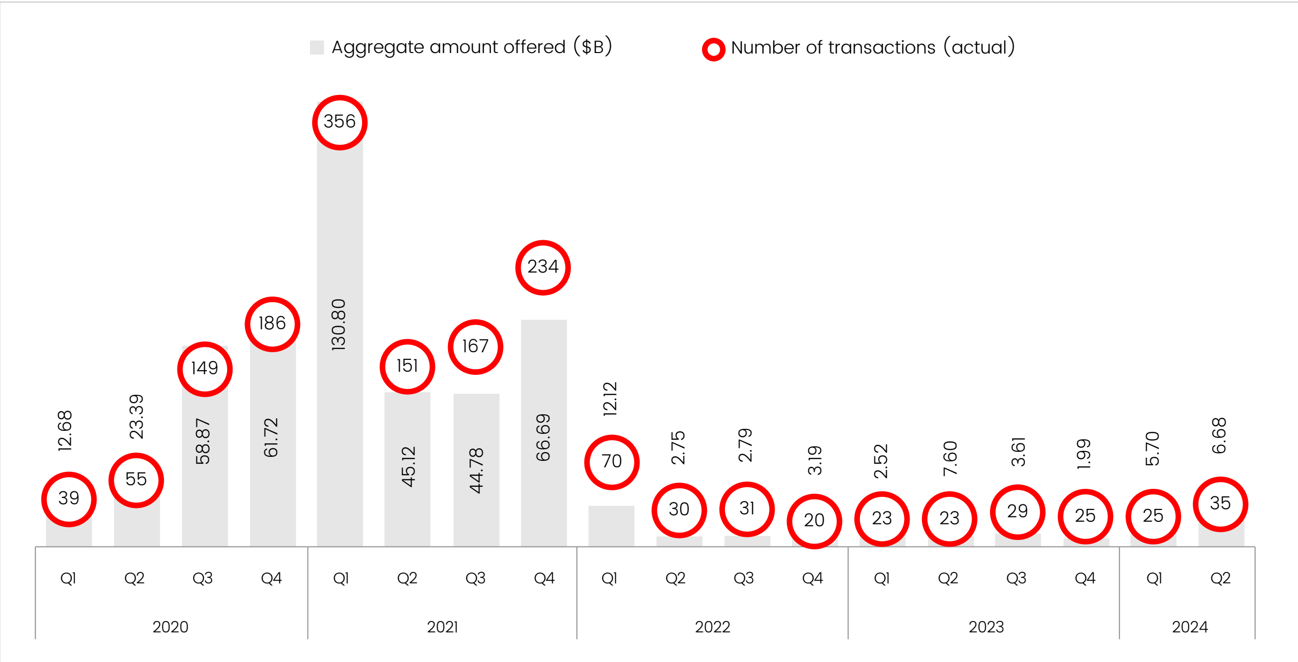
Source: Pitchbook

Slow distributions from private market funds, high levels of capital earmarked for private assets, and a rally in public equities, which buoy the benchmark for valuing secondary assets, have driven prices on secondary deals higher. Consequently, investors have increasingly turned to the market, trading secondhand fund stakes to generate liquidity. 1H24 marked the third consecutive six-month period in which capital calls from PE funds outpaced distributions. Additionally, a rising tide of money has entered the market through nontraditional and retail channels. Jefferies reported that available capital as the second half began stood at $253 billion. Furthermore, the thawing of public markets, the prospect of the Fed lowering interest rates, and a gradually improving exit environment have increased pricing on LP portfolios in recent months. According to Jefferies, the average price offered for buyout fund positions rose by 200 basis points from 2H23 to 94% of the net asset value. The value of secondary transactions driven by LPs grew by 60% from the previous year, while GP-led secondary deals grew by 56% YoY.

US IPO Market Hits 2-Year High

The US IPO market has seen a consistent, gradual reopening, with investors expressing optimism. In 1H24, 60 IPOs were launched in the US, a 30% increase from 46 in the same period in 2023, according to S&P Global. Proceeds from the IPOs, however, surged by 83%, per Ernst & Young, driven by several jumbo deals. Notably, seven deals in 2Q24 raised over $500 million, bringing the total to 14 for 1H 2024, doubling 2023's total.

Figure 5: US IPO Activity Since 2020



Source: S&P Global

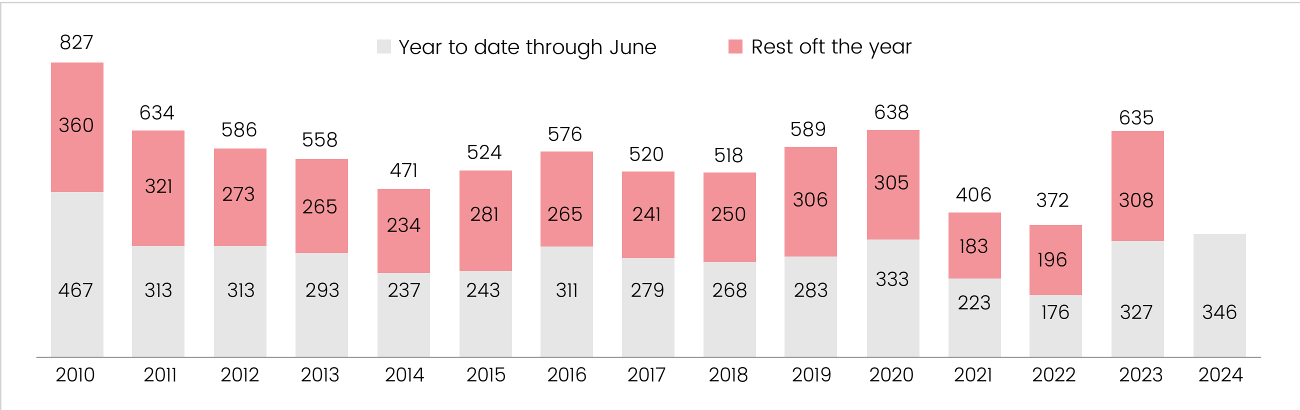
Low volatility and rising valuations have created favorable market conditions, particularly for the active healthcare and technology sectors. Investors favored companies with established track records, considerable scale, and profitability. Stock prices for this quarter's traditional IPOs rose nearly 15%, outperforming the S&P 500's 4% increase, highlighting the market's strength and resilience.

Additionally, international companies, including European energy giants, are looking to list in the US to access a deeper investor base and higher valuations. Momentum may continue into Q3 as IPO hopefuls aim to list before the US presidential election. Globally, however, IPO activity remains stalled, with 616 IPOs launched in the 1H24, far below the 1,634 in the same period of 2021.

Corporate Bankruptcies Reach Highest Monthly Level Since Early 2020

June saw a historic surge in US corporate bankruptcy filings, recording 75 new corporate bankruptcy filings000000 which marked the highest number recorded in a single month since at least early 2020 and surpassing half-year figures seen in over a decade, according to S&P Global.

Figure 6: US Bankruptcy Fillings



Source: S&P Global

Corporate bankruptcies accelerated in the first months of 2024, rivaling the busiest months of 2020 when COVID-19 disruptions pushed many companies into bankruptcy. A total of 346 filings till June 2024, the highest for any comparable period in the past 13 years, of which 17 are billion-dollar fillings. High interest rates, supply chain issues, and slowing consumer spending continue to weigh on struggling companies. The consumer discretionary sector led with 55 total bankruptcy filings in 1H24, including 16 in June. Healthcare and industrials followed, each with 40 filings in 2024. In June, seven healthcare companies and nine industrial companies sought bankruptcy protection. Notable filings have been electric vehicle maker Fisker Group, Consulate Health Care, Dyanata, and Zachary Holdings, among others.

Cinven to Sell Stake in PPF to CVC

Cinven will sell a majority stake in Partner in Pet Food (PPF), a pet food manufacturer, to funds managed by CVC. PPF has 12 production facilities across Europe and supplies over 280 customers in more than 35 countries, including specialty pet retailers, general food retailers, discounters, and online specialists.

PE and VC investments in the pet care, food, and supplies sector surged 659% YoY in 2023, with announced transaction values reaching $2.89 billion, the highest annual total since 2019, according to S&P Global. This surge was largely driven by

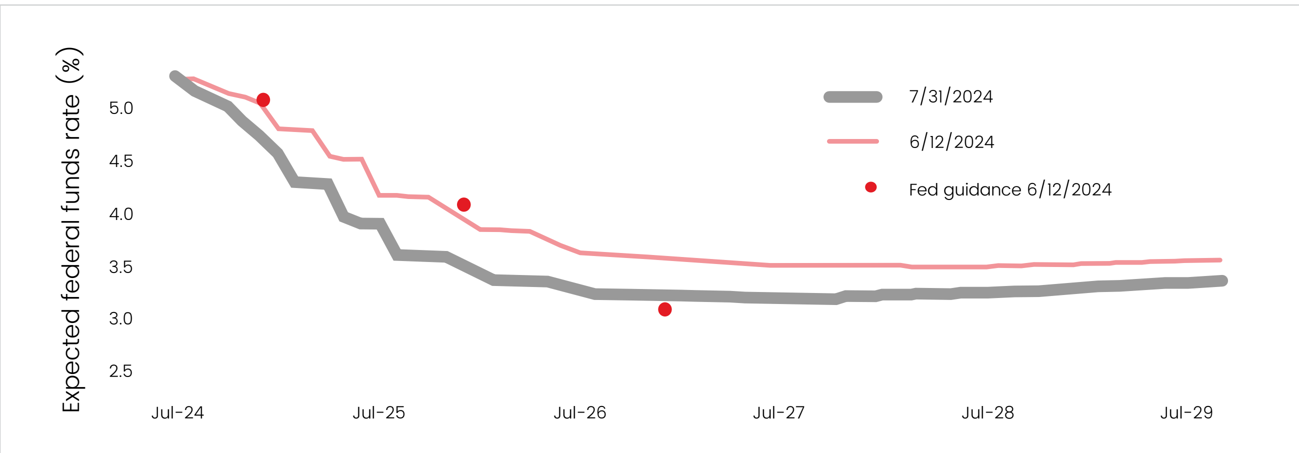
Blackstone's acquisition of Rover Group, which accounted for 74% of the transaction value. The number of deals remained stable, with 38 transactions in 2023 compared to 39 in 2022. The sector attracts investment because millennials and Generation Z prioritize pets over parenthood and spend more on their pets' health, fueled by higher discretionary income, according to Harris Williams. Multiple factors, including increased pet health awareness, drive demand for premium, sustainable, and specialized products and services, making this one of the most resilient sectors during recessions. However, investment in the sector has cooled considerably in 2024 up to June 18, with announced transactions having an aggregate transaction value of $43.9 million, an 83% decline compared to 1H23.

September Rate Cut on the Table

The Fed has indicated that it might begin lowering interest rates as early as September, following a decision by US policymakers to keep borrowing costs at a 23-year high for the eighth consecutive meeting. The Federal Open Market Committee (FOMC) noted further progress toward reducing inflation to its 2% target but emphasized that officials would require greater confidence before proceeding with any rate cuts.

The statement adopted a more balanced tone compared to recent communications, which had focused heavily on problematic inflation. While goods-related inflation remains well-contained, the latest Consumer Price Index (CPI) report shows that service-related inflation, although decelerating, remains high. Additionally, with hiring slowing down according to the latest June data, the FOMC now views rising unemployment as a significant concern alongside inflation as it plans its policy direction. Further, the Fed is allowing up to $25 billion per month in Treasuries and $35 billion per month in mortgage bonds to mature without replacement. This is a reduction from the previous pace of $60 billion per month in Treasuries as of June 1, 2024. Slowing the balance sheet runoff enhances market liquidity, which refers to the availability of money for purchasing goods, services, and financial assets within the economy.

Figure 7: Market Pricing of the Expected Path of the Federal Fund Rate



Source: US Bank

Deals Flash

Pacific Avenue Acquires KiddeFenwal

Pacific Avenue Capital Partners, a California-based PE firm, has acquired KiddeFenwal, a Massachusetts-based company that specializes in the design and manufacture of industrial and commercial fire suppression systems and safety controls. Under Pacific Avenue's ownership, KiddeFenwal will intensify its efforts to serve a growing and diverse customer base that demands highly integrated, competitively priced, and customer-supported fire suppression and safety controls. Additionally, the firm will boost product competitiveness and innovation, expanding and enhancing its proprietary, fully certified offerings as regulatory bodies push for more environmentally friendly solutions across industries such as power generation/transmission, data centers, commercial food service, marine, industrial, and HVAC.

CORE Industrial Partners Acquires Majority Stake in Winky Lux

CORE Industrial Partners, a Chicago-based PE firm, has acquired a majority stake in Winky Lux, a New York-based beauty brand. This strategic partnership is set to provide Winky Lux with additional resources to accelerate growth and expand its market reach. Founded in 2015, Winky Lux produces high-quality cosmetics and skincare products, emphasizing innovation, inclusivity, and sustainability. The investment will enable the brand to expand both its digital and brick-and-mortar retail presence, and benefit from the strategic guidance of a PE firm with experience in the beauty industry, having first entered the segment in 2020.

SK Capital Acquires CFC Division of Parker Hannifin

SK Capital Partners, a New York-based PE firm, has acquired the North America Composites & Fuel Containment (CFC) Division of Parker Hannifin Corporation. The CFC Division provides engineered carbon fiber composite components and fuel containment solutions for the defense and commercial aerospace markets. The business generates annual sales of approximately $350 million, operates in six manufacturing locations across North America, and employs around 1,700 people. SK Capital's portfolio includes several companies operating in the aerospace and defense value chain, positioning the CFC Division to leverage SK Capital's expertise to execute its ambitious growth plan.

ArcLight Acquires Wind Farm with Renewables Initiative

ArcLight Infrastructure Partners has acquired a 160 MW operational wind farm in the Midland Basin of Texas, which began commercial operations in 2020, along with the launch of ArcLight's new renewables investment initiative, SkyVest Renewables. The initiative will focus on acquiring and managing operating utility-scale wind and solar assets across North America. By applying best practices in operations, technical management, commercial strategy, financial planning, and redevelopment, SkyVest aims to generate near-term cash flow while mitigating downside risk. ArcLight is providing an initial capital commitment of $500 million to support the initiative.

NOVA Exits Bold Ocean

NOVA Infrastructure, a US-based infrastructure PE firm, has sold Bold Ocean to institutional investors advised by J.P. Morgan Global Alternatives' Global Transportation Group. Headquartered in Annapolis, Bold is a US Flag operator that addresses critical transportation and logistics needs for various US government agencies. The company operates nine vessels that transport essential supplies, fuel, humanitarian food aid, and other goods under long-term time charters with the US government and parcel contracts with highly rated counterparties. This setup provides significant revenue stability and downside protection for the business.

Milestone, D2 Equity Acquire MCIP Industrial

Milestone Capital, in collaboration with D2 Equity Capital, a San Diego-based PE firm, has acquired a majority interest in a newly formed entity established to acquire the assets of MCIP Industrial Enterprises Corp. This acquisition includes MCIP's pipe coating plants in Pearland, Texas, and positions MCIP for immense growth in the Gulf Coast. A family owned and operated business with over 30 years of experience, MCIP specializes in commercial and industrial advanced coating and painting, with a strong focus on quality and customer satisfaction. Founded in 2008, MCIP initially painted heavy equipment, tanks, and trailers before expanding into the FBE pipe coating market in 2015.

GHK Capital Sells Supreme Cabinetry

GHK Capital, a Greenwich-based PE firm, has completed the sale of Supreme Cabinetry Brands to MasterBrand for $520 million in cash. Based in Minnesota, Supreme is one of the largest manufacturers of premium residential kitchen and bath cabinetry in the US. GHK acquired Supreme in October 2019. Supreme, known for its high-quality cabinetry, operates manufacturing facilities in Minnesota, Iowa, and North Carolina. The company, which includes the well-regarded brands Dura Supreme and Bertch, crafts both framed and frameless cabinetry for a nationwide network of dealers.

Amberjack Exits Best Trash

Amberjack Capital Partners, a Houston-based PE firm, has exited its investment in Best Trash, a Richmond-based municipal solid waste platform serving residential waste and recycling needs in the greater Houston metro region. Best Trash's customer base includes municipal utility districts, homeowner associations, selected cities, and individual residences. Amberjack partnered with Best Trash's founders and management team in 2021, under which Best Trash significantly expanded its operating area and customer base, now delivering its service to over 450,000 homes.

Edison Partners Invests in Seismos

Edison Partners, a Nashville-based PE firm, has announced a $15 million investment in Seismos, a Texas-based AI-powered acoustic sensing provider for the oil and gas sector. This investment aims to accelerate the energy industry's transition from analog-focused exploration and production to advanced, technology-driven digital infrastructure and autonomous operations. The funds will support Seismos' expansion within its current oil and gas market and facilitate entry into new verticals, such as geothermal and mining, which are also adopting modern digital infrastructure solutions.

Unity Partners Invests in Katsam Property

Unity Partners, a Dallas-based PE firm, has completed a strategic investment in Katsam Property Services, a St. Louis-based facility maintenance services business. Founded in 1986, Katsam provides power sweeping and other facility services to commercial and municipal customers in the Midwest. Unity Partners will offer capital along with strategic and operational support to help Katsam expand through both organic growth and strategic acquisitions. Katsam is actively seeking opportunities to add key talent and explore partnerships or acquisitions with other power sweeping and facility maintenance services businesses.

TRENDS AND STATS

August Middle Market Deal Summary

44.9%
of the deals were made in the Business Products and Services (B2B) sector

58.8%
of the B2B deals were in Commercial Services

19.8%
of the deals were in the Information Technology sector

60%
of the IT deals were in Software

Texas
experienced the most dealmaking activity, followed by Michigan

74.9%
of the deals were buyout deals

Figure 8: August PE Middle Market Deal Summary

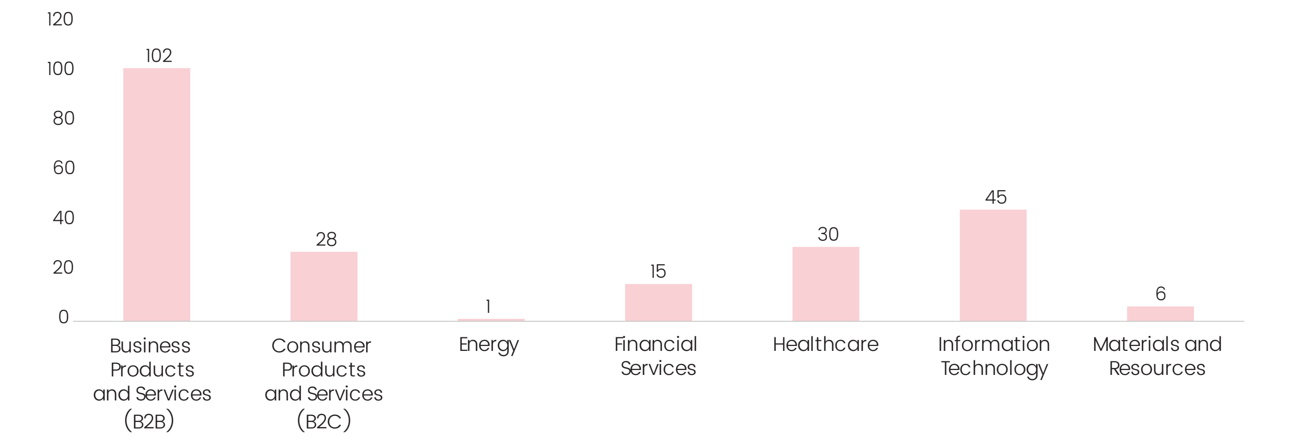


Figure 9: Consumer Products and Services

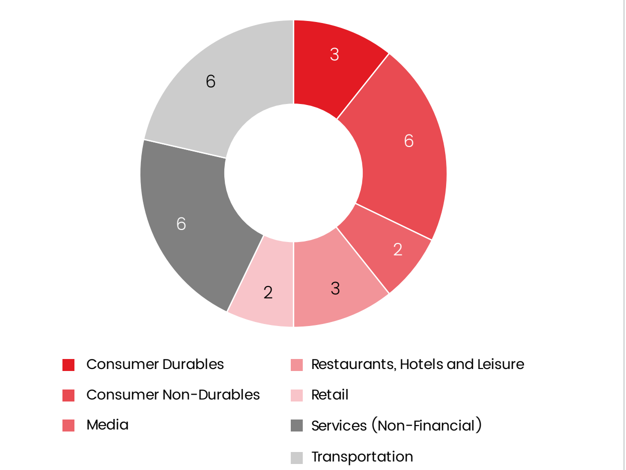
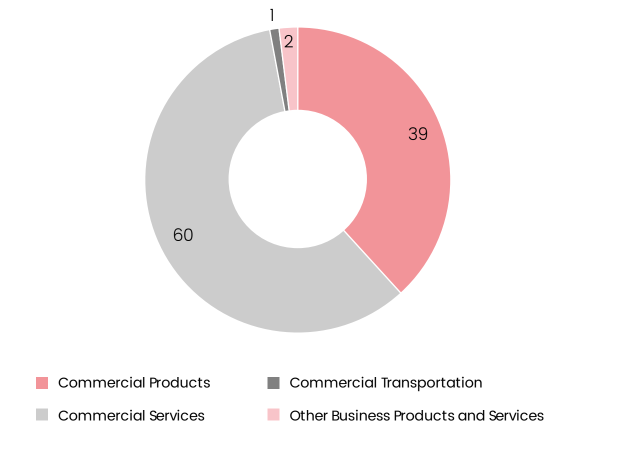


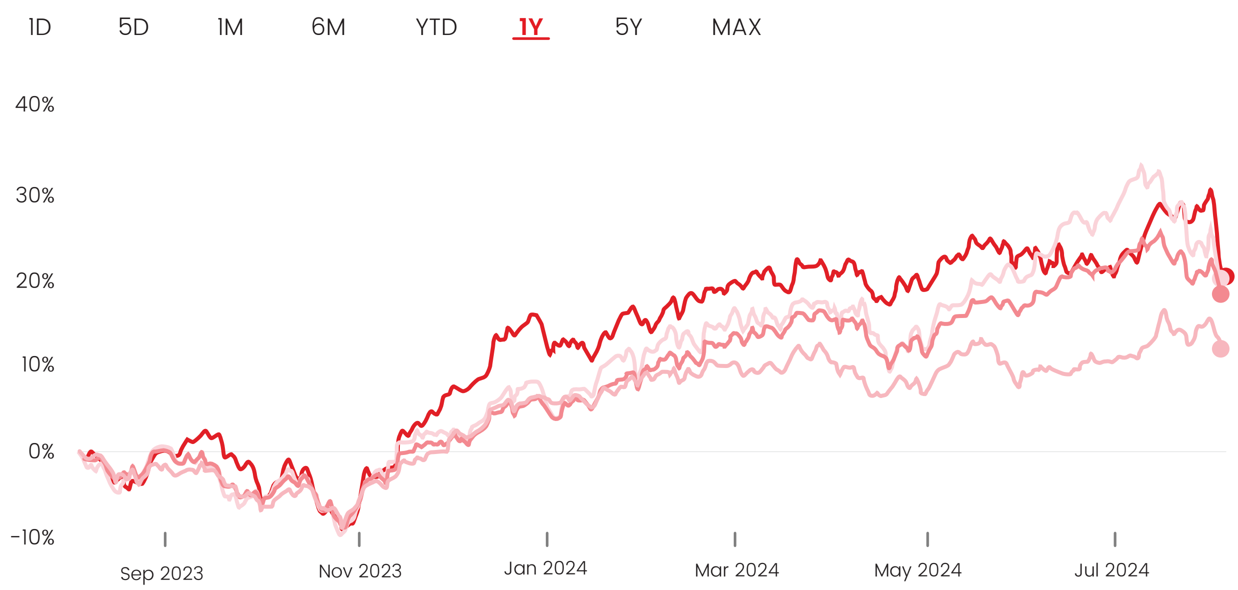
Figure 10: Business Products and Services



Source: SG Analytics Research

Note: This dataset specifically targets investor fund preferences within the $2--8 million EBITDA range. It is important to note that the summary provided focuses solely on these investor preferences and does not include details related to deal sizes.

S&P Listed Private Equity Index

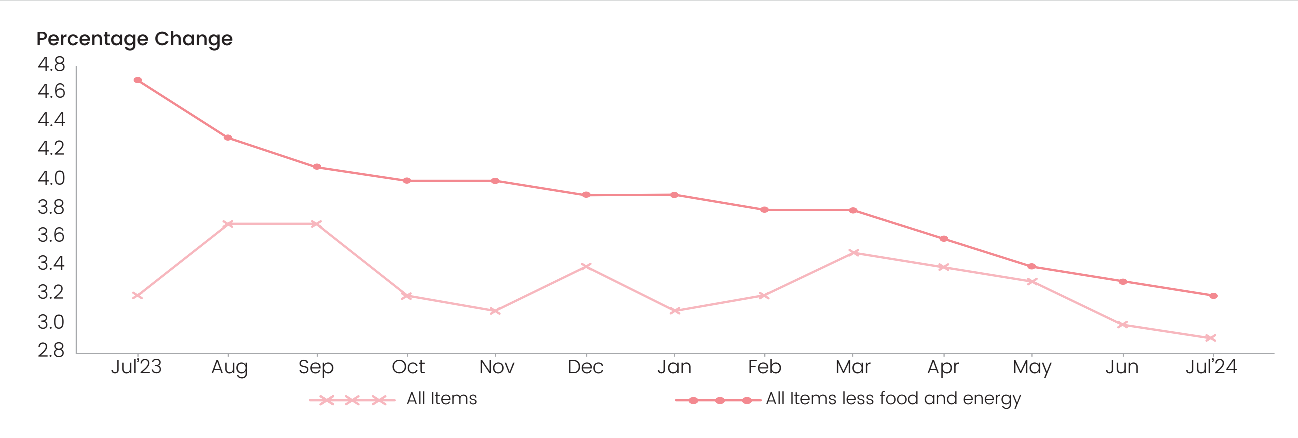


S&P Listed Private...	221.74	+37.33	↑ 20.24%
S&P 500	5,346.56	+828.12	↑ 18.33%
DOw Jones Industries...	39,737.26	+4,264.13	↑ 12.02%
Nasdaq Composite	16,776.16	+2,799.04	↑ 20.03%

Data as of August 5, 2024

Index	Month-over-Month	YTD
Consumer Price Index	0.2%	2.9%
Producer Price Index	0.1%	2.2%

Figure 11: 12-month Percent Change in CPI For All Urban Consumers, Not Seasonally Adjusted



Source: US Bureau of Labor Statistics

Figure 12: 12-month Percent Change in Selected PPI Final Demand Price Indexes, Not Seasonally Adjusted

Source: US Bureau of Labor Statistics

Upcoming Events

ACG Atlanta - M&A Update: Access to Capital	August 14, 2024	Buckhead Club, Northeast Atlanta
8th Annual Private Wealth Midwest Forum	August 14, 2024	University Club of Chicago, Chicago
PEI Responsible Investment Forum: West 2024	September 4–5, 2024	Crowne Plaza, Palo Alto

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