



# **PREQIN** **QUARTERLY UPDATE:** **PRIVATE EQUITY &** **VENTURE CAPITAL** **Q1 2020**

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



Fundraising  
Funds in Market  
Investors  
Deals  
Performance  
Dry Powder

# Foreword

Amid the global economic disruption caused by the COVID-19 pandemic, a key question for private equity & venture capital (PEVC) professionals is how PEVC markets are faring. What's been the impact on fundraising? What about deal activity? In this PEVC Quarterly Update, we take a closer look at the latest data to help answer these questions.

Let's start with fundraising. At 267, the number of PEVC funds that reached a final close is down 27% on Q1 2019. And while it is typical for fundraising activity to dip in the first quarter of the year following year-end allocations, 267 funds closed is one of the lowest quarterly totals we have seen in recent years.

All that said, the total amount of capital raised by PEVC funds in Q1 2020 was significant. At \$133bn, it surpassed the Q1 2019 figure of \$119bn by almost 12%. And continuing an industry megatrend we noted in our **2020 Preqin Global Private Equity & Venture Capital Report**, large funds from more established fund managers secured considerable capital commitments. Lexington Capital Partners IX for instance closed on \$14bn in January 2020.

On the deals front, the data suggests that the disruptions caused by COVID-19 had more of an impact in the venture capital market rather than the buyout

market. For a start, the number of venture capital deals completed in Q1 2020 fell by 23% compared with the same period in 2019, while aggregate deal value fell by 12%. In Greater China, the number of venture capital deals completed in Q1 2020 declined by 46% compared to Q1 2019.

The impact on the buyout market was less significant. Aggregate private equity-backed deal value in Q1 2020 was 17% lower than in Q1 2019, but was relatively level with Q3 and Q4 2019.

What about the impact on performance? In a recent analysis<sup>1</sup>, we modeled the potential effects of a recession triggered by COVID-19 on buyout returns. We used a Pandemic Scenario developed by US-based risk management firm FRG and applied it to the Preqin-FRG Cash Flow Forecaster, an innovative tool powered by Preqin's fund-level cash flow data. We then compared the results with a Baseline Economic Scenario in which there was no pandemic. Our main finding was that as valuations fall, 2018 and 2019 vintages – considered the vintages most likely to underperform before the pandemic – are now more likely to outperform. Fund managers with massive stockpiles of dry powder to use up will be in a good position to generate strong returns.

<sup>1</sup> <https://www.preqin.com/insights/blogs/how-a-covid-19-recession-is-likely-to-affect-buyout-performance/26806>

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## Global private equity fundraising

Capstone Partners ([www.csplp.com](http://www.csplp.com)) is a leading independent placement agent focused on raising capital for private equity, credit, real assets and infrastructure firms. The Capstone team includes 40 experienced professionals in North America, Europe and Asia.

**\$1.7b**

ATLAS | HOLDINGS

Atlas Capital Resources III

Control investments in distressed opportunities



2018

**\$325m**

RIVERGLADE CAPITAL

RiverGlide Capital

Lower mid-market healthcare services investments



2019

**\$2.0b**

WHITEHORSE LIQUIDITY PARTNERS

Whitehorse Liquidity Partners III

Structured liquidity solutions



2019

**€3.6b**

Fi

Fondi Italiani per le Infrastrutture III

Value infrastructure in Italy



2018

**\$900m**

TAILWATER CAPITAL

Tailwater Energy Fund III

Midstream sector investments in the oil and gas industry



2018

**\$450m**

ALIGN CAPITAL PARTNERS

Align Capital II

Lower middle market buyout investments in North America



2020

**€242m**

FORTINO CAPITAL PARTNERS

Fortino Capital Growth PE I

Digital & tech growth equity in Benelux



2019

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# Fundraising

## Total capital raised is consistent with cyclical trends, but capital sits with fewer managers and in the most developed markets

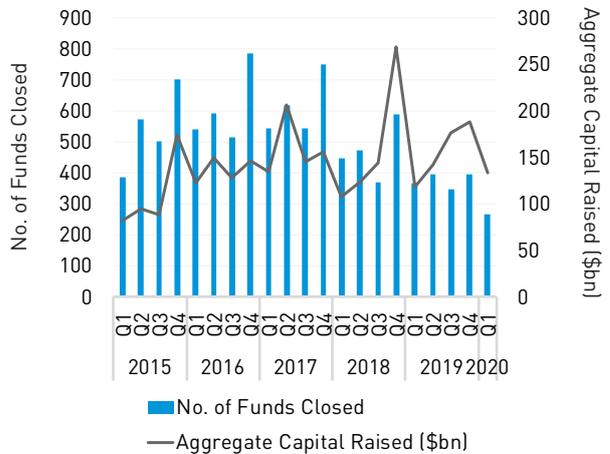
Coming off the lull of the holidays, Q1 private equity fundraising typically wakes slowly before its crescendo later in the year. The start of 2020, though, was met with considerable headwinds for the global economy as it faced the fallout from the COVID-19 pandemic.

The effect on global fundraising has been muted. In total, \$133bn was raised across 267 funds in Q1 2020. Although both the number of funds and amount of capital raised fell compared with Q4 2019 by 32% and 29% respectively, these are not far out of line with Q4 to Q1 moves in prior years (Fig. 1). Total capital committed exceeded Q1 2019 levels despite fewer funds closing.

Private equity investors favored developed markets over Asia and Rest of World. North America- and Europe-focused funds together captured more than 89% of the aggregate capital raised globally in Q1 2020, representing 209 of the 267 funds closed (Fig. 2). After rebounding into Q3 2019 with \$46bn in commitments, Asia-focused funds failed to maintain this momentum securing only \$9.9bn in Q1 2020.

Fundraising is showing signs of slowing. Around 52% of funds closed in Q1 2020 reached a final close within 18

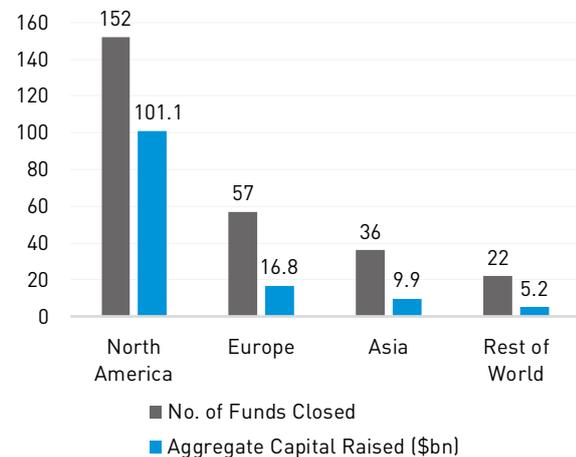
**Fig. 1: Global Quarterly Private Equity Fundraising, Q1 2015 - Q1 2020**



Source: Preqin Pro

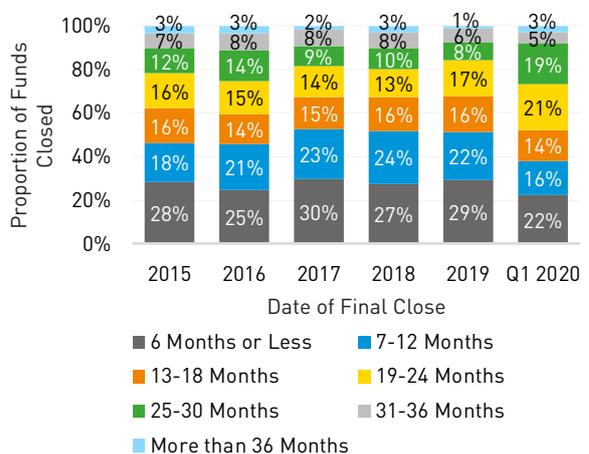
months, in contrast to 68% of vehicles closed in 2019 (Fig. 3). In addition, 27% of funds closed in Q1 2020 spent more than two years on the road. On the other hand, the proportion of funds closing within six months has stayed relatively consistent, potentially indicating continued investor support for established fund managers.

**Fig. 2: Private Equity Fundraising in Q1 2020 by Primary Geographic Focus**



Source: Preqin Pro

**Fig. 3: Private Equity Funds Closed by Time Spent in Market, 2015 - Q1 2020**



Source: Preqin Pro

# Funds in Market

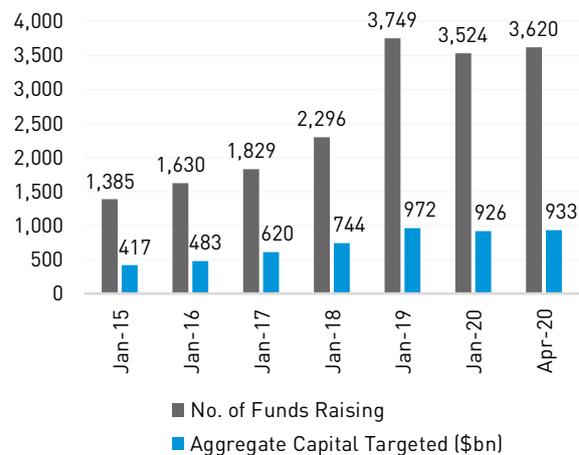
## Although slightly less congested than at the start of the year, the market is still bursting with funds seeking investor capital

The number of private equity funds in market globally (3,620) and the amount of capital targeted (\$933bn) as of April 2020 remains strong, only down 3% and 4% respectively from the highs of January 2019 (Fig. 4). With still so many funds in search of capital, the highly competitive fundraising market continues for managers and an ample universe for selectivity remains for investors looking to allocate.

The fundraising market remains competitive at both ends of the scale. The largest firms continue to dominate with only 11% of firms looking to soak up 71% of capital targeted (Fig. 6). More strikingly, competition at the lower end of the spectrum is intense: 45% of funds are looking to raise less than \$100mn and make up only 5% of aggregate capital targeted.

The breakdown of fund types looking to raise is dominated by venture capital at this point in the year. Venture capital funds comprise 60% of the total number of funds raising and 20% of the \$933bn in aggregate capital targeted (Fig. 5). Despite only making up 13%

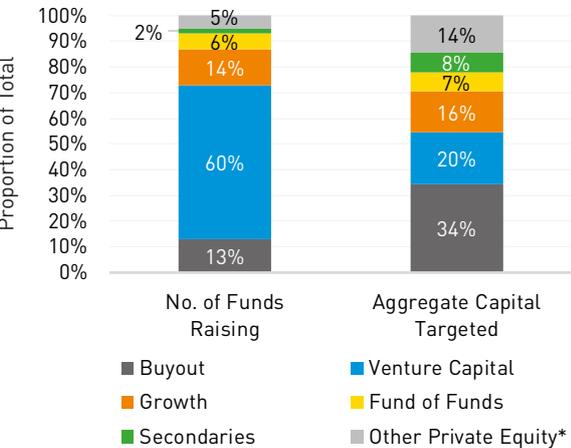
**Fig. 4: Private Equity Funds in Market over Time, 2015 - 2020**



Source: Preqin Pro

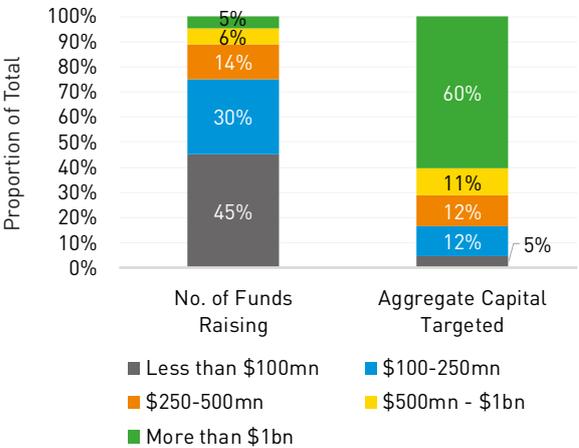
of the number of funds raising, buyout strategies are aiming to capture the highest share of capital at 34%.

**Fig. 5: Private Equity Funds in Market by Fund Type**



Source: Preqin Pro. Data as of April 2020

**Fig. 6: Private Equity Funds in Market by Target Size**



Source: Preqin Pro. Data as of April 2020

\*'Other Private Equity' includes balanced, co-investment, co-investment multi-manager, direct secondaries, hybrid, hybrid fund of funds, PIPE, and turnaround funds.

# Investors

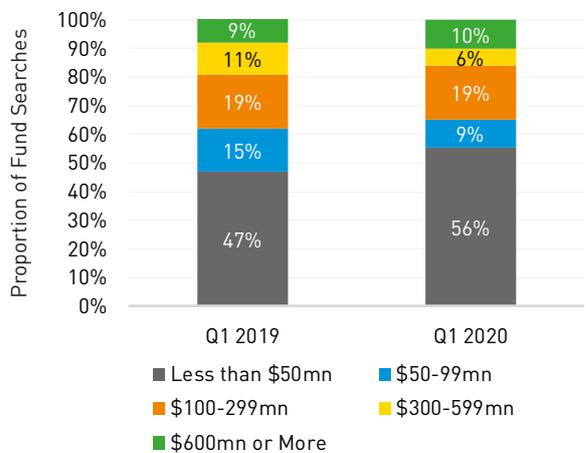
## Investors plan smaller commitments for the year ahead, but appetite for Asia-Pacific investments continues to rise

Amid the global economic shockwaves caused by the COVID-19 pandemic, investors are planning to invest less capital in private equity in the next 12 months. Among the 334 mandates issued for private equity funds on **Preqin Pro** in Q1 2020, the majority (56%) are for commitments of less than \$50mn, up from 47% of mandates issued in Q1 2019 (Fig. 7). While there remains a notable proportion (10%) of investors looking to deploy \$600mn or more, the increased share of lower-value mandates reflects both the impact of the pandemic and also the uncertainty surrounding a potential pricing correction.

Buyout remains investors' preferred fund type. Three-quarters of investors are expected to target buyout fund investments in the next 12 months (Fig. 8). The proportion of investors interested in growth vehicles is down six percentage points in comparison with Q1 2019.

Mandates for private equity opportunities in Asia-Pacific have increased as a proportion since Q1 2019. Although Europe remains the most commonly

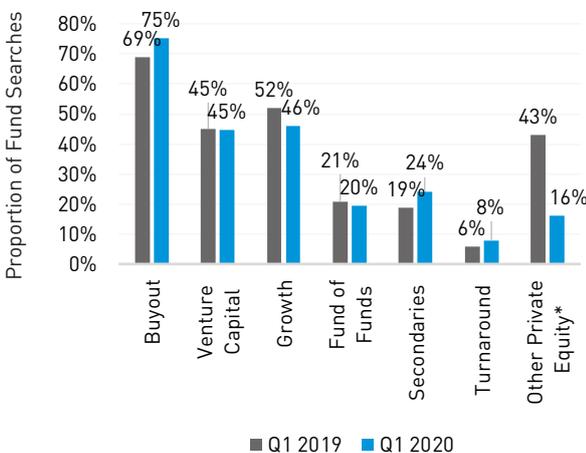
**Fig. 7: Amount of Fresh Capital Investors Plan to Commit to Private Equity Funds over the Next 12 Months, Q1 2019 vs. Q1 2020**



Source: Preqin Pro

targeted region for private equity, Preqin data shows that investor appetite has weakened compared to the same time last year, while interest for North America-focused funds remains on a par with Q1 2019.

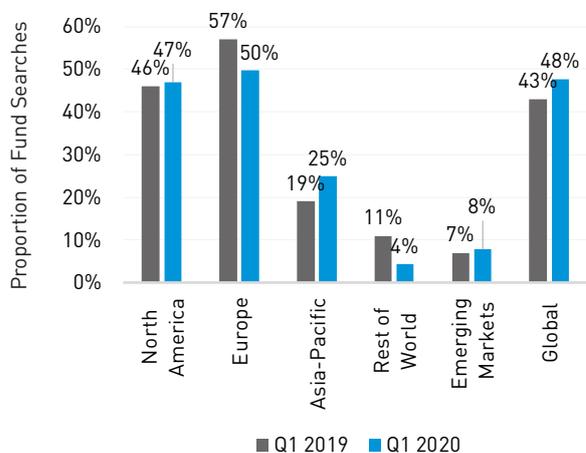
**Fig. 8: Fund Types Targeted by Private Equity Investors over the Next 12 Months, Q1 2019 vs. Q1 2020**



Source: Preqin Pro

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

**Fig. 9: Regions Targeted by Private Equity Investors over the Next 12 Months, Q1 2019 vs. Q1 2020**



Source: Preqin Pro



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# Buyout Deals

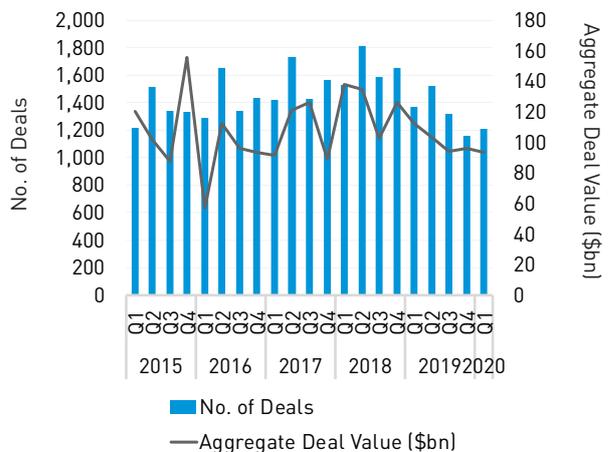
## Global figures hold up in comparison with quarterly averages, but aggregate deal value in Asia tumbles

Against the odds, private equity-backed buyout deal activity remained steady in Q1 2020. A total of 1,211 buyout deals were completed in Q1 for an aggregate \$94bn, figures that are not far off the quarterly averages in 2019 (1,344 and \$101bn, Fig. 10). That said, deal-making activity in the buyout space is continuing its slow decline of the past few years, whereby high valuations and increasing competition have made it more challenging for managers to put capital to work.

A number of mega buyout deals helped to prop up Q1 deal value. Four deals were valued at \$5bn or more in Q1 2020. The largest transaction of the quarter was the announcement of the sale of Germany-based Thyssenkrupp Elevator AG to Advent International, Cinven, Abu Dhabi Investment Authority, and RAG for €17.2bn. Thyssenkrupp Elevator AG manufactures elevators, lifts, escalators, and moving walks. In the US, the largest deal was Searchlight Capital Partners and ForgeLight LLC's \$9.7bn acquisition of a majority stake in Univision Communications Inc., the leading Hispanic media company in the US.

Looking beyond the global figures, the amount of capital deployed in the Asian buyout market declined significantly. The \$3.3bn of private equity-backed

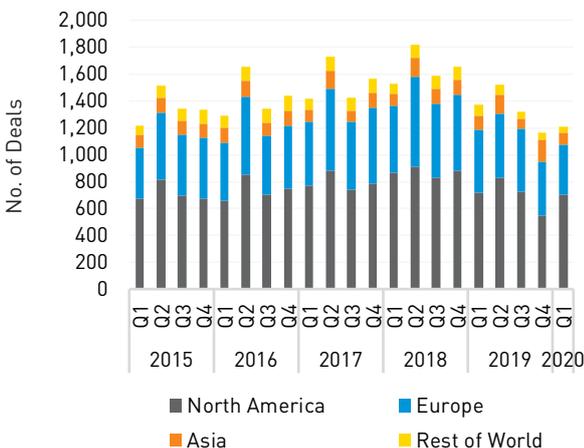
**Fig. 10: Global Quarterly Private Equity-Backed Buyout Deals, Q1 2015 - Q1 2020**



Source: Preqin Pro

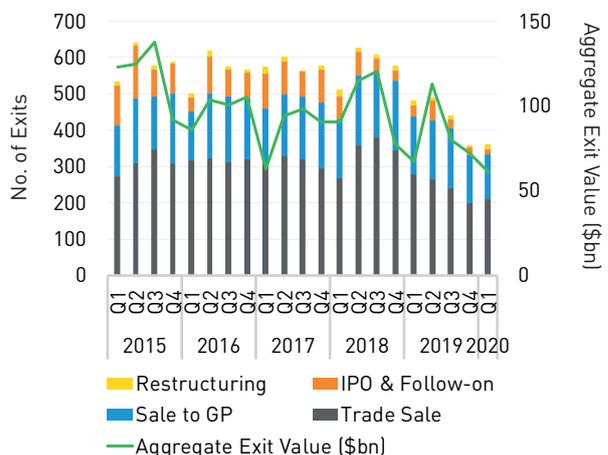
buyout deals in Asia represents just 25% of the 2019 quarterly average (\$13bn) and one of the lowest quarterly totals in recent years (Fig. 11). The number of deals remained level with previous quarters, though, and so it seems managers refrained from completing larger deals at a time of considerable business disruption and uncertainty caused by the COVID-19 outbreak.

**Fig. 11: Quarterly Private Equity-Backed Buyout Deals by Region, Q1 2015 - Q1 2020**



Source: Preqin Pro

**Fig. 12: Global Quarterly Private Equity-Backed Buyout Exits by Type, Q1 2015 - Q1 2020**



Source: Preqin Pro

# Venture Capital Deals

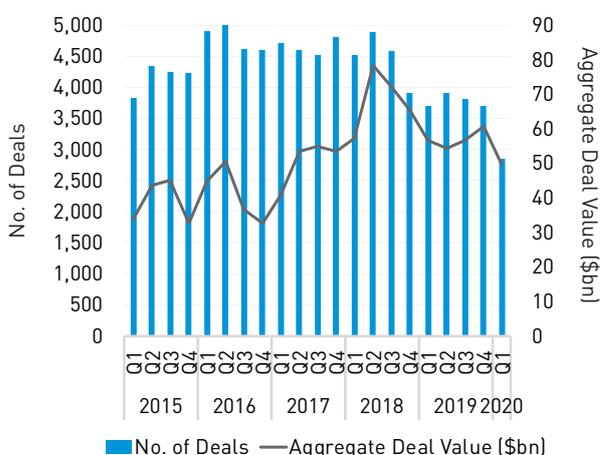
## Deal activity declined in venture capital markets across the globe in Q1

As the world comes to terms with the COVID-19 pandemic, venture capital deal-making has stumbled. Nearly 1,000 fewer deals were completed globally in Q1 2020 compared with Q4 2019, while aggregate deal value fell by 18% in comparison (Fig. 13). Quarterly deal flow had remained steady throughout 2019, following a drop from 2018 levels, but the figures for the first quarter of 2020 represent a sharp decline.

The venture capital market in Greater China was hit the hardest. As the original epicenter of the COVID-19 outbreak, business activity was significantly disrupted at the start of the year. The 495 deals completed for Greater China-based venture capital companies represent a drop of 39% from the previous quarter (Fig. 14). That said, deal activity declined in all major venture capital markets across the globe. Markets in North America (-27%) and Europe (-12%) recorded notable declines from the previous quarter in the number of completed deals.

Aggregate exit value remained steady in Q1. The \$35bn of exits globally exceeds the previous two quarters, despite the number of exits falling by 8% in comparison with Q4 2019 (Fig. 15). Two large exits of San Francisco-

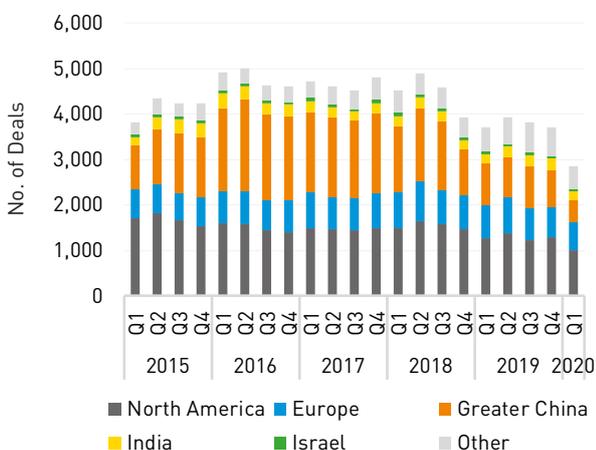
**Fig. 13: Global Quarterly Venture Capital Deals\*, Q1 2015 - Q1 2020**



Source: Preqin Pro

based fintech companies boosted total Q1 exit value: Intuit Inc.'s \$7.1bn purchase of Credit Karma, Inc. – a financial platform that enables users to receive credit scores and reports – and Visa Inc.'s purchase of Plaid Inc. for \$5.3bn.

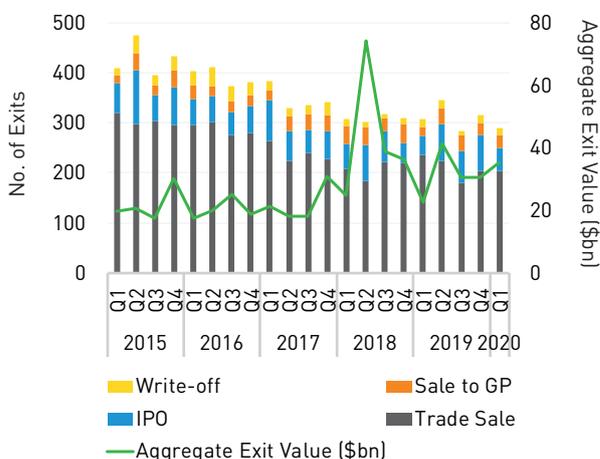
**Fig. 14: Quarterly Venture Capital Deals\* by Region, Q1 2015 - Q1 2020**



Source: Preqin Pro

\*Excludes add-ons, mergers, grants, secondary stock purchases, and venture debt.

**Fig. 15: Global Quarterly Venture Capital-Backed Exits by Type, Q1 2015 - Q1 2020**



Source: Preqin Pro

# Performance & Dry Powder

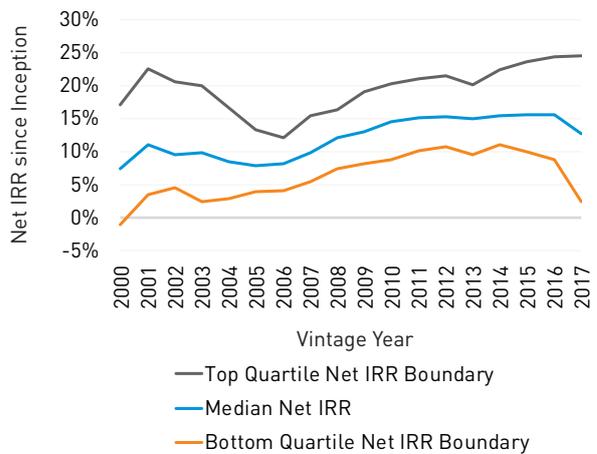
## Buyout funds outperform all other private equity strategies in the year to June 2019 as industry AUM continues to rise

Private equity funds continue to post strong returns. Median net IRRs have hovered around the mid-teens from vintage 2010 onwards, reaching highs of 15.5% and 15.6% for vintage 2015 and 2016 funds respectively (Fig. 16). What's more, the top performers in the market are pulling even further ahead. The interquartile spread of net IRRs ranged between 10 and 12 percentage points for vintage 2009 to 2014 funds, but this gap has increased to 15.7 percentage points for vintage 2016 funds and 22.2 percentage points for 2017.

Buyout funds have shown particularly strong returns in the private equity space. Over a one-year horizon to June 2019, buyout funds have delivered a return of 18.9% and have consistently outperformed the other private equity strategies shown in Fig. 17. Even so, with the majority (56%) of investors reporting to Preqin that they target annualized returns in the range of 10-15% from their private equity holdings, all top-level strategies have delivered meaningful returns over the past 10 years.

With strong performance comes growth. As of June 2019, the latest available data, private equity industry

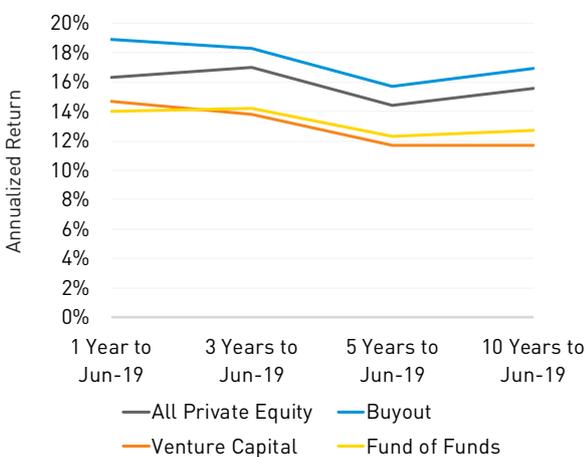
**Fig. 16: Private Equity: Median Net IRRs and Quartile Boundaries by Vintage Year**



Source: Preqin Pro. Data as of June 2019

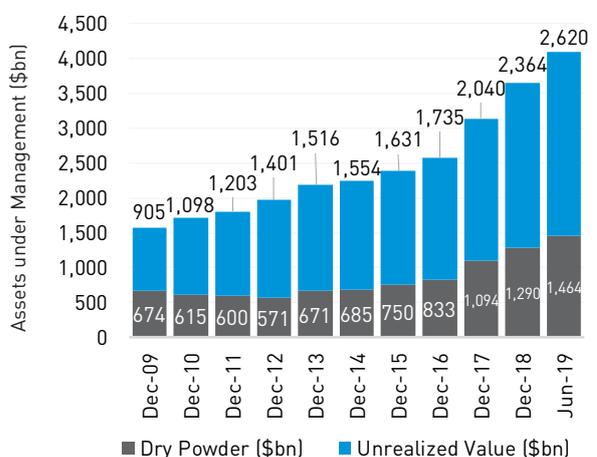
assets stand at a record high of \$4.08tn (Fig. 18). As private equity continues to deliver returns to LPs, the flow of capital commitments increases; indeed, over \$600bn was raised in 2019 (see page 4), and industry dry powder sits at a record-high \$1.46tn as of June.

**Fig. 17: Private Equity: Horizon IRRs by Fund Type**



Source: Preqin Pro

**Fig. 18: Private Equity: Assets under Management, 2009 - 2019**



Source: Preqin Pro



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