



# PREQIN QUARTERLY UPDATE: PRIVATE EQUITY & VENTURE CAPITAL Q1 2018

Insight on the quarter from the leading provider of alternative assets data

## Content includes:

- Fundraising
- Funds in Market
- Institutional Investors
- Buyout Deals and Exits
- Venture Capital Deals
- Fund Performance and Dry Powder



## Global private equity fundraising

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# FOREWORD - Christopher Elvin, Preqin

In Q1 2018, 180 private equity funds reached a final close raising an aggregate \$80bn, the first quarter since Q3 2016 in which capital commitments totalled less than \$100bn. The first quarter of each year typically sees a slowdown in fundraising activity following a flurry of fund closures at the end of the year; however, Q1 2018 saw the lowest number of funds closed in a five-year period. Capital remains concentrated among the top managers: over half (59%) of capital raised in Q1 was secured by the 10 largest funds.

At the start of Q2 2018, there are a record 2,575 funds in market collectively targeting \$844bn in capital commitments. Despite the variety of investment opportunities, fund manager and fund selection remains critical, and from a GP perspective, competition for investor capital remains fierce. Fundraising has become even more competitive at the top end of the industry with the launch of two mega funds in Q1 2018: Sino-Singapore Connectivity Private Equity Fund, targeting \$15.8bn, and Asian Institutional Investor Joint Overseas Investment Fund, targeting \$15bn.

Strong fundraising and a challenging deal environment has resulted in dry powder levels reaching \$1.09tn. Although private equity-backed buyout deal activity in Q1 was 6% lower in comparison to Q1 2017, deal value was 90% higher. No doubt deal value was buoyed by the merger of Keurig and Dr Pepper, valued at \$21bn, and the takeover of the Financial and Risk Business of Thomson Reuters Corporation led by Blackstone Group, with participation from CPP Investment Board and GIC, valued at \$17bn. Encouragingly, Q1 2018 marked an 11% increase in the number of venture capital-backed financings compared to Q1 2017, and a 57% increase in deal value.

Buyout exit activity fell for the fifth consecutive quarter, with 354 exits valued at an aggregate \$52bn, representing the lowest quarterly number of exits since 2010. Despite this, investor appetite for private equity is still strong: with nearly \$2.0tn in capital distributed since 2013, investors have more liquidity in their portfolios and the majority (59%) of those interviewed by Preqin at the end of 2017 planned to commit to four or more funds in the next 12 months.

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<b>p4</b>	<b>Fundraising</b>
<b>p6</b>	<b>Funds in Market</b>
<b>p7</b>	<b>Institutional Investors</b>
<b>p8</b>	<b>Buyout Deals and Exits</b>
<b>p9</b>	<b>Venture Capital Deals</b>
<b>p10</b>	<b>Fund Performance and Dry Powder</b>

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# FUNDRAISING

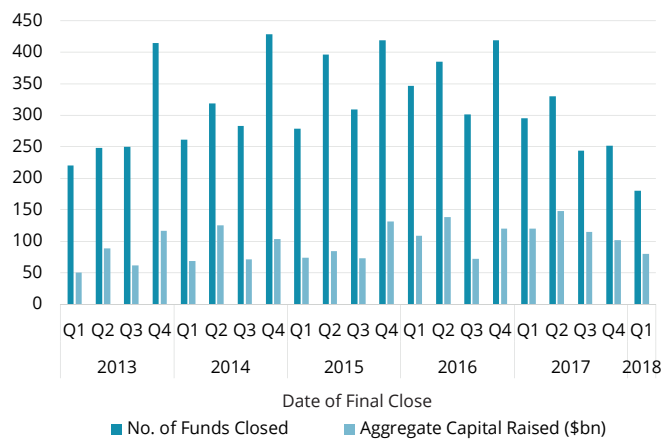
In Q1 2018, 180 private equity funds reached a final close, collectively securing \$80bn in capital commitments (Fig. 1). Fundraising has slowed in comparison to the previous quarter, when 252 funds raised \$102bn. In fact, Q1 2018 saw the smallest amount of capital raised in the first quarter of any year since 2015, when \$74bn in aggregate capital was secured by 279 vehicles.

Both buyout and venture capital totals have experienced similar declines when looking at Q1 fundraising over the past six years: 39 buyout funds reached a final close in Q1 2018, representing a five-year low (Fig. 2). Yet the \$52bn in buyout capital is on par with both Q1 2017 and Q1 2016 levels and well above the \$39bn five-year historical average (2013-2017).

As in Q1 2017, venture capital fundraising in Q1 2018 accounted for 14% of aggregate private equity capital raised, although this marked a significant decline in the amount of capital raised and number of funds closed compared to prior years. Similar Q1 totals to the \$11bn raised across 92 venture capital vehicles in Q1 2018 have not been seen since Q1 2013, when \$7.0bn was raised across 83 venture capital funds (Fig. 3).

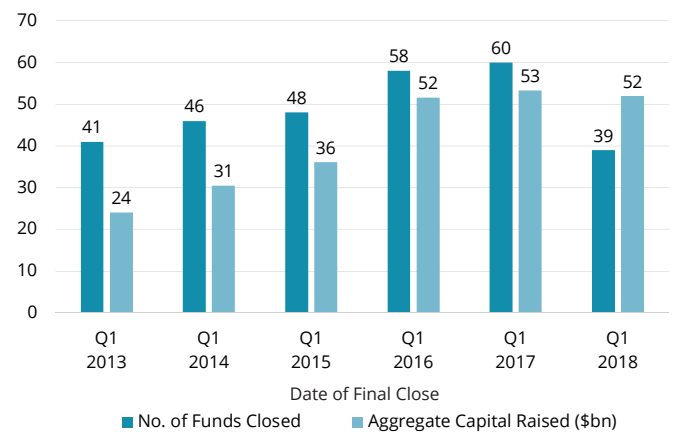
Growth funds and funds of funds in Q1 2018 also saw a drop in fundraising activity: there was a six-percentage-point decline in the proportion of aggregate capital secured by growth funds in Q1 2017 (14%) to Q1 2018 (8%). Funds of funds experienced an even greater slowdown compared to Q1 2017: aggregate capital raised dropped 66% from \$13bn in Q1 2017 to \$4.6bn in Q1 2018 (Fig. 4).

**Fig. 1: Global Quarterly Private Equity Fundraising, Q1 2013 - Q1 2018**



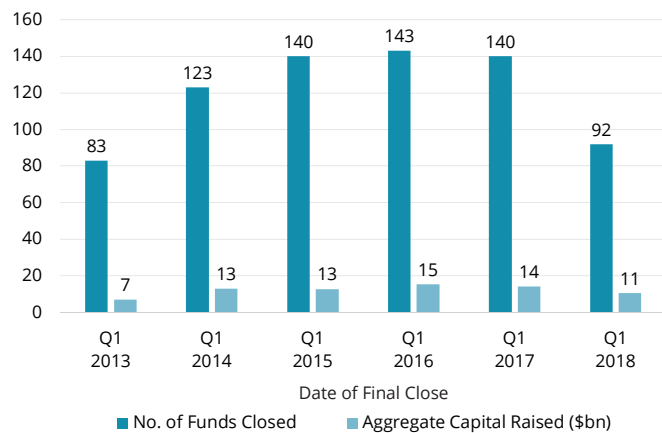
Source: Preqin

**Fig. 2: Q1 Buyout Fundraising, 2013 - 2018**



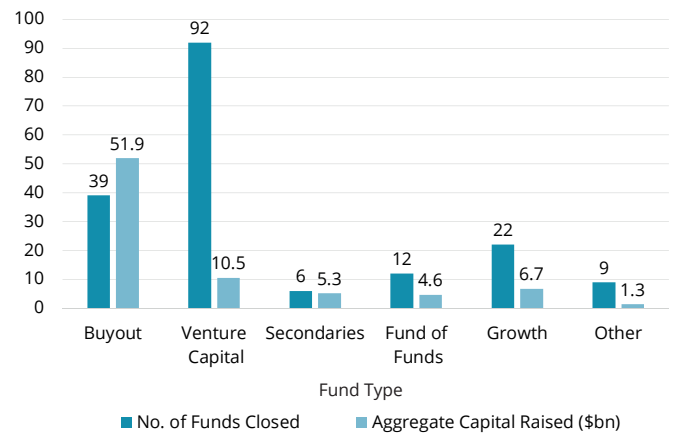
Source: Preqin

**Fig. 3: Q1 Venture Capital Fundraising, 2013 - 2018**



Source: Preqin

**Fig. 4: Private Equity Fundraising in Q1 2018 by Fund Type**



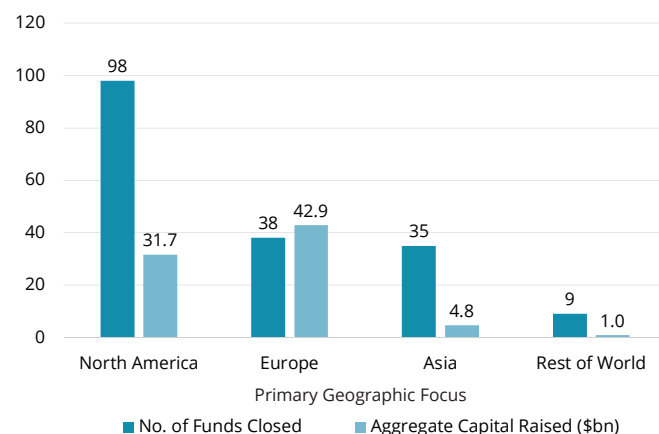
Source: Preqin



Thirty percent fewer North America-focused funds closed in Q1 2018 than in Q1 2017, and raised less than half (\$32bn) the \$67bn total secured in Q1 2017. Asia-focused funds experienced a 59% decrease in the number of funds closed in Q1 2018 compared to Q1 2017, and raised 83% less capital in total, securing just \$4.8bn. Only Europe-focused funds raised more capital (\$43bn) in Q1 2018, up 111% from Q1 2017 (Fig. 5).

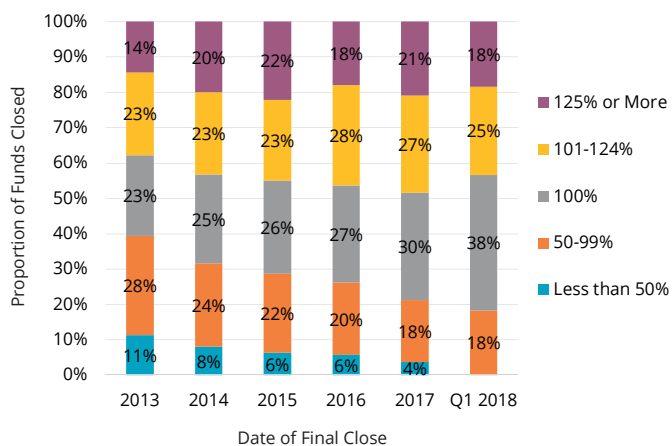
Although fewer funds are closing, fundraising trends in Q1 2018 are still positive: of the 180 funds closed in Q1 2018, 82% achieved or exceeded their target size (Fig. 6), while time spent on the road has continuously decreased (Fig. 7). In fact, the largest fund closed in Q1 2018 – EQT VIII – raised €10.8bn in less than six months, exceeding its target of €8.0bn by 34% (Fig. 8).

**Fig. 5: Private Equity Fundraising in Q1 2018 by Primary Geographic Focus**



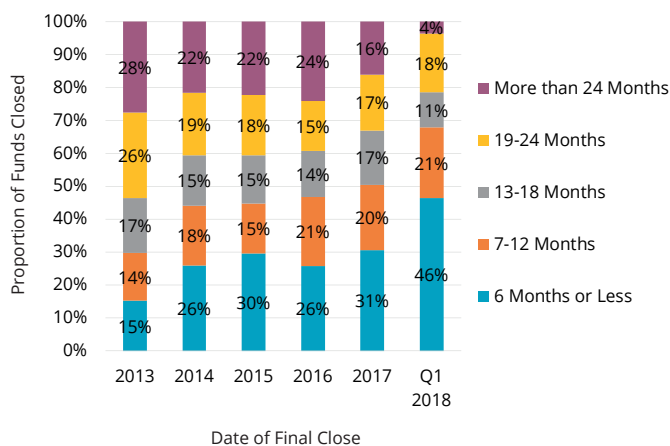
Source: Preqin

**Fig. 6: Private Equity Funds Closed by Proportion of Target Size Achieved, 2013 - Q1 2018**



Source: Preqin

**Fig. 7: Time Spent in Market by Private Equity Funds Closed in 2013 - Q1 2018**



Source: Preqin

**Fig. 8: Largest Private Equity Funds Closed in Q1 2018**

Fund	Firm	Fund Size (mn)	Fund Type	Geographic Focus
EQT VIII	EQT	10,750 EUR	Buyout	Europe
BC European Cap X	BC Partners	7,000 EUR	Buyout	Europe
American Securities Partners VIII	American Securities	7,000 USD	Buyout	North America
PAI Europe VII	PAI Partners	5,000 EUR	Buyout	Europe
Equistone Partners Europe Fund VI	Equistone Partners Europe	2,800 EUR	Buyout	Europe
Petershill Private Equity	Goldman Sachs AIMS Private Equity	2,500 USD	Growth	North America
Sentinel Capital Partners VI	Sentinel Capital Partners	2,150 USD	Buyout	North America
HarbourVest International Private Equity Partners VIII Partnership	HarbourVest Partners	1,700 USD	Fund of Funds	Europe
Portfolio Advisors Secondary Fund III	Portfolio Advisors	1,500 USD	Secondaries	North America
Newbury Equity Partners IV	Newbury Partners	1,447 USD	Secondaries	North America

Source: Preqin

# FUNDS IN MARKET

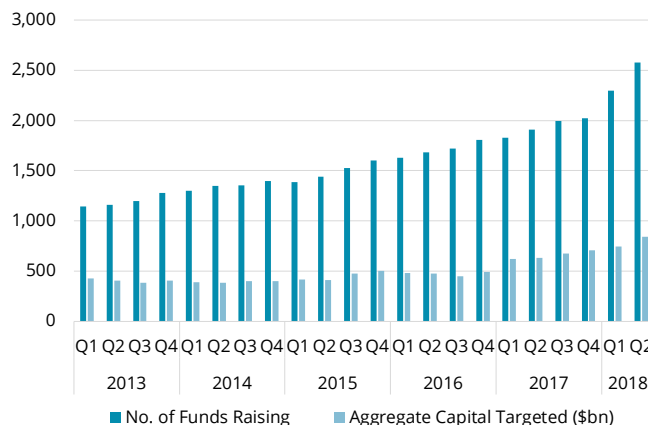
The number of private equity funds in market has continued to grow: a record 2,575 funds are on the road as at the start of Q2 2018, targeting \$844bn in institutional capital (Fig. 9). This represents a 35% rise in the number of funds raising capital compared to the beginning of Q2 2017, and a 33% (\$209bn) increase in aggregate capital sought.

The increase in targeted capital can partly be attributed to the growing number of funds seeking larger commitments than in previous quarters, including SoftBank Vision Fund, managed by SB Investment Advisers, which alone is targeting \$100bn – the largest amount ever targeted by a private equity fund. The fund had achieved 93% of its target size by its first close in May 2017.

Four Asia-focused funds complete the five largest funds in market, as seen in Fig. 12. China Structural Reform Fund currently trails SoftBank Vision Fund with a target of CNY 350bn (\$53bn), and held a first close on CNY 131bn (\$20bn) in September 2016.

Nearly half (48%) of all funds in market are targeting investment opportunities in North America, with these vehicles accounting for \$412bn (49%) of all institutional capital sought (Fig. 10). The number

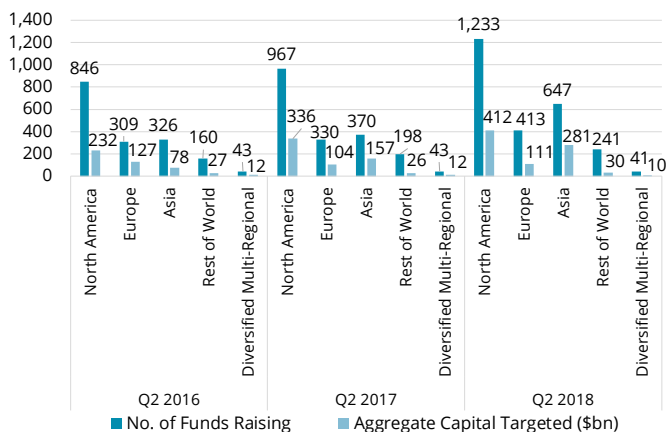
Fig. 9: Private Equity Funds in Market over Time, Q1 2013 - Q2 2018



Source: Preqin

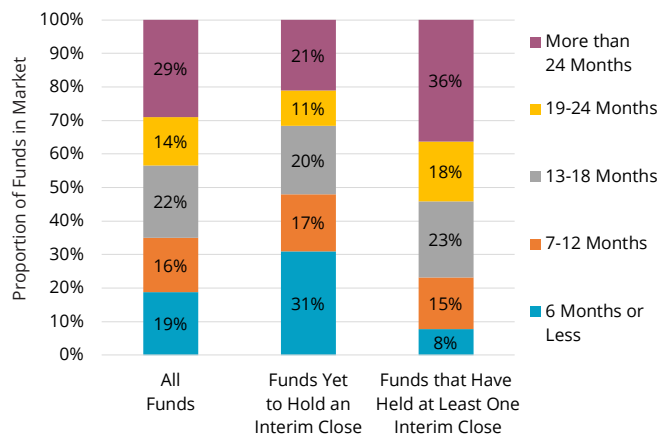
of Asia-focused funds in market has increased from 370 in Q2 2017 to 647 in Q2 2018, with the aggregate capital targeted up 79%.

Fig. 10: Private Equity Funds in Market over Time by Primary Geographic Focus, Q2 2016 - Q2 2018\*



Source: Preqin

Fig. 11: Time Spent on the Road by Private Equity Funds in Market



Source: Preqin

Fig. 12: Largest Private Equity Funds in Market

Fund	Firm	Target Size (mn)	Fund Type	Geographic Focus
SoftBank Vision Fund	SB Investment Advisers	100,000 USD	Hybrid	Global
China Structural Reform Fund	CCT Fund Management	350,000 CNY	Growth	China
China State-Owned Capital Venture Investment Fund	China Reform Fund Management	200,000 CNY	Venture Capital	China
State-Owned Enterprise National Innovation Fund	China Aerospace Investment Holdings	150,000 CNY	Growth	China
Sino-Singapore (Chongqing) Connectivity Private Equity Fund	UOB Venture Management	100,000 CNY	Growth	China, Singapore

Source: Preqin

\*As at the beginning of Q2 of each year examined.



# INSTITUTIONAL INVESTORS

**B**uyout, venture capital and growth remain the most targeted private equity strategies among institutional investors in Q1 2018, as seen in Fig. 13. Moreover, in Q1 2018, a greater proportion of investors with active mandates searched for these strategies than in previous years, while investor appetite for funds of funds and turnaround vehicles has declined to 13% and 8% respectively.

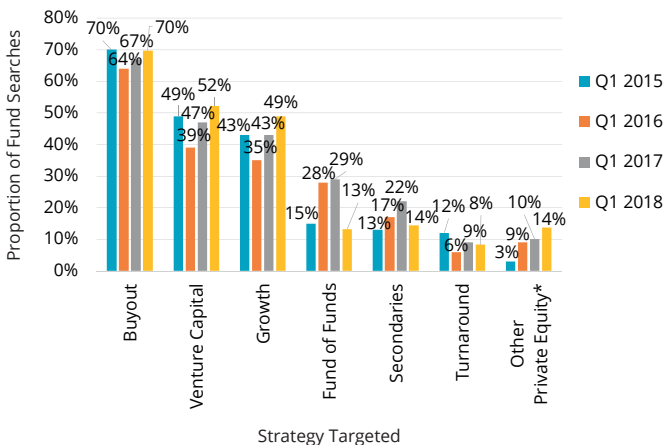
The proportion of mandates targeting other private equity fund types (including balanced, co-investment and direct secondaries) has steadily grown in recent years. Record levels of dry powder combined with higher valuations in traditional private equity strategies may be driving investors to further diversify their traditional private equity portfolios.

The majority (51%) of institutional investors are planning to target Europe in the coming year, followed closely by North America (49%)

and global-focused funds (48%, Fig. 14). Asia-Pacific has seen the largest year-on-year increase in appetite, with 28% of investors targeting the region in Q1 2018 compared to 15% in Q1 2017. While all single markets witnessed increased investor appetite in Q1 2018, fewer investors are targeting global-focused opportunities than one year ago.

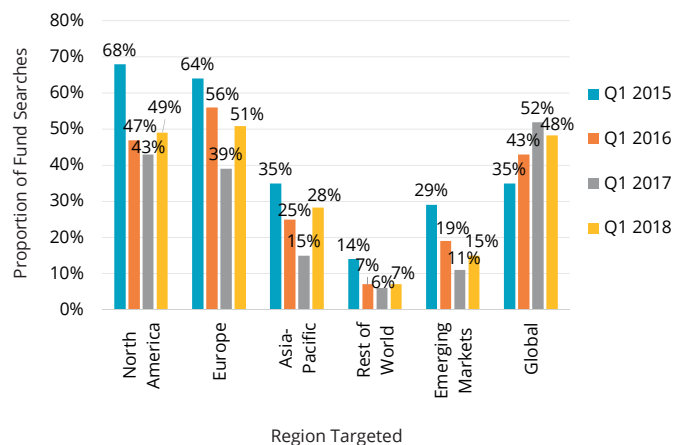
The largest proportion (42%) of investors are planning to commit \$50-299mn to private equity over the next 12 months, compared to 23% of investors in Q1 2017 (Fig. 15). The proportion of investors planning to commit less than \$50mn or more than \$600mn has remained relatively on par with historical averages (42% and 10% respectively). Since Q1 2015 there have been fewer investors seeking four or more fund commitments and a greater proportion of investors seeking 2-3 fund commitments, perhaps suggesting an increase in ticket sizes (Fig. 16).

**Fig. 13: Strategies Targeted by Private Equity Investors in the Next 12 Months, Q1 2015 - Q1 2018**



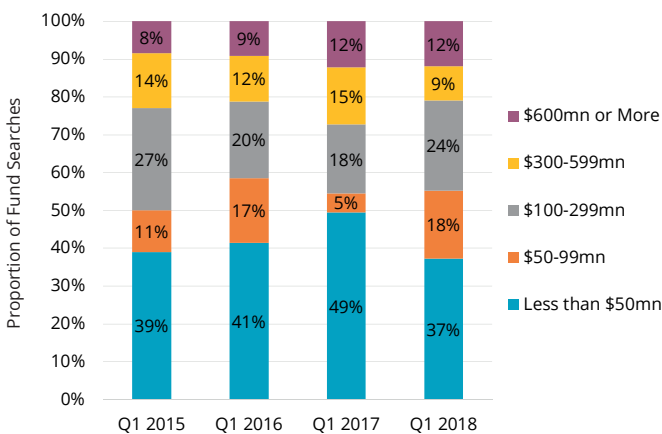
Source: Preqin

**Fig. 14: Regions Targeted by Private Equity Investors in the Next 12 Months, Q1 2015 - Q1 2018**



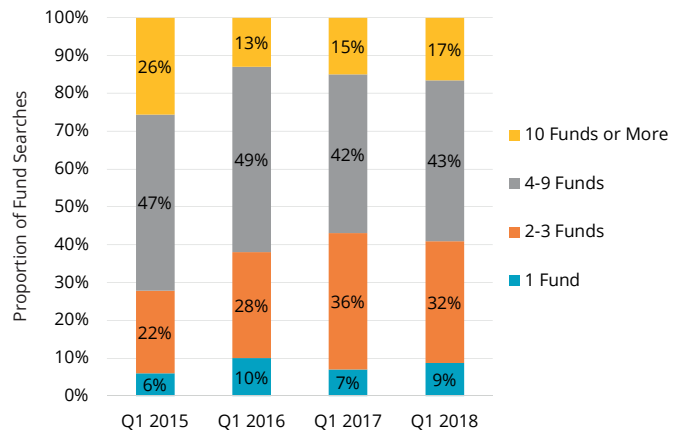
Source: Preqin

**Fig. 15: Amount of Capital Investors Plan to Commit to Private Equity Funds in the Next 12 Months, Q1 2015 - Q1 2018**



Source: Preqin

**Fig. 16: Number of Private Equity Funds Investors Plan to Commit to in the Next 12 Months, Q1 2015 - Q1 2018**



Source: Preqin

\*Other Private Equity includes balanced, co-investment, co-investment multi-manager and direct secondaries funds.

# BUYOUT DEALS AND EXITS

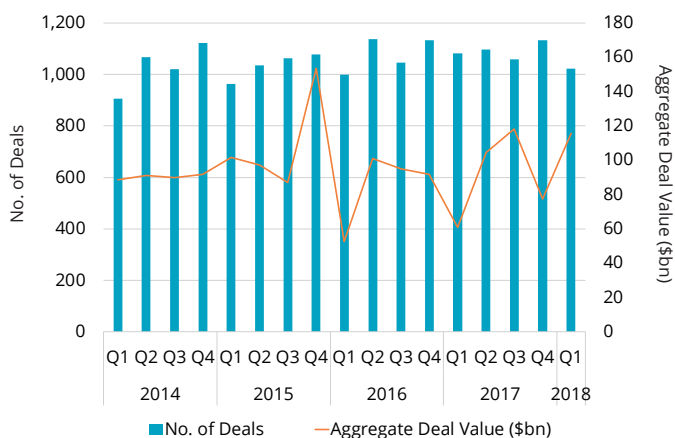
In the first quarter of 2018, 1,023 private equity-backed buyout deals were announced or completed globally for an aggregate \$116bn (Fig. 17). Deal activity was down 10% on Q4 2017, while aggregate deal value was 49% higher. Similarly, there were 6% fewer deals compared to Q1 2017, but deal value was up 90%.

This could be due, in part, to increased competition for assets and higher ticket prices in the industry.

North America saw the largest increase in aggregate deal value in the past year, growing 185% to \$76bn as at Q1 2018 (Fig. 18). Deal value was buoyed by two mega deals that occurred in the quarter: the merger of Keurig and Dr Pepper, valued at \$21bn, and the takeover of the Financial and Risk Business of Thomson Reuters Corporation, led by Blackstone Group with participation from CPP Investment Board and GIC, valued at \$17bn. Moreover, Europe saw a 30% increase in deal activity while the number of deals in Asia declined 34% from Q1 2017.

Exit activity in Q1 2018 declined 15% from the previous quarter, with 354 private equity-backed buyout exits for an aggregate

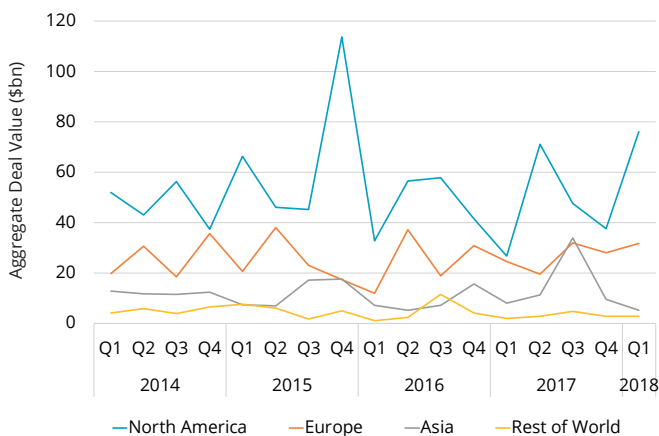
Fig. 17: Private Equity-Backed Buyout Deals, Q1 2014 - Q1 2018



Source: Preqin

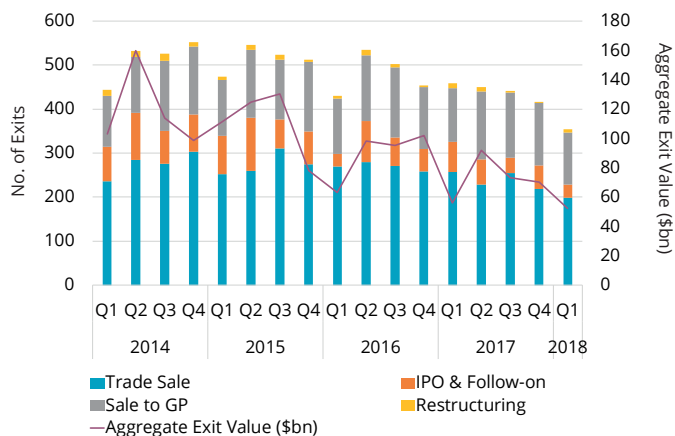
\$52bn (Fig. 19). Most exit types experienced a decrease in activity compared to Q4 2017: the number of IPOs & follow-ons, sales to GP and trade sales were down 46%, 16% and 9% respectively, while restructures were up 250%.

Fig. 18: Aggregate Value of Private Equity-Backed Buyout Deals by Region, Q1 2014 - Q1 2018



Source: Preqin

Fig. 19: Private Equity-Backed Buyout Exits by Type and Aggregate Exit Value, Q1 2014 - Q1 2018



Source: Preqin

Fig. 20: Largest Private Equity-Backed Buyout Deals Announced in Q1 2018

Portfolio Company	Investment Type	Deal Date	Deal Size (mn)	Investor(s)	Bought from/ Exiting Company	Location	Primary Industry
Keurig Dr Pepper	Merger	Jan-18	21,000 USD	BDT Capital Partners, Dr Pepper/Seven Up Bottling Group*, JAB Holding Company, Keurig Green Mountain*, Inc., Mondelez International	-	US	Beverages
Financial and Risk Business of Thomson Reuters Corporation	Buyout	Jan-18	17,000 USD	Blackstone Group*, CPP Investment Board, GIC	Thomson Reuters Corporation	Canada	Information Services
Akzo Nobel's Specialty Chemicals Business	Buyout	Mar-18	10,100 EUR	Carlyle Group, GIC	Akzo Nobel	Switzerland	Chemicals
Gas Natural Fenosa	PIPE	Feb-18	3,816 EUR	CVC Capital Partners	Repsol S.A.	Spain	Energy
Westinghouse Electric Company LLC	Buyout	Jan-18	4,600 USD	Brookfield Business Partners	Toshiba Corporation	US	Cleantech

\*Denotes lead investor.

Source: Preqin





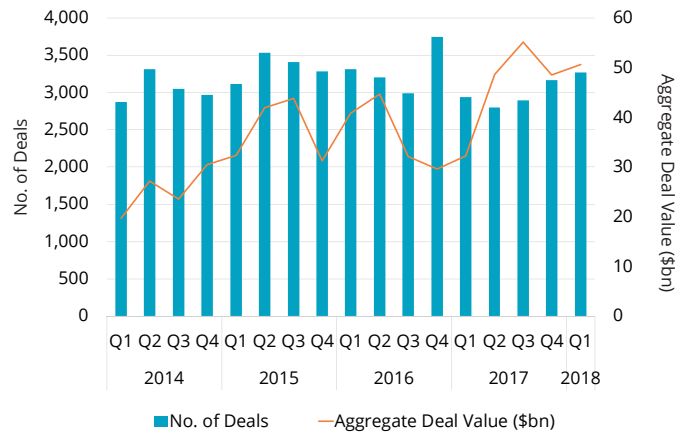
# VENTURE CAPITAL DEALS

In Q1 2018, 3,269 venture capital financings were announced globally – an 11% increase from the 2,940 deals seen in Q1 2017 (Fig. 21). Moreover, Q1 2018 was up 57% in aggregate deal value from one year ago, recording the highest quarterly figure for Q1 since 2007, with deal value increasing from \$32bn in Q1 2017 to \$51bn in Q1 2018. Several large deals in the quarter helped achieve this, notably Go-Jek Indonesia's \$1.5bn financing and Ping An Healthcare Administration Co., Ltd.'s \$1.2bn fundraising round.

North American venture capital deals accounted for the largest proportion (35%) of deals globally in Q1 2018, with 1,143 deals valued at \$22bn, the highest Q1 deal value since 2007 (Fig. 22). China-based deals followed closely behind, with 971 venture capital financings for an aggregate \$18bn, and Europe-based deal-makers had another consistent quarter, with 567 deals for an aggregate \$5.6bn. However, deal activity in Israel and India has declined by 7% and 12% respectively compared to Q1 2017.

Angel/seed financings remain the most prominent investment stage, representing 35% of deals in Q1 2018 (Fig. 23). This is

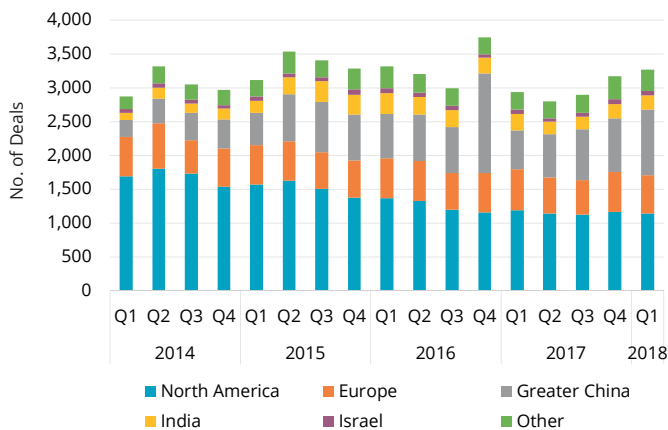
Fig. 21: Venture Capital Deals\*, Q1 2014 - Q1 2018



Source: Preqin

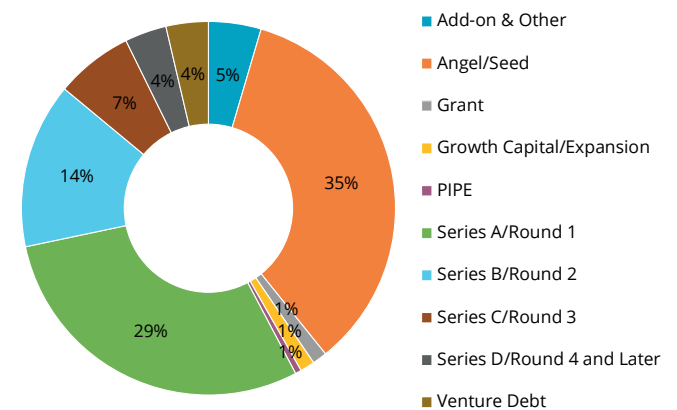
followed by Series A/Round 1 (29%) and Series B/Round 2 (14%) financings, with Q1 2018 recording the largest proportion of Series A financings since Q2 2008, and the average value of Series A deals having increased 92% from Q1 2017.

Fig. 22: Venture Capital Deals\* by Region, Q1 2014 - Q1 2018



Source: Preqin

Fig. 23: Venture Capital Deals in Q1 2018 by Stage



Source: Preqin

Fig. 24: Largest Venture Capital Deals\* in Q1 2018

Portfolio Company	Stage	Deal Date	Deal Size (mn)	Investor(s)	Location	Primary Industry
Go-Jek Indonesia	Series E/Round 5	Feb-18	1,500 USD	Astra International, BlackRock, Google Inc., JD.com, KKR, Meituan-Dianping, Samsung Venture Investment Corporation, Temasek Holdings, Tencent**, Warburg Pincus	Indonesia	Business Services
Ping An Healthcare Administration Co., Ltd.	Series A/Round 1	Feb-18	1,150 USD	IDG Capital, SB Investment Advisers, SBI Holdings	China	Software
Mobike Ltd.	Unspecified Round	Jan-18	1,000 USD	-	China	Telecoms
Ofo Bicycle	Series E/Round 5	Mar-18	866 USD	Alibaba Group**, Ant Financial Service Group, Haofeng Group, Junli Capital, Tianhe Capital	China	Telecoms
Katerra Inc.	Series D/Round 4	Jan-18	865 USD	CPP Investment Board, DFJ Growth, DivcoWest, Foxconn Ventures, Greenoaks Capital, Khosla Ventures, Navitas Capital, SB Investment Advisers**, Soros Fund Management, Tavistock Group	US	Software

\*Figures exclude add-ons, mergers, grants, secondary stock purchases and venture debt.  
\*\*Denotes lead investor.

Source: Preqin

# FUND PERFORMANCE AND DRY POWDER

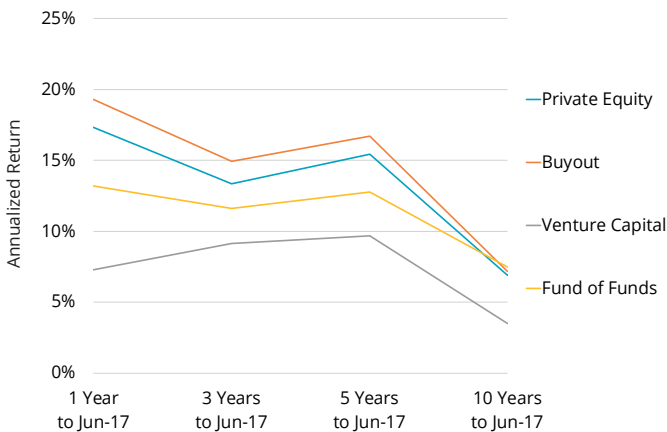
Private equity funds have posted strong annual returns over one- (+17.3%), three- (+13.4%) and five-year (+15.4%) time horizons to June 2017, but have lower returns over a 10-year horizon (+6.9%, Fig. 25). In terms of individual fund types, buyout funds outperformed the private equity asset class, with higher annualized returns across all four time periods examined. Venture capital funds performed relatively poorly over all four periods, generating their highest returns over a five-year time horizon (+9.7%).

When examining median net IRRs and quartile boundaries by vintage year, 2009-2012 vintage funds have performed better than those that began investing in 2005-2008, the years leading up to the Global Financial Crisis (GFC). The gap between the top and bottom performers has widened since the GFC, with the interquartile range reaching a high of 19.9% for vintage 2015 funds (Fig. 26).

Following strong performance, private equity funds continue to distribute significant sums of capital to investors: net cash outflows reached \$149bn in 2016, as distributions exceeded capital calls for the sixth consecutive year (Fig. 27).

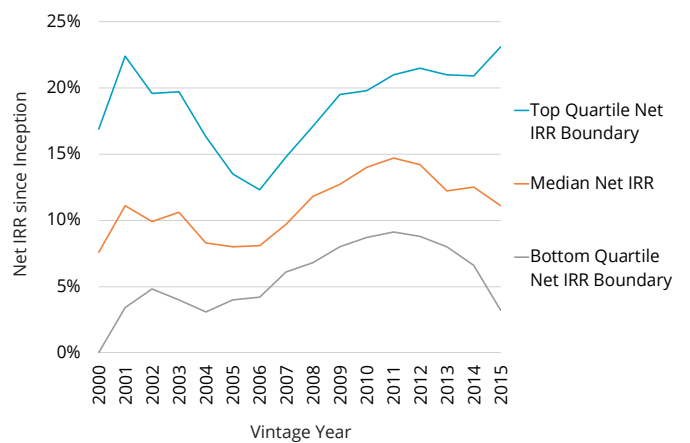
With many investors looking to re-invest this capital to maintain their allocations, and others allocating fresh capital to the asset class, the record levels of dry powder held by private equity fund managers have continued to grow, reaching a record high of \$1.09tn as at March 2018 (Fig. 28). Buyout funds account for the majority (59%) of dry powder, while growth funds have seen the largest year-on-year increase (+30%) from December 2016 to December 2017.

**Fig. 25: Private Equity: Horizon IRRs by Fund Type (As at June 2017)**



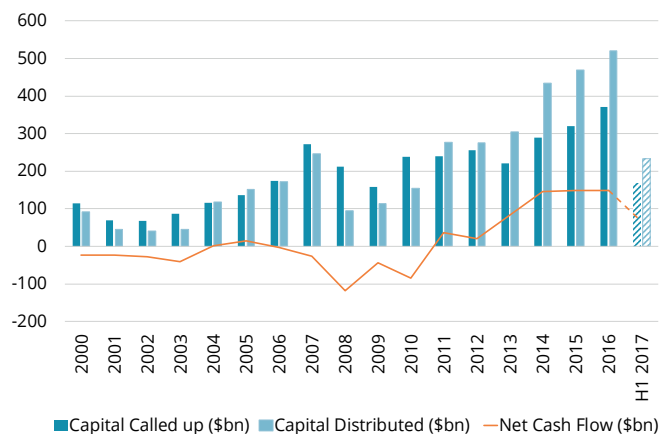
Source: Preqin

**Fig. 26: Private Equity: Median Net IRRs and Quartile Boundaries by Vintage Year**



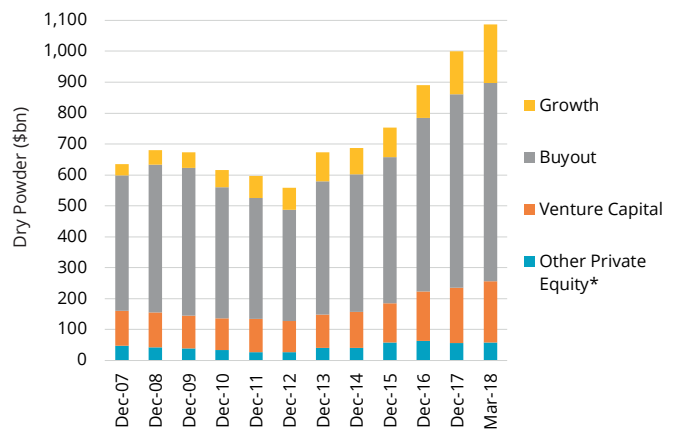
Source: Preqin

**Fig. 27: Private Equity: Annual Amount Called up, Distributed and Net Cash Flow, 2000 - H1 2017**



Source: Preqin

**Fig. 28: Private Equity Dry Powder by Fund Type, 2007 - 2018**



Source: Preqin

\*Other Private Equity includes balanced, co-Investment, co-Investment multi-manager, direct secondaries and turnaround funds.

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