Following industry debates that the leveraged buyout market has all but dried up, Oliver Senchal examines whether or not buyouts and, in particular, public-to-private transactions are still attractive to the investment community.

In recent years, trillions of dollars have been spent on private equity-backed buyout deals and they remain the most favoured private equity strategy among investors and fund managers. Public-to-private transactions constitute a very small quantity of buyout deals, but have historically represented a disproportionately large amount of overall buyout value. This article will examine if there has been a shift in the overall private equity buyout landscape, and explores the role public-to-private transactions have to play within the industry.

State of the Buyout Industry

Fig. 1 shows that since 2009, there has been a year-on-year increase in aggregate private equity-backed buyout deal value. The buyout industry is still far from matching the market highs of 2006, when aggregate deal value reached $682bn, but as of 2014 YTD, deal value has reached $249bn for the year and still has the potential to eclipse 2013’s $296bn.

Preqin’s Investor Intelligence online service profiles 2,417 institutions that currently list buyout as a fund preference, representing 60% of the active private equity investors globally. Fifty-nine percent of these investors are based in North America, 25% in Europe, 8% in Asia and 8% outside these regions. In terms of investor type, public and private pension funds constitute 25% of this group, foundations 13%, endowment plans 12%, insurance companies 8% and private equity funds of funds 8%.

Preqin’s data confirms that favour for buyout investments will continue into the next year, with 75% of private equity investors stating that they will be making a commitment to buyout vehicles in the next 12 months, up from the 69% of investors that expressed the same sentiment for their investment plans last year. As a direct result of this substantial investor appetite fund managers are continuing to raise buyout vehicles to satisfy the demand. Preqin’s Funds in Market shows that there are currently 247 buyout funds in market, targeting $189bn in aggregate capital commitments (Fig. 2).

As of October 2014, 127 buyout funds have closed this year, raising $127.9bn. Although it has not yet hit the post-crisis high of 2013 (161 funds closed and $190.8bn raised), 2014 has already surpassed the capital raised in 2010, 2011 and 2012.

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appear that buyout fund managers are raising more capital from fewer funds, a trend that has developed recently as many private equity investors are increasingly looking to place more capital with larger and more established fund managers. The overall increase in fundraising has been largely driven by buyout activity in North America. North America-focused buyout funds have raised $72.2bn so far this year, compared to Europe-focused vehicles raising $32.9bn.

Preqin’s Private Equity Quarterly Index (PrEQI) rebased to 31 December 2006, reveals that overall buyout fund performance has consistently outperformed returns of the S&P 500 since Q1 2007; Fig. 3 displays the resilience of private equity – and in particular buyout funds – to meet portfolio objectives and prosper in times of macroeconomic uncertainty.

Public-to-Private Buyout Deals

Traditionally, companies decide to go public in order to raise capital and reduce interest costs to aid business expansion. For some companies however, access to the capital markets can lead to volatile price fluctuations, with market sentiment adversely affecting their business model, and flotation providing no discernible benefits to the shareholders. Private equity firms have been a solution for some undervalued companies on the stock exchange through a specific type of leveraged buyout: the public-to-private transaction.

Preqin’s Buyout Deals Analyst shows the public-to-private deals that characterized private equity’s last peak in 2007, making up just 4% of all private equity-backed buyout deals by number but responsible for 49% of aggregate deal value, representing a significant $331bn. Since then, public-to-private deals have fluctuated in both volume and value, but have not yet been able to recover to anywhere near the peak of 2007 (Fig. 4). 2013 saw a post-crisis high of $86.7bn, buoyed by two large transactions: the privatization of H.J. Heinz by 3G Capital and Berkshire Hathaway, a deal valued at $28bn; and the acquisition of Dell Inc. by private equity firms MSD Capital and Silver Lake, a deal valued at $24.9bn. So far, 2014 has seen the lowest levels of public-to-private transactions since 2009, with 26 deals reaching $13.1bn, potentially attributable to competition for public companies from strategic buyers, that are chasing the high public share prices and are gaining confidence as the exit markets normalize (Fig. 4).

Interestingly, the aggregate exit value from public-to-private transactions has reached record highs, even before the end of the calendar year, with 89 exits worth an aggregate $80.8bn, surpassing 2012’s previous record of $68.9bn. Part of this could be due to the divestment of companies taken private during the boom years.

Asia: New Contender

As can be seen in Fig. 5, North America has seen the largest proportion of public-to-private deals from 2006 to 2013, averaging 58% of deal volume, although 2014 has seen a significant reduction of 26 percentage points from 2013’s level. Europe has gained some traction in 2014 when compared to previous years, representing 19% of public-to-private deals, an increase of six percentage points from 2013 and above its deal volume average of 24% from 2006 to 2013. However, it is Asia that has seen the most substantial increase, now comprising the largest share of number of public-to-private deals of all regions and has claimed its highest share (42%) of public-to-private transactions to date.

The largest public-to-private transaction of this year (Fig. 6) was the acquisition of the Chinese gaming company, Giant Interactive, by private equity firms MSD Capital and 3G Capital, it is still a highly significant amount of capital and is especially remarkable for a company based outside the core markets of North America and Europe.

It has been reported that the online gaming deal was financed by a consortium of investors that struggled towards the end of syndication, in line with industry sources claiming it has become harder for private equity funds to gather leveraged loans for buyouts and rising geopolitical risks. In spite of various challenges

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**Fig. 4: Number and Aggregate Value of Private Equity-Backed Public-to-Private Acquisitions, 2006 - 2014 YTD (As at 19 September 2014)**

![Graph showing number and aggregate value of private equity-backed public-to-private acquisitions, 2006-2014 YTD (As at 19 September 2014).](https://www.preqin.com/docs/newsletters/pe/Preqin-Private-Equity-Spotlight-October-2014.pdf)

**Fig. 5: Proportion of Number of Private Equity-Backed Public-to-Private Acquisitions by Region, 2006 - 2014 YTD (As at 30 September 2014)**

![Graph showing proportion of number of private equity-backed public-to-private acquisitions by region, 2006-2014 YTD.](https://www.preqin.com/docs/newsletters/pe/Preqin-Private-Equity-Spotlight-October-2014.pdf)
faced, buyout deals (including public-to-private transactions) still see a flow of billions of dollars and robust levels of appetite from players across the private equity community.

Conclusion

The buyout market continues to go from strength to strength; consistent outperformance of the public markets, substantial demand from investors and high deal values are indicative of a competitive and flourishing industry. North America and Europe are still the traditional focuses for private equity funds and those markets continue to be large contributors of capital and deal volume, but statistics for 2014 YTD show the strong emergence and development of the Asian market, specifically in the public-to-private transaction space.

Overall, large leveraged buyouts as characterized by public-to-private transactions have markedly declined from the highs of 2006/2007. Recent industry and market changes are making public-to-private deals harder to execute today than in previous years, especially when share prices are increasing. While public-to-private transactions have been down this year, it is incorrect to conclude that this type of buyout is dead. The majority of these larger transactions occur opportunistically, which makes it difficult to predict when and how such deals will materialize, accounting for the volatility in aggregate value and total deal numbers year-on-year.

Fig. 6: Largest Private Equity-Backed Public-to-Private Transactions Globally, 2014 YTD (As at 19 September 2014)

<table>
<thead>
<tr>
<th>Firm</th>
<th>Investment Type</th>
<th>Deal Date</th>
<th>Deal Size (mn)</th>
<th>Deal Status</th>
<th>Investors</th>
<th>Bought From/Exiting Company</th>
<th>Location</th>
<th>Primary Industry</th>
</tr>
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<tbody>
<tr>
<td>Giant Interactive Group, Inc.</td>
<td>Public-to-Private</td>
<td>Mar-14</td>
<td>3,000 USD</td>
<td>Completed</td>
<td>Baring Private Equity Asia, CDH Investments, Hony Capital</td>
<td>-</td>
<td>China</td>
<td>Gaming</td>
</tr>
<tr>
<td>Compuware Corporation</td>
<td>Public-to-Private</td>
<td>Sep-14</td>
<td>2,500 USD</td>
<td>Announced</td>
<td>Thoma Bravo, Elliott Management Corporation</td>
<td>US</td>
<td>US</td>
<td>Software</td>
</tr>
<tr>
<td>CEC Entertainment, Inc.</td>
<td>Public-to-Private</td>
<td>Jan-14</td>
<td>1,300 USD</td>
<td>Completed</td>
<td>Apollo Global Management</td>
<td>-</td>
<td>US</td>
<td>Restaurants</td>
</tr>
<tr>
<td>DFC Global Corp.</td>
<td>Public-to-Private</td>
<td>Apr-14</td>
<td>1,300 USD</td>
<td>Completed</td>
<td>Lone Star Funds</td>
<td>-</td>
<td>US</td>
<td>Financial Services</td>
</tr>
<tr>
<td>Goodpack Ltd</td>
<td>Public-to-Private</td>
<td>May-14</td>
<td>1,399 SGD</td>
<td>Completed</td>
<td>Kohlberg Kravis Roberts</td>
<td>Singapore</td>
<td>Singapore</td>
<td>Logistics</td>
</tr>
</tbody>
</table>

Source: Preqin Buyout Deals Analyst

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